



### STABILITY CONCERN | Page 4

## Shrinking balance sheet is 'wrong objective': Fed official



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# GULF TIMES BUSINESS



### OPTIMISTIC OUTLOOK: Page 2

## Intel's \$440bn six-week surge has short sellers circling

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# German logistics 'facing significant exposure' in Gulf trade corridors

By Peter Alagos  
Business Editor

The ongoing conflict in the Middle East is taking a heavy toll on German businesses, with more than four in five companies reporting negative effects on their operations, according to a flash survey by the German Chamber of Commerce and Industry (DIHK).

The survey, conducted between April 13 and 15 among more than 2,400 German companies across all major economic sectors, found that 83% of firms are feeling the impact of the crisis, with rising costs, supply chain disruptions and deepening uncertainty cited as the dominant pressures.

Transport and logistics companies are the hardest hit, with 94% reporting adverse effects, followed by construction firms at 91% and retailers at 90%.

The ripple effects are being felt across the Gulf, where German logistics firms operating through regional ports and trade corridors are facing particularly acute pressure, according to Dr Martin Henkelmann, Regional CEO of the German Chambers of Commerce (AHK) covering Qatar, UAE, Kuwait, Oman, and Pakistan.

Dr Henkelmann, who was in Doha recently, told *Gulf Times* that the region had become "a high-risk maritime environment rather than a stable transit hub" with the disruption of the Strait of Hormuz at the centre of the crisis. Cost increases are bearing down across the board. Rising freight and transport costs are the most widely felt burden, cited by 73% of affected companies, followed closely by higher energy costs at 71%, according to the DIHK survey.

Raw material and supply costs



Dr Martin Henkelmann, Regional CEO, German Chambers of Commerce (Qatar, UAE, Kuwait, Oman, and Pakistan).

are adding to the strain for 58 per cent of firms - three pressures that, the DIHK noted, operate simultaneously and reinforce one another along the value chain.

Nearly half of companies (46%) are also reporting a decline in demand or orders, while 36% are experiencing supply bottlenecks and delays. The squeeze is beginning to show up in raw material availability. Some 12% of affected companies say they are already facing shortages of raw materials or intermediate products, rising to 16% among manufacturers and construction firms.

Companies identified a broad range of scarce inputs, including plastics and polymers, chemical raw materials, crude oil-based products such as bitumen and lubricants, diesel and kerosene, electronic components and semiconductors, and metals including

aluminium, copper, steel, and rare earths.

The sectoral picture sharply reveals differing pressure points: In the transport sector, energy costs are the dominant concern for 87% of firms, while the manufacturing industry is most exposed to material costs and supply bottlenecks.

Construction companies are grappling with both energy and material cost increases, cited by 86% and 75%, respectively, while hospitality and retail businesses are more acutely affected by the slump in consumer demand, at 60% and 56%.

Companies are responding on multiple fronts: Half intend to pass increased costs on to customers, at least in part, though the DIHK noted that existing price agreements and long-term contracts are limiting room for manoeuvre in many cases.

Some 43% are stepping up risk management and monitoring, while 37% are postponing projects or investments. A fifth are adjusting their supply chains and 22% are building up inventory levels.

Across all sectors, free-text responses from companies pointed to cost-cutting as the predominant coping strategy, including short-time working, staff reductions, restraint on wages and investment, and strict cost discipline.

Beyond the immediate financial pressures, the survey highlighted the corrosive effect of uncertainty itself. Companies across sectors pointed to the unpredictability of the situation as a significant operational burden, with consumer reluctance to spend a recurring theme in retail and hospitality, and concern about rising inflation and interest rates prominent among construction firms and service providers.

Despite the pressures, Dr Henkelmann said German firms continue to view Qatar as a reliable long-term market. The German Chambers of Commerce has maintained an office in Doha for over 20 years, he noted, adding that the overall presence of German companies in the country remains stable.

He pointed to several sectors where German companies still have considerable room to expand, including digital health, smart industry solutions, cybersecurity, vocational training, sustainable urban development, and environmental technology.

"Therefore, the next step is not only exporting products, but increasingly contributing through local partnerships, research and development cooperation, training initiatives, and long-term technology transfer," Dr Henkelmann added.

## Barwa to replace Vodafone Qatar in QSE main barometer from June 1

By Santhosh V Perumal  
Business Reporter

Barwa Real Estate Company will replace Vodafone Qatar in the Qatar Stock Exchange's main barometer, effective from June 1.

The other constituents of the 20-stock QE index will remain QNB, Qatar Islamic Bank (QIB), Industries Qatar (IQ), Nakilat, Commercial Bank, AlRayan Bank, Ooredoo, QIB, Dukhan Bank, Milaha, Woqod, Nebras Energy (formerly Qatar Electricity and Water or QEWC), Doha Bank, Mesaieed Petrochemical Holding (MPHC), Baladna, Gulf International Services, Qamco, Estithmar Holding and Ezdan. Under the new index practices, a review is carried out twice a year to ensure that the selection and weighting of the constituents continues to reflect the purpose of the index.

"It (index reconstitution) is a mechanism that keeps stock market indices updated, representative, and aligned with current market conditions," market sources said, adding it also has important market implications as stocks added often experience increased demand. The Qatar Stock Exchange had on Thursday reconstituted the index committee, reflecting the continued commitment to strengthening the governance, transparency and institutional oversight of its market indices. The reconstitution, which is pursuant to Resolution No 11 of the Qatar Stock Exchange board of directors' first meeting of 2026, comes as part of the ongoing enhancement of the index governance framework to develop market infrastructure, improve investor access to market information, and support

the continued growth and competitiveness of Qatar's capital market.

The Al Rayan Islamic Index components remain the same as Aamal Company, Meeza QSTP, IQ, QIB, AlRayan Bank, Ooredoo, Dukhan Bank, Woqod, United Development Company, MPHC, Barwa, Vodafone Qatar, Milaha, Nebras Energy, QIB, Qamco, Estithmar Holding, Medicare Group, Al Meera, Ezdan, Baladna, Qatar National Cement and Qatar Islamic Insurance. Similarly, there will be no change in the QE All Share Index.

All listed companies are ranked by giving free float market capitalisation with a 50% weight and average daily value traded also 50% weight. Companies with velocity less than 5% are excluded from the review, as are entities whereby a single shareholder can only own less than 1% of outstanding shares.

Any qualifying component exceeding 15% weight in the index as of market close March 28, 2023 will have its weight capped at the 15% level and excess weight allocated to remaining stocks proportionately. The index free-float for a stock is total outstanding shares minus shares directly owned by government and its affiliates, those held by founders and board members and shareholdings above 10% or greater of the total outstanding (except those held by those held by pension funds in the country).

