Morgan Stanley profit beats on wealth management gains

Morgan Stanley reported a drop in quarterly profit but beat analysts' expectations on gains in its wealth-management business and lower expenses.

The results capped earnings for big US banks and underscored weakness in Wall Street-focused businesses in a quarter marked by lower market activity due to trade tensions and rising bets of a cut in interest rate.

Morgan Stanley is distinct from its competitors in that it gets half of its revenue from wealth management, which acts as a ballast during market fluctuations.

Revenue from the wealth management business rose 1.9% to $4.40 billion from a year earlier, and accounted for 43% of total revenue. The business beat its pre-tax margin target at 28.2%.

Chief Executive Officer James Gorman has been focusing on the unit to help the bank tide over swings in market-related businesses.

Morgan Stanley shares were 1.4% lower in pre-market trading Thursday.

Overall, Morgan Stanley's sales and trading revenue fell 12%, with both bond and equity trading seeing a dip.

By comparison, main rival Goldman Sachs Group Inc on Tuesday reported a drop in revenue from bond trading but higher equities trading.

Morgan Stanley Chief Financial Officer Jonathan Pruzan described the quarter as strong overall, and said that the 14% decrease year over year in equity sales and trading net revenues was due to last year's exceedingly good first six months. (RTRS)

This file photo shows the Morgan Stanley headquarters in New York. Morgan Stanley reports earnings July 18. (AP)

Market Movements 18-07-2019

			Change	Closing pts
PHILIPPINES	-	PSEi	+7.44	5,008.98

			Change	Closing pts
AUSTRALIA	-	All Ordinaries	-28.60	6,735.40
EUROPE	-	Euro Stoxx 50	-18.75	3,482.83
FRANCE	-	CAC 40	-21.16	5,550.55
GERMANY	-	DAX	-113.18	12,227.85
INDIA	-	Sensex	-318.18	38,897.46
JAPAN	-	Nikkei	-422.94	21,046.24
PAKISTAN	-	KSE 100	-672.45	32,309.54
S. KOREA	-	KRX 100	-14.54	4,381.09

Dubai's big spenders tighten purse strings

Introduction of 5% VAT and weaker consumer confidence hurting retailers

DUBAI, July 18, (RTRS): Boasting the priciest designer stores, no expense was spared when Dubai built the swanky Gate Avenue mall, positioned to serve affluent bankers who always had money to burn.

But the downtown mall gleaming with marble in the Middle East's biggest financial centre was largely empty at peak shopping time early on Sunday evening and that is no longer an unusual sight.

The retail economy of one of the world's leading shopping capitals has suffered from lower oil and property prices.

Even at popular mega malls such as the Mall of the Emirates, home to an indoor ski park, and the Dubai Mall, known for its dancing fountains, there are more empty shops and more frequent turnover of tenants. Sales signs abound.

"Consumers are much more cost-conscious," said Alain Bejjani, CEO of Majid Al Futtaim, which operates six malls in Dubai.

The introduction of a 5% value-added tax last year and weaker consumer confidence in an economy which grew 1.94% in 2018, the slowest since 2009, have hurt retailers.

Patrick Chalhoub, CEO of Dubai's Chalhoub Group which has joint ventures with luxury brands such as Louis Vuitton, Dior and Swarovski, said the firm closed 30% more stores than it opened in 2018 in the United Arab Emirates.

"People have less disposable income," he said.

In June, wholesalers and retailers cut prices for the fourteenth successive month, according to Emirates NBD Dubai economy tracker. Sales of cars, gold jewellery and electronics in particular have slowed.

The wholesale and retail sector is the single biggest contributor to Dubai's economy. It contributed 26.4% of gross domestic product in 2018 but that was the lowest since the 2009 financial crisis, figures from Dubai Statistics Center show.

Initiatives

Dubai's Department of Economic Development (DED) said there were several government initiatives to spur growth, including the easing of visa restrictions and accelerated spending on infrastructure projects.

