Global Finance Chiefs Pledge to Use All Tools to Aid Growth

Global finance ministers and central bankers pledged to use all their tools, including fiscal policy, to support demand amid a “highly uncertain” outlook and elevated risks.

“The outlook is highly uncertain and subject to elevated downside risks,” including trade tensions, policy uncertainty and geopolitical risks, according to a communique issued Saturday by the International Monetary and Financial Committee, the steering panel of the IMF’s 189 member countries. “We will employ all appropriate policy tools, individually and collectively, to mitigate risks, enhance resilience and shore up growth to benefit all.”

The statement was released in Washington, where the IMF and World Bank are holding their annual meetings.

An International Monetary Fund Committee (IMFC) plenary session on October 18.

“Available fiscal space should be used to support demand as needed,” and monetary policy should aim to keep inflation approaching or stabilising around targets, the communique said.

The downbeat statement caps a week during which the IMF made a fifth-straight cut to its 2019 global growth forecast, projecting the weakest expansion since 2009. The fund’s chief economist, Gita Gopinath, earlier warned that “there is no room for policy mistakes and an urgent need for policymakers to co-operatively de-escalate trade and geopolitical tensions."

"All tools can be applied – monetary policy where there is space for it" as well as fiscal measures and structural reforms when appropriate, IMF managing director Kristalina Georgieva said on Saturday at a press conference in Washington. Governments need to take these steps to stop or reverse the slowdown, she said.

Global finance leaders met against a backdrop of slowing growth in the world's major economies and central banks grappling with limited room to support expansion.

In the US, the Federal Reserve has reversed some of its tightening to insure against downside risks, though consumer spending has largely held up amid weakness in manufacturing and business investment. China said on Friday that economic growth decelerated to the weakest pace since the early 1990s, yet it may be starting to stabilise as fiscal stimulus works its way through the economy.

For the euro area, policymakers don't expect to go beyond the interest-rate cuts and quantitative easing pushed through by European Central Bank President Mario Draghi in September unless the economy is hit by shocks such as escalating trade tensions or a no-deal Brexit, according to regional officials.

While the US and China have touted progress toward a trade agreement that leaders Donald Trump and Xi Jinping would sign next month, the situation remains uncertain and there's no indication that the nations are preparing to roll back tariffs implemented over the past two years.

The IMFC statement repeated language from the prior statement in April saying that "we recognise the need to resolve trade tensions."

But the latest missive added a line saying that a "strong international trading system with well-enforced rules addressing current and future challenges would support global growth."

EU states delay ‘green’ finance guide, leave it open to nuclear power

BRUSSELS (Reuters) – A set of European Union standards to determine which financial products qualify as “green” should be delayed until the end of 2022, EU governments agreed on Wednesday, stirring concern because the guidelines might end up including investments in nuclear power.

The delay, if confirmed by EU lawmakers, could slow the growth of the $200 billion market for green bonds, by pushing back clearer standards that many investors wanted. Proponents of green investment condemned the postponement.

“We don’t need to waste two more years,” said Luca Bonaccorsi, an activist with the Transport and Environment campaign group.

Clearer standards were urgently needed to fund a sustainable economy, he said.

Deciding which investments could be called green was part of a legislative proposal put forward last year by the European Commission, the EU’s executive arm. Its goal was to encourage private investment in environmentally sustainable businesses.

The proposal laid out a taxonomy – a set of criteria and procedures for deciding what made an investment green – that was due to take effect in 2020. But many EU members objected, fearing damage to their national industries.

Diplomats agreed to postpone introduction of the taxonomy by more than two years. They also agreed to grant governments more powers to decide which investments are green, amending procedures proposed by the commission that would have given independent experts more say.

NUCLEAR CONCERNS

EU governments’ compromise does not exclude any economic activity from being listed as green. That could pave the way for declaring as green investments meant to reduce the environmental impact of nuclear reactors or plants seen as highly polluting.

The decision runs counter to recommendations from an EU expert group, which had advised in June excluding nuclear and coal-fired plants from the EU taxonomy. Their environmental impact was seen as going against EU targets to cut carbon emissions and reduce hazardous waste.

