



Blockbuster US jobs report to push Fed to hike and keep rates high

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GULF TIMES BUSINESS



MONETARY POLICY: Page 2
 Most banks see ECB slowing interest rate hikes after March

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IPA Qatar sectoral study highlights investment opportunities in cleantech

By Peter Alagos
Business Reporter

Government policies and advanced technological infrastructure present investment opportunities worth \$75bn in Qatar's cleantech sector by 2030, according to a report by Investment Promotion Agency Qatar (IPA Qatar).

IPA Qatar's 'Cleantech Sectoral Study', which was posted online recently, stated that government initiatives leading to investment avenues include the aim to develop 100% electric vehicles by 2030, the plan to provide and install over 600 charging devices at business warehouses and stations, carbon emissions reduction, and the establishment of the "world's largest e-bus depot" capacity to accommodate 478 electric buses and equipped with 11,000 solar panel units.

In terms of energy initiatives, the report reiterated QatarEnergy's launching of its new sustainability strategy, which plans to reduce the carbon intensity of its LNG facilities by 35% by 2030. It also mandates the deployment of Carbon Capture and Storage (CCS) facilities to capture more than 7Mtpa of CO2 in the country.

The report stated that Qatar was the first GCC country to implement a waste-to-energy programme that currently generates over 30 megawatt (MW) of electricity from its Domestic Solid Waste Management Centre (DSWMC) at Mesaieid. Qatar received international praise for hosting the first carbon-neutral FIFA World Cup last year.

But the country is also moving towards solar energy adoption and is also utilising renewable resources, stated the report, citing the installation of an 800MW additional capacity of renewable energy sources that range from gas-

based to photovoltaics (PV) and wind power, as well as major solar projects like Al Kharsaah (Siraj solar power plant), and Qatar Solar Technologies' (QSTec) aim to develop a \$1bn polysilicon production facility.

The report noted that Qatar's cleantech value chain is "incredibly dynamic" and integrated with several players across technology development, manufacturing, distribution and project development, and services.

Qatar's thriving technology sector is critical to the growth of cleantech in the region, according to the report, citing technological infrastructure and extensive R&D, robust support systems, enablers, and skilled talent.

The report pointed out that successful national strategies and sustainability are poised to drive cleantech growth in the Mena region.

It stated that tech-based agricultural

practices in the Mena have revolutionised agri-food sector investments.

Exposure to sunlight also plays a significant role in pushing cleantech sector growth. The region receives between 22% and 26% of all solar energy striking the earth, which enhances the potential for a vibrant renewable energy sector, stated the report, citing World Bank estimates. Also, solar installed capacity in Mena is expected to increase by almost 40 gigawatt by 2025, it stated.

The GCC has the fastest-growing renewable energy sector reaching \$25bn in 2022, and by 2030, GCC countries aim to reduce oil consumption by 23%, creating more than 220,000 jobs in the region's renewable energy sector.

Gulf national oil companies can have an early-mover advantage in green hydrogen production and export, potentially bringing in \$200bn in revenue by 2050, the report added.

Qatar awards \$14.2bn worth of contracts during 2022: Kamco Invest

By Santhosh V Perumal
Business Reporter

Total value of contracts awarded in Qatar stood at \$14.2bn with gas sector accounting for 46% of the projects awarded during 2022, according to Kamco Invest, a regional financial powerhouse.

However, on an annualised basis, total value of contracts awarded in Qatar shrank 43.7%, said Kamco Invest in its latest report.

The fall in the Qatari project awards has come as the country hosted a remarkably well received world cup which caused project activity to be halted for the games as many projects work came to completion.

Also Qatar had awarded "significantly" higher valued projects in 2021 such as the LNG (liquefied natural gas) processing train project alone which costed \$13bn.

On the other hand, the surge in global LNG competition largely due to the Russia-Ukraine conflict, Qatar has also pencilled significant LNG deals during the year such as the 27-year LNG deal with China and a 15-year LNG deal with Germany.

These types of long term LNG supply deals had underscored the country's confidence in investing to expand its gas production and exporting facilities.

Qatar has been pursuing a two-way ambitious strategy which combined on one hand the maintenance of robust gas production facilities and on the other hand heavily investing the gas production capacity of the country.

According to MEED Projects, Qatar has earmarked a capital expenditure of \$82.5bn for the 2021-2025.

The gas sector maintained its lead as the largest sector by value of awarded projects in the Qatar despite witnessing a 66.1% year-on-year decline to \$6.5bn.

The Qatari gas sector accounted for 46% of the total value of projects awarded in the country in 2022 as compared to 76% in 2021.

Comparatively, there has been only \$108mn worth of contracts awarded in the oil sector during 2022 against \$1.4bn awarded in 2021.

On the other hand, there has been growth in the amount of contracts awarded in both the water and the transport sectors during the year.

Aggregate value of contracts awarded in the water sector jumped 98.1% y-o-y to \$1.3bn during 2022; while total value of contracts awarded in the transport sector registered 44.1% year-on-year growth to \$2.4bn in 2022.

Some of the big contracts awarded in Qatar during 2022 included the \$4.5bn North Field offshore gas contract to build and install gas compression facilities as part of the second development phase of the NFPS (North Field production sustainability) project awarded to the Italian contractor Saipem by QatarEnergy subsidiary Qatargas.

