Ankara: No problems with delivery of F-35 fighter jets

Hurriyet Daily News, *25.07.2018*

Ankara said on July 24 it was not expecting any problems with the delivery of the F-35 fighter jets despite a recent U.S. Senate decision to block the sales of the advanced aircraft to Turkey.

"Following the bill's passing [in the U.S. Senate], this issue, as you know, is completely at the disposal of U.S. President [Donald Trump]. During our meeting in Brussels, Mr. Trump has also shown us the written statement he made. Such an issue is out of question."

President Recep Tayyip Erdoğan said when asked by reporters, referring to his meeting with Trump on July 11 during a NATO summit in the Belgian capital of Brussels. The Turkish president spoke to reporters following a ruling Justice and Development Party (AKP) group meeting in parliament. "We have made a $900 million payment so far [for the sale of the F-35 jets]. And the delivery of two of them was made to us there [at the defense contractor Lockheed Martin's headquarters in Fort Worth in Texas]. And our pilots are now conducting their training flights [in Luke Air Force Base in Arizona]. We do not have any concerns at this point," Erdoğan noted. Erdoğan's statements came after U.S. Senate and House negotiators reached an agreement on July 23 on a defense policy bill that includes a number of provisions including barring the transfer of F-35 jets to Turkey temporarily.

If Turkey is dropped from the international F-35 program, the Turkish receipt of the fighter jets would be held back until the Pentagon submits an assessment within 90 days of the measure's enactment on U.S.-Turkish relations, the impact of Turkey's planned acquisition of Russia's advanced S-400 missile defense system and the ramifications for the U.S. industrial base. The deal on the fiscal year 2019 National Defense Authorization Act was announced by the leaders of the U.S. Senate and House of Representatives Armed Services Committee. It must still be passed by the House and Senate and signed by Trump to become law. The legislation would authorize spending $7.6 billion for 77 F-35 Joint Strike Fighter jets, made by Lockheed Martin Corp. But it would prohibit delivery of the advanced aircraft to Turkey.

Turkey's industrial capacity usage down in July

Anadolu Agency, *25.07.2018*

Turkey's manufacturing industry capacity utilization rate stood at 77.1 percent in July.

The capacity utilization rate (CUR) saw a 1.2-percentage point monthly fall from 78.3 percent in June, according to the bank. The bank stated that the CUR figures are based on the responses given to its business tendency survey by local units operating in the manufacturing industry. It added that while some 2,100 companies responded to the survey in July, the monthly data does not reflect the bank's views or predictions.

Among over 20 sectors, the highest capacity usage was seen in the manufacturing of wood and wood/cork products -- excluding furniture -- with 87.5 percent in July, while the lowest CUR was seen in the leather and related products sector, with 59.1 percent. On the main industrial groups side, the highest CUR was 78.8 percent for intermediate goods, while the lowest capacity usage was 72 percent in food and beverages. According to the survey, manufacturers of investment goods used 78.6 percent of their capacity this month while the CUR in consumer goods was 73 percent -- durable goods at 71.4 percent, and non-durable goods at 73.3 percent. Last year, the average capacity usage in the manufacturing industry was 78.5 percent. Over the past five years, the highest CUR was seen last November with 79.9 percent, and the lowest was 73.5 percent in February 2013.

Turkey's Central Bank leaves policy rate unchanged, defying expectations

Hurriyet Daily News, *24.07.2018*

The Turkish Central Bank has decided to keep the one-week repo rate -- policy rate -- constant at 17.75 percent, bucking expectations of an increase after inflation spiked to a 14-year high in June.

The Turkish Lira, which has lost some 20 percent of its value so far this year, weakened to 4.91 against the dollar following the decision on July 24, from 4.7605 directly before. The lira slightly eased to 4.89 late afternoon. Fifteen of 16 economists in a Reuters poll had forecast an increase, with an increase of 100-125 basis points seen as the most likely option.

"Cost factors and volatility in food prices have been the main drivers of the recent upsurge in inflation. On the other hand, price increases have shown a generalized pattern across subsectors. Despite the milder impact of demand conditions on inflation, elevated levels of inflation and inflation expectations continue to pose risks on the pricing behavior. Accordingly, the Committee assessed that it might be necessary to maintain a tight monetary stance for an extended period," said the Bank 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 decisively until inflation outlook displays a significant improvement. Inflation expectations, pricing behavior, lagged impact of recent monetary policy decisions, contribution of fiscal policy to rebalancing process, and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered," it added. Inflation hit its highest in 14 years in June, at 15.39 percent, as the weakening lira drove up food and other prices.

"It's a disappointing decision given that inflation accelerated further in June and is likely to rise even more in coming months as a result of the weaker lira," said Piotr Matys, emerging markets forex strategist at Rabobank. "This is a surprising decision that re-ignited the selling pressure on the lira," he added, as quoted by Reuters. The Bank has raised rates by 500 basis points since late April in an effort to put a floor under the currency. Investors keep a close eye on the direction of economic policy as Turkey's widening current account deficit and double-digit inflation have increased concern the economy is overheating and could be headed for a hard landing.

