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Uzbekistan is important gateway to large market, says QBA chairman

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Saudi to cut oil output in July; Opec extends deal into 2024

# Middle East air passenger numbers to double by 2040: IATA regional chief

By Pratap John  
Business Editor/Istanbul

Air passenger numbers in the Middle East will double to 550mn by 2040, International Air Transport Association (IATA) regional vice-president (Middle East) Kamil al-Awadhi said yesterday.

GCC carriers will continue to drive the Middle Eastern growth, al-Awadhi told *Gulf Times* here.

However, IATA did not provide a breakup of the projected passenger numbers in the GCC region during the review period.

Al-Awadhi also said the Middle Eastern carriers, particularly, those based in energy-rich GCC, are looking increasingly at sustainable aviation fuel (SAF) because of their focus on environment.

But, he admitted, that there was not enough SAF in the market to meet the growing needs of airlines.

“Airlines cannot do much about it; they don’t produce SAF,” al-Awadhi noted.

Recently, Qatar Airways signed a deal with Shell to source 3,000 metric tonnes of neat SAF at Amsterdam Schiphol airport. It encompasses the existing jet fuel contract with Shell at Amsterdam which will now see Qatar Airways using at least a 5% SAF blend over the contract period for the fiscal year 2023-2024.

Qatar Airways’ bilateral agreement with Shell is part of a wider effort initiated by the oneworld alliance, which has set the target of using SAF for 10% of combined fuel volumes by 2030.

Qatar Airways is the first carrier in the Middle East and Africa to procure a large SAF amount in Europe beyond government mandates. SAF offers significant potential for decarbonisation as the neat fuel can reduce full life-cycle emissions by up to 80% compared to conventional jet fuel.

This means that Qatar Airways will be reducing its emissions on flights from Amsterdam by approximately 7,500 tonnes of CO2 for the fiscal year.

Meanwhile, IATA’s latest data indicate Middle Eastern airlines posted a 38% traffic increase in April this year compared to a year ago. Capacity climbed 27.8% and load factor rose 5.6 percentage points to 76.2%.

On the cargo side, Middle Eastern carriers experienced a 6.8% year-on-year decrease in volumes in April this year. This was a slight decline in cargo sector performance compared to the previous month (~5.5%). Cargo capacity increased 10.0% compared to April 2022.

Kamil al-Awadhi, IATA regional vice-president, Middle East.

**PICTURE:** www.iata.org

Middle East will be one of world’s fastest-growing aviation markets in the next decade, according to management consulting firm OliverWyman.

In a recent report, OliverWyman noted the Middle East remains among the fastest-growing aviation markets in the world, with the regional fleet set to expand 5.1% annually over the next decade. The maintenance, repair, and overhaul (MRO) sector will grow at a compound annual growth rate (CAGR) of 4.9% during the same period.

The Middle East aviation market is heavily dependent on international travel, which has been slower to rebound to pre-pandemic levels than domestic travel. However, last year the region benefitted from air traffic around events such as the World Cup, which was held in Qatar in the final two months of the year.

The Middle East’s share of the global fleet will grow over the decade from 4.9% in 2023 to 6% in 2033.

Meanwhile, the global fleet is projected to expand one-third by 2033, to well over 36,000 aircraft, with Oliver Wyman also anticipating a record number of aircraft deliveries over the next 10 years (despite current supply chain constraints).

The Middle East fleet’s growth over the next decade will primarily be driven by the addition of narrow bodies. Historically, the Middle Eastern fleet has been primarily made up of wide bodies.

But moving forward, narrow bodies will increase to 48% of the fleet from 39%, while wide bodies will decline to 48% from 56%, OliverWyman said.

## Al-Kaabi meets director of National Energy Administration of China

HE Saad bin Sherida al-Kaabi, the Minister of State for Energy Affairs, yesterday met with Zhang Jianhua, the director of the National Energy Administration of China. Discussions during the meeting dealt with energy relations and co-operation between Qatar and China and means to enhance them.

## Aamal Trading and Distribution intends to acquire IIS

Aamal Trading and Distribution, a wholly-owned subsidiary of Aamal Company, is intending to start negotiations with Integrated Information Systems Company (IIS) to acquire the latter for QR500,000. IIS - a leading provider of IT solutions and services to companies in various sectors, including commerce, services, industrial production, financial services, health and insurance, transportation, and communications - is 49% owned by Al Faisal Holding Company, with the remaining 51% owned by International Consultancy Company. This acquisition would enhance Aamal’s

revenue streams, as IIS is the main provider of information technology and systems services to Aamal, and in the event of the acquisition, IIS will become a subsidiary of Aamal through Aamal Trading and Distribution, an Aamal Company communicate said. This would give it the opportunity to benefit from services and solutions more efficiently, as well as expanding its range of businesses by winning new contracts with other local companies. Aamal’s chairman indirectly owns 55.7% of IIS. The expected value of the acquisition may reach QR500,000 and is expected to be completed through

the indirect acquisition method, given that Aamal Trading and Distribution is a fully owned subsidiary of Aamal Company. “At Aamal we are keen to continuously develop our activities and the information technology sector is a key area of focus for us. This potential acquisition presents an important opportunity and would be an attractive addition to Aamal’s investment portfolio. We look forward to progressing our negotiations and to achieving our desired goals,” said Rashid bin Ali al-Mansoori, Chief Executive Officer of Aamal Company.

# Global aviation’s ‘blocked funds’ balloon to \$2.27bn in April: IATA

By Pratap John  
Business Editor/Istanbul

Global aviation industry’s blocked funds have increased by 47% to \$2.27bn in April this year from \$1.55bn in April 2022, International Air Transport Association (IATA) announced here yesterday.

IATA, which is holding its three-day Annual General Meeting here, warned that rapidly rising levels of blocked funds are a threat to airline connectivity in the affected markets. The top five countries account for 68% of blocked funds. These countries are; Nigeria (\$812.2mn), Bangladesh (\$214.1mn), Algeria (\$196.3mn), Pakistan (\$188.2mn) and Lebanon (\$141.2mn).

IATA director general Willie Walsh said: “Airlines cannot continue to offer services in markets where they are unable to repatriate the revenues arising from their commercial activities in those markets. Governments need to work with industry to resolve this situation so airlines can continue to provide the connectivity that is vital to driving economic activity and job creation.”

IATA, the global body of more than 300 member airlines, urged governments to abide by international agreements and treaty obligations to enable airlines to repatriate these funds arising from the sale of tickets, cargo space, and other activities.

Airlines incur unnecessary costs when they are unable to repatriate their overseas sales funds, freely or in a time-bound manner, industry analysts say.

Typically, such costs occur when airlines’ funds are forced to sit idle in foreign bank accounts as a result of foreign exchange shortages or regulatory obstacles put in place by certain governments.

By blocking airline funds from ticket sales, various countries are depriving the aviation industry of the much-needed cash, in contravention of bilateral agreements and global standards.

Holding back money belonging to airlines also discourages other carriers from serving the particular market, thereby reducing connectivity and options for passengers.

For airlines, this can lead to cash flow problems, reduced profitability, operational

difficulties, reduced investment and reputation damage.

Blocked funds can cause significant cash flow problems for airlines, as they may not be able to access funds that are owed to them. This can impact their ability to pay for fuel, salaries, and other essential expenses, which could ultimately lead to financial difficulties and even bankruptcy.

When funds are blocked, airlines may have to accept lower profits or even losses on their international routes. This is because they may be forced to sell tickets in local currency and then hold onto that currency until they can access it, which can result in exchange rate losses.

These can also make it difficult for airlines to operate effectively. For example, they may be unable to pay their suppliers or service providers, which could impact their ability to maintain their aircraft, provide in-flight services, or even pay for landing fees and other airport charges.

Trapped funds can discourage airlines from investing in new routes or expanding their operations in certain countries. This can limit the growth potential of airlines and may lead to missed business opportunities.

Willie Walsh, director general of the International Air Transport Association.



## PwC Middle East Qatar and IIA Qatar host internal audit conference



The conference brought together industry professionals and experts to explore new perspectives on internal audit and risk management

PwC Middle East, in collaboration with IIA Qatar, successfully hosted the 'Internal Audit Conference: Let's Change the Way We See Risk' held recently in Doha.

The conference, which brought together industry professionals and experts to explore new perspectives on internal audit and risk management, was held following the recent signing of a memorandum of understanding (MoU) between PwC and IIA Qatar at the PwC Middle East office in Qatar.

