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CNBC

Euro takes a knock on reports market misjudged Draghi speech

Silvia Amaro I 18 Hours Ago

The euro dropped to $1.1320 on Tuesday afternoon, coming off from a day's high of $1.1389, after media reports suggested that markets misinterpreted comments from the president of the European Central Bank, Mario Draghi.

Peter Boockvar, chief market analyst at The Lindsey Group, said: "One day of selling after what was clear in Mario Draghi's message and the ECB is already in panic mode as BN (Bloomberg News) prints a headline… The euro is dropping as are sovereign yields. This just proves how trapped they are that after just one speech and the market reaction that followed has the ECB already in a tizzy. What do they think will happen when further tapering actually takes place which we still expect to happen in September?"

Draghi told an audience Tuesday that the central bank will have to be prudent to gradually adjust its monetary stimulus to the economic recovery.

"The current context where global uncertainties remain elevated, there are strong grounds for prudence in the adjustment of monetary policy parameters, even when accompanying the recovery. Any adjustments to our stance have to be made gradually, and only when the improving dynamics that justify them appear sufficiently secure," Draghi said.

Markets interpreted his remarks as a sign that the bank was preparing to reduce its monetary stimulus.

Andrew Wilson, CEO of Goldman Sachs Asset Management International for EMEA, said in an email earlier this Wednesday: "Expectations were already building in the market before Mario Draghi spoke yesterday but his remarks have certainly moved things on: an announcement on tapering in September has moved from possible to more than probable and the big surprise now for us would be if he did not make one."

Reuters reported, citing sources, that the comments made by Draghi on Tuesday were misjudged by markets.

Draghi apparently wanted to signal tolerance for a period of weaker inflation and not a policy tightening after the summer.

On Tuesday, ECB Vice President Vitor Constancio told CNBC: "That being the case it justifies fully what the president (Mario Draghi) said at the end of his speech (on Tuesday) that we need persistence. If we want to bring inflation to our target of below but close to 2 (percent) then we have to persist in the type of monetary policy that we been adopting."

Japan May retail sales rise 2.0 percent on-year, coming in below 2.6 percent forecast

3 Hours Ago | Reuters

Japanese retail sales rose less than expected in May as sales of durable goods and clothes slowed, falling substantially from April's annual increase though analysts expect sales to continue rising as a trend.

Retail sales rose for the seventh straight month at 2.0 percent in May from a year ago, data from the Ministry of Economy, Trade and Industry showed on Thursday. It slowed from 3.2 percent in April and undershot the median estimate of 2.6 percent growth in a Reuters poll.

"May retail sales weren't that strong, but I don't think they were that bad either," said Hidenobu Tokuda, senior economist at Mizuho Research Institute.

May this year had one fewer Sunday than last year, which dampened sales, Tokuda added.Other economists pointed to weak sales of food and clothing in May. "I don't think consumer spending is rising that much overall," said Norio Miyagawa, senior economist at Mizuho Securities.

Sales of durable goods such as televisions grew 0.8 percent in May, slowing from the 4.4 percent annual rise in April.

Sales of clothing grew 2.5 percent in May from a year earlier, down from the 5.9 percent annual rise in April, and sales of food and beverages rose a meagre 0.1 percent in May on-year, down from the 1.3 percent increase in April.

A Reuters poll showed household spending likely slipped 0.6 percent in May from a year earlier, down for 15 straight months, although the rate of decline slowed from a 1.4 percent drop in April. The internal affairs ministry will release household spending data on Friday.

A separate government survey showed consumer confidence rose slightly in May from the previous month.

In a show of confidence in the recovering economy, the Bank of Japan upgraded its assessment of private consumption for the first time in six months at its June meeting, when it kept monetary policy steady.

The government has also raised its overall view of the economy for the first time in six months because of the growth in private consumption.

China’s debt surpasses 300 percent of GDP, IIF says, raising doubts over Yellen’s crisis remarks

Silvia Amaro | 18 Hours Ago

Global debt has hit a record level in the first quarter of this year, mainly driven by emerging markets, raising questions of whether there will be another financial crisis in the near future.

Data from the Institute of International Finance showed that global debt reached $217 trillion in the first quarter of this year, or 327 percent of gross domestic product.

"The debt burden is not distributed evenly. Some countries/sectors have seen deleveraging while others have built up very high debt levels. For the latter, rising debt may create headwinds for long-term growth and eventually pose risks for financial stability," the IIF said in its Global Debt Monitor report on Tuesday.

On Tuesday, U.S. Fed Chair Janet Yellen told an audience in London that banks are in a "very much stronger" position and another financial crisis is unlikely "in our lifetime."

The 2008 financial crisis began with high indebtedness levels by U.S. households.

