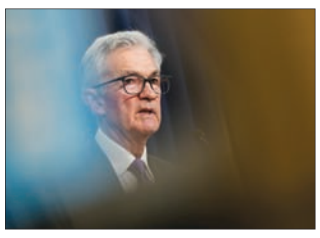


SLOW PACE | Page 4

Fed stays on track for rate cuts with one eye on bumpy inflation

Friday, March 22, 2024
Ramadan 12, 1445 AH

GULF TIMES
BUSINESS

EIGHT-YEAR EXPERIMENT : Page 3

BoJ's small rate hike may have big ripple effect around the world

Dukhan Bank's AGM approves 16% cash dividend for shareholders

Dukhan Bank's annual general meeting has approved a 16% cash dividend for shareholders, which is equivalent to QR0.16 per share.

Dukhan Bank said dividends to shareholders will be distributed from March 25 and will be deposited directly into the bank accounts of the shareholders whose details are registered with the Qatar Central Securities Depository.

The ordinary and extraordinary annual general meeting, which was held via video conference was chaired by Dukhan Bank chairman Sheikh Mohamed bin Hamad bin Jassim al-Thani.

During the AGM, all the items on the agenda were discussed, including listening to and endorsing the Board of Director's Report on the results of the Bank and financial statements for 2023 and discussion of the plan for the year 2024.

The meeting addressed the Dukhan Bank Governance Report for 2023 and approved the corporate governance related policies.

Sheikh Mohamed presented a comprehensive report on the bank's activities and financial outlook, highlighting the most significant results achieved in 2023. The bank recorded a "historic" net profit of QR1.3bn, representing an increase of 4% compared to 2022 with an earning per share of QR0.237 after considering nominal value of QR1 per share, while the total income for the year increased to QR6.1bn, showing a significant double-digit growth of 37% from last year.

While net income from financing activities grew to QR4.7bn, marking year-on-year growth of 45%, the bank's total assets reached QR114bn and financing assets increased to QR77.5bn with a growth of 3% over 2022.

Dukhan Bank recorded a "historic" net profit of QR1.3bn, representing an increase of 4% compared to 2022 with an earning per share of QR0.237 after considering nominal value of QR1 per share

Dukhan Bank's total equity soared to QR12.9bn, showing a growth of 3%. The total capital adequacy ratio was 17.2% in December 2023, in accordance with Basel III and Qatar Central Bank guidelines, showing strong and well capitalised position of the bank.

Return on equity and assets were 11% and 1.2% respectively for 2023.

These encouraging financial results is a reflection of the bank's sustained strong performance, its leading position in the Qatari market and the integrity of the risk management systems it follows.

Sheikh Mohamed emphasised that the bank's outstanding performance results from a steadfast commitment to the future and investments in advanced digital capabilities, enhancing customer service and streamlining banking processes.

He highlighted the bank's successful listing on the Qatar Stock Exchange (QSE) as a strong testament to shareholders' trust and confidence.

Sheikh Mohamed pointed out the bank's resilient business models that have effectively navigated challenges, reinforcing the institution's overall stability.

The bank has also made substantial social contributions and significant strides in sustainability initiatives, both in operations and corporate culture, positioning itself as a leader in Qatar's banking sector.

He affirmed the bank's dedication to leveraging core strengths for discovering new opportunities, fostering innovation, and delivering exceptional value to shareholders. Simultaneously, the bank aims to expand its market share with a focus on sustainable growth.

Dukhan Bank persistently advances its digital transformation journey by strategically listing branches throughout the country, offering a comprehensive range of state-of-the-art banking services and products. This initiative is geared towards improving accessibility, streamlining processes, and providing convenience to a growing customer base.

A noteworthy expansion to the bank's portfolio is the recent introduction of eco-friendly vehicle finance, encouraging customers to invest in electric or hybrid vehicles with an appealing and competitive profit rate.

This move exemplifies Dukhan Bank's commitment to environmentally conscious initiatives while maintaining a focus on providing innovative financial solutions.

Dukhan Bank has also implemented 'Smart Kiosk', a self-service machine designed to simplify and expedite the card printing process for clients securely.

The introduction of the 'Himyan' prepaid card, the first Qatari national prepaid card, empowers both customers and visitors to make secure payments.

Demonstrating a commitment to technological advancements, Dukhan Bank has unveiled Apple Pay, Samsung Wallet, and Google Pay services, seamlessly integrated into the bank's contactless payment platform (D-Pay).

Dukhan Bank introduced the first prepaid digital card in Qatar through its mobile app, building on the distinction of being the initial partner in Qatar to join Mastercard's global Digital First Card programme.

Aligning with the bank's dedication to customer support, the AI-powered virtual assistant 'Rashid' was introduced. This virtual assistant is available across digital platforms, including the mobile app, website, and WhatsApp, providing assistance to customers.

Furthermore, Dukhan Bank has initiated the listing of its shares for trading on the Qatar Stock Exchange through a direct listing. This strategic decision aligns seamlessly with the bank's long-term vision, extending an invitation to customers, shareholders, and eligible investors to actively participate in its pioneering journey. Dukhan Bank takes pride in providing an award-winning and comprehensive range of banking services that encompass retail, corporate and commercial banking, private banking, real estate finance, structured finance, investments, as well as wealth and asset management.

Ezdan Holding Group posts QR99.7mn net profit in 2023

Ezdan Holding Group posted a net profit of QR99.7mn in 2023, compared to QR86.7mn in the previous year.

This was announced by Ezdan after a meeting of its Board of Directors of yesterday.

The Group's earnings per share (EPS) stood at QR0.004 at the end of 2023 compared to QR0.003 in 2022.

The Group generated revenues of QR1,913mn in 2023 compared to QR1,937mn in 2022.

The Board of Directors did not recommend any dividends for the financial year that ended on December 31, 2023.

This will be submitted for approval at the forthcoming annual general assembly meeting.

Higher hydrocarbons extraction helps lift Qatar's industrial production in January, says PSA

By Santhosh V Perumal
Business Reporter

Higher hydrocarbons' extraction and a robust increase in the production of especially cement led Qatar's industrial production index (IPI) jump 5.5% year-on-year in January 2024, according to official statistics.

The country's IPI rose 4% on a monthly basis in the review period, according to figures released by the Planning and Statistics Authority (PSA).

The PSA introduced IPI, a short-term quantitative index that measures the changes in the volume of production of a selected basket of industrial products over a given period, with respect to a base period 2013.

The mining and quarrying index, which has a relative weight of 82.46%, soared 7.6% on a yearly basis due to a 7.6% jump in the extraction of crude petroleum and natural gas; even as there was an 11.1% contraction in other mining and quarrying segments.

