Surge in German factory output points to solid GDP growth in Q3

Car manufacturers main driver behind overall increase

BERLIN: German industrial output posted its biggest monthly rise in more than six years in August, data showed yesterday. It suggested the economy is firing on all cylinders again and set for solid growth in the third quarter, although a question about the makeup of the new government could add uncertainty. The combined production of manufacturing, construction and energy increased by 2.6 percent on the month after edging down by 0.1 percent in July, data from the Economy Ministry showed.

That was the strongest monthly gain since July 2011 and easily beat expectations in a Reuters poll for a 0.7 percent rise, surpassing even the most optimistic estimate. "These figures are very good," Commerzbank economist Ralph Solveen said. He pointed to special factors such as plant holidays falling in July in some regions this year, meaning output was likely to come in weaker next month.

"Overall, we expect solid (GDP) growth in the third quarter. Our estimate is roughly 0.6 percent on the quarter," Solveen said. Manufacturing output rose by 3.2 percent, its biggest rise since March 2010, as factories churned out more intermediate goods, capital goods and consumer goods in August. Energy output also rose while construction activity fell. Manufacturers of cars and other vehicles were the main driver behind the overall surge, the ministry said, also pointing to earlier plant holidays. The ministry said industrial production had gained momentum since the start of the year.

"The good business morale and the positive development in industrial orders point to a continuation of the solid industrial upswing," it said. Data published on Friday showed that strong foreign demand, especially from clients outside the euro zone, drove a bigger-than-expected jump in industrial orders in August.

ING Bank chief economist Carsten Brzeski said the strong production data provided further evidence that the economy had left its summer lull behind and returned to maximum speed. "With the expected investment program of the new government, the current cycle should be extended by another couple of years," Brzeski added. The German economy grew 0.7 percent on the quarter in the first three months of the year and 0.6 percent from April to June, driven by increased household and state spending as well as higher investment in buildings and machinery.

> "Economy is firing on all cylinders again"

Leading economic institutes have raised their growth forecast for the German economy to 1.9 percent in 2017 and 2.0 percent in 2018. The German government will present its updated projections for GDP growth, employment and inflation tomorrow.

"The outlook further ahead is positive too, with domestic demand supported by low unemployment and still loose monetary policy and the global environment supportive," Capital Economics analyst Jennifer McKeown said. The economy might even benefit from a small post-election fiscal boost, McKeown said, adding she expected German GDP to rise by an even stronger rate of 2.3 percent this year.

LUXEMBOURG: German Finance Minister Wolfgang Schaeuble (Front left) shakes hand with Spain's Economy Minister Luis de Guindos during a Eurozone Finance ministers meeting in Luxembourg yesterday. — AFP

The biggest risks to Germany's upswing come from the outside, Brzeski said, pointing to geopolitical risks, the stronger euro and a possible slowdown of the U.S. economy as a result of further absence of tax relief or investment programs. Other risks include a slowdown of the British economy due to the continuing Brexit uncertainty and China's transition from an important export destination to a serious competitor, he added. — Reuters

Turkmen leader pledges investment for troubled economy

ASHQABAT, Turkmenistan: Turkmenistan's autocrat leader yesterday pledged tens of billions of dollars towards the country's flagship oil and gas sector, which has been battered by low global prices and collapsing demand from Russia. Speaking at a meeting of the Council of the Elders-an unelected consultative body that offers no real check on Gurbanguly Berdymukhamedov's vast powers-the strongman pledged to pour 159 billion manats into the sector over seven years.

At the official exchange rate that would equal some $45 billion (38 billion euros) but the sum would only fetch around half that amount on the black market, which is thought to better reflect the real value of the tightly controlled currency."In the next seven years we will make investments (in the economy) of 240 billion manats. In the oil and gas complex we will invest 159 billion manats," Berdymukhamedov said. Turkmenistan, which sits on the world's fourth largest gas reserves, has grown strongly dependent on sales to China after Russia ceased purchases of Turkmen gas at the beginning of 2016. Falling global prices have seen the government impose tight restrictions on currency exchange and led to a spike in the cost of imported goods. But Berdymukhamedov struck an upbeat tone at the Monday meeting of the council, where he was regularly applauded and serenaded with chants of "hail the protector". The strongman, who is honoured with a golden statue in the capital Ashgabat, promised to begin production of electric vehicles to help diversify the hydrocarbon-dependent economy. Berdymukhamedov also vowed to carry out an earlier pledge to slash generous state subsidies introduced under totalitarian predecessor Saparmurat Niyazov in order to boost government revenues. Berdymukhamedov said "the time has come to save and use state funds effectively." The popular subsidies introduced in the 1990s had effectively granted citizens of the repressive ex-Soviet republic free gas, water and electricity. — AFP

