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GULF TIMES BUSINESS



MONETARY POLICY: Page 2

BoJ set to keep interest rate steady at 0.75% in January



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Surge in gas projects helps Qatar maintain positive momentum in contracts awarded in GCC in 2025: Kamco Invest

By Santhosh V Perumal
Business Reporter

A substantial two-fold surge in the value of projects in the gas sector led Qatar register a 4% year-on-year increase in total value of contracts awarded in 2025, defying the overall trend in the Gulf Co-operation Council (GCC), which otherwise saw a 32% plunge, according to Kamco Invest, a regional economic think-tank.

The total value of contracts awarded in Qatar registered a moderate year-on-year increase of 4%, attaining \$23.1bn in 2025 against \$22.2bn in 2024, Kamco said, quoting data from MEED Projects.

"This expansion in contract awards was principally driven by a substantial surge in the value of projects within Qatar's gas sector, which recorded a two-fold increase to reach \$12.3bn in 2025, up from \$6bn in 2024," the report said.

The gas sector constituted 53.2% of the total contracts awarded in the country during the year. One of the significant gas contracts awarded in Qatar during 2025, particularly in the fourth quarter, was the \$4bn EPCI (engineering, procurement, construction and installation) contract for the second phase of the North Field Production Sustainability (NFPS) project by QatarEnergy LNG.

This contract was awarded to a consortium of contractors comprising Saipem (the Italian contractor) and China Offshore Oil Engineering.

Conversely, Qatar's oil sector, conventionally the largest in terms of project value, experienced a 6.4% year-on-year decline, receding to \$6bn in 2025 from \$6.5bn in 2024.



A substantial two-fold surge in the value of projects in gas sector led Qatar register a 4% year-on-year increase in total value of contracts awarded in 2025, defying the overall trend in the Gulf Co-operation Council, which otherwise saw a 32% plunge, according to Kamco Invest

Meanwhile, the power sector encountered a substantial contraction, with the total value of contracts awarded decreasing by 11.8% year-on-year to \$2.6bn compared to \$2.9bn in 2024. The power sector received the third-highest value of contract awards in Qatar during 2025.

Among the notable projects awarded in Qatar during 2025, especially in the fourth quarter, were the \$305mn contracts by Qatar's Public Works Authority (Ashghal) for the construction of roads and infrastructure networks in the Izghawa and Al Theer areas northwest of Doha.

The project scope encompasses the construction of carriageways, footpaths, parking areas, kerb lines, traffic signs and road markings, pedestrian guard rails, fencing, traffic signals, street lighting, landscaping, and irrigation.

tion systems. Nevertheless, the total value of contracts awarded across the GCC declined by 32% year-on-year in 2025, reaching \$213.4bn compared to \$314bn in 2024, driven largely by a substantial downturn in contract awards within Saudi Arabia and the UAE, the two largest projects markets in the region.

"In contrast, only Kuwait and Qatar recorded growth in project awards during the year, while the four remaining member states experienced declines," Kamco Invest said.

Reasoning for the lull in GCC projects market, the report said subdued oil prices throughout 2025, averaging \$63.1 per barrel down from \$74.5 in 2024 impacted overall project development, despite the rescinding of Opec+ production cuts.

This sharp decline follows two

consecutive years of record capital expenditure, during which the region channelled significant investment into large-scale hydrocarbon initiatives and a portfolio of giga projects valued in excess of \$1tn.

The contraction during the final quarter was broad-based across the region. All of the six GCC nations witnessed declines, with five recording double-digit year-on-year decreases in total awarded contract value during Q4-2025.

"Looking forward, the GCC project activity is anticipated to regain momentum in 2026, supported by stabilising cyclical oil price movements and sustained expansion within the non-oil economic sector, although the pace of recovery may be tempered if crude prices remain subdued," Kamco said.

US factory output unexpectedly rises in December

Reuters
Washington

US factory production unexpectedly increased in December amid a surge in primary metals output that offset a decline at motor vehicle assembly plants, but activity contracted in the fourth quarter against the backdrop of challenges from import tariffs. Some improvement in manufacturing is expected this year as the drag from President Donald Trump's sweeping import duties eases and tax legislation, which made bonus depreciation permanent among other perks, takes effect.

An artificial intelligence (AI) investment boom is also seen providing support, though some economists warned the environment for manufacturers remained fragile, citing weak factory surveys.

"There has been no shortage of reasons to delay big capital expenditure plans. When we look out into this year though we expect some recovery in traditional investment," said Shannon Grein, an economist at Wells Fargo. "Trade policy will likely still be a source of concern, but we're not expecting as much tinkering to tariff rates as we saw last year."

