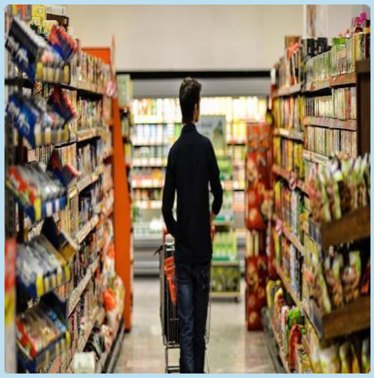
Turkey's annual inflation at 12.15 percent in May

Anadolu Agency, *04.06.2018*



Consumer prices in Turkey rose 12.15 percent in May, year-on-year, according to the Turkish Statistical Institute (TurkStat) on Monday.

The May figure was up from 10.85 percent in April, the data revealed. The highest annual increase was seen in transportation, up 20.02 percent. "Furnishing and household equipment with 16.87 percent, miscellaneous goods and services with 15.38 percent, hotels, cafes and restaurants with 12.51 percent and housing with 11.24 percent were the other main groups where high annual increases realized," TurkStat said.

Last week, Anadolu Agency Finance Desk's survey of 21 economists predicted an annual inflation of 12.11 percent for May and an average 1.59 percent monthly increase in consumer prices. The data revealed that clothing and footwear posted the highest monthly rise with 5.21 percent. "In May 2018, the indices rose for transportation, 2.32 percent, for miscellaneous goods and services, 2.06 percent, for hotels, cafes and restaurants and for food and non-alcoholic beverages, 1.45 percent," TurkStat said. It added there was no decrease in the main expenditure groups in May 2018, saying: "The least monthly increase was in alcoholic beverages and tobacco with 0.15 percent amongst main expenditure groups." The next release on consumer price index is due on July 3.

World Bank forecasts 4.5 percent 2018 growth in Turkey

Anadolu Agency, *06.06.2018*

The World Bank has forecasted that the Turkish economy will grow to 4.5 percent in 2018 in its June 2018 Global Economic Prospects report. While the new estimate is higher than the Bank's previous estimate at 3.5 percent in its previous semi-year outlook, which was released in January, it is higher than the Bank's estimate at 4.7 percent, which was announced on May 8 in the Bank's regional outlook.

Turkey's economy would grow at 4 percent in 2019 and 2020, according to the World Bank forecasts in the latest report. "In Turkey, growth is forecast to slow to 4.5 percent in 2018 and to 4 percent in 2019.

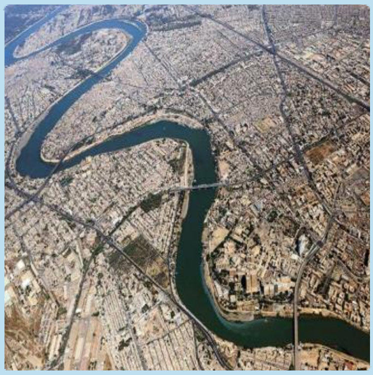
As delays in fiscal consolidation and the extension of the credit support program temper an anticipated slowdown following the strong recovery last year" the Bank said in its report, which was released late on June 5. "In countries with current account deficits such as Turkey, filling external financing needs could become challenging," the report warned. Growth in the Europe and Central Asia region is projected to moderate to an upwardly revised 3.2 percent in 2018 and edge down to 3.1 percent in 2019 as a modest recovery among commodity exporting economies is only partially offset by a slowdown among commodity importers. "A disorderly tightening of global financial conditions could trigger a sharp deterioration of external financing conditions and lead to a reversal of capital flows and weakening economic activity," the Bank warned for the region.

"An escalation of policy uncertainty could dampen economic activity in the region. Policy disputes among European Union members and EU institutions could deter international investors. Finally, since the region is open to trade and is integrated into global supply chains, it would be vulnerable to a rise in global protectionism," it added. 'Emerging, developing economies to accelerate'. Despite recent softening, global economic growth will remain robust at 3.1 percent in 2018 before slowing gradually over the next two years, as advanced-economy growth decelerates and the recovery in major commodity-exporting emerging market and developing economies levels off, the World Bank also said. "If it can be sustained, the robust economic growth that we have seen this year could help lift millions out of poverty, particularly in the fast-growing economies of South Asia," World Bank Group President Jim Yong Kim said. "But growth alone won't be enough to address pockets of extreme poverty in other parts of the world. Policymakers need to focus on ways to support growth over the longer run—by boosting productivity and labor force participation—in order to accelerate progress toward ending poverty and boosting shared prosperity."

Activity in advanced economies is expected to grow 2.2 percent in 2018 before easing to a 2 percent rate of expansion next year, as central banks gradually remove monetary stimulus, the June 2018 Global Economic Prospects said. Growth in emerging market and developing economies overall is projected to strengthen to 4.5 percent in 2018, before reaching 4.7 percent in 2019 as the recovery in commodity exporters matures and commodity prices level off following this year's increase. "This outlook is subject to considerable downside risks. The possibility of disorderly financial market volatility has increased, and the vulnerability of some emerging market and developing economies to such disruption has risen," the Bank said. Trade protectionist sentiment has also mounted, while policy uncertainty and geopolitical risks remain elevated, the Bank added. The report urges policymakers to implement reforms that lift long-term growth prospects. "A rapidly changing technological landscape highlights the importance of supporting skill acquisition and boosting competitiveness and trade openness. Improving basic numeracy and literacy could yield substantial development dividends," the report said. "Finally, promoting comprehensive trade agreements can bolster growth prospects," it added.

