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Global economic outlook brighter than feared, says IMF chief

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MONETARY POLICY: Page 2

Fed set to slow rate hikes again and debate how much further to go

S Korea looks to expand Qatar economic ties in semi-conductors, green energy: Envoy

By Peter Alagos
Business Reporter

South Korea has slated several initiatives this year to expand and enhance its trade and economic relations with Qatar in various sectors, including semi-conductors, e-mobility, and green energy, among others, the nation's top diplomat in Doha told *Gulf Times*.

Ambassador Lee Joon-ho said he believes South Korea and Qatar have the potential to deepen further and expand bilateral co-operation in various areas, including trade and investment based on the mutually complementary industrial and trade structure of both countries.

"In particular, as Qatar National Vision (QNV) 2030 aims at transforming Qatar into a more diversified economy, we will seek to expand the scope of co-operation to include semi-conductors, electric vehicles, and renewable energy sources, such as hydrogen.

"And South Korean companies, based on their excellent technologies and extensive experience, will continue to participate in various projects related to QNV 2030, including Qatar's North Field Expansion plan and other infrastructure projects, contributing to further strengthening bilateral economic co-operation," Lee explained in a statement.

South Korean ambassador Lee Joon-ho.

He said: "Furthermore, we will explore ways to enhance investment between our two countries for mutual benefits on the occasion of high-level exchanges, including the Korea-Qatar High-Level Strategic Co-operation Committee Meeting, as well as the Korea-Qatar Business Forum. By doing so, I believe we can further consolidate bilateral economic relations between Korea and Qatar."

In 2022, the South Korean embassy in Doha, in co-operation with different Qatari government ministries and private sector players like Korea Trade-Investment Promotion Agency (Kotra), Qatar Chamber, and Investment Promotion Agency Qatar (IPA Qatar), as well as South Korean companies, among others, held different initiatives and events aimed at enhancing bilateral trade and economic relations.

These initiatives focused on areas, such as agriculture, smart farming, blue and green hydrogen production, health and Information and Communications Technology (ICT), and finance, among others.

Speaking at the 2022 South Korea-Qatar Business Forum held in Doha, Lee underscored the need for both countries to expand co-operation ties "in new horizons" and forge close partnerships in various fields.

Citing co-operation in digital technology, Lee said the South Korean government's 'Digital Strategy' is seen to cement its leadership in digital infrastructure, which may open new co-operation projects in the digital field.

He stressed that both countries could enhance co-operation in sectors like smart farming and healthcare, noting that many South Korean companies are well-equipped with state-of-the-art technologies and are "capable and effective partners" for Qatar's future development in the smart farming sector.

As one of the major pillars of the state's 2030 national vision, Lee also lauded Qatar's investments in its public health system. He said the Korea Medical Centre, which is planned to be open this year, may lead to further collaboration on joint medical projects.

The ambassador also emphasised the need for Qatar and South Korea to advance co-operation in energy sectors, such as liquefied natural gas and solar power. According to Lee, South Korean companies are joining Qatar's mega LNG projects like the NFE EPC2, as well as LNG shipbuilding projects.

Lee added that South Korea is joining Qatar's efforts to fight climate change and invest in renewable energy.

Qatar machinery and equipment index edges up in second half of 2022

By Santhosh V Perumal
Business Reporter

Qatar witnessed a 0.72% year-on-year (y-o-y) jump in machinery and equipment price index (MEPI) during the second half (H2) of 2022 on account of higher prices for transport equipment, office machinery and special purpose machines, which have greater weightage in the MEPI basket, according to the official data.

Otherwise, the largest increase on an annualised basis was reported in metal tools and musical instruments, which have lower weightage in the MEPI basket, said the figures released by the Planning and Statistics Authority (PSA).

The MEPI, a short-term indicator that is calculated semi-annually, grew 0.17% when compared to that in the first half (H1) of 2022.

The MEPI – with 2012 as the base year – is used by national accounts as a deflator to calculate the constant price estimates of purchases on final demand from machinery and equipment and in calculating the capital formation estimates.

The index of transport equipment, which has 34.82% weightage in the MEPI basket, grew 1.06% on a yearly basis but shrank 1.28% month-on-month in the review period.

The index of special purpose machines, which carries a weightage of 23.71% in the MEPI basket, expanded 0.8% and 0.05% year-on-year and month-on-month respectively during H2, 2022.

The index of office, accounting and computing machinery, which have a weightage of 21.44% in the MEPI basket, shot up 1.44% and 3.75% on yearly and monthly basis respectively during the review period.

The index of metal tools and tools, which carries 0.34% weightage in the MEPI basket, zoomed 18.27% and 2.95% year-on-year and month-on-month respectively during H2, 2022.

The index of musical instruments, which carries a weightage of 0.4% in the MEPI basket, saw 3.69% and 5% surge year-on-year and month-on-month respectively during H2, 2022.

The index of general purpose machinery, which has 5.8% weightage in the MEPI basket, rose 1.25% and 0.48% on an annualised and monthly basis respectively during H2, 2022.

However, the index of radio, television and communication equipment and apparatus declined 2.83% and 3.27% year-on-year and month-on-month respectively during H2, 2022.

The group has 7.13% weightage in the MEPI basket.

The index of machinery and electrical appliances, which has 4.53% weightage in the MEPI basket, showed a 1.41% shrinkage year-on-year; whereas it registered 0.81% jump compared to the first half of 2022.

The medical appliances, precision and optical instruments and watches and clocks group saw its index, which has 1.83% weightage in the MEPI basket, shrink 0.16% on an annualised basis; but surged 2.38% month-month-month during H2, 2022.

Selling in realty, banking and consumer goods drags QSE 180 points

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

The Chinese growth concerns had an overarching influence in the Qatar Stock Exchange (QSE), whose key index tanked 180 points and capitalisation eroded QR7bn this week, which saw the advent of Beema in the trading ring.

The Gulf institutions were seen net profit takers as the 20-stock Qatar Index plummeted 1.63% this week which saw global credit rating agency Moody's sound bullish on Qatar as it said 2023 appear positive in view of higher energy prices bolstering the finances.

