Saudi Oil Premium Drops to 15-Year Low as Fuel Profits Crash

Saudi Arabia’s crude pricing in the world’s biggest oil market is reflecting tumbling profits from making cleaner fuels in Asia.

State-run Saudi Aramco slashed the premium of its Extra Light grade to its Heavy crude to the lowest since 2003, data compiled by Bloomberg show. When lighter varieties of oil are refined, they typically yield more of relatively clean products such as gasoline and petrochemical ingredient naphtha. The market for such fuels has been mired in a glut over the past two months.

While the world’s biggest oil exporter cut pricing on all its grades for January sales to Asia in a bid to take back market share lost to the likes of Russia and the U.S., the significant reduction in the premium for its lighter varieties shows the kingdom is probably taking into account the shrinking margins in the region for cleaner fuels as well as focusing on tackling competition from other sellers.

Fereidun FesharakiPhotographer: Charles Pertwee/Bloomberg
“Gasoline and naphtha are dying and margins still haven’t reached their worst,” Fereidun Fesharaki, chairman of industry consultant FGE, said in an interview in Singapore. “In Asia, Saudi prices are based on purely product yields and the competition they see from the outside.”

Oil refiners in Asia are fetching better returns by producing dirty fuel oil than from cleaner naphtha for the first time in more than a year, data compiled by Bloomberg show. Concern over falling petrochemical consumption is said to be dragging down prices of the so-called light distillate, while stockpiles swell in the regional trading hub in Singapore.

The gasoline refining margin in Asia was at a discount of 14 cents a barrel to Brent crude on Tuesday, according to PVM Oil Associates data. It had dropped to 66 cents on Nov. 28, the biggest discount since 2011.

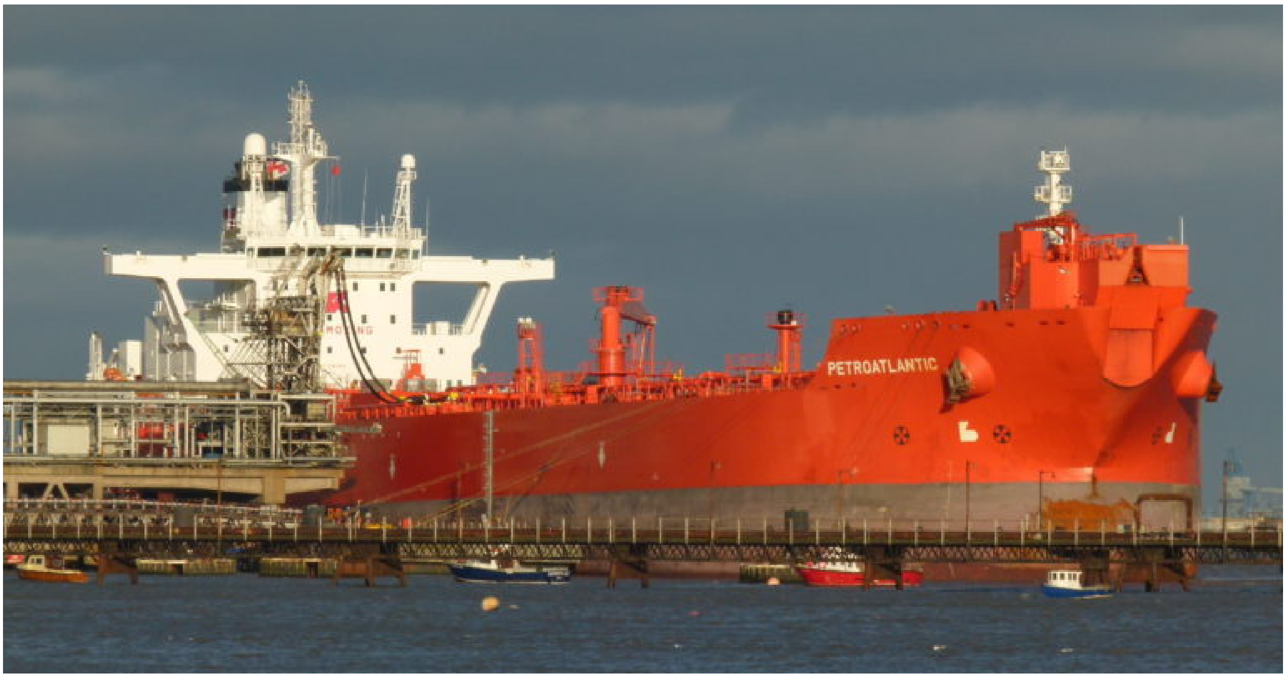
In China — one of the key markets where Saudi Arabia is seeking to reassert its crude dominance — refineries are doubling down on processing to boost diesel output aimed at heating millions of homes this winter, and therefore contributing to an increase in supplies of other products such as gasoline and naphtha. The nation has also raised its total fuel-export quotas by 12 percent for 2018 in a move that would allow more seaborne sales.

