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MONETARY POLICY | Page 4

Fed officials see more rate hikes possible while inflation persists



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Apple's iPhone 15 goes on sale in test of holiday resurgence

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QCB maintains status quo on interest rates; mirrors US Fed's policy stance

By Santhosh V Perumal
Business Reporter

The Qatar Central Bank (QCB) has maintained status quo on its interest rates, following the US Federal Reserve's policy to pause rate hike in its latest meeting. “QCB has assessed the current monetary requirements of Qatar and has decided to continue with the current interest rates” for deposit, lending and repo, the central bank said in its social media handle.

The central bank said it will continue to assess the appropriate monetary policy, factoring in all aspects, which may affect financial stability and will review its monetary policy as and when appropriate to address changes in economic requirements.

The QCB in July increased the repo, deposit and lending rates by 25 basis points, after the Fed raised the reference rates (by 25 basis points) to their highest level in more than two decades.

Qatar has so far seen a cumulative 5% or 500 basis points hike in interest rates since January 2022, even as the QCB outlined four major priority sectors that would not bear the brunt of rate hike on their outstanding loans.

Since January 2022, repo rate has risen from 1% to 1.25% in March, 1.75% in May, 2.5% in June, 3.25% in July, 4% in September, 4.75% in November, 5.25% in December, 5.5% in March, 5.75% in May 2023 and the 6% in July. In 2022, the average repo rate was 2.77%.



The Qatar Central Bank said it will continue to assess the appropriate monetary policy, factoring in all aspects, which may affect financial stability and will review its monetary policy as and when appropriate to address changes in economic requirements

The QCB lending rate has cumulatively increased by 3.75% or 375bps since the beginning of 2022, jumping from 2.5% in January to 2.75% in May, 3.25% in June, 3.75% in July, 4.5% in September, 5% in November, 5.5% in December, 5.75% in March, 6% in May and 6.25% in July.

On credit facilities, the interest rate (weighted average) on loans less than one year

was rose to 6.51% in July 2023 against 4.67% in July 2022; on loans from one to three years to 7.17% (3.82%); and on loans of three years and above to 6.81% (4.9%).

However, the QCB had in July this year said there are various sectors that benefit from the non-increase in interest/return rates on the outstanding credit facilities in national banks. The eligible sectors

include private housing and consumption loans to Qatari citizens; service sector; industrial manufacturing; and trading sector. Within the services sector that ought to benefit include tourism, restaurants, hotels, entertainment, mechanical workshops, exhibitions and machinery repairs.

The QCB deposit rate has cumulatively jumped by 4.75% or 475bps, increasing

from 1% in January 2022 to 1.5% in May, 2.25% in June, 3% in July, 3.75% in September, 4.5% in November, 5% in December 2022, 5.25% in March 2023, 5.5% in May 2023 and 5.75% this July.

The rates on deposits of one-month stood at 4.59% in July 2023 against 2.08% year-ago period; three-month deposits 5.33% (2.3%); six-month deposits 5.07% (2.34%); one-year 4.74% (2.06%) and more than one year 5.16% (2.09%).

The interest rates on demand deposits had a chequered path. From 0.29% in January 2023, it rose to 0.88% in February but only to fall to 0.51% in March. Again in April it rose to 0.55% but fell to 0.2% in May. In June this year, it soared to 0.84% but only to decline to 0.41% in July 2023.

In the case of savings deposits, the rates have been on the increasing mode since March 2023. It was 0.38% in January, which fell to 0.18% in the subsequent month. After which it soared to 0.32% in March, 0.33% in April, 0.39% in May, 0.47% in June and 0.49% in July 2023.

The weighted average overnight interbank interest rate (on riyal) noticeably shot up from January 2022 when it was 0.28%. In July 2022, it spurted to 1.68%, 2.62% in August, 2.61% in September, 3.7% in October, 4.31% in November, 4.68% in December, 4.97% in January 2023, 5.02% in February 2023, 5.12% in March 2023, 5.3% in April 2023, 5.51% in May 2023, 5.54% in June 2023 and 5.63% in 2023.

Europe's gas hits one-month high as Russian risks rattle markets

Bloomberg
London

European natural gas jumped to the highest in a month as Moscow's surprise ban on some fuel exports revived concerns over Russia's broader energy supplies.

Benchmark futures surged as much as 7.3%, topping €40 a megawatt-hour for the first time since late August and extending their second weekly gain. Moscow announced a temporary ban on diesel and gasoline exports on Thursday, lifting prices for oil and oil products, which later spread to some other commodities.

While Europe relies on Russia for less than 10% of its gas supply — down from more than 30% before the Kremlin's invasion of Ukraine last year — the region's market remains tight and extremely sensitive to potential supply issues. There have been no reports that gas exports could be impacted, but some traders consider the new ban as a sign that Russian risks are back in focus.

“European gas rallied in tandem with crude on Thursday afternoon following the announcement from Russia regarding diesel exports,” said Tom Marzec-Manser, head of gas analytics at ICIS in London. “It is likely the ongoing upside in Brent is again supporting TTF on Friday,” he added, referring to Europe's gas benchmark traded in the Netherlands.

Traders also are monitoring flows from Norway, currently Europe's top supplier. Maintenance there is set to continue well into October, even as volumes from the country slowly recover from protracted outages. Dutch front-month futures traded 4.1% higher at €40.72 a megawatt-hour in Amsterdam, adding more than 10% for the week. The UK equivalent also jumped.