The sector index had seen a 4.9% increase month-on-month in the review period owing to 4.9% growth in extraction of crude petroleum and natural gas; whereas there was a 6% decline in other mining and quarrying segments.

The manufacturing index, with a relative weight of 15.85%, declined 5.7% on a yearly basis on a 16.5% drop in the production of basic metals, 9.1% in refined petroleum products, 9.1% in printing and reproduction of recorded media, 3.6% in rubber and plastics products, 3.4% in chemicals and chemical products and 2.2% in food products; even as there was a 3.6% jump in cement and other non-metallic mineral products and 0.1% in beverages.

On a monthly basis, the sector index was down 0.6% on a 7.7% decrease in the production of beverages, 6.3% in basic metals and 0.1% in chemicals and chemical products in the review period.

The PSA introduced IPI, a short-term quantitative index that measures the changes in the volume of production of a selected basket of industrial products over a given period, with respect to a base period 2013

However, there was a 2.4% gain in the production of rubber and plastics products, 1.6% in refined petroleum products, 0.8% in food products and 0.5% in cement and other non-metallic mineral products in the review period.

Electricity, which has a 1.16% weight in the IPI basket, saw its index soar 7% year-on-year but declined 2.6% month-on-month in January 2024.

In the case of water, which has a 0.53% weight, the index was seen increasing 8.6% on an annualised basis whereas it was down 0.9% on a monthly basis in the review period.

Qatar bourse sees 60% of traded stocks extend gains

By Santhosh V Perumal
Business Reporter

The Qatar Stock Exchange yesterday saw 60% of its traded constituents appreciate in value but overall it settled marginally higher, a day after the US Federal Reserve maintained status quo on the interest rate.

The local retail investors were seen increasingly into net buying as the 20-stock Qatar Index rose 0.08% to 10,211.22 points, recovering from an intraday low of 10,190 points.

The telecom, insurance, industrials, banking and consumer goods saw higher than average demand in the main market, whose year-to-date losses narrowed to 5.72%.

The foreign individuals were seen increasingly bullish in the main bourse, whose capitalisation was up QR0.39bn or 0.07% to QR589bn with microcap segments leading the pack of gainers.

The Arab retail investors turned net buyers in the main market, which saw as many as 5,180 exchange traded funds (sponsored by Masraf Al Rayan and Doha Bank) valued at QR0.01mn trade across three deals.

The Gulf institutions were seen net buyers, albeit at lower levels, in the main bourse, which saw no trading of sovereign bonds.

The Islamic index was seen gaining slower than the other indices in the main market, which reported no trading of treasury bills.

The Total Return Index rose 0.19%, the All Share Index by 0.19% and the All Islamic Index by 0.09% in the main bourse, whose trade turnover and volumes were on the increase.

The telecom sector index shot up 1.2%, insurance (0.37%), industrials (0.34%), banks and financial services (0.27%) and consumer goods and services (0.2%); while transport and real estate declined 1.12% and 0.26% respectively.

Major movers in the main market included Mannai Corporation, Doha Insurance, Ooredoo, Qatar Electricity and Water, Al Meera, Qamco and Mesaieed Petrochemical Holding.

In the venture market, Al Mahhar Holding saw its shares appreciated in value.

Nevertheless, QLM, Dukhan Bank, Medicare Group, Nakilat, Qatar Oman Investment, Mazaya Qatar, Ezdan and Milaha were among the losers in the main bourse.

The local retail investors' net buying increased considerably to QR17.5mn compared to QR2.11mn on March 20.

The foreign individual investors' net buying grew markedly to QR2.38mn against QR0.36mn the previous day.

The Arab individuals turned net buyers to the tune of QR1.88mn compared with net sellers of QR0.94mn on Wednesday.

The Gulf institutions were net buyers to the extent of QR0.6mn against net profit takers of QR2.02mn on March 20.

However, the domestic institutions' net selling expanded significantly to QR20.34mn compared to QR11.11mn the previous day.

The foreign institutions turned net sellers to the tune of QR1.89mn against net buyers of QR9.2mn on Wednesday.

The Arab institutions were net profit takers to the extent of QR0.11mn compared with no major net exposure on March 20.

The Gulf individuals turned net sellers to the tune of QR0.02mn against net buyers of QR0.53mn the previous day.

Trade volumes in the main market increased 17% to 136.03mn shares and value by 13% to QR386.85mn, while deals were down 2% to 13,592.

The venture market's trade volumes were rather flat at 0.03mn equities, but saw 25% surge in value to QR0.05mn despite 33% lower transactions at 6.

The local retail investors were seen increasingly into net buying as the 20-stock Qatar Index rose 0.08% to 10,211.22 points yesterday, recovering from an intraday low of 10,190 points.

Turkiye central bank stuns market with 500-point interest rate hike to 50%

- Shock hike triggers lira rally
- Policy rate raised by 4,150 basis points since June
- Bank says will tighten further if inflation deteriorates

Reuters
Istanbul

The logo of Turkiye's central bank is pictured at the entrance to the bank's headquarters in Ankara (file). The bank has now raised its key one-week repo rate by 4,150 basis points from 8.5% since last June.

Turkiye's central bank unexpectedly raised interest rates by 500 basis points to 50% on Thursday, citing a deteriorating inflation outlook and pledged to tighten further if significant and persistent deterioration in inflation is foreseen.

The hawkish surprise came 10 days before nationwide local elections and was seen by analysts as a signal that the central bank was independent from any political constraints and determined to tackle price rises.

In response the lira currency rallied as much as 1.5% to 31.91 against the dollar, reversing weeks of steady declines, and Turkiye's dollar bonds extended a rally.

The bank has now raised its key one-week repo rate by 4,150 basis points from 8.5% since last June, following President Recep Tayyip Erdogan's victory in May elections and U-turn towards greater orthodoxy in economic policy.

The "tight monetary stance will be maintained until a significant and sustained decline in the underlying trend of monthly inflation is observed, and inflation expectations converge to the projected forecast range," it said.

Policy "will be tightened in case a significant and persistent deterioration in inflation is foreseen," it added after the monthly meeting of its monetary policy committee.

To reinforce the tightening move, the central bank also adjusted its policy operational framework, setting the overnight borrowing and lending rates 300 basis points below and above the repo rate.

The rate hike "stunned the market," said Piotr Matys, senior FX analyst at In Touch Capital Markets in London. "Today's decision is a very strong signal that Governor (Fatih) Karahan, who took over from (Hafize Gaye) Erkan when she unexpectedly resigned, is determined to bring staggeringly high inflation under control," he said.

