Clariant's SABIC tie-up delayed

Clariant's update on its ties with Saudi Basic Industries (SABIC) is likely to be delayed, as antitrust approvals for the Saudi company's 25 percent stake in the Swiss speciality chemical maker take longer than expected.

SABIC's move to become Clariant's largest shareholder has prompted speculation that the Saudi company could increase its holding, but Clariant CEO Hariolf Kottmann said SABIC had no current plans to make a full bid.

"If they change their position, they will let us know," Kottmann said, adding any talk of such a deal was premature, especially before the two have had detailed talks.

Kottmann told Reuters on Wednesday after Clariant published first-half results that the timing of the strategy update with investors, planned for early September, was now uncertain.

The Saudi chemicals company bought a quarter of Clariant in January, helping to resolve the Swiss company's fight with activist investors who had blocked its planned merger with rival Huntsman.

But the Swiss company cannot start in-depth talks with SABIC over their future, Kottmann said, until regulators in countries including Brazil and Mexico give their blessing to SABIC's purchase of the stake.

"If we receive the antitrust clearance at the beginning of September ... we need at least four, five, six weeks to continue the discussions we've had currently, to bring a bit more meat to the bone," Kottmann said.

He said lawyers from both sides have said there was no reason not to get the clearance, but the formal process is taking more time. (RTRS)

SEC profit falls

Saudi Electricity Co (SEC), the Gulf's largest utility firm, reported a 17.3 percent drop in second-quarter net profit on Sunday as revenues from electricity services fell and financing costs rose.

The company, which the government is aiming to restructure to improve efficiency, made a net profit of 1.85 billion riyals ($493 million) in the three months to June 30, according to a bourse statement.

That compares with a profit of 2.23 billion riyals in the same period a year earlier.

Saudi Arabia's main sovereign wealth fund, the Public Investment Fund, owns 74 percent of SEC. The kingdom will consider selling a large stake in SEC to SoftBank Vision Fund, but the Saudi government would retain a controlling shareholding, the utility said in October. (RTRS)

Market Movements 27-07-2018

			Change	Closing pts
AUSTRALIA	-	All Ordinaries	+53.90	6,391.50
JAPAN	-	Nikkei	+125.88	22,712.75
GERMANY	-	DAX	+51.17	12,860.40
FRANCE	-	CAC 40	+31.21	5,511.76
EUROPE	-	Euro Stoxx 50	+17.92	3,527.18
S. KOREA	-	KRX 100	+12.28	4,815.09
PHILIPPINES	-	All Shares	+10.01	4,615.53

Change Closing pts

Business

New aid creates a bit of moral hazard

Trump's aid to farmers could have negative side effects

NEW YORK, July 29, (AFP): For US farmers affected by the trade war unleashed by President Donald Trump, the $12 billion in emergency aid from his administration's is a temporary remedy, and it comes with several potential negative side effects.

The Agriculture Department announced the aid on Tuesday to help farm producers hurt by retaliation by major trading partners against US tariffs on steel, aluminum and tens of billions of dollars in Chinese products.

USDA said it would use a Depression-era farm support fund to make direct payments to producers of soybeans, sorghum, corn, wheat, cotton, dairy and hogs.

It also intends to purchase excess production of commodities such as fruits, nuts, rice, legumes, beef, pork and milk for distribution to food banks and other nutrition programs.

The size of the aid program is "unprecedented," said Joseph Glauber, a former USDA economist now at the International Food Policy Research Institute.

But its effectiveness will be limited, he said, and it creates a "moral hazard."

And ironically, depending on the criteria used, some of the benefits could go to Chinese-owned companies.

"The pork industry is dominated by very large corporations," said Chris Hurt, agricultural economist at Purdue University, in Indiana. "The largest hog producer in the US, Smithfield, is owned by a Chinese company."

Agriculture Secretary Sonny Perdue said the new aid will not need congressional approval, but the program drew sharp criticism from many legislators, including Republicans.

National Farmers Union President Roger Johnson said crop prices are falling and farmers' "livelihoods are on the line with every tweet, threat or tariff action that comes from the White House."

Republican Senator Ben Sasse, a frequent Trump critic, said in a statement: "This administration's tariffs and bailouts aren't going to make America great again, they're just going to make it 1929 again."

