Bank of Japan expands easing measures, cuts growth forecast

Japan economy grapples with fallout from pandemic

TOKYO: The Bank of Japan yesterday ramped up its emergency monetary easing and cut growth forecasts for the world's third largest economy, as the coronavirus pandemic ravages the globe.

After a meeting shortened from two days to one, the central bank said it would shift to unlimited government bond buying and more than double its capacity to purchase corporate bonds and commercial papers-a move to support Japan Inc's financing as the country grapples with fallout from the virus. The announcement comes as central banks around the world revert to extraordinary measures-in hand with trillions of dollars of government stimulus-to support their economies, which have been ravaged by long-running lockdowns aimed at preventing the spread of the disease.

Analysts said the announcement was appropriate but were gloomy on the prospects of success.

The move is "largely symbolic, but it's better than doing nothing", Taro Saito, senior economist at NLI Research Institute, told AFP ahead of the decision. "Given the circumstances, no one expects the latest policy can turn the economy around, and the same can be said about fiscal stimulus," he said.

Even before lifting the 80 trillion yen cap on government bond buying, the BoJ's purchases were well below the ceiling, Saito noted. In a quarterly economic report issued yesterday, the bank also revised down growth forecasts for the world's third largest economy. For the current fiscal year to March 2021, it now forecasts the economy will shrink 3.0-5.0 percent, compared with the previous estimate of 0.8-1.1 percent growth.

For the past year to last month, the BoJ estimates the economy shrank 0.1 percent to 0.4 percent, compared with the previously estimated 0.8-0.9 percent growth. However, it revised up the forecast for fiscal year to March 2022, now estimating growth of 2.8-3.9 percent, against a previous estimate of 1.0-1.3 percent expansion.

BoJ to shift to unlimited bond buying

'Increasingly severe situation'

"Japan's economy has been in an increasingly severe situation due to the impact of the spread of the novel coronavirus at home and abroad," the bank said in a statement. "Financial conditions have been less accommodative in terms of corporate financing, as seen in deterioration in firms' financial positions," it added.

It said its "current powerful monetary easing measures... will contribute to supporting economic and financial activities", along with measures taken by governments at home and abroad to tackle the pandemic. The central bank left rates unchanged and also reiterated its longstanding commitment to a two percent inflation target, which has remained stubbornly elusive.

But it revised down its forecast for core consumer prices, which exclude fresh food, now estimating the fiscal year to March 2021 will see the prices falling between 0.3 percent and 0.7 percent on-year, against rises of 1.0-1.1 percent in the previous estimate. The central bank's decisions come ahead of the US Federal Reserve's meeting later this week to shore up confidence and keep the financial sector running. The Fed has already unveiled measures to bolster liquidity and cut interest rates to historic near-zero as the coronavirus slammed the US economy, so it is not expected to do much besides project confidence at its policy meeting this week, analysts have said. Prime Minister Shinzo Abe's government last month unveiled a package of stimulus measures worth around $1 trillion to protect jobs, bolster the medical sector and ease the pain for working families. Earlier this month, Abe said the government will offer a cash payment of 100,000 yen ($930) to every resident.

"Japan's economy is likely to remain in a severe situation for the time being due to the impact of" the virus, the BoJ said in its quarterly report. But "thereafter, as the impact of the spread of the COVID-19 wanes at home and abroad, Japan's economy is likely to improve, supported by accommodative financial conditions and the government's economic measures", it added. — AFP

TOKYO: The Bank of Japan said it would shift to unlimited government bond buying and more than double its capacity to purchase corporate bonds and commercial papers—a move to support Japan Inc's financing as the country grapples with fallout from the virus. — AFP

Jetmaker Embraer scrambles for elusive plan B

SAO PAULO/PARIS: Brazilian planemaker Embraer SA has been thrust into an uncertain future with no immediate plan B, while not ruling out seeking a bailout after Boeing Co jettisoned a $4.2 billion commercial aerospace tie-up amid the coronavirus crisis.

The company's shell-shocked chief executive, in the job for a year with little aerospace experience, sought to rally staff after the board held late-night talks to review the collapse of plans for surviving mounting aerospace competition. "Our history is full of difficult moments, and we have overcome all of them," Francisco Gomes Neto told Embraer's 20,000 staff before giving them a thumbs up.

But Embraer now faces a historic crisis with its isolation reinforced by the breakup - two years after Europe's Airbus absorbed Embraer's main competitor, the Canadian-designed A220.

