

US producer prices flat; consumer sentiment slips in October

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Qatar's venture capital ecosystem outlook is 'positive', says Pulsar

By Santhosh V Perumal
 Business Reporter

Qatar's venture capital (VC) ecosystem's outlook is "positive" this year and Qatar Sportstech Accelerator has invested as much as \$40,000-250,000 in several startups at the seed and pre-seed stages, according to Pulsar VC, an international platform that supports entrepreneurs and investors to grow global technology leaders.

"Expectations for 2024 are more positive, especially with the launch of Qatar's first VC fund of \$1bn, aimed at energising the regional startup scene," Pulsar VC said in its latest report.

This fund plans to invest mostly through other VC funds while also engaging in select co-investments with those funds, it said, adding the country also introduced its Startup Qatar Investment Programme, supported by a \$100mn fund managed by the Qatar Development Bank, further boosting the entrepreneurial environment.

The Qatar Business Incubation Center and the QDB emerged as the most prominent investors of the year, actively participating in deals throughout 2023, it said, highlighting that the year also marked the debut of Rasmal Ventures, the first independent VC firm in Qatar.

The country's biggest funding rounds in 2023 included Smonu, which raised \$12mn; else (\$4.1mn); AT-HOME-DOC (\$1.9mn); C-Wallet (\$1.1mn); and Mualllemi (\$0.55mn), the report said, adding of the 2023 funding rounds, 37% went to manufacturing, 15% to fintech or financial technology and 12% to healthcare.

Terming 2023 as a "difficult" year for Qatar's startup ecosystem with it experiencing the lowest venture investments in terms of deal numbers seen



Qatar's venture capital ecosystem's outlook is "positive" this year and Qatar Sportstech Accelerator has invested as much as \$40,000-250,000 in several startups at the seed and pre-seed stages, according to Pulsar VC, an international platform that supports entrepreneurs and investors to grow global technology leaders

in the past four years; it said the 61% decline in Qatar reflects wider patterns as the Middle East and North Africa or Mena region saw a 23% drop in investment and the global VC environment faced a 42% reduction.

Highlighting that Qatar's sports industry has witnessed remarkable growth, particularly as the host of 2022 FIFA World Cup, and is slated to reach a market size of \$3.7bn by 2025; Pulsar said the country has introduced the regional first sports business district 'Aspire Zone' aiming to bolster its position as a burgeoning international hub for sports business.

According to the available deal information, the Qatar SportsTech accelerator has invested in several startups at the seed and pre-seed stages, with investments amounts ranging from \$40,000 to \$250,000. The accelerator

has reportedly invested in Golazzos, a social platform for football sports predictions; Fancision, a blockchain-based app to engage and monetise football fans with trivias and minigames; and Classtap, a platform that provides access to multiple gyms through one membership.

Qatar has been progressively building a more inviting business environment, striving to attract investors by aligning its commercial and tax systems with global standards such as those of the OECD or the Organisation for Economic Co-operation and Development.

The report said similar to its Gulf Co-operation Council or GCC partners, Qatar aims to broaden its economic base and investing in cutting-edge economic sectors.

As much as 37% of VC is allocated to the industrial and manufacturing

sector with fintech and healthtech following as the second and third most favoured areas for capital investment respectively, it added.

Qatar has significantly enhanced its appeal to foreign investors by developing specialised zones such as the Qatar Financial Centre, Qatar Science and Technology Park and Qatar Media City, which offer beneficial tax and labour conditions.

Additionally, through the foreign investment law, overseas investors can avoid the typical 49% ownership restriction and requirement for minimum capital in limited liability companies with foreign involvement has been eliminated.

"These improvements aim to so simplify business operations and make Qatar a more attractive investment destination," the report said.

QFCRA issues warning about a fraudulent website

By Santhosh V Perumal
 Business Reporter

The Qatar Financial Centre Regulatory Authority (QFCRA) has issued a warning to investors and the public about a fraudulent website operating under the domain "www.aaqinvestment.com".

This website falsely advertises financial services such as loans, banking products, and investments, and falsely represents itself as the official website of AAQ Investment, operating under the domain "https://aaqholding.com", a legitimate licensed firm in the QFC.

Despite claims on this fraudulent website that it is a Qatari company; the website has no connection to AAQ Investment, the QFC or Qatar.

"The QFCRA advises the public to disregard this website, avoid clicking on any links, and refrain from providing any personal information," it said.

AAQ Investment has no association with this website and does not provide financial services to the public. AAQ Investment is only licensed by the QFC Authority to provide the business of holding companies.

The QFCRA strongly cautions against interacting with the representatives listed on "www.aaqinvestment.com" for financial services or with anyone claiming to offer financial services on behalf of AAQ Investment.

"The QFCRA is committed to safeguarding consumers and takes every necessary action to combat fraudulent entities targeting investors and the public. We urge everyone to stay vigilant and always verify the identity of financial services firms and their representatives before engaging with them," said Farah al-Muftah, Managing Director at the QFCRA.

The QFCRA is an independent regulatory body established in 2005 by Article 8 of the QFC Law. It regulates firms that conduct financial services in or from the QFC. It has a broad range of regulatory powers to authorise, supervise and, when necessary, discipline firms and individuals.

The QFCRA regulates firms using principle-based legislation of international standard, modelled closely on that used in major financial centres.

Demand in banks and transport counters lifts QSE 44 points

By Santhosh V Perumal
 Business Reporter

WEEKLY REVIEW

Heightened geopolitical tensions in the region notwithstanding, the Qatar Stock Exchange (QSE) was in the positive trajectory with its key index gaining as much as 44 points and capitalisation adding QR2.75bn this week.

The domestic institutions were seen increasingly into net buying as the 20-stock Qatar Index rose 0.42% this week which saw QNB report net profit of QR12.71bn in January-September 2024. The banking and transport counters witnessed higher than average demand in the main this week which saw Milaha win a long-term contract valued at QR792mn from North Oil Company.

