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Global credit markets showing signs of danger

The 12-month Libor is hovering at nearly 2.7 percent and has been rising steadily all year.

As money bolted from the stock market late Tuesday, it flowed into the 10-year Treasury note, knocking the yield down to 2.78 percent. Comparing the 10-year yield to the two-year Treasury yield shows a yield curve that has flattened to 51 basis points on Tuesday, a tick above the lowest level of the year.

While the stock market is clearly showing lingering signs of concern about tariffs and trade wars, looming hot wars and potential privacy wars, the global interest rate markets are also beginning to show worrisome signs of strain. Often, when we have seen dislocations in the global credit markets, it has been indicative of a looming, but unexplained, economic or market issue.

Libor, a key global interest rate on which many loans, from corporate to personal, are based. It stands for the London Interbank Offered Rate. Like the Federal Funds rate in the U.S., Libor is, and has been, quite sensitive to liquidity shortages and financial stresses in the world money markets over the years. Right now, the 12-month Libor hovers at nearly 2.7 percent, and has been rising steadily all year. As yet, no one has offered a satisfactory explanation for its persistent rise. When accompanied with a flattening of the U.S. yield curve, and a widening of credit spreads, we could be getting some nascent warning signs of distress somewhere in global financial markets. The source of that stress is not yet clear. But the markets are worried about something.

That means that, for the first time since the financial crisis, Fed policy is more restrictive than accommodative which, explains, in part, why stocks and bonds have become so jittery.

Tighter policy could lead to slowing growth, assuming that recent tax cuts, budget increases and deregulation fail to stimulate the economy as much as forecast.

And, we've already seen estimates for first quarter GDP revised to below the desired 3 percent level. Who knows about the remainder of the year.

A trade war will hurt those Trump says he's fighting for, says Nobel-winning economist

A trade war between the U.S. and China will ultimately hurt the very people President Donald Trump says he's aiming to protect, according to Nobel Prize-winning economist Christopher Pissarides. Trump was having a "knee-jerk reaction" to certain groups of Americans who did not benefit from the past several decades of open trade, Pissarides said at the China Development Forum in Beijing."There are losers from (open trade) and as long as governments deal with the losers, so that they don't feel left out, then everyone can benefit," Pissarides told CNBC on Saturday at the China Development Forum in Beijing.

"What the United States has failed to do in the past was to deal with the loser. Standards of living have fallen for certain groups of the population at the same time as the economy was growing," he said. He explained that, ultimately, Americans-especially those that Trump claims to be protecting - could lose out if countries move away from open trade. "It would actually hurt them more if there is a trade war and it will hurt many, many more people in the United States," Pissarides said. As a candidate, Trump had promised to renegotiate or eradicate bad trade deals between the United States and its trading partners, and pledged to hit back at China for its lopsided trade policies.

Earlier this month, Trump signed an executive order that imposed broad duties on foreign aluminum and steel imports - Canada and Mexico were exempted from that rule while some, including the European Union, would likely be given temporary reprieve.Beijing said last week it may target 128 U.S. products with an import value of $3 billion in response to the steel and aluminum import duty. The U.S. president had also announced tariff plans for up to $60 billion in Chinese imports, although China didn't officially connect its threats of retaliation to that White House action.

Pissarides said Trump's recent moves were likely entirely engineered as an appeal to his base — and countries like China probably understand that. During his election campaign, Trump promised to revive the U.S. manufacturing industry and recreate jobs that had been lost in the past several decades. But Pissarides said the U.S., as the world's most technologically advanced economy, should instead be "pushing along the technological frontier."

For China, it's a question of "how long do you let (Trump) get on like that without a trade war?" Pissarides said."The only way to avoid the trade war, and make life better for everyone, at least create conditions under which it can be made better, is for Trump to back down on that, but he has never backed down on anything," he said."Once he decided to do something, he's pushing and if any advisor is telling him 'it's not a good idea, Mr. President,' then he fires them. So, what can you do?" Pissarides added.

