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Ooredoo takes Qatar Airways to new heights with cloud transformation via Azure

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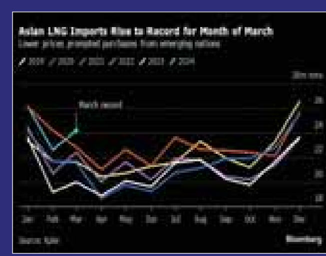


PRICE DROP : Page 2

Asian LNG imports jump to record for March on bargain buying

Qatar ports register higher container volumes in Q1

By Santhosh V Perumal
Business Reporter

Qatar's maritime sector witnessed brisk activities in the first quarter (Q1) of 2024 on an annualised basis on the back of higher container handling, vehicles (RORO), livestock and building materials through Hamad, Doha and Al Ruwais ports, according to the official estimates.

The positive momentum in the maritime sector is expected to continue in the light of 12-month optimistic outlook, especially for the country's non-energy private sector, as indicated by the latest purchasing managers' index of the Qatar Financial Centre.

The container handling through the three ports stood at 351,564 TEUs (twenty-foot equivalent units) in Q1-2024, surging 4.07% year-on-year. The containers handled was seen at the maximum in March at 136,851 TEUs.

In March this year, Hamad Port registered a new volume of container moves for one ship, the MSC CLORINDA, at the equivalent of 10,400 TEUs with the crane productivity at 39.1 gross moves per hour and the vessel productivity at 173 gross moves per hour.

Hamad Port – which features an intermodal transport network that offers direct and indirect shipping services to more than 100 destinations, facilitating efficient transportation and logistics services locally and abroad – saw a total of 136,501 TEUs in March 2024.

The container terminals have been designed to address the increasing trade volume, enhancing ease of doing business as well as supporting the achievement of economic diversification, which is one of the most important goals of the Qatar National Vision 2030.

Coinciding with Ramadan, the three ports were seen handling 221,125 livestock heads in January-March this year, showing a 46.26% surge year-on-year. The heaviest movement of livestock through three ports was reported in March at 118,569 units. Hamad Port alone handled 11,993 livestock heads in March 2024.

The building materials traffic through the three ports amounted to 142,886 tonnes in the review period, which shot up 6.13% on a yearly basis. In March, as much as 52,242 tonnes of building materials were handled by ports.

The three ports handled as many as 19,200 RORO in the first three months of 2024, registering a 4.46% increase on an annualised basis. In March this year, RORO movements was to the tune of 5,971 units, of which 5,936 was through Hamad Port.

The number of ships calling on Qatar's three ports stood at 647 in January-March 2024, which saw a 2.56% decline compared to the previous year period. March 2024 saw the maximum number of ships berthed at 232, of which 126 was at the Hamad Port.

The general cargo through three ports amounted to 367,350 tonnes in Q1-2024, plunging 40.52% on an annualised basis. Cargo handling in March this year stood at 139,097 tonnes.

Hamad Port – whose multi-use terminal is designed to serve the supply chains for the RORO, grains and livestock – was seen handling 123,134 freight tonnes (F/T) of breakbulk and 10,000 F/T of bulk in March this year.

The positive momentum in Qatar's maritime sector is expected to continue in the light of 12-month optimistic outlook, especially for the country's non-energy private sector, as indicated by the latest purchasing managers' index of the Qatar Financial Centre

Commercial Bank holds Annual General Meeting

Commercial Bank held its Annual General Meeting last night and approved all items on the agenda including the Board of Director's recommendation to distribute a cash dividend of QR0.25 per share, equivalent to 25% of the nominal share value. Commercial Bank Chairman Sheikh Abdulla bin Ali bin Jabor al-Thani said, "Commercial Bank's vision is to be the leading bank in Qatar with the world's best client experience, innovation in products and digital capability. We made good progress in achieving this vision, as we finished the second year of our new five-year strategic plan 2022-2026, crossing the landmark net profit figure of QR3bn for the first time. We are confident in our strategy and will continue our commitment to supporting Qatar's national development in line with the Qatar National Vision 2030 and delivering world-class standards of products, services and values to our customers and shareholders."

Doha Bank's rating upgrade helps enhance its operations strength: CEO

Doha Bank's recent credit rating upgrade aligns with its efforts to strengthen resilience and develop its operations in accordance with the strategic objectives of the government and the Qatar Central Bank, according to its top official.

The upgrade and the subsequent operational strength "contributes to solidifying Qatar's financial development in the national economy", said Sheikh Abdulrahman bin Fahad bin Faisal al-Thani, Group Chief Executive Officer of Doha Bank.

