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**GULF TIMES**  
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**POLICY OVERHAUL: Page 3**

PBoC's new tools may spur big shift in how it manages money

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**Domestic funds keep QSE afloat on positive course for 13th day**

**By Santhosh V Perumal**  
 Business Reporter

The Qatar Stock Exchange yesterday entered the 13th consecutive day of bullish run, having gained more than 15 points on the back of buying support from domestic institutions.

The transport and industrials counters witnessed higher than average selling pressure as the 20-stock Qatar Index rose 0.16% to 9,702.17 points, although it touched an intraday high of 9,730 points.

The local retail investors were seen net buyers in the main market, whose year-to-date losses truncated further to 10.42%.

The Arab individuals were increasingly net buyers in the main bourse, whose capitalisation added QR0.3bn or 0.05% to QR563.01bn on the back of micro-cap segments.

The foreign retail investors turned bullish in the main market, which saw 0.03mn exchange traded funds (sponsored by Masraf Al Rayan and Doha Bank) valued at QR0.08mn trade across 11 deals.

However, the foreign institutions were increasingly net profit takers in the main bourse, which

saw no trading of sovereign bonds and treasury bills.

The Islamic index was seen gaining slower than the other indices in the main bourse, whose trade turnover and volumes were on the increase.

The Total Return Index gained 0.16%, the All Share Index by 0.03% and the All Islamic Index by 0.03% in the main market.

The transport sector index shot up 1.69% and industrials 0.59%; while consumer goods and services declined 1.68%, real estate (1.5%), insurance (1.05%), telecom (0.45%) and banks and financial services (0.03%).

Major movers included Milaha, Al Khaleej Takaful, Doha Insurance, Dukhan Bank, Qatar Islamic Insurance, Dlala, Qatari German Medical Devices, Industries Qatar and Estithmar Holding.

Nevertheless, Al Meera, Zad Holding, Qatar General Insurance and Reinsurance, Qatar Insurance, United Development Company, Doha Bank, QIIB, Woqod, Mesaieed Petrochemical Holding, Barwa, Vodafone Qatar and Nakilat were among the losers in the main bourse.

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

The domestic institutions' net buying increased drastically to QR157.42mn compared to QR39.04mn on June 19.

The Qatari individuals were net buyers to the tune of QR11.4mn against net sellers of QR2.9mn the previous day.

The Arab individual investors' net buying strengthened perceptibly to QR5.67mn compared to QR2.98mn on Wednesday.

The foreign retail investors were net buyers to the extent of QR2.04mn against net sellers of QR1.27mn on June 19.

However, the foreign institutions' net selling grew substantially to QR172.74mn compared to QR37.06mn the previous day.

The Gulf institutions' net profit booking expanded noticeably to QR3.07mn against QR0.5mn on Wednesday.

The Gulf individual investors' net selling increased marginally to QR0.7mn compared to QR0.29mn on June 19.

The Arab institutions had no major net exposure for the 13th straight session.

Trade volumes in the main market soared 82% to 169.03mn shares and value more than doubled to QR767.61mn on 19% jump in transactions to 16,029.

**Qatar is set to clock GCC's highest growth in hospitality industry revenue until 2028**

**Country's hospitality sector is projected to rise at a compound annual growth rate of 11% (from \$0.9bn in 2023) to \$1.5bn in 2028, says Alpen Capital**

**By Pratap John**  
 Business Editor

Hospitality industry revenue in Qatar expected to witness the highest growth rate in GCC until 2028, Alpen Capital has said in a report.

Qatar's hospitality sector is projected to rise at a compound annual growth rate (CAGR) of 11% (from \$0.9bn in 2023) to \$1.5bn in 2028.

The growth will be fuelled by investments in developing luxury infrastructure and successful hosting of international sporting events, it said in its latest report on 'GCC Hospitality Industry'.

According to Alpen Capital, Qatar has grown as a global tourism destination driven by hosting large-scale sporting events and the continuous development of tourism-related

infrastructure over the past two years.

The growth momentum that built up since the FIFA World Cup 2022 is expected to continue, owing to the strategies implemented by the government since the conclusion of the tournament.

Qatar offers visas on arrival to citizens from about 102 countries and has simplified its visa procedure by re-launching the Hayya platform in 2023, which serves as a centralised platform for all tourist and corporate visas.

The report noted that Qatar has also developed a number of tourist attractions, including various cultural and modern landmarks, such as the Meryal Water Park, The Pearl Island, and the Katara cultural village.

Under its national tourism strategy, the country aims to attract about 6mn visitors annually and increase the tourism sector's contribution to GDP to 12% by 2030.

"To achieve these targets, Qatar has placed its focus on hosting large-scale international events

to attract tourists to the country," Alpen Capital said.

In 2024 alone, Qatar is slated to host over 80 events scheduled throughout the year, including cultural festivals, sports tournaments, e-mobility panels, summits, and others. These efforts from the government to increase the number of international tourists in the country are expected to drive demand for accommodations and hospitality services across the country.

Therefore, the hotel room supply in Qatar is projected to grow at an annualised rate of 6.3% from 2023 to 2028, and the occupancy rate is estimated to expand to 65.0% by 2028.