But Yellen's remarks aren't consensual.

"I think Yellen's comment -- if I am interpreting it correctly -- is a huge hostage to fortune. The words Titanic and unsinkable spring to mind," Erik Jones, professor of international political economy at Johns Hopkins University, told CNBC via email.

Casrten Brzeski, senior economist at ING said that "high debt levels mean that the debt crisis has not been solved, yet. Neither in the US, nor in the Eurozone. Increasing debt levels in Asia and other emerging market economies also show that a structural change has not yet taken place."

"All of this, however, does not mean that we are at the verge of a other financial crisis. Central banks and low interest rates have and should continue to limit this risk significantly," he added via email.

In the U.K., however, the Bank of England seems more cautious about the future. It instructed U.K. banks to raise their capital ratios as a precautionary step in the event of an economic slowdown. In its Financial Stability Report released Tuesday, the central bank noted that Brexit, high levels of indebtedness in China and an increase in consumer credit in the U.K. as potential risks.

According to the IIF, despite the fact that debt levels have slowed down in mature economies, emerging market debt rose 5 percentage points from a year ago.

"Total debt in emerging markets (excluding China) has increased by some $0.9 trillion to over $23.6 trillion in the first quarter of 2017—mainly driven by Brazil (up $0.6 trillion to $3.6 trillion) and India (up $0.2 trillion to 2.9 trillion)," the IFF said in its report.

China poses a great risk in itself with households accelerating their borrowing.

"The household debt-to-GDP ratio hit an all-time high of over 45 percent in the first quarter of 2017 —well above the Emerging Market average of around 35 percent. In addition, our estimates based on monthly data on total social financing suggest that China's total debt surpassed 304 percent of GDP as of May 2017," the IIF noted.

On the other hand, there's been a steady decline in euro area private sector debt, from $103.4 trillion in the first quarter of 2016 to $97.7 trillion in the first quarter of this year.

The IIF warned that there's over $1.9 trillion of emerging market bonds and syndicated loans maturing through to the end of 2017, with redemptions in USD making for about 15 percent of the total.

Bloomberg

Stocks Rebound on Central Banks as Euro, Oil Climb: Markets Wrap

By Adam Haigh

June 29, 2017, 12:18 AM GMT+2

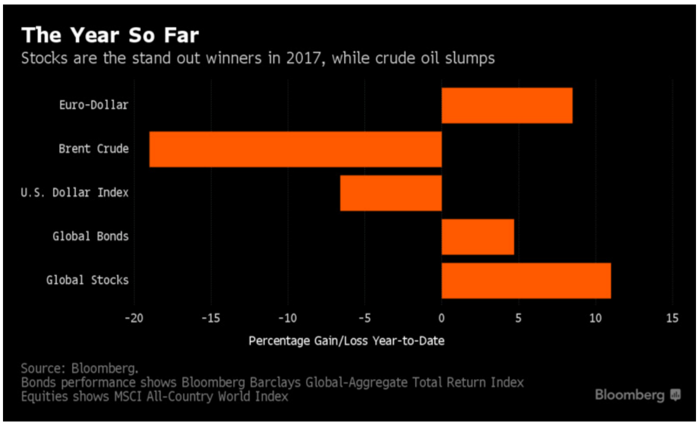
Global stocks followed a rebound in the U.S. as investors bet the global economy can withstand tighter financial conditions as growth picks up. The euro rose to the highest level in a year while oil continued to climb.

Banks and technology shares led gains in the MSCI Asia Pacific Index, after the S&P 500 Index rebounded from the biggest selloff in six weeks. The dollar slid against all its major peers, with the pound building on recent gains as Bank of England chief Mark Carney said rates may need to rise soon. Oil advanced for a sixth straight session.

Global equities are poised to end the first half with the best start to a year since 1998, with an 11 percent gain to an all-time high. Investors are putting their faith in the robustness of earnings as the economy continues its recovery, shrugging off a host of worries from oil's slump into a bear market to the political wrangling in Washington. After nine years of central bank stimulus, the debate intensified this week around the impact of tighter policies as officials from Europe to the U.S. dished out hawkish messages to investors.

The euro surged 1.4 percent on Tuesday then had a tumultuous Wednesday session amid speculation investors misjudged comments from European Central Bank President Mario Draghi. U.S. banks have rallied this week as Federal Reserve chief Janet Yellen reiterated that the central bank's tightening is on track. They extended gains after the close of regular trading Wednesday as banks received the greenlight from the Fed for capital return plans.

Stocks are also rallying even after Yellen signaled this week that asset valuations were rich. Technology shares, the best-performing sector for global equities this year, rose for a second day after a selloff on Tuesday.