The premium of Saudi Arab Light crude, which yields more light as well as middle-distillate fuels such as diesel, over Arab Heavy for January sales to Asia also shrank to the smallest since November 2009, data compiled by Bloomberg show.

Meanwhile, with global crude prices stuck in a bear market, OPEC — in which Saudi Arabia is the largest producer — and its allies including Russia will decide this week on output curbs that may reduce export flows starting as early as January. Still, Saudi and Russian officials are said to differ on how to share the burden of any cuts. At the same time, the U.S. is pumping record amounts and shipping more to Asia.

“Saudi is facing more competition now and the U.S. competition becomes much bigger next year,” FGE’s Fesharaki said.

Kristian Ulrichsen: Leaving OPEC Reinforces Qatar’s Autonomy



Kristian Ulrichsen, a Baker Institute fellow and author of “The Gulf States in International Political Economy,” published an op-ed in The New York Times this week on the logic behind Qatar’s decision to leave the Organization of

Petroleum Exporting Countries, commonly known as OPEC.

According to Ulrichsen, OPEC has become mired in geopolitical disputes like the Saudi-Iranian rivalry, to the detriment of its member states and its central mission to stabilize international petrochemical markets.

Qatar has persisted in its mission to serve as a secure natural gas exporter. Qatar provides more than half of India’s natural gas imports, as well as 14-15% of China’s, Japan’s, and the UK’s, according to the MIT Observatory of Economic Complexity. Following the illegal blockade, Qatar signed long-term natural gas agreements with China, Japan, and the UK. Qatar even still provides natural gas to the United Arab Emirates through the Dolphin Pipeline, despite the blockade.

Qatar remains committed to the central mission of mission of OPEC – maintaining a stable international market for petrochemical products. Its decision to increase natural gas exports was in response to a projected increase in international demand, according to then-CEO of Qatar Petroleum, Saad Sherida Al Kaabi. Qatar Petroleum is investing $20 billion in U.S. oil and gas fields, most notably the Golden Pass LNG terminal in Texas, even though the U.S.’s LNG exports will inevitably compete against Qatar’s primary source of revenue in the global market.

Qatar’s departure from OPEC is a business decision, allowing Qatar the autonomy to develop its natural gas resources – its foremost economic strength – independent of other members’ geopolitcal agendas.

U.S. energy secretary pledges American support to wean Iraq off Iranian gas

BAGHDAD —Iraq’s stability rests on revitalizing its energy sector and weaning itself off natural gas imports, Energy Secretary Rick Perry said Tuesday during a rare visit by a member of President Trump’s Cabinet as Washington seeks to weaken Iraq’s ties to Iran.

Iraq faces a difficult challenge in balancing its allegiances to both the United States and Iran. Iranian natural gas plants account for nearly 50 percent of Iraq’s electricity, an arrangement that is threatened by new U.S. sanctions on Iran’s energy, banking and transportation sectors.

