

Saudi Arabia cites energy transition for oil capacity halt

Reuters
Dhahran

Saudi Arabia's U-turn on its oil capacity expansion plans was because of the energy transition, its energy minister said yesterday, adding that the kingdom has plenty of spare capacity to cushion the oil market.

The Saudi government on January 30 ordered state oil company Aramco to halt its oil expansion plan and target maximum sustained production capacity of 12mn barrels per day (bpd), 1mn bpd below a target announced in 2020 and set to be reached in 2027.

"I think we postponed this investment simply because... we're transitioning," Prince Abdulaziz bin Salman said at the IPTC petroleum technology conference in Dharan, adding that Aramco has other investments to make in areas including oil, gas, petrochemicals and renewables.

Saudi Arabia has said it aims to reach net zero emissions by 2060, with Aramco targeting net-zero emissions from its own operations by 2050.

Prince Abdulaziz said that the kingdom had a "huge cushion" of spare oil capacity in case of major disruptions to global supplies caused by conflict or natural disasters.

Aramco Chief Executive Amin Nasser told reporters on the sidelines of the same conference that the state oil giant remained ready to raise capacity should it be needed.

"We have adequate spare capacity of about 3mn barrels," Nasser said. "And as a company — because this is a decision for the government — we remain ready whenever they want to increase MSC (maximum sustained capacity); we are always ready to expand."



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Under cuts agreed by the Organisation of the Petroleum Exporting Countries (Opec) and allies led by Russia, together known as Opec+, Saudi oil production is about 3mn bpd below its 12mn bpd maximum sustainable capacity, making it the world's biggest holder of spare capacity.

"We are ready to tweak upward, downward, whatever the market necessity dictates," Prince Abdulaziz said.

He criticised a decision coordinated by the International Energy Agency in 2022 to release oil from emergency reserves to cool global prices after Russia's invasion of Ukraine.

"Why should we be the last country to hold energy capacity, or emergency capacity,

when it is unappreciated and when it is not recognised?" Nasser said he expected oil demand to increase to 104mn bpd this year and to 105mn bpd in 2025, downplaying suggestions that it will peak soon. Opec figures show oil demand reached a record of more than 102mn bpd last year.

When asked about a further offering of Aramco shares this year, Nasser said it would be a "shareholder decision".

The Saudi state remains overwhelmingly Aramco's biggest shareholder and heavily relies on its dividend payouts. The government directly holds 90.19%, the kingdom's Public Investment Fund (PIF) 4% and PIF subsidiary Sanabil 4%, LSEG data shows.

Gaza conflict and Red Sea attacks imperil global economy, warn IMF and World Bank

AFP
Dubai

The IMF and World Bank warned yesterday that the Gaza war and the related attacks on shipping though the Red Sea pose threats to the global economy.

The Israel-Gaza conflict raging since October has already hit the Middle East and North Africa region's economy, said the International Monetary Fund's managing director Kristalina Georgieva.

Its knock-on effects could impact the world the longer the fighting drags on, Georgieva told the World Governments Summit, an annual gathering of business and political leaders in Dubai.

"I fear most a longevity of the conflict because, if it goes on and on, the risk of spillover goes up," she said.

"Right now we see a risk of spillover in the Suez Canal," she said, as Yemen's Houthi rebels have attacked Red Sea shipping leading to the crucial maritime passage.

The Houthis say they are targeting what they consider Israeli-linked shipping in solidarity with Palestinians in Gaza, pushing some cargo carriers to take longer and more expensive routes to avoid attacks.

Also speaking at the summit, World Bank President Ajay Banga said that "what's going on Gaza, but also the challenges of Ukraine...and the Red Sea" are among the top challenges to the global economic outlook.

"When you add these variables to what is



IMF Managing Director Kristalina Georgieva addresses the World Governments Summit in Dubai yesterday.

already turning out to be probably the lowest growth of the last 55 years...that's something we have to keep a close eye on," he said. The UN Conference on Trade and Development warned late last month that the volume of commercial traffic passing through the Suez Canal had fallen more than 40% in the previous two months. Georgieva said that if there are other "consequences in terms of where the fighting goes, it could be more problematic for the world as a whole".

