

Will leading AI labs ever turn a profit?

By Joachim Klement
London

AI has a math problem. Anthropic's IPO filing shows revenues rose nearly 12-fold last year but operating losses ballooned as well, raising an uncomfortable question: Will leading AI labs ever turn a profit?

The prospectus, obtained last week by Reuters, showed that while Anthropic's revenue jumped to \$4.6bn in 2025, it spent \$7.3bn on compute and infrastructure. The result was an operating loss that widened from \$2.98bn in 2024 to \$8.06bn in 2025.

Dario Amodei's firm is certainly not the only AI-focused company to be in the red. Elon Musk's SpaceX saw its AI-related capital expenditure dwarf its revenue in the second quarter.

The question hanging over Anthropic's potential \$2tn valuation and those of its similarly unprofitable peers is whether such losses will ever shrink.

The core argument made by AI firms is that revenues will grow extremely fast as more people adopt

large language models (LLMs), and that this will result in greater spending on tokens.

But Anthropic and its competitor OpenAI have recently released new versions of older models offering cheaper token prices.

Take a look at the LLM Token Expenditure Index, created by Silicon Data, which estimates the average price of LLM tokens. The index has declined by over 40% since June 30 as AI labs have significantly reduced the prices for models just behind the frontier. How does all this square with the supposed paths to profitability?

The likely return from AI firms would be a version of Jevons' paradox, the idea that lower costs will spur enough additional use to increase overall consumption. Based on this theory, token volumes should grow fast enough to offset any price declines.

But, for now, there is little to suggest this is the case.

Token usage may have surged temporarily in the second quarter, attributed by some to so-called "tokenmaxxing", where workers, mostly in the tech industry, sought to maximize their token usage. If

the index is accurate and "token-maxxing" has dissipated, as many believe, overall spending on LLMs by businesses and consumers could be lower than it was three months ago. Even if usage is still rising, that may not be enough to offset the significant drop in the average price of a token.

To be fair, the index is a new tool that could be missing segments of the market - and it also doesn't distinguish between models.

But if its findings are borne out, this could become a significant obstacle for Anthropic's IPO ambitions. The company's current IPO prospectus uses second-quarter results, the latest quarterly data available if the company had gone public in October. But given that Anthropic is now expected to delay its filing until November, it would instead have to show third-quarter results, which may not look quite as attractive.

Other publicly available indicators also raise questions about the company's revenue outlook. OpenRouter, which helps users direct their requests to the model that can reliably provide an answer at the lowest available cost, currently

sends only 2.6% of its requests to Anthropic's models. This is down from 5.2% at the end of June and a peak of 6.4% in May.

I have said before that I think the future of AI is not in LLMs running in data centres but in smaller, cheaper models running locally on desktops, which, if proven correct, would dramatically undercut the valuations of today's AI leaders.

Others seem to have doubts about the true value of AI labs as well. While many analysts and investment bankers tout the growth of AI and remain bullish on the companies in that space, some loan officers appear more cautious.

For example, when SoftBank in August took out a \$10bn margin loan against its stake in OpenAI in order to invest more in the ChatGPT maker, among other corporate purposes, it valued its position at more than \$89bn. Yet the tech investment conglomerate has spent several months trying to replace a \$40bn bridge loan used primarily to fund its investment in OpenAI, and when it did finally manage to place an \$11.1bn high-yield bond offering in the US, it had

to back this unsecured bond with other investments as well.

Bond investors are notoriously risk-averse and generally demand large margins of safety when lending against existing investments, so it is no surprise that SoftBank could not borrow the desired \$40bn against its OpenAI stake alone.

What matters here is the scale. The margin loan is less than 11% of the value SoftBank assigned to its OpenAI stake at the time. This suggests the risk-averse lenders likely assigned a much lower valuation to the holding.

All US AI leaders are facing questions about current valuations and future profitability, as there appears to be an internal inconsistency in Wall Street's hyper-bullish AI forecasts. As Apollo's chief economist Torsten Slok has highlighted, US technology companies are projected to grow their operating cash flow by more than \$1.2tn from 2025 to 2028, much more than the other sectors combined.

■ The views expressed here are those of Joachim Klement, an investment strategist for Panmure Liberum.

Citigroup shares set to deepen losses

Reuters
New York

Citigroup shares have struggled since peaking this year in June, which was the stock's highest level since 2008. Recent price moves suggest they could be about to fall further, technical analysis shows.

Technical analysis uses past price moves on charts to help understand where a market might go next. Citi's daily charts show several measures of momentum pointing down. Momentum refers to the speed and strength of a price move.

That short-term gloom is now spreading to the longer-term picture. Analysts use weekly charts to filter out day-to-day price swings and get a clearer view of the bigger trend. Citi's weekly charts are turning more and more negative.

Last week, the shares broke below an ascending trendline drawn from their April 2025 low. An ascending trendline is a rising line that connects a series of low points on a chart. While a stock stays above it, the uptrend is considered intact. A break below it suggests buyers are losing control.

