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GULF TIMES

BUSINESS

Wall Street rips up dollar playbook as 2022's top bet crumbles

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'Qatar's private sector a key player in comprehensive economic development'

By Peter Alagos
Business Reporter

Qatar Chamber chairman Sheikh Khalifa bin Jassim al-Thani has assured the capability of the country's private sector to play a key role in achieving comprehensive economic development.

Sheikh Khalifa's statement came in the wake of His Highness the Amir Sheikh Tamim bin Hamad al-Thani's speech during the 51st annual session of the Shura Council where he declared milestones and defined Qatar's direction moving forward.

"Qatar Chamber highly values and appreciates His Highness the Amir's keenness to develop and maximise the private sector's role in development, especially since it has seen great growth in recent years and has become a responsible partner of the public sector in implementing economic development projects," Sheikh Khalifa stated in the latest edition of *Al Moltqa*, the chamber's economic magazine.

According to Sheikh Khalifa, the chamber is certain that the private sector can play an important role in achieving comprehensive economic development, which is Qatar's top priority.

He said Qatar has been steadfast in fulfilling the requirements of comprehensive development "at all levels" in line with the Qatar National Vision 2030 "and its desired objectives."

Sheikh Khalifa emphasised that His



Qatar Chamber chairman Sheikh Khalifa bin Jassim al-Thani.

Highness the Amir's speech also focused on enhancing Qatar's investment climate through amendments in legislation on foreign investment and by removing barriers that prevent FDI, as well as highlighting Qatar as a global incubator for FDI and improving the country's invest-

ment environment. He said the Amir's speech emphasises his keenness to bolster the contribution of the private sector in economic activity and to create more public-private partnerships (PPPs).

Sheikh Khalifa reiterated the Amir's call to allow GCC citizens to launch trade

activities, including shipping services, advertising, stock trading, and company establishment, as well as the development of the energy sector and expanding gas production in the North Field.

"All these directives confirm that the Qatari economy will see further development and growth in the coming years," Sheikh Khalifa said, highlighting the Amir's statements on a "QR47.3bn" budget surplus triggered by the increase in energy prices in the first half of 2022 despite speculations of a deficit at the beginning of the year.

Sheikh Khalifa said: "His Highness the Amir's speech showed the great interest he attaches to the national economy. His Highness emphasised the strength of the Qatari economy, which continued to grow in 2022 after a decline in 2020, with the preliminary data indicating a 4.3% GDP growth during the first half of this year, supported by a 7.3% growth in the non-oil sector - a large percentage amid the current international circumstances."

He added: "His Highness also stressed the importance of activating the provisions of the law regulating partnership between the public and private sectors in all related projects, especially in the health, educational, and tourism sectors."

"His Highness further highlighted the In-Country Value Programme, which gives preference in tenders and bids to companies that further depend on the local economy to procure goods and services to the public sector."

Opec set to stick or cut more amid plan to cap Russian oil price

AFP
London

Major oil producers are expected to stick to their current output strategy or even slash production further when they meet tomorrow in the face of falling prices, a potential Russian oil price cap and an embargo on Russian crude shipments.

At their last ministerial session in October the 13-nation Organisation of the Petroleum Exporting Countries (Opec) headed by Riyadh and its 10 allies led by Moscow, collectively known as Opec+, agreed to reduce output by 2mn barrels per day (bpd) from November.

The Opec+ reduction amounted to the biggest cut since the height of the Covid pandemic in 2020.

Amid fears of economic slowdown, tomorrow's meeting via video-conference convenes ahead of the EU enforcing an embargo on Russian crude shipments from Monday.

G7 countries, the EU and Australia had also appeared close to agreeing a \$60 per barrel price cap on Russian oil on Thursday.

The alliance should vote for a "rollover of the previous decision" to cut 2mn bpd, an Iranian source told AFP on Thursday, arguing that the market was "very uncertain" in light of imminent European sanctions.

"Odds are that the group will reassert its commitment to its latest output cuts," says PVM Energy analyst Stephen Brennock, adding he would not rule out that they "may even potentially

announce fresh cuts" to bolster prices.

Since the October meeting, oil prices have been plummeting to their level of early 2022, far from the peaks above \$130 a barrel in March after the start of Russia's invasion in Ukraine.

Two global crude benchmarks were hovering around \$85 a barrel on Thursday.

Covid-related restrictions in China have raised fears about energy demand from the world's largest importer of crude oil.

Beijing defused concerns, however, by signalling a possible easing of the strict zero-Covid policy, after nationwide protests against health restrictions broke out.

Soaring inflation in Europe and across the Atlantic have also fuelled fears of a recession.

Beyond the economic gloom, the big unknown in the oil equation currently is Russian oil, as Western nations seek to decouple themselves from Moscow's energy supplies as fast as possible.

The EU has decided to ban member states from buying Russian oil exported by sea from December 5, "putting at risk over 2mn barrels per day," according to estimates by ANZ analysts.

Investors are also scrutinising a European Commission-proposed \$60 per barrel price cap on Russian crude, which is designed to reinforce the effectiveness of the EU embargo.

The EU was already in agreement with Washington on the need to cap the price Western clients pay for Russia's oil, to prevent Moscow profiting from price rises triggered by its own war on Ukraine.

Energy crisis driving climate-friendly power savings: IEA

AFP
Paris

Russia's invasion of Ukraine has driven countries across the world to boost energy efficiency, creating "huge potential" to tackle high prices, security and climate change, the International Energy Agency (IEA) said yesterday.

Governments have scaled up fossil fuel subsidies to cushion the blow of rising energy costs on households in the wake of the Ukraine conflict, which has disrupted gas supplies and stoked prices.

But a new report from the IEA found that it had also prompted policymakers and consumers to shrink their power use, causing record investment in energy efficiency measures, like building renovations, and infrastructure for public transport and electric cars.

IEA executive director Fatih Birol said after the oil shocks of the 1970s, governments pushed "substantial improvements" in energy efficiency, particularly in cars, appliances and buildings.

"Amid today's energy crisis, we are seeing signs that energy efficiency is once again being prioritised," he said.

"Energy efficiency is essential for dealing with today's crisis, with its huge potential to help tackle the challenges of energy affordability, energy security

and climate change." According to the IEA research, governments, industry and households invested a record \$560bn this year in energy efficiency measures.

