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ECB has right focus on bank risks a decade on: Ex-official

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## QCB governor meets executives from Oaktree Capital and Blackstone

Sheikh Bandar bin Mohammed bin Saoud al-Thani, Qatar Central Bank governor and Qatar Investment Authority chairman met with Howard Marks, co-chairman of Oaktree Capital Management and Stephen Schwarzman, chairman, chief executive officer and co-founder of Blackstone in New York. During the meetings, they reviewed the key global financial and investment developments.

# Qatar's automobile sector gains speed in August: NPC

**By Santhosh V Perumal**
Business Reporter

Qatar's automobile sector showed demand strengthening in August 2024, as new registrations, especially those of the private vehicles, saw a robust two-digit growth, according to the official estimates.

The country's automobile sector witnessed as many as 8,605 new registrations in August 2024, registering 14% and 11.3% growth on annualised and monthly basis respectively, according to the National Planning Council (NPC) data.

The review period saw a total of 7,928 driving licenses issued with non-Qatari males constituting 5,738 or 72% of the total, non-Qatari females 1,433 or 18%, Qatari males 489 or 6% and Qatari females 268 or 4%. The total licenses issued jumped 0.6% month-on-month but declined 14.5% year-on-year in the review period.

The registration of new private vehicles stood at 6,641; which shot up 27.5% and 8.6% on yearly and monthly basis respectively in August 2024. Such vehicles constituted 77.2% of the total new vehicles registered in the country in the review period.

The registration of new private transport vehicles stood at 1,173; which was up 2.6% year-on-year but fell 2.4% month-on-month this August. Such vehicles constituted 13.6% of the total new vehicles in the review period. As many as 54 trailers were registered in August 2024, which zoomed 20% and 3.8% year-on-year and month-on-month respectively. They constituted 0.63% of the total new vehicles in the review period. The registration of new private motorcycles stood at 216 units, which decreased 13.9% on a yearly basis but grew 32.5% on monthly basis in August 2024. These constituted 2.5% of the total new vehicles in the review period.

The registration of new heavy equipment stood at 131, which constituted 1.5% of the total registrations this August. Their registrations had seen 47.8% and 4.4% contraction year-on-year and month-on-month respectively in the review period.

The new registration of other non-specified vehicles stood at 390 units, which tanked 39.6% on an annualised basis but surged 529% month-on-month in August 2024. They constituted 4.5% of the total new vehicles registered in the country in the review period.

The registration was renewed in 72,845 vehicles, which reported a 0.2% rise year-on-year but fell 3.6% month-on-month in August 2024. It constituted 54.4% of the clearing of vehicle-related processes in the review period.

The clearing of vehicle-related processes was seen in 133,901 units, which grew 6.7% on a yearly basis, while declined 2.8% month-on-month in the review period. The transfer of ownership was reported in 31,887 vehicles in August 2024, which was down 2.2% and 1.1% year-on-year and month-on-month respectively. It constituted 23.81% of the clearing of vehicle-related processes in the review period.

The lost/damaged vehicles stood at 10,940 units, which shot up 222.4% on yearly basis but shrank 8.8% on monthly basis in August 2024. They constituted 8.17% of the clearing of vehicle-related processes in the review period.

The number of cancelled vehicles was 3,652; which rose 49.9% year-on-year, even as it fell 5.1% month-on-month in August 2024. They constituted 2.73% of the clearing of vehicle-related processes in the review period.

The modified vehicles' registration stood at 3,256; which tanked 28% on an annualised basis but expanded 3.3% month-on-month in August 2024. They constituted 2.43% of the clearing of vehicle-related processes in the review period. The number of vehicles meant for exports stood at 2,716 units, which zoomed 25.5% year-on-year, whereas it shrank 7.6% month-on-month respectively this August. It constituted 2.03% of the clearing of vehicle-related processes in the review period.

The re-registration was done in 121 vehicles, which plunged 11.7% and 14.2% year-on-year and month-on-month respectively this August. They constituted mere 0.1% of the clearing of vehicle-related processes in the review period.

Qatar's automobile sector showed demand strengthening in August 2024, as new registrations, especially those of the private vehicles, saw a robust two-digit growth, according to the official estimates

# Earnings outlook lifts Qatar bourse sentiments as key index vaults 224 points; M-cap adds QR14.36bn

**By Santhosh V Perumal**
Business Reporter

**WEEKLY REVIEW**

Robust earnings expectations masked apprehensions over the geopolitical tensions in the region that the Qatar Stock Exchange (QSE) saw its key index gain as much as 224 points and capitalisation add more than QR14bn this week.

The domestic institutions were increasingly net buyers as the 20-stock Qatar Index vaulted 2.13% this week which saw Qatar Islamic Bank report net profit of QR3.27bn in the first nine months (9M) of this year.

The telecom, banking and real estate counters witnessed higher than average demand in the main bourse this week which saw Commercial Bank report net profit of QR2.34bn in 9M-2024.

As much as 65% of the traded constituents extended gains to investors in the main market this week which saw Dukhan Bank's 9M-2024 net profit at QR1.14bn.

However, the local retail investors were increasingly net sellers in the main bourse this week which saw Woqod report net profit of QR771.3mn in January-September 2024.

The foreign funds were seen increasingly bearish in the main market this week, which saw Ahlibank Qatar's 9M-2024 net profit at QR647.15mn.

The foreign retail investors were increasingly net profit takers in the main bourse this week which saw a total of 0.17mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.38mn trade across 39 deals.

The Gulf institutions were increasingly net sellers in the main market this week which saw as many as 0.04mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.46mn change hands across 38 transactions.