The MoU establishes a collaborative partnership aimed at raising awareness of internal audit in Qatar and collaborating on joint initiatives to enhance the skills and expertise of Qatari talent in the field. This collaboration signifies the shared commitment of both organisations to elevate the standards of internal audit practices in Qatar and contribute to the professional development of the local workforce.

Issa Habash, Risk Lead at PwC Middle East in Qatar, said: "Through our partnership with IIA Qatar, we aim to equip internal auditors in Qatar with the essential knowledge and skills to navigate the dynamic and evolving risk landscape. This collaboration is an opportunity to accelerate positive change and lay a robust foundation for the future of internal audit in Qatar."

Adel al-Hashimi, president of the IIA, said: "Internal auditors should maintain, improve and develop competence, especially with regard to understanding the expectations of stakeholders and senior management, as well as developing skills and knowledge related to technology trends and their impact on the field of internal audit."

"To provide a suitable environment for developing skills and promoting the transfer of knowledge and experiences between professionals, IIA signed an MoU with PwC Qatar. The first output was this conference,

in which we witnessed the presence of professionals and interested parties that exceeded expectations, and if this indicates the growing interest on the part of our members and professionals in these conferences to transfer knowledge and develop appropriate skills that help them perform their duties efficiently and effectively."

He added: "I would also like to point out that since the Institute of Internal Auditors began its work in Qatar, and after nearly two decades have passed, we have witnessed growth and progress in the internal audit profession in the State of Qatar."

"It was chosen that this conference be held in the month of May, which is considered the month of awareness of internal auditing, to be part of a series of conferences with the aim of raising awareness. The title of the conference was chosen to include one of the most important topics in the field of auditing and risks."

In his speech, Habash provided insights on navigating the new risk multiverse and highlighted the need for organisations to adapt their risk management approaches to thrive in a rapidly changing landscape.

Rashid al-Mansoori, CEO of Aamal, presented his views on 'CEOs' Expectations of Internal Audit'. Azzah Fawzi, Risk Partner & ESG Reporting Leader at PwC Middle East, highlighted the importance of bridging the ESG trust gap and the role internal audit plays in achieving ESG assurance.

Habash also explored how audit committees can add value during times of uncertainty, shedding light on the valuable role they play in strategic decision-making. The event concluded with a session focusing on the digitisation and transformation of internal audit, which was led by Dabeer Rasul and Ziad Zogheib, both Risk Partners at PwC Middle East.

## Saudi to cut oil output in July; Opec extends deal into 2024

Reuters  
Vienna

Saudi Arabia will make deep production cuts in July as part of a broader output-limiting Opec+ deal as the group faces flagging oil prices and a looming supply glut.

Saudi Energy Minister Prince Abdulaziz said the cut of 1mn barrels per day (bpd) by Riyadh could be extended beyond July if needed. "This is a Saudi lol-lipop," he said.

Opec+, which groups the Organisation of the Petroleum Exporting Countries and allies led by Russia, reached a deal on output policy after seven hours of talks and decided to reduce overall production targets from 2024 by a further total of 1.4mn barrels per day.

However, many of these reductions will not be real as the group lowered the targets for Russia, Nigeria and Angola to bring them into line with their actual current production levels.

By contrast, the United Arab Emirates was allowed to raise output.

Opec+ pumps around 40% of the world's crude, meaning its policy decisions can have a major impact on oil prices.

Opec+ already has in place a cut of 2mn bpd agreed last year and amounting to 2% of global demand.

In April, it also agreed a surprise voluntary cut of 1.6mn bpd that took effect in May until the end of 2023.

Saudi Arabia said yesterday it would extend its portion of voluntary cuts of 0.5mn bpd into 2024. It was not clear if the July reduction of 1mn was on top of 0.5mn bpd or the latter would be included in the July reduction.

The April announcement helped to drive oil prices about \$9 per barrel higher to above \$87, but they swiftly retreated under pressure from concerns



Saudi Arabia's Minister of Energy Prince Abdulaziz bin Salman al-Saud arrives for an Opec+ meeting in Vienna, Austria yesterday.

about global economic growth and demand. On Friday, international benchmark Brent settled at \$76.

Western nations have accused Opec of manipulating

oil prices and undermining the global economy through high energy costs. The West has also accused Opec of siding with Russia despite Western sanctions over Moscow's invasion

of Ukraine. In response, Opec insiders have said the West's money-printing over the last decade has driven inflation and forced oil-producing nations to act to maintain the value of

their main export. Asian countries, such as China and India, have bought the greatest share of Russian oil exports and refused to join Western sanctions on Russia.



Turkiye's new Treasury and Finance Minister Mehmet Simsek.

## Turkish economy to return to 'rational ground', says new finance minister

Reuters  
Ankara

Turkiye's newly appointed Finance Minister Mehmet Simsek said yesterday that the country has no choice but to return to "rational ground" to ensure predictability in the economy.

President Recep Tayyip Erdogan named Simsek to his cabinet on Saturday to tackle Turkiye's cost-of-living crisis and other strains, in a clear sign that his newly elected government would return to more orthodox economic policies.

In a handover ceremony, Simsek said the main goal of the new government will be to increase social welfare.

"Transparency, consistency, predictability and compliance with international norms will be our basic principles in achieving this goal," Simsek said.

"Turkiye has no other choice than to return to a rational ground. A rules-based, predictable Turkish economy will be the key to achieving the desired prosperity." Macro-financial stability in an environment of increasing global challenges and geopolitical tensions will be a priority, he said.

"Establishing fiscal discipline

and ensuring price stability for sustainable high growth will be our main goals," he said.

Simsek, who was highly regarded by financial markets when he served as finance minister and then as deputy prime minister between 2009 and 2018, said that lowering Turkiye's soaring inflation to single digits will be another priority.

"It is vital for our country to reduce inflation to single digits again in the medium term, to increase predictability in all areas, and to speed up the structural transformation which will reduce the current account deficit," he said.

Turkiye's annual consumer price inflation hit a 24-year peak beyond 85% last year, and stood at 44% in April.

Fiscal policies and structural reforms will support Turkiye's central bank to help lowering inflation, Simsek also said.

The central bank's policy of stabilising the lira sent its net foreign reserves into negative territory last month for the first time since 2002.

The lira hit new all-time lows beyond 20 to the dollar after the May 28 run-off vote in the election. It lost more than 90% of its value in the last decade after a series of crashes, the worst in late 2021.

## The Big Four: Were they victims or guilty of corporate failures?

By Dr Ismail Hamad

In this article, and contrary to my previous usual economic ones, I intend to address a misconception about the big four audit firms. Whenever a corporate failure or scandal hit, the media commentators rush to look for a scapegoat. Normally that scapegoat is the external auditors, and in particular, one of the big four audit firms. Such events also wake a sleeping giant called "regulations". However, over time, such talks fade away, proving their groundlessness.

In my opinion, the reason for accusing the auditors of corporate failures is because of what the profession calls the "audit expectation gap". Suffice it here to say that the audit expectation gap refers to the gap between what auditors do and what the public thinks auditors should do.

A recent case in point of the misconception is the collapse of the Silicon Valley Bank (SVB). On Friday the 10th of March 2023, the SVB was declared bankrupt following a bank run. A bank run happens when many depositors simultaneously rush to withdraw their money. Upon the announcement, many media commentators and YouTubers blamed KPMG,

one of the big four audit firms, for issuing a clean report just a few weeks before the event. But before judging whether KPMG is to blame or not, let me first explain what went wrong with the SVB.

After the bank run and in order to meet the excessive demand for cash, the SVB sold its portfolio of bonds that were in deep unrecognized losses, thus realising huge losses by selling it. The successive, and sometimes at short periods, increases in interest rates by the Federal Reserve Bank (Fed) to combat inflation caused a decrease in bond value. One can't expect KPMG to predict the bank run and its collapse. To do so means that KPMG should issue their report stating that "we believe there will be a bank run and that it will collapse". That would be a ridiculous statement to make. However, and for the sake of argument, to make such a statement means that KPMG provides financial advice to the public at large. Investment service, and its related financial advice, is a separately regulated profession, even YouTubers mention a disclaimer that their videos are not financial advice and they are for entertainment purposes. In recent years, the word "audit" is gradually being replaced by the word "assurance". Auditors provide, inter alia, reasonable assurance not



absolute assurance of the company's state of affairs at a particular point in time, usually the year-end. To provide absolute assurance, the auditors should check every single event that took place during the past year. Such unreasonable work will be expensive and its cost will outweigh the benefits, rendering the audit a worthless exercise. With a 100% check, still auditors can't provide absolute assurance as accounting

involves estimates of many figures. Further, auditors are required by the International Standards on Auditing "to collect sufficient and appropriate evidence". The purpose is for the auditors to support their audit opinion with sufficient evidence.

