Xiaomi's Founder, Chairman and CEO Lei Jun talks about the latest Xiaomi Mi 9 Explorer Edition with transparent body during a product launch event in Beijing on Feb 20. Xiaomi on Wednesday unveiled a thinner and lighter new model built with Ai triple camera that Lei said has better performance comparable to Apple's iPhone Xs and Huawei Mate 20. (AP)

Centrica shares hit 16-yr low after warning of price cap impact

Shares in British Gas parent Centrica slumped to a 16-year low on Thursday after the group warned a national price cap on energy bills, a fall in nuclear output and lower volumes at its oil and gas division would hit its 2019 results.

Centrica said a regulator-imposed cap on standard energy prices would lead to a 300 million pound ($392 million) hit to profits in 2019, including a one-off impact of about 70 million in the first quarter of 2019.

Late last year Centrica, whose British Gas unit is Britain's largest energy supplier, said it would seek a judicial review of the way regulator Ofgem calculated part of the price cap, which was initially set around 6 percent lower than British Gas's standard variable tariff.

Ofgem this month said the cap will be raised by 10 percent from April 1 and British Gas has already said it will increase its prices by the same amount.

"We believe (the cap) is the wrong intervention but it is here and we will live with it," Chief Executive Iain Conn told journalists.

British Gas shed 742,000 customer accounts in 2018 as the company came under pressure from smaller, nimbler rivals, often able to offer cheaper deals.

Centrica posted a 12 percent rise in 2018 operating profit to 1.39 billion pounds, bolstered by higher commodity prices, and maintained its full-year dividend at 12 pence. But traders focused on the weak outlook and concerns the dividend could be under threat in future. (RTRS)

Data highlights growing toll US-China trade war is inflicting on Asia's export-reliant economies

Japan manufacturing shrinks for first time since 2016: PMI

TOKYO, Feb 21, (RTRS): Japanese manufacturing activity contracted in February for the first time in two-and-a-half years as factories cut output amid shrinking domestic and export orders, a private business survey showed on Thursday.

The survey also showed business confidence in Japan soured for the first time in more than six years, highlighting the growing toll that the US-China trade war is inflicting on Asia's export-reliant economies and global manufacturing.

The Flash Markit/Nikkei Japan Manufacturing Purchasing Managers Index (PMI) fell to a seasonally adjusted 48.5 in February from a final 50.3 in January.

The index fell below the 50 threshold that separates contraction from expansion for the first time since August 2016.

Pessimistic

The pessimistic turn in business sentiment "comes as no surprise given the international headwinds Japanese manufacturers are facing such as a China slowdown and the global trade cycle losing further steam," said Joe Hayes, economist at IHS Markit, which compiles the survey.

"Unless service sector activity can recover from January's decline, the chance of Japan entering a recession in 2019 looks set to rise."

The output component of the flash PMI index fell to a preliminary 47.0 from a final 54.4 in January to show the fastest contraction since May 2016.

Indicators of future activity were equally grim.

Total new orders – domestic and foreign – pointed to a sharper decline in demand than the previous month. Though export orders contracted at a slightly slower pace, it is unlikely to ease doubts about the outlook for overseas demand.

Companies also reduced their purchases of raw materials and other inputs for the second month running.

The PMI survey comes one day after government data showed Japan's exports fell the most in more than two years in January as China-bound shipments tumbled.

Global trade has slowed over the past year as Washington and Beijing ramped up tariffs on each others' goods, disrupting supply chains worldwide. At the same time, economic activity has been weakening noticeably in China and Europe.

Japan could face further weakness if the United States and China do not quickly resolve their differences over trade, some economists say.

Negotiators from both sides are racing to beat a March 1 deadline for a deal, though US President Donald Trump has said that could be extended if an agreement appeared close.

Japan's economy bounced back in the fourth quarter as business and consumer spending recovered from the impact of natural disasters, but trade frictions and a proposed sales tax hike are expected to hinder growth this year.

China cbank sees benchmark rate cut as last resort: sources

China growth to slow further in H1, likely steady mid-year

BEIJING, Feb 21, (RTRS): China's central bank is not yet ready to cut benchmark interest rates to spur the slowing economy, despite cooling inflation and a stronger yuan, which have fanned market expectations of such a move, policy sources told Reuters.

