ESIC readies dollar sukuk sale

Emirates Strategic Investments Co, a firm owned by Sheikh Mansour bin Zayed al-Nahyan, a member of Abu Dhabi's royal family, has hired banks to arrange investor meetings ahead of a debut US dollar-denominated sukuk issuance, a document showed.

Rated Baa3 by rating agency Moody's, the company, which has a portfolio of assets across different sectors in the United Arab Emirates, has hired Standard Chartered and First Abu Dhabi Bank as coordinators for the planned five-year Islamic bond sale, according to the document issued by one of the leading banks.

The two lenders have also been mandated as joint lead managers along with Bank ABC, Dubai Islamic Bank , Emirates NBD Capital, National Bank of Bahrain, and Warba Bank. (RTRS)

ADNOC hires BAML, Mizuho for natural gas pipelines deal

Abu Dhabi National Oil Company (ADNOC) has hired Bank of America Merrill Lynch (BAML) and Mizuho to arrange the lease of its natural gas pipeline assets, sources familiar with the matter said, as the oil giant establishes new partnerships in an era of lower oil prices.

ADNOC, which manages almost all of the proven oil reserves in the United Arab Emirates, has embarked on a major shake-up over the past two years to cut costs, boost efficiency and monetise its assets.

Earlier this year it agreed a $4 billion midstream pipeline infrastructure deal with KKR and BlackRock.

The company is now looking to raise funds by leveraging its natural gas pipelines in a similar deal and has mandated Bank of America Merrill Lynch and Mizuho as transaction advisers, two sources familiar with the matter said.

"As we have demonstrated over the last two years, we are actively exploring a number of potential options to optimize and maximize value from across our portfolio of assets," an ADNOC spokesman said in an emailed statement.

"Some of these options are still at an early stage of review and we will update the market as is appropriate and in due course."

BAML and Mizuho declined to comment.

The sources, who estimated the value of the gas pipeline assets at around $12 to $15 billion, said ADNOC is looking to use a similar structure to the one used with KKR and BlackRock. In that case, the firm set up a new entity which leased ADNOC's interests in its crude and condensate pipelines to the investment firms. (RTRS)

Market Movements 15-07-2019

			Change	Closing pts
JAPAN	—	Nikkei	+42.37	21,685.90
CHINA	—	Shanghai SE	+11.64	2,942.19
INDIA	—	Sensex	+160.48	38,896.71
GERMANY	—	DAX	+64.02	12,387.34
FRANCE	—	CAC 40	+5.35	5,578.21
EUROPE	—	Euro Stoxx 50	+4.59	3,502.22
PHILIPPINES	—	All Shares	+223.47	8,365.29

			Change	Closing pts
AUSTRALIA	—	All Ordinaries	-42.61	6,746.20
PAKISTAN	—	KSE 100	-714.14	32,958.35

Businesses delaying investment, borrowing decisions

UK business investment slowing further ahead of Brexit: banks

LONDON, July 15, (RTRS): Britain's major banks have seen a growing number of business customers delay decisions on investments and borrowing in recent weeks, as the probability of a disorderly exit from the European Union inches higher.

Britain's banks have largely played up the resilience of businesses since the June 2016 referendum decision to leave the EU, but senior executives speaking to Reuters say that in recent weeks they have seen a dip in firms' activity levels.

The country's largest lenders — Royal Bank of Scotland (RBS) , Lloyds, Barclays, HSBC, and the UK arm of Spain's Santander — are all set to publish half-year results in the coming weeks, with investors watching for any signs of strain.

Bankers responsible for tens of billions of pounds in business debt told Reuters that activity among corporate customers had fallen in recent months, as the two candidates to be Britain's next prime minister have both said they are ready to take the country out of the EU without a withdrawal deal.

"The world has changed a bit," one bank executive who asked not to be named told Reuters. "There is a slowdown across the commercial piece. It started off with people holding off investment, now they're just not transacting."

An executive at a second bank said more big corporates were delaying investment decisions, with the conversion rate of the bank's potential new commercial business pipeline falling from 70% to 50% in recent months, although lending to smaller firms was holding up.

