

How Trump's Steel War on Turkey Is Set to Change Trade Flows



By Thomas Biesheuvel, Elizabeth Burden, and Susanne Barton
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- U.S. plans to raise tariffs on Turkish aluminum and steel
- The country ranks as the world's sixth-biggest steelmaker

President Donald Trump's latest broadside against Turkish steel is a fresh blow to one of the country's most important industries and will reshape global trade flows.

Under a higher level of tariffs, Turkey will continue to lose American customers, once its most important steel market. The new tariffs won't put Turkish steelmakers out of business, but

force them to find new markets, likely across North Africa or the Middle East, or displace other imports to Europe.

“It’s certainly a challenge for Turkey’s steel,” Colin Hamilton, managing director for commodities research at BMO Capital Markets, said in an email. “They mainly import scrap, which has just become more expensive in Lira terms, and export products. ”

The U.S. plans to double tariffs on the nation’s steel to 50 percent, and raise the rate on aluminum to 20 percent, Trump said on Twitter Friday.

Turkey makes up 62 percent of bar used to reinforce concrete and masonry structures coming into the U.S. It also accounts for 37 percent of imported pipes for piling, which is used for foundation support and construction, and 14 percent of cold-rolled sheet. The tariffs will likely put U.S. steel companies in a favorable position, with Nucor Corp., Commercial Metals Co. and Steel Dynamics Inc. set to be among the big beneficiaries, according to Andrew Cosgrove, a senior analyst at Bloomberg Intelligence.

Turkey exported about 500,000 tons to the U.S. in the five months to May, compared with more than 1 million tons in the same period last year, according to data from the U.S. Census bureau. The U.S. has fallen from Turkey’s main steel buyer to number three.

Steel, in its more basic form of slabs, sheet or reinforcing bar, is a highly liquid market and it’s usually easy for a company to find a new buyer. Attacking imports has become a favorite tool of politicians from Europe to the U.S., causing flows to be rerouted. The global industry has been described as a game of whack-a-mole; if exports are blocked in one market, the action shifts elsewhere. Turkey ranks as the world’s sixth-biggest steel producer. In aluminum, it’s 31,

a tiny player. The U.S. imported about 4,500 tons of aluminum bars, rods and profiles from the country in 2017, according to

World Bank statistics.

The U.S. measures are designed to add pressure on Turkey to release an American pastor and will further squeeze an economy that's being engulfed by a financial crisis and plunging currency. An index of Turkish steel stocks sank almost 10 percent after the announcement, before recovering some of those losses.

In response to U.S. tariffs earlier this year, Turkey turned its exports toward European countries, such as Italy and Spain. The new U.S. tariffs will heighten fears that even more steel will head to the region, pressuring European producers. Regulators have introduced so-called safeguard measures, which slap tariffs on steel if imports exceed historical averages.

"The tariffs on Turkey itself won't form a big threat" to Europe, Philip Ngotho, an analyst at ABN Amro Bank NV, said by email. "Europe has measures in place to limit imports of steel into Europe, so that will continue to offer some protection from potentially cheaper and more steel from Turkey."

– *With assistance by Mark Burton, and Luzi-Ann Javier*

Greece's Credit Rating Upgraded by Fitch on Debt Sustainability



(Bloomberg) –Greece’s credit rating was raised by Fitch Ratings to the highest level since 2011 as the country approaches a successful exit from the ESM program and its sustained economic growth bodes well for debt sustainability. “Debt sustainability is also underpinned by a track record of general government primary surpluses, our expectation of sustained GDP growth; additional fiscal measures legislated to take effect through 2020 and somewhat reduced political risks,” the agency said.

Greece’s bailout program ends on Aug. 20, which is also the last day that the European Central Bank will still accept Greek bonds as collateral for providing cheap funding to Greek lenders, and the country is expected to take some time to secure an investment grade rating as it tries to convince investors that normality is back.

Without a program, Greece needs that rating from at least one agency to be eligible for the ECB’s funding facilities for its banks. Investment grade would also make the nation’s sovereign

bonds attractive to more investors, helping the government to regain sustainable access to markets.

Fitch upgraded Greece's long-term foreign currency debt to BB- from B, showing that the agency isn't that worried about the International Monetary Fund's glum assessment of the country's prospects.