ASHQABAT: Turkmen President Gurbanguly Berdymukhamedov (left) addresses participants at a meeting of the Council of the Elders outside Ashqabat yesterday. — AFP

China Sept FX reserves rise for 8th straight month in boost to Xi

BEIJING: China's foreign exchange reserves rose modestly in September for an eighth straight month, and by slightly more than markets had expected, as tighter regulations and a stronger yuan continued to discourage capital outflows. A dramatic slowdown in capital flight - which had been seen as one of the biggest risks to China - has helped boost confidence in the world's second-largest economy ahead of a key Communist Party meeting this month, at which President Xi Jinping is expected to consolidate his grip on power.

Forex reserves rose $17 billion in September to $3.109 trillion, compared with an increase of $10.5 billion in August, central bank data showed yesterday. Economists polled by Reuters had expected reserves to rise by $8 billion. It was the first time that China's reserves have climbed for eight months in a row since June 2014, and brought its stockpile — the world's largest-to the highest since October last year.

The consistent rise has led some analysts to believe the People's Bank of China (PBOC) may have become a net buyer of foreign exchange for the first time in nearly two years. "But we believe any such purchases reflect a desire to create uncertainty over the short-run trajectory of the currency rather than resisting medium-term appreciation," Julian Evans-Pritchard, China Economist at Capital Economics, wrote in a note. China has tightened rules on moving capital outside the country since late last year as it scrambled to support the yuan CNY and stem a slide in its forex reserves.

Beijing burned through nearly $320 billion of reserves last year and the yuan still fell about 6.5 percent against the surging dollar, its biggest annual drop since 1994. However, the yuan has seen a sharp rebound so far this year, thanks to a reversal in the dollar and a further widening of Beijing's forex controls, including a clampdown on some overseas acquisitions by Chinese firms which some suspected were really being used to channel money offshore. The yuan had gained 7.5 percent against the dollar through early September, but authorities have allowed it to backtrack a bit in recent weeks, possibly due to concerns that its rapid run-up would start to hurt China's exports. The dollar's recent resurgence has also pressured the yuan of late, though few China watchers believe Beijing will allow it to retreat much further and risk rekindling outflows. Taken together, the regulatory measures, exchange rate forces and a stronger trade surplus may have brought China's capital flows roughly into balance for the first time in years.

"We believe that Chinese officials view the outflows as a critical threat, as they deplete China's FX reserves and invoke unpleasant memories of the Asian Financial Crisis," economists at ANZ said in a recent note. "Therefore, we think the authorities will prefer stability more than anything else in the near term, particularly as the 19th Communist Party Congress approaches in mid-October."

The country's outbound non-financial investment (ODI) slumped 41.8 percent in January-August from a year earlier, as authorities kept a tight grip on outflows for what they call "irrational" overseas projects. The state council said in August that China will limit overseas investment in property, hotels, entertainment, sports clubs and film industries.

The value of gold reserves fell to $76.005 billion at the end of September, from $$77.702 billion at end-August, data published on the People's Bank of China website also showed. — Reuters

BEIJING: This photo shows customers choosing items at Shiji Tianle Market, the biggest section of Beijing Zoo wholesale Market, in Beijing. — AFP

Spain's 10-year bond yield hits 1-week low as Catalonia fears ebb

LONDON: Spanish borrowing costs fell to a one-week low yesterday, narrowing the gap over top-rated Germany on hopes that Catalonia would this week take a step back from a unilateral declaration of independence from Spain. Bigger-than-expected demonstrations in Barcelona on Sunday called for Catalonia to remain part of Spain, raising pressure on the regional government to back away from a declaration it could make as soon as today.

Moves by local companies to relocate their headquarters elsewhere are also putting pressure on the region's pro-independence leader Carles Puigdemont to back down.

