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Traders bet on a faster pace of ECB interest rate cuts next year


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Russian figures suggest western oil sanctions not working


# South Korea exports $7.21mn agri-food products to Qatar in 2022, says vice-minister

**By Peter Alagos**
Business Reporter

South Korea's technological advancements in food production will play a significant role in helping boost the self-sufficiency efforts of Qatar and other countries in the Middle East, an official of the East Asian country has said.

The Middle East, including Qatar and Saudi Arabia, has recently shown "a growing interest" in South Korea's Information Technology (IT) and smart agriculture "as a way to increase its food self-sufficiency," according to South Korea's Vice-Minister of the Ministry of Agriculture, Food and Rural Affairs, Han Hoon.

"And accordingly, South Korean companies are expanding their presence in the Middle East," Han told *Gulf Times*, adding that the export volume of South Korean agri-food products to Qatar was estimated at around $7.21mn in 2022.

He said, "processed food products, such as instant noodles, corn oil, and biscuits account for 93% of the key export items, and fresh food products, such as kimchi and ginseng, are also being exported."

Han underscored the importance of smart farming in increasing self-sufficiency in the field of agriculture. He explained that smart farming, which can automatically control the environment so that crops can grow well with the support of the Internet of Things (IoT) and big data, will ensure sustainable food production even in harsh environments, such as the desert climate.


Han Hoon, South Korean Vice-Minister of the Ministry of Agriculture, Food and Rural Affairs.

"Korean smart farming companies have not yet exported their products to Qatar, but if South Korea and Qatar continue to enhance bilateral co-operation in smart farming, mutual exchanges between the two countries in the agricultural industry will also be further facilitated in the near future," Han pointed out.

The vice-minister also emphasised that Qatar and South Korea have undertaken several initiatives or programmes to strengthen agricultural ties and promote food security between the two nations.

In January 2019, Han said South Korea and Qatar signed a memorandum of understanding (MoU) on smart farming co-operation. Through this MoU, the two countries shared mutual recognition of the importance of smart farming cooperation, he also said.

On the back of this MoU, the two countries pledged to strengthen cooperation regarding research and development (R&D) and transfer of environmentally-friendlier smart farming technologies, as well as the support for investment in smart farming companies, Han further explained, adding that Qatar and South Korea have been discussing the revision of the MoU since February in 2023 to make bilateral working-level co-operation more concrete.

He said the revised version will include specified descriptions of the areas of smart farming co-operation, as well as the establishment of a Korea-Qatar Joint Committee. Both countries have currently reached an agreement on the revised version and will complete the revision during an upcoming bilateral high-level meeting, Han revealed.

After the revision of the MoU is completed, both sides will establish the joint committee in the field of smart farming to allow the exploration of concrete measures to enhance bilateral co-operation, such as the promotion of collaborative research on smart agriculture technologies, Han said.

He said: "If bilateral co-operation in smart farming is further strengthened, then it will make a significant contribution to the implementation of the National Food Security Strategy established by Qatar."

The Republic of Korea aims to rank in the top 15 of the Global Food Security Index (GFSI) through diverse measures like extending the period for strategic food reserves and setting the target rate of food self-sufficiency, among others. In the GFSI, South Korea ranked 24th out of 113 countries in 2021, Han stressed.

"Also, if the working-level delegation from Qatar visits South Korea this year, it will provide a good opportunity for them to see our smart farming technology and allow for both sides to make bilateral co-operation more concrete," Han added.

# GSAS rating to play key role in Qatar's major office letting in future: CWQ

**By Santhosh V Perumal**
Business Reporter

The Global Sustainability Assessment System (GSAS) rating is expected to play an important role in Qatar's major office lettings in the future as international occupiers are seen increasingly demanding accommodation that meets minimum sustainability targets and energy-efficient buildings, according to Cushman and Wakefield Qatar (CWQ).

Corporations' responsibility towards climate change and sustainability is increasingly evident in 2023, with international occupiers demanding accommodation that meets minimum sustainability targets, it said in the latest report.

"The number of options available to global corporations in Qatar is reducing, as many will not consider occupying older buildings that don't meet energy efficiency standards," the report said.

With little demand for older office space, retrofitting has become a hot topic among some of Qatar's developers and landlords, it highlighted.

"We expect GSAS ratings to play an important role in any major office lettings in Qatar in the coming years. Ultimately, it may be the shortage of high-specification energy efficient buildings that drives new office construction, despite the availability of older office space," CWQ said.

GSAS is the first of its kind performance-based sustainability rating scheme for the construction industry in the Middle East region developed by Gulf Organisation for Research and Development in collaboration with TC Chan Center at the University of Pennsylvania, USA.

The primary objective of GSAS is to create a sustainable built environment that minimises ecological impact while addressing the specific regional needs and environment of the region.

The report highlighted that the Qatar Free Zone Authority, Qatar Financial Centre and Invest Qatar have been taking strides to boost private sector demand and encourage inward investment; however, significant new office demand from the private sector is only likely to become evident in the medium term.

Finding that the availability of office accommodation and the relatively slow take-up has resulted in a fall in construction activity in the commercial office sector in 2023; it said "we expect this trend to continue until a significant portion of existing prime office accommodation is absorbed."

The current oversupply of office space in Qatar will continue to be a drag on office rents, moving towards 2024, it said, adding the supply of purpose-built office accommodation in Qatar has now surpassed 5.3mn sq m, with an estimated 1.3–1.5mn sq m of vacant space available.

Grade-A stock is now typically available to lease for between QR100 and QR120 per sq m per month, exclusive of service charges. Shell and core office space can be leased from QR65 per sq m in areas such as Lusail and West Bay, while this type of accommodation is available for QR50–60 per sq m per month in some of Doha's older office districts.

# QSE key index gains 244 points; capitalisation adds QR12bn

**By Santhosh V Perumal**
Business Reporter

**WEEKLY REVIEW**

Reflecting the optimism in the regional bourses on expectations of an end to rate hikes in the US, Qatar Stock Exchange (QSE) saw its key index gain as much as 244 points and capitalisation add more than QR12bn this week.

