Fiat Chrysler muscles through, green shoots in N. America

Fiat Chrysler overcame coronavirus-related factory shutdowns to post losses that were not as bad as feared, and the company predicted improving conditions for the remainder of 2020.

The Italian-American automaker lost just over $1.2 billion, (1.05 billion euros) but still made $46.2 million before taxes in North America, where it was forced to idle plants for about seven weeks. That sapped much of the revenue from its most profitable market.

The company said Friday that it would have "recovering profitability" and positive free cash flows during the second half of the year, driven largely by North America. It said the normal summer factory shutdowns have been eliminated or shortened at most North America plants to meet stronger-than-expected demand for vehicles.

The company lost an adjusted 77 cents per share from April through June, yet that was far better than the losses of $1.48 that Wall Street was bracing for, according to a survey by FactSet. The loss was a huge reversal from last year's second quarter when Fiat Chrysler made $884 million.

The company had warned that the second quarter would be much worse than the first, when it lost $1.84 billion.

"While the company remains vigilant about the health and safety of employees, our plants are up and running, dealers are selling in showrooms and online, and we have the flexibility and financial strength to push ahead with our plans," CEO Mike Manley said in a prepared statement. The company attributed the surprise performance to the "successful and safe" restart of its factories, which in the US were closed from mid-March until May 18. (AP)

This file photo shows the Fiat Chrysler Automobiles world headquarters in Auburn Hills, Michigan. (AP)

Market Movements 03-08-2020

			Change	Closing pts				Change	Closing pts
CHINA	-	Shanghai SE	+57.96	3,367.97	AUSTRALIA	-	All Ordinaries	-4.36	6,053.94
PAKISTAN	-	KSE 100	+613.17	39,871.61	HONG KONG	-	Hang Seng	-137.22	24,458.13
S. KOREA	-	KRX 100	+11.80	4,844.53	INDIA	-	Sensex	-667.29	36,939.60
JAPAN	-	Nikkei	+485.38	22,195.38	PHILIPPINES	-	PSEi	-212.53	5,715.92

Business

Agency keeps its overall rating at the highest AAA level

Fitch lowers its outlook on US credit rating to 'negative'

WASHINGTON, Aug 3, (AP): Fitch has lowered the outlook for its US government credit rating to "negative" from "stable" due to soaring budget deficits, but the agency is keeping its overall rating at the highest AAA level.

Fitch said Friday that the downgraded outlook reflects the surge in government debt and "the absence of a credible fiscal consolidation plan" to get the deficits under control.

Credit rating agencies often use changes in outlooks to signal possible future moves in the overall rating.

The Congressional Budget Office has projected that the deficit for this budget year, which ends Sept. 30, will surge to an all-time high of $3.7 trillion. That would be up from an already high deficit of $984.4 billion last year.

This year's deficit is being driven higher by the severe recession triggered by efforts to contain the coronavirus and the spending Congress has authorized to cushion the impact of that downturn.

The government's deficit for just the month of June hit $864 billion, the highest one-month total, and was part of an imbalance of $2.74 trillion for the first nine months of this budget year.

All the borrowing has pushed public debt to $26.5 trillion currently.

The Fitch report said, "There is a growing risk that US policymakers will not consolidate public finances sufficiently to stabilize public debt after the pandemic has passed."

Battered economy

Iran's stock mkt hits record high

TEHRAN, Iran, Aug 3, (AP): The Tehran Stock Exchange closed at a record high on Sunday, crossing 2 million points for the first time, even as US sanctions, unemployment, inflation and low oil prices batter the Iranian economy.

The exchange's website showed it closed at 2,011,492 points, up some 50,000 points from Saturday. Government authorities also offered additional shares of state-owned companies onto the market Sunday.

The Tehran Stock Exchange has seen sharp increases this year, even as Iran struggled with one of the first serious coronavirus outbreaks outside China.

Encouraged by a government eager to privatize state-owned firms, average people now have access to the market and can trade shares, earning returns they'd never see in a savings account or a certificate of deposit.