"We expect fiscal performance to remain sound over the post-program period", Fitch said in the report, adding that public finances are improving. "GDP growth is gathering momentum," the rating agency said, forecasting a growth of 2 percent in 2018 and 2.3 percent in 2019.

With Greece exiting an eight-year period of bailout programs in just over a week, Greek governments must continue to implement reforms and stick to the fiscal path that has already been agreed with creditors to reassure investors.

"The domestic political backdrop has become somewhat more stable and the working relationship between Greece and European creditors has substantially improved, lowering the risk of a future government sharply reversing policy measures adopted under the ESM program," Fitch said.

Greek bonds are still vulnerable to external risks which makes sticking to the fiscal agenda and implementing reforms even more important for securing investor confidence. Greek 10-year note yields hit their highest level since June 22 this week amid uncertainty around Italy.

Among the major rating companies, Moody's Investors Service gives Greece the lowest grade and hasn't changed its rating since February, well before the conclusion of the last bailout review and the decision in June by euro-area finance ministers for further debt relief measures for Greece. S&P Global Ratings was the first to act after the Eurogroup decision and it raised its rating by one notch to B+.

Trump orders doubling of Turkey metals tariffs



Bloomberg/Washington

President Donald Trump ordered the doubling of steel and aluminium tariffs against Turkey, roiling global markets as relations between the Nato allies hit a new low.

Trump announced the decision in a tweet yesterday morning following a defiantly nationalist speech yesterday by Turkish President Recep Tayyip Erdogan in which he vowed that his country wouldn't bow to "economic warfare." Tensions have intensified in recent weeks over Turkey's detention of an American evangelical pastor.

"I have just authorised a doubling of Tariffs on Steel and Aluminum with respect to Turkey as their currency, the Turkish Lira, slides rapidly downward against our very strong Dollar! Aluminum will now be 20% and Steel 50%. Our relations with Turkey are not good at this time!" Trump said on Twitter.

Heightening the tension of the day, Erdogan conferred by phone yesterday with US adversary Russian President Vladimir Putin on economic ties, Turkish and Russian media reported.

A US deadline for Turkey to release Pastor Andrew Brunson lapsed less than two days ago, according to an administration official with knowledge of the ultimatum.

The deadline – which had been set for 6 p.m. on August 8 – came just hours after Turkish officials met with counterparts at the State Department and Treasury Department in Washington to try to resolve the dispute.

The clash reverberated across global markets as Turkey's economic crisis threatened to spread. The S&P 500 Index erased a weekly advance, European and emerging-market equities slid more than 1% and the 10-year Treasury yield slid to 2.90%. The euro sank as much as 1% to the weakest in more than a year, extending a drop triggered earlier by a Financial Times report that the European Central Bank raised concerns about banks' exposure to Turkey.

Turkey is seeking to stanch an economic meltdown amid fallout from US sanctions imposed last week over the continued detention of Brunson, who was jailed on espionage and terrorism allegations more than two years ago and recently released to house arrest.

The US was Turkey's fourth largest trading partner last year with \$21bn in commerce, behind Germany, China and Russia.

Shares of Turkish steelmakers Kardemir Karabuk Demir Celik Sanayi ve Ticaret AS and Eregli Demir ve Celik Fabrikalari TAS plunged as much as 8% and 9.9%, respectively, after Trump's tweet. Shares of the bank Turkiye Is Bankasi AS fell 8.7%, more than any full-day drop since 2013.

Steel was Turkey's fourth-largest export last year, valued at \$11.5bn and accounting for about 7% of total exports, according to the country's Steel Exporters' Association. Turkey ranks as the world's sixth-biggest steel producer.

While the US was the top destination for Turkish steel exports last year, it tumbled to third place in the first half of this year as earlier tariffs diminished the trade.

The move against Erdogan's government also highlights the disconnect between Turkey and the US as they fail to negotiate their way out of an array of conflicts.

Relations used to be based on strategic interests, but more recently they've been dominated by discord over alliances in Syria's civil war, Ankara's strengthening ties with Moscow, and its uneasy position within Nato. Turkey has been a key ally in the fight against Islamist terrorism in Iraq and Syria, and the US base in Incirlik is an important staging area.

