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Fed seen sticking with three 2024 rate cuts despite higher inflation

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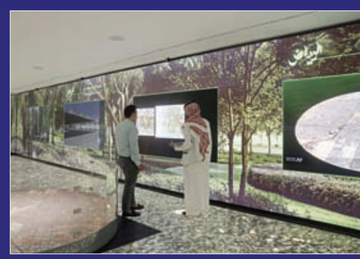


MEGA-PROJECTS : Page 2

Saudi Arabia banks embark on record bond binge

Al Mahhar Holding shareholders approve AGM agenda

Al Mahhar Holding Company, one of the leading service and specialised products providers to the energy and infrastructure sectors in Qatar, has held its annual general meeting and approved all items listed on agenda.

The meeting (AGM) was chaired by Al Mahhar's chairman, Fahad Hussain Alfardan, with the attendance of Al Mahhar's board members, shareholders, and senior management team.

"2023 was a landmark year for Al Mahhar, showcasing our resilience and strategic positioning as a pivotal contributor to Qatar's energy and infrastructure sectors.

Our focus on operational excellence and growth has paid off, reflecting in our strong financial performance in 2023 and our ability to seize opportunities in the energy sector.

Looking forward, we remain committed to innovation, expanding our market presence and are confident in our capacity to face future challenges and enhance value for our shareholders and communities," Alfardan said.

Al Mahhar Holding board addresses shareholders at the AGM.

The AGM endorsed the board of directors' report on the company's operations and financial performance for the financial year ended 2023.

The AGM discussed the auditors' report and approved Al Mahhar's financial statements for the financial year 2023.

Based on the strong financial results for the financial year 2023, the AGM approved the board's suggestion to distribute an annual dividend to shareholders equivalent to 10% of Al Mahhar's issued and paid-up share capital, amounting to QR20.7mn or QR0.1 per share. The AGM concluded with the reappointment of EY (Ernst and Young) as external auditors for the upcoming financial year and the approval of their respective service fees.

The company achieved robust revenue growth of 19.7% year-on-year, reaching QR683.2mn in 2023. Al Mahhar's net profit to equity holders increased by 38.5% annually to QR28.2mn (QR0.14 earnings per share) for the financial year 2023, from a net profit to equity holders of QR20.3mn in 2022, continuing the company's trend of growth and shareholder value creation.

During 2023, Al Mahhar maintained its deleveraging initiative, further reducing its bank debt by 34.8% on an annualised basis.

This strategic debt reduction, along with a strong generation of operating cash flows – demonstrating a strong increase of 47.5% from QR21.5mn in 2022 to QR31.7mn in 2023 – firmly positions the company on a path to sustainable growth.

Qatar's automobiles sales shift to overdrive in January 2024: PSA

By Santhosh V Perumal
Business Reporter

Qatar's automobiles sector began 2024 on a stronger footing with sales of new vehicles shifting to overdrive this January, as driving licences issued also saw substantial rise, according to the Planning and Statistics Authority (PSA).

The country witnessed 8,512 new vehicles registered in January 2024, which surged 33.2% and 151.1% year-on-year and month-on-month respectively.

The registration of new private vehicles stood at 6,074; which shot up 21.8% and 162.3% on yearly and monthly basis respectively in January 2024.

Such vehicles constituted 71% of the total new vehicles registered in the country in the review period.

The registration of new private transport vehicles stood at 1,124, which reported 22.4% and 138.6% year-on-year and month-on-month respectively in January 2024. Such vehicles constituted 13% of the total new vehicles in the review period.

The new registration of other non-specified vehicles stood at 779 units, which zoomed 1670.5% and 192.2% on an annualised and monthly basis respectively in January 2024. These constituted 9% of the total new vehicles registered in the country in the review period.

The registration of new private motorcycles stood at 360 units, which soared 69% and 63.6% year-on-year and month-on-month in November 2023. These constituted 4% of the total new vehicles in the review period.

The registration of new heavy equipment stood at 124, which constituted 2% of the total registrations in January 2024.

Their registrations had however seen a 23.5% decline on an annualised basis although it grew 24% month-on-month in the review period.

Qatar's automobiles sector began 2024 on a stronger footing with sales of new vehicles shifting to overdrive this January, as driving licences issued also saw substantial rise, according to the Planning and Statistics Authority

As many as 51 trailers were registered in January 2024, which plummeted 20.3% year-on-year even as it surged 200% month-on-month. These constituted less than 1% of the total new vehicles in the review period.

The clearing of vehicle-related processes stood at 138,014 units, which fell 2.2% on yearly basis but increased 156.8% on a monthly basis in the review period.

The renewal of registration was reported in 81,752 units, which was down 1.3% year-on-year but expanded 181.7% month-on-month in January 2024. It constituted 59% of the clearing of vehicle-related processes in the review period.

The transfer of ownership was seen in 33,441 vehicles in January 2024, which was up 0.9% on an annualised basis but shot up 130.5% month-on-month. It constituted 24% of the clearing of vehicle-related processes in the review period against 24% in October 2023.

The number of driving licenses saw an overall 8.9% year-on-year jump to 10,968 in January 2024 with those issued to Qatari males increasing by 11.5%, Qatari females by 5.6%, non-Qatari females by 25.4% and non-Qatari males by 6.3%.

The number of driving licenses saw a 23.6% month-on-month surge with those issued to Qatari males and females increasing by 24.4% and 4.1%; and those to non-Qatari males and females by 23.9% and 25.3% respectively.

The modified vehicles' registration stood at 4,879; which declined 20.3% on an annualised basis but grew 148% month-on-month in January 2024. They constituted 4% of the clearing of vehicle-related processes in the review period.

The number of lost/damaged vehicles stood at 4,986 units, which tanked 37.3% year-on-year, even as it shot up 53.1% on a monthly basis in January 2024.

