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Lagarde dampens ECB exit talk, says she expects to finish her term

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BUSINESS

INFLATION CONCERN: Page 2

Invesco and Carmignac bet against US debt, see limited Fed cuts

Qatar's hospitality sector to focus on selective high-quality projects than broad expansion: CWQ

By Santhosh V Perumal
Business Reporter

Qatar's hospitality sector is expected to focus on selective high-quality developments in core locations rather than broad expansion, according to Cushman and Wakefield Qatar (CWQ).

In its latest report, CWQ said while hotel performance improved across 2025, private-sector appetite for new hotel development remained "cautious".

Stressing that developers are waiting for visitor growth to translate into a sustained ADR (average daily rate) expansion before committing to large -scale new supply; it said "as a result, near-term pipeline activity is expected to remain focused on selective, high -quality schemes in core locations rather than broad-based expansion."

Tourism remained a key driver of non-energy growth in the fourth quarter (Q4) of 2025, with full-year international visitor arrivals reaching 5.1mn, representing 3.7% growth compared with 2024 and reflecting sustained momentum into year-end.

From a financial perspective, not only did hotel occupancy levels increase, as occupancy levels averaged 71.3%, up 2.6% from the previous year, but ADR also saw an increase of 3.6% year-on-year, providing an improved economic performance within the sector from the preceding year, it said.

Tourism remained a key driver of non-energy growth in the fourth quarter of 2025, with full-year international visitor arrivals reaching 5.1mn, representing 3.7% growth compared with 2024 and reflecting sustained momentum into year-end, according to Cushman and Wakefield Qatar

The GCC (Gulf Co-operation Council) countries continued to represent the largest share of the tourist market throughout 2025, representing 35%, followed by European countries (25%), Asia and Oceania (22%), the Americas (7%), other Arab countries (8%), and the rest of Africa (3%).

The long-term outlook for tourism strengthened through Q4-2025, following the approval of the GCC unified tourist visa, due to launch in 2026, alongside continued expansion of international air connectivity, including enhanced links between Qatar and Australia.

"Together with Qatar's growing calendar of international events, these factors are expected to support sustained inbound demand into 2026," CWQ said. Qatar's hotel market saw some notable additions in 2025, including Rosewood Doha, the OQ and Muse hotels in Lusail and Andaz Doha in West Bay. Supply has increased by just over 2,000 keys in the past 12 months, and now totals 42,500 keys.

Three-star hotels continued to outperform, achieving 84% occupancy, reflecting strong price sensitivity and demand from regional and value-led travel. Serviced apartments saw a slight softening, with 68% occupancy between July and September, indicating reduced demand in longer-stay formats.

"Hotel operators are likely to continue prioritising occupancy and volume over aggressive rate growth in the near term, particularly outside peak event periods," the report said, adding hotel occupancy should remain "resilient" as events, business travel, and leisure demand continue to build on 2025 momentum.

Canada's oil patch is ripe for a mega merger after busy 2025

Bloomberg
Ottawa

Canada's oil patch is ripe for a mega merger, analysts say, after a bumper year for deals has left relatively few smaller targets available.

The value of deals executed or pending as of December 31 totaled $37.8bn, according to data compiled by Bloomberg.

The value of those transactions exceeded that of any year since 2017, when international oil majors including Shell Plc and ConocoPhillips began selling oil sands assets to local companies, data compiled by Bloomberg show.

Since then, a wave of consolidation in the Canadian energy patch has put control in the hands of an increasingly smaller group of companies.

Canadian Natural Resources Ltd, Cenovus Energy Inc, Suncor Energy Inc, ConocoPhillips and Exxon Mobil Corp's Imperial Oil account for roughly 85% of Alberta's oil sands production.

Any major deals would follow a series of massive transactions in the US shale patch in recent years, driven by efforts to improve efficiency in shale plays where drilling has become costlier and margins thinner.

Exxon Mobil bought Pioneer Natural Resources Co in 2024 and Chevron Corp's purchase last year of Hess Corp included significant shale assets.

"From what we've seen in the US, there's been five mega deals" in the last two years, BMO Capital Markets analyst Jeremy McCrea said by phone. "We haven't seen that yet in Canada, but it doesn't mean that it can't happen here."

Oil's almost 18% decline in the past two years combined with the prospect that export pipeline capacity out of Canada will once again become scarce in the coming year or two is encouraging companies to focus on buying other oil and gas producers as opposed to expanding production from their own well sites.

Last year, Cenovus purchased rival oil sands producer MEG Energy Corp for $5.61bn.

"A lot of people are asking the question whether there'll be some consolidation between these bigger players," Grant Zawalsky, senior partner at the law firm BD&P, said by phone. "The medium and small oil sands players are a pretty short list."

Canadian Natural, the largest domestic oil company, benefits from a low cost of capital and its size allows the company to take on new projects, Zawalsky said. The company has grown rapidly since 2017, when Canadian Natural bought Shell Plc's oil sands mining operations. The company didn't respond to an email seeking comment.

Suncor has mostly focused on growing internally. Its last acquisition of an entire company happened in 2009 with the purchase of Petro-Canada. But Chief Executive Rich Kruger signaled that could change in an investor call earlier this month.

"We've earned the trust and credibility that any and all actions we do, internal or organic or inorganic, will be in the shareholders' best interest to increase their ultimate value," he said.

The comment drew the attention of Menno Hulshof, managing director of equity research at TD Cowen, who said he's "had a lot of conversations about that over the last several days."

"They basically said, listen, we've spent years right-sizing the ship. We've clearly delivered on that," he said. "We have the flexibility to consider those things now."

Years of belt tightening after the pandemic and a surge in oil prices in 2022 shored up the largest energy producers financial states. Companies are probably more likely to buy and sell individual assets, but they may be reluctant to part with them given their strong balance sheets, Hulshof said.

"If we did see a mega merger this year, I wouldn't be completely surprised," he said. But it's "more likely" over the next several years.

Surging oil tanker rates tipped to go even higher on Iran risk

Bloomberg
London

The cost to hire oil supertankers could be headed for the highest levels this decade on the growing risk of a major US attack on Iran, and as ownership of the vessels becomes more concentrated. Earnings for a very-large crude carrier on the Middle East-to-China route have already almost tripled so far this year $151,208 a day, the highest since 2020, according to Baltic Exchange data. With the US amassing forces in the Middle East and President Donald Trump saying Iran had 10 to 15 days at most to reach a deal over its nuclear program, they look likely to go higher still. A major assault could disrupt traffic in the vital Strait of Hormuz, raising the risk premium to charter ships, while a VLCC buying spree by South Korean shipper Sinokor Merchant Marine is also exacerbating the tightness in the market. "Military action in the Middle East will likely take VLCC rates to levels not seen since 2019," said Anoop Singh, global head of shipping research at Oil Brokerage Ltd.

