China's Q3 growth falls to 6.6%: Poll

BEIJING: China's growth slipped to a seven-year low of 6.6 percent in the third quarter, according to an AFP survey, despite ample stimulus and a red-hot property market in the world's second-largest economy. The median forecast for expansion in gross domestic product (GDP), based on a poll of 18 economists, represents an easing from the second quarter's 6.7 percent.

It would be the slowest quarterly growth since the first three months of 2009, in the middle of the global financial crisis. As the world's biggest trader in goods China is crucial to the global economy and its performance affects partners from Australia to Zambia.

GDP expanded 6.9 percent in 2015 — its weakest in a quarter of a century and the government has targeted growth in a range of 6.5-7.0 percent for this year. The AFP poll forecast China will just meet the goal, with the median full-year prediction at 6.6 percent.

"Our expectation is that growth will continue to slow. The largest headwind on the horizon is the housing sector, which peaked in April 2016 and thus is now in the correction phase of its cycle," Brian Jackson of IHS told AFP.Beijing is trying to execute a difficult structural transition away from dependence on low-end exports and heavy industry toward consumption and services, but entrenched interests have slowed progress.

At the same time, authorities have sought to combat a slowdown through hefty fiscal stimulus and loose home-buying policies that have fuelled property market booms in urban areas.

"Economic growth in the third quarter was better than market expectations," Rong Jing, a Beijing-based analyst with BNP Paribas, told AFP, but pointed to possible risks arising from the real-estate boom. "The property bubble risk will continue to balloon if the government does not take tightening measures, as it would cause a very negative impact on the economy and the financial system," she added. "The biggest restraint this year that prevents monetary easing is the real estate market." In recent weeks lawmakers have unveiled tighter home-buying regulations in major cities to cool down galloping property prices.

Mixed signals

Recent indicators have painted a mixed picture of China's economic health. An official measure of manufacturing activity maintained its strongest level in nearly two years in September while auto sales grew at their fastest rate in three years in the world's biggest car market.

Data Friday showed that the price of goods at the factory gate rose in China for the first time in more than four years in September, a positive sign for demand after years of dropping prices battered manufacturers and put a damper on growth. "Recent economic data suggest that China's growth momentum has stabilised," said Raymond Yeung, an economist with ANZ. He pointed to recovery in private investment after "a period of massive decline". But exports sank 10.0 percent year-on-year in September, suggesting the Asian giant is yet to see the bottom of its years-long growth slowdown.

Imports returned to negative territory last month after a brief rise in August, with iron ore and copper volumes dropping, leading analysts to warn that the recent recovery in manufacturing activity could be short-lived.

Looking ahead, GDP growth faces the "downward pressure of a coming housing downturn, in particular in the first half of 2017" said Claire Huang of Societe Generale. Zhao Yang of Nomura expected China's yuan currency to be "much weaker" and forecast slower growth in the fourth quarter "due to the cooling down property market and waning demand from post-flood reconstruction". But Mizuho economist Shen Jianguang said that China's growth this year could be "stronger than the official data suggests", in contrast to last year when official figures probably overstated true expansion, he added.

Official Chinese figures are viewed with widespread skepticism, and in July the government altered its growth calculation method for the second time in less than a year. — AFP

BEIJING: A woman sits on her balcony as she watches bulldozers clearing the rubble of demolished buildings to clear the ground for a new property development project in Sanya. — AFP

Canton Fair exporters upbeat as China moves up value chain

HONG KONG/GUANGZHOU: More than 80 percent of companies at China's largest trade fair expect to export more next year, helped by innovation and currency movements, according to a Reuters poll, raising hopes of a turnaround after more than a year of weak export data. Despite concerns at rising costs and feeble global growth, the mood was mostly upbeat at the Canton Fair in Guangzhou on southern China's Pearl River, where tens of thousands of mainland exporters and foreign buyers gather for what is regarded as a barometer of the country's foreign trade.

Chinese exports have been falling almost continuously since the second quarter of 2015, and showed an unexpectedly large drop of 10 percent in September, despite heading into what is usually the peak year-end shopping season. A third of the 103 companies polled said they expected a rebound in the country's exports soon, and 46 percent expect the slowdown to persist for between six and 12 months.

