Fed minutes: Door still open for a June rate hike

WASHINGTON: A surprisingly bullish view from the Federal Reserve on the possibility of raising interest rates next month sent the dollar higher and stocks tumbling on Wednesday.

The minutes to the Fed's late-April meeting showed central bank policymakers unexpectedly open to a rate hike in June, despite the first quarter economic slowdown and the looming British vote on exiting the European Union. Moreover, officials on the Federal Open Market Committee were worried that markets were not taking the June option seriously enough, according to the minutes.

Coming after two FOMC members said on Tuesday that they expected two to three increases this year, as early as the June 15-16 meeting, the contents the minutes sharply raised expectations that that could happen. "With today's FOMC minutes, even the biggest skeptic won't be able to dismiss the chance for a June hike any longer out of hand," said economist Harm Bandholz at UniCredit. Market reaction to the release was sharp: share and oil prices sank while the dollar surged and Treasury bond yields jumped. The Dow Jones Industrial Average, up 0.5 percent before the minutes release, ended off 0.02 percent, and the dollar surged 0.8 percent to $1.1221 against the euro.

Market expectations of a June rate increase, based on CME rate derivatives, jumped from less than 5% percent last week to about 34 percent, and with a majority expecting an increase by July.

Global economy worries ebb

The Fed has repeatedly stated its intention to continue raising rates this year after December's first hike in nine years. That prospect has already tightened money conditions for borrowers around the world and strengthened the dollar. But with the economy slumping during the late winter and with leading central banks in Europe and Asia cutting rates to prop up sagging growth, the FOMC has remained outwardly cautious. It opted at the end-April meeting to keep its benchmark federal funds rate unchanged at an ultra-low 0.25-0.5 percent.

Some officials were still concerned over possible turmoil in global markets from China's handling of its exchange rate and from the Brexit referendum in Britain, which takes place a week after the June policy review. But the minutes showed the panel was more confident in the economy and the possibility of moving in June, if economic data continues to improve, than investors had understood from the policy statement.

And FOMC members were worried that the market was not getting that message.

"Some participants were concerned that market participants may not have properly assessed the likelihood of an increase in the target range at the June meeting," the minutes said. "They emphasized the importance of communicating clearly over the intermeeting period how the Committee intends to respond to economic and financial developments." — AFP

Mothercare posts full-year profit on turnaround plan

LONDON: Baby goods retailer Mothercare Plc , which has been trying to revive its business in Britain, posted a full-year profit for the first time in five years as its turnaround plan made progress, sending its shares up as much as 10 percent. Mothercare's British business has suffered heavy losses as margins eroded over the past few years, partly hurt by cheaper competition from rivals such as AB Foods' unit Primark and online retailers including Amazon.

"Its been a story about the reinvention of Mothercare in the UK," Chief Executive Mark Newton-Jones told Reuters, adding that the company has now refurbished more than 40 percent of its estate and is investing heavily online.

Two years into its turnaround plan, Newton-Jones said, Mothercare's British business is attracting a broader base of customers and no longer trying to compete with supermarkets at the lowest-cost end of the market. He said it was instead increasing the quality of its offering and targeting an "aspirational" customer base.

Mothercare reported a profit before tax after exceptional items of 9.7 million pounds ($14.15 million) for the 52-week period ended March 26, the first full-year profit since 2011, compared with a loss of 13.1 million pounds a year earlier. — Reuters

Gold slides to 3-week low on Fed rate expectations

LONDON: Gold fell to a three-week low yesterday, extending the previous day's slide, after minutes from the Federal Reserve's April policy meeting signalled that it could raise US interest rates as soon as next month. The minutes indicated that the US central bank is likely to raise rates if economic data points to stronger second-quarter growth as well as firming inflation and employment.

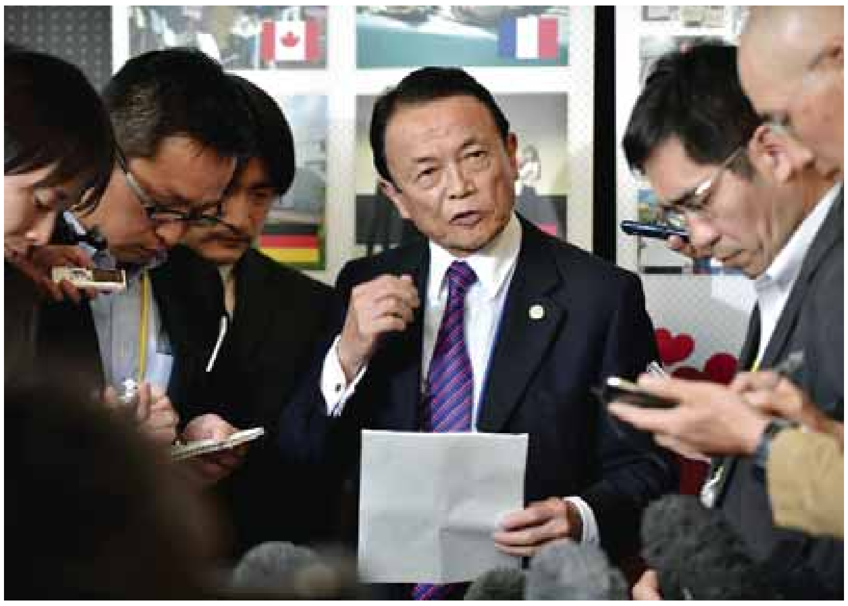
Gold is highly sensitive to interest rate hikes, which increase the opportunity cost of holding non-yielding bullion while boosting the dollar, in which it is priced. Spot gold was down 0.3 percent at $1,253.71 an ounce at 1132 GMT, with US gold futures for June delivery falling by $19.70 to $1,254.70. Spot prices lost 1.7 percent on Wednesday. "The precious metal is under selling pressure as the odds for a June rate hike have surged," said Naeem Aslam, chief market analyst at Think Forex. "Gold bears could not stay reticent and they are taking advantage of this situation by pushing the price lower."

