STRICT MEASURE | Page 4

ECB steps up scrutiny of bank liquidity, may raise requirements

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GULF TIMES
BUSINESS

MONETARY POLICY: Page 3

Indonesia bond bulls bet on rate cuts as hike-cycle end signalled

QNB receives 'Best CSR Bank in Qatar' award

QNB Group, the largest financial institution in the Middle East and Africa, was adjudged "the best bank in corporate social responsibility (CSR) in Qatar" during the awards ceremony held at the conclusion of the Qatar CSR Summit 2023. This recognition reaffirms QNB's commitment to the highest ESG performance standards through the development of sustainable business and operating models and adoption of the best-related practices in line with its sustainability strategy.

The award also reflects the bank's successful alignment between its CSR obligations and business profitability, in addition to its keenness to bolster the presence of its brand in all sustainability programmes and initiatives in Qatar and across it international network towards a healthier and more prosperous future.

QNB is one of the leading financial institutions in the region recognised for its role in preserving the environment and supporting the global efforts in combating climate change through its services and products, encouraging customers to shift to paperless banking transactions, providing green loans, and promoting the use of online and mobile banking channels. The bank also incorporates the values and principles of sustainability in its daily operations by adopting sustainable business practices and offering comprehensive products and services that contribute to reducing the negative impact on the environment.

The recognition reaffirms QNB's commitment to the highest ESG performance standards through the development of sustainable business and operating models and adoption of the best-related practices in line with its sustainability strategy.

QNB is one of the main institutions supporting the state's efforts in this domain and is keen to sponsor all relevant national events, in addition to organising initiatives and programmes aimed at raising awareness among its customers and employees.

QNB Group is currently ranked as the most valuable bank brand in the Middle East and Africa. Through its subsidiaries and associate companies, the Group extends to more than 28 countries across three continents providing a comprehensive range of advanced products and services. The total number of employees is more than 29,000 operating through 900 locations, with an ATM network of more than 4,800 machines.

Mazaya Qatar to enhance realty development, revenues

By Santhosh V Perumal
Business Reporter

Mazaya Qatar seeks to increase its real estate development this year with new projects that contribute to the development of its realty portfolio and enhance revenues.

It has also activated the Gloria Hotel and Suites, and the focus will be on developing vacant lands and fully exploiting the assets to collect returns therefrom, said Mazaya Qatar Chairman Sheikh Salman bin Hassan al-Thani in the board of directors report presented before shareholders at the general assembly meeting.

In the coming years, the company will continue the work in developing its services, maintaining partnerships, and contributing more broadly to diversifying the economy of the country in line with the requirements of Qatar National Vision 2030, he said.

Since it announced the strategy in 2021, the company's investments have reached QR234mn in realty generating a fixed income for several years to come, with an estimated return of approximately 7%.

"The aim is to complete the portfolio within the upcoming period, to achieve the announced (investment) figure of QR500mn," Sheikh Salman said.

Mazaya Qatar said it would soon launch a real estate project in the Waterfront at Lusail City, the details of which will be announced soon.

"The company is always on the lookout for development opportunities and details of any confirmed projects will be shared to the shareholders accordingly," the board said.

About Gloria Hotel and Suites, it said the hotel's maintenance and renovation works were completed in a record period that ended during the third quarter of 2022.

The hotel was fully leased to a government agency during the 2022 FIFA World Cup, and the hotel is currently receiving visitors with its full capacity, it said.

On Al Daayen Land, the report said the company has reached the final stages with the Ministry of Municipality to replace the plot, and "we will inform the shareholders as soon as the procedures are completed and the alternative land registered in the name of Mazaya Real Estate Development Company."

On the QR500mn investment portfolio target, Mazaya Qatar Chief Executive Officer Sheikh Hamad bin Mohamed bin Khalid al-Thani said the company has already achieved 55% of its target.

This accomplishment came through various acquisitions (such as Muaither Complex, Al Sadd Buildings, and at the beginning of 2023 two buildings in Mesaimeer were acquired) estimated with gross total of QR275mn; as it worked on the execution of various income-generating acquisitions to enhance company's portfolio and to increase returns.

"The company is currently working on setting designs and studies to improve lands held within Qatar and abroad for sale and lease; we will disclose to shareholders upon completion of reviewing and approving suggestions," it said.

Powell says risks more balanced, June policy decision unclear

Reuters
Washington

Federal Reserve Chair Jerome Powell said yesterday it is still unclear if US interest rates will need to rise further, as central bank officials balance uncertainty about the impact of past hikes in borrowing costs and recent bank credit tightening with the fact that inflation is proving hard to control.

In carefully scripted remarks at a Fed research conference in which Powell was interviewed by a top US central bank staffer, the Fed chief reiterated that the central bank would now make decisions "meeting by meeting," but also flagged that after a year of aggressive rate increases, officials "can afford to look at the data and the evolving outlook to make careful assessments."

"We face uncertainty about the lagged effects of our tightening so far, and about the extent of credit tightening from recent banking stresses," Powell said during a panel session at the conference in Washington.

"So today, our guidance is limited to identifying the factors we'll be monitoring as we assess the extent to which additional policy firming may be appropriate to return inflation to 2%."

"The risks of doing too much or doing too little are becoming more balanced and our policy adjusted to reflect that," Powell said. Ahead of a June 13-14 policy meeting "we haven't made any decisions about the extent to which additional policy firming will be appropriate." US policymakers remain on the fence about their upcoming policy decision, and will receive important jobs and inflation data in coming weeks that could sway the debate within the central bank's rate-setting Federal Open Market Committee. Powell said he felt that data so far "support the committee's view that bringing inflation down will take some time." He noted, for example, that some of the factors that may keep inflation elevated, such as the tight labour market, have yet to ease — particularly in the service industries where inflation is proving more persistent.

Federal Reserve Chairman Jerome Powell.

