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Market views on rate path are reasonable, says ECB official

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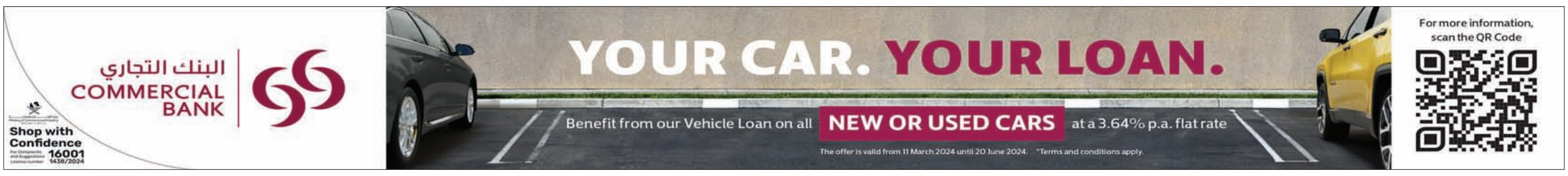
GULF TIMES
BUSINESS

OFFICIAL DATA: Page 3

Japan's inflation speeds up, keeping BoJ rate hike in play



FTAs seen to boost Qatar-Philippines trade, says official

By Peter Alagos
Business Reporter

The Department of Trade and Industry (DTI) in the Philippines is actively working on enhancing market access for the country's exports through free trade agreements (FTAs) and increasing the global mindshare of Philippine brands through the expansion and diversification of its exports and their destinations, an official has said.

DTI Secretary Alfredo E Pascual told *Gulf Times* this initiative is part of efforts to promote the Philippines as an attractive investment destination for Qatari investors and other countries.

Previously, Pascual met with HE the Minister of Commerce and Industry Sheikh Mohamed bin Hamad bin Qassim al-Thani on the sidelines of the the Qatar Economic Forum 2024 to discuss various topics further to strengthen the Philippines' economic partnership with Qatar.

The topics discussed during the meeting include the finalisation of the Philippines-Qatar Investment Promotion and Protection Agreement (IPPA) and the inaugural Philippines-Qatar Joint Economic, Commercial, and Technical Committee (JECTC) meeting in the first quarter of 2025.

"With the continuous collaboration of DTI, our nation enjoys access to various markets, including the Asean market, the Regional Comprehensive Economic Partnership (RCEP), and the Philippines-Japan Economic Partnership Agreement (PJEPA), among others. These agreements underscore our commitment to fostering economic growth and international co-operation," Pascual said.

DTI Secretary Alfredo E Pascual.

According to Pascual, the Board of Investments (BoI), the Philippine Economic Zone Authority (PEZA), and the attached agencies of the DTI are also responsible for the development of investments in the Philippines.

"Leading the promotions of various industries and investment opportunities, the BoI and PEZA currently assist Filipino and foreign investors to venture and thrive in vast wareas of economic pursuits and act as a one-stop shop in doing business in the Philippines," Pascual further said.

Asked for insights or updates on the DTI's efforts to streamline processes and provide support services for Qatari companies interested in doing business in the Philippines, Pascual said the signing of Executive Order No 18 or the "Constituting Green Lanes for Strategic Investments" exemplified the administration of President Ferdinand "Bongbong" R Marcos Jr's crucial reform in addressing investor pain points.

"This whole-of-government approach tackles the bureaucratic hurdles across different agencies, specifically targeting clean energy, infrastructure, green metals, electric vehicles, and pharmaceutical industries.

"We have facilitated the creation of a One-Stop Action Centre for Strategic Investments (OSACSI), which manages the 'Green Lane'. As mentioned by President Ferdinand R Marcos Jr, services must be fast, projects must be completed on time, deadlines must be met as scheduled, and distress calls must be responded to without delay," Pascual pointed out.

As of May 9, 2024, Pascual said the OSACSI has approved a total of 64 projects worth \$35.19mn (P1.9bn) – 55 projects in renewable energy, five in digital infrastructure and two each in food security and manufacturing.

Asked about upcoming trade missions or business delegations planned by the DTI to further explore opportunities in Qatar, Pascual said aside from the JECTC in Q1 next year, the DTI regularly holds business matching initiatives in February every year.

"The DTI, through its Export Marketing Bureau (EMB) and the Philippine Trade and Industry Centres (PTICs), regularly conducts outbound business matching missions to the Gulf Co-operation Council (GCC) countries, including Qatar," he added.

Milaha to launch MGX 2 service next month; connects upper Gulf via Hamad Port

By Santhosh V Perumal
Business Reporter

Milaha is launching a new pendulum service Milaha Gulf Express 2 (MGX 2) service from August 2, which is aimed at serving upper Gulf ports via Hamad Port.

The MGX 2 -- connecting Shanghai, Ningbo. Shekou, Nhava Sheva, Mundra, Sohar, Hamad, Dammam, Shanghai -- will turn in 42 days using three vessels of 3,000 TEU (twenty-foot equivalent units) with a fortnightly frequency.

"This new fortnightly service, which is planned to be soon ramped up to a weekly frequency, will enable a sustainable maritime product between China, India West Coast and Middle East Gulf," said Peter Verheijen, vice-president (Container Shipping), Milaha in LinkedIn.

Oman (Sohar), Qatar (Hamad) and Saudi Arabia (Dammam) will be called on direct basis in sequence on top of India ports. All remaining Gulf Co-operation Council or GCC ports will be served through T/S via Hamad port onto its in-house feeder shortsea services.

The MGX2 will offer exclusive direct service linking China to India West Coast (Nhava Sheva-Mundra). It will also offer exclusive direct link from China to Middle East Gulf (Hamad-Sohar-Dammam).

The service strength is serving upper Gulf ports (Shuwaikh-Umm Qassr) via Hamad Port. Milaha's liner network covers ports in more than 30 countries, including the Indian subcontinent, Arabian Gulf, and Med-Black Sea, Southeast Asia, and China.

From 2018 onwards, Milaha started expanding its networks both in easterly and westerly directions—it introduced liner and feeder services in the Indian subcontinent, the Black Sea, and the Eastern Mediterranean region, as well as Southeast Asia, including China.

Renewable electricity to outstrip output from coal next year: IEA

AFP
Paris

The amount of electricity produced from renewable sources worldwide is set to surpass output from coal-fired plants for the first time in 2025, the International Energy Agency (IEA) said yesterday.

