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Why 2026 is poised to be another rocky year for global trade

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Japan proposes record budget spending while curbing fresh debt

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Return of cheaper gas hasn't solved industrial crisis in Europe

Bloomberg
London

Natural gas prices in Europe have fallen close to levels not seen since Russia's invasion of Ukraine. That should be a tonic for the continent's battered manufacturers, but may be coming too late.

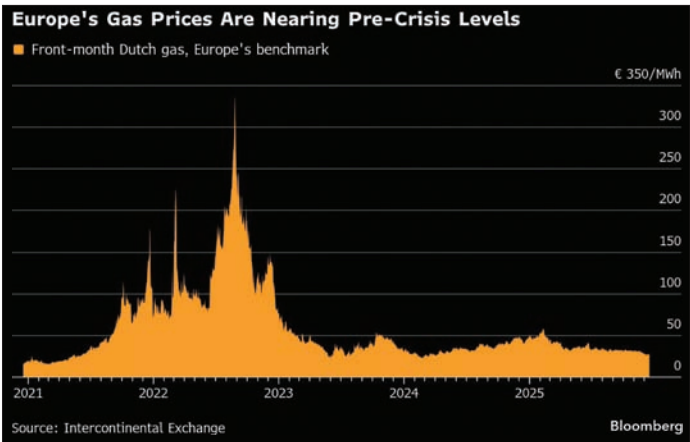
Years of elevated costs have hollowed out parts of Europe's industrial core, and even the lowest seasonal gas prices since 2020 aren't enough to reopen shuttered factories. The continent's surviving businesses are contending with many new problems that cheaper energy alone can't solve.

"If you have made the decision to move production elsewhere, or move to a lower cost jurisdiction, you're not automatically gonna move back just because of short-term changes in energy prices," said Raoul Ruparel, director of Boston Consulting Group's Centre for Growth. "Particularly when there are wider structural challenges around European competitiveness."

Competition from the US and China has intensified, with President Donald Trump's new tariffs further blunting Europe's export edge on goods ranging from Porsche 911s to aluminium. Heavy industries like steel and chemicals, which benefit most from lower energy costs, face global surpluses for their products and the rising cost of emissions regulations at home.

Europe still "has a real problem" with investment and innovation, according to JPMorgan Chase & Co Chief Executive Jamie Dimon.

Moscow's invasion of Ukraine and the subsequent halt of most Russian pipeline supply to Europe pushed benchmark gas prices up from €20 (\$23) a megawatt-hour at the start of 2021 to as high as €345 in 2022. The surge in costs made the region uncompetitive on a global scale, forcing industries to restructure supply chains



and adjust operations just to stay in business.

In chemicals, top producer BASF SE began in September 2024 to shut some units in Germany, while also boosting investments in China. In July, Dow Inc announced the closure of three of its most energy-intensive European plants next year.

Despite the recent gas price decrease, the company said its structural challenges have either persisted or intensified since.

Recently, Thyssenkrupp Electrical Steel GmbH said it would temporarily shutter two plants in Germany and France, the latter of which will only return at half capacity. The company blamed the move on a flood of imports priced below the European Union's average production costs.

Mass Insolvencies
Many companies found their cost-cutting efforts weren't enough. In Western Europe alone, corporate insolvencies hit a total of 190,449 last year, the highest in over a decade, according to Creditreform, a creditors' protection association. Energy prices were cited as a key reason for the trend.

The loss of so many industrial consumers means Europe's underlying demand remains weak even with current benchmark gas prices of about €27 a megawatt-hour. Consumption is about 20%

lower than pre-war levels, according to RBC Capital Markets.

The global competitiveness of some of Europe's biggest economies, including the UK and Germany, hasn't fully recovered from the crisis and lags the US and China, according to rankings from the International Institute for Management Development. This is evident in an industrial park an hour east of Munich, home to chemical makers such as Clariant AG and Westlake Vinnolit GmbH.

Even after the fall in gas prices, Germany's chemical plants operated at just 70% capacity so far in 2025, the weakest level in 20 years. Manufacturers are still paying about three times more than their rivals in the US, said Tilo Rosenberger-Sub, a spokesman for the site's operator InfraServ Gendorf. They also face the extra cost of carbon allowances, which are as much as five times more expensive than in other countries.

"It's not the price trend over time that matters, but rather the comparison with other regions," Rosenberger-Sub said. "That's precisely the benchmark for competitiveness."

Increased reliance on overseas imports of liquefied natural gas makes this an intractable problem. LNG accounted for 45% of the EU's imports at the start of this year, compared with about 20% before the war.

'Sanctions delay Russia's plan to triple LNG output'



A flare stack at the Yamal LNG plant in Russia. The country's ambitions to triple its annual liquefied gas production have been pushed back by several years amid international sanctions, according to Deputy Prime Minister Alexander Novak, reports Bloomberg. "Our task has been to reach 100mn tonnes" per year of LNG output, Novak said in an interview to a state TV channel published on Thursday. "Clearly, due to sanctions restrictions, there will be a delay of some years" in achieving this target, he said, without providing a deadline. Russia earlier aimed to produce 100mn tonnes of super-chilled fuel by 2030, reaching a global market share of 20%. However, western nations, including the US, have imposed several rounds of energy sanctions, including on LNG, in a move to reduce the Kremlin's revenues that are funding the war in Ukraine. The US has blacklisted all current and future Russian liquefied-gas projects, excluding the Yamal LNG led by Novatek PJSC, and sanctioned the fleet for shipments of the super-chilled fuel abroad. However, recently the discounted sanctioned cargoes have been finding home in China, which does not recognise the western restrictions.