On a personal note, she added that "as a woman, as a mother, grandmother...I pray for peace". The Gaza Strip has been under intense Israeli assault for over four months. Despite the war-related uncertainties, Georgieva said the IMF is "very confident that the world economy is now poised for this soft landing we have been dreaming of". "I expect to see by mid-year interest rates going in the direction inflation has been going for the last year now," she said, when asked about interest rates being cut in leading economies.

QSE MARKET WATCH			
COMPANY NAME	Lt Price	% Chg	Volume
Zad Holding Co	13.43	-2.11	104,679
Widam Food Co	1.91	-2.35	784,634
Vodafone Qatar	1.83	-0.33	4,115,246
United Development Co	1.03	0.39	7,389,654
Salam International Investme	0.64	0.79	866,103
Qatar & Oman Investment Co	0.87	0.23	30,947
Qatar Navigation	10.72	0.56	994,881
Qatar National Cement Co	4.09	-1.02	667,121
Qatar National Bank	14.48	-2.49	2,656,786
Qim Life & Medical Insurance	2.19	-4.78	213,753
Qatar Islamic Insurance Grou	9.25	-1.64	65,093
Qatar Industrial Manufactur	2.81	-0.78	39,142
Qatar International Islamic	10.56	-0.19	389,872
Qatari Investors Group	1.82	1.11	5,130,063
Qatar Islamic Bank	20.30	1.20	1,239,803
Qatar Gas Transport(Nakilat)	3.97	8.33	52,137,323
Qatar General Insurance & Re	0.99	0.00	-
Qatar German Co For Medical	1.19	0.34	5,321,161
Qatar Fuel Qsc	15.59	-0.51	387,778
Lesha Bank Lic	1.21	-0.58	1,804,866
Qatar Electricity & Water Co	17.02	-0.12	474,435
Qatar Exchange Index Etf	9.61	0.00	-
Qatar Cinema & Film Distrib	3.05	0.00	-
Al Rayan Qatar Etf	2.19	-1.18	803
Qatar Insurance Co	2.25	-0.97	300,710
Qatar Aluminum Manufacturing	1.29	0.86	7,371,296
Ooredoo Qpsc	10.49	0.48	1,810,294
Aljarah Holding Company Qps	0.74	0.14	2,463,995
Mazaya Real Estate Developme	0.67	1.82	5,969,813
Mesaleed Petrochemical Holid	1.68	-1.29	20,442,104
Mekdam Holding Group	4.58	-0.09	266,503
Al Meera Consumer Goods Co	12.89	-0.08	55,457
Medicare Group	4.48	-1.23	950,945
Mannai Corporation Qsc	3.94	3.28	2,028,804
Masraf Al Rayan	2.39	1.49	17,553,179
Industries Qatar	12.10	1.42	3,045,336
Inma Holding Company	3.78	-2.18	25,206
Estilthmar Holding Qpsc	1.97	0.05	1,716,969
Gulf Warehousing Company	3.10	0.91	860,844
Gulf International Services	2.90	1.97	7,938,045
Al Fateh Education Holding	0.81	-1.94	85,344
Ezdan Holding Group	0.82	-0.12	4,936,833
Doha Insurance Co	2.39	-4.10	373,904
Doha Bank Qpsc	1.65	0.92	648,788
Dlaia Holding	1.21	-1.46	237,017
Commercial Bank Pscq	4.89	-1.01	2,885,062
Barwa Real Estate Co	2.89	1.02	3,484,846
Baladna	1.13	-0.96	3,408,275
Damaan Islamic Insurance Co	3.83	0.00	-
Al Khaleej Takaful Group	2.80	-0.18	1,551,975
Aamal Co	0.83	-0.12	1,389,442
Al Ahli Bank	3.87	0.00	-

India's inflation at three-month low gives RBI some respite

Bloomberg
New Delhi

India's inflation eased to a three-month low in January as food prices moderated, providing some relief to rate-setters nervous about price shocks spilling over to other segments of the economy.

The consumer price index rose 5.10% last month from a year earlier, statistics ministry data showed yesterday. That's almost in line with the 5.0% median estimate in a Bloomberg survey of economists and compares with a 5.69% print in December.

The reading comes as fresh availability of vegetables and pulses cooled food prices. Food inflation, which makes up about half of the consumer price basket, moderated to 8.30%, from 9.53% in December.