Similarly, QatarEnergy also awarded a \$1.5bn contract to install vital structures at the North Field to the US contractor McDermott during the start of the year 2022.



Government policies and advanced technological infrastructure present investment opportunities worth \$75bn in Qatar's cleantech sector by 2030, according to a report by Investment Promotion Agency Qatar

Extraneous forces dampen QSE sentiments as index tanks 412 points

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

Volatility in the global energy markets and the US Federal Reserve's 25 basis points hike in key rate had its ramifications in the Qatar Stock Exchange, whose key index plummeted 412 points and capitalisation eroded QR24bn this week.

The foreign institutions were seen net profit takers as the 20-stock Qatar Index plummeted 3.71% this week which saw Qamco report a record QR919mn net profit in 2022.

The banking, real estate and insurance counters witnessed higher than average selling pressure this week which saw QNBFS, the subsidiary of QNB, start market making for Commercial Bank, Qatar Electricity and Water and Ooredoo.

About 86% of the traded constituents were in the red this week, which saw the brokerage entity Djala to soon start margin trading.

The foreign retail investors were seen net sellers this week which saw QInvest extend the book-building period for Meeza initial public offering until February 9. The Arab retail investors' weakened net buying had its influence in the main market this week which saw Qatar's ports witness 59% year-on-year jump in transshipment volumes through Hamad, Doha and Al Ruwais ports in January 2023.

The Islamic index was seen declining slower than the other indices this week which Milaha and Turkish heavy lift and engineered transport specialist Hareketsaw enter into a strategic alliance.

The domestic funds continued to be net sellers but with lesser intensity this week which saw a total of 0.46mn Masraf Al Rayan-sponsored exchange traded fund QATR worth QR1.13mn trade across 30 deals.

Trade turnover and volumes were on the increase in the main market this week, which saw as many as 0.12mn Doha Bank-sponsored exchange traded fund QETF valued at QR1.31mn change hands across 78 transactions.

Market capitalisation was seen eroding QR23.54bn or 3.73% to QR606.8bn on the back of large and midcap 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 knocked off 3.71%. All Share Index by 3.86% and All Islamic Index by 3.11% this week, which saw no trading of sovereign bonds.

The banks and financial services sector index plummeted 5.63%, real estate (5.47%), insurance



The foreign institutions were seen net profit takers as the 20-stock Qatar Index plummeted 3.71% this week which saw Qamco report a record QR919mn net profit in 2022.

(4.81%), transport (2.39%), consumer goods and services (1.36%) and industrials (1.16%); while telecom was up 0.2% this week which saw no trading of treasury bills.

Major losers in the main market included Gulf Warehousing, Doha Bank, Masraf Al Rayan, Djala, Widam Food, QNB, Qatar Islamic Bank, Leshia

Bank, Aijarah Holding, Medicare Group, Baladna, Gulf International Services, Estithmar Holding, Qatar Insurance, Qatar General Insurance and Reinsurance, Al Khaleej Insurance, Barwa, Ezzan, Mazaya Qatar and Milaha. In the venture market, Al Faleh Educational Holding saw its shares depreciate in value this week.

Nevertheless, Qatar Cinema and Film Distribution, Qatar Islamic Insurance, Ooredoo, Ahlibank Qatar and Woqod were among the gainers in the main market this week.

The foreign funds were net sellers to the tune of QR7.62mn against net buyers of QR189.28mn the week ended January 26.

The foreign individuals turned net sellers to the extent of QR5.19mn compared with net buyers of QR10.15mn a week ago.

The Arab individual investors' net buying decreased noticeably to QR3.81mn against QR17.25mn the previous week.

However, the Gulf funds were net buyers to the tune of QR57.97mn compared with net sellers of QR31.76mn the week ended January 26.

The local retail investors turned net buyers to the extent of QR18.62mn against net sellers of QR47.21mn a week ago.

The Gulf retail investors were net buyers to the tune of QR0.28mn compared with net sellers of QR1.82mn the previous week.

The Arab institutions turned net buyers to the extent of QR0.18mn against net sellers of QR0.05mn the week ended January 26.

The domestic institutions' net profit booking weakened substantially to QR68.05mn compared to QR135.83mn a week ago.

Total trade volume in the main market expanded 10% to 744.9mn shares, value by 24% to QR2.89bn and deals by 18% to 86,996.

Most banks see ECB slowing rate hikes after March

Bloomberg
Frankfurt

Most economists predict the European Central Bank (ECB) will slow the pace of its interest-rate hikes following another half-point increase in March.

Banks including Morgan Stanley, Commerzbank and ING predict the deposit rate will peak in May at 3.25%, while analysts at Goldman Sachs, Credit Suisse and Citi see one more quarter-point hike in June.

The ECB on Thursday raised its deposit rate to 2.5% from 2%, as expected, and flagged another such increase at its next meeting. President Christine Lagarde said the Governing Council would then "evaluate the subsequent path of our monetary policy" – a comment that was widely understood as signalling a moderation in tightening.

Here is a rundown of what banks now predict:

Goldman Sachs: "We expect the ECB to 'stay the course' and move rates into sufficiently restrictive territory, with a third 0.5% rate hike in March – as confirmed today – which is likely to be followed by two further 0.25% rate hikes in May and June, implying a 3.5% terminal rate in the summer. That said, a meeting-by-meeting approach beyond March creates uncertainty around both the pace and magnitude of tightening from the second quarter."