They constituted 4% of the clearing of vehicle-related processes in the review period.

The number of cancelled vehicles was 1,942; declining 36.1% year-on-year but grew 153.9% month-on-month in January 2024. They constituted 2% of the clearing of vehicle-related processes in the review period.

The number of vehicles meant for exports stood at 2,374 units, which increased 57.7% and 197.9% on a yearly and monthly basis respectively in January 2024. It constituted 1% of the clearing of vehicle-related processes in the review period.

The re-registration was done in 179 vehicles, which soared 79% and 306.8% year-on-year and month-on-month respectively in January 2024.

'Tapping Qatar's home-based businesses to grow local economy'

By Peter Alagos
Business Reporter

Snoonu Product Marketing Lead Andrew Edward.

A Qatari startup that offers delivery and e-commerce services has partnered with home-based and micro businesses, providing them with a platform to reach more customers and showcase their products.

This partnership also aims to support owners of home-based businesses with their business plans and growth strategies, said Andrew Edward, the Product Marketing Lead of local company Snoonu.

The decision to tap into this segment of the market was driven by the commitment of Snoonu's founder and chief executive, Hamad al-Hajri, to support the local economy and find untapped opportunities, Edward emphasised.

Edward explained that al-Hajri, along with his team at Snoonu, noticed a gap where many local businesses, despite being officially registered, lacked a platform to interact with customers and market their products effectively.

Snoonu has this ability built-in within its platform thanks to its partnership with Braze. It enables them to segment and personalise interactions with customers which, in turn, can help local businesses do the same.

"One of the commitments of al-Hajri is to try to support the local economy and he has this talent of always working with the team in finding these untapped opportunities in the market and determining where it can be better and how he can improve it," Edward said.

As a local startup, Edward noted that Snoonu understands the local context and sees this as an opportunity to support local businesses. "We are confident that our platform will help our audience and the Qatari population engage more with these businesses. Snoonu is aware of what our audience is looking for collaborating with home-based businesses is one way to help them engage with the Snoonu app more," Edward said.

With its quick and large growth, Snoonu is constantly exploring innovative tools like Braze to refine its customer engagement strategies, ensuring the platform remains dynamic and responsive to users' needs.

Given the amount of growth experienced by these micro businesses since partnering with Snoonu, Edward stated that he has a positive outlook for home-based businesses in 2024.

"I would say my outlook is also positive. So far, home businesses that are in the Snoonu app have been seeing a good amount of growth, and in how they have been marketing their products to a much wider audience," noted Edward, who lauded the support being provided by the Ministry of Commerce and Industry to small and micro businesses.

"The ministry is showing more support in terms of how it wants to collaborate more to increase the growth of these home businesses and helping them understand the next steps they can take," Edward said.

He also stressed that innovation was a key driver for success and that startups and entrepreneurs should always embrace new technologies and stay ahead of the competition. "This would help them meet their user's needs at the right time and with the best communication, and also help them evolve in their market and future markets," Edward added.

Oil prices stall after funds complete short covering

By John Kemp
London

Benchmark oil prices appear to have topped out for the time being after investors finished repurchasing previous bearish short positions in US crude futures and options.

Repurchases had fuelled the rally for almost three months as the outlook for consumption improved and Saudi Arabia and its Opec allies restricted production.

In the premier NYMEX WTI contract, hedge funds and other money managers repurchased 12mn barrels of short positions over the seven days ending on March 5.

Outstanding shorts were reduced to just 28mn barrels down from a high of 128mn barrels on December 12.

Based on minimum short positions over the last ten years, funds probably have fewer than 10mn barrels left to buy back.

But massive short covering has lifted front-month WTI prices by less than $11 per barrel in the last three months. In real terms, prices are almost exactly in line with the inflation-adjusted average since the start of the century.

Almost all shorts have now been repurchased, so extending the rally will rely on the establishment of new bullish longs. But funds actually liquidated 33mn barrels of long positions over the seven days ending on March 5.

With no new buying coming into the market, the upward momentum behind oil prices petered out.

Investment managers sold refined fuels (-13mn barrels) in the most recent week, mostly middle distillates (-12mn), split between US diesel (-7mn) and European gas oil (-5mn).

Previously, funds had been bullish about the outlook for distillates, which are sensitive to the business cycle, amassing a position of 87mn barrels (72nd percentile for all weeks since 2013) by the middle of February.

But they have sold 27mn barrels over the three most recent weeks, trimming the position to just 60mn barrels (50th percentile) on March 5.

Sales of diesel and gas oil futures have taken much of the heat out of refining margins and reversed some of the earlier rise in wholesale prices.

Manufacturers in the US, Europe and Asia are recovering from the cyclical slowdown in 2022/23 much more slowly than anticipated at the start of the year.

Meanwhile, the market has adapted to the disruption of diesel shipments from the Middle East and Asia to Europe via the Gulf of Aden and the Red Sea.

Portfolio investors scaled back bearish short positions in US gas following announcements of drilling and output cuts from a number of major producers in the US.

Hedge funds and other money managers purchased the equivalent of 571bn cubic feet (bcf) of futures and options in the two major contracts linked to the price of gas at Henry Hub in Louisiana.

Previous bearish short positions were reduced by 361 bcf, while 210 bcf of new bullish longs were initiated, according to records filed with the US Commodity Futures Trading Commission.

Funds have purchased a total of 1,079 bcf in the last two weeks, offsetting about half the 2,085 bcf sold over the previous five weeks.

As a result, the combined position had been boosted to a net short of 595 bcf (16th percentile) up from a net short of 1,675 bcf (3rd percentile) on February 20.

In real terms, prices had fallen to their lowest for more than three decades in late February, and with so many short positions to be repurchased, the balance of risks had swung firmly to the upside.

Production cuts announced by several of the largest onshore gas producers triggered a short covering rally, but so far it has lifted prices only marginally.

