

France aims for US digital tax deal by late August – minister



France wants to reach a deal with the US on taxing tech giants by a G7 meeting in late August, Economy Minister Bruno Le Maire said Saturday.

He was responding to US President Donald Trump, who on Friday vowed “substantial” retaliation against France for a law passed this month on taxing digital companies even if their headquarters are elsewhere.

The law would affect US-based global giants like Google, Apple, Facebook and Amazon, among others.

‘Foolish’ Emmanuel Macron

Trump denounced French President Emmanuel Macron’s “foolishness”, though they discussed the issue by phone on Friday, according to the White House.

Le Maire told a news conference Saturday: "We wish to work closely with our American friends on a universal tax on digital activities.

Inspired by "We hope between now and the end of August – the G7 heads of state meeting in Biarritz – to reach an agreement."

Leaders of the Group of Seven highly industrialised countries are to meet in the southwestern French city on August 24-26.

Le Maire emphasised that "there is no desire to specifically target American companies," since the three-percent tax would be levied on revenues generated from services to French consumers by all of the world's largest tech firms, including Chinese and European ones.

The law aims to plug a taxation gap that has seen some internet heavyweights paying next to nothing in European countries where they make huge profits as their legal base is in smaller EU states.

Raising a glass

In a move that's rattling the industry, President Trump responded to the French plans by threatening to raise tariffs on French wine. French vintners sold 1.6 billion euros worth of wine last year to American consumers.

Trump derided French wines in a tweet, and later said he might hit them with retaliatory tariffs to French. He made a similar threat last year.

About 20% of French wine is sold in the US, and the Federation of French Wine and Spirits Exports on Saturday expressed concern about tariffs that could hurt "French players in this market, but also their clients and American consumers."

The federation urged French and American authorities to pursue dialogue on the tax issue, expressing hope "that they can quickly find a path to follow to prevent these threats from

materialising."

Le Maire said the US "should not mix the two issues," and noted that European wines already face tariffs in the US as do American wines in Europe.

Trump insisted Friday that he has a good relationship with Macron and had just spoken with him.

After initially befriending the US president despite their starkly different worldviews, Macron has increasingly stood up to the impulsive, America-first Trump on trade, climate change and Iran's nuclear program.

The tech tax is just their latest battleground, and will be a key tension point when the two men meet at a Group of Seven summit in France next month.

France failed to persuade EU partners to impose a Europe-wide tax on tech giants, but is now pushing for an international deal on it with the G7 and the 34 countries of the Organisation for Economic Cooperation and Development.

France has said it would withdraw the tax if an international agreement was reached, and Paris hopes to include all of the OECD countries by the end of 2020.

The world economy's biggest week of 2019 as Fed prepares cut

Subdued Inflation

Inflation is below 4% in Brazil, Mexico, Colombia, Peru and Chile



There will be no chance of a summer break for investors or policy makers in coming days as they brace for what might be the busiest week for the world economy this year.

The highlight is Wednesday's decision by the Federal Reserve with markets and economists virtually united in predicting Chairman Jerome Powell and colleagues will cut interest rates for the first time in more than a decade.

What's Likely to Happen?

Some Fed watchers predict officials will cut their benchmark by half a percentage point, but the signal is that they will eschew a bigger move in favor of a quarter point reduction. They will likely also leave open the possibility of further action down the road as they seek to sustain the record-long U.S. expansion and kick start inflation.

“While the Fed cutting rates by a quarter point will hardly be a surprise to financial market participants – as it has been well advertised and is priced in with a relatively high probability – the broader question will be how the Fed telegraphs its intentions regarding additional easing,” said Carl Riccadonna, chief U.S. economist at Bloomberg Economics. “Policy makers are keen to avoid getting ‘bullied’ by the

markets into more than 50 to 75 basis points of rate reductions."

The Fed isn't the only event with the ability to shape the outlook for the global economy this year.

On Monday, U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin are set to travel to China for the first high-level, face-to-face trade negotiations between the world's two biggest economies since talks broke down in May.

Then on Friday, the monthly payrolls report will shed light on whether the Fed's move was necessary. Economists surveyed by Bloomberg predict a 166,000 gain in non-farm jobs in July, slower than the 224,000 of June.

If that's not enough, Bank of Japan policy makers meet on Tuesday amid calls to reinforce their commitment to low rates and Brazil's central bank may cut rates on Wednesday. Thursday sees the release of global manufacturing data amid concerns many industries are already suffering recession.

Here's our weekly rundown of other key economic events:

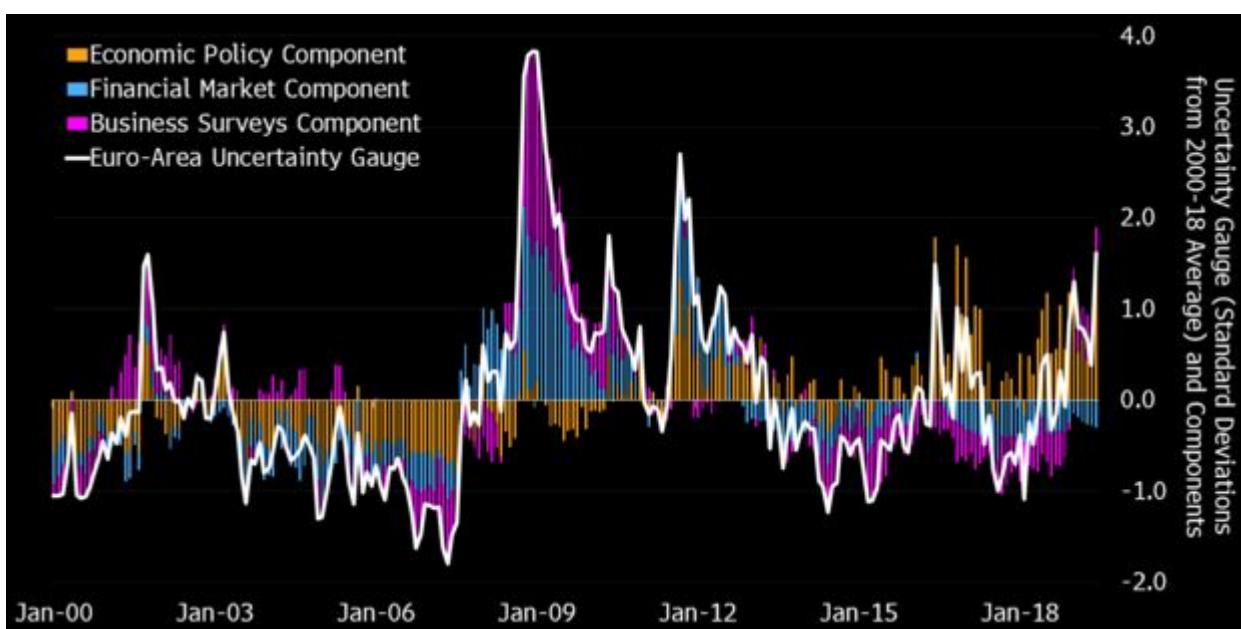
U.S.

As Fed officials begin their discussions on Tuesday they will have some more data with which to assess the economy. Personal income, pending home sales and consumer confidence statistics are all due that morning. Then on Thursday, the ISM manufacturing report is expected to show industry is stabilizing and continuing to expand. Friday's trade data will be pored over for evidence that the skirmish with China is having an effect. Also next week, the Treasury will say on Wednesday how much money it needs to borrow amid rising budget deficits.

Europe, Middle East and Africa

It's a big week for data after European Central Bank President Mario Draghi last week paved the way to cut interest rates in September and perhaps relaunch bond-buying. Tuesday is set to witness another decline in euro-area confidence while the following day is likely to confirm that the economy slowed in the second quarter to half the pace of the 0.4% of the prior three months. Inflation data the same day is expected to show consumer price growth languishing well below the ECB's target of just below 2%. Thursday sees the release of purchasing managers indexes.

New Uncertainty Gauge Shows Damage to Euro-Area Economy



Source: Bloomberg Economics

In the U.K., the Bank of England publishes its latest forecasts on Thursday with Bloomberg Economics reckoning it will turn more dovish as the Oct. 31 Brexit deadline nears. The Czech central bank is predicted to leave its benchmark unchanged at 2% on Thursday.

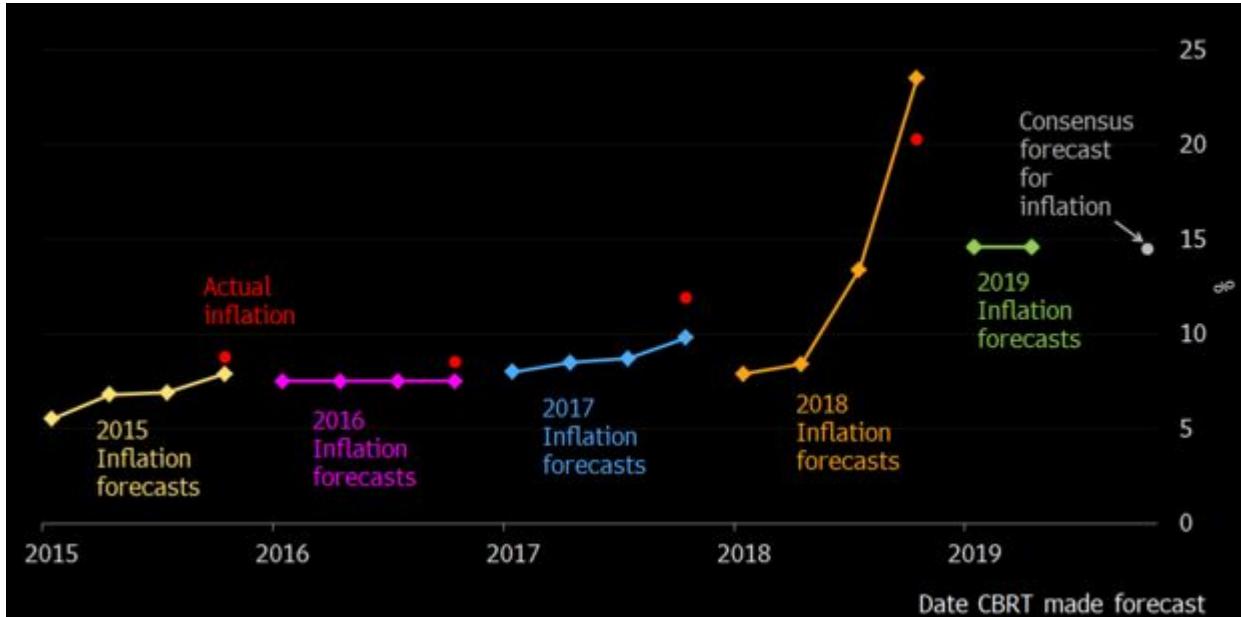
Overheating Economy?