Prices erased an earlier drop of more than 6% after Australian unions called off strikes at Chevron Corp liquefied natural gas facilities — a bearish development on a normal day.

Europe's winter gas inventories are more than 94% full — much higher than normal for this time of year — but it's not clear whether stockpiles will be enough to last the duration of winter. Russia's pipeline cuts last year left the market without a substantial buffer to navigate sudden disruptions, and even brief supply interruptions globally are affecting prices.

In the US, gas supplies to the Sabine Pass liquefaction plant, the nation's largest, began to recover after a dip on Thursday, data compiled by Bloomberg show. Traders are closely monitoring fuel shipments from the country as US LNG has helped to fill the gap left by Russia.

QSE treads flat path amid buy interests in five of seven sectors

By Santhosh V Perumal
Business Reporter

The Qatar Stock Exchange (QSE) trod almost a flat path this week which otherwise saw the US Federal Reserve chose to maintain status quo on its benchmark rate. The Gulf institutions were increasingly net buyers as the 20-stock Qatar Index settled mere 0.04% higher this week which saw Gulf International Services board approve the final merger agreement of its catering subsidiary Amwaj. The insurance, telecom, industrials and transport notably witnessed higher than average demand in the main market this week which saw QTerminals, in which Milaha is an equity stakeholder, formally complete its acquisition of a majority stake in the Netherlands-based Kramer Holding. The Gulf institutions were seen marginally bullish in the main bourse this week which saw Qatar Oman Investment Company disclose its exit from Muzn Oman Commercial Company.

WEEKLY REVIEW

The local retail investors' substantially weakened net profit booking had its influence in the main market this week which saw Qatar Chamber disclose that the road transport sector reported five-fold jump to 444 companies during 2018-22. The Gulf individuals' lower net selling also had its say in the main bourse this week which saw Qatar's retail inflation jump 2.38% year-on-year in July 2023. The Islamic index was seen outperforming other indices in the main market this week which saw Qatar's industrial production expand 1.6% in July 2023 on an annualised basis. However, the domestic institutions were increasingly net profit takers in the main bourse this week which saw a total of 0.2mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.44mn trade across 22 deals. The foreign funds turned bearish in the main market this week which saw as many as 0.03mn



The Gulf institutions were increasingly net buyers as the 20-stock Qatar Index settled mere 0.04% higher this week which saw Gulf International Services board approve the final merger agreement of its catering subsidiary Amwaj

Doha Bank-sponsored exchange-traded fund QETF valued at QR0.33mn change hands across 27 transactions. Market capitalisation was down by a marginal QR0.05bn or 0.01% to QR605.24bn on the back of microcap segments this week which saw the industrials and banks together constitute about 59% of the total trade volume in the main bourse.

The Total Return Index added 0.04%, the All Islamic Index by 0.73% and the All Share Index by 0.09% this week, which saw no trading of sovereign bonds. The insurance sector index shot up 3.14%, telecom (1.88%), industrials (1.43%), transport (1.42%) and real estate (0.37%); while consumer goods and services declined 1.31% and banks and financial services (0.97%) this week which

saw no trading of treasury bills. Major gainers in the main bourse included Milaha, Inma Holding, Qatar Insurance, Qatar Oman Investment, Doha Insurance, Medicare Group, Qatar Industrial Manufacturing, Qatar National Cement, Industries Qatar and Ooredoo. In the venture market, both Al Faleh Educational Holding and Mahhar Holding saw their shares depreciate in value this week. Nevertheless, Qatari German Medical Devices, Meeza, GIS, Qatar Cinema and Film Distribution, Dukhan Bank, QIIB, Commercial Bank, Dala, Salam International Investment, Beema, Mazaya Qatar, Gulf Warehousing and Nakilat were among the shakers in the main bourse. The Gulf institutions' net buying increased substantially to QR66.78mn against QR19.91mn the week ended September 14. The Arab funds turned net buyers to the extent of QR0.21mn compared with net profit takers of QR0.4mn the previous week. The local retail investors' net profit booking declined significantly to

QR25.06mn against QR74.28mn a week ago. The Gulf individuals' net selling weakened noticeably to QR0.94mn compared to QR718mn the week ended September 14. However, the domestic institutions' net selling increased considerably to QR26.96mn against QR11.46mn the previous week. The foreign funds were net sellers to the tune of QR11.49mn compared with net buyers of QR50.42mn a week ago. The Arab individuals turned net sellers to the extent of QR192mn against net buyers of QR5.32mn the week ended September 14. The foreign individuals were net profit takers to the tune of QR0.61mn compared with net buyers of QR17.67mn the previous week. The main market witnessed 31% shrinkage in trade volumes to 872.53mn shares, 36% in value to QR2.28bn and 22% in deals to 80,343 this week. In the venture market, trade volumes more than tripled to 11.76mn equities and value more than doubled to QR13.36mn on 14% jump in transactions to 487.