In addition to the two countries’ cultural, military and political ties, Iraq has been a critical trading partner for Tehran at a time when sanctions have contributed to a deepening economic crisis in Iran.

Perry said he discussed sanctions on Iranian oil exports with Iraqi officials but did not address whether the United States will extend a 45-day waiver granted to Iraq last month as it seeks other energy sources.

“Sanctions were mentioned. They are a reality; they are there,” he said.

Perry said U.S. companies are ready to partner with Iraq to rebuild an energy infrastructure destroyed by a nearly four-year war against the Islamic State militant group and to help develop the country’s natural gas resources to serve energy-starved Iraqis.

But Perry stopped short of pledging U.S. taxpayer money toward the effort, urging Iraq’s leaders instead to rush new policies that would significantly reduce the red tape for foreign investment and rein in rampant corruption.

“I think it’s important for you to increase your energy diversity, your energy security, your national security while at the same time reducing your dependence on less-reliable countries seeking domination, control, using that energy resource,” Perry said in an apparent reference to Iran during an event organized by the U.S. Chamber of Commerce. The conference was attended by representatives of 52 companies and Iraq’s ministers of oil and electricity.

“The U.S. is well prepared to be a transparent, competitive and reliable source of [liquefied natural gas] to Iraq,” he added.

Iraq has struggled to keep the lights on since the U.S.-led invasion in 2003, with major cities such as Baghdad still without round-the-clock electricity.

Over the summer, widespread protests roiled Iraq’s southern Shiite heartland over the lack of basic services such as electricity and clean water, again highlighting the government's inability to improve living conditions for the majority of Iraqis amid a security and economic crisis.

The protests dealt a fatal blow to pro-U.S. prime minister Haider al-Abadi's bid for a second term in May elections.

His successor, Adel Abdul Mahdi, has struggled to complete his cabinet amid political infighting, but his choices for ministers of oil and electricity were approved with near-unanimous support from parliament — sending positive signals that Iraq sees its energy crisis as an urgent priority.

“This is a different administration that will move with speed to develop an energy sector that best serves the citizens of Iraq,” Perry said after meeting with Oil Minister Thamer Ghadban and Electricity Minister Luay al-Khatteeb.

Perry's visit was the first by a member of Trump's Cabinet this year and only the second since the president took office. Defense Secretary Jim Mattis visited Iraq in 2017 as major combat against the Islamic State wound down.

In his remarks, the former governor of Texas hewed to a U.S. policy shaped by Trump's worldview: The United States will not directly fund the rebuilding of Iraqi cities destroyed by the U.S.-backed campaign to defeat the Islamic State and will instead focus on encouraging U.S. companies and nations elsewhere in the Middle East to do so — while pressuring Iraq's government to ease the arduous processes of doing business in Iraq.

“Capital will come where it is welcome,” Perry said. “America and its business community stand ready to help you.”

“American innovation” can help restore Iraq's electric grid, increase its crude oil exports, develop its natural gas reserves and rebuild its sagging infrastructure, Perry said, adding that his visit is proof that Iraq's security environment has improved dramatically.

Douglas Ollivant, a managing partner of Mantid International, which works with U.S. companies in Iraq, said Perry's visit was "an important symbolic appearance by the administration, reminding that Washington has not forgotten Baghdad."

"It's also very important that he was carrying a message of making Iraq more business-friendly," Ollivant added.

Perry arrived the day after Iraqis observed the first anniversary of the nation's declaration of victory over the Islamic State.

The occasion was marked by spontaneous street celebrations and military marches – and the limited opening of Baghdad's Green Zone, a heavily fortified slice of the city that houses the sprawling U.S. Embassy, international diplomatic missions, government ministries and villas belonging to Iraq's business and political elites.

The Green Zone has been closed to the public since 2003, when the U.S. invasion turned it into the cloistered administrative center of the occupation. It later became a symbol of the Iraqi government's perceived detachment from the needs and concerns of the general public.

