Hopes grow that eurozone will dodge recession this winter

Europe benefits from lower inflation

FRANKFURT: Europe's economy grew in January for the first time since June, a closely watched survey showed Tuesday, raising hopes that the eurozone will avoid a recession this winter. Europe has benefited from lower inflation, improved supply chains and the recent reopening of China's COVID-scarred economy, leading to increased optimism for 2023.

The outlook for the single currency area is significantly brighter than it was a few months ago, when panic set in over the impact of Russia's war in Ukraine on Europe's economy. The S&P Global Flash Eurozone purchasing managers' index (PMI) rose to 50.2 in January from 49.3 in December. A figure higher than 50 indicates growth.

"This was the third successive increase and, as such, provides more evidence that the region has so far avoided the sharp downturn that we and many others had predicted," Andrew Kenningham, chief Europe economist at Capital Economics, said in a note. Almost all experts warned last year that the eurozone would enter a recession-two consecutive quarters in which the economy shrinks-in the final three months of 2022 and the first quarter of 2023.

Those fears are receding, but Europe still faces challenges ahead. Demand for goods and services continued to weaken, industrial orders fell in January-although less sharply than in December-and the impact of more interest rates hikes could still be felt. European Central Bank chief Christine Lagarde on Monday showed no signs of moving away from more rate hikes, insisting they must continue rising at a "steady pace" in order to avoid inflation becoming entrenched.

Inflation in the single currency area remains high at 9.2 percent, but has fallen for two months in a row, boosted by the slowdown in the rate of energy price rises.

'Welcome news'

Last week Lagarde said she expected the eurozone economy to fare "a lot better" than initially feared, with expectations of "a small contraction" instead of a recession. "The survey undoubtedly brings welcome good news to suggest that any downturn is likely to be far less severe than previously feared and that a recession may well be avoided altogether," said Chris Williamson, S&P's chief business economist.

The economy has been helped by concerns easing over the impact of soaring energy bills, thanks to mild winter weather and generous government support on the continent. But Williamson warned that the region was "by no means out of the woods yet". The EU's economy commissioner Paolo Gentiloni last week said there was an expectation of "subdued growth" for the rest of 2023.

"The war in Ukraine of course continues to cloud the outlook. And while high storage levels and lower demand have helped to bring energy prices down, the crisis is certainly not over," Gentiloni added.

The European Union's statistics agency will publish growth data for 2022's fourth quarter next Tuesday.

The single currency area's largest economy, Germany, benefited from the easing of supply chain pressure which helped manufacturing, S&P said, and reported improvement with the composite PMI rising from 49.0 in December to 49.7 in January.

BRUSSELS, Belgium: (Left to right) President of the Eurogroup Paschal Donohoe, European Central Bank President Christine Lagarde and Spanish Finance Minister Nadia Calvino pose for a family photo during a Eurogroup meeting at the EU headquarters in Brussels in this file photo. —AFP

But output in France, where activity is driven by domestic consumers and services, fell for a third consecutive month after a sharper drop in services activity. S&P said output for the rest of the eurozone, which comprises 20 countries after Croatia joined in January, also returned to growth. —AFP

US stocks rally tested by deluge of mixed earnings

NEW YORK: Wall Street stocks were mostly lower early Tuesday following two strong sessions as markets digested a trove of mixed earnings from industrial heavyweights. The results included a drop in profits from conglomerate 3M, pointing to weak demand in consumer-facing markets, and an upbeat report from defense contractor Raytheon Technologies, which has benefited from the comeback in its aerospace business.

About 25 minutes into trading, the Dow Jones Industrial Average was down 0.3 percent at 33,540.14. The broad-based S&P 500 slipped 0.2 percent to 4,012.20, while the tech-rich Nasdaq Composite Index added 0.1 percent at 11,369.84.

Tuesday's early losses suggest nervousness "that the stock market has gotten ahead of itself and is due for a pullback," said Briefing.com analyst Patrick O'Hare. But he added: "We can't put an eventual rebound try past the market, which has defied bearish expectations all year, bouncing back from bouts of weakness, catalyzed by the hope that the economy will achieve a soft landing."

Trading on a handful of large stocks including Visa and Wells Fargo was briefly halted early Tuesday due to an apparent technology glitch. But the stocks were trading normally soon after the open.

With China's economy reopening from strict lockdowns, coupled with easing energy prices, there is hope that a severe downturn can be averted even if inflation remains stubbornly high and interest rates look set to keep on rising, albeit at a slower pace. The eurozone economy grew in January for the first time in six months, a closely watched survey showed Tuesday, raising hopes that Europe will avoid a recession this winter.

The S&P Global Flash Eurozone purchasing managers' index (PMI) rose to 50.2 in January from 49.3 in December. A figure above 50 indicates growth. At the same time, heavy fallout from lingering high energy costs was further evidenced Tuesday with data showing UK government debt ballooning further in December as it subsidises gas and electricity bills for households and businesses.

"Lower energy prices are helping consumer confidence rebound," noted Susannah Streeter, senior investment and markets analyst at Hargreaves Lansdown. "It's another positive sign for companies fearing the effects of well-flagged interest rate rises, indicating that consumers are showing resilience, but they are still likely to stay cautious."

Tokyo stocks led gains in another day thinned by the Lunar New Year break, with sentiment boosted once more by a surge Monday on Wall Street.