The text agreed by EU governments needs the approval of the European Parliament, which also wanted to rule out nuclear and coal investments from projects deemed green.

“This is a disaster,” Green European lawmaker Sven Giegold said. Parliament will do all it can to apply the new standards earlier and to exclude nuclear and polluting activities from the taxonomy, he said.

By setting criteria on what investment is sustainable, the EU hoped to avoid different standards in its 28 states and increase the confidence of climate-conscious investors. Proliferating standards let companies “greenwash” their activities, claiming green credential they not deserve.

However, the EU taxonomy’s broad criteria could divert money to technologies that “cannot be considered either safe or sustainable,” Germany said in a statement appended to the compromise text and also signed by Austria and Luxembourg.

The compromise ignored those concerns and tried instead to allay opposing fears of countries such as France, which relies on nuclear energy, and eastern European nations, which still depend on coal.

Attacks on Saudi Oil Plants Risk Lowering Aramco IPO Valuation

(Bloomberg) — As bankers discussed Saudi Aramco's initial public offering at the Ritz Carlton hotel in Dubai last week, a drone attack was being planned to hit the heart of its operations over the weekend. It caused Saudi Arabia to halve its oil output and may cut the valuation of Aramco's milestone deal.

The giant oil producer has accelerated preparations for a share sale that could happen as soon as November in Riyadh. Dozens of bankers from Citigroup Inc (NYSE:C). to JPMorgan Chase (NYSE:JPM) & Co. met last week to work on the deal, with analyst presentations scheduled for Sept. 22, people familiar with the matter have said.

"Crown Prince Mohammed bin Salman will push the company to demonstrate that it can effectively tackle terrorism or war challenges," analysts led by Ayham Kamel, head of Middle East and North Africa research at the Eurasia Group, said in a report. "The attacks could complicate Aramco's IPO plans."

In an attack blamed by the U.S. on Iran, a swarm of drones laden with explosives set the world's biggest crude-processing plant ablaze. Floating a minority stake of the oil giant, officially known as Saudi Arabian Oil Co., is part of Prince Mohammed’s efforts to modernize and diversify the economy.

The attacks underscored geopolitical tensions in the region. Iran denied responsibility, which was instead claimed by Iranian-backed Houthi rebels in Yemen.

Oil prices surged by the most on record to more than $71 a barrel after the strike removed about 5% of global supplies. The main Saudi stock index Sunday fell as much as 3.1%, leading losses in the Gulf.

Back in 2017, investors suspected that Saudi government-related funds swooped in to support the market after the imprisonment of local billionaires at the Ritz-Carlton in Riyadh. That also happened amid the international crisis following columnist Jamal Khashoggi’s murder at the Saudi consulate in Istanbul.

Here’s more from analysts and investors:

Eurasia

- “The latest attack on Aramco facilities will have only a limited impact on interest in Aramco shares as the first stage of the IPO will be local. The international component of the sale would be more sensitive to geopolitical risks”
- Current valuation estimates for Aramco and its assets might not fully account for geopolitical risks
    - NOTE: Prince Mohammed, the architect of the IPO, has said he expects Aramco to be valued at over $2 trillion, but analysts see $1.5 trillion as more realistic

Al Dhabi Capital, Mohammed Ali Yasin

- “I think this attack may delay the IPO even on the local

exchange, and could affect the valuation negatively, as the investors have seen a live demonstration of the risk levels of the future revenues and business of the company. That was very low prior to this weekend attack”
- “Aramco has one main source of revenue, oil. That is its strength, but now it is becoming its biggest weakness if it gets disrupted”

United Securities, Joice Mathew

- This “will force investors to go back to the drawing board and re-evaluate their risk models on Aramco”
- “Even though this is a rare event, which could be potentially categorized as 4 or 6 sigma levels, the geopolitical risk premium on Aramco’s valuation model would show a sharp increase”
- “As far as the pricing is concerned, my view is that there may not be much of an impact if the government is contemplating a 1% listing on the Tadawul. I think the government has the power and ability to influence the decisions of anchor investors there”

