Investcorp hires banks for loan refinancing

Bahrain-based alternative investment manager Investcorp has mandated Citi and JPMorgan to coordinate the refinancing of a $400 million loan, sources familiar with the matter said on Sunday.

Founded in 1982, Investcorp is one of the oldest Middle Eastern private equity houses. As of the end of last year, it had $22.5 billion in assets under management.

The firm has hired the banks to coordinate the refinancing of a $400 million revolving credit facility it raised in 2016 which is due next year, said the sources.

Investcorp and Citi declined to comment. JPMorgan did not immediately respond to a request for comment.

The new revolving loan, with a maturity of four years renewable by one year, is being syndicated to other banks, said the sources.

A revolving loan is one that can be drawn, repaid and drawn again during the agreed lending period.

The 2016 loan included a euro-denominated tranche of around 110 million euros, according to Eikon Refinitiv data. (RTRS)

Lebanese budget deficit will be below 9% of GDP: finmin

The Lebanese state draft budget for 2019 will have a deficit below 9% of gross domestic product (GDP) and it may be less than 8.5% of GDP, Finance Minister Ali Hassan Khalil said on Saturday, according to broadcaster LBC.

Khalil made the comments in a discussion with reporters. The deficit was 11.2% of GDP in 2018. Lebanon has one of the heaviest public debt burdens in the world at around 150% of GDP.

Khalil wrote on Twitter the draft budget includes a saving of around 1 trillion Lebanese pounds ($663 million) in debt servicing costs, without giving further details. The government aims to reduce debt servicing costs through issuing treasury bonds at an interest rate of 1%, Khalil told Reuters.

"This matter will happen through coordination between the finance ministry, the central bank and the banks after the budget approval to issue treasury bonds in Lebanese currency in the range of 11,000 billion Lebanese pounds at an interest rate of 1 percent," he said.

Khalil told Reuters in an April interview the draft budget projected a deficit below 9% but since then the coalition cabinet has been debating it.

"The debate on the budget must end tomorrow so that we end the atmosphere of anarchy and rumours," he tweeted on Saturday, an apparent reference to conflicting statements and reports about proposed cuts in the budget that have fuelled protests and strikes. (RTRS)

Market Movements 17-05-2019

			Change	Closing pts
AUSTRALIA	-	All Ordinaries	+42.70	6,460.20
JAPAN	-	Nikkei	+187.11	21,250.09
INDIA	-	Sensex	+537.28	3,7930.77
PHILIPPINES	-	All Shares	+50.41	4,713.27

			Change	Closing pts
EUROPE	-	Euro Stoxx 50	-12.92	3,425.64
FRANCE	-	CAC40	-9.88	5,438.23
GERMANY	-	DAX	-71.43	12,238.94
PAKISTAN	-	KSE 100	-804.50	33,166.62
S. KOREA	-	KRX 100	-27.79	4,264.58

Business

US companies must weigh alternatives

Tariffs force businesses to strategize to preserve profits

NEW YORK, May 19, (AP): Faced with the Trump administration's 25% tariff on imports from China, Ruth Rau is looking to other countries to manufacture baby and toddler toys.

"No one domestically can produce the quality we want, and with the cost of shipping and the proposed new regulations, it's not going to be cost-effective to produce them in China either," says Rau, owner of Mouse Loves Pig.

The 25% tariffs President Donald Trump has imposed on thousands of Chinese-made products have small business owners trying to determine how or whether they can limit the damage to profits from import duties. Many owners will see if they can pass on the added expense to customers. Some, like Rau, are considering getting products manufactured in countries where the US isn't waging a trade war, but that's an expensive alternative that takes time to work out. Others want to find US suppliers, but depending on the product it may be impossible or not much of a money-saver.

Trump raised the tariffs to 25% from a previously imposed 10% last Friday after China refused to meet US demands; trade talks between the countries broke up soon after.

Rau wants to shift production from Nicaragua but manufacturers have told her the prices she'd pay them could go up 30%. Rau, who lives in Winchester, Virginia, is looking at factories elsewhere in Central America as well as South America, hoping they'll be able to produce toys in time for the holiday season.