Preliminary IEA data for 2022 also suggests that the global economy used energy 2% more efficiently than it did in 2021, almost double the rate of the past five years.

Annual improvements would need to rise to 4% to meet decarbonisation goals by mid-century, the IEA said.

But it said if current trends continue to improve, 2022 "could mark a vital turning point" for efficiency, adding that developments this year have "changed the dynamics of energy markets for decades to come". Recent government initiatives to boost efficiency in buildings, cars and industry have included legislation in Europe, Japan and the United States that add up to hundreds of billions of dollars in spending.

The IEA said that one in every eight cars sold globally is now electric.

Building codes are also being updated across the world, it said, while there is growing energy efficiency awareness among consumers.

In Southeast Asia, all governments were developing policies for efficient cooling, which the IEA said was "vital for a region with one of the fastest rates of growth in electricity demand".

ECB chief Lagarde leads chorus warning that inflation must be anchored

Bloomberg
Bangkok

The global economy may be headed for a new era of volatile inflation, making it even more crucial to anchor expectations for where prices are headed, central bank governors warned yesterday.

Policymakers cautioned that hopes for a quick cooling in inflation pressures next year may prove premature. More than a dozen central bankers gathered in a conference in Bangkok organised by the Bank of Thailand and the Bank for International Settlements. Climate change, geopolitics and shifting population growth mean prices may remain elevated for longer, they said.

That makes it even more crucial to hammer home a message to households and businesses that prices will be brought to heel. The danger of allowing inflation expectations to become unanchored would be even more damaging, European Central Bank (ECB) President Christine Lagarde said.

"Given this exceptional uncertainty, what we central bankers have to do is actually deliver monetary policy that anchors expectations so those expectations remain moored to target," she said on a panel discussion.

"We need to signal to the public, to the observers, to the commentators,



Christine Lagarde, European Central Bank president.

that in all scenarios inflation will return to our medium term target in a timely manner. This is the best we can do in the current environment," Lagarde said.

All eyes are on the final ECB meeting of the year on December 14-15, when officials will decide whether to deliver a third straight interest-rate increase of 75 basis points, or moderate the pace to half point. In Asia, most central banks meeting on rates this month are widely expected to sustain monetary tightening.

Worries about enduring supply constraints peppered the discussions among officials. Reserve Bank of Australia Governor Philip Lowe said cen-

tral banks are facing their first test in a new world of more variable inflation.

"If inflation is going to be even more variable, it makes the credibility of monetary policy more important than ever," he said. "We really need people to believe and understand that when inflation is away from target, which it will be more often, that it will come back."

Climate change should also factor into central bankers' outlook, not just because it can worsen price pressures but also because it will take "herculean effort" from authorities to overcome the financial challenges needed to address it, said World Bank's M Ayhan Kose.

"The transition might be inflationary and even slightly stagflationary - I stress might, we don't know yet. But for sure it is more costly if it's delayed and disorderly," said Bank of France Governor Francois Villeroy de Galhau.

Central banks have aggressively raised interest rates this year in an effort to tame the worst inflation outbreak in decades. Prices are expected to ease next year due to slowing demand, falling commodity and food prices and favourable year-on-year comparisons.

"A preemptive, front-loaded and forward-looking interest rate response is very important to bring down inflation expectations," said

Bank Indonesia Governor Perry Warjiyo. The consensus for price gains in Southeast Asia's largest economy has cooled "swiftly" to 5.5% today from close to 7% four months ago, thanks to policy makers' aggressive rate hikes, he said.

"But we have, I would say, never faced such an important increase in global inflation," Agustín Carstens, who heads the Bank for International Settlements, told the conference. "The simultaneity of it is quite remarkable."

In China - where prices have been relatively subdued this year given Covid lockdowns remain a mainstay of pandemic policy - officials are focused on growth, according to People's Bank of China Governor Yi Gang.

Yi appeared at the conference in a video speech, saying that the central bank has a "pretty accommodative monetary policy in place to help with economic recovery and maximise employment." He said inflation will likely remain in a "moderate range" in 2023.

Raghuram Rajan, a former governor of India's central bank warned that volatility could also mean prices return to a lower regime given growth headwinds that include ageing populations, lower immigration, diminished fiscal room and deglobalisation all mitigate against rapid economic expansion.

Wall St rips up dollar playbook as 2022's top bet crumbles

Bloomberg
New York

The dollar looked unstoppable earlier this year when investors were adding to bets on inflation and US rate hikes. Now they're turning against it in droves.

Former bulls including JPMorgan Asset Management and Morgan Stanley say the era of dollar strength is ending as cooling prices spur markets to trim bets on further Federal Reserve tightening. That may spell buying opportunities for the currencies of Europe, Japan and emerging markets.

"Markets now have a better grasp of the Fed's trajectory," said Kerry Craig, a strategist in Melbourne at JPMorgan Asset, which oversees \$2.5tn. "The dollar is no longer the straight, one-way buy we've seen this year. There's room for currencies like the euro and yen to recover."

Debate is intensifying on how best to trade the world's reserve currency as more dovish commentary from Fed officials and slowing inflation fuel bets of a slower pace of rate hikes. Most have arrived at a similar conclusion: US exceptionalism is waning.

A longer-term downturn in the dollar has broader implications than just currency markets too. It will ease stress on European economies caused by imported inflation, dampen the price of food purchases for the poorest nations, and reduce the debt repayment burdens for governments who borrow in the US currency.

The Bloomberg Dollar Spot Index, which tracks the US currency against 10 of its major peers, has dropped more than 6% from its September high and fell 0.5% yesterday. At the same time, the greenback has weakened against all of its Group-of-10 peers over the past month, sliding along 7% against the yen and New Zealand dollar.

"US inflation is showing signs of moderating and the central bank is conscious of the lagged effect rate hikes would have on price growth," said James Athey, investment director of rates management for abrdn in London. At the same time, "we think that divergence has reached its limit," he said, referring to the difference between monetary policy in the US and Japan.



The dollar looked unstoppable earlier this year when investors were adding to bets on inflation and US rate hikes. Now they're turning against it in droves

The UK-based fund switched to a dollar neutral position about a month ago from an overweight one, and anticipates the greenback will weaken against the yen and pound.

