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GULF TIMES BUSINESS



QSE extends bull run to 12th day as index gains 20 points

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CBDC is seen important priority for Gulf countries, says IMF blog

By **Santhosh V Perumal**
 Business Reporter



Close on the heels of Qatar laying the foundation for the central bank digital currency (CBDC) regime, an International Monetary Fund (IMF) blog has said CBDC appears to be an important priority for oil exporters and the Gulf countries.

Close on the heels of Qatar laying the foundation for the central bank digital currency (CBDC) regime, an International Monetary Fund (IMF) blog has said CBDC appears to be an important priority for oil exporters and the Gulf countries.

"CBDCs can potentially help improve the efficiency of cross-border payment services. This appears to be an important priority for oil exporters and the Gulf Co-operation Council (GCC) countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE," an IMF blog said, quoting a recent departmental paper 'Central Bank Digital Currencies in the Middle East and Central Asia.'

Reasoning for the priority, the report said it was because cross-border payments tend to have frictions like varying data formats and operating rules across regions and complex compliance checks. CBDCs that can address these inefficiencies could significantly cut transaction costs.

Some countries have already introduced cross-border technology platforms to address these issues and promote digital currency payments between countries, it said, highlighting the Buna cross-border payment system, created by the Arab Monetary Fund in 2020.

The IMF blog said almost two-thirds of countries in the Middle East and Central Asia are exploring adopting a CBDC as a way to promote financial inclusion and improve the efficiency of cross-border payments.

Many of the 19 countries currently exploring a CBDC are at the research stage. Bahrain, Georgia, Saudi Arabia, and the UAE have moved to the more advanced "proof-of-concept" stage. Kazakhstan is the most advanced after two pilot programmes for the digital tinge.

The Qatar Central Bank recently said it has developed the infrastructure for the CBDC project, which will enter its first experimental phase extending to October 2024.

It aims to achieve a set of primary objectives,

including leveraging artificial intelligence technologies, distributed ledger technology, and emerging technologies and establish a strong foundation to enhance liquidity by expanding participation in financial market facilities, considering the aspects related to information security during project implementation.

The IMF blog said CBDCs can advance financial inclusion by fostering competition in the payments market and allowing for transactions to be settled more directly and with less intermediation, in turn lowering the cost of financial services and making them more accessible.

Highlighting that deposits make up a large share of bank funding in the region, about 83%; it said because a CBDC may compete with bank deposits, it could weigh on bank profits and lending and have implications for financial stability. However, lenders in the region generally have adequate capital levels, profit margins, and liquidity buffers, and their relatively high concentration may limit strains on deposits, it said, adding large banks are especially dominant in the GCC countries.

In the GCC, financial systems are large, having grown in recent years thanks to buoyant economic activity fuelled by large hydrocarbon proceeds and abundant liquidity.

Dukhan Bank attains significant global security certifications

Dukhan Bank has attained the Payment Card Industry Data Security Standard (PCI DSS) version 4.0 and ISO/IEC 27001 certifications. These certifications mark "significant achievements" in the bank's commitment to ensuring the highest levels of data security and regulatory compliance, further establishing its role as a leader in the financial services industry. Dukhan Bank was awarded the PCI DSS version 4.0 certification by Network Intelligence. This certification is pivotal for banks handling sensitive payment card information, affirming that Dukhan Bank adheres to the most stringent security measures in processing, storing, and transmitting debit and credit card data. Dukhan Bank is now one of the few banks in Qatar to achieve this compliance, demonstrating its capability to protect consumer data against potential security threats and fraud. Dukhan Bank also received the ISO/IEC 27001 Certification from Shamkris Global, validating its systematic and robust approach to information security management.



This certification covers various aspects of information security governance and operations, ensuring the confidentiality, integrity, and availability of critical information assets. Both certifications offer Dukhan Bank and its customers numerous benefits, improving operational efficiency and strengthening its competitive edge. Aligned with the Qatar Central Bank directives and card scheme security standards, they ensure strict compliance with financial regulations, reducing the risk of data breaches and associated costs. These certifications also prepare the bank for global markets, supported by updated IT infrastructure and enhanced data security measures, which bolster customer trust and differentiate Dukhan Bank from non-compliant peers, aiding in customer acquisition and retention. Ahmed Hashem, acting group chief

executive officer, Dukhan Bank, said, "These certifications are a testament to our ongoing dedication to safeguarding our customers' data and enhancing our security frameworks. They underscore our proactive approach to addressing emerging cybersecurity challenges and our relentless pursuit of excellence in all facets of our operations. "By achieving these standards, we not only protect our customers but also solidify our reputation as a leader in the competitive banking landscape. This distinction is vital as it demonstrates to our clients and competitors alike that we prioritise the integrity and security of our banking services above all else." Dukhan Bank's latest achievements in securing PCI DSS and ISO/IEC 27001 certifications are pivotal components of its broader strategy to lead the Qatari banking sector through innovation and rigorous security standards. With extensive expertise in wealth management and a profound understanding of local and regional markets, the bank is ideally positioned to meet the sophisticated demands of its customer base.

