Prospects of early US rate hike boost dollar

LONDON: Revived prospects of an early US interest rate rise, possibly as soon as June, lifted the dollar to a near two-month high yesterday and left bonds, stocks, commodities and emerging markets all nursing losses. Minutes from the Federal Reserve's last meeting caught the market off-guard by revealing most policymakers thought a June rise would be "appropriate" if the US economy continues its recent improvement. That suggested the central bank is closer to lifting rates again than most investors had expected and saw a scramble from traders to readjust.

Wall Street was expected to open 0.5 percent lower.

European stocks were off 0.7 percent after the disappearance of plane going from Paris to Cairo spooked travel stocks and as traders grappled with the prospect of higher global borrowing costs. With US Treasury yields sharply higher, the dollar stayed strong after scaling its highest level against other top currencies since late March. That in turn buffeted emerging and commodity markets that correlate closely with both. "A June hike is definitely back on the table," said UniCredit's Global Head of FX Strategy Vasileios Gkionakis. "The bottom line is that the market is going from an excessively complacent view (on the likelihood of Fed hikes) to a more realistic one."

Benchmark US Treasuries were starting to stabilise after one of their biggest sell-offs in almost three years. Germany's 10-year Bund yield hit a two-week high before pulling back slightly as traders digested what were resolutely dovish ECB meeting minutes, although tinged with optimism about the euro zone economy.

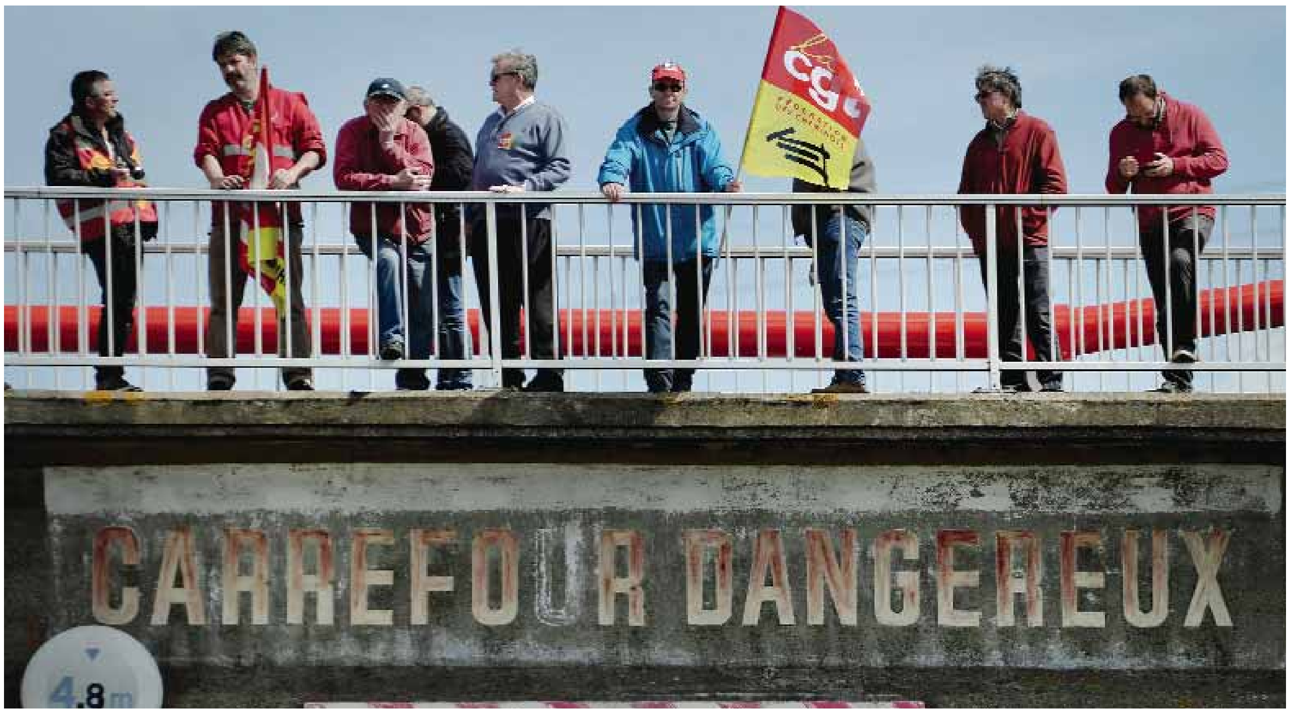
Analysts said concern about the EgyptAir plane that went missing could also be lending the safe-haven German market some support. CME Fed fund futures showed that the probability of a June US rate increase rose to 34 percent after the release of the FOMC minutes on Wednesday from 19 percent earlier in the day, 15 percent on Tuesday, and less than 1 percent a month ago. US Treasury yields have backed up considerably, with 10-year rates close to 1.90 percent and up almost 20 basis points since Monday. Two-year rates at 0.91 percent are at their highest since mid-March.

"With April activity indicators consistent with a healthy bounce-back in growth, we see risks of two rate hikes in 2016, with the first coming in the June/July time horizon," strategists at Barclays said.

