Larger target for 2019

China's Finance Ministry will propose an annual fiscal deficit target of 2.8 percent of GDP for 2019, up slightly from the 2.6-percent target set for 2018, Bloomberg reported citing two unidentified sources.

BoJ mulls unpleasant policy options if Fed puts rate hikes on hold

KYODO

Worried by prospects of a pause in the US interest rate hike cycle, the Bank of Japan (BoJ) is shifting focus towards a risk that it may be forced to deploy more stimulus this year to stop sharp yen rises from derailing an economic recovery, sources say.

Just months ago, Japanese central bankers were debating how they could start whittling down a massive monetary stimulus due to concern over prolonging the pain inflicted on financial institutions' profits by years of near-zero interest rates, according to Reuters.

But, the dollar's flash crash against the yen last week gave Japanese policymakers a sharp reminder how their strategies are shaped in large part by external factors beyond their control, notably what the US Federal Reserve does.

"It put me on edge as the move was unpredictable and hard to explain," a senior finance ministry official said of the dollar's tumble to a 10-month low of 104.96 yen on January 3.

And the yen's sharp spike became a key talking point for BoJ executives returning from New Year holidays the following day, sources familiar with the central bank's thinking told Reuters.

Central bankers around the world are wondering how they can change step to reduce disturbance for their economies should the Fed switch away from tightening.

For Japan, the likely consequences would be an unwanted, sustained strengthening in the yen that would hurt exports and further hobble a stubbornly sluggish economy.

Growing fears of a global slowdown have shifted the BoJ's focus to the risks to Japan's recovery and on whether maintaining the current stimulus would be enough.

"It's true the yen will face more upward pressure if the Fed stops hiking rates," one of the sources said.

"If the economy falters or recession risks heighten, the BoJ would need to act," the official said, giving a view that was echoed by two other sources.

Already carrying the high cost of its mega-easing program, the BoJ lacks tools to fight another economic downturn. Governor Haruhiko Kuroda has publicly flagged his readiness to ease if growth sputters. But, the sources said, any such a move would be taken very reluctantly.

"If it turns out the Fed will forgo rate hikes for quite a long time, that would be a headache for the BoJ," said Shigeto Nagai, a former central bank executive who is now head of Japan economics at Oxford Economics.

Under a policy dubbed yield curve control, the BoJ guides short-term rates at minus 0.1 percent and 10-year yields around zero.

While the main objective of the policy is to keep corporate borrowing costs low, it also helps deter sharp yen gains by keeping US-Japanese interest rate differentials wide. A Fed rate hike pause could narrow the differentials and strengthen the yen against the dollar.

'Can stand pat for now'

BoJ policymakers have counted on a steady US rate hike to subdue the yen, and up to now have based their upbeat economic forecasts on the assumption that strong US growth will underpin global demand and Japanese exports.

That assumption was put in doubt on Friday, when Fed Chairman Jerome Powell said the US. central bank was not on a preset path of rate hikes and will be sensitive to downside risks.

While the dollar has rebounded above 108 yen, many investors now bet the Fed will forgo hiking rates this year amid risks of slowing global growth.

The Fed's dovish tone may help Japan in the short run if it stabilizes markets by easing investors' worries on US growth, but those benefits could be outweighed if it were to result in sustained strength in the yen.

For now, the BoJ can seek to keep yen rises at bay by allowing 10-year yields to fall below zero. It can do so without cutting rates, due to a decision in July to allow yields to move in a wider band around its zero percent target.

Many analysts see little chance the BoJ will ease at its next rate review on January 22-23, as markets have restored some calm and the economy still far from a recession.

"The BoJ can stand pat now because the economy is still in fairly good shape," said Sayuri Shirai, a former BoJ board member who retains close contact with incumbent policymakers.

"But the BoJ will probably do what it can if recession risks heighten, including cutting rates."

Weak German imports widen trade surplus in November

German imports fell unexpectedly in November, outstripping a drop in exports and widening the trade surplus, data showed on Wednesday, in a further sign that Europe's largest economy is likely to post meager growth in the fourth quarter of 2018.