Policymakers are facing other constraints as well in offering clear guidance on the next meeting. Regardless of the data, the Fed is unlikely to raise interest rates if a down-to-the-wire political standoff over the US federal debt ceiling remains unresolved. If an actual US debt default is the result, the central bank may even be pushed towards emergency steps to ease the burden on the economy.

Powell's comments overall "were consistent with our takeaway from the May post-meeting press conference, which was that, while the (FOMC) wasn't sure whether further tightening would be necessary at some point, the committee's base case was a June pause," LHMeyer senior economist Kevin Burgest wrote.

This week has indeed seen some Fed policymakers call for a pause to further rate hikes. But others have pushed for more increases, while vice-chair nominee Philip Jefferson in remarks that walked a middle path citing risks on either side with no clear recommendation.

QSE sentiments weaken amidst US debt ceiling concerns

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

The Qatar Stock Exchange (QSE) remained under bearish spell this week which otherwise saw mixed trends in the global markets amidst the concerns over the US debt ceiling.

The foreign institutions were increasingly net profit takers as the 20-stock Qatar Index lost 0.91% or 98 points this week which saw MSCI include Dukhan Bank under Qatar's midcap index.

The Arab individuals turned net profit takers this week which saw MSCI reclassify Masraf Al Rayan and Mesaieed Petrochemical Holding under midcap from large cap segment.

About 56% of the traded constituents were in the red this week which saw Doha Bank restructure operations in Abu Dhabi by merging its operations with Dubai branch.

The Islamic equities were seen declining faster than the other indices this week which saw Nakilat liquefied natural gas carriers deliver 198 cargoes of estimated volume of 20.3mn metric tonnes with 100% reliability.

The transport, real estate, consumer goods and insurance counters witnessed higher than average selling pressure this week which saw Aamal Company to expand its exports to wider region, including Asia.

The Gulf institutions' weakened net buying had its influence in the main market this week which saw Qatar's consumer price index inflation fall 0.03% month-on-month in April 2023.

The domestic institutions continued to be net sellers but with lesser intensity this week which saw which saw Qatar's industrial production index surge 4.8% year-on-year in March 2023.

The local individual investors also continued to be bearish but with lesser vigour this week which saw a total of 0.87mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR2.13mn trade across 48 deals.

The Gulf retail investors were seen lesser into net selling this week which saw as many as 0.04mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.43mn change hands across 37 transactions. Market capitalisation was seen eroding QR0.41bn or 0.07% to QR628.6bn on the back of microcap segments this week which saw the banking and real estate sectors together constitute more than 57% of the total trade volume in the main market.

The foreign institutions were increasingly net profit takers as the 20-stock Qatar Index lost 0.91% or 98 points this week which saw MSCI include Dukhan Bank under Qatar's midcap index

The Total Return Index shrank 0.91%, the All Share Index by 0.51%, and the All Islamic Index by 1.28% this week, which saw no trading of sovereign bonds.

The transport sector index plummeted 2.88%, realty (2.81%), consumer goods and services (1.16%), insurance (0.98%) and industrials (0.48%); while telecom gained 0.75% and banks and financial services (0.02%) this week which saw no trading of treasury bills.

Major losers in the main market included Nakilat, QLM, Barwa, Mazaya Qatar, Commercial Bank, United Development Company, Masraf Al Rayan, Baladna, Qatar Electricity and Water, Beema, Gulf Warehousing and Milaha. In the venture market, Al Faleh Educational Holding saw its shares depreciate in value this week.

Nevertheless, Dlala, Qatari German Medical Devices, Inma Holding, Widam Food, Lesha Bank, QNB, Doha Bank, Dukhan Bank, Medicare Group, Gulf International Services, Estithmar Holding and Qamco were among the gainers this week.

The foreign institutions' net selling increased substantially to QR115.03mn compared to QR32.52mn the week ended May 11.

The Arab retail investors were net sellers to the tune of QR19.66mn against net buyers of QR6.6mn the previous week.

The foreign individuals' net profit booking grew perceptibly to QR2.3mn compared to QR1.36mn a week ago.

The Gulf institutions' net buying declined markedly to QR205.52mn against QR218.99mn the week ended May 11.

However, the domestic funds' net selling decreased significantly to QR23.07mn compared to QR102.32mn the previous week.

The local retail investors' net profit booking shrank drastically to QR43.63mn against QR78.39mn a week ago.

The Gulf individuals' net profit booking weakened noticeably to QR1.84mn compared to QR10.91mn the week ended May 11.

The Arab institutions had no major net exposure against net sellers to the tune of QR0.09mn the previous week.

The main market witnessed a 24% contraction in trade volumes to 1.1mn shares and 3% in value to QR3.1bn but on 8% jump in deals to 108,937.

Crypto trading takes a 'few steps back' after Jane Street, Jump retreat

Bloomberg
New York

First the crypto lenders imploded, then the industry's second-largest exchange collapsed. Next to go were the crypto-friendly banks. In the latest blow, major trading firms — the players responsible for the market's plumbing — are now retrenching.

As Jane Street Group, Jump Trading and other major firms pull back from crypto trading in the US amid heightened regulatory scrutiny, the market is quickly becoming less liquid, less mainstream and less attractive to institutional investors. That's leaving the new landscape of digital-asset trading looking a lot like the crypto industry of the not-too-distant past.

"They brought real gravitas and legitimacy to an industry that was kind of on the fringes and made it feel more mainstream, more secure," said Michael Safai, co-founder of London-based Dexterity Capital, a proprietary high-frequency crypto-trading firm. Among the firms trying to fill the void, "there's a bunch of other shops out there like us, that are small that you probably have never heard of."

The pullback of major market makers is likely to sideline big investors over concerns about the greater risk of moving prices through large orders, according to Noelle Acheson, former head of market insights at Genesis Global Trading Inc. and author of the Crypto Is Macro Now newsletter. That can spur "a downward spiral," she said, with market makers needed before demand is created, but demand needed before market makers are willing to come back in.

"Comparing to a year ago, it's a very different market now," Acheson said. "Market maturity is very much influenced by market liquidity, by diversity of offerings, by diversity of service providers — and, on all of those fronts, the crypto market has taken a few steps back."