Momentum tools support that view. One of them is called Bollinger Bands. These are two lines drawn above and below a moving average, which is the stock's average price over a set period, updated each day. Citi's weekly bands are starting to slope lower, which can be a sign that downward momentum is building.

Another gauge is called Moving Average Convergence Divergence, or MACD. It compares two moving averages of different lengths to show whether buying or selling pressure is building or fading. A third is the Relative Strength Index, or RSI, which measures the speed and size of recent price changes on a scale of 0 to 100. On weekly charts, both indicators now point to bearish, or downward, momentum.

Citigroup closed at \$128.07 on Thursday, according to LSEG data. Recently the stock has been testing what is known as structural support in the \$124 to \$125.50 area. Support is a price level where buyers have stepped in before to stop a decline, so it works like a floor.

If that floor gives way and the shares stay below it, that would be a strong sign that another leg lower has started. The decline could also accelerate.

On the way down, shares might pause at support around \$119.75 to \$120 and then around \$106.50. Beyond that, they could fall to the \$102 to \$104 area. That area represented resistance in November 2025. Resistance is a ceiling where sellers have previously stopped a stock from rising. Once a stock climbs through an old ceiling, that level often becomes a new floor.

However, a rise above the \$135 to \$136 area, back above the broken trendline, would cancel out this bearish view. Citigroup has been struggling since June highs. A break below \$124 to \$125.50 support could target the \$102 to \$104 area. A rise above \$135 to \$136 would cancel the bearish view.

Nvidia-backed Firmus scraps \$5bn Australia IPO amid AI scrutiny

Reuters
Sydney

Australia's Firmus, a data centre operator backed by Nvidia, shelved its \$5bn IPO on Friday, adding to growing investor scrutiny of the AI sector's valuations and sustainability of massive investments to build infrastructure.

Firmus said it would now opt for a private fundraising round, and a person involved in the transaction said that would be followed by a Nasdaq listing. The person could not be identified discussing information that was not public.

The company declined to comment on whether it would target a Nasdaq listing. Firmus' IPO would have been the second-largest new share sale in Australia's history but met lukewarm demand, a warning sign that investors are becoming increasingly selective about AI issuers amid a massive round of fundraising via debt and equity.

"The company will now pursue capital from private markets and consider alternative international public market options to support its next phase of growth," said co-founders Oliver Curtis and Tim Rosenfield in a letter sent to shareholders.

"We will continue to assess opportunities that provide the best platform to fund growth, create value and position Firmus for success." Firmus, backed by major AI companies and investors Nvidia and Coatue Management, along with Blackstone and Jane Street, designs and operates modular AI factories using proprietary energy and cooling technology.

The closely-watched IPO would have ranked as the fourth-largest public offering globally so far this year, behind SpaceX, CXMT Corp and Cerebras Systems, according to



A view of HGX that houses Nvidia H100 GPUs on display at a data centre in Singapore. Australia's Firmus, a data centre operator backed by Nvidia, shelved its \$5bn IPO on Friday, adding to growing investor scrutiny of the AI sector's valuations and sustainability of massive investments to build infrastructure.

Dealogic data. Its collapse is a blow to Australia's capital market, which has been grappling with a declining number of listed companies and a weak pipeline of new listings.

Firmus initially planned to sell shares at \$11 each, giving it an

equity valuation of \$30.6bn, nearly triple the \$10.5bn it achieved following a fundraising round at the start of August.

The pricing came under pressure as investors grew concerned about the company's debt pile, its

lack of a track record in building AI data centres and media reports about a key partner pulling out of an A\$73bn data centre development deal.

Firmus currently has two leased online data centres in Melbourne and Singapore and plans to build five more across the Asia-Pacific. Its draft prospectus said it would make \$5bn in annual earnings within five years from the data centres.

"They were asking for a very big price tag for what would likely be expected to happen in the future assuming near flawless execution," said Joseph Koh, a portfolio manager at Blackwattle Investment Partners.

"And I think the market wasn't comfortable taking that leap of faith quite at this stage yet," said Koh, whose firm looked at the IPO but did not bid for its shares.

The term sheet sent by the IPO book managers a few days before the deal was launched on Tuesday said indicative offers were already enough to cover the transaction.

But investors started to pull those orders on Wednesday, after CDC Data Centres CEO Greg Boorer told a podcast its plan to develop 1.6 gigawatts of AI factories with Firmus was no longer underway, two people involved in the IPO said.

Investors also balked after being told on Tuesday the deal's escrow arrangements would have allowed more than half the stock to be sold by existing investors from day one, which could have hurt Firmus' early trading performance. Firmus considered cutting the issue price, one of the people involved in the deal said, but opted instead to look towards a private funding round.