The weak trade figures followed industrial output data on Tuesday that showed production fell for the third month in a row in November as risks from abroad mount and car companies struggle with new emission standards, Reuters wrote.

Seasonally adjusted imports fell by 1.6 percent on the month in November while exports edged down 0.4 percent, the Federal Statistics Office said. The trade surplus widened to €19.0 billion ($21.78 billion) from an upwardly revised €17.9 billion.

A Reuters poll of economists had pointed to an unchanged reading for imports and a 0.3-percent fall in exports.

"We have seen a string of weak economic data, but I don't expect a technical recession for the end of 2018," Stefan Kipar from BayernLB said.

"After the weak third quarter, there'll likely be a catch-up effect, but growth will probably be weak in the fourth quarter," Kipar added.

The German economy contracted by 0.2 percent from July to September.

Trade disputes driven by US President Donald Trump's 'America First' policies, the threat that Britain could leave the EU without a deal and weaker growth in emerging markets are putting the brakes on a nine-year expansion in Germany.

The car industry is also struggling with bottlenecks in new car registrations due to the introduction of stricter pollution standards earlier this year.

"There currently simply seem to be too many crises in global trade for the German export sector to defy them. Even the weak euro has done very little to lift German export performance," Carsten Brzeski from ING Bank said.

The Federal Statistics Office will publish preliminary gross domestic product growth data for the fourth quarter and 2018 as a whole next Tuesday.

Economy Minister Peter Altmaier last month lowered the government's growth forecast for 2018 to around 1.5 to 1.6 percent, down from the previous estimate of 1.8 percent. For this year, Berlin predicts a 1.8-percent expansion.

China denies it offered to bail out Malaysian fund

Beijing has rejected a Wall Street Journal report saying Chinese officials offered to bail out scandal-ridden Malaysian state fund 1Malaysia Development Berhad (1MDB) and try to get the US and other countries to drop corruption probes into the fund.

The Journal, citing minutes of meetings between Chinese and Malaysian officials, reported on Monday that the offers were made in 2016.

In return Malaysia offered China lucrative stakes in railway and pipeline projects for Beijing's Belt and Road infrastructure initiative, the report said, theguardian.com reported.

In a statement in response to the Journal report, the Chinese embassy in Kuala Lumpur said China never attached political conditions to its cooperation with other countries.

"China has all along adhered to the principle of non-interference in the internal affairs of any other country. We do not accept any groundless accusations made against China," the embassy said.

1MDB, founded by former Malaysian prime minister Najib Razak, is the subject of corruption and money-laundering investigations in at least six countries. The scandal was a key reason for the ousting of Najib in the 2018 election, which saw the return of Mahathir Mohamad as prime minister.

Mahathir's finance minister Lim Guan Eng said the government would study the allegations made in the Journal report.

"I have to refer back to any details explicitly said. If it was said in black and white, then it is something we will pursue," Lim was quoted as saying in Malaysian media.

The US justice department has estimated that a total of $4.5 billion was misappropriated by high-level 1MDB fund officials and their associates.

Najib has since been charged with corruption over 1MDB. He pleaded not guilty and has consistently denied wrongdoing.

In a statement issued on his Facebook page late on Tuesday, Najib said China had never offered to bail out 1MDB and he defended the cost of infrastructure projects awarded to China.

Since coming to power in May, Mahathir's government has accused the Najib administration of inflating the cost of Chinese deals. The new administration has paused more than $20 billion worth of projects awarded to Chinese firms, pending review.

Building boom turning to bust as Turkey's economy slows

ADEM ALTAN/AFP

Deep in a provincial region of northwestern Turkey, it looks like a mirage — hundreds of luxury houses built in neat rows, their pointed towers somewhere between French chateau and Disney castle.

Meant to provide luxurious accommodations for foreign buyers, the houses are however standing empty in what is anything but a fairytale for their investors, AFP reported.

The ambitious development has been hit by regional turmoil as well as the slump in the Turkish construction industry — a key sector — as the country's economy heads towards what could be a hard landing in an intensifying downturn.

