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Davos sees nothing normal about global economy for 2024



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TIMES

BUSINESS



AUTO FINANCE: Page 2

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Enhancing digital solutions for tourists seen to benefit small businesses in Qatar

By Peter Alagos
Business Reporter

Tourists arriving in Qatar will stand to gain from potential collaborations forged by local tech startups and tourism stakeholders, which could help enhance visitors’ experience in the country.

Among these collaborative initiatives would be providing tourists with more options to transact cashless payments whilst visiting Qatar’s various tourism destinations, said Doha-based entrepreneur Michael Javier, the CEO and founder of fintech firm CWallet.

According to Javier, a “big synergy” exists between local startups and tourism stakeholders in the country’s private and public sectors that could play a key role in digitising commercial transactions.

“Tourists will be able to conduct digital payments that are not currently available in some areas of Qatar like Souq Waqif. This will increase domestic payment transactions,” Javier told



CWallet CEO and founder Michael Javier.

Gulf Times. Visitors to Qatar will also get access to special offers, discounts, and buy-one-get-one promos when using local wallets in the country, such as CWallet, Javier stressed, adding that this will not only enhance the trust mark for tourists but also expand

opportunities for key players in the business ecosystem.

Aside from enhancing digital payments and transactions, Javier said there are other main trends to anticipate in Qatar’s information and communications technology (ICT) sector this year, such as the

ever-evolving technology of artificial intelligence (AI). “Nonetheless, innovative ways of conducting offline and online transactions will still be on the rise. Climate tech and the focus on sustainability tech would probably surpass edutech and healthtech this year,” Javier predicted.

He also said that while there are challenges to anticipate going forward, opportunities are awaiting local solutions providers, which they could offer to the country’s tourism sector, thus elevating the domestic tourism experience.

“The booming tourism industry is already a huge opportunity for local service providers. Tourists are meant to have fun, relax, and enjoy, thus they are willing to spend, which is good for domestic players.

“One of the challenges in the sector is that there are still cash-oriented retailers in Qatar and tourists are limited only in spending inside big establishments, such as malls or hotels. Providing tourists with the ability to access digital solutions like digital or cashless transactions will be a big support to local businesses and small players,” Javier explained.

Qatar to integrate ‘circular principle’ in industrial processes and cities: NDS3

By Santhosh V Perumal
Business Reporter

Qatar will integrate “circular principles” into industrial processes and industrial cities as part of its sustained efforts to ensure environment sustainability.

Moreover, it will nurture the growth of a circular economy market for recycled and repurposed materials by encouraging the adoption of sustainable, resource-efficient practices across various sectors as the country targets 25% reduction in greenhouse gas (GHG) emissions and 4 gigawatt of renewable energy capacity by 2030.

The broad contours towards the environmental sustainability were drawn at the recently launched Third National Development Strategy (NDS3) 2024-2030.

Stressing that Qatar will ensure environmental components such as air, water, and land are well-managed and protected; the strategy said furthermore, these ambitions serve the long-term economic agenda of the country – reducing emissions protects the competitiveness of its core economic sectors, and adapting vital resources to climate change ensures the long-term resilience of its economy

To attain its emission reduction commitments of 25%, Qatar will implement mitigation measures across key sectors, including oil and gas, power and water, transportation, and building, construction, and industry.

These measures include scaling up advanced carbon capture and monitoring technologies, adoption of renewables and low carbon fuels, electrification, energy consumption reduction and efficiency measures, regulations, and enforcement of standards, NDS3 said.

To protect biodiversity, Qatar will protect 30% of land area, 30%

of sea area, and recover 30% of de-graded natural habitats.

This includes conducting spatial planning to identify and define biodiversity priority areas and develop management plans for identified areas, deploying plans to rehabilitate natural ecosystems through nature-based solutions, and enhancing the national programmes to combat desertification in the country.

“Qatar will also take actions to protect endangered species on land, sea, and air, addressing threats such as habitat loss, pollution, over-exploitation, and climate change to ensure the health of ecosystems,” it said.

To conserve water resources, the strategy said Qatar will ensure a reliable and sustainable water provision.

This will comprise the implementation of groundwater metering, protection zones, and Water Act regulations to safeguard groundwater and limit its use in fodder cultivation.

“Qatar will accelerate the adoption of sustainable desalination technologies like reverse osmosis,” it said, adding the nation will invest in leak detection technology, conduct water balance projects to identify measures for reducing apparent water loss, and encourage sustainable water conservation behaviour in society to reduce household consumption by 33% and improve water consumption per tonne of crop produced by 40%.

Qatar will also maintain the quality of all water sources through regular and effective monitoring and the enforcement of consistent water quality standards across sources, it said.

The strategy said the country will introduce programmes to reduce waste generation through societal behavioural change, encouraging individuals, communities, and organisations to foster a sustainable and environmentally conscious society.

‘Qatar real estate market sees downward pressure’

By Pratap John
Business Editor

Qatar’s housing market is in the “midst of a mismatch” between supply and demand, global real estate consultancy Knight Frank said and noted that in one year up to Q3-2023, residential sales transactions declined by 18%.

The housing market in Qatar is in the midst of a mismatch between supply and demand, with the latter still lagging the former, sustaining downward pressure on value and

rent, Knight Frank said in a recent report.

Furthermore, with the headline interest currently standing at 6.25%, up from 5% last November, affordability issues are being exacerbated, contributing to a decline in residential sales activity.

Despite this, however, the total value of residential sales climbed by 12% over the same period, highlighting the significant price appreciation in some submarkets, such as Doha and Al Daayen municipalities, where prices have risen by 58% and 46% over the last 12 months.

However, the number of transactions in these districts declined by 37% and 38%, respectively, over the same period.

Al Rayyan (235 sales) and Doha (174 deals) municipalities recorded the highest volume of residential transactions during the third quarter, Knight Frank said.