Vodafone Qatar unveils series of digital solutions in collaboration with leading technology partners

Vodafone Qatar has taken a significant leap in driving digital transformation for large enterprises by hosting educational workshops that unveiled a series of digital solutions in collaboration with Microsoft and Crayon. These solutions are designed to empower businesses to navigate the digital landscape with confidence and agility. The workshops featured the introduction of 'Vodafone Calling', a cloud-based telephone system that is integrated with Microsoft Teams. This offering is set to revolutionise the way businesses communicate, providing a unified experience that enhances collaboration and productivity. Attendees had the chance to explore 'Microsoft Copilot' and the way it could benefit everyone in an organisation by harnessing the power of AI. Azure Cloud services from Microsoft were also presented, highlighting the role of Cloud in business innovation, scaling and enabling companies to leverage cloud computing, AI, and analytics for digital transformation. The potential of AI to transform various business operations was highlighted by Vodafone's partner Crayon. Specific real-life AI use-cases were presented that are poised to enable businesses to harness



Vodafone Qatar's collaboration with the industry leaders underscores its commitment to providing state-of-the-art digital solutions that cater to the evolving needs of large enterprises

data for strategic insights and enhanced decision-making. By addressing the critical security needs of enterprises in Qatar, Vodafone Qatar presented its new Cyber Security Solution, ensuring that enterprises are equipped with comprehensive monitoring and rapid response capabilities to safeguard against cyber threats. Vodafone Qatar's collaboration with these industry leaders underscores its commitment to providing state-of-the-art digital

solutions that cater to the evolving needs of large enterprises. Konstantinos Kiourkatiotis, head, Enterprise Marketing at Vodafone Qatar commented, "In order to further contribute to the digital transformation of Qatar, and in line with the Qatar National Vision 2030, we are proud to be collaborating with leading technology partners in this event to shed light on the latest-cutting edge technologies to support enterprises in the country."

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QNB wins four 'prestigious' awards at MEED's Banking Excellence MENA 2024

QNB, the largest financial institution in the Middle East and Africa, was honoured by the *Middle East Economic Digest (MEED)* magazine with four distinguished awards at the annual awards of "Banking Excellence in the Middle East and North Africa 2024". QNB topped the digital banking leaders list by winning the 'Excellence in Product Marketing', 'Excellence in Omni-Channel Integration', 'Best Digital Wallet' and the 'Best Private Bank' awards.

These awards come in recognition of the bank's latest enhancements on QNB Mobile and Internet Banking and QNB Pay Wallet, its distinguished digital marketing activities as well as its unwavering commitment to excellence in private banking services. In line with its digital transformation strategy, QNB has revamped its mobile and Internet banking, self-service machines and introduced QNB Pay Wallet by implementing a customer-

centric omni-channel approach. This makes transactions simpler, easier, and more secure. As part of broader efforts, QNB strives to provide the best customer experience and continues to develop innovative products and services, such as digital account opening, virtual cards, e-loans, Fawran (instant payments to anyone in Qatar), and cross-border payments via Ripple Net. The digital onboarding allows new

customers to open current and savings accounts and obtain a virtual debit card digitally without visiting a branch; while existing customers can also open a saving or fixed deposit account or create a virtual credit card, which caters to the advancing digital banking landscape in the region, and beyond. These efforts are supported by targeted and personalised digital marketing activities to engage current and prospective customers.

QNB Group currently ranks as the most valuable bank brand in the Middle East and Africa. Through its subsidiaries and associate companies, the Group extends to some 28 countries across three continents providing a comprehensive range of advance products and services. The total number of employees is 30,000 operating through 900 locations, with an ATM network of more than 5,000 machines.

Saudi Arabia dethrones China as top emerging market borrower

Bloomberg
London

Saudi Arabia has displaced China as the most prolific issuer of international debt among emerging markets, breaking Beijing's 12-year run at the top.

Data for new-bond sales by both governments and corporates this year reveal the kingdom is borrowing at a record pace as global debt investors begin to back Crown Prince's Mohamed bin Salman's Vision 2030 plan. Chinese borrowers, on the other hand, are witnessing a buying frenzy in local-currency bonds and have slowed international issuance to one of the slowest paces in recent years. Overtaking China is meaningful for Saudi Arabia – which has 1/16th of the Asian nation's the gross domestic product and the drive to become a global business hub by the end of the decade. The latest data suggest improving sentiment as Riyadh seeks funding for projects to diversify the economy from oil and position it as a link between Asia and Europe. Meanwhile, the rest of emerging markets are also witnessing a blockbuster

year for bond issuance, amid falling borrowing costs and a hunt for juicy yields.

"Sentiment for Saudi bonds is very healthy," said Apostolos Bantis, the Zurich-based managing director of fixed-income advisory at Union Bancaire Privee Ubp SA. "It's not a surprise that the Kingdom has become the largest EM bond issuer given its large funding needs for large infrastructure projects."

Bond sales from Saudi Arabian entities have increased 8% so far this year and exceeded \$33bn. The government accounts for more than half of this, including a \$5bn dollar-denominated sukuk deal last month. The kingdom is working to find alternative sources of funding to help cover an expected fiscal shortfall of about \$21bn this year. It expects total funding activities for the year to reach about \$37bn, to help accelerate Vision 2030. In fact, the country has turned to the bond market on such a scale partly because foreign direct investment has fallen short of its targets, while oil revenue has been cramped by supply cuts.

