Aramco to cut capital spending over coronavirus; 2019 profits plunge

DUBAI: Saudi Aramco on Sunday said it plans to cut capital spending in the wake of the coronavirus outbreak, and also posted a plunge in profit for last year, missing forecasts in its first earnings announcement as a listed company. Saudi Arabia's decision last year to float shares in its state oil company - the most profitable company in the world - was one of the central elements in Crown Prince Mohammed bin Salman's program for economic and political reform. The record-setting IPO was touted as making the world's biggest energy exporter more professional and transparent. The 21per cent decline in net profit for last year means it fell short of analysts' forecasts for the period that culminated in the share sale, months before the coronavirus pandemic became a factor for oil prices. In recent weeks, Riyadh has announced that it is ramping up production in an oil price war with Russia that has sent global prices plunging and contributed to the coronavirus rout on international financial markets. The company said it expects capital spending for 2020 to be between US$25 billion and US$30 billion in light of current market conditions and recent commodity price volatility, compared to US$32.8 billion in 2019. Aramco has already taken steps to "rationalize" its planned 2020 capital spending, CEO Amin Nasser said in a statement. "The recent COVID-19 outbreak and its rapid spread illustrate the importance of agility and adaptability in an ever-changing global landscape," he said. Aramco listed its shares in Riyadh in December in a record US$29.4 billion initial public offering that valued it at US$1.7 trillion. Its shares fell below the IPO price last week for the first time, as oil prices crashed after the collapse of an output deal between OPEC and non-OPEC members. Oil prices have fallen nearly 50per cent from highs reached in January and had their biggest one-day decline on March 9 since the 1991 Gulf War. Brent crude futures last traded at US$33.85 per barrel, down from about US$64 when Aramco listed its shares. **—Reuters**

Ferrari suspends production over coronavirus

ROME: Italian luxury carmaker Ferrari said it was suspending production for two weeks at two of its factories, citing "serious difficulties" related to Italy being in lockdown due to the coronavirus pandemic. Production will stop immediately at the Maranello and Modena factories until Mar 27, Ferrari said in a statement. "This measure has been taken in the interest of employees and following a series of rigorous measures already taken to ensure onsite security," the firm said. The company's home region of Emilia-Romagna is after Lombardy the region worst hit by the crisis, with around 200 deaths and some 2,200 cases, according to local authorities. Ferrari had attempted to carry on even as Italy found itself the most affected country other than China. The Italian government ordered a nationwide lockdown last week. But supply chain problems have emerged to the degree that the automaker "cannot ensure continued production," although operations not linked to production will continue, the company added. CEO Louis Camilleri said that Ferrari would look to restart production as soon as feasible. Fiat-Chrysler for its part on Wednesday announced the temporary closure of its main sites in order to deep clean them, saying that production would drop as a result of keeping just minimum staffing at the sites for the interim. The Italian government was expected later this weekend due to detail measures intended to support the eurozone's third-largest economy, which the COVID-19 crisis has sent reeling. **—AFP**

US-China trade truce at risk as virus hits global economy

BEIJING: A hard-won trade war truce between the US and China is at risk as the coronavirus pandemic rocks the global economy, making it tough for Beijing to fulfil its commitments. The United States also faces huge disruptions from the deadly virus while a diplomatic spat between Beijing and Washington threatens to derail the phase-one deal that came after more than a year of escalating tensions between the world's two biggest economies. In the pact signed in January, China agreed to buy US$200 billion more in US goods over two years than it did in 2017 - before the trade war erupted and triggered tariffs on billions of dollars of two-way trade.

But concerns are mounting that the conditions of the deal cannot be met as the world economy is threatened by governments taking drastic measures to contain the outbreak, including quarantines, travel bans and closures of public spaces. "(The coronavirus) is likely to be a huge distraction for both governments," said Steve Tsang, head of the China Institute at the School of Oriental and African Studies in London. Global markets have plummeted, oil prices have slid, and the International Monetary Fund warned this week that 2020 growth will drop below last year's 2.9 per cent under "any scenario".

"I would be surprised if they can now fulfil the terms of the phase one deal," said Tsang.

TRADE PLUNGE: Huge waves of business closures have not only disrupted China's consumer spending and manufacturing but also the world's supply chains. Companies told AFP the past year has brought disarray first from the trade war, then the virus outbreak. Qingzhou Ruiyuan Trading Company restarted importing soybeans from the United States this month, but sales were down at least 20 per cent from last year, said the general manager surnamed Li.