Source: Bank of England, Bloomberg Economics

Turkey's new Central Bank Governor Murat Uysal will face public questioning for the first time on Wednesday when he presents the quarterly inflation report. The lira was relatively unscathed after a 425-basis-point interest-rate cut at his first meeting, the largest in recent Turkish history, investors will be curious as to whether he shares President Recep Tayyip Erdogan's unconventional belief that high interest rates cause inflation. Banks across the Persian Gulf region will probably move to ease if the Fed cuts as expected.

Turkish Central Bank's Inflation Forecast in Line With Consensus



Source: CBRT, Bloomberg

Asia

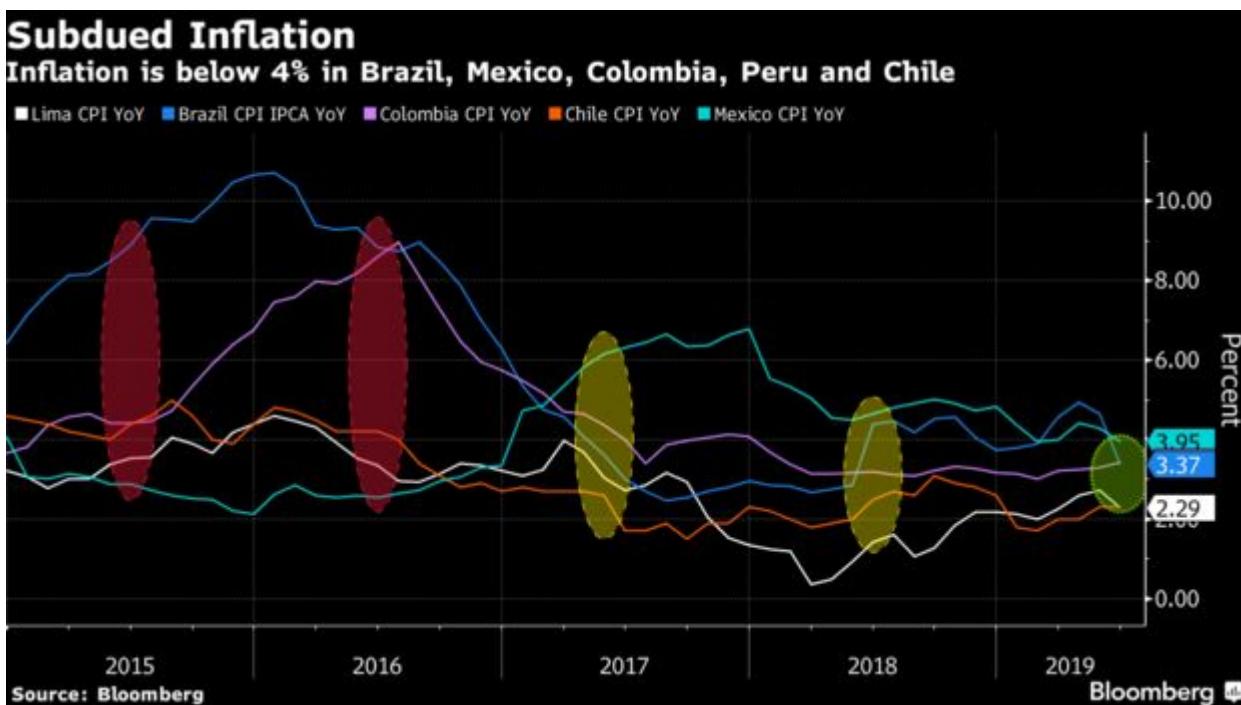
Bank of Japan policy makers finish a meeting on July 30. About a third of economists in a survey published last week said they expect policy makers to strengthen their pledge to maintain rock-bottom interest rates rather than do nothing and risk a sharp appreciation of the yen should the Fed cut rates. Still, some officials see little to be gained from such a tweak, according to people familiar with the matter. Data released on Tuesday is forecast to show industrial production shrank again in June amid weak external demand.

Easy Does It

In China, Bloomberg Economics says purchasing managers' indexes will probably remain in contractionary territory as pressure on exporters persist. Elsewhere, a report on Thursday is set to show South Korean exports slid for an eighth straight month which will unnerve those already worried about global trade. Inflation data for Australia, Indonesia, South Korea and Thailand will help inform central bankers.

Latin America

Brazil's central bank is widely expected to cut borrowing costs on Wednesday with economists and traders debating how deep it will go. The following day, July industry output data may shed light on whether Latin America's largest economy slipped into technical recession in the first half of the year. Mexico will learn if it was able to avoid a technical recession on Wednesday, when the national statistics bureau releases preliminary output data for the second quarter.



Halliburton second-quarter profit beats analysts' estimates



(Reuters) – Halliburton Co (HAL.N) on Monday reported a second-quarter profit that beat analysts' estimates as its largest oil-well services unit exceeded expectations, sending shares to their biggest one-day gain in nearly three years.