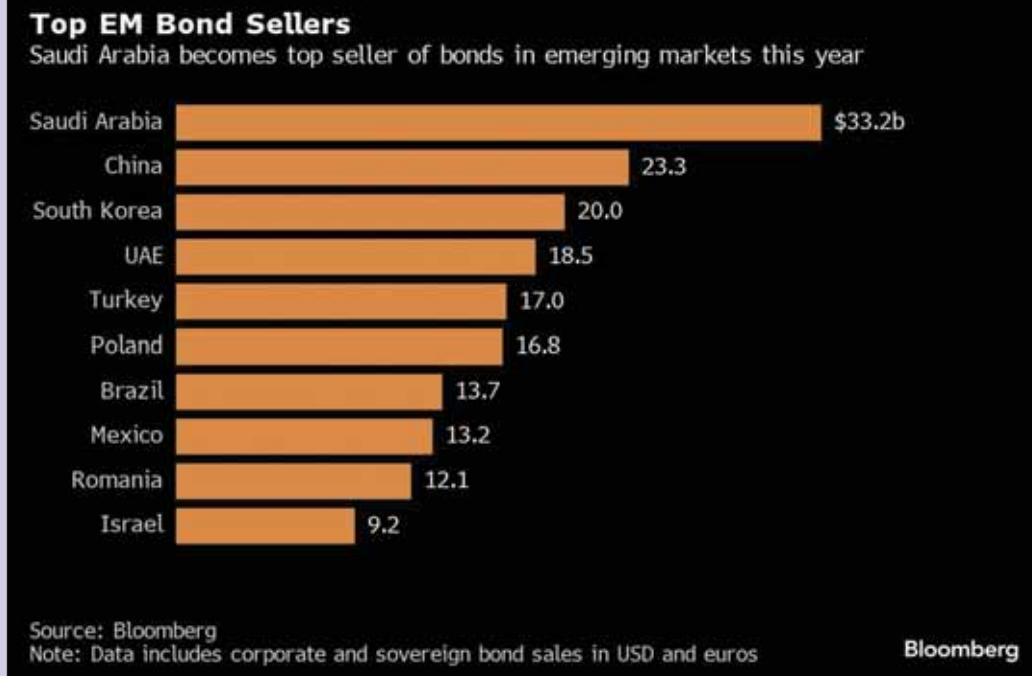
The nation's borrowing is already inviting caution from some money

managers. Barclays Plc downgraded Saudi Arabia's sovereign credit to underweight from market weight, citing "recurrent" bond issuance, lower oil prices and Middle East tensions.

"Saudi cannot keep up the current bond issuance pace for too long as that would start to have an impact on its fundamentals and cost of funding," said Bantis of UBP.

Overall, EM international bond sales have increased 28% from a year earlier to \$291bn, the highest for comparable periods since 2021. The extra yield investors demand to buy EM bonds – sovereign and corporate combined – rather than Treasuries is now about 266 basis points, below the five-year average of 336 basis points, according to a Bloomberg index.

Meanwhile, China Development Bank in Beijing and Chinese companies have together sold \$23.3bn of dollar- and euro-denominated bonds this year. That's a 68% drop from the country's average government and corporate-bond sales for this time for the year since 2019. China now accounts for only 8.1% of emerging-market borrowing, a far cry from 2017 when it accounted for one third



of all issuances with a \$224bn spree. Unlike the trend in dollar bonds, the country is witnessing unprecedented bond issuance in local-currency debt as borrowing costs tumble to record low.

QSE extends bull run to 12th day as index gains 20 points

By Santhosh V Perumal
Business Reporter

The Qatar Stock Exchange yesterday reopened after the Eid holidays, with a 20-point gain, thus extending the bullish run for the 12th straight session.

A higher than average demand, especially at the telecom, insurance and transport counters, led the 20-stock Qatar Index to settle 0.21% higher at 9,686.86 points, although it touched an intraday high of 9,712 points.

The Arab individual investors were seen net buyers in the main market, whose year-to-date losses truncated further to 10.56%.

The foreign institutions' weakened net selling pressure had its influence on the main bourse, whose capitalisation added QR1.24bn or 0.22% to QR562.71bn on the back of small cap segments.

The local retail investors' lower net profit booking had its say on the main market, which saw 0.07mn exchange traded funds (sponsored by Masraf Al Rayan) valued at QR0.14mn trade across 11 deals.

The domestic institutions continued to be net buyers but with lesser intensity in the main bourse, which saw no trading of sovereign bonds and treasury bills.

The Islamic index was seen outperforming the other indices in the main bourse, whose trade turnover and volumes were on the decrease.

The Total Return Index gained 0.21%, the All Share Index by 0.24% and the All Islamic Index by 0.57% in the main market.

The telecom sector index shot up 2.1%, insurance (1.94%), transport (0.53%), industrials (0.22%) and real estate (0.03%); while consumer goods and services shrank 0.33% and banks and financial services 0.02%.

Major movers included Milaha,



A higher than average demand, especially at the telecom, insurance and transport counters, led the 20-stock Qatar Index to settle 0.21% higher at 9,686.86 points, although it touched an intraday high of 9,712 points

Al Khaleej Takaful, Ooredoo, Qatar Insurance, QLM, Dukhan Bank, Qamco, Doha Insurance and Vodafone Qatar.

Nevertheless, Nakilat, Ahlibank Qatar, Qatari Investors Group, Commercial Bank and Djala were among the shakers in the main bourse.

The Arab individual investors turned net sellers to the extent of QR2.98mn against net buyers of QR1.1mn on June 13.

The foreign institutions' net selling declined substantial-

ly to QR37.06mn compared to QR72.88mn last Thursday.

The Qatari individuals' net selling weakened significantly to QR2.9mn against QR21.49mn the previous trading day.

The Gulf institutions' net profit booking decreased noticeably to QR0.5mn compared to QR5.38mn on June 13.

The foreign individual investors' net selling shrank markedly to QR1.27mn against QR5.35mn the last Thursday.

The Gulf individuals' net

profit booking eased perceptibly to QR0.29mn compared to QR2.36mn the previous trading day.

However, the domestic institutions' net buying waned drastically to QR39.04mn against QR108.55mn on June 13.

The Arab institutions had no major net exposure for the 12th straight session.

Trade volumes in the main market shrank 39% to 92.87mn shares, value by 37% to QR312.56mn and transactions by 27% to 13,526.

Egypt said to seek deferred payment in summer LNG tender

Reuters
London

Egypt is seeking large volumes of gas from global markets this summer with deferred payments of up to six months, terms that market sources said would narrow the list of bidders and increase premiums at a time of high competing demand from Asia.

The most populous Arab country had been setting itself up as a reliable LNG exporter to Europe in recent years, but dwindling natural gas supplies have forced Cairo to return to being a net importer of gas.

In a tender that closes on June 26, Egypt's Natural Gas Holding Company (EGAS) is seeking delivery of 17 LNG cargoes, seven in July, six in August and four in September on an ex-ship (DES) basis, trading sources told Reuters.