"Looking ahead, we anticipate the sector to grow in real terms at 1.9% this year, and at 4.5% and 2.4% in 2020 and 2021, respectively," the DED said.

A survey by consultancy McKinsey in May showed that 80% of respondents in the UAE, where expatriates make up the majority of the population, are worried about job losses and over 40% said they are cutting spending and eyeing prices.

"It's getting harder to exist on a mid-level income," said Matthew Lewis, Partner for Middle East & Africa, at Boyden talent recruitment agency.

"Where people used to have excess cash which they would send home or spend in the market, now they're finding they're breaking even."

Employment in the UAE fell 0.9% in 2018, according to central bank data. Inflation is down this year but the cost of living remains high due to a decline in benefits and pay.

"You hear more of firing and less of hiring," said Paul Gomes, a 20-year old UAE resident, out of work for over six months after the publishing firm that employed him folded.

The emirate is also counting on a boost from hosting the World Expo 2020, which it hopes will attract 11 million foreign visitors.

Dubai is reaching the limits of a growth model rooted in tourism, real estate and consumption, said Krisjanis Krustins, a director in the Middle East and Africa team at Fitch Ratings.

"The principal issue with Expo 2020 is that it is unclear how it will help Dubai's growth after the temporary boost from construction and higher tourist numbers subsides," Krustins said.

From left, Bank of Japan Governor Haruhiko Kuroda, World Bank President David Malpass, Eurogroup President Mario Centeno, British Chancellor of the Exchequer Philip Hammond, Bank of Canada Governor Stephen Poloz, German Finance Minister Olaf Scholz, Federal Reserve Chair Jerome Powell, US Treasury Secretary Steve Mnuchin, Bank of England Governor Mark Carney, Bank of France Governor Francois Villeroy de Galhau, European Commissioner for Economic and Financial Affairs Pierre Moscovici, French Finance Minister Bruno Le Maire, Italian Economy and Finance Minister Giovanni Tria, Japan's Finance Minister Taro Aso, Organization for Economic Cooperation and Development (OECD) Secretary-General Angel Gurria, Canada's Finance Minister Bill Morneau, European Central Bank President Mario Draghi, German Bundesbank President Jens Weidmann, Bank of Italy Governor Ignazio Visco and International Monetary Fund (IMF) Deputy Managing Director David Lipton pose for a group photo at the G-7 Finance in Chantilly, north of Paris, on July 17. (AP)

Finance ministers agree to tax digital giants

G7 urges tough Libra regulation

CHANTILLY, France, July 18, (RTRS): Digital currencies such as Facebook's planned Libra raise serious concerns and must be regulated as tightly as possible to ensure they do not upset the world's financial system, Group of Seven finance ministers and central bankers said on Thursday.

Finance Minister Bruno Le Maire of France, which holds the rotating presidency of the G7 top world economies, told a news conference the group opposed the idea that companies could have the same privilege as nations in creating means of payment - but without the control and obligations that go with it.

"We cannot accept private companies issuing their own currencies without democratic control," Le Maire said.

In a summary of the informal G7 talks in Chantilly, north of Paris, the French presidency said the ministers and governors had agreed that "stablecoins and other various new products currently being developed, including projects with global and potentially systemic footprint such as Libra, raise serious regulatory and systemic concerns".

Governments are starting to worry that big tech companies are encroaching on areas that belong to governments, such as issuing currency. Facebook's June 18 announcement of Libra heralded an effort to expand beyond social networking and move into e-commerce and global payments.

The G7 are concerned that Facebook's ambitions for a digital currency might not only weaken their control over monetary and banking policies but also pose security risks.

"A global stablecoin for retail purposes could provide for faster and cheaper remittances, spur competition for payments and thus lower costs, and support greater financial inclusion," European Central Bank board member Benoit Coeure, the chairman of the taskforce, told the G7 meeting.

