

Turkish economic growth shows strong recovery in second quarter

Hurriyet Daily News, 11.09.2017



The Turkish economy expanded 5.1 percent year-on-year in the second quarter of the year, official data showed on Sept. 11, showing a strong recovery in investments and exports, helped by the government's fiscal stimulus measures after growth was hit last year by an attempted coup.

First quarter growth was also revised up to 5.2 percent from an initially reported 5 percent, while 2016 growth was revised up to 3.2 percent from an initial 2.9 percent. Growth was driven by all main sectors in the second quarter, with the agricultural sector expanding by 4.7 percent.

The manufacturing industry by 6.3 percent, the construction sector by 6.8 percent and the services sector by 5.7 percent, the Turkish Statistics Institute (TÜİK) said in a statement. "Leading indicators regarding the third quarter show that strong economic growth is continuing and gaining momentum," Deputy Prime Minister Mehmet Şimşek said in a written statement following the data.

Expansion of the state Credit Guarantee Fund (KGF) had begun to support growth from the second quarter, he also said. In March the government increased the size of the fund, which guarantees loans to small and medium-sized enterprises, more than tenfold to 250 billion liras (\$70 billion).

"While domestic demand made a 3.2 percent contribution to the GDP growth, the contribution of the net foreign demand was 1.8 percent. Preliminary indicators have also showed that the economic growth would continue in the third quarter as well," Şimşek noted, adding that a strong growth was positive but not enough by itself.

"Our main priority is to maintain an inclusive growth," he said. While household final consumption expenditure increased by 3.2 percent, the government final consumption expenditure decreased by 4.3 percent, according to TÜİK data.

The gross fixed capital formation increased by 9.5 percent in the second quarter of 2017 compared with the same quarter of the previous year in the chained linked volume index. Exports of goods and services also increased by 10.5 percent and imports of goods and services increased by 2.3 percent in the second quarter of 2017 compared with the same quarter of the previous year.

In a statement, Finance Minister Naci Akgül said the government's measures and incentives showed a strong impact over the second quarter growth data. "A visible recovery in tourism figures and exports will likely trigger economic growth in the third quarter with a base effect," he said.

Strong rebound in investments, exports. The government is penciling in overall economic growth of 4.4 percent for the whole of 2017 and Prime Minister Binali Yıldırım said at the weekend that the target would likely be exceeded.

In a statement, Economy Minister Nihat Zeybekci said some 1.98 percent of the 5.1 percent of growth in the second quarter came from exports. "What is more, the contribution of investments was 2.86 percent over the GDP growth. Thus, both investments and exports constituted 3.9 points of the 5.1 percent GDP growth," he said, adding that the GDP would likely grow 7 percent in the third quarter.

"I believe that Turkey would close this year at a 5.5 percent growth rate, higher than a 4.4 percent government target for 2017," Zeybekci added.

Erdoğan's chief economy adviser sees recovery in Turkey ties with Germany, EU

Reuters, 13.09.2017



Ankara's relations with NATO ally Germany, hit by a deepening row, are expected to improve alongside a general upturn in ties with the EU early next year, boosting Turkish export and tourism prospects, an adviser to President Recep Tayyip Erdoğan told Reuters.

"I expect more calm with Germany after the Sept. 24 (German) election. I expect tensions to ease," Cemil Ertem, Erdoğan's chief economic adviser, said in an interview on Sept. 13. Turkish-German ties have come under pressure since Erdoğan launched a crackdown after a failed coup last year.

Germany has criticized mass arrests, refused to extradite people Turkey says were involved in the putsch and demanded the release of around a dozen German citizens arrested in recent months. "Turkey's relations with the European Union will be rapidly repaired from the first quarter of 2018. I think Turkey's exports to the EU will increase further," Ertem said.

The improvement in EU relations would also lead to a "very good year" for tourism in 2018, he said. The number of European tourists visiting Turkey has declined due to security concerns over the last couple of years. The economy would grow around 5.5-6 percent this year and around 5-7 percent next year, he said.

Interest rate debate

Ertem dismissed concern about the level of the lira currency after another presidential adviser, Bülent Gedikli, said a stronger lira put exports at risk and called for the central bank to take action.

“Given that we implement a floating rate regime, it is wrong to say that the exchange rate is low or dangerous. The market can make a very rapid correction,” he said, adding he was fine with the lira level set by the market.

Ertem said the central bank was maintaining tight monetary policy and its use of an interest rate corridor enabled it to rapidly adjust the average cost of funding, rather than just depend on changes to the policy rate.

“In this sense we should leave behind debate about whether the central bank will cut rates or not,” he said. “Everyone wants low interest rates, the real sector, banks, the Central Bank and the political side,” he said, but added it was a matter for the central bank to deal with the “market reality”.

