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US labour market sends mixed signals, giving Fed reason to pause

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GULF TIMES
BUSINESS

SETTLEMENTS IN TRADE: Page 2

Backlash against US dollar is growing across the world

Generative AI seen to push innovation in various sectors, says Google Cloud official

By Peter Alagos
Business Reporter

The emergence of generative AI "is an exciting opportunity" for industries, companies, and a wide range of sectors "to reimagine what is possible," said Adaire Fox-Martin, president, Google Cloud Go-to-Market.

Fox-Martin, who spoke at a press conference held on the sidelines of Google Cloud's opening ceremony for its new Doha cloud region, said artificial intelligence (AI) has been part of Google's corporate product portfolio "for many years."

Replying to a question from *Gulf Times* on the impact of AI across different sectors in Qatar, she said generative AI could be categorised into three areas when applied to business outcomes.

"I think the three main use cases that we're seeing emerge right across all industries are changing the customer experience, looking for opportunities to be cost-efficient and effective, and then finally looking at where you can remove some of the drudgery from very content-rich tasks and add the creativity that generative AI allows for that," Fox-Martin said.

HE the Minister of State and Chairman of Qatar Free Zones Authority (QFZA) Ahmad al-Sayed, who also spoke at the press conference, said the Qatari government will utilise disruptive technology and make it advantageous to businesses.

Al-Sayed emphasised that QFZA will also continue to work with its partners, such as Google, along with other authorities in the government and the private sector, to maximise the use of disruptive technologies to push for innovation and transform Qatar's economy.

HE the Minister of State and Chairman of Qatar Free Zones Authority Ahmad al-Sayed.

Adaire Fox-Martin, president, Google Cloud Go-to-Market.

Google Cloud Qatar general manager Ghassan Kosta. **PICTURES:** Shaji Kayamkulam.

Google Cloud Qatar general manager Ghassan Kosta also emphasised that the new Doha region that is now part of Google global network, "which covers 37 regions and 112 zones, and also bringing Google Cloud services to over 200 countries and territories worldwide."

"Google Cloud brings its advanced infrastructure to address customers' needs. And as part Qatar National Vision 2030, we have witnessed the efforts of the Qatari government to diversify and transform its economy by deploying tech for the benefit of its citizens. And that's why we are here. And that's why we are enabling cloud in Qatar," Kosta said.

According to an earlier statement, the new cloud region will meet the growing demand for cloud services in Qatar and the Middle East region and support Qatar National Vision 2030, which aims to transform the country into a digital economy through innovation and digital transformation.

Research commissioned by Google Cloud and conducted by Access Partnership stated that the new Doha cloud region is expected to drive increased economic activity and is estimated to contribute a cumulative $18.9bn in higher gross economic output to Qatar's economy between 2023 and 2030 and support the creation of 25,000 jobs in 2030 alone. This new cloud region is the latest significant investment made by Google Cloud in Qatar, following the recent opening of a country office and virtual Centre of Excellence (CoE) in Msheireb.

The series of investments in infrastructure and resources demonstrates Google Cloud's continued commitment to playing a pivotal role in advancing Qatar's digital future and technological capabilities.

The Ministry of Communications and Information Technology (MCIT) and the Qatari government have helped enable the growth of the cloud across the government through the adoption of cloud policies, which facilitated Google Cloud's market entry.

QCB issues treasury bills worth QR5bn

QNA
Doha

Qatar Central Bank (QCB) issued treasury bills for June for maturity dates of a week, one month, three months, six months, and nine months' worth QR5bn.

The Qatar Central Bank said, on its website, that the issuance of treasury bills was distributed by QR 500mn for a week at an interest rate of 5.5050%, QR 500mn for a month with an interest rate of 5.5625%, and 1bn Qatari riyals for a period of three months at an interest rate of 5.6450%, and QR 1.7bn for six months with an interest rate of 5.7025%, and QR1.3bn for nine months, with an interest rate of 5.7500%.

GCC aggregate budgeted expenditure in 2023 to be in line with 2022 level, says Kamco Invest

By Santhosh V Perumal
Business Reporter

The aggregate budgeted expenditure in the GCC or Gulf Co-operation Council countries (excluding Bahrain) during the current fiscal year is estimated to be in line with previous year levels at $487.1bn, according to Kamco Invest, a regional economic think-tank.

The aggregate budgeted revenues are estimated at $473.6bn, down 8.1% on an annualised basis, mainly due to a fall in crude oil prices this year compared with last year, Kamco Invest said in a report.

In 2023, the budgeted oil price by most countries is above $60 per barrel, barring Oman which has based its budget on an oil price of $55 per barrel.

The UAE did not disclose the oil price on which it has based its federal budget, it said.

The aggregate fiscal deficit for the GCC countries (excluding Bahrain) is expected to reach $13.5bn in 2023 compared to a surplus of $27.9bn previous year.

The report said the governments in the region announced expansionary budgets for sectors such as health care, education and infrastructure and have also planned large scale infrastructure and construction spending.

"At the same time, main focus has been given to re-alignment of non-oil sectors in the economy and its contribution going forward," Kamco said.

Saudi Arabia is expected to account for around 64.4% of the aggregate budgeted revenues during the year in the GCC. Kuwait and Qatar are expected to follow at 13.4% and 13%, respectively.

In terms of spending Saudi Arabia is expected to account for 61.7% of the aggregate expenditure in the GCC this year. Meanwhile, the overall GCC project pipeline is expected to reach $110bn in new project awards, according to MEED projects, with almost all countries in GCC slated to see growth on a year-on-year basis.

Finding that oil prices have remained volatile this year with strong support at $70 and a resistance at $90; the report said Brent crude spot averaged at $80.9 per barrel since the start of the year and is expected to average at $87 this year, according to Bloomberg consensus estimates.

The volatility in oil prices came from several factors including elevated inflation levels, uncertain demand growth in China, the ongoing Russia/Ukraine conflict, the more recent US debt ceiling talks and Opec+ cuts.

In terms of budget balance, the UAE is budgeted to breakeven while Saudi Arabia and Qatar are estimated to report a surplus ranging between $4bn and 8bn. Oman and Kuwait are expected to report deficits this year.

"It is expected that the actual deficit in 2023 may be significantly lower than the budgeted deficit due to the conservative estimate of budgeted oil prices," Kamco said.

In light of increasing oil prices, several governments have also taken into account an increase in government subsidies and grants, according to the report.