In the case of the SVB, what could KPMG possibly provide as evidence of the bank's future collapse at the time of signing their report? It would be insane and impracticable to expect them to do so.

One of the roles of the auditors, along with corporate governance, is to provide some credence to information that management discloses. However, auditors can't comment on forward-looking, or future-oriented, information and/or events. That is the management's role. Even managers write what is called a "safe harbour statement" at the bottom of their report to draw the reader's attention that such statements are mere predictions.

However, the preceding paragraphs are not meant to be a blind defence without qualification. As with any human or social act, auditors do make mistakes. On many occasions in the past, some of the big audit firms were found negligent and they were either heavily fined or, at best, reprimanded.

The big four were initially the big five. The fifth

one went out of business due to the Enron Company's bankruptcy. Many of those involved in this scandal were sentenced to prison. The case of Enron demonstrates how risky the environment in which the big four audit firms operate is.

The audit profession is also self-regulated. There is frequent monitoring of performance through an internal quality review process followed by the big audit firms. Auditors can only be held responsible for negligence. Negligence, in this context, means the auditors failed to uncover an issue that was present at or before the time of signing their report. Not only that, but there should have been clear evidence that is expected to be observed by the auditors in the course of their normal audit work. This is even though forming an audit opinion is ultimately a matter of professional judgment. In this respect, it is prone to error and would be difficult to establish auditors' responsibility for corporate failures.

In my opinion, market failure and regulatory bodies are the ones to blame for the SVB collapse. The line between corporate success and failure is a millimetre thick and will only be visible in hindsight, thus the allegations against KPMG seem groundless.

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# Mystery trader's debt ceiling windfall sparks insider concerns

**Bloomberg**  
New York

The US government's move to greenlight a 300-mile natural gas pipeline as part of legislation to stave off a Treasury default shocked just about everyone, except for a mystery trader who somehow appears to have seen it coming.

On Wall Street, analysts had mostly expected vague promises on energy permits to be included in a bill to raise the US debt ceiling. Yet, options trading suggests something bigger may have been in the offing.

On May 24 — several days before an agreement was announced — a huge bullish bet was made on Equitrans Midstream Corp, data compiled by Bloomberg show. The company is deeply involved in the long-delayed Mountain Valley Pipeline. The wager involved snapping up 100,000 call options on the firm's stock.

It proved prescient and wildly profitable within just a few days.

On May 27, White House and Republican lawmakers reached a deal that would give the long-delayed Mountain Valley Pipeline the final approvals needed to complete the project.

Throughout April and much of May, negotiators from the White House and Congress went back and forth on broad-stroke parameters of an agreement. Almost until the very end, the details were closely held and in flux. Doubts lingered over whether a deal would be reached before the US was scheduled to run out of money in early June.

The legislation, which was signed into law by President Joe



Traders work on the floor of the New York Stock Exchange. The US government's move to greenlight a 300-mile natural gas pipeline as part of legislation to stave off a Treasury default shocked just about everyone, except for a mystery trader who somehow appears to have seen it coming.

Biden on Saturday, forced action on permits for the project. On paper, the bet appears to have earned \$7.5mn through Friday. It has some asking whether more than skill and luck played a role.

"My questions are: Who's the trader? How sophisticated are they? And what are their connections to the government?" said Donald Sherman, chief counsel at the ethics watchdog Citizens for Responsibility and Ethics in Washington. He added the bet raises the spectre of whether the parameters of the debt deal had somehow leaked out ahead of time.

Digging into whether a trade

is improperly based on confidential information is notoriously difficult, especially when it involves market-moving news from inside the government. The rules are also rife with gray areas and ambiguities.

Officials, including members of Congress, are barred from trading on confidential information they learned in their position. But if, for example, someone overhears a Congressional staffer loudly mention a piece of information on the train, they're likely in the clear.

"The challenge for investigators isn't just to learn if information was shared, but to uncover

the intent in sharing it," Philip Khinda, head of the SEC enforcement practice at Cadwalader, said. "These are very difficult cases to bring, because of both the legal and investigative complications they pose."

No one has been accused of any wrongdoing with the options trade. A representative for the Securities and Exchange Commission, which would be responsible for overseeing any probe, declined to comment on whether it was looking into the matter.

Still, the call options are attracting a lot of attention for their timing — immediately

before the debt-ceiling agreement was reached. The \$8 strike price also equates roughly to how some Wall Street analysts have valued the Mountain Valley Pipeline for Equitrans.

Before the debt deal, the outlook for the Mountain Valley pipeline project had been bleak. Legal fights with environmentalists raged for years. Shares in Equitrans fell 35% last year.

After the surprise announcement that the pipeline would get a kickstart, Equitrans roared back. Shares soared 49% last week, a record.

"These trades are highly concerning," said Dan Taylor, a professor at The Wharton School who studies insider trading, said. "It starts to beg the question of whether it, in fact, is a coincidence."

Equitrans said neither the company nor any of its executives were involved in the transaction. In a statement, the firm also lauded the pipeline as "essential energy infrastructure that will ensure American families have reliable, affordable access to domestic energy" that will actually help reduce carbon emissions and bolster energy security.

To be sure, the project has powerful champions. Senator Joe Manchin, a Democrat who represents West Virginia where the pipeline will traverse, has long been a backer. He celebrated the project on Friday, saying on Twitter that it was "truly America's 'MVP'" an apparent reference to the project's initials.

Asked about the options trade, Manchin said: "I have no idea about that." He added: "The only thing I know is that people need power."

## After month of pain, euro bulls look to Fed pause for relief

**Bloomberg**  
Frankfurt

Investors who took out long positions in the euro could be in for some respite, even as a shaky outlook for the economy continues to stalk the common currency.

Slowing inflation and fading optimism about the region's growth sent the euro to its worst month since April 2022. Short-term bets against the euro using currencies other than the dollar are growing in popularity.

Yet despite the headwinds, investors increasingly view fresh euro weakness against the greenback as a chance to buy, citing diverging interest-rate trajectories on either side of the Atlantic.

"Selling euros is no longer a slam dunk as it was a month or two ago," said Geoff Yu, senior currency strategist at Bank of New York Mellon Corp. "The peak in momentum has already happened."

Traders are betting on the US Federal

Reserve finishing its hikes by the end of July. Meanwhile, the European Central Bank (ECB) is expected to only switch to cuts later next year, after hiking and holding rates at their highest in more than two decades — making the European common currency an appealing longer-term bet.

"It's a case of buying on the dips rather than selling on the rallies," said Sam Lynton-Brown, head of global macro strategy at BNP Paribas. "A year from now, we see it above 1.10 and we don't see credible scenarios where it goes below 1.05 and stays there."

The euro sank 3% in May, taking it from a one-year high, buying just less than \$1.11 at the start of the month, to below \$1.07 where it's been hovering since. The selloff came after hawkish noises from the ECB and an improved growth outlook had encouraged investors to build up wagers on a stronger euro to their highest levels since September 2020.

Despite near-term pressures, there's room for the euro to gain as more bonds in Europe shake off their negative yields,

damping the comparative appeal of dollar-denominated assets, Lynton-Brown said.

Traders in Europe say a safety net is forming for the currency, making a big drop below 1.05 unlikely given the interest from hedge funds and interbank desks to buy if it falls below that. Demand for options that pay out should the euro weaken below that level was almost non-existent earlier this week, according to one trader who asked not to be identified because they're not authorised to speak publicly.

The outlook for the euro is brighter than this time a year ago. Negative yields, recession risks and spiralling concerns about an energy supply crunch during the early days of Russia's invasion of Ukraine pushed the euro below par against the dollar for the first time ever.

But to be sure, fears of another European energy crisis or overly aggressive ECB rate hikes that trigger a slump in growth could stymie the bullish predictions. Danske Bank cites these in its prediction that the common currency will fall to 1.03 in 12 months' time. Others warn that a fresh

wave of turbulence in the US banking system or a global recession could knock the euro lower in the coming months.

"If the energy crisis flares up again, then it would leave the euro much more exposed than the US dollar," said Jens Naervig Pederson, director of FX and rates strategy at Danske Bank in Copenhagen. "That's one reason we've kept this negative bias on the euro versus the dollar."