He was uncertain how quickly they would be able to boost business once the health crisis is over. "We're affected by the epidemic, and the impact is rather big," Li said, blaming a drop in domestic demand. "We can't control the market." China's exports plummeted in the first two months of this year on the back of the new coronavirus, falling 17.2 per cent from a year ago, while imports slipped 4.0 per cent. The virus threatens "China's import commitments as mandated by the phase one trade deal," said Rory Green, economist at research firm TS Lombard.

China has agreed to buy more US farm commodities and seafood, manufactured goods such as aircraft, machinery and steel, and energy products. But there are provisions "to allow a delay in compliance, and both nations are likely to accept this, given the global nature of the coronavirus outbreak," Green added. "There is now no chance of China fulfilling its import targets within the timeframe set by the text of the agreement."

DISTRUST: The US economy is also taking a hit from the virus, with the government introducing sweeping restrictions on arrivals from Europe and huge stock market falls. Diplomatic tensions between the US and China have also flared up during the outbreak. Washington ordered Chinese state-run media to cut the number of Chinese nationals employed in the United States after Beijing expelled three Wall Street Journal reporters. The two countries have also sparred over the pandemic, with a US ban on arrivals from China angering Beijing. More recently, Washington blamed Beijing for the disease and China - where the virus was first detected in December - promoted conspiracy theories that it started in the United States "I doubt that either has considered fully the implications (that) the measures taken to counter the spread of the virus have for their bilateral relations," said Tsang. But he said that given the upcoming US election, President Donald Trump was unlikely to highlight any failure by China to meet all the terms of the deal.

Instead, Trump will use the agreement to score political points. But the trade war has fuelled distrust among farmers in both countries that could undermine the deal's success.

In the Federal Reserve's latest "beige book" survey, some US farmers said purchases of agricultural goods by China had "not yet materialized" and expressed worries that the virus "would be used as an excuse for missing future trade targets". Liu Lingxue, general manager of agricultural trading firm Guangzhou Liangnian, said her

American Airlines cutting international flights by 75pc amid demand collapse

WASHINGTON/CHICAGO: American Airlines Inc said it plans to cut 75per cent of its international flights through May 6 and ground nearly all its widebody fleet, as airlines respond to the global collapse in travel demand due to the coronavirus pandemic. The dramatic announcement by the largest U.S. airline came hours after the White House said the United States would widen new travel restrictions on Europeans to include travelers in the United Kingdom and Ireland, starting Monday night. The Trump administration also signaled Saturday it wanted Congress to quickly back financial support for troubled U.S. airlines.

American's sweeping cuts include suspending nearly all long-haul international flights to Asia, Australia, Europe, New Zealand and South America. It will still operate two flights a day to London and just three flights to Asia per week - to Tokyo. It will continue short-haul international flying. American confirmed it is parking nearly all widebody aircraft and anticipates its domestic capacity will be reduced by 20per cent in April and 30per cent in May versus the same period in 2019.

United Airlines Co said late Saturday it would begin cutting flights to the United Kingdom, Southwest Airlines moved toward flight cuts and Delta Airlines Inc plans to start cutting flights to the United Kingdom. Southwest, one of the few U.S. airlines still flying a full schedule, said it was "seriously considering" cutting flights.

While airlines scrambled to stem losses and protect jobs, U.S. Treasury Secretary Steven Mnuchin said the government would "immediately" start working with Congress to support the airline and cruise industries, both hard hit by the spiraling crisis. U.S. Vice President Mike Pence said restrictions on the UK and Ireland will begin Monday at midnight, barring most non-U.S. citizens from entering the United States who have been in those countries within the last 14 days. They do not bar flights to and from the United States, and Americans and permanent residents can still travel. United said it would suspend flights to London from Houston and Denver starting Monday. United said it expects to fly three daily flights to London and one daily flight to Dublin through the end of April.

United said it would give a credit for the value of the ticket for any customer whose international travel is disrupted by more than six hours because of schedule changes resulting from government restrictions. Customers who do not use the credit for 12 months will get a refund. Washington first imposed restrictions on China and expanded them this week to continental Europe, prompting U.S. airlines to cut numerous flights and scramble to shore up capital.