Domestic funds' increased net selling drags QSE 247 points

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

Amidst uncertainty surrounding the US debt deal and weaker than expected Chinese output, the Qatar Stock Exchange (QSE) saw its index plummet 247 points and capitalisation erode QR16bn this week.

The industrials, real estate and telecom counters witnessed higher than average selling pressure as the 20-stock Qatar Index tanked 2.36% this week which saw the QSE outline its plans to migrate to new power trading system, powered by London Stock Exchange Group, from June 8.

The domestic institutions were seen increasingly into net profit booking this week which saw Meeza initial public offering to hit the market from June 6.

The foreign retail investors turned bearish this week which saw Qatar's port reported 6% year-on-year growth in vessels docking in May 2023.

About 82% of the traded constituents were in the red in the main market this week which saw Qatar's producers' price index ease both on annualised and monthly basis this April.

The Islamic equities were seen declining slower than the other indices this week which saw Qatar Insurance receive approval from the cabinet to increase its foreign ownership limit up to 100%.

The Gulf institutions' substantially weakened net buying had its influence in the main market this week which saw Qatar's trade surplus grow 3.5% month-on-month in April.

However, the local retail investors were seen increasingly into net buying this week this week which saw global insurance rating agency A M Best reaffirm Qatar General Insurance and Reinsurance Company's financial strength rating of B++ (good).

The Arab institutions were seen net buyers, albeit at lower levels, this week which saw a total of 0.89mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR2.05mn trade across 60 deals.

The foreign funds continued to remain bearish but with lesser vigour in the main market this week which saw as many as 0.01mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.13mn change hands across 13 transactions.

Market capitalisation was seen eroding 2.59% to QR605.96bn on the back of large and midcap segments this week which saw the banks and realty sectors together constitute more than 58% of the total trade volume in the main market.

The Total Return Index tanked 2.36%, the All Share Index by 2.26%, and the All Islamic Index by 1.95% this week, which saw no trading of sovereign bonds.

The industrials sector index plummeted 4.12%, realty (2.89%), telecom (2.74%), banks and financial services (2.02%), and consumer goods and services (1.97%); whereas insurance and transport gained 0.59% and 0.43% respectively this week which saw no trading of treasury bills.

Major losers in the main market included Inma Holding Widam Holding, Dlala, QLM, Qatar General Insurance and Reinsurance, QNB, Commercial Bank, Doha Bank, Masraf Al Rayan, Salam International Investment, Baladna, Mekdam Holding, Industries Qatar, Aamal Holding, Gulf International Services, Estithmar Holding, Beema, Ezdan, Barwa, Mazaya Qatar, Ooredoo and Gulf Warehousing. In the venture market, Al Faleh Educational Holding saw its share depreciate in value this week.

Nevertheless, Qatari German Medical Devices, Qatar Insurance, Dukhan Bank, QIIB and Milaha were among the gainers this week.

The domestic funds' net selling strengthened markedly to QR76.67mn compared to QR63.12mn the week ended May 25.

The foreign individuals turned net sellers to the tune of QR3.64mn against net buyers of QR4.65mn a week ago. The Gulf institutions' net buying declined considerably to QR72.89mn compared to QR142.72mn the previous week.

The Gulf individuals investors' net buying eased marginally to QR0.74mn against QR0.82mn the week ended May 25.

However, Qatari individuals' net buying strengthened perceptibly to QR82.69mn against QR78.19mn a week ago.

The Arab retail investors' net buying shot up substantially to QR35.42mn compared to QR16.39mn the previous week.

The Arab institutions turned net buyers to the tune of QR0.56mn against net profit takers of QR0.01mn a week ago.

The foreign institutions' net selling weakened noticeably to QR112mn compared to QR179.65mn a week ago.

The main market witnessed a 17% contraction in trade volumes to 1.45mn shares but on 17% jump in value to QR4.32bn and a marginal 0.01% in deals to 108,067.

BUSINESS

Backlash against US dollar is growing across the world

Bloomberg
New York

All around the world, a backlash is brewing against the hegemony of the US dollar.

Brazil and China recently struck a deal to settle trade in their local currencies, seeking to bypass the greenback in the process. India and Malaysia in April signed an accord to ramp up usage of the rupee in cross-border business. Even perennial US ally France is starting to complete transactions in yuan.

Currency experts are leery of sounding like the Cassandras who have, embarrassingly, predicted the dollar's imminent demise on any number of occasions over the past century. And yet in observing this sudden wave of agreements aimed at sidestepping the dollar, they detect the sort of meaningful action, however small and gradual, that was typically missing in the past.

For many global leaders, their rationales for taking these measures are strikingly similar. The greenback, they say, is being weaponised, used to push America's foreign-policy priorities — and punish those that oppose them.

Nowhere has that been more evident than in Russia, where the US has brought unprecedented financial pain to bear on Vladimir Putin's regime in response to the invasion of Ukraine. The Biden administration has imposed sanctions, frozen hundreds of billions of dollars of Moscow's foreign reserves, and, in concert with Western allies, all but ousted the country from the global banking system. For much of the world, it's been a stark reminder of their own dependency on the dollar, regardless of what they think of the war.

And that's the dilemma Washington officials face: By increasingly relying on the greenback to fight their geopolitical battles, not only do they risk denting the dollar's preeminent place in world markets, but they could ultimately undermine their ability to exert influence on the global stage. To ensure long-term efficacy, sanctions are often better left as a threat and not actually carried out, according to Daniel McDowell, author of Bucking the Buck: US Financial Sanctions and the International Backlash Against the Dollar.

"Now, a rational actor that knows it could potentially be in that situation in the future is going to prepare for that scenario, and it does make your coercive threats, your deterrent threats, less effective," said McDowell, the director of undergraduate studies in the political science department at Syracuse University. "Maybe the change is marginal now, but even if it ultimately culminates in something that doesn't dethrone the dollar," it still matters in how it "can reduce American economic power."

Undoubtedly, part of the shift away from the dollar is being orchestrated by China. President Xi Jinping is seeking to carve out a bigger role for the yuan in the global financial system, and his government has made expanding the currency's use abroad a priority.

Yet much of the push is happening without Beijing's involvement.

India — hardly a strategic ally of China — and Malaysia in April announced a new mechanism to conduct bilateral trade in rupees. It's part of a broader effort by the Narendra Modi administration — which hasn't signed on to the US-led sanctions campaign against Russia — to bypass the dollar for at least some international transactions.

