Costs of war mount in Europe as inflation soars, growth sags

THE ECONOMIC damage from the war in Ukraine is worsening across Europe as already-record inflation soars further and Germany faces a danger of recession because of its dependence on Russian energy.

President Vladimir Putin's invasion has sapped euro-area confidence and sent consumer-price expectations to their highest level since records began in 1985.

In Spain, inflation surged by almost 10% in March — the most in nearly four decades — while it also topped expectations in Germany. In the continent's biggest economy, advisers to Chancellor Olaf Scholz slashed the growth outlook and said there could be a contraction if natural gas supplies are shut off.

"The longer the war lasts, the greater the costs are likely to be," European Central Bank (ECB) President Christine Lagarde said Wednesday in Cyprus. She reiterated that any increases in record-low interest rates will be gradual, describing "significant risks to growth" and "considerable uncertainty" over the economic outlook.

ECB officials have dismissed talk of stagflation, saying expansion in the 19-member euro zone will still top 2% even in their "severe" scenario for 2022. But the latest data show increasing traction for the forces that would produce such an outcome. What's more, several policy makers are pushing for a rate hike this year that could weigh on output.

Slovakia's Peter Kazimir on Wednesday joined a growing group of policy makers saying a rate increase in 2022 is possible. Estonia's Madis Muller said an increase is "likely," if not definite.

Austria's Robert Holzmann — one of the Governing Council's leading hawks — backed quarter-point moves in September and December.

Elsewhere, Ireland's Gabriel Makhlouf said that while monetary policy won't be normalized rapidly, the ECB will take whatever actions are needed to achieve price stability. Belgian central bank chief Pierre Wunsch also said he favored a gradual approach.

At its March meeting, the ECB indicated that its primary focus is on tackling inflation that's almost three times the 2% official target. Investors are looking carefully at prices too, reacting to Wednesday's unexpectedly large jump in Spain by bringing forward bets on the central bank's deposit rate returning to zero to October from December.

Germany data released later Wednesday showed inflation reached 7.6%, with a national gauge hitting the highest level since records began after reunification in the early 1990s and a government adviser warning double-digit figures may be in store.

They've already arrived in Lithuania, where a preliminary reading indicated that prices shot up by 15.6% this month.

Everything will feed through to Friday's inflation number from the euro zone, where analysts predict a new record in the single currency's history.

Looking ahead, energy costs, food prices and persistent bottlenecks "are likely to take inflation higher," according to Ms. Lagarde, who called for a European plan to ensure investments — public and private — come online as quickly. — ***Bloomberg***

China factory activity contracted even before Shanghai lockdown

CHINA'S manufacturing activity contracted in March as authorities locked down cities to curb a surge in COVID cases, damaging the outlook for economic growth even before the latest outbreak in Shanghai began wreaking havoc.

The official manufacturing purchasing managers' index (PMI) fell to 49.5, breaching the 50-mark that separates expansion from contraction for the first time in five months, data from the National Bureau of Statistics showed Thursday. That was lower than the median estimate of 49.8 in a Bloomberg survey of economists.

The non-manufacturing gauge, which measures activity in the construction and services sectors slumped to 48.4, below the consensus forecast of 50.3.

China is battling its worst outbreak since the initial flareup two years ago. Soaring case numbers prompted authorities to lock down major cities including the country's tech and manufacturing hub Shenzhen and automotive city Changchun this month.

Economists have also pointed out the disruption so far does not completely capture the entire impact from restrictions in the financial center Shanghai, which is still battling a significant COVID outbreak.

"As the Shanghai lockdown only happened in late March, economic activities will likely slow further in April," said Zhang Zhiwei, chief economist at Pinpoint Asset Management Ltd. "The government has made it clear that the priority is to contain Omicron outbreaks, which indicates the willingness to sacrifice growth in the short term if necessary."

The benchmark CSI 300 Index dropped as much as 0.9% after the release of the data. Technology and industrial stocks led the decline.

FREEMAN ZHOU

Areas covering roughly 30% of China's gross domestic product (GDP) are affected by the outbreaks, Goldman Sachs Group, Inc. estimates, with the economic costs of the lockdowns likely amounting to at least $46 billion a month, or 3.1% of GDP, according to a researcher from Chinese University of Hong Kong. Several economists have already downgraded their growth forecasts for the first half of the year as lockdowns were expanded.

The March data is the "best evidence and forward indicator of the blow the latest COVID outbreak has dealt to the economy," said Bruce Pang, head of macro and strategy research at China Renaissance Securities Hong Kong.

