First in line

The UK is 'first in line' for a trade deal with the US, President Donald Trump's national security adviser John Bolton said, according to BBC.

Singapore slashes 2019 growth forecast stoking recession fears

FELINE LIM/REUTERS

Singapore slashed its full-year economic growth forecast on Tuesday as global conditions were seen worsening and data confirmed the slowest growth rate in a decade amid mounting fears of recession in the city-state.

The government cut its forecast range for gross domestic product in Singapore — often seen as a bellwether for global growth because international trade dwarfs its domestic economy — to zero to one percent from its previous 1.5 percent-2.5 percent projection, Reuters reported.

Singapore's downgrade adds to concerns globally about the effect of increasing protectionism on exports and production. The deterioration in the global outlook has pushed central banks to cut interest rates and consider unconventional stimulus to shield their economies.

"GDP growth in many of Singapore's key final demand markets in the second half of 2019 is expected to slow from, or remain similar to, that recorded in the first half," the Trade Ministry said in a statement on Tuesday.

The ministry flagged a host of growing economic risks including Hong Kong's political situation, the Japan-Korea trade dispute, the Sino-US tariff war, slowing growth in China and Brexit.

Final second quarter GDP data on Tuesday showed a 3.3 percent on-quarter contraction on a seasonally-adjusted annualized basis. That was slightly smaller than the 3.4 percent decline seen in the government's advance estimate but deeper than a 2.9 percent fall predicted in a Reuters poll and a sharp contrast to the robust 3.8 percent first quarter expansion, which was driven by brisk construction activity.

Tuesday's data also confirmed annual GDP expanded 0.1 percent in April-June from a year earlier, its slowest rate in a decade, and lower than poll expectations of 0.2 percent and the first quarter's 1.1 percent.

Singapore's benchmark stock index fell 1.2 percent .STI to a two-month low in early trade, underperforming other bourses in the region.

A central bank official said after the data that it was not considering an off-cycle policy meeting. The next of its scheduled semi-annual meetings is in October, when it is widely expected to ease policy.

Singapore has been hit hard by the Sino-US trade war, which has disrupted world supply chains in a blow to business investment and corporate profits.

Also on Tuesday, Singapore cut its full-year forecast for non-oil domestic exports to a nine percent contraction from an eight percent fall previously. That comes after a 26.9 percent drop in electronics exports in the second quarter year-on-year.

"With trade tensions between the US-China unlikely to abate anytime soon, we expect exports and trade-related services to push the economy into technical recession in Q3," said Sian Fenner, lead Asia economist at Oxford Economics.

New Zealand, India and Thailand all cut interest rates last week, signaling major concerns about the outlook for economic growth. Last month, the US Federal Reserve cut interest rates for the first time since 2008.

Singapore Prime Minister Lee Hsien Loong said in an annual speech last week that the government stood ready to stimulate the economy.

"It feels like the storm is coming if you look at the whole macro economic fundamentals softening," said Selena Ling, head of treasury and strategy at OCBC Bank.

"All the downside risks are piling up on one side," Ling added, pointing to the myriad of global risks flagged in the trade ministry statement.

A faltering economy is expected to crimp growth at Singapore's three local listed banks, which have so far benefited from improved margins, steady interest rates and loan growth.

Car sales in India drop most in two decades

Passenger vehicle sales in India dropped the most in nearly two decades, with the decline extending for a ninth straight month amid a broader slowdown in Asia's third-largest economy.

Car sales fell 36 percent from a year earlier to 122,956 units in July, data released by the Society of Indian Automobile Manufacturers showed, Bloomberg reported.

GRAHAM CROUCH/BLOOMBERG

Passenger vehicle sales slumped 31 percent, while truck and bus sales fell 26 percent.

Weak sales are forcing manufacturers to cut production or shut factories temporarily, leading to at least 15,000 job losses in the industry so far, Vishnu Mathur, the director general of Siam, said in New Delhi Tuesday.

The trend mirrors waning consumer confidence in an economy, whose growth has slowed to a five-year low, and where unemployment has risen to a 45-year high.

"The job losses till last count was at 15,000 and was mostly in equipment supply sector," Mathur said, adding that those let go were mostly temporary workers.

"Over 300 automobile dealerships have been closed so far. The industry needs an urgent revival package from the government."

India is planning measures to stimulate the economy, with an announcement expected this week to boost demand in automobiles and housing sectors, among others, a government official said Friday. That's expected to add to monetary stimulus provided by the central bank, which has cut interest rates four times this year to boost demand.

Besides car sales, most economic indicators from demand for bank loans to output of infrastructure sector suggest weakness. Gross domestic product expansion was at 5.8 percent in the first three months of this year, and data for the quarter ended June is due August 30.

Two-wheeler sales — a key indicator for demand in rural India — fell by 17 percent year-on-year to a little more than 1.5 million units in July. Sales of trucks and buses dropped the most since February 2014.

Sales are expected to pick up during India's festival season, starting next month, but a delay in government support will hinder a consistent return to sales growth, according to Siam.

SNB likely to follow interventions with interest-rate cut

DENIS BALIBOUSE/REUTERS

The Swiss National Bank (SNB) may have to do more than pump billions into foreign exchange markets to prevent the franc from appreciating to a damaging level.

With data suggesting the central bank recently intervened after the currency rose to the highest since 2017 against the euro, an increasing number of economists expect the SNB to reduce its benchmark interest rate, according to Bloomberg.