Trump is working "diligently" to bring home Brunson, the president's lawyer Jay Sekulow said earlier on Fox News. Vice-President Mike Pence and Secretary of State Mike Pompeo are also involved in that effort, he said.

When Turkey moved Brunson from prison to house arrest last month, Pompeo said it was a welcome decision but not enough.

Greek banks face higher costs post-bailout as ECB ends waiver



Bloomberg/Athens

Greek lenders face higher financing costs after the European Central Bank said it will stop accepting the country's government debt as collateral from August 21, the day after the nation's bailout programme ends.

The ECB will remove a waiver exempting Greek bonds from a rule that all collateral must be investment grade. The exemption was conditional on Greece being compliant with an aid programme.

With Greek debt rated below investment grade by all rating companies, banks will have to replace as much as €3.5bn (\$4bn) of their liquidity with more expensive facilities, according to a person familiar with the matter.

The expectation is that lenders will turn to the interbank market and to the Greek central bank's Emergency Liquidity Assistance, the person said, asking not to be named because the information is confidential. Greek ELA carries an interest rate 1.5 percentage points higher than the ECB's main refinancing rate, which is currently at zero.

"The Governing Council has decided that from 21 August 2018, the Eurosystem's standard criteria and credit quality thresholds should apply in respect of marketable debt

instruments issued or fully guaranteed by the Hellenic Republic,” an ECB statement said.

Greece is trying to stand on its own feet again after a decade of financial crises, more than €300bn in aid commitments from the euro area and International Monetary Fund. It remains Europe’s most indebted country though, and the economy is still struggling to recover from losing more than a quarter of its output.

Yields on Greek bonds are rising again, with the 10-year note at about 4.2%, the highest since June 21 when euro-area finance ministers agreed on further debt-relief measures.

The ECB’s waiver had been in place since June 2016. An earlier exemption was suspended in February 2015 when the newly elected government said it wouldn’t meet the terms of the bailout program it inherited. The political wrangling that year almost saw Greece forced out of the currency bloc.

Bank of Greece governor Yannis Stournaras had repeatedly called for the government to apply for a precautionary credit line after the bailout. That could have allowed the waiver to be extended, and may have helped Greece gain access to the ECB’s quantitative-easing programme.

Russia loses bulk of WTO challenge to EU gas pipeline rules



GENEVA (Reuters) – Russia largely failed in its bid to overturn the European Union’s gas market rules in a World Trade Organization ruling published on Friday.

A World Trade Organization (WTO) logo is pictured on their headquarters in Geneva, Switzerland, June 3, 2016. REUTERS/Denis Balibouse

Russia launched the dispute in 2014, claiming that the EU’s “Third Energy Package” and the EU’s energy policy overall unfairly restricted and discriminated against Russia’s gas export monopoly Gazprom (GAZP.MM).

Russia argued that the EU broke WTO rules by requiring the “unbundling” of gas transmission assets and production and supply assets, which effectively stopped Gazprom – long the major supplier of gas to Europe – from owning the pipelines through which it sent gas to the European market.

Russia said the EU had unfairly discriminated in favor of liquefied natural gas and upstream pipeline operators by exempting them from those unbundling requirements.

The panel of three WTO adjudicators ruled against Russia on those points.

However, they upheld Russia's complaint about an unbundling exemption for Germany's OPAL pipeline, granted on condition that Gazprom supplied no more than 50 percent of the gas in the pipeline.

The 50 percent cap could only be exceeded if 3 billion cubic meters of gas was released annually at a fixed price to competing suppliers on the Czech market.

The WTO panel also agreed that Croatia, Hungary and Lithuania had discriminated against Russia by requiring a security of energy supply assessment for foreign, but not domestic, pipeline operators.

The European Commission called the ruling an important positive outcome that secured the core elements of the Third Energy Package, a 2009 reform that sought to integrate the EU's energy market while increasing competition.

"The Commission will now analyze the ruling in detail, in particular as regards a limited number of issues on which the WTO-compatibility of EU energy policy has still not been recognized," it said in a statement.

Russia's Economy Ministry said the parts of the ruling that went in its favor would help to improve access for Russian gas on the European market, and to level the playing field for pipeline service providers.