Food costs, driven primarily by uncertain weather, imparts considerable volatility in the consumer price index, which the central bank aims to keep anchored at 4%. Excluding volatile food and fuel costs, the core measure of inflation, slowed

further to 3.61%, the lowest since 2019.

High price gains prompted the monetary authority to stick to its hawkish policy stance last week, indicating it's in no rush to cut interest rates until later in the year. The RBI will also take its cue from the US Federal Reserve, which remains wary of cutting rates too soon.

"Uncertainties in food inflation outlook should keep RBI cautious in the near term, with much of action by the central bank expected on the liquidity front," Upasna Bhardwaj, chief economist at Kotak Mahindra Bank Ltd said by phone. The supply side interventions should continue to provide respite in food prices, she said.

Housing prices rose 3.2% in January from a year earlier, while clothing and footwear costs climbed 3.37%. Fuel and electricity prices fell 0.6%.

"We don't see the Reserve Bank of India letting go of its hawkish stance even as consumer inflation declined sharply for the first time in three months in January," says Abhishek Gupta, India economist, Bloomberg Economics.

Bloomberg QuickTake Q&A

What China's persistent deflation means for the world

By Bloomberg News

China's slide into deflation is proving hard to fix. Prices in the world's second-biggest economy have fallen for three consecutive quarters, the longest deflationary streak since the Asian Financial Crisis in the late 1990s. The trend appears set to continue, adding to the challenge for policymakers as they try to kick-start the country's growth engine and defuse a simmering debt crisis.

1. What is deflation?

The term describes a situation in which prices for goods and services fall across the economy. It's not to be confused with disinflation, which signifies prices are still rising, though more slowly. That's what's happening in the US.

2. Why is China in deflation?

Prices rocketed in the US and other big economies when they reopened after the Covid-19 pandemic, as pent-up demand coincided with shortages in the supply of many goods. Predictions that the same would happen in China proved to be wrong. Consumer spending power is weak and a real estate slump has dented confidence, holding people back from buying big-ticket items. Manufacturing is leading the price drops. Officials are channelling credit to manufacturers to boost output, but the weak demand at home and sluggish exports are forcing businesses to mark down their products. Energy prices have also been falling as global supply recovers from the shock caused by Russia's invasion of Ukraine two years ago.

3. What's so bad about falling prices?

Cheaper prices look good for consumers at first glance, but that doesn't necessarily mean people will start spending again. In fact, they might hold off from buying expensive items in the hope they'll fall further. That would depress economic activity even more, putting pressure on incomes, which could then result in less spending and further price cuts in a downward spiral. Deflation also raises the level of "real," or inflation-adjusted, interest rates in the economy. Higher debt servicing costs make it harder for businesses to invest, which in turn crimps demand, inducing more deflation. Some economists believe such "debt deflation" can trigger recessions or depressions as people default on their loans and banks are undermined.

4. Why is China's deflation hard to fix?

Beijing responded to past bouts of deflation with forceful monetary easing and big fiscal stimulus measures. China is expected to boost fiscal stimulus again this year, but its plans won't be clear until a national budget is released in March. While it's vowed to accelerate some infrastructure projects and increase support for a slumping housing market, many economists aren't expecting a large-scale building boom as in the past. President Xi Jinping is determined to shift the economy toward new growth drivers, such as advanced technologies. One other reason the government may be reluctant to fire the stimulus big guns is concern that more borrowing will add to risks in the financial system.

5. So what are the government's options?

Economists generally see a need to boost demand for goods and services, with the government either directly

channelling more money into the economy or encouraging banks to lend more to businesses and households. Calls are growing for the authorities to adopt more aggressive policies than rate cuts and trims to the amount of money banks must hold in reserve with the central bank — steps already taken in 2023, to modest effect. To durably boost consumer confidence and get people spending, the government will need to end the slump in the property market. Authorities have provided cheaper long-term cash to policy banks to support lending to the housing sector, but more help is needed.

6. How does China measure deflation?

There are three main gauges. Most-cited is the consumer price index, which reflects changes across a range of goods and services bought by households, and which in January recorded its deepest pace of decline since 2009. The producer price index measures changes in industrial products sold by manufacturers and has been in contraction for more than a year. They're both published by the statistics bureau. A gross domestic product deflator is calculated using the difference between the economy's nominal and inflation-adjusted growth. It provides the broadest measure of prices across the economy, and is in its longest deflationary streak in nearly a quarter of a century.