Manufacturing output rose 0.2% last month after an upwardly revised 0.3% gain in November, the Federal Reserve said yesterday. Economists polled by Reuters had forecast production for the sector, which accounts for 10.1% of the economy, falling 0.2% after a previously reported unchanged reading in November.

Production at factories increased 2.0% on a year-over-year basis in December. But it dropped at a 0.7% annualised rate in the fourth quarter after growing at a 2.8% pace in the July-September quarter. Manufacturing has been hurt by Trump's sweeping import duties, which he has ironically defended as needed to restore

a long-declining domestic industrial base.

Though the levies have shored up industries like primary metals that faced stiff foreign competition, and an AI investment boom has supported certain segments, the rest of manufacturing has struggled, with the sector shedding 68,000 jobs in 2025.

Economists have long argued a manufacturing renaissance was impossible because of structural issues, including worker shortages, which have been worsened by the Trump administration's immigration crackdown.

Primary metals production jumped 2.4%. There were also sizeable increases in the output of electrical equipment, appliances and components as well as aerospace and miscellaneous transportation. But motor vehicle production dropped 1.1%, declining for a fourth straight month. Motor vehicle output fell 2.8% year-on-year in December.

Economists generally dismissed the improvement in manufacturing output in the final two months of 2025 as unsustainable, arguing that it was built on front-loading of US-made goods by both domestic and foreign manufacturers in anticipation of higher prices because of tariffs, and saw no evidence of reshoring of factory operations.

"With all of last year's data now available, it seems fair to say that any boost to manufacturing from tariffs was driven by front-loading and therefore short-lived, with limited signs of genuine reshoring," said Bradley Saunders, North America economist at Capital Economics.

Durable goods manufacturing production edged up 0.1%. Nondurable manufacturing output increased 0.3%, lifted by production of food, beverage and tobacco as well as petroleum and coal, plastics and rubber products. Some economists cautioned that tariff uncertainty still persisted.

QSE key index climbs 207 points; M-cap adds QR5.76bn

By Santhosh V Perumal
Business Reporter

Notwithstanding the heightened geopolitical concerns in the region, the Qatar Stock Exchange (QSE) closed in the positive territory this week with its key index gaining as much as 207 points and capitalisation adding about QR6bn.

An across the board buying was seen lifting the 20-stock Qatar Index 1.92% this week which saw QNB report net profit of QR17bn in 2025.

The real estate, insurance, banking and transport counters witnessed higher than average demand this week which saw Qatar Islamic Bank register net profit of QR4.84bn in 2025. About 84% of the traded constituents extended gains to investors in the main bourse this week which saw Dukhan Bank 2025 net profit at QR141bn.

WEEKLY REVIEW

Doha Bank group make a debut on QSE.

The Total Return Index rose 1.92%, the All Share Index by 2.12% and the All Islamic Index by 1.53% this week which saw Nakilat enter a decisive growth phase with 18 of its 40 new vessels scheduled for delivery by 2027.

The realty sector index shot up 3.28%, insurance (2.96%), banks and financial services (2.48%), transport (2.36%), industrials (1.72%), consumer goods and services (0.68%) and telecom (0.5%) this week which saw a Standard and Poor's report that said Qatar's banking sector is expected to see cost of risk on a declining trend by next year due to strong underlying economy and robust funding conditions for corporates.

Major gainers in the main market

include Mannai Corporation, Qatar General Insurance and Reinsurance, Qamco, Commercial Bank, United Development Company, QNB, Doha Bank, Qatar Oman Investment, Mekdam Holding, Qatar Electricity and Water, Gulf International Services, Aamal Company, Estithmar Holding, Mazaya Qatar, Nakilat, Milaha and Gulf Warehousing. In the junior bourse, Techno Q saw its shares appreciate in value this week.

Nevertheless, Qatar Cinema and Film Distribution, Inma Holding, Beema, Qatar Industrial Manufacturing and Qatar Islamic Insurance were among the decliners in the main market this week which saw MEED Projects find that Qatar registered a 4% year-on-year increase in total value of contracts awarded in 2025. The main market saw a 16% plunge in trade volumes to 622.81mn shares but on flat value to



An across the board buying was seen lifting the 20-stock Qatar Index 1.92% this week

QR2.01bn amidst 52% jump in deals to 195,627 this week.

In the venture market, trade

volumes plummeted 51% to 0.23mn equities, value by 52% to QR0.47mn and transactions by 33% to 71.