Inflation rose to a higher than expected 67% last month, when the central bank had held rates steady after a sustained string of hikes since June.

Though inflation is expected to dip around mid-year, the recent lira slide coupled with declining foreign reserves had raised some expectations of more rate hikes ahead — though not until after the March 31 municipal.

In a Reuters poll, 20 of 22 respondents expected the bank to keep the rate steady in March, while the other two forecasted a hike of only 250 basis points. The poll showed however that a strong majority expected it to hike again later this year.

The central bank in recent weeks took other steps to tighten credit including action on reserve requirements, prompting some banks to either reduce loan limits or even stop offering loans. It also raised the maximum rate on credit card cash withdrawals.

Tighter fiscal policy is expected after the coming elections, adding to the rising credit costs and compounding economic pain after a years-long cost-of-living crisis.

Earlier this month, Finance Minister Mehmet Simsek promised steps to help the central bank reduce inflation.

"You can read into this (rate hike) that Simsek and the central bank have the capacity to be more aggressive, upcoming election or not," said Peter Kisler, EM portfolio manager at Trium Capital in London.

Last Friday, the central bank's monthly survey of market participants' expectations showed that Turkiye's year-end annual inflation was seen at 44.19%, higher than the bank's own forecast of 36%.

QSE MARKET WATCH

COMPANY NAME	Lt Price	% Chg	Volume
Zad Holding Co	14.83	0.88	158,260
Widam Food Co	2.10	0.14	667,158
Vodafone Qatar	1.76	0.80	8,964,932
United Development Co	1.10	-0.72	8,943,380
Salam International Investment	0.64	0.79	2,052,170
Qatar & Oman Investment Co	0.85	-1.39	512,326
Qatar Navigation	11.20	-0.80	1,671,287
Qatar National Cement Co	3.70	0.03	218,992
Qatar National Bank	14.75	0.27	1,363,491
Qlm Life & Medical Insurance	2.10	-4.41	494,953
Qatar Islamic Insurance Group	9.00	0.12	560,971
Qatar Industrial Manufacturing	2.69	-0.33	1,411,420
Qatar International Islamic	11.15	0.27	557,774
Qatari Investors Group	1.67	-0.42	2,711,583
Qatar Islamic Bank	19.45	-0.10	1,155,661
Qatar Gas Transport (Nakilat)	4.10	-1.42	5,437,574
Qatar General Insurance & Reinsurance	1.10	0.00	500
Qatar German Co For Medical	1.42	0.85	1,516,530
Qatar Fuel Qsc	14.76	0.07	485,529
Lesha Bank Llc	1.32	-0.30	4,704,249
Qatar Electricity & Water Co	16.47	1.29	463,110
Qatar Exchange Index Etf	10.10	0.00	80
Qatar Cinema & Film Distribution	3.10	0.00	-
Al Rayan Qatar Etf	2.33	0.21	5,100
Qatar Insurance Co	2.34	0.52	150,782
Qatar Aluminum Manufacturing	1.32	0.84	15,998,318
Ooredoo Qpsc	10.73	1.32	523,743
Alijarah Holding Company Qps	0.70	0.57	1,854,686
Mazaya Real Estate Development	0.68	-1.32	9,009,765
Mesaieed Petrochemical Holding	1.94	0.57	7,046,068
Mekdam Holding Group	4.79	0.29	258,584
Al Meera Consumer Goods Co	13.19	1.00	109,320
Medicare Group	4.43	-1.88	3,250,883
Mannai Corporation Qpsc	4.27	2.84	667,454
Masraf Al Rayan	2.53	0.52	4,444,408
Industries Qatar	12.13	0.00	3,044,987
Inma Holding Company	3.97	-0.25	145,276
Estithmar Holding Qpsc	1.95	0.31	3,003,291
Gulf Warehousing Company	3.38	-0.56	692,557
Gulf International Services	2.85	0.53	3,590,654
Al Faleh Education Holding	0.76	0.67	24,504
Ezdan Holding Group	0.84	-0.95	3,233,521
Doha Insurance Co	2.45	2.30	116,884
Doha Bank Qpsc	1.53	0.53	10,839,498
Dlala Holding	1.31	-0.15	399,001
Commercial Bank Psqc	5.10	0.79	2,355,156
Barwa Real Estate Co	2.90	0.28	1,985,601
Baladna	1.21	-0.49	5,717,265
Damaan Islamic Insurance Co	3.78	-1.10	2,361
Al Khaleej Takaful Group	2.61	0.77	686,004
Aamal Co	0.78	0.13	759,792
Al Ahli Bank	3.96	0.00	-

Turkiye and Gulf states to launch talks for free trade pact

Reuters
Ankara

Turkiye and the Gulf Co-operation Council (GCC) have signed a deal to launch negotiations for a Free Trade Agreement (FTA), Turkish Trade Minister Omer Bolat said on Thursday, as Ankara steps up efforts to expand economic ties with the region.

Ankara already has a trade agreement, dubbed a comprehensive economic partnership agreement, with the UAE.

It has already signed deals worth billions with Gulf nations, including Qatar.

"The agreement will liberalise trade in goods and services, facilitate investments and trade, and increase our country's trade with the region," Bolat said on social media platform X.

Ankara believed the talks would be completed as soon as possible, he added, saying the pact would lead to one of the world's largest free trade areas, between Turkiye and members of the GCC, with a total value of $2.4tn. The GCC groups Qatar, Saudi Arabia, the UAE, Kuwait, Oman, and Bahrain.

In a statement, GCC Secretary-General Jasem AlBudaiwi said the accord to launch FTA talks "is a demonstration of the robust and strategic partnership between the GCC countries and Turkiye."

Gulf Arab nations are looking to Turkiye for help developing local industries and technology transfer in their ambitious effort to diversify their economies away from oil

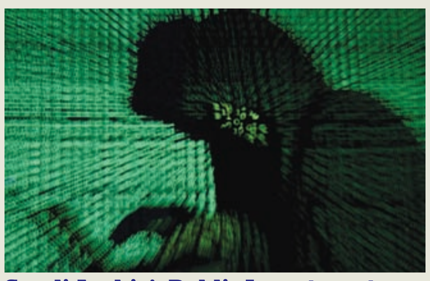
He said it showcased successful co-operation between the GCC and Turkiye across various fields, including commerce, economics, and finance.

Gulf Arab nations are looking to Turkiye for help developing local industries and technology transfer in their ambitious effort to diversify their economies away from oil.

Last week, Turkiye and Britain said they would launch talks on an expanded FTA to include goods and services in the deal.