Morgan Stanley: "There are



The European Central Bank headquarters in Frankfurt. Most economists predict the ECB will slow the pace of its interest-rate hikes following another half-point increase in March.

only very few data releases from here until the March meeting that could inform the ECB decision away from the indicated 50 basis-point rate hike. A set of rather weak PMIs, or material downside surprise on the core inflation side, could potentially move the needle, but neither of the two is in line with our base-case scenario."

Credit Suisse: "The market's dovish reaction to the meeting – weaker euro, lower

sovereign yields and tighter peripheral spreads – seems premature to us, as neither the central bank's rate guidance nor underlying inflation developments suggest the end of the hiking cycle is near."

Societe Generale: "It looks like the ECB is rather taking the risk of doing too little than too much tightening to reach the target. We worry that this is not sufficiently ambitious, raising risks to inflation ex-

pectations and making the return to 2% inflation harder."

Nordea: "Given that the ECB will have new forecasts at its disposal at the March meeting, it is natural that Lagarde was reluctant to give guidance beyond the March meeting. However, Lagarde's comments strongly suggest that the ECB is planning to continue rate hikes also beyond March. It would also be a bit odd, if they were sufficiently confident that a 50

basis-point rate hike was needed in March and then thought no further hikes were needed after that."

ING: "As long as core inflation remains stubbornly high and core inflation forecasts remain above 2%, the ECB will continue hiking rates. The increasing probability that a recession will be avoided in the first half of the year also gives companies more pricing power, showing that selling price expectations remain elevated."

ABN Amro: "We continue to expect the deposit rate to peak at 3%, which implies that the 50 basis-point rate hike in March would be the final one and that rates will be kept on hold for a while after that."

We think that over the coming months it should become clear that eurozone GDP will contract moderately during most of 2023, as the impact of monetary tightening comes through.

This also means that labour-market conditions are set to deteriorate, during the course of the year, which should help reduce wage growth in the second half of the year and in 2024. Also, inflation could come down much more quickly than the ECB projected in its December forecasts. Meanwhile, we have pencilled in a pivot by year end, with rate cuts beginning in the fourth quarter."

Berenberg: "So far, the doves on the ECB Governing Council have gone along with raising rates into restrictive territory. But as inflation looks

set to decline, we expect them to push back against further major rate hikes in the second quarter."

Commerzbank: "The many doves in the ECB Governing Council are likely to use a further fall in the inflation rate in May as an argument to reduce the pace of interest-rate hikes to 25 basis points."

"The deposit rate would then be 3.25%" but "a deposit rate of 3.25% will not be enough to push inflation back to 2% in the medium term. Instead, we continue to believe that a deposit rate of about 4% is necessary."

Citi: "While the number and the magnitude of future rate hikes is, legitimately, a matter for future discussion, we do not read in today's communication reasons to expect that, if members of the Governing Council were publishing 'dots' to convey their estimates of the peak policy rate, those dots would be any lower than they would have been in December, notwithstanding the fall in energy prices."

Rabobank: "The ECB continues its odd relationship with forward guidance. Although the Governing Council maintains that future decisions will continue to be data-dependent, and based on a meeting-by-meeting approach, they once again jumped the gun, virtually pre-committing to another 50 basis-point hike in March. Sure, Lagarde caveated that statement, explaining that 'intend is a strong word, but not irrevocable.'

Google, Apple disappoint as tech earnings hit by gloom

AFP
San Francisco

Google and Apple on Thursday reported downbeat results for the last quarter of 2022 as Amazon beat expectations, but warned that the coming months would be uncertain in a difficult moment for Big Tech. The world's biggest tech companies posted their earnings as shares in Meta skyrocketed a day after it reported better results than expected and signalled spending and job cuts. The results follow several weeks of unprecedented layoff rounds in the usually unassailable tech sector amid pessimism about the economic outlook.

The souring mood followed a long spell of outsized growth during the peak Covid-19 period when consumers went online for work, shopping and entertainment.

Google parent Alphabet's revenue of \$76bn in its fourth quarter and profit of \$13.6bn were below what it made in the same period a year earlier, with share prices falling more than 6% in after-market trade. Google saw a slump in its crucial advertising sales to \$63.1bn in the fourth quarter, though this was slightly better than what analysts had projected, according to data compiled by Factset.

This was only the second quarterly fall since the search engine giant went public in 2004.

"It's clear that after a period of significant acceleration in digital spending during the pandemic, the macro economic climate has become more challenging," Google CEO Sundar Pichai said in a call to analysts.

Pichai last month announced a plan to lay off 12,000 people in order to reverse pandemic over-hiring and focus on new areas, especially artificial intelligence.

In another setback, Google, which has long seen itself as an innovation leader, was caught off guard by the sudden rise of user-friendly AI such as ChatGPT, which is seen as a potential rival to Google's all-powerful search engine.

Apple is the only tech giant that has yet to announce major layoffs in recent weeks and investors were taking a hard look at how its sales have been affected by China's zero-Covid policy that was only recently lifted.

The world's biggest company in terms of market value reported a fall in quarterly revenue and profits for the final three months last year, hit by a drop in sales of its flagship iPhones.

Apple's revenue was \$117.1bn, down 5.4% from a year ago for the October to December period, the first quarter of its fiscal year.

Analysts forecasted quarterly sales of \$121.5bn down from \$123.9bn a year ago. The sales trouble was linked to China, which remains the key manufacturing hub for iPhones and the drastic restrictions adversely affected Apple's ability to export the iPhone 14 during the key holiday season.