Among cost-cutting measures, U.S. airlines are offering employees voluntary unpaid leaves of absence to match staffing with flights. The outbreak came as Delta and its pilots' union were in contract negotiations, and the sides reached an agreement on coronavirus-related sick leave and managing overstaffing for April with partially paid schedules. United and Southwest could reach deals with their pilots soon, sources said. Delta said it would cut capacity 40per cent in the next few months, the largest reduction in its history. It will eliminate nearly all flights to continental Europe for 30 days and will park up to 300 aircraft. United also announced cuts to European service this week. Major U.S. airlines confirmed they had been in talks with the White House and Congress about financial assistance. The U.S. Chamber of Commerce on Friday called on the government to "turn next to a package to assist impacted employers... No business should go bankrupt because of a temporary loss in revenue as a result of the coronavirus." Airlines are reeling from a plunge in bookings and traffic, as the fast-spreading pandemic prompts travel restrictions and event cancella-

Investors prepare for more market swings as virus spreads in the US

NEW YORK: With one of Wall Street's wildest weeks in recent memory now in the history books, investors are bracing for more uncertainty and big market swings ahead.

Overwhelmingly, caution remains the watchword for investors and analysts reeling from a week that saw all three US exchanges confirm bear markets, oil prices plummet to multiyear lows and wild fluctuations in bond yields and currencies. Investors still have little clarity on the possible trajectory of the coronavirus outbreak in the United States, the effectiveness of the government response and the eventual damage the virus will cause to the nation's economy and individual companies.

The White House on Saturday said it would extend a travel ban to include the United Kingdom and Ireland, a move that could further hurt oil prices and airlines already battered by a ban announced last week. "Right now, we view investing in the current environment using the hackneyed phrase of 'catching a falling knife,'" said Richard Bernstein, chief executive of Richard Bernstein Advisors in a note to investors and conference call. "We see no need to rush into markets."

Bernstein said the rush into US government bonds sparked by recent market swings has overstretched the prices of Treasuries, which now sport yields near record lows. His portfolio holds shorter-dated US debt and equities in the consumer staples and health care sectors, among others.

Analytics firm Oxford Economics also discouraged dip buyers, noting in a report that companies' price-to-earnings ratios remain elevated and corporations may eventually find it difficult to service their debt at a time when leverage is near all-time highs. The firm urged investors to trim exposure to a broad variety of asset classes, including European stocks and the local currency debt of emerging markets. They are also warning investors to brace for more alarming headlines concerning the virus' spread in the United States. "In the foreseeable future, and with a vaccine for the virus still nowhere in sight, it is reasonable to assume that Western containment strategies are unlikely to succeed and the peak in the incidence is at least some weeks, if not months, away," the firm said.

The United States has in recent days received a taste of the types of disruptions that the virus has wrought in other countries, including Italy and South Korea. Daily routines have been upended as businesses including Amazon.com urge employees to work from home, schools and universities close, and sporting events and church services are paused across the country. In response to the run on certain items, major retailers have imposed some purchase limits. Dr Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, said on Saturday that the country has recorded 2,226 case of the new coronavirus but has not yet reached the peak of the outbreak. Investors have cheered moves by the Federal Reserve to add liquidity to markets and promises of fiscal support from the US government, with markets ripping higher on Friday as President Donald Trump declared a national emergency.

The central bank is expected to announce an interest rate cut of at least three quarters of a percentage point, with financial markets predicting the Fed will be forced to cut to zero by April to boost the economy. Retail investors appear to be somewhat more optimistic than their institutional counterparts, a poll by wealth management research firm Spectrem Group showed.

Fewer than 10 per cent of investors polled by the firm earlier this month sold equities while 17 per cent purchased stocks in the recent selloff, the poll showed. **—Reuters**

COVID-19 emphasises importance of Singapore's free trade agreements

SINGAPORE: During the Ministry of Trade and Industry's (MTI) Committee of Supply debate, Minister Chan Chun Sing said that Singapore will expand its network of free trade agreements (FTAs), so as to not "overly rely on any one particular market".

Meanwhile, the COVID-19 outbreak is making headlines, and has had knock-on effects on economies worldwide. In response to concerns about the outbreak, the MTI cut its growth forecast range for 2020 to -0.5 per cent and 1.5 percent, down from an earlier forecast of 0.5 per cent to 2.5 per cent. Companies, big and small, have been affected as normal economic activities are displaced or delayed. To help tide companies through these uncertain times, the Government has pledged a slew of measures, including a S$4 billion Stabilisation and Support package to help workers remain employed and companies maintain cash flow.