The nervousness over a possible attack on Iran is showing up on other routes, with earnings for supertankers on the US Gulf to China journey at the highest since late 2022, Baltic Exchange data show.

QSE key index falls 237 points; M-cap erodes QR17.17bn

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

Apprehensions over rising geopolitical tensions in the region had its overarching influence on the Qatar Stock Exchange (QSE), which saw its key index plummet 237 points and capitalisation erode in excess of QR17bn this week.

Notwithstanding the preliminary positive signals emanating from the US-Iran talks in Geneva, the 20-stock Qatar Index plunged 2.49% this week which saw Milaha's plans to modernise fleet as well as strengthen presence in Kuwait and Iraq and deepen trade flows between Asia and the Middle East.

The telecom sector witnessed higher than average selling pressure in the main market this week which saw the QSE reaffirm its commitment to further develop the debt markets, including deepening it and developing a benchmark yield curve, to make it attractive for the international capital to tap local currency instruments.

About 73% of the traded constituents were in the red in the main market this week which saw Al Mahhar Holding Company complete the sale of its 49% stake in Al Mahhar Al Kuwaitiya for Light and Heavy Equipment and Machines.

The consumer goods, industrials and banking sectors accounted for about three-fourth of the trading volumes in the main market this week which saw QLM Life and Medical Insurance Company (QLM) reported revenue of QR1.49bn in 2025.

The Islamic index was seen declining faster than the other indices of the main market this week, which saw a total of 0.04mn AlRayan Bank-sponsored exchange traded fund QATR worth QR0.09mn trade across 29 deals.

Notwithstanding the preliminary positive signals emanating from the US-Iran talks in Geneva, the 20-stock Qatar Index declined 2.49% this week

Market capitalisation eroded QR17.17bn or 2.5% to QR669.38bn on the back of large and midcap segments this week which saw a total of 0.25mn Doha Bank-sponsored exchange traded fund QETF worth QR0.25mn trade across 25 transactions.

Trade turnover and volumes were on the decline in the main and venture markets this week which saw no trading of sovereign bonds and treasury bills.

The Total Return Index tanked 1.92%, the All Share Index by 1.734% and the All Islamic Index by 2.55% this week which saw Qatar banks' assets amounted to QR2.15tn in December 2025, expanding by 5.1% on an annualised basis.

The telecom sector index plunged 3.66%, industrials (2.02%), banks and financial services (1.86%), consumer goods and services (1.66%) and real estate (1.22%); while insurance and transport gained 1.01% and 0.11% respectively this week which saw QSE list QNB's largest ever Qatari riyal-denominated bond.

Of the 54 stocks, as many as 39 gained, while only 14 gained and one was unchanged this week which saw Qatar Oman Investment Company reduce capital by 42.86% to offset accumulated losses.

Major shakers in the main market include Medicare Group, Alijarah Holding, Qatar National Cement, Gulf Warehousing, Woqod, QNB, Qatar Islamic Bank, QIIB, Dukhan Bank, Qatar German Medical Devices, Widam Food, Baladna, Industries Qatar, Estithmar Holding, Qamco, Ezdan, Ooredoo and Vodafone Qatar this week which saw Ooredoo Group establish Ooredoo Fibre Network to manage and scale its international connectivity and submarine cable infrastructure.

Nevertheless, Qatar Cinema and Film Distribution, Doha Bank, Al Khaleej Takaful, Qatar Industrial Manufacturing, Lesha Bank, Mannai Corporation, Al Mahhar Holding, Aamal Company and Beema were among the gainers in the main bourse. In the venture market, Techno Q saw its shares appreciate in value this week.

The main bourse saw a 2% fall in trade volumes to 689.87mn shares, 12% in value to QR2.03bn and 15% in deals to 114,181 this week.

In the venture market, trade volumes declined 76% to 0.38mn equities, value by 76% to QR0.81mn and transactions by 70% to 133 this week.

Bonds swept up in leap of faith on AI productivity

By Mike Dolan
London

Treasuries now appear to be riding the artificial intelligence (AI) frenzy, as speculation about the speed and scale of AI development spreads across companies and sectors - beating a drum for interest rate cuts if an outsize labour-productivity boom follows. That's at least one rationale for the past week's eye-catching slide in US government bond yields. It makes more sense than hanging the move solely on January employment or inflation reports - neither of which offered the Federal Reserve a green light to resume easing.

Yet, as bond yields tumbled across the curve to their lowest levels of the year, Fed rate futures through next year dipped below 3% for the first time in four months. That pricing now implies a third additional Fed rate cut is back in the mix and has invigorated the whole bond universe, which is starting to bet there may be even more in store. This may simply reflect markets adjusting to the changing priorities of a Fed soon to be chaired by US President Donald Trump's nominee Kevin Warsh, who is due to take the helm in May. The presumption is that Trump's demand for deep rate cuts will then hold more sway.

Up to now, however, investors have not been fully convinced about the impact of a Warsh-led Fed. A Bank of America survey of global fund managers earlier this month found almost 40% expect his appointment to push Treasury yields higher and weaken the dollar. So what has changed? Arguably, it's the sharp stock selloff in software and several other sectors, along with a string of AI innovations and breakthroughs at the start of February. Even Warsh will need cover to step up the pace of rate cuts from what had been expected for months.

Like the other Trump appointees to the Fed board, he's likely to lean on the hope of an AI-driven labor-productivity boom. In online interviews late last year, Warsh described AI as the "most productivity-enhancing wave of our lifetimes" and said it would prove "structurally disinflationary," like the expansion of the internet. If, as the stock market now seems to suspect, AI's impact on corporate fortunes is happening more quickly and comprehensively than expected, then a Fed already inclined to ease again may want to move faster to offset the disinflationary effects of a productivity surge and labour market stasis.

But there's still an awful lot of "ifs" and assumptions doing the heavy lifting in that idea. And precisely because it's still a leap of faith, the current Fed remains agnostic and keener to wait for hard evidence. Hiring clearly weakened last year, and the collapse in immigration was at least one factor. January's surprise rebound in payrolls, drop in the jobless rate, and faster wage growth added yet another twist. Fed doves argue that the sharp drop in job vacancies late in the year both relieved inflationary pressure in the labor market and confirmed their suspicion that companies are now reluctant to hire as AI adoption accelerates and capital-spending plans ramp up.