Positioning data show asset managers boosted bets on a weaker US currency by the most since July 2021 during the week to November 18, according to the latest Commodity Futures Trading Commission data.

The latest Fed minutes back their view. Most officials agreed it would soon be appropriate to slow the pace of rate increases. Expectations for the peak in Fed rates has dropped to below 5%, from above that in early November, according to overnight index swaps.

Treasury yields are also showing signs of hav-

ing peaked, with those on 10-year notes having slipped around 70 basis points from their October high.

While the dollar may no longer be a straightforward buy, there are still factors that may lead to episodes of US currency strength.

The Fed remains laser-focused on ensuring inflation is under control, and that means interest rates may have to stay elevated for a while before it starts cutting, supporting dollar assets, according to Agnes Belaisch, a strategist at Barings in London.

"The Fed's job is not done," said Belaisch, whose firm oversees \$338bn. "A long dollar position continues to make sense."

For a growing cohort of investors though, par-

ing long dollar positions is a key trade into 2023. Among them is Eva Sun-Wai, money manager M&G Investments, who has been taking profit on long greenback bets in favour of its Group-of-Four and emerging-market peers.

It's a good time to buy currencies that have "been under extreme pressure," including the yen and the South Korean won, said Sonal Desai, chief investment officer for fixed income at San Mateo, California-based Franklin Templeton.

Morgan Stanley analysts led by Andrew Sheets predicts the dollar will peak this quarter, and then decline through 2023, supporting emerging-market assets. HSBC Holdings Plc strategist Paul Mackel said the US currency is likely to "flop" next year.

Pfizer to invest more than \$2.5bn to expand European manufacturing

Reuters
New York

Pfizer Inc is investing more than \$2.5bn at its drug making plants in Belgium and Ireland, gearing up to launch new products it hopes can replace lost revenue as patents expire and Covid-19 vaccine sales decline. The drugmaker said yesterday it plans to spend more than €1.2bn (\$1.26bn) to expand its Puurs, Belgium manufacturing site, matching the investment at its Dublin, Ireland plant announced on Thursday.

The Puurs site has played a key role in the production of Covid-19 vaccine shots Pfizer developed with its German partner BioNTech using the messenger RNA (mRNA) technology. Output started there in late 2020 when Europe and the United States began rolling out shots to tackle the pandemic.

"It is all aligned with the growth of our pipeline," Pfizer chief global supply officer Mike McDermott told Reuters.

"If you project out the capacity modelling for these two sites...you'll find a gap in our ability to serve that (growth). So this is proactive investment," he said on Thursday. Pfizer's revenue is expected to top \$100bn this year – more than double its pre-pandemic level – on the strength of sales of its Covid-19 vaccine and treatment, Paxlovid. But Covid-related sales are expected to drop sharply over the next few years, and Pfizer also faces the loss of patent protections for some big-selling medicines after 2025, such as cancer treatment Ibrance and arthritis drug Xeljanz.

The sizeable investment and creation of jobs in Europe comes at a critical time for the region as companies struggle with soaring costs of energy, labour, raw materials and credit, fuelling worries over a recession. The crisis has hit energy-intensive industries, such as fertilisers and chemicals, particularly hard, prompting some to shift manufacturing to locations where cheap energy is abundant, such as the United States.

Drug manufacturers have also warned that energy costs risk undermining the recent push to boost generic medicines production in Europe to make the region more self-sufficient. Pfizer hopes to introduce as many as 19 new medicines over the next year and a half, including treatments for ulcerative colitis and migraines, as well as its vaccine for respiratory syncytial virus (RSV).

"Our portfolio is strong and requires an expansion of our network to accommodate these new products that will really make an impact," McDermott said. The new products produced at the plants will cover various therapeutic areas including rare diseases, inflammation and immunology, he said.

The expansion in Ireland will add around 400-500 jobs and allow it to double the amount of drug substance it makes at the site, which produces material for complex biologic drugs and vaccines.

In Belgium, Pfizer is expanding the Puurs site's capacity to finalise and bottle doses of drug substance. It is also expanding its packaging and cold storage capabilities there.

Banks stuck with \$42bn debt seize chance to offload it

Bloomberg
London

Banks in the US and Europe with around \$42bn of buyout debt stuck on their balance sheets are making the most of their last chance to get rid of it this year.

Stabilisation in the leveraged loan and high yield bond markets has led to an opening for deals - including for bonds and loans tied to the buyout of TV ratings business Nielsen Holdings Plc - as banks try to reduce debt on their balance sheets before the holidays.

Offloading the so-called hung debt, even at steep discounts, confines losses to this financial year while also appeasing risk departments and regulators.

There may be more to follow. A group of lenders including Goldman Sachs Group Inc is nearing an agreement to sell €1.5bn (\$1.56bn) of a junk loan backing the buyout of Unilever's tea business, while other deals could also come before the year end.

"If the window is open for these hung deals, you will see the banks jump through it because the window

is not open for every deal," said Bill Zox, portfolio manager at Brandywine Global Investment Management. "And it could shut again at any time."

Hung debt has been a big problem for Wall Street this year.

Banks have taken huge mark-to-market losses on deals they underwrote before a rapid rise in interest rates crushed funding markets and the threat of recession quashed investor demand for riskier assets. With that backdrop, stabilisation of leveraged loan prices - which recently recovered to an average of close to 93 cents on the dollar in the US, according to index data - has created a fertile ground for deals.

Still, while some debt is being offloaded, more recent buyouts are adding to the pile, including about \$13bn of financing related to Elon Musk's acquisition of Twitter and, more recently, a private equity buyout of a majority stake in Roper Technologies Inc's industrial operations business.

That brings the total amount of debt funded by banks for buyouts and acquisitions in the US and Europe to around \$42bn, according to data compiled by Bloomberg.

Despite a slightly better market window now opening up, some recent deals have come with steep discounts.

Nielsen's leveraged loan sale saw strong demand at 89 cents on the dollar, while the Unilever tea business loan is expected to price in the low-to-mid 80% of face value, according to people close to the matter.

But for many lenders, offloading chunks of hung debt - even at a discount - is better than letting it languish on their books, tying up capital that could be deployed elsewhere.

