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BUSINESS




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Fed diverges from global peers in new era of higher for longer

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Qatari firms show strong interest in Philippine partnerships, says envoy

By Peter Alagos
Business Reporter

Major players and stakeholders in Qatar's private sector have expressed keen interest in partnering with their counterparts in the Philippines, according to the southeast Asian nation's top diplomat here.

Ambassador Lillibeth V Pono told *Gulf Times* that the Philippine embassy in Qatar has been facilitating connections between both countries' private sectors amid efforts by the administration of Philippine President Ferdinand "Bongbong" Marcos, Jr to push for more foreign direct investment (FDI).

According to Pono, one of the mandates of the embassy is to promote the Philippines' economic interests through economic diplomacy and economic intelligence initiatives, as well as sharing opportunities and facilitating dialogues with businesses and other private sector stakeholders.

The ambassador said the embassy is also assisting the Department of Trade and Industry (DTI) in the Philippines during the conduct of the Outbound Business Matching Mission (OBMM), which is organised by the DTI-Export Marketing Bureau (DTI-EMB), together with the Philippine Trade and Investment Centre (PTIC) – Dubai and Centre for International Trade Expositions and Missions (CITEM).

Pono also expressed optimism for potential collaboration between the private sectors of the Philippines and Qatar, citing business-to-business dialogue involving "big initiatives that could not be revealed at the moment."

However, Pono said the memorandum of understanding signed



Philippine ambassador Lillibeth V Pono and other embassy diplomats receiving Qatar's Minister of Justice and Minister of State for Cabinet Affairs HE Ibrahim bin Ali al-Mohannadi and Ministry of Foreign Affairs' Department of Protocol director ambassador Ibrahim Fakhroo during the commemoration of the 126th anniversary of the Declaration of Philippine Independence held in Doha last Thursday.

PICTURE: Shaji Kayamkulam

by Qatar Chamber with the Philippine Chamber of Commerce and Industry (PCCI), as well as with the Davao City Chamber of Commerce and Industry, during the "historic" state visit of His Highness the Amir Sheikh Tamim bin Hamad al-Thani last April 2024 reflect the robust relations between both nations' private sectors.

In an interview with Qatar News Agency, PCCI president Enunina Mangio described His Highness the Amir's state visit as "a significant event for the Philippine business sector" and "represents Qatar's sincere interest in contributing to the Philippine's development goals."

During her speech at the em-

bassy's recent commemoration of the 126th anniversary of the Declaration of Philippine Independence held in the presence of HE the Minister of Justice and Minister of State for Cabinet Affairs Ibrahim bin Ali al-Mohannadi in Doha, Pono lauded His Highness the Amir's visit as "a demonstration of efforts to galvanise the action needed to elevate our bilateral relations to new heights."

Pono said: "During the visit, we witnessed the signing of several landmark agreements and the straightforward and sincere dialogue between the Amir and Philippine President Ferdinand Marcos, Jr on further expanding the scope of bilateral co-operation, notably in trade and investment,

agriculture, energy, defence, culture, climate change, and labour, among many other areas."

The ambassador also said: "The Philippines and Qatar commit to working closely to foster stronger economic relations, and we will be glad to have more and more Qatar investors becoming part of the Philippines' growth trajectory."

"We are a reliable and stable partner with our sound micro-economic fundamentals, an agile, educated, and skilled workforce, and business-friendly climate. We are now considered as one of the fastest-growing economies in the Asian region, expected to hit 6% growth in 2024 from 5.5% in 2023."

Qatar's trade surplus at QR17.4bn in May 2024; Asia accounts for 60% of exports: NPC

By Santhosh V Perumal
Business Reporter

Qatar's foreign trade surplus amounted to QR17.4bn in May 2024 with as much as 60% of exports going to the Asian region, according to the official data.

However, the country's trade surplus declined 1% and 20.8% month-on-month and year-on-year respectively in the review period, according to the data released by the National Planning Council (NPC).

Total exports (valued free on board) were QR27.48bn, while the total imports (cost, insurance and freight) amounted to QR10.05bn at the end of May 2024.

The country's exports of petroleum gases and other gaseous hydrocarbons were valued at QR15.79bn, crude at QR4.94bn, non-crude at QR2.33bn and other commodities at QR3.29bn in May this year.

Petroleum gases accounted for 59.9% of the total exports in May 2024 compared to 62.19% a year-ago period, crude 18.74% (16.88%), non-crude 8.83% (8.74%) and others 12.48% (12.22%).

The share of petroleum gases in the country's total export basket has been consistently declining on an annualised basis, while those of crude and non-crude were on the increase.

The country's total exports shrank 3.6% on a monthly basis with those of petroleum gases and other gaseous hydrocarbons declining 4.9%, crude by 1.3% and non-crude by 5.5%, while those of other commodities grew 6.8% in the review period.

On a yearly basis, the country's overall exports declined 10.5% with those of petroleum gases plummeting 15%, crude by 1.8%, non-crude by 10.6% and other commodities by 9.8% in May 2024.

Qatar's shipments to China were valued at QR5.18bn or 18.9% of the total exports of the country

in May this year, followed by South Korea QR4.24bn (15.4%), India QR2.98bn (10.8%), Singapore QR2.15bn (7.8%) and Japan QR1.95bn (7.1%).

On a monthly basis, the country's exports to India tanked 31.88%, Japan by 11.46% and China by 9.9%; while those to South Korea enhanced by 5.92% and Singapore by 0.37% in the review period.

On a yearly basis, Qatar's exports to India were seen declining 15.14%, China by 7.84%, Japan by 4.84% and Singapore by 0.14%; whereas those to South Korea shot up 16.94% in May 2024.

In the case of imports, Qatar witnessed an overall 7.8% contraction on a monthly basis; even as it surged 15.6% year-on-year this May.

The country's imports from the US were valued at QR1.48bn or 14.8% of the total imports, China QR1.32bn (13.2%), Japan QR0.62bn (6.2%), India QR0.62bn (6.2%) and the UK QR0.59bn (5.9%) in the review period.

On a monthly basis, the country's imports from China dipped 11.57%, India by 6.05% and the US by 0.8%; while those from Japan zoomed 45.22% and the UK by 2.7% in May 2024.

On a yearly basis, Qatar's imports from the UK zoomed 160.09%, Japan by 51.21%, India by 17.61%, China by 17.41% and the US by 16.14% in the review period.