He said Turkey would continue to make use of its Credit Guarantee Fund and may seek to focus its allocation on high-tech and intermediate goods producers. In March the government raised the size of the fund, which guarantees loans to small and medium-sized enterprises, more than tenfold to 250 billion lira (52.80 billion pounds).

The government will also take measures to ease inflationist pressures caused by the immediate goods imports and may provide “serious support” to Turkish producers of such goods, he said.

Global financial institutions revise up Turkey’s 2017 economic growth forecast

Hurriyet Daily News, *12.09.2017*



A number of multinational financial firms and global investment banks on Sept. 11 revised up Turkey’s growth forecast for 2017, after strong second quarter growth figures.

The Turkish economy grew 5.1 percent in the second quarter of the year compared to the same period last year, the Turkish Statistical Institute (TÜK) announced earlier on Sept. 11. After the strong growth figure, Japanese financial firm Nomura revised Turkey’s growth estimate for 2017 to 5.5 percent, up from a previous 4.2 percent.

“Investment spending - particularly construction - and net exports were the biggest contributors to the headline year-on-year growth rate,” Nomura said in a statement. The firm added that the 10.5 percent year-on-year growth in net exports strongly contributed to Turkey’s economic growth, which was significantly higher than the 2.5 percent growth in imports.

U.S.-based financial services firm Morgan Stanley also increased its forecast for Turkey's growth rate for this year to 4.3 percent, up from 3.3 percent. The company pointed out strong lending growth and said the biggest contributions to economic activity came from private consumption, exports and capital expenditure.

Another U.S.-based multinational bank J.P. Morgan also revised its 2017 growth estimate for the Turkish economy to 5.3 percent, up from 4.6 percent. "Thanks to the rapid recovery in export performance and the continued strength in construction, the Turkish economy secured 5.1 percent year-over-year growth in the second quarter of the year," the firm said in a statement.

"This was better than our forecast of 4.8 percent," it added. U.S.-based investment bank Goldman Sachs, however, kept Turkey's growth forecast for this year unchanged at 5 percent, but added that it expects the Turkish economy to grow around 7 percent in the third quarter of 2017. "Growth is also likely to remain moderate as we go into 2018," the bank stated.

Turkey signs \$400 million loan agreement with World Bank

Hurriyet Daily News, 12.09.2017



Turkey's Treasury announced on Sept. 11 that the World Bank has lent a 350.9 million euro (\$400 million) loan to the country as part of the Resilience, Inclusion and Growth Development Policy Financing (RIG-DPF) program.

The loan agreement is signed to support Turkey's efforts to increase domestic savings, enhance economic participation among vulnerable groups and address structural bottlenecks to ensure sustainable growth, the Treasury stated. It added that the total maturity of the loan was 10 years, including a grace period of three-and-a-half years.

According to the World Bank, the policies, strategies and reform actions supported under the program center on three strategic outcomes. "The first pillar aims to increase domestic savings to help address external imbalances and reduce fiscal risks," the bank said in a press release.

"The second pillar aims to support participation of women, youth, long-term unemployed, and Syrians under temporary protection in the labor market. The third pillar aims to remove structural bottlenecks to sustainable growth," it stated, adding that this would be achieved by enacting an appropriate legal framework for the protection of industrial property.

The World Bank also said that removing structural bottlenecks would be achieved by improving the allocation of capital, by facilitating access to credit for small and medium enterprises, and by deregulating network industries through the liberalization of the railways sector.

Turkish Central Bank holds key rates amid inflation bump

Anadolu Agency, 14.09.2017



The Turkish Central Bank left its key interest rates on hold for the third straight meeting on Sept. 14, keeping monetary policy tight after annual inflation rose back to double digits last month.

The bank kept its late liquidity window, the highest of the multiple instruments it uses to set policy, at 12.25 percent and the benchmark repo rate at 8 percent."Current elevated levels of inflation and developments in core inflation indicators pose risks on the pricing behavior.

Accordingly, the committee decided to maintain the tight stance of monetary policy," the bank said in a statement. "The Central Bank will continue to use all available instruments in pursuit of the price stability objective. Tight stance in monetary policy will be maintained until inflation outlook displays a significant improvement. Inflation expectations, pricing behavior and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered," it added.

Turkey's annual inflation rose more than expected to 10.68 percent in August, data showed on Sept. 5, fueled by rising transport and core prices. Inflation has now been in double digits for six out of eight months this year and remains one of Turkey's most pressing economic problems.

The bank also kept its overnight lending rate at 9.25 percent and overnight borrowing rate at 7.25 percent, as expected.

Turkey's machinery exports hit \$9.4 bln in 8 months

Hurriyet DailyNews, 10.09.2017



Turkey's machinery exports rose by 6.8 percent to \$9.4 billion in the first eight months of the current year compared with the same period last year.