But after the US economy grew 4.1 percent in the second quarter, and the European Union agreed to a ceasefire in the trade confrontation with the US, Trump declared it a victory for his tough policies.

In announcing the aid for farmers, Perdue acknowledged that US farms were being hurt by what he called "illegal retaliation" to the tune of $11 billion so far.

And EU officials downplayed Trump's claim they had made a commitment to buy more US soybeans.

Meanwhile, analysts say that other industries caught up in the trade war may now expect relief from the government.

"Knowing this administration, they'll design a bailout to help only massive agro-businesses who will use the money for stock buybacks," said senior Democratic Senator Chuck Schumer said.

"And where does the bailout stop? What about people who use steel and aluminum? What about other goods that have been targeted by our foreign competitors? Are they going to get bailouts too?

US farmers already receive about $20 billion a year from the government through various programs.

But the new aid "creates a bit of a moral hazard," Glauber told AFP. "If you compensate producers right now, there is no real urgency to resolve trade disputes for the farmers."

And the longer-term loss of markets for American crops is far worse that the short-term financial hit, he said.

Farmers want trade not "a Band-Aid on a broken leg."

China currently buys a third of US soybeans, and while importers stockpiled them in the two months before punitive tariffs hit in July, they likely will turn to Brazil to buy what they need, and it may be hard to win back market share.

US President Donald Trump holds up 'Make Our Farmers Great Again!' hats as he arrives for a roundtable discussion on workforce development at Northeast Iowa Community College in Peosta, Iowa. For US farmers affected by the trade war unleashed by Trump, the $12 billion in emergency aid from his administration's is a temporary remedy, and it comes with several potential negative side effects. (AFP)

Badly connected to pipeline network

Spain dreams big on the US gas import to Europe

MADRID, July 29, (AFP): When the US and EU agreed to boost gas trade to Europe this week, Spain would have been justified in crying victory, having only recently offered its services with its many liquified natural gas (LNG) ports.

There's a slight problem, though: it may have the capacity to import gas but it's badly connected to the European network of pipelines, an issue on the table at a trilateral meeting between French, Portuguese and Spanish leaders in Lisbon on Friday.

For years, Spain and Portugal have called for an end to their isolation from European networks of electricity and gas distribution.

And whereas electricity connections are being built, there is little progress on gas.

During a NATO summit at the beginning of July in Brussels, US President Donald Trump criticised EU dependence on Russian gas and asked Europeans to buy US gas instead.

Madrid immediately offered its services, Foreign Minister Josep Borrell revealed this week.

Unload

"Us Spaniards are importing more and more American gas, which already represents 25 percent of our supply, and Portugal and Spain have terminals that would allow us to unload American LNG tankers and transport the gas via pipelines," he told reporters.

As if answering Madrid's offer, Trump, joined by European Commission chief Jean-Claude Juncker, said Wednesday that the two key economies reached an agreement to boost EU imports of US gas, which is liquified and transported by tanker before being gasified again.

Spain has six regasification terminals, more than any other European country.

But so far there is just one pipeline linking it to France and the rest of Europe.

Not enough, says Spain.

"If American gas arrives on the (Iberian) peninsula and can't go any further, we have a problem," said Borrell.

Region

As such, Madrid has long been promoting the construction of a second pipeline through the north-eastern region of Catalonia.

The project, called Midcat, was broached at a first trilateral summit on energy connections in March 2015 in Madrid.

But Gonzalo Escribano, an energy expert at Spain's Elcano Institute think tank, said Friday's meeting was unlikely to yield any progress.

"We don't know who would pay, and the French are putting the brakes on," he said.

Why?

A European Commission viability study published in April sheds some light on France's reluctance.

It concluded that the Midcat pipeline, which would cost more than 440 million euros ($510 million), would not benefit any EU country ... apart from Spain and Portugal.

The main reason is that other countries further north — like France — also have LNG ports, so why pay for another pipeline?

The LNG terminal at "Montoir in France is 8,966km (5,570 miles) far from Corpus Christi, in Texas, and Bilbao in Spain is 8,969km far," the report noted.