US gas inventories were at the highest level for eight years at the start of March, according to data from the US Energy Information Administration.

Inventories were 529 bcf (+29% or +1.31 standard deviations) above the prior ten-year seasonal average and the surplus had swelled from 64 bcf (+2% or +0.24 standard deviations) on October 1.

Drilling cuts should eventually force inventories back to more normal levels but the rebalancing process will take time.

Many fund managers are wary about becoming bullish after calling the turning point too early three times already in the last 12 months.

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

Saudi banks embark on record bond binge for mega-projects

Bloomberg
Riyadh

Visitors look around an exhibition for the Green Riyadh project in Saudi Arabia. Lenders may need to issue at least $11.5bn in bonds in local and foreign currencies, according to Bloomberg Intelligence, to raise funds for Vision 2030.

Saudi Arabia's banks could raise a record amount of debt this year as a liquidity squeeze strains Crown Prince Mohamed bin Salman's multi-trillion dollar economic transformation agenda.

Lenders may need to issue at least $11.5bn in bonds in local and foreign currencies, according to Bloomberg Intelligence, to raise funds for Vision 2030, a plan aimed at transforming Saudi Arabia from an oil-reliant economy to one generating income from everything from tourism to technology. That would be a new high, surpassing the $10bn raised in 2022.

The sheer size of the required investment, coupled with slower deposit growth at the kingdom's banks and a lack of foreign investment into Saudi Arabia, means lenders will need to lean heavily on borrowing to come up with funds for mega projects such as urban development Neom and entertainment city Qiddiya, according to Riyadh-based Jadwa Investment Co.

"The one issue which I think is the most troubling for the whole Vision 2030 project is the lack of capital," said James Reeve, the former chief economist at Jadwa who has since been hired by Saudi Arabia's sovereign wealth fund. "The Saudi banking system is kind of tapped out."

Saudi Arabia's lenders have been grappling with tighter liquidity as loan growth has outstripped deposits to support a domestic economy that contracted last year. The country will require $640bn in construction spending over the next five years based on the current pipeline of projects, according to data compiled by Dubai-based analysis firm MEED Projects. That suggests banks may need to come up with almost $384bn over that period if they fund 60% of the pipeline, using a mix of more deposits and debt.

Saudi Arabian deposit growth remains the key driver of funding, but some 15% of what's needed may need to come from debt, according to Edmond Christou, senior financial analyst for Bloomberg Intelligence. That would translate into new issuance of at least around $11.5bn a year.

"Banks don't have the liquidity to support the size of construction needs but they will be gathering more deposits and tapping into the international debt market," said Dubai-based Christou.

Debt issuance is already showing signs of acceleration. About $6.8bn has been sold this year so far, according to Bloomberg Intelligence.

That compares with $5.4bn issued by local lenders for the whole of last year.

Despite the ambitious funding requirement, Saudi Arabia's bank balance sheets are still viewed as healthy. S&P Global Ratings rates most key lenders at investment grade with a stable outlook and said they won't be able to carry the full spending burden for Vision 2030.

Projects are also heavily financed by the central government and related entities. The deep-pocketed Public Investment Fund has said it aims to deploy capital of $70bn a year after 2025, and is weighing up fund-raising plans of its own.

There are also signs the 2030 deadline may slip. Saudi Arabia Finance Minister Mohamed al-Jadaan said in December some unspecified projects may be delayed as more time may be needed to build up factory and workforce capacity.

Amwal Capital Partners expects the government, alongside state companies and other entities, to issue their own bonds. That includes another $3bn from the PIF, said Zeina Rizk, partner and co-head of fixed income at the Dubai-based firm.

Successful bank and government offerings may help offset lacklustre oil prices, which are creating a hole in state finances. Saudi Arabia's oil export revenues sank by almost $80bn to $248bn last year, a slump that pulled the budget back into a deficit and offered a reminder of the country's dependence on high energy prices.

Fitch said last month that Saudi Arabia needs crude to trade above $90 a barrel this year to balance its budget, higher than Brent's current level of around $85. If counting domestic spending by the kingdom's wealth fund, the kingdom requires oil at $108, according to Bloomberg Economics.

There are signs that liquidity has improved since the start of the year, suggesting banks may have a bit of wiggle room before needing to tap fixed-income markets. A key gauge of borrowing costs in Saudi Arabia, known as Saibor, has retreated since spiking to almost 6.4% in January, though is still well above 6% amid elevated interest rates in the US.

Central bank deposits at Saudi lenders climbed in January and the ratio of statutory net loans to deposits — the measure the kingdom's reserve bank closely monitors — dropped to 80.1% after averaging above 80.5% in 2023, indicating more coverage of outstanding credit.

"It's important to remember that the scale of financing required is substantial," said Samer Jumean, partner and head of infrastructure at KPMG in Saudi Arabia. "Liquidity isn't going to dry up but it's the right thing to do to start tapping the capital markets."

Vietnam's bid for EM upgrade faces reality check

Bloomberg
Hanoi

The clock is ticking on Vietnam's pursuit of inclusion in emerging market indexes, with its demand for upfront funding by equity investors a key stumbling block.

JPMorgan Chase & Co and HSBC Holdings Plc are among the banks expecting Vietnam's $269bn stock market to win an upgrade from FTSE Russell later this year, with the nation targeting inclusion by 2025. The securities regulator is pushing hard to fulfil the criteria, according to Chairwoman Vu Thi Chan Phuong.

On paper, Vietnam is a prime candidate to join the ranks of emerging markets: The economy is among the fastest-growing in Southeast Asia, it's recognised as a global manufacturing hub and the stock market has recorded double-digit gains in three of the past five years. Foreign investors though are balking at the need to have fully-funded accounts in the country before they can start trading.