The Gulf institutions' weakened net profit booking had its influence in the main market this week which saw Gulf International Services' subsidiary Al Koot Insurance and Reinsurance plan to get listed on the local bourse.

The Arab funds continued to be net buyers but with lesser intensity in the main bourse this week which saw Qatar Steel, an Industries Qatar subsidiary, receive a non-binding offer for the acquisition of its entire equity holding in Bahrain-based Foulath Holding.

The foreign funds were seen increasingly bearish in the main market this week, which saw Leshna Bank complete the acquisition of Bereke

Bank in Kazakhstan. The local retail investors turned net profit takers in the main bourse this week which saw a total of 0.45mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.98mn trade across 115 deals.

The foreign individuals were increasingly net sellers in the main market this week which saw as many as 0.01mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.06mn change hands across six transactions.

The Gulf individuals turned net sellers in the main bourse this week which saw the banking, consumer goods and industrials sectors together constitute more than 73% of the total trade volumes. The Islamic index was seen declining vis-à-vis gains in the other indices in the main market this week, which saw no trading of sovereign bonds.

Market capitalisation added 0.45% to QR616.08bn on the back of small and microcap segments this week, which saw no trading of treasury bills.

Trade turnover and volumes were on the decline in the main market this week, which saw Qatar Electricity and Water Company (QEWC), in cooperation and Qatar General Electricity and Water Corporation, plan to build, own and operate peak units with a production capacity of 500 megawatts. The Total Return Index



The domestic institutions were seen increasingly into net buying as the 20-stock Qatar Index rose 0.42% this week

gained 0.42% and the All Share Index by 0.51%, while the All Islamic Index fell 0.31% this week, which saw Ooredoo raise \$500mn through its oversubscribed bonds.

The banks and financial services sector index shot up 11%, transport (0.64%), industrials (0.17%) and insurance (0.09%); while real estate declined 1.76%, consumer goods and services (0.93%) and telecom (0.37%) this week which saw QNB commence its buyback scheme.

Major gainers in the main market included Qatar General Insurance and Reinsurance, Al

Faleh Educational Holding, QIIB, QNB, Commercial Bank, Doha Bank, Leshna Bank, Baladna and Nakilat. In the junior bourse, Al Mahhar Holding and Techno Q saw their shares jump in value this week which saw Qatar Financial Centre view that a sustained growth in business conditions in Doha's non-energy private sector led employment reach a record high in September 2024 as companies boost capacity.

Nevertheless, about 61% of the traded constituents were in the red with major losers being Qatar German Medical Devices, Medicare

Group, Barwa, Al Khaleej Takaful, Vodafone Qatar, Masraf Al Rayan, Dukhan Bank, GIS, Estithmar Holding, Qamco, QLM and Mazaya Qatar this week. The domestic funds' net buying increased substantially to QR156.01mn compared to QR57.77mn the week ended October 3.

The Gulf institutions' net profit booking decreased substantially to QR5.09mn against QR36.62mn the previous week.

However, the Qatari individuals turned net sellers to the tune of QR65.98mn compared with net buyers of QR9.16mn a week ago.

The foreign funds' net selling strengthened considerably to QR49.95mn against QR11.83mn the week ended October 3.

The Arab individuals' net profit booking expanded markedly to QR17.54mn compared to QR7.76mn the previous week. The foreign individual investors' net selling was up marginally to QR17.11mn against QR16.7mn a week ago.

The Gulf retail investors were net sellers to the extent of QR0.51mn compared with net buyers of QR4.54mn the week ended October 3.

The Arab institutions' net buying eased perceptibly to QR0.16mn against QR1.43mn the previous week.

The main market witnessed a 12% contraction in trade volumes to 841.72mn shares, 12% in value to QR1.95bn and 9% in deals to 71,222 this week. In the venture market, trade volumes tanked 75% to 0.38mn equities, value by 70% to QR1.05mn and transactions by 45% to 32.



ECB seen cutting faster to release economic shackles next year

Bloomberg
Frankfurt

The European Central Bank (ECB) will speed up interest-rate cuts over the months ahead to bolster the economy – taking borrowing costs to levels that no longer restrict demand by the end of 2025, according to a Bloomberg survey.

With inflation now a touch below the 2% goal, analysts see the ECB decreasing its deposit rate by a quarter-point next week and at every meeting through March. Respondents then forecast two more reductions – in June and December – bringing the benchmark to 2%.

Almost half reckon rates will be at neutral by that point, while about two-fifths expect them to be low enough to encourage economic expansion. The previous poll predicted the ECB's cycle would end at 2.5% in September 2025.

The shift in expectations mirrors a similar recalibration by financial markets – spurred by data pointing to a shakier economy and more rapid disinflation in the 20-nation eurozone. The Federal Reserve, meanwhile, kicked off its monetary-loosening campaign with an out-sized half-point move.

“The ECB has achieved a higher level of confidence to reach the 2% target faster than expected, which is consistent with faster rate cuts in the short term,” said Hugo Le Damany and Francois Cabau at AXA Investment Managers. “But that doesn't mean they want to go below 2%, so they'll have to manage medium-term expectations to avoid the market anticipating too many cuts.”

While money markets still see the ECB lowering rates by a quarter-point next week, their conviction on a follow-up reduction in December has weakened.

Expectations for the terminal rate have also risen, with traders now seeing it above 2% by the end of next year, compared with 1.75% a week ago.

“Lagarde will undoubtedly get a lot of questions in



A sign outside the headquarters of the European Central Bank in Frankfurt. The ECB will speed up interest-rate cuts over the months ahead to bolster the economy – taking borrowing costs to levels that no longer restrict demand by the end of 2025, according to a Bloomberg survey.

the press conference about the next steps. She's likely to continue to emphasise that the ECB is completely data dependent and is operating on a meeting-to-meeting basis. However, another cut in December seems highly likely,” says David Powell, senior euro-area economist at Bloomberg.