But these rapid gains increasingly have analysts and experts worried about a growing stock market bubble, one that could be particularly dire and wipe away the earnings of the average people flooding into the market.

Even Iranian President Hassan Rouhani - beleaguered since President Donald Trump unilaterally withdrew America from his 2015 nuclear deal with world powers - has pointed to the market as a rare bright spot for the country. Iran's rial currency has fallen to some 230,000 to 1 against the US dollar, as opposed to the 35,000 to $1 in 2015.

Founded in 1967, the Tehran Stock Exchange lists some 1,000 companies, including major firms like car manufacturer Iran Khodro. The bourse now has a market cap of more than $200 billion.

In this file photo, stockbrokers work at the Tehran Stock Exchange in Tehran. (AP)

US consumer spending up 5.6%, but coronavirus could stall gains

Wages and benefits grow at slowest pace in 3 years

WASHINGTON, Aug 3, (AP): American consumers increased their spending in June by a solid 5.6%, helping regain some of record plunge that occurred after the coronavirus struck hard in March and paralyzed the economy. But the virus' resurgence in much of the country could impede further gains.

Last month's rise in consumer spending followed a seasonally adjusted 8.5% surge in May after spending had plunged the previous two months when the pandemic shuttered businesses, caused tens of millions of layoffs and sent the economy into a recession.

Now, with confirmed viral infections rising in a majority of states, many businesses have had to pause their re-openings or close a second time and cut jobs, thereby putting consumers under renewed pressure. The number of laid-off Americans who have applied for unemployment benefits has topped 1 million for 19 straight weeks. All told, roughly 30 million people are out of work, the government says.

Friday's Commerce Department report showed that the June increase in consumer spending coincided with a 1.1% drop in personal incomes, which followed an even bigger 4.4% fall in incomes in May. Those sharp declines followed a 12.1% surge in incomes in April as a flood of government aid began to be distributed, notably $1,200 checks for many individuals and a $600 a week in federal unemployment benefits.

The $1,200 checks have been largely spent, though, and the $600 in unemployment benefits is expiring. A standoff in Congress has prevented lawmakers from agreeing on an extension of the benefits, thereby threatening to squeeze millions of the unemployed. Doing so would weaken spending by consumers, the primary driver of the economy.

What's more, recent patterns suggest that consumers have reduced their spending in the past couple of weeks. JPMorgan Chase, which tracks total spending by its 30 million debit and credit card holders, notes that as of July 20, their spending had dropped to a five-week low. Spending levels remain about 12% below pre-pandemic levels, though up from a 40% plunge in early April.

"While consumers felt more at ease spending in June, real-time data point to plateauing demand since early July," Gregory Daco, chief US economist at Oxford Economics, wrote in a research note. "With the health situation deteriorating, fiscal aid running dry, employment cooling and confidence ebbing, the risks are skewed to the downside."

The income and spending report came against the backdrop of a devastating economic collapse in the spring. The government estimated Thursday that the economy shrank at a dizzying 32.9% annual rate in the April-June quarter - by far the worst quarterly plunge on records going back to 1947 - as the viral outbreak shut down businesses, threw tens of millions out of work and sent unemployment surging to 14.7%.

The economic contraction was driven by a deep pullback in consumer spending, which fell at a record pace as travel froze up and shutdown orders forced many restaurants, bars, entertainment venues and other retailers to close.

So steep was the fall last quarter that most analysts expect a sharp economic rebound for the current July-September period. But the pain will likely continue and potentially worsen in the months ahead as the damage from the virus deepens. Over the past week, the average number of COVID-19 deaths per day in the United States has climbed more than 25%. And the number of confirmed infections has topped 4.4 million, which could be even higher because of limits on testing and because some people are infected without feeling sick.

A result is that any tentative economic recovery could stall out as state and county governments roll back their reopening efforts and anxious consumers decide to stay at home rather than pursue normal economic activities like shopping, traveling and eating out.

