REGULATORY ISSUES | Page 4

Apple shares wobble as antitrust suit takes aim at growth pillar

Saturday, March 23, 2024
Ramadan 13, 1445 AH

GULF TIMES
BUSINESS

REBOUND IN VALUATION : Page 2

Reddit's debut delivers for new and old shareholders alike

Tech entrepreneur underlines Qatar's potential as R&D hub and talent pool

By Peter Alagos
Business Reporter

Sachin Dev Duggal, CEO and co-founder of Builder.ai, on centre stage during the recently held Web Summit Qatar 2024. *Photo by Stephen McCarthy/Web Summit Qatar via Sportsfile.*

The government's focus on education and the drive of Qatar's young, ambitious workforce is an opportunity for the country to position itself as a research and development (R&D) hub in the region.

Sachin Dev Duggal, CEO and co-founder of Builder.ai, lauded the world-class institutions and visiting professors at Education City, which reflects Qatar's commitment to creating a knowledge-based economy.

In an interview with *Gulf Times*, Duggal emphasised that these factors create an ideal environment for Builder.ai, a London-based next-gen app development platform, to establish an R&D service that can contribute to the growth and development of the local talent pool.

Following Builder.ai's announcement of a Qatar Investment Authority-backed Series D funding of over $250mn, Duggal shared with this paper that the firm's ambitious expansion plans in the region by establishing an office in the country.

"We want to also think about Qatar as an R&D hub. What I really found very different here compared to many other countries that I have visited is the country's strong focus on education," explained Duggal, adding that Builder.ai aims to leverage the local talent pool and contribute to its growth, taking advantage of Qatar's focus on nurturing a world-class educational ecosystem.

According to Duggal, Qatar can leverage the use of AI to tackle complex challenges, such as in healthcare and other sectors through advanced technologies like large language models analysing DNA data.

Citing Qatar's small local population and large ambitions, Duggal pointed out that Qatar can utilise AI to bridge the gaps between supply and demand, as well as boost productivity across different sectors. The country's strong educational framework combined with an "outsized ambition" approach to AI gives Qatar an edge over other regional AI hubs, reiterated Duggal, adding that AI is viewed as pivotal for Qatar's economic diversification and cultivating a new generation of globally impactful entrepreneurs.

"Ultimately, AI would allow Qatar to overcome population constraints and foster not only Qatari entrepreneurs but a new breed of global entrepreneurs operating at a different technological scale," he noted.

Amid plans to establish an office here, Duggal emphasised that Builder.ai could play a crucial in fostering entrepreneurship and in facilitating comprehensive digital transformation across Qatar's businesses and other sectors, such as banking and healthcare, among others, as well as with small and medium-sized enterprises (SMEs). "What's most impressive in this country is that there's a real drive to build a knowledge economy, or almost an AI economy, a non-energy economy," Duggal pointed out.

Qatar's fiscal breakeven oil price to fall to $50 by 2027 from $64 this year, says Fitch

By Santhosh V Perumal
Business Reporter

Qatar's fiscal breakeven oil price is expected to decline to $50 a barrel in 2027 from $64 this year, with the first phase of the North Field expansion to start supporting fiscal revenue fully from 2026 and the second phase in 2027, according to Fitch, a global credit rating agency.

"This reflects our expectation that new spending commitments will amount to a modest fraction of the new liquefied natural gas (LNG) revenue. Qatar's spending plans on economic diversification are more modest than regional peers," said Fitch after upgrading Doha's long-term foreign-currency issuer default rating (IDR) to 'AA' from 'AA-' with "stable" outlook.

The upgrade reflects Fitch's greater confidence that debt-to-GDP (gross domestic product) will remain in line with or below the 'AA' peer median after falling sharply in recent years, while Qatar's external balance sheet will strengthen from an already strong level.

Qatar's 'AA' ratings are supported by large sovereign net foreign assets (SNFA), one of the world's highest ratios of GDP per capita and a flexible public finance structure.

The country is also likely to retain budget surpluses until the 2030s a result of the North Field expansion, it said, adding QatarEnergy plans to expand LNG production capacity from 77mn tonnes per year (Mtpa) to 110Mtpa by end-2025, 126 Mtpa by end-2027 and announced a further expansion to 142Mtpa by end-2030.

"We assume that QatarEnergy will cover $12.5bn of core project costs out of its 2021 bond issuance and a similar amount from its cash flow, spread until 2028, on top of contributions by partners," the rating agency said.

Highlighting that funding plans for the 2030 phase will depend on hydrocarbon prices at that time; it said North Field projects will support both hydrocarbon and non-hydrocarbon growth over 2025-30.

QatarEnergy will also cover a significant share of the costs of the ancillary projects associated with the expansion, including downstream plants that will brings its petrochemical capacity to over 15Mtpa.

QatarEnergy owns 70% of the Golden Pass LNG project (16Mtpa) in Texas, which will start production in 2024, bringing new revenue to the budget via the dividends of hydrocarbons bellwether.

Projecting debt/GDP to fall to about 47% of GDP in 2024 and 45% in 2025, from a peak of 85% in 2020, the rating agency said this reflects our expectation that the government will continue to repay maturing external debt in 2024 ($4.8bn) but is likely to refinance its $2bn 2025 maturity in 2024, and will gradually pay down some of its domestic debt.

"The subsequent debt path will depend on how the government chooses to deploy its fiscal surpluses," Fitch said.

The persistence of a high global bond yield environment could encourage Qatar to continue to allocate a share of its surpluses to deleveraging beyond 2025, although baseline assumes that external debt is rolled over, it said.

"Our debt metrics include government overdrafts with local banks (QR48bn at end-2023), which the government does not include in its headline figure," it said.

Qatar's fiscal breakeven oil price is expected to decline to $50 a barrel in 2027 from $64 this year, with the first phase of the North Field expansion to start supporting fiscal revenue fully from 2026 and the second phase in 2027, according to Fitch

Domestic funds' selling pressure drags QSE index 45 points

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

Amidst uncertainties surrounding the US Federal Reserve's stand on interest rate and its final status quo, the Qatar Stock Exchange languished in the negative trajectory with its key index losing as much as 45 points.

The domestic institutions were seen increasingly into profit booking as the 20-stock Qatar Index fell 0.44% this week which saw the Qatar Central Bank keep the rates unchanged, following the US Fed policy.

The consumer goods, telecom and banking counters witnessed higher than average selling pressure in the main bourse this week which saw Al Mahhar Holding Company uniquely positioned to drive sustained growth in the energy industry as it plans to expand into future energy segments to solidify its footprint in Qatar's hydrocarbon downstream industry.

