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Trump's tax law expected to spur US factory investment

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UK economy contracts for a second month in May

'Energy, digital, transport plans reinforce Qatar's position as pivotal hub in global economy'

By Peter Alagos
Business Reporter

Qatar is keen on transforming the country into a leader in key areas, particularly energy, digital connections, and transportation, placing it at the forefront of shaping future-ready infrastructure, the Investment Promotion Agency Qatar stated in a report

Qatar is keen on transforming the country into a leader in key areas, particularly energy, digital connections, and transportation, placing it at the forefront of shaping future-ready infrastructure, the Investment Promotion Agency Qatar (Invest Qatar) stated in a report.

"Qatar is powering the future with world-class energy infrastructure by building a hyper-connected digital ecosystem for AI and innovation, and strengthening global trade and mobility with cutting-edge transport networks, Invest Qatar stated in its 'Qatar's Future-Ready Infrastructure' report.

The report underscored that Qatar boasts "world-leading" liquefied natural gas (LNG) infrastructure, emphasising that the country is set to become the "world's top LNG producer by 2030." Backed by cutting-edge liquefaction and export facilities, Qatar is increasing production to 126Mmtpa by 2027, the report further stated.

According to the report, Qatar has invested over $1bn in the "world's largest" blue ammonia plant located in the Mesaieed Industrial City (MIC). The plant will produce 1.2mn tonnes of blue ammonia annually, "reinforcing Qatar's leadership in sustainable energy solutions."

In addition, Qatar is building one of the world's biggest solar power plants in Dukhan, aimed at producing 2,000 megawatts of power. This is part of a larger plan to generate a total of 4,000 megawatts from solar energy, Invest Qatar reported.

Qatar is also leading the way in digital technology, Invest Qatar emphasised in its report, stating that the country was recognised in 2023 for being first in the Middle East and North Africa (Mena) region for its digital infrastructure and readiness for artificial intelligence (AI).

The country was also the first to launch a commercial 5G network. According to the Invest Qatar report, Qatar's advanced 5G infrastructure ensures the fastest Internet speeds globally. This fast Internet helps support smart cities and industries that maximise AI, the report stated.

Tech giants like Microsoft and Google Cloud have also poured investments in Qatar, driving AI and cloud infrastructure growth, emphasised the report, adding that this has expanded fibre-optic networks, data centres, and cloud computing services in the country.

Also, the Qatar Investment Authority (QIA) is strengthening submarine and terrestrial cable networks, enhancing global data traffic and AI-driven services, stated the report, adding that Ooredoo has spearheaded the "largest regional submarine cable network ever built in the GCC" and "the world's largest subsea cable system."

On robust transportation infrastructure and port capacity, Invest Qatar reported that the Qatari government has built top-notch systems, citing Hamad Port, Hamad International Airport (HIA), and Qatar Rail.

Hamad Port is one of the largest and most environmentally friendly ports in the Middle East. It can handle 7.5mn shipping containers, ensuring seamless international trade with state-of-the-art terminals.

HIA, on the other hand, is recognised as a global aviation and cargo hub. In 2023, it connected to over 180 destinations, handled more than 1.7mn tonnes of cargo, and welcomed over 45mn passengers, Invest Qatar reported.

Qatar Rail is also making travel easier within the country. The Doha Metro and Lusail Tram systems have 110 trains that transported 18.2mn passengers during the 2022 FIFA World Cup, stated the report.

"Qatar offers a strong, collaborative and supportive ecosystem that is facilitating the development of infrastructure.

Qatar is home to prominent key national champions and entities, multinational firms, fostering innovation, developing key sectors and driving infrastructure development," the report also added, citing global, local, and regional partners.

World oil market may be tighter than it looks, says IEA

Reuters
Vienna

The world oil market may be tighter than it appears despite a supply and demand balance pointing to a surplus, the International Energy Agency (IEA) said yesterday, as refineries ramp up processing to meet summer travel demand.

The IEA, which advises industrialised countries, expects global supply to rise by 2.1mn barrels per day this year, up 300,000 bpd from the previous forecast. World demand will rise by just 700,000 bpd, it said, implying a sizeable surplus.

Despite making those changes, the IEA said rising refinery processing rates to meet summer travel and power-generation demand were tightening the market and the latest, accelerated supply hike from Opec+ on Saturday had not had much effect.

"The decision by Opec+ to further accelerate the unwinding of production cuts failed to move markets in a meaningful way given tighter fundamentals," the agency said in a monthly report.

"Price indicators also point to a tighter physical oil market than suggested by the hefty surplus in our balances." The comments strike a similar tone to the message earlier this week from ministers and executives of Opec nations and bosses of Western oil majors. The output increases are not leading to higher inventories, which shows markets are thirsty for more oil, they said.

On Monday, when traders reacted to Opec+'s decision, oil rose nearly 2% towards $70 a barrel, despite the larger than expected output hike and concerns about the impact of US tariffs.

As examples of price indicators suggesting a tighter market, the IEA cited strong refining margins and the premium at which oil for immediate delivery is trading to later supply, a structure known as backwardation.

"Prompt time spreads are in steep backwardation and refinery margins remain healthy despite implied stock builds," it said.

Oil demand typically rises in the Northern Hemisphere summer as people fly and drive more on holidays.

Given rising seasonal demand, refinery crude processing rates will increase by 3.7mn bpd from May to August to meet Northern Hemisphere travel demand, the IEA said.

At the same time, a doubling in crude burning in refineries for power generation, typically to meet air conditioning needs, to around 900,000 bpd will further tighten the market, it said.

Foreign funds lift Qatar bourse sentiments as index rises

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

The positive signals on the US tariff in the initial days of the week had its overarching influence on the Qatar Stock Exchange (QSE), which closed on a positive note despite remaining flat for the last two sessions.