Fed should lower rates if the market does well, says Trump

Bloomberg
Washington

Donald Trump said he expects his Federal Reserve chair to lower interest rates if the economy is doing well, the latest signal that the president is eager for a nominee committed to borrowing cost cuts as he nears an announcement of his choice to replace Jerome Powell. "I want my new Fed Chairman to lower Interest Rates if the Market is doing well, not destroy the Market for no reason whatsoever," Trump said in a social media post on Tuesday. "Anybody that disagrees with me will never be the Fed Chairman!" Trump has repeatedly said he's interested in breaking recent trends, where promising economic data is sometimes met by a market selloff due to concerns over inflation and corresponding hikes by the Fed. "In the old days, when there was good news, the Market went up," Trump wrote. "Nowadays, when there is good news, the Market goes down, because everybody thinks that Interest Rates will be

immediately lifted to take care of 'potential' Inflation." Tuesday bucked the trend described by the president. The Bureau of Economic Analysis reported that inflation-adjusted gross domestic product increased at a 4.3% annualised pace in the third quarter, higher than all but one estimate in a Bloomberg survey. But the S&P 500 rose for the fourth consecutive day, closing at a record high. Marshall Front, senior managing director at Front Barnett, said the "good news is bad news" paradox dates back decades. "Sane heads will eventually prevail, and the data will ultimately drive the way people interpret things," Front said in a phone interview. "Wall Street is focused on economic fundamentals. The economy is on strong footing, and that will support corporate profits, and that's what matters for Wall Street." The president's latest commentary comes as he is looking to new leadership at the Fed to help reduce borrowing costs, as he increasingly feels political pressure to address voter concerns over affordability. Trump has repeatedly

said lower rates could help the housing market, and that he wants to be consulted by his eventual central bank pick on how to navigate rate decisions. The president last week said he had narrowed his list for Fed chair nominees to "three or four" candidates and expected to have a decision pretty quickly, with an announcement "over the next couple of weeks." Trump has indicated Kevin Hassett, director of the National Economic Council, and Kevin Warsh, a former Fed governor, were among the frontrunners for the job. He's also interviewed — and praised — Fed Governor Christopher Waller. "I think every one of them would be a good choice," Trump said. The Fed earlier this month lowered its benchmark rate to between 3.5% and 3.75%, its third cut in as many meetings. Three central bank officials dissented from the decision and the Federal Open Market Committee remains undecided about further reductions. Trump has previously called for the central bank to cut benchmark rates to around 1%, or perhaps lower.

China signals goal of slow yuan gain via fix well below estimate

Bloomberg
Hong Kong

China set the yuan's daily reference rate at a level that was below market estimates by a record margin, in the latest sign of policymakers' intention to slow the currency's appreciation. The People's Bank of China (PBoC) set the yuan's so-called fixing at 7.0358 per dollar, 301 pips weaker than the average estimate of traders and analysts in a Bloomberg survey. The gap between the reference rate — which limits the onshore yuan's moves by 2% on either side — and the forecast was the largest since the survey was initiated in 2018. The move came after the offshore yuan advanced past the psychological level of 7 per dollar on Thursday for the first time since September 2024. The PBoC has steered the yuan toward a path of appreciation to appease Beijing's trading partners but sought to maintain a gradual pace of gains to avoid a surge of hot-money inflows. "The fixing sends a signal that the PBoC doesn't want



Chinese 100 yuan banknotes are seen in a counting machine at a branch of a commercial bank in Beijing. China set the yuan's daily reference rate at a level that was below market estimates by a record margin, in the latest sign of policymakers' intention to slow the currency's appreciation.

the yuan to appreciate too quickly," said Zhao peng Xing, senior strategist at Australia & New Zealand Banking Group. "This is in line with its recent pledge in a quarterly monetary policy meeting to prevent the risk of exchange-rate overshoot."

While the fixing was weaker than the market estimate, it's still stronger than where it was in the previous session. The offshore yuan consolidated at 7.0024 after gaining in recent sessions. The PBoC is adopting a cautious approach at a time when Wall Street Banks including Goldman Sachs Group Inc and Bank of America Corp are predicting that the Chinese currency will strengthen well beyond 7 in 2026. Even within China, a rising number of local economists and former central bank officials have called for a stronger currency to help rebalance the economy away from exports and reduce trade tensions. Some strategists said the fixing's recent weakness, along with state banks' occasional purchases of dollars, will rein in speculative bets and prevent a one-sided gain in the yuan. China Minsheng Bank expects seasonal foreign-exchange settlement to lend some support to the yuan in early 2026. However, with the fixing engineered to prevent sharp gains and the dollar's decline slowing, it will be difficult for the Chinese currency to rally past 6.9 per dollar in the short term, Wen Bin and Li Xin, analysts at the bank's research unit, wrote in a note.

China vows to prevent yuan's exchange rate from 'overshooting'

China vowed to prevent the yuan's exchange rate from overshooting, sending yet another clear signal of its intention to slow the currency's appreciation, reports Bloomberg. The People's Bank of China (PBoC) said while it will maintain the exchange rate's flexibility, it will strengthen efforts to guide expectations and guard against "overshooting risks" for the currency, according to its 2025 financial stability report released yesterday. The central bank also reiterated a pledge to keep the yuan basically stable on a reasonable equilibrium. The relatively strong language followed the PBoC's move earlier in the day to place the yuan's daily reference rate at a level that was below market estimates by a record margin. It set the yuan's so-called fixing at 7.0358 per dollar, 301 pips weaker than the average estimate of traders and analysts in a Bloomberg survey. The gap between the reference rate — which limits the onshore yuan's moves by 2% on either side — and the forecast was the largest since the survey was initiated in 2018.



AI funding to drive record year for top-rated company bond sales

Bloomberg
New York

Companies across the US and Europe are preparing to sell a record amount of high-grade bonds in 2026, testing investors' appetite as yields drift lower. Morgan Stanley strategists predict more than \$2tn in US investment-grade debt sales to hit the market next year, which would be the most ever. That's expected to be driven by AI expansion projects, refinancing of looming maturities and acquisition financing. The upbeat sales forecast comes despite questions on how much longer the current credit boom can run. Investors are expected to start demanding wider spreads to buy cor-

porate debt as yields fall and concerns about an AI bubble become harder to ignore. "The credit cycle should burn hotter before it burns out," Morgan Stanley strategists including Andrew Sheets wrote in an early December note to clients, anticipating that US high-grade supply will jump 25% next year to \$2.25tn. After years of caution, companies appear ready to take bigger risk. They're encouraged by cheaper funding, looser regulation, and what the bank calls the biggest capital-spending cycle "in a generation," the strategists wrote. Debt sales tied to AI alone are expected to more than double to \$400bn next year, Morgan Stanley says. That jump is part of a much bigger invest-

ment boom. Spending on AI, cloud computing, and data-centre build-outs is projected to reach a combined \$3tn by 2029, and debt is "quickly becoming the funding tool of choice," according to Bloomberg Intelligence. Morgan Stanley estimates that massive cloud-computing companies known as hyperscalers — a group that includes Alphabet Inc, Amazon.com Inc, Meta Platforms Inc, and Oracle Corp — have room to issue as much as \$700bn of additional debt without triggering a single credit-rating downgrade. While JPMorgan Chase & Co also forecasts an all-time high for investment-grade debt issuance next year, Bank of America Corp expects sales of such debt to jump 11% next year to \$1.84tn — still short of 2020's record of roughly \$1.86tn.