Turkish dam project deepens anxiety in Iraq over water shortages

Reuters, *05.06.2018*



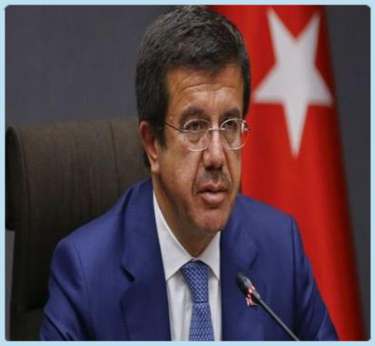
Turkey has started holding back water behind its Ilisu dam, a step that has alarmed neighboring Iraq, a major trade partner that faces what its government says is a water crisis.

Turkey's ambassador in Baghdad sought to ease concerns in Iraq. "This is an important matter for both countries," Fatih Yildiz told a news conference. "We will not take any step without consultation with the neighboring country on how we can cooperate and provide support during any problem." The Ministry of Forest and Water Management spokesman said Turkey was "partially" filling the dam's basin by closing one of the valves on the first of three diversion tunnels.

The second tunnel will probably be sealed three months later and the third shut more than six months later, the spokesman said. The current operations will not affect the flow rate on the Tigris, the spokesman said. Around 70 percent of Iraq's water resources in Iraq flow from neighboring countries, especially in the Tigris and the Euphrates rivers. Both flow through Turkey. Iraqi media are raising alarm bells. The country is already suffering from a drought that has reduced water levels in lakes and rivers. Much of the blame has been directed at Turkey. Yildiz stressed that Turkey wants to support Iraq. One example, he said, was Ankara had agreed to delay holding water behind the dam by three months until early June. A bloc led by nationalist cleric Moqtada al-Sadr scored a surprise victory in a parliamentary election last month. Whoever leads the new administration will face pressure to resolve the dam issue.

Gov't taking steps to bring down inflation rate

Hurriyet Daily News, *06.06.2018*



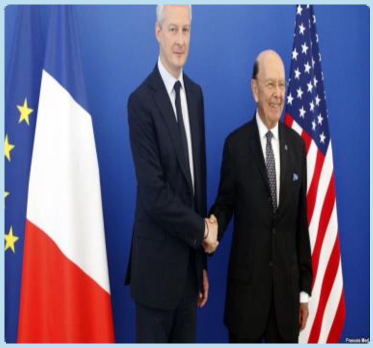
Turkey's Economic Coordination Committee, under the chairmanship of Prime Minister Binali Yıldırım, has taken steps to decrease the inflation rate to single digits, Economy Minister Nihat Zeybekci said on June 6.

"The released inflation figures were, of course, not the numbers we were predicting for the first half of the year in the medium-term program," Zeybekci stressed, referring to the rise in inflation posted in May. "We will raise product supply, support greenhouses, minimize agricultural production losses, and avoid speculation," he added.

Zeybekci said they would regulate processes of classifying, packing, storing, and transporting products to reduce losses, adding that inflation stems from the paucity of production and supply, not from demand surplus. "The fight against inflation is the top priority for us. We never choose between 'growth or inflation' ... Both are absolutely indispensable for us," he added. The country's annual inflation rate was 12.15 percent in May, up from 10.85 percent in April, according to the Turkish Statistical Institute. Zeybekci also underlined that incentives will support investments in order to reduce foreign dependency. A 135 billion Turkish Lira ($33.6 billion) incentive package, which will support 23 projects by 19 selected Turkish firms, was revealed in April. It is expected that the incentive package will narrow Turkey's current deficit by nearly $19 billion as they are expected to boost exports by $6.3 billion and cut imports by $12.3 billion.

France, Germany, Britain request exemptions from U.S. Iran sanctions

Rferl, *07.06.2018*



In a letter to top U.S. administration officials, European signatories to the 2015 nuclear deal with Tehran have asked the United States to spare EU firms doing business with Iran from punitive measures.

The foreign and finance ministers of Germany, France, and Britain, as well the European Union foreign-policy chief made the call in a letter, dated June 4, to U.S. Treasury Secretary Steven Mnuchin and Secretary of State Mike Pompeo. The move comes after President Donald Trump withdrew the United States from the deal with Iran early last month.

