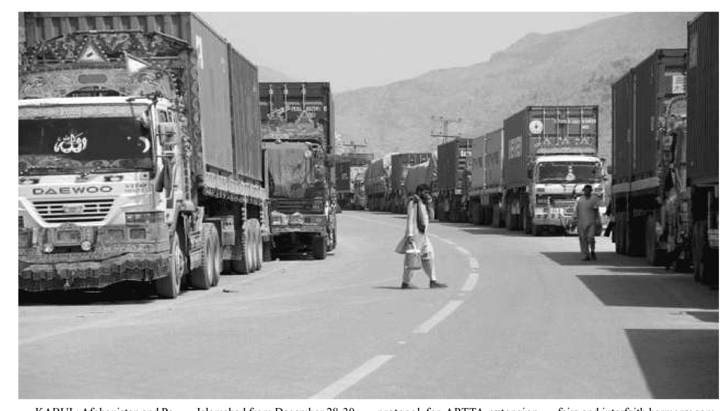
APTTA extended as revised trade deal to take time



KABUL: Afghanistan and Pakistan have not yet come on the same page over the revised draft of transit trade agreement, leading to delay in the signing of the pact.

The two countries had extended the application of Afghanistan-Pakistan Transit Trade Agreement (APTTA) 2010 by three months following its expiry on February 11, 2021. Now, Pakistan has approved another extension of six months in the agreement.

The commerce ministry took up the matter in a cabinet meeting last month. Sources told The Express Tribune that the ministry pointed out that the APTTA 2010 was a 10-year agreement, which was due to expire on February 11, 2021, but it was extended by three months by both the governments following approval of their respective cabinets and signing of an additional protocol.

It was estimated that 30% of Afghan transit trade (ATT) goods passed through Pakistan and the remaining via Iran, Uzbekistan and Tajikistan. Under the agreement, Pakistan's exports to Central Asia go through Afghanistan.

For the revision in the APTTA, meetings were held in Kabul on November 16-17, 2020 and the 8th APTTA huddle was held in Islamabad from December 28-30, 2020.

In the Islamabad meeting, both sides agreed that the text of APTTA 2010 would be revised and updated. Afghanistan shared a revised draft of the agreement by incorporating its suggestions in the first week of April 2021 in response to the draft shared by Pakistan in December 2020.

Subsequently, nine sessions of technical negotiations were held between April and May 2021 via video link, co-chaired by the additional secretary, Ministry of Commerce of Pakistan.

Despite the negotiations, disagreement persisted on many articles of the agreement. More sessions and interaction at the policy level would be needed to resolve the points of disagreement and finalize the APTTA 2021.

Once finalized and signed, the agreement will come into force one month after the exchange of instruments of ratification, which will also take time.

Hence, it was proposed that the APTTA 2010 might be further extended by six months beyond May 11, 2021. In this regard, the commerce ministry sought approval of the cabinet of Pakistan.

As the signing of additional protocol for APTTA extension may take some time, it said the Pakistani Ministry of Commerce might be allowed to issue directives to the Federal Board of Revenue (FBR) to allow unhindered facilitation to ATT goods through Pakistan beyond May 11, 2021 and request reciprocal facilitation from Afghanistan for Pakistan's transit goods. The cabinet discussed and approved the proposal.

Earlier, at the time of giving extension to the APTTA 2010 for three months, the Pakistani cabinet had come to know that the agreement was in favor of Afghanistan, which gave it access to the Wagah border for exports to India, but did not facilitate Pakistan's trade with Central Asian states.

Adviser to Prime Minister of Pakistan on Commerce Abdul Razak Dawood explained that it was already mentioned in the agreement and the Commerce Division had only requested a three-month extension in the pact.

He pointed out that by the end of March 2021, all relevant issues would be discussed with Afghanistan to boost Pakistan's exports to Central Asia.

Speaking on the occasion, the Pakistani minister for religious affairs and interfaith harmony complained that local businesses at the Torkham border had been severely hampered by the strict measures taken by border management forces.

Another cabinet member countered that the border was now open for trade six days a week, and in line with the directive of the prime minister, smuggling had been minimized. He pointed out that the border with Afghanistan and Iran was being fenced, but there was a lot of foot traffic each day, which put pressure on border management.

The Pakistani prime minister appreciated the coordinated efforts of anti-smuggling agencies to stop smuggling, which ultimately boosted the local industry. He underlined the need for clamping down on cigarette smuggling, which was causing huge tax losses.

The APTTA 2010 was signed on October 28, 2010 in Kabul and came into effect one month after the exchange of instruments of ratification on February 12, 2011.