Average villa prices decreased by 2.5% over the past 12 months, falling to QR7,100/sq m in Q3-2023, with West Bay Lagoon commanding the highest sales price at QR8,471/sq m, while Al Kharaliyat has the lowest sale price at QR5,773/sq m.

Neighbourhoods with modern infrastructure and proximity to essential facilities such as schools, hospitals, and shopping centres, offering more services and amenities, tend to command higher sales prices.

Similar to sales prices, rental rates for both villas and apartments have also decreased over the past 12 months. Lease rates have declined across almost all districts, with West Bay and The Waterfront recording the highest quarterly depreciation, at 24% and 20%, respectively, for average quoted rents for apartments, Knight Frank noted in its report.

US rate imbroglio drags QSE index 147 points; M-cap melts QR9bn

By Santhosh V Perumal
Business Reporter

The lingering doubts on when the US Federal Reserve will cut the interest rates rattled the sentiments in the regional bourses, including Qatar Stock Exchange (QSE), which closed this week on a bearish note as its key index lost as much as 147 points and capitalisation eroded QR9bn.

The industrials, insurance and banking counters witnessed higher than average net selling as the 20-stock Qatar Index knocked off 1.4% this week which saw the Qatar Investment Authority and Ashmore Group enter into a strategic tie up to launch a \$200mn Qatari equity fund.

The foreign institutions were seen increasingly net profit takers this week which saw QIIB issue \$500mn sustainable sukuk and was oversubscribed eight times.

The Gulf institutions were seen net sellers this week which saw Qatar Islamic Bank report net profit of QR4.3bn in 2023.

The Arab retail investors’ weakened net buying had its influence in the main market this week which saw Wqod report net profit of QR983.96mn in 2023.

WEEKLY REVIEW

More than 80% of the traded constituents were in the red in the main bourse this week which saw Ahlibank Qatar register net profit of QR836.5mn in 2023.

However, the domestic funds were increasingly net buyers in the main market this week which saw the third national development strategy forecast that Qatar’s sovereign expenditure growth not to exceed non-hydrocarbon growth by 2030. The local retail investors turned bullish in the main bourse this week which saw Q-Fab, a subsidiary of Mahhar Holding, in a dealership contract with Zhejiang Dingli Machinery Company.

The foreign individuals were seen net buyers in the main market this week which saw a total of 0.28mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.63mn trade across 36 deals.

The Arab institutions turned net buyers in the main bourse this week which saw this week which saw as many as 0.03mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.29mn change hands across 53 transactions. The Gulf individuals continued to bet net



The industrials, insurance and banking counters witnessed higher than average net selling as the 20-stock Qatar Index knocked off 1.4% this week.

sellers but with lesser intensity in the main market this week, which saw consumer price index inflation in Qatar rise 1.59% month-on-month and 1.65% year-on-year in December 2023.

The Islamic index was seen declining slower than the other indices in the main bourse this week which saw the banks and industrials together constitute more than 57% of the total trade volumes.

Market capitalisation eroded QR913bn or 1.5% to QR600.23bn on the back of large and midcap segments this week, which saw no trading of sovereign bonds. Trade volumes

and turnover were on the decline in the main bourse; while it was on the decline in the venture market this week, which saw no trading of treasury bills. The Total Return Index shed 1.4%, the All Share Index by 1.48% and the All Islamic Index by 1.19% this week, which saw Qatar’s industrial production index plunge 5.8% year-on-year in November 2023.

The industrial sector index tanked 3.1%, insurance (2.99%), banks and financial services (1.41%), consumer goods and services (1.35%) and real estate (0.91%); while telecom and transport gained 3.3% and 0.13% respectively this week.

Major losers in the main market included Industries Qatar, Aamal Company, Qamco, Qatar Insurance, Ezdan, Mazaya Qatar, Me-saeed Petrochemical Holding, Qatar General Insurance and Reinsurance, QLM, Inma Holding, Qatar German Medical Devices, QNB, QIIB, Doha Bank, Medicare Group and Baladna. In the venture market, Mahhar Holding saw its shares depreciate in value this week.

Nevertheless, Ooredoo, Gulf International Services, Ahlibank Qatar, Doha Insurance and Milaha were among the gainers in the main market. In the junior bourse, Al Faleh Educational Holding saw its shares appreciate in value this week. The foreign funds’ net selling in-

creased substantially to QR66.34mn compared to QR9.35mn the week ended January 11.

The Gulf funds were net profit takers to the tune of QR59.16mn against net buyers of QR9.09mn the previous week.

The Arab individual investors’ net buying eased marginally to QR4.04mn compared to QR5mn a week ago. However, the domestic funds’ net buying rose significantly to QR84.78mn against QR33.53mn the week ended January 11.

The local retail investors were net buyers to the extent of QR36.96mn compared with net sellers of QR23.12mn the previous week.

The foreign individuals turned net buyers to the tune of QR1.04mn against net profit takers of QR13.6mn a week ago.

The Arab institutions were net buyers to the extent of QR0.05mn compared with net sellers of QR0.14mn the week January 11.

The Gulf individual investors’ net profit booking eased marginally to QR1.37mn against QR1.4mn the previous week.

The main market witnessed a 30% surge in trade volumes to 885.83mn shares, 52% in value to QR2.93bn and 26% in deals to 94,378 this week. In the venture market, trade volumes declined 49% to 0.74mn equities, value by 39% to QR0.89mn and transactions by 19% to 79.