"For the FTSE Russell upgrade, Vietnam basically needs to remove" the requirement for funds to only invest with cash already in the country, said Ruchir Desai, a fund manager at Asia Frontier Capital Ltd. "That is the key. Given its ability to generate 6%+ GDP growth in the next 3-5 years along with stable macro-economic and political indicators, Vietnam does have an edge over some other economies in the region."

The next FTSE review is on March 27, though the index compiler typically announces changes in September. It declined to comment to Bloomberg News on potential outcomes.

Vietnam has been placed on a watchlist for an upgrade from frontier market since 2018. Should the nation get an upgrade, it'll join Indonesia, Thailand, Malaysia and the Philippines from Southeast Asia in the FTSE Advanced Emerging and Secondary Emerging universe. Its stock market is already bigger than the Philippines.

"Progress has been slower than anticipated," FTSE said last September. Vietnam's practice of a check to ensure the availability of funds before an order can be made means it hasn't met a settlement criterion. Processes for opening new accounts are also concerns, it added.

Vietnam is piloting a trading system to resolve the deposit issue and shorten the settlement cycle, but it's yet to officially launch.

Another stumbling block is a cap on foreign holdings. For instance, the combined stake of global investors in listed banks is limited to 30%, while they can't exceed 49% in some large-cap firms.

"For a lot of clients, opening an account is a crazy process in Vietnam," said Vicki Chi, a portfolio manager at Robeco in Hong Kong. "Once you start trading, the market is inefficient and liquidity is also very low. The government has quite some work to do to streamline this process to make it a more friendly place for international capital."

The country needs to introduce an efficient mechanism to facilitate trading between foreign investors in securities that have reached, or are approaching, those limits, FTSE has said. This is an even bigger issue for rival MSCI Inc.

Vietnam has said it aims to raise the capitalisation of its stock market to 100% and 120% of gross domestic product by 2025 and 2030, respectively. JPMorgan predicted that an upgrade would drive $500mn of passive inflows.

Default risk fades in emerging markets as riskiest bonds soar

Bloomberg
London

The risk of government defaults in emerging markets this year is subsiding, stoking a rally in bonds that were just recently teetering on collapse and propelling junk-rated sovereign debt to its best start to a year since 2019.

The prospect of a wave of investment in Egypt, a new government in Pakistan and a renewed political push for reform in Argentina have extended gains that many thought were petering out. Only 10 countries are now flashing signs of distress in the bond market, half as many as in 2022.

"We don't see any major defaults in EM sovereign high yield this year," said Anders Faergemann, a money manager at Pinebridge Investments. Market dynamics have completely changed in the past few weeks, he added, and the chance of a restructuring in Egypt, Argentina or Pakistan has "declined significantly."

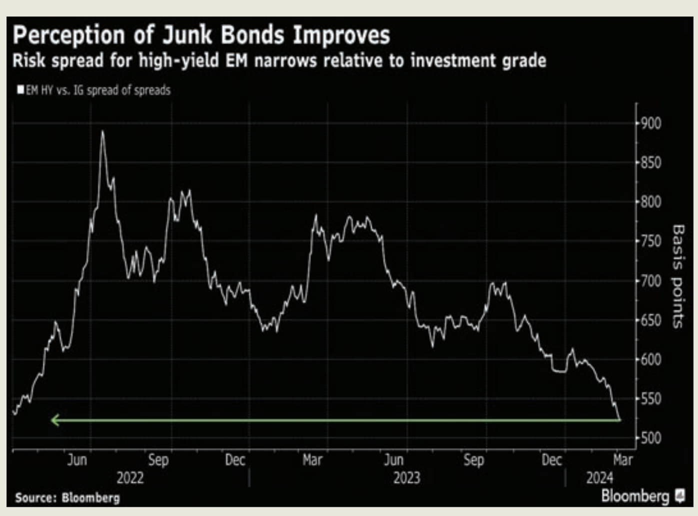
The rally in junk bonds comes as some of the world's most vulnerable economies push through free-market reforms and make progress in negotiations with the International Monetary Fund. That has renewed investor appetite for risk, especially as traders weigh the exact timing of interest-rate cuts by the Federal Reserve and other major central banks.

As junk bond prices surge, the extra yield investors demand to hold speculative-grade sovereign bonds over US Treasuries has declined 56 basis points this year, according to JPMorgan Chase & Co data. That's compared with an 11 basis-point increase for investment-grade bonds. The gap between the two has fallen to 513 basis points, the smallest in two years.

The most dramatic decline in risk premium is in sub-Saharan Africa, where the spread has narrowed to 644 basis points from over 1,000 in May 2023.

Sovereigns that once scared away investors — including Argentina, Egypt, Ecuador and Sri Lanka — are leading global gains this year.

"The value lies in the single Bs and the triple Cs," said Valentina Chen, co-head of emerging markets at investment firm Mackay Shields in London, who touts Argentina, Egypt and Kenya, as well as defaulted names like Zambia and Sri Lanka.



Hard-currency bonds in triple C rated countries have returned 16% this year, outperforming those in all other categories and nearly five times the average return of high-yield bonds issued by developing economies, according to data compiled on a Bloomberg index.

Egypt secured a deal with the IMF last week that doubled its rescue program to $8bn after the country delivered its promise to devalue the currency and hike interest rates. Now the government expects billions more in investment from the World Bank, the European Union, Japan and the UK.

The nation's sovereign bonds have returned 24% for investors this year, the second-best performer among peers, according to data compiled by Bloomberg.

The only nation outperforming Egypt is Ecuador, where President Daniel Noboa managed to "turn the country's short-term security crisis early in January into a blessing in disguise" by consolidating powers, said Sergey Goncharov, a money manager at Vontobel Asset Management.

A potential agreement with the IMF also prompted Barclays economist Alejandro Arreaza and strategist Sebastian Vargas to move overweight on the credit and recommend buying the notes due in 2030.

