eurozone yields up as market gets rate-hike reminder

Eurozone government bond yields were broadly higher on Thursday after a report that some European Central Bank policymakers are uneasy that markets are only pricing in a rate rise for late next year.

Two-year bond yields in Germany, generally more sensitive to market rate expectations, hit a two-week high. Bond sales from France and Spain added to upward pressure on yields across broader markets.

According to a source-based story from Bloomberg news late on Wednesday, some ECB officials see the pricing-in of a end-2019 rate rise by markets as too far into the future.

Analysts said the story highlighted a degree of complacency in markets since the ECB last month announced that its massive stimulus would end in December, but that interest rates would stay low through the summer of 2019.

Reuters reported last week that the ECB is considering buying more long-dated bonds from next year to keep eurozone borrowing costs in check — pushing down longer-dated bond yields further. (RTRS)

Ukraine passes IMF-backed law

Ukraine's parliament on Thursday passed a law requiring state-run banks to appoint a majority of independent members to their supervisory boards, a commitment made to the backers of its $17.5 billion bailout.

The law aims to bring corporate governance at the banks into line with international standards and help the lenders resist political pressure, the finance ministry said in a statement after the vote.

The International Monetary Fund has propped up Ukraine's war-scarred economy with an aid programme since 2015, though the Fund has not disbursed any money since last year as the pace of reforms slowed.

It has pressed the government to clean up a financial sector where non-performing loans make up more than 60 percent of portfolios in state banks as a result of risky and opaque lending practices.

"We currently do not have effective control under hundreds of billions of hryvnias that we send from the state budget in order to support state-owned banks. We have to bring order here and the law will help," Mykhailo Dovbenko, head of a parliament committee on banking, said before the vote. (RTRS)

Sterling hits day's high versus dollar after comments

BoE's Carney boosts expectations for August rate hike

NEWCASTLE, England, July 5, (RTRS): Bank of England Governor Mark Carney on Thursday boosted expectations of an interest rate hike next month, saying he had become increasingly confident that the British economy's weak start to the year mostly reflected bad weather.

Sterling hit a day's high against the dollar after Carney said inflation pressures had continued to firm, as the BoE expected, and that there was widespread evidence that slack in the economy had been largely used up.

Carney also warned of the potential costs of a trade war in a speech delivered a week before US President Donald Trump is due to visit Britain.

Last month investors were surprised when three out of nine BoE rate-setters, more than expected, voted for an immediate rise in rates, increasing the chances of a hike in August.

There was nothing in Carney's comments to cast doubt over that view, now the consensus among economists polled by Reuters.

"Domestically, the incoming data have given me greater confidence that the softness of UK activity in the first quarter was largely due to the weather, not the economic climate," Carney said in a speech in Newcastle, north England.

"Overall, recent domestic data suggest the economy is evolving largely in line with the May Inflation Report projections, which see demand growing at rates slightly above those of supply and domestic cost pressures building."

Asked after his speech if households would be right to expect a rate rise this year, Carney noted that surveys showed three quarters of households expected rates to increase "over the course of the next year", rising "a bit but not that much".

He said he broadly viewed those expectations as reasonable.

Officials would have enough information to make a decision on rates in August, Carney said, despite not having economic growth figures for the second quarter because of changes to the data release schedule of Britain's statistics agency.

In his speech to the Northern Powerhouse Business Summit, Carney said protectionist sentiment had risen, citing an increase in trade tariffs by the United States and retaliatory measures taken by other countries.

There are signs that a "hostile and uncertain" trade environment has dampened global economic activity, he said.

If a sustained trade war were to emerge, reduced productivity growth would be expected to compound losses to the economy from reduced trade, Carney said.

"The experience of Brexit underscores that the impact of global trade war will be greater the more business confidence is affected, the more financial conditions tighten and – most fundamentally – the more permanent the loss of openness is expected to be," Carney said.

On Brexit, Carney said the BoE's expectation remained for a smooth transition as Britain leaves the European Union, but he added that the uncertainty had hurt investment.

Businesses "have been wondering whether changes to trading arrangements will require them to switch suppliers or find new customers, whether to expand production or even close down certain activities", he said.

Meanwhile, the pound rose to a seven-day high on Thursday as traders strengthened bets on an interest rate hike this summer, but concerns about a crucial Brexit meeting on Friday kept gains in check.

After a feeble start to 2018, the British economy is showing tentative signs of a recovery with surveys for the manufacturing, construction and services sectors this week beating expectations.

That has brought some respite for sterling after weeks of losses driven by a strong dollar and worries about whether Britain can secure a trade deal with the European Union before it leaves the bloc next March.