About two-thirds of survey respondents expect the ECB to reiterate next Thursday that the Governing Council will keep policy “sufficiently restrictive” for as long as needed to ensure inflation reaches – and stays at – 2% in the medium term.

While price gains dipped below 1.8% in September for the first time since 2021, officials have warned that they'll creep up again in the coming months, especially as pressures in the services sector continue to linger. “Given ongoing high wages and a still-tight labour market, and the uncertainty regarding the

re-pricing of services items next year, we think that the ECB will remain cautious,” HSBC's Fabio Balboni said. “Even though we expect the ECB to speed up the pace of cuts in the next few meetings, uncertainties remain on the landing zone for inflation next year.”

ECB forecasts last month showed the inflation target being met in the final quarter of 2025. Since then, economists say, downside risks have begun to pile up. A small majority – 55% – believes undershooting that level in the medium term is now a bigger danger than exceeding it.

Many respondents, however, cautioned that a return to 2% isn't yet assured.

While the labour market is showing signs of easing, unemployment remains at a record low. Wages are also still growing at a healthy clip, and – highlighting that pay pressures won't easily recede

– German public-sector workers are seeking an 8% boost even as the country's economy shrinks for a second year.

The ECB's “main challenge continues to be simultaneously managing the downside risks to growth – which have intensified – against persistent upward inflationary pressure from high wage growth,” said Bill Diviney, senior eurozone economist at ABN Amro. “But the risk balance looks to have tilted clearly toward growth worries.”

Indeed, hope for recoveries in household spending and investment – as well as a pickup in global trade – is fading. And on top of all that, survey respondents see Europe's biggest economic risks coming from geopolitical tensions and the potential return of Donald Trump to the US presidency.

In light of these, AlphaTerra Capital Chief Risk Officer

Andreas Koutras considers the ECB to be “behind the curve.”

He's among the 49% of economists who predict rates will neither stimulate nor restrict the economy by end-2025. The majority sees the neutral rate – which can only be estimated and can't be measured – between 2% and 2.25%.

The fragility of the euro-area economy “supports arguments for a faster pace of easing,” said Dennis Shen, an economist at Scope Ratings. But there are “meaningful uncertainties” beyond next week. In the US, there's the trajectory of the economy, how the Fed acts and who'll occupy the White House. Elsewhere, escalating Middle East tensions could stoke energy prices.

“Inflation remains anything but defeated,” Shen said. “This ought to force the ECB to stay cautious regarding its rate-cut decisions.”

Outperforming \$11bn Findlay Park fund trims Big Tech

Bloomberg
New York

The technology heavyweights that powered this year's rally in US stocks are no longer attractive to Findlay Park Partners LLP, whose fund has outperformed 86% of peers.

The fund, which has about \$11.3bn in assets and counts UnitedHealth Group Inc and Accenture Plc among its top holdings, sold down its stake in Nvidia Corp to zero in the third quarter, according to a note sent to clients and seen by Bloomberg News.

The chipmaker's shares dropped in that period, while the other two stocks rallied at least 15%.

Nvidia – a major beneficiary of the artificial intelligence buzz – accounted for 5% of total holdings at one point this year, the note showed. The asset manager also reduced its stake in Microsoft Corp – its biggest position for much of the past decade – to 3% as of end-September from 4.8% in August, according to a fund fact-sheet.

“The Magnificent Seven have all warranted their outperformance to an extent by the growth they've delivered, but now earnings growth expectations are pretty tepid and valuations are still pricing in as if that growth pattern's going to continue,” Simon Pryke, chief executive officer at Findlay Park, said in an interview. “One of those numbers is wrong.”

The Dublin-domiciled fund invests mainly in the US. It has returned about 29% in the past year compared with 16% by peers, and with lower volatility relative to the benchmark Russell 1000 Net 30% Total Return Index, according to data compiled by Bloomberg. In 2023, it outperformed 90% of peers.

Findlay Park's focus is to bet on stocks that have a big exposure to the domestic US market and supply chain.

That approach means it has never held Tesla Inc or Apple Inc, Pryke said. The fund holds just 4.8% in the Magnificent Seven, compared with a benchmark weighting of over 28%, the firm said in the note to clients.

US stocks have scaled record highs this year, with the rally concentrated in a small group of stocks, mainly tech, through much of the first half. But the gains have broadened out to smaller stocks in the third quarter as worries about the threat of a recession faded. Investors are also questioning the payoff from heavy investment in AI.

Analysts expect earnings growth among the so-called Magnificent Seven group of stocks to slow to 18% in the July-September period from 36% in the previous quarter, according to data compiled by Bloomberg Intelligence.

Still, the overall outlook for the tech sector remains upbeat. Analysts predict that the S&P 500 Information Technology Index – which houses Nvidia, Apple and Microsoft among others – will hit around 4,962 points over 12 months, implying gains of about 14% from current levels.

Findlay Park has about 40% of its portfolio in stocks with between \$5bn and \$50bn in market capitalisation, said Rose Vangerven, the fund's responsible investment lead.

Pryke added that they prefer to invest in business-to-business enterprises, rather than consumer-facing stocks. “They're typically capital light, with high recurring revenue and high free-cash regeneration.”