For now, the euro's path in the coming months will be largely driven by how much US interest rates start to fall. At the moment, traders are betting on a roughly 80% possibility that the Fed will cut rates by 25 basis points by December, after raising them to 5.5% by July.

The euro could push above 1.10 in the second half of the year as markets get a clearer view that US rate cuts are coming, according to Samy Chaar, chief economist at Lombard Odier Group in Geneva.

While both the ECB and Fed will have scope to lower rates as inflation continues to slow, the Fed has "more room to cut," he said.

## US industrial recession hits energy consumption

**By John Kemp**  
London

US manufacturing and freight activity has declined for seven months running, reflected in falling consumption of diesel and other distillate fuel oils as well as industrial electricity sales. Manufacturers reported another widespread downturn in May, according to the monthly purchasing managers' survey published by the Institute for Supply Management (ISM). The ISM manufacturing index slipped to 46.9 (14th percentile for all months since 1980) and has been continuously below the 50-point threshold dividing expansion from contraction since November.

The index has already been below 50 for more months than in most mid-cycle slowdowns (generally 8 months or fewer) though not as long as most recessions (generally 11 months or more).

The forward-looking new orders component slumped to just 42.6 (6th percentile) signalling activity is likely to continue falling for several more months at least. Manufacturing output is closely correlated with consumption of distillate fuel oils and industrial electricity use, the downturn is filtering through into significant reductions in energy consumption. Distillate fuel oil consumption declined in seven of the eight months ending in March 2023, the most recent data available ("Petroleum supply monthly", US Energy Information Administration, May 31).

Distillate use was down by more than 3% in the first three months of 2023 compared with the same period in 2022 (22nd percentile for all three-month overlapping periods since 1980). Electricity sales to industrial customers also fell in seven of the eight months ending in February 2023, again the most recent data available ("Monthly energy review", EIA, May 25). Between December 2022 and February 2023, industrial power sales were down more 2.4% compared with a year earlier (14th percentile for all three-month periods since 1980). The decline in energy use is consistent with other indicators showing the industrial economy is in the midst of a widespread and prolonged cyclical downturn. Reflecting the weakness of industrial demand, the total number of shipping containers hauled by the major US railroads was down by more than 10% in the first 21 weeks of 2023 compared with the same period in 2022. Given the continued drop in new orders and the still-high level of business inventories in relation to sales, the downturn is likely to extend at least through the third quarter of 2023. Only the residual strength of service sector spending has so far prevented the "industrial recession" becoming a whole-economy recession.

■ *John Kemp is a Reuters market analyst. The views expressed are his own.*

## Microsoft's Smith set for talks with UK chancellor over Activision deal ban

**Bloomberg**  
New York

Microsoft Corp president Brad Smith will meet with UK Chancellor Jeremy Hunt this week to voice his frustration over the shock decision by Britain's competition regulator to block its \$69bn takeover of Activision Blizzard Inc. Smith is set to hold talks with Hunt as well as officials from the Competition and Markets Authority, the agency that wielded the April 26 veto, according to people familiar with the discussions, who spoke on condition of anonymity. Microsoft confirmed that Smith will be in London, where he's giving a "scheduled talk about the potential of AI and the need for thoughtful regulation of it." He'll also hold private discussions on other issues, "including the proposed acquisition of Activision Blizzard as we remain committed to finding creative and constructive ways to address remaining regulatory concerns," a Microsoft representative said. Smith is expected to point to the benefits of the acquisition for gamers and push back against the move to block the industry's largest merger — a decision that will soon play out in a special UK antitrust court. Hunt previously criticised the CMA's veto, telling a business conference recently that competition watchdogs must "understand their wider

responsibilities." Despite Hunt's comments, one of the people said government ministers were "unhappy" with some of Smith's criticism of the CMA in interviews in which he claimed that the European Union — which approved the takeover — was a better place to do business than the UK. The government holds no formal role in the enforcement of the country's competition rules, but members of the CMA board are appointed by the UK's business department. Smith will also sit down with Microsoft's legal representatives to discuss the firm's strategy to counter the CMA decision, laying out a series of options that the company could take to save the deal. One extreme option could be to bypass the UK order and press ahead with the deal, or withdraw Activision from the UK market, one of the people said, confirming earlier reports by regulatory news outfit Mlex. The company is also likely to draw on the EU's findings in its legal arguments against the CMA, after EU merger officials conditionally approved the record-breaking gaming merger last month. The chancellor's office declined to comment. Activision didn't respond to a request for comment. The confidential discussions will take place as Smith takes part in London Tech Week, an event aimed at boosting the UK's technology industry.

## Bond bulls ignore Fed-hike noise and keep buying yield spikes

**Bloomberg**  
New York

For over a year, bond traders have been whipsawed by uncertainty about how high the Federal Reserve will push interest rates.

But that's now giving way to a growing conviction that longer-term Treasury yields have likely already peaked — and that unexpected selloffs that give yields a bit of an extra bump up look like good times to buy.

The shift may inject some stability into a bond market that's been consistently caught off guard by how resilient the US economy has remained as the Fed raised interest rates by five percentage points since March 2022. The dynamic was underscored on Friday, when bonds slid after a report showed employers unexpectedly accelerated the pace of hiring in May.

At the same time, a slowdown in the pace of wage gains and a rise in the unemployment rate indicated the central bank may finally be guiding

the economy to a slowdown, albeit one that it hopes will be relatively gentle. That may effectively put a cap on long-term bond yields even as short-term ones remain volatile while traders try to game out the final plays of the Fed's policy tightening campaign.

"The 5-year and 10-year have been the sweet spot for us, and we've been buying there," said Scott Solomon, a fixed-income portfolio manager at T. Rowe Price.

The focus is now shifting to the release of the next consumer-price index reading on June 13, when the Fed begins its two-day policy meeting.

The gauge is expected to show that the pace of inflation slowed to 4.1% in May from a year earlier, according to economists surveyed by Bloomberg, providing potential support for policymakers to hold off on any further rate hikes until July.

Expectations that the Fed will take such a pause helped send two-year Treasury yields lower ahead of Friday's employment report, leaving them down slightly on the week around 4.5%



despite a steep rebound in the immediate aftermath of the labour market data. Both Fed Governor Philip Jefferson and Philadelphia Fed President

Patrick Harker showed support for holding off in some of the final comments from officials ahead of the pre-meeting blackout.

By late Friday, derivatives showed a quarter point hike this month or next was all but certain, but a less than one-in-two chance it would be at the meeting which ends June 14.

Traders have also squeezed out nearly all of the rate cuts that as of last month were still expected during the final stretch of 2023.

The central bank officials new projections for where rates are headed, due to be released at the next Federal Open Market Committee meeting, should reinforce the view that any break in June won't mean it's done, particularly if inflation continues subsiding slowly.

"If they really mean they are going to come back after June they may have to signal a little bit higher, probably one more hike in the dot plot," said Alex Li, head of US rates strategy at Credit Agricole, referring to the nickname for the summary of projections.

Longer-term bonds have been less affected by the speculation about the Fed's next move, with investors convinced it ultimately doesn't have much further to go.

Moreover, yields have risen so steeply from pandemic-era lows that they are now providing reasonable income. And there's potential for fixed-income asset prices to gain if the economy slides into a recession that would push the Fed to reverse course.

That has helped to restrain longer-term yields. When selling pressure was sparked earlier by stronger-than-expected economic figures, buyers swooped in as 5- and 10-year yields rose to their highest levels since the banking turmoil of early March, at 3.99% and 3.86%, respectively. The latest JPMorgan Chase & Co. Treasury client survey showed that long positions were at the highest since last September.

Ten-year Treasury yields ended the week at about 3.69%, down about 10 basis points from a week earlier despite the backup on Friday. Five-year yields were around 3.84%.

Jack McIntyre, a portfolio manager at Brandywine Global, said he wasn't budging his bond-market positioning based on the latest jobs market data.



BloombergQuickTakeQ&A

Europe is committed to rearming: Why it's not simple

**By Marc Champion**

In the early 1990s, with the Cold War over, European countries capitalised on the so-called peace dividend. They cut defence budgets and scrapped or sold vast quantities of hardware in the belief that a major land war on the continent was no longer plausible. Russia's full-scale invasion of Ukraine in early 2022 ended that illusion. Now, governments across Europe have committed to significantly increasing military spending to prepare themselves for the kind of prolonged, high-intensity conflict being fought by Ukraine. The results, however, have been uneven, raising the questions of whether and when Europe will be ready for future security challenges.