Consequently, the average daily rates (ADRs) are expected to grow at a CAGR of 2.1%, reaching \$125 by 2028 from \$112.6 in 2023, while revenue per available room (RevPAR) is anticipated to rise at a CAGR of 4.5% to reach \$81.2 by 2028 from \$65.3 in 2023. Besides Qatar, Kuwait is expected to grow above the GCC average over the forecasted period (2023 to 2028), Alpen Capital said.

**Turkiye's budget swings to record surplus as fiscal policy shifts**

**Bloomberg**  
 Istanbul

Turkiye posted its biggest monthly budget surplus on record as the government shifts to repairing public finances to complement monetary policies geared toward bringing down inflation.

The central budget balance recorded a 219bn-lira surplus (\$6.7bn) in May, the most in data that stretches back to 2006. It was a sharp swing from five straight months in deficit, figures published by the Treasury and Finance Ministry showed on Thursday.

The Turkish government is on

course for tighter fiscal policy with recent measures that include cuts to spending as well as a wide range of new plans such as introducing a minimum tax on companies.

The proposals — meant to generate additional revenue estimated at \$7bn — will be debated by lawmakers and are likely to be ratified given President Recep Tayyip Erdogan's ruling AK Party and its allies control a parliamentary majority. Personnel spending and current transfers — which include social aid to households — were offset by a sharp increase in tax revenue, which accounted for the bulk of the government's income last month.

Other details from Turkiye's latest budget report:

- The primary surplus, which doesn't include interest payments, was 330.1bn liras.
  - Budget spending in May rose an annual 83% to 787.7bn liras.
  - Income tax intake rose 135% in annual terms last month.
  - Total budget revenue was 1tn liras in May.
- While the latest figures show a sharp improvement, the budget remains deep in the red so far this year. The gap in the first five months has reached 472bn liras, with the government's outlook putting this year's total deficit at 2.7tn liras or 6.4% of gross domestic product.



The transport and industrials counters witnessed higher than average selling pressure as the Qatar Index rose 0.16% to 9,702.17 points, although it touched an intraday high of 9,730 points

**Fed officials urge patience on rate cuts, offer hints on timing**

**Bloomberg**  
 Washington

A chorus of Federal Reserve officials on Tuesday emphasised the need for more evidence of cooling inflation before lowering interest rates, with a couple of policymakers offering insight into the potential timing of such a move.

Fed Governor Adriana Kugler said it will likely be appropriate for the central bank to cut rates "sometime later this year" if economic conditions unfold as she anticipates. St Louis Fed President Alberto Musalem said in his first major policy speech that it could take "quarters" for the data to support a cut.

Both New York's John Williams and Richmond's Thomas Barkin demurred from offering a specific time frame for the timing of a rate reduction, but all officials underscored the important role of economic data in the path of policy moving forward. Policymakers have held borrowing costs

at a two-decade high for nearly a year now, and they appear in no rush to lower them. Just last week Fed officials pencilled in just one rate reduction for 2024, down from the three projected in March, according to the median forecast.

Inflation snapped back in the first quarter of this year, surprising Fed officials after a rapid cooling in price pressures in the second half of 2023. While recent price data has been encouraging, policymakers remain cautious. Boston Fed President Susan Collins reiterated that point on Tuesday, saying it's important not to "overreact to a month or two of promising news."

When asked during a Yahoo Finance interview later in the day whether she is looking at one or two rate cuts this year given where things are now, Collins said, "I could imagine scenarios that would be consistent with both." She added, "As I look forward, my view of how much easing might be appropriate this year has been reduced as I look at the data." Policymakers' cautious approach was particularly clear in the quarterly projections released

last week, where four officials forecast no cuts in 2024.

"I will need to observe a period of favourable inflation, moderating demand and expanding supply before becoming confident that a reduction in the target range for the federal funds rate is appropriate," Musalem said. "These conditions could take months, and more likely quarters to play out."

A string of recent economic reports have shown mixed news for the economy, with consumers tempering spending despite strong employment growth, and inflation cooling after a surprising acceleration in the first quarter. US retail sales barely rose in May and prior months were revised lower, according to data published on Tuesday, while payrolls surged 272,000 in the month.

"I believe the current stance of monetary policy is sufficiently restrictive to help cool the economy and bring inflation back toward 2% without a sharp contraction in economic activity or a significant deterioration of the labour market," Kugler said.



The Federal Reserve building is set against a blue sky in Washington. A chorus of Federal Reserve officials on Tuesday emphasised the need for more evidence of cooling inflation before lowering interest rates, with a couple of policymakers offering insight into the potential timing of such a move.



## Indian rupee hits record low as dollar strength weighs

Bloomberg  
Mumbai

The Indian rupee declined to an all-time low as broad dollar strength weighed on most emerging Asian currencies.

The currency fell 0.3% to 83.67 against the greenback on Thursday, weakening past the previous low of 83.5750 touched in April, according to Bloomberg-compiled prices.

The dollar strengthened as the Swiss National Bank delivered an interest-rate cut, underscoring the divergence in monetary policies among global central banks as the Federal Reserve delays easing policy.

In India, the central bank has allowed the rupee to weaken, though it intervenes to curb wild swings. The rupee is still the best performing currency in Asia this year after the Hong Kong dollar. "US dollar strength is dominating the market at the moment and that is what is driving the rupee to a record low," said David Forrester, a senior strategist at Credit Agricole CIB in Singapore.

