Business

China inflation eases in December, providing opportunity for rate cuts

Figures give policymakers room to unveil new economic measures

BEIJING: Inflation in China eased in December thanks to falling food and commodity costs, with analysts saying yesterday figures give policymakers room to unveil measures to kickstart the stuttering economy including interest rate cuts. Like most other countries, China has seen prices surge for much of the past year owing to pick-up in the cost of energy, putting pressure on an economy also being battered by a crisis in the key, growth-driving property sector.

Factory price inflation has been particularly affected, hitting a 26-year high in October and raising concerns that those rises will filter through to the global economy owing to China's crucial role as an exporter. But yesterday, figures showed producer prices rose a less-than-expected 10.3 percent on-year last month, extending a slowdown seen in November. The consumer price index (CPI), a key gauge of retail inflation, came in at 1.5 percent-down from 2.3 percent in November and also short of forecasts. "The probability of a rate cut in the first quarter is high, and the closest window is this month," Bruce Pang, at China Renaissance Securities Hong Kong, said. CPI "will not be a concern in 2022" and the core measure, which strips out volatile food and energy costs, will stay muted below 1.5 percent, he added.

And Sheana Yue of Capital Economics said the current trends suggest inflation concerns are not likely to hold back the central bank from "further loosening measures including policy rate cuts".

Some commentators say the People's Bank of China could cut borrowing costs as soon as next week, marking the first since April 2020. Surging inflation has caused a headache for policymakers as they tried to walk a fine line between trying to keep prices from running out of control while also trying to kick start an economy struggling with a troubled property market and fresh lockdowns caused by COVID. The consumer inflation slowdown came on the back of easing vegetable prices, said National Bureau of Statistics senior statistician Dong Lijuan, adding that the accelerated slaughter of live pigs helped pork costs to moderate.

According to the NBS, the cost of the staple meat dropped 36.7 percent on-year. Meanwhile, producer prices were helped as "there were outright declines in the price of most upstream industrial goods such as coal and metals thanks to the fall in global commodity prices", Yue at Capital Economics added.

While worsening virus outbreaks could disrupt supply chains again, Yue said, and "with coal supply improving and property construction slowing, we see further downside to the price of industrial metals and energy".

While a narrowing gap between consumer inflation and factory gate costs reduces a squeeze on profit margins, HSBC senior economist Jing Liu added that "more easing is needed, as the consistently low core CPI points to growth pressure". — AFP

SHENYANG, China: Residents visit a market in Shenyang in China's northeastern Liaoning province yesterday. — AFP

Cathay Pacific: Crews spent 73,000 nights in quarantine in 2021

HONG KONG: Cathay Pacific has said its crews spent a combined total of 73,000 nights in quarantine last year as the airline struggles to keep flying through Hong Kong's strict zero-COVID controls. The city government says the carrier faces possible legal action over an outbreak of the Omicron variant of the coronavirus that began with two aircrew breaking home quarantine rules and has forced a tightening of social distancing measures.

An ongoing government investigation is the latest setback for Cathay Pacific, which has been battered by the pandemic and seen rising anger from pilots and crew over Hong Kong's virus controls. Chairman Patrick Healy sent a video message to all staff on Tuesday thanking them for the sacrifices they have made during measures that often leave them separated from families for weeks.

"What you have been through during the past two years is quite simply unparalleled," he said.

"Collectively our crew spent over 62,000 nights in quarantine hotels in 2021, in addition over 1,000 of you have spent more than 11,000 nights in Penny's Bay," he added, referring to Hong Kong's government quarantine camp. Healy argued that a "tiny minority" of rule-breakers should not overshadow Cathay Pacific's contributions to Hong Kong and that he believed the airline's crew arrangements were in line with government policy.

Following China's lead, Hong Kong maintains a strict zero-COVID strategy that has kept cases low but largely cut the international finance hub off from both the mainland and the rest of the world for the last two years. Most arrivals currently face at least 21 days in quarantine, among the longest isolation periods in the world.