While Turkey reached its all-time highest exports for August, the share of the machinery sector in total exports was almost 10 percent, the Machinery Exporters' Association (MAIB) said on Sept. 8. "Almost all product groups' exports increased during this period, and the increase in turbine, turbojet and hydraulic cylinder exports surged 60 percent," MAIB said in a statement.

The greatest demand for Turkish machines came from Germany and the United States. Total machine exports to these two countries exceed \$2 billion. "We see that the global political tension due to the increase of geopolitical risks has directly affected the demand for investment goods worldwide. We were able to increase our exports in this critical period that shows confidence in Turkish machines," said Adnan Dalgakıran, the association's executive board chairman.

Turkish PM indicates \$300 bln investment, mainly on transport, in next decade

Hurriyet Daily News, 11.09.2017



Turkish Prime Minister Binali Yıldırım said on Sept. 10 that \$300 billion worth of investments will be made in the country in the next 10 years.

Yıldırım said \$100 billion of investment will be made in the transport sector in the next decade in Turkey, as he addressed a meeting of businessmen and representatives of non-governmental organizations in the northwestern province of Eskişehir. He said \$100 billion each will be invested in health technology, information, communication and virtual reality sectors. "I am talking about \$300 billion of investment.

And I am not talking about the distant future, I am talking about the next 10 years,” he said. “We are working to make our country a center for global investors,” he added. He noted that the ruling Justice and Development Party (AKP) had identified all the hurdles foreign investors faced in Turkey, and had removed them one-by-one. He said that in the last 15 years, \$186 billion of global direct investment was made in Turkey.

Turkey’s economic growth forecast revised for 2017

Anadolu Agency, 12.09.2017



A number of multinational financial firms and global investment banks on Monday revised Turkey’s growth forecast for 2017, after the country’s second quarter growth rate came strong.

The Turkish economy grew 5.1 percent in the second quarter of the year, compared to the same period last year, the Turkish Statistical Institute (TurkStat) announced earlier on Monday. After the strong growth figure, Japanese financial firm Nomura revised Turkey’s growth estimate for 2017 to 5.5 percent, from 4.2 percent.

“Investment spending -- particularly construction -- and net exports were the biggest contributors to the headline year-on-year growth rate,” Nomura said in a statement.

The firm added that the 10.5 percent year-over-year growth in net exports strongly contributed to the economic growth, which was significantly higher than 2.5 percent of growth in imports. U.S.-based financial services firm Morgan Stanley also increased its forecast for Turkey’s growth rate for this year to 4.3 percent, from 3.3 percent.

The company pointed out strong lending growth, and said the biggest contributions to economic activity came from private consumption, exports and capital expenditure. Another U.S.-based multinational bank J.P. Morgan also revised its 2017 growth estimate for the Turkish economy, to 5.3 percent, from 4.6 percent. “Thanks to the rapid recovery in export performance and the continued strength in construction, the Turkish economy secured 5.1 percent year-over-year growth in the second quarter of the year,” the firm said in a statement.

“This was better than our forecast of 4.8 percent.”

U.S.-based investment bank Goldman Sachs, however, kept Turkey’s growth forecast for this year unchanged at 5 percent, but added that it expects the Turkish economy to grow around 7 percent in the third quarter of 2017. “Growth is also likely to remain moderate as we go into 2018,” the bank said.

Lira hits highest value against US dollar in year

Anadolu Agency, 11.09.2017



Turkey's lira continued its recovery against the U.S. dollar on Monday, after the country's official statistics authority announced soaring economic growth.

The dollar/lira exchange rate dropped to 3.3986 by around 11 a.m. local time (0800GMT) Monday, down from 3.4080 at Friday's close. The fall came shortly after the Turkish Statistical Institute reported 5.1 percent economic growth for the second quarter the year and an above 1 percent rise in the country's benchmark stock index, the BIST 100. Since the beginning of September, the exchange rate has fallen by 1.86 percent.

A dollar was exchanged for 3.51 lira on average last month, while the average during the first eight months was 3.61. The dollar/lira rate saw sharp fluctuations after last year's July 15 defeated coup and climbed to an historic hike -- around 3.94 liras -- in mid-January. According to Turkish Central Bank data, the dollar/lira rate was 3.02 on average last year and 2.71 on average in 2015.

Greek PM vows bailout exit in 2018, help for workers, youth

Hurriyet Daily News, 10.09.2017



Greece will exit successfully its bailout program in 2018 helped by strong growth, Prime Minister Alexis Tsipras said on Sept. 9, vowing to support workers, young Greeks and small businesses as the economy recovers.