The Arab funds were seen net profit takers in the main bourse this week which saw the banking and realty sectors together constitute about 51% of the total trade volumes.

The Islamic index was seen gaining slower than the other indices in the main market this week, which saw no trading of sovereign bonds.

Market capitalisation added QR14.36bn or 2.33% to QR630.44bn on the back of large and midcap segments this week, which saw no trading of treasury bills.

Trade turnover and volumes were on the increase in the main market this week, which saw Lesha Bank report net profit of QR96.64mn in 9M-2024.

The Total Return Index zoomed 2.13%, the All Share Index by 2.12% and the All Islamic Index by 2.03% this week, which saw QSE disclose that it has started publishing daily report on buyback by companies.

The telecom sector index shot up 3.88%, banks and financial services (2.56%), real estate (2.18%), insurance (1.98%), transport (1.75%), consumer goods and services (1.13%) and industrials (1.11%) this week which saw Qatar registered a robust double-digit year-year-on-year growth in tourists' inflow - especially from the Americas, Europe and Gulf regions this August; as its hospitality sector saw improved room yield, particularly in the four-star hotels and deluxe hotel apartment categories.

Major gainers in the main market included Ezdan, Ooredoo, QIB, Dlala, Medicare Group, QNB, QIIB, Masraf Al Rayan, Woqod, Industries Qatar, Aamal Company, Qatar Industrial Manufacturing, Qatar Insurance, Barwa, Vodafone Qatar, Nakilat and Milaha. In the junior bourse, Al Mahhar Holding and Techno Q saw their shares jump in value this week which saw Lesha Bank sign twin pacts with Barwa.

Nevertheless, Al Faleh Educational Holding, Beema, Widam Food, Qatar German Medical Devices, Inma Holding, Estithmar Holding, Qamco and Gulf Warehousing were among the losers in the main market this week which saw Standard and Poor's (S&P), an international credit rating agency find that sustainable debt issuance from Qatar rose this year; even as the UAE and Saudi Arabia constituted the most of such issuances in the Middle East in the first nine months of this year.

The domestic funds' net buying increased substantially to QR641.98mn compared to QR156.01mn the week ended October 10.

However, the Qatari individuals' net selling increased significantly to QR266.73mn against QR65.98mn the previous week. The foreign institutions' net selling strengthened considerably to QR204.82mn compared to QR49.95mn a week ago.

The foreign individuals' net selling expanded drastically to QR85.71mn against QR17.11mn the week ended October 10.

The Gulf institutions' net profit booking grew markedly to QR62.06mn compared to QR5.09mn the previous week.

The Arab individual investors' net selling expanded marginally to QR18.23mn against QR17.54mn a week ago.

The Gulf retail investors' net profit booking rose perceptibly to QR4.04mn compared to QR0.51mn the week ended October 10.

The Arab institutions turned net sellers to the tune of QR0.3mn against net buyers of QR0.16mn the previous week. The main market witnessed a 7% jump in trade volumes to 897.59mn shares, 26% in value to QR2.45bn and 2% in deals to 72,435 this week. In the venture market, trade volumes grew more than six-fold to 2.48mn equities and value also by more than six-fold to QR6.35mn on more than tripled transactions to 257.

# Euro parity threat returns on talk of ECB cuts

Bloomberg
Frankfurt

The risk of the euro sliding to parity with the dollar is mounting in financial markets after this week's interest-rate cut and stark reminder that a Donald Trump presidency could spark a global trade war.

Just days after Trump suggested US tariffs could be aimed at Europe as well as China and other countries, European Central Bank President Christine Lagarde warned that any barriers would pose a "downside risk" for the bloc's struggling economy. On Thursday she delivered a second interest–rate cut in a row and sparked bets on even more aggressive reductions to come.

The combination sent the euro tumbling, putting it on track for its third straight week of losses against the greenback and its worst weekly drop against the pound this year.

"Euro-dollar parity is definitely a possibility if Trump wins and goes on tariffs," said Michael Hart, senior currency strategist at Pictet Wealth Management.

Pictet and Deutsche Bank AG no longer consider a scenario where one euro buys a single dollar to be far-fetched, while JP Morgan Private Bank and ING Groep NV see the risk that the common currency could fall toward that level before the year is out.

The curdling sentiment is visible in the options market, where traders are ramping up bearish bets against the common currency.

A gauge of risk reversals over the next month — or how expensive it is to buy options that benefit from a currency's gains relative to those that target weakness — is now the most negative on the euro-dollar pair in three months, showing an appetite to bet on euro pain. Options to protect against a weaker euro in the short term are concentrated on a fall to the $1.08-$1.07 area, according to data from the Depository Trust & Clearing Corporation. Interest in protecting against a slide to $1.05 is on the rise, while parity trades comprise a small fraction of total volumes, for now.

"We like long dollar against the euro, given the sensitivity of Europe to shifts in foreign policy and the prospect of broad tariffs under Trump," said Aroop Chatterjee, a strategist at Wells Fargo.

The Chinese yuan, Mexican peso and Japanese yen are typically seen as the main lightning rods for fresh US trade restrictions, but Europe's lacklustre economy makes the euro vulnerable. US tariffs could crimp global trade just as growth is slowing and central banks are cutting rates.

Money markets imply a 20% chance the ECB will deliver a half-point cut at the final meeting of the year and are almost fully priced for quarter-point reductions at every meeting through April. The euro was trading little changed against the dollar at $1.0843 yesterday, set for its third week of losses, the longest streak since June.

"A Trump election and a tariff war is looming which could force the ECB into further action to keep the currency weak and remain competitive," said Kaspar Hense, senior portfolio manager at RBC BlueBay Asset Management.