The real estate and industrials counters witnessed higher than average demand as the 20-stock Qatar Index shot up 2.45% this week which saw Qatar's consumer price index inflation rise 2.52% year-on-year in October 2023.

As much as 78% of the traded constituents extended gains to investors in the main market this week which saw a Cushman and Wakefield Qatar report that said tourism-related sectors in Qatar to remain 'bright spot'.

The Gulf funds were bullish and domestic institutions were increasingly net buyers in the main bourse this week which saw QNB disclose that it cut greenhouse gas emissions by 16%. The Arab retail investors turned net buyers in the main market this week which saw the International Gas Union (IGU) report that said the Middle East, led by Qatar, will be an important region in the global liquefied natural gas landscape.

The foreign individuals' weakened net selling had its influence in the main bourse this week which saw an Invest Qatar report that said Doha's cultural and creative industries contribute as much as QR20bn to the local economy during 2021, which is 3% gross domestic product.

The foreign institutions continued to be net buyers but with lesser intensity in the main market this week, which saw a total of 0.08mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.17mn trade across 16 deals.

The Islamic index outperformed the other indices in the main bourse this week which saw as many as 0.02mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.18mn change hands across 11 transactions.


The real estate and industrials counters witnessed higher than average demand as the 20-stock Qatar Index shot up 2.45% this week which saw Qatar's consumer price index inflation rise 2.52% year-on-year in October 2023

Market capitalisation was seen expanding QR12.27bn or 2.1% to QR597.59bn on the back of large and midcap segments this week which saw the industrials and banks together constitute more than 59% of the total trade volume in the main market. Trade volumes and turnover were on the decline both in the main bourse and venture market this week.

The Total Return Index zoomed 2.45%, the All Share Index by 2.07% and the All Islamic Index by 3.43% this week, which saw no trading of sovereign bonds.

The realty sector index soared 4.63%, industrials (2.9%), banks and financial services (2.29%), telecom (2.02%), consumer goods and services (1.33%) and insurance (0.4%); while transport declined 1.6% this week which saw no trading of treasury bills. Major gainers in the main market included Industries Qatar, Ooredoo, Qatar Electricity and Water, Meeza, Vodafone Qatar, Medicare Group, Widam Food, Masraf Al Rayan, Qatari Investors Group, Qatar Islamic Bank, Commercial Bank, Doha Bank, Dukhan Bank and Baladna. In the venture market, Al Faleh Educational Holding saw its shares appreciate in value this week.

Nevertheless, Doha Insurance, Nakilat, Beema, Milaha, Mannai Corporation, Inma Holding and Nakilat were among the shakers in the main market. In the junior bourse, Mahhar Holding saw its shares depreciate in value this week.

The Gulf funds were net buyers to the tune of QR19.48mn against net profit takers of QR7.52mn the week ended November 9. The domestic institutions' net buying increased markedly to QR9.95mn compared to QR4.4mn the previous week.

The Arab individuals turned net buyers to the extent of QR1.12mn against net sellers of QR8.58mn a week ago. The local retail investors' net selling fell substantially to QR77.23mn compared to QR102.69mn the week ended November 9.

The foreign individuals' net profit booking weakened noticeably to QR0.44mn against QR11.08mn the previous week.

However, the Gulf retail investors' net selling strengthened perceptibly to QR1.61mn compared to QR0.44mn a week ago.

The foreign institutions' net buying shrank considerably to QR48.72mn against QR125.92mn the week ended November 9.

The Arab institutions had no major net exposure for the second continuous week.

The main market witnessed a 23% contraction in trade volumes to 1.02bn shares, 15% in value to QR2.65bn and 11% in deals to 89,539 this week.

In the venture market, trade volumes plummeted 26% to 5.07mn equities, value by 26% to QR6.99mn and transactions by 28% to 496.

# BUSINESS

## Oil traders turn bearish, daring Opec+ to cut again

By John Kemp
London

Investors continued to sell petroleum futures and options last week as sentiment became the most bearish since the middle of the year, before Saudi Arabia and its Opec+ partners removed extra crude from the market.

Hedge funds and other money managers sold the equivalent of 57mn barrels in the six most important futures and options contracts over the seven days ending on November 7.

Fund managers have been sellers in five of the most recent six weeks reducing their combined position by a total of 331mn barrels since September 19.

The combined position was reduced to just 349mn barrels (13th percentile for all weeks since 2013) from a high of 680mn barrels (64th percentile) six weeks earlier.

It was only slightly above the recent low of 282mn barrels (5th percentile) at the end of June before Saudi Arabia and its Opec+ partners deepened their production cuts from the start of July.

The progressively bullish sentiment which gripped the market in the third quarter has evaporated during October and November.

Continuing the pattern of previous weeks, fund sales last week were concentrated in crude (-52mn barrels), with roughly equal sales of NYMEX and ICE WTI (-28mn) and Brent (-24mn).

The position in WTI has become particularly bearish: the position in NYMEX and ICE WTI was reduced to just 90mn barrels (4th percentile) down from 286mn (60th percentile) at the end of September.

The reduction in WTI positions has coincided with the stabilisation of crude inventories around the NYMEX delivery point at Cushing in Oklahoma and easing of the extreme backwardation in nearby calendar spreads.

The sharp run up and collapse of calendar spreads is characteristic of an end to the squeeze on deliverable supplies. With the squeeze apparently over, fund managers had become much more bearish about WTI prices.

Bearish short positions in the premier NYMEX WTI contract were boosted to 96mn barrels on November 7 from just 20mn at the start of October.

Bearish short positions were outnumbered by bullish long ones by a ratio of just 1.62:1 last week down from 6.15:1 at the start of October.

But the concentration of short positions has increased the probability of a sharp reversal in the previous downward price trend when funds to realise their profits.

It has also heightened the risk of further action by Opec+to drive prices higher and/or a renewed squeeze on deliverable inventories at Cushing.

Most traders already expect Saudi Arabia, Russia and their Opec+ allies to extend current production cuts from the end of December until at least the end of March.