After a long period of solid growth, Turkey's economy contracted 1.1 percent in the third quarter, and many economists expect it will enter into recession this year.

The country has been hit by high inflation and a currency crisis in August. The lira lost 28 percent of its value against the dollar in 2018 and markets are still unconvinced by the readiness of the government under President Recep Tayyip Erdogan to tackle underlying economic issues.

The villas close to the town center of Mudurnu in the Bolu region are intended to resemble European architecture and are part of the Sarot Group's Burj Al Babas project.

But the development of 732 villas and a shopping center is now in limbo as Sarot Group has sought bankruptcy protection.

It is one of hundreds of Turkish companies that have done so as they seek cover from creditors and to restructure their debts.

Driving force

Sarot Group filed for bankruptcy after some of their Gulf customers could not pay for the villas they had bought as part of the $200 million (€175 million) project, Sarot's deputy chairman, Mezher Yerdelen, said.

So far, $100 million has been spent on the project.

"Some of the sales had to be canceled," Yerdelen told AFP, after the company sold 351 villas to Arab investors.

The villas are worth between $400,000 and $500,000 each. They were designed with the Gulf buyers in mind, architect Yalcin Kocacalikoglu said.

While the drop in oil prices hurt its Gulf customers, Sarot Group was also hit by "the negative impact of the economic fluctuations on construction costs" in Turkey, Yerdelen said.

Despite a legal battle over its bankruptcy status, Yerdelen said the company can continue making sales and that he hopes the project will be inaugurated in October 2019.

Yet the Al Babas project is hardly alone. Unfinished and empty housing projects are strewn across the country, testimony to the trouble the construction sector, and the wider economy, now finds itself in.

The construction sector has been a driving force of the Turkish economy under the rule of Erdogan, who has overseen growth consistently above the global average since he came to power in 2003.

But the sector contracted 5.3 percent on-year in the third quarter of 2018.

"Three out of four companies seeking bankruptcy protection or bankruptcy are construction companies," said Alper Duman, associate professor at Izmir University of Economics.

Turkey's 'locomotive'

"Whether we call it a construction bubble or a housing bubble, there is a bubble in Turkey," he said.

He pointed to unsold housing stock as the main indicator of this, with data showing in that over the past 16 years 10.5 million apartments have been built but only eight million have been approved for use.

"There is a high risk this bubble will burst," he said.

Trade Minister Ruhsar Pekcan said in mid-December that 846 companies had applied for bankruptcy protection since March 2018 but opposition daily Sozcu claimed in October the figure was more than 3,000.

Turkish Chamber of Civil Engineers head Cemal Gokce expressed pessimism, predicting 'more bankruptcy protection applications, bankruptcies' among construction companies.

He said too many homes have been built in Turkey.

And most are not luxury villas like Burj Al Babas with its style reminiscent of the Sleeping Beauty Castle at Disney theme parks, but simple apartments and homes for ordinary Turks.

The construction confidence index of the Turkish Statistical Institute (TurkStat) fell 2.1 percent in December to 55.4, after 56.6 in the previous month. Anything below 100 indicates a pessimistic outlook.

However, Kerim Alain Bertrand, who previously headed up a firm that provided and analyzed data on Turkey's real estate market, said recently he was more optimistic, partly due to the country's growing population.

"The construction sector is this country's locomotive sector," he said.

While there will be a consolidation in the sector, it will 'continue to be kept alive' by the young population, he added.

Major Currencies

Currency	To USD	Currency	To USD
Turkish Lira	0.1817	Chinese Yuan	0.9181
Euro	1.1458	UAE Dirham	0.1464
British Pound	1.2736	Kuwaiti Dinar	0.2722
Australian Dollar	0.7161	Iraqi Dinar	3.2989
Japanese 100 Yen	0.7555	Saudi Riyal	0.0839

Major Commodities

Crude Oil	$50.90	Silver	$15.68
Gold	$1282.30	Platinum	$826.60
Copper	$2.68	Wheat	$523.50