Tech firms provided the support in New York as traders gear up for the release of earnings from big-ticket firms including Microsoft and Intel. Hopes that the Federal Reserve will slow down its pace of interest rate hikes have also given investors optimism that the US economy could avert a recession, or at least suffer only a mild contraction. —AFP

Interest rates need to rise at 'steady pace': ECB chief

FRANKFURT: European Central Bank chief Christine Lagarde said Monday that interest rates need to continue rising at a "steady pace" in order to avoid inflation becoming entrenched. While energy prices have recently come down, Lagarde said underlying inflation continues to rise.

"It is vital that inflation rates above the ECB's two-percent target do not become entrenched in the economy," she said at an event hosted by the operator of the Frankfurt stock exchange.

In less than six months the ECB has raised its key policy rates by 2.5 percentage points, the fastest increase in its history. "ECB interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive, and stay at those levels for as long as necessary" to bring inflation down, Lagarde added.

"We must bring inflation down. And we will deliver on this goal," she vowed. ECB policymakers are expected to raise rates at their meetings in February and March. "We will stay the course to ensure the timely return of inflation to our target," said Lagarde. — AFP

El Salvador repays $800 million bond

SAN SALVADOR, El Salvador: El Salvador has repaid an $800 million bond maturing this week, President Nayib Bukele announced on Monday, taking aim at critics who said the country would default.

He said the media had created "the narrative that El Salvador was broke and going to default."

"In the past year, almost every legacy international news outlet said that because of our '#Bitcoin bet', El Salvador was going to default on its debt by January 2023 (since we had an 800 million dollar bond maturing today)," Bukele tweeted. "Well, we just paid in full, 800 million dollars plus interest," he said.

The president did not specify how much the country paid in principal and how much in interest.

However, part of the $800 million debt that had to be settled in January was repurchased by the Salvadoran state in two operations carried out in the second half of 2022 in order to reduce the amount of payment. In these operations, El Salvador repurchased almost $200 million debt. According to finance ministry figures, El Salvador had to pay some $604.1 million principal for the bond due in January, plus some $23 million in interest.

Bukele has been much criticized for his decision in September 2021 to make El Salvador the first country to adopt Bitcoin as legal tender, alongside the US dollar. At the time, the cryptocurrency was trading at about $44,000. It hit a record of $67,734 in November 2021 but has since fallen and is now trading at about $23,000. Finance Minister Alejandro Zelaya also referred to the bond repayment.

"El Salvador meets its debt obligations," Zelaya said. El Salvador's public debt exceeds 80 percent of its GDP, according to official calculations. Part of the debt El Salvador is repaying was issued during the governments of the right-wing Nationalist Republican Alliance (1989-2004) and during the term of leftist president Mauricio Funes (2009-2014). —AFP

BEIRUT: An empty restaurant in Beirut.

Beirut restaurants charge in dollars as pound sinks

BEIRUT: Imagine ordering a coffee for one price, then three hours later being charged more for the same hot drink. You'd think it was a scam but it's an unfortunate reality for Lebanese living through an unprecedented currency crisis.

A customer at Goro, a restaurant in Beirut's Gemmayzeh neighborhood, experienced precisely this feeling while visiting one of the popular haunts of Beirut nightlife and dining.

Within three hours, the price of his coffee jumped by 9,000 Lebanese pounds, the equivalent of $0.18 on the parallel market, where the national currency topped the symbolic 50,000 mark on Thursday, the first time such an unwelcome milestone has been reached. "Ordered my first coffee at 10.30am, the second one at 1pm. The Lebanese Lira lost value during that time, resulting in two different charges", he wrote in a tweet on Friday, widely shared on social media. The sudden increase is due to the restaurant pricing its menu in dollars.

Customers can pay the bill in dollars or in the local currency, but at the parallel market rate, which remains highly volatile and can undergo sudden changes in mere hours. Once pegged at 1,500 against the US currency, the Lebanese pound has now lost 97 per cent of its value since the start of the crisis caused by a drastic shortage of dollars, which plunged 80 per cent of the population into poverty and led the country to the verge of financial collapse. More and more restaurants have switched to the dollar instead of the Lebanese pound, which is gradually disappearing from menus.

Restaurateurs say they have no choice. "Because of the volatility of the Lebanese pound, our suppliers are only accepting dollars," said Kamal Darwich, a manager at Onno in Beirut.

He said the price increases also covered rocketing expenses such as gas and electricity, as restaurants have to rely on expensive private generator suppliers in the near absence of state electricity. Salaries, however, are not entirely in dollars but are paid as a mix of both currencies. —Agencies

Ford to axe 3,200 jobs in Germany

DETROIT: US auto giant Ford is planning to axe 3,200 jobs in Germany, a union said Monday, adding it was extremely concerned about the future of the company's sites in Europe's top economy.

The news came amid fears in the EU that companies could shift their operations to the United States because of the recently passed landmark Inflation Reduction Act that offers tax cuts for US-made electric cars and batteries. A spokesman for the IG Metall union told AFP the cuts will be mainly in Cologne, where Ford has a major plant, but all sites across Germany are threatened.

"We at IG Metall are extremely concerned about the future of the German development divisions and, as a whole, about the future of the German Ford sites," said a statement from the union after an extraordinary meeting with management. As well as the Cologne site, Ford has a development centre in nearby Merkenich.

The carmaker did not immediately respond to a request for comment. The development centre has "successfully designed models for the European market, which often brought global success for the company," said IG Metall, which represents workers in the key electrical and metal sectors.

Ford's German workers can continue to develop successful electric models for Europe if given the chance, the union said. But the US company risks "taking the axe to its own future" with the planned cuts, IG Metall said, urging the carmaker to reconsider the move.

Just last year, Ford had said it would make a major investment in Germany in a bid to make all of its passenger vehicles sold in Europe electric by 2030. —AFP