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BUSINESS

MONETARY POLICY: Page 2
Tokyo inflation slowdown unlikely to derail BoJ rate hike

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Qatar startups drive 3D printing innovation

By Peter Alagos
Business Editor

According to the Investment Promotion Agency Qatar (Invest Qatar), the country is a global contender among foreign direct investment destinations, including in the 3D printing industry. It offers up to 100% foreign ownership in all sectors, unrivalled in the GCC region, and has legislation to protect intellectual property and industrial designs, Invest Qatar stated

Qatar is producing its own 3D printing companies, not just importing the technology, as local innovators push advanced manufacturing into both industrial and cultural domains.

According to the Investment Promotion Agency Qatar (Invest Qatar), the country is a global contender among foreign direct investment destinations, including in the 3D printing industry. It offers up to 100% foreign ownership in all sectors, unrivalled in the GCC region, and has legislation to protect intellectual property and industrial designs, Invest Qatar stated.

It also noted that several accelerator programmes also support entrepreneurs and investors. The Technology Development Fund provides gap funding for early stage technologies, while the Digital Incubation Centre boosts ICT innovation among young people, Invest Qatar stated.

In a recent report on Falak.qa, Anabolic Mechanics, a Qatari startup, is advancing locally built 3D printing technologies aimed at education, healthcare, industry, and product development.

The company's DualCore 3D printer uses two print heads working simultaneously on the same component, a design intended to accelerate production compared with conventional processes.

Citing the project team, Falak noted that Qatar's entrepreneurship ecosystem helped move the idea from prototype to market ready product, with early support from Qatar Development Bank (QDB) and Ooredoo. Beyond manufacturing, 3D printing is also reshaping cultural preservation. Vectorize, an advanced fabrication studio in Doha, has positioned 3D printing as a strategic tool rather than an experimental curiosity.

"A decade ago, additive manufacturing was experimental. Today, it is integrated into advanced fabrication ecosystems across architecture, engineering, industry, and cultural institutions," Khalid al Saegh, co founder and chairman of Vectorize, previously told *Gulf Times*.

Al Saegh said the shift has been most visible in cultural and museum environments, where replicas and installations are enabling wider public access to fragile artefacts, citing Vectorize's collaboration with the Museum of Islamic Art.

Farid Mahfouz, co founder and CEO, said advanced fabrication supports localised production, reduces import dependency and fosters skill development, directly aligning with knowledge based economic growth.

These local innovations are unfolding against a backdrop of rapid market expansion. Qatar's 3D printing market is projected to grow from QR78mn in 2023 to QR182mn by 2028, reflecting a compound annual growth rate of 18.4%, according to QDB.

In its Qatar's 3D Printing Sector report, QDB CEO Abdulrahman Hesham al Sowaidi said the market's trajectory reflects a compound annual growth rate of 18.4%, underscoring rising demand and adoption of the technology across multiple industries.

Al-Sowaidi emphasised that QDB continues to act as a growth partner for entrepreneurs, helping move projects from concept to completion within Qatar's expanding innovation ecosystem.

"As part of Qatar's efforts to strengthen its private sector and advance entrepreneurship, SMEs and innovation ecosystems towards the goals of National Vision 2030, QDB continues to play its role as the growth partner — supporting entrepreneurs and SMEs from ideation through to fruition," al-Sowaidi stated in the report.

A sectoral study by Invest Qatar has identified opportunities for 3D technologies across metals, IT, electronics and building materials, noting that the country's $26bn construction industry will increasingly be supported by additive manufacturing.

From producing new 3D printing companies, the technology can also benefit existing businesses. QDB has identified 3D printing as a potential disruptor for Qatar's small and medium-sized enterprises (SMEs), enabling them to innovate, reduce costs and strengthen competitiveness in both local and global markets.

"By adopting 3D printing, SMEs can unlock new avenues for innovation, reduce production costs, and enhance their competitiveness, enabling them to establish a stronger presence in both local and global markets," QDB stated.

ECB official states case for interest rate hike without pre-set path

Bloomberg
Rome

European Central Bank (ECB) Governing Council member Fabio Panetta acknowledged the case for an interest-rate hike while urging colleagues not to flag subsequent tightening.

The Bank of Italy governor, delivering a key annual speech in Rome on Friday, said the persistence of the Iran war, rising price expectations, depleted fuel stocks and the danger of other supply disruptions all point to the need for some action.

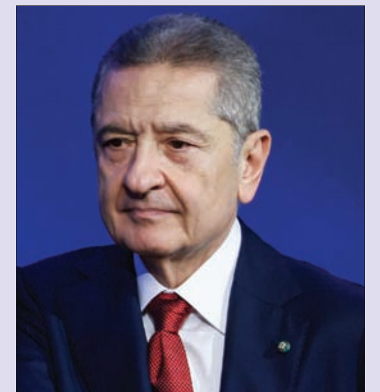
"The forward-looking picture seems to call for a recalibration of the monetary policy stance to counter the risk of persistent inflationary tensions," Panetta said, before cautioning that "not being tied to a predetermined path remains essential."

The remarks, arriving on the same day that inflation data in France, Italy and Spain showed marked acceleration, add to a growing chorus from officials preparing markets for a rate hike next month.

They also hint at how the debate is quickly evolving, testing the ECB's "meeting-by-meeting approach to setting borrowing costs. Economists and investors are already pricing in at least one further increase later this year.

Any move at the ECB's June 11 decision would be the first hike since September 2023, marking a distinct shift in direction after eight prior cuts.

Momentum to raise borrowing costs was already building at the last meeting in April. An account published on Thursday showed that some officials wouldn't have objected to a hike then.


Fabio Panetta, European Central Bank governing council member.

Panetta laid out the case for action, while also stressing that pay measures aren't yet showing any cause for alarm.

"Although medium-term inflation expectations are susceptible to pressures, they remain firmly anchored to the target and there are no wage tensions," he said, before adding that "a wage-price spiral must be averted, as once it has begun it would be harmful and costly to eliminate."

As Panetta spoke, Italy's statistics office released data showing inflation surged this month to 3.3%, the highest since 2023. Eurozone numbers are due next week, with a further acceleration from last month's 3% outcome likely. The ECB targets a level of 2%.

The remarks by the governor are likely to be his last significant comments before a pre-decision quiet period kicks in next week.