Joseph Stiglitz: The WTO 'is getting hamstrung' by Trump

The Trump administration's blocking of the appointment of new World Trade Organization judges is worrying, said renowned economist Joseph Stiglitz. The "WTO appellate body is getting hamstrung," he said, referring to the seven-member panel in charge of international disputes. Very significant fraction of Americans 'not with Trump': Stiglitz

Nobel Prize-winning economist Joseph Stiglitz sounded a warning on President Donald Trump's resistance to appointing new judges at the World Trade Organization. Previous trade skirmishes "were always done in the framework of the WTO, within international rule of law," Stiglitz, a former World Bank chief economist, told CNBC on Saturday at the China Development Forum in Beijing.The body currently only has four members as Trump's administration blocks the selection process of new judges, accusing the 23 year-old organization of bias against the U.S.

The WTO has traditionally appointed new judges based on unanimity, said Stiglitz, who is currently a Columbia University professor. "They're reluctant to depart from that practice ... but it seems, to me, important for the world to do what they can to save our rules-based system."

Stiglitz called on Beijing to bring a trade case to the WTO "to show their commitment to the international rule of law," but he told CNBC he expects that China has a plan for hitting the U.S. with reciprocal tariffs that would hurt.

"You target where it hurts the most," he said, referencing how the European Union threatened tariffs on goods from the states that congressional leaders represented. "China has, I'm quite sure, a very good economic map with which they will target certain places in the United States where the pain will be maximized."

An escalating trade war, the Nobel laureate said, could have political ramifications for Trump — especially if trade partners' retaliations hit the pocketbooks of the president's base."If there is a broad range increase in tariffs, it would affect their cost of living, the inflation would lead the Fed to raise interest rates at a higher rate, it would certainly impose a risk to the return to the U.S. to robust economic growth," he said. "This may be the one thing that actually does change this group of people who seem to have stuck with him even as he demonstrated bigotry, misogyny, support of people who [have a] Nazi background."

IMF chief optimistic on growth, but warns against trade protectionism

The International Monetary Fund (IMF) is optimistic on the outlook for global growth but warned darker clouds are looming due to fading fiscal stimulus and rising interest rates, the fund's Managing Director, Christine Lagarde, said on Wednesday.

In a speech in Hong Kong, Lagarde said the top priorities for the global economy are to steer clear of protectionism, guard against financial risk and foster long-term growth. The IMF chief was speaking as a trade conflict between the United States and China is creating significant uncertainty for businesses and their global supply chains."History shows that import restrictions hurt everyone, especially poorer consumers," Lagarde said."Not only do they lead to more expensive products and more limited choices, but they also prevent trade from playing its essential role in boosting productivity and spreading new technologies."

The best way to tackle global imbalances is to use fiscal tools or structural reforms, she said, adding that the World Trade Organization's rules were in danger of being "torn apart", which would be "an inexcusable, collective policy failure."

Policymakers need to commit to a level playing field and resolve disputes without using exceptional measures, she said."There are threats, there are counter-threats, there is an attempt to open a dialogue - we should support that dialogue attempt as much as we can," Lagarde said. "The impact of those threats is minimal on both sides. What is not minimal is the way in which confidence can be undermined."

The reality for 2018 and 2019 was that momentum would eventually slow due to fading fiscal stimulus, rising interest rates and tighter financial conditions, Lagarde said.

New analysis by the IMF showed that global debt had reached an all-time high of $164 trillion, 40 percent higher than in 2007, with China accounting for just over half of that increase. Lagarde said economies needed to reduce government deficits, strengthen fiscal frameworks and place public debt on a gradual downward path.

"Strengthening financial stability by increasing buffers in corporate and banking sectors is key, especially in large emerging markets such as China and India," she added. Housing markets in major cities worldwide were increasingly moving in tandem, with Lagarde warning that could amplify any financial and macroeconomic shocks coming from any one country.

Asked about the IMF's view on the Hong Kong dollar's peg to the U.S. dollar, Lagarde said the fund believed the pegging mechanism is consistent with the fundamentals of the financial hub's economy. The Hong Kong dollar was pegged to the greenback in 1983. The peg has forced the former British colony to import ultra-loose monetary policy from the U.S in recent years, with rock bottom interest rates in Hong Kong having helped to fuel soaring real estate prices. The IMF chief was speaking after attending the Boao Forum in China where she said that a global economic recovery was taking root.

