News: Bloomberg

China Warns Japan of Economic Retaliation for Possible New Chip Curbs

"China has threatened severe economic retaliation against Japan if Tokyo further restricts sales and servicing of chipmaking equipment to Chinese firms."

China has threatened severe economic retaliation against Japan if Tokyo further restricts sales and servicing of chipmaking equipment to Chinese firms, complicating US-led efforts to cut the world's second-largest economy off from advanced technology.

Senior Chinese officials have repeatedly outlined that position in recent meetings with their Japanese counterparts, according to people familiar with the matter. One specific fear in Japan, Toyota Motor Corp. privately told officials in Tokyo, is that Beijing could react to new semiconductor controls by cutting Japan's access to critical minerals that are essential for automotive production, the people said, declining to be named discussing private affairs.

Toyota is among the most important companies in Japan and is deeply involved in the country's chip policy, partly reflected by the fact that it has invested in a new chip campus being built by Taiwan Semiconductor Manufacturing Co. in Kumamoto, according to one of the people. That makes its concerns a major consideration for Japanese officials, in addition to those of Tokyo Electron Ltd., the semiconductor gear-maker that would be principally affected by any new Japanese export controls.

The US has been pressuring Japan to impose additional restrictions on the ability of firms including Tokyo Electron to sell advanced chipmaking tools to China, as part of a long-running campaign to curtail China's semiconductor progress. As part of those talks, senior US officials have been working with their Japanese counterparts on a strategy to ensure adequate supplies of critical minerals, some of the people said, especially since China imposed restrictions on the exports of gallium, germanium and graphite last year.

News: Bloomberg

The concern about Toyota has some historical precedent. In 2010, China temporarily suspended exports of rare earths to Japan after a clash in waters of the East China Sea claimed by both sides. The move shook Japan's electronics sector and threatened to choke off global supplies of high-power magnets produced in Japan employing rare earths from China. Tokyo has since worked with mixed success to reduce its reliance on Chinese rare earth imports.

The Biden administration is confident that they can assuage Tokyo's concerns and reach an agreement with Japan by the end of this year, some of the people said. But there are more aggressive options: Behind the scenes, the US has been wielding a power known as the foreign direct product rule, or FDPR. The rule allows Washington to control sales of products made anywhere in the world, provided they use even the smallest amount of American technology.

In the current talks, American officials so far have refrained from invoking that authority against Japan and other key allies, which see the rule as a draconian step. A senior administration official said the US would prefer to reach a diplomatic solution but would not rule out the use of FDPR.

The timing of any deal is complicated by the US presidential election in November and the planned resignation of Japanese Prime Minister Fumio Kishida this month. But Kishida stepping down should not impact the negotiations for further curbs, the senior administration official said, because Tokyo has built consensus for the policy across its government.

Japan's Ministry of Economy, Trade and Industry didn't have immediate comment when contacted by Bloomberg News. Tokyo Electron declined to comment. A Toyota spokesperson said the automaker is constantly considering optimal procurement strategies, not limited to mineral resources, to meet the needs of its customers. The Commerce Department's Bureau of Industry and Security, which is in charge of export controls, declined to comment.

The Chinese Foreign Ministry said in a statement that it opposes efforts by any individual nation to politicize normal trade and lure other countries to join any technology blockade against China.

Source: https://www.bloomberg.com/news/articles/2024-09-02/china-warns-japan-of-retaliation-over-potential-new-chip-curbs

News: Bloomberg

China's Sputtering Growth Engines Raise Urgency for Government Stimulus

"China's remaining growth engines are showing signs of spluttering while the property market continues to drag on the economy."

China's remaining growth engines are showing signs of spluttering while the property market continues to drag on the economy, highlighting the urgency of government intervention to keep an increasingly unlikely growth target in sight.

Factory activity contracted for a fourth straight month in August, according to an official poll of manufacturers. The latest sales figures showed a worsening residential slump, after China Vanke Co., one of the nation's biggest developers underlined the industry's woes late Friday by reporting a half-year loss for the first time in more than two decades.

Even the private Caixin manufacturing purchasing managers index, which has tended to show stronger results flashed warning signs, albeit while recovering to 50.4 last month after slipping into contraction in July. The cost of production materials fell for the first time in five months, while manufacturers slashed selling prices to remain competitive.

"The challenges and difficulties in stabilizing growth over the coming months will be substantial," Wang Zhe, senior economist at Caixin Insight Group, said in a statement accompanying the data release. "There is an increasingly urgent need for China to enhance policy support."