Turkey to coordinate with European allies on Iran sanctions

Daily Sabah, *22.07.2018*

Turkey and the European Union are planning to ensure cooperation on matters related to U.S.-imposed Iran sanctions, which will take effect in August, after the termination of a 90-day period following U.S. President Donald Trump's abandonment of the Iran nuclear deal on May 8, Turkish government sources said Friday.

As negotiations with Iran's trade partners on both sides of the Atlantic continue in a bid to salvage the nuclear deal, the European Union (EU).

Turkey and Iran's major oil markets have agreed on devising methods to maintain trade with the country. The trade between EU and Iran followed a rising trend since 2013 when the bilateral trade volume was lowest since 2007 and calculated at 6.2 billion euros. With gradual increases over the years, the trade between EU and Iran reached 13.7 billion euros in 2016 and 20.9 billion euros in 2017 when Iran represented 0.6 percent of EU trade, with 10 billion euros worth of exports, mainly in machinery, transport equipment, chemistry and manufactured goods. EU imports from Iran increased by 83.9 percent last year. The EU represented over 16 percent of Iran's trade, with petroleum products composing some 88 percent of Iran exports to the EU and totaling to 9 billion euros. Iran's exports of petroleum products to EU have seen surge after the nuclear deal. In 2013, EU imported 74 million euros worth of petroleum products from Iran which later fell to 52 million euros in 2015. However, in 2016 EU's petroleum products imports from Iran totaled to 4.2 billion euros and 9 billion euros in 2017, demonstrating a striking rise in energy trade. EU imports of Iranian crude more than doubled last year, from 291,000 barrels a day in 2016 to around 620,000 barrels a day in 2017.

Moreover, crude oil imports from Iran were nearly 27 percent of Turkey's total crude exports in 2017. While in the first quarter of this year, crude oil imports from Iran made up more than 50 percent of Turkey's total crude oil imports, totaling to more than 2 million tons of crude. Turkey's overall trade with Iran has been decreasing since 2013 following the sanctions. While bilateral trade between the countries exceeded $20 billion in 2012, it saw a dramatic fall to $14 billion. Recorded at $9 billion in 2016, bilateral trade with Iran gained momentum in 2017 and rose to $10.7 billion. Turkey and Iran have also discussed trading in local currencies as an alternative medium of exchange to dollar and issued the first letter of credit in the form of a national currency swap to exchange Iranian rial and Turkish lira in April. Seeking alternative ways to dollar in trade with Iran, European countries have already issued euro-denominated loans in order to finance exports to Iran. For instance, France started offering euro-denominated loans to Iranian buyers of its goods later this year, to help trade flourish outside the reach of U.S. sanctions, state-owned investment bank Bpifrance announced at the beginning of this year.

Italy and Iran agreed on a framework credit agreement to fund investments in Iran worth up to 5 billion euros. Iran's government-owned Bank of Industry and Mine and Middle East Bank signed the accord and the investment arm of Italian state-owned holding Invitalia. Moreover, Austria's Oberbank and Denmark's Danske Bank inked framework agreements with a number of Iranian banks in September 2017, under which they will provide financing for Austrian and Danish companies exporting to Iran. Turkey and EU, as two strong trade partners, have also been previously reported to coordinate the issue of steel tariffs imposed by the U.S. President Trump in March. US Treasury seeks to 'educate' Turkish firms on sanctions. Donald Trump's tenure as the United States president has led to some of the most controversial decisions in recent history. His order to throw the Iran Nuclear Agreement into the trash bin is, indeed, one of the most important of them. Moreover, Trump's order for the U.S. Department of Treasury to impose sanctions on Iran is certainly an issue that directly concerns Turkey. Accordingly, Marshall Billingslea, the Assistant Secretary for Terrorist Financing, was in Turkey on Friday to partake in negotiations with Turkish authorities and hold meetings with Turkish companies who have been operating in Iran for years. As Billingslea put it, he was in Turkey "to educate Turkish companies" on behalf of the American administration. "We definitely are encouraging the companies to wind down their businesses. That's why we gave the 180 days. It is up to the individual companies to make their business decisions. We are not in a situation that we are trying to dictate Turkish companies on what to do," he told Daily Sabah in an interview.

"We want to educate Turkish companies," he said. Although Billingslea kept a relatively mild tone towards companies who decide to continue doing business in Iran after August and November this year, he said it would nonetheless pose a risk for them, "Any company that is engaged in these prohibited transactions; if they keep doing so after August or November they are running business risk. … On evading sanctions, we would certainly encourage that efforts not be made to do that. We certainly would be very, very concerned." On May 8, President Trump pulled the U.S. out of a 2015 nuclear pact with Iran reached by his predecessor Barack Obama and other world powers, the U.K., France, China, Russia and Germany, and ordered tough U.S. sanctions on Tehran. Turkey remains skeptical of the idea, as in the first four months of this year, Turkey bought more than 3 million tons of crude oil from Iran, almost 55 percent of its total crude supplies; Tehran remains Ankara's biggest crude oil exporter in the first quarter of 2018 despite a 20 percent decrease. The assistant secretary is of the opinion that there will be many more conversations, like the one yesterday, with Turkish authorities and companies. "This is just the first of these conversations there will be many more conversations, we encouraged a number of companies to come to Washington to have discussions. We also encouraged the Turkish government to have a round of discussions. Time is of the essence," said Billingslea. He said that the sanctions on the oil trade and central bank of Iran will go into effect in November, thus giving some time for further discussions, "We have a little bit of time. We need to intensify our discussions." That being said, Washington is very adamant on making sure that Turkish companies abide by American rules. "We want to see the evidence of winding down the business," he said, adding: "I believe that this time around the treasury sanctions will be enforced very, very aggressively and very comprehensively. The Turkish government understands our position. The reason for that is because Iranian behavior has become so concerning that they risk triggering a crisis."