Addressing a Greek public worn out by austerity and sceptical after years of reform efforts have failed to fix the country's woes, Tsipras said his leftist-led government would do whatever it takes to end lenders' supervision next year. "The country, after eight whole years, will have exited bailouts and suffocating supervision.

That's our aim," Tsipras said in his annual policy speech in the northern city of Thessaloniki. "We are determined to do everything we can." Greece's current international bailout, worth 86 billion euros, expires next year. Tsipras' term ends a year later.

Tsipras said Athens would continue to outperform its fiscal targets and fight endemic tax evasion to create fiscal room for tax cuts that would alleviate the burden on businesses and households, long squeezed by the debt crisis.

Greece has received about 260 billion euros in bailout aid from its eurozone partners and the International Monetary Fund since 2010 in return for draconian austerity which has wiped out a quarter of its output and cut tens of thousands of jobs.

Unemployment stood at 21.2 percent in June, the eurozone's highest, with young Greeks the hardest hit. Greece's economy is expected to grow by about two percent in 2018, a sign that sacrifices are bearing fruit, Tsipras said outlining initiatives to boost employment and fight a brain drain.

A march of thousands of workers was largely peaceful outside the venue where he spoke. Tsipras said the state would give financial incentives to employers to hire more younger workers and spend 156 million euros to subsidize social security contributions of employers who will turn contractors into full-time staff.

Unregistered work and contract jobs have increased during the debt crisis, as businesses are desperate to cut costs. The government will also pay 100 million euros to subsidise unpaid workers in struggling sectors and businesses, he said, promising to fight labor law violations.

The 43-year old leader, whose Syriza party is sagging in opinion polls, was catapulted to power in 2015 promising to end the belt-tightening and tear up the bailouts. After months of tough talks with lenders, he signed up to a new bailout in exchange for further austerity.

Russia, Turkey, Iran agree on Syria de-escalation zones

Hurriyet Daily News, 15.09.2017



Russia, Turkey and Iran have agreed to set up de-escalation zones in Syria for six months, negotiators for the three nations said in a joint statement on Sept. 15 after talks in Kazakhstan.

The zones will include, fully or partly, Eastern Ghouta, the provinces of Idlib, Homs, Latakia, Aleppo and Hama, according to the statement. The six-month term may be extended in the future. Russia, Iran and Turkey also agreed to deploy observers around the de-escalation zone in northern Syria's Idlib region.

“Observers from these three countries will be deployed at check and observation points in safe zones that form the borders of the de-escalation zone,” the ministry said in a statement. “The main mission of these observers has been defined as the prevention of clashes between the regime and the opposition forces and any violations of the truce”.

Russia ‘may partially resume tomato imports from Turkey in October’

Hurriyet Daily News, 12.09.2017



Russia’s Agriculture Ministry and Russia’s agriculture safety watchdog are considering partially resuming tomato imports from Turkey in October until April or May next year, the Kommersant daily reported on Sept. 11.

Kommersant cited the manager of a large vegetable producer in Russia and several representatives of the industry’s lobby group saying supplies could start from several Turkish firms approved by Russia’s watchdog Rosselkhoznadzor. The supplies may start in October and continue until April or May, 2018, according to sources cited by the Russian newspaper.

According to estimates of market participants, Turkey may supply between 100,000 tons and 300,000 tons of tomatoes to Russia until next summer, Kommersant reported.

On June 2, Russian Prime Minister Dmitry Medvedev signed a decree lifting the ban on some agricultural produce and Turkish companies involved in construction, engineering and tourism in the aftermath of the downing of a Russian fighter jet in 2015. Following the lifting of the sanctions, only two restrictions are left for Ankara: The issue of visa-free travel for Turkish citizens and tomatoes.



Norway's wealth fund hits record \$1 trillion

Reuters, 12.09.2017



The value of Norway's sovereign wealth fund, the world's largest, hit \$1 trillion for the first time on Sept. 12 as booming global stock markets and a rising euro lifted its assets.

Established in 1998 to save oil and gas revenues for future generations, the wealth fund is now worth about 2.5 times Norway's annual gross domestic product, against original projections it would peak at 1.3 times of GDP in the 2020s. At 10:34 GMT, a live update on the fund's website showed its value at 7.851 trillion Norwegian crowns (\$1 trillion).

Run by a unit of the central bank, the fund invests all its money in foreign stocks, bonds and real estate, with holdings spread among 77 countries. Almost two thirds of assets were held in equities at the end of the second quarter, with stakes in about 9,000 companies, giving it control over 1.3 percent of all globally listed stocks.

By contrast, Norway's population of 5.3 million people corresponds to less than 0.1 percent of the world's population. The fund's rapid rise has made more money available for public spending under parliament's budget framework.