The Reserve Bank of India has kept the rupee in a tight range, while focusing on building its foreign



exchange stockpile to a record high to defend the currency. That's made the rupee one of the least volatile across emerging markets, and the central bank is expected to continue

accumulating reserves as foreigners continue flocking to the country's bonds ahead of index inclusion. "The weakness in the rupee is unlikely to continue as market is aware of RBI's

leanings," said Shaun Lim, a currency strategist at Malayan Banking Bhd. "They have a preference for a stable INR and they have the means to achieve that."

## UAE renewables company Masdar to buy Greece's Terna Energy

Reuters  
Dubai

United Arab Emirates renewable energy company Masdar said on Thursday it has reached an agreement to buy an initial 67% stake in Greece's Terna Energy and intends to make a mandatory offer to buy the rest.

Masdar has signed a definitive agreement with Greek conglomerate GEK Terna and other shareholders to buy the 67% stake in Terna Energy at €20 (\$21.45) per share. The acquisition price gives the Greek renewables company an equity valuation of €2.4bn and an enterprise value of €3.2bn, the two companies said.

GEK Terna owned 37.93% of Terna Energy as of June 4, according to LSEG data.

The transaction is subject to regulatory approvals and other conditions. Once completed, "Masdar will launch an all-cash mandatory tender offer to acquire all the remaining shares of Terna Energy with the intention of reaching 100%," the statement said.

Masdar is expanding in several parts of Europe, as well as in Asia, the US and elsewhere, as it seeks to grow its capacity to 100 gigawatts of renewable energy by 2030.

Masdar is owned by state-controlled energy and utilities firm TAQA, Abu Dhabi sovereign wealth fund Mubadala and Abu Dhabi National Oil Company, which hold stakes of 43%, 33% and 24%, respectively.

"As one of Europe's biggest renewable energy transactions in 2024, this investment reflects the UAE's clear commitment to Greece and Europe's clean energy development," said Sultan al-Jaber, Masdar's chairman and president of the COP28 climate summit hosted by the UAE last year.

Rothschild & Co was financial adviser to Masdar and Simmons & Simmons, Bernitsas Law and Latham & Watkins were legal advisers for the deal and financing.

## Sinking of coal ship takes Red Sea economic risks to new level

Bloomberg  
London

The sinking of a coal-carrier by a sea drone has boosted the risk of navigating the vital Bab el-Mandeb chokepoint to a new level and is driving a fresh surge in insurance costs.

The British navy said on Tuesday that the only visible objects in the last known location of the Tutor dry-bulk carrier — at which point it was semi submerged — were some debris and an oil slick. Yemen's Houthi rebels managed to strike it with a seabornedrone, killing one crew member and injuring others.

The price of covering vessels for transit — measured as a percentage of the ship's value — surged to about 0.6% from between 0.3% and 0.4% according to two people involved in the market. It means that a vessel worth \$50mn would have to pay \$300,000 for one passage. The rate is nevertheless slightly below a peak reached earlier this year when attacks ramped up.

The sinking is a stark reminder of a growing threat the rebels pose to vessels in the region. US and UK bombing of the Houthis, which began in January, failed to quell the attacks and instead led to vessels associated with the two nations becoming targets for the group, alongside freighters with connections to Israel.

The Houthis, supporting Gazans, have warned of an expanded operation to potentially attack as far as the Mediterranean.

"It's another indicator that the Houthis are stepping up their attacks on those vessels that were warned not to pass through the Red Sea," Dirk Siebels, a senior analyst at Risk Intelligence, said of the sea-drone strike.

Not all ships are paying the bumper insurance premiums. Chinese vessels



Smoke rises after an explosion on a ship that Houthis have said is an attack by them on Greek-owned MV Tutor in the Red Sea on June 12. The price of covering vessels for transit — measured as a percentage of the ship's value — surged to about 0.6% from between 0.3% and 0.4% according to two people involved in the market. It means that a vessel worth \$50mn would have to pay \$300,000 for one passage.

continue to receive significant discount, likely because they have so far been less likely to be deliberately targeted, the people said.

The Tutor incident marked the first time that a ship was successfully hit by what the military call an uncrewed surface vessel, or USV — effectively a small boat packed with explosives. It appeared the Tutor was run by a company that had deployed another carrier in Israel, thereby making the Tutor a target, security analysts said.

The ship was very new, having been built in late 2022. It was capable of hauling about 80,000 tonnes of coal and would have had a value of \$37.5mn if new, according to data from Clarkson Research Services Ltd, a unit of the world's largest shipbroker.

It was a far more valuable vessel than the only other ship — the 1997-built Rubyymar — to have been

fully sunk so far by the Houthis during their current campaign.

Last week's barrage of attacks — and the death of a crew member — also served a reminder of the impact on the seafarers who help to keep global trade running. Almost 9% of global seaborne trade went through the Bab el-Mandeb last year, according to Clarkson Research. That figure will have dropped in 2024.

A separate attack last week saw a seafarer airlifted from another ship, the Verbena, with significant injuries after the vessel was also struck by what is thought to have been an aerial drone.

"This is an unacceptable situation, and these attacks must stop now," 14 shipping trade groups including BIMCO said in a statement on Wednesday. "We have heard the condemnation and appreciate the words of support,

but we urgently seek action to stop the unlawful attacks on these vital workers and this vital industry."

For the Tutor, the question now is what happens to the vessel as it sits at the bottom of the sea laden with coal. Often, a ship's cargo holds will be robust enough to insulate the products it has on board for decades to come and so wrecks will just be left in place.

