ECONOMIC UPDATE

GLOBAL & INDIA

US-China investment flows fall to five-year low

Two-way direct and venture capital investments between the U.S. and China totaled $13 billion in the first six months this year, according to a study led by research firm Rhodium Group. That's an 18% fall from the second-half of 2018 and the lowest level since January-to-June in 2014, the report says.

Relations between the U.S. and China — the two largest economies in the world — have been rocky over the past year. What started out as a trade dispute in recent months spilled over to areas such as technology and security, which affected sentiment among investors. Some Chinese firms had initially considered setting up manufacturing in the U.S. to avoid elevated tariffs, but put their plans on hold as bilateral tensions escalated, said Rhodium. One such company is tech firm Bitmain Technologies, which froze its planned investment of $500 million, the report said. Beijing's tighter controls on capital outflows were another reason behind the drop in Chinese acquisitions of U.S. assets, although American regulators have also been tougher in approving purchases by China, according to the study.

In terms of capital flow from the U.S. to China, a notable fall was seen in American venture investments into the Chinese technology sector, the report showed.

“This drop came as investors became more selective in the face of increasing economic uncertainty and the growing perception that parts of China's tech ecosystem (for example in areas like artificial intelligence and the shared economy) had become overheated after years of rapid growth,” Rhodium said in the report.

Trade negotiations broke down in May as Washington increased tariffs on $200 billion of Chinese goods. The administration of U.S. President Donald Trump also blacklisted Chinese tech giant Huawei, forcing American firms to cut ties with it. China responded with elevated tariffs on $60 billion of U.S. goods.

UK economy shrinks for the first time since 2012

The chancellor has told the BBC that he does not expect the UK to slide into recession after data showed the economy shrank by 0.2% between April and June. Sajid Javid was speaking after the Office for National Statistics said the economy had contracted for the first time since 2012.The surprise decline came after Brexit stockpiles were unwound and the car industry implemented shutdowns.

The pound sank after the data was released, raising fears of a recession.

Against the dollar sterling fell to $1.2025. Against the euro, it dropped throughout the day to €1.0736, a level not seen since the global financial crisis a decade ago. Rob Kent-Smith, head of GDP at the ONS, said manufacturing output fell and the construction sector weakened.

A recession occurs when the economy contracts in two consecutive quarters. This is the first contraction since the fourth quarter of 2012.

The economy had shown 0.5% growth in the first quarter after manufacturers' stockpiling ahead of Brexit helped to boost output, when the manufacturing sector recorded its biggest quarter rise since the 1980s.

Mr Kent-Smith said: "Manufacturing output fell back after a strong start to the year, with production brought forward ahead of the UK's original departure date from the EU."He added that "the often-dominant service sector delivered virtually no growth at all".

Pound has fallen again after Prime Minister Boris Johnson announced he's planning to suspend Parliament next month, an action that makes preventing a no-deal Brexit harder to achieve for those MPs opposed to it.

Today, most countries use what is called a floating exchange rate, where the value depends on how much people want a certain currency at a point in time.

The pound was trading at just below $1.50 before Britain voted to leave the EU in June 2016.The value of sterling has fallen since then, driven in large part by Brexit uncertainty. When Boris Johnson took over as prime minister in July its value had fallen to about $1.22.

Signs of Global recession

The global economy is heading into recession. At least that is the fear after months of warning signs from the engine of global trade, which has spluttered this year.

Eighteen months ago Donald Trump began his “America first” campaign with a fight over steel dumping. The US president imposed 25% import tariffs on steel against China, the EU, India, Canada and Mexico. Since then the focus has all been on China. Trump blamed Beijing for undercutting US goods with an undervalued currency. As a punishment he imposed import tariffs on a wide range of Chinese goods and

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A combination of those higher borrowing costs, the end of the sugar rush and the tariff war with China, which has increased import costs, has hit US industrial production. Figures showed the US manufacturing sector in decline for the first time in a decade.

Trump, fearing the economic slowdown will damage his re-election hopes, has berated the Fed for being slow to cut rates again. Last week US Steel, which the president believed would prosper once it was protected from cheap Asian and European imports, said business was so bad it would be laying off workers and its stock value slumped back to where it was before Trump's election victory.

Germany's finance minister, Olaf Scholz, has raised expectations of a €50bn (£45bn) boost to the German economy to head off an imminent recession. The economy contracted by a small margin in the second quarter – 0.1% – but is expect to suffer a second and larger drop in the third quarter.

China, more than the US, has been the extra gear for the global economy since the 2008 financial crash, but the country is in the throes of a full-blown debt crisis. State industries have borrowed heavily and so have consumers. Banks are weighed down by loans that will never be repaid. Each time Beijing has attempted to rein in excessive consumer and corporate lending, the global economy has wobbled, forcing China's policymakers to loosen credit again. Meanwhile, industrial production growth is at a 30-year low at 4.8%. Beijing wants the economy to become more self-contained with a shift from manufacturing to services, but it's a long haul.

The uncertainty surrounding Britain's future and whether it remains inside the world's largest trading bloc or swims alone has already damaged investment and GDP growth. If the UK leaves the EU without a deal, most economists believe the damage will be severe. The IMF, OECD and World Bank have also warned that leaving without a deal will knock global growth, given the UK is the world's sixth largest economy after France.

Many countries are currently in recession or have recently suffered a contraction. Iran faces a blockade by the US and is unable to sell its oil or access the financial markets easily. Argentina is weighed down by enormous debts and Venezuela, despite holding the world's largest oil reserves, is in political and economic crisis.

International investors don't worry much about these countries, which have over the years been financially ring-fenced, but South Africa and Turkey pose a greater problem. They are more integrated into regional and