Saudi PIF, Andreessen eye up to $40bn for AI fund

Bloomberg
Riyadh



Saudi Arabia's Public Investment Fund is in early talks to partner with venture capital giant Andreessen Horowitz on a fund, which may grow to as large as $40bn in commitments, to target artificial intelligence investments, according to people familiar with the matter

Saudi Arabia's Public Investment Fund is in early talks to partner with venture capital giant Andreessen Horowitz on a fund, which may grow to as large as $40bn in commitments, to target artificial intelligence investments, according to people familiar with the matter.

The PIF aims to initially run the new fund and will be among investors contributing to it, the people said, asking not to be identified discussing private information. Participants may only be asked to put in cash after specific deals are identified, the people said.

No final decisions have been made and the kingdom may eventually decide against setting up such a fund, they said. Representatives for the PIF and Andreessen Horowitz declined to comment. *The New York Times* first reported on the AI initiative on Tuesday.

The PIF is the main entity driving Saudi Arabia's Vision 2030 programme — Crown Prince Mohamed bin Salman's multi-trillion-dollar economic transformation project — and is trying to line up funding for its various spending commitments. Saudi Arabia is one of a clutch of oil-rich Gulf States ploughing money into AI as part of efforts to diversify their economies.

Silicon Valley's Andreessen Horowitz, which has long-standing ties with the kingdom, has also been on the hunt to raise billions of dollars from investors for a new collection of funds, including two focused on AI, Bloomberg has reported.

The PIF is already backing a new investment firm with $100bn in capital that will plough money into a range of industries, including semiconductors and tech. Saudi Arabia previously made massive capital deployments into the technology industry, including SoftBank Group Corp.'s Vision Fund.

Neighbouring Abu Dhabi is setting up its own technology investment firm, called MGX, targeting deals in AI and semiconductors. That one aims to top $100bn in assets under management in a few years, people familiar with the matter have said.

The Emirati AI company G42 — which has been at the forefront of UAE efforts to develop the technology and is a founding partner of MGX — is paring back its presence in Beijing, and the firm has now pledged to invest in Western markets where its key AI partners operate.

The new Saudi fund will likely be faced with similar issues, and is seeking to invest in a partnership with a US fund to avoid that level of scrutiny, one of the people said.

Bloomberg QuickTake Q&A

China fiscal stimulus plan may be bigger than it appeared

By Bloomberg News

China's leadership underwhelmed investors with a seemingly restrained 2024 budget plan. But a closer look beyond the headline numbers suggests the package could pack a bigger punch than initially thought.

China kept its official budget deficit target unchanged at 3% of gross domestic product, but that underplays government support because it leaves out a large amount of investment spending.

Using the simplest definition of stimulus — the demand injected into the economy by government spending minus the purchasing power removed via taxes and fees levied — the fiscal package in proportion to the size of the economy is the strongest since 2020, when China moved to shore up growth in the face of the pandemic.

A persistent property crisis and stubbornly weak domestic demand make the case for strong stimulus measures to meet a government goal to expand gross domestic product by around 5% this year.

Regardless of how the latest spending plan is measured, some economists are already predicting that Beijing will add to it later this year. Here are answers to key questions on China's fiscal plans.

1. What's the basis for China's 3% fiscal deficit target?

There's a lot of history behind that number. Central government authorities for decades have viewed the 3% ratio as a maximum, because it conveys a disciplined approach. It's the same guideline European policymakers set for qualifying for the euro area back in the 1990s, although many in the bloc now miss it.

With Covid and other challenges, China has crossed the line a number of times over the years, and some government-linked economists have argued against it. Last year's figure was 3.8%, the biggest in three decades. While the 3% target this year disappointed some observers, it left room for expansion later. And a government spokesperson said it will help lift foreign investor confidence.

China's official deficit breaks down like this: It represents the gap between outlays on things such as services and defence, and what the government makes mainly in tax revenue. In value, the 2024 figure is projected at 4.06tn yuan ($564bn). It then sells bonds to make up for the shortfall.

2. Why might that not be the most accurate gauge of the government's fiscal stance?

The trouble is that it leaves out China's other fiscal accounts. The largest of those is the "government-managed funds account," which covers investment in construction projects, as well as income derived mainly from land sales. This account usually has a large deficit, made up by bond issuance. Combining that with the general budget, the shortfall amounts to 11.1tn yuan, or almost triple the size of the official fiscal deficit.

National authorities can also unleash leftover funds from prior years, as well as cash transfers from other fiscal accounts, such as profits submitted by state-owned enterprises. Officials have said that most of the roughly 1tn yuan raised from October's additional sovereign bond issuance will be used in 2024.

"The fiscal numbers are pretty decent, a pretty solid additional impulse from last year" overall, said Andrew Polk, a co-founder of the research consultancy Trivium.

3. How large is the stimulus relative to the past?

Zooming out, the planned 11.1tn yuan figure for the augmented fiscal deficit — an estimate of all the main fiscal resources — is equivalent to 8.2% of GDP this year, according to Bloomberg calculations based on Ministry of Finance data. That would represent the highest deficit-to-GDP ratio since 2020.

And the tally could end up representing even more than 8.2%, thanks to deflation. That's because that figure is measured against nominal GDP, which includes the growth of prices. If price growth is weak or negative, that 11.1tn yuan deficit will represent a bigger slice of the pie. China incorporated inflation of above 2% in its budget, according to economists at Galaxy Securities. But if price growth comes in lower than that — as most economists expect — it would increase the deficit-to-GDP measure.

4. Is there enough stimulus to achieve the official GDP growth goal?

Economists say it's hard to tell. That's because the expanded on-budget spending will be offset by a separate central government campaign to rein in risk from debts taken on by regional officials.

Construction spending funded by China's thousands of local-government financing vehicles has traditionally played a big role in stimulating the economy — even though this isn't part of any official budget, earning it the name "hidden" debt.

But LGFV borrowing will be tightly controlled this year, with Beijing vowing to "firmly contain new hidden debt risks." China has also ordered 12 regions seen as having more risky debt to limit new projects and suspend some already underway.

There's also the risk that local governments can't find enough cash-flow generating projects to invest in — part of the reason there are leftover funds from previous years.

Finally, the budget appears to have overestimated revenues to be earned from land sales, with its projections implying they'll be broadly flat compared to last year, according to UBS Group AG chief Asia economist Wang Tao. Wang forecasts a 10% decline, which could leave a gap of more than 500bn yuan.