Puigdemont will address the Catalan parliament at 6 pm (1600 GMT) today on "the current political situation" amid speculation he could ask the assembly to declare independence.

The Catalan region's head of foreign affairs, Raul Romeva, told the BBC on Friday that the Catalan parliament intended to make a decision on independence, without specifying when. Madrid on Friday meanwhile apologized for the first time for police use of violence in trying to hinder a weekend referendum it had declared illegal, soothing financial market jitters.

"Some of the uncertainty has been reduced-the tone from Puigdemont has become more conciliatory and (Spain's Prime Minister Mariano) Rajoy has also stepped back," said Peter Chatwell, head of euro rates strategy at Mizuho.

"It is expected that Puigdemont will on Tuesday say an independence bid in the future will be considered, which is a dramatic step back from expectations last week that a deceleration of independence is imminent." Spain's 10-year bond yield tumbled 8 basis points to a 1-week low of 1.64 percent, down 17 bps from more than six-month highs hit last week. That narrowed the gap over Germany's 10-year bond yield to a one-week low around 118 basis points-having stretched out to 136 bps last week at the height of worries about a conflict between Catalonia and the central government in Madrid.

Spanish stocks rallied 0.7 percent yesterday, outperforming broader European share markets, while the euro was a tad firmer. There was also some relief after DBRS ratings agency late on Friday confirmed Spain's rating at A (low), following concerns that the tensions in Catalonia could hurt Spain's ratings outlook.

"DBRS's central scenario is that Spain remains united. This reflects legal and institutional safeguards that make a unilateral secession highly unlikely," the agency said in a note.

"However, uncertainty over Catalonia will continue in the near to medium term. A period of prolonged and elevated tension in Catalonia or political uncertainty in Spain at large could weigh negatively on the economy and public finances." — Reuters

BARCELONA: The headquarters of the Spanish major highway operator Abertis in Barcelona. — AFP

Fifty-one eurozone banks vulnerable to rate shocks: ECB

FRANKFURT: Fifty-one large eurozone banks are leaving themselves exposed to a sudden change in interest rates and may need to aside more capital against that risk, the European Central Bank said yesterday. The ECB is preparing to start dialling back its monetary stimulus after years of ultra-low interest rates and massive bond purchases, paving the ground for rate hikes further down the line.

After simulating scenarios ranging from a sudden monetary tightening to the kind of lending freeze that followed Lehman Brothers' collapse, the ECB found that most of the 111 eurozone banks it tested are well prepared for interest rates shocks. But it cautioned it needed "intense discussions" with 51 of them after finding they may be making themselves vulnerable via large bets on derivative instruments and overly aggressive models for calculating risk.

A hike in interest rates could mean the banks suddenly need more capital. "What we need to do is have intense discussions and check with the banks if they're aware of the... risk and if they have enough capital if things go wrong," Korbinian Ibel, a senior supervisor at the ECB, said. Results of the test, which started in February, are incorporated into the ECB's guidance on how much capital each lender on its watch should hold. Ibel said the 51 banks may, in principle, see their capital demands rise by up to 25 basis points, although any decision would depend on the individual circumstances of each firm. Similarly, the remaining 60 banks could see their guidance reduced by the same amount. The ECB's supervisory arm, which oversees the euro zone's largest banks and carried out the exercise, is formally separated from its monetary policy function.

Income and deposits

On aggregate, the ECB found that an increase of 200 basis points in interest rates would lead to a rise in net interest income of 4.1 percent in 2017 and of 10.5 percent by 2019 for the banks tested.

But when rates move, the net value of assets and liabilities of a bank also change. The economic value of the banks' equity would, however, decrease on aggregate by 2.7 percent, the ECB said. Banks, particularly in richer countries such as Germany, have long complained that the ECB's ultra-low interest rates have squeezed the margins they make on loans. Indeed, the ECB found that, should interest rates stay at their end-2016 level and absent any credit growth, the aggregate net interest income would decrease by 7.5 percent. Finally, the ECB warned that banks may be taking much of their customer deposits for granted based on recent years and failed to account for the rise of online banks and higher rates. "One could assume that if interest rates rise, the share of stable deposits decreases, but this is not done by most of the banks," Ibel said. — Reuters