The Qatar Stock Exchange has seven sectors - banks and financial services (with 13 constituents), insurance (seven), industrials (10), real estate (four), telecom (two), infrastructure (three) and consumer goods and services (15) in the 'All Share Index'.

# QSE sees 70% constituents in red; M-cap erodes QR14.69bn

By Santhosh V Perumal  
Business Reporter

### WEEKLY REVIEW

Fragile ceasefire, stalled US-Iran talks and sector-specific selling pressure, amidst cautious investor sentiments, had reflected on the Qatar Stock Exchange (QSE), which saw its key index plunge 221 points, wiping off about QR15bn in capitalisation this week. The banking counter witnessed higher than average selling pressure as the 20-stock Qatar Index plummeted 2.06% this week which saw the QSE reconstitute the index committee. "The weakness appears to be driven by a combination of factors rather than single event," an analyst with a leading commercial bank told *Gulf Times*. The Islamic index was seen declining slower than the other indices of the main bourse this week, which saw the international credit rating agency Fitch raise its near-term oil and European gas price assumptions due to the

disrupted liquefied natural gas (LNG) flows from Qatar through the Strait of Hormuz and damage to the country's LNG infrastructure. The market was heavily skewed towards shakers in the main market this week which saw Barwa Real Estate to replace Vodafone Qatar in the main index, effective from June 1, 2026. The consumer goods and industrials sectors accounted for more than 57% of the trading volumes in the main market this week which saw a total of 0.15mn AlRayan Bank-sponsored exchange traded fund QATR worth QR0.33mn trade across 69 deals. More than 70% of the traded constituents were in the red in the main market this week, which saw a total of 0.01mn Doha Bank-sponsored exchange traded fund QETF worth QR0.12mn trade across 16 transactions. Market capitalisation eroded



The banking counter witnessed higher than average selling pressure as the 20-stock Qatar Index fell 2.06% this week

QR14.69bn or 2.29% to QR626.65bn on the back of large and midcap segments this week which saw no trading of sovereign bonds. Highlighting that the foreign funds were reducing exposure or taking profits; the analyst said

in smaller markets like Qatar, foreign institutional flows can "significantly" impact the index performance. Trade turnover and volumes were on the decline in the main market this week which saw no trading of sovereign sukuks.

Trade turnover and volumes were also on the decrease in the venture market this week which saw no trading of treasury bills. The Total Return Index plunged 2.06%, the All Share Index by 2.15% and the All Islamic Index by 1.36% this week. The banks and financial services sector index tanked 3.11%, consumer goods and services (1.58%), real estate (1.53%), transport (1.34%), industrials (1.08%) and telecom (0.78%); even as insurance gained 0.87% this week. Of the 54 stocks, as many as 38 declined, while 15 increased and one was unchanged this week. Major shakers in the main market included Estithmar Holding, QNB, Al Faleh Educational Holding, Baladna, Qatar German Medical Devices, Qatar Islamic Bank, Commercial Bank, Doha Bank, Woqod, almeera, Industries Qatar, Ezdan, United Development Company, Ooredoo and Nakilat. In the junior bourse, Techno Q saw its

shares depreciate in value this week. Nevertheless, Al Khaleej Takaful, Qatar Oman Investment, Qatar General Insurance and Reinsurance, Mannai Corporation, Diala, Ahlibank Qatar, Gulf International Services, Qamco and Vodafone Qatar were among the gainers in the main market this week. The main bourse saw 16% contraction in trade volumes to 715.28mn shares, 6% in value to QR1.95bn and 10% in deals to 118,072 this week. In the venture market, trade volumes plummeted 37% to 0.71mn equities, value by 37% to QR1.59mn and transactions by 61% to 113 this week. "The QE Index may remain volatile but range-bound with geopolitics and oil prices playing crucial roles. Any signs of easing tensions between Iran and the US could support the Gulf Co-operation Council or GCC equities including Qatar," the analyst said, adding the market has also become attractive in valuation.



## Fidelity International's inflation bet pays off as bonds slide

**Bloomberg**  
London

Even before the Iran war, Fidelity International portfolio manager Mike Riddell was skeptical of the view that global price pressures were subsiding. His contrarian bet — that inflation was set to rise — is now paying off handsomely.

Months ago, he bought inflation swaps in the US and UK, essentially protection against hotter-than-forecast inflation. That's because he saw inflation as a potent risk that bond markets — and most of his peers — were underpricing even before the Iran war sent oil prices soaring past \$100 a barrel. That bet has helped returns on his two Strategic Bond Funds to surpass more than 90% of peers, data compiled by Bloomberg show.

"There was absolutely no risk of a Middle East conflict priced into rates, given the multiple cuts that global investors were expecting," Riddell said in an interview.

"We positioned the fund to be long inflation, short rates short credit risk, short risk assets." He continues to hold the inflation swaps, though he's trimmed the positions slightly.

It's proved to be the right call from Riddell and his team, which includes Ravin Seeneevassen and Tim Foster. Soaring oil prices since the war have fed into inflation expectations and whipsawed global bond markets, while money markets have reversed gear to price rate hikes across much of the developed world. That's resulted in losses for any investor who was positioned for lower rates.

As of Friday, swaps markets are pricing at least two rate increases in the UK by year-end, a dramatic pivot from having bet on two cuts less than three months ago. For the Federal Reserve, pricing for any cut has been wiped out in favor of a hike in a year's time, while the European Central Bank is expected to deliver three increases this year, starting next month.

Those expectations have lifted two-year US Treasury yields to the highest in more than a year, while German and UK equivalents have also soared. Borrowing costs have risen across the world this week, amid intensifying fears that war-driven inflation will force central banks to pursue higher interest rates.

Riddell says the mispricing looks particularly acute in the US, with incoming Fed Chair Kevin Warsh's perceived bias toward looser policy possibly capping money markets' rate-hike bets.

"Market-implied US inflation is a little low, given the strong growth data we're seeing, combined with the energy price hit," he said, adding it "doesn't make any sense to us" that markets barely expect Fed hikes, even when bond yields have risen, risk assets are at record highs and inflation expectations have edged up.

Still, Riddell believes that markets have gone too far in pricing rate increases in some regions particularly in the euro area, Britain, Australia, Canada and Norway. He has moved from holding an "aggressive underweight" on nominal bonds in those markets into a "moderate overweight," focusing on maturities up to 10 years, which he sees as attractively priced.

## Aramco opens its empire to Wall Street in \$35bn push

**Bloomberg**  
Dhahran

Days after a BlackRock-led group signed an \$11bn lease agreement for some of Saudi Aramco's natural gas facilities, the energy giant was inundated with calls from funds around the world eager for a slice of the business.