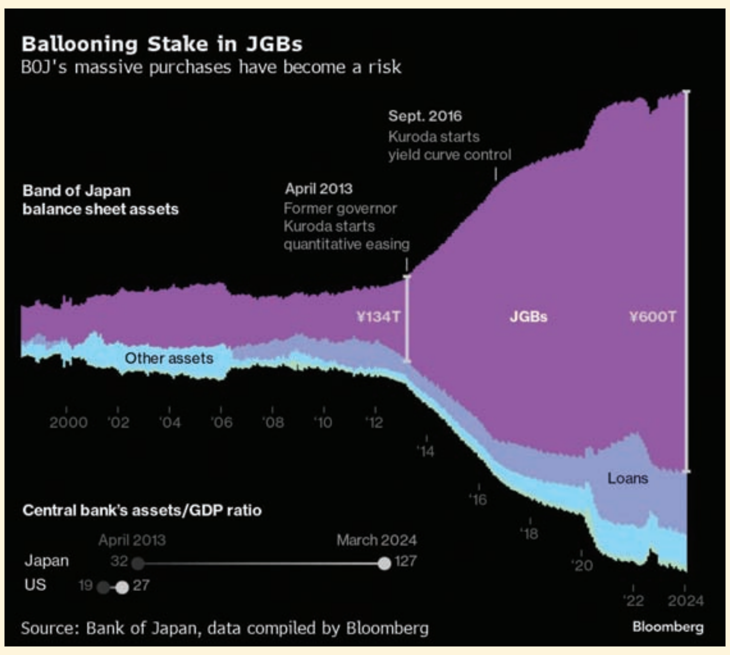
"Maybe the leadership expects things to improve, or at least not get worse. That is a little ambitious," Wang says. "It's likely they will cut their spending if there is a shortfall."

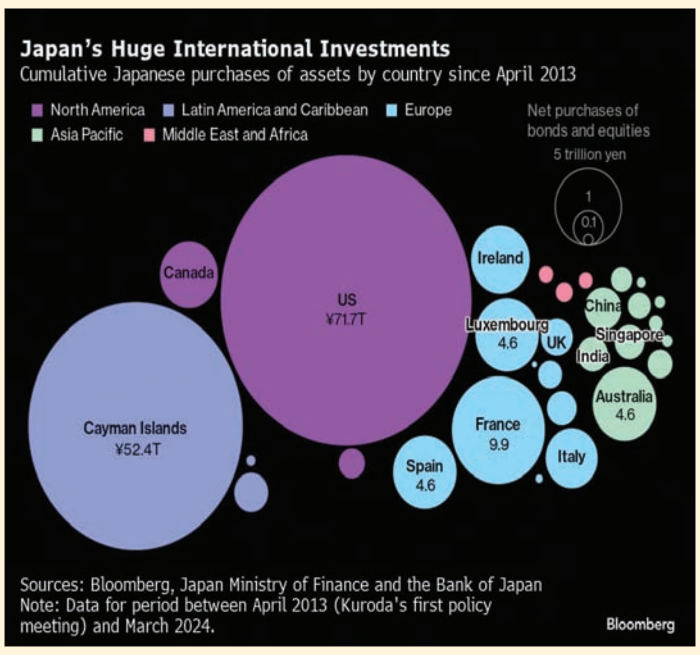
5. What else can Beijing do?

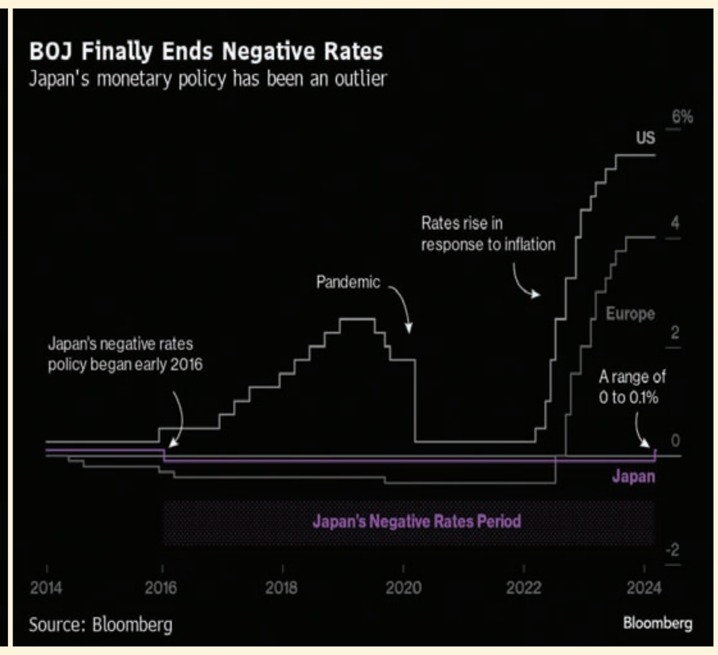
Economists expect policymakers to turn to "quasi-fiscal measures" that finance government spending without adding to the headline deficit. For instance, the central bank can release low-cost funds for state-owned banks via its Pledged Supplemental Lending programme, which they have recently used to fund property projects. That facility could "very easily" add 1tn yuan this year, Polk of Trivium said.

Beijing could also resume a programme used in 2022 that allowed the policy banks to issue bonds to invest in infrastructure. The mid-year expansion of the annual budget last October has led some economists to expect a similar move this year.

"There are several options available for the government to raise more funding later this year if necessary," Goldman Sachs Group Inc economists including Lisheng Wang wrote in a note.







BoJ's small hike may have big ripple effect around the world

Bloomberg
Tokyo/Hong Kong/Singapore

The Bank of Japan has finally ended an eight-year experiment with negative interest rates that has left more than $4tn in funds hunting for higher returns abroad. What comes next threatens to shake up money flows in Japan and across the world.

One of the biggest questions is what happens to that big ball of money stashed overseas in assets including US government bonds, European power stations and Singapore equities. So far, markets have taken Japan's first interest-rate hike since 2007 in stride, as the yield differential still remains wide with other major economies. The yen even weakened slightly, with traders citing the BoJ's promise to keep conditions accommodative as a sign there won't be rapid tightening ahead. But the longer term effect is less certain.

Within Japan, concerns persist about the fallout on consumers, businesses and government finances. Japanese stocks have recently hit record highs and workers won their biggest wage gains in three decades, fuelling hopes that the nation can sustainably boost consumption and leave behind deflation and economic stagnation.

But the prospect of higher borrowing costs is also weighing on households, particularly as prices have been rising faster than wages. The economy narrowly avoided a recession at the end of last year, slipping behind Germany to become the world's fourth-largest in dollar terms. The stock boom is also partly the result of a weak yen, which has lost over 20% of its value against the dollar since Japan adopted negative rates in 2016.

"The large-scale monetary easing policy served its purpose," Governor Kazuo Ueda said Tuesday as he announced the end of the most aggressive monetary stimulus programme in modern history.

