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BUSINESS

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Qatar's public foreign assets to touch $500bn by 2025, says IIF

By Santhosh V Perumal
Business Reporter

Qatar, which is seeking to cement its position in the global liquefied natural gas (LNG) market, is expected to see its public foreign assets reach $500bn by 2025, according to the Institute of International Finance (IIF).

"The current account and fiscal balances will remain in large surpluses, leading to further accumulation of public foreign assets, which could increase to about $500bn, equivalent to 240% of GDP (gross domestic product), by end-2025," the Washington-based economic think-tank said in its latest report.

Highlighting that Qatar is seeking to cement its position as the world's second-largest gas exporter and the largest exporter of LNG, given its massive reserves and surging global demand; it said massive investment in the natural gas sector is underway to expand LNG production.

QatarEnergy had early this year announced that it is proceeding with a new LNG expansion project, the "North Field West" project, to further raise the country's LNG production capacity to 142mn tonnes per year before the end of this decade, representing an increase of almost 85% from current production levels.

Qatar's long-term LNG contracts are linked to crude oil prices and such an expansion in gas production would lower the fiscal and external breakeven oil prices from around $45 per barrel in 2023 to $33 by 2025, IIF said.

IIF also said Qatar's non-hydrocarbon real GDP growth moderated after hosting the 2022 FIFA World Cup. Substantial public infrastructure investment on ports, roads, metro, and airports since 2011 set the stage for economic diversification, the report said.

Qatar, which is seeking to cement its position in the global liquefied natural gas market, is expected to see its public foreign assets reach $500bn by 2025, according to the Institute of International Finance

Nonetheless, challenges remain to move to a sustained higher non-hydrocarbon growth driven by the private sector as envisaged in the Qatar's National Vision 2030, it said.

"We expect non-hydrocarbon growth to remain below 1% due to weaker private consumption and investment," it said.

According to IIF, the GCC countries have navigated the global landscape and the conflict in the Middle East "quite well".

However, the large current account and fiscal surpluses that helped cushion past shocks have started to narrow, amid falling oil revenues and large investment-related imports needed to diversify their economies away from oil.

"In our baseline scenario, which assumes no disruption of oil exports from the region, average oil prices could decline from $80 per barrel in 2024 to $70 in 2025," it said.

Considerable progress has been made in improving the business climate, particularly in Saudi Arabia and the UAE — which, combined, account for 75% of total GCC output. Progress has been made in diversifying GCC economies away from oil, as signalled by the steady decline in the share of the hydrocarbon sector's contribution to real GDP from 36% in 2015 to 30% in 2024.

"Digitalisation and AI (artificial intelligence) continue to play a key role in the economic diversification strategy," IIF said.

QCB bills auction receives bids worth QR10.5bn

The Qatar Central Bank (QCB) bills auction received bids worth QR10.5bn, while the total allocated amount was QR2.7bn, the central bank announced on Thursday.

The allocations were for six tenors ranging from seven days to 350 days, the QCB said, adding the new issuance allocation amounted to QR2bn and tap issuance stood at QR700mn.

QR500mn was allocated for a new issuance for seven days with a yield of 4.918%.

QR500mn was allocated for a new issuance for 28 days with a yield of 4.896%.

QR500mn was allocated for a new issuance for 91 days with a yield of 4.837%.

QR500mn was allocated for a tap issuance for 168 days with a yield of 4.783%.

QR500mn was allocated for a new issuance for 273 days with a yield of 4.734%.

QR200mn was allocated for a tap issuance for 350 days with a yield of 4.712%, QCB said.

Saudi fund's $1bn deal boosts Middle East sell-downs

Bloomberg
Riyadh

A $1bn stake sale in Saudi Arabia's largest mobile phone operator is the latest sign that the market for follow-on equity offerings is picking up in the Middle East.

The Public Investment Fund's sale of a 2% stake in Saudi Telecom Co follows secondary share sales in Saudi Aramco and Adnoc Drilling Co to the tune of roughly $12bn and $900mn respectively earlier this year.

Until recently, a three-year rush of initial public offerings in the Gulf had yet to generate the surge in secondary share sales seen in other markets. But for the region's sovereign wealth funds focused on raising cash to finance their economic transformation plans, follow-ons broaden their options for state-owned assets beyond the initial listing.

"We have been seeing an increase in discussions around blocks, secondaries and follow-ons," said Prasad Chari, group head of equity capital markets at Emirates NBD. "This is only natural following the flurry of IPOs in the last couple of years, and where most of the free floats are minority stakes, with room to sell more."

Secondary share sales help make trading in the stock more liquid, as companies reach the level of free float they need to be included in indexes. They also give investors the chance to top up on stocks they might have missed out on in heavily oversubscribed IPOs.

Adnoc Drilling's shares are up more than 20% since its offering in May, and Aramco's shares have recovered from an initial post-deal drop, even if they remain lower year-to-date. Saudi Telecom's stock fell by around 2% on Thursday.

Equity sales are a key pillar of the PIF's hunt for cash to fund Saudi's trillion-dollar Vision 2030 development plan, and more secondary sales could follow. The PIF holds a 16% stake in Aramco valued at about $290bn. It has stakes worth roughly $200bn in other local firms, spanning vast swathes of the economy beyond oil, including banking, health care and utilities.

Global factors play spoilsport in QSE as index falls 113 points

By Santhosh V Perumal
Business Reporter

WEEKLY REVIEW

Global oil market apprehensions and concerns on the key US economic data had their reflection in the Qatar Stock Exchange (QSE), which saw its key index plummet 113 points and capitalisation erode QR7.57bn as three-fourth of traded constituents were in the red this week.

The foreign funds were seen net profit takers as the 20-stock Qatar Index knocked off 1.07% this week which saw QSE showcase listed companies in New York and said foreign institutional investors are increasingly looking at it with them typically accounting for 30-40% of average daily turnover in the recent past.

The industrials and consumer goods and services sectors witnessed higher than average selling pressure this week which saw Aamal Company assume full ownership of Advanced Pipes and Casts.