Beijing has struggled to contain the property downturn and now faces the prospect of increasing protectionism and a shaky global outlook weighing on exports. Several rounds of measures aimed at reviving domestic demand have done little to reverse the retreat, endangering the government's growth target and spurring economists to call for additional stimulus.

News: Bloomberg

Economists at banks including UBS Group AG and JPMorgan Chase & Co. now expect China will fall short of delivering on its growth target. Adding to the gloom, the official manufacturing purchasing managers' index declined to 49.1 from 49.4 in July, the National Bureau of Statistics said. The reading has been below the 50-mark separating growth from contraction for all but three months since April 2023. Both the input-cost and output prices sub-indexes declined in August.

In statement accompanying the PMI data, NBS analyst Zhao Qinghe attributed the latest contraction to high temperatures, heavy rainfall and a seasonal slackening of production in some industries. The non-manufacturing measure of activity in construction and services rose to 50.3, boosted by consumption during the summer holiday season, the statistics office said.

As trade tensions with the US and Europe increase, headwinds for the manufacturing sector are growing. For the mid-term outlook, much will depend on the outcome of the US election: Former President Donald Trump has argued for 60% tariffs on Chinese imports, while Vice President Kamala Harris's China policies are expected to be more in line with President Joe Biden's approach.

On the property front, the latest data was also discouraging. The value of new-home sales from the 100 biggest real estate companies fell 26.8% from a year earlier to 251 billion yuan ($35.4 billion), faster than the 19.7% decline in July, according to preliminary data from China Real Estate Information Corp. At least 10 city governments have loosened or scrapped their new-home price guidance to let market demand play a bigger role, a move that is expected to drive more real estate companies to cut prices.

China is considering allowing homeowners to refinance as much as $5.4 trillion of mortgages to lower borrowing costs for millions of families and boost consumption, Bloomberg News reported Friday. While lower mortgage rates would hurt profitability at state-run banks, analysts say it might help the real estate sector.

"In essence, it's a transfer of wealth from banks to households, so positive for consumption," said Larry Hu, head of China economics at Macquarie Group Ltd. "But the size is too small to be a game changer, given the current consumption landscape in China, which is pretty dire."

News: Bloomberg

The growth headwinds have yet to result in a more forceful government response, with less than half of budgeted expenditure completed in the first seven months of 2024. On Friday, Finance Minister Lan Fo'an said the economy is still growing at a clip of 5%, describing its performance in the first half as "generally stable and progressing steadily."

But economists are calling for more support, especially if external demand wanes. "In the near term, we expect the PBOC to guide commercial banks to lower existing mortgage rates," said Lu Ting, an economist at Nomura Holdings Inc. "For bolder stimulus measures, we think this is more likely to happen in the fourth quarter, when Beijing's concerns over growth become more elevated."

Source: https://www.bloomberg.com/news/articles/2024-09-01/china-growth-headwinds-mount-as-factory-and-housing-data-worsen

News: Bloomberg

Japan's Firms Lift Outlays in Sign of Modest Domestic Demand Recovery

"Japanese businesses boosted investment in the second quarter, signaling a gradual economic recovery with the help of an uptick in domestic demand-led activity."

Japanese businesses boosted investment in the second quarter of the year, reaffirming signs of confidence that the economy is recovering slowly with the help of an uptick in domestic demand-led activity.

Capital expenditure on goods excluding software rose 1.9% in the three months through June from the previous quarter, the finance ministry reported Monday. The reading was stronger than the gauge for business investment in gross domestic product data released earlier by the Cabinet Office, which showed such spending increased 0.9% from the previous quarter.

Spending on equipment including software grew 7.4% from a year earlier, rising for a 13th consecutive quarter while missing economists' consensus estimate of a 10% gain. The figures will be factored into revised GDP figures for the second quarter due for release on Sept. 9. Economists will parse the combination of stronger and weaker than expected results as they try to determine how economic growth figures might be revised.

Overall, Monday's data are in line with earlier indications that the world's fourth largest economy continues on a path of mild recovery. The preliminary GDP figures indicated that the economy rebounded to growth in the three months through June, driven by a pickup in domestic demand, especially private consumption.

Source: https://www.bloomberg.com/news/articles/2024-09-02/japan-s-firms-boost-spending-in-sign-of-growing-domestic-demand