Deutsche, Commerzbank CEOs warn of ECB rate cut side effects

The CEOs of Germany's two largest listed banks on Wednesday warned that a further cut in interest rates by the European Central Bank would deal a blow to savers and the financial system while having only minimal effect on the economy.

The stern message comes a week before an ECB policy meeting at which decision makers are expected to lean towards a stimulus package that includes a rate cut.

Deutsche Bank CEO Christian Sewing told a banking conference that his company's customers had said they would not invest more if credit were 0.10 percentage points cheaper.

A rate cut would "only drive up asset prices and further burden savers", he said.

Lower rates would help those who are indebted or invested in assets, but the majority of the population would not benefit, he said.

"That divides society further," he said. Over the long term, low rates are ruining the financial system, he added.

Commerzbank CEO Martin Zielke backed Sewing's stance.

"I also don't consider this a sustainable, responsible policy," Zielke said.

Banks in Germany and across Europe have long complained about ECB policy which requires banks to pay to park their cash at the central bank, hurting their profits.

Banks in Germany paid 2.4 billion euros ($2.7 billion) to the central bank to hold cash in 2018, the German government said in response to a parliamentary inquiry on negative interest rates. (RTRS)

The new Swiss 100 francs bill of the Swiss National Bank is presented in Bern, Switzerland on Sept 3. (AP)

Economic growth sinks to 6-year low of 5% in June quarter

India's economy suffers car crash, pain spreads to villages

MANESAR, India, Sept 4, (RTRS): The narrow lanes in Aliyar and Kasan villages in Manesar, an automotive manufacturing hub on New Delhi's southern outskirts, would usually be packed on Sundays with migrant workers employed at the nearby plants enjoying their day off, but not anymore.

These are hard times for an area dependent on the fortunes of companies like Maruti Suzuki, the carmaker with the largest market share in India, and motorbike maker Honda Motor Co's local unit. The auto and component makers in and around Manesar, have shed thousands of jobs.

Nationwide, according to industry estimates, automakers, component manufacturers and dealers have laid off about 350,000 workers since the start of the year, in response to plunging car sales. Figures for August, like July, are expected to show a drop of more than 30%, making a 10th straight month of decline.

As the crisis in the sector bites harder small businesses in the towns and villages around Manesar, home to one of the three plants where Maruti Suzuki cars are made, have seen a fall off in trade.

"There are already fewer workers in the village and those who still have jobs are either not getting paid for working overtime or are not spending as much out of fear they may lose work and need the money," said grocer Rahul Jain, his shelves stacked with toothpaste and soaps from fast-moving consumer goods companies like Hindustan Unilever, Colgate-Palmolive and Dabur India.

Even sales of products like cooking oil and flour have fallen. On the lower rungs of the service sector, barbers and tea stall owners said they had fewer customers.

Shoe seller Subhay Singh, in Manesar's Aliyar village, has days when he doesn't make a single sale.

"My monthly earnings have halved," said Singh, who a year ago made an average 8,000 rupees a day. "I don't know what's happening."

In the United States there was an old adage: "When General Motors sneezes, the Wall Street catches a cold."

In India, the impact goes well beyond the stock market.

India's automotive industry is the fourth largest in the world, employing more than 35 million people, directly and indirectly, and accounting for nearly half of India's manufacturing output.

The industry has three main centres; Gurugram in the North, Chennai in the South, where among others Ford Motor and Hyundai Motor have plants, and Pune in the West, where Tata Motors and Fiat are located.

All of them are hurting, and the pain is radiating outwards.

Before suffering the steepening slump in sales, the auto industry provided one of the few bright spots for manufacturing. Its troubles stem in part from banks' and non-banking finance houses' reluctance to extend consumer loans, as well as subdued demand, particularly in the countryside, where two-thirds of Indians live.

Laid-off workers returning to their villages are now putting more burden on a rural sector already suffering falling income from low crop prices, and dampening consumer sentiment and growth across the country.

Gurmeet Singh had been earning 10,000 rupees a month until he lost his job at auto component maker Bellsonica in Manesar. Six months later, back in his hometown of Ambala in Haryana state, Singh is still looking for a job, and catastrophising about the future.

"I haven't had a hair cut in months, my shoes are torn and I've been using the same pair of clothes since I lost my job. Only I know how I am surviving," said the 26-year-old.

"If I don't get a job, how will I build a house for my family, get married and pay off the loan my parents took to educate me?" he said.