The Houston-based oilfield company is the largest provider of hydraulic fracturing services in North America, a segment of the business that has been hard-hit by overcapacity, making it difficult to raise prices.

Halliburton Chief Executive Officer Jeff Miller said that market remains oversupplied and the company idled equipment during the quarter and will continue to do so. It has also taken steps to cut costs by reorganizing its North American business.

Halliburton shares, which have declined nearly 18.2% this year, closed up 9.15%, or \$1.99 a share, to \$23.74, marking the largest percentage gain since November 2016.

Revenues for the Completion and Production unit, which provides hydraulic fracturing services and tools to complete

oil and gas wells, rose 4% from the prior quarter to \$3.8 billion. Margins were boosted by cost-cutting and maximizing equipment usage, Miller said on a conference call.

The company cut the number of North American employees by 8% in the second quarter, spokeswoman Emily Mir said on Monday.

Byron Pope, an oilfield analyst for Tudor, Pickering, Holt & Co, said, “The magnitude of the improvement in the Completions and Production margin performance” was encouraging, adding that it was good to hear the company publicly acknowledge that it has idled equipment.

Despite the improvements, CEO Miller warned investors that third-quarter activity would decline as producer customers continue to focus on reducing spending.

“We expect that activity in North America will be slightly down in the third quarter. We anticipate the slowdown to be more pronounced in the gassier basins due to persisting lower gas prices,” he said.

Halliburton posted a strong increase in revenue from international markets, jumping more than 12% to \$2.60 billion, in contrast to the 13.2% decline in North America to \$3.33 billion.

“Momentum is building internationally and activity improvement should continue into 2020,” Miller said in a statement.

Rival Schlumberger NV (SLB.N) on Friday reported a profit increase on demand from markets outside North America.

Net profit attributable to Halliburton fell 85% to \$75 million, or 9 cents per share, in the quarter, hurt by impairments and other charges.

Excluding one-time items, the company earned 35 cents per share, beating Wall Street’s average estimate of 30 cents per share, according to IBES data from Refinitiv.

Revenue fell 3.5% to \$5.93 billion and missed estimates of \$5.97 billion.

Reporting by Nishara Karuvalli Pathikkal and Arathy S Nair in Bengaluru, and Liz Hampton in Houston; editing by Steve Orlofsky and Grant McCoolOur Standards:The Thomson Reuters Trust Principles.

A Reform Opportunity for the IMF



Jul 19, 2019 JOSÉ ANTONIO OCAMPO

The departure of Christine Lagarde from the helm of the International Monetary Fund represents a golden opportunity to put the institution on a path toward a more effective and inclusive future. What should her successor's priorities be?

NEW YORK – This month marks the 75th anniversary of the signing of the Bretton Woods agreement, which established the International Monetary Fund and the World Bank. For the IMF,

it also marks the start of the process of selecting a new managing director to succeed Christine Lagarde, who has resigned following her nomination to be European Central Bank president. There is no better moment to reconsider the IMF's global role.

The most positive role that the IMF has played throughout its history has been to provide crucial financial support to countries during balance-of-payments crises. But the conditionality attached to that support has often been controversial. In particular, the policies that the IMF demanded of Latin American countries in the 1980s and in Eastern Europe and East Asia in the 1990s saddled the Fund's programs with a stigma that triggers adverse reactions to this day.

It can be argued that the recessionary effects of IMF programs are less harmful than adjustments under the pre-Bretton Woods gold standard. Nonetheless, the IMF's next managing director should oversee the continued review and streamlining of conditionality, as occurred in 2002 and 2009.

The IMF has made another valuable contribution by helping to strengthen global macroeconomic cooperation. This has proved particularly important during periods of turmoil, including in the 1970s, following the abandonment of the Bretton Woods fixed-exchange-rate system, and in 2007-2009, during the global financial crisis. (The IMF also led the gold-demonetization process in the 1970s and 1980s.)

But, increasingly, the IMF has been relegated to a secondary role in macroeconomic cooperation, which has tended to be led by *ad hoc* groupings of major economies – the G10, the G7, and, more recently, the G20 – even as the Fund has provided indispensable support, including analyses of global macro conditions. The IMF, not just the "Gs," should serve as a leading forum for international coordination of macroeconomic policies.

At the same time, the IMF should promote the creation of new mechanisms for monetary cooperation, including regional and inter-regional reserve funds. In fact, the IMF of the future should be the hub of a network of such funds. Such a network would underpin the “global financial safety net” that has increasingly featured in discussions of international monetary issues.

The IMF should also be credited for its prudent handling of international capital flows. The Bretton Woods agreement committed countries gradually to reduce controls on trade and other current-account payments, but not on capital flows. An attempt to force countries to liberalize their capital accounts was defeated in 1997. And, since the global financial crisis, the IMF has recommended the use of some capital-account regulations as a “macroprudential” tool to manage external-financing booms and busts.

Yet some IMF initiatives, though important, have not had the impact they should have had. Consider Special Drawing Rights, the only truly global currency, which was created in 1969. Although SDR allocations have played an important role in creating liquidity and supplementing member countries’ official reserves during major crises, including in 2009, the instrument has remained underused.

