

Business

China raises a key market rate, following Fed's move

PBOC says rise is normal market reaction after US rate rise

SHANGHAI: China gingerly raised a key short-term interest rate yesterday following the US Federal Reserve Bank's move overnight, in a symbolic reminder that Beijing is keeping an eye on global market trends even as it cracks down on financial risks at home.

The People's Bank of China (PBOC) said it had increased the rate on 7-day reverse repurchase agreements by 5 basis points (bps) to 2.55 percent. Reverse repos are one of its most commonly used tools to control liquidity in the financial system.

The Fed raised US interest rates by 25 bps, or a quarter of a percentage point, on Wednesday and forecast at least two more hikes for 2018. The PBOC's move had been widely expected and was its first major policy decision under new

Governor Yi Gang, who was appointed by parliament on Monday as part of a sweeping reshuffle of China's cabinet under ever-stronger President Xi Jinping.

"I think it's just a symbolic rate hike again to avoid the China-US rate spread from widening too much," said Ken Cheung, senior FX strategist at Mizuho Bank in Hong Kong. "A 5 bps hike is enough because yuan depreciation is not a big concern. And the PBOC is

refraining from lifting rates aggressively amid the regulation reform and benign inflation pressure."

The news prompted Chinese 10-year treasury futures for June delivery to rise as much as 0.3 percent to 93.475. By 0700 GMT the most traded contract had eased to around 93.375, up about 0.2 percent.

The PBOC also injected 10 billion yuan (\$1.58 billion) into the financial system yesterday.



Move is first policy action under new PBOC governor

Avoiding a blow-out

Many market watchers had expected the PBOC to follow a Fed hike with a 5-10 bps increase in the borrowing cost for Chinese inter-bank loans. That would keep the US-China rate differential from getting too wide—which

would risk a resurgence in capital outflows from China.

But analysts said the move was also a signal to banks and other financial institutions that the government is pressing ahead this year with its campaign to reduce risks in the financial system.

Capital Economics said in a note that it believed the rate hike was an effort by the PBOC to show it would follow the Fed to minimize

ments prompted new protests by anti-corruption activists outside the bank's headquarters near the capital of Valletta, who placed a washing machine on a plaque marking the opening of Pilatus Bank by Prime Minister Joseph Muscat.

Malta's police said the alleged sanctions busting did not involve Maltese citizens or institutions and that no transactions passed through Malta.

Malta's financial supervisors nonetheless responded by imposing controls on Pilatus that effectively freezes the bank's business. "The bank has been directed not to transact any business whatsoever," the Malta Financial Service Authority said in a statement, adding this applied to "all deposits and withdrawals and any disposal of the bank's assets."

It was not clear how long the controls would stay in place. The bank has not responded to requests for comment. The events unfolded after a former employee of Pilatus, who ignited a political scandal in Malta after she became a source for the murdered journalist, surrendered herself to Greek police. Maltese prosecutors have filed a European warrant for the arrest of Maria Efimova, a Russian who left Malta for Greece last year with her family, on suspicion of fraud. A Greek police official said she had been arrested at Malta's request. —Reuters

Malta freezes Pilatus bank's operations

FRANKFURT: Malta's regulators have imposed a freeze on the business of Pilatus Bank after its chairman's arrest on charges of breaking US sanctions prompted a fresh wave of criticism of the island's authorities. Earlier this week, the bank's chairman Ali Sadr Hashemi Nejad, 38, was accused in an indictment filed in a federal court in Manhattan of involvement in a scheme to evade US economic sanctions against Iran, prosecutors have said.

Sadr was arrested on Monday, according to court papers. A lawyer for Sadr has declined to comment. That prompted criticism of the Maltese authorities for inaction, including from the children of a journalist murdered in Malta last year. Daphne Caruana Galizia had reported on corruption and accused Pilatus of money laundering.

Some lawmakers had also questioned whether Pilatus Bank, which is registered in Malta, should keep its license. The develop-



NANTONG: This general view shows the port at Nantong in China's eastern Jiangsu province yesterday. —AFP

outflows and prevent a yield gap blow-out.

But the consultancy added that the PBOC may revert to looser monetary conditions in coming quarters if economic activity cools more than expected.

The PBOC had similarly inched up some rates after the Fed hiked its policy rate last March and December. It began nudging up short-term market rates and those of its other liquidity tools in early 2017 as authorities' clampdown on riskier financing practices

kicked into higher gear, but it has moved cautiously to avoid a hit to the economy.

In a statement, the PBOC said the rate increase was a normal response to the Fed's move that would help shape interest rate expectations and guide "reasonable" growth in credit.

The PBOC also raised rates on its standing lending facility (SLF) short-term loans by 5 bps, three sources with direct knowledge of the matter said. —Reuters

US Fed raises key interest rate amid stronger growth outlook

WASHINGTON: The Federal Reserve on Wednesday raised the key lending rate for the first time this year to its highest level in a decade, citing a stronger outlook for US economic growth.

Newly installed Fed Chairman Jerome Powell presided over his first meeting, which raised the federal funds rate to 1.5-1.75 percent, a move that will affect all types of loans, from homes to cars to student debt. In his first press conference as Fed chief, Powell pointed to the factors that have boosted the economic outlook in recent months, including "more stimulative" fiscal policy, in the wake of the massive tax cuts Congress passed in December.

In addition, he said "ongoing job gains are boosting incomes and confidence (and) foreign growth is on a firm trajectory."

That likely caused Fed officials to signal they expect a slightly more aggressive path for rate increases next year. Still, Powell told reporters that even with rising interest rates, the world's largest economy is "healthier

than it has been since before the financial crisis. It's a healthier economy than it has been in 10 years."

However, he also acknowledged that central bankers now consider the prospects of a global trade war as a "more prominent risk" to the economic outlook.

President Donald Trump recently announced steep tariffs on aluminum and steel and is expected to take more tough action against Chinese goods this week, but Powell said officials did not specify whether rising trade frictions could impact growth or inflation.

In its quarterly forecasts, Fed officials project the benchmark interest rate will end this year at 2.1 percent, meaning two more hikes are likely, unchanged from the December forecast, but will rise to 2.9 percent at the close of 2019, implying three increases.

That would mean one more rate increase next year than previously expected, even though officials do not anticipate inflation to rise any faster. The Fed's preferred inflation measure is forecast barely move up to 2.0 percent in 2019.

In fact, Powell said "there is no sense in the data that we are on the cusp of an acceleration of inflation." While the Fed is "very alert" to any increases that could result from the very low unemployment rate, which normally would be expected to drive wage increases, "it's not something we observe at the present." —AFP