The Gulf institutions turned bearish in the main market this week which saw an agreement between Milaha and Qatar Free Zones Authority relating to QR80mn Yachts and Ships Yard at Marsa Port in Umm Alhoul Free Zone.

The Arab funds were seen net profit takers, albeit at lower levels, in the main bourse this week which saw Mekdam Holding Group receive a letter of award for a contract worth QR181mn from the country's hydrocarbon behemoth QatarEnergy.

The Arab individuals' weakened net buying had its influence in the main market this week which saw Qatar's banking sector's total assets reach QR2.03tn in September 2024, an increase of 1.2% month-on-month and 2.9% year-on-year.

However, the domestic funds were seen net buyers in the main bourse this week which saw the global credit rating agency Standard and Poor's view that banks in the Gulf Co-operation Council region are expected to do well and be profitable in 2025 amidst lower interest rates.

The local retail investors turned bullish in the main market this week, which saw the Qatar Central Bank assistant governor Hamad Ahmed al-Mulla reveal that the country's Islamic banking assets total QR576bn in September.

The Gulf individuals were seen net buyers in the main bourse this week which saw a total of 0.12mn Masraf Al Rayan-sponsored exchange-traded fund QATR worth QR0.28mn trade across 34 deals.

The foreign retail investors' weakened net selling had its impact 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 seven transactions.

The Islamic index was seen declining slower than the other indices in the main market this week which saw the industrials and banking sectors together constitute more than 53% of the total trade volumes. Market capitalisation eroded 1.21% to QR619.51bn on the back of large and midcap segments this week, which saw no trading of treasury bills.

The foreign funds were seen net profit takers as the 20-stock Qatar Index knocked off 1.07% this week

Trade turnover and volumes were on the increase in both the main and venture markets this week, which saw no trading of sovereign bonds.

The Total Return Index shed 1.07%, the All Share Index by 1.03% and the All Islamic Index by 0.96% this week which saw the Institute of International Finance forecast Qatar's public foreign assets to reach $500bn or 240% of gross domestic product by 2025.

The industrials sector index tanked 2.04%, consumer goods and services (1.09%), real estate (1.05%), banks and financial services (0.81%), insurance (0.66%) and transport (0.6%); while telecom was up 0.07% this week.

Major losers in the main bourse included Al Faleh Educational Holding, Qatar German Medical Devices, Industries Qatar, Commercial Bank, Dlala, QNB, QIIB, Dukhan Bank, Woqod, Baladna, Meeza, Qatar National Cement, Qatar Electricity and Water, Gulf International Services, Mesaieed Petrochemical Holding, Qamco, Qatar Insurance, Ezdan, Mazaya Qatar and Nakilat. In the venture market, Al Mahhar Holding saw its shares depreciate in value this week.

Nevertheless, Widam Food, Doha Bank, Al Khaleej Takaful, Gulf Warehousing and Doha Insurance were among the gainers in the main market. In the junior bourse, Techno Q saw its shares appreciate in value this week.

The foreign funds were net sellers to the tune of QR200.48mn against net buyers of QR53.37mn the week ended November 7.

The Gulf institutions turned net sellers to the extent of QR51.1mn compared with net buyers of QR5.34mn a week ago.

The Arab institutions were net profit takers to the tune of QR0.03mn against no major net exposure the previous week.

The Arab individuals' net buying decreased noticeably to QR10.35mn compared to QR15.83mn the week ended November 7.

However, the domestic funds turned net buyers to the extent of QR191.34mn against net sellers of QR10.72mn a week ago.

The local retail investors were net buyers to the tune of QR47.45mn compared with net sellers of QR45.03mn the previous week.

The Gulf individuals turned net buyers to the extent of QR3.03mn against net sellers of QR2.11mn the week ended November 7.

The foreign retail investors' net profit booking weakened markedly to QR0.55mn compared to QR16.67mn a week ago.

The main market witnessed a 51% surge in trade volumes to 707.16mn shares and 93% in value to QR2bn on more than doubled deals to 75,873 this week.

In the venture market, trade volumes more than doubled to 3.91mn equities and value more than doubled to QR9.5mn transactions more than doubled to 310.

Banks eye Trump regulatory reprieve, starting with capital rules

Bloomberg
Washington

Inside the biggest US banks, the mood ranged from cautious optimism to jubilant this week as they eyed the prospect of relief from their common foe: The Biden-era regulators.

Harsher regulation in recent years, led by the proposed higher capital rules known as Basel III Endgame, united the industry in defiance as it fought back like never before. The big banks and the trade associations that represent them poured millions of dollars into a lobbying effort, and scored a concession when the Federal Reserve said it would unveil a softer version.

That version still hasn't seen the light of day. Now, senior industry executives are viewing it as all but dead, even as regulators have maintained they'd work toward implementing a proposal no matter who won the election.

"In the unlikely event that they could agree on a new proposal, there is no time to put it out and act on it before the new administration gets established," said Betsy Duke, a former Fed governor who later chaired Wells Fargo & Co's board.

The incoming Trump administration would in theory be able to replace heads of the Office of the Comptroller of the Currency and the Consumer Financial Protection Bureau on day one, at least on an interim basis. Both of those officials are crucial to the process to propose and enact the new regulations, and banks are already seizing the moment to begin advocating for appointments seen as more friendly to the industry.

Representatives for the Federal Reserve, the OCC and the Federal Deposit Insurance Corp. — the agencies behind the proposal last year — declined to comment.

Fed officials have for months maintained their commitment to getting new rules in place, regardless of the election outcome. Fed Chair Jerome Powell said at a hearing in July that "the point of it is to get it right, not to do it quickly." Vice-Chair for Supervision Michael Barr echoed that in September: "The Federal Reserve is an independent agency," he said. "We're not paying attention to the election cycle in terms of any of our work that we do. And I'm not paying attention to it for this purpose."