Its insurer against risks such as oil spills was Gard AS, the largest global provider of such cover. However, as the ship was struck in a designated conflict zone its war insurance is likely to be the main source of cover.

The vessel's owner, Greece-based Evaland Shipping, hasn't responded to requests for comment since the incident occurred. A phone call to the company on Wednesday said the relevant people were in meetings, and an e-mail went unanswered.

## Nvidia's 591,078% rally to most valuable stock came in waves

Bloomberg  
New York

The year was 1999. Steve Jobs had recently returned to lead Apple. Intel was the dominant force in semiconductors. And a little-known chip-maker named Nvidia made its debut on the Nasdaq stock exchange. It took less than three years for Nvidia Corp to ascend into the S&P 500 — replacing the disgraced oil-trading conglomerate Enron, no less. But even then, few people would have bet that the company would go on to become the best performing stock of the last quarter-century, posting a total return of 591,078% since its initial public offering, including reinvested dividends. It's a difficult number to comprehend and a testament, in part, to the financial mania brewing around artificial intelligence and how investors have come to see Nvidia — which makes the cutting-edge chips powering the technology — as the single-biggest winner of the boom.

On Tuesday, that run culminated in Nvidia unseating Microsoft Corp as the world's most valuable company with a market capitalisation of \$3.34tn. More than \$2tn of that value has been added this year. The company's rise was by no means assured — and neither is its staying

power at the top of the S&P 500. Long-time investors in Nvidia have had to stomach three annual collapses of 50% or more in the stock. Sustaining the current rally will require customers to keep spending billions of dollars a quarter on AI equipment, whose returns on investment are so far relatively small. What ultimately paved the way for Nvidia to climb to the top, though, was the company's big bet on graphics chips and the vision of co-founder and Chief Executive Officer Jensen Huang that the industry would shift to what he calls "accelerated computing," something his chips are inherently better at than the competition. "You have to give the management team, I think, an enormous amount of credit," said Brian Mulberry, client portfolio manager at Zacks Investment Management. "They have caught each wave of innovation in hardware perfectly well." Early Years Nvidia got off to a hot start. Between its debut and the time it entered the S&P 500, the stock gained more than 1,600%, giving it a market value of about \$8bn. That rise came as many other technology stocks were cratering in the aftermath of the dot-com bubble, which peaked in March 2000. The company's key to early success: getting its technology in video-game consoles like Microsoft's Xbox and



On Tuesday, Nvidia unseated Microsoft as the world's most valuable company with a market capitalisation of \$3.34tn. More than \$2tn of that value has been added this year

Sony's PlayStation. Nvidia's GeForce graphics processing units, or GPUs, became objects of desire among gamers because they consistently offered the most realistic experience. "Jensen was always a great communicator, told a good story, and clearly GPUs were becoming more important," said Rhys Williams, chief strategist at Wayve Capital Management, who was a buyer in the IPO. "Each successive generation of hard-

ware gave a lot better performance, a lot more realistic picture and then PC gaming really came into being." The next six years weren't kind to Nvidia. The stock plunged in 2008 as the financial crisis weakened demand and long-struggling rival Advanced Micro Devices Inc started turning things around. Meanwhile, an agreement between Nvidia and Intel that allowed the companies to use each other's capa-

bilities went sour, forcing Nvidia out of one of its biggest markets. The two settled in 2011, with Intel agreeing to pay Nvidia \$1.5bn. The following year, Nvidia unveiled graphics chips for servers inside data centres. They could help sophisticated computing work such as oil and gas exploration and weather prediction, giving Nvidia a foothold in what would become a lucrative market. However, those chips did not immediately fly off the shelf. It would take nearly nine years for Nvidia shares to surpass their 2007 high. Nvidia shares took off again in 2015. During that period, the company's chips were becoming the foundation of emerging technologies, from advanced graphics interfaces to autonomous vehicles to a new wave of AI products. That's when Shana Sissel, chief executive officer at Banrion Capital Management, first really took note of the company. She described a 2017 conference where Nvidia was more like a pageant winner than an investment idea. "Every single speaker talked about Nvidia being the most important company," Sissel said. "At that point, it was really on my radar screen." Even after demand from cryptocurrency miners dried up, data-centre sales continued to grow. The Covid-19 pandemic boosted that business, as

companies needed to purchase additional computing power to support remote work. Nvidia's data-centre revenue rose by a multiple of eight from fiscal 2017 to fiscal 2021. Nvidia's shares slumped in 2022 along with the rest of the technology sector, which was reeling from soaring interest rates and falling demand after the Covid-era boom. OpenAI's release of ChatGPT in late-2022 made an instant splash but it took time for investors to realise how Nvidia might benefit. Eventually, interest in ChatGPT and other generative AI products exploded, triggering a frantic surge in orders for Nvidia's chips. When the company reported first-quarter 2023 earnings, the scale of the jump in its business shocked nearly everyone on Wall Street. Nvidia gave a forecast for quarterly sales that was more than 50% above the average projection. Nvidia's data-centre sales eclipsed its gaming revenue for the first time in fiscal 2023. In Nvidia's current fiscal year, analysts expect those sales to top \$100bn. "They have a very defensible place in the industry," said Williams, the strategist at Wayve Capital Management. "They're not gonna be 95% of market share forever, obviously, but it would be almost impossible for anybody to replace them."