QATAR OLYMPIC COMMITTEE PUBLIC TENDER ADVERTISEMENT

The Tenders and Auctions Committee at Qatar Olympic Committee (QOC) announces the issuing of the following tender:

TENDER NO #	SUBJECT	TENDER BOND	SYSTEM OF TENDER SUBMISSION	LAST DATE FOR TENDER DOCUMENTS COLLECTION	SITE VISIT	CLOSING DATE
QOC/TAC/PLSD/002/2024	Provision of Cleaning Services for Qatar Olympic Committee Tower and Qatar Olympic Academy Building	QR 60,000	2-Separate Envelopes	13/10/2024	15/10/2024	27/10/2024

- Tender documents Fee: QR 500.00 to be paid in cash at The Finance Department on the 14th floor of the QOC Building or online at <https://www.olympic.qa/tenders> and it is non-refundable in all cases.
- Collection of Tender Documents from the Tenders and Auctions Committee on the 6th floor on the QOC Building West Bay. (Against submission of a copy of C.R. and authorization letter)
- Last Date for Tender Document Collection: at 12:00 on the date indicated above. No Tender Documents will be released thereafter.**
- Closing Date: At 12:00 on the Closing Date specified above. No tenders will be received thereafter.
- All forms and schedules attached to the Tender Document, including the Tender Form and its appendices, shall be completed, and endorsed as required and shall be returned together with the other sections of the Tender Document including the original + a copy of the same. Tenders are to be submitted following the 2-separate envelope system (technical and commercial) 1 original and 2 copies) along with 2 soft copies USB flash memory (one technical in the technical envelope, one commercial in the commercial envelope), and any tender not complying with this requirement shall be disregarded.
- A Tender Bond in the form of a provisional bank letter of guarantee from a Qatari bank or endorsed by a bank operating in the State of Qatar shall be submitted together with the Tender. The bond shall be valid for a period of 120 days after the Closing Date as indicated above and shall be in the same format attached to the Tender Document.
- The tender Bond shall be submitted in the envelope enclosing the technical bid. Any bidder that will not submit the tender bond with his bid on the closing date will be disqualified.
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- The Committee reserves the right to split the award of this Tender to more than one bidder, based on the lowest prices submitted, maintaining compliance with required specifications and delivery dates.
- The Committee shall have the right not to accept the lowest bid without giving any reason.
- The Tender shall be valid for a period of 120 days after the Closing Date.
- Request for additional information or clarifications received less than five working days before the closing date for submission of tenders will not be processed.
- Tenders are to be submitted in sealed envelopes to the Tenders and Auctions Committee at the 6th floor on QOC Building-west Bay, along with a soft copy USB flash memory inside each envelope. You are also required to provide a single point of contact (name, email, direct phone, mobile) for any further queries regarding this tender.
- For any queries, please contact us by email to tc@olympic.qa.

US funding market forewarns of a volatile end to 2024

Bloomberg
New York

The latest heightened liquidity pressures in the US funding market have some on Wall Street nervous about even greater challenges in the final month of the year.

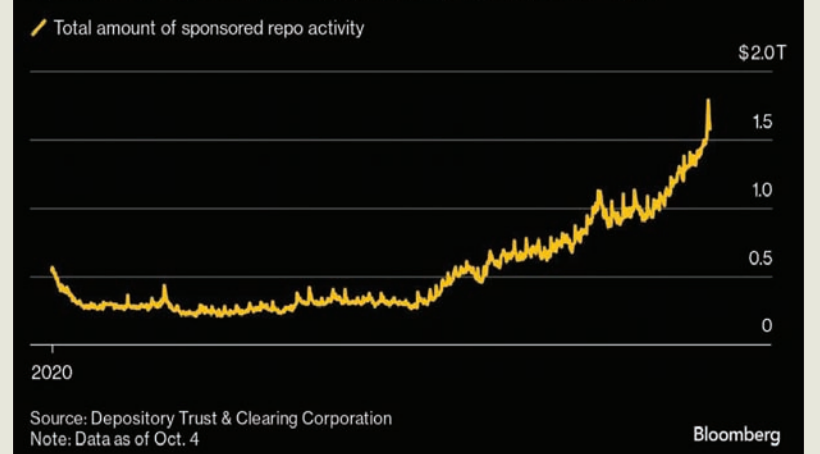
Market participants say a spike in rates tied to repurchase agreements, which are overnight loans collateralised by US Treasuries, could intensify in December as both regulatory burdens and Treasury auction settlements will collide for the second time in three months, yanking cash out of the funding market. It was those conditions that pushed rates to atypical levels at the end of the third quarter.

“Year-end is now a bigger issue given the volatility” at quarter-end, said Peter Nowicki, head of repo trading at Wedbush Securities Inc.

While the most recent market turbulence stemmed more from primary dealers' balance-sheet constraints instead of the Federal Reserve's ongoing quantitative tightening, it evoked memories of September 2019 when an increase in government borrowing and a corporate tax payment created a shortage of reserves. That resulted in a five-fold surge in overnight repo and a spike in the federal funds rate above the target range, forcing the Fed to intervene by expanding its balance sheet to stabilise the market.

Bank of America Corp strategists expect dealers to be better prepared for year-end funding constraints, but they aren't ruling out a repeat as dealers' balance sheets remain bloated with government debt. Compounding that potential problem are big Treasury coupon auction settlements for an estimated \$147bn on December 31 –

Sponsored Repo Activity Has Retreated from All-Time High



about 25% larger than ones on September 30. Funding markets will also feel pressure from global systemically important banks, or GSIBs. At year-end, a snapshot of GSIBs' exposures is taken to determine whether their capital requirements will increase for the following full calendar year. So when institutions are tidying up their balance sheets, it's easier to trim repo activity, according to Jan Nevruzi, a US rates strategist at TD Securities, adding that companies are less likely to transact in “low margin businesses.”

“That's the first area you look at if you want to trim your balance sheet,” Nevruzi said. Instead, dealers will likely rely more on sponsored repo, which allows lenders to transact with counterparties like money-market funds and hedge funds, without bumping up against regulatory constraints of their own balance sheets. These agreements are effectively “sponsored”

or cleared via the Fixed Income Clearing Corp's repo platform, thereby allowing dealer-banks to net two sides of a trade and hold less capital against it.

Sponsored repo activity totalled \$1.78tn as of September 30 before retreating to \$1.58tn on October 4, Depository Trust and Clearing Corp data show.

The surge in sponsored repo activity underscores the growth of demand from hedge funds as their activity outpaced that of cash lenders.

That may be because dealers don't have enough cash lender counterparties signed up to participate in sponsored repo and that creates risks of dislocations around year-end. In fact, balances at the Fed's overnight reverse repo facility nearly doubled in the second half of September to \$466 billion because dealers were turning away money-fund cash.