Within hours of Donald Trump's victory, text chains were alive with chatter about potential transition names, according to one executive, who declined to be identified speaking publicly about the matter. Another described the prospect of Trump regulation compared to the current situation as "night and day." Bank stocks soared Wednesday: The 24-firm KBW Bank Index climbed more than 10%. Shares in JPMorgan Chase & Co, which has notched record after record this year, hit yet another one. Wells Fargo's stock finally broke through a 2018 high it struck before the Fed imposed an asset cap — to close above $70 for the first time ever.

An executive at one top bank said they're expecting a more predictable regulatory environment that's less driven by enforcement actions and public campaigns, and more focused on clear rules. However, they cautioned that they expected regulators may push a public agenda that could kneecap diversity and inclusion efforts, as well as investments tied to environmental, social and governance metrics.

The apparent wins for banks weren't just tied to the presidential election result. Senate Banking Chairman Sherrod Brown, an Ohio Democrat and longtime Wall Street foe, was ousted in favour of Republican Bernie Moreno.

That contributed to Republicans winning a Senate majority, and they're in striking distance of retaining the House of Representatives as well.

Still, Wall Streeters aren't expecting a complete cake walk. While the expectation is for a softer touch across the board, some Republicans favour tighter capital rules. The latest plans would require the eight biggest banks to raise their capital by 9% - about half what was originally put forward by regulators.

If the plan is jettisoned or significantly dialled back again, it could complicate matters overseas.

The European Union has already delayed a key part of its capital rules that affect banks' trading activities by a year so that its banks won't be at a disadvantage. The UK said in September that it would delay its entire package until 2026.

Trump's election win may pressure both the EU and the UK to relax them or again delay them — which regulators will likely resist, Bloomberg reported. Jurisdictions that signed on to the reforms, which date back to the financial crisis, agreed to meet standards of adoption set by the Basel committee and can later be scored on their compliance.

There's also the question of populist influences in the incoming Trump administration and the Republican party as a whole.

As a senator, Vice-President-elect JD Vance signed onto legislation that would cap credit card swipe fees — deeply unpopular among big banks. He also used his time in a congressional hearing last year to press the chief executive officers of the largest lenders on what he called "woke actions".

Neel Kashkari, Federal Reserve Bank of Minneapolis president.

Stronger economy could mean fewer rate cuts, says Fed official

Bloomberg
New York

Federal Reserve Bank of Minneapolis President Neel Kashkari said a strong economy and higher productivity growth may drive the US central bank to cut interest rates less than previously expected.

Kashkari, in his first public remarks since he and his colleagues lowered interest rates earlier this week, indicated it was too early to determine whether policies from the incoming Trump administration and the new Congress would stoke inflation and ultimately lead to fewer rate reductions. He said the Fed will need to wait and see what policies actually materialise before factoring them into their analysis.

"It's really going to depend not so much on near-term plans between Congress and the new administration — it really is about productivity and economic growth," Kashkari said on Saturday in an interview on Fox News. "If that is sustained and we are in a structurally more productive economy going forward, then that tells me we probably wouldn't end up cutting quite as far."

Policymakers cut the benchmark lending rate by a quarter percentage point Thursday to a range of 4.5-4.75%, marking a second-straight decrease.

The US central bank first reduced rates in September, and forecasts released at the time suggested policymakers would likely deliver quarter-point cuts at both the November and December meetings. Traders have since pared bets on a reduction next month and see fewer cuts overall this cycle.

The prospect of a near-term pause in rate cuts reflects a mix of economic and political variables. The economy continues to grow at a robust pace, inflation picked up in September, and the labour market is cooling — but not as fast as feared just a few months ago. The policies of a re-elected Donald Trump, meanwhile, present new inflationary risks.

US productivity, which allows workers to produce more output with less, has picked up in recent years. While it's difficult to measure, increased productivity helps to keep a lid on inflation and is key to long-term economic growth.

Earlier this week, Chair Jerome Powell said he would not resign from his role if asked to do so by Trump, a clear signal he's ready to defend the US central bank's independence. Kashkari said he is confident that the Fed's structure, with governors at the board in Washington serving 14-year terms and the 12 reserve bank presidents being independently appointed, will help maintain the central bank's independence.

Most of the leaders on both sides of the aisle want us to focus on our economic jobs, and "we're going to continue to do that," Kashkari said. "So I'm not concerned about the current dynamic. I think everybody wants inflation back down and a strong labour market."

Euro parity with dollar is big new call by currency analysts

Bloomberg
New York

Currency strategists are ripping up forecasts for the euro in the wake of the US election and coming up with a new call: A slide towards parity with the dollar.

At least 10 banks — including Barclays Plc, Deutsche Bank AG and Nomura International Plc — have slashed their calls in the past week, a turnaround from recent months when many were lifting the outlook for the common currency.

Pictet Wealth Management is among those calling for a 6% drop to parity. And bets in the options market show traders wagering against the euro as a favourite way to play the outlook for Donald Trump's presidency.

The changing landscape in the currency market follows anticipation that global trade restrictions could become a key pillar of Trump's economic policy when he returns to the White House next year. That's been prompting investors to dump the euro — it's already down nearly 3% since his victory to near this year's low — as tariffs would hurt Europe's export industries at a time of political uncertainty in its major economies.

"This is the worst-case scenario you can think of for the euro," said Mark McCormick, the global head of FX and EM strategy at TD Securities, who expects the euro to fall to $1.03 by the time Trump takes office in January. Parity "is absolutely in play" after that, he said.

While market sentiment already turned against the euro last month as betting markets favoured a Trump win, the scale of his victory — putting Republicans on the brink of full control in Washington — means there's more chance of his tariff policy plans being implemented. This "Red Wave scenario" increases the risks of getting to euro parity, McCormick said.

Others now see a heavy hit for the common currency. Mizuho International Plc expects $1.01 by March, while ING Group NV forecasts it will reach that level by early 2026. The Dutch bank was among those issuing the biggest downgrade — it previously saw $1.10.