Still, risks exist, especially for companies spending big on AI, with investors waiting to see how those bets play out. "We might need to see spreads keep rising a little bit to compensate for the uncertainty behind this shifting trend in AI," said Collin Martin, head of fixed income research and strategy at Charles Schwab & Co. But not everyone is worried. The hyperscalers "are some of the highest-rated companies in the history of the credit market," said Vishwas Patkar, head of US corporate credit strategy at Morgan Stanley. "There's not necessarily credit risk being added." US companies selling euro-denominated bonds are also set to help drive record issuance in Europe. So-called reverse-Yankee supply climbed to a record €188.1bn in 2025,

including financial and non-financial debt, according to data compiled by Bloomberg. Most forecasters expect a further increase in 2026. "Our research expects that 2026 could be a further record for euro corporate primary issuance", said Xavier Beurtheret, global head of corporate DCM at Credit Agricole, during a December virtual presentation. "US issuers should be very active next year just to take advantage of the cross-currency, which currently remains attractive for them, and to diversify their investors' base." Total issuance of high-grade corporate bonds denominated in euros is seen rising more than 6% to a record €836bn, also boosted by higher redemptions, according to Barclays.

Japan proposes record budget spending while curbing fresh debt

■ **Takaichi's cabinet approves draft \$783bn budget**
■ **Finance minister says budget seeks fiscal discipline**
■ **Tokyo December core CPI up 2.3%, above BoJ target**

Reuters
Tokyo

Japan's government yesterday proposed record spending for next fiscal year while curbing debt issuance, underscoring Prime Minister Sanae Takaichi's challenge in boosting the economy while inflation remains above the central bank's target.

Her cabinet approved a draft budget of \$783bn that addresses market jitters by capping bond issuance and reducing the proportion of the budget financed by fresh debt to the lowest in almost three decades.

Also complicating Takaichi's policy challenge, core inflation in Tokyo stayed above the Bank of Japan (BoJ)'s 2% target this month while the yen remains weak, bolstering the central bank's case to keep raising interest rates.

The record ¥122.3tn budget for the year starting in April, a core part of Takaichi's "proactive" fiscal policy, will likely underpin consumption but could also accelerate inflation and further strain Japan's battered finances.

Investor unease about fiscal expansion in an economy with the heaviest debt burden in the industrialised world has driven super-long government bond yields to record highs and weighed on the yen.

"We believe we have been able to draft a budget that not only increases allocations for key policy measures but also takes fiscal discipline into account, achieving both a strong economy and fiscal sustainability," said Finance Minister Satsuki Katayama.

She told a press conference the draft budget keeps new bond issuance below ¥30tn (\$190bn) for a second consecutive year, with the debt dependence ratio falling to



Japan's Finance Minister Satsuki Katayama holds a press conference after the cabinet's approval of the fiscal 2026 budget proposal at the Finance Ministry in Tokyo yesterday.

24.2%, the lowest since 1998.

The Takaichi government's efforts to reassure Japanese government bond investors were showing some success.

The 30-year JGB yield fell on Thursday from a record high 3.45% after Reuters reported the government will likely reduce new issuance of super-long JGBs next fiscal year to the lowest in 17 years. Yields slipped further yesterday on the administration's efforts at fiscal restraint.

The budget was not as large as initially feared, said Saisuke Sakai, senior economist at Mizuho Research & Technologies. "But political fragmentation raises the risk that Takaichi may resort to a large supplementary budget next year to secure opposition support, keeping alive market concerns that fiscal expansion could push the yen down and accelerate inflation," he said. "It's too optimistic to assume that the current environment will persist."

The proposed spending is inflated by a jump in debt-servicing costs for interest payments and debt redemp-

tion. It also reflects a 3.8% rise in military spending to ¥9tn (\$60bn) as part of the assertive defence policy of Takaichi, a conservative nationalist, and in line with a US push for its allies to pay more for their own defence.

The Tokyo core consumer price index, which excludes volatile costs of fresh food, rose 2.3% in December from a year earlier, less than market forecasts for a 2.5% gain and slowing from a 2.8% increase in November.

The data backs up the central bank's view that core inflation will slide below its 2% target in coming months on easing cost pressure, before resuming a more demand-led increase that justifies additional rate increases.

But some analysts warn of the risk renewed yen declines may prod firms to keep raising prices, leading to sticky, cost-led inflation that could quicken the pace of BoJ rate hikes.

"Today's data suggests food inflation may be peaking. But the weak yen may give firms an excuse to resume price hikes for food, which may keep in-

flation elevated," said Yoshiaki Shinke, senior executive economist at Dai-ichi Life Research Institute. An inflation index for the capital that strips away both fresh food and fuel costs — closely watched by the BoJ as a measure of demand-driven prices — rose 2.6% in December after a 2.8% increase in November.

Data on Friday also showed Japan's factory output fell 2.6% in November from the previous month, deeper than market forecasts for a 2.0% drop, due to cuts in automobile and lithium-ion battery production.

The BoJ raised its policy rate last week to a 30-year high of 0.75%, taking another landmark step in ending decades of huge monetary support, in a sign of its conviction Japan is progressing toward durably hitting its 2% inflation target.

With core inflation exceeding the BoJ's target for nearly four years, Governor Kazuo Ueda has signalled the BoJ's readiness to keep raising rates if the economy continues to improve, backed by solid wage gains.

Egypt squeezes in 5th rate cut of year after inflation slows

Bloomberg
Cairo

Egypt's central bank made its fifth interest-rate cut of the year, after a surprise slowdown in inflation gave authorities scope to resume an easing cycle.

The regulator reduced its benchmark deposit rate by 100 basis points to 20% and the lending rate by the same amount to 21%, it said on Thursday in a statement on its Facebook page. Of five economists in a Bloomberg survey, only two predicted the cut. The others expected an extension of November's rate pause.