The real estate, banking and consumer goods counters witnessed higher than average selling pressure this week which saw Moody's view that the North Field Expansion to create new business opportunities for the Qatari banking industry.

More than 61% of the traded constituents were in the red this week, which saw QIIB report net profit of QR4.01bn during 2022.

The foreign institutions continued to be net profit takers but with lesser vigour this week which saw Dukhan Bank shareholders approve the board's proposal to seek direct listing on the QSE.

Local retail investors were seen net buyers this week which saw QSE acting chief executive officer Abdul Aziz al-Emadi say that directing listings and book-building would encourage more companies to go public.

The Islamic index was seen declining slower than the other indices this week which saw Woqod Group register net profit of QR1.07bn during 2022.

The domestic funds turned bullish this week which saw a total of 0.43mn Masraf Al Rayan-sponsored exchange traded fund QATR worth QR1.04mn trade across 46 deals.

Trade turnover and volumes were on the increase in the main market this week, which saw as many as 0.07mn Doha Bank-sponsored QETF valued at QR0.76mn change hands across 42 transactions.

The Chinese growth concerns had an overarching influence in the Qatar Stock Exchange, whose key index tanked 180 points and capitalisation eroded QR7bn this week, which saw the advent of Beema in the trading ring

Market capitalisation was seen eroding QR6.93bn or 1.12% to QR614.27bn on the back of mid and small cap segments this week which saw the industrials and banking sectors together constitute more than 77% of the total trade volume in the main market.

The Total Return Index tanked 1.63%, All Share Index by 1.58% and All Islamic Index by 1.26% this week, which saw no trading of sovereign bonds. The real estate sector index plummeted 4.02%, banks and financial services (3.25%), consumer goods and services (2.17%) and insurance (0.23%); while telecom shot up 4.22%, transport (2.46%) and industrials (0.71%) this week which saw no trading of treasury bills.

Major losers in the main market included Widam Food, Qatari German Medical Devices, Qatar Cinema and Film Distribution, Qatar Oman Investment, Commercial Bank, Qatar Islamic Bank, QNB, Doha Bank, Masraf Al Rayan, Dlala, Inma Holding, Salam International Investment, Medicare Group, Estithmar Holding, Barwa and Ezdan this week, which saw Qatar's retail inflation surge 5.93% on an annualised basis in December 2022.

Nevertheless, Ooredoo, Ahlibank Qatar, Nakilat, Gulf International Services, Qamco, Al Meera, Qatar National Cement and Industries Qatar were among the gainers this week.

The Gulf institutions turned net sellers to the tune of QR54.03mn compared with net buyers of QR161.41mn the week ended January 12.

However, the local retail investors were net buyers to the extent of QR48.36mn against net sellers of QR1.61mn a week ago.

The domestic institutions turned net buyers to the tune of QR28.4mn compared with net sellers of QR15.32mn the previous week.

The foreign individuals were net buyers to the extent of QR10.6mn against net profit takers of QR3.08mn the week ended January 12.

The Arab individuals turned net buyers to the tune of QR3.97mn compared with net sellers of QR3.21mn a week ago.

The Gulf retail investors were net buyers to the extent of QR0.98mn against net profit takers of QR1.38mn the previous week.

The Arab institutions' net buying expanded marginally to QR0.39mn compared to QR0.24mn the week ended January 12.

The foreign funds' net profit booking weakened substantially to QR38.67mn against QR137.06mn a week ago.

Total trade volume in the main market decreased 11% to 716.72mn shares, value by 4% to QR2.66bn and deals by less than 1% to 96,738.

Fed set to slow rate hikes again and debate how much further to go

Bloomberg
Washington

Federal Reserve officials, heartened by an inflation slowdown, are poised to slow the pace of their interest-rate hikes for a second straight meeting and debate how much more they need to tighten to get prices under control.

Their campaign — which came too late, some critics argue — seems to be paying off, with a slew of data across the economy indicating that inflation is finally decelerating, a year after Chair Jerome Powell and colleagues incorrectly predicted it would soon fade. Still, a persistently tight labour market with unemployment at a five-decade low means policymakers aren't ready to declare victory.

The mixed signals complicate discussions over when to pause following an anticipated quarter-point rate increase on February 1, a more moderate tempo than the aggressive hiking under way since mid-2022.

Investors and economists continue to doubt Fed forecasts that rates will rise to above 5% from their current level just below 4.5%.

"Even with the recent moderation, inflation remains high, and policy will need to be sufficiently restrictive for some time to make sure inflation returns to 2% on a sustained basis," Fed Vice-Chair Lael Brainard said on Thursday in Chicago. She didn't spell out her preference for interest rates at the next meeting or in coming months, but other officials have been more explicit.

Both Lorie Logan and Patrick Harker, presidents of the Dallas and Philadelphia Fed banks and voters this year on monetary policy, backed slowing the pace of rate hikes, while supporting further tightening.

"We will raise rates a few more times this year, though, to my mind, the days of us raising them 75 basis points at a time have surely passed," Harker said in remarks at the University of Delaware on Wednesday. "In my view, hikes of 25 basis points will be appropriate going forward."

Another top official, New York Fed President John Williams, said Thursday that "monetary policy still has more work to do" to return inflation to 2%.

Officials hiked by a half point last month to a target range of 4.25-4.5%, slowing the pace of rate increases after four straight 75 basis-point moves. They also projected rates rising to 5.1% in 2023, according to their median forecast, which will be next updated in March.

Investors see rates rising by a quarter point at the next meeting but peaking in a slightly lower range around 4.9%. That view has been reinforced by a recent run of benign readings on inflation suggesting that the Fed is winning the fight on prices, easing financial conditions as markets rally.

"What if financial conditions are easing because the supply side is healing?" said Julia Coronado, president of Macropolicy Perspectives LLC. "I would expect that by the March" forecast round "you would have some Fed officials moving closer to where the market is."

Officials are starting to divide. Some officials see pandemic imbalances improving and want the data to dictate how much more action is needed. Others have a more hawkish outlook because they worry inflation will be sticky and require a sustained period of restrictive policy to insure against a resurgence in prices.