1. What was the peace dividend?

In 1989, military spending among Nato members averaged more than 4% of gross domestic product as they maintained a so-called forward defence in Europe to ward off invasion by the Soviet Union and its allies in the Warsaw Pact. When both disappeared within the space of just two years, governments rushed to take advantage of the unwinding of superpower tensions. They slashed defence spending, diverting resources into more productive and popular areas such as healthcare and welfare. Tanks, artillery and other heavy armour were scrapped or sold. That trend accelerated after the September 11,

2001 attacks on the US, as forces designed for land war were reconfigured into more lightly armed, mobile units for counterterrorism missions around the globe. By 2014, European members of the North Atlantic Treaty Organisation were devoting an average of 1.4% of GDP to defence. Germany had fewer than 1,000 tanks and infantry fighting vehicles combined, down from 7,000 (in West Germany alone) during the Cold War.

2. What happened in the US?

The peace benefit was shorter lived in the US. Defence spending fell from 6% of GDP in 1989 to a low of 3% in 2001, but reversed course after the September 11 attacks precipitated major US wars in Afghanistan and Iraq. Those commitments drove spending back up to 5% of GDP in 2010, before settling at around 3.5% in recent years.

3. How have considerations shifted?

The decline in defence spending among Nato's European members began to reverse in 2014, after Russia annexed Ukraine's Crimea peninsula. That year, the alliance set a 2024 deadline for members to reach a previously ignored 2% spending target. Few were on track to succeed by the time the full-blown invasion of Ukraine radically changed perceptions about how much defence and what kind is needed in Europe. Many European and US officials believe Russian

President Vladimir Putin is determined to subordinate nations that were once part of the Soviet Union. Just months after the war began, Nato adopted an updated strategy that identified Russia as the alliance's "most significant and direct threat." The previous, 2010 version aimed at "strategic partnership" with Russia.

4. What are European governments doing?

Some are re-examining defence doctrines that define what kinds of wars to prepare for. Most are – to greater and lesser extents – looking at how to rebuild stocks of tanks, anti-tank and anti-aircraft systems, precision guided missiles, artillery batteries and ammunition, as well as the drones that have proved essential in the Ukraine war. The consultancy McKinsey & Co projected that, without the war, European defence spending from 2021 to 2026 would have grown 14% and that the conflict will push the increase to at least 53%, from its estimate of €296bn (\$317bn) to €453bn. Germany's pivot was perhaps the most stunning. Among Nato states, Europe's biggest economy has devoted one of the smallest shares of GDP to defence. But days after Russia invaded Ukraine, Chancellor Olaf Scholz announced a €100bn boost to military spending. France raised its six-year budget allocation for defence by a third. Poland drew up a shopping list that includes hundreds of the HIMARS rocket launchers that have made a significant impact in Ukraine, as well as three times as many tanks

as France and the UK have combined, and six times as many self-propelled artillery pieces as Germany possesses. Arms makers see a bonanza.

5. What are the challenges?

Whether governments will be able to pay for ambitious defence upgrades is an open question. The calls for more spending come at a time of rapid inflation and high demand for public sector wage increases as well the subsidies and investment needed to meet targets for addressing climate change. Plus, the cost of rebuilding Ukraine, eventually, will be high. Many countries have depleted their arms stores to supply Ukraine, and these need to be backfilled before they can expand. Because arms-buying bureaucracies have shrunk, orders are slow to come even when producers have sufficient capacity. For this reason, a year after Scholz's announcement, not a cent of his fund had been spent, according to a parliamentary report. Also, European governments, for the most part, continue to pursue their own weapons systems, contributing to a multitude of tank, plane, ship and gun types that makes it harder for forces from different nations to operate together. Just 18% of European defence procurement spending went to joint projects in 2021. Bundling orders could both speed production and limit costs. French President Emmanuel Macron invited European defence ministers to a conference in Paris on June 19 to discuss deeper co-operation.

Brics nations say new currency may offer shield from sanctions

**Bloomberg**  
Cape Town

Brics nations asked the bloc's specially created bank to provide guidance on a how a potential new shared currency might work, including how it could shield other member countries from the impact of sanctions such as those imposed on Russia.

The foreign ministers of Brazil, Russia, India, China and South Africa convened in Cape Town on Thursday to discuss how the bloc can win greater global influence and to challenge the US. While they didn't reach firm conclusions, the use of alternative currencies was among the prominent talking points.

The Brics are looking to "ensure that we do not become victims to sanctions that have secondary effects on countries that have no involvement in issues that have led to those unilateral sanctions," Naledi Pandor, South Africa's minister of international relations, told reporters after the meeting.

While she didn't mention Russia directly, the country has been hit by widespread sanctions from Western powers over President Vladimir Putin's invasion of Ukraine.

Proposals are being considered by officials at the New Development Bank, the Shanghai-based lender created by Brics nations, and the bloc "will be guided to them as to what the future models might be," Pandor said, without providing further details.

The Brics ministers were joined by counterparts from countries including Saudi Arabia, the United Arab Emirates, Egypt and Kazakhstan. Also on the agenda was expansion, with more than 20 countries aspiring to join.

Asked about a meeting held with a Saudi Arabian delegation, Russian Foreign Minister Sergei Lavrov said only that the issue of the kingdom joining was discussed, amid broader talks about how the bloc should expand its membership.

"With regard to the issue of Brics, it is still being shaped, it is still evolving," he said.

Brics, which invited South Africa to join in 2010, has failed to punch its weight as a group. That's despite its members representing more than 42% of the world's population and accounting for 23% of global gross domestic product and 18% of trade, giving credence to demands for more sway.

The prospect of adding more members was first raised at last year's summit in China and 13 nations have formally asked to join, with at least seven others expressing interest.

The gathering was a precursor to an August 22-24 summit of Brics heads of state currently scheduled for Johannesburg. South Africa is considering switching the venue to another nation, according to people familiar with the matter, a move that would resolve its dilemma over whether to execute an International Criminal Court arrest warrant for Putin if he travels to the country.



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# Trillion-dollar Treasury vacuum coming for Wall Street rally

**Bloomberg**  
Washington

With a debt ceiling deal freshly signed into law on Saturday by President Joe Biden, the US Treasury is about to unleash a tsunami of new bonds to quickly refill its coffers. This will be yet another drain on dwindling liquidity as bank deposits are raided to pay for it — and Wall Street is warning that markets aren't ready. The negative impact could easily dwarf the after-effects of previous standoffs over the debt limit. The Federal Reserve's program of quantitative tightening has already eroded bank reserves, while money managers have been hoarding cash in anticipation of a recession. JPMorgan Chase & Co strategist Nikolaos Panigirtzoglou estimates a flood of Treasuries will compound the effect of QT on stocks and bonds,

knocking almost 5% off their combined performance this year. Citigroup Inc macro strategists offer a similar calculus, showing a median drop of 5.4% in the S&P 500 over two months could follow a liquidity drawdown of such magnitude, and a 37 basis-point jolt for high-yield credit spreads. The sales, set to begin Monday, will rumble through every asset class as they claim an already shrinking supply of money. JPMorgan estimates a broad measure of liquidity will fall \$1.1tn from about \$25tn at the start of 2023. "This is a very big liquidity drain," says Panigirtzoglou. "We have rarely seen something like that. It's only in severe crashes like the Lehman crisis where you see something like that contraction." It's a trend that, together with Fed tightening, will push the measure of liquidity down at an annual rate of 6%, in contrast to annualised growth for most of the last decade, JPMorgan

estimates. The US has been relying on extraordinary measures to help fund itself in recent months as leaders bickered in Washington. The measure brokered between Biden and House Speaker Kevin McCarthy limits federal spending for two years and suspends the debt ceiling through the 2024 election. With default narrowly averted, the Treasury will kick off a borrowing spree that by some Wall Street estimates could top \$1tn by the end of the third quarter, starting with several Treasury-bill auctions on Monday that total over \$170bn. What happens as the billions wind their way through the financial system isn't easy to predict. There are various buyers for short-term Treasury bills: banks, money-market funds and a wide swathe of buyers loosely classified as "non-banks." These include households, pension funds and corporate treasuries. Banks have limited appetite for

Treasury bills right now; that's because the yields on offer are unlikely to be able to compete with what they can get on their own reserves. But even if banks sit out the Treasury auctions, a shift out of deposits and into Treasuries by their clients could wreak havoc. Citigroup modelled historical episodes where bank reserves fell by \$500bn in the span of 12 weeks to approximate what will happen over the following months. "Any decline in bank reserves is typically a headwind," says Dirk Willer, Citigroup Global Markets Inc's head of global macro strategy. The most benign scenario is that supply is swept up by money-market mutual funds. It's assumed their purchases, from their own cash pots, would leave bank reserves intact. Historically the most prominent buyers of Treasuries, they've lately stepped back in favour of better yields on offer from the Fed's reverse repurchase agreement facility.