The North African nation ratcheted up borrowing costs to a record and devalued its currency by about 40% in early 2024, in steps that helped secure a \$57bn global bailout to turn around the troubled economy.

Authorities have gradually eased rates in 2025, seeking a balance between a figure that's low enough to trim costly interest payments, yet high enough to attract foreign portfolio investment. Taming inflation that soared to record 38% in September 2023 has been a key goal. The headline figure slightly

slowed to 12.3% in November, despite a recent cut in fuel subsidies that was part of International Monetary Fund-backed reforms.

The bank, in another statement, said that while it expects inflation to continue to ease in 2026, there remains persistent pressure from non-food inflation and global geopolitical tensions.

The Monetary Policy Committee said the latest cut was "consistent with maintaining a monetary stance that anchors inflation expectations and sustains the disinflation path."

The unexpected inflation reading in November prompted some analysts — including Mohamed Abu Basha, head of macro analysis at Cairo-based investment bank EFG Hermes — to revise their predictions. "Lowering interest rates by 100 basis points would still maintain" the central bank's "conservative stance," he said in a note earlier in December.

Egypt and the IMF this week reached a staff-level agreement on two much-awaited reviews of an expanded \$8bn loan programme. When approved by the lender's executive board, Cairo will have access to two tranches worth a combined \$2.5bn.

China eases IPO rules for firms developing reusable rockets

Reuters
Beijing

Chinese companies developing reusable commercial rockets will have access to a fast lane for initial public offerings on the tech-heavy STAR market that exempts them from some financial requirements, the Shanghai Stock Exchange said on Friday.

Beijing is seeking to address a gap in its space capabilities compared to the US, which is currently dominant in the ability to return, recover, and reuse a rocket's first stage, or booster, after it is launched.

The new guidelines build upon previous regulations published in June that made it easier for pre-profit innovative companies to get listed on the STAR market.

The fast lane exempts Chinese rocket firms from profitability and minimum revenue thresholds and instead requires them to have met key technological milestones, including one successful orbital launch using reusable rocket technology.

US billionaire Elon Musk's aerospace giant SpaceX currently holds a near monopoly on this technology, and its signature Falcon 9 is the only reusable rocket model that is regularly launched and used to put satellites into orbit.

Earlier this month, China's leading private rocket firm LandSpace became the first domestic entity to carry out a full reusable

rocket test with the launch of its new Zhuque-3 model, signalling its ambition to catch up to SpaceX.

While the launch failed to complete the crucial step of recovering the rocket's booster, a flurry of Chinese state-owned and private players are now rushing to test launch their own reusable rockets.

LandSpace has already said it wants to demonstrate a successful rocket recovery in mid-2026, when Zhuque-3 will be launched for a second time. But it has said the capital-intensive nature of rocket development means it will need access to China's capital markets if it hopes to compete with SpaceX.

The Shanghai exchange's rules do not state that rocket firms must successfully recover a rocket, only that reusable rocket technology be used to put a satellite into orbit, something LandSpace already achieved with this month's launch.

Companies that undertake national missions or participate in major state-led space projects will receive priority support, according to the new guidelines, which take effect immediately, underscoring the close alignment between commercial launch activity and China's broader strategic goals.

China has repeatedly described SpaceX's monopoly on low-Earth orbit satellites as a national security risk and is actively pushing its own satellite constellations, which it hopes will number in the tens of thousands within the next decades.

Green debt sales hit record levels despite climate backlash

Bloomberg
London

Investors have piled into climate-friendly assets this year despite policy and regulatory rollbacks in the US and Europe, as artificial intelligence drives a boom in energy infrastructure demand.

Global green bond and loan issuance has reached a record \$947bn so far this year, according to data compiled by Bloomberg Intelligence. That's as stock market gauges for renewables are set for their first annual gains since 2020, outperforming the S&P 500 by a wide margin, while shares of power-grid technology companies remain in favour. The flows are notable in a year when US President Donald Trump backed fossil fuels and dismantled clean-energy subsidies and legislation. Europe also has rolled back some of its toughest environmental rules amid concerns about growth and competitiveness.

Still, clearer policy signals and an almost 4% expected increase in global electricity demand, driven by AI, cooling and electrification needs, are lifting investor optimism. "Green investments are increasingly becoming viewed as core infrastructure and industrial plays, not just niche ESG trades," said Melissa

Cheek, associate director for ESG investment research at Sustainable Fitch. "Capital is likely flowing toward areas with clear revenue visibility, policy backing and structural demand such as grid upgrades and renewables tied to electrification."

Asia-Pacific companies and government-linked issuers raised \$261bn from green debt, up about 20% from a year earlier, with China and India backing the rollout of renewables, according to Bloomberg Intelligence. China had a record \$138bn in green bond issuance, led by its biggest lenders. It also debuted a sovereign offering in London earlier this year.

The so-called greenium — the lower borrowing costs on green bonds — is most evident in Asia-Pacific, with some issuers getting more than a 14-basis-point discount for using a green label in November, according to BloombergNEF. Green bonds are often used by companies to raise money for switching to renewable energy or lower-carbon transportation.

BNP Paribas SA and Credit Agricole SA are this year's leading underwriters of green bonds, according to data compiled by Bloomberg. The amount of outstanding green bonds has grown at a 30% compound annual rate over the past five years and issuance now accounts for about 4.3% of the global total, LSE Group researchers said last month.



Easing US interest rates and refinancing needs may boost global green bond sales to as much as \$1.6tn next year, said Crystal Geng, environmental, social and governance research lead for Asia at BNP Paribas Asset Management. Green stocks have been a market leader this year. Clean-energy indexes from S&P Dow Jones Indices and WilderShares have surged

45% and 60%, respectively, though both remain below their 2021 peaks. US solar and battery storage stocks, including SolarEdge Technologies Inc, have been among the top performers, while wind turbine makers have led gains in China and Germany. India has emerged as a hotspot for renewable-energy initial public offerings, with 11 listings raising

more than \$1bn and another six companies seeking more than \$3bn. Last year, 14 renewable energy companies raised \$2.4bn through IPOs.

Not all markets are benefiting. US green debt issuance fell 7% to \$163bn this year and supranational bond sales declined by a similar amount. Fundraising in Germany was steady at roughly \$79bn.

