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ECB seen holding interest rates on next Thursday

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CMU-Q dean: Human capital is Qatar's top business advantage

By Peter Alagos
Business Editor

Qatar's long-term policy consistency and its concentrated educational infrastructure provide the country with a distinct competitive advantage as a regional business hub, according to Michael Trick, Dean of Carnegie Mellon University in Qatar.

"Qatar's primary competitive advantage lies in its world-class educational ecosystem, spanning Education City, Qatar University, and other local institutions. This intense national focus on human capital development is paired with remarkable political and economic stability," Trick told *Gulf Times*.

International businesses value predictability when choosing a regional headquarters, Trick emphasised, noting that Qatar's leadership has maintained a consistent development vision for three decades, creating high levels of corporate confidence.

"The vision articulated by Qatar's leadership has remained exceptionally consistent for three decades. This predictable, long-term commitment to development provides immense confidence to international businesses deciding where to anchor their regional operations," he explained.

While neighbouring Gulf states are pursuing parallel economic diversification agendas, Trick does not see this as a zero-sum regional conflict, further explaining that the true competition remains global.

"The true competition for Gulf states is not with one another, but with the global market. Economic diversification is a global phenomenon, and there is ample room for multiple regional hubs to succeed. While various Gulf nations are targeting similar macroeconomic sectors, their distinct local cultures, historical contexts, and educational frameworks naturally result in unique areas of specialisation and differentiation," he pointed out.

Michael Trick, Dean of Carnegie Mellon University in Qatar.

Branch campuses operating within Education City operate as permanent fixtures of the local economic architecture.

They are deeply committed to expanding the domestic knowledge-based economy, Trick pointed out.

"We also bring an international perspective: our students and graduates learn to be global citizens who collaborate across disciplines and cultures. This is very important for a country like Qatar that plays such a critical role in the region, and indeed the world," he said.

According to Trick, a small domestic population means workforce augmentation remains vital for Qatar to sustain its status as a regional financial, logistics, and diplomatic hub.

Historically, the state relied on paying a premium to foreign firms to establish a temporary presence. This approach filled immediate talent gaps before the domestic educational framework matured, he said.

Trick said the alternative model focuses on sustainable talent acquisition through higher education investments. Local branch campuses attract top-tier international and Qatari minds. These gifted students frequently choose to remain in the country to build careers after graduation, he stressed.

"Private sector engagement has been outstanding. We have partnered closely with organisations like QNB, Qatar Investment Authority (QIA), Snoonu, and numerous other companies. These entities have been highly supportive of our educational mission, collaborating with our students on practical projects, hiring our graduates, and deeply valuing their skill sets," he said earlier.

Room for growth persists when comparing the local market to highly mature economies like the US. Regional corporates are only beginning to treat universities as primary research and development partners. This corporate mindset is shifting as collaborative research initiatives steadily expand, Trick added.

Nvidia briefly drops below Apple as world's top-valued company

AFP
New York

A view of an Apple logo at an Apple store in Paris. Nvidia briefly lost its crown as the world's most valuable publicly traded company to Apple yesterday, amid the latest selloff in semiconductor shares and doubts that the AI boom can keep pace.

Nvidia briefly lost its crown as the world's most valuable publicly traded company to Apple early Friday, amid the latest selloff in semiconductor shares and doubts that the AI boom can keep pace.

Shares of Nvidia were down as much as four percent as worries about the valuation of artificial intelligence equities dogged the market, giving the company a valuation of about $4.8tn, slightly below Apple's $4.9tn.

The company run by CEO and co-founder Jensen Huang later clawed back the losses, with Apple and Nvidia trading neck and neck for the top spot.

Nvidia has become the signature stock for the AI revolution triggered by the launch of ChatGPT in November 2022, with its powerful processors core to the technology.

Its graphics processing units, originally built for video gaming and now housed in purpose-built AI data centers, are the key component needed to train the large language models built by OpenAI, Anthropic and Google.

Shares of the company -- which underwent a 10-for-1 stock split in June 2024 -- have surged from a split-adjusted $14.86 in January 2023 to approximately $205 in mid-July 2026, representing an increase of more than 1,200%.

It became the world's most valuable company in 2025. In recent weeks, some doubts have cracked the AI bonanza narrative, with analysts wondering if the huge investments in Nvidia's chips and software can be recovered through the adoption of the new AI products being released to the public.

The questions have grown louder with ChatGPT-maker OpenAI and rival Anthropic, two of the most valuable private companies in history, having filed to go public. They would follow SpaceX, Elon Musk's space company that also includes his AI unit xAI, which priced its IPO at $135 in June, soared past $220 within days, but has since given back most of those gains to trade near its launch price.

The SpaceX roller coaster ride has increased murmurs of an AI bubble on Wall Street, with the big tech giants that are spending tens of billions of dollars largely on data centers and Nvidia products also seeing their share prices suffer in recent months.

The only exception is Apple, which does not build its own large language models, and after having been seen as a laggard in the AI race, is now rewarded for its caution and its solid iPhone sales.

ConocoPhillips takes 42% stake in BP Iraq venture

AFP
New York

ConocoPhillips announced on Friday that it had reached a deal with BP to join as minority partner in the British company's oil production venture in northern Iraq.

The US company will acquire a 42% interest in BP Energy Company of Kirkuk Limited, with the signing expected during Iraq Prime-Minister Ali al-Zaidi's visit to Washington.

BP ECKL holds a contract to develop the currently producing Baba and Avanah domes at Kirkuk and three adjacent fields, ConocoPhillips said in a statement.

ConocoPhillips did not disclose financial terms.

The company said it does not anticipate "significant" capital contributions, but remuneration will be "linked to a proportionate share of incremental production and costs."

"We see an opportunity to create value through a capital-efficient redevelopment programme that leverages a large existing production base, while also offering meaningful exploration upside," said ConocoPhillips CEO Ryan Lance.

"We look forward to working with BP and the Government of Iraq to support the continued redevelopment of these historically significant fields in an important energy-producing region."

BP and Iraq finalised the Kirkuk agreement in February 2025 as part of a strategy to boost production from Iraq.

The announcement comes a few days after President Donald Trump welcomed Zaidi to the White House, where the US president hinted at likely oil deals with Iraq.

The White House meeting came against the backdrop of renewed military escalation between the United States and Iran.

Washington and Tehran are Iraq's main allies but have long fought a proxy war over the country. Like other oil producers, Iraq -- a founding member of Opec -- was greatly affected by the Middle East war.