The forecast comes as electricity demand is set to rise 4% this year and next, up from 2.5% in 2023. That would be the highest annual growth since 2007, excepting spikes seen after the global financial crisis that began that year and during the Covid-19 recovery, the Paris-based agency said.

Soaring demand reflects "the growing role of electricity in our economies as well as the impacts of severe heatwaves," said Keisuke Sadamori, the IEA's director of energy markets and security.

Hydroelectric, solar, wind and other renewable sources are forecast to provide 35% of global supply next year, up from 30% in 2023, the agency said. Solar alone is set to supply half the demand growth through 2025, with wind a further 25%.

Coal use is not expected to decline, however, as electricity use soars in China and India in particular, the IEA said.

Heatwaves across India are expected to lift electricity demand in the country by 8% this year, while China's demand is expected to grow 6%.

Global factors play spoilsport in QSE as index falls 1.41%

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

Rising geopolitical uncertainties and apprehensions over the US interest rate cut had their ripple effect on the Qatar Stock Exchange (QSE), which closed this week on a weaker note.

The domestic funds were seen net profit takers as the 20-stock Qatar Index plunged 1.41% or 143 points this week which saw Qatar Islamic Bank report net profit of QR2.07bn in the first half (H1) of 2024.

An across the board selling, particularly in the telecom counter, was seen dampening the sentiments in the main bourse this week which saw Commercial Bank of Qatar report H1-2024 net profit of QR1.57bn.

More than 65% of the traded constituents were in the red in the main market this week, which saw Masraf Al Rayan register net profit of QR7789.06mn in H1-2024.

The foreign retail investors were increasingly net sellers in the main bourse this week which saw Dukhan Bank report QR784.14mn net profit in January-June 2024.

However, the foreign funds were increasingly net buyers in the main market this week which saw Ahlibank Qatar register net profit of QR383.01mn in the first six months of this year.

The local retail investors continued to be net sellers but with lesser intensity in the main bourse this week which saw Milaha and Qatar Steel enter into a five-year stevedore services deal.

The Arab retail investors also continued to be bearish but with lesser vigour in the main market this week which saw a total of 0.05mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.1mn trade across 19 deals.

The Gulf individuals continued to be net profit takers but with lesser intensity in the main bourse this week which saw as many as 0.03mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.3mn change hands across 22 transactions.

The Islamic index was seen declining slower than the main barometer in the main market this week which saw the banks and industrials sectors together constitute about 56% of the total trade volumes.

The domestic funds were seen net profit takers as the 20-stock Qatar Index plunged 1.41% or 143 points this week

Market capitalisation eroded QR8.51bn or 1.45% to QR580.26bn on the back of large and midcap segments this week, which saw no trading of sovereign bonds.

Trade turnover fell amidst higher volumes in the main market this week which saw no trading of treasury bills.

In the case of venture market, trade turnover and volumes were on an increasing pitch this week, which saw Masraf Al Rayan adopt interim dividend payment framework.

The Total Return Index fell 1.07%, the All Share Index by 0.91% and the All Islamic Index by 1.3% this week which saw the Qatar Financial Markets Authority issue new controls for a company's buyback of its shares with the intention of selling.

The telecom sector index tanked 2.79%, industrials (1.38%), insurance (1.09%), banks and financial services (0.73%), real estate (0.51%), transport (0.5%) and consumer goods and services (0.01%) this week which saw Milaha announce new pendulum service MGX 2 (Milaha Gulf Express 2), to be deployed between China-India/Gulf.

Major shakers in the main bourse included Al Meera, Qatar Electricity and Water, Ooredoo, Aamal Company, Qatar Islamic Bank, QNB, Commercial Bank, Al Faleh Educational Holding, Qatar National Cement, Industries Qatar, United Development Company, Vodafone Qatar, Nakilat and Gulf Warehousing. In the venture market, Techno Q saw its shares depreciate in value this week.

Nevertheless, Widam Food, Doha Bank, Zad Holding, Beema, Gulf International Services, Salam International Investment, Qatari Investors Group and Milaha were among the movers in the main market. In the junior bourse, Al Mahhar Holding saw its shares appreciate in value this week.

The domestic funds turned net sellers to the tune of QR70.73mn compared with net buyers of QR124.84mn the week ended July 11.

The foreign retail investors' net selling increased noticeably to QR11.51mn against QR0.85mn the previous week. However, the foreign institutions' net buying strengthened substantially to QR161.75mn compared to QR14.19mn a week ago.

The local individuals' net selling decreased drastically to QR35.41mn against QR86.36mn the week ended July 11.

The Gulf institutions' net selling declined perceptibly to QR28.74mn compared to QR31.35mn the previous week. The Arab retail investors' net profit booking weakened marginally to QR12.65mn against QR13.05mn a week ago.

The Gulf individuals' net selling shrank markedly to QR2.66mn compared to QR6.72mn the week ended July 11.

The Arab institutions' net profit booking eased marginally to QR0.02mn against QR0.68mn the previous week.

The main market witnessed an 8% jump in trade volumes to 812.26mn shares but on 1% fall in value to QR2.05bn amidst 5% higher deals at 79,338 this week.

In the venture market, trade volumes shot up 11% to 6.49mn equities and value by 11% to QR12.82mn, while transactions declined 24% to 500.

BUSINESS

Goldman sells $5.5bn of bonds in post-earnings binge

Bloomberg
New York

Goldman Sachs Group Inc and Wells Fargo & Co joined rival JPMorgan Chase & Co in the tapping the US investment-grade market after reporting second-quarter earnings.

Goldman sold $5.5bn of bonds in two parts, according to a person with knowledge of the matter. The longest portion of the offering, an 11-year security, yields 1.17 percentage point above Treasuries, after initial discussions of around 1.45 percentage point, said the person, who asked not to be identified as the details are private.

Proceeds from offering will be used for general corporate purposes and Goldman is the sole underwriter of the deal, added the person.

Goldman's trading unit powered a surge in earnings in the second quarter. Both fixed-income and equity traders outpaced analysts' estimates, while a rebounding capital-markets business helped drive better-than-expected results across much of the company's Wall Street operations.

Wells Fargo, meanwhile, tapped the US high-grade market with a $2bn perpetual securities offering a day after it raised €2.75bn ($3bn) in the European debt market.

This is the first sale of a preferred stock series by one of the so-called Big Six lenders in the US in almost two months, following a spurt of deals earlier this year when hopes of rate cuts by the Federal Reserve were fading. It's also Wells Fargo's first since last summer, when it effectively reopened a market that had remained shut since the regional banking crisis.