And that was threatened to reinstate trade sanctions on Iran and impose so-called secondary sanctions on companies that kept doing business with it. European powers are now scrambling to save the agreement, which imposes restrictions on Iran's nuclear activities in exchange for lifting crippling economic sanctions. "As allies, we expect that the United States will refrain from taking action to harm Europe's security interests," the European officials said in the letter, which French Economy Minister Bruno Le Maire posted on Twitter. They singled out key areas they want exempted from U.S. punitive measures, including pharmaceuticals, health care, energy, automotive, civil aviation, infrastructure, and banking. Iran should not be cut out of the SWIFT system for international money transfers, the letter also said. Several major companies such as France's Total and the Netherlands' Maersk have said it will be impossible to stay in Iran once the sanctions are fully reimposed over the next six months, unless they receive explicit exemptions from Washington. News of the European initiative comes a day after Iran said it began work on increasing its uranium-enrichment capacity, in case the 2015 accord collapses.

Ali Akbar Salehi, head of the Iranian Atomic Energy Organization, said on June 5 that the country was developing infrastructure to build advanced centrifuges at the Natanz nuclear facility The agency has informed the UN atomic agency of the move, but said it would remain within the rules of the deal. A spokesman for the International Atomic Energy Agency (IAEA) said the agency received a letter from Iran on June 4 informing it that there was a "tentative schedule to start production of UF6," referring to uranium hexafluoride, the feedstock for centrifuges. Following Iran's announcement, French President Emmanuel Macron called on "everyone to stabilize the situation and not give into this escalation," saying it "would lead to only one thing: conflict." He said that the Iranian decision to expand its nuclear infrastructure did not constitute grounds for quitting the 2015 agreement. Iran's announcement "shows that when you decide to unilaterally end an accord it does not encourage the other party to respect it," the French president also said in a blunt rebuke to Trump and his decision to withdraw from the deal. On June 6, French Foreign Minister Jean-Yves Le Drian said that Iran's initiative was "unwelcome."

"It is always dangerous to flirt with the red lines, but the initiative taken...remains totally within the framework of the Vienna [nuclear] deal," Le Drian told Europe 1 radio. However, the minister warned that if Tehran were not to abide by the terms of the deal, then Europe would also be forced to pull out and reimpose sanctions. The nuclear agreement, aimed at preventing Iran from developing nuclear weapons, sets strict limits on Iran's uranium enrichment. Tehran insists its nuclear program is entirely peaceful.

Kenya makes first crude oil export

Anadolu Agency, *03.06.2018*

Kenya on Sunday made history by exporting its first ever batch of crude oil. President Uhuru Kenyatta flagged off trucks laden with oil from the Ngamia 8 oil well in northern Kenya's Turkana County. Kenyatta said:

"This flag-off event and the anticipated implementation of the Early Oil Pilot (EOP) Scheme marks the beginning of a long and fruitful journey." He said that Kenya's joining of oil exporting countries and kicking off the production of petroleum products will strengthen the existing economic and commercial partnerships and enhance the opportunities for growth and investments within the country.

"My government will therefore focus on the development of our oil and gas sectors for the betterment of the economy and people," Kenyatta added. Landlocked countries in East Africa are set to be the immediate beneficiaries of the Kenyan oil. Kenyatta said that his government will manage the oil well to prevent internal conflicts. "The negative competition for oil and other natural resources has seen peaceful countries go to war. It has seen brothers take up arms against each other as mothers bury their children with no hope for the future. "Seventy-five percent of the revenue from the production and export of oil will go to all the Kenyan people through the national government. Twenty percent will go to the county government of Turkana, while five percent is reserved for the local community." The presidential office said that Kenya embarked on the exploration of petroleum in Turkana County in 2012. Under the Early Oil Pilot Scheme, 2,000 barrels of oil per day will be transported to Mombasa by road for eventual shipment. Kenyatta said that Turkana region, which is among the driest places in Africa with the harshest climate, now has a bright future.

China is working to change global commodities trading — to its own benefit

CNBC, *30.05.2018*

Chinese exchanges are wooing international commodities traders in a bid to overtake longstanding benchmark prices many of which are set in Europe and the U.S. reflecting ambitious plans by the world's second-largest economy to expand its influence overseas.

In the last few months, Chinese exchanges have opened up the trading of derivatives products for a few major commodities to international participants. Those include crude oil futures on the Shanghai International Energy Exchange, iron ore futures on the Dalian Commodity Exchange and palm olein futures on the APEX.

Palm olein is a widely traded palm oil compound used in cooking and baking. "Right now, China's market is more like a domestic market. We are [now] going out to internationalize China's futures market," said Eugene Zhu, CEO of APEX. The APEX is not just an offshore exchange for Chinese futures participants — as the Chinese face capital restrictions on overseas investment. Instead, the exchange offers global investors a complementary product to the yuan-denominated palm olein futures already on the Dalian Commodity Exchange, Zhu said. The palm olein futures on the APEX, meanwhile, are dollar-denominated "There will be arbitrage opportunities and it will help to generate more volume for all the exchanges," Zhu said That is particularly as there is keen international interest in what moves the market in China, said Zhu, who previously headed the Dalian Commodity Exchange and the China Financial Futures Exchange. Although palm oil futures are heavily traded on Bursa Malaysia Derivatives, palm olein futures have not taken off on the exchange as they were denominated in the Malaysian ringgit, which has suffered volatility due to political factors and the oil price slump in recent years.

