Euro hits 20-year low against dollar on recession risk

● REUTERS

The European single currency sank Tuesday to its lowest level against the dollar since 2002 as data pointed to a growing recession risk in the eurozone.

The euro also dived as investors eyed aggressive interest rate hikes by the US Federal Reserve in its fight against inflation, in contrast with the European Central Bank which plans more modest increases, AFP reported.

Just before 0900 GMT, the shared eurozone unit tumbled to $1.0306, threatening a push towards dollar parity for the first time since the euro's creation in 1999.

Economic growth in the eurozone floundered in June, a key survey showed Tuesday, hit by soaring inflation.

S&P Global's closely-watched monthly purchasing managers' index (PMI), which measures corporate confidence, fell to 52.0 in June from 54.8 in May.

The reading, which was a 16-month low, however remains above the 50-point level signalling expansion.

"Growing fears of a recession are hammering the euro lower, whilst the dollar is soaring on bets that the Fed will keep hiking rates aggressively to tame inflation," City Index analyst Fiona Cincotta told AFP.

"Today's PMI data from Europe have highlighted the risk of slowing growth at the end of the second quarter and raise the prospect of a contraction in activity in the coming months."

Sri Lanka admits bankruptcy, warns of crisis through 2023

Sri Lanka is bankrupt and the acute pain of its unprecedented economic crisis will linger until at least the end of next year, Prime Minister Ranil Wickremesinghe told Parliament Tuesday.

The island nation's 22 million people have endured months of galloping inflation and lengthy power cuts after the government ran out of foreign currency to import vital goods, AFP reported.

Wickremesinghe said the once-prosperous country will go into deep recession this year and acute shortages of food, fuel and medicine will continue.

"We will have to face difficulties in 2023 as well," the premier said. "This is the truth. This is the reality."

He said Sri Lanka's ongoing bailout talks with the International Monetary Fund depended on finalising a debt restructuring plan with creditors by August.

"We are now participating in the negotiations as a bankrupt country," Wickremesinghe said.

"Due to the state of bankruptcy our country is in, we have to submit a plan on our debt sustainability to them separately. Only when (the IMF) are satisfied with that plan can we reach an agreement."

The IMF last week said more work was needed to set the nation's finances right and repair its runaway fiscal deficit before a deal could be struck on a funding arrangement to address its balance of payments crisis.

It has also told authorities to do more to fight corruption and bring an end to costly energy subsidies that had long been a drain on the government budget.

Sri Lanka is almost entirely without petrol and the government has shut down non-essential public services in an effort to conserve fuel.


Sri Lankan Prime Minister Ranil Wickremesinghe
● ERANGA JAYAWARDENA/AP

There have been clashes outside the few petrol stations still selling fuel, with tens of thousands lining up for the slim chance of securing limited supplies and no fresh stocks expected for at least two weeks.

The UN estimates that about 80 percent of the public are skipping meals to cope with food shortages and record prices.

Wickremesinghe said the IMF expects Sri Lanka's economy to shrink by seven percent this year, even worse than the dire forecasts issued by the country's Central Bank.

He said inflation could climb above 60 percent, and rapid currency depreciation over the past few months had wiped out the value of savings by half.

"Think about how this situation affects our senior citizens," the 73-year-old premier said. "Poverty is spreading among all of them."

"The value of the money they receive has decreased by 50 percent. Their purchasing power has decreased by about 50 percent."

Norwegian oil, gas output falls as workers go on strike

Norwegian offshore oil and gas workers went on strike over pay on Tuesday, the first day of planned industrial action that could cut the country's gas output by almost a quarter and exacerbate supply shortages in the wake of the Ukraine war.

About 15% of Norway's oil output could also be cut by Saturday, according to a Reuters calculation based on the plans of union members to gradually escalate their action over the coming days, Reuters reported.

Oil and gas from Norway, Europe's second-largest energy supplier after Russia, is in high demand as the country is seen as a reliable and predictable supplier, especially with Russia's Nord Stream 1 gas pipeline due to shut from July 11 for 10 days.

The British wholesale gas price for day-ahead delivery leapt nearly 16%, though the price of Brent crude fell as fears of a global recession outweighed supply disruption fears, including the strike in Norway.

"The strike has begun," Audun Ingvartsen, the leader of the Lederne trade union said in an interview, adding that the union would escalate the strike to pressure employers to address demands for wage increases to compensate for rising inflation.

The Norwegian Labour Ministry reiterated that it was following the dispute closely. The government can intervene to stop any strike in exceptional circumstances.

Union leader Ingvartsen said the escalation was not designed to pressure the government to intervene and impose a settlement, adding that he not been in touch with the government, he said. "Our goal is that employers engage with us and listen to their employees," he said.

BoE tells lenders to brace for economic storm

The Bank of England warned on Tuesday that the economic outlook for Britain and the world had darkened and told banks to ramp up capital buffers to ensure they can weather the storm.


Bank of England building in London, UK
● REUTERS

"The economic outlook for the UK and globally has deteriorated materially," the BoE said as it published its latest Financial Stability Report, adding that developments around the war in Ukraine would be a key factor, Reuters reported.

International forecasters like the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD) say Britain is more susceptible to recession and persistently high inflation than other Western countries, all of whom are grappling with global energy and commodity market shocks.

British banks were well-placed to weather even a severe economic downturn, the BoE said, although it noted their capital ratios – while still strong – were expected to decline slightly in the coming quarters.

Members of the Financial Policy Committee (FPC) confirmed that the BoE will double the counter-cyclical capital buffer (CCYB) rate to 2% July next year, and said it could vary the rate in either direction depending on how the global economy pans out. The CCYB rate represents an extra buffer for banks that varies depending on the economic outlook.

Despite a worsening cost-of-living crunch, with inflation heading towards double digits, the BoE said banks were resilient to debt vulnerabilities among households and businesses. The central bank also expressed unease over the health of core financial markets – such as U.S. and British government bonds – which were the subject of the March 2020 "dash for cash" when the COVID-19 pandemic prompted panic selling.

IEA: High prices, uncertainty will slow growth in gas demand


● iea.org

The International Energy Agency said high prices for natural gas and supply fears due to the war in Ukraine will slow the growth in demand for the fossil fuel in the coming years.

In a report published Tuesday, the Paris-based agency forecast global demand for natural gas will rise by 140 billion cubic meters (bcm) between 2021 and 2025. That's less than half the increase of 370 bcm seen in the previous five-year period, which included the pandemic downturn, AP reported.

The revised forecast is mostly due to expectations of slower economic growth rather than buyers switching from gas to coal, oil or renewable energy.

While the burning of gas emits less planet-warming carbon dioxide than other fossil fuels, methane released during the extraction process is a significant driver of climate change.

Russia's war in Ukraine is seriously disrupting gas markets that were already showing signs of tightness, said Keisuke Sadamori, the agency's director of energy markets and security.

Efforts by European Union countries to wean themselves off Russian gas will lead to a fall in pipeline exports from Russia to the 27-nation bloc of 55-75%, the IEA said. At the same time the EU's purchases of liquefied natural gas have diverted deliveries intended for other regions, such as Asia, which is predicted to account for half the demand growth by 2025.

"We are now seeing inevitable price spikes as countries around the world compete for LNG shipments, but the most sustainable response to today's global energy crisis is stronger efforts and policies to use energy more efficiently and to accelerate clean energy transitions," said Sadamori.

The agency's quarterly report said capacity is partly constrained by a slump in gas infrastructure investments in the mid-2010s and pandemic-related construction delays. Recent new investments are not likely to affect gas supplies until after 2025, it said.