The Gulf institutions were increasingly bearish in the main market this week which saw Standard and Poor's view that Ooredoo is aiming at enhancing its techco services and has already expanded the non-telecom businesses over the past few years.

The Arab funds were seen net profit takers in the main bourse this week which saw Mazaya Qatar contemplate new projects this year as part of efforts to strengthen its real estate portfolio and enhance revenues.

The foreign institutions' substantially weakened net buying had its influence in the main market this week which saw Qatar's inflation, based on consumer price index (CPI), rise 2.7% year-on-year in February 2024, on higher average expenses for recreation, food, communication and education.

However, the local retail investors turned bullish in the main bourse this week which saw a total of 0.05mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.12mn trade across 20 deals.

The foreign retail investors also turned net buyers in the main market this week which saw as many as 0.02mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.2mn change hands across 23 transactions. The Islamic index was seen declining faster than the other indices in the main market this week which saw the industrials and banks together constitute more than 55% of the total trade volumes.

Market capitalisation melted QR1.2bn or 0.2% to QR589bn on the back of microcap segments this week, which saw no trading of sovereign bonds and treasury bills.

Trade volumes and turnover were on the increase in the main bourse market this week which saw higher hydrocarbons' extraction and a robust increase in the production of especially cement push Qatar's industrial production index up 5.5% year-on-year in January 2024.

The Total Return Index shed 0.22%, the All Share Index by 0.13% and the All Islamic Index by 0.41% this week. The consumer goods and services sector index tanked 1.04%, telecom (0.85%), banks and financial services (0.56%) and insurance (0.38%); while industrials gained 1.16%, real estate (0.28%) and transport (0.26%) this week.

Major losers in the main market included Doha Bank, Qatar General Insurance and Reinsurance, QLM, Baladna, Mazaya Qatar, Masraf Al Rayan, Alijarah Holding, Medicare Group, Woqod, Al Faleh Educational Holding, Beema, Ezdan, Ooredoo and Nakilat this week.

Nevertheless, Meeza, Zad Holding, Gulf Warehousing Ahlibank Qatar, Lesha Bank, Qatar Industrial Manufacturing, Inma Holding, Mannai Corporation, Al Meera, Qatar National Cement, Industries Qatar, Estithmar Holding and Milaha were among the gainers in the main bourse. In the venture market, Al Mahhar Holding saw its shares appreciate in value this week.

The domestic funds' net selling increased drastically to QR77.06mn compared to QR27.01mn the week ended March 14.

The Gulf institutions' net profit booking grew substantially to QR24.22mn against QR3.69mn the previous week. The Arab institutions were seen net sellers to the tune of QR0.11mn compared with no major net exposure a week ago.

The foreign institutions' net buying weakened substantially to QR53.71mn against QR166.22mn the week ended March 14.

However, Qatari individuals turned net buyers to the extent of QR37.42mn compared with net sellers of QR119.91mn the previous week. The foreign retail investors were net buyers to the tune of QR6.74mn against net sellers of QR5.22mn a week ago.

The Gulf individuals turned net buyers to the extent of QR2.72mn compared with net sellers of QR2.41mn the week ended March 7.

The Arab individual investors were net buyers to the tune of QR0.78mn against net profit takers of QR8mn the previous week.

The main market witnessed a 23% decline in trade volumes to 687.5mn shares, 29% in value to QR1.99bn and 12% in deals to 67,127 this week. In the venture market, trade volumes plummeted 87% to 0.26mn equities, value by 87% to QR0.4mn and transactions by 72% to 554.

BUSINESS

Reddit's market debut delivers for new and old shareholders alike

Bloomberg
San Francisco

Reddit Inc's first-day jump fattened the wallets of the social media platform's users who were given the unusual opportunity to buy shares at the initial public offering price as well as longtime investors benefiting from the rebound in the company's valuation.

Touting its plan to profit from the growth of artificial intelligence, Reddit's shares climbed 48% in its trading debut on Thursday after pricing at the top of a marketed range to raise $748mn in the fourth-largest US IPO of the year. The stock was lower by as much as 5% in premarket trading yesterday.

At the closing price of $50.44, San Francisco-based Reddit has a market value of $8bn. Including stock options and restricted share units, the company's fully diluted valuation is closer to $9.5bn, based on filings with the US Securities and Exchange Commission. That's about $3bn more than its valuation in Tuesday's share sale and just shy of the $10bn figure it had achieved in a 2021 funding round.

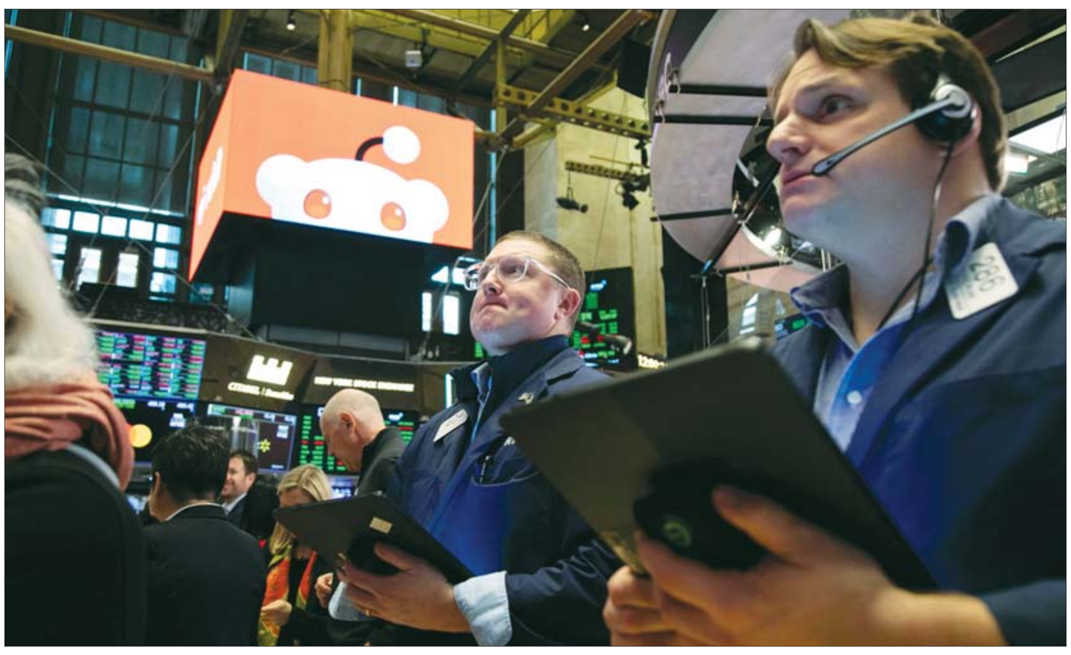
The strong showing by Reddit, along with AI-focused semiconductor connectivity company Astera Labs Inc whose shares have gained 78% since its IPO on Tuesday, provides a promising market check for other IPO candidates such as Microsoft Corp.-backed data security startup Rubrik Inc and health-care payments company Waystar Technologies Inc.