India gets green light to join JPMorgan bond index; rupee and bonds gain

Reuters
New Delhi

JPMorgan will include India in its widely tracked emerging market debt index, setting the stage for billions of dollars of inflows into the world's fifth-largest economy and helping it finance its current account and fiscal deficits. India's local bonds will be included in the Government Bond Index-Emerging Markets (GBI-EM) index and the index suite, benchmarked by about \$236bn in global funds, JPMorgan said in a release yesterday. JPMorgan said 23 Indian Government Bonds (IGBs) with a combined notional value of \$330bn, all of which fall under the "fully accessible route" for non-residents are eligible. "India's weight is expected to reach the maximum weight threshold of 10% in the GBI-EM Global Diversified, and approximately 8.7% in the GBI-EM Global index," said JPMorgan. India's benchmark 10-year bond yield

dropped 7 basis points to a two-month low of 7.0788% in opening trade but retreated to 7.12%, while the rupee gained 0.3% early to 82.25 per dollar before giving up some gains to trade at 82.93. "We welcome this development," said India's chief economic adviser V Anantha Nageshwaran. "It attests to the confidence that financial market participants and financial markets, in general, have on India's potential and growth prospects and its macroeconomic and fiscal policies," he added. Inclusion will start on June 28, 2024, and extend over 10 months with 1% increments on its index weighting, as India is expected to reach the maximum weighting of 10%, JPMorgan said. "Beyond the near-term euphoria, this should structurally augur well for rates and FX markets, leading to lower cost of borrowings for the economy at large and more accountable fiscal policy-making," said Madhavi Arora, lead economist at Emkay Global Financial Services.

However, India's inclusion will trigger outflows elsewhere, with weightings for domestic government bonds issued by other countries set to shrink: Thailand will see the biggest losses at 1.65 percentage points, while South Africa, Poland, Czech Republic and Brazil will see theirs cut by 1-1.36 percentage points, according to JPMorgan. India began talks on including its debt in global indexes in 2019, while also talking to Euroclear about clearing and settlement. It removed foreign investment restrictions on some government securities in 2020 as part of an effort to enter global bond indexes with several bonds now part of the "Fully Accessible Route" without any foreign investment restrictions. But the government's stance on other issues including capital gains taxes and local settlement delayed its inclusion, though it did not actually budge on its stand. "It would be reasonable to expect inflows to start from now, which in the interim

helps even the demand-supply gap in balance of payments," said Rahul Bajoria, managing director and head of EM Asia (ex China) at Barclays. "We believe a total of \$20-25bn should come in over the index inclusion horizon, but some front loading is reasonable." Foreign investor buying in Indian bonds has remained tepid with net purchases of \$3.4bn so far in 2023. Foreign investors own less than 2% of outstanding government debt. "This announcement is a significant positive for the INR bond in the short-term as investors look to front-run the eventual inclusion," said analysts at DBS in a note yesterday. In the same announcement, JPMorgan said Egypt's eligibility in the GBI-EM series will be on review for three to six months, due to reports of "material" hurdles in currency repatriation. "If the hurdles cited by benchmarked investors persist, a status review will be triggered for Egypt's removal from the GBI-EM series," JPMorgan said. Egypt will remain in the index during the review.

Apollo's Zelter sceptical of soft landing while rate hikes bite

Bloomberg
New York

The economy is only beginning to feel the effects of higher interest rates around the globe, according to Apollo Global Management's James Zelter, who says he's "sceptical" policy makers will achieve a soft landing. While delinquencies and defaults are beginning to rise, many consumers and companies that borrowed at ultra-low fixed rates have yet to refinance since the Federal Reserve began tightening monetary policy, the Apollo co-president said at the Bloomberg Global Credit Forum in London. The asset management firm, which runs about \$617bn, has one of the biggest private credit businesses in the world. "The transition mechanism which the Fed would like to see in slowing down the economy that we have all expected has taken a lot longer," he said on Thursday in an interview with Bloomberg Surveillance at the forum. "The real impact of higher costs around the globe, in the US and Western Europe, it's not been felt yet, and so when people say we're going to have a soft landing, I am sceptical." Zelter's comments highlight the angst investors have been feeling since the Fed last year began an 18-month string of rate increases, ending more than a decade of easy money.

The US central bank this week signalled rates will remain higher for longer than some investors anticipated as policy makers try to bring inflation down.

The risk for lenders is that companies and consumers will struggle to repay or refinance at a time when economic growth is slowing.

Some signs of stress are already beginning to appear on company balance sheets. Akshay Shah, chief investment officer of distressed-debt fund Kyma Capital, which focuses on the European mid-market, said he's seeing three times as many opportunities than he did at this time a year ago.

"If you have floating-rate bank debt, that transmission mechanism is pretty immediate," he said. "If you've got fixed-rate debt, you're going to have to refinance your bonds. The European market has done a pretty poor job of refinancing out their maturities."

Meanwhile, Apollo is trying to navigate the effect of higher rates by making senior loans to bigger, higher-quality companies, Zelter said. Some credit executives say they've been surprised at the lack of stress so far among corporate borrowers.

"Sectors that you would have thought would have been leading indicators of a slowdown in the economy like leisure spending, travel, air, are actually doing surprisingly well," Grishma Parekh, a managing director at private credit firm HPS Investment Partners, said during a panel discussion at the forum. "The economy has been surprisingly resilient."

The effects of higher rates have been slow to unfold in part because many companies were able to borrow on loose terms, which now gives them more time to deal with their problems, Hamza Lemssouguer, chief investment officer and founder of credit fund Arini, said on the same panel.

In any case, the cycle is turning out to be a slow grind as higher rates filter through the economy, as opposed to the dramatic seizing-up of financial markets during the global financial crisis and the pandemic. So far, policymakers have reiterated that rates will remain restrictive for as long as needed to bring inflation under control.

"It is going to be slow because central banks cannot intervene in the same way they have in the past," said Lemssouguer.

Apple's iPhone 15 goes on sale in test of holiday resurgence

Bloomberg
New York

Apple Inc's latest iPhones and watches went on sale yesterday, a test of whether a new smartphone design and modest smartwatch changes can help return the company to growth.

