MARKET VOLATILITY | Page 4

Global debt edges to fresh record of $307.4tn; populism could push it higher: IIF

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BUSINESS

NASCENT RECOVERY : Page 3

Pakistan may seek another IMF bailout to help fragile economy

QSE extends gains to second day to cross 10,200 level; Islamic equities outperform

By Santhosh V Perumal
Business Reporter

Continuing its bullish run for the second consecutive day, the Qatar Stock Exchange yesterday gained more than 22 points and its key index crossed 10,200 levels on the back of strong buying, especially at the real estate, industrials and insurance counters.

The domestic institutions were seen net buyers as the 20-stock Qatar Index rose 0.42% to 10,221.48 points, reflecting the general sentiments in the regional bourses on expectations of an end to rate hikes in the US.

The local retail investors' weakened net selling pressure had its influence on the main market, whose year-to-date losses truncated to 4.3%.

More than 51% of the traded constituents extended gains in the main bourse, whose capitalisation added QR1.58bn or 0.27% to QR597.59bn with microcap segments gaining the most.

The Gulf retail investors turned net buyers, albeit at lower levels, in the main market, which regained from an intraday low of 10,150 points.

The foreign individuals' lower net profit booking also had its say on the main bourse, which saw as many as 9,257 exchange traded funds (sponsored by Masraf Al Rayan) valued at QR0.02mn trade across four deals.

However, the Arab retail investors turned bearish in the main market, which saw no trading of sovereign bonds and treasury bills.

The Islamic index was seen outperforming the other indices in the main bourse, which witnessed no trading of treasury bills.

The domestic institutions were seen net buyers as the 20-stock Qatar Index rose 0.42% to 10,221.48 points, reflecting the general sentiments in the regional bourses on expectations of an end to rate hikes in the US.

The Total Return Index gained 0.42%, the All Share Index by 0.31% and the Al Rayan Islamic Index (Price) by 0.56% in the main bourse, whose trade turnover and volumes were on the decline.

The realty sector index shot up 1.55%, industrials (1.08%), insurance (0.68%), consumer goods and services (0.33%) and telecom (0.11%); while banks and financial services was down 0.07% and transport 0.03%.

Major gainers in the main market included Meeza, Industries Qatar, Dukhan Bank, Commercial Bank, Estithmar Holding, Al Khaleej Takaful, Zad Holding, Barwa, United Development Company and Doha Bank.

In the venture market, Al Faleh Educational Holding saw its shares appreciate in value.

Nevertheless, Inma Holding, Qatari German Medical Devices, Qatar Islamic Insurance, QNB and Mazaya Qatar were among the losers in the main market.

In the junior bourse, Mahhar Holding saw its shares depreciate in value.

The domestic funds turned net buyers to the tune of QR2.05mn compared with net sellers of QR14.79mn on November 15.

The Gulf individuals were net buyers to the extent of QR0.34mn against net profit takers of QR0.63mn the previous day.

The local individual investors' net selling decreased significantly to QR16.75mn compared to QR41.86mn on Wednesday.

The foreign retail investors' net profit booking weakened noticeably to QR0.2mn against QR4.12mn on November 15.

However, the Arab individuals turned net sellers to the tune of QR4.08mn compared with net buyers of QR0.83mn the previous day.

The foreign institutions' net buying decreased significantly to QR12.2mn against QR47.31mn on Wednesday.

The Gulf institutions' net buying declined markedly to QR6.44mn compared to QR13.26mn on November 15.

The Arab institutions had no major net exposure for the tenth straight session.

Trade volumes in the main market fell 14% to 215.18mn shares and value by 5 to QR621.5mn, while deals were almost flat at 22,176.

The venture market witnessed a 40% contraction in trade volumes to 0.81mn equities, 34% jump in value to QR1.29mn and 39% in transactions at 77.

Turkiye central bank says its policy has full government backing

Turkiye's central bank pledged not to compromise from its current policy mix aimed at reining in runaway inflation, indicating that its actions are endorsed by the government of President Recep Tayyip Erdogan, reports Bloomberg.

The bank, which has raised its key interest rate to 35% from 8.5% since June, said in a biannual report that it's seeing eye-to-eye with Turkiye's "decision makers" on the need to slow price growth, which surged past 60% last month.

Governor Hafize Gaye Erkan's remarks in the Financial Stability Report on Thursday highlight her efforts to convince investors that she won't be forced by the government to go back on her pledges for higher borrowing costs until inflation is under control. Before appointing Erkan in June, Erdogan fired three governors for not doing enough to keep borrowing costs low and boost economic growth.

Investor faith in the continuation of Erkan's tight monetary policy is critical for Turkiye to start attracting foreign capital to its financial markets. Foreign money all but abandoned Turkish debt and cut exposure to equities in recent years, when Turkiye opted for growth-at-all-costs policies, losing control of consumer prices. "Decision makers" and other economic actors "are truly aware of and in agreement over" the need for price stability, Erkan said in the report.

"We will not compromise on our aims of price and financial stability and will move with determination."

The report said the central bank would continue to maintain "strong monetary tightening," which has resulted in a marked slowdown in consumer loans.

Saudi Arabia's crude exports rise in September: JODI

Reuters
Riyadh/Singapore

Saudi Arabia's crude oil exports in September rose 3% from the previous month to 5.75mn barrels per day (bpd), data from the Joint Organisations Data Initiative (JODI) showed on Thursday.

The world's largest oil exporter's crude oil production, meanwhile, increased 0.7% to 8.98mn bpd.

Domestic refineries' crude throughput rose 0.336mn bpd to 2.866mn bpd while direct crude burn fell by 120,000 bpd to 606,000 bpd.