Yet Jason Thomas, Carlyle's head of research, remains skeptical about the simplicity of some of the arguments linking AI-driven productivity and lower interest rates. He argues that neither the historical nor theoretical evidence backs them up.

"AI is not something that falls out of the sky," he wrote, adding that trillions of dollars of annual investments in massive, energy-hungry computers are a rocket for the whole economy.

But if a technology shock triggers such a huge surge in business investment, economic theory suggests real interest rates must rise to induce households to postpone consumption and prevent overheating. That's what happened during the late-1990s internet and dot-com boom, when short-term real interest rates rose some 300 basis points.

What's more, rapid productivity gains in both capital and labor offer little insulation against high inflation if the investment boom hits resource constraints, Thomas added.

"There's good reason to expect that AI will eventually depress business' operating costs and the overall price level," he concluded. "But with inflation still above target and investment demand surging, action in advance of clear and conspicuous evidence raises the odds of overheating in the interim." Ultimately, the Fed will have to decide whether a leap of faith is needed now - or much later, given the uncertainty.

But in the interim, AI pressures are no longer just in the realm of the stock market.

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

Big Tech's soaring spending on AI is eating into stock buybacks

Bloomberg
New York

After years of funneling cash to investors through stock buybacks, big technology companies are reining in that spending as they race to sink more money into artificial intelligence.

Last quarter, Alphabet Inc, Microsoft Corp, Amazon.com Inc and Meta Platforms Inc spent the least on combined share repurchases than in any quarter since 2019, according to data compiled by Bloomberg. Alphabet and Microsoft spent roughly $11bn on buybacks, while Amazon and Meta held off entirely. Amazon hasn't bought back stock since 2022.

"There's certainly a setup for an extended period of reduced share buybacks," said Robert Schiffman, senior credit analyst at Bloomberg Intelligence. "I don't think it's because of a lack of financial flexibility, it's just what are the best uses of capital."

The shift from returning cash to shareholders to spending it on AI comes as investors grow increasingly skeptical about whether and when Big Tech's relentless outlays will deliver the promised payoffs.

Microsoft shares have plunged 17% and Amazon.com has lost 8% in the wake of earnings reports that revealed higher-than-anticipated spending and not enough anticipated revenue growth to justify it. Meta initially jumped on a strong sales forecast, but the stock has given up those gains and is now down 3.6% since the company's earnings report. Even Alphabet, which is considered the clearest AI winner in the group, has fallen 9.1% since its results hit on February 4.

For years, investors have been drawn to Big Tech's ability to generate continual profit growth from strong revenues and limited spending. But the rush to expand computing infrastructure at all costs is upending that equation, with Alphabet, Microsoft, Amazon and Meta expected to spend more than $700bn combined on capital expenditures this year.

"In the history of the world, probably nobody has been able to make more money in asset-light businesses than these companies," said Kim Forrest, chief investment officer at Bokeh Capital Partners. "They're throwing that to the wind because they're all caught up in some kind of race."

The pile of money being thrown at AI-related infrastructure has investors looking more closely at the companies' free cash flow, a metric that demonstrates how profits are being converted into capital. For years, Big Tech firms like Alphabet, Microsoft, Meta and Amazon have been steady generators of free cash flow, but as they commit to pouring money into capex, the numbers are expected to decline.

The combined free cash flow for Alphabet, Microsoft, Meta and Amazon is projected to fall 64% over the next four quarters to about $96bn from roughly $270bn in 2025, according to data compiled by Bloomberg. "While free cash flow generation remains positive on aggregate, ongoing spending to build GenAI's 'railroad tracks' is becoming a key issue," Evercore ISI chief equity and quantitative strategist Julian Emanuel wrote in a note to clients.

Invesco and Carmignac bet against US debt, see limited Fed rate cuts

Bloomberg
Washington


The US Treasury building in Washington, DC. The bond market's consensus view that the Federal Reserve will cut interest rates at least twice more this year is at odds with US economic resilience, say portfolio managers at Invesco and Carmignac, who are betting against Treasuries.

The bond market's consensus view that the Federal Reserve will cut interest rates at least twice more this year is at odds with US economic resilience, say portfolio managers at Invesco Ltd and Carmignac, who are betting against Treasuries.

Yields on US government debt are close to their lowest levels in months, after a rally spurred by haven demand amid stock-market jitters and last week's tame January inflation reading. The bullish tilt suggests many investors expect ebbing price pressures will give officials room to slash borrowing costs later this year on any signs of labor-market weakness.

It's not an outlook that Invesco, Carmignac and BNP Paribas SA share, however. As they see it, the economy looks too sturdy to build in much more Fed easing.

For one thing, January job growth beat projections. Meanwhile, companies are pouring money into the economy to invest in artificial intelligence. And minutes from the Fed's last meeting showed policymakers appeared wary of lowering rates, with "several" suggesting hikes may be needed if inflation stays above the central bank's 2% target.

Macro strategists at TS Lombard told clients this week to bet on fewer rate reductions in the second half of 2026. For Rob Waldner, fixed-income chief strategist at Invesco, the base case is one cut this year.

But it's "increasingly likely there are no cuts" given the strength of recent economic data, he said. The firm, which manages more than $2.2tn, is underweight Treasuries given expectations for improving growth and above-target inflation.

At Carmignac in Paris, Guillaume Rigeade has a similar view. He's short US Treasuries and sees the 10-year yield drifting toward 4.5% in the coming months, the highest since mid-2025, from roughly 4.07% now.

The rate, a benchmark for global borrowing, sank to about 4.02% on Tuesday, the lowest since November.

"They will cut rates, but it is not justified by the inflation outlook and growth," said Rigeade, co-head of fixed income at Carmignac, which manages about €41bn ($48bn).

Rigeade is looking in part to November's US mid-term elections. With President Donald Trump's job approval ratings waning, according to some polls, the administration may push for more spending to benefit households and businesses, adding to headwinds for bonds, the fund manager said.

Recent data has given both the bond bulls and bears something to point to. The headline annual consumer inflation figure of 2.4% for January week signaled cooling, but services prices accelerated. The release of another closely watched inflation measure on Friday is projected to show a 2.8% annualised pace for December.

On Thursday, an auction of 30-year Treasury Inflation-Protected Securities drew strong demand, suggesting investors were keen to buy a long-term inflation hedge.