Under a recently revised fiscal rule, governments can spend 3 percent of the fund's value per year, corresponding to 235 billion crowns of the current size. The 2017 budget earmarks 221 billion for spending, or 2.8 percent of the value.

China invests \$9.1 bln in Rosneft as Glencore, Qatar cut stakes

Hurriyet Daily News, 10.09.2017



Chinese conglomerate CEFC will buy a 14.16 percent stake in Russian oil major Rosneft for \$9.1 billion from a consortium of Glencore and the Qatar Investment Authority, strengthening the energy partnership between Moscow and Beijing.

CEFC China Energy has grown in recent years from a niche oil trader into a sprawling energy conglomerate and the transaction will allow China, the world's second largest energy consumer, to boost cooperation with the world's top oil producer.

The deal comes as the United States imposes a new round of economic sanctions on Russia, making it difficult for large Western firms such as Glencore to develop partnerships and increase ties with state-owned firms such as Rosneft.

Glencore said in a statement that CEFC will buy shares at a premium of around 16 percent to the 30-day volume weighted average price of Rosneft shares without naming the price. A CEFC spokesman said the company would pay \$9.1 billion.

Rosneft's market capitalization stands at \$57 billion and the deal makes it one of the largest investments ever made by China into Russia. Glencore and QIA will retain stakes of 0.5 percent and 4.7 percent in Rosneft respectively. The Kremlin has been seeking to expand its ties with China, especially since the West imposed wide-ranging sanctions on Moscow to punish it for the annexation of Crimea and an incursion into east Ukraine in 2014.

Russia tops the list of Chinese crude suppliers where it competes with its arch-rival Saudi Arabia, the world's largest oil exporter. Glencore and QIA agreed to buy a 19.5 percent stake in Rosneft in December 2016 for over 10.2 billion euros to help the Kremlin plug budget holes.

The transaction coincided with expectations of political detente between Moscow and Washington after Donald Trump became U.S. president and pledged to improve ties with Moscow. Rosneft is run by Igor Sechin, a close ally of President Vladimir Putin, who awarded special state decorations to the head of Glencore Ivan Glasenberg for executing the transaction.

Putin also awarded state decorations to the Russian head of Italian bank Intesa SanPaolo, Antonio Fallico, for helping fund the deal with a 5.2 billion euro loan. The transactions has, however, raised a lot of questions among bankers and market analysts.

Glencore and QIA never disclosed the final beneficiaries of the stake and Intesa could not syndicate the loan from other banks to share risks as most lenders declined to get involved because of new sanctions on Russia. Intesa said its 5.2 billion euro loan will be reimbursed following the CEFC deal.

“It always looked as if the Qatar-Glencore deal was hastily arranged so as to allow the privatization to take place by the end of last year and the proceeds booked to the federal budget,” said Chris Weafer from Macro Advisory consultancy. Last month, Washington imposed further sanctions on Moscow in the strongest action against Russia since 2014 - in part as a response to conclusions by U.S. intelligence agencies that Russia meddled in the presidential election.

On Sept. 8, Sechin said QIA and Glencore cut the stakes partially because of a decline in the U.S. dollar against the euro, which made debt servicing more expensive. Sechin told reporters CEFC would get access to Rosneft’s oil fields and petrochemical projects in East Siberia to guarantee bigger synergies.

“From Rosneft’s point of view, the arrival of such a partner is positive as it shows that the foreign investors still keep their interest to the Russian oil industry,” said Alexander Kornilov from Aton brokerage in Moscow. CEFC said the deal would give it annual equity oil production of 42 million tons (840,000 barrels per day) and access to oil and gas reserves of 2.67 billion tons (20 billion barrels).

The deal will be China’s second largest oil and gas acquisition after the \$15.1 billion purchase of Canada’s Nexen by CNOOC in 2013. Earlier this decade, Beijing also loaned \$25 billion to Russia to help it build a pipeline from Siberia.

China August factory output up 6.0%, investment up 7.8%, both miss forecasts

CNBC, 13.09.2017



China’s factory output grew 6.0 percent in August from a year earlier, while fixed-asset investment expanded 7.8 percent in the first eight months, both well below economists’ forecasts, data showed on Thursday.

Analysts polled by Reuters had predicted factory output would grow 6.6 percent in August, up from 6.4 percent in the previous month. Fixed-asset investment had been forecast to grow 8.2 percent over the first eight months of the year, which would have marked a slight moderation from 8.3 growth in January-July.

Retail sales rose 10.1 percent in August from a year earlier, the statistics bureau said, cooling from July’s 10.4 percent pace and below analysts’ expectations for a 10.5 percent increase.