Regarding Italy, Panetta warned that the Iran war "has undermined an already fragile outlook."

Officials must stay focused on inflation, says Fed's Schmid

Bloomberg
Reykjavik, Iceland

Federal Reserve Bank of Kansas City President Jeff Schmid said he remained focused on elevated inflation and officials should make it clear they're willing to do what is needed to achieve price stability.

"With inflation running above the Fed's 2% definition of price stability for over five years, now is not the time to let down our guard," Schmid said on Friday in remarks prepared for a conference in Reykjavik, Iceland. "We must continue to signal our commitment to price stability and our willingness to take the actions necessary to achieve our mandate."

Fed officials are turning more attention to inflation after the US-Israeli war with Iran reignited price pressures, raising the cost of fuel and other goods and sinking consumer sentiment.

Amid the acceleration in inflation, a growing number of policymakers have said the Fed should signal its next rate move is just as likely to be a hike as a cut.

The Kansas City Fed chief said the US labour market is in balance after a slowdown in immigration and an acceleration in retirements reduced the number of people looking for jobs. "Fewer workers require fewer jobs, explaining both the slow pace of employment growth and the relatively low and stable unemployment rate," he said.

Federal Reserve Bank of Kansas City president Jeff Schmid.

Schmid said earlier this month that inflation was the "most pressing" risk to the economy. Those risks were highlighted Thursday when fresh data showed the Fed's preferred gauge of inflation rose 3.8% in the year through April, the highest level since 2023.

"My primary concern is inflation, which is too hot and has been above target for too long," he said Friday.

Answering questions after his speech, Schmid said officials need to have flexibility to adjust interest rates based on what happens with inflation, signalling he may be open to considering a rate increase.

Rising exports lower US goods trade deficit in April

Reuters
Washington

The US trade deficit in goods contracted more than expected in April as a surge in exports blunted rising imports, but economists cautioned the trend was unlikely to be sustainable, with businesses ramping up investment in artificial intelligence.

The advance report from the Commerce Department on Friday suggested the three-month US-backed war with Iran, which has disrupted shipping in the Strait of Hormuz, had yet to have a significant impact on the nation's trade flows.

The artificial intelligence spending boom is largely dependent on imports, including computer chips.

"Seemingly relentless AI investment and growth outside the tech sector should propel imports," said Oren Klachkin, financial market economist at Nationwide. "Export growth is likely to be relatively more subdued as the Iran stalemate weighs on overseas demand, though solid energy shipments will provide some offset."

The goods trade gap narrowed 3.4%, or $2.9bn, to $82.4bn last month, the Commerce Department's Census Bureau said. Economists polled by Reuters had forecast the goods trade deficit would be $86.5bn. Goods exports increased 4.0% to $219.7bn.

There was a 7.5% jump in exports of capital goods. Consumer goods exports shot up 7.8%, while exports of industrial supplies, which include petroleum, increased 2.1%.

"The oil export windfall must have been offset by higher prices for other critical materials imported from Gulf nations, such as fertiliser and aluminum," said Carl Weinberg, chief economist at High Frequency Economics. "So as expected, the net outcome was a bit less than the energy price spike suggests."

A strong increase in petroleum exports is expected in the months ahead because of the Middle East conflict.

The US is a net oil exporter.

Exports of motor vehicles and parts fell in April, as did those of food, feeds and beverages.

Imports of goods rose 1.9% to $302.1bn, driven by a 5.6% jump in capital goods, likely tied to AI. Imports of industrial supplies fell 1.9%. There were also sizeable declines in imports of motor vehicles and consumer goods.

Economists expect the ongoing Iran war and a ruling earlier this year by the US Supreme Court striking down President Donald Trump's sweeping tariffs to boost imports this year.

The trade deficit subtracted 1.25 percentage points from gross domestic product in the first quarter. It has been a drag on GDP growth for two straight quarters.

The economy grew at a 1.6% annualised rate last quarter after expanding at a 0.5% pace in the October-December period.

Analysts hike their 2026 oil price forecasts again

Reuters
London

Analysts have increased their 2026 oil price forecasts for the third time since the Iran war began at the end of February, as they cite a months-long timeline for energy flows to normalise to pre-conflict levels, a monthly Reuters poll showed on Friday.

The survey of 33 economists and analysts forecast Brent crude would average $90.44 per barrel in 2026, versus $86.38 projected last month. US crude was seen averaging $84.63 per barrel, up from April's view of $80.07. The latest forecasts represent increases of about 40% from February estimates of $63.85 for Brent and $60.38 for WTI futures, published a day before the US and Israel struck Iran on February 28.

Pumpjacks near Three Rivers, Texas. Analysts have increased their 2026 oil price forecasts for the third time since the Iran war began at the end of February, as they cite a months-long timeline for energy flows to normalise to pre-conflict levels, a monthly Reuters poll showed yesterday.

Brent and WTI have hit four-year highs of over $126.41 and $119.8 respectively since the war began, as the closure of the Strait of Hormuz has caused large-scale disruption of energy supplies. Prices though remain below record highs of more than $147 a barrel reached in 2008.

"There is a low probability of prices reaching new records this year. Even though we forecast prices to continue increasing until July, this increase will be marginal from current high levels," said Surabhi Menon at EIU in India.

"This is based on the assumption that the war in Iran will remain in its current state (with a ceasefire in place and the Strait of Hormuz closed) until at least end of July." Data from Kpler showed that monthly crude oil exports from the Middle East, the world's largest oil exporting region, have dropped from an average of about 18.3mn barrels per day before the crisis to less than half that level at nearly 8.8mn bpd since March.

