LOOMING RECESSION | Page 4

Bank of England raises interest rates by most since 1995

Friday, August 5, 2022
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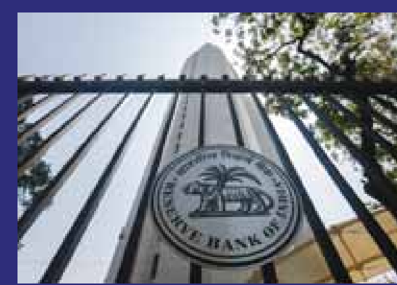
GULF TIMES BUSINESS



STRATEGIC MOVE : Page 2

Asia central banks deploy FX reserves in fighting currency bears

Qatar initiates measures to curb rising inflation, says Kamco Invest

By Santhosh V Perumal
Business Reporter

Qatar has initiated measures to curb the rising inflation such as a food security programme in which the government regulates the prices of essential food items as well as medium fiscal policies that control government spending, according to Kamco Invest

Qatar, which is gearing up to host the FIFA World Cup later this year, has already initiated measures to curb the rising inflation such as a food security programme in which the government regulates the prices of essential food items as well as medium fiscal policies that control government spending, according to Kamco Invest.

In its latest regional economic outlook report, the International Monetary Fund (IMF) forecast Qatar's consumer price index (CPI) inflation to average 3.5% in 2022 and 3.2% in 2023.

The IMF underlined that the combination of increasing global food prices and strengthening domestic demand are the main drivers of Qatar's inflationary upward trend.

Qatar's inflation grew 5.4% year-on-year during June-2022, recording the fifth consecutive monthly growth. Moreover, the Qatar's consumer price index remained flat during June-2022. Qatar's inflation is mainly driven by its recreation and culture sector, which registered 36.5% year-on-year rise during June-2022 after the country eased pandemic related restrictions according to officials in Qatar's Finance Ministry.

Moreover, the housing and electricity sector index increased by 5.4% y-o-y during June2022 adding to the upward inflationary pressure.

Kamco Invest said the government policies insulated the Gulf Co-operation Council (GCC) from rising inflation, which has been "significantly" lower than in most of the advanced and emerging markets.

"Inflation in the GCC has been significantly lower than in most of the advanced and emerging market countries. The moderate inflation rate rise in the GCC countries is mainly attributed to improved economic activity in the region as higher oil and gas prices strengthened government coffers and investment," it said.

Moreover, the GCC countries, despite importing up to 90% of their food supplies, have "weathered" the Russia-Ukraine conflict-related food supply chain disruption mainly by having varied food import sources, it said. (The) government price caps on essential food items and fuel also insulated the GCC households from steep food and fuel price rises, according to the note.

The IMF said the GCC inflation rate to witness a growth of 3.3% in 2022 and 2.3% for 2023.

The IMF expects Kuwait's inflation to average 4.8% in 2022, the highest in the Gulf region. Comparatively, it projects 2.5% inflation growth for Saudi Arabia in 2022, the lowest among the GCC. On the other hand, the IMF forecasts 3.7% inflation uptick for UAE and Oman as compared to inflation rate of 3.7% for Qatar and Bahrain, respectively, in 2022.

The overall Arab region countries were not immune from the repercussions of the war and commodity shortages, as the inflation rate in the Arab countries is expected to rise in 2022 to 7.5%, compared to about 5.7% in 2021, followed by a small decline in 2023 to reach 7%, according to Arab Monetary Fund.

Higher oil prices are also expected to help the GCC countries offset the effect that the US interest rate hike might have on their non-oil economic sectors. According to the IMF, higher oil and gas prices in the GCC are expected to improve the domestic liquidity situation and induce expansionary fiscal policies which increase available credit in the private sector.

In response to the latest 75 basis points (bps) hike in the US Fed rate, the GCC central banks followed varied paths in their rate hike decisions. While Saudi Arabia, the UAE, Bahrain and Oman fully replicated the rate hikes in their respective policy rates, Kuwait and Qatar did not fully replicated the rate hikes.

Qatar raised its overnight lending rate by 50 bps to 3.75% and repo rate by 75 bps to 3.25%, Kamco Invest said.

QAS first ground handler to join IATA Environmental Assessment Programme

HE al-Baker with Walsh signing an agreement during IATA Annual General Meeting and World Air Transport Summit in Doha in June.

Qatar Airways subsidiary Qatar Aviation Services (QAS) announced its partnership with International Air Transport Association to become the first ground handler globally to join the new expansion of the IATA Environmental Assessment Programme (IEnvA) for ground service providers.

The IEnvA programme for ground service provides a framework for achieving environmental sustainability across all ground operations. Taking advantage of the knowledge and experience garnered from the airline programme, ground service providers can rely on its definitive guidance to reduce their impact on the environment, and improving health and safety for both employees and the community, while maintaining operational efficiency.

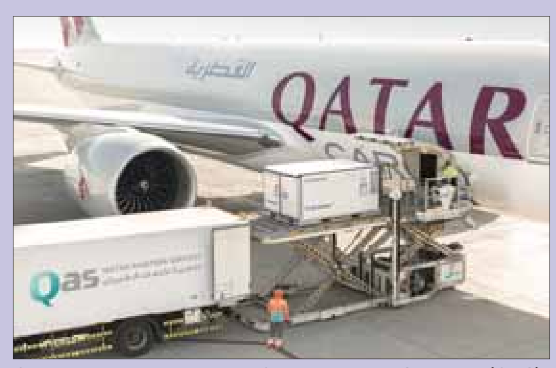
Qatar Airways Group Chief Executive, HE Akbar al-Baker said, "I am proud to lead the efforts to create a sustainable aviation industry. Environmental sustainability awareness across the entire organisation is critical to the success of Qatar Airways Group. Through IEnvA, Qatar Aviation Services will be able to demonstrate the value of environmental compliance and ensure sustainability in its operations."

IATA's Director General, Willie Walsh said, "We are delighted to count Qatar Aviation Services as the first ground handler to join the newly extended IATA's IEnvA programme. Sustainability is a critical challenge for our industry. By taking proactive steps to measure their impacts and address them throughout their operations with IEnvA, QAS and Qatar Airways Group will back their sustainability achievements with the most comprehensive global standard environmental certification available in the industry".

Qatar Aviation Services, led by the senior vice president, Mehmet Murat Nursel, is committed to minimising the environmental impact of its operations, playing an instrumental role in helping Hamad International Airport gain its world-class standing as environmental leader amongst airports globally. Through its participation, it aims to meet and exceed the highest environmental standards while preparing for future expansion strategies.

The IEnvA programme is an Environmental Management System initially offered to airlines, which demonstrates equivalency to the ISO 14001:2015 environmental management systems standard. It provides a structured approach to managing the environment, as well as reporting and mitigating environmental impacts.