How, then, would more free trade agreements (FTAs) help buffer our economy – considering that Singapore already has 25 FTAs with economies that represent more than 85 per cent of global GDP?

COVID-19 HIGHLIGHTS NEED FOR DIVERSIFICATION: The impact of COVID-19 on business activities has thrown the importance of diversification and the need for back-up plans into sharp focus for both businesses and individuals. For businesses which have established supply chains of ingredients, raw materials or intermediate goods for its operations, the combination of city lockdowns, factory shutdowns, travel restrictions, logistics delays and drastic changes in demand for certain items such as electronic and automobile parts, building materials and consumer items purchased on e-commerce platforms have led to disruption of many such chains. If an affected business is unable to quickly switch to alternative suppliers, its operations may be imperilled. From another perspective, a business which is located within such a supply chain may find that its goods are stuck at borders or in warehouses, if it has no alternative fulfilment avenues. Trade and Industry Minister Chan Chun Sing in Parliament on Feb 4, 2020 At the consumer level, a visit to the neighbourhood store may lead to disappointment and panic for some when an item is not in stock due to unusually high demand. Indeed, consumers, too, have realised that they may need to diversify their sources, by resorting to other stores or online purchases.

FTAs HAVE HELPED SINGAPORE DIVERSIFY: Although COVID-19 drives home the need for diversification, this need has always existed. Singapore's food supply, for example, is largely imported and is a good example of the need for all-weather diversification of supply. Ensuring continual availability of staple food items, for example, can be facilitated by diversified trade networks, and FTAs which promote faster and lower-cost movement of goods across borders. The FTAs which Singapore has with other trading nations provides for a smoother flow of goods, services and investments between our businesses and those in other countries, and more open access to foreign markets which may otherwise be blocked or hampered by national import rules and procedures. Such access represents "outbound" trade opportunities, as FTA legal rules can help to reduce tariff and other barriers such as "red tape", to give Singapore businesses preferential market access overseas. Such diversification allows Singapore businesses to tap different overseas markets when their usual markets are adversely affected.

While Singapore's FTAs have already paved the way to a large number of markets, such as ASEAN, Australia, New Zealand, China, India, South Korea, Japan, the US, and through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Mexico and Canada - and soon, the European Union (EU), when the EU-Singapore FTA comes into force - there remain relatively new markets in the Southern hemisphere and Central Asia which beckon.

RESPONDING TO THE TRADE WAR: A further dimension is the ongoing decoupling of supply chains of the US and China. While Singapore's FTAs may be with countries which cover 85 per cent of global GDP, business activities do not always align exactly with FTA geography, as commercial decisions are dependent on many factors such as costs, quality, risks and availability. EU-Singapore free trade agreement. A business may find that it needs to include in its supply chains, suppliers found in more than one set of FTA countries. As each FTA carries its own set of controlling "rules of origin" to determine what goods can benefit from its terms, such a business may find that it has to navigate a number of FTAs - each with its own "rules of origin" - to realise the benefits. For example, a Singapore company may need to source for parts from a number of countries to manufacture its final product. The company may then wish to export the product to separate markets, such as those of the EU and ASEAN, where preferential access would be controlled by different FTAs. In an ideal world, multilateral rules would facilitate trade more broadly around the globe, but with WTO trade negotiations sputtering in recent years, FTAs have had to serve the role of paving the way for businesses in a nimbler way.

The US-China decoupling requires quick responses by businesses, and a wide network of trade agreements can help facilitate flows through new goods supply chains. FTAs also promote the flow of services. Digital services, for example, flow particularly well across borders to buyers far away, and Singapore businesses offering such services can look to exploit opportunities, unhampered by geography or time zones, in new markets opened up by FTAs.

DIVERSIFYING WHERE WE GET OUR SUPPLIES FROM: Apart from export markets, FTAs can also facilitate inbound trade opportunities, allowing Singapore businesses to locate alternative suppliers for their customers or supply chains. They may also provide for improved legal protection for investments made in each other's countries. This last point may not seem to be related to diversification, but an example allows us to see its relevance. Singapore, China conclude talks to upgrade FTA Rice is a staple food in Singapore, and its availability is ensured through various means, including a national stockpile and purchases from a variety of countries. Having FTAs with various countries can smoothen the way to such diversified purchasing by creating new sourcing channels and by reducing the time taken for their rice