Pilots and aircrew face less strict rules but must still often spend time in either hotel or home quarantine when they return from trips overseas. Cathay Pacific has also been operating "closed-loop" routes where pilot and crew volunteer to spend weeks only shuttling between their planes and airport quarantine hotels. The figure of 73,000 nights in quarantine-the equivalent of 200 years-laid bare the extent of isolation for the airline's crews. Unlike other carriers, Cathay Pacific has no domestic market to fall back on and a recent tightening of quarantine rules for aircrews has pushed it to scale back cargo flights-the one part of the business that was making money. — AFP

COLOMBO: Sri Lankan President Gotabaya Rajapaksa meets with State Councilor and Chinese Foreign Minister Wang Yi who was paying an official visit to Sri Lanka. — AFP

Sri Lanka rules out IMF bailout, seeks new China loan

COLOMBO: Sri Lanka ruled out an IMF bailout yesterday and said it plans to seek another loan from China to address an economic crisis that has led to food and fuel shortages. The island's tourism-dependent economy has been battered by the pandemic, with supermarkets rationing goods and rolling blackouts imposed by power utilities unable to fund oil imports.

International rating agencies have warned of a looming sovereign default on Sri Lanka's $35 billion foreign debt as the treasury battles a crunch on foreign exchange reserves and a gaping budget deficit.

But central bank governor Ajith Nivard Cabraal rejected mounting calls from local and international economists to seek an International Monetary Fund bailout and debt restructure. "The IMF is not a magic wand," he told a news conference in Colombo. "At this point, the other alternatives are better than going to the IMF."

Cabraal added that talks with China over a new loan were at an "advanced stage", and a fresh agreement would service existing debt to Beijing. "They would assist us in making the repayments... the new loan coming from China is in order to cushion our debt repayments to China itself," he said.

Beijing is already the island's biggest bilateral lender, accounting for at least 10 percent of Sri Lanka's external debt. Cabraal's remarks come days after a visit from Chinese Foreign Minister Wang Yi who discussed a debt payment restructure with President Gotabaya Rajapaksa.

Sri Lanka has borrowed heavily from China for infrastructure in the past, some of which ended up as white elephants. Unable to repay a $1.4 billion loan for a port construction in the south, Sri Lanka was forced to lease out the facility to a Chinese company for 99 years in 2017.

The United States and India have warned that the Hambantota port, located along vital east-west international shipping routes, could give China a military toehold in the Indian Ocean.

Cabraal did not give an indication of the size of the loan sought from China, but said talks were also underway with India for a $1 billion credit line to fund a broad range of imports. He also said Colombo will repay a $500 million sovereign bond that matures next Tuesday despite local business leaders publicly asking him to withhold the repayment and seek IMF help. — AFP

Stocks, dollar edge high before key US inflation data

WASHINGTON: Stock markets and the dollar advanced yesterday with all eyes on the latest US inflation reading as countries battle high prices. US Federal Reserve chief Jerome Powell on Tuesday said he was determined to rein in runaway inflation, a day ahead of an official update on cost pressures in the world's biggest economy.

Meanwhile data out of China yesterday showed the country's inflation had eased, handing policymakers room for measures to kick start its stuttering economy including interest rate cuts, according to analysts. "As optimism rises over the economy, inflation remains a key concern and today we could see a new multi-decade high for US consumer prices," noted Fawad Razaqzada, analyst at ThinkMarkets.

"If CPI comes in hotter than anticipated this could even derail the two-day Nasdaq rally as it would cement (US) rate hike expectations further." But he added that weaker-than-expected US inflation data should boost equities further, with European and Asian stocks enjoying solid gains yesterday.

Powell on Tuesday said that inflation was "very near the top of the list" of risks to the economic outlook. Prices are currently rising at their fastest pace in decades owing to a number of pressures including surging wage growth, supply chain snarls and high energy costs.

The Fed expects a "return to normal supply conditions" in the coming months, Powell said, but "if we see inflation persisting at high levels longer than expected... we will use our tools to get inflation back".