Overall, analysts tracked by Bloomberg forecast $1.09 for next year, sharply down from $1.13 before the election.

The options market is also signalling more weakness for the euro. Data from the Depository Trust & Clearing Corporation show that around €2bn was wagered last month on vanilla options for the euro falling to $1 next year.

Bets for a weaker euro by hedge funds and other leveraged investors were already hovering around their biggest in around three years in the run-up to last week's vote, according to the latest Commodity Futures Trading Commission data, and positions are likely to have ballooned since then.

Even for Wall Street banks that haven't revised their forecasts, parity is a possibility and several have recommended selling the euro.

Goldman Sachs Group Inc. sees the risk of the common currency trading below the dollar in the case of Trump imposing global tariffs as well as US tax cuts. Ahead of the vote, Trump pledged to slap 60% tariffs on all goods coming in from China and 10% to 20% tariffs on imports from other countries.

A customer counts US dollar and euro banknotes inside a foreign currency exchange bureau in Turkiye. Currency strategists are ripping up forecasts for the euro in the wake of the US election and coming up with a new call: A slide towards parity with the dollar.

The economic hit from tariffs to Europe would also mean the European Central Bank is likely to cut interest rates faster than the Federal Reserve in the US, where pro-growth policies could boost inflation and slow easing.

"Euro-dollar could trade through $1.05 and head towards parity assuming the red sweep is confirmed," JPMorgan Chase & Co currency strategists led by Meera Chandan wrote. They see the currency facing a double whammy of pressure from tariffs and negative sentiment in Europe. Germany narrowly avoided a recession and its government just collapsed, while there's still political risk in France after its snap election this year.

Some are not convinced that the euro will fall as far as parity. Amundi SA points out that the market is already heavily tilted in favour of a weaker euro.

"A strong dollar, yes, but not that far," said Andreas Koenig, head of global currency management at the asset management company. "Too many already have the position and therefore it's not going that fast."

Others are watching to see if the currency can break through support levels, with this year's low around $1.06 and then $1.05 the next lines in the sand. A break of the latter would lead RBC BlueBay Asset Management to look at adding to its position of selling the euro.

"The market wasn't really pricing in a GOP sweep," said portfolio manager Neil Mehta. "Parity is in play if Trump is very hawkish. And there's a lot of uncertainty about Europe's economic outlook."

Wall Street bets on new riches ahead in markets all-in on Trump

Bloomberg
New York

All year, a slew of Wall Street pros have questioned the durability of an indiscriminate risk rally that has fattened stock prices by trillions of dollars, sent Bitcoin soaring, fuelled a credit bonanza, and more.

All year, besides a short-lived market wobble in the summer, they've been dead wrong. Now with Donald Trump storming back to the presidency and assets surging in his wake, an altogether different anxiety has set in: That investors aren't bullish enough.

This insecurity is fuelling the latest buying spree across stocks, credit and crypto. More than $2tn was added to equities over the five sessions, helped by a $20bn inflow to funds on Wednesday alone. Small-cap companies surged nearly 9%, banks rallied too and Bitcoin hit a fresh record.

Behind the run-up is near-unalloyed optimism that Trump's pro-growth promises — tax cuts and deregulation — will unlock another round of gains in an already flourishing economy, just as the Federal Reserve tilts towards an easy-money stance.

Bonds have been the sole port of scepticism in this election cycle on concern that the price-tag for fiscal stimulus will be high. Yet even Treasury yields showed signs of settling down by week's end.

Wall Street is now falling over itself to predict how far the everything-boom goes. As Bitcoin crossed $75,000 for the first time, VanEck's Matthew Sigel is calling the bull case "stronger than ever," with $180,000 possible next year and a cool $3mn by 2050. Veteran analyst Mike Mayo said he sees a "paradigm shift" for US banks, one of a slew of bullish calls on financials.

The venerable strategist Ed Yardeni's big worry is that his own optimism has been too restrained, predicting a full-on "Roaring 2020s" ahead.

"I keep getting stampeded by the stock market," said Yardeni, founder of Yardeni Research, one of the industry's staunchest bulls. "I think we're in a bull market that'll last through the end of the end of the decade."

Exuberance has flooded all corners of Wall Street. The S&P 500 hit its 50th record this year amid a weekly gain of 4.7%. The VIX Index, a measure of volatility known as the "fear gauge," saw its biggest weekly drop since 2021.

While momentum can beget momentum, moves as fast as this also risk blinding investors to lingering weaknesses in the economy and elsewhere. It was only in September that concern about the health of the US labour market sent the S&P 500 down more than 4% in a week. The month before, economic fears and the unwinding of hedge-fund trades nearly spurred a 10% correction in the index, sending the VIX to its biggest spike in three decades.

"We may be getting ahead of our skis longer-term," said Amy Wu Silverman, head of derivatives strategy at RBC Capital Markets. "Very short-term yes, it is definitely a risk-on event. That said, I think I just think the tails get 'fatter' in a Trump presidency," referring to the likelihood of risky outcomes given the billionaire businessman's combative policy posture.

Holding up the president-elect as possessed of a unique market touch is also somewhat belied by history. Despite his tweeting more than 100 times during his first term on market topics, the S&P 500's return in Trump's first term was actually a bit smaller than the gain under Democrat Joe Biden, whose growth policies the new president ridicules.

Valuations after a two-year advance are now among the biggest issues. While Trump cited rising share prices as a scorecard on his first presidency, the bar is higher now. Earnings multiples sat at the highest level on record for an election day, potentially making it harder for tax cuts to spur equities anew. Higher borrowing costs as a result of ballooning budget deficits could further suppress the positive impacts from his pro-corporate policies.

Another risk is that the Fed backs away from the pace of rate cuts the market now envisions. The likes of Barclays Plc and Toronto-Dominion Bank have been dialling back expectations about 2025 interest-rate reductions as restrictions on immigration and higher tariffs under the Trump administration could spur inflation. Still, the Fed's latest meeting did nothing to tamp back the positive sentiment in risk markets. Chair Jerome Powell said the economy is strong and refrained from signalling whether the central bank will skip cutting rates, following Thursday's reduction of a quarter percentage point.