In an attempt to bolster his argument as to how Iran had become so dangerous in the region, Billingslea said: "What happens if one of those [Iranian] missiles land in Riyadh?" Shedding light on the details of his negotiations with Turkish authorities, the assistant secretary asserted that the views of Ankara and Washington do not clash. "It was a very positive discussion there was no conflict or clashing in any way. There was no hostility on either side. We made our presentation to explain in very clear terms why we are taking the steps we are taking and what is motivating us." Following the talks on Friday, the Turkish Foreign Ministry released a written statement, saying: "Iran is an important neighbor for Turkey, in view of both our bilateral economic and commercial relations as well as our energy imports. Therefore, we will continue to monitor U.S. sanctions within this framework." Billingslea, however, refused to consider Iran as nothing more than a mere neighbor of Turkey. "Iran may be a neighbor of Turkey but they are not a friend or ally. Let's not make that mistake. The U.S. considers itself both an ally and friend of Turkey." One of the questions that has drawn the most attention in Turkey recently on the Iran sanctions was whether Ankara and Washington could find a way for the former to get an exemption or waiver. Billingslea ruled it out completely. "You cannot assume that we are offering exemptions or waivers. That's not what we are here to do." On the possibility of sitting at the table for a new nuclear agreement, in which Turkey could possibly play a role, Billingslea said: "What the United States wants for Iran [is] to return to the table and address different dangerous activities that they are involved in. The Secretary of State has laid out in a speech recently the actions that Iran needs to undertake to address these concerns." He emphasized that it would not be possible for dozens of countries to be at the table.

"One of the main failings of the way the previous negotiations happened is that U.S. allies and friends were not sufficiently involved and given the details where the discussions occurred. We intend to make sure that our NATO allies are kept fully informed of the progress we are making." Being the U.S. Assistant Secretary for Terrorist Financing, Billingslea was not only in Turkey to hold talks regarding the Iran sanctions. The PKK and its Syrian affiliate, the Democratic Union Party (PYD) and its armed wing the People's Protection Units (YPG) have troubled Turkish-U.S. relations to a great extent. Arguing that Ankara and Washington are on a path towards positive developments in the fight against terrorism, the assistant secretary said: "I think we have a really significantly positive development in the fight against terrorism. I am personally involved in supporting efforts on the PKK."

Iran replaces central bank chief as economy faces crisis

Hurriyet Daily News, *25.07.2018*

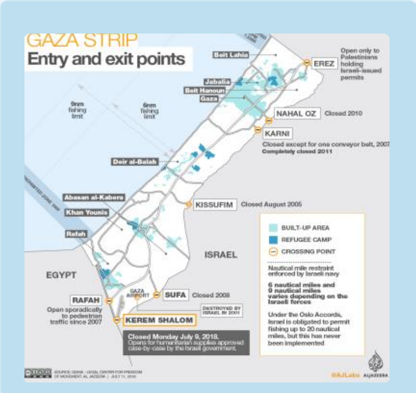
Iran replaced its central bank chief on July 25, local media reported, amid fallout over banking scandals and the crisis facing the country's economy.

Valiollah Seif, who had served as the bank's governor since President Hassan Rouhani took power in August 2013, was replaced by Abdolnasser Hemati following a cabinet meeting, according to the official IRNA news agency. Hemati, 61, previously served as head of Central Insurance of Iran, as well as both Sina Bank and Bank Melli. He had been slated to become ambassador to China until he was recalled at the last minute.

Seif has been criticized particularly over his handling of a currency crisis that has seen the rial lose more than half its value against the dollar in the past year. An attempt in April to enforce a fixed rate for the rial sparked a boom in black market exchanges, forcing the central bank to backtrack as the currency's street value crashed to record lows in June. The crisis coincided with Washington's announcement in May that it was pulling out of the 2015 nuclear deal and reimposing full sanctions on Tehran, exacerbating the run on the rial. The U.S. also slapped individual sanctions on Seif in May, accusing him of helping Iran's Revolutionary Guard Corps transfer millions of dollars to Lebanon's Hezbollah. Rouhani thanked Seif for his "strong and serious service", and said the cabinet had "full confidence" in Hemati. He said a key priority was tackling "illegal credit institutions." Bankruptcies at several unlicensed lenders -- which had offered high interest rates and cheap loans with little capital to back them up -- wiped out the savings of millions of depositors and has been a key driver of recent protests. Rouhani vowed to crackdown on unlicensed banks when he came to power. His government has been pressured to repay lost deposits, further straining government resources.