In an interview with Bloomberg earlier this week, Trump described tariffs as "the most beautiful word in the dictionary." Singling out Europe, he added: "You know what's tough? The European Union. They treat us so badly we have a deficit."

Though the outcome of the election remains too close to call, George Saravelos, global head of FX research at Deutsche Bank, says a global trade war involving China would drive the ECB to cut rates more aggressively than markets are currently pricing.

"This would take rate spreads to all-time historical extremes and the euro-dollar pair down to around 1.00," he wrote earlier this month.

# Northvolt nears $300mn rescue package to ease crunch

Bloomberg
Stockholm

Northvolt AB is closing in on an about $300mn rescue package that includes debt and equity, according to people familiar with the matter, buying time for the cash-strapped Swedish battery maker to stabilise production and line up longer-term financing.

A combination of shareholders, lenders and customers are participating in the bridge funding, and the instruments vary among these groups, the people said, asking not to be named commenting on private negotiations. Discussions are in the final stages, though there remains some risk they can still fall apart, they said.

The stopgap package would give the electric-vehicle supplier a cash cushion to secure more-permanent financing that would put it on a path toward self-sustainability. The company has sealed tens of billions of dollars in battery orders but has struggled to deliver finished products at acceptable quality and rates. Northvolt declined to comment.

The people didn't provide breakdowns between debt, equity, or any other forms of aid. Dagens Industri reported earlier that Northvolt was near a financing totalling between 1bn and 1.5bn Swedish kronor ($95-143mn).

Northvolt has been targeting about €200mn, Bloomberg News and others have reported. Goldman Sachs Asset Management, its second-largest shareholder, was considering joining the rescue, Bloomberg News reported this week.

Top shareholder Volkswagen AG has said it will help Northvolt scale up battery-cell production but provided little detail. Its Scania truckmaking unit, which relies on Northvolt cells, is a customer and could provide financial aid, people familiar with the matter have said. "We are in close dialogue but we cannot comment beyond that," a Scania representative said.

Harald Mix, Northvolt's founder, has pledged to kick in more cash. The investor, who leads Vargas Holding AB, wrote a newspaper op-ed this week, supporting the company's bid to continue despite "major challenges."

Another shareholder, EIT InnoEnergy, will offer "significant" financial support, according to a local report.

Northvolt has received about $10bn in debt and equity funding since its founding in 2017. But it's up against established Chinese competitors like Contemporary Amperex Technology Co and BYD Co that have had years to master the challenge of making battery cells and have much lower costs.

The Swedish company's strategy to grow aggressively in a range of battery technologies added to its numerous operational hurdles. The plans encompassed not just a rapid scale-up of complex cell manufacturing, but the production of components such as cathode materials and the construction of several new factories.

In recent weeks, Northvolt has cut jobs and pared back its ambitions to focus raising cash and increasing output at the main plant in Skelleftea. An expansion there has been shelved, and the unit overseeing the project was placed into bankruptcy. The company has said it will reduce its global workforce by 20%, including 1,600 positions in Sweden.

Climate-tech companies aren't alone in experiencing layoffs in an economic downturn, said Agate Freimane, general partner at Norrsken VC, a Northvolt investor. In an interview with Bloomberg TV, she said she remains optimistic European companies can compete globally in green industries.

# ECB has right focus on bank risks a decade on, says ex-official

Bloomberg
Frankfurt

Sabine Lautenschlaeger, former official of the European Central Bank.

The European Central Bank (ECB) is correct to be preparing lenders for threats that were difficult to imagine when it started regulating the industry 10 years ago, according to an official who help set up its oversight arm.

The ECB's work to make banks ready for risks including geopolitical shocks or cyberattacks is "a reaction to the increasing uncertainties we currently experience," said Sabine Lautenschlaeger, who was vice Chair of the ECB's Supervisory Board from its start in 2014-2019. "The last decade was about capital. The next decade will be about operational resilience."

As the ECB's supervisory arm readies birthday celebrations next month, top oversight official Claudia Buch is pushing lenders to consider how emerging risks, including climate change, can hurt their balance sheets or put them out of business.

Almost a year into her term, the German official runs an institution that has weathered major shocks, built a reputation for rigour and has the confidence to judge which risks it should focus on.

In the early days of ECB banking supervision, Lautenschlaeger and her colleagues harmonised the approaches of different countries, against the backdrop of an economy still recovering from a painful debt crisis. The ECB was "lucky" that any subsequent periods of stress related to individual banks, rather than the wider economy, she said in an interview this month.

Yet the banking industry would have found it "for sure more difficult to withstand" the pandemic and fallout from Russia's invasion of Ukraine without the ECB's previous push for higher capital and liquidity levels and better governance and risk management at banks, said Lautenschlaeger.

Still, she voiced support for what she sees as the ECB focusing "even more" on how big picture economic risks filter down to specific businesses of individual banks.

Others are critical of the ECB's tough approach. At a recent conference in Frankfurt, Deutsche Bank AG Chief Risk Officer Olivier Vigneron said the ECB should better recognize that lenders need to take risks and deploy capital to finance the structural shifts in the European economy.

"The ECB has done a good job, but it's a relatively young regulator," he said. "It's important to perhaps mature now the regulatory framework, to have a pragmatic application of that framework to understand the risk-taking and the risk appetite of the banks."

While that's an argument that bank lobbyists are making about regulation more broadly, it was also on display earlier this year in reactions to a wide-reaching probe the ECB undertook into loans to indebted companies, an area known as leveraged finance.

ECB officials have publicly rejected wider calls to dial back scrutiny. On leveraged finance specifically, the watchdog has said the "prudent risk management of leveraged loans is of fundamental importance to the ECB."

