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US labour market loses steam; May producer inflation comes in tame

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Trump's auto tariffs strike at the heart of Japan's economy

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The Ras Laffan Industrial City, Qatar's principal site for production of liquefied natural gas and gas-to-liquids (file). Qatar continues to be the world's third-largest LNG exporter, though the volume slipped to 77.23mn tonnes last year from 78.22mn earlier.

Qatar dominates Mideast LNG exports into Asia-Pacific in 2024, says IGU

By Pratap John
Business Editor

Qatar dominated the Middle Eastern LNG exports into Asia-Pacific with 21.49mn tonnes of the total 32.17mn tonnes in 2024, the International Gas Union (IGU) said in its latest report. Middle Eastern exports into Asia-Pacific was the fourth-largest interregional trading pair for 2024 with 32.17mn tonnes, up 1.11mn tonnes from the previous year, dominated by Qatar (21.49mn tonnes) and Oman (8.84mn tonnes), IGU noted.

Trade between the Middle East and Asia totalled 45.99mn tonnes and was the third-largest inter-regional trading route for LNG in 2024, followed by imports from Asia-Pacific into Asia at 41.8mn tonnes. Total imports into Asia climbed by 11.74mn tonnes to a total of 117.56mn tonnes in 2024.

While flows into Asia were relatively small from North America (10.29mn tonnes), Africa (10.03mn tonnes), and Russia (8.49mn tonnes), exports from North America recorded the largest year-on-year in-

crease (+3.63mn tonnes), followed by increases from Africa (+3.02mn tonnes) the Middle East (+2.7mn tonnes), and Asia-Pacific (+2.53mn tonnes). Correspondingly for Asia, imports in 2024 rose the most from Australia (+2.48mn tonnes), largely driven by a 2.69mn tonnes increase from Australia to China.

Year-on-year additions from the US amounted to 3.63mn tonnes, followed by Qatar (+2.28mn tonnes), Nigeria (+1.45mn tonnes) and Angola (+1.09mn tonnes).

Qatar continues to be the world's third-largest LNG exporter, though the volume slipped to 77.23mn tonnes last year from 78.22mn earlier.

Qatar's 18.8% share of global LNG exports brings the joint LNG exports of the three largest exporters in 2024 to 60%, down 0.4 percentage points from 2023, the report said.

Meanwhile, IGU noted that global operational liquefaction capacity totalled 494.4 MTPY (as of end-2024) with an increase of 6.5 MTPY compared to 2023.

The projects put into production in 2024 mainly include

Plaquemines LNG T1-T8 (4.5 MTPY) in the US, Altamira LNG (1.4 MTPY) in Mexico, and Congo Marine XII FLNG (0.6 MTPY) in Africa.

The average utilisation rate in 2024 was 86.7%, a slight decrease of 2.0 percentage points from 2023.

There were some unplanned LNG outages in 2024, mainly due to mechanical faults and maintenance but also due to power outages and severe weather conditions.

Despite outages, 12 out of 22 LNG exporting markets achieved higher-than-average utilisation rates in 2024, including Russia, Norway, Papua New Guinea, the UAE, Oman, Qatar, the US, Australia, Malaysia, and Equatorial Guinea.

Meanwhile, some export facilities have been running below average – for example, the utilisation rate of the three Arzew plants in Algeria dropped from 90% in the early 2000s to 46% in 2024.

This drop, IGU pointed out, was jointly caused by the decrease in total LNG production and the increase in total liquefaction capacity.

GCC countries seen likely to borrow more to continue diversification

By Santhosh V Perumal
Business Reporter

The Gulf Co-operation Council (GCC) countries are "likely to borrow more to continue diversification, rather than slowing development and curtailing investment opportunities," according to Standard & Poor's (S&P). In the near term, S&P Global Market Intelligence expects a net negative impact on global FDI (foreign direct investment), mostly from the indirect repercussions of US tariffs – including a weaker oil price outlook and weaker global investor confidence.

"Lower oil prices – reflecting expectations of weaker oil demand and increasing Opec supply – are likely to constrain foreign exchange earnings generation capacity of large Mena (Middle East and North Africa) hydrocarbon exporters, in turn limiting their capacity to act as major investors in other countries within the region," S&P Global Market Intelligence said. Expecting Mena countries to continue to see the global

strategic competition between the US and China and the respective efforts of the two countries to expand their investment footprint in the region as an opportunity to attract foreign investments; it said the deals announced in the context of US President Donald Trump's recent trip to Saudi Arabia, the UAE, and Qatar are unlikely to change this multipronged approach.

The US dollar weakness would lower the cost of FDI for international investors from outside the US dollar area – Europe, China, India – and mitigate an FDI slowdown, according to the report. In particular, a weaker US dollar would support the external competitiveness of the GCC countries with currencies pegged to the US dollar. Conversely, currencies not pegged to the US dollar, such as Morocco's dirham and Tunisia's dinar, have appreciated recently (in part driven by the euro) weakening their host countries' competitiveness, it said.

The nature and sector breakdown of FDI in the region already has migrated

from hydrocarbons to areas as infrastructure, renewable energy, logistics, tourism and construction, it said, adding this is likely to continue, complemented by areas such as auto sector investments in Morocco, but aggregate flows are likely to remain dominated by the GCC states.

S&P Global Market Intelligence said the GCC countries have scope to benefit from FDI generated by supply chain adjustments, reflecting their well-trained labour forces, and increasingly attractive investment environments. These factors also will help them attract technology-related investments. Finding that the GCC region has made commitments to make sizeable FDI into the US economy, although these are spread over extended timeframes; it said such outflows are likely to reduce capital available for investment into non-GCC Mena countries, but these are still attractive venues for renewable energy and tourism developments.

Conversely, mainland China is likely to expand its commitments, on a project-specific focused basis, according to the report.

'Global energy outlook worsens on tariff, Opec+ woes'

Fitch Ratings has revised its 2025 outlook on the global oil and gas sector to 'deteriorating' from 'neutral' as a combination of US tariffs, Opec+ output hikes and growing non-Opec+ supply weigh on demand, reports Bloomberg.

Fitch now expects global oil demand to grow by about 800,000 barrels per day this year, lower than its previous forecast of just over 1mn. Meanwhile, faster supply growth means the market will remain oversupplied, the ratings firm said on Wednesday.

"There has been some tariff de-escalation; however, uncertainty over where tariff rates will settle and the impact of those tariffs already implemented will remain key factors in our macroeconomic forecasts, leading to lower-than-previously expected oil consumption increases," Fitch said.

The credit grader had also lowered its oil price assumption for 2025 to \$65 per barrel, from \$70 in April. It says the decision by Opec+



Fitch now expects global oil demand to grow by about 800,000 barrels per day this year, lower than its previous forecast of just over 1mn

to revive production at a faster-than-expected pace is pressuring oil prices, while prices could rise if more sanctions are placed on Russia, Iran or Venezuela, or if the conflict between Israel and Iran escalates.