Notwithstanding the uncertainties around the US tariff in the latter part of the week, the 20-stock Qatar Index gained 0.63% this week which saw Gulf International Services (GIS) intend to list its associate Amwaj on the QSE as the catering arm explores opportunities for collaboration in new global markets.

The industrials and insurance counters witnessed higher than average demand this week which saw QNB disclose net profit of QR8.4bn in the first six months of this year.

More than 64% of the traded constituents extended gains to investors in the main market this week which saw Mekdam Holding Group seek patent for its advanced centralised alarm monitoring system in the US.

The foreign institutions' increased net buying had its influence on the main bourse this week which saw Aamal Company announce its intent to initiate negotiations with a related party, Al Jazi Real Estate, for the potential acquisition of a mixed-use tower (residential and commercial) located in Dafna area.

The Gulf individuals were seen bullish, albeit at lower levels, in the main market this week which saw Hamad Port, Qatar's main gateway to world trade, launch new shipping service offering direct weekly sailing to major ports in East Asia and the West Coast of North America.

The local retail investors' weakened net selling had its effect on the main bourse this week which saw Dukhan Bank's first half net profit at QR811.29mn.

The Arab retail investors continued to be net buyers but with lesser vigour in the main market this week which saw the Qatar Central Bank's international reserves and foreign currency liquidity grow 3.5% year-on-year to QR258.9bn in June 2025.

The Gulf funds were seen net profit takers in the main bourse this week which saw a total of 0.13mn AlRayan Bank-sponsored exchange traded fund QATR worth QR0.3mn trade across 41 deals.

The domestic institutions were also increasingly bearish in the main market this week which saw 0.01mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.04mn change hands across four transactions. The Arab funds turned net sellers in the main bourse this week which saw no trading of sovereign bonds and treasury bills.

Notwithstanding the uncertainties around the US tariff, the 20-stock Qatar Index gained 0.63% this week

The Islamic index was seen gaining slower than the other indices of the main market this week, which saw market capitalisation add QR4.4bn or 0.69% to QR640.13bn on the back of mid and small cap segments.

Trade turnover and volumes were on the decline in both the main and junior bourses this week which saw the consumer goods, banking and industrials sectors together constitute about 73% of the total trade volumes.

The Total Return Index rose 0.63%, the All Islamic Index by 0.59% and the All Share Index by 0.59% this week.

The industrials sector index shot up 1.5%, insurance (0.82%), banks and financial services (0.61%), consumer goods and services (0.58%) and real estate (0.26%); while transport and telecom declined 0.96% and 0.41% respectively this week.

Major gainers in the main market included Mannai Corporation, Lesha Bank, Medicare Group, Ezdan, Qatar Electricity and Water, Qatar Islamic Bank, QIIB, Salam International Investment, Industries Qatar, Aamal Company, GIS and Qamco this week.

Nevertheless, Dlala, Vodafone Qatar, Meeza, Milaha, Qatar General Insurance and Reinsurance and Mekdam Holding were among the shakers in the main bourse. In the venture market, Techno Q saw its shares depreciate in value this week.

The foreign institutions' net buying increased markedly to QR136.08mn compared to QR104.05mn the previous week.

The Gulf individual investors turned net buyers to the tune of QR0.11mn against net profit takers of QR7.02mn the week ended July 3.

The local retail investors' net selling declined significantly to QR77.58mn compared to QR111.41mn a week ago.

However, the Gulf institutions were net sellers to the extent of QR36.67mn against net buyers of QR9.27mn the previous week.

The domestic institutions' net profit booking strengthened significantly to QR32.83mn compared to QR11.38mn the week ended July 3.

The foreign individual investors turned net sellers to the tune of QR2.46mn against net buyers of QR0.32mn a week ago.

The Arab institutions were net sellers to the extent of QR0.2mn compared with net buyers of QR0.01mn the previous week.

The Arab individual investors' net buying shrank perceptibly to QR13.55mn against QR16.18mn the week ended July 3.

The main market saw an 18% fall in trade volumes to 639.66mn shares, 7% in value to QR1.82bn and 3% in deals to 93,943 this week.

In the venture market, trade volumes plummeted 72% to 0.35mn equities, value by 73% to QR0.97mn and transactions by 65% to 103.

BUSINESS

Powell's successor may struggle to deliver rate cuts Trump wants

Bloomberg
Washington

Close Federal Reserve watchers have a message for anyone who thinks the next leader of the US central bank will deliver lower borrowing costs on a silver platter: Don't count on it.

While it's an unlikely outcome, some investors have staked out positions in futures markets that will profit if interest rates drop immediately after Jerome Powell's term as chair ends in May 2026. The trade has been fuelled by President Donald Trump's pledge to nominate "somebody that wants to cut rates."

Those investors have targeted futures contracts linked to the Secured Overnight Financing Rate, or SOFR, which closely tracks the benchmark federal funds rate. They've sold off contracts that expire prior to Powell's exit and piled into contracts that expire just after the expected arrival of a Trump-appointed chair. It's a trade that takes a chance on Trump getting his way, shrugging off how the central bank goes about setting rates.

A chair "can't act like a dictator," said Mark Gertler, an economics professor at New York University who has co-authored papers with former Fed Chair Ben Bernanke and former Vice Chair Richard Clarida. "He can't call in the Marines or anything like that."

Adjusting rates, Gertler pointed out, requires the support of a majority on the Federal Open Market Committee. Nineteen policymakers participate in FOMC meetings and 12 vote. In other words, the new chair will have to win over their colleagues with a reasonable case for cutting.

Contenders for the Fed chair job include former Fed Governor Kevin Warsh, Treasury Secretary Scott Bessent and National Economic Council Director Kevin Hassett, Bloomberg has reported. Current Fed Governor Christopher Waller is also an option, and former World Bank President David Malpass has also been floated.