In May 2024, the 'Motor Cars and Other Motor Vehicles for The Transport of Persons' group was at the top of the imported group of commodities, with QR0.7bn, showing an annual increase of 65.3%.

In second place was "Electrical Apparatus for Line Telephony/Telegraphy, Telephone Sets Etc; Parts Thereof" with QR0.35bn, showing an increase of 51.1% on a yearly basis. In third place was "Parts of Aeroplanes or Helicopters" with QR0.29bn, enhancing by 43.4% on an annualised basis.

QSE maintains positive path throughout as index gains 135 points

By Santhosh V Perumal
Business Reporter

The Qatar Stock Exchange (QSE) maintained a positive path throughout, gaining as much as 135 points in index and more than QR8bn in capitalisation this week which saw the US Federal Reserve keep its reference rate unchanged.

The transport, telecom and banking counters witnessed higher than average demand as the 20-stock Qatar Index surged 1.41% this week which saw the Qatar Central Bank maintain status quo on its key rates, following the US monetary policy due to the fixed exchange rate parity.

The domestic institutions were seen net buyers but with lesser intensity tin the main bourse this week which saw Aljarah Holding disclose it plans to expand operations into Saudi Arabia.

The foreign funds' weakened net selling had its influence in the main market this week which saw Mesaieed Petrochemical Holding and Qatar Industrial Manufacturing join with QatarEnergy in a joint venture to establish QR1bn salt production plant.

The Gulf institutions' lower net profit booking had its say in the main bourse this

WEEKLY REVIEW

week which saw GIS shareholders approve its subsidiary Gulf Drilling International to buy the remaining 50% stake in Gulfdrill from the US-based Seadrill.

About 58% of the traded constituents extended gains in the main market this week which saw Mazaya Qatar disclose that it sold land in Dubai for QR24.3mn.

The foreign individuals' weakened net selling also had its say in the main bourse this week which saw soon to be listed Techno Q disclose its intention to be QR1bn turnover entity in five years.

The Arab individuals' lower net profit booking had its influence in the main market this week which saw a total of 0.08mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.17mn trade across 14 deals. However, the local retail investors were increasingly bearish in the main bourse which saw as many as 0.04mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.39mn change hands across 32 transactions.

The Islamic index was seen gaining slower than the other indices in the main market



The transport, telecom and banking counters witnessed higher than average demand as the 20-stock Qatar Index surged 1.41% this week

this week which saw the banks and industrials sectors together constitute more than 52% of the total trade volumes.

Market capitalisation shot up QR8.44bn or 1.53% to QR561.47bn on the back of large and midcap segments this week, which saw no trading of sovereign bonds.

Trade turnover and volumes were on the increase in the main market this week

which saw no trading of treasury bills. In the case of venture market, trade turnover and volumes were also on an expansion this week, which saw the QCB unveil its environment, social and governance (ESG) strategy.

The Total Return Index zoomed 1.41%, the All Share Index by 1.49% and the All Islamic Index by 0.39% this week. The transport sector index surged 3.61%, telecom (1.95%), banks and financial services (1.88%) and industrials (1.3%); while real estate declined 1.66%, consumer goods and services (0.64%) and insurance (0.6%) this week.

Major gainers in the main market included Widam Food, Nakilat, Gulf International Services, Qatari Investors Group, Qatari German Medical Devices, QNB, Zad Holding, Industries Qatar, Ooredoo and Qatari Investors Group. In the venture market, Al Mahhar Holding saw its shares appreciate in value this week.

Nevertheless, Qatar Cinema and Film Distribution, Qatar General Insurance and Re-insurance, Qamco, Qatar Oman Investment, Barwa, Ahlibank Qatar, Medicare Group, Salam International Investment, Meeza and Qatar Islamic Insurance were among the shakers in the main bourse this week.

The foreign institutions' net selling declined significantly to QR166.33mn

compared to QR234.32mn the week ended June 6.

The Gulf institutions' net profit booking shrank substantially to QR36.56mn against QR81.77mn the previous week.

The Arab retail investors' net selling weakened drastically to QR2.06mn compared to QR21.71mn a week ago.

The foreign individual investors' net selling fell noticeably to QR5.62mn against QR10.66mn the week ended June 6.

The Gulf individuals' net profit booking decreased perceptibly to QR2.11mn compared to QR5.34mn the previous week.

However, the local individuals' net selling strengthened markedly to QR85.99mn against QR48.32mn a week ago.

The domestic funds' net buying fell considerably to QR298.66mn compared to QR402.12mn the week ended June 6.

The Arab institutions had no major net exposure for the second straight week.

The main market witnessed 11% jump in trade volumes to 810.67mn shares and 1% in value to QR2.23bn but on less than 1% decline in deals to 78,100 this week.

In the venture market, trade volumes more than doubled to 0.69mn equities and value also more than doubled to QR1.11mn on more than doubled transactions to 109.

US refining margins slump as fuel stocks climb

By John Kemp
London

US oil refineries have been processing petroleum at the fastest rate for the time of year since before the pandemic, but rising fuel inventories have begun to weigh on crack spreads and likely signal a slowdown ahead. Refineries processed 17.5mn barrels per day (bpd) of crude and other feedstocks over the week ending on June 7, the fastest seasonal rate since 2018, according to data from the US Energy Information Administration (EIA). Refineries were employing 95% of their operable capacity, up 94% last year, and the highest percentage since 2019, weekly data from the EIA show. But intensive processing is producing more gasoline and diesel than is being used domestically and exported – resulting in a persistent accumulation of stocks. Gasoline inventories had climbed to 234mn barrels on June 7 compared with 221mn barrels in 2023 and 218mn in 2022. Stocks were 1mn barrels (+1% or +0.10 standard deviations) above the prior 10-year seasonal average, erasing a deficit

of 6mn barrels (-3% or -0.87 standard deviations) two months earlier. Distillate inventories had climbed to 123mn barrels compared with 114mn in 2023 and just 110mn in 2022. Distillate stocks were still 10mn barrels (-8% or -0.50 standard deviations) below the 10-year average but the deficit had narrowed from 18mn barrels (-13% or -1.09 standard deviations) at the start of March. Refineries have been responding to relatively high refining margins but the accumulation of stocks has now undermined them and likely indicates less frenetic processing in the weeks ahead. The gross margin from turning 3 barrels of crude into 2 barrels of gasoline and 1 barrel of diesel, known as the 3-2-1 crack spread, has averaged \$24 per barrel so far in June down from \$31 in March. The inflation-adjusted 3-2-1 crack spread is now exactly in line with the average for the 10 years before the pandemic, indicating the fuel market is comfortably supplied. The Atlantic hurricane season which runs from June to November is expected to be more active than normal in 2024 as result of conditions across the Atlantic and Pacific oceans. In the Atlantic, sea surface temperatures are already warmer than normal for the