Here are some key upcoming events and data releases:

- China's PMI might have declined in June after unexpectedly remaining unchanged in May, reflecting government offers to cut overcapacity and leverage. That reading is due Friday.

- Japan's calendar is even heavier with economic data on Friday, with reports due on inflation, factory output, unemployment, household consumption and housing starts.

These are the main moves in markets:

Currencies

- The Bloomberg Dollar Spot Index slipped 0.1 percent as of 3:53 p.m. in Tokyo, dropping for a third day to the lowest since October.

- The euro increased 0.3 percent to $1.1409, the highest level since last year's Brexit vote. The pound climbed 0.4 percent to $1.2971, heading for a seventh straight day of gains, the longest winning streak since April 2015.

- China's yuan strengthened for a third day, with the offshore currency advancing 0.3 percent as President Xi Jinping kicks off a landmark visit to Hong Kong.

- The Canadian dollar rose 0.1 percent after jumping 1.2 percent on Wednesday as Bank of Canada Governor Stephen Poloz reiterated he’s considering tighter policy.

Stocks

- Japan’s Topix index gained 0.6 percent, heading for a third straight weekly advance. Australia’s S&P/ASX 200 Index rose 1.1 percent, with banks and basic materials shares having the biggest impact. The Kospi index advanced 0.6 percent.

- Hong Kong’s Hang Seng Index climbed 1 percent and the Shanghai Composite added 0.4 percent. Singapore’s Straits Times Index rallied 1.2 percent.

- Futures on the S&P 500 Index added 0.2 percent. The underlying gauge rose 0.9 percent on Wednesday, bouncing back from a loss of 0.8 percent. It’s on pace for a quarterly gain of 3.3 percent, the seventh straight advance. The Nasdaq Composite Index jumped 1.4 percent on Wednesday.

Commodities

- WTI futures advanced 0.5 percent to $44.94 a barrel, bringing its six-day rebound to more than 5.5 percent. Prices gained as government data showed a drop in U.S. gasoline supplies that have remained stubbornly high at the start of the summer driving season.

- Gold rose 0.2 percent to $1,251.75 an ounce, increasing for a third day.

Bonds

- The yield on 10-year Treasuries rose one basis point to 2.24 percent, after gaining two basis points on Wednesday and jumping seven basis points in the previous session.

- Australian benchmark yields rose five basis points to 2.50 percent, after surging 10 basis points on Wednesday.

- French 10-year yields added four basis points, while German yields rose three basis points.

Banks Unleash Surprisingly Big Payouts After Fed’s Stress Tests

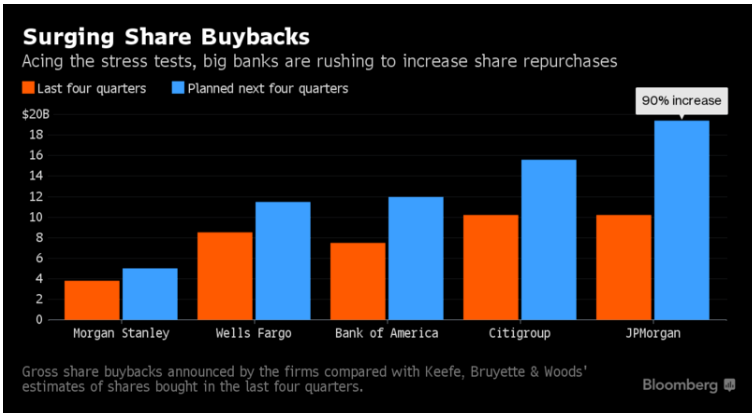
By Yalman Onaran, Dakin Campbell, and Jennifer Surane

June 28, 2017, 10:30 PM GMT+2

The Federal Reserve told big banks they have more than enough capital, and they promptly announced a windfall for their shareholders.

JPMorgan Chase & Co., Citigroup Inc. and Bank of America Corp. led U.S. firms in unveiling plans to boost dividends and stock buybacks more than analysts had projected, after every lender passed annual stress tests for the first time since the Fed began the reviews in the wake of the 2008 financial crisis. Shares across the industry rallied in late trading.

Still, Capital One Financial Corp. slipped more than 2 percent after it was the lone bank to stumble through the exam Wednesday, garnering conditional approval to make payouts while it fixes “material weaknesses” in planning.



Lofty payouts once made banks hot stocks before the financial crisis exposed many of them as too thinly capitalized. The companies' plans unveiled on Wednesday show how they're trying to generate investor interest -- even as many still struggle to meet profitability targets and a few languish below book value.

"This is the big payoff after seven years of pushing the industry to get to a place where capital planning is well ingrained," said David Wright, a managing director at Deloitte's advisory business who once worked at the Fed. "They reached the summit."