Monthly export figures are provided by Riyadh and other members of the Organisation of the Petroleum Exporting Countries (Opec) to JODI, which publishes them on its website.

Separately, Saudi Arabia kept its December official selling price unchanged from the previous month for its Arab light crude for Asian buyers.

Saudi Arabia and Russia, part of the Opec+ group of producers, this month confirmed they would continue with additional voluntary oil output cuts until the end of the year as concern over demand and economic growth continue to weigh on crude markets.

The world's top oil exporter, Saudi Arabia, is expected to extend its additional voluntary supply cuts to at least the first quarter, if not the first half of 2024, Amrita Sen, co-founder of consultancy Energy Aspects said on Wednesday.

Saudi Arabia and Russia, part of the Opec+ group of producers, this month confirmed they would continue with additional voluntary oil output cuts until the end of the year as concern over demand and economic growth continue to weigh on crude markets

Current oil prices are not low enough to push the Organisation of the Petroleum Exporting Countries and their allies, known as Opec+, to deepen supply cuts in 2024, she said, adding that market fundamentals are not weak enough to warrant that.

The next Opec+ ministerial meeting will be held on November 26 to discuss the market outlook.

The International Energy Agency (IEA) on Tuesday raised its oil demand growth forecasts for this year and next despite slower economic growth in nearly all major economies.

Washington has lifted sanctions on Venezuela, which is expected to improve heavy oil supplies to the US and Europe at the expense of China, while oil from Russia and Iran continued to be exported despite sanctions.

"The problem still remains the underlying dichotomy with US policies," Sen said at the FT Asia Commodities Summit in Singapore. "They do want to reduce revenues for Russia without disrupting flows."

The US Treasury Department sent notices on Friday to ship management companies requesting information about 100 vessels it suspects of violating Western sanctions on Russian oil, Reuters reported on Monday.

The move represents the biggest step of its kind by the US since Washington and its allies imposed a price cap aimed at restricting oil revenues in response to Moscow's invasion of Ukraine.

For Iran, production has gone up by about 600,000 barrels per day, said Energy Aspects' Sen. The Opec producer is exporting record volumes of oil to China.

Emirates to buy 15 Airbus jets in $6bn reprieve deal amid engine row

Reuters
Dubai

Airbus won a consolation order for 15 A350-900 jets from Emirates on Thursday after a public row between the Mideast giant and engine maker Rolls-Royce prevented a bigger deal for European jets at a Dubai Airshow dominated by Boeing.

Emirates Chairman and CEO Sheikh Ahmed bin Saeed al-Maktoum said the long-haul jets would "add to our fleet mix, and we are pleased to announce additional orders for this aircraft type".

However, industry sources described the deal as a face-saving compromise after the influential carrier criticised the amount of maintenance needed to keep the engines for the larger A350-1000 flying in hot and sandy conditions of the Gulf.

Sheikh Ahmed said Emirates would "work closely with Airbus and Rolls-Royce to ensure our aircraft deliver the best possible operating efficiency and flying experience for our customers".

The deal, which Emirates said was worth $6bn, followed intense negotiations focusing on the needs of the Gulf as it fends off new competition from Turkiye, India and elsewhere to its East-West transit model, while shedding light on broader industry tensions over rising engine costs.

Emirates is by far the biggest user of the Airbus A380 after investing heavily in the world's largest airliner, and is now planning the fleet needed to keep its Dubai super-hub at the centre of the aviation map beyond the 2030s as the A380 retires.

The airline opened this week's air show with a $52bn order for 90 Boeing 777X airplanes, saying the US planemaker appeared to be getting a grip on regulatory and other problems surrounding its entry to service after five years of delays.

But Emirates Airline President Tim Clark refused to place a large order for Airbus' broadly similar A350-1000 and blasted Rolls-Royce over the disruption and cost of dealing with frequent maintenance needed to keep the plane's engines running.

Emirates would have ordered 35-50 of the planes, he said.

Rolls-Royce acknowledged its engine for the A350-1000 would need more servicing than Emirates would like, but denied Clark's suggestion that the XWB-97 engine was "defective".

Chief Customer Officer Ewen McDonald said deal for the A350-900, which uses a different variant of engine, was a sign of the airline's trust in Rolls-Royce and held out hope for a future order for the A350-1000.

"We will continue our discussions with Emirates on the A350-1000 engine improvements and look forward to them choosing this aircraft in the future," he said.

Emirates has already ordered 50 A350-900s which are scheduled to arrive from August next year.

Delegates said earlier a top-up order would be seen as a consolation prize for Airbus and Rolls-Royce after Boeing and its main engine supplier GE won the majority of deals, but would leave questions over Airbus's ability to compete with Boeing's 777X in the lucrative Gulf market.

"It is...just to keep the relationship going and so they can talk again," a senior aviation industry source said.

Investors are expected to quiz Rolls-Royce about the durability and pricing of its engines at a Nov. 28 investor day.

An Airbus A350-1000 aircraft flies during the 2023 Dubai Airshow at Dubai World Central-Al-Maktoum International Airport in Dubai on Tuesday.

Rolls-Royce said earlier in week it was looking at applying technology from its Ultrafan research project to the XWB-97.

In a week dominated by soaring demand for wide-body planes, Boeing won new orders for 196 aircraft while Airbus agreed deals for 55 jets.

Airbus said it had reached an "agreement in principle" for a significant order from Turkish Airlines, but industry sources said the deal had not yet been signed. In other business, Turkiye-based budget carrier SunExpress announced an order for 45 Boeing 737 MAX narrow-bodies and used the spotlight to issue a reminder of the industry's supply chain problems.