While India saw record green loan volumes of \$7bn, strong interest from foreign banks has intensified competition, squeezing financing margins by 5% to 10% on renewable energy and other projects, said Jeanne Soh, head of structured finance for Asia at Sumitomo Mitsui Banking Corp.

Sales of sustainability-linked debt slumped about 50% this year to \$165bn amid green-washing concerns, Bloomberg Intelligence data show. Transition bond issuance more than halved to \$10.9bn for hard-to-abate sectors.

The trends are likely to reverse over the next two years, said Xuan Sheng Ou Yong, a client portfolio manager for sustainable investing at Robeco in Singapore. Changes to European fund rules will let asset managers define what qualifies as a sustainable investment, opening the door to emissions-cutting investments in higher-polluting sectors, he said.

Bloomberg QuickTake Q&A

How gold’s safe-haven appeal is fuelling record prices

By Jack Ryan and Yvonne Yue Li

For centuries, gold has been the go-to haven asset in times of political and economic uncertainty. Its status as a reliably high-value commodity that can be transported easily and sold anywhere offers a sense of safety when everything else is in turmoil. Investors flocked to bullion in 2025, in particular gold-backed exchange-traded funds, driven by President Donald Trump’s trade war, his threats to the independence of the US Federal Reserve, geopolitical tensions and concerns over ballooning government debt. Central banks also continued to add to their gold reserves. This prompted the precious metal to notch a series of price records and eclipse its inflation-adjusted peak from 1980. There was a marked price retreat in October amid fears that the rally had overheated. But the momentum quickly rebuilt on expectations of further US interest rate cuts and gold smashed through \$4,400 per troy ounce toward the end of the year to reach a new all-time high.

Why is gold considered a safe haven?

For modern investors, it’s primarily because of gold’s stability and liquidity rather than any intrinsic utility. Bullion is seen as a hedge against inflation, when the purchasing power of currencies is eroded. Price increases and the labour market in the US have been in the spotlight as Trump has piled pressure on the Fed to bend to his will and cut interest rates. Gold, which pays no interest, typically becomes more attractive in a lower-rate environment, as the

opportunity cost of holding it versus interest-earning assets decreases. Investors have been betting that the Fed will trim rates further in 2026, and that the next chair of the central bank – due to be appointed by Trump – will take a more dovish approach to monetary policy than Jerome Powell. Investors have also turned to gold, silver and other precious metals as part of the so-called debasement trade. Runaway budget deficits around the world have shaken their trust in other traditional shelters from market gyrations, namely sovereign debt and currencies. Gold has historically been negatively correlated with the US dollar – it’s priced in dollars, so when the greenback weakens, bullion becomes cheaper for holders of other currencies.

Is it just investors fuelling gold’s rally?

Beyond market movements, owning gold is deeply rooted in Indian and Chinese cultures – two of the world’s largest markets for the metal – where jewellery, bars and other forms of bullion are passed down through generations as a symbol of prosperity and security. Indian households own about 25,000 metric tons of gold, more than five times what’s stored in the US depository at Fort Knox. Physical buyers are famously sensitive to prices. When gold’s appeal to investors in financial markets starts to fade, buyers of jewellery and bars often step in to grab a bargain, putting a floor under prices in the process.

Why have central banks been buying more gold?

The metal’s blistering price rally since the start of 2024

has partly been driven by huge purchases by central banks, particularly in emerging markets as they seek to reduce their dependency on the dollar, the world’s primary reserve currency. Central banks have been net buyers of gold for more than a decade but accelerated their purchases in the wake of Russia’s invasion of Ukraine. As the US and its allies froze Russian central bank funds held in their countries, it underscored how foreign currency assets are vulnerable to sanctions. The People’s Bank of China has been on a buying streak, adding to its gold holdings for a 13th consecutive month in November. The PBoC is looking to become a custodian of foreign sovereign gold reserves in a bid to strengthen its standing in the global bullion market, Bloomberg reported. Most countries that keep gold abroad store it in the Bank of England.