The Fed's projections also show regulators may have more leeway to ease rules after years of forcing companies to curtail risk-taking and beef up internal controls --- demands that eroded revenue and fueled costs.

The industry is counting on President Donald Trump to soften that oversight by appointing more business-friendly board members to the Fed, shifting the balance of power from regulators to shareholders. Earlier this month, Treasury Secretary Steven Mnuchin recommended that stress tests be performed every other year and that banks maintaining a sufficiently high level of capital be exempt from exams.

"The highly positive report card puts more wind at the backs of the Trump administration and others who want to soften Dodd-Frank-era regulations," Ian Katz, an analyst at Capital Alpha Partners, said in a note Wednesday, referring to a 2010 rewrite of industry rules. "That's an additional bit of longer-term good news for banks."

Dividends Rising
Citigroup announced it will double its dividend

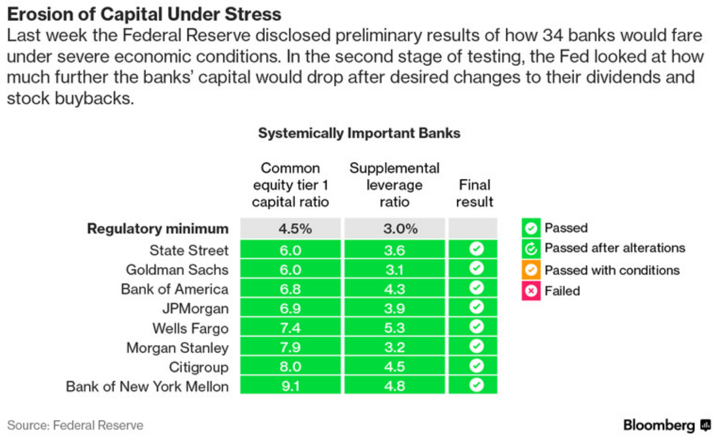
	Quarterly dividend now	Quarterly dividend going forward	Increase in dividend
Citigroup	16c	32c	100%
Bank of America	7.5	12	60
Morgan Stanley	20	25	25
JPMorgan	50	56	12
Wells Fargo	38	39	3

Sources: Company statements, Bloomberg data
Bloomberg

JPMorgan, the nation's largest lender, said it's boosting its quarterly dividend 12 percent and may increase share repurchases to $19.4 billion over the next 12 months -- roughly 90 percent more than in the prior year. Citigroup plans to double its dividend and may purchase up to $15.6 billion. Bank of America hiked its dividend 60 percent and will buy back up to $12 billion.

Shares of all three rose more than 1.5 percent in extended trading in New York. They, along with Wells Fargo & Co. and Morgan Stanley, may collectively buy as much as $64 billion in stock. Goldman Sachs Group Inc. has yet to make an announcement.

Generally, banks are expected to distribute close to 100 percent of their earnings over the next four quarters, substantially more than a year earlier, according to a senior Fed official. On average, analysts had estimated that the 34 firms in this year's tests would pay out about 86 percent, according to figures gathered by Bloomberg.



Erosion of Capital Under Stress

Last week the Federal Reserve disclosed preliminary results of how 34 banks would fare under severe economic conditions. In the second stage of testing, the Fed looked at how much further the banks' capital would drop after desired changes to their dividends and stock buybacks.

Systemically Important Banks

	Common equity tier 1 capital ratio	Supplemental leverage ratio	Final result
Regulatory minimum	4.5%	3.0%	
State Street	6.0	3.6	Passed
Goldman Sachs	6.0	3.1	Passed
Bank of America	6.8	4.3	Passed
JPMorgan	6.9	3.9	Passed
Wells Fargo	7.4	5.3	Passed
Morgan Stanley	7.9	3.2	Passed
Citigroup	8.0	4.5	Passed
Bank of New York Mellon	9.1	4.8	Passed

Passed
Passed after alterations
Passed with conditions
Failed

Source: Federal Reserve

Bloomberg

Capital One's stumble was a surprise. Some analysts had opined that Wells Fargo might not pass after a retail account scandal exposed control lapses. And Morgan Stanley, which last year had to resubmit a plan for managing capital, trailed the rest of Wall Street on one of the main metrics during an initial round of testing last week.

Firms focusing on credit cards struggled most. The Fed said last week that the "recent uptick in delinquency rates in credit card portfolios" was among stress points for banks in the tests.

Capital One and American Express Co. were the only companies this year to revise their capital plans after the exams' first round. AmEx's total risk-based capital was projected to fall below the required 8 percent minimum in the plan it originally submitted.

The Fed ordered Capital One to shore up risk oversight, including how it estimates the theoretical potential for losses "in one of its most material businesses," according to a statement from the central bank that didn't specify which business. The firm draws the biggest share of its revenue from cards.