time of year, creating conditions for a greater number of more intense tropical storms, including severe hurricanes. In the Pacific, El Nino has already faded and forecasters expect La Nina conditions to form over the second half of the year, which will also promote a more active Atlantic hurricane season. Even so, the risk of major disruption to the major refineries on the coast of Texas and Louisiana, where almost half of the country's processing capacity is located, remains low in absolute terms. But the forecast of an active hurricane seasons means it will be relatively higher than usual, especially around the most intense part of the storm season in August and September. Other things being equal, the market needs to carry slightly higher inventories to offset the increased risk of refinery disruptions. But inventories cannot continue building at the recent rate without putting further downward pressure on margins and prices. Hedge funds and other money managers have already anticipated fuel markets will be oversupplied, selling futures and options equivalent to 52mn barrels of gasoline and 13mn barrels of diesel over the last eight weeks.

In gasoline, the net position was cut to just 33mn barrels (24th percentile for all weeks since 2013) on June 4 from 85mn barrels (88th percentile) on April 9. In diesel, the fund position had been transformed into a net short of 4mn barrels (24th percentile) from a long of 9mn (41st percentile). Fund sales have likely anticipated, accelerated and amplified the downward pressure on refinery margins over the last two months. Weaker margins will likely cause refineries to pull back slightly over the early part of the summer limiting the eventual inventory build. Fuel consumption in the US and the rest of the world has so far increased by much less than expected in the second quarter which has contributed to the pull back in petroleum prices. Opec is forecasting much stronger growth in the third quarter to draw down oil inventories, boost prices and enable producers to increase output starting from the fourth quarter. But there are no indications of a big increase in fuel consumption yet, which is contributing to the downward slide in prices and spreads.

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

US policy group calls for stronger protection against Chinese imports

Reuters
Washington

A policy group led by the United Steelworkers union and domestic manufacturers is calling for the US to enact stronger trade barriers to Chinese imports after President Joe Biden imposed steep tariffs on Chinese electric vehicles, solar panels and other strategic goods.

The Alliance for American Manufacturing (AAM) yesterday published a report on China's excess industrial capacity that echoes concerns raised by the Biden administration and US allies in recent months, saying quick action was needed to stem a rising tide of cheap and subsidized exports that threatens US jobs.

The group called for the return of a long-expired import surge protection tool that was created when Beijing joined the World Trade Organization in 2001, the event that turned China into a global export powerhouse.

The so-called Section 421 safeguard was designed to allow the US to impose temporary tariffs to ease market disruptions caused by surges of imports from China's low-cost manufacturing base that was welcomed into the global trading system 23 years ago. The idea was to give domestic industries some breathing room as China transitioned to a market economy with a more level playing field – a transition that never came.

Section 421 was invoked only once, in 2009 by then-President Barack Obama, at the request of the United Steelworkers, whose members were being laid off by US tire plants hit by a flood of Chinese imports. The action temporarily raised the tariff rate on Chinese tires to up to 35% from the 4% WTO rate, but Section 421 expired in 2013.

With new import surges threatened in new industries including EVs, solar and semiconductors, as well as continuing surges in older sectors such as steel, glass and tires, Section 421 should be revived and modernized, AAM said.

"Beijing has failed to abide by its WTO commitments and remains a non-market economy," AAM said in the report. "It's state-driven support for critical sectors is causing massive overcapacity and threatens import surges in the US, necessitating the reinstatement of the Section 421 tool," AAM said in the report.

It called for changes to allow such duties on Chinese import surges from plants in third countries, such as Mexico or Vietnam and a faster process to impose the tariffs before permanent damage to US output is done. It also said the relief options should be broader and longer in duration.

The report laid out job losses and plant closures in the US paper, glass, steel and tire industries caused by Chinese imports, and said that the US needs a more proactive approach to avoid a repeat in newer sectors. Excess capacity is a "feature, not a bug" of China's state-driven economic model, it said.

The recommendations were published as leaders of the Group of Seven industrial democracies met in southern Italy, where Biden is pressing his administration's case for the G7 to present a "wall of opposition" to China's industrial policies and subsidies.

It also follows this week's decision by European Union officials to impose punitive tariffs of 17.4% to 38.1% on Chinese EVs to combat a finding of excessive government subsidies for the sector.

AAM President Scott Paul said he was encouraged by the US and EU tariff actions, calling Biden's move a watershed moment to get out in front of China's overcapacity at a time when Washington is investing heavily in a new energy transition.

Fed diverges from global peers in new era of higher for longer

Bloomberg
Washington

The Federal Reserve's move to signal fewer interest-rate cuts this year deepens its divergence from peers who have already begun to ease.

The message from the Fed was two-fold: Not only are officials now only anticipating one rate cut this year, compared to the three they projected as recently as March, but they also see its easing cycle bottoming out at a higher level than previously expected, underscoring the era of higher rates is set to stay.

That's in contrast with the Bank of Canada, which lowered its benchmark overnight rate by 25 basis points to 4.75% last week, making it the first Group of Seven central bank to kick off an easing cycle. The European Central Bank (ECB) soon followed, lowering its key rate by 25 basis points to 3.75%, while the Swiss National Bank made its move to cut in March.

For the world economy, divergence from the Fed matters. Higher US interest rates stoke dollar strength and will continue to lure foreign capital away from rival economies, especially emerging ones.

The Fed staying on hold raises questions around harmful foreign-exchange volatility and risks undermining progress on getting inflation down, according to analysis by Bloomberg Economics.

"The overall theme for western, developed economies is that we're on the road to cuts but it won't all happen at once," said Kristina Hooper, chief global market strategist at Invesco. "The Fed is not in the lead this time. Last week was historic in that we saw two G7 central banks cut rates, neither of which was



The Federal Reserve building in Washington, DC. The Fed's move to signal fewer interest-rate cuts this year deepens its divergence from peers who have already begun to ease.

the Fed." Fed Chairman Jerome Powell did little on Wednesday to encourage bets on a near-term rate cut.

