US May consumer price increases slow; underlying inflation sticky

WASHINGTON — US consumer prices barely rose in May and the annual increase in inflation was the smallest in more than two years, though underlying price pressures remained strong, supporting the view that the Federal Reserve would keep interest rates unchanged on Wednesday while adopting a hawkish posture.

The smaller-than-expected rise in the Consumer Price Index (CPI), reported by the Labor Department on Tuesday, reflected decreases in the costs of energy products and services, including gasoline and electricity. But rents remained sticky and prices of used cars and trucks rose further. The report was published as Fed officials began a two-day policy meeting.

"The moderate slowing provides the Fed room to pause its rate hikes this week," said Kathy Bostjancic, chief economist at Nationwide in New York. "However, if economic data continues to surprise to the upside and inflation remains sticky, the door is open for another rate hike in the coming months, as soon as July."

The CPI increased 0.1% last month after gaining 0.4% in April. Gasoline prices dropped 5.6%, while electricity declined for a third straight month. Utility gas also cost less.

But food prices rose 0.2% after being unchanged for two consecutive months as fruits and vegetables, nonalcoholic beverages and other food products became more expensive. Meat and fish, however, were cheaper, while egg prices fell 13.8%, the most since January 1951. It cost more to dine out.

In the 12 months through May, the CPI climbed 4.0%. That was the smallest year-on-year increase since March 2021 and followed a 4.9% rise in April.

The annual CPI peaked at 9.1% in June 2022, which was the biggest increase since November 1981, and is subsiding as last year's large rises drop out of the calculation.

Economists polled by Reuters had forecast the CPI would gain 0.2% last month and increase 4.1% on a year-on-year basis.

President Joseph R. Biden welcomed the moderation in prices. "While there is more work to do ... I've never been more optimistic that our best days are ahead of us," Mr. Biden said in a statement.

GRADUAL SLOWDOWN

Data this month showed a resilient labor market, with nonfarm payrolls increasing solidly in May. While the unemployment rate rose to a seven-month high of 3.7%, that was from a 53-year low of 3.4% in April.

Economists believe the gradual inflation and labor market slowdown gives the Fed room to skip an interest rate hike on Wednesday for the first time since March 2022 when the US central bank embarked on its fastest monetary policy tightening campaign in more than 40 years.

The Fed, which has hiked its policy rate by 500 basis points in this tightening cycle, is expected to leave the door open to further rate increases.

Economists argue the Fed should pause further rate increases while assessing the impact of the steps it has taken so far to cool demand.

Overall inflation is decelerating, thanks to energy and food costs. Food commodity prices have dropped back to levels seen prior to Russia's invasion of Ukraine in February 2022. Commodity prices fell 0.2% in May after rising 0.6% in the prior month. But inflation is proving to be sticky excluding these volatile categories, and remains well above the Fed's 2% target. — ***Reuters***

Russia thinking of ditching grain deal due to West's 'cheating'

MOSCOW — President Vladimir Putin said on Tuesday that Russia was considering withdrawing from the Black Sea grain deal because the West had cheated Moscow by implementing none of the promises to get Russian agricultural goods to world markets.

The deal allowing Ukraine to resume seaborne grain exports was brokered by the United Nations (UN) and Turkey in July last year to help tackle a global food crisis the UN said had been exacerbated by Europe's deadliest conflict since World War II.

To convince Moscow to approve the pact, known by diplomats as the Black Sea Grain Initiative, a three-year accord was struck at the same time under which UN officials agreed to help Russia with its own food and fertilizer exports.

But Mr. Putin said that commitment had not been honored due to the perfidy of the West. In response, Russia has slowed down Black Sea grain shipments.

"We are thinking about getting out of this grain deal now," Mr. Putin told a meeting of Russian war correspondents and military bloggers.

"Unfortunately, we were once again cheated — nothing was done in terms of liberalizing the supply of our grain to foreign markets. There were a lot of conditions that the Westerners had to fulfill under the leadership of the UN. "Nothing has been done," Mr. Putin added.