Japan's long-awaited return to normalcy brings uncertainty

By Jamie McGeever
Orlando, Florida

Japan's economy is returning to something resembling normalcy for the first time in decades. That's likely to mean more volatility ahead for the yen and other Japanese assets, as investors try to make sense of this new reality. While Japanese equities are rising to levels never seen before, that is less remarkable because many other countries' stock markets are also hitting new all-time peaks. The more intriguing market moves in Japan are happening in government bonds (JGBs) and the yen. Bond yields across the JGB curve are at multi-decade or record highs, marking a stark disconnect

from other major debt markets like the US, where Treasury yields have been fairly stable in recent months. The yen, which was the worst-performing major currency against the dollar last year, has weakened even more to kick off 2026. On Wednesday, it fell to an 18-month low around 160 per dollar, territory that has previously prompted waves of yen-buying intervention from the Ministry of Finance. There appears to be a disconnect here. Central bank interest rate hikes and rising bond yields should support the currency, right? That logic doesn't always hold, however, especially when Japan's unique debt dynamics and inflation history are taken into consideration. Japan has amassed the world's

largest public debt pile of more than 230% of GDP, thanks to decades of "quantitative easing" bond-buying, borrowing, fiscal largesse, and near-zero interest rates to try to pull the economy out of a prolonged deflationary funk. It appears to have won that battle. Annual inflation is running at around 3%, exceeding the Bank of Japan's 2% target every month for nearly five straight years. And wage growth has been robust in recent years, even if it is now slowing. The Bank of Japan (BoJ) is finally increasing borrowing costs, albeit cautiously. It lifted its policy rate last month to a 30-year high of 0.75% from 0.5%. This is the slowest policy tightening cycle in modern history, with rates increasing just

85 basis points over two years, but it still is confirmation that deflation-haunted Japan may no longer be such an outlier. As independent economics commentator Matthew Klein observes: "Far from indicating trouble, Japanese bond prices are implying that Japan has converged, in at least one important way, with the rest of the rich world." That may be true, but for many Japanese businesses, consumers, and investors, the highest interest rates in 30 years represent a step into the unknown. With this comes uncertainty, and therefore a likely increase in expected volatility. This helps explain why the recent rise in JGB yields has triggered such an adverse reaction in the yen. Investors appear to fear

that historically high borrowing costs could precipitate a fiscal crisis that will only tighten the squeeze on JGBs and the yen. Japanese currency's volatility has already been creeping up in the last few years. Since late 2022, implied three-month dollar/yen volatility has been consistently and often significantly higher than comparable measures in euro/dollar and sterling/dollar. It wasn't always thus. For long spells over the past quarter century, yen "vol" was in line with, or lower than, its euro and sterling counterparts. But times have changed, and there are plenty of reasons to expect yen "vol" to stay elevated. Although "real" inflation-adjusted Japanese rates and yields are still negative, nominal rates are rising, and they could climb further on

the back of Prime Minister Sanae Takai's plans to prime the pumps.

The gap with borrowing costs in the US and other developed markets is narrowing, which may spur a yen rebound, especially if it is backed by intervention from Tokyo.

Japanese authorities have conducted four bouts of yen-buying in recent years: Twice in 2022 and another two times in 2024. Traders are on high alert for a fifth. For the first time in decades, Japan has got inflation, wage growth, and rising borrowing costs. It's a new "normal" that will take some getting used to.

■ Jamie McGeever is a columnist for Reuters. The opinions expressed here are those of the author.

Yen rises as Japan ponders intervention with US to counter currency weakness

Reuters
Tokyo

The yen rose against the dollar yesterday after Japan's Finance Minister Satsuki Katayama said Tokyo would not rule out any options to counter weakness in the yen, including co-ordinated intervention with the US. The yen slid to a 1-1/2-year low earlier in the week. It was last up 0.37% to 158.08, but still set for a third consecutive week of declines against the greenback.

The dollar index, which measures the US currency against a basket of peers, was poised for a third consecutive weekly gain after positive US economic data pushed out expectations for rate cuts by the Federal Reserve.

Katayama said a joint statement signed with the US last September "was extremely significant and included language on intervention."

Markets in Japan are on edge before a pivotal week that will see fiscally dovish Prime Minister Sanae Takai's dissolve parliament to set up a snap election while the central bank meets on policy. Some Bank of Japan policymakers see scope to raise interest rates sooner than markets expect to contend with the weak yen, sources told Reuters.

The Japanese currency has fallen in this week on expectations that Takai will have greater leeway to introduce more stimulus pending the snap election expected early next month.

