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QSE sustains bullish run as index gains 0.8%; M-cap adds QR2.31bn

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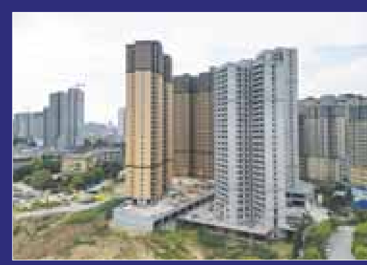

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China's economy shows more signs of stability on policy boost

Philippines eyeing Gulf region for new players in Islamic banking sector

By Peter Alagos
Business Reporter

Significant developments in the Philippines' Islamic banking and finance sector have "set the stage" to welcome new players, including banks in Qatar, an official of the Bangko Sentral ng Pilipinas (BSP) has said.

During a panel discussion held recently on the sidelines of the 'PH Dialogue: Economic Outlook and Opportunities' in Doha, BSP Assistant Governor Arifa A Ala told *Gulf Times* that the Islamic Banking Law or 'Republic Act (RA) 11439' has liberalised the ownership of banks in the Philippines and provided greater flexibility.

"One mode of operating in the Philippines is that a foreign bank, such as a bank from Qatar, can own up to 100% of an existing bank in the Philippines. It can also be through a branch. It can establish a branch in the Philippines or it can be through the creation of a subsidiary, fully owned by the foreign bank," Ala explained.

"It can be a full-fledged Islamic bank or it can also be an Islamic Banking Unit, so the law has provided the government with full flexibility in terms of the structure of the Islamic banking operations," she continued.

Ala further stressed that the Philippine government has also established the Shariah Supervisory Board through the joint efforts of the Department of Finance, the BSP, the National Commission on Muslim Filipinos, and the Bangsamoro Government.

"The primary responsibility of the Shariah Supervisory Board is to issue opinions on Shariah compliance of Islamic banking products, so we have set the stage; we have established the key and necessary infrastructure that will make the operation of an Islamic bank in the Philippines viable," Ara pointed out.

The 'PH Dialogue' gathered Qatari private sector officials and representatives from Qatar's business community, who witnessed a keynote address from the Philippines' finance secretary, Benjamin E Diokno. Diokno led a high-level economic delegation to Qatar, including BSP Deputy Governor Francisco G Dakila Jr, Department of Budget and Management Secretary Amenah F Pangandaman, and National Economic and Development Authority Secretary Arsenio M Balisacan.

From left: Department of Budget and Management undersecretary Margaux Marie V Salcedo; Department of Budget and Management secretary Amenah F Pangandaman; Department of Finance secretary Benjamin E Diokno; National Economic and Development Authority secretary Arsenio M Balisacan; Bangko Sentral ng Pilipinas deputy governor Francisco G Dakila Jr, and Bangko Sentral ng Pilipinas assistant governor Arifa A Ala during the 'PH Dialogue: Economic Outlook and Opportunities' held recently in Doha. **PICTURE:** Thajudheen

During the panel discussion, Balisacan also told *Gulf Times* that the Philippines is welcoming foreign direct investments (FDI) to aid the country's energy sector as it transitions to renewable and cleaner sources of energy.

"We have a plan for energy transition and that is to increasingly move our energy consumption from traditional ones to cleaner technologies, including renewable energy. That's what we are looking at and so, we welcome investment in those areas.

"We are in a hurry to move in that direction because we have this opportunity to move the sourcing of energy as we are transforming the economy, and we need a lot of energy to get the economy moving rapidly," Balisacan stressed.

Balisacan's presentation during the dialogue revealed that FDI in the Philippines' energy sector "will be pivotal to the country's socio-economic transformation."

"By 2030, the Philippines will require a 35% renewable energy (RE) share in its power generation mix and 50% by 2040 under the Clean Energy Scenario of the Philippine Energy Plan 2020-2040. This requires a total investment amount of about P5.8tn or $103.6bn in RE power projects by 2040," Balisacan said.

In 2021, Qatar announced the North Field Expansion project, which comprises North Field South and North Field East that will increase the country's liquefied natural gas (LNG) production to 126 mtpy by 2026 or 2027.

Department of Energy Secretary Raphael P M Lotilla, in his message in the Natural Gas Development Plan (NGDP), stated that "the Philippines is facing a significant challenge with respect to the natural gas supply."

The NGDP was completed by the Department of Energy and the Philippines Statistical Centre Research Foundation, Inc in September 2022.

The plan aims to attract investments in the country's downstream natural gas industry.

Lotilla's message in the NGDP further stated: "Part of our efforts to address this challenge is to look for alternative sources of natural gas. It also aligns with our goal of transitioning to cleaner energy and a low-carbon future.

"We acknowledge, however, that looking for alternative sources of natural gas and transitioning to cleaner energy sources, such as liquefied natural gas, would require corresponding infrastructures in place.

And this would also require an investor's substantial capital investment."

Edaa modifies foreigners' ownership limit of Milaha, Qatar Electricity and Water Company

QNA
Doha

Edaa company has modified the foreigners' ownership limit of Qatar Electricity and Water Company and Qatar Navigation Company (Milaha) to be 100% of the capital.

In two press releases issued by Edaa on Thursday and published on the Qatar Stock Exchange (QSE) website, the company indicated that the foreigners' ownership limit of Qatar Electricity and Water Company has been modified to become 100% of the capital, which is equal to 1,100,000,000 shares.

The foreigners' ownership limit of Milaha has also been changed to become 100% of the capital, which is equal to 1,136,164,750 shares.

Edaa is the licensed service provider under the Qatar Financial Market Authority (QFMA) that provides a range of essential services related to securities and financial instruments. The company's core services include safekeeping, clearing, and settlement of securities and other financial instruments listed on the QSE.