Over the last 10 years, 832,819 ATT containers, carrying goods worth $33 billion, passed through Pakistan, as per data compiled by the FBR Directorate General of Transit Trade. **The Kabul Times**

Dollar teeters as inflation test looms

The dollar clung to a small bounce on Wednesday as traders looked to upcoming U.S. inflation data and a European Central Bank (ECB) meeting to gauge the global recovery and policymakers' thinking.

Investors have piled up bets against the dollar, but are growing nervous about whether the beginning of the end of enormous monetary stimulus is nigh - and worry that interest rate rises could end a 15-month dollar downtrend.

Some think tapering could be hastened, and the dollar boosted, if U.S. inflation runs hotter than the 0.4% monthly clip that economists expect. For the ECB, the focus is on any signs of an imminent slowdown to its bond buying programme.

Both are due on Thursday and the anticipation has all but killed volatility in major currencies, as traders assume a wait-and-see stance. The euro was steady at $1.2174 early in the Asia session, while the dollar held firm at 109.42 Japanese yen.

Deutsche Bank's Currency Volatility Index hit its lowest level since February 2020 overnight. The U.S. dollar index is parked at 90.107.

"Markets need reassurance that the global economic recovery isn't under threat from either dangerous strains of COVID, or from the Fed being forced to change tack (on stimulus) much earlier than expected," said Societe Generale currency strategist Kit Juckes.

"So far, the vaccines appear to work and while distribution is uneven ... it's still accelerating overall," he said.

"That's cause for hope. For markets though, it means that risk assets need regular reassurance that the Fed isn't going to tighten sooner than expected. And so, we wait for Thursday's CPI data, then next week's FOMC."

The Australian and New Zealand dollars were firmly entrenched in narrow bands, with the Aussie at $0.7741, roughly the middle of the past two months' range, and the kiwi travelling likewise at $0.7197.

Sterling has also stalled as doubt has crept in over whether rising cases of the coronavirus' Delta variant in Britain could delay business reopening plans scheduled for June 21. It last bought $1.4155.

Chinese consumer and producer prices are due later on Wednesday, with the latter lately rising quickly as factories pass on rising raw material prices. A further jump could signal more price pressure flowing through global supply chains.

Canadian dollar traders were also on edge ahead of a central bank meeting on Wednesday. The bank is expected to leave rates on hold but flag further tapering of asset purchases, with any surprises on the size or speed liable to boost the loonie.

However, the week's major focus is on inflation, and the ECB and traders see both events bringing risks on all sides.

"U.S. economists are expecting a 0.4% month-on-month rise in both the headline and the core inflation numbers - they're big numbers," said Commonwealth Bank of Australia currency strategist Joe Capurso.

"I think the risk is they fall short of that," he said. That could pull down U.S. yields and bring the dollar with them, Capurso added, unless the figure spooked stock markets' enough to drive safe-haven flows into the dollar.

The ECB is expected to keep policy settings steady, but the euro is likely to be sensitive to changes in the bank's economic forecasts or any signal that the pace of bond buying could be reduced in months ahead.

Elsewhere, China's yuan was steady around the 6.4 per dollar level in offshore trade on Wednesday, as sweeping laws aimed at competing with China cleared the U.S. Senate, damping yuan bulls' recent enthusiasm.

Bitcoin recovered from a three-week low it hit on Tuesday when signs of institutional investor caution and regulatory attention drove selling. It last bought $32,914.

Spring economic boom signals UK Covid recovery is still on track

The fastest monthly growth of the services sector since 1997 and a fall in the number of workers on furlough signalled that the UK's recovery from the coronavirus crisis remained on track in May, as lockdown restrictions were relaxed across all four nations of the UK.

A steep fall in unemployment claims in the US and new data showing an acceleration in the recovery across Europe also indicated that the Covid-19 vaccination programmes across the developed world were helping drive a rebound in economic activity.

However, the improved economic situation failed to ignite financial markets after analysts cited concerns about the potential for the boom to peter out due to severe constraints on essential supplies and a lack of skilled workers.

"There are still so many factors for investors to weigh, such as whether the economy will overheat or whether new Covid variants could prompt a further economic downturn," said Danni Hewson, a financial analyst at the stockbroker AJ Bell. "There is also an element of having to second guess how central banks and governments will respond to the rapidly shifting backdrop. All of this uncertainty is making it tricky for the markets to make concerted progress as we move towards the halfway point of 2021," she said.

In its monthly snapshot, IHS Markit and the Chartered Institute of Procurement and Supply (CIPS) reported the biggest surge in UK business and consumer spending in May in the services sector for the last 25 years.

Employers reported the strongest rate of hiring for more than six years amid a spring boom in the economy, which follows the worst recession for more than 300 years in 2020.

The monthly survey of businesses in the sector that includes hotels, restaurants, finance and IT showed mounting pressure on staff wage bills, raw materials and transport fuelled the steepest rise in costs since July 2008.

