International

Tariff fears hit car shares, lira back on the rack

Trump's unpredictable behavior leaves investors on edge

LONDON: World shares fell yesterday as cars become the latest focus of US protectionism worries, while Turkey's lira slumped again despite an emergency interest rate increase. Markets had plenty to digest including minutes from the latest Fed and ECB meetings, but in Asian and European trading it was US plans to investigate auto imports that caused the biggest moves. Japan's Nikkei ended down 1.1 percent after Nissan, Mazda and Toyota all fell. In Europe, BMW, Daimler and Volkswagen lost between 2.8 to 3.2 percent.

The broader market also gave up morning gains on reports Deutsche Bank planned to shed at least 7,000 staff and as Wall Street futures went negative. "The carmakers are getting a bit of a bashing, which is not really surprising following Trump's comments overnight," said CMC Markets analyst Michael Hewson. "Personally, I think he is playing to his voter base, but in the broader context of the trade story it is not positive." The worry for economists is that the move could lead to tariffs similar to those imposed on steel and aluminum in March.

Trump had also called for "a different structure" in any trade deal with China, fuelling uncertainty over the negotiations. Beijing had fired back, calling the car investigation an abuse of national security clauses. In the currency markets, Turkey's lira remained the big mover. It weakened as much as 3 percent, surrendering most of the gains it made the previous evening after the country's central bank jacked up its key interest rate by 300 basis points to prop up the plunging currency.

Investors have sold the lira on concern about the central bank's ability to tame double-digit inflation, particularly after President Tayyip Erdogan - a self-described "enemy of interest rates" - said he expected to assert more policy control after June 24 elections. The lira, which initially gained in early trade, weakened to as much as 4.7414 to the dollar from a close of 4.59. It hit a record low of 4.9290 on Wednesday before the central bank move. "There is one question," said Aberdeen Standard Investment's Viktor Szabo. "Is it enough or not? And I would think it's not enough".

Take a minute

The dollar dipped after Federal Reserve meeting minutes on Wednesday indicated its policymakers weren't looking to raise US interest rates too fast, though another rise will be warranted "soon" if the economy stays on track. It helped the euro off its recent six-month low even though minutes from the European Central Bank's meeting this month showed more concern about a economic slowdown. It was aided too after China signaled its confidence in the shared currency and as calm returned to Italian bond markets.

Italian President Sergio Mattarella on Wednesday gave political novice Giuseppe Conte a mandate to lead the first government in Italy made up of anti-establishment parties that have vowed to shake up the European Union. "I'm preparing now to defend the interests of all Italians in all places, in Europe and internationally," Conte told reporters after holding two hours of talks with Mattarella. Italy's 10-year bond yield fell 5 basis points to 2.36 percent, pulling back from Wednesday's 14-month highs. The Italian/German 10-year bond yield gap was 7 bps tighter at 183 bps.

That is still well below benchmark 10-year US Treasury yields, which have drifted back to 3 percent in recent days. It has been part of a broader flight to safety across financial markets. The dollar was down 0.3 percent against the yen to 109.92. "With Trump's unpredictable behavior leaving investors on edge, the Japanese yen has scope to appreciate further in the short term," said Lukman Otunuga, an analyst at FXTM. In commodities markets, US crude was down 1.2percent at just under $71 a barrel. Oil prices fell on Wednesday after an unexpected rise in US crude and gasoline inventories.

Brent futures were 1.3 percent lower at $78.80 a barrel, continuing to move lower after rising above $80 last week for the first time since November 2014. The most-traded iron ore futures on the Dalian Commodity Exchange rose for the first time in six sessions yesterday, gaining 0.3 percent. Weak commodity prices continued to put pressure on Australian shares, which ended 0.2 percent lower, extending losses into a sixth consecutive session. New Zealand's benchmark S&P/NZX 50 index was 0.7 percent higher. Gold was slightly higher with spot gold trading at $1,296 per ounce.—Reuters

TOKYO: Pedestrians walk past an electronic indicator showing a foreign exchange rate against the US dollar in Tokyo. — AFP

Car imports probe gives GM, Ford shares tiny lift

WASHINGTON: Shares of General Motors and Ford inched only marginally higher before the bell yesterday after the Trump administration launched a national security probe into car imports which could lead to new tariffs on foreign competitors while also stirring trade tensions. Washington said on Wednesday it will open a so-called Section 232 investigation into whether imports of vehicles and auto parts harm national security. A similar investigation prefaced the imposition of tariffs on steel and aluminum imports earlier this year.

The probe prefaces mid-term elections in US industrial heartlands later this year and is seen as part of President Trump's "America First" push to win back manufacturing jobs lost to overseas competitors. Pointing to a mixed bag of effects on US producers after the metals tariffs, analysts were cautious about predicting major gains for US firms and workers from the process.

"Measures like this are ultimately about protecting American manufacturing jobs in states that voted for Trump rather than national security," Morningstar analyst David Whiston said in a note. "We don't see these tariffs (if proposed) lasting forever and we think (they) will ultimately cost American jobs." Ford shares gained around half a percent while those in GM were up less than 0.1 percent in premarket trade in New York, compared to falls of 1.8 to 2.8 percent for German carmakers BMW , Daimler and Volkswagen. — Reuters

What you need to know about the Swiss sovereign money vote

ZURICH: Voters head to the polls on June 10 to decide whether Switzerland should introduce a sovereign money system. Here's what you need to know:

Where does money come from?

Money created by central bank money is legal tender, while deposits with commercial banks represent a claim on central bank money. Those deposits result from banks' lending activities. When a bank grants a loan to a customer, it credits the amount in question to their account in the form of a sight deposit. This deposit disappears from the bank's books as soon as the customer uses it to make payments, but it remains in the banking system.

What is sovereign money?

The initiants want to limit the credit-granting ability of commercial banks by making the Swiss National Bank the only body authorized to produce all new money in Switzerland. Commercial banks would be able to make loans using only funds they hold in long-term savings accounts, obtain from the money markets, or get from the Swiss National Bank in advance. In effect, this would be 100 percent reserve-based banking.

Why is this being voted for now?

Under Switzerland's system of direct democracy, any constitutional issue can be put to a binding referendum after proponents gather 100,000 signatures.

What happens to customer accounts?

Customers would have the option of holding sovereign money accounts. They would pay no interest, be held off the commercial bank's balance sheet and could be withdrawn in full at any time, making them completely safe if a bank collapsed.

What would happen to the SNB'S role?

In future, it would implement monetary policy primarily through steering the money supply. It would no longer alter interest rates to stimulate or reduce demand for credit. It would also create debt-free money. Instead of putting francs into the market via purchases of bonds and equities with newly created money, money would be issued directly without having to buy any assets in return. The Swiss government, cantons, or even citizens would get funds in the form of so-called helicopter money. How this would work-would it be a payment or tax cuts- is not yet decided, but it could amount to several hundred francs per citizen.

Arguments for the initiative

Supporters say a 100 percent reserve requirement would make the banking system more resilient by preventing bank runs. Under the current system, they say, banks lend too much during booms and too little in busts.

Sovereign money would restore stability by giving the exclusive power of money creation back to the central bank. The banking lobby, the central bank and the Swiss government oppose the plan, saying sovereign money would be a dangerous and unnecessary experiment. — Reuters