To secure the requested volumes, Egypt could eventually pay more than the average premium of between \$1 and \$2 per million British thermal unit (mmBtu) to the Dutch TTF hub gas price, the sources said.

"Any longer-term payment terms would warrant an additional premium," one source said.

Cairo has already paid a premium to the TTF price of between \$1.30 and \$1.70 per mmBtu for cargoes it bought earlier this year, S&P data showed.

Egypt's petroleum ministry did not respond immediately to a request for comment during the Eid holiday.

There is robust Asian demand for Atlantic volumes, which are also expected to be the main source of Egypt's supply, as the Bab al-Mandab strait remains effectively closed because of Middle East tensions.

"It is likely only Atlantic LNG supply would be competitive in this tender. But demand from Asia, particularly Japan, has been stronger in recent weeks than had been anticipated by many," said Samuel Good, head of LNG pricing at commodity pricing agency Argus.

"Any non-standard elements in the tender terms would further buoy this premium."

The Hoegh Galleon floating storage and regasification unit (FSRU), which arrived at Ain Sokhna port last week, is expected to handle 12 of the expected cargoes while five others will be received at the Aqaba port in Jordan, the sources said.

Several traders said they are giving the tender careful consideration. The tender is for Egypt's largest purchase in years and comes against a backdrop of concern over the country's credit risk and difficult economic situation.

Egypt's economic challenges and shortage of foreign currency has left the government with billions of dollars in receivables owed to major oil and gas companies, two other sources at major oil and gas companies told Reuters.

The government has recently resumed payments to some producers.

Bloomberg QuickTake Q&A

Why UK interest rates aren't falling as inflation tumbles

By Tom Rees

With UK inflation now back at the Bank of England's 2% target, homeowners struggling under the highest mortgage costs in four decades may be wondering why the bank hasn't begun to lower its key interest rate. One answer is that the bank is reluctant to make such a politically sensitive move during a general election campaign. Another reason lies in stubborn underlying pressures, particularly in the services sector, which is seeing rapid wage growth. After failing to predict the post-pandemic inflationary surge, bank officials are anxious not to repeat the mistake by cutting rates too early.

1. What's been happening to UK inflation?

It eased to 2.0% in May, its lowest since a cost of living crisis began to take hold almost three years ago. Inflation has been on a steady downward trend since late 2022 as global supply chain shocks and big jumps in energy and food prices work their way out of the system. However, the BoE is unsure whether trends in underlying price pressures will allow it to keep inflation at its target on a sustainable basis. Inflation in the services sector remained higher than expected, registering a 5.7% gain last month, higher than the

5.5% expected by economists. Forecasters suggest headline inflation will pick up to 2.4% by the end of the year, partly because of so-called second-round effects.

2. What are those?

An example of a second-round effect is when workers bid up wages to claw back losses to their incomes from a previous bout of inflation, fuelling further price rises. Right now in the UK, a persistently tight labour market is bolstering the bargaining power of workers. Unemployment is still low, and vacancies remain above levels seen before the pandemic. As a result, services price increases and wage growth – two of the central bank's most closely watched indicators – remain at levels that the BoE sees as "elevated." The pace of these indicators is seen as inconsistent with the central bank achieving its target in a lasting way.

3. What has the BoE done?

It's taken a cautious approach to unwinding the most aggressive monetary tightening in generations. The bank's benchmark lending rate is at a 16-year high of 5.25% after 14 back-to-back hikes to curb inflation. It paused its tightening cycle in September and has left policy on hold for the past six meetings. In February, the tone of its policy guidance to investors shifted, opening the door to interest rate cuts later this year. Since then, the

BoE's Monetary Policy Committee has prepared the markets for a first reduction in the summer. Two of the committee's nine members voted for lower borrowing costs in May. But the bank is expected to hold rates steady on June 20. The BoE says rates at their current level are bearing down on inflation and that policy will remain restrictive even after one or two quarter-point cuts.

4. What's the likely path of UK interest rates in 2024?

In previous rate-cutting phases – in 1998, 2001 and 2008 – the BoE was acting in a downturn to support growth. This time it's trying to keep a lid on prices during a tentative economic recovery. Official figures on May 10 showed the UK rebounding from a mild recession with the strongest quarterly growth since the end of the pandemic. The BoE has been taking a "Table Mountain" approach to getting inflation down in a lasting way. This means keeping rates high and level like the Cape Town mountain for a prolonged period to bear down on price pressures. The central bank appeared to reach the top of "Table Mountain" in September when it paused rates, and is now waiting for enough evidence of cooling wage and price pressures to justify rate cuts. BoE Chief Economist Huw Pill has said a summer rate cut is on the cards but there is "still some work to do."

Policymakers are eager not to cut too soon and risk having to tighten policy again, which would leave them open to accusations of inconsistency. They also want steady policy so businesses and consumers can plan for the future.

5. Why are UK homeowners sensitive to interest rate changes?

The vast majority of UK mortgage holders have fixed their interest rates for just two or five years, unlike in many other countries where 10-year and 30-year fixed mortgages are more common. It's still a better situation than in previous decades, when the majority of households were on variable-rate deals that exposed them immediately to any shift in interest rates. Still, lots of households are facing sharply higher repayments as their fixed-rate deals end and they need to negotiate new terms. This is deepening a housing affordability crisis linked to decades of underinvestment in new homes, and piling pressure on Prime Minister Rishi Sunak's Conservatives to ease the pain for home buyers. Mortgage costs leaped because of the BoE's rapid interest rate hikes and economic mismanagement during the brief term of office of Sunak's predecessor, Liz Truss. While the jump in borrowing rates associated with Truss's economic policies largely unwound, the Tories are still battling to restore their credibility to narrow a deep polling deficit against the Labour opposition.