APEX palm olein has been doing well since its launch, with tens of thousands, if not well over 100,000 lots traded each day since the product's launch. Bursa Malaysia pushed out its own redesigned dollar-denominated palm olein futures a day before APEX's opening, but that product is only seeing tens of lots traded daily. Trading volumes on the APEX's palm olein contracts were looking good after just a week of trading and stood a good chance of taking off, said David Ng, a derivatives specialist at Phillip Futures in Kuala Lumpur Bursa Malaysia said it introduced its dollar-denominated palm olein contract to promote a "more inclusive trading community" that is in line with enhancing product diversity on the exchange, the exchange said in an email to CNBC A key difference between the Malaysian palm olein contract and APEX's is the requirement that the Malaysian product delivered can be traced to sustainable sources up to the crushing mills, said Bursa Malaysia. Sustainability is an issue in the palm oil industry as the widely used commodity — produced primarily in Malaysia and Indonesia — is blamed for rampant deforestation and labor abuses.

The development of China's first offshore exchange came after the launch of yuan-denominated crude oil futures in March on the International Energy Exchange in Shanghai. Those futures have already witnessed rapid growth in participation. Dalian Commodity Exchange also opened up trade in iron ore futures to global investors in May and the country has pledged to open more futures contracts to international players. APEX also plans to rollout yuan-denominated contracts and is eyeing rubber and soy products, said Zhu. Meanwhile, there is skepticism in the international trading community over the viability of Chinese yuan-denominated crude oil and iron ore futures due to the fact that the currency is not fully open to the world. There's been heavy trading in the contracts, and that's been attributed to speculators, many of whom are retail investors instead of institutional actors. Zhu, for his part, expressed little concern about the challenges faced by upstarts such as APEX. Despite a host of concerns, the Chinese are betting that the country's large trading base will create a new market with strong liquidity, eventually attracting international players, and establishing new global benchmarks.

"Exchanges have the potential to change the investing behaviors of clients and changing these behaviors is a long-term process," Zhu said in Chinese. The APEX chief made no secret that his exchange wants a role in helping China internationalize the yuan and contribute to the Belt and Road Initiative — a multi-continent investment regime meant to further Beijing's ambitions. Commodities trading hub Singapore is diplomatic about how it can position itself against upstart contracts on Chinese exchanges. The Singapore Exchange already lists iron ore futures , and says it is exploring the introduction of steel derivatives. Instead of positioning Singapore Exchange products as competitors to their Chinese counterparts, the island-state is instead pitching them to be complementary. "Companies based in Singapore can seamlessly participate in both exchanges, strengthening our mutual linkages and connectivity. We hope to grow this partnership and there are many win-win opportunities here," Chee Hong Tat, a junior minister in Singapore, said in May about the opening up of Dalian Commodity Exchange iron ore contracts to foreign trade participants.

Vested parties were quick to focus on the differences between the products of the two exchanges. The Singapore Exchange, they said, has a wider range of derivatives products, and it boasts an institutional investor base. Dalian, meanwhile, hosts more speculative retail players. "The companies who are participating in different exchanges, really, the liquidity is ready there for them to participate," said Ciaran Roe, global metals pricing manager at S&P Global Platts, a firm whose iron ore prices are used by the Singapore Exchange. But China is determined to make its mark as a powerful producer and consumer of commodities. The country has argued against U.S. and European companies setting the prices of important goods. At an industrial event in Singapore, Liu Zhenjiang, secretary general of the China Iron and Steel Association pushed for multiple global benchmarks to make prices fairer. In particular, Chinese participants argue that, as the world's largest commodities importer, China should have a greater say in pricing — and not be compelled to trade at inconvenient hours. "I have a dream. We trade in the daytime," Zhu said at the opening ceremony of the APEX exchange, referring to benchmark soy product pricing now on the Chicago Board of Trade.

China's rising emissions prove Trump right on Paris Agreement

The Hill, *05.06.2018*

Nothing horrifies the intelligentsia more than President Trump's withdrawal from the Paris Agreement on climate change. But, based on new information on China's emissions, it increasingly looks like the president made the right call.

An analysis from Greenpeace indicated that China's 2018 carbon emissions were on track to grow at the fastest rate in six years. The study, based on government data regarding the use of coal and other energy sources, shows carbon output rising 4 percent in the first quarter of this year.

Analysts are projecting similar gains over the next several quarters. The weakness of the Paris Agreement was that it was lopsided, requiring little from China and a great deal from the U.S. President Obama committed the United States to reducing carbon emissions in 2025 by 26 to 28 percent, which would have meant a substantial jump in electricity costs. By contrast, China committed to boosting non-fossil fuels to around 20 percent of its overall energy mix by 2030 (a project already underway) and a "hope" that emissions might peak at that time. As one analyst commented in the New York Times, "What China is pledging to do here is not a lot different from what China's policies are on track to deliver."