Saudi SABIC expects 'positive' growth, eyes overseas expansion

RIYADH, July 29, (RTRS): Saudi Basic Industries Corp (SABIC), the world's fourth-biggest petrochemicals company, said on Sunday it expects positive growth in the second half of this year, backed by an increase in production and enhanced global economic outlook.

The comments came after SABIC reported an 81 percent leap in second-quarter net profit, citing higher selling prices and a jump in sales volumes.

The first half of 2018 was "very positive" and SABIC expects the second half of the year to be "equally positive," CEO Yousef al-Benyan told a news conference.

SABIC has been a focus of investor attention after Reuters reported earlier this month that Saudi national oil giant Aramco aimed to buy a stake in SABIC, possibly taking the entire 70 percent holding owned by Saudi Arabia's sovereign wealth fund, Public Investment Fund (PIF). Aramco subsequently confirmed the report.

Benyan said on Sunday that talks on the potential acquisition of a stake in his company are taking place solely between Aramco and PIF.

"Hard to expect anything in this regard — Aramco-PIF talks are between an owner and a future investor," Yousef al-Benyan told a news conference. "I can assure you we have trust in our regulators."

SABIC posted a net profit of 6.70 billion riyals ($1.79 billion) in the three months to June 30, up from 3.71 billion riyals in the year-earlier period, beating average analyst forecasts of a 5.8 billion riyals net profit.

Benyan said the company's production rose about 1.5 million tonnes in the first half of the year and is expected to rise to three million tonnes by year-end.

Despite Trump rebuke, Feb to continue steady course

Central bank kicks off two-day policy meeting on Tuesday

WASHINGTON, July 29, (Agencies): Despite booming second quarter growth in the US economy, the Federal Reserve will hold its fire and leave lending rates untouched this week as it awaits more signs of inflation.

But the central bank, which kicks off its two-day policy meeting on Tuesday, is still widely expected to hike interest rates twice more this year, as inflation mounts, the jobless rate falls and the economy continues to soar.

This plan of action has not gone over well at the White House, however.

President Donald Trump earlier this month publicly chastised the Fed for raising interest rates he says counteracts the economic benefits of tax cuts.

That political interference is casting a shadow over the meeting.

After boosting the benchmark lending rate in March and June, the US economy has continued humming, with inflation at last hitting the Fed's two percent target rate.

Most economists say the central bank has every reason to stick to its current course of gradual increases, which has seen the federal funds rate rise seven times since December 2015.

Futures markets overwhelmingly expect rate hikes in September and December, with the probability only increasing after Friday's blockbuster report that GDP grew 4.1 percent in the second quarter, the fastest pace in four years.

"At least right now, the economy still looks pretty strong, more than strong enough to keep the unemployment rate coming down," Jim O'Sullivan of High Frequency Economics told AFP.

While most economists expect growth to slow in the rest of the year, O'Sullivan said "Momentum looks up and chances are momentum will only continue to look up if the unemployment rate continues to fall."

Still, Trump told CNBC he was "not thrilled" about the Fed's plans to continue tightening and took to Twitter to say America should be allowed to recoup the losses before rates rise again.

"Every time you go up, they want to raise rates again," he told the network. "I am not happy about it. But at the same time, I'm letting them do what they feel is best."

Cue the sound of breaking glass, with some observers accusing the president of brazenly trespassing on the Fed's independence. Economists solemnly warn that politicizing monetary policy invariably leads to misfortune. And the Federal Reserve is legally and fiscally separate from the federal government.

But Sarah Binder, a Brookings Institution expert on the politics of the Federal Reserve, said despite its legal status, the Fed sat at the center of the political system.

"Although we call it a norm, this expectation that the president is going to refrain and restrain himself from commenting on the Fed's policies, it's really just a short-lived practice," she told AFP. "In that sense, Trump is just joining the political fray."

President Lyndon Johnson summoned Fed Chairman William McChesney Martin to his ranch after the Fed boosted rates in 1965. Nixon bullied Martin's successor, Arthur Burns, into holding rates low in the 1970s, ushering in the decade's disastrous inflation.

More than 20 years later, President George HW Bush publicly called on Fed Chairman Alan Greenspan to cut interest rates — and later blamed Greenspan for his defeat in the 1992 elections.

