BoE most likely to cut rates in a no-deal Brexit: Tenreyro

Euro clings to $1.13 as ECB stimulus signal awaited

LONDON: The Bank of England is more likely to cut interest rates than raise them in the event of a no-deal Brexit, rate-setter Silvana Tenreyro said, the latest BoE official to back the idea of coming to the economy's rescue if it suffers a Brexit shock. The BoE has said its response to a chaotic exit from the European Union would not be automatic because a fall in the value of the pound and the imposition of tariffs on trade could push up inflation, making the case for a rate hike.

But some individual rate-setters have said recently that they would probably back a rate cut.

"In my judgment, a situation where the negative demand effects outweigh those other effects is more likely, which would necessitate a loosening in policy," Tenreyro said in a speech given in Glasgow.

"But it is easy to envisage other plausible scenarios requiring the opposite response."

Last week Governor Mark Carney said the BoE would probably give more support to the economy if it suffers the shock of a no-deal Brexit. Monetary Policy Committee member Gertjan Vlieghe has also said rates were most likely to stay on hold or fall in the event of a no-deal Brexit. But on Wednesday his colleague Michael Saunders stuck to the view that they could move up or down.

Britain is scheduled to leave the EU on March 29 but Prime Minister Theresa May is still seeking last-minute concessions from Brussels to secure parliamentary approval for a deal. She has also opened the way for a possible delay to Brexit.

A Reuters poll of economists published on Wednesday put the chances of a no-deal exit from the EU at 15 percent. In the event of a smooth Brexit, Tenreyro said there would be a "small amount of tightening" needed over the next three years, although she added that she would need to see an increase in price pressures first.

Overall, Tenreyro's comments fitted with a generally more downbeat stance adopted by the BoE last month, spurred not only by Brexit but also by a slowing global economy that she ascribed to trade tensions such as US tariffs on imports from China. Tenreyro said Britain's economy had not been hitting the limits of its ability to grow without generating excessive inflation. Supply grew in line with demand over the last couple of years, if not faster, she said.

"Consequently, I suspect that we ended 2018 with some amount of spare capacity remaining in the economy," Tenreyro said. She said there was some evidence that "acting slightly later" in shifting policy might be less costly to the economy than it once was.

Silvana Tenreyro

LONDON: Governor Mark Carney said the BoE would probably give more support to the economy if it suffers the shock of a no-deal Brexit.

Euro drops

Despite recent weak productivity data, Tenreyro said she saw some evidence of a "mildly improving" trend emerging over the longer term-something that should help to ease inflationary pressures in the economy.

The euro held near three-week lows yesterday, before a European Central Bank meeting that many hope will signal fresh stimulus and inject some life into currencies stuck in trading ranges.

The ECB is expected to cut growth forecasts and provide its strongest signal yet that more cheap long-term bank loans are coming. "We don't expect the ECB to make any changes but signal that changes are imminent," said Thu Lan Nguyen, a currencies analyst at Commerzbank. "The risks are that the euro gives up a bit more. The risks are to the downside." The euro was little changed at $1.1313, but euro overnight implied volatility climbed overnight to its highest since Dec 20. The dollar, measured against a basket of currencies, stood at 96.875. "Waiting for the overvalued dollar to reverse course requires patience, and is itself one driver of the lack of FX volatility," Societe Generale strategist Kit Juckes said.

The dollar should slip over the coming year because US economic growth is slowing and any boost from a resolution in the US-China trade conflict is already priced in, according to a Reuters poll of strategists. —Reuters

Investors fear to tread risky path towards building a greener world

BARCELONA: Build a road to a shopping mall, or more energy-efficient social housing? Convincing investors to bankroll construction and services that do not heat up the climate or succumb to disasters, while boosting jobs and quality of life, is a tough task, international organizations said this week.

Gathered to discuss the challenge in Barcelona, officials from development banks, businesses and governments agreed to work together to push the need for low-carbon, resilient infrastructure up the political agenda. They also said they would explore the development of common standards to help markets pour trillions of dollars into it.