Still, Fitch's change in its sector outlook will likely have a limited impact on ratings for individual issuers, who have built up their balance sheets after "a period of high oil prices and strong capital discipline," the firm said.

QSE edges lower as Arab retail investors, foreign funds book profits

By Santhosh V Perumal
Business Reporter

The geopolitical uncertainties yesterday had its influence on the Qatar Stock Exchange, which saw its key index lose about 87 points in index and more than QR4.5bn in capitalisation.

The transport, industrials, consumer goods and real estate counters witnessed higher than average selling pressure as the 20-stock Qatar Index shed 0.81% to 10,626.5 points, although it touched an intraday high of 10,712 points.

The Arab individuals were seen net profit takers in the main market, whose year-to-date gains narrowed to 0.52%.

About 85% of the traded constituents were in the red in the main bourse, whose capitalisation eroded 0.7% or

QR4.64bn to QR627.07bn mainly on account of midcap segments.

The foreign funds turned net sellers in the main market, which saw as many as 67 exchange traded funds (sponsored by AlRayan Bank and Doha Bank) valued at QR223 trade across three deals.

The Gulf institutions' weakened net buying had its influence on the main bourse, whose trade turnover fell amidst higher volumes.

The Islamic index was seen declining faster than the other indices of the main market, which saw no trading of treasury bills.

However, the local retail investors turned bullish in the main bourse, which saw no trading of sovereign bonds and treasury bills.

The Total Return Index fell 0.81%, the All Share Index by 0.73% and the All Islamic Index by 0.84% in the main market.



The transport, industrials, consumer goods and real estate counters witnessed higher than average selling pressure as the 20-stock Qatar Index shed 0.81% to 10,626.5 points, although it touched an intraday high of 10,712 points.

The transport sector index tanked 2.14%, industrials (1.44%), consumer goods and services (1.2%), real estate (1.02%), banks and financial services (0.31%) and insurance (0.25%); while telecom was up 0.4%.

Major shakers in the main bourse included Qatar German Medical

Devices, Lesha Bank, Widam Food, Al Faleh Educational Holding, Nakilat, Commercial Bank, Doha Bank, Qatar Oman Investment, Salam International Investment, Mannai Corporation, Baladna, Industries Qatar, Aamal Company, Qatar Electricity and Water, Gulf International Services,

Ezdan, Mazaya Qatar, Mesaieed Petrochemical Holding and Estithmar Holding.

In the venture market, Techno Q saw its shares depreciate in value. Nevertheless, Ooredoo, QLM, Qatar General Insurance and Reinsurance, Doha Insurance and Qatar Islamic Bank were among the gainers in the main market.

The Arab individual investors were net sellers to the tune of QR23.36mn compared with net buyers of QR0.79mn on Wednesday.

The foreign institutions turned net sellers to the extent of QR11.71mn against net buyers of QR48.32mn on June 11. The Gulf institutions' net buying weakened noticeably to QR0.14mn compared to QR9.74mn the previous day.

However, the local retail investors were net buyers to the tune of QR19.69mn against net profit takers

of QR43.77mn on Wednesday.

The domestic institutions turned net buyers to the extent of QR10.69mn compared with net sellers of QR6.72mn on June 11.

The foreign individual investors were net buyers to the tune of QR3mn against net profit takers of QR2.66mn the previous day.

The Gulf retail investors turned net buyers to the extent of QR1.57mn compared with net sellers of QR5.6mn on Wednesday.

The Arab institutions had no major net exposure against net profit takers to the tune of QR0.1mn on June 11.

The main market saw a 10% jump in trade volumes to 205.25mn shares but on 1% fall in value to QR451.11mn and 4% in deals to 24,208.

In the venture market, a total of 0.01mn equities valued at QR0.03mn changed hands across eight transactions.

Oil tanker titans stay calm but cautious after Mideast warnings

Bloomberg
London

Several of the world’s largest ocean-tanker operators said they remained calm but cautious after risk warnings from naval forces for vessels operating in and around the Arabian Gulf, the world’s largest oil-producing region. The risk notices were issued around the same time as US ordered some staff to leave its embassy in Baghdad on Wednesday, and followed threats by Tehran to strike American assets in the region in the event Iran is attacked over its nuclear programme.

But officials at four tanker firms, whose fleets can collectively move almost 300mn barrels of oil and fuel, said there’s been little movement in rates since both the UK Navy liaison and the Joint Maritime Information Center warned on Wednesday of heightened risk. The officials, who asked not to be identified due to the sensitivity of the situation, said their companies aren’t making any major adjustments to their operations, but are mindful that the situation could quickly change. “Shipowners are monitoring the developments closely,” said Jakob Larsen, chief safety and security officer of industry trade group BIMCO. “Military

clashes between Israel and Iran would be of the greatest concern to shipping in the Gulf and adjacent waters. While the most likely scenario might not directly impact shipping, any attack will have a certain potential to escalate and impact shipping as well as implicate military forces of other countries operating in the area, including the US.” On Wednesday, the UK Navy published a statement warning mariners that there was a heightened threat to vessels sailing through the Strait of Hormuz. The chokepoint is vital as about a quarter of the world’s oil supplies pass through it as they move on to global markets and oil prices soared as much as 5.9% in London.

Likewise, Joint Maritime Information Center, which liaises between military and commercial shipping in the area, warned of chokepoint risks. “Given the proximity of regional flashpoints to major maritime routes, the potential for rapid escalation involving a maritime nexus should not be discounted,” the JMIC said. “The situation remains fluid and highly volatile.” BIMCO said a full blown armed conflict – with Israel and US on one side, and Iran on the other – would most certainly “effectively close the Straits of Hormuz at least for a period of time and drive up oil prices.”

Egypt makes LNG supply deals with Aramco, Trafigura and Shell

Bloomberg
Cairo

Egypt agreed to buy liquefied natural gas cargoes for as many as two years from suppliers including Saudi Aramco, Trafigura Group and Vitol Group, putting the country on course to be a long-term importer as local production slows.

Egyptian Natural Gas Holding Co also made agreements with Hartree Partners LP, BGN, Shell Plc and Azerbaijan’s Socar, according to people with knowledge of the matter who asked not to be identified. The deals are to supply at least 125 cargoes per year for as long as two years, the people said. They add to accords earlier this year with Shell and TotalEnergies SE.

The move to secure shipments is aimed at cutting Egypt’s reliance on volatile spot markets, but also exemplifies the sharp turnaround in a country that until just a year ago was exporting LNG. Declining gas output from local fields at a time when an increasing population and rising temperatures are boosting demand have made Egypt a major importer and helped tighten global markets.