For now, no one is ready to call for a pause in the tightening cycle.

Recent US economic data are mostly in line with the gradual slowing of activity that officials had hoped for. But they insist their job isn't done, with some saying that outright job losses are needed to get inflation back down to their 2% target. Several remain committed to pushing rates above 5% as a form of risk management no matter what the near-term data is saying.

"You'd probably have to get over 5% to say with a straight face that we've got the right level of the policy rate that will continue to push inflation down during 2023," St. Louis Fed President James Bullard said on Wednesday. "We want to guarantee, to the extent we can, that inflation will come down and get back on a steady path toward the 2% target. And we don't want to waver in that, because one of the problems in the 1970s is that inflation kept coming back just when you thought you killed it."

Fed funds futures markets are pricing in just two more hikes this year, and break-even rates in Treasury Inflation Protected Securities have prices settling back to target by the end of the year. Bullard said he was sceptical of such an inflation "crash."

Most Fed officials appear united around Powell's framework that it will take a deceleration in the prices of core services other than housing to bring inflation back to 2%. That view is closely linked with reducing wage gains with rising unemployment. Fed officials forecast about a percentage point increase in the jobless rate in their December outlook.

"In order to achieve price stability I think that is going to require some loosening in the economy and the labour market," Logan said in a question-and-answer period following her speech on Wednesday in Austin, Texas. "And exactly how much, and the exact configuration of that, I think is highly uncertain."

Brainard is one of the few officials who is offering a different perspective.

"It remains possible that a continued moderation in aggregate demand could facilitate continued easing in the labour market and reduction in inflation without a significant loss of employment," Brainard said on Thursday.

She didn't spell out how high she favours raising rates. But she did cite "tentative" indications of decelerating wage gains, anchored inflation expectations, and scope for lower profit margins as forces that could also lower inflation in months ahead.

Logan, in her Austin remarks, also said she would rather risk management be responsive to data than lock in on a specific goal.

From 2016 to 2019, a period when the unemployment rate was below 5%, Powell's "supercore" measure of CPI services, minus rents, averaged year-over-year gains of 2.3%. For 2022, the measure rose at a 6.2% rate.

Overall inflation, by the Fed's preferred measure, ran at 5.5% for the 12 months through November compared with a 6.1% rate the prior month.

"We still don't have enough evidence that says wage growth is going to evolve in a way that will be consistent with 2% inflation,"said Matthew Luzzetti, chief US economist at Deutsche Bank Securities Inc.

The Federal Reserve building in Washington, DC. Fed officials, heartened by an inflation slowdown, are poised to slow the pace of their interest-rate hikes for a second straight meeting and debate how much more they need to tighten to get prices under control.

BofA analysts are turning bullish on European online retailers

Bloomberg
New York

Bank of America Corp (BofA) has turned bullish on Europe's battered online shopping companies — even if it sees little or no growth for the sector this year.

Shares in many of these companies endured a brutal 2022, as Covid-time lockdowns ended and inflation surged. Now, BofA analysts including Geoffroy de Mendez and Ashley Wallace reckon the sector offers upside, having been cautious on it for the past 18 months.

"Risk/reward has reversed: we're buyers of all stocks," they wrote in a note yesterday, upgrading their recommendation on Asos Plc, Boohoo Group Plc and Zalando SE to buy, while reiterating their positive rating on THG plc.

Shares in Asos soared as much as 12% after the recommendation change, while Zalando advanced 4.7%. Boohoo briefly rallied 10%, before trimming those gains as it continued to feel the impact of a trading update where it forecast a double-digit decline in revenues.

Boohoo's update from Thursday encapsulated many of the online retail sector's woes; alongside Asos it was among the worst-hit last year, as a brutal cost-of-living squeeze crimped Britons' spending power. Those headwinds remain, with latest UK data showing earlier yesterday that December saw its sharpest decline in volume of goods purchased in shops and online since records began in 1989.

It's a far cry from 2020, when Covid lockdowns fuelled an online shopping boom. Since then though, shares in Asos, THG and Boohoo have lost roughly 90% of their value, while Zalando has fallen 60%.

BofA acknowledged the sector would remain weak in 2023, with its models showing nearly no growth in 2023, as consumers hold back from splurging on discretionary items. However, the analysts reckon the market understands what lies ahead, noting that profit expectations for some of these firms have slumped by as much as 90% in the past year.

"For shares to recover from here, we think these companies just need to convince the market they will survive," the BofA team said.

The retailers have prioritised making cost savings, while freight rates and raw materials prices have eased, which "should be enough to go through 2023, even for Asos and Boohoo, which have the most stretched balance sheets, in our view," they added.

Out of the four stocks, BofA views Asos as "one of the best ways to invest," based on a risk-reward expectation, while Zalando has the least balance sheet risk. To reflect the view, the bank raised its price target on Asos by almost four-fold to 1,650 pence, while nearly tripling that on Zalando at €50.

Vanished $4bn brings down century-old retailer in a week

Bloomberg
Sao Paulo

Hours after revealing a scandal that would roil Brazilian markets, Sergio Rial joined a Zoom call with hundreds of panicked investors. It was an attempt to explain the $4bn accounting gap that pushed him to quit his new job at the helm of retailer Americanas SA.

The January 12 call was a tumultuous mix of English and Portuguese that some analysts were locked out of because the meeting reached its 1,000-participant capacity. Those who were able to cram into the headquarters of Banco BTG Pactual SA — the Sao Paulo-based creditor that was hosting the event — were left "perplexed" by Rial's presentation, as one participant put it.

Four hours later, when the shares started trading, the stock plummeted 77%, wiping out $1.6bn in market value. By the end of the day, bonds had lost half their value.

Within a week, the company filed for bankruptcy protection with $8.2bn of debt.

"I don't think there's a company whose debt has gone down this much in two to three days," said Omotunde Lawal, a portfolio manager at Barings UK Limited who focuses on emerging-market debt. "Maybe this is the fastest plunge ever."