As vague as its goals were, it is becoming clear that the country is unlikely to meet them. To do so would require sacrificing growth to rein in pollution. Since the Chinese Communist Party has pledged to double China's 2010 GDP by 2020 and to create a "moderately prosperous society" by 2021, that is extremely unlikely. Fans of the Paris accord have proudly noted that China's emissions flattened between 2014 and 2016. But that reported hiatus in Beijing's long-term carbon growth occurred during a period of economic deceleration. In 2017, with a renewed push for industrial investment and output, emissions again began to grow. China is key. It is by far the world's biggest source of carbon emissions, producing more than one quarter of the global total and 81 percent more than the United States. The U.S. is the second-largest; India a distant third. Unlike China, emissions from the United States have trended lower in recent years. The peak occurred in 2005; overall net emissions in 2016 were 12.1-percent lower than in 2005, and the International Energy Agency reports another drop in 2017.

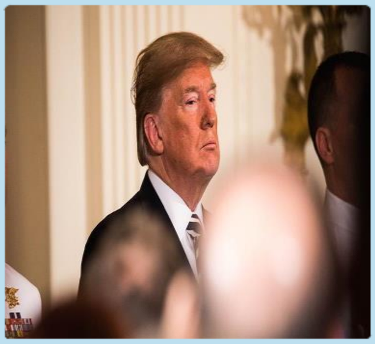
The main driver of lower emissions in the U.S. has been increased substitution of natural gas for coal in producing electric power. Cleaner natural gas became increasingly competitive with cheap coal thanks to widespread use of newly improved hydraulic fracking techniques. The United States also implemented higher fuel economy standards for automobiles, but the impact from that measure has been far more limited. Emissions in the electric power sector dropped 25 percent between 2005 and 2016, from 2,401 million metric tons (mmt) to 1,809 mmt. In transportation, the decline was a more modest 4 percent, from 1,856 mmt to 1,783 mmt. In 2017, according to the IEA, increased use of renewables for power generation was a key contributor to the decline in U.S. emissions. By contrast, in China, coal use has trended higher recently, driving emissions up. Coal consumption, according to Beijing's own (questionable) statistics, rose 0.4 percent in 2017, producing some backpedaling among those optimistic about China's compliance with the Paris accord. Others estimate the increase at between 1 percent and 5 percent.

It is difficult to know, given China's history of fudging the numbers. In the lead-up to the Paris talks, for instance, it became obvious that China was burning 17 percent more coal than it had admitted, a variance the New York Times described as "immense." Make no mistake: China is indeed attempting to reduce the blinding pollution that makes its major cities almost uninhabitable and that routinely shuts down its airports. Officials are ramping up the use of renewables and nuclear power, and they are trying to reduce their power sector's reliance on coal. This is not because of President Xi Jinping's commitment to the Paris Agreement; it is because for several years there have been escalating (illegal) protests about the foul air and water that the political elites in Beijing and Shanghai have been forced to endure. In a 2015 poll by Pew Research Center, three-quarters of Chinese respondents listed air and water pollution as "very" or "moderately" big problems; only "corrupt officials" ranked higher. China's supposed commitment to global emissions reductions is undermined by its sponsorship of coal elsewhere. The Natural Resources Defense Council reports that between 2013 and 2016, Beijing spent $15 billion building coal plants outside of China, mainly in countries included in its "One Belt, One Road" project. Another $13 billion is on tap for similar projects.

Eager to score a foreign policy achievement, Obama committed to promises that could have been met only by retarding U.S. growth. In his speech announcing his withdrawal, President Trump cited a study by National Economic Research Associates that claimed the Paris Agreement would cost the U.S. 2.7 million lost jobs by 2025, including 440,000 in manufacturing and nearly $3 trillion in lost GDP by 2040. All, according to the study, for a 0.2-degree Celsius change in global warming by the year 2100. Most important, it would have required the U.S. to hobble one of its greatest competitive weapons: its vibrant fossil fuel industries. China President Xi Jinping was undoubtedly enthusiastic about a deal that demanded few sacrifices by China but that would have cost America dearly in terms of lost growth and income. When he said at the start of last fall's 19th party congress: "No one should expect China to swallow anything that undermines its interests," he could have been referring to the Paris accord. Beijing embraces a "China First" view of the world. Thank heavens the U.S. finally has a president who puts his country's interests first as well.

Trump may force coal, nuclear plants to stay open

Anadolu Agency, *31.05.2018*



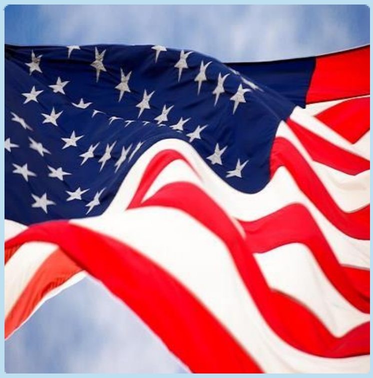
President Donald Trump has ordered the Department of Energy to investigate policies aimed at halting the shutdown of coal and nuclear power plants.

According to a memo circulated among leaders in the energy industry and leaked to multiple United States media outlets, Trump is looking into using executive powers to keep faltering coal and nuclear power plants open for purported national security reasons. "President Donald J. Trump believes in total energy independence and dominance, and that keeping America's energy grid.

