Oil falls over 3% on concerns over demand and OPEC supply boost

NEW YORK: - Oil prices fell more than 3% on Monday after weak economic data from China and the United States, the world's top oil consumers, and higher crude output from OPEC producers stoked fears of weakness in oil demand and oversupply.

Brent crude oil futures settled down $2.52, or 3.3%, at $72.89 a barrel, while U.S. West Texas Intermediate (WTI) crude ended $2.69, or 3.6%, lower at $71.26.

"Energy futures...are still expressing concerns over slowed production consumption as coronavirus cases are back on the rise in several regions of the U.S. as well as several countries overseas," said Jim Ritterbusch, president of Ritterbusch and Associates LLC in Galena, Illinois.

China's factory activity growth slipped sharply in July as demand contracted for the first time in more than a year, a survey showed on Monday.

The weaker results in the private survey, mostly covering export-oriented and small manufacturers, broadly aligned with those in an official survey released on Saturday. read more

"China has been leading economic recovery in Asia and if the pullback deepens, concerns will grow that the global outlook will see a significant decline," said Edward Moya, senior analyst at OANDA.

U.S. manufacturing activity also showed signs of slowing. The pace of growth slowed for the second straight month as spending rotates back to services from goods and shortages of raw materials persist, according to data from the Institute for Supply Management (ISM).

The ISM's index of national factory activity fell to 59.5 last month, the lowest reading since January, from 60.6 in June. read more

Also weighing on prices, a Reuters survey found that oil output from the Organization of the Petroleum Exporting Countries (OPEC) rose in July to its highest since April 2020. read more

The United States will not lock down again to curb COVID-19, but "things are going to get worse" as the Delta variant fuels a surge in cases, mostly among the unvaccinated, President Joe Biden's chief medical adviser Anthony Fauci said on Sunday. read more The United States and Britain on Sunday said they believed that Iran carried out Thursday's attack on an Israeli-managed petroleum products tanker, which killed a Briton and a Romanian, and pledged to work with partners to respond. reuters

Delta Variant Stalls Asia's Economic Recovery After Early Rebound

Asia is emerging as a weak link in an otherwise strong global economic recovery, as new pandemic restrictions restrain manufacturing in some countries and the exports that have powered the recovery in China show signs of slowing.

With progress on vaccinations slower than in the West, Asia is hitting new pandemic highs driven by the Delta variant of the coronavirus. The spread of the virus is threatening to hurt consumer confidence and erode the advantage of many Asian economies as manufacturing powerhouses.

Countries in Southeast Asia have been among the hardest hit, prompting new social-distancing restrictions and lockdowns in countries that had largely avoided those measures earlier in the pandemic. As factory production contracts across Southeast Asia, Indonesia and Malaysia, which have recently faced surging caseloads and Covid-19 deaths, have been among the worst affected, according to IHS Markit .

Foreign demand has propelled export economies such as China and South Korea during the pandemic, with factories churning out consumer goods from bikes to furniture and electronic gadgets for overseas consumers. But that engine is showing signs of slowing. In China, both private and official manufacturing purchasing-managers' Indexes fell to their lowest levels in over a year in July, suggesting that domestic and overseas demand were cooling off.

In the West, higher vaccination levels are allowing economic activity to return to normal levels. In the U.S., which has vaccinated 49.6% of its population, economic output rose above its pre-pandemic level in the second quarter.

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Why remote work is a big problem for the economy

New York: Americans are trickling back to their pre-pandemic workplaces, but most offices are still largely empty. And that's affecting local economies in a major way.

Love it or hate it, commuting is good for the economy. You pay train conductors' salaries with your subway fare. The dry cleaner by the office and the coffee shop around the corner all count on workers who have been largely absent for nearly a year and a half.

In 2020, the number of people working from home nearly doubled, to 42% of America's workforce, according to the Bureau of Labor Statistics.

And although many workers may prefer that setup, staying home is likely to delay the recovery of the vital office-adjacent economy.

According to economists from Goldman Sachs (GS), office attendance in large US cities is only about one-third of pre-pandemic levels. That's a lot of employees who are still working remotely and not spending cash on items like train tickets or lattes — the kind of economic activity is essential in America's consumer spending and service-driven economy. For example, in New York — one of cities hit hardest at the start of the outbreak — subway ridership is still not even half of what it was pre-pandemic, according to data from the Metropolitan Transportation Authority.

