China factory production key as Tesla reports third-quarter results

NEW YORK: Tesla Inc is conducting trial production runs at its new US$2 billion China factory for the past several weeks and will sell some of the first cars from the plant to its employees, sources told Reuters.

Whether billionaire Elon Musk's flagship company can start mass production quickly enough to hit stated targets is the question investors will want an answer to when Tesla announces third-quarter results on Wednesday. The US electric vehicles maker is under pressure to ramp up output globally, and the Shanghai plant's production schedule is crucial if it wants to reach its ambitious target of an annualised production rate of 500,000 vehicles by the end of the year.

Tesla last week obtained the certificate it needs to start manufacturing cars in the country. But analysts contend that uncertainties around labour and suppliers make it a challenge to start mass production. "There is a lot in the equation that is not in their control," said Tu Le, analyst at China-based research firm Sino Auto Insights. "There are some things that just need time in order to complete, like qualifying new manufacturing processes, a new battery supplier, getting the tooling shipped and set up, as well as setting up all the suppliers. Any parts that have to be imported need to go through customs, which also could mean delays," he said.

Tesla is also in the process of obtaining a key certification needed to sell China-made cars in the country, it told local media, though it is unclear when the government will grant it sales clearance. Tesla did not reply to an email seeking comment. It said in April it aims to produce at least 1,000 Model 3 cars a week at the new factory by the end of this year.

Analysts, though, are doubtful that Tesla will hit this target, given its patchy production record. Delays and quality issues have marred the launches of Tesla's Model S and Model X vehicles in the past, and Tesla struggled to start making the Model 3 at its California factory in 2017. The company took six months longer than originally forecast to hit a target of 5,000 Model 3 cars per week, achieving that pace about a year after launching production. Still, Tesla is taking steps to ensure a smooth launch of production, including trying to diversify its battery supplier base, sources have said. It recently bought Maxwell Technologies, whose technology could help the car maker produce batteries that last longer. At hiring events in Shanghai in August and September, attended by Reuters journalists, Tesla interviewed hundreds of candidates from mainstream car makers in China. It also advertised on social media for battery-related production and software system engineers in Shanghai, and delivery managers in big Chinese cities.

FURTHER LOSSES? China, for its part, is helping speed up things at the Shanghai factory - the country's first fully foreign-owned car plant, a reflection of Beijing's broader shift to open up its auto market. State-owned construction companies have arranged extra workforce and banks are offering cheap loans, while the government said it will exempt Tesla cars from its purchase tax, a concession made amidst trade tensions with the United States. The Model 3 has fared well in China, the world's biggest car market. Tesla sales in China likely surged more than three fold to 10,542 cars in the quarter ended Sep 30, according to research firm LMC

Some US electronics factories start layoffs as trade tariffs hit

NEW YORK: US electronics factories are investing less and slowing hiring or laying off workers in some cases due to the rising costs of trade tariffs, according to an industry survey set for release on Wednesday.

The IPC, a global electronic industries trade association, found that nearly a third of all the dollar value of what its members with US operations import has been hit by increased costs from the protracted US-China trade war. The electronics industry has increasingly sourced raw materials, components and manufacturing equipment from Chinese factories. They are then assembled into final products, ranging from control panels for tractors to medical imaging machines, in factories closer to customers, including in the United States.

The survey from the IPC, based in Bannockburn, Illinois, found that one in five companies with US operations said they were investing less in the United States due to the new tariffs. About 13 per cent said they were cutting hiring or reducing headcount.

"It seems clear that loss of profitability is impacting the ability of these companies to invest in the US," said Shawn DuBravac, IPC's chief economist. DuBravac said many association firms had indicated they were leaving China, but "it doesn't appear from our results that a lot of that is flowing back to the US." Rather, the focus is on moving to other low-cost countries, including Vietnam and Malaysia, he said. Brad Heath, chief executive of VirTex, an Austin, Texas-based manufacturer, said he paid over US$200,000 in tariffs for Chinese electronics parts last month on behalf of his clients.

VirTex is a contract manufacturer, which means it assembles parts into sub-assemblies for bigger companies. It can usually pass costs through to final customers, Heath said. "But our customers don't have that ability," he added. "So someone is suffering margin erosion." The IPC survey found many companies were struggling to pass along tariff costs, with more than a third saying they could not increase their prices to compensate for them. Nearly 70 per cent said tariffs had eroded their profit margins, according to the survey, which also said just over half of companies were now sourcing from countries outside China to avoid tariffs. **—Reuters**

Caterpillar cuts profit outlook as China sales slump

BEIJING: Industrial bellwether Caterpillar Inc fell short of Wall Street estimates for quarterly profit on Wednesday and cut its forecast for overall earnings in 2019, as it reported a 13per cent slide in Asia sales driven by weakening demand in China.