7. What products are seeing the biggest price falls?

Falling food prices are the biggest contributor, according to a Bloomberg Economics analysis of the CPI. Transport is another drag, driven mostly by falling car prices. A price war broke out among carmakers including Tesla Inc and BYD Co in 2023, with prices of almost 900 car variants

slashed by more than 5% at one point. Prices aren't falling across the board, however. Spending on services, such as travel and restaurants, has surged since pandemic restrictions ended, with prices continuing to rise in those sectors.

8. Will deflation ease in 2024?

Economists polled by Bloomberg expect deflation pressures to continue for at least the first half of 2024. Beyond that, government stimulus measures and a gradual rise in household confidence are expected to push consumer price growth for the full year to 1%, with producer prices rising 0.2%. China's central bank predicts consumer prices to "rebound moderately," while economists at ING Groep NV said on Feb. 8 that the latest price data could mark the low point for the CPI. But inflation forecasts for China have been unreliable, with few analysts foreseeing persistent deflation at the start of last year.

9. What does it all mean for foreign investors?

As Chinese manufacturers cut prices to shed excess supply, that may ripple through to places like the US and Europe, providing some help for central banks there as they work to tame inflation. While consumers around the world may benefit from cheaper Chinese goods, it could raise trade tensions if domestic manufacturers are being undercut. The clearest impact on foreign investors may be a hit to the earnings of Chinese companies. There's potential upside in bonds, which protect investors better during times of trouble. Concerns about growth and curbed investment usually prompt governments to deploy looser monetary policy, making a country's bonds more attractive.

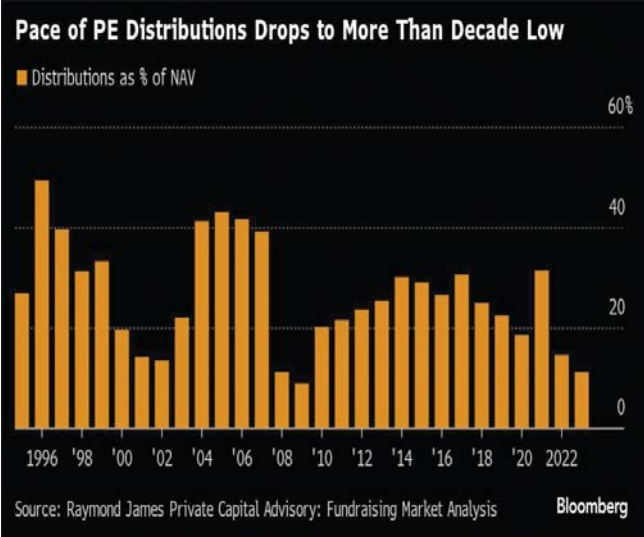
Private equity returns plunge to global financial crisis levels

Bloomberg
New York

Private equity funds last year returned the lowest amount of cash to their investors since the financial crisis 15 years ago, according to Raymond James Financial Inc, hampering buyout firms in their efforts to launch new investment vehicles.

Distributions to so-called limited partners totalled 11.2% of funds' net asset value, the lowest since 2009 and well below the 25% median figure across the last 25 years, according to the investment bank.

Higher borrowing costs, volatile markets and economic uncertainty have made it more difficult for private equity firms to exit their existing investments through sales or initial public offerings. This in turn has hampered their ability to return capital to pension and sovereign wealth funds, besides other key investors, meaning once-reliable clients are struggling to find cash to allocate new money to the asset class.



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"The cash flow math at the investor level is broken," Suma-ina Sinha Haldea, global head of private capital advisory at Raymond James, said in an interview. Because investors aren't getting money back from their existing

holdings, they're hampered in their ability to put money to work in new funds or re-top existing investments, she said.

The median holding period for a buyout firm asset is now 5.6 years, according to Raymond James, wider than the industry norm of about 4 years.

The impact on fundraising is already visible: The median time to raise a new fund is now 21 months, compared with about 18 months just a couple of years ago, according to the bank's research. And the number of new funds raised last year dropped 29%.

"This is the worst-ever fundraising market, worse than even during the global financial crisis," Haldea said, adding that distributions will only likely improve in 2025 as the "tidal wave" of dealmaking forecast for this year is yet to be seen.

