Stocks rally as rate cut prospect offsets tensions

- The dollar was mixed against main rivals
- Friday's weak US jobs report has increased expectations that the Federal Reserve will look to cut interest rates
- Trump said a meeting with Chinese President Xi Jinping had been "scheduled" during the G20 summit

London, United Kingdom

Stock markets extended their strong run higher yesterday, with the prospect of a US interest rate cut helping to offset trade war tensions according to traders.

The dollar was mixed against main rivals, while the pound won support from official data showing UK unemployment held at a 45-year low point with a rate of 3.8 percent.

"Safe to say, the changing expectations for interest rates is the primary reason for such a strong rebound in the (stock) markets that didn't look particularly likely at the start of last week," said Oanda senior market analyst Craig Erlam.

"Once again, it's central banks that are left to fill the economic void, easing investor fears over trade wars and a global slowdown."

Friday's weak US jobs report has increased expectations that the Federal Reserve will look to cut interest rates, weighing on the dollar but boosting stock markets around the world.

Brexit uncertainty has meanwhile reduced expectations of a rate hike from the Bank of England any time soon, while the European Central Bank has vowed support to stimulate a struggling eurozone economy.

Rising prospects of a US rate cut come as President Donald Trump has threatened new tariffs against Beijing amid an escalating trade war.

Trump said a meeting with Chinese President Xi Jinping had been "scheduled" during the G20 summit in Japan later this month.

But China on Tuesday did not confirm any meeting.

A Trump-Xi meeting would mark a turning point in the bruising trade dispute between the world's two biggest economies that has spooked markets worldwide and sparked worries about the global economy.

At the same time, Trump's decision to drop threatened tariffs on Mexico sparked relief across trading floors and led to hope that the row with Beijing could also end with some sort of agreement.

Current stock market gains were highly welcome after the US president shocked markets last month by hiking levies on $200 billion of Chinese imports, blaming backsliding over their long-running trade talks.

Oil prices recovered, having dropped Monday on uncertainties about an agreement between crude producing nations to cap output.

Pedestrians are reflected on an electronics stock indicator at the window of a securities company in Tokyo

Key figures around 1330 GMT

London - FTSE 100:	▲ 0.6pc at 7,416.31 points
Frankfurt - DAX 30:	▲ 1.4pc at 12,217.63
Paris - CAC 40:	▲ 0.9pc at 5,428.06
EURO STOXX 50:	▲ 0.9pc at 3,416.11
New York - Dow:	▲ 0.5pc at 26,189.64
Tokyo - Nikkei 225:	▲ 0.3pc at 21,204.28 (close)
Hong Kong - Hang Seng:	▲ 0.8pc at 27,789.34 (close)
Shanghai - Composite:	▲ 2.6pc at 2,925.72 (close)
Euro/dollar:	▲ at $1.1324 from $1.1316 Monday
Pound/dollar:	▲ at $1.2715 from $1.2686
Dollar/yen:	▲ at 108.67 yen from 108.49 yen
Oil - Brent North Sea:	▲ 35 cents at $62.64 per barrel
Oil - West Texas Inter:	▲ 53 cents at $53.78 per barrel

G20 won't produce 'definitive' US-China deal: Official

US President Donald Trump has threatened to immediately impose a new round of tariffs on China if the country's President Xi Jinping fails to meet with him at the G20 summit in Osaka

Washington, United States

The Group of 20 summit later this month could lead to progress towards a trade deal with China but is not the venue for a "definitive agreement," US Commerce Secretary Wilbur Ross said yesterday.

A day after President Donald Trump threatened to hit China with a new round of tariffs "immediately" if President Xi Jinping fails to meet with him in Tokyo, Ross defended Washington's aggressive tariff strategy.

Talks between Washington and Beijing broke down last month after Trump accused China of reneging on commitments and after the United States took aim against China's tech behemoth Huawei.

The countries have hit each other steep tariffs on more than $360 billion in bilateral trade, rattling financial markets and business confidence.

The impasse has raised expectations that Xi and Trump might jumpstart the talks in Osaka on the sidelines of the G20 leaders' summit.

However Ross tamped down expectations for a final agreement which "is going to be thousands of pages."

"At the G20, at most, it will be a 40,000-foot level, some sort of agreement on a path forward," Ross told CNBC. "It's certainly not going to be a definitive agreement."