The results, the latest hint of the deepening fallout for companies of U.S.-China trade tensions and a broader slowdown in the world's second-largest economy, sent shares in the heavy machinery maker down 5per cent and underpinned a fall in Dow Jones Industrial futures.

Caterpillar said the slump in Asia was led by a 29per cent plunge in construction machines sales and noted it was struggling against growing local competition and the broader economic slowdown as well as retailers slashing inventory. Chief Executive Officer Jim Umpleby said it expected end-user demand in the fourth quarter for its products to be flat. Total sales and revenue for the third quarter ended Sept. 30 fell 5.6per cent to US$12.76 billion. "Sales in Asia/Pacific were lower across most of the region primarily due to lower demand in China, including unfavorable changes in dealer inventories, amid continued competitive pressures," the company said. Caterpillar sales have improved since it halted a four-year slide in 2016, but Wall Street analysts have also been warning demand in more than half of its end markets had peaked and Wednesday's numbers also showed sales in North America fell 3per cent. The company is seen as one of Wall Street's clearer gauges of the state of Chinese demand, and its impact on big western multinationals. It said the impact of the tariffs imposed on its goods as a result of President Donald Trump's trade war with Beijing would now be lower than the US$250 million to US$350 million range it gave earlier this year.

But it also cut its 2019 expectations for profit to between US$10.90 and US$11.40 per share, compared with a previous estimate of US$12.06 to US$13.06. Profit attributable to common stockholders fell to US$1.49 billion, or US$2.66 per share, in the three months ended Sept. 30, from US$1.73 billion,

India announces $8b plan to revive loss-making state telecoms firms

NEW DELHI: India announced an almost US$8 billion plan on Wednesday to help loss-making state telecom providers Bharat Sanchar Nigam Ltd and Mahanagar Telephone Nigam Ltd catch up with private competitors, including a merger of the two companies. BSNL and MTNL have struggled to win customers as Reliance Industries' telecoms arm Jio and rivals Bharti Airtel and Vodafone Idea have rolled out 4G services and cut prices on voice calls and data.

"Neither BSNL-MTNL is being closed, nor is being disinvested, nor is being hived (off) to any third party," Federal Communications Minister Ravi Shankar Prasad told a news conference. "We want to make them competitive, bring in professionalism." The plan includes the allocation of state-funded airwaves for 4G telecoms services to the two companies, Prasad said.

The carriers will also raise 150 billion Indian rupees (US$2.1 billion) of long-term bonds which New Delhi will guarantee, he added. Prasad did not give a timeline for a BSNL-MTNL merger but said MTNL, largely present in major Indian cities such as Delhi and Mumbai, would act as a unit of BSNL until the merger was completed. BSNL had 116 million subscribers in August, according to data from India's telecoms regulator. The two companies have debts of 400 billion rupees, Prasad said, with the government planning to raise 380 billion rupees by selling their assets. **—Reuters**

Metals-Zinc gains as deficit pushes inventories to new lows

LONDON: Zinc prices rose on Wednesday as available stocks in London Metal Exchange (LME) warehouses slipped to their lowest levels in more than two decades despite expectations of increased supply. Benchmark zinc gained 0.3% to $2,475 a tonne in official LME rings, around the highest since July and up from a three-year low of $2,190 on Sept. 3. "The fundamental story is that the transition to a surplus market keeps being pushed back," said ING analyst Wenyu Yao.

ZINC STOCKS: On-warrant inventories in LME-registered warehouses fell to 35,125 tonnes, the lowest since at least 1998. MZN-STX-TOTAL

SPREAD: Cash zinc traded at a $35 premium to three-month metal, up from around zero over July-September but well short of recent peaks. A higher premium suggests lower availability of nearby material. MZN0-3

POSITIONING: Speculative positioning was largely flat after a bout of short covering from the end of September, brokers Marex Spectron said.

FUNDAMENTALS: The global zinc market saw a 106,000-tonne shortfall over January-July, down from 170,000 tonnes in the same period last year, the International Lead and Zinc Study Group (ILZSG) said this month.

COPPER: Benchmark copper did not trade in official rings but was bid down 0.3% at $5,800 a tonne as concern that protests in top producer Chile will disrupt supply was offset by expectations that weakening global growth will restrain demand.

CHILE DISRUPTION: Antofagasta warned that unrest could lower its output by about 5,000 tonnes, equivalent to less than 3% of third-quarter production. Workers at Codelco will join a general strike on Wednesday, a union official said. Union workers at BHP's Escondida copper mine downed tools on Tuesday.