His statement came after global credit rating agency Fitch raised Doha Bank's credit rating from 'A-' to 'A', and upgraded the outlook to 'stable' from 'positive.'

This was due to the recent upgrade of Qatar's sovereign rating, which reflects the increased confidence in the country's ability to bolster its economic stability.

Fitch had said Qatar's solid sovereign credit rating enhances its ability to intervene to address any shocks that the banking system may face and reduces exposure levels to potential risks.

Sheikh Abdulrahman bin Fahad bin Faisal al-Thani, Group CEO of Doha Bank.

US oil suppliers muscling into Opec+ markets all over the world

Bloomberg
New York

One major beneficiary of sanctions on Russian and Venezuelan oil? US suppliers who've muscled their way into markets once dominated by Opec and its allies.

US oil exports have set five new monthly records since Western nations began imposing sanctions on Russia in 2022. And with trade restrictions on Venezuela set to renew in April, American barrels are beginning to displace sanctioned crude in India, one of the biggest buyers of illicit oil.

The shift underscores the extent to which sanctions have helped American crude capture market share around the world. While US oil has long been the world's go-to flex barrel, the disruption of energy flows after Russia's invasion of Ukraine created new pull for American barrels. Shipments to Europe and Asia surged in the aftermath, transforming the US into one of the world's largest exporters.

Record production from the US — coming just as Opec and its allies curb their own supply — has also helped American producers gain a bigger foothold in overseas markets. Physical oil prices are reflecting that, with WTI in Houston trading near the highest levels since October and sour benchmark Mars not far behind.

"US production is going up and Opec and Russian production is going down — so the US, by definition, is going to have more market share," said Gary Ross, a veteran oil consultant turned hedge fund manager at Black Gold Investors LLC.

India — the third-largest crude importer and Moscow's second largest buyer after China — is the latest market seeing an influx of US oil. American shipments to India are set to jump in March to the highest in nearly a year, according to data from crude tracking firm Kpler.

At the same time, Russian oil imports have fallen by about 800,000 barrels a day since last year's high point, Bloomberg tanker tracking shows.

Russian shipments may decline further with Indian oil refiners no longer accepting cargoes from tankers owned by state-run Sovcomflot PJSC, which was recently sanctioned by the US. While US supplies can't fully replace Russian crude due to differences in oil quality and voyage times, "there's definitely a bit of a pivot there towards pulling in more US crude," said Matt Smith, lead Americas oil analyst at Kpler.

Qatar industrial producers' price pressure plunges in February: PSA

By Santhosh V Perumal
Business Reporter

Qatar's producers' price index (PPI), which captures the price pressure felt by the producers of goods and services, fell 8.6% year-on-year this February on decline in the index of hydrocarbons and certain manufactured products such as chemicals, basic metals, cement and refined petroleum products, according to the official estimates.

The country's PPI, however, saw 1.03% jump month-on-month, mainly due to increase in the indices of rubber, basic metals and cement, according to figures released by the Planning and Statistics Authority (PSA).

The PPI measures inflation from the perspective of costs to industry or producers of products as it measures price changes before they reach consumers. The PSA had released a new PPI series in late 2015. With a base of 2013, it draws on an updated sampling frame and new weights.

The previous sampling frame dates from 2006, when the Qatari economy was much smaller than today and the range of products made domestically much narrower.

The mining PPI, which carries the maximum weight of 82.46%, reported a 9.18% contraction year-on-year in February 2024 owing to a 9.19% plunge in the index of crude petroleum and natural gas and 0.02% in other mining and quarrying.

The mining sector reported a marginal 0.9% rise on a monthly basis in February 2024 on a 0.91% expansion in the index of crude petroleum and natural gas.

The manufacturing sector PPI, which has a weight of 15.85% in the basket, tanked 7.12% year-on-year in February 2024 on account of a 10.45% contraction in the index of chemicals and chemical products, 4.76% in basic metals, 3.6% in cement and other non-metallic mineral products, 2.01% in refined petroleum products and 0.83% in printing and reproduction of recorded media.

However, there was a 3.79% surge in the index of food products, 1.32% in rubber and plastics products and 0.01% in beverages in the review period.

The manufacturing sector had seen a 1.95% month-on-month jump this February on a 9.16% increase in the index of rubber and plastics products, 3.58% in refined petroleum products, 3.3% in basic metals, 2.51% in cement and other non-metallic mineral products, 0.9% in chemicals and chemical products, 0.71% in food products and 0.08% in beverages.