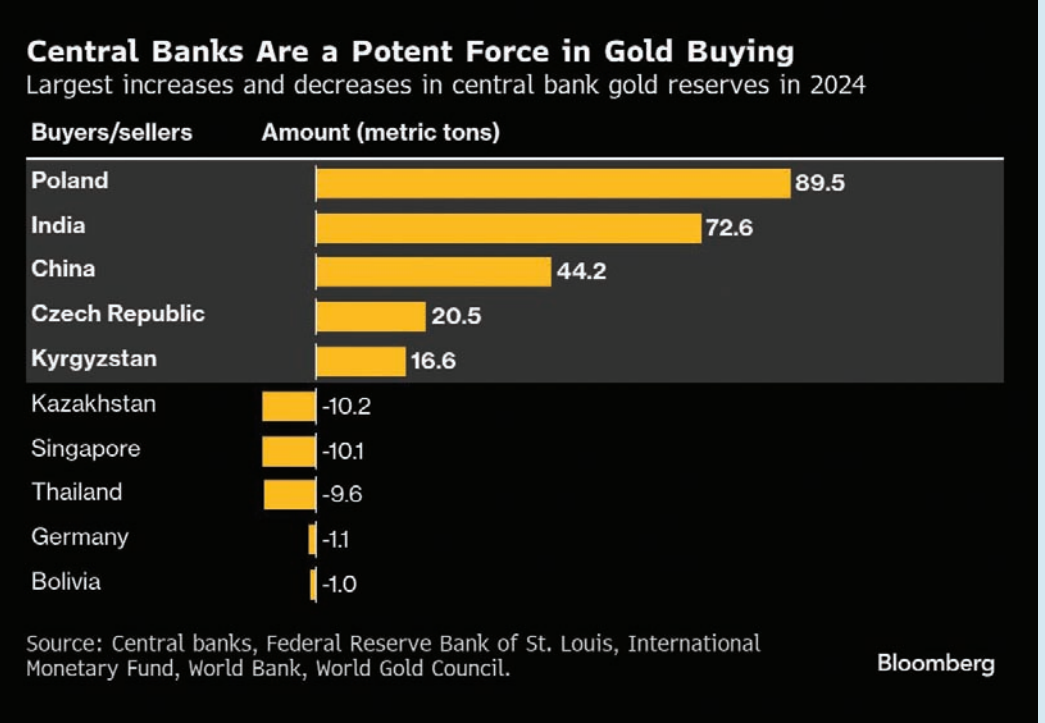
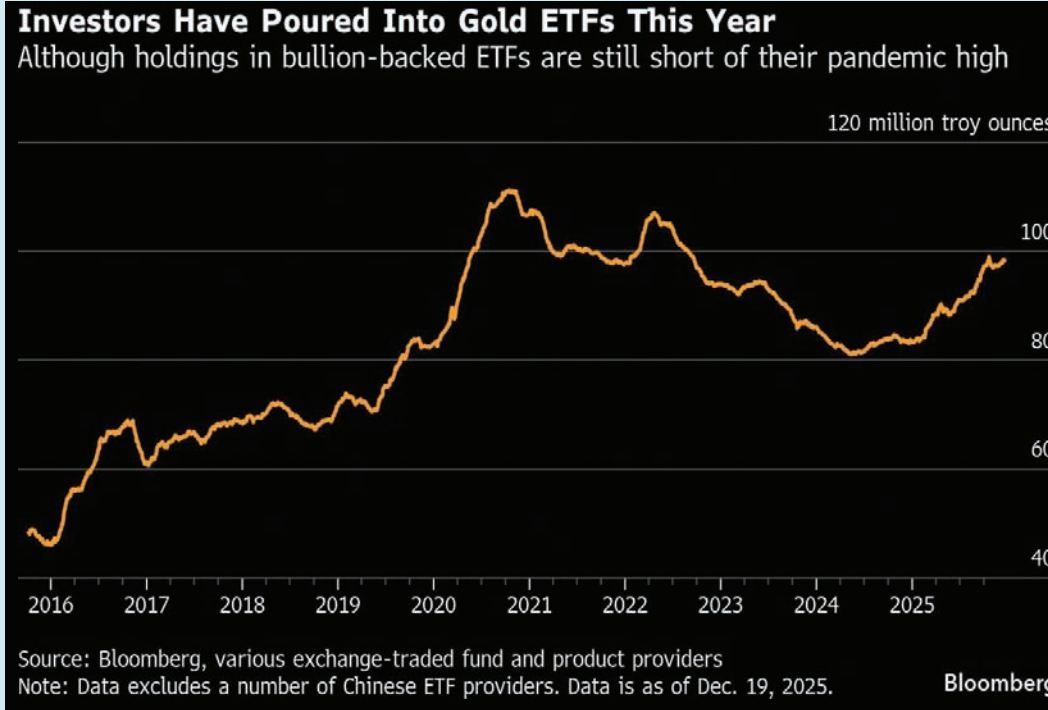
What could halt gold’s rally?

An increase in the value of the dollar, a major de-escalation of Trump’s tariffs, or a peace deal between Russia and Ukraine could spur a gold price decline. Investors could also opt to bank their gains, although their appetite for the precious metal may not have reached its limit just yet. Total gold ETF holdings are still some way off their 2020 peak. Central banks have been the most important pillar of gold’s momentum, meaning they have the power to do the most damage if they trim their reserves. There’s no indication that any large holder is considering this. The central banks of developed economies have sold very little gold in recent decades compared to the 1990s, when persistent sales sent bullion prices

down by more than a quarter over the decade. Amid concerns that those uncoordinated sales were destabilising the market, the first Central Bank Gold Agreement was struck in 1999, under which signatories agreed to limit their collective sales of bullion.

Does gold being a physical asset cause any issues for investors?

Owning gold typically isn’t free. Because it’s a physical object, holders have to pay for storage, security and insurance. Investors buying gold bars and coins usually pay a premium over the spot price. There can be geographic price differentials, too, and traders take advantage of these arbitrage opportunities. That’s what happened in early 2025. Fears that Trump could introduce tariffs on bullion imports pushed gold futures on New York’s Comex significantly above spot prices in London and sparked a worldwide dash to shift the metal to the US. Gold is usually relatively simple to move, stashed away in the cargo holds of commercial aircraft, unbeknown to the holiday and business travellers in the cabin above. But it’s not as straightforward as loading up a jet from Heathrow Airport to JFK thanks to a quirk in the global gold market: different size requirements. In London, 400-ounce bars are the standard, while for Comex contracts, traders must deliver 100-ounce or 1-kilogram bars. That means bullion being sent to Comex warehouses has to first go to refiners in Switzerland to be melted down and recast to the correct dimensions. This creates a bottleneck when there’s a particular rush to rejig the location of bullion stocks.



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Turkiye inflation expected to dip to 31% annually in December

Reuters
Istanbul

Turkiye's inflation rate is expected to edge up to 0.98% month-on-month in December, with the annual rate dipping to 31%, according to a Reuters poll that pointed to a drop in fuel and core goods prices.

The poll showed that the rise in the consumer price index (CPI) was expected slow to 23% by the end of 2026, based on the median forecast.

In November, inflation came in below expectations and eased to 0.87% monthly and to 31.07% annually. Last week, Türkiye's central bank said leading indicators implied that inflation will remain lower than projected in December as a favourable course in food prices continued. For December, the median estimate of eleven economists showed monthly inflation at a median of 0.98% with forecasts ranging from 0.8% to 1.3%, the poll showed. The annual inflation median was 31% with forecasts ranging between 30.8% and 31.4%.

In the minutes of December's policy-setting meeting, where it cut the benchmark rate by 150 basis points, the bank said underlying inflation indicators were expected to maintain their downward trend in December.

The poll's end-2026 median forecast of 23% inflation is well above the central bank's target of 16%.



Turkiye's Central Bank headquarters is seen in Ankara (file). Last week, the central bank said leading indicators implied that inflation will remain lower than projected in December as a favourable course in food prices continued.

Morgan Stanley expects monthly inflation at 0.9% and annual inflation at 31.3% mainly on the back of lower core goods and fuels inflation. The bank said it expects 21.6% inflation by end-2026.

HSBC said it expects prices to rise by 1.3% monthly and 31.4% annually in December. It said the outlook

remains uncertain and the impact of the minimum wage adjustment and other start-of-the-year repricing pose risks that might lead to smaller interest rate cuts from the central bank.

The Turkish Statistical Institute will release December inflation data on January 5.

Why 2026 is poised to be another rocky year for global trade

Bloomberg
Washington/London

The global trading system, which is finishing up one of its most transformational years of the past century, heads into another facing more challenges to stability and growth.