The big gas purchases come as the North African nation tries to reboot its economy after emerging from a foreign-currency crisis, and a shift to medium-term LNG deals leaves it less exposed to the volatility of the spot market. Egypt has already made plans to add several floating units to import the fuel.

Still, the higher requirements mean Egypt’s energy bill is likely to rise to about \$3bn a month over the summer from July, compared with about \$2bn last year, a person familiar with the matter said last month.

The country’s government has promised to end power cuts and embarked on a plan to avoid the shortages witnessed in previous summers when soaring demand led to massive nationwide blackouts.

Turkiye central bank seeks to repel short-term carry bets

Bloomberg
Istanbul

Turkish policymakers are taking steps to deter so-called “hot money” flows into the lira, pushing back against one of the world’s most lucrative currency bets.

While the central bank has kept a tight rein on the lira market and allowed the currency to slide gradually, traders say market moves have become less predictable lately. On recent Fridays in particular, the lira has weakened three to four times faster than the average pace on other days, according to Bloomberg calculations.

The accelerated Friday decline undercuts a popular short-term strategy that involves buying liras late on Thursday via overnight swaps to earn interest over the weekend, and then exiting the position on Monday. An exaggerated Friday drop in the lira can make those weekend bets unprofitable.

With central bank interest rates near 50%, Turkiye has again become an attractive destination for so-called carry traders, who borrow funds in countries where interest rates are low and invest them in the assets of nations where rates are higher. Officials have been seeking to deter the shortest-term carry trades, fearing a spike in volatility should they be rapidly unwound, according to people familiar with the matter, who asked not to be named speaking about internal policies.



While the central bank has kept a tight rein on the lira market and allowed the currency to slide gradually, traders say market moves have become less predictable lately

That happened this March, when the currency plunged 10% in a matter of hours after the detention of Istanbul’s mayor. That selloff was driven largely by foreign investors exiting their lira positions, Finance Minister Mehmet Simsek said at the time.

“The authorities are not very keen to draw short-term carry trade inflows,” said Erkin Isik, chief economist at QNB Bank in Istanbul. “They saw the wide swings in

the exchange rate and FX reserves amid rapid outflows from those trades,” he said.

The central bank declined to comment.

The March selloff was ultimately contained with a resumption of interest-rate hikes, new measures aimed at reducing lira liquidity, and an increase to reserve requirement ratios on banks’ short term liabilities abroad. A broader uptick in appetite for emerging-market assets is also helping after US President Donald Trump

put some of his most aggressive trade tariffs on pause.

While the lira continues to steadily lose value against the dollar, the government has been pursuing a policy of real appreciation, meaning keeping losses below the rate of consumer inflation. With monthly inflation expected to slow, policymakers have been making the pace of real appreciation harder to gauge.

Since the steep drop on March 19, Turkiye’s lira is down further 3.3% versus the dollar.

Still, the trade remains profitable. Carry-trade returns for the lira in May were the biggest since 2021, compensating for March’s losses, according to a Bloomberg measure based on rolling one-month forwards. Inflows from carry trades amounted to about \$3.4bn since April 18 through last week, according to calculations by independent Turkish economist Haluk Burumcekci.

The trade is now generating profits for a fifth successive quarter, a winning streak that last occurred in 2012. But it’s mostly driven by short-term capital inflows, or hot money, and very short-term bets – often lasting no more than a week, according to traders who spoke on condition of anonymity.

Morgan Stanley, Deutsche Bank AG and ING Groep NV recently renewed their recommendations for positioning in lira-denominated carry trades, while HSBC has advocated buying long-term local-currency bonds.

Bloomberg QuickTake Q&A

Why rare earths are China’s trump card in trade war with US

By Joe Deaux Jun

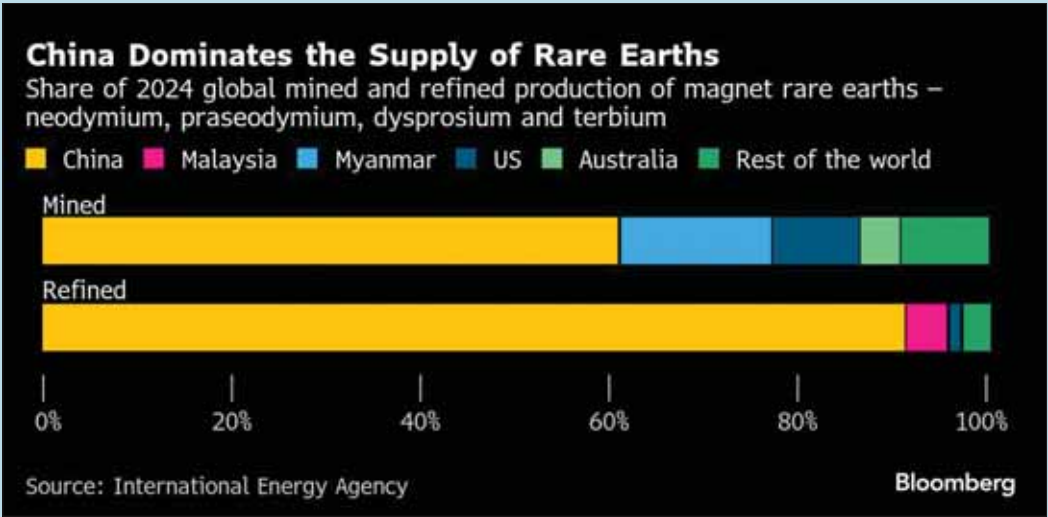
Rare earths are among the most critical raw materials on the planet, deeply embedded in the technologies that underpin modern life. Yet few people have heard of them or know what they do. With obscure names like gadolinium and dysprosium, rare earths are used across sectors – from semiconductors and iPhones to MRI machines and cancer treatments. More recently, demand has been propelled by the green tech that’s helping to cut carbon emissions. The world has long been reliant on China for rare earths – something the country has used to its advantage in responding to the new trade war initiated by US President Donald Trump. China leveraged its dominance of the supply chain to retaliate against American tariffs by restricting the export of rare earths. Unwinding these limits has been a flashpoint in trade talks between the two superpowers and threatened to undermine the delicate 90-day tariff truce they agreed in May. Constraints on the flow of rare earths from China could have implications across the US economy, including the military-industrial complex. The F-35 fighter jet requires more than 900 pounds (408 kilograms) of rare earths, according to the US Department of Defense.

What are rare earths?

The rare earths are a set of 17 metallic elements, grouped together because of their chemical similarities. Their optical, magnetic and electrical properties make them suitable for a wide variety of applications. Terbium and yttrium, for example, enable the vibrant colours on smartphone and television screens, while the ability of cerium to facilitate chemical reactions means it’s commonly used in catalytic converters to clean up car exhaust fumes. Neodymium and praseodymium have been harnessed to create permanent magnet motors. These can convert the electricity stored in a battery into motion – to rotate the wheels of an electric vehicle, for instance. They can also work in the opposite direction to turn motion into electricity, such as from the spinning of wind turbine blades.