"The overarching environment is not that great, but we innovate so we remain competitive," said Hill Xing, sales manager at Kemage Power Machinery, which makes small power generators for household and agricultural purposes and employs 600-700 people. Andy Zhang, sales manager at Owatch, a virtual reality start-up, echoed that theme. "Traditional industries are lagging, but new innovative industries like us will do very well," he said. Struggling heavy industry helped pull Chinese growth to a 25-year low in 2015, and the country's foreign reserves fell by $513 billion as the currency weakened and investors pulled out capital.

Nearly half of those polled in Canton said exports would be helped by the depreciation of the yuan, which has fallen 8.4 percent since August 2015, with another third expecting no impact. The fair, established in 1957, runs until Nov 4. Phase one, ending on Wednesday, features exhibitors covering electronics and household appliances, along with heavy machinery and building materials. Phase 2, from Oct. 23-27, covers consumer goods, gifts and home decorations, and the final phase includes textiles and apparel, office supplies, healthcare and foods.

Forty-five percent of companies said they were upbeat on their order prospects, while 51 percent were neutral and 5 percent pessimistic.

FOOTFALL DOWN

On a list of eight issues polled, production costs were the biggest headache for most exporters at the bi-annual fair, which is attended by 24,553 exhibitors occupying more than 60,250 booths. This was followed by concerns over global economic growth, while rent was their least concern. Nearly 70 percent of exporters said hiring costs had climbed by up to 10 percent this year, though close to 60 percent said it was easy to get a loan for their business.

More than 65 percent of companies expect to increase investment spending by up to 20 percent next year, while 16.5 percent expect to raise spending by over 20 percent. Fixed asset investment in China grew just 8.1 percent in the first eight months of this year, the slowest pace since December 1999. Increasing labor and overall operating costs have hurt the competitiveness of China's exporters in recent years, with many switching to cheaper destinations in Southeast Asia, while others increase automation.

"We just installed a new production line from Korea to enhance automation. It will help to ease labor costs," said Juney Wang, manager at PVC floor manufacturer Rentier, based in Jiangsu province. Exporters said foot traffic at the fair, held in the provincial capital of Guangdong, nicknamed the workshop of the world for its manufacturing prowess, had dropped significantly from three years ago, while the buyer mix had also changed. "I'm seeing more buyers from emerging markets such as South America and Southeast Asia," said Jason Green, marketing director at Anhui Guofeng Wood-Plastic Composite Co.

Traditional markets such as Europe and the United States have been hurt by an economic downturn, and many buyers from these countries were increasingly buying over the Internet, he added. Jason Shen, general manager at KarrDiS, an armored door manufacturer from Zhejiang province in eastern China who has attended the fair since 2007, said footfall had dropped around 30 percent from two or three years ago. — Reuters

FRANKFURT: The headquarters of Deutsche Bank is photographed in Frankfurt, Germany. Zombies are gnawing at Europe's underpowered economic recovery — zombie banks and zombie companies. — AP

Zombie banks are stalking Europe's economy: Survey

Global bodies call to fix woes amid growing crisis

FRANKFURT: The walking dead are gnawing at Europe's weak economy - zombie banks and zombie companies. Almost a decade after the financial crisis that ravaged the global economy, analysts and top officials are warning that too many banks in Europe are struggling financially, keeping them from lending to companies and fostering growth.

Calls to fix the problem have come repeatedly from the International Monetary Fund, US Treasury Secretary Jacob Lew, and European Central Bank chief Mario Draghi. They say something has to be done if Europe's economy is to gain more traction and bring down unemployment. Here is a look at Europe's slow-burning banking crisis and how it hurts the economy.

BAD LOANS

Soured loans are one of the biggest problems, especially in Italy. They create a vicious cycle: the slow economy means businesses can't repay their loans. That leaves the banks short of cash to finance new business ventures, which holds back the economy even more.

