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IMF chief urges cooperation on AI and war risks

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GULF TIMES BUSINESS



MSCI'S CHANGE OF TACK: Page 3

Indonesia stocks post biggest single-day drop in nearly 3 decades

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COMMERCIAL BANK

HE the Minister of Finance Ali bin Ahmed al-Kuwari represented Qatar at the meeting which brought together ministers of finance, central bank governors and heads of financial institutions.

Qatar joins meeting of Arab central bank governors and World Bank chief

QNA
Bangkok

The State of Qatar has participated in a meeting of Arab central bank governors with the World Bank Group President Ajay Banga, held on the sidelines of the annual meetings of the International Monetary Fund (IMF) and the World Bank Group in Bangkok, Thailand.

HE the Minister of Finance Ali bin Ahmed al-Kuwari represented Qatar at the meeting which brought together ministers of finance, central bank governors and heads of financial institutions.

Addressing the meeting, HE al-Kuwari outlined key areas for co-operation including recovery and reconstruction, mobilisation of private capital and enhanced regional connectivity, and human capital investment.

He stressed the importance of co-ordination between the World Bank, Gulf donors and the Arab Co-ordination Group to support reconstruction efforts in Syria, Lebanon and Gaza, and to ensure that financing, grants and guarantees complement one another.

His Excellency also emphasised the importance of investing in artificial intelligence and digital skills to prepare young people for future employment opportunities.

He welcomed the World Bank's support for strengthening AI readiness across the region, as well as the establishment of the Bank's hub in Riyadh and opportunities for young Qataris to undertake secondments at the Bank.

He further highlighted the importance of ensuring greater representation of Arab talent in the Bank's leadership positions.

The IMF and World Bank Group annual meetings are being held in Bangkok from October 12 to 18, 2026, bringing together policymakers and financial leaders to discuss developments in the global economy and international financial system.

QCB governor holds talks with Singapore Monetary Authority, banking leaders

HE Qatar Central Bank (QCB) Governor Sheikh Bandar bin Mohammed bin Saoud al-Thani has held a series of meetings with senior financial and banking officials on the sidelines of the 2026 annual meetings of the International Monetary Fund (IMF) and the World Bank Group in Bangkok, Thailand, reports QNA. HE Sheikh Bandar, who also chairs the Qatar Investment Authority, met Managing Director of Monetary Authority of Singapore Chia Der Jun to discuss bilateral co-operation in the financial and banking sectors and ways to strengthen ties between the two countries. His Excellency also held separate meetings with Standard Chartered Group Chair Maria Ramos, Euroclear Group Chairman Francesco Vanni d'Archirafi and his accompanying delegation, and Chief Executive of Lloyds Bank Corporate Markets Carla Antunes da Silva. The discussions focused on key developments in global financial and investment markets, as well as other issues of mutual interest. The IMF and World Bank Group annual meetings are being held in Bangkok from October 12 to 18, 2026, bringing together policymakers and financial leaders to discuss developments in the global economy and international financial system.

GCC data centre capacity to triple to 3GW: S&P

By Peter Alagos
Business Editor

Data centre capacity across the Gulf Co-operation Council (GCC) region is projected to roughly triple to over 3 gigawatts (GW) over the next five years as regional economies build out the physical computing infrastructure needed to support artificial intelligence and cloud services.

A report by S&P Global Ratings indicates that Saudi Arabia and the UAE are leading the region's large-scale data centre expansion. Together, the two nations account for more than 80% of expected data centre capacity additions through 2030, driven by national AI strategies, data localisation mandates, and state-led economic diversification efforts.

S&P noted that momentum is also building in other GCC markets, as hyperscaler-backed demand expands beyond the two largest regional economies. The report cited Qatar's MEEZA signing an 8-megawatt (MW) long-term lease contract worth over QR1bn with an unnamed global hyperscaler as evidence that high-density computing demand is taking root across the wider peninsula.

The rating agency highlighted major cost and speed advantages that position the GCC favourably against mature Western markets.

Electricity tariffs in Saudi Arabia and the UAE range from \$0.05 to \$0.06 per kilowatt-hour (kWh), compared to \$0.09 to \$0.15 per kWh in the US. Furthermore, data centres in the Gulf can secure grid connections in 12 to 18 months, whereas operators face waits of four to seven years in North America and Europe.

Access to advanced graphics processing units (GPUs) has improved following changes in US export control regulations, shifting the primary development constraint to power, connectivity, and cooling infrastructure. S&P pointed out that easing US restrictions in mid-2025 allowed regional platforms like Saudi Arabia's HUMAIN and the UAE's G42 to secure tens of thousands of advanced AI chips.

To accommodate power-inten-

sive AI workloads while managing extreme summer temperatures and regional water stress, operators are adjusting cooling designs and energy procurement. Average rack densities surged from 16kW in 2025 to 27kW in 2026, forcing a shift from traditional air cooling to liquid cooling systems that can reduce on-site water consumption by up to 91%.

Recent geopolitical events have also made physical resilience a key factor in facility design. Damage to data centres operated by Amazon Web Services in the UAE and Bahrain during regional conflict demonstrated how physical disruptions can lead to extended service outages. In response, operators are adopting greater site dispersion, blast-resistant construction, and underground

Data centre capacity across the Gulf Co-operation Council region is projected to roughly triple to over 3 gigawatts over the next five years as regional economies build out the physical computing infrastructure needed to support artificial intelligence and cloud services

installations, which can increase capital costs by 5 to 7%.

S&P noted that long-term bankability for GCC data centres will depend on strict execution discipline and clear risk allocation. Projects supported by long-term capacity contracts with creditworthy off-takers provide stable cash flows, whereas speculative builds leave developers exposed to demand shifts and rapid technological obsolescence.

"In our view, projects supported by committed capacity to creditworthy counterparties provide greater visibility on future cash flows, while speculative development leaves developers exposed to changes in demand, execution, and technology risks that can materially erode credit," S&P stated.