It is hugely dependent on oil exports, which make up about 90% of its budget revenues, and the vast majority of its crude travels via the Strait of Hormuz, which is currently at the heart of US-Iran tensions.

UK financial firms are sharpening their focus on staff scrutiny

Reuters
London

Financial firms in Britain are sharpening their focus on employee conduct, with some weeding out staff suspected of misconduct such as harassment and bullying ahead of new rules designed to curb an industry lawmakers have called a hotbed of abuse and bullying, lawyers told Reuters.

Lawyers at three firms in London said some companies were dismissing such employees before new rules increase scrutiny, reporting requirements and the potential consequences of mishandling non-financial misconduct cases on September 1.

The Financial Conduct Authority (FCA) is amending conduct rules and fitness-for-office tests to add serious, work-related bullying, harassment and violence against colleagues in 37,000 non-bank firms such as asset managers, hedge funds and insurers.

The amended rules and guidance clarify how firms should take non-financial misconduct into account when assessing employees' fitness and propriety and put the onus on managers, rather than human resources departments, to identify, investigate and report potentially serious cases.

The changes are designed to bring non-bank finance rules into line with those already in place for banks, although new guidance spells out more explicitly the misconduct all firms are expected to tackle.

The three lawyers said companies were setting a low bar for dismissals, and in some cases, human resources departments might even be using the upcoming rules as a pretext to part with those not meeting expectations.

A general view of the Financial Conduct Authority offices in London. The FCA is amending conduct rules and fitness-for-office tests to add serious, work-related bullying, harassment and violence against colleagues in 37,000 non-bank firms such as asset managers, hedge funds and insurers.

Wendy Saunders, a partner at law firm Lewis Silkin, said she had seen two or three cases where firms appeared to "dress up a minor conduct issue as non-financial misconduct" to dismiss an underperformer. Three lawyers from different firms said they were running scenario-based training courses for executives, managers and even interns on the new rules - which include manager accountability for failures to address conduct rule breaches.

The FCA's rules, published alongside extensive guidance and detailed illustrative scenarios and flowcharts, go beyond employment law by separating conduct such as bullying from legal protections against discrimination.

David Cummings, an employment lawyer at KPMG, said the rules would allow firms to tackle poorly behaved star performers by providing a regulatory consequence for bullying that does not exist under employment law.

"The FCA is trying to capture the high-performing bully, who organisations may have traditionally held their nose or been prepared to turn a blind eye to because they're a rainmaker, but they're toxic for the workplace environment," he said.

Reuters spoke with lawyers at seven mid-sized law firms with sizeable legal practices and one of the big four professional services firms.

Of those, lawyers at two firms said they were not aware of staff being let go because of conduct allegations ahead of the new rules. The rest either reported a small number of dismissals or confirmed that conduct was increasingly in managers' focus.

Asked for comment, the FCA did not directly address the examples of how a greater focus on misconduct could be abused, but stressed the new rules created more clarity.

BUSINESS

US inflation surprise offers Warsh only brief relief

By Jamie McGeever
Orlando, Florida

Federal Reserve Chair Kevin Warsh no doubt welcomed last month's surprise fall in U.S. inflation, but his breathing room on interest rates will be limited.

Figures on Tuesday showed price pressures cooled much more than expected in June, especially in the "core" consumer price index (CPI), which excludes food and energy. This prompted the biggest scaling back of Fed tightening expectations in interest rate futures markets since February.

That makes Fed Governor Christopher Waller's comments on Monday about the potential need for a hike sooner rather than later ring a little hollow, and many economists say the Fed may not move at all this year. While this softer core CPI print offers cause for cautious optimism, one should be careful about putting too much stock in one month's numbers.

Warsh himself said as much on Tuesday, telling US lawmakers he would not "cherry-pick" the moment as a sign of progress.

"There might be some that look at this morning's data and say, 'Oh, mission accomplished, everything is swell.' That is not my view," Warsh said. The Fed's mission is far from accomplished. Annual headline and core CPI - as well as personal consumption expenditures (PCE) inflation, the Fed's preferred measure - have all been above the central bank's 2% target for more than five years. This is the longest that core PCE has been persistently above target since 1987-1994.

That's an uncomfortable record for any Fed chair to defend, especially one who has been in the job for barely a month and whose primary task is to convince Americans that years of price "instability" are over. Given that Warsh was nominated by a president who has aggressively called for rate cuts despite high inflation, the new Fed chair will want to prove to consumers, businesses, and financial markets that his inflation-fighting credentials are above reproach. "The members of our committee have no tolerance for persistently elevated inflation. And we share a resolute commitment to restoring price stability," he told lawmakers.

You wouldn't expect him to say anything else. But markets will now watch to see whether that strong rhetoric is backed by action. If June's CPI surprise proves to be just a flash in the pan, not the beginning of a longer-term trend leading back to target, will Warsh be willing to hike? Attention now turns to the June PCE inflation report, which will be released on July 30.

The weightings and calculation methodologies used by PCE and CPI are different, so there is unlikely to be as big a downward surprise in two weeks' time. Software, which rose sharply in the CPI report, has a much larger weighting in the PCE index. Shelter, which accounted for much of the CPI weakness, has a 35% weighting in CPI versus only 16% in PCE.

Economists at Goldman Sachs and Pantheon Macro are among those who reckon core PCE slowed a touch to 3.3% in June from 3.4% in May. That would be a move in the right direction, but not a significant one.

Meanwhile, the economy is still running hot, and energy prices are rising again, with US crude now 20% higher than a year ago. The year-on-year change briefly turned negative last month after a ceasefire between the US and Iran was announced, but a resumption of hostilities has deflated that particular balloon.

Oil is directly excluded from core inflation, of course, but it has an indirect impact through second-round effects. Rising production and transportation costs typically pass through to higher food and core prices, while more expensive oil can also raise inflation expectations, indirectly lifting core prices.

Markets certainly don't think the inflation mission is accomplished. While implied rates and short-dated yields fell on Tuesday, other signals from the bond market suggested investors think delaying rate hikes - or not tightening at all - might be a mistake.

The US yield curve steepened as short-dated yields fell more sharply than their longer-dated counterparts, with the gap between 2-year and 10-year yields widening the most since May and the 2s/30s spread widening the most since March. Similarly, short-dated breakeven inflation rates fell while longer-term rates were largely steady. Breakeven inflation is the difference between the yield on a nominal bond and the yield of an inflation-linked bond of the same maturity, an implicit forecast of average inflation over the relevant time horizon.