Nevertheless, there was a 0.67% decrease in the index of printing and reproduction of recorded media in the review period.

The index of electricity, gas, steam, and air conditioning supply reported 9.9% and 0.46% growth year-on-year and month-on-month respectively in February 2024.

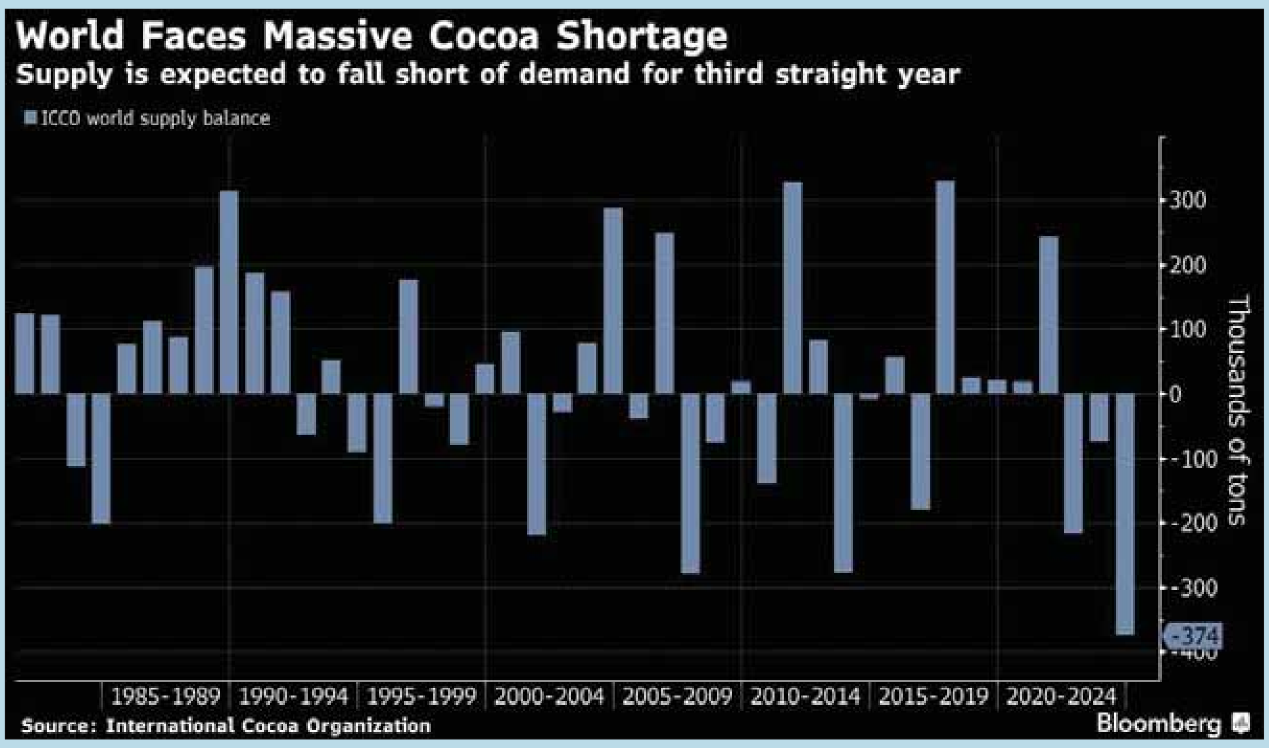
The index of water supply was seen gaining 3.72% on an annualised basis; whereas it shrank 1.49% on monthly basis in February 2024.

BUSINESS

Bloomberg QuickTake

Why cocoa prices spiked and what it means for chocolate lovers

By Ilena Peng



A steady rise in the price of cocoa beans over two years skyrocketed in March, with futures contracts more than doubling in three months to reach a level twice as high as the previous record. It's a progression that has its literal roots in small West African farms but also involves climate change and the intricacies of the futures market. The latest surge has been driven in part by the kind of financial turmoil that can happen when commodities rise so fast that they overwhelm strategies meant to protect against such volatility.

The upshot is almost certainly bound to be more expensive chocolate that may come in smaller servings. But even if prices recede from current levels, they're likely to remain elevated for years to come. Economists like to say that the cure for high prices is high prices, since they can reduce demand, spur increases in supply, or both. But the situation with cocoa shows how messy that idea can be in practice, given market complexities and obdurate physical facts like how long it takes for a new cocoa tree to grow.