The brewing debate underscores how tough it is right now for investors to assess whether inflation or employment will be the Fed's biggest challenge in 2026, not to mention how monetary policy will evolve after Chair Jerome Powell's term ends in May. The speculation is that Trump's choice as the next chief, former Fed Governor Kevin Warsh, will deliver rate cuts in the second half of the year — should he be confirmed.

Economic readings this week, including weekly jobless claims, offered further signs of resilience. A Citigroup Inc index shows US data has been beating analysts' expectations.

For now, traders are betting on at least two quarter-point cuts this year. In the wake of the latest data and the Fed minutes, they've trimmed expectations for a third, to around a 25% chance, from about 50% earlier in the week. Banks including BNP Paribas and JPMorgan Chase & Co forecast no cuts this year. "The market is pricing in a very different reaction function for the Fed once you have a new Fed chair," said Sam Lynton-Brown, head of global macro strategy at BNP Paribas. "We're less convinced about that."

Part of BNP's reasoning is that AI-led productivity gains could nudge up the so-called neutral rate — the level that neither boosts nor restrains the economy. Some Fed officials have made that point in recent days.

At asset manager MFS International UK Ltd, Benoit Anne warned of a sharp slide in Treasuries if cuts don't pan out as expected. In that scenario, the firm's head of market insights sees longer-dated yields soaring as much as 70 basis points.

Some investors are focusing on the Fed's leadership. Hedge-fund manager David Einhorn told CNBC last week that he was using interest-rate futures to wager that a Fed under Warsh will ease "substantially" more than markets anticipate. He expects Warsh could convince other officials to adopt his view that rising productivity will create room for easier policy — even if the economy is strong.

For James Ringer at Schroders Plc, which manages around £824bn ($1.1tn), the tension between the Fed's path and the economic outlook increase the importance of picking the right part of the yield curve.

While the economy is healthy overall, pockets of weakness mean the Fed could justify near-term easing, the fund manager said. That would support shorter-dated notes, which closely track Fed policy, while longer-dated debt, such as 10-year Treasuries, may lag behind, he said.

The 10-year maturity "is a better reflection of growth, so you could have the Fed continuing to cut and 10s don't do much," he said. "We feel quite comfortable being underweight the 10-year" versus other bond markets.

Stock market turmoil is hitting everything that touches AI

Bloomberg
New York

The stock market turmoil unleashed by the artificial-intelligence industry reflects two fears that are increasingly at odds. One is that AI is poised to disrupt entire segments of the economy so dramatically that investors are dumping the stocks of any company seen at the slightest risk of being displaced by the technology.

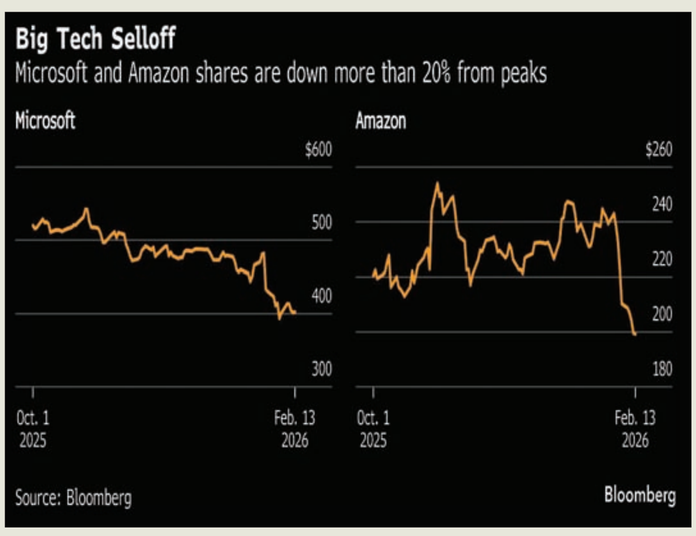
The other is a deep skepticism that the hundreds of billions of dollars that tech giants like Amazon.com Inc, Meta Platforms Inc, Microsoft Corp and Alphabet Inc. are pouring into AI every year will deliver big payoffs anytime soon.

The dueling anxieties have been brewing for months. But they've shifted to the center of the stock market over the past two weeks.

The result has been a series of punishing selloffs that have hammered dozens of companies across a number of industries — from real estate services and wealth management, to insurance brokers and logistics firms — and wiped more than $1tn from the market values of the big tech companies investing the most in AI.

"There is a contradiction when it comes to what investors are worried about when it comes to AI," Julia Wang, the north Asia chief investment officer at Nomura International Wealth Management, told Bloomberg Television. "Those two things can't be true at the same time."

The shift marks a major break from the sentiment of the last few years, when speculation that AI would set off a transformative productivity boom kept pushing stock prices higher. While big tech stocks kept rising — sending Meta surging nearly 450% from the end of 2022 until the start of this year, and Alphabet up more than 250% — the hand-wringing over whether it was a bubble did little to derail the rally. That began to change late last month as earnings reports from some of the biggest tech companies started to spook investors, who are growing impatient that the spending has yet to produce a commensurate windfall in revenues.



Microsoft, Amazon, Meta, and Alphabet alone are expected to spend more than $600bn on capital expenditures in 2026. That's hoovering up free cash flows and loading the companies with depreciating assets, radically altering many of the characteristics that have helped fuel the firms' rise over the past decade.

"This is a real no-win situation," said Anthony Saglimbene, chief market strategist at Amerprise Advisor Services. "Investors were comfortable saying, 'so long as it happens in the future, I'm comfortable with Microsoft or Amazon or Alphabet spending the money.' Now they want to know more immediately when the payback will come — and we don't have a clear picture."

Since Microsoft and Meta kicked off the fourth-quarter earnings season on Jan. 28, Microsoft and Amazon shares have each dropped more than 16%, with Amazon mired in its longest losing streak in about 20 years.

Even Alphabet, which is widely regarded as the biggest AI winner in the group, is down 11% off a recent peak. Meta, whose strong revenue growth overshadowed higher-than-expected capital spending, has fallen 13% since an earnings-fueled rally. In total, nearly $1.5tn in combined market value has been wiped out from the group, pushing the tech-heavy Nasdaq 100 Index into negative territory for the year.

At the same time, investors are growing increasingly worried about the businesses that will potentially be swept aside — or at least significantly upended — by the new applications that are being steadily rolled out.

That has caused a series of stock market selloffs that have flared repeatedly and hit private-credit firms, video-game makers and software companies, among others.

The latest bout began after Anthropic PBC released productivity tools for lawyers and financial researchers, hammering the stock price of companies across those industries. Insurance brokers tumbled on another programme tied to OpenAI. One from a little-known startup, Altruist Corp, battered wealth-managers like Charles Schwab Corp and Raymond James Financial Inc.