"This is a positive precedent that makes it possible to change the norms that created obstacles for Russian suppliers in the EU market, both in EU legislation and in the legislation of its individual member countries," it said in a statement.

Gazprom said it had always said that European energy policy should take gas suppliers' interests into account, and

therefore it was satisfied with the points where Russia had won.

Either side can appeal within 60 days.

Reporting by Tom Miles, additional reporting by Polina Ivanova, Ekaterina Golubkova and Foo Yun Chee; Editing by Matthew Mpoke Bigg

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– ECB. To see the full decision, [click here](#)

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Greece's Bailouts Are Over But Its Debt Pile Remains:
QuickTake

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– With assistance by Piotr Skolimowski

‘Toshiba in talks to sell Freeport LNG business’

TOSHIBA

Toshiba Corp is offering to sell its right to liquefy gas at the Freeport LNG Development project in the US and has received interest from companies including PetroChina Co, Jera Co and Tellurian Inc among others, the Nikkei reported. Toshiba has invited tenders for the project’s sale, the Nikkei reported, citing people it didn’t identify. The business has the right to process US shale gas into LNG and sell 2.2mn tonnes annually over two decades starting next year, according to the article. Toshiba is considering various options to mitigate risks but nothing has been decided as yet, spokeswoman Midori Hara said. Jera isn’t aware of the tender and isn’t in talks with Toshiba for the US LNG contract, Tsuyoshi Shiraishi, a spokesman for Jera said by phone. The Japanese conglomerate believes now is the time to sell the LNG business because of a recovery in LNG prices, the Nikkei reported.

Cheniere signs 25-year LNG sales deal with Taiwan's CPC



Aug 11 (Reuters) – Cheniere Energy Inc said on Friday it had signed a 25-year deal to supply liquefied natural gas to Taiwan's CPC Corp, which CPC valued at roughly \$25 billion.

Cheniere said it will sell 2 million tonnes of LNG per annum on a delivered basis to the state-owned oil and gas company, starting in 2021. It said the purchase price will be pegged to the Henry Hub monthly average, plus a fee.

A CPC spokesman valued the deal at \$25 billion, based on current prices.

Cheniere operates the Sabine Pass LNG terminal in Louisiana and is building the Corpus Christi LNG plant in Texas. The deal, which is through Cheniere Marketing, is not tied to a particular liquefaction train. (Reporting By Jess Macy Yu in Taipei and Julie Gordon in Vancouver; Additional reporting by Henning Gloystein; Editing by Neil Fullick)

PetroChina planning temporary halt of US LNG buying



PetroChina Co may temporarily halt purchases of spot US liquefied natural gas spot cargoes through the winter to avoid potential tariffs amid a trade conflict between the US and China, according to sources with knowledge of the strategy. Under the plan, PetroChina would boost buying of spot cargoes from other countries or swap US shipments with other nations in East Asia to avoid paying additional tariffs, said the people, who asked not to be identified because the information isn't public. PetroChina, a unit of the state-owned China National Petroleum Corp, couldn't immediately comment when contacted by Bloomberg. China said last week that it was considering a 25% tariff on US LNG, which had been missing from previously targeted goods, in a direct hit to American gas exporters. The move comes ahead of the winter heating season when demand and prices typically peak and shows that Chinese President Xi Jinping may be willing to suf-

fer some pain to avoid backing down from US President Donald Trump's trade dispute. PetroChina in February signed a 25-year deal to buy US LNG from Cheniere Energy Inc, with a portion of that supply expected to start this year. While China is currently the third-largest buyer of US LNG, American cargoes only made up about 5.7% of its imports over the last year, according to Sanford C Bernstein & Co. China's proposed tariff may temporarily benefit other suppliers, US Department of Energy Deputy Secretary Dan Brouillette said in an interview in Tokyo on Wednesday, noting that he doesn't expect any detrimental impact to the US energy industry.

Globalisation with Chinese characteristics



By Barry Eichengreen/Berkeley

US President Donald Trump's erratic unilateralism represents nothing less than abdication of global economic and political

leadership.