"It's disappointing given that three days ago we thought it was all going well ... The market has spoken," said Oscar Oberg, lead portfolio manager at Wilson Asset

Management, a Firmus investor since last year. Bloomberg reported the company was exploring raising up to \$3bn from existing investors. Firmus did not immediately respond to a request for comment on its plans. The Firmus IPO book-building was led by Bank of America, JPMorgan, Morgan Stanley and Australian broker Morgans.

With debt of about \$30bn, according to analysts working for the joint lead managers, the company founded in 2019 would have had an enterprise value of \$60bn, more than some of Australia's longest-established companies.

Fund manager Ten Cap's co-founder Jun Bei Liu said the pulled deal showed a broader shift in which investors were becoming more focused on the economics of AI investments and converting infrastructure spending into returns.

"I think the Firmus situation represents an important reality check for the AI investment boom, but I wouldn't interpret it as the beginning of the end of the AI trade," Liu said.

"There are certainly Firmus-specific issues, particularly around the speed of its valuation increase, the enormous capital requirements and the execution risks associated with delivering its ambitious expansion plans."

The world's largest technology companies, including Nvidia and SpaceX, are still busy tapping debt markets for tens of billions of dollars, while Anthropic is seeking to raise as much as \$100bn in an IPO.

But in the latest sign of investors' concerns about returns from AI, US-listed chipmakers, which have soared over 80% so far this year, fell 3.4% on Thursday in the wake of media reports that OpenAI has told investors its annualised revenue for September was almost \$50bn, a drop from what it signalled earlier.

Delta cuts annual profit forecast as fuel bill rises by \$6bn

Reuters
Chicago

Delta Air Lines cut its annual profit forecast by nearly a quarter on Friday, as surging fuel costs, expected to add \$6bn to its bill in 2026, overwhelmed resilient travel demand and higher ticket prices.

Its shares fell 3.5% in pre-market trading after the carrier cut its 2026 profit forecast for the first time this year and lifted its projected fuel-cost increase by \$2bn as the Iran war has driven jet fuel prices sharply higher worldwide. With no end to the war in sight, carriers are confronting their worst crisis since the pandemic.

The downgrade underscores a growing challenge for the industry: whether passengers will absorb further fare increases if fuel prices remain elevated. Airlines have already raised fares substantially this year, and analysts warn further increases could test travelers' willingness to keep spending.

Delta, the first major global carrier to report third-quarter

results, said fuel expenses for the period rose 62% from a year earlier to \$4.1bn, exceeding its July forecast by more than \$500mn.

"All of it's fuel," Delta Chief Financial Officer Erik Snell told reporters when asked what drove the forecast cut, citing increases in both crude oil and refined jet fuel prices since the summer.

Delta now expects adjusted annual earnings of \$5.10 to \$5.60 a share, down from the \$6.50 to \$7.50 it forecast in July. The new midpoint of \$5.35 is below analysts' average estimate of \$5.46, according to LSEG. It forecast \$4.5bn in adjusted pre-tax profit for 2026.

Third-quarter adjusted earnings of \$1.72 a share narrowly missed analysts' average estimate of \$1.76, according to LSEG. Its adjusted operating margin fell to 9.4% from 11.1%.

Rivals United Airlines, American Airlines and Southwest Airlines are due to report later this month. Ryanair Group CEO Michael O'Leary warned on Thursday that European airlines



A Delta Air plane sits at El Paso International Airport in Texas. Delta cut its annual profit forecast by nearly a quarter on Friday, as surging fuel costs, expected to add \$6bn to its bill in 2026, overwhelmed resilient travel demand and higher ticket prices.

could face more than another year of elevated fuel costs due to the war.

US airlines spent \$42.9bn on fuel for scheduled flights in the first eight months of 2026, nearly \$13.2bn more than a year earlier, despite using slightly less fuel,

according to the Bureau of Transportation Statistics.

Strong demand and limited growth in seats have helped carriers pass higher fuel costs on to passengers. US airline fares rose an average of about 25% from a year earlier in the five months through

August, according to the Bureau of Labor Statistics' consumer price index.

With fuel prices remaining elevated and planned industry capacity growth set to accelerate in the fourth quarter from the third, analysts are watching whether carriers, including Delta, can raise fares further without discouraging travel.

Deutsche Bank analysts expect the industry to recover a smaller share of higher fuel costs through revenue measures in the fourth quarter, with full recovery not expected until early 2027.

Delta said demand remains strong. With almost 60% of the fourth quarter already booked, it expects revenue growth of about 20% from a year ago, Snell said.

It forecast fourth-quarter adjusted earnings of \$1.15 to \$1.65 a share, with the \$1.40 midpoint roughly in line with analysts' average estimate of \$1.39, according to LSEG.

Delta has an advantage over other major US airlines: Its ownership of a refinery outside Philadelphia that Snell expects to gen-

erate \$700mn in profit this year.

"We have a refinery that gives us an offset, a partial offset to fuel prices that no one else does," he said.