US budget deficit widens to nearly \$2tn, shows data

AFP
Washington

The US budget deficit grew to almost \$2tn over the past year, government data showed on Friday, reaching its highest level since 2021 despite President Donald Trump's promises to cut public spending and red ink. The deficit, which occurs when government spending exceeds its revenues, rose to \$1.99tn in fiscal year 2026, the Treasury Department said. This marked a 12% increase from the prior year, when the shortfall came in at \$1.78tn. A key driver of expenditures was the rising interest paid on public debt, which jumped \$144bn, to a record \$1.36tn. Interest costs on around \$32tn in publicly held US debt have been ballooning in recent years, and climbing bond yields have fueled further concerns. Meanwhile, an expected influx of revenue from Trump's sweeping tariffs failed to fully materialise during his second term. The Supreme Court struck down his global duties in February, triggering a wave of refunds. Treasury data released Friday reflected \$145bn in customs refunds over the year -- primarily

due to tariffs -- erasing significant gains from Trump's duties. Overall, government revenues climbed by three percent to \$5.40tn in the latest fiscal year, which ended September 30. But spending was much higher, rising by six percent to \$7.40tn. The Trump administration has pledged to slash deficits and government spending since he returned to the White House last year. Besides slashing the federal workforce and foreign aid, the Republican-controlled Congress pushed through cuts to the Medicaid health insurance scheme and moved to shrink the federal food assistance programme too. But they also extended expiring tax cuts and provided fresh funding for Trump's migrant deportation drive. The latest data released Friday showed that upticks in tax collection from individuals and customs revenues were offset by higher refunds and lower corporate tax collection. Among other sectors, spending on on defense military programs increased by \$48bn, or 6%, over the year to \$917bn. Taken together, a Treasury official estimates the US deficit-to-GDP ratio is around 6.2%, up from 5.8% last year.

Why governments might secretly wish for an AI stumble

By Mike Dolan
London

Whether AI proves to be a cure-all or an existential threat, the investment and financing frenzy around it is a headache on its own. Governments nursing stressed debt markets could be forgiven for secretly wishing for an AI stumble just to give them breathing space. That may be a classic case of “careful what you wish for,” certainly if you believe this week’s International Monetary Fund warnings about the disruption to markets and the global economy from any sudden correction in the hyper-concentrated AI bet. But there were clear signs this week that even the slightest whiff of a problem in the AI space is bringing a bid back for government bonds, which now tempt investors with their highest yields in more than two decades. Troublesome domestic deficits and rancorous politics are at the core of bond

market anxieties, of course. The energy price spike from the Iran war continues to compound the picture. Yet AI has considerably darkened the sovereign bond outlook over the past two years. By lifting stock benchmarks, trade volumes and economic demand, the boom has stoked inflation pressures for central banks, flattered lacklustre gross domestic product numbers and competed directly with governments for fixed-income investment dollars. The flipside is that if the AI boom proves excessive or overhyped, there could be a stampede back to bonds because of economic and central banking implications, as well as a rush for havens from equity and credit market fallout. Hints of that are already in the air. Earlier this week, a severe shakeout in AI-linked global chipmakers rippled through AI stocks more broadly. The selloff was triggered in part by Broadcom CEO Hock Tan saying that AI investors knew little about the technology and that their behaviour was “casino-

like.” South Korean giants Samsung and SK Hynix each plunged almost 10% on Tuesday. The wobble, coming just ahead of another critical quarterly earnings season for hyperscalers and global chip firms alike, immediately dragged US Treasury and global government bond yields lower. But as the final quarter of the year unfolds, some of the world’s biggest investment funds are already beginning to turn. The world’s biggest asset manager, BlackRock, said late Monday that it had reduced its US stocks recommendation from overweight to neutral for the first time in more than six months because of the risk of AI volatility ahead. It simultaneously upgraded Treasuries to lock in income at these lofty yields, with a bias to short-dated paper. In a note, BlackRock Investment Institute head Jean Boivin, chief strategist Wei Li and fixed-income chief investment officer Rick Rieder - once tipped for Federal Reserve chair last year - said the rationale for the shift was AI risk and what they saw

as excessive expectations for Fed rate hikes. Even though they qualified the move as “managing near-term risk” and remain optimistic on AI more broadly, the change in tack by an asset manager so bullish for so long on the overall AI story was eye-catching in its timing. Many Fed officials see AI as a significant aggravator of inflation going forward. That view coincides with rising jitters about overcooked equity valuations and earnings projections, cross-financing within the sector, end-usage and even political pushback around data-center building as US midterm elections approach. This week’s release of Bank of America’s monthly global fund manager survey fleshed out the investor mood, which remained remarkably bullish overall. But there were some signs of a scattering of the herd. Investors still see the world’s two most crowded trades as “long global semiconductors” and “short Treasuries.” But although the consensus was that 10-

year Treasury yields had further to climb before peaking, on average another 65 basis points higher, the poll breakdown showed that a sizeable portion had already jumped back and thought “peak yields” were not worth the wait. While more than a third of respondents thought the time to switch from equities to bonds wouldn’t come until the 10-year hit 6%, almost a fifth felt we had already reached a tipping point. If the most crowded trades unwind between now and year-end, there could be a scramble to lock in prevailing long-term yields before they disappear. That would be a dangerous moment for financial stability, given how much is riding on the AI bet. But even a small jolt could be a big relief for governments looking for wiggle room in stressed budgets and facing a long list of elections over the coming year.

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

Turkish stocks drop more than 3% after MSCI freezes certain index changes

MSCI freeze takes effect immediately and remains in place until further notice; MSCI could consult on downgrading Türkiye if progress is insufficient by June 2027; finance minister Simsek says regulators are implementing measures to boost market transparency

Reuters
Istanbul

Turkiye’s main stock index slid more than 3% on Friday after global index provider MSCI froze certain changes to its Turkiye equity indexes, saying it needed more time to assess market reforms and warned of a potential downgrade if sufficient progress was not made by mid-2027.