Growth of private investment slowed to 6.4 percent in January-August from 6.9 percent in the first seven months of the year, suggesting small- and medium-sized private firms still face challenges in accessing financing. Private investment accounts for about 60 percent of overall investment in China. China is forecasting growth of around 9 percent in fixed asset investment for 2017, and expects retail sales to increase about 10 percent. The government is targeting annual economic growth of around 6.5 percent this year, down from the 6.7 percent pace clocked in 2016.

Analysts say Beijing should handily meet the 2017 growth target after the economy surprised many by growing at a healthy clip of 6.9 percent in the first half of the year. However, most China watchers expect activity will slow slightly in coming months as higher financing costs and property market curbs start to weigh on activity.

In the Philippines, infrastructure program could grant businesses ‘manna from heaven’

CNBC, 15.09.2017



Philippine President Rodrigo Duterte appears committed to improving the country’s infrastructure as part of economic reform plans, and that could bring about huge opportunities for businesses, Jaime Augusto Zobel de Ayala, chairman and CEO of Ayala Corporation, told CNBC.

“They really feel very keenly about making a major contribution in that sector and they’re allocating budgets accordingly to be able to push that,” Zobel de Ayala said of the Duterte administration. “That’s manna from heaven,” he added.

Infrastructure in the Philippines is lagging consumer demand, the CEO said, adding that the building campaign was a timely move considering the low interest rates and apparently stable macroeconomic environment.

Duterte has said that he is planning a \$180 billion “Build, Build, Build” infrastructure campaign. Already, the controversial leader has agreed to 21 projects worth \$16 billion, which include a revamp of Manila’s airport and other improvement operations on railways, ports and roads, Reuters reported. And despite the concerns some have expressed over the threat of disruptive technologies to industries, Zobel de Ayala expressed confidence. In fact, attaching to those areas comprises a key strategy of the business, he said.

“In the real estate market, we have a big retail portfolio and a lot of front-end retail shops. There’s no doubt e-commerce and industries supporting that will begin to change the way that sector works,” the CEO said. However, he said his company is looking to participate in the e-commerce sector, so it has begun to buy assets in that field.

Ayala is now buying into the financial technology and payments spaces, according to the CEO. Given the shift toward electric vehicles, the business is also investing in automobile-related assets, he added. With a market cap of about 575 billion Philippine pesos (approximately \$11.2 billion), Ayala is the country’s largest and oldest conglomerate. The firm has outperformed benchmarks this year, with shares up more than 9 percent in the last 12 months.

Japan’s Abe to launch \$17-bln Indian bullet train project as ties deepen

Hurriyet Daily News, 12.09.2017



After Japan’s Prime Minister Shinzo Abe will lay the foundation stone for India’s first bullet train in Prime Minister Narendra Modi’s home state this week, in a tightening of ties just days after New Delhi ended a dangerous military confrontation with China.

The move by Abe, who starts a two-day visit to India on Wednesday, highlights an early lead for Japan in a sector where the Chinese have also been trying to secure a foothold, but without much success.

Modi has made the 500-km- (311-mile-) long high-speed rail link between the financial hub of Mumbai and the industrial city of Ahmedabad in western Gujarat a centerpiece of his efforts to showcase India’s ability to build cutting-edge infrastructure. The leaders will launch the start of work on the line on Sept. 14, India’s railways ministry said in a statement.

“This technology will revolutionize and transform the transport sector,” said Railways Minister Piyush Goyal, welcoming the prospects for growth brought by Japan’s high-speed “shinkansen” technology.

In Tokyo, a Japanese foreign ministry official told reporters, “We would like to support ‘Make in India’ as much as possible,” referring to Modi’s signature policy to lure investors in manufacturing. “And for that, we want to do what’s beyond the Mumbai-Ahmedabad line and achieve economies of scale.”

India would make “all-out efforts” to complete the line by August 2022, more than a year earlier than planned, the government said this week. Japan is providing 81 percent of the funding for the 1.08-trillion-rupee (\$16.9-billion) project, through a 50-year loan at 0.1 percent annual interest.

Ties between India and Japan have blossomed as Modi and Abe increasingly see eye-to-eye in countering growing Chinese assertiveness across Asia. Japanese investment into India has surged in areas ranging from automotive to infrastructure in the remote northeast, making Tokyo its third-largest foreign direct investor.

India and Japan are also trying to move forward on a plan for New Delhi to buy Japanese amphibious aircraft - ShinMaywa Industries' US-2 - in what would be one of Tokyo's first arms transfers since ending a self-imposed embargo. Tokyo hopes that by gaining a head start on rival exporters of rail technology such as China and Germany, its companies will be able to dominate business in one of the most promising markets for high-speed rail equipment.

In 2015, China won a contract to assess the feasibility of a high-speed link between Delhi and Mumbai, part of a network of more than 10,000 km (6,214 miles) of track India wants to set up, but little progress has been made. Bullet train critics say the funds would be far better spent to modernize India's slow and rickety state-controlled rail system, the world's fourth largest. But a \$15-billion safety overhaul has hit delays as a state steel firm proved unable to fill demand for new rail.