The devices are going on sale in about 40 countries in its first wave, including in Australia, Hong Kong, mainland China, the US, UK and France.

The iPhone 15 Pro and Pro Max models will represent Apple's biggest sellers throughout the rest of the year — and the ability to both create and fulfil demand for the products will make or break its holiday period.

So far, the new devices have fared well for Apple, based on the initial online sales of the product. New online orders for the highest-end iPhone 15 models won't arrive for customers until at least mid-November in several countries, while reservations for in-store pickups quickly sold out.

Initial buyers of the latest iPhone typically order it online, making it harder to gauge demand based on the length of lines. Aside from the first two iPhone launches in 2007 and 2008 — as well as the iPhone 5s debut in 2013 — Apple has offered preorders for the iPhone with delivery on launch day.

Still, long lines for the iPhone 15 formed in Dubai, Australia and China, indicating that those who could not secure day one orders online are still willing to brave long nights and early hours to be one of the first to own a new iPhone — and even a new Apple Watch.

China is of particular interest because the government is expanding a ban on iPhone use in certain agencies and state-owned enterprises and rival



Queues at an Apple store in Beijing. Apple's latest iPhones and watches are going on sale in about 40 countries in its first wave, including in Australia, Hong Kong, mainland China, the US, UK and France.

Huawei Technologies Co just introduced its highly touted Mate 60 Pro. Still, customers flocked to Apple stores in cities like Beijing as sales began. The China market accounts for about a fifth of Apple's revenue.

Among the crowd at an Apple store in Sydney was Colin Seton, who has been buying Apple products since the mid-1980s. Seton was waiting in line to purchase the new Series 9 Apple Watch.

"I own most of what Apple sells," he said, gesturing toward his satchel, containing his AirPods, iPhone, MacBook Air and iPad. "It's a walled garden, but I don't mind paying a premium for a product if it's good."

Felix Hoffman was waiting in line for a new phone after giving up his old one when he left his job in real estate. Being between jobs

didn't stop him from splurging A\$1,849 (\$1,184) on the new iPhone 15 Pro. "I just don't like buying old tech," he said.

The scene was more subdued at the Apple Store in Covent Garden, London, where nine customers were in line twenty minutes before opening to collect their purchases. Approximately two dozen others who had reserved products but not yet paid were also waiting for the doors to open at 8 am.

In New York's Lincoln Square, approximately fifty people waited in line twenty minutes before the store opened. Most were there to upgrade their existing phones.

Doug Edwards, from Memphis, said he was visiting the city and was looking for something to do, and didn't want to wait two weeks to get a new phone.

"I'm stuck on this stuff," he said. "I tried the Samsung but I'm an old guy and you just get used to something."

Derrick Ford, from Miami, said he saw that T-Mobile US Inc, like other wireless carriers, was offering \$1,000 for customers to upgrade. "Basically a free phone? I'm going to do it."

While the iPhone 15 Pro has seen strong early demand, the company's other new products have gotten more muted response online.

The regular iPhone 15 and 15 Plus models, in addition to the new AirPods with a USB-C case, Apple Watch ULTRA 2 and Apple Watch Series 9 are still seeing strong availability, aside from certain Apple Watch band configurations.

The iPhone represents about half of Apple's overall revenue

and the company is banking on the device to help it break a streak of sales declines and return to growth during the critical holiday period, which is its first quarter of fiscal 2024.

With iPhone sales beginning yesterday, the company will see about a week of revenue from the latest models within its fourth quarter sales, which it typically reports in late October.

Wall Street is currently expecting Apple to report revenue of about \$89.3bn for the current period, with \$43.6bn of that coming from the iPhone. That would be a decline from last year's revenue of \$90.1bn, with \$42.6bn coming from the iPhone, during the fourth quarter and would mark its fourth quarterly decline in a row.

But Apple has more reason for optimism over the holiday quarter, which runs from October through December. Sales of iPhones that feature new designs typically spur more upgraders than in years with more minor tweaks. The iPhone 15 Pro's design marks a significant change with a shift to a titanium design that Apple is focusing on in its marketing.

Apple also likely won't have to contend with any major supply chain snags that hurt the early sales window for the iPhone 14 Pro and Pro Max last year. Foxconn, the manufacturer of Apple's highest-end iPhones, was forced to shut its facilities in China for several weeks last year due to the country's former Covid Zero policies.

In addition, the company has upped the starting price of the iPhone 15 Pro Max this year by \$100 after eliminating a smaller storage tier offered in past years. Combined with exclusive features like improved zoom in the camera, this year's Pro Max model has the opportunity to be a larger-than-usual revenue driver for Apple.

Wall Street strategists turn ever bullish just as stocks slump

Bloomberg
New York

Call it another case of bad timing for Wall Street strategists. The group, historically known to have a bullish bent, spent most of this year saying US stocks would end lower in 2023. Instead, the S&P 500 Index rallied 16% in the first half. Then, slowly at first, strategists began raising targets. The optimist's camp has since gained in popularity — just in time for the US stock benchmark to suffer its worst stretch in six months. Bank of America Corp and Societe Generale both recently boosted their year-end calls for the S&P 500 for a second time in 2023, forecasting that the gauge will resume a run toward 4,600 and 4,750, respectively. Even Wells Fargo & Co expects the US stock benchmark to jump to 4,600 before fading again into the close of this year. Those are bold calls given that the S&P 500 ended Thursday at 4,330. The gauge has flailed since August as traders grow anxious over how the Federal Reserve will deliver an economic soft landing while embracing higher-for-longer interest