Bought in 2012, the Monroe refinery processes crude oil into jet fuel and other products. Delta still pays market prices for fuel transferred to its airline operations, but retains the refining profit within the company.

That helps when the gap between crude and refined fuel prices widens, increasing costs for airlines buying from outside suppliers. The protection varies with refining margins, however, and the refinery can lose money when those margins weaken.

But the refinery can only partly cushion the impact of higher fuel prices. Even with a projected refinery benefit of 40 cents a gallon, Delta expects its fuel cost to rise to \$4.25 a gallon in the fourth quarter from \$3.61 in the third.

Snell said fuel costs were expected to stay elevated for some time. "Ultimately, fuel will come down. When that is, we're not exactly sure," he said.

China ramps up fiscal push to meet economic growth target

Reuters
Beijing/Hong Kong

China allocated 550bn yuan (\$82bn) in unused government debt quotas on Friday to support local government finances and expand infrastructure investment, as it boosts support for an economy battling weak consumption and investment.

The step followed a run of soft economic readings that piled pressure on efforts to attain this year's growth target of 4.5% to 5%.

Momentum has faltered after the first quarter as tepid domestic demand and a prolonged property downturn offset a boom in high-tech sectors and goods exports.

Of Friday's debt quota, 300bn yuan is earmarked for supporting the daily operations of county-level and district-level governments, the finance ministry said in a statement.

The rest of the proceeds will fund infrastructure projects, especially those being built, and in economically stronger regions.

China's State Council, or cabinet, pledged last month to step up counter-cyclical policy support to tackle rising economic strain and achieve this year's economic and social development targets.



Containers are seen at the container terminal of the port in Nanjing, in China's eastern Jiangsu province. China allocated 550bn yuan (\$82bn) in unused government debt quotas on Friday to support local government finances and expand infrastructure investment, as it boosts support for an economy battling weak consumption and investment.

Policymakers had similarly tapped unused government debt quotas as a year-end fiscal push in the past two years, but this year's

figure exceeds those of 2024 and 2025.

In another statement, the finance ministry vowed to “vigor-

ously and effectively” implement a more proactive fiscal policy and support expansion of domestic demand.

Malaysia to lift minimum wages, expand tax relief in \$112.5bn spending boost

Malaysia to raise minimum wages to 2,000 ringgit per month; Malaysia to spend \$112.5bn in 2027; fiscal deficit seen at 3.3% of GDP in 2027 versus revised 2026 target of 3.6%; growth seen at 4.2% to 5.2% in 2027, compared to revised 2026 projection of 4.8% to 5.3%; Malaysia committed to fiscal consolidation, PM says

Reuters
Kuala Lumpur

Malaysia will raise minimum wages and expand tax relief measures next year, as the government looks to address rising living costs ahead of a possible election despite growing fiscal pressure from a jump in global oil prices.

Prime Minister Anwar Ibrahim on Friday proposed an expansionary budget of 459.8bn ringgit (\$112.48bn) for 2027 and pledged to implement reforms that he said would allow economic growth to trickle down to ordinary Malaysians.

“Our question is not just how large the economy is to be built, but whether its growth will open up space for families to build savings, for workers to enjoy more dignified wages, for small businesses to continue to grow,” he said in a two-hour speech to parliament.

Anwar's coalition has faced a series of setbacks in regional elections, with simmering tensions within his multi-party ruling alliance fuelling expectations of early national polls.

The next national election is not due until February 2028 but Anwar has said he may call for snap polls if internal divisions worsen.

Anwar announced plans for wide income reforms, including raising the minimum wage to 2,000 ringgit (\$490) monthly from 1,700 ringgit, beginning in June. Individual income tax relief will increase to 12,000 ringgit a year from 9,000 ringgit, its first revision since 2010, he said.

Anwar also announced increased cash aid of 16 billion ringgit for lower income Malaysians, and expanded support measures for first-time home buyers and small businesses.

Analysts described the budget as a pragmatic one, ahead of a possible election. “The govern-

ment has an incentive to demonstrate that the benefits of strong economic growth are reaching households. Tax relief, wage increases and continued subsidies are clearly an effort to do so,” Capital Economics senior Asia economist Gareth Leather said in a note.

Malaysia's economy was expected to expand by between 4.2% and 5.2% from a year earlier in 2027, according to budget documents released ahead of Anwar's speech.

Malaysia also raised its 2026 growth projections for the second time this year, with the economy now expected to expand close to the upper end of a 4.8% to 5.3% forecast range. The economy grew 5.7% in the first half of 2026.

The Southeast Asian country has benefited from the artificial intelligence boom, with gross exports seen rising 31% this year on robust demand for tech products and semiconductors.

Anwar said state-linked companies would continue to invest in high-value industries, including through data centre developments and providing support to local startups.

Headline inflation was forecast to range between 1.8% and 2.8% in 2027 from a revised estimate of 1.5% to 2.5% in 2026, it added.