Even a press release from a former karaoke company with less than $2mn in quarterly revenue sent the stocks of logistics companies tumbling.

The market has seen previous AI-related routs that were later reversed, such as the one set off by the Chinese company DeepSeek early last year.

Japan's inflation gauge eases to slowest pace in two years

Bloomberg
Tokyo

Japan's key inflation gauge eased to the slowest pace in two years, posing a communication challenge for a central bank that will likely stay determined to raise the benchmark interest rate when the timing is right. The yen weakened after the data.

Consumer prices excluding fresh food rose 2% from a year earlier in January, the smallest gain since January 2024, according to the Ministry of Internal Affairs and Communications on Friday. That matched the median economist forecast and came after the gauge climbed 2.4% in the previous month.

The measure that also strips out energy to reflect underlying strength increased 2.6%, well above the BoJ's 2% target. Overall inflation that includes everything dropped to 1.5%, slipping below 2% for the first time since March 2022.

Friday's data show that price growth in Japan has entered a slightly cooler phase compared with last year thanks in part to Prime Minister Sanae Takaichi's fiscal measures aimed at easing costs of living. A historic surge pushed the pace of inflation excluding fresh food to 3.1% in 2025, the fourth straight year above 2%. Temporary factors and food prices drove the slowdown. Government steps to reduce fuel costs through tax measures helped push overall energy prices 5.2% lower in January. Also, the price advance for food excluding fresh goods slowed due in part to comparisons with a year earlier.

Customers at a supermarket in Yokohama. Japan's key inflation gauge eased to the slowest pace in two years, posing a communication challenge for a central bank that will likely stay determined to raise the benchmark interest rate when the timing is right.

"Softer food inflation and lowered gasoline prices were the two main drivers for the inflation slowdown this time," said Taro Saito, head of economic research at NLI Research Institute. "It's almost certain that core CPI will go below 2% from the next data set as the impact of government utility measures kicks in."

The yen weakened to around 155.20 to the dollar after the data were released, from around 154.98 just before.

The BoJ has flagged expectations that price growth would slow partly due to more government steps including utility subsidies as well as comparisons with price spikes a year earlier. Authorities have said they remain focused on underlying inflation rather than such one-off factors.

For that reason, the data aren't likely to shake the central bank's resolve to continue normalizing policy settings with rate hikes when conditions allow. Many economists think the next move could come as soon as April, with an outside risk of an adjustment when authorities next set policy on March 19.

"I don't think today's data will change BoJ's stance on raising rates," Saito said. "But this points out the need of careful communications as they are going to be raising rates when inflation data suggest a slowdown."

Authorities said in last month's quarterly outlook report that core inflation is likely to slow to a pace below 2% in the first half of this year. Even as it made that assessment, the board raised its price projections more than expected, as businesses continue to pass on rising input costs to their customers.

Service prices, a vital component of the index that indicates the sustainability of inflation, increased 1.4% from a year earlier, the same pace as the previous month. Rice prices, a driving force of last year's price spike, climbed 27.9%, continuing to cool after soaring by a record 101.7% in May last year. Food excluding fresh items rose 6.2%, the slowest pace since March last year.

Elevated food prices have become a key subject of political debates, especially after rising costs for daily necessities led to two major electoral setbacks for the ruling Liberal Democratic Party before Takaichi took the helm in October.

The proportion of household spending devoted to food purchases rose to the highest in 44 years last year. Addressing that issue, Takaichi reiterated her pledge to suspend the sales tax on food for two years after leading the LDP to a landslide election triumph earlier this month.

The impact of Takaichi's subsidies for utilities is expected to manifest in coming data to weigh on inflation further. SMBC Nikko Securities forecast core inflation, the gauge that excludes fresh food, will slow to around 1.6% growth in February.

Japanese authorities will be watching to see if cooling inflation finally allows pay increases to outpace price gains, reversing a trend that saw real wages decline every month last year. That outcome could in theory make inflation sustainable by revving up consumer spending.

Australia unemployment stays low, backing RBA's stance on rate hikes

Bloomberg
Sydney

Australian unemployment stayed low in January and hiring remained strong, validating the Reserve Bank's view that the economy can withstand tighter monetary policy without a sharp rise in layoffs.

The jobless rate held at 4.1%, compared with economists' forecast of 4.2%, data from the Australian Bureau of Statistics showed on Thursday. Employment advanced by 17,800, driven entirely by full-time roles.

The prior month's hiring figure was also revised higher.

The data come after the RBA became the first monetary authority in the world to raise interest rates this year.

The employment report is a crucial piece of data for policymakers as they plot their campaign to return inflation to the 2-3% target while maintaining a healthy labor market, a strategy the central bank says is still "appropriate."

In response to the data, the currency pushed slightly higher and the yield on policy-sensitive three-year government bonds climbed 7 basis points to 4.31%, extending an earlier gain, as traders bolstered bets on a follow-up rate hike in May.

Most economists and money market traders reckon the RBA will leave rates unchanged at 3.85% at its March 16-17 meeting.

The figures show "the RBA has more work to do," said Marcel Thieliant, Asia-Pacific head at Capital Economics. "With wage growth remaining stubbornly high and trimmed mean inflation well above the upper end of the RBA's 2-3% target band, the case for further tightening by the bank therefore remains strong."

Thursday's report cemented the Australian dollar's more than 5.5% gain this year, the second-best performing Group-of-10 currency, fueled by policy divergence with the US, where traders are pricing rate cuts. A lift in commodities and continued investor interest in non-US assets have also supported the Aussie.

Bets on the US easing come despite the latest signals from some policymakers that they are open to the possibility of hikes. Minutes of the Federal Reserve's January 27-28 policy meeting this week underscored that tension. Officials appeared surprisingly wary of cutting rates with several even suggesting further tightening could be warranted should inflation prove stubborn.

If the US were to go down that path, it would suggest that inflation pressures are re-emerging across advanced economies — or that central banks have yet to secure a durable return to price stability. In other words, renewed Fed tightening would raise uncomfortable questions about whether the global disinflation narrative has been premature.

The RBA undertook a brief easing cycle between February and August last year when it cut the key rate by a total of 75 basis points to 3.6%.

However, it staged an about-face in February as price pressures gathered momentum.

The central bank this month revised up its estimates for core inflation by half a percentage point and forecast inflation will remain above target this year despite an assumption of two rate hikes in its latest forecasts.