Jane Street and Jump's retreat is already having an impact on liquidity and price stability in crypto markets. Bitcoin trading volume plunged to about $4bn a day on average last week, compared to $20bn in March, according to data from Coin Metrics Inc.

The impact can be seen in particular on Binance.US. In early May, Bitcoin prices on the trading platform at one point reached more than $600 higher than the consensus price on other exchanges. Market makers normally profit by arbitraging prices across exchanges, removing price differences on the same asset among different platforms. And Bitcoin liquidity on US exchanges has slumped 50% since the beginning of the year, according to data provider Kaiko.

Since early May, wallets identified as Jump's have been withdrawing capital without making fresh deposits on Binance.US, according to analytics data from Arkham Intelligence Inc.

"The decrease in market makers, a critical component of vibrant trading activity, has raised concerns about the overall robustness of the market in the short term," analysts at Coin Metrics wrote. Binance.US didn't respond to a request for comment. Representatives for Jump and Jane Street declined to comment.

The moves by the two firms come amid industry turmoil that began almost a year ago. The blowup of the Terra and Luna coins led to the shutdown of hedge fund Three Arrows Capital and crypto lenders Celsius Network LLC and Voyager Digital Ltd. Then came the collapse of Sam Bankman-Fried's empire, including the FTX exchange and his Alameda Research hedge fund. Within months, Silvergate Capital Corp and Signature Bank fell apart too, making it harder for crypto firms to open bank accounts and access US dollars.

US regulators, meanwhile, have turned up the heat on the industry through enforcement actions, and market makers have sought to avoid being ensnared in the heightened scrutiny.

Jane Street and Jump are among the biggest US trading firms, a group of powerful but typically low-profile firms that underpin the equity and options markets. The two companies ventured into crypto in the runup to the industry's two-year bull market that ended in late 2021. Jump's digital-assets unit, Jump Crypto, and Jane Street attracted scrutiny as they were among the trading firms looked into by US prosecutors in a probe of the failed TerraUSD stablecoin project. Neither firm was accused of wrongdoing.

Jane Street is scaling back its crypto ambitions globally because regulatory uncertainty has made it difficult for the firm to operate the business in a way that meets internal standards, a person familiar with the matter told Bloomberg News this month, and Jump Crypto is pulling back from the US market for the same reason, two people familiar with the matter have said. Both firms are still making markets, though on a smaller scale, the people said.

Jane Street was seen as a liquidity provider of last resort in crypto, offering prices quoted on most major crypto exchanges and by brokers for Bitcoin, Ethereum and even meme coins. It was one of several Wall Street quant firms, along with DRW Holdings, Susquehanna International Group and Hudson River Trading, that marched into the digital-assets industry in the past few years. Some of them bought stakes in crypto startups, made deals with token projects and dabbled in decentralized finance — a crypto Wild West where computer codes execute transactions automatically.

A number of Jane Street alumni went on to crypto-focused firms. Bankman-Fried worked at the company before leaving to start Alameda in 2017.

Institutional lending was also a big source of trading volume, but lending has dropped off following the bankruptcies of Celsius Network, BlockFi and Genesis Global Capital.

"The market has lost a lot of over-the-counter liquidity providers in the past year, and a lot of that liquidity was provided by people operating through leverage," said Chris Zuehlke, a partner at DRW and global head of Cumberland DRW, the digital-assets unit of Chicago-based trading house founded by Don Wilson.

Cumberland is among the firms stepping up as some other big players retreat. Another is Wintermute Trading Ltd, which has increased its headcount to more than 80 employees, up 30% from a year ago. The London-based crypto market maker is expanding its business to trade more traditional instruments related to crypto, such as exchange-traded products and futures listed on the Chicago Mercantile Exchange and Eurex, as well as over-the-counter trading.

"We are one of the very few companies out there that didn't scale down magnificently and didn't do any layoffs," Wintermute chief executive officer Evgeny Gaevoy said in an interview.

Galaxy Digital Holdings Ltd, the crypto financial-services firm founded by Michael Novogratz, is also positioning itself to take advantage as others pull back.

A sign for a Bitcoin automated teller machine at a gas station in Washington, DC. As Jane Street Group, Jump Trading and other major firms pull back from crypto trading in the US amid heightened regulatory scrutiny, the market is quickly becoming less liquid, less mainstream and less attractive to institutional investors.

Pimco sees hideouts in EM debt from rising US credit stress

Bloomberg
New York

US corporate bond investors seeking shelter from potential credit stress following the regional bank crisis could add debt from certain middle-income emerging countries, according to Pacific Investment Management Co.

Money managers should look at debt from nations like Mexico, India, Vietnam and Indonesia, which have "good business models that should stand the test of time" through political and economic cycles, said Pramol Dhawan, the firm's head of emerging-market debt.

There's little risk of default, and unlike US corporations, they have a broader set of tools to deal with financial stress, including borrowing in local or reserve currencies or from the International Monetary Fund, Dhawan said in an interview.

"I think that for a handful of EM countries, they propose very viable alternatives to US corporates," he said. "They stand as good investments in their own right."

Pimco, which oversees $1.8tn in assets, is looking at global trends ranging from nearshoring to population shifts among factors to pick favourites in the developing world. After the industry suffered $90bn in outflows in 2022, emerging-market funds have seen additions of just $1.5bn so far this year, according to data for the industry put compiled by JPMorgan Chase & Co.

"If we do get into that sort of credit crunch and a subsequent default cycle," Dhawan said, "there is a logical question for investors to ask: Have we been overallocated to US corporate credit and are we underallocated to other forms of investment-grade credit?"

Among those countries, Mexico benefits from strong remittances and stands to win big from plans by Tesla Inc and other companies to build factories closer to US consumers, a trend known as nearshoring.

The nation is "invariably a local currency story," supported by high interest rates at 11.25% and a credible central bank.