Tellimer, Hasnain Malik

- “Ultimately the security risk is not so acute that it outweighs oil price, oil output and free float drivers of the valuation”
- This attack “also provides an opportunity for Aramco to demonstrate the redundancy and resilience of its supply chain by minimizing disruption to customers and thereby helping to mitigate the valuation impact of this risk”

Qamar Energy, Robin Mills

- “It will be all but impossible to proceed with the IPO if there are ongoing attacks”
- “Valuing Aramco like Shell (LON:RDSa) or ExxonMobil (NYSE:XOM) gets us to about $1.2-1.4 trillion. But that would drop significantly if we apply company-specific

risk factors”

Al Ramz Capital, Marwan Shurrab

- “The attacks could impact foreign sentiment for the IPO, but I don’t see a substantial hit to the valuation at this stage”
- “Geopolitical risk has always been an important factor for valuations across the Middle East region. Aramco will have to demonstrate its financial resilience toward such incidences to gain investors confidence”

The Slow Greening of Finance

Aug 28, 2019 ANDREW HIGHAM

Although the world is not reducing greenhouse-gas emissions to the extent needed to limit catastrophic global warming, major financial players are finally starting to make the shift away from fossil fuels. With recent divestment decisions now rippling across economies, hope of achieving a carbon-free energy future is not lost.

OXFORD – Some of the most influential players in the global economy are spearheading the shift toward a clean, green, emissions-free world, even while key governments stand idle. Financial giants from Europe, China, Japan, the United States, Australia, and elsewhere can see the looming risks and rewards, and they are not waiting on policymakers to signal what needs to be done. By setting immediate bans on new fossil-fuel investments, labeling clean and dirty energy producers, and dumping unappealing stocks, the financial industry is redirecting huge flows of money from fossil fuels to low-carbon technology.

Such decisions can ripple across economies. Consider, for example, the split between state and private energy finance in India. According to the Delhi-based Centre for Financial Accountability, primary finance for coal-fired power plants dropped by 93% between 2017 and 2018, while finance for renewables rose by 10%. Among the loans for coal projects in 2018, most came from government-controlled financial institutions, whereas three-quarters of renewables financing came from private commercial banks.

Similarly, banks and traders in Japan are abandoning coal projects in favor of renewables, even though the government has resisted setting a phase-out date for coal-powered energy. Three Japanese coal-plant projects have been canceled or delayed this year. And at the global level, the International Energy Agency (IEA) reports that investments in coal-power plants hit a century low in 2018, while more coal generators were retired.

This trend will become more pronounced as the number of financial firms shifting from fossil fuels continues to grow. Consider the headlines since March. Norway's sovereign wealth fund has won parliamentary approval to divest $13 billion from fossil-fuel stocks, as part of the largest fossil-fuel selloff to date. Japan's Mitsubishi UFJ Financial Group, one of the world's largest banks in terms of assets, ceased financing new coal-fired power projects. And Chubb became the first major US insurer to announce a ban on coal coverage, while Suncorpbecame the last Australian insurer to end coverage for new coal-mining and coal-power projects.

Moreover, the London Stock Exchange has recategorized oil and gas stocks as “non-renewable energy” and classified green-energy stocks as “renewable” instead of “alternative.” And the world’s largest investor in overseas coal projects, the Oversea-Chinese Banking Corporation, said it would end financing for coal-power plants (once it finishes two final projects in Vietnam), while China’s State Development & Investment Corporation announced plans to stop investing in new coal-fired plants and focus on new energy sources.

More broadly, the Investor Agenda for a low-carbon world has attracted 477 signatories, representing around $34 trillion in assets under management. These investors are calling on governments not just to limit rising temperatures, but also to meet the Paris climate agreement’s more difficult goal of limiting global warming to 1.5°C above pre-industrial levels.

Meanwhile, the Institute for Energy Economics and Financial Analysis has found that those who ignored climate-change warnings have already taken a financial hit. BlackRock, the world’s largest fund manager, lost around $90 billion over the last decade, three-quarters of which was due to its holdings in ExxonMobil, Chevron, Shell, and BP. And investors in General Electric, including BlackRock, lost a whopping $193 billion in the three years leading up to 2018, because the company misjudged the pace of the shift to green energy and the collapse in demand for gas turbines and thermal power stations.