While Capital One can proceed with proposed payouts, the Fed said it might yet restrict the distributions if a resubmitted plan doesn't adequately address problems. Gatekeepers within the firm failed to discover the issues themselves, the Fed noted.

"The firm's internal-controls functions, including independent risk management, did not identify these material weaknesses," the regulator said. "Therefore, senior management was not in a position to provide the firm's board of directors with a reliable assessment upon which to determine the reasonableness of the capital plan."

Capital One's board cut the coming year's stock-repurchase program to $1.85 billion. The firm expects to maintain its quarterly dividend of 40 cents a share, according to a statement from the McLean, Virginia-based company.

The lender is "fully committed to addressing the Federal Reserve's concerns with our capital planning process in a timely manner," Chief Executive Officer Richard Fairbank said in the statement. The company plans to update or affirm its guidance for full-year profits when it announces second-quarter earnings next month.

Mid-Size Banks

	Common equity tier 1 capital ratio	Leverage ratio	Final result
Regulatory minimum	4.5%	3.0% | 4.0%[1]	
Ally Financial	5.2	5.9	Passed
American Express*	5.3	4.8	Passed after alterations
CIT Group	5.4	5.6	Passed
SunTrust Banks	5.4	6.1	Passed
KeyCorp	5.5	5.9	Passed
Capital One*	5.9	5.6	Passed with conditions
Huntington Bancshares	6.0	5.8	Passed
Regions Financial	6.0	6.3	Passed
M&T Bank	6.2	6.1	Passed
BB&T	6.3	6.6	Passed
Fifth Third Bancorp	6.3	6.2	Passed
PNC Financial*	6.3	5.4	Passed
U.S. Bancorp*	6.3	5.2	Passed
Citizens Financial	6.5	6.0	Passed
Zions Bancorporation	6.6	6.3	Passed
Discover Financial	6.9	6.6	Passed
Comerica	7.5	6.7	Passed
Northern Trust*	9.1	5.3	Passed

Passed
Passed after alterations
Passed with conditions
Failed

1—For banks marked with an *, leverage ratio refers to "supplementary leverage ratio," which includes some off-balance-sheet exposures such as derivatives in the calculation. The minimum that's allowed in that stress test is 3 percent. For all others, it refers to "Tier 1 leverage ratio," which is based on total assets as shown on their balance sheets, and the minimum allowed is 4 percent.
Source: Federal Reserve

Bloomberg

The annual review is a cornerstone of the Fed's strategy to prevent a repeat of the financial crisis and taxpayer-funded bailouts. In an initial round last week, firms showed they have enough capital to handle hypothetical turmoil, such as surging unemployment, a sharp drop in housing prices or an extended stock slump. Wednesday's results marked this year's final round, determining whether they can proceed with payouts.

This time, authorities dropped one of the toughest components of the tests, the so-called qualitative review, for all but the biggest banks.

Foreign Banks in the U.S.

	Common equity tier 1 capital ratio	Leverage ratio	Final result
Regulatory minimum	4.5%	3.0% | 4.0%[1]	
BancWest	6.1	5.5	Passed
BBVA Compass Bancshares	7.4	6.1	Passed
BMO Financial	8.0	6.4	Passed
HSBC North America*	8.9	5.2	Passed
TD Group US Holdings*	11.3	6.4	Passed
MUFG Americas Holdings	11.5	7.6	Passed
Santander Holdings USA	12.8	10.6	Passed
Deutsche Bank Trust	58.0	13.0	Passed

Passed
Passed after alterations
Passed with conditions
Failed

1—For banks marked with an *, leverage ratio refers to "supplementary leverage ratio," which includes some off-balance-sheet exposures such as derivatives in the calculation. The minimum that's allowed in that stress test is 3 percent. For all others, it refers to "Tier 1 leverage ratio," which is based on total assets as shown on their balance sheets, and the minimum allowed is 4 percent.
Source: Federal Reserve

Bloomberg

Deutsche Bank AG's New York-based trust bank and Banco Santander SA's U.S. business, which had both failed two years in a row on qualitative standards, passed after being exempted from that review.

All of Frankfurt-based Deutsche Bank's operations in the U.S. will be tested next year after the Fed required the largest foreign lenders to consolidate assets in the country under an umbrella structure starting last July. That will bring the German firm's broker-dealer in the country under scrutiny for the first time in the tests.

Fox's Sky Bid at Stake as U.K. Minister Decides

By Joe Mayes

June 27, 2017, 10:17 AM GMT+2

Rupert Murdoch finds out today whether his 11.7 billion-pound ($14.9 billion) bid to buy the rest of Sky Plc is likely to go ahead, six years after a previous attempt was sunk by a phone-hacking scandal. U.K. Culture Secretary Karen Bradley is expected to tell Parliament at about 10:30 a.m. London time what she intends to do about the takeover by 21st Century Fox Inc., having received reports from U.K. regulators on the tie-up. Uncertainty whether Fox, which already owns 39 percent of Sky, will succeed has caused Sky shares to trade at a discount to the offer price.