As a result, organisations are able to more formally incorporate sustainability and environmental compliance strategies into their operations. Qatar Airways, under the Qatar Airways Group, first achieved the highest level of IEnvA accreditation in 2017, becoming the first airline in the Middle East to do so. The airline has since played a key role in contributing to the successful development of the IEnvA programme. The programme covers all aspects of Qatar Airways global operations, including flight and ground operations and corporate activities.



Qatar Airways subsidiary Qatar Aviation Services (QAS) announced its partnership with International Air Transport Association to become the first ground handler globally to join the new expansion of the IATA Environmental Assessment Programme (IEnvA) for ground service providers.

Qatar bourse edges down marginally despite buying interests

By Santhosh V Perumal
Business Reporter

The Qatar Stock Exchange yesterday closed marginally down despite buying interests in the real estate, consumer goods, banking and insurance sectors.

The domestic institutions were increasingly net sellers as the 20-stock Qatar Index settled 10 points or 0.07% lower at 13,376.64 points, but recovering from an intraday low of 13,386 points.

The Gulf funds were also increasingly net profit takers in the market, whose year-to-date gains were at 15.06%.

The foreign institutions' weakened net buying interests had its influence in the bourse, whose capitalisation shot up about QR3bn or 0.38% to QR743.3bn, mainly on the back of small and microcap segments.

The Islamic index was seen declining faster than the main index in the market, where the industrials and real estate sectors together constituted about 67% of the total trading volume.

The Gulf individuals were seen bearish in the bourse, which saw a total of 0.06mn exchange traded funds (sponsored by Masraf Al Rayan and Doha Bank) valued at QR0.76mn changed hands across 25 deals.

However, local retail investors turned net buyers in the market, which saw no trading of sovereign bonds.

The Arab retail investors' net profit booking weakened considerably in the bourse, which saw no trading of treasury bills.

The Total Return Index was down 0.07% to 27,399.7 points and Al Rayan Islamic Index (Price) by 0.26% to 2,910.57 points, while All Share Index rose 0.17% to 4,251.67 points.

The telecom sector index tanked 1.81%, industrials (0.83%) and transport (0.47%); while realty gained 1.55%, consumer goods and services (0.8%), banks and financial services (0.58%) and insurance (0.53%).

Major losers included Al Khaleej Takaful, Mesaieed Petrochemical Holding, Ooredoo, Qatar Industrial Manufacturing, Qatar National Cement, Dlala, Inma Holding, Qatari German Medical Devices, Gulf International Services and Nakilat. In the venture market, Al Faleh Educational Holding saw its shares depreciate in value.

Nevertheless, Ezdan Holding, Medicare Group, Doha Insurance, Mazaya Qatar, Mannai Corporation, QNB, Al Meera, Qamco and Untied Development Company were among the gainers in the main market.

The domestic institutions' net selling increased noticeably to QR32.54mn compared to QR24.6mn on August 3.

The Gulf institutions' net selling increased markedly to QR6.95mn against QR4.49mn the previous day.

The Gulf retail investors turned net sellers to the tune of QR0.22mn compared with net buyers of QR0.04mn on Wednesday.

The foreign institutions' net buying weakened substantially to QR29.58mn against QR82.47mn on August 3.

However, Qatari individuals were net buyers to the extent of QR19.96mn compared with net sellers of QR32.14mn the previous day. The Arab individuals' net profit booking shrank significantly to QR3.53mn against QR13.2mn on Wednesday. The foreign individuals' net selling eased marginally to QR6.31mn compared to QR8.8mn on August 3.

The Arab funds continued to have no major net exposure for the second straight session.

Total trade volume in the main market declined 23% to 246.21mn shares, value by 30% to QR591.3mn and transactions by 15% to 18,811.

In the venture market, trade volumes stood at 0.26mn stocks, value at QR1.04mn and deals at 44.

Asia central banks deploy foreign exchange reserves in fighting currency bears

Bloomberg
Singapore

Asia's emerging economies are drawing on large foreign exchange reserves to help prop up their currencies rather than going all-out with interest-rate hikes.

India, Thailand and Korea have seen their reserves drop by a combined $115bn this year as they sold dollars to curb currency declines.

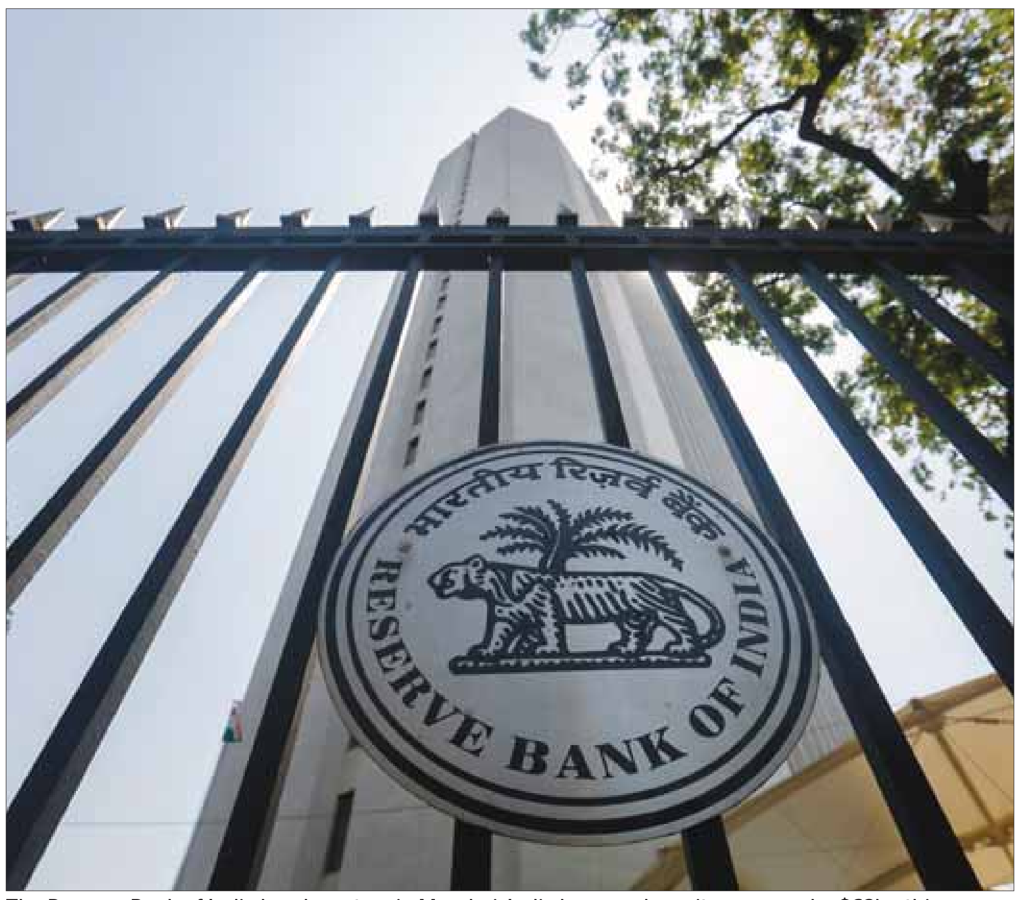
While most central banks in Asia are also raising rates, economists see this aimed more at tamping down inflation than narrowing the rate differential with the Federal Reserve.

