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Tesla set to cut Shanghai factory production in sign of sluggish demand

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BUSINESS

ENERGY SECURITY : Page 7

Trafigura signs $3bn German-backed loan for gas supplies

Chamber to continue supporting Qatar's growth post-World Cup, says its chairman

By Peter Alagos
Business Reporter

The State of Qatar is celebrating the success of the 2022 FIFA World Cup, which has already entered its halfway mark. In line with this milestone, Qatar Chamber will continue supporting the country's economic development even after the tournament, according to its chairman, Sheikh Khalifa bin Jassim al-Thani.

Qatar's economy is expected to continue to grow at an accelerating pace after the tournament, Sheikh Khalifa stated in the latest edition of *Al Moltaqa*, the chamber's monthly economic magazine.

He noted that the country will still gain the attention of the international community "for a long time" and will continue to benefit from the World Cup by cementing itself on the global investment map. This, he continued, is in line with the efforts made to achieve the goals of the Qatar National Vision 2030.

Sheikh Khalifa said the chamber will continue to represent and strengthen the private sector's role in Qatar's economic development. It will also address all challenges and obstacles to find the appropriate solutions, as well as promote the national economy and strengthen co-operation with all institutions and chambers worldwide, he stressed.

"Qatar Chamber will also contribute to participating in the efforts to achieve the Qatar National Vision 2030 by promoting economic diversification and attracting investments to the state," Sheikh Khalifa pointed out.

The chamber is keen to enhance communication with all ministries and authorities concerned in Qatar's private sector in order to discuss all challenges and difficulties and to find appropriate solutions. The chamber will also work to provide appropriate recommendations and give its opinion on private sector issues.

Sheikh Khalifa also affirmed the pivotal role of the private sector in preparing for the FIFA World Cup Qatar 2022, noting the strong participation of Qatari companies in the tournament's projects and their support services during the event in all sectors.

He stressed the need for concerted efforts by citizens and residents to make this global event a success, adding that the tournament "will leave a unique imprint in the history of the FIFA World Cup."

"The State of Qatar has become a leading global investment destination," he said, noting that international institutions had been commending the Qatari economy, which is expected to grow by 4.9%, according to the International Monetary Fund.

Sheikh Khalifa said the promotion of the State of Qatar is one of the most important gains from the World Cup, citing the positive impact of the tournament on the development of infrastructure, tourism, hotel facilities, transportation, and communication services.

Qatar Chamber chairman Sheikh Khalifa bin Jassim al-Thani.

North Field expansion: Recent LNG deals awarded to have positive medium-term impact

By Pratap John
Business Editor

Recent LNG deals awarded for Qatar's North Field gas expansion project will have a positive medium-term impact, facilitating an increase in LNG capacity by almost 65% to 126mn tonnes per year (mtpy) by 2027 from 77 mtpy now, Oxford Economics said in its latest country report.

In the two weeks, Qatar secured multi-year supply agreements with China and Germany for LNG output set to be added in the first phase of the project due to be completed in 2026.

Qatar's non-hydrocarbon sector recovery will slow in 2023 after a strong rebound this year, Oxford Economics said.

"We see non-oil GDP growth of 7.6% this year, the fastest rate since 2015. The pace will then slow to 3.3% in 2023 as momentum eases once the World Cup concludes. This will still be stronger than the 2.7% expansion in 2021, which followed a decline of 4.7% in 2020," noted Maya Senussi, senior Middle East economist at Oxford Economics.

The non-oil economy surged by 9.7% in Q2, up significantly from 5% in Q1. The latest survey data show momentum has eased from record high levels, but the influx of World Cup fans means non-oil activity should remain resilient at year-end. The latest figures show Qatar's tourist numbers neared 1.2mn in January-September, almost quadrupling relative to the same period in 2021, thanks to a surge in arrivals from other GCC countries as well as India, the US, and the UK.

The World Cup event is estimated to attract more than 1mn visitors. This should lift the total number of visitors this year above pre-pandemic levels (2.1mn).

The month-long event, which started on November 20, has brought an influx of visitors, supporting activity, despite global headwinds.

However, inbound travel to Qatar will decline in 2023, before a rise in regional arrivals spurs a recovery thereafter, the report said.

Qatar is the world's second-largest LNG exporter (after the US). There is also heavy investment in gas-to-liquids, petrochemicals, a gas export pipeline, infrastructure, and tourism.

Some $200bn has been spent on infrastructure, partly related to the 2022 football World Cup, and partly to an expanding population and the country's long-term strategy, the Qatar National Vision 2030. In addition, Qatar is developing into a significant regional financial and educational centre, Oxford Economics noted.

Higher commodity prices boosting Qatar public finances, says Oxford Economics

By Pratap John
Business Editor

Higher commodity prices are boosting Qatar's public finances, Oxford Economics said and noted energy prices will remain high in 2023, buoying the country's fiscal position.

Pending the release of the 2023 budget, Oxford Economics forecasts a fiscal surplus of 8.8% of GDP next year and for the public debt-to-GDP ratio to subside to 41.7% in 2023, from a projected 46.3% this year.

"With the debt burden shrinking, Qatar's credit rating will likely be upgraded further," Oxford Economics said in its latest country report.

In early November, S&P raised its rating for Qatar by a notch to 'AA' with a stable outlook, which came on the heels of Moody's positive credit outlook change.

"We keep our 2022 GDP growth forecast at 5.2% and continue to see the pace of GDP growth slowing to 2.7% in 2023," noted Maya Senussi, Oxford Economics' senior Middle East economist.

Qatar's economy is now the largest it has ever been following the 6.3% year-on-year (y-o-y) surge in output in Q2.

Data show the expansion was driven by 9.7% y-o-y growth in the non-oil sectors, up from 5% in Q1, amid strength in construction, transportation, wholesale and retail trade, and real estate.

Meanwhile, the oil sector expanded by 1.2% y-o-y, following an annual decline of 1.8% in Q1. Though recent industrial production data have yet to be released, Oxford Economics expects contribution from the oil sector to have remained positive.

Energy prices have come under pressure as the world economy weakens. But the researcher thinks they will remain elevated, providing support to Qatar's macroeconomic environment.

"The 2023 budget is being finalised, but we expect it to again be based on cautious revenue assumptions, such as the $55 a barrel oil price underpinning this year's budget. With spending somewhat rising and oil and gas prices boosting revenue, we expect a budget surplus averaging 8.8% of GDP in 2022-2023," Oxford Economics noted.

Qatar's figures for H1, 2022 show the widest budget surplus since 2014. The budget was in surplus in 2021, reversing a deficit of 2.1% of GDP in 2020, the lowest in the GCC, Oxford Economics said.

The riyal's peg to the dollar implies Qatar's central bank will track the higher rate path in the US, where the researcher expects the Federal Reserve to continue tightening into next year.

The monetary authority has matched the Fed's moves since March, most recently raising the repo rate by 75 bps to 4.75% in November. While the hikes have had a very limited impact on growth so far due to supportive energy and fiscal trends, borrowing costs will likely have risen by 425 bps in a year, weighing on non-oil growth in 2023, Oxford Economics noted.

Qatari banks have been resilient and are well capitalised and profitable, with low levels of non- performing loans.

However, their reliance on foreign funding has risen, and Fitch downgraded some bank ratings earlier this year, it noted.

Women take photos at the Flag Plaza in Doha. Qatar's economy is now the largest it has ever been following the 6.3% year-on-year (y-o-y) surge in output in Q2, says Oxford Economics.

UAE seeks economic pact to boost trade with war-torn Ukraine

Bloomberg
Dubai

The United Arab Emirates said it will start trade talks with Ukraine aimed at eventually helping to rebuild its war-hit economy and open up more access for its grains.
The Gulf state said it plans to negotiate a wide-ranging economic deal which will boost bilateral trade with Ukraine, one of the Middle East's most important sources of grains such as barley and wheat.
The pact, known as a Comprehensive Economic Partnership Agreement (CEPA), will lay the groundwork for freeing up trade flows between the two countries. The energy-rich UAE has already signed or started talks on such deals with countries it is targeting for trade growth such as India and Turkiye.
The CEPA offers opportunities for exporters, investors, and manufacturers "while also opening up access to new markets in Asia, Africa, and the Middle East for Ukraine's agricultural and industrial output," UAE Minister of State for Foreign Trade Thani al-Zeyoudi said in a statement yesterday.
The goal is to have a "mutually beneficial deal that can not only help drive Ukraine's economic recovery but also foster long-term growth and opportunity," he said after meeting with Ukraine's Economy Minister Yulia Svyrydenko.
The UAE has maintained ties with both Ukraine and Russia, as the war splits large world powers. The Gulf state's ruler travelled to meet Russian President Vladimir Putin in October amid an upsurge in the conflict. The UAE's business capital Dubai has become a top destination for both Russians and Ukrainians.
The UAE and Ukrainian economies are "complementary" thanks to the UAE's position as an international trade and logistics hub and Ukraine's as a "global food security guarantor and a growing IT powerhouse" Svyrydenko said in the statement.
Apart from food security, the talks will focus on opening up access to other sectors including infrastructure, pharmaceuticals, heavy industry, aviation, space and information technology.
The two countries had $900mn bi-lateral trade in 2021. In February of that year, more than $3bn in trade and investment pledges were made during Ukrainian President Volodymyr Zelensky's visit to the UAE. Russia's invasion of Ukraine meant trade with the UAE fell during the first nine months of this year.
If the economic talks go to plan, the UAE could increase trade with Ukraine 10-fold over the coming decade, al-Zeyoudi told Bloomberg. The UAE is seeking to deepen trade ties with fast-growing economies as it remodels itself as a global hub for business and finance beyond the Middle East.