'Collective punishment': Israel blocks fuel shipment to Gaza

Aljeezera, *19.07.2018*



Israel has further tightened its blockade on the Gaza Strip, preventing gas and fuel deliveries through its only commercial crossing with the Palestinian besieged enclave a week after Israeli authorities announced the closure of the crossing.

The Kerem Shalom crossing, known to Palestinians as Karem Abu Salem, was shut down on July 9 and initially, only items deemed as "humanitarian" would be allowed to enter Gaza, such as food, hygiene and medical supplies, fuel, animal feed and livestock.

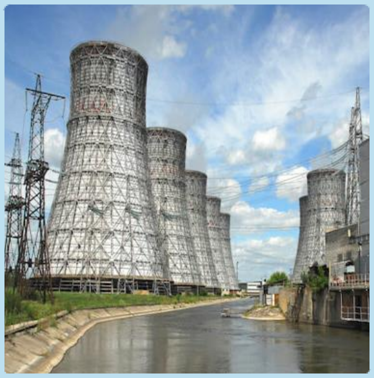
However, the defence ministry announced late on Monday that fuel and gas deliveries will also be suspended, and that the crossing will remain open only for food and medicine on a case-by-case basis. "In light of the continued terror efforts of Hamas, Defense Minister Avigdor Lieberman has decided, after consulting with the chief of [military] staff, to close Kerem Shalom for the passage of fuel and gas until Sunday," a statement from the ministry said. Furthermore, the fishing zone, enforced by Israel, in the waters off the Gaza Strip will also be reduced from six nautical miles to three - after it was already reduced last week from 12 nautical miles.

The UN and Gisha, the Legal Centre for Freedom of Movement, called Israel's latest measure an act of "collective punishment". "There is no other way of describing this measure other than collective punishment. Pretending to know what Gaza needs and trying to 'manage the situation' harkens back to earlier iterations of the closure, is morally depraved and constitutes a willful act of hubris in a volatile situation," a spokesperson from Gisha said. Hamas, the Palestinian group that runs Gaza, had described the closure as a "crime against humanity". Israel says it has no interest in engaging in another war with Hamas, but says it will no longer tolerate the flying of incendiary kites and balloons into Israel. Palestinians in Gaza view the balloons and kites as legitimate resistance against Israel's more-than-a-decade-long blockade, which has caused widespread economic hardship.

Even after Hamas agreed to a ceasefire late on Saturday, incendiary kites and balloons have continued to float from Gaza into Israel setting off damaging fires to farmlands. Egypt has also maintained the blockade with Israel over the strip, in an attempt to weaken Hamas. A spokesman for Israel's fire service said around 750 fires have burned some 2,600 hectares, estimating the damage at millions of shekels (hundreds of thousands of dollars). The tightening of the blockade comes after Saturday's heaviest exchange of fire between Israel and Palestinian groups in Gaza since the 51-day Israeli military assault on Gaza in 2014. Israel carried out air strikes partially in response to the months of fires started by the kite firebombs, but also over continuing protests and clashes along the Gaza border. Israel hit dozens of sites in the Gaza Strip on Saturday, killing two Palestinian teenagers. The same day Hamas said it launched rockets and mortars in response to the Israeli air raids which wounded 30 Palestinians. Four Israelis were lightly wounded in the nearby Israeli city of Sderot. The weekend's violence came after months of near-weekly border demonstrations aimed in part to protest the Israeli-Egyptian blockade of Gaza. At least 137 Palestinians have been killed by Israeli fire since the protests began on March 30.

Rosatom as a tactic in Russia's foreign policy

International Policy Digest, *19.07.2018*



President Donald Trump's recent harsh criticism of Germany and overall European dependence on Russian natural gas have once returned global attention to EU energy security.

However, despite the U.S. administration, Brussels, Poland, and Baltic states' ardent opposition, Russia has not only continued to supply record amount of coal, oil and gas to the global markets, but has also identified new energy export options, particularly nuclear power generation. Encouraged by tactical victories of her intensified energy diplomacy efforts in oil and gas, Russian leadership has embarked on active nuclear power diplomacy globally.

Emulating his success in oil and gas sector, Vladimir Putin has consolidated the nuclear industry of Russia in a single state-owned company, Rosatom. Founded in 2007, Rosatom is a vertically integrate state-owned company with 360 subsidiaries engaged in activities that cover civil nuclear electricity generation, nuclear weapon industry, and nuclear icebreakers. The company tasked to transform nuclear power into a major export industry in Russia in order to reap maximum profit from energy exports, and to deploy the nuclear power as another political mean to achieve his geopolitical ends. As a result, Rosatom has now become the second largest nuclear power company in the world in terms of installed nuclear capacity and number of nuclear units in operation. The company operates in 40 countries and its portfolio of overseas projects for next decade exceeds $133 billion, although most of them are framework agreements.