## Norway keeps interest rate on hold, sees no cut before 2025

Reuters  
Oslo

Norway's central bank held its policy interest rate at a 16-year high of 4.50% on Thursday, as expected by analysts, and pushed back its prediction for a rate cut to 2025 from September in the latest blow to global monetary easing hopes.

"If the economy evolves as currently envisaged, the policy rate will continue to lie at 4.5% to the end of the year, before gradually being reduced," Norges Bank Governor Ida Wolden Bache told a press conference.

The central bank's projections call for combined cuts in 2025 of 0.75 percentage point, Bache later told public broadcaster NRK.

The Norwegian crown strengthened to trade at 11.29 against the euro at 0925 GMT, from 11.35 just before the announcement by the monetary policy committee.

Norges Bank had last month said a rate cut could be delayed beyond its previous prediction of September, but had declined to give a specific forecast amid persistent inflation and a weak Norwegian currency.

Some other central banks including the US Federal Reserve and the Bank of England are taking longer to cut rates than markets had expected as inflationary pressures linger.

Analysts were divided ahead of Thursday's announcement over when the Norges Bank would start to ease, with forecasts ranging from the third quarter of this year to the first quarter of 2025.



People's Bank of China Governor Pan Gongsheng. **Right:** Paramilitary police officers stand guard in front of the headquarters of the People's Bank of China in Beijing. China's central bank chief has hinted at a blueprint for a new toolkit that could open the door to its biggest policy overhaul in years, as officials try to bolster growth in the world's No 2 economy.

## PBoC's new tools may spur big shift in how it manages money

**Bloomberg**  
Hong Kong

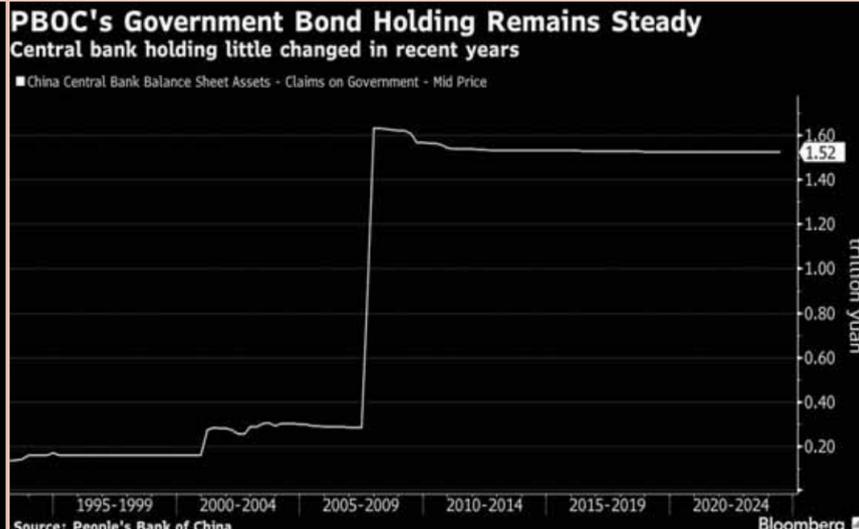
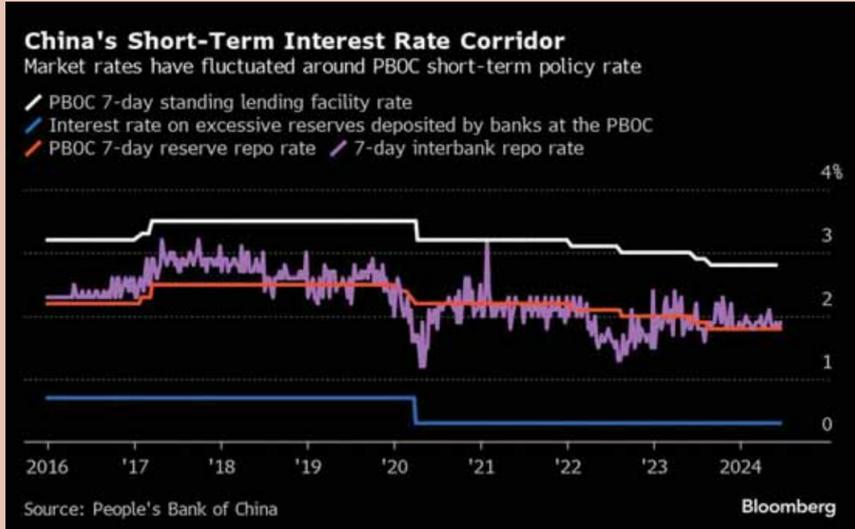
China's central bank chief hinted at a blueprint for a new toolkit that could open the door to its biggest policy overhaul in years, as officials try to bolster growth in the world's No 2 economy. Pan Gongsheng, governor of the People's Bank of China, gave the clearest signal yet that the authority may start trading government bonds in the secondary market, during a speech in Shanghai on Wednesday. That shift has the potential to rewire how the central bank injects money into the economy and regulate liquidity. Pan also hinted at interest-rate reform, signalling the bank will consider moving to using a single short-term rate to guide markets. That could reduce the importance of the current one-year policy rate known as the medium-term lending facility, introduced a decade ago. The PBoC is also considering narrowing the interest rate corridor within which market rates are allowed to fluctuate, to signal a clearer policy target, he added. "This clearly indicates a reform in monetary policy objectives and instruments over the next few years," said Xing Zhaopeng, senior China strategist at