BoE lacks key data as policy pivot looms: Economists

Bloomberg
London

Continuing issues with Britain's official labour market numbers pose a "major problem" for the Bank of England (BoE) as it edges towards a potential policy pivot at next month's interest-rate decision. UK economists warned that experimental numbers published by the Office for National Statistics while it fixes key employment, unemployment and inactivity datasets do not resolve the issue. Last week, the ONS revealed the overhaul is taking longer than expected. In December, members of the BoE's Monetary Policy Committee expressed specific concerns about "increased uncertainties" around the ONS's Labour Force Survey and noted that "updated" LFS estimates were due. Those improvements were not published Tuesday, however,

because the ONS needs "further time to complete quality assurance," it said last week. The ONS remains confident about its separate earnings release, which the BoE is also using to gauge its response to inflation. In the meantime, the ONS's experimental numbers are not helping, said Andrew Goodwin, chief UK economist at Oxford Economics. "The ONS appears to have decided that they need something to fill the void left by the LFS, even if that temporary measure has major flaws itself. I don't think the experimental series adds any value." The data shortcomings leave the BoE relatively unsighted on key labour market developments ahead of the February meeting, a critical moment as the bank is expected to shift to a more dovish stance following a sharper-than expected fall in inflation. Markets are forecasting a first quarter point rate cut from 5.25% in the spring, when inflation may

be back at the 2% target - down from an 11.1% high in late 2022. ONS data showed UK wages cooling at one of the fastest rates on record and vacancies falling but employment, unemployment and inactivity remaining largely unchanged. Alpesh Paleja, lead economist at the CBI employers' group, said the labour market is pointing in both directions, confusing policymakers. Falling earnings indicate a cooling but the experimental data suggests the jobs market remains tight, he said. "A more complete dataset with a robust enough sample size would allow analysts to come to more informed conclusions than at the moment." The ONS dropped its official LFS release last year over quality concerns amid tumbling survey response rates and replaced it temporarily with an experimental series using employee payroll data and the number of claims for jobless benefits.

The claimant count also captures people in work, however, and the payroll data is subject to frequent revisions. The experimental data provides only the headline unemployment, employment and inactivity rates. It lacks important breakdowns, such as age or reason for inactivity, and is based on out-of-date population estimates. Full LFS data is now five months out of date. "We are sceptical about how valuable the signal from the experimental labour market survey can be when it is based on claimant count and payroll data," economists at Nomura wrote. Goodwin warned that the experimental figures do not "tell us anything about participation" when "swings in participation rates were a key driver of how tight or loose the labour market has been." "This could be the missing piece of the jigsaw in terms of squaring the data on labour market quantities with pay growth. But

it's definitely a major problem for the BoE," he added. The ONS had signalled a new "transformed" survey with better response rates would be up and running in March but last week indicated that the plan now is to transition "in the first half of 2024," with "early indicative analysis" being shared in the spring. Hannah Slaughter, senior economist at the Resolution Foundation think-tank, said the lack of reliable employment data at a turning point for monetary policy "is making the BoE's life more difficult." For years, the claimant count was the headline measure of unemployment in the UK but it has since been superseded by the LFS, which shows the number of people who say they are available and looking for a job. The claimant count only covers those receiving out-of-work benefits, and not everyone who is unemployed does so.

Banks see slow revival for UK IPOs, bigger rebound some way off

Bloomberg
London

London's market for initial public offerings is stirring back to life after months of near inactivity, but bankers aren't celebrating yet as a bigger recovery could well be a year away. The UK IPO market is expected to lag behind the rest of Europe this year, with a full rebound not seen before 2025, according to a recent survey of equity capital markets bankers by KPMG.

The intended floats seen so far this year are "a promising sign, but the general consensus is we don't expect to see normalisation in the UK this year," Aadam Brown, head of independent equity capital markets advisory at KPMG UK, said in an interview.

KPMG defines "normalised" markets as those in which most firms attempting an IPO successfully complete them.

"We expect to see a more normalised UK IPO market in 2025," he said. "The selectivity we see in markets right now will dissipate and IPOs will be more accessible to a larger number of listing candidates wishing to explore that option."

Air Astana, Kazakhstan's flag carrier, and The London Tunnels Plc, a company developing once-secret tunnels in the city into a tourist attraction, said last week they plan UK stock-market listings in a rare burst of activity.

"We are at a point where the recovery is starting, there is more optimism, but it'll be a slow progression," Brown said.

Any resurgence in activity will be welcome in a market that's reeling from a sharp fall in the number of listings. Just about \$1bn was raised in the UK via IPOs last year, the lowest level in decades, according to data compiled by Bloomberg.

UK and international firms alike have shied away from listing in the UK, deterred by a small buyer base, a wide valuation gap between issuers and investors, and poor shareholder returns from recently listed firms.

The UK is also struggling to stem an exodus of firms to New York and elsewhere.

TUI AG this month became the latest to say that it plans to cancel its London listing. UK pollster YouGov is among firms considering scaling back its presence on the London exchange, while Irish building materials group CRH and packaging company Smurfit Kappa Group Plc have already taken action to step back from the market.

Still, a New York listing isn't for everyone, bankers caution, and there's hope yet for the market.

"London has not lost its lustre," Brown said, citing the survey, which showed that alongside New York, the City is still considered a "key destination of choice for large international companies."

Twenty-three banks participated in KPMG's survey, including the likes of Bank of America Corp, Goldman Sachs Group Inc and Morgan Stanley.

Britain's biggest banks brace for new misselling saga

Bloomberg
London

Britain's biggest banks have a new problem on the horizon: Car loans. The Financial Conduct Authority (FCA) has reached out to around a dozen banks about their auto lending practices, according to people familiar with the matter. The moves come as the regulator said last week it had begun an investigation into how some of these products were sold - a push that analysts say could land banks with a bill of as much as £10bn (\$13bn).

For decades, lenders including Barclays Plc, Lloyds Banking Group Plc and the UK arm of Spain's Banco Santander SA have made big money from funding car purchases.

Now, the FCA is looking at whether customers were told about the amounts of commission paid to the dealerships.

About a dozen auto finance lenders received orders from the regulator to begin so-called Section 166 reviews before Christmas, according to people with knowledge of the situation. These reviews force a firm to bring in an outside expert to examine their practices and produce and independent report for the authorities, which can then taking further action if necessary. A spokesperson for the FCA declined to comment.