rates. The bout of weakness came just as strategists at firms including Citigroup Inc and Goldman Sachs Group Inc got more optimistic on US equities after failing to predict gains in the first half of the year. The S&P 500 fell 1.6% on Thursday, breaching the average 2023 sell-side forecast of 4,366 on the index, a day after Fed Chair Jerome Powell reiterated his commitment to subduing inflation. It's the first time the gauge has traded below Wall Street's consensus year-end forecast since regional bank collapses shocked markets in March. Even so, the benchmark is still up 13% this year as a resilient US economy wiped away fears of a recession. Investors have instead been able to focus on a recovery in corporate earnings — what some Wall Street soothsayers see as a catalyst for even more gains in US stocks. To George Ball, chairman at Sanders Morris Harris, it's clear the Fed is no longer the singular driving force behind stock prices. Expectations for earnings growth next year and institutional year-end portfolio manoeuvring mean the S&P 500 is more likely to home in on all-time-high of 5,000 by the end of the year than it is to fall below 4,000, he said.



"American businesses and the economy — which in many ways are the same thing — are showing that 5% interest rates are not crippling to earnings or to growth or to an improving economic climate," Ball said. The latest round of bullish forecast

changes comes as Wall Street weighs the impact of trader sentiment on markets. The S&P 500 has ended the year higher — and with stronger average returns than expected — in periods when strategists forecasted a decline, Bank of America's

Savita Subramanian found in an analysis tracking performance from 1999 to 2022. In short, bearish predictions make a year-end rally more likely, she wrote in a note this week. Subramanian, who correctly called 2022's stock selloff, was among the first of sell-side prognosticators to flip to a bullish call this year. She re-upped her forecast again this week, saying that indicators on the macro cycle, valuations and positioning are flashing positive signals. At Wells Fargo, Christopher Harvey on Wednesday laid out the case for the S&P 500 to hit 4,600 as the market for initial public offerings reopens with a flurry of recent listings — then fading again to 4,420 by year's end. Deleted and delayed predictions for an economic downturn, meanwhile, have inspired Manish Kabra at Societe Generale to embrace a similar type of near-term optimism. He expects the equity benchmark to hit 4,750 by the end of the year, then tumble back to 3,800 by mid-2024 amid a crunch in consumer spending and deteriorating business conditions. "Put another way, we stay bullish near term," he said in a note to clients, "despite the likely jitters in 2024."

BoJ keeps ultra-loose policy, dovish guidance on outlook

Reuters
Tokyo

The Bank of Japan (BoJ) maintained ultra-low interest rates yesterday and its pledge to keep supporting the economy until inflation sustainably hits its 2% target, suggesting it was in no rush to phase out its massive stimulus programme.

Markets are closely monitoring commentary from Governor Kazuo Ueda for clues on how soon the bank could phase out the massive stimulus programme of his predecessor, as the US central bank and others signal they may keep borrowing costs higher for longer to curb price pressures.

As widely expected, the BoJ maintained its short-term interest rate target of -0.1% and that for the 10-year bond yield around 0% at a two-day meeting that ended yesterday. It also left unchanged an allowance band of 50 basis point set either side of the yield target, as well as a new hard cap of 1.0% adopted in July.

In its statement, the BoJ said it expects the economy to continue recovering moderately and that inflation expectations have shown renewed signs of heightening.

"We have yet to foresee inflation stably and sustainably achieve our price target - that's why we must patiently maintain ultra-loose monetary policy," Ueda said at a briefing after the decision.

"Having said that, we will of course shift policy if achievement of our target is foreseen... Since we published the July outlook report, inflation isn't overshooting sharply. But it's not showing as much as we expected."

He noted that corporate profits were solid and positive for wage hikes next year.

The BoJ's decision on Friday



Bank of Japan governor Kazuo Ueda (centre) attends a meeting with policy board members at the BoJ headquarters in Tokyo. The BoJ maintained ultra-low interest rates yesterday and its pledge to keep supporting the economy until inflation sustainably hits its 2% target, suggesting it was in no rush to phase out its massive stimulus programme.

contrasts with those of US and European central banks, which in recent meetings have signalled their resolve to keep borrowing costs high to rein in inflation.

The central bank made no change in its forward guidance, which retained a pledge to "take additional easing measures without hesitation" - language some market players thought might have changed to take on a more neutral tone.

With inflation exceeding the BoJ's 2% target and the yen renewing its slide, markets are focusing on any signals Ueda could drop on the timing of a policy shift.

Data yesterday showed Japan's core inflation hit 3.1% in August, staying above the central bank's 2% target for a 17th straight month in a sign of broadening price pressures in the world's third-largest economy.

In a move seen by markets as a step toward an exit, the BoJ in July loosened its grip on long-term interest rates to allow them to rise more freely.

Ueda said in a recent interview the BoJ could have enough data by year-end to determine whether to end negative rates, heightening market expectations of a near-term policy shift.

A Reuters poll for September showed most economists predicting an end to negative interest rates in 2024. Prospects of a rate hike have helped pushed up Japan's 10-year government bond yield to a fresh decade-high on Thursday.

The BoJ faces various challenges in exiting former Governor Haruhiko Kuroda's radical stimulus, including weak signs in the global economy and the risk of triggering a spike in bond yields

that would boost the cost of funding Japan's huge public debt.

BoJ officials, including Ueda, have also stressed the need to keep easy policy until they are convinced that inflation will stably hit 2%, driven by solid consumption and wage growth, not transitory factors such as global oil prices.