The hope in the region is that a relatively slow and shallow hiking cycle will be enough to keep a lid on price gains without sending economies into reverse.

"Emerging-markets Asia central banks are arguably less willing to indulge in competitive hikes," said Vishnu Varathan, head of economics and strategy at Mizuho Bank Ltd in Singapore. "The build-up of FX reserves provides some scope for these central banks to exploit this as a means to backstop currencies and contain imported inflation."

China, the biggest emerging market of all and the top-ranked nation for currency reserves, remains on a different course to the rest of region. Its reserves have fallen by $179bn this year to $3.07tn but the central bank has also lowered some key lending rates amid efforts to offset the impact of Beijing's Covid-zero stance.

"Many Asian central banks have accumulated foreign reserves during periods of capital inflows and low US interest rates, which can now be drawn upon," said Chua Hak Bin, an economist at Maybank Investment Banking Group. "Maintaining currency stability is important to shoring up economic confidence and lowering the threat to exporters and borrowers, especially for smaller, more open economies." To be fair, almost no economy in the world has been spared the impact of the dollar's relentless rise, but emerging Asia currencies have held up well on relative basis and despite a reticence to push hard on policy rates.



The Reserve Bank of India headquarters in Mumbai. India has run down its reserves by $62bn this year while raising its benchmark interest rate just 90 basis points. Even with an expected 50 basis points hike by the RBI today, this will still be well short of the 225 basis points of increases by the Fed.

India has run down its reserves by $62bn this year while raising its benchmark interest rate just 90 basis points. Even with an expected 50 basis points hike by the Reserve Bank of India on Friday, this will still be well short of the 225 basis points of increases by the Fed.

The rupee has dropped to a series of record lows during the period, but has managed to hold its place in the top half of the field for year-to-date performance among currencies in the region.

Lower rates and renewed appeal for equities and the tech sectors in India and South Korea should help rupee and the won, said Ashish Agrawal, head of FX and EM macro strategy research at Barclays Plc in Singapore.

South Korea, which began raising rates 12 months ago but let itself fall behind the Fed this year, has seen a near $25bn of drop in reserves. The won is down over 9% since the beginning of January and has hit levels seen last seen in 2009.

Thailand has seen $28bn of depletion in its reserves while maintaining rates at a record low and seeing the baht drop 8% to the lowest since 2006. The Philippines, Indonesia and Malaysia have also seen a drop in their reserves this year.

To be sure, reserves are not made up entirely of dollars and part of the reserve decline across countries reflects the drop in the value of other reserve currencies against the greenback, not just market intervention.

Policy makers have also looked beyond both reserves and rate hikes to support their currencies.

The RBI has eased rules to attract more dollar inflows from non-residents and foreigners into its debt. South Korea has asked its National Pension Service for more active hedging when investing abroad.

"Rates hikes don't always work in currency defence," said Sonal Varma, chief economist India and Asia ex-Japan at Nomura Holdings Inc. "So central banks are using a mix of allowing some depreciation and expending FX reserves."

QSE MARKET WATCH

Company Name	Lt Price	% Chg	Volume
Zad Holding Co	17.93	1.30	8,322
Widam Food Co	2.84	0.89	76,673
Vodafone Qatar	1.69	0.00	5,007,076
United Development Co	1.54	1.32	2,336,088
Salam International Investment	0.96	-1.03	27,461,836
Qatar & Oman Investment Co	0.78	-1.52	1,981,359
Qatar Navigation	10.20	0.10	513,167
Qatar National Cement Co	4.89	-2.08	809,280
Qatar National Bank	21.25	1.43	3,113,155
Qlm Life & Medical Insurance	5.72	0.25	180,665
Qatar Islamic Insurance Group	8.48	0.94	51,350
Qatar Industrial Manufacturing	3.56	-2.14	22,300
Qatar International Islamic	12.00	0.00	839,554
Qatari Investors Group	2.09	-1.04	5,977,426
Qatar Islamic Bank	26.00	-0.34	854,514
Qatar Gas Transport (Nakilat)	4.19	-0.95	1,851,742
Qatar General Insurance & Reinsurance	2.00	0.00	745
Qatar German Co For Medical	1.76	-2.06	4,867,791
Qatar Fuel Qsc	18.05	0.50	588,466
Qatar First Bank	1.17	0.17	926,182
Qatar Electricity & Water Co	18.78	0.00	330,317
Qatar Exchange Index Etf	12.99	0.53	57,048
Qatar Cinema & Film Distribution	3.65	0.00	-
Al Rayan Qatar Etf	2.88	-0.17	5,758
Qatar Insurance Co	2.33	0.52	3,047,239
Qatar Aluminum Manufacturing	1.88	0.97	36,480,875
Ooredoo Qpsc	9.23	-2.42	754,068
Alijarah Holding Company Qps	0.91	0.55	6,147,866
Mazaya Real Estate Development	0.89	2.05	16,843,129
Mesaieed Petrochemical Holding	2.71	-2.55	6,326,871
Al Meera Consumer Goods Co	18.24	1.73	60,966
Medicare Group	7.42	4.44	697,188
Mannai Corporation Qsc	9.22	1.99	75,754
Masraf Al Rayan	4.57	0.22	3,146,831
Al Khalij Commercial Bank	0.00	0.00	-
Industries Qatar	16.95	-0.64	2,692,084
Inma Holding Company	6.11	-1.13	488,903
Investment Holding Group	2.24	-0.84	23,445,772
Gulf Warehousing Company	4.35	0.25	754,655
Gulf International Services	2.03	-1.84	10,047,849
Al Faleh Education Holding	1.39	-0.57	142,573
Ezdan Holding Group	1.25	7.33	55,460,701
Doha Insurance Co	2.18	3.81	1,233,449
Doha Bank Qpsc	2.52	0.60	2,585,913
Dlala Holding	1.70	-1.73	2,063,339
Commercial Bank Psqc	7.35	0.07	2,422,286
Barwa Real Estate Co	3.62	0.28	2,002,432
Baladna	1.79	-0.67	9,549,984
Al Khaleej Takaful Group	3.30	-2.60	841,539
Aamal Co	1.17	-0.34	1,240,462
Al Ahli Bank	3.95	0.00	-

Emerging market stocks make cautious gains

Reuters
Singapore

Emerging market stocks made cautious gains yesterday, with eyes on Chinese sabre-rattling, while currencies bided time ahead of some central bank policy decisions. After a two-session sell-off on heightening US-China tensions over Taiwan, mainland China's benchmark stock indices rose around 0.8% each, as the government launched infrastructure projects that were seen aiding the Covid-19-hit economy.