That leaves everyone else: the non-banks. They'll turn up at the weekly Treasury auctions, but not without a knock-on cost to banks. These buyers are expected to free up cash for their purchases by liquidating bank deposits, exacerbating a capital flight that's led to a cull of regional lenders and destabilised the financial system this year. The government's growing reliance on so-called indirect bidders has been evident for some time, according to Althea Spinozzi, a fixed-income strategist at Saxo Bank. "In the past few weeks we have seen a record level of indirect bidders during US Treasury auctions," she says. "It's likely that they'll absorb a big part of the upcoming issuances as well." For now, relief about the US avoiding default has deflected attention away from any looming liquidity aftershock. At the same time, investor excitement about the prospects for artificial

intelligence has put the S&P 500 on the cusp of a bull market after three weeks of gains. Meanwhile, liquidity for individual stocks has been improving, bucking the broader trend. But that hasn't quelled fears about what usually happens when there's a marked downturn in bank reserves: Stocks fall and credit spreads widen, with riskier assets carrying the brunt of losses. "It's not a good time to hold the S&P 500," says Citigroup's Willer. Despite the AI-driven rally, positioning in equities is broadly neutral with mutual funds and retail investors staying put, according to Barclays Plc. "We think there will be a grinding lower in stocks," and no volatility explosion "because of the liquidity drain," says Ulrich Urbahn, Berenberg's head of multi-asset strategy. "We have bad market internals, negative leading indicators and a drop in liquidity, which is all not supportive for stock markets."

# Surging US megacap stocks leave some wondering when to cash out

**Reuters**  
New York

As the US stock market continues its climb, investors holding shares of the massive tech and growth companies leading the charge are debating whether to cash out or stay on for the ride.

A record \$8.5bn flowed into tech stocks in the latest week, data from BofA Global Research showed, as investors piled into a rally that has seen the tech-heavy Nasdaq 100 gain 33% in 2023. The benchmark S&P 500 has risen 11.5% this year and stands at a 10-month high.

Yet others see reasons for caution. Among them is the narrowness of the market's rally: the five largest stocks in the S&P 500 have a combined weighting of 24.7% in the index, a record high dating back to 1972, Ned Davis Research said in a recent report. The heavy weightings could mean more significant fallout for broader markets should those names falter.

"We had this big run and the essential question is, do you believe it's going to continue or do you believe things are going to return to the mean?" said Peter Tuz, president of Chase Investment Counsel.

Excitement over advances in artificial intelligence is a key factor fuelling gains in megacap stocks. Big movers include shares of Nvidia, which are up about 170% this year, while Apple and Microsoft, the top two US companies by market value, have both climbed nearly 40%.

Jay Hatfield, CEO of hedge fund InfraCap, believes excitement over AI will keep boosting



The front facade of the New York Stock Exchange. As the US stock market continues its climb, investors holding shares of the massive tech and growth companies leading the charge are debating whether to cash out or stay on for the ride.

megacap stocks. He is overweight megacaps, including Nvidia, Microsoft and Google-parent Alphabet.

"We 100% believe in the AI boom," Hatfield said. "I would be shocked if by the end of the year these stocks are not significantly higher." Data on Friday showed US job growth accelerating in May, even as a jump in the unemployment rate suggested labour market conditions were easing, boosting investors' appetite for stocks amid hopes that the Federal Reserve will be able to bring down inflation without badly hurting growth. The S&P 500 rose 1.45%. Megacap stocks led markets

for much of the decade after the financial crisis and betting against them has been a perilous strategy in 2023. Investors' allocation to cash is higher than it has been historically, data from BofA showed, which some market observers believe leaves plenty of fuel to push the rally further.

Strong momentum can also continue to propel stocks higher.

Michael Purves, CEO of Tall-backen Capital Advisors, wrote earlier this week that technical analysis showed the Nasdaq 100 is overbought, a condition that can make an asset more vulnerable to sharp declines. However, the index managed to rally an-

other 10% over three months when it reached the same condition two years ago, according to Purves.

The recent surge in Nvidia showed how a stock can keep climbing even after posting hefty gains. Shares were already up 109% heading into its May 24 earnings report, but rose another 30% in the past week after the chipmaker's surprisingly upbeat sales forecast. Kevin Mahn, chief investment officer at Hennion & Walsh Asset Management, said shares of Nvidia, which now trade at 44 times forward earnings estimates, according to Refinitiv Datastream, have become

"a little rich." "I still like the technology sector over the next two years, but I now have to be a lot more focused on valuation before the run up in a lot of these megacap stocks," said Mahn, who says Microsoft shares remain attractive due in part to the company's impressive cash flow and healthy dividend yield.

Others are growing wary, citing factors such as rising valuations and signs that the rest of the market is languishing while a small cluster of stocks soars.

The performance of just seven stocks, Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms and Tesla, accounted for all of the S&P 500's 2023 total return through May, according to S&P Dow Jones Indices.

At the same time, only 20.3% of S&P 500 stocks have outperformed the index on a rolling three-month basis, a record low dating back five decades, according to Ned Davis. Levels below 30% have preceded weaker performance for the broader market, with the S&P 500 rising 4.4% over the next year versus an average of 8.2% for all one year periods, the firm's research showed.

David Kotok, chief investment officer at Cumberland Advisors, in recent days pared back holdings of the iShares semiconductor ETF following the latest spike in shares of Nvidia.

Kotok views narrowing breadth as an ominous sign for the broader stock market, saying that equities also look less favourable in certain asset valuation metrics. In one commonly used valuation metric, the S&P 500 is trading at 18.5 times forward earnings estimates compared to its historic average of 15.6 times, according to Refinitiv Datastream.

# In challenge to Meta, Apple expected to unveil mixed-reality headset

**Reuters**  
San Francisco

Apple Inc is widely expected to announce a new headset that will blend video of the outside world with the virtual one at its annual software developer conference this week.

Apple CEO Tim Cook and Meta Platforms Inc's CEO, Mark Zuckerberg, are jockeying to define how consumers will put to use a new generation of technology where real and digital worlds converge.

Zuckerberg has laid out a vision of the "metaverse," a parallel digital universe where people will gather together to work and play, and has had products out for years.

Apple marketing chief Greg Joswiak, by contrast, recently called the metaverse "a word I'll never use." And Apple's device so far is just a rumour. Apple's presentations at its Worldwide Developers Conference start in California today. Until now, the company best known for iPhones has limited its augmented-reality efforts to technology that works on existing devices, for instance by enabling retailers' apps to show virtual furniture in a customer's living room.

"Meta and Apple are competing with each other. The difference is that Meta is doing it publicly, while Apple is doing it privately," said Anshel Sag, principal analyst at Moor Insights & Strategy.

Analysts say that the Apple device, which Bloomberg has reported could cost near \$3,000 and look like a pair of ski goggles, is a place holder of sorts. The Cupertino, California, company's grand vision remains to produce a pair of transparent glasses that overlay digital information on the

real world and can be worn all day, every day, those analysts say, but in the face of competition, it decided to launch its own goggles. Apple declined to comment on its future plans and products.

The technology for Apple glasses remains years away, and in the meantime, Apple's rivals such as Sony Group Corp and Pico, which is owned by TikTok parent ByteDance, have released mixed-reality headsets that hint at what is possible by blending the real and virtual worlds. Meta Platforms this week announced its Quest 3 headset for \$500, after last year's release of the Quest Pro, which sells for \$1,000.

Apple has been pushing augmented-reality features for its iPhones and iPads since 2017, but its mainstream uses have remained limited to mostly furniture-shopping apps and a handful of games.

Part of the reason Apple has kept its efforts private, analysts say, is that no one in Silicon Valley is quite sure how people will eventually use mixed- or augmented-reality technology, which industry insiders call "XR" for short. There is no "killer app" for the device yet.

So rather than target a mass-market price point, Apple appears to be readying a premium device that is aimed at showing software developers what is possible so they can come up with compelling apps.