In subsequent comments, Turkish Finance Minister Mehmet Simsek said “important regulations are being implemented by relevant institutions to enhance transparency in capital markets and strengthen investor confidence.”

The MSCI move came amid a crisis in Turkiye’s investment fund industry after regulators last month ordered the liquidation of 131 funds that had reached more than \$20bn in assets over just three years. The crisis dragged stocks into a bear market, with the main index having its worst month since 2008 in September.

The benchmark BIST 100 fell 3.11% on Friday, extending losses from a 1.4% decline in early trading. The index was on track for a fifth consecutive weekly decline and remained more than 20% below its record closing high in May.

The banking index also came under pressure, falling 1.83%, compared with a 1.5% decline in early trading.

Gedik Yatirim investment adviser Onurcan Bal said MSCI’s latest warnings had intensified selling pressure in an already weak



Traders work at their desks on the floor of the Borsa Istanbul. Turkiye’s main stock index slid more than 3% on Friday after global index provider MSCI froze certain changes to its Turkiye equity indexes, saying it needed more time to assess market reforms and warned of a potential downgrade if sufficient progress was not made by mid-2027.

market. “The possibility of Turkiye being removed from MSCI’s emerging market category poses a significant risk to foreign capital inflows and trading by international investment funds in Turkish equities,” Bal said.

He added that investors would closely monitor further announcements from MSCI and any measures taken by Turkish regulators, as a potential reclassification could weigh on foreign fund flows into the market. Turkiye’s equity market has faced investor scrutiny over free-float calculations and suspected coordinated trading in some stocks.

Simsek said on X that the Capital Markets Board’s regulations, which took into account the views of international index providers, had improved information flow and made ultimate share ownership more transparent. Authorities would closely monitor the results and take any further steps needed without delay after consulting stakeholders, he said.

“Our priority is to complete the liquidation of problematic funds and protect investors’ rights.

Sanctions will be resolutely applied against those disrupting the fair and competitive functioning of the markets,” he said.

MSCI’s decision leaves Turkiye’s emerging-market status unchanged, but a future downgrade to frontier-market status could trigger selling by funds that track the MSCI Emerging Markets Index.

Turkiye was not alone in getting a jolt from MSCI.

The index provider said on Friday that Indonesia’s stock market was no longer worthy of “emerging market” status and laid out a plan to remove it from a suite of indexes, sparking the steepest one-day drop in Indonesian shares since 1998.

The Turkiye freeze took effect immediately and will remain in place until further notice, affecting changes stemming from index reviews and corporate events involving Turkish securities.

MSCI said the decision followed concerns raised during its 2026 Market Classification Review over “possible coordinated trading through fund holdings closely affiliated with certain smaller listed

companies.” Such activity could undermine the reliability of free-float estimates and broader market integrity, the index provider said.

“Institutional investors will need to see credible and sustained enforcement against coordinated trading, and disclosure standards that enable independent verification of the free float of Turkish securities,” MSCI said.

Turkiye has a relatively small pool of stocks that meet the size and liquidity requirements of global institutional investors, concentrating capital in a handful of names and increasing scrutiny of free-float calculations and trading activity.

Under the freeze, MSCI will not increase foreign inclusion factors or the number of shares used in its indexes, add securities to the MSCI Turkiye Investable Market Index, or make upward migrations across size-segment indexes.

MSCI said that if sufficient progress was not evident by June 2027, it could take further steps, including consulting on a potential downgrade of Turkiye from emerging-market to frontier- or standalone-market status.

France, Germany strike deal on car emissions and UK special status

Reuters
Brussels

France and Germany struck a deal on Friday to soften proposed EU car emissions rules and open the door for Britain to be treated as a trusted partner under the bloc’s “Made in EU” rules.

The European Commission proposed last year that automakers cut CO2 emissions by 90% from 2021 levels in 2035, with the remaining 10% offset through measures such as the use of low-carbon steel and alternative fuels.

Under the Franco-German plan, the 2035 target would be set at 90%, but without the need for additional compensatory measures. The approach is broadly in line with the wishes of German automakers.

European automotive stocks gained after the deal was announced, lifting the STOXX 600 Automobile and Parts Index nearly 2%.

The joint plan also addresses an EU proposal introducing local-content and low-carbon requirements for products bought through public procurement, public auctions or subsidy schemes.

France has pushed for these products to be limited to those manufactured in the European Union. Other EU members, including Germany, argue that countries closely linked to EU automotive supply chains and free-trade-agreement partners should also be included.

The Franco-German plan says that for the automotive sector, “Made in EU” should cover the EU’s 27 countries and other European partners that were part of the EU internal market on January 1, 2020.

That would include Britain, which left the EU single market at the end of 2020.

An official at British Prime Minister Andy Burnham’s Downing Street office said inclusion in the “Made in EU” scheme would be good news for Britain’s automotive sector. However, he said the Franco-German pro-

posal would need wider European backing and that details had yet to be seen.

The Franco-German plan also says that inclusion should be subject to an agreement on full reciprocity, along with “dynamic alignment with EU conditions for investment from third countries and with EU trade protection measures.” That could mean Britain adopting measures the EU has taken to restrict imports of Chinese-built hybrid and battery-electric vehicles.

The Franco-German paper also proposed compliance periods spanning multiple years for CO2 emission targets, no revision before 2030 of the utility factor for hybrid vehicles, which measures the share of driving done electrically, and recognition of cars powered by renewable and low-carbon fuels as zero-emission vehicles.

German Chancellor Friedrich Merz called the deal “a good day for motorists and for jobs in Germany, France and Europe”.

The deal will not please all automakers. Toyota’s European division, which sells cars in Europe from plants in the EU, Britain, Turkey and Japan, said on Thursday that including trusted partners such as Britain, Canada, Japan, South Korea and Turkey would give the EU the scale needed to compete with China.

Turkey’s trade minister said this week on a trip to Brussels that trusted partners such as Turkey should not be excluded.

Green and environmental groups criticised the emissions proposals. German Greens lawmaker Swantje Michaelsen said the German government was holding back the automotive industry, with high fuel prices already accelerating demand for EVs.