Nevertheless, Rosatom already holds 17% of market share for the nuclear fuel fabrication while every 6th reactor in the world is operating with Russian nuclear fuel. Besides its traditional customers in Asian market, namely, China and India, Rosatom has recently been actively expanding its presence in European states where the USSR had built nuclear facilities. In Europe Rosatom is active, engaging in the bidding process for the Belene nuclear power project in Bulgaria, construction of new reactors in Paks nuclear power plant in Hungary built by the USSR in 1980s, and expecting a construction license from the regulators to build the Fennovoima nuclear power plant in Finland. Rosatom also has the dominant position in the Czech nuclear sector and supplying fuel to other plants built by Soviet technologies.

Besides continuing cultivating relations with its traditional buyers in Europe and Asia, Rosatom has followed Russian oil and gas companies' footsteps in tapping into lucrative Middle Eastern power market. Having already sealed deals with Turkey and Iran for construction of nuclear power plants, Akkuyu and Bushehr 2 respectively, Rosatom has now taken a pivot to the Arab Gulf states. As fossil fuels account for almost all of current electricity production in the Middle East, major Middle Eastern oil and gas exporters are increasingly interested in boosting their nuclear capacity in order to strengthen their economic and energy security given the recent volatilities in oil and gas prices. Due its rapid economic and population growth Middle East is expected to increase its nuclear capacity fivefold by 2028 considering already signed new nuclear project contracts between Middle Eastern states and vendors. In the Middle East, Rosatom has been engaged in bidding for nuclear power projects and in concluding long-term fuel supply agreements. In Jordan, Rosatom has conducted nuclear feasibility studies to install 2 GW facility. In the United Arab Emirates (UAE), Russian nuclear giant has signed a fuel supply agreement to supply nuclear fuel to Barakah nuclear plant constructed by Korean Kepco. The (UAE) is so far the only nuclear power state in the Gulf, and a leader for near-term nuclear power growth rate in the region, but it is not the only target for Russian nuclear energy diplomacy.

Saudi Arabia is set to spend almost $80 billion to add 17 GW nuclear power by 2040. The Kingdom is expected to decide on its first nuclear facility by the end of this year and Rosatom is among the shortlisted companies to bid for the construction of two nuclear power plants in the Kingdom, each with a capacity of 2.8. Although the Russian state-owned nuclear company faces fierce competition from Japanese, South Korean, Chinese, and American companies, Rosatom has decent chances to secure the contract. In 2017, Russia and Saudi Arabia signed a roadmap agreement for the implementation of the Program for the Cooperation on Peaceful Use of Atomic Energy. Undoubtedly, Rosatom is relying on Russian state support to win the bidding process given the recent rapprochement between Moscow and Riyadh. Along with the first-ever visit of a Saudi ruler to Russia in 2017 and follow-up partnership deals signed between the Kremlin and the Kingdom that range from arm sales to oil and gas investments, Russia and Saudi Arabia have been successfully cooperating within the ROPEC deal aimed at stabilizing global oil prices. If successful, Rosatom's presence in the Kingdom will serve to solidify political and economic ties between two countries and to augment the reliance of the United States' traditional Gulf ally on Russia.

In Europe, Russia is determined to fully exploit her nuclear power to maximize the revenues gained from energy exports and, where possible, to utilize nuclear power to achieve her political gains as Moscow has tried in several occasions in respect to Ukraine and other East European states. While the EU and individual states are conveying efforts to enhance the energy security of the continent which remains largely dependent on Russian gas supplies, Russia is offering her nuclear potential as another element of “state-supported commercial package deals” to important gas transit states such as Hungary and Bulgaria. Moscw’s goal is to undermine the unity of the continent with respect to Russian gas supplies and to increase the Europe’s energy dependency on Moscow. In Middle East, Russia’s goal is to fully exploit a nascent yet potentially lucrative nuclear power market. Taking advantage of current political disunity in the Gulf region, most illustrated by the 14-month-old Qatar crisis, Russia has concluded nuclear power agreements with Saudi Arabia, the UAE, and Qatar. Thanks to the state-support the Russian nuclear company can offer attractive “Build, Own, Operate” (BOO) deals with financing opportunities in order to overcome the European and Asian competition, as well as America with the 123 agreements. Rosatom is also expected to be successful in the Gulf by using this formula, as the oil-rich Arab Gulf sheikdoms do not yet have their own nuclear sector and trained staff.

Overall, Russia has already been successful in putting pragmatic energy policies above political differences, building economic ties with its energy rivals in the region, and working with international cartels such as OPEC. Russia has tried to use its energy diplomacy in in the Middle East and North Africa, both to bring the region closer to Moscow’s orbit of influence and to drive a wedge between the United States and its traditional allies, especially in the Arabian Peninsula. Looking ahead, the civil nuclear power generation will almost inevitably become another tool for Russia’s 21st century energy diplomacy.

Second quarter's hot economic growth may have been helped by increased activity to get ahead of tariffs

CNBC, *23.07.2018*

Economists say expectations for strong second-quarter growth may have gotten slightly higher due to exports and inventory building that appears to have been done ahead of the onset of trade tariffs.

Growth in the quarter is expected to be the best since 2014, with Thomson Reuters' consensus forecast at 4.1 percent, though some economists see growth above 5 percent. In fact, President Donald Trump tweeted Tuesday that the U.S. has the "best financial numbers on the planet," several days ahead of Friday's report on second-quarter GDP.

