German production, trade surplus grow

BERLIN: Germany saw a surprise boost in industrial production and a widening of its trade surplus in February amid rising tensions with the Trump White House over its export strength. Europe's largest economy reported a leap in production of 2.2 percent from the previous month, according to the price, seasonal- and calendar-adjusted figures from federal statistics authority, Destatis. Analysts polled by financial services firm Factset expected a rise of only 0.3 percent.

Meanwhile, the trade surplus in February reached 21 billion euros ($22 billion), Destatis said, citing preliminary data adjusted for seasonal and calendar effects. Exports increased 0.8 percent over January's figure to 104.9 billion euros, while imports fell 1.6 percent to hit 83.8 billion. In January, Germany had exported 18.5 billion euros more than it imported. Carsten Brzeski, chief economist at ING bank, called the increase in industrial production "whopping", thanks to a surge in construction.

"German industry finally returns as a growth engine. No, it's not a spelling mistake," he said. "Today's data suggest that industrial production could finally return as a growth engine for the German economy."However, he said the latest data would "do little to undermine the permanent international criticism of Germany's trade surplus". "The Brexit negotiations and a possible further weakening of the pound sterling, protectionist measures from the Trump administration and negative growth surprises from China pose a clear risk to the German economy," he added.

US President Donald Trump has vowed to root out "unfair" trade practices around the world and target countries that contribute to America's substantial trade deficit such as Germany. However, the US trade deficit with Germany fell to the lowest level in more than four years in February at $3.9 billion, the Commerce Department reported this week. Germany's panel of economic experts last month rejected criticism that the country was running an overly high trade surplus, but said Berlin could reduce the gap by attracting more investors. — AFP

ROTTERDAM: A view of the exterior of the Unilever building at the Weena in Rotterdam. Unilever is stopping the production of margarine, brands such as Becel, Blue Band, Bona and Zeeuws Meisje and its margarine division is being put up for sale after a takeover bid from US rival Kraft Heinz. — AFP

British industrial output shrinks

LONDON: Britain's industrial output fell by more than anticipated in February in a sign that the economic resilience seen after the Brexit referendum could be starting to crumble, official data showed yesterday. Industrial output contracted by 0.7 percent in February, after already shrinking by 0.3 percent the previous month, the Office of National Statistics (ONS) calculated.

Analysts had been penciling in a more modest decline of 0.2 percent for February. The statisticians said that output in the energy sector contracted the most, as relatively warm temperatures in February led to "to a decrease in domestic energy demand and, subsequently, gas and electricity production." But declines were seen across all sectors, with the manufacturing output dipping by 0.1 percent month-on-month. Analysts described the data as disappointing. The numbers "fuel suspicion that GDP (gross domestic product) growth (has) slowed markedly, largely due to consumers becoming more cautious," said IHS Markit economist, Howard Archer. — AFP

LONDON: The Governor of the Bank of England, Mark Carney, arrives for a speech at a news agency in London's financial district Canary Wharf yesterday. — AP

BoE's Carney calls for UK-EU bank rules pact after Brexit

Brexit talks will be 'litmus test' for global rules

LONDON: Bank of England Governor Mark Carney called yesterday for Britain and the European Union to reach a sweeping deal to recognize each others' bank rules after Brexit or risk a potentially damaging hit to financial services across Europe. Carney said in a speech at Thomson Reuters' London office that banks had to be ready for a "hard" Brexit and he set a July 14 deadline for cross-border finance firms operating in Britain to tell the BoE how they would cope with an abrupt EU exit.

He also said he would push to ensure some clearing of euro-denominated transactions remains in London after Brexit. Banks, including many from the United States and other countries around the world, use London as their base for operating across the European Union, making the British capital the biggest financial centre in the region by far.

Britain's financial sector accounts for almost a quarter of all EU financial services income and 40 percent of EU financial services exports, according to the BoE. But the EU financial services "passports", which enable firms to operate throughout Europe from a single office in London, are set to be lost once the UK pulls out of the bloc's single market in two years' time, and it remains far from clear what kind of deal will replace it. Banks were making contingency plans, at some financial cost, but should not rush to leave London, Carney said.

He also said it would be hard for other EU countries to match the scale of the financial services industry in Britain "in terms of investment and supervisory capacity, market infrastructure, the expertise that is resident here... That's very difficult to replicate." Prime Minister Theresa May mentioned the importance of reaching a trade deal with the EU that includes financial services as a "crucial sector" when she triggered the two-year process of Britain's exit from the EU last week. However, many bankers have said they are not convinced the government will prioritize their industry, with May making controls on immigration a top aim. Carney said he expected financial services to be part of a "bigger deal" on trade between the UK and EU.

"How Brexit negotiations conclude will be a litmus test for responsible financial globalization," Carney said. "The EU and UK are therefore ideally positioned to create an effective system of deference to each other's comparable regulatory outcomes, supported by commitments to common minimum standards and open supervisory co-operation," he said. But major global trade deals to date have largely excluded financial services due to their complexity. Against a backdrop of global concern that US President Donald Trump may undo some of the reforms implemented since the financial crisis, Carney said the global financial system was at a "fork in the road".

Governments had to choose between maintaining high standards of regulation and respecting each others' rules, or looking inward with big costs to global trade, he said. Trump has said that internationally-inspired banking rules are holding back US lending, and has ordered a review of regulation, raising concerns that the global approach to financial regulation will splinter. Carney said the United States under Trump seemed focused on rules unique to the country, rather than a radical overhaul which would have global implications. "I'd be very wary of interpreting anything that the US administration does as a rollback of regulation, of a turning inwards, of a fragmentation," Carney said.

Challenging ambition

Recognition of financial rules between Britain and the EU has not been tried before on the scale envisaged by Carney, which could make negotiations tricky and protracted. The EU may also be reluctant to forgo the jurisdiction of the bloc's top court in policing rule breaches. The system could be bolstered by third-party peer reviews and a new independent dispute resolution mechanism, Carney said — adding that this could be a template for the wider world. Banks are concerned that Britain and the EU will not reach a deal in time for Brexit which is due in two years' time, and are preparing to move staff from London, and Germany and France are trying to lure jobs to their financial capitals. HSBC, UBS and Morgan Stanley have decided to move about 1,000 staff each from London in the next two years, sources familiar with their plans have told Reuters.

Goldman Sachs said last month it would begin moving hundreds of people as part of its contingency plans. Carney said the BoE needed to be prepared for a worst-case Brexit outcome, and alongside his speech, the BoE's top banking regulator, Sam Woods, sent a letter to financial firms with cross-border activities ordering them to set out Brexit plans. European banks which operated in London on the basis of passporting should be prepared to set up separately capitalized subsidiaries in Britain and submit to direct BoE regulation if Britain and the EU could not reach a deal, Woods said. — Reuters