The 2027 spending plan, an increase of 3.6% over this year's revised budget of 444.1bn ringgit, includes development expenditure of 83bn ringgit and operating expenditure of 376.8bn ringgit, the government reports said.

Revenue was seen rising by 4.7% to 380.8bn ringgit in 2027, including a 32bn ringgit contribution from state energy firm Petronas.

Malaysia's annual subsidy bill has ballooned amid higher energy costs, prompting a narrow upward revision of its 2026 fiscal deficit target to 3.6% of gross domestic product from 3.5%, the reports showed.

Anwar, however, played down worries of fiscal slippage, saying Malaysia remained committed to its medium-term fiscal objectives. In 2027, the deficit was projected to decline to 3.3%, he said.

“This does not represent a departure from fiscal consolidation. It demonstrates the value of having built the capacity to respond when circumstances demand it,” he said in the foreword to the fiscal outlook report.

China AI developers publish safety tests for just 3.6% of model releases

SemiAnalysis reviewed 857 releases by nine major Chinese developers; only nine releases had published safety findings available at launch; report measures public disclosure of testing, not whether companies tested models internally; report says China regulates AI applications more tightly than frontier models

Reuters
Beijing

China's leading AI developers have publicly disclosed model-specific safety-test results for only a small fraction of their releases, a report by research firm SemiAnalysis said, as concerns about the risks posed by advanced AI systems increase worldwide.

California-based SemiAnalysis, a technology research firm, reviewed 857 models released between 2021 and September 15 by nine leading Chinese AI companies - Alibaba, ByteDance, Tencent, Baidu, DeepSeek, Moonshot, Z.AI, MiniMax and StepFun.

It found that 31 releases, or 3.6%, had a published safety-evaluation result that could be matched to a specific model. Just nine, or 1.1%, had such results available at or before launch, it said. Researchers found no safety disclosure for 813 releases, though companies could have conducted tests privately.

SemiAnalysis said it defined disclosures as specific results tied to a named model - including tests of harmful output, jail-break resistance, toxicity, privacy, refusal behaviour or dangerous capabilities - and did not count general claims that a model had

been safety-trained or evaluated. The findings come as security incidents involving autonomous AI agents - systems that undertake multistep tasks with limited human intervention - have intensified global debate over whether companies should slow down to build safer models.

The vast majority of AI models capable of powering agents that could autonomously carry out cyber breaches are made by either US or Chinese developers.

Australia said last month an OpenAI agent breached a government health portal.

Reuters reported last week that Chinese AI agents had shown an ability to deceive users, evade restrictions and conceal failures in tests, echoing concerns raised about advanced US systems.

China's latest AI Safety Governance Framework identifies

risks including models acquiring system permissions or external resources without authorization, deceiving evaluators, concealing capabilities and bypassing safety controls. But it does not impose mandatory duties linked to model capability, according to SemiAnalysis.

The report said Beijing's binding rules principally govern applications and their effects on users rather than requiring frontier developers to conduct or publish risk assessments based on a model's capabilities.

The US research firm added that no major Chinese developer had released a frontier text model with publicly disclosed dangerous-capability tests spanning cyber, biological and loss-of-control risks. The report did not provide comparable figures for US AI developers.

Tin rides AI investment wave to a new price dimension

By Andy Home
London

Tin is the metal that refuses to fall back to earth. Tin prices have more than doubled over the last three years, outperforming the rest of the London Metal Exchange pack, even much-hyped copper. LME three-month tin has been trading above the \$50,000-per-metric-ton level since June. Prior to this year the brief all-time high of \$51,000 per ton was recorded in March 2022, just after Russia's full-scale invasion of Ukraine. The new pricing paradigm speaks to the quiet revolution that has unfolded in tin usage over the last few decades. A metal associated with the humble tin can has woven its way into the fabric of the internet in the form of circuit-board soldering. Tin-plate packaging now accounts for just around 11% of usage, while solders

represent more than half of global demand. From smart phones to drones, if it's got wiring in, it's also got tin. And artificial intelligence data centers have a lot of wiring in them. The surge of investment into AI infrastructure is unprecedented, eclipsing the railroad boom in the 19th century and the dotcom boom in the 20th century even after adjusting for inflation. Analysts at research house BMI estimate capital expenditure will reach \$785bn this year. Cumulative spending globally on data centers alone could top \$30tn by 2050, according to a projection by PwC. The competition for ever greater computing power is translating into explosive growth in semiconductor sales. Global billings have risen for 18 straight months, according to the Semiconductor Industry Association. Sales in August were \$160bn, up 8%

month-on-month and 144% year-on-year. The US is registering the fastest rate of growth, closely followed by China and the rest of Asia. Wherever all those semiconductors end up, they'll need a tiny drop of tin to glue them to the circuit board. Every gigawatt of installed AI data center capacity needs around 1,200-1,500 tonnes of tin, more than three times that used in a traditional data center, according to research from Shanghai Metals Market. This is a structural change. Traditional servers consume about 500 kg of tin per unit, while AI servers need up to 4-5 tonnes of tin. A 10,000-card AI computing center requires 2.5-3.2 tonnes of printed circuit board solder alone. The more complex the data center architecture, the more tin it needs to bind everything together. Tin is, for now at least, the essential electrical and physical bridge to increased