While economists agree pre-emptive activity around the tariffs may have been a factor, they do not agree how much it contributed to growth in the quarter. They say the impact could be anywhere from a couple of tenths to a full point, which is the forecast of NatWest Markets economists. "Ironically in the second quarter, export growth appears to be a big positive for Q2 GDP," said Kevin Cummins, senior U.S. economist at NatWest. NatWest economists said exports in inflation-adjusted terms may have risen by nearly 10 percent annualized in the second quarter, narrowing the trade gap and adding possibly a full point to the output gain. NatWest economists expect that inventories added a quarter of a percentage point to the headline gain in GDP, and combined, trade impact on the quarter amounted to the full point. NatWest economists are forecasting 4.5 percent for growth, and if not for tariff-related activity, it may would have been 3.5 percent, a full point lower, Cummins said. Stephen Stanley, chief economist at Amherst Pierpont, said he believes the tariffs did propel some economic activity but it's really unclear. "Two things are driving strength in Q2. The first one is we're seeing a good solid rebound in consumer spending which was quite weak in the first quarter, at 0.9, and it looks like we're rebounding to over 3 percent in the second quarter." His forecast is for GDP growth of 4.8 percent. The second piece which is really arithematically important of the two is the massive narrowing of the trade deficit in Q2. There's a lot of moving parts. It looks like there's particular strength on the export side. I was just wondering if there were exporters trying to get their goods out before retaliatory tariffs came into place. We'll see. My guess is that some of that will reverse in the third quarter," he said.

Stanley said trade data contributed 1.7 points to GDP growth. "Exports grew very rapidly in real terms in the second quarter and imports were roughly flat which is unusual. I think it's hard to say if it has anything to do with policy. I think they are just one-off swings in some of the more volatile categories that may have played in as well. More often than not, when you get big swings, it turns out to be noise, but maybe there's more to it this time," he said. Stanley said he was not expecting a big bump from inventory building. Diane Swonk, chief economist at Grant Thornton, said she believes inventory building will be a factor, and it could be the result of companies trying to get ahead of tariffs that went into effect in July or even in anticipation of future tariffs. In fact, she said, there are some anecdotal signs that automakers are moving inventories around, ahead of possible tariffs on auto imports threatened by Trump. "Putting numbers on it is really hard to do. There's going to be giveback at some point in time. It seems to be happening. there's no way to delineate how much it is," she said. Cummins said soybean exports surged in the quarter and were a large contributor to U.S. export growth. It appears that soybeans may have been purchased in a rush of activity before Chinese tariffs went into effect July 6. Richard Nelson, director of research at Allendale, said the more than 35 percent surge in soybean exports that shows up in weekly data may be attributable to other factors than just China stockpiling ahead of tariffs. "These would be sales made in the first quarter, maybe even in November and December," he said, adding many may also have been made to make up for problems in the Argentina soybean crop. Cummins said he was aware of the issues with the Argentine crop but thinks that some of the exports to South America were heading to China to make up for the shortfall in Argentina.

G-20 ministers call for greater dialogue on trade tensions

Reuters, *22.07.2018*

Finance ministers and central bankers from the world's largest economies meeting in Argentina said heightened trade and geopolitical tensions pose an increased risk to global growth and have called for greater dialogue, according to a draft communique from the meeting.

The draft reviewed by Reuters, which is still subject to possible revisions, also noted that emerging market economies are better prepared to adjust to external shocks but they still face challenges from market volatility and reversals of capital flows. "Global economic growth remains and unemployment is at a decade low."

"However, growth has been less synchronized recently and downside risks over the short- and medium-term have increased," the draft said. "These include rising financial vulnerabilities, heightened trade and geopolitical tensions, global imbalances, inequality and structurally weak growth, particularly in some advanced economies." The draft communique emphasized that structural reforms were needed to enhance the potential growth of economies, and reaffirmed commitments from the previous G-20 finance ministers meeting in March to refrain from competitive devaluations that could have adverse effects on global financial stability. The ministers reaffirmed the conclusions from G-20 leaders at their most recent summit in Hamburg in July last year, when they emphasized that trade was an engine of global growth and reaffirmed the importance of multilateral trade agreements. "We...recognize the need to step up dialogue and actions to mitigate risks and enhance confidence," the draft said. "We are working to strengthen the contribution of trade to our economies."

The International Monetary Fund (IMF) also warned world economic leaders on July 21 that a recent wave of trade tariffs would significantly harm global growth, a day after U.S. President Donald Trump threatened a major escalation in a dispute with China. IMF Managing Director Christine Lagarde said she would present the G-20 finance ministers and central bank governors with a report detailing the impacts of the restrictions already announced on global trade.

Africa becomes fossil-fueled thanks to 'rich' investors

Daily Sabah, *23.07.2018*

Each year approximately $20 billion from government-backed financial institutions around the world flows to energy projects in Africa that mainly support fossil fuel development, according to the report of Oil Change International, the U.S.-based research, communication, and advocacy organization.

Oil Change International is focused on exposing the true costs of fossil fuels and facilitating the coming transition towards clean energy. The report said that nearly 60% of this finance from 2014 through 2016 went to support fossil fuel development, compared to 18% for clean energy projects.

