Citigroup's Q1 profits rise 2%, beating forecasts

Banking conglomerate Citigroup said its first quarter profits rose by a relatively quiet 2% from a year earlier, as higher interest and investment banking revenues helped offset a decline in trading.

Citi's results were similar to those of its Wall Street competitors, JPMorgan Chase and Goldman Sachs, who both reported similar declines in trading revenue in the quarter. Citi said Monday that it earned $4.71 billion, or a profit of $1.87 per share, compared with a profit of $4.62 billion, or $1.68 per share, in the same period a year ago. Analysts were looking for Citigroup to report a profit of $1.78 a share, according to Zacks Investment Research.

Citi reported a 24% decline in stock trading revenue, while bond and currency trading revenue fared better, up 1% from a year earlier. Citi's trading operations focus more on currencies and foreign exchange, which was less volatile last quarter than the stock and bond markets. That allowed Citi's trading revenue in that division to do better than its peers.

The bank did well in investment banking, posting significantly higher fees for advisory services and debt underwriting.

Citi's consumer banking business reported a modest 4% increase in profits from a year earlier, as the bank was able to grow interest revenue while keeping expenses in check. Like other banks with a consumer banking franchise, Citi has benefited from last year's rise in interest rates, which has allowed banks to charge more for loans and credit cards.

Citi's return on common equity, a measurement of how well a bank performs with the assets that it holds, was 11.9% in the quarter. Banks like Citi typically aim for that figure to be above 10%. (AP)

This file photo shows the entrance to Citibank at the Citigroup Center in downtown Los Angeles. Citigroup reports earnings on April 15. (AP)

Business Plus

Volume of LNG traded expected to rise 11% this year to 354 million tonnes

All aboard! Treasure on the high seas for gas dealers

In this file photo, the Chevron Genesis Oil Rig Platform is seen in the Gulf of Mexico near New Orleans. A global quest for cleaner energy has fired up demand for liquefied natural gas (LNG), which produces less carbon dioxide than coal. (AP)

By Ekaterina Kravtsova

In the booming market for supercooled natural gas, the most precious commodity is the ship.

A global quest for cleaner energy has fired up demand for liquefied natural gas (LNG), which produces less carbon dioxide than coal. But an abundance of supply has helped keep prices subdued, meaning the most profitable trade is in renting out vessels to transport it.

Reflecting the white-hot demand for ships, over a dozen different companies, including energy majors BP and ExxonMobil, trading house Trafigura and gas utility Centrica are already looking to charter boats for the winter, according to four shipping industry sources, months earlier than usual.

ExxonMobil, Centrica and Trafigura declined to comment. BP did not respond to requests for comment.

Energy firms are trying to avoid getting stuck without ships on charter for the winter, when cold weather typically drives up trade in LNG and, consequently, transport costs. They also want to profit off less nimble rivals.

> 'We see LNG shipping as a commodity on its own'

Last winter, spot charter rates – the cost of renting a ship to transport LNG in real-time – soared to almost $200,000 per day in November compared to around $40,000 in May, squeezing those companies which had left it too late to secure vessels cheaply.

Currently, spot rates are around $40,000 per day while rates for charters covering next winter are between $70,000-$80,000 a day, two shipping industry sources said.

Energy groups including Shell, BP, China National Offshore Oil Corp (CNOOC), Cheniere and Gazprom, utilities Naturgy and Centrica and trading firms such as Gunvor and Trafigura are renting vessels for months or years and sub-letting some of them to competitors, according to half a dozen sources.

None of the firms would comment.

The market for LNG freight trade is relatively new and many companies are reluctant to talk about trading strategies, which are still being developed.

"We see LNG shipping as a commodity on its own," said Niels Fenzl, Vice-President Transportation and Terminals at Uniper, an energy firm which along with Shell, pioneered freight trade within the LNG market.

"We were one of the first companies who started to trade LNG vessels around two or three years ago and we see more companies are considering trading LNG freight now."

The market for LNG has exploded in the last few years as countries, in particular China, look to reduce their reliance on coal. Technological developments have also enabled the United States to unlock cheap, abundant shale gas supplies. Starting from scratch, the United States has become the world's fourth-largest exporter of LNG in three years.

Shell predicts that the volume of LNG traded will rise 11 percent this year to 354 million tonnes. Five years ago, it was 239 million, according to the International Group of LNG Importers.

The increased trade has, however, resulted in thinner margins between different regions, meaning less opportunity to profit on spreads between LNG prices around the globe.

Last winter, the average premium of Asian prices over Europe was around $1 per million British thermal units (mmBtu). In the winter of 2011-2012 it averaged $7.3 per mmBtu, Refinitiv Eikon data shows.

Nearly 50 LNG ships were launched last year, bringing the total fleet to around 550, but with LNG supply growing quickly and seasonal peaks, the margins on LNG shipping rates can be eye-popping.

Last year, Cheniere made deals in spring and summer for more than 10 vessels to cover its winter positions. Some ships were chartered at around $70,000 a day and rented out in winter at around $90,000 a day, an industry source said. That trade has become a sector legend and sources said others were trying to replicate it this year.

"Big portfolio players, like Shell, BP, ExxonMobil and Cheniere, are looking at keeping their ships busy all the time, optimising their positions with their own or third party cargoes to make sure they can squeeze every dollar from their charters," a senior industry source said.

Cheniere denied to comment on its deals.

In general, traditional shipowners prefer to stick with long-term charters, which help them finance building new vessels, and let the energy firms and trading houses deal in the riskier short-term sublets.

But, given the potential money to be made, there are shipping companies focused almost entirely on servicing the LNG industry's immediate or near-term requirements.