Anna Krajninska of transport and environment campaign group T&E called the deal a “historic mistake” that would reduce the incentive for industry to invest in EVs. “German and French political leaders claim they are acting to save jobs, but this may well be the deal that buries Europe’s auto industry,” she said.

Chinese automakers target Europe’s lucrative premium segment

Reuters
Paris

China’s automakers are betting European drivers will embrace a new form of premium motoring centred on technology rather than heritage, with brands such as Changan’s Avatr and BYD’s Denza pitching what they call “intelligent luxury”.

Having rapidly gained share in Europe’s mainstream car market with affordable models and the latest tech, Chinese carmakers now have their sights on a bigger prize: the continent’s highly lucrative premium segment.

At this week’s Paris car show, Chinese brands showcased premium vehicles packed with advanced driver-assistance systems, rapid charging and comfort features, hoping to persuade buyers to choose unfamiliar Chinese badges over established luxury names.

But winning over Europe’s premium buyers is likely to take time. “You need to be in this market long enough to build up your pres-

ence and credibility,” said Zheng Yeqing, a vice-president at Chinese electric vehicle maker Xpeng, which launched in Europe in 2020 and saw its sales there more than double to more than 29,000 cars in the first eight months of 2026. “It takes persistence.”

Europe’s premium segment is dominated by Germany’s BMW, Mercedes-Benz and Volkswagen’s Audi, whose decades of brand heritage carry far more weight with European buyers than they do in China, where consumers place greater emphasis on technology features.

With domestic vehicle sales in China falling 20% in the first half of 2026 and competition intensifying, Chinese automakers increasingly need the margins that premium vehicles can deliver.

Europe is the obvious battleground. Chinese brands are effectively shut out of the US, the world’s most lucrative car market, while BMW, Mercedes, Audi and Porsche sold almost 2mn vehicles in Europe in the first nine months of this year alone.



Visitors at the BYD stand at the 2026 Paris Motor Show. China’s automakers are betting European drivers will embrace a new form of premium motoring centred on technology rather than heritage, with brands such as Changan’s Avatr and BYD’s Denza pitching what they call “intelligent luxury”.

Chinese brands such as Geely’s Zeekr have already gained share from German premium rivals in China with lower-priced models packed with technology features.

Avatr unveiled an electric premium sedan and SUV in Paris that will start at around €60,000

(€67,400) and feature rapid charging and comfort extras including a massager in every seat.

Justin Li, who heads the all-electric brand’s overseas expansion, said Avatr estimates that Europe represents 72% of sales of cars priced above \$50,000 out-

side the US market. “If we want to be a premium brand, if we don’t enter Europe ... we don’t really win,” Li said. Typically, a German premium car launch includes images celebrating a brand’s heritage, such as an early 20th-century craftsman carefully shaping an elegant piece of wood trim.

The Chinese premium car launches in Paris were different.

During Aito’s unveiling of four electric SUVs, Seres Vice President Clifford Kang, representing the brand’s parent company, highlighted its “intelligent technology”. An accompanying video showed Aito vehicles automatically swerving to avoid obstacles or carrying a tower of full champagne glasses on the hood without spilling a drop.

Aito’s philosophy, Kang said, is “intelligence redefining luxury”.

Brad Kuntz, a partner at consultancy Grant Thornton Stax, said Chinese automakers are reshaping what luxury means for some consumers.

“You’ve got that old bespoke luxury of European cars of years

ago,” he said. “But in the EV world you’ve got more of the elegance being built in from a technology standpoint.” European premium brands are watching the newcomers closely.

“Audi is confidently embracing growing international competition, including from China,” a spokesperson said. “It is the task of European policymakers to ensure fair competitive conditions in Europe.” Top-end brands such as Volkswagen’s Bentley appear unfazed.

During the unveiling of Bentley’s first EV last month, CEO Frank-Steffen Walliser told reporters that real luxury comes from the “heart of Europe” and is irreplaceable.

Speaking on condition of anonymity, an executive at a major Chinese automaker acknowledged the challenge. “Deep down in my heart, we still have a gap between us and those European luxury brands,” he said.

But he added that Chinese automakers should be able to catch up “within a decade or two”.

Indonesia stocks post biggest single-day drop in nearly 3 decades

Reuters
Jakarta/Singapore

Indonesia's stock market is no longer worthy of "emerging market" status, MSCI said on Friday, laying out a plan to remove it from a suite of indexes tracked by funds, a shock move that sparked the steepest one-day drop in Jakarta shares since 1998.

Coming a month ahead of a scheduled review, MSCI's change of tack stunned investors and irked Jakarta officials, with the Indonesian regulator unveiling sanctions against those linked to alleged trading manipulation in shares of three firms.

The benchmark stock index, already the world's worst performer this year, closed down 11.57%, in its biggest single-day drop since January 1998.

The rupiah currency slid as much as 0.8% to 18,070 a dollar, its weakest since late July, but recovered some ground.

Equities in Southeast Asia's biggest economy have struggled since a January freeze in the MSCI indexes, with a threatened downgrade to "frontier" status because of opacity in ownership and trading behaviour.

The market has lost more than \$350bn in capitalisation since, with about \$60bn wiped out on Friday alone.

MSCI cited insufficient reforms to tackle the problems and said even a downgrade to "frontier" status would not reflect the severity of the issues, but proposed instead to move further beyond that, to "standalone" status.

"Significant concerns remain around market dysfunction," MSCI said in a statement on Friday. "Accordingly, MSCI considers Indonesia's continued classification as an emerging market no longer appropriate."

The lower "standalone" sta-



Workers walk past an electronic board displaying stock movement at the Indonesia Stock Exchange in Jakarta. The benchmark stock index closed down 11.57%, in its biggest single-day drop since January 1998.

tus it proposed would exclude Indonesian stocks from global indexes tracked by billions of dollars in passive investment, forcing funds that follow, or are ranked against, the indexes, to sell.