Amazon meanwhile reported an inflation-fuelled increase in sales despite the company announcing a massive round of layoffs to correct for a hiring binge during the pandemic when business growth ramped up.

UK looks to traditional finance to inform crypto regulations

Bloomberg
London

The UK intends to regulate cryptoasset activities including trading, lending and custody under the same regime as traditional financial services.

The government is opening a consultation on a series of sweeping new rules for the crypto sector, the country's Treasury department said in a statement on Tuesday. The proposed guidelines would include a requirement for exchanges to write detailed requirements on admission standards and disclosures for token issuers when listing new assets.

The plans would make crypto exchanges akin to multilateral trading facilities as operated by LMAX Group and TP ICAP – a type of trading venue for alternative assets – a person familiar with the matter said, who was not authorised to discuss it publicly. The UK also plans to strengthen rules around financial intermediaries and custodians of digital assets, requiring all firms to meet prudential regulation and standards on data reporting, consumer protection and operational

resilience. The consultation was published on Wednesday and will seek responses until April 30.

The push to implement stricter rules in the UK comes during a period of turmoil in the crypto sector, which has been marked by a raft of high-profile collapses, bankruptcies and scandals. Plummeting token prices and platform failures last year resulted in investors nursing billions of dollars in losses and regulators across the globe tightening their scrutiny of the asset class.

Recent criminal charges against Sam Bankman-Fried, former CEO of major crypto exchange FTX, have further heightened concerns over whether crypto companies offer sufficient customer safeguards. Bankman-Fried allegedly permitted FTX's sister trading platform Alameda Research unfettered access to customer assets for its own purposes, while also borrowing from the firm for his personal gain.

The Treasury's proposal will include a requirement for cryptoasset custodians to meet standards aimed at avoiding the commingling of customer and business assets, the person said, as well as traditional market expectations on bookkeeping and corporate governance. Crypto lenders, meanwhile, will

need to provide clear contractual terms of service to users.

A new "crypto market abuse regime" will require intermediaries to demonstrate they can prevent conflicts of interest and carry out sufficient processes to detect market abuse in cryptoasset dealings, as well as submit suspicious transaction order reports (STORs) to the regulator, the person added.

This will seek to counteract the risks of so-called "pump and dump" fraud and insider trading within crypto companies, a problem that emerged on a greater scale in 2022 when former employees at trading firms such as Coinbase Global Inc and OpenSea were accused or found guilty of the practice.

The UK government's move to regulate crypto is part of a push by Prime Minister Rishi Sunak to attract more crypto businesses and investment to the country.

Crypto companies have long lamented that a lack of regulatory clarity has made it hard for them to do business there, with only 15% of applicants having successfully met the Financial Conduct Authority's anti-money laundering requirements since it started monitoring registration in 2020.

Andrew Griffith, economic secretary to the Treasury, said in the statement that crypto can help the government grow the country's economy through technological innovation, but that it "must also protect consumers who are embracing this new technology – ensuring robust, transparent, and fair standards."

The UK's proposals signalled a welcome "shift from a 'wait-and-see' approach" to a more comprehensive framework, said Tim Byun, head of government relations at crypto firm OK Group, which runs the OKX exchange.

The government had already laid out several new crypto regulation proposals in 2022, but little headway was made while the crypto market and the UK government itself struggled to maintain stability. Griffith told MPs earlier this month that the UK is unlikely to pass any legislation on cryptoassets until at least 2024.

Those proposals included a move to limit the targeting of cryptoasset advertising to only wealthy or professional investors, and to bring stablecoins – cryptoassets tied to the value of a currency like sterling or the dollar – under existing e-money rules.

The Financial Conduct Authority is to be given a broader remit to oversee crypto companies as part of the Financial Services and Markets Bill, which is currently making its way through the House of Lords.

Crypto companies voiced concerns about the government's proposals on cryptoasset promotions last year, arguing that firms which had already met the FCA's standards should be able to issue their own adverts without needing an authorized third party to sign off. The Treasury said that it will introduce a time-limited exemption to the rule, allowing those with FCA registration to issue their own promotions until the broader regime is introduced.

However that change will be "of no help" to the large number of crypto firms without registration, said Zoe Wyatt, partner and head of crypto at tax advisory firm Andersen LLP. Cryptocurrency companies have struggled to gain FCA approval over the past few years, leading some to relocate offshore.

"Making registration difficult in the UK runs against the government's stated ambition to protect customers as action may need to be sought outside the UK courts system," she added.

Banks profit like it's 2007, yet rate binge won't last forever

Bloomberg
London

European banks are revelling in their highest profits since before the financial crisis, benefiting from the unprecedented pace of rate increases that's driving a surge in lending income. The question is how long it can last.

Ten of the region's biggest lenders that have reported so far boosted net lending revenue by 16% to a record €120.8bn (\$131.6bn) last year, fuelling their highest profits since 2007 and setting off a cascade of dividend increases and buybacks. With rates set to increase further, executives from Deutsche Bank AG to Nordea Bank Abp are saying the good times aren't over yet. But savers look set to start demanding their cut of the higher rates.