"The spot market is our priority now given the current rate environment as we don't want to lock our ships in long-term charters prematurely in the recovery cycle," said Oystein M. Kalleklev, CEO of Flex LNG, a shipping firm founded in 2006.

"We also do believe spot is becoming a much bigger part of the LNG shipping market as well as the overall LNG trade."

Chartering a ship now for next winter is currently the only option for LNG companies looking to hedge their transport costs. But it is also risky.

Low LNG prices in Asia could limit trade, leaving a firm stuck with an expensive boat and no one to sub-let it to.

The solution would be a shipping futures contract which would allow a company to lock in a price for a future charter without taking a physical vessel – something that was developed for the oil tanker market in the 2000s.

There are fledgling moves towards creating LNG shipping futures contracts. Three brokers, Affinity, Braemar and SSY, have been working with the Baltic Exchange since last year to create LNG freight indices. One index went live in March and two more are in trials.

The indices – if accepted by the industry – could be the first step towards LNG freight futures.

"A lot of our clients see LNG freight hedging as a missing piece of the puzzle. This missing piece is having control over the forward freight," said Benjamin Gibson, derivatives broker at Affinity.

"If you have more shipping capacity then you can react to spot market cargo demand more efficiently."

The difficulty for the index is having enough deals to base a price on, according to Gibson.

Also, many transactions are discussed privately, making it difficult to find out what price was agreed.

"In order for Uniper to consider trading on LNG freight indices we would need to see what mechanisms are offered to make the trade possible. If they could work in principle, we would look into using those," Fenzl said. (RTRS)

Economy widely expected to slow this year

Uneasy about economy, some firms hold off on hiring

NEW YORK, April 15, (AP): Samantha Martin does most of the annual hiring for her public relations firm in the first quarter. But not this year – clients worried about a slowing economy are cutting their budgets, and Martin has in turn scaled back her own plans.

"Our clients are having trouble getting funding and therefore public relations and marketing are the first to get cut," says Martin, owner of New York-based Media Maison.

If Martin's firm has more work than her current staff can handle, she'll hire freelancers who work by the hour. Hiring on a project-by-project basis removes the potential of having to lay anyone off.

> 'We have frozen hiring until we know what's happening'

Small business owners who are uneasy as they see signs of a weakening economy have cut back on hiring in recent months and found ways to get work done without adding employees. The latest evidence of a hiring slowdown came last week, when payroll provider ADP said its small business customers created just 6,000 jobs in March. February's tally of 19,000 new jobs was also weak and down sharply from January's 98,000; ADP's small business numbers also fluctuated throughout 2018. The report, as well as the most recent jobs report from the Labor Department, clearly shows that small business hiring has lagged behind job creation at larger companies.

In this file photo, Kaben Clauson poses for a photo at his TruePublic office in Chicago. (AP)

Small business owners, especially those who learned hard lessons from the Great Recession about overstaffing, are playing it safe. While a Capital One survey also released last week showed that 29% of 500 small business owners planned to hire in the next six months, that was down from 33% in a survey six months earlier. Of the owners who don't plan to hire, nearly 30% said the economy is making them too nervous to spend more on staffing. The Capital One survey was in line with other surveys taken during the first quarter.

The economy is widely expected to slow this year, starting with the recently ended first quarter. Economists surveyed by financial information provider FactSet estimate that gross domestic product grew at an annual rate of 1.6% from January through March, down from 2.9% in all of 2018.

TruePublic's last four hires were part-timers. CEO Kaben Clauson had planned on taking on full-time staffers, but partly because of the economy decided against the added risk.

"We could hire those people full time now – we have the money to do so – but it would give us only six months of a cash cushion," says Kaben, whose Chicago-based company conducts online surveys. "We'd feel more comfortable with a year's cushion."

Clauson's concern is linked to the hesitancy he sees in investors who start hunkering down because of stock market volatility or signs of economic weakness.

"My company is raising another $2 million and we're looking for investors," Kaben says. "Who's knows what happens with the economy going forward?"

Before the recession, the philosophy at many companies was to hire in anticipation of higher revenue. Now, the approach is to put off hiring until rising revenue justifies taking on the added expense and risk. Many owners like Martin hire independent contractors, or freelancers, if there's more work than their regular employees can handle.

"They have a much finer gauge on how to accomplish what they need to without layering in a lot of expense," says Steve Spinelli, the incoming president of Babson College and an entrepreneur himself.

Owners have also adopted technology that helps them get their work done, so there is less pressure on their companies to hire, Spinelli says.

"You have a healthier small business community, a more nimble small business community and one that's more forward looking," Spinelli says.

After Greg Henson's technology services company was forced to lay off half its staff during the Great Recession, he restructured the business so approximately 50% of The Henson Group's workers are freelancers. He has the flexibility of calling them in for projects as needed, and doesn't have fears of another mass layoff.

Henson is also concerned about the economy, and has contracted with another company to handle some of his sales work.

"We have frozen hiring until we know what's happening," he says.

Some owners aren't as worried about the economy, but have other reasons to be concerned about their finances and are therefore cautious about hiring. For example, their overhead is going up and they don't want to add to those increasing costs – expenses that can make them more vulnerable to the vagaries of the economy.

The rising minimum wage has Sean Pour holding off hiring 10 new staffers for his company, SellMax, which has more than 30 workers earning the $12 minimum that a San Diego city ordinance requires. The minimum, which rose 50 cents on Jan 1, will rise each year along with inflation.

The minimum-wage staffers at SellMax work in the car buying company's call center. Pour supplements their pay with performance bonuses, but worries that rising wages will limit his ability to pay the extra money.

"Quite frankly, this scares us and we are afraid we won't be able to keep the new hires that we employ," Pour says. So SellMax, which already uses automation to answer some calls, may need to increase its dependence on technology if it can't afford to hire.