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Business

THURSDAY, JUNE 11, 2020

10 Singapore's migrant workers fear financial ruin after virus ordeal

10 Pakistan's budget to target 2.3% growth

11 Boursa Kuwait AGM approves cash dividend of over KD 5m for 2019

SHENYANG: A customer looks at a pumpkin at a market in Shenyang in China's northeastern Liaoning province yesterday. China's consumer price index (CPI) rose 2.4 percent in May, just below the 2.6 percent expected and easing from 3.3 percent a month earlier, according to data from the National Bureau of Statistics yesterday.—AFP

China factory gate deflation deepens

COVID-19 pandemic continues to weigh on global demand

BEIJING: China's producer prices fell by the sharpest rate in more than four years, underscoring pressure on the manufacturing sector as the COVID-19 pandemic reduces trade flows and global demand.

The coronavirus crisis has disrupted trade to China's key export markets including the United States and Europe, heaping further pressure on the outlook for manufacturing investment and jobs in the world's second-largest economy.

The producer price index (PPI) in May fell 3.7 percent from a year earlier, the National Bureau of Statistics (NBS) said in a statement yesterday, the sharpest decline since March 2016. That compared with a 3.3 percent drop tipped by a poll of analysts and a 3.1 percent fall in April. "Negative reading for PPI is likely to be a new normal in the foreseeable future," said Tommy Xie, China economist at OCBC Bank in Singapore.

The drop in producer prices was led by a 57.6 percent slide in prices in the oil and natural gas industry and a 24.4 percent drop in the oil, coal and other fuels processing sector, the statistics bureau said.

On a monthly basis, however, producer prices showed some signs of steadying. May producer prices fell 0.4 percent from the previous month, easing from April's 1.3 percent fall, the bureau said. Exports contracted in May as global coronavirus lockdowns continued to devastate demand while a deeper fall in imports pointed to mounting pressure on the key manufacturing sector.

More room for policy easing seen

Official and private factory surveys also indicated deep contractions in export orders. Beijing has in recent months rolled out fiscal and monetary stimulus to prop up the economy, which contracted for the first time on record in the January-March period.

China's decision not to set a growth target for 2020 signaled Beijing's continued wariness about overly aggressive stimulus. But weak economic readings could pressure policymakers to roll out additional support measures to meet job creation and unemployment rate targets for the year.

More policy support needed

Analysts see easing consumer inflation giving Beijing more policy space to reduce the economic toll from the pandemic. "We believe falling CPI inflation and continued PPI deflation will provide Beijing with more space to implement policy stimulus to offset the impact of COVID-19 on the economy," Nomura analysts said in a research note.

Pan Gongsheng, vice governor of the People's Bank of China, said last week that the economic hit from the coronavirus pandemic was bigger than first expected and that more monetary and credit policy support was needed. The consumer price index rose 2.4 percent from a year earlier - the weakest reading since March 2019 - compared with a 3.3 percent increase in April, as food prices continued to ease. Analysts had projected a 2.7 percent rise.

That was largely due to slowing food prices, which rose 10.6 percent in May from a year earlier, versus a 14.8 percent rise in April. Food price increases in May were led by an 81.7 percent rise in meat prices, compared with a 96.9 percent jump previously, the data showed.

Non-food prices in May rose 0.4 percent.

Core inflation - which excludes food and energy costs - remained benign last month at 1.1 percent unchanged from April's rise.

Martin Rasmussen, China economist at Capital Economics, said an acceleration in infrastructure construction looks set to drive a rebound in producer prices. China's economy shrank 6.8 percent in the first quarter from a year earlier, the first contraction since quarterly records began. – Reuters

Local banks may have to raise capital: CBK

KUWAIT: Governor of the Central Bank of Kuwait Mohamed Al-Hashel said that the results of severe stress tests conducted by banks in the recent past are reassuring, with varying degrees from one bank to another. The results also suggest that the local banks may be required to increase their capital, sources told the Al-Rai newspaper.

Dr. Mohammad Yousef Al-Hashel

Al-Hashel added, during a meeting with banks' CEOs, that the Central Bank will be flexible with the shocks that each bank may encounter, and these shocks will be addressed gradually, according to the financial position and conditions of each bank.

The sources also reported that Al-Hashel highlighted the necessity for banks to take precautionary measures to face coronavirus repercussions, and not to exhaust liquidity, in order to boost their ability to face the credit risk that may arise in 2021, by not distributing cash dividends to their shareholders for 2020.

Fed looks to long-term as focus shifts

WASHINGTON: The Federal Reserve completed its latest policy meeting yesterday with attention turning from its massive response to the coronavirus pandemic and toward its still-developing plans to strengthen and lengthen a nascent economic recovery.

An employment report showing 2.5 million jobs were created in May surprised economists with the speed at which firms started rehiring workers laid off en masse as virus-containment efforts forced businesses to close and consumers to stay home.

While a source for some optimism, Fed officials have been uniform in saying economic statistics for now are less important than progress in the health crisis. The economy is officially in a recession that began in February, and policymakers agree risks will remain high until it is clear a second wave of infections won't force people back indoors.

But amid the gloom of around 20 million jobs lost since February, an economy probably shrinking at a Depression-era pace, and nearly 111,000 Americans dead, stock markets are back near pre-crisis highs and bond markets stabilized by Fed actions are funding struggling firms like department store Macy's.

The depth of the job losses and the historic nature of the risks still ahead are likely to keep the Fed emphasizing its promise of loose monetary policy for perhaps years to come, and to eventually put more concrete policy commitments behind it, analysts agree.

"The economic outlook should remain cautious despite an encouraging turn in high-frequency data and initial signs of rehiring," wrote Kathy Bostjancic, chief US financial economist for Oxford Economics. The unemployment rate is expected to remain high and inflation below the Fed's 2% inflation goal through at least next year "even with a robust rebound ... and there is still the risk of a second wave."

The Fed's perceptions about the future will be provided in policymakers' economic projections updated for the first time since December, before the pandemic torpedoed a decade-long expansion.

The projections and the Fed's policy statement will be released at 2 pm (1800 GMT), followed by a press conference with Fed Chair Jerome Powell.

Promise of support

The statement and Powell are likely to repeat a now-standard promise since the early days of the crisis to keep interest rates set near zero and provide whatever support is needed until the economy is "on track" to meet the Fed's full employment and inflation goals. That has already prompted the Fed to offer trillions of dollars in broad support to financial markets, just as it did in the 2007 to 2009 financial crisis and recession. But it has gone much further this time, collaborating with the US Treasury on programs to buy corporate and municipal bonds, and offer loans to small and medium-sized firms in the "real" economy as well.

Those programs are meant as a kind of failsafe for local governments and companies to help weather the sudden loss of tax revenue and income the pandemic provoked. But ideally they should be short-term stopgaps. For the longer run the Fed will face a series of choices about how to guide the economy to where it was in 2019, with record-low unemployment, rising wage gains for lower-income workers and steady growth. It could take years, and at some point the Fed is expected to make a more explicit commitment about how long rates may need to stay near zero, or the level of bondbuying it feels is appropriate to provide additional support along the way.

It is also likely to consider new sorts of promises, such as pledging to keep longer-term interest rates at a specific level, a strategy known as yield curve control. That may not happen at this meeting. But Powell will likely make clear the Fed is already looking to the long term and what will be needed for the economy to claw back to where it was.—Reuters

US Federal Reserve Chairman Jerome Powell speaks at a press briefing. – AFP