All these moves indicate traders believe longer-term inflation pressures will persist if the Fed doesn't tighten policy sufficiently.

In an ideal world, Warsh would likely prefer to let inflation drift lower on its own, giving the Fed leeway to support the labor market with rate cuts if needed.

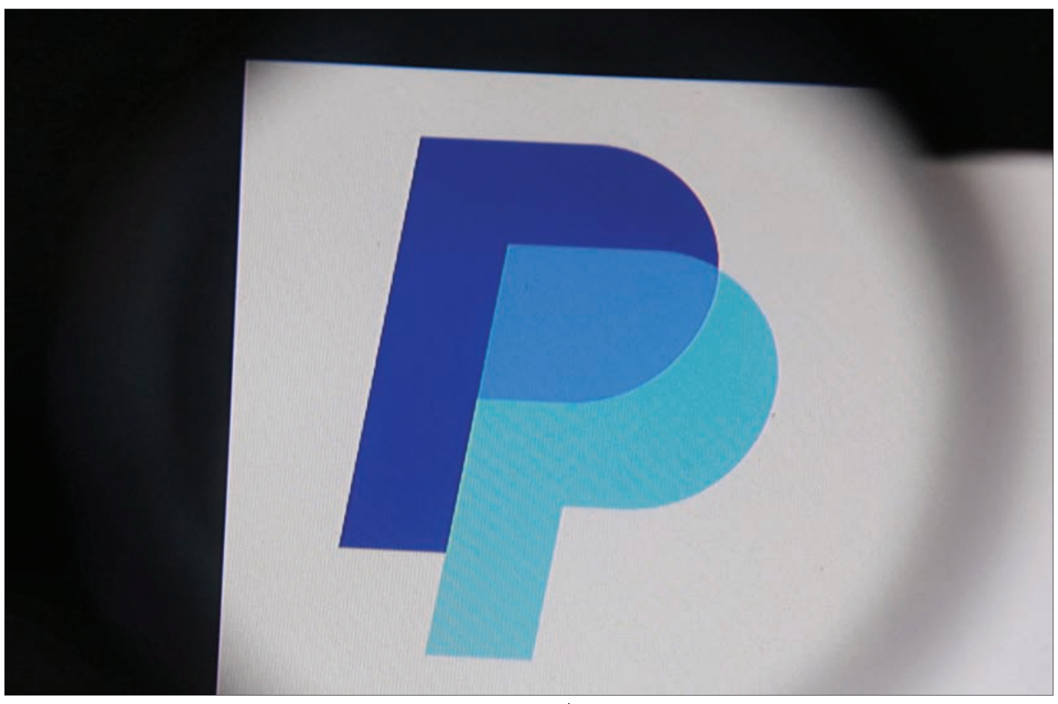
But as his colleague Chris Waller said on Monday, "sternly staring at inflation" may not be enough.

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

PayPal board sees offer from Stripe-Advent as inadequate

PayPal believes a bid for it undervalues the company; the company hasn't yet responded to the proposal; the board is expected to continue to meet on the issue

Reuters
New York


PayPal logo is seen in an illustration. PayPal's board sees a $53bn takeover bid by rival Stripe and private equity firm Advent International as undervaluing the company and facing regulatory and financing hurdles.

PayPal's board sees a $53bn takeover bid by rival Stripe and private equity firm Advent International as undervaluing the company and facing regulatory and financing hurdles, a person familiar with the matter said, potentially setting the stage for negotiations over the future of the US payments giant.

PayPal has not formally responded to the proposal, two other sources said.

The consortium's bid comes as PayPal, founded in the late 1990s, has struggled in recent years to compete against rivals like Apple Pay and Google Pay, with management trying to revive its flagging share price in the face of slowing growth.

Combining Stripe and PayPal, the most widely used payment platforms for internet merchants, would create one of the world's largest global online payments companies, processing some $3.7tn of annual volume.

PayPal's board is evaluating the bid - and the possibility that other offers could emerge - against management's turnaround strategy, the person said. Its early view is that while the $60.50 per share offer represents a premium to the company's recent share price, it does not fully reflect the potential value the company could create over the coming years if management successfully executes its strategy, the source said.

The board is also weighing factors beyond price, including the certainty of financing, potential regulatory hurdles and what could be a lengthy timeline to complete any transaction, the source added. It is scheduled to hold additional meetings, the source said. The details of the board's view are reported here for the first time.

The consortium, meanwhile, is trying to address some of these issues. JPMorgan and Morgan Stanley have provided the bidders a roughly $50bn financing package, two other people familiar with the bid said. The two banks also serve as advisers to the consortium, they added.

Stripe and Advent are contributing $17bn in equity for the offer, one of the people said.

PayPal, Advent, JPMorgan, Morgan Stanley, and Stripe declined to comment.

Under the offer, which was submitted earlier this month, Stripe and Advent would jointly own PayPal, with each holding an equal stake rather than breaking up the company, Reuters previously reported. But they have also considered possible remedies should it run afoul of antitrust regulators, one of the sources said. That potentially involves separating PayPal's Braintree business or other assets and transferring them to Advent, which could then combine those assets with its payments investments, including Nuvei, the person said.

Despite PayPal's reservations over the current proposal, the sources said the consortium has emerged as the most serious bidder for PayPal and it remains interested in reaching an agreement. While they are seeking to move quickly, negotiations are likely to take time, the sources said.

Block, Stripe and Advent first approached PayPal together in April, but Block exited the consortium before Stripe and Advent submitted their latest offer.

Block did not immediately respond to a request for comment.

Investors will be watching PayPal's July 28 earnings report for signs that growth in its core checkout business is stabilising after the company earlier this year issued a weaker-than-expected outlook and warned of slowing momentum in the segment.

Privately held Stripe enlisted Advent as an equity partner because funding the entire equity portion of a deal on its own would be difficult, according to the person familiar with the bid. Advent's involvement could also give the consortium additional flexibility in addressing potential regulatory concerns, the person added. Advent has been an active investor in the payments sector, with a track record of acquiring and investing in companies across the industry, including Worldpay, Vantiv and, more recently, Nuvei.

The size of the transaction makes it difficult for many financial buyers to pursue, even as assets such as Venmo have drawn interest, while regulatory considerations could complicate interest from some strategic acquirers.