Where we're at

Cocoa futures in New York and London are pricier than they ever have been in nominal dollars, surging past the highs seen in 1977 when the world was facing another cocoa shortage. Futures contracts traded in New York hit an intraday record of $10,080 a metric tonne on March 26 and have since been trading above $9,500, while London beans are being in the £8,000 a tonne range (about $10,000). Before this rally, New York futures had largely remained below $3,500 since the 1980s.

A record supply crunch has driven the surge, with the world on track for a third year of deficits. Production is expected to fall short of demand in 2024 by 374,000 tonnes, according to the International Cocoa Organisation, while manufacturer Barry Callebaut expects a gap of about 500,000 tonnes, equal to about a 10th of the global market.

How we got here

Unlike most crops grown for global commodity markets, cocoa is produced not by large scale plantations but by small farmers, many in West Africa, which has dominated the trade for decades. Ivory Coast and Ghana are still forecast to supply 53% of the world's cocoa in the current season — a share that was even higher before current crop issues. Here are some of the factors that have been driving down production:

■ Both rain and drought have been more severe than usual in West Africa

■ Swamped fields have worsened the spread of diseases like black pod disease and swollen-shoot virus, which are rotting pods and killing trees, and the tree stock is also ageing

■ The small farmers in Ivory Coast and Ghana have long been underpaid and governments set prices in each country ahead of time, so producers have yet to profit off the current rally

■ Low pay has hampered farmers' ability to invest in improvements and fend off disease, limiting how much cocoa their trees can yield

What else is driving the price spike?

The record cocoa shortage produced by those factors can account for the generally higher trend in prices, and Citi Research analysts had pointed last month to a trading range between $7,000-10,000 a tonne. But the magnitude of the latest surge — which saw New York cocoa futures rise more than $1,000 during two sessions — has led market watchers to believe financial drivers are also at play.

That's because traders usually use the futures market to hedge risk in the physical market. Sellers who have cocoa on hand hope that prices go up, but will protect themselves by making side bets on falling prices. If prices go up, their gains on their stockpiles more than covers what they paid for those so-called short positions. But if prices go down and their stockpiles are worth less, their short bets will offset some of their losses.

That kind of hedging works well when commodities move both up and down and within a moderate range. What gets complicated by sharp one-way market moves is the requirement that traders post collateral to cover their futures bets. If prices only go up, and go up sharply enough, the cost of adding to that collateral may become unaffordable. That can lead some traders to close out their positions — which can only be done by buying more cocoa contracts, which further drives up prices.

The Intercontinental Exchange has also taken steps to keep markets orderly, like reducing the amount of cocoa that traders can buy through the London exchange. The so-called delivery limit is going from 75,000 tonnes in May to 50,000 tonnes in July, and down progressively until it reaches 25,000 tonnes for the December contract onward.

What this means for consumers

Chocolatiers are doing all they can to offset higher costs — hiking retail prices, shrinking pack sizes, maximizing efficiency and pushing products with less cocoa. But those shifts are just the beginning: Companies hedge prices and secure supplies well in advance, so the impact of the new, record-high futures hasn't fully trickled down to retail shelves yet. Chocolate makers are likely to see that inflation over six to 12 months, and then consumers will face it too, according to Bloomberg Intelligence.

The pinch will also be felt by chocolate processors and their workers. Plants in Ghana have been closed intermittently because of supply shortages. Major cocoa processors Barry Callebaut AG and Blommer Chocolate Co have also said they would be shutting down facilities and laying off employees.

Who's winning, who's losing?

Higher prices are good in the long run for farmers, who have long been underpaid. But so far, growers in the world's biggest-producing countries are also the ones missing out on the rally's full profits. That's because Ivory Coast and Ghana's governments set cocoa prices based on sales made a year earlier. Farmers in Ivory Coast are receiving 1,000 CFA francs per kilogram, while those in Ghana are getting 20,928 cedis a tonne – both equating to about $1,600 per tonne. Producers in Ivory Coast are pushing for more pay for the mid-crop harvest starting in April, but the country's industry regulator has proposed keeping prices the same, Bloomberg reported.

Meanwhile, farmers in liberalized markets like in Brazil, Ecuador, Cameroon and Nigeria are ramping up production to take advantage of higher prices. Brazil and Cameroon are trying to double output by the end of the decade, while Ecuador is targeting 800,000 tonnes of output by 2030 — an amount that could allow the nation to overtake Ghana to become the world's second-largest producer, behind only Ivory Coast. But trees take time to grow, so it will be at least three years before new pods provide supply relief. European Union rules preventing the trade of products linked to deforestation could also limit acreage expansion for cocoa and crunch supplies in the world's biggest chocolate-consuming region.