The new issue "looks like a net AT1 addition (no refinancing)," CreditSights Inc analysts Jesse Rosenthal and George Milonopoulos wrote in a client note. This refers to the role of preferred shares as a source of Additional Tier 1 capital for US banks, played by contingent convertible bonds in other parts of the world.

Representatives for Goldman didn't respond to a request for comment. Wells Fargo declined to comment. JPMorgan kicked off the issuance spree from the big banks on Monday, borrowing $9bn in a four-part offering that garnered over $28bn in investor demand.

The longest portion of the deal, an 11-year tranche, drew upwards of $12bn in orders. That allowed the lender to pay just low single-digit concessions to sell the debt, Bloomberg's Brian Smith wrote in a note.

The top banks are expected to borrow more than they usually do after they post earnings as they take advantage of falling yields and get ahead of upcoming US elections that could potentially bring market turmoil. The big banks are some of the largest issuers of investment grade corporate debt and their funding decisions help set the tone for the rest of that market.

JPMorgan credit analyst Kabir Caprihan expects $21bn to $24bn of issuance from the six biggest domestic banks, more than the 10-year July average of roughly $17bn. Barclays analysts including Peter Troisi are calling for about $30bn in the third quarter, with most of that expected this month. Bank of America Corp reported trading and investment-banking results that topped analysts' estimates while Morgan Stanley's trading business posted the biggest increase among its peers in the second quarter.

The two lenders, alongside Citigroup Inc are also candidates to sell debt this month.

Global systemically important banks have borrowed an average of $21bn in the US high-grade market in the four weeks following earnings every year since 2014, JPMorgan analysts Eric Beinstein and Nathaniel Rosenbaum wrote in a note. "Many investors tend to be cautious on bank spreads heading into these heavy supply weeks but the historical data suggests this is unwarranted," wrote the analysts.

Bank bond spreads — and in some cases bank stocks — have outperformed during the heavy supply weeks, according to the note. The average spread on a financial institution bond is just 4 basis points wider than the broader high-grade index.

Canada's finance minister is upbeat on economy amid Carney reports

Bloomberg
Ottawa

Canada's finance minister says the country is on track for a soft landing, with inflation in retreat, interest rates on the way down and no recession in sight.

But Chrystia Freeland is realistic enough to know that a little bit of good economic data isn't enough to turn around the political fortunes of Prime Minister Justin Trudeau's administration. Polls show his deepening unpopularity – with the public frustrated about the cost of living, housing shortages, crime and a host of other issues.

"Every government that has been in office during Covid and its aftermath has been challenged," she said in a recent interview with Bloomberg News, adding that the past several years have been a "real trauma".

"It was like pandemic and lockdowns and people dying, and then it was inflation and shortages," she said. "And now it is interest rates – my credit card bill is too high, my mortgage is too high."

"I think people are quite right to say to their governments, 'Things are hard and I blame you. Your job is to handle it.'"

Exactly how long Freeland will be left in place to handle the finances of the world's 10th-largest economy is a question mark, after media reports that Trudeau has had conversations with Mark Carney, the former governor of the Bank of Canada and Bank of England, about entering the government. The Globe and Mail newspaper reported Wednesday that the two men talked over the weekend – though it also said the prime minister didn't offer Carney a cabinet post and has assured Freeland her job is safe for now.


Chrystia Freeland, Canada's finance minister.


Mark Carney, former Bank of Canada and Bank of England governor.

Carney is the chair of Bloomberg and Brookfield Asset Management, among other business and nonprofit sector roles. He didn't respond to requests for comment from Bloomberg News.

The prime minister's office didn't provide comment on the Globe report. It has previously said it has "full confidence" in Freeland.

The speculation about Carney underscores the intense pressure Trudeau is under to arrest a downward spiral that began to accelerate about a year ago. Current national polls put the Liberals between 15 and 20 points behind Pierre Poilievre's Conservative Party.

Even if that margin narrows a bit, the Conservatives, at the moment, are on track to win a huge victory in an election scheduled for next year.

Voters' current focus on economic issues doesn't bode well for Trudeau. A poll by Nanos Research for Bloomberg News found that of the national party leaders, Poilievre holds a strong lead on the question of who is best to support growth – hence the implication that Freeland hasn't done a good job of communicating the government's economic message.

Freeland, when asked whether there had been increased tension between her office and the prime minister's, said: "From my perspective, not at all." As for whether she's confident that she'll still be finance minister in the fall, she said: "I really don't believe in grading my own homework. I serve at the pleasure of the prime minister. That's how a cabinet works."

Last week, she hit the road for meetings with business leaders in New York and Washington, and emphasised that the government is trying to set the right fiscal tone.

She noted international investors are keen to buy up more of Canada's debt – foreigners bought a record-setting net C$54bn ($39bn) in federal government bonds over the last six months. She said it's always "quite a shock" when she points out to foreign audiences how much better Canada's fiscal position is than other nations.

The federal government is expected to run a budget deficit of 1.3% of gross domestic product next year, according to a Bloomberg survey of economists. That matches Germany as the lowest among Group of Seven countries, a level far below the US, where the deficit is forecast at over 6%.

Still, she rejected suggestions that the country should consider running deeper deficits, insisting that would be irresponsible.

Freeland and Trudeau have come under scrutiny for ramping up spending: Direct program expenses are around 8% of GDP — the highest since the early 1990s, outside the Covid-19 crisis. To meet her goals of keeping deficits around C$40bn before reducing them to less 1% of GDP by 2026-27, Freeland used her budget in April to announce an increase the capital gains tax inclusion rate to two-thirds from one-half. It was a controversial decision, especially in the business community.

Carney and Freeland have known each other for a long time – in fact, Carney is the godfather to Freeland's son. They speak "pretty often," she said. "Mark is a great guy. I think it's very positive for us that he has come out as a Liberal."

Still, Carney – who joined the Liberal Party after returning to Canada from his stint running the BoE in 2020 – offered veiled criticism of Freeland's budget, with its capital-gains hike and its heavy focus on housing and intergenerational fairness.

"It was a budget about fairness, as we know, and it wasn't necessarily a budget about growth and resilience. And we need both," he said during an event in April.

Netflix adds 8mn customers, extending lead over rivals

Bloomberg
California

Netflix Inc extended its lead over the streaming competition, adding 8.05mn customers in the second quarter and raising estimates for annual sales and profit margins.