Although the shift away from fossil fuels is already monumental, a potential tsunami awaits. Those divesting from fossil fuels are the early adopters who have sensed a change in wind direction and readjusted their sails. But far more needs to be done. Because those firms’ competitors have yet to take any steps toward divestment, trillions of dollars in carbon assets remain on investors’ balance sheets.

Moreover, according to the IEA, while coal investments have fallen, capital spending on oil, gas, and coal nonetheless bounced back in 2018, and investment in energy efficiency and renewables stalled. Worse, the consultancy Wood Mackenzie finds that the renewables boom has translated into only 2% of global energy demand. As matters stand, coal, oil, and gas could still supply 85% of primary energy by 2040, down only slightly from 90% today.

To complete the transition away from fossil fuels will require drilling down to the core of the global economy. It does not help that financial institutions in China funneled at least $1 billion in “green” financing to coal-related projects in the first half of this year. Companies cannot keep producing oil, gas, and internal combustion engines while gradually shifting to cleaner technologies; they need to make a clean break.

Moreover, financiers need to look beyond coal and withdraw support for all fossil fuels. Equally important, governments must set an ambitious trajectory for their economies that impels adherence to the 1.5°C limit on warming. Our current path will lead to warming of 3°C or more, which would have catastrophic consequences.

The United Nations Climate Action Summit on September 23 offers the opportunity for financial institutions and governments to do what is necessary. Secretary-General António Guterres has called for gold-standard leadership, in the form of government and private-sector commitments to slash emissions to net zero, with interim targets every five years.

Guterres’s call to action is echoed by all who have been demonstrating and striking for the same goal. Investors need to rise to the occasion, by structuring portfolios in such a way as to achieve net-zero emissions by 2050. That means pushing the companies in their portfolios to change, too, or risk being cut off and left behind. But setting long-term aspirations won’t be enough. Actionable steps for the coming months and years must accompany the commitments made today, to ensure that progress remains on track.

To that end, Mission 2020 is collecting stories of progress from across the global economy. Our 2020 Climate Progress Tracker Tool, an open-access database, is updated regularly with climate commitments by countries, businesses, cities, and others. The bigger the divestment movement grows, the harder it will be to hide in the shadows, clinging to the past.

Greece fully lifts capital controls imposed during bailout chaos – PM

PM@ (Updates with statement on lifting)

ATHENS, Aug 26 (Reuters) – Greece is set to fully lift remaining capital controls, Prime Minister Kyriakos Mitsotakis said in parliament on Monday.

“From today, capital controls are a thing of the past,” Mitsotakis told lawmakers.
Athens imposed capital controls in June 2015, when Greece’s government had come to the end of its bailout extension period without agreeing on a further extension with its creditors.

The restrictions have been gradually eased since then. The cap on cash withdrawals was fully lifted in October 2018. But limits on money transfers abroad still remained. The newly elected conservative government has been keen to move swiftly to reassure markets that it intends to adopt business-friendly policies to attract investment, key to boost Greece’s economic recovery.

Athens had imposed the capital controls as Greece was embroiled in dispute with its lenders over bailout terms and its banks were bleeding cash.

At the time, the European Central Bank decided to pull the plug on emergency funding to Greek lenders, forcing a three week shutdown of banks and a 60 euro per day cap on cash machine withdrawals.

Finance Minister Christos Staikouras told lawmakers he would submit legislation to fully lift the restrictions effective Sept. 1. (Reporting by George Georgiopoulos; Editing by Alison Williams)

Copper hits 2-year lows as metals demand outlook dims

(Repeats Monday’s column with no changes to text. The opinions expressed here are those of the author, a columnist for Reuters.)

* Fund positioning on CME copper: tmsnrt.rs/2Myafvs

* LME Index vs China PMI: tmsnrt.rs/2YnPVnD

* Global Vehicle Production: tmsnrt.rs/2YqBKy7

By Andy Home

LONDON, Aug 5 (Reuters) – If you believe that “Doctor Copper” is a sensitive gauge of the health of the global economy, then you should be worried.