At first glance, European banks are in a Goldilocks moment: tighter monetary policy aimed at cutting inflation is letting them charge more for credit, while at the same time they're passing on only a fraction of the increases to depositors. The difference between the two is known as net interest income, and it's surging. Yet at the same time, higher rates compound the squeeze on

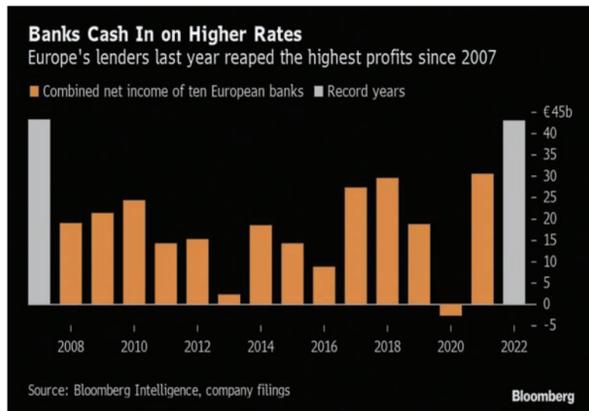
corporate and retail clients. Inflation is still through the roof and recession fears are not yet in the rearview mirror.

That raises the prospect of higher defaults and a pullback by hard-up borrowers, both of which could hurt bank's balance sheets in the future.

"After many years of shrinking revenues, the banks have turned into a growth story," said Francois Lavier, who helps manage €35.9bn including bank bonds at Lazard Freres Gestion in Paris. "That should continue in the euro area this year, but repricing can't go on forever. If rates peak, the revenue increases will stop as the repricing comes to an end or we see another negative impact like more expensive deposits."

The Federal Reserve, which started raising rates earlier than the European Central Bank, shows that banks won't be able to rely on monetary policy helping drive earnings forever. The Fed is slowing rate hikes and swaps are even pricing in cuts by year end.

"The interest income really came through," Ralph Hamers, chief executive officer of UBS Group AG, said in an interview with Bloomberg TV's Manus Cranny on Tuesday. "On the dollar effect, we feel it has most likely peaked, however there is more to come on the



euro and the Swiss franc." In contrast, the ECB lifted interest rates by a half-point on Thursday and pledged another such move next month before officials then take stock of where borrowing costs must go to tame inflation.

Eastern Europe also shows the benefit to lenders will eventually ebb. Several central banks there are expected to cut borrowing costs later this year and

depositors in some countries are already looking for better interest rates.

Raiffeisen Bank International AG said on Wednesday that its net interest income in the Czech Republic took an €8 million hit in the fourth quarter after having to pay higher interest to its clients as they moved money from current accounts to higher-yielding savings accounts at the bank.

That dynamic "explains why we're not so enthusiastic anymore of a further increase in NII," Johann Strobl, the Austrian bank's CEO, told analysts, when asked about the Czech market.

Deutsche Bank signalled on Thursday that the bump to earnings from higher interest rates may be less pronounced in future years, partly because it will have to pay more to depositors. For now though, the German lender is "traveling well below" its previous assumptions of how much money it would need to pass on to clients, according to Chief Financial Officer James von Moltke.

While European lenders may not pass on much of the gains straight away, they can also point to the precedent of initially shielding savers when the ECB took rates negative in 2014, with many ultimately only charging for money held with the bank at certain thresholds such as €100,000.

"So far, the rising rates by the ECB have been sharper than the rising rates in terms of deposits," Tanate Phutrakul, the CFO of ING Group NV, said in an interview with Bloomberg TV's Tom Mackenzie on Thursday. The Dutch lender isn't having difficulty attracting such funding after it took in about €10 billion of retail deposits in the quarter, yet it will continue to

watch competitors closely, he said. The other side of the equation is the risk of demand destruction if clients decide taking a loan is too expensive, curbing a bread and butter part of corporate and retail banking.

Lenders saw demand for corporate loans fall 11% in the fourth quarter while that for residential mortgages slumped by a record 74%, according to the ECB. Banks expect demand from companies and households to decline further in the first three months of this year, according to an ECB survey released last month.

Housing markets and home loan demand globally are sagging under the weight and speed of the central bank rate rises. Spain's Banco Bilbao Vizcaya Argentaria SA expects "slightly negative" growth in mortgages in its home country this year, CEO Onur Genc told analysts on Wednesday. The bank is relying on higher demand for consumer and corporate loans, notably from companies' needs for working capital, to make up for that, he said.

Banks, so far at least, have managed to avoid an increase in the share of bad loans on their balance sheets. Several, though, are setting aside funds to cover loans going sour during a possible downturn.

Asian bourses mostly rise after gains on Wall Street

AFP
Hong Kong

Asian equities mostly rose yesterday following gains on Wall Street but optimism over a possible pause in Federal Reserve interest rate hikes was being weighed against worries about the global economy after a year of monetary tightening.

In Tokyo, the Nikkei 225 closed up 0.4% to 27,509.46 points; Hong Kong Hang Seng Index ended down 1.4% to 21,660.47 points and Shanghai Composite closed down 0.7% to 3,263.41 points yesterday.

Disappointing earnings from Wall Street titans Apple, Amazon and Alphabet — who together are worth almost \$5tn — indicated higher borrowing costs and elevated inflation were weighing on consumer demand.

The readings came in towards the end of a week when the stocks rally that defined most of January hit the barriers as traders worried that the buying had been



Visitors watch share prices at the Tokyo Stock Exchange. The Nikkei 225 closed up 0.4% to 27,509.46 points yesterday.

overdone and that there were plenty more bumps in the road for the economy. Those concerns overshadowed optimism about China's reopening and recovery from

nearly three years of zero-Covid policies that hammered business activity.