While lenders would have their own internal minimum rate to finance a car purchase, dealers could earn thousands of pounds for themselves, and the bank, by pushing up the interest rate, a practice known as the "overage." Many consumers have complained they were not aware of the availability of the lower rate and the way the overages worked, the regulator said.

A smattering of test cases through the Financial Ombudsman Service, a government unit that handles customer complaints, have already led to refunds. Andrew Smith, chief executive officer of Paxen Group, a UK regulatory compliance advisory firm, said the ombudsman's findings suggested there was a strong likelihood that lender, brokers and others involved in the sale of motor finance products could end up compensating borrowers.

"I'm not convinced it's just the lending



A visitor exits the offices of the Financial Conduct Authority in the Canary Wharf business district in London (file). The FCA has reached out to around a dozen banks about their auto lending practices. The moves come as the regulator said last week it had begun an investigation into how some of these products were sold - a push that analysts say could land banks with a bill of as much as £10bn.

organisation that will end up on the hook," said Smith.

Analysts are warning this could be a major problem for the banks. Keefe, Bruyette & Woods said that Lloyds, the UK's biggest auto finance provider, could face a bill of around £1.2bn, while Royal Bank of Canada said in a note to clients that while details were scant, the potential compensation costs for the industry could reach between £2bn and £8bn - and in the worst case £10bn.

Shares in several banks fell last Thursday with the FCA's announcement as investors weighed up the seriousness of the issue. Close Brothers Group Plc, a smaller UK lender with an outside exposure to car loans, dropped nearly 11% on the day, while shares in Lloyds and Barclays lost more than 3% of their value.

The FCA ordered a pause until late September on new complaints while it decides what actions, if any, are needed to deal with the growing caseload.

"The new rules will help us ensure our approach to providing any redress that is due to these customers leads to the right outcomes for consumers and the effective functioning of the motor finance market," said the FCA in its statement last week. Concerns over car finance are not new. Seven years ago, the FCA warned about increased use of personal contract purchases in new and used car sales, which had risen from 34% of the market in 2008 to 66% by 2017, turbocharged by the ultra-low interest rates available to lenders.

Under these deals, a buyer essentially borrows against the forecast decline in vehicle's value over the life of the contract with the option to purchase the vehicle outright at the end - or, more often than not, to take out a new deal to buy their next car.

Three years ago, the authority banned commissions that incentivised motor finance dealers and brokers to increase a customer's borrowing costs.

In a statement, a spokeswoman for Lloyds said: "We are currently reviewing the FOS decision and will work collaboratively with the FCA on their upcoming review."

Barclays said: "While we haven't offered car financing since 2019, we are working with the Financial Ombudsman Service and Financial Conduct Authority to resolve historic complaints relating to these types of loans."

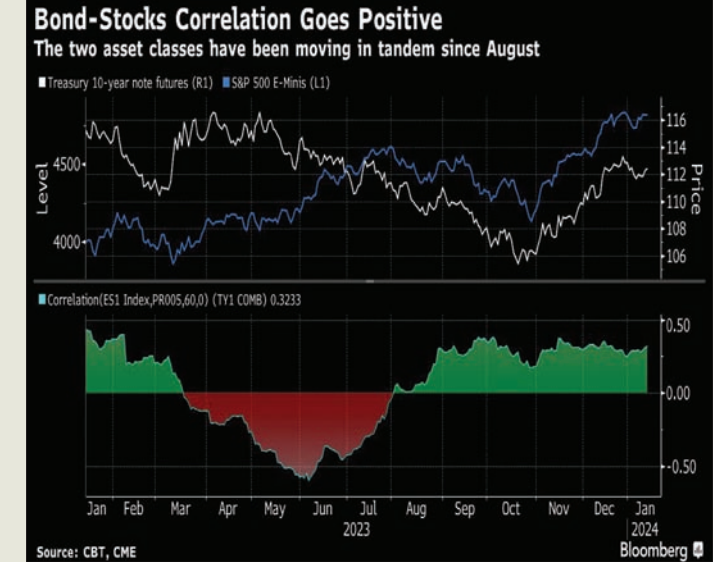
Santander UK said: "We welcome the clarity which the FCA's intervention on this important issue will bring for both customers and motor finance firms alike." Martin Lewis, a consumer rights activist and the founder of MoneySavingExpert.com, wrote a post on X that motor finance had echoes of PPI, the payment protection insurance misselling scandal over a decade ago that cost the UK banking industry more than £38bn (\$48.4bn) in compensation.

Big Wall Street rally threatens to set up new stock-bond clashes

Bloomberg
New York

Behind the scenes of a rebounding equity market are stubborn signals that anything short of a quick death for inflation spells big trouble for traders. It's visible in the growing sensitivity of large swaths of the market to bonds, with two thirds of the S&P 500 moving in unison with yields - doing better when rates fall and vice versa. That's the most since 2001, according to Societe Generale SA data. After a wobbly start to 2024, investors remain steadfast in their bullish conviction, with the US benchmark closing out a 1.8% weekly gain. Yet mixed takeaways from the oil market and consumer prices this week raise the obvious question of whether bond yields will prove a friend or foe to traders across rate-sensitive strategies. The continued vigour of the business cycle arguably provides limited cover for Federal Reserve Chairman Jerome Powell to go all-in on dovish monetary policies, the

warning goes. At the heart of the matter for equities are valuations, whose expansion last year has left them especially vulnerable to unforeseen outcomes in the path of Fed policy. Wall Street bulls who powered a massive rally to close out 2023 have little room for error should inflation prevent Powell from easing policy significantly in the coming months. "Without bond yields going down a large chunk of the market has a significant valuation headwind," said Andrew Laphorne, SocGen's head of quantitative research. "We have a lot of market capitalisation that is expensive, and this is creating a positive correlation to bonds." Count Loretta Mester among those who think it's premature to consider cutting interest rates at the March meeting. The Fed Bank of Cleveland president said Thursday that inflation data suggests policy makers have more work to do. Yet traders are currently pricing in around six quarter-point rate cuts for this year - double than what the central bank projects - and betting that the first rate reduction