1. What are regulators looking at?

Bradley's decision will be guided by reports she received from U.K. regulators last week. Ofcom, the telecommunications watchdog, investigated whether the transaction is in the public interest, with a specific focus on the impact on media plurality and Fox's commitment to broadcasting standards. Ofcom also looked at whether Sky under the full control of Murdoch's Fox would continue to be a fit and proper owner of a broadcasting license -- essentially a "good character" review.

2. What are Bradley's options?

In her quasi-judicial role, Bradley will say she intends to do one of three things: approve the bid, approve subject to conditions, or call for a deeper review by regulators. In the second case, Bradley could seek concessions like safeguards around the editorial independence of Sky News, should Ofcom say the tie-up may harm media plurality in the U.K. That solution wouldn't be new: the previous bid for Sky was challenged by Ofcom on those grounds in 2010, with Murdoch's News Corp. then offering to spin off Sky News as an independent public limited company in lieu of the bid being referred for further study. If Bradley decides to refer the bid, the baton passes to the Competition & Markets Authority, which would conduct further investigation of any of Bradley's concerns and report back within six months.

3. What's the case against the deal?

Critics such as former U.K. Labour Party leader Ed Miliband say the deal would give the billionaire's family too much influence over U.K. media. Rupert Murdoch is co-chairman of Fox and executive chairman of News Corp., which owns the British newspapers the Times, the Sunday Times and the Sun, the U.K.'s second most-read print newspaper. His son James is chief executive officer of Fox and chairman of Sky, whose Sky News is the fifth-most-used news source across all platforms in the U.K., according to a 2015 Ofcom report. On broadcasting standards, opponents of the tie-up say that the phone hacking at News International, a former division of News Corp., and ongoing civil cases against some of its newspapers raise questions about the suitability of the Murdochs to have increased control over Sky. While neither News Corp., Fox nor the Murdochs were ever charged in relation to phone hacking, Bradley has flagged concerns over "serious" corporate governance failings.

4. What's the case for letting it go through?

Fox argues that it no longer holds any newspaper assets, following a 2013 restructuring that placed the titles in News Corp., a separate company, the majority of whose shareholders and board members are independent. Fox also argues that media plurality has increased since it last tried to buy Sky, driven by increased news consumption through social media. In 2012, News Corp. revamped its ethics program and brought in a new general counsel, Gerson Zweifach, and appointed John McCoy and Brian Michael as executives to focus on compliance. All three are now with Fox.

5. What's the market saying?

Sky shares closed at 9.57 pounds on Wednesday in London, leaving the stock 11 percent below Fox's offer of 10.75 pounds per share. Sky's shares have traded consistently around that level since the deal was announced, reflecting the ongoing uncertainty about its fate. The spread is more than double that seen when Liberty Global Inc. bought U.K. cable-television provider Virgin Media Inc. in 2013. Then, the spread ranged from just above 3 percent when the deal was announced, to close to zero as closing approached. Both Sky and Fox have rallied recently as U.K. Prime Minister Theresa May cut a deal that would keep her Conservative Party in power after a June 8 election (and keep Murdoch critics in the Labour Party out). "Our view is that the chances of a referral of the deal to the Competition and Markets Authority for a lengthier investigation has increased given the current political circumstances," say analysts led by Ian Whittaker at Liberum.

6. Why does Murdoch still want the deal?

He has long coveted full ownership of Sky, having founded Sky Television in 1989 before reducing his stake to 39 percent in 1994. The deal would give him control of one of the most powerful pay-TV distribution platforms in Europe. A tie-up would also broaden Fox's revenue streams, increase its geographic diversity and bolster its portfolio of drama and sports content.

7. What happened last time?

Murdoch pulled the last deal in 2011 after his empire was engulfed by a corruption scandal triggered by revelations that journalists at his News of the World tabloid had hacked into the voice-mail messages of a murdered schoolgirl. The sleazy tactics raised questions about management oversight and exposed the sometimes-cozy relationship between his media outlets and the government. Fox says it has transformed its corporate governance practices and learned lessons from the investigations. The media landscape has changed, too, with new distribution channels like Twitter and Facebook potentially defusing concerns about concentration of media ownership.

Spain's Unicaja Raises $783 Million in IPO to Repay State Aid

By Esteban Duarte and Macarena Munoz Montijano

June 28, 2017, 11:26 PM GMT+2

Unicaja Banco SA raised about 688 million euros ($783 million) in an initial public offering that turned into a test of confidence in Spanish banks after this month's demise of a larger lender.