Copper braces for another round of US tariff roulette

By Andy Home
London

Here we go again. The deadline for a US decision on whether to impose tariffs on refined copper imports is looming at the end of next month. The market reaction is a widening in the arbitrage between the CME's US duty-paid copper contract and the London Metal Exchange's (LME) international price.
The rising premium for US delivery is drawing more metal into the United States, tightening up availability everywhere else.
If all this sounds familiar, it's because the copper market was in exactly the same state of nervous anticipation this time last year. US President Donald Trump ended up confounding expectations by imposing tariffs on copper products but not on refined metal. Left on the table was the option of phasing in refined copper tariffs from next year. A decision is due by the end of June.
The CME premium over the LME price is smaller than this time last year, because back then traders were pricing in import tariffs of 50% to match those already imposed on aluminium and steel.
Trump's July decision to exempt refined metal upended the trade. The CME premium imploded and the arbitrage eventually inverted, with LME even commanding a premium in the early months of 2026.
Now, the CME premium is back and widening once again. The spot premium is a modest 3% of the LME price. But the March 2027 forward premium is close to $1,000 per metric ton, equivalent to 7% of the LME price.
Given the US administration has flagged the potential for phased tariffs of 15% from the start of 2027 and 30% from the start of 2028, there is clearly further upside to the CME premium.
Not that it matters too much for physical traders. The differential on the forward months is more than enough to cover the costs of shipping to the United States.
US imports dropped sharply in the closing months of 2025 as the tariff trade unwound. But they've bounced back strongly so far in 2026. Inbound shipments more than doubled year-on-year to 533,000 tonnes in the first quarter, according to the World Bureau of Metal Statistics, which collects data from official customs figures.
More is on its way, judging by the renewed upward momentum in CME stocks, which now total 577,385 tons, accounting for 44% of global exchange inventory.
Even that tells only part of the story. LME copper stocks have also been migrating to the United States with 222,000 tonnes sitting at US ports in a combination of registered and off-warrant inventory.
Last week's cancellation of 33,275 tonnes at New Orleans suggests metal is being prepared for customs clearance as the arbitrage yawns wider again.
The US has over the last year or so built up its own strategic copper reserve thanks to the on-again, off-again threat of tariffs.
Including metal that is being stored off exchange, the stockpile is now likely over 1mn tonnes, not as large as that held by China's state stockpile manager but bigger than any other country's reserves.
Does the US need any more? Probably not, but it's not clear how the stock build will figure in Commerce Secretary Howard Lutnick's thinking when he reports back to Trump at the end of June.
As with other metals tariffs, the stated aim is to reinvigorate US production capacity and in that regard the country still has only two primary copper smelters with no signs of that changing any time soon.
Thanks to last year's import surge, the country's import dependency rose to 57% from 45% in 2024, according to the United States Geological Survey.
On those metrics the case for tariffs looks strong given the parameters of the Section 232 national security investigation.
But as the copper market has found out to its cost, second-guessing the Trump administration is a hazardous business.

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

Tokyo's inflation slowdown may not derail central bank rate hike

Bloomberg
Tokyo

Tokyo's key inflation gauge unexpectedly cooled to the slowest pace in four years, complicating the messaging while not necessarily derailing an expected interest-rate hike from the Bank of Japan (BoJ) as early as next month.

The consumer price index excluding fresh food rose 1.3% in May from a year earlier in the capital, according to the Ministry of Internal Affairs and Communications on Friday.

That marked a sixth straight month of cooling and was lower than all but one estimate in a Bloomberg survey of economists.

Meantime, a measure that excludes both fresh food and energy — closely watched by the BoJ as a gauge of underlying inflation — increased 1.6%. The metric is considered a cleaner read of price trends because it strips out distortions related to subsidies, however it remains skewed by some food price comparisons after items such as rice saw an unprecedented surge last year.

The overall CPI climbed 1.4%. The Tokyo CPI is considered a leading indicator for nationwide price trends.

The CPI was restrained by the price of processed foods, which rose at a slower rate than last year, as well as a steep drop in fees for water services. Energy prices continued to fall thanks to gasoline subsidies implemented by Prime Minister Sanae Takaichi, who plans to submit an extra budget to parliament soon to keep those measures in place.

The report shows how government programs are successfully easing the cost of living while also clouding underlying trends. In addition to water fees, the Tokyo government has taken steps to reduce the cost of early childcare — including nursery school fees, which fell drastically. Some of those programs also distorted the national CPI, which rose in April at the slowest pace in four years.

BOJ policymakers are wary of prices picking up due to the war in Iran. That should give them room to proceed with an interest-rate hike at the next board meeting June 15-16. As of Friday, traders were assigning a roughly 77% probability of a hike at that gathering, according to overnight index swaps.

Bank of Japan headquarters in Tokyo. Key inflation gauge in Japan unexpectedly cooled to the slowest pace in four years, complicating the messaging while not necessarily derailing an expected interest-rate hike from the BoJ as early as next month.

"There is no strong momentum in inflation but upside risks are looming large due to the Iran conflict," said Yoshiki Shinke, senior executive economist at Daiichi Life Research Institute. "Today's data overall show that Japan's economy was holding up at least until April and that is a relief."

Several BoJ officials have expressed a desire to raise interest rates so long as the economy holds up. That was evident in separate data released Friday, as industrial production unexpectedly rose in April for the first time since January and retail sales picked up from a month earlier. Japan's unemployment rate fell to 2.5% last month, the lowest since July.

"We think the Bank of Japan will look through the weaker headline reading and stay alert to upside inflation risks from higher oil prices. We continue to expect the BoJ to hike rates by 25 basis points to 1% in June", says Taro Kimura, analyst at Bloomberg.

Service prices — a key indicator of demand-driven inflation — rose 1.1% from a year earlier. Food prices excluding fresh items increased 4.1%, slower than the previous month. Rice prices fell 1%, the first decline since August 2022 and a far cry from last year when they surged nearly 94%.

Takaichi recently called for an extra budget to fund utility subsidies this summer, and said earlier this week it'll be funded without increasing bond issuance on a calendar basis. Even so, markets remain wary of expanded fiscal spending. That's contributed to a selloff in Japanese government bonds alongside a broader global rise in yields fueled by concerns over war-related inflation.

The premier also hasn't been shy about her preference for accommodative policy. Takaichi told Ueda last week that she wants the BoJ to consider the government's price relief and other economic measures to set monetary policy appropriately.

That may be challenging with inflation risks growing beyond the war. Japan's major food makers Nippn Corp and Showa Sangyo Co each announced on Thursday that they will raise the prices of some products starting in August. Those moves signal businesses are becoming more willing to pass on higher costs to consumers, a trend Ueda has taken note of.

The yen is another factor keeping price pressures elevated by raising the cost of imported goods. It traded around 159.31 on Friday, still near the weakest level since April 30 when the Finance Ministry conducted a currency intervention.