may come as early as March. Barclays Plc shifted its forecast for first interest-rate cut from June to March. As traders tank up on on risky stocks, bonds and credit, any hawkish warnings are sounding more contrarian by the day - but

no less insidious. A near-record 66% of the market capitalisation of the S&P 500 is showing an elevated positive correlation to bonds, according to a Societe Generale's analysis. All that is spurring warnings that investors plunging into the likes of

small-cap stocks and junk bonds risk disappointment on lower-than-expected rate cuts and corporate profits. That's just as Corporate America's earnings season gets underway. A double-digit stock rally led by megacaps in 2023 means an ever-enlarging chunk of the benchmark index is acutely tied to long-term earnings prospects - and hence more sensitive to rising yields. After shares and bonds rose together last quarter, both are off to mixed starts. The S&P 500's jump was only enough to leave it flat since the new year. Fed officials face a bumpy path bringing inflation back to the 2% target. While data showed unexpected decline in producer prices, the more-scrutinised consumer version came in a little hotter than forecast a day earlier. Rising shipping costs and a surge in oil prices are stoking fears among some about a revival of inflation pressures. "Thursday's CPI report demonstrates that while inflation is broadly in retreat, the pace of that retreat is slowing," Michael Purves,

the founder of Tallbacken Capital Advisors, wrote in a note. "The bar for cuts is simply a lot higher than it might have appeared after the December FOMC." With inflation concerns lingering, positive stock-bond correlations have firmed back up. The 60-day correlation between the S&P 500 and benchmark Treasuries turned positive again and has threatened bonds' hedging role since August of last year. For Marija Veitmane, senior multi-asset strategist at State Street Global Markets, this leaves stocks without many good reasons to rally in the medium term. "December 2023 rally has borrowed from this year's," said Veitmane. "Strong data would spook the market into believing that rate cuts are not coming, while too weak data would get people to worry about recession." Positioning and sentiment rapidly shifted from risk-off to risk-on at the end of 2023. Investors have also slashed expectations for hawkish surprises from the Fed this year, Bank of America's latest monthly sentiment survey shows.

China's mutual funds implode at fastest pace in five years as stocks sink

Bloomberg
Shanghai

A meltdown in Chinese shares is wreaking havoc on the country's asset management sector, pushing mutual fund closures to a five-year high in another sign of waning investor confidence. About 240 local mutual funds were liquidated last year, according to Bloomberg-compiled data dating back to 2014. That's the most since 2018, when stricter asset management rules triggered a major industry shakeup. Among the closed funds, four out of five had a stock-focused mandate, which was a record.

The trend has continued into this year, with another 14 funds already liquidated and two dozen more warning of imminent closures, according to Bloomberg calculations of official data.

China's mutual fund industry is confronting a double whammy as the country's stock selloff intensifies, with the surge in product closures coinciding with a plunge in the amount of new subscriptions to a decade-low. The fund liquidations have accelerated the downward spiral in the world's second-largest stock market, forming a vicious cycle as retail investors abandon their once-preferred product for the safety of cash.

"Weak performance was an important factor behind mutual fund shrinkage and even liquidations," said Li Yiming, senior analyst at Morningstar Inc's fund research centre in China. "When investors find it hard to make money in a market, underperforming products face the greater risk of becoming so-called mini funds." A relentless



Employees and visitors walk past an electronic stock board at the Shanghai Stock Exchange in China (file). A meltdown in Chinese shares is wreaking havoc on the country's asset management sector, pushing mutual fund closures to a five-year high in another sign of waning investor confidence.

selloff has turned China into the world's worst-performing major market in the new year, as a deepening housing slump and stubborn deflationary pressures weigh on the economic outlook.

The benchmark CSI 300 Index dropped 0.4% this week capping its ninth weekly drop in ten, despite signs of heavy purchases by state funds dubbed the "national team." The mainland Chinese stock gauge remains 4.7% down in 2024, following a record three consecutive years of losses.

China's securities regulator requires mutual fund products to have at least 200 investors and raise a minimum of 200mn yuan (\$27.8mn)

in order to be launched. Once a product's asset value drops below 50mn yuan for 60 consecutive trading days, the fund house must alert the regulator and propose solutions, including contract termination.

Many funds prefer liquidations given the complexity of other options such as merging with another fund. Such product closures would mean forced selling of the portfolio's holdings and returning the remaining assets to investors at a loss. This would be especially painful for retail investors who continued to buy these products in hopes of being rewarded in the long run for bargain hunting.

In one example, the CCB Principal Quantitative Event-driven Eq-

uity Fund, an open-end fund run by CCB Principal Asset Management Co, was liquidated in August after its assets under management plunged to 30mn yuan, or a little over a tenth of its value at its 2017 launch, according to public filings.

Actively managed mutual funds, once a favoured investment tool among Chinese retail investors, are fast losing their appeal: A gauge of stock-focused mutual funds has declined 7.7% this year, according to China Securities Index Co. Meanwhile, investors also are falling out of love with exchange-traded funds that drew record subscriptions last year but now suffer a supply glut, said Morningstar's Li.

Japan inflation slows to 2.3% in December as energy bills drop

AFP
Tokyo

Japanese consumer inflation slowed again in December due to lower electricity and gas bills, government data showed yesterday, ahead of a Bank of Japan (BoJ) policy decision next week.

Prices in the world's third-largest economy, excluding volatile fresh food, rose 2.3% year-on-year in December, down from 2.5% the previous month.

For the whole of 2023, consumer prices rose 3.1% year-on-year, the highest since 1982 according to the internal affairs ministry.

The monthly figure was in line with market expectations and continued a broad trend of cooling inflation over the past year, down from 4.2% in January 2023.

Although inflation remains above the Bank of Japan's longstanding two-percent target, the bank is widely expected to keep its monetary easing measures in place on Tuesday.