"Lower house dissolution reports are fuelling JPY depreciation pressure and we have fur-

ther extended our long USD/JPY target, but potential intervention risk could cap the upside," said Shinichiro Kadota, Head of Japan FX and Rates Strategy at Barclays Tokyo. Barclays said in a note that Japan's Liberal Democratic Party may be in for a tight race as the opposition strengthens its coordination and monetary policy could change depending not only on election results but also on FX reactions.

The dollar index's rally paused yesterday, with the currency down 0.14% at 99.19, but still on track for a 0.7% weekly rise.

The dollar rose on Thursday after data showed US weekly jobless claims unexpectedly fell, likely reflecting challenges adjusting data for seasonal fluctuations.

Fed funds futures have pushed back expectations for the next rate cut to June on the back of improving employment data and as central bank policymakers expressed concern about inflation.

Elsewhere, the European Central Bank (ECB) chief economist Philip Lane said the central bank will not debate any rate change in the near term if the economy stays on course, but new shocks, like a potential deviation by the Fed from its mandate, could upset the outlook.

The ECB has kept rates on hold since ending a rapid rate cut cycle in June and signalled last month that it was in no hurry to change policy again.

The euro edged 0.1% higher at \$1.6220, set for a third consecutive weekly decline against the US currency after falling on Thursday to its lowest level versus the dollar since early December.



The yen rose against the dollar yesterday after Japan's Finance Minister Satsuki Katayama said Tokyo would not rule out any options to counter weakness in the yen, including co-ordinated intervention with the US

Asian stock markets mixed after bumper TSMC results

AFP
Hong Kong

Asian markets were mixed yesterday after Taiwanese chipmaking titan TSMC posted a big profit jump, bolstering confidence in the artificial intelligence sector as the United States struck a trade deal with the self-ruled island.

In Tokyo, the Nikkei 225 closed down 0.3% to 53,936.17 points; Hong Kong - Hang Seng Index ended down 0.3% to 26,844.96 points and Shanghai - Composite closed down 0.3% to 4,101.91 points yesterday.

The company's shares jumped 4.4% on Wall Street, and rose three percent Friday in Taipei.

Some market-watchers fear the bubble of excitement around AI, which has pushed global markets to record highs, could burst and cause a stock rout.

But TSMC, the world's biggest contract maker of chips, announced on Thursday a forecast-busting net profit for the fourth quarter -- seen as a sign of sustained global demand for AI technology.

The company's shares jumped 4.4% on Wall Street, and rose three percent Friday in Taipei.

Analyst Gavin Friend said TSMC's strong annual capital expenditure forecast in particular would reassure those concerned over how long the AI boom can last.

"Increasingly, investors have been questioning the extent of the

cut tariffs. Taiwan will remain the world's "most important" producer of the advanced chips that power AI tools, the island's Economic Affairs Minister Kung Ming-hsin said.

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TSMC's strong annual capital

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would reassure those concerned

over how long the AI boom can last.

"Increasingly, investors have

been questioning the extent of the

capex drive into data centres," he told the National Australia Bank's Morning Call podcast.

"I think the most important

thing - and they (TSMC) pretty

much exceeded on everything -

was the upbeat outlook on things

like capex, expected to be signifi-

cantly higher over the next three

years," he said.

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South Korea's \$350bn US investment unlikely to kick off in first half

Reuters

Seoul

South Korea's planned investment of \$350bn in strategic US sectors under a trade deal is unlikely to kick off in the first half of 2026, Finance Minister Koo Yun-cheol said, meaning the weak won currency should not face major new dollar outflows.

The allies agreed to cap annual dollar investment outflows at \$20bn under a November trade deal that cut President Donald Trump's tariffs on imports from South Korea, which agreed in turn to invest \$350bn in US strategic sectors.

"It's unlikely," Koo told Reuters in an interview yesterday, when asked if the investment could begin in the first half of this year.

"Even if a nuclear power plant gets selected, for example, there will be process to follow such as finding a location, designing it and building them, so the initial outflows could be much smaller than that," Koo added.

He was referring to an annual cap of \$20bn on outflows agreed by the two countries.

"Not a lot (of investment) can be made under the current forex situation, at least for this year," Koo ruled out further macro-prudential measures to slow the won's decline.

"Imposing additional regulations isn't something we're thinking about at a time when we are headed to the MSCI and when the won needs to be internationalised, with a more liberal capital market," he added.

An upgrade to developed market status by Morgan Stanley Capital International (MSCI) is one of President Lee Jae Myung's major policy pledges since he took office in June 2025.