Meanwhile, India and Vietnam both offer alternatives for companies looking to reduce production in China amid geopolitical tensions with the US and other western governments, he said. India also benefits from the so-called "demographic dividend" as its population — in contrast to China's — is set to grow over the coming decades. Just last month, India overtook China as the world's most populous country, according to the United Nations.

Indonesia, the country with the world's largest nickel reserves, is working to become a key player for the electric-vehicle industry as it exports the materials needed for the transition to renewable energy. The country also has a strong institutional framework, making it appealing to foreign investors, Dhawan said.

For Pimco — one of the largest bond managers in the world — now is the best time to jump into emerging-market bonds denominated in local currency, Dhawan said.

Policymakers in developing countries started lifting interest rates sooner and more aggressively than their developed peers. "The central banks are telling you that they need currency appreciation to help bring down what's a very sticky, and persistently sticky headline inflation," he said. "All the stars are aligning to underwrite local currency debt."

Emerging-market local-currency bonds have returned 9% this year, compared with a gain of just 2.2% in an index of dollar debt from the asset class.

Developing-world currencies remain cheap, while the US dollar is still overvalued, according to Pimco's models, Dhawan said.

Pacific Investment Management Co offices in Newport Beach, California. US corporate bond investors seeking shelter from potential credit stress following the regional bank crisis could add debt from certain middle-income emerging countries, according to Pimco.

Hedge funds hit roadblock at TD Bank as risk policy limits sales

Bloomberg
Toronto

Some Canadian hedge funds are finding their growth crimped by tougher sales policies at the country's second-largest bank.

Toronto-Dominion Bank has put a limit on how much its retail clients, collectively, can own of particular funds, according to people familiar with the matter.

TD implemented the rules partly to mitigate the risks associated with being too exposed to any one firm, the people said.

Hedge fund providers Timelo Investment Management and Polar Asset Management Partners are among those caught in the net, said the people. The funds are victims of their own success: Individual investors are eager to own them, but Toronto-Dominion has restricted sales in order to cap total client holdings, said the people, who asked not to be identified discussing confidential policies.

The additional scrutiny came on the heels of the collapse of private credit firm Bridging Finance Inc in 2021 and regulatory changes in Canada, known as "client-focused reforms," that were implemented less than two years ago.

The new regulations tightened the rules governing investment advisers and the disclosures they must make about investment products they sell. Toronto-Dominion introduced standard criteria for due diligence and concentration limits on "alternative investment funds," which include hedge funds and private asset funds, said a person familiar with the bank's policy.

"We regularly review our products based on many factors, such as risk assessments and the regulatory environment, balanced against being able to offer our clients robust investment choices that meet their needs," Julie Bellissimo, a spokesperson for Toronto-Dominion, said in an e-mailed statement.

Canada's largest banks have secured dominant positions in the investment-advice business, consolidating it as firms like Merrill Lynch exited the country. With their large networks of advisers, the banks play a key role in deciding which new hedge funds and mutual funds have the best chance to succeed and grow. TD has more than 800 investment advisers in its Canadian wealth management operation; its combined wealth and insurance unit earned C$2.4bn ($1.8bn) during the fiscal year that ended October 31.

Some Canadian advisers and their clients were burned when Bridging, a Toronto private credit firm run by a husband-and-wife team, David Sharpe and Natasha Sharpe, failed two years ago. Bridging had about C$2bn in assets under management when it was put into receivership, with regulators alleging that senior executives mismanaged funds and failed to disclose conflicts of interest. PricewaterhouseCoopers estimated last year investors will lose at least C$1.2bn under a proposal to liquidate the assets. That process is still ongoing.

Timelo, founded by veteran fund manager Jean-François Tardif, manages more than C$500mn in assets including the Timelo Strategic Opportunities Fund, a long-short equity and bond strategy that has returned 19.6% a year over the past three years, according to the firm's website. Its JFT Strategies Fund, a closed-end fund that's listed in Canada, has returned 9.4% annualized since it was launched in 2012.

A Toronto-Dominion Bank branch. Some Canadian hedge funds are finding their growth crimped by tougher sales policies at the country's second-largest bank. TD Bank has put a limit on how much its retail clients, collectively, can own of particular funds.

Wall Street's dependence on London clearing worries EU watchdog

Bloomberg
Frankfurt

Wall Street banks have made "no significant moves" away from London's dominant clearing service since Brexit, raising concerns of a risky dash into the European Union as it continues to push for more of the business to move into the bloc.

Klaus Lober, the first chair of the clearing counterparties supervisory committee at the European Securities and Markets Authority, said banks need to act to avoid "uncontrollable, unmitigated systemic risk."

"If there is a shift it's likely to happen quite quickly because nobody wants to be a first mover," he said in a recent virtual interview. "But at the same time, if a movement comes, everybody wants to be on the train."

Clearing trades is a core part of the financial system and one of the most contentious thing facing the City of London following a Brexit deal that made little provision for cross-border finance. Clearinghouses such as London Stock Exchange Group Plc's LCH operate at the centre of markets, collecting collateral from both sides of a trade to shield the wider system from a default.

ESMA wants banks to clear more European derivatives inside the bloc, though the timetable has slipped, and in recent months the regulator has suggested that 2025 won't represent a hard stop for London. Global banks, which have moved hundreds of staff and portfolios into the bloc and expect to do more, are awaiting clarity. Some other elements of the market, meanwhile, have shifted into New York.