Singapore is set to hold currency settings in face of sticky prices

Bloomberg
Singapore

Singapore is set to buck the global easing trend and keep its policy bearings on hold as officials use the strength of the currency to tackle still-exorbitant living costs.

The Monetary Authority of Singapore (MAS) is expected to keep the slope, centre and width of its currency band steady, though policymakers may strike a dovish tone to pave the way for a shift in stance next year when price pressures abate. All but three economists in a Bloomberg survey see no change to policy on Monday, and the bigger-than-average options turnover this week suggests that traders are betting on the currency to strengthen after the decision.

United Overseas Bank Ltd is one of the handful of analysts who expect an early MAS pivot to easing.

While central banks in the US, Europe and parts of Asia have begun cutting interest rates as inflation drops from its post-pandemic peaks, the deceleration in consumer prices has slowed in Singapore, which imports the lion's share of basic goods. The MAS uses the exchange rate rather than interest rates to control price growth, guiding the local dollar against a basket of currencies to crimp the cost of imports.

"The conditions are not in place for monetary policy easing just yet," with services inflation still high, said Khoo Goh, head of Asia research at ANZ Group Holdings Ltd. "The earliest that we see the MAS easing is in January 2025."



The Monetary Authority of Singapore. The MAS is expected to keep the slope, centre and width of its currency band steady, though policymakers may strike a dovish tone to pave the way for a shift in stance next year when price pressures abate.

Singapore is one of four major monetary authorities in the Asia-Pacific region announcing policy decisions in short succession. The Bank of Korea cut its benchmark interest rate in a widely expected move, while New Zealand stepped up the pace of easing this week. India opened the door to its first rate cut in four years.

The MAS's parameters for the Singapore dollar's nominal effective exchange rate, or S\$NEER, have been unchanged for the past year.

Yet factors from the price of oil to central banks in Frankfurt, Beijing and Washington lowering borrowing costs, and the upcoming US Presidential election have implications for Singapore's growth and the

performance of its currency. The Federal Reserve's 50-basis point interest rate cut in September drove the Singapore dollar to a decade high against the greenback. Market metrics such as demand for option strikes below the spot rate suggest traders see the local currency continuing to appreciate.

"Since markets are counting down to November with US elections, whose outcome may impact trade tariffs for China and other economies, the geopolitical outlook may also exert some influence on near-term uncertainties," said Selena Ling, chief economist at Oversea-Chinese Banking Corp.

Having stressed the importance of a strong local dollar in his Na-

tional Day address in August, Prime Minister Lawrence Wong said in an October 2 video message he expected inflation to ease further in coming months, thanks in part to initiatives to curb the cost of living for low-income citizens.

While the core inflation rate, which excludes housing and private transportation costs, fell to its lowest since 2022 in July, it accelerated to 2.7% in August, suggesting that price pressures remain sticky.

"We expect inflation to continue easing to the lower levels that we saw before Covid," Wong said, echoing the MAS's July forecast for a discernible drop in core inflation in the fourth quarter and into 2025. "The outlook is favourable."

Investors, analysts eye bigger China stimulus at today's briefing

AFP
Beijing

Investors and analysts expect China to unveil billions of dollars in new stimulus for its troubled economy today as officials battle multiple headwinds including a prolonged housing crisis and sluggish consumption.

Authorities last month announced several stimulus policies — from interest rate cuts to looser home-buying rules — after struggling to reignite growth and business activity since ending Covid health curbs in late 2022.

The moves lit a fire under mainland and Hong Kong stock markets on renewed hopes that officials would finally get a grip on the issues that have dogged the economy for years, particularly a debt crisis in the crucial property sector and weak consumer sentiment.

All eyes will be on a news briefing by Finance Minister Lan Fo'an at 10am (0200 GMT) on Saturday, when he is expected to disclose much more substantive fiscal support for the economy.

Details are scarce, but analysts and investors polled by Bloomberg said they expected 2tn yuan (\$283bn) in stimulus to be announced, which would be Beijing's biggest support programme since the bazaar during the global financial crisis.

Gary Ng, senior economist for Asia Pacific at Natixis, told AFP he thought Beijing would unveil "2-3tn yuan of ultra-long government bond issuance".

"Any amount smaller than this will cause disappointment in the market again," he stressed, referring to a slump

in stock prices this week following a briefing Tuesday that failed to announce any new measures. Measures would likely be directed at "real estate, consumption and infrastructure", Ng said.

Beijing has said Lan will use Saturday's briefing to outline "countercyclical adjustment of fiscal policy to promote high-quality economic development".

Shanghai's main bourse closed down 2.6% on Friday afternoon. Hong Kong was closed for a public holiday.

"I think they will send a positive signal to the market, a very decisive fiscal policy to help the economy to stabilise," said the Economist Intelligence Unit's Yue Su, who forecast up to 3tn yuan in help. Experts hope Chinese officials may now be in a "whatever it takes" moment — a reference to former European Central Bank chief Mario Draghi's pledge to save the eurozone during the 2010s debt crisis.

"The stakes are high — most observers agree that recent stimulus announcements won't amount to much unless backed up by fiscal support," said Julian Evans-Pritchard, head of China economics at Capital Economics, in a note.

"Three factors will be key in determining the impact of stimulus: its scale, where it's channelled, and how soon it's deployed," he said.

Analysts for months have urged Beijing to unleash another "bazooka" to get the economy moving and restore confidence.

Beijing last month slashed interest on one-year loans to financial institutions, cut the amount of cash lenders must keep on hand and pushed to lower rates on existing mortgages.