France's dominance in European credit leaves market at vote's mercy

Bloomberg
Paris

President Emmanuel Macron's surprise election call last week has highlighted France's prominence in European credit markets. Whether it's blue-chip, junk bonds or collateralised loan obligations, euro-denominated credit markets have been battered after the French president's June 9 decision threw the country into political chaos. IHS Markit's crossover index of credit default swaps, a key indicator of European credit risk, had its biggest spike in well over a year last week, rising 42 basis points. The driver of this rout, in large part, is France. The nation's firms account for the biggest component in the main categories of the region's debt, so any damage in the Republic's corporate loans and bonds will drag the whole index down. Investors are worried that public spending

in France would spiral out of control if the poll-leading party of Macron's far-right rival, Marine Le Pen, gets to dominate parliament. French Finance Minister Bruno Le Maire warned that such a scenario would be reminiscent of former UK Prime Minister Liz Truss, whose expansionary policies upended markets and prompted a meltdown in sterling corporate bonds. Still, Le Pen's closest ally, Jordan Bardella, insists that the National Rally party would stabilise France's public finances. The French left-wing has also been making inroads, with an alliance of leftist parties pledging to pick apart Macron's seven years of reforms, setting the country on a potential collision course with the European Union over fiscal policy. "The current repricing is rational and cold-blooded," said Gilles Praderre, senior fixed income manager at RAM Active Investments. "What is very likely is that France public finances will continue to deteriorate.

The speed is unclear, the direction seems clear. The impact on the French economy is likely negative," he added. Engie SA, Emerica Sasu and Societe Generale SA were among those companies whose bonds were the hardest hit. Data compiled by Bloomberg shows that companies operating in France comprise 20% of a key index of euro-denominated investment grade debt and more than 18% of a euro high-yield index, the highest share by country in the latter case. In addition, French issuers have the biggest share in European CLOs, with around 19% exposure on average, according to Morgan Stanley strategists Vasundhara Goel and Samyuktha Gopal. The shock from the political decision hit all the harder because European credit had recently been on a tightening trend as investors piled into higher yielding debt. A euro high-yield index, for example, had tightened by 100 basis points to 323 basis points leading into last week's selloff. "French risk comprises nearly 20% of

both investment grade and high-yield markets in Europe and therefore had an outsized impact on spreads," said Mahesh Bhimalingam, chief European credit strategist at Bloomberg Intelligence. "Spreads were quite rich by early June and were not pricing any such external unknowns and were ripe for such a correction." He said he could see further pain if a far-right victory in the French election fuelled further concerns over fiscal loosening. While Le Pen's National Rally hasn't yet set out its policy proposals in detail, it has said it would slash sales taxes on fuel and energy at a cost of about €20bn (\$21bn) and pledged to take back control of energy policy from the EU. It has also promised to lower the retirement age to 60 and increase wages for some public servants. On the opposite end of the political spectrum, the leftist group similarly wants to undo the government's pension reform, raise the minimum wage and impose an

extra tax on the profits of certain industrial firms. French banks such as BNP Paribas SA, Societe Generale SA and Credit Agricole SA are especially vulnerable. As in other nations, they tend to be viewed as a proxy for the country's economy. They also have a hefty holding of government bonds that were hit hard in the recent selloff, though have recently rebounded. The cost of protection against defaults on the senior debt of some of the largest banks has jumped more than that of euro area peers since the election was called, according to data compiled by Bloomberg. "We believe financials could be under further pressure into the French general election," said Elisa Belgacem, a credit strategist at Generali Investments. She prefers exposure to non-financial high-grade companies, but cautions against utility issuers with close ties to the French state and renewables-focused firms. "The far-right is said to be hostile to renewable energy generation," she said.

ECB seen to cut rates in September, December; risks skewed towards fewer cuts

Reuters
Frankfurt

The European Central Bank (ECB) will cut its deposit rate twice more this year, in September and December, according to a significant majority of economists polled by Reuters who said the risks were skewed towards fewer rate cuts than expected.

That outlook was broadly unchanged from a survey conducted before the ECB delivered its widely telegraphed 25 basis point rate cut on June 6.

Improving business activity, strong wage data and still-sticky price pressures have increased uncertainties around the rationale for more cuts.

In an interview with Reuters, ECB Chief Economist Philip Lane said there was no "acute urgency" to lower interest rates if the economy continues to expand.

Still, a strong near-80% majority in the June 12-18 Reuters poll, 64 of 81, expected the ECB to cut twice more this year, in September and December, taking the deposit rate to 3.25%.

That was up from nearly two-thirds in May and just about half in an April survey. While 11 expected just one more reduction this year, six predicted three additional cuts.

ECB President Christine Lagarde repeated at the June press conference that the bank will "continue" to depend on economic data to guide policy decisions, despite the ECB having done everything but formally



The European Central Bank headquarters in Frankfurt. The ECB will cut its deposit rate twice more this year, in September and December, according to a significant majority of economists polled by Reuters who said the risks were skewed towards fewer rate cuts than expected.

pre-announce the June cut well in advance.

"Strictly speaking, the ECB's approach is not data-dependent in the sense that only the incoming data matter... We continue to expect further ECB rate cuts in September and December," said Greg Fuzesi, euro area economist at JPMorgan.

"Given the pick-up in GDP growth, there was room to wait for more data to clarify key aspects of the forecast. It is unclear if the same argument will be used again to justify another cut in September, i.e., that rates would still be restrictive even after a second cut." Financial markets,

which until recently were priced for one more cut this year, have started pricing in two reductions just in the past few days, in part related to turmoil in French bond markets following President Emmanuel Macron's decision to call snap parliamentary elections starting later this month.

Inflation, which rose to 2.6% last month from 2.4% in April, will not reach the ECB's 2% target until Q2-2025, according to poll medians, a bit more optimistic than the latest ECB projections showing inflation above 2% until at least 2026.

