Alhokair's mall unit seeks $1bn from IPO, adds banks

Saudi Arabian shopping malls business Arabian Centres Company, owned by Fawaz Alhokair Group, is seeking $1 billion from a public share listing in the second quarter and the group is appointing additional banks to manage the offering, sources told Reuters.

Arabian Centres, which has applied for an IPO with the Capital Market Authority, is looking to sell a 30 percent stake to investors on Riyadh's stock exchange, the Tadawul, sources told Reuters in January.

Hermes has been added as bookrunners and Credit Suisse and Citigroup, may also join, two sources who declined to be named due to commercial sensitivities said on Thursday.

They also confirmed that Moelis was acting as an independent financial advisor, Morgan Stanley as global coordinator and Saudi investment banks Samba Financial Group, and National Commercial Bank as financial advisors.

Arabian Centres, a developer, owner and operator of 19 malls across 10 cities in the kingdom, did not immediately respond to a Reuters request for comment.

Goldman Sachs, EFG Hermes, Credit Suisse and Citigroup declined to comment and Moelis, Morgan Stanley, Samba and NCB were not immediately available to comment. (RTRS)

Turkey set to begin oil and gas drilling off Cyprus

Turkey will begin drilling for oil and gas near Cyprus in coming days, state-owned news agency Anadolu reported Foreign Minister Mevlut Cavusoglu saying on Thursday, a move that could stoke tensions with neighbouring Cyprus and Greece.

Turkey and the internationally recognised Greek Cypriot government have overlapping claims of jurisdiction for offshore oil and gas research in the eastern Mediterranean, a region thought to be rich in natural gas.

"In the coming days we will start drilling with two ships around Cyprus," Cavusoglu was quoted as saying in a speech to a business conference in western Turkey's Aydin province.

"Let those who come to the region from far away, and their companies, see that nothing can be done in that region without us. Nothing at all can be done in the Mediterranean without Turkey, we will not allow that," Cavusoglu said.

Turkey launched its first drillship "Fatih" in October to drill off the coast of Turkey's southern Antalya province. It said a second ship that it purchased would operate in the Black Sea, but was diverted to the Cyprus area. (RTRS)

Market Movements 21-02-2019

			Change	Closing pts
AUSTRALIA	-	All Ordinaries	+38.80	6,214.60
JAPAN	-	Nikkei	+32.74	21,464.23
GERMANY	-	DAX	+21.31	11,423.28
FRANCE	-	CAC 40	+0.16	5,196.11
EUROPE	-	Euro Stoxx 50	+4.21	3,263.70
PHILIPPINES	-	All Shares	+0.06	4,857.00
INDIA	-	Sensex	+142.09	35,898.35

			Change	Closing pts
S. KOREA	-	KRX 100	-0.58	4,636.91
PAKISTAN	-	KSE 100	-208.67	40,070.71

Business

US home sales tumble 1.2 pct in Jan

Business spending on equipment weakening; weekly jobless claims drop

In this file photo, a sold sign outside a home in Mt Lebanon, Pa. On Feb 21, the National Association of Realtors reports on sales of existing homes in January. (AP)

WASHINGTON, Feb 21, (Agencies): US home sales fell 1.2 percent in January to their worst pace in more than three years, as persistent affordability problems have put a harsh chill in the real estate market.

The National Association of Realtors says that sales of existing homes declined 1.2 percent to a seasonally adjusted annual rate of 4.94 million last month, the slowest sales rate since November 2015.

During the past 12 months, sales have plunged 8.5 percent. Would-be homebuyers are increasingly priced out of the market as years of climbing prices and strained inventories have made ownership too costly. Buyers may find some relief as average mortgage rates have declined this year.

The median sales price in January was $247,500, a slight increase of 2.8 percent from last year.

Meanwhile, New orders for key US-made capital goods unexpectedly fell in December amid declining demand for machinery and primary metals, pointing to a further slowdown in business spending on equipment that could crimp economic growth.