The startling and rapid meltdown has left Brazilians with the prospect of losing a ubiquitous company known for its iconic red-and-white logo and holiday sales, including in Rio de Janeiro where it was founded in 1929. The collapse dragged down the country's stock market, sent creditors rushing to organise and pitted some of the nation's most famed investors against each other. Billionaire Andre Esteves's BTG Pactual, which days before had hosted the meeting with Rial, called it "the biggest fraud in Brazil's capital markets."

It was a sharp reversal for a company that had seen its stock rally after Rial was named chief executive officer last August, a job he only started on January 2. Investors thought Americanas, which has been backed by billionaires Jorge Paulo Lemann, Marcel Telles and Carlos Alberto Sicupira for more than four decades, was set for improved performance under the 62-year-old former banker's leadership.

It unravelled on the night of January 11 when it announced "inconsistencies" that had artificially boosted profits and reduced reported liabilities by half. The company's disclosures imply it misreported numbers tied to financing of debts with suppliers while also wrongly deducting interest paid to lenders from its liabilities.

In the Thursday bankruptcy protection filing — similar to a Chapter 11 in the US — lawyers for the company said, "due to unexpected reasons that rocked the group's structure, the petitioners saw their cash and revenue expectations crumble within minutes."

The findings set off a whirlwind week in which Rial decided to personally deliver the bad news to a group of employees. Many of them had been working at the Brazilian retailer for decades, and put all their savings in shares of the company.

"Your faces are not particularly nice. But their faces were in deep pain," he told investors on the BTG call, recalling the meeting with employees.

Shares in other Brazilian retailers including Via SA and Magazine Luiza SA sold off immediately, but trimmed losses as the firms rushed to reassure analysts that all their debt was properly booked on their balance sheets.

Americanas saw its market value collapse 90% from its peak hit during the coronavirus pandemic. Wall Street analysts quickly put their ratings under review and ratings firms downgraded the debt, after which banks refused to advance credit card receivables, draining more than 3bn reais from the company's cash.

After the Thursday bankruptcy protection filing, MSCI and Brazilian stock exchange operator B3 SA removed the stock from their indexes.

Americanas was granted emergency temporary protection against creditors from a court in Rio de Janeiro on January 13, which also forbade them from freezing or seizing assets. The decision surprised bankers, who rushed to file motions to overturn the decision. Days later, BTG was allowed to block 1.2bn reais to compensate part of the company's debt. That triggered a similar reaction from other creditors, which also cut credit lines, and accelerated the crisis.

The collapse threatens to tarnish the reputation of Lemann and his partners as well as lead to losses in the shares they hold in Americanas. The trio controlled the company until they were diluted in a 2021 reorganization, which left them with a stake of 31%, still the main shareholders. They told the board they plan to keep supporting the company, but investors fear that any negative outcome may hurt other firms in which they are involved, such as Kraft Heinz Co and Anheuser-Busch InBev.

Americanas said in its bankruptcy protection filing the move by creditors to declare the early maturity of obligations, closed "the door to any kind of viable friendly negotiation." The firm has approximately 43bn reais in debt and now has 48 hours to present a list of creditors, which already started to organise.

Investment banks Moelis & Co and Seaport Global Securities LLC are separately pitching to organise bondholders into a group. Investors holding local debt have hired lawyers and are deciding whether to work with a financial adviser, according to a person familiar with the matter who requested anonymity as the discussions are private.

"It's hard to tell what the bankruptcy process will bring," said Omar Zeolla, an analyst at Oppenheimer & Co. It seems Americanas's main shareholders "are willing to contribute capital, but it's hard for me to see at the moment how that could play out in terms of recovery for bondholders."

Don't get blindsided by cooling prices, says JPMorgan's Michele

Bloomberg
New York

When Bob Michele shares his investment views, it's worth paying attention because the bond market veteran has proved to be pretty prescient.

The chief investment officer at JP Morgan Asset Management is warning that the Federal Reserve could continue the fight against inflation in the second half, pushing terminal rates to as high as 6%. That defies a growing consensus that interest rates will peak in June.

"It's still a one-in-three chance, but it's a legitimate risk," Michele said in an interview. "It is possible the Fed will not initially do enough because the labour market proved more resilient. This is one thing that can unravel the market, and it's my biggest concern."

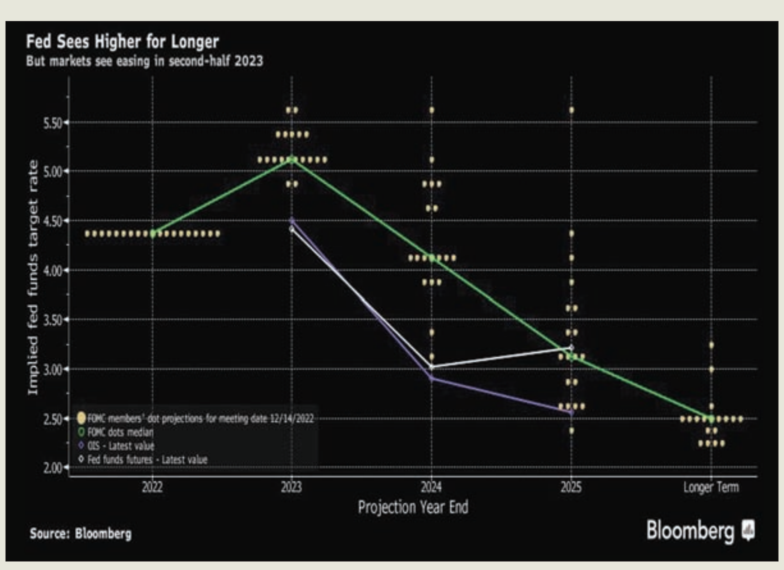
Inflation is easing, although it's still well above the Fed target of 2%. Consumer prices rose 6.5% in December, the slowest pace in more than a year, showing that aggressive Fed policy tightening is working. The results met expectations and the market now expects rates to top out at 4.9% in June and potential rate cuts to follow, according to Bloomberg data.

Michele's base case is that the Fed will raise interest rates in February and March before pausing, and a recession will set in later this year. But he also sees the possibility of policymakers returning to rate hikes in late 2023 to cool down stubbornly high inflation fuelled by low unemployment, persistent wage gain and China's economic reopening.

