News: Bloomberg

Germany in Talks to Limit the Export of Chemicals to China that are used to Manufacture Semiconductors

"Germany in talks to limit the export of chemicals to China that are used to manufacture semiconductors as efforts to reduce its economic exposure to the Asian nation."

Germany is in talks to limit the export of chemicals to China that are used to manufacture semiconductors as Berlin steps up efforts to reduce its economic exposure to the Asian nation.

The proposal is part of a package of measures that Chancellor Olaf Scholz's government is discussing that would cut off China's access to goods and services needed for the production of advanced semiconductors, according to people familiar with the matter.

If implemented, such a step would limit German companies like Merck KGaA and BASF SE from selling some of their semiconductor chemicals to China, said the people, who asked not to be identified because the discussions are private.

Scholz has been taking a more hawkish approach to Beijing as the chancellor tries to strike a balance between supporting Germany's massive economic interests in China with national security and human rights concerns. But relations between Europe and China have been fraying, particularly after President Xi Jinping and Russian President Vladimir Putin declared a "no limits" friendship weeks before Moscow invaded Ukraine.

The German economy ministry didn't respond to several requests for comment.

Scholz and Economy Minister Robert Habeck are liaising closely on the matter with European allies and the US, which is pushing for a global blockade of China's access to key technologies, including semiconductors. Officials in Berlin said there's no pressure from Washington on the matter but rather a strong desire to work together and to close ranks on China.

Talks within the ruling coalition on such export controls are still at an early stage and officials are aware that any such decision could damage business ties with China, which has become Germany's largest trading partner, the people said.

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Habeck, who is also the vice chancellor, has advised officials in his department to work on a tool box of measures to strengthen Germany's economic resilience in certain areas and reduce one-sided dependencies on China. The idea of imposing export controls on chip chemicals is part of these deliberations, the people said.

The quickest and most practical way to implement such export controls would be to put the respective goods and services on Germany's national dual-use list, one of the people said, adding that other approaches via international lists and treaties would probably take too long.

Export controls restrict trade in goods which can be used in both a civilian and military context. The aim of such dual-use lists is to prevent the development and proliferation of chemical, biological and nuclear weapons as well as the hidden production of conventional military weapons.

Earlier this month, German Foreign Minister Annalena Baerbock traded barbs with her Chinese counterpart Qin Gang during a visit to Beijing, saying Taiwan's destabilization would be a "horror scenario." Baerbock and Habeck are helping Scholz shape a new security strategy that is meant to reduce reliance on China and shield critical infrastructure from hybrid attacks.

The Netherlands last month agreed to join the US effort to limit exports of chip technology to China. The new measures will rein in exports of ASML's immersion DUV lithography products, adding to restrictions that already exist for the most cutting-edge lithography machines, which are critical to producing the world's most advanced chips. The rules are expected to be published before the summer.

While Germany does not have advanced chip-making technologies, Merck and BASF provide firms around the world with critical chemicals required for making semiconductors. Merck's products or services are found in almost every single chip in the world, while BASF is a market leader in Europe and Asia, home to the world's most important contract chipmakers including Taiwan Semiconductor Manufacturing Co. Without supplies from Merck and BASF, China could face more challenges in developing advanced chip technologies and even its capabilities to make semiconductors could be affected.

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Xi has evoked a Soviet-style “whole nation” system to encourage state-owned enterprises, research institutes and private companies to create technologies that can replace foreign imports amid US efforts to curb China’s technological rise, but the country’s chip industry is still lagging years behind TSMC and Samsung Electronics Co.

Germany is determined to reduce its footprint in China with Berlin still struggling with the consequences of its over-reliance on Russian energy following Putin’s decision to invade Ukraine. Scholz has argued against an economic decoupling from China overnight and instead is advocating a policy of de-risking which means actively reducing Germany’s exposure to the Chinese market over the coming years.

Source: https://www.bloomberg.com/news/articles/2023-04-27/germany-in-talks-to-limit-the-export-of-chip-chemicals-to-china

News: Bloomberg

Hong Kong Runs Down Liquidity Buffer with Little Impact on Rates

"Hong Kong is burning through a closely-watched component of its monetary base to ward off attacks on its dollar to little avail, with lack of reaction in money markets."

