Gulf Petrochem expands into agriculture

Oil group Gulf Petrochem is diversifying into agricultural commodities through a grain trading operation, betting that rising global food demand will eclipse a recent market downturn, the company said on Tuesday.

The family-owned firm, based in the United Arab Emirates, launched its agri-business activity in January, hiring veteran grain trader Laurent Delcourt to develop the business from Geneva, it told Reuters by email.

The Geneva desk, to be supported by another small team in Singapore and later potentially in India, will handle physical trading in grains and pulses. The operation is still in a set-up phase and trading is expected to begin this spring, the company said.

The agricultural arm will source crops from exporting zones such as Europe, the Black Sea region and North America in order to supply markets with growing demand in Asia, Africa and the Middle East, it said.

Gulf Petrochem, which is rebranding itself as GP Global, produces and trades oil products, indicating annual revenue of around $3 billion.

Delcourt was formerly managing director of the grains division ED&F Man. (RTRS)

Marriott to invest $2 bln in Saudi over four years

Marriott International will invest $2 billion in Saudi Arabia in the next four years by almost doubling the number of hotel rooms it operates there, an executive said on Monday.

The kingdom aims to boost domestic and international tourism in its drive to diversify the economy away from oil exports. It is has set a target of $46.6 billion in spending by local and foreign tourists in 2020, up from $27.9 billion in 2015.

Alex Kyriakidis, Marriott's president and managing director for the Middle East and Africa, told Reuters his firm would expand the number of rooms at its hotels to about 12,500 in the next four years from almost 6,800 now.

Building now underway on the almost 6,000 new rooms would cost $2 billion, he said in an interview, adding the company would operate 52 hotels once work was completed, up from 23 now.

The company operates the Marriott, Ritz Carlton, Le Meridien and Sheraton brands in Saudi Arabia, among others.

Riyadh's Ritz-Carlton Hotel reopened this month, more than three months after it was converted into a temporary prison for members of Saudi Arabia's business and political elite detained in an anti-corruption purge. (RTRS)

Market Movements 27-02-2018

		Change	Closing pts
AUSTRALIA	All Ordinaries	+13.20	6,159.30
JAPAN	Nikkei	+236.23	22,389.86
S. KOREA	KRX 100	+10.48	5,110.92
PHILIPPINES	All Shares	+52.35	5,118.73

		Change	Closing pts
GERMANY	DAX	-36.31	12,940.73
FRANCE	CAC 40	-0.32	5,343.93
EUROPE	Euro Stoxx 50	-5.15	3,458.03
INDIA	Sensex	-99.36	34,346.39
HONG KONG	Hang Seng	-229.94	31,268.66

Business

OPEC chief expects 2018 oil market balance

Producers continue to trim output

ABU DHABI, Feb 27, (AFP): OPEC chief Suhail al-Mazrouei said Tuesday he expected the global oil market to be balanced this year, as producers continue to trim production following a 2014 market crash.

"I am optimistic that this year, we will achieve a market balance" between supply and demand, Mazrouei, also the energy minister of the United Arab Emirates, told the Global Financial Markets Forum in Abu Dhabi.

Oil producers from OPEC and non-OPEC countries struck a historic deal in late 2016 to cut output by 1.8 million barrels per day, following a surplus in crude supply that sent prices crashing in 2014.

Compliance to the cuts hit 133 percent in January, which Mazrouei said exceeded the percentage required in the deal. The compliance rate was 129 percent in December and 122 percent in November.

Oil prices have rebounded to around $70 a barrel as a result of the policy.

Mazrouei said cooperation between oil producers including Russia had reached levels that were "more than expected".

The minister said earlier this month that OPEC aimed to forge longer-term partnership with non-OPEC producers to stabilise the market.

UAE Oil Minister and the current OPEC Conference President, Suhail Mohamed al-Mazrouei, attends the Global Financial Market Forum in Abu Dhabi on Feb 27. (AFP)

Mazrouei warned however that with the balance returning to the oil market and demand picking up, the energy sector would require hefty investment in the near future — not only by the oil-rich Gulf states, but also international oil companies.

