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Bank of England is set to start monetary easing cycle: QNB

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BUSINESS

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Investors count on earnings to calm $900bn US tech rout

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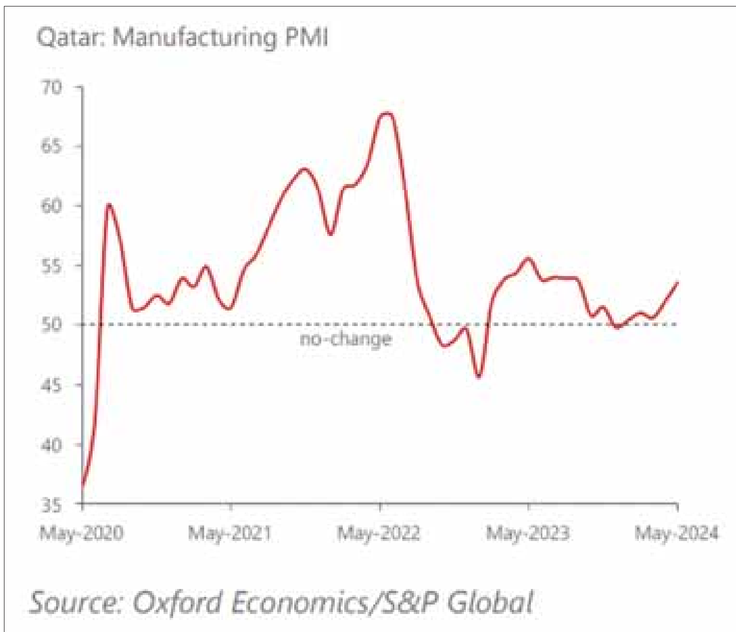
Qatar's non-energy economy gathers momentum, says Oxford Economics

By Pratap John
Business Editor

Qatar's non-energy economy is set to expand by 2.5% this year, Oxford Economics said and noted the country's non-energy sector momentum is seen strengthening in H2, benefitting from higher activity and robust sentiment.

In its latest country report, Oxford Economics said the picture for Qatar's non-energy economy is brightening. "We estimate the non-energy economy will grow by 2.5% this year, up from an estimated 0.8% in 2023. Available data showed a weak performance in the non-energy sector at just 0.7% year-on-year (y-o-y) growth in the first three quarters of 2023, with Q4, 2023 data pending.

"Weakness appeared broad-based and spanned construction, information and communications technology, and trade," Oxford Economics said.



The headline PMI rose to 53.6 in May, from 52 in April, marking an eight month high and signalling improving momentum. Most of the sub-indices, including output and new orders, showed a stronger expansion in May, supporting expectations about future activity. The employment index also rose, bringing the positive streak to 15 months.

Qatar's business environment is among the most competitive globally, demonstrated by the country moving up to the 11th place in the latest IMD competitiveness index.

Tourism has provided a key support to non-energy activities and will remain a driver of Qatar's future growth, Oxford Economics said.

Data show the number of foreign arrivals was above 2mn in the January-April period (up 35% on the same period in 2023), on track to meet the researcher's forecast of 4.5mn overnight visitors this year, rising to 4.9mn in 2025

Tourism numbers will likely settle lower in the near term due to seasonal factors and a break in events.

"We cut our 2024 average inflation forecast by 0.4ppts to 1.2%, but believe it will rise to 2% next year. Annual inflation stood at 0.9% in May, among the lowest readings in the last three years.

"Cost pressures remain contained, with an overall monthly increase of 0.2% m/m in May. Surveys suggest risks to the inflation outlook are balanced. We continue to believe the US Federal Reserve will embark on a gradual easing cycle in September and think Qatar's central bank will follow," Oxford Economics noted.

The headline PMI rose to 53.6 in May, from 52 in April, marking an eight month high and signalling improving momentum. Most of the sub-indices, including output and new orders, showed a stronger expansion in May, supporting expectations about future activity. The employment index also rose, bringing the positive streak to 15 months

QNB Group wins 9 major awards in H1 of 2024

QNB Group won nine "prestigious" awards from major international institutions during the first half of the year.

The new accolades are a testament to the bank's proven track record of providing its clients in Egypt with outstanding products and services, affirming its strong financial position in the banking market in North Africa.

In acknowledgment of its excellence in in retail banking, QNB in Egypt was named by the *International Finance* magazine as the 'Best Retail Bank in Egypt', 'Best Premium Banking Services in Egypt', and 'Most Innovative Retail Banking Services in Egypt'.

QNB, which is the largest financial institution in the Middle East and Africa, also won two awards of 'Best Bank for Small and Medium Enterprises' from *Global Banking and Finance Review* magazine, and the 'Best Bank for SME Initiatives' from *The Digital Banker*.

The recognition highlights the bank's ongoing commitment to support this sector in Egypt where it succeeded to surpass the CBE's mandatory ration of its loan portfolios to MSMEs.

QNB is a pioneer bank in serving the business sector and leveraging digital technology to enhance financial inclusion and entrepreneurship while achieving sustainable development.

The bank won two prestigious awards of the 'Best Bank for Trade Finance' and 'Best Bank for Treasury Activities'. The new laurels followed its successful efforts at improving innovative treasury services and solutions.

The 'Best Bank for Digital Banking Services and Products' award by the *Global Banking and Finance Review* magazine highlights the bank's efforts in developing its digital channels to meet customers' needs and achieve their banking aspirations under its strategy to increase its share in the Egyptian banking market and be the bank of choice for customers.

These awards have further reinforced QNB's position as one of the leading player in retail and corporate banking, supported by its strong financial results while reflecting its commitment to quality and banking excellence standards.

QNB has embedded sustainable financing in the countries where it operates, as it remains committed to taking an active role in the development of the Egyptian economy.

QNB Group currently ranks as the most valuable bank brand in the Middle East and Africa. Through its subsidiaries and associate companies, the Group extends to some 28 countries across three continents providing a comprehensive range of advance products and services. The total number of employees is 30,000 operating through 900 locations, with an ATM network of more than 5,000 machines.

Turkiye wins rating upgrade from Moody's after over a decade

Central bank seen to hold rates steady until Q4

Turkiye's central bank will not trim its policy rate from the current 50% until next quarter, continuing its battle to bring soaring inflation levels under control, a Reuters poll of economists suggested.

The central bank raised the main policy rate by 500 basis points in March following a February pause, citing a deterioration in the inflation outlook. It would leave it unchanged this month, according to all 26 economists in the July 15-19 Reuters poll.

Backed by President Recep Tayyip Erdogan, the central bank has raised the policy rate by 4,150 basis points since June last year.

The CBRT has said it will maintain its tight monetary policy stance with an interest rate of 50% until a permanent decline in inflation is achieved. In June, the central bank reiterated that disinflation would take hold in the second half of the year.

Median forecasts from the survey showed the CBRT cutting later this year. The policy rate was expected to drop by 500 basis points to 45% by the end of 2024.

But any significant easing was not expected to come until next year. The central bank was forecast to have reduced rates by 2,250 basis points to 27.50% by the end of 2025, almost half what it is now.

"We maintain our forecast of no change in policy rates until January 2025. Based on our recent investor trip to Turkiye, it seems local banks and independent economists broadly expect the first rate cut to come in Q4 24, more specifically in November or October," Barclays said in a research note.

Bloomberg
Istanbul

Moody's Ratings raised Turkiye's credit rating for the first time in more than a decade, marking the latest milestone in the country's efforts to return to orthodox economic policies.

The rating was upgraded two notches to B1, from B3, with a positive outlook. Turkiye still remains four notches below investment grade, on par with Jordan and Bangladesh. The move follows upgrades by S&P Global Ratings and Fitch Ratings, as Turkiye's return to conventional policies has led to a turnaround in inflation and a rapid increase in the central bank's foreign exchange reserves.