They also offset the positive mood created by an acknowledgement from the

Fed that it was making progress in bringing inflation down from multi-decade highs, fuelling hopes it was nearing the end of its rate hike cycle.

Eyes are now turning to the release of US jobs data later yesterday, which will provide a clearer idea about the state of the world's biggest economy.

"A softer payrolls data, so long as it does not fall off a cliff triggering a recessionary (backlash), could re-engage all the favourite trades of the year," said SPI Asset Management's Stephen Innes.

"Not least, it would provide the most critical evidence to date to suggest that the market's rates pricing is more in line with reality than the Fed's own more subtly hawkish higher for longer signalling."

Wall Street's three main indexes ended broadly higher, with the Nasdaq piling on more than 3% thanks to forecast-beating results from Facebook owner Meta.

However, the after-hours reports from Apple, Amazon and Google's parent firm Alphabet brought investors back down to earth.

Emerging market stocks end lower

Reuters
Singapore

Emerging market stocks fell yesterday, and were on track for their first weekly fall since the start of the year, driven by weakness in Chinese stocks after the world's second largest economy came back from its Lunar New Year break.

The MSCI's index for emerging market stocks slipped 0.5% and was set to snap its five-week winning streak after its January rally, supported by hopes of recovery in China as it lifted its strict Covid curbs.

China's blue-chip CSI 300 Index and the Shanghai Composite Index closed 1.0% and 0.7% lower, with foreign funds halting their buying spree after nearly a month of net inflows, as investors examined China's economic recovery. Hong Kong's Hang Seng Index fell 1.4% and ended the week 4.5% lower.

"While Hong Kong equities have partially priced in the upside from mainland China's reopening, tourist and capital inflows are likely

to continue to support the city's tourism, finance, retail, Macau gaming, and insurance industries," said Mark Haeefe Chief Investment Officer, UBS Global Wealth Management in a note.

A private sector survey showed China's services activity in January expanded for the first time in five months.

Indian shares notched weekly gains but the focus remained on Adani group shares, which have lost over \$100bn in market value after a US short-seller report.

Credit ratings agency Moody's warned that the sell-off in Adani group's shares could reduce the Indian conglomerate's ability to raise capital, while its peer Fitch saw no immediate impact on its ratings.

Currencies in emerging markets rose for a second straight week supported by a weak weekly show by the US dollar as markets took a dovish view on rate guidance from major central banks this week.

Russia's rouble inched higher at 70.35 against the greenback as markets awaited details from the government about its plans to intervene in the currency markets.

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Qatar participates in senior officials committee meeting of GCC Economic and Development Affairs Authority

QNA
Riyadh

The State of Qatar participated in the seventh meeting of the Senior Officials Committee of the GCC Economic and Development Affairs Authority, which was held at the headquarters of the GCC General Secretariat in the Saudi capital of Riyadh. Deputy Undersecretary for Economic Affairs at the Ministry of Finance Dr Saud Abdullah al-Attiyah represented the State of Qatar in the meeting. The meeting discussed a number of issues related to the stages of economic integration in the GCC countries, most notably the decisions pertaining to the GCC economic unity, issued by the 43rd session of the GCC Supreme Council in December 2022, especially with regard to obstacles and solutions to reach economic unity by 2025, in addition to setting an action plan and a timetable for a Gulf economic model.



Deputy Undersecretary for Economic Affairs at the Ministry of Finance Dr Saud Abdullah al-Attiyah represented the State of Qatar in the meeting.

BoE signals end is near for rate tightening spree

Bloomberg
London

The Bank of England (BoE)'s top two policy makers signalled that the most aggressive tightening cycle in three decades may be nearing an end. Chief economist Huw Pill said yesterday that policy makers must avoid going too far on lifting borrowing costs. Governor Andrew Bailey didn't rule out another rate rise but dropped previous language that further increases are very likely.

The remarks follow the UK central bank's decision on Thursday to raise the key rate a half point to 4%, the highest since 2008. Officials dropped guidance that they're prepared to act "forcefully" to contain inflation and now say they'll decide based on developments in the economy and on inflation.

"It's important that as I've said we do enough to attain our objective – return inflation to within target – but of course it's also important that we enguard against the possibility of doing too much," Pill said in an interview on Times Radio. He said the policy makers need to keep a "zen-like balance" on

interest rates and that the full impact of previous hikes is "still to come through".

In a Q&A with The Sun newspaper, Bailey said it is "too soon to say" if rates will rise further. "It's our job to get inflation back down to the 2% target and for it to stay there. We'll make whatever decisions are needed to ensure that happens."

The remarks were more equivocal and balanced than either of the two had been making before the latest decision. In previous months, Bailey and Pill both said they thought rate rises had further to run.

The central bank aims to restrain inflation, which leaped to a 41-year high of 11.1% late last year. While prices have eased in the most recent two months, reaching 10.5% in December, they remain five times higher than the 2% target.

Pill said the BoE expects inflation to fall sharply this year and that policy makers want to see it holding below inflation "sustainably." Pill suggested that the BoE is yet to see any positive economic impact from Brexit. He was asked on Times Radio whether he had heard any evidence of Brexit being a benefit to the UK economy.