Unicaja, based in the southern city of Malaga, priced the sale of 40.3 percent of its equity at 1.1 euros per share, the low end of a range set earlier this month, it said in a regulatory filing. The stock will start trading June 30.

Analysts had questioned whether Unicaja would pursue the listing after Banco Santander SA took over a tottering Banco Popular Espanol SA this month in a fire sale arranged by European regulators. Days later, the Spanish securities regulator banned short-selling in Liberbank SA, whose shares had plunged on contagion from Popular's turmoil. Liberbank was the last Spanish banking IPO, in 2013.

The transaction will give Unicaja a market value of 1.7 billion euros, excluding the effect of a potential greenshoe option. Proceeds will be used to repay about 604 million euros of contingent convertible securities the bank inherited from a nationalized lender acquired in 2014. Unicaja has until April 2018 to repay those securities.

Balance Sheet

Unicaja's share sale is another milestone in the reorganization of a sector upended by a property bust that resulted in a raft of bailouts five years ago. Bankia SA, Spain's largest state-owned bank, agreed Tuesday to acquire Banco Mare Nostrum SA in an all-stock deal enabling the government to proceed with plans to sell its stake in the rescued lenders.

Unicaja has a more robust balance sheet than some of its peers, with less real estate exposure and a stronger capital position, Renta 4 analyst Nuria Alvarez said earlier this month. Its capital ratio -- a measure of financial strength -- stood at 11.8 percent as of December, while Popular's ratio was 8.17 percent. The coverage ratio for foreclosed assets at Unicaja as of December was 62 percent, compared with Liberbank's 43 percent in March.

Morgan Stanley and UBS Group AG are global coordinators and bookrunners on the sale.

A former savings bank, Unicaja has 57 billion euros in assets and 1,300 branches. It is mainly owned by Fundacion Bancaria Unicaja, a nonprofit organization that uses dividends from the bank to fund charitable work. The lender reported a 135 million-euro profit in 2016.

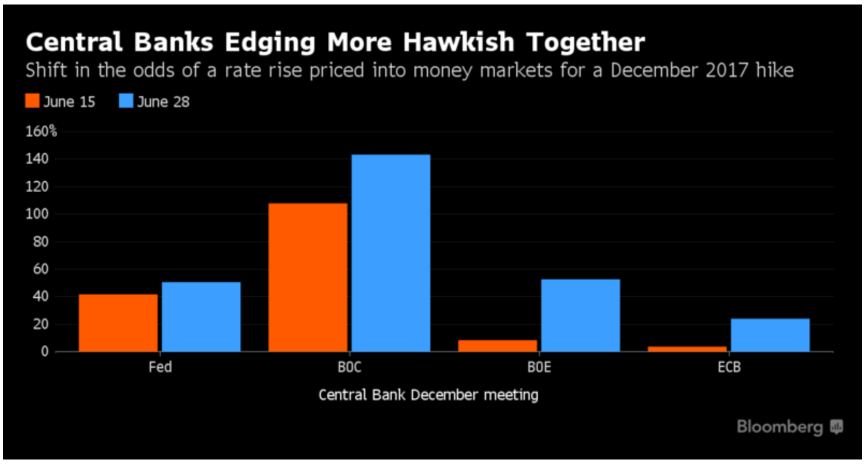
Investors Scramble to Keep Pace With New Market Outlook

By John Ainger, Stephen Spratt, and Maciej Onoszko

June 29, 2017, 12:03 AM GMT+2

For investors scrambling to keep pace with a hawkish shift in the world's biggest central banks, the second half of 2017 just got a lot more interesting.

Two weeks of rhetoric from policy makers in Europe and North America has rewritten the outlook for markets, with the Bank of England and the Bank of Canada now seen as more likely than not to join the Federal Reserve in raising rates before the year is out, based on overnight index swap rates. Even the possibility of a European Central Bank hike, once seen as all but impossible, is slowly growing.



The prospect of four of the world's five largest central banks moving to tighten policy at the same time is shocking traders after years of easing, with the dislocations in money markets also rippling through global bonds.

"Bond markets have been conditioned to thinking that whenever there was a slip-up in risk appetite somewhere and a tightening in financial conditions, the central banks would come to their rescue," said Mark Chandler, Toronto-based head of fixed-income strategy at RBC Capital Markets. "Now it's almost as if the central banks are engineering the tightening in financial conditions. Does that mean more volatility? The sure answer would be yes."

German 10-year yields climbed the most since 2015 while the euro had its best day since April on Tuesday as ECB President Mario Draghi said that reflationary forces had replaced deflationary ones in the region. Meanwhile two-year gilt yields reached the highest since June 2016 on Wednesday and the pound surged as Governor Mark Carney appeared to move closer to the hawks on his Monetary Policy Committee by saying it may need to begin removing stimulus.