"The key driver of the upgrade to B1 is improvements in governance, more specifically the decisive and increasingly well-established return to orthodox monetary policy," Moody's said. "This is yielding first visible results in terms of reducing Turkiye's major macroeconomic imbalances."

Turkiye experienced some of the world's fastest price increases in recent years as President Recep Tayyip Erdogan moved away from traditional economic policies, favouring growth through cheap loans, minimum wage hikes and loose public financing. After last year's elections, an economic team led by Finance Minister Mehmet Simsek sought to restore stability by raising the central bank's benchmark rate to 50% from 8.5% and enforcing stricter fiscal policies.

A Turkish flag flutters on a passenger ferry with the Bosphorus in the background in Istanbul. Moody's Ratings raised Turkiye's credit rating for the first time in more than a decade, marking the latest milestone in the country's efforts to return to orthodox economic policies.

"Boom — great news for Turkiye. Rare you get double-notch upgrades, but shows how behind the curve Moody's were and they needed to catch up with Fitch and S&P," said Tim Ash, an emerging markets strategist at RBC BlueBay Asset Management. "Shows impact of Simsek reforms."

Moody's had revised Turkiye's credit outlook to positive from stable in January, citing a "decisive change" in economic policy undertaken by authorities. S&P raised the country's rating one notch to B+, from B, with a positive outlook. Fitch also moved the country's rating one notch higher to B+, from B, with a positive outlook in March.

"Thanks to the programme we implemented, Moody's, which raised our country's credit rating after 11 years, maintained the outlook as positive," Simsek said on X, adding that the positive outlook points to more potential rating increases.

Moody's said it expects consumer price inflation to drop sharply to below 45% by December, helped by a slowdown in domestic demand that is under way and real exchange rate appreciation.

Egypt's gas output near six-year low as it shifts to importer

Bloomberg
Cairo

Egypt's natural gas production has dropped to the lowest in more than six years just as a scorching summer boosts demand for the fuel.

The North African nation's output in May was near the weakest since February 2018, according to figures from the Joint Organisations Data Initiative. The decline is a sign that Egypt will struggle to replicate the gas export boom it saw two years ago, and is likely to become more reliant on imports of liquefied natural gas.

Once a supplier for Europe, Egypt is no longer able to produce enough gas to keep its own electricity systems afloat during the summer. The most populous Arab nation is now buying large amounts of the fuel to cope with air-conditioning needs as it grapples with blackouts and periods of idled industrial production.

The government has promised to end scheduled power cuts that can last for up to three hours a day starting Sunday. It's a key challenge for the administration to prevent widespread public discontent after it agreed to a $57bn international bailout package earlier this year that's given the state access to funds.

The country's daily power consumption has exceeded 37 gigawatts, up 12% from last year, leaving a deficit of 4 gigawatts, Prime Minister Mostafa Madbouly said on Wednesday. The government will accelerate renewable projects to help bridge the gap and reduce energy imports, he added.

While gas supplies most of Egypt's grid needs, the government wants to get 58% of its electricity from renewable sources by 2040, from 20% now. Yet the country needs funding to update and extend its grid to the sites of renewable projects.

The nation recently received five out of 21 LNG cargoes it sought for the summer and allocated $1.18bn for extra energy imports. It has said more may be required depending on the severity of the summer heat.

"We expect the recent increase in Egypt LNG imports to extend through the 2025 summer," Samantha Dart, who leads natural gas research at Goldman Sachs Group Inc, said in a note this week.

Higher demand from Egypt is one of the factors tightening the global gas market this summer, along with more appetite from some Asian nations and outages at some production facilities. As a result, Europe's seasonal imports of the super-chilled fuel fell below levels seen in the past two years, data from network operators compiled by Bloomberg show.

Egypt's Petroleum Minister Karim Badawi said this week that oil and gas production dropped by as much as 25% in the past three years. He said part of the reason was an increase in arrears to foreign oil companies that has slowed down exploration and development programmes. The country is working on clearing that backlog, he said.

Egypt's LNG Exports Were Short-Lived
Quarterly LNG exports from Egypt
Total
3M metric tons
2
1
0
2018 2019 2020 2021 2022 2023 2024
Source: Ship-tracking data compiled by Bloomberg
Bloomberg

Bloomberg QuickTake Q&A

CrowdStrike and global IT outage, explained

By Jordan Robertson

A massive IT failure by CrowdStrike Holdings Inc on Friday, July 19 grounded flights, upended markets and disrupted corporations around the world. CrowdStrike shares dropped as much as 15%. The impact of the disruption, which was compounded by an apparently unrelated issue with Microsoft Corp.'s Azure cloud services, is expected to continue for days.

What is CrowdStrike?

The cybersecurity company is a dominant supplier of software that protects businesses from ransomware attacks. CrowdStrike controls about 18% of the $8.6bn global market for so-called "modern" endpoint detection and response software, just ahead of archrival Microsoft, according to market research firm IDC. Its software is considered among the best defences against all kinds of emerging hacking threats, using artificial intelligence with traditional security strategies to try to keep up with attackers.

Why was there a global IT outage?

A faulty software update by CrowdStrike led to cascading, system-wide failures for clients in industries such as airlines, banking, healthcare and retail. The company struggled to fix the problem. It says the outage was not caused by a cyberattack or a security breach.

How will this get fixed?

CrowdStrike Chief Executive Officer George Kurtz said that the problem had been identified and "a fix has been deployed." Any Windows desktop or laptop machine affected by the initial flawed update will need to be updated. (Mac and Linux machines weren't impacted.) That's requiring a time-consuming manual reboot of computers around the world. In a communication to one customer reviewed by Bloomberg News, CrowdStrike's technical support team advised that it may be necessary to reboot an affected system as many as 15 times.

Who was impacted, and how?

The issue hit healthcare systems, airlines, ports, companies and governments. McDonalds, UPS and FedEx were among the companies affected. For airlines, the meltdown hobbled communication between aircraft and ground-control staff, and hit travellers on a particularly active day. United Airlines Holdings Inc, Delta Air Lines Inc, American Airlines Group Inc, Lufthansa, Air France-KLM and Ryanair are recovering, but slowly. FlightAware put global delays at more than 21,000 flights. Some staffers at banks including JPMorgan Chase & Co, Nomura Holdings Inc and Bank of America Corp were unable to log on to their firms' systems Friday.

How is Microsoft involved?

CrowdStrike's faulty update took down Microsoft Corp systems that were running the program that was being updated. An apparently separate incident involving Microsoft's Azure cloud services also caused disruption on Friday. In a status update, Microsoft said it had fixed the underlying issue but that users would still feel "residual impact." The two companies are rivals and offer similar "endpoint" cybersecurity products. CrowdStrike's Kurtz previously has taken potshots at Microsoft. After a US Department of Homeland Security report faulted Microsoft security issues, Kurtz said in June that Microsoft customers were going through a "widespread crisis of confidence." At the same time, Microsoft's operating system — Windows — is so widespread that the two companies are forced to work with one another by people who use both services.

How does CrowdStrike's software work?

The type of software CrowdStrike supplies is separate and distinct from older, more limited types of security software. Traditional antivirus software was useful in the early days of computing and the Internet for its ability to hunt for signs of known malware, but it has fallen out of favour as attacks have become more sophisticated. Now, products known as "endpoint detection and response" software that CrowdStrike develops do far more. They continually scan machines for any signs of suspicious activity and automate a response.

But to do this, these programs have to be given access to inspect the very core of a computers' operating systems for security defects. This access gives them the ability to disrupt the very systems they are trying to protect. And it's how Microsoft's Windows systems came into play in Friday's outage, triggering the dreaded "blue screen of death" for users. CrowdStrike pegged the incident to "a defect found in a single content update for Windows hosts." While cybersecurity professionals say CrowdStrike's technology is a strong way to defend against ransomware, its cost — which in some cases can be more than $50 per machine — means that most organisations don't install it on all of their computers. What that means, however, is that the computers that have the software installed on them are among the most important to protect, and if they go down, key services can fall with them.