Still, the aggregate capital raised last year by buyout funds reached a record \$500bn, up 51% from 2022, driven by the biggest funds, Raymond James said. A glut of fundraising in 2021 is also weighing on investors' ability to commit to new funds, especially as the go-to private equity pitch of outsized returns is faltering.

For years, pension funds could count on their returns from the asset class outpacing that of public markets.

Scrap stamp duty on UK shares to boost market, urges Peel Hunt

Bloomberg
London

Scrapping stamp duty on shares would be a key step to help revive Britain's falling stock market, according to analysis by Peel Hunt, which predicts that such a move would boost investment inflows and encourage more companies to list in London.

The UK has among the highest levels of tax for stock transactions, Peel Hunt analyst Charles Hall noted, describing stamp duty as "a pernicious tax that is having a material impact on UK equity markets."

While the UK levies 0.5% on shares, trading venues in the US, Germany and Australia have no stamp duty, according to Peel Hunt. The UK also exempts cryptocurrency, ETFs, contract-for-differences and spread-betting transactions from stamp duty, which drains liquidity from equities in favour of such instruments, Hall wrote in a note yesterday.

"It is clear that stamp duty should be removed as part of a series of reforms to help the recovery in UK capital markets," he said. "Whilst this would reduce tax in the very short term, it would materially raise tax due to enhanced economic activity and increases in other taxes."

A 10% increase in demand for UK shares would add £250bn (\$315bn) of value to the domestic market, with

almost half of that accruing to UK-based shareholders, Peel Hunt's analysis shows. Removing stamp duty would also encourage companies to list in London, and increase the relative attraction of British equities for pension funds, according to the note.

What's more, stamp duty on shares earned the government £3.3bn last year, equivalent to just 0.3% of total UK tax revenue, Peel Hunt said, adding that the take has not increased in 20 years.

Chancellor of the Exchequer Jeremy Hunt is under pressure to help boost the bourse's fortunes, after investors pulled a record \$28.8bn from UK equity funds last year, according to EPFR Global data. Domestic pension funds too have been investing elsewhere, holding just 1.6% of UK-listed stocks as of 2022, compared to about a third in 1992, data from the Office for National Statistics shows.

And falling UK market liquidity and share valuations have prompted several companies, including CRH Plc and Fergusson Plc to move their primary listings to the US. A particularly harsh blow for London came last year, when Arm Holdings Plc picked New York for its high-profile stock market return. All in all, one in five listed companies has vanished in the past five years, Peel Hunt estimates.

One proposal Hunt is considering is the creation of a so-called British ISA, a tax-free savings account for investing in domestic stocks.

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Portfolio investors dump oil after US refinery shutdown

By John Kemp
London

Portfolio investors abandoned hope for an early rally in crude prices after a site-wide electricity failure caused an unexpected shutdown in production at BP's refinery at Whiting in Indiana on February 1. The refinery is the largest in the US Midwest and processes more than 400,000 barrels per day, so the extended closure for safety checks and restart processes threatens to reduce crude consumption significantly. Surplus crude is likely to accumulate across the Midwest and especially around the NYMEX delivery point at Cushing in Oklahoma. Before the power failure, Cushing inventories had been depleting, and investors were positioning for a squeeze on deliverable supplies.

The prospect of a squeeze had been lifting prices for both US crude and Brent, but the outage has delayed further depletion and sent prices sliding. Hedge funds and other money managers sold the equivalent of 86mn barrels in the six most important petroleum-related futures and options contracts over the seven days ending on February 6. There were heavy sales of NYMEX and ICE WTI (-62mn barrels) and Brent (-23mn) as fund managers anticipated a significant increase in the amount of crude available. Funds sold WTI at the fastest rate since October 2023 and before that July 2021 as the prospect of a squeeze receded. The combined position in WTI was cut to a three-week low of 55mn barrels (4th percentile for all weeks since 2013) down from 117mn barrels (16th percentile) the previous week. Fund managers had been trying to become bullish again about WTI since

the middle of January on the prospect of sustained inventory depletion and renewed growth in US manufacturing. But the Whiting power failure has pushed that scenario back by at least several weeks. Fund managers were big buyers of European gas oil (+17mn barrels) even as they sold US diesel (-7mn) and gasoline (-11mn). Funds have become progressively less bearish about gasoil amid signs Europe's industrial recession is nearing an end and the disruption of east-west trade because of attacks on shipping in the Red Sea. The net long position in gasoil futures and options increased to 50mn barrels (57th percentile) up from 1 n (9th percentile) on December 12. Bullish long positions outnumbered bearish shorts by a ratio of 2.24:1 (32nd percentile) up from 1.02:1 (9th percentile) eight weeks earlier.