Shanghai markets sink ahead of briefing on mixed day for Asia

AFP
Hong Kong

Chinese shares sank yesterday at the end of a volatile week as traders prepare for a highly anticipated briefing where it is hoped authorities will outline fresh fiscal stimulus to add to a raft of measures unveiled last month. The losses came on a mixed day for Asian markets following disappointing US inflation data that further dampened expectations for another bumper interest rate cut next month. Shanghai lost more than 2% after a week dominated by concerns about a lack of detail on China's recent batch of economy-boosting measures during a news conference on Tuesday. Chinese and Hong Kong markets have whipsawed over the past few days, having rocketed more than 20% in reaction to the raft of support pledges unveiled last

month that had a particular emphasis on helping the battered property sector. Focus is now on today's briefing at which Finance Minister Lan Fo'an is to set out fiscal policy.

China has come under pressure to unveil a fresh round of stimulus as a string of data have shown the world's number-two economy continues to struggle since strict Covid rules were lifted in late 2022. The government has pushed a series of piecemeal measures in that time but observers have warned it needs another "bazooka" similar to that seen during the global financial crisis.

Analysts surveyed by Bloomberg said they saw Beijing deploying as much as 2tn yuan (\$283bn) in support, with some even suggesting more than 3tn yuan. "The stakes are high — most observers agree that recent stimulus announcements won't amount to much unless backed up by fiscal support," said Julian Evans-Pritchard, head of China economics at

Capital Economics, in a note. "Three factors will be key in determining the impact of stimulus: its scale, where it's channelled, and how soon it's deployed," he said.

Wall Street ticked down Thursday after figures showed September US consumer prices rose slightly less than the previous month but a little more than forecast, while the closely watched core reading edged higher.

That followed last Friday's blockbuster jobs data that led traders to slash bets on a second successive 50-basis-point rate reduction in November. While the latest inflation news was not as good as hoped, some Federal Reserve officials remained upbeat.

New York Fed president John Williams said that "month to month, there's wiggles and bumps in the data, but we've seen this pretty steady process of inflation moving" downward. "I expect that that will continue," he

said, adding he thought the bank could continue to bring borrowing costs down. His Chicago counterpart Austan Goolsbee told CNBC the rate of inflation was clearly moving downwards, while Richmond Fed chief Thomas Barkin concurred it was "definitely headed in the right direction".

However, Raphael Bostic at the Atlanta Fed said one print did not tell a whole story, but if repeated it could give him reason to consider pausing on rates. Traders now see a 25-basis-point reduction, having been optimistic for 50 before last week's jobs report.

"Overall, the print doesn't change the story of (the) moderating inflation narrative and should keep the Fed on getting policy back to a more neutral setting (wherever that may be)," said Tapas Strickland, head of market economics at National Australia Bank. But he added that if repeated "it may... challenge where inflation could settle and

how quickly it may take to get there". After a tepid lead from Wall Street, where the Dow and S&P 500 came off record highs, Asia fluctuated. Tokyo rose on a weaker yen as investors scale back expectations for US rate cuts, while Wellington, Bangkok, Taipei and Jakarta also edged up.

However, Sydney, Seoul, Singapore, Mumbai and Manila dropped. Hong Kong was closed for a holiday. London edged down even as data showed the UK economy expanded in August after stagnating for two months. Frankfurt was up and Paris dipped.

Oil dropped more than 1%, having surged more than 3% Thursday after Israel's defence minister pledged his country would strike Iran in retaliation for last week's missile attack. In Tokyo, the Nikkei 225 closed up 0.6% to 39,605.80 points; Shanghai — Composite ended down 2.6% to 3,217.74 points and Hong Kong closed for holiday.

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Germany is working to thwart UniCredit's bid for Commerzbank

Reuters
London/Frankfurt

Germany is working to frustrate a possible takeover of one of its biggest banks by an Italian rival, a stance that pits Berlin against Rome and Europe's regulators, several people familiar with government and regulators' thinking told Reuters.

Berlin was taken aback by UniCredit's swoop to build a large stake in state-backed Commerzbank, a move the Italian bank says could lead to a merger.

Officials are now bracing for a potential hostile bid that could tie Berlin's fortunes to those of Italy, whose debt load dwarfs Germany's.

Combining the banks poses a potential threat to financial stability, they say, as UniCredit owns tens of billions of euros of Italian government bonds.

Several people in the German government are now pinning their hopes on a regulatory review by the country's supervisor BaFin, and are lobbying the regulator against a deal.

One key argument is that Berlin might end up footing the bill if UniCredit were to be dragged into an Italian debt crisis.

BaFin, which plays a critical role in whether UniCredit can try to gain control of Commerzbank, has started to analyse UniCredit's request to allow it to build its roughly 9.9% shareholding to almost 30%.

The watchdog will make a proposal to the European Central Bank, the lenders' regulator, which has the final say, based on a handful of criteria such as the financial strength of the buyer and the reputation of managers.

While Rome cautiously supports the deal, Berlin hopes its concerns may thwart or at least delay the approval of UniCredit's plan by the ECB.

BaFin has a delicate balancing act. While it is duty-bound to handle UniCredit's application even-handedly, it must also take into account the concerns of the German government, as the agency reports to the finance ministry.

Several sources with knowledge of the ECB's thinking, said there was widespread disagreement with Germany's opposition,

although the country remains influential and can count on powerful figures within the institution.

The ECB has said large, European banks can better support the economy and compete with bigger rivals in the US.

Even though the 20 countries of the euro zone share a currency, banking remains mostly national.

For the ECB, its handling of UniCredit's interest in Commerzbank, balancing the interests of two of the bloc's biggest countries, will be one of its biggest tests since becoming the region's main watchdog a decade ago.

"BaFin and the European Central Bank work closely together," said a spokesperson for BaFin, adding that BaFin had a "right to recommend" to the ECB whether a deal should be approved, leaving the final say with the ECB. "This procedure makes an important contribution to financial stability," he said.

A spokesperson for the ECB said it was in "constant interaction" with national authorities on such matters, describing decisions as "collaborative".

The ECB's chief supervisor Claudia

Buch said recently the institution would do "anything" to remove hurdles to cross-border bank mergers, after president Christine Lagarde described such deals as "desirable".

Italy's Treasury, Germany's finance ministry, Commerzbank, and UniCredit declined to comment.