London Metal Exchange (LME) copper fell through the year’s low of $5,725 per tonne on Friday and hit a 26-month low of $5,640 early on Monday.

The trigger for the slump was the latest escalation of the trade stand-off between the United States and China, President Trump announcing the imposition of more tariffs on Chinese goods effective the beginning of next month.

Copper has been used as a proxy for trading the on-off trade talks for some time and funds had amassed a significant short position on the CME copper contract even before Friday’s break-down.

However, what’s troubling Doctor Copper and just about every other LME-traded base metal, with the single exception of nickel, is the accumulating evidence of a global manufacturing downturn.

Quite evidently, an escalation of trade tensions between the world’s two biggest economies is not going to help an already fragile industrial economy.

THE TRUMP TRADE AND THE BIG SHORT

Funds have for many months been expressing their views on the likely success of the trade talks via the CME copper contract.

When a positive outcome looked possible around the end of the first quarter, fund positioning switched to net long. But since then bears have amassed short positions as the prospects of a breakthrough have receded.

The latest Commitments of Traders Report shows money managers holding a net short position of 40,372 contracts.

Outright short positions totalled 86,841 contracts. That’s less than the record 101,593 contracts accumulated at the start of June but the latest report only covers positioning as of last Tuesday. The big short has almost certainly got bigger still, given the price action towards the end of last week.

Long positioning has been largely unchanged since the unwind of previous exuberance in April and May.

THE GLOBAL RECESSION TRADE

It’s not just copper that is being punished by speculators. LME aluminium, zinc, lead and tin are all now trading below year-start levels.

Only nickel is defying this broader trend, with investors keeping faith with nickel’s bull narrative of a lift in demand from the electric vehicle battery sector. It is the only LME metal still showing a net speculative long position, according to LME broker Marex Spectron.

What’s depressing the rest of the LME base metals complex is the deterioration in global manufacturing activity as shown by falling purchasing managers indices (PMI) the world over.

“For the first time in recent history we now have the majority of global manufacturing PMIs in contraction," said BMO Capital Markets. ("Metals Brief", Aug. 2, 2019).

The metal markets are particularly sensitive to the health of China's massive industrial economy, which is struggling, according to both the official and Caixin PMIs. Both indices edged up in July but both, critically, remained below the expansion-contraction threshold.

Other key metals economies such as South Korea, Japan and Taiwan are also suffering.

Manufacturing activity in the euro zone goes from bad to worse, contracting at the fastest pace in July since late 2012.

The United States remains a rare bright spot, but even here activity is slowing fast. The Institute for Supply Management's July index fell to 51.2 in July, the weakest growth rate in nearly three years.

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AUTOMOTIVE PAIN

The automotive sector is a particular source of metals demand weakness.

World motor vehicle production fell last year for the first time since the financial crisis, according to the International Organization of Motor Vehicle Manufacturers.

Car markets are being hit both by the broader cyclical downturn and the structural challenge of transitioning from the internal combustion engine to electric vehicles.

This double whammy is particularly acute in China, the world's largest car market and the one that is rolling out electric vehicles faster than anyone else.

Chinese vehicle sales have fallen year-on-year for 12 straight months, with expectations that car demand will slide some 5% this year after a 2.8% fall last year to 28.1 million units – the first decline since the 1990s.

Transport is an important end-use sector for metals such as aluminium, so look no further to understand why China’s exports of semi-manufactured aluminium products are booming even as national aluminium output flat-lines.

Exports of “semis” rose 8% in the first half of 2019 despite the proliferation of trade barriers and anti-dumping duties on Chinese products.

BACK TO SUPPLY

A breakthrough in U.S.-China trade talks could lift some of the manufacturing gloom but the prospects appear to be dimming after the most recent escalation of threatened tariffs by U.S. President Donald Trump.

Beijing, meanwhile, is working hard just to maintain economic stability by using targeted stimulus.

Hopes for a shock-and-awe metals-intensive stimulus package such as that seen in 2009-2010 and again in 2015-2016 have faded.

Beijing has made it quite clear it doesn’t want to repeat the mistakes of the past. The current stimulus pulse is largely bypassing the residential construction sector, another key end-use area for many base metals. Infrastructure spend, meanwhile, also appears to be bypassing the copper- and aluminium-intensive power grid.