It's unprecedented for the manufacturing PMI to fall in March from the previous month. The indicator has risen from February every year since the data series started in 2005 as people return to work and businesses resume operation after the Lunar New Year holidays.

Smaller firms continued to suffer, while activities at larger firms kept expanding. The manufacturing PMI for large firms stood at 51.3 in the month, while those for medium and small sized companies were at 48.5 and 46.6.

China's Premier Li Keqiang reiterated Wednesday that China will stick to its full-year growth target of "about 5.5%" despite new challenges and increased downward pressures. He called on the nation to prioritize stable growth and to draft contingency plans to deal with possible greater uncertainties at a regular State Council meeting. Policies to stabilize growth should be rolled out as early as possible, while measures that would dampen market expectations should be avoided, he said.

SHENZHEN LOCKDOWN

Companies like Apple, Inc. supplier Foxconn temporarily halted production in Shenzhen during a week-long lockdown of the city. In Changchun, an industrial hub that accounted for about 11% of China's total annual car output in 2020, automakers like Toyota Motor Corp. were forced to shut. Some businesses resumed production by adopting a so-called closed loop system in which workers were kept at factory locations and tested regularly.

The disruptions affected "the stability of manufacturing supply chain," said Zhao Qinghe, a senior statistician at the NBS, noting the index measuring delivery time of suppliers fell to 46.5, the lowest since Feb. 2020.

The index measuring new export orders dropped further into contraction, falling to 47.2 in March from 49 in the previous month. Orders were reduced or canceled at some companies due to the "recent escalation in geopolitical conflicts," the NBS said.

Employment was also affected during the month, with the subindex for manufacturing jobs dropping to 48.6 in March from 49.2 in February and non-manufacturing jobs also worsened.

"Some companies surveyed said due to the COVID impact, there was insufficient employees working in their posts, logistics were clogged, and delivery cycle was extended," Zhao said.

Price pressures on companies also increased during the month, due to factors including the recent sharp fluctuations in international commodity prices, according to the NBS. Input and output prices rose to 66.1 and 56.7 respectively.

In-person services sectors like restaurants and retail shops were hit hard by the renewed lockdowns and tightened social distancing measures, dragging the official non-manufacturing index lower. Economists say the damage to consumption could be deeper and more long-lasting than to production.

Construction activities, however, picked up slightly as temperatures rose, Zhao said. The sub-index rose to 58.1 in March. The State Council on Wednesday urged faster issuance of the local government special bonds to expand effective investment.

The world's second-largest economy was already struggling even before the current wave of outbreaks following a slump in the property market and weakness in consumer spending. The government has pledged more monetary and fiscal stimulus to help bolster the economy and meet its annual growth target. — ***Bloomberg***

Gold gains 1% as dollar slips, Russia-Ukraine optimism wanes

GOLD PRICES rose nearly 1% on Wednesday, supported by a retreat in the US dollar and renewed doubts about the possibility of a ceasefire between Russia and Ukraine.

Spot gold was up 0.7% at $1,932.14 per ounce by 03:26 p.m. EDT (1926 GMT). US gold futures settled up 1.1% to $1,939.

The US dollar fell 0.6% to nearly a two-week low, making greenback-priced gold less expensive for other currency holders.

Also helping gold, "this Russian situation, which seemed to be improving yesterday is now kind of deteriorating again", said Edward Meir, an analyst with ED&F Man Capital Markets.

The Kremlin on Wednesday welcomed that Kyiv had set out its demands for an end to the conflict in Ukraine in written form, but said there was no sign of a breakthrough yet.

Gold prices dropped as much as 1.8% on Tuesday after Russia pledged to cut down on military operations around Kyiv and in northern Ukraine, but bullion pared most of the losses to settle just 0.2% lower for the day.

Markets also were keeping a close tab on the US 2-year/10-year Treasury yield curve, which briefly inverted on Tuesday, as bond investors bet that aggressive tightening by the Federal Reserve to fight soaring inflation could hurt the US economy.

Bullion is considered a safe store of value during times of political and financial uncertainty. It is also viewed as a hedge against rising inflation.

Spot silver rose 0.1% to $24.78 per ounce, while platinum climbed 0.6% to $988.27.