The bargain prices also help attract new buyers, such as Apollo Global Management Inc, which raised a \$2.4bn fund to scoop up such loans.

In Europe, where the pile of hung debt is smaller, leveraged loan prices have risen from their October lows to an average of around 91 cents on the euro, according to S&P's index.

Along with the issuance of new collateralised loan obligations - the biggest buyers of leveraged loans - that's led to some opportunistic deals.

Some sales, such as an underwritten loan for French property management firm Emerica, previously known as Foncia, were on the agenda

for a while. That deal was upsized twice during syndication after it got more demand than initially expected. But other deals have come to the market to make the most of the year-end window, such as add-on deals by chemicals firm Caldic and sanitary service provider Toi Toi & Dixi Group.

Elsewhere in credit markets: EMEA: Twelve borrowers tapped the investment grade market on Tuesday, raising at least €5.2bn equivalent, as issuers and investors seized on improving sentiment for one last funding push ahead of a December slowdown.

Vodafone Group is offering the year's longest sterling corporate bond as renewed confidence in the currency spurs a November debt sales rebound. Investec and Segro also offered sterling-denominated deals.

In high yield, gambling firm 888 Holdings is considering tapping credit markets in the near future, after its recent buyout of a rival hindered its ability to generate enough cash to invest in growth.

The company's debt structure is heavier than anticipated in the wake of its buyout of gaming peer Wil-

liam Hill, according to a November 29 statement.

Asia: Chinese property bonds rose both onshore and offshore after Beijing lifted a ban on local share sales by developers, in its latest step to ease the sector's cash crunch.

The country's junk dollar bonds, dominated by developers, rose at least 1 cent on the dollar, according to traders, with Seazen Group and Country Garden leading the gains.

Spreads on Asia ex-Japan investment-grade dollar bonds tightened at least 3bps on Tuesday morning, according to traders, reflecting a broader recovery in risk appetite. Deal flows are relatively thin, with only two issuers seeking to price new debt.

Americas: Real estate investment trust AvalonBay headlined a docket of four borrowers pricing \$2.25bn on Monday as equity markets sold off after Federal Reserve officials stressed that more rate hikes are coming.

Issuers paid about 8bps in new issue concessions on deals that were 3.5 times covered. Monday's issuers were forced to navigate a softer backdrop amid hawkish commentary from New York Fed President John Williams and St Louis Fed President James Bullard.

Long-dated credit is best since 2008 as buyers bet on pivot

Bloomberg
New York

Credit investors are piling back into debt with long maturities hoping that the Federal Reserve will soon slow its pace of tightening.

US corporate debt due in 10 years or more has surged 9.5% so far this month, on track for its biggest leap since December 2008. The bonds have plunged more than 24% in 2022 given their high duration, which causes prices to drop as rates rise.

"With the sharp rise in interest rates, the long end of the (investment-grade) corporate bond market was the hardest hit during 2022," said Nicholas Elfner, co-head of research at Breckinridge Capital Advisors, in a emailed response to questions. "Today we see opportunities to invest in unusually low-dollar-priced bonds of high-quality companies."

Money managers are betting Fed Chair Jerome Powell will this week signal a slower pace of interest-rates increases. That's boosting appetite for long-dated corporate debt trading at the lowest price on record, including bonds from household names like Amazon and

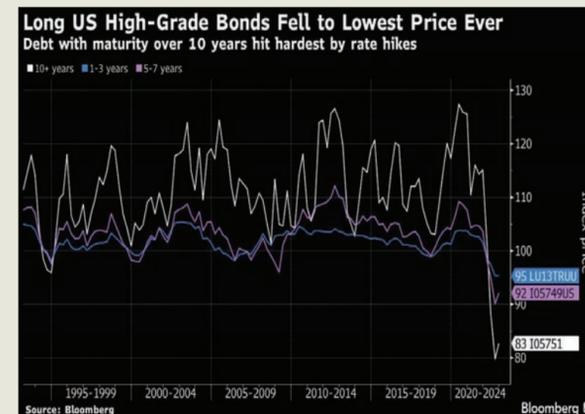
Verizon Communications Inc. This month's move is more than just the corporate-debt market reflecting a broad rally in Treasuries, the benchmark for borrowing costs in the US. Blue-chip company bonds with a maturity of 10 years or more have returned about 2.4 percentage points more than equivalent Treasuries since October 31.

Credit buyers are getting more confident that the Fed is in sight of an ultimate terminal rate and US economic data are showing signs of stability. Creditsights Inc strategists led by Winnie Cisar wrote in a report dated November 21. "Investors have started to redeploy capital in longer-duration asset classes," they wrote.

A slowdown in the pace of Fed rate hikes makes higher-quality corporate bonds look more attractive, according to Steven Boothe, head of the investment-grade fixed income team at T Rowe Price Group Inc.

"Relative to lower-rated credit sectors, the asset class offers compelling relative valuations given current dollar prices," Boothe said in a telephone interview.

Barry McAlinden, senior fixed income strategist for the Americas at UBS



Financial Services, said that the value proposition in long-term bonds comes from a high absolute total return potential if long-end rates have actually peaked. "With a year-ahead view that (investment-grade) bond yields will be lower in 2023, higher-duration bonds would outperform," he said in an emailed response to questions.

Not everyone is convinced it's time to buy as the Fed continues to wrestle with historically high inflation. Over-tightening could create a double whammy of duration pressure and economic slowdown that slams earnings and heightens downgrade risk. There's still significant uncertainty around the path of consumer prices

and the economy. That could impact valuations over the short term, said Terence Wheat, managing director of investment-grade corporate bonds at PGIM Fixed Income.

"Risks to long-duration credit next year would include inflation staying elevated and the Fed having to raise rates more than the current view," said Travis King, head of US investment grade corporates at Voya Investment Management, in an emailed response to questions. Earlier this month St Louis Fed President James Bullard said there's still more work to do to rein in inflation. The bank's key benchmark rate should be raised to at least 5-5.25%, from 3.75-4% now, he said. Federal Reserve Bank of Cleveland President Loretta Mester reiterated last week that officials are focused on taming price increases.