Emboldened by that demand and driven by a desire to shore up the balance sheet, Aramco executives in Dhahran have lined up the most ambitious privatisation plan in the company's 93-year history. In the months since that deal with BlackRock's Global Infrastructure Partners, the firm has pushed ahead with a wave of divestments spanning everything from energy facilities and even real estate.

In all, the deals are likely to eventually raise as much \$35bn, according to people familiar with the matter. The assets are seen as lucrative and likely to generate interest from a swathe of Wall Street firms despite a regional war that began on February 28, the people said.

Aramco didn't immediately respond to a request for comment outside normal business hours.

Bankers and dealmakers expect Aramco to open up more assets to global private equity and infrastructure investors. The energy giant is keen to retain full control of its upstream assets but is open to selling minority stakes in downstream and midstream assets, they said, declining to be identified as the information is confidential.

The proposed sales would hand Wall Street firms a lucrative pipeline of deals at a time when regional conflict threatens broader dealmaking, while helping Saudi Arabia bolster foreign investment inflows that remain far below the kingdom's ambitious targets.

Aramco is pressing ahead with these deals as the war in the Middle East has disrupted Gulf exports. The company was able to reroute most shipments away from the Strait of Hormuz through its East-West pipeline to the port of Yanbu, helping keep exports flowing even as traffic through the waterway slowed sharply. And Aramco has said it is taking measures to boost that flexibility further.

The deals also serve another purpose, displaying Saudi Arabia's ability to attract money, even in the face of Iran's attacks on Gulf cities

and infrastructure across the region. In the months leading up to the war, the kingdom had ramped up efforts to draw foreign capital and pivoting away from some costly endeavors.

"Before the spending cuts in mega projects and the Iran War hit to export volumes, this might have been interpreted as Aramco reducing exposure to non-core assets," said Hasnain Malik, head of emerging market equity and geopolitical strategy at Tellmer. "But now this is going to be considered as maximizing access to liquidity for Aramco and its sovereign shareholder."

Long a lynchpin of the Saudi economy, revenue from energy sales and the firm's hefty dividends help support the kingdom's expensive economic revamp, which has been hamstrung by growing costs. Aramco has also spent years signaling it wants to extract more value from its sprawling asset base, using infrastructure sales and leverage to help fund expansion while preserving cash for the state. Now, planned divestments are moving ahead even as the tumult the war is causing across global markets has slowed deal activity elsewhere. Transactions currently in the works include plans to sell and lease back real estate assets,

which could include the sprawling campus that houses its headquarters in the kingdom's Eastern Province, the sale of a stake in its oil export and storage terminals, as well as transactions involving gas-fired power plants and its water infrastructure business.

These efforts not only promise a windfall for Wall Street firms, they also help the kingdom bolster a key metric, foreign direct investment, which remains well below Saudi Arabia's target of attracting \$100bn annually by the end of the decade. "FDI is set to remain a challenge," said Rachel Ziemba, a senior fellow at the Center for a New American Security. That means "the Saudi state needs even more cash than in the past" and can get it, in part, in the form of Aramco's massive dividends as well as taxes and royalties on oil revenue.

Aramco's plan is "a combination of two trends of optimizing the balance sheet and trying to deploy as much capital to energy and perhaps some other high-priority infrastructure," said Ziemba, who also founded consultancy Ziemba Insights.

The Saudi company has traditionally relied on joint ventures and partnerships that have given it

stakes in key industries like refining and petrochemicals from the US Gulf coast to China, helping it secure guaranteed outlets for its crude.

Aramco has been working to rationalize its assets and build its debt position since even before the company's 2019 initial public offering. It's sold off stakes in key infrastructure units like the company's oil and natural gas pipeline network, listed a subsidiary on the Riyadh exchange and is working to sell a stake in a domestic refinery to a Chinese partner.

For decades, Aramco's vast oil fields underpinned Saudi Arabia's economy. Now the kingdom is increasingly looking beyond crude itself, turning pipelines, power plants, ports and even real estate into financial assets that can draw in foreign capital and help bankroll its next phase of growth.

"The key question for investors is not the individual transaction, but the cumulative impact over time: how much future cash flow is being monetised today, and what that means for Aramco's long-term free cash flow profile," said Salah Shamma, head of equity investment for Middle East and North Africa at Franklin Templeton.

## Intel's \$440bn six-week surge has short sellers circling

**Bloomberg**  
California

A scorching rally in Intel Corp shares is threatening huge losses for traders wagering that they're due to fall. But that isn't stopping them from placing those bets.

Since hitting a low on March 30, the chipmaker's stock price has soared 214% through Monday's close, adding more than \$440bn to its market capitalisation and pushing short-sellers' paper losses above \$12bn, according to data from S3 Partners. At the same time, short interest in Intel shares as a percentage of the company's float, a measure of how many shares have been borrowed to bet against the stock, is near a 52-week high.

"Intel's almost like a poster child for the momentum trade right now," said Matthew Unterman, managing director at S3 Partners. "At some point, the momentum's going to stall."

Betting against Intel right now comes with considerable risk, however. The stock soared 25% last week, its best showing since January 2000, and kept climbing on Monday to reach yet another record high.

Recent gains were powered by a report that the company reached a preliminary chip-making agreement with Apple Inc. But since the start of April, Intel is the top performer in the S&P 500 Index, beating out even high-flying Sandisk Corp.

"It just isn't realistic to try and pick a top in a momentum stock.



The Intel headquarters in Santa Clara, California. A scorching rally in Intel Corp shares is threatening huge losses for traders wagering that they're due to fall. But that isn't stopping them from placing those bets.

There's no ability to control your risk," said Brad Lamensdorf, co-manager of the AdvisorShares Ranger Equity Bear ETF, which shorts stocks. "The short sellers who fight price action give up a lot of alpha, and it doesn't make for a smooth portfolio in the interim."

Shorts are looking at other chip stocks as well, as the group continues to power higher in 2026. Micron Technology Inc and Advanced Micro Devices Inc, the second and third best performers in the Philadelphia Stock Exchange Semiconductor Index

since late March, have also seen upticks in short interest, S3 data show. The chipmaker index is up 55% since the start of April, and its 14-day relative strength index recently hit its highest since 2011, a sign the group as a whole is heavily overbought.

But even though the rally looks stretched, the unpredictability of momentum has some investors hesitant to test it.

"I would not short any of these stocks," said Thomas George, a portfolio manager at Grizzle Investment Management, which owns Intel shares. "This is not a

sector where glory can be found for a short seller."

Of course, there is an argument that Intel's gains aren't just about momentum. The US government took an ownership stake in the company last summer, and AI chip giant Nvidia Corp followed that with a \$5bn investment in September. The shares popped in March when the company announced that its new Xeon chip is being used in one of Nvidia's systems. And just a few weeks ago, management gave a sales forecast that blew away Wall Street's expectations.