Meanwhile, the pound rose to an intraday high of $1.3267 on Thursday after Bank of England Governor Mark Carney said inflation was rising towards target and that he was confident an economic slowdown was temporary.

UK retail says no-deal Brexit will see 'food rotting at ports'

LONDON, July 5, (RTRS): The British government and the European Union must avoid a no-deal Brexit "at all costs" as this would clog up food supplies, raise prices and throw retailers out of business, the UK retail industry's lobby group said on Thursday.

The warning from the British Retail Consortium (BRC) came a day before British Prime Minister Theresa May hosts ministers at her country residence to try to reach agreement on how to push on with the all-but-stalled Brexit talks.

In a letter to May and the EU's Brexit negotiator Michel Barnier, BRC chairman Richard Pennycook said failure to reach a deal that protects the free flow of goods after Brexit on March 29, 2019, would harm both UK consumers and EU-based producers.

"Failure to reach a deal — the cliff edge scenario — will mean new border controls and multiple 'non-tariff barriers', through regulatory checks, that will create delays, waste and failed deliveries," he said.

"The consequences of this will be dramatic for UK consumers. It is likely that we will see food rotting at ports, reducing the choice and quality of what is available to consumers."

The BRC's intervention follows similar warnings from several other businesses, including Jaguar Land Rover, Airbus, Siemens and John Lewis.

Pennycook, the former boss of the Co-operative Group, noted that 50 percent of Britain's food is imported, and of that 60 percent comes from the EU.

He said that in 2016 3.6 million containers from the EU passed through UK ports, equating to more than 50,000 tonnes per day of food. These goods can currently enter the UK with minimal delay, allowing for frictionless trade.

Pennycook said food and beverage products would face an average increase in the cost of importing from the EU of up to 29 percent from non-tariff barriers alone and warned that many of these increases would be passed on to consumers in higher prices.

China warns US is 'opening fire' on the world with tariff threats

Beijing says does not want to fight trade war

BEIJING, July 5, (RTRS): The United States is "opening fire" on the world with its threatened tariffs, China warned on Thursday, saying no one wants a trade war but it will respond the instant US measures go into effect, as Beijing ramped up the rhetoric in the heated dispute.

The Trump administration's tariffs on $34 billion of Chinese imports are due to go into effect at 0401 GMT on Friday, which is just after midday in Beijing.

US President Donald Trump has threatened to escalate the trade conflict with tariffs on as much as $450 billion worth of Chinese goods if China retaliates, with the row roiling financial markets including stocks, currencies and the global trade of commodities from soybeans to coal.

China has said it will not "fire the first shot", but its customs agency made clear on Thursday that Chinese tariffs on US goods would take effect immediately after US duties on Chinese goods kick in.

Speaking at a weekly news conference, Commerce Ministry spokesman Gao Feng warned the proposed US tariffs would hit international supply chains, including foreign companies in the world's second-largest economy.

"If the US implements tariffs, they will actually be adding tariffs on companies from all countries, including Chinese and US companies," Gao said.

"US measures are essentially attacking global supply and value chains. To put it simply, the US is opening fire on the entire world, including itself," he said.

"China will not bow down in the face of threats and blackmail and will not falter from its determination to defend free trade and the multilateral system."

Asked whether US companies would be targeted with "qualitative measures" in China in a trade war, Gao said the government would protect the legal rights of all foreign companies in the country.

"We will continue to assess the potential impact of the US-initiated trade war on companies and will help companies mitigate possible shocks."

Gao said China's foreign trade was expected to continue on a stable path in the second half of the year, though investors fear a full-blown Sino-US trade war would deal a body blow to Chinese exports and its economy.

Foreign companies accounted for $20 billion, or 59 percent, of the $34 billion of exports from China that will be subject to new US tariffs, with US firms accounting for a significant part of that 59 percent, Gao said.

Speaking at a separate briefing, Chinese Foreign Ministry spokesman Lu Kang sidestepped a question on whether there had been efforts to initiate new talks with the United States.

"We of course don't want to fight a trade war, but if any country's legitimate interests are harmed, then of course that country has the right to firmly protect their own interests," Lu said.

However, Guo Shuqing, head of China's banking and insurance regulator, said in a statement that the trade war would not affect China's own reforms and opening up, and that it was confident going forward.

"In the past 40 years, the development of China's society and economy has encountered many difficulties and problems, but as long as we uphold the leadership of the Communist Party and reform and opening up, we can surmount all challenges," Guo said in a statement.

"The progress of China's economy cannot be reversed by any force."

China's plans to impose tariffs on hundreds of US goods targets some top US exports, including soybeans, sorghum and cotton, threatening US farmers in states that backed Trump, such as Texas and Iowa.