computing power. The electronics sector has spent years trying to use less tin, leaving little wriggle room for further thrift. The only real threat on the horizon is hybrid bonding, but SMM doesn't expect that to make a tangible impact until the next decade. While copper bulls wax lyrical about that metal's enhanced demand prospects from the AI boom, tin is already feeling the force. It's also being helped by accelerating sales of electric vehicles just about everywhere outside of the US. EVs have a lot more wiring than traditional internal combustion vehicles, which of course means more tin soldering. These new demand drivers help explain why tin is now trading in what until this year was literally uncharted territory. The other part of the equation is tin's problematic supply chain, which is heavily concentrated on a limited number of operators, several in higher-

risk jurisdictions such as the Democratic Republic of Congo and the autonomous Wa state in Myanmar. Production has been relatively smooth this year by tin's highly variable standards, but visible inventory has still been quietly sliding away. Combined stocks registered with the LME, including off-warrant metal, and the Shanghai Futures Exchange have fallen from a February peak of 22,600 tonnes to 13,100 tonnes. LME time-spreads have started to react. Cash tin was trading at a wide discount of more than \$400 per tonne to three-month metal at times in July. The discount has since contracted to \$105 per tonne. As the market tightens, we'll see just how far further into the unknown tin can travel.

■ Andy Home is a columnist for Reuters. The opinions expressed here are those of the author.

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China and EU strike deal to halve Chinese hybrid exports

Reuters
Beijing

China and the European Union have reached a deal that could cut Chinese exports of hybrid cars to the bloc by more than half, European Trade Commissioner Maros Sefcovic said on Friday after talks in Beijing aimed at reducing the EU's ballooning trade deficit with China.

The "shared understanding" would "moderate" China's export of hybrids and plug-in hybrids to the EU, and would cut the imports of several million cars over four years, Sefcovic said after the two-day talks, without offering details on how the agreement will be implemented.

Shares of European carmakers, which have slid steadily over the past two years due to US tariffs and soaring Chinese exports, broadly gained on the news.

The understanding came after discussions between Sefcovic and Chinese officials including Commerce Minister Wang Wentao over three months, and comes after years of disputes between Beijing and Brussels over soaring Chinese exports, such as cars.

EU leaders will discuss the outcome at the start of their summit in Brussels next Thursday to determine whether the agreement marks the start of a rebalancing of the bloc's trade deficit with China that has swelled to more than €1bn (\$1.12bn) a day.

Sefcovic said he believed the two sides had achieved a very good result. "Having said that, this is far from the end. It is a crucial first step - but only a first step - in the process of rebalancing," he told reporters in Beijing.

Bernd Lange, chair of the European Parliament's trade committee, said the hybrid deal needed to extend to other sectors as well



Maros Sefcovic, EU Trade Commissioner.

and that the EU should also deploy trade defence measures more effectively.

Chinese Commerce Minister Wang told Sefcovic that China

was not the root cause of the EU's problems, but a partner in solving them, according to the Chinese ministry.

The two sides also reached un-

derstandings on reducing Chinese import duties on some €4bn of EU exports, including car parts, olive oil and footwear, and on smoothing China's granting of export licences for rare earths and permanent magnets, the European Trade Commissioner said.

EU governments are alarmed by the sharp rise in car imports from China as their own carmakers lay off workers, notably at Volkswagen where 100,000 job are going. Imports of plug-in hybrids into the EU increased 86% in the year to September, with a 20% decline in prices.

More than half of these vehicles are now from China, while for 2025, China's share of plug-in hybrid electric vehicle imports was 30% in value terms.

China and the EU's dispute over cheap Chinese EV exports, resulting in EU tariffs in 2024, has clouded bilateral ties, and has since broadened to include Chi-

nese measures against EU brandy, pork and dairy, as well as Chinese restrictions on exports of rare earths and critical minerals.

Paris and Berlin are among the hardest hit by Beijing's measures, with France accounting for 90% of EU brandy exports to China and Germany heavily exposed in dairy.

China and the EU said in their joint statement they would continue discussions on price undertakings as an alternative to tariffs. However, even with the tariffs, Chinese EV exports have started to increase again this year.

German auto industry group VDA cautiously welcomed the agreement, but said it was too early to determine if it would address unfair competition.

Mercedes-Benz said the deal showed constructive dialogue was the right way to address challenges and it should provide greater predictability.

Sovereign debt crisis puts France in a bind as investor concerns deepen

AFP
Paris

French government bonds have become the bane of investors on fears that officials are unwilling or unable to rein in spending that far outstrips its revenue.