Lautenschlaeger said she doesn't know the details of that probe and that the outside world usually only sees a fraction of what moves supervisors to act on risks. Still, she says the ECB has to walk a narrow path: Ppressure lenders to address issues and "but don't put on the bankers' clothes."

"I know that people at the ECB do not think they are the better banker," she said. "But leveraged finance is an example of the balancing act. Because that leverage can very quickly turn into a problem, so the risk awareness is higher and the push of supervisors stronger."

Previous efforts to push banks to address risks in that area have shown some success, allowing the ECB to reduce or eliminate specific capital surcharges at some banks.

Buch has been able to build on work her predecessors have done, not just on leveraged finance. Notably, that's likely to prove helpful in dealing with banks acquiring competitors.

Banco Bilbao Vizcaya SA is already trying to buy smaller Spanish competitor Banco de Sabadell SA, while Italy's UniCredit SpA has said a deal for Commerzbank AG is an option after it acquired a stake in the German lender.

"We all know that mergers can have beneficial effects in terms of economies of scale, scope, diversification," Buch said earlier this month. "We also know that they can lead to higher risks and this is all clearly in our guidelines, in our rules and we look at this very carefully."

Such deals may become more of a feature as European states sell off holdings in banks they bailed out in crises that predate ECB supervision. Yet mergers aren't the only way for banks to bulk up, according to Lautenschlaeger.

Banks work with "more standardised products and more digital help to lower your costs," she said. "If you want to successfully compete the next 10 years as a bank, you either have to do economies of scale or you have to be a niche bank."

# Supercharging credit market is key to India's $5tn goals

Bloomberg
Mumbai

India, already the world's fastest-growing major economy, is pushing for even more dramatic expansion to become a developed nation, a goal that hinges on expanding access to capital.

Nothing illustrates that challenge better than the Rs47tn ($559bn) corporate bond market. It's one of the world's smallest as a percentage of gross domestic product, at just 16%, even after record growth. Bankers in Mumbai say doubling that ratio would better help finance ambitious goals, like becoming a $5tn economy in the next three years.

One of the major impediments is a longstanding rule from authorities that makes it hard for long-term investors like insurers and pension funds to go big on infrastructure.

The regulation bars them from investing in notes rated below AA, which in India are deemed risky because they're hard to offload in a smaller market during times of stress.

Spending on roads, ports and bridges, as well as on all kinds of capital expenditure, is set to reach about Rs110tn ($1.3tn) between 2023 and 2027, an increase of 70% from the previous five years, according to the National Stock Exchange of India. The company notes market will likely cover just one-sixth of that amount, it said. That's due in part to those restrictions, given many infrastructure borrowings carry lower or no ratings.

"The corporate bond market is not deep enough to support the country's infrastructure finance requirement," said R Shankar Raman, director and chief financial officer at Larsen & Toubro Ltd, India's top engineering company. For these reasons, the firm has tended to rely mainly on its own cash and bank loans for funding, and has only tapped the bond market once in the past four years.

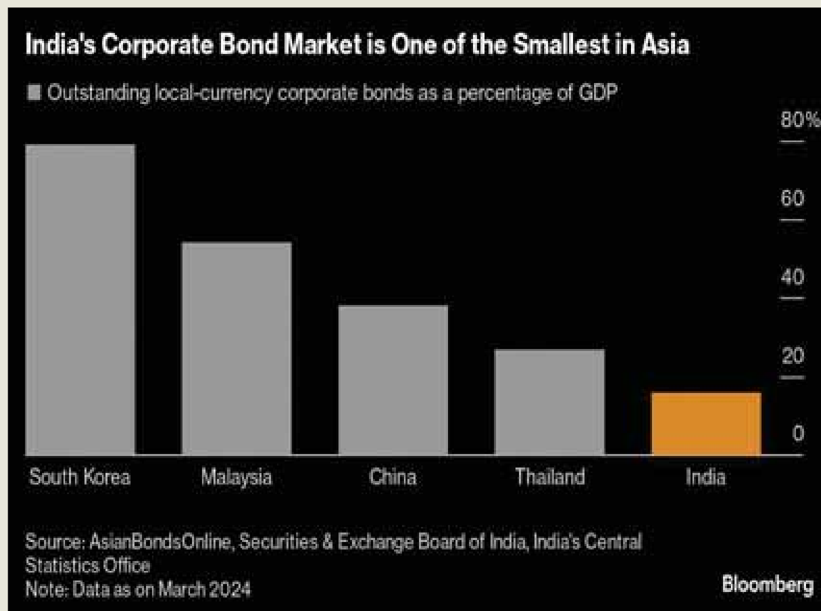
Government financing of course plays a major role in the infrastructure projects dotting Indian cities. But as the economy gets even bigger, the need for both the local credit market and overseas lenders to offer alternative funding sources will become more acute.

The subways, airports, sanitation and electricity grids underpinning urbanisation in the world's most populous nation take years to build. Such time horizons attract investors like insurers who need cash flows that match their longer-term payouts.

But in India the regulatory hurdles have disrupted this dynamic.

Insurers are also subject to a cap on their exposure to infrastructure assets. For instance, they cannot invest more than 20% of the cost of the project.

"The rules clearly deserve a relook," said Somasekhar Vemuri, senior director regulatory, affairs and operations at Crisil Ratings Ltd., a local unit of S&P Global Ratings. "There can be guidelines based on the investor's risk capital to avoid concentration risk rather than linking the exposure limit to the issuer's capital base."




A spokesperson for the Insurance Regulatory and Development Authority of India, the industry watchdog, said that the authority will continue to review investment measures and look at any innovative debt instruments that would enable infrastructure funding.

