Business

World stocks stall as US and China tensions flare

Hong Kong law hurts optimistic mood

LONDON: A four-day rally that had lifted world stocks to near-record highs stalled yesterday as a US bill backing Hong Kong's protesters became law, provoking China's ire and threatening to derail an interim trade deal between Washington and Beijing. Fading hopes of a rapprochement between the world's two biggest economies before additional, potentially damaging tariff hikes kick in, also helped safe-haven assets such as US and German bonds and lifted the yen from six-month lows.

The US legislation, which threatens sanctions for human rights violations and seeks to safeguard Hong Kong's autonomy, prompted China to warn of "firm counter measures". "The risk-off moves clearly reflect a concern this could be an impediment to the 'Phase One' trade deal which is now widely expected," said Adam Cole, a strategist at RBC Capital Markets.

Wall Street's main indexes closed at record levels for a third straight day on Wednesday, albeit in thin liquidity before the Thanksgiving holiday, after data showed US economic growth had picked up in the third quarter and consumer spending had increased. Elsewhere, though, the outlook for growth looks less rosy. Japanese retail figures slumped the most since 2015 as a sales tax hike dragged on the economy, exacerbating a slowdown caused by slowing exports and manufacturing.

That took Asian shares excluding Japan down 0.2% . Japan's Nikkei, Hong Kong's Hang Seng and Shanghai blue chips all closed weaker. A pan-European index opened 0.2% lower, led by trade-sensitive sectors such as autos and tech. That kept MSCI's world equity index flat, after it approached the record reached in January 2018. However, the index is up almost 3% so far in November and is on track for the best month since June as investors flit in and our depending on the trade news.

"People don't want to be caught on the wrong side," said Geoff Yu, head of the UK investment office at UBS Wealth Management. "It does reflect there's cash on the sidelines. If you can stretch the positive narrative, if the trade issue is out of the way for the time being, we might actually see a demand pick up." US markets are closed for Thanksgiving, but equity futures for all three major indexes were down around 0.3%.

Hong Hong, Brexit jitters

Jitters over a renewed Sino-US fracas also showed up in currency and bond markets. US bond markets are closed, but German yields fell to their lowest in nearly a month, down 1.5 basis points on the day Japan's yen, a currency investors flock to in times of trouble, gained 2% against the dollar, rising as high as 109.40 yen per dollar. The Australian dollar and the offshore Chinese yuan lost around 0.2%.

The British pound rose on Wednesday after a model for pollsters YouGov, which accurately predicted the 2017 election, said Prime Minister Boris Johnson was on course to win a majority in parliament at the Dec 12 election. However, the currency failed to build on its gains, trading around $1.294. It was flat versus the euro after surging to its highest in nearly seven months at 85 pence. Implementing Brexit by the end of January, as Johnson had promised, would leave him a "miniscule" 11 months to agree a trade deal with the European Union, analysts at Societe Generale told clients. —Reuters

BANDA ACEH: Vendors wait for customers at a fishing port in Banda Aceh yesterday. —AFP

US economy grew faster, but trade woes continue

WASHINGTON: The US economy grew faster than originally reported in the July-September period and prices remain tame, but amid the unresolved trade war with China economists and businesses note some worrying issues persist. Higher exports and residential investment helped boost growth to a 2.1 percent annual rate from the 1.9 percent estimated last month for the third quarter, according to the more complete data the Commerce Department released Wednesday.

But economists note the apparent good news on the economy is tempered by some concerning elements, reflected once again in a nationwide survey by the Federal Reserve, showing continued concerns about the impact of tariffs and trade tensions. Business investment, which has been hit hard by President Donald Trump's trade war with China, has declined sharply but since it dropped by less than originally reported, falling 2.7 percent rather than three percent in the first estimate, that smaller decline helped growth.

Meanwhile, businesses building up their inventories of products added nearly 0.2 points to the GDP calculation, according to the revised data. While that could be due to companies stockpiling ahead of announced tariffs, it could also reflect slowing consumption. "In short, slightly stronger than before, but mainly because of inventories. That data continue to show growth slowing, but not dramatically," said economist Jim O'Sullivan of High Frequency Economics. The consensus among economists predicted no revision to the GDP result.

But some correctly forecast the upward revision which puts the third quarter on track to best the two percent growth in the second quarter, after the 3.1 percent expansion in the first three months of the year. Consumption, the traditional driver of growth, accounting for 70 percent of US GDP, increased 2.9 percent, with a strong gain in spending on durable goods such as cars or appliances, according to the data. However, that is a much smaller increase than the prior quarter.

Investment in real estate market jumped 5.1 percent, the strongest in two years, boosted by low interest rates. Exports, which fell 5.7 percent at the height of the trade war in the second quarter, recovered slightly in the latest quarter, rising 0.9 percent - two-tenths stronger than originally reported. Imports also were stronger than previously estimated, rising by 0.8 percent. The latest reading on GDP growth "indicates the economy is not about to fall off a cliff," said Gregory Daco of Oxford Economics. —AFP

US sparks risk-off move by backing Hong Kong

LONDON: The dollar was little changed in early London trading yesterday as a mild overnight risk-off move, sparked by the United States and China clashing over Hong Kong, subsided. After the US passed legislation backing pro-democracy protesters in Hong Kong, China warned that it would take "firm counter-measures" if the US continued to interfere in Hong Kong, saying that the legislation was "doomed to fail".

The dollar index was last down less than 0.1%, trading within narrow ranges, while the Japanese yen - a perceived safe haven - was up around 0.2% versus the dollar. The Swiss franc was up around 0.1% versus the dollar. Heightened discord between the United States and China risks jeopardizing negotiations around the "phase one" trade deal - a proposed preliminary deal to end the tit-for-tat tariff war between the world's two largest economies.

"The moves have been quite modest because we're still waiting to see what China's response is - what they've said so far is quite vague," said Adam Cole, chief currency strategist at RBC Capital Markets. "They've not gone so far as to say explicitly that this threatens the phase one trade deal, which is clearly what markets are worrying about, and for that reason the reaction so far has been quite mild," he said. The offshore yuan was down 0.2% versus the dollar, still trading within the week's ranges.

The trade-exposed Australian dollar was also down versus the US dollar, with losses due to the risk-off mood compounded by weak domestic data. Record-low volatility and the United States' Thanksgiving holiday mean traders are expecting a quiet day in markets. Euro-zone consumer confidence data for November is due at 1000 GMT and German CPI data for November is due at 1300 GMT. Spanish pricing data held no surprises and did not move the market. RBC's Cole said the hurdle was quite high for such data to move markets. —Reuters