"Jerome Powell telling the congressional hearing that the US economy will be able to withstand the combination of Omicron and the Fed tightening was music to Wall Street's ears," said Matt Simpson of StoneX Financial. "And with markets getting too used to the idea of inflation being rampant, perhaps expectations (for much higher inflation) are ahead of themselves."

Traders have been worried by the prospect of an end to the ultra-loose policies, which have helped power a two-year market rally and support the pandemic-hit economy. But Powell managed to soothe some of those fears Tuesday during his Senate reconfirmation hearing.

He said the economy was on a strong footing, and with inflation rising and employment recovering, "the economy no longer needs or wants the very highly accommodative policy".

Inflation was "very near the top of the list" of risks to the economic outlook, he said, adding that the current rate is "very far above target". Prices are currently rising at their fastest pace in four decades owing to a number of pressures including surging wage growth, supply chain snarls and high energy costs. The Fed expects a "return to normal supply conditions" in the coming months, Powell said, but "if we see inflation persisting at high levels longer than expected... we will use our tools to get inflation back".

The comments were taken by traders to be less hardline than feared, suggesting recent fears about a swift removal of easy-money measures may have been overdone. Michael Hewson of CMC Markets said Powell appeared "mindful of the dangers of going too quickly in draining liquidity, although he was clear to stress that the Fed was also alive to the risks of acting too slowly, in curbing inflation risks".

Music to the ears

And Matt Simpson, of StoneX Financial, added: "Jerome Powell telling the congressional hearing that the US economy will be able to withstand the combination of Omicron and the Fed tightening was music to Wall Street's ears. "And with markets getting too used to the idea of inflation being rampant, perhaps expectations (for much higher inflation) are ahead of themselves."

Simpson added that if US inflation figures came in below forecasts later Wednesday, that "could be enough to shake out some pre-emptive short-mongers and further support equities, as part of the reason they sold off was the upward revision to Fed hikes, based upon inflationary fears".

Wall Street cheered, with Nasdaq climbing more than one percent, having taken a severe hit recently as tech firms are more susceptible to higher borrowing rates. The gains extended into Asia, with Hong Kong up 2.8 percent, thanks to a boost in tech firms, and Tokyo up a little shy of two percent.

Seoul and Manila were also up more than one percent, while Shanghai, Sydney, Taipei, Mumbai and Bangkok were up. London, Paris and Frankfurt were all well up at the open. — AFP

WASHINGTON: Stock markets and the dollar advanced yesterday

Genting blames German state after shipbuilder's collapse

FRANKFURT: Asian tourism and casino group Genting accused a German state of failing to pay out money promised as part of a rescue plan for its now-insolvent shipbuilding subsidiary MV Werften.

Negotiators for Mecklenburg-West Pomerania "presented a mechanism that hid the political motivation", lawyers representing the group's Genting Hong Kong unit told a state court in Schwerin, Germany, a day after MV Werften filed for bankruptcy.

The company took Mecklenburg-West Pomerania to court in December for the payment of $88 million (78 million euros). The money Genting HK claimed dates back to an agreement with the government in June to provide a bridging loan for the struggling dockyard operation on the Baltic coast. A ruling in the case is expected shortly.

According to Genting, the state linked the payment to conditions that were not in the original contract, including increasing Genting's own contribution to the rescue package from 30 million to 60 million euros. Lawyers representing Mecklenburg-West Pomerania rejected the suggestion the state had a political motivation, saying it was required under its budget law to closely examine the loans it made.

The state also said that the June agreement extended a credit line of up to 148 million euros, while the shipbuilder's funding gap had risen to 600 million euros.

The shipbuilder MV Werften, which employs around 2,000 people across three dockyards, filed for bankruptcy on Monday after failing to secure funding for the completion of the "Global One" cruise ship. Until recently the company was engaged in negotiations with stated and federal government to try and reach an agreement on a financial support package to finish the mega-liner, 80 percent built up to now.

Economy and Climate Minister Robert Habeck said on Monday that the government had "pulled out all the stops" to avoid MV Werften filing for bankruptcy. The region was looking at options to support the "continued operation" of the site and "the future of the employees", local economy minister Reinhard Meyer said in a statement on Monday. — AFP