The moderation in business investment was also underscored by another report on Thursday showing a measure of factory activity in the mid-Atlantic region contracted in February for the first time since May 2016.

The reports, together with data last week showing steep declines in retail sales in December and manufacturing output in January, strengthen the Federal Reserve's "patient" stance toward raising interest rates further this year.

Minutes of the US central bank's Jan 29-30 policy meeting published on Wednesday noted that "some risks to the downside had increased" with regard to the outlook for the economy. The Fed left interest rates unchanged at that meeting and discarded promises of "further gradual increases" in borrowing costs.

Spending

The Commerce Department said orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, dropped 0.7 percent. Data for November was revised down to show these so-called core capital goods orders falling 1.0 percent instead of declining 0.6 percent as previously reported.

Economists polled by Reuters had forecast core capital goods orders rising 0.2 percent in December. Core capital goods orders increased 6.1 percent on a year-on-year basis.

Shipments of core capital goods rose 0.5 percent in December after an unrevised 0.2 percent drop in the prior month. Core capital goods shipments are used to calculate equipment spending in the government's gross domestic product measurement.

While the rebound in core capital goods shipments suggests continued moderate growth in business spending on equipment in the fourth quarter, the surprise drop in orders points to weakness in the months ahead.

The December report was delayed by a 35-day partial shutdown of the federal government that ended on Jan 25. The Commerce Department said the "processing and data quality were monitored throughout, and response and coverage rates were at or above normal levels for this release."

In a separate report on Thursday, the Philadelphia Fed said its manufacturing activity index dropped to a reading of -4.1 this month from 17.0 in January. That was the first negative reading since May 2016. There were negative readings for new orders and shipments at factories in the region that covers eastern Pennsylvania, southern New Jersey, and Delaware.

US financial markets were little moved by the data.

In the wake of last week's downbeat December retail sales report, economists slashed their GDP growth estimates for the fourth quarter by as much as 1.2 percentage points to as low as 1.5 percent annualized rate. The economy grew at a 3.4 percent pace in the third quarter.

The economy's outlook has been clouded by fears of a sharp slowdown in global growth, especially in China and Europe, fading fiscal stimulus, trade tensions as well as uncertainty regarding Britain's departure from the European Union.

The Fed has acknowledged the softening in business spending, noting in Wednesday's minutes that "manufacturing contacts in a number of Districts indicated that such factors were causing them to delay or defer capital expenditures."

Drew Blackard, product marketing manager, talks about the new Samsung Galaxy S10 5G smartphone during an event on Feb 20, in San Francisco. (AP)

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Oil traders bet on Saudi & White House lifting prices

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

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By John Kemp

Oil traders are becoming very bullish on the outlook for prices, betting that Saudi Arabia will do whatever it takes to tighten the market even if consumption growth slows, helped by US sanctions on Iran and Venezuela.

Brent's calendar spread for the second half of 2019 has surged into a backwardation of 90 cents per barrel, the strongest for more than three months and a huge swing from a 70 cent contango near the end of last year.

For many traders, spreads rather than spot prices are a better indicator of expected balance between production and consumption ("Price relations between July and September Wheat Futures at Chicago", Working, 1933).

Backwardation implies many traders expect the market to be undersupplied in the second half of the year with a significant drawdown in global inventories of crude and fuels.

The current swing to backwardation is similar to previous shifts in market structure when OPEC and its allies reduced production in 2017 and the United States reimposed sanctions on Iran in 2018.

Both of those shifts were accelerated and amplified by significant position-building in crude oil by hedge fund managers, and something similar is likely in 2019.

Buyers

Hedge funds and other money managers have been net buyers of Brent crude futures and options in nine of the last 10 weeks with net purchases equivalent to 130 million barrels.