A money changer counts Turkish lira banknotes at a currency exchange office in Diyarbakir, Turkiye (file). The statistical effect of a high base a year earlier and two months of relative stability in the Turkish currency are starting to help contain cost increases, even as inflation remains near the fastest since 1998. On a monthly basis, prices grew 2.9% in November.

Turkiye inflation finally slows for the first time in over year

Bloomberg
Istanbul

Turkish inflation slowed for the first time in over a year and a half, though measures to revive the economy ahead of elections in 2023 may keep it elevated for some time.

Consumer prices rose an annual 84.4% in November, down from 85.5% the previous month, according to data released yesterday. The median forecast of economists surveyed by Bloomberg was 84.8%.

The statistical effect of a high base a year earlier and two months of relative stability in the Turkish currency are starting to help contain cost increases, even as inflation remains near the fastest since 1998. On a monthly basis, prices grew 2.9% in November.

Inflation this year reached the highest level since President Recep Tayyip Erdogan took power almost two decades ago after Turkiye embarked on policies that prioritised economic growth and cheap lending at the expense of the lira and price stability. Officials have blamed faster price increases on high commodity costs, partly caused by Russia's invasion of Ukraine, and other external factors.

"Expansionary fiscal and credit policies ahead of general and parliamentary elections in mid-2023 will add to inflationary pressures. But, even as monthly price gains remain positive, annual inflation is set to decelerate through to the fourth quarter of 2023 due to high levels in base periods," says

Selva Bahar Baziki, economist, Bloomberg Economics.

While inflation is peaking later than initially expected by authorities, Erdogan has been reiterating his unconventional view that lower borrowing costs have the power to ease prices. He has urged the central bank to cut its benchmark into single digits, a goal it reached with its fourth straight cut in late November that brought the key interest rate to 9%.

As a result, Turkiye has one of the world's deepest negative rates when adjusted for prices. But the president has already signalled the country will stick with the ultra-loose monetary policy approach.

Treasury and Finance Minister Nureddin Nebati said on Twitter that he expects the "downward trend in inflation will be sharply felt" in the coming months, largely because of base effects.

A November survey by the central bank found that respondents anticipate inflation to be 68% at the end of 2022 and almost 21% as far out as two years.

The central bank has a more upbeat assessment. It predicts consumer inflation will end this year at about 65% - 13 times higher than its official target.

Governor Sahap Kavcioglu has said the rate cuts were in response to signs of an economic slowdown. He has relied on a number of indirect measures to control loan growth and promote wider use of the lira.

Consumer prices could come under pressure again if authorities unleash more stimulus ahead of elections just months away. A much-anticipated increase in the minimum wage is expected to be announced in December.

"Although annual inflation will decelerate due to base effects - related to the lira's drop a year ago - the underlying trends remain worrying," said Marek Drimal, a Societe Generale strategist. "We don't expect inflation to return anywhere near the central bank's target on our outlook horizon."

Jumia moves top bosses to Africa from Dubai in profit push

Bloomberg
Dubai

Jumia Technologies AG is closing its office in Dubai and moving senior management to the African countries they oversee as part of a plan to cut losses and redirect the company after its founders quit last month.

Managers will move to countries in their region, with most going to Morocco, Kenya and Ivory Coast, and the 60-person Dubai office will be disbanded, Jumia's acting head Francis Dufay said in an interview.

"As we are an Africa-focused company, we want our leaders to be based with customers, vendors and employees," he said.

Dufay took over after founders Sacha Poignonnec and Jeremy Hodara left the online retailer last month. He said he's attempting to cut costs - Dubai's rents are rising faster than those in New York or London - and become more responsive to the young, tech-savvy population in its African markets while fending off larger competitors.

Jumia went public in 2019 in a New York listing where it was hailed as the Amazon of Africa. Since then, it's been struggling with persistent losses and its shares have dropped 68%. Meanwhile, Amazon.com Inc is planning to expand its e-commerce service into some of the larger African markets as soon as next year, people familiar with the matter said.

A representative for Amazon didn't immediately respond to a request for comment.

Still, Dufay said that the company's more than 10 years of experience operating in Africa give it an advantage over new competitors. For example, Jumia has built a logistics business from scratch to deal with the lack of formal addresses and city mapping in many of the areas where it makes deliveries.

The company, which was one of the first African companies to achieve so-called unicorn size and has attracted investors such as US investment bank Goldman Sachs Group Inc, plans to reduce its losses over the next 12 months, Dufay said, without elaborating. Jumia previously guided that it expects an adjusted Ebitda loss of $200mn to $220mn this year.

He said he'll double down on Jumia's "bread-and-butter" e-commerce categories, including fashion, beauty, consumer electronics and appliances. The company will also pause the logistics services it offers third parties in its operating countries except for Morocco, Nigeria and Ivory Coast, he said.

Egypt devaluation sends business conditions into deeper declines

Bloomberg
Cairo

Operating conditions in Egypt's non-oil private sector economy deteriorated in November, as a dramatic devaluation of the pound forced businesses to cut output.
A Purchasing Managers' Index compiled by S&P Global dropped to 45.4 last month from 47.7 in October, remaining below the 50 mark that separates growth from contraction. It was the second-lowest reading since June 2020.
"Egyptian firms faced an immediate hit to demand from a rapid depreciation of the pound since late October," David Owen, economist at S&P Global Market Intelligence, said in a report published yesterday. That caused output to fall at the sharpest pace since a Covid-19 lockdown in May 2020.
The North African country, which is racing to protect the economy from the fallout of the Russian invasion of Ukraine, devalued its currency for the second time in 2022, helping it secure a rescue package with the International Monetary Fund. Annual inflation exceeded 16% in October.
The currency's decline "led to a marked increase in prices paid for raw materials, which have already been exacerbated by import restrictions since early-2022," Owen said. The amount of backlogged orders climbed again as some companies saw new disruption to supply chains, according to the survey.
The survey also found that employment levels increased for the fourth time in five months. There was a mild improvement in optimism about future output, albeit tempered by concerns over inflation, currency weakness and a global economic slowdown. While the latest FX move signals a further rise in inflation in November, it is hoped that slowing demand and falling commodity prices will start to alleviate price pressures in the medium- to long-term," Owen said.

Saudi stock exchange launches market-making framework to boost liquidity, efficiency

A Saudi woman walks at the Saudi stock market (Tadawul) in Riyadh. Crown Prince Mohamed bin Salman said in July that Saudi Arabia aimed for its stock exchange to be among the three biggest in the world, part of a broad economic agenda to diversify the economy away from oil.

Reuters
Dubai

Saudi Arabia's stock exchange said on Sunday it was launching a market-making framework for its stock and derivatives markets to help ensure liquidity and raise price-determination efficiency.

Entities must be exchange members, derivatives exchange members or their clients to be market makers.

"Market Makers have to ensure the availability of liquidity for a listed security by providing continuous quotes throughout market open session," the Saudi Exchange, also known as Tadawul, said. "The Saudi Exchange will monitor compliance with Market Maker obligations, and will provide incentives to the Market Maker after obligations are met."

Dubai, with which Riyadh has a deepening economic rivalry, announced in November last year a 2bn-dirham market-maker fund to boost trading on the stock market, with a goal of doubling its size to 3tn dirhams.

State-led IPO programmes in Saudi Arabia, Abu Dhabi and Dubai have helped equity capital markets in the oil-rich Gulf, in sharp contrast to the United States and Europe, where global banks have been trimming headcount in a deal-making drought.

Gulf issuers have raised about $16bn through such listings this year, accounting for about half of total IPO proceeds from Europe, the Middle East and Africa, Refinitiv data shows.

Saudi oil giant Aramco's base oil subsidiary Luberef expects to raise up to 4.95bn riyals ($1.32bn) from its IPO if it prices at the top of a range announced on Sunday.

Saudi Arabia's Crown Prince Mohamed bin Salman said in July that Saudi Arabia aimed for its stock exchange to be among the three biggest in the world, part of a broad economic agenda to diversify the economy away from oil.


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everything is possible

Investors bet China's rally on easing Covid curbs will be furious but fleeting

Reuters
Shanghai/Hong Kong

Investors piling into China's tourism, catering and beverage stocks as Beijing eases strict Covid-19 curbs are also keeping an eye on the exits, factoring in risks of a surge in infections early next year that could hit consumption and production.