Koo's comment followed remarks on Thursday by deputy finance minister Choi Ji-young that the government was considering new measures to curb dollar demand among domestic investors, though he gave no details. South Korea sets caps on



South Korea's Finance Minister Koo Yun-cheol speaks during an interview with Reuters at the government complex in Seoul, yesterday.

banks' foreign forward positions. The stumping won is a worry for Seoul officials planning for such large outflows, as it nears levels unseen since the global financial crisis from 2007 to 2009, even though exports are humming and the stock market jumped 76% last year.

Koo warned traders not to test the resolve of authorities on the won, which pared losses after his remarks to trade at 1,470.2 against the dollar by 0743 GMT.

Earlier it had hovered near 16-year lows of 1,473.8, after weakening more than 2% this year.

"It is true that there is depreciation pressure in the foreign exchange market that is somewhat bigger than we thought," Koo said.

The government will swiftly adopt recently unveiled market-stabilising measures, because herd-like behaviour in the markets could push the won down, Koo said.

"That's not something we will tolerate," he added. Koo said the United States appreciated South Korea's recent efforts to keep the won from depreciating, a currency movement the US does not want.

On Wednesday, US Treasury Secretary Scott Bessent said he had discussed with Koo that the currency's recent depreciation was not in line with South Korea's economic fundamentals.

Koo said the government planned to implement the investment package as soon as possible.

It would ask parliament to start reviewing a bill proposed last year to set up a special fund for the package from February, he said, but added that uncertainty over an expected US court ruling on Trump's tariffs could affect the process.

No specific projects have yet been agreed under the deal, but they could involve nuclear power plants as

flagged by US Commerce Secretary Howard Lutnick, Koo said.

The government's efforts to rein in the won have failed to sway the currency very far from the key psychological level of 1,500 to the dollar.

Such efforts included spurring the National Pension Service to sell dollars and pushing exporters to convert more of their overseas earnings into won.

Last week, the government raised its growth forecast for this year to 2.0% from 1.8%, which Koo attributed largely to strong semiconductor demand in the era of artificial intelligence, calling it a "blessing for South Korea".

To boost the potential for growth the government will invest in technologies from AI and biopharmaceuticals to nuclear energy and food, Koo said, moves that will help ease investor pessimism on the South Korean economy and currency.

Emerging equities hit record high on receding geopolitical rhetoric

Reuters

Singapore

The Hungarian and the Romanian stock indexes gained 0.7% and 1.3%, respectively, hovering around record highs.

Poland's benchmark index was flat, however. The 2025 budget deficit was more than 10bn zlotys below the level planned for, Finance Minister Andrzej Domanski said.

Turkey's stock index rose 0.8%, trading at peak levels.

The US dollar hovered near a six-week high after a slew of upbeat economic releases. The MSCI EM currency gauge ticked down 0.1%.

The South African rand eased 0.3% against the dollar, having gained earlier in the week, aided by rising prices for gold, the country's major export, on safe-haven demand.

In emerging EMEA, the Hungarian forint dropped 0.3% against the euro, while the Polish zloty and the Czech crown edged down 0.2% each.

All were set for weekly losses.

Lebanon's international bonds were a bright spot, with many maturities hovering close to the six-year highs hit on Thursday, bolstered by expectations for a potential change of power in Iran.

In other major developments, International Monetary Fund chief Kristalina Georgieva met top Ukrainian officials in Kyiv on Thursday, telling Reuters she expected to send a new \$8.1bn lending program to the Fund's board for approval in coming weeks.

Georgieva also said the IMF was ready to support Venezuela but needed its major shareholders to recognise its leadership, and those authorities to seek assistance.

China's 2025 economic growth likely slowest in decades: Analysts

AFP

Beijing

China's economy likely grew last year at its weakest rate in three decades, outside of the pandemic, according to an AFP survey of analysts ahead of official data on Monday.

The world's second-largest economy struggled to shore up its property market while boosting domestic consumption as Chinese exports to the key US market were crimped by Donald Trump's tariffs.

President Xi Jinping said last month that growth probably met an annual target of "around 5%" in 2025.

Economists estimated a median figure of 4.9%, in what would be the weakest growth since 1990 when China was under Western sanctions after the deadly Tiananmen Square crackdown.

The announcement will be "close enough for officials to declare victory" in meeting the roughly five-percent number, a "political comfort blanket" for Beijing, said Sarah Tan of Moody's Analytics.

But the composition of Chinese growth was "deeply uneven" and official figures "mask the weak sentiment on the ground", she said.

Analysts agreed the main problem was China's property sector, which has failed to overcome a persistent debt crisis despite rate cuts and loosened restrictions on homebuying.

House prices have risen slightly in some large cities but the broader market remains sluggish.

"We see no sign of a near-term property sector bottoming out," analysts from Goldman Sachs said.