The longer-term prospects

Supply isn't likely to make a rapid recovery. The smaller mid-crop harvest in Ivory Coast that is just kicking off is expected to be weaker than last year, and some are already bracing for another deficit next season.

On the other side of the equation, expensive chocolate is already weighing on demand, prompting consumers to pick up less of it. Favourable weather could facilitate a quicker recovery in production. Governments in Ivory Coast and Ghana could also increase the amount paid to farmers. That would fund reinvestments in pesticides, fertilizer and labour to boost 2025 crop yields. New producers in Latin America and elsewhere, lured by high prices, will also start contributing to global supply in the years to come.

Asian LNG imports jump to record for March on bargain buying

Bloomberg
Singapore

Global liquefied natural gas (LNG) supplies are shifting back to Asia after a drop in prices prompted a flurry of purchases from emerging nations.

Shipments to Asia rose to about 24mn tonnes in March, a 12% increase from last year and the highest ever for the month, according to ship-tracking figures from data intelligence company Kpler. The growth was led by importers including China, India and Thailand.

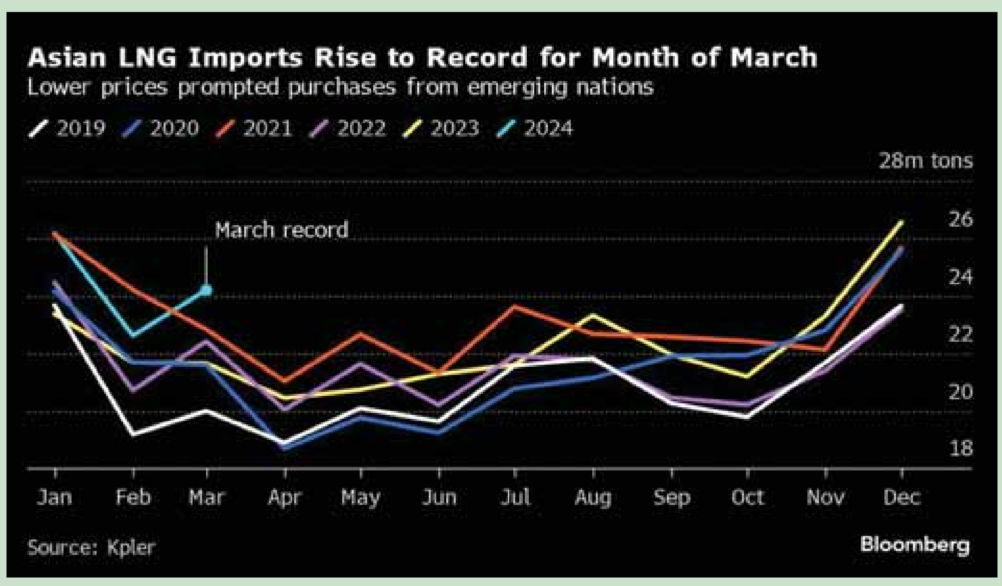
More LNG is slated to continue flowing into Asia, reducing deliveries to Europe where inventories are at a seasonal high.

Ample supply and mild winter weather have kept Asian LNG prices near the lowest level in three years, making it cost competitive with alternative fossil fuels. Swing buyers in emerging nations rushed to procure cargoes after months of limited activity.

Shipments to Europe in March fell 20% from a year earlier to the lowest level since September, according to Kpler data. Europe was forced to boost purchases of the fuel following the 2022 invasion of Ukraine in order to reduce dependence on Russian pipeline gas.

China's imports of the super-chilled fuel surged by 22% in March from a year earlier, according to Kpler. Indian shipments jumped by almost 30%. Deliveries to Japan rose by 8%, reversing two months of declines.

Lower LNG prices in Asia and Europe are also making it less attractive for China and Japan's top importers to resell shipments, instead opting to bring deliveries back to their domestic market.



Egypt's next review at end-June 2024, says IMF official

Reuters
Cairo

The next review of Egypt's IMF loan programme should be completed by the end of June, when authorities will be able to draw on a further $820mn, an IMF official said yesterday, after an expanded loan programme was agreed last month.

Further reviews will be completed every six months, and those will each unlock disbursements of $1.3bn, mission chief Ivanna Vladkova Hollar said in a news conference.

An initial payment of $820mn would be received this week, after the completion of delayed reviews last month, Egypt's prime minister said on Friday.