A representative at the Pension Fund Regulatory and Development Authority didn't immediately reply to a request for comment.

There has been some progress. That follows steps spanning recent years up to just the past few days— measures that stand to strengthen the bond market and wean companies off bank borrowings. Those include:

- The securities regulator on Wednesday introduced a measure to boost liquidity in the secondary market for company bonds
- In April, the Securities and Exchange Board of India shifted to allow borrowers to privately place bonds with face values as low as Rs10,000, in an effort to boost retail investor participation. The previous threshold was Rs100,000
- In 2022, SEBI took a step to enhance liquidity in the bond market, by encouraging bigger outstanding issuance sizes of the kind that are more easily traded. It made it compulsory for companies to have no more than nine conventional bonds maturing within a given year, which effectively encouraged them to tap existing securities, increasing their overall size
- Earlier, in 2016, borrowers were required to issue privately placed notes using an electronic book platform to improve price discovery and reduce costs

Companies have already raised almost Rs8.6tn selling bonds in 2024, set for a second record year. Banks and shadow financiers are leading the expansion amid a double-digit spurt in loan demand.

At the same time, companies helping to fuel India's expansion also have other debt financing options.

Some prefer local loans. The amount of such lending to industries and services stands at about 28% of GDP.

What would be one of the largest local-currency deals in India this year highlights the reliance on loans for key infrastructure. State-owned Bharat Petroleum Corp is in talks with lenders to raise about Rs320bn for building a refinery.

# China's Q3 GDP hits weakest pace since early 2023

**Reuters**
Beijing

China's economy grew at the slowest pace since early 2023 in the third quarter, and though consumption and factory output figures beat forecasts last month a tumbling property sector remains a major challenge for Beijing as it races to revitalise growth.

Authorities have sharply ramped up policy stimulus since late September, but markets are waiting for more details on the size of the package and a clearer road map to put the economy back on a solid longer-term footing.

The world's second-largest economy grew 4.6% in July-September, official data showed, a touch above a 4.5% forecast in a Reuters poll but below the 4.7% pace in the second quarter. "China's Q3 2024 data is not a turn-up for the books," said Bruce Pang, Chief Economist at JLL. "The performance aligns with market expectations, given the weak domestic demand, a still struggling housing market, and slowing export growth." "The stimulus package announced at the end of September will take time and patience to boost growth over the next several quarters," he added.

Officials addressing a post-data press conference on Friday expressed confidence the economy can achieve the government's full year growth target of around 5%, underpinned by further policy support and another cut to the amount banks must hold in reserve. "Based on our comprehensive assessment, the economy in the fourth quarter is expected to continue the stabilisation and recovery trend that occurred in September.

We are fully confident in achieving the full-year target," Sheng Laiyun, deputy head of China's statistics bureau, told reporters. Policymakers could take some comfort in forecast-topping industrial output and retail sales data for September, but the property sector continued to show sharp weakness and underline markets' calls for more support steps. "We would downplay the importance of better-than-expected key economic indicators in September given that the structural weakness in the property and household sectors remains largely unaddressed," said Betty Wang, an economist at Oxford Economics. "The recently announced stimulus measures could cushion the downside risks to next year's growth, but are unlikely to reverse the structural downturn."

A drone view shows a cargo ship and shipping containers at the port of Lianyungang in Jiangsu province, China. China's economy grew at the slowest pace since early 2023 in the third quarter, and though consumption and factory output figures beat forecasts last month a tumbling property sector remains a major challenge for Beijing as it races to revitalise growth.

A Reuters poll showed China's economy is likely to expand 4.8% in 2024, undershooting Beijing's target, and growth could cool further to 4.5% in 2025. On a quarterly basis, the economy expanded 0.9% in the third quarter, compared with a revised 0.5% growth in April-June, and below forecast of 1.0%.

With 70% of Chinese household wealth held in real estate, a sector that at its peak accounted for a quarter of the economy, consumers have kept their wallets shut tight. The frail consumption has taken a toll on many businesses, with major Franco-Italian eyewear maker EssilorLuxottica just one of many in the firing line.

The makers of Rayban and Oakley brands reported it had missed third quarter revenue expectations dragged by weak consumer demand in China.

Worryingly, there were few signs of a property market revival despite several rounds of policy support measures over the past year, with separate data on Friday showing China's new home prices fell at the fastest pace since May 2015.

China's crude steel output in September also slid for a fourth month, missing expectations of a rebound in purchases of the construction commodity. Moreover, cracks have started to appear in the key export sector, a lone bright spot in the economy, with shipment growth slowing sharply last month.

Markets were choppy following yesterday's burst of data, but then rallied sharply with the blue-chip CSI300 Index up 2.5% and the Shanghai Composite rising 2.0% after the central bank announced two funding schemes to support the equity market.

China has been grappling with deflationary pressures since early last year, and some economists see those strains deepening. "The GDP data confirmed that China faces excess supply and lack of demand. China is seen falling into fully-fledged deflation," said Toru Nishihama, Chief Economist, Dai-Ichi Life Research Institute in Tokyo. Policymakers, who have traditionally leaned on infrastructure and manufacturing investment to drive growth, have pledged to shift focus towards stimulating consumption. The central bank in late September announced the most aggressive monetary support measures since the Covid-19 pandemic to support the property and stock markets.

However, the numerous steps have still left investors waiting on details of the overall size of the stimulus package and a clear plan to reignite broader growth. China observers have also repeatedly highlighted the need for authorities to address longer-term structural challenges such as overcapacity, high debt levels and an ageing population.