With China’s manufacturing sector treading water and other countries’ activity rapidly decelerating, there is no reason for heavyweight fund managers to allocate money to the base metals sector, again with the possible exception of nickel.

Analysts such as those at BMO are looking for some improvement after the seasonal slowdown months of northern hemisphere summer and as destocking through the manufacturing chain comes to an end.

But, until there is “evidence of improvement (…) supply cuts may offer more hope for price upside” in the base metals complex.

That says as much as anything else about the state of global metals demand.

Editing by Louise Heavens

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ECB loosening is not enough

The European Central Bank’s negative interest rates and quantitative easing measures cannot by themselves address the pervasive risk aversion holding back the eurozone economy. Eurozone policymakers must, therefore, find the political will to design a comprehensive package of financial and fiscal measures aimed at injecting new energy into the European project.

LONDON – If indications of disappointing economic growth in the eurozone are confirmed, the European Central Bank will loosen monetary policy further in September. Last week, outgoing ECB President Mario Draghi signaled a further likely cut in the ECB's rate on commercial banks' overnight deposits with the central bank, which is already -0.4%. In addition, the ECB is discussing a new program of asset purchases.

Economic stimulus is clearly needed. Annual inflation is well below the ECB's target of "close to, but below 2%," and financial markets expect it to remain so for years. What's more, the eurozone has grown more slowly than the US economy since the 2008 global financial crisis. Growth has flagged since peaking in the third quarter of 2017, and slowed again in the second quarter of this year.

It is also clear that national governments in the eurozone are reluctant to provide a coordinated fiscal stimulus, despite the urgings of the ECB and many economists. Willingly or not, the ECB remains the only game in town.

The question is whether monetary policy alone can help to improve real growth and the inflation outlook in the eurozone. Monetary policy can be a powerful tool. The key to President Franklin D. Roosevelt's successful effort to revive the US economy in the 1930s was not deficit spending, but rather the large monetary stimulus resulting from America leaving the gold standard before continental European countries did. Today, the ECB needs to engineer something similar with different tools.

In principle, taking the ECB deposit rate further into negative territory should remove the restriction on future expected short-term interest rates turning negative, and therefore flatten the forward yield curve. A rate cut should also put downward pressure on the euro’s exchange rate, potentially making eurozone exporters more competitive.

But such a move would be controversial, in particular because it would dent the profitability of banks that cannot pass on negative ECB deposit rates to their customers. Such policies have heterogeneous effects across banks, and mitigating action, although feasible, requires complex engineering.

According to an analysis by the ECB’s staff, “strong” eurozone banks are able to pass on negative rates to their corporate clients; “weak” banks cannot.

The ECB is therefore considering ways to mitigate this – in particular by granting very favorable conditions on the special loans that it will offer under the TLTRO III program, which are likely to be taken by the “weak” banks. In addition, a tiering system is being considered in which reserves below a certain threshold would not be subject to negative rates. But this is likely to benefit the strongest banks of stronger core eurozone countries such as Germany, France, and the Netherlands, which together hold about one-third of total deposits at the ECB.

Beyond these technical considerations, policymakers must grapple with two root causes of excess demand for central-bank reserves among strong eurozone banks. One is very high demand for safe assets in general – and banks in core eurozone countries have little incentive to hold their own governments’ debt when the interest rate is below the ECB deposit rate. Another cause is the segmentation of the eurozone’s interbank market, which, if the ECB implemented tiering, would prevent strong banks from benefiting from arbitrage opportunities by lending to weak banks at a rate above -0.4%. Both causes are the result of the eurozone’s dysfunctional banking system, in which demand for safe assets involves both a “home bias” and a strong demand for core countries’ sovereign debt.

In these circumstances, the ECB will not find it easy to implement a policy that would remove the constraint of the zero lower bound on interest rates, while ensuring that the policy's distributional effects on banks and EU member states are neutral. Doing so will involve many instruments and complex design, far from the simple one-tool-for-one-target framework that was best practice before the financial crisis.