In a separate report, wages and benefits for US workers rose at the slowest pace in three years in the April-June quarter, a sign that businesses are holding back on pay as well as cutting jobs in the coronavirus recession.

Pay and benefits increased 0.5% in the second quarter, according to the government's Employment Cost Index, released Friday. That is down from 0.8% in the first three months of the year. Wages and salaries rose just 0.4%, while benefits jumped 0.8%.

Employers shed 22 million jobs in March and April before rehiring about one-third of those workers in May and June. That has left the unemployment rate at 11.1%, one of the highest rates since the Depression. With the unemployment rate so high, workers who still have jobs have less ability to resist pay cuts or demand raises.

Pandemic crushed demand for fuel

Oil giants lose billions in 2nd quarter

In this file photo, the logo for ExxonMobil appears above a trading post on the floor of the New York Stock Exchange. (AP)

NEW YORK, Aug 3, (AP): Two American oil giants lost more than $9 billion in the second quarter as the pandemic kept households on lockdown, cutting a gaping hole into a once-thriving business as the need for oil diminished around the world.

Exxon lost $1.1 billion in the second quarter, and the Irving, Texas-based oil producer brought in $32.6 billion in revenue, less than half of what it brought in at the same time last year. Chevron Corp. lost $8.27 billion during the quarter, a sharp contrast to the $4.3 billion it earned at the same time last year.

The quarter was one of the worst on record for the oil industry. The price of a barrel of benchmark US crude fell below $0 in April, a stunning downfall that had not before been seen in the industry. Producers had been pumping far more oil than the world was using as global travel all but shut down, and storage tanks were filling up. Petroleum consumption fell to a more than 30-year low in April, according to the US Energy Information Administration.

Oil prices have recovered somewhat since, but have been stuck at around $40 a barrel for weeks, fetching 30% less than a barrel did a year ago and well below what most producers need to make ends meet.

Lost

As a result, the US oil industry lost more than 100,000 jobs since February, with 45,000 of those jobs shed by upstream oil and gas companies in Texas alone, according to Rystad Energy, a consulting firm.

"Simply put, the demand destruction in the second quarter was unprecedented in the history of modern oil markets," said Neil Chapman, senior vice president at Exxon, on a conference call with investors Friday. "To put it in context, absolute demand fell to levels we hadn't seen in nearly 20 years. We've never seen a decline of this magnitude and pace before, even relative to the historic periods of demand volatility following the global financial crisis and as far back as the 1970s oil and energy crisis."

Exxon expects gasoline and diesel fuel consumption to rebound to levels similar to last year in the fourth quarter, but jet fuel will take longer to recover, Chapman said.

Exxon Mobil Corp. announced in April that it would cut its capital spending budget by 30%, to $23 billion, and its cash operating expenses by 15%, in 2020. The company is on track to exceed that goal and is exploring other ways to cut expenses, including evaluating its workforce around the world, Chapman said.

The pandemic is also making some of Exxon's work more expensive as it tries to keep employees safe. "We've had to charge planes to move our rotating operating staff all over the globe without the availability of commercial planes," Chapman said. "We've had to lease hotels in multiple cities to quarantine our folks before they start their 30-day rotations."

Exxon produced 3.6 million barrels of oil-equivalent, down 7% from last year. That included a 12% drop in natural gas production. But it boosted production in the Permian Basin by 9% compared to last year.

San Ramon, California-based Chevron brought in $13.49 billion in revenue, about a third of what it brought in last year.

Most of Chevron's losses hit its upstream operations, or oil and gas production, including a $2.1 billion hit to its US upstream operations and a $4 billion loss in its international upstream operations. Some of its assets lost value. Chevron wrote off a $2.6 billion investment in Venezuela noting a challenging operating environment there and saying it's unclear whether the company would recover its investment.