GCC banks' capital buffers to remain 'comfortable', says S&P

By Santhosh V Perumal
Business Reporter

The Gulf Co-operation Council (GCC) banks' capital buffers will remain "comfortable," while a slowdown in credit growth and higher earnings will contribute to the GCC lenders' "stable" capital metrics, according to Standard and Poor's (S&P), a global credit rating agency.

"The GCC banks have always operated with comfortable capital buffers, and we do not expect this to change," S&P said in a recent report.

Finding that slower credit growth and higher earnings mean that the GCC banks' capital metrics will remain "stable", it said the banking systems in Saudi Arabia, the UAE, Qatar, and Kuwait reported a Tier 1 regulatory capital ratio of 15% and above in 2022.

The report highlighted that higher interest rates will reduce GCC banks' credit growth, but Saudi and UAE banks' performance will be more "resilient".

S&P expects higher interest rates will reduce Kuwaiti banks' credit growth to about 3%, from almost 8% in 2022, and soften Saudi banks' total lending growth to about 10% in 2023, from 14% in 2022. The UAE banks, on the other hand, will benefit from still robust non-oil GDP (gross domestic product) growth, which will somewhat mitigate the negative effect of higher interest rates on credit growth, according to S&P.

Expecting the UAE banks' credit growth to improve to approximately 7% in 2023 compared with 5% in 2022; the rating agency said yet, a long period of higher interest rates and the slowdown of the oil economy could pose challenges.

Qatari banks, unlike their GCC peers, will continue to experience a sharper decline in credit growth. This is because the country's main infrastructure projects, which are a key driver for credit demand through contractors, were completed in time for the 2022 FIFA World Cup.

Even though credit costs in the GCC region, with the exception of the UAE, will increase, "we still expect the GCC banks' return on assets (ROA) will improve in 2023, mainly due to higher margins and still satisfactory, albeit lower, lending growth in some GCC countries," it said.

Al Tadamon Motors & Trading joins Qatar Credit Bureau

The agreement was signed by CEO of Qatar Credit Bureau Sheikha Maryam bint Khalifa al-Thani, and Ali Abdulrahman al-Muftah on behalf of Al Tadamon Motors & Trading.

QNA
Doha

The Qatar Credit Bureau (CB) announced that Al Tadamon Motors & Trading has joined the Bureau's membership, becoming one of the member institutions and companies that benefit from the services and products provided by CB.

The agreement was signed by CEO of Qatar Credit Bureau Sheikha Maryam bint Khalifa al-Thani, and Ali Abdulrahman al-Muftah on behalf of Al Tadamon Motors & Trading.

Sheikha Maryam bint Khalifa al-Thani stated that under the agreement, the CB and Al Tadamon Motors & Trading will exchange credit information of the company's customers in accordance with the CB's regulations and laws.

The joining of Al Tadamon Motors & Trading falls within CB's strategy to include sectors that provide credit services in the country in its membership with the aim of expanding its database and further develop its services to members and customers, she explained.

The first phase included the joining of banking and financial companies, while the second phase included communications and automobile companies.

The Bureau aims to expand its membership to include various sectors in Qatar.

Al Tadamon Motors & Trading affirmed its commitment to ensuring the protection of data and information of all its customers, and ensuring that customers' credit information is reviewed with their consent and in accordance with the CB.

This cooperation aims to develop electronic work in exchanging information between Al Tadamon Motors & Trading and the CB in line with Qatar National Vision 2030, as the electronic linking process between the two sides helps speed up the completion of transactions to serve all members of society.

The CB aims to contribute to building a credit system with a high degree of efficiency and stability, by providing accurate and comprehensive credit information based on international and advanced standards and technology, in addition to improving the ways that customers with a good credit rating can benefit from the credit facilities by credit providers, as well as reducing the incidence of debt write-offs or defaults, thus reducing credit risks.

Under this agreement, the CB will allow Al Tadamon Motors & Trading to view customers' credit reports with their approval, which will contribute to credit growth, reduce risks and help in the growth and development of Qatar's economy.

Through the reports, the company will also be able to analyse the data and make proper decisions in the future that meet the needs of the consumer and reflect positively on the economy of Qatar.

China's economy shows signs of stability on policy boost

Reuters
Beijing

China's factory output and retail sales grew at a faster pace in August, but tumbling investment in the crisis-hit property sector threatens to undercut a flurry of support steps that are showing signs of stabilising parts of the wobbly economy.

Chinese policymakers face a daunting task in trying to revive growth after a brief post-Covid bounce in the wake of persistent weakness in the crucial property industry, a faltering currency and weak global demand for its manufactured goods.

Industrial output rose 4.5% in August from a year earlier, data released yesterday by the National Bureau of Statistics (NBS) showed, accelerating from the 3.7% pace in July and beating expectations for a 3.9% increase in a Reuters poll of analysts. The growth marked the quickest pace since April.

Retail sales, a gauge of consumption, also increased at a faster 4.6% pace in August aided by the summer travel season, and was the quickest growth since May. That compared with a 2.5% increase in July, and an expected 3% rise.

The upbeat data suggest that a spate of recent measures to shore up the economy are starting to bear fruit, prompting JP Morgan to raise its forecast of China's 2023 gross domestic product growth to 5% from prior 4.8%.

ANZ also upgraded its growth forecast for the world's second largest economy by 0.2 percentage points to 5.1%.

Yet, a durable recovery is far from assured, analysts say, especially as confidence remains low in the embattled property sector and continues to be a major drag on growth.

"Despite signs of stabilisation in manufacturing and related investment, the deteriorating property investment will continue to pressure economic growth," said Gary Ng, Natixis Asia Pacific senior economist.

The markets, however, showed relief at some of the better-than-expected indicators.