Despite signs of slower job growth, economic data has remained resilient with Citigroup's US Economic Surprise Index in positive territory.

"You can still squeeze a bear narrative if you look at manufacturing PMIs, the yield curve and then the change in unemployment, but the bull narrative is just so much stronger," Sebastien Page, chief investment officer at T Rowe Price told Bloomberg Television. "The unemployment is still low, the Fed is easing, we have fiscal pedal to the metal, we have a lot of good things."

A proxy of so-called risk-on metrics compiled by Bloomberg that spans exchange-traded funds tracking small-caps, high yield bonds and financial equities saw its biggest weekly inflow since 2016 — incidentally the year Trump scored his first presidential victory.

China's industrial output growth slows in October, misses forecasts

Reuters
Beijing

China's factory output growth slowed in October and it was still too early to call a turn in the crisis-hit property sector even though consumers perked up, keeping alive calls for Beijing to top-up its recent blitz of stimulus to revitalise the economy.

The burst of data is likely to maintain pressure on Chinese policymakers as they brace for the return to the White House of Donald Trump, who has vowed to hike tariffs on Chinese goods and named China hawks to his cabinet in a troubling sign for the world's second-biggest economy.

October industrial output grew 5.3% from a year earlier, National Bureau of Statistics (NBS) data showed on Friday, slowing from September's 5.4% pace and missing expectations for a 5.6% increase in a Reuters poll. However, retail sales, a gauge of consumption, rose 4.8% in October, accelerating from the 3.2% pace in September and marking the quickest growth since February.

Retail growth was boosted by a week-long holiday and the annual Singles' Day shopping festival, which kicked off on October 14, ten days earlier than last year.

Data provider Syntun estimated that sales across major e-commerce platforms rose 26.6% to 1.44tn yuan over the Singles Day event.

"China's economy improved further at the start of Q4, thanks to stronger-than-expected consumer spending," said Zichun Huang, China economist at Capital Economists. "We think faster fiscal spending will support a continued cyclical pickup in activity over the coming months. But Trump's victory casts a shadow over the outlook further ahead," she added. NBS spokesperson Fu Linghui told a media briefing the recent policy measures appeared to be having a positive economic effect and that officials would continue to step up support. "Changes in economic operations in September and October have strengthened China's confidence in achieving its 2024 target for economic growth" of around 5%, he added.

However, some economists said it was too early to determine whether September's latest tranche of policy support was sufficient to underpin a solid recovery. "The stimulus impact should already be reflected in consumption, because the trade-in programme has been in place for a few months," said Dan Wang, a Shanghai-based independent economist.

This meant "all the other more recent stimulus initiatives haven't shown any impact, including earlier stimulus focused on housing," she said. The NBS said sales of home appliances surged 39.2% in October, driven by the consumer goods trade-in campaign.

Fixed asset investment rose 3.4% in the January-October period year-on-year, versus an expected 3.5% rise. It grew 3.4% in the January-September period. China stocks slipped after the data while the yuan was down on Trump woes.

"On the property side, conditions remain weak," said Xing Zhaopeng, ANZ's senior China strategist, adding there had been "no significant improvements in property investment, sales and prices." The slide in property investment deepened in January-October.

Sales narrowed the slump, however, possibly indicating stimulus is starting to inject some life into the beleaguered sector, even if a robust recovery might take some time.

Property sales by floor area in the January-October period fell 15.8% year-on-year, slower than the 17.1% drop over January to September.

On Wednesday, authorities announced tax incentives on home and land transactions, which Zhao said indicated Beijing's "commitment to further stabilising the property market."

A worker works on a loader production line at a factory in Qingzhou, in eastern China's Shandong province. China's factory output growth slowed in October and it was still too early to call a turn in the crisis-hit property sector even though consumers perked up, keeping alive calls for Beijing to top-up its recent blitz of stimulus to revitalise the economy.

Japan's economy slows in third quarter; consumption picks up

Reuters
Tokyo

Japan's economy expanded by an annualised 0.9% over the July-September quarter, government data showed yesterday, slowing from the previous three months due to tepid capital spending though an unexpected pickup in consumption added a bright spot.

The slower growth highlights the frailty of Japan's economy just as there is a growing risk of slowdown in the US and further weakness in China which could weigh on exports.

Stronger-than-expected private consumption, however, supports the central bank's forecast of a solid recovery driven by higher wages and consumption helping inflation sustainably hit its 2% target and justifying higher interest rates.

The increase in gross domestic product was faster than a median market estimate of a 0.7%, but slower than the revised 2.2% growth of the previous quarter, the data showed.

The reading translates into a quarterly rise of 0.2%, matching economists' median market estimate in a Reuters poll.

Private consumption, which accounts for more than half of economic output, rose 0.9%, outpacing a market estimate of 0.2% and picking up from the revised 0.7% of the previous quarter.

"The large increase in consumption was a big surprise," said economist Kengo Tanahashi at Nomura Securities.

Still, that may reflect one-off factors such as recovery in auto production after safety certification scandals and a boost from temporary income tax cuts, he said.

Overall, the data bodes well with further rate hikes, Tanahashi said.

"The growth in GDP at around 0.9% is slightly above the potential growth rate," he said.

Capital spending, a key driver of private demand-led growth, fell 0.2% in the third quarter, matching a decrease of 0.2% expected in the Reuters poll.

Slowdown in overseas economies has put downward pressure on machinery investment in such sectors as chipmaking equipment, economists said.

Net external demand, or exports minus imports, knocked 0.4 point off growth, deeper than a 0.1 point negative contribution in April-June.

The Bank of Japan maintained ultra-low rates last month and said risk around the US economy was somewhat subsiding, signalling conditions are becoming conducive to raise rates again.

"We expect the economy to continue to recover on the back of better employment and wage conditions," Economy Minister Ryosei Akazawa said in a news conference.