Moonshot's new Kimi K3 shakes up global AI race

AFP
Shanghai

A model released on Friday by Chinese startup Moonshot AI has fuelled buzz around the country's tech prowess, as experts said it could rival some of the more advanced offerings from US labs.

Large language models underpin chatbots and other artificial intelligence tools with their ability to crunch huge amounts of digital data. Moonshot AI's "Kimi K3" is one of several from China growing in global popularity thanks to their lower costs and source code that programmers can customise.

Soon after its launch, Kimi K3 had topped a leaderboard for AI coding run by a platform called Arena created by UC Berkeley researchers.

That drew excitement from industry insiders, with some evoking a 2025 release from China's DeepSeek that shook assumptions of US dominance in AI.

"Kimi K3 seems really good, closest to the frontier yet," Ethan Mollick, a University of Pennsylvania professor and a leading voice on AI, said on X.

But it "cannot write a good murder mystery (though neither can any other model). That remains the jaggedest of frontiers" of AI development, he said.

"Sensing a violent market reaction to KimiK3... similar to DeepSeek moment," tech writer and investor Kevin Xu wrote.

Beijing-based Moonshot AI said Kimi K3 was the world's first open-source model of its size. The more internal variables, or parameters, a model has, the better it can handle complex requests, and Kimi K3 has around 2.8tn.

Leading US players Anthropic and OpenAI do not release details of how many parameters their top models have.

"Kimi K3 demonstrated frontier-level performance across our evaluation suite, consistently outperforming other tested models," Moonshot AI said.

However, overall performance "still trails the most powerful proprietary models" from Anthropic and OpenAI, the company said.

Hussein Abbass, a computing professor at UNSW Canberra, said Kimi K3 appears to be good at coding, "but it is still unknown how competitive it is across the whole range of tasks expected from foundation models".

Should US rivals be concerned? "I wouldn't say they need to be worried. But they shouldn't be still," to maintain their edge, Abbass told AFP.

He added that AI performance is "not just about the model" but also the hardware that runs it, along with data centres and supply chains.

Arena ranked Kimi K3 ninth worldwide for text queries. When AFP tried Kimi K3, it generated ideas for tech reporting that compared favourably with responses from other chatbots. Kimi K3's release follows that of other much-hyped Chinese AI models such as Zhipu AI's GLM-5.2.

The Moonshot AI Kimi app is seen on a mobile phone screen in Beijing.

From coal pits to wind turbines, Polish miners rise to the occasion

AFP
Gorzyca, Poland

From the top of a wind turbine nearly 100 metres above the ground, Grzegorz Witek, a coal miner, gazes at the horizon.

It's a far cry from basin depths in Silesia -- a historic coal mining region in southern Poland where he still extracts the ore.

Once Poland's black gold, the sector is now surviving only on life support as the country slowly transitions to cleaner energy sources.

Along with seven other miners, Witek took the hours-long journey to Gorzyca in western Poland to take part in a training programme run by EDF Power Solutions Poland, helping coal miners transition into the wind industry.

Even at the lowest point of a wind turbine, Witek expresses his awe at "the feeling of freedom" compared to the fourteen years he spent at the bottom of a mine.

"Down there it's always dark, there's no outside world, no sun," he tells AFP.

"With wind turbines, we're moving up to the next level," he adds.

Before climbing real pylons, participants completed three weeks of training at the Vulcan centre in Szczecin, a Baltic port city in the north-west of the country, learning maintenance and safety skills such as how to evacuate a tower.

While it is a big transition for workers used to navigating the depths of coal basins, instructor Michal Rak says the miners have valuable advantages.

Already accustomed to extreme environments, they are quick to adapt to the wind farm's conditions.

"After working a kilometre underground, finding themselves hundreds of metres above the ground doesn't really faze them," he says.

Aware of the risks, they "don't take things lightly," he adds.

For 29-year-old Patryk Paja, who spent three years in the mines, wind is the future.

"The mining sector is dying out in Poland and you have to change something in your life," he says, harnessed and ready to take the elevator to the top of a turbine.


An aerial view of the shaft VI of the Budryk hard coal mine in Chudow.

In the mine where he works, the tunnels run as deep as 1,300 metres below the surface.

"We're switching to green energy, coal is over," he adds. Wind turbines are an increasingly common sight around the training area in Gorzyca and throughout the country, where coal still accounts for over half of Poland's electricity production, the highest in the European Union.

More than a valuable economic resource, the dark ore has become one of the pillars of Polish identity -- with miners long wielding political influence.

But Poland's energy model is running out of steam.

Mining companies are racking up losses despite government support -- which totalled 2.1bn euros ($2.4bn) in 2024.

Extracting a tonne of coal now costs nearly twice as much as importing it, and domestic production no longer fully covers the country's needs. Coal's share in electricity production has also fallen -- from around 90% in 2008 to nearly 50% today.

Sun and wind now produce more than 30% of electricity, and the government is counting on 50% as early as 2030 and up to 69% in 2040.

Poland's first nuclear power plant is expected to go online in 2036. This transformation goes hand in hand with a steady drop in mining jobs.

The sector, which employed nearly 400,000 people at the end of the communist era, now has a total workforce numbering only 70,000.

Meanwhile, the government is projecting the creation of around 300,000 jobs tied to the energy transition by 2030.

"Recruitment needs in the wind sector will grow exponentially in the coming years," Alicja Chilinska-Zawadzka, president of EDF Power Solutions Poland, tells AFP.

For the past three years, the French group's subsidiary has been funding and organising retraining programs.

Around fifty miners have already taken part, and all of them have received job offers. Interest in the program is also increasing with time.

"During the first round, there were five miners for ten places. In the end, over the years, we've had four times as many applicants as slots," says Mariusz Tomalik, spokesperson for the Mine Restructuring Company (SRK).

With ten years in the mines behind him, 41-year-old Marek Mikolajczyk is glad he took the leap. After undergoing training, he has been working on wind turbines for a year and a half. "The work is more pleasant, lighter, and less dangerous," he says.

What's more, his new job offers a higher salary, a better atmosphere, and the possibility of travel.

There's only one drawback: "long separations from the family during assignments," he says from Kosovo, where he is helping install a wind farm.

Fellow miner Patryk Paja hopes to follow the same path soon.

"I surely won't make it to retirement in the mine, so I might as well move into a sector with a future," he says.

