Etihad Rail to seek about $2 bln in financing

Etihad Rail, the developer and operator of the United Arab Emirates' national rail network, is expected to approach banks for about $2 billion to help finance the expansion of the network, banking sources familiar with the matter said.

The UAE, which launched the first phase of its rail project in 2016, plans to have a network with 1,200 km (750 miles) of track costing about $11 billion, running from the border with Saudi Arabia to Fujairah emirate on the Gulf of Oman.

One of the sources said the new debt would most likely be a corporate loan, rather than project financing.

A spokeswoman at Etihad Rail, owned 70% by the Abu Dhabi government and 30% by the UAE federal government, was not immediately available to comment.

The first phase of the UAE rail project was built to transport granulated sulphur. The broader project aims to offer freight and passenger services across the country.

Gulf states plan a range of regional infrastructure projects from power to transport and housing. A drop in oil prices in 2014 led governments to rein in spending, halting several projects, but a recent price recovery has improved prospects. (RTRS)

EGA eyes Bosnia's indebted Aluminij

Emirates Global Aluminium (EGA), one of the largest industrial firms in the United Arab Emirates, has expressed interest in Bosnia's debt-laden aluminium smelter Aluminij Mostar, Bosnia's regional energy and mining minister said on Thursday.

Bosnia's sole aluminium smelter and one of the country's biggest exporters on Wednesday threatened it would halt production on July 6 unless the government of Bosnia's autonomous Bosniak-Croat Federation, helps it stay afloat.

It has been in trouble for years over debt accumulated because of high alumina and electricity prices.

EGA will now asses Aluminij's value, said Nermin Dzindic, the Federation energy and mining minister, before it starts talks with Aluminij's shareholders about a possible takeover.

Aluminij is 44-percent owned by the Federation government, with small shareholders holding another 44 percent and the Croatian government the remainder.

Dzindic said that EGA pledged to double output at Aluminij from the current 130,000 tonnes a year and was ready to negotiate the power purchase deal with Bosnia's three power utilities to secure continuous production for up to ten years. (RTRS)

Market Movements 4-07-2019

			Change	Closing pts
AUSTRALIA	-	All Ordinaries	+30.74	6,800.86
JAPAN	-	Nikkei	+64.29	21,702.45
INDIA	-	Sensex	+68.81	39,908.06
GERMANY	-	DAX	+13.66	12,629.00
FRANCE	-	CAC 40	+1.92	5,620.73
EUROPE	-	Euro Stoxx 50	+3.52	3,544.15
S. KOREA	-	KRX 100	+38.09	4,431.91

			Change	Closing pts
CHINA	-	Shanghai SE	-10.01	3,005.25
PAKISTAN	-	KSE 100	-325.93	34,570.62
PHILIPPINES	-	All Shares	-27.76	8,064.92

Business

Global economy heading for trouble

Manufacturing and construction shrink

LONDON, July 4, (RTRS): Global manufacturing and construction sectors have already entered a downturn; the service sector is all that now stands between the economy and a full-blown recession.

Global manufacturers reported new export orders fell for a 10th month running in June, with the most widespread decline for six years, according to the JPMorgan global purchasing managers survey.

Even in the United States, which has escaped relatively mildly so far from the downturn hitting Europe and Asia, there are now clear signs growth has stalled across the manufacturing and construction industries.

US manufacturers reported only a small increase in activity in June, with the net positive balance the lowest for almost three years, according to the Institute for Supply Management.

US manufacturers' new orders have been decelerating for more than a year and were flat for the first time since the end of 2015, which suggests activity is likely to slow further in the short term.

Durable goods orders for non-defence capital equipment excluding aircraft were up by just 2.1% in the three months from March to May compared with a year earlier, less than a third of the growth rate a year ago.

Private sector construction activity is falling, with the value of new buildings and structures put in place down by 4.1% in the three months from March to May compared with the same period a year earlier.

Residential construction activity was down by more than 8% year-on-year in the three months from March to May, according to the US Census Bureau.

Private non-residential construction was still up by 1.5% year-on-year between March and May, but the growth rate has slumped from more than 5% between August and October.

Reflecting interest rate traders' recession fears and expectations of rate cuts, the US Treasury yield curve for securities with maturities between three months and 10 years has been continuously inverted for more than a month.

Since 1960, sustained yield-curve inversions lasting for three months or more have been one of the most reliable signals of an impending recession arriving within the next 12 months.

Yields on benchmark US Treasury 10-year notes have already sunk to 1.95%, down from 3.20% just eight months ago, and the lowest since November 2016, as investors seek a safe haven from a feared slowdown.

Government bond yields are tumbling across the advanced economies while central banks are cutting interest rates (Australia) or signalling openness to more monetary policy stimulus (the United States and eurozone).

In the oil market, prices have fallen reflecting worries about the global economy and slowing oil consumption growth, despite a decision by OPEC and its allies to extend production restraint for a further nine months.