Hong Kong is burning through a closely-watched component of its monetary base to ward off attacks on its dollar to little avail, with the lack of reaction in money markets likely to keep the pressure on the beleaguered currency.

The city's aggregate balance, a gauge of interbank liquidity has halved this year without driving local borrowing costs higher, the traditional mechanism for reversing weakness in the Hong Kong dollar. While the currency is pegged to the US dollar, the city's one-month rates still trail their American counterparts by some 170 basis points, setting up a sweet spot for so-called carry traders.

It remains profitable for the traders to borrow the Hong Kong dollar cheaply and buy the higher-yielding greenback, pocketing the rate difference. The trades are likely to keep pushing the currency to the weak end of its fixed band against the US dollar and force policymakers to drain even more liquidity from the system.

A hawkish Federal Reserve and the rise in US interest rates account for some of the abnormality, with muted demand for Hong Kong dollars in the city playing a role. Banks are seeing shrinking demand for loans amid sluggish economic growth and the number of new stock listings has fallen off a cliff.

Some speculate the aggregate balance may fall toward zero from about HK$49 billion ($6.2 billion) today, leaving the Hong Kong Monetary Authority turning to other options to defend the currency peg. While it has about $430 billion in foreign reserves, Hong Kong's link to the dollar is under constant scrutiny with prominent hedge funds betting it will break and some strategists arguing for a shift to a yuan peg.

News: Bloomberg

"Such thin Hong Kong dollar liquidity buffer flags higher risk of a liquidity squeeze, in the event of a sudden surge in the demand of the currency or a contraction in supply," said Ken Cheung, chief Asian foreign exchange strategist at Mizuho Bank.

While the aggregate balance has fallen toward zero before, it's rare for the gap between Hong Kong and US rates to be so wide amid such thin liquidity. When the pool was at similar levels in 2019, the spread between the two rates narrowed sharply and reversed. And during the financial crisis in 2008, when the balance was close to zero, the rate spread also flipped.

Hong Kong loan growth contracted for a ninth straight month in February, the longest streak since 2009, according to official data. In the stock market, just $1.64 billion has been raised through new listings this year, the lowest in a decade, data compiled by Bloomberg show.

Still, most analysts expect Hibor to rise before the end of June and dividend payout season in the summer.

"Banks need at least some liquidity left in the aggregate balance for daily settlement purposes," said Kelvin Lau, a senior economist at Standard Chartered Bank. "So before the aggregate balance can ever reach zero, Hibor would have gone up evidently to reflect tightened liquidity conditions."

Source: https://www.bloomberg.com/news/articles/2023-04-28/hong-kong-runs-down-liquidity-buffer-with-little-impact-on-rates-for-now

News: Bloomberg

Fed Emergency Loans to Banks Rise for Second Straight Week

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Banks increased emergency borrowings from the Federal Reserve for the second week in a row, underscoring ongoing stress in the financial system following a string of bank collapses last month.

The US central bank had $155.2 billion of loans outstanding to financial institutions through two backstop lending facilities in the week through April 26, compared with $143.9 billion the previous week, according to data published Thursday.

Bank stocks have come under renewed pressure this week after deposit outflows from First Republic Bank saw its shares plunge to a record low. The bank's future remains uncertain amid a standoff between the US government and the lender's largest rivals over how to rescue the troubled firm.

Resurgent volatility in the banking sector, reflected in the uptick in emergency lending, could complicate the decision Fed officials face at next week's monetary policy meeting. The central bank is widely expected to raise its benchmark interest rate above 5% in a bid to keep downward pressure on inflation, which remains well above its target.

The weekly Fed balance sheet data showed $73.9 billion of outstanding borrowing from the central bank's traditional backstop lending program, known as the discount window, compared with $69.9 billion the previous week and the record $152.9 billion reached last month. Demand in the new Bank Term Funding Program also rose, to $81.3 billion, compared with $74 billion the previous week.

Source: https://www.bloomberg.com/news/articles/2023-04-27/fed-emergency-loans-to-banks-rise-for-second-consecutive-week