Elsewhere in credit markets: BlockFi Inc filed for bankruptcy. It will use the Chapter 11 process to "focus on recovering all obligations owed to BlockFi by its counterparties, including FTX and associated corporate entities," adding that recoveries are likely to be delayed by FTX's own bankruptcy. Global collateralised loan obligation prices are rallying from a short-lived, UK-centred selloff that's changing

investor perceptions about the market. Corporate borrowers will consider tapping bond and loan markets in the coming week as lending costs drop and investors snap up debt ahead of 2022's close. NGL Energy Partners LP is seeing its liquidity tighten just as some of its largest debt approaches its due date in the next 12 months.

BlackRock Inc, Pacific Investment Management Co and Sculptor Capital Management Inc are throwing their weight behind Adler Group SA as the company seeks to buy time and shake off the impact of fraud allegations.

Pemberton Asset Management is fast-tracking plans to triple the size of its private debt funds and plug a European lending gap being created by increasingly skittish banks.

Superdry Plc is in talks with a specialist lender backed by US activist Elliott Capital Management to refinance a loan that's due in a few weeks and is key to the retailer's survival.

While much of Europe Inc is shrinking state-backed loans from the pandemic, Italian companies are still sitting on mountains of such borrowings, complicating government efforts to help them surmount the latest crisis: Soaring energy costs.

Singapore chips away at Hong Kong's hedge fund dominance

Bloomberg
Singapore

Singapore is cementing its status as a regional hotspot for hedge funds, with the number of firms expanding from Hong Kong to the city state tripling in the past three years.

At least 16 firms already operating in Hong Kong added a Singapore office between the start of 2019 and end of 2021, compared with just five in the previous three-year period, according to a Bloomberg News analysis of regulatory and business registry data in both financial hubs.

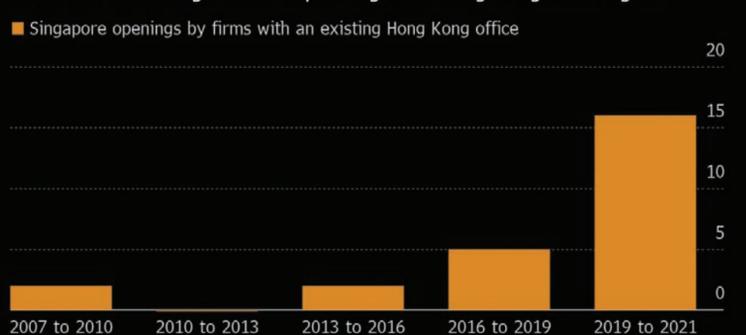
Among those that put boots on the ground in Singapore are some of the largest global managers, such as Marshall Wace, Citadel and DE Shaw & Co. There are also smaller regional peers, including Ovata Capital Management and Trivest Advisors. Trivest didn't respond to multiple requests for comment and the other firms declined to comment.

While Hong Kong's status as the dominant hedge fund hub in Asia isn't under threat - it's home to nearly 44% of hedge fund managers operating in the region, according to Preqin Ltd data - Singapore is an increasingly important location for firms operating strategies that aren't exclusively China focused.

The southeast Asian city-state's treaty with India has historically positioned it as a tax-efficient base for investments in Asia's third-largest economy. It's also a natural gateway to fast-growing regional neighbours like Vietnam and Indonesia. Rich families are increasingly setting up family offices in Singapore, creating a pool of capital hedge funds can tap into.

Singapore serves as a "prime springboard" for expansion, said Kher-Sheng Lee, global

Singapore Rush
The number of hedge funds expanding from Hong Kong has surged



Source: Bloomberg analysis of data from the Monetary Authority of Singapore, Singapore Accounting Corporate Regulatory Authority and Hong Kong Securities and Futures Commission
Note: Firms are classed as expanding if the date of local entity registration in Singapore is later than Hong Kong licensing date. Singapore registration dates can significantly precede licensing dates.

trade body Alternative Investment Management Association co-head in the Asia-Pacific region. "Some firms pursuing pan-Asian or China plus one growth strategies are beginning to see India and Indonesia as crucial."

The biggest single jump in hedge fund arrivals in Singapore was in the second half of 2019, the Bloomberg data analysis shows. That's when Hong Kong was rocked by months-long political protests, often resulting in clashes between demonstrators and the police and business suspensions. At the time, lawyers and consultants reported swelling numbers of queries about how to start offices elsewhere.

"There is definitely an increase in firms setting up in Singapore," said Philippa Allen, founder of ComplianceAsia Consulting, citing regulator's comments to the industry on its vetting workload. "Managers

realised that they needed better business back up plans and the best solution to that is to have two offices in different places."

While the pace of new hedge fund openings has slowed since 2020, the flow of money continues to grow. Hedge fund assets under management in the city jumped 30% in a year to \$257bn (\$188bn) in 2021, the biggest dollar increase on record, according to Monetary Authority of Singapore data released in October and an analysis of past reports.

Whereas China was once the dominant destination for international investors in Asia, many are starting to allocate more to India and Southeast Asian countries which have been big beneficiaries of the move to diversify supply chains. Emerging market veteran Mark Mobius, for example, now places a higher weight on to India than China.

Singapore is an obvious base

to push further into this region because it has better access to talent that knows the markets and fewer Covid related-travel requirements. There are financial and business incentives too. In 2020 Singapore launched a new corporate structure called a "variable capital company", or VCC which gives hedge funds a more flexible investment structure, including not having to publicly release shareholder names. It also has a comprehensive tax treaty with India which can help avoid double taxation in many cases.

Singapore is now the second-largest source of foreign portfolio inflows into India after the US, according to data from the National Securities Depository Limited. About 20% of the 660 Singapore VCCs set up by October 14 are hedge funds, according to the MAS.

One firm that's diversifying is Pinpoint Asset Management.

Having started as a China-focused manager, it opened in Singapore as part of an effort to expand a fund that invests across Asia through different portfolio managers. It's also got offices in India and Japan, said Managing Director Jennifer Wong.

"We want to capture investment opportunities in these markets due to their strong development and growth," Wong said.

Another is Hong Kong-based Ovata, a \$1.1bn hedge fund firm started by members of BlueCrest Capital Management equity team, which now has eight employees in Singapore, said a person with knowledge of the matter who asked not to be named discussing private information. It expects India and Southeast Asia to be a bigger focus in coming years, the person said. Ovata declined to comment.