The dollar jumped in morning trade to its highest against a basket of currencies since late March. At 1147 GMT it was up 0.2 percent. Stock markets also fell while Germany's benchmark 10-year Bund yield reached a two-week high on the talk of a June rise in US interest rates.Gold had risen nearly 20 percent this year on speculation that the Fed will hold off from further increases on concerns over volatility in global markets.

Traders are now awaiting statements from Fed Vice Chairs William Dudley and Stanley Fischer, expected later yesterday, for more clues on Fed thinking. The world's largest gold-backed exchange-traded fund, New York-listed SPDR Gold Shares, said its holdings were unchanged on Wednesday. The fund has had inflows of more than 50 tons so far this month. — Reuters

G7 must address various economic challenges: Aso

Divide over fiscal policies, currencies at G7 in Japan



SENDAI: Japanese Finance Minister Taro Aso (C) speaks to reporters prior to a welcome reception hosted by the City of Sendai in Sendai yesterday. The group will converge at a hot spring town north of Tokyo where two days of meetings kick off from today. — AFP

SENDAI: Global economic uncertainties and measures to deal with tax evasion will be among the key topics that finance leaders of the G7 advanced economies will discuss at a weekend meeting, Japanese Finance Minister Taro Aso said yesterday.

Bank of Japan Governor Haruhiko Kuroda also warned that there are "various challenges" that G7 economies need to address as the global economy suffers from subdued growth. "With uncertainty over the global economy on the rise, attention will be paid to macro-economic policy, structural reform and measures to deal with tax evasion ... and money laundering," Aso told reporters.

"As chair country, I'd like to steer frank discussions on these issues," he said after arriving in the northeastern city of Sendai for the two-day Group of Seven (G7) finance leaders' meeting kicking off today. The meeting will pave the ground for a G7 leaders' summit next week, where measures to boost global growth will be high on the agenda.

Aso and Kuroda may struggle to mask a rift emerging among the once close-knit group of G7 finance leaders on issues ranging from currencies to fiscal policies. Japan has lobbied for a G7 agreement to take coordinated fiscal action to spur growth, but has received a cool response from Germany, which insists on fiscal discipline.

Tokyo and Washington are also at loggerheads on whether recent yen gains are "excessive", with both sides reluctant to have their currencies rise too much and hurt their economies' fragile recovery.

But the G7 nations may share their concern on weak global growth, which may give Japanese Prime Minister Shinzo Abe an excuse to delay an unpopular sales tax hike scheduled for next April. Aso sidestepped a question on whether Japan will delay the tax hike, repeating that there was no change to the government's plan to raise the tax unless a massive earthquake or a crisis of the scale of the collapse of Lehman Brothers in 2008 hit Japan.

Divide

The finance ministers and central bank governors of the Group of Seven industrial nations were engaging in a local tradition for kicking off festivities, but it was in keeping with what could be a fractious event. Aso said the talks that get underway in earnest today would focus on fiscal and monetary policy, the international financial system, sustainable development and issues such as money laundering and tax evasion.

The talks will culminate with a statement for G7 leaders, who are to meet in Ise, central Japan, next week. "We, the G7 countries, are presently faced with many challenges that need to be addressed on the global economic front," said Bank of Japan Gov. Haruhiko Kuroda.

Over the past three years, Kuroda has sought to revive Japan's own moribund growth by pumping tens of trillions of dollars into the economy through central bank asset purchases. More recently, the Bank of Japan implemented a negative interest rate policy, hoping to spur more bank lending and corporate investment to help support faster growth.

With monetary policies yielding only middling results, Japan increasingly has favored more pro-active fiscal stimulus, joining France, Italy and Canada, which are increasingly at odds with Germany's pro-austerity stance. As finance minister, Aso must answer for Japan's public debt, which is twice the size of its economy. On Thursday he downplayed speculation that Prime Minister Shinzo Abe, facing a parliamentary election this summer, will put off a hike in the national sales tax.

Baring a major financial crisis or other calamity, such as the devastating tsunami that washed over Japan's northeastern coast in March 2011, including parts of Sendai, the tax hike will go ahead as planned, Aso said.

But Abe and others have also said they would reconsider if the increase to 10 percent from the current 8 percent risks crippling the recovery. A severe downturn brought on by such a tax increase potentially could do more harm to revenues than good, officials say. — Agencies