Even perennial defaulter Argentina is gaining fans as it pursues talks with the IMF about a program that could unlock new cash and as President Javier Milei renews efforts to negotiate a radical overhaul of the economy.

"People are hopeful" of positive changes in Argentina, said Chen. "We see good policies in the pipeline."

Countries in default are also making headway in restructuring talks, further bolstering high-yield sovereign bonds.

Sri Lanka expects to complete a debt revamp soon as the Asian country prioritises obligations to private bondholders after it struck an agreement in-principle with official creditors last year. Zambia also vowed in January to resolve a standoff among its creditors.

All the same, investors are still watching money-market bets for Fed rate cuts closely, as well as commentary by monetary authorities in rich nations, for further clues on how far the high-yield rally can go.

To Oren Barack, managing director of fixed income at New York-based Alliance Global Partners, there is significant opportunity in both EM sovereign and quasi sovereign bonds as the Fed remains in the transitory pause period.

"There is some opportunity in Argentina, in the Bahamas and even beaten-down Venezuela and PDVSA," Barack said, referring to bonds of Venezuela's state oil company. "We will see further compression in EM, which should accelerate as the Fed gets closer to its first cut."

China drains cash via key funding tool for first time since 2022

Bloomberg
Beijing

China drained cash from the banking system with a medium-term liquidity tool for the first time since November 2022, extending its cautious approach of using monetary policy to boost growth and showing its willingness to support the yuan.

The People's Bank of China (PBoC) withdrew 94bn yuan ($13bn) of cash from the banking system on a net basis to avoid excessive liquidity, while it kept the rate on its one-year policy loans steady at 2.5% yesterday. Beijing set its daily reference rate for the yuan, with the largest strong bias to the Bloomberg-survey estimate since November.

The rate decision will likely disappoint investors and economists who anticipate more stimulus is needed for the government to achieve its ambitious economic growth target of around 5% for this year. It also underscores the PBoC's limited scope in further easing monetary policy — given a wide US-China interest rate differential — before the Federal Reserve's policy pivot.

The Chinese yuan was steady both onshore and offshore after the stronger fixing support. Yield on 10-year government bonds fell one basis point to 2.34%, still at the lowest level in two decades. Chinese onshore equities declined, with the CSI 300 Index losing as much as 0.8%. The Hang Seng Index in Hong Kong dropped as much as 2.1%.

Investors have been expecting rate cuts in China this year as the world's second largest economy struggles with deflationary pressures, a years-long property crisis and sluggish demand. The US-China rate differential also has hammered its currency and exacerbated capital outflows amid a weaker-than-expected economic recovery.

"We expect there is limited room for PBoC policy easing before global central banks start to cut rates, as yuan stability remains a policy objective and further widening the interest rate spread with a rate cut would add to depreciation pressure," said Lynn Song, Chief Economist for Greater China at ING. The central bank may reduce reserve-requirement ratio in coming months before slashing the rates on MLF, he said.

The Chinese yuan has fallen around 1% so far this year despite consistent support by the authorities, as expectations of a Fed rate cut as early as the first quarter have been rolled back due to resilient US inflation. Investors' bets on more easing in China boosted their frenzy over the nation's sovereign debt, driving yields to around two-decade low.

Chinese authorities will likely want to gauge the effect of previous stimulus before further actions, especially given that the most important annual political event just wrapped up in Beijing earlier this week. A slew of economic data releases next Monday — including fixed-asset investment, retail sales and industrial production — will provide more clues on economic conditions.

The country's economy has shown nascent signs of recovery, with consumer prices rising in February for the first time since August and exports beating market estimates. Proof of a more sustainable trend will require more solid data in the coming months.

The PBoC is leaning on measured and targeted monetary policy in buoying economic growth. But its push to lower financing costs has been conspicuous. Last week, PBoC Governor Pan Gongsheng hinted at a further reduction of banks' reserve requirement ratio, the amount of cash banks have to keep in reserve. In January, he also telegraphed the previous surprising cut that came days later.


The People's Bank of China headquarters building in Beijing. The PBoC withdrew $13bn of cash from the banking system on a net basis to avoid excessive liquidity, while it kept the rate on its one-year policy loans steady at 2.5% yesterday.

Asian markets hit by rate worries after US inflation surprises

AFP
Hong Kong

Asian markets sank in line with Wall Street yesterday after a sharper-than-expected jump in US wholesale prices dealt a blow to hopes for interest rate cuts, while the uncertainty also sent bitcoin tumbling.

In Tokyo, the Nikkei 225 closed down 0.3% to 38,707.64 points; Hong Kong — Hang Seng Index ended down 1.4% to 16,720.89 points and Shanghai — Composite closed up 0.5% to 3,054.64 points yesterday.

The surprisingly large bump in February's producer price index followed a forecast-beating read on consumer prices earlier in the week and overshadowed separate figures pointing to a slowdown in retail sales.

The reports also came after above-estimate data for January and will likely instil nervousness on trading floors ahead of the Federal Reserve's next policy decision on March 19-20.

While officials are not expected to move on rates, their post-meeting statement will be pored over for an idea of their thinking, with many — including boss Jerome Powell — having warned they will only cut when confident inflation is under control.

The bank's dot plot estimates for rates through the rest of the year will also be closely examined, with markets pricing in three cuts — in line with policymakers' most recent forecasts.

Analysts said the latest figures suggested the personal consumption expenditures (PCE) deflator, the Fed's preferred gauge of inflation, could come in higher than hoped.

All three main indexes on Wall Street ended in the red as the recent strong rally faded on rate-cut worries and profit-taking, with a jump in yields denting optimism and sending the dollar higher.

"Equity and bond bulls are staring at their calendars and drawing a 'big red circle' around the 20th of this month," said Jose Torres of Interactive Brokers.