"We've stated that we do not expect it will be appropriate to reduce the target range for the federal funds rate until we have gained greater confidence that inflation is moving sustainably toward 2%," Powell told reporters after keeping policy on hold. "So far this year, the data have not given us that greater confidence."

Policymakers see scope for different paths ahead, suggesting there's space for divergence before it crosses a threshold that would fuel market volatility.

"There are limits to that divergence in interest rates, but we're not close to that limit," Bank of Canada Governor Tiff Macklem said on a panel discussion in

Montreal on Wednesday. Such a split is only set to bolster the prevailing trend that has grabbed hold of currency markets in 2024: The high relative yields on offer in the US make investing in American assets – and by proxy the dollar – too good to pass up.

"Powell's signalling that the Fed might hold rates higher for longer prompts questions about how much other major central banks can move forward with rate cuts without stoking harmful exchange-rate volatility and risk undermining progress in getting inflation down.

Scenario analysis based on our in-house SHOK model provides answers. Taking the euro as an example, depreciation is likely to have only a small impact on imported inflation. That alone won't move the dial on ECB

policy, though our model shows it remains a channel to watch," says Simona Delle Chiaie, economist.

Save for Japan, gains have been pronounced against those economies where benchmark rates have since been cut this year. The euro is down more than 2% versus the greenback, the Canadian dollar and Swedish krona more than 3% weaker, and the Swiss franc is lower by almost 6%.

The yen weakened in Asian trading yesterday after the Bank of Japan decided to stay put on monetary policy and said it would specify the plan for bond purchases at its next meeting. The decision spurred selling of the yen as investors were primed to expect details on cuts to debt buying.

A recent study by Bank of America currency strategists Howard Du and Vadim Iaralov found that this year's dollar buying – prompted by the relative yield and growth advantage in the US – has largely taken place outside of US hours and been led by investors in Europe and Asia.

"You have a central bank dynamic where the Fed relative to most other global central banks is perceived to be more hawkish," said Nathan Thooft, of Manulife Investment Management. "Eventually the Fed will begin a cutting cycle like everyone else, but our relative rates are starting at a higher level and we're starting later."

Even if the Fed does cut, the moves will likely be limited given that pockets of inflation remain sticky and well above the 2% target, said Jerome Haegeli, chief economist at Swiss Re, who previously worked at Switzerland's central bank.

"What the market's short-term thinking misses is the fact that the Fed is likely to cut by much less than what was previously the norm," he said. "Higher-for-longer remains intact in the US and over time."

Traders see a high chance the Fed will lower rates in September after a key gauge of underlying inflation posted its smallest annual advance in more than three years. And in what may limit the divergence trend, there's no guarantee that the ECB or others will have scope to move further as policymakers warn that inflation remains a threat.

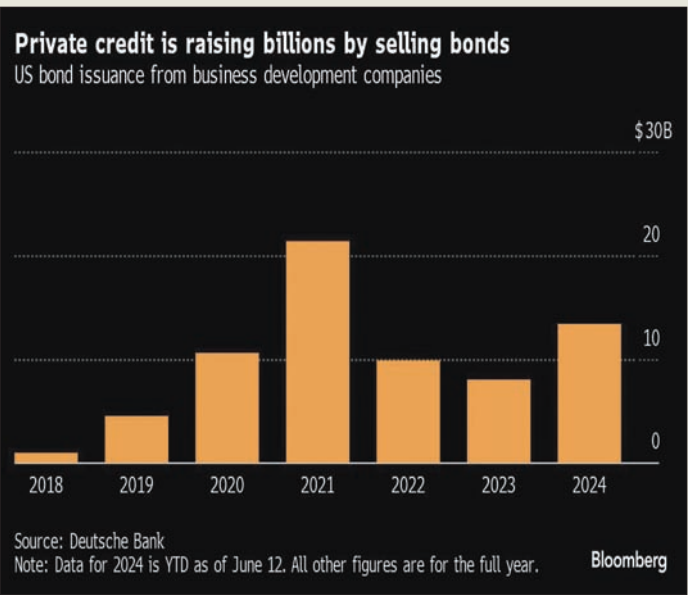
"Central banks on both sides of the Atlantic have to be even more stubborn than the inflation," ECB Governing Council member Joachim Nagel said at the same event as Macklem in Montreal. "This is a similarity that I see."

Private lenders storm public bond markets at record-setting pace

Bloomberg
New York

A group of private credit funds backed by firms like Blackstone Inc and Ares Management Corp have found a cheap place to raise money, at a time when they already have record levels of cash: The investment-grade corporate bond market. Private credit funds known as business development companies have raised over \$13.4bn in the US investment-grade bond market so far this year, according to data compiled by Deutsche Bank AG. That's already nearly double the \$8bn raised over the entire course of 2023, and the highest since 2021, when \$21.4bn was sold. The bond-selling spree has driven money into a market that already has plenty of liquidity. Private credit funds have a record amount of dry powder to invest – around \$500bn. And the opportunities for putting that money to work are increasingly limited, partly because the leveraged buyouts that are often financed by private

credit have been drying up. But in the investment-grade corporate bond market, investors are largely shrugging off these risks, underscoring how intense demand is for notes carrying relatively high credit ratings. BDCs are now finding cheaper financing in the unsecured corporate bond market than in the secured market, in some instances. Last month, Blackstone's Secured Lending Fund borrowed \$400mn of unsecured high-grade notes at 145 basis points over the benchmark. By contrast, most of its outstanding senior secured funding facilities have higher rates than this, a Bloomberg News analysis of regulatory filings shows. "When you can get cheaper financing, you can also invest at cheaper rates," said Logan Nicholson, a managing director at Blue Owl Capital Inc. "With base rates where they are, returns are still attractive. This helps us remain competitive for the deals that are out there, as spreads come in." Private loans have recently paid spreads of between 475 basis points and 550 basis points



over US benchmarks, at or near historical lows, data compiled by Bloomberg shows. Borrowing more cheaply for their own funds is one lever private credit firms can pull to partially mitigate any negative impact on returns.