Palladium gained 4.6% to $2,246.69 after dipping to more than a two-month low of $2,032.97 on Tuesday. — ***Reuters***

Oil up 3% on prospects of new Russian sanctions

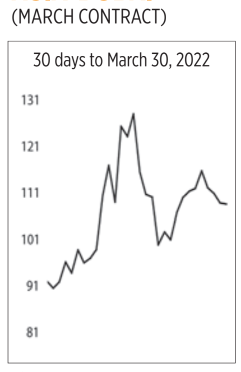
NEW YORK — Oil prices gained about 3% on Wednesday as another US crude stock drawdown indicated tight supplies and investors worried about new Western sanctions against Moscow with Russian forces continuing to bomb the outskirts of Ukraine's capital.

On Tuesday, Russia promised to scale down operations around Kyiv in what the West dismissed as a ploy to regroup by invaders suffering heavy losses.

Brent futures rose $3.22, or 2.9%, to settle at $113.45 a barrel, while US West Texas Intermediate (WTI) crude rose $3.58, or 3.4%, to settle at $107.82.

US crude stockpiles fell by a bigger-than-expected 3.4 million barrels last week, cutting inventories in the world's top consumer to 410 million barrels, their lowest since Sept. 2018, government data showed.

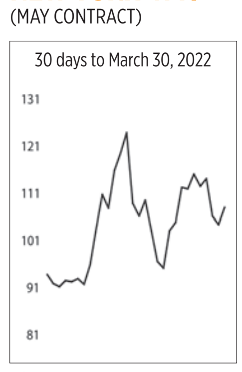
ASIA-DUBAI
(MARCH CONTRACT)



DOLLARS PER BBL

Mar.	24	25	28	29	30
$/bbl	115.55	111.90	110.65	108.59	108.35
Average (Mar. 1-30)					**$111.05**
Average (Feb. 1-28)					**$92.34**

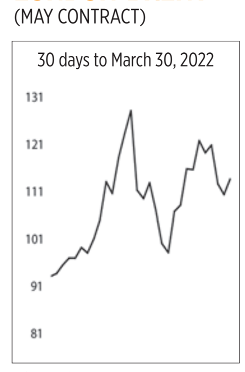
NEW YORK-WTI
(MAY CONTRACT)



DOLLARS PER BBL

Mar.	24	25	28	29	30
$/bbl	112.34	113.90	105.96	104.24	107.82
Average (Mar. 1-30)					**$108.63**
Average (Feb. 1-28)					**$91.63**

LONDON-BRENT
(MAY CONTRACT)



DOLLARS PER BBL

Mar.	24	25	28	29	30
$/bbl	119.03	120.65	112.48	110.23	113.45
Average (Mar. 1-30)					**$112.67**
Average (Feb. 1-28)					**$94.10**

Source: REUTERS

After seven weeks of holding steady, US crude output inched up 100,000 barrels per day (bpd) last week to 11.7 million bpd, while crude stocks in SPR fell to their lowest since May 2002, and Gulf Coast refinery utilization rose to its highest since Jan. 2020.

Price gains were limited by surprise builds in US gasoline and distillate stocks last week and lower demand for both products, traders said.

The United States and its allies plan new sanctions on more sectors of Russia's economy, including military supply chains.

The Kremlin indicated that all of Russia's energy and commodity exports could be priced in roubles, as President Vladimir Putin seeks to make the West feel pain for the sanctions. In response to possible Russian gas supply cuts, Germany triggered an emergency plan to manage gas supplies. Other European countries also took steps to conserve gas.

Keeping the market tight, major oil producers are likely to stick to their scheduled output target increase of about 432,000 bpd when OPEC+ - the Organization of the Petroleum Exporting Countries and allies including Russia — meets on Thursday, several sources close to the group said. — ***Reuters***

Dow, S&P 500 close lower as Russia bombs Ukraine

NEW YORK — US stocks fell on Wednesday, with the Dow and S&P 500 snapping four-session winning streaks, on waning signs of progress for peace talks between Ukraine and Russia against a backdrop of a hawkish Federal Reserve curbing economic growth.

Russian forces bombarded the outskirts of Kyiv and a besieged city in northern Ukraine, a day after promising to scale down operations.

The S&P has rebounded more than 5% in March after starting the year with two straight monthly declines. Still, the benchmark index is on track for its first quarterly decline since the first quarter of 2020, when the coronavirus disease 2019 (COVID-19) pandemic in the United States was reaching full swing.

Stock prices have reacted to headlines about negotiations to resolve Russia's invasion of Ukraine. Prices for commodities such as oil and metals have surged since the invasion, intensifying already-high US inflation.

"Ukraine is the controlling narrative for this market, if we are going to get a settlement and we get the potential from that settlement for lower energy prices, which is really the key, and then some sort of return to normalcy in terms of the world economy that is a real positive for the market," said Rick Meckler, partner at Cherry Lane Investments in New Vernon, New Jersey.