An Air China plane is seen at the international airport in Beijing. Air China said fuel prices have 'drastically squeezed' profit margins.

China's airlines warn of heavy losses ahead of uncertain summer

Reuters
Hong Kong

China's biggest airlines enter the peak summer travel season facing a more challenging outlook after warning of heavy first-half losses, with weakening demand raising doubts that they can absorb higher fuel costs during the industry's busiest months.

Air China, China Eastern Airlines and China Southern Airlines all warned on Tuesday they expected combined first-half net losses of up to 9bn yuan ($1.33bn), a sharp reversal from their combined first-quarter profit, which had been boosted by strong Lunar New Year demand.

The losses underscore the dilemma facing Chinese airlines: raising fares to recover higher fuel costs risks further weakening demand, while keeping ticket prices low leaves carriers absorbing the additional expense.

Parash Jain, HSBC's global head of transport and logistics research, said a "negative wealth effect" was reshaping Chinese consumer habits as economic growth slowed and every airfare increase risked lowering demand.

"The rising ticket prices are hurting demand and pushing people to use high-speed rail more for shorter distances," Jain said, noting that weather disruptions and a smaller pool of school-age children were also weighing on summer travel demand. "But the single largest reason for weaker demand is the increased ticket prices."

HSBC analysts expect China's three biggest carriers to post combined losses of about 16.8bn yuan in 2026, compared with the current market expectation for a combined profit of 1.3bn yuan.

Air China said in a stock exchange filing that elevated fuel prices had "drastically squeezed" airline profit margins.

Unlike many Asian rivals, Chinese airlines hedge little of their fuel purchases, leaving them more exposed to the oil price surge triggered by the Iran conflict. Although jet fuel prices have fallen from their second-quarter peak, they remain about 50% above prewar levels.

"Given that jet fuel normalisation will take time, weak demand conditions are likely to remain the key concern heading into the summer peak season," Bank of America analysts said in a note.

The third quarter is typically the most profitable for Chinese airlines. But aviation data firm Flight Master is projecting traffic carried by Chinese airlines on domestic and international routes will fall 3.6% year-on-year to 142mn passengers in July and August, which would mark the first contraction in the peak season since 2022.

From July 1 to 14, average daily flights declined 2.2% year-on-year, with domestic flights down 1.8% and international flights down 3.6%, according to Flight Master. Economy class fares averaged 831 yuan, down 1.2% year-on-year and 6.1% below 2019 levels.

China's domestic passenger demand contracted 6.2% in May from a year earlier, according to the International Air Transport Association, the weakest performance against major domestic markets globally and the first monthly decline in China not linked to the timing of the Lunar New Year since the pandemic.

The big three airlines, which rely on international routes for about 30% of their revenue, have seen surging demand on European routes since the start of the Iran conflict as travellers shun disrupted Middle Eastern hubs.

But those gains are eroding as Gulf carriers restore flights and offer lower fares, according to Flight Master data.

Tokyo, Taipei lead losses as Asia markets suffer fresh tech rout

AFP
Hong Kong

Pedestrians walk past a stock quotation board outside a brokerage in Tokyo. The Nikkei 225 closed down 4.0% to 64,141.12 points.

Tokyo and Taipei led heavy losses on a glum day for Asian markets on Friday, with tech firms once again in the crosshairs as investors cash in following this year's breathtaking rally.

In Tokyo, the Nikkei 225 closed down 4.0% to 64,141.12 points; Hong Kong - Hang Seng Index ended down 2.1% to 24,505.38 points; and Shanghai - Composite closed down 3.0% to 3,764.15 points yesterday.

The artificial intelligence boom has sent technology valuations soaring to record levels as traders looked to get a slice of the next big thing while firms invested enormous amounts of money.

But questions have been raised in recent months about whether valuations have gone too far, and when companies will actually see any returns.

Worries about the AI trade have hammered the value of chip firms, with the Philadelphia Semiconductor Index losing about 19 percent from a June peak, according to Bloomberg.

Asian markets have been hammered, with Seoul's Kospi bearing the brunt of the selling, having more than doubled in the first six months of the year before losing about a third of its value since hitting a record in June.

But with South Korea enjoying a holiday on Friday, Tokyo and Taipei -- also heavily weighted toward tech -- were at the forefront of the selling.

Japan's Nikkei ended the day down four percent with Advantest, Tokyo Electron and tech investment titan SoftBank all sliding more than 7%.

Chipmaker Kioxia collapsed 16%, meaning it has lost around half its value since briefly becoming the country's biggest firm by market capitalisation last month.

Taiwan's Taiex had shed 6.5% by the close as chipmaker TSMC retreated 7.3% -- a day after announcing record second-quarter profit and that it would invest a further $100bn in the US state of Arizona.

There were also steep losses in Hong Kong, Shanghai, Singapore and Sydney, though Bangkok, Manila and Mumbai rose. London edged up slightly at the open while Paris dipped.

"The rally in AI-related stocks appears to be losing some momentum after months of almost uninterrupted gains," said Fawad Razaqzada, a market analyst at Forex.com.

Some investors "are increasingly questioning whether the enormous sums being committed to AI infrastructure can generate sufficient returns within a reasonable timeframe".

Japan's June core inflation seen at 1.6%

Reuters
Tokyo

Japan's core consumer inflation probably picked up in June from the previous month due to elevated energy prices, as well as technical factors including revisions to medical service fees, a Reuters poll showed on Friday.

With price pressures from the Middle East conflict not expected to abate anytime soon, the outcome would likely strengthen the case for the Bank of Japan to raise interest rates further.

The nationwide core consumer price index (CPI), which includes energy items but excludes fresh food prices, was forecast to have risen 1.6% in June from a year earlier, a poll of 16 economists showed. That would mark an acceleration from May's 1.4%, but would keep inflation below the BoJ's 2% target for a fifth straight month.

"Although food inflation excluding fresh food is continuing to ease, the year-on-year increase is expected to widen from the previous month because higher crude oil prices linked to the Iran situation have reduced the decline in energy prices," said Keisuke Kobayashi, economist at Mitsubishi UFJ Research & Consulting.

Mizuho Securities market economist Ryosuke Katagi said revised medical service fees are also expected to push inflation higher, while the impact of the worsening Iran conflict is likely to become more visible from the summer onward.