Hassett on June 26 echoed Trump's call for lower rates, and Warsh similarly said borrowing costs should come down in an interview with Fox Business on Monday. Bessent last week said the Fed's previous economic models suggest they should have cut already.

So far this year, Fed officials have agreed to hold borrowing costs steady in a range of 4.25-4.5%. But, as rate projections reveal, policymakers appear split over the outlook for cuts over the rest of the year, largely over differing views on how Trump's tariffs might affect inflation.

Ten policymakers — those more inclined to see the impact of tariffs on prices as temporary — expect two or three cuts by year's end.

Two others see just one cut as appropriate and seven expect the benchmark rate to stay where it is. For next year, the range widens, with the upper boundary of the federal funds rate projected to finish 2026 anywhere from 2.75-4.25%.

The projections, being anonymous, can't be linked with certainty to individual policymakers.

"It's obviously a concern that the Fed will be less independent, certainly," said Michael Feroli, chief US economist at JPMorgan Chase & Co. "Whether one person, even if that's the chair, can immediately get the committee to agree to a big change in policy, I think that might be more difficult."

Trump's pick to replace Powell won't be the only person inclined to support his call for cuts. Fed Governor Michelle Bowman — whom Trump placed on the board in 2018 and promoted to the central bank's top regulatory job last month — has so far this year supported holding rates steady, but recently said it might be appropriate to cut later this month. So, too, has Waller, another Trump appointee.

The president may use the vacancy created in January when Fed Governor Adriana Kugler's term expires to place his pick for chair on the Board of Governors. He'll then get one more opening to fill if Powell resigns from his underlying post as a governor. That's what outgoing chairs typically do, but Powell has declined to say whether he'll exit altogether.

But even if Powell departs, that doesn't add up to enough votes to make additional cuts. Whether others go along with lowering rates will depend more on what actually happens in the economy. And it could be difficult to peel away other policymakers one-by-one.

Dissents aren't especially rare, but in an institution that values broad-based agreement, especially when policy shifts, votes are rarely deeply split.

"At the end of the day it's a committee decision, and whoever the next chair is, he is going to have to build a consensus," said Brett Ryan, US senior economist at Deutsche Bank Securities.

ECB should neither plan nor rule out further interest rate cuts, says official

Bloomberg
Tuebingen, Germany

Joachim Nagel, governing council member of the European Central Bank.

The European Central Bank (ECB) must keep all its options open, given elevated economic uncertainty, and should neither promise nor exclude another cut in interest rates, according to Governing Council member Joachim Nagel.

"It seems fair to say we are in a good position to respond to further developments," the Bundesbank president said on Wednesday in Tuebingen, Germany. "Yet it would be unwise to commit to a certain interest-rate path, to envisage a further step or indeed, to rule it out."

Nagel, one of the Governing Council's more hawkish members, said "heightened uncertainty will not quickly disappear." Therefore, the ECB "would be well advised to act prudently and to make data-dependent decisions on a meeting-by-meeting basis."

With inflation at the 2% target and the economy so far resilient to headwinds ranging from trade to wars, officials have signalled that the rate-cutting campaign — amounting so far to eight quarter-point reductions in a year — is nearing an end. But at least some are still open to more easing, with markets expecting at least one more move this year.

Several policymakers including France's Francois Villeroy de Galhau are concerned about a more permanent undershooting of the ECB's 2% inflation goal — particularly if the euro strengthens further. Vice-President Luis de Guindos told Bloomberg TV last week that any appreciation beyond $1.20 would make things "much more complicated."

The latest ECB projections already anticipate 18 months of consumer-price growth below 2%, before inflation is seen returning to target in 2027. Nagel stressed that it's base effects that will push consumer-price growth "a bit lower" in 2026.

"Currently, we are at about 2% inflation — and what is even more encouraging: our experts expect inflation to broadly remain at this sweet spot over the medium term," he said. Services inflation, which continues to be elevated, "still warrants caution," Nagel said, though he stressed that a recent retreat is encouraging.

Turning to the ECB's monetary-policy strategy assessment, Nagel said he "appreciates" the clarification that officials will also react with the same determination when inflation is significantly above 2% and not only when it's below that level.

While confirming the symmetric 2% inflation goal, the exercise stressed the ECB will use an "appropriately forceful or persistent policy response" to counter large and lasting deviations in either direction — while the 2021 review focused on too-low inflation.

Nagel also repeated calls that "large-scale asset purchases should remain the absolute exception," also because of its risks for central banks' balance sheets.

Policymakers kept all instruments — including quantitative easing — as part of the ECB's toolbox, without saying in which circumstances they should be used.

UK economy shrinks again in May, raising new worries over outlook

Reuters
London

Commuters pass the Bank of England and the Royal Exchange, as they make their way to work in London. Britain's economy contracted unexpectedly for a second month running in May, official data showed yesterday, compounding worries at home for finance minister Rachel Reeves as the nation navigates growing global turbulence.

Britain's economy contracted unexpectedly for a second month running in May, official data showed yesterday, compounding worries at home for finance minister Rachel Reeves as the nation navigates growing global turbulence.

Gross domestic product shrank by 0.1% after a 0.3% drop in April, the Office for National Statistics said.

Economists polled by Reuters had mostly forecast that gross domestic product would rise by 0.1% from April's level. And while the services sector eked out a sliver of growth, declines in industrial output and construction dragged down overall output.

Following a growth surge early in the year, Britain's economy could now be facing flat or weaker growth than previously expected for the April-to-June period, economists said.

The data now adds to expectations the Bank of England will cut interest rates next month.

"The lack of momentum in the UK economy indicated by these sluggish figures means that an August interest rate cut currently looks inevitable, despite the recent spike in inflation," said Suren Thiru, economics director at accountancy body ICAEW.

Prime Minister Keir Starmer's Labour government has struggled to improve growth meaningfully in its first year, with a tax hike on employers and US President Donald Trump's trade wars weighing on the economy.