Five respondents of 17 in Bloomberg's monthly survey now see a cut of up to 25 basis points this quarter, compared with just one in July.

With the franc up more than four percent versus the euro in the past three months and the European Central Bank expected to unleash new stimulus, the SNB is under close scrutiny for possible action it will take to contain the currency's strength. Sight deposits jumped almost 2.8 billion francs last week, the most in more than two years and a sign the central bank has been intervening in currency markets.

UBS Group AG, Raiffeisen Bank International AG and Bank J. Safra Sarasin are among the institutions now predicting the SNB will follow with a cut, even though the benchmark is already the world's lowest at -0.75 percent.

While the next policy meeting isn't until September 19, the central bank could act at any time depending on the franc. It has a habit of springing surprise announcements, and hasn't actually moved interest rates at a scheduled meeting since 2009.

The franc was at 1.0867 per euro as of 9:05 Zurich time, little changed on the day. Bullish bets on the franc on options markets remain near a nine-month high amid nervousness on markets about protests in Hong Kong and global trade tensions.

SNB President Thomas Jordan has said there's still room to maneuver both on interventions and interest rates should the economy deteriorate. He's previously shown a willingness to take dramatic action when needed, and there was little to remind them of his market-shaking decision in 2015 to remove a franc cap.

Despite the increase in participants expecting an SNB cut, the median forecast in the survey is for the key rate to remain unchanged.

Strong yen poses risks for Japan as US-China trade war rumbles on

Japan Inc. is caught in the crossfire of the trade war between the US and China, as a resurgent yen threatens to sap profits and complicate the economic outlook.

Worsening trade friction between the world's two largest economies has reduced investor appetite for risk and boosted assets perceived to be safer bets, such as gold and the yen, japantimes.co.jp reported.

Japan's currency is now near its firmest level in eight months against the US dollar, and exporters in the world's third-largest economy are preparing for pain.

Toyota Motor Corp. reported its best quarter in four years last week, but cut its full-year outlook on the yen.

"We're going to be affected by a stronger yen this year, so to offset this as much as possible we have been taking extra measures to reduce fixed costs and cut down on expenses," Kenta Kon, a Toyota manager, told a briefing last week.

Exporters regularly hedge against currency fluctuations, but a strengthening yen still hurts them because it makes their electronic appliances, semiconductors and cars more expensive overseas. It also decreases the value of overseas earnings when they are brought home.

The economy expanded at an annualized 1.8 percent in the second quarter, data showed on Friday, beating expectations of a 0.4 percent increase. Robust household consumption and business investment offset the hit to exports, which fell 0.1 percent.

But the outlook for exports could be further complicated as firms are saddled with a strengthening yen.

"The escalating US-China trade war and the yen's rise are negative factors for Japan's economy," said Yoshiki Shinke, chief economist at Dai-ichi Life Research Institute.

"There's a pretty good chance the timing of a pickup in exports could be delayed," he added.

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Toyota expects the stronger yen to knock ¥350 billion from its operating profit in the current financial year, roughly double its previous forecast and a big increase from last year's ¥50 billion impact.

The automaker, Japan's largest company by revenue and market value, expects the yen to average around 106 to the US dollar in the current financial year, against a previous assumption of ¥110.

Other exporters have signaled the possibility of currency pain. Sony Corp. now expects the yen to average ¥108 this year, from its previous forecast of 110.

"There's no magic solution," Toshiba Corp. Chief Financial Officer Masayoshi Hirata told reporters this week.

"If the yen continues to appreciate we'll have to further improve our cost efficiencies," he said.

Honda Motor Co. Suzuki Motor Corp. and Mazda Motor Corp. have also flagged the possibility of a cut to profit forecasts if the yen's climb continues.

Honda, which relies on the US for about a quarter of its vehicle sales, last week posted a 16 percent drop in first-quarter profit, partially hit by the yen.

The currency is an additional problem for automakers already facing easing demand in many markets, said Chris Richter, senior research analyst at brokerage CLSA.

"Many Japanese automakers are going to have to adjust their profit forecasts simply because things are bad for them in vehicle markets, and the forex issue is the icing on the cake," he said.

The yen appreciating beyond 105 to the dollar is often seen by automakers as determining whether the currency will mean a significant hit to profit.

The currency was at 105.93 to the dollar on Friday.

"Given the current uncertainty about what will happen between the US and China, along with other issues, it's difficult to revise our forecasts at the moment," Suzuki managing officer Masahiko Nagao told a briefing this week.

"But we may have to revisit them later in the year, once we have a better idea," he added.

Some investors and economists worry that the US-China trade war has entered a new phase that will do even more damage to the global economy. US President Donald Trump has said he will impose more tariffs on Chinese imports from September 1.

China this week let the yuan slide to an 11-year low, prompting the US Treasury Department to label Beijing a currency manipulator. The trade war has brought forward the next US recession, according to a majority of economists polled by Reuters.

So far, economists say there are no signs that the uncertainty over the trade war has prompted Japanese firms to rein in investment spending.

Still, with global demand cooling, a resurgent yen is hardly what Japan's exporters or the economy need.

"The outlook for Japan's economy is highly uncertain. My main scenario is that Japan can avert a full-blown economic downturn," said Dai-ichi Life's Shinke.

"But the risk is clearly tilted to the downside," he said.