In May, Ares Strategic Income Fund – which launched in April – raised \$700mn of five-year notes, while a Morgan Stanley fund borrowed \$350mn and Blue Owl Credit Income raised \$500mn of notes with the same maturity. Earlier this

week, HPS Corporate Lending Fund – known as HLEND – became the latest BDC to take advantage of attractive borrowing costs, selling \$400mn of five-year bonds. Conducive capital markets, fewer economic worries and the record amount of dry powder have all helped fuel double-digit growth in private credit markets, according to Bloomberg Intelligence analysts David Havens and Nick Beckwith. BDCs in particular have prepared by issuing bonds, building out credit curves and boosting liquidity, they noted. Refinancing needs are also growing for BDCs that first tapped the market a few years ago, according to Doug Conn, an investment-grade strategist at SMBC Nikko Securities America Inc. Though borrowing costs have gone up since as a result of the Federal Reserve's aggressive rate-hikes, he predicts that BDCs will continue to issue. Right now, BDC bond issuance is running 68% ahead of 2021's pace, estimates Josh Warren, co-head of FIG debt capital markets North America at Deutsche Bank. "The

sector is well positioned to set a new volume record," he said. BDCs were first created in 1980 by Congress to fuel job growth and boost lending to small and mid-sized American businesses. They typically raise equity from investors in order to issue loans to the middle-market firms that banks may deem too risky to lend to. Over the last few years, they've also started selling corporate bonds. A key feature of the vehicles is that they dole out most of their earnings to investors as dividends so they don't have to pay corporate income tax. To produce the desired investor returns and stay appropriately levered, the funds need to meet inflows of equity capital with debt, according to Warren. As the private credit market grows, issuers are becoming more familiar to investors, confidence around secondary market liquidity is rising, and it's also becoming easier to make relative value comparisons within the sector, said Brendan Murphy, head of US investment grade syndicate at Deutsche Bank.

Bank of Japan to scale down bond-buying programme

AFP
Tokyo

The Bank of Japan (BoJ) yesterday said it would trim its vast hoard of government bonds as it cautiously steps away from its long-running ultra-loose monetary policy.

The central bank kept interest rates unchanged after a two-day meeting but announced plans to “reduce its purchase amount of JGBs (Japanese Government Bonds) thereafter to ensure that long-term interest rates would be formed more freely”.

“A detailed plan” for the reduction “during the next one to two years or so” will be decided at the next policy meeting in July, it said.

While the move had been widely expected, observers said the decision to defer action until next month weighed on the yen, pushing it above 158 per dollar, from around 157.20.

The BoJ raised rates in March for the first time since 2007 as it seeks to normalise policy without destabilising the world’s fourth-largest economy.

While the central bank did not adjust rates yesterday, governor Kazuo Ueda said it was “possible” that the BoJ could hike them in July “based on data on the economy and prices and other information available by then”.

Yesterday’s move marks another step away from more than two decades of quantitative easing designed to banish stagnation and harmful deflation.

Each month, the BoJ targets monthly government bond purchases of around 6tn yen (\$38bn) to pump liquidity into the system and keep borrowing costs down.

The scale of the BoJ’s total assets is enormous – larger than the country’s gross domestic product – and the bank holds more than half the value of all JGBs in circulation.



Bank of Japan governor Kazuo Ueda speaks during a press conference after a two-day monetary policy meeting at the BoJ headquarters in Tokyo. The BoJ kept its ultra-low interest rates unchanged yesterday.

Cutting back on bonds has been on the cards for months.

Policymaker opinion cited in the minutes of the BoJ’s April meeting said the bank should indicate an intention to do so because it “needs to reduce the size of its balance sheet”.

Ueda told reporters that “the size of the reduction will be of an appropriate scale” under a “solid” and transparent plan.

Other central banks have aggressively hiked interest rates to tackle soaring inflation in recent years.

But the BoJ has largely stuck to its easy-money policies – culminating in the Japanese currency hitting a 34-year low in April that

led authorities to step into forex markets.

“Changes in foreign currency exchange rates are having more impact on prices than in the past,” Ueda said.

The BoJ wants to see demand-driven inflation of 2%, fuelled by wage increases.

Japanese inflation has been above the target since April 2022, but analysts question to what extent this is caused by temporary factors such as the war in Ukraine.

The bank said factors including accommodative financial conditions were behind the gradual intensification of “a virtuous cycle from income to spending”.

But “there remain high uncer-

tainties surrounding Japan’s economic activity and prices”, it said.

As well as calling time on its outlier negative-rate policy in March, the bank has stepped away from other unorthodox policies including its yield curve control programme, which allowed bonds to move in a tight band.

“With inflation remaining somewhat sticky... a further rate hike in July or September is likely” although “the timetable for that may remain unclear”, said Katsutoshi Inadome, senior strategist at SuMi TRUST.

The benchmark Nikkei index surged 0.7% after the BoJ announcement, before closing 0.2% higher.

Asian consumer demand for gold seen staying strong this year

Bloomberg
Mumbai

Asian retail gold buyers are still keen to purchase more of the precious metal even as prices hover at elevated levels, with geopolitical and macroeconomic uncertainties driving their interest.

Attendees at a precious metals conference in Singapore this week were enthusiastic about bullion’s prospects, seeing demand across the region staying strong. That’s even after a record-setting rally that’s spurred a 16% jump since mid-February, taking prices to above \$2,300 an ounce.

“The change in sentiment has brought obviously new higher prices – and that brought people back in,” Rhona O’Connell, head of market analysis at StoneX Financial Ltd, said on the sidelines of the conference.

But “it’s not just a reaction to price, it’s a reaction to what has driven the price in the first place, which is uncertainty and the concept of risk.”

With more than 40 countries holding elections this year, political risk was a major theme at the Asia Pacific Precious Metals Conference. Anxiety over the worsening state of major economies, particularly China, and a slump in local currencies are also adding to gold’s appeal, even as it makes the metal more expensive for most buyers.

China remains the dominant retail market in Asia, and is challenging financial hubs like London and New York as the most important driver of prices. The metal has a long

history in China as a savings tool, and the country is the top consumer and leading producer. That’s now being juiced by turmoil in the local property and stock markets.

The Chinese market is “probably the biggest driving force in price discovery right now,” said London Bullion Market Association Chief Executive Officer Ruth Crowell.

The LBMA is growing its presence in Asia, where it has seen huge growth in new members including banks, traders and good delivery refiners, Crowell said.

Elsewhere in Asia, there were some softening of demand in India between March and April, but appetite has returned as jewellers see higher sales during the festival season compared to the previous year, according to the World Gold Council.