Britain's goods exports to the US — its single-largest export destination — surged earlier this year as US importers rushed to beat the imposition of Trump's tariffs.

But they fell sharply in April. And trade data published yesterday showed only a slight recovery to around 4.4bn pounds ($6.0bn) in May, bringing export levels back down to where they were roughly three years ago.

Economists say it looks increasingly likely Reeves will need to raise taxes again in her next budget — something she had hoped to avoid.

"While today's figures are disappointing, I am determined to kickstart economic growth," Reeves said of Friday's data.

Britain's economy expanded rapidly in the first quarter of 2025, outstripping growth in other countries in the Group of Seven advanced economies. In May the Bank of England revised up its full-year growth forecast to 1%.

However, much of the growth in early 2025 was likely linked to the expiry of a tax break for some home purchases in April, which boosted the sector before the deadline, as well as a rush by manufacturers to beat higher US import tariffs.

The BoE has said it thinks the economy grew by about 0.25% in the second quarter of 2025.

After Friday's May figures, June's monthly data will need to show at least a flat reading, assuming no revisions to earlier months, in order to achieve any growth for the quarter, the ONS said. A month-on-month contraction of 0.4% or worse for June would herald a quarterly contraction. "The second straight decline in monthly real GDP in May will increase concerns that the government's growth plan has been derailed by external and domestic shocks," said Raj Badiani, economics director, Europe, at S&P Global Market Intelligence.

Yael Selfin, chief economist at KPMG UK, said she expected the economy to have remained flat in the second quarter, but spending by households might now be picking up now.

"With wage growth remaining ahead of inflation and borrowing costs set to ease further, a modest pick-up in consumer spending could be on the cards in the second half of the year," she said.

Copper market in turmoil as Trump touts 50% tariff on US imports

Bloomberg
London

President Donald Trump sowed fresh chaos in metals markets by indicating the US would implement a higher-than-expected 50% tariff on copper imports, spurring a record spike in New York futures and a drop in the global benchmark.

The plan, announced in an apparently off-the-cuff comment to reporters, marks the latest twist in a tumultuous period for industrial commodities, as the US leader aims to encourage more mining and smelting at home. He's already raised fees on steel and aluminium imports, while probes into flows of multiple other metals are in train.

Since February, when Trump first laid out plans for the levies, global traders have sent record volumes of the metal to the US, targeting huge profits on cargoes that can be delivered before the tariffs land.

A 50% tariff — which could be in place within weeks — signals an imminent end to that trade but injects new uncertainties, including on timing and potential carve-outs for some large producers. In the short-term, one crucial question for traders is whether or not copper that's already on its way to the US will be hit with tariffs when it arrives.

Citigroup Inc called it a watershed moment for copper, closing the window for significant shipments into the US market. "The degree of impact will heavily depend on the details," said Marcus Garvey, Macquarie Group's head of commodities strategy. "Not only the rate of any tariff but which forms of copper it is applied to, and whether or not there is any grace period ahead of its implementation."

If the tariff takes hold, it will inflict higher costs across a broad section of the US economy due to the myriad of industries and applications that rely on copper — even as Trump piles pressure on the Federal Reserve to lower interest rates.

Trump's already imposed 50% levies on steel and aluminium, but there's particular concern about the economic impact of copper tariffs because the US is highly reliant on imports. US buyers have already warned that the measure risks

undermining Trump's core ambitions to revive manufacturing and challenge China's industrial might.

"The US does not have nearly enough mine/smelter/refinery capacity to be self-sufficient in copper," Jefferies LLC analysts including Christopher LaFemina wrote in a note. "As a result, import tariffs are likely to lead to continued significant price premiums in the US relative to other regions."

Contracts on the Comex surged to an unprecedented 25% premium over London Metal Exchange prices — the global benchmark — in the aftermath of Trump's comments, a level that also suggests the market is not fully convinced that a 50% levy will be imposed universally. A single carve-out for a top supplier like Chile would materially dampen the blow for importers, and manufacturers now have huge buffer stocks to fall back on thanks to the record-breaking imports seen over recent months.

Spot copper contracts on the LME tumbled below futures in the wake of Trump's announcement. Copper for immediate delivery had been trading at huge premium in late June, as traders rushed to ship metal to the US to capture premium prices.

Given that tariffs may fall into place in a matter of weeks, that arbitrage trade now looks risky, easing demand for copper stocks in Europe and Asia.

"The tariff increase is a bearish factor for LME copper prices in the near term," said Yongcheng Zhao, principal analyst of the China copper market at Benchmark Mineral Intelligence. "We expect continued volatility until the tariff officially kicks in, followed by the potential for a sharp decline."

Trump's 50% pledge comes as copper demand is expected to surge over the coming decade, with data centres, automakers, power companies and others scouring the globe for feedstock. Retooling power and transportation systems to run on renewable energy will require far more copper than the companies that produce it are currently committed to deliver.

The path toward greater self-reliance in copper is a fraught one for the US given the paucity of existing capacity and the challenges in building new plants. Net copper imports account for 36% of demand, according to Morgan Stanley research.

"The longer term aim of the Trump administration may be for the US to be fully self-sufficient in copper, but mines take too long to develop for this to be achieved in less than a 10-year time horizon," Jefferies analysts wrote. "The US will still rely on foreign mines to meet demand for the foreseeable future."

A shorter-term solution would be for the US to boost production from copper scrap, which has historically been shipped to processors overseas, particularly in China. Those flows ground to a halt as the spike in Comex prices made US scrap more expensive, but for now the country lacks the smelting capacity to fully work through the backlog of scrap that's been piling up.

Hong Kong defends currency peg for fourth time in two weeks

Bloomberg
Hong Kong

Hong Kong authorities intervened for the fourth time in two weeks to prevent the city's currency from weakening beyond its official trading band, after previous efforts failed to drain enough liquidity to push up funding costs.