"But we will need to be careful about downside risks from overseas economies and volatility in financial and capital markets." Economist Kazutaka Maeda at Meiji Yasuda Research Institute echoed Akazawa's view.

"US President-elect Donald Trump's promise to slap new tariffs on all imports could have a negative effect on Japan's exports but wage growth, if continued next year, will continue to underpin domestic consumption," he said.

Most Asian stock markets struggle at end of tough week

AFP
Hong Kong

Asian markets stuttered yesterday as data showing a pick-up in Chinese consumption was offset by concerns about US interest rates after Fed boss Jerome Powell indicated a slower pace of cuts.

In Tokyo, the Nikkei 225 closed up 0.3% to 38,642.91 points; Hong Kong — Hang Seng Index ended down 0.1% to 19,426.34 points and Shanghai — Composite closed down 1.5% to 3,330. 73 points yesterday.

The uncertain performance came at the end of a painful week fuelled by worries about another disruptive China-US trade war.

The dollar dipped against its peers after rallying since Trump's election win last week.

China's retail sales expanded 4.8% on-year in October, data showed yesterday, speeding up from September and far better than expected, lifting hopes for the world's number two economy. It is also the best performance since February.

The figures provided some much-needed optimism that the country's consumers are becoming more confident and follows a slew of measures out of Beijing in recent weeks aimed at kickstarting growth.

"The economy stabilised in October because of the policy shift in late September," Zhang Zhiwei, president and chief economist of Pinpoint Asset Management, said.

But he warned that the "property sector has not turned around".

And Erin Xin and Taylor Wang at HSBC Global Research said: "With external uncertainty looming, policymakers will need to continue to provide decisive support to sustain the momentum." The reading came after the US Federal Reserve boss dampened rate cut hopes.

In a speech Thursday, Powell played up the performance of the world's top economy and policymakers' progress in bringing inflation down towards their 2% target.

That had allowed officials to start lowering borrowing costs in September, with a follow-up last week. However, while the bank is expected to cut again next month, Powell warned that the path "is not preset", adding that "the economy is not sending any signals that we need to be in a hurry to lower rates".

The remarks followed warnings of caution from other decision-makers this week, with investors already worried that tax cuts and tariffs planned by US President-elect Donald Trump could reignite inflation. Investors are now scaling back their bets on how many cuts will be made next year.

Figures Thursday showed an uptick in wholesale price inflation, a day after news that consumer prices rose in line with forecasts.

The readings further weighed on cut hopes.

The prospect of rates staying higher than previously thought has added to downward pressure on stocks.

Hong Kong, Sydney, Singapore, Taipei and Manila all rose, though Shanghai, Seoul, Jakarta, Bangkok and Wellington slipped.

Tokyo rose even as data showed a slowdown in Japanese economic growth.

London fell as data showed the UK economy grew less than expected in the third quarter. Paris and Frankfurt also fell.

"The (Trump) administration's renewed focus on tariffs could weigh heavily on currencies of trade-exposed economies, particularly those in Asia and the eurozone," said Charu Chanana, chief investment strategist at Saxo Markets.

"The appointment of China hawks to the cabinet is spelling a clear near-term focus on trade and tariff policy, which is dollar-positive."

She added that "rising yields, particularly in the US, increase the relative appeal of the dollar against lower-yielding currencies, further boosting demand for the dollar".

Bitcoin sat around $87,900 after striking a record of $93,462 on Wednesday.

However, observers have predicted the unit could soon break the $100,000 mark after Trump's pro-crypto comments during his election campaign.

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Motor vehicles, electronic goods lift US retail sales in October

Reuters
Washington

US retail sales increased slightly more than expected in October as households boosted purchases of motor vehicles and electronic goods, suggesting the economy kicked off the fourth quarter on a strong note. The fairly upbeat sales report yesterday, which was accompanied by sharp upward revisions to September's data, together with news of a rebound in import prices last month prompted traders to pare back expectations that the Federal Reserve would cut interest rates in December.

Fed Chair Jerome Powell said on Thursday "the economy is not sending any signals that we need to be in a hurry to lower rates." "Retail sales data today make many in the markets wonder if another rate cut at the December meeting is warranted at all," said Christopher Rupkey, chief economist at FWDBONDS. "With fiscal policy expected to shift into high gear on the pro-growth stimulus side, perhaps the Fed's monetary policy should not be putting another log on the fire to fuel growth by lowering rates, as it could lead to a return of inflation."

Retail sales rose 0.4% last month after an upwardly revised 0.8% advance in September, the Commerce Department's Census Bureau said. Economists polled by Reuters had forecast retail sales, which are mostly goods and are not adjusted for inflation, would climb 0.3% after a previously reported 0.4% gain in September.

Sales at auto dealerships accelerated by 1.6%, while receipts at service stations gained 0.1%. Sales at electronics and appliance stores rebounded 2.3%. Receipts at food services and drinking places, the only services component in the report, increased 0.7% after rising 1.2% in September. Economists view dining out as a key indicator of household finances.

Building material and garden equipment store sales rose 0.5%, likely boosted by rebuilding efforts in areas devastated by Hurricanes Helene and Milton. Online retail sales gained 0.3%. But sales at clothing stores fell 0.2% while those at furniture outlets declined 1.3%. There were also decreases in sales at miscellaneous retailers as well as sporting goods, hobby, musical instrument and book stores.

Robust consumer spending helped the economy maintain its strong pace of growth last quarter. Consumption is being largely underpinned by low layoffs, with additional help from strong household balance sheets thanks to a stock market rally and high home prices. Household savings also remain lofty.

Concerns have been raised that growth is mostly being driven by middle- and upper-income households, which have more flexibility and substitutability of consumption. But Bank of America card data shows spending resilient across income groups.