The data will be among the factors the BoJ will scrutinise at this month's policy meeting, when the board will conduct a quarterly review of growth and price forecasts. Japan's wholesale inflation surged 7.1% in June from a year earlier, marking the fastest year-on-year rise since March 2023.

While the US and Iran reached a tentative deal to end the war in June, the truce remained fragile, with both sides exchanging missile strikes.

The internal affairs ministry will announce CPI data on July 24.

China's slowdown, Germany's auto crisis, and currency strains

By Mike Dolan
London

China's export engine is on track to post another trillion-dollar-plus trade surplus this year, shrugging off tariff tensions and an energy squeeze, while turning a spotlight on a still undervalued yuan.

While attention remains fixed on the US, the world's second-biggest economy is expanding rapidly, and its global impact is proving just as pervasive as anything emanating from Washington.

Since the pandemic, and amid geopolitical tensions, China's housing crisis, demographic decline and bilateral trade wars with Washington have overshadowed what some still see as the century's biggest economic shock - even as China's economy continues to post impressive numbers that reverberate far and wide.

Chinese customs data released on Tuesday showed that June exports climbed 27% from a year earlier in dollar terms, their best performance in four months and a sharp acceleration from May.

Reflecting the AI boom's impact on trade in chips and tech equipment, imports also beat estimates, rising 36% on the year - a five-year high.

China's trade surplus came in at $126 billion in June, up from $105bn the previous month.

The year-to-date gap now stands at $576bn, compared with $586bn last June, even though imports have grown faster than exports for several months. That puts last year's record $1.19tn surplus in the crosshairs.

And it's not all about the AI frenzy and tech arms race, where China is racing to develop its own technology ecosystem to sidestep US restrictions on critical components. China also exported more than 1mn automobiles in a single month for the first time, as electric vehicle sales surged.

That is almost double its monthly car-export level at the start of last year, with much of the increase absorbed by Europe, Latin America and the Middle East. But those surging auto exports will hit Europe's carmakers hardest. This week, German auto giant Volkswagen said it may need to cut about 50,000 more jobs to keep pace with fierce competition and transatlantic trade tensions, effectively confirming reports it's looking to reduceits workforce by 100,000 over the coming years.

German carmakers are also struggling to sell into China's subdued domestic car market, with BMW only last month issuing a surprise profit warning on exports there.

This creates enormous pressure on the eurozone and Germany in particular, with US tariffs to the west and Chinese imports from the east, while energy prices build again more generally due to the smouldering Iran war.

The problem is both economically and politically complex with no easy solution. Europe needs Chinese battery technology, for example, but belatedly wants to protect its higher-tech industries and is clearly worried about the impact on its auto sector. European policymakers are only now starting to look at exchange rates as an integral part of the problem and solution.

One potential remedy is the exchange rate, a critical point of contention in Europe. German Chancellor Friedrich Merz raised the issue during a visit to Beijing in February and reiterated this week that a deeply undervalued yuan distorts the playing field. He argued that yuan appreciation would help China avoid more draconian trade retaliation. "We are now trying to steer the dialogue with China toward a solution ... an attempt to persuade China to allow its own currency to float freely, including in the context of competition in the capital markets," Merz said on Monday.

To be sure, the yuan has gained some ground against both the euro and the dollar this year. But the euro/yuan rate remains higher than it was a decade ago, even as Europe's trade deficit with mainland China has more than doubled. And partly due to post-pandemic differences in producer price inflation, some economists estimate the euro has appreciated by as much as 40% in real terms since Covid.

Research by Deutsche Bank strategist Shreyas Gopal indicates Europe is experiencing "China Shock 2.0". Using multiple valuation models, he concluded that the yuan remains 15% undervalued against the euro despite this year's 5% appreciation - at levels seen during the extremes of the 2005-2008 period, leaving Germany bearing the brunt.

"Nearly all our models suggest that the undervaluation of the yuan is more pronounced against a hypothetical Deutschmark than that of the euro," he added. Even as attention stays fixed on Wall Street, Silicon Valley and disruption in Washington, China's "mercantilism" remains one of the century's most powerful global economic forces. Driven by tight regulations and currency controls, this export-led model is now delivering what Peterson Institute economist Arvind Subramanian calls a third China shock that is eroding the prospects of so-called Middle Powers.

"Single-handedly consigning the global hegemon, America, to self-doubt and reduced potency, while also devastating Europe's largest power, Germany, economically, is an 'accomplishment' with few parallels in history," Subramanian said in an op-ed for the Project Syndicate site.

"Chinese mercantilism has done more than US economic developments or Fed policies to change the world in this millennium."

That may seem much too big an issue for simple exchange rates to affect, but they may still be seen as part of the solution.

On that score, at least, Europe may find itself - unusually these days - on the same page as US President Donald Trump.

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

EU softens carbon market to ease pressure on industry

EU ETS is Europe's biggest climate change policy; plans will slow CO2 cuts required of industries; aims to invest hundreds of billions of euros in low-carbon industries; changes will affect power plants, industry, airlines, ships

Reuters
Brussels

The European Commission proposed an overhaul of the EU's Emissions Trading System (ETS) on Friday, allowing industries to emit CO_2 longer while offering more financial support to invest in clean technologies in Europe. The ETS is the European Union's biggest climate change policy. It forces power plants, airlines and shipping firms to buy permits when they emit CO_2, and caps their overall emissions.

The long-planned ETS overhaul aims to extend the system into future decades and align it with the EU's 2040 climate goal to cut net emissions by 90%. It also softens the scheme in response to pressure from industries and countries, including Italy and Poland, which say it undermines competitiveness. Brussels is attempting to balance those concerns with warnings, including from Spain, that weakening the ETS would punish industries that spent early on cutting emissions.

The Commission proposed cutting the annual rate at which the ETS emissions cap falls to around 3.7% from 2031, and 1.7% from 2036, from 4.3% currently, confirming plans previously reported by Reuters.

It would also set a new requirement for national governments to spend half of their ETS revenue on decarbonising local industries. The ETS has generated €260bn ($297bn) in revenue since 2013.

"If we deliver on this plan, it would literally mean hundreds of billions in additional investments on European soil," EU Climate Commissioner Wopke Hoekstra said.

The EU gives industries some EU CO_2 permits for free to help them compete with foreign rivals. The Commission proposal would give industries more free permits for longer - but with new conditions attached.

The EU would give 80% of the free permits upfront to companies with plans to invest in decarbonisation in Europe. Companies would get the remaining 20% once they make those investments.