The mood lifted across Asia, carrying forward improved sentiment overnight after some strong US earnings updates as well as an unexpected pick-up in the US services sector assuaged worries about the world's largest economy being in recession.

MSCI's index of emerging market shares was up 0.5%, with Turkish stocks surging 1.4% to record highs, while South Africa's top 40 FTSE JSE index rose 0.1%. As the euro rose, currencies in the region were sluggish with eyes on central bank decisions from the Bank of England and the Czech Republic later in the day, and Romania's decision on Friday.

Hungary's forint slid 0.3% after a four-day rally over which it gained 2.6%.

The Czech crown was steady at near one-month lows. The central bank decision, the first under new governor Ales Michl, was seen as a toss-up with analysts split between expectations that interest rates will be held at 7% or raised by 25 basis points as inflation overshoots forecasts.

"We believe today's meeting should confirm the Czech National Bank's dovish change," said Chris Turner, global head of markets and regional head of research for UK & CEE at ING. "The Czech koruna has been in the CNB's favoured band 24.60-24.70 EUR/CZK...which is likely to force the central bank to be more active in the market."

A Reuters poll showed space for central European currencies to firm in the next year remains tight. Eyes on Thursday will also be on the BoE which is seen delivering a 50 bps hike to 1.75%, in what would be its biggest move since 1995.

Meanwhile, investors pared back the probability that the US Federal Reserve would raise the policy rate by 75 basis points next month after San Francisco Fed President Mary Daly said a half-percentage-point hike might be enough to tame inflation.

Another Reuters poll showed that the dollar's strength has yet to peak, with the Fed expected to stay ahead of its peers in the tightening cycle by some measure and the global economy expected to slow significantly keeping up the greenback's safe-haven appeal.

Saudi, UAE save oil firepower in case of winter supply crisis

Reuters
London

Opec leaders Saudi Arabia and the United Arab Emirates stand ready to deliver a "significant increase" in oil output should the world face a severe supply crisis this winter, sources familiar with the thinking of the top Gulf exporters said.

When the Organisation of the Petroleum Exporting Countries and its allies (Opec+) decided on Wednesday to raise oil output by a mere 100,000 barrels per day (bpd), it broke a taboo with a rare reference to the group's spare production capacity.

The statement referred to "the severely limited availability" of spare capacity, saying that meant it needed to keep it in reserve for "severe supply disruptions". At first glance, that reads as an acknowledgement that Opec's leader Saudi Arabia has almost no room to raise output, as mentioned by French President Emmanuel Macron in a conversation with US President Joe Biden last month. Three sources, speaking on condition of anonymity, said Saudi Arabia and the UAE could pump "significantly more", but would only do so if the supply crisis worsened.

"With possibly no gas in Europe this winter, with a potential price cap on Russian oil sales in the New Year, we can't be throwing every barrel on the market at the moment," one of the sources said.

The sources did not quantify any increase, but said Saudi Arabia, the UAE and some other Opec members possessed around 2.0-2.7mn bpd of spare production capacity.

"The only time we can prove we have more spare capacity is when it comes to a long-lasting crisis," the source said, adding that would be when Opec members would raise output.

That could be as soon as this winter, the sources said, as the political and economic standoff between Russia, a member of Opec+, and the West over Moscow's invasion of Ukraine show no sign of easing.

The invasion, begun on February 24, which Moscow terms a "special military operation" sent European gas prices to records and lifted international Brent crude to 14-year-highs.

As a result, inflation has hit multi-decade highs and central banks have begun raising interest rates sharply.

International oil prices have however fallen since the March peaks and dropped again on Wednesday after US data indicated weak fuel demand — in part as high prices have limited consumption.

Analysts said Opec+ saw no logic in adding oil to a falling market.

"With spare capacity below 2 mbpd (million barrels per day) in August, we believe Opec+ preferred to keep their powder dry and use their buffer to address potential future disruptions," PVM's Tamas Varga said in a note.

"There are growing fears of demand destruction and if the current trend continues, additional barrels would put unwanted downside pressure on prices and, at the same time, would unnecessarily deplete thinning spare capacity."

After Biden visited Saudi Arabia in July to press for extra oil to cool international markets, analysts had speculated Opec+ would increase supply.

The Saudi trip was scheduled only after Opec+ announced in early June that it would increase output in July and August.

Wednesday's meeting discussed output for September.

Most Opec+ members have struggled to meet production targets having already exhausted their output potential following years of under-investment in new capacity. In that context, Wednesday's decision to increase production targets by 100,000 bpd, one of the smallest increases since Opec quotas were introduced in 1982, was a goodwill gesture, one of the sources said.

"It is small, yes, but it shows that Opec+, given the fact that it includes so many countries, like Russia, Iran, Venezuela with all their grievances, managed to garner consensus and move forward," the source said.

Following Wednesday's decision, the White House said President Biden would remain focused on keeping fuel prices down.

Asia bourses track US rally, eyes on China's Taiwan drills

AFP
Hong Kong

Asian markets yesterday tracked a Wall Street rally fuelled by healthy economic and earnings data, while traders kept a wary eye on Chinese military drills around Taiwan.

Oil extended the previous day's sell-off, that came on the back of fresh signs of weakening demand in the United States.

That followed major producers announcing a small increase in output.

New York's three main indexes surged after a report on the crucial US services sector showed surprise improvement, soothing worries about a possible recession in the world's top economy.

That came as several companies – including Electronic Arts, Starbucks and Moderna – posted strong earnings, extending a broadly positive reporting season in the face of surging inflation and rising interest rates.

All eyes are now on the release of US jobs data on Friday, which will provide the latest snapshot of the economy and could help guide the Federal Reserve in its debate on monetary policy.

Markets have swung this week after a number of Fed officials lined up to suggest there were still some big rate hikes likely and talk of cuts next year might be overdone.

That came after comments last week from bank chief Jerome Powell indicated the policy board could start easing its tightening campaign.

"Following last week's Fed meeting that opened up the possibility of a slower hiking pace, markets are still running 'risk-on' despite the recent push back from Fed officials," said SPI Asset Management's Stephen Innes.

"But for stock investors, lower oil prices are a pleasure to behold as not only did the US 10-year yields drop but sliding oil prices also downshifted inflation expectations, supporting that slower hiking pace thesis."

Both main oil contracts fell again – and sit at six-month lows – as a spike in US inventories showed demand waning, while figures showed Americans driving less than summer 2022 when travel was smashed by Covid-19.

Crude has now given up all the gains seen in the aftermath of Russia's invasion of Ukraine, though the 100,000 barrel output increase by Opec+ was brushed off by investors as too little to make an impact.

The mood in Asia was also a lot more settled after the upheaval of this week's visit to Taiwan by US House Speaker Nancy Pelosi, which sparked outrage in China with warnings of stern military and economic responses.

Beijing has suspended a limited amount of cross-strait imports and exports, and on Thursday began its largest-ever military exercises encircling Taiwan that are expected to last for days.