But the People's Bank of China (PBOC) is likely to cut market-based rates and further lower banks' reserve ratios (RRR) to boost credit growth and reduce firms' borrowing costs, according to the sources involved in internal policy discussions.

"We cannot rule out a (benchmark) rate cut, but we still need to watch economic data for a few months," one said. "There is no sufficient reason for cutting benchmark rates if we look at the huge amount of new loans in January."

China's trading partners and major central banks are increasingly concerned over how quickly the world's second-largest economy is decelerating and much it will drag on global growth.

Premier Li Keqiang reiterated on Wednesday that China will not resort to "flood-like" stimulus like that unleashed in past downturns. But after a spate of weak data, investors are asking if Beijing needs to speed up or intensify support to reduce the risk of a sharper slowdown.

Analysts polled by Reuters expect China's official growth rate to cool to 6.3 percent in 2019, a 29-year low, and some believe real activity levels are already much weaker than government data suggest.

But China watchers note the PBOC has many policy tools to choose from before wielding blunter instruments such as a lending rate cut, which would lower financing costs across the board but risk adding to a mountain of debt.

More RRR cuts have been expected in coming quarters after five in the past year, most recently in January. The PBOC has also been guiding money market rates lower in various ways, and offered a slightly better rate on a new medium-term lending programme launched in January.

The PBOC did not immediately respond to Reuters request for comment.

In one sign that recent policy loosening measures may be starting to be felt, China's mostly state-backed banks doled out a record 3.23 trillion yuan ($480.43 billion) in loans in January, following months of urging by the PBOC to keep financing open to cash-strapped companies.

But the PBOC was quick to say after the data that it has not opened the credit floodgates.

Analysts note there is a time lag before a jump in lending will translate into growth, suggesting business conditions may get worse before they get better.

But the government is also planning to step up fiscal stimulus ranging from more infrastructure spending to sweeping tax cuts, building on moves last year.

In the last downturn in 2014-2015, China cut the benchmark six times. But it has kept the benchmark at 4.35 percent since October 2015 while the central bank focuses on building a more market-based regime that will get funding to parts of the economy that need it most.

Only a handful of analysts have predicted a benchmark cut this time around, but speculation has been growing that the PBOC may take other action soon as deflationary pressures build and the yuan strengthens, threatening more pressure on exporters.

Data last week showed January producer price inflation cooled for a seventh straight month.

The yuan has gained about 2.6 percent against the dollar this year, buoyed by hopes for progress in Sino-U.S. trade talks, after falling 5.3 percent in 2018. While the PBOC has been pushing a lot of funds into the financial system, the money has not been flowing smoothly to companies, particularly private firms which account for over half of China's economy.

Banks are wary of lending to smaller firms with higher credit risks, preferring state-backed customers, while businesses are reluctant to take on debt when sales and profits are weakening. Bond defaults hit a record last year.

That has prompted the central bank to become more innovative in developing new policy tools to encourage growth.

Most recently, it allowed banks to issue perpetual bonds, in a major step toward recapitalisation of the country's banks that could give them more room to lend. PBOC officials say policy steps are starting to show some results. The average lending rate for small firms fell to 6.16 percent in January from 6.37 percent a year earlier.

But analysts caution it is too early to tell if many firms are refinancing existing debt or planning new investments. DBS economists said recently that real interest rates (the benchmark rate minus producer inflation) have shot up to 4.3 percent.

Societe Generale expects PBOC to cut the 7-day reverse repo rate by at least 20 basis points by end-2019 and could cut other market-based rates, while lowering RRR by 100 bps each quarter. Sources believe a benchmark cut may only happen if the economy slows abruptly and broad-based deflation emerges, but they expect stimulus measures will start to put a floor under economic growth around mid-year.

A trade deal between China and the United States would also reduce the chance of a benchmark cut, sources said. Negotiators are racing to meet a March 1 deadline, and failure could lead to a sharp hike in US tariffs on Chinese goods.

UK says no evidence of malicious activity

Britain managing Huawei risks – official

LONDON/BRUSSELS, Feb 21, (RTRS): Britain is able to manage the security risks of using Huawei telecoms equipment and has not seen any evidence of malicious activity by the company, a senior official said on Wednesday, pushing back against US allegations of Chinese state spying.