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Important announcement

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Global IT failure puts cyber firm CrowdStrike in spotlight

Bloomberg
New York

Behind a massive IT failure that grounded flights, upended markets and disrupted corporations around the world is one cybersecurity company: CrowdStrike Holdings Inc.

Known as a dominant supplier of software that protects businesses from ransomware attacks, CrowdStrike was thrust into the spotlight on Friday as it struggled to fix a faulty patch that led to cascading, system-wide failures, paralysing the operations of clients ranging from banks to global retail giants to health-care systems.

Wall Street reacted to CrowdStrike's monumental flub: It fell 11% to settle at $304.96, wiping out more than $9bn of its market value. The company is still worth about $74bn.

CrowdStrike was founded by former executives of antivirus pioneer McAfee Inc. and launched in 2012. It has grown into the leading maker of a relatively new type of security software that's considered among the best defences against ransomware and other hacking threats. It controls about 18% of the $12.6bn global market for so-called "modern" endpoint protection software, behind archrival Microsoft Corp's 25.8% market share, according to market research firm IDC.

The company's growth has bucked the broader trend in cybersecurity, with the firm reporting blockbuster earnings in its most recent quarter. Chief Executive Officer George Kurtz used the opportunity to take potshots at its larger rival, saying in June that CrowdStrike's technology "creates a wide competitive moat" in the cyber sector, where Microsoft has $20bn in annual revenue. After a US Department of Homeland Security report faulted Microsoft's security failings, Kurtz said CrowdStrike had received an "outpouring of requests."

"There's a widespread crisis of confidence among security and IT teams within the Microsoft security customer base," he said.

The type of software CrowdStrike supplies is separate and distinct from older, more limited types of security software. Traditional antivirus software was useful in the early days of computing and the internet for their ability to hunt for signs of known malware, but it has fallen out of favour as attacks have become more sophisticated. Now, products known as "endpoint detection and response" software that CrowdStrike develops do far more, continually scanning machines for any signs of suspicious activities and automating a response.

But to do this, these programs have to be given access to inspect the very core of the computers' operating systems for security defects. This access gives them the ability to disrupt the very systems they are trying to protect. And it is how Microsoft's Windows systems came into play in Friday's outage.

Representatives of Austin, Texas-based CrowdStrike confirmed online reports that a glitchy update was responsible for disabling potentially millions of corporate and government Windows computers around the world and causing the dreaded "blue screen of death."

The company pegged the incident to "a defect found in a single content update for Windows hosts," in a statement on Friday and said the outage wasn't due to a cyberattack or security breach.

Anyone using a Mac or Linux machine isn't impacted, the company said, adding that "a fix has been deployed."

To add to the confusion, an apparently separate incident involving Microsoft's Azure cloud services also caused disruption on Friday. In a status update, Microsoft said it had fixed the underlying issue but that users would continue to experience "residual impact." While cybersecurity professionals say CrowdStrike's technology is a strong way to defend against ransomware, its cost — which in some cases can be more than $50 per machine — means that most organisations don't install it on all of their computers. What that means, however, is that the computers that have the software installed on them are among the most important to protect, and if they go down, key services can fall with them.

Now that CrowdStrike's fix is out, any Windows desktop or laptop machine with the CrowdStrike product affected by the initial flawed update will need to be updated. The company confirmed in a statement that every affected Windows machine will need to be manually rebooted. In one communication to a customer reviewed by Bloomberg News, CrowdStrike's technical support team advised that rebooting a system up to 15 times may be required.

How laborious that process is will depend on whether CrowdStrike can roll out the fix automatically. In an interview with CNBC on Friday, CrowdStrike's Chief Executive Officer George Kurtz said the company was looking for ways to automate the steps involved, suggesting at least some customers are stuck with manual fixes for now. The company also has addressed the software update at the root of the issue, Kurtz said.

"It was a content bug, or update, that we sent out and we've identified, and that we've rolled back," Kurtz said in the CNBC interview. He apologised to affected customers, and said some systems would take a few hours to come back online while others would take longer.

That means affected entities - from banks to bourses to shipping ports - might take days to fully come back online, according to Alan Woodward, professor of cybersecurity at the University of Surrey.

"To use the laptops, they'll have to manually intervene — that is a big job," Woodward said in an earlier interview with Bloomberg News.

There's also the question of how the bad rollout happened to begin with.

"CrowdStrike is meant to keep these machines safe," Woodward said. "This is the sort of thing ransomware would do, but imagine ransomware simultaneously hitting the biggest organizations in the world — container ports in the Baltics, hospitals, railway stations, they've all been hit at once because of this one little file."

Investors count on earnings to calm $900bn US tech rout

Reuters
New York

As earnings season goes into full swing, bullish investors hope solid corporate results will stem a tumble in technology shares that has cooled this year's US stock rally.

The S&P 500's technology sector has dropped nearly 6% in just over a week, shedding about $900bn in market value as growing expectations of interest rate cuts and a second Donald Trump presidency draw money away from this year's winners and into sectors that have languished in 2024.

The S&P 500 has fared somewhat better, losing 1.6% in just over a week, with declines in tech partly offset by sharp gains in areas such as financials, industrials and small caps. The benchmark index is up more than 16% so far this year.

Second-quarter earnings could help tech reclaim the spotlight. Tesla and Google-parent Alphabet both report on Tuesday, kicking off results from the "Magnificent Seven" megacap group of stocks that have propelled markets since early 2023. Microsoft and Apple are set to report the following week.

Big tech stocks "have been leading the charge, and it's for a good reason," said Scott Wren, senior global market strategist at the Wells Fargo Investment Institute. "They're making money, they're growing earnings, they're owning their niche." Strong results from the market's leaders could assuage some of the worries that have recently dogged megacaps, including concerns over stretched valuations and an advance highlighted by eye-watering gains in stocks such as Nvidia, which is up 145% this year despite a recent dip.

On the other hand, signs that profits are flagging or artificial intelligence-related spending is less than anticipated would test the narrative of tech dominance that has boosted stocks this year. That could turn quickly into a problem for broader markets: Alphabet, Tesla, Amazon.com, Microsoft, Meta Platforms, Apple and Nvidia have accounted for around 60% of the S&P 500's gain this year.

Traders work on the floor of the New York Stock Exchange. The S&P 500's technology sector has dropped nearly 6% in just over a week, shedding about $900bn in market value as growing expectations of interest rate cuts and a second Donald Trump presidency draw money away from this year's winners and into sectors that have languished in 2024.

Corporate results for the market's leaders are expected to meet a high bar. The tech sector is projected to increase year-over-year earnings by 17%, and earnings for the communication services sector — which includes Alphabet and Facebook parent Meta — is seen rising about 22%. Such gains would outpace the 11% estimated rise for the S&P 500 overall, according to LSEG IBES.

Anthony Saglimbene, chief market strategist at Ameriprise Financial, believes many investors were caught off guard by an inflation report earlier this month that all-but-cemented expectations of a September rate cut by the Fed, sparking a rotation into areas of the market that have struggled under tighter monetary policy.

The move out of tech accelerated this week, after a failed assassination attempt on Trump over the weekend appeared to boost his standing in the presidential race. In addition, semiconductor shares were hit hard after a report earlier this week said the US was mulling tighter curbs on exports of advanced semiconductor technology to China. The Philadelphia SE semiconductor index has tumbled about 8% since last week.

"What we're advising investors to do is use some of the pullbacks in these areas as an opportunity to allocate on a longer-term basis," said Saglimbene, who believes the upcoming earnings reports could ease the selling pressure on Big Tech. To be sure, the widening of gains to other parts of the market has heartened some investors over the durability over the rally in stocks this year.

During the recent rotation, the number of stocks gaining compared to those declining over five days reached its highest rate since November, according to Ned Davis Research.