Infrastructure strong and secure protects our national security, public safety, and economy from intentional attacks and natural disasters," White House Press Secretary Sarah Huckabee Sanders said in a statement Friday. "Unfortunately, impending retirements of fuel-secure power facilities are leading to a rapid depletion of a critical part of our Nation's energy mix and impacting the resilience of our power grid." The move would be unprecedented because the plants in question are at risk of closing down due to increased competition from abundant natural gas and renewable energy sources. The policy would coerce the owners of power grids across the nation to purchase electricity from coal and nuclear plants. The Trump administration confirmed Friday that it was looking into taking drastic actions to save the sputtering industry. "President Trump has directed Secretary of Energy Rick Perry to prepare immediate steps to stop the loss of these resources and looks forward to his recommendations," Sanders added. Shares of U.S.-based Peabody Energy, the largest private coal company in the world, rose nearly 5 percent Friday to close at $45.35.

US imposing metals tariffs on EU, Canada, Mexico

Bloomberg, *31.05.2018*



The U.S. announced Thursday it will impose sweeping tariffs on steel and aluminum imports coming from the European Union, Canada and Mexico after the Trump administration failed to secure concessions from close trading partners.

Commerce Secretary Wilbur Ross told reporters on a conference call that the U.S. would begin instituting a 10 percent aluminum tariff on imports and a 25 percent tariff on steel beginning Friday. Canada, Mexico and the EU had initially been granted temporary exemptions to the import penalties after President Donald Trump announced them in March.

The exemptions were made in the hopes of gaining other economic benefits for the U.S., but Ross reportedly said not enough progress had been made to warrant an extension. The White House later said talks would continue even as the penalties loomed for the U.S.'s closest allies. During an interview with the CNBC television network, Ross sought to downplay the effects of the import duties, saying: "If the market, to the degree it was surprised, it will have to adjust to that. But markets adjust to facts." But beyond markets, the economic penalties are likely to further rattle relations with some of the U.S.'s closest allies, some of whom are already facing the prospects of U.S. sanctions for seeking to abide by an agreement the U.S. and world powers brokered with Iran but which Trump pulled the U.S. out of despite stiff opposition from Europe. When Trump initially made the decision to institute steel and aluminum tariffs, he did so under the pretext of national security. But the rationale has been balked at by the U.S.'s closest security partners in Europe and Canada.

Canada quickly responded by slapping duties on CA$16.6 billion of products imported from the United States while slamming the U.S. action as "totally unacceptable". Canadian Prime Minister Justin Trudeau said the national security argument used by Trump to enact the duties is “inconceivable”. Foreign Affairs Minister Chrystia Freeland, who stood beside Trudeau at a news conference in Ottawa, said Canada would enforce dollar-for-dollar “countermeasures” on U.S. imports with tariffs varying from 10 to 25 percent on a list of products beginning July 1. Products will include steel and aluminum -- Canada is the biggest supplier of the two metals to the U.S. market -- as well as mundane items like playing cards and felt pens. "This is the strongest trade action Canada has taken in the post-war era. This is a very strong response, it is a proportionate response, it is perfectly reciprocal. This is a very strong Canadian action in response to a very bad U.S. decision," Freeland told reporters.

The full list will be put online and Canadians will have 15 days to study and suggest changes. Freeland said Canada has gone to great lengths to ensure the U.S. products to be subjected to tariffs are readily available from other countries so that the price of the goods to Canadians will not be increased. According to the Office of the United States Trade Representative, Canada was the second-largest trading partner of the U.S. in 2017, with $582.4 billion in two-way trade, just a bit behind China. The United States does not produce enough steel and aluminum to satisfy its domestic needs for everything from airplanes to beer cans. In 2017, Canada supplied $7.2 billion of aluminum and $4.3 billion of steel to the United States. Across the Atlantic, European Commission President Jean-Claude Juncker vowed the bloc would respond to the measures and said they are incompatible with World Trade Organization (WTO) rules. "This is protectionism, pure and simple," Juncker said. "It’s a bad day for world trade.

"The U.S. leaves us no choice but to proceed with a WTO dispute settlement case and the imposition of additional duties on a number of U.S. imports." French Finance Minister Bruno Le Maire went a step further, warning the EU would have no choice but to "enter a trade war" with Washington over the matter. "Our U.S. friends must know that if they were to take aggressive actions against Europe, Europe would not be without reaction," he warned. The European Parliament also condemned the U.S. decision, calling on the EU to react "immediately with a firm but proportionate" response. "I am very disappointed with the U.S. decision to impose duties on steel and aluminum imports from Europe. These are unilateral and unjustified measures that will do serious harm to workers, industry and consumers on both sides of the Atlantic," EP head Antonio Tajani said in a statement. Germany also slammed Trump’s decision and argued that the tariffs were “illegal” and could not be justified with “national security” concerns. “This measure rather bears the danger of an escalation spiral, which would harm everyone,” Chancellor Angela Merkel’s spokesman Steffen Seibert said. German Foreign Minister Heiko Maas said the European Union member states will retaliate with a firm joint response. “Our response to ‘America First’ can only be: ‘Europe united’,” he said in a press release.