Australia & New Zealand Banking Group Ltd it would be the "biggest reform" since 2014, he added, referring to when the MLF was introduced to funnel money to commercial and policy banks. Any changes will take time and have gradual impact on the markets, Xing said in a report, noting the need for China's interest-rate system to be more based on market forces rather than determined by authorities. China's 10-year government bond yield inched up slightly as Pan spoke, before heading back down to close 2 basis points lower at 2.24% in the afternoon. The offshore yuan was little changed at 7.28 per dollar. Bond trading would give the PBoC a new tool that's seen as more effective in managing liquidity than current instruments, because it impacts a broader swathe of market participants. It would also bolster the bank's ability to help the government raise money to fund investment and other spending to support the economy. That's needed now more than ever as local authorities' finances become increasingly strained, crimping their ability to help an economy challenged by deflation and a property downturn. Over the past decade, the PBoC has mainly

injected money into the economy by lowering the amount of cash it requires banks to keep in reserve. With that ratio approaching the implied 5% minimum level, as policymakers try to maintain ample liquidity to encourage lending, the central bank has growing reason to find fresh tools. The PBoC last revamped its interest rate framework in 2019, introducing the de facto benchmark lending rate, or the loan prime rate, to make lending rates more market-driven. Pan didn't clarify whether the PBoC would introduce a new short-term rate, but said a daily tool that allows banks to borrow against their bond holdings — known as the seven-day reverse repo — was already "basically shouldering this role." A shift to prioritising that more agile rate over the MLF "would allow them to more directly influence short-term market rates," according to Zhou Hao, chief economist at Guotai Junan International. "The PBoC seems focused on using a range of operational tools to fine-tune monetary conditions, while avoiding the perception of aggressive easing that could fuel inflation or financial stability risks," Zhou said. The PBoC chief also said the monetary authority, along with the finance

ministry, was studying how to implement government bond trading, noting it would be a gradual process. He sought to dispel the idea the central bank was embarking on massive stimulus. "Including government bond buying and selling into the monetary policy toolbox doesn't mean we'll do quantitative easing," said Pan, referring to the once-unorthodox central bank policy of buying government bonds to stimulate the economy. The remarks come as expectations are growing for the PBoC to start purchases and sales of government bonds, after comments by President Xi Jinping made public this year called for such a tool to regulate liquidity. However, there have been few details on how this may be done and when it may begin. In addition, a months-long bull run in government bonds also dented any need for immediate central bank bond buying. The PBoC has issued repeated warnings against the bond rally over financial risk concerns, and a newspaper it manages said the monetary authority could step in to sell bonds if demand for the haven assets continues to rise. In another sign of the PBoC's unease with the bond bull run, Pan said the central bank is monitoring bond investments by non-bank financial institutions closely as

those who hold large amounts of medium- to long-term bonds could face interest-rate risks. Central banks should learn a lesson from the collapse of the Silicon Valley Bank, and correct any pile-up of financial market risks in a timely fashion, he said. Many economists argued China wouldn't embark on QE in the short term, as interest rates are still well above zero and market demand for government bonds is strong. "It is encouraging for the PBoC to bring forth the discussion of sovereign bond trading, QE or not, the potential participation of PBoC is likely to improve market liquidity," said Wee Khoo Chong, senior APAC strategist at BNY Mellon in Hong Kong. Pan signalled there is more room to ease monetary policy as other economies are pivoting to cut rates this year. The appreciation momentum of the dollar is weakening, which will help keep the yuan stable and expand the room for China's monetary policy, he said. He also fuelled speculations the LPR will be lowered in coming months by saying that some banks' quotes of the rate significantly deviated from the actual best lending rate they offer to clients. The PBoC will work to improve the quality of such quotes to better reflect the lending market's rate levels, he said.



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## Bloomberg QuickTake Q&amp;A

## Why yen is so weak and what that means for Japan

By Yoshiaki Nohara

The yen has continued to languish near three-decade lows against the dollar, mainly because interest rates in Japan remain much lower than those in the US and elsewhere, diminishing the currency's relative allure. After several failed efforts by Japanese officials to talk the yen higher, the government moved more decisively as the yen breached the 160 level versus the dollar in late April, conducting its biggest ever intervention. Without specifying the precise timing, the finance ministry said it spent ¥9.8tn (\$62.2bn) combined to support Japan's currency.

## 1. Why is the yen so weak?

The yen has been one of the worst performers against the dollar this year among major currencies, falling about 10%. That's mainly because of the wide gap in interest rates between Japan and the US. Japan's new policy rate is by far the lowest in the developed world, at a range of between 0% and 0.1%. Federal Reserve officials have kept the US benchmark federal funds rate in a range of 5.25% to 5.5%. That's a major gap favouring investments in the US and therefore the dollar. The gap is likely to stay intact longer than previously expected because the US economy's performance has been stronger than anticipated, and inflation has proved sticky. As a result, the Fed has pushed back its rate cut expectations.

## 2. Will the yen stay weak or rebound?

That will largely depend on the trajectory of the interest rate gap. While the Fed delays rate cuts,



The yen has been one of the worst performers against the dollar this year among major currencies, falling about 10%

BoJ Governor Kazuo Ueda says the bank's inflation goal hasn't firmly been realised yet, meaning he's unlikely to raise rates fast or by a lot. That means any yen rebound is likely to be limited. The BoJ took a step toward policy normalisation on June 14 by announcing it would begin reducing its government bond purchases after July, with details on the exact scale of the cuts to come at the July 31 conclusion of its next board meeting. The yen fell, as many traders had expected more information.