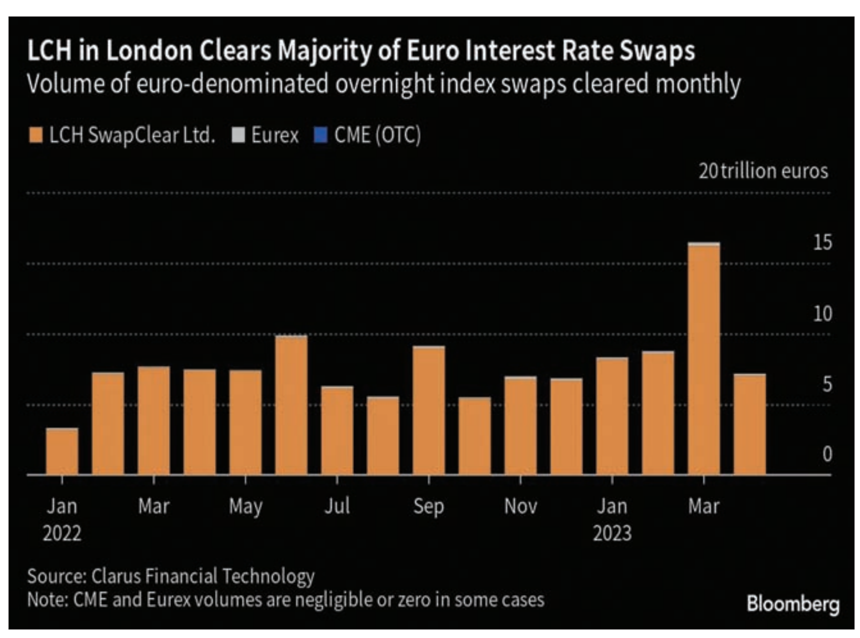
The watchdog is particularly concerned about slow progress in euro and zloty-denominated interest-rate swaps and euro-denominated short-term interest-rate contracts. In the first half of 2022 there was a notional €105tn ($116tn) worth of euro-denominated interest-rate swaps outstanding, according to data from the Bank for International Settlements.

The majority are cleared by LCH SwapClear in London, which in April processed about €7tn of the swaps, dwarfing the volumes cleared by CME Group Inc and Deutsche Boerse AG's Eurex Clearing, according to data from Clarus Financial Technology.

A person familiar with the situation at one bank said there has been no formal mandate from the EU to shift liquidity from one venue to another and no forward deadline. Banks typically follow clients' choices on where to clear their over-the-counter derivatives, an executive at another firm said. They asked not to be named as they are not authorised to speak publicly. Representatives for Goldman Sachs Group Inc, Citigroup Inc, JPMorgan Chase & Co and Bank of America Corp. declined to comment. These banks are among the largest US firms shaking up their operations across Europe to ensure they can keep serving clients in both London and the EU.

The Commission has extended the UK's temporary right to clear trades from the bloc while also looking to increase the capacity of its own clearinghouses such as Eurex and Euronext NV's clearing service.

Lober said European clearinghouses needed to make themselves more attractive, and bank regulators should consider how to treat risks from lenders' exposure to clearinghouses outside the EU.



Indonesia bond bulls bet on interest rate cuts

Bloomberg
Jakarta

Traders anticipating the rally in Indonesian bonds will extend through the year face a pivotal test when Bank Indonesia meets next week.

Indonesian benchmark yields tumbled to the lowest in over a year this month as inflation slowed more than expected and BI governor Perry Warjiyo signalled the rate-hiking cycle has ended. Citigroup Inc and Societe Generale SA say the central bank will begin cutting interest rates later this year, possibly by as much as 75 basis points.

If Warjiyo reinforces his dovish stance at next week's meeting, that may add a fillip to the rally in Indonesian debt that has offered dollar-based investors a total return of 10% this year, the best in emerging Asia. Investors will also be watching for any commentary on BI's so-called Operation Twist that was pared back in January to just selling short-term notes.

"In addition to indications on rate cuts, announcements regarding Operation Twist could be pivotal for these bets," said Vijay-Vikram Kannan, Asia macro strategist at SocGen in Singapore. "Given the benign outlook on domestic inflation and relatively resilient rupiah, Indonesian government bonds remain one of the more attractive local currency yields, in my opinion."


The Bank Indonesia headquarters in Jakarta. Traders anticipating the rally in Indonesian bonds will extend through the year face a pivotal test when Bank Indonesia meets next week.

The rupiah's almost 5% gain against the dollar in 2023 means BI could cut rates without worrying about excessively weakening the currency.

Traders are betting Bank Indonesia will be among the first emerging Asia central banks to cut rates after a rapid 225 basis-point hike campaign from August to January to tame consumer cost rises and support the local currency. Since then, BI has turned its focus to maintaining growth as inflation cools to within its 2%-4% target band and the rupiah has strengthened the most among major Asian currencies so far this year.

BI's move and bets the global rate hike cycle is also ending have seen foreign investors plough $4.1bn into Indonesian debt this year, the second biggest inflow in Asia, according to data compiled by Bloomberg. JPMorgan Asset Management expects to increase its holdings and eventually surpass that of its allocation to China, bolstered by the stronger rupiah. Others see the bonds as a potential haven from the US debt-ceiling crisis.

Not everyone expects BI to cut rates this year. The central bank is likely to stay on hold for the remainder of 2023, according to a Bloomberg survey of economists. Warjiyo said recently the central bank will "be patient" on its next move.

In fact, analysts polled by Bloomberg expect Indonesia's two-year and 10-year sovereign bond yields to rise to 5.98% and 6.58% respectively in the final quarter, up from 5.79% and 6.36% on Wednesday, moves that would be unusual if BI had eased.

"For now, we see little need for rate cuts this year given firm domestic prospects, and with BI likely to remain vigilant against possibly sticky food prices if/when El Nino returns," Mohamed Faiz Nagutha and Kai Wei Ang, economists at Bank of America, wrote in a note to clients. "We continue to expect 100 basis points of rate cuts next year as inflation eases further and the US Fed cuts rates."

Emerging currencies and equities remain weak

Reuters
Singapore

Most emerging market currencies yesterday were set for losses at the end of a roller-coaster week that saw the dollar being lifted by optimism over a US debt ceiling deal, while Turkiye's lira hovered close to an all-time low seen in the previous session.

MSCI's index of EM currencies was up 0.2%, set to snap a three-day losing streak. Still, the index was poised to end the week 0.4% lower — its second straight weekly decline.

The dollar paused for breath yesterday after a rally this week but was not far from its recent two-month high.