Companies of all sizes contend with the Trump tariffs, which are a US tax on goods, and with retaliatory tariffs on US exports that countries impose. Small businesses have a tougher time because they lack the revenue streams larger companies use to absorb costs. Big players also have more negotiating power to get better prices from manufacturers, blunting the tariffs' effect. If they're already multinational companies, they can shift manufacturing from one country to another with relative ease.

Peter Horwitz expected the higher tariffs. Horwitz had already absorbed a 10% tariff on the paper and plastic products his company, Tiger Packaging, imports from China. He has already taken steps toward moving some manufacturing to countries including Taiwan and Malaysia.

It's not just added costs that worry Horwitz; fallout from higher tariffs drain his time and focus. Besides having to negotiate deals with new manufacturers, he must reassure customers who don't want to pay more for his products.

"Suddenly, those customers are questioning whether to give you the business," says Horwitz, whose company is located in Boca Raton, Florida.

Moving manufacturing can cost a small business tens or hundreds of thousands of dollars, an enormous amount for many firms.

"It's a complicated decision, whether the cost of new supplies is going to be lower than just enduring the tariffs. There's no simple answer," says Peter Cohan, who teaches entrepreneurship at Babson College.

Alder Riley may have to reduce staffers' hours and scale back plans to expand his 3D manufacturing company, ideastostuff. In 3D printing, machines driven by computers use ultra-thin strands of plastic or metal called filament to create objects; the filament is imported from China. The timing couldn't be worse for Riley, who recently opened a shop in San Francisco to complement his online business.

"We're a relatively new concept, and we're trying to make it as affordable as possible. We're going to have to eat the cost (of tariffs) as much as possible," Riley says. He would like to find US sources, but those companies also buy from China.

Clifton Broumand may have to raise prices on his computer keyboards and mice manufactured in China. His company, Man & Machine, will shift production to Taiwan to avoid the extra tariff.

But Broumand, whose company is based in Landover, Maryland, can't unilaterally charge more - he needs to see what his competitors are doing. If he raises prices and they don't, he could lose business to them.

"If everyone is eating this, then there'll be a price increase," Broumand says. "It's going to hit bottom line profits for everyone."

That is a bad omen for some companies. Some may not be able to absorb 25% tariffs and other costs that keep going up.

"As the pressure builds, you're going to have small firms scale back, lay off workers or go out of business," says Lee Branstetter, an economics professor at Carnegie Mellon University's Heinz College.

In some ways, tariffs are like product shortages and severe weather small businesses can suddenly contend with. As Phillip Kim, an entrepreneurship professor at Babson, puts it, "they're one of the unexpected things that might happen in the course of doing business that owners can't predict."

Turkey 'presses' some lenders to agree bailout of bad energy loans

Foreign investors eyeing cheap distressed loans

ISTANBUL, May 19, (RTRS): Turkey's plan to clean up some $13 billion in bad energy loans, one of the worst hangovers from last year's currency crisis, is taking shape even as some banks hold out for the government to agree to safeguards and higher electricity prices.

According to interviews with more than a dozen bankers, investors, advisers and company executives, Ankara is working with lenders to craft legislation that would protect them from sharp losses as the debt is removed from their books, safely packaged as funds, and sold to foreign investors perhaps after a couple of years.

The stakes are very high as Turkey takes the first of several steps needed to emerge from recession and halt a renewed selloff in the Turkish lira, including fixing its vast but troubled real estate and construction sectors.

How quickly and credibly it can execute the energy-sector bailout could determine whether the largest economy in the Middle East steadies its currency and returns to growth later this year, or if it fails to gain the confidence of investors and risks another crisis that roils other emerging markets.

Big foreign investors such as Cerberus Capital Management and KKR have already sent officials to Istanbul with an eye to buying cheap distressed loans, even while the government is still pressing Turkish banks to accept its plan, according to several of the people who spoke to Reuters, some of whom requested anonymity.

"Only a couple of the banks are going forward in the process while other banks see serious drawbacks ... and they want to avoid being part of it," said one banker involved in discussions of the plan.