A month later, the Association of Southeast Asian Nations agreed to boost the use of member currencies for regional trade and investment.

And South Korea and Indonesia just weeks ago signed an accord to promote direct exchanges of the won and rupiah. Brazilian President Luiz Inacio Lula da Silva lashed out at the dollar's dominance while visiting Shanghai in April. Standing at a podium surrounded by the flags of Brazil, Russia, India, China and South Africa, the so-called Brics nations, he called on the world's largest developing economies to come up with an alternative to replace the greenback in foreign trade, asking "who decided that the dollar was the (trade) currency after the end of gold parity?"

He was harkening back to the early 1970s, when the post-WWII accord — known as Bretton Woods — that had made the dollar the centre of global finance was unravelling. The agreement's collapse did little to blunt the dollar's preeminent position. To this day, it serves as the world's dominant reserve currency, which has juiced demand for US bonds and allowed the country to run massive trade and budget deficits

The currency's centrality to the global payments system also allows America to wield unique influence over the economic destiny of other nations.

About 88% of all global foreign-exchange transactions, even those not involving the US or US companies, are in dollars, according to the most recent data from the Bank for International Settlements. Because banks handling cross-border dollar flows maintain accounts at the Federal Reserve, they're susceptible to US sanctions.

While the campaign of financial punishments against Russia is the latest and most high-profile example, both Democrat and Republican administrations have used sanctions on countries including Libya, Syria, Iran and Venezuela in recent years.

The Biden administration has averaged 1,151 new designations per year to the Office of Foreign Assets Control's list of specially designated nationals, according to a recent report from the Center for Economic and Policy Research. That's up from an average of 975 during the Trump administration, and 544 during President Obama's first four-year term.

"Countries have chafed for decades under US dollar dominance," said Jonathan Wood, principal for global issues at consultancy Control Risks. "More aggressive and expansive use of US sanctions in recent years reinforces this discomfort – and coincides with demands by major emerging markets for a new distribution of global power."

A representative for the Treasury referred Bloomberg to comments Secretary Janet Yellen made in a mid-April interview with CNN, in which she acknowledged that "there is risk when we use financial sanctions that are linked to the role of the dollar that over time it could undermine the hegemony of the dollar."

But she noted that the greenback "is used as a global currency for reasons that are not easy for other countries to find an alternative with the same properties."

A worker counts US dollar banknotes at a currency exchange office in Jakarta. All around the world, a backlash is brewing against the hegemony of the dollar. Brazil and China recently struck a deal to settle trade in their local currencies, seeking to bypass the greenback in the process. India and Malaysia in April signed an accord to ramp up usage of the rupee in cross-border business. Even France is starting to complete transactions in yuan.

Barclays CEO in bid to stem US talent flight

Reuters
New York

Barclays chief executive C S Venkatakrishnan held a virtual town hall this week to address management changes that have led to about two dozen US investment bankers fleeing in the last few weeks, people familiar with the matter said.

The bankers have left for rivals including Citigroup Inc, UBS Group AG and Jefferies Financial Group Inc, Reuters has reported. Venkatakrishnan's intervention underscores the pressure that the British bank is under to protect its US investment banking franchise.

Barclays slipped to 14th from sixth in Refinitiv's Americas mergers and acquisitions league table in the first quarter of 2023, even as it jumped from ninth to fifth in the Europe, Middle East and Africa league table, as its US dealmakers struggled to preserve market share amid a slowdown in transactions.

Venkatakrishnan promised during the meeting to invest in the investment banking business to boost morale, the sources said.

While he did not name bankers by name, Venkatakrishnan addressed management changes that led to former Credit Suisse Group AG investment banking and capital markets co-head Cathal Deasy and former Morgan Stanley global capital markets co-head Taylor Wright taking over in January as Barclays global co-heads of US investment banking.

The elevation of these newcomers to the bank bypassed tenured Barclays bankers that had been seen as possible successors, including those popular with their colleagues such as Marco Valla, who subsequently joined UBS, the sources said.

Barclays in January had said it was in talks with Deasy and Wright's predecessors, John Miller and Jean-Francois Astier, about new roles. Miller left Barclays to join Jefferies last month, while Barclays only announced a new role for Astier this week, naming him global head of financial sponsors.

Venkatakrishnan said the changes were part of a succession plan and reflected the bank's strategic focus on covering big clients and the smart use of its balance sheet when it comes to financing the deals of private equity firms.

Responding to a question from one of the attendees at the meeting about compensation, Venkatakrishnan said this would reflect each employee's value and performance. Barclays declined to comment on the meeting.

It was the second such meeting that Venkatakrishnan has held with bankers in recent weeks. The first was a shorter 10-minute call last month where he did not take any questions, according to one of the sources.

To be sure, Barclays has also been seeking to replenish talent, hiring five managing directors in the US and another five around the world this year. Last year, the bank brought in Jim Rossman as global head of shareholder advisory from Lazard Ltd and this year it hired Christopher Ludwig from Credit Suisse to work on shareholder advisory.

Still, the exodus that Venkatakrishnan and other Barclays executives have been trying to stem has continued apace. In recent days, information services head Pete Contrucci left to join UBS, while US financial sponsors co-head Evan Rothenberg and head of strategic finance Daniel Kerstein also exited, said people familiar with the matter.

Why a US debt deal may only provide short-term relief for markets

Reuters
New York

Good news of a tentative deal for the US debt ceiling impasse may quickly turn out to be bad news for financial markets.

US President Joe Biden and top congressional Republican Kevin McCarthy on Saturday reached a tentative deal to raise the federal government's $31.4tn debt ceiling, two sources familiar with the negotiations said, potentially averting an economically destabilising default.

But the deal still faces a difficult path to pass through Congress before the government runs out of money to pay its debts.

"This will be pretty good for the market," said Amo Sahota, director at KlarityFX, adding that it may give more reason for the US Federal Reserve to feel confident about raising rates again.

"Although we want to see what the… deal looks like," Sahota added.

While an end to uncertainty would be welcome, the relief that may come from a deal may be a short-lived sugar high for investors. That's because once a deal is reached, the US Treasury is expected to quickly refill its empty coffers with bond issuance, sucking out hundreds of billions of dollars of cash from the market.

The raising of ceiling is expected to be followed by the issuance of nearly $1.1tn in new Treasury bills (T-bills) over the next seven months, according to recent JPMorgan estimates, a relatively large amount for that short a period.