Portfolio investors are struggling to become bullish about the outlook for US gas prices in the face of record production and a mild start to the winter heating season. Hedge funds and other money managers sold the equivalent of 380bn cubic feet (bcf) over the seven days ending on November 7.

Since the start of July, funds have repeatedly tried to become more bullish only to be forced into a retreat by the persistence of high inventories.

Fund managers have never been net buyers (or net sellers) for more than two consecutive weeks since July 11 before reversing course. As a result, the net position of 563 bcf (45th percentile) on November 7 was not significantly different from the position of 743 bcf (48th percentile) on July 11.

Front-month futures prices are very low in real terms, which implies the balance of risks is titled towards the upside. But fund managers who have accumulated a bullish long position have been repeatedly wrongfooted by high production and mild weather that has left inventories above the seasonal average.

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

# Russian data suggest western oil sanctions not working

Bloomberg
Moscow

The west's sanctions on Russian oil exports are failing to deprive the Kremlin of revenue to fund its war in Ukraine, meaning the measures are not succeeding in one of their principal objectives.

Whether in dollars or roubles, net or gross, Russian Finance Ministry data show that the money flooding into government coffers has been grinding higher for months now. The figures beg the question as to whether Group of Seven nations, especially the US and Europe, will need to take more aggressive action if they really want to deprive Moscow of petrodollars.

Their key tool for curbing that funding was a price cap that prevented western firms from helping in the transport of Russian oil if it cost more than $60 a barrel. But one study this week showed that almost every seaborne cargo breached the threshold last month.

Gross revenues from the three main tax sources of petrodollars nearly doubled between April and October, coming to more than $13bn last month, Bloomberg calculations based on the Finance Ministry's data show. The October earnings exceeded those for any single month in 2021, before the invasion of Ukraine caused unprecedented volatility to the nation's exports.

Even after deducting sizeable subsidy payments to the country's oil refining industry, which jumped to $2-3bn in August and September, a surge is clear. In October, the Russian refiners didn't receive any subsidies for domestic fuel supplies, which contributed to a substantial jump in Russia's net oil earnings for the month.

A drilling rig at an oil, gas and condensate field in Russia. The west's sanctions on Russian oil exports are failing to deprive the Kremlin of revenue to fund its war in Ukraine, meaning the measures are not succeeding in one of their principal objectives.

A spokesperson for the US Treasury Department said that while the first phase of the price cap focused on reducing the amount of revenue Russia gains from its oil sales, the second phase of the measure will focus on increasing the costs Russia has to pay to keep its fleet of tankers running.

To do that, the department has begun to sanction shipping companies and vessels it says have transported oil sold above the cap and started to look for ways to increase the costs to Russia for using its shadow fleet.

In December last year, the European Union all but halted seaborne purchases of Russian oil and simultaneously joined others in the G7 in imposing a price cap on the country's exports. While the initial blow led to a $25bn deficit in the Russian budget at the start of the year, the effects have faded dramatically.

To counteract the west's restrictions, Russia pivoted away from western shipping and services. It has done so by using a vast shadow fleet of tankers that have unclear ownership and insurance status. Privately, European Union officials acknowledge that the price cap isn't working well. Back in September, US Treasury Secretary Janet Yellen admitted the approach was losing its sting.

For the Russian government, what matters is revenue and expenditure in rouble terms.

That dictates how easily the country can fund its budgetary expenses, including massive military spending because of the war with Ukraine, and swelling social obligations before presidential elections in March. And there, the news is no better for the west. The three main levies are an oil output tax, an export duty on crude and fuels, and a profit-based tax that partly replaced a production tax for some fields. Revenue from those rose to 1.2tn roubles in October, the highest since April 2022. It also exceeded any single month in 2021.

The increase in Russia's revenues comes as the price of the nation's barrels has been growing both in absolute terms and relative to the international Brent benchmark. A sharp depreciation of the rouble in the recent months also helped boost revenues from oil sales denominated in foreign currencies.

The G7's price cap prohibited western firms from providing shipping, insurance and other services for Russian oil sold above $60 a barrel. In early 2022, the discount of the nation's crude to Brent widened to a historic high of more than $34 per barrel, according to data from Russia's Finance Ministry. As customers — particularly in China and India — became accustomed to using the shadow fleet, the discounts between Russia's flagship grade Urals and international prices narrowed. It is now closer to $10 a barrel, with Russia expecting the gap to narrow further by about $5.

As part of its pivot toward trying to boost Russia's costs, the US Treasury recently sanctioned five tankers for breaching the price cap. It has also written to ship-management companies asking them for information regarding about 100 tankers that moved Russian oil. It's not clear if the measures will do anything to dim the shadow-fleet trade in oil.

The European Union is also trying to make it harder for tankers that are beneficially owned by Europeans to be sold into the shadow fleet. That could ensnare parts of the Greek fleet, even if large numbers of vessels have already switched over. Almost 30% of Russian oil shipments had some sort of involvement of a G7 entity in October, according to data compiled the KSE Institute, which is part of a Ukrainian organisation that's pushing for stiffer sanctions on Moscow.

According to a detailed analysis of exports, almost all Russian seaborne cargoes were bought above the cap in October, the institute said. There are still pressures on Russia too. In a move to cut the budget expenditure and keep more petrodollars, the Russian government tried to halve its subsidy payments to refiners but faced pushback from the industry.

Full-size payouts have been reinstated from October and the refiners will start receiving them from November, which will continue to put pressure on Russia's net oil revenues, affecting the Kremlin's financial flexibility.

# Low-cost airline Flybondi eyes Brazil expansion after SPAC deal

Bloomberg
Buenos Aires

Argentine low-cost airline Flybondi is considering an expansion into Brazil, a move that could eventually be financed through public markets once it completes a merger with a blank-check company in the first half of next year.

The company, which announced its plan to go public on the Nasdaq on October 20 through special purpose acquisition company Integral Acquisition Corporation 1, may not see immediate proceeds from the transaction but it would be a first step in being able to tap a broader group of investors down the line, said Chief Executive Officer Mauricio Sana in an interview.