IEA says 'mission accomplished' for OPEC as oil stocks shrink

OPEC and its allies appear to have accomplished their mission of reducing global oil stocks to desired levels, the International Energy Agency said on Friday, signalling that the market could become too tight if supply remains restrained.

The IEA, which coordinates the energy policies of industrialised nations, said stocks in developed countries could fall to their five-year average - a metric used by OPEC to measure the success of output cuts - as early as May.“It is not for us to declare on behalf of the Vienna agreement countries that it is ‘mission accomplished’, but if our outlook is accurate, it certainly looks very much like it,” the IEA said in its monthly report. Vienna-based OPEC has reduced production in tandem with Russia and other allies since January 2017 to prop up oil prices, which soared above $70 per barrel this month, giving a new boost to booming U.S. output of shale oil.

But as oil production has collapsed in OPEC member Venezuela and still faces hiccups in peers such as Libya and Angola, the oil exporter group is producing below its targets, meaning the world needs to use stocks to meet rising demand. The Organization of the Petroleum Exporting Countries said in a monthly report that oil stocks in the developed world were only 43 million barrels above the latest five-year average. The Paris-based IEA put the figure at just 30 million barrels as of the end of February.

The IEA said that even though non-OPEC output was set to soar by 1.8 million barrels per day this year on higher U.S. production, it was not enough to meet global demand, expected to rise by 1.5 million bpd or around 1.5 percent. OPEC was producing 31.83 million bpd in March, below the call on its crude for the rest of the year at 32.5 million bpd.“Our balances show that if OPEC production were constant this year, and if our outlooks for non-OPEC production and oil demand remain unchanged, in 2Q18-4Q18 global stocks could draw by about 0.6 million bpd,” the IEA said. The figure would represent 0.6 percent of global supply or around half of OPEC’s current production cuts of nearly 1.2 million bpd.

The output-limiting pact runs until the year-end. OPEC meets in June to decide its next steps. The organisation’s de facto leader, Saudi Arabia, has said it would like the agreement to extend into 2019.OPEC Secretary-General Mohammad Barkindo told Reuters on Thursday OPEC and its allies were poised to extend the pact into next year even as a glut of crude should evaporate by September.

“OPEC is within rapid reach of its first announced goals and will have to come up with a new metric for the June meeting if it wants the agreement to last into the second half of the year,” said Olivier Jakob from Petromatrix consultancy. Qatar’s energy minister told Reuters last week that even though stocks around the world were falling, an investment drought continued to afflict the oil industry and hence the price reforof crude could spike in the long run. Reuters market analyst John Kemp argues that recent statements from OPEC members indicate the organization appears to be reformulating its target in terms of upstream investment rather than inventories.

Latin America’s Renewable Energy Revolution

For centuries Latin America’s natural resources have helped move the world economy. From the silver galleons that financed the Spanish Empire to the iron and copper exports that are rebuilding China, Latin America’s natural resources have long been sold around the globe. But now the growth of renewable energy across the region is creating a new economic phenomenon – exploiting those natural resources for domestic growth.

In recent years Latin America has made huge strides in exploiting its incredible wind, solar, geothermal and biofuel energy resources. It is now on the cusp of an energy revolution that will reshape the region and create a host of business opportunities. To investigate the changes taking place Canning House helped to organise the recent Green Finance Summit in London and commissioned a Canning Paper from Latin News.

At the moment Latin America is still very dependent on another one of its natural resources – oil. According to the BP’s Statistical Review, Latin America accounts for more than 20% of the world’s oil reserves, making it the second-most important oil region in the world, which, is probably why it relies so heavily on the stuff. Oil accounted for 46% of the region’s total primary energy supply (TPES) in 2013, well above the global average of 31%.