NICKEL: LME nickel traded 0.5% lower at $16,420 a tonne, down from September's five-year high of $18,850. On-warrant LME inventories, at below 30,000 tonnes, are the lowest since 2007, but cash nickel's premium against the three-month contract has tumbled to $1 from more than $200 at the start of October, suggesting shortages of nearby material have eased. MNISTX-TOTAL MNI0-3

ERAMET: French miner Eramet said its Weda Bay Nickel plant in Indonesia would start operating ahead of schedule in the first half of 2020.

LME PROBE: The LME has asked members to report any unusual activity in nickel trading after prices lurched up and down in the wake of large transactions last week, sources said.

ALUMINIUM: Miner Rio Tinto flagged a possible pullback or closure of New Zealand's Aluminium Smelter, citing weakness in the aluminium market and high energy costs. Tajikistan cut its aluminium output growth target for this year to 5% from 20%, a government source said. Producer Norsk Hydro said it expected global aluminium demand growth to hover around zero this year, down from 3.1% in 2018.

OTHER METALS: LME aluminium traded flat at $1,719.50 a tonne, lead traded 0.1% lower at $2,216 and tin traded down 0.6% at $16,750. **—Reuters**

Nasdaq profit beats estimates on strength in data services

NEW YORK: US exchange operator Nasdaq Inc beat Wall Street estimates for third-quarter profit on Wednesday boosted by higher revenue in its units that provide news and other information to traders. Exchange operators have been trying to expand beyond their core trading business into high-growth segments such as information services which help traders make investment decisions, and trade in stocks and other exchange-traded products. Revenue from information services, its biggest non-trading business, jumped 10.6 per cent to US$198 million in the quarter, and that from market technology surged 23.5 per cent to US$84 million. Net income attributable to Nasdaq fell to US$150 million, or 90 cents per share, in the quarter ended Sep 30, from US$163 million, or 97 cents per share, a year earlier. Nasdaq said it incurred a pre-tax restructuring charge of US$30 million in the quarter, and expects to take another US$35 million to US$45 million in charges over a two-year period. Revenue, excluding transaction-based expenses, rose 5.3 per cent to US$632 million. Not including one-time items such as restructuring costs, Nasdaq earned US$1.27 per share, exceeding analysts' average estimate of US$1.21, according to IBES data from Refinitiv. **—Reuters**

In hungry Venezuela, food producers step up exports to survive

MARACAIBO: Shrimp farming is booming in this western Venezuelan city, but little of the shellfish is destined for tables in this malnourished nation.

About 90% of this shrimp is headed for Europe and Asia - with the blessing of President Nicolas Maduro. Venezuela's leader has lauded food exports on television as a way to raise hard currency to stabilize an economy in crisis. And he is paving the way for more foreign sales. His administration has loosened restrictions to allow more production to go abroad, 10 food industry entrepreneurs and executives told Reuters.

In addition to seafood, Venezuelan cheese, avocados, citrus, breakfast cereal and candy are finding international buyers. These new foreign sales are tiny, with most companies billing less than $1 million per year. Venezuela remains almost entirely dependent on oil exports, which amounted to $29 billion last year.

Still, the numbers signal a shift for a government that has long blamed the private sector for shortages of basic goods. Maduro and his predecessor, Hugo Chavez, for years accused food companies of hoarding and profiteering. Business leaders say empty shelves were the result of state policies such as price and currency controls and the nationalization of farms and factories. Since 2017, 140 Venezuelan businesses have begun exporting for the first time, half of them selling food products, according to data provided by Scottsdale, Arizona-based advisory firm Import Genius, which collects customs data for the import-export industry.

Some veteran exporters, meanwhile, are leaning more heavily than ever on foreign sales as Venezuela's currency has collapsed. Fernando Villamizar, the head of a Venezuelan shrimp industry association, said the withering of consumer spending power at home has forced producers to look abroad for growth. On a recent morning at a facility owned by a member of the trade group, dozens of workers in baggy smocks, plastic gloves and face masks cleaned shellfish and put them in boxes to be frozen. An order that day was bound for France. The plant also ships to Spain and Vietnam. "We have to sell outside the country" to survive, Villamizar said.

Venezuelan companies sold $81 million worth of shrimp abroad last year, up from $54 million in 2016, making it the country's 4th-largest non-oil export, according to figures from the Venezuelan Association of Exporters.

CHEESE SPREAD CROSSES BORDERS: Maduro's enthusiasm for non-oil exports comes as U.S. sanctions have hurt Venezuela's petroleum sales. To earn hard currency, his government is scrambling for alternatives.