BUSINESS


A trader works on the floor of the New York Stock Exchange. Right: Electronic boards displaying stock information are seen as investors look on at the Abu Dhabi Securities Exchange. The pact would also allow companies listed on the NYSE to expand their business and tap capital in Abu Dhabi, John Tuttle, the vice-chairman of the NYSE, told Bloomberg News in an interview.

Abu Dhabi bourse signs pact with NYSE for dual listings

Bloomberg
New York/Dubai

Abu Dhabi Securities Exchange has signed a deal with the New York Stock Exchange to help the emirate's stocks access a deeper pools of liquidity via dual listings.

The pact would also allow companies listed on the NYSE to expand their business and tap capital in Abu Dhabi, John Tuttle, the vice-chairman of the NYSE, told Bloomberg News in an interview. "Giving ADX-listed companies access to the US marketplace we think will benefit them as well."

The Middle East has seen a surge in initial public offerings, buoyed by high oil prices and investor inflows. The flurry of activity has prompted global banks to increase their presence by relocating staff or expanding.

Tuttle added that the agreement with ADX would provide "access to the world's largest marketplace." "We see myriad opportunities for collaboration from corporate equities to ETFs, ESG-related products as well."

Americana, the Middle Eastern operator of KFC and Pizza Hut, last year raised $1.8bn for its shareholders in the first-ever dual-listing in Riyadh and Abu Dhabi.

The memorandum of understanding will help provide accessibility and visibility for Abu Dhabi's exchange, bolstering liquidity, said Abdulla Salem Alnuaimi, the Gulf bourse's chief executive officer.

Thursday's MoU follows a deal with Intercontinental Exchange's ICE Global Network for direct market access to global institutional investors. Alnuaimi said both the deals will help provide accessibility and visibility for Abu Dhabi's exchange, bolstering liquidity, he said.

Even after the outbreak of the conflict between Israel and Gaza just over month ago, listings in the Arabian Gulf have performed well and attracted strong demand. That's expected to continue into next year, according to Alnuaimi.

"I think we'll see a positive pipeline during this year and next year on the ADX," he added.

QSE MARKET WATCH

COMPANY NAME	Lt Price	% Chg	Volume
Zad Holding Co	13.50	2.20	28,016
Widam Food Co	2.32	-0.30	6,159,745
Vodafone Qatar	1.80	-0.11	1,290,075
United Development Co	1.02	1.90	17,997,360
Salam International Investme	0.70	0.00	3,098,576
Qatar & Oman Investment Co	0.90	0.56	507,130
Qatar Navigation	9.44	-0.02	2,983,223
Qatar National Cement Co	3.60	-0.41	902,464
Qatar National Bank	15.83	-0.94	4,199,300
Qlm Life & Medical Insurance	2.70	0.00	1,145,400
Qatar Islamic Insurance Grou	8.80	-1.00	14,400
Qatar Industrial Manufactur	3.00	0.00	20,410
Qatar International Islamic	9.98	-0.80	527,222
Qatari Investors Group	1.62	-0.67	2,912,736
Qatar Islamic Bank	18.79	1.08	2,338,560
Qatar Gas Transport(Nakilat)	3.39	0.00	8,558,484
Qatar General Insurance & Re	1.21	0.00	-
Qatar German Co For Medical	1.58	-1.61	3,529,939
Qatar Fuel Qsc	16.22	-0.06	826,939
Lesha Bank Llc	1.40	0.36	2,376,591
Qatar Electricity & Water Co	17.40	0.35	826,776
Qatar Exchange Index Etf	9.74	0.00	-
Qatar Cinema & Film Distrib	3.01	0.00	24,833
Al Rayan Qatar Etf	2.19	-1.44	9,257
Qatar Insurance Co	2.43	1.00	193,674
Qatar Aluminum Manufacturing	1.29	-0.39	12,756,711
Ooredoo Qpsc	9.99	0.18	688,029
Alijarah Holding Company Qps	0.74	0.00	1,494,757
Mazaya Real Estate Developme	0.68	-0.87	16,533,418
Mesaieed Petrochemical Holdi	1.62	0.87	8,960,683
Mekdam Holding Group	5.19	1.55	172,047
Al Meera Consumer Goods Co	13.08	-0.15	136,871
Medicare Group	5.63	1.59	1,803,010
Mannai Corporation Qsc	3.98	0.61	1,084,899
Masraf Al Rayan	2.53	-0.59	43,050,821
Industries Qatar	13.38	1.67	1,905,945
Inma Holding Company	3.96	-1.69	356,071
Estithmar Holding Qpsc	2.05	1.38	6,075,542
Gulf Warehousing Company	3.10	-0.54	527,115
Gulf International Services	2.78	0.62	10,213,787
Al Faleh Education Holding	0.83	1.10	23,000
Ezdan Holding Group	0.91	-0.76	16,177,090
Doha Insurance Co	2.23	0.00	-
Doha Bank Qpsc	1.73	0.64	2,139,065
Dlala Holding	1.38	0.88	330,702
Commercial Bank Psqc	5.45	1.26	5,622,734
Barwa Real Estate Co	2.81	2.18	5,481,175
Baladna	1.27	0.31	4,929,506
Damaan Islamic Insurance Co	3.69	0.00	-
Al Khaleej Takaful Group	3.01	2.59	3,430,754
Aamal Co	0.84	0.97	1,383,355
Al Ahli Bank	3.75	0.00	-

Oman recovering, but more reforms required, says IMF

Reuters
Dubai

Oman's economic recovery is continuing, the International Monetary Fund (IMF) said on Thursday, adding that while it expects growth to rebound in 2024 after a slowdown this year on the back of oil production cuts, reforms need to continue.