The subscriber results, announced in a shareholder letter on Thursday, topped expectations in every region around the world and included 2.8mn new customers in the Asia-Pacific. Analysts expected a total of 4.87mn on average.

The company's crackdown on password sharing and the introduction of a lower-priced subscriber plan with advertising propelled Netflix to its second-best first half, trailing only the pandemic-fuelled boom in 2020. The less-costly plan accounted for almost half of sign-ups last quarter in markets where it's offered, and the company said it will be large enough next year to appeal to major sponsors.

This quarter, Netflix expects to deliver earnings of $5.10 a share, higher than Wall Street estimates, on sales of $9.73bn, which is slightly less than analysts forecast. The company said subscriber gains will trail last year's 8.76mn. Analysts predict 5.18mn.

Netflix's surge in growth has occurred while most of its competitors have slowed down, struggling to attract customers and pay for new shows.

The company delivered a number of major hits last quarter, including a new season of *Bridgerton*, the surprise hit *Baby Reindeer* and the French movie *Under Paris*. They helped boost Netflix's share of total TV viewing in the US climbed to more than 8% in the most recent month, more than double any other paid streaming service, according to Nielsen data.

"The challenge for so many of our competitors is that while they are investing heavily in premium content, it's generating relatively small viewing on their streaming services," the company said in its quarterly letter to shareholders.

For the second quarter, Netflix said, earnings rose 48% to $4.88 a share, beating estimates of $4.74. Revenue increased 17% to $9.56bn, slightly exceeding projections. It ended the quarter with 277.7mn customers worldwide. Shares of Netflix were little changed in extended trading. They fell initially after the results were announced before recovering. Bullish investors have been pushing the stock back toward the all-time closing high of more than $690 that they reached in November 2021.

Netflix plans to stop reporting subscriber numbers next year, which many analysts interpreted as a bad sign about its growth going forward. Yet the company, which has added more than 17mn customers this year, struck a confident tone on Thursday, raising its full-year estimate for profit margins.

In a video interview following the results, management said there are still 500mn homes with smart TVs that don't pay for Netflix, a large addressable market. Netflix can also gain a larger share of TV viewing in the US and other markets.

The most immediate opportunity for Netflix is in advertising. More than 40mn people now use the company's advertising plan every month. Management expects to achieve a meaningful number of subscribers for its advertising tier by next year, but needs to do more work to make money from those customers.

"The near-term challenge (and medium term opportunity) is that we're scaling faster than our ability to monetise our growing ad inventory," the company said.

Wall Street starts calling time on ESG labels after backlash

Bloomberg
New York

At Institutional Investor, keeper of Wall Street's version of the Oscars for financial analysts, the winner in one category this year is — nobody.

The red carpet is being formally rolled up for the three letters, ESG. The 57-year-old has dropped the label, short for environmental, social and governance, from its annual analyst rankings.

In its place is "sustainability," a synonym many banks and money managers are using instead, amid the increasingly politicised debate over climate change and corporate diversity in the US.

This is how it is these days for ESG in American finance. The label, which emerged from obscurity only to be hyped by Wall Street and then attacked by Republican politicians, is being scrubbed from some investment products and job titles.

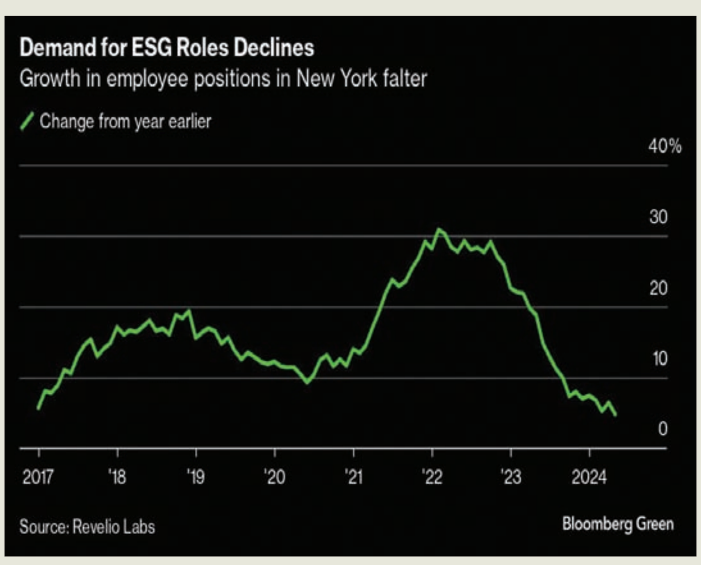
"Banks aren't all in like they were during the boom days," said Michael Karp, who runs recruitment firm Options Group in New York.

Financial firms have been navigating a fraught path in the US for much of the past two years. They're much less vocal about topics like climate change to avoid the ire of oil-rich red states, but not completely silent so as to not alienate clients in blue states and cities, as well as those in Europe, where ESG — both the term and the investment business — remains a potent force.

At stake are more than a few letters: The historic hurricane that battered the Caribbean and then Texas, and recent wildfires in California show the gravity of an overheating planet. And that's stoking demand for niche but fast-growing corners of ESG investing, including climate-transition funds and debt instruments such as catastrophe bonds, where issuance is at a record high.

In addition, global investment in the energy transition rose 17% last year to a record $1.8tn and the numbers continue to grow, according to researchers at BloombergNEF. The US posted "strong growth" in 2023, spending $303bn, BNEF said.

While some US firms, including Neuberger Berman, are sticking with ESG, others say the label is diminished. Jefferies Financial Group Inc has replaced ESG in analysts' job titles with the words "sustainability and transition." Wellington Management Co and Lazard Asset Management have cut jobs. Bank of America Corp has reorganised its ESG research team and merged the group's activities with clean energy.



Representatives for the firms declined to comment or didn't respond to messages seeking comment.

The narrative around ESG has certainly changed. Bank chiefs, who were talking up "net-zero" emissions goals just a few ago, continue to do business with fossil-fuel companies. State Street Global Advisors and other investment giants have abandoned groups set up to fight global warming.

Investor support for environmental and social shareholder proposals has declined, and mentions of climate change, as well as diversity, equity and inclusion, or DEI, are now much less common on company conference calls.

Other headwinds for ESG include a seminal climate rule from the US Securities and Exchange Commission that's being challenged in the courts and the Federal Reserve, which has thwarted efforts to make environmental risks a focus of global financial rules. Another big worry is the possibility of a second Trump administration that would be even more hostile to climate initiatives and environmental regulation than the first.