Soon after, Taiwan's defence ministry said it was "preparing for war without seeking war".

While the show of force by Beijing is a cause for concern for traders, with the island effectively cut off, there was a sense of relief that China's response did not go further.

Hong Kong led gains, adding more than two percent, while there were also advances in Shanghai, Tokyo, Seoul, Singapore, Manila, Jakarta and Wellington.

However, Taipei fell again on worries that the Chinese manoeuvres would hit shipping lanes and flights into Taiwan.

Mumbai also dipped, while Sydney was flat.

London was lower as investors awaited the Bank of England's policy decision, which many expect will result in the biggest hike since it was given independence in 1997 as inflation sits at a four-decade high. "Whatever they do, the (UK) economy will slow more than it already has," said CMC Markets analyst Michael Hewson.

"But inflation is becoming a much bigger threat in the longer term, and given current trends it's unrealistic to expect it to fall back to two percent much before 2024."

Paris and Frankfurt both rose.

Pelosi's trip managed to further strain already fraught China-US relations, and markets strategist Louis Navellier said: "It will be interesting if China retaliates against any US companies or restricts trade in any manner."

In Tokyo, the Nikkei 225 closed up 0.7% to 27,932.20 points; Hong Kong Hang Seng Index ended up 2.1% to 20,174.04 points and Shanghai Composite closed up 0.8% to 3,189.04 points yesterday.


An external view of the Hong Kong Stock Exchange. The Hang Seng Index closed up 2.1% to 20,174.04 points yesterday.

CORPORATE RESULTS

Toyota upgrades forecast even as Q1 net profit slumps

Toyota upgraded its annual net profit forecast on Thursday, predicting an earnings boost from the weaker yen even after first-quarter net profit took a hit from pandemic-related supply chain issues.
The global chip shortage, Covid-19 lockdowns disrupting Chinese factory output and Russia's invasion of Ukraine are all weighing heavily on the auto industry.
But Japanese companies like Toyota selling products overseas have also benefited from a cheaper yen, which has hit 24-year lows against the dollar in recent months.
The world's top-selling automaker now forecasts an annual net profit of ¥2.36tn ($17.6bn) — up from its previous estimate of ¥2.26tn, but still a drop of 17% compared with last year's record results.
For the three months to June, the auto titan said net profit fell 17.9% on-year to ¥736.8bn.
"Despite the positive foreign exchange effects from the weaker yen, the large impact from lower sales volume due to supply constraints and higher raw materials prices led to a decrease in operating income" in the first quarter, the company said.
Meanwhile, "the revision of foreign exchange rate assumptions had a positive impact on the operating income forecast", it said.
Revisions to the predicted impact of "soaring materials prices" and cost-reduction efforts would also cause operating income to decrease this financial year, Toyota added.
Buoyed in part by the weaker yen, Toyota in May logged a record full-year net profit of ¥2.85tn for 2021-22.
The focus will now be on whether the company can keep its global production target of 9.7mn units for this financial year in light of the parts shortage, said Satoru Takada, auto analyst at research and consulting firm TIW.
Toyota has so far largely escaped the worst of the crises, he said, adding that the company has "customers waiting for its cars thanks to strong demand". The firm built stronger ties with domestic suppliers after Japan's 2011 earthquake and tsunami, which analysts say helped it weather a pandemic-triggered shortage of semiconductors — an essential component of modern cars — better than its rivals. But it has been forced to repeatedly adjust production targets because of the chip shortage and pandemic-linked factory closures.
Adding to the problems is uncertainty arising from Moscow's war in Ukraine.

Alibaba

Chinese e-commerce giant Alibaba reported flat revenue growth yesterday for the first time ever, as the country grappled with an economic slowdown and Covid-19 resurgences kept consumers jittery.
Alibaba's performance is widely seen as a gauge of Chinese consumer sentiment, given its market dominance, and its revenue growth has slowed markedly over the past year.
Revenue came in at 205.6bn yuan ($30.7bn) in the April-June quarter, beating analyst expectations despite being slightly below the same period last year, following a decline in the company's China commerce segment revenue, Alibaba said.
The company has been grappling with growing competition and economic fallout from strict Covid restrictions that have battered consumer sentiment, pushed the unemployment rate up and tangled supply chains.
"Following a relatively slow April and May, we saw signs of recovery across our businesses in June," said Alibaba Group's chairman and chief executive Daniel Zhang in a statement.
"Despite the soft economic conditions, we managed to deliver stable revenues and narrowed losses in several strategic businesses by improving operating efficiency," he added in an earnings call.
The company's revenue growth was flat "primarily due to a decline in China commerce segment revenue" although this was offset by growth in the cloud segment, Alibaba said.
Many parts of China have faced harsh lockdowns in recent months, as officials struggled to stamp out the Omicron variant under the country's zero-Covid policy.
Shanghai, China's biggest city and a major economic hub, was sealed off for two months due to Covid-related restrictions during the quarter.
The firm cited "restrictions that resulted in supply chain and logistics disruptions in April and most of May" that bogged down performance in its China commerce sector, although there was a pick-up in demand in June during a popular shopping festival.
Its profit for the latest quarter stood at 22.7bn yuan, down from 45.1bn yuan a year earlier.
Alibaba has recently been building its international commerce businesses, such as Lazada in Southeast Asia and Trendyol in Turkey.
It has also shifted from its aggressive market expansion in the past, amid slowing growth.
Apart from coronavirus curbs, Alibaba has been contending with a regulatory crackdown on China's tech giants and other challenges abroad.

ING

Dutch banking giant ING reported a 20% drop in net profit in the second quarter, hit by soaring inflation in Turkey and concerns about the global economy.
ING booked a profit of €1.18bn ($1.2bn) in the three-month period ending in June.
"The backdrop to ING's performance in the second quarter of 2022 was one of ongoing geopolitical uncertainty and pressure on the global economy," ING chief executive Steven van Rijswijk said in a statement. "Despite these difficult operating conditions, I'm pleased with our results," he said, pointing to growth in ING's primary customer base and a rise in loans and deposits.
Revenue rose 3.7% to €4.7bn.
ING's net profit took a €277mn hit from Turkey's hyper-inflation, which is close to 80%.The bank's profits were slashed by more than half in the first quarter, when results were affected by Russia's war in Ukraine, but ING said its "risk costs were significantly lower" in the second quarter.
ING said it had reduced its exposure to Russia and the amount of money set aside for potential losses had been cut by €117mn.

Glencore

Mining and commodities trading group Glencore posted a nine-fold increase in profit in a first half of the year, fuelled by soaring prices of oil, gas and coal. The Switzerland-based firm reported a net profit of $12.1bn in the first six months of 2022 as commodity prices have surged since Russia invaded Ukraine in February.
The London-listed group said it would return $4.5bn to shareholders.
"Notwithstanding what has clearly been a very complex environment for our markets, our operations, and the world in general, we are pleased to report an exceptional financial performance for Glencore over the period," chief executive Gary Nagle said in a statement. Glencore's trading business saw earnings double to $3.7bn while its industrial operations earned $15bn on the back of higher coal prices. Looking at the second half of the year, Nagle warned that "tightening financial conditions and a deteriorating macroeconomic environment present some uncertainty for commodity markets".
Decades-high inflation and central bank moves to tighten monetary policies have raised fears that economies could fall into recession.