GDP growth in the wider Gulf region is expected to slow in 2023 to 1.5%, the IMF said in October in its latest regional update, as oil GDP declines on lower crude production and prices. But overall growth is forecast to reach 3.7% next year.

After a visit to Oman, the IMF forecast its GDP growth would be 1.3% this year, from 4.3% in 2022. Last month it forecast Oman's growth to recover to 2.7% in 2024, buoyed by higher hydrocarbon output and strong non-oil growth.

"Nevertheless, the outlook is subject to high uncertainty, including from oil price volatility, global economic and financial developments, and potential indirect spillovers from the ongoing conflict in Gaza," it said in a statement.

Oman, a relatively small crude producer, is more sensitive than its Gulf neighbours to oil price swings and remains primarily reliant on hydrocarbon revenue, although all regional economies are investing in economic diversification plans.

It launched a medium term fiscal programme in 2020 to reduce public debt, diversify revenue sources, and spur economic growth, which, combined with a big oil windfall last year, has improved public finances.

"Sustaining the momentum of fiscal reforms remains, however, key to entrenching fiscal sustainability and ensuring intergenerational equity," the IMF said, with implementation of planned taxes and energy subsidy reform both still priorities.

Oman was upgraded by credit rating agencies earlier in 2023.

High waves break on the sea side promenade in the Omani capital Muscat (file). Oman's economic recovery is continuing, the International Monetary Fund (IMF) said on Thursday, adding that while it expects growth to rebound in 2024 after a slowdown this year on the back of oil production cuts, reforms need to continue.

Kenya to get nearly $1bn loan from IMF

AFP
Nairobi

The International Monetary Fund said Thursday it had agreed a $938mn loan for Kenya, which is grappling with a liquidity problem and historically high debt levels.

East Africa's economic powerhouse is facing a host of challenges, including depleted government coffers, skyrocketing inflation and a plunging currency that has sent debt repayment costs soaring.

The impact of the Covid pandemic as well as the Ukraine war and a record drought in the Horn of Africa region have all taken a serious toll.

The nation of some 53mn people had accumulated more than 10.1tn shillings ($66bn) in debt by the end of June, according to Treasury figures, equivalent to around two-thirds of gross domestic product.

Kenya also has a $2bn eurobond repayment due next year.

"This uncertainty is exerting substantial pressure on liquidity, primarily due to the sizeable eurobond maturing in 2024," the IMF said in a statement.

President William Ruto has said Kenya will pay the first instalment of the eurobond repayment worth $300mn next month.

The new loan deal must still be approved by an IMF board meeting in January.

It would immediately unlock $682mn for Kenya, the IMF said.

"The economy has displayed resilience, with real GDP expanding by 5.4% in the first half of 2023, primarily due to a robust recovery in the agriculture sector following the return of rains," it added.

The nation of some 53mn people had accumulated more than 10.1tn shillings ($66bn) in debt by the end of June, according to Treasury figures, equivalent to around two-thirds of gross domestic product. Kenya also has a $2bn eurobond repayment due next year

Overall inflation remains stubbornly high, at an annual rate of 6.9% in October, and food and fuel prices have continued to climb.

The cost of servicing public debt, mainly to China, has soared as Kenya's currency has slumped to record lows.

Ruto has introduced a range of new and increased taxes to help replenish government coffers, despite pledging during last year's election campaign to help ease the financial hardship of ordinary Kenyans.

Egypt devaluation bets back with vote near, conflict next door

Bloomberg
Cairo

Investors are ramping up bets that Egypt will allow its currency to fall sharply after elections in December.

The derivatives market for Egyptian assets, used both to hedge risks and for speculation, is springing back to life as traders brace for the fourth devaluation since March 2022.

Analysts at Deutsche Bank AG and Morgan Stanley expect the adjustment next quarter, while Societe Generale SA predicts it soon after votes are tallied in December.

"The market is positioning again for a devaluation," said Gergely Urmossy, an emerging-markets strategist at SocGen in London. "The later authorities adjust the valuation of the currency, the more they'll need to do. Time is certainly against them."

President Abdel Fattah al-Sisi — who is all but certain to win a third term in the vote on December 10-12 — warned in June that the nation of 105mn can't bear additional price hikes stemming from devaluations. But investors are betting it's just a matter of time.

In the non-deliverable forwards market, the pound's three-month contract has slumped 14% since early October to a record low of 37.7 Wednesday, signalling expectations of a steep devaluation early next year. The 12-month tenor has weakened 11% since late September to 47 on Wednesday, also a new low.

Expectations of another devaluation are also showing up in the London-listed securities of Egypt's largest listed bank. Commercial International Bank's depository receipts on the London Stock Exchange are trading at a 46% discount to their shares in Cairo — the most since 1997.

Although three devaluations since early last year have already slashed the pound's value almost in half, it's for months been mostly wedged between 30.8 and 30.9 against the dollar. By contrast, it declined to as weak as 48.5 this week on the local black market.

Adding to the negative outlook, hopes are fading that Egypt will quickly receive any meaningful financial assistance related to its role in supporting Palestinians fleeing Israel's bombardment of the Gaza Strip.