After the CPI report, Finance Minister Satsuki Katayama reiterated that authorities can step into the foreign exchange market if there's volatility or speculative moves.

Eurozone yields steady as markets weigh Iran deal hopes

Reuters
London

Eurozone bond yields steadied on Friday as investors assessed mixed inflation figures from the bloc's major economies while awaiting more details of a potential deal to reopen the Strait of Hormuz and extend the US-Iran ceasefire.

Germany's 10-year bond yield, the benchmark for the bloc, was steady at 2.9587%. It has fallen 7 basis points this month, as investors grew more optimistic about a potential Iran peace deal, in turn bringing oil prices down and tempering bets on European Central Bank rate hikes.

The two-year German bond yield - more sensitive to ECB interest rate expectations - was unchanged at 2.559%. Yields move inversely to prices.

Italian bond yields fell by more, with the 10-year yield down 2.3 bps and the 2-year yield down 2 bps.

Inflation in the eurozone's four largest economies hovered above the ECB's 2% target for a third straight month in May, preliminary data showed on Friday, as a rise in fuel costs triggered by the Iran war began to feed through to other prices.

Country-specific figures were mixed. While German figures were cooler than expected, the Spanish reading was hotter-than-expected, as was Italy's.

In France, inflation came in below the forecast but crept higher month-on-month.

The United States and Iran reached an agreement on Thursday to extend their ceasefire and lift restrictions on shipping through the Strait of Hormuz, sources told Reuters, though US President Donald Trump has yet to approve it and Iranian state media said it had not been finalised. Oil fell 1.8% to $92 a barrel.

"In terms of market reactions if a deal is agreed upon, we should see another leg higher in risky assets and lower in rates. However, positioning suggests that the rates market should see a greater reaction than equities," wrote Mohit Kumar, chief European economist at Jefferies.

Kenneth Broux, head of corporate research for FX and rates at Societe Generale, said eurozone bonds have been underperforming US recently.

"Europe as a whole is definitely underperforming the US after outperforming through May, I wonder how much of the lower oil price and short-covering in Bunds is priced in. Support for the 10-year Bund at 2.90% is a hurdle too far for now at least," he said.

With the Strait of Hormuz still largely closed and the global flow of energy disrupted, fears of rising inflation in the import-dependent eurozone had led traders to ramp up bets on central bank rate hikes in recent weeks.

The worries subsided as optimism grew around a peace deal. But key data reads are keeping inflation fears at the forefront.

Friday's eurozone CPI figures come a day after figures showed US inflation increased at its fastest pace in three years in April, cementing economists' views that the Federal Reserve would hold interest rates unchanged well into next year.

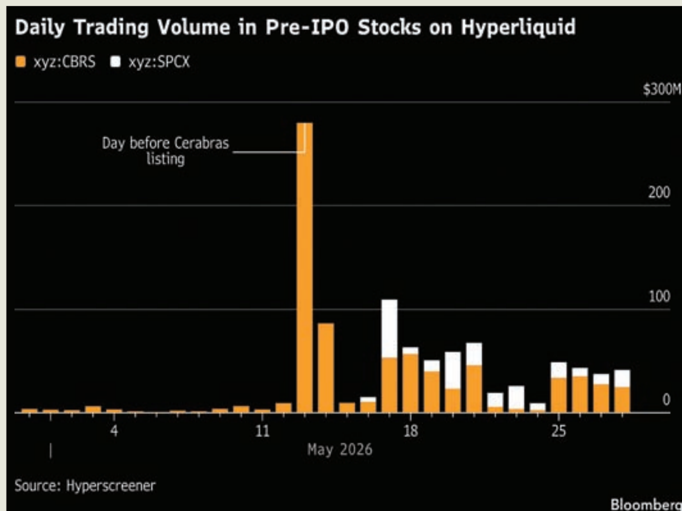
Also out on Friday was data showing France's economy shrank slightly in the first quarter, missing the preliminary reading of 0.0% for the eurozone's second-largest economy.

European Central Bank research showed on Friday that eurozone consumers, already scarred by the Ukraine war, have changed their attitudes more quickly as a result of the upheaval of the Iran conflict, meaning the economic hit could be deeper and faster.

SpaceX hype spurs crypto shadow market for pre-IPO bets

Bloomberg
New York

As SpaceX edges closer to what could be the largest initial public offering in history, a corner of the crypto market is already pricing the debut — and recent history suggests the numbers are worth watching.
Traders are turning to perpetual futures, contracts with no expiry, to take a position on a company's expected listing price months before an IPO. These contracts tracking Elon Musk's aerospace giant launched this month and have averaged nearly $18mn in daily trading volume over two weeks.
Unlike a stock, the contracts offer no legal claim on the underlying company and carry ongoing costs to hold. Yet last month, the same instruments anticipated the Cerebras Systems IPO with notable precision.
Trade.xyz launched its contract at $175, when the range was set at $115 to $125. The deal ultimately priced at $185. An hour before the Nasdaq opened, the perp was at $340; Cerebras shares opened at $350, according to a report from Castle Labs.
One data point doesn't make a track record. But proponents point to Cerebras as evidence that these markets can aggregate real demand signals before a listing opens to the public, rather than just generate speculative noise.
What began as a workaround for retail traders wanting exposure to hot artificial intelligence startups is drawing serious attention. Major exchanges including Binance, Bitget and OKX have all launched similar products this year.
"Pre-IPO has historically been a club for accredited investors and private funds," said Lloyd Lee, chief executive officer of crypto hedge fund Hyperithm. "Crypto rails are opening that door to anyone with a wallet."
Measured by volume, the market for this kind of synthetic exposure remains small. SpaceX perp trading is measured in millions, while the company aims to raise as much as $75bn at a $1.8tn valuation, Bloomberg has reported.
Trade.xyz launched its perp tracking SpaceX on May 18. The contracts have recently been trading around $200, which the platform estimates value the company at about $2.3tn. SpaceX filed publicly for an IPO on May 20, using a plan to allot super-voting shares to Musk to allow the billionaire to retain control.