The executives said they were preparing for a potentially disorderly Brexit, including refining 'early warning' systems to identify struggling clients and spot possible weak links in their supply chains.

Frontrunner to be the next prime minister, Boris Johnson, has committed to Britain leaving the EU by the Oct 31 deadline with or without a deal, concerning firms that want to see an orderly departure to avoid disruption to cross-border trade.

RBS, HSBC and Barclays have all previously taken multi-million pound provisions against potential future loan losses if the economy dips. The Bank of England has said lenders are resilient enough to cope with a no-deal Brexit.

Banks are also braced for an expected spike in costs for meeting claims for mis-sold insurance known as PPI, which has already cost more than 35 billion pounds ($44 billion), ahead of an August deadline for claims.

Britain's economy grew more than expected in May, according to official statistics published last week, but economists warned the outlook remained weak.

Small businesses in Britain are planning the least investment in two years, a survey by the Federation of Small Businesses found this month.

One bank executive said communication efforts with business customers about potential Brexit disruption had been stepped back up after a lull following the extension of the original departure date from March 29.

This lender was trying to offer clients products to help, such as extending supplier financing and currency hedging, but said take up had been slow.

Britain's state-backed RBS has committed 5 billion pounds of its 6 billion pound small business growth fund — partly designed to help businesses out with Brexit — although only a small proportion of this has been drawn down, a source familiar with the situation said.

RBS has contacted 15,000 businesses to assess their potential exposures, mapping risks across supply chains from big retailers like Sainsbury's and Tesco through to farmers and putting in extra credit lines where necessary.

The political impasse is frustrating lenders, who believe the Bank of England and Treasury are likely to step in to boost the economy if Britain does leave without a deal.

"I think there will be a raft of government and central bank measures to support the economy (in a no deal scenario) because they'll be needed," said Ian Smith, chief financial officer at mid-sized lender CYBG.

Jeremy Hunt, Johnson's rival to be prime minister, has pledged a 6 billion pound no-deal Brexit fund to help farmers and the fishing industry cope with any fallout.

Although businesses are delaying big spending decisions, this is creating pent-up demand, the executive at the second lender said.

"If I'm in my optimistic frame of mind, and my glass half full, you could get a very positive Brexit bounce, because people know all the things that they want to do, but they're just not pressing the buttons."

Abu Dhabi sovereign fund to boost active investments in fixed-income

ADIA reducing its reliance on external fund managers

ABU DHABI, July 15, (RTRS): Abu Dhabi Investment Authority (ADIA), the world's third-biggest sovereign wealth fund, plans to increase active investments in fixed-income in the coming years, reducing its reliance on passive investments.

The move comes as ADIA, which manages the reserves of oil-rich Abu Dhabi, has been reducing its reliance on external fund managers and boosting in-house investment capabilities.

Some 55% of ADIA's portfolio is managed by external managers, down from 60% in 2016, with the rest managed internally.

ADIA said in its 2018 annual report its fixed income and treasury department aimed to go fully active in the coming years, with fund managers making "active" decisions on where to invest rather than "passively" following a benchmark index.

Currently the department's strategy is to be 40% active and 60% passive.

During 2019, as part of the transition, the department plans to add a number of new positions, mostly investment and research-focused roles.

"This provides our investment professionals with the flexibility to allocate funds between different asset types according to where they see opportunities," it said.

ADIA said decisions in early 2018 to reduce exposure to credit and being overweight on the US dollar had benefitted its performance during the year.

ADIA has been consolidating a number of investment portfolios since 2017.

It does not disclose the size of its overall portfolio, but according to the Sovereign Wealth Fund Institute, ADIA manages around $700 billion in assets, ranking it behind the Norwegian sovereign fund and China Investment Corp.

ADIA said it took a decision last year to formally integrate climate change considerations into its investment proposal review process.

It worked alongside five global sovereign wealth funds (SWFs) to develop and publish the One Planet SWF Framework that seeks to promote the integration of climate change analysis in the management of long-term portfolios.

ADIA, which does not publish detailed financial results, said its 20-year and 30-year annualised rates of return were 5.4% and 6.5% respectively in 2018 compared with 6.5% and 7% respectively in 2017.