## 3. What does the weak yen mean for the economy?

Generally, a weaker yen helps large Japanese companies with global operations because it increases the value of repatriated overseas profits. A weak currency can also help tourism by boosting the buying power of incoming travellers. Japan hosted a record number of tourists in March as the country saw an early start to the cherry blossom

season. On the downside, a soft yen makes imports of energy and food more expensive, hitting consumers. The nation's largest umbrella group of unions announced the largest wage hikes in three decades for the current fiscal year. Wage gains exceeding inflation may give consumers more confidence about spending. Prime Minister Fumio Kishida hopes one-off tax cuts that started in June will also support consumer sentiment.

## 4. How did Japan step in to prop up the yen?

While Japanese authorities don't disclose details of the timing, they've acknowledged that they conducted intervention. Trading patterns indicate the first intervention took place on April 29, after the yen hit 160 against the dollar for the first time since 1990. A sharp rebound in the yen followed later in the day, driving speculation that Japan had stepped back into markets to support its currency. The second round appeared to have taken place two days later, at the end of the US trading day, following the conclusion of the Fed's two-day meeting and in thin market liquidity.

## 5. What's next for the BoJ?

Ahead of the June 14 policy decision, one-third of economists surveyed by Bloomberg forecast the bank would conduct its next rate hike in July, with another 33% expecting authorities to wait until October. Some economists have pared back their bets on July, as they think it's unlikely the BoJ would both increase rates and lay out a detailed plan for cutting bond buying in one go. Ueda said a July hike is still possible should data on inflation and the economy justify the move.

## Banks' ECB resentment flares up again in leveraged loan probe

Bloomberg  
Frankfurt

The European Central Bank is confronting a fresh wave of criticism from banks over how it supervises the industry, amid a clampdown on a risky type of lending.

The gripes reflect renewed discontent with an approach to oversight that some bankers perceive as overly bureaucratic and not pragmatic enough, especially when compared with US authorities. Similar accusations surfaced about two years ago when leaders at firms including Deutsche Bank AG and Societe Generale SA aired irritation with what they saw as excessive interference.

Their criticism subsided after ECB implemented some reforms and the failure of several lenders in other jurisdictions last year made an argument in favour of strict oversight. Now bankers are becoming more vocal again as the ECB's new top regulatory official, Claudia Buch, continues what she calls an "intrusive" approach to oversight.

Some of the issues raised by the banking industry in 2022 are "resurfacing," Gonzalo Gasos, an official at the European Banking Federation, said in an interview. "They have to do with comparisons between European banks and their global peers." This time, the frustration of executives stems largely from the ECB's review of lending to heavily indebted firms, known as leveraged finance. Multiple banks have used a standard feedback opportunity to complain by letter about the way the watchdog carried out the probe, according to people familiar with the matter. While it's common for banks to push back, their unhappiness is also directed at the ECB's approach and not just the findings, they said, asking not to be named as the matter is private.

The gripes reflect renewed discontent with an approach to oversight that some bankers perceive as overly bureaucratic and not pragmatic enough, especially when compared with US authorities

One grievance raised by banks is that large parts of the review were conducted by outside consultants or ECB staff who don't follow the banks closely, resulting in a perception that they didn't have a good understanding of how the individual lenders engage in the business, said the people. Numerous lenders also criticised the probe for labelling some loans as nearing default or in default even though the companies in question continue to service the debt, they said.

"European supervision helps keep banks safe and sound," an ECB spokesman said in a statement to Bloomberg. It has "demonstrated its decisiveness and agility in swiftly responding to a series of external shocks: the pandemic, the war in Ukraine, the shift in the interest rate environment, the 2023 banking turmoil." Conflicts between banks and their regulators take place in other regions as well.

Yet challenging lenders was a key reason why the ECB assumed direct oversight of the industry a decade ago from national regulators who were seen as having too cozy a relationship with the firms. Buch, who took over this year, says more resilient banks are better able to compete internationally and wants to ensure that lenders can contend with new risks, such as from climate change.

That focus has added to irritations among bankers. Four banks breached ECB-set deadlines to address perceived failures in preparing for climate risks, setting them up for financial penalties after multiple warnings, Bloomberg reported previously.

Some of these banks, which are from Spain, Malta, Latvia and Lithuania, are angry because they're concerned about damage to their reputation, people familiar with the matter said now. Further banks from countries including Austria and Germany have been informed that they, too, are at risk of penalties, said these people.

There's also frustration among several banks over the time it takes the ECB to examine and approve so-called internal models that determine how much capital they need, the people familiar with the matter said. The process can drag on for years, one person said. A number of lenders including Deutsche Bank and Norddeutsche Bank ABP have disappointed investors after holding off on fresh share buybacks over reviews of their risk models.

## Bank of England keeps rates at 5.25% ahead of UK election

Reuters  
London

The Bank of England kept its main interest rate unchanged at a 16-year high of 5.25% on Thursday ahead of a July 4 election, but some policymakers said their decision not to cut rates was now "finely balanced".

The BoE's Monetary Policy Committee voted 7-2 to keep rates on hold, in line with economists' expectations in a Reuters poll. Deputy Governor Dave Ramsden and external MPC member Swati Dhingra remained the only policymakers to support a cut to 5%.