The IMF should rely on SDRs more actively, especially in terms of its own lending programs, treating unused SDRs as “deposits” that can be used to finance loans to countries. This would be particularly important when there is a significant increase in demand for its resources during crises, because it would effectively enable the IMF to “print money,” much like central banks do during crises, but at the international level.

This should be matched by the creation of new lending instruments – a process that ought to build on the reforms that were adopted in the wake of the global

financial crisis. As IMF staff have proposed – and as the G20 Eminent Persons Group on Global Financial Governance recommended last year – the Fund should establish a currency-swap arrangement for short-term lending during crises. Central banks from developed countries often enter into bilateral swap arrangements, but these arrangements generally marginalize emerging and developing economies.

Then there are the IMF initiatives that have failed altogether. Notably, in 2001-2003, attempts to agree on a sovereign debt-workout mechanism collapsed, due to opposition from the United States and some major emerging economies.

To be sure, the IMF has made important contributions with regard to sovereign debt crises, offering regular analysis of the capacity of countries in crisis to repay, and advising them to restructure debt that is unsustainable. But a debt-workout mechanism is still needed, and should be put back on the agenda.

Finally, the IMF needs ambitious governance reforms. Most important, building on reforms that were approved in 2010, but went into effect only in 2016, the Fund should ensure that quotas and voting power better reflect the growing influence of emerging and developing economies. To this end, the IMF must end its practice of appointing only European managing directors, just as the World Bank must start considering non-US citizens to be its president.

Lagarde's departure represents a golden opportunity to put the IMF on the path toward a more effective and inclusive future. Seizing it means more than welcoming a new face at the top.



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35 Commentaries

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<https://www.project-syndicate.org/commentary/imf-lagarde-successor-institutional-reform-by-jose-antonio-ocampo-2019-07>

ECB rate-cut bets drive another big weekly fall in bond yields



- * ECB easing hopes bolster bond markets
- * German Bund yield set for biggest fall in seven weeks
- * Focus on ECB inflation target debate
- * Markets ramp up bets on July ECB rate cut
- * Euro zone periphery govt bond yields tmsnrt.rs/2ii2Bqr (Updates prices, adds comment)

By Dhara Ranasinghe

LONDON, July 19 (Reuters) – Anticipation of ECB rate cuts put German yields on track for their biggest weekly drop in seven weeks on Friday, while Italian borrowing costs were set for a seventh week of declines despite rising off 3-year lows hit the previous day.

Euro zone debt has resumed its rally after last week's brief selloff, receiving fresh impetus after a report that European

Central Bank staff were studying a potential change of the inflation goal. That's added to expectations for prolonged policy easing.

"Last week, we did see a big selloff and when we entered this week it was a buying opportunity because central banks are expected to ease policy," said Pooja Kumra, European rates strategist at TD Securities in London. "And adding to that we've had further signals that we will get easing soon."

Comments by two Federal Reserve officials have also revived bets on a 50 basis-point U.S. interest rate cut this month, though 10-year Treasury yields inched higher on Friday after falling on Thursday .

With the exception of Italy, most 10-year euro area bond yields slipped, though they inched off session lows as U.S. yields rose.

Germany's 10-year yield fell 1.5 bps to minus 0.32% . It is down almost eight bps this week and set for its biggest weekly fall since the end of May.

In focus now is the ECB's July 25 meeting that is expected to flag a cut in deposit rates as early as September. Money markets suggest some investors expect a move as early as next week, pricing almost a 60% chance of a 10 bps cut, up from around 40% earlier this week.

Natixis fixed income strategist Cyril Regnat said it would make more sense to wait until September but added: "The big question is not about a rate cut but whether the ECB reopens asset purchases."

"This is what investors keep asking us about."

Bets on a deeper and longer rate-cutting cycle and the possibility of another bond-buying programme sent a key gauge of long-term euro zone inflation expectations, the five-year,

five-year forward, to the highest in almost two months at 1.32% .

ITALY

Italian 10-year borrowing costs were the exception to the bullish mood, though analysts noted a seven bps rise came after yields fell to a new three-year low of 1.506% on Thursday.

Yields have fallen around 120 bps since mid-May, having outperformed euro zone peers thanks to the ECB easing speculation and relief that Rome avoided disciplinary action from the European Union over its fiscal position.

This week yields are down more than 10 bps.

But on Friday investors grew nervous as Deputy Prime Minister Matteo Salvini said he would meet coalition partner Luigi Di Maio amid speculation that the increasingly unwieldy government might collapse.

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While investors might welcome an administration that excludes Di Maio's 5-Star movement, there needs to be a government in place in October to approve the 2020 budget.

Analysts at Eurasia Group said while pressure on Italian markets had lifted, they would remain volatile.

"The coalition remains inherently unstable and early elections remain likely, though probably not before early 2020," they told clients.

Reporting by Dhara Ranasinghe, additional reporting by Sujata Rao; editing by William Maclean, Larry King, Kirsten Donovan

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<https://www.reuters.com/article/eurozone-bonds/update-2/ecb-rate-cut-bets-drive-another-big-weekly-fall-in-bond-yields-idUSL8N24K2R8>

Will ECB walk or just talk as rate circus comes to Europe?



BRUSSELS (Reuters) – The global march towards lower interest rates reaches Europe this week with the European Central Bank expected at least to signal easier monetary policy, while Turkey's new banking chief is seen taking an ax to the country's rates.