"The move isn't aimed at raising funds: we don't need them, we haven't asked for a capital injection in three years. And you never know how much you'll get in the end," Sana said on the sidelines of a conference. The benefit is that if next year Flybondi wants to upscale quickly "and our shareholders don't necessarily want to give us more funds, we can do a follow-on round without having to wait a year to execute a business plan."

That's where a Brazil expansion could come in. The company is actively analysing the move, Sana said, but Brazil's "aggressive" consumer protection laws and frequent fines for companies operating there are risks.

"We want to be in Brazil, and we're working toward announcing our possible entry there next year," Sana said. "But now we're looking at regulatory issues. If that barrier is reduced, we'll probably go forward, we're working on it."

The company already flies to Rio de Janeiro, Sao Paulo and Florianopolis from Argentina. An expansion would mean doing domestic routes within Brazil where Latam Airlines Group SA, Azul Linhas Aereas Brasileiras SA and Gol Linhas Aereas Inteligentes SA are dominant.

Buenos Aires-based FB Lineas Aereas SA began operations in 2018 when discount airlines were first allowed to fly in Argentina, increasing competition for state-owned carrier Aerolineas Argentinas. Flybondi's market share for domestic routes is up to 22% and 5% for regional routes as of October, according to the latest government data.

The company is operating with 15 planes after doubling its fleet in 2022 and has plans to receive another before the end of the year. Four more planes should be added in 2024. Flybondi currently reinvests all profits to lease more planes, and flies to 18 domestic destinations.

Discussions for the SPAC merger began when Flybondi was approached a couple of months ago, Sana said. The timing of the announcement was related to the formal merger process and totally unrelated to political developments in Argentina. The country will hold a presidential runoff election on Nov 19.

Integral Acquisition Corporation 1 currently trades under the ticker "INTE" and has $12.9mn of cash in trust. Shares of the airline will be listed as "FLYB," and the transaction is expected to close in the first half of 2024.

"It was very interesting to see that a SPAC associated to Nasdaq, technology and innovation came calling, because that means we're leaving the corset of discussions on traditional airlines," Sana said. "It shows we're doing something right."

Argentina has seen a dearth of stock listings in the past five years. Rosario-based biotechnology company Bioceres Crop Solutions Corp. was the country's last Argentina-based firm to go public, also through a blank-check company in 2019. Other companies with Argentine founders but operations elsewhere, including Moolec Science Ltd and Satellogic Inc, have also turned to blank-check companies to list in the market.

Sana said he's not concerned with the outcome of the presidential election between Economy Minister Sergio Massa and libertarian outsider Javier Milei.

One of the most drastic proposals discussed in the campaign has been Milei's idea of dollarising the Argentine economy.

## JPMorgan has a new way to gauge its green progress

Bloomberg
London

The world's leading fossil fuel financier has come up with a new way to assess how well it's supporting a low-carbon transition.

JPMorgan Chase & Co is changing how it calculates greenhouse gas emissions that flow from the funding it provides oil and gas companies. The Wall Street giant run by Chief Executive Officer Jamie Dimon said it's adding its financing of zero-carbon power generation to the calculus.

"A singular focus on fossil fuels won't successfully achieve the necessary transition of the global energy system," the bank wrote in its annual climate report. "Supporting the rapid build-out of zero-carbon power" will "help replace fossil fuels and reduce emissions."

As the largest energy banker, JPMorgan is a frequent target of criticism over Wall Street's role in the climate crisis. At the same time, the bank is a leading US arranger of green bonds, making it vulnerable to Republicans seeking to protect the fossil fuel industry. The bank has said it doesn't seek to play favourites with either side of the climate aisle. The energy transition requires $4tn of annual investment, Dimon said in the report, which brings with it "the potential to generate a wave of growth and opportunity the world hasn't seen since the first industrial revolution."

On Wednesday, JPMorgan said its oil and gas clients' Scope 1 and 2 emissions—much of which stems from methane leaks and flaring—will stand apart from their Scope 3 emissions, or end-use of client products. Scope 3 emissions account for as much as 95% of the total carbon emissions from oil and gas companies, according to a recent report from Wood Mackenzie.

Under JPMorgan's new plan for calculating its green progress, financed Scope 3 emissions will be combined with the "zero-carbon power generation activity" it also funds, such as solar, wind and hydropower as well as nuclear. The bank is calling this an "energy mix target," saying that its new goal is to reduce carbon intensity of its energy-mix financing portfolio by 36% (using a 2019 baseline) by 2030.

The energy mix target, the bank said, is intended to "reflect the reality that we also need to prioritize a significant build-out of clean energy sources."

Like most of its peers, JPMorgan has set interim decarbonization targets for the most carbon-intensive areas of its balance sheet, including oil and gas. While loans to fossil fuel companies make up just 3% of JPMorgan's $1.15tn lending portfolio, Scope 3 emissions from those companies are by far the biggest contributor to the bank's financed emissions, generating five times more greenhouse gas pollution than the next heaviest-emitting sector.

Jamie Dimon, chief executive officer of JPMorgan Chase & Co.

BloombergNEF has warned that by 2030, banks must be lending four times as much to clean-energy concerns as they do to fossil fuel companies if the planet is to avoid the worst of the climate crisis. With six years to go, the average ratio is currently closer to 1-to-1. JPMorgan came in at 0.7 as of 2021.

"The expectation that the financial services sector is going to solve the climate crisis on its own is a little out of step with reality," said Heather Zichal, the bank's global head of sustainability. "As much as we might provide financing to the oil and gas sector, we also are a huge force in green finance."

Ramaswamy Variankaval, JPMorgan's global head of corporate advisory and sustainable solutions, said the bank's new methodology "aligns us better with both the underlying scenario and also the on-the-ground reality."

In practice, it means the bank could record a decrease in its financed emissions target without cutting back on the amount of money it funnels to the oil and gas industry, though Variankaval said he expects that—as the bank provides more capital to clean energy projects—it will ultimately "substitute the higher carbon intensity sources of energy."