# Japan's core inflation rate slows in September

**AFP**
Tokyo

Japanese inflation slowed in September with prices up 2.4% on-year, not including volatile fresh food, official data showed yesterday. The core Consumer Price Index eased from 2.8% in August as the pace of increase in electricity and gas prices relented, the internal affairs ministry said.

Despite the slowdown, the rate remained above the Bank of Japan's 2% target, set over a decade ago as part of efforts to boost the stagnant economy.

The target has been surpassed every month since April 2022, although the bank has questioned to what extent that is down to temporary factors such as the Ukraine war.

"The resumption of electricity subsidies resulted in a plunge in headline inflation in September," said Marcel Thieliant, head of Asia-Pacific at Capital Economics.

Thieliant predicted a further deceleration of core inflation in October, but noted that the subsidies "should be phased out completely by December, which should lift inflation".

The Bank of Japan raised interest rates in March for the first time since 2007 and again in July, in initial steps towards normalising its ultra-loose monetary policies.

New Prime Minister Shigeru Ishiba said this month that the environment was not right for another interest rate increase.

After Ishiba took office in early October, perceptions that he favoured hiking borrowing costs and the possibility that he could raise taxes triggered a surge in the yen and stock market volatility.

One dollar bought 150 yen yesterday after the Japanese currency weakened from levels around 149.35 the day before.

Excluding both fresh food and energy, Japanese prices rose 2.1% in September.

"We expect inflation excluding fresh food and energy to remain around 2% until early next year, when it should gradually fall below 2%," Thieliant said.

"Accordingly, we still expect the Bank of Japan to press ahead with another interest rate hike before year-end."

# Asian markets rise as China economy tops forecasts

**AFP**
Hong Kong

Hong Kong and Shanghai soared yesterday to lead gains across most Asian markets after Chinese growth beat forecasts and officials flagged fresh measures to boost the world's number two economy.

Investors have been clamouring for Beijing to deliver more concrete plans for the country's stuttering economy since last month's slew of stimulus announcements that had fanned hopes officials would unload the "bazooka" policy many have been calling for.

However, after a blockbuster rally across the mainland and Hong Kong markets, three high-level briefings that had caused much anticipation fell well short of expectations and sparked a sell-off that ate into those early gains.

Yesterday's news that gross domestic product expanded 4.6% was fractionally better than forecast in an AFP survey of economists but still marked the slowest pace of growth since the start of 2023.

However, traders cheered news that the central bank launched a facility to provide greater liquidity and boost share buybacks, while boss chief Pan Gongsheng said officials were considering another cut to the amount commercial lenders must hold in reserve.

Meanwhile, state media said top banks had cut rates on yuan deposits Friday for the second time this year as part of a move to boost lending.

That came as data showed retail sales — a gauge of consumer spending — and industrial output rose more than expected in September.

Authorities have struggled to reignite the economy as it battles a stinging debt crisis in the property sector and torpid consumer activity, with an eye on hitting an annual growth target of 5% this year.

Shares in Hong Kong and Shanghai burst higher yesterday on hopes the government was ready to do what it could to support the economy, with tech giants and beaten-down developers among the best performers. ING's China chief economist Lynn Song said: "The beat in the third quarter numbers keeps China within striking distance to hit its full-year growth target...and requires a slightly less impressive fourth-quarter growth rate than what was previously expected." Harry Murphy Cruise, an economist at Moody's Analytics, added: "The latest supports are very welcome. And they're likely to propel the economy to its...target for the year.

"But more is required if officials are to address the structural challenges in the economy.

Absent that, property will remain a drag through 2025 and households will have little incentive to lift spending." He added that he saw growth easing to around 4.75% next year and slowing further over the next two.

There were also gains in Tokyo thanks to a weaker yen.

Taipei was well up thanks to a near 5% rally in chip titan TSMC a day after it reported a bigger-than-expected increase in net profit for the third quarter and raised its growth forecasts for the year thanks to strong demand for AI tech.

Bangkok, Jakarta, Mumbai, Manila, Singapore and Wellington rose, though Seoul and Sydney. In Europe, London started lower, while Paris was up and Frankfurt flat.

Gold rose to a record $2,714.10 and crude prices climbed on geopolitical uncertainties after Israel said it killed Hamas chief Yahya Sinwar.

Traders were already on edge over the crisis in the Middle East as Israel battles Hamas in Gaza and, more recently, Hezbollah in southern Lebanon, with worries about a region-wide war that could take in Iran.

Wall Street had a largely uneventful day as forecast-topping US retail sales saw investors scale back bets on Federal Reserve interest rate cuts and pushed the dollar higher against the yen and euro.

Adding to downward pressure on the single currency was another rate cut by the European Central Bank and an indication that more could be in the pipeline as inflation comes down.

In Tokyo, the Nikkei 225 closed up 0.2% to 38,981.75 points; Hong Kong — Hang Seng Index ended up 3.3% to 20,707.49 points and Shanghai — Composite closed up 2.9% to 3,261.56 points yesterday.