All of which is leading Wall Street to raise its earnings projections. Analyst estimates for Intel's 2026 adjusted earnings per share have more than doubled in just the last month, according to data compiled by Bloomberg.

But that hasn't dented Intel's sky high market valuation. It's among the 10 most expensive stocks in the S&P 500 and the priciest chip stock in the market. The shares trade around 100 times earnings expected over the next 12 months, their highest multiple ever and roughly five times their 10-year average. By comparison, Nvidia trades at about 24 times forward earnings.

"That expensive multiple could get cheap quickly if we see growth pick up," George said. "If AI leads to more efficiency, more people will use it, which means more demand."

Even with the growing optimism about Intel's outlook, Wall Street is hardly bullish on the stock. The average analyst price target of about \$85 implies a 34% decline from Monday's closing price. That's the weakest implied return among all members of the semiconductor index. Of the 53 analysts tracked by Bloomberg who cover the stock, just 17 have buy ratings and three have sells.

In the coming 12 months, there's a decent chance that some high-momentum stocks like Intel will experience significant selloffs, potentially as severe as 30%, George said. However, the momentum in the stock and the improvement in the company's fundamentals make trying to time any reverse perilous.

## Real estate lenders eager to offload troubled loans, even at a loss

**Bloomberg**  
New York

Commercial real estate lenders are done pretending. After years of waiting and hoping that the market would improve, they're selling off debt on struggling US assets, sometimes writing down as much as 85% of the loan's payoff amount.

Lenders including Goldman Sachs Group and Deutsche Bank, as well as smaller companies, are showing more willingness to foreclose on troubled properties or offload non-performing loans, even if means booking steep losses.

It's painful, but they say it's necessary to chip away at more than \$130bn in distressed commercial-property debt.

It signals the end of the extend-and-pretend era, when lenders cited a murky outlook on interest rates and limited comparable transactions as reasons to give struggling borrowers more time — and to hold on to asset valuations that seemed, even then, optimistic. Selling troubled loans also helps free up cash to invest in new opportunities that arise from the upheaval.

"If you're on the wrong side of one of those transactions, it can feel catastrophic if you have

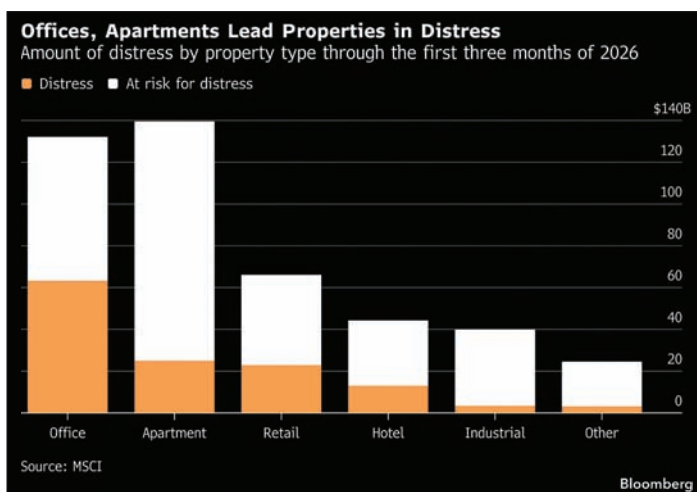
to report to investors you've lost their money," said Xander Snyder, senior commercial real estate economist for title insurer First American Financial Corp. "But generally for the commercial real estate market, it's good we're working through this distress."

This year, Shanghai Commercial Bank sold its loan on a stalled Manhattan condo conversion at an 85% discount to the debt's payoff amount. Netflix is in talks to buy a historic Los Angeles movie studio for a fraction of its \$1.85bn 2021 sale price after lenders led by Goldman Sachs took over the property.

Money managers who bought into a \$240mn commercial-mortgage bond backed by a San Francisco office building suffered losses after the underlying loan's sale left just \$101mn to distribute to investors.

Lender Ready Capital Corp offloaded a pool of loans backed by apartments in the Sunbelt at a roughly 30% discount, reducing its exposure to an overbuilt market, according to a person familiar with the matter.

Ready Capital said in February that it aimed to dump 60% of its legacy commercial-property loan book. It told investors it's seeking buyers for \$1.5bn of loans, with a focus on clearing non-performing



and sub-yielding debt. The company is "putting some pressure on borrowers and some of these assets, where they will pivot ultimately to either seeking alternative financing or potentially selling the underlying assets," Chief Credit Officer Dominick Scali said on the call.

A spokesperson for Ready Capital didn't immediately respond to a request for comment.

Increasingly, lenders are forcing sales or foreclosing on properties that are backing soured loans. Earlier this year, Deutsche Bank filed to foreclose on Hackman

Capital Partners' Kaufman Astoria Studios in New York, which had a \$340mn mortgage.

A group led by Deutsche Bank is recruiting real estate brokers to market some of Hackman's entertainment properties around Los Angeles, as their values plunge and demand stays soft after the Covid shutdown and 2023 Hollywood writers' strike.

Representatives for Deutsche Bank and Hackman didn't immediately respond to requests for comment. Goldman Sachs, part of the group that seized the Radford Studio Center that Netflix is negotiat-

ing to buy, declined to comment.

A spokesperson for Shanghai Commercial Bank, which sold the loan on the Manhattan condo site, declined to comment on individual transactions, but noted the firm has "well established procedures and adhere to due process to prudently manage our loan portfolio."

Even among offices, which were especially hit hard by the pandemic, sales of distressed properties jumped 45% in the first quarter from a year earlier, MSCI said.

Companies in the market for new office space mainly have been seeking new or recently overhauled buildings in bustling city centers. That means landlords who can't afford to renovate older properties, especially in sleepier markets, will continue to have a hard time.

"If a property has been struggling now for three to four-plus years, the odds of it coming back are very slim," said Lonnie Hendry, chief product officer at Trepp, a commercial real estate data provider. "Lenders have been able to quantify how much of their book is potentially exposed to bad loans and they're ready to move these loans out of their book and take the loss."

In the first quarter, workouts of troubled loans exceeded new additions to the distressed pile for

the first time since 2022, according to MSCI Inc. But the market is still laden with distress, totaling nearly \$132bn across all commercial-property sectors, the analytics firm's data show.

While some lenders are selling off troubled loans, others are moving faster to foreclose. In March, the balance of loans in commercial mortgage-backed securities tied to buildings in foreclosure reached \$17bn, up from \$7bn in 2024 and the highest level since the post-Great Financial Crisis resolution period, according to Trepp.

Parkview Financial recently foreclosed on a pair of apartment towers in Baltimore after the company that converted the former hotel buildings defaulted on its \$45mn loan.

"You bring in a new property manager, you rebrand the building, maybe renovate the lobbies or the elevators and wait 12 to 24 months and I think you'll see value creation," said Parkview Chief Executive Officer Paul Rahimian.