ChatGPT in spotlight as EU's Breton bats for tougher AI rules

Reuters
Brussels

EU industry chief Thierry Breton has said new proposed artificial intelligence (AI) rules will aim to tackle concerns about the risks around the ChatGPT chatbot and AI technology, in the first comments on the app by a senior Brussels official.

Just two months after its launch, ChatGPT – which can generate articles, essays, jokes and even poetry in response to prompts – has been rated the fastest-growing consumer app in history.

Some experts have raised fears that systems used by such apps could be misused for plagiarism, fraud and spreading misinformation, even as champions of artificial intelligence hail it as a technological leap.

Breton said the risks posed by ChatGPT – the brainchild of OpenAI, a private company backed by Microsoft Corp – and AI systems underscored the urgent need for rules which he proposed last year in a bid to set the global standard for the technology.

The rules are currently under discussion in Brussels.

"As showcased by ChatGPT, AI solutions can offer great opportunities for businesses and citizens, but can also pose risks.

This is why we need a solid regulatory framework to ensure trustworthy AI based on high-quality data," he told Reuters in written comments.

Microsoft declined to comment on Breton's statement. OpenAI – whose app uses a technology called generative AI – did not immediately respond to a request for comment.

OpenAI has said on its website it aims to produce artificial intelligence that "benefits all of humanity" as it attempts to build safe and beneficial AI.

Under the EU draft rules, ChatGPT is considered a general purpose AI system which can

be used for multiple purposes including high-risk ones such as the selection of candidates for jobs and credit scoring.

Breton wants OpenAI to cooperate closely with downstream developers of high-risk AI systems to enable their compliance with the proposed AI Act. "Just the fact that generative AI has been newly included in the definition shows the speed at which technology develops and that regulators are struggling to keep up with this pace," a partner at a US law firm, said.

Companies are worried about getting their technology classified under the "high risk" AI category which would lead to tougher compliance requirements and higher costs, according to executives of several companies involved in developing artificial intelligence.

A survey by industry body appliedAI showed that 51% of the respondents expect a slowdown of their AI development activities as a result of the AI Act. Effective AI regulations should centre on the highest risk applications, Microsoft President Brad Smith wrote in a blog post on Wednesday.

"There are days when I'm optimistic and moments when I'm pessimistic about how humanity will put AI to use," he said.

Breton said the European Commission is working closely with the EU Council and European Parliament to further clarify the rules in the AI Act for general purpose AI systems.

"People would need to be informed that they are dealing with a chat-bot and not with a human being. Transparency is also important with regard to the risk of bias and false information," he said.

Generative AI models need to be trained on huge amount of text or images for creating a proper response leading to allegations of copyright violations.

Breton said forthcoming discussions with lawmakers about AI rules would cover these aspects.

Blockbuster US jobs report to push Fed to hike and keep interest rates high

Bloomberg
Washington

The blockbuster January jobs report is likely to strengthen the Federal Reserve's determination to raise interest rates above 5% and keep them high throughout the year – an outcome investors remain sceptical of.

Fed Chair Jerome Powell on Wednesday said policymakers expect to deliver a "couple" more interest-rate increases before putting their aggressive tightening campaign on hold, though he didn't push back strongly against markets pricing just one more hike and cuts by the end of the year.

"Such a strong employment report probably means at least two rate hikes of 25 basis points, and I wouldn't dismiss the possibility of a 50 basis-point hike returning on some Fed officials' radar screen for the next meeting," said Thomas Costerg, a senior US economist at Pictet Wealth Management in Geneva, Switzerland.

The Federal Open Market Committee raised its benchmark rate by a quarter percentage point to a range of 4.5-4.75% this week. The smaller move followed a half-point increase in December and four jumbo-sized 75 basis-point hikes prior to that.

Powell welcomed recent lower readings on inflation that have brought it down from last year's peak. But he also voiced concern over a lack of progress in prices in the services sector outside of housing, which he has said is driven in large part by a tight labour market.

The chair cited a ratio of 1:9 job openings for every unem-



A man walks past a "Hiring" sign at a McDonald's restaurant in Garden Grove, California (file). The blockbuster January jobs report is likely to strengthen the Federal Reserve's determination to raise interest rates above 5% and keep them high throughout the year – an outcome investors remain sceptical of.

ployed worker, near a historic high. "Dust off those hawkish playbooks, again," said Derek Tang, an economist at LH Meyer in Washington. "Now markets have to resuscitate the right tail of outcomes and whether the Fed has to hike above 5.1%."

Seventeen of 19 policymakers in December forecast rates rising above 5% this year and the median projection was for 5.1%, implying two more quarter-point hikes, presumably at the Fed's meetings in March and early May, with rates staying on hold through the rest of the year.

But investors, despite the hot January employment report, still

see rates peaking lower – around 4.99% – followed by almost 50 basis points of cuts by end-2023.

"These data call into question the market narrative that disinflationary forces will position the Fed to start cutting rates in the second half of 2023," said Jonathan Millar, a senior economist at Barclays Plc in New York. "At a minimum, the Fed will still be inclined to message 'higher for longer,' but risks of a higher peak rate have risen today as well."

Nonfarm payrolls increased 517,000 last month – more than twice the expectations of Wall Street – after an upwardly re-

vised 260,000 gain in December, a Labor Department report showed yesterday. The unemployment rate dropped to 3.4%, the lowest since May 1969 and average hourly earnings grew at a steady clip.