Without bolder measures like converting housing stock into affordable homes, the industry will remain unstable, analysts warned.

Investments in property and infrastructure likely took a hit last year. Official figures already show that fixed-asset investment slowed 2.6% between January and November, its sharpest rate since 2020.

Larry Hu and Yuxiao Zhang of Macquarie Group attributed the decline to unannounced "data revisions" by Beijing, adding they did not expect policymakers

to respond. Property investment could fall by 12% in 2026, they predicted.

Tianchen Xu of the Economist Intelligence Unit (EIU) also forecast a real-estate "correction" in 2026, adding: "This will remain a drag on growth."

Meanwhile, constraints on local government finances pushed a wider slowdown in manufacturing and infrastructure investment last year, Goldman Sachs analysts said.

China's outbound foreign direct investment continued to outpace inbound flows in recent quarters, they noted.

Domestic spending is also cause for concern. Retail sales, a key indicator of consumption, grew at their slowest pace in nearly three years in November.

Economists have long urged Beijing to move towards a growth model powered by consumption rather than exports and manufacturing.

Excess supply remains an issue in manufacturing despite a government campaign last year to combat overcapacity and price cutting. China aims to become a global powerhouse in advanced manufacturing,

but that promises little for domestic spending, according to Goldman Sachs analysts.

"High-end manufacturing and frontier technology will not generate many jobs or lead to significantly higher incomes for average households, making only a limited contribution to private consumption," they said.

Chinese consumers remain jittery about the wider economy and high unemployment, even though officials have relaxed fiscal policy and subsidised the replacement of household items in a sputtering bid to boost spending.

"That anxiety is shaping how households spend," Tan said, noting that while domestic tourism rebounded to pre-pandemic levels last year, the average outlay per traveller was lower.

Robust exports have been a bright spot in the cloudy economic picture despite a bruising trade war with the United States that saw Trump slap steep tariffs on Chinese products.

Official data showed Chinese exports to the United States plunged by 20 percent in 2025, but that had little impact on demand for Chinese products elsewhere.

China's trade surplus hit a record \$1.2 trillion last year, with officials lauding a "new historical high" filled by other trade partners.

"The trade war 2.0 didn't impact China much, leading Beijing to refrain from implementing major stimulus measures," said Hu and Zhang of Macquarie.

Tan agreed that "exports are propping up the economy while consumers and property developers hang back". But whether they continue to drive the economy in 2026 remains to be seen. Economists expect Beijing to reveal new stimulus measures - potentially at its annual parliamentary session in March - to address core challenges.

"We think there will be a turnaround this year driven by policy support from fiscal and new financing policy tools," said Erin Xin at HSBC.

Xu, of the EIU, predicted that fiscal policy would be "expansionary by historical standards" for China to reach its growth target.

Macquarie analysts, however, were more conservative, saying "the size of the stimulus package will largely depend on the magnitude of the export slowdown".

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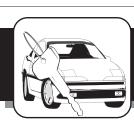
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Trump's mortgage foray at odds with aggravating Treasuries

By Mike Dolan
London

If housing affordability is a priority for US President Donald Trump in an election year, the contradictions in his administration's frenetic new year policy push seem a strange way of getting results. Last week's plan to get federal housing agencies on a \$200bn buying spree of mortgage bonds looks unlikely to get mortgage rates down further by itself, according to many banks. And a fresh challenge to Federal Reserve independence potentially complicates efforts to push benchmark long-term Treasury yields lower. With 10 months to the midterm congressional polls and just 33% of US adults in December saying they approved of Trump's handling of the US economy - the lowest rating of his presidency - the president has little time to make a tangible impact in an area seen as central to cost of living concerns. Last Thursday, Trump's mortgage bond initiative clearly pointed in that direction. His announcement claimed that getting housing debt agencies Fannie Mae and Freddie Mac to buy the mortgage

bonds with the liquid reserves on their balance sheets would "drive Mortgage Rates DOWN, monthly payments DOWN, and make the cost of owning a home more affordable." Federal Housing Finance Agency Director Bill Pulte later said the buying had already commenced and that Trump would be announcing more initiatives on housing during his visit to the World Economic Forum in Davos next week. Average 30-year fixed mortgage rates of 6.25% last week have fallen about 85 basis points over the past year but are still more than twice levels seen four years ago and remain above lows seen in September 2024. The premium on these mortgage rates over 30-year Treasuries has narrowed by about 100 basis points over the past year, but many doubt there is much room for that gap to shrink further, even after the mortgage bond plan. Markets assume that the previous tightening already priced in the likelihood of last week's move. Barclays strategist Jonathan Hill reckons the new demand from government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac "is fully priced in" and that marginal tightening of spreads in mortgage-backed securities, and therefore