Historically, when gainers outnumber decliners by at least 2.5 times, as has been the case in this recent five-day period, the S&P 500 has rallied an average of 4.5% over the next three months, according to NDR.

"The risk is that mega-caps pull the popular averages lower, but history suggests that strong breadth improvements have been bullish for stocks moving forward," Ned Davis strategists said in a report on Wednesday.

Rolls-Royce to upgrade jet engines after withering criticism

Bloomberg
London

Rolls-Royce Holdings Plc is investing more than £1bn ($1.3bn) to upgrade the engines that power large commercial aircraft, seeking to improve their performance and durability after drawing criticism from a key customer.

The UK engine maker is working on stage-wise improvements that lift the durability of the XWB engine powering the Airbus SE A350-1000 jet. The upgrades are targeted particularly at sandy and hot climates such as the Middle East so that engines need less frequent servicing, according to Simon Burr, the company's group director of engineering, technology and safety.

Rolls-Royce is also working to upgrade the version of the XWB engine that sits on the smaller A350-900 in order to eke out 1% more fuel efficiency, Burr said. The Trent 7000 model will receive enhancements to achieve greater reliability on the smaller A330neo model, he said.

Rolls-Royce is the only engine of choice on the Airbus A350 and A330neo models, and it also offers a powerplant for the Boeing Co 787 Dreamliner.

The engine on the larger A350, in particular, drew the ire of Emirates President Tim Clark last year, who lambasted the model as "defective" because of its higher-than-usual maintenance cycles, leading him to deny Airbus a major order for the plane.

Under Chief Executive Tufan Erginbilgic, Rolls-Royce has unwound unprofitable engine contracts, which has occasionally put its relationship with Airbus under strain. Investors, on the other hand, have applauded his greater fiscal discipline, sending the shares up almost 50% this year following a record performance in 2023.

Reliability is particularly important for carriers in the Middle East, who run their aircraft in hot and demanding conditions, putting more strain on their planes.

As part of the three stage programme, Rolls-Royce will add more sand-resistant coatings to parts of the XWB-97 engine this year and modify certain components that will enter into service in 2028, the company said in a briefing ahead of the Farnborough airshow that starts tomorrow. The modified components will reduce engine temperatures but have the same overall shape, allowing them to be retrofitted into older models.

Wall Street's great rotation trade is stirring up hedging market

Bloomberg
New York

On Wall Street, big trades that have held sway for years are getting reshuffled as the monetary and political backdrop shifts.

Now traders are hastily rushing to the options exchanges, paying up to protect — or juice — their portfolios after a turbulent week in the world's largest stock market.

With the election cycle kicking off in earnest, demand for portfolio insurance in the event of a market crash is surging, as so-called tail-risk contracts register their biggest rise in costs all year.

A broad measure of equity volatility has also increased at the fastest weekly pace since March 2023, just as investors have been ploughing record cash into exchange-traded funds tracking the S&P 500. Previously money-minting derivatives bets on tech bastions such as Nvidia Corp are being abandoned with gusto.

The reach for hedges comes as investors shower money on previously left-for-dead strategies in the era of elevated interest rates like small-cap companies. All in, it's a tentative shake-up of the winners and losers, one that potentially echoes previous turning points for markets and the economy.

"There is certainly an inflection point in sentiment," said Amy Wu Silverman, head of derivatives strategy at RBC Capital Markets LLC. "You are actually seeing demand for hedging in stocks like NVDA."

Politics explains some of the swings, with traders warming to Donald Trump's improving presidential odds. Yet the rotation began in earnest days before he survived an assassination attempt, just after June's consumer price index rose less than forecast. Weakening inflation has boosted demand for economically sensitive sectors on bets the Federal Reserve has room to cut interest rates and lower burdens on debt-financed industries.

Retrenchment and reallocation were the themes in a week that saw the biggest single-session drop in the tech-heavy Nasdaq 100 since 2022 and the third straight fall for the S&P 500.

Despite dropping Wednesday through Friday, a rally in small-cap shares has put the Russell 2000 on pace for its best month of 2024. US junk bonds just scored their longest winning stretch since 2020. The Cboe Volatility Index, known as the VIX, reached near 17 — the highest level since April. The week was especially rough for the megacap cohort whose sway over benchmark indexes has tightened as gains accrued in their biggest members.

The Bloomberg Magnificent 7 Index tumbled 4.8% on the week, a loss that dragged the cap-weighted S&P 500 to a 2% decline and spurred its underpeformance against the average constituent. Investors hoping to capitalise on that trade sent nearly $10bn to small-cap funds through Wednesday, the second-most ever, just as demand reached a record for bullish options in the biggest ETF tracking the Russell 2000.

Value stocks flirted with their best two-week advance of the year, while junk bonds had their biggest inflow since November, at $4.4bn, according to Bank of America Corp citing EPFR Global data.

Still, beneath the risk-on sentiment, anxiety is growing. Demand for tail-risk hedges that pay out in a stock crash – perhaps as much as a 30% downturn — is rising at the fastest pace since October. The cost to protect against a retreat at around 10% or so is at the highest level since August 2023. Tech darlings like Nvidia, upon which options traders had feasted for months, saw demand for bearish puts outpace calls by the most in five months.

"It signals a different regime," said Erika Maschmeyer, portfolio manager at Columbia Threadneedle Investments, who oversees more than $3bn, said by phone. "The market could be choppier and more volatile, with more dispersion than we have seen."

Volatility may remain heightened with pressure mounting on President Joe Biden as top lawmakers publicly weigh his narrowing path to re-election.

A growing number of Wall Street pundits has also cautioned that the Fed is waiting too long to begin cutting rates as signs of an economic slowdown becoming more evident. With adjustments to rates taking a year or more to have impact on the economy, the risks of waiting are growing, Goldman Sachs Chief Economist Jan Hatzius and Renaissance Macro Research's Neil Dutta have warned in recent weeks.

"There's more uncertainty now entering the market," said Lindsay Rosner, head of multi-sector fixed income investing at Goldman Sachs Asset Management. "You've got the Fed telling you they're closer to a cut than they have been. You've got election situations ever changing."

BUSINESS

Occidental planning to sell bonds in up to five parts

Bloomberg
New York

Oil giant Occidental Petroleum Corp is planning to sell bonds in as many as five parts to help fund its planned acquisition of CrownRock LP, according to a filing on Friday.

The energy company has asked banks to arrange calls with investors on Monday to discuss the offering, according to a person with knowledge of the matter. That makes it a candidate to sell debt as soon as Tuesday.

Proceeds from the sale will support Occidental's purchase of CrownRock, another oil producer, and related refinancing transactions. The offering is not contingent on the completion of the acquisition, but if the deal fails to close by December 10, 2025, Occidental will buy back the outstanding notes at 101 cents on the dollar, according to the filing.

Occidental agreed in December to buy CrownRock for $10.8bn, lining up about $10bn of debt, including one of the largest bridge financing deals last year. That temporary loan was led by Bank of America Corp, and is expected to at least partly be replaced by the bond sale.

The Occidental Petroleum headquarters in The Woodlands, Texas. The energy company has asked banks to arrange calls with investors on Monday to discuss the bond offering.

The sale will be led by Bank of America, JPMorgan Chase & Co, Mitsubishi UFJ Financial Group, and SMBC Nikko, according to the filing. Fitch assigned the proposed notes a grade of BBB-, citing concerns about the impact of incremental leverage from the CrownRock acquisition and potential elevated interest costs.

In June, Moody's Ratings said they view the deal as "an aggressive financing for such a sizeable acquisition."

However, the ratings company said Occidental plans to focus on repaying debt to a target balance sheet debt level of $15bn or below, using asset sales, net proceeds and free cash flow to reverse a large portion of the debt increase. On Thursday, Occidental said it expects to close its purchase of the Texas shale driller next month.