"While these rolling averages were impacted somewhat by the exclusion of strong gains in the mid-to-late 1980s and 1990s, ADIA's real returns remained largely consistent with previous years and historical levels," said ADIA managing director Sheikh Hamed bin Zayed al Nahyan.

Abu Dhabi private equity plunge is a sensible idea

The author is a Reuters Breakingviews columnist. The opinions expressed are his own. **— Editor**

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By George Hay

If Abu Dhabi's Mubadala or the Qatar Investment Authority were cars rather than sovereign wealth funds, they might be Ferraris — unafraid of big bets on flashy, attention-grabbing investments. The Abu Dhabi Investment Authority, by contrast, is more like a steady and reliable Volvo. A key revelation in ADIA's annual review, published on Monday, might therefore seem like a departure.

The fund, with some $700 billion under management, said it had increased the proportion of new private equity investments it makes directly to 40%. That still leaves 60% of money devoted to the asset class handled via its more traditional role as a so-called limited partner, investing in funds run by storied buyout groups like Blackstone. In 2017 the proportion of direct investments was only 30%.

Going alone carries one obvious benefit — the sovereign fund doesn't have to hand over fees. But it also places a premium on the 80 or so staff in ADIA's private equity team knowing what they're doing. As the fund itself admits, 2018 buyout multiples topped 10 times pre-tax earnings. The worry is that, in a downturn, sovereign wealth fund private equity players would be less seasoned than professionals at KKR or Blackstone at dealing with flailing companies.

Yet ADIA isn't Volvo-like for nothing. Instead of QIA's eye-catching luxury hotel deals or Mubadala's $15 billion into Masayoshi Son's tech-focused Vision Fund, ADIA tends to opt for more prosaic areas like infrastructure or insurance, as per its 2018 acquisition of J.C. Flowers' holding in the UK's Pension Insurance Corporation. Its solo investments are in minority stakes; big buyout deals are handled with several other partners; and private equity is still only 10% of assets.

ADIA is hardly an outlier. As the International Forum of Sovereign Wealth Funds points out, its members made more direct investments last year than in 2015 as many enterprises shunned public markets. The level of equity in overall 2018 buyout deals also exceeded 40%, against around 30% in 2007; leverage is on loose terms; and ADIA's long-term horizons should allow it to ride out bumps in the market.

That doesn't mean ADIA's speedier strategy won't encounter roadblocks. But a Volvo takes less time to brake than a Ferrari. (RTRS)

In this file photo the logo for Citigroup appears above a trading post on the floor of the New York Stock Exchange. On July 15 Citigroup Inc. reports financial results. (AP)

Gains in consumer lending boost third-largest US bank

Citi quarterly profit beats estimates

NEW YORK, July 15, (RTRS): Citigroup Inc beat analysts' estimates for quarterly profit on Monday, as a tight lid on costs and strength in consumer lending helped the third-largest US bank counter weakness in its trading business.

New York-based Citi is the first major bank to report second-quarter earnings. Wall Street titans JPMorgan Chase & Co , Bank of America Corp and Goldman Sachs Group Inc are scheduled to report later in the week.

Bank stocks have been falling in recent weeks amid concerns that their net interest margins, or the difference between what they pay on deposits and earn on loans, have been squeezed by falling interest rates. Citi's interest margin declined slightly to 2.67% from 2.70% a year earlier and 2.72% in the first quarter of 2019.

Citi shares were down 2.3% in early trading. Other banks were also trading lower.

Citi continued to add loans and deposits in the most recent quarter, allaying concerns that a weaker economic outlook was hurting consumers' ability to borrow.

Total loans at the third-largest US bank by assets rose 3% to $689 billion, while deposits increased 5% to $1.05 trillion, excluding foreign exchange fluctuations.

Trading revenue remained challenged. Fixed-income trading fell 4%, excluding a gain from Citi's investment in Tradeweb, while it declined 9% at its equities business.

Executives at leading US banks had warned that trading revenue would be hit by a slump in client activity due to burgeoning trade tensions and uncertainties around Britain's planned exit from the European Union.