But some analysts see the yen, rather than wage growth or inflation, as the primary trigger for BoJ action.

Growing prospects of higher-for-longer US interest rates have pushed the yen down near the 150-per-dollar level, seen as Tokyo's line-in-the-sand for possible currency intervention.

The yen's renewed slide has triggered fresh verbal warnings by government officials, piling pressure on the BoJ to play its part to moderate the pain from rising import costs.

Most Asia markets rise as traders try to look past rate hikes

AFP
Hong Kong

Most Asian stock markets rose yesterday, reversing early losses and a sell-off on Wall Street, as traders contemplate further interest rate hikes by central banks to tame inflation.

In Tokyo, the Nikkei 225 closed down 0.5% to 32,402.41 points; Hong Kong - Hang Seng Index ended up 2.3% to 18,057.45 points and Shanghai - Composite closed up 1.6% to 3,132.43 points yesterday. With officials from the US to Switzerland warning that more tightening will be needed, the Bank of Japan stood firm on its ultra-loose monetary policy, refusing to give in to calls for a shift to normalisation.

Equities have had a rough ride this week, with the US Federal Reserve's closely watched "dot plot" guide on rates indicating it could announce another increase before the end of the year, while cutting less than initially hoped next year.

Those expectations were solidified Thursday with data showing applications for US unemployment benefits fell to the lowest level since January last week, pointing to a still strong labour market.

Ian Lyngen at BMO Capital Markets said the reading "marginally increases the chances the Fed hikes in November and certainly reinforces the Fed's messaging regarding avoiding cuts as long as possible in 2024".

Bets on further tightening also pushed 10-year Treasury yields to a 16-year high.

In a sign that the spectre of inflation will linger for some time, central banks in Sweden, Norway and Switzerland all warned they

would likely have to hike again at some point owing to sticky inflation. While Fed decision-makers contemplate their next move, former St Louis Fed boss James Bullard said they might have to keep raising to avoid a re-acceleration of inflation, which is still well above the bank's 2% target.

And former Treasury Secretary Lawrence Summers suggested officials were being overly optimistic in their economic outlook, adding they could be surprised by the pace of inflation while growth could slow more than expected.

A number of policymakers have said they were confident the US can avoid a recession even as they push rates to two-decade highs. The prospect of borrowing costs staying higher for longer jolted Wall Street with all three main indexes ending more than 1% down.

But after a rocky start, Asia enjoyed a broadly positive day. Hong Kong jumped more than 2% and Shanghai up more than 1%, with analysts saying traders were readying themselves for the possibility of more stimulus measures out of China.

Sydney, Singapore, Mumbai, Bangkok, Taipei, Jakarta, Manila and Wellington also rose, though Tokyo and Seoul were in the red. The Bank of Japan kept its negative rates policy yesterday and continued with yield curve control, maintaining a tight band in which bonds can move.

While yesterday's decision was expected, it came as speculation swirled that the bank is considering moving away from its ultra-loose policies.

But despite calls for a more hawkish approach, its post-meeting statement said it "will not hesitate to take additional easing measures if necessary".

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Weak euro area PMI data suggest economy facing contraction

Bloomberg
London

Private-sector activity in the euro area has continued to shrink in September, suggesting the economy contracted in the current quarter. An index based on surveys of purchasing managers by S&P Global showed a fourth consecutive month of falling output, hitting 47.1. While that's a slight improvement on August, the reading is clearly below the 50 level that indicates contraction. Economists had predicted a drop to 46.5. "We expect the eurozone to enter a contraction in the third quarter," said Cyrus de la Rubia, chief economist at Hamburg Commercial Bank. "Our nowcast, which incorporates the PMI indices, points to a drop of 0.4% compared to the second quarter." Despite dodging a recession in the wake of Russia's invasion of Ukraine, the euro region is struggling under the weight

of higher energy prices, a surge in borrowing costs and waning demand in export markets like China. While there's agreement that the currency bloc is going through a rough patch, the European Central Bank (ECB)'s latest forecasts still see the third quarter as a stagnation — not a contraction — and the economist consensus is for 0.1% growth. Speaking yesterday, ECB Chief Economist Philip Lane said that "the overall environment remains not fragile." "Because of the pandemic, household's balance sheets look in better shape than normal, same for corporates — so, that toxic mix you need in order to trigger a deep recession is not present," he told Yahoo Finance in an interview. "We do expect to see a pickup next year and the year after which will bring the European economy to grow." The PMI numbers for September showed negative readings for both manufacturing — which has been below 50 for 15 months — and services, which in the first half of the year compensated for the weakness

in factories. The region's two biggest economies were the key drivers of the downturn in activity, according to S&P Global. While the slump eased in Germany, it deepened in France. Economists had expected momentum in both countries to remain broadly stable. The euro initially fell as much as 0.4% to \$1.0615, the lowest since March 17, before paring much of that drop. The currency is heading for a 10th week of losses against the greenback, with markets betting the European economy can't withstand higher rates. German bonds clung onto their advance, leaving 10-year government borrowing costs two basis points lower at 2.72%, near a 12-year high touched Thursday. The yield on two-year peers fell one basis point to 3.24%. "The unexpected improvement in the PMI survey is small and activity remains weak. The European Central Bank has still in all likelihood finished increasing interest rates and the risk of a hard landing remains elevated", says David Powell, senior euro area economist.