It noted that less than 2 percent of the total finance supported distributed renewable energy solutions despite analysis showing that these solutions can play a much larger role in delivering electricity and other energy services to homes, health centers, schools, small businesses, and farms, serving hundreds of millions of people in Africa who still lack access to electricity. "This report indicates that public money flowing into energy projects in Africa may not support long-term development priorities like access to energy and sustainability, and public finance institutions need to be more transparent about the kinds of projects they're financing," said Alex Doukas, director of Stop Funding Fossils program at Oil Change International. Doukas claimed that government-backed finance for energy in Africa mostly supports fossil fuel projects, while only a very small amount supports solutions like mini-grid and off grid technologies that have an important role to play in delivering on the promise of universal energy access.

According to the report, China provided the most public finance for energy in Africa, averaging over $5 billion per year. However, the report underlined that nearly three quarters of this supported oil and gas extraction, and another 13 percent supported coal-fired power generation. The next-largest providers were the World Bank Group, Japan, and Germany, the report underlined. The finance was focused on three countries - Egypt, Angola, and South Africa - which received nearly half of the public finance for energy in Africa between 2014 and 2016. The analysis also finds that much of the bilateral public finance for energy in Africa supports the commercial interests of the countries providing the finance. Additionally, the report finds that even as some governments are moving away from fossil fuels such as coal at home, their institutions are still funding those same types of projects in African countries. "When deciding on energy projects in Africa, the most important question should be: is this project in the best long-term interests of the people? Governments should improve transparency around contracts, financing terms and energy planning, and engage in more meaningful dialogue with civil society to address this question," said Thuli Makama, senior advisor for Africa at Oil Change International. The report noted that from a standpoint of equity, wealthier countries have a responsibility to support the energy transition in Africa - both at a government and community level - in a way that responds to urgent development needs.

The best the Fed can do for Trump — and the rest of us — is to hold inflation down

CNBC, *23.07.2018*

President Donald Trump looks on as his nominee for the chairman of the Federal Reserve Jerome Powell takes to the podium during a press event in the Rose Garden at the White House, November 2, 2017 in Washington, DC.
Price stability, regardless of how it is measured and defined, is the ultimate litmus test of monetary policy.

And inflation is always — regardless of sociopolitical outlook — a monetary phenomenon. Those are the key tenets of the Chicago school of economics, as well as the "killer" arguments of one of its best known proponents — the Nobel laureate Milton Friedman.

Friedman was probably smiling somewhere when President Donald Trump told the Federal Reserve last week that "I don't like all of this work that we're putting into the economy and then I see rates going up." As a graduate student, I remember the Friedman grin that looked like he was saying "I told you so." What Trump said was a paraphrase of Friedman's claim that fiscal policy stimuli were ineffective — that is, their medium-term impact is zero or negative, because the ensuing higher inflation and budget deficits force the Fed to initiate credit tightening that usually leads to growth recessions and rising unemployment.

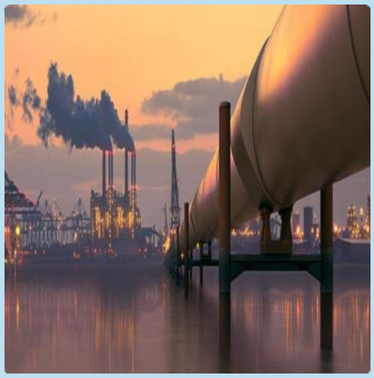
Friedman was basing that view on his empirical research (part of his Nobel distinction) showing the vanishing fiscal multiplier, which is fiscal policy's stimulus to economic activity. That was also part of his political fight against deficit-financed economic policies, advocates of big government and an ever-expanding public sector. In case you are wondering what Friedman did advise, you can probably guess that money for him was the only policy lever. Pick any monetary aggregate (a measure of the money stock), he said, preferably the one whose growth is highly correlated with the growth of the economy, and keep it moving along on a path that is consistent with price stability. Now, that brings us back to the Fed and the legion of its critics and would-be advisors. From the above, one can easily infer that inflation is the only binding constraint on the Fed's policy. Those who disagree with that conclusion are mostly the people alleging that the Fed is Wall Street's handmaiden, regularly caving to government pressure in the run-up to elections, and the key architect of the (four-year) election business cycle. I look at that as largely irrelevant chatter that in no way invalidates the view that inflation — or, more precisely, inflation expectations — is a guide the Fed can only ignore at the peril of debilitating recessions and crashing asset values.