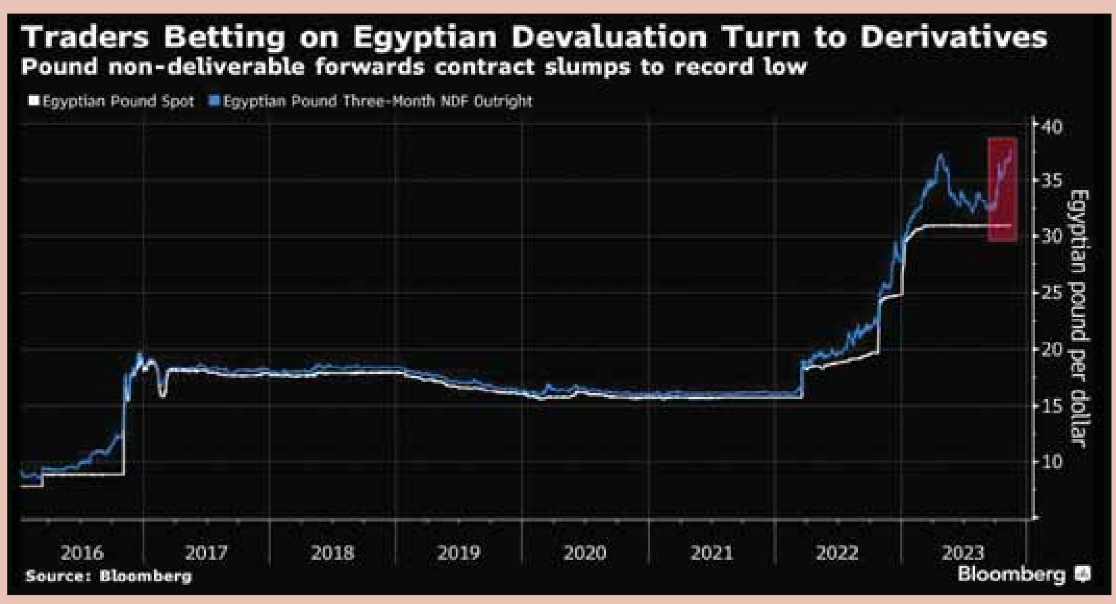
While Egypt might get future regional and international support, the conflict on its doorstep also "brings notable domestic and external challenges," Barclays Plc analysts including Brahim Razgallah said in a report.

It's not the first time in recent history that Egypt's economy has been battered by the breakout of war elsewhere. More than $20bn in hot money exited the country in a matter of weeks last year following Russia's invasion of Ukraine.

Now, the cash-strapped country needs to loosen its grip on the pound to complete delayed reviews of its $3bn rescue programme from the International Monetary Fund. It's in talks on boosting the programme to over $5bn, even though the Washington-based lender has yet to complete reviews initially scheduled for March and September.

Egypt has previously allowed several rounds of depreciation and pledged to move to a floating exchange rate. Its financing needs remain high at $24bn in the fiscal year through June 2024 and its current-account deficit is set to almost double to 2.3% of gross domestic product, according to Morgan Stanley.

"Given pending IMF reviews and large external finance needs, we think that policymakers will likely allow another FX adjustment in 1Q24," said Hande Kucuk, a London-based economist at the US bank. "Strengthening the IMF anchor would be key for Egypt's macro stabilisation post-elections."



Pakistan may seek another IMF bailout to help fragile economy

Bloomberg
Islamabad

Pakistan needs more financial assistance from the International Monetary Fund and may seek another bailout, the interim Finance Minister Shamshad Akhtar said a day after the nation won an initial approval from the multilateral lender for a tranche under an existing programme.

"We need to continue with the IMF as our economy is still fragile and we will possibly seek another loan," said Akhtar, who is part of a caretaker government, at a news conference in Islamabad on Thursday.

The comment, which comes a day after the South Asian nation reached a staff-level agreement with the IMF for a $700mn payout under a $3bn programme, highlights the magnitude of the economic and political crisis facing the country.

Pakistan has about $1bn in dollar-denominated debt due next year after it holds elections scheduled for February.

While a nascent recovery is underway, the nation remains susceptible to significant external risks, the IMF said in a statement on Wednesday at the successful conclusion of talks with Pakistan's caretaker government. The term of the interim government ends in February as the nation votes in national elections to elect a new administration.

The caretaker government will try to talk to the IMF for the next programme as the nation will need the lender's help to consolidate macroeconomic stability, Akhtar said. The country's foreign reserves will jump in December after global lenders materialise, she said.

A labourer is silhouetted against the rising sun in Lahore. While a nascent recovery is underway, Pakistan remains susceptible to significant external risks, the IMF said in a statement on Wednesday at the successful conclusion of talks with Pakistan's caretaker government.

Pakistan postponed a plan to raise funds from the global bond market as it won't get the best price, the minister said and added the country is looking for other funding resources.

Pakistan averted a default on its debt by securing the current nine-month loan programme from the IMF in July and expects the completion of its first review along with inflows from other lenders to boost its dwindling reserves.

The IMF agreement also gives a boost to Pakistan's caretaker government under Prime Minister Anwaar-ul-Haq Kakar. He's trying to secure $6.3bn in loans from the World Bank, Asian Development Bank and Islamic Development Bank, and about $10bn in bilateral funding from creditor nations. Investors are showing optimism about Pakistan's fiscal recovery on the back of the IMF loan that has spurred a more than 50% return on its dollar bonds this year. The country's benchmark equity gauge, the KSE-100 Index, is one of the best performers globally since the IMF deal in July.

India central bank tightens rules to contain consumer loan surge

Bloomberg
Mumbai

The Reserve Bank of India asked banks to increase buffers for some consumer loans as it seeks to check a runaway rise in risky debt in Asia's third-largest economy.

Risk weights on consumer credit will be raised by 25 percentage points to 125%, the RBI said in a statement Thursday. The decision excludes mortgages, loans for education and cars, and debt backed by gold.