His bleak outlook reflects an increasingly grim big picture. India's economic growth slipped to a six-year low of 5% in the April-June quarter and Prime Minister Narendra Modi, who was re-elected to a second term in a landslide in May, is under pressure to provide a stimulus for an economy that is seriously undershooting the growth rate needed to generate enough jobs for the millions of young Indians entering the labour market every month.

All this is cast against a backdrop of a weakening world economy, and uncertainties arising from the trade war between the United States and China.

Things are so manifestly bad that even one of the nation's most popular biscuitmakers, Parle Products Private Limited, is worried about the impact of the auto industry's troubles on sales.

"If the economy is buoyant then even the rural consumer will not mind paying a little extra. But this (slowdown) has acted as a catalyst to the drop in demand," said Mayank Shah, product category head at Parle.

Britannia Industries Ltd, which controls a third of the biscuits market in India, said it has "never seen this kind of a slowdown" where people are hesitant to buy a pack of biscuits costing just 5 rupees ($0.07).

"If the consumer is thinking twice before buying, then obviously, there is some serious issue in the economy," Varun Berry, the company's managing director told analysts in a post-earnings call last month.

Under pressure from businesses and investors to provide more stimulus, Finance Minister Nirmala Sitharaman proposed a series of measures last month to help the economy and financial markets but some economists said it would not be enough to revive long-term demand.

On Aug 23, foreign investment rules were eased for several sectors, and sources say the government is expected to come up with more measures such as tax cuts for autos and real estate.

"The real revenue growth for auto and consumer goods sectors started declining nearly two years ago. The slowdown has merely gained prominence now," said Arindam Som, analyst at India Ratings, a Fitch group company, adding that he expects auto companies to further cut production.

A year ago, Vinod Chauhan had no vacancies at all in the 70 rooms he leased primarily to migrant workers in Manesar's Kasan village. Today, over a third of those rooms are vacant and Chauhan fears things could get worse before they get better.

His son won't be getting the new car that Chauhan planned to buy him this year, and the landlord has also shelved plans to build another 100 hostel apartments.

"If I am not able to rent out all the rooms I currently have, how will I manage with more?," said Chauhan.

BoE lowers its estimate for 'worst-case' Brexit GDP hit

Turkey says faces up to $3b in trade losses under no-deal Brexit

LONDON, Sept 4, (RTRS): The Bank of England has lowered its estimate for the scale of damage to Britain's economy in a worst-case Brexit scenario because of preparations undertaken since the end of last year, BoE Governor Mark Carney said on Wednesday.

Carney said the central bank now estimated that gross domestic product would contract by 5.5% peak to trough, less than the 8% seen in a set of scenarios published in November.

In a letter to lawmakers, Carney stressed the BoE had drawn up scenarios of what could happen rather than forecasts for the most likely outcome.

Meanwhile, British finance minister Sajid Javid said he was "turning the page on austerity" as he promised the biggest spending increases in 15 years, a move widely seen as part of Prime Minister Boris Johnson's push for an election to break the Brexit impasse.

"After a decade of recovery from Labour's great recession, we are turning the page on austerity and beginning a new decade of renewal," Javid said in parliament on Wednesday, taking aim at the opposition Labour Party.

Day-to-day spending would rise by 4.1% above inflation in the next financial year, the first after Britain's scheduled departure from the European Union on Oct 31, he said.

In his first major speech since taking over the public purse strings in July, Javid promised more money for "the people's priorities" – education, health and the police – after a decade of tight spending controls that have frustrated voters.

He also promised an "infrastructure revolution", more funding for the armed forces and social care, and no cuts for any government department next year.

But he said he would not be writing any blank cheques.

Opposition spokesman John McDonnell, who could soon be finance minister if Labour wins any early election, said Javid's announcement was a sham.

"To come here and to try and fool us with references to people's priorities is beyond irony," McDonnell said. "We are expected to believe that these Tories who for years have voted for harsh, brutal austerity have had some form of Damascene Conversion."

Javid was also interrupted on several occasions during his speech by the speaker of the House of Commons who asked him to refrain from making "very, very unseemly" political points about the government's Brexit position rather than focusing on his spending plans.

Javid, a former Deutsche Bank managing director, is sticking with Britain's existing fiscal rules, at least for Wednesday's one-year spending plan but suggested he would borrow more in the future to take advantage of record-low borrowing costs.

He has a bit of room to increase borrowing to fund his planned spending increases because Britain has cut its budget deficit from almost 10% of gross domestic product in 2010 to just over 1% now.