Such moves are becoming more common for the Los Angeles-based lender.

"We did extend for a certain amount of time and tried to help our borrowers get through the cycle," Rahimian said. "But as the cycle continued, it became more difficult."

## AI stock boom pushes Seoul's Kospi over 8,000 points

AFP  
Seoul

South Korea's benchmark Kospi index topped 8,000 points for the first time on Friday, buoyed by an artificial intelligence-driven boom in the country's semiconductor industry.

The index briefly rose above the milestone in morning trade before falling back into the 7,900 range later in the session.

It marked the latest high point in a meteoric rise for the Kospi, which was trading at around 2,600 points just a year ago.

South Korea is home to tech giants Samsung Electronics and SK hynix – key suppliers of high-performance chips that power AI infrastructure globally.

Both of the firms have posted record first-quarter earnings as demand surges for the fast-evolving technology worldwide.

Shares in Samsung Electronics have risen around 190% over six months, while SK hynix shares gained 220% over the same period.

The global frenzy to build AI data centres has sent orders for the companies' advanced, high-bandwidth memory microchips soaring.

South Korea has said it will triple spending on AI this year, aiming to join



A currency dealer monitors exchange rates as a screen shows South Korea's benchmark stock index (Kospi) surpassing 8,000 points in a foreign exchange dealing room at the Hana Bank headquarters in Seoul yesterday.

the United States and China as one of the top three AI powers.

Lee Jae-won, an analyst at Yuanta Securities in Seoul, said the Kospi is likely to maintain its upward trend for the time being.

"Beyond semiconductors, major sectors by market cap also include AI-related power equipment and infrastructure used in AI data centres," he told AFP.

But there is no guarantee that the same level of AI demand will continue in

coming years, said Kim Dae-jong, a business professor at Sejong University.

"Demand for AI data centres is arguably uncertain beyond the next two years," he told AFP.

Seok Byoung-hoon, an economics professor at Ewha Womans University, said it is unclear whether expectations for future earnings "have already been priced into current share prices or whether they can continue to drive stocks higher".

## China's multiple economies make factory dominance hard to crack

Bloomberg  
Beijing

It's not just China's sheer size that makes competing against its manufacturers so hard – but also the nation's vast disparity in development.

That's according to new research from the China Finance 40 Forum, which said China effectively creates multiple economies within one national market. Known as CF40, it's one of the most influential economic think tanks in China and counts many economic officials as well as prominent economists among its members.

In a report titled "Why Chinese Manufacturing Appears to Compete with All Countries," CF40 researchers argued the country's prowess across everything from producing T-shirts to electric vehicles stems from its internal divides rather than state policies designed to give it a competitive edge.

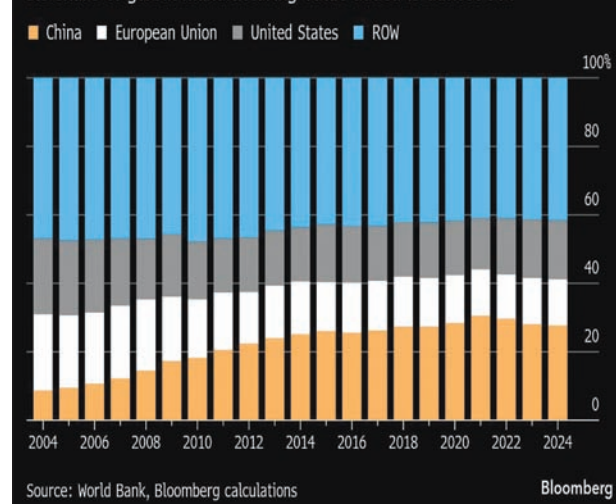
The findings help explain why China's dominance in global manufacturing across the value chain is proving so hard to combat. On his visit to Beijing this week, US President Donald Trump has prioritised securing big ticket Chinese purchases and stabilising economic relations, in contrast with last year's tariff salvos.

For years, China has faced calls to allow more currency appreciation and reduce its support for industry as its economic reach extended around the world. The report suggests these prescriptions likely don't stand a chance.

CF40 makes a case that China's economy consists of four distinct tiers, each with its own advantages that would render such policy proposals ineffective, since they would do little to reduce the regional income gaps. Its richest cities,

### China Commands A Big Share of Global Manufacturing

Its share of global manufacturing value added is almost 30%



Source: World Bank, Bloomberg calculations

including Beijing, Shanghai, Shenzhen and Guangzhou, have income levels similar to those of Japan and South Korea, while poorer regions still resemble middle- or even lower-middle-income economies such as Mexico, Thailand or Vietnam, they found.

Effectively, China contains within itself "more than half of Japan + nearly 6 Malaysias + 5 Mexicos + 4 Thailands + 1.4 Vietnams," said analysts at the think tank's research arm CF40 Institute. The authors include Yu Fei and Guo Kai, formerly an economist at the International Monetary Fund and an ex-official at China's central bank.

"Reducing subsidies and currency appreciation will not narrow the development gap between China's various tiers, nor will they immediately change the development levels of China's different regions," they said. As a result, they "will not alter the current situation of China competing with the rest of the world in manufacturing."

International financial institutions tend to take a more one-size-fits-all approach.

TS Lombard's Rory Green even suggested in a report on Tuesday that an implicit agreement for the yuan to appreciate could be part of a broader deal with the US during Trump's visit this week.

The IMF has meanwhile recommended halving industrial subsidies – which it estimates have amounted to about 4% of gross domestic product in 2023 – as part of a shift toward a growth model more reliant on domestic consumer spending.

"State-led and debt-financed investment and unwarranted industrial policy support have resulted in weakening productivity, build-up of financial vulnerabilities, and excess supply in some tradable sectors," the fund said in its annual review of China's economy in February. For CF40, however, China's uneven development lets it stay competitive across the full industrial spectrum, moving up the value chain to challenge the likes of Germany without ceding much ground in lower-skilled industries.

## Emerging market equity prices decline

Reuters  
Singapore

Emerging market (EM) equities fell on Friday, led by declines in heavyweight Asian stocks, while currencies weakened against the dollar, setting them on track for losses in a week marked by the US-China summit.

MSCI's index tracking global EM stocks was down 2.5%, set for its biggest one-day drop since March 23. The currencies equivalent was off 0.3%.

Many stocks and currencies, as well as the two indexes, were set for weekly declines. Some were on track to log their steepest losses since beginning of the Iran war.

US President Donald Trump said he and Chinese President Xi Jinping had agreed in talks that Iran cannot be allowed to have a nuclear weapon and must re-open the Strait of Hormuz.

The inflation fears pushed up the dollar index and Treasury yields, with the one on the benchmark 10-year

note up at 4.54% - a level last seen in May 2025.