Across the Atlantic, the yield on Canada's two-year government bonds shot up above 1 percent for the first time since January 2015 on Wednesday and the loonie surged the most in over a year as BOC Governor Stephen Poloz reiterated the central bank may be considering higher rates. Swaps trading suggests investors are see a roughly 70 percent chance of a rate hike at the bank's July 12 rate decision, up from about 40 percent Tuesday.

Even in the U.S., where inflation gauges have tumbled below the Federal Reserve's 2 percent target, Chair Janet Yellen has reiterated that the central bank's tightening is on track, keeping two-year Treasury yields close to an eight-year high. Policy makers came into the year expecting to raise rates three times. They've already hiked twice, and traders are pricing in better than 50 percent odds that they'll stick to their plan and raise borrowing costs again before year-end.

While U.S. policy makers may continue to tighten, traders are ratcheting up their expectations for other central banks and paring their outlook for the Fed. That's causing rate differentials between higher-yielding Treasuries and other sovereign bonds to narrow.

The yield spread between U.S. and Canadian 10-year debt fell to 58 basis points on Wednesday, the lowest since October. Compared with German bunds, Treasuries offer the smallest yield pickup since November. And the U.S.-U.K. 10-year yield differential, at 107 basis points, is the smallest since February.

"The trend in rates has been pretty much straight down throughout the first half of the year," said Doug Porter, Toronto-based chief economist at Bank of Montreal. "That may reverse in the second" half.

Trump Travel Ban Said to Start Thursday Evening U.S. Time

By Nick Wadhams and Nafeesa Syeed

June 29, 2017, 3:15 AM GMT+2 June 29, 2017, 4:44 AM GMT+2

The Trump administration will put its new travel restrictions on refugees and migrants from six countries into effect at 8 p.m. eastern time on Thursday, according to a person familiar with the matter.

The rollout of the executive order, which follows a U.S. Supreme Court decision Monday allowing parts of the order to proceed, is being led by the State Department. The timing is aimed at giving embassies and consulates worldwide sufficient direction on how to carry out the order before it goes into effect, according to the person, who asked not to be identified because the move hasn't been formally announced.

The policy is an attempt to flesh out a June 26 Supreme Court decisionreviving President Donald Trump's 90-day travel ban on people entering the U.S. from six predominantly Muslim countries: Iran, Libya, Somalia, Sudan, Syria and Yemen. Existing visas will be respected, but new applicants from the six countries must prove a relationship with a parent, spouse, child, sibling or close in-law already in the U.S., the Associated Press reported, citing a diplomatic cable.

Travelers with business or professional ties from the countries must also show a relationship that is "formal, documented," and not based on an intent to evade the ban, the AP said. Some exemptions, including for students and journalists, are included in the policy, the news service reported.

After months of delays to Trump's initial travel ban and a revised version, which were held up by the courts, the Supreme Court's 13-page ruling allowed the government to deny entry to people from the six nations who don't have existing ties to the U.S. But determining who has "bona fide" U.S. connections -- the court's phrase -- has tied up officials from the Department of Homeland Security, the State Department and the Justice Department since the ruling was issued.

The ban drew public protests and criticism from advocacy groups, former officials who work on refugee issues, and nongovernmental organizations that relocate them to the U.S. They contend that the majority of refugees coming to the U.S. already have family ties and that the existing process of clearing them to live in the U.S. is extremely rigorous.

"The pause is not needed because the vetting process is so thorough already," said Anne Richard, a former assistant secretary of state for population, refugees and migration. "The political campaign rhetoric that there was no vetting process or a weak vetting process is complete nonsense."

The Trump administration has countered that refugees may pose a security risk. Cabinet members such as Secretary of State Rex Tillerson, meanwhile, have said the U.S. wants to keep refugees that have fled to places such as Jordan and Turkey within their regions so they can return home when it's safe to do so. They are also asking other countries to take more of the burden.

Tillerson's Plea

"Our message is we're leaning in and asking all of you, all of you to step up and do more," Tillerson testified at a Senate hearing earlier this month.

Implementing the ban requires providing clear guidance for thousands of customs and consular officials, as well as airlines and other travel companies around the world seeking to avoid the confusion and chaos generated by Trump's initial attempt to enforce his policy in January.

"There will be some amount of iterative process," said Brian Egan, a legal adviser in President Barack Obama's State Department. "The guidance is going to take a little while to generate, even if the policy were crystal clear. You've got to draft it and get it through the lawyers at State, you've got to make sure the White House is comfortable with it, and the Department of Justice and DHS, too."