Governor Shaktikanta Das has been exhorting banks to strengthen internal surveillance after data showed unsecured loans are rising almost twice as fast as overall credit. Unlike China, personal consumption has always been a driver of Indian growth but individual and government spending is currently disproportionately strong, threatening unsustainable growth and financial instability unless companies start investing too.

RBI's actions

- Risk weight on consumer credit exposure of commercial banks (including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold) increased by 25 percentage points to 125%.
- Risk weight on consumer credit exposure of non-bank finance companies (excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance/SHG loans) raised by 25 percentage points to 125%.
- Risk weight of credit card receivables raised by 25 percentage points to 150% for commercial banks and 125% for shadow lenders.
- Risk weights on bank credit to NBFCs increased by 25 percentage points in cases where the extant risk weight is below 100%.
- All top-up loans against depreciating movable assets, such as vehicles, shall be treated as unsecured loans.

"The increase in risk weights for consumer loans is in line with expectations, though an increase in risk weight for lending by banks to non-banks was unexpected," said Karthik Srinivasan, group head for Financial Sector Ratings at ICRA. Borrowing rates will increase and could also "spill over to corporate bonds by way of higher yields and widening of credit spreads for non-banks," he said.

Indians are borrowing record amounts on their credit cards and loading up on other costly debt, as household savings drop to multi-year lows. Household financial assets, including bank deposits, cash and equity investments, dropped to a 16-year low of 5.1% of gross domestic product in the fiscal year ended March, according to the data from the Reserve Bank of India.

Credit growth in unsecured loans has been an outlier in India at about 23%, compared with an average of 12%-14% of credit growth in the country, according to the RBI.

Bloomberg QuickTake Q&A

AI can write, but is it any good at picking stocks?

By Justina Lee

Financial firms are racing to integrate artificial intelligence (AI) into as many of their operations as they can. But investors continue to struggle to harness the technology to the business's central goal: predicting price movements in a way that boosts profits. It's a challenge that's proving far tougher than enlisting computer algorithms to summarise research reports. Even those sure that AI will one day revolutionise stock-picking think getting there will come through a long series of small tweaks and might initially produce a modest edge, though on Wall Street even a modest edge can mint billions.

1. How are financial firms using AI?

In all sorts of roles, including customer service and making trade execution more efficient. JPMorgan Chase Inc says that it sees more than 300 use cases for AI across its operations. In terms of boosting investment returns, hopes largely rest on machine learning, the subfield of AI where computers are trained on massive amounts of data to perform particular tasks. Machine learning encompasses both generative AI — the content-creating power behind ChatGPT — and predictive AI, which uses past results to forecast future outcomes. All of this builds on so-called quantitative, or quant, investing, a decades-old approach in which money managers have used computers to crunch piles of numbers to develop formulas for picking securities.

2. How can these programs add to stock-picking?

Generative AI, which mimics the workings of the human brain to perform complex cognitive tasks, can be trained on vast quantities of pre-existing material and learn how to use that information to craft something new, such as a blurb for a new novel, a summary of a report, a poem or a legal contract. When applied to finance, this can mean synthesizing research or writing basic code and investment reports. Predictive AI looks for patterns in historical data to assess the probability of future events. The hope is that as an investing tool, predictive AI can crunch huge amounts of financial data and come up with informed predictions, such as where a bond price is headed.

3. Who is using AI, and how?

To take one example, an old-school quant, Jason Hsu of Rayliant Global Advisors, has gone from picking stocks based on six criteria to using an AI algorithm that tracks some 200 signals. The hope is that AI can take a rule like "buy stocks with the lowest price-to-book ratios" and figure out what specific sectors and market conditions the rule works best in. Most money managers using AI try to combine new techniques with established theory.

4. How could it improve results?

Traditional quant models are based on linear relationships, such as the observation that value stocks go up over time. Quant specialists say that approach can produce results that are easy to interpret but fail to capture the complexity of markets. They're finding that recent predictive AI models are better at fitting in a large number of inputs and detecting complicated patterns, including how different variables interact with one another. The large language models powering generative AI programs can also improve something known as natural language processing, which financial professionals already use to parse earnings statements, call transcripts and other documents to detect trading signals or potential investment risks. Whereas older iterations relied on spotting particular words, the latest tech is better at analysing context, making them more accurate. Some academic studies have shown that ChatGPT can be used to decipher the market implications of "Fedspeak" — the guarded jargon in which central bankers often talk about interest rates — and corporate news in ways close to what a human expert can achieve.

5. Does this work?

So far there's little evidence of AI giving a tangible advantage. A Eurekahedge index of 12 funds using AI has trailed its broader hedge fund index by about 14 percentage points over the past five years. According to Plexus Investments, an asset manager that tracks the returns of boutique AI funds, only 45% outperform the benchmarks they measure themselves against. On the other hand, a 2021 academic paper suggested mutual funds powered by the technology beat their human-managed peers, though not the market.

6. What are the hurdles?

Machines get bamboozled by noisy markets, and finance — surprisingly — sometimes lacks the oceans of data that underpin the technology in other domains. (A traditional quant strategy might track a stock's price on a monthly or even quarterly basis to eliminate the noise seen in daily or minute-by-minute data sets. But that means they'll have fewer than 2,000 data points even for stocks in companies that have been around for a century.) When AI programs do discover potentially profitable patterns, those can be disrupted by sudden changes in trends. Another hurdle is AI's lack of what might be called explainability, since it can be difficult to know how a program reached a given conclusion. It turns out human investors generally like to know what's gone wrong when they lose money.