But analysts have warned that he could end up weakening Britain's budget credibility by making big spending pledges at a time when the economy is at risk of recession and the outcome of Brexit remains so unclear.

Also:

ISTANBUL: **Turkey** may lose trade with Britain worth up to $3 billion in the event of a no-deal Brexit, Trade Minister **Ruhsar Pekcan** said on Wednesday, adding that many Turkish companies lacked information on the consequences of such a scenario.

Pekcan, speaking at a Turkey-UK Business Forum in Istanbul, said the losses would stem from Britain hiking import tariffs after Brexit in sectors including steel, automotives and textiles.

"We expect that the most affected sectors will be automotive by a trade loss worth up to $1.2 billion, textile with $1.3 billion and electronic and white goods by $500 million," Pekcan told a business forum in Istanbul.

"Unfortunately, even though both the British side and us want to sign a free trade deal, we cannot do so because of our international commitments with the EU," she added.

She said her ministry would begin touring the country to inform companies on the potential impact of a no-deal Brexit.

"It seems that Brexit under a deal would be okay, but a no-deal Brexit will leave the Turkish businesses in a difficult position," Pekcan said.

British lawmakers, who on Tuesday seized control of the parliamentary timetable to avert a no-deal outcome, are expected to introduce a bill on Wednesday seeking to stop Britain from leaving the European Union on Oct 31 without transitional arrangements.

Incoming President of the European Central Bank Christine Lagarde (center), arrives for a meeting of the European Parliament's Economic and Monetary Affairs Committee in Brussels, on Sept 4. (AP)

'The crisis would have been a lot worse'

Lagarde defends ECB stimulus at hearing

FRANKFURT, Germany, Sept 4, (AP): Christine Lagarde, the nominee to succeed Mario Draghi as head of the European Central Bank, has defended the bank's record low interest rates and extraordinary stimulus measures deployed in the wake of the Great Recession and eurozone debt crisis.

Lagarde, who is leaving the International Monetary Fund to take the ECB job in November, said during a hearing in the European parliament on Wednesday that she agrees "a highly accommodative policy is required for an extended period of time."

She also defended the bank's new tools such as bond purchases and negative interest rates, which have drawn criticism, especially in Germany, for reducing savers' returns, among other things. Lagarde said the tools had helped create 11 million new jobs since 2013 and eased financial turmoil.

Without the measures "the crisis would have been a lot worse," Lagarde told the hearing in Brussels.

Lagarde said she would aim to communicate clearly with the public to explain the bank's decisions. She said that while "financial market operators" were likely to understand the ECB's message on monetary issues "I want the people of the euro area to understand why decisions are being made."

Lagarde herself trained as a lawyer, not an economist, although she is versed in finance after serving as French finance minister and head of the IMF. She said that at the IMF she had asked staff not to use confusing acronyms.

She praised the "agility" that led the bank under Draghi to come up with new tools to confront the crisis over heavily indebted governments and then a period of worrisome low inflation that threatened to lead to chronic economic stagnation. Those unusual tools have included a negative interest rate for deposits from banks – to push them to lend the money instead of leaving it at the ECB – and a promise to purchase the bonds of countries facing excessive borrowing costs.

Some of those tools have faced criticism, in particular from Germany news media and politicians. Some critics say they have led to low returns for savers and that stimulus has reduced the incentive to reform for financially shaky governments. Draghi's announcement of the bond-purchase promise in 2012 is regarded as having defused the debt crisis, so much so that the backstop was never actually used.

Lagarde, 63, resigned from the IMF effective Sept 12 after European leaders nominated her for an eight-year, non-renewable term at the ECB beginning Nov 1. The ECB sets interest rate benchmarks and supervises banks for the 19 EU member countries that use the euro as a currency.

Market QE expectations ease

Italian bonds rally, 'Bunds' sell off as uncertainty ebbs

LONDON, Sept 4, (RTRS): German bond yields jumped to their highest level in over a week on Wednesday as demand for safe haven assets eased after Italy's 5-Star Movement approved a coalition deal with the Democratic Party and lawmakers opposed to a no-deal Brexit gained the upper hand in Britain.

Latest comments from European Central Bank (ECB) policymakers meanwhile dampened expectations for aggressive ECB stimulus next week, fuelling a sell-off in eurozone bonds except those of Italy.

Members of the Italian anti-establishment 5-Star Movement overwhelmingly backed a proposed coalition with the centre-left Democratic Party (DP) on Tuesday, paving the way for a new government to take office.

This means the prospect of a snap election in Italy has receded, easing economic uncertainty.