The Turkish lira slipped to a record low of 19.8050 to the dollar late on Thursday, having steadily weakened following Sunday's presidential vote where incumbent Tayyip Erdogan's strong showing dashed investor hopes for an opposition win and shift to orthodox monetary policy.

The currency, which declined 1% so far this week, still hovered close to the record low.

"The authorities will intensify efforts to stabilise the lira through intervention and measures to encourage banks to hold lira, but without a change in policy direction by Erdogan the situation looks unsustainable, meaning the currency will weaken further," said Jon Harrison, managing director of emerging market macro strategy at TS Lombard.

Turkiye's central bank reversed a decision to require banks to hold securities against cash withdrawals on credit cards and jewellery expenses, according to a central bank document seen by Reuters.

South Africa's rand shed early gains to trade tepid against the greenback ahead of commentary by US Federal Reserve Chair Jerome Powell later in the day. S&P Global is also expected to review South Africa's sovereign rating on Friday.

The rand has been pummelled in recent days by concerns about a mounting power crisis crimping growth and is down marginally on the week.

The Russian rouble edged higher and was last seen at 79.98, pushing back past the level of 80 to the dollar, while among central and eastern European currencies, the Hungarian forint fell 0.8% against the euro.

China's yuan, which has been pressured by data highlighting the country's slow post pandemic recovery, was set for declines of 1% this week.

EM stocks were range-bound, but on track to eke out gains this week, boosted by growing hopes that a deal over the US debt ceiling could be reached soon, helping the world's largest economy avoid a default.

Chinese President Xi Jinping on Friday unveiled a grand plan for Central Asia's development, saying the country is ready to co-ordinate development strategies with Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

Elsewhere, the US has assured the UN that it will shield a proposed UN-administered Venezuela humanitarian fund from creditors, people familiar with the matter said on Thursday, removing a key obstacle to getting the money flowing.

Most Asia markets rally on US debt deal hope

AFP
Hong Kong

Most markets built on a global rally yesterday as traders grow increasingly hopeful that US lawmakers will hammer out a deal to lift the debt ceiling and avert a calamitous default.

In Tokyo, the Nikkei 225 closed up 0.8% to 30,808.35 points; Hong Kong Hang Seng Index ended down 1.3% to 19,476.95 points and Shanghai — Composite closed down 0.4% to 3,283.54 points yesterday.

But the regional mood was tempered by losses in Hong Kong and Shanghai fuelled by worries over China's economy.

After weeks of lumbering talks on Capitol Hill, congressional leaders appeared ready to put a proposal to lawmakers before the government runs out of cash, said to be around June 1.

In his most upbeat remarks yet on the high-stakes standoff, Republican House Speaker Kevin McCarthy said: "We're not there — we haven't agreed to anything yet — but I see the path (where) we could come to an agreement." McCarthy secured the Speaker's gavel in January by pledging to his party's ultra-conservative Freedom Caucus that any raise in the borrowing limit would only come with an evisceration of the federal budget.

He and Democratic Senate Leader Chuck Schumer were planning to call for a vote in the coming days, and yesterday, a White House official said "steady progress" was being made.

The optimism was shared by other lawmakers, with Texas Republican Kay Granger saying a deal was "close". And Democrat Steny Hoyer said: "I think we are going to get a deal". But McCarthy ally Patrick McHenry, chairman of the US House Financial Services Committee, warned the two sides were "not close to being done".

Still, all three main indexes on Wall Street rallied, extending the more than 1% gains enjoyed on Wednesday.

In Asia, Tokyo raced higher again, building on a recent surge in the Nikkei to a three-decade high even as data showed Japanese inflation continued to sit well above the central bank's target, adding to pressure for it to tighten monetary policy. Sydney, Seoul, Singapore, Mumbai, Taipei, Manila, Wellington and Jakarta were also well up.

"Although there has been no official pen to paper, there is enough white smoke emanating from Capitol Hill for investors to cheer after policymakers in Washington said that a bill to raise the US debt ceiling may be put on the table next week," said SPI Asset Management's Stephen Innes.

But Hong Kong sank more than 1% owing to a sharp drop in tech firms after e-commerce titan Alibaba reported below-par earnings that reinforced concerns about China's stuttering economy and consumer demand.

Shanghai also fell, and traders are keeping an eye on the central People's Bank of China to see if it unveils any fresh stimulus measures following a string of below-forecast economic figures.

"The recovery in China is slowing down," Ashish Shah, at Goldman Sachs Asset Management, said. "We all expected it wouldn't be a straight line — you will go through waves." London, Paris and Frankfurt opened in the green.

While the debt row continues, investors are also keeping a tab on US Federal Reserve developments as officials prepare for next month's interest rate decision.

Several members of the board have given conflicting views on the way forward, with some warning inflation and employment remained too high, while others wanted to see the effects of more than a year of hiking.

On Thursday, Dallas Fed boss Lorie Logan became the latest to say she was not ready to pause the tightening just yet owing to inflation being three percentage points above the bank's 2% target.

Markets expect the bank to stand pat next month, though traders are increasingly worried another increase could be on the cards.

"The moderation in inflation from 9% at its peak to 5% at the last print allows the Fed to take a pause," Belita Ong, of Dalton Investments, told Bloomberg Television.

"Especially when coupled with weakness that we've seen in the employment data as well as the bank failures that have apparently led to tightening credit conditions."

Morgan Stanley CEO Gorman to step down within 12 months

Bloomberg
New York

James Gorman, who transformed Morgan Stanley after it nearly collapsed during the global financial crisis, plans to step down as chief executive officer within the next year and assume the role of executive chairman.

"It is the board's and my expectation that it will occur at some point in the next 12 months," Gorman, 64, said yesterday at the firm's annual meeting. "That is the current expectation in the absence of a major change in the external environment."

Gorman, who became CEO at the beginning of 2010, said there are three finalists to take over as CEO when he leaves. Though he didn't name his likely successors, Ted Pick and Andy Saperstein, the New York-based firm's co-presidents, have been in the running alongside investment-management chief Dan Simkowitz.