Abdul Mahdi ordered one of the wide boulevards of the Green Zone opened for a two-week trial starting Monday, from 5 p.m. to 10 p.m. – a move that he said could become permanent, despite objections from the United States. Other arteries and the leafy side streets of the area remain closed.

The U.S. Embassy responded to the limited opening of the area by restricting all American staffers from taking walks beyond the embassy gates, said a person familiar with the order who spoke on the condition of anonymity because the person was not authorized to speak with the media.

Why Is Qatar Leaving OPEC?

The decision to leave the oil cartel is aimed at reinforcing the country's autonomy from its Persian Gulf neighbors.

The surprising declaration by Qatar about leaving OPEC on Jan. 1 is a strategic response by the country to a changing energy landscape and the 18-month old ongoing boycott of Qatar by Saudi Arabia, United Arab Emirates, Bahrain and Egypt.

Qatar's decision to move away from a regionwide consensus among the Gulf's OPEC members is a reminder of the regional tensions arising from the assertiveness of Saudi Arabia, led by Crown Prince Mohammed bin Salman.

This display of autonomy spilled over into the six-nation Gulf Cooperation Council to which Qatar and three of its detractors belong and which held its annual summit on Sunday. Tamim bin

Hamad al-Thani, the emir of Qatar, did not attend the council and sent a lower ranking delegationinstead. Kuwait and Oman also hold reservations about the hawkish axis between Saudi Arabia and the United Arab Emirates and will follow Qatar's decision closely.

The Gulf Cooperation summit did not discuss the blockade of Qatar and the rift in the gulf remains unresolved and, perhaps, unresolvable, as positions have hardened and neither Qatar nor the Saudi Arabia-led quartet wants to be seen to blink first.

By becoming the first of the energy-rich Gulf States to withdraw from OPEC, Qatar has signaled its disapproval with an organization perceived to be subject to increasing Saudi interference.

Saudi interference was starkly illustrated during an April 2016 meeting in Doha, the capital of Qatar, when Prince Mohammed, then the deputy crown prince, intervened to thwart an output agreement between OPEC and non-OPEC states. Emir Tamim had worked hard to secure the agreement both within OPEC and with Russia, only to see the Saudis pressure Qatar to disinvite Iran, a fellow OPEC member, and sink the deal midway through the meeting.

Although designed to address the sustained post-2014 slump in oil prices, the Cold War between Saudi Arabia and Iran trumped, in Prince Mohammed's view, the need to secure an agreement that could stabilize oil prices and assist producers' economies hit by shortfalls in revenue.

Qatar's decision to withdraw from OPEC builds on two decisions taken before and after Saudi Arabia and its allies cut ties with Qatar and imposed a blockade last June. In April 2017, it decided to significantly expand its production of natural gas to increase its natural gas capacity by 43 percent to 110 million tons annually. The Qatari leadership also responded to the attempt to isolate Qatar by forging a slew of new longer-term natural gas agreements with partners worldwide, including China, Japan and Britain, to demonstrate that Qatar remained open for business.

Qatar made a strategic decision to direct national resources toward gas rather than oil as the backbone of its energy policy. While the country discovered oil in 1939, a year after Saudi Arabia and Kuwait, and joined OPEC in 1961, it never became a major player in global oil markets because its oil exports remained small by Persian Gulf standards.

In the 1970s, Qatar discovered vast quantities of natural gas in the offshore North Field, which straddles the maritime border between Qatar and Iran, with the largest part of the field in Qatari waters. The North Field remains the largest non-associated gas field ever found, with more than 130 years of reserves at current production rates of 77 million tons a year.

Since the early 1990s, Qatar has invested heavily in creating the infrastructure to export gas both through pipelines and as liquefied natural gas. By 2007, Qatar was the largest exporter of LNG in the world, with production plateauing in 2010 at 77 million tons a year. In contrast, its average oil production of 607,000 barrels per day in 2017 is less than 2 percent of OPEC's total output.