Merchandise trade across the world held up relatively well through 2025, even as US President Donald Trump started erecting a tariff wall around the world's largest economy. Data cited this week by shipping industry veteran John McCown show global container volumes grew 2.1% in October from a year earlier.

Yet beneath the overall resilience are shifting undercurrents: The US saw an 8% contraction in inbound volumes, while imports into Africa, the Middle East, Latin America and India all showed robust growth.

“World container supply chains have already begun to adapt and reconfigure trading patterns,” McCown wrote in a research note this week. After the US in 2024 saw a 15.2% gain in container imports for the full year, “to say that the annual total for 2025 will be in diametric contrast is an understatement.”

Trump's trade threats were among the chief reasons for the rewiring of shipments, according to McCown. If 2025 was the year of the tariff, he wrote in a LinkedIn post, then 2026 will be the year of tariff consequences.

Other experts in recent weeks have said they anticipate more trade turmoil in the year ahead, with these four issues among the most widely discussed:

The US, Canada and Mexico are about to start reviewing the North American free-trade deal that took effect in 2020. The negotiations will take the three nations into “new territory” given the novelty of the provision allowing for an update after just six years, according to comments by US Trade Representative Jamieson Greer to lawmakers this month.

Greer said the government received more than 1,500 responses during the public comment period ahead of the coming review.



A container ship sails into New York Harbor in New York. The global trading system, which is finishing up one of its most transformational years of the past century, heads into another facing more challenges to stability and growth.

“Many stakeholders expressed support for the USMCA and many explicitly called for the agreement to be extended,” Greer said. “At the same time, virtually all stakeholders also called for some sort of improvement to the agreement.”

But any “improvement” for one of the three members of the trade bloc risks coming at the expense of another. And that sets the stage for a tough round of talks for the largest US trading partners, whose industries are struggling amid American import taxes. Ties are already strained between the US and Canada, after Trump terminated trade talks with the northern neighbour in October — in response to anti-tariff ads featuring Ronald Reagan.

For container ships and other workhorses of global trade, the year ahead may bring two shocks that sound like welcome developments but could actually snarl global supply chains in ways seen during the Covid pandemic, according to experts including Lars Jensen, the CEO of the consultancy Vespucci Maritime.

The first change would be a return of the world's cargo fleet to using the Red Sea, rather than the longer route around southern Africa that vessels have had to resort to for the past two years. Houthis attacks in the Red Sea

have largely subsided since the Gaza peace plan took effect in October, making the old route more appealing. Carriers including France's CMA CGM SA and Denmark's AP Moller-Maersk A/S are already sending a small number of ships through.

But a full return to the Red Sea and the Suez Canal shortcut between Asia and Europe will “flood the market with a lot more capacity” and create “massive port congestion issues in Europe,” Jensen said during a Flexport webinar in November.

The second blow could be more demand driven, according to Jensen. If the US economy accelerates as quickly in 2026 as Trump administration officials predict — fuelled by an investment boom and lower interest rates — the resulting inventory restocking could swamp the shipping industry's ability to cope.

High on the White House's list of 2025 accomplishments are trade deals with several major economies, most of which bent to Trump's demands ranging from investment pledges to better market access for US exports. In exchange for their submissiveness, their goods were smacked with a tariff rate that was lower than the duty they would've gotten if they retaliated.

But these aren't traditional, binding trade deals with enforcement

provisions and fine print spelling out the rules, and there's only a one-year truce with China rather than a full agreement — leaving out the US's most unbalanced trading relationship.

That's left concern that pacts could yet come undone, especially given the potential for pressure from Beijing against any nation open to working with Washington at China's expense.

Developments within the past month have showcased the risks. Since the White House announced its “landmark trade deal” in July, Indonesia has been resisting US trade demands that it feared would restrain its independence and now sees an agreement being signed in late January. China complained to Malaysia and Cambodia about the trade deals those two nations signed with Washington, warning them against measures that undermine Beijing's interest.

Even the UK has seen fresh difficulties crop up.

Last week, Greer singled out the European Union and India, saying that contentious talks aimed their respective trade deals are set to spill into the new year. Greer's office, in a social media post last week, threatened retaliation against the EU for what Washington considers to be excessive regulation of American tech companies.

Among the biggest unknowns in trade circles heading into 2026 is a pending US Supreme Court ruling on the legality of Trump's so-called reciprocal tariffs — the broad levies he imposed on most major trading partners.

If Trump does lose the case, one of the most consequential questions for the economy and the country's fiscal outlook will be whether the government will have to refund the money that American importers paid in tariffs. It's not clear cut that'll happen in a timely or organised way.

Kevin Hassett, director of the National Economic Council, told CBS's Face the Nation that even if the high court doesn't rule in the administration's favour, it would be “pretty unlikely that they're going to call for widespread refunds, because it would be an administrative problem” to distribute those.

Bessent sees room for a future revamp of the Fed's 2% target

Bloomberg
Washington

Treasury Secretary Scott Bessent has backed the idea of reconsidering the Federal Reserve's 2% inflation target once the US has sustainably brought price increases back down to that pace.

“Once we are back to 2 — which I think will be in sight — then we can have a discussion: Is it much smarter to have a range?” Bessent said in an interview on the All-In Podcast. “Once we re-anchor to the target, then we can talk about a range.”

The discussion could potentially be framed around a switch to 1.5-2.5% or 1-3%, Bessent suggested in the interview, which was posted on Dec. 22. “There is a very robust conversation” to be had, he said.

Fed policymakers in 2012 formally and publicly adopted the current 2% target, which is shared by many central banks around the world. Bessent said that the idea of “decimal-point certainty is just absurd.” But he said shifting the target at a time when inflation is running faster than that would risk giving the impression that “when you're above a level, you'll always fudge upward.”

The interview was recorded after the December 18 release of the November consumer price index, which showed a 2.7% increase in the level from a year before. The Fed uses a separate gauge, the so-called PCE price index. The PCE climbed 2.8% over the 12 months to September, the most recent reading showed.

“It's very difficult to re-anchor until you meet the target and maintain credibility,” Bessent said. He also acknowledged affordability concerns among households — angst that surfaced in off-cycle elections held in November that saw Republican losses.

The Treasury chief said that “we understand that the American people are hurting.” The price level “has gotten very high,” he said, blaming that surge on the Biden administration. Inflation is now “starting to roll down,” thanks in part to declines in rents that had — he argued — been driven up by a jump in undocumented immigrants.