GoldenTree sees $10bn opportunity as banks unload risk

Bloomberg
New York

Steven Tananbaum, the founder of $55bn GoldenTree Asset Management, said his firm has found opportunities in trades with banks that are looking to offload loan exposure amid heightened regulations.

Through synthetic risk transfer deals, or SRTs, banks hold onto assets but pay investment firms a fee to share future losses, thereby lessening capital requirements. GoldenTree is positioned to benefit from those lenders' balance sheets being burdened with loans that may look less attractive when Basel III endgame capital rules are implemented.

"We have done probably $10bn of face in the last year," Tananbaum, the firm's chief investment officer, said on Thursday in an interview on Bloomberg Television. "Usually there is a lot of leverage because you are taking the bottom 10% or 20% so it is much smaller...but we are being paid a fair spread over what other like assets would yield." The potential returns are attractive, Tananbaum said. The exposure that an investor is taking on is most comparable to structured products, such as asset backed securities or collateralised loan obligations. An SRT might offer an extra 5 percentage points of return than a comparable structured product, he said.

GoldenTree is one of many large alternative asset managers stepping in as banks offload loan books under the threat of more stringent regulations in the US and Europe. Tananbaum describes SRTs as an opportunity of the moment as well as a sustainable trade.

"There will always be regulatory arbitrage," he said. "Right now your premium over alternatives is pretty wide." Global issuance of SRTs reached a record in the first half of 2024, Chorus Capital Management said earlier this month. The majority of that issuance came from European banks, according to the report.

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DAILY FOR THREE MONTHS

The Qatar Stock Exchange (QSE) index declined 143.01 points or 1.41% during the week to close at 10,034.26. Market capitalisation decreased 1.4% to QR580.3bn from QR588.8bn at the end of the previous trading week.

Of the 52 traded companies, 34 ended the week lower, 15 ended higher and three were unchanged. Al Meera Consumer Goods Company (MERS) was the worst performing stock for the week, going down 3.9%. Meanwhile, Widam Food Company (WDAM) was the best performing stock for the week, increasing by 7.4%.

Qatar Islamic Bank (QIBK), Industries Qatar (IQCD) and Ooredoo (ORDS) were the main contributors to the weekly index drop. QIBK and IQCD removed 41.01 and 29.79 points from the index, respectively. Further, ORDS subtracted another 13.47 points.

Traded value during the week went down by 1.0% to QR2,051.7mn from QR2,072.5mn in the prior trading week. QNB Group (QNBK) was the top value traded stock during the week with total traded value of QR186.9mn.

Traded volume increased by 7.8% to reach 812.3mn shares compared with 753.3mn shares in the prior trading week. The number of transactions moved up 5.4% to 79,338 vs. 75,264 in the prior week. Doha Bank (DHBK) was the top volume traded stock during the week with total traded volume of 87.2mn shares.

Foreign institutions turned bullish, ending the week with net buying of QR133.0mn vs. net selling of QR17.8mn in the prior week. Qatari institutions turned bearish with net selling of QR70.7mn vs. net buying of QR124.8mn in the week before. Foreign retail investors ended the week with net selling of QR26.8mn vs. net selling of QR20.6mn in the prior week. Qatari retail investors recorded net selling of QR35.4mn vs. net selling of QR86.4mn the week before.

YTD (as of Thursday's closing), global foreign institutions were net sellers by $64.4mn, while GCC institutions were net sellers of Qatari stocks by $269.1mn.

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QNB FINANCIAL SERVICES

Weekly Market Report

Market Indicators	Week ended. July 18, 2024	Week ended. July 11, 2024	Chg. %
Value Traded (QR mn)	2,051.7	2,072.5	(1.0)
Exch. Market Cap. (QR mn)	580,259.5	588,773.7	(1.4)
Volume (mn)	812.3	753.3	7.8
Number of Transactions	79,338	75,264	5.4
Companies Traded	52	52	0.0
Market Breadth	15:34	33:17	–

Source: Qatar Exchange (QE)

Market Indices	Close	WTD%	MTD%	YTD%
Total Return	22,646.40	(1.1)	1.0	(2.6)
ALL Share Index	3,528.34	(0.9)	1.3	(2.8)
Banks and Financial Services	4,199.66	(0.7)	1.8	(8.3)
Industrials	4,177.73	(1.4)	0.9	1.5
Transportation	5,533.70	(0.5)	(0.2)	29.1
Real Estate	1,553.20	(0.5)	1.8	3.4
Insurance	2,259.72	(1.1)	(0.3)	(14.2)
Telecoms	1,610.67	(2.8)	0.3	(5.6)
Consumer Goods & Services	7,583.01	(0.0)	1.6	0.1
Al Rayan Islamic Index	4,682.38	(1.3)	1.1	(1.7)

Source: Qatar Exchange (QE)

QSE Index and Volume

10,171.95 (14-Jul); 10,196.30 (15-Jul); 10,193.89 (16-Jul); 10,151.72 (17-Jul); 10,034.26 (18-Jul)

Volume — QE Index

Source: Qatar Exchange (QE)

Weekly Index Performance

Saudi Arabia# 3.1%; Dubai 1.9%; Abu Dhabi 0.8%; Kuwait 0.1%; Oman (0.1%); Bahrain (0.6%); Qatar* (1.4%)

Source: Bloomberg

Regional Indices	Close	WTD%	MTD%	YTD%	Weekly Exchange Traded Value ($ mn)	Exchange Mkt. Cap. ($ mn)	TTM P/E**	P/B**	Dividend Yield
Qatar*	10,034.26	(1.4)	0.7	(7.4)	566.27	159,107.1	11.4	1.4	4.8
Dubai	4,169.17	1.9	3.5	2.7	407.85	188,699.3	8.1	1.3	5.8
Abu Dhabi	9,226.48	0.8	1.8	(3.7)	1,442.87	697,268.2	18.4	2.7	2.1
Saudi Arabia#	12,157.61	3.1	4.1	1.6	9,228.93	2,749,755.4	18.4	2.7	2.1
Kuwait	7,102.18	0.1	2.4	4.2	586.08	151,246.6	18.2	1.7	3.3
Oman	4,697.28	(0.1)	0.2	4.1	23.03	23,949.1	11.5	0.9	5.3
Bahrain	1,979.49	(0.6)	(2.3)	0.4	11.72	20,428.2	7.7	0.6	8.4

Source: Bloomberg

Qatar Stock Exchange

Top Five Gainers

Widam Food Company 7.4%; Doha Bank 6.0%; Zad Holding Company 4.5%; Damaan Islamic Insurance Company 3.5%; Gulf International Services 2.6%

Source: Qatar Stock Exchange (QSE)

Top Five Decliners

Al Meera Consumer Goods Company -3.9%; Qatar Electricity & Water Company -3.0%; Ooredoo -2.9%; Aamal Company -2.8%; Qatar Islamic Bank -2.8%

Source: Qatar Stock Exchange (QSE)

Most Active Shares by Value (QR Million)

QNB Group 186.9; Qatar Islamic Bank 142.9; Doha Bank 129.3; Industries Qatar 128.7; Masraf Al Rayan 126.8

Source: Qatar Stock Exchange (QSE)

Most Active Shares by Volume (Million)

Doha Bank 87.2; Ezdan Holding Group 67.7; Qatar Aluminium Manufacturing Company 61.6; Masraf Al Rayan 54.4; Mesaieed Petrochemical Holding Company 48.8

Source: Qatar Stock Exchange (QSE)

Investor Trading Percentage to Total Value Traded

Buy: 26.83%, 30.99%, 12.62%, 29.55%; Sell: 28.69%, 34.44%, 13.80%, 23.07%

Qatari Individuals; Qatari Institutions; Non-Qatari Individuals; Non-Qatari Institutions

Source: Qatar Stock Exchange (QSE)

Net Traded Value by Nationality (QR Million)