Interest in exposure to pre-IPO stocks through tokenized assets was already on the rise amid surging valuations for AI startups such as Anthropic and OpenAI. However, the Cerebras debut sharpened interest in the SpaceX contracts.
Part of the appeal of these products revolves around the idea of democratizing access. Retail investors often have limited access to major IPOs, with only a small pool of shares typically set aside for individuals.
Tokenized products are also available in many markets where access to the stock would be difficult.
"Globally, less than 10% of the population has direct access to US equities, and access to pre-IPO is far narrower," Hyperithm's Lee said. "For traders outside the few jurisdictions with established financial infrastructure, access to these assets through perpetual futures is significant progress."
Given that a perp is not the same as a stock, though, it comes with idiosyncratic risks. In one recent incident on the Ventuals platform, an incorrect input of SpaceX pricing data triggered the liquidation of some users' positions.
Luca Parlamento, portfolio manager at D2 Finance, framed trading perps as a basis trade — exploiting a price difference between two related assets. In other words, investors are betting on how the price gap will change according to demand, scarcity and liquidity ahead of an IPO.
"Pre-IPO perpetuals collapse part of that window into a public order book before the bell rings," Parlamento said. "They are not a replacement for accredited secondary plumbing. They are a retail-accessible venue for trading the IPO opening basis in real time."
Still, there is no tradable stock to arbitrage against before the listing. Funding rates may also distort returns, while settlement depends on contract rules and the mechanics of the oracles, which manage access to stock-pricing data. A sharp move could say more about retail flow imbalance than a company's fundamental value.
Despite this, Bitget CEO Gracy Chen said SpaceX perps traders appear to be positioning for the long term. "There is a real cohort of users who are holding the exposure rather than immediately flipping it," she said.
Trade.xyz's SpaceX perp, priced in the dollar stablecoin USDC, currently has more than $50mn in open interest.
Perps may not make retail traders early SpaceX investors, but they are getting something they never had before: A live price to trade before a public liftoff.

US dollar and Japanese yen banknotes arranged in Kyoto, Japan. As Japan's yen drifts back to levels that prompted official intervention a month ago, markets are sizing up Tokyo's remaining financial firepower and political will to defend its ailing currency.

Yen back in danger zone as Tokyo officials keep investors on edge

Reuters
Tokyo

As Japan's yen drifts back to levels that prompted official intervention a month ago, markets are sizing up Tokyo's remaining financial firepower and political will to defend its ailing currency.

Japan spent about $63bn in what were suspected to be multiple bouts of yen-buying intervention at the end of April and early May, a small fraction of its $1tn war chest. But traders think that spending all of that, or even much of it, is unrealistic. And as speculative bets against the yen creep up again, authorities will be looking to keep markets on edge.

"The more foreign reserves shrink, the more vulnerable Japan looks to speculators," said Daisaku Ueno, chief foreign exchange strategist at Mitsubishi UFJ Morgan Stanley Securities. With yen-selling pressure showing no sign of easing, "the war of nerves between the authorities and the market looks set to continue."

Yen-buying intervention requires selling foreign assets, of which Japan held about $1tn at the end of April.

After subtracting the roughly 10tn yen ($62.78bn) deployed in the April and May actions, based on calculations of Bank of Japan money market data, that leaves about 150tn yen, or enough for "around 30 rounds" of intervention, according to Goldman Sachs economist Yuriko Tanaka.

But exhausting all of Japan's foreign assets wouldn't be feasible, particularly as it would negatively impact the value of US. Treasuries at a time when cooperation from the United States is critical. The US Treasury conducted so-called "rate checks" that helped nudge the dollar-yen rate down in January.

"US understanding is crucial" to sustaining the impact of any intervention, said Takeshi Ueno, a senior economist at NLI Research Institute. If Washington were to push back on such activity, it "could invite speculative yen selling."

Another potential check on intervention is an International Monetary Fund standard whereby a country that steps into markets too often can risk losing its "free-floating" exchange rate status. But chief currency diplomat Atsushi Mimura has said the IMF rules served as no constraint on how many times the government can intervene.

"The thinking is that curbing excessive volatility takes priority," said Akira Moroga, the chief market strategist at Aozora Bank. Even if Japan were to lose its free-floating currency classification, "I don't think they care at all," he added. The yen slid to 159.65 on Thursday, the weakest since April 30 when Japan is suspected to have made its first intervention in almost two years.

Japanese Finance Minister Satsuki Katayama on Friday again declined to comment on whether her agency had intervened, repeating that officials were ready to take "decisive action."

The yen has been battered by the three-month-long Middle East crisis, with soaring energy prices delivering a terms of trade shock to Japan, which imports almost all its oil. That exacerbated an already weakening trend amid the BoJ's cautious approach to raising interest rates and expectations of expanded fiscal stimulus under Prime Minister Sanae Takaichi.

Whereas previous Japanese administrations have focused on the speed of change in deciding whether to intervene, the current government appears more centred on defending the 160 per dollar line. Rather than fearing intervention, some market participants are now positioning for it.

Most Asian markets surge on hopes of US-Iran truce deal

AFP
Hong Kong

Asian stock markets mostly surged and oil prices receded slightly on Friday, boosted by optimism that the United States and Iran will reach a deal to end their war that has hobbled global energy supplies.

In Hong Kong, the Hang Seng Index closed up 0.7% to 25,182.39 points; Tokyo - Nikkei 225 ended up 2.5% to 66,329.50 points and Shanghai - Composite closed down 0.7% to 4,068.57 points yesterday.

Oil markets have whipsawed this week as investors parse the chances of a breakthrough agreement between Washington and Tehran that could potentially resume normal shipping through the crucial Strait of Hormuz.

Those hopes had been briefly dashed by new US military strikes on Iran Wednesday night, countered by the Revolutionary Guard's targeting of an American airbase in the region. But by Thursday evening, negotiators had edged towards a deal to extend their fragile ceasefire for 60 days, pending approval from President Donald Trump, US sources told AFP.

That news reversed a sluggish start for shares on Wall Street, with major indices closing higher on the day. Seoul led the charge in Asia on Friday, surging 3.6% while Tokyo's Nikkei closed at a record high. Sydney, Taipei and Hong Kong also saw healthy gains, while Shanghai lost 0.7% on the day.

After falling by more than one percent earlier in the day, the price of Brent crude was flat at $93.68 a barrel, while primary US benchmark West Texas Intermediate was 0.3% lower at $88.67 a barrel.