Just how rare are rare earths?

Contrary to their name, rare earths are actually quite common in the Earth’s crust – cerium is more abundant than tin or lead. But the challenge is finding them in a high enough concentration in one place for mining to be cost-effective. Extraction can be harmful to the environment as large amounts of water and energy are needed to separate rare earths from the rocks in which they reside. There’s also a risk that mining them will contaminate local



soil and groundwater, as rare earths are often found together with radioactive elements like uranium and thorium.

Who are the top suppliers of rare earths?

The US was the world’s top producer across the 1960s to 1980s, but it fell away as China began to scale up its efforts. Low-cost operations enabled the East Asian nation to flood the market with cheap rare earths and establish a near-monopoly over the global supply chain. China is responsible for around 70% of the volumes dug up from mines. It produced 270,000 metric tonnes of rare earths in 2024, doubling its output over five years, according to data from the US Geological Survey. The US came a distant second with 45,000 tonnes. Underpinning China’s dominance is the fact that it’s home to almost half the world’s reserves of rare earths, which are deposits that can be economically extracted. Its 44mn tonnes of reserves are more than double those found in second-place Brazil. The US is just seventh in the pecking order, with about 1.9mn tonnes of reserves. It also has little capacity to refine them. In fact, most countries are forced to send the rare earths they mine to be refined in China as it dominates the processing of these materials too.

How has China leveraged its control over rare earths?

China has long recognised its edge when it comes to rare earths. Leader Deng Xiaoping said back in 1992 that “the Middle East has oil, China has rare earths.” Its sway over the market became apparent in 2010 when it blocked exports to Japan for two months after a flare-up of a maritime border dispute. That sparked

a long road of Japan trying to reduce the dependence of its rare-earth supply on China, although it still only trimmed it from 80%-90% to 60%, former Economic Security Minister Takayuki Kobayashi told Bloomberg News. China’s central government has a firm grip over the country’s rare-earth production and exports. It’s been flexing its muscles in recent years as tensions ratcheted up with the US over access to semiconductors. In late 2023, China expanded its restrictions on the export of technologies used to process rare earths, bolstering its command over refining activities. And now the country has wielded its influence over rare-earth supply to retaliate against the tariffs Trump has imposed on US imports of Chinese goods, as well as the American curbs on semiconductors and chipmaking technology.

How has China used rare earths as a weapon in the trade war?

Going beyond tit-for-tat tariffs, China added seven rare earths and permanent magnets to its export control list in early April, meaning companies need to secure special licenses to send these materials overseas. As part of a trade war detente, China suspended the US export restrictions it unveiled in early April for items with both military and civil applications. But there was confusion over whether this reprieve extended to rare earths and the US accused China of continuing to “choke off” supply. A resumption of deliveries was top of the Americans’ wish list in the second round of trade talks held in June. Ahead of the discussions, the Chinese commerce ministry said that it had granted approval to some applications for the export of rare earths, without specifying which countries or industries were covered. The process of securing an export permit is opaque and difficult to verify, allowing officials to turn

these limits on and off again with little visibility from the outside world. Many of the metals targeted by the export restrictions are so-called heavy rare earths, which are almost exclusively produced by China and typically more valuable. This includes lutetium, which serves as a catalyst to break down crude in oil refineries, and scandium, which features in the aluminium alloys used in civilian and military aircraft. The export controls put pressure on US companies. Tesla Chief Executive Officer Elon Musk said in April that the curbs on exports of rare-earth magnets had disrupted production of the Optimus humanoid robot, which needs these materials for the motors in its arms. Meanwhile, Ford Motor Co temporarily shuttered a factory in Chicago in May because it ran short of rare-earth components. The rare-earth export limits echoed similar restrictions China rolled out over the last two years on other critical minerals, such as gallium, germanium, graphite and antimony.

How is Trump trying to boost US production of rare earths?

The US depends on China for 70% of its rare-earth imports – a number Trump wants to bring down by increasing domestic supply. In March, he signed an executive order invoking wartime emergency powers to expand American production and processing of critical minerals and rare earths. The aim is to provide more financing, loans and other investment support, and accelerate the permitting process for new projects. Trump then launched a probe into the US critical minerals supply chain in April, ordering Commerce Secretary Howard Lutnick to determine whether the country’s reliance on imports poses a threat to national security and if tariffs need to be applied. The results of the investigation must be delivered within 270 days. Import taxes wouldn’t translate to an immediate surge in US supply. There’s only one operational rare-earth mine in the country at present: MP Materials Corp’s Mountain Pass mine, reopened in 2018, in California’s Mojave Desert. Getting other projects up and running would be a years-long and expensive process. In the meantime, American businesses that need rare earths would likely pay more for their imports if new tariffs were introduced – assuming China allows these materials to be exported. Trump is looking beyond US shores for rare earths as well. He’s homed in on the mineral riches of Greenland, which has the eighth-largest reserves of rare earths in the world, mooting a potential takeover of the Danish territory. The US has also signed an agreement to exploit Ukraine’s critical minerals. Trump has pointed to the European country as a source of rare earths but it doesn’t have any major reserves that are internationally recognised as economically viable.

Trump auto tariffs strike at heart of Japan's economy

Bloomberg
Tokyo

US President Donald Trump's tariffs threaten to batter Japan's vital auto industry and derail the country's long-standing efforts to engineer a sustainable economic recovery. With the 25% US tariff now in place on cars and auto parts, Japan's major automakers — including Toyota Motor Corp, Honda Motor Co, Mazda Motor Corp and Subaru Corp — are bracing for a collective hit of more than \$19bn this fiscal year alone. And it's not just the household names feeling the pain. Northwest of Tokyo in Gunma Prefecture, where Subaru operates its main factory, the effects are already being felt. With costs rising, Yoshiyuki Nakajima, president of Shoda Seisakusho Co — a supplier to Subaru — warned that his firm will be forced to slash profit margins if the tariffs persist. Worst case, layoffs will be unavoidable. "We'll have no choice," he said.