"For Embraer, it could be very damaging," said Teal Group consultant Richard Aboulafia, noting it was the only significant independent jetmaker. "It's hard to pressure your suppliers when the volume you're offering is a fraction of your competition's". Embraer's immediate aim is to reassure investors. It pledged cost savings and said it had solid liquidity.

It also tore up arguments previously used to persuade unions and regulators to back the deal, saying it could survive without Boeing rather than stating the deal would be its "salvation". The former state-owned company has not asked for a bailout but says it is open to "complementary" sources of financing.

Brazilian companies, including airlines and automakers, are in bailout discussions. Embraer "will need strong government support to recover the (separation) expenses and recover from the economic crisis caused by coronavirus," said Aurelio Valporto, who heads minority shareholder group Abradin and opposed the deal.

Embraer had two main pitches for investors that have now vanished. First, it would pay $1.6 billion in dividends from the sale. Second, it would receive enough cash to wipe debts clean and rejuvenate defense and executive-jet units. As a revamped company, Embraer would get a fresh start.

Executives also hoped Boeing's marketing would be a silver bullet for the commercial arm, to be 80%-owned by Boeing. Instead, Embraer now has a crisis committee that meets daily and no end in sight for its troubles. That, analysts say, could not come at a worse time. Sales of its E2 have lagged. Overall jet demand has vanished due to coronavirus. Now, crashing oil prices have further weakened the case for new jets, sold mainly on fuel efficiency.

Questions have also been raised over how long high-profile Embraer jetliner CEO John Slattery, who aggressively marketed the E2 jet while lobbying for regulatory approval, will stay without the deal. He did not respond to a request to comment. In a Twitter post, he said, "Despite this uncertain period in our industry, I'm confident Embraer will emerge stronger." — Reuters

Special Report

Prep recovery for post-oil COVID-19 squeeze

By Chris Wood

Let's use today's financial squeeze as a springboard for more resilient and focused growth. Yes, that's an optimistic approach, but is there any other choice for energy markets right now? We are entering the worst economic blow since the Great Depression in the 1930s.

There isn't much breathing room between the demand destruction wreaked by COVID-19 - sadly, taking more than 200,000 lives so far - and the tsunami of global oversupply depressing oil prices. For one, US oil plummeted below zero on 21st April - for the first time in history. Never before has the marine fuels supply chain - refineries, ports, storage operators, shipping companies et al - faced such a powerful pressure cooker. We are in entirely uncharted waters. But that doesn't mean business stops. It just needs to be more determined, more collaborative and learn from each other.

Green shoots ahoy

Strong demand is emerging in both the UAE's Port of Fujairah and across Asia, thanks to the returning appetite of China, the world's biggest oil importer. We've just reported a record high quarterly shipment volume of 1.3mn metric tons of ultra-low sulfur fuel oil (ULSFO) across Fujairah, the world's second largest bunkering hub, and Singapore, the world's biggest. This isn't to say all is well in the industry, but they are encouraging signs.

In one sense, timing has been fortuitous. The industry would probably not have been as well placed to deal with today's crisis without the start of IMO 2020 on 1st January. Firms have spent the last eighteen months improving the efficiency of their balance sheets in order to cope with the higher fuel prices that were anticipated once lower sulfur fuel oil became compulsory this year in one of the biggest changes in marine fuels since the early 1900s. Yet instead, fuel prices have fallen from $700/mt in January to $240/mt today - a 65% decline that provides relief to many stakeholders who now find themselves in an unexpected economic battle. Cash reserves will be especially valuable as demand inevitably picks up and those with deep pockets are the most agile and able to lock in market share.

Realistic goals

Real recovery is unlikely gain any significant momentum before 2021, for economic uncertainty remains rampant. Some countries are still at the peak of their demand destruction amid COVID-19 and others may still be affected, i.e. African nations, collectively home to 1.2bn people. It took years for the world to regain its financial footing after the global recession of 2008 and today's crisis is far more unpredictable. We only need to walk into our local shop to see how the global supply chain and the energy industry facilitating it are suffering: empty shelves and reduced stock abound. Some solutions to accelerating the recovery may not be popular. The money that governments worldwide are providing in huge stimulus packages must come from somewhere. Amid the uncertainty, one point is clear. Patience will be vital in ensuring we have a steady and sustainable recovery: think rabbit versus the hare. For now, find your 'springboard' for recovery and get as much lift as possible.