The Chinese yuan touched two-week highs against the dollar, while the blue-chip CSI 300 Index was up 0.2% and Hong Kong's Hang Seng Index climbed 1% in early morning trade. Further buoying sentiment, separate commodities data showed China's primary aluminium output hit a record-monthly high in August while oil refinery throughput also rose to a record.

An aerial view shows unfinished residential buildings of the Gaotie Wellness City complex in Tongchuan, Shaanxi province. China's factory output and retail sales grew at a faster pace in August, but tumbling investment in the crisis-hit property sector threatens to undercut a flurry of support steps that are showing signs of stabilising parts of the wobbly economy.

Yesterday's data followed better-than-expected bank lending figures, a narrowing in the declines of exports and imports as well as easing deflationary pressure.

China's passenger vehicle sales also returned to growth in August from a year earlier, as deeper discounts and tax breaks for electric vehicles boosted consumer sentiment.

To sustain the recovery momentum, China's central bank said on Thursday it would cut the amount of cash banks must hold as reserves for the second time this year to boost liquidity. Earlier in the day, the bank also rolled over maturing medium-term policy loans to inject more liquidity into the financial system.

But analysts say more fiscal and monetary policy steps are needed as an ailing property sector, high youth unemployment, uncertainty around household consumption and rising Sino-US tensions over trade, technology and geopolitics have raised the bar for a durable economic recovery in the near future.

"The reserve requirement ratio (RRR) cut yesterday sent an interesting signal that there is a sense of urgency to boost growth," said Zhiwei Zhang, chief economist of Pinpoint Asset Management, expecting more policies over the coming months to bolster overall demand.

Natixis' Ng said confidence remains the root of most problems requiring larger "constructive policy and regulatory changes" to boost growth momentum.

The once mighty property sector remains a drag on the $18tn economy, with the country's largest private developer Country Garden the latest to stumble due to a liquidity squeeze.

The fresh industry figures provided little comfort for policymakers and investors. For August, property investment extended its fall, down 19.1% year-on-year from a 17.8% slump the previous month, according to Reuters calculations based on NBS data.

Government revenue from state land sales fell for the 20th consecutive month in August, finance ministry data showed on Friday, weighing on the already debt-laden local governments' finances.

"We are still hopeful that housing sales would stage small sequential pickups in the coming months, but stimulus will ultimately stop short of reflating the sector," said Louise Loo, China Economist at Oxford Economics.

Other data, also released on Friday, showed weak investor confidence, with private investment shrinking 0.7% in the first eight months, deepening from the contraction of 0.5% in January-July.

Fixed asset investment expanded at a slightly slower pace of 3.2% in the first eight months of 2023 from the same period a year earlier, versus expectations for a 3.3% rise. It grew 3.4% in the first seven months.

Fed on alert for one more rate hike after 'disappointing' inflation

Bloomberg
Washington

Hotter-than-expected inflation likely ensures the Federal Reserve keeps its options open to raise interest rates again in November or December following an expected pause this month.

The so-called core consumer price index, which excludes food and energy costs, advanced 0.3% from July, the first acceleration in six months, Bureau of Labor Statistics data showed. From a year ago, it increased 4.3%, still well above the Fed's goal even as it was the smallest advance in nearly two years. "The core CPI is a bit disappointing," said Kathy Bostjancic, chief economist at Nationwide Life Insurance Co. "This will keep the Fed on a hawkish alert and suggests a rate hike is possible in November and December."

Fed Chair Jerome Powell said in late August at the Kansas City Fed's conference in Jackson Hole, Wyoming, that inflation remained too high, and central bankers were prepared to tighten more if necessary. The Federal Open Market Committee raised its benchmark rate in July to a range of 5.25-5.5%, a 22-year high, and its most recent projections had one more rate increase pencilled in for 2023.

Investors aren't sure another hike will happen. They see the Fed leaving rates unchanged at its September 19-20 policy meeting, and bets were less than even for an increase in November, according to futures.

"These data are supportive of a pause in September," said Rubeela Farooqi, chief US economist at High Frequency Economics. "However, the FOMC is not likely to declare victory until it sees further evidence of improvement towards the 2% target. They will remain open to further rate hikes, if needed." Treasury yields retreated to little-changed levels after the report, reflecting that the report hasn't much altered investors' view of the rate path significantly.

Excluding housing and energy, services prices rose 0.4% from July, the fastest in five months, and 4% from a year ago, according to Bloomberg calculations. The so-called supercore index has been seen as important because it is heavily influenced by the labour market, so a still-tight job market could keep these prices elevated for some time.

"We think the Fed is likely to look through the energy-price increase, but it's not clear they'll do the same for the increase in transportation services … Our baseline is still for the Fed to hold rates steady after September, but the risk of a rate hike in November has increased," say Anna Wong and Stuart Paul, analysts at Bloomberg.

While core inflation could be softer in September, "I continue to think we'll see a step up in the core rate in Q4 that could cause the Fed to pull the trigger on another hike at the December meeting," said Omair Sharif, president of Inflation Insights LLC.

Central bankers could be worried that surging energy prices may raise inflation expectations, which are seen as key to the inflation outlook. West Texas Intermediate oil prices rose to the highest level since November 11, as Opec data show global markets face a 3-mn-barrels-a-day shortfall next quarter.

The policy-setting FOMC has raised its benchmark federal funds rate 11 times since March 2022. Officials including Powell have emphasised that, as they near the end of their aggressive rate-hike cycle, they'll proceed carefully and rely on the data to determine whether further increases are needed.

Japan startup targets a Nasdaq IPO at $1bn value

Bloomberg
Tokyo

The maker of Japan's most popular voice-and-camera translator is fighting to differentiate itself as it pursues a listing on Nasdaq in two years at a billion-dollar valuation.