"No one there believes this market is anywhere near ripe in the foreseeable future," said Ben Bajarin, chief executive and principal analyst at Creative Strategies.

The biggest risk for Apple is putting its reputation for polished products on the line while engaging in a costly battle with Meta for dominance over a market that barely exists yet.

# Wall Street misses out on unexpected rally in local EM bonds

**Bloomberg**  
New York

Wall Street is caught by surprise by a rally in local emerging-market debt, an asset class that's been largely abandoned by foreign investors after a decade of underperformance.

Domestic-currency bonds are this year's developing-world winners, handing money managers far stronger returns than hard-currency debt or equities, according to data compiled by Bloomberg. BlackRock Inc has started calling local notes an attractive bet, while strategists from JPMorgan Chase & Co lauded them as the "star" fixed-income segment of 2023.

So far this year, domestic bonds from Colombia, Hungary, Brazil, Mexico, Peru and Poland have given double-digit returns to holders — many of whom are local.

Resident investors have taken centre stage in recent years as overseas money managers pulled out of riskier bets. Foreign ownership of local debt fell to historic lows in the fourth quarter, capping an exodus that spanned the Covid pandemic, Russia's invasion of

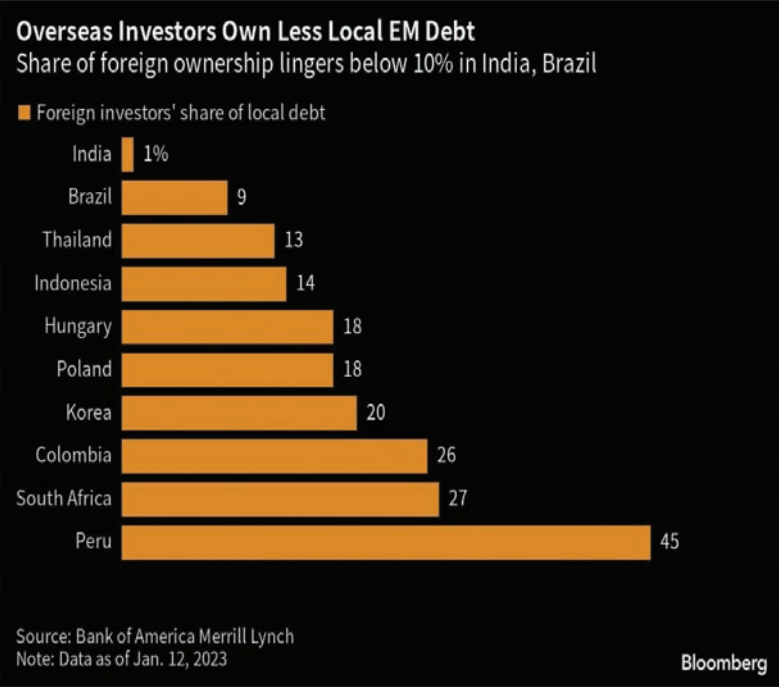
Ukraine and the world's most-recent interest-rate hiking cycle.

"Clearly, anyone reducing in the fourth quarter of last year should have held on," said Kieran Curtis, director of investment at abrdn in London. "We knew inflation and monetary policy would be peaking over the longer term and certain key countries have had swings in current accounts from deficits to surpluses."

Emerging-market local-currency bonds have returned 2.2% this year, compared with a 1.6% advance by EM sovereign dollar debt and a 0.6% gain in developing-country equities, as of June 1.

Non-residents cut their holdings of local Mexican bonds to the lowest in 12 years, according to data from Banco de Mexico. For Brazil, foreign ownership fell to a post-2009 low in August. In Hungary, such holdings dropped to an almost three-year low in October and in Poland they hit a post-financial crisis low in September.

The reduced role of foreigners, and with EM debt funds still struggling to attract clients into local-bond funds this year, has made this fixed-income segment less exposed to finicky hot-money flows.



"Whenever there was a risk-off sentiment globally, foreigners would just dump these local-currency bonds,"

said Jitanita Kandhari, deputy chief investment officer and head of macroeconomic research for emerging

markets at Morgan Stanley Investment Management. "And now, because their ownership is low that vulnerability has reduced. I think that investors are now going to start looking at this asset class more closely."

Local-currency bonds from countries with high interest rates offer an attractive bet, BlackRock money manager Amer Bisat said, adding the shorter-maturity notes offer an "all-in yield" as bond curves are inverted. Bisat is finding opportunities in countries like Indonesia, Czech Republic, Poland, South Korea and Taiwan, saying that prioritising higher-quality credits is the now key part of EM investing.

Nevertheless, global investors remain reluctant to buy local debt, which has both currency and credit risk, especially amid weak US economic prospects, JPMorgan strategists Jonny Goulden and Saad Siddiqui wrote.

The segment's long-term underperformance has been staggering. Local EM debt has handed only a 12% return over the past decade, while developing-nation sovereign and corporate dollar bonds were at 18.4% and US junk-rated credit at 48%, data compiled by Bloomberg show.

"Ahead of a likely US recession, adding a risky fixed income asset class such as EM local bonds that you have not been much involved with for a decade might be a step too far," Goulden and Siddiqui wrote.

Magdalena Polan, the head of emerging-market macro research at PGIM Fixed Income, said the rally in the segment could be "quickly reversed" as inflation remains sticky in parts of the developing world, dashing some bets for rate cuts over the near-term.

State Street Global Advisors said local currency debt could benefit via the currency channel, seeing plenty of scope for dollar weakening.

Currencies of countries whose bonds are in a benchmark EM local debt index may be nearly 10% undervalued versus the dollar, according to the firm.

"There remains plenty of scope for dollar depreciation to continue supporting returns," said Jason Simpson, a senior fixed income strategist at State Street.

"Some investors may feel that the best days of EM are already past. However, history suggests that periods of strong returns can persist."



# 'New oil' can boost prospects for conventional oil and gas

By Fahad Badar

**AI can transform the efficiency of production of oil and gas, while greatly assisting the switch to a net-zero economy**

Data is sometimes described as the 'new oil', and the economic power of deploying big data sets is in continuing, dramatic growth with the development of sophisticated forms of artificial intelligence (AI).

'New oil' is also playing a powerful role in the way in which 'old oil' as an industry adapts to historic changes. While there is a substantial switch away from fossil fuels for transport and generating electricity, oil and gas have many more applications, for example as transition fuels and in production of plastic components, which are widely used, including in cleaner technology such as electric vehicles.

In the need to lessen environmental impact in all aspects of the oil and gas industry and boost efficiency,



AI systems will be an increasingly important technology. As a sector, AI in oil and gas is expected to register a compound annual growth rate of over 10% during the period to 2027. For Qatar, there is a historic opportunity to sustain the oil and gas industries, enable them to be more sustainable, and to diversify the economy and

become a world-class centre for AI technologies. There are positive signs that this is occurring. There is a strategy to place AI at the centre of economic development set out in a policy document produced by the Ministry of Communications and Information Technology, together with Hamad Bin Khalifa University and the Qatar Computing Research Institute. AI can help ensure dramatic improvements in the oil and gas industry in three critical areas: Efficiency and cost savings, lower environmental impact, and enhanced employee safety. Qatar can be a world leader in all three areas. There are applications for AI across the full range of activities in the oil and gas industry. Some of the examples are summarised below: **Exploration and production:** AI has a role from the first part of exploration, powering robots that can detect oil seeps and reserves deep below the surface, including below the ocean. They can analyse semantic waves and help discover the presence of

hydrocarbons with minimal effort and rapidly. AI tools improve the accuracy of mapping natural oil deposits; they can be used to forecast reservoir volumes, and incorporate data on both reserves and market trends into business modelling.

**Drilling and refining:** Drilling can be focused and precise. AI can identify the best drilling locations and predict drilling risks. It enables accurate daily, monthly and lifetime production forecasting, and detection of defects and anomalies.

**On-field equipment and services:** Exploration, extraction, production and refining are interdependent processes. If data is kept in silos this prevents optimal coordination; AI has the computational power to coordinate the whole, significantly improving overall efficiency.

All equipment used in the industry has a finite lifespan. Predictive maintenance involves using AI tools to detect when a component, such as a valve or section of pipe, is near to the end of its life, so it can be replaced or repaired before

a breakdown, which would result in interrupted supply. Digital twin technology involves building a virtual replica of an operational part. This digital asset is continually updated with operational data, including from on-site sensors, and the AI algorithms monitor performance in real time, producing early signs of asset failure. Use of this technology is more cost-effective than deploying a team of maintenance staff, moreover it operates 24/7.