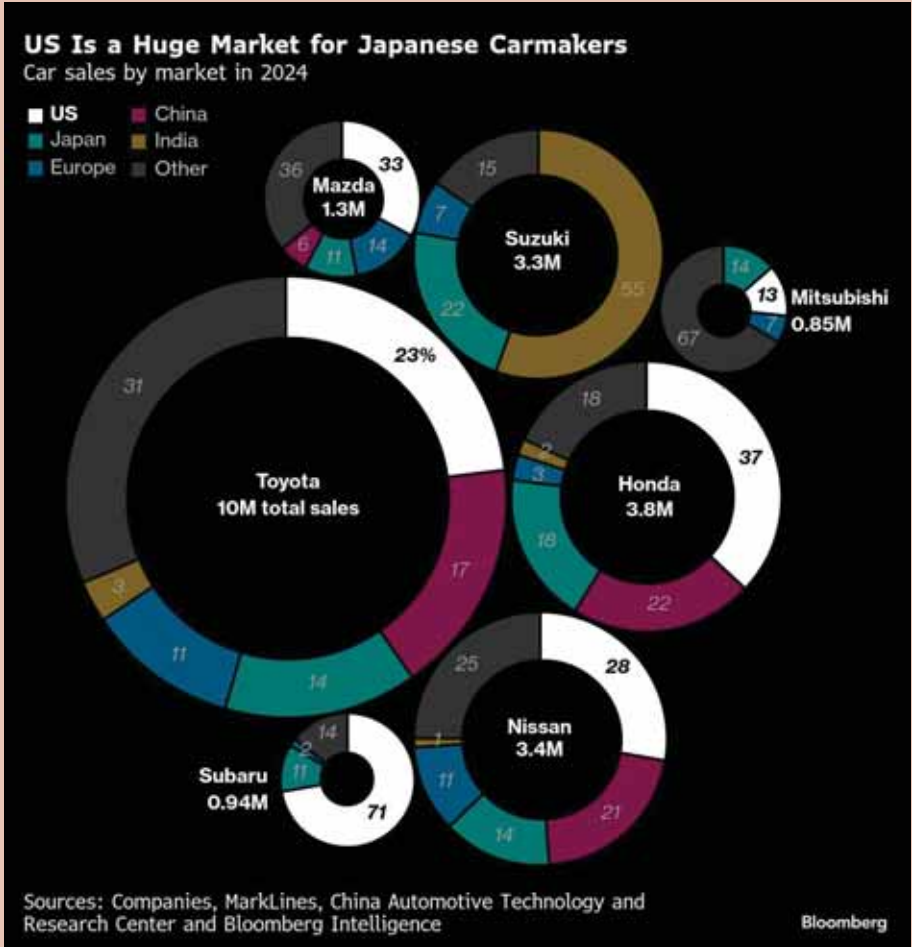
That sentiment is emblematic of the broader turmoil rippling across Japan's industrial heartlands, where a dense web of small and mid-size suppliers form the backbone of the automotive sector — the country's largest source of exports and a key provider of jobs and investment. Two-thirds of Japan's workforce is employed by firms with fewer than 1,000 people, and many of those jobs are tied, directly and indirectly, to the auto industry. The trade shock hits just as Japan is starting to see signs of a "virtuous cycle" — a loop of rising wages, stronger spending and higher prices that policymakers hope will lift the economy out of its decades-long stagnation. Now, with auto companies reconsidering wage hikes and pulling back on growth plans, the momentum that Japan has worked hard to build is at risk of stalling. Around 64% of polled economists see the tariffs sparking a recession in the world's fourth-largest economy. Even before the levies, companies like Shoda Seisakusho were struggling to keep up with the global shift to electric vehicles. Nakajima has had to cut staff at two factories in China and freeze new investments. He now sees pay increases for his 200 workers next year as challenging. With the US tariffs added to the mix, the outlook is grim. "I often say that there's no bright future for us if we simply continue running our business in the same way," Nakajima said. The Japanese government is scrambling to contain the fallout. Prime Minister Shigeru Ishiba, who's preparing for a national election next month, needs to show he can defend Japan's economic interests. His chief trade negotiator Ryosei Akazawa is expected to travel to North America for the sixth time to try and win concessions ahead of the G-7 summit in Canada on June 15, where Ishiba may meet with Trump face-to-face. Analysts see Tokyo's best scenario in the negotiations as getting the auto tariffs down to 10%, which would ease, but not eliminate, the pain. Typically the cost of tariffs gets spread out — about one third falls on suppliers, another third on carmakers and a final third on consumers, according to Tatsuo Yoshida, senior auto analyst at Bloomberg Intelligence. He estimates a 10% tariff could be manageable over time, with gradual price increases of 2% to 3% a year and

by updating car models to keep buyers interested. But as levies get higher, the strain becomes more acute. Tariffs close to 25% would likely leave at least a couple of Japan's automakers on the ropes and in need of assistance, Yoshida said. "Like with General Motors during the global financial crisis, Japan's carmakers are just too big to fail," Yoshida said. The numbers behind the auto industry show why all this matters. The sector employs 5.6mn people — or about 8.3% of Japan's work force — and generates around 10% of gross domestic product, according to the Japan Automobile Manufacturers Association. It's a pacesetter for wage trends in Japan, and plays an outsized role in trade. Automobiles and their parts account for a third of Japan's exports to the US, the nation's largest export market and the biggest contributor to Tokyo's trade surplus with Washington — the very imbalance that Trump has long fixated on. Out of the some 9mn vehicles built in Japan annually, 1.5mn are shipped to

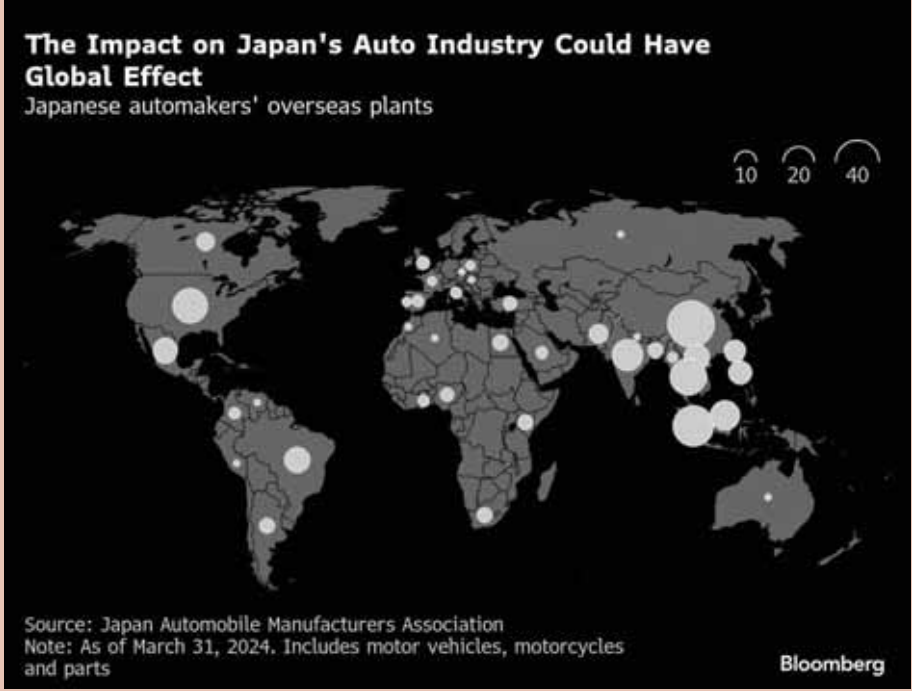
The trade shock hits just as Japan is starting to see signs of a "virtuous cycle" — a loop of rising wages, stronger spending and higher prices that policymakers hope will lift the economy out of its decades-long stagnation. Now, with auto companies reconsidering wage hikes and pulling back on growth plans, the momentum that Japan has worked hard to build is at risk of stalling. Around 64% of polled economists see the tariffs sparking a recession in the world's fourth-largest economy