Luigi Carafa, executive director of the Climate Infrastructure Partnership, which hosted the conference, said large investors, such as pension funds and insurance companies, do not know which transport, electricity, water or telecommunications projects tick the right green boxes.

"We really need to define what ... are sustainable infrastructure assets, because we need to reduce the uncertainties for institutional investors," he told the Thomson Reuters Foundation after the event.

Tools that measure the environmental, social and economic impacts of projects are emerging, ranging from an online platform run by the Mexican government and the Inter-American Development Bank to a carbon savings registry for cities.

But their use remains fragmented, making it hard to compare projects and decide where to allocate money, forum participants said. Stephen Hammer, global partnerships advisor with the World Bank's climate change group, said some of the rating systems had weaker standards than the bank's own safeguards, meaning the bank could not back projects they green-lighted.

Analyzing infrastructure proposals can take time and money, especially in places where data is scarce, such as in many poor nations, he added. "If that cost goes up, then it may be yet another factor scaring off private capital from showing up in some countries where we all agree it needs to," Hammer said.

With the right policies, developing countries could provide water, sanitation and electricity for all, expand transport, improve food security and flood protection, and move towards decarbonising their economies - all while limiting annual spending on new infrastructure to 4.5 percent of their gross domestic product up to 2030, a new report from the World Bank Group says.

Local benefits

Morocco's state-owned clean-energy company, Masen, has attracted investment into huge solar power plants in the North African country so successfully it is mulling raising its target for renewable energy to 70 percent of its electricity mix by 2030. Ali Zerouali, Masen's head of cooperation and international business development, said the state had cut risk for commercial energy developers through a range of techniques.

They include acquiring land, providing roads, water and other services, and buying the power the plants generate.

Any project backed by Masen, Zerouali added, is supposed to bring benefits to communities living nearby in the form of jobs, roads, water supplies and grid connections.

"We are trying to advocate a more holistic approach in order to share the benefits of this new trend," he said. "It's not really a matter of lowering carbon emissions; it's mainly a new lever for our economic growth."

Kirsten Snow Spalding, program director for the US-based Ceres Investor Network on Climate Risk and Sustainability, whose members collectively manage more than $25 trillion in assets, said communities and policy makers must fix their planning priorities to support local green development.

Otherwise, cities will end up with infrastructure projects chosen by private backers, who are not in a good position to decide what is needed, she warned. But investors cannot be forced to put money into locally created plans, noted John Tidmarsh, chief investment officer at R20, an association that supports regions taking climate action.

"You want the right people around the table for specific projects, who are deciding together what each other are going to need for that project to go forward," he said. —Reuters

Rusal Q4 net profit plunged on US sanctions

HONG KONG: Russian aluminum giant Rusal suffered a net loss in the fourth quarter, it said yesterday, citing the "serious" impact of US sanctions and global trade disputes. The world's largest aluminum maker outside of China was hit by sanctions in April following a diplomatic crisis sparked by the poisoning of former double agent Sergei Skripal in Britain.

The sanctions targeted oligarchs close to President Vladimir Putin including Rusal founder Oleg Deripaska. He resigned his seat on the board and divested as the company worked to escape the sanctions, which were eventually lifted in January.

But the blacklisting hit the bottom line of the Hong Kong-listed company, which released its annual results yesterday. The company recorded an adjusted net loss of $17 million in the last three months of 2018. That compares with a $338 million profit in July-September and a $350 million profit in the fourth quarter of 2017.

Adjusted net loss for the full year was down 20.5 percent at $856 million. "The aluminum market in 2018 was seriously affected by the... sanctions as well as by trade wars and imposed import duties that caused significant growth of premiums and prices," the company said in a statement. Rusal said it expected a more positive outlook for 2019 now that sanctions have been lifted.

Deripaska is one of several oligarchs sanctioned last year in retaliation for what the US called "the Russian government's ongoing and increasingly brazen pattern of malign activity across the world", including its interference in Syria and its seizure of Crimea. —AFP