US Producer Price Index up 0.2% in Aug, vs 0.3% increase expected

CNBC, 13.09.2017



U.S. producer prices rebounded in August, driven by a surge in the cost of gasoline, and there were also signs of a pickup in underlying producer inflation. The Labor Department said on Wednesday its producer price index for final demand increased 0.2 percent last month after slipping 0.1 percent in July.

In the 12 months through August, the PPI rose 2.4 percent after advancing 1.9 percent in July. Economists said the uptick in producer prices was unlikely to assuage Federal Reserve policymakers' concerns about low inflation,

As the increase was largely due to a 9.5 percent increase in the cost of gas. That was the largest rise since January and followed a 1.4 percent decline in July. Though gas prices could rise further in September in the wake of Hurricane Harvey, which disrupted oil refinery production in Texas, a reversal was expected because of ample crude supplies.

"Energy price gains, which will likely dominate the September inflation reports in the aftermath of Hurricanes Harvey and Irma, will likely be viewed as having a temporary impact on inflation by the Fed," said John Ryding, chief economist at RDQ Economics in New York.



Economists had forecast the PPI gaining 0.3 percent last month and accelerating 2.5 percent from a year ago. A key gauge of underlying producer price pressures that excludes food, energy and trade services rose 0.2 percent last month after being unchanged in July. The so-called core PPI increased 1.9 percent in the 12 months through August after a similar gain in July. Prices of U.S. Treasuries were trading lower, while the dollar rose against a basket of currencies. U.S. stock indexes were little changed after hitting record highs on Tuesday.

Eyes on inflation

Inflation is being closely watched for clues on the timing of the next Fed interest rate increase. Economists expect the U.S. central bank will announce a plan to start reducing its \$4.2 trillion portfolio of Treasury bonds and mortgage-backed securities at its Sept. 19-20 policy meeting.

The Fed is expected to delay raising rates until December.

August's consumer inflation report scheduled for release on Thursday is expected to show gasoline prices helped push up the Consumer Price Index by 0.3 percent after a 0.1 percent rise in July, according to a Reuters survey of economists.

Last month's increase in the PPI is unlikely to translate into a similar gain in the Fed's preferred inflation measure, the personal consumption expenditures (PCE) price index excluding food and energy. The annual increase in the core PCE has consistently undershot the central bank's 2 percent inflation target since mid-2012. The core PCE rose 1.4 percent in July, the smallest year-on-year increase since December 2015.

The cost of food fell 1.3 percent as wheat prices recorded their biggest drop since April 2008. The decrease in food prices last month was the largest since February 2015 and followed an unchanged reading in July. There were also declines in the prices of fresh vegetables, fruits and meat. Core goods prices rose 0.2 percent last month after slipping 0.1 percent in July. The cost of services edged up 0.1 percent after falling 0.2 percent in July. A 1.7 percent surge in the cost of consumer loans accounted for more than half of the increase in the price of services last month.

The cost of healthcare services increased 0.3 percent after a similar gain in July.

"This morning's producer price gains for August are a step in the right direction," said Scott Anderson, chief economist at the Bank of the West in San Francisco. "However, they are not yet quite as strong or as broad-based as the Federal Reserve would like to see to help push core consumer price inflation back up to the Fed's 2 percent target."

UK unemployment hits new 42-year low

The Guardian, 13.09.2017



Britain's unemployment rate has fallen to a new year 42-year low, official data showed on Sept. 13, but wages growth remains far below overall inflation.

The unemployment rate fell to 4.3 percent in the quarter through to the end of July, reaching the lowest level since 1975, the Office for National Statistics (ONS) said in a statement. It had stood at 4.4 percent in the three months to June. Employment reached a new record high of 32.1 million workers, as the number of people in jobs increased by 181,000 in the three months to July 2017.

A total of 1.46 million people were recorded unemployed at the end of July, down 175,000 on a year earlier. But growth in wages continue to lag behind Britain's annual inflation rate, which ONS statistics on Sept. 12 showed had jumped to 2.9 percent in August from 2.6 percent in July.

Average weekly earnings rose by 2.1 percent year-on-year in the three-month period to July, below the Bloomberg consensus estimate of 2.3 percent.

The combination of rising inflation and stagnating wage growth meant that real wages fell by 0.4 percent, further reducing purchasing power in the U.K. "Job creation is a huge U.K. success story," said Ian Stewart, chief economist at Deloitte. "Despite Brexit uncertainties and slower growth, the U.K. continues to generate ever lower unemployment and ever more jobs."