Bayer

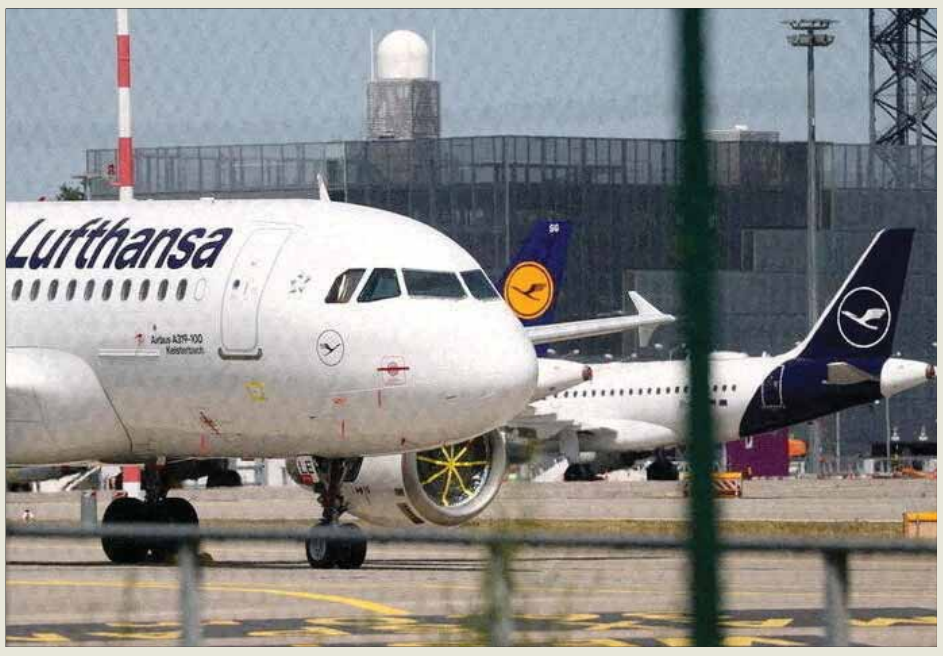
German chemicals giant Bayer said it had suffered a net loss in the second quarter due to an environmental lawsuit in the United States, while raising its outlook for the year. Between April and June, Bayer booked a net loss of €298mn ($303mn), after a €2.3bn loss in the same period last year. The result was dragged into the red by a €694mn provision to manage legal risks in the United States related to PCB, a product formerly marketed by Bayer's troubled subsidiary Monsanto.
Nonetheless, Bayer CEO Werner Baumann said in a statement that the group had a "strong operational performance" in the quarter.
Sales in its agricultural business climbed by 17.2% to €6.5bn on the back of rising prices.
Sales of consumer health products rose 6.8% to 1.5bn, while the improvement in pharmaceuticals was smaller, up 2.1% to €4.8bn.
Bayer raised its outlook for the year, predicting revenues to rise to between €47bn and €48bn, up from its previous estimate of "approximately €46bn". The chemicals group also expected an operating — or underlying — profit for the year of around €12.5bn, up from €12bn previously.

Adidas

Adidas said operating profit fell by 28% in the second quarter to €392mn ($398.43mn), as results suffered from suspending business in Russia, higher supply chain costs and Covid-19 lockdowns in China and Vietnam.
The German sportswear firm said currency-neutral sales rose 4% in the quarter but net income from continuing operations declined to €360mn from €387mn in the same period last year.
The company had cut its 2022 outlook in July, citing slower than expected recovery in China, and now expecting currency-neutral revenues to grow at a mid- to high-single-digit rate this year.

Lufthansa

Lufthansa said yesterday its freight operations propelled the German airline group to its first net profit since the start of the coronavirus pandemic.
Between April and June, Lufthansa recorded a net profit of €259mn ($263mn), over €1bn more than the same period last year and its first positive quarter since the end of 2019.
Lufthansa was "back in the black", CEO Carsten Spohr said in a statement, describing the pandemic as "the most severe financial crisis in our history".
The group — which includes Eurowings, Austrian, Swiss and Brussels Airlines — made huge net losses of €6.7bn in 2020 and €2.2bn in 2021 as the pandemic shut down large parts of the airline industry.
Lufthansa was saved from bankruptcy by a government bailout in June 2020.
The improved figures were lifted by a "record" result for Lufthansa Cargo, which has benefited from high demand and "ongoing disruptions in ocean freight". The freight division booked an operating — or underlying — profit of €482mn in the second quarter, a 48% improvement on last year.
A "boom" in demand for travel saw the result for Lufthansa's passenger airlines "improved significantly" though they remained in the red, with the exception of Swiss. Amid recent chaos at airports, Lufthansa said it would start recruiting again, bringing 5,000 new employees on board.
A shortage of workers has left airports struggling to process high numbers of passengers, after they pared back their operations during the pandemic.
Despite the disruption and the clouded outlook for the economy, Lufthansa said it "expects demand for tickets to remain high for the remaining months of the year".



Berkshire results may show toll of inflation, market turbulence

Bloomberg
New York

Berkshire Hathaway Inc is about to give investors a look at how the conglomerate is handling spiraling inflation, rate hikes and a market downturn that's weighed on some of its largest holdings.

Warren Buffett's Berkshire is set to report second-quarter results on Saturday, and the sharp sell-off that's dogged markets in the first half of this year is likely to take a chunk out of the company's stock portfolio and its own book value as a result, according to analysts.

While the metric isn't the be-all, end-all for the firm, investors do use it as shorthand for the conglomerate's performance, and weakness there is likely to grate on them.

"We can look back at Berkshire's portfolio and market moves and expect a pretty significant sequential deterioration," said Meyer Shields, an analyst with Keefe Bruyette & Woods Inc. "For better or worse – I think worse, personally – people look at book value as the valuation basis for Berkshire, and if book value shrinks, that will make the stock look less attractive."

Market turbulence isn't the only headwind. With inflation running hot, declines at Berkshire's operating businesses in areas including real estate and auto insurance – where inflation is likely to increase the cost of claims -- could outweigh gains reaped by the company's energy and rail units.

Insurers that already reported earnings say they've been hit hard by rates and inflation, drawing investor attention to how Berkshire's businesses like auto insurance firm Geico, the second-largest private passenger auto insurer in the US, and Gen Re will fair.

Buffett said earlier this year that he couldn't predict the trajectory of inflation over the coming months or years. Still, he's seen price increases across his businesses. "It swindles almost everybody," he said of inflation at that time.