In April 2017, Qatar Petroleum lifted a 12-year moratorium on the further development of its natural gas resources that it had imposed in 2005 to allow time to study the impact of such a rapid rise in production on the condition and sustainable management of the North Field.

The decision to increase LNG production capacity to 110 million from 77 tons a year came two months before the Saudi-led attempt to isolate Qatar last June. Throughout the ongoing, 18-month-long blockade, Qatar has continued to supply natural gas to the Emirates through a pipeline that accounts for about a quarter of the Emirates' daily gas demand.

In November – a month before announcement of Qatar's OPEC exit – a government reshuffle in Qatar saw Saad Sherida al-Kaabi, the former chief executive of Qatar Petroleum, appointed as Minister of State for Energy Affairs, a new portfolio that replaced the Minister of Energy and Industry.

During his term at Qatar Petroleum, Mr. Kaabi had lifted the moratorium on increasing gas production in the North Field. In his new ministerial position, Mr. Kaabi has been entrusted by Emir Tamim to oversee the next phase in Qatar's gas development. Plans include a range of new upstream developments and international partnerships intended to cement the country's position as the world's leading supplier of LNG.

Having displayed their resilience in the face of the Saudi-led blockade, Qataris seem to signal their determination to move on from OPEC and carve their own approach to global gas markets.

A new deal to supply LNG to Britain, which receives nearly a third of its gas supply from Qatar, was announced just as the blockade came into effect last June. In September Qatargas signed a 22-year agreement to supply PetroChina with 3.4 million tons of LNG a year through 2040.

Those deals, along with Qatar honoring its natural gas commitment to the Emirates despite the rift, have reinforced the post-blockade effort to portray Qatar as a reliable energy partner and a responsible member of the international community.

Thus, Qatar's decision to withdraw from OPEC is consistent with the strategic evolution of its energy interests that plays to their strength as a gas superpower and fits into existing plans to upscale significantly LNG infrastructure and production capacity.

It makes strategic sense to focus on a sector in which Qatar holds more than 30 percent of the global market share than on its far smaller and declining oil output. By also reinforcing Qatar’s autonomy from its Persian Gulf neighbors, the move exemplifies the failure of the 2017 blockade to force Qatar to clip its wings and return to a Saudi-led regional fold.

With neither Saudi Arabia nor the Emirates willing to back down or concede defeat, the Gulf rift is reshaping regional and institutional partnerships and increasing the degrees of separation among the parties to the dispute.

The GCC summit against a backdrop of regional crises

The 39th annual Gulf Cooperation Council (GCC) summit took place in Riyadh as the body is ridden with crises including regional disunity, challenges to sovereignty and the diminishing international reputation of Saudi Arabia, the biggest member state.

The GCC, made up of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE, was established in 1981 to foster socioeconomic, security and cultural cooperation in the region.

Yet, in recent years, it has been beset by problems and disputes, raising questions whether it is able to overcome such challenges in the spirit of collaboration.

Speaking from the summit on Sunday, the Emir of Kuwait Sabah Al Ahmad Al Jaber Al Sabah said the GCC must be able to “face the challenges in our region”.

“We need to keep our situation and our stand firm,” he said. “We have faced a lot of challenges, and on top of them, there are the differences between the different GCC nations. We need not risk the interests of our peoples.”

Regional crises

The summit is the second consecutive one held in the shadow of the blockade of Qatar by Saudi Arabia, the United Arab Emirates and Bahrain. Qatar’s Emir Sheikh Tamim bin Hamad Al Thani did not attend but sent his Minister of State for Foreign Affairs Soltan bin Saad Al-Muraikhi to represent the country.

The Qatar blockade, while stuck at an impasse, has had a major economic impact on Gulf investors with the emirate of Dubai particularly affected as property prices and stock indexes have fallen sharply.