Separate S&P Global data for the UK showed private sector companies shed workers at the fastest pace since the pandemic and the depths of the financial crisis more than a decade ago, adding to the risk of a recession. The gauge slipped to 46.8 in September from 48.6 the month before, the sharpest decline in output since January 2021. The reading was worse than economists expected. In Germany, the performance of the services sector was a "pleasant surprise" as it only contracted marginally this month, S&P Global said. Manufacturing, which has been suffering from a slowdown in the global economy and higher interest rates, led the decline in overall activity. The numbers for the country's important industrial sector nonetheless indicate that "things aren't going downhill as fast as before, with the decline in new orders slowing down," De la Rubia said in a statement. "In addition, the reduction in purchasing activity is losing momentum." In France, both services and manufacturing worsened, sending private-sector activity

down by the most since November 2020. There were widespread reports of weak demand in both sectors, and confidence regarding the next 12 months weakened noticeably, S&P Global said. "The French economy is steering toward some choppy waters," said Norman Lieke, an economist at Hamburg Commercial Bank. "We think economic growth will be lower in 2024 than previously expected." He added that inflation is still lurking in France, entirely driven by services, with "not much sign of an impact" yet from the government's decision to impose price caps on certain food products from July. Still, the euro-area numbers aren't "all doom and gloom" as firms are hiring at a somewhat faster pace than the previous month, De la Rubia said. "Thus, companies still show some resilience and optimism in the face of lower demand." US figures due later on Friday are expected to show slight growth. Earlier numbers from Australia and Japan indicated expansion, though both countries saw a worsening slump in manufacturing.

Fed officials see more rate hikes possible while inflation persists

Bloomberg
New York

Two Federal Reserve officials said at least one more interest-rate hike is possible and that borrowing costs may need to stay higher for longer for the US central bank to ease inflation back to its 2% target. Federal Reserve Governor Michelle Bowman signalled that she favours raising interest rates again and probably more than once, suggesting she would move more aggressively than her US central bank colleagues to quash inflation. "I continue to expect that further rate hikes will likely be needed to return inflation to 2% in a timely way," Bowman said yesterday, using the plural "hikes" to describe her rate expectations. She noted that Fed officials expect inflation to stay above 2% until at least the end of 2025, according to the median forecast policymakers submitted in quarterly economic projections released this week. "This, along with my own expectation that progress on inflation is likely to be slow given the current level of monetary policy restraint, suggests that further policy tightening will be needed to bring inflation down in a sustainable and timely manner," she said in remarks prepared for an event hosted by the Independent Community Bankers of Colorado. Fed officials left their benchmark lending rate unchanged on Wednesday in a range of 5.25-5.5%. Most officials forecast at least one more rate hike this year, and the median policymaker saw the federal funds rate at 5.1% by the end of 2024, higher than previously estimated. Bowman's comments suggest she might have the highest interest-rate forecast for 2024, when one official predicted the federal funds rate would be in a range of



The US Federal Reserve building in Washington, DC. Two Fed officials said at least one more interest-rate hike is possible and that borrowing costs may need to stay higher for longer for the US central bank to ease inflation back to its 2% target.

6-6.25%. While there has been considerable progress in lowering inflation, higher energy costs present a risk for achieving the 2% inflation goal, Bowman said. "I see a continued risk that energy prices could rise further and reverse some of the progress we have seen on inflation in recent months," she said. The Fed governor also noted that monetary policy appears to be having less bite on lending than might be expected. "Despite this tightening of bank lending standards, we have not seen signs of a sharp contraction in credit that would significantly slow economic activity," she said. "Though bank loan balance growth has slowed, the ongoing strong balance sheets of households and businesses combined with the growing importance of non-banks as sources of credit

suggest that the effects of monetary policy on bank lending may have smaller effects on the economy than in the past." Meanwhile Federal Reserve Bank of Boston President Susan Collins said further interest-rate increases are possible and borrowing costs may need to stay higher for longer than previously expected for the US central bank to achieve its 2% inflation goal. "I expect rates may have to stay higher, and for longer, than previous projections had suggested, and further tightening is certainly not off the table," Collins said yesterday in remarks prepared for an event hosted by the Maine Bankers Association. Collins, who does not vote in monetary policy decisions this year, said she "fully" supported the guidance offered in Fed officials' quarterly economic projections,

and said that the current phase of policy will require "considerable patience." The US economy has so far been resilient against the Fed's historic tightening campaign, which lifted the target range for the federal funds rate from nearly zero in March 2022 to 5.25-5.5% in July, a 22-year high. In their latest economic forecasts, 12 of 19 Fed officials said they expect to raise rates once more this year. Collins said inflation has moderated, but progress has been uneven and more time is needed to be sure price gains are on a steady downward path. While many households and businesses who built up savings or locked in lower rates on loans have been shielded against the Fed's rate increases, demand is likely to cool as those savings are spent and debt-market activity picks up, she said.