Oil consumption and especially the use of middle distillates such as diesel is geared more towards manufacturing, construction and mining than the service sector, so is being hit hard by the industrial slowdown.

Oil's exposure to the troubled manufacturing sector explains why prices have remained under pressure despite US sanctions on Venezuela and Iran, the threat to tanker traffic in the Gulf, and OPEC output cuts.

So far, the downturn has been concentrated in the manufacturing and construction sectors while the much larger service sector has exhibited continued resilience, at least in the advanced economies.

Services output tends to be much less cyclical than manufacturing or construction, and the expansion of service output and employment is one reason why the economic cycle has been dampened in recent decades.

High levels of employment and rising household incomes, characteristic of the late stage of the business cycle, have combined to sustain services growth over the last nine months.

For the advanced economies, manufacturing and construction account for a much smaller share of output and employment than services, but they are more important in terms of productivity and higher wages.

It is not clear if the services sector can continue to keep the economy out of recession if manufacturing and construction continue to contract.

US trade conflicts, signs of slowing global economy take a toll on company profits

Stage set for lackluster Q2 corporate earnings

In this file photo, the logo for Alphabet appears on a screen at the Nasdaq Market Site in New York. Uncertainty over US trade conflicts and signs of a slowing global economy have led many S&P 500 companies to lower expectations for how much profit they made in the spring 2019. (AP)

NEW YORK, July 4, (AP): Uncertainty over US trade conflicts and signs of a slowing global economy have led many S&P 500 companies to lower expectations for how much profit they made in the spring.

Wall Street projects that overall S&P 500 company earnings for the April-June quarter fell 2.6% from a year earlier, according to FactSet. As recently as the end of March, earnings were forecast to be down only 0.5%.

This sets up the possibility for the first back-to-back decline in overall quarterly earnings for S&P 500 companies in three years.

"This has been one of the most negative quarters in terms of guidance we're seen since the end of the financial crisis," said Brian Nick, chief investment strategist at Nuveen.

The second quarter profit outlook has waned as the US escalated its trade conflict with China, setting off a new round of tariffs in May. The two nations have raised tariffs on tens of billions of dollars of each other's goods in their dispute over US complaints about China's technology ambitions.

The May escalation fueled concerns on Wall Street that the dispute would hinder global growth and hamper corporate earnings, especially for technology companies and large multinationals that do a lot of business overseas.

A recent truce in the trade war and the resumption of trade negotiations came too late to have an impact on the overall dimmer second quarter earnings forecast.

Of the 113 S&P 500 companies that have given an outlook on their April-June results, 87 issued negative earnings guidance and the rest issued positive guidance, according to FactSet. Put another way, 77% of the companies that provided guidance have lowered the bar on their results, above the 5-year average of 70%.

That's a moderate cause for concern for investors, said Kate Warne, chief investment strategist at Edward Jones.

"It says one of the supports we've seen for the continuation of the bull market is getting weaker," Warne said.

Technology and materials stocks account for the biggest share of projected earnings declines, with estimated drops of 11.9% and 14.4%, respectively. Consumer staples, industrials and consumer discretionary stocks are also expected to post overall declines in earnings growth.

While six sectors are predicted to report earnings growth, led by utilities and health care, four of them have lower earnings estimates than they did in March.

"The tariffs plus rising wages are beginning to cut into margins, and while companies are still able to adjust, there's more of a risk that margins are falling and earnings will begin to decline more than most people expected early in the year," Warne said.

Energy and utilities are two sectors bucking the trend, with second quarter profit forecasts higher now than they were in March.

If the current earnings projections hold, the second quarter results will mark the first time that the S&P 500 has posted two straight quarters of annual declines in earnings since the first and second quarters of 2016. Earnings growth overall for S&P 500 companies declined 0.3% in the first three months of this year, according to FactSet.

The lowered expectations should help companies deliver earnings that top Wall Street's projections. But how their stock prices move will likely hinge on the outlook management teams provide for their businesses in the second half of this year.

"This is the quarter that just passed," said Willie Delwiche, investment strategist at Baird. "It's not necessarily indicative of what we could see going forward."

Move directly contradicts official US policy

US should start manipulating the dollar: Trump

WASHINGTON, July 4, (AP): President Donald Trump on Wednesday accused China and Europe of playing a "big currency manipulation game." He said the United States should match that effort, a move that directly contradicts official US policy not to manipulate the dollar's value to gain trade advantages.

In a tweet, the president said if America doesn't act, the country will continue "being the dummies who sit back and politely watch as other countries continue to play their games - as they have for so many years."

Trump's own Treasury Department in May found that no country meets the criteria of being labeled a currency manipulator, although the report did put China and eight other countries on a watch list.

A country manipulates its currency when it drives down the value to make its exports cheaper and foreign imports more expensive.