When it comes to transport, oil-based fuel is likely to keep its pole position for some time to come. Electric cars and hybrids have been slow to make an impact globally, and in Latin America they are barely present. Brazil has made impressive strides with ethanol alternatives, but oil and its derivatives remain the number one choice. Moreover, Latin America’s outdated transport fleet, which is heavily made up of cast offs from the US or older models produced locally, is going to remain behind the curve on any transition to electric vehicles for at least the medium term.

But Latin America’s electricity sector has already begun to wean itself off its oil dependence. According to the Inter-

American Bank, Latin America is expected to almost double its electricity output between 2015 and 2040 and will need an extra 1,500 terawatt hours (TWh) of power. That's a huge amount – enough to power the entire UK's electricity grid for five years. Practically none of Latin America's new large-scale power plants will be oil-fuelled, which opens up the field for different technologies.

Countries in Central American and the Caribbean, whom traditionally imported oil, were the first to move away from oil-based power plants, after suffering a decade of high and volatile prices at the start of the century. In some cases, such as the Dominican Republic, that meant a switch to coal, which represents 5% of Latin America and the Caribbean's TPES. However, growing environmental objections mean that new coal plants are unlikely to be adopted by many Latin American countries in the future

Europe's planned digital tax heightens tensions with US

A global attempt to prevent large, multinational companies from shifting their profits to lower-tax jurisdictions is setting off a fight between the United States and Europe, as policymakers on both sides of the Atlantic spar over efforts to impose new taxes on foreign firms.

European Commission is expected to take aim at Silicon Valley's tech giants with a proposal to seriously revamp how technology companies are taxed in the 28-nation European Union. The plan, outlined in a draft obtained by The New York Times, would tax digital media companies based on where they generate revenue, rather than where they have their regional headquarters, which are often in countries like Ireland and Luxembourg that have lower tax rates.

The proposal comes in the wake of the new $1.5 trillion tax law that President Trump signed last year, which tried to crack down on profit-shifting by imposing a new minimum tax on the overseas earnings of any companies with United States operations. The international provisions in the United States tax law have angered some European leaders, who say they go too far and may violate World Trade Organization rules.

The global tensions — and the dueling tax efforts — stem from a shared concern among foreign governments that large, multinational corporations are not paying their fair share of taxes to the countries where they do business. American tech giants like Amazon, Apple and Google have kept their tax bills low for years by keeping profits overseas in lower-tax jurisdictions.

But there is no agreement about how to remedy such tax avoidance. The efforts are exacerbating the already heightened strain between the United States and Europe over a White House plan to impose stiff tariffs on most steel and aluminum imports. "Tax and trade have basically merged" as issues between the United States and Europe, said Jay Khosla, the staff director for the Senate Finance Committee.

The Organisation for Economic Co-operation and Development has been trying to coordinate global efforts to combat tax evasion. In a report on digital taxation issued on Friday, which was separate from the European Union proposal, the organization said that more than 110 countries agreed to review the international tax system, parts of which had been rendered obsolete by the digital economy.

Officials from the organization said that debate over the proposed European digital tax had been intense at the gathering of the Group of 20 finance ministers in Buenos Aires on Monday. Steven Mnuchin, the United States Treasury secretary, assailed the concept as unfair to American companies.

"We think that having gross taxes on internet companies is not fair," Mr. Mnuchin said in an interview on the sidelines of the G-20 meeting. "It is not the basis of how we think that they should be taxed, and we have been very clear in those discussions." He added: "To the extent that there are issues with change in taxation systems regarding physical presence, that needs to be addressed. It should not be a two-tiered system where internet companies are taxed under a different standard."

Pascal Saint-Amans, the director of the O.E.C.D.'s Center for Tax Policy and Administration, said that the level of animosity could undermine what had been a coordinated, global effort to crack down on tax avoidance.

"There are very positive aspects which should be conducive to conversation, but the background is tension, with risks," Mr. Saint-Amans said, adding that his organization was trying to ensure that "these countries don't go to war, at a time when there are some worries on that front."

The European Union's new tax proposal is expected to hit Silicon Valley tech companies the hardest by forcing them to pay taxes to governments where they do business.