Western powers have imposed what they cast as the toughest sanctions ever on Russia over its full-scale war in Ukraine launched on Feb. 24, 2022.

While Russia's food and fertilizer exports are not sanctioned, the West's restrictions on payments, logistics and insurance pose barriers to shipments, according to Moscow and major Russian grain and fertilizer exporters.

HURDLES REMAIN

UN spokesman Stephane Dujarric said on Tuesday some progress has been made by UN officials to smooth Russia's exports, but "there are some hurdles that remain".

"We don't hold all the levers of power in order to facilitate the export of Russian grain and fertilizer, which is not sanctioned," Mr. Dujarric said.

The United States called on Russia to stop threatening global food supplies.

"The world deserves certainty that this corridor for grain and food exports will be there on a sustainable basis, and that it will get to global markets so that the world can continue to be fed," said a White House National Security Council spokesperson.

Russia and Ukraine are two of the world's top agricultural producers, and major players in the wheat, barley, maize, rapeseed, rapeseed oil, sunflower seed and sunflower oil markets. Russia is also dominant in the fertilizer market.

UN Secretary-General Antonio Guterres said on Monday he was concerned Russia would on July 17 quit the grain deal.

"We are working hard in order to make sure that it will be possible to maintain the Black Sea initiative and at the same time that we are able to go on in our work to facilitate Russian exports," Mr. Guterres told reporters.

DEMISE OF THE DEAL?

Mr. Putin made it absolutely clear that Russia is considering stopping participation in the grain deal.

He said he would discuss its future with some African leaders expected to visit Russia soon, adding that Moscow was ready to supply grain for free to the world's poorest countries.

"Almost nothing goes to African countries," Mr. Putin said of the current situation, adding that Moscow had agreed several times to extend the deal but had nothing to show for doing so.

The United Nations has always said the Black Sea grain deal was a commercial enterprise and not intended to be entirely humanitarian, but that it benefited poorer countries by helping lower food prices globally.

"We're interested in seeing this (deal) continue in order to ensure that food prices do not go back up," Mr. Dujarric said.

According to UN data more than 31 million tons of mainly corn and wheat has so far been exported by Ukraine under the Black Sea deal and the top destinations have been China, Spain, Turkey, Italy, the Netherlands, Egypt and Bangladesh.

The current deal will expire on July 17 unless Russia agrees to extend.

Russia's specific demands are that Russian Agricultural Bank (Rosselkhozbank) be reconnected to the SWIFT payment system, that supplies of agricultural machinery and parts to Russia needed to be resumed, and that restrictions on insurance and reinsurance needed to be lifted.

Other demands include the resumption of the Togliatti-Odesa ammonia pipeline that lets Russia pump the chemical to Ukraine's main Black Sea port, and the unblocking of assets and accounts of Russian companies involved in food and fertilizer exports. — ***Reuters***

Toyota to face governance challenge at shareholder meeting

TOKYO — Toyota faces an unprecedented challenge at its annual shareholder meeting on Wednesday, with some pension funds voting against Chairman Akio Toyoda on governance issues, while seeking more disclosures on the Japanese automaker's climate lobbying.

The world's top car maker has become a target in recent years for activists and green investors, who say it has been slow to roll out battery electric vehicles (EVs). Now, some investors have taken aim at the independence of its board.

The two largest US public pension funds — California's CalPERS and CalSTRS — as well as New York City's pension system and other asset managers have said they are voting against Mr. Toyoda.

Two prominent US proxy advisers have flagged concern about Toyota's board independence.

The step comes as companies across Japan face more pressure from investors, especially on environmental, social and governance (ESG) issues. Shareholders have made a record number of proposals at annual meetings this year.

Governance code revisions make clear that boards are to provide oversight, not just advice, but some Japanese companies "seem reluctant to accept the conclusion" and still regard boards as advisory, said a lawyer and corporate governance expert.