the US. Subaru is especially vulnerable, with 71% of its sales coming from there, according to Bloomberg Intelligence. Subaru has said it will face a \$2.5bn hit from the tariffs in the fiscal year ending March 2026. One option is to shift some production to the US, where locally built cars are taxed less. But that creates problems for the many suppliers that depend on domestic manufacturing. Chief Executive Officer Atsushi Osaki signalled a shift may be necessary. Subaru "will continue developing our products in Japan, but it's inevitable for us to expand our capacity in US," he said last month. Over at Daido Steel Co in Aichi Prefecture, which makes magnets used in hybrid engines and employs about 12,000 workers, concern is rising. Although it doesn't export directly to the US, the firm supplies Honda and indirectly all major automakers in Japan, so the impact of Trump's tariffs will be significant. "It comes down to how carmakers respond," said Mikine Kishi, general manager of Daido Steel's corporate planning department. "If they decide they're not going to manufacture in Japan anymore, or that they'll lower total production volumes, that would have an extremely big impact on our business." Some carmakers have already started to adjust. Honda has postponed its \$11bn EV supply chain expansion in Canada and is moving production of the hybrid Civic model from Japan to the US. Subaru is reviewing all of its investments, including the development of EVs. Nissan Motor Co has halted US orders for SUVs built in Mexico, and Mazda is stopping exports to Canada of a model manufactured at

its Alabama joint venture with Toyota. Toyota, the world's No 1 automaker, hasn't shifted production yet, but CEO Koji Sato said the company is consider building out its production footprint in the US in the medium to long term. The calculation is different for small firms. For Hasegawa Yuuki Co, which employs about 50 people in Gunma, where it makes plastic parts for Honda, Subaru and Nissan, a 15% tariff is the dividing line between manageable and severe pain, according to President Noriyuki Hasegawa. The company is already losing 5% of its business after Honda shifted its production to Alabama. "I don't hold much hope for the talks," Hasegawa said. "Japan doesn't have much negotiating ammunition." Hasegawa is trying to shift focus to new sectors like furniture storage. "Our car-related business is certain to take a hit so I think we have to consider making products for things besides cars," he said. "We're going to need one or two other pillars to make up the loss." For others, the strategy is survival. At Ogami Co, another Gunma plastic parts maker for Subaru and others, President Hiroaki Ogami says he's hitting the brakes on capital investment, while wage hikes next year look difficult. Larger firms may be able to weather the storm by expanding abroad, but smaller players like Ogami don't have that kind of capital and manpower flexibility. The company has a factory in the Philippines, but tariffs apply there, too. The charges could squeeze already thin profit margins of less than 10%, Ogami said. Japan's central bank is watching the situation closely. The Bank of Japan has long said stable growth and inflation depend on steady wage gains. Roughly speaking, that means wage gains of 3% to ensure price growth of 2%. For over a decade, the BoJ tried to engineer that outcome with massive stimulus, buying more government bonds and other assets than the size of the economy. Core inflation has now held above 2% for about three years, allowing the BoJ to begin normalising policy and start raising interest rates. But it remains cautious. Japan's economy already shrank in the first quarter, partly because consumer spending is still weak, despite wages rising over 2%. Another contraction would tip the country into technical recession. BoJ officials have made their concerns clear. In a summary of opinions at their April-May meeting, board members mentioned tariffs 27 times. One warned about the disruptions to supply chains, slower growth and negative impact on wages. Just this week, Ishiba said his No 1 pledge in next month's upper house election would be to raise wages by at least 50% over the next 15 years. That implies annual wage growth of around 2.75%, a tall order if Trump's tariffs stay in place. Like many in the auto sector, Ogami said he'll be watching tariff news closely, wondering if the new wave of protectionism will last beyond Trump's term in office. His company has made it through the setbacks of the global financial crisis, the 2011 tsunami, earthquake and nuclear disaster and the pandemic, but he's not so sure this time round. "It's not like we can just say, 'Let's just put up with it for four years,'" Ogami said. "If things continue like this, we won't be able to survive. We need to come up with something."



Vehicles bound for export in Yokohama in February. With the 25% US tariff now in place on cars and auto parts, Japan's major automakers — including Toyota Motor Corp, Honda Motor Co, Mazda Motor Corp and Subaru Corp — are bracing for a collective hit of more than \$19bn this fiscal year alone.



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UK economy shrinks by most since 2023 as US tariffs hit

Reuters
London

Britain's economy slowed sharply in April, reflecting shockwaves from US President Donald Trump's announcement of wide-ranging tariffs and a one-off hit from the end of a tax break on property sales, official data showed on Thursday.

Gross domestic output shrank by a larger-than-expected 0.3% in April from March – the biggest monthly drop since October 2023 and more than the 0.1% fall forecast in a Reuters poll, following 0.2% growth in March. Finance minister Rachel Reeves said the GDP numbers were “clearly disappointing”.

Thursday's data comes a day after she set out a multi-year spending review which divided up more than £2tn pounds of public spending between government departments.

Britain's economy has grown slowly since the Covid-19 pandemic, and the fall in monthly GDP was led by a

0.4% contraction in output from the dominant services sector.

A big factor in this was a slump in real estate and legal activity in April after the end of a temporary tax break on house purchases, which contributed 0.2 percentage points of the overall 0.3 percentage point fall in output in April. Car makers also reported lower output and exports to both the US and the European Union.

Sterling fell by close to half a cent against the dollar on the back of the figures, and gilt yields hit a one-month low. British goods exports to the US fell by £2.0bn (\$2.7bn) in April, the largest drop since monthly records began in 1997.

So far, Britain is the only major economy to have agreed a trade deal with the US, which is intended to exempt it from Trump's increased tariffs on aluminium and steel imports. A 10% goods levy remains in place.

The US and China this week agreed on a plan, subject to approval from Trump and his Chinese counterpart Xi

Jinping, to ease trade tensions after two days of talks in London.

Monthly GDP data tends to be volatile and some economists have noted a pattern since 2022 of British GDP being stronger in the first quarter of each year and weaker in the second half, raising questions about seasonal adjustment since the pandemic.