The IHS Markit/CIPS purchasing managers' index (PMI) – a closely watched gauge of activity in the services sector, which is responsible for almost 80% of the UK's national output – increased to 62.9 in May, up from 61.0 in April. Any reading above 50 denotes that the sector is expanding.

The snapshot comes as employers sound the alarm over staff shortages exacerbated by the pandemic and Brexit, as fewer EU workers travel to Britain to find a job.

US trade deficit narrows in April as imports fall

The US trade deficit retreated from a record high in April amid a decline in imports, suggesting domestic demand was starting to revert back to services from goods.

With at least half of the American population fully vaccinated against Covid-19, authorities across the country are lifting virus-related restrictions on businesses, boosting demand for services like travel.

Demand shifted towards goods, with Americans cooped up at home, at the height of the pandemic.

"Consumers splurged on goods during the stay-at-home economy's boom in 2020 and early 2021, since pandemic restrictions reduced spending on meals out, vacations, and other services," said Bill Adams, a senior economist at PNC Financial in Pittsburgh, Pennsylvania.

"With the pandemic coming under control, consumers are redirecting their spending towards domestically produced services and away from imports."

The trade deficit dropped 8.2% to $68.9 billion in April, the Commerce Department said on Tuesday.

Data for March was revised higher to show the gap widening to a record $75.0 billion instead of $74.4 billion as previously reported.

Economists polled by Reuters had forecast a $69.0 billion trade deficit in April.

Still, the trade deficit was likely to remain elevated as economic activity in the United States rebounds faster than its global rivals, also thanks to massive fiscal stimulus. Robust demand as the economy reopens is straining supply chains.

"We see no change in the prevailing trend of trade where the stronger U.S. economy is sucking in more goods demanded by consumers and businesses, while America's trading partners are finding it harder to restart their economic growth following the pandemic," said Chris Rupkey, chief economist at FWDBONDS in New York. Imports fell 1.4% to $273.9 billion in April. Goods imports dropped 1.9% to $232.0 billion. The decline was led by a $2.6 billion drop in imports of consumer goods, which reflected decreases in textile apparel, toys, games and sporting goods as well as household appliances. Imports of motor vehicles, parts and engines also fell. But imports of cell phones and other household goods increased. Imports of foods, feeds and beverages were the highest on record as were of those of capital goods. Imports of services increased $0.7 billion to $41.9 billion in April. They were lifted by travel and transport services.

US stocks were little changed. The dollar rose versus a basket of currencies. U.S. Treasury prices were higher. Exports rose 1.1% in April to $205.0 billion. Exports of goods gained 1.1% to a record $145.3 billion. They were led by a $2.1 billion increase in shipments of capital goods, which reflected gains in civilian aircraft. Exports of industrial supplies and materials, which were the highest on record, increased $0.8 billion, with crude oil shipments rising $1.0 billion. Exports of foods, feeds and beverages were the highest on record. The pandemic remained a drag on trade services, especially travel. Exports of services increased $0.7 billion amid small gains in travel, transport and charges for the use of intellectual property. **AFP**

Gold prices eye $1900 as Chinese PPI beat signals building price pressures

Gold prices traded modestly higher after falling -0.37% a day ago, as weakening Treasury yields and a cheaper US Dollar boosted the appeal of the non-interest-bearing metal. China's producer price index (PPI) surged to 9.0% in May, a level not seen since 2008, also surpassing a baseline forecast of 8.5%. PPI measures the change in prices at the factory gate, thus serving as a leading indicator for the CPI as producers may pass on higher production costs to the end consumers.

China's official consumer price index (CPI) came in at 1.3% YoY in May, a notable increase from April's reading of 0.9%, but below market expectation of 1.6%. The slight miss may be attributed to a modest 0.3% rise in food prices as the price of pork tumbled 23.8% from a year ago. Yet, a rapid surge in crude oil, iron ore, base metals and other bulk commodities pushed non-food prices higher. Further price pressure may be seen in the months to come given a significant climb in PPI.

Rising price pressures may continue to support gold, which is widely perceived as a store of value and hedge against inflation. On the demand side, Chinese buyers have returned to the bullion market since April after the People's Bank of China (PBoC) eased curbs on non-monetary gold imports to meet rising domestic demand. Since then, Chinese gold imports have picked up significantly (chart below). As the world's third-largest gold importer, Chinese buyers may provide medium-term support to gold prices. Looking ahead, traders are eyeing Thursday's US inflation data for clues about rising price levels in the US and their ramifications for Fed monetary policy. US headline inflation is expected at 4.7% YoY in May, hitting the highest level since 2008. A large deviation from this expectation may lead to heightened market volatility, especially for stocks, forex and precious metals. While a higher-than-expected reading may bolster precious metals, it may also stoke tapering fears and undermine their gains. This mixed dynamic renders gold prices vulnerable to heightened volatility during and after the data.