A spokesperson for the Center for Climate and Energy Solutions said "the key is to invest in the clean technologies without increasing investment in traditional fossil fuels. You want the denominator to include a growing amount of clean energy and a shrinking amount of fossil fuels—and that shift needs to be transparent over several years." JPMorgan also disclosed several other updates in its climate report, including decarbonisation goals for two new sectors: shipping and aluminium. The bank now has net-zero financing goals for eight of the most-pollutive industries.

The New York-based bank said all of its new and existing targets will be aligned with the International Energy Agency's Net Zero Emissions by 2050 scenario.

Earlier goals were set to the IEA's Sustainable Development Scenario, which aims to achieve net zero emissions by 2070.

JPMorgan also published absolute financed-emissions numbers for the first time. The bank focuses on measuring carbon intensity, or the amount of carbon produced per unit of output. Critics have said using intensity targets alone can be problematic, as emissions intensity can decrease even as a bank's absolute emissions increase.

Zichal said intensity measurements remain "the most decision-useful metric" and that adding absolute numbers allows JPMorgan to provide stakeholders with "an additional layer of transparency."

The bank published absolute emissions in line with the methodology recommended by the Partnership for Carbon Accounting Financials (PCAF), a widely used industry standard. It also offered numbers using its own process that the bank says seeks to avoid volatility that has skewed emissions data for other banks that use the PCAF framework.

# Tanking Alibaba drags HK as Asia markets rally fades

**AFP**
Hong Kong


Bull statues displayed outside the Hong Kong Stock Exchange. The Hang Seng Index closed down 2.1% to 17,454.19 points yesterday.

Hong Kong led losses in Asian markets yesterday as Alibaba was hammered after saying it would cancel the planned spinoff of its cloud computing arm.

In Tokyo, the Nikkei 225 closed up 0.5% to 33,585.20 points; Hong Kong — Hang Seng Index ended down 2.1% to 17,454.19 points and Shanghai — Composite closed down 0.1% to 3,054.37 points yesterday.

The sell-off came as an exciting week on global trading floors saw a tepid finish, with Wall Street drifting even as a forecast-beating jump in US jobless claims added to optimism the central bank would not hike interest rates again.

Market-heavyweight Alibaba collapsed 10% after its shock decision not to spin off its cloud computing arm because of the US-China chip war.

In one of its most wide-ranging restructurings, Alibaba said in March it planned to split the vast group into six distinct entities that would be able to separately pursue funding through public listings.

But on Thursday it called off the creation of its Cloud Intelligence arm in light of "the recent expansion of US restrictions on export of advanced computing chips".

Washington has cited national security grounds in moving to bar the shipment to China of powerful chips, including those from California-based Nvidia, which are crucial to the development of artificial intelligence.

The cloud spinoff was the crown jewel of Alibaba's restructuring, analysts said, adding that it brought into question traders' $200bn valuation of the group.

The firm said in an earnings release on Thursday that the spinoff "may not achieve the intended effect of shareholder value enhancement". "Accordingly, we have decided to not proceed with a full spin-off, and instead we will focus on developing a sustainable growth model for Cloud Intelligence Group under the fluid circumstances," it added.

The announcement surprised traders and its US-listed shares tanked more than 9%, as it was one of the most high-profile victims of the China-US standoff.

It was the latest blow to the firm, which has in recent years been under the hard gaze of Beijing and hit by a series of restrictions on the domestic tech sector. "I was quite taken aback," said Kevin Net, at Tocqueville Finance. "My initial thoughts are that the whole corporate restructuring…could be at risk." And Forsyth Barr Asia's Willer Chen simply said: "The market is scratching its head." Other markets in Asia were also struggling following a soft lead from Wall Street, even after news that jobless claims had risen, indicating the labour market was softening.

The figures follow weaker-than-expected prints on consumer and producer price inflation, which fanned hopes that the Federal Reserve will not need to hike borrowing costs again.

That sparked a surge across markets and sent Treasury yields tumbling, with some traders even entertaining the idea of several cuts to borrowing costs next year.

"This unexpected increase may further reinforce the view that the economic situation may require or at least suggest a shift in the Federal Reserve policy is warranted," said Stephen Innes at SPI Asset Management.

"When taken with cool reads on consumer and producer prices, this week's claims update argues, at minimum, against additional Fed hikes." However, traders remain on edge that the Fed has left the door open to a possible hike if data takes a turn for the worse, leading to warnings the economy could be in danger of slipping into recession.

# India financial stocks slump on central bank's stricter loan rules

**Bloomberg**
Mumbai

India's lenders and shadow banks tumbled after the central bank announced stricter rules to stem the relentless rise in risky consumer loans.

SBI Cards & Payments Services slumped as much as 6.8% to its lowest since March due to high exposure to such debt, while bank Bajaj Finance, the nation's largest shadow lender, tumbled 3.5% as investors assessed the growth prospects for financial services companies — the most influential segment of India's $3.7tn stock market.

The Reserve Bank of India Thursday asked lenders to boost provisions against personal loans and credit card borrowings as these debts are unsecured. The measure may hurt consumer spending — a key driver of India's economy — as loans will likely cost more, impacting banks' profits, according to brokers including Jefferies Financial Group Inc.

"The final rules are far more draconian in our view," said Suresh Ganapathy, head of financial services research at Macquarie Capital. Non-bank lenders will bear the brunt of RBI's move as their funding cost will increase, he added.

Banks will now have to increase the risk cover on some consumer loans, credit card receivables and bank credit to shadow lenders by 25 percentage points. The decision excludes mortgages, loans for education and cars, and debt backed by gold. The increase in risk-weight of loans taken from banks may nudge non-bank lenders to seek alternative sources of credit, analysts said.

The NSE Nifty Bank Index and S&P BSE Financial Services fell 1.3% each, with IDFC First Bank and RBL Bank leading the declines. A gauge of India's state-run lenders dropped as much as 2.6%, the most since October 26, outpacing the fall in the gauge of private banks.