Toyota is an unlikely target, having long set Japan's enviable standard for quality and innovation. It has also done well for investors, returning 62% over the last five years, including dividends, versus a 57% return in the Nikkei 225. — ***Reuters***

Fund transfer,
from S1/1

It added that an industry-wide standard for those participating in the BSP's automated clearing houses (ACH) on how to resolve consumer concerns will build trust and confidence in the use of online payment services.

Stakeholders are given until June 28 to give their feedback on the proposed circular.

If approved, the guidelines will cover domestic payments denominated in peso, including payments of goods and services, and remittances or fund transfers.

According to the draft rules, BSIs are required to adopt a mechanism that will immediately identify any unsuccessful fund transfer, which refers to money not credited to the intended receiver due to EFTs not reaching the clearing switch operator (CSO), unauthorized transactions, restrictions such as "dormant" or "closed" accounts, or timed-out transactions.

CSOs are required to implement a mechanism that will identify system, infrastructure, and other operational concerns that affect the delivery of EFT services. The CSOs must inform all concerned participants if an issue occurs.

"For instant retail payments and corresponding use cases, the corresponding amount debited from the sender's account in unsuccessful transactions shall be credited back to said sender's account within one hour from receipt of client instruction. The same timeframe shall also apply to multiple-charged transactions," the BSP said.

Under the NRPS framework, the timeframe of a successful transaction from a sender to the intended receiver should be within only two to three seconds. For group transactions, the time for money to be transferred should not be more than two hours.

As part of this, a financial institution is required to provide a transaction notification to inform the sender about the status of the EFT.

The sender and the receiver will not pay any fees in the event of an unsuccessful transfer.

Financial institutions should also implement policies and procedures for providing consumer assistance to customers with unauthorized and erroneous transactions, the central bank said.

"These procedures should form part of their Consumer Protection Risk Management System and Consumer Assistance Mechanism, in accordance with existing BSP rules and regulations," it added.

Erroneous transactions refer to EFTs sent to an incorrect beneficiary due to an error in encoding details by the sender.

The processing of complaints should also be handled in line with existing BSP laws, such as provisions set forth under the Financial Products and Services Consumer Protection Act or Republic Act No. 11765.

"Participants shall adopt a mechanism to timely identify scenarios that may result to disruption of operations and which may affect the availability of electronic payments facilities, including but not limited to operational risk factors such as technology, manpower, alternate site, and service providers," the BSP said.

These scenarios may include natural disasters such as earthquakes, floods, typhoons, long-term power outages, fire, and technical malfunctions like system downtime and cyberattacks, among others.

Disruptions to operations must be reported to the BSP within an hour of the incident.

BSIs are also required to release statements to the public 15 minutes after an incident occurs.

The financial institutions should regularly update the public until the affected service is restored.

For any scheduled system maintenance activity affecting fund transfers, BSIs should inform the public at least three days prior.

"Participants shall adopt an effective monitoring mechanism to ensure compliance with the provisions stated herein. Respective self-assessment functions must consider review of compliance by concerned business units, and ensure adequate reporting to Board and/or senior management," the BSP said.

All BSIs will be given one year to comply with the provisions of the circular, if approved.

A violation of any of the requirements set by the circular may lead to suspension of offering new digital financial products and services, revocation of the authority to provide digital services, and/or inability to settle through the real-time gross settlement system operated by the BSP.

Based on BSP data, the combined value of transactions done via the central bank's automated clearing houses InstaPay and PESONet climbed by 30.1% to P3.8 trillion as of end-April from P2.92 trillion in the same period in 2022.

In terms of volume, total transactions made through the clearing houses grew by 28.5% to 247.77 million in the first four months of the year from 192.83 million in the comparable year-ago period.

PESONet and InstaPay are automated clearing houses launched in December 2015 under the central bank's NRPS framework.

The BSP wants 50% of total retail transactions done digitally and to bring at least 70% of Filipino adults into the financial system by this year under its Digital Payments Transformation Roadmap.