Microsoft's Activision deal set to clear final UK hurdle

Bloomberg
London

Microsoft Corp's \$69bn acquisition of Activision Blizzard Inc looks set to clear its final regulatory hurdle after the UK competition authorities signalled they will accept the latest concessions, ending a wait of more than a year and a half to complete the biggest ever gaming deal. The Competition and Markets Authority said yesterday that Microsoft's proposal opens the door to the deal being cleared. The restructured offer to sell some gaming rights to French publisher Ubisoft Entertainment is expected to keep competition in cloud gaming open for years, the regulator said. It will consult on the offer until October 6. The move represents a stunning turnaround for a deal that was once thought over after running up against concerns from antitrust regulators including an initial veto from the UK in the spring. It gained unexpected momentum after Microsoft beat the Federal Trade Commission's court challenge over the deal. The European Union cleared the deal with behavioural remedies in May. That left the CMA as the remaining regulatory hurdle. "This is a new and substantially different deal, which keeps the cloud distribution of these important games in the hands of a strong independent supplier, Ubisoft, rather than under the control of Microsoft," said Colin Rafferty, a senior director of mergers at the CMA. Activision's shares rose as much as 2.2% to \$94.39 in US premarket trading yesterday, just 61 cents away from Microsoft's \$95 a share offer. Ubisoft's shares climbed as high as 4.2% in Paris. The deal provides Xbox chief Phil Spencer the cornerstone to a plan to boost Microsoft's lagging mobile games business, albeit months later than the company had hoped. Spencer

must now execute on a strategy he unveiled around the deal in a landscape where the market has shifted, including the receding focus on the metaverse, which Microsoft originally listed as a driver of the acquisition. The CMA's approval came with a warning to other would-be acquirers not to delay offering concessions. "It would have been far better, though, if Microsoft had put forward this restructure during our original investigation," the CMA's chief executive Sarah Cardell said. "This case illustrates the costs, uncertainty and delay that parties can incur if a credible and effective remedy option exists but is not put on the table at the right time." The CMA had previously vetoed the deal, saying it could result in higher prices, fewer choices and less innovation for UK gamers. The new offer means Microsoft can't limit access to Activision's key content to its own cloud gaming service or withhold those games from rivals, the regulator said. "The parties have arguably gone further in the UK to secure regulatory clearance than elsewhere," said Alex Haffner, a competition lawyer at UK law firm Fladgate. Still, the UK watchdog's turnaround allowed the CMA to "climb down from an isolated position in regard to the other two regulators," said Jonathan Compton, a dispute resolution and antitrust lawyer at DMH Stallard. "In effect, the substance of the structural change is that Microsoft will not buy the rights to the cloud gaming rights owned by Activision," he said. "This is, with respect, a fig leaf." Microsoft executive Brad Smith said the firm will continue to work toward winning final approval to close the deal by October 18. "We are encouraged by this positive development in the CMA's review process. We presented solutions that we believe fully address the CMA's remaining concerns related to cloud game streaming," he said.

Riksbank governor sees Sweden dodging property-fuelled crisis

Bloomberg
Stockholm

The governor of the Riksbank said he has grown more confident that Sweden will avert a real estate-led financial crisis even as some landlords leveraged to the hilt are failing to re-finance maturing debt. "I think we have a slightly more positive view of where we're heading, but we are very alert," Erik Thedeen said in an interview at his office in central Stockholm on Thursday. "I'm a little bit less concerned of the tail scenario, a really bad scenario, but I'm still concerned that we have a highly indebted commercial real estate market. That is still an overall risk for the Swedish economy." The onslaught of rate hikes since April 2022 to the current 4% has pushed a number of property companies to the brink, turning Sweden into a poster-child of how higher borrowing costs are crimping construction activity and up-

ending the business models of the most debt-laden landlords. Thedeen, who joined the central bank from Sweden's financial regulator at the beginning of the year, said a more granular approach is needed when looking at the sector's roughly \$17bn of maturing bond debt this year and next. "There's a big difference between the really weak companies — you know which they are by just looking in Swedish newspapers — the stronger names, and those that are in between." Although troubled real estate firms, such as Samhallsbyggnadsbolaget i Norden AB, are not out of the woods, the development in the past six months shows that some have an ability to strengthen balance sheets and refinance maturing debt. "The muddling-through scenario is a fairly likely one," Thedeen said. While that would mean avoiding a full-blown crisis, it is still "not good for the Swedish economy" and "not good for some of these companies," he added.



Erik Thedeen, governor of the Riksbank.

The Riksbank on Thursday joined Swedbank AB and Nordea Bank Abp in forecasting two years of contraction for the biggest Nordic economy. Consumers have pared back spending, Sweden's

export markets are softening and builders are holding back on starting new projects. A high share of loans that have interest rates fixed on short terms has made Sweden partic-

ularly vulnerable to rising borrowing costs. Thedeen said that while the current situation in Sweden's commercial property market isn't easily translatable due to local variations, other countries are facing similar economic effects as the Nordic country is now experiencing. "It's a canary in the coal mine in the sense that we get effects on housing construction, which is dropping sharply, and on retail sales, especially for capital goods, which are also dropping," the governor said. "One way or the other, the same will happen in countries with more fixed-rate mortgages, if rates don't come down before that." The Riksbank and other authorities are urging real estate companies to shore up balance sheets to avoid ending up in situations similar to those facing SBB and smaller, lower-rated borrowers. "The longer they wait, the more fragile it gets," Thedeen said. "If

an accident happens down the road, if risk premiums goes up, or something happens with inflation or their underlying business... Of course, the longer they wait, the more the risk increases that they actually end up in problems." The turbulence has also led to speculation that the central bank may be constrained when setting rates as bringing borrowing costs too high could topple the market and have contagion effects on the banking system. Thedeen called that a "strange argument," and said keeping rates lower than what is necessary to fight inflation wouldn't be helpful for the property market as the bulk of borrowing costs for landlords in distress are determined by risk premia rather than the benchmark rate. "The best thing that could happen for the commercial real estate market is that we reach our inflation target, because that will pave the way for a better economic development," he said. "We will stick to the inflation target, period."