In smaller markets like Vietnam, demand is strong with consumption in the first half expected to expand 10% year-on-year, according to Huynh Trung Khanh, vice-chairman of the Vietnam Gold Traders Association.

In Japan, purchases are holding up even as the weakening yen makes bullion considerably more expensive for buyers there. “We are seeing selling of course, but more buying, at that historical high level,” said Bruce Ikemizu, chief director at the Japanese Bullion Market Association.

Supply from scrap metal in the region has also tightened – which is unusual in this elevated price environment and is a “clear illustration that consumers don’t want to get rid of their gold,” said Nikos Kavalis, managing director at consultancy Metals Focus Ltd.

Yen drops and Nikkei rises as BoJ delays tightening

AFP
Hong Kong

The yen fell and Tokyo stocks rose yesterday after the Bank of Japan (BoJ) deferred a plan to cut back its bond purchases as it cautiously moves away from its ultra-loose monetary policy. Stock markets had a mixed reaction to the decision, with investors also contemplating the outlook for US interest rates as data indicated inflation on a downward trajectory, even as the Federal Reserve lowered its outlook for how many cuts it would make this year.

The Bank of Japan, as expected, said it would pare its bond-buying activities – put in place to keep borrowing rates down to boost the economy – but added that it would make a final decision on the plan at its July meeting.

The BoJ has been considering its next

move to normalise monetary policy after years of keeping borrowing costs at minuscule levels, most notably by lifting interest rates out of negative territory in March – the first hike in 17 years.

Officials did not lift rates yesterday but the reduction of bond holdings – known as quantitative tightening – had been seen as the next move, with the weakness of the yen also playing a role in discussions.

However, traders had expected it to begin winding down its purchases immediately and were left disappointed by the announcement.

The news sent the yen down to more than 158 to the dollar, having been around 157.20 before the decision. But the prospect of lower borrowing costs lifted the Nikkei stock index.

The unit has been under continued pressure against the greenback owing to the bank’s refusal to move from its ultra-loose policy, even as other central banks

hold rates at multi-year highs. That saw it hit a 34-year low of more than 160 per dollar, prompting Japanese authorities to step into forex markets to provide support.

“The market is definitely not taking it as a step in the right direction, judging from the immediate reaction in the yen,” said Andrew Jackson of Ortus Advisors.

“I don’t think there was too much expectation priced in for this, but it’s pretty obvious that they need to be cutting back on their JGB purchases faster than they are signalling to the market.

“If they don’t do this, and continue with currency intervention, it’s a huge, unnecessary waste of money.”

Equity traders had been keeping a close eye on the announcement as any tightening would lift Japanese yields and push up rates, making assets more attractive to anyone looking for better returns.

In other markets, Hong Kong, Sydney, Singapore, Wellington, Manila, Bangkok

and Jakarta all fell, though there were gains in Shanghai, Seoul, Taipei and Mumbai. The BoJ announcement comes after the Fed this week lowered its forecasts for interest rates this year to one, from three predicted in March.

But while decision-makers see borrowing costs being higher in January than previously thought, analysts said optimism that prices were being brought under control provided some support. Markets are looking at two cuts before January.

The latest sign that was the case came on Thursday, with news that the producer price index had dropped in May, reversing a rise the month before and confounding expectations for a small increase.

Several categories the Fed uses to calculate its favoured inflation gauge, the personal consumption expenditures price index, also softened.

“The latest data in hand nudges the door a little wider open for the Fed to begin

making an interest rate cut later this year,” Comerica Bank’s Bill Adams said. Comerica sees the Fed cutting in September and December.

The euro remained under pressure as investors nervously awaited the snap French polls at the end of this month and the start of July, called by President Emmanuel Macron after his party lost to the far-right in last weekend’s EU elections.

The move has sparked a period of political uncertainty in Europe’s second-biggest economy and came as other leading nations come to terms with the vote that saw a shift away from the centre across the bloc.

Paris stocks fell at the open, while London and Frankfurt rose.

In Tokyo, the Nikkei 225 closed up 0.2% to 38,814.56 points; Hong Kong – Hang Seng Index ended down 0.6% to 18,008.35 points and Shanghai – Composite closed up 0.1% to 3,032.63 points yesterday.

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Russia boosts oil revenues as shipping, trading network grows

Reuters
London/New Delhi

Russian oil exporters are charging more for their oil in major market India than at any time since the war in Ukraine started as a growing number of shippers and intermediaries take part in the trade, weakening the impact of Western sanctions on Moscow. The exporters have had to offer deep discounts to encourage shipping companies and traders to move their crude and brave the risk of sanctions since Russia's full-scale invasion of Ukraine in February 2022. Among the restrictions, the US and European Union imposed a price cap of \$60 per barrel on Russian oil sales, meaning Western shippers and insurers can only participate in Russian oil trade if the oil is sold below the price limit. Russian exporters have struck deals this month to sell their flagship Urals oil for delivery to Indian refiners at discounts of \$3-3.50 per barrel to the global Brent crude benchmark, according to five traders

and Indian refining officials. That is the narrowest discount for Urals since Reuters started monitoring Russian oil prices in India in early 2023, when the discount was as high as \$20 per barrel. It suggests deals above the price cap, as Brent is trading about \$82 per barrel, although that also depends on freight costs. The shrinking discount shows Russia's success in finding new buyers for its oil. India has no sanctions against Moscow and became the biggest buyer of Russian seaborne crude ahead of China and Türkiye after European refiners stopped imports. It also reflects an increase in shippers carrying Russian oil. "You're seeing greater numbers of ships that have found ways to circumvent sanctions by operating outside Western jurisdiction," said Michelle Wiese Bockmann, principal analyst with maritime data group Lloyd's List Intelligence. Over 630 tankers — some of them older than 20 years — are currently involved in shipping Russian oil, as well as sanctioned Iranian crude, according to Lloyd's List Intelligence.