"Folks are concerned Powell may have to pull a dangerous U-turn during his ride on the monetary-policy highway. His dovish messaging since December has driven an intense loosening in financial conditions." Hong Kong shed 1.4% — having enjoyed a strong run-up at the start of the year — while there were also losses in Tokyo, Sydney, Seoul, Singapore, Mumbai, Bangkok, Wellington, Taipei, Manila and Jakarta.

Shanghai, however, edged up even after China decided not to cut interest rates, with authorities refusing to unveil a strong stimulus to kickstart the struggling economy.

London rose at the open, while Paris and Frankfurt were flat.

The yen swung against the dollar after Japan's largest union announced an average of more than 5% pay increases for members — the biggest in 30 years — in the latest round of wage talks, likely putting further upward pressure on inflation.

The news will also add to expectations the country's central bank will shift from its long-running, ultra-loose monetary policy when it meets next week.

Bitcoin tumbled to as low as $66,715, a day after hitting a fresh record high of $73,797 as risk aversion sets in and observers warn the cryptocurrency may have risen too quickly in recent weeks.

The unit has rocketed around 50% since the middle of February on rate cut hopes and a surge in interest caused by US authorities' decision to allow greater trading accessibility.

Oil held most of its gains, sitting around its highest levels since November, after the International Energy Agency forecast demand would pick up more than previously expected and reports said US stockpiles had fallen.

Bank of Japan on cusp of ending negative interest rates

Reuters
Tokyo

Bigger-than-expected pay hikes by major Japanese firms have significantly heightened the chance the central bank will end eight years of negative interest rate policy next week, marking a landmark shift away from its huge stimulus programme.

Internal preparations for an exit have been in the works since Kazuo Ueda took office as BoJ governor in April last year, and were mostly done by year-end, say sources familiar with the bank's thinking.

BoJ officials, including Ueda, have recently stressed the timing of a shift away from negative rates would depend on the outcome of this year's annual wage negotiations between workers and employers.

Annual labour talks with major firms ended up with pay raises of 5.28%, the country's largest union group said on Friday , the highest in 33 years and far exceeding private forecasts for a hike of around 4.5%.

The results, which heightened hopes that rising pay will revive stagnant household spending, cemented the chance of an exit from negative rates at the BoJ's two-day meeting ending on Tuesday, analysts say.

"Given the stronger-than-expected wage talk outcome, the BoJ will likely ditch negative rates and yield curve control next week," said veteran BoJ watcher Naomi Muguruma, chief bond strategist at Mitsubishi UFJ Morgan Stanley Securities.

"The BoJ could have waited until April if the wage talk outcome wasn't this strong. But with markets already pricing in the chance of an exit, it would actually be a surprise if the bank forgoes ditching negative rates next week," she said.

If the nine-member board believes the conditions are right, the BoJ will set the overnight call rate as its new target and guide it in a range of 0-0.1% by paying 0.1% interest on excess reserves financial institutions park with the central bank.

Upon exiting its negative rate policy, the BoJ will also ditch its bond yield control and discontinue purchases of risky assets such as exchange-traded funds (ETF), sources have told Reuters, putting a formal end to the radical monetary experiment of former Governor Haruhiko Kuroda in place since 2013.

A poll taken in March showed 35% of economists expected the BoJ to end negative rates at the two-day meeting ending on Tuesday, up from the previous month's 7% but still below 62% projecting such action at its subsequent meeting on April 25-26.

With an end to negative rates seen as nearly a done deal, the market's attention is shifting to any clues the BoJ could give on the pace of any interest rate hikes thereafter.

Ueda has said the central bank will maintain accommodative monetary conditions even after ending negative rates, and avoid causing any "discontinuity" from the current ultra-loose policy given uncertainty over the economic outlook.

Any guidance on the future policy path that the BoJ could offer upon ending negative rates will likely be in line with such comments, sources have told Reuters. Under previous Governor Kuroda, the BoJ deployed a huge asset-buying programme in 2013 aimed at reflating growth and firing up inflation to its 2% inflation target in roughly two years.

The central bank introduced negative rates and yield curve control (YCC) in 2016 as tepid inflation forced it to tweak its stimulus programme to a more sustainable one.

However, last year, as the yen's sharp falls pushed up the cost of imports and heightened public criticism over the cost of Japan's ultra-low interest rates, the BoJ tweaked YCC to relax its grip on long-term rates.

An end to negative short-term rates would be Japan's first interest rate hike since 2007.

Foreign funds' net buying lifts QSE sentiments as index gains 0.25%

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

The gains in global energy prices had its reflection in the regional bourses, including the Qatar Stock Exchange (QSE), which traversed through a positive trajectory this week.

The foreign institutions were seen net buyers as the 20-stock Qatar Index rose 0.25% this week which saw the QSE to move to T+2 settlement cycle from the present T+3, effective from March 25.

The real estate, transport, consumer goods, industrials and telecom counters witnessed higher than average demand this week which saw the QSE amends the covered short selling procedures for exchange traded fund units and the covered short selling procedures of the market maker, liquidity provider and qualified investor.

The Gulf institutions' weakened net selling pressure had its influence in the main market this week which saw QSE announce that United Development Company (UDC) and Vodafone Qatar to replace Baladna and Ezdan Holding in the index, effective from April 1.

However, the local retail investors turned bearish in the main bourse this week which saw Gulf International Services' strategic growth in Qatar and global markets as it builds new revenue streams by capitalising on opportunities associated with North Field expansion.

The domestic funds were seen net sellers in the main market this week which saw Standard and Poor's, a global credit rating agency, view that Qatar's realty sector is undergoing a cyclical correction after the boost related to the World Cup in November-December 2022. The Arab individuals were increasingly net profit takers in the main bourse this week which saw a total of 0.34mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.79mn trade across 54 deals. The foreign retail investors turned net sellers in the main market this week which saw as many as 0.01mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.03mn change hands across four transactions.