"We need to add 15 million barrels daily by 2040 to meet demand," he said, putting the needed investment at $10.5 trillion.

Most of liquidation atributable to profit taking

Hedge funds exits oil but OPEC stems rout

John Kemp is a Reuters market analyst. The views expressed are his own — **Editor**

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By John Kemp

Hedge funds continued to take profits on their bullish positions in crude and especially refined fuels in the most recently reported week but supportive comments from OPEC helped steady oil prices.

Hedge funds and other money managers cut their combined net long position in the six most important futures and options contracts linked to petroleum by the equivalent of 48 million barrels in the week to Feb 20.

The hedge funds' net long position has been cut in each of the four most recent weeks by a total of 263 million barrels, in what has been the largest drawdown for more than seven months.

Most of the drawdown has come from the liquidation of bullish long positions rather than the establishment of new bearish short ones and it has been proportionately greater in fuels rather than crude.

Portfolio managers have cut their net long position in US heating oil by 58 million barrels, European heating oil by 45 million barrels and US gasoline by 27 million barrels since Jan 23.

Over the same period, the net long position in Brent has been cut by 61 million barrels while WTI is down by 71 million barrels.

Most of this liquidation seems to be attributable to profit-taking after the big rally in oil prices over the last seven months. Few fund managers have dared to initiate new short positions.

Short positions across the whole of the petroleum complex total just 137 million barrels. Short positions in NYMEX WTI have fallen to just 30 million barrels, the lowest since July 2014.

Fund positioning remains very stretched with longs outnumbering shorts by a ratio of almost 10:1, but down from almost 12:1 at the end of January.

Despite the profit-taking, oil prices have steadied, probably owing to a combination of strong consumption growth, a continued fall in oil inventories, and supportive comments from senior OPEC leaders.

Saudi Arabia, OPEC's de facto leader, has confirmed that it intends to maintain production restraint throughout the remainder of 2018, even if that risks over-tightening the market.

"If we have to err on over-balancing the market a little it, so be it. Rather than quitting too early and finding out we were dealing with less reliable information ... stay the course and make sure that inventories are where the industry needs them," the kingdom's energy minister said on Feb 14.

Saudi officials have indicated they want to change the organisation's target for inventories from the five-year average, which is close to being achieved, to something more ambitious.

This represents a significant hardening of OPEC's policy and has partially reversed the recent slide in benchmark Brent prices, which was probably the intention.

But with the market still looking very stretched, especially on the crude side, OPEC may need to sustain its verbal intervention to reassure investors and keep prices firm. (RTRS)

ADNOC to engage with banks that have ADGM presence

ABU DHABI, Feb 27, (RTRS): State oil giant Abu Dhabi National Oil Co (ADNOC) is likely to engage more with financial institutions that have a presence in Abu Dhabi Global Market (ADGM), the emirate's international financial centre, ADNOC's chief executive said on Tuesday.

The comments were aimed at encouraging more banks to establish themselves in Abu Dhabi to help the fledgling financial centre grow as the emirate tries to diversify its economy beyond oil.

"We will, as we did in the past couple of years, engage more with the financial sector and one of the criteria we will be evaluating is ... have they decided to engage physically in Abu Dhabi Global Market," ADNOC Chief Sultan al-Jaber said at a financial industry conference.

ADNOC has in recent months tapped the equity and bond markets to raise funds. It listed its distribution unit in December and has raised billions of dollars in debt including a $3 billion loan with a Japanese export credit agency last month.

ADGM, which opened in October 2015, and the older and larger Dubai International Financial Centre (DIFC) are the United Arab Emirates' two international hubs for banking and fund management.

The launch of ADGM was part of Abu Dhabi's drive to widen its footprint in the Gulf's competitive financial services industry.

Goods trade deficit increases 3.0 pct

US core capital goods orders fall in Jan

WASHINGTON, Feb 27, (RTRS): New orders for US-made capital goods fell for a second straight month in January and shipments barely rose, pointing to a slowdown in business spending on equipment after robust growth in 2017.