This bond issuance, presumably at the current high interest rates, is seen depleting banks' reserves, as deposits held by private companies and others move to higher paying and relatively more secure government debt.

That would accentuate an already prevalent trend of deposit outflows, put more pressure on liquidity, or ready cash, available to banks, push up rates charged on near-term loans and bonds, and make funding more expensive for companies already reeling under a high interest rate environment.

"There is certainly going to be a relief in the fixed income markets," said Thierry Wizman, global FX and interest rates strategist at Macquarie.

"But what this doesn't solve, is that along the whole Treasury curve yields have gone up recently… in anticipation that there will be a lot of issuance of treasury bonds and notes and bills in the next few weeks because the US Treasury has to replenish its cash."

A BNP strategist estimated some $750bn to $800bn could move out of cash-like instruments, such as bank deposits and overnight funding trades with the Fed. That decline in dollar liquidity will get used to buy $800bn to $850bn in T-bills by the end of September.

"Our concern is that if liquidity starts leaving the system, for whatever reason, this creates an environment where markets are crash prone," said Alex Lennard, investment director at global asset manager Ruffer. "That's where the debt ceiling matters." Mike Wilson, equity strategist at Morgan Stanley, agreed.

Treasury bills issuance "will effectively suck a bunch of liquidity out of the marketplace, and may serve as the catalyst for the correction we have been forecasting," he said.

The drain on liquidity is not a given, however.

The T-bill issuance could be partly absorbed by money market mutual funds, shifting away from the overnight reverse repo facility, where market players lend overnight cash to the Fed in exchange for Treasuries.

In that case, "the impact on broader financial markets would likely be relatively muted," Daniel Krieter, director of fixed income strategy, BMO Capital Markets, said in a report.

The alternative, where the liquidity drain comes from banks' reserves, "could have a more measurable impact on risk assets, particularly at a time of elevated uncertainty in the financial sector," he added.

Some bankers said they fear financial markets may not have accounted for the risk of a liquidity drain from banks' reserves.

The S&P 500 has gained handsomely through the year while spreads on investment-grade and junk bonds have either tightened or only marginally widened from January.

"Risk assets have likely not fully priced in the potential impact of the tightening of liquidity in the system through an abundance of T-bill issuance," said Scott Schulte, a managing director in Citigroup's debt capital markets group.

Bankers put it to hope that the debt ceiling impasse would be resolved without significant dislocation to markets, but warn that's a risky strategy.

"Credit markets are pricing in a resolution in Washington, so if that is not delivered by early next week, we are likely to see some volatility," said Maureen O'Connor, global head of high-grade debt syndicate at Wells Fargo.

"That said, many investment-grade companies preempted this risk which is why we saw such an active May calendar," she added.

The frantic push to solve sovereign debt crises irks Wall Street

Bloomberg
New York

A shakeup is brewing in the $1.6tn universe of emerging-market sovereign debt — whether Wall Street likes it or not.

As government defaults rise to a record in the developing world, the debate is growing frantic over how to solve these debt crises. Restructuring talks are stalling, with some countries turning to old-school sweeteners and others calling to revamp the Group of 20's Common Framework.

In New York, a cohort of debt-relief activists and US state politicians are pushing for a more-permanent solution: a law that would overhaul the process of restructuring sovereign debt.

"There's a lot of focus post-Covid on debt and development issues," said Deborah Zandstra, a partner at law firm Clifford Chance, which advises some investors. "There's a lot of ongoing campaigning from civil-society organizations, and so on, as to how to improve the kind of ad hoc architecture we've had for debt restructurings."

Hence the momentum behind a pair of bills winding their way through committees in New York, a state with laws that govern roughly half of foreign bonds issued by emerging-market sovereigns.

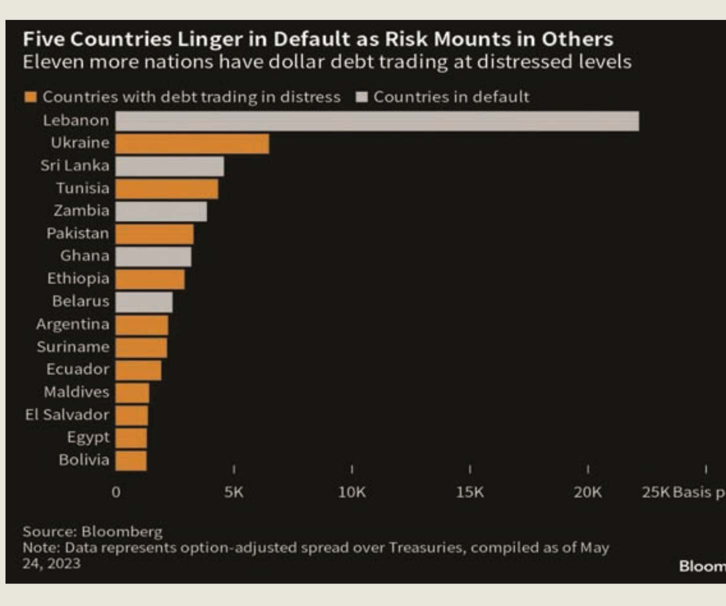
The proposals would limit how much investors are allowed to recoup when countries restructure their debts — a concept that's riling up Wall Street.

Even so, almost everyone agrees that the need for some kind of overhaul is mounting. There are 11 emerging nations with dollar debt trading at a risk premium of at least 10 percentage points — a distressed level that signals the threat of default.

Lebanon, Sri Lanka, Zambia and others have already tumbled into default, locking the economies out of international capital markets until a deal can be struck with creditors.

The bills in New York are far from the only efforts to address this modern sovereign-debt dilemma, though other initiatives have largely fallen short.

No country has successfully used the Group of 20's so-called Common Framework, a plan launched in late 2020 to help borrowers restructure debts with many creditors under the same terms.



Investors, meanwhile, are raising eyebrows with a push to incorporate high-fangled sweeteners into deals that grant them access to a country's future cash pile. While Suriname was able to strike a restructuring deal using an oil-linked security, the tools come with a problematic past in countries such as Argentina.

That explains the focus on the bills in New York, which have gotten further than previous attempts to alter the process via state law. Still, the timing will be tight as the senate and assembly break for summer on June 8.

Advocates, ranging from economist Joseph Stiglitz and Argentina's former economy minister Martin Guzman to charities like Jubilee USA Network, say the new rules would help sovereign debtors move on from default faster, cut down negotiating costs and save US taxpayer money.