In July, Maduro toured a factory outside Caracas that ships chocolate to Japan, television cameras in tow. He said the goal of these and other exports was to generate "euros, rubles, yuan and cryptocurrencies." Food producers looking to export need to obtain a variety of government permits. Under Chavez, the state frequently denied those permissions, delayed them or never acted on them, the food industry entrepreneurs and executives told Reuters. They said Maduro's administration is now granting more permits, allowing them room to maneuver.

The Information Ministry did not respond to requests for comment on Maduro's exports strategy. The government this year has also largely given up controlling prices, three of the food industry executives said. More goods have returned to Venezuelan stores. But even with more products available, Venezuela's hyperinflation means few can afford to buy. Compared to five years ago, the daily calories now consumed by the average citizen have fallen 56% to 1,600 calories, according to Caracas-based Citizenry in Action, a nutrition-focused nonprofit. That is well below the 2,000 to 2,500 calories per day recommended by the World Health Organization. Millions depend on government food handouts and subsidized staples.

Lack of demand has spurred two large Venezuelan food companies - Empresas Polar and rival General de Alimentos Nisa CA, or Genica - to export products that until now had only been sold in Venezuela, said two people involved in those operations and a third with knowledge of them. The two companies last year exported a combined $59,000 worth of merchandise, mainly to Argentina and Chile. Among the items headed abroad was a once-popular melted cheese spread made by Polar. Genica told Reuters it was entering new markets, but would not elaborate. Polar did not respond to requests for comment. The Venezuelan unit of another major firm, Nestle SA, as of June had exported 18 tonnes of instant cereal worth $18,600 to the United States, according to port records. Convenience foods are now beyond the reach of Venezuelan shoppers such as Doris Molina, a 28-year-old accountant. "I don't give my son cereal anymore because it's so expensive," she said, walking with her four-year-old at a Caracas mall. The local price of Nestle's instant cereal has increased around 3,400% since last year.

Nestle said in a statement that its exports generate foreign exchange it needs to acquire raw materials, and that these sales comply with Venezuelan law. Such sales do not violate U.S. sanctions, which forbid American firms from doing business with Venezuela's government or state-run companies such as oil giant Petroleos de Venezuela SA. Venezuela's private sector companies are free to sell to U.S. buyers.

Attorney Daniel Sanchez opened a fish farm in central Venezuela three years ago to raise tilapia, which is largely unknown in Venezuela. He has buyers in Colombia and is eyeing the United States. Showing off outdoor tanks teeming with fish, Sanchez said he sells tilapia for $2 a kilogram. That's the equivalent of more than a week's pay for Venezuelans earning the minimum wage.

"The idea is to produce for export," Sanchez said. Ramon Goyo, head of the Venezuela Association of Exporters, said a new company joins his trade group almost weekly to seek advice on how to sell abroad. "They're looking for hope," Goyo said. "There's no (way to make it) in Venezuela's hyperinflation. There's no spending power."

Exports by Venezuela's private sector companies increased by 26% in the first quarter of 2019 versus the same period a year ago, even as the economy contracted by 27%, according to the most recent central bank statistics.

BLACKOUTS, TAXES AND FEES: Despite Maduro's public praise of exporters and loosening of export restrictions, the people interviewed by Reuters say his government still doesn't make it easy. They said needed permits still can be inexplicably denied from one month to the next, while the export of staples such as corn flour and rice remain prohibited. Businesses say cash-strapped city and state governments have hiked taxes aimed at exporters, while state-run ports have raised fees. Local officials in Maracaibo, Venezuela's second-largest city, have targeted exporters for bribes, according to three people who told Reuters they have been asked for such payments. State port agency Bolipuertos did not respond to a request for comment. The city of Maracaibo and the state of Zulia, where Maracaibo is located, did not answer emails seeking comment. Some companies have snagged foreign customers, only to lose them to the vagaries of Venezuela's precarious business climate.

Fruit processor Venezolana de Frutas C.A., known as Venfruca, three years ago began exporting orange and passion fruit pulp to the Netherlands after Venezuelan demand slumped. The Dutch sales quickly became a crucial source of revenue, according to manager Karolis Laguna, who said the firm has sent 49 container-loads to Europe since 2016. But Venfruca this year has struggled to find enough fruit. The Venezuelan farmers it buys from have also figured out exports are profitable; they're increasingly selling in neighboring Colombia, Laguna said. An outbreak of mold in Venezuela's orchards has worsened the shortage, she said. "We have purchase orders open because we don't have raw materials," Laguna said. She said frequent blackouts at Venfruca's facility in the western Venezuelan city of Barquisimeto haven't helped. Dairy firm Bufalinda began selling its mozzarella cheese - made from water buffalo milk - in Florida last year out of an "urgent" need to shore up its finances, said Alberto Duhau, founder of the eastern Venezuela