The Hong Kong Monetary Authority, the Chinese financial hub's de-facto central bank, purchased HK$13.3bn ($1.7bn) of the local dollar, according to its Bloomberg page on yesterday. The HKMA's three previous rounds of currency defence had cost it a total of HK$59bn, according to Bloomberg's calculations of official data.

The continued intervention shows the pressure on the HKMA to maintain the local dollar in a trading range of HK$7.75 to HK$7.85 per greenback as it deals with the repercussions of its earlier efforts to restrain the currency. Its earlier sales of the Hong Kong dollar flooded money markets and caused local rates to tumble versus those in the US, putting even more pressure on the currency.

The difference between one-month interbank rates in the Hong Kong dollar and US dollar markets is currently near the widest on record, making it attractive for traders to short the local currency in favour of the higher yielding greenback. The HKMA is now seeking to dampen such trades by withdrawing liquidity from the financial system.

"The large gap between the Hong Kong Interbank Offered Rate (Hibor) and the Secured Overnight Financing Rate (SOFR) means the Hong Kong dollar will continue to test the weak side of the convertibility undertaking, prompting more HKMA intervention," said Khoon Goh, head of Asia research at Australia & New Zealand Banking Group.

The Hong Kong Monetary Authority intervened for the fourth time in two weeks to prevent the city's currency from weakening beyond its official trading band, after previous efforts failed to drain enough liquidity to push up funding costs

Hong Kong maintains the peg through a so-called Linked Exchange Rate System, an automatic mechanism: authorities absorb flows when the currency hits either side of the trading band, which drains or adds to the reserves banks hold with the HKMA.

Although draining liquidity supports the Hong Kong dollar, it also puts upward pressure on rates since there is less money for banks to lend. That is a potential headache for Hong Kong's authorities dealing with a years-long property slump. Higher borrowing rates could also hurt demand for initial public offerings in the city, which are enjoying a boom amid a wave of supply from Chinese companies.

The latest intervention amount is "pretty tiny" as the aggregate balance — a measure of how much cash banks hold with the HKMA — will still be above HK$100bn, said Stephen Chiu, chief Asia FX and rates strategist at Bloomberg Intelligence. The HKMA "just needs to keep going till the aggregate balance shrinks below the HK$70bn-HK$80bn and there is a more meaningful jump in the Hibors."

The aggregate balance will decrease to about HK$101.2bn on July 14 settlement on the latest intervention, according to HKMA data.

The overnight Hibor inched up two basis points to 0.09% while the three-month rate rose five basis points to 1.85% yesterday. Both rates touched their highest levels since May. The city's currency was little changed at 7.8498 per greenback.

The latest moves in the Hong Kong dollar and interest rates reflect the normal operation of the dollar peg, HKMA Chief Executive Eddie Yue says in a statement. The HKMA will maintain the city's monetary and financial stability through the effective linked exchange rate system, he said.

Asia markets mixed as traders cautiously eye trade developments

AFP
Hong Kong

Asian stocks were mixed yesterday as investors cautiously watched trade developments as US President Donald Trump's latest tariff salvos tempered optimism that most countries will strike a deal to avoid the worst of his levies.

In Tokyo, the Nikkei 225 closed down 0.2% to 39,569.68 points; Hong Kong – Hang Seng Index ended up 0.5% to 24,139.57 points and Shanghai – Composite ended flat at 3,510.18 points yesterday.

The US president has ramped up his trade war in the past week by firing off more than 20 letters to governments outlining new tolls if agreements aren't reached by August 1.

He has also said he would impose 50% tariffs on copper imports, while threatening 200% on pharmaceuticals, and hit Brazil with a new 50 % charge while slamming its "witch hunt" trial of former leader Jair Bolsonaro on coup charges.

Thursday saw him dial up the rhetoric by warning Canada faced a 35% tax, while most other countries would be handed blanket tariffs of up to 20%, from the current 10%. The moves are the latest by the White House in a campaign it says is aimed at ending decades of the US being "ripped off".

"We're just going to say all of the remaining countries are going to pay, whether it's 20% or 15%. We'll work that out now," Trump told NBC News.

"I think the tariffs have been very well-received. The stock market hit a new high today," Trump added.

Stephen Innes, at SPI Asset Management, said: "Just as the market was catching its breath at new highs… President Trump tugged the rug again. "A new act in the tariff opera… Trump is less policymaker than ringmaster, whipping markets with one hand while feeding red meat to his base with the other.

"Every letter sent to a trade partner is a chess move disguised as a slap." While his initial bombshell announcement of tariffs on April 2 sent markets into turmoil, until he paused them for three months, the latest measures have had less impact.

Analysts say traders now expect a deal or another delay, while investors appear to be waiting until a deal is done or the tariffs kick in.

All three main indexes on Wall Street rose Thursday, with the S&P 500 and Nasdaq hitting fresh peaks, hours after the FTSE in London had done so.

Asia started Friday on a strong note but lost momentum as the day progressed.

Hong Kong, Singapore, Taipei, Bangkok and Jakarta rose, while Tokyo, Sydney, Seoul, Manila, Mumbai and Wellington fell. Shanghai was flat. London edged down in the morning as data showed the UK economy unexpectedly shrank in May, while Paris and Frankfurt were also in the red.

Australia and New Zealand Banking Group's Khoon Goh said Asian investors were expected to "pare back their positions ahead of the weekend, to avoid any whiplash that could occur next week on further tariff news over the next couple of days".

China's GDP growth set to slow, raising pressure on policymakers

China Q2 GDP seen expanding 5.1% year-on-year, vs 5.4% in Q1; GDP growth seen at 4.6% in 2025, 4.2% in 2026; PBoC seen cutting key policy rate by 10 bps in Q4

Reuters
Beijing

China's economy is expected to have slowed down in the second quarter from a solid start to the year as trade tensions with the US added to deflationary pressures, reinforcing expectations that Beijing may need to roll out more stimulus.

