China Aug imports rise for first time in nearly 2 years

Global demand still expected to remain sluggish

BEIJING: China's imports unexpectedly rose in August for the first time in nearly two years, boosted by coal and other commodities, suggesting domestic demand may be picking up and putting the world's second-largest economy on a more balanced footing. Exports also showed signs of improvement, falling by a less-than-expected 2.8 percent from a year earlier, as demand in the United States, Europe and even Japan showed some signs of improvement, data showed yesterday.

If it proves sustainable, a trade recovery or even signs of trade stabilization would help ease fears that China's economy is becoming increasingly lopsided, and give feeble global growth a much-needed shot in the arm. In recent months, China's economy has shown signs of stabilizing, but growth has become more dependent on a government infrastructure spending spree and a housing boom as private investment fizzles and exports remain sluggish. "The improvement in imports is mostly a reflection of stronger domestic demand. Chinese companies are restocking (raw materials), and also are now expecting prices to start rising," said Wang Jianhui, an economist with Capital Securities in Beijing. "There is also some expectation that the economy is improving. As we are entering the high season in the fourth quarter, we expect exports to stay stable and imports to improve as higher prices spread to more products." China's 1.5 percent import rise was the first expansion in value terms since October 2014. Economists polled by Reuters had expected a fall of 4.9 percent, moderating from a sharp 12.5 percent tumble in July. While a surge in commodity prices is widely acknowledged as a major factor for the rebound in imports, analysts believe the surprising uptick also reflected stronger domestic demand, which is fueling a brighter profit outlook for Chinese manufacturers. "The size of the pick-up suggests that there may also have been some improvement in import volumes last month," Capital Economics said in a note. Non-commodity imports also rebounded, HSBC said in a note, noting gains in machinery imports. The launch of new consumer electronic gadgets ahead of the year-end shopping season may also have given a boost to China's supply chain, as firms imported more components to make products such as Apple's iPhone 7, which officially launched this week.

A similar bounce in hi-tech was seen in Taiwan's export data on Wednesday, though analysts are skeptical it will last much beyond the seasonal Christmas peak. "We think the rebound in domestic demand is a reflection of robust infrastructure investment over the past few months. This is the result of an expansionary fiscal policy, which we believe will continue into the second half of 2016, and possibly well into 2017," HSBC economists said.

COMMODITIES AND CARS

Among commodity imports, coal jumped over 50 percent by volume as China cut back on mining its own coal in favour of buying higher quality supplies from countries such as Australia. While iron ore imports slipped from July they remained near record highs as Chinese steelmakers rebuild inventories in expectation of higher returns. Stockpiles at small- and medium-sized mills rose 7.5 percent from Aug. 11 to 25, Morgan Stanley said in a note.

The steel price surge is due in part to Beijing's efforts to reduce excess capacity. Some Chinese steel plants are turning in the best margins in at least three years as prices rise and demand for building materials increases. Chinese steel exports also look set to hit a fresh record this year, raising friction with some of its major trading partners.

Passenger vehicle sales in China to retail customers rose 12.7 percent in January-August from a year earlier, the China Passenger Car Association said yesterday. Imports of automobiles and auto parts also increased significantly in August, Nomura noted. Global demand for Chinese goods also seems to be picking up slowly, though weak US factory activity readings and German output data this week suggest export orders may remain sluggish.

Exports fell 2.8 percent from a year earlier, beating forecasts for a 4.0 percent decline. Shipments to the US dipped marginally while those to the European Union rose 2.4 percent. Exports to Japan also improved, albeit modestly. China's customs department said pressure on shipments was expected to ease further in the fourth quarter, though analysts doubt there will be any strong recovery soon.

China recorded a narrower trade surplus of $52.05 billion in August, versus a $58 billion forecast and July's $52.31 billion. However, global demand still remains depressed. International Monetary Fund (IMF) Managing Director Christine Lagarde said earlier this month that it will likely downgrade its 2016 global growth forecast again. China's cabinet said this week that it will step up proactive fiscal policy efforts now that commodity prices are relatively low, hinting that the infrastructure boom will continue. But some analysts said a housing rebound may be peaking as sharp price rises force more cities to tighten restrictions on home buyers. — Reuters

LIANYUNGANG: Chinese workers load steel pipes at a port in Lianyungang in east China's Jiangsu province yesterday. China's imports rose 1.5 percent year-on-year in August, figures showed yesterday, the first increase in nearly two years, in a positive sign for the world's second-largest economy. — AFP

UK tech sector in shakeup under Hewlett Packard deal

LONDON: British group Micro Focus will merge with some of Hewlett Packard Enterprise's software assets, the pair said, in a further consolidation of the global tech sector after SoftBank's blockbuster purchase of ARM Holdings.