Chinese buying of soybeans has already ground almost to a halt ahead of the duties.

In the latest sign that the risk of penalties is hitting trade, a vessel carrying US coal and heading for China was diverted on Wednesday to Singapore.

US envoy to Germany hold talks with car bosses

Merkel will back cutting EU car tariffs

BERLIN, July 5, (Agencies): German Chancellor Angela Merkel said on Thursday she would back lowering European Union tariffs on US car imports, responding to an offer from Washington to abandon threatened levies on European cars in return for concessions.

"When we want to negotiate tariffs, on cars for example, we need a common European position and we are still working on it," Merkel said.

US President Donald Trump threatened last month to impose a 20-percent import tariff on all EU-assembled vehicles, which could upend the industry's current business model for selling cars in the United States.

According to an industry source, the US ambassador to Germany told German car bosses from BMW, Daimler and Volkswagen at a meeting on Wednesday that Trump could abandon such threats if the EU scrapped duties on US cars imported into the bloc.

Merkel said any move to cut tariffs on US vehicles would require reductions on those imported from other countries to conform with World Trade Organization rules.

"I would be ready to support negotiations on reducing tariffs, but we would not be able to do this only with the US," she said.

German automotive trade body VDA said any suggestions about mutually removing tariffs and other trade barriers were positive signals.

"But it is clear that the negotiations are exclusively being held at a political level," it said in a statement.

Current US import tariff rates on cars are 2.5 percent and on trucks 25 percent. The EU has a 10 percent levy on car imports from the United States.

Trump hit the EU, Canada and Mexico with tariffs of 25 percent on steel and 10 percent on aluminium at the start of June, ending exemptions that had been in place since March.

The EU executive responded by imposing its own import duties of 25 percent on a range of US goods, including steel and aluminium products, farm produce such as sweetcorn and peanuts, bourbon, jeans and motor-bikes.

Trump's protectionist trade policies, which also target Chinese imports, have raised fears of a full-blown and protracted trade war that threatens to damage the world economy.

But Merkel said that any negotiations on lowering tariffs in one area could only be conducted with "all the countries with which we have trade in cars," rather than just with the United States.

A deal with the US alone "would not conform with WTO" rules, she said.

"We can either have negotiations about a wide range of tariffs, for 90 percent of goods," Merkel said in a reference to the stalled talks for a transatlantic free-trade deal known as TTIP.

"Or we can talk about one type of goods, but then we must accord the same treatment to all trading partners of the world. That's an option I could imagine," she added.

Merkel's offer came after US ambassador in Berlin, Richard Grenell, hosted bosses of Germany's biggest car firms for talks on Wednesday when he called on the EU to bring tariffs to zero on car imports -- in exchange for equal treatment by the US.

Europeans taken note

Trump effort to lift offshore wind sector sparks interest

NEW YORK, July 5, (RTRS): The Trump administration wants to fire up development of the US offshore wind industry by streamlining permitting and carving out vast areas off the coast for leasing - part of its 'America First' policy to boost domestic energy production and jobs.

The Europeans have taken note.

The drive to open America's offshore wind industry has attracted Europe's biggest renewable energy companies, who see the US East Coast as a new frontier after years of success across the Atlantic.

Less experienced US wind power companies, meanwhile, have struggled to compete in their own backyard, according to lease data and interviews with industry executives. Many are steering clear of the opportunity altogether, concerned by development costs and attracted to cheaper options on land.

The Trump administration hopes the industry will help supply power to the heavily-populated Northeast, eventually creating American jobs in manufacturing turbines, towers and other components. Its efforts are part of a broader push to relax regulations and spur development across the energy complex.

"This would be American produced energy, and American jobs," said Vincent DeVito, energy policy advisor to Interior Secretary Ryan Zinke. "It fits well with the America First agenda."

For the moment, however, Europe's renewable energy companies are the ones using the opportunity to advance their already sizable headstart in offshore wind projects.

Since 2014, European-backed companies have won all eight of the US government's competitive offshore wind lease auctions with aggressive bids that have pumped up prices into the tens of millions of dollars.

Bidding in an auction last year for nearly 80,000 acres off the coast of New York, for example, lasted 33 rounds with Norway's Equinor, formerly known as Statoil, eventually winning the lease for a record $42.5 million. An individual lease had never before sold for more than $5 million, according to public records.

Europeans claimed another victory in May when a partnership between Copenhagen Infrastructure Fund and Avangrid, the US arm of Spain's Iberdrola, won the largest ever US contract for offshore wind power, in Massachusetts.