Perhaps most importantly, wind and solar, a big part of the green-energy pitch, has simply been a bad investment lately. The S&P Global Clean Energy Index has plummeted more than 50% from its peak in early 2021, even as the S&P 500 ascended to record highs. Small wonder, then, that US funds with ESG goals are falling out of favour. Despite gains in the broader stock market, the sector's assets have fallen to roughly $335bn from a peak closer to $365bn at the end of 2021, according to researchers at Morningstar Inc.

And investors are pulling money at a faster pace. In the first three months of this year, they withdrew a record $8.8bn from these funds, marking the sixth consecutive quarter of outflows, Morningstar reported. The industry malaise also forced hedge fund manager Jeff Ubben to shutter his sustainable-investment fund late last year, saying the strategy hasn't been rewarded in financial markets.

At the same time, the once-promising business of ESG bonds has gone from hot to not for Wall Street underwriters. About $38 billion of ESG-linked corporate bonds were issued in the US during the first six months of the year, down from about $70bn in the first half of 2021 when the industry took off.

Institutional Investor, for its part, is simply following the lead of the industry it chronicles, according to David Enticknap, who runs II Research. "Whilst there may be a perceived backlash against the term ESG, we understand that most sell-side firms have retained some analysts in the field," Enticknap said in an e-mail. Changing the category to "sustainability" made sense, he said.

Ever since the label was conjured up by United Nations staffers two decades ago, it's often confused people inside and outside of the financial industry because it covers a diffuse set of overlapping topics. That didn't stop Wall Street from using ESG to sell everything from mom-and-pop investment funds to complex financial products.

Still, there are those who believe ESG — or whatever it's ultimately called — will play a key role in investment decisions.

Japan's inflation speeds up for second month in June

Bloomberg
Tokyo

Japan's inflation accelerated for a second month in June, leaving the door open for central bank officials to consider raising interest rates when they gather to set policy at the end of the month.

Consumer prices excluding fresh food gained 2.6% from a year ago, quickening from 2.5% in May on slightly higher energy costs, the ministry of internal affairs reported yesterday. The reading came in a tad weaker than economists' consensus for a 2.7% increase, but extended the run of inflation at or above the Bank of Japan (BoJ)'s 2% target to a 27th month.

The result largely mirrored movements in the price gauge for Tokyo released late last month that showed an acceleration on the back of higher energy prices.

Hotter prices will give the central bank a reason to mull a rate hike at the policy board meeting that concludes on July 31. One in three BoJ watchers expects the bank to raise rates in July, according to a Bloomberg survey last month.

"The impact from the subsidies cut is the biggest reason behind the acceleration," said Yoshiki Shinke, senior executive economist at Dai-Ichi Life Research Institute. The report shows "no big surprise, so it won't change the BoJ view too much."

The central bank is also scheduled to unveil a roadmap for cutting its bond purchases and release its economic outlook report, including updated inflation forecasts. In the April edition, the bank projected the key price gauge would rise 2.8% on average this fiscal year.

Customers queue outside a restaurant in the Shinjuku district in Tokyo. Japan's inflation accelerated for a second month in June, leaving the door open for central bank officials to consider raising interest rates when they gather to set policy at the end of the month.

The nationwide price gains in June were mostly driven by higher energy prices after the government finished phasing out utility subsidies. The impact was most pronounced in electricity and natural gas prices, which rose 3.7% from a year earlier, compared with a 3.2% drop in May. Electricity prices were less affected by the end of the subsidies due to a higher base last year, when operators significantly raised their rates in response to surging commodity costs. Higher hotel costs also contributed to the overall acceleration.

The sustained inflationary pressure is a positive sign for Japan's economy, which has shown mixed signs lately. Earlier this month, Japan's gross domestic product figure for the January-March quarter was revised lower to show a deeper contraction, and household spending unexpectedly fell from a year ago in May. At the same time, workers' base salaries jumped the most since 1993 in a bright sign for the prospects of achieving a virtuous cycle tying wage growth to demand-led price gains.

Also, exports grew for a seventh straight month in June, supporting the view that economic growth will rebound somewhat in the second quarter.

Energy prices will remain a major uncertainty in Japan's price trends, as Prime Minister Fumio Kishida announced last month that extra utility assistance is coming along with an extension of gasoline subsidies. The new measures will come after earlier subsidies expired at the end of June, and stay in place for three months starting in August. The additional relief would shave off consumer inflation by half a percentage point per month on average, Kishida said.

Another key risk for price trends lies in the volatile currency. The yen has foundered near a 38-year low for about a month.

The finance ministry is suspected of conducting currency intervention on two occasions last week to put a floor under the currency, though authorities haven't confirmed the action.

With the yen's rapid depreciation driving up costs of living, Japan's households see inflation at record levels over the coming years, as indicated by a BoJ's quarterly survey. Over the next 12 months, they expect price growth of 11.5%.

A deeper measure of inflation that strips out fresh food and energy prices rose 2.2% in June, quickening from 2.1% in May.

Malaysia's GDP growth beats all estimates as recovery holds

Bloomberg
Kuala Lumpur

Malaysia's economic growth in the second quarter surpassed all estimates on broad-based gains from manufacturing to consumption, suggesting a recovery seen at the beginning of this year is gathering speed.

Gross domestic product grew 5.8% in the April-June quarter from a year ago, according to advance estimates released by the Department of Statistics yesterday. That was the fastest since the December quarter of 2022 and quicker than even the highest forecast of 5.1% in a Bloomberg survey.

The performance follows a 4.2% expansion seen in the first three months of 2024, and puts the economy on course to hit, if not surpass, the government's projection of a 4-5% growth this year.

"Malaysia's economy is expected to continue its growth momentum, supported by domestic and export-driven factors, with a positive outlook for the remainder of the year," according to the statement. The final data is scheduled for release on August 16.

The robust growth data, along with potential price pressures arising from reduction in fuel subsidies support the central bank's decision to keep borrowing costs elevated. Bank Negara Malaysia last week pointed to sustained strength in the economy, aided by resilient consumption and improved exports due to the global tech upcycle, in announcing its decision to keep the policy rate unchanged at 3%. The figures were "extremely beyond" market expectations, and allows for the possibility that GDP may exceed 5% this year, said Mohd Afzanizam Abdul Rashid, an analyst at Bank Muamalat Malaysia Bhd. "Above all, this data should be positive for the ringgit as BNM is not about to reverse its course. Growth parameters look good now," he added.