The deal creates an entity worth $8.8 billion (7.8 billion euros) that will be "one of the world's largest pure-play enterprise software companies," the two said in a statement.

Shares in Micro Focus soared more than 16 percent in early London trade yesterday. It marks the latest in a string of tech sector mergers and acquisitions, topped by Japanese mobile firm SoftBank's vast $32 billion takeover of British iPhone chip designer ARM Holdings in July. "With today's announcement, we are taking another important step in achieving the vision of creating a faster-growing, higher-margin, stronger cash-flow company well-positioned for our customers and for the future," HPE chief executive Meg Whitman said in a statement, unveiling the deal late Wednesday.

The move comes after the breakup of computer giant Hewlett Packard last year into two companies: software and services HPE and computer and printer maker HP Inc.

HPE shareholders will get 50.1 percent ownership of the new combined company to be entitled HPE Software and a $2.5 billion cash payment. HPE Software and Micro Focus will have combined annual revenues of $4.5 billion and operating profit-as measured by EBITDA, or earnings before interest, tax, depreciation and amortisation-of $1.35 billion.

The deal is the biggest announced purchase of a foreign target by a British firm since voters opted to quit the European Union in June. "The merger will create one of the world's largest infrastructure software companies with leading positions across a number of key products," Micro Focus chairman Kevin Loosemore said. Other headline-grabbing takeovers recently have included Microsoft's $26-billion acquisition of social media company LinkedIn, and US cyber security leader Symantec's $4.65-billion purchase of Blue Coat Inc.

Separately Wednesday, Intel announced plans to spin off its cyber security operations as an independent company under the name McAfee, as the US giant also sought to offload non-core operations. "The tech sector is going through a rapid phase of consolidation. Tech is leading (the) deal market this year-as it did in 2015," ETX Capital analyst Neil Wilson told AFP. "The pace of tech deals is the second fastest ever after 2000, while the number of deals across the rest of the market is down."

'Confident move'

After ARM Holdings was snapped up in July, the latest merger also illustrates that British companies are able to do the buying, Wilson said. "After Arm Holdings was sold to SoftBank, it's also a sign that the UK tech sector is still capable of making deals in the other direction," he added. "It's a confident move-it would be the biggest acquisition by a British company of a foreign tech firm and comes in the face of a massive drop in the value of the pound that has made UK firms the target of overseas bidders." Analyst Markus Huber, of City of London Markets, said the developments were partly down to the fact that British tech companies were "simply very good in what they are doing". — AFP

German growth expected to halve in 2017 as Brexit bites

BERLIN: German economic growth will nearly halve in 2017 as Brexit and other risks hit exporters, the DIW institute said yesterday, although it predicted a pick up to 1.9 percent this year due to strong domestic demand. The subdued outlook followed a string of economic data which painted a bleak picture for German manufacturing, with industrial orders barely rising in July and output posting its steepest drop in nearly two years. "The German economic engine is likely to start stuttering for a while," DIW said in a statement, adding that Britain's decision to leave the European Union would limit Germany's growth prospects in the coming months.

"The Brexit decision is likely to put the brakes on German foreign trade until the middle of 2017," the institute said. Britain is Germany's third-most important export market and uncertainty about London's future relationship with the remaining 27 EU members is hampering investment decisions. DIW raised its 2016 growth forecast for the German economy to 1.9 percent from 1.7 percent, mainly due to a surprisingly strong performance in the first six months of the year. But it lowered its 2017 growth forecast for Germany to 1.0 percent from 1.4 percent, also citing special factors such as more holidays falling in working weeks next year.

Brexit is expected to cost the German economy 0.3 percentage points of overall growth next year, DIW head Marcel Fratzscher said. The lower number of working days in 2017 will reduce the overall growth rate by another 0.4 percentage points, he added. Other leading institutes are a bit more optimistic. The RWI think tank said on Thursday it expected the German economy to grow by 1.9 percent this year and by 1.4 percent next. The Kiel-based IfW institute forecasts only a mild economic slowdown to 1.7 percent in 2017 from 1.9 percent this year.

TAX CUTS VS INVESTMENTS

Speaking in the Bundestag lower house of parliament, Economy Minister Sigmar Gabriel confirmed the government's growth forecast of 1.7 percent this year. This would be on a par with last year when the German economy grew by the strongest rate in four years, mainly driven by soaring private consumption and higher state spending.

Gabriel, also head of the Social Democrats, called for more investment in childcare, education and digital infrastructure instead of using the federal budget surplus for tax cuts after next year's election - as suggested by conservative Finance Minister Wolfgang Schaeuble. "We must not fall into the trap and weaken the state further," Gabriel said. "The most important point of reference is a strong and more capable state." But he suggested the government should agree on lowering the social welfare contributions for low- and middle-income earners ahead of next year's federal election. — Reuters