While the increasing number of satellite offices opening in Singapore is a sign of how the centre of financial gravity in the region is shifting, Hong Kong is making a big effort to stage a comeback and convince the rest of the world it remains the go-to place in Asia for finance.

It hosted a star-studded summit in November with top executives from all of the world's biggest banks. It's also dismantled many of the Covid restrictions - such as hotel quarantine - which has kept the city isolated.

For many of the biggest hedge funds even if they've also opened in Singapore, when it comes to staffing Hong Kong still dominates. For example, while \$62bn London-based giant Marshall Wace has ramped up headcount in its Singapore outpost to about 20, it still has around 50 people in its Hong Kong office, according to a person briefed on the matter, who asked not to be identified as the information is private. Marshall Wace declined to comment.

China's top banks to issue offshore loans to help developers repay their debt

Reuters
Hong Kong/Beijing

China has ordered its top four state-owned banks to issue offshore loans to help developers repay overseas debt, three people with knowledge of the matter told Reuters, in Beijing's latest support measure for the cash-starved property sector.

The regulators have given the banks 'window guidance', or verbal orders that leave no paper trail, setting a date of December 10 by which to make loans secured against domestic assets, said two of the sources, who all spoke on condition of anonymity. China has stepped up support in recent weeks to undo a liquidity squeeze that has stifled the sector, which makes up a quarter of the world's second-largest economy and has been a key driver of growth.

A growing list of developers has defaulted on overseas creditor obligations over the past year, prompting some analysts to warn that such disruptions could blunt foreign investors' appetite for fresh debt issuance by Chinese companies.

Now a debt maturity wall looms for developers, with \$39bn of debt set to mature in the first quarter of next year, and \$10bn of that is denominated in dollars, Refinitiv data shows.

Funds flowing from banks will allow developers to repay offshore loans and dollar bonds, helping to repair global investors' bruised confidence, two of the sources said.

Developers will qualify if their balance sheets are seen as being of "good quality", such as CIFI Holdings, Country Garden, Longfor Group, Midea Real Estate and Seazen Group, one source said. Each of the four banks, Bank of China, China Construction Bank, Industrial and Commercial Bank of China and Agricultural Bank of China, will pick several developers to fund, the three sources said. Each bank will process three to four offshore loan proposals that will be secured against developers' assets in China, said two of the sources, adding that Beijing

would expand the scheme later by adding banks. The third source said that, while the big four banks preferred fresh lending to go to state-backed developers, they would have to include some private firms, which have a greater need for offshore loans.

The People's Bank of China, the central bank, and the China Banking and Insurance Regulatory Commission (CBIRC) did not immediately respond to Reuters' requests for comment.

The big four banks did not respond to requests for comment, nor did representatives of CIFI, Country Garden, Longfor, Midea Real Estate and Seazen.

Beijing's aggressive support for the property sector represents a retreat from a crackdown begun in 2020, targeting speculators and indebted developers in a bid to reduce financial risk.

Chinese banks make offshore loans secured against domestic assets to companies that need foreign funds, but regulatory tightening in the last couple of years to rein in debt-fuelled empire-building by corporates hampered that kind of lending.

Cash-strapped developers have been struggling to tap sources of fresh funding to finish building apartments and repay suppliers and overseas debt, while home demand has crumbled in the face of stringent, lengthy Covid-19 curbs.

Risks to the stability of the financial system are growing on the continuing sluggishness of the property sector and an economic slowdown, making smaller banks more vulnerable, rating agency Moody's has warned.

Last week, China's biggest banks pledged credit of at least \$162bn to developers. The new move comes as some foreign bondholders are scouting for property bargains after the recent weeks' slew of support, but the uncertain outlook for home demand is keeping others on the sidelines.

China's central bank will also offer cheap loans to financial firms to buy bonds issued by property developers, separate sources have told Reuters.

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ESG fund chaos angers investors as greenwashing concerns mount

Bloomberg
London

The asset management units of Deutsche Bank AG and BNP Paribas SA are adding to a tidal wave of ESG fund downgrades, bringing industry assets under management to have been hit by such reclassifications to well over \$100bn. BNP said it was stripping Europe's top ESG designation from \$16bn worth of funds, while DWS Group's reclassification will hit eight funds holding about \$265mn, after announcing \$2.1bn in downgrades last week. The industry has blamed unclear rules for the chaos, as investors start to voice their anger. The DWS and BNP cuts are the latest in a string of ESG fund downgrades that have ensnared investing giants including BlackRock Inc and Pacific

Investment Management Co. Amundi SA revealed last week it will reclassify almost all its \$46bn in so-called Article 9 funds, as the EU's highest ESG designation is known. In all cases, the decisions were triggered by fresh guidance from the EU Commission on how to interpret the bloc's regulations. The development has alarmed onlookers, with the head of Europe's main retail investor organisation now planning to meet with regulators and legislators to convey concerns that members are being exposed to greenwashing. "We need to have much clearer guidance from the authorities to make sure we aren't misled and we aren't being sold greenwashed investment products," Guillaume Prache, managing director of Better Finance, said in an interview. The group, which represents roughly 4mn financial services users across

25 countries, has scheduled meetings with the European Commission and the European Securities and Markets Authority, he said. "Asset managers will have to explain to their clients that they're operating in an uncertain and rapidly evolving regulatory environment," said Hortense Bioy, Morningstar Inc.'s global director of sustainability research. "Let's be clear, the EU has set a very ambitious, but also extremely complex, disclosure regime." Morningstar has estimated that hundreds of funds may need to be downgraded before the dust settles. That's as EU guidance that Article 9 funds must hold 100% sustainable investments, save for hedging and liquidity requirements, wrong-foots much of the asset management industry. "The situation is a bit chaotic at the moment," Bioy said. The market

researcher estimates that less than 5% of Article 9 funds currently live up to the EU's 100% sustainability requirement. Yet some asset managers are holding off with reclassifications, often on the advice of lawyers, in the hope that further guidance from EU authorities will allow them to keep current designations. That's as the Commission looks into a request from Europe's markets watchdog, ESMA, to clarify what it means by a "sustainable investment." The Commission has said it's aware of the issue and is working on the case. "There is an urgent need for the regulator to not only clarify what qualifies and what doesn't qualify as a sustainability investment but also what methodologies are acceptable to calculate portfolio exposure to sustainable investments," Bioy said. BNP is downgrading 26 so-called