Many investors say that stocks of drugmakers and medical equipment companies, however, will likely get a more lasting lift from China's bumpy journey towards an eventual economic opening.

China's stocks and currency have jumped and global banks have turned more bullish on its prospects, as Beijing moved towards a more targeted zero-Covid policy while reducing virus testing and quarantines, after it was confronted by widespread anti-lockdown protests.

Zhang Kexing, general manager of Beijing Gelei Asset Management, said he has made big bets on duty-free shopping, home furnishing, and food and beverage stocks that will benefit from easier Covid rules, but some are merely short-term wagers.

"If other economies offer any guide, the consumption recovery is likely to disappoint in the short term after an economic reopening," Zhang said, adding that much of the expected revival has been priced in.

Investors have snapped up Chinese tourism, leisure, retailing and food and beverage stocks over the past week.

A study by Chang Jiang Securities on the correlation between economic growth and Covid-related policies in Asian economies concluded that relaxing Covid rules does not lead to a sustainable recovery in consumption.

A possible jump in infections — and deaths — could curtail social activity and hurt retailers, according to the study, based on data from Singapore, South Korea, Indonesia, Vietnam, Thailand, Hong Kong and Taiwan.

"After curbs are relaxed, China could experience the impact from surging virus cases, along with rising deaths, potentially hitting the economy," the brokerage said.

Christopher Beddor, deputy China research director at Gavekal Dragonomics, said production could also be affected.

"I think it's reasonable to think that as infections rise, they're going to have shortages in some areas of workers," he said.

Grow Investment Group chief economist Hong Hao, warning of confusion and chaotic expectations ahead, recommended Internet platform companies and food delivery firms in the short term.

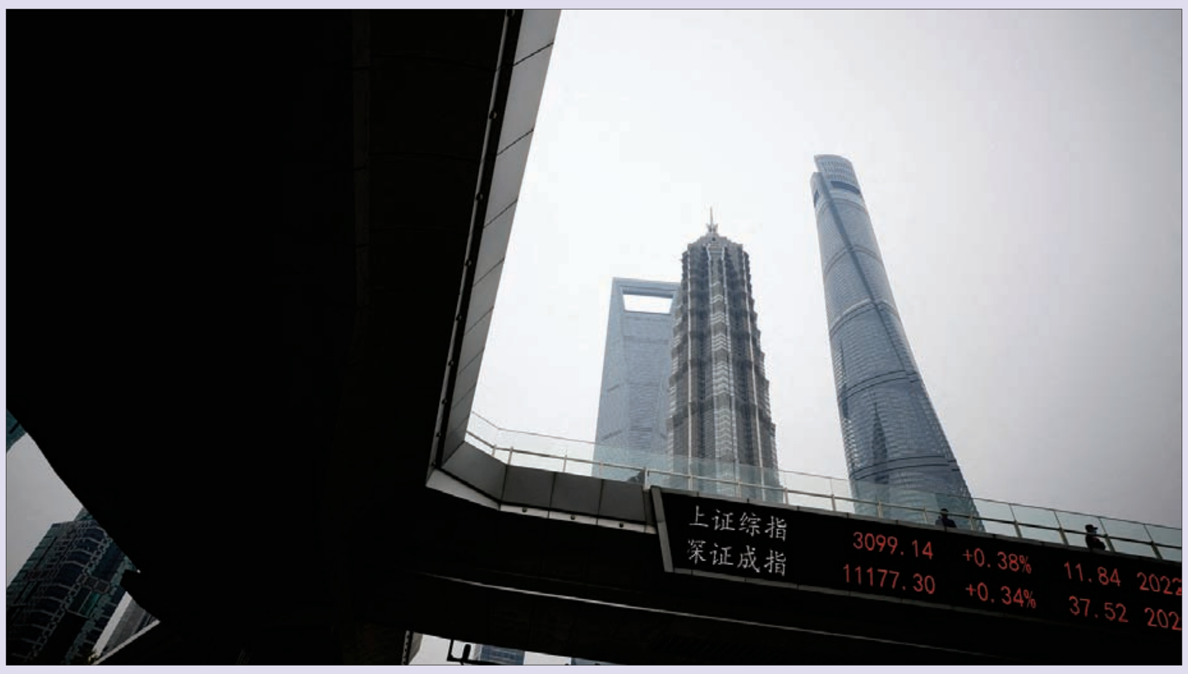
"Intuitively, as cases soar, people will choose to stay home to minimise the contagion risks," he said.

Yin Peixin, investment manager at Shanghai Jianlong Asset Management Co, expected a wave of panic about the pandemic during the Lunar New Year holiday in late January, when many Chinese will be travelling.

Rising infections would benefit drugmakers and producers of medical equipment, he said, but he advised against holding shares in makers of nucleic acid tests used by the authorities, as testing requirements ease.

"Domestic demand and prices will go down," he said.

Sinolink Securities recommends companies that make home-use antigen tests, such as Guangzhou Echom SCI & Tech Co and Sino Biological Inc, since these may instead be in greater demand if infections rise.



An electronic board shows Shanghai and Shenzhen stock indexes, at the Lujiazui financial district in Shanghai on November 14. China's stocks and currency have jumped and global banks have turned more bullish on its prospects, as Beijing moved towards a more targeted zero-Covid policy while reducing virus testing and quarantines.

Why Toyota's new Prius won't be its last

Bloomberg
London

Toyota aired a Super Bowl commercial almost 18 years ago that opened with cars in traffic, their wheels spinning but going nowhere. "It's been a long time since transportation has truly advanced," a narrator intoned. "We've been moving; we just haven't been moving forward."

The ad for the second-generation Prius echoes the criticism being lobbed at the manufacturer that just debuted a fifth-generation version of its flagship hybrid.

Toyota has ranked last when Greenpeace scored the 10 biggest automakers' decarbonisation efforts.

InfluenceMap, a think tank that evaluates corporate climate policy engagement, said last month that Toyota remains the most obstructive company in the transport sector.

Toyota would fare better in these rankings if it were to make a no-holds-barred pivot to fully electric vehicles and embrace policies pushing in that direction.

But while the company vowed a year ago to plough ¥4tn ($30bn) into an effort to sell 3.5mn EVs annually by the end of the decade, the new-look Prius the company just unveiled won't be the last iteration.

Toyota insists that building more of the hybrids it's been selling for 25 years doesn't mean it's spinning its wheels or failing to move forward.

Executives briefed reporters in Brussels last week on plans to reach carbon neutrality in Europe by 2040 — a decade before the company plans to reach net zero globally — and argued the tack they're taking is the quickest way to cut back on car pollution, given the lasting shortages of what's needed for automakers and their customers to go fully electric.

"When battery materials and renewable energy charging infrastructure are scarce — which is what they're going to be for the next 10 to 15 years — we need to employ systems thinking," said Gill Pratt, Toyota's chief scientist. "Battery cells should be put where they will do the most good."

To illustrate his point, Pratt gave an estimate of the typical lifetime emissions of 100 non-electrified vehicles.

He then gave a breakdown of how much the emissions rate of the fleet could be reduced assuming you only have 100 kilowatt hours of battery capacity to go around.

That happens to be the size of a Tesla Model S battery.

Using the entire battery supply to fully electrify one car reduces the emissions rate of the fleet by less than 1%. Using this scarce amount of cells to replace six non-electrified cars with plug-in hybrids each using 18kWh batteries would reduce the fleet's emissions rate a bit more — by about 2.4%. But the winner in Pratt's thought exercise would be to replace 90 non-electrified vehicles with hybrids using 1.1kWh batteries, which would lower the emissions rate of the fleet by 18%.

"We can debate the lifetime average carbon emissions that I've assumed here for each vehicle type," Pratt said. "The result is not going to change significantly, because the dominant factor is the different numbers of non-electrified vehicles that are displaced by the same amount of battery, not the exact lifetime emissions of each powertrain type. This is the fundamental rationale for Toyota's diverse approach."

Toyota is intimately familiar with battery raw material shortages — its trading arm Toyota Tsusho has invested in mining for more than a decade.

Pratt pointed to the price of lithium soaring to record highs of more than $50,000 per tonne, 10 times higher than just two years ago.

The automaker estimates that more than 1bn people don't have access to adequate electricity supply.

And whereas the average battery-electric vehicle, or BEV, sells for more than $65,000 in the US, the current-generation Prius starts at just over $25,000.

"BEVs are a satisfactory answer in Europe and increasingly in the US, where infrastructure is being built out and there is enough electricity — for now," Toyota President Akio Toyoda said in remarks shared with reporters. "They are not yet the answer everywhere, nor are they yet affordable for all."

At a similar forum in Brussels this time last year, Toyota vowed to be ready to sell only zero-emission cars in Europe by 2035, aligning itself with the European Union's planned phase-out of combustion engine cars.

It staged the European premiere of bZ4X, the first in a series of six Toyota brand EVs it will sell in the region by 2026.