BaFin has a seat on the ECB's supervisory board along with authorities from the 20 other countries that form the banking union plus a smattering of ECB representatives. The ECB has roughly 90 days to review the case.

At the heart of Germany's concern is UniCredit's 40bn euros (\$44bn) of Italian government bonds.

This is seen as a potential risk because Italy is heavily indebted. Commerzbank, which is smaller and financially weaker than UniCredit, also has billions of euros of Italian bonds.

If Italy were to run into trouble after a merger, officials fear Germany might have to step in.

But some ECB officials see a solution. Commerzbank could become a subsidiary within UniCredit, with clear plans on how

to deal with it separately in a crisis. In the sovereign debt crisis of the early 2010s, some European countries had to bail out their banks, which were also weakened by their sovereign, illustrating how intertwined they were in a crisis that nearly brought down the euro.

Berlin's reaction signals a lack of faith in the European architecture put in place to prevent a repeat of the 2010-11 debt crisis, as well as a deep-seated scepticism over Italy. The German government believes UniCredit's move on Commerzbank was aggressive and expect a hostile bid within months, three sources familiar with government thinking told Reuters.

People close to the government also said trust between Berlin and UniCredit CEO Andrea Orcel had nearly collapsed.

They pointed to Orcel's surprise move on Commerzbank, including using derivatives that give him an option to get more shares, despite earlier suggesting he was acting in line with Berlin's wishes.

Orcel recently told an audience he had spoken repeatedly with stakeholders in Commerzbank and was keen to reopen dialogue.

US producer prices flat; consumer sentiment slips in October

Reuters
Washington

US producer prices were unchanged in September as a small rise in the cost of services was offset by cheaper goods, pointing to a still-favourable inflation outlook and supporting views that the Federal Reserve would cut interest rates again next month.

The unexpected flat reading reported by the Labor Department yesterday followed data on Thursday showing consumer prices increased slightly more than expected last month. But some components that go into the personal consumption expenditures (PCE) price indexes were a bit firmer, suggesting fairly warmer underlying inflation in September. The US central bank tracks the PCE price indexes for its 2% inflation target.

"We anticipate a more modest 25 basis points reduction next month," said Paul Ashworth, chief North America economist at Capital Economics. "We still expect underlying price inflation to continue moderating back to target by early next year, but the risks to that view are no longer skewed to the downside." The unchanged reading in the producer price index for final demand last month followed an unrevised 0.2% gain in August, the Labor Department's Bureau of Labor Statistics said. Economists polled by Reuters had forecast the PPI edging up 0.1%.

In the 12 months through September, the PPI increased 1.8% after climbing 1.9% in August. Consumer prices rose a bit above expectations in September, lifted by higher food costs. Most economists did not view the uptick in inflation as a sign that price pressures were building up again. Housing inflation cooled considerably in September. Still, high prices continue to colour con-



People walk on a busy 5th Avenue in midtown Manhattan in New York City. US producer prices were unchanged in September as a small rise in the cost of services was offset by cheaper goods, pointing to a still-favourable inflation outlook and supporting views that the Federal Reserve would cut interest rates again next month.

sumers' views of the economy. A separate survey from the University of Michigan showed its preliminary consumer sentiment index slipped to 68.9 in October from a final reading of 70.1 in September. Economists had forecast a preliminary reading of 70.8.

Consumers' 12-month inflation expectations rose to 2.9% from 2.7% last month. The ebb in sentiment was across political party affiliation, though more pronounced among Republicans. Inflation is a major issue for voters in next month's presidential election. Vice-President Kamala Harris, the Democratic Party's nominee, is locked in a tight race with the Republican Party's candidate Donald Trump.

The Fed last month cut its policy rate by 50 basis points to the 4.75-5.00% range. It hiked rates by

525 basis points in 2022 and 2023. Stocks on Wall Street traded higher. The dollar slipped against a basket of currencies. US Treasury yields dipped.

The producer price data showed wholesale services prices increased 0.2% in September after rising 0.4% in August. They were lifted by a 3.0% jump in deposit services. There were also increases in prices for machinery and vehicle wholesaling as well as furniture retailing, desktop and portable device application software publishing, and apparel wholesaling.

Portfolio management fees rose 0.3% after gaining 0.1% in August. The wholesale cost of hotel and motel accommodation increased 1.3% after surging 3.4% in the prior month. Prices for doctor care were unchanged for the second straight

month, while the cost of hospital outpatient care edged up 0.1% after rising 0.7% in August. Hospital inpatient care rose 0.3%. Property and casualty insurance prices jumped 0.9% after climbing 0.3% in August.

Portfolio management fees, healthcare, hotel and motel accommodation and airline fares are among components that go into the calculation of the PCE price indexes. With the PPI and CPI data in hand, economists estimated that core PCE increased 0.2% in September, with a risk of rounding up to 0.3%, after gaining 0.1% in August.

Still, the core PCE six-month annualized rate of increase was forecast slowing to 2.2% from 2.4% in August, a sign of a downward trend. Annual inflation was forecast at 2.6% after advancing 2.7% in August.

Bank earnings to give market key read on health of economy

Bloomberg
New York

Wall Street is poised for a glimpse into the outlook for the biggest US banks as the Federal Reserve starts dialling back interest rates and uncertainty continues to shadow the economy.

JPMorgan Chase & Co and Wells Fargo & Co kicked off the quarterly earnings-report yesterday, followed by Citigroup Inc, Morgan Stanley, Goldman Sachs Group Inc, and Bank of America Corp next week.

Banks provide a good read on the state of both consumers and other companies, making their quarterly reports a crucial part of the earnings season. US bank stocks jumped almost 10% in the third quarter amid optimism around policymakers' rate-cutting cycle and the resilient state of the economy, turning the latest update into a test of whether expectations ran too far.