Moreover, negative rates become less effective over time and, if protracted, may have undesirable effects – for example, by inducing savers to de-risk, thereby potentially generating asset-price bubbles and increasing financial disintermediation. The positive stimulus from the depreciation of the euro's exchange rate could offset these effects, but only if other central banks – and in particular the US Federal Reserve – do not ease at the same time. And on July 31, the Fed announced a widely expected quarter-percentage-point cut in its benchmark interest rate, while further future cuts cannot be excluded.

But the main problem is that neither negative rates nor quantitative easing can by themselves address the pervasive risk aversion holding back the eurozone economy. The ECB is trying to discourage demand for safe assets by making them more expensive to hold, but it cannot address the causes of the increase in such demand. This is a global trend driven by several factors, including demographic changes, widespread uncertainty linked to technological transformation, and political risks such as trade wars and nationalism. But in the eurozone they are exacerbated by the lack of reform of the single currency.

More than ten years after the financial crisis, the eurozone's financial markets are still fragmented, and the supply of safe assets is limited by the conservative fiscal policy of northern European countries, particularly Germany. Eurozone policymakers must, therefore, find the political will to design a comprehensive package of financial *and* fiscal measures aimed at injecting new energy into the European project. Such a combined approach is essential to address the deep-rooted risk aversion sapping growth across the eurozone.

In the 1930s, America’s key stimulus was monetary rather than fiscal, but a vital ingredient of success was a comprehensive set of reforms coupled with a strong message capable of unifying the country. Today, Europe needs a twenty-first-century version of that policy.

LUCREZIA REICHLIN

Writing for PS since **2014**
16 Commentaries

Hedge funds raise their bets on falling US crude prices

NEW YORK (Reuters) — Hedge funds and money managers raised bullish wagers on U.S. crude oil in the latest week, data showed on Friday, as prices rose with the risk of global supply disruptions remaining high.

The speculator group raise its combined futures and options position in New York and London by 31,273 contracts to 472,907 in the week to April 17, the U.S. Commodity Futures Trading Commission (CFTC) said.

During the period, oil prices rose about 1.5 percent.

Oil markets have been supported by the sentiment that there are high risks of supply disruptions, including

However, Brent crude speculators cut net long positions by 12,572 contracts to 619,882 in week to April 17. Last week, the group hiked bullish bets to the highest on record.

Oil markets were tense about the possibility of Western military action in Syria heading into the weekend but prices weakened amid a lack of escalation following intervention by the United States, France and the UK.

Oil prices had risen nearly 10 percent in the run-up to the strikes, as investors bulked up on assets such as gold or U.S. Treasuries, which can shield against geopolitical risks.

In the United States, inventories have fallen as fuel demand has firmed and imports dropped. Crude stockpiles fell 1.1 million barrels in the week to April 13, the Energy Information Administration said on Wednesday, compared with analysts’ expectations for a decrease of 1.4 million barrels.

Among refined products, bullish bets on U.S. gasoline climbed to the highest in more than two months. Net long positions rose by 9,269 lots to 97,978 lots.

Gasoline demand has jumped to levels seen during peak driving season in the summer, data showed.

In distillates, bullish bets on ultra low sulfur diesel also rose to a more than two-month high. Distillate stockpiles decreased 3.1 million barrels, versus expectations for a 268,000-barrel draw, the EIA data showed this week, putting overall inventories of these products, which include diesel, heating oil and jet fuel, at levels not seen seasonally since 2014.

ing conflicts in the Middle East, renewed U.S. sanctions against Iran and falling output as a result of political and economic crisis in Venezuela.

Gazprom eyes Eurobond issue in July

Gazprom PJSC is considering testing the mar- ket’s appetite for its debt this year by issuing Eurobonds through a Russian or UK unit said a person familiar with the company’s plans.