"The equation is: inflation doesn't come down until wages do. Wages don't come down until unemployment rises," he said. "Unemployment doesn't rise unless we are in recession."

The latest jobs data shows decelerating wage growth, but robust hiring and unemployment still at a historic low.

Since 1988, the Fed has gone through five rate-hiking cycles, which ended in recession four times, according to Michele. The only one that did not result in economic contraction was the 1994-1995 cycle which ended in a soft landing. But he said 2023 isn't going to be another 1994. "The delayed and cumulative impact of all the tightening that we are seeing ultimately will bite and create a recession," said Michele. "It's incredibly aspirational to think we are going to get away with that."



In December, Michele bought "quality duration" assets like government bonds, investment-grade credit as well as mortgage-backed securities and asset-backed securities.

He also favours emerging-market local currency bonds, which he said could easily generate double-digit returns this year as the dollar peaks. Central banks in those markets have been far ahead of their developed-economy peers like the US in raising rates.

Michele warned that the yields for Japan's 10-year government bonds could rise to 1% from 0.5% and the dollar-yen will fall to 100 as the Bank of Japan ends its yield curve control.

Market participants wagering on another tweak pushed the benchmark 10-year yield past the central bank's 0.5% ceiling on Friday.

This will turn Japan from "mother of all carry trades" into "mother of all repatriation," he said.

"We are not going to hedge against the risk that the Fed may have to return to rate hikes later in the year. But, we are going to be open-minded and accept that there is a reasonable probability that it could happen and be prepared," said Michele, who recommends selling short-dated bonds and lower-rated corporate bonds in the event of rising rates. It probably pays to heed Michele's admonitions. In 2019, Michele famously rode the bull-run in US bonds, predicting that yields were "headed to zero" when the 10-year benchmark was trading at 2%. He reaped the rewards as the yield fell all the way to 0.5% within a year.

Back in October 2021, when most economists polled by Bloomberg expected the Fed to hold rates near zero through the end of 2022, Michele said the central bank was way behind the curve and would need to aggressively fight inflation, bringing rates to at least 4.25%. The Fed raised its benchmark rate to a range of 4.25-4.5% at the end of 2022.

He was also among the first investors who highlighted the risk of the European Central Bank raising official borrowing costs last year to cool inflation — a concept that was deemed highly unlikely for a lot of market watchers at that time. The European Central Bank raised its deposit rates four times last year, bringing it to 2%.

"One of the reasons we put together these realistic risks is so that we can keep an eye on them, so that we are not caught off guard," Michele said.

Most Asian markets rise as traders weigh China hope, recession fear

AFP
Hong Kong

Asian markets mostly rose yesterday after a rocky week that saw recession fears play up against growing hope that China's emergence from zero-Covid will help boost the struggling global economy.

While falling US inflation has fanned speculation the Federal Reserve will further slow its pace of interest rate hikes, several top bank officials have lined up to warn that still more needs to be done before they are satisfied prices are under control.

Vice Chair Lael Brainard on Thursday said policymakers would "stay the course" in lifting rates, adding they would need to "be sufficiently restrictive for some time". And New York Fed chief John Williams foresaw further increases to get inflation back to 2%, from its current 6.5%.

Meanwhile, a series of weak indicators suggesting the economy continues to slow have rattled nerves as traders shift their view from "bad news is good news" — as it allows the Fed to slow its rate hikes — to "bad news is bad news". An underwhelming earnings season so far has added to the sense of trepidation among investors, particularly in New York, where all three main indexes fell again on Thursday.


An external view of the Hong Kong Stock Exchange. The Hang Seng Index closed up 1.8% to 22,044.65 points yesterday.

However, the mood in Asia was more upbeat as traders prepared for an expected boost from China's reopening after three years of painful lockdowns.

"Given the sizeable upside for regional trade supporting local economies…stocks in Asia are nudging up despite weakness in the US market as East versus West divergence continues," said SPI Asset Management's Stephen Innes.

"After all, mainland China is the largest export market for most regional economies, so the China reopening bounce is particularly pronounced locally."

That was reflected in Asia yesterday, where Hong Kong led gains by rising more than 1% and breaking 22,000 for the first time since July.

Tokyo, Shanghai, Singapore, Seoul, Sydney, Mumbai, Jakarta and Wellington also edged up. London opened on the front foot along with Paris and Frankfurt.

On currency markets, the yen weakened against the dollar, even as data showed Japanese inflation hit a four-decade high of 4%, adding fuel to talk that the Bank of Japan will again tweak monetary policy, or even lift rates. The news came a day after the central bank decided not to tighten again, having announced a surprise widening of the trading band it allows certain government bonds to trade in.

Oil extended Thursday's gains as investors focused on the recovery in demand from China, with suggestions that the country's Covid infections may have peaked adding to the optimism among commodity traders.

In Tokyo, the Nikkei 225 closed up 0.6% to 26,553.53 points; Hong Kong Hang Seng Index ended up 1.8% to 22,044.65 points and Shanghai Composite closed up 0.8% to 3,264.81 points yesterday.

Emerging equities end higher but caution lingers

Reuters
Singapore

Emerging market shares rose yesterday and were on course for their fourth straight week of gains as optimism around China lifting some Covid curbs and hopes for smaller interest rate hikes from the US Federal Reserve eased recession worries.

China stocks rallied in the run-up to Lunar New year holidays, with Hong Kong's benchmark index up 1.8%.

A top official in China said the worst was over in its battle against Covid-19 ahead of what is expected to be one of the busiest days of travel in years yesterday.

Chinese blue-chips rose 0.6%.

Elsewhere, South Africa's top 40 index rose 0.4% to hit new highs.

MSCI's index of emerging market shares was up 0.8%, and on track to gain about 0.6% this week.

"China's reopening is clearly a big story that will shape EM this year, but we think its effects will be more muted than previous Chinese economic surges," Citigroup strategists warned.

They cited this year's recovery being driven more by a revival of services and consumer spending while fiscal and monetary policy stay neutral.