BoE Governor Andrew Bailey said in a statement alongside the decision that it was "good news" that the latest data had shown inflation was back at its 2% target, but that it was too soon to cut rates.

"We need to be sure that inflation will stay low and that's why we've decided to hold rates at 5.25% for now," he said.

Bailey's statement differed from last month, when he said he was "optimistic" that data was moving in the right direction for a rate cut.

Sterling fell against the US dollar after the announcement and British government bond yields dropped as investors saw a greater chance of an early rate cut. Markets priced in an 88% chance of a first quarter-point cut by September's meeting, up



Broadcast journalists report from outside the Bank of England in London on Thursday. BoE Governor Andrew Bailey said in a statement alongside the decision that it was "good news" that the latest data had shown inflation was back at its 2% target, but that it was too soon to cut rates.

from 74% before Thursday's decision.

The BoE vote follows a long-trailed decision by the European Central Bank earlier this month to start to cut rates, while financial markets do not expect the US Federal Reserve to lower borrowing costs until late this year.

A Reuters poll of economists published last week showed most expected a rate cut on August 1 after the BoE's next rate decision.

"We still expect the MPC to cut rates in August but this is not a done deal - they remain very data-driven so the evolution of key indicators over the coming month will be key," said Alpesh Paleja,

interim deputy chief economist at the Confederation of British Industry.

Any cut is likely to be too late for Prime Minister Rishi Sunak, whose Conservative Party is around 20 points behind the opposition Labour Party in the pre-election polls.

While Sunak has sought credit for the fall in inflation since he took office in October 2022, when it was at a 41-year high of 11.1%, Labour blames high mortgage rates on economic mismanagement by the Conservatives' previous leader, Liz Truss.

The BoE said the upcoming election had no impact on its decision.

The BoE expects inflation

to rise above target as the effect of past energy price falls drops out of annual inflation data, and repeated its May forecast for inflation to be around 2.5% in the second half of 2024.

In a sign the central bank may be getting closer to cutting rates, the BoE policy minutes said the decision to keep rates on hold had been "finely balanced" for some MPC members.

The BoE said indicators of inflation persistence - chiefly wage growth and services inflation - had moderated since its May meeting but remained high.

The MPC members whose views on a rate cut were "finely balanced" placed less

weight on higher-than-expected May services inflation than others.

They viewed the higher-than-expected reading as reflecting a nearly 10% rise in Britain's minimum wage and annual indexed rises in prices that reflected past inflation - factors they did not expect to have as big an upward effect on future inflation.

But for other MPC members, the high services price inflation and the fact that wage growth had been faster than standard economic models had predicted reinforced their view that it was too soon to cut rates.

Services price inflation has fallen less than the BoE expected at its May meeting - only declining to 5.7% rather than 5.3% - and private-sector wage growth is almost twice the rate the BoE judges as compatible with 2% inflation.

Since the start of the election campaign the BoE has been in a self-imposed period of silence, cancelling public events.

Before that, BoE Chief Economist Huw Pill described an excessive focus on a June rate cut as "ill advised" but both he and Deputy Governor Ben Broadbent - who steps down at the end of this month - said a rate cut over the summer was possible.

The BoE began to raise rates in December 2021, earlier than other major central banks, and they reached their current peak in August 2023.

## US regulators at odds over whether to issue new draft of bank capital hikes

Reuters  
Washington

US bank regulators are arguing over the path forward for rules easing bank capital hikes, with some wanting to allow additional feedback from Wall Street after the industry vigorously pushed back, said five people familiar with the matter. The Federal Reserve, which is leading the project, is considering repropose the "Basel endgame" rule, while the Federal Deposit Insurance Corporation (FDIC) and Office of the Comptroller of the Currency (OCC) do not want to go that route, the people said.

All three have spent the past few months poring over dozens of comments criticising its July 2023 proposal and considering changes. Once the agencies have agreed to a revamped draft, they have to decide whether to finalise the rules and have them take effect, or repropose them, allowing for a second round of feedback.

A reproposal that includes significant changes can add months to an already lengthy and complex process.

Fed officials believe that reissuing the proposal and allowing Wall Street banks which have said the rules will hurt lending and the economy to comment on changes to the draft would reduce the risk they sue to overturn the final version, said three of the sources.

But FDIC and OCC officials believe there is no

legal need to repropose the rule and that doing so just months ahead of the Presidential election could endanger the project, one person said. They worry presumptive Republican presidential nominee Donald Trump could hand control of the agencies to Republicans who oppose the rule should he regain the White House. The sources, which include industry and regulatory officials, asked not be identified discussing the private talks.

"Reproposing takes time," said Todd Phillips, a banking law professor at Georgia State University and former FDIC attorney who generally favours stricter rules. "Reproposing Basel now imperils it from ever being finalised."

The debate over how to proceed is important, as typically the three regulators prioritise operating in lockstep to provide banks with consistent rules.

The Basel proposal implements international capital standards agreed by the Basel Committee on Banking Supervision following the global financial crisis. The European Union on Tuesday said it will delay a core element of its Basel reforms by one year to January 2026. Reuters reported in March that the agencies planned significant changes, while the *Wall Street Journal* reported last month that they might halve the capital impact but were undecided on whether to repropose. Details on officials' thinking and the reason for the impasse are reported here for the first time.