A volatile political context is exacerbating those worries ahead of next spring's presidential election, when the euro-sceptic far right is widely seen as having a solid shot at victory.

Before then the current government appears hamstrung, with no parliamentary majority to push through major spending cuts since President Emmanuel Macron's ill-fated move to dissolve parliament in 2024.

The clouded outlook has fund managers demanding higher returns for lending to France, resulting in a surge in borrowing costs that could spiral into a full-blown debt crisis -- with consequences that ripple across the eurozone.

"What's happening in France is raising questions for foreign investors. Even more than when parliament was dissolved," said Kevin Thozet of the asset manager Carmignac.

France is considered a core eurozone economy, with investors usually seeing its sovereign debt as among the most trustworthy.

But since the massive stimulus spending during the Covid pandemic, officials have failed to reduce the resulting debt pile amid anaemic economic growth.

That has seen public debt swell to just under 120 percent of GDP -- more than double the EU limit of 60 percent and the third highest in the bloc, surpassed only by Greece and Italy.

But Athens and Rome have taken painful steps to cut deficit spending, while France's deficit remains above five percent of GDP, far above the eurozone av-



Lorries are parked at the loading bays of Amazon's 10th distribution centre in France. French government bonds have become the bane of investors on fears that officials are unwilling or unable to rein in spending that far outstrips its revenue.

erage of 2.9%. And with interest rates now rising worldwide due to energy-driven inflation, "the countries whose public finances are the most deteriorated -- as is the case in France -- are punished the most", said Lilia Peytavin, an analyst at JP Morgan Asset Management in Paris.

After weeks of heavy selling the yield on 10-year government bonds is now flirting with the psychological threshold of five percent, a level not seen since 2002.

"The markets knew the state of public finances but they trusted a stable political system, which is now no longer the case," said Andrzej Szczepaniak, chief economist at Nomura in London.

Bank of France governor Emmanuel Moulin acknowledges the threat, telling *The Financial Times*

this week his country risked being "strangled by interest rates" unless public finances are brought under control.

Investors are now nervously awaiting an October 23 decision by Moody's on France's sovereign credit rating, as a downgrade would automatically raise the government's borrowing costs further.

The dire outlook has given rise to an unflattering acronym: FROGS, for French Oversized Government and Social Security, referring to its massive welfare outlays.

More embarrassing, several blue-chip French firms like LVMH and TotalEnergies have issued debt in recent weeks at lower rates than the French government, which is supposed to

be the most creditworthy. Many wonder if France is heading for a debt crisis similar to Greece's in 2011, which saw the country scarred by years of deep recession and high unemployment despite much of its debt written down or written off and receiving over 260bn euros (\$290bn) in bailout funds from its EU partners and the IMF.

Nicolas Forest, director of investments at Luxembourg-based Candriam, said France was in a far different situation.

"France does not have an immediate financing problem, and only 14% of its debt arrives at term in 2027," he said.

Economy Minister Roland Lescure has said there are "no problems" placing French debt on the market, after a *Wall Street Journal*

report that he had said selling 30-year French bonds had become a little more complicated.

During the last such auction demand was double the 6bn euros in bonds on offer.

"Market concerns are focused more on the political will and credibility to reduce deficits in the medium term," Forest said, especially given presidential elections rapidly approaching.

US investment management firm Vanguard, which has some \$12bn in assets under management, recently expressed concern that the April 2027 election would make it more difficult to get agreement (correct in en-GB) on unpopular spending cuts.

"You may have some political parties doing some grandstanding and that might lead to further ideas of fiscal loosening," Ales Koutny, head of international rates at Vanguard, told *The Financial Times*.

Hard-left candidate Jean-Luc Melenchon, who has suggested writing off the 20% of France's debt currently held by the central bank and could make it to the runoff, is a bogeyman for the markets.

The far-right candidate Marine Le Pen, who is far ahead in opinion polls, is "perceived, rightly or wrongly, as the lesser evil," ING Belgium analyst Vincent Juvyns told AFP.

He said some investors are thinking France might repeat Italy's experience under Giorgia Meloni, a politician from the post-fascist right whose economic policies and management have been welcomed by markets.

Italy, despite its much larger debt, now borrows at cheaper rates than France.

Le Pen recently sought to bolster her economic credentials -- one of the worries during her last presidential run -- by promising 140bn euros in savings by 2032

and to bring the budget deficit down to three percent by 2030.

Apple cuts iPhone 18 Pro orders due to soft demand

Reuters
Tokyo

Apple has told some suppliers to cut production of components for its newly launched iPhone 18 Pro and iPhone 18 Pro Max, as soaring memory chip costs and price increases have dampened consumer demand, *Nikkei Asia* reported on Friday.

The iPhone maker has turned more conservative on shipments since early September, with component orders for October being slashed by at least 15% compared with what was originally requested, *Nikkei* reported, citing multiple people familiar with the matter.

Reuters could not immediately verify the report. Apple did not immediately respond to a Reuters request for comment outside regular business hours.