Fund managers have almost doubled their bullish position in Brent to 266 million barrels, up from just 136 million barrels in early December, according to position records published by ICE Futures Europe.

Position-building has been very similar to previous episodes, but total positions are still well below previous peaks of 500-600 million barrels, suggesting it could still have some way to run.

Like other financial traders, hedge funds and other money managers tend to concentrate their positions in nearby futures contracts where there is more liquidity.

Hedge fund buying is therefore lifting the price of nearby contracts and accelerating the shift into backwardation (just as fund selling depressed nearby contracts and accelerated the shift to contango in the fourth quarter).

Traders have become relatively bullish on oil even as they maintain a more defensive position in equities and bonds, suggesting oil prices are being lifted by idiosyncratic factors.

Brent has continued to march steadily into deeper backwardation even as the benchmark US Treasury yield curve has remained close to flat and major US equity indices have moved sideways.

Traders seem increasingly confident Saudi Arabia's output cut coupled with US sanctions on Iran and Venezuela will push the market into deficit, especially in the second half, when consumption is normally higher.

The market is expected to be under-supplied despite a slowdown in consumption growth this year and poor compliance with the production agreement by other countries in the enlarged OPEC+ group of exporters.

In effect, hedge fund managers are gambling on Saudi Arabia's determination to tighten the market and lift prices plus a relatively tough sanctions policy from the White House to counteract weakness from other sources.

If the US economy slows and the Federal Reserve responds by trimming interest rates, the resulting decline in the dollar would also be supportive for oil prices, provided the slowdown is not too deep or too long.

The investment narrative is drawing strong interest from fund buyers even as investors remain more neutral in other asset classes.

The principal risks are a deeper and more prolonged slowdown in global growth; a more dovish approach to sanctions from the White House; or renewed criticism about rising prices from the US president.

The White House has so far been relatively quiet about rising oil prices, but that might change if they rise above $75, the level that provoked a flurry of presidential tweets in 2018.

Until then, oil traders seem convinced the oil market will continue to tighten. (RTRS)

ECB concerned by the economic 'slowdown'

FRANKFURT, Germany, Feb 21, (AP): Top officials of the European Central Bank worried at their last meeting that the slowdown in economic growth might be "deeper and more broad-based" than previously suspected.

The written account of the Jan 24 meeting released Thursday indicated that the bank's 25-member rate-setting council felt they had to balance acknowledgement of worsening data with conveying confidence that the bank's stimulus policies were working.

A key concern was rising trade protectionism amid a dispute between the US and China that could result in more tariffs, or import taxes, that might further slow global trade.

The ECB left interest rate benchmarks unchanged at record lows at the January meeting, but said risks to growth had increased. Analysts say the bank could delay its next rate increase, slated at the earliest for this fall, well into 2020.

The ECB also said publicly after the meeting that it was ready to use all available tools should the outlook worsen.

The bank, which is the chief monetary authority for the 19 countries that use the euro, ended a 2.6 trillion euro ($3 trillion) bond-buying stimulus program in December that pumped newly printed money into the economy over almost four years.

The bank continues its effort to support growth by keeping interest rates very low. The benchmark for lending to banks is at zero and the rate on deposits left at the ECB by commercial banks is minus 0.4 percent, a penalty aimed at pushing the banks to lend spare cash.

Policymakers see little risk to leaving rates alone: minutes

Fed leaves questions on balance sheet & patience

NEW YORK, Feb 21, (RTRS): Federal Reserve policymakers on Wednesday gave little sense of how long their "patient" stance on US interest rate policy would last, and while promising "before too long" a plan for their $4 trillion balance sheet, left unclear what that plan would entail.

For now, policymakers see little risk to leaving rates alone to assess the impact of a global slowdown and the Fed's rate hikes to date, according to the Fed's minutes from their Jan 29-30 meeting, released on Wednesday.

"Many participants suggested that it was not yet clear what adjustments to the target range for the federal funds rate may be appropriate later this year," the minutes said.