So far the going has been good for banks. Second quarter earnings were the second best among S&P 500 sub-industries with banks notably trouncing the S&P 500 Index as a whole, according to Bloomberg Intelligence data. The focus is now on how net interest income, loan and deposit growth, credit quality, and consumer spending resilience will fare as US interest rates come down from a more than two-decade high.

Bank stocks have been on a roll this year, with the KBW Bank Index rising almost 21%, roughly in line with the S&P 500 — no small feat considering the broader benchmark has seen its gains largely powered by tech giants like Nvidia and Apple. Still, the rally for banks has pushed them back around the peaks seen in late July.

Analysts are split pretty evenly between buy and hold

ratings. The split sets the tone for the earnings ahead; half expect the going to get better, while the other half have signalled caution.

"Investors still seem optimistic about 2025 prospects, but with lingering near-term anxiety on net interest income," said Piper Sandler's analyst R Scott Siefers.

"In order words," he wrote in a note, "while investors are optimistic about next year's prospects, the path to get there could still be bumpy."

To be sure, the Fed's half-percentage-point cut in September occurred too late to have any material impact on third quarter interest income. As a result, attention will fall heavily on the outlook for the fourth quarter and beyond. To make matters more complicated, stronger-than-expected jobs data earlier in October has some thinking that rates will be cut slower than anticipated.

"We anticipate that the benefits from a lower rate environment should become more apparent for banks in coming quarters, but in the near term, we expect another quarter of mixed results in 3Q." Wedbush Securities Inc analyst David Chiaverini writes in a note ahead of earnings.

The drop in interest rates isn't entirely negative to banks, since it can also fuel an increase in bond sales, consumer borrowing, trading and other activity that fuels profits. JPMorgan analyst Vivek Juneja said investment-banking fees may be one bright spot.

"We view this as a major positive for M&A activity, as lower debt financing costs should incentivize sponsors to deploy dry powder and corporates to deploy excess capital," Juneja wrote in a note. He expects major banks like Bank of America, Citi, and Wells Fargo to benefit from strong market-related revenues such as investment banking.

Bank of Korea joins global rate cut wave with cautious pivot

Bloomberg
Seoul

The Bank of Korea (BoK) cautiously joined a global wave of central banks cutting rates as it finally saw enough cooling of inflation and property prices to shift its attention to supporting the economy. The central bank lowered its key policy rate by a quarter-percentage-point to 3.25% in a decision predicted by 20 of 22 economists surveyed by Bloomberg. Five members of the board see the rate staying there over the next three months, according to Governor Chang-yong Rhee, a view that largely wipes out the likelihood of a follow-up rate cut next month and pours cold water on expectations for a move in January. One member opposed Friday's rate cut decision, another factor that suggests the bank will stand pat next month.

Rhee, speaking at a post-decision briefing, acknowledged the decision was essentially a "hawkish cut." The currency market also reflected that view, with the won strengthening against the dollar as traders recalibrated their expectations for the pace of easing. Bond yields edged down a tad, but would likely have moved more

with a clearer sign of an imminent follow-up in the pipeline.

"It's safe to say there are no more cuts coming this year," said An Young-jin, an economist at SK Securities. "But what's clear is Rhee's tone has shifted. He's sent a message that while the easing cycle has begun, markets need to manage their expectations on the pace of it."

Before the decision, surveyed economists had essentially forecast two more rate cuts by the end of June next year. An said it's now harder to predict the level that the rate will reach by mid-2025. With its policy pivot the BoK joins a slew of central banks changing course to embark on easing cycles in a bid to revive economic momentum after a weakening of inflationary pressure. The Federal Reserve last month cut its key rate by a half-percentage point as ensuring a soft landing for the economy took precedence over its inflation battle. That larger-than-regular move provided more scope to central bankers in other economies to consider nudging rates down too without hammering their currencies.

"The rate cut not only responds to the consumption that's been lacklustre, but also shows the BoK can afford to loosen a bit given that the pressure pushing the



Chang-yong Rhee, governor of the Bank of Korea.

inflation rate back above 2% appears limited," said Ahn Yea-ha, analyst at Kiwoom Securities Co. Until Friday, the BoK had held the rate at a restrictive 3.5% for more than a year and a half. Policymakers extended the holding pattern in recent months on concerns that any early signals of a pivot might further fuel a rebound in the housing market and

threaten financial stability. The bank cited a "clear trend of stabilisation" in inflation, a slowing in the growth of household debt and an easing of currency risks as factors behind its decision, according to a statement. While the BoK said it was slightly moderating its restrictive stance it removed a reference to keeping policy restrictive in its concluding remarks. The bank said it would judge the pace of further rate cuts by assessing prices, economic growth and financial stability. "The biggest reason for the cut is that there's no need to keep the benchmark rate at a restrictive level for unnecessarily long," Rhee said. "The pace of easing will be determined as we monitor financial stability."

The rate cut reflects concerns over stagnant private spending and credit risks related to the construction industry. With most borrowers on floating rates, interest expenses have weighed on consumption, a drag that had prompted some lawmakers to call for rate cuts.

Still, Rhee warned against speculation for more easing in November, saying the members who voted for a cut on Friday want to monitor its impact on household debt and property prices before the next meeting. Rhee also talked down the

possibility of a bigger-than-usual cut when the BoK eventually makes its next move. While the Fed went big in September, it was dealing with much stronger inflationary pressure and has higher rates than the BoK, he said.

The government has sought to rein in housing markets with a pledge to increase home supplies and by rolling out stronger regulations on mortgage loans, moves that may have reassured the central bank that the market would cool.

One BoK board member cited those measures in the lead-up to Friday's decision and Rhee also hailed the efforts at this briefing.

While the economy has largely kept expanding since the start of South Korea's post-pandemic tightening cycle and is on course this year to post growth of around 2.4%, recent figures offer a flattering view of growth.

Looking under the hood of the economy, spending by households has largely been flatlining over the last couple of years. While exports typically contribute more to South Korea's growth than domestic consumption, the economy has relied far more on semiconductor-fueled shipments abroad in the last couple of years than previously.