Unlike other major central banks that have raised interest rates, the BoJ has stuck to its ultra-loose policy, putting pressure on the yen.

The BoJ stood pat last month and offered no guidance on its plans for the new year, sending the yen down against the dollar and boosting stocks.

Speculation had been swirling for weeks that the bank would shift away from negative interest rates and a tight grip on bond yields as prices ticked above 2%.

BoJ governor Kazuo Ueda has repeatedly said that "a

virtuous cycle of wages and prices" is necessary for the bank's inflation target to be achieved sustainably.

And following the deadly earthquake that slammed central Japan on January 1, the chances of a policy shift next month are now even lower, analysts say.

Unions are gearing up for annual Spring wage-hike negotiations, with the Japan Business Federation urging its members to offer higher salary increases than last year. "For Japan to move into a period of sustained inflation, it needs both wages and prices to increase," said Nobuko Kobayashi, consulting firm EY's Asia-Pacific strategy execution leader.

"Price increases for now are driven by external factors such as global inflation," she said ahead of Friday's data release.

"And wage increases can only be sustained by prolonged productivity increases — challenging in a nation suffering demographic shrinkage." Stripping out fresh food and energy, Japan's prices rose 3.7%, also in line with expectations.

After dipping to nearly 152 yen against the dollar in late October, the Japanese currency has gradually rebounded as speculation grows that the BoJ may tighten its policies. The interest rate gap between Japan and the US is also a key factor that has driven the yen lower against the greenback.

That is expected to narrow as the US Federal Reserve has held interest rates steady after a lengthy series of hikes to battle rising inflation, hinting it will finally cut interest rates next year.

Asia markets track Wall St rally but China worries cast shadow

AFP
Hong Kong

Asian markets mostly rose yesterday following a tech-led rally on Wall Street that helped soothe traders' concerns that the Federal Reserve will likely not cut interest rates, though China's economic woes dragged on Hong Kong and Shanghai.

In Tokyo, the Nikkei 225 closed up 1.4% to 35,963.27 points; Hong Kong — Hang Seng Index ended down 0.5% to 15,308.69 points and Shanghai — Composite closed down 0.5% to 2,832.28 points yesterday.

US data points on inflation and jobs, and comments from central bank officials have combined with growing geopolitical tensions to drag equities in January, bringing an end to an end-of-year rally. The readings — showing consumer inflation topping expectations and

a resilient labour market — show the world's number one economy remained in rude health despite borrowing costs at two-decade highs.

And on Thursday, fresh figures pointed to a surprise slowdown in jobless claims, suggesting the Fed would likely have to keep rates elevated for some time to make sure inflation does not pop back up. In light of the latest data, traders have lowered their bets on a March interest rate cut to a little more than 50%, down from 80% last week.

Still, SPI Asset Management's Stephen Innes said: "Even as hopes for rapid interest rate cuts have recently been dented...a recession-free outlook for 2024 in the US remains a huge positive for stocks, especially as the ongoing disinflationary pressures from China and Germany provide the dovish counterbalance." Atlanta Fed boss Raphael Bostic said he



An electronic board is displayed at the entrance of a building showing stock prices of each company listed on the Tokyo Stock Exchange. The Nikkei 225 closed up 1.4% to 35,963.27 points yesterday.

saw rates coming down in the third quarter but would be happy to cut earlier if "we continue to see a further accumulation of downside surprises in the data".

"But the evidence would need to be convincing." The gains in New York were largely driven by a surge in tech giants including Apple, Nvidia and Amazon after

chip titan Taiwan Semiconductor Manufacturing Co unveiled a strong outlook for capital spending and revenue that boosted hopes for 2024.

"TSMC's confidence around near-term fundamentals appears to have improved significantly over the past four to five months," said analysts at investment firm Wedbush.

"We see this more bullish outlook as predicated upon some combination of optimism around a growing contribution from AI (and) better expectations for traditional end-market trends in 2024." TSMC jumped more than 6% in Taipei, tracking an almost 10% jump in its US-listed firms.

And other Asian tech firms were on the rise, with Tokyo Electron up 6% and Advantest surging more than 8% in Tokyo, while Seoul-traded Samsung jumped more than 4%. Broader markets were also enjoying a day in the sun though

traders struggled to maintain the morning's momentum. Tokyo put on more than 1% thanks to the weaker yen as data showing Japanese inflation slowing eased pressure on the country's central bank to shift away from its ultra-loose monetary policy.

Taipei advanced more than 2%, while Sydney, Seoul, Mumbai, Singapore and Bangkok were also well up. However, worries over China's economy continued to weigh on Shanghai and Hong Kong, which extended the year's losses.

Data this week out of Beijing showing GDP growth at its weakest since 1990, outside the pandemic years, added to concerns officials are not doing enough to provide support. And analysts said comments from some leaders suggested the hoped-for "bazooka" stimulus was not likely any time soon. Manila, Jakarta and Wellington also fell.

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German bond yields hit almost 7-week highs as markets reassess interest rate cuts

Reuters
London

German bond yields hit their highest levels since early December yesterday, having been supported this month by reassessments of earlier bets on imminent central bank rate cuts, and as focus shifts to next week's European Central Bank meeting.

Germany's 10-year yield, the benchmark for the currency bloc, was last 1 basis point (bps) higher at 2.32%, set for its biggest weekly gain since early July last year. Yields move inversely to the bond's price. The German 10-year yield, has risen around 40 bps since its late December lows, as investors reassessed expectations that central bank rate cuts on both

sides of the Atlantic will come as soon as March due to pushback from policymakers and resilient economic data, particularly in the US.

Market pricing now reflects roughly an 80% chance of the European Central Bank cutting rates in April.

In late December, a March cut was all but priced in on the back of data showing slowing inflation in both Europe and the US and supported by the release of Fed forecasts of meaningful rate cuts this year.

ECB policy makers were out in force in terms of public appearances this week, and the broad thrust was that there was no rush to cut rates, though there was variety in the vehemence of their messaging.