Last week, Governor Michele Bullock said inflation running "with a three in front of it" is unacceptable and the rate-setting board stands ready to hike again if inflation proves entrenched.

While Australia has struggled to bring inflation back under control, unemployment has remained very low by historic standards. Bullock said the RBA estimates full employment — or the NAIRU — at 4.6%.

Emerging market currencies and stocks remain unchanged

Reuters
Singapore

Most emerging market (EM) currencies and stocks were on track to end the week with little changes on Friday, as escalating geopolitical tensions instilled caution in investors while they await a crucial inflation reading in the US.

MSCI's index tracking global EM currencies was flat on the day, and on track to end practically steady for the week. The stocks equivalent inched slightly higher and was set for marginal weekly gains. Moves in EM assets have largely been muted this week as major Asian markets such as mainland China, Taiwan and Hong Kong, as well as Brazil in Latin America, were shut for holidays and geopolitical tensions dented the appetite for risk assets.

US President Donald Trump warned Iran on Thursday it must make a deal over its nuclear programme or "really bad things" will happen, and set a deadline of 10 to 15 days. Tehran threatened to retaliate against US bases in the region if attacked.

The impact would first be felt in the oil market, where the commodity is headed for its first gain in three weeks on the simmering tensions.

"The rise in US-Iran tensions has wiped out most other market drivers and lent USD support amid higher oil prices ... (The dollar's) safe-haven appeal is generally diminished, but is fully restored when geopolitical tensions trigger oil shocks," said Francesco Pesole, FX strategist at ING.

"If there are no new developments on Iran today, data surprises could have some impact."

Peace talks between Russia and Ukraine also ended abruptly this week with no breakthrough this week, slashing hopes of an end to the four-year-old war.

Reuters reported that Ukraine could export several billion dollars worth of military goods and services this year after authorising its first wartime foreign sales.

The International Monetary Fund on Thursday said its board would review a staff-level agreement on an $8.1bn lending programme for Ukraine in coming days. South Africa's rand gained 0.3% against the dollar on Friday, but was set for its biggest weekly fall since November.

Asia markets mixed, oil rises after Trump Iran threat

AFP
Hong Kong

Asian equities were mixed and oil prices rose on Friday after Donald Trump ratcheted up Middle East tensions by hinting at possible military strikes on Iran if it did not make a "meaningful deal" in nuclear talks.

The remarks fanned geopolitical concerns and cast a pall over a tentative rebound in markets following an AI-fuelled sell-off this month.

Traders are also looking ahead to the release of US data that will provide a fresh snapshot of the world's top economy.

A slew of forecast-beating figures over the past few days has lifted optimism about the outlook but tempered expectations for more interest rate cuts. The US president told the inaugural meeting of the "Board of Peace", his initiative to stabilise Gaza, that Tehran should make a deal.

"It's proven to be over the years not easy to make a meaningful deal with Iran. We have to make a meaningful deal otherwise bad things happen," he said, as he deployed warships, fighter jets and other military hardware to the region.

He warned that Washington "may have to take it a step further" without any agreement. "You're going to be finding out over the next probably 10 days."

The prospect of a conflict in the crude-rich Middle East has sent oil prices surging this week, and they extended the gains Friday to sit at their highest levels since June.

On stock markets, Hong Kong fell as it reopened from a three-day break, while Tokyo, Sydney, Wellington and Bangkok were also down. However, Seoul continued to rally to a fresh record thanks to more tech buying, with Singapore, Manila and Mumbai also up.

City Index market analyst Matt Simpson said a strike was not certain.

"At its core, this looks like pressure and leverage rather than a prelude to invasion," he wrote.

"The US is pairing military readiness with stalled nuclear negotiations, signalling it has credible strike options if talks fail. That doesn't automatically translate into boots on the ground or a regime-change campaign.

"While military assets dominate headlines, diplomacy is still in motion. The fact talks are continuing at all suggests both sides are still probing for a diplomatic off-ramp before tensions harden further."

Shares in Jakarta slipped even after Trump and Indonesian President Prabowo Subianto reached a trade deal after months of wrangling.

The accord sets a 19% tariff on Indonesian goods entering the United States. The Southeast Asian country had been threatened with a potential 32% levy before the pact. Jakarta also agreed to $33bn in purchases of US energy commodities, agricultural products and aviation-related goods, including Boeing aircraft.

In Tokyo, the Nikkei 225 closed down 1.1% to 56,825.70 points; Hong Kong - Hang Seng Index ended down 1.1% to 26,413.35 points and Shanghai - Composite closed for holiday.

Traders work at the Tokyo Stock Exchange. The Nikkei 225 closed down 1.1% to 56,825.70 points yesterday.

Government shutdown weighs on US economic growth in Q4

Fourth-quarter economic growth increases at 1.4% rate; consumer spending slows; inflation heats up; business investment on research and development accelerates

Reuters
Washington

US economic growth slowed more than expected in the fourth quarter, with government spending posting its biggest decline since 1972 because of last year's shutdown, but other data remained consistent with a steady pace of expansion.

Most of the drag on gross domestic product from the 43-day shutdown, however, will likely be reversed in the first quarter. Ahead of the release of the Commerce Department's report on Friday, President Donald Trump flagged the sharper-than-expected slowdown in GDP growth, posting on social media that the "Shutdown cost the US at least two points in GDP.

Trump is unlikely to get his wish for rate cuts from the Federal Reserve anytime soon, with other data on Friday showing inflation accelerated in December and is poised to rise further in January. Inflation is being partly driven by Trump's import tariffs.

"The core of the economy is resilient," said Michael Pearce, chief US economist at Oxford Economics. "With the economy and labor market stabilising and inflation still elevated, we expect the Fed will remain on prolonged hold."

Gross domestic product increased at a 1.4% annualised rate in the fourth quarter, the Commerce Department's Bureau of Economic Analysis said in its advance estimate. Economists polled by Reuters had forecast GDP would rise at a 3.0% pace. The economy grew at a 4.4% pace in the third quarter. It grew 2.2% last year after expanding 2.8% in 2024.

Federal government spending decreased at a 16.6% rate last quarter, the largest drop since the third quarter of 1972, reflecting fewer services provided by public workers, lower outlays on goods and services and a temporary reduction in benefits from the Supplemental Nutrition Assistance Program during the recent shutdown.

The federal government spending sliced off 1.15 percentage points from GDP growth, the most since the first quarter of 1994.

The nonpartisan Congressional Budget Office had estimated the government shutdown would subtract 1.5 percentage points from fourth-quarter GDP, and forecast most of the lost output would eventually be recovered, though between $7bn and $14bn would not.