Article 9 funds. Of those, 24 are index funds, it said in an e-mail to Bloomberg on Friday. The majority of its actively managed Article 9 funds, equivalent to about \$20bn, will be unaffected, BNP said. The current lack of clarity has the potential to damage the reputation of Europe's ESG rulebook, the Sustainable Finance Disclosure Regulation, Bioy said. "The credibility of SFDR and the whole asset management industry is at stake here," she said. "We can't ignore the fact that some investors have invested in these Article 9 funds thinking they were dark green strategies. Even if these strategies haven't changed and the portfolios remain the same, the perception of the 'greenness' of these strategies will change." European pension managers are also voicing concerns. Because there's no current guidance on how to interpret

what should go into a sustainable investment, "there is a serious risk of diverging implementation practices and a lack of comparability between products and reporting," said Anastasios Pavlos, policy adviser at Pensions Europe, whose members oversee a combined \$7tn in assets. For now, it's too early to say whether pension managers will need to adjust allocations in response to the reclassifications, he said. Prache of Better Finance said he also wants to talk to European authorities about their ostensible failure to produce a regulatory framework that retail investors can understand. "There is a provision in EU rules that says that investor information must be intelligible to the majority of the people to whom it is addressed," he said. But SFDR is "an area - and it's unfortunately not the only one - where this law is not complied with."

US hiring and wages extend strong gains, keeping pressure on Fed

Bloomberg
Washington

US employers added more jobs than forecast and wages surged by the most in nearly a year, pointing to enduring inflation pressures that boost chances of higher interest rates from the Federal Reserve.

Non-farm payrolls increased 263,000 in November after an upwardly revised 284,000 gain in October, a Labor Department report showed yesterday. The unemployment rate held at 3.7% as participation eased. Average hourly earnings rose twice as much as forecast after an upward revision to the prior month.

The median estimates in a Bloomberg survey of economists called for a 200,000 advance in payrolls and for the unemployment rate to hold at 3.7%. US stocks opened lower and Treasury yields surged as investors anticipated a more aggressive stance from the Fed.

"The net read is that the labour market is still far too tight and cooling only very gradually," Mizuho economists Alex Pelle and Steven Ricchiuto said in a note. "It suggests that the economy is resilient and can handle more rate hikes and restrictive policy for longer."

Job gains were concentrated in a few categories, led by growth in leisure and hospitality, healthcare and government. Meanwhile, employers in retail, transportation and warehousing and temporary help services cut staff.

The better-than-expected payrolls increase underscores the enduring strength of the jobs market despite rising interest rates and concerns of a looming recession.



People walk past a "Now Hiring" sign in New York City. US employers added more jobs than forecast and wages surged by the most in nearly a year, pointing to enduring inflation pressures that boost chances of higher interest rates from the Federal Reserve.

The persistent mismatch between the supply and demand for workers continues to underpin wage growth and has led many economists to expect businesses will be more hesitant to lay off workers in a potential downturn.

That said, some sectors are beginning to show more notable signs of weakening. Many economists expect unemployment to rise next year - significantly in some cases - as tighter Fed policy risks pushing the US into recession.

"The resurgence of average hourly earnings growth shows labour shortages are still pressuring inflation, pushing back

against the idea - supported by a few Fed officials, as indicated in the November FOMC minutes - that wage growth is cooling fast. Given the slow adjustment in the labour market, Fed officials will likely have to raise their terminal-rate forecast from what they wrote down in the September dot plot," say Anna Wong and Eliza Winger, economists at Bloomberg.

Fed Chair Jerome Powell said earlier this week that a moderation in demand for labour is needed to bring the jobs market back into balance, and the central bank has only seen "tentative signs" of that so far. He also noted the importance wage growth - and the la-

bour market more generally - will play in determining the path of inflation.

The jobs report showed average hourly earnings rose 0.6% in November in a broad-based gain that was the biggest since January, and were up 5.1% from a year earlier. Wages for production and non-supervisory workers climbed 0.7% from the prior month, the most in almost a year. The pace of pay raises is inconsistent with the Fed's 2% inflation target. This is the last jobs report Fed officials will have in hand before their December policy meeting, where the central bank is expected to step down the pace of interest-rate hikes to a still-

aggressive half percentage point. Inflation data over the past month have indicated that price pressures are slowly cooling, but remain very elevated.

The US jobs report is made up of two surveys - one of households and one of businesses. Similar to last month, the two data sets pointed in different directions. While the business survey showed strong hiring, that of households - which can be more volatile - indicated lower employment for a second month.

The labour force participation rate - the share of the population that is working or looking for work - edged lower to 62.1%, a four-month low. Among those ages 25 to 54, it declined for a third month, led by women.

While the unemployment rate fell for Asian and Hispanic workers, it was due in part to lower participation. A drop in the jobless rate for Black Americans was driven by lower participation among women while men saw outside gains.

Employed Americans who missed work because of illness rose to the highest since last year's omicron wave.

The average workweek ticked down for the first time since June. Within manufacturing, hours and overtime fell. That's consistent with other reports of declining factory activity.

Separate data have pointed to some cooling in labour demand. Job openings have eased and continuing claims for unemployment insurance have steadily climbed in recent weeks to the highest since February. And a November survey showed only 18% of small business owners plan to hire in the coming months, the smallest share since early 2021.

Russia's more gradual economic contraction to extend into 2023

Reuters
Moscow

Russia's economy is set to shrink by 2.5% next year, on top of a 3% contraction in 2022, a Reuters poll suggested on Friday, with stubbornly high inflation giving the central bank only limited room to cut interest rates.

Russia's economic landscape changed drastically after Moscow sent tens of thousands of troops into Ukraine on February 24, triggering sweeping Western restrictions on its energy and financial sectors, including a partial freeze of Russian reserves, and leading scores of companies to exit the market.

After initially dire predictions of a double-digit GDP slump, analysts and officials have gradually been improving forecasts as the Russian economy demonstrates better-than-anticipated resilience.