The foreign institutions were seen net buyers as the 20-stock Qatar Index rose 0.25% this week which saw the QSE to move to T+2 settlement cycle from the present T+3, effective from March 25

The Islamic index was seen gaining faster than the other indices in the main market this week which saw the industrials and banks together constitute more than 59% of the total trade volumes.

Market capitalisation added QR2.03bn or 0.35% to QR590.2bn on the back of midcap segments this week, which saw no trading of sovereign bonds and treasury bills.

Trade volumes and turnover were on the increase in both the main bourse and junior market this week.

The Total Return Index rose 0.55%, the All Share Index by 0.48% and the All Islamic Index by 0.74% this week. The realty sector index zoomed 3.68%, transport (3.1%), consumer goods and services (1.09%), industrials (0.76%) and telecom (0.46%); while banks and financial services was down 0.3% and insurance 0.13% this week.

Major gainers in the main market included Meeza, Qatar General Insurance and Reinsurance, UDC, Nakilat, Mesaieed Petrochemical Holding, Qatar Islamic Bank, Masraf Al Rayan, Woqod, Industries Qatar, Qamco, Barwa, Vodafone Qatar and Milaha. In the venture market, Al Mahhar Holding saw its shares depreciate in value this week.

Nevertheless, about 56% of the traded constituents were in the red with major losers being Qatar Electricity and Water, Dlala, Qatari German Company for Medical Devices, Qatar National Cement, Doha Insurance, Lesha Bank, Mannai Corporation and Gulf Warehousing this week.

The foreign funds were net buyers to the tune of QR166.22mn compared with net sellers of QR21.35mn the week ended March 7. The Gulf institutions' net profit booking declined substantially to QR3.69mn against QR28.53mn the previous week. However, Qatari individuals turned net sellers to the extent of QR119.91mn compared with net buyers of QR19.39mn a week ago.

The domestic funds were net profit takers to the tune of QR27.01mn against net buyers of QR22.46mn the week ended March 7.

The Arab individual investors' net selling strengthened noticeably to QR8mn compared to QR2.63mn the previous week.

The foreign retail investors turned net sellers to the extent of QR5.22mn against net buyers of QR9.19mn a week ago.

The Gulf individuals were net profit takers to the tune of QR2.41mn compared with net buyers of QR1.68mn the week ended March 7. The Arab institutions had no major net exposure against net sellers to the tune of QR0.2mn the previous week.

The main market witnessed a 39% jump in trade volumes to 891.95mn shares, 39% in value to QR2.8bn and 15% in deals to 76,283 this week.

In the venture market, trade volumes shot up 58% to 1.93mn equities and value by 55% to QR3.13mn; whereas transactions were down 7% to 194.

Fed seen sticking with three 2024 rate cuts despite higher inflation

Bloomberg
Washington

A recent pickup in inflation isn't likely to shift Federal Reserve policymakers' forecasts for three interest-rate cuts this year and four in 2025, according to economists surveyed by Bloomberg News.

The Federal Open Market Committee will keep rates steady in the 5.25% to 5.5% range for a fifth consecutive meeting next week, with policymakers reducing rates for the first time in June, economists say. A solid majority of survey respondents see Fed officials pencilling in three or more cuts in 2024, while more than a third expect two or fewer.

Fed Chair Jerome Powell and his colleagues will update their economic and rate projections at the March 19-20 meeting for the first time since December, and survey respondents expect only small tweaks to their outlook with no change in the projected rate path.

"We look for the FOMC to nudge up its median forecast for inflation for this year, but otherwise we do not anticipate large changes to the macro or interest-rate projections," said Kathy Bostjancic, chief economist at Nationwide Mutual Insurance Co. Recent sticky inflation "should add to Powell's reticence in sending a green light on a near-term rate cut."

Economists see policymakers marking up their 2024 forecasts for US gross domestic product to an annual rate of 1.7% from 1.4% and lifting their inflation projection to 2.5% from 2.4%.

The survey of 49 economists was conducted March 8-13.

The Federal Reserve building in Washington, DC. A recent pickup in inflation isn't likely to shift Fed policymakers' forecasts for three interest-rate cuts this year and four in 2025, according to economists surveyed by Bloomberg News.

In congressional testimony last week, Powell emphasised the central bank has made good progress in nudging inflation toward its 2% target and needed "just a bit more evidence" before making an initial rate cut. "We're not far from it," he told lawmakers.

"We are expecting the dot plot to continue to show that the median FOMC participant expects 75 bps rate cuts this year. In the SEP, the median forecast for neutral rate likely edges higher as at least five FOMC participants had flagged the possibility of higher neutral rate during the inter-meeting period," says Anna Wong, chief US economist.

Recent economic data reinforces the case for caution. Underlying US inflation topped forecasts for a second month in February, and a key gauge of pipeline price pressures accelerated.

"With growth, jobs and inflation all too hot for comfort the Fed isn't in a position to cut interest rates in the near-term," said James Knightley, chief international economist at ING.

Almost all respondents expect the Fed to maintain its January guidance that no reduction would be appropriate until the central bank has more confidence inflation is moving sustainably toward 2%. In addition to the decision on rates, the committee is scheduled to hold a discussion of issues surrounding its $7.5tn balance sheet. The Fed has been passively shrinking its portfolio of assets through the runoff of maturing securities — a process known as quantitative tightening.

A plurality of economists expect the Fed to announce a slower pace of tightening in June, with the tapering starting in June or July. As a result, they expect the balance sheet to fall to $6.7tn in December 2025. Economists have become increasingly optimistic about the economic outlook. Just 17% of respondents are forecasting a recession in the next 12 months, well below the 58% seen last July.

"The economy continues to outperform amid a resilient American consumer," said Joe Brusuelas, chief economist with RSM US.