"The market is discounting a positive summit between the US and China, and is instead focusing on the lack of progress towards reopening the Strait of Hormuz," said Kathleen Brooks, research director at XTB.

"Without the support of rate cuts and rising global bond yields, it is hard to see how US and some Asian markets can maintain their record highs.... It could be a rough day for risky assets as investors take risk off the table."

Most Asian currencies depreciated against the US dollar, with the Indian rupee hitting yet another record low. Turkey's lira fell 0.2% and South Africa's rand lost 1%.

Emerging Europe currencies were subdued against the euro, while Hungary's forint fell 0.7%.

Rising US yields pressured stocks, especially chipmakers that have been rallying for the last month. South Korea's KOSPI fell over 6% in a flip-around after crossing 8,000 points for the first time. The selloff spilled over

to emerging European economies, with equities in Poland and Hungary down 1.9% and 1.2%, respectively.

Romanian stocks rose 1.2% to a record high, powered by gains in energy company Hidroelectrica after its first-quarter results.

Turkish stocks shed 1.9% and South African equities fell 1.7%, tracking gold prices that dipped to one-week lows. Romania's leu was flat ahead of a monetary policy decision in which the central bank is expected to hold interest rates steady.

The currency has been languishing at record lows on political uncertainty after the government was toppled in a no-confidence vote last week, potentially delaying EU funds and putting Romania's credit ratings at risk.

S&P is scheduled to review its ratings on Nigeria and Bulgaria later in the day, while Moody's is set to review Ukraine's.

Ukraine's bonds pulled back from record highs, after rallying this week on prospects of an end to the Russia-Ukraine war.

## Sulphur squeeze piles more pressure on Indonesian nickel sector

By Andy Home  
London

Surging sulphur prices, driven by the continued closure of the Strait of Hormuz, are starting to impact Indonesia's giant nickel sector. The world's largest producer of the battery metal is heavily dependent on the Gulf for what is a core input for a significant part of its nickel processing capacity.

The sulphur squeeze adds spice to the Indonesian government's own mix of measures designed to exert greater control over its runaway nickel production sector.

The country's explosive production growth flooded the global market and cratered prices through 2024 and 2025.

The prospect of lower Indonesian output and a corresponding shift in market balance has this month lifted London Metal Exchange (LME) nickel to its highest trading levels in two years. The Iran war has severely constrained the flow of

sulphur from the Gulf, which accounts for around a quarter of global supply. Indonesia relies on the region for 75% of its sulfur imports. Sulphur is converted to sulphuric acid for use by high-pressure acid leach (HPAL) nickel processing plants. They produce an intermediate product - mixed hydroxide precipitate - destined for the battery sector.

These HPAL plants are a fast-growing component of Indonesia's production mix. Last year's output of 450,000 metric tonnes represented over 10% of global production. Another 100,000 tonnes of new capacity is due to fire up this year, according to Macquarie Bank.

Or at least it was due to fire up. The sulphur squeeze has already forced HPAL operators to trim production. Zhejiang Huayou Cobalt has halted half of its operating capacity.

It seems highly likely the next wave of capacity will be put on hold as even existing operators struggle to maintain run-rates. The war's sulphurous fallout has compounded the impact of tighter mine production

quotas and changes to the government's minimum selling price for nickel ore. This year's quotas of 260mn to 270mn tonnes fall far short of smelter requirements and are, on paper at least, sufficient to wipe out this year's expected supply surplus, according to Macquarie Bank.

Meanwhile, the new formula for ore pricing pushes costs for HPAL producers up by more than \$3,000 per tonne. Combined with rising sulphur prices, break-even prices are now as high as \$18,000 per tonne, the bank estimates.

Indonesia's nickel processors are facing multiple headwinds right now and analysts are starting to adjust their expectations of how much the country will produce this year and what that means for the pricing. The International Nickel Study Group last month forecast the global market will shift from three years of massive supply surplus to a deficit in 2026.

The forecast shortfall of 32,000 tonnes is modest relative to last year's calculated excess of 283,000 tonnes. But it marks a sharp revision from the Group's October

forecast of a hefty 261,000-tonne surplus. The Group cut its 2026 demand growth forecast from 6.2% to 4.2%. Global production, meanwhile, is expected to contract by 4.3% as Indonesian output growth slows sharply or even goes into reverse. These forecasts, released on April 22, don't explicitly reference the potential impact of a sulphur squeeze. But then few were expecting the Strait of Hormuz to remain closed for so long.

Nickel prices have responded to the combination of rising costs and potentially reduced production in a country that accounts for 60% of global supply. LME three-month nickel broke out of its previous range below \$16,000 per ton in December as the market first started focusing on Indonesia's intended cut in production quotas.

It hit a two-year high of \$20,000 per tonne last week and is holding around \$19,000 this week, up 14.5% since the start of 2026. Investment funds have been building long positions over the same time frame. The collective bet on higher prices currently

amounts to 35,750 contracts, equivalent to 215,000 tonnes. That's below the January peak but still higher than anything seen since 2022.

In essence, it is a bet that Indonesia stops flooding the market. Were it just a case of government policy, that might be a risky proposition.

The mining quotas are subject to mid-year review and could be revised significantly higher. There is considerable push-back on both the quotas and the new ore pricing formula. Chinese operators, which dominate the sector, have formally complained to Jakarta, warning that further investment is at risk. Further policy tweaking is entirely possible. Jakarta, however, has no control over global sulphur availability. That is rapidly emerging as the single biggest threat to the world's dominant nickel producer.

Andy Home is a columnist for Reuters. The opinions expressed here are those of the author.

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# Fed may have to hike interest rates to defend its credibility

By Mike Dolan  
London

Sitting out the oil shock may not be enough. The Federal Reserve may now have to prove it will act to meet its inflation target, much as its counterparts in Europe seem determined to do. Given what Wall Street forecasters currently think, that could pack quite a punch if it happens. Year-end crude oil futures are near their highest level of the Iran war so far, and with little sign of a durable peace deal. April US inflation data this week showed the mounting damage to already above-target prices. Annual consumer price inflation is heading back above 4% this month for the first time in three years, having failed to hit the Fed's 2% target rate since February 2021. Producer prices twisted the knife, clocking their biggest monthly gain since the aftermath of Russia's invasion

of Ukraine in March 2022 and an annual rate of 6% - the highest in over three years. Slice and dice the numbers a hundred ways, but few doubt that core inflation, and even "trimmed-mean" inflation rates that strip out the more extreme monthly price moves, are back on the rise. The trend has turned higher again, and so has the momentum of price changes. Many of the regional Fed presidents feel the central bank's inability to get back to its target risks shredding its credibility longer term, and could push market and public inflation expectations even higher. Boston Fed President Susan Collins is the latest to fret. "More than five years of above-target inflation has reduced my patience for 'looking through' another supply shock," Collins said on Wednesday. "I could envision a scenario in which some policy tightening is needed to ensure that inflation returns durably to 2% in a timely manner." Collins is not alone. This year's more