Interestingly, the disruption of fuel production at Whiting did not prompt fresh buying of US gasoline and diesel futures. Instead, fund managers realised profits on previous bullish long positions after a period when investors had been bullish on the outlook for US fuels. Portfolio investors despaired of an early rebalancing of the US gas market as mild weather returned and surplus gas stocks swelled further. Hedge funds and other money managers sold the equivalent of 401bn cubic feet (bcf) in the two major futures and options contracts linked to the price of gas at Henry Hub in Louisiana. Funds have been net sellers for three consecutive weeks reducing their position by a total of 1,296 bcf since January 16. In consequence, fund managers held a net short position of 885 bcf (10th percentile for all weeks since 2010) down from a net long of 410 bcf (42nd percentile) three

weeks earlier. This is the third time since the middle of 2023 fund managers have tried to build a bullish position only to be forced to retreat as inventories remained above average. Working gas inventories were 239 bcf (+10% or +0.77 standard deviations) above the 10-year seasonal average on February 2 up from a surplus of 64 bcf (+2% or +0.24 standard deviations) at the start of the heating season on October 1. Front-month futures have averaged just \$1.97 per million British thermal units so far in February, the lowest for more than three decades, once inflation is taken into account. Prices are sending the strongest possible signal that production needs to slow and to encourage more consumption by power producers to eliminate excess inventories.

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

Market breadth suggests narrowing rally as S&P 500 hits records

Reuters
New York

As the S&P 500 has soared to fresh highs, fewer stocks have been participating in the rally, stirring worries that recent gains could reverse if the market's leaders stumble.

Strong market breadth, or the number of stocks taking part in a broader index's rise — is often viewed as a healthy sign by investors as it shows gains are less dependent on a small cluster of names.

Market breadth was narrow for most of 2023, with the 24% gain in the S&P 500 driven primarily by the so-called Magnificent Seven, a group of heavyweights that includes Meta Platforms, Apple Inc and Amazon.

Breadth improved toward year end, yet some measures show it narrowing once again in 2024. For example, while the S&P 500 is up 5.4% and closed on Friday at a record high, the 10-day average of stocks on the New York Stock Exchange and Nasdaq hitting new highs has fallen to its lowest level since July, data from Hi Mount Research showed.

At the same time, only 62% of large-cap stocks stood above their 50-day moving average as of Thursday's close, down from 87% in December, data from Thrasher Analytics showed. Meanwhile, the Magnificent Seven have accounted for nearly 60% of the S&P 500's gain this year, according to Dow Jones Indices.

"We are at a historic extreme in the amount of money in this very small number of stocks," said Michael Smith, a senior portfolio manager at AllSpring Global Investments.

The narrow group of stocks powering the market could make it more vulnerable to swift declines if an earnings disappointment or



An external view of the New York Stock Exchange. As the S&P 500 has soared to fresh highs, fewer stocks have been participating in the rally, stirring worries that recent gains could reverse if the market's leaders stumble.

other issue hits its biggest stocks, said Smith, who owns shares of Microsoft, Amazon and Google-parent Alphabet.

While most of the megacaps have powered higher this year, shares of Tesla have fallen 22%, the third-worst performer in the S&P 500, demonstrating how quickly the market's superstars can fall out of favour.

Some investors believe breadth has narrowed partly because markets now anticipate the Federal Reserve will cut rates later in the year than many on Wall Street had expected, forcing an unwind of bets in rates-sensitive sectors that could benefit from lower borrowing costs.

The S&P 500 real estate sector, for instance, is down 4.4% year-to-date due to worries about commercial real estate. The Russell 2000 index of small cap companies is off 0.8%.

"You had a great rally in some areas of the market that had been re-

ally oversold, in anticipation of the Fed moving quickly in 2024 to cut rates," said Ed Clissold, chief US strategist at Ned Davis Research. "Now that the market has changed its stance, people are rethinking how much these beaten down areas should rally."

