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Bank of Japan Research Notes Indicate Interest Rate Hike Is Still on Table

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The Bank of Japan released a pair of research papers highlighting the persistence of inflationary pressure in the economy, indicating there is still a case to be made for another interest rate hike.

The notes released Tuesday highlight the potential impact of the nation's chronic labor shortage on wages and the shift in corporate behavior with regards to setting prices in the services sector. The papers were compiled by officials in the bank's economics department and, as is customary, they came with a standard disclaimer that the views belong to the authors and don't necessarily reflect the BOJ's official stance.

"Business price setting behaviors are shifting amid intensified upward pressures on wages," a paper about service prices noted. It's important to investigate whether this phenomenon will spread further by comprehensive analysis, it said.

While the conclusions of both notes are in line with what the BOJ has said to date, they send a fresh reminder that a rate hike is still worthy of consideration even after Governor Kazuo Ueda's hawkish signals last month contributed to a selloff in global financial markets in early August. Ueda is scheduled to appear in parliament on Friday to elaborate on the thinking behind the July 31 hike and discuss the inflation outlook.

The BOJ's monetary board is widely expected to stand pat when it next sets policy on Sept. 20, but most economists expect another hike later this year or in January, according to a survey conducted earlier this month.

A paper on the impact of the labor shortage underscored structural changes in Japan's labor market that may give workers more leverage to demand higher compensation.

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"There is a possibility that wage setting behaviors by companies will be more active" after improvement in labor market liquidity and an emerging link between salaries of regular workers and part-timers, the researchers wrote.

Source: https://www.bloomberg.com/news/articles/2024-08-20/boj-research-notes-indicate-interest-rate-hike-is-still-on-table

Busiest US Ports Absorb Import Wave Rivaling Pandemic Frenzy

"The busiest port complex in the US is churning through import volumes near the highs set during the pandemic despite worries about a cooling economy."

The busiest port complex in the US is churning through import volumes near the highs set during the pandemic despite worries about a cooling economy. The ports of Los Angeles and Long Beach, which account for roughly a third of all US container imports, had their third-strongest month ever in July, just shy of an all-time high reached in May 2021.

Demand now is driven by retailers and other importers that are stocking up ahead of US tariffs on Chinese goods and a possible strike by a large group of American dockworkers, adding to the usual frenzy of pre-holiday ordering that occurs this time of year.

"We're in a strong position heading into the peak shipping season as consumers purchase back-to-school supplies and shippers move goods ahead of potential tariff increases," Port of Long Beach CEO Mario Cordero said in a statement. "We have plenty of capacity across our terminals and cargo continues to move efficiently and sustainably."

In the latest rush to restock, fear of delayed shipments is a big factor. Talks between the union representing longshoremen on the East and Gulf coasts and their employers have reached an impasse, six weeks before their contract expires Sept. 30. So some ocean freight that might come through ports from Boston to Houston is shifting to West Coast gateways until that uncertainty is resolved.

According to data from Sea-Intelligence, a Copenhagen-based maritime data and advisory firm, every one day of a strike would take about five days for ports to clear the resulting cargo backlog. "If we get a two-week strike, then realistically, the ports would not be back to normal operations until we are into 2025," Sea-Intelligence CEO Alan Murphy said in a research note released last week.

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Companies are also racing to beat the imposition of more tariffs on Chinese goods and, in the event Donald Trump returns to the presidency next year, he fulfills a campaign pledge to step up the trade war with China and raise tariffs on all US imports.

According to data released this month by the National Retail Federation and Hackett Associates, US container imports through major ports this year will reach 24.9 million measured in 20-foot equivalent units, up 12% from last year and close to 2021 and 2022 levels that topped 25 million.

Such factors are distorting the demand picture, making it hard to know whether peak shipping season started early and trade volumes will level off soon, or if importers will continue bringing in more than usual.

Source: https://www.bloomberg.com/news/articles/2024-08-18/busiest-us-ports-absorb-import-surge-nearing-pandemic-era-frenzy

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China Weighs Letting Local Governments Issue Bonds to Buy Homes

"China is considering a new funding option for local governments to buy unsold homes after a series of rescue packages failed to prop up the market."

China is considering a new funding option for local governments to buy unsold homes after a series of rescue packages failed to prop up the market, according to people familiar with the matter.

The latest proposal would allow local governments to fund their home purchases by issuing so-called special bonds, the proceeds of which are currently restricted to uses including infrastructure and environmental projects, the people said, asking not to be named discussing private information. Local governments have already used more than half the 3.9 trillion yuan ($546 billion) quota for special bond issuance this year; it's unclear what portion of the remainder might be directed toward home purchases if the plan is approved.

While deliberations over a new funding channel underscore the growing urgency among Chinese policymakers to draw a line under the nation's real estate crisis, the proposal would face many of the same hurdles that have challenged past rescue attempts. Only about 8% of the 580 billion yuan available from existing rescue funds has been tapped so far, including a high-profile initiative to backstop home purchases with central bank funding, according to Bloomberg Intelligence.

That's partly because the expected return from turning unsold homes into affordable housing has stayed below the cost of funding for many local-government borrowers. Rental yields in China's tier-1 cities averaged just 1.4% in 2023, compared with the central bank's relending rate of 1.75%, Macquarie Group Ltd.'s economists wrote in May, citing data from Centaline Property Agency. The city of Beijing has recently issued one-year special bonds at 1.65%.

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China had 382 million square meters of unsold homes as of July, equivalent to about the size of Detroit, according to official data. The crisis has dragged down everything from the job market to consumption and household wealth over the past two years. President Xi Jinping unveiled sweeping goals last month to bolster the finances of China's indebted local governments and give them more autonomy in regulating local property markets, though public details of the initiatives have so far been limited.

The Ministry of Finance didn't immediately respond to a request for comment. While state buying of housing inventory is widely seen as a key step toward easing the housing glut and boosting developers' finances, the central bank's initial funding is just a fraction of the 1 trillion yuan to 5 trillion yuan that some analysts estimate is needed to address the supply-demand mismatch.

Investors remain skeptical that the easing measures unveiled so far are sufficient to stop the freefall in the housing market. China's new-home sales fell 19.7% from a year earlier in July, while first-hand home prices dropped at their fastest pace on a year-on-year basis in nine years.

The state-backed Securities Times reported last week that several first-tier cities are expected to roll out detailed measures for the government purchasing of unsold homes. The eastern city of Nanjing is another one making such preparations. Separately, the Ministry of Natural Resources said in June that it is working with the National Development and Reform Commission to roll out a policy that would allow local governments to buy land using special bonds.

China is facing mounting challenges from rising US tariffs to high youth unemployment. The question now is whether authorities can muster the right mix of financial firepower and policy adjustments to bolster confidence without returning to the speculative excesses of previous decades.

The International Monetary Fund called on China to deploy "one-off" fiscal resources to complete and deliver pre-sold properties, which would amount to almost $1 trillion, based on Bloomberg calculations. The country ruled out the solution.

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Expectations of a big bazooka have further been dampened after the People's Bank of China Governor Pan Gongsheng said in a Xinhua interview last Thursday that while the central bank would pledge further steps to support the nation's economic recovery, it wouldn't be adopting "drastic" measures.

Source: https://www.bloomberg.com/news/articles/2024-08-20/china-weighs-letting-local-governments-issue-bonds-to-buy-homes