To put this in perspective, New York's public transport system is the largest in the nation and at the heart of the city's economic power. Before Covid, it brought in nearly $17 billion in revenue. But with ridership still depressed, revenue predictions have been slashed, too. The Metropolitan Transit Authority received nearly $4 billion in government funding through the CARES Act, but fare and toll revenues aren't expected to come back to their previous levels until 2023, according to a report from the Office of the New York State Comptroller earlier this year.

Other businesses that workers frequent on their way to the office are also struggling.

For Starbucks (SBUX), the loss of that daily consumer is weighing on the bottom line. Last quarter, the coffee chain's average in-store transactions were at 90% of pre-pandemic levels.

"We certainly have the ability to bring more customers in, but our opportunity is the frequency of those customers," Starbucks CFO Rachel Ruggeri said on an earnings call.

As a global coffee behemoth, Starbucks has a staying power that smaller, local coffee shops don't have.

When it comes to lunch, salad chain Just Salad has reopened all of its locations and said business is picking up steadily. "We expect that to accelerate even more after Labor Day," when more employees are slated to return to in-person work, Just Salad's CEO Nick Kenner told CNN Business in an email.

Drag on the recovery

But the targeted September return to the office is in jeopardy for many businesses. The rapid spread of the more infectious Covid-19 Delta variant is a new hurdle to in-person work.

Tech giants Apple (AAPL) and Google (GOOG) have already pushed back the dates for the office return.

Further complicating the return to the office, the Centers for Disease Control and Prevention reversed its mask guidance last week, urging even vaccinated Americans in high-transmission areas to wear masks indoors — another development that could complicate the return to in-person work and slow the pace of the broader economic recovery.

No matter when it really happens, the way we work has permanently changed for many professions: Remote work and hybrid in-office models are likely here to stay as one of the legacies of the pandemic.

This is bad news for the metropolitan areas and states that heavily rely on the services sector, be it through workers or tourists, including Hawaii, Las Vegas and New York. Those places are lagging behind in the recovery.

Even those called back may not be ready or able to go back full-time, citing issues like child care challenges or living with at-risk family members.

The job market is adapting to that, too.

"Job ads increasingly offer remote work and surveys indicate that both workers and employers expect work from home to remain much more common than before the pandemic," Goldman Sachs economists said in a note to clients. CNN

South Africa unrest and Covid measures are starting to derail its economic recovery

The South African economy's buoyant start to the year is likely to be ruined by a combination of renewed Covid-19 containment measures and recent civil unrest, experts have warned.

A third wave of infections led the government to enforce strict lockdowns toward the end of June. President Cyril Ramaphosa announced last week that the alert level would be downgraded to level three from level four, with daily new cases now falling consistently from their July 8 peak and vaccinations gathering pace.

However, some measures limiting economic activity remain in place, and the hit from a roughly month-long lockdown was compounded recently by a week of riots and looting across the economic hubs of Gauteng and KwaZulu-Natal, ostensibly in protest at the arrest of former President Jacob Zuma.

Zuma handed himself in to the South African Police Service on July 7 after being sentenced to 15 months in jail for failing to appear before an inquiry into corruption during his time in office, between 2009 and 2018.

Following the deployment of the military, much of the unrest has calmed in recent weeks, but although at first glance the short-term economic damage seems less concerning than initially feared, analysts are worried about underlying longer-term effects on the broader economy.

A fire engulfs Campsdrift Park, which houses Makro and China Mall, following protests that have widened into looting in Pietermaritzburg, South Africa July 13, 2021, in this screen grab taken from a video obtained from social media. A fire engulfs Campsdrift Park, which houses Makro and China Mall, following protests that have widened into looting in Pietermaritzburg, South Africa July 13, 2021, in this screen grab taken from a video obtained from social media.

"To put this into perspective, retail trade and production accounts for about 20 percent of gross domestic product, or almost $70 billion, of which $14 billion may have been lost, according to estimates by local banks," Robert Besseling, CEO of political risk consultancy Pangea-Risk, told CNBC on Friday.

"Moreover, the impact on poor communities will be disproportionate, since most looted stores and malls are close to townships. These communities will now struggle to find nearby groceries and supplies, even while Covid-19 lockdowns remain in place."

Besseling said the prospect of future fuel shortages cannot be ruled out, since three of the country's refineries are now shut, two of which due to maintenance reasons. Only one refinery in the Free State province remains operational, while panic buying has placed extreme pressure on supply chains, he added.