Wall Street's advances on Thursday came despite several gloomy indicators, with the Federal Reserve's preferred inflation gauge rising in April to its highest since 2023 and first quarter economic growth being revised lower.

The combination of persistent inflation and slowing growth lowers the chances of interest rate cuts by the Fed, despite Trump's repeated calls for lower rates to boost the economy. Still, "recession risks are easing as oil prices moderate and the probability of worst-case scenarios fades", wrote Matthew Martin of Oxford Economics.

An electronic ticker displays share prices at the Tokyo Stock Exchange. The Nikkei 225 closed up 2.5% to 66,329.50 points yesterday.

Emerging assets set for monthly gains

Reuters
Singapore

Indexes tracking emerging market (EM) stocks and currencies were on track to notch a monthly gain on Friday, on investor hopes that US and Iran were moving towards a deal that could put an end to their three-month conflict.

MSCI's index tracking EM stocks rose 1.6%, hovered near record highs hit earlier in the week, while the currencies gauge was flat.

Both indexes were on track to close the week higher.

While concerns over Asia's dependence on Middle East energy has weighed on the region's assets, investors took on more risk this week banking on an end to the conflict.

Investors also bet on the AI euphoria, sending tech-heavy stock bourses to record highs. However, gains were capped as markets awaited more clarity on ceasefire extension agreement that would also lift restrictions on shipping through the Strait of Hormuz, thought President Donald Trump has yet to approve it.

Korea's KOSPI jumped 3.6% with LG Electronics up about 30%. Most AI-linked stocks also gained after Dell's forecast lift overnight. Stocks in Taiwan and Hong Kong gained 2.5% and 0.7%, respectively.

The optimism spilled into emerging Europe with bourses in Poland up 0.5% and Hungary up 0.7%. Romanian stocks slipped 0.2%. Polish and Romanian equities are set for their biggest monthly jump since December and January, respectively.

Stocks in South Africa were 0.3% higher, aided by a slight uptick in gold prices.

They are set for monthly declines of more than 2%, the biggest since January this year.

The dollar index that measures the greenback against a basket of currencies, had lost ground following reports of the deal in the previous session. It stabilised 0.1% on Friday.

"The ceasefire extension in Iran is helping markets trade optimistically again, but we ultimately need to see a reopening of the Strait of Hormuz to take the dollar much lower from here," said analysts at ING in a note.

EM currencies were mixed against the US dollar, with most Asian ones flat-to-lower. Indonesia's rupiah depreciated 0.5% to another record low of 17,885 against the dollar.

Samsung, SK rally sparks forced selling as funds hit limits

Bloomberg
Seoul

A blistering rally in Samsung Electronics Co and SK Hynix Inc has turned into an unexpected headache for some funds, whose positions have grown so large they're now forced to sell.

Funds bound by a 10% single-stock cap rule have increasingly hit those limits as the two Korean chipmakers touch daily highs.

Among them are GAM Investment Management in Zurich and Jupiter Asset Management in Singapore, which have reluctantly reshuffled portfolios to stay compliant.

Analysts attribute the record foreign outflows this year to this mechanical selling pressure as funds rebalance, adding to already-high volatility.

The dynamic also underscores just how crowded the trade has become, with investors piling into the artificial-intelligence frenzy that's pushed both chipmakers to cross $1tn valuation.

The problem has left investors looking for alternatives. "Investors may seek to indirectly expand semiconductor exposure through affiliates, holding companies, or insurers with significant stakes in the two companies," said Ha SeokKeun, chief investment officer at Eugene Asset Management in Seoul.

On Friday, shares of the Korean chipmaking duo rallied after news that the National Pension Service would raise its domestic equity target.

For asset managers, diversification rules prevent outsized bets.

Exposure to a single stock is typically capped at 10% of assets, while positions above 5% cannot, in aggregate, exceed 40% of a portfolio. While designed to curb concentration risk, First Eagle Investments' Portfolio Manager Christian Heck says it also could cause selling even if funds remain constructive on the underlying stocks. The constraints are showing up in how money managers are responding to the gains. "We are taking profit more from a portfolio construction point of view, and this is one of the risks," said Florian Neto, Amundi SA's head of investment for Asia.

"I think those stocks have been moving so fast in terms of market cap that they're getting to levels that investors need to sell because they need diversification."

Position limits have long been an issue for investors of Taiwan Semiconductor Manufacturing Co, whose large weighting in benchmarks forced funds to seek alternative ways to gain exposure. But that dynamic is suddenly becoming more acute in Korea, where the supercharged rally is inflating position sizes and leading to forced selling. Over the past year, SK Hynix has gained over 1,000% while Samsung has jumped more than 400%. In comparison, TSMC has risen 137%.

Through Thursday, global investors sold a net $63.6bn of local equities, the biggest month since data available in 1999. Within that, Samsung and SK Hynix saw $58.6bn worth of net outflows combined this year.

Goldman Sachs Group Inc estimated that diversification rules have triggered roughly $69bn of selling since late October, as Korea-focused funds overseeing nearly $200bn contend with the growth of the two chipmakers' combined weighting. Additional pressure could build if Samsung and SK Hynix's market concentration keeps rising, strategists including Timothy Moe wrote in a note, though much of the selling has run its course.

Some firms have turned their attention to proxy plays for new ways to accumulate local shares. SK Square Co, which holds a 20.5% stake in SK Hynix, skyrocketed more than 1,000% over the past year. Shares of Samsung Life Insurance Co, the largest holder of Samsung's crown jewel with 8.58% stake, more than tripled in the past year

Korea also imposes a 10% single-stock cap on public equity funds, though Samsung and SK Hynix are exempt. Portfolio managers here can hold the two stocks up to their market weights, which is currently 27.05% and 15.71%, respectively.

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Rare US core inflation 'wedge' a headache for Warsh's Fed

By Jamie McGeever
Orlando, Florida

A gap is widening between two key measures of underlying US inflation. Unfortunately for newly confirmed Federal Reserve Chair Kevin Warsh, the one rising faster is the central bank's preferred gauge, further squashing any hope for interest rate cuts.

The Bureau of Economic Analysis on Thursday released April's personal consumption expenditures (PCE) figures, one of two closely watched measures of price changes across a wide range of goods and services.

The other is the consumer price index (CPI).

Annual headline PCE inflation rose to 3.8% from 3.5% in March, on the back of soaring energy prices.