"Markets are getting ahead of themselves," Dutch central bank chief Klaas

Knot said on Wednesday. "We are optimistic that we have a credible prospect of a return of inflation to 2% in 2025, but a lot still needs to go well for that to happen." Data for December showed euro zone inflation jumped to 2.9% from 2.4% in November, but the increase was more due to technical factors, and economists said it would not disrupt it broadly moving lower towards the ECB's 2% target.

The ECB has its next meeting next Thursday, and policymakers are now forbidden from speaking publicly about their views on rates ahead of that meeting, though analysts think a change of tone is becoming due.

"Inflation is going to be very close to target in Europe, so the same way we saw a change in tone from the Fed in December, that's going to come for the ECB.

Tata Steel to cut 2,800 UK jobs as industry forges green future

AFP
London

Indian-owned Tata Steel is to cut up to 2,800 UK jobs, it announced yesterday, as the industry struggles to finance greener production of the metal.

Tata will this year shut its "two high-emission blast furnaces and coke ovens" in Port Talbot, Wales, according to a statement.

"Up to 2,800 employees are expected to be potentially affected" by restructuring at the company, including 2,500 roles over the next 18 months, Tata outlined in an expected announcement.

A company spokesman told AFP the "vast majority" of job losses would be in Port Talbot, the biggest steelworks in the UK, a country where Tata Steel employs about 8,000 staff.

Towards the end of last year, the UK government provided £500mn (\$634mn) to fund the production of "greener" steel at the Welsh plant, while saying that 3,000 jobs were still at risk.

"The course we are putting forward is difficult, but we believe it is the right one," Tata Steel's chief executive T V Narendran said in the statement.

"Our ambitious plan includes the largest capital expenditure in UK steel production in more than a decade, guaranteeing long-term, high-quality steel production in the UK and transforming the Port Talbot facility into one of Europe's premier centres for green steelmaking."

The facility is the UK's single biggest carbon emitter, and the government has been looking to help Tata Steel and British Steel, run by Chinese group Jingye, to replace dirty blast furnaces.



The closing panel at the World Economic Forum in Davos, Switzerland. The prospects of subsiding inflation and a pickup in global trade offer some encouragement for investors despite the backdrop of war and populism, European Central Bank chief Christine Lagarde and peers agreed as the WEF drew to a close.

Davos panel sees nothing normal about the global economy for 2024

Bloomberg
Davos, Switzerland

The world is finding an uneasy equilibrium with a more benign economic backdrop overshadowed by a panoply of geopolitical risks, according to the final Davos panel of 2024.

The prospects of subsiding inflation and a pickup in global trade offer some encouragement for investors despite the backdrop of war and populism, European Central Bank chief Christine Lagarde and peers agreed as the World Economic Forum drew to a close.

"Normalisation – that's what we have begun to see," she told the audience in the Swiss resort town, before adding an important qualifier. "It is not normality that we're heading to," she added.

The six-member panel was charged with summarising the mood in Davos after a week where participants tended to put a brave face on the global outlook, accentuating the likelihood that a deep recession will probably be avoided

despite unprecedented monetary tightening to bring inflation under control.

Such optimism has at times been undermined by the spectre of geopolitics, with wars in Ukraine and the Middle East looming large, and Red Sea tensions too. Donald Trump's Iowa victory on Monday, setting him on the road to the Republican nomination, was also greeted with alarm by many attendees.

"There's so many uncertainties – and of course all the elections that we see around the world and what that may bring," World Trade Organisation Director General Ngozi Okonjo-Iweala lamented. She shared Lagarde's view that the world is "maybe moving towards normalisation" while at the same time certainly "not normal."

The prospect of a second Trump presidency was cited frequently during the panel discussion chaired by Bloomberg Television's Francine Lacqua. Lagarde took a bullish stance, saying that "the best defence is attack" and pushing for strengthening Europe by creating

"a real single market." German Finance Minister Christian Lindner was more circumspect.

"We are talking too much about Donald Trump in Europe," he said, "Doing our homework is the best preparation for possible second term of Donald Trump, and this includes our capabilities to defend ourselves."

For David Rubenstein, Carlyle Group Inc co-founder and co-chairman, the reality is that no matter who wins November's election, the US faces political stasis, with all the risks that entails for the rest of the world.

"Almost everything every candidate was saying will probably not be true about what will happen in the future, because they probably won't be able to get done what they say they're gonna get done," said Rubenstein, who also presents a show on Bloomberg Television.

One such worry there expressed frequently during the week was the fiscal backdrop in the US. Singapore President Tharman Shanmugaratnam perhaps alluded to that when he said that "the most important

and most neglected area of public policy is fiscal reform."

Rubenstein was specific about the challenges in the US.

"If we don't resolve this, something's going to happen to the dollar," he said. "If the United States can't get its fiscal act together, at some point, people are going to do what they did to the British pound and the Dutch guilder years ago."

Earlier in the week, Deutsche Bank AG Chief Financial Officer James Von Moltke described a "pinch-me" moment because of his surprise at the resilience in economies and financial markets, while Harvard University Professor Ken Rogoff worried that "the geopolitical situation is like nothing I've seen in my professional lifetime." Lindner chose to take the more positive slant. He described his own country as "a tired man after a short night" as opposed to the "sick man" label that has been recently reattached to it. He also was more upbeat on the world economy.

"It is a new normal, which we have to be prepared for," he said. "2023 has given me hope."

Spirit Airlines presses JetBlue Airways to appeal merger block

Reuters
New York

Spirit Airlines is seeking to convince JetBlue Airways to appeal a decision by a federal judge to block the tie-up between the sixth and seventh largest US airlines, according to people familiar with the discussions.

Spirit's shares have lost more than 60% of their value since US District Judge William Young ruled on Tuesday that the company's \$3.8bn sale to JetBlue should not proceed, siding with antitrust regulators who argued the deal would lead to higher fares for passengers.