A additional loan from the IMF's Resilience and Sustainability Facility would be discussed during the next review, Vladkova Hollar said. The final review of the loan programme would be in the final months of 2026, she added.

Egypt's inflation forecast is expected to remain high in the near term, with average inflation for the next fiscal year forecast at 25.5%, she said.

The country, whose budget has been stretched in recent years, needs to replace untargeted fuel subsidies with targeted social spending, she said.

Buying support lifts QSE sentiments; M-cap adds QR1.64bn

By **Santhosh V Perumal**
Business Reporter

Reflecting the optimism in the global markets on upbeat Chinese manufacturing data, the Qatar Stock Exchange (QSE) yesterday gained more than 17 points after remaining under bearish spell for the previous five sessions.

The domestic institutions' substantially strengthened net buying gave an impetus to the 20-stock Qatar Index, which rose 0.18% to 9,864.41 points, recovering from an intraday low of 9,798 points.

The insurance, banks, industrials and real estate counters experienced higher than average demand in the main market, whose year-to-date losses truncated to 8.92%.

As much as 64% of the traded constituents extended gains to investors in the main bourse, whose capitalisation added QR1.64bn or 0.29% to QR572.23bn with small cap segments leading the pack of gainers.

The Gulf retail investors were increasingly into net buying in the main market, which saw as many as 6,141 exchange traded funds (sponsored by Masraf Al Rayan and Doha Bank) valued at QR0.02mn trade across five deals.

The foreign institutions' weakened net profit booking had its influence had its say in the main bourse, which saw no trading of sovereign bonds and treasury bills.

The Total Return Index gained 0.47% and the All Share Index by 0.5%, while the All Islamic Index was down 0.09% in the main bourse, whose trade turnover and volumes were on the increase.

The insurance sector index shot up 1.44%, banks and financial services (0.89%), industrials (0.85%), realty (0.45%) and consumer goods and services (0.24%); whereas transport and telecom declined 2.09% and 1% respectively.


The domestic institutions' substantially strengthened net buying gave an impetus to the 20-stock Qatar Index, which rose 0.18% to 9,864.41 points yesterday, recovering from an intraday low of 9,798 points.

Major gainers in the main market included Qamco, Qatari German Medical Devices, Dlala, Mekdam Holding, Qatar Insurance, Qatar Islamic Bank, Commercial Bank, Lesha Bank, Industries Qatar, Estithmar Holding, Ezdan and Gulf Warehousing. Nevertheless, United Development Company, Milaha, Doha Insurance, QIIB, Zad Holding, Mesaieed Petrochemical Holding, Vodafone Qatar and Ooredoo were among the shakers in the main bourse. In the venture market, Al Mahhar Holding saw its shares depreciate in value.

The domestic institutions' net buying increased substantially to QR121.93mn compared to QR5.75mn on March 31.

The Gulf individual investors' net buying expanded perceptibly to QR2.06mn against QR0.46mn the previous day.

The foreign funds' net profit booking declined considerably to QR0.61mn compared to QR8.44mn on Sunday.

The Arab individual investors' net selling weakened markedly to QR0.02mn against QR2.5mn on March 31. However, the Qatari individuals were net sellers to the tune of QR105.7mn compared with net buyers of QR3.04mn the previous day.

The Gulf institutions turned net profit takers to the extent of QR14.85mn against net buyers of QR1.34mn on Sunday.

The foreign retail investors turned net sellers to the tune of QR2.81mn compared with net buyers of QR0.35mn on March 31.

The Arab institutions had no major net exposure for the seventh straight session.

Trade volumes in the main market grew 19% to 146.23mn shares, value by 82% to QR545.93mn and deals by 48% to 14,738.

The venture market saw an 86% plunge in trade volumes to 0.03mn equities, 84% in value to QR0.05mn and 81% in transactions to 6.

Qatar Chamber keen on leading private sector in economic development

Qatar Chamber has maintained its "pivotal role" in leading the private sector and in ensuring that local entrepreneurs and the small and medium-sized enterprises (SMEs) sector will have a significant contribution to the country's economic development, an official has said.

In its latest issue of *Al Moltaqa*, the chamber's economic magazine, Qatar Chamber acting general manager Ali Saeed bu Sherbak al-Mansouri said the chamber "continues to play a pivotal role in empowering entrepreneurship in the state, based on its position as a representative of the Qatari private sector and recognising the vital role that SMEs play in the country's economic growth."