Brexit uncertainty also eased slightly, after an alliance of opposition lawmakers defeated the government on Tuesday, allowing them to try to pass a law which would force an extension to Britain's exit date and avoid an economically disruptive no-deal Brexit on Oct. 31.

"It looks like the easing of the Brexit concerns to a degree and the recovery in risk sentiment is behind the bond sell-off," said Commerzbank rate strategist Rainer Guntermann.

He said that comments from incoming ECB chief Christine Lagarde were in line with recent remarks and provided an excuse for investors to sell bonds.

The eurozone economy faces near-term challenges, so highly accommodative monetary policy for a prolonged period remains necessary, Lagarde said.

Germany's 10-year Bund yield - the eurozone's key safe haven asset - was set for its biggest one-day jump since June 2018, up 7 bps to -0.64%.

Across the eurozone, 10-year bond yields rose 7-8 bps .

Relaunching the ECB'S bond purchasing programme is open to debate at the current juncture, Bank of France governor Francois Villeroy de Galhau was quoted as saying in an interview with French newspaper l'Agefi released on Tuesday.

The comments helped explain the rise in eurozone bond yields, analysts said.

"This raises the risk that there is disappointment at the upcoming meeting, relative to what markets are expecting," said Benjamin Schroeder, senior rates strategist at ING.

ECB policymakers are leaning towards a stimulus package that includes a rate cut, a beefed-up pledge to keep rates low for longer plus compensation for banks over the side-effects of negative rates, though restarting asset purchases remains uncertain, according to a Reuters source-based story on Tuesday.

As risk sentiment strengthened, Italy's 10-year bond yield hit a fresh record low of 0.80% and the closely-watched 10-year bond yield gap over safer German Bund yields tightened to around 145 bps – its narrowest in more than a year.

Italy's bond market has rallied strongly since 5-Star and the PD reached a coalition deal last week. Still, the online ballot results remove a final hurdle to the formation of a new government.

"For the time being the vote legitimises the rally that we have been seeing in the Italian bond market," said Chris Scicluna, head of economic research at Daiwa Capital Markets.

Elsewhere, Greece's 10-year bond yield fell 4 bps to 1.57% after economic growth gained pace in the second quarter.

Russia to 'rethink' currency it borrows, but not issuance size

MOSCOW, Sept 4, (RTRS): Russia, stung by new US sanctions, will focus more on selling its debt to investors from Asia and Europe and may adjust the currencies of its bond issues, but it won't change the amount planned for 2020, a senior finance ministry official said.

The United States in August banned US banks from buying sovereign Eurobonds directly from Russia to punish Moscow for the poisoning of a former Russian double agent, Sergei Skripal, and his daughter, Yulia. Moscow has denied any wrongdoing.

Konstantin Vyshkovsky, head of the state debt department at the finance ministry, said the sanctions that came into force on Aug. 26 will not cancel the ministry's plan to borrow abroad but the ministry needs time to study their possible impact.

"The recent decisions of political nature by our US colleagues and the ban on the participation of US financial institutions in our primary offerings are an unfavourable factor that will clearly affect our actions," Vyshkovsky told Reuters in an interview cleared for publication on Wednesday.

The finance ministry will need to study the availability of the dollar debt market when making the decision on whether to move away from issuing Eurobonds denominated in the US currency, Vyshkovsky said.

"We need to understand to what extent the dollar borrowing will be available, no matter who buys it."

Still, Russia is likely to keep its external borrowing plan for 2020 at $3 billion, the same level as in 2019, Vyshkovsky said.

Despite lingering concerns about US sanctions against Moscow that plagued market mood, Russian has successfully tapped the Eurobond market twice in 2018.

Russian sovereign bonds, denominated both in foreign currency and in roubles, are popular among foreign investors thanks to their yields and investment-grade ratings that Russia received from the three major rating agencies.

Non-residents held around 2.6 trillion roubles ($39.4 billion) worth of Russian rouble-denominated OFZ bonds in early August, which accounted for around 30% of OFZs issued.

"I don't think there are grounds for this share to decline substantially," Vyshkovsky said foreigners' share in OFZ bonds.

After fulfilling borrowing plan in the first half of 2019, the finance ministry decided to limit OFZ offering and started offering up to 25 billion roubles worth of OFZ bonds at weekly auctions in the third quarter, Vyshkovsky said.

The ministry would like to increase the overall tenor of its OFZ portfolio to five years from less than four at the moment, Vyshkovsky said.