The value of Spirit's bonds have also plunged in value, highlighting its financially precarious position were it to be left without a deal. Its bonds went from trading around 75 cents on the dollar down to 50 cents, amid investor concerns about the company's ability to pay some \$1.1bn in debt due in September 2025.

Spirit has told JetBlue that their deal contract requires them to exhaust legal options to complete their deal, and that they should appeal the judge's ruling, the sources said.

JetBlue, however, has yet to decide whether it will seek an appeal, according to the sources. It is assessing the chances of an appeal succeeding and is also mindful that Spirit's business has deteriorated significantly since the two agreed the tie-up in July 2022, the sources said.

Some analysts have pointed out that JetBlue may be better off paying Spirit and its shareholders a \$470mn break-up fee to terminate the deal.

But to do so, JetBlue will have to show that it fulfilled its obligation under the deal

contract to do everything it can to get the deal completed.

It is possible that the two airlines agree to appeal the judge's decision. Their spokespeople did not respond to requests for comment. The companies said in a joint statement on Tuesday that they were "evaluating next steps as part of the legal process." They have been afforded 30 days to lodge an appeal.

JetBlue had already sought to tackle US regulators' concerns by agreeing to divest gates and slots at key airports in New York City, Boston, Newark, New Jersey, Fort Lauderdale and Florida.

A person familiar with the matter told Reuters on Thursday that Spirit had begun examining ways to refinance its debt should its deal with JetBlue fall through.

Spirit, which like other airlines took a financial hit during the Covid-19 pandemic, has struggled more than its peers to recover, because its low-budget price model has left it little room to raise air fares after fuel prices rose. Its net debt rose from \$3.3bn to \$5.5bn over the past two years as its losses widened.

JetBlue, while cheaper in its fares than many of its peers, is a higher-budget airline than Spirit, and has fared better as a result.

Spirit has been among the carriers hardest hit by a snag with RTX's Pratt & Whitney Geared Turbofan (GTF) engines, which has forced it to ground several planes, weighing on its profitability. It has also been grappling with soaring pilot pay rates.

The four main US carriers – United Airlines, American Airlines, Delta Air Lines, and Southwest Airlines – control roughly 80% of the market following a series of airline mergers in the past few decades.

Traders dust off 2000s options playbook to cash in on higher rates

Bloomberg
New York

Citigroup's option volume was light on a recent Wednesday, until the session's last 90 minutes when a wave of trades hit. These weren't bets on the shares moving – rather, they were part of a long-dormant strategy that's back in vogue thanks to the Federal Reserve's interest rate hikes.

The trade involves selling large volumes of put options that allow the holder to offload shares far above the current market level, and collecting interest on the premium received. It was pointless back when interest rates were near zero.

But now, with Treasury yields at 5% or more, the strategy is suddenly worthwhile.

"Nobody did this for 20 years because there wasn't any interest rates," said Joe Mazzola, director of trading and education at Charles Schwab & Co. "Interest rates are back. It makes sense."

The strategy is largely used by large institutional players "trading thousands at a time to make half a penny," Mazzola said. "Mom and Pop don't do this."

According to data from Cboe Global Mar-

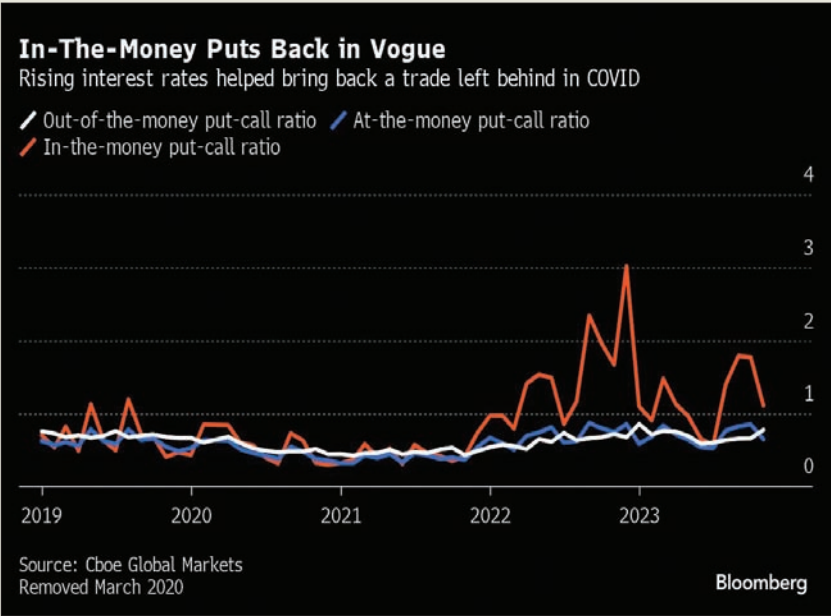
kets, these financing trades are taking place twice as often as they did just three years ago. The exchange operator pointed to repeated rate tightening as one reason traders have dusted off their old playbooks.

It's an example of how traders have adjusted – or readjusted – to a higher interest-rate environment after years of near-zero rates. While these low-risk, high-volume plays have little impact on the market's daily moves, they are frequent enough now to at times distort one of the most common measures of equities sentiment, the put-call ratio, particularly when it comes to individual stocks.

Analysts often cite the put-call ratio as a gauge of investor caution, with higher volumes of puts signalling bearishness.

"The put-call ratio has spiked overall, but if you look at at-the-money, out-of-the-money options, you see it's not doing anything," said Henry Schwartz, global head of client engagement at Cboe. The deep-in-the-money puts "are inflating the volumes."

Here's how the trade appears to have gone on November 8. Trader A bought 15,000 Citigroup Inc \$55 puts and sold the same number of \$50 puts with Trader B, getting the right to sell shares at \$55 and the obligation to buy them at \$50.



US stock options are mostly "American-style", meaning options buyers can exercise their rights any time before expiration. So

on that same day, both traders exercise the options they bought, 72 days ahead of expiration. Seems pointless, right?