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BUSINESS

MONETARY POLICY: Page 4

Europe's rates head lower in readiness for another Trump era

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Qatar's extensive investments help maintain 'high levels of satisfaction' with digital services: Report

GCC region's exemplary performance in digital government services has been highlighted in a recent report by Boston Consulting Group with Qatar, Saudi Arabia and the United Arab Emirates "achieving global leadership" in citizen satisfaction

By Pratap John
Business Editor

Extensive investments by Qatar have helped "maintain high levels of satisfaction" with the country's digital services, which fosters confidence in government use of artificial intelligence (AI), Boston Consulting Group has said in a report.

This foundation of trust and strategic investment supports the GCC's leading position in citizen satisfaction and presents an opportunity for the region to shape next-generation digital government services.

As countries worldwide explore GenAI integration, the GCC stands poised to set new standards in AI-powered public service that adapts to evolving citizen needs.

GCC region's exemplary performance in digital government services has been highlighted in a recent report by Boston Consulting Group with Qatar, Saudi Arabia and the United Arab Emirates "achieving global leadership" in citizen satisfaction.

BCG's findings show that GCC countries lead globally in citizen satisfaction with digital government services, reaching a net satisfaction score of 81%.

GCC citizens also report using these services 22% more frequently than the global average, reflecting high engagement and a strong commitment from governments to deliver quality digital experiences.

Notably, 76% of GCC citizens embrace AI-powered government services driven by virtual assistants and personalised solutions that enhance accessibility and efficiency.

Additionally, 42% of GCC respondents expect services to perform at regional and global top-performer standards in 2024, underscoring citizens' high expectations for public service quality, BCG noted.

"The citizens of the GCC are increasingly holding their governments to the same standards as major tech players, expecting rapid, innovative solutions that meet their needs efficiently and seamlessly," said Rami Mourtada, Partner & Director of Digital Transformation, BCG.

"GCC governments are delivering on these expectations by embracing a digital-first approach and moving at the pace with global emerging tech trends. With the transformative potential of Generative AI ahead, sustained investment and innovation will be crucial to maintaining their leadership in government services and meeting the evolving demands of the digital age. "

Qatar is driving digital transformation through strategic collaborations with Qatar University and tech providers to upskill ICT professionals in AI, 5G, and cloud computing

As global interest in GenAI expands, GCC emerges as a leader. As found in the report, citizens in the GCC exhibited a net trust of 71%, forty-nine percentage points higher than the global average, for their government use of AI in digital services.

This leading level of trust has also been matched with substantial investments in AI and digital infrastructure across the region led by public initiatives.

Leading this charge, Saudi Arabia's National Strategy for Data and AI targets economic growth with a projected contribution of $133.3bn to GDP by 2030.

Similarly, Qatar is driving digital transformation through strategic collaborations with Qatar University and tech providers to upskill ICT professionals in AI, 5G, and cloud computing.

Rounding out these advances the UAE's Technology Innovation Institute has positioned itself as an AI leader by developing the open-source Falcon LLM, demonstrating the region's technology capabilities in generative AI.

These coordinated efforts across GCC combine public trust with strategic investments and technological advancement in AI, the report noted.

With some of the highest global rates of GenAI usage, GCC citizens demonstrate a solid readiness to adopt AI-driven solutions in public services.

"The GCC stands at a real and unprecedented opportunity," said Dr Lars Littig, Managing Director & Partner, BCG, and EMESA Leader of BCG's Center for Digital Government.

"Achieving a cohesive, government-wide digital evolution requires a strategic vision, solid governance, and effective coordination within and outside the public sector.

"In the GCC, governments are advancing data governance and responsible AI practices to build citizen trust, treating data as a national resource that fuels smarter policy decisions."

170,000sq m GLA to be ready in Qatar's office segment before year-end, says ValuStrat report

By Pratap John
Business Editor

An additional 170,000sq m gross leasable area (GLA) is expected to be delivered in Qatar's office segment by the year-end, ValuStrat Research said in a report.