BIG IN JAPAN

But many in the market are still sceptical the Fed would raise rates before Britain's June 23 referendum on whether to remain in the European Union, a risk noted by some Fed policymakers. July may be a stronger possibility. Retail sales data from Britain on Thursday showed the Brexit angst that has dented business confidence in recent months is having no impact on shoppers, helping push sterling to its highest since February.

Fed Vice Chairs William Dudley and Stanley Fischer are due to speak later in the day and the markets will be eager to get more details on the Fed's thinking as G7 finance ministers and central bankers prepare to meet in Japan today. Gold which tends to be inversely correlated to monetary policy easing, fell 0.1 percent to a three-week low of $1,256 per ounce, while MSCI's main EM stocks index and China's yuan currency both hit 2-1/2 month lows. The greenback also weighed on commodities such as oil, with US crude futures losing 0.4 percent to $48.00 a barrel. A stronger dollar tends to put non-US buyers of dollar-denominated commodities at a disadvantage. "We suspect the oil market has moved too high, too far, too soon," French bank BNP Paribas said, as a near 60 percent surge in Iranian output added to price pressure. —Reuters



SAINT-NAZAIRE: People gather yesterday in Saint-Nazaire, western France, to protest against the government's planned labor law reforms. France's Socialist government has bypassed parliament and rammed through a labor reform bill that has sparked two months of massive street protests. — AFP

French PM urges unions to call off violent protests

Truckers told oil, food depot blockades cannot go on

PARIS: France's prime minister urged union leaders yesterday to call off protests against reforms to labor laws, saying turnout was waning but violence mounting as "people who want to kill a cop" were hijacking legitimate protests to attack police. "Union leaders need to live up to their responsibilities," Manuel Valls said. "If rioters turn up at each and every protest it's time to ask whether some of these protests are worth it," he said in a radio interview on a new day of demonstrations.

The government says about 1,300 arrests have been made during weeks of protests which have been joined by a youth movement called Nuit Debout (Night Rising). More than 300 police have been hurt and protesters have complained of injuries sustained in seemingly isolated cases of police brutality. President Francois Hollande has said he will not withdraw plans to reform labor laws to make hiring and firing easier, which he says will encourage firms to recruit and combat an unemployment rate above 10 percent.

Truck drivers continued to blockade strategic parts of the road network yesterday and train services were reduced by more than 50 percent by a second straight day of strikes. Asked whether some protests could be broken up by police, Valls said attempts to cut off oil refineries and food supply depots could not be tolerated for much longer.

Valls aimed his plea primarily at leaders of unions such as the hardline CGT, saying the number of legitimate protesters was waning after more than two months of demonstrations, some marred by violence. CGT chief Philippe Martinez said ahead of this week's protests it was time to "move up a gear" with rolling strikes and marches to force the government to climb down.

Police said about 68,000 people turned out nationwide for protests on Tuesday, slightly higher than a week earlier but down on peak levels of more than 300,000 in March. Police arrested 19 in the western city of Rennes ahead of yesterday's marches, according to officials who said the swoop netted hooded individuals seeking to tamper with the subway train network, a target of previous protests.

Riot police, who have repeatedly clashed with masked youths hurling petrol bombs and paving stones, staged a protest of their own on Wednesday to highlight what they described as a surge of "anti-cop hatred". Police are already working overtime to ensure heightened security after Islamist attacks on Paris last November and face the task of keeping millions of soccer fans safe when the country hosts the Euro 2016 tournament next month.

Valls singled out an incident on Wednesday when two officers were forced to flee their patrol car when it was surrounded by a crowd and torched in central Paris. Police said their presence at yesterday's marches would be ramped up further because violence had reached new heights. — Reuters

WASHINGTON: Arne Sorenson, President and CEO Marriott International, speaks during the French-American Business Week at the French Embassy yesterday in Washington, DC. — AFP

EU to compile common blacklist of tax havens

BRUSSELS: European Union finance ministers will agree next week to draw up a common list of tax havens and sanctions against them, according to a draft EU document, part of a crackdown on tax evasion by companies and wealthy individuals. The EU's 28 member states currently have their own blacklists of tax havens, or 'non-cooperative jurisdictions', but these differ and the countries are free to decide which restrictive measures to impose, if any.

The EU's move to coordinate and harmonize the lists follows the Panama Papers leaks in April, which revealed details of corporate and individual tax evasion involving tax havens.

At a meeting next Wednesday, EU ministers are expected to agree to start drafting a common "blacklist" of non-cooperative jurisdictions by September and to finalise it next year.

The draft plan envisages EU countries also imposing joint sanctions against the tax havens. "Defensive measures (sanctions) could be considered to be implemented in the tax as well as in the non-tax area," the draft conclusions for next week's meeting said, without elaborating. EU finance ministers had said in April they wanted to finalise a common blacklist in September. But the ministers cannot yet agree on how to define a tax haven and several EU countries currently do not have any jurisdictions on their national blacklists.

An EU "code of conduct group" will be charged with setting common criteria based on standards developed by the Organisation for Economic Cooperation and Development (OECD). But the OECD, a club of mostly rich nations to which 21 EU states belong, does not have any jurisdictions named on its own list of tax havens either. — Reuters