Gorman said yesterday that he will serve as executive chairman "for a period of time" after leaving the CEO post.

"We believe this structure will ensure the continued stability of Morgan Stanley while at the same time positioning it for a decade of exciting growth under new leadership," he said.

Morgan Stanley shares pared a 2% decline in pre-market trading following the announcement to less than 1% in New York.

The Australian-born Gorman is now in his 14th year atop Morgan Stanley. His time as CEO has been marked by a major strategic overhaul of the firm that's been accelerated by two of the largest deals struck by one of the big US banks in the years after the 2008 financial crisis.

Those transactions — the acquisitions of E*Trade Financial Corp and Eaton Vance Corp — and the bank's growing reliance on a dual engine of the investment bank and its giant wealth-management business delivering growth have made the company's stock the best performer


James Gorman, Morgan Stanley CEO.

among peers in the past decade.

Morgan Stanley has more than tripled in value during Gorman's tenure, as he built the firm into the world's largest wealth manager starting with the purchase of Citigroup Inc's Smith Barney brokerage. Those moves came as new banking rules and a massive bull market made the steady business of advising rich clients far more attractive to shareholders. Morgan Stanley now trades at the biggest premium to its book value of any major US bank.

The first several years of Gorman's tenure were spent resolving costly issues from the financial crisis, shrinking the fixed-income trading unit and winning back the trust of clients who were spooked by the firm's near collapse in 2008.

In recent years, the company played more offence.

Ever since the recovery from the 2008 meltdown, major banks have been looking for opportunities to expand. But the Melbourne-born Gorman was more willing than his peers to pounce on acquisitions. He said the deals "have accelerated the decade-long transformation of Morgan Stanley into a company with a sustainable business model."

Morgan Stanley's pivot away from the investment bank, which involves things like playing matchmaker for blue-chip corporations and helping hedge funds trade, is most visible in its recent results. The wealth-management unit, which now oversees about $4.5tn, exceeded the revenue posted by the investment bank last year, and along with the asset-management arm accounted for roughly 55% of firmwide revenue.

"I've seen a lot of environments — some challenging, some not, some crisis, some not, some ebullience — and the world will certainly get through this period," he said. "I remain extraordinarily optimistic about the future of Morgan Stanley."

Even since announcing a management shakeup in 2021, when Pick and Saperstein were elevated to co-presidents, Gorman has been preparing the groundwork to hand over the reins. In addressing the topic at the shareholder meeting, he prefaced the news with a more light-hearted quip about Succession.

"I'm not just talking about the TV series and I definitely have no plans to go out like Logan Roy," Gorman said, referring to the protagonist of the HBO show who died while his family was feuding over his replacement.

ECB steps up scrutiny of bank liquidity, may raise requirements

Bloomberg
Frankfurt

The European Central Bank (ECB) is stepping up scrutiny of lenders' liquidity reserves and may communicate stricter requirements to individual firms later this year, according to people with knowledge of the matter.

The ECB's annual review of the risks faced by banks will likely pay more attention to the management of liquid funds, including the potential for a higher bar on key metrics such as the liquidity coverage ratio, the people said, asking to remain anonymous as the matter is private. That comes on top of increased interaction between banks and the ECB on the topic, said the people.

The collapse of Credit Suisse Group AG in March and US lenders including Silicon Valley Bank has thrown into question how truly prepared banks are to withstand strain on deposits and the effectiveness of the metrics investors and regulators use to measure their ability to withstand a crisis.

While liquidity is a key part of banking supervision, watchdogs had more recently been focused on more pressing issues of bank capital and credit risk in the era of low rates. The ECB started pushing banks to look more closely at liquidity in late 2021 as higher inflation pointed to rising funding costs. The recent collapse of US lenders heightened the scrutiny.

The ECB will probably receive the initial results of its annual review of the risks banks face over the summer, said the people. Later this year, officials will split banks into different groups depending on how vulnerable their business models are to funding outflows, said two of the people.

Wealthy client deposits are likely to be a focus because individual withdrawals can quickly drain a bank's liquidity reserves, said the people. That was one element of the crisis at Credit Suisse. Market funding and retail clients' perception of their savings' safety will probably also be relevant, the people said.


The headquarters of the European Central Bank in Frankfurt. The ECB is stepping up scrutiny of lenders' liquidity reserves and may communicate stricter requirements to individual firms later this year.

Swiss regulators had declared Credit Suisse's liquidity to be fine just days before its emergency weekend rescue by competitor UBS Group AG. By that time, it was on the verge of collapse, even with a central bank lifeline.

European bankers and regulators have been keen to point out that Credit Suisse was a special case and that there isn't a direct read-across to the region from recent turmoil in the US either. The euro area hasn't seen that kind of a run, notably because all lenders in the bloc are subject to liquidity regulation. They also show a lower average exposure to interest rate risk in their banking books than US firms, according to the ECB.

European banks are obliged to hold more high-quality liquid assets than they would expect to see flow out over 30 days of stress. The ECB has the power to increase that requirement, known as the liquidity coverage ratio, although officials acknowledge publicly that it has rarely done so.

The weighted average ratio for European banks stood at 165% in the fourth quarter, well above the 100% minimum, according to data from the European Banking Authority. Individual lenders publish their own figures, but generally don't disclose any additional requirements on top of the minimum. As an alternative to raising the LCR bar, the ECB may criticise individual banks over the quality of their reserves or ability to manage them, said the people. Lenders that hold smaller buffers than peers may be notified they are laggards, adding to pressure to improve reserves or potentially face a lower score on their ability to manage risks, said the people.

Recent developments, and in particular the speed of information and decisions taken by depositors and other market players confirm that "increased attention needs to be paid" to bank liquidity and funding, according to Andrea Enria, the ECB's top oversight official.

Sweden's stock losses leave IPO market trailing in the dust

Bloomberg
Stockholm

Almost 80% of companies listing in Stockholm since 2020 are trading below their initial public offering price, pummelled by a combination of economic headwinds and market volatility. That's undermining prospects for a revival in new listings any time soon.