The launch of the RAV4-like SUV didn't go according to plan — a single bZ4X was delivered to a customer in Europe before Toyota stopped sales worldwide over a hub bolt issue that could lead to wheels detaching from the vehicle.

Sales will start months late in major European markets in the first quarter.

Despite the rocky start, the company's sales units are projecting demand next year that the company won't be able to meet with enough supply, Matt Harrison, the president of Toyota Motor Europe, said in an interview.

The fifth-generation Toyota Prius. Toyota insists that building more of the hybrids it's been selling for 25 years doesn't mean it's spinning its wheels or failing to move forward.

US finds Chinese solar manufacturers are evading decade-old tariffs

Bloomberg
Washington

Chinese solar manufacturers are circumventing decade-old tariffs by assembling equipment in Southeast Asia before shipping it to the US, according to initial findings by the US Commerce Department.

The probe found that some solar cells and modules exported from Cambodia, Thailand, Malaysia and Vietnam used wafers produced in China in violation of US tariffs, the agency said Friday in a filing.

"Today's preliminary determination underscores Commerce's commitment to holding the PRC accountable for its trade distorting actions, which undermine American industries," the agency said in a separate statement, referring to the People's Republic of China.

The finding threatens to worsen trade tensions between the US and China – the world's two biggest economies – as Democrats and Republicans both work to boost domestic manufacturing of solar equipment to reduce reliance on imports from Southeast Asia. Other industries including steel are closely watching the case because it could set a precedent for future investigations, essentially making it easier for tariff proponents to seek their expansion.

The Commerce Department is continuing its probe, with investigators deployed to Southeast Asia and doing other work that could lead to a different outcome when the agency issues its final determination next May. Regardless, penalties are unlikely to immediately sting the US industry, given President Joe Biden's decision to freeze new tariffs for solar imports from the four countries under investigation through June 2024.

The Coalition for a Prosperous America, an advocacy group that backed the investigation, called on Biden to withdraw the tariff moratorium in light of the findings, saying it "gives Chinese manufacturers a free pass to illegally circumvent" in the meantime.

Beginning June 6, 2024, the US government would begin collecting cash deposits as high as 254% for affected imports, though the majority of companies would be subjected to rates below 35%. Most solar manufacturers in the region also will have an opportunity to avoid new tariffs by certifying their products don't use certain components from China.

The Commerce Department probe was announced in March, after small California manufacturer Auxin Solar Inc alleged that some panel makers were circumventing anti-dumping and countervailing duties on China by completing manufacturing in Cambodia, Malaysia, Thailand and Vietnam. Those countries now constitute about 80% of annual US panel imports. The mere existence of the investigation initially spurred some manufacturers to slow or stop shipments to the US.

"The only good news here is that Commerce didn't target all imports from the subject countries," Abigail Ross Hopper, chief executive officer of the Solar Energy Industries Association, said in a statement. "Nonetheless, this decision will strand billions of dollars' worth of American clean energy investments and result in the significant loss of good-paying, American, clean energy jobs."

Foxconn sees Covid-hit China plant back at full output 'in late Dec-early Jan'

Reuters
Taipei

Apple supplier Foxconn expects its Covid-hit Zhengzhou plant in China to resume full production around late December to early January, a Foxconn source said yesterday, after worker unrest last month disrupted the world's biggest iPhone factory.

The world's largest contract electronics maker later yesterday said revenue in November fell 11.4% year-on-year reflecting production problems related to Covid-19 controls at the major iPhone factory.

"At present, the overall epidemic situation has been brought under control with November being the most affected period," the company said in a statement, adding it has started to recruit new employees and was gradually "restoring production capacity to normal". Foxconn said November revenue for its smart consumer electronics business, which includes smartphones, declined year-on-year partly due to a portion of shipments being impacted by production disruptions in Zhengzhou.

It did not elaborate.

The Zhengzhou plant has been grappling with strict Covid-19 restrictions that have fuelled discontent among workers over conditions at the factory.

Production of the Apple device was disrupted ahead of Christmas and January's Lunar New Year holidays, with many workers either having to isolate to combat the spread of the virus or fleeing the plant.

Following the November unrest, that saw workers clash with security personnel, Foxconn could have seen more than 30% of the Zhengzhou site's November production affected, Reuters reported last month citing a source familiar with the matter.

Foxconn hasn't disclosed details of the impact of the disruption on its production plans or finances.

Analysts say Foxconn assembles around 70% of iPhones, and the Zhengzhou plant produces the majority of its premium models including iPhone 14 Pro.

"The capacity is now being gradually resumed" with new staff hiring under way, said the person with direct knowledge of the matter.

The person declined to the named as the information was private.

"If the recruitment goes smoothly, it could take around three to four weeks to resume full production," the person said, pointing to a period around late December to early January.

Foxconn and the local government are working hard on the recruitment drive but many uncertainties remain, according to the source.

The person cited "fears" some workers might have about working for the company after the plant was hit by protests last month that sometimes turned violent.

"We are firing on all cylinders on the recruitment," the person said.

Foxconn declined to comment.

A second Foxconn source familiar with the matter said the company is hoping to resume full production "as soon as possible" but was not able to give a timeline.

"The situation has stabilised," the person said, referring to the protests and the government's easing of Covid restrictions.

"The local government is actively helping with the resumption."

The Taiwanese company said last month it expects a slight decline in fourth-quarter revenues year-on-year for its smart consumer electronics business and significant growth for cloud and network products.

The logo of Foxconn is seen outside a building in Taipei. Apple supplier Foxconn expects its Covid-hit Zhengzhou plant in China to resume full production around late December to early January, a Foxconn source said yesterday, after worker unrest last month disrupted the world's biggest iPhone factory.

EMs face risk of policy error amid conflicting priorities

Bloomberg
London

Emerging-market central banks face a Catch-22 where plunging economic growth means they can't keep monetary conditions tight, but elevated inflation doesn't allow them to halt rate hikes either.

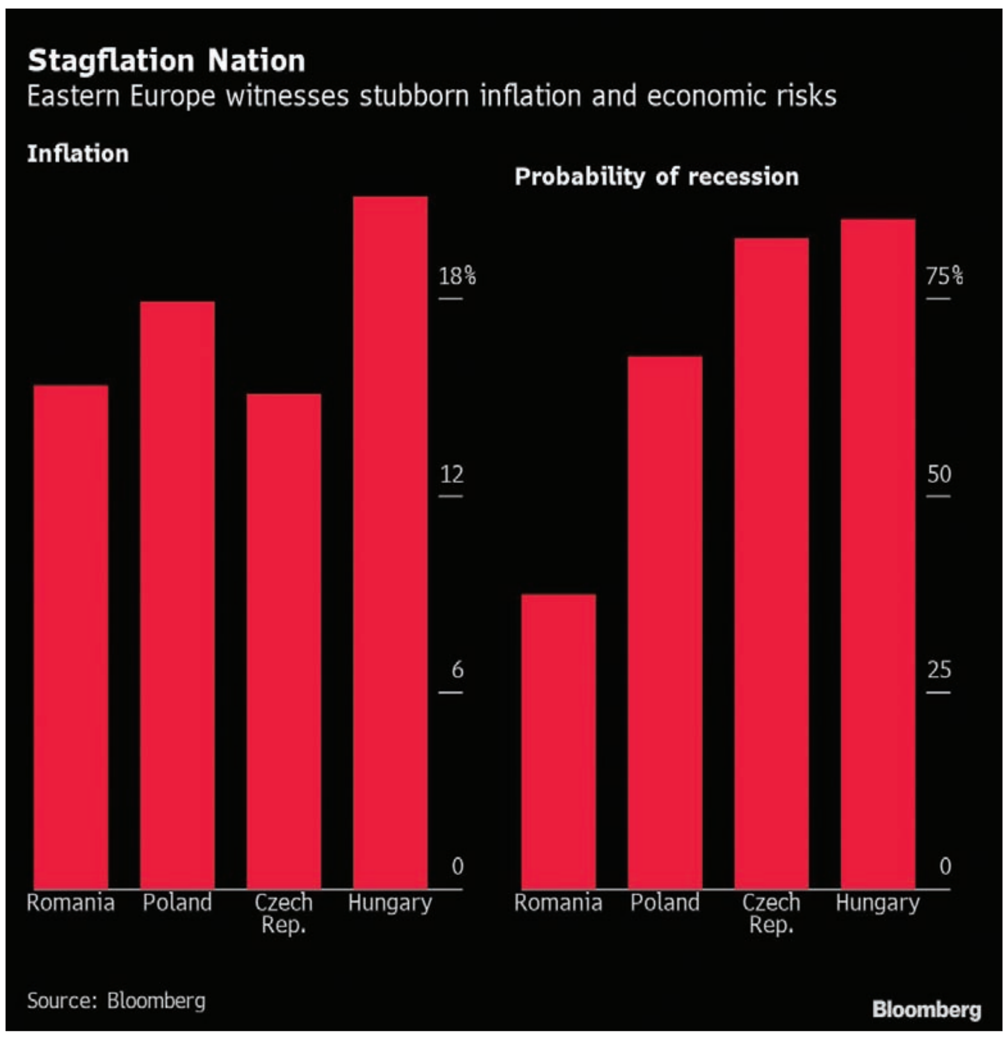
The result is a growing risk of monetary-policy error. Countries from Poland to Colombia, India to South Korea, are walking the tightrope trying to figure out the exact level of borrowing costs that won't cripple their economies but will keep a lid on consumer prices.