Here's what it means for everyone from investors and CEOs to Japanese taxpayers and Prime Minister Fumio Kishida, who faces a leadership contest later this year:

Japan government bonds

The most obvious concern is what happens to Japan's government debt, which is worth more than 250% of gross domestic product — the highest among developed nations.

The BoJ said it will continue to buy long-term government bonds as needed, even after it also scrapped the yield curve control programme and ended its purchases of exchange-traded funds. But Ueda, who took the reins of the central bank 11 months ago, said that trimming back the BoJ's balance sheet was something he needed to consider even if he didn't disclose a timeframe.

"I would like to consider at some point in the future lowering the amount of our government bond purchases," he said.

The BoJ owns around 54% of the nation's government bonds, compared with some 12% in 2013 before the central bank began its massive purchases of JGBs. Debt-serving costs already exceeded ¥25tn ($168bn) in fiscal 2023, around three times Japan's annual spending on defence. Higher rates will now make this costlier.

Yen repatriation

The yen has fallen around 10% against the dollar in the past year, the most among the 16 major currencies tracked by Bloomberg, as other central banks tightened policy to rein in inflation. Investors have seen the yen as a popular vehicle for carry trades against higher-yielding currencies, especially in emerging markets. The BoJ's shift could change this.

But the even bigger fear has been a reversal in the flow of trillions of dollars in Japanese investments, which market players had feared could send shockwaves through the global economy. Japanese investors are the biggest foreign holders of US government debt, with more than $1.1tn at the end of August.

They also own significant stakes in Australian debt and Dutch bonds. Investors are hoping that any further BoJ rate hikes will be slow and non-disruptive, limiting the likelihood of any destabilising repatriation of funds. A Bloomberg poll found that only 40% of respondents saw a BoJ move as prompting large sales of foreign assets. Analysts said the BOJ had already given markets plenty of warning about an eventual shift.

"The Bank of Japan has been very clever with its messaging, and markets have had a year to digest what the implications will be for global markets," said Stephen Miller, a four-decade markets veteran and consultant at GSFM in Sydney. "To

Bank of Japan Governor Kazuo Ueda. The BoJ said it will continue to buy long-term government bonds as needed, even after it also scrapped the yield curve control programme and ended its purchases of exchange-traded funds. But Ueda, who took the reins of the central bank 11 months ago, said that trimming back the BoJ's balance sheet was something he needed to consider even if he didn't disclose a timeframe.

some extent, global investors have even pre-empted the move.'"

Japanese businesses

A stock market rally in February sent the blue-chip Nikkei 225 to a record high, overtaking levels reached in 1989 during the peak of Japan's asset-market bubble. The gauge climbed further in March to break through the psychologically significant 40,000 level, bolstered by signs that companies are getting serious about improving shareholder value as well as an endorsement from overseas investors including Warren Buffett.

Price gains, wage hikes and higher borrowing costs mean the return of a more normal business cycle for Japan's 3.7mn companies. For the first time in decades, workers are demanding — and winning — pay raises. And businesses are relearning how to pass on higher costs to customers.

But higher rates will deal a blow to highly indebted enterprises that have effectively been kept on life support thanks to decades of ultra-loose monetary policy. Tokyo Shoko Research estimates that about 565,000 companies are "zombie" firms struggling to pay off debts from profits alone, and a 0.1 percentage point rate rise would increase that number by about 12% to 632,000.

That means more bankruptcies are likely in the months ahead. The number of companies declaring insolvency has already risen for 23 straight months, climbing 23% in February from a year earlier. Small- and medium-sized businesses, which make up 90% of enterprises in Japan, will be the hardest hit.

Bank margins

One beneficiary of tighter credit will be Japan's banking sector, which has long complained that the BoJ's ultra-low rates weighed on their earnings. Banks including Mitsubishi UFJ Financial Group Inc, Sumitomo Mitsui Financial Group Inc and Mizuho Financial Group Inc are all set to enjoy a boost to lending income. With the bulk of loans based on floating rates, the changes in BoJ policy rates are likely to have an immediate impact. For instance, MUFG has said that net interest income at its core banking unit will increase by at least ¥35bn if the BoJ raises its policy rate to 0% from minus 0.1%.

On the trading front, securities firms are expected to profit from increased client volumes on fixed income and currency trading desks. Rates traders across Tokyo, who deal in government bonds and other securities linked to interest rates, are expected to profit the most.

"The bond trading draught in Japan is finally over," said Mark Williams, a lecturer in finance at Boston University who wrote Uncontrolled Risk, a book about the 2008 global financial crisis. "The anticipation of higher central bank rates and increased bond price volatility has already translated into greater trading volume. These rate hikes in the world's third-largest bond market will supercharge trading profit opportunities."

Consumer impact

The BoJ's benchmark rate of -0.1% had been a pillar of its easy policy under former Governor Haruhiko Kuroda, who adopted a "shock-and-awe" programme of unconventional easing and massive asset purchases in a bid to spur price gains. Initially intended to last just a couple of years, such easing became difficult to abandon due to fears of triggering a jump in rates or sending the economy back into deflation.

Worries persist that the central bank's pivot, rather than heralding an era of strong growth, could set back consumer confidence. A rapidly ageing population and shrinking workforce mean economic growth is likely to remain subdued, leaving many consumers cautious about spending and investing. Despite salary gains to come from recent union negotiations, overall wage growth still lags behind consumer inflation.

A survey by public broadcaster NHK this month found that more than 80% of Japanese people didn't feel the economy was improving.

That's why the BoJ has been so cautious about shifting back to normal policy, even as it became the last major central bank with negative rates. It wasn't until the supply shocks triggered by Covid-19 and Russia's war in Ukraine that inflation crept above the BoJ's 2% target and stayed there.

The bank has misjudged timing before.

Tightening in 1989-1990 helped trigger the bursting of Japan's asset bubble, and crushed the economy for more than a decade. The BoJ then hiked rates in 2000 when prices were still falling, in a move later seen as premature. One board member who voted against the decision at the time was Ueda.

Political impact

Weighed down by scandals and the lowest approval ratings in decades, Prime Minister Fumio Kishida now has an opportunity to officially declare Japan's deflation over — a long-sought goal that his predecessors failed to achieve after agreeing to a joint policy accord with the central bank in 2013.

Bigger paychecks, along with one-off tax cuts starting in June, might help Kishida shift the public's attention to economic positives and away from a series of scandals within his long-ruling Liberal Democratic Party, including slush funds and ties with a fringe religious group. Reversing the poor poll results will be crucial for Kishida to stay in power through September, when the LDP holds a leadership contest. Some expect a general election shortly afterward.