The report from the Commerce Department on Tuesday added to weak January retail sales, industrial production and home sales data in suggesting that economic growth moderated early in the first quarter. That was also underscored by other data showing a widening in the goods trade deficit in January.

"It is early but it's shaping up to be a soft start to 2018," said Jennifer Lee, senior economist at BMO Capital Markets in Toronto.

Orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, dropped 0.2 percent last month after declining 0.6 percent in December.

That was the first back-to-back drop in these so-called core capital goods orders since May 2016. Economists polled by Reuters had forecast these orders rising 0.5 percent last month. Orders increased 8.0 percent on a year-on-year basis.

Shipments of core capital goods edged up 0.1 percent after an upwardly revised 0.7 percent rise in December. Core capital goods shipments are used to calculate equipment spending in the government's gross domestic product measurement. They were previously reported to have increased 0.4 percent in December.

US financial markets were little moved by the data as investors monitored Federal Reserve Chairman Jerome Powell's debut testimony before lawmakers. Powell said the US central bank would stick with gradual interest rate increases.

In another report on Tuesday, the Commerce Department said the goods trade deficit rose 3.0 percent to $74.4 billion in January. Exports of goods fell $3.1 billion to $133.9 billion. Goods imports slipped $0.9 billion to $208.3 billion.

The department also said wholesale inventories increased 0.7 percent in January. Retail inventories rose 0.8 percent.

Growth estimates for the first-quarter range from a 1.9 percent to 3.2 percent annualized rate. Business spending on equipment increased at its fastest pace in more than three years in the fourth quarter, contributing to the economy's 2.6 percent growth pace during the final three months of the year.

Despite January's decline in core capital goods orders, spending on equipment is likely to remain supported, with companies expected to use some of their windfall from a $1.5 trillion tax cut package to boost productivity.

The Trump administration slashed the corporate income tax rate to 21 percent from 35 percent effective January.

Last month, orders for machinery fell 0.4 percent. There were also declines in orders for primary metals and electrical equipment, appliances and components. Orders for computers and electronic products rose 0.6 percent.

Cenbank chief sees US economy boosted by tailwinds

Fed's Powell nods 'gradual' rate hikes

WASHINGTON, Feb 27, (RTRS): Federal Reserve Chairman Jerome Powell, pledging to "strike a balance" between the risk of an overheating economy and the need to keep growth on track, told US lawmakers on Tuesday that the central bank would stick with gradual interest rate increases despite the added stimulus of tax cuts and government spending.

Fed policymakers anticipate three rate increases this year, and Powell gave no indication in prepared remarks to the House Financial Services Committee that the pace needs to quicken even as the "tailwinds" of government stimulus and a stronger world economy propel the US recovery.

"The [Federal Open Market Committee] will continue to strike a balance between avoiding an overheating economy and bringing ... price inflation to 2 percent on a sustained basis," Powell said in prepared remarks for his first monetary policy testimony to Congress as Fed chief.

"Some of the headwinds the US economy faced in previous years have turned into tailwinds," Powell said, noting recent fiscal policy shifts and the global economic recovery. Still, "inflation remains below our 2 percent longer-run objective. In the (FOMC's) view, further gradual rate increases in the federal funds rate will best promote attainment of both of our objectives."

Jerome Powell, Chairman of the Federal Reserve Board, arrives to testify during a House Financial Services Committee hearing on Capitol Hill in Washington, DC, on Feb 27. (AFP)

The testimony sent Powell's first signal as Fed chief that the massive tax overhaul and government spending plan launched by the Trump administration will not prompt any immediate shift to a faster pace of rate increases. "Gradual" has been the operative word since the Fed began raising rates under Powell's predecessor, Janet Yellen, in late 2015.

The Fed is expected to approve its first rate increase of 2018 at the next policy meeting in March, when it will also provide fresh economic projections and Powell will hold his first press conference.

"This is a continuation of where this Fed was under Chair Yellen," said Robert Albertson, principal and chief strategist at Sandler O'Neill & Partners in New York.