Core inflation, which strips out volatile food and energy costs, rose to 3.3% from 3.2%. These numbers were in line with expectations, but are still uncomfortable for Warsh. Annual measures of headline and core PCE and CPI inflation have been above 2% for more than five years, and President Donald Trump's tariffs and the Iran war now seem likely to extend that to six years and beyond.

Crucially, a wedge is developing between core PCE, which is now up to 3.3%, and CPI, which is running at 2.8%. It's a rare phenomenon which will trouble policymakers the longer it persists, and frustrate President Donald Trump, who has made no secret of his desire to see rates cut.

In general terms, PCE is the broader of the two as it covers urban and rural communities, while the CPI only includes urban households.

The PCE index also includes expenditures made on behalf of consumers, such as employers' health insurance payments.

In the three decades through the Covid-19 pandemic, core PCE was always below 3% and rarely rose above core CPI. Economists at Bank of America estimate that PCE has only topped CPI around 11% of the time since 1990.

But this relationship has flipped in recent months. One major factor may be the AI boom. Dean Maki, chief economist at hedge fund Point72, notes that computer software and accessories have a much larger weighting in the core PCE index. This series is rising at an annual rate of around 14%, lifted by the AI capex splurge this year.

If the latest AI capex forecasts for some $800bn in spending this year are accurate - a rise of 80% on the previous year, according to Morgan Stanley - then this source of pressure on prices is unlikely to ease any time soon.

Another factor is the classification of food prices. Core CPI excludes all food purchases, while the core PCE index includes "food services, that is food purchased for off-premises consumption," as the Cleveland Fed describes it. This latter category of food prices away from home rose 3.6% in April, Maki notes.

"Overall, core PCE inflation looks even further above target than the core CPI, and we think that is likely to remain the case in the coming months," Maki wrote recently.

He's not alone. The Philadelphia Fed's closely watched quarterly survey of professional forecasters shows core PCE this quarter is expected to average an annualised 3.4%, up from a previous forecast of 2.7% - a higher inflation outcome and bigger upward revision than the equivalent core CPI forecasts.

This may explain why Warsh has indicated an openness to looking beyond core PCE. He has indicated a preference for the Dallas and Cleveland Feds' "trimmed mean" inflation gauges that remove extreme price moves at the margins to give a clearer picture of how underlying prices change from month to month.

For years, especially during the Alan Greenspan Fed era in the 2000s, it was widely assumed that the benchmark for the Fed's 2% inflation target was annual core PCE.

But according to the Fed's website, the 2% target is now "measured by the annual change in the price index for personal consumption expenditures." That suggests policymakers are looking at headline PCE, although confusingly, both measures have become interchangeable among Fed officials, economists and market participants in recent years.

On the one hand, this ambiguity could provide the Fed with wiggle room as it balances its interest in maintaining full employment with its focus on price stability.

But the lack of clarity could lead markets to believe that the Fed is simply moving the goalposts - selecting whichever measure best supports the desired policy shift.

At a time when questions about Fed independence are rife, that's a major risk - and one more reason why Warsh's honeymoon period may already be over before it's barely started.

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

Brazil's economy rebounds in early 2026, clouding rate cut outlook

Reuters
Brasilia

Brazil's economy rebounded in the first three months of 2026, supported by household consumption and stronger investment, against a backdrop of a tight labour market and government stimulus that has clouded the outlook for interest rate cuts.

Latin America's largest economy expanded 1.1% from the prior quarter, government statistics agency IBGE said on Friday, slightly above the 1.0% growth expected in a Reuters poll. That reflects an acceleration from a weak second half of 2025, when growth was just 0.3% in the fourth quarter and 0.1% in the third, according to revised IBGE data.

Household consumption - the main driver of demand - rose 1.0%, supported by government measures to expand disposable income, including an expansion of income tax exemptions for middle-income earners and real increases in the minimum wage, which boosted a range of social benefits and pension payments.

Gross fixed capital formation, a measure of investment, rose 3.5%, while government consumption edged up 0.4%.

Banco BV chief economist Roberto Padovani said data points to growth of about 2% this year, highlighting the economy's resilience amid global shocks. But there are questions about the sustainability of the current momentum, he added.

"One of the drivers behind this rebound is fiscal and quasi-fiscal stimulus, which runs counter to the central bank's mandate, suggesting interest rates may need to remain higher for longer," Padovani said.

As he gears up for an October re-election bid, leftist President Luiz Inacio Lula da Silva has rolled out more measures to support consumption, including subsidised credit for vehicles and a debt-renegotiation programme backed by federal guarantees.

The central bank has cut rates by 25 basis points at each of its last two meetings, bringing the benchmark Selic to 14.5%. Rates remain firmly in restrictive territory given annual inflation of 4.64% and a 3% target, and economists have steadily scaled back expectations for further easing as the inflationary impact of the Iran war becomes apparent.

Capital Economics senior emerging markets economist Liam Peach now expects the central bank to hold rates at its next meeting in June, instead of delivering another 25 basis-point cut, as previously anticipated.

"(The first-quarter performance) comes alongside a further increase in inflation and a continued strong labour market at the start of the year, and is likely to add to caution at the central bank," he said in a note.

The Finance Ministry's economic policy secretariat said it expects a slowdown ahead, with "the fading impact of public policy measures partially offset by lower borrowing costs."

Buildings beside Stanley Park in Vancouver. Canada's economy posted a surprise contraction in the first quarter versus the first quarter the year before, making it two straight quarters of annualised decline - which some economists call a technical recession - as the country struggles with US tariff uncertainty.

Canada enters surprise technical recession amid tariff uncertainty

First quarter GDP contracts 0.1% on an annualised basis; Q1 decline follows 1% contraction in Q4 on annual basis; GDP was flat in Q1 on a quarterly basis, StatsCan said; advance estimate showed growth in April likely at 0.4%

Reuters
Ottawa

Canada's economy posted a surprise contraction in the first quarter versus the year before, making it two straight quarters of annualised decline - which some economists call a technical recession - as the country struggles with US tariff uncertainty.

Gross domestic product declined at an annualised rate of 0.1% in the first quarter, Statistics Canada said on Friday, compared with a downwardly revised contraction of 1% in the fourth quarter of last year.