The proposal would continue free permits until 2038 for sectors including steel and cement manufacturing rather than ending them in 2034, when they were due to be replaced by the EU's carbon border charge on imports.

That would also delay the full phase-in of the carbon border levy to 2038 from 2034. Analysts and some companies said the EU weakened the ETS more than expected, although some governments said they would push to weaken it further.

"For the first time, we are seeing a softening of the stance rather than a toughening of it - this is a huge success for Poland. Although we will fight for more," Polish Climate Minister Paulina Hennig-Kloska said.

EU lawmakers and governments will now negotiate the final rules. Some have indicated they will oppose stricter controls on their ETS spending. Countries, including Italy and the Czech Republic, said this week they would also oppose the new conditions on industries' free permits.

The price of EU carbon permits increased slightly, with benchmark EU carbon prices up €0.39 at €79.58 per metric tonne yesterday.

Marcus Ferdinand, analyst at carbon market data provider Veyt, said he expected EU carbon prices to be "much lower" in the future under the proposed changes.

"This is clearly a proposal to keep industry alive in Europe," Ferdinand said, adding that polluting industries were the main winners.

The ETS revision reflects political pushback against Europe's climate ambitions, despite record-breaking heatwaves and wildfires sweeping the continent. The Commission also set out plans on Friday to double the share of EU energy consumption met by electricity by 2040, a move aimed at cutting the bloc's reliance on oil and gas and meeting climate goals.

Some governments and companies have urged the EU to uphold ambition on the ETS, to avoid punishing companies that invested early in cutting CO_2.

Annika Ramsköld, head of sustainability at Swedish power producer Vattenfall, which generates 90% of its electricity from CO_2-free sources, warned slowing Europe's main climate policy could backfire.

"Regulatory stability is not a nice-to-have; it is what enables the massive investments required for the energy transition," she said.

The system covers 40% of all EU emissions, and emissions from ETS-covered sectors have halved since 2005.

The Commission proposal would expand the ETS to cover waste incineration from 2031, smaller ships, and emissions from international flights departing Europe for destinations up to 5,000 km (3,107 miles) from the continent's geographic centre from 2029.

That would capture emissions from flights to hubs in Turkiye and the Middle East, but exclude the US.

Indonesia's copyright law targets Google, AI

Reuters
Jakarta

Indonesia is preparing sweeping changes to its copyright law, including granting copyright privileges to people who use artificial intelligence to help them generate content, a draft bill reviewed by Reuters showed, setting up a potential showdown between the government and major tech platforms.

If passed, Indonesia could become the first country in Southeast Asia to incorporate AI in its copyright law, as governments globally grapple with the impact of the technology on copyright rules, including the use of work created by humans to train AI models.

It was not immediately clear when the bill, which was an initiative of parliament and given to the government for its input, would be passed into law. Hermansyah Siregar, an Indonesian law ministry official overseeing intellectual property, confirmed the authenticity of the draft bill and told Reuters it would mark the first explicit recognition of AI in Indonesia's copyright law. "The development of generative AI has disrupted the copyright framework," Siregar said. "If unregulated, it could kill human creation."

The previously unreported AI-specific clauses of the bill include banning the use of AI to imitate a creator's "distinctive style" and mandating disclosure on AI use in content.

The bill also requires tech platforms to pay compensation for aggregating, republishing or link-previewing news content, as well as using it for AI training. The compensation would go to state-supervised collective management organisations, which would distribute the funds to news publishers.

The rules would apply to a variety of content including video games, photography, computer programmes, journalism and films. AI-assisted works would qualify for copyright protection only if they met human involvement criteria, while fully AI-generated works would be excluded. The draft did not say how much human involvement was needed to qualify for protection. The use of copyrighted works to train AI models would also be subject to fair-use provisions or licensing agreements, the draft said.

Ari Juliano Gema, an IP and entertainment lawyer, said Indonesia's bill might trigger concern among tech companies as it appeared to conflate commercial use of AI with its use for research.

Tech giants such as Google, which issued a statement last month criticising the copyright overhaul, could face sanctions if they do not comply with the bill's provisions, including having their local business permits revoked. "Rigid, overbroad mandates, however, would harm local creators, slow innovation, and leave Indonesia as an international outlier, ultimately discouraging the investment needed to drive its digital future," Google said in its statement, adding it would engage with the government on the bill.

Meta and TikTok did not immediately respond to requests for comment on the proposals. Meta's Instagram and Facebook platforms are popular among Indonesians. Siregar said AI regulation was a global issue, citing an ongoing court case led by the New York Times, one of many brought by copyright owners against tech companies for alleged misuse of their material to train AI systems.

The draft was not final and the government was seeking further input, Siregar added.

Indonesia's proposals come as Southeast Asia's largest economy pushes for the wider adoption of AI and as the government moves to embed AI in key programmes. On Thursday, Indonesia was among 29 countries that signed an agreement in Shanghai to establish an intergovernmental body China says will promote cooperation and global governance of AI.

China's President Xi Jinping on Friday outlined a vision for a new global AI order in which China would share its open-source AI technology and expertise with countries across the developing world. Xi also called for AI systems to remain under human control and urged countries to establish early-warning and emergency-response mechanisms to manage AI risks, stressing the importance of human oversight and control.

ECB seen holding interest rates on next Thursday

Reuters
London

The European Central Bank (ECB) meets again on July 23, with oil prices back at the top of the worry list for policymakers.

Last month's quick retreat in energy prices removed the immediate pressure on policymakers to raise rates, but the relief has proven short-lived, which highlights the uncertainty ahead, as a durable resolution to the Iran war looks elusive.

Here are some key questions for markets:

What will the ECB do next Thursday?

Most likely hold its key rate at 2.25% following a June hike that made it the first among the biggest central banks to raise rates in response to the war. A re-escalation in the war has pushed up oil and natural gas prices.

But oil around $85 a barrel remains far below the highs in March and April, so policymakers aren't in a rush to act immediately. In a reflection of the uncertainty, however, markets are still pricing in a small chance of a move.

"There will be questions on whether a hike in July was discussed. I'm pretty sure that a few (policymakers) might bring it up," Morgan Stanley's chief Europe economist Jens Eisenschmidt said.

That discussion could be a way to signal the ECB's current thinking on September, he said.

How does the Iran war escalation change the outlook for the ECB?