Pocketalk Corp, spun out of Tokyo-based Sourcenext Corp, sells handheld devices that can translate 85 languages. Since its launch in 2017, the startup sold a total of 1.1mn machines, with its recent Pocketalk S model priced at $249. It plans to sell another 1mn in 11 countries within three years through a partnership with SoftBank Group Corp's mobile unit.

Shares of parent Sourcenext jumped as much as 10% in Tokyo on the news on Friday, the biggest intraday gain in seven weeks. Pocketalk's endeavor at a global rollout and US listing stand out among Japanese startups, which tend to stay tethered to their home market, the world's third-largest economy.

Going abroad means facing a world awash with translation tools, including lineups from China's iFlytek Co, Timekettle and Cheetah Mobile Inc., as well as Vasco Electronics, founded in Poland. Pocketalk says its strength lies in its ability to choose from a pool of six to seven translation engines to yield the best results. The startup taps resources including translation services from Google, OpenAI and DeepL GmbH, using patented source code to provide the most accurate and natural translation, said Noriyuki Matsuda, chief executive officer of Pocketalk and parent Sourcenext.

"We choose the best, accurate engine for each combination," of source languages and translated texts, Matsuda said in an interview.

Translation apps have come a long way, but fall short in making conversations sound natural, Matsuda said. Pocketalk seeks to provide the kind of nuanced and context-based interpreting seen at high-level international summits, he said.

The company said its devices are used by automaker Subaru Corp's global design teams and by emergency room doctors in Tokyo Women's Medical University Hospital treating patients with limited Japanese language ability.

Backed by investors including Japan's ICT Fund and an affiliate of gaming company Koei Tecmo Holdings Co, the startup was valued at ¥23.7bn ($160mn) in a funding round last year. That's roughly a sixth of where it wants to be in two years.

To achieve the billion-dollar valuation, however, the company needs to become more than just Japan's de facto standard in translation, according to Daisuke Aiba, an analyst at Iwai Cosmo Securities Co.

"There's high potential for growth," Aiba said about Pocketalk's sales push in the US. Targeting overseas markets gives the company a better chance at getting AI investors' attention than limiting itself to Japan, he said. "Listing in the US should be able to raise a meaningful sum of money, although it's hard to say how much."

Worldwide language service sales came to about $67bn in 2022 and are estimated to reach about $99bn by 2028, according to market research company Imarc Group. Business would be tough, however, if free apps were to provide similar levels of accuracy in speech recognition in the future, Aiba said.

BoE turning gloomier on UK outlook brings rate pause into view

Bloomberg
London

As the UK's economic outlook gets cloudier, Bank of England (BoE) policymakers are suddenly speaking more clearly about the choice before them.

After disappearing for holiday for much of August, Governor Andrew Bailey and his Chief Economist Huw Pill have returned suggesting they're weighing when to halt the most aggressive tightening cycle in over three decades. Another policy maker, Catherine Mann, meanwhile signalled she'll vote for more hikes.

The remarks indicate that debate is intensifying on the nine-member Monetary Policy Committee about how the BoE should respond to inflation that remains the worst in the Group of Seven nations. With the UK economy shrinking sharply in the first month of the third quarter and surveys raising the risk of a recession, officials have been unusually candid about the choices they face.

Their comments also reflect the fire the BoE is under from members of Prime Minister Rishi Sunak's Conservative Party, who have fault Bailey for failing to move fast enough to contain inflation and think he may repeat the mistake as those pressures recede. For seasoned BoE watchers, the result may be a course-correction in a series of 14 consecutive rate hikes.

"We've had several comments now, which in isolation don't necessarily send a particularly strong signal, but I think it's when you add it all together," said James Smith, developed market economist at ING, who reads the latest comments as "laying the ground for a pause."

Investors are leaning towards another quarter-point increase in the BoE's key rate from 5.25% at the meeting on September 21, but doubts on markets over further hikes have mounted in recent weeks.

The odds of another hike after that are now just above 50-50, with investors cutting their peak rate bets by almost 20 basis points since the August vote.

That's a big shift in less than a month from the more than 6% that investors were pricing in for peak rates as recently as August 17.

Bank of England Governor Andrew Bailey.

While the BoE was first among the major central banks to start raising rates, inflation at 6.8% remains almost double the level in the US and still well above the euro area rate at 5.3%. But with the economy slowing, signs of the labour market weakening and the BoE estimating that much of the hikes to date have yet to hit the economy, the tone has shifted. Bailey, Pill, Deputy Governor Jon Cunliffe and external rate-setter Swati Dhingra have all stoked speculation with comments in recent weeks talking up the prospect of a turning point.

Bailey said monetary policy is "much nearer now to the top of the cycle," warning that previous tightening still has to come through the policy pipeline. Cunliffe pointed to "mixed signals about the economy," which is "what you expect when you come into periods where you might be close to turning points."

Dhingra, the most dovish BoE rate-setter, said that policy is "already sufficiently restrictive" and is consistently voting to hold rates steady.

In notably clear messaging at an appearance in Cape Town on August 31, Pill advocated a "Table Mountain" path for rates, a reference to the flat-topped landmark looming over the city. His suggestion is that instead of continuing to hike borrowing costs before later cutting, the BoE could deliver sufficient restraint to the economy by leaving them elevated for a longer period than markets expect.

That speech was remarkable for the BoE's often tight-lipped internal rate-setters — the governor, chief economist and three deputy governors — who usually avoid comment on the forward profile for rates.

While the US Federal Reserve releases "dot-plots" showing the outlook for each of its policy makers, the BoE's internal rate-setters have restricted how much they reveal, particularly after a number of data surprises in the UK.