The world's second-largest economy has so far avoided a sharp slowdown in part due to a fragile US-China trade truce and policy stimulus, but markets are braced for a gloomier second half pressured by slowing exports, weak consumer demand, and a persistent property downturn.

Gross domestic product growth in April-June is forecast at 5.1% year-on-year, cooling from 5.4% in the first quarter, a Reuters poll of 40 economists showed on Friday.

The projected pace would still exceed the 4.7% growth forecast in a Reuters poll in April and remain broadly in line with the official full-year target of around 5%.

Investors are closely watching for signs of fresh stimulus at the upcoming Politburo meeting due in late July, which is likely to shape economic policy for the remainder of the year.

"We expect second-quarter GDP growth to exceed 5%, compared to 5.4% in the first quarter, indicating that there is no immediate need for additional stimulus," analysts at Societe Generale said in a note.

GDP growth is projected to slow to 4.5% in the third quarter and 4.0% in the fourth, according to the poll, underscoring mounting economic headwinds as US President Donald Trump's global trade war leaves Beijing with the tough task of getting households to spend more at a time of uncertainty.

"We see a demand cliff in the second half, driven by multiple factors," said Ting Lu, chief China economist at Nomura, in a note. Lu cited slowing exports under US tariffs, the fading boost from a consumer goods trade-in program, austerity measures, and a protracted property slump.

"We believe Beijing will very likely rush to roll out a new round of supportive measures at some point during H2." For the whole of 2025, China's GDP growth is forecast to cool to 4.6% — falling short of the official goal — from last year's 5.0% and ease further to 4.2% in 2026, according to the poll.

On a quarterly basis, the economy is forecast to have expanded 0.9% in the second quarter, slowing from 1.2% in January-March, the poll showed. The government is due to release second-quarter GDP data and June retail sales, industrial production and investment data on July 15.

Beijing has ramped up infrastructure spending and consumer subsidies, alongside steady monetary easing. In May, the central bank cut interest rates and injected liquidity as part of broader efforts to cushion the economy from Trump's trade tariffs.

Analysts polled by Reuters expect the central bank to cut its key policy rate — the seven-day reverse repo rate — by 10 basis points in the fourth quarter, along with a similar cut to the benchmark loan prime rate (LPR).

The central bank is also expected to lower the weighted average reserve requirement ratio (RRR) by 20 basis points during the same period.

But China observers and analysts say stimulus alone may not be enough to address deflation, which deepened to its worst level in almost two years in June.

China's GDP deflator — the broadest measure of prices across goods and services — is expected to decline further in the second quarter, marking a ninth consecutive quarterly drop, the longest streak since records began in 1993.

Analysts polled by Reuters estimate a 0.1% rise in China's consumer prices for this year, well below the government's target of around 2%, before picking up 1.0% in 2026.

Expectations are growing that China could accelerate supply-side reforms to curb excess industrial capacity and find new ways to boost domestic demand.

Chinese government advisers are stepping up calls to make the household sector's contribution to broader economic growth a top priority at Beijing's upcoming five-year policy plan, as the trade tensions and deflation threaten the outlook.

Eurozone yields edge higher; Trump tariffs, Dutch pension funds in focus

Reuters
London

Eurozone yields edged up yesterday, as traders awaited US President Donald Trump's tariff decision for the European Union, after his surprise move to hit major trading partner Canada with a 35% duty.

Evelyne Gomez-Liechti, multi-asset strategist at Mizuho International, said eurozone bond yield moves showed some spillover from a steepening of the US curve overnight.

German two-year yields were up 1.2 basis points to 1.903%, while those on the benchmark 10-year Bund were up 1.6 bps to 2.68%.

"There is uncertainty on what exactly the EU is going to get... risk assets are not liking that," said Gomez-Liechti, highlighting European equities, which were down 1% yesterday.

Friday's cautious mood notwithstanding, Bund yields were heading for a weekly rise of nearly 12 bps, their largest since early March, when the German government unveiled the biggest overhaul in its borrowing rules in modern history.

Even with the concern about the hit to the export-driven EU economy from US tariffs, the worry about how much extra debt European governments will have to issue to fund their pledges to spend big on defence and infrastructure is winning out right now at the longer end of the bond curve, analysts said.

"We maintain the view of staying away from the long end in US, Europe and the UK given fiscal concerns. Thus, all our long positions are focused towards the 5-year sector of the curve," Jefferies strategist Mohit Kumar said in a note.

Germany's 30-year bund yield was last up 2 bps to 3.218% — its highest since March and also on track for its biggest weekly rise since March.

The Financial Times on Thursday reported that Dutch pension funds were set to sell 125bn euros in government bonds, something Kumar said had been "widely telegraphed" but nonetheless had knocked longer-dated paper.

Mizuho's Gomez-Liechti said the long-end part of the curve was not offering enough yield to attract buyers.

Dutch pension funds make up 40% of the euro zone private pension industry, making them influential bond investors.

In other markets, Italian 10-year BTP yields were up 2 bps at 3.602%, while 10-year French yields were up 1.3 bps at 3.404%.

Canada's unemployment rate drops to 6.9%, economy adds 83,100 jobs

Reuters
Ottawa

Canada's unemployment rate surprisingly dropped a tick to 6.9% in June as employment increased in wholesale and retail trade and health care and social assistance, data showed yesterday.

The economy added 83,100 new jobs in June, the first net increase since January, Statistics Canada said. Most of this employment growth was in part-time work.

Analysts polled by Reuters had estimated the unemployment rate would tick up to 7.1% from 7% in May, with no job additions. The jobs report usually has a standard error of around 32,000 between two consecutive months.