Non-Qatari: Net Investment 109; Total Sold 756; Total Bought 865

Qatari: Net Investment -109; Total Sold 1,295; Total Bought 1,186

Source: Qatar Stock Exchange (QSE)

Company Name	Price July 18	% Change Weekly	% Change YTD	Market Cap. QR Million	TTM P/E	P/B
Qatar National Bank	14.78	(2.12)	(10.59)	136,514	9.2	1.5
Qatar Islamic Bank	19.15	(2.79)	(10.93)	45,250	10.8	1.8
Commercial Bank of Qatar	4.07	(1.33)	(34.44)	16,452	5.8	0.8
Doha Bank	1.51	5.95	(17.32)	4,691	5.9	0.4
Al Ahli Bank	3.70	(0.72)	2.15	9,439	11.6	1.4
Qatar International Islamic Bank	10.41	(0.38)	(2.62)	15,757	14.5	2.2
Masraf Al Rayan	2.32	(0.47)	(12.62)	21,576	15.1	0.9
Lesha Bank	1.29	0.78	(2.49)	1,445	13.3	1.2
National Leasing	0.72	0.00	(1.78)	354	22.0	0.6
Dlala Holding	1.23	0.16	(6.59)	235	N/A	1.3
Qatar & Oman Investment	0.77	1.45	(18.93)	243	N/A	1.1
Islamic Holding Group	4.27	(0.12)	3.04	242	19.1	1.5
Dukhan Bank	3.76	(0.63)	(5.36)	19,691	15.9	1.5
Banking and Financial Services				**271,890**		
Zad Holding	13.70	4.50	1.48	3,938	20.2	2.8
Qatar German Co. for Medical Devices	1.87	(0.53)	28.81	216	238.6	5.9
Salam International Investment	0.69	2.38	0.88	788	17.2	0.5
Baladna	1.34	(1.11)	9.48	2,547	18.4	1.1
Medicare Group	4.29	(1.13)	(21.88)	1,207	18.1	1.2
Qatar Cinema & Film Distribution	2.70	0.00	(6.83)	170	35.8	1.4
Qatar Fuel	14.87	(0.67)	(10.31)	14,785	14.7	1.7
Widam Food	3.06	7.38	29.45	550	N/A	3.4
Mannai Corp.	3.91	(0.43)	(7.05)	1,781	N/A	1.7
Al Meera Consumer Goods	14.38	(3.88)	4.28	2,962	15.8	1.8
Mekdam Holding Group	3.60	(0.88)	(10.35)	455	12.2	3.1
Meeza QSTP	3.57	1.19	24.50	2,318	N/A	3.4
Al Faleh Education Holding	0.68	(2.31)	(20.07)	162	13.5	0.6
Consumer Goods and Services				**31,879**		
Qatar Industrial Manufacturing	2.51	(0.52)	(16.50)	1,190	7.8	0.6
Qatar National Cement	3.69	(1.97)	(6.51)	2,412	12.5	0.8
Industries Qatar	12.96	(2.04)	(0.92)	78,408	16.2	2.1
Qatari Investors Group	1.62	2.46	(1.28)	2,017	11.5	0.7
Qatar Electricity and Water	15.26	(3.05)	(18.83)	16,786	11.2	1.2
Aamal	0.80	(2.79)	(5.33)	5,040	13.5	0.6
Gulf International Services	3.43	2.63	24.32	6,374	13.0	1.7
Mesaieed Petrochemical Holding	1.69	0.54	(5.65)	21,194	21.1	1.3
Estithmar Holding	1.92	(1.39)	(8.54)	6,522	18.2	1.3
Qatar Aluminum Manufacturing	1.33	(0.45)	(5.07)	7,416	17.0	1.1
Industrials				**147,359**		
Qatar Insurance	2.10	(1.87)	(18.92)	6,859	13.5	1.1
QLM Life & Medical Insurance	2.01	(0.25)	(19.77)	702	9.5	1.2
Doha Insurance	2.41	0.00	0.84	1,205	7.7	1.0
Qatar General Insurance & Reinsurance	0.91	0.66	(37.82)	800	N/A	0.2
Al Khaleej Takaful Insurance	2.40	1.27	(19.26)	612	9.5	1.0
Qatar Islamic Insurance	8.00	(0.67)	(10.10)	1,200	7.7	2.4
Damaan Islamic Insurance Company	3.86	3.46	(3.26)	772	10.6	1.6
Insurance				**12,149**		
United Development	1.12	(1.14)	5.54	3,980	10.3	0.4
Barwa Real Estate	2.79	(0.11)	(3.77)	10,837	8.8	0.5
Ezdan Real Estate	0.79	(0.50)	(7.46)	21,061	202.4	0.6
Mazaya Qatar Real Estate Development	0.62	(0.16)	(13.97)	622	24.1	0.6
Real Estate				**36,500**		
Ooredoo	10.21	(2.95)	(10.44)	32,705	11.0	1.3
Vodafone Qatar	1.71	(2.29)	(10.33)	7,228	13.0	1.6
Telecoms				**39,933**		
Qatar Navigation (Milaha)	11.70	1.74	20.62	13,293	12.9	0.8
Gulf Warehousing	3.33	(1.33)	6.32	195	9.5	0.8
Qatar Gas Transport (Nakilat)	4.56	(2.10)	29.60	25,275	16.0	2.1
Transportation				**38,763**		
Qatar Exchange				**580,259**		

Source: Bloomberg

Technical analysis of the QSE index

Source: Bloomberg

The QSE index dropped (-1.4%) for the week to close at 10,034.3 points. Except for the last week, the index had been in a bullish rebound over the past six weeks. However, that could change (in the short-term) as the index created a bearish-reversal candlestick in the past week. From a longer-term perspective, the QSE index remains in a flat range. We keep the weekly resistance level to the 10,500 points and the support remains at 9,300 points.

Definitions of key terms used in technical analysis

RSI (Relative Strength Index) indicator – RSI is a momentum oscillator that measures the speed and change of price movements. The RSI oscillates between 0 to 100. The index is deemed to be overbought once the RSI approaches the 70 level, indicating that a correction is likely. On the other hand, if the RSI approaches 30, it is an indication that the index may be getting oversold and therefore likely to bounce back.

MACD (Moving Average Convergence Divergence) indicator – The indicator consists of the MACD line and a signal line. The divergence or the convergence of the MACD line with the signal line indicates the strength in the momentum during the uptrend or downtrend, as the case may be. When the MACD crosses the signal line from below and trades above it, it gives a positive indication. The reverse is the situation for a bearish trend.

Candlestick chart – A candlestick chart is a price chart that displays the high, low, open, and close for a security. The 'body' of the chart is portion between the open and close price, while the high and low intraday movements form the 'shadow'. The candlestick may represent any time frame. We use a one-day candlestick chart (every candlestick represents one trading day) in our analysis.

WEEKLY ENERGY MARKET REVIEW

Oil settles at one-month low on Gaza ceasefire hopes

www.abhafoundation.org

Oil

Oil prices settled over $2 lower on Friday at their lowest level since mid-June as investors eyed a possible ceasefire in Gaza, while a strengthened dollar drove values down further. Brent crude prices settled down $2.48, or 2.9%, to $82.63 a barrel. US West Texas Intermediate crude futures dropped $2.69, or 3.3%, to $80.13. For the week, Brent fell 2.8%, while WTI futures fell 2.5%. US Secretary of State Antony Blinken said a long-sought ceasefire between Israel and Hamas was within sight. The war in Gaza has led investors to price in a risk premium when trading oil, as tensions threaten global supplies. If a ceasefire is reached, the Houthis could ease their attacks on commercial vessels in the Red Sea, since the group declared the attacks in support of Hamas.

The United Nations' highest court said Israel's occupation of Palestinian territories and its settlements there are illegal and should be withdrawn as soon as possible, further buoying hopes of an end to the conflict. Meanwhile, the US dollar index climbed after stronger-than-expected data on the US labour market and manufacturing last week, pressuring oil prices.