Al-Mansouri emphasised that the chamber is actively communicating with key entities and authorities in both the public and private sectors to support and cater to the needs of entrepreneurs in the country, citing initiatives that showcase local products like the 'Made in Qatar' exhibition.

"Furthermore, the chamber has initiated various programmes and organised numerous events, conferences, and competitions aimed at empowering young entrepreneurs and business owners.

"These initiatives provide participants with the knowledge and tools necessary to foster the growth of their businesses and align with the goals of Qatar National Vision 2030 towards economic diversification and the establishment of a knowledge-based economy," he said.

According to al-Mansouri, the chamber organised three editions


Qatar Chamber acting general manager Ali Saeed bu Sherbak al-Mansouri.

of the 'SMEs Conference' with a focus on entrepreneurship, which featured a review of successful experiences from countries, such as the UK, Turkiye, and Germany, "attracting significant participation and generating valuable recommendations."

Similarly, al-Mansouri said the chamber has been a strong supporter of home-based entrepreneurs and productive families through their participation in exhibitions it organised.

Earlier this year, Qatar Chamber signed an agreement with the Youth Entrepreneurs Club to promote co-operation between the two parties in supporting entrepreneurs through seminars, exhibitions, workshops, and other events hosted by the chamber. In this context, Qatar Chamber sponsored the 'First Young Entrepreneurs Forum' held last February.

Ooredoo takes Qatar Airways to new heights with cloud transformation through Microsoft Azure

Ooredoo is set to revolutionise Qatar Airways' operations through advanced cloud solutions powered by Microsoft.

This marks a significant step in Qatar Airways' digital transformation journey by harnessing cloud and enabling innovation through AI. The technology is set to enhance its operational agility, security, and competitive edge in an ever-evolving and hyperconnected global landscape.

Qatar Airways chose Ooredoo as its trusted partner to develop a cutting-edge hybrid multi-cloud environment, paving the way for next-generation applications that will bolster the airline's customer experience and business performance.

Qatar Airways will also leverage the scalability and agility of Microsoft Azure with Ooredoo's bespoke private cloud setup, enhancing centralised data management, operational efficiency, and optimised IT solutions. Ooredoo's significant role extends beyond infrastructure provision. The company will offer a robust network fabric for Microsoft Azure, synchronised with other network elements to support the comprehensive hybrid cloud environment tailored specifically for Qatar Airways' unique business needs.

Thani Ali al-Malki, chief business officer at Ooredoo Qatar, said: "Our collaboration with Qatar Airways and Microsoft is a testament to Ooredoo's commitment to driving digital transformation

Ooredoo, Qatar Airways, and Microsoft Qatar officials during the Web Summit Qatar 2024.

in Qatar. By leveraging Microsoft Azure and our robust network capabilities, we are not only enhancing Qatar Airways' operational efficiency but also contributing to Qatar's vision of a technologically advanced future.

This initiative underscores our role as a leading Hybrid Cloud provider in the region."

A T Srinivasan, group chief information officer at Qatar Airways, said: "With the evolving needs of our customers and our drive to provide exceptional customer experience, we are embarking on a digital transformation that will leverage the power of cloud technology, AI, and analytics to bring business agility and operational robustness to our organisation.

"Our partnership with Ooredoo and Microsoft to leverage Microsoft Azure public cloud will allow Qatar Airways to respond to our customers' needs with innovative services, and coupled with AI and analytics, offer them hyper-personalised experiences."

Qatar Airways is set to strengthen its position in the aviation industry by utilising Microsoft Azure to develop advanced applications enriched with AI, data analytics, IoT, and hybrid capabilities. Microsoft 365's integration will further streamline productivity through cloud-based services.

This initiative aligns with Ooredoo's aim to offer comprehensive hybrid cloud solutions, combining the technological excellence of public cloud infrastructure with the security and compliance of private cloud environments. Ooredoo continues to work with world-class technology providers, offering bespoke solutions that align with each organisation's unique business objectives.

Wall Street investors eye Fed rate cut, earnings as key to sustaining rally

Reuters
New York

After a stellar start to the year for stocks, investors are on guard for potential bumps in the second quarter as they gauge whether the Federal Reserve delivers on an expected interest rate cut by June and turn their focus on the health of upcoming earnings.

The S&P 500 ended the first quarter with a gain of more than 10%, its largest first quarter advance since the nearly 13.1% jump in the first quarter of 2019. While so-called Magnificent Seven stocks such as chipmaker Nvidia and Facebook parent Meta Platforms provided the bulk of the gains for the quarter, economically-sensitive sectors such as energy and industrials have rallied over the past six weeks.