Ciaran Martin, head of Britain's National Cyber Security Centre (NCSC), said Britain had yet to decide on its security policy for national 5G networks, but that Huawei equipment was subject to detailed oversight and strict government controls over where it was used.

"Our regime is arguably the toughest and most rigorous oversight regime in the world for Huawei," Martin, whose NCSC is part of Britain's GCHQ intelligence agency, said at a cybersecurity conference in Brussels.

Asked later whether Washington had presented Britain with any evidence to support its allegations, he told reporters: "I would be obliged to report if there was evidence of malevolence ... by Huawei. And we're yet to have to do that. So I hope that covers it."

Huawei, the world's biggest producer of telecoms equipment, faces intense scrutiny in the West over its relationship with the Chinese government and US-led allegations of enabling state espionage, with Washington calling for allies not to use the company's technology.

No evidence has been produced publicly and Huawei has repeatedly denied the claims, but the allegations have led several Western countries to restrict the company's access to their markets.

Martin said it was for the US government to comment on what information it had about the company but added: "From our point of view ... if you look at the detailed paper we're publishing, we think the way we manage the risks."

In this file photo, the logos of Huawei are displayed at its retail shop window reflecting the Ministry of Foreign Affairs office in Beijing. The head of Britain's cybersecurity agency says government oversight of Huawei has proven it can flag up security problems, suggesting he doesn't think the Chinese company needs to be banned from supplying mobile networks. (AP)

US Senator Mark Warner, the top Democrat on the US Senate Select Committee on Intelligence, responded by saying he wanted to "more fully understand the UK's reasoning."

"The United States and its allies need to maintain a common front against the supply chain risk of equipment from countries that do not respect the rule of law and that routinely place extra-judicial surveillance demands on domestic firms," he said. Britain is a key battleground for Huawei in its campaign to resist US pressure in Europe.

Any decision by London to allow the Chinese company to participate in building next-generation 5G networks would be watched closely by other nations because of Britain's membership of the Five Eyes intelligence-sharing group along with the United States.

But the company has come under fire in Britain since a government report in July last year found that technical and supply-chain issues with its equipment had exposed national telecoms networks to new security risks.

Vodafone, the world's second-largest mobile operator, said last month it was "pausing" deployment of Huawei equipment in core networks until Western governments give full security clearance. Other operators in Europe, including Britain's BT and France's Orange, have already removed Huawei's equipment or taken steps to limit its future use.

Australia bank lent loans customers could not repay

Westpac sued for irresponsible lending

SYDNEY, Feb 21, (RTRS): Australia's Westpac Banking Corp was sued on Thursday by customers who said the bank had lent them money they could not afford to repay, the second such case the firm has faced in the past year.

The case comes with Australia's financial services sector under great pressure to reform after a public inquiry uncovered widespread misconduct, including charging customers fees for no service, irresponsible lending and deception of regulators.

Westpac had already agreed to pay a A$35 million ($25 million) fine for wrongly approving thousands of mortgages in a similar case filed by Australia's corporate regulator last year.

Under Australian law, banks must check that loans are suitable for borrowers.

"This case will seek to prove that Westpac failed to comply with these obligations and that this failure caused substantial losses for many consumers," said Ben Slade, a lawyer at Maurice Blackburn, the firm that filed the class-action lawsuit.

Funding for the case will come from Britain-based Harbour Litigation Funding and covers borrowers who took loans from the bank after 2011.

Westpac, the country's oldest bank and the largest by assets, said it takes its responsible lending obligations very seriously and will be defending the case.

A powerful inquiry into Australia's finance sector excoriated the nation's lenders and said that poor treatment of customers was driven by greed, although it has not recommended major structural changes to the industry.

In its case against the regulator, Westpac accepted that it had breached consumer lending law when its automated loan approval system failed to consider borrowers' living expenses when deciding if they could repay a home loan.

Of 260,000 loans approved over a three-and-a-half-year period from 2011 to 2015, Westpac ignored living expenses for 50,000 and miscalculated another 50,000 borrowers' ability to repay their debts.