"We navigated an uncertain environment successfully by executing our strategy, and by showing disciplined expense, credit and risk management," Chief Executive Officer Michael Corbat said in a statement.

A key was that the bank was able to make more money from its lending activities during the quarter. Net interest income rose 2%.

Net income rose to $4.80 billion, or $1.95 per share, in the second quarter, from $4.50 billion, or $1.63 per share, a year earlier. The quarter included a one-time gain of 12 cents per share related to the investment in electronic trading company TradeWeb.

Revenue rose 2% to $18.76 billion, while expenses fell 2%.

Analysts had expected a profit of $1.80 per share and revenue of $18.50 billion, according to IBES data from Refinitiv.

One of the broadest measures of performance improved dramatically as Citi posted a return on tangible common equity of 11.9%. up more than a percentage point from a year earlier.

Banks have been under pressure to cut costs as a weaker economic outlook raised concerns about revenue growth. Chief Financial Officer Mark Mason said earlier this year the bank has already accelerated some cost-cutting plans to cope with potential headwinds.

Citi's per-share earnings have been propped up by a lower outstanding share count due to large stock buyback programs, but investors have been pressuring the bank to prove that it can grow profit organically. Share count declined 10% in the second quarter from a year earlier.

Last month, Citi announced plans to return $21.5 billion to shareholders through a 6-cent dividend hike and a $17.1 billion stock repurchase program.

US banks largely increased the amount of capital they plan to return to shareholders over the next year but Goldman Sachs analyst Richard Ramsden warned that this year might represent "peak returns" for many in the group.

Scrutiny of cryptocurrencies grows

Bitcoin drops 11% to two-week low

LONDON, July 15, (RTRS): Bitcoin slumped more than 10% over the weekend to a two-week low as fears of a crackdown of cryptocurrencies grew on mounting scrutiny of Facebook's planned Libra digital coin.

Bitcoin fell 11.1% from Friday to $9,855 early on Monday, its lowest since July 2. The original cryptocurrency slumped 10.4% on Sunday alone, its second-biggest daily drop this year. It was last up 1.3% at $10,319.

Politicians and financial regulators across the world have called for close scrutiny of Facebook's Libra coin, with concerns ranging from consumer protection and privacy to its potential systemic risks given the social media giant's global reach.

In a sign of widening US attention, a proposal to prevent big technology companies from functioning as financial institutions or issuing digital currencies has been circulated for discussion by Democratic lawmakers, according to a copy of the draft legislation seen by Reuters.

US President Donald Trump had last week criticised bitcoin, Libra and other cryptocurrencies, demanding that firms seek a banking charter and subject themselves to US and global regulations if they wanted to "become a bank".

Bitcoin, which initially shrugged off Trump's Tweet, fell sharply after US Federal Reserve Chairman Jerome Powell called for a halt to Facebook's project until concerns from privacy to money-laundering were addressed.

"Together they have increased the tail risk that the US will look to crack down on it in some way," said Jamie Farquhar, portfolio manager at crypto firm NKB Group in London.

Underscoring the growing attention on Facebook's plans, Japanese authorities have also set up a working group to look at Libra's possible impact on monetary policy and financial regulation, government sources told Reuters.

Funds stick to the sidelines in oil

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

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By John Kemp

Hedge funds and other money managers left their petroleum positions essentially unchanged last week as the poor outlook for consumption offset production concerns stemming from tensions in the Middle East.

The net long position in petroleum futures and options remained at 563 million barrels in the week to July 9, according to records published by regulators and exchanges.

Portfolio managers made only major changes to their net position in Brent (-4 million barrels), NYMEX and ICE WTI (-5 million), US gasoline (+2 million), US heating oil (+3 million) and European gasoil (+4 million).

Summer holidays across much of North America and Europe generally produce lighter trading volumes and smaller position changes during July and August.

That is likely to account for the very small adjustments after the short-covering rally that had lifted hedge funds' total petroleum positions by 41 million barrels over the previous two weeks had ran out of steam.

Positions and prices are delicately poised between worries over the global economic slowdown and concerns about future supply disruptions stemming from conflict around the Gulf and shortages of middle distillates caused by the introduction of new marine fuel regulations from the start of 2020. (RTRS)