Trump's withdrawal from the Paris climate agreement, his rejection of the Iran nuclear deal, his tariff war, and his frequent attacks on allies and embrace of adversaries have rapidly turned the United States into an unreliable partner in upholding the international order.

But the administration's "America First" policies have done more than disqualify the US from global leadership.

They have also created space for other countries to re-shape the international system to their liking.

The influence of China, in particular, is likely to be enhanced.

Consider, for example, that if the European Union perceives the US as an unreliable trade partner, it will have a correspondingly stronger incentive to negotiate a trade deal with China on terms acceptable to President Xi Jinping's government.

More generally, if the US turns its back on the global order, China will be well positioned to take the lead on reforming the rules of international trade and investment.

So the key question facing the world is this: what does China want? What kind of international economic order do its leaders have in mind?

To start, China is likely to remain a proponent of export-led growth.

As Xi put it at Davos in 2017, China is committed "to growing an open global economy." Xi and his circle obviously will not want to dismantle the global trading system.

But in other respects, globalisation with Chinese characteristics will differ from globalisation as we know it.

Compared to standard post-World War II practice, China relies more on bilateral and regional trade agreements and less on multilateral negotiating rounds.

In 2002, China signed the Framework Agreement on Comprehensive Economic Co-operation with the Association of Southeast Asian Nations.

It has subsequently negotiated bilateral free-trade agreements

with 12 additional countries.

Insofar as China continues to emphasise bilateral agreements over multilateral negotiations, its approach implies a diminished role for the World Trade Organisation (WTO). The Chinese State Council has called for a trade strategy that is “based in China’s periphery, radiates along the Belt and Road, and faces the world.” This suggests that Chinese leaders have in mind a hub-and-spoke system, with China the hub and countries on its periphery the spokes.

Others foresee the emergence of hub-and-spoke trading systems centred on China and also possibly on Europe and the United States – a scenario that becomes more likely as China begins to re-shape the global trading system.

The government may then elaborate other China-centred institutional arrangements to complement its trade strategy. That process has already begun.

The authorities have established the Asian Infrastructure Investment Bank, headed by Jin Liqun, as a regional alternative to the World Bank.

The People’s Bank of China has made \$500bn of swap lines available to more than 30 central banks, challenging the role of the International Monetary Fund.

Illustrating China’s leverage, in 2016 the state-run China Development Bank and Industrial and Commercial Bank of China provided \$900mn of emergency assistance to Pakistan, helping its government avoid, or at least delay, recourse to the IMF.

A China-shaped international system will also attach less weight to intellectual property rights.

While one can imagine the Chinese government’s attitude changing as the country becomes a developer of new technology, the sanctity of private property has always been limited in China’s state socialist system.

Hence intellectual property protections are likely to be weaker than in a US-led international regime.

China’s government seeks to shape its economy through subsidies and directives to state-owned enterprises and others.

Its Made in China 2025 plan to promote the country's high-tech capabilities is only the latest incarnation of this approach. The WTO has rules intended to limit subsidies.

A China-shaped trading system would, at a minimum, loosen such constraints.

A China-led international regime would also be less open to inflows of foreign direct investment.

In 2017, China ranked behind only the Philippines, Saudi Arabia, and Indonesia among the 60-plus countries rated by the OECD according to the restrictiveness of their inward FDI regimes.

These restrictions are yet another device designed to give Chinese companies space to develop their technological capabilities.

The government would presumably favour a system that authorises other countries to use such policies.

In this world, US multinationals seeking to operate abroad would face new hurdles.

Finally, China continues to exercise tight control over its financial system, as well as maintaining restrictions on capital inflows and outflows.

While the IMF has recently evinced more sympathy for such controls, a China-led international regime would be even more accommodating of their use.

The result would be additional barriers to US financial institutions seeking to do business internationally.

In sum, while a China-led global economy will remain open to trade, it will be less respectful of US intellectual property, less receptive to US foreign investment, and less accommodating of US exporters and multinationals seeking a level playing field.

This is the opposite of what the Trump administration says it wants.

But it is the system that the administration's own policies are likely to beget. – Project Syndicate

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University of California, Berkeley, and a former senior policy adviser at the International Monetary Fund. His latest book is *The Populist Temptation: Economic Grievance and Political Reaction in the Modern Era*.