Major asset managers on Wall Street take another view. Investor trade groups have warned that the bills would only make it harder and costlier for poor countries to access capital markets.

"You'll see the market for these bonds shrink," said David Knutson, a senior investment director at Schroder Investment Management and chair of the Credit Roundtable, a group representing bondholders. "If you're a lower-rated sovereign and there's a limit put on the recovery when things go sideways, you're going to see a meaningful increase" in borrowing costs.

Clifford Chance lawyer Zandstra also pointed out that stalled negotiations are often caused by public creditors rather than bondholders.

"The primary ripple to restructuring now is you have failure to reach agreement among official creditors," said Mark Weidemaier, a law professor at the University of North Carolina who's studied contracts and sovereign debt. "That's the primary source of delay."

Tension is high with less than two weeks left for New York state lawmakers to vote on the bills.

Politicians in the UK are watching closely as pressure mounts to ensure greater sovereign-debt relief for poor nations. After New York, London laws are the most relevant for global emerging government debt.

Legislation that prevents creditors from holding up restructuring deals "is the theme that has preoccupied the sovereign-debt community since the Argentine bond default in 2001," said Lee Buchheit, a lawyer with more than four decades of sovereign debt-restructuring experience.

After that infamous $95bn default, most bondholders agreed to accept deep losses on their holdings in order to restructure.

But a contingent led by hedge-fund billionaire Paul Singer held out for years and demanded full repayment.

Asian markets end higher on Fed interest rate hopes

AFP
Hong Kong

Asian markets rallied yesterday on hopes the US Federal Reserve will decide against lifting interest rates this month as officials assess the impact of more than a year of tightening.

With US default worries out of the way after senators passed a debt ceiling bill for President Joe Biden to sign following months of wrangling, attention has returned to the US central bank's drive to defeat decades-high inflation. Traders welcomed data on Thursday that showed private hiring slowed in May — albeit at a slower pace than forecast — and wage growth eased for a second straight month.

The news bodes well for the release later in the day of the more closely followed non-farm payrolls figure, which the Fed uses as one of its crucial guides for its rates decisions.

Monetary policy officials have said a softer labour market and much lower inflation were key to the bank being able to stop lifting borrowing costs.

"Wage-driven inflation may be less of a concern for the economy despite robust hiring," said Nela Richardson of payroll firm ADP, which released Thursday's figures.

"This is the second month we've seen a full percentage point decline in pay growth for job changers."

Expectations were already running high that the Fed will hold its horses on rates for the first time in more than a year when it meets later this month, but comments from two officials added to the optimism.

Philadelphia Fed President Patrick Harker urged policymakers to "at least skip this meeting in terms of an increase". And Fed governor Philip Jefferson, who has been put forward as a vice-chair and who regularly chimes with Chairman Jerome Powell, said holding fire would allow for an assessment of the impact of past rates but not signal a pause.

Analysts said there was now a 24% chance of a hike, compared with 69% priced in last Friday, while bets on a July increase were also falling.

But some at the Fed remain in favour of another increase, including St Louis Fed boss James Bullard, who thinks rates are in the lower band of where they need to be to tackle inflation.

Wall Street and European markets on Thursday ended with healthy gains, and Asia followed suit yesterday.

Hong Kong led the way, soaring 4% thanks to a rally in tech firms and after an extended period of losses fuelled by worries over China's uncertain economic outlook.

Tokyo, Shanghai, Sydney, Seoul, Taipei, Mumbai, Bangkok and Manila were also deep in positive territory.

London, Paris and Frankfurt extended their rally in early business and US futures were also up.

"With the core of the (policy) committee seemingly on board with a June skip, the dovish Fed repricing of the June... meeting catalysed a modest move higher in global equities, some dollar weakness, gold upside and even a rally in beleaguered oil markets," said SPI Asset Management's Stephen Innes.

"The good news for risk markets is the Fed seldom, if ever, surprises the market Fed expectation pricing going into a meeting."

In Tokyo, the Nikkei 225 closed up 1.2% to 31,524.22 points; Hong Kong Hang Seng Index ended up 4.0% to 18,949.94 points and Shanghai Composite closed up 0.8% to 3,230.07 points yesterday.

Sharp rally in China stocks falls short of dispelling gloom

Bloomberg
Shanghai


People stand in front of a sculpture at the entrance to the Shenzhen Stock Exchange building in China. The sharpest rally for Chinese stocks in three months is doing little to convince money managers that the market is set for a sustained turnaround.

The sharpest rally for Chinese stocks in three months is doing little to convince money managers that the market is set for a sustained turnaround.

After a punishing selloff that sent a gauge of Chinese equities in Hong Kong into a bear market earlier this week, hopes were lifted yesterday thanks to Federal Reserve officials signalling they plan to keep interest rates steady at the upcoming meeting. The optimism boosted local and regional shares, particularly growth companies that closely track rates.

The Hang Seng China Enterprises Index rose 4.5%, the most since early March, with the gauge capping its first weekly gain in a month. An index of Chinese technology shares surged 5.3%. Key Chinese indexes had been hovering near oversold levels, suggesting it was time for some dip-buying.

But even with the quick sentiment rebound, some investors warned caution about the broader woes that have plagued stocks in recent weeks — from a stalling economic recovery to rising Sino-American tensions. Until those issues are addressed, the outlook looks hazy at best.

"There are so many macro concerns in China, and I would be cautious to chase any rally at the moment," said Paul Pong, managing director at Pegasus Fund Managers Ltd. Given the uncertainty over the Fed's rate hike cycle and stubborn US inflation, "the yuan will remain weak and that's not going to encourage flows into Chinese assets," he added.

Pessimism has been running deep among China investors since the reopening rally faltered at the end of January. Bets that stocks will soon rebound have proven elusive, prompting bulls to pare back their allocations. The latest data on manufacturing and services showed the economy is on a wobbly footing, while the yuan's weakness have accelerated outflows.

In a bid to support the economy, authorities are working on new stimulus measures for the ailing property sector, according to people familiar with the matter.

Longer term, geopolitical tensions with the West will likely continue to weigh on investors amid growing evidence that foreign firms are starting to align their business away from China.

Morgan Stanley is letting go of at least six managing directors, including some key China bankers, as part of broader job cuts in Asia. Microsoft Corp's LinkedIn plans to shut its jobs app in China and cut hundreds of jobs while Ford Motor Co is also reportedly planning to reduce more than a thousand jobs.