Trade conflicts and tariffs won't hurt U.S. economy, but they do have a dark side

CNBC, *05.06.2018*

The Trump administration's tariffs and growing trade conflicts so far are not enough to hurt the U.S. economy, but the efforts could result instead in job losses and higher prices on some goods for consumers.

The Trump administration slapped tariffs on steel and aluminum imports from Canada, Mexico and Europe last week and threatened $50 billion in tariffs on Chinese goods, with a list of affected imports expected next week. China, meanwhile, said it will end any agreement with the U.S. if the tariffs are applied.

China had agreed last month to increase its purchases of U.S. goods and services significantly. While protections on steel and aluminum would ideally increase employment in those industries, Trade Partnership Worldwide estimates instead that more jobs would be lost. In late March, the group estimated that the metals tariffs, not including Canada and Mexico, could result in a net loss of 470,000 jobs after a year or two. At the time, they said 18 jobs would be lost for every one job gained, and more than two-thirds of the lost jobs would be in production and low-skilled areas. They estimated 26,346 jobs would be added to the metals sector in the U.S., mainly in aluminum, but they estimated a loss of 495,136 jobs through the rest of the economy. "We're looking at higher costs from steel and aluminum," said Laura Baughman, president of Trade Partnership, noting costs were rising on anticipation of tariffs. "As the higher costs work their way through the economy, the first thing companies do is look for other ways to cut costs." She said because of the tax cuts many firms have plans to hire more workers but in affected industries that could change. "They're looking for other ways to cut costs," she said, but after a year or so workers would be let go. She said the industries affected by higher steel and aluminum prices include autos, tractors, appliances and everything made from metal, such as nuts and bolts. "At 25,000, 30,000 feet, you don't see much, but when you get down on the ground, you see a whole lot, and there's a lot of unintended collateral damage," said Baughman. "As prices go up, people start to lose their jobs. Demand dries up."

Should the U.S. impose $50 billion in tariffs on China and China reciprocate with tariffs on $50 billion of U.S. exports, that would potentially result in the net loss of 134,000 jobs, according to Trade Partnership. Farmers would see a hit of 6.7 percent to their net incomes, and the farm sector would lose 67,000 jobs. 'I think it's vastly offset by the fiscal stimulus that's just taking effect right now," said Greg Valliere, chief global strategist at Horizon Investment. "There [are] going to be impacts. ... I think it hurts our trading partners more than us, except in the Midwest. You look at the Midwest. They've had drought. They have fear of tariffs. Grain prices are going down. Interest rates are going up. In general, this doesn't have a big impact on the U.S. economy except in the farm belt." Bank of America Merrill Lynch economists, in a note this week, said the current "protectionist push" is similar to trade battles in the 1980s, which they said were costly and provided little benefit to the industries that were being protected. They said industries that were supposed to be helped by protections typically see little benefit after they end.

"Trade protection measures won't necessarily lead to a reduction in the trade deficit. This is partially because rising prices offset the decrease in quantities and partly because trade patterns adjust to avoid the trade barriers," the economists wrote. They said, "[I]n all cases American consumers were the biggest losers due to higher prices." In 1984, they noted that consumers paid an additional $53 billion due to import restrictions. Europe, Canada and Mexico make up almost half of U.S. steel imports, and all three retaliated with tariffs on U.S. goods. Imports were limited but tariffs were not applied on metal from South Korea, Australia, Brazil and Argentina, a combined 14 percent of steel imports. "The economic effect should be modest, but the move sends a modestly negative signal regarding the trade policy outlook," wrote Goldman Sachs economist Alec Phillips. Phillips said inflation could tick up slightly as a result.

"Although the steel tariffs represent a substantial escalation in trade protection, the total amount of trade affected is still fairly modest, at around $50 billion in imports. We estimate that these actions could raise core PCE inflation by around 3 [basis points]. By contrast, if the White House follows through with all of the tariffs it has proposed formally or informally, around $475 billion in goods would be affected, which could add around 15 [basis points] to [year over year] core PCE inflation if implemented around the same time," he wrote. Core PCE inflation was about 1.8 percent year over year in April. "Looking ahead, while we continue to remain cautiously optimistic that cooler heads will prevail and we will avoid a full scale 'trade war,' the risks have increased," the Bank of America economists wrote.

There's nothing stopping the dollar now, HSBC's chief currency strategist says

CNBC, *05.06.2018*

The U.S. dollar is a major buy and is basically unstoppable, if you listen to the advice of HSBC's chief currency strategist.

"There's nothing to stop it at the moment," David Bloom, the bank's global head of foreign exchange strategy, told CNBC's "Squawk Box Europe". "As we argued, the greenback is back, the cyclicality of the U.S. economy is superb." Bloom attributed part of his forecast to the fact that the U.S. Federal Reserve is on track to raise interest rates at a fair clip this year on the back of robust economic indicators, while other G10 central banks are constrained from doing the same.