hawkish voters on the Fed's policymaking council echo that view. Cleveland Fed President Beth Hammack, for example, was one of three policymakers who dissented from the easing bias in the Fed's last statement. "Our statement should have a pretty neutral stance about whether the next move is down or up or just on hold for a really long period of time," she said last week. Talk of a split central bank as new Chair Kevin Warsh takes over this week merely disguises the hawkish tilt. Of 18 Fed board members and regional presidents, only three are currently considered dovish by many Fed-watchers. And Warsh replaces just one of those doves on the board. If a prolonged energy squeeze seeps further into core goods and services prices, how likely is it that the next Fed move is up? A Fed futures market that confidently bet on two more rate cuts right up until the

attacks on Iran in late February currently sees no further easing and puts an 80% chance of a 25-basis-point rise in the 3.625% policy rate over the next 12 months. Two-year Treasury yields topped 4% again this week. The 30-year bond yield is back above 5%, and average 30-year fixed mortgage rates stand at 6.46% - above 6% for nearly four years straight. The fixed-income market is already bracing for a change of direction in Fed policy - and not the one most had envisaged when Warsh was first nominated in January. Yet the persistence of rate-cut forecasts suggests the wider investment world still treats further easing as its base case - presumably assuming an end to the Gulf conflict and a retreat in oil prices will reopen the Fed door. Just three weeks ago, only one of 62 economists and strategists polled by Reuters expected a rate rise by the middle of next year. The median view was for two more cuts over that time.

This week, even as lousy inflation data forced many banks and forecasters to push back their easing timelines, rate cuts remain in the mix. UBS Global Wealth Management pushed its expectation for the next cut back by three months to September, but still expects two cuts in December and March next year. Morgan Stanley's mid-year outlook still pencils in a Fed cut next year, alongside an 11% rise in the S&P 500 and a retreat in 10-year Treasury yields to 4.2%. Of course all these investment houses hedge with alternative scenarios - understandable given the geopolitical unpredictability at hand. But even though the rates market may have partly repriced, there will have to be a tsunami of forecast changes if the next Fed move is indeed up.

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

# Shrinking balance sheet is 'wrong objective', warns Fed official

Bloomberg  
Washington

Federal Reserve Governor Michael Barr on Thursday pushed back against proposals to shrink the central bank's balance sheet, describing them as wrong and a threat to financial stability.

The remarks by Barr are a direct rebuttal to calls from the incoming Fed chair, Kevin Warsh, who has repeatedly warned that the central bank needs to reduce its balance sheet to minimize its intervention in financial markets.

Barr said the central bank's balance sheet operations lie at the core of promoting a sound banking system. He warned that some proposals that have been floated would increase the Fed's footprint in financial markets.

Reducing liquidity requirements, for example, would undermine financial stability, Barr said.

"I think shrinking the balance sheet is the wrong objective, and many of the proposals to meet this objective would undermine bank resilience, impede money market functioning and, ultimately, threaten financial stability," Barr said in the prepared remarks for a speech to the Money Marketeters of New York University.

While Barr in his speech didn't name Warsh, President Donald Trump's pick to lead the Fed, the incoming chair has argued in favour of significantly reducing the size of the US central bank's \$6.7tn balance sheet, which expanded during the Global Financial Crisis and again when the Fed stepped in to backstop markets and the economy during the Covid-19 pandemic.

Warsh's comments have raised concerns among many analysts that a rapid reduction might induce stress in money markets. But in testimony before Congress, Warsh said any such move would take time and must be telegraphed well in advance.

The Senate on Wednesday narrowly confirmed Warsh to lead the Fed, clearing the way for his swearing in soon after outgoing Chair Jerome Powell's term ends on Friday.

Barr is not the first Fed policymaker to push back against shrinking the balance



Federal Reserve governor Michael Barr.

sheet. In March, New York Fed President John Williams questioned the idea of altering regulations to allow banks to hold less in reserves.

Fed Governor Christopher Waller has said returning to a so-called scarce reserves regime would be "stupid."

"In any consideration of a change in the Federal Reserve's approach to managing its balance sheet, we ought to go back to basics and ask what problem we are trying to solve," Barr said. "In sum, shrinking the Fed's balance sheet is the wrong goal, and reducing the resilience of the banking system is the wrong means."

In a question and answer session after his speech, Barr said that although the labor market remains fragile - even as the economy booms - inflation is the "overwhelming" risk facing the economy.

"I'm still quite attentive to concerns about what's going to happen with the labor market, but to me the risk is much higher right now that inflation will not behave," Barr said.

Barr said he met with Warsh on Thursday and expects him to "do good things" at the Fed.

Meanwhile Federal Reserve Governor Stephen Miran said he will resign from

the central bank effective once incoming Chair Kevin Warsh is sworn into office, or shortly before.

The move by Miran was expected given his seat on the Fed's Board of Governors will be taken by Warsh.

In a letter announcing his resignation, Miran was critical of the Fed's approach to measuring inflation and said if the central bank "doesn't adjust for these errors, it will run unemployment higher than it has to, fighting fake rather than real inflation."

Miran also said he's excited about the changes that Warsh plans to make at the Fed, including a shake-up of its communications and balance sheet policies.

Miran, who joined the Fed in September, initially took unpaid leave from his White House job when joining the central bank, before resigning from that post in February. A noted dove, Miran voted for interest-rate cuts in every policy meeting during his period as a policymaker, including dissenting votes urging the central bank to cut by more than fellow officials agreed.

The Senate on Wednesday narrowly confirmed Kevin Warsh as chair of the Fed, clearing the way for his swearing in soon after outgoing Chair Jerome Powell's term ends on Friday.

# Global bonds battered as flaring inflation spooks investors

Reuters  
London/New York

Stock and bond markets around the world limped to the end of a bruising week on Friday, reflecting an investor scramble to position for rising interest rates as global economic growth slows under the weight of Iran war-related economic damage.

US Treasury yields hit their highest in around a year as traders anticipated the Federal Reserve would be forced to hike rates to rein in inflationary pressures stemming from energy shocks. US stock indexes opened around 1% lower, extending losses around the world highlighted by declines of 2% in Germany and 1.8% in Britain.

Investors realised the broad selloff reflected the realisation that the war in Iran was likely to continue to weigh on economic output around the world, following a meeting between the US and China that yielded no significant headlines on the Middle East situation.

"We expected more out of the meeting in China with Trump and it didn't seem like there was much progress made in terms of the outcome in the Middle East, and so oil's backing up again," said Mike Sanders, head of fixed income investments at Madison Investments in Madison, Wisconsin.