"What we're seeing today is Reddit reaping the benefits of being a first mover after a lengthy IPO drought," said Saar Gur, a general partner at venture firm CRV, which isn't an investor in Reddit.

"There's value, regardless of how rock solid a company is, of being the first company out because you're going to get a lot of attention and chatter about the market as a whole."

The returns realised by Reddit's stockholders will be a focal point for those deciding whether to pursue IPOs of their own.

Almost a third of the 22mn shares sold in the IPO were owned by Reddit's executives and employees, who got a $228mn payday at the $34 IPO price. Chief Executive Officer Steve Huffman was set to sell 500,000 shares in the IPO while Chief Operating Officer Jennifer Wong planned to sell 514,000, according to the filings.



Traders work during the Reddit initial public offering on the floor of the New York Stock Exchange on Thursday. Reddit's first-day jump fattened the wallets of the social media platform's users who were given the unusual opportunity to buy shares at the initial public offering price as well as longtime investors benefiting from the rebound in the company's valuation.

With Thursday's gains, Huffman and Wong's remaining personal stakes in the company surged to $210mn and $81mn, respectively.

Reddit's most loyal users were able to buy 8% of the shares at the IPO price, an opportunity typically reserved for institutional investors, and saw a total return in the aggregate of about $29mn by day's end.

The biggest winner was the Newhouse family, whose Advance Magazine Publishers Inc will continue to own about a quarter of Reddit. The family's $10mn initial investment in the nascent social-media company in 2006 is now worth more than $2.1bn.

If Thursday's gains hold, the big winners will include venture capital firms and other high-profile investors that took stakes before the company's valuation first surged. Even investments in two high-priced financing rounds in 2021 — before the company's value plunged — have now largely recovered from that dip.

At the $34 IPO price, investors such as affiliates of Tencent Holdings Ltd, Fidelity and OpenAI's Sam Altman among others, as well as Advance Magazine Publishers, stood to lose about $286mn on those particular portions of their holdings, which were bought for $42.47 and $61.79 a share. Thursday's gains cut the combined loss for those two rounds to $42mn, a shortfall likely offset by returns from earlier investments in Reddit at bargain prices. Other major Reddit investors include Vy Capital and Quiet Capital and Tacit Capital, according to the filings.

Reddit's more than two-year slog to listing reflects the ups and downs of the market, beginning with its initial confidential filing in 2021, when IPOs on US exchanges set an all-time record of $339bn, according to data compiled by Bloomberg. IPOs in the US have tumbled since then, reaching only $26bn last year, the data show. Reddit's listing pushes the total raised by IPOs via US exchanges this year to about $8.8bn. That's an increase of around 152% at this point in 2023.

One benefit of Reddit's slow route to the public market is that enthusiasm for the AI revolution has continued to mount. The potential of AI was at the centre of Reddit's proposed value proposition to investors, as companies eye the record-setting rallies in stocks like chipmaker Nvidia Corp.

"Large language models need data," Wong told Bloomberg TV. She described the company's 19 years' worth of "human experience organised by topic, with moderation and relevance — that is incredibly important to building both a chat capability and the freshness of information. That is an area where we see opportunity."

While numerous comments on Reddit boards, known as subreddits, before the IPO featured sometimes profane comments about shorting its stock, some users posting Thursday acknowledged the value of Reddit for training AI models.

Mandeep Singh, senior industry analyst for Bloomberg Intelligence, argued even before the pricing that the company could be worth as much as $10bn. Reddit's $34 IPO price translated to a enterprise value-to-sales multiple between Meta Platforms Inc's eight-times multiple, and the four-times multiple of digital ad peers like Snap Inc and Pinterest Inc, Singh told Bloomberg Radio on Thursday.

"You pay for growth, and for Reddit, which accelerated growth in the past six months, it just makes a strong case that it should be at a premium multiple," Singh said.

Reddit said it's in the early stages of allowing third parties to license access to data on the platform, including to train artificial intelligence models.

The company said that in January it entered into data licensing arrangements with an aggregate contract value of $203mn and terms ranging from two to three years. It expects a minimum of $66.4mn of revenue from those agreements this year, according to the filings.

Reddit also has announced a deal with Alphabet Inc's Google, allowing Google's AI products to use Reddit data to improve their technology.

Micron sees biggest rally since 2011 after AI boosts outlook

Bloomberg
New York

Micron Technology Inc, the largest US maker of computer memory chips, posted its biggest gain in more than 12 years after giving a surprisingly strong sales forecast, buoyed by demand for artificial intelligence hardware.

Fiscal third-quarter revenue will be $6.4bn to $6.8bn, the company said in a statement on Wednesday. That compares with an average analyst estimate of $5.99bn. Micron will have earnings of about 45 cents a share, minus certain items. Analysts projected 24 cents.

Micron and its rivals are emerging from one of the worst slumps the memory chip industry has suffered, triggered by weak demand for personal computers and smartphones. But executives are optimistic about the future as the booming market for AI gear helps chipmakers return to growth and profitability.

"We believe Micron is one of the biggest beneficiaries in the semiconductor industry of the multiyear opportunity enabled by AI," Chief Executive Officer Sanjay Mehrotra said in the statement.

The shares rose 14% to $109.85 on Thursday, marking the biggest single-day jump since December 22, 2011, and a record high. The rally brought Micron's year-to-date gain to 29%.

Mehrotra has promised investors that 2024 will mark a rebound for the industry and 2025 will see record sales levels. But Micron will need to make enough ultrafast memory, which works with Nvidia Corp chips to help data centre operators develop AI software. AI-related systems use something called high-bandwidth memory, or HBM. That type of chip is new and less of a commodity. That means companies like Micron can charge a much higher price for it.

Micron got its first revenue from a form of this memory known as HBM3E in its most recent quarter. The semiconductors are part of Nvidia graphics chip-based AI accelerators, Micron said. And Micron expects "several hundred million" dollars of revenue from HBM products in fiscal 2024. The majority of its production of such chips is sold out for 2025, it said.

AI software is created by bombarding software with information. The process can involve trillions of parameters and is highly reliant on memory. In order to avoid bottlenecks and keep expensive processors working flat-out, Micron and its competitors have developed chips that communicate with other components much faster than traditional memory chips.