UBS estimated such a move could trigger about \$4bn of passive outflows from Indonesia, with active investors potentially adding a further \$15bn in outflow.

Foreign investors have already net sold \$4.7bn worth of Indonesian stocks in 2026.

Indonesia's senior economic minister, Airlangga Hartarto, said there was "a big question mark" over why MSCI did not discuss the downgrade to "standalone" status during a meeting this week in the Thai capital of Bangkok.

He made the comment ahead of a meeting of top officials, including the finance minister, the governor of the central bank and other related officials to discuss MSCI's announcement.

The Indonesia Stock Exchange said it had taken concrete steps to enhance transparency and integrity in the

capital market, and CEO Jeffrey Hendrik said he would request further clarification on the basis of the announcement.

The move did not reflect the health of the vast majority of listed companies or indeed the Indonesian economy, said Angus Mackintosh, an Asean specialist at Aletheia Capital in Singapore.

He added, "This is a wake-up call for Indonesia."

Indonesia would be the largest economy in the group if it was downgraded to "standalone" status.

MSCI's announcement piles pressure on the government of President Prabowo Subianto.

It is the latest of a series of setbacks for Indonesia this year, with Moody's and Fitch cutting their sovereign rating outlooks to negative, citing reduced policymaking credibility.

"The proposal highlights MSCI's dissatisfaction with the pace of reforms and raises further questions about the investability of the market," said Tan Altundag, investment manager for emerging equities at Pictet Asset Management.

"The investment implications could be significant," said Altundag, who has no holdings in Indonesia.

The office of Finance Minister Suahasil Nazara, who chairs the financial stability board, did not reply to a request for comment.

In a sign of investor anxiety over the index provider's move, there was a rush for the exits when the market opened, triggering a 30-minute trading halt on the Jakarta exchange.

"It's the first time this has ever happened in my 20 years in the stock market," said Liza Camelia Suryanata, head of research at stockbroker Kiwoom Sekuritas Indonesia, referring to the chaotic opening minutes.

MSCI's move seemed heavy-handed, given Indonesia's efforts to tackle issues around market transparency and increase the free-float requirement for listed firms, Mackintosh added.

"The only way for Indonesia to remedy this situation would be to impose severe sanctions and fines on those involved in concerted share manipulation," he said.

Most Asia markets rise as tech bounces from rout

AFP
Hong Kong

Most Asian markets bounced on Friday after the previous day's tech rout fuelled by concerns over the AI boom, which Federal Reserve boss Kevin Warsh said offered huge benefits to the global economy.

Seoul and Tokyo enjoyed healthy gains in early exchanges boosted by chipmakers SK hynix and Kioxia, after having been pumelled on Thursday as investors bailed out of the once-dominant AI sector.

The selling had been fuelled by forecast-beating US inflation data that ramped up bets on Fed interest rate hikes, as well as concerns about the financial health of data centre operator CoreWeave owing to its huge debt pile.

The New Jersey firm – which has borrowed heavily to finance hefty purchases of pricey semiconductor chips from Nvidia – tanked 15.5% on Wednesday in the US as yields on some of its bonds soared, reflecting heightened angst over its future.

That added to concerns about the whole AI-tech complex, but Nvidia chief Jensen Huang on Thursday lifted spirits by defending the company and its health.

"CoreWeave's strength is improving every day," he told Bloomberg. "I'm optimistic. Their cost of capital is actually decreasing."

CoreWeave's shares climbed almost six percent.

Huang's "defence of CoreWeave's financial position was enough to pull the NeoCloud complex off the floor, drag AI equities higher and give the broader market something resembling a pulse", wrote SPI Asset Management's Stephen Innes.

"One moment the market was pricing the possibility that the AI financing machine had started eating its own tail, the next it was listening to the high priest of the boom explain that the patient was getting stronger."

"AI Jesus had entered the trading room and, for a while at least, the machines found religion again."

Seoul jumped more than 2% and Tokyo around 1.8%, though they slumped 7.6% and 4.9% respectively on Thursday.

Hong Kong, Shanghai, Singapore, Taipei, Mumbai, Bangkok and Manila were also up.

Fed chief Warsh said Friday that AI was the "most consequential change" to the global economy in his lifetime, predicting its effects would be positive but the path forward "bumpy".

At an event at the IMF-World Bank Annual Meetings in Bangkok, he said the AI investment boom would drive prices up in the short term, but "there really is, I think, a huge benefit to the global economy, to the US economy over the horizon".

He also reiterated his previously stated belief that the technology would "make economies and countries that put it to good use more productive".

But he added: "The path from where we are to there is likely to be a very bumpy one, bumpy in our understanding of the technology, bumpy because we really don't know what the market structure is going to be of these new technologies."

Shares in Jakarta tanked more than 11% – its heaviest loss since 1998 – after index compiler MSCI said it was "no longer appropriate" to maintain Indonesia's emerging-market status, fuelling fears of an exodus of foreign investment.

Japan investors extend foreign bond selling

Reuters
Tokyo

Japanese investors sold foreign bonds for a fourth straight week through October 10, extending a retreat from overseas debt that has pushed this year's net sales to the highest since 2022, though the pace of selling has slowed.

Japan's big life insurers have stayed largely on the sidelines of the selling of a net 339.7bn yen (\$2.15bn) of foreign long-term bonds.

The modest amount is broadly in line with the previous week's revised 345.7bn yen and well below the 1.9tn yen sold in the week to September 19, finance ministry data show.

The withdrawals have fuelled expecta-

tations that major asset managers may bring funds home, as 30-year Japanese government bond yields have nearly doubled over two years to around 4%, making them competitive with currency-hedged US Treasuries.

Japanese investors have withdrawn roughly 5.34tn yen from overseas bonds this year, the most since 2022.

But the outflows have come mainly from outside the life insurance sector, which manages about \$2.5tn in assets, a quarter of it overseas.

Life insurers account for just 289bn yen of this year's net foreign bond sales, MOF figures show.