The Russian gas producer is working to set up a UK unit because a legal spat with JSC Naf- togaz Ukrainy makes it difficult to use its existing Luxembourg- based financial arms, the person said, asking not to be named because the plans aren’t public. Earlier this month, a court in Luxembourg confirmed the Ukrainian company’s right to demand a freeze of Gazprom’s local assets and debt. The energy giant may use the British unit by the end of the year for a small Eurobond issue, the person said. Since Decem- ber 2018, securities legislation also allows Russian corporate issuers to make direct placements of Eurobonds compliant with foreign regulations, without needing to use a special purpose vehicle, or SPV, based overseas. Gazprom does not need external financing, so any bond issue would be mainly aimed at gauging investors’ enthusiasm for the assets, the person said. Gazprom’s spokesman Sergei Kupriyanov declined to comment. Gazprom issued $1.25bn of Eurobonds in February, in what became the biggest single-tranche dollar transaction for the company since 2009. Investors initially bid more than $5.5bn amid positive sentiment for emerging- market bonds. Investors will have an appetite for Gazprom’s new debt as long as the issuer is located in a safe jurisdiction, Lutz Roeh- Meyer, chief investment officer at Berlin-based Capitulum Asset Management GmbH, said by e-mail. “Which SPV is doing it, is unimportant,” he said, adding that he views both the UK and Luxembourg as safe. Gazprom has said it has enough liquidity as it aims to complete three major gas pipeline projects this year – Nord Stream 2 to Europe, TurkStream to Turkey and Power of Siberia to China. Last week, it raised a further $2.2bn when its subsidiaries sold quasi-treasury shares equivalent to 2.9% of the company to an unidentified buyer. Gazprom’s legal battle with Ukraine is over multibillion-dollar gas transit debt payments. The Russian company has been trying to fence off Naftogaz’s attempts to arrest its assets across Europe with mixed success.

Turkish Airlines Shows Interest in HNA’s Virgin Australia

Turkish Airlines is interested in HNA Group Co.’s minority stake in Virgin Australia Holdings Ltd. as it seeks growth in the Asia-Pacific region, according to people familiar with the matter.

Turkey’s national flag-carrier is among companies looking at HNA’s 20% stake in the Australian airline, said the people, asking not to be named because the discussions are private. Deliberations are preliminary and may not result in a deal, the people said.

Reports that it will acquire HNA’s 20% stake in Virgin

Australia “do not reflect the truth,” Turkish Airlines said in a statement Thursday. “We share our objectives of developing our business partnerships in the Asia-Pacific region with our stakeholders.” A representative for HNA Group declined to comment.

The troubled Chinese conglomerate was open to offers for its stake in Virgin Australia as part of efforts to cut debt, Bloomberg reported in August last year. Singapore Airlines Ltd. and Nanshan Capital, which each control about a fifth of Virgin’s shares, were among the companies weighing a bid, people familiar with the matter said at the time.

Shares Decline

Virgin Australia closed 3% lower at 16 Australian cents in Sydney, valuing the airline at A$1.35 billion ($925 million). Turkish Airlines fell as much as 2% and traded 0.9% lower at 12.35 liras as of 11:58 a.m. in Istanbul.

HNA has about dozen airlines in its portfolio including Hainan Airlines Holding Co. Ltd., Hong Kong Airlines Ltd., Lucky Air Co. Ltd. and Tianjin Airlines.

The Chinese firm is selling assets after racking up one of the nation’s biggest corporate debt loads in a global acquisition spree. It also considered selling its majority stake in oil-storage and logistics business HG Storage International Ltd. as well as container-leasing unit Seaco, tech-outsourcing arm Pactera Technology International Ltd. and aircraft-maintenance firm SR Technics, Bloomberg News has reported.

Turkish Airlines has been evaluating investments in other carriers in a departure from concentrating on growth at its huge Istanbul hub as it looks to safeguard expansion as Mideast and European economies falter and a rise in protectionism weighs on global cargo flows. The company has a longstanding holiday venture, SunExpress, with Deutsche

Lufthansa AG, and set up a joint venture in Albania last year.

The airline plans to boost its fleet to 474 planes by 2023 including 25 Boeing 787-9s, according to its website. It took delivery of the first Dreamliner in June as part of a deal for 40 of the jets.

In another development, Turkish Air on Thursday announced a so-called code-share partnership with Bangkok Airways PCL. The deal will allow Turkish to sell tickets on Bangkok Air flights as if they were its own, opening up more destinations in Thailand and other parts of Southeast Asia.