Nvidia CEO Jensen Huang said earlier this week that HBM was more than just a memory upgrade — it's a technical marvel that's vital to AI systems. He mentioned Micron as a leader in bringing the new technology to market. In the second quarter, which ended February 29, Micron's revenue rose 58% to $5.82bn. The Boise, Idaho-based company had earnings of 42 cents a share, excluding certain items. That compares with estimated sales of $5.35bn and a projected loss of 24 cents a share.

"Micron has returned to profitability and delivered positive operating margin a quarter ahead of expectation," Mehrotra said on a conference call with analysts.

Micron competes with South Korea's Samsung Electronics Co and SK Hynix Inc in selling chips that provide short-term memory in computers and phones. Micron also makes flash memory, which provides longer-term storage in those devices. Both types of memory follow industry standards, meaning that parts from different companies are interchangeable and can be traded like commodities. The downside is that prices can be volatile, and customers can switch from one supplier to another.

Memory-chipmakers have been trying to push into new markets, such as data centres, cars and an increasing array of gadgets — making them less dependent on phones and PCs. But they haven't become diversified enough to offset the swings in demand within their core markets, as they experienced in 2023.

Micron is looking to makers of personal computers and smartphones to return to steady ordering. Many of them had scaled back demand to draw down the inventory they had on hand. Weak ordering from those customers pushed chip prices down below the cost of production last year.

The US Department of Commerce announced it will award Intel Corp $8.5bn in grants and as much as $11bn in loans to help fund an expansion of its semiconductor factories in the US. The announcement was the biggest disbursement so far from the Biden administration's Chips and Science Act. No other big chipmakers have so far been publicly promised support.

Micron said it's maintaining its budget for new plants and equipment for fiscal 2024 at $7.5bn to $8bn. It will proceed with projects in China, Japan and India.

Tech firms are buying back their busted convertible bonds

Bloomberg
New York

Booming credit markets are giving tech companies a golden opportunity to tackle the hefty debt pile they took on during the easy money era.

Coinbase Global Inc, Ubisoft Entertainment SA and Snap Inc are among companies that have been able to easily sell new convertible bonds and buy back their old busted notes at a discount. It's a relief for the firms, which were facing short deadlines to repay the debt, as they are effectively repaying less than they borrowed in the first place.

Back when interest rates were low, it was popular for fast-growing companies to sell zero coupon convertibles that paid no interest and gave investors an opportunity to hitch a ride on rocketing stock prices. But once rates started to rise, many of those bonds went bust, meaning they were unlikely to convert because of the wide gulf between the share price and the conversion price.

Many of the old convertible notes had fallen into distressed territory of below 80 cents on the dollar in the last two years. But now with risk appetite running high and tech shares soaring to frothy heights as the Nasdaq 100 Index scales record levels, investors have been eager to take a chance on convertibles and provide companies with fresh financing.

"They are addressing their maturity earlier than normal to extend it," said Nicolas Cremieux, head of convertible bonds at Mirabaud Asset Management. "This makes a lot of sense."

For the companies, it gives them more breathing space, even if they're having to pay a higher interest rate. Globally, there's about $27.5bn in convertible debt due this year, down from $46bn a year ago, according to Bloomberg data that excludes financials. The maturity wall for 2025 is also falling. There's about $67bn due next year, down from $87bn.

New convertible bonds are also attractive for investors because they have lower conversion prices, meaning there's a bigger chance investors can cash in the shares, Mirabaud's Cremieux added.

Coinbase, for example, sold $1.1bn of convertibles last week and intends to use the proceeds to buy back some outstanding notes due 2026, 2028 and 2031, many of which trade at a discount.

Last year Ubisoft sold €494.5mn ($535mn) of convertibles at a coupon of 2.875%. The maker of the popular Assassin's Creed game franchise used some of the funds to repurchase €250mn of its zero coupon convertible bonds maturing in September 2024.

To be sure, it could become more difficult for others to issue new convertibles if the stock market starts to tumble. And not all companies have been able to easily refinance.

Delivery Hero SE had to go down the more expensive route of issuing a new term loan to fund its repurchase of convertible bonds. The yield is indicated at over 10%, considerably higher than the coupons on most recent convertibles. The German food delivery service shot to prominence during the pandemic, but has since seen its shares slump more than 80% from a 2021 peak. A spokesperson for Delivery Hero declined to comment.

"It depends on the idiosyncrasies of each individual company, but overall bank loans are not that cheap and relatively constraining," said Alexandre Fade, a convertible bond portfolio manager at Fisch Asset Management.

Pound's worst week of the year is upending a $5.5bn trade

Bloomberg
London

A sharp slump in the pound is imperilling more than $5.5bn of bets on further strength.

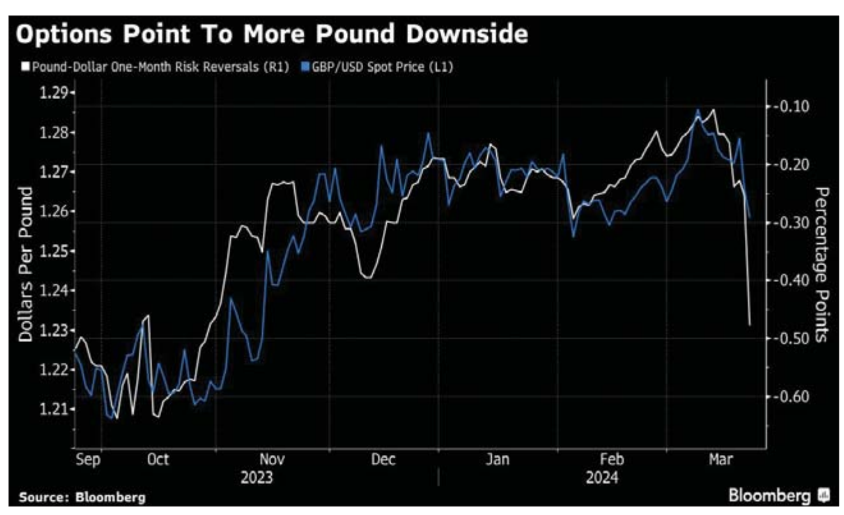
The currency is on track for its biggest weekly drop of the year after the Bank of England laid the groundwork for a shift to interest-rate cuts, torpedoing a view among traders that the UK central bank would take longer than its peers in Europe and the US to act.