But he said there eventually will be a deal.

"Even shooting wars end in negotiation."

Trump last month started the process to impose 25 percent tariffs on another $300 billion in Chinese goods but on Monday threatened to impose the taxes immediately if Xi does not show up for a planned meeting in Osaka.

Ross said financial markets overreacted to the various tariff threats, including those against Mexico that had been due to take effect on Monday, and said the tariff battles are producing good outcomes.

"I think what people have to learn to do, judge this administration by results. Don't judge it by interim sound bites," he said.

In a twitter screed Tuesday, Trump hammered home that point: "Tariffs are a great negotiating tool, a great revenue producers and, most importantly, a powerful way to get... Companies to come to the U.S.A and to get companies that have left us for other lands to come back home."

Pakistan budget targets steep increase in tax revenue

- Forecast a budget deficit of 7.1 per cent of gross domestic product
- Targets federal tax revenues of 5.55 trillion rupees ($36.80 billion)
- Spending is set to rise to 7.02 trillion rupees
- Only 1.8 million people file income tax returns in a nation with a population of 208 million

Reuters | Islamabad

Pakistan's government targeted a sharp hike in tax revenues yesterday as it presented plans for next year's budget, amid shouts and protests from opponents in parliament angry at measures set under pressure for an IMF loan agreement.

Seeking final approval for an International Monetary Fund bailout, the government had already prepared the ground for widespread belt-tightening. But the goals unveiled by Revenue Minister Hammad Azhar for the fiscal year to June 2020 underlined the scale of the economic challenges it faces.

He forecast a budget deficit of 7.1 per cent of gross domestic product, after the gap in the current year blew out to 7.2pc.

He also targeted federal tax revenues of 5.55 trillion rupees ($36.80 billion), up 25pc and driven by a lower introductory threshold for income tax and a clampdown on tax evasion.

The government failed to hit the last fiscal year's goal of 4.44 trillion rupees. "Until we improve our tax system, Pakistan will not progress," Azhar said.

Spending is set to rise to 7.02 trillion rupees, 30pc above last year's target, he said.

Amid chaotic scenes in parliament, opposition lawmakers brandished banners reading "Say no to IMF budget!" and shouting slogans against the government.

Prime Minister Imran Khan's administration has been forced to seek what would be Pakistan's 13th IMF bailout since the late 1980s to stabilise an economy that has seen growth plunge while teetering on the verge of a balance of payments crisis.

> The first couple of years are going to be tough but then we will start reaping the fruits of our hard work
>
> HAMMAD AZHAR
> REVENUE MINISTER

The rupee has lost about a third of its value this year and inflation has jumped above 9pc.

In April, the government secured a provisional $6 billion IMF loan, but it is contingent on measures being taken to cut a budget gap that the Fund forecast at 7pc in 2018/19.

Tiny tax base

Handicapped by a weak fiscal system, Pakistan has historically struggled to collect tax revenues. Only 1.8 million people file income tax returns in a fast-growing nation with a population of 208 million and a large informal economy.

The agricultural sector, dominated by big, politically powerful landowners, makes up around 20pc of the economy but accounts for only 0.22pc of direct taxes, according to the World Bank.

With households increasingly squeezed by high prices for food, energy and household goods, the government has faced increasing anger and Azhar announced a 10% cut in ministerial salaries and an increase in the minimum wage.

Pakistan expects to raise $2 billion from the sale of two liquefied natural gas (LNG) power plants, and another $1 billion from the auction of mobile licenses, he said.

The government has already slashed its year to June 2019 growth forecast to 3.3pc from the 6.2pc predicted at the time of the last budget. The IMF's estimates growth of around 2.9pc.

For the coming year to June 2020, the government expects growth at 4pc.

Under the terms of the IMF loan, the government is also expected to let the rupee depreciate to help tackle an unsustainable current account deficit and aim for a primary budget deficit - excluding debt servicing costs - of 0.6pc.

Despite promises the army would rein in spending and widespread expectations that the military's hefty budget would be cut, the spending target for the armed forces was increased by 4.5pc to 1.15 trillion rupees.

Pakistan PM Imran Khan delivers a speech at the opening ceremony for the second Belt and Road Forum in Beijing, China (Reuters)

Last year the government allocated the military about 20pc of the 5.6 trillion federal budget. Officials say the military overshot that figure