The answer isn't clear or easy. As long as the Federal Reserve keeps raising rates and China is hobbled by Covid, policy makers in poorer nations remain at the mercy of factors beyond their control.

Emerging markets (EMs) have witnessed an investor exodus this year despite having raised interest rates at an unprecedented pace. Local sovereign bonds plunged by the most since at least 2009, and currencies faced the worst annual losses since the Russian default of 1998. While a rebound since October has mitigated that slump, smaller economies are just one misstep away from a full-blown currency crisis. Any further selloff may shut off their access to capital markets, and push them into a cost-of-living crisis or even an economic collapse like that of Sri Lanka.

"Policy error is certainly something that we have to worry about," Tilmann Kolb, a Zurich-based emerging markets analyst at UBS Global Wealth Management, said about the dilemma he sees in central and eastern Europe. "If you raised rates by another 25 basis points, would that sink your economy?"

Hungary was the first to learn this bitter lesson. After one of the world's fastest tightening cycles that saw the benchmark rate multiply more than 21 times in 16 months, the eastern European country took a pause after a move in September. But within days, it was forced to resume a hawkish stance by inflation surging to the highest level since 1996 and its currency plunging to a record low against the euro.



Now, the pressure is building up in the opposite direction, with the economy contracting on a quarterly sequential basis and economists surveyed by Bloomberg projecting a recession in the first half of 2023.

Hungary's experience is an early warning for many other emerging markets. Within eastern Europe, both the Czech Republic and Poland are half way there, as forecasts show they face an 82.5% and 67.5% probability of a recession, respectively, despite halting rate hikes months ago. With inflation hovering in double digits in both countries, they may have little room to combat the slowdown.

"There is a question mark whether the Poles can stop hiking," said Amer Bisat, the global head of emerging-markets fixed income at BlackRock Inc. in New York. "They would like to stop hiking because they are worried about the economy, but inflation is not under control."

It's not that the temptation to pause tightening is entirely unjustified. Inflation has indeed shown signs of peaking in several emerging markets, especially early hikers like Brazil. Easing US consumer-price growth has emboldened policymakers and investors to turn attention to growth concerns. But examples like Hungary have imposed a reality check; it might be too early to stop the fight against costs of living after all.

The dilemma echoes in faraway Colombia. The nation famous for aromatic coffee, fine emeralds and exotic fruits may report a sixth successive month of hardening consumer prices even as economic expansion falters. Forecasts for 2023 call for a dramatic drop in gross-domestic-product growth, to 1.8% from 7.5% in 2022. Policy uncertainty around the newly formed Leftist government worsens the outlook, according to Barclays Plc.

"The problem would be for the new government to implement a more aggressive fiscal expansion or become too radical in terms of impeding investment and hydrocarbon production," said Erick Martinez, a currency strategist at Barclays. "That would increase the country risk and warrant higher rates for longer. It's not our base case but it's a risk."

The conundrum is spreading to Asia as well. While the continent is blessed with strong domestic demand, lower benchmark rates than other emerging-market regions and softer inflation, they remain vulnerable to capital outflows on account of deeply negative real yields. Countries in China's neighbourhood are also sensitive to growth hiccups in the world's second-biggest economy.

South Korea's monetary-policy board was divided last month over when to halt the tightening cycle. Of its seven members, three wanted to stop after another 25 basis-point increase, two wanted to continue beyond that level, and one said enough had already been done. This dispersion of views underscores how tricky it is to gauge a terminal rate for emerging economies when the Fed isn't done figuring out a peak. Meanwhile, officials dismissed as premature speculation forecasts by Citigroup Inc. and Nomura Holdings for rate cuts to begin as early as mid-2023.

In India, year-on-year economic growth more than halved to 6.3% in the latest quarter even as consumer-price growth remained above policymakers' upper tolerance level. The nation was a laggard in raising borrowing costs and has cumulatively added only 190 basis points to its repurchase rate. This does leave room for further tightening, but could undermine its growth ambitions. The Reserve Bank of India's policy path beyond a softer hike in December is a coin toss.

The need to balance between tackling inflation and sustaining economic activity will be seen across the world next year, but the dilemma has already arrived in Asia, Carlos Casanova, a senior economist at UBP SA, told Bloomberg Television.

All told, the clamour of a rate pause is only getting louder in emerging markets, underscoring a fatigue with hiking cycles. For instance, in Poland, the latest data showed a softer reading for the first time in eight months, and the arguments for an end to tightening have resurfaced at once.

"The scope for additional rate hikes is narrow, but strong commitment to leaving rates unchanged at a time of high inflationary pressure seems premature and inflexible," Dan Bucsa, UniCredit SpA's chief economist for central and eastern Europe, wrote in a note. "Central banks are committing too soon to ending rate hikes."

QSE MARKET WATCH

Company Name	Lt Price	% Chg	Volume
ZAD HOLDING CO	15.52	0.00	5,675
WIDAM FOOD CO	2.23	-0.13	408,555
VODAFONE QATAR	1.66	-1.25	1,135,104
UNITED DEVELOPMENT CO	1.39	-0.86	1,511,387
SALAM INTERNATIONAL INVESTME	0.70	-2.09	5,682,299
QATAR & OMAN INVESTMENT CO	0.59	-2.15	814,710
QATAR NAVIGATION	10.33	0.19	1,384,801
QATAR NATIONAL CEMENT CO	4.45	-0.22	50,131
QATAR NATIONAL BANK	19.50	0.52	3,814,455
QLM LIFE & MEDICAL INSURANCE	4.53	0.00	2,356
QATAR ISLAMIC INSURANCE GROU	8.76	0.77	22,008
QATAR INDUSTRIAL MANUFACTUR	3.23	2.54	103,645
QATAR INTERNATIONAL ISLAMIC	11.00	0.36	1,109,747
QATARI INVESTORS GROUP	1.87	0.54	467,021
QATAR ISLAMIC BANK	23.90	-0.13	823,876
QATAR GAS TRANSPORT(NAKILAT)	3.98	1.51	1,650,496
QATAR GENERAL INSURANCE & RE	1.80	0.00	-
QATAR GERMAN CO FOR MEDICAL	1.42	-0.70	3,667,404
QATAR FUEL QSC	18.19	-0.93	1,342,773
LESHA BANK LLC	1.24	-1.36	139,076
QATAR ELECTRICITY & WATER CO	16.92	-1.05	492,427
QATAR EXCHANGE INDEX ETF	11.64	-0.73	4,316
QATAR CINEMA & FILM DISTRIB	3.38	0.00	-
AL RAYAN QATAR ETF	2.60	-1.40	161,911
QATAR INSURANCE CO	2.01	-3.60	612,952
QATAR ALUMINUM MANUFACTURING	1.64	-0.97	5,286,316
OOREDOO QPSC	9.12	-4.00	3,083,348
ALIJARAH HOLDING COMPANY QPS	0.81	-0.49	4,098,651
MAZAYA REAL ESTATE DEVELOPME	0.79	-0.88	2,992,864
MESAIEED PETROCHEMICAL HOLDI	2.26	-3.29	1,917,253
AL MEERA CONSUMER GOODS CO	16.94	-0.35	13,536
MEDICARE GROUP	6.79	0.00	-
MANNAI CORPORATION QSC	8.64	0.50	251,205
MASRAF AL RAYAN	3.59	-0.03	14,460,746
AL KHALIJ COMMERCIAL BANK	0.00	0.00	-
INDUSTRIES QATAR	15.00	-2.98	2,933,106
INMA HOLDING COMPANY	4.89	-1.87	634,787
ESTITHMAR HOLDING QPSC	2.01	-1.95	5,721,201
GULF WAREHOUSING COMPANY	4.08	1.17	53,933
GULF INTERNATIONAL SERVICES	1.62	-0.49	5,352,694
AL FALEH EDUCATION HOLDING	1.20	0.00	-
EZDAN HOLDING GROUP	1.16	-0.86	2,337,354
DOHA INSURANCE CO	2.10	0.00	-
DOHA BANK QPSC	2.14	-0.37	1,972,968
DLALA HOLDING	1.32	-2.72	694,712
COMMERCIAL BANK PSQC	5.86	-0.68	1,347,970
BARWA REAL ESTATE CO	3.20	-1.23	2,361,392
BALADNA	1.66	-0.48	642,103
AL KHALEEJ TAKAFUL GROUP	2.33	-3.08	240,506
AAMAL CO	1.03	-1.35	313,879
AL AHLI BANK	4.01	-2.76	127

Vodafone CEO to step down after 4 years at helm

Vodafone chief executive Nick Read is stepping down, the British telecoms group said yesterday, after a four-year tenure marked by a steep fall in the company's share price, reports AFP.