The closest British investors have to a dot plot is in the fan charts projections, which point to where the BoE expects inflation and growth to head based on the current market expectations for rates. The BoE's practice has left investors surprised at some of the bank's decisions and often triggers criticism, most notably when a member of Parliament called former Governor Mark Carney "unreliable."

Bailey is starting to answer those concerns by naming former Fed Chair Ben Bernanke to review the BoE's economic modelling and communication. He's also defended criticism about "group think" at the BoE, noting deep divisions about how policy makers should address inflation from here.

The evolution in communications started at the August meeting, when the BoE added to guidance that has largely been untouched and repeated throughout the year. In addition to the usual pledge to tighten policy if evidence of inflation persistence continued, it included words vowing to leave rates in restrictive territory for a prolonged period. It was the first time in the cycle that rates were deemed to be in "restrictive" territory.

The internal rate-setters until now have opted for a "very deliberate fuzziness" in their communications, an ambiguity that could be to avoid giving "too firm a signal only to be wrong-footed by the data," said Andrew Goodwin, chief UK economist at Oxford Economics.

"There seems to be reluctance for Bank of England MPC members to nail their colours to the mask quite as explicitly," he said. "The externals seem to be much more comfortable with expressing their view."

Asia markets join global rally as China data beats forecasts

AFP
Hong Kong

Asian markets rallied yesterday as forecast-busting Chinese data boosted hopes the world's number-two economy may be stabilising after an extended slowdown.

The news out of Beijing, which followed a recent batch of encouraging figures, came a day after authorities further eased restrictions on banks in a bid to kickstart growth.

The region-wide gains built on a surge in New York and Europe fuelled by healthy readings on the US consumer sector and indications from the European Central Bank (ECB) that it may have reached the end of its interest rate hiking cycle.

The latest developments provided some much-needed relief to investors, who have endured a tough few weeks owing to concerns that a series of above-par economic figures will pressure the US Federal Reserve to lift borrowing costs once more this year. Traders cheered after data showed Chinese retail sales and industrial production jumped more than expected last month.

The figures were the latest suggesting the economy could be stabilising, with inflation, trade and services all showing a marked improvement in recent weeks.

They also came a day after the People's Bank of China announced a cut in the amount of cash lenders must hold in reserve, a decision aimed at freeing up cash for loans that can juice business activity. "The improvement in industrial production and retail sales is encouraging," Frances Cheung, of Oversea-Chinese Banking Corp, said.

"Recent economic data point to some stabilisation in economic activities."

However, officials added a note of caution with the latest readings, with the National Bureau of Statistics warning "there are still a lot of uncertainties and instabilities externally, and the domestic demand still appears insufficient".

While the government has unveiled a number of targeted, piecemeal measures to charge the economy, investors have for months been calling for a "bazooka" stimulus similar to that seen in 2008 during the global financial crisis.

Still, Hong Kong, Sydney, Singapore, Seoul, Taipei, Mumbai, Jakarta and Wellington were all well in positive territory.

Shanghai, however, struggled to maintain momentum and ended slightly down.

Tokyo jumped more than 1%, helped by a rally in tech investor SoftBank that came after the firm's chip design unit Arm soared 25% on its trading debut in New York.

London, Paris and Frankfurt were sharply higher in the morning.

"There's a growing sense of optimism among a cohort of investors who believe that Beijing's recent initiatives to stimulate the economy and stabilise financial markets are showing signs of success, following the sharp sell-off in August," said SPI Asset Management's Stephen Innes.

"However, it's essential to exercise caution, as it's still early in this process, and a single month of positive data isn't sufficient to confirm a sustained path to recovery."

Traders were given a solid platform to start the day after all three main indexes on Wall Street rallied on the back of figures pointing to a still-resilient US consumer sector.

The readings, which came with in-line wholesale inflation data, suggest the economy could be headed for a soft landing as the Fed tries to take the steam out of and bring down inflation by hiking interest rates.

They also all but confirmed the Fed will likely not lift rates next week, and while there is still the possibility of one more hike this year, traders remain optimistic.

"The Fed has indicated that they want to slow down the pace of rate increases, and for that reason they are still likely to keep rates unchanged at next week's meeting," Chris Zaccarelli at Independent Advisor Alliance said.

"But all of the data that is coming in higher than expected is going to put pressure on them to raise rates again at the following meeting." The ECB gave a strong hint it may be done with its monetary tightening campaign after pushing its rates to their highest level since the introduction of the euro in 1999 and forecasting inflation would come down to a near-target 2.1% in 2025.

"Risk markets are in a more buoyant mood at the end of this week, following a dovish ECB rate hike, an inline US inflation report and strong consumer spending and labour market data," said Tony Sycamore, an analyst at IG in Sydney.

In Tokyo, the Nikkei 225 closed up 1.1% to 33,533.09 points; Hong Kong — Hang Seng Index ended up 0.8% to 18,182.89 points and Shanghai — Composite closed down 0.3% to 3,117.74 points yesterday.

Savers with $7.5tn to invest are risk for Japanese yen

Bloomberg
Tokyo

Japan's plan to double household income from investing is shaping up as a catalyst for even longer-term weakness in the yen — already this year's worst-performing major currency.

Retail investors who've been pouring savings into overseas stocks and funds are expected to accelerate their purchases in 2024 — driving selling of the yen in the process — when the government permanently removes taxes on dividends and trading profits on a highly popular form of investment account for individuals.

While the Nippon Individual Savings Account, or NISA, allows Japanese to invest domestically or abroad, low yields at home and the yen's down trend has made foreign-currency investments increasingly attractive.

The value of foreign shares and investment-trust funds in NISA accounts has risen at an average annual pace of more than 30% since 2015, based on a Bloomberg analysis of public data.