The prime minister is likely to tout the BoJ move as positive for his vision of a growth model in which prices, wages and investments all rise hand in hand. But any negative fallout on the broader population could further damage support for his cabinet.

The BoJ's move will increase government borrowing costs, making it harder to counter economic shocks with debt-fuelled stimulus measures. Kishida may be forced to make the case for unpopular items like tax spending. And even as he claims credit for lifting Japan out of a deflationary spiral, this may not convince voters who are seeing inflation erode their household budgets.

PBoC signals liquidity boost for banks, cautions on rate cut

Bloomberg
Hong Kong

China's central bank signalled a potential boost to liquidity for banks while expressing caution on cutting interest rates, after the world's second-largest economy reported an upbeat start to 2024.

There is still room to lower the reserve requirement ratio for banks, which is an important tool to adjust liquidity, People's Bank of China Deputy Governor Xuan Changneng said during a Thursday briefing. Interest rate policy in the country can become more "autonomous" as deposit rates trend lower and other major global economies move toward easing, he added, alluding to current limitations from banks' thin profit margins and the Federal Reserve's elevated rates.

"China's monetary policy space is ample and the policy toolbox is abundant," Xuan said. "Financial support to the economy is still solid."

The remarks underscore how the PBoC isn't in any rush to cut policy rates right now. Official data pointed to better-than-expected growth in the export, industrial and investment sectors in the first two months of the year, giving policymakers a chance to pause and assess the economy's momentum. The idea that officials are in an "observation period" right now was floated earlier Thursday in Chinese state media, which said recent holds on key rates signal monetary policy is "staying put."

Investors, meanwhile, have been scrutinizing statements by Chinese policymakers as they look for any clues on potential stimulus this year. Beijing is targeting growth of around 5%, an ambitious rate that some analysts say may require more support.

Economists still point to a higher likelihood for other types of monetary easing down the line — including trims to the RRR, which would allow banks to keep smaller reserves and therefore encourage more lending.

"A rate cut may be delayed," said Zhang Zhiwei, chief economist for Pinpoint Asset Management Ltd. He cited concerns including more pressure on the already weak yuan and China's flattening yield curve, which suggests traders are growing pessimistic about the country's longer-term growth outlook.

Banks are likely to lower their deposit rates in April, according to Raymond Yeung, chief economist for Greater China at Australia & New Zealand Banking Group Ltd. That would help ease the pressure from their narrowing profit margins and open up space for lending rates to fall. He also forecasts a cut to the RRR in the second half of the year.

Earlier this month, PBoC Governor Pan Gongsheng also stressed that there was still room for the central bank to cut the RRR. Neither he nor Xuan gave any indication of when another trim may come. In January, Pan announced a 50 basis point-reduction in the RRR during a live press briefing. That cut was larger than most analysts expected.

A liquidity boost would help the market absorb an upcoming 1tn yuan ($139bn) issuance of special ultra-long sovereign bonds, which is part of the fiscal stimulus plan that policymakers have outlined for 2024. China plans to issue the notes mainly through public auctions in the interbank market rather than through targeted sales, Bloomberg News reported earlier. That could lead to liquidity pressure, as a wider pool of banks will need to set aside cash to make purchases.

"Comments by People's Bank of China Deputy Governor Xuan Changneng at a press conference Thursday struck us as mildly dovish. He said the PBoC is trying to spur credit expansion with lower reserve requirements and taking into consideration actions by other central banks when setting interest rates. Considering credit growth has pulled back and the next move by the Fed almost certainly will be down, Xuan's remarks suggest the PBoC will deliver more stimulus," says David Qu, economist, Bloomberg Economics.

Fed stays on track for rate cuts with one eye on bumpy inflation

Bloomberg
Washington

Federal Reserve policymakers are largely sticking to their path of interest-rate cuts — for now — after hitting a bump on the road to low and steady inflation.

The recent pickup in monthly inflation didn't sway Fed Chair Jerome Powell's message Wednesday that price pressures will continue to ease or that it will likely be appropriate to lower rates at some point this year. And a narrow majority of US central bank officials signalled they still expect to cut rates three times in 2024.

Speaking after the Fed's two-day policy meeting in Washington, Powell said it would be appropriate to slow the pace at which the Fed reduces its bond holdings "fairly soon."

But nearly half of Fed officials would prefer two or fewer rate reductions in 2024, according to their updated economic projections, and it's clear policymakers need more data confirming a downward inflation trend before lowering borrowing costs. They see higher underlying inflation, substantially stronger economic growth and lower unemployment in 2024 than forecast in December.

"Powell's basic message is that the underlying story hasn't changed," said Bill Dudley, a former New York Fed president and Bloomberg Opinion columnist. "'We didn't completely buy into how good the inflation numbers were in the second half of last year. We aren't completely put off by the bad inflation readings in January and February.'"

Following a series of better-than-expected inflation readings in the second half of 2023, Fed officials had begun discussing the timing and pace of interest-rate reductions. But an acceleration in key price gauges at the start of the year has muddled the picture.

Powell largely shrugged off the higher inflation reports, and traders boosted the probability that the Fed would begin rate cuts in June. The S&P 500 index of US stocks closed at all-time highs.

Officials decided unanimously to leave the benchmark federal funds rate in a range of 5.25% to 5.5%, the highest since 2001, for a fifth straight meeting. They also pencilled in just three reductions in 2025, down from the four forecast in December, based on the median projection. The Fed's post-meeting statement was nearly identical to January's, maintaining the guidance that rate cuts won't be appropriate until officials have more confidence inflation is moving sustainably toward their 2% target.

"We're kind of right back where we've started," said Omair Sharif, president of Inflation Insights LLC. "We need something to get us over the finish line on rate cuts, and that has to be at least one report that shows that inflation is going back to cooling."

The Federal Open Market Committee did tweak its language around the labour market, noting "job gains have remained strong," though the Fed chief said "an unexpected weakening in the labour market could also warrant a policy response." Powell emphasized the broader story of a gradual, sometimes bumpy path toward 2% inflation remains intact, but he said the higher inflation prints in January and February didn't add to policymakers' confidence. He said it didn't dent it either.

"We're looking for data that confirm the kind of low readings that we had last year and give us a higher degree of confidence that what we saw was really inflation moving sustainably down toward 2%," he told reporters. "It is still likely in most people's view that we will achieve that confidence and there will be rate cuts."

Powell also offered fresh insights into policymakers' discussions surrounding its balance sheet and efforts to shrink it without creating market turbulence. Some officials, including Dallas Fed President Lorie Logan, have called for an eventual slowing of the pace at which the Fed is shrinking its portfolio of assets.