Read will leave his role at the end of December following more than 20 years at the group, a statement said.

He will be replaced on an interim basis by Vodafone's chief financial officer Margherita Della Valle, who will continue her current role while Vodafone seeks out a permanent replacement.

His surprise resignation comes after Vodafone recently announced flat earnings for its first half and follows a near 20% drop in its share price this year. "I agreed with the board that now is the right moment to hand over to a new leader who can build on Vodafone's strengths and capture the significant opportunities ahead," Read said in the statement.

He departs with Vodafone in talks over merging its UK operations with rival Three UK, owned by Hong Kong-based CK Hutchison.

Vodafone believes a combination would accelerate the rollout of 5G telecoms technology in the UK, which has been partly hampered by Britain banning Chinese giant Huawei from involvement in the technology offering faster downloads than 4G.

Bloomberg QuickTake Q&A

What's boosting nuclear power? War and climate change

By Jonathan Tirone

After a steady decline, from generating 18% of the world's electricity in the mid-1990s to 10% today, nuclear power is showing signs of revival. China and India have consistently expanded use of the technology, but until recently safety concerns had led many Western countries to move in the opposite direction. Now, concern about global warming and secure energy supplies amid Russia's war in Ukraine has sparked renewed interest.

1. How are Western countries reinvesting in nuclear energy?

Some are committing to build new, large nuclear power plants. More are spending money to extend the lifetime of existing facilities. Many of the reactors in wealthy countries are approaching the end of their original design life span, which is usually 40 years. A reactor's longevity can be extended, but only with significant investment in refurbishment. A number of countries are also investing in so-called small modular reactors, though it will be at least several years before they are commercialised. The idea is that standardised parts would be built in factories and shipped for assembly on site, thereby reducing the cost of reactors.

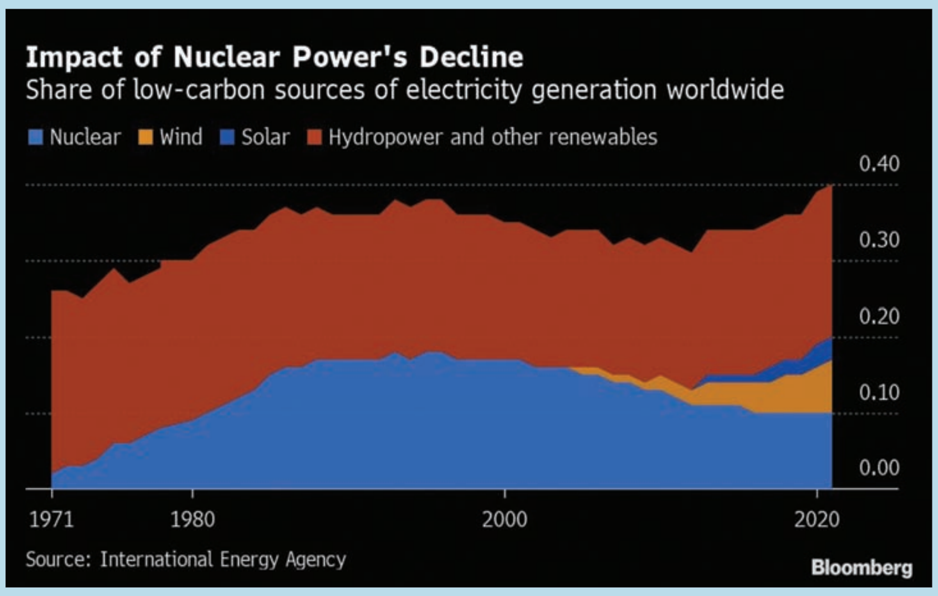
2. Who's taking action?

■ In the West, the UK and France lead the pack. The UK, where reactors currently generate about 15% of electricity, wants to boost that figure to 25% by 2050, in part by building as many as eight large reactors. France, which already generates 70% of its electricity with nuclear power, plans to build six new units while also extending the life span of existing reactors where it's safe to do so.

■ Japan and Germany reconsidered nuclear power after backing off in the wake of the 2011 disaster at Japan's Fukushima plant, where meltdowns at three units following an earthquake and tsunami forced more than 100,000 people to relocate. Japan aims to restart some idled reactors and to develop new plants using next-generation technologies. Germany decided after Fukushima to close all 17 of its nuclear reactors by the end of 2022. But in the wake of the Ukraine war and reduced flows of Russian gas, the government — a coalition including the Green Party, which opposes nuclear power — said it would keep three units operating past the deadline to limit the threat of winter blackouts.

■ Elsewhere, the US government is making $6bn available over four years to subsidise nuclear power plants at risk of closing prematurely for economic reasons. South Korea announced the construction of four more reactors by 2030 and the extension of 10 older units. Belgium asked Engie SA to extend the life of its Tihange 2 nuclear plant to ensure energy supplies. The Czech Republic, Hungary and the Netherlands have plans to build large new reactors, and Poland for the first time has committed to constructing three units.

■ European Union lawmakers in mid-2022 voted to allow nuclear energy projects to be labelled as green investments. If the move survives legal challenges, it would remove a key barrier to funding from investors targeting such initiatives.



3. What are China and India doing?

Hungry for energy, China has rapidly accelerated its use of nuclear energy. The government wants to expand capacity by almost a third within the next three years and has more than 20 reactors under construction. India expects to start building 10 more reactors between 2023 and 2025.

4. What are the arguments against nuclear power?

Opponents say Fukushima was only the most recent accident to demonstrate that nuclear power is too dangerous. Calamities also released radiation at Three Mile Island in the US in 1979 and Chernobyl in Ukraine, then part of the Soviet Union, seven years later. There's also the expense and environmental risks of disposing of reactor waste, which can remain dangerously radioactive for thousands of years. Critics cite large cost overruns that have plagued new reactor projects in the US and Europe. Construction of large new plants requires at least a decade, which won't be fast enough for many countries that have committed to cutting greenhouse gas pollution by half by 2030. Opponents argue that cleaner and safer forms of energy, such as solar and wind power backed up by batteries, can be deployed more quickly.

6. What are the arguments for nuclear power?

Proponents say that accidents are rare and that fossil fuels kill more people annually via accidents and pollution. Nuclear advocates also insist that the smaller, advanced reactors of the future will be even safer. The choice, they argue, isn't between nuclear energy and renewables but rather between the two working in tandem and a failure to avert the worst outcomes of climate change. Low-carbon sources provided about 40% of the world's electricity supply in 2021 — only about 4 percentage points more than 20 years earlier. That's because while renewable energy scaled up, nuclear power scaled down.

BIS warns of $80tn of hidden FX swap debt

Reuters
London

The Bank for International Settlements (BIS) has warned that pension funds and other 'non-bank' financial firms now have more than $80tn of hidden, off-balance sheet dollar debt in the form of FX swaps.

Dubbed the central bank to the world's central banks, the BIS raised the concerns in its latest quarterly report, in which it also said this year's market upheaval had, by and large, been navigated without many major issues.

Having repeatedly urged central banks to act forcefully to dampen inflation, it struck a more measured tone this time around and also picked over the ongoing crypto market problems and September's UK government bond market turmoil.

Its main warning though was what it described as the FX swap debt "blind spot" that risked leaving policymakers in a "fog".

FX swap markets, where for example a Dutch pension fund or Japanese insurer borrows dollars and lends euro or yen in the "spot leg" before later repaying them, have a history of problems.

They saw funding squeezes during both the global financial crisis and again in March 2020 when the Covid-19 pandemic wrought havoc that required top central banks like the US Federal Reserve to intervene with dollar swap lines.

The $80tn-plus "hidden" debt estimate exceeds the stocks of dollar Treasury bills, repo and commercial paper combined, the BIS said, while the churn of deals was almost $5tn per day in April, two thirds of daily global FX turnover.

For both non-US banks and non-US' nonbanks' such as pension funds, dollar obligations from FX swaps are now double their on-balance sheet dollar debt, it estimated.

"The missing dollar debt from FX swaps/forwards and currency swaps is huge," the Switzerland-based institution said, describing the lack of direct information about the scale and location of the problems as the key issue.

"In times of crisis, policies to restore the smooth flow of short-term dollars in the financial system (e.g. central bank swap lines) are set in a fog."

The report also looked at the broader market developments over the last few months.

BIS officials have been loudly calling for forceful interest rate hikes from central banks as this year's inflation spike has taken hold, but this time it struck a more measured tone.

Asked whether the end of the tightening cycle may be looming next year, the head of the BIS' Monetary and Economic Department Claudio Borio said it would depend on how circumstances evolve, noting also the complexities of high debt levels and uncertainty about how sensitive borrowers now are to rising rates.

"The simple answer is one is closer than one was at the beginning, but we don't know how far central banks will have to go."

"The enemy is an old enemy and is known," Borio said, referring to inflation. "But it's a long time since we have been fighting this battle".

Other sections of the report focused on findings from its recent global FX market survey.