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# World Bank president focuses on job creation ahead of meetings

AFP
Washington

The World Bank will unveil plans to tackle job creation, gender disparities, and food security at next week's gathering of the world's finance ministers and central bankers in Washington, its president said in an interview.
Ajay Banga spoke to AFP at the development lender's headquarters in Washington ahead of the Annual Meetings of the International Monetary Fund and the World Bank Group, which begin on Monday.
16 months into his term running the 80-year-old institution, the former Mastercard chief executive said he had made significant progress on his plans to create "a better bank and a bigger bank," and was now focusing on job creation as a key World Bank objective.
"1.2bn young people in the emerging markets will become eligible for a job over the coming 12 to 15 years," he said. "The same countries are currently forecast to generate a little north of 400mn jobs. That's a big gap."
"If you don't give them clean air, clean water, healthcare and education when they're growing up, and a job when they're ready, then you end up with social challenges, migration, social circumstances, an unhealthy population," he said.
"So we've got to find ways to attack this issue with some urgency," he added.
To that end the World Bank has created an advisory council on jobs, led by Singaporean President Tharman Shanmugaratnam and the former Chilean president Michelle Bachelet, which will meet for the first time in Washington on Wednesday.
The question they will seek to answer, Banga said, is: "How do we translate all that with the right regulatory policy to get jobs on the ground in these countries?" Of those 1.2bn young people, at least one third will be in Africa, making job creation on the continent a priority, he added.
The World Bank also plans to announce new goals to tackle global gender disparities and to boost agribusiness to tackle food security.
One of Banga's key objectives since taking office has been to look for ways to boost the role of the private sector in international development.
The World Bank previously estimated that developing countries will need an average of $2.4tn each year between now and 2030 in order to address the challenges posed by climate change, conflict, and pandemics — significantly above the Bank's current annual commitments.
To do so, the bank set up a private sector "investment lab" last year with the CEOs of major private sector firms, which has now come back with a number of recommendations.
These include providing regulatory and policy clarity, tackling foreign exchange risk, providing better political risk guarantees, shouldering some of the risk of investing in developing economies, and packaging loans together to create a new "asset class," Banga said.
For this last recommendation, Banga has tapped S&P Global CEO Doug Peterson to lead a working group to say: "What needs to change for us to get to scale, size and replicable, standardised loans of large enough numbers that you can bring fairly large sums of money to work in this process?" But he cautioned that many of these plans were still in their infancy.

World Bank Group President Ajay Banga speaks during an interview at the World Bank Headquarters in Washington.

# US Treasury yields climb as strong data sow doubt on Fed rate cuts

Bloomberg
Washington

US government bonds slumped after strong September retail-sales figures fanned doubts over how quickly the Federal Reserve will continue to lower interest rates.
The selloff pushed Treasury yields higher by as much as seven to 10 basis points. Initially, short maturities led the move as traders trimmed bets that the US central bank will cut rates at its next several meetings, as most Wall Street banks have been predicting. Later, those yields retreated from session highs while 10- to 30-year rates continued to rise.
"The market has been looking for continuing weaker economic data, and it has not been a consistent theme," said Tom di Galoma, head of fixed income at Curvature Securities. While a November rate cut remains likelier than not in his assessment, "that view is waning with many market participants."
Swap contracts that aim to predict future Fed decisions priced in a total of about 41 basis points of easing over the November and December meetings, down from 45 basis points on Wednesday. The January contract has a cumulative 59 basis points of cuts priced in, showing some doubts about whether the Fed will lower rates at that meeting as well.
On Thursday, a government report showed that September retail sales rose more than estimated and August levels were revised higher. Weekly initial jobless claims also unexpectedly declined, further eroding bond-market confidence that the economy is on the cusp of slowing.
Long-maturity yields stabilised after a couple of large block trades in Treasury futures, involving the Ultra Bond contract, which tracks that segment of the market.
The trades were done at prices suggesting they were initiated by buyers drawn to lower prices. Late in New York, a large block trade in December futures consistent with a sale, pushed the ultra-bond contract to fresh session lows and also steepened the curve to a session peak.
The latest selloff in Treasuries leaves the market on course for its first monthly decline since April, as measured by a Bloomberg index.
"Higher long-term growth absent a recession would portend higher long-term yields," said George Catrambone, head of fixed income at DWS Americas.
"There's also been some election noise of betting odds favouring a Trump victory and term premium slowly working its way back into the market to further support bear steepening."
The US presidential election is less than three weeks away on November 5, and financial markets have reacted to predictions that Donald Trump will win based on his support for looser fiscal policy and steep tariffs that could widen the federal deficit and fuel inflation.
Elevated volatility is expected over the coming weeks as investors await the Treasury's quarterly announcement of note and bond sales — which it has said are likely to be stable — on October 30, October jobs data on November 1 and the Fed's November 7 policy decision.
As for election day, investors are primed for big swings in yields. The MOVE Index of expected Treasury market volatility jumped to 124 from 100 on October 7, the biggest one-day move since 2020, as Election Day moved into the 30-day window it captures.
Traders this week have been unwinding positions in Treasury futures, with exposure to both 5- and 10-year note contracts falling, a signal that traders are closing-out positions and reducing leverage.

The US Treasury building in Washington, DC. US government bonds slumped after strong September retail-sales figures fanned doubts over how quickly the Federal Reserve will continue to lower interest rates.