in actual mortgage rates, would now be limited. Even though some have likened the operation to the Fed's "quantitative easing" programmes of the last decade, the Fed itself is still currently running down its \$2tn portfolio of mortgage bonds at a pace of about \$15bn a month. Indeed, Treasury Secretary Scott Bessent told Reuters late last week that Trump's plan was simply to "roughly match the Fed, which has been pushing the other way." While the move would not cut mortgage rates directly, he added, it may help by further reducing the spreads on Fannie and Freddie over Treasuries. However, Hill at Barclays said the way in which Fannie and Freddie "duration hedge" their exposure with swaps and fund purchases through short discount notes would neutralise the overall impact - unlike Fed QE forays. He detailed other possible technical measures that may affect mortgage rates and housing affordability - including simply boosting housing supply, even if that would take far longer to bear fruit than this year's election timeline. But while all such headlines may make for good political optics in any case, "the totality is unlikely to push mortgage rates

sufficiently low to unlock a more broad-based refi (refinancing) wave or return to levels closer to the 'norm' of the past 15 years," Hill told clients. For that, he wrote, "it all comes back to Treasuries." Getting Treasury yields down is a holy grail - and may even be as elusive given the full gamut of Trump's policies. If the administration can't push down expectations for future Fed policy rates, it would have to try to lower the "term premium" on long-term borrowing instead. It could do that by increasing bond buybacks, shifting issuance away from longer-dated debt, and pursuing long-mooted bank regulatory changes. But a lot of these adjustments have been tried or floated over the past year and, arguably, have also been significantly priced in already, as Treasury yields remained relatively contained through repeated shocks and disturbances in 2025. And while long-term Treasury yields appeared to defy fears surrounding another fiscal expansion, tariff hikes, "hot" growth rates and Fed independence, they failed to decline markedly despite a resumption of Fed easing late last year. The 30-year Treasury yield at just over 4.8% is exactly where it was on Trump's

inauguration. The 10-year has fallen about 40 bps, but estimates of the 10-year term premium have climbed by about 30 bps in the process to almost 80 bps. In that light, it may be more obvious why the administration is so impatient with the pace of Fed easing and is trying every which way to pressure the central bank to move faster and deeper. Political interference in Fed policymaking of a kind seen already this week may eventually be the result, but it's not entirely clear that leaning on the Fed to slash rates or compromising its autonomy will do anything to get long-term Treasury yields lower. Deep rate cuts now would have an impact on short rates - only to build up the premium in long-term debt if they overheat the economy in the process and prevent a return of still-elevated inflation to target. Indeed the prospect of having to tighten again to counter any resurgence is already creeping back onto the market radar. If that transpired, the mortgage bond foray would just run into sand.

■ Mike Dolan is a columnist for Reuters. The opinions expressed here are those of the author.

IMF's latest economic forecasts to show resilience to global trade shocks, says Georgieva

Georgieva warns risks remain, including geopolitics; performance strong, trade shock has not derailed global economy; technological shifts also pose potential risks, IMF chief says

Reuters
Kyiv

The International Monetary Fund (IMF)'s latest economic forecasts due next week will show the global economy's continued resilience to trade shocks and "fairly strong" growth, IMF Managing Director Kristalina Georgieva told Reuters on Thursday.

In an interview during a visit to Kyiv to discuss the IMF's loan to Ukraine, Georgieva suggested the IMF could again revise its forecasts slightly upward as the World Bank did this week.

In October, the IMF edged its 2025 global GDP growth forecast higher to 3.2% from 3.0% in July as the drag from US tariffs was less than initially feared. It kept its 2026 global growth outlook unchanged at 3.1%.

Asked what the January forecasts would show after the upgrade in October, Georgieva said: "More of the same - that the world economy is remarkably resilient, that trade shock has not derailed global growth, that risks are more tilted to the downside, even if performance now is fairly strong."

The IMF is expected to release its World Economic Outlook up-



International Monetary Fund Managing Director Kristalina Georgieva speaks during an interview with Reuters. Georgieva suggested the IMF could again revise its forecasts slightly upward as the World Bank did this week.

date on January 19. Georgieva said risks were focused on geopolitical tensions and rapid technological shifts.

Things could turn out well, she said, but the global economy could also face significant financial distress if the huge resources flowing into artificial intelligence did not result in promised productivity gains.

"We are in a more unpredictable world, and yet, quite a number of businesses and policymakers operate as if the world hasn't changed."