The local currency was down 0.2% against the dollar yesterday. The country's stock benchmark held gains, even as a broad selloff prevailed in Asia.

Malaysia is poised to benefit "from a trifecta of positives" this year — improving private investment, recovery in external demand, and resilient consumer spending, according to Maybank Investment Bank analysts Suhaimi Ilias and Wong Chew Hann in a note this week ahead of the data. They expect growth to come in at 4.7% this year.

It's a positive turnaround for the $400bn economy, which saw growth moderate last year amid tepid global demand. The International Monetary Fund expects economic output to improve this year to 4.4% from 3.7% in 2023.

The country recently drew billions of dollars of investment pledges from the likes of Google and Microsoft Corp as Prime Minister Anwar Ibrahim positions Malaysia as a regional tech hub. At the same time, exports grew for a third straight month in June and will likely improve further. Cash handouts and higher wages for civil servants will also support domestic consumption.

Most Asian equity markets fall with eyes on US election

AFP
Hong Kong

Asian equities sank yesterday as optimism over expected US interest rate cuts was offset by uncertainty about the US presidential election and a lack of economy-boosting measures from Chinese leaders after a closely watched policy meeting.

Investors were already on edge after a report said the White House was considering a crackdown on firms supplying chip technology to Beijing, and following Donald Trump's call for Taiwan to pay Washington for help defending itself against China.

Markets have been enjoying a healthy run-up as Federal Reserve officials, including boss Jerome Powell, have lined up in recent days to suggest they are ready to begin reducing rates owing to a slowdown in inflation and a softening in the labour market.

Data Thursday provided fresh room for the central bank to act, with initial jobless claims rising more than expected last week.

Traders are now all but certain of a move in September, with some even suggesting there could be more in the last few months of the year.

However, the tech sector — which has led the surge in stocks this year — has taken a hefty hit after the report of the warning from the White House over supplying China and Trump's remarks over Taiwan, home to some of the world's biggest chip producers.

There is also growing uncertainty over who will run against Trump in November's presidential election, as calls for President Joe Biden to step aside continue to grow following a series of gaffes and a poor debate that have raised questions about his health.

The New York Times cited several people close to Biden as saying they believe he has begun to accept that he may not be able to win and may have to drop out, with one quoted as saying: "Reality is setting in." Former president Barack Obama has reportedly told allies his former vice-president should "seriously consider the viability of his candidacy," *The Washington Post* reported.

While a Trump win is seen as positive for equities owing to likely tax cuts and corporate deregulation, there are worries about his plans to impose huge tariffs on Chinese imports — and those from elsewhere — which many say could fuel inflation again.

A closely watched meeting of China's leaders in Beijing this week provided nothing concrete by way of supporting the world's number two economy.

The Third Plenum, which meets twice a decade to decide key policies, saw few policy announcements, with state news agency Xinhua saying they had agreed to "prevent and resolve risks in key areas such as real estate, (and) local government debt".

They also vowed to "actively expand domestic demand" days after data this week revealed retail sales — a gauge of consumption — rose far less than expected in June. Figures on Monday also showed gross domestic product grew much slower than forecast in the second quarter.

Economists at HSBC said: "The communique's emphasis on 'opening up as a distinctive feature of China's modernisation' is worth noting. We expect the government to prioritise reforms that will facilitate foreign investment.

They pointed to persistent cross-border outflows, which is weighing on the yuan, and noted that the currency would likely remain under pressure owing to the big difference in US and Chinese interest rates, which makes it harder to attract investors.

"With the (yuan's) yield disadvantage likely to stay wide for longer, China needs more opening-up and market-oriented policies to attract or retain foreign investment.

"This may help reduce imbalance in cross-border flows, and thus alleviate (yuan) depreciation pressure." Harry Murphy Cruise at Moody's Analytics added that ahead of the plenum "we called for reforms around property, tax, and local government debt, as well as support for private firms and investment, all of which got a mention".

However, while he acknowledged the meetings map out a long-term view, "this was still a missed opportunity".

Shares in Hong Kong fell owing to a lack of policy detail, though Shanghai eked out a gain. There were also losses in Tokyo, Sydney, Seoul, Singapore, Mumbai, Bangkok, Taipei, Wellington and Jakarta.

Paris and Frankfurt opened lower.

The retreat followed another bad day on Wall Street, where the Dow dived after three days of record highs.

In Tokyo, the Nikkei 225 closed down 0.2% to 40,063.79 points; Hong Kong — Hang Seng Index ended down 1.8% to 17,455.03 points and Shanghai — Composite closed up 0.2% to 2,982.31 points yesterday.

Prioritising cybersecurity a must, say IT experts

QNA
Doha

Experts in the fields of economics and information technology estimated that the economic impact of the recent internet disruption on the global economy could be worth millions, if not billions, of US dollars. They noted that it is currently difficult to accurately quantify the extent of the damage.

In statements to Qatar News Agency (QNA), the experts described the technical failure that affected the internet as a shock that will increase the cybersecurity challenges faced by countries, companies, and individuals. They emphasised the importance of prioritising the protection of information systems and cybersecurity, as well as business continuity strategies, to ensure economic sustainability and the protection of public and personal data.

Dr Abdullah al-Khater highlighted that the companies most affected by the global economic paralysis caused by the internet outage are Microsoft and CrowdStrike. He added that the impact is significant in terms of their reputations as well as the costs they will incur from the affected parties using their services and applications.

Dr al-Khater raised several questions about the readiness of Microsoft's systems before carrying out updates, especially considering their use of artificial intelligence technologies. He said that the update caused long hours of disruption to airports, travel, tourism, hospitals, and other institutions. He also pointed out the cybersecurity concerns that will be raised by markets and consumers in the near future due to growing anxiety and fears stemming from the disruption to Microsoft's systems.

Dr al-Khater noted that governments and decision-makers will face additional challenges, as they must answer questions regarding the level of cybersecurity needed beyond what Microsoft and CrowdStrike have provided, which revealed vulnerabilities that will likely lead to increased hacker activity.

The global internet disruption today caused operational disruptions for airlines, telecommunications, media outlets, banks, and major trading markets. Reports indicated that air travel was disrupted at several airports worldwide, including those in the US, Spain, Turkiye, Australia, and Germany, due to communication issues.

Global markets in London and Singapore, particularly those involved in oil and gas trading, reported difficulties executing transactions due to the internet outage.

Several media outlets around the world were also affected by the outage.