Fed Chairman Jerome Powell last month shot down hopes for rate cuts as soon as the March meeting, saying the central bank needed more confidence inflation was headed back towards its 2% target.

Overall, markets late Friday were pricing in cumulative interest rate cuts of around 110 basis points by the Fed's December meeting, down from more than 160 basis points in cuts anticipated at the end of 2023.

Investors are awaiting next week's US consumer price data to see if recent strength in the US economy is sparking an inflationary rebound that would likely force further reining in of rate cut bets.

There is an argument for stick-

ing with the market's biggest companies, which often have above-average growth and strong balance sheets. Since 1999, the top 10 companies by weight in the S&P 500 have returned an average of 12.3 percentage points more than the broader index, data from Dow Jones Indices showed.

At the same time, some strategists believe a longer-term look shows that more stocks actually have participated in the rally. More than half of the 100-plus sub-industries in the S&P 500 are up by 20% or more since the current bull market began in October 2022, analysts Yardeni Research wrote. Technology and communications services are the only ones to have outperformed the broader index, however.

"A few stocks have greatly outperformed the laggards, but many of the laggards likewise have done very well-just not as well," the firm wrote.

Hedge funds erase Swiss franc bets as SNB risks dovish pivot

Bloomberg
Bern

Hedge funds turned bearish on the Swiss Franc just one week after boosting long bets, amid speculation the central bank is no longer supporting the currency with purchases and could even lower interest rates soon.

Weekly positioning data from the CFTC show leveraged funds — a group of market players including hedge funds — became net sellers of the franc in the week ended February 6. It's an abrupt change from the prior week, when the market was the most long it's been since November.

The repositioning comes as Swiss National Bank data released last week suggested the central bank was also pivoting to become a net seller. It said in December it would no longer only focus on currency purchases.

The SNB's purchases have been a key support for the currency, which rose to the highest since 2015 against both the dollar and the euro, putting downward pressure on consumer prices. But with inflation below the bank's 2% ceiling and policymakers calling an end to their tightening cycle last month, the bullish case appears to be waning.

"The market is still waiting for a more clear signal and openness from the SNB, and it is not surprising that some leveraged positions are starting to tilt toward a cut," said Sascha Kever, an asset manager at Pkb Privatbank AG in Lugano.

The SNB is expected to deliver around 60 basis points of rate cuts this year, according to data compiled by Bloomberg based on swaps. That means two quarter-point reductions are fully priced and there's a chance of a third.

Pictet Asset Management on Monday revised its outlook for the SNB and now sees it delivering 25-basis point cuts at each of its meetings in June and

September, compared to a previous expectation of no policy easing this year.

Others, like Pkb Privatbank and Monex Europe, anticipate a cut as soon as the next meeting in March, which could push EUR/CHF up to 0.9800, a level last seen in July, according to Kever.

Last week's repositioning by leveraged funds marks the third time they've reversed course this year.

The market entered 2024 bullish on the franc, then turned flat amid calls the currency was overvalued, before flipping to bet on gains again — with analysts this time citing its appeal as a haven currency.

The Swiss currency has fallen nearly 4% versus the dollar since the end of December, the third-worst performance among Group-of-10 currencies. In London, it was trading around 0.8751, near its lowest level since mid-December hit on Friday. Against the euro, it slipped to its weakest in nearly three weeks.

"I am not in the camp of those who believe that the SNB is currently selling CHF in the market," said Ulrich Leuchtmann, head of FX research at Commerzbank AG in Frankfurt. "But there are rumours, so it's possible that people are confused, and this should lead to volatility in positioning."

CFTC data show leveraged funds held 1,537 contracts tied to bets the franc will fall, the most since mid-December. That's down from 2,433 long bets the week prior, which was the highest level since early November.

Bank of America Corp currency strategists Claudio Piron and Athanasios Vamvakidis recommend shorting the franc against the pound and euro, they wrote in a February 9 note.

Position "for CHF weakness from an overvalued level as the SNB stops shrinking its balance sheet, has started to intervene and has expressed concerns about the strong currency," they said.

Blackstone to merge warehouse landlords, create UK giant

Bloomberg
New York

Blackstone Inc plans to merge a pair of warehouse landlords it took private to create one of the UK's largest owners of industrial property, a move that could potentially pave the way for the entity's eventual sale or an initial public offering.