So far, the limited rise in oil prices compared to earlier in the war means the picture hasn't changed materially from policymakers' expectations in June. The oil futures curve is currently trading between the baseline and milder scenarios Frankfurt set out then, which boosts the case for a July hold.

Eurozone inflation also eased far more than expected in June and that was not only driven by energy prices. Underlying inflation excluding them also dropped more than expected.

"Policymakers can probably wait until September for more clarity on how developments in the Middle East affect inflation and the inflation outlook," said Rabobank senior macro strategist Bas van Gaffen.

Will the ECB hike rates again this year?

Yes, traders and economists polled by Reuters expect, most likely in September, when it releases fresh economic projections.

Even when oil prices were falling, sources told Reuters that the case for a hike later after July remained firm. And as they have risen again, traders have also boosted their bets that an additional move would follow September's by year-end. But only three out of 74 economists Reuters polled share that expectation.

"It's super clear when we listen to the vast majority of ECB speakers, they simply are more concerned about missing inflation again to the upside than they are about the risk of what they still see as a weak but resilient economic outlook," said Ross Hutchison, head of eurozone market strategy at Zurich Insurance Group. The shortage of fertiliser from the Middle East, along with a European heatwave, could put some upward pressure on food prices, lifting inflation, even if energy costs ease again.

Still, with little sign of second-round effects or wage pressures accelerating so far, some analysts are sceptical that the ECB needs to hike rates further at this stage.

How would an increase to the ECB's minimum reserve requirement impact markets?

It would drain liquidity a little bit more quickly, bringing forward the time at which money markets become more sensitive to liquidity conditions, analysts said. The ECB is considering doubling the proportion of cash that lenders must keep as reserve in an unremunerated account, Reuters reported recently, which would cut the interest it has to pay banks on their excess reserves, which rises as rates do.

Societe Generale expects any impact on short-term funding markets will be modest.

This measure would reduce the amount of excess liquidity in the system by around 160-170bn euros, compared to the roughly 500bn euros per year that quantitative tightening is already draining from the system, it said.

Is the digital euro finally gaining traction?

Yes. The ECB secured key parliamentary backing in June for the project after three years of wrangling with banks, which fear deposit outflows and lost revenues. Launching a digital euro has become more pressing for Frankfurt since President Donald Trump's tariffs raised fears the US could one day weaponise its dominance over US payment networks. The aim is for negotiations to produce a final law by year-end. A pilot programme will start next year, followed by a 2029 launch

The digital euro is a good starting point to reduce dependency on foreign payment networks, but the focus on retail users so far in its design will limit that aim, Morgan Stanley's Eisenschmidt said.

A view of the European Central Bank headquarters in Frankfurt. The ECB may hold its key rate at 2.25% following a June hike that made it the first among the biggest central banks to raise rates in response to the war.

US single-family housing falls for a 3rd straight month in June

Reuters
Washington

US single-family home-building fell for a third straight month in June while permits for future construction dropped to the lowest level in 10 months, weighed down by higher mortgage rates and a glut of unsold new homes on the market.

Home-building is also being constrained by rising costs for land and materials. Builders and economists said it would take a while for the housing market to benefit from a bipartisan housing affordability legislation recently passed by the US Congress, which among other provisions waives or speeds up environmental reviews for construction projects.

The bill became law despite President Donald Trump not signing it, demanding that a separate voting bill be passed.

"The potential uplift to housing starts from streamlining environmental reviews, easing rules on manufactured housing and encouraging zoning reform will take time to filter through," said Samuel Tombs, chief US economist at Pantheon Macroeconomics.

"Real residential investment will drag modestly on GDP growth over the coming quarters."

Single-family housing starts, which account for the bulk of homebuilding, slipped 0.2% to a seasonally adjusted annual rate of 895,000 units, the Commerce Department's Census Bureau said on Friday. Starts fell in the Northeast, the South and Midwest regions, but rose in the West.

Single-family home-building dropped 3.2% year-on-year in June.

Permits for future construction of single-family homes dropped 2.4% to a rate of 871,000 units, the lowest level since August 2025. They fell 0.2% year-on-year in June.

There is limited scope for a strong rebound in permits, with the elevated mortgage rates sidelining potential home-buyers. The rate on the popular 30-year fixed-mortgage has increased by nearly 60 basis points since the US and Israel attacked Iran at the end of February.

The rate averaged an 11-month high of 6.55% this week, data from mortgage finance agency Freddie Mac showed, as oil prices swung wildly as a shaky ceasefire between the US and Iran collapsed.

A drone view shows construction personnel working on a multi-home residential project in California. US single-family home-building fell for a third straight month in June while permits for future construction dropped to the lowest level in 10 months.

The brief lull in hostilities did boost consumer sentiment in early July across all age and income groups as well as political party affiliation, a separate report showed.

The University of Michigan's survey of consumers was conducted from June 23 to July 13, with more than 70% of interviews completed before the resumption of war in the Middle East. "Renewed uncertainty surrounding the US-Iran conflict could keep energy prices volatile and weigh on household finances and perceptions of the economy, delaying a broader improvement in consumer sentiment," said Vivian Chen, financial markets economist at Nationwide. Stocks on Wall Street were trading lower amid a tech share rout. The dollar was steady against a basket of currencies. US Treasury yields fell.

A National Association of Home Builders survey on Thursday showed sentiment among single-family home-builders remained depressed in July. Though there is a national housing shortage, especially for starter homes, the stock of unsold new homes on the market is back near levels last seen in late 2007 because of a poor spring selling season this year.

"It felt like builders were finally getting a handle on their inventories, but the clunker of a spring selling season set them back again," said Stephen Stanley, chief US economist at Santander US Capital Markets.

"As a result, while the level of real residential construction activity should level off soon, the extended downturn that has been in place for two years may extend the weakness for another quarter or two."

Starts for housing projects with 5 units or more, a very volatile segment, soared 76.3% to a rate of 513,000 units in June. Multi-family housing starts increased 19.3% year-on-year. Overall housing starts jumped 19.0% to a pace of 1.427mn units. They increased 3.5% year-on-year in June. Building permits for multi-family housing projects dropped 4.9% to a rate of 445,000 units last month. Overall building permits fell 3.0% to a rate of 1.367mn units. They declined 2.3% year-on-year in June. The housing drag on the economy was likely offset by strength in consumer spending and business investment in equipment, thanks to an ongoing artificial intelligence build out and restocking of inventories as firms sought to avoid shortages and higher prices related to the Middle East conflict.