Another crisis has been the heightened tensions between the UAE and Oman over Yemen’s southern province of al-Mahra that borders Oman. It is free from the presence of Houthi rebels, yet there are Saudi and UAE forces on the ground there, which Oman considers an infringement on its national security.

There is also the tension between Kuwait and Saudi Arabia over the shared Neutral Zone, which consists of two oil fields – Khafji and Wafra – that are jointly owned by the two states. The oil fields have been closed since 2014 and 2015, respectively, and have the capacity to produce more than 500,000 barrels a day.

The fields would be crucial to Saudi meeting its official production ceiling of 12.5 million bpd of oil if they were to come back online.

The dispute between the two countries centres on the question of the who has sovereignty over the zone, which lies on a portion of the border between them that has been undefined for almost a century.

"We're trying to convince the Kuwaitis to talk about the sovereignty issues, while continuing to produce until we solve that issue," Saudi Crown Prince Mohammed bin Salman told Bloomberg in an interview in October.

Saudi Arabia's predicament

Should the GCC disintegrate, Saudi Arabia would be the biggest loser, primarily because of its role as the largest country in size and resources, as well as the one that stood the most to benefit from the council.

The council has been affected by the oil kingdom's recent crises, whether stemming from its geopolitical adversary with Iran or conducting unofficial backchannels with the state of Israel.

The assassination of Saudi journalist Jamal Khashoggi in the country's consulate in Istanbul, Turkey also dealt a blow to Saudi Arabia's reputation internationally.

Domestically, the reputation of the ruling Al Saud family has also taken a hit as a result of the arrests and torture of senior princes and prominent businessmen last November.
The arrest of religious scholars, alleged torture of female activists and dissenters and a weakened economy beg the question of where Saudi Arabia is heading and what repercussions the GCC will face.

Abdullah Baabood, an Omani academic, told Al Jazeera there is rising discontent from Omani citizens regarding the way the GCC “has been managed and manipulated by Saudi Arabia”.

“The people look at what is happening [in terms of Saudi crises] as basically undermining the whole project of the GCC that has been going on now for decades,” Baabood said from Muscat.

“People here in the Gulf want to see a more functional, prosperous GCC that works together,” he continued, adding Saudi Arabia wants to manage the whole GCC and “bully everybody”.

“The damage that has been caused by this crisis is much deeper than people think,” he said. “How can you create a crisis and get everyone to work together?”

French insurer AXA extends climate change policy to XL

PARIS, Nov 26 (Reuters) – AXA, France’s biggest insurer, has extended its climate change policy to its recently acquired XL division, joining a growing list of European insurers that have taken action to help to tackle global warming.

AXA, Europe’s second largest insurer after Allianz , said XL would stop insuring projects related to the construction of coal-fired power plants and to tar sands extraction and pipelines, which will mean a 100 million euro ($113.60 million) revenue loss, mainly in 2020, AXA said.

“One hundred million euros is a lot of money but, when you take into account AXA’s world revenue, this is something we can absorb in terms of activity growth,” Jad Ariss, AXA’s head of public affairs and corporate responsibility, said.

AXA reported annual group revenues of 98.6 billion euros for 2017.

Bermuda-based XL, bought by AXA earlier this year in a $15 billion deal, mainly handles property and casualty insurance in the United States.

A number of European insurers and banks have committed to pull back for most polluting industries under pressure from

environmentalist groups and activist investors.
AXA's announcement over its XL division follows Italian rival Generali's pledge earlier this month to stop offering insurance coverage to new coal mines and plants.

Other insurance industry players such Scor, Swiss Re and Zurich Insurance have also announced certain restrictions on carbon intensive industries.

European insurers have been more proactive than rivals in the United States in terms of their climate change policies.

Reducing insurance coverage of the coal industry raises costs for coal power generation, which could increase pressure on utilities to switch to cleaner energy.

Next month, the United Nations climate change conference takes place in Poland.

XL will also stop investing in assets related to coal and tar sands. The company will sell 660 million euros worth of financial assets starting in 2019, AXA executive Ariss said.