Paytm, the SoftBank Group Corp-backed fintech bellwether, slid as much as 3.9% amid concern the new rules will hurt its lending business.

RBI Governor Shaktikanta Das has been urging banks to enhance internal controls as unsecured loans are growing nearly twice as fast as total lending. In October, he asked bankers to look carefully at their risk strategies, warning the surge in personal loans may heighten risks down the road.

UBS Group AG also warned last month that surging growth in unsecured lending at Indian banks could lead to a rise in credit costs as more unsecured retail loans turn sour, with state-run banks more vulnerable to this trend, compared to their private sector counterparts.

To be sure, the rising delinquencies in unsecured loans and debt sourced via fintech tie ups may not lead to systemic issues as small ticket loans accounted for 2.5% of overall personal loans by value, Nomura Holdings Inc said in a note this week.

# Alibaba dives $22bn as chip war spurs breakup rethink

**Bloomberg**
Hong Kong

An escalating fight between the US and China for technological dominance has triggered one of the most stunning reversals of corporate strategy yet: On Thursday, Alibaba Group Holding walked back plans to spin off and list its $11bn cloud business.

Chairman Joseph Tsai and Chief Executive Officer Eddie Wu, two of Alibaba-founder Jack Ma's longest-standing lieutenants, said China's e-commerce and Internet computing leader needed a strategy "reset." Wu explained in his first public remarks since taking the helm that the US's ever-increasing restrictions on chip sales to China has forced the company to rethink its plan to break up the empire Ma spent decades amassing into six parts. Alibaba also said it's suspending a listing for the popular grocery business Freshippo.

Wall Street's response to Alibaba's reversal was swift: Shares slid 10% in Hong Kong, wiping out more than $22bn of market value in their biggest drop in over a year.

The decision comes at difficult time for Alibaba. The company is trying to stage a comeback from the Covid-19 pandemic. It's also only just emerging from a tech industrywide crackdown in China. And it's working to win back merchants and shoppers who've flocked to PDD Holdings Inc. and newer entrants such as ByteDance Ltd.'s Douyin, as well as corporate customers that have turned to state-backed cloud services.

The Biden administration's curbs on exports of certain chips — specifically designed for artificial intelligence use and critical for the data centres and high-end computing operations that drive Alibaba's cloud services — aren't helping.

"Circumstances have changed," Tsai told analysts on a post-earnings call. The company must now focus on providing "cash to make investments — because in the AI-driven world, to develop a full-blown business based on a very networked and highly scaled infrastructure, it requires investment."

The Chinese e-commerce leader is joining social-media giant Tencent Holdings Ltd. in publicly raising the challenges that the US's trade restrictions have brought about. The Biden administration's efforts to prevent the Chinese government from obtaining cutting-edge chips for military applications have begun affecting the country's private sector in unexpected ways.

Analysts said other factors might've played into Alibaba's reversal. Its cloud business has been slowing and losing market share for years — and has attracted government scrutiny over alleged security violations.

The best time for Alibaba to have sought a public listing for its cloud division "has already passed," said Li Chengdong, head of the Beijing-based technology think tank Haitun. "The strength of the business itself is an issue."

Even before Thursday's announcement, Alibaba's endeavor had faced headwinds. Its potential Hong Kong IPO of Freshippo was on the backburner amid weak sentiment for consumer stocks. Former Chief Executive Officer Daniel Zhang quit just months after agreeing to lead its cloud division. Logistics arm Cainiao filed for a Hong Kong IPO in late September, but the valuation it will command remains unclear.

Still, Thursday's news came as a shock to most everyone on Wall Street.

"I was quite taken aback," said Kevin Net, head of Asian equities at Tocqueville Finance. "My initial thoughts are that the whole corporate restructuring announced in May could be at risk."

The cloud spinoff was seen as "one of the marquee corporate actions" that would work to reduce the discount of the holding company, Osamu Yamagata at Abrdn said. The planned restructuring bolstered Alibaba's share price, he said, "so I would expect a reversal."

The cloud spinoff was one part of the most radical corporate overhaul in Alibaba history — one that was designed to spread more autonomy throughout its various businesses, rejuvenate them and create more market value.

Such a split, however, also threatened to reduce Alibaba's heft and erode its position as one of the leaders of the Chinese digital economy.

Many observers saw the split-up as potentially encouraged by a government that, at the time, was seeking to break up powerful, private-sector interests and curb the growing influence of tech firms.

Instead of a split-up, Alibaba executives said, the company will focus on growing the cloud unit organically and issuing its first-ever annual dividend totalling $2.5bn, a bid to assuage shareholders who were hoping for a big payout from the unit's debut.

"The market is scratching its head," said Willer Chen, research analyst at Forsyth Barr Asia. "The first annual dividend looks like a compensation to shareholders. However, it may not fully offset the shock given the higher value of cloud unit."

## PICPA Doha hosts seminar on Qatar tax updates


The Philippine Institute of Certified Public Accountants (PICPA) Doha recently held its 'Qatar Taxes: Dhareeba, Contract Reporting, and Recent Tax Updates' as part of its Continuing Professional Development (CPD) programme. The seminar aimed to explain Qatar's tax landscape, the tax compliance requirements in Qatar, and the future of taxation in the country. Topics, such as Dhareeba, contract reporting, withholding tax, transfer pricing, value-added tax (VAT), and excise tax were discussed during the event. Resource speakers from KPMG Qatar, Abhishek Jain (Director-Tax), Nurlan Sadraddinzade (Associate Director-Indirect Tax), and Fatima Adrienne Yuson (Associate III, Tax) shared their expertise before 55 participants comprising members, associates, and guests of the organisation. PICPA Doha is keen on keeping up with the changes in tax regulations of the country and the region, and ensuring that its members are well-equipped and knowledgeable about the topic.

## Eurozone yields hit 2-1/2 month low

**Reuters**
London

Eurozone long-dated yields hit fresh 2-1/2 month lows yesterday, and money markets increased their bets on European Central Bank rate cuts after soft US data supported the view that the central banks' fight against inflation could be over.