An immediate goal of President Tayyip Erdogan's government is to free up lending. Some Turkish banks have taken that as a sign the final bailout plan will limit their losses, and they are holding out for more details.

That go-slow approach was evident in a meeting with Goldman Sachs, Deutsche Bank and investors such as Bain and Cerberus in Istanbul on Thursday, at which three attendees said Turkish bankers were in no rush to sell their non-performing loans (NPLs).

The government has so far revealed little about its plan beyond an outline presented last month by Finance Minister Berat Albayrak, who said off-balance sheet funds would be created for bad energy loans and, separately, $4.9 billion would be injected into state banks.

Last week, Garanti Bank executive Ebru Edin put a $12-13-billion price tag on the loans requiring restructuring and said an umbrella fund-of-funds would oversee them. Some think the value is even higher.

Two of the sources told Reuters that Albayrak and other Treasury officials presented their working plan to top bankers at a meeting in April.

As part of it, the government would raise electricity prices by some margin though not as high as banks urged, and the fund-of-funds would be structured in a way that pools the gas and coal plants for a possible sale once the economy and energy demand recover, two separate sources said.

The Treasury, which was unavailable for comment, had hoped for an early summer deadline to detail its bailout plan, but several sources involved in discussions over the plan said that timeline appeared too ambitious.

This is because questions linger over the way the loans would be parcelled, funded and legally protected; the government's willingness to raise power prices during a campaign ahead of June 23 Istanbul elections; and the level of risk Ankara is willing to take on the assets.

"It had been discussed that the work on the fund could be completed within a month. But banks needed additional regulations and this is being discussed right now," said a second banker.

At the heart of Turkey's economic malaise is years of cheap foreign funding that created a construction-driven boom under Erdogan. Once the lira collapsed last year, firms could not pay off debts, and that in turn exposed lenders that hold the loans.

Only about $16 billion of the total $400 billion of loans in Turkey's banking sector had been restructured as of March. Some analysts expect its NPL ratio to double by year-end to 8%.

Adding urgency to the bailout of gas and coal companies, Turkey's currency continues to fall after having shed nearly 40% of its value against the dollar since 2017. The companies took on some $70 billion in foreign-currency loans over the last decade, one third of which have been repaid.

The loans financed an almost doubling of Turkish electricity production capacity from 2007 to 2017, and a privatisation of grids. But sluggish demand and a 40% drop in prices in dollar terms in the last five years have left many of the gas and coal plants operating deep in the red, sources said.

Energy ministers from OPEC and its allies meet to discuss prices and production cuts, in Jeddah, Saudi Arabia, May 19. The meeting takes places as tensions flare in the Arabian Gulf after the US ordered bombers and an aircraft carrier to the region over an unexplained threat they perceive from Iran, which comes a year after the US unilaterally pulled out of Tehran's nuclear deal with world powers and reimposed sanctions on Iranian oil. (AP)

Many options for oil deal, including production rise: Russia's Novak

Relaxing oil supply cuts is 'not right decision': UAE

JEDDAH, May 19, (Agencies): United Arab Emirates Energy Minister Suhail al-Mazrouei said on Sunday that oil producers were capable of filling any gap in the oil market and that relaxing supply cuts was not "the right decision".

Mazrouei said that the UAE does not want to see an increase in inventories that could lead to prices collapsing.

Al-Mazrouei said that global oil inventories are still building up particularly in the United States, and that the job by OPEC and its allies to balance the oil market is not complete yet.

Mazrouei told reporters in Jeddah that conformity with the oil supply cuts are "excellent" and that he was happy with the UAE's compliance level.

He was speaking ahead of a ministerial panel gathering on Sunday of top OPEC and non-OPEC producers, including Saudi Arabia and Russia, known as the JMMC, which will discuss oil market situation ahead of a policy meeting in June and could recommend a course of action for the oil producers.

Russian Energy Minister Alexander Novak said that different options were available for the OPEC and non-OPEC oil output deal, including a rise in production in the second half of the year.

Novak said he discussed the market situation with his Saudi counterpart, Khalid al-Falih, and that the two parties were committed to coordinating output.