This is the final jobs report before the Bank of Canada (BoC)'s monetary policy decision on July 30 and a better than expected unemployment and job addition numbers is likely to tilt the bank towards another hold in its policy rate.

The June inflation data coming next week will be the final number which will help the central bank seal its decision.

Money market bets for a rate cut this month shrank to below 20% after the labour force survey, a big change from 30% on Thursday after US President Donald Trump threatened to impose 35% tariffs on all Canadian imports from Aug. 1, which will be over and above the already existing tariffs on various sectors.

The Canadian dollar was trading down 0.12% to 1.3671 to the US dollar, or 73.15 US cents. Bond yields on the two-year government bonds were up 1.9 basis points to 2.715%.

While the number of unemployed Canadians in June hardly changed from May, it was up 9% to 128,000 on a year-over-year basis and over one in five unemployed people had been searching for work for 27 weeks or more in June, an sharp increase from June 2024.

Statistics Canada said the layoff rate in June did not show any major uptick and remained low at 0.5% relative to historical averages barring recessionary periods.

Tariff exposed sectors such as transportation and manufacturing had been showing signs of strain for the three months through May.

The employment in transportation dropped by 3,400 people in June while manufacturing posted a jump of 10,500, StatsCan said.

The biggest increase in employment was a 33,600 jump seen in wholesale and retail trade. Healthcare and social assistance saw a jump of 16,700 people while agriculture sector shed 6,000 people in June.

The participation rate, or the number of people employed and unemployed in the total population was at 65.4% in June, up from 65.3% in May.

Trump's tax law expected to spur US factory investment, but tariffs pose risks

Bloomberg
Washington

A locomotive plant in Fort Worth, Texas. US manufacturers secured the business tax provisions they'd hoped for in Donald Trump's budget megabill, but the president's erratic trade policy risks tempering any pronounced pickup in capital investment.

US manufacturers secured the business tax provisions they'd hoped for in Donald Trump's budget megabill, but the president's erratic trade policy risks tempering any pronounced pickup in capital investment.

Many producers this year had put spending plans on hold due to uncertainty surrounding the tax and spending legislation as well as Trump's vacillating tariff announcements.

Manufacturers can now breathe a little easier after Trump's signature $3.4tn budget package reinstated a 100% first-year bonus depreciation for investment in equipment and factories. The legislation also allows for an immediate deduction for research and development costs and more generous interest deductibility.

Making the tax provisions permanent will cause some companies to make capital investments, even if it's difficult to predict how much, said Charles Crain, managing vice-president of policy at the National Association of Manufacturers, which made extending the provisions a priority.

"There are certainly still impediments to capex on the table, but tax was a huge one and it is now off the table," Crain said.

Still, some expect any notable upturn in capital expenditures to take longer to evolve because of the administration's frenetic tariff announcements as well as the levies themselves. Higher duties on sectors, such as metals, risk driving up costs of production.

"If companies can't price their product accurately because the input costs keep changing due to an ever-changing tariff environment, then I think their decisions will stay largely frozen," said Susan Spence, chair of the Institute for Supply Management's Manufacturing Business Survey Committee.

Trump this week sent letters to US trading partners threatening high tariff rates, though he left the door open for negotiating trade deals. He also extended a Wednesday deadline to impose higher punitive measures until August 1.

The president said his administration will impose a 50% duty on imported copper. Having already placed levies on steel and aluminium, there is notable concern from US buyers that the metals tariffs risk undermining Trump's goal of reviving manufacturing.

Business surveys have consistently showed waning capital-spending intentions following the November election. But the Association of Equipment Manufacturers is optimistic that the new legislation will provide the certainty needed to bolster investment in domestic manufacturing, especially by small and mid-size companies, said Kip Eideberg, senior vice-president of government and industry relations.

Optimism over the passage of the president's One Big Beautiful Bill Act has helped drive up stock prices. "When I go around the country or CEOs come into Treasury to see me, they've all been held captive by a lack of certainty on this tax bill," Treasury Secretary Scott Bessent said on CNBC last week. "And now that they know that they can have a hundred percent full expensing on equipment and for factories, I think we are going to see things take off between now and Labor Day."

Leigh Lytle, chief executive officer of the Equipment Leasing and Finance Association, said she also expects the tax provisions will encourage companies to buy sooner, rather than later, and boost hiring. While tariffs have been a concern, the provisions "provide long-term certainty that these businesses need," Lytle said.

Indeed, some small manufacturers are taking the plunge. Courtney Silver's plans to spend more than $1mn on equipment for her Concord, North Carolina machine shop were put on hold until it was clear whether Congress would allow businesses to fully expense most equipment purchases. Now she's ready to move forward.

"It give us the confidence to take that step," said Silver, president of Ketchie Inc. "It's the right move to support our team, grow smarter, and stay competitive."

Fed's Waller says balance sheet can drop to about $5.8tn

Bloomberg
Washington

Christopher Waller, governor of the Federal Reserve.

Federal Reserve Governor Christopher Waller said the US central bank should be able to lower the level of bank reserves to around $2.7tn, from the current level of $3.26tn. That, combined with Fed holdings for currency and the US Treasury's general account balance, would put the overall balance sheet at $5.8tn, compared to the current $6.7tn.

Waller, who is reportedly on the short list of candidates being considered by President Donald Trump to be the next Fed chair, emphasised the Fed should continue reducing the size of its balance sheet, but not as much as some Fed watchers and economists have suggested.

"I believe we can likely continue to let a share of maturing and prepaying securities roll off our balance sheet for some time, reducing reserve balances," Waller said on Thursday in remarks prepared for an event hosted by the Dallas Fed. The lowest so-called "ample" level for reserves is important for estimating how far the Fed can go in shrinking its balance sheet without disrupting overnight funding markets.

Bank reserves at the Fed total $3.26tn, according to the latest Fed data. Wall Street strategists estimate that in order to maintain ample liquidity — and avert stress — the Fed needs to keep balances above $3tn to $3.25tn.