As a candidate in 2016, Trump repeatedly charged that China was manipulating its currency and as president he would immediately label China as a currency manipulator.

However, after taking office, Trump's Treasury Department has issued five reports on the subject, required by law every six months. In each report it said no country met the criteria to be labeled a currency manipulator.

Trump's tweet seemed to have no impact in currency markets, a situation that would likely change if Treasury Secretary Steven Mnuchin began threatening to use currency manipulation to drive down the dollar's value.

The Treasury secretary has the job of commenting on the dollar's value and also implementing intervention to buy or sell dollars in currency markets to influence the dollar's value. US administrations for decades have pledged in international communiques not to intervene in currency markets for the purpose of influencing trade flows.

A weaker dollar would boost US exports but could run the risk of causing foreign investors who are helping to finance the federal government's $22 trillion national debt to move their investments elsewhere to avoid the risk of currency depreciation lowering their returns.

OPEC-led output curbs slash growth among Gulf producers

IMF cuts Oman's growth forecast to 0.3%

DUBAI, July 4, (RTRS): The International Monetary Fund has cut Oman's 2019 economic growth forecast to 0.3% from 1.1% as OPEC-led production curbs slash oil-related growth among Gulf energy producers.

The forecast comes after Saudi Arabia - the world's top crude exporter - said on June 30 its first-quarter rate of economic growth shrank by more than half on a quarterly basis. In lowering Oman's expected GDP growth rate to 0.3% from 1.1% the IMF said it expected its oil GDP to decrease by 1.1% against April's estimate of a 0.6% contraction, the fund said in a statement late on Wednesday.

A rebound in crude prices helped Oman's overall gross domestic product grow 2.2% last year, but its debt rose and some fiscal reforms were delayed, the IMF said.

Oman's state coffers have been hit hard by a slump in oil prices over the past few years. Its increased external borrowing has prompted concerns among investors and pushed its credit rating into junk status.

Its gross government debt rose to 53.5% of GDP last year, according to the fund.

While Oman is not at immediate risk of a credit crunch, as it has sufficient reserves to cover debt repayments, it should work harder on fiscal adjustment reforms, said the IMF, which called for "an expeditious introduction of VAT and measures to adjust government expenditure."

The sultanate had originally planned to introduce a 5% value-added tax in 2018, which is now expected to start in 2020.

To guide its deficit-cutting, the IMF said it welcomed Muscat's plans to work with the World Bank on a public expenditure review that could help to make spending more efficient.

Drop in Turkish inflation opens door to 'rate cut'

ANKARA, July 4, (RTRS): Turkey's consumer inflation fell to its lowest level in a year in June thanks to a high so-called base effect and a drop in food prices, potentially paving the way for the country's first interest rate cut since last year's currency crisis.

The consumer price index fell to 15.72% year-on-year, official data showed, almost matching a Reuters poll forecast of 15.74% and down from 18.71% in the previous month.

Month-on-month, inflation stood at 0.03% in June, slightly less than a poll forecast of 0.05%.

After having hovered around 20% for most of this year, the marked drop in annual prices was largely because inflation began to sharply rise in June of last year – the measurement base effect – as Turkey's crisis took hold and forced the central bank to hike rates in September to 24%, where they remain.

Annual inflation hit a 15-year high in October above 25%, but later dipped.

Analysts said on Wednesday the central bank could ease monetary policy at a July 25 meeting if the lira, which briefly gained on Wednesday, is not hit this month by threatened US sanctions over Turkey's purchase of a Russian missile defence system.

"The inflation outlook will allow the central bank to start cutting rates in July," said Erkin Isik, chief economist at QNB Finansbank. But he expects a cut of only one percentage point because – again due to base effects – inflation is expected to bounce back in July.

Food and non-alcoholic beverages prices fell 1.65%, marking the sharpest fall in the data set in June, the data from the Turkish Statistical Institute showed.

The producer price index rose 0.09% month-on-month in June for an annual rise of 25.04%.

Turkey's lira shed some 30% of its value against the dollar last year, causing a recession to spill into this year. Sanctions over Ankara's purchase of S-400 defences could prompt another selloff in the currency, pushing inflation higher.

"Any monetary policy moves hinge on what happens to the lira," said Jason Tuvey, senior emerging markets economist at Capital Economics.

"If the threat of sanctions escalates and the lira comes under pressure again in the coming weeks, the central bank will probably be forced to hold fire."

Separately, a measure of consumer confidence jumped more in Turkey from the first to the second quarters than in any of the 64 countries in the Global Consumer Confidence survey, which was published on Wednesday.

"Respondents' concern over the economy has declined, and their intention to spend their spare cash on paying off debts and credit cards have also declined," said Abdul Eruman, senior economist at the New York-based Conference Board, which runs the survey.

"Yet given the economic situation in Turkey, we are still less enthusiastic that this high confidence will translate into actual spending."