A single oil pumpjack on the plains of west Texas. Oil prices settled over $2 lower on Friday at their lowest level since mid-June as investors eyed a possible ceasefire in Gaza, while a strengthened dollar drove values down further. *Picture supplied by the Abdullah Bin Hamad Al-Attiyah International Foundation for Energy and Sustainable Development.*

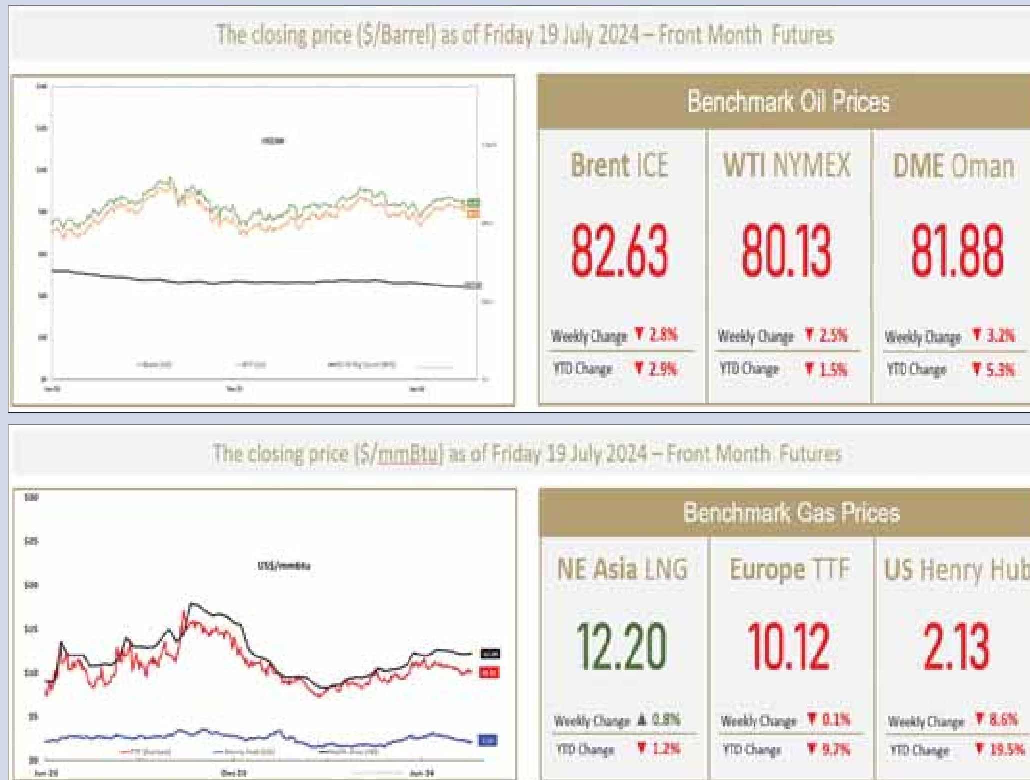
Gas

Asian spot liquefied natural gas (LNG) prices held steady last week on the back of support from an outage at US Freeport LNG which saw some cargo cancellations, and as summer weather boosted demand.

The average LNG price for September delivery into north-east Asia was at $12.20 per million British thermal units (mmBtu), industry sources estimated.

Freeport LNG in Texas, south of Houston, halted operations on July 7 before Hurricane Beryl made landfall, causing power outages and infrastructure damage to ports and energy companies.

Freeport said on Monday it planned to restart one processing train this week and the remaining two trains shortly after, but production would be reduced while it continued repairs.



Analysts say the LNG exporter has cancelled between 7-10 cargoes as a result.

In Europe, gas prices held steady amid strong inventories and expectations of a pick-up in wind speeds towards the weekend. In the US natural gas, futures were little changed on Friday as rising output over the past month and the tremendous oversupply of gas in storage offset forecasts for hot weather to return in late July and early August.

For the week, prices fell about 9%.

■ *This article was supplied by the Abdullah Bin Hamad Al-Attiyah International Foundation for Energy and Sustainable Development.*

Bank of England set to start monetary easing cycle: QNB

The Bank of England (BoE) is set to begin an interest rate easing phase in its upcoming meeting, a decision that should be supported by below-target headline inflation, economic stagnation, and restrictive financial conditions, according to QNB.

"We expect the easing cycle to be gradual, absent significant unexpected economic developments, with two additional 25 bps cuts this year," QNB said in an economic commentary.

Amongst the advanced economies, the UK has experienced one of the worst post-Covid inflation outbursts.

In response, the Bank of England (BoE) reacted firmly by initiating an interest rate tightening cycle at the end of 2021 that increased its benchmark interest rate 14 times.

This sequence of decisions raised the interest rate from 0.10% to a 16 year high of 5.25%, a level that has been maintained since August 2023.

In addition to this significant interest rate tightening, in early 2022 the BoE began a "quantitative tightening" phase, which implies reducing its stock of U.K. gilts and corporate bonds. This course of action gradually reverts the balance sheet expansion that was implemented to support financial markets and economic activity during the Covid-pandemic.

Now, after three years of inflation levels above target, and even reaching double-digit highs in H2,2022, the BoE finds itself in a context that is favourable to a new direction in its monetary policy trajectory.

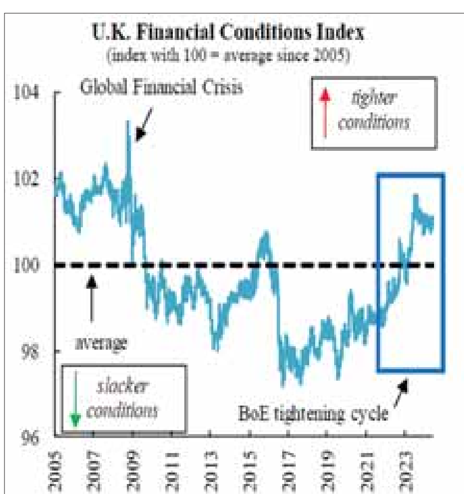
"We expect the BoE's August policy meeting to mark the beginning of a gradual monetary easing cycle," QNB noted.

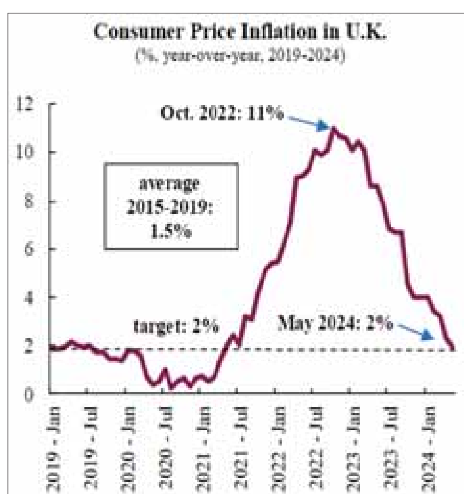
In this article, QNB discusses the three main factors that support its outlook.

First, after three years of above-target inflation, the BoE has managed to bring prices under control, providing a strong argument in favour of a pivot in interest rates. Headline inflation reached the 2% target of monetary policy in May, delivering a highly anticipated condition for a shift in the direction of monetary policy.

Since headline measures of prices can display some volatility in the short term, central banks closely monitor additional measures that reveal underlying and more persistent trends. In this regard, a key measure is core inflation.

By excluding the more volatile components, such as energy and food products, core inflation provides a more stable and informative view of the underlying price trends.





The last data prints show monthly core inflation rates close to 0.3%, significantly down from the peak of 0.9% at the beginning of last year.

Furthermore, this disinflationary trend is expected to continue, which could imply that the BoE risks being left "behind the curve" if it waits further to cut interest rates, as overly-restrictive monetary conditions could harm economic growth and lead to an environment of undesirably low inflation.