The average forecast among 15 analysts polled in early December suggested the Russian economy was on track to shrink by 3.0% this year, close to the economy ministry's expectation of a 2.9% drop.

A similar poll in early November had predicted a contraction of 3.5%. But the decline will continue at a similar pace in 2023, with analysts now forecasting a 2.5% drop.

Over time, economists have acknowledged that the contraction is likely to be less sudden, but more prolonged than first expected. Iran's experience shows that sanctions work gradually, Alfa Bank's chief economist Natalia Orlova said at conference in Mos-

cow on Friday, and can trigger economic activity in the first six months as the economy adjusts.

"The downturn is not as big as we all thought at first, but this does not mean that we can go into next year peacefully," Orlova said. "We cannot rule out a deeper contraction next year when compared with 2022, it could be 5-6%."

In February, the Bank of Russia hiked its key rate to 20% from 9.5% in order to mitigate risks to financial stability, before beginning a series of rate cuts to the current 7.5% level.

After a rate hold on December 16, the bank will continue easing monetary policy in 2023, the poll suggested, with the key rate set to end next year at 6.75%. The rouble is expected to trade at 74.00 against the dollar a year from now, according to the poll, compared with a rate of 77.50 predicted by analysts in early November.

Friday's official rate was at 61.15 roubles per dollar. "The key story for the Russian rouble in the coming months could be the launch of the EU's oil embargo mechanism from December 5 and the imposition of a price ceiling on Russian oil," said Mikhail Poddubsky, asset manager at MKB Investments.

But Poddubsky said that although he expects a moderate decline in physical oil exports, capital controls and Russia's strong current account surplus mean the impact on the rouble may be insignificant. Inflation, one of the key concerns among Russian households, is expected to accelerate to 12.1%, from 8.4% in 2021, according to the poll.

Wall Street strategists turn bearish on stocks after bad year

Bloomberg
New York

One bad year in the stock market has turned Wall Street strategists into bears after two decades of bullishness.

The average forecast of handicappers tracked by Bloomberg calls for a decline in the S&P 500 next year, the first time the aggregate prediction has been negative since at least 1999. Most of them turned progressively more dour as the worst year in the market since the financial crisis moved toward its end.

Strategists often say they have no crystal ball, and the breadth of outcomes seen by 17 firms makes the point. The S&P 500 is forecast to do everything from rise 10% by next December to fall by 17%, the widest gap since 2009, reflecting a debate over the path of Federal Reserve policy and whether the economy is bound for a recession.

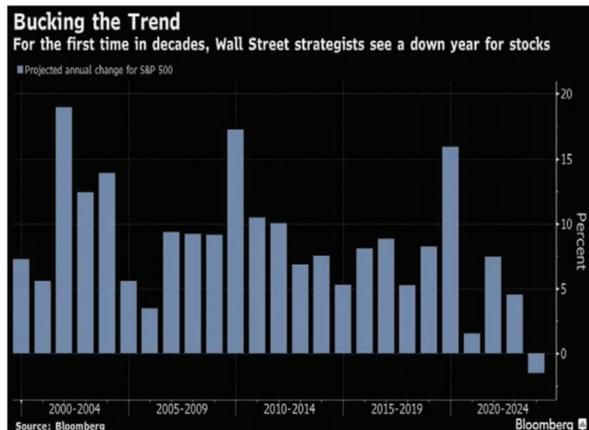
"There's a divide economically, and that is what's causing a divide among the market forecasters for the S&P

500," said Rich Weiss, chief investment officer of multi-asset strategies at American Century Investments. "For the stock market to be down two years in a row, that doesn't happen very often. That would assume that this recession is really going to be bad and the market continues downward or flat for a longer time."

In almost a century of historic data, two straight years of losses or more only occurred on four separate occasions, with the latest episode coming during the bursting of the dot-com bubble.

At 4,009, the average projection for the S&P 500 calls for a decline of more than 1% by the end of 2023 from Thursday's close.

With just one month to go, 2022 continues to be one of the most punishing years for investors. Dip buyers kept getting lured back by violent bounces, only to see shares drop to fresh lows. Outside commodities, almost every major financial asset lost money. Even trades that once worked as a hedge during market crashes, such as buying put options on the S&P 500, fell flat.



Most investors and strategists didn't see it coming, partly because the Fed originally judged inflation to be transitory, then had to hasten monetary tightening to battle runaway consumer prices.

The S&P 500 sank into a bear market, plunging as much as 25% from its January peak. Even after a 14% rally since its October low, the index trails the most bearish projection that strategists made 12 months ago

by more than 300 points. When the bottom will arrive, however, is the topic of another debate. Binky Chadha at Deutsche Bank AG, whose S&P 500 target of 4,500 is the highest of all, expects stocks to tumble to fresh lows during the third quarter as a recession starts.

The index, he says, will drop to 3,250, before staging a powerful rally to end the year higher.

Morgan Stanley's Mike Wilson agrees that the bear market is not over, though he sees a bottom forming in the range of 3,000 to 3,300 during the first quarter, when the Fed will stop rate hikes, and the S&P 500 will finish the year at 3,900.

While his team isn't warning of an outright recession, they expect a combination of rising labour costs and weakening corporate pricing power to lead to a wave of earnings downgrades that will weigh on share prices.

"We view that scenario as an economic muddle through, and one that is still negative for margins/earnings and therefore equity markets," Wilson, ranked as the best portfolio

strategist in this year's Institutional Investor survey, wrote in a note last month.

Disparate calls are little help for money managers who have raised cash holdings to decade highs while waiting to put the money back to work.

Bad market timing can be costly, as investors can lose by sitting out the biggest single-day gains. Take the last bull market that began in March 2020. Without the 10 best days, the S&P 500's return would have been cut by almost half, dwindling to 63% from 114%.

While clashing views are vexing, Aneet Chachra, a fund manager at Janus Henderson Investors, says that's not necessarily a bad thing because it forces investors to consider a wide range of outcomes, leaving the market less vulnerable to shocks.

"When volatility is high, the market is already pricing in that there can be a wider path in the future so it becomes harder for a large shock relative to expectations to happen," he said. Still, he added, "I don't envy the task of making these forecasts."