"However ... they give rise to a number of risks related to public policy priorities including anti-money laundering and countering the financing of terrorism, consumer and data protection, cyber resilience, fair competition and tax compliance."

The G7 also agreed that large tech companies such as Google , Amazon, Facebook or Apple can be taxed in the countries in which they make money, even without being physically present there.

They also agreed that there should be a minimum level of tax to discourage countries from competing in a "race to the bottom" to attract business from digital multinationals. "A minimum level of effective taxation, such as for example the US GILTI regime, would contribute to ensuring that companies pay their fair share of tax," the chair summary concluded.

The US's Global Intangible Low-Taxed Income regime (GILTI) aims to subject overseas intangible income to 10.5% to discourage firms from shifting profits abroad to avoid the nominal US corporate tax rate of 21%.

Using the GILTI regime could help allay possible US fears that the new rules could discriminate against US companies.

"We're beginning to develop a framework ... We feel very strongly that this should not just be geared at the US digital companies," US Treasury Secretary Steven Mnuchin told journalists.

An outline of the new regime and its implementation is to be developed by the Organisation for Economic Cooperation and Development (OECD) by the end of the year, so that the details can be agreed by the end of 2020.

Several European countries including France, Italy, Britain and Spain have already introduced their own taxes on digital companies or plan to do so. Washington saw the French levy as discriminating against US companies, and launched a probe that could lead to the imposition of tariffs on French goods.

Le Maire said Paris would keep its levy in place until the new, internationally agreed tax replaced it.

The meeting comes amid growing global economic uncertainty as US-China trade tensions and slowing trade threaten to undermine a prolonged recovery.

Turkey's economy to contract in 2019: survey

ISTANBUL, July 18, (RTRS): Turkey's economy is expected to contract in 2019 for the first time in a decade and to see only modest growth in the following two years, a Reuters poll showed on Wednesday.

The poll of more than 40 economists showed the Turkish economy shrinking 1.5% this year, according to the median forecast. The government's own sharply-lowered forecast for this year envisages an expansion of 2.3%.

There was a wide range of estimates in the July 4-16 Reuters poll, from growth of 1% to a contraction of 5%. The poll sees growth of 2.4% in 2020 and 3.4% in 2021.

"Early indicators for Q2 point to a renewed slowdown because of financial market volatility and elevated political uncertainty, which raise the risk of a double-dip recession," economists at Nomura said. In the second and third quarters of 2019 the economy is forecast to contract by 2.5% and 1.1%, respectively, before returning to growth of just 1.0% in the final three months of the year, the poll medians showed.

Second quarter GDP growth is due to be announced on Sept. 2.

Turkey's economy last contracted on an annual basis in 2009, by 4.7%. From 2010 to 2017, its compound growth rate was 6.6% thanks to a construction boom driven by cheap capital following the global financial crisis.

But hit by a currency crisis that triggered a near-30% lira slide against the dollar, the Turkish economy contracted 2.6% in the first three months of the year after shrinking 3.0% in the fourth quarter of last year. That lira slide pushed inflation to a 15-year high, severely limited companies' ability to service foreign debt and multiplied bad loans in the banking sector.

Meanwhile, investors have voiced concern over possible Us sanctions after Russia delivered S-400 air defence missile system parts to Turkey. Ankara and Washington have been at odds over the deployment of the system as it could compromise F-35 fighter jets, made by Lockheed Martin.

The central bank hiked its policy rate to 24% in September in the face of the currency crisis and has left it unchanged since, though the recent dismissal of the central bank governor has unnerved investors over the institution's independence. President Tayyip Erdogan, a self-described "enemy of interest rates", dismissed Murat Cetinkaya on July 6 for not following instructions. His successor, Murat Uysal, hinted at rate cuts on Monday.

Ratings agency Fitch downgraded Turkey's sovereign rating deeper into junk territory, saying Cetinkaya's dismissal heightened doubt over authorities' tolerance for a period of sustained below-trend growth.