Second, economic growth is expected to remain lacklustre, even as the UK is headed for a recovery after a mild recession in 2023. In H2,2023, economic activity contracted for two consecutive quarters by 0.4%, in part due to the impact of tighter monetary policy.

There are currently tentative signs of a modest recovery, as GDP expanded in Q1,2024 by 0.6%. However, there seems to be limited room for a stronger rebound without significant policy support.

Importantly, the BoE argues that business surveys have remained consistent with a slower pace of underlying growth of only 0.25% per quarter. Labour market indicators also corroborate the view of a soft economy: the unemployment rate has increased by 0.6 percentage points (pp) since Q4-2023.

Furthermore, the ratio of vacancies-to-unemployment, a measure of labour market tightness, has fallen to pre-Covid pandemic levels, adding further evidence that conditions in labour markets are easing. More broadly, according to the consensus of GDP growth forecasts from the Bloomberg survey, the UK economy is expected to expand this year by a fragile 0.7%. This figure is much below the 1.5% long-term average, and particularly weak after a recession.

A weak economic recovery with a soft labour market suggests ample room for policy easing. Third, financial conditions have reached highly restrictive levels on the back of a cycle of significant monetary tightening.

The Financial Conditions Index for the UK provides a useful summary of financial market conditions. This indicator combines information of short- and long-term interest rates, and credit spreads.

The index spiked in the second half of 2023, and is currently at heights that have not been registered since the Global Financial Crisis, amid significant turmoil and instability in financial markets that led to a credit freeze and a banking crisis.

High policy rates and quantitative tightening will continue to keep credit costs elevated and withdraw liquidity from the financial system in the near future, even after the beginning of an easing cycle.

In fact, credit volumes have steadily contracted in real terms for over a year. The longer it takes for the BoE to ease policy, the higher are the chances of financial instability. In other words, monetary easing is also becoming necessary to reduce the country's financial vulnerability, QNB added.

Canada's retail sales slump as high rates weigh on shoppers

Bloomberg
Ottawa

Canadian consumers likely continued to tighten their belts in June after a sharp spending pullback in May, marking a weak first half of the year for retail sales in the country. Receipts for retailers fell 0.3% in June, according to an advance estimate from Statistics Canada released on Friday. That followed a 0.8% drop in May, below expectations for a 0.6% decline in a Bloomberg survey.

Taken together with April's gain of 0.6% — the only monthly increase in sales so far this year — the figures point to a decrease of 0.2% in the second quarter, following a 0.4% drop in the first three months of 2024.

The release will help bolster a case for the Bank of Canada to cut rates at a second straight meeting next Wednesday. The loonie fell nearly 0.2% on the day to C$1.373 per US dollar, while traders put the odds of a July cut at more than 95%.

Receipts fell in eight of nine subsectors in May, led by lower sales at hardware stores, food and beverage retailers and clothing sellers. The only retailers that saw sales rise were auto dealers, posting their third monthly gain in four months.

All in, the report shows consumers cutting back on discretionary purchases, which include furniture, electronics and sporting goods. While the Bank of Canada cut its key policy rate to 4.75% last month, restrictive monetary policy is weighing on Canadians.

"Canadian consumer spending continues to struggle with the impact of past rate hikes and higher living costs," Robert Kavcic, senior economist at Bank of Montreal, said in a report to investors. "And this runs counter to a robust/resilient US retail sales report from earlier this week."

The data is consistent with Statistics Canada's initial estimate of below-2% gross domestic product growth for the second quarter, Kavcic said. It also follows a Bank of Canada survey that pointed to businesses' input and selling price growth slowing and a deceleration in headline inflation for June.

"With such sour economic data, we think the the Governing Council's July decision will largely hinge on how much it cares about moving in tandem with other major central banks and solidifying the downward trend in inflation," says Stuart Paul, US and Canada economist at Bloomberg.

In volume terms, retail sales fell 0.7% in May. Excluding autos, retail sales fell 1.3%, significantly lower than the 0.5% drop expected by economists.

Regionally, sales were down in nine provinces in February, with the largest declines in Alberta, led by lower car sales — bucking the national trend. British Columbia and its largest city of Vancouver also saw significant decreases. The sole province where retailing activity rose in May was Nova Scotia, driven by higher vehicle sales.

The statistics agency didn't provide details on the June flash estimate, which was based on responses from 50.3% of companies surveyed. The average final response rate to the survey over the previous 12 months was 90%.

Apple's AI iPhone turns sceptics into bulls and raises stakes

Bloomberg
New York

All big tech companies are trying to convince Wall Street that they'll be a major player in artificial intelligence. Few have done as good a job as Apple Inc.

There's growing consensus among analysts that an iPhone with AI features, unveiled in June, will spur consumers to upgrade their phones after holding onto older models for years, giving Apple a long-awaited rebound in growth. At least five firms have raised their ratings since the event, with Loop Capital the latest to turn bullish in the face of a valuation that has risen to elevated levels.

Apple "is playing it brilliantly" with AI after seeming like it was behind the curve last year, said Igor Tishin, an analyst at Harding Loevner LP who rates Apple a buy. "I don't know how much monetization there will be in the near term, but beyond the first step, I think AI can help Apple develop tremendous value in years two and three."

Loop analyst Ananda Baruah agrees, expecting AI to drive a material increase in demand for iPhones. "Apple has an opportunity the next few years to solidify itself as consumer's Gen AI 'base camp' of choice, just as it did for social media 15 years ago with iPhone," he wrote in a note. Loop's upgrade brought Apple's consensus recommendation — a ratio of its buy, hold, and sell ratings — to 4.2 out of five, the highest since November.

A device upgrade cycle would be meaningful. The iPhone is by far Apple's biggest business, accounting for more than half its fiscal 2023 revenue, according to data compiled by Bloomberg. However, iPhone revenue fell 2% last year, indicating that battery and camera improvements in the iPhone 14 and 15 models weren't enough to entice customers.

AI features, including an agreement with OpenAI to integrate ChatGPT, could change that. According to Bloomberg Intelligence, more than 40% of Apple's 800mn-plus smartphone users have iPhone 12 or older devices, while another 27% are using an iPhone 13. Fewer than 10% of current users have phones that can be upgraded to the AI software.

The positive response to the AI event has contributed to a 36% surge in the shares since an April low, adding about $900 billion to Apple's market capitalization and returning it to its position as the largest stock in the world. That's also pushed the valuation above historical levels, indicating high hopes for AI — and high stakes for the broader market, given Apple's massive weighting in indexes.

Apple shares are currently trading at more than 31 times estimated earnings, more than 50% above their 10-year average, and near the highest level since early 2021, when the firm was growing much faster and interest rates were much lower.

Some see the market over-hyping the potential gains from AI, especially as it may take time for an upgrade cycle to materialize after the phones become available.

"ChatGPT is exciting, Gemini is exciting, but are they really influencing consumer purchase decisions yet?" said Matt Stucky, chief equity portfolio manager at Northwestern Mutual Wealth Management. "I think it's a little bit too early to have that kind of conviction."

Along similar lines, UBS argued that a hoped-for "AI supercycle" was "not likely," and that optimism for future growth was misplaced.

"Our analysis of smartphone demand by region, prior cycles, income demographic data, and carrier subsidies argues for a more modest cycle next year," wrote analysts led by David Vogt, who have a neutral rating on the stock.

Even with the recent upgrades, Wall Street is somewhat more sceptical about Apple than other megacap tech stocks. Fewer than 70% of analysts recommend buying the stock, compared with ratios near or above 90% for Microsoft Corp, Amazon.com Inc, and Nvidia Corp And shares have already gotten ahead of the average analyst price target, suggesting that AI excitement may have run its course for now.

Still, the AI opportunity is likely to become clearer next year. Wall Street expects Apple revenue will grow just 1.1% in its 2024 fiscal year before accelerating to 7.7% in fiscal 2025. For earnings, Apple is expected to show growth of 7.8% this year and 10.5% next.