Also, fewer rate cuts from the US Federal Reserve, currently ex-

pected to deliver at most two or possibly just one reduction this year, could lead the euro, down nearly 3% for the year against the US dollar, to weaken further. That could lead to unwanted imported inflation.

A near-90% majority of economists, 36 of 41, said risks were more skewed towards fewer ECB rate cuts this year than more.

"We have two cuts (this year), but it could turn out to be only one... If there's a strong reason for the Fed not to cut rates, then maybe that also can have a bearing on the policy space the ECB has," said Edwin de Groot, head of macro strategy at Rabobank.

Wall Street faces tougher margin rule as zero-day options boom

Bloomberg
New York

The world's largest derivatives-clearing house is seeking to introduce fresh margin requirements on Wall Street firms as the frenzy in zero-day options shows no sign of letting up.

Options Clearing Corp is looking to harden rules on intraday margins at brokers and dealers in the event their risk exposures breach certain thresholds, according to a spokesperson. OCC is also proposing a monthly add-on to their collateral contributions to ensure the smooth functioning of markets, among other obligations, the person said.

It's the latest push from industry supervisors to secure market discipline amid the trading frenzy in equity contracts that expire within 24 hours.

While the proposed rules apply to options of all stripes, derivatives with zero days to expire, known as ODTE, now make up half of the S&P 500's total options trading. That's spurred strategists at JPMorgan Chase & Co to warn the activity threatens to destabilise the broader equity landscape, a scenario that's received pushback from the likes of Cboe Global Markets.

"A consequence of the initiative will be that firms will need to tighten up their intraday portfolio risk exposure as well as be prepared for immediate capital demands," said Justin Zacks, vice president of strategy at Moomoo Technologies Inc, which last November lowered commission fees on single-stock options to zero. An "increase in the risk profile may result in both an intraday margin deposit requirement but

maybe more importantly a longer-term deposit obligation with the OCC."

The OCC's proposals, subject to changes after industry feedback, require approval from the Securities and Exchange Commission. The new measures were previously reported by Risk.net.

The Chicago-based organisation provides central clearing and settlement services across exchanges and includes more than 100 members.

Specifically, the OCC is proposing member firms, which show bigger increases in risk exposures in the prior month, will be obliged to contribute more at the start of the following month to a buffer fund that's designed to mitigate spillovers in the event of market turmoil.

"OCC rules typically apply to everyone," said Steve Sosnick, chief strategist at Interactive Brokers. "And since 'everyone' seems to be getting more involved in ultra-short term options trading, this is a recognition that the rules for all participants need to adapt accordingly."

The options-trading boom has caught the attention of regulators, with the Federal Reserve including special questions about risk-management practices and client activity in a survey published in September 2023. Notably, it found that two fifths of the surveyed dealers don't require the counterparty to stump up collateral for ODTE trades, while the rest do so before the end of the trading session — and only when market volatility is elevated.

In OCC's proposal, a margin call could be triggered when a firm's intraday risk levels spike above the average of the historic daily peaks by a certain threshold, according to the spokesperson.

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Europe set to clear Lufthansa's €325mn ITA Airways deal

By Alex Macheras

Brussels is set to clear Lufthansa's purchase of a €325mn minority stake of Italy's ITA Airways after obtaining concessions that appeased competition worries. The concessions will reportedly give rival airlines more slots at Milan's Linate airport (which isn't exactly a main airport hub, it should be noted) and should also improve competition in the long-haul market.

The European Commission had been under political pressure from the Italy's government as it lacks sufficient funds to keep financing ITA, the successor to Alitalia.

An official announcement is expected in early July although the timing could still shift. The EU and Lufthansa declined to comment. The German airline group – which owns Lufthansa, SWISS, Austrian Airlines, Brussels Airlines, Eurowings, and Air Dolomiti – hopes to conclude the lengthy negotiations to include the Italian carrier in its broad portfolio of European airlines.

With the deal deadline fast approaching, the European Commission had put pressure on Lufthansa and the Italian Finance Ministry to draw up a remedy package that will help to protect competition between airlines on transatlantic routes. However, Lufthansa isn't prepared to reopen its joint venture with United Airlines and Air Canada to solve the EU's issues – sparking fears that the carrier may not be able to come up with a package that meets the bloc's demands, according to a person familiar with the matter.



In November 2023, Lufthansa agreed with the Italian Economic Ministry to buy 41% of the airline shares for €325mn, potentially increasing its ownership to 100%. However, the European Commission expressed concerns about the transaction, stating that Lufthansa's influence in Europe would become too dominant, potentially leading to anti-competitive practices.

The Lufthansa Group – already the world's third-largest airline conglomerate – would expand by adding over 90 aircraft to its fleet and gaining a major hub in Southern Europe. Italy has the third-largest economy in Europe by gross domestic product.

Regulators have launched probes into such deals by Germany's Lufthansa and British Airways owner International Airlines Group (IAG), which were announced in the first half of last year. The main concern of watchdogs is that the airlines could use the acquisitions to boost already dominant positions, with passengers losing out because of higher fares and fewer airlines competing on routes.

Executives also believe that creating larger and more profitable airline groups is the only way to succeed when competing with the historically more profitable US market, which consolidated around four big airlines following the financial crisis, and deep-pocketed Gulf and Asian carriers. Regulators in Brussels had reaffirmed they would seek tougher concessions from airlines, amid concerns that historically some slots were not taken up, or not used on the routes originally planned.

"Some years ago, we were sure the slots solution was fine. Maybe the results are not there," then EU antitrust commissioner Didier Reynders said in an October interview.

The crackdown by regulators follows increased prices and worries about the quality of services after the reopening of travel in the wake of the pandemic. According to data published by the European Commission, the executive body of the EU, flying is becoming increasingly costly for consumers with average airline fares up 20-30% last summer compared with 2019.