# Euro area yields dip as markets raise bets on ECB rate cuts

Reuters
London

Eurozone government bond yields fell yesterday after money markets raised bets on the European Central Bank (ECB)'s monetary easing path as focus shifts from battling inflation to stabilising economic growth.
The ECB cut rates on Thursday for the third time this year, saying inflation in the euro zone was increasingly under control while the outlook for the bloc's economy was worsening.
Inflation may now turn out lower than anticipated only a few weeks ago, prompting some rate setters to make the case on Thursday for dropping a pledge to keep policy tight, an implicit signal that more rate cuts are coming, sources close to the ECB's deliberations told Reuters.
"The acknowledgement of the risks being to the downside was the key point," said Nick Chatters, fixed income manager at Aegon Asset Management.
"The market is already pricing quite a bullish view for bonds, which is the reason I don't see value right now." Germany's two-year bond yield, which is more sensitive to ECB rate expectations, dropped 4 basis points (bps) to 2.103%, its lowest level since October 4.
Money markets priced an ECB deposit facility rate at just below 2% in June 2025 — implying a 25 bps rate cut at every meeting until next summer — from 2.15% on Thursday before the ECB meeting.
They also fully priced a 25 bps rate cut in December and an around 25% chance of a 50 bps move, from 20% on Thursday.
Germany's 10-year bond yield, the benchmark for the euro zone bloc, dropped nearly 2 bps to 2.183%. US 10-year Treasury yields were down 2 bps to 4.075%, after climbing on Thursday as data pointed to an economy on a solid footing, easing market expectations for Federal Reserve aggressiveness in cutting rates.
Later in the session, the Scope rating agency will update its view on France, while Fitch and S&P will review Italy's ratings after issuing their last comments about six months ago.
"Positive outlook changes to the BBB ratings (on Italy) cannot be excluded," said Christoph Rieger, head of rates and credit research at Commerzbank, adding that the economic outlook is likely unchanged and that the deficit projections have improved significantly since April.
Italy's 10-year yield was 4 bps lower at 3.356%, and the gap between Italian and German yields held steady at 117 bps after hitting its lowest level since June earlier.
"As a negative outlook reflects downside risks to the rating over 12-18 months, a downgrade (of France debt) to AA- seems possible tonight in light of the deterioration in fiscal performance since then," he argued.
Commerzbank confirmed its tactical longs in 10-year OATs versus Bunds as France is already trading in the range of single-A rated peers.
The gap between French and German 10-year yields — a gauge of the risk premium investors demand to hold France's government bonds — tightened to 73 bps, narrower than the levels seen before Prime Minister Michel Barnier presented the budget for 2025, at around 77 bps.
The spread also hit 71.40 its lowest since September 20.
Most analysts expect the far-right National Rally to support the minority government of Prime Minister Michel Barnier, at least in the short term.

# US single-family home-building hits five-month high in September

Reuters
Washington

US single-family homebuilding surged to a five-month high in September, but permits for future construction rose only marginally amid excess supply of new homes on the market and prospective buyers holding out for lower mortgage rates.
Despite the second straight monthly increase in single-family housing starts, economists expected that residential investment, which includes home-building and sales, remained a drag on third-quarter economic growth.
Home-building suffered a setback following a surge in mortgage rates in the spring.
Mortgage rates initially dropped after the Federal Reserve began cutting interest rates last month, but they have risen over the past three weeks as solid economic data, including retail sales and annual revisions to national accounts, forced traders to abandon expectations for another 50 basis-point rate cut next month.
"Residential construction activity is not helping the economy grow at its potential rate," said Carl Weinberg, chief economist at High Frequency Economics.
"'Falling' interest rates are different than 'low' interest rates until they have been falling for a while. For builders and buyers, the promise of more rate cuts to come will encourage delaying new construction projects and purchases."
Single-family housing starts, which account for the bulk of homebuilding, increased 2.7% to a seasonally adjusted annual rate of 1.027mn units last month, the Commerce Department's Census Bureau reported yesterday.
Data for August was revised higher to show single-family homebuilding rebounding to a rate of 1.0mn units from the previously reported 992,000-unit pace.
Starts for this segment rose 6.6% in the densely populated South and jumped 10.6% in the Northeast, which is the smallest region in terms of housing construction. But they fell 10.4% in the Midwest, which is considered the most affordable region, and dropped 2.3% in the West.
Single-family homebuilding advanced 5.5% from a year ago. Starts fell at a 15.5% annualised rate in the third quarter after declining at a 20.1% pace in the April-June quarter.
Residential investment subtracted from gross domestic product in the second quarter. Growth estimates for the third quarter are as high as a 3.4% rate. The economy grew at a 3.0% pace in the April-June quarter.
"Starts may be finding a bottom despite still elevated inventories of new homes," said Abiel Reinhart, an economist at JP Morgan. "If this holds, then residential investment could turn to a slight positive in the fourth quarter after exhibiting a drag in third quarter."
Stocks on Wall Street were trading mostly higher.
The dollar slipped against a basket of currencies. US Treasury yields fell.
New construction has benefited in recent years from a dearth of previously owned houses on the market, prior to the spring resurgence in mortgage rates, which sidelined prospective buyers and pushed the supply of new homes on the market to levels last seen in 2008.
Potential home-buyers have also been reluctant to wade back into the market, anticipating even lower borrowing costs.
A National Association of Home Builders survey on Thursday showed a moderate improvement in home-builder sentiment in October. It also showed a slight rise in the share of builders using incentives such as price cuts to attract buyers.
Starts for housing projects with five units or more declined 4.5% to a rate of 317,000 units in September. Overall housing starts slipped 0.5% to a rate of 1.354mn units.
Economists polled by Reuters had forecast starts would decrease to a rate of 1.350mn units. Housing starts fell 0.7% from a year ago.
Home-building could take a temporary hit from Hurricanes Helene and Milton, which devastated Florida and large areas of the US Southeast in late September and early October. But reconstruction after the hurricanes could provide a lift.
Building permits for single-family housing rose 0.3% to a rate of 970,000 units last month. They increased in the West and Midwest, but declined in the Northeast and South. Permits were 1.2% lower compared to September 2023. They rose at a 0.8% pace in the third quarter.
Multi-family building permits plunged 10.8% to a rate of 398,000 units. Building permits as a whole declined 2.9% to a rate of 1.428mn units. They fell 5.7% from a year ago.
The number of houses approved for construction that were yet to be started dropped 0.7% to 282,000 units last month.

A worker installs siding on a home under construction at the Cold Spring Barbera Homes subdivision in Loudonville, New York. US single-family home-building surged to a five-month high in September, but permits for future construction rose only marginally amid excess supply of new homes on the market and prospective buyers holding out for lower mortgage rates.