US borrowing costs were lower in London trade, with 10-year Treasury yields hitting a fresh 2-month low, as recent data helped cement expectations the Federal Reserve will not raise rates.

For the euro area, money markets fully priced in 100 bps of rate cuts by December next year, including 50 bps by July 2024.

They also discount an around 80% chance that the first 25 bps rate cut will be next April.

Germany's 10-year government bond yield, the benchmark for the euro area, dropped 4.5 bps to 2.54%, after hitting 2.517%, its lowest since September 1.

Bond yields move inversely to prices.

Some market participants were sceptical about a further fall in long-dated yields.

"While being long interest rate duration risk (buying long-dated bonds) may, at first sight, appear to be a profitable business again, a more sober perspective, particularly on old-fashioned supply and demand dynamics, suggests otherwise", said Ralph Gasser, head of fixed income specialists at GAM. "If we add that core inflation remains sticky and deflationary base effects of food and energy prices are already waning fast, breakevens, too, may be subject to upside surprises from here," he added, referring to the difference between nominal and real yields — a gauge of inflation expectations.

Germany's 2-year yield — most sensitive to short-term expectations for policy rates — hit 2.90%, its lowest since June 7. It was last down 3 bps at 2.91%.

A key market gauge of euro area inflation expectations hit its lowest level since late March at 2.35%, in a further sign of confidence that central banks are winning their battle against unwanted consumer price dynamics.

ECB policymaker Robert Holzmann repeated yesterday that the central bank must stand ready to raise interest rates again if necessary, and said he did not expect the ECB to start cutting rates in the second quarter as some think it will.

Italy's 10-year yield, the benchmark for the euro area's periphery, dropped 5 bps to 4.29%. It hit earlier in the session 4.254%, its lowest level since September 4.

The gap between Italian and German 10-year yields — a gauge of the risk premium investors ask to hold bonds of the euro area's most indebted countries — hit 172.40 bps, its tightest level since September 21.

## German budget blow triggers 2024 growth and jobs warnings

**Reuters**
Berlin

A German court ruling that wiped billions from the federal budget could drag down growth by as much as half a percentage point next year in Europe's biggest economy, an economy ministry source told Reuters yesterday.

The coalition is scrambling to fix a large hole in its finances after a court ruling blocked the government from transferring 60bn euros ($65bn) in unused funds from the pandemic towards green initiatives and industry support.

The assessment of the ruling is an early indication of just how damaging some in Chancellor Olaf Scholz's coalition see it, though Finance Minister Christian Lindner on Thursday had said it was too early to assess the extent of the issue. The economy and finance ministry declined immediate comment.

"According to initial rough estimates, a loss of investment funds could cause growth in 2024 to be about half a percentage point lower," the source, who is familiar with the economy ministry's forecasts, said.

"So the ruling could have a negative impact on economic growth," the source added.

Last month, the economy ministry predicted 1.3% growth for next year.

The court ruling has increased tensions in Chancellor Olaf Scholz's already fractious government, which has seen support slump as it tackles a series of crises and the economy teeters on the brink of recession.

Although the Greens want additional spending, the Free Democrats (FDP), which heads the finance ministry, reject additional debt and higher taxes.

"Some of the expenditure planned for the coming year will now have to be cut, which the governing parties are likely to find difficult to agree on," said Commerzbank chief economist Joerg Kraemer.

The political fallout saw Economy Minister Robert Habeck from the Greens party double down on warnings that the ruling could damage German industry, disrupt climate change goals and see jobs move abroad.

The Climate and Transformation Fund was designed to ensure value creation and jobs, Habeck said. "It will be used to finance the production of green steel, green chemicals, the ramp-up of hydrogen, battery cell production, and also semiconductor production to strengthen economic security," he said.

"If this is at risk, jobs and value creation are at risk. The exodus of industry is damaging our country and society." As the upheaval continued on Friday, a parliamentary committee paused deliberations on the 2024 draft budget and saw some decisions postponed until after an extraordinary meeting next week.

Some measures were agreed however, and parliament passed a multibillion-dollar tax relief package for small and medium-sized companies, aimed at unleashing new investment at a time of weak foreign demand and high interest rates.

State gas and electricity price brakes, which were due to expire at the end of the year, have been extended until March 31, 2024, the German news agency DPA reported on Friday.

Some specific expenditure allocations, however, will be discussed next Thursday in detail, after a special meeting on Tuesday to discuss the impact of the constitutional court ruling.

Final key budget figures and new debt figures will be made public after the meeting next Thursday, instead of this week as previously expected.

# Traders bet on ECB rate cuts next year

**Bloomberg**
Frankfurt

Europe's sputtering economy is causing traders to bet on a faster pace of interest rate cuts next year.

For the first time, money markets have priced in a full percentage point of interest-rate cuts in 2024. Just two months ago, the expectation was that the European Central Bank (ECB) would deliver a 75 basis-point decrease, according to swaps pricing tied to central bank meeting dates.

Bets on similar easing by the Bank of England (BoE) accelerated yesterday after weaker-than-forecast UK retail sale numbers. Traders are also anticipating 100 basis points of cuts by the Federal Reserve next year, with signs of cooling US price pressures on show this week. Plus, oil's descent into a bear market has reignited worries about a recession.

ECB policymakers have begun to debate the timing of potential rate cuts, though that discussion has incited some pushback. Greek central bank Governor Yannis Stournaras has said that officials could consider easing in the second half of 2024, while his German colleague, Joachim Nagel, has vehemently pushed back on that prospect.

"I don't like this discussion going on about when will be the point you lower interest rates," the Bundesbank president said last week. "This discussion is not helpful it is much, much too early." For her part, ECB President Christine Lagarde said last week that any such reduction isn't going to happen "in the next couple of quarters," adding that "long enough is long enough." She omitted the topic from a speech in Frankfurt yesterday.

As evidence builds that an aggressive string of rate hikes is starting to take a toll on the economy, it's becoming harder to convince the market to follow the mantra of "higher for longer." Germany's 10-year yield has fallen almost 20 basis points this week to about 2.55% and the Stoxx 600 Index touched a one-month high yesterday.