Morgan Stanley economists led by Ellen Zentner, who had been predicting the Fed now would pause rate hikes, revised their forecast Friday to include another quarter-point increase. There's "more upside risk if labour market data continue to move from strength to strength," they wrote in a client note.

The Fed has sought to ease wage gains to a level consist-

ent with its 2% inflation target. The jobs report showed average hourly earnings rose 0.3% from December and were up 4.4% from a year earlier, yet the prior month was revised higher.

Looking at a three month average, "wage gains have been a bit stronger," Omair Sharif of Inflation Insights wrote in a report.

Other signals on wage pressures have been more benign, including a moderation in a closely-watched quarterly measure of employment costs, which rose 1% in the fourth quarter, which was slightly less than expected.

"We expect the Fed won't take any signal from this wage data, and will wait the more reliable employment cost index, due April 28, in determining its next steps," said Anna Wong, chief US economist at Bloomberg Economics. She estimated "the underlying pace of wage growth is still 4%-5%, substantially higher than what's consistent with the Fed's price target."

While the jobs figures showcase the resilience of the job market, Fed officials have said their goal is to reduce US growth to below its long-term trend to ensure price pressures are brought back down to levels that existed prior to the Covid-19 pandemic.

The Fed's "main concern is they're not yet seeing the impact of their tightening in the labour markets," Jeffrey Rosenberg, a senior portfolio manager at BlackRock Inc, said on Bloomberg TV. "This is a reminder of what Powell tried to say, but the market wasn't listening."

Financial conditions have eased the past few months as markets had started to price in a less aggressive Fed, even as policymakers insisted rates would stay higher for longer.

ECB plan for next big hike makes Lagarde last hawk standing

Bloomberg
Frankfurt

Late to the global interest-rate hiking party, the European Central Bank (ECB) is trying to convince everyone that it will also be one of the last to leave.

With counterparts from the US to the UK sending out signals of waning aggression after drastic monetary tightening, eurozone officials insist their own onslaught against inflation isn't about to let up.

ECB President Christine Lagarde all but promised on Thursday to repeat a hefty half-point hike in March, with the prospect of more action thereafter.

While their justification is that underlying price pressures are no less concerning, and eurozone tightening is also less advanced than peers, officials risk looking increasingly isolated as investors show growing confidence that the global inflation shock is fading.

That showdown may come to a head in just six weeks' time, when policymakers have pledged to be similarly hawkish despite also vowing to

be "data dependent" and to be taking decisions "meeting by meeting."

Their stance may start looking like a statement of faith if statistical releases and new quarterly forecasts due then don't clearly justify such firm action.

"A lot of news can come between now and March," Peter Praet, a former ECB chief economist, told Bloomberg Television. "I was surprised by the intention to increase by 50 basis points because I think, who knows what's going to happen?"

In contrast to the ECB's doubling down on half-point hikes, the Federal Reserve lifted rates by only a quarter point on Wednesday. Chair Jerome Powell did say the Fed would keep raising, but his rhetoric and a more upbeat inflation outlook opened the door for a rally in stocks and Treasuries.

Similarly the Bank of England signalled on Thursday that its own hiking may be drawing to a close. The Bank of Canada, which raised last week, now expects to stay on hold.

All those counterparts began lifting rates earlier than the ECB, and have raised by considerably more than the eurozone's 300 basis points to



Christine Lagarde, president of the European Central Bank.

date. Even so, a relatively synchronised turn in the advanced-world cycle hasn't escaped the bloc – its inflation slowed more than expected in January, to 8.5%. The ECB's survey of professional forecasters published Friday showed expectations for both

headline and core inflation in 2025 were above the 2% target.

Lagarde cited underlying consumer-price gains, currently at a record in the history of the single currency, and the risk of wage pressures too as reasons to stay alert. But the market reaction, including what may turn out to be the largest drop in Italian 10-year yields for almost three years, suggests such hawkish rhetoric is starting to fall on deaf ears.

Pietro Reichlin, a professor of economics at Luiss University in Rome, reckons the ECB is right in its determination to defy the markets and "stay the course," in Lagarde's words.

"Inflation remains high in Europe and the economy is doing slightly better than expected, so the decision to keep raising rates and to pre-commit makes sense," he said. "There's a good argument for staying the course on further hikes." The ECB does also acknowledge that the price threat is starting to moderate. Lagarde said risks to the inflation outlook are "more balanced" than before.

Even so, she was adamant that investors should consider a half-point increase in March as more or less baked in. While not "irrevocable," only

"quite extreme" scenarios would divert the ECB from that course, she said.

Speaking yesterday, Lithuanian central bank chief Gediminas Simkus even said that there may be more such hikes beyond next month, with Slovakia's Peter Kazimir saying the fight against inflation is "far from won."

"The Governing Council provided little clarity on how far rates will need to rise. The promise of a policy path re-evaluation in May raises the likelihood that this meeting will see a shift in increment," said David Powell and Jamie Rush. New forecasts due in March, which will take account of far lower energy prices than previously assumed, and another monthly reading of inflation, are among the items of information that policy makers will have by then – even if they currently reckon it won't change their decision.

The risk though is that, just like the ECB took some persuading to finally end its ultra-low-rate stance last July with its initial hike, its locked-in approach to further increases ties officials too far. Instructive is its experience of mistakes, witnessed in prior instances of aborted tightening in 2008 and 2011.