"If not, we are going to continue to just go back and forth here as the market tries to digest who the winners and losers are because there are a lot of unintended consequences coming out of this war," Meckler added.

The Dow Jones Industrial Average fell 65.38 points, or 0.19%, to 35,228.81, the S&P 500 lost 29.15 points, or 0.63%, to 4,602.45 and the Nasdaq Composite dropped 177.36 points, or 1.21%, to 14,442.28.

As inflation intensifies, so does speculation the Federal Reserve may get more aggressive in raising interest rates, which could put a damper on economic growth.

The S&P energy index was the leading sector on the plus side with a gain of 1.17%. It is up nearly 40% this year, which would mark its strongest quarterly performance ever.

The sector is currently one of only three that are positive on the year and has far outpaced the next closest performer in utilities, which are up nearly 4% on the year but closed at a record high for a fourth straight session.

Some investors have taken a defensive stance due to fears of excessive Fed tightening and recent signals in the bond market that often act as precursors to a recession.

Still, economic data continues to indicate a strong labor market. The ADP National Employment Report showed private payrolls rose by 455,000 jobs last month after advancing 486,000 in February. Investors will watch for Friday's payrolls report.

Lululemon Athletica, Inc. surged 9.58% after forecasting full-year profit and revenue above estimates, as demand for athletic wear remains strong.

Volume on US exchanges was 11.69 billion shares, compared with the 13.93 billion average for the full session over the last 20 trading days.

Declining issues outnumbered advancing ones on the New York Stock Exchange (NYSE) by a 1.24-to-1 ratio; on Nasdaq, a 1.98-to-1 ratio favored decliners.

The S&P 500 posted 44 new 52-week highs and 1 new low; the Nasdaq Composite recorded 51 new highs and 47 new lows. — ***Reuters***

SPOT PRICES

WEDNESDAY, MARCH 30, 2022

METAL	
PALLADIUM free $/troy oz	2,242.14
PALLADIUM JMI base, $/troy oz	2,233.00
PLATINUM free $/troy oz	997.74
PLATINUM JMI base $/troy oz	996.00
KRUGGERAND, fob $/troy oz	1,928.00
IRIDIUM, whs rot, $/troy oz	5,090.00
RHODIUM, whs rot, $/troy oz	19,390.00
GRAINS (MARCH 24, 2022)	
(FOB Bangkok basis at every Thursday)	
FRAGRANT (100%) 1st Class, $/ton	819.00
FRAGRANT (100%) 2nd Class, $/ton	788.00
RICE (5%) White Thai- $/ton	421.00
RICE (10%) White Thai- $/ton	418.00
RICE (15%) White Thai- $/ton	420.00
RICE (25%) White Thai- $/ton (Super)	420.00
BROKER RICE A-1 Super $/ton	412.00
FOOD	
COCOA ICCO Dly (SDR/mt)	1,813.39
COCOA ICCO $/mt	2,498.87
COFFEE ICA comp '2001 cts/lb	190.83
SUGAR ISA FOB Daily Price, Carib. port cts/lb	19.07
SUGAR ISA 15-day ave.	19.08

LIFFE COFFEE

New Robusta 10 MT - $/ton

	High	Low	Sett	Psett
May	2162	2118	2152	2125
July	2145	2108	2140	2115
Sept.	2129	2094	2126	2103
Nov.	2117	2090	2115	2094

LIFFE COCOA

(Ldn)-10 MT-£/ton

	High	Low	Sett	Psett
May	1784	1751	1772	1771
July	1809	1773	1798	1793
Sept.	1807	1771	1797	1791
Dec.	1807	1771	1796	1791

COCONUT

MANILA COPRA (based on 6% moisture)

Peso/100kg	Buyer/Seller
Lag/Qzn/Luc	6,250.00/6,300.00
Philippine Coconut Oil - Crude	
CIF NY/NOLA	101.00
FOB RAIL/NOLA	103.50
COCONUT OIL (PHIL/IDN),$ per ton, CIF Europe	
Mar./Apr.'22	0.00/2,550.00
Apr./May'22	0.00/2,250.00
May/June'22	2,075.00/2,180.00
June/July'22	2,065.00/2,150.00

LONDON METAL EXCHANGE

LME FINAL CLOSING PRICES, US$/MT

	3 MOS
ALUMINUM H.G.	3,551.00
ALUMINUM Alloy	2,825.00
COPPER	10,367.50
LEAD	2,417.50
NICKEL	32,893.00
TIN	42,493.00
ZINC	4,149.00