Alexander Redman, chief strategist at CLSA, who saw about 70 investors in Europe and Singapore in the past month, described their consensus on Chinese equities as "utter despair, disillusionment and disappointment."

Strategists at Goldman Sachs Group Inc slashed the target for the MSCI China Index to 70 from 80 as they reduced earnings estimates and saw a stronger forecast for the greenback versus the yuan. But they retained an overweight recommendation, adding that investors' concerns have been priced in.

Some forecast relief rallies over the short term as hopes for Fed's rate pause trigger gains across emerging markets. Low allocation by investors can provide a good backdrop for gains, according to Redmond Wong, strategist at Saxo Capital Markets HK Ltd.

Valuation is also supportive. The Hang Seng China gauge is now trading at 7.6 times forward earnings, below the five-year average of 8.4. On the mainland, the CSI 300 benchmark advanced 1.4% yesterday as foreigners added 8.5bn yuan ($1.2bn) of onshore shares via trading links with Hong Kong. That was the largest daily net inflow since February.

Focus is now on new data releases in the coming weeks on inflation and credit to gauge the health of the economy.

"I do think there is some room for the Hong Kong market to rebound," though they will still lag the peers in the US and EU, said Dickie Wong, director of research at Kingston Securities Ltd. "There are a lot of concerns over China's economic recovery and the youth unemployment rate is very high. The 5% GDP target looks increasingly unattainable."

Korea inflation slows in May, giving BoK scope to pause

Bloomberg
Seoul

South Korea's inflation eased for a fourth straight month in May, another indication that price pressures are pulling back and giving the central bank scope to maintain its interest rate pause.

Consumer prices advanced 3.3% in May from the prior year, the smallest increase since October 2021, according to data from the statistics office yesterday.

The figure was below economists' expectations for a 3.4% rise. Core inflation, which excludes oil and agricultural prices, rose 4.3% in May, easing from a 4.6% increase in the previous month, though still remains high.

The slowdown in inflation signals that the Bank of Korea (BoK)'s aggressive pace of interest rate hikes is damping price pressures in a sustained way. The downward trend lessens the need for a near-term interest rate hike from the central bank, which wants to avoid targeting inflation at the expense of denting an economy that's increasingly vulnerable.

The yield on South Korea's three-year bond yield fell five basis points to 3.43% following the data release, partly amid growing expectations for the Federal Reserve to hold rates. The won rose the most in nearly two weeks.

Swaps markets are now pricing in more than one rate cut in the next 12 months, while none is priced in for the next six months.

"We may see the headline figure slip to the 2% level in the next couple months.

That combined with a stronger won could prompt the central bank to start discussing a pivot to rate cuts as early as July," said An Young-jin, an economist at SK Securities Co.

BoK officials have one more reading on consumer prices before a July meeting to set rate policy, where they have room to hold interest rates for a fourth straight session.

South Korea's economy has been weighed down by a drop in demand for goods from China, particularly for chips and other tech parts. A surge in semiconductor inventory has also put a cap on shipments.

Future economic growth depends largely on a faster rebound in China and a bounce back in that demand.

Separate data from the BoK yesterday showed the country's economy grew 0.3% in the first quarter from the final three months of 2022, matching previous estimates.

BoK Governor Rhee Chang-yong has said the central bank needs to see a sustained decline in inflation to start considering a shift in policy toward stimulating the economy.

The BoK kept its policy rate on hold for a third meeting in May, citing the need to combat sticky inflation while monitoring economic developments.

Governor Rhee kept alive the possibility for a rate increase should prices keep rising, while drawing a line against any rate cut discussions.

US job growth beats expectations in May; jobless rate rises to 3.7%

Reuters
Washington

US job growth accelerated in May, but a surge in the unemployment rate to a seven-month high of 3.7% suggested that labour market conditions were easing, which could give the Federal Reserve cover to skip an interest rate hike this month.
The increase in the unemployment rate from a 53-year low of 3.4% in April, which was reported by the Labor Department yesterday, was the largest since April 2020. Outside the Covid-19 pandemic, it was the biggest jump since 2010, reflecting a drop in household employment and a rise in the workforce. The gradual increase in the labour pool is easing pressure on businesses to raise wages.
Wage growth moderated last month, which should offer some comfort to Fed officials battling to bring inflation back to the US central bank's 2% target.
The mixed employment report offered more evidence that the economy was far from a recession, despite weakness in the interest-rate sensitive manufacturing sector and the housing market. "American businesses are still aggressively hiring, likely to meet resilient consumer demand," said Sal Guatieri, a senior economist at BMO Capital Markets in Toronto.
"However, the other areas of softness in this report suggests that the labour market is losing steam. There's likely enough pockets of softness in this report for the Fed to pass on raising rates at the next meeting." The survey of establishments showed non-farm payrolls rose by 339,000 jobs last month. Economists polled by Reuters had forecast payrolls would increase by 190,000. The economy created 93,000 more jobs in March and April than previously estimated.
The economy needs to add 70,000-100,000 jobs per month to keep up with growth in the working-age population.
Despite massive layoffs in the technology sector after companies over-hired during the pandemic and the drag from higher borrowing costs on housing and manufacturing, the services sector, including the leisure and hospitality category, is still catching up after businesses struggled to find workers over the last two years. Industries like healthcare and education also experienced accelerated retirements.
The backfilling of these retirements and increased demand for services are some of the factors driving job growth. Pent-up demand for workers was underscored by Labor Department data this week showing 10.1mn job openings at the end of April, with 1.8 vacancies for every unemployed person.
Last month, professional and business services added 64,000 jobs. Government employment increased by 56,000, but remains 209,000 jobs below its pre-pandemic level.
The healthcare sector added 52,000 jobs, most of them in ambulatory healthcare services and hospitals.
Leisure and hospitality payrolls were up 48,000, boosted by restaurants and bars. This industry's employment remains 349,000 below its pre-pandemic level. Construction gained 25,000 positions, while transportation and warehousing added 24,000 jobs.
But manufacturing payrolls fell and there were moderate job gains in mining, quarrying, oil and gas extraction as well as in wholesale trade, retail and financial activities. Most economists expect overall payrolls growth to continue at least through the end of the year. Stocks on Wall Street were trading higher. The dollar gained versus a basket of currencies. US Treasury prices fell.
Average hourly earnings climbed 0.3% after rising 0.4% in April. That lowered the year-on-year increase in wages to 4.3% after an advance of 4.4% in April. Annual wage growth averaged about 2.8% prior to the pandemic. The workweek dropped to a three-year low of 34.3 hours from 34.4 hours, suggesting some businesses were cutting hours rather than laying off workers.
Financial markets see a 70% chance of the Fed keeping its policy rate unchanged at its June 13-14 meeting, according to CME Group's FedWatch Tool. Much would depend on May's consumer prices report due in the middle of this month.
The Fed has raised its benchmark overnight interest rate by 500 basis points since March 2022, when it embarked on its fastest monetary policy tightening campaign since the 1980s. Details of the household survey from which the unemployment rate is calculated were largely soft. Household employment dropped by 310,000 positions last month. It was pulled down by a drop in self-employment, likely reflecting an ongoing strike by 11,500 members of the Writers Guild of America.
The Labor Department's Bureau of Labor Statistics, which compiles the employment report, did not record the work stoppage in its May strike report.
The divergence between non-farm payrolls and household employment was unusually large last month, leaving economists scratching their heads for an explanation. The household survey tends to be more volatile because of the small sample size. But the response rate to the establishment survey has decreased. At 54.7%, it was the lowest for the month of May since 2001.
While not dismissing the household survey, economists said the establishment survey was the more reliable of the two.
"The employer survey is usually a more accurate reflection of the job market given its much larger sample size," said Gus Faucher, chief economist at PNC Financial in Pittsburgh, Pennsylvania.
"The household survey may also be better at capturing turning points in the economy." According Conrad DeQuadros, senior economic adviser at Brean Capital, the payroll-concept adjusted household employment increased by 394,000 in May.
"Job momentum in the non-farm payroll sector by either measure, therefore, remains very rapid," DeQuadros said.
The number of unemployed people jumped by 440,000 to 6.1mn. The fall in household employment combined with a rise of 130,000 in the labour force to boost the unemployment rate. The unemployment rate for blacks surged to 5.6% from an all-time low of 4.7% in April.
The labour force participation rate, or the proportion of working-age Americans who have a job or are looking for one, was unchanged at 62.6% for a third straight month. But the participation rate for the prime-age group rose to 83.4%, the highest since January 2007, from 83.3 in April. Fewer people were working part-time for economic reasons.
"The labour market still has enough residual heat to keep powering forward," said Daniel Zhao, lead economist at Glassdoor in New York.