Microsoft unveils its first custom designed AI, cloud chips

Bloomberg
Seattle/San Francisco

Microsoft Corp unveiled its first homegrown artificial intelligence chip and cloud-computing processor in an attempt to take more control of its technology and ramp up its offerings in the increasingly competitive market for AI computing. The company also announced new software that lets clients design their own AI assistants.

The Maia 100 chip, announced at the company's annual Ignite conference in Seattle on Wednesday, will provide Microsoft Azure cloud customers with a new way to develop and run AI programs that generate content. Microsoft is already testing the chip with its Bing and Office AI products, said Rani Borkar, a vice-president who oversees Azure's chip unit. Microsoft's main AI partner, ChatGPT maker OpenAI, is also testing the processor. Both Maia and the server chip, Cobalt, will debut in some Microsoft data centres early next year.

"Our goal is to ensure that the ultimate efficiency, performance and scale is something that we can bring to you from us and our partners," Microsoft Chief Executive Officer Satya Nadella said at the conference. Maia will power Microsoft's own AI apps first and then be available to partners and customers, he added.

Microsoft's multi-year investment shows how critical chips have become to gaining an edge in both AI and the cloud. Making them in-house lets companies wring performance and price benefits from the hardware.

The initiative also could insulate Microsoft from becoming overly dependent on any one supplier, a vulnerability currently underscored by the industrywide scramble for Nvidia Corp's AI chips.

Microsoft's push into processors follows similar moves by cloud rivals. Amazon.com Inc acquired a chip maker in 2015 and sells services built on several kinds of cloud and AI chips. Google began letting customers use its AI accelerator processors in 2018.

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For a company of Microsoft's scale, "it's important to optimize and integrate" every element of its hardware to provide the best performance and avoid supply-chain bottlenecks, Borkar said in an interview. "And really, at the end of the day, to give customers the infrastructure choice."

Microsoft will also sell customers services based on Nvidia's latest H200 chip and Advanced Micro Devices Inc's MI300X processor, both intended for AI tasks, some time next year. Still, the industry seems to be embarking on a lasting shift toward in-house chips. The transition is particularly bad news for Intel Corp, whose own AI chip efforts are running behind. Meanwhile, with Cobalt, Microsoft is joining efforts by Amazon and AMD to grab share in the server chip market, which Intel currently dominates.

Maia is designed to help AI systems more quickly process the massive amount of data required to do such tasks as recognize speech and images. Azure Cobalt is a central processing unit that will come with 128 computing cores—or mini processors—putting it in the same league as products from Intel and AMD.

The more cores the better because they can quickly divide work into small tasks and do them all at once. Cobalt also uses Arm Holdings Plc designs, which proponents say are inherently more efficient because they were developed from designs used in battery-powered devices like smartphones.

Both chips will be manufactured by Taiwan Semiconductor Manufacturing Co

Microsoft has engaged in some chip customisation before, including working with AMD to design Xbox processors and developing specialised chips for the HoloLens goggles and Xbox's Kinect motion controller. But Maia and Cobalt are the biggest and most general-purpose efforts yet—ambitious moves in a tough and expensive industry to crack.

The old joke about Microsoft is that it doesn't get things right until version 3.0, but in the chip space that's typically the case for every vendor. Borkar, who spent 27 years at Intel, said she's confident Microsoft's first efforts more than meet the mark. "We are going to deploy these next year," she said.

The company also announced Copilot Studio, software that lets clients customise AI assistant software from Microsoft or build their own AI assistants from scratch.

Global debt edges up to fresh record of $307.4tn; populism could push it higher, says IIF

Reuters
London

Global debt edged up to a record $307.4tn in the third quarter, and the debt-to-output ratio in emerging markets hit an all-time high, the Institute of International Finance said on Thursday.

The financial services trade group estimated that global debt will hit $310tn by the end of the year, a more than 25% increase in five years, and warned that a shift towards political populism could push debt even higher next year.

Emre Tiftik, director of sustainable research at the IIF, counted more than 50 elections coming in 2024, including the US, India, South Africa, Turkiye and Pakistan.

"In the face of increasing political polarisation and heightened geopolitical tensions, these forthcoming elections might pave the way for populist policies," he said, adding it could increase government borrowing and spending, and loosen fiscal discipline.

"This can create further volatility in the markets," Tiftik said in a press briefing to present the report.

He also warned that servicing debt was consuming an increasing chunk of revenues worldwide, and had hit "alarming" levels in Pakistan and Egypt. In the US, government interest expenses are projected to hit 15% of revenue by 2026, up from less than 10% currently. Two-thirds of last quarter's debt increase came from developed markets, led by the US, Japan, France and the United Kingdom.

A woman carries bread as she leaves a bakery in Cairo. The Institute of International Finance has warned that servicing debt is consuming an increasing chunk of revenues worldwide, and had hit "alarming" levels in Pakistan and Egypt.

Emerging markets China, India, Brazil and Mexico also notched sharp increases.