Slowing global growth, increased protectionism and in some cases weak domestic data have persuaded major central banks to loosen monetary policy, with a rate cut more or less inked in for the U.S. Federal Reserve at the end of the month.

The ECB, whose Governing Council meets on Wednesday and Thursday, said last month that euro zone interest rates would remain at present levels at least through the first half of 2020 – an extension from previous period of until the end of 2019.

Two-thirds of economists polled by Reuters expect the ECB next week simply to change its guidance, such as for rates to be at “present or lower levels” ahead, with a cut of the deposit rate to an all-time low of -0.50% at its September meeting.

“I think for now, they’ll only get to point where they consider a rate cut is on the table and then do it later. The ECB has a long history of moving very slowly,” said Capital Economics’ senior Europe economist Jack Allen-Reynolds.

But some economists believe the ECB will have to do more.

Carsten Brzeski, chief economist for Germany at ING, says he thinks of the chances of just words as 51%, versus 49% for action.

“Draghi has surprised us more often in terms of being ahead of the curve, of over-delivering, but it’s very hard to say. I think there will be a tough discussion,” he said.

If the Fed starts cutting rates and the ECB does not send out an extremely dovish message, the euro could strengthen, although at Friday’s level of \$1.12 it is hardly near the pain barrier for EU exporters.

Commerzbank is one bank that predicts the ECB will act, cutting by 20 basis points

“Maybe they want to prevent an appreciation (of the euro) and, like the U.S., they want to prolong the upswing. The data though is not as bad as you might think,” said economist Bernd Weidensteiner.

Unemployment in the euro zone is, at 7.5%, at its lowest level

since July 2008, while industrial production and exports improved in May, albeit after declines in April.

In the United States, the case for a rate cut is ostensibly even thinner, with strong labor markets despite U.S.-China trade tensions and factory activity strong – at a year high in the mid-Atlantic region.

Yet markets were by Thursday expecting a half percentage point cut in U.S. rates at the end of July, double the reduction they expected just a day earlier. The action has been sold as insurance against any negative development. U.S. economic growth is expected to have cooled in the second quarter, set to be confirmed in a first GDP estimate on Friday.

TURKISH AX, NEW BRITISH PM

In Turkey, the case for action is more clear-cut given a recession-hit economy. Economists polled by Reuters expect the central bank under new governor Murat Uysal to reduce the current 24% interest rate by an average 250 basis points.

It will follow Indonesian and South Korean rate cuts on Thursday and the Reserve Bank of Australia, which reduced interest rates in both June and July.

The trend leaves only the Bank of Canada, buoyed by higher oil exports and consumer spending, and the Bank of England as outliers, though the latter could change.

Arch-Brexiteer Boris Johnson is expected to be named as Britain's next Prime Minister on Tuesday, raising the chances of a 'no deal' Brexit and potentially lowering growth forecasts.

Only 27 of 76 economists polled now expect an increase to British interest rates before the end of next year, compared to 36 of 69 last month. On the flip side, nine of 76 were expecting a cut by end-2020 compared to five of 69 in June.

"We don't necessarily share the view that the UK economy will see a substantial pick-up in growth even in a smooth Brexit," Royal Bank of Canada, a primary dealer of British government bonds, said.

Reporting by Philip Blenkinsop; Editing by Toby Chopra

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<https://www.reuters.com/article/us-global-economy/will/ecb-walk-or-just-talk-as-rate-circus-comes-to-europe-idUSKCN1UE1LU>

The ECB Needs to Explain Itself



Ambiguity is hampering effective policymaking by the European Central Bank and leaving market participants wondering what to expect. A review of the ECB's policy framework would help to eliminate such ambiguity – and place the Bank on much sounder footing for a new era of leadership.

ZURICH – Finland's central bank governor, Olli Rehn, has reiterated his call for the European Central Bank to conduct a long-overdue review of its policy framework. The upcoming

change of leadership at the institution – with Christine Lagarde, the International Monetary Fund’s managing director since 2011, likely to succeed Mario Draghi as president – offers an important opportunity to heed that call.

When the ECB was established 20 years ago, central banks were generally not too clear about the details of their policy frameworks. At that time, some ambiguity may have been helpful, because of the flexibility it offered when the ECB started operating. Furthermore, it allowed central bankers with different experiences and perspectives to agree on a framework, even though they may not have agreed on its precise details.

But the world has changed considerably since then, and the public is now demanding far more clarity. How can the ECB offer that, 16 years after the last review of its monetary-policy framework?

Since that review, conducted in 2003, the global financial crisis, and the ensuing European debt crisis, prompted the ECB to adopt a plethora of new policy instruments. These crisis measures – which have been deeply unpopular, particularly in Germany – can be justified only to the extent that they have been effective, and this must be evaluated. Moreover, as Rehn, who sits on the ECB’s governing council, has noted, long-run structural trends – such as population aging, lower long-term interest rates, and climate change – must be considered.

The effectiveness of ECB policy requires the members of the governing council to be singing from the same song sheet. They need a shared understanding of Europe’s long-term goals and the strengths and weaknesses of various policy instruments. And, in order to strengthen accountability and support smart decision-making, they need to be able to spell out the details of their monetary-policy strategies in ways that the public can understand.