It's a rapid about-face for markets. With the pound outperforming more than 90% of global currencies just two weeks ago, speculative investors — a category that includes hedge funds and asset managers — boosted bets in favour of sterling to the highest since July 2007. But those $5.5bn wagers now look overdone, and market participants warn a rapid unwind could prompt a deeper selloff in the pound.

"The risks of a prolongation of the short squeeze look high," said Roberto Cobo Garcia, head of G-10 FX strategy at Banco Bilbao Vizcaya Argentaria SA in Madrid. "With the BoE poised to cut sooner than expected, and with stretched positioning and valuations, the trend may have started to revert."

The pound's drop also boosted demand for options that payout if the currency falls. So-called risk reversals — a barometer of market positioning that compares the demand to buy a currency versus the appetite to sell — now show the most bearish sentiment for sterling since November.

It all comes as traders increased bets the BoE will deliver its first quarter-point cut in June, as two of the most hawkish members dropped their calls for hikes on Thursday's decision that left rates steady at 5.25%. That means the UK would move in lockstep with the Federal Reserve and the European Central Bank, which are also seen cutting for the first time on that month.



Earlier this year, expectations were euro-area and US policymakers would act sooner and deliver more cuts. Now, the amount of easing priced in for the BoE — about 80 basis points — is widely in line with what's seen coming from the Fed. Bets are slightly more aggressive for the ECB, at around 90 basis points.

"This is a clear shift in tone, and it will make people more cautious about the UK rate outlook being that different than other central banks," said Dominic Bunning, head of European FX research at HSBC Bank Plc. "It takes juice out of the pound."

Bunning expects the pound to fall to $1.20 in the second half of the year, when the BoE starts to cut rates. On Friday, it traded at $1.26, down 1.2% this week.

Neil Mehta, a portfolio manager at RBC Bluebay Asset Management, lists other risks to the pound this year, including the prospect of a change in the UK government following a vote expected later in the year.

"The combination of political uncertainty in the UK and the risk of a stagflationary environment in the second half this year will be negative for the pound," said Mehta, adding that he expects sterling to fall toward $1.15 in the second half of the year.

Thailand's central bank open to reviewing neutral stance in April

Bloomberg
Bangkok

Thailand's central bank will weigh the need to adjust its neutral interest-rate stance at next month's meeting, according to Assistant Governor Piti Disyatat, amid rising bets that policymakers are edging closer to a rate cut.

"It's hard to prejudge the decision right now, but whatever is being considered is more like a recalibration rather than an easing cycle to support the economy because the economy is actually recovering," Piti said in an interview with Bloomberg Television's Haslinda Amin yesterday.

The central banker made the remarks three weeks from the April 10 rate meeting against the backdrop of rising expectations that Bank of Thailand will deliver its first interest-rate cut in four years, as early as next month.

Prime Minister Srettha Thavisin had been pressuring the BoT to cut borrowing costs that are at a decade-high to support an economy that he had said was in a crisis.

Economists including those from Standard Chartered Plc and Siam Commercial Bank Pcl are pencilling in a rate cut in April while 10-year bond yields are also pricing in Thailand's pivot to monetary easing after a one-year tightening campaign to rein in inflation. The central bank has so far resisted repeated calls to loosen policy settings.

Piti thinks the market is still "split" on the rate path, highlighting BoT's economic assessment that "the softness has passed and in the near term, there is actually a cyclical pickup in growth." The key growth risk that the central bank was watching out for was the impact of delayed budget spending, he said. "So the first question is to decide whether there is actually a need to recalibrate neutral," stance, Piti said. "And if there is one, then the timing is the second issue; whether what would be the appropriate timing of the recalibration."

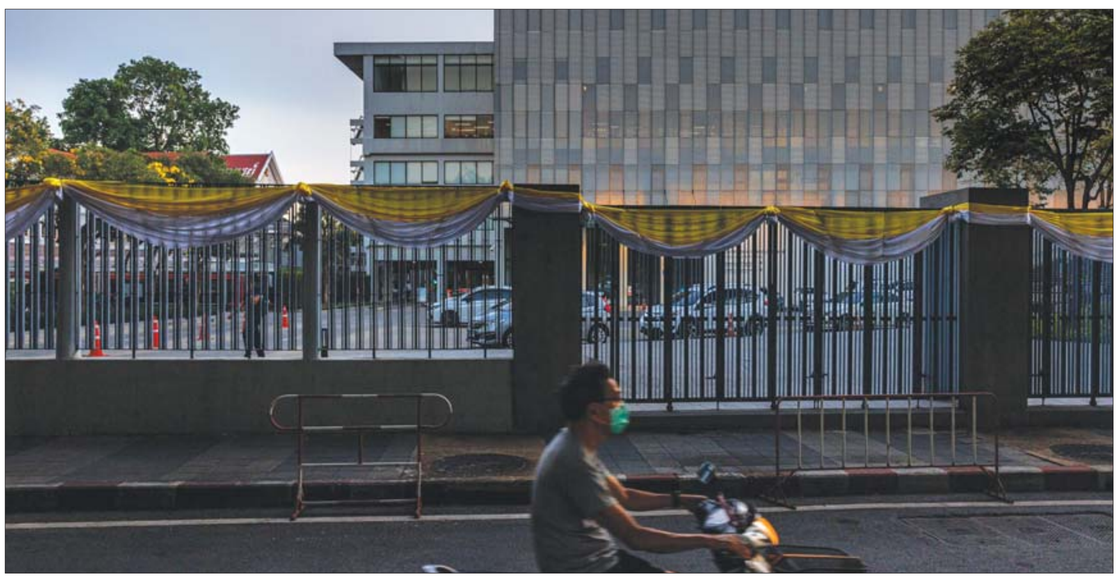
The latest remarks by Piti elicited varying interpretations from economists, with Australia & New Zealand Banking Group Ltd's Krystal Tan describing it as "quite balanced" while Kasikorn Research Center's Burin Adulwattana read the signal as still hawkish. StanChart's Tim Leelahaphan saw it as an indication of an approaching shift to easing.

"The central bank signalled that there is a scope to cut the policy rate if the economic performance comes in softer than expected," Burin said, referring to Piti's remarks on Friday. "We can't feel the sense of urgency from the comments. So, we expect the first cut to take place in June rather than in April."

Consumer prices printing negative since October was cited by Srettha as evidence of waning demand in the economy. While the BoT had explained the spell of disinflation as an effect of government subsidies, other indicators also pointed to sluggish demand. Factory output has shrunk for more than a year, while business sentiment has deteriorated for five straight months since October.

Thailand's automobile sales slumped to a 29-month low in January, as banks rejected about 50% of total auto loan requests amid alarming household debt levels. That's contributed to Thailand's GDP expansion remaining the slowest among Southeast Asian peers.