Despite the strong jobs growth, there is concern that weak wages growth is starting to hurt consumption, reducing the chances of interest rate tightening from the Bank of England that would give a lift to savers. The government on Sept. 12 signaled its intention to raise salaries for all public sector workers by more than a 1.0-percent cap in place during several years of state austerity.

The first to benefit are police officers, who will see their pay increase by 2.0 percent, and prison officers, who are receiving a 1.7-percent hike. But the POA prison officer union branded the move a pay cut in real terms, reflecting a wider frustration at loss of purchasing power in the U.K.



Harvey's hit to mortgages could be four times worse than predicted—and then there's Irma

CNBC, 13.09.2017



As homeowners in Houston struggle to dry out and rebuild, they may also struggle to make payments on their mortgages.

New estimates suggest as many as 300,000 borrowers could become delinquent on their loans and 160,000 could become seriously delinquent, that is, more than 90 days past due, when banks initiate foreclosure proceedings. This from Black Knight Financial Services, which compared mortgaged properties in the FEMA-designated disaster areas in Houston to those in Hurricane Katrina, and the resulting delinquencies in the four months following Katrina.

That is four times the original prediction because new disaster zones were designated and more homes flooded when officials released water from reservoirs to protect dams. The total number of mortgaged properties in disaster zones is 1.18 million. Houston disaster zones contain twice as many mortgaged properties than Katrina zones, with four times the unpaid principal balance.

After Hurricane Katrina, mortgage delinquencies in Louisiana and Mississippi disaster areas spiked 25 percentage points. The same could happen in Houston, as borrowers weigh their options. They will get some federal relief, but if rebuilding would cost more than the principal in their homes, they could decide to walk away.

In Florida, the sheer volume of homes hit by Hurricane Irma will likely cause an increase in mortgage delinquencies, but the comparison with Katrina does not work because of the different natures of the storms. Florida did not see sustained flooding, although there was considerable wind damage, especially in the Keys.

There are 2.08 million mortgaged properties in Irma-related FEMA disaster areas, more than four times that of Katrina and twice as many as Harvey. Total unpaid mortgage balances for Irma areas are \$370 billion. If the correlation worked, there could have been half a million mortgage delinquencies in Florida, but, again, the storms were different. This is not to say, however, that Florida will not see a hit to mortgages in the coming months. It is just harder to quantify how many.

Florida borrowers likely have more insurance and less exposure to loss, but for those homes with the most damage, homeowners will be making the same calculation. Another issue in Florida is that even a decade later, the housing market is still recovering from the foreclosure crisis. Five percent of Florida borrowers still owe more on their mortgages than their homes are worth, and an additional 5 percent have very little equity in their homes. Home prices in Fort Myers, which saw considerable flooding from Irma, are still 29 percent below what they were during the housing boom.



While the numbers are ominous, the mortgage market is far different today than it was during the housing crisis. Lenders have better systems in place to deal with delinquent loans, and they are more likely to offer borrowers, even seriously delinquent borrowers, options to catch up. The biggest risk to lenders will be in Houston, where some homeowners may see no good reason to stay.



Announcements & Reports

Precautionary recapitalisation: time for a review?

Source : Bruegel
Weblink : <http://bruegel.org/2017/07/precautionary-recapitalisation-time-for-a-review/>

Trends in Extremist Violence and Terrorism in Europe through End-2016

Source : CSIS
Weblink : <https://www.csis.org/analysis/trends-extremist-violence-and-terrorism-europe-through-end-2016>

Actualising East: India in a Multipolar Asia

Source : Brookings
Weblink : <https://www.brookings.edu/research/actualising-east-india-in-a-multipolar-asia/>

Upcoming Events

13th Asia Europe Economic Forum (AEEF)

Date : 26 September 2017
Place : Beijing - China
Website : <http://bruegel.org/events/13th-asia-europe-economic-forum/>

Emerging Markets and Europe: Time for Different Relationships?

Date : 27 September 2017
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/524-emerging-markets-and-europe-time-for-different-relationships/>

What future for Europe's Social Models?

Date : 27 September 2017
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/526-what-future-for-europes-social-models/>

Challenges for Growth in Europe

Date : 27 September 2017
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/521-challenges-for-growth-in-europe/>



Global Governance of Public Goods: Asian and European Perspectives

Date : 28 September 2017
Place : Paris - France
Website : <http://www.bruegel.org/nc/events/event-detail/event/529-global-governance-of-public-goods-asian-and-european-perspectives/>

The Future of the Welfare State

Date : 28 September 2017
Place : Berlin - Germany
Website : <http://www.bruegel.org/nc/events/event-detail/event/541-the-future-of-the-welfare-state/>

Vision Europe Summit 2016

Date : 28 September 2017
Place : Lisbon - Portugal
Website : <http://bruegel.org/events/vision-europe-summit-2016/>