As it stands, such clarity is at times hard to find, even when it comes to some of the most fundamental elements of the ECB's policy strategy. Price stability – the ECB's primary objective – is currently expressed as "inflation below, but close to, 2%." Does 1% inflation meet that condition, or is it too low, demanding more monetary-policy accommodation? Different members of the ECB's governing council may well have different answers to this question, and thus support different policies.

The same goes for the questions of whether the ECB's inflation target is symmetric – with the authorities intervening as vigorously when inflation is too low as they do when inflation is too high – and whether inflation should be measured over time or at a given moment. If, over some period, the inflation rate ranges from 0% to 4%, but averages to "below, but close to, 2%," has the objective been achieved?

The answer has major policy implications. If inflation is measured over time, the ECB could accept, or perhaps even aim for, a somewhat higher inflation rate in the medium term, to compensate for the excessively low inflation of recent years. If the public came to believe that a period of above-target inflation was likely, the expected real interest rate would fall, giving a jolt to the economy.

Of course, Draghi has established in speeches and press conferences that, in his view, the inflation target is symmetric; 1% inflation is too low; and the inflation rate should be measured over the "medium term." But it is not clear whether this view is broadly shared within the ECB's governing council.

Inflation targeting is hardly the only area where ambiguity is hampering effective policymaking and leaving market participants wondering what to expect. The ECB's outright monetary transactions (OMT) scheme – whereby the ECB promises to purchase bonds issued by eurozone member states on secondary sovereign-bond markets – is also generating

significant uncertainty.

OMT, Draghi's chosen tool for fulfilling his 2012 vow to do "whatever it takes to preserve the euro," was controversial from the moment it was announced, with Bundesbank President Jens Weidmann – one of Lagarde's main rivals for the ECB presidency – arguing fiercely against it in public. But that was seven years ago, and OMT has never actually been used. Is the governing council still committed to it? Or have the events – and council membership changes – of the last few years rendered that commitment obsolete?

With public debt in Greece and Italy still far too high, the eurozone still at risk of slipping into a recession that would significantly worsen both countries' fiscal positions, and Italian politics as volatile as ever, it would pay to know. A review of the kind Rehn demands would provide the needed answers – and put the ECB on much sounder footing for a new era of leadership.



STEFAN GERLACH

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EU ministers collide over

timid eurozone reforms



Agence France Presse

LUXEMBOURG: EU finance ministers wrangled over watered-down economic reforms Thursday with France hoping the eurozone budget it has long been pushing for was finally within reach. Almost a decade after the debt crisis, French President Emmanuel Macron wants his partners to implement the changes in order to make the single currency area more resilient to shocks and to tackle the global dominance of the United States and China. But resistance to overhauling the eurozone has deepened, amid a budget row with populist-led Italy, and as richer northern countries grow reluctant to indulge the budget-busters to the south. This distrust and hesitance has plagued the eurozone since it was launched in 2002, a disunity that economists say limits growth and invites crisis.

Ministers are discussing France's flagship reform of a eurozone budget that has been scaled back by opponents led by the Netherlands that fear a transfer of wealth to Italy, Greece or Spain.

“We are not far from a consensus,” French Finance Minister Bruno Le Maire said on Thursday as he arrived for talks that were expected to last late into the night.

Such a step would be “a major breakthrough in strengthening the eurozone,” he said.

“We are close,” said German Finance Minister Olaf Scholz who added that approval was widespread for a Franco-German compromise on the delicate matter.

Not a budgetThe EU ministers are officially not negotiating a budget – which would be too politically sensitive – but something called the Budgetary Instrument for Competitiveness and Convergence, a fund with limited firepower to be used to back reforms.

The cumbersome renaming comes at the demand of the Dutch, who have only accepted the instrument on condition that it remains an extremely modest affair.

The skeleton of Macron’s plan on the table comes after months of negotiating the broad elements, including spending priorities, source of revenues, and who should ultimately wield control over its decisions

A European source said it was the last element that would keep ministers up late with the Netherlands and others insisting the budget remains under the auspices of the EU budget. As such, the budget’s firepower would remain at a modest 17 billion euros over seven years with no chance of expansion and under the authority of the EU’s 27 member states (after the exit of Britain).

Macron had originally demanded an amount of several hundred billion euros to be used to stabilize economically weak countries, but this was swiftly slapped down.

The young French leader also wanted the creation of a eurozone

finance minister, an idea that was fast cast aside under pressure from Germany, which prefers that power over the economy remains national.

‘Impasse’ Ignored for now is a Europe-wide deposit insurance scheme, which is supposed to be the last pillar of an EU banking union set up after a series of bank failures during the worst of the crisis.

“Regrettably, the impasse on this project is still there. No tangible progress has been made,” said EU commission vice president Valdis Dombrovskis on Wednesday.

The deposit scheme is resisted by Germany, Finland and other northern European countries that fear being put on the hook for deposits in fragile countries such as Italy or Greece. Ministers also discussed Italy with Rome in infraction of EU budget rules and in danger of major fines inflicted by its currency zone partners.

Gushing European energy IPO pipeline faces muted investor appetite



Norway's Okea, Britain's Neptune, Chrysaor, Siccar Point and Spirit Energy are all either actively preparing or expected to plan an initial public offering (IPO) in the short term, as are recently merged German-Russian Wintershall Dea and Israeli-owned Ithaca Energy.