Away from the federal government, the economy held up in the final three months of 2025, thanks to a still-healthy pace of consumer spending and business investment in artificial intelligence.

Consumer spending, which accounts for more than two-thirds of the economy, grew at a 2.4% rate. That reading followed the third quarter's brisk 3.5% pace. Economists say spending has largely been driven by higher-income households and has come at the expense of saving as inflation erodes buying power.

Consumer spending could get a tailwind from what economists anticipate will be larger tax refunds this year because of the Trump administration's tax cuts. Business spending on intellectual property products surged at a 7.4% rate, mostly reflecting research and development linked to AI. Economists estimated AI, including data centers, semiconductors, software and research and development, accounted for a third of GDP growth in the first three quarters of 2025, blunting the hit from tariffs and reduced immigration.

US stocks were trading higher. The dollar slipped against a basket of currencies. US Treasury yields mostly rose.

Trade was neutral to GDP growth, while inventories made a small contribution. Residential investment contracted for a fourth straight quarter as builders and prospective homebuyers struggled with higher borrowing costs.

Final sales to private domestic purchases, which excludes government, trade and inventories, grew at a 2.4% rate. This measure of domestic demand, which policymakers focus on, increased at a 2.9% pace in the July-September quarter.

A separate report from the BEA showed inflation pressures building in December. The Personal Consumption Expenditures Price Index increased 0.4% in December after rising 0.2% in November. PCE inflation increased 2.9% on a year-over-year basis after gaining 2.8% in November.

Excluding the volatile food and energy components, the PCE Price Index rose 0.4% after gaining 0.2% in November. Economists polled by Reuters had forecast the so-called core PCE price index would climb 0.3%. In the 12 months through December, core PCE inflation advanced 3.0% after increasing 2.8% in November. The US central bank tracks the PCE inflation measures for its 2% target. Though the Bureau of Labor Statistics' Consumer Price Index report published last week showed a moderate increase in January, there was some stickiness in services inflation. Economists also noted a surge in legal services in January.

"This category, which the BLS does not publish, but can be backed out, registered a 12.0% month-on-month increase in January, which alone is worth about 10 basis points on core PCE inflation," said Pooja Sriram, an economist at Barclays. "That said, this tends to be a very volatile category, with very little forward-looking inference."

Economists estimated core PCE inflation could increase by as much as 0.4% on a monthly basis in January, which would translate to a year-on-year advance of 3.1%.

Those forecasts could change after the release next Friday of the Producer Price Index report for January. PCE inflation data for January will be released on March 13. The reports have been delayed by last year's shutdown.

Economists do not expect the Fed to cut rates before its June 16-17 meeting.

Dollar falls as US Supreme Court strikes down Trump's tariffs

Bloomberg
New York

The dollar declined after the US Supreme Court struck down President Donald Trump's global tariffs, highlighting the fiscal concerns that have soured sentiment towards the greenback over the past year.

The Bloomberg Dollar Spot Index fell 0.2% on Friday, trimming this week's gain to 0.6%. Treasury yields climbed after the ruling as traders focused on the revenue from the levies, which has improved the federal government's fiscal position. US stocks climbed, eroding the haven appeal for the greenback that has boosted it this week.

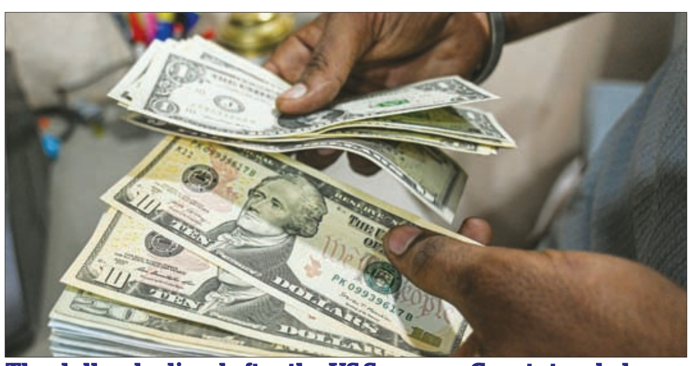
"The move probably reflects heightened fiscal concerns, as markets fret that the massive tariff refunds could create a significant US budget shortfall," Matthew Ryan, head of market strategy at Ebury, said in an email.

Ahead of the decision, the dollar was up on the week as solid economic data led traders to pare expectations for Federal Reserve interest-rate cuts. Meanwhile, the looming threat of conflict between the US and Iran was fueling demand for the currency, a traditional haven during times of turmoil.

The dollar has been under pressure in recent months as other major central banks held rates steady or signaled hikes, while the Fed was seen delivering further cuts — a view bolstered by Trump's nomination of Kevin Warsh to become the next Fed chair. The greenback is coming off its biggest annual drop in eight years, following an 8% slump in the Bloomberg dollar index in 2025.

"Tariffs were a meaningful revenue stream, and their removal widens the government's financing gap. At the same time, the New York Fed has estimated that the burden of those levies fell largely on US consumers, implying that their reversal should ease price pressures and, over time, inflation expectations," says Brendan Fagan, Markets Live strategist.

The decision on Friday didn't address the extent to which importers are entitled to refunds, leaving it to a lower court to sort out. If fully allowed, refunds could mount to more than half the total revenue Trump's tariffs have brought in.



The dollar declined after the US Supreme Court struck down President Donald Trump's global tariffs, highlighting the fiscal concerns that have soured sentiment towards the greenback over the past year

Lagarde dampens ECB exit talk, says she expects to finish her term

Reuters
Frankfurt

European Central Bank (ECB) President Christine Lagarde has attempted to calm speculation about her stepping down early that has called into question the central bank's separation from politics, telling the *Wall Street Journal* she expects to complete her term.

Lagarde's status as leader of Europe's most important financial institution was plunged into doubt this week after the *Financial Times* reported she planned to leave her job ahead of next spring's French presidential election, giving outgoing leader

Emmanuel Macron a say in picking her successor.

In an interview with the *WSJ* on Thursday, Lagarde dampened speculation about an imminent exit but still left the door slightly ajar to the possibility that she might leave before the end of her contract in October 2027.

"When I look back at all these years, I think that we have accomplished a lot, that I have accomplished a lot," she told the paper. "We need to consolidate and make sure that this is really solid and reliable. So my baseline is that it will take until the end of my term."

Reuters exclusively reported that Lagarde had sent a private message to fellow policymakers reassuring them that she was still concentrating on her job and that they would hear it from her, rather than the press, if she wanted to step down.