"There's nothing I could possibly imagine that could stop the Fed in the next couple of weeks from going again, and there's nothing I could possibly imagine that's going to stop the ECB (European Central Bank) from doing nothing at its meetings," he said. "So there you've got the diversity of monetary policy: one of the engines of growth powering ahead, and the other spluttering along the tracks and needing a push by the policymakers." The dollar has rallied by more than 6 percent since mid-April, and fell to a year low of 1.1659 against the euro at the end of May before picking up slightly to 1.1716 Tuesday at 9 a.m. London time.

The bullish outlook shatters a broad consensus in January that 2018 would be another weak year for the dollar, with major lenders like Goldman Sachs predicting the greenback would continue to be "soggy" compared to other currencies. HSBC argued against this, forecasting that positive cyclical drivers would either offset or, as it now appears, overrun structural and political headwinds. The British multinational bank now points to cyclical factors rather than structural ones as driving the USD bounce. In the last few months, U.S. jobs and wages data have exceeded expectations, pushing up inflation expectations and increasing the likelihood that the Fed will "match its dots," as Bloom described, "confounding the market's more dovish stance."

And while the Fed continues along its policy-tightening path, others around the world are hesitating. Particularly in Europe, in the face of softening growth numbers and political uncertainty coming from countries like Italy and Spain, the central bank seems to have its hands tied. The U.S. economy added 223,000 jobs in May, versus economist estimates of 190,000, while the unemployment rate fell to an 18-year low of 3.8 percent. Average hourly earnings rose by 0.3 percent, up one-tenth of a point from April. The Fed's monetary policy committee has indicated two more interest rate hikes as likely for this year, in addition to one it approved in March. And HSBC is more bullish about the greenback than most others, something of which it aims to take advantage. "We don't think positioning is that heavy, no-one is mega-long dollars — people are getting more to the neutral side from being bearish, so there's plenty of juice in the tank, baby. In terms of downside risks, multilateral finance organizations like the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) as well as numerous banks have pointed to trade tensions as something that could throw a wrench in this upbeat forecast. Other economists have called the buck's rally unsustainable, pointing to wider U.S. fiscal imbalances and climbing debt.

Bloom disputed this, saying that not only do negative drivers for the dollar appear already embedded within its price, but that fears of a trade war are overblown. "It's a bit of tit-for-tat, but I wouldn't call it a trade war… these things happen, I think people are getting a bit alarmist about it," he said. The Donald Trump administration announced Thursday that it would be imposing 25 percent and 10 percent tariffs on steel and aluminum, respectively, coming from Mexico, Canada and the European Union after having already imposed the same tariffs on the rest of the world. Negotiations are also underway to ease a trade spat with China, where both countries have threatened to place high levies on billions of dollars' worth of each other's goods. Still, the pace of the dollar's rise has taken many, including Bloom, by surprise and certainly presents risks of its own. A rapidly-strengthening dollar has put mounting pressure on emerging markets with dollar-denominated debt, and threatens bringing about a global recession more quickly. "The pace has been a little bit alarming, I am worried about it," the strategist said, explaining that forecasts previously saw the dollar achieving its current pace by the end of this year, not in a matter of six weeks or so. "It seems to have calmed down a bit, but I don't think the move is over. But I think the pace hopefully has calmed down, because we can't continue the way we're going."

Announcements & Reports

► *EU–China Innovation Relations: From Zero-sum to Global Networks*

Source : Chathom House
Weblink : https://www.chathamhouse.org/publication/eu-china-innovation-relations-zero-sum-global-networks

► *Woody Biomass for Power and Heat: Demand and Supply in Selected EU Member States*

Source : EY
Weblink : https://www.chathamhouse.org/publication/woody-biomass-power-and-heat-demand-and-supply-selected-eu-member-states

Upcoming Events

► *The US-North Korea Summit: The Road to Denuclearization or Disappointment?*

Date : 11 June 2018
Place : London
Website : https://www.chathamhouse.org/event/us-north-korea-summit-road-denuclearization-or-disappointment

► *The Western Balkans Before the Berlin Process Summit*

Date : 13 June 2018
Place : London
Website : https://www.chathamhouse.org/event/argentina-political-change-and-g20-presidency

► *Global Trade Landscape Series: US Trade in an Age of Protectionism*

Date : 15 June 2018
Place : London
Website : https://www.chathamhouse.org/event/global-trade-landscape-series-us-trade-age-protectionism

► *Cyber 2018*

Date : 28 June 2018
Place : London
Website : https://www.chathamhouse.org/conferences/cyber-2018

► *Fighting Financial Crime 2018*

Date : 10 September 2018
Place : London
Website : https://www.chathamhouse.org/conferences/fighting-financial-crime-2018

► *Illicit Financial Flows 2018*

Date : 01 October 2018
Place : London
Website : https://www.chathamhouse.org/conferences/illicit-financial-flows-2018

► *Climate Change 2018*

Date : 15 October 2018
Place : London
Website : https://www.chathamhouse.org/conferences/climate-change-2018

► *Climate Change 2018*

Date : 15 October 2018
Place : London
Website : https://www.chathamhouse.org/conferences/climate-change-2018

► *Global Trade 2018*

Date : 01 November 2018
Place : London
Website : https://www.chathamhouse.org/conferences/global-trade-2018