Wagers by traders around the world that pull forward the timing of rate cuts are causing some unusual market dynamics, according to Steven Barrow, head of G10 strategy at Standard Bank. Swaps pricing suggests that there's a high probability that the Fed will start cutting rates from May, with the ECB following suit a month later and the BoE starting in August, he said.

"We think it is wrong," Barrow wrote in a note yesterday. "We find it strange that the market prices such an early Fed move when the economy is so much more robust than that we see in Europe." In his view, the Fed will hold off on rate cuts until the third quarter, while the ECB and BoE may act in the second quarter.

Meanwhile the European Central Bank won't cut interest rates in the second quarter, Governing Council member Robert Holzmann said, adding that market expectations for a reduction are premature.

The ECB may not yet have reached the end of its hiking campaign as the inflation outlook carries uncertainties related to wage dynamics and food prices, Holzmann told reporters in Vienna.

He called money market predictions of monetary policy easing speculative arbitrage.

"That would be somewhat early," Holzmann said, referring to the second quarter. "We are still trying to communicate, please, don't think that we are already at the end of the path."

Holzmann, traditionally among the ECB's hawkish policymakers, was speaking in reaction to markets pricing in a full percentage point of reductions next year amid signs of a slowing economy.

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The headquarters of the European Central Bank in Frankfurt. Europe's sputtering economy is causing traders to bet on a faster pace of interest rate cuts by the ECB next year.

## Deal slump tops list of private equity worries at Zurich meeting

**Bloomberg**
Zurich

Private equity managers had to confront a frightening thought as they gathered in Zurich this week with many of their insurance, pension and sovereign wealth investors: The prospect that this year's slump in deal-making will continue well into 2024.

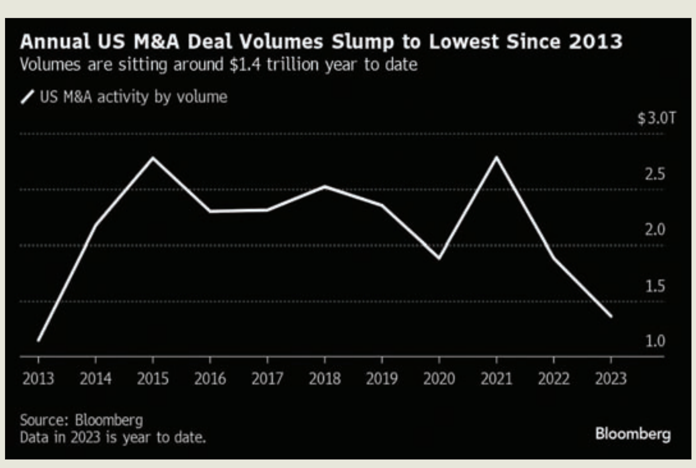
In hallways and during panel discussions at this year's SuperInvestor conference, many of the professionals in the $20tn alternative assets industry, which includes both private equity and private credit, expressed concern that mergers and acquisitions will remain subdued for months to come. That's as funds grapple with a challenging macroeconomic environment, following a boom decade for private markets.

While inflation has slowed, elevated raw material and labour costs have continued to weigh on the industry, as have prospects that central banks may still need to leave interest rates higher than anticipated for longer. "People are saying that they expect there to be more M&A in 2024, but I think that's more hope than anything we know for sure at this time," Richard T Miller, group managing director and chief investment officer at TCW Group, said on the sidelines of the conference.

Private equity has experienced some of its slowest deal activity this year, as has the private credit market, squeezing the money funds can pay back to their investors. Buyers and sellers have been struggling to agree on valuations in the same way they used to, while private credit firms are facing increasing competition from traditional banks fighting for a slice of the market.

Globally, buyout funds generated $202bn in deal value during the first half of 2023, a 28% drop from the previous year in the same period, according to Bain & Company's Private Equity Midyear Report 2023.

A weak M&A environment means less chance for private equity firms to sell assets and deploy money for new deals. That means private equity funds can't gather cash to distribute back to their investors and don't raise fresh commitments from their limited partners.




For private credit funds, a significant chunk of opportunities to deploy money comes from providing leverage to private equity funds buying new businesses. The industry also got used to rapid refinancings, which gave debt funds the opportunity to return capital faster or recycle it into other investments. Now, the risk of defaults in portfolios is rising, which is adding another headache for credit funds as they take over ownership of companies in case of default.

Many managers and investors searching for ways to generate cash have turned to secondary transactions. More than 15 transactions worth over $1bn were brought to market by limited partners, or LPs, in the first half of 2023, according to PJT Park Hill's H1 2023 Secondary Market Insight report.

So-called NAV financing solutions can also provide breathing room for private equity funds, which issue debt against the net asset value of their portfolios and can use that leverage to invest or return capital to their investors. Activity in that area has ramped up with more capital being raised and more deals being done.

"We are seeing increased deal flow both on our secondaries and NAV financing businesses," Henry Zhang, founding partner of Morningside Capital, said. "With a slowdown in M&A activities, these fund-level solutions have helped provide liquidity to limited partners and follow-on capital for funds."

Private equity funds don't have the regular inflows of interest payments that debt funds do. In addition, debt funds have an end date to their investment in the maturity of the loans. Without a strong market to sell their businesses, private equity can struggle to find an exit.

One way to generate cash for private equity funds is through continuation funds, whereby PE funds sell assets to themselves and get new investors into a deal.

There are also some signs of private equity revival for take-private deals, and even some larger transactions have happened recently.

Thoma Bravo bought Germany's EQS Group AG for about €400mn ($434mn) while Switzerland's Partners Group Holding AG acquired pipeline inspector Rosen Group. Owners of Rosen were seeking as much as $4bn for the asset, according to people familiar with the matter.

To be sure, private equity funds are impacted more than credit funds on balance, Zhang says.

"There's a lot of activity for private credit managers right now that is not necessarily driven by sponsored-M&A volumes," said Andreas Klein, head of private debt at Pictet Asset Management.