It estimated that $2.2tn worth of currency trades are at risk of failing to settle on any given day due to issues between counterparties, potentially undermining financial stability.

The amount at risk represents about one third of total deliverable FX turnover and is up from $1.9tn from three years earlier when the last FX survey was carried out.

FX trading also continues to shift away from multilateral trading platforms towards "less visible" venues hindering policymakers "from appropriately monitoring FX markets," it said.

Trafigura signs $3bn loan for gas supply backed by German govt

Bloomberg
Berlin

Commodities trader Trafigura Group signed a $3bn German government-backed loan for gas supply, as Berlin steps up efforts to secure natural resources following Russia's invasion of Ukraine.

Trafigura, which will primarily tap its global gas and liquefied natural gas portfolio, made the first delivery on November 1, the trading house said yesterday in a statement. The loan deal confirms an earlier report by Bloomberg News.

It's the second such deal in recent months, after Trafigura in October announced it had secured an $800mn loan to supply metals to Germany.

Increasingly, trading companies that have historically been major off-takers of Russian energy, grains and metals are now being tapped by governments to find alternatives from international markets.

Germany has had to retool its energy policy since the war in Ukraine forced it to end a longstanding dependence on cheap Russian gas. Chancellor Olaf Scholz has travelled to Saudi Arabia and Qatar seeking energy deals, and last week Qatar announced a long-term agreement to supply Germany with LNG starting in 2026. The nation used to get more than a half of its gas via pipelines from Russia.

The country is becoming increasingly concerned about supplies of other critical materials like metals that underpin technologies needed for the transition away from fossil fuels. The government is considering a state-backed fund to help find alternative suppliers to China, an initiative spearheaded by Economy Minister Robert Habeck.

Germany is offering backing for commodity traders through a program known as untied loan guarantees, managed via Euler Hermes AG - an export-credit unit that's now part of Allianz SE. The guarantees insure the majority but not all of the loans and were originally for encouraging Germany's manufacturing exports.

An LNG filling station for trucks in Dortmund, western Germany. The country has had to retool its energy policy since the war in Ukraine forced it to end a longstanding dependence on cheap Russian gas.

The four-year loan with Trafigura for gas supplies was jointly arranged and underwritten by Deutsche Bank AG and another bank, and syndicated to more than 25 other lenders.

For trading houses like Trafigura, the deals represent a key means of obtaining financing at a time when high commodity prices and extreme volatility have increased their need for credit and have left some banks reluctant to add exposure to the sector.

The loan means Trafigura has committed to delivering "substantial volumes of gas into the European gas grid, and ultimately into Germany, over the next four years," according to the statement. Trafigura will supply the gas to SEFE Securing Energy for Europe GmbH, a former unit of Gazprom PJSC that was recently nationalized by the German government.

We are supplying a "significant volume of gas to Germany backed by our extensive portfolio and long term US LNG contracts," said Richard Holtum, head of gas and power trading for Trafigura.

Fed could be pushed by overheated wages to higher peak interest rates

Bloomberg
Washington

Federal Reserve officials have enough worrisome inflation data to consider raising interest rates to a higher peak than investors expect and potentially follow the half-point hike they've signalled this month with the same again in February.

Monthly wages rose at the strongest pace since January and US employment surged more than forecast last month, a report showed on Friday. That will concern Fed Chairman Jerome Powell, who this week cautioned that slacker job-market conditions and less-lofty earnings growth were needed to cool an inflation rate near a 40-year high.

Powell and his colleagues, now in their pre-meeting blackout, have strongly suggested they would downshift to a half-point move at their December 13-14 gathering, after four straight 75 basis-point increases. He's also said they likely will need higher rates than they thought in September, when the median forecast saw them at 4.6% next year from a current target range of 3.75-4%.

"Powell has suggested that we're not in a wage-growth spiral yet, but that risk is still there," said Rhea Thomas, senior economist at Wilmington Trust Co. "This keeps in play this idea that they may have to raise the peak rate and potentially keep it in place for longer."

Bets on a downshift to a half-point hike this month were intact after the employment report and investors saw the likelihood of the same again at the Fed's January 31-February 1 meeting as roughly balanced. Pricing in futures markets shows rates peaking around 4.9% next year.

Officials will update their quarterly forecasts at the December meeting and could lift their median projection for the rate peak next year to 5% or above. St Louis Fed President James Bullard has called for a minimum 5.25% peak and some analysts, including Diane Swonk, chief economist at KPMG LLP, see rates as high as 5.5%, with the Fed willing to cause a recession if necessary to restore price stability.

"Inflation is like a cancer: if not treated, it metastasizes and becomes much more chronic," Swonk said. "The cure" of higher rates means "it's going to be a rough 2023."

Fed officials will get an additional consumer-price report before the December meeting and have another month of data to mull before they gather again early next year.

"Given the slow adjustment in the labour market, Fed officials may have to raise their terminal-rate forecast from what they wrote down in the September dot plot, likely to 5.25%", say Anna Wong and Eliza Winger at Bloomberg.

Powell on Wednesday said rising wages are likely to be "a very important part of the story" on inflation. While supply-chain difficulties seem to be easing for goods, helping the price outlook in that sector, he said wages are the largest cost for the services sector, so labour conditions are key to understanding the outlook on prices on everything from hotels to haircuts.

The jobs report showed average hourly earnings jumped 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 nonsupervisory 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.

"Pressures remain in the labour market and if anything are as bad as they've been," said Vincent Reinhart, chief economist at Dreyfus and Mellon. "They want a little more real restraint given that they believe - at least Powell believes - inflation pressures are embedded deeply into the consumer price basket."

While central bankers have set a goal of below-trend growth to cool price pressures, the addition of 263,000 jobs last month - leaving the unemployment rate at 3.7% - is the latest evidence that the US economy remains resilient. Growth in the fourth quarter may be 2.8%, well above estimates of what is sustainable in the long term, according to the Atlanta Fed's tracking estimate.

While Fed leaders have suggested there's scope to moderate to 50 basis points this month, they have sought to shift the focus of investors to where rates peak from the size of moves made at each meeting.

They have also emphasised the cumulative impact of prior increases and the notion that policy works with a lag. That's encouraged speculation they could step down to 25 basis-point moves next year to reduce the risk they go too far.

Even so, the latest jobs report could prod officials to consider another 50 basis points early next year.

"The Fed - and Powell in particular - is very much focused on labour-market driven sources of inflation and this report will keep him on high alert," said Thomas Costerg, senior US economist at Pictet Wealth Management. "I think they can carry on with another 50 at the following Fed meeting."

The labour force is growing much more slowly than expected, with 3.5 million fewer workers than expected after Covid-19 prompted early retirements and changed work patterns starting in 2020. That's not seen changing anytime soon.

"This labour shortage has helped feed inflation," Richmond Fed President Thomas Barkin said Friday, and with US baby boomers retiring, that's likely to continue over the long term. Even though the Fed has quickly raised rates, "we have seen labour demand continue to run ahead of supply," he said.

Why the US Inflation Reduction Act has Europe up in arms

Reuters
Paris

Top European Union (EU) officials were set to use a trade meeting with US counterparts yesterday to press concerns about Washington's huge new green energy subsidy package.
While EU countries welcome the new commitment to energy transition, they fear the $430bn Inflation Reduction Act (IRA) will unfairly disadvantage their companies relative to rivals in the United States.

Why is Europe angry?
The 27 EU countries are worried their companies will be cut off from US tax credits for components used in renewable energy technologies like electric cars, offered under the new law on condition they are made in North America.
EU countries consider that some €200bn ($207bn) of the US subsidies are tied to locally produced content provisions that potentially violate World Trade Organisation (WTO) rules.
European Commission President Ursula von der Leyen said on Sunday that while competition was a good thing, there should be a level playing field.
Not only do the tax breaks put European companies at a disadvantage to US rivals, but EU state aid rules in their current form prevent member countries from offering similarly generous tax breaks to companies looking to set up factories.
The EU is not Washington's only ally up in arms about the package, with South Korea also concerned its carmakers will not be eligible for the US tax breaks.

What does Europe want?
Since any major revision by the US Congress is out of the picture, European officials say their best hope is to secure exemptions along the same lines as those already granted to Canada and Mexico.
After French President Emmanuel Macron raised concerns last week during a state visit to Washington, US President Joe Biden opened the door to making "tweaks" to the package.
EU governments want a solution quickly, possibly with an arrangement agreed at an EU-US Trade and Technology Council meeting on December 5. A draft joint statement said ahead of the talks the package was on the agenda.
Although neither side wants to rekindle trade tensions that damaged transatlantic relations during the Trump administration, the head of the European Parliament's trade committee Bernd Lange said a negotiated settlement would only yield small changes, and that Europe should file a complaint at the WTO.
But such a riposte from Europe would be likely to face resistance from traditionally free-trade-friendly nations such as the Netherlands and Sweden.