"The operating businesses are really a microcosm for the broader economy," said Cathy Seifert, an analyst with CFRA Research. "They are diversified, but again, the diversification doesn't necessarily insulate them from inflation because there's really few sectors that are immune."

Results are landing a little more than three months after shareholders gathered in Omaha, Nebraska, for the company's first annual meeting since the start of the pandemic.

Billionaire investor Buffett used the gathering to tout an aggressive buying spree that included the purchase of insurance company Alleghany Corp, an expanded stake in Chevron Corp and shares in companies including HP Inc. Notably, Berkshire has speedily bought up shares in Occidental Petroleum Corp, and now holds 19.5% of the energy company's shares outstanding.

That's raised questions about whether Berkshire views the energy firm as an acquisition goal, though that sort of insight is rarely included in the company's quarterly results.

"I don't think you'll get clarity" on what Berkshire's intent is, said Cole Smead, president of investment firm Smead Capital Management.

Here's what else to watch this quarter:

Buybacks: Buffett had increasingly leaned on buying back Berkshire stock as one way to put money to work in a competitive deal-making environment. Berkshire bought back a total of $27.1bn in 2021, the highest annual level since he began aggressively repurchasing stock in 2018, as the company struggled to deploy near-record levels of cash.

It slowed its roll on share repurchases during the first quarter with just $3.2bn. With the market off of pandemic-era highs, repurchases could wane with potential deals in sight.

"You could see maybe fewer shares repurchased than people want," Shields said. "There are increasingly more attractive uses of capital."

Stock swoon: Buffett loves a bargain, and while the market turbulence may knock Berkshire's stock portfolio, it could also prove a buying opportunity. After facing questions from investors about why he didn't take advantage of the downturn when the pandemic took hold, Buffett amped things up in the first quarter.

He and his investing deputies went on Berkshire's biggest buying spree in at least a decade, hoovering up about $41bn of net purchases in the three-month period.

Now, as war and inflation fuel further market volatility, prompting the S&P 500's worst quarter in more than two years, Buffett may keep that spigot flowing.

Succession: Buffett, who's now 91, confirmed last year that Berkshire Vice Chairman Greg Abel is set to take over as CEO whenever he departs. Analysts say it's unlikely the company will provide more details on top-level succession plans over the weekend, with few expecting indications that Buffett or his long-time business partner, 98-year-old Charlie Munger, will step down.

Alleghany CEO and former Berkshire insurance executive Joe Brandon could emerge as the logical successor to Ajit Jain, who runs the conglomerate's insurance operation, according to Seifert.

"Warren Buffett still has sort of a soft spot for Joe Brandon. He holds him in high regard," Seifert said. "As it relates to maybe not top-level succession, but a couple of rungs down, there is a new little wrinkle."

BoE raises interest rates by most since 1995 even as long recession looms

Reuters
London

The Bank of England raised interest rates by the most in 27 years yesterday, despite warning that a long recession is on its way, as it rushed to smother a rise in inflation which is now set to top 13%.

Reeling from a surge in energy prices caused by Russia's invasion of Ukraine, the BoE's Monetary Policy Committee voted 8-1 for a half percentage point rise in Bank Rate to 1.75% — its highest level since late 2008 — from 1.25%.

The 50-basis-point increase had been expected by most economists in a Reuters poll as central banks around the world scramble to contain the surge in prices.

Governor Andrew Bailey said all options were on the table for the BoE's next meeting in September, and beyond.

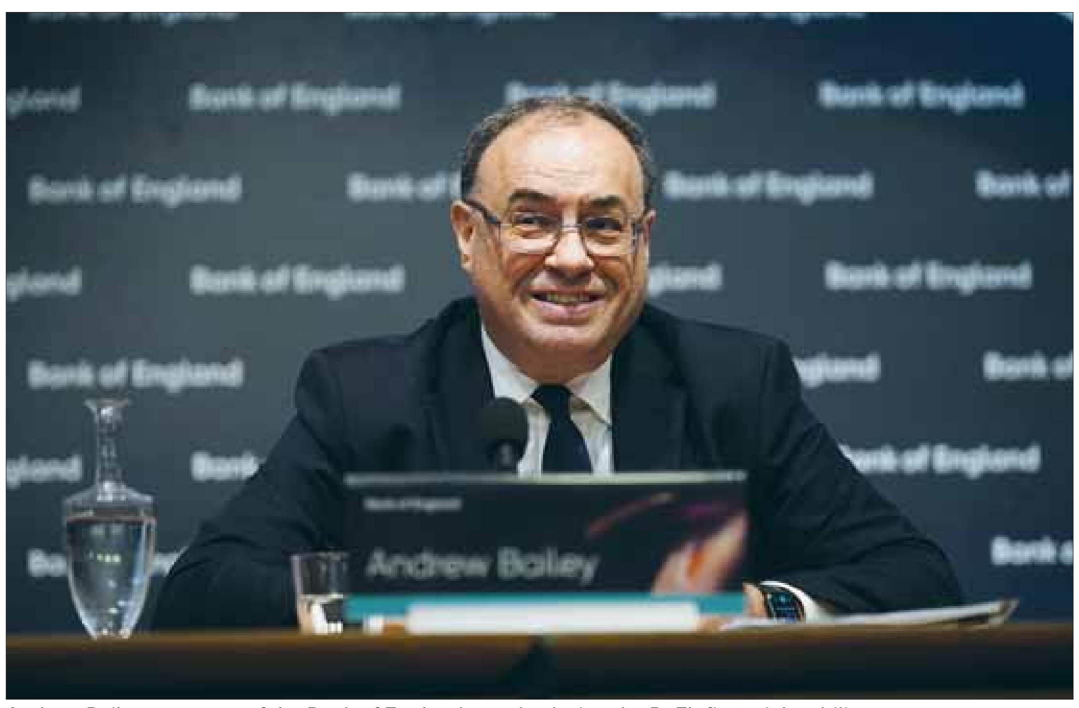
"Returning inflation to the 2% target remains our absolute priority. There are no ifs and buts about that," he told a news conference.

The alarming economic outlook comes at a time of yet more political turmoil for Britain, with Prime Minister Boris Johnson forced to resign, triggering a lengthy race to replace him that has divided the ruling party.

The favourite to win, Foreign Secretary Liz Truss, has pledged big tax cuts and a review of the Bank's mandate.

Bailey said had "huge sympathy" for stretched households who feel that rising interest rates will make life harder.

"I'm afraid the alternative is even worse, in terms of persistent inflation," he said.



Andrew Bailey, governor of the Bank of England, speaks during the BoE's financial stability report news conference in London yesterday. The BoE raised interest rates by the most in 27 years, despite warning that a long recession is on its way, as it rushed to smother a rise in inflation which is now set to top 13%.

MPC member Silvana Tenreyro voted for a smaller 25-basis-point increase.

The BoE warned that Britain was facing a recession with a peak-to-trough fall in output of 2.1%, similar to a slump in the 1990s but far less than the hit from Covid-19 and the downturn caused by the 2008-09 global financial crisis.