US labour market sends mixed signals, giving Fed reason to pause

Bloomberg
Washington

The US labour market sent conflicting signals in May as payrolls surged along with joblessness, giving Federal Reserve officials more reason to pause interest-rate hikes.

Nonfarm payrolls increased 339,000 last month after an upwardly revised 294,000 advance in April, a Bureau of Labor Statistics report showed yesterday. The unemployment rate rose to 3.7%, while wage growth slowed.

The advance was broad-based, reflecting gains in professional and business services, government and healthcare.

Markets reacted to the advance in payrolls, with Treasury yields jumping after the report. Traders upped their bets of the Fed hiking rates by the end of July. Bets on a June hike also rose, though investors still leaned toward expecting a pause.

For the Fed, however, policymakers will also be looking at the surge in the unemployment rate, which was the biggest one-month increase since April 2020. There were 440,000 more people out of a job in May, also the largest monthly rise since the onset of the pandemic.

Even though labour demand has remained resilient, it's unclear how long that will last. With a credit crunch threatening to halt the expansion and more companies planning to let workers go, hiring and pay gains may slow substantially in the coming months. The mixed nature of the report may validate Fed Chair Jerome Powell's approach to pausing interest-rate hikes to assess the impact of five-percentage points of hiking so far.

Other officials have also voiced support for holding rates steady at this month's meeting, while leaving the door open to resume tightening in July, as price pressures remain robust and the threat of a US debt default has been avoided. The jobs report is one of the last major releases policymakers will see before they convene on June 13 for a two-day meeting. That morning, they'll also see the consumer price index for May.


The Federal Reserve building in Washington, DC. The US labour market sent conflicting signals in May as payrolls surged along with joblessness, giving Federal Reserve officials more reason to pause interest-rate hikes.

The jobs report is made up of two surveys: One of households, where the unemployment rate comes from, and the other of businesses, which generates the payrolls and wage figures.

Details of the household survey showed people entering the labour force had a tough time finding a job. There was also an increase in previously employed persons who found themselves unemployed.

The business survey, however, painted a picture of strength. Payrolls beat estimates for a 14th straight month, and wages among workers who aren't in management roles — the vast majority of the labour force — rose 0.5%, the most in six months.

The establishment survey is larger than its household counterpart and thus has typically a smaller margin of error on month-to-month changes in employment.

"A surprisingly robust pace of payroll gains for May – stronger than the highest estimate in Bloomberg's survey of economists – underscores the difficulty of getting a clean read on the labour market. In our view, the labour market is softer than the headline figure suggests, with household employment actually contracting in May," say Anna Wong, Stuart Paul and Eliza Winger, economists at Bloomberg.

The labour force participation rate — the share of the population that is working or looking for work — was unchanged at 62.6%. For those aged 25-54, it rose to the highest level since 2007, led entirely by women.

Average hourly earnings rose 0.3% in May after a downwardly revised 0.4% a month earlier. From a year ago, they were up 4.3%, matching the smallest increase since mid-2021. In a concerning sign about demand, the average workweek edged down to 34.3 hours, the lowest since April 2020. Employers tend to cut hours before staff when the economy starts to weaken.

French debt in spotlight as ratings agencies sound alarm

AFP
Paris

France's surging national debt is causing increasing alarm with the country risking a fresh warning yesterday over its credit rating after a downgrade. Leading ratings agency Fitch in April lowered its rating on France's debt, which is approaching 3tn euros ($3.2tn).

It pointed to the country's hung parliament and public protests as risks to plans by President Emmanuel Macron to cut government spending.

Influential rival S&P Global is set to update its advice, with the country risking further censure over its chronic overspending that last saw a government run a budget surplus in the 1970s.

"We will be uncompromising on the balancing of our public finances, on the reduction of our deficits and on the acceleration of the reduction of the debt," Finance Minister Bruno Le Maire told France Inter radio on Wednesday.

He said he had spoken with S&P Global and presented his analysis personally, aware of the influence global credit agencies have on financial markets where downgrades usually increase the cost of borrowing money for governments.