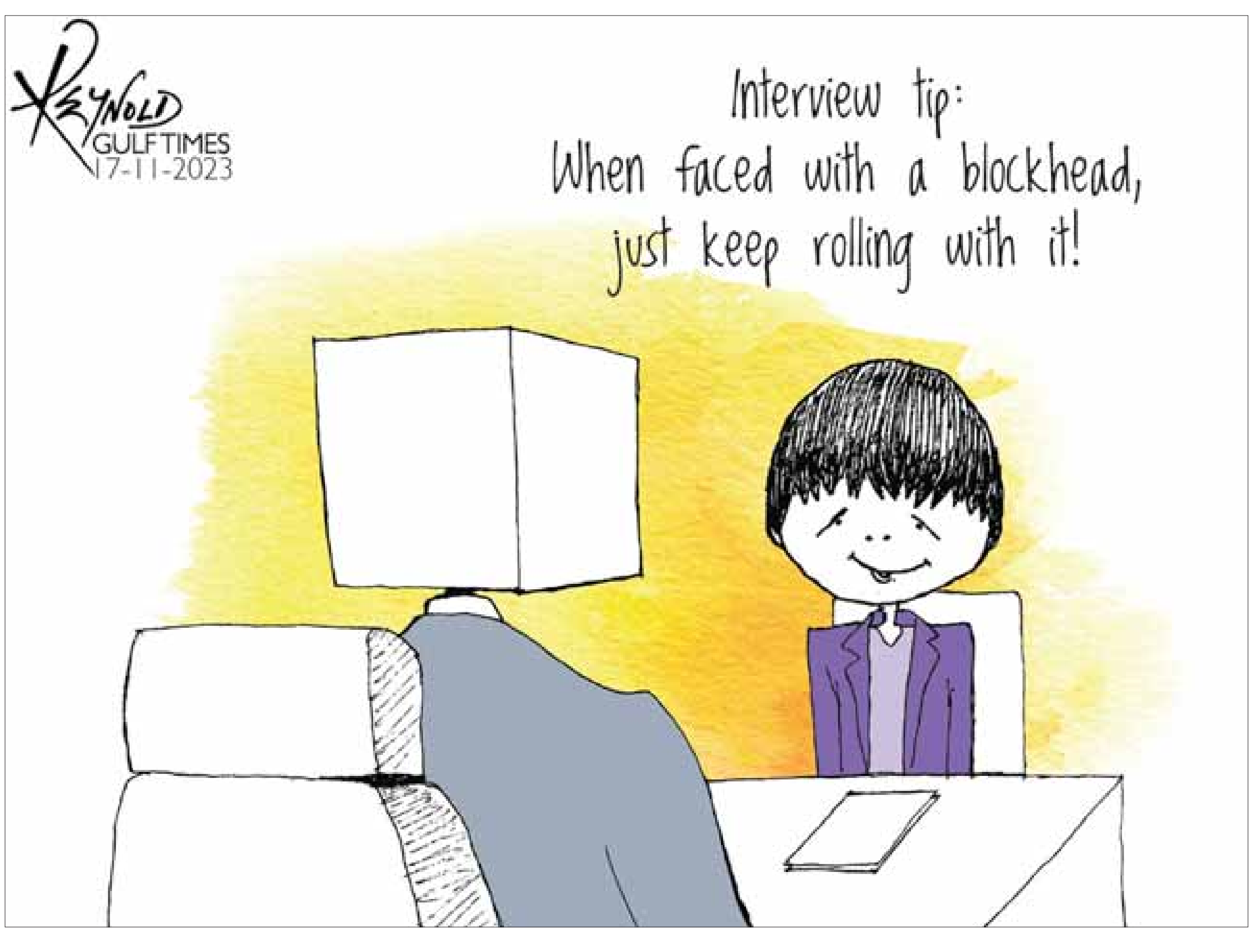
While the global debt-to-GDP ratio was little changed at 333%, it hit 255% in emerging markets — 32 percentage points above the same period five years ago — driven by Russia, China, Saudi Arabia and Malaysia. Chile, Colombia and Ghana experienced the largest declines in the ratio.

The IIF said government debt had the biggest increase in the third quarter, adding that budget deficits remain well above pre-pandemic levels in many countries.

The report noted that sovereign debt in default hit a record high above $554bn through the end of 2022, roughly half of which is bonded debt.

The IIF warned that the debt burden for households and corporations is still rising in major economies, including China and the US, with ramifications for everything from elections to the clean energy transition.

"With firms' borrowing appetite at multi-year lows amid still-tightening funding conditions and heightened geoeconomic fragmentation, the prospects for climate finance look increasingly at risk in recent quarters, as evidenced by a marked slowdown in ESG debt issuance," it said.



M&A hunters target London for some of cheapest firms

Bloomberg
London

Some of the world's lowest equity valuations are raising the prospect of a spree of takeover deals among the UK's small and mid-cap companies.

M&A activity burst into life in the City of London on Thursday with three new deals. US candy manufacturer Mars Inc has made an offer for Hotel Chocolat Group Plc at a hefty 170% premium.

"We'll definitely see more bids," said Alexandra Jackson, manager of the Rathbone UK Opportunities equities fund, pointing to greater investor clarity on interest rates and "lots of cash" at private equity firms.

H.I.G. European Capital Partners LLP also announced a deal to buy delivery company DX Group Plc for 48.5 pence a share, representing a 33% premium to where the stock traded before H.I.G. first proposed a takeover in September.

Thursday's deal news follows recent bids for Wagamama eatery-owner Restaurant Group Plc, property search portal OnTheMarket Plc, cloud group Kin and Carta Plc and investment firm Brooks Macdonald Group Plc.

The reason for the interest is clear. The valuation gap between the FTSE AIM All Share Index and FTSE 100 benchmark has increased, as shown by the price to sales multiple, a common valuation metric. UK small-cap companies are now trading at about a 64% discount relative to the FTSE 100, compared with a premium of 40% five years ago. The pound has also fallen over the same period.

"The depressed valuations in the UK market makes it highly attractive for both corporate and financial buyers," said Charles Hall, Peel Hunt's head of research.

There have now been 33 announced acquisitions in 2023 valued at over £100mn ($124mn), and only one initial public offering of a meaningful size, he said. This trend continues the de-equitisation of the UK market, with the number of listed companies cut by 13% over the last five years, Hall added.

The scale of premium offered in the latest deals shows just how much buyers are valuing companies more than investors.