AXA itself had taken the step to divest from the coal and tar sands industry in late 2017.

XL will also refrain from investing in assets related to the tobacco industry and assets related to chemical and biological weapons, cluster bombs or anti-personnel mines, Ariss said.

TurkStream Project

Turkey’s president Recep Tayyip Erdogan (right) with Russia’s president Vladimir Putin during a ceremony to celebrate the TurkStream gas pipeline in Istanbul on November 19.
TurkStream is part of the Kremlin’s plans to bypass Ukraine, currently the main transit route for Russian gas to Europe, and strengthen its position in the European market.

Bulgaria prepares to transport Russian gas to central Europe

Bulgaria will go ahead with plans to spend €1.4bn ($1.59bn) to build a new gas link to Turkey to transport Russian gas from the Turk- Stream pipeline to Europe, by- passing Ukraine to the south. Bulgarian lawmakers gave the green light to the state gas com- pany Bulgartransgaz to launch tenders to build a new 484km gas link that will carry mainly Russian natural gas. TurkStream is part of the Kremlin’s plans to bypass Ukraine, currently the main transit route for Russian gas to Europe, and strengthen its posi- tion in the European market. Its two lines will each have an annual capacity of 15.75bn cubic metres. Russian energy giant Gazprom has completed the fi rst line of pipeline to Turkey for local gas consumption. Gazprom said yesterday it was considering booking capacity, which would eff ectively ensure that the gas Russia plans to send to Europe through its Black Sea pipeline will pass through its land. The news comes at a time of increased tensions between Russia and Ukraine, and Sofi a is concerned that the confl ict may once again put the brakes on Russia’s plans to ship gas through Bulgaria to Europe, by- passing Kiev. “What follows from now on is strict observation of European Union rules and procedures, so that we can eliminate all even- tual mistakes that in the past have led to the cancellation of South Stream," Energy Minister Temenuzhka Petkova said. Bulgaria is still smarting from the 2014 cancellation of Russia's plan to bring gas to its shores with its South Stream pipeline. The project, which had prom- ised the Balkan country on the European Union's periphery money and clout, was dropped by Russia after it blamed oppo- sition from Brussels. At present, Gazprom trans- ports about 14bn of cubic metres (bcm) of gas a year to Turkey via Bulgaria through a contract that runs through 2030. Bulgaria is ready to give up on its take-or-pay option in the current contract, if it gets a new 20-year deal to transport Rus- sian gas through the new pipe- line and says its net profi t for the period could be as much as €2.2bn. Brussels has been concerned that Bulgaria may opt to simply send Russian gas onto Europe to earn transit fees rather than allowing it to be traded at its planned Balkan Gas Hub, ce- menting its almost complete de- pendence on Gazprom. Some energy experts have also voiced concerns that Bul- garia is rushing too quickly with projects linked to Russian gas and dragging its feet with plans to develop gas links that would allow diversifi cation. In a bid to ease such concerns, Sofi a says the new pipeline will be built in line with EU energy rules. Bulgaria's parliament voted that Bulgartransgaz should set up a gas trading bourse and take a 20% stake in a liquefi ed natu- ral gas terminal off the coast in northern Greece.