"I would think it is reasonable to assume the readiness to cut rates, especially as the BoT has maintained that the current rate is at a neutral level," said StanChart's Tim.



A motorist rides past the Bank of Thailand complex in Bangkok. Thailand's central bank will weigh the need to adjust its neutral interest-rate stance at next month's meeting, according to Assistant Governor Piti Disyatat, amid rising bets that policymakers are edging closer to a rate cut.

Asia markets struggle as US data dents Fed rate cut optimism

AFP
Hong Kong

Asian markets mostly fell yesterday after data pointing to a still-strong US economy raised fresh concerns about inflation and dampened optimism that the Federal Reserve will slash interest rates as much as it expected this year.

In Tokyo, the Nikkei 225 closed up 0.2% to 40,888.43 points; Hong Kong – Hang Seng Index ended down 2.2% to 16,499.47 points and Shanghai – Composite closed down 1.0% to 3,048.03 points yesterday.

Equities across the world had surged on Thursday in response to the central bank's closely watched dot plot projection that it would lower borrowing costs three times this year, even after figures showed prices ticking up in January and February.

News that the central banks of Switzerland and Mexico had started cutting added to the sense that decision-makers were gearing up to reverse their tightening measures.

All three main US indexes clocked up record highs for a second straight day on the back of a tech rally as traders contemplated an end to the era of two-decade-high rates.

However, Asia struggled to maintain the momentum after a string of data reminded investors that the world's largest economy was still in rude health, resilient to the tighter credit environment.

Sales of existing homes in the US climbed the most in a year last month, industry figures showed, as buyers got used to elevated borrowing costs, while initial applications for jobless benefits were stuck near historic lows, reinforcing the view that the labour market was still tight.

The purchasing managers index of manufacturing activity has also picked up quicker than expected.

"This could potentially lead the Fed to implement interest rate cuts slower than the market anticipated," warned SPI Asset Management's Stephen Innes. Rodrigo Catril at National Australia Bank said "the composite measure of prices derived by manufacturers and service providers rose to an almost one-year high on the back of continued wage growth and higher fuel costs, suggesting stubborn inflation".

Most markets were in the red in Asia.

Hong Kong lost more than 2% – having shed more than three at one point – as tech firms tanked after a US official said chip maker Semiconductor Manufacturing International Corp "potentially" broke US law by producing a processor for sanctioned telecom giant Huawei.

Shanghai, Sydney, Singapore, Seoul, Bangkok, Manila and Jakarta were also down.

However, Tokyo, Taipei, Mumbai and Wellington rose.

The yen strengthened slightly after the release of figures showing a 2.8% jump in Japanese inflation, which sparked debate about whether the country's central bank will follow up this week's interest rate hike – the first in 17 years – with further raises.

The currency took a hit Tuesday following a warning from Bank of Japan boss Kazuo Ueda that officials would take their time after shifting from their long-running policy of negative rates.

BoJ hike casts attention on Japanese foreign bond holdings

Reuters
Amsterdam

Japanese investors are finally being paid to park their cash back home, a move that might be expected to spook eurozone markets where they're a big force but could ironically prop up demand instead as ECB rate cuts loom.

Stuck with negative rates for two decades, Japanese investors have ploughed into bond markets globally. They are the biggest foreign holders of US Treasuries. They also have a sizeable presence in the euro zone, where they hold around 1% of the overall bond markets in countries like France, Belgium and the Netherlands, BofA estimated last year.

With French governments bonds a top pick, their share of that market is likely higher.

So, a Bank of Japan decision to hike rates for the first time in 17 years is, on the surface, bearish for European bonds given the bloc's funding needs are high and the European Central Bank is cutting its bond holdings. But hold on.

The good news, analysts say, is the worst was likely over before the BoJ even considered raising rates.

Since April 2022, Japanese investors have shed half the French, German, Italian and Dutch bonds they accumulated since 2005, BofA estimates.

"People are concerned about what damage there might be to global bonds from Japanese investors. A lot of that's already occurred," said Andre Severino, head of global fixed income at Japan's Nikko Asset Management, which manages $228bn.

In 2022, hedging costs for Japanese investors buying foreign bonds surged as the BoJ held rates below 0% while others hiked, meaning it became much more expensive to buy overseas bonds on a hedged basis.

Investors, such as Japanese life insurers, make derivatives agreements to protect a substantial share of their investments from currency swings when they buy foreign bonds.

The cost of such hedging is driven by the gap between the BoJ and other central bank policy rates. This should become slightly more palatable as the BoJ hikes, while the ECB is seen cutting rates from June and possibly more than the US Federal Reserve given a weaker economy, analysts said.

The ECB's key rate is 4%, versus 0-0.1% in Japan. Markets see the ECB cutting rates to around 3% by year-end, and the BoJ hiking to 0.25%. To make French bonds competitive relative to Japanese government bonds at current yields, the hedging cost – around 4% – would need to decline by 220 basis points, Citi estimates.

It expects that could happen over the next two years, though a fall in French yields relative to Japanese bond yields would dampen the impact.

Overall, Nikko's Severino said he expects stable to positive Japanese flows into foreign bonds, including the eurozone, going forward.

Following 2022's exodus, flows in and out of eurozone government bonds last year were marginal, Nordea data shows, while Japanese investors bought 122bn euros worth of US Treasuries even as rates differentials widened – suggesting many purchases were unhedged.

Treasuries should remain the top-pick for unhedged investors given higher yields and a deeper market, Citi reckons, yet French bond appeal should grow relative to Treasuries as eurozone and US economies diverge.

Mizuho multi-asset strategist Evelyne Gomez-Liechti said the bank's Japanese clients were not confident last year that the ECB could contain inflation, but now markets expect the ECB to be one of the first banks to ease.

"So, that's probably going to be another green flag for Japanese investors to consider (European government bonds)," she said. Some inflows could come from pension funds – often unhedged investors – who might rebalance their investments as US equities hit record highs, Gomez-Liechti added. She also expects further demand from banks, who shift their investments opportunistically with market moves.

The question is how much longer-dated Japanese government bond (JGB) yields rise.

Nomura chief rates strategist Naka Matsuzawa said once the 30-year JGB yield rises towards 2%, a level he expects to be hit later this year, more selling would follow. It is currently at 1.8%.

"Once the 30-year JGB yield gets back to that level, the lifers no longer really have to keep money in the other markets," he said, referring to life insurers' asset-liability calculations.

Matsuzawa thinks only half the repatriation has taken place so far, but expects further outflows to be gradual. Still, he senses concern in some European quarters.