Can Europe also support its companies?
France has led calls for Europe to respond with state support of its own for European companies, including through a "'Buy European' act" and large-scale subsidies.
While not as vocal about the possibility for a massive subsidy programme, Germany has shown interest in supporting European industry, although its coalition-led government is far from united about how to do so.
Meanwhile, some German officials point out that €200bn in EU pandemic recovery funds remain available and could be repurposed to support industry.
European governments can also pool resources to subsidise cross-border projects deemed to be in the broader EU interest, but getting such initiatives approved by the European Commission can often prove long and complicated.
With a number of big projects in the pipeline, French Economy Minister Bruno Le Maire and his German counterpart Robert Habeck last month called on the Commission to streamline and speed up the approval process.
Von der Leyen said that the EU's state aid rules should be adapted in response to the US green subsidy push.

A Tesla sign is seen at its factory in Shanghai. Tesla plans to lower production at its Shanghai factory, according to people familiar with the matter, in the latest sign demand in China isn't meeting expectations.

Tesla set to cut Shanghai factory output in sign of sluggish demand

Bloomberg
Singapore

Tesla Inc plans to lower production at its Shanghai factory, according to people familiar with the matter, in the latest sign demand in China isn't meeting expectations.
The output cuts will take effect as soon as this week, said the people, who asked not to be identified because the information isn't public. They estimate the move could reduce production by about 20% from full capacity, which is the rate at which the factory ran in October and November.
The decision was made after the automaker evaluated its near-term performance in the domestic market, one of the people said, adding that there's flexibility to increase output if demand increases.
A Tesla representative in China declined to comment. The carmaker's shares fell as much as 2.4% to $190.10 at 5.25am Monday in New York, before the start of regular trading.
The trimming marks the first time Elon Musk's EV maker has voluntarily reduced production at its Shanghai plant, with previous reductions caused by the city's two-month Covid lockdown or supply chain snarls. Recent price cuts and incentives such as insurance subsidies, along with shorter delivery times, suggest demand has failed to keep up with supply after an upgrade doubled the plant's capacity to about 1 million cars a year.
Tesla's China deliveries were a record 100,291 in November, China's Passenger Car Association said yesterday, as lead times for the Model 3 and Model Y - the two vehicles Tesla makes in Shanghai - shortened markedly, another sign the factory is pumping out more cars than it's selling.
Any Model 3 and Model Y ordered in China today should be delivered within the month, Tesla's website shows, down from as long as four weeks in October and up to 22 weeks earlier this year. The Shanghai factory mainly serves the Chinese market, although some cars are exported to Europe and other parts of Asia.
Full production capacity at the Shanghai factory is around 85,000 vehicles per month, Junheng Li, chief executive officer of equity research firm JL Warren Capital LLC, said in a November 22 note. "Without more promotions, new orders from the domestic market will likely normalise to 25,000 in December," she said, adding that increased production couldn't all be absorbed by exports.
Tesla is facing intensifying competition from local automakers such as BYD Co and Guangzhou Automobile Group, which are raising prices in the world's largest EV market. BYD posted a ninth consecutive month of record sales in November, with deliveries topping 230,000, including almost 114,000 pure-electric models.
This has contributed to Tesla - which has long eschewed incentives and traditional advertising - deciding to offer extended insurance subsidies, reinstating a user-referral program and even advertising on television.
Tesla's reliability also is back in the spotlight after two recalls in China in the past month that required both over-the-air software fixes and some vehicles to be returned for maintenance. A recent fatal crash involving a Model Y that killed two people has again sparked discussion of Tesla's safety record.

CLO investors brace for credit risk in loans next year

Bloomberg
New York

As interest rates rise, so are concerns about the credit quality of the floating-rate loans that back the $1.2tn market for collateralised loan obligations.
Loans are widely believed to face higher downgrades next year, and according to Amherst Pierpont Securities LLC, even assuming average levels of cuts, CLOs will probably get hurt. Most of the structures feature a guideline that can press them to cut off payments to holders of their riskiest bonds, and maybe even multiple groups of noteholders, if too many of their loans are cut to the CCC tier.
The rising focus on credit risk marks a likely shift in 2023, after the Federal Reserve reset the field of play in financial markets with aggressive interest rate hikes to battle the worst inflation in 40 years.
"If 2022 was a year of interest-rate risk and volatility, then 2023 will be a year of credit risk and fundamentals," said Pratik Gupta, head of CLO research at Bank of America Corp.
For much of this year, investors focused on the positives when it came to buying loans: interest rates were headed higher, which boosts yields on floating-rate debt, and corporate balance sheets were still relatively strong.
But as rising interest help investors earn higher coupons, they are also pressuring companies' cash flows. It's put a squeeze on companies that can be highly levered, giving them less room to manoeuvre in the event of a recession.
The US speculative-grade default rate could rise to 5% by October of 2023, up from 1.5% for the same month this year, if there's a recession in the US by the second quarter and 0.4% growth in gross domestic product overall next year. That's according to baseline projections by Moody's Investors Service.
The fallout may hit CLOs. About 70% of all leveraged loans have been purchased by CLOs, and nearly a third of those in CLO portfolios are rated B-, just one notch above CCC, according to BofA.
If ratings companies downgrade enough of those loans to CCC - in some cases more than 7.5% of the portfolio - then CLOs may look to begin diverting cash flows from lower-rated tranches, hurting investors. That scenario is more likely than not, according to a recent note by Amherst Pierpont Securities LLC.
Lauren Law, a CLO manager at Octagon Credit Investors, said her firm's exposure to lower-rated credit is manageable. Even so, Octagon is focused on reducing its exposure to lower-rated, B-rated loans.
If a US recession arrives and is particularly bad, then the damage could be worse.
"CLO portfolio exposures to borrowers with weak credit profiles is relatively high, leaving junior tranches at risk of credit quality deterioration under severe downturn scenarios," Moody's analysts wrote.
CLO managers may also have a harder time next year persuading investors to buy the bonds they issue. Higher interest rates may push yields on other safe kinds of debt, such as US Treasuries, to higher levels, giving investors more reason to buy those securities instead of CLOs.
That means spreads of CLO tranches could be pushed higher in order to entice buyers, in turn shrinking the all-important price arbitrage between the rates at which CLOs borrow money from investors and the rates at which they invest it in the underlying loans.
"There is competition from plain vanilla assets, making it unlikely CLOs outperform more than the limited compression we expect in the senior-most tranches," said Rishad Ahluwalia, head of global CLO Research at JPMorgan Chase & Co.

Bitcoin sinks further 70% in Standard Chartered list of possible 2023 upsets

Bloomberg
New York

Speculators cleaving to the view that the crypto rout is mostly over are at risk of a rude awakening in 2023, according to Standard Chartered.
A further Bitcoin plunge of about 70% to $5,000 next year is among the "surprise" scenarios that markets may be "under-pricing," the bank's Global Head of Research Eric Robertsen wrote in a note on Sunday.
Demand could switch from Bitcoin as a digital version of gold to the real thing, spurring to a 30% rally in the yellow metal, Robertsen also said.
This possible outcome involves a reversal in interest-rate hikes as economies struggle and more crypto "bankruptcies and a collapse in investor confidence in digital assets," Robertsen added.
He stressed that he wasn't making predictions but instead adumbrating scenarios that are materially outside of current market consensus. The question of just what lies ahead for digital assets has arguably never been harder to answer following the collapse of Sam Bankman-Fried's FTX exchange and sister trading house Alameda Research.
The tremors spreading from the blowup threaten to topple more crypto companies and buffet token prices.
For some, much of the bad news may already be reflected in a more than 60% plunge in Bitcoin and a gauge of the top 100 tokens over the past year.
"Our base case is that most forced selling is over, but investors might not be compensated for the market risk incurred in the immediate term," Sean Farrell, head of digital asset strategy at Fundstrat, wrote in a note on Friday.
Farrell pointed to ongoing uncertainty surrounding Digital Currency Group, parent company of embattled crypto brokerage Genesis. Creditors to Genesis are seeking options to try to keep the brokerage from falling into bankruptcy.
Robertsen of Standard Chartered said the surprise market scenario of gold surging as crypto retreats could see the precious metal scale $2,250 an ounce.
"Gold will benefit going forward from the problems in crypto, with the sudden decline in confidence in the crypto ecosystem," said Nicholas Frappell, global head of institutional markets at ABC Refinery in Sydney.
The crypto sector continues to retrench. For example, digital-asset exchange Bybit is planning to cut its workforce by 30%, the latest in a slew of layoffs to hit the industry.
More pain may lie ahead. Some 94% of respondents to Bloomberg's MLIV Pulse survey think that further blowups will follow the bankruptcy of FTX as years of easy credit give way to a tougher business and market environment.
Bitcoin for the moment is fairly steady. The largest virtual coin rose as much as 1.8% yesterday and was trading at a three-week high of about $17,340 as of 2.35pm in Tokyo. Tokens such as Ether, Solana and Polkadot also gained.


A representation of virtual currency Bitcoin and US dollar banknotes are seen in front of a stock graph in the illustration. Speculators cleaving to the view that the crypto rout is mostly over are at risk of a rude awakening in 2023, according to Standard Chartered.