The operators are largely based in China and the United Arab Emirates, the data group says, and account for about 14.5% of the overall global tanker fleet. Before the Ukraine war, this so-called shadow tanker fleet totalled around 280-300 vessels, according to Lloyd's List Intelligence. The price cap initially created a shortage of ships for Russian oil sales to India and China, with freight rates reaching up to \$20mn per tanker per one way voyage, according to traders. But freight costs for shipping Russian oil to India have declined to about \$5-5.5mn in June, getting close to pre-war levels, they say. Lower freight costs mean Russian oil companies earn more from the sales. This drop comes even after US sanctions on Russian shipping group Sovcomflot cut 15 tankers from Moscow's fleet. The result is that Russian exporters have been able to charge higher prices. So far this year, the price of Urals oil at Baltic ports has averaged \$69.4 per barrel compared with \$54.8 in the same period of 2023, according to LSEG data. Russia's Energy Ministry didn't

immediately respond to a Reuters request for comment. Russian oil exporters and the Kremlin treasury are still receiving less than they would have done before the war started. Though Russian oil doesn't trade in Europe, a theoretic assessment currently values Urals crude at around minus \$10 per barrel versus the "dated Brent" benchmark. Before the war, it usually traded in Europe at plus or minus \$1-2 per barrel. Western powers say sanctions have deprived Russia of at least \$100bn in lost oil revenues on top of the confiscation of \$280bn in central bank assets, according to estimates from a Group of Seven (G7) member, seen by Reuters. Sanctions have also led to deep losses at Gazprom after the EU sharply cut imports from the Russian gas monopoly. US officials say they are committed to making it more expensive for Russia to sell oil via the shadow fleet. Western officials estimate Russia has spent at least \$8bn on boosting its shadow fleet. "Russia has and continues to invest billions in new shipping infrastructure, including

new vessels, to operate outside the price cap's regime. The money going to tankers otherwise would have gone to tanks," a US Treasury spokesperson said. Tightening sanctions on Russia has been a key topic for G7 leaders meeting in Italy this week. Even with a narrower discount, Russian crude is still cheaper for Indian refiners than competing supplies from countries such as Saudi Arabia. Indian purchases of Russian oil reached a nine-month high in April, ship tracking data showed. India is the second largest importer of oil in the world after China. "We are taking as much Russian oil as we can to save on import cost", said a source with an Indian refiner, who asked not to be named as he is not allowed to speak to the media. Indian Prime Minister Narendra Modi has promised to bolster energy ties with Russia. Chinese authorities have also promised closer partnership with Moscow and said energy co-operation will grow in the face of rising tensions with the West.



Commuters pass the Bank of England building in the City of London. Any lingering hopes Prime Minister Rishi Sunak might still have for a pre-election interest rate cut will probably be dashed next week, when the BoE looks set to signal that lower borrowing costs await Britain's next government instead.

BoE set to bury Sunak’s interest rate cut hopes

Reuters
London

Any lingering hopes Prime Minister Rishi Sunak might still have for a pre-election interest rate cut will probably be dashed next week, when the Bank of England (BoE) looks set to signal that lower borrowing costs await Britain's next government instead. The BoE has been inching towards a first reduction in rates since the start of the coronavirus pandemic more than four years ago, encouraging Sunak to tell voters still feeling the effects of the cost-of-living squeeze that a turning point is coming. Unfortunately for Sunak and his struggling Conservative Party, Britain's inflation pressures still appear too hot for the BoE to cut rates at its June 20 meeting — the last before the election — and join other central banks that have done so. A Reuters poll published on Wednesday showed 63 of 65

economists thought a first cut would not come until August 1. Most also expected another reduction before the end of the year. Two analysts expect the first move by the BoE to come in September. None saw a cut on Thursday, after the BoE's June meeting. "They can afford to wait," Peter Dixon, head of EMEA country research with Fitch Solutions, said. "The ECB has acted but globally the environment suggests the Bank can wait a little longer. Six weeks isn't going to hurt." On Wednesday, the US Federal Reserve pushed out the start of its rate cuts to possibly as late as December. The approach of Britain's July 4 election has prevented BoE policymakers from dropping fresh hints about what they are likely to do next week. Governor Andrew Bailey and his colleagues cancelled all public events when Sunak called the election on May 22. Cutting borrowing costs in the run-up to the ballot might be seen as politically risky but it would not be without precedent: In May

2001 the BoE did so less than a month before voters went to the polls, part of a string of rate cuts that year. However, recent economic data suggests the BoE will not be facing a pre-election dilemma next week. While headline inflation has tumbled to close to the BoE's 2% target, it was much higher than expected in the key services sector in April, and 6% wage growth in May remained roughly double the level consistent with the target. Inflation data for May, which is due next Wednesday, only a day before the BoE announces its rates, is unlikely to significantly alter the picture. Only two of the Monetary Policy Committee's nine members voted for a rate cut at their last meeting in May. Bailey — among the seven-strong majority who backed no change — said at the time that a change in policy in June was "neither ruled out nor a fait accompli". But that was before April's strong inflation figures. Further-

more, Britain's economy started 2024 on a stronger footing than in the second half of 2023 when it went into a shallow recession, weakening the case for urgent support. Analysts at Nomura said they expected another 7-2 vote in favour of keeping Bank Rate at its 16-year high of 5.25% next week but saw a chance that Deputy Governor Dave Ramsden might rejoin the majority in an 8-1 decision against a cut. Unlike in past elections, the outcome of the July 4 vote does not seem to have major immediate implications for the BoE. The main opposition Labour Party, which is way ahead in the polls, on Thursday set out its policy manifesto with a promise to stick to budget rules similar to those of the Conservatives and maintain the BoE's 2% inflation target. "Nothing is going to frighten the horses in the short term," Dixon said. "I think it would be a relatively smooth handover from a monetary perspective."

Mubadala proposal to sell fintech Wefox opposed by founders

Bloomberg
Abu Dhabi

Mubadala Investment Co has proposed selling troubled insurance tech startup Wefox Holding AG to UK insurance broker Ardonagh Group Ltd in a deal opposed by the German firm's founders. The Abu Dhabi sovereign wealth fund has told Wefox shareholders it expects an offer from Ardonagh that would give the German firm an enterprise value of as much as €550mn (\$595mn), according to a presentation from Mubadala that was seen by Bloomberg. Wefox was valued at \$4.5bn in a Mubadala-led funding round two years ago. The Berlin-based company lost more than €100mn last year and is now facing as much as €70mn in fresh capital needs through the end of the current year, according to the Mubadala presentation, which was addressed to the company's key shareholders including Chrysalis Investments and Target Global. Mubadala, which has \$300bn in assets under management, has become increasingly assertive in some of the startups it funded when low rates helped fuel a boom in venture capital investments. At Turkish grocery delivery business Getir, where it is also the biggest investor, Mubadala pushed for changes to the board and a revamp of its strategy earlier this year. Wefox's founders and some early investors oppose the deal as it would put them at risk of losing their entire investment, according to people familiar with the situation. Instead of a sale, they're proposing a new funding round by existing investors, the people said, asking not to be identified because the talks are private. Chrysalis and Target support the alternative deal put forward by the Wefox founders, the people said. Chrysalis is working on a term sheet for a €50mn financing round, in which it would participate with €15mn, according to a separate presentation seen by Bloomberg. Representatives