Additionally, Berlin Airport and Schiphol Airport in Amsterdam reported technical failures yesterday, resulting in flight suspensions that will impact passenger traffic and tourism activities, which typically see a surge during the summer holidays.

Mohamed Alam, an expert in information and communication technology and General Manager of Qatar Datamation Systems, provided insights to Qatar News Agency regarding the Internet outage that caused paralysis across various sectors such as airports, hospitals, banks, shopping centres, and media outlets.

He explained that the disruption primarily affected users of Microsoft 365 applications and services, leading their devices to display a blank blue screen, commonly referred to as the "blue screen of death," followed by a message indicating the user was locked out of their operating system.

Alam, along with other industry professionals, attributed the malfunction to American cybersecurity company CrowdStrike.

The company's mandatory update led to the failure of devices running Microsoft Windows.

He noted that the economic repercussions of this outage are vast and likely amount to billions of dollars, though it's too early to quantify the full extent of the damage, given the wide-ranging impact on the global economy.

Alam emphasised the importance of prioritising information system protection, cybersecurity, and business continuity strategies to shield the economy from intentional or accidental disruptions.

Implementing technical, organisational, and administrative measures to ensure the swift recovery of electronic information, communication, and information systems is crucial to prevent paralysis and protect the operations of states, companies, and individuals from cyber threats.

Meanwhile, businessman Mansour al-Naemi echoed the same sentiments, highlighting the negative impact of the outage on businesses. He said that prolonged disruptions will increase production costs and burden both small and large companies, especially those reliant on Microsoft and CrowdStrike applications. Al-Naemi stressed the importance of companies enhancing their capabilities to handle such unexpected shocks by supporting cybersecurity mechanisms to maintain production, storage, and marketing systems, thereby safeguarding the economic fabric of nations.

He pointed out that globalisation and the interconnectedness of global economies necessitate collective efforts to establish systems capable of addressing challenges and mitigating the effects of technical failures or cyberattacks.

Microsoft 365, on its official page on X, mentioned that the company is working on rerouting affected traffic to alternative systems to alleviate the impact and restore service availability, noting an improvement in service availability despite the significant disruptions reported by airlines and airports.

Market expectations on interest rate path are reasonable: ECB official

Bloomberg
Frankfurt

Market bets that point to two additional European Central Bank (ECB) interest-rate cuts in 2024 sound "reasonable", according to Governing Council member Francois Villeroy de Galhau.

"I won't make a prediction because it will depend on data," he told BFM Business television yesterday. "We are looking more at the forecast for 2025 than the fluctuations in 2024 as there will be highs and lows from one month to the next. That said, we are free in our decisions, but today the market expectations on the rate path seem to me to be rather reasonable."

Traders are pricing 20 basis points of rate cuts at the next policy meeting in September, equivalent to an 80% chance of a quarter-point move. They're still leaning toward two cuts of that size for the rest of this year.

The ECB on Thursday kept its deposit rate at 3.75%, with President Christine Lagarde saying the next gathering on September 11-12 is "wide open". Still, with inflation pressures lingering, officials are becoming less confident that a path for two further reductions is realistic, and don't want investors to assume that a move in September is a done deal, according to people familiar with the matter.

Speaking later, Villeroy's Lithuanian counterpart, Gediminas Simkus, said he also agrees with current market pricing.

"If there are no surprises or black swans and inflation converges as expected, further monetary-policy easing will undoubtedly be on the table in the next meetings," he told reporters in Vilnius. "I have no doubt that the issue of cutting will be put up for discussion in September," Simkus said, though stressed that it's unclear whether a move will materialise since the ECB must still assess new data over the coming weeks. Others were more guarded, with Estonia's Madis Muller warning against pre-commitments.

"I think it's important that if the next ECB Governing Council meeting is in September that we wouldn't promise too much in advance," he said. Muller acknowledged market expectations for "at least one more cut", but added that "I personally wouldn't comment".

In an interview with local radio Aripaev, he highlighted that services inflation around 4% and wage growth at 5% are "not in line with the 2% target". Still, "I think it's realistic that in next 12 months, inflation will continue to be see a decelerating trend," he said.

Finland's Olli Rehn also cautioned against pre-committing to a specific path for borrowing costs, saying upside risks to prices persist.

The ECB's quarterly survey of professional forecasters published Friday showed that the central bank will meet its inflation target in 2025. Consumer prices will rise 2% next year — matching the prediction from the previous poll. The projection for 2024 was also unchanged at 2.4%, while the outlook for 2026 dipped to 1.9% from 2%.

Villeroy also took a more positive view, saying disinflation is continuing as expected and that the rate of price increases will continue to slow with certainty. Getting down to the ECB's inflation goal next year is a commitment rather than just a prediction, barring shocks, he said. The French central banker also said that the ECB was particularly attentive to inflation in services, where there is "a bit of stickiness".

Turning to his home country, which has been rocked by uncertainty after President Emmanuel Macron called snap elections, Villeroy said "attention is being paid" to what's happening.

"There is the question of the spread, which was 50 basis points with Germany on 10-year rates before the dissolution of parliament — it rose significantly, but today it is 65 basis points," he said. "I won't anticipate choices that will be made, but it is very important that France keeps control over its public debt and public deficit — that is what will be most watched for the spread."

Francois Villeroy de Galhau, governing council member of the European Central Bank.

Russia cuts crude oil exports to keep more barrels at home for refiners

Bloomberg
Moscow

Russia is suddenly exporting much less oil, crimping supplies to the large Asian economies that have come to rely on Moscow for discounted energy supplies since the invasion of Ukraine. The country's seaborne crude shipments have slumped to the lowest since January, and are likely to remain near that level through to the end of August. The shift in flows is a mirror image of Russia's domestic refining rates, which that so far in July are on track to reach a six-month high.

This change is a consequence of the recovery in the nation's oil-processing facilities from seasonal maintenance and drone attacks. And whatever is added to domestic feedstocks must be subtracted from exports because Moscow's deal with the Organisation of Petroleum Exporting Countries prevents it from boosting production at least until October.

"The sharp drop in July isn't a one-off event," said Viktor Kurilov, senior oil markets analyst at consultant Rystad Energy.

Russia's four-week average seaborne oil exports, which mainly go to India and China, fell to 3.11mn barrels a day as of July 14, down by almost 600,000 barrels a day from their recent peak in April, according to ship-tracking data gathered by Bloomberg.

It's a significant shift in oil flows, but the redirection in supplies from the Russian ports is manageable for the buyers like India and China.