The ECB has said that Lagarde has not made a decision about the end of her term, but stopped short of denying the *FT* report. Some analysts thought an early exit risked tangling the ECB up in European politics as it could give the impression of trying to make sure France's eurosceptic far right, which could win next year's presidential vote, had no say in her succession.

Christine Lagarde, president of the European Central Bank.

Lagarde said last year she intended to complete her term, a commitment she has conspicuously failed to repeat this week.

Bank of France Governor Francois Villeroy de Galhau announced plans to step down from his job last week, in a move that gives President Macron a chance to pick the next French central bank chief, drawing sharp criticism from the far-right who called the move anti-democratic. Villeroy's early departure and the confusion about Lagarde's future come just as US President Donald Trump is attacking the Federal Reserve, further stoking debates about central bank independence from politics.

"After the recent events in the US, this is another reminder that although central banks are nominally independent, who leads them and their worldview is a matter for high politics," economists at Oxford Economics wrote on Friday.

As the head of the eurozone's second largest economy, the French president plays an important role in wider negotiations to select the head of the ECB. Polls show either far-right National Rally leader Marine Le Pen, or her protege Jordan Bardella, could win the French presidency.

While the party has long dropped a call for France to leave the euro, it is still seen as something of an unknown quantity in central banking circles.

Lagarde told the WSJ that she viewed her mission as price and financial stability, as well as "protecting the euro, making sure that it is solid and strong and fit for the future of Europe."

She also said that the World Economic Forum was "one of the many options" she was considering once she left the central bank.

Market strategists say European equities have already peaked

Bloomberg
London

It's not even March yet and strategists are saying this week's record high for European stocks is as good as things will get for investors this year, according to a Bloomberg survey.

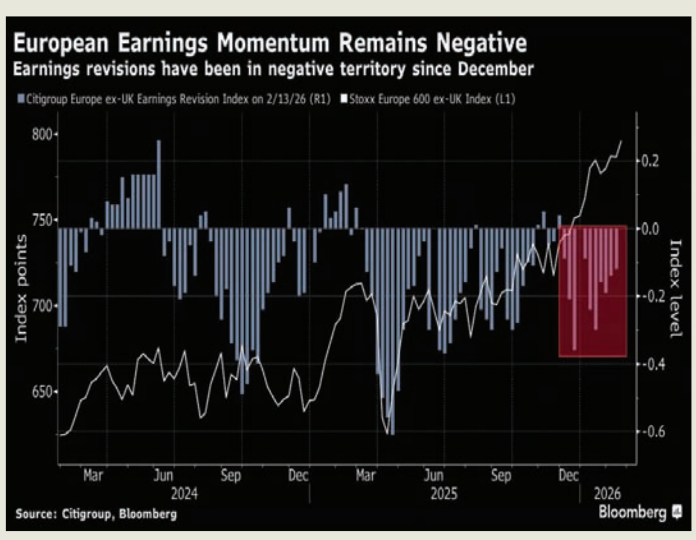
The Stoxx Europe 600 Index will finish 2026 little changed from Wednesday's all-time high of 630 points, according to the median of 17 forecasts in the poll. Supportive tailwinds for the region's stocks have largely already played out, while expectations for double-digit increases in company earnings appear demanding, strategists said.

The better news is that few predict major declines, with government spending and low interest rates expected to boost Europe's economy. HSBC Holdings Plc remains the biggest bull with a 670 points target, implying gains of almost 7%. Only two strategists see the threat of a drop of 10% or more: TFS Derivatives and Bank of America Corp.

"European equities have had a strong run and are fast approaching our year-end target, while the EPS revisions continue to be negative driven by internationally exposed stocks," said Beata Manthey, head of global and European equity strategy at Citigroup Inc. "We watch for signs of broad-based EPS inflection. For now, we have a strong preference for domestic versus international oriented stocks."

The Stoxx Europe 600 index has quickly added more than 5% to last year's rally of almost 17% and is trouncing the S&P 500. The US benchmark has struggled as investors switch out of mega-cap stocks in favor of markets in the rest of the world and rush to avoid stocks seen as under threat from new artificial intelligence tools.

But Europe's eight consecutive months of gains and steadily increasing earnings estimates have pushed stock valuations to their highest level in over five years. The Stoxx 600 now trades near 16 times forward earnings, compared with a 13.3 average over the past 20 years. That's close to the priciest stocks have historically been, outside of bubble periods or recessions.



Meanwhile, hopes of good news on the quarterly earnings front are running so high — especially for the second part of the year — that there is a real danger of disappointment.

"We continue to see risks around the double digit earnings expectations for 2026, particularly in the second half of the year," said Societe Generale SA strategist Roland Kaloyan, who categorised this latest earnings season as positive without being exceptional. "This could push equity indexes slightly below current levels, especially given that the market is currently applying elevated valuation multiples to these high expectations."

Rotation between sectors has been a clear tactic for investors of late, with a barbell approach that uses exposure to economically-linked industrial cyclical stocks and defensive names proving to be the right combination so far. Commodity stocks have led the advance, thanks to the weaker dollar and growing demand for metals crucial to the energy transition. Stalwarts in the utilities, telecoms and health care sectors have also fared well.

By contrast, consumer discretionary shares, as well as AI-disrupted media and tech, have been left behind. Overall, a preference for more domestically exposed stocks has stopped rewarding investors, with exporters also performing well.

"Europe is still a market of divergences driven by currency, tariffs, fiscal stimulus as well as AI enablement, adoption and disruption," said Gerry Fowler, head of European equity strategy at UBS Group AG. "Index gains remain slow given this wide stock dispersion, but buying pressure from international investors continues to backstop index valuations."

European fund managers remain more optimistic than equity strategists about the region. They appear convinced that heavy fiscal support, Germany's off-budget infrastructure fund and rising defense commitments will lead to earnings growth. A net 35% say they are overweight European equities relative to global markets, up from 9% three months earlier and close to the level reached around the time of the first German fiscal announcements a year ago, according to a Bank of America survey.

"Investor bullishness has cooled a little on Europe's absolute performance, though the net 78% that expect further near-term gains for EU equities and the 89% that project upside over the coming 12 months remain close to the recent record highs," wrote strategists including Andreas Bruckner.

Unicredit Group's Christian Stocker is among those who are positive about the outlook, while seeing limited potential for further gains this year. "We expect earnings growth of around 10% for the companies in the Stoxx Europe 600 in 2026, supported by a gradually improving GDP growth within Europe," he said.