It was only under President Bill Clinton that the Fed's deliberations took on an air of inviolability.

"I don't think we know enough historically about what difference presidential jaw-boning has done," Binder said. The Fed has not reacted to Trump's comments, pointing reporters instead to earlier remarks by current Chairman Jerome Powell, who said central bankers kept political independence "deep in our DNA." And analysts warned that openly challenging the Fed's independence could backfire. Former Fed vice chair Alan Blinder told AFP he would have defied such interference.

"My attitude would have been, and I believe the attitude of most members of the Federal Open Market Committee would have been, to stiffen our backs and show that we're not taking instructions from the White House."

And Blinder said Trump's interference could create static in the Fed's efforts to signal its intentions to markets — which prevents undue turmoil when a new move is announced.

If the Fed is seen as yielding to Trump's pressure or overreacting by tightening policy more, markets could begin to second-guess their motives.

"We don't want either," Blinder said. "It is foolish for the president of the United States to make their job harder."

Evolving economic circumstances could prove especially challenging for the Fed with trade disputes creating uncertainty and raising prices, the housing market weakening, and consumer confidence cooling.

Add to this rising oil prices and sluggish wage growth, and central bankers could be left with hard choices.

Meanwhile, Treasury Secretary Steven Mnuchin (mih-NOO'-shin) is insisting that President Donald Trump "absolutely" supports the independence of the Federal Reserve.

Mnuchin tells "Fox News Sunday" that Trump's recent statements questioning whether the central bank should increase interest rates are "just comments" indicating the "president has a concern."

Mnuchin says he believes it's responsible for the Fed to raise rates as the economy grows faster, and says the market expects rates "to keep going up."

The treasury chief adds: "We as an administration absolutely support the independence of the Fed, and the president has made it clear that this is the Fed's decision." The Fed will meet Tuesday and Wednesday. It's raised rates twice this year in response to strong growth, low unemployment and a slight rise in inflation.

After Trump complains on rates

Mnuchin reaffirms Fed's independence

WASHINGTON, July 29, (AFP): US Treasury Secretary Steve Mnuchin offered assurances Sunday over the independence of the Federal Reserve as it heads into a two-day policy meeting that is expected to leave interest rates untouched despite a booming US economy.

In an appearance on Fox News Sunday, Mnuchin touted the economy's performance as being on a path of rapid, sustainable growth after stellar 4.1 percent growth in the second quarter.

But he also was forced to allay concerns raised by President Donald Trump's recent, eyebrow-raising complaints about Fed moves to raise interest rates. "We, as an administration, absolutely support the independence of the Fed, and the president has made it clear that this is the Fed's decision," Mnuchin said. "Let me be clear, he absolutely respects the independence of the Fed."

Presidents usually refrain from public comment on the Fed's business, but that did not stop Trump from publicly chastising the bank earlier this month.

"I don't like all of this work that we're putting into the economy and then I see rates going up," he said in an interview with CNBC on July 20.

The central bank is expected to hold its fire on interest rates at its two-day policy-setting meeting, which begins Tuesday.

But it is widely thought to be ready to raise rates twice more this year as inflation mounts, the jobless rate falls and the economy continues to soar.

After boosting the benchmark lending rate in March and June, the US economy has continued humming, with inflation at last hitting the Fed's two percent target rate.

Most economists say the central bank has every reason to stick to its current course of gradual increases, which has seen the federal funds rate rise seven times since December 2015.

Futures markets overwhelmingly expect rate hikes in September and December, with the probability only increasing after Friday's blockbuster GDP report.

"At least right now, the economy still looks pretty strong, more than strong enough to keep the unemployment rate coming down," Jim O'Sullivan of High Frequency Economics told AFP.

While most economists expect growth to slow in the rest of the year, Mnuchin predicted annual growth of at least three percent well into the future.

"So I don't think this is a one-or two-year phenomenon," he said. "I think we definitely are in a period of four or five years of sustained three percent growth or better." Still, Trump told CNBC he was "not thrilled" about the Fed's plans to continue tightening and took to Twitter to say America should be allowed to recoup the losses before rates rise again.

"Every time you go up, they want to raise rates again," he told the network. "I am not happy about it. But at the same time, I'm letting them do what they feel is best."

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