The market was "expecting maybe a resolution somewhere down the line but now that timeline's extended a little bit." UK gilt yields surged again, hitting their highest in decades, as pressure mounts on Prime Minister Keir Starmer to resign over his Labour Party's hefty losses in local elections, and as challengers emerge.

Yields across the eurozone jumped, while Japanese bond yields hit record highs. Italian 10-year bonds were among the worst performers, with yields up 11 basis points to around 3.89%, bringing the rise for the week to 16 bps, while benchmark German Bund yields rose almost 7 bps to around 3.12%, up 11 bps this week.

Friday's market swings also reflected a sense among many investors that trading in US stocks had grown disconnected from global economic fundamentals, due to excitement driven by the surging corporate profits tied to artificial intelligence investments.

US indexes have surged back to

record highs in the month-and-a-half since the markets' Iran war scare bottomed out at the end of March, a surge that raised eyebrows because it seemed at odds with sharply higher energy prices and related disruptions.

"There's a realisation that the market had gotten way ahead of itself," said Kenny Polcari, chief market strategist at Slatestone Wealth Management in Jupiter, Florida. "It wasn't paying enough attention to what the bond market and economic data is telling it. It was caught up in this momentum AI trade."

Inflation data this week has shown consumers and businesses are starting to see big increases in price pressures as a result of the war, which has pushed up the price of crude oil by more than 50%.

"We see a reset of this global bond risk premium because the market is just realising we're living in a much more volatile inflation climate," Daniel von Ahlen, senior macro strategist at GlobalData TS Lombard, said.

Two-year yields, which are the most sensitive to changes in expectations for inflation and interest rates, have risen most sharply this week, but yields on longer-dated bonds have started to increase as well, reflecting investors' concern about the longer-running impact from a price shock.

"Global yields have probably come to the point where they are high enough to hurt sentiment.

Between a resilient global economy powered by AI build-out and elevated energy prices, central banks are probably more worried about inflation," DBS senior rates strategist Eugene Leow said.

Money markets show traders see a 60% chance of the Fed delivering a rate hike this year. Before the war, at least two cuts had been priced in.

The rates market also shows that just four out of 24 of the world's most influential central banks have any meaningful chance of delivering a rate cut this year, with the vast majority tilted in favour of hikes, according to LSEG data.

"It's not just inflation, but also higher deficits that should be the focus," Jefferies strategist Mohit Kumar said. "We are likely to see a number of support measures for fuel subsidies announced in the coming months."

# US oil refiners seen boosting fuel output through rest of the year

Bloomberg  
Washington

US oil refiners are ramping up fuel production to help fill supply gaps for gasoline, diesel and jet fuel as the Iran war chokes off Gulf energy supplies.

The brisk pace is expected to push many refineries to their effective maximum capacity for at least the rest of 2026, analysts said. Shrinking backup supplies in Europe and elsewhere, coupled with little prospect of restoring war-damaged Middle East infrastructure any time soon, are swelling crude-processing margins.

The signals are telling US refiners to "run, baby, run," Randy Hurburur, head of refining for consultancy Energy Aspects, said during an interview. "A hole has been dug in product supply that won't be filled until middle-to-late next year."

So-called utilisation rates al-

ready are on the rise across the US, climbing for a third straight week and now at almost 92%, Energy Information Administration figures showed. Gasoline output touched a nine-month high in recent weeks and jet-fuel production is at levels not seen since the summer of 2024.

In Europe, which is normally reliant on supplies from the Middle East and Asia, stockpiles of jet fuel are nearing critical lows. US exports have surged in response, reaching an all-time record of 455,000 barrels a day last week.

Valero Energy Corp is actually shifting some facilities to make jet fuel that don't typically produce it. Marathon Petroleum Corp. increased the flexibility to switch some diesel production to jet fuel output when needed at two of its biggest refineries.

The worldwide supply imbalance has resulted not only from Iran's effective closure of shipping via the crucial Strait of Hormuz but because of missile and drone

attacks against onshore plants and equipment.

"We believe approximately 6mn barrels per day representing close to 6% of global refined products capacity has come offline during the conflict in the Middle East," Marathon Chief Executive Officer Maryann Mannen said last week. "And the timeline for return of supply remains dependent on the extent of any damage to facilities and resumption of crude flows to those refineries."

Meanwhile, in the US, gasoline demand has risen in four of the past five weeks to the highest seasonally since 2021, based on four-week averages. Stockpiles of the motor fuel are at their lowest for this time of year since 2014. High pump prices aren't showing any signs of denting demand.

"I think you have read a lot about global demand destruction since the Strait has been closed," Valero Chief Operating Officer Gary Simmons said during a quarterly conference call.

# Warsh faces big test with yields turning 'unhinged': SocGen

Bloomberg  
New York

A bond market spooked by fears of accelerating inflation will be an early test for incoming Federal Reserve Chair Kevin Warsh, according to the head of research for Societe Generale Americas. Warsh, President Donald Trump's chosen successor to Jerome Powell, is facing mounting evidence that an energy price spike sparked by the Iran war is fueling US inflationary pressures, SocGen's Subadra Rajappa said on Friday on Bloomberg Television's Surveillance. It will complicate his ability to deliver the lower rates he has championed - and that Trump has demanded.

"I'm starting to get a bit concerned because bond yields definitely feel like they are getting a bit unhinged," Rajappa said. "I think we should really be paying attention to the signals that we are getting out of the



Incoming Federal Reserve chair Kevin Warsh.

bond market." Treasury losses deepened heading into the weekend, exacerbated by Brent crude's intraday surge past \$109 a barrel, after inflation at the retail and wholesale levels exceeded most analysts' expectations. The yield on two-year Treasuries climbed on Friday past 4.08%, a level not seen since March 2025, while the 30-year yield reached the highest in almost a year. A report on Wednesday showed producer costs accelerating at the fastest pace since 2022, prompting traders to boost bets the Fed's next move will be a

hike. Rate markets now see an almost two-thirds chance the Fed will increase borrowing costs by December, data compiled by Bloomberg showed. As recently as February 27, the day before the US and Israel attacked Iran, traders were predicting more than two rate cuts this year.

That turnaround underscores the challenge for Warsh, who was confirmed to the Fed chair's post on Wednesday and will preside over a Federal Open Market Committee meeting for the first time on June 16-17. Powell's last day as chair is Friday, though he plans to stay on as a governor in a term that runs until 2028.

"What is really, really going to be important for Kevin Warsh is keeping inflation expectations in check," Rajappa said. "When inflation expectations start to get a bit unhinged, then he has a problem on his hands. It's very, very important for the Fed to change its bias from easing to neutral and be ready to act if needed."