The economy would begin to shrink in the final quarter of 2022 and contract throughout all of 2023, making it the longest recession since the financial crisis.

Ushering in the slowdown, consumer price inflation was now likely to peak at 13.3% in October — the highest since 1980 — due mostly to the surge in energy prices following Russia's invasion of Ukraine.

That would leave households facing two consecutive years of declines in their disposable incomes, the biggest squeeze since these records began in 1964.

"The shocks to UK headline inflation just keep coming thick and fast," said Brian Coulton, chief economist of Fitch Ratings.

"This will probably not be the last 50bps move."

Sterling fell against the US dollar while futures priced in a further 25-basis-point rise in interest rates, to 2%, for the next BoE meeting in September.

British consumer price inflation hit a 40-year high of 9.4% in June, already more than four times the BoE's 2% target, triggering industrial action and putting pressure on whoever becomes prime minister to come up with further support.

Truss, the front-runner, said the BoE's forecasts underlined the need for an emergency budget and tax cuts.

Her rival, former finance minister Rishi Sunak, said gripping inflation was imperative for any future government.

The BoE had previously expected inflation to peak at above 11% and almost no growth in Britain's economy before 2025 at the earliest.

In its new forecasts, the BoE saw inflation falling back to 2% in two years' time as the hit to the economy took its toll on demand.

Bailey said the risks to the BoE's outlook were "exceptionally large".

The British central bank has now raised rates six times since December but Thursday's move was the biggest since 1995.

The pressure on Bailey and his colleagues to move in larger steps intensified after recent big rate hikes by the US Federal Reserve, the European Central Bank and other central banks.

Those moves weakened the value of the pound, which can add to inflation.

The BoE repeated that it was ready to move forcefully if needed to stem more persistent inflationary pressures.

But it stressed that there were "extremely large" uncertainties about the economy — which could make the slowdown more or less severe than its core forecasts — and it would judge what its next moves should be as events unfold.

"Policy is not on a pre-set path," the BoE said. "The scale, pace and timing of any further changes in Bank Rate will reflect the Committee's assessment of the economic outlook and inflationary pressures."

The BoE said it expected to start selling down its huge stockpile of government bonds — currently worth £844bn — shortly after its next meeting in mid-September, with active sales of around £10bn a quarter.

Meta to make bond market debut as its cash flow falls

Bloomberg
New York

Meta Platforms Inc, one of the few S&P 500 companies without debt, is selling US corporate bonds for the first time on Thursday, as its cash flow and stock price fall.

The social media giant's bond sale may be $8bn to $10bn, in as many as four parts, according to a person with knowledge of the matter. The longest portion of the offering, a 40-year security, may yield 1.75 to 1.8 percentage points above Treasuries, said the person, who asked not to be identified as the details are private.

The company's stance on borrowing may have shifted with the state of its business. Meta just posted its first year-over-year quarterly revenue decline, citing uncertainty in the digital advertising market, which has driven its growth for years.

The parent of Facebook and Instagram is concerned that young people are abandoning its platform for ByteDance Ltd's TikTok.

And it has big, expensive ambitions to build a whole new version of the Internet in the Metaverse, an immersive virtual reality world where Chief Executive Officer Mark Zuckerberg imagines we will communicate, work and shop in the future.

Proceeds from the bond sale can be used for purposes including capital expenditures, stock repurchases, and acquisitions or investments.

The company may be more likely to use the money to significantly bolster its share buybacks, and hire and retain talented employees, rather than boost spending on Metaverse investments, according to Bloomberg Intelligence analysts Mandeep Singh and Ashley Kim.

Meta has been using cash to repurchase stock, including $5.1bn in the second quarter of this year, and had $24.3bn available for buybacks as of June 30, according to its earnings release last week. Its stock price has more than halved from its high in September to $168.80 as of market close on Wednesday, making the repurchases cheaper.

Its stockpile of cash has dropped $23.6bn from a year earlier, according to data compiled by Bloomberg. That's among the biggest cash losses for non-financial S&P 500 corporations during the period.

Many of Meta's large peers in the technology industry have borrowed heavily at low rates despite large cash piles. Including Meta, there are just 18 companies in the S&P 500 without outstanding short or long-term debt, excluding lease liabilities, as of the most recent quarter, according to data compiled by Bloomberg.

Over the past month, other tech companies including Apple Inc and Intel Corp have ridden the rally in credit markets to sell debt. The companies are taking advantage of yields that have been drifting lower after surging all year, offering a moment of relative stability in the market.

S&P Global Ratings has assigned Meta a AA-investment-grade rating, while Moody's Investors Service gave the tech giant an A1 rating, the equivalent of one step lower.

Credit Suisse weighs cutting thousands of jobs globally in turnaround bid

Bloomberg
Zurich

Credit Suisse Group AG executives are discussing reducing thousands of roles globally as the struggling European lender seeks to slash its overall cost base by an additional $1bn.

The bank, which began trimming front line roles in Asia last month, is mulling an aggressive plan to reduce its headcount, which stood at 51,410 at the end of June, said people familiar with the matter, who asked not to be identified discussing personnel matters.

Credit Suisse is expected to finalize its plans over the next couple of months and is examining inefficiencies in the bank's middle and back office in addition to the efforts to reshape its investment bank, the people said. Estimates being discussed include cutting several thousand roles over a number of years, the people said, adding that the plans are preliminary and no final decision has been taken.

"We have said we will update on progress on our comprehensive strategy review when we announce our third quarter earnings; any reporting on potential outcomes before then is entirely speculative," a spokesperson for the Zurich-based lender said.

The cuts are likely to be the deepest since former chief executive officer Tidjane Thiam slashed around 6,000 roles across the firm in 2016 in the wake of unexpected losses on trading positions. Credit Suisse appointed asset management head and former UBS Group AG executive Ulrich Koerner to lead the bank last week, replacing Thomas Gottstein in an effort to steer the lender back to profitability after scandals and losses. Koerner served as UBS's chief operating officer during a four-year period after the financial crisis that saw that firm slash headcount by about 15,000.

Credit Suisse has seen a string of departures and has pledged to fundamentally reshape its unprofitable investment bank, so attrition and business exits could bring down headcount in addition to active job cuts. The firm's staff has climbed by more than 2,000 since the end of 2020, in part as it hired more employees in compliance.

The company has been seeking a turnaround after the blow-ups of Archegos Capital Management and Greensill Capital undermined confidence, weakened key businesses, and spurred an exodus of talent. The Zurich-based bank has changed its entire executive team and half its board of directors in the past 18 months in an effort to move past the crises.

The lender last month said it aims to trim its overall cost base to below 15.5bn francs ($16.1bn) in the medium term, going well beyond a target of 16.5bn to 17bn francs set out in late 2021. The firm reported 16.6bn francs of adjusted operating expenses over the 12 months ended in June. Including litigation and restructuring costs, the firm's total expenses in that period were 20.5bn francs.