US factory production rebounds from slump in February

Reuters
Washington

Production at US factories increased more than expected in February amid a rise in temperatures, but data for the prior month was revised sharply down as manufacturing remains hamstrung by high interest rates.

Manufacturing, which accounts for 10.3% of the economy, has been squeezed by 525 basis points worth of interest rate hikes from the Federal Reserve since March 2022.

The US central bank is expected to leave rates unchanged at the end of a two-day policy meeting next Wednesday. Financial markets anticipate rate cuts will start in June.

"The manufacturing sector continues to face headwinds from higher borrowing costs and tighter credit conditions," said Rubeela Farooqi, chief US economist at High Frequency Economics.

"However, lower interest rates as the Fed starts cutting the target range this year, as well as an onshoring of supply networks may provide support to factory activity in 2024."

Manufacturing output rebounded 0.8% last month after a downwardly revised 1.1% drop in the prior month, the Fed said. Factory output was previously reported to have dropped 0.5% in January, weighed down by frigid temperatures.

Economists polled by Reuters had forecast factory output would rise 0.3%. Production at factories fell 0.7% on a year-on-year basis in February. Despite the overall weakness, there remain pockets of manufacturing strength.

Motor vehicle and parts output accelerated 1.8% last month, the US central bank's report showed. That followed a 3.8% weather-induced decline in January. Durable goods manufacturing production increased 1.0%. Machinery output rose 1.7%. There were also big increases in the production of wood products as well as miscellaneous goods. Output of computer and electronic products rose as did that of electrical equipment, appliances and components.

This bodes well for business investment. Production of nondurable goods rose 0.7%, lifted by the chemicals, printing and support, and paper output categories.

Mild temperatures also boosted mining output, which rebounded 2.2% after plunging 2.9% in January. But oil and gas well drilling fell for the fourth straight month. It was down 10.1% on a year-on-year basis.

Utilities production fell 7.5% as demand for heating ebbed. That followed a 7.4% surge in January.

Overall industrial production gained 0.1% in February after falling 0.5% in January. Industrial production fell 0.2% on a year-on-year basis in February. Capacity utilization for the industrial sector, a measure of how fully firms are using their resources, was unchanged at 78.3%. It is 1.3 percentage points below its 1972-2023 average.

The operating rate for the manufacturing sector rose six-tenths of a percentage point to 77.0%. It is 1.2 percentage points below its long-run average.

Stocks on Wall Street were trading lower. The dollar was little changed against a basket of currencies. US Treasury yields were mixed.

News on the inflation front was mixed. Import prices rose moderately in February after surging in January, but the overall disinflationary trend is slowing. Declining goods prices accounted for much of the cooling in inflation last year.

Europe's answer to US Treasuries is headed to €1tn

Bloomberg
Frankfurt

Europe's safest securities looks set to grow beyond €1tn ($1.1tn) for the first time on record, a step towards closer fiscal ties between the bloc's members.

The European Union has signalled it will issue new notes in the coming days, adding to the €995bn pile of euro bonds outstanding from the region's four biggest supranational issuers.

For investors, the notes represent an attractive alternative to German bonds — Europe's current haven of choice — because they offer a small pick-up in yield for a similar level of risk and could one day give the region an new alternative to Treasuries.

For the bloc's governments, they've become an increasingly appealing way to finance spending without loading up more debt.

Speculation, meanwhile, is mounting that EU bonds will soon be included in major indexes, adding to their appeal and paving the way for further sales and investment.

"The more that is issued, the more points on the curve, the better the liquidity. And there's talk that they'll be entering some of the benchmarks in the foreseeable future," said Dave Chappell, a senior fixed income fund manager at Columbia Threadneedle, which manages $637bn of assets.

EU bonds were first introduced during the pandemic crisis to help spread the burden of stimulating the bloc's economy.

Now, with debate raging on how governments in the region will fund defence spending in the face of Russian aggression, the project has taken on even great urgency.

Europe has long struggled to attract a vast pool of capital from sovereign wealth funds and global central banks searching for a safe home for their savings. That's because it has lacked a market liquid and big enough to compete with almost $27tn in US Treasuries outstanding.

A euro sculpture in Frankfurt. The European Union has signalled it will issue new notes, adding to the €995bn pile of euro bonds outstanding from the region's four biggest supranational issuers.

While there's still a very long way to go before European bonds become a serious contender, the growth of supply from the four issuing entities — the EU, European Investment Bank, European Stability Mechanism and European Financial Stability Facility — almost doubled over the past decade, according to data compiled by Bloomberg. The bulk has come from EU sales over the past four years to fund the region's post-pandemic recovery. While that program remains temporary for now, its future is gaining renewed interest as Europe's politicians consider how to fund the continent's defence.

Shared borrowing was described by EU Economy Commissioner Paolo Gentiloni last month as "a sound way" to deal with crises. Investors have made clear they're eager for more European issuance, which would boost spending to counter Russian belligerence without loading more debt onto individual member states.

Availability of high-rated assets is all the more important given Europe's past efforts to develop sovereign bond-backed securities never got off the ground, partly because countries including Germany fear they'll end up paying for others' bad debts through the back door.

Of course, the pile of EU bonds remains tiny compared to Treasuries — or even to the bund market, which has almost four times as much debt outstanding.

That means that while the EU might narrow the gap, it's certainly not about to threaten the hegemony of US debt as the world's go-to haven.

"For the reserve assets question, EU bonds are little more than a rounding error," according to Moritz Kraemer, chief economist at German bank LBBW.

But the relatively speedy growth across the bloc's four major supranationals, and the improved liquidity that brings, is helping boost demand among global buyers. "The criticism in the past was, well, there are not enough European safe assets," said Kalin Anev Janse, chief financial officer and management board member at the ESM, which priced a €2bn five-year note on Monday. "We really now have created a deep set of European safe assets, which barely existed only 15 years ago."