“Looking through the noise and data quality issues, we expect the underlying pace of growth to remain underwhelming over the next couple of years,” Matt Swannell, chief economic advisor to the EY ITEM Club, said.

“The drag from US trade policy has added to a range of domestic headwinds, including the significant tightening of fiscal policy and the lagged pass-through of past interest rate rises.”

Britain's economy had expanded by 0.7% in the first quarter of 2025, outstripping growth in other countries in the Group of Seven advanced economies and prompting the Bank of England to revise up its

full-year growth forecast to 1% last month.

However, the BoE revised down its growth forecast for 2026 to 1.25% and said it expected the tariffs to knock 0.3% off British output in three years' time.

BoE policymakers are expected to keep interest rates unchanged next week as they are faced with competing forces of stubborn inflation and a relatively sluggish economy, but most economists polled by Reuters expect two more rate cuts this year.

“Though the door is probably closed on an interest rate cut next week, these downbeat figures increase the likelihood of a policy loosening in August, despite lingering concerns over high inflation,” Suren Thiru, economics director at ICAEW, an accountancy body, said.

Recent business surveys have shown firms slowing their hiring and investment plans due to big increases in labour costs announced by Reeves last October.

Arm CEO sides with Nvidia against US export limits on China

Bloomberg
London

Arm Holdings Plc Chief Executive Officer Rene Haas said on Thursday that US export controls on China threaten to slow overall technological advances and are ultimately bad for consumers and companies, aligning himself with Nvidia Corp Chief Executive Officer Jensen Huang and others looking to ease tensions between Washington and Beijing.

“If you narrow access to technology and you force other ecosystems to grow up, it's not good,” Haas said in an interview with Bloomberg at the Founders Forum Global conference in Oxford. “It makes the pie smaller, if you will. And frankly, it's not very good for consumers.” He also noted that Arm's footprint in China is “quite significant.”

Semiconductor companies such as Arm and Nvidia Corp are increasingly warning that export bans will compel China to develop its own industry and could ultimately backfire on the US. Washington has imposed limits on exports of the most sophisticated chips and chip-making equipment to China in recent years in an efforts to stall Beijing ambitions to advance in everything from artificial intelligence to quantum computing.

In April, the Trump administration placed new curbs on exports of data centre processors to Chinese customers, effectively shutting Nvidia out of the market. The restrictions will cost Nvidia about \$8bn in Chinese revenue during its second fiscal quarter, the company said last month.

In late April, Nvidia's Huang made his strongest comments yet against US export controls, saying the restrictions are holding American businesses back from better capitalising on opportunities. He warned in an interview with Bloomberg Television last month that Chinese AI rivals are filling the void left by the departure of US companies from that market, and their technology is becoming more powerful.

“The Chinese competitors have evolved,” he said in the interview. Huawei Technologies Co, a Chinese tech company blacklisted by the US government, has become “quite formidable,” he said.

There are some signs that trade tensions will ease. Washington and Beijing ended the latest round of trade negotiations this week, with Donald Trump declaring a deal was “DONE” to restore the flow of critical metals from China. US Commerce Secretary Howard Lutnick said that some tech curbs would be unwound in return.

Arm has a long history with Nvidia – and was at one point an acquisition target until regulatory hurdles caused the deal to collapse. Its central processing units are paired with Nvidia's graphics processing units to boost computing speed for artificial-intelligence workloads, including Nvidia's Grace Blackwell platform.

Haas said his personal lobbying efforts have increased as tensions between the US and China grew.

“I've spent far more time in Washington in the last year and a half than I have in my entire career,” Haas said. “The current administration has a lot of smart people who are who are connected to our industry, and I think we're looking to make our voice heard.”

China affirms trade deal with US, says it always keeps its word

China on Thursday affirmed a trade deal announced by US President Donald Trump, saying both sides needed to abide by the consensus and adding China always kept its word, reports Reuters. The deal, reached after Trump and China's President Xi Jinping spoke on the telephone last week, brings a delicate truce in a trade war between the world's two largest economies.

“China has always kept its word and delivered results,” Lin Jian, a foreign ministry spokesperson, said at a regular news conference. “Now that a consensus has been reached, both sides should abide by it.”

The Trump-Xi telephone call broke a standoff that had flared just weeks after a preliminary deal was reached in Geneva. The call was quickly followed by more talks in London that Washington said had put “meat on the bones” of the Geneva agreement to ease bilateral retaliatory tariffs.

The Geneva deal had faltered over China's continued curbs on minerals exports, prompting the Trump administration to respond with export controls preventing shipments of semiconductor design software, jet engines for Chinese-made planes and other goods to China.

US labour market loses steam; producer inflation comes in tame

Reuters
Washington

The number of Americans filing new applications for unemployment benefits held at an eight-month high last week, consistent with easing labour market conditions, while slowing domestic demand helped to restrain producer prices in May. In the absence of economic uncertainty caused by President Donald Trump's aggressive tariffs on imported goods, the softening labour market conditions and benign producer inflation reported by the Labor Department on Thursday would support a move by the Fed to resume its interest rate cuts soon.

The data was released a day after the Labor Department reported a moderate rise in consumer prices in May. Despite the tamer inflation readings, economists expected inflation pressures to start building up from June through the second half of the year as businesses pass on import duties to consumers. Surveys, including from the US central bank, have suggested higher prices are coming.

The Federal Reserve is expected to leave its benchmark overnight interest rate in the 4.25%-4.50% range at the end of its two-day policy meeting next Wednesday.

“But it won't be the tariffs in place now that prevent the Fed from cutting rates next week,” said Chris Low, chief economist at FHN Financial. “It is the chance trade talks might collapse and tariffs might jump in coming months, causing a supply shock that has the Fed sidelined.”

Initial claims for state unemployment benefits held steady at a seasonally adjusted 248,000 for the week ended June 7. Economists polled by Reuters had forecast 240,000 claims for the latest week. Claims could remain elevated, with the school year ending this month as some states allow non-teaching staff to collect benefits during the summer holidays.

Though there have been no widespread layoffs as employers hoard workers in an uncertain economic environment, the labour market is losing steam. An immigration crack-down by the White House is also slowing employment gains. Non-



The Federal Reserve Building in Washington. The Fed is expected to leave its benchmark overnight interest rate in the 4.25%-4.50% range at the end of its two-day policy meeting next Wednesday.

farm payrolls increased by 139,000 jobs in May, down from 193,000 a year ago.

A lagging measure of employment, the Quarterly Census of Employment and Wages (QCEW), has suggested a much slower pace of job growth between April 2024 and December 2024 than reported in the survey of establishments from which the nonfarm payrolls data is compiled. Economists said that data partly reflected reduced labour supply because of immigration restrictions imposed by former President Joe Biden's administration in mid-2024.