Even though those two countries together purchase more than 80% Russian seaborne crude exports, the missing barrels represent only a fraction of daily consumption in Asian markets, and supplies exist elsewhere to fill the gap.

Rystad Energy forecasts Russia's seaborne crude flows will remain capped at around 2.7mn barrels a day in July and August and rebound to 2.9mn barrels a day only in September, once Russian refineries begin their traditional autumn maintenance. That's still well below the levels seen in April and May, when the four-week average of daily shipments from ports jumped as high as 3.6mn to 3.7mn barrels as repeated Ukrainian drone attacks shut disrupted domestic refining.

"The levels seen in April or May are not to be repeated in 2024, barring large-scale drone attacks that would debilitate even more refineries than the spring strikes," said Viktor Katona, lead crude analyst at intelligence firm Kpler. He expects Russia's seaborne crude supplies to hover near 3mn barrels a day.

Russia's Energy Ministry didn't respond to a request for comment.

Since Russia's invasion of Ukraine, its oil exports have been targeted by several waves of international sanctions. However, the impact of these measures on recent changes in crude flows has been "fairly muted," according to Katona.

Major shipper Sovcomflot PJSC and some of its vessels as well as several 'shadow fleet' tankers have become targets of the US and the EU sanctions earlier this year. These restrictions did cause temporary disruptions in oil supplies to India, the top importer of Russian barrels, which initially refused to take barrels from that company's vessels.

More recently, India resumed purchases of crude shipped by Sovcomflot tankers, said Katona.

Since last year's fuel crisis, which required personal involvement from President Vladimir Putin, the Russian government has sought to strike the right balance between exporting crude and refining it at home.

After scoring 60% returns, carry traders are ditching peso, real

Bloomberg
Mexico City

Latin America is being replaced as the go-to trade for currency investors as politics turns double-digit gains into losing bets.

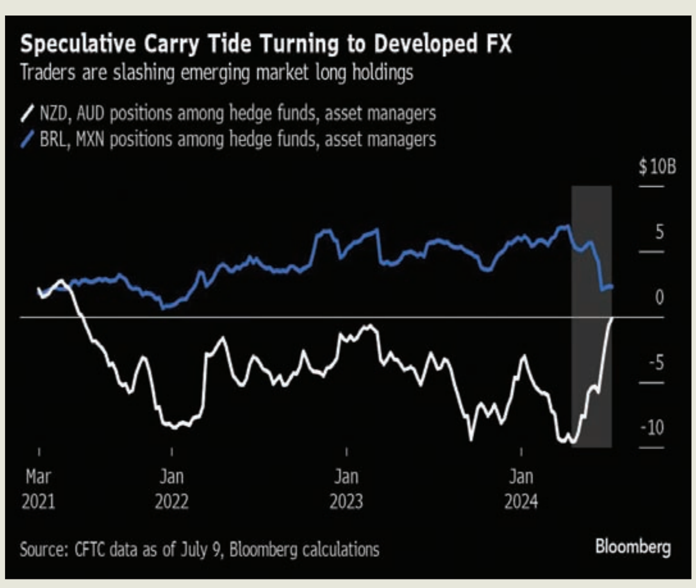
After minting outsize returns in currencies like the Mexican peso and the Brazilian real for much of the past two years, investors are turning to less risky alternatives such as the Australia and New Zealand dollars for carry trades, which involve borrowing in the currency of a low-yielding country to buy high yielders.

Developments in Latin America — from Mexico's surprise election results to Brazil's deteriorating fiscal outlook — are part of the explanation. But traders are also fretting about volatility tied to the US presidential race. They're turning to developed-world destinations that have relatively attractive interest rates and may be less vulnerable to market turbulence as the November vote approaches — and the Australian and New Zealand dollars have emerged as prime targets, says Brad Bechtel at Jefferies.

"The appeal of Latin America has slipped," Bechtel, the firm's global head of foreign exchange, said in an interview. "Investors may want to shield themselves from the dollar and hide out in these developed-market currencies as we approach the fall and the election really starts heating up."

Futures and options positioning illustrates the shift. Investors' combined positioning in the Mexican peso and Brazilian real is around the least bullish it's been since early 2022, while the collective stance on the Australian and New Zealand dollars is the rosiest since 2021.

The Australian and New Zealand dollars are poised to outperform global peers, buoyed by their central banks' comparatively restrictive policies, while traders bet the US Federal Reserve will start lowering borrowing costs in the coming months. The Aussie and the kiwi were the top gainers versus the greenback among Group-of-10 peers last quarter.



Meanwhile, even after recouping some ground this month as Fed-easing bets boosted emerging markets, the peso and the real are still down roughly 5% against the US dollar from early June — when the landslide election victory for Mexico's ruling party derailed the peso — through Thursday. Volatility has picked up in the peso as well as in the real, which has weakened amid worries that the Brazilian government would miss its budget targets. The greater turbulence reduces the attractiveness of the lofty interest rates available in those currencies.

Investors in the carry trade prefer calmer currencies, which give them greater confidence that they can lock in returns in local assets. So the appeal of New Zealand, where the benchmark rate is 5.5%, or Australia at 4.35%, has grown relative to that of Brazil or Mexico, where the benchmark rates are 10.5% and 11%, respectively.

Former President Donald Trump's improved standing in the polls in the wake of his failed assassination last weekend has also helped cap this month's Mexican peso advance. That's thanks to speculation he'll ramp up talk of tariffs and immigration curbs as part of his campaign to retake the White House.

"The best days of the Latam carry trade are behind us," said Mark McCormick, global head of FX and EM strategy at TD Securities. With markets pricing in a greater chance of a Trump victory, that "will place a risk premium on the Mexican peso." It's a stark reversal for a region that has generated stellar returns for currency investors.

In the 18 months through June, borrowing in the yen, where interest rates were negative until March, and buying the peso and real resulted in returns of almost 60% and 40%, respectively.

BNP Paribas SA strategists see another carry-trade target for investors ditching Latin America: the US dollar.

The greenback, as they see it, stands to benefit from the inflationary repercussions of protectionist trade policy should Trump win in November. They also see limited potential for the market to price in deeper Fed cuts this year. The central bank currently targets a range of 5.25-5.5%.

The coming months will likely "provide an attractive opportunity to re-load FX carry trades," BNP strategists including Alex Jekov, wrote in a note last week. However, differently from the first half of the year, "the market may focus on long US dollar-carry trades rather than long emerging-market foreign-exchange positions."