Georgieva said she worried that many countries had failed to build

up sufficient reserves to deal with any new shock that could occur. The IMF currently has 50 lending programmes, a high number by historic standards, but was bracing for more countries to seek funds, she said.

The IMF chief said US economic performance had been "quite impressive" despite a raft of tariffs imposed by President Donald Trump last year on nearly every country in the world.

She said overall tariff levels were lower than initially threatened, and the US accounted for only about 13% to 14% of global trade. Most other countries had also

refrained - at least so far - from imposing retaliatory measures, which had helped limit the impact of the wave of US tariffs.

She said inflation and macroeconomic conditions could still worsen, though, if the trade picture darkened.

Geopolitical factors were also clouding the outlook and now played a more significant role than in years past, said Georgieva, who took office in October 2019, just months before the Covid-19 pandemic hit in early 2020. "Regrettably, since I took this job (in 2019), there has been one shock after another," she said.

Bund yields remain unchanged after taking cues from US Treasuries

Reuters
London

Euro area benchmark Bund yields were set to end the week roughly unchanged, having tracked mixed movements in US Treasuries through the week on conflicting signals about the US economy.

Germany's 10-year yields were up 2 basis points (bps) at 2.838%, on track for a 1-bp weekly rise. Yields dropped 7.3 bps the previous week for the sharpest decline since late March.

The yield on the benchmark US 10-year Treasury note was up 3 bps at 4.19%. It rose on Thursday, after a round of economic data came in stronger than expected, having dipped on Wednesday on softer readings on consumer health and inflation.

The spread between US Treasuries and Bunds was at 135 bps. It hit 122.86 in mid-December, the lowest since June 2023, as expectations grew that the Federal Reserve would cut interest rates further while the European Central Bank was forecast to hold rates steady throughout 2026.

With the European Central Bank expected to stay on hold through 2026, investors' focus

has shifted to fiscal policy. "Fiscal expansion in 2026 infers that the euro zone economy may continue to grow around 1%, with Southern Europe continuing to outperform on a relative basis within the region," said Mark Dowding, chief investment officer at RBC BlueBay Asset Management.

"The ECB is more likely to cut rates than hike in 2026, though no change in monetary policy is to be expected in the next couple of quarters, and we see Bund yields largely tracking sideways in this environment," he added.

German 2-year yields, more sensitive to expectations for policy rates, were up 0.5 bps at 2.11%.

Italy's 10-year government bond yields rose 1.4 bps to 3.42%. Italy's 10-year spread over Bunds stood at 58 bps, after hitting 55 bps on Thursday - the tightest since August 2008.

The country's fiscal discipline and robust risk appetite have boosted demand for Italian debt, which offers the eurozone's highest yield after France.

Sovereign bond markets have shrugged off geopolitical risks so far, to focus on economic fundamentals and the impact of German fiscal stimulus.

European share markets subdued as luxury and mining stocks weigh

Reuters
London

European shares were subdued yesterday, limited by weakness in luxury and mining stocks in a day end to a week dominated by the start to a busy earnings season alongside geopolitical jitters.

The pan-European STOXX 600 finished flat at 614.38 points, with the luxury index falling 3.2% and logging its biggest daily fall since early October.

Richemont was among the leading laggards, declining 5.4% after BofA global research cut its recommendation on the Swiss jewellery company to neutral from buy and told investors to wait, citing extended valuations after a recent rally.

Traders work on the floor of the German stock market. The pan-European STOXX 600 finished flat at 614.38 points, with the luxury index falling 3.2% and logging its biggest daily fall since early October.

"European equities aren't cheap anymore, but they're not expensive either. That said, the margin of safety that investors had previously is gone," said Michael Field, chief European equity strategist at Morningstar.

Still, the STOXX 600 logged its fifth-consecutive

weekly gain, its longest winning streak since May 2025.

The index has scaled multiple record highs, led by strength in commodity-linked stocks as prices of safe-haven precious metals and crude oil soared earlier in the week on simmering geopolitical tensions over

Iran and Venezuela. On Friday, those tensions appeared to abate, sending mining stocks down 1.9%.

"As you come to the end of the week (following) a pretty strong start to the year, maybe there's just a little bit of a pause as people reflect there are some good fundamental reasons for optimism, but there's a good amount of uncertainty in the world on the geopolitical side," said Richard Flax, chief investment officer at Moneyfarm.

Defence stocks added 1%, keeping a lid on losses on the STOXX index.

Danish drugmaker Novo Nordisk jumped 6.5% after analysts said its weight-loss pill Wegovy made an "encouraging" start after its launch this month.

The healthcare index also added 0.6%.