"The decision to slow the pace of runoff does not mean our balance sheet will shrink, but allows us to approach that ultimate level more gradually," he said. "In particular, slowing the pace of runoff will help ensure a smooth transition, reducing the possibility of money markets experiencing stress."

"The key development at the March meeting was elsewhere. Upward revisions to growth and rate forecasts beyond this year suggest more policymakers now believe the neutral interest rate has moved higher — which means it will take a higher fed funds rate to achieve a given level of restrictiveness in the economy," say Anna Wong, Stuart Paul, Eliza Winger and Estelle Ou of Bloomberg Economics.

Main takeaways from Fed decision, Powell briefing

Here are the key takeaways for the Federal Open Market Committee's rate decision and Fed Chair Jerome Powell's news conference on Wednesday, according to Bloomberg.

- The Fed kept interest rates unchanged at 5.25% to 5.5%, as expected. The big news came from something else that went unchanged: the median projection for rate cuts this year. Policymakers still see three cuts this year. But compared with December's projections, more committee members now anticipate fewer cuts than that.
- In the post-meeting press conference, Powell echoed remarks he and his colleagues have made over the past couple months, saying that officials want to see more evidence that inflation is coming down toward the central bank's 2% target before starting to cut rates.
- Fed officials' forecasts for inflation moved up, and they now see more upside risks to those projections than before. Powell noted that January and February price data came in hotter than expected, but that officials had thought the disinflation path would be "bumpy." They didn't overreact to last year's quick price cooling and they also won't ignore these higher prints, Powell said.
- Fed officials discussed slowing the pace of their balance sheet runoff at this meeting, as expected, and Powell said that process will start "fairly soon." He said slowing the pace doesn't mean the process will actually end sooner, it will just ensure a smoother transition for markets as the Fed tries to avoid some of the stresses that emerged the last time it was conducting QT.
- Stocks and Treasuries rallied as traders grew increasingly confident the Fed will start lowering interest rates in June. Futures contracts showed about a 67% chance of a move at that meeting.


Federal Reserve Chair Jerome Powell.

IMF urges central bank independence amid election-year rate-cut pressures

Reuters
Washington

International Monetary Fund Managing Director Kristalina Georgieva warned on Thursday that central banks face growing political pressure to cut interest rates during a major election year but policymakers need to maintain their independence.

Georgieva said in a blog posted on the IMF website that central banks with stronger independence scores are more successful in controlling inflation and keeping inflation expectations in check.

"Calls are growing for interest rate cuts, even if premature, and are likely to intensify as half the world's population votes this year," Georgieva said.

"Risks of political interference in banks' decision-making and personnel appointments are rising. Governments and central bankers must resist these pressures," she added.

She said that central bankers' success in preventing a global financial meltdown during the Covid-19 pandemic was quickly followed by monetary tightening to bring down inflation. Both efforts were a function of their independence and the credibility that goes along with that.

By contrast, Georgieva said that during the high inflation period of the 1970s, central banks did not have clear mandates to prioritise price stability, nor clear laws protecting their autonomy, and as a result, they were often pressured by politicians to cut interest rates.

She cited IMF research showing that between 2007 and 2021, central banks with strong independence scores were more successful in keeping inflation expectations in check.

Federal Reserve Chair Jerome Powell said on Wednesday that the US central bank was still on track for three rate cuts this year, but their timing depended on Fed officials becoming more confident that inflation was declining towards a 2% target even as the economy outperforms expectations. The Fed has faced increasing calls from US lawmakers to cut rates to help bring down mortgage costs for homebuyers and boost financing for small businesses and clean energy projects.

Georgieva said strong governance was important to ensure central bank independence, and other branches of government had responsibilities in helping central banks achieve their objectives, including through fiscal prudence.

"Enacting prudent fiscal policies that keep debt sustainable helps to reduce the risk of "fiscal dominance" — pressure on the central bank to provide low-cost financing to the government, which ultimately stokes inflation," Georgieva said.

She added that the IMF stood ready to provide technical assistance to member countries that were seeking to strengthen their monetary policy frameworks.

"We make independence an explicit pillar in some Fund-supported financing programmes, agreeing with members on actions to measure and achieve it," Georgieva added.

Pakistan PM Sharif says another IMF bailout is inevitable

Pakistan's Prime Minister Shehbaz Sharif said on Thursday that a long-term bailout from the International Monetary Fund (MF) was inevitable given the South Asian country's broken economy, reports Reuters.

The comments came a day after the IMF agreed a provisional or staff-level agreement with Islamabad which, if approved by its board, would disburse the last tranche of $1.1bn under an existing $3bn standby arrangement.

"We hope to get the $1.1bn IMF tranche next month," he told a meeting in Islamabad that was broadcast live, adding: "We couldn't survive without yet another IMF programme."

With a long-term, two-to-three year IMF programme, he said, the $350bn economy that has long been under extreme stress with a yawning balance of payment crisis would need deep-rooted structural reforms.

The IMF mission that visited Islamabad for five days on the last review of the stand-by programme said Pakistani authorities expressed interest in yet another bailout.

The stand-by arrangement expires on April 11. The lender has already said it would formulate a medium-term programme if Islamabad applies for it.

The government has not officially stated the size of the additional funding it is seeking under the long-term bailout. Bloomberg reported in February that Pakistan planned to ask for a loan of at least $6bn.

BMW sees top-end EVs driving profit even as demand cools

Bloomberg
Frankfurt

BMW AG said its top-end electric vehicles like the 7-Series sedans, X7 and Rolls Royce Spectre will drive profit this year, even as faltering global demand weighs on broader EV sales.

The German luxury-car maker expects its priciest models to be key contributors to 8% to 10% margin for its automotive segment, in line with its long-term target. BMW sees overall sales increasing slightly.

"We see slight volume growth in the main regions North America, China and Europe this year," Chief Executive Officer Oliver Zipse said Thursday in an interview with Bloomberg Television. "We are quite optimistic, especially about fully electric vehicles in the upper premium segment."

BMW is facing fierce competition in China, its biggest market, where a sluggish economy and price war led by Tesla Inc is weighing on the industry. That price pressure, together with higher production costs, squeezed BMW's fourth quarter profits, which fell short of analysts' expectations.

BMW stock has gained about 8% in the past year, while Mercedes-Benz Group AG has risen about 5.5%.

BMW is outpacing its premium-segment rivals in the transition to EVs, which now make up roughly 15% of its total deliveries. The company aims to boost that share further this year with half a million EV sales, drawing on 15 fully electric models across its brands.

Meanwhile, competitor Mercedes expects its EV and plug-in hybrid sales to remain stuck at last year's levels, and Audi indicated it's paring back the rollout of new electric models to avoid over-burdening its factories.