The private equity firm will integrate the management of St Modwen and Industrials REIT, together with assets acquired through 25 other deals, to create a company called Indurent, according to a memo sent to staff on Monday.

The company will own more than 200 properties spanning about 26mn square feet, a spokesperson confirmed. That would make it one of the largest owners of UK logistics properties behind Segro Plc, which has a UK portfolio spanning almost 30mn square feet, and Tritax Big Box REIT.

Creating a large integrated platform for the PE firm's UK ware-

house investments helps position the business for a future disposal. That's because major sovereign wealth and pension funds looking to increase their exposure to warehouse investments also need management teams to operate them. An IPO could be another option.

The move echoes Blackstone's previous ventures in UK and European warehouse properties, starting with Logicor, which it established, scaled and sold to China's sovereign wealth fund.

It repeated the same approach with Mileway, an owner of so-called last-mile urban warehouse properties, which it recapitalized in 2022 in the largest ever European real estate deal.

Blackstone has poured cash into UK warehouses, investing £2.1bn (\$2.6bn) in the development pipelines of St Modwen and Industrials REIT since their acquisition. The firm is betting on the transformation of global supply chains to drive further growth in warehouse rents, which have soared in recent years.

"UK logistics is a high convic-

tion theme for Blackstone given our portfolio's exceptionally strong performance and favourable long-term fundamentals in the sector," Blackstone's head of European real estate James Seppala said. "As a pure-play UK logistics company with an exceptional team, Indurent will enable us to continue to capitalize on opportunities in the sector and create value for our investors."

Publicly traded UK landlords have suffered a series of shocks that have spooked REIT investors, damping share prices even as asset values have held up better than expected.

That's prompted a wave of consolidation in the sector, with firms like Blackstone taking several landlords private. At the same time landlords have responded by launching a series of mergers designed to cut costs, gain scale and maintain banking relationships.

Tritax, which currently trades at about a 13% discount to the value of its assets, announced yesterday that it plans to acquire smaller rival UK Commercial REIT.

Eurozone yields edge down after ECB official makes case for rate cuts

Reuters
London

Eurozone bond yields fell yesterday after rising sharply last week, with dovish comments from a European Central Bank (ECB) official helping soothe the market. Germany's 10-year bond yield, the benchmark for the bloc, was last down 1.5 basis points (bps) at 2.36%. Yields move inversely to prices. The yield rose 15 bps last week after US economic data came in stronger than expected and central bankers pushed back against investors' bets for rapid interest rate cuts. Yet ECB Governing Council member and Bank of Italy chief Fabio Panetta said at a conference on Saturday that "the time for a reversal of the monetary policy stance is fast approaching", noting that inflation has fallen quickly and cutting rates late but aggressively could cause market volatility. ECB board member

Piero Cipollone said yesterday that the central bank does not need to create more slack in the euro zone economy to get inflation under control because demand is already weak. Three bond market strategists said Panetta's comments were likely pulling yields lower, although two others said markets were naturally rebounding after a sell-off. "The Panetta comments should be supportive, although he is well-known for his dovish attitude," said Rainer Guntermann, interest rate strategist at Commerzbank. "It seems that there are also other factors at play, possibly like buying interest at year-to-date yield highs." In market terms, doves are central bank officials who favour lower interest rates while hawks prefer to keep them higher. Germany's 2-year bond yield, which is sensitive to interest rate expectations, was down 2 bps at 2.70% after climbing 18 bps last week. "I would say it is more of a correction given the big

repricing we saw since last policy meetings," said Emmanouil Karimalis, macro rates strategist at UBS. "Inflation in the US is set to decline further this week and rates might find some near-term support." US consumer price index figures are due on Tuesday and are expected to show that headline inflation slowed to 3% year-on-year in January from 3.3% in December. Italy's 10-year bond yield was last down 5 bps at 3.91% after climbing 16 bps last week. The closely watched gap between Italy and Germany's 10-year bond yields tightened to 154 bps. On Monday, traders who bet on the direction of interest rates were expecting 118 bps of cuts in 2024 from the ECB, up 4 bps from Friday but down sharply from the 145 bps expected at the start of February. Strategists at UniCredit said Italy, Germany, France, Spain, Portugal and Greece are expected to sell a combined 37bn euros (\$40bn) of bonds this week.