"Therefore the medium to longer term impact of the unrest on the economy is expected to be more substantial than the immediate repercussions of the violence, which will drag down economic recovery prospects and potentially motivate higher rates of criminality and unrest, including copycat instances of looting," Besseling said.

Zuma's arrest deepened divisions within the ruling ANC party between the former president's loyalists and those on board with the agenda of his successor, President Ramaphosa. Besseling suggested that in order to deliver on his promised economic reform agenda, Ramaphosa will have to seize this opportunity to purge Zuma loyalists from his party and governance structures.

The International Monetary Fund expects South Africa's economy to grow 4% in 2021 and all indicators up to now have pointed to a sharper-than-expected rebound from the Covid-induced recession.

First-quarter GDP grew 1.1% for an annual rise of 4.6%, while increased mobility and business confidence data in the second quarter have also offered cause for optimism.

However, KwaZulu-Natal and Gauteng, where many ruined businesses are expected to take years to rebuild, contribute half of the country's GDP and almost half of its entire population. The port of Durban in KwaZulu-Natal acts as a trade gateway to the southern subcontinent and accounts for around 70% of South Africa's imports.

Economists are estimating that the cost to the national economy from the destruction caused by pro-Zuma protests is estimated at 50 billion rand ($3.43 billion).

In a research note last week, NKC African Economics noted that other major concerns include the further disruption of supply chains on top of that caused by the pandemic, along with threats to food security.

"The events that occurred in KwaZulu-Natal and Gauteng could not have come at a worst time" said NKC senior economist Pieter du Preez.

NKC revised down its economic growth forecast for South Africa in 2021 to 3.8% from 4.3%, and said the medium-term outlook is also hindered by falling investor confidence and a lack of fiscal space, which is expected to crowd out fixed investment expenditure.

"Early estimates of the damage are alarming, with 50,000 informal traders and 40,000 businesses affected, putting 150,000 jobs at risk," du Preez said.

"Approximately 3,000 stores were looted, 100 shopping malls suffered significant fire damage, and almost 1,200 retailer outlets were impacted and damaged."

All this came in addition to the third wave of Covid-19 hitting harder than expected due to the transmissibility of the delta variant, he added.

"The resultant four weeks of adjusted level 4 lockdown measures will have an impact in Q3, while the current adjusted level 3 measures will continue to hamper activity somewhat," du Preez said. "In general, we expect an economic contraction in Q3, before the rebuilding commences, yet again, in Q4."cnbc

S&P 500 edges down on coronavirus woes, slowing economy

The S&P 500 Index closed slightly lower on Monday after erasing early gains as worries about the Delta variant of the coronavirus and a slowing U.S. economy overshadowed optimism around more fiscal stimulus and a strong second-quarter earnings season.

Federal Reserve Governor Christopher Waller said on CNBC late in the session that the Fed could start to reduce its support for the economy by October if the next two monthly jobs reports each show employment rising by 800,000 to 1 million, as he expects. read more

He also suggested the Fed could announce in September it would start to reduce its monthly bond purchases, which could lift yields again - not the best news for the stock market.

Data earlier in the day showed that although U.S. manufacturing grew in July, its pace slowed for a second straight month as spending rotated back to services from goods, and shortages of raw materials persisted. read more

The softer-than-expected data also sent U.S. bond yields to their lowest since July 20 and knocked the blue-chip Dow off an intraday record high hit in early trading.

"An issue for the market... is the rise of the growth scare", said Rob Haworth, senior investment strategist at U.S. Bank, "Whether it's more restrictions in China with infections rising in 14 provinces now, or questions about how far is the U.S. going to have to go with mask mandates."

Only four of the 11 S&P sectors traded higher by market close, among them utilities (.SPLRCU) and real estate (.SPLRCR), generally considered safe bets at a time of uncertainty.

With manufacturing activity data coming in weaker than expected, investor focus now turns to services sector data on Wednesday and the Labor Department's monthly jobs report on Friday. read more

After mixed quarterly reports from technology behemoths last week, all eyes this week are on earnings from companies including Eli Lilly and Co (LLY.N), CVS Health Corp (CVS.N) and General Motors Co (GM.N).

Volume on U.S. exchanges was 8.80 billion shares, compared with the 9.77 billion average for the full session over the last 20 trading days.

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