He also touched upon the issue of contaminated oil in Russia's Druzhba pipeline, saying oil supplies to Poland via the pipeline would start on Monday.

Venezuelan Oil Minister Manuel Quevedo said his country's economy and oil industry was under economic and financial siege by the US government.

"This therefore generates disturbances in the flow of oil supply to the world market as well as serious economic damage and suffering to the Venezuelan people," he said in Jeddah, Saudi Arabia, ahead of a ministerial panel meeting of top OPEC and non-OPEC oil producers, including Saudi Arabia and Russia.

Nigeria's oil minister said on Sunday he hoped the supply cut agreement between OPEC and non-OPEC members would be extended until year-end.

"I'm hoping so," Emmanuel Ibe Kachikwu said when asked if the deal needs to be extended. "I'm not so much worried about wars. I don't think that will happen ... I don't think anybody's going to push to the point of war," Kachikwu said when asked about a risk of war in the region.

Meanwhile, world oil supply fell by 300,000 barrels a day (b/d) in April while projections for future demand growth this year were also scaled back by 90,000 b/d, due in part to geopolitical factors and trade tensions, the International Energy Agency (IEA) said.

In its monthly "Oil Market Report," the Agency said that a slower start to demand in the beginning of the year, combined with trade tensions between the US and China had led to a lower forecast for demand growth in 2019.

Already for 2018, the IEA revised downward its demand growth by 70,000 b/d, bringing it back to 1.2 million barrels per day (mbpd).

For 2019, after the downward revision of 90,000, the IEA predicted demand growth of 1.3 mbpd to reach an average of 100.4 mbpd.

Most of the growth will come from non-OECD countries, mainly emerging economies not yet considered as "industrialised".

Those countries will account for 1.1 mbpd in demand growth this year, while OECD "industrialised" countries will only represent 200,000 b/d in the demand growth equation.

The April supply fall of 300,000 b/d was attributed to lower output in Canada, Kazakhstan, Azerbaijan and Iran, according to the OMR.

Global output was put at 99.3 mbpd by the IEA, and supply was still up 775,000 on year-earlier levels.

OPEC crude production rose 60,000 b/d in April to 30.21 mbpd as higher flows from Libya, Nigeria and Iraq offset Iranian losses.

Executives promise more training

Retail chiefs dismiss AI job threat

AMSTERDAM, May 19, (RTRS): Executives from major global retailers played down the threat to employment in stores from artificial intelligence and automation on Thursday and pledged more training to help staff adopt more high-value tasks as machines take over their work.

Retail is one of the largest employers in many developed economies and experts have predicted automation puts millions of low-skilled jobs in the sector at risk, particularly as the introduction of self-checkouts makes cashiers redundant.

"Technology can liberate people from repetitive tasks," Barbara Martin Coppola, chief digital officer at Swedish furniture giant IKEA, told Reuters on the sidelines of the World Retail Congress, an annual industry gathering.

"These jobs are not gone. We are believers in the talent we have in our house and we look to repurpose it into more fulfilling tasks."

Martin Coppola said IKEA needs far fewer people to select the goods displayed on the firm's website, known as online merchandising, as algorithms get more sophisticated. But these people can be trained in digital marketing instead.

"It is important to see technology as an enabler and not to let it be at the expense of human beings and the planet," she said.

Walmart, the world's biggest private employer with 2.2 million staff, has been adding self check-outs and announced last month that it would be rolling out automated shelf scanners, to check product availability, and cleaning robots.

"Cleaning the floor is not a thing that brings a person fulfillment," said Tom Faitak, Walmart's senior manager for AI, robotics and automation, adding that automating repetitive tasks gives staff more time to help customers.

"Robots are not fantastic at interacting with people," he said. "Robots are good at doing the same task over and over, not finding an item on the shelf." Walmart staff who are freed up from some repetitive tasks are increasingly being redeployed to pick orders placed online and prepare them for curbside pickup.

Consultants McKinsey estimate that 53 percent of activities in retailing are automatable, particularly in stock management and logistics. It predicts that next generation automated grocery stores could see the number of labour hours for inventory and stocking cut by two thirds.