EU officials stress all airline deals are different and scrutinised on their merits. Brussels could support the Lufthansa proposals, people familiar

with the probe added. The German airline said it was in constant exchanges with the EU to try and win support for its agreed purchase of a stake in ITA, adding that it was confident the commission would approve it as soon as possible.

A similar process is underway with Portugal's national airline, TAP. The Portuguese government put TAP up for sale last year, paving the way for further airline consolidation in Europe and a potential bidding war among the EU's major carriers.

The chief executive of the carrier has urged the government to retain a stake in the airline as he anticipates its planned sell-off to begin in earnest within the next few months.

Luis Rodrigues also advocates for bringing in non-aviation investors to alleviate competition concerns amid increasing unease in Brussels about the prospect of an industry dominated by a few large airline groups in the region.

The newly-elected centre-right minority government, which came to power in March, has expressed a desire to sell 100 percent of the airline. However, Rodrigues emphasised the importance of the state maintaining a stake in the airline, particularly given Portugal's reliance on tourism.

"My recommendation would be for the Portuguese government to maintain a position, to be part of the whole development process," he said.

"Just to ensure that if actors change, no one comes in with a different agenda," he added, highlighting the need to serve Portugal's autonomous regions, Madeira and the Azores.

"I think sometime in the future we may be ready for a 100% sale, but let's take it step by step." Prime Minister Luis Montenegro stated during the election campaign that a 100% stake sale should include safeguards to protect Portugal's strategic interests, such as maintaining Lisbon as a hub airport.

The previous government had aimed to sell more than 50% of the company but less than 100%, keeping a stake in state hands.

Europe's three major airline groups – IAG, Air France-KLM, and Lufthansa – which own a range of subsidiaries and are looking to expand further, have shown interest in TAP amidst a sharp increase in deal-making across the sector.

TAP offers strong connections to Brazil and the booming South American market for companies lacking a presence there, as well as a gateway into Africa through its routes to Portuguese-speaking countries like Angola and Mozambique. IAG has already agreed to buy Spain's Air Europa. Air France has also taken a 20% stake in struggling Scandinavian airline SAS, as part of a deal involving private equity firm Castlelake and the Danish state.

Rodrigues mentioned that he expects TAP to retain its brand name and identity in any deal and suggested that the government might consider involving private equity or other investors instead of selling directly to another airline, partly to help ease competition concerns in Brussels.

■ The author is an aviation analyst. Twitter handle: @AlexInAir

Bird strikes remain persistent challenge for global airline industry

By Pratap John

Bird strikes on aircraft pose significant problems for the global airline industry. Safety risks include accidents that result in passenger and crew injuries or fatalities.

Bird strikes damage critical parts of an aircraft, such as engines, windshields, and control surfaces, leading to potentially catastrophic failures.

A few days ago, a Virgin Australia jet was forced to make an emergency landing in New Zealand following a "possible bird strike" following takeoff, which caused flames to shoot from its engines.

Virgin Airlines VA148 – a twin-engine Boeing 737-800 that had 67 passengers and six crew on board – landed at Invercargill Airport on New Zealand's South Island around an hour after departure, according to data from the flight-tracking website FlightAware.

The airline said a bird strike likely caused the fire, with passengers reporting a series of loud bangs and flashes coming from the engine almost immediately after the plane's wheels left the tarmac.

"Virgin Australia can confirm that all passengers have disembarked VA148, which landed safely at New Zealand's Invercargill Airport following a possible bird strike after departing from Queenstown Airport," noted Virgin Australia Chief Operations Officer Stuart Aggs.

Industry sources say bird strikes occur at a rate of about four in every 10,000 flights, with the consequences varying in severity depending on where aircraft are hit. Bird strikes are collisions between aircraft and birds, although these also involve ground collisions with animals such as deer, rabbits, dogs, and even alligators.

The first bird strike was recorded by Orville Wright in 1905, over a cornfield in Ohio. These incidents are not uncommon, occurring daily with some seasonal variation due to bird migratory patterns. One of the most famous bird strikes was the 2009 US Airways Flight 1549, which encountered a flock of Canadian geese shortly after takeoff from LaGuardia Airport, resulting



Bird strikes on aircraft pose significant problems for the global airline industry. Safety risks include accidents that result in passenger and crew injuries or fatalities

Beyond the Tarmac

in both engines failing and a successful emergency landing in the Hudson River by Captain Sully Sullenberger. More than 14,000 bird strikes are reported each year in the United States alone, according to the Federal Aviation Administration. In 2022, the United Kingdom's Civil Aviation Authority reported nearly 1,500 bird strikes over the year, according to Al Jazeera.

Between 2008 and 2017, the Australian Transport Safety Board recorded 16,626 bird strikes, while the Federal Aviation Administration in the United States reported 17,200 bird strikes in 2022 alone.

According to the International Civil Aviation Organisation (ICAO), nearly 90% of bird strikes occur near airports during takeoff, landing, or at lower altitudes where bird activity is most common.

The consequences of a bird strike can vary widely depending on factors such as the aircraft type.

For instance, bird strikes may be fatal for single-engine planes. Globally, since 1988, there have been some 262 fatalities due to bird strikes and 250 aircraft destroyed.

On the other hand, the recent incident involving the twin-engine Virgin Australia aircraft did not result in any death or serious injuries to passengers. This was because the Boeing 737-800 could continue flying on the other engine to an alternate airport. Birds ingested into aircraft engines often cause engine failure, requiring costly and time-consuming inspections and repairs.

A study carried out in 2020 by German researchers at the Delft University of Technology and the Netherlands Institute of Flight Guidance at the German Aerospace Center, looked at the rate of bird strikes per movements of aircraft in several countries around the world. It found Australia

had the highest bird strike rate – nearly eight for every 10,000 aircraft movements. The US had the lowest at 2.83.