Getting rid of the bad loans is a struggle. Italy's Monte dei Paschi is trying to offload 27.7 billion euros ($31 billion) in such loans to investors who would buy them at a deep discount. The bank has to get rid of those problem assets before it can credibly ask investors for more money - up to 5 billion euros through a share offering. In Italy, one reason clearing bad loans can be difficult is that the courts are clogged, meaning it can take years to pursue the debtors and recover money. That makes the assets worth even less, and the lower the price, the bigger the financial hole the bank has to fill.

ZOMBIES

Banks under financial pressure, meanwhile, tend to prop up "zombie" companies by extending loans rather than pressing for repayment. A group of economists has found that banks under stress tend to maintain credit to companies they already have a relationship with, even if those companies are struggling. Yanking credit to such companies would mean recognizing the bank's own losses on the loans. That leaves both bank and companies as walking dead, technically still in business but unable to grow, and gobbling up credit that could otherwise go to stronger companies. "Creditworthy firms in industries with a prevalence of zombie firms suffered significantly from credit misallocation, which slowed down the economic recovery," wrote the four economists: Viral Acharya at New York University's Stern School of Business, Tim Eisert from Erasmus University Rotterdam, Christian Eufinger at IESE Business School in Barcelona and Christian Hirsch at the Goethe University in Frankfurt. The economy of the 19 eurozone countries grew by a quarterly rate of 0.3 percent in April-June. That's not enough to bring down the 10.1 percent unemployment rate quickly enough.

FALLING STOCKS

Weak share prices for banks have compounded the problems, as they make it harder for banks to raise money from investors. The STOXX Europe 600 Banks index is off 21.9 percent this year, compared with a milder 7 percent drop for the broader STOXX Europe 600. Deutsche Bank is off 52 percent for the year to date; Monte dei Paschi is off 86 percent and Switzerland's Credit Suisse 37 percent. Deutsche Bank's shares plunged after it was reportedly facing a fine of up to $14 billion dollars related to dealings in bonds backed by shaky mortgages before the financial crisis.

SKIMPY PROFITS, BIG PROBLEMS

All of this would be less of a problem if banks made enough money to build new capital reserves. But earnings have been sagging, too. Return on banks' loans and investments has not recovered to the levels seen before the crisis. Even banks in countries that have had fewer problems - Austria, France, and Germany - have seen returns rebound only to around 0.8 percent from 1.3 percent before the crisis. Deutsche Bank made a scant 20 million-euro profit in the second quarter despite 7.4 billion euros in revenue. That followed a 6.7 billion-euro loss in 2015.

If banks earned more money, they could attract investors more easily. "The answer is profitability," said Jan Pieter Krahnen, a professor of finance at Frankfurt's Goethe University. "As soon as profitability is back there will be plenty of capital, because people will be happy to invest. "Banks argue that part of the problem is that the ECB has slashed the interest rate benchmark to zero, which squeezes bank's profit margins.

TOO MANY BANKS

The ECB and IMF argue that European banks should fix their underlying business models: their costs are too high and they have too many branches. That's particularly true at a time when more banking is done online. In some countries, customers can withdraw cash at grocery stores and gas stations as they check out with the milk and broccoli - no teller involved.

The answer may be mergers and job cuts across national boundaries. "We have seen almost nothing in terms of restructuring the industry, which should have happened over a couple of years, and which is now even more urgent than before, not so much because of the crisis but because of technological change," Krahnen said.

NO BAILOUTS PLEASE

The banks' situation is further complicated by new European Union restrictions on government bailouts. The new rules, which took effect this year, are meant to protect taxpayers from picking up the bill for rescuing banks - as happened during the financial crisis, overwhelming entire states' finances as in the case of Ireland. The restrictions raise the possibility that shareholders and junior bondholders - investors who loaned the bank money without getting collateral or a promise of priority repayment - would be required to take losses before government money could be used. However, in some cases, such as Italy's Monte dei Paschi, those investors are mom and pop savers. So a rescue could mean wiping out the life savings of thousands of small investors. — AP

FALLS CHURCH: This file photo taken on December 30, 2014 shows a Bank of America sign in Falls Church, Virginia.— AFP

Bank of America profits rise 6%, beats estimates

NEW YORK: Bank of America's third-quarter profits rose nearly 6 percent from a year earlier, helped by strong results in investment banking and trading as well as lower expenses. The profit growth came from all four of the bank's businesses and despite continuing low interest rates.