While some economists said the most recent CPI report likely contained measurement issues thanks to federal staff being furloughed during the government shutdown of October and early November, Bessent said he thought “it was a pretty accurate number.”

He said while some components, including energy, recorded an increase, observable real-time figures showed they're coming down.

Bessent also indicated that stabilising the budget deficit could provide an argument for lower interest-rate levels. He cited an example from Germany before the days of the euro, where the Bundesbank agreed to “foam the runway” and decrease rates in return for the government pursuing a not-profligate “reasonable fiscal balance.”

“That's something that we could be doing here,” he said. Germany's central bank and government “would work with each other hand-in-hand,” he said. He also noted that, before World War II, the Treasury Department “had a seat at the table on the Federal Reserve.”

The Treasury secretary said, “If we can stabilise the budget deficit, even bring it down, then that will contribute to disinflation.”

China to require repatriation of funds raised overseas under new rules

China will require domestic firms to repatriate funds raised from overseas listings “in principle” under new rules aimed at tightening oversight of cross-border financing as Beijing seeks to manage financial risks and maintain stability, reports Reuters.

“If funds are to be kept overseas for foreign direct investment, overseas securities investment or overseas loans, approval must be obtained before the listing is completed,” according to a new guideline jointly issued on Friday by China's central bank and foreign exchange regulator. Under the new rules, which will take effect on April 1, 2026, dedicated capital accounts must be used for cross-border fund settlements and funds obtained through shareholder transactions including buying or selling overseas-listed shares shall also be repatriated “in principle”. Companies can use either offshore funds or onshore funds to buy back their own shares that are listed overseas. For H-share “full circulation,” a policy that allows all shares of a mainland-incorporated company to become tradable in Hong Kong, related fund transfers must go through ChinaClear's designated accounts and dividends paid to mainland shareholders must be settled in RMB within China rather than through offshore channels, the regulation added.

AI spending, strong corporate profits, Fed rate-cuts seen as key to 2026 stock market

Reuters
New York

The US stock market is closing the books on a third straight year of double-digit percentage gains. A fourth stellar year in 2026 may be a tall order, requiring strong earnings, a dovish Federal Reserve and strong artificial intelligence (AI) spending.

The bull market for US stocks that started in October 2022 has been propelled by AI optimism, interest-rate cuts and the economy continuing to grow despite fears of a recession.

The gains were achieved during a rollercoaster year which saw shares dive after the Trump administration unveiled bigger-than-expected tariffs in April. The benchmark S&P 500 is now up over 17% in 2025 with a few trading days left, after rising 23% in 2024 and 24% in 2023. For another year of strong double-digit percentage returns, markets need “everything firing on all cylinders,” said Sam Stovall, chief investment strategist at CFRA.

“A lot of headwinds indicate to me that while we could end up with a surprisingly good year, I don't think it will be another great year,” said Stovall, who has a year-end 2026 price target of 7,400 which would be up about 7% from current levels

Many market strategists foresee a strong 2026, with some S&P 500 targets equating to over 10% gains, including Deutsche Bank's

target of 8,000, which is roughly 16% higher for the index.

Stock bulls point to the upbeat outlook for US corporate profits. Earnings among S&P 500 companies are projected up over 15% in 2026, on the back of a solid 13% rise in 2025, according to Tajinder Dhillon, head of earnings research at LSEG.

Earnings growth is expected to be driven by a broader swath of companies, as fiscal stimulus and easier monetary policy help shore up the economy and consumer spending, rather than confined to a small group of tech and tech-related behemoths. Those megacap companies, which include Nvidia, Apple and Amazon and are known as the “Magnificent Seven”, posted 37% profit growth in 2024 compared to 7% for the rest of the S&P 500, according to LSEG's Dhillon.

In 2026, that gap is poised to narrow significantly: the Mag 7 are expected to have earnings growth of 23% against 13% for the rest of the index.

“An improvement in earnings growth for many of the 493 other stocks in the S&P 500 — and we've seen some of that already — that certainly would help the stock market get to double-digit returns next year,” said Kristina Hooper, chief market strategist at Man Group. Profit growth will be critical because stock valuations will be hard-pressed to expand beyond lofty levels, investors said.

One boost to valuations has been excitement over AI, including massive spending for infra-



Traders work on the floor of the New York Stock Exchange. The bull market for US stocks that started in October 2022 has been propelled by AI optimism, interest-rate cuts and the economy continuing to grow despite fears of a recession.

structure and expected voracious demand for its application. Recently, questions about the returns from the capital spending dented tech and other AI-linked shares, and will likely remain a critical theme in 2026. “If companies start to pull back on the capex that they have already guided to and the market loses confidence in the returns that the AI investment will generate... you're probably looking at more of a flat or even a modestly down year,”

said Jeff Buchbinder, chief equity strategist for LPL Financial.

Another critical factor for a strong stock market year, investors said, is the economy softening enough to pave the way for calming inflation and more rate cuts, but not so much that it falls into a recession. Fed funds futures indicate investors expect at least two more quarter-point reductions in 2026 following 175 basis points of cuts in 2024 and 2025.

“Probably the biggest driver I'd be looking for is the Fed maintaining a dovish stance,” said Yung-Yu Ma, chief investment strategist at PNC Financial Services Group. Investors are watching President Donald Trump's choice of a Fed chair, expected early in 2026, as a sign the central bank will be more dovish but are concerned about its independence being tested.

Historical data yields a mixed story about potential returns in 2026. On the plus side, of seven bull markets that made it to year four since 1950, the fourth year has averaged a gain of 12.8%, posting positive performance for the year in six of seven occasions, according to LPL Research.

However, US midterm election years, when the election of a new Congress injects uncertainty about the makeup of the federal government, tend to be subpar. The S&P 500 is up just 3.8% on average in midterm years, compared to an average 11% during the other three years of a presidential term, according to CFRA's Stovall.

There are also a host of possible wildcards. For example, while tariffs receded as the dominant market issue after driving extreme volatility in early 2025, the relationship between the US and China, the world's two largest economies, could sway stocks in 2026, said PNC's Ma.

“There's actually a possibility for a breakthrough between the US and China that could be a positive catalyst that is not baked into expectations,” he said.