The total amount as of the end of March stood at the equivalent of $50bn, only enough for marginal impact on the currency. But given the trajectory of NISA accounts, the tax incentives on the way, and a pool of household savings worth ¥1,107tn ($7.5tn) to draw on, the impact is set to increase.

Japan's plan to double household income from investing is shaping up as a catalyst for even longer-term weakness in the yen — already this year's worst-performing major currency

"The NISA expansion will surely boost portfolio outflows and investors making regular contributions into foreign assets may result in continuous yen selling," said Tsuyoshi Ueno, a senior economist at NLI Research Institute in Tokyo. "Low growth expectations and low yields locally mean money is more likely to flow out of Japan."

The NISA system was modelled on the UK's Individual Savings Account and designed to encourage Japanese individuals to make investments for their retirement rather than holding cash or savings accounts with near-zero interest rates. The most used type of account now allows holders to invest as much as ¥1.2mn annually, with a five-year period during which trading profits and dividends aren't taxed.

With Prime Minister Fumio Kishida aiming to double household income from investment earnings, changes to NISA from 2024 will triple the yearly investment limit to ¥3.6mn and remove the taxes indefinitely.

Japanese investment trusts have preferred foreign equities over local ones in recent years, which reflects a falling home bias among domestic investors, Shusuke Yamada, a foreign-exchange and rates strategist at Bank of America, wrote in a research note this month.

The yen has slumped 11% so far this year against the dollar, driven by a divergence in interest rates between Japan and the US that is unlikely to narrow significantly any time soon, even if the Bank of Japan edges toward normalisation of its monetary policy.

"The new NISA system is expected to change the investment scene drastically, especially helping to establish a custom of making regular contributions," said Takayuki Yagi, the deputy general manager of the NISA marketing office at Mitsubishi UFJ Kokusai Asset Management Co in Tokyo.

"If many people expect the yen to gradually depreciate in the medium to long term, it may encourage some of them to bet on the appreciation of foreign currencies and overseas investment."

Note on methodology of Bloomberg calculations: The Financial Services Agency reports the usage of NISA accounts every quarter without providing a breakdown of local and foreign assets. The share of foreign assets in investment funds was estimated using data from the Investment Trusts Association, while the Bank of Japan's flow-of-funds data were used to estimate a share of foreign equities.

EM stocks and currencies rise

Reuters
Singapore

Emerging market stocks were set for weekly gains yesterday, boosted by strong economic data from China and hopes of the US Federal Reserve standing pat on rates, while the Russian rouble firmed ahead of a widely expected interest rate hike.

MSCI's index for emerging markets equities rose 0.4% to hit an over one-week high.

The index is eyeing gains of 1.2% for the week as upbeat retail sales and industrial output data for August added to signs of stabilisation in China's economy, though a worsening slump in the property sector kept investors on edge.

China's blue-chip stocks gave up early gains to fall 0.7% while China's yuan climbed to its strongest level in two weeks and was on track for weekly gains of 1%.

JPMorgan and ANZ yesterday raised their 2023 GDP forecast for China by 20 basis points to 5% and 5.1% respectively.

Emerging market currencies rose 0.6% for the week but were subdued yesterday, while the dollar slipped from a six-month high hit in the previous session.

Robust economic data and easing core inflation in the US has boosted hopes that the Fed could keep rates unchanged on Sept 20. Russia's rouble gained 0.6% to 96.37 per dollar.

"Due to sanctions imposed by the West, the rouble is unavailable to many international investors and so raising interest rates might not have a strong impact on the currency," Piotr Matys, senior FX analyst at In Touch Capital Markets said.

Turkiye's lira edged up to 26.95 against the dollar after the government's budget showed a surplus of 51.27bn lira ($1.90bn) in August.

The Polish zloty inched up 0.1% versus the euro after data confirmed domestic inflation in August was unchanged at 10.1%.

The Czech crown a bright spot among central and eastern European currencies, gained 0.3%.

QSE sustains bullish run as index gains 0.8%; M-cap adds QR2.31bn

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

A strong start in the beginning of the week helped the Qatar Stock Exchange (QSE) sustain its bullish spell for the entire five trading sessions.

Foreign institutions were increasingly net buyers as the 20-stock Qatar Index gained 0.8% this week which saw Qatar's industrial production expand 4.2% year-on-year in June, 2023.

The transport, insurance and banking counters witnessed higher than average demand in the main market this week which saw Aamal Company acquire MMS (Maintenance and Management Solutions) for QR22mn from Al Faisal Holding.

The Gulf institutions were seen bullish in the main bourse this week which saw QSE announcement that Dukhan Bank will replace Vodafone Qatar in the 20-stock main barometer.

The foreign retail investors were increasingly net buyers in the main market this week which saw commercial banks in Qatar register a 2.9% year-on-year growth in assets this July. About 49% of the traded constituents extended gains this week which saw a Boston Consulting Group study that Qatar's financial wealth is projected to reach $388bn by 207.

The Arab individuals were net buyers in the main bourse this week which saw global credit rating agency Standard & Poor's view that Qatar's private sector credit growth is slated to ease significantly but higher interest rates would support profitability.

The Islamic index underperformed the other indices this week which saw a total of 0.12mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.27mn trade across 19 deals.

However, the local individuals were increasingly bearish in the main market this week which saw as many as 0.08mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.8mn change hands across 38 transactions.

Market capitalisation rose QR2.31bn or 0.38% to QR605.29bn on the back of small and microcap segments this week which saw the industrials and banks together constitute more than 63% of the total trade volume in the main market.

Foreign institutions were increasingly net buyers as the 20-stock Qatar Index gained 0.8% this week which saw Qatar's industrial production expand 4.2% year-on-year in June

The Total Return Index added 0.8%, the All Islamic Index by 0.18% and the All Share Index by 0.76% this week, which saw no trading of sovereign bonds.