Oil and gas companies with a combined value of around \$41 billion are seen as candidates for listing in the coming years, according to estimates by energy consultancy Wood Mackenzie.

Shares of oil and gas companies historically rise after a crash in oil prices as investors bet on a recovery in prices.

But the recovery following the 2014 downturn, the worst in decades, has been slow and bumpy amid surging U.S. shale production and wider uncertainty over long-term oil demand as the world transitions to cleaner energy.

"IPOs tend to come when markets are sizzling hot and valuations are high – that is not the case for the energy sector currently," said Bertrand Born, portfolio manager for

global equities at German asset manager DWS.

Listed oil and gas companies have struggled in recent years, underperforming in many cases oil prices and other sectors, and offering a tough backdrop for any company contemplating a public listing.

In a sign of the challenging conditions, Okea on Thursday lowered its offered price per share and delayed its listing on the Oslo stock exchange.

Sam Laidlaw, executive chairman of Neptune, backed by private equity firms Carlyle Group and CVC Capital Partners, said he saw no time pressure for his company's IPO.

"Lower returns at \$100 a barrel than at \$60 raised concerns among capital markets. There is less appetite from generalist investors. We don't see anything that's IPO ready yet," he told Reuters this month.

"Some will consolidate, some will never make it to market, some will take longer. If we wanted to be first, there's plenty of time still."

Many of the IPO candidates, including Neptune, were set up in the wake of the 2014 crash by private-equity funds seeking to buy cheap and sell high when the oil price recovers.

But nearly five years on, the going is still tough for the sector.

In the first quarter of 2019, European IPOs slumped to their lowest since the aftermath of the 2008 financial crisis, as uncertainty over Brexit and the U.S.-China trade dispute left companies not wanting to take their chances.

UNIQUE STORY

To succeed, companies will have to offer investors something unique, says Jon Clark, regional transaction leader at EY.

"The European oil and gas IPO landscape looks like it will shift from famine to feast and the potential IPO candidates need to think how they will best position themselves," Clark said.

Wintershall-Dea is the largest producer of the group, aiming to boost its output by around 30% to at least 750,000 barrels of oil equivalent per day by 2023, in a portfolio stretching from Brazil to Europe and Russia and the Middle East.

Chrysaor, backed by Harbour and EIG, is the largest oil and gas producer in the North Sea after acquiring large portfolios from Royal Dutch Shell and ConocoPhillips.

Neptune has assets in a number of regions and is focused on gas, seen as the least-polluting fossil fuel.

In addition to returns, environmental, social and governance (ESG) issues are an ever-growing concern for fund managers and their clients.

Unlike any other time, investors are likely to question a company seeking to list on its role in the transition to a lower carbon economy following the 2015 Paris climate agreement to limit global warming.

"Sentiment in the market is not necessarily as strong as it used to be for oil and gas assets... we're moving towards a lower carbon economy," said Les Thomas, chief executive of Ithaca, owned by Israel's Delek Group, which last month acquired most of Chevron's North Sea assets for \$2 billion.

Greek group Energean was one of a handful of energy companies to list in London in recent years, betting on Israeli gas production and long-term offtake agreements. Its shares have risen over 90% since listing last year.

"Oil price upside is not enough anymore. You have to offer investors at least partial, if not complete, security of a

return on their investment regardless of commodity prices," Energean Chief Executive Mathios Rigas said.

"It's not enough to say I have this amazing geologist or knowledge of a basin or promise to find oil in frontier areas. To continue investing as an energy company only in oil, from an ESG perspective, is suicidal."

Turkey drafts law to help banks restructure debt



PHOTO: ILLUSTRATION: SHUTTERSTOCK/CHENONEY

(Reuters) – A draft law submitted to Turkey's parliament introduces tax exemptions to loan restructurings and legal protection for bankers as Ankara tries to make it easier for banks to restructure bad debt.

Following last year's sharp fall in the lira, Turkish banks and the government have been in talks on how to restructure billions of dollars of loans and remove them from banks' books

– an important step toward pulling the economy out of recession.

The draft law seen by Reuters contains some of the demands banks put to the government during the talks, such as tax exemptions on restructurings and amendments to protect bankers involved in restructuring.

Under an existing legal technicality bankers involved in debt write-downs or decreasing the value of loan collateral could potentially be liable to embezzlement charges.

The government pledged in April to repackaging problem loans to energy companies, estimated at more than \$12 billion, into funds which can then be sold to investors. It aims to do the same with construction loans.

The plan is seen as one of the ways to free up banking resources as well as supporting industries that are burdened by the slowing economy.

“Banks seem to have got most of their demands from the government. I think perhaps this may help with the most troubled types of restructurings, but I’m cautious on a broader take up by banks” a restructuring consultant said on condition of anonymity.

The draft law, submitted to parliament on Monday, exempts at least 50% of the profits banks make on problem asset sales from corporate tax. Asset transfers from borrowers to creditor institutions will also not be subject to value added tax.

The types of restructurings that fall under the scope range from amend and extend agreements, to debt to equity swaps and transfer of problem loans and assets to special purpose funds.

The changes will be in effect for two years and can be extended for two more.