***Note:** Chris Wood, Managing Director is Uniper Energy DMCC*

All eyes on ECB for further moves on virus-fighting

FRANKFURT: The European Central Bank has launched a series of never-before-seen measures to cushion the economic blow from the coronavirus pandemic but it looks set to reaffirm Thursday it will do more still, even if some of the options appear limited. Here is what the ECB has done so far and what could be coming next:

Big-bang bond buys

On March 18, financial market panic pushed central bank chiefs into announcing a mammoth 750-billion-euro ($810 billion) bond-buying program without waiting for a regular monetary policy meeting. Coming on top of an existing "quantitative easing" (QE) scheme, the Pandemic Emergency Purchase Programme (PEPP) will buy up government and corporate debt worth around 1.1 trillion euros this year so as to flood the system with cheap money. The ECB decided not to retain its self-imposed limits on how much of each country's debt it can buy for PEPP, allowing it to focus purchases on the worst-hit economies such as Italy. ECB head Christine Lagarde has also announced massive new rounds of cheap lending to banks beginning in June.

The ECB last week said it would accept bonds as collateral for that lending scheme even if private-sector credit rating agencies downgrade them to so-called "junk" status which would normally bar such a move.

More purchases?

But "the ECB could well be forced soon to pull another trick out of its hat in an effort to impress markets and calm growing debt sustainability concerns," Allianz chief economist Ludovic Subran said.

Germany, Italy, France and Spain among the 19-nation eurozone must issue more than one trillion euros of debt to bolster their promised safety nets against mass bankruptcies in their shutdown economies. Thursday could also bring a discussion among governors on extending PEPP to restore confidence, Capital Economics analysts suggested.

That could include allowing the ECB to buy "junk"-rated debt under its QE programmes, something that it has ruled out until now.

Blue-sky thinking

Since 2012, a crucial arrow has sat unused in the ECB's quiver-the so-called "OMT" or Outright Monetary Transactions programme that provides in a crisis for unlimited purchases of debt from a specific country. Normally the nation concerned would first have to accept an aid programme from the EU's bailout fund, the European Stability Mechanism, whose conditions of harsh economic reforms make it politically toxic for leaders in Rome and elsewhere.

There has been much discussion recently over using ESM funds but not insisting on the reform conditions. Meanwhile European treaties forbid so-called "primary market" purchases of debt directly as governments issue it, Lagarde recently recalled.

A more classic monetary policy lever could see the ECB lower the interest rate on banks' deposits in Frankfurt from its present minus 0.5 percent, to encourage lending. But financial firms have long complained of the burden placed on their shoulders by negative interest rates. Lagarde warned national leaders last week of the danger of doing "too little, too late" as the European Union faces the prospect of the worst recession since its beginnings in the post-World War II period. — AFP

FRANKFURT: People wearing face masks walk in front of a big Euro sign in Frankfurt am Main, western Germany, as the European Central Bank (ECB) headquarter can be seen in the background on Friday amid the coronavirus COVID-19 pandemic. — AFP

EMEA tracks Asia higher as stimulus steps boost mood

SINGAPORE: Emerging markets in Europe, the Middle East and Africa edged up yesterday, tracking their Asian peers higher after more stimulus measures in the developed world prompted some buying into riskier assets.

Most stocks and currencies still stuck to the tight intraday ranges seen over the past few weeks, as markets looked for tangible signs of progress against the coronavirus outbreak. The MSCI's index of emerging market stocks has stayed in a range of 880 to 900 for nearly three weeks, with trade mostly taking place in reaction to news on the virus. The index rose about 1.6 percent on the day, bolstered by the Bank of Japan pledging to buy unlimited bonds, while markets bet on further measures from other major economies. The U.S. Federal Reserve and the European Central Bank are set to meet later in the week.

Emerging market stocks have fared far better than currencies, given that safe-haven demand for the U.S. dollar prompted vast outflows from the foreign exchange space. Interest rate cuts by central banks have also made their currencies less attractive. "There is a limit to what central banks can do. Economic downturns are normally caused by imbalances, and central banks help to resolve those imbalances," Paul Donovan, Chief Economist of UBS Global Wealth Management, said.

"This is not the case today. The downturn is policy-driven, and central bank policy plays a very junior role to fiscal policy." The MSCI's index of developing world currencies rose slightly for the day, but was barely above lows hit during the their rout caused by the pandemic.

Central European currencies, such as the Hungarian forint edged up against the dollar, as did the Swedish krona . Markets are holding out for euro zone economies to deliver a joint rescue package for countries hit by the virus. — Reuters