"Higher yields have brought the buyers back to JGBs," said Shoki Omori, chief fixed-income strategist for Japan at Deutsche Bank. "They have not brought the money home."

Aluminium's calm belies lingering supply-chain stress

By Andy Home
London

Iranian missile attacks on Gulf smelters and the blocking of the Strait of Hormuz have knocked out almost 3mn metric tonnes of aluminium production capacity. Yet, eight months on, the market is seemingly unconcerned.

Indeed, London Metal Exchange (LME) three-month aluminium is now trading just above \$3,000 per ton, which is where it was in early February before the US and Israel unleashed Operation Epic Fury against Iran.

Traders are betting that a combination of rising output in Indonesia and higher product exports from China can tide things over until the Gulf smelters are repaired and shipping fully resumes in the Strait of Hormuz.

The surface calm, however, masks lingering stress in a physical supply chain that is still reeling from the unprecedented disruption.

Gulf production of primary aluminium slumped by an annualized 2.8mn tonnes between February and May, according to the International Aluminium Institute.

The collapse reflected the forced shutdown of Emirates Global Aluminium's Al-Taweelah smelter and damage to Aluminium Bahrain's facility, as well as logistics problems at other Gulf operators.

Regional production has since been creeping higher as both plants undergo repairs and ramp production back up, but the August run-rate of 3.5mn tonnes annualised was still 2.6mn tonnes below pre-hostility levels.

China and Indonesia have stepped in to plug the gap.

China's exports of primary metal are constrained by a hefty 30% export duty, but outbound volumes of alloy doubled year-on-year to 349,000 tonnes in the January to August period.

Exports of semi-finished products such as aluminium plate, sheet and strip surged by 774,000 tonnes to



Components made from aluminium are seen inside a factory in Dongguan, China. Iranian missile attacks on Gulf smelters and the blocking of the Strait of Hormuz have knocked out almost 3mn metric tonnes of aluminium production capacity.

4.46mn tonnes over the same period.

Indonesia's new Chinese-owned smelters are also ramping up at speed. The country exported 114,000 tons of primary metal in July, a fresh monthly record.

Around half of last year's Indonesian aluminium exports went to China but shipments since the Iran

war have been dispersed across Asia, Europe and even the US.

Improved availability in Asia has caused physical premiums to ease from their June highs.

Japanese buyers have negotiated a fourth-quarter delivery premium of \$255 per tonne over the LME cash price, which marks a 35% decline

from the previous quarter.

However, that's still higher than the \$200-per-tonne premium that was trading at the start of the Iran war, attesting to continued tension even in this relatively well-supplied part of the market.

European buyers are paying significantly more for their physical metal.

The CME European duty-paid premium is trading at \$559 per tonne over LME cash, double the level at the end of February.

US buyers, of course, are paying more than anyone else for their aluminium with the US Midwest premium trading at an elevated \$2,312 per tonne over LME cash, though this is as much about President Donald Trump's 50% import tariffs as anything else.

Elevated premiums are sucking available metal into the physical supply chain, leaving LME stocks at multi-year lows.

Registered inventory of 238,625 tonnes is the lowest level this century. Most of what remains is Russian

metal, which reduces its appeal to most Western buyers.

LME off-warrant inventory has also been steadily shrinking since February and now totals just 73,509 tonnes, which is the lowest reading since the LME introduced this category of stocks reporting in 2020.

Time-spreads have eased considerably since June, when the cash premium over three-month metal jumped to over \$100 per tonne.

But there is lingering tightness in the front part of the curve. After a period of mild contango, cash has just returned to a small premium over three-month metal again.

Time-spread tension is likely to remain a feature of the London market as long as physical premiums remain so high. The aluminium market has proved highly resilient to the sudden loss of so much production, but the stress lines are still there beneath the calm surface.

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

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Hedge funds’ role comes into focus after Europe bonds turmoil

Reuters

London

A sharp sell-off in European government bonds this month shows how hedge funds’ growing role is making a systemically important market more vulnerable - a risk regulators are watching closely.

On the surface, the reasons for a surge in French 10-year yields to 24-year highs were clear: a growing government debt burden, inflation fanned by high energy costs, and competition for capital from a global data-centre boom that is lifting economic growth.

But some investors said the scale and speed of the moves showed hedge funds were fuelling volatility in the market as they rapidly unwound trades.

No obvious trigger preceded the unusually large daily yield increases of over 10 basis points (bps) and nearly 25 bp two-day jump in the premium investors demand to hold French debt over German bonds, the most since the euro zone debt crisis. Yields rise as bond prices fall. .

The European Central Bank estimates that hedge funds account for more than

half of trading in the roughly \$13tn European government bond market, up from 30% in 2020. The International Monetary Fund says hedge fund exposure to sovereign bonds has more than doubled since 2022, without giving a total.

“The hedge fund community has ballooned,” said Lauréline Renaud-Chatelain, fixed income strategy lead at Pictet Wealth Management. “It’s bringing a lot more volatility to the bond market and potentially explains why the (French) sell-off was severe in a context where we lacked a real catalyst.”

Hedge funds oversee over \$40tn, including the borrowed funds they use to leverage their bets and exposure through derivatives, according to the IMF. They rarely share details of their investments and will bet on asset prices falling as well as rising.

Their role in sovereign debt trading matters because it impacts governments’ funding, which in turn can affect borrowing costs for companies and homeowners.

Increased hedge fund trading activity can “amplify price dislocations and liquidity strains during periods of stress,” the IMF said in October. It cited hedge funds’ borrowing and crowded trades, in

which many funds hold similar positions.

The European Securities and Markets Authority, the region’s financial watchdog, declined to comment for this story.

Certain strategies popular with hedge funds are sensitive to price and volatility changes, said Bruno Schneller, managing partner at Erlen Capital Management, which invests in hedge funds.

These include cash-futures basis trades and leveraged carry trades. In a basis trade, hedge funds seek to profit from the narrow price difference between bond securities and futures.

A carry trade involves borrowing cash in a currency with low interest rates to bet on other assets. When things change, “investors may need to reduce exposure relatively quickly ... creating the potential for market moves to become self-reinforcing,” said Schneller.