for Mubadala, Wefox, Ardonagh, Target and Chrysalis declined to comment. The deal proposed by Mubadala would split Wefox, which operates in eight countries and has more than 2mn customers, into two. Ardonagh would take over the core of the company, potentially offering some benefits to investors if Ardonagh's shares gain value. A separate firm consisting of Wefox's tech platform and Swiss business would be set up and owned by early investors and shareholders. Ardonagh is partly owned by a subsidiary of the Abu Dhabi Investment Authority, the emirate's largest sovereign wealth fund. The plan would leave early shareholders at a significant risk of losing their entire investment unless the new company were to become very profitable. By contrast, investors that only joined Wefox through the 2022 funding round could end up getting paid out twice what they invested thanks to contractual clauses, known as liquidation preferences, that put them ahead of other shareholders in the pay-out order in the case of a sale. The proposals are likely to be discussed at an extraordinary meeting of Wefox's shareholders that's scheduled for June 28, according to the documents seen by Bloomberg. The re-election of Wefox Chief Executive Officer Mark Hartigan and board member Helen Heslop to the company's board of independent directors is also on the agenda - a move some investors claim violates a shareholder agreement, according to the documents seen by Bloomberg. In 2023, Wefox posted revenues of €739mn. Adjusted earnings before interest, taxes, depreciation and amortisation were a loss of €72mn, according to a company presentation seen by Bloomberg. In the first four months of 2024, revenues were up 33% versus the same period last year to €446mn, while the adjusted earnings loss improved to €17mn, according to the documents.

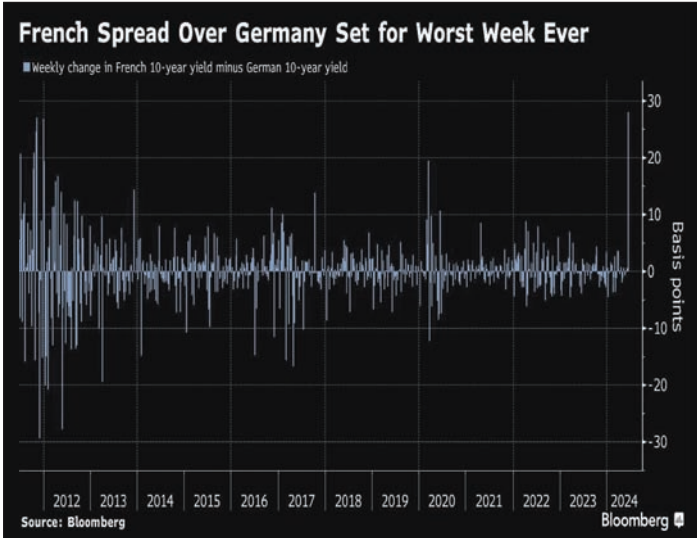
ECB officials see no cause for alarm over France’s market turmoil

Bloomberg
Frankfurt

European Central Bank (ECB) officials see no cause for alarm in the market turbulence that has engulfed France in the past few days, according to people with knowledge of the matter. Turmoil that put the spread between French and German 10-year bond yields on track for its biggest weekly jump on record and wiped \$200bn off the value of the country's stocks remains contained in the eyes of policymakers and no talks on crisis tools have even been considered as of Friday, said the people, who asked not to be identified because any deliberations are private. A spokesperson for the ECB declined to comment. The market gyrations erupted in the wake of President Emmanuel Macron's call for a snap parliamentary vote after his party's defeat to Marine Le Pen's Na-

tional Rally in the European elections. The market reaction hasn't been limited to France, with bond spreads of other euro-area members such as Italy also widening. For the ECB, any prospect of contagion could evoke memories of the region's sovereign debt crisis of the previous decade. The ECB would face a bind if turmoil were to spiral out of control and force them to consider using one of their crisis tools. The size of the eurozone's second-biggest economy could require intervention on a scale never attempted, and any action would be conditional on the compliance of an incoming administration. The last time officials had to resort to emergency measures was only two years ago, when the prospect that policymakers were about to start raising interest rates caused Italian yields to soar. Finance Minister Bruno Le Maire warned this week that a "debt crisis is possible" if Le Pen's nationalist party were to win, and

also cautioned that victory for a newly formed left-wing alliance could lead to France's exit from the European Union. Bank of France Governor Francois Villeroy de Galhau, meanwhile, said the next government must quickly clarify its economic policy. While the ECB has long been used to turmoil because of its experience of the sovereign debt crisis of the previous decade, its need for emergency action has become rarer. In June 2022, policymakers were very fast to act on Italy's bond crisis. Within days, President Christine Lagarde had convened a crisis meeting that she conducted from the basement of a London hotel to secure the agreement on a new crisis tool aimed at preventing fragmentation in the eurozone — the so-called Transmission Protection Instrument, TPI. The creation of that instrument and the existence of others may be one element of reassurance that allows policymakers to stay san-



guine and keep watching from the sidelines. But the recent turmoil led to increased discussions among investors and analysts about the conditions for possible activation of TPI, even if many are highly sceptical.

"If severe French fiscal mistakes trigger a blowout in yield spreads, the ECB could be reluctant to immediately use this instrument," Holger Schmieding, chief economist at Berenberg Bank, wrote this week in a note, arguing that

it would be "highly controversial" within the ECB and in European politics. Executive Board member Isabel Schnabel, who is in charge of market operations at the ECB, said in a speech about fiscal and monetary policy in early June — before the EU election and Macron's shock announcement — that TPI "is only used in countries that pursue sound and sustainable fiscal and macroeconomic policies." She highlighted that the central bank "cannot counter persistent tensions that are due to country fundamentals" with the instrument. Asked about the situation in France, Lagarde told reporters on Friday that she didn't want to comment on domestic political situations. "I will simply say that it is the duty of the European Central Bank to deliver on its mandate and to keep inflation under control and back to target that this is what we'll be doing," she said in Dubrovnik, Croatia.