"While a consumer-led Chinese recovery has some positive effects on EM, it won't be as friendly as an investment-led recovery…It is also worth considering the negative effects of outbound tourism on China's balance of payments, creating room for more capital outflows, and adding volatility to the renminbi."

Emerging market currencies were largely muted on the day and were on course to break a four-week winning streak.

Some renewed worries amid weak US economic data and hawkish commentary from US Federal Reserve policy makers tempered risk appetite.

EM bonds flows accelerated to the largest level since June 2021, according to JPMorgan data, as hard-currency bond fund inflows increased $1.9bn from $1bn.

Flows to EM bonds and equities stood at $3.8bn and $12.9bn respectively from the beginning of the year, JPM said.

Turkey's lira fell 0.2% after closing flat following an expected decision by the central bank to keep the policy rate unchanged at 9%.

Regional airlines are struggling to ramp up flights to Hong Kong

AFP
Hong Kong

Regional airlines are struggling to ramp up flights to Hong Kong because of staff shortages at the airport, slowing the city's plan to recapture its travel hub status, industry insiders have told AFP. Hong Kong, which calls itself Asia's World City, once had one of the globe's busiest — and best-connected — airports.

That evaporated during the coronavirus pandemic as authorities imposed more than two years of travel curbs and quarantine rules.

The business hub has begun reopening with leader John Lee proclaiming in November that "Hong Kong is back". But around 20 regional Asian airlines have been unable to restart or increase services to the city despite months of negotiations with ground handling services, five airline executives told AFP, asking not to be named.

The executives complained that ground handling companies were upping fees by 30 to 100% and prioritising parent companies or mostly Chinese airlines that they have close, or direct, business ties to.

Some warned it was becoming difficult to convince their headquarters to keep a presence in Hong Kong.

"What an irony to say 'Hong Kong is back'," one of those interviewed told AFP.

"How can Hong Kong continue to be 'Asia's World City' if everyone other than the few big companies can never come back?" In 2019, Hong Kong had 46,000 support staff handling nearly 420,000 flights and more than 71mn passengers.

More than 35% of the staff — about 16,550 people — had left the industry by the end of 2021, according to official figures.

Last year, the airport handled just 5.7mn passengers, with 1.6mn in December alone after the city had dropped mandatory quarantine two months earlier.

A former ground handling employee who left recently told AFP that his company was deploying just 200 people in his department compared with 1,000 before the pandemic.

Those who remained worked long hours to make up for shortages while salaries remained slashed at pandemic levels, he added. "Attracting and training new hands did not happen as fast as hoped," Li Wing-foo, president of the Staff and Workers Union of Hong Kong Civil Airlines, told AFP, adding that the basic monthly pay of HK$13,000-14,000 ($1,700-1,800) was not competitive.

"We told them in early 2022 to start replenishing staff after we saw other airport services broke down. But I haven't seen any substantial steps taken," he said.

Ground handling services at Hong Kong's airport are controlled by three companies that have direct business ties to certain airlines, fuelling a sense of grievance among some foreign carriers that they are second in line.

Hong Kong Airport Services (HAS) is a subsidiary of city carrier Cathay Pacific.

SATS Hong Kong is a joint venture of Hong Kong Airlines and Singapore Airport Terminal Services. The third, Jardine Aviation Services, is a joint venture of China National Aviation Holding and British conglomerate Jardine Matheson which has major investments in China. None of the three companies responded to AFP's requests for comment.

The executives AFP interviewed said local competitors such as Hong Kong Airlines, Hong Kong Express as well as Chinese mainland airlines including Tianjin Airlines, West Air and Capital Airlines have all been able to increase flights recently with access to ground handling crews. Meanwhile, they were struggling to do the same.

"Since when has Hong Kong become a place where you can do business only when you are propped up?" one of the executives said.

Hong Kong's government is aware of the staffing shortages. The Airport Authority told AFP that it "has been closely monitoring the manpower situation" and has been supporting job fairs and adopting autonomous technology to reduce reliance on labour. In a joint statement, Hong Kong's Transport and Logistics Bureau and the Civil Aviation Department said they were aware of "the manpower need in the industry" and were working "to ensure the resumption of air traffic in an orderly manner".

QCPA organises international credit rating agencies conference on Jan 23

QNA
Doha

Qatar Association of Certified Public Accountants (QCPA), in partnership with the Global Compliance Institute (GCI), Standard and Poor's, and Moody's, will organise the international credit rating agencies conference on January 23 at Ritz-Carlton Hotel.

The conference will discuss several aspects, including a review of the work of rating agencies and their experience at the level of countries and companies, the criteria used in rating operations, the value of rating at the level of credit and investment, the importance of rating in light of financial and economic crises, and the role of credit rating agencies in assessing financial values and their impact on the functioning of financial markets. In addition, the conference will highlight the economy's strength and its investment attractiveness in light of the good credit ratings granted by international credit rating agencies.

Being held for the first time in the State of Qatar, the conference will attract elite experts and specialists in the economic and financial sector to highlight the latest trends in investment and credit ratings.

In this regard, QCPA Chairman Dr Hashim al-Sayed said that this gains its importance in light of the financial, economic, geopolitical, supply chain, inflation, and the effects of the Covid-19 crisis as countries seek to prove their credit and investment worthiness so that they can obtain financing from international bodies and institutions to prevent these crises and mitigate them with minimal losses and without disrupting the development process.

He indicated that under these circumstances, high-rating companies or countries could obtain low-rate finance compared to other low-rating countries or companies.

He explained that a high rating motivates international investors and lenders to underwrite strongly in the offering issued by these countries, as well as create a climate of confidence in the country's economy for capital, thus attracting new cash and investment flows, which in turn raises the value of its currency, pointing out that the role of specialised international credit rating agencies lies in providing this credit rating or credit worthiness.