The transport sector index shot up 4.15%, insurance (1.9%), banks and financial services (0.81%) and industrials (0.52%); while telecom declined 2.57% and real estate (0.57%). The consumer goods and services sector traded a flat path this week which saw no trading of treasury bills.

Major gainers in the main bourse included Al Khaleej Takaful, Meeza, Gulf International Services, Masraf Al Rayan, Milaha, Commercial Bank, Industries Qatar, Estithmar Holding, Qatar Insurance and Nakilat. In the venture market, Mahhar Holding saw its shares appreciate in value this week which saw Qatar witness 5% jump month-on-month in building permits issued in July 2023.

Nevertheless, Qatar General Insurance and Reinsurance, Inma Holding, Qamco, Doha Bank, Dukhan Bank, Dlala, Medicare Group, Salam International Investment, Mesaieed Petrochemical Holding, Ooredoo and Vodafone Qatar were among the loses in the main bourse.

In the venture market, both Al Faleh Educational Holding saw its shares depreciate in value this week which saw global index MSCI contemplate to enhance issuer interaction with listed firms on environment, social and governance.

The foreign funds' net buying increased substantially to QR50.42mn compared to QR8.18mn the week ended September 7.

The Gulf institutions turned net buyer to the tune of QR19.91mn against net sellers of QR70.88mn a week ago.

The foreign individuals' net buying expanded noticeably to QR17.67mn compared to QR5.77mn the previous week.

The Arab individuals were net buyers to the extent of QR5.32mn against net profit takers of QR11.09mn the week ended September 7.

However, the local individuals' net selling expanded significantly to QR74.28mn compared to QR5.06mn a week ago.

The domestic institutions were net sellers to the tune of QR11.46mn against net buyers of QR68.91mn the previous week.

The Gulf individuals turned net sellers to the extent of QR7.18mn compared with net buyers of QR4.17mn the week ended September 7.

The Arab funds were net profit takers to the tune of QR0.4mn against no major net exposure the previous week.

The main market witnessed a 24% surge in trade volumes to 1.27bn shares, 41% in value to QR3.58bn and 7% in deals to 103,630 this week.

In the venture market, trade volumes tanked 40% to 3.16mn equities, value by 43% to QR6.22mn and transactions by 56% to 428.

US factory production up slightly; inflation slowing

Reuters
Washington

US manufacturing output barely rose in August amid a decline in motor vehicle production, and activity could contract in the months ahead after the United Auto Workers (UAW) union embarked on strikes at three factories yesterday.

The strikes, which for now only involve 12,700 of the affected 146,000 UAW members, were launched at a time when manufacturing is already struggling under the weight of the Federal Reserve's hefty interest rate increases, which have reduced demand for goods, typically bought on credit.

"The risk is that action broadens over coming days," said Michael Pearce, lead US economist at Oxford Economics. "We estimate a total walkout would reduce motor vehicle output by over 30%, which will begin to show up in the September report." Factory output edged up 0.1% last month after rebounding 0.4% in July, the Fed said on Friday. The gain was in line with economists' expectations. Production was down 0.6% on a year-on-year basis in August.

Motor vehicle and parts output decreased 5.0%, almost reversing July's 5.1% surge, when it benefited from difficulties adjusting the data for seasonal fluctuations related to annual plant shutdowns for new model retooling.

Production of motor vehicles and parts was 5.9% higher on a year-on-year basis.

The UAW union began simultaneous strikes at three US factories owned by General Motors, Ford and Chrysler parent Stellantis. These companies account for about two-thirds of domestic motor vehicle production.

Manufacturing, which makes up 11.1% of the economy, was already on the ropes because of slowing demand for goods and higher borrowing costs for businesses and consumers. Since March 2022, the US central bank has raised its benchmark overnight interest rate by 525 basis points to the current 5.25-5.50% range.

Excluding motor vehicles, factory output increased 0.6% last month after being unchanged in July. It was, however, 1.1% lower compared to August last year.

There were increases in the output of primary metals, machinery, aerospace and miscellaneous transportation equipment as well as furniture and related products.

But production of wood products declined as did that of nonmetallic mineral products, fabricated metal products, and electrical equipment, appliances and components.

The industrial action in the auto sector could disrupt supply chains and push up motor vehicle prices, and unsettle a disinflationary trend that was becoming entrenched.

A separate report from the Labor Department yesterday showed import prices increased 0.5% in August as the cost of fuels accelerated after nudging up 0.1% in July.

But import prices declined 3.0% in the 12 months through August after decreasing 4.6% in July. Annual import prices notched their 7th straight monthly drop.

Excluding fuels and food, import prices decreased 0.2%, matching the decline in July. These so-called core import prices dropped 1.3% on a year-on-year basis in August. They added to data this week showing core consumer and producer prices rose moderately in August, which suggests inflation is making steady progress toward the Fed's 2% target.

Stocks on Wall Street were trading lower. The dollar fell against a basket of currencies. US Treasury yields rose.

Consumers are also expecting inflation to subside in the coming year. A report from the University of Michigan showed consumers' 12-month inflation expectations fell to 3.1% in September, the lowest since March 2021, from 3.5% in August.

Russia central bank says rates will need to stay high as it hikes to 13%

Reuters
Moscow

Russia's central bank raised its key interest rate by 100 basis points to 13% yesterday, jacking up the cost of borrowing for the third meeting in succession in response to a weak rouble and other persistent inflationary pressures.

A month ago, responding to the rouble tumbling past 100 to the dollar and a public call from the Kremlin for tighter monetary policy, the bank had hiked rates by 350 basis points to 12% at an emergency meeting.