But he cautioned against attributing the recent volatility solely to hedge funds given fundamental drivers, notably in France.

Political jostling ahead of 2027’s presidential election could hinder efforts to reduce France’s high deficit, one factor which has rattled markets.

Jiri Krol, global head of government affairs at the Alternative Investment Man-

agement Association, a private markets industry group, said hedge funds were one of bond markets’ most important sources of liquidity.

“As for recent market dynamics, we caution against hasty, broadbrush pronouncements based on anecdotal evidence about the role of particular categories of market participant,” he said.

Hedge funds have taken a greater share of government bond markets as other buyers retreat.

Central banks are shrinking balance sheets, changes in pension schemes are reducing demand for sovereign debt, and regulatory rules mean banks can hold fewer bonds.

Their participation can help markets function smoothly in an era of increased government borrowing, while their more frequent trading activity boosts liquidity.

“Everyone kind of appreciates the role hedge funds play,” said Marion Le Morhedec, Fidelity International’s chief investment officer, fixed income.

But popular hedge fund trades are crowded and are typically funded by debt, while funds’ short-term focus means they can suddenly exit en masse if markets move against them, draining liquidity and

exacerbating price moves. Hedge funds “completely wipe out the market in those circumstances,” Le Morhedec said. “For me, 100% of the explanation (of early October’s low liquidity) is this.”

Asked about the systemic threat posed by hedge funds, the chief financial officer of Wall Street giant JPMorgan told analysts on Tuesday the industry has been “a source of risk for the system for a long time now, and everyone knows that, including the hedge funds themselves”.

Their leverage is “in the category of known unknowns,” Jeremy Barnum said. “It doesn’t mean it’s riskless, but we kind of know what it is.”

In early October, short-dated debt was particularly volatile. France’s 2-year bond yield surged, Germany’s plunged on safe-haven inflows and the gap between the two widened 21 bps, the most in a day since 2012.

Hedge funds often use French government bonds as collateral when borrowing to fund their bets. French debt makes up about €100bn (\$112bn) of the €250bn in eurozone government bonds that have been pledged for borrowings in the repo market, Bank of France data shows.

IMF chief urges cooperation on AI and war risks as US hails economic momentum

US says IMF should also focus on positive economic shocks; IMF chief expresses concern about developing countries falling behind; markets reflect increased concerns over AI; IMF, World Bank see increased demand for lending

Reuters

Bangkok

The head of the IMF on Friday appealed to global leaders to co-operate in the face of multiple economic risks, including rapid advances in AI and a prolonged war in the Middle East, as Washington hailed what it sees as US-led economic momentum.

Their contrasting views echoed throughout this year’s annual meetings of the International Monetary Fund and World Bank in Bangkok, as finance officials and central bankers from around the world took stock of a global economy rocked by high inflation and rising interest rates that have kept growth sluggish and increased inequality.

The IMF on Tuesday slightly raised its global growth forecast to 3.1% in 2026, well below the historical average, as it flagged significant growth and financial stability risks from a potential ending of the AI investment boom, growing debt levels and the ongoing Middle East conflict.

Absent the US-Israeli-led war against Iran and Tehran’s closure of the Strait of Hormuz that triggered a massive global energy shock, the IMF has said it would have expected AI to have fuelled much stronger growth.

On Friday, IMF chief Kristalina Georgieva said the sheer speed of technological change added to the long list of challenges, including disruptions to the global trading system, high food and energy prices and lingering wars, all of which threatened to widen the gulf between advanced economies and the world’s poor. Bond mar-



IMF Managing Director Kristalina Georgieva.

kets, she said, were clearly sensing the risks, with US, German and Japanese 10-year sovereign yields reaching their highest levels in decades.

“The need of the hour is for urgent and practical international cooperation,” Georgieva, the first IMF chief from an emerging market economy, said at a plenary session on Friday. She told a subsequent panel that she spent sleepless nights worrying about how to regulate AI and ensure that poorer countries weren’t left behind by its breakneck-speed development.

US Treasury Under Secretary Erin Browne, in a call with reporters, pushed back against those warnings, hailing record highs on the US stock market, strong US economic output and improvements in Japan’s economy.

“The IMF needs to take a more balanced approach to assessing the global economic outlook,” she said, adding: “The global economy has demonstrated significant resilience with strong US growth helping to support broader economic and financial stability.”

She said that the Fund should

give equal consideration to “opportunities for positive economic shocks, particularly those driven by American innovation and super intelligence, energy abundance, and productivity-enhancing reforms.”

US President Donald Trump’s policies on tax, trade, energy and deregulation were paving the way for stronger investment, higher productivity and durable economic growth, she said.

Emerging market stocks have been volatile in recent weeks, roiled by expectations of higher US interest rates that have sent borrowing costs sharply higher. Major markets have also been hit by the growing concerns over the AI investment cycle.

South Korean shares posted their biggest weekly fall in 18 years as investors questioned the sustainability of the AI boom, while Japan’s stock market lost 5.4% over the week.

Eli Remolona, governor of the Philippines’ Bangko Sentral ng Pilipanas, said in an IMF panel discussion earlier in the week that he was concerned Asia had not learned the lessons of its de-

structive financial crisis in the late 1990s. Before the Asian financial crisis broke out in 1997, economies drew huge capital inflows that prompted the World Bank to describe it as the “East Asian miracle,” Remolona said.

“Investment poured into Asia, and then you had the crisis because it wasn’t really a miracle. I think we have to remind ourselves about that. We have to guard against that kind of crisis,” he said on Wednesday. “We have not really been making a lot of effort looking at that kind of crisis.”

Illustrating the vulnerability to sudden shifts, Indonesian stocks fell 11.6% on Friday, their steepest one-day fall in 28 years, after global index provider MSCI said the Indonesian market was no longer worthy of “emerging market” status.

Officials at the IMF and World Bank this week said they are seeing elevated demand for grant and loan programs.