The labour pool could continue to decline as the Trump White House ramps up deportations. The QCEW data is derived from reports by employers to the state unemployment insurance programs. Economists said the data raised the possibility that payrolls could be revised substantially down from April 2024 through May 2025. Much would, however, depend on the QCEW data for the first quarter.

“All things considered, we think the 2025 benchmark revision is most likely to revise down job gains from

April 2024-March 2025 by 800,000-1.125mn, with the range for August's preliminary benchmark announcement about 200,000 higher,” said Jonathan Millar, senior US economist at Barclays.

“This would trim monthly payroll gains over the benchmark period by about 65,000-95,000 per month relative to the current estimate of approximately 150,000 per month.”

Easing labour market conditions were reinforced by the claims report, which also showed the number of people receiving benefits after an initial week of aid, a proxy for hiring, increased 54,000 to a seasonally adjusted 1.956mn during the week ending May 31, the highest level since November 13, 2021. Recently laid-off workers are struggling to find work.

Stocks on Wall Street were mixed. The dollar fell against a basket of currencies. US Treasury yields dropped.

A separate report from the Labor Department's Bureau of Labor Statistics showed the producer price index for final demand rose 0.1% in May after a revised 0.2% decline in April. Economists had forecast the PPI would rise 0.2% after a previ-

ously reported 0.5% drop in April. In the 12 months through May, the PPI advanced 2.6% after rising 2.5% in April.

Wholesale goods prices increased 0.2% after gaining 0.1% in April. Gasoline prices rebounded 1.6% while the cost of food edged up 0.1% amid a 1.4% increase in egg prices. Excluding food and energy, goods prices rose 0.2%, accounting for more than 80% of the increase in the cost of goods.

There were, however, some signs of tariff-related price increases. Wholesale prices for finished durable consumer goods surged 0.4% after rising 0.2% for three straight months.

Services prices edged up 0.1% after falling 0.4% in April. A 0.4% jump in trade services, which measure changes in margins received by wholesalers and retailers, was partially offset by a 0.2% decline in transportation and warehousing services.

Airline fares fell 1.1%, but prices for hotel and motel rooms rebounded 1.4%. Portfolio management fees decreased 1.0%. The cost of hospital outpatient care fell 0.3%, while doctor visits were 0.2% more expensive.

Global money managers off track to hit key climate metric

Bloomberg
New York

The asset management industry is continuing to invest in a way that will drive up emissions and temperatures, according to a new study by BloombergNEF.

The BNEF analysis, which looked at almost 70,000 investment funds across the globe, found that fund bosses – on average – are still allocating money to energy companies whose capital expenditure favours high-carbon activities.

The results “show that investment products and investors are far away from being aligned to net zero,” BNEF analysts led by Ryan Loughhead wrote in a report published on Wednesday.

The study takes a unique approach to trying to establish the connection between asset managers' investments in energy companies and the knock-on impacts on efforts to limit warming to the critical threshold of 1.5C. Scientists have estimated that

the planet is currently on track to overheat at roughly double that rate, unless governments and the private sector take drastic steps to alter course.

To arrive at their conclusions, the BNEF analysts looked at fund managers' holdings in companies involved in the supply of energy, whether through extraction, transportation or generation. It then measured how much corporate capex enabled by those investments went to fossil-fuel production and how much to low-carbon sources.

They found that for every \$10mn of capital expenditure devoted to fossil-fuel production, only \$4.8mn supported the supply of low-carbon energy – equivalent to a ratio of 0.48 to 1. BNEF has dubbed its new metric the energy supply fund-enabled capex ratio, or ESFR.

It's the latest study to indicate that global decarbonisation efforts are faltering, amid rising costs, political opposition and logistical bottlenecks. It also underlines the critical role the finance sector

plays in enabling the transition to a low-carbon world.

“If we want a net zero energy system – and for low-carbon technologies to displace what provides our energy today – we'll need to invest at a much larger scale in the low-carbon economy,” Loughhead said in an interview.

“Investors have a significant role to play in that story as facilitators of capital.”

BlackRock Inc and Vanguard Group Inc, the two largest US asset managers, had ESFR scores of 0.47 and 0.48, respectively, as of June 2024. By contrast, European managers – in aggregate – have a ratio of 0.85. Asia-Pacific managers had an ESFR of about 0.37, though data is scarcer for that region.

A spokesperson for BlackRock said the firm's role is to serve as a fiduciary for its clients and invest according to their mandates. As a result, BlackRock is one of the largest investors in traditional energy and renewables, the spokesperson said. A spokesperson for Vanguard didn't

reply to a request for comment.

For context, funds that track the S&P 500 have ESFRs of about 0.5. That compares with 0.43 for the STOXX Europe 600 and 0.26 for the FTSE 100. The indexes contain the world's biggest oil and gas producers, while their exposure to clean-energy companies is much smaller.

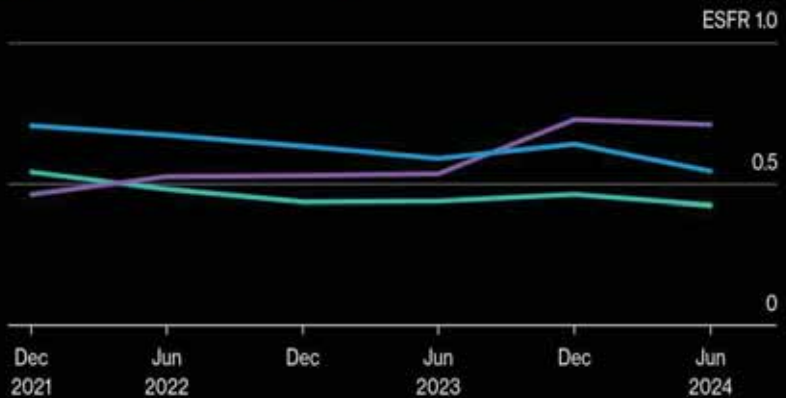
“The fact that asset managers don't have as large an allocation to the low-carbon economy as is necessary for net zero is likely because investors don't see it as entirely investable today,” Loughhead said. “That in itself should create a signal for policymakers and other seeking to foster the transition.”

BNEF has developed a suite of energy-supply ratios to track the investment in and financing of low-carbon energy relative to high-emitting assets. Its equivalent ranking for banks, last published in January, found that the world's largest lenders are showing little progress in addressing the imbalance between fossil fuels and clean energy.

Credit Fund ESFRs Improve as Equities-Focused Ratios Sink

Energy Supply Fund-Enabled Capex Ratio (ESFR) by fund asset class focus

Multi-asset funds Credit funds Equity funds



Source: BloombergNEF, Bloomberg.

Note: The ratio measures the volume of capex enabled by funds in low-carbon energy supply assets against the proportion going to fossil fuels. It works by attributing corporate capex to funds based on the proportion of debt and equity capital the institution holds. For detailed methodology, see full report.

BloombergNEF