"Whatever happens with S&P, it won't change anything in terms of our determination to meet our targets for the public finances," Prime Minister Elisabeth Borne said on Thursday.

Macron came to power in 2017 promising to balance France's books and his first prime minister, Edouard Philippe, memorably told parliament that the country was "dancing on a volcano that is rumbling ever louder".

But unbudgeted tax cuts during Macron's first term following the so-called "Yellow Vest" anti-government revolt and the Covid-19 pandemic in 2020 have led to a sharp deterioration in the public finances since.

The country's debt currently stands at around 111% of gross national product (GDP), from just shy of 100% before Covid-19 when Macron put in place one of Europe's most generous social safety nets.

The government has brought the annual public deficit down from a whopping 9.0% of GDP in 2020 to a forecast 4.9% this year.

Its projections show it falling to below 3.0% by 2027 when Macron will leave office.

But ratings agencies and investors are increasingly concerned about the credibility of the 45-year-old centrist leader whose successful prior career in investment banking once saw him dubbed the "Mozart of finance".

He has pushed through a pension reform this year in the face of the biggest demonstrations in a generation, but the proposed savings will be lower than first expected because of concessions made to trade unions and opponents.

Europeans face pricier car loans as VW, BMW pay up for new debt

Bloomberg
Frankfurt

Europe's car-financing businesses are trading in their cheap bonds for more expensive debt — which means higher car loan rates for customers.

BMW AG, Mercedes-Benz Group AG and others sold €8.45bn ($9bn) in bonds in European markets last month, marking the biggest month for auto debt issuance in six years, according to data compiled by Bloomberg. They're paying dramatically higher rates for debt, and analysts say it'll trickle down to consumers, who will face more costly vehicle financing.

"Higher bond yields for auto companies means the cost of car leasing will go up," said Antoine Lesne, head of ETF strategy and research at State Street Global Advisors Ltd. That means "more pain for the consumer," he said.

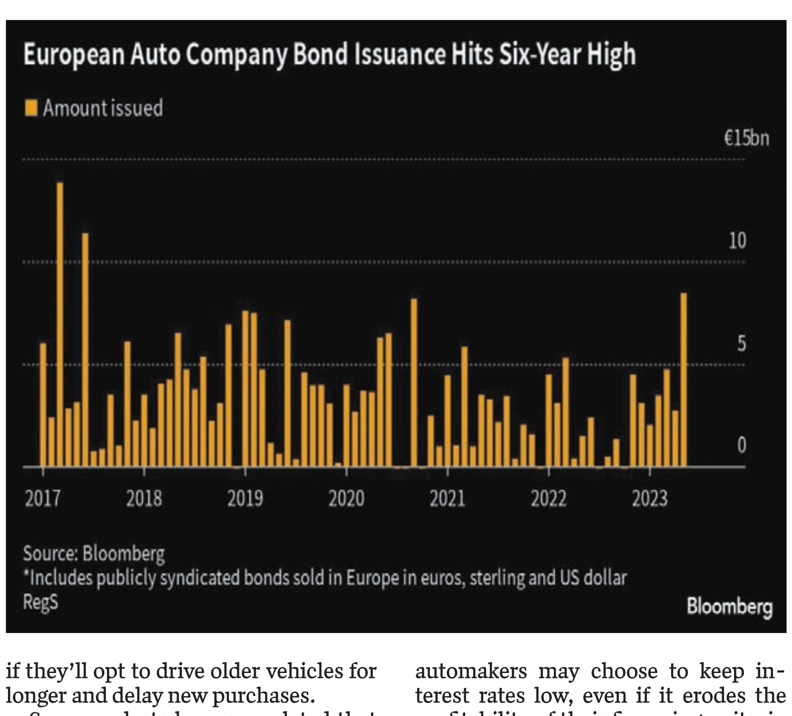
Debt is the lifeblood of the financing arms of Europe's biggest automakers, which tap public bond markets and other sources of cash to offer consumer financing. To be sure, not all of the bond proceeds are used for in-house lending and automakers also use debt to finance general operations. Even so, some analysts say that the rates are an early indication of where consumer financing costs are headed.

The average yield on European carmaker bonds has climbed to 4.15%, essentially a measure of how much it would cost the industry to sell new notes, according to a Bloomberg index. That's about twice the interest rate that companies are paying on existing debt, currently at 2.14%, the data show.

BMW's lending arm, BMW Finance NV, recently issued €2bn of bonds with coupons of between 3.25% and 3.625%.

That compares with fixed-rate euro bonds coming due this year with coupons of at least 3 percentage points less than the new ones, implying an extra €50mn cost per year, according to Bloomberg calculations.

The broader question for the industry is whether consumers will be able to afford costlier car loans with inflation already eroding incomes, or if they'll opt to drive older vehicles for longer and delay new purchases.



Some analysts have speculated that automakers may choose to keep interest rates low, even if it erodes the profitability of their financing units, in hopes of making up the difference with higher sales.

So far, consumers have been resilient despite faster inflation.

The backlog of orders that carmakers built up during the pandemic has made for solid quarterly results as supply chains normalise, with auto sales in Europe rising for nine months straight. But demand has shown signs of waning in the region's economic powerhouse - domestic orders at German carmakers fell 30% in the first four months of the year - and analysts say companies are bound to lose some of their pricing power.

"Higher funding costs absolutely impact profitability at auto companies' financial arms," said Bloomberg Intelligence credit analyst Joel Levington. "Auto manufacturers will need to decide how to work around affordability. Do they give up pricing, add incentives or offer cheap rates as mechanisms for purchasing a vehicle?"

In-house lending is a key part of the business model for European automakers, with analysts at Bernstein estimating that it accounts for up to 30% of overall earnings. Rising rates will be a headwind to captive finance companies that have had record results in recent years.

Operating profit for Volkswagen Financial Services plunged in the first quarter after two years of exceptional earnings that were linked to cheap borrowing costs and supply shortages that drove up used-car values.

A Volkswagen spokesperson said the carmaker will make financing terms as attractive as possible, but it would have to pass on some of the costs to customers. It has also announced a new corporate structure for its financial units that would give it other means of accessing funding such as taking deposits from savers.

Automakers tend to be popular among investors, given their safe debt profile, which gives them the ability to sell bonds at rates lower than other companies.

Almost all of Europe's major carmakers have investment-grade ratings, and recent bond sales from BMW Finance NV and Volkswagen International Finance NV saw strong demand.