The consumer banking giant said yesterday it earned $4.45 billion in the three months ending in September after paying dividends to preferred shareholders, up from $4.178 billion in the same period a year earlier. The per-share figure rose to 41 cents versus 38 cents a year ago, easily beating the 34 cents per share analysts were expecting, according to FactSet.

BofA's consumer banking division earned $1.81 billion in the quarter, up from $1.76 billion from a year earlier. While revenue was relatively flat year over year, largely due to lingering effects of near-zero interest rates, BofA was able to cut expenses from $4.711 billion in the third quarter 2015 to $4.37 billion this quarter.

Investors took that as a positive sign, since BofA is primarily a US consumer banking company that is more exposed to low interest rates than other banks with larger investment banking franchises. Part of the cost savings came from closing branches and laying off staff. BofA's branch count fell to 4,629 in the quarter from 4,741 a year earlier. The number of full-time employees fell to 209,009 from 215,193.

Noting the ongoing Wells Fargo sales practices scandal, Bank of America executives said they have seen no evidence of similar behavior at their bank.

"It's not the number of products we open, it's how they are used," Paul Donofrio, Bank of America's chief financial officer, said in a call with reporters. Bank of America's global markets division reported net income of $1.07 billion, up from $800 million a year earlier.

BofA's bond trading desks had a strong quarter, up 39 percent from a year earlier. Citigroup and JPMorgan Chase had high reported similar gains in bond trading last week. BofA's balance sheet continued to recover as well. The bank's net charge-off ratio, or the proportion of loans the bank considers uncollectable, fell to 0.4 percent from 0.43 percent a year earlier. — AP

Bullish bets on oil highest since 2014

LONDON: Hedge funds and other money managers have raised their bullish bets on US crude prices to the highest level since the slump started in the summer of 2014. Saudi Arabia and other OPEC members have successfully pushed oil prices back above $50 by squeezing bearish fund managers ("Saudi Arabia squeezes hedge funds with bearish bets on oil", Reuters, Oct 10).

Hedge funds raised their net long position in the two main futures and options contracts linked to US crude WTI by 39 million barrels to 292 million barrels in the week to Oct 11. The combined position was the highest since July 2014, when WTI prices were still trading above $100 per barrel and the long slide in prices was just beginning. Hedge funds have raised their combined position by 155 million barrels since the middle of September and by 212 million barrels since early August, according to the US Commodity Futures Trading Commission. Most of the adjustment has come from the short side of the market as hedge funds have covered short positions established earlier in the summer. Hedge funds have cut short positions in WTI-linked futures and options from a peak of 249 million barrels in early August to just 102 million barrels, a reduction of 146 million.

Over the same period, hedge fund long positions have risen from 329 million barrels to 394 million, an increase of just 65 million. Hedge funds have accumulated and liquidated short positions in four distinct cycles since the start of 2015. The accumulation and liquidation of hedge fund short positions has corresponded closely with the rise and fall in oil prices. The fourth and most recent cycle of short-selling began in early June when WTI prices were just over $50 per barrel and the number of short positions in WTI was equivalent to around 78 million barrels. The cycle peaked at early August, when the number of short positions had risen to 220 million barrels, and WTI prices hit a low around $39-42. Since then short positions have been reduced, somewhat unsteadily, and by Oct 11 the number of shorts had returned to 71 million barrels and prices were back just above $50. The reduction in short positions has provided crucial support to prices over the last 10 weeks and explains why OPEC's relatively weak output agreement reached in late September had such a big impact on prices.

But the short covering process has now run its course, with relatively few more short positions to cover, and is likely to provide less support to prices going forward. US crude oil prices peaked at $51.60 on Oct 10 and have since struggled to rise further, which is consistent with the short-covering rally being largely over. — Reuters