Iberdrola Innovation Middle East unveils 2 cutting-edge products at Qatar University panel

Iberdrola Innovation Middle East has made a significant appearance at the 2024 IEEE International Energy Conference (ENERGYCON), hosted by Qatar University this month.

In alignment with its mission to create a global impact through local innovations, the innovation centre revealed two digital products, developed collaboratively by its global and Qatar-based teams.

The products emphasised energy efficiency, with one focusing on holistic home energy management and the other optimising the life cycle of solar plants and wind turbines.

Santiago Bañales, managing director of Iberdrola Innovation Middle East, emphasised the pivotal role of digital technologies, such as Artificial Intelligence, Machine Learning, Cloud, and Edge computing in the current energy transition. He said these innovations act as catalysts, empowering energy industry leaders to enhance the efficiency of generation and electrical network assets.

Bañales said, "Our commitment at Iberdrola Innovation Middle East is not just to lead in these technological advancements but to provide tools that empower the final customer, enabling them to actively participate in shaping the future of the energy transition."

Santiago Bañales, managing director of Iberdrola Innovation Middle East.

Professor Ridha Hamila, general chair, Qatar University, said: "Qatar University was pleased to be the venue for the IEEE Region 8 Flagship Conference ENERGYCON 2024, showcasing our commitment to fostering an environment where thought leaders from academia and industry experts, including representatives from Iberdrola Innovation Middle East, can exchange ideas and drive progress in energy sustainability."

The first product showcased was 'Smart Energy @ Home', a holistic approach to home energy management. This innovative product, leveraging artificial intelligence on a cloud platform, empowers digital consumers to optimise energy consumption within their homes, covering aspects such as air conditioning, heat pump efficiency, electrical appliances, electric vehicle usage, and solar panel utilisation.

The second product, 'Advanced Analytics for Renewable Energy Integration', is an analytical platform that optimises the life cycle, including planning, designing, operation, and maintenance of solar plants and wind turbines.

During the panel discussion titled 'Digital Energy Products', which was moderated by Dr Javier Hernandez, technical director at Iberdrola Innovation Middle East, industry experts from Spain and Qatar discussed the evolving landscape of the energy sector.

Eurozone bond yields decline after central bank excitement

Reuters
London

Eurozone bond yields fell yesterday and were on their way to a weekly decline, after central banks reassured investors that interest rate cuts in several markets are likely to come in the summer.

Germany's 10-year bond yield, the euro zone benchmark, was down 7 basis points (bps) at 2.326%.

It was on track for a weekly fall of 11 bps, and was trading around its lowest in a week.

Yields have been rising for much of 2024 as resilient economic data, particularly in the US, has caused traders to push back expectations of substantial interest rate cuts until the middle of 2024.

But several central bank meetings this week saw markets became more confident that cuts would at least come by the middle of the year.

"A lot has happened, there have been a lot of central bank meetings, but if you take a step back we are much closer to the point where central banks want to and are going to start cutting, and we have had the first cut from the Swiss central bank," said Jamie Niven, senior fixed income fund manager at asset manager Candriam.

The Federal Reserve on Wednesday kept rates steady but reiterated its projection that it would cut interest rates by 75 bps by the end of the year, then on Thursday the Bank of England said the economy was heading in the right direction for cuts.

In Switzerland, where inflation is lower, the Swiss National Bank surprised markets by reducing borrowing costs 25 bps.

Italy's 10-year yield was last down 3 bps at 3.637% and set for a weekly fall of 6 bps.

The closely watched spread between German and Italian yields was at 130 bps, up from a more than two year low on of 115 bps last Thursday.

Bonds rose further in the afternoon session, pushing yields lower, although there was little in the way of data to excite markets. "The moves seem typical of an end-of-quarter risk-off tone driven by portfolio rebalancing or deleveraging," said Michiel Tukker, rates strategist at ING.

"Such moves can be front-loaded a week in advance, and we saw a similar picture on the last Friday in February." Markets see a roughly 85% chance that the European Central Bank and Federal Reserve will cut rates by their June meetings.

Bundesbank President Joachim Nagel on Friday added his name to a long list of policymakers suggesting that June was the date, saying the ECB might be in a position to cut interest rates before the summer recess.

Markets were also digesting a survey released yesterday showing German business morale improved in March and beat expectations.

Rate sensitive shorter-dated bond yields were also set for weekly declines, Germany's two-year yield down 5 bps at 2.806% and set for a weekly drop of 10 bps.

Apple shares wobble as antitrust suit takes aim at growth pillar

Bloomberg
New York

A person walks past the Apple store on Fifth Avenue in New York City. Apple shares fell the most since August on Thursday, after the Justice Department filed a suit accusing Apple of violating antitrust laws and suppressing competition by blocking rivals from accessing hardware and software features on its popular devices.

For years, Apple Inc investors have consoled themselves with the idea that no matter what trends look like for major product categories, growth in services would remain robust. Now, the outlook for that business is on shakier footing.

Its shares fell the most since August on Thursday, after the Justice Department filed a suit accusing Apple of violating antitrust laws and suppressing competition by blocking rivals from accessing hardware and software features on its popular devices.

The decline also brings Apple's year-to-date slide near 11%, erasing $337bn from its market capitalisation. The selloff stands in contrast to the rest of big tech, with the Bloomberg Magnificent 7 Index up about 17% this year. Apple was little changed yesterday.

"Services has been the driver of growth for Apple, with huge margins, and there's a question of where the business goes from here," said Tim Ghriskey, senior portfolio strategist at Ingalls & Snyder. "I hope they can limit the damage as much as possible, because we don't see any new growth drivers on the horizon and the stock still looks expensive. It could be dead money for a while."

The suit brought by the US Justice Department on Thursday adds a level of risk to Apple's services business — home to the App Store and Apple Music — that is fed by the more than two billion Apple devices in use. Services revenue expanded 9% in fiscal 2023 while products revenue — iPhones, Macs and iPads — dropped 3%. Furthermore, despite only accounting for 22% of Apple's sales, services generated more than a third of profit.

The App Store is the biggest component of Apple's services business. Analysts expect it to generate about $5.8bn in second-quarter revenue, according to data compiled by Bloomberg. Total revenue is expected to be $90.5bn.

Regulatory issues are just the latest headache for investors, who are also grappling with weak sales in China, concerns that Apple is behind peers with artificial intelligence, and few obvious catalysts for growth. Bloomberg News recently reported that Apple cancelled a long-term effort to build an electric car, and its Vision Pro headset isn't expected to be a major contributor to revenue in the near-term.