Whether the rally continues through June will likely depend on the Fed, which has not yet signalled that inflation has come down enough to justify a rate cut. Markets began January with 6 to 7 cuts priced in over the course of 2024, but are


A trader works on the floor at the New York Stock Exchange. After a stellar start to the year for stocks, investors are on guard for potential bumps in the second quarter as they gauge whether the Federal Reserve delivers on an expected interest rate cut by June and turn their focus on the health of upcoming earnings.

now anticipating 3 cuts after signs of resiliency in the US economy increased investor confidence in a so-called soft landing.

"The market and the Fed are finally aligned on expectations, but that puts even more pressure on every economic report that comes out because it doesn't take a lot to make everyone run the same way," said Joe Kalish, Chief Global Macro Strategist at Ned Davis Research.

"We are expecting more volatility if we don't see more progress on the inflation front." Futures markets are now implying a 61% chance of a 25 basis point cut rate at the Fed's policy meeting that concludes June 12, bringing benchmark rates to a range of 5 to 5.25%, according to CME's FedWatch Tool.

Continued growth in the US economy will likely continue the recent broadening of the market rally into cyclical sectors and small-cap stocks as investors search for more attractive valuations, said Jason Alonzo, a portfolio manager on Harbor Capital's multi-asset strategies team. The Russell 2000 index of small-cap stocks ended the first quarter with a 4.8% gain, while the S&P 500 industrials sector rose nearly 11% over the same time.

"Right now the only thing the market cares about is whether the Fed remains in control even if the economy re-accelerates," Alonzo said. "If that idea was upset somewhat and the Fed had to imply that rate hikes were back on the table, that would be a shock to investors and cause a real issue for all assets." Economic readings next week, including ISM manufacturing data, ISM services, and the closely-watched non-farm payrolls report, which economists polled by Reuters expect to show a growth of 198,000 jobs in March.

Investors should not be surprised if the market rally starts to slow as the Fed nears a potential rate cut, noted Sam Stovall, chief investment strategist at CFRA Research.

US manufacturing expands for the first time since September 2022

Reuters
Washington

The US manufacturing sector expanded last month for the first time since September 2022, according to industry data published yesterday, with positive demand and strong output helping to snap 16 straight months of contraction.

The survey from the Institute for Supply Management (ISM) yesterday suggested the sector, which has been battered by higher interest rates, was on the mend, though risks remain from rising raw material prices. Timothy Fiore, who chairs the ISM's manufacturing business survey committee, said "demand remains at the early stages of recovery, with clear signs of improving conditions." While the manufacturing rebound is a boost for the economy's growth prospects, the rise in raw material prices suggested goods inflation could pick up in the months ahead. Goods deflation was the key driver of an inflation slowdown last year.

"If the contraction of manufacturing activity is over, far too soon to say, and price pressures are building in manufacturing, which appears to have been happening for the last three months, then this would have implications for the path for interest rates in 2024," said Conrad DeQuadros, senior economic advisor at Brean Capital.

The ISM said its manufacturing PMI increased to 50.3 last month, the highest and first reading above 50 since September 2022, from 47.8 in February. The rebound ended 16 straight months of contraction in manufacturing, which accounts for 10.4% of the economy. That was the longest such stretch since the August 2000-January 2002 period.

A PMI reading above 50 indicates growth in the manufacturing sector. Economists polled by Reuters had forecast the PMI would rise to 48.4. The ISM and other factory surveys had grossly overstated the weakness in manufacturing, which has been constrained by higher borrowing costs.

Government data last week showed manufacturing output rose at an annualized rate of 0.9% in the fourth quarter. It grew 1.6% in 2023 compared to 0.8% in 2022. Though consumer spending has shifted to services, demand for goods remains supported.

Nine industries, including textile mills, paper products, primary metals, chemical products and transportation equipment, reported growth last month.

Electrical equipment, appliances and components, machinery and computer and electronic products were among the six industries reporting a contraction.

Commentary from businesses was fairly upbeat. Makers of chemical products reported that "performance continues to defy projections of a downturn in activity," adding that "demand remains strong, and the pipeline for orders is robust."

Transportation equipment manufacturers said they were "expecting to see orders and production pick up for the second quarter." Makers of wood products reported that "business activity is up," adding that "many manufacturers are anticipating better business in the second quarter."

But manufacturers of machinery struck a cautious note, saying they were "noticing an increase in suppliers' selectiveness regarding orders they quote and take." Makers of paper products were worried about "energy pricing."