Tech companies have been scooping up advanced chip-making capacity and memory chips to power AI data centers, sparking shortages and price increases that are expected to shrink both the personal computer and smartphone markets this year.

Apple raised iPad and MacBook prices in June, saying it could no longer shield customers from soaring memory and storage chip costs driven by the AI industry's data center buildup.

Demand for devices has been softer from late August into October, but that could be related to Apple changing its launch schedule for iPhone models, *Nikkei* reported.

Apple last month unveiled the latest generation of its flagship smartphone, with iPhone 18 Pro and the 18 Pro Max handsets, alongside its foldable phone Duo.

The iPhone 18 Pro and Pro Max start at \$1,199 and \$1,299, up \$100 from the starting prices of the iPhone 17 Pro and Pro Max.

Canada's employment shrinks

Reuters
Ottawa

Canada's economy stunned widespread expectations to post a massive job loss in September and the unemployment rate edged up, data showed on Friday, effectively wiping off all the gains in jobs that was seen this year.

The economy lost a net of 68,300 jobs in September after a loss of 41,700 positions in August, Statistics Canada said. It said the unemployment level inched up to 6.5%.

While September was the first full month of employment report after a new set of tariffs from the United States hit Canada, the job losses were not significantly higher in US-facing industries. On the contrary, the biggest drop came from public sector employees, data showed.

Analysts polled by Reuters had forecast jobs gains of 9,200 and predicted the employment rate at 6.5%, up from 6.4% in August.

With the September report, Canada has effectively lost a net of 41,200 jobs this year, as against a solid gain of 211,300 seen for the

same period a year ago. The losses were almost equally divided between full-time and part-time workers and was led by educational services and healthcare and social assistance. Both the sectors form a substantial chunk of public sector employees and together lost 58,400 jobs.

A smaller number of international students coming into Canada was one of the reasons for decline in jobs in education services, StatsCan said.

The manufacturing sector, a part of which is exposed to US, saw a net decline of 12,700 jobs.

Economists have said that the new US tariffs impact only a small section of the jobs that are dependent on the US and is not likely to have a major impact on the employment data in the coming months.

The September employment report is also the last set of job data before the Bank of Canada's monetary policy decision announcement end of this month.

Money markets are pricing in no hike in October but the bets for a 25 basis point hike were slowly creeping up before the jobs data was released. Markets expect a 25 basis point hike in December.

The labor force participation rate, or the share of the population who are either employed or looking for work, fell 0.2 percentage points to 64.8% in September, its lowest level in 29 years barring the pandemic era.

This was primarily due to an aging of population who are dropping off the work force, and not being replaced due to slower immigration.

Employment among the youth, or those aged between 15 and 24, declined in September and dropped by 48,000, following a smaller decline in August. Immigration control is also part of the reason for this decline.

The labor force continued to shrink in September, data showed.

The growth rate of permanent employees' average hourly wages, a gauge of inflation, rose to 2.3% year-over-year in September after dropping to 2% in August, StatsCan said.

The Canadian dollar weakened after the jobs report and was trading down 0.44% at C\$1.4287 to the US dollar, or 69.99 US cents. Yields on the two-year government bonds reversed early moves and were trading down 9.5 basis points to 2.410%.

Euro falls as oil moves off lows

Reuters
New York

The euro was headed for a fifth straight weekly drop on Friday, with early gains fading as oil prices recovered from earlier lows, but recent selling pressure eased as France's beleaguered bond market steadied.

The eurozone's currency hit a 17-month low of \$1.1161 on Monday as investors worried about France's record public debt and the difficult political path to budget cuts, in contrast with a robust-looking US economy and currency.

The dollar index, which measures the greenback against a basket of currencies, rose 0.18% to 102.30.

The index was up about 0.3% on the week and on track for a fourth straight weekly gain, its longest run since May 2025.

The euro was last down 0.15% at \$1.1192, and off about 0.5% on the week as it was poised for its longest streak of weekly declines against the dollar since the start of 2025. Risk premiums on French and Italian government debt were on track for a weekly decline after jumping in late September, as investors looked for fresh



The euro declined on Friday, with early gains fading as oil prices recovered from earlier lows, but recent selling pressure eased

developments before demanding higher compensation for fiscal and political risks.

Global bond markets were calmer on Friday as oil prices fell after US President Donald Trump said that the US would not attack Iran before US midterm elections on November 3 and added that there had been productive talks with Tehran over the war.

"As it stands right now, you have a confluence of factors - you have higher oil prices, you have

the issue in France, so it is really tough to say what is moving the market more than the other," said Eugene Epstein, head of trading and structured products at Monetycorp in Stamford, Connecticut.

"But practically speaking, I'd say today is in a relative holding pattern, everyone is just waiting for all the Fed speak to make its way through, because certainly you can see that the sensitivity of the dollar is high to the entire range of Fed speakers now," Epstein said.