Economists predicted the central bank would lower its key rate to 22.00% by the end of the third quarter and to 20% by year-end, according to the poll median.

"We now expect the CBRT to cut rates by 200 basis points on July 25 and see a cumulative 500 basis points fall by the end of this year," JP Morgan said in a recent note.

Further cuts in the central bank's main policy rate would be possible if geopolitical risks are avoided and Ankara introduces credible policies, JP Morgan added.

Bank widely expected to cut rates

Sunny outlook for US despite shade thrown by trade – Fed

WASHINGTON, July 18, (RTRS): The US economy grew at a "modest" rate in recent weeks, with consumers continuing to spend and a "generally positive" outlook overall even in the face of disruptions caused by US trade policy, the Federal Reserve reported on Wednesday.

Employment continued to expand and "labor markets remained tight, with contacts across the country experiencing difficulties filling open positions," the Fed reported in its latest Beige Book compendium of anecdotes from businesses around the country. "The outlook generally was positive for the coming months, with expectations of continued modest growth, despite widespread concerns about the possible negative impact of trade-related uncertainty."

The document in summary portrayed an economy that was largely in good shape ahead of a July 30-31 Fed meeting at which the central bank is widely expected to reduce interest rates.

Indeed the apparent durability of the now decade-old US recovery has led some Fed officials to question whether a rate fed cut is needed.

In the southeastern states, some employers reported boosting wages to $15 an hour to compete for entry level workers, manufacturing increased, home sales grew, and "the start of the summer season was robust," in states like Florida, Georgia and Louisiana, the Atlanta Fed reported. Atlanta Fed president Raphael Bostic is among those who have remained unconvinced rates should be lower.

But the detailed text from the 12 Fed regions showed why the rate cut is likely to proceed, with businesses being forced to adapt on the fly to supply chain, tariff, visa and other problems that may pose broader risks to growth. Linked to both a weakened global economy and to Trump administration policies, those issues provided the major element of doubt in the report's otherwise optimistic outlook, and have caused some Fed officials to begin shifting their views.

Kansas City Fed president Esther George, among the most concerned about leaving interest rates too low, said Wednesday she was "prepared to adjust those views should we realize some of these downside risks" posed by trade policy and slower growth in China, Europe and elsewhere. George has a voted on Fed rate policy this year and will be faced with the decision of whether to go along with or publicly dissent against a rate cut when the Fed meets in two weeks.

The view from her district was largely positive, with businesses saying they "generally expected a faster pace of growth moving forward," and no explicit mention of trade-related troubles.

By contrast, the Dallas Fed reported that a survey of 360 firms showed 28% were "negatively affected" by recent tariff hikes, while only 5% felt a positive impact from the Trump administration's decision to tax Chinese and some other imports.

The Beige Book noted emerging weakness in business for transport companies - a potential ill sign for future growth some analysts noted - and trade-related troubles in manufacturing. It even traced layoffs in some cases to administration-imposed tariffs as companies shifted final production of goods using Chinese parts from the United States to elsewhere.

In the Boston Fed district, one electronic components maker had shifted an assembly line to Germany "because most of the components in the product came from China and making the product in Germany allowed them to avoid the tariffs."

In Cleveland, "manufacturing continued to weaken because of trade wars, high customer inventories and slowing global growth. Freight haulers saw a modest decline in demand, despite summer's typically being the strong season, and they are concerned about the future."

That point was emphasized by poor results reported late Tuesday afternoon by CSX Corp, the nation's third-largest railroad, that was leading US markets lower on Wednesday.

The Fed reported other firms had experienced "difficulties in securing and renewing" work visas for employees with specific skills.

The Beige Book was compiled by the San Francisco Fed from reports assembled from all 12 regional reserve banks before July 8, a period that included new tariff threats leveled by the president against Mexico, as well as the subsequent lull in those and other trade tensions.