Apple's second-quarter results, scheduled for release in May, are expected to show revenue down 4.5%. That would represent the fifth quarter with negative growth of the past six. The consensus for Apple's full-year revenue has dropped 2.1% over the past quarter.

Even after recent declines, the shares trade at 25 times estimated earnings, above their 10-year average, though a slight discount to the 26 multiple of the Nasdaq 100 Index.

"Shares already look expensive, and if we start to see a deterioration in important high-margin businesses like services and the App Store, then it will look even more expensive," said Eric Clark, portfolio manager at Accuvest Global Advisors. He sees an "air pocket" for the stock until it nears $155. It last closed at $171.37.

This has become an increasingly common view on Apple — a notable deterioration in sentiment for what was, until recently, the largest company by market value in the world. Fewer than 60% of the analysts tracked by Bloomberg recommend buying the stock, compared with rates above 85% for Microsoft Corp, Nvidia Corp, Amazon.com Inc and Alphabet.

Russia's central bank holds interest rate unchanged

Bloomberg
Moscow

Elvira Nabiullina, governor of Russia's central bank.

Russia's central bank held interest rates unchanged yesterday, as it navigates inflation risks that now include attacks on regions bordering Ukraine.

For the second meeting in a row, policymakers left their key rate at 16%, in line with the unanimous forecasts of economists surveyed by Bloomberg. The Bank of Russia gave no guidance on the likely direction of its next move, saying "tight monetary conditions will be maintained in the economy for a long period."

Speaking after the decision in Moscow, Governor Elvira Nabiullina reiterated that the start of monetary easing is more likely in the second half of the year, once the central bank sees convincing evidence that inflation is slowing down.

Regions including Belgorod and Kursk have faced drone and missile attacks in recent weeks as Ukraine mounts a campaign targeting infrastructure and industrial facilities including oil installations to try to undermine Russia's war machine. In addition, the fact that the presidential election has passed means that price controls in general may weaken, according to Dmitry Polevoy, investment director at Astra Asset Management.

Ahead of the election, in which President Vladimir Putin claimed a landslide victory to secure a fifth term in power, the government was very active with efforts to curb skyrocketing food prices, a major complaint among the electorate.

Now, traditionally affordable staples such as chicken may grow pricier as attacks continue on the Belgorod region, a major agricultural area that accounts for 14% of all of Russia's livestock and poultry production. Moreover, at least nine major refineries have been successfully attacked this year, currently taking offline 11% of the country's total capacity by some estimates.

Although there's been little movement in the cost of fuel at the pump within Russia, the flurry of attacks prompted a surge in prices for gasoline and diesel on the St Petersburg International Mercantile Exchange.

"We interpret the central bank's statements as evidence that it no longer considers rate hikes as necessary — something that was among its options in February. If inflation reports show a further slowdown, we think this cycle's first policy rate cut could arrive as soon as April to June," says Alexander Isakov, Russia economist.

Nabiullina has continued to signal the central bank aims to keep the cost of borrowing at its highest level since the early days of the war in Ukraine for a prolonged period. Annual price growth has stalled at over 7%, leaving it at almost twice the 4% target.

The central bank's outlook depends on the likely changes to fiscal policy in connection with goals laid out by Putin ahead of the election and their exact impact on inflation and the economy, Nabiullina said.

Bank of Canada sees quantitative tightening ending in 2025

Bloomberg
Toronto

A Bank of Canada official said quantitative tightening will likely end in 2025, at which point the central bank will tilt purchases to shorter-duration securities and consider buying assets in both primary and secondary debt markets.

In a speech in Toronto, Deputy Governor Toni Gravelle reiterated that the programme is expected to run its course once settlement balances have reached a range of C$20bn ($14.8bn) to C$60bn, from the current level of roughly C$100bn.

"The bottom line is the balance sheet normalisation process is continuing as we laid out last year and we have tools to manage any temporary funding pressures that might come up along the way," Gravelle said.

The remarks suggest the central bank's plans to shrink its balance sheet haven't changed substantially, and will help to end to speculation officials will be soon forced to wind down QT. That's now likely to happen "sometime in 2025," slightly later than policymakers had initially planned, as officials now expect the government of Canada will hold fewer deposits on the central bank's balance sheet, keeping settlement balances elevated for longer.

The normal long-run level for settlement balances was the same range as previously outlined by Gravelle in March last year.

But the deputy governor said the bank is now considering how and where it will resume making asset purchases, weighing whether to buy government of Canada treasury bills and bonds in secondary markets, during primary debt auctions or a combination of both.

In the speech, Gravelle explained that the resumption of purchases was meant to stabilise the bank's balance sheet, and reiterated that was different than the pandemic-era asset purchases intended to stimulate the economy.

"We will start buying government of Canada bonds and other assets again as part of our normal balance sheet management. Those purchases will not be quantitative easing."

Toni Gravelle, deputy governor of the Bank of Canada.

Gravelle also repeated that the bank is able to continue QT even when it lowers interest rates to more normal levels. When the programme ends, the bank said it will no longer buy Canada Mortgage Bonds, and aim to diversify purchases.

In a question and answer session after the speech, Gravelle said the bank will tilt purchases to shorter-duration securities, with the goal of restoring a more normal mix of short and longer-term debt.

"Once QT ends and we start acquiring assets again, the sequence will likely be term repos at first, then after some time we will add T-bills, with bond purchases coming later still," Gravelle said in the speech.

The central bank under Governor Tiff Macklem has been shrinking its balance sheet for about two years. Its assets have fallen to around C$307bn from a peak of more than C$575bn as it allows government bonds it holds to mature, draining liquidity from the financial system.

That's resulted in a decrease of settlement balances — interest-bearing deposits used as a means of payment in Canada's high-value payment system, called Lynx.

Earlier this year, liquidity pressures in funding markets led some economists and strategists to question whether Canada's financial system was already running short on settlement balances, a situation that might have hastened the end of QT.

Gravelle reiterated that recent strains in overnight markets were not a sign the bank will need to stop shrinking its balance sheet earlier than planned.

But he added that there's still a risk QT could end earlier, especially if there's "persistent upward pressure" on the overnight repo rate average that results in widespread or more frequent use of overnight repo operations.

Broader funding pressures and longer-lasting concerns from financial market participants about liquidity might also prompt the bank to end the programme earlier, but Gravelle said officials would communicate potential timing changes in advance and "very clearly."

Ian Pollick, who runs fixed income, currency and commodities strategy at Canadian Imperial Bank of Commerce, raised doubts about the proposed timeline for ending the programme, but acknowledged that an earlier end would require further and sustained strains in liquidity markets.