"We do not see signs of increased reliance on credit cards in any income cohort," said Aditya Bhave, a US economist at Bank of America Securities. "However, we note that higher-income households appear to be outperforming in certain service sectors such as airlines, lodging, entertainment and cruises." Retail sales excluding automobiles, gasoline, building materials and food services dipped 0.1% last month after an upwardly revised 1.2% gain in September. These so-called core retail sales, which correspond most closely with the consumer spending component of gross domestic product, were previously reported to have jumped 0.7% in September.

Despite the drop in core retail sales last month, economists said consumer spending was on track to post solid growth this quarter. Consumer spending grew at a 3.7% annualized rate in the third quarter, accounting for most of the economy's 2.8% pace of expansion during that period. Financial markets lowered the odds of a 25-basis-point rate cut at the Fed's Dec 17-18 meeting to 58.4% from 61.6% earlier, according to CME Group's FedWatch Tool. The odds of rates being unchanged increased to 41.6% from 38.4. Some economists see a rate cut in December as a very close call, citing the recent lack of progress in lowering inflation back to the US central bank's 2% target.

US Treasury yields were up. The dollar was slightly stronger against a basket of currencies.

The Fed last week cut its benchmark overnight interest rate by 25 basis points to the 4.50%-4.75% range. It embarked on its policy easing cycle with an unusually large half-percentage-point rate cut in September, its first reduction in borrowing costs since 2020. It hiked rates by 525 basis points in 2022 and 2023 to tame inflation. A separate report from the Labor Department's Bureau of Labor Statistics showed import prices rebounded 0.3% in October after an unrevised 0.4% decline in September. Economists had forecast import prices, which exclude tariffs, would slip 0.1%.

In the 12 months through October, import prices increased 0.8% after dipping 0.1% in the 12 months through September.

Imported fuel prices rose 1.5% after two straight monthly declines. Food prices fell 1.6%, declining for the third consecutive month. Excluding fuels and food, import prices gained 0.4% after rising 0.3% in September. The so-called core import prices increased 2.2% on a year-on-year basis in October.

Government data this week showed consumer prices increased 0.2% for a fourth straight month in October while producer prices picked up 0.2%. That data, together with tariffs on imported goods expected to be unveiled by President-elect Donald Trump's incoming administration, led economists to believe that the Fed was unlikely to cut interest rates four times in 2025 as was projected by policymakers in September.

UK chancellor gets up to £10bn from quiet central bank change

Bloomberg
London

It was announced as almost a footnote. But a change to the way the Bank of England (BoE)'s bond portfolio is managed has freed up as much as £10bn ($12.7bn) for UK Chancellor Rachel Reeves in coming years, helping to keep a lid on borrowing.

Reeves wrote to BoE Governor Andrew Bailey on Tuesday to agree that the cash buffer held to protect the central bank against unexpected losses on its holdings should be "slightly recalibrated and reduced." It means the Treasury will transfer less money to the BoE as the reserve is allowed to run down.

The saving threw Reeves a financial lifeline in her budget last month, giving her some extra headroom as she ramped up spending on infrastructure projects and public services. She left little margin for error against her own fiscal rules.

Deutsche Bank AG estimates Reeves could save between £5bn and £10bn in total through to early 2029, when the next election must be called. It would only be a temporary cash injection, though, with the huge lifetime costs associated with the portfolio little changed.

Neither the BoE nor the Treasury disputed Deutsche's calculation but provided no further details. The arrangements can't be discussed because doing so would reveal operationally sensitive information about the government's day-to-day cashflows, according to the bank.

"The changes mark a short-term boost to the Treasury's coffers," said Sanjay Raja, chief UK economist at Deutsche Bank. "It's unclear why the BoE and HMT are so tight-lipped with regards to the changes."

Rachel Reeves, UK Chancellor.

The arrangements relate to a 2009 agreement under which the Treasury covers any losses on the £875bn of gilts the BoE acquired to shore up the economy over 12 years that spanned the global financial crisis, the Brexit vote and the pandemic.

Those losses have been piling up since 2022, due to higher interest rates and losses on the bonds themselves as the BoE unwinds its Asset Purchase Facility portfolio by letting some gilts expire and by actively selling others.

The Office for Budget Responsibility now assumes that, instead of maintaining a fixed amount in the buffer, the BoE will gradually trim the cash buffer in line with the size of the portfolio and therefore reduce the quarterly losses for the Treasury. The portfolio currently stands at £655bn. The OBR factored the change into its forecasts for Reeves' budget.

"The significant reduction in active sales announced in September, alongside the smaller overall size of the APF, reduces the variability of cash flows and makes the required cash buffer smaller," a BoE spokesperson said, in explaining the decision to change the cash management arrangement.

A Treasury spokesperson said: "As the APF unwinds, the size, timing, and nature of cashflows has changed. This has changed the need for cash to be held in the APF as a buffer. As a result, the Bank and HM Treasury have agreed that the level of cash held in the APF should be slightly reduced. This is simply an operational change."

Office for National Statistics data suggest the buffer was upwards of £10bn. Neither the Treasury nor the BoE would comment.

The shift will deliver "value for money" for taxpayers, Reeves and Bailey wrote in an exchange of letters earlier this week. It was the latest show of support for the chancellor from the governor, who last week dismissed the market turbulence that followed her budget as an "orderly reaction" and said the inflationary impact of her plans would not stop the bank cutting interest rates.

Russian refineries cut oil runs due to losses, closures loom

Reuters
Moscow

At least three Russian refineries had to halt processing or cut runs due to heavy losses amid export curbs, rising crude prices and high borrowing costs, according to five industry sources.

The closures highlight the struggles of the Russian refining industry, which has been caught in the crosshairs of Ukrainian drone attacks, Western sanctions on Russia, which force refiners to sell fuel at a discount, as well as high interest rates.

The five sources who work at companies, which operate the refineries and are familiar with the refineries' finances, said the three plants — Tuapse, Ilsky and Novoshakhtinsky — have suspended or cut runs in recent months.

The development has not been previously reported.

Ilsky and Novoshakhtinsky did not reply to requests for comment.