Of the federal government's 12 currently active offshore wind leases, seven are owned by European-backed companies, according to Bureau of Ocean Energy Management records. (See graphic https://tmsnrt.rs/2No7GtL)

"The US is one of the most desirable global offshore wind markets," Jonathan Cole, Iberdrola's managing director of offshore wind, told Reuters.

Trump's Interior Department gave the industry a boost this year when it announced major lease sales off Massachusetts, sought input on potential lease areas off New York and New Jersey, and began a study of all Atlantic coast waters for wind energy potential.

It also proposed easing permitting, including by allowing developers to get some permits before making key decisions, like what size of turbines they would use.

Such aggressive leasing and flexible permitting helped Europe become the world's largest offshore wind market, with thousands of wind turbines installed in the last two decades, and more than 9 billion euros in investment expected this year, according to trade group WindEurope.

While the US East Coast has wind conditions and sea depths similar to the North Sea, it boasts just one five-turbine wind farm off the coast of Rhode Island.

That wind farm was developed by privately-held US firm Deepwater Wind LLC, which is backed by hedge fund D.E. Shaw Group. Deepwater Wind's chief executive, Jeff Grybowski, called the US wind industry's hesitation to move offshore outdated.

"I'm sure that we will see more American entrants in this business as time goes on," he said. "Until then we're happy to fly the flag."

German factories hit higher gear, but backdrop uncertain

BERLIN, July 5, (RTRS): Industrial orders in Germany bounced back in May to support expectations of an economic upturn, though simmering trade and political tensions may yet act as a brake on growth.

Thursday's 2.6 percent rise in orders exceeded expectations, and followed a survey of purchasing managers that suggested Europe's largest economy ended the second quarter on a stronger footing.

The Economy Ministry said industrial output was likely to rise moderately in coming months.

But it also noted growing uncertainty about restrictive trade policies, while the International Monetary Fund (IMF) —cutting its 2018 forecast for German GDP growth to 2.2 percent — said protectionism and a possible hard Brexit had exposed the German economy to significant short-term risks.

"The increase in orders is pleasing, but not yet a liberation," Ilja Nothnagel, foreign trade expert at the DIHK Chambers of Industry and Commerce, said.

"The uncertainty caused by international trade policies is great," he said, as companies could no longer be sure that growth in key markets would continue to develop positively.

Global trade tensions are threatening to come to a head on Friday with a tit-for-tat exchange of tariff penalties between Washington and Beijing.

US President Donald Trump's protectionist drive also risks severely impacting Germany, whose most important export markets outside the European Union are the United States and China.

The German economy grew by a calendar-adjusted 2.5 percent last year, the strongest rate since 2011, propelled by vibrant domestic demand and resurgent exports.

But the rate dipped to 0.3 percent on the quarter in the first three months of this year.

"The upswing is alive, but it has passed its peak," Bankhaus Lampe economist Alexander Krueger said following Thursday's Federal Statistics Office data.

Industrial orders had declined in the previous four months, including an upwardly revised drop of 1.6 percent in April. May's rise beat a Reuters forecast for a 1.1 percent rise.

A breakdown of the figures showed the jump was mainly driven by demand from other euro zone countries and domestic clients, with orders for capital goods and consumer goods rising the most.

The economy ministry said the four monthly drops from January to April were linked to a strong jump in orders in the second half of 2017, as well as first-quarter weakness in the global economy and "uncertainty about trade policy."

"The order backlog is still very high and business morale is still better than the long-term average despite a recent deterioration," it said.

Thomas Gitzel of VP Bank said the orders figures suggested that the German economy's relatively weak performance in the first quarter was just a blip.

Irish consumer confidence falls to its lowest level in 13 months

DUBLIN, July 5, (RTRS): Irish consumer sentiment weakened in June to its lowest level in 13 months as those questioned voiced concern about growing risks to the global economy and the impact of higher housing and fuel costs, a survey showed on Thursday.

Ireland's economy has posted the fastest growth in Europe since 2014 and unemployment has fallen rapidly, but the recovery has been uneven for some consumers, with only modest gains in purchasing power.

The KBC Bank Ireland/ESRI Consumer Sentiment Index slipped to 102.1 in June from 106.7 in May, continuing a see-saw pattern of monthly changes since the index hit a 17-year high in January.

The survey's authors said in a statement that the fall — the second largest in the past 20 months — emphasised the fragility of the financial situation and of Irish consumers a decade after the 2008 crash.

The fall appeared in part to be caused by concerns about Britain's exit from the European Union and the growing threat of an international trade war, the survey's authors said.

"The significant drop in Irish consumer sentiment in June seems to reflect a notably more threatening global economic outlook," KBC Ireland Chief Economist Austin Hughes said. "In addition, continuing pressures on household finances mean Irish consumers are more susceptible to bad news."