Most bird strikes occur early in the morning or at sunset when birds are most active. Pilots are trained to be vigilant during these times. Radar can be used to track flocks of birds. However, this technology is ground-based and not available worldwide so it can't be used everywhere.

Bird strikes rarely occur at higher altitudes. Collisions tend to occur when planes are in the same space where birds usually fly, such as when aircraft are approaching, landing at and departing from airports. Bird strikes pose a significant risk to aircraft safety, with potential consequences ranging from minor engine issues to catastrophic failure and accidents.

Vigilance, training, and technological solutions are key components of efforts to prevent and mitigate these incidents.

Bird strikes remain a persistent challenge and necessitate ongoing vigilance and innovation in mitigation strategies.

■ Pratap John is Business Editor at Gulf Times. Twitter handle: @PratapJohn

GE Aerospace developing hybrid engines for single-aisle jets

Reuters
Ohio

GE Aerospace is developing a hybrid electric engine with the hopes it will power next-generation narrow-body jets by the middle of the next decade.

While the technology is still being tested, should GE be successful, it could produce hybrid-engine jets – like a Toyota Prius of the skies – that would go a long way towards cutting the aviation industry's carbon emissions worldwide, half of which come from single-aisle jets.

Hybrid cars are common on the roads, but decarbonising the aerospace industry is considered much more difficult. In hybrid engines, an aircraft uses several energy sources while in flight. Airbus estimates the mix of energy sources – jet fuel or sustainable aviation fuels combined with electricity – reduces fuel consumption by up to 5% compared to a standard flight.

GE Aerospace is working with NASA on a project that will embed electric motors or generators in a high-bypass turbofan to supplement power during different phases of operation, company executives said. On Wednesday, the company said it has completed the initial tests of the hybrid components and a baseline test of the engine. It next plans to test the components and the engine together.

The global aviation industry has set a goal of net-zero emissions by 2050. But technologies such as electric and hydrogen-powered aircraft are still unproven, making decarbonisation a formidable challenge for the industry, which generates about 2% of global emissions.

Developing more fuel-efficient engines to cut emissions is a new challenge for the aviation industry. Environmental critics have said the industry's net-zero targets are unrealistic, and argued that the only way to reach them is to substantially reduce flying globally.

The hybrid engine programme is one of several projects GE Aerospace has been pursuing to develop more fuel efficient technology.

In partnership with France's Safran, GE is testing the building blocks for an open-bladed jet engine for the next generation of medium-haul jets that will be able to reduce fuel use and emissions by 20% from the middle of the next decade.

GE's rival RTX is also working on a hybrid-electric technology demonstrator that combines a thermal engine with electric motor, with a goal to improve fuel efficiency by 30%.

FAA moves to toughen safety rules on public charter airlines

Bloomberg
New York

The Federal Aviation Administration (FAA) plans to impose tougher safety requirements on public charter airlines such as Dallas-based JSX, a move towards closing what critics have called a loophole in US aviation rules.

The new regulations aim to ensure that public charters that effectively operate like a typical commercial airline abide by the same safety rules, the FAA said in a statement. JSX markets itself as "the ultimate travel hack" because passengers can bypass airport crowds and security lines.

"If a company is effectively operating as a scheduled airline, the FAA needs to determine whether those operations should follow the same stringent rules as scheduled airlines," FAA Administrator Mike Whitaker

said in the statement. The rise in popularity of operations like JSX and whether they pose any safety or security risks has split the industry. Critics have said JSX and others like it exploit a loophole in current rules, allowing them to operate scheduled flights like large airlines under less-stringent standards intended to govern private charter operations. Proponents have argued for keeping the status quo since such carriers serve small cities and provide a pipeline for pilots. JSX has also attracted big backers in the industry, with United Airlines Holdings Inc. and JetBlue Airways Corp. among its investors.

The move announced Monday comes after the regulator solicited feedback on potential rule changes in August, leading to about 60,000 comments from other airlines, unions, airports, cities and travellers.

"As the country's largest public charter air carrier, JSX has



A JSX airplane at Dallas Love Field Airport. The Federal Aviation Administration plans to impose tougher safety requirements on public charter airlines such as Dallas-based JSX, a move towards closing what critics have called a loophole in US aviation rules.

modelled the way forward for safe, secure, and reliable regional operations," JSX said in a statement. "We eagerly look forward to collaborating with

our regulators to cement the importance of public charters and expand access to vital air connectivity in the future." Public charter carriers such as

JSX and others offer regularly scheduled flights from smaller, private terminals. While limited to carrying 30 passengers per flight, they aren't subject to rules requiring pilots to have a minimum of 1,500 flying hours and a mandatory retirement age of 65.

Their passengers also don't have to go through the type of security screenings as customers flying on commercial carriers. JSX swabs bags for explosives and passengers walk through a weapons detector, but there is no Transportation Security Administration agents like with commercial carriers.

The TSA earlier proposed developing standards similar to those already in place for larger private charter operators. That includes use of metal detectors and X-ray systems and specific security training, including TSA-approved instruction for passenger screeners, according to

NATA Compliance Services, which helps aviation companies comply with regulatory standards.

JSX has waged a publicity campaign accusing critics American Airlines Group Inc and Southwest Airlines Co of pressuring the government to crush its business model and deny the flying public more choices. The two larger airlines have denied any anti-competitive motive, saying they simply seek a uniform standard for regularly scheduled public flight operators. The Air Line Pilots Association union praised the FAA's decision to close what it called the "public charter loophole."

"No matter where you're flying or what airline you're on, all Americans deserve the same level of safety and security," ALPA President Jason Ambrosi said in a statement. The union represents cockpit crews at several carriers including Delta Air Lines Inc and United.