The crisis is reducing fuel exports and denting companies' revenues, generating less cash for the state budget at the time of high inflation and uncertainties on energy markets, already concerned by sluggish demand.

Refiners around the world reaped record profits in 2021 and 2022 from the post-pandemic surge in travel demand and recovering economic activity.

However, margins then dropped sharply as huge new plants opened up around the world and demand growth slowed, partly due to efforts to transition away from fossil fuels.

Russia's least sophisticated refineries, which produce no premium fuels, have been hit the hardest, posting losses of up to 10,000 roubles ($102) per metric ton during several months of the second half of 2024, two sources said.

Some more complex refineries also operated at a narrow loss while others were able to post modest profits on robust light fuel sales, the sources said.

Russia has 30 big and medium-sized refineries, not including several small plants, which are able to process 5.5mn barrels per day (bpd), making it one of the biggest fuel exporters in the world.

Russia exports around 2mn bpd of oil products and consumes the rest at home.

Russia's biggest oil firm, state-run Rosneft, had to suspend refining several times this year at its large, but relatively unsophisticated Tuapse plant on the Black Sea due to weak margins, the sources said.

Rosneft did not reply to a request for comment. Other major Russian oil firms — Surgutneftegaz, Gazpromneft, Lukoil — also did not respond.

Smaller, independent Ilsky and Novoshakhtinsky refineries in Russia's south have been running at half of their nameplate capacity for several months, processing some 70,000 and 60,000 barrels per day respectively due to weak margins, according to four industry sources.

All three refineries were hit by Ukrainian drones earlier this year, contributing to the low runs, the sources added.

Independent refiners have to amass debts as they cannot count on support of bigger parent firms, the sources said.

Russia's central bank raised interest rates to 21% from 19% last month, the highest level since the early years of President Vladimir Putin's rule in a move to further complicate survival for many plants, the sources said.

Another issue was the rising cost of crude, which traded at 50,000 roubles per ton on the Russian domestic market in October versus a required maximum price of 35,000 roubles per ton for an independent refiner to make a profit, the sources said.

Central bank can deliberate policy carefully, says Powell

Reuters
Dallas

Ongoing economic growth, a solid job market, and inflation that remains above its 2% target mean the Federal Reserve does not need to rush to lower interest rates, Fed Chair Jerome Powell said on Thursday in remarks that may point to borrowing costs remaining higher for longer for households and businesses alike.

Powell affirmed that he and his fellow policymakers still consider inflation to be "on a sustainable path to 2%" that will allow the US central bank to move monetary policy "over time to a more neutral setting" that isn't meant to slow the economy.

But what that neutral rate might be in the current environment and how quickly the Fed might try to reach it all remain up in the air, particularly as central bankers assess both the ongoing strength of the economy and the impact the incoming Trump administration's policies, from higher tariffs to less immigrant labour, may have on economic growth and inflation.

Powell largely deflected questions about how new tariffs on imports or running the economy with fewer workers might alter the path of inflation the central bank has been trying to lower. "We can do the arithmetic. If the are fewer workers there'll be less work done," Powell said, before adding "this is getting me into political issues that I really want to stay as far away from as I possibly can."

As of now, he said the economy was sending no distress signal that might prompt the Fed to accelerate rate cuts, and to the contrary "if the data let us go a little slower, that seems a smart thing to do."

"The economy is not sending any signals that we need to be in a hurry to lower rates. The strength we are currently seeing in the economy gives us the ability to approach our decisions carefully," Powell said in prepared remarks delivered at a Dallas Fed event.

Fed officials and investors are taking stock of how continued U.S. economic strength and the uncertainty around the economic agenda of President-elect Donald Trump's administration, particularly regarding tax cuts, tariffs and an immigration crackdown, may affect economic growth and inflation.

After Powell's prepared remarks yields on shorter-term Treasury bonds rose, and traders pared bets about how far the Fed might cut rates in this cycle. The central bank cuts its benchmark overnight right to a 4.5-4.75% range at a meeting last week. As of September officials saw the rate dropping as far as 2.9% in 2026, but investors now see it remaining as high as 3.9%.

Jerome Powell, chairman of the US Federal Reserve.

"We still think the FOMC is likely to cut at December but think today's speech opens the door to dialling down the pace of easing as soon as January," wrote JP Morgan chief US economist Michael Feroli.

During a question-and-answer session, Powell said that while Fed staff may begin puzzling through the possible impact of tariffs and other campaign proposals from Trump, it will take time to understand, and won't become clear until new laws or administrative edicts are approved or issued.

"The answer is not obvious until we see the actual policies," Powell said. "I don't want to speculate... We are still months away from a new administration."

Still, he noted that economic conditions are different now than when Trump began his first term eight years ago, when there was lower inflation, lower growth and lower productivity.

A recent surge in immigration, for example, "made for a bigger economy" at a time of post-pandemic labour shortage, Powell said.

More broadly, following an election last week that may have turned on voter perceptions of the nation's economic ills, Powell said the current situation was actually "remarkably good."

The economy's strengths include a still-low 4.1% unemployment rate, growth at what Powell called a "stout" 2.5% annual pace that remains above Fed estimates of its underlying potential, consumer spending driven by rising disposable income, and growing business investment. Yet key measures of inflation remain above target.

The personal consumption expenditures price index for October has not been released yet, but Powell said recent data that feeds into it indicates the PCE excluding food and energy costs rose at a 2.8% rate last month - which would mark a fourth consecutive month in which progress on inflation by that measure has stalled.

The Fed uses the headline PCE reading to set its 2% inflation target - Powell said that figure likely was around 2.3% in October - while the "core" measure is considered a guide to the direction of underlying inflation.

Traders still expect the Fed to cut interest rates by another quarter of a percentage point at its December 17-18 meeting, and Powell said the central bank still has faith in continued disinflation.

But policymakers also remain on guard. Major aspects of inflation "have returned to rates closer to those consistent with our goals... We are watching carefully to be sure that they do... Inflation is running much closer to our 2% longer-run goal, but it is not there yet," he said.