Shares in no fewer than 160 of the 203 companies which went public during that period are now worth less than when they came to market, data compiled by Bloomberg show. A whopping 30 have lost 90% or more of their value.

While Sweden is facing high inflation and rising interest rates like many other countries, it's also suffering from one of the deepest housing slumps globally and is set to undergo the worst economic contraction in the European Union this year, according to OECD forecasts. That's had a knock-on effect on stocks, which are still recovering from a slide of 25% last year.

"The bulk of recent listings have had a tough start," said Stefan Ward, equity analyst at Pareto Securities in Stockholm, in emailed comments. "Most small- and mid-caps are relative underperformers versus the market."

Even some of Sweden's biggest IPOs in recent years, such as Volvo Car AB, have plunged. The automaker, controlled by China's Zhejiang Geely Holding Group Co, is down 31% from its 53 kronor IPO price in October 2021, hitting a new record low this week.

Similarly, investment group Storskogen Group AB has slid 68% from its listing price the same month, while software firm Cint AB is down 85% since launching in February of that year.

The four companies conducting the largest IPOs in Stockholm since 2020 have seen about $12.6bn of their combined market capitalisation wiped out as stocks had sold off, according to data compiled by Bloomberg.

Those IPO stocks that have performed better than average include engineering companies such as Engcon AB, which makes construction machinery equipment and which has more than doubled since its listing last June.

Poor performances in a near-dormant IPO market are adding to the obstacles facing new listings this year. Not a single company has debuted on the Stockholm main market in 2023.

The halt is in sharp contrast with 2021, when Stockholm was Europe's second-biggest listings venue, beaten only by London. The surge that year was underpinned by small institutional investors and a retail culture of putting savings into equities, but last year's decline left many burned.

Following the market rout, "investors focused their attention on companies with a longer track record," Henrietta Theorell, portfolio manager at Swedbank Robur, said in e-mailed comments. "IPOs became more difficult to sell to institutional investors that had a recent bad experience from the class of 2021."

One effect of the steep drop in share prices of recently-listed companies is to make them prime takeover targets for suitors looking for cheap assets. Cary Group AB shares were trading 42% below their IPO price when Nordic Capital and CVC Funds swooped in with a takeover bid last June.

Now, market conditions may be improving. Easing concerns over the banking sector have seen volatility come down in Europe, which could encourage issuers to reconsider their case for going public.

While the recent performance of IPO stocks looks bleak, Pareto's Ward said it's too early to judge if they will underperform in the long-term, and listings in Sweden will eventually bounce back.

BoE won't return balance sheet to pre-financial crisis levels

Bloomberg
London

The pace at which the Bank of England (BoE) shrinks its balance sheet is likely to accelerate, according to one of its deputy governors.

The BoE is currently unwinding about £20bn ($25bn) of quantitative easing every three months, both as assets mature and as they are actively sold.

Dave Ramsden, deputy governor for markets, told UK lawmakers on Thursday: "There's the potential for us to go up a little bit. I don't see us going down given the experience of the first year."

The BoE began unwinding its giant QE programme in February last year, when bonds were allowed to run off as they matured without the funds being reinvested. In November, it began active sales.

Fears that the process, known as quantitative tightening, would destabilise markets have so far proved unfounded. The QE portfolio grew to £895bn in the pandemic but has since shrunk to around £820bn.

The target is to reduce the stock by about £80bn a year, split roughly evenly between active sales and maturing assets. Ramsden said the BoE was likely to at least maintain the £40bn annual rate of active sales, even with redemptions set to rise to around £50bn.

The Monetary Policy Committee had been advised by BoE markets officials at the outset of QT that anything above £100bn "might disturb market liquidity," Ben Broadbent, deputy governor for monetary policy, told the MPs.

The QE programme is incurring losses as it is being run down and the BoE is under pressure from the Treasury to deliver "value for money" as the assets are redeemed or sold. The BoE currently projects the programme to cost the UK taxpayer about £100bn over its lifetime.

Ramsden, a former Treasury official who negotiated the government indemnity with the BoE when QE began


Andrew Bailey, governor of the Bank of England.

in 2009, said he was "very conscious of these value for money issues."

"The Treasury accounting officer needs to be confident that the way the auctions are being conducted is providing that value for money."

BoE officials including Governor Andrew Bailey were at times forced on the defensive in a combative exchange in which MPs accused rate-setters of failing to anticipate inflation, of being inconsistent in their judgments and of driving up prices and inequality with QE.

Broadbent countered that had they stopped QE earlier, it would have only reduced inflation by about a quarter point from its current level of 10.1% - five times the 2% target.

He also insisted that QE merely accentuated existing levels of inequality by increasing asset prices, rather widening the gulf between the rich and the poor in relative terms.

"I don't recognise the commentary about asset prices and inequality and how QE worked on this," Broadbent said. Standard inequality measures, such as the Gini coefficient, have been "completely flat" for about 30 years, he said. QE helped protect incomes among the poor by reducing unemployment, he added.

At the same hearing, Bailey told the Treasury Committee that the BoE will not return its balance sheet to levels seen before the 2008 financial crisis.

He said the BoE wants to reduce the balance sheet to give it headroom to respond to events in the future, but indicated that it will remain in the hundreds of billions of pounds.

Before the financial crisis the balance sheet was less than £100bn. "I do not envisage the balance sheet returning to what it was before the financial crisis," Bailey told MPs.

"The reason is the stock of reserves, the deposits banks make with us. That's the highest form of bank liquidity. There is no question that the need for banks to hold larger cash reserves from a financial stability point of view is important."

"My view on this is that it's important from the point of looking forwards that the bank balance sheets adjusts so that it has headroom to do whatever we might need to do in the future."

Ramsden said he expected the impact on markets of QT "will be small." Bailey stressed that QT was "not the active monetary tool" for tackling inflation, which is interest rates.