IMF strategy chief Christian Mummsen said the IMF’s low-interest lending to low-income countries had quadrupled since the Covid pandemic, and demand was expected to remain strong.

Supertanker rates fall from record highs

Gulf of Oman to China rate slips from record, Baltic Exchange data shows; lower demand for tankers on Oman route helps lower rates, Kpler analyst says; US considers removing sanctions on some shadow fleet vessels to cut freight rates, official says

Reuters

London

The cost of shipping oil on the largest tankers fell this week from record highs as demand eased following a wave of attacks on vessels in the Middle East and as the US considered easing sanctions on the so-called shadow fleet. Freight rates for supertankers, also known as very large crude carriers (VLCCs), carrying oil from the Gulf of Oman to China fell to about 776 on the Worldscales basis, according to Baltic Exchange data. That was down from 841 last week, the highest since the rate was launched earlier this year, following gains since the

outbreak of the Iran war. “Gulf of Oman VLCC rates dropped as demand on that route has softened since the fresh attacks, as higher Middle East Gulf freight rates and subsequently lower export volumes have reduced demand on this route,” said Kpler analyst Matthew Wright.

Trump administration comments about potentially removing sanctions on some shadow-fleet tankers drove freight rates lower, Sparta Commodities analyst Michael Ryan said, adding a removal would increase the number of ships that can carry oil. Despite the drop, rates remain close to record highs. The US-Israeli war on Iran has increased the use of ship-to-ship transfers to move oil out of the Strait of Hormuz, boosting demand for tankers. If elevated shipping costs persist, they could add to inflationary pressures and raise costs for businesses and consumers. Rates have also eased from record highs on other routes this week, such as from West Africa to Asia.

China to further open its financial markets

Reuters

Bangkok

China’s central bank chief pledged to further open up the country’s vast financial markets, saying in a speech that yuan assets can meet global investors’ growing need for diversification amid trade uncertainty.

Bank Governor Pan Gongsheng cited rising geopolitical risks, profound changes in the global economic landscape and rapid advances in AI as reasons for China to continue promoting yuan internationalisation.

“China’s steady economic growth, and rapid development of high-tech industries provide solid support for RMB assets,” a People’s Bank of China (PBoC) statement quoted Pan as saying in a Thursday speech given on the sidelines of the annual meetings of the International Monetary Fund and World Bank.

The remarks came a day after IMF Managing Director Kristalina Geor-

gieva said China must pivot from export-led growth towards more domestic consumption.

In Pan’s speech, given to international policymakers at the annual meeting, he also called for Beijing to “shift from exports more toward domestic consumption,” according to the statement. China has stepped up efforts to open its capital markets, at a time when US President Donald Trump’s trade war and unpredictable foreign policies have dented trust in dollar assets.

Global financial markets have also become more turbulent as investors increasingly worry about whether companies embarking on massive investment in AI will manage to make sufficient earnings gains amid higher borrowing costs.

Pan said the PBoC will promote broader global acceptance and use of yuan bonds as eligible collateral, strengthen cross-border financial infrastructure connectivity and support the development of offshore yuan markets.

Fed’s Warsh surprised by world economy’s ‘resilience’

AFP

Bangkok

US Federal Reserve boss Kevin Warsh said on Friday the global economy had shown unexpected resilience against strong economic shocks, as central banks battle surging inflation, while rich countries tackle spiking bond yields.

“Almost everywhere in the global economy (is) showing resilience I’m not sure I would have predicted five or six months ago,” he told an event hosted by IMF chief Kristalina Georgieva at the IMF-World Bank Annual Meetings in Bangkok.

World energy prices have skyrocketed since US President Donald Trump launched the war on Iran in February, sparking retaliatory action by Tehran against Washington’s Gulf allies and plunging the Middle East into

crisis. The increase in oil and gas costs, along with a surge in AI investments, has spurred inflation in many economies, including the United States, putting pressure on central banks to raise interest rates.

While many other rich economies were able to bring post-pandemic inflation back to their targets, the Fed has failed to meet its long-term two-percent goal for more than five years. Since taking over as Fed chair in May, Warsh has promised the central bank will deliver on its price stability commitment, and in September it raised rates for the first time in three years.

The Fed meets again this month to set rates, and markets expect it to hold before a second 25-basis-point hike in December. Warsh has vowed to cut down on providing insights into Fed policy positions, and on Friday again refrained from sharing his view of



US Federal Reserve chairman Kevin Warsh.

what may transpire at the October gathering. “We came to a judgement” about the economic outlook at the September meeting, he said. “I want to say broadly over the month or so that’s transpired

since then, the world has broadly conformed to our expectations.” **‘Common challenges’:** The annual meetings bring together finance ministers, central bankers and policymakers from around the world, and Warsh said he had

heard from others of the “common challenges” advanced economies faced.

“I heard, I would say, resolve from my colleagues around the world to deliver price stability,” he said. Most rich nations have begun to raise rates in response to surging inflation, including the European Central Bank (ECB).

“If I look back over the last few months, while we each did the right thing by our own judgement, by our own remit, it was a synchronous tightening in monetary policy in most places around the world,” said Warsh.

“And that means there’s no free riders. We’re seeing common things, and we’re taking action, and I view that as a positive development.” Banque de France Governor Emmanuel Moulin told AFP on Friday that rising bond yields in his country were effectively helping the ECB to tighten financial conditions. “This tightening of

financial conditions, driven by this rise in long-term rates, may provide the ECB with greater flexibility to control inflation,” he said. Earlier this week, ECB chief Christine Lagarde said France would have to address its rising bond yields on the fiscal side and should not expect help from the central bank.

‘Bumpy’ AI road: A large part of the discussion on Friday centered on AI, and Warsh said he believed the technology was the “most consequential change” to the global economy he had seen, predicting its effects would be positive but the path forward “bumpy”. He said he takes the macroeconomic implications of the technology -- including a short-term driving of inflation through demand-side effects and an expected positive supply-side shock in the long term -- “soberly” in his role as Fed chief.