Industry needs an overall review to face world economy

Barrel price of $40 is not sustainable

By Kamel Al-Harami
Independent Oil Analyst

The recent results of major international oil companies revealed a loss of more than $9 billion in the second quarter of this year for ExxonMobil and Chevron. This is two quarters of big losses in a row when compared to their profits of $7.1 billion for the same quarter last year. The results will be the same for other oil companies without exception, but of course with less amounts due to their sizes. Its market value in the international bourse is on a decline too, signaling a new trend of perhaps moving away from oil in pursuit for the environmentally-friendlier options.

Al-Harami

The low crude oil production of OPEC-Plus is due to the COVID-19 pandemic and the consequent fall in demand especially with people staying at home and reduced consumption of oil and gas. This is particularly prevalent in the transportation sector of aviation gasoline and marine consumption, which has led to cuts in daily usage by more than 20 million barrels. The recovery is not much forthcoming, causing losses of volumes and income mainly for the oil producers as well as the international oil companies.

Slashing and reducing costs with more emphasis on manpower is one of the solutions, if not the easiest one, and is applicable to all industries and commercial activities. However, such a resolution is not the solution, as all governments will have to print more cash to pay for the millions out of work.

Our oil industry needs an overall review to face the world economy following the disappearance of COVID-19 after a cure is found. Strangely enough, despite all the advanced medical technologies globally, we still have failed in finding a cure to treat COVID-19.

Perhaps the oil industry, like the rest of the world economy, will have to suffer for some time; just like us who are locked down with zero activity and getting used to the culture of working from home perhaps well into next year too.

Oil producing countries must follow the practices of oil companies and reduce their expenses in order to deal with the low oil revenues which dropped by more than $20 per barrel or 33% when compared to the hypothetical number to show low deficits between $55-$60 per barrel.

The real number that most oil producing countries need in order to balance their budget must be between $80 to more than $200 a barrel for Iran and Venezuela. We are all indeed in need of some sort of a miracle.

Meanwhile, the demand has fallen by more than ten million barrels per day. The danger of course is that the oil prices must rise above $40 in order to encourage oil companies to invest and spend more capital to search for and discover new oils. At today's oil prices, none of them will do anything until the oil prices move upward. This will certainly take time.

We are going to face hard times like the rest of the world. The only good news is that this situation is shared by every country. For our long-term future, we must think outside the barrel. This option does not seem feasible with our financial reserve still staying full.

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Revisions show slightly slower US GDP growth

WASHINGTON, Aug 3, (AP): The government says the U.S economy grew a bit more slowly last year than it had previously estimated and slightly faster in 2018.

Those changes emerged in the government's annual revisions to its estimates of the gross domestic product, the economy's total output of goods and services. The government each year revises the GDP figures going back five years.

The Commerce Department's Bureau of Economic Analysis said Thursday that GDP grew 2.2% last year, down slightly from the 2.3% gain it had previously estimated.

For 2018, GDP growth was revised up to 3%, slightly above the 2.9% gain the government had initially reported. That revision means that President Donald Trump did barely achieve the goal of 3% growth in 2018, helped significantly by a boost from his December 2017 tax cut.

The revisions showed that the 3% growth in 2018 was the strongest annual growth since a revised 3.1% gain in 2015, when Barack Obama was president. Before the revisions reported Thursday, the 2015 GDP gain had been reported as a slightly smaller 2.9% gain.

The revisions showed GDP growth of 1.7% in 2016, up from 1.6% previously estimated, and 2.3% in 2017, down from 2.4% earlier reported.

The small changes up and down did not change the overall performance over the past five years. GDP showed an average annual gain of 2.3% from the fourth quarter of 2014 to the fourth quarter of 2019, unchanged from the previous estimate.

Consumer spending, which accounts for about 70% of economic activity, grew at a 2.7% annual pace over the five-year period, down slightly from the previous estimate of 2.8% spending growth.

But business investment spending grew at a faster 2.5% annual pace, up from the previous estimate of 2.2%. Exports and government spending were also revised up slightly. The growth in imports, though, was revised down slightly.

The government's annual GDP revisions incorporate data that has become available since the last annual revisions. The annual revisions used to cover just three years but were expanded to cover five years starting last year.