Al-Sayed added that the conference also aims to promote the State of Qatar and emphasise the strength of the Qatari economy and its reliance on strong foundations that protect it from variable changes, enabling Qatar to enjoy a high rating based on a set of factors, most notably the record rise in energy prices, the increasing global demand for liquefied natural gas (LNG), the increase in private sector exports, bringing a higher demand on its products in world markets and leading them to expand their projects and financing, which is reflected positively on the financial conditions, and the accumulated sovereign financial assets of the Qatar Investment Authority.

Thus, the Qatari economy will be commended by all international institutions and bodies, enhancing Qatar's investment attractiveness and consolidating its position as a regional hub for foreign investment.

Google parent to lay off 12,000 workers as AI focus intensifies

Reuters
New York

Google's parent Alphabet Inc is cutting about 12,000 jobs, or 6% of its workforce, it said in a staff memo yesterday, as the technology sector reels from layoffs and companies stake their futures on artificial intelligence (AI). Alphabet's shares were up nearly 3% in pre-market trading.

The cuts come at a delicate moment for the US company, which has long been the leader in key areas of AI research.

Alphabet now faces a challenge from Microsoft Corp in a branch of tech that can, for instance, create virtually any content a user can think up and type in a text box.

Microsoft this week said recession worries were forcing it to shed 10,000 jobs, less than 5% of its workforce, and it would focus on imbuing its products with more AI going forward — a point Alphabet's CEO Sundar Pichai echoed in the memo.

Alphabet faced "a different economic reality" from the past two years when it rapidly expanded headcount, decisions for which Pichai said he took "full responsibility."

Pichai became Alphabet CEO in 2019.

Still, he said, Google was gearing up "to share some entirely new experiences for users, developers and businesses," and the company has "a substantial opportunity in front of us with AI across our products."

The company has been working on a major AI launch, two people familiar with the matter told Reuters.

One of the sources said it would take place in the spring of this year.

Susannah Streeter, an analyst with Hargreaves Lansdown, said Alphabet's advertising business, which underpins Google's search engine and YouTube, was not immune to economic turbulence.

"Ad growth has come off the boil, a sharp contrast from the busy days of the post-pandemic re-opening which saw a surge in consumer spending," she said.

The company faces competitive and regulatory threats as well, she said.

It was unclear if Alphabet would take a one-time financial charge related to the job cuts.

Global economic outlook brighter than feared, says IMF chief

Reuters
Davos

Kristalina Georgieva, managing director of the International Monetary Fund.

The year ahead looks better than feared for the global economy but remains fraught with risks including escalation of the conflict in Ukraine and the emergence of a transatlantic trade war, the World Economic Forum's final panel concluded.

International Monetary Fund (IMF) Managing Director Kristalina Georgieva told the Davos audience that what had improved was the potential for China to boost growth and that the IMF now forecast Chinese growth of 4.4% for 2023.

While that was likely to prompt the IMF in coming days to upgrade its current forecast of 2.7% growth for the year ahead, she cautioned against expecting any "dramatic improvement" on that figure.

One risk tied to China's reopening, with its potential to heat up global demand and prices for energy, was that it triggered a new wave of inflationary pressures only months after this bout had reached its peak.

The week-long meeting was dominated by debate on a brewing dispute between the United States and Europe on subsidies for green energy transition, the growing debt distress in developing nations and abundant geopolitical risk around the planet.

"My deepest concern is clearly the war in Ukraine," French Finance Minister Bruno Le Maire told the panel, warning that escalation was possible while also arguing it had pushed the European Union to become more of a political force in its resolve to remain supportive of Ukraine. Le Maire, who is involved in efforts to resolve the dispute with Washington over a \$369bn, state-subsidised climate transition which Europe says is anti-competition, said the plan must be compatible with similar efforts across the world.

"The key question is not China First, US First, Europe First. The key question for all of us is Climate First," said Le Maire, who will travel to Washington in coming days alongside German officials to discuss possible changes to the US plan.

Former US Treasury Secretary Larry Summers said the Biden administration subsidies package and the planned effort by Europe on tackling climate change at least represented a long overdue stepping-up of activity on the green energy transition.

"A subsidy war about a very good thing is good," he told the panel. "That is a very healthy kind of competition relative to all the kinds of competition the world has seen," he said, urging fair competition that did not "wall off others and try to take down others".

Wall Street executives in Davos said pessimism had eased as economies in the US and Europe stayed resilient and China loosened its Covid-19 policies.

Describing 2022 as a "weird, weird year when you look at it", European Central Bank (ECB) President Christine Lagarde called on governments to ensure that fiscal policy did not make the job of central bankers harder by heating up the economy.

"'Stay the course' is my mantra on monetary policy," she said, reaffirming that the ECB planned to continue tightening for as long as needed. A return to Davos by corporate titans and their bankers after recent record Alpine temperatures has turned a spotlight on just how quickly they are moving to rein in carbon emissions.

The number of organisations pledging to get to net-zero emissions by mid-century has soared in recent years, up 60% to more than 11,000 in September 2022, UN figures showed.

Yet the world remains on course to miss its climate goals.

Several bankers and executives at this year's World Economic Forum (WEF) annual meeting in the Swiss ski resort of Davos said they were looking for ways to speed up the transition to a greener future.

Increasingly, they said conversations in C-suites and with financiers had turned to the risks that climate change presented to businesses.

"Suddenly people have realised that it is something that's not just a way of presenting things, but that it is a necessity for survival," said André Hoffmann, vice-chairman of Swiss drugmaker Roche.

While there is agreement on the need for change, people were divided on the pace.

Climate activist Greta Thunberg made the journey up the Swiss Alps to call on the global energy industry and its financiers to end all fossil fuel investments.

Privately, bankers said the energy crisis in Ukraine had shown that they needed to fund a transition to renewable energy, which would take time.

Big Oil comes in from the cold on energy transition: WEF meeting

Reuters
Davos

A different type of energy transition has taken place at this year's World Economic Forum (WEF) meeting.

Unlike 2021's COP26 climate conference in Glasgow, where oil and gas executives were personae non gratae, fossil fuel chiefs and renewable energy bosses sat cheek by jowl in Davos.

Activists like Greta Thunberg don't like it. But some in the solar, wind and hydro industry are warming to the carbon crowd.