Waller's willingness to put a figure on the level of bank reserves that would constitute "ample" is a departure from his colleagues, including those who manage the Fed's balance sheet at the New York Fed. They have spoken about the threshold in broader terms so as to maintain flexibility as reserve balances decline.

Waller repeated that he thinks the federal funds rate is too restrictive and that it could be cut as soon as the central bank's next meeting later this month. He said his support of this, which he admitted puts him in a minority among his colleagues, is not political.

Trump and several administration officials have repeatedly called for the Fed to lower interest rates. On Thursday, Kevin Hassett, director of the White House National Economic Council, criticised the Fed for "falling behind the curve" by not cutting rates alongside other central banks.

Some critics of growth in the balance sheet in recent years argue that the Fed should return it to levels similar to before the financial crisis. That period saw the balance sheet grow from about $800bn to more than $2tn as the Fed deployed quantitative easing — buying Treasuries and mortgage-backed securities — to stimulate the economy.

Critics of the Fed's balance sheet policies have included Kevin Warsh, who is also under consideration to be the next Fed chair. Bank reserves also grew following the financial crisis after increased regulations required them to hold more liquid assets, as has outstanding currency and the Treasury's account.

Waller also said the Fed should shift to holding more short-term assets on its balance sheet and that longer-term securities should only be held against its currency liabilities, or comprise about half of its Treasuries holdings.

Major US banks are tired of losing recruits to private equity

Bloomberg
New York

JPMorgan Chase & Co bosses grew curious last summer as they clocked an unusual number of absences at the training sessions that kicked off their ultra-competitive junior analyst programme.

The reason, they discovered: New recruits had skipped the mandatory onboarding to interview at private equity firms for their second jobs — even though they were just days into their first.

The practice is known as "on-cycle" recruitment, where buyout shops enlist investment-banking analysts for roles typically starting one or two years later. Their overtures have crept ever earlier, angering banks who invest millions to train junior employees only to see them picked off by private equity firms as soon as those programs end.

Goldman Sachs Group Inc became the latest bank to try to ward off offers, with plans to require new analysts to certify every three months that they haven't already lined up jobs elsewhere. The effort followed JPMorgan, which last month threatened to fire candidates who accepted future-dated positions.

The developments raise questions about whether this marks a reversal of the controversial practice, which has persisted for years despite bursts of effort to stamp it out.

After JPMorgan's edict, some buyout firms heeded the warning, with Apollo Global Management telling prospective candidates it was delaying hiring, explaining it was too early to ask students to make career decisions. General Atlantic and TPG Inc followed suit, halting recruitment for their 2027 classes this year, according to people familiar with the matter, who asked not to be identified discussing private information.

Representatives for JPMorgan, TPG and General Atlantic declined to comment.

Bank analyst programs have long been viewed as the gateway to a lucrative Wall Street career. But in recent years, many have completed the training and headed straight to private equity firms, lured by the promise of more sizeable payouts and the perception there's less grunt work involved.

Banks have made efforts to stem departures, with pledges to improve work-life balance, protect weekends and hike salaries. They've taken a hard line too: Morgan Stanley attempted to block first-year investment bankers from talking to recruiters from other firms over a decade ago. But the firm swiftly abandoned the effort after some analysts complained — and ultimately ignored — the policy.

It's complicated for banks, which count buyout shops among their biggest clients. So far this year, private equity firms have accounted for about a quarter of investment-banking M&A revenue, according to Dealogic. It also raises conflict of interest concerns, since junior bankers are privy to a bank's confidential information while being committed to their future jobs at private equity firms.

JPMorgan Chief Executive Officer Jamie Dimon has called on-cycle recruitment unethical.

"It puts the kid in a terrible position, and so I think that's wrong," he told an audience at Georgetown University last year. "It puts us in a bad position and it puts us in a conflicted position. You are already working for somewhere else and you're dealing with highly confidential information from JPMorgan. And I just don't like it."

The sentiment resonated through the industry. When Apollo announced it wouldn't interview or extend offers to the class of 2027 this year, CEO Marc Rowan said asking students to make career decisions before they understand their options "doesn't serve them or our industry."

Amity Search Partners, a recruitment firm for investment managers, told prospective candidates in an email that the developments would give them "more room for preparation, reflection, and a more thoughtful approach to recruiting."

Back in 2010, private equity firms typically waited for junior bankers to have completed about 11 months of training before poaching efforts started, but that's steadily narrowed.

The pandemic also had an impact, allowing juniors to stealthily take interviews from home. Odyssey Search Partners found that private equity giants began recruiting less than a month into their training programs in some cases, it said in an analysis published in 2023.

"There's a finite pool of candidates, and a lot of private equity firms — it creates a situation where firms don't want to miss out on hiring top talent," Adam Kahn, a managing partner at Odyssey, said. "It's unclear how much will fundamentally change: There needs to be a big concerted effort to make a change."

"A lot of these junior bankers are super overachievers; they go to the best schools," he said. "A lot of them feel the next move is private equity, because that's what everybody else is doing. Private equity is not a panacea. It's still long hours and still takes a while to make decent money."

The recruitment climb-down also comes as private equity firms face pressure from a prolonged deal drought, hampering the industry's ability to exit investments at favourable prices.

Still, the prospect of some of the industry's biggest paychecks makes private equity tempting for juniors. That's thanks to carried interest, or carry as it's more commonly known, which is essentially a share of performance fees that executives pocket themselves in exchange for managing companies and other investments.

The small irony of the practice used by private equity firms is that it takes a page from banks' recruiting playbooks. The likes of JPMorgan and Goldman used to interview prospective interns more than a year in advance, at one-point prompting pushback from university officials. It even caused a Goldman partner to quip that, at the rate they were going, the firms would soon start hiring interns at birth.