In addition, automation can improve the efficiency of back office operations, as in other sectors of industry.

**Logistics and transport:** Specialist AI tools for logistics can help optimise the operation of the entire supply chain. AI has the computational power to ensure optimal efficiency, informed by Internet-of-Things-linked sensors and intelligent devices throughout the processes, transmitting fleet data such as vehicle performance, fuel use, and inventory. All these operational improvements minimise environmental harm

while enhancing business efficiency simultaneously. Accurately targeting places for drilling significantly reduces the disruption of traditional, more random approaches.

And there are further improvements to environmental protection through the use of AI: Carbon capture systems can be enhanced, for example to determine the optimum amount of CO2 that can safely be stored in a site of porous rock. AI tools are also used to monitor and help reduce CO2 emissions in production and transport. Qatar has a coherent plan to build an advanced AI industry, including specialist applications to boost sustainable fossil fuel production that will remain at the heart of economic development for some time to come. There are historic transitions under way in both computing technology and oil and gas. Qatar is set to be a leader in both.

■ The author is a Qatari banker, with many years of experience in the banking sector in senior positions.

# Uzbekistan is important gateway to large market, says QBA chairman

QNA  
Doha

HE the Chairman of the Qatari Businessmen Association (QBA) Sheikh Faisal bin Qassim al-Thani said that as part of its strategy to diversify and expand its revenues within the framework of the global trend of finding sources of income other than energy, the State of Qatar is interested in building economic relations with the countries of the world.

Therefore, it has worked over the past years to expand its relations with the countries of Central Asia because of the economic and investment opportunities in them and the potential of bringing great benefits to both sides.

With regard to His Highness the Amir Sheikh Tamim bin Hamad al-Thani's upcoming visit to Uzbekistan, the first leg of a Central Asian tour, HE Sheikh Faisal bin Qassim al-Thani said in remarks to QNA, that the visit is important, as this country possesses natural resources and natural gas, which opens the way for Qatari companies to invest in it in the sectors of energy, agriculture, medicine, banking, halal industry, and others, pointing that Uzbekistan has carried out legislative reforms and issued economic laws, which contributed to increasing its attractiveness to invest-

ment. He added that Uzbekistan is an important gateway to a market with more than 300mn consumers due to its strategic geographical location in Central Asia.

"We have great interest in developing trade and economic relations with Uzbekistan, due to the importance of the agricultural sector," he said explaining that Uzbekistan exports 60% of its agricultural products to Asian countries and Russia.

The Chairman of QBA stressed the importance of establishing a joint business council between businessmen between the two countries, which facilitates communication and identifying available opportunities, and enhances possibilities for establishing effective partnerships between Qatari and Uzbek companies.

He also underlined Qatari Businessmen Association's readiness to participate in such councils.

Concluding his remarks to QNA, HE the Chairman of QBA said: "We call on friendly countries to establish a joint fund between the associations and companies in these countries, and the governments can also participate in it, as it facilitates the process of exploring opportunities in various fields, in addition to exporting products. and marketing them around the world."



## QSE surges 188 points on foreign funds' buy support; M-cap adds QR10.18bn

By Santhosh V Perumal  
Business Reporter

THE Qatar Stock Exchange (QSE) yesterday opened the week on a stronger note with its key index gaining as much as 188 points, reflecting last week's optimism in view of an expected pause in rate hike in the US.

An across the board buying - particularly in industrials, banking and telecom counters - led the 20-stock Qatar Index surge 1.84% to 10,397.01 points.

The foreign institutions turned net buyers in the main market, which however recovered from an intraday low 10,249 points.

More than 79% of the traded constituents extended gains to investors in the main bourse, whose year-to-date losses narrowed further to 2.66%.

The Gulf institutions continued to be bullish but with lesser vigour in the main bourse, whose capitalisation shot up QR10.18bn or 1.68% to QR616.14bn, mainly on account of large and midcap segments.

The Arab retail investors were also seen net buyers but with lesser intensity in the main bourse, which saw a total of 13,198 exchange traded funds (sponsored by Masraf Al Rayan and Doha Bank) valued at QR0.5mn changed hands across nine deals.

The domestic institutions were increasingly into net selling in the main market, which saw no trading of sovereign bonds.

The Islamic index was seen gaining slower than the other indices in the main market, which saw no trading of treasury bills.

The Total Return Index zoomed 1.84%, All Share Index by 1.74% and Al Rayan Islamic Index (Price) by 1.67% in the main bourse, whose trade turnover and volumes were on the decline.

The industrials sector index plummeted 2.03%, banks and financial services (1.89%), telecom (1.86%), insurance (1.79%), realty (1.37%), consumer goods and

services (1.21%) and transport (0.62%).

Major gainers in the main market included Qatar General Insurance and Reinsurance, Mannai Corporation, Industries Qatar, Al Khaleej Takaful, Mesaieed Petrochemical Holding, Aljjarah Holding, Commercial Bank, Qatari Islamic Bank, QNB, Masraf Al Rayan, Leshia Bank, Widam Food, Mekdam Holding, Qatar Electricity and Water, Mazaya Qatar and Ooredoo.

Nevertheless, Dlala, Qatari German Medical Devices, Estithmar Holding, Medicare Group and Al Meera were among the shakers in the main market. In the venture market, Al Faleh Educational Holding saw its shares depreciate in value.

The foreign funds turned net buyers to the tune of QR44.33mn compared with net sellers of QR67.52mn on June 1.

However, the domestic institutions' net profit booking grew substantially to QR31.21mn against QR0.69mn last Thursday.

The Qatari individuals turned net sellers to the extent of QR29.03mn compared with net buyers of QR27.34mn the previous trading day.

The foreign individual investors were net sellers to the tune of QR.42mn against net buyers of QR0.87mn on June 1.

The Gulf retail investors turned net profit takers to the extent of QR0.11mn compared with net buyers of QR0.77mn last Thursday.

The Gulf institutions' net buying declined noticeably to QR13.07mn against QR21.18mn the previous trading day.

The Arab individuals' net buying weakened markedly to QR5.36mn compared to QR18.08mn on June 1. The Arab institutions continued to have no major net exposure for the second straight session.

The main market saw about 1% dip in trade volumes to 186.89mn shares, 21% in value to QR468.99mn and 29% in deals to 16,455.

## Masraf Al Rayan receives 'Excellence in Business Award' from Visa

Masraf Al Rayan has received the 'Excellence in Business Award' presented by global digital payments leader, Visa.

This prestigious honour acknowledges the bank's exceptional business expansion and notable contributions to promoting digital payment solutions in the region. Specifically, Masraf Al Rayan has demonstrated excellence in implementing and endorsing tokenised card payments via Apple Pay and Google Pay.

Rana al-Asaad, GM Retail & Private Banking at Masraf Al Rayan, said: "We are thrilled to receive this esteemed award from Visa. It serves as a testament to the dedication, creativity, and innovative mindset of our team. Our primary goal has always been to provide secure, convenient, and cutting-edge banking solutions to our customers, and this recognition reaffirms our success in achieving that."

The bank's commitment to digitisation has resulted in the successful adoption of tokenised card payments. By offering this technology through Apple Pay and Google Pay, Masraf Al Rayan has empowered customers



with a secure and user-friendly platform for making payments. Consequently, this has driven substantial business growth and heightened customer satisfaction.

"We're recognising Masraf Al Rayan for their efforts in digitising money movement and leveraging technology to benefit the payments ecosystem. Through their implementation and promotion of tokenised card payments via mobile wallet, they have not only fuelled their business expansion but also laid the groundwork for a more secure and seamless payment experi-

ence for consumers and local businesses," Shashank Singh, Visa's general manager for Qatar & Kuwait, said.

Visa's 'Excellence in Business Award' is presented to entities that exhibit extraordinary business growth, embrace innovation, and make significant contributions to advancing the payment industry.

Al-Asaad affirmed the bank's dedication to delivering state-of-the-art banking solutions and providing a unique banking experience for customers. She said: "We remain committed to our ongoing efforts in this regard. We extend our gratitude to Visa for acknowledging our achievements, and we eagerly anticipate our continued partnership in advancing the payment industry."

Masraf Al Rayan is one of the leading Islamic banks in Qatar with a commitment to providing innovative and secure banking solutions. The bank is at the forefront of digital banking innovation, having implemented and promoted tokenised card payments through Apple Pay and Google Pay, thereby revolutionising the customer experience.