Tejpreet Chopra, who heads one of India's clean energy firms Bharat Light and Power, was surprised to be invited to a side-event with more than 60 top oil and gas executives.

"The course of this transition will have to take a more inclusive approach until we all get to the finish line of where we all want to be," he told Reuters.

This shift, partly triggered by the energy crunch after Russia's invasion of Ukraine, has been front and centre in Davos, where United Nations Secretary-General Antonio Guterres dedicated his speech to it. As soaring prices drove up inflation, forced industries to shut production and hiked energy bills, European leaders reversed plans to cut down on investments in new fossil fuels.

Opec Secretary-General Haitham al-Ghais, who was in Davos this week, has warned that the sheer magnitude of economic growth means energy demand cannot be met by renewables alone.

That message, echoed by many in the industry, be it traditional fossil fuel producers or renewable energy throughout the past year, found a bullhorn at this year's WEF.

"Certainly the war (in Ukraine) added a premium but the root cause is structural," Joseph McMonigle, Secretary General of the International Energy Forum, told Reuters. "We've tried to limit supply, whereas demand is not decreasing," he added. The Organisation of Petroleum Exporting Countries (Opec), in its 2022 World Oil Outlook, estimated \$12.1tn would be needed to be invested to meet oil demand to 2045 to avert energy crises.

Thunberg's was not the only voice at Davos with strong objections to the industry's new mantra that the energy crisis justifies new oil investments.

International Energy Agency (IEA) chief Fatih Birol, in a meeting with Thunberg on the sidelines of WEF, said that new investments in oil fields would take years to become operational.

They would be too late to allay the energy crunch, but would contribute to the climate crisis.

Like Birol, British opposition leader Keir Starmer said the oil and gas sector has a role to play in the energy transition.

"But not new investment, not new fields up in the North Sea, because we need to go towards net-zero, we need to ensure that renewable energy is where we go next," Starmer said.

A consensus appears to be building within the energy industry that demands to immediately drop oil and gas investments and leave it in the ground are counterproductive.

"Energy companies have to be part of the solution here," McMonigle said, adding: "These are big integrated companies that are really good at doing things, lots of engineers right?"

New technologies need the weight of big oil to be able to scale up solutions, McMonigle said.

Apart from expertise, oil firms are also awash with cash after a year of record high prices, giving them the means to fund more solar, wind and hydrogen projects.

But that does not assuage the fears of climate activists.

Some protesting in Davos expressed disappointment over the United Arab Emirates appointing the head of its oil company ADNOC and its climate envoy, as president of the COP28 summit that the Gulf Opec producer is hosting this year.

ECB's resolve to hike sets the stage for lots of euro whiplash

Bloomberg
Frankfurt

Currency traders are betting that the euro will see another bout of violent swings as European Central Bank (ECB) hawks keep the focus on raising interest rates.

Movements in the euro have been subdued after a tumultuous 2022, with some investors backing a view that things will quieten down now that inflation is easing and the Federal Reserve is taking its foot off the gas on rate hikes.

Yet European policy makers keep pushing back against that market positioning. That's leading currency players to think it's worth starting to bet on greater swings.

"With hawkish comments from the ECB, and more hikes in Europe to come now, there will be likely more turbulence in euro-area rates, which is likely to be channelled into euro-dollar FX volatility," said Olivier Korber, a currency and derivatives strategist at Societe Generale. The common currency traded little changed at \$1.0823 yesterday.

Implied volatility over the next year is below its past-year average at under 8%, after surging above 11% in the wake of Russia's invasion of Ukraine. That looks like an opportunity to hedge risks, said Korber.

This week alone has brought several surprises for euro traders. First came a report that the ECB is considering a slower pace of interest-rate hikes, driving down the currency on Tuesday, before a recovery Wednesday as weaker-than-expected US economic data hit the dollar.

Then a series of ECB speakers insisted policy makers won't let up in efforts to return inflation to their target, given prices remain far too elevated, with President Christine Lagarde telling Davos that "stay the course" was her new mantra. That led a gauge of one-year volatility to rise Friday as traders amped up bets on rate hikes.

"The major risks to the drop in long-term volatility include unexpected news regarding the Fed or the ECB, prompting a repricing of current market expectations," said Roberto Mialich, a foreign-exchange strategist at UniCredit SpA. "That's as well as the usual lingering risks from geopolitics or Covid-19 contagion." Global currency volatility, as measured by a JPMorgan Chase & Co index, has dropped this year after sliding in the fourth quarter of 2022 at the fastest pace since the aftermath of the pandemic. For the euro, it's been an even sharper move — the quarterly slide in implied volatility was the biggest on record.

Multiple denomination euro banknotes are arranged for a photograph in London. Currency traders are betting that the euro will see another bout of violent swings as European Central Bank hawks keep the focus on raising interest rates.

Even so, actual or realised volatility in the past year has been much higher, at well above 10%. The gap between the two now suggests that the options are at the most underpriced levels since the global financial crisis. That in itself could see some traders opt for relatively cheap bets to get exposure to being long volatility.

Oliver Brennan, currency volatility strategist at BNP Paribas SA, also thinks there is room for implied euro volatility to move up, given it's among the lowest among the Group-of-10 currencies. There's a minimal premium built in for risks around any escalation of the war in Ukraine and energy prices, he said. There are plenty of people warning about complacency. Some of the world's largest asset managers such as BlackRock Inc, Fidelity Investments and Carmignac worry markets are underestimating both inflation and the ultimate peak of rates, just like a year ago. That will leave traders glued to data, such as for US employment.

"A few weaker prints could be a catalyst for longer-term volatility to bounce back," said Tim Brooks, head of currency options trading at market-maker Optiver. While a slow cutting cycle from the Fed would reduce volatility, "other central banks' actions could be a far greater driver this year," he said.

Positioning could also exacerbate moves. Money markets are pricing in the ECB rate peaking in July and then the Fed cutting by the end of this year, while options traders have switched to bet on a weaker dollar. Both of these have been suppressing longer-term volatility.

"Such positioning suggests a pro-risk consensus is building, meaning adverse risks could create large shocks," said BNP Paribas' Brennan.