Analysts polled by Reuters and the Bank of Canada had predicted first-quarter growth of a robust 1.5%. On a quarterly basis, first-quarter GDP was unchanged against a decline in the fourth quarter of last year.

Canada's economy has largely withstood trade uncertainty and tariff impacts for more than a year, but the knock-on effects of tariffs have sapped investments, hiring and expenditure, and driven up prices.

The upcoming review of the North American free trade deal and the crude price shock due to the Middle East war have added more layers of uncertainty.

The last two times Canada was in a technical recession were during the start of the pandemic in 2020 and during the beginning of 2015.

At that time there were two consecutive quarters of decline, both on an annualized basis and quarterly basis, StatsCan said.

Economists were divided on whether Canada is in a recession or not.

"The trade-induced contraction in GDP last quarter meant the economy tipped into a technical recession at the start of the year," said a note from Capital Economics, though rising oil and gas activity mean the economy likely rebounded in April.

Randall Bartlett, deputy chief economist with Desjardins Group, said the group is not prepared to call the data a recession as the weakness in the Canadian economy was not widespread.

The BoC has said growth this year is likely to be at 1.2%, down from 1.7% last year. It will update its projections in July.

The first-quarter GDP was negatively impacted by a high level of imports into the country, but that was largely offset by a high accumulation of inventories, the statistics agency said.

Household spending grew, especially in financial services and food, but this was again mostly canceled out by a decline in business and government investments.

Business capital investment fell 0.7%, its fifth consecutive quarterly decline, StatsCan said.

On a monthly basis, GDP in March declined by 0.1%, against an estimate of flat growth.

An advance estimate from StatsCan showed that growth in April was likely to be 0.4%, highlighting a strong start to the second quarter.

Money markets are pricing in a rate hike of 25 basis points in December, even as most economists have called for no change in interest rates all through the year.

The Canadian dollar weakened after the GDP data and was trading down 0.28% to C$1.3819 to the US dollar, or 72.36 US cents.

Yields on the two-year government bonds slipped further and were down 7.7 basis points at 2.430%

EU's six biggest economies agree on capital markets supervision

Reuters
Berlin

Finance ministers from the EU's six biggest economies (E6) agreed among themselves on Friday to support more centralised capital markets supervision, in a breakthrough crucial for deeper integration of Europe's fragmented capital markets.

The push for financial market players to be supervised at a European Union rather than national level is part of the EU's plan to redirect trillions of its citizens' savings, now idling in bank deposits, into more productive investment in Europe.

Access to such a large amount of capital for investment would boost the bloc's chances of competing against the United States and China. Supervision of significant market infrastructure would be gradually transferred to the European Securities and Markets Authority in Paris, the finance ministers of Germany, France, Italy, Poland, Spain and the Netherlands agreed after they met in Berlin on Thursday to discuss the issue. The issue of handing over local powers to supervise trading platforms, central counterparties and central securities depositories to the EU has been difficult because of vested national interests and opposition from Ireland and Luxembourg and initially Germany.

But the issue will be decided by qualified majority, meaning it needs the support of 15 out of the EU's 27 countries representing 65% of the bloc's population. With the backing of the E6, which represent 70% of the EU's population, centralised supervision is now much more likely to happen.

"The fact that the EU's six largest economies are prepared to leave national self-interest behind and move forward together is an important signal for the entire European Union," German Finance Minister Lars Klingbeil said in a statement.

BoE may tolerate inflation to support UK economy: Bailey

Bloomberg
Reykjavik, Iceland

The Bank of England (BoE) could tolerate inflation temporarily staying above its 2% target in order to support the UK's weak economy, Governor Andrew Bailey said — so long as second-round price effects do not emerge.

Speaking at an economic conference in Reykjavík, Iceland, Bailey said the BoE had already influenced the economy by removing market expectations for rate cuts, thus tightening monetary conditions.

"Given the context of softness in the real economy and uncertainty around the scale and duration of the shock, tolerating temporarily above target inflation to provide some support for the real economy is an appropriate way to approach the trade-off," the Governor said on Friday. "But that tolerance would weaken if signs of second-round effects begin to emerge."

The prospect of rate hikes from the BoE has slid sharply in May, with swaps pricing in one quarter point increase by the end of 2026. As recently as late April, the market was expecting three rate hikes this year.

BoE officials head into their June 18 meeting stuck between the risk of a new price shock and an economy that is already losing steam because of conflict in the Middle East.

Recent figures have shifted the focus toward the latter: consumers are spending less, businesses are holding back investment, building up inventories and cutting jobs amid higher energy costs and greater political turbulence at home.

A softer-than-expected inflation print in April handed more ammunition to officials who favor keeping interest rates on hold for longer.

Bank of England governor Andrew Bailey at the Reykjavik Economic Conference, yesterday.

Bailey said it was a tough call for his Monetary Policy Committee, due to the length of time it takes for second-round effects to come through. Some rate-setters on the MPC fear steep wage hikes in Britain next year while more dovish colleagues do not, largely thanks to rising unemployment.

"The picture of a gradually softening labor market comes through pretty consistently," Bailey said, answering questions after his speech.

"Uncertainty is high and with inflation having been above target for almost all of the past five years, there is no room for complacency. Absent a material shift in the outlook for energy costs, we think the BoE will probably hike rates in July. The move will probably be viewed by the central bank as insurance against upside inflation risks," say Matt Bunny and Dan Hanson, UK economists.

The war in Iran has left the UK exposed to a second cost-of-living crisis in less than five years, as the country relies heavily on energy imports.

Policymakers are watching inflation expectations closely, worried that workers could push for bigger pay rises, forcing businesses to lift prices again.

The Governor said that the BoE will get limited evidence of how the Iran price shock is feeding into wage demands in the next months, as most pay settlements for this year had already been agreed before the start of the conflict. This can lead to a situation where inflation expectations rise without a corresponding acceleration in wage growth.

Still, Bailey also warned of the threat of persistent price pressures and said the "legacy of four years ago," when inflation soared into double-digits following Russia's invasion of Ukraine, has to be taken into consideration.

"Because they take longer to come through, the argument for looking through the indirect effects is weaker, and protracted indirect effects could keep inflation above target for too long unless monetary policy responds," he said.

Markets were unmoved by Bailey's initial comments on Friday.