Not sitting pretty, really. The key inflation indicators are hitting at, or above, the upper levels of their target ranges. They are showing an accelerating pattern rather than a stabilizing trend. In particular, that's the case with the personal consumption expenditures index and the consumer price index. Indicators underlying inflation pressures, such as the unit labor costs and producer prices, are not providing any grounds for optimism either. The unit labor costs (wages minus labor productivity) in the fourth quarter of last year and the first quarter of this year shot up at an average annual rate of 1.6 percent — a big jump from zero growth in the first nine months of last year. That is quite a hit to profit margins that will force businesses to respond with rising prices, which always stick in a growing economy. That is typically what happens on the way to an accelerating general price inflation. Producer prices last month told the same story with an annual increase of 4.3 percent. They were driven by energy costs soaring at an annual rate of 17.2 percent. All that has already found its way to consumer wallets and corporate balance sheets. The most recent business surveys are pointing to high activity levels, rising capacity constraints and slowing delivery schedules, with prices in June showing more than two years of consecutive monthly increases. Trade disputes — if they were to lead to supply shortages and price distortions — are another problem in the current inflation outlook. Sadly, the Chinese and the Europeans are ready to fight to keep their surpluses on U.S. trades. Speaking in the name of the EU at the G-20 finance ministers' meeting last Saturday, France refused to even consider the American offer. The Chinese did the same thing, but much more elegantly: Beijing did not send its key trade negotiator, leaving the EU and the IMF to gang up on the U.S. And then there is a hugely expansionary fiscal policy the Fed has to contend with. Last Thursday, the U.S. Office of Management and Budget announced that the deficit for this fiscal year, ending September 30, will come in at $890 billion — more than double the estimate of $440 billion it had published in March 2017.

Liquidity withdrawals are continuing. In the course of the second quarter, the Fed's balance sheet shrank by $150 billion, showing a 3 percent decline from its year-earlier levels, but still remaining at a massive $3.6 trillion on July 18. That is a very gradual and a very cautious pace of a long-overdue "policy normalization." The bond markets are reacting in kind. The Treasury's yield curve has been roughly stable since the beginning of July, with a mild tension developing on the benchmark 10-year note. The real short-term interest rate, measured by the effective federal funds rate and the CPI, is still minus 1 percent, signifying a vastly expansionary monetary policy. Trump's displeasure about the Fed's intention to keep rising interest rates sounds like an unwise dig at a central bank that seems hopelessly behind the curve in preventing an inflationary flare-up. The president could help by getting the Russians and the Saudis to pump more oil to bring energy costs down. So far this year, oil prices are up 18.4 percent, and there is no telling how far the U.S. consumer price inflation could go if energy prices were to keep rising. That is all in Trump's hands. There is nothing the Fed can do about it. Fixed-income markets look like a good place to avoid. Defensive equity positions are my choice.

World Energy Investment on a Downslide

Financial Tribune, *24.07.2018*



Global energy investment fell by 2% in 2017, the third consecutive year of a decline, which sounded the alarm this week, warning that the world is not spending enough on energy.

“The overall trend of energy investment remains insufficient for meeting energy security, climate and air quality goals, and is not spurring an acceleration in technologies needed for the clean energy transition,” International Energy Agency's Executive Director Fatih Birol said in a statement published by the agency. Global spending stood at $1.8 trillion in 2017, down 2% from a year earlier.

Much of the decline occurred in the electricity sector and the IEA declared 2018 “the year of electricity” to raise awareness about the problem. The ongoing electrification of the global economy puts extra emphasis on the need for more generation capacity. The declining investment in coal, hydro and nuclear power more than offset the increased spending on solar. Fossil fuel spending edged up but still remains at just two-thirds of the 2014 average. IEA credits the oil and gas industry with keeping costs in check and because of “cost discipline by operators and excess capacity in the services industry”, the rise in oil prices since 2016 has not led to a corresponding increase in costs.

However, IEA then pointed out that the US shale sector, which has attracted so much attention and investment, did see cost inflation on the order of 10% in 2017. More drilling has put a strain on the supply chain, pushing the cost of everything from sand, to drilling services, to labor and equipment. Another 10% increase in costs is slated for 2018. Globally, upstream oil and gas spending rose by 4% to $450 billion, and will edge up another 5% this year. Beneath that headline figure, US shale spending will grow by 20% while conventional oil and gas spending remains flat. Within the conventional segment, most spending is now focusing on brownfield development, a sign of the industry’s cautious approach to development, while spending on new greenfield projects “is expected to plunge to about one-third [of total upstream investment] in 2018–the lowest level for several years”. China attracted the lion’s share of energy investment. And unlike past years, China’s energy campaign is increasingly focused on clean energy. “China's energy investment is increasingly driven by low-carbon electricity supply and networks, and energy efficiency. Investment in new coal-fired plants there dropped by 55% in 2017,” IEA said.

Announcements & Reports

► *America's Counterterrorism Gamble*

Source : CSIS
Weblink : https://www.csis.org/analysis/americas-counterterrorism-gamble

► *NATO and the Claim the U.S. Bears 70% of the Burden*

Source : CSIS
Weblink : https://www.csis.org/analysis/nato-and-claim-us-bears-70-burden-false-and-dysfunctional-approach-burdensharing

Upcoming Events

► *Fighting Financial Crime 2018*

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

► *Digitalization in the Industrial Sector: Implications for Energy, Technology, and Policy*

Date : 18 July 2018
Place : CSIS Headquarter
Website : https://www.csis.org/events/digitalization-industrial-sector-implications-energy-technology-and-policy

► *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

► *Global Trade 2018*

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

► *The Future of London as a Financial Centre*

Date : 12 November 2018
Place : London
Website : https://www.chathamhouse.org/conferences/future-london-financial-centre