Greece's Eurobank plots revival in $8bn bad-loan sale

Greece’s Eurobank Ergasias SA isn’t waiting around for a state rescue, with a plan to sell about €7bn ($8bn) of troubled loans and merge with a real estate fund. The shares soared, leading the country’s banking index higher. As part of the plan, the bank will merge with real estate fund Grivalia Properties REIC to create a new business named Eurobank, the two compa- nies said. It will then shift non-performing debt to a separate vehicle that will issue senior, mez- zanine and junior notes that the bank will initially retain. Some of the lower level notes would then be sold off to investors. Eurobank is seeking its own solution to a moun- tain of bad debt while Greece races to find a nationwide approach to accelerating the sale of soured loans. The government and central bank are weighing solutions that include providing state guarantees and easing payments for bor- rowers with modest means. “The merger is equivalent to a stealth recap for Eurobank, not in cash but in real estate,” Thanas- sis Drogossis, head of equities at Athens-based Pantelakis Securities wrote in a note to clients. The deal, if approved by regulators, will result in “faster balance sheet healing,” he said. Under the plan, Eurobank will retain the most senior portion of the securitised non-performing exposures, while the first losses will be borne by Eurobank shareholders who will be allocated junior notes. Between those will be a mezzanine tranche, some of which will go to Eurobank shareholders with some sold to investors. The deal will see Eurobank’s non-performing exposures drop to about 15% of total loans by the end of 2019 from the current 39%, then into single digits by 2021, according to the statement. The deal will also strengthen the restructured lender’s capital ratio. Eurobank jumped by as much as 25%, the big- gest gain since February 2016. The shares later retreated and were up 7.7% as of 1:27pm. Grivalia gained as much as 15.2%, its largest increase since June 2012. The benchmark FTSE/Athex index climbed by 4%. The transaction values Grivalia shares at a 9% premium on their Friday close, the companies said. That sets the price of the acquisition at about €790mn. The deal reunites Eurobank with Grivalia, which was first listed in its real estate unit in 2006 under the name Eurobank Properties REIC. The name was changed to Grivalia in 2014 as Eu- robank cut its stake under regulatory pressure. Eurobank’s plan for bad loans is a positive step for Greek banking and it proves that there is a lot of resilience and value, Piraeus Bank chief execu- tive off icer Christos Megalou said in a Bloomberg TV interview. Fairfax Financial Holdings Ltd, which currently holds an 18% stake in Eurobank and a 51% stake in Grivalia, will become the largest shareholder in the new lender with 33%, according to the statement.

ECB singles out Italy as

risks to financial stability increase

Bloomberg/Frankfurt

The European Central Bank singled out Italy as an example of how quickly investors lose confidence in a government if they're confronted with policy uncertainty, as it said the risks to financial stability in the bloc have become "more challenging."

In its twice-yearly Financial Stability Review, the ECB said concerns relating to debt-sustainability and liquidity at investment funds have both risen since the previous report. Two other key risks – disorderly adjustments in financial markets, and the ability of banks to provide credit – were largely unchanged.

"Despite limited spillovers so far, the stress in Italian sovereign debt markets illustrates how quickly policy uncertainties and the ensuing sudden shift in market sentiment can unearth risks to financial stability via higher risk premia and rising public debt sustainability concerns."

Still, the ECB noted that contagion from Italy's surging bond yields to other euro-area countries – unlike at the height of the financial crisis in 2012 – was limited.

ECB Vice President Luis de Guindos said in a press conference that the country’s bond spreads have fallen in response to signals recently that populists in Rome are ready to find a compromise with the European Commission. “I expect that at the end of the day the Italian government will reach an agreement.”

The ECB also said stress in emerging markets and trade tensions have added to downside risks to global growth, with the possibility of a cliff-edge Brexit posing an additional threat. At the same time, bank resilience has improved despite profitability remaining restrained. Momentum is building in real estate markets across the euro area, according to the ECB. “We start to see there’s some mild overvaluation,” Guindos said, after President Draghi last month labeled valuations in the prime commercial property market “stretched.”

In its report, the ECB said vulnerabilities are building in financial markets amid high valuations relative to risk. With a maturing global business cycle, a number of indicators appear to signal downside risks to asset prices, according to the report.

Emerging markets are particularly vulnerable. Higher interest rates in the US and rising trade tensions could spark more stress, after Argentina and Turkey saw bonds, stocks and currencies plunge over the summer months.

The FSR also highlighted risks outside the banking sector. After assets held by euro-area investment funds more than doubled in the past ten years, growing exposures to illiquid and risky securities make them vulnerable to potential shocks in global financial markets.