But though "several" participants thought a rate increase would be necessary only if inflation unexpectedly surged, "several other participants indicated that, if the economy evolved as they expected, they would view it as appropriate to raise the target range for the federal funds rate later this year."

The US central bank caught markets off guard last month by suspending a three-year campaign to raise interest rates, saying it would be patient about making any adjustments to its target range for short-term interest rates, now at between 2.25 percent and 2.5 percent.

The surprisingly dovish decision came amid mounting headwinds to US growth, including slowing Chinese and European economies and waning stimulus from the 2018 US tax cuts.

A raft of Fed policymakers speaking since the Fed's January pledge of patience have insisted the economy is in a good place.

But doubts have remained, with traders in US interest-rate futures placing increasing bets that the Fed will need to ease policy by early next year to counter a downturn.

The Fed also signaled it may slow or end reductions to its $4 trillion balance sheet. This was built up in the wake of the 2007-09 recession but policymakers began trimming its bond holdings in the final months of 2017.

Two Fed policymakers said in recent weeks the balance sheet runoff could end this year.

The minutes released Wednesday show Fed policymakers are inching toward a decision on the balance sheet.

"Almost all participants thought that it would be desirable to announce before too long a plan to stop reducing the Federal Reserve's asset holdings later this year," the minutes said.

It was unclear if the Fed meant the sentence to suggest that the runoff, currently capped at $50 billion a month, would actually end this year.

Bob Miller, Head of US Multi-Sector Fixed Income at BlackRock Inc, said in a note he is now expecting a balance sheet plan from the Fed by the May meeting minutes, a decision on the matter by June and a halt to the Fed's runoff by October, if not July. This will help US financial conditions and markets, he said.

Govt debt outperforms

Bahrain's Mumtalakat squeezes yields

DUBAI, Feb 21, (RTRS): Bahrain's sovereign wealth fund Mumtalakat raised $600 million in bonds this week, managing to squeeze yields by over 60 basis points as the issue was marketed, in a sign of renewed investor interest for Bahraini credits after the kingdom was pledged $10 billion in financial aid from its Gulf allies last year.

Saudi Arabia, the United Arab Emirates and Kuwait committed $10 billion in financial aid in October last year to rescue their ally from a possible credit crunch.

Bahrain's bonds have outperformed their peers since then.

Mumtalakat – wholly government owned – on Wednesday issued $600 million in Islamic bonds, or sukuk, with a 5.625 percent yield. The notes, which received orders of around $4 billion, were initially marketed with a yield of around 6.25 percent.

Fund managers said the final pricing was partly the result of hefty demand for emerging markets broadly.

When Bahrain's state-owned oil company Nogaholding tapped the market last November – at a time of lower oil prices and high volatility across emerging markets – it squeezed the price of its seven-year bond tranche by 25 basis points.

That was the first test of international demand for Bahrain's new debt since the Gulf aid.

The Mumtalakat issue has come amid improved market conditions. It also follows the inclusion of Bahrain's sovereign and quasi-sovereign debt in JPMorgan's emerging-market government bond indexes, which started at the end of January.

"Bahraini bonds are trading tighter than similarly rated peers because of the backstop it has from Gulf countries provided by the aid package," said Zeina Rizk, director of fixed income asset management at Dubai's Arqaam Capital.

Since October, yields on Bahrain's US dollar-denominated sukuk due in 2024 shed 60 basis points, while the yields of Oman's dollar sukuk due in the same year increased by the same amount.

Mumtalakat's paper was priced only marginally below the Bahraini sovereign debt curve, but the newly issued sukuk gained half a cent when they started trading on Thursday, which put them roughly in line with government bonds.

Bahrain was hit hard over the past few years by a slump in oil prices. Despite the boost its bonds received from the $10 billion Gulf bailout, it remains – together with Oman – the financially weakest state in the Gulf.