"They are normalizing, they are not tightening ... The surprises, if we are going to see them, are going to be after more data comes out in the next month or two," and accounts for things like the tax cuts and whether business investment spending continues higher, he said. Market reaction was muted. US stocks were trading slightly lower while the dollar was stronger against a basket of currencies. Prices of US Treasuries were mixed.

Mohammed Al-Hashel, the governor of the Central Bank of Kuwait, attends the Global Financial Market Forum in Abu Dhabi on Feb 27. (AFP)

Decision on EIBOR this year; UAE

Saudi CB says can handle any pressure on dollar peg

ABU DHABI, Feb 27, (RTRS): Saudi Arabia's central bank is setting policy in line with the US Federal Reserve's interest rate policy and has enough tools to deal with any pressure on the riyal's peg to the dollar, Saudi central bank governor Ahmed al-Kholifey said on Tuesday.

Kholifey was responding at a financial industry conference in Abu Dhabi to a question on whether US interest rate hikes expected this year could put pressure on the peg.

He also said the Saudi central bank wanted to be ahead of the curve in employing new financial technology, especially in the payments system.

Earlier this month, the central bank signed a deal with US-based Ripple to help banks in the kingdom settle payments using blockchain software. Kholifey also noted that his central bank was talking with its UAE counterpart about uses for blockchain.

Meanwile, a final decision on a new system of setting Emirates Interbank Offered Rates (EIBOR), which will be more efficient and more closely based on real data from the market, is expected to be taken this year, the United Arab Emirates central bank governor said on Tuesday.

"It's ongoing and we're having final discussions with the banks," Mubarak Rashid al-Mansouri told Reuters on the sidelines of a financial industry conference in Abu Dhabi.

On when the new system would be introduced, he added: "I'm hopeful anytime soon, but it depends on our talks with the banks."

A decision still needs to be taken on whether the number of banks on the rate-setting panel will change, Mansouri said.

EIBOR rates, used in many UAE financial transactions, are calculated daily by a panel of 10 banks for maturities ranging from overnight to 1 year. Under the present system, the two highest and two lowest rates quoted by banks are discarded and the rest are averaged.

The central bank has been considering ways to make the system more accurate in representing market conditions, and more transparent. The changes were expected to be introduced last month but the announcement was delayed, apparently because the new system needed more work, local bankers said.

The technology underlying crypto-currencies and other new financial technologies are really beneficial to the banking sector, United Arab Emirates central bank governor Mubarak Rashid al-Mansouri said on Tuesday.

Asked at a financial industry conference whether US interest rate rises this year might pressure the UAE dirham's peg to the US dollar, Mansouri reiterated that the fixed exchange rate regime had benefited his country.

In this file photo a for sale sign stands in front of a house, in Walpole, Massachusetts. On Feb 27, the Standard & Poor's/Case-Shiller 20-city home price index for December is released. (AP)

US home prices jump in 2017

WASHINGTON, Feb 27, (AP): US home prices rose at the fastest 12-month pace in more than three years in 2017, as potential home buyers fought over a limited number of available properties.

Standard & Poor's said Tuesday that its S&P CoreLogic Case-Shiller national home price index jumped 6.3 percent in 2017, the most since June 2014. Home prices are rising much faster than wages and overall measure of inflation.

Steady hiring and broad economic growth are making it easier for more Americans to afford a house, spurring demand. Yet fewer Americans are listing their homes for sale, in some cases because they would face a higher mortgage rate if they bought a new home. The number of homes for sale in January was the lowest for that month on records dating back to 1999.

David Blitzer, managing director at S&P Dow Jones indices, compared the run-up in home prices to the stock market gains of the past year.

"The rise in home prices should be causing the same nervous wonder aimed at the stock market after its recent bout of volatility," Blitzer said. "We are experiencing a boom in home prices."

Home prices in the S&P CoreLogic Case-Shiller 20 city index have soared 62 percent from their low point in the housing bust, Blitzer said. That's much faster than the 12.4 percent increase in inflation.