Yesterday, it gave hawkish guidance that it would consider further rate increases at upcoming meetings and said inflationary risks remained significant.

"We raised the rate due to the appearance of inflation risks and will keep it at high levels for quite a long time, until we are convinced of the sustainable nature of the inflation slowdown," the bank's governor, Elvira Nabiullina, told a press conference.

In a statement, the bank said: "Significant proinflationary risks have crystallised, namely domestic demand growth outpacing output expansion capacity and the depreciation of the rouble in the summer months," the bank said in a statement.

The decision to raise rates was in line with a Reuters poll.

Nabiullina said the board of directors had considered holding rates, as well as a more aggressive tightening step, noting that bringing inflation to the bank's 4% target by end-2024 will require a higher rate trajectory.

Russia has gradually reversed an emergency hike to 20% which it made in February 2022 after Moscow despatched troops to Ukraine and the West imposed sweeping sanctions, bringing rates to as low as 7.5% this year.

A woman walks past the Russian central bank headquarters in downtown Moscow. The Bank of Russia raised its key interest rate by 100 basis points to 13% yesterday, jacking up the cost of borrowing for the third meeting in succession in response to a weak rouble and other persistent inflationary pressures.

But as a sharp weakening of the rouble fuelled inflationary risks from a tight labour market, strong consumer demand and Moscow's wide budget deficit, the central bank has been forced into a tightening cycle that began in late July.

The rouble strengthened yesterday but gave up some intraday gains after the rate hike by the central bank, a move anticipated by the market as the country battles inflationary pressures exacerbated by its weak currency.

The central bank had hiked rates by 350 basis points to 12% at an emergency meeting last month, responding to the rouble's tumble past 100 to the dollar, and most analysts polled by Reuters had expected yesterday's increase.

But as the currency hit six-week highs early this week, some economists, including the CEOs of Russia's two largest banks, had been leaning in favour of a hold.

The central bank adjusted its year-end forecast for inflation to 6.0-7.0% from 5.0-6.5%. Annual inflation was running at 5.33% as of September 11, above the 4% target.

Capital Economics said it was not convinced inflation would return to the bank's 4% target in 2024, and expected more rate hikes to come.

"Russia's central bank is a hawkish institution that takes its commitment to inflation fighting seriously," said Senior Emerging Markets Economist Liam Peach. "With fiscal policy set to remain loose, the economy likely to continue overheating and inflation pressures to build further, there will be more pressure on the central bank to tighten monetary policy."

The bank upgraded its 2023 key rate range forecast to 9.6-9.7% from 7.9-8.3%. It now sees this year's current account surplus at $45bn, up from $26bn previously.

The bank kept its 2023 economic growth forecast at 1.5-2.5%, but warned the economy had now completed its recovery phase and that supply-side constraints, namely the tightening labour market, would limit further growth.

The next rate-setting meeting is scheduled for October 27.

Traders bet ECB cuts are coming despite Lagarde's pushback

Bloomberg
Frankfurt

European Central Bank (ECB) President Christine Lagarde insists that interest-rate cuts aren't something being considered by policymakers, yet investors are already betting on them.

It was "not even a word that we have pronounced," she told reporters on Thursday after the bank delivered its 10th straight interest-rate increase and repeated it will keep borrowing costs at sufficiently restrictive levels for as long as necessary.

As Lagarde spoke, the market moved to price in around three quarter-point cuts in 2024, with the first seen as early as June. Analysts at Citigroup Inc and Barclays Plc expect a whole percentage point of easing.

This isn't the first time traders and the ECB are at odds. But pitted against Lagarde's explicit signalling, the moves capture disparity between what policymakers and investors consider to be the appropriate response to Europe's mix of lacklustre growth and above-target inflation.

"I don't see ECB liking the expected easing that is priced by markets," said Piet Christiansen, chief strategist at Danske Bank AS, whose base-case scenario is three cuts next year.

The rift sets the market up for potential jawboning from officials — who may be looking to get the market back in line — when they hit the road again yesterday. Tight financing conditions are seen as a prerequisite to reduce inflation further, which as of August was running at 5.3%.

While hawkish officials could still push for another hike this year, two ECB members — Vice President Luis de Guindos and Estonian central bank Governor Madis Muller — said Friday maintaining interest rates at 4% for a prolonged period may be sufficient to tame inflation.

Christine Lagarde, president of the European Central Bank.

Markets, however, remained focused on the increasingly bleak growth outlook, which is weighing on the euro. The common currency is poised for a record ninth weekly drop against the dollar, down 0.3% this week to trade near a six-month low around $1.067.

Money managers polled by Bloomberg are in near-universal agreement, pointing to a fresh raft of gloomy economic forecasts that mean further hikes would pile on more pain.

"We continue to expect macro outcomes — both growth and inflation — to come in below ECB expectations and as such we do view this as the peak in policy rates," ABN Amro analysts Nick Kounis and Aline Schuiling wrote in a note. "We expect the central bank to pivot toward rate cuts next year."

Of course, the jury is still out. European price pressures may prove more persistent than expected and traders may fall into line. And even if cuts start in June as traders and most economists expect, the ECB will have held rates at their peak for the longest period in its history — the current record is seven months.

The pricing for 2024 cuts is "too aggressive for us," said Theophile Legrand, a strategist at Natixis. "Rates will stay higher for longer."

Yet markets got ahead of the ECB's messaging on rate hikes on the way up and now they're looking to do the same on the way down. Either way, it's a communication dilemma for ECB officials with money markets putting only one-in-five odds on a further hike by year-end.

"The next challenge could be to lean against rate cuts expectations," said Frederik Ducrozet, head of macro-economic research at Banque Pictet & Cie SA. If the "economic slowdown remains orderly" then "they will resist the pressure to cut for longer."