An estimated 38,000sq m gross leasable area was added during the quarter with the completion of the Mercedes Flagship Commercial Complex, bringing the total stock to over 7.2mn sq m GLA.

One of the remaining Lusail Plaza Towers is anticipated to be completed by the year-end, with the final tower scheduled for delivery by mid-2025. Grade-A office inventory was concentrated in Doha Municipality, accounting for 61% of the total supply, while Lusail contributed an additional 31%, the report said.

Office occupancy at a country level was estimated at 63% with premium locations experiencing higher occupancy compared to secondary areas, ValuStrat said. The office sector showed consistent performance on a quarterly basis, reflecting no notable fluctuations, it said.

Citywide office rents averaged QR66 per sq m, steady from last quarter but down 2.2% year-on-year (y-o-y) Offices in Grand Hamad Avenue and West Bay declined by 13% and 6% respectively compared to last year, while remaining unchanged quarter-on-quarter (q-o-q).

Offices in Al Sadd witnessed a yearly increase of 4.7%. Other major locations like Lusail and Salwa Road observed annual declines between 3% and 7%, with no shift compared to the second quarter (Q2).

According to ValuStrat, the third quarter (Q3) indicated continued stability across Qatar's real estate market. While certain high-end areas experienced increased rental rates for larger bedroom units (in the residential segment), the primary observation is that the market remained notably steady throughout the period.

The ValuStrat Price Index held consistent with the prior quarter at 96.6 points and showed no significant annual shift. Benchmarked to a base of 100 points set in first quarter (Q1) of 2021, the apartment index registered at 97.5 points and villas at 96.3 points, with valuation prices in both categories showing no quarterly or yearly fluctuations.

Mortgage transactions declined by 10% q-o-q and 8.5% y-o-y. Similarly, sales transactions dropped by 18% since the last quarter and 15% compared to the same period last year.

"While Q3 presented a stable real estate landscape, market signals suggest a measured outlook for the coming months, with a mix of steady performance with selective areas of optimism," noted Anum Hassan, Head of Research (Qatar) at ValuStrat.

Turkiye's Aydem Group plans 2025 IPOs for power grid operators

Bloomberg
Istanbul

Aydem Enerji Yatirimlari AS, a Turkish power generator and distributor, is preparing initial public offerings for two of its units in the first half of 2025. The group is planning listings for GDZ Elektrik Dagitim AS and ADM Elektrik Dagitim AS on the Istanbul bourse that could value the two grid operators at $2.2bn and $1.5bn respectively, Aydem Enerji Chief Executive Officer Serdar Marangoz said in an interview.

Investment banks have already been sounded out to arrange the IPOs and a final selection is due soon, Marangoz said. He didn't elaborate on the stakes that would be on offer or the amount of money the companies seek to raise.

"If all market conditions are favourable, we can have the IPO in the spring," said Marangoz, who took over the CEO role last month.

The prospective listings bode well for a revival in Turkish IPO-activity as the Borsa Istanbul 100 Index recovers from a slump following its record high mid-year. Tighter monetary policy has taken some shine off the attraction of first-time share sales for local investors, pushing them to favour established stocks and interest-bearing bank deposits.

Listings for GDZ Dagitim and ADM Dagitim were in the cards as far back as 2018, but were put on hold as Bereket Enerji, as their parent was called at the time, had to restructure $4.7bn of loans the following year.

Turkiye has 21 power grids, which were all privatised during the early 2010s with 30-year concession agreements.

The companies will use the proceeds of the offerings to invest in their grids and pay back borrowings, Marangoz said. GDZ Dagitim, which sells power to 3.9mn users and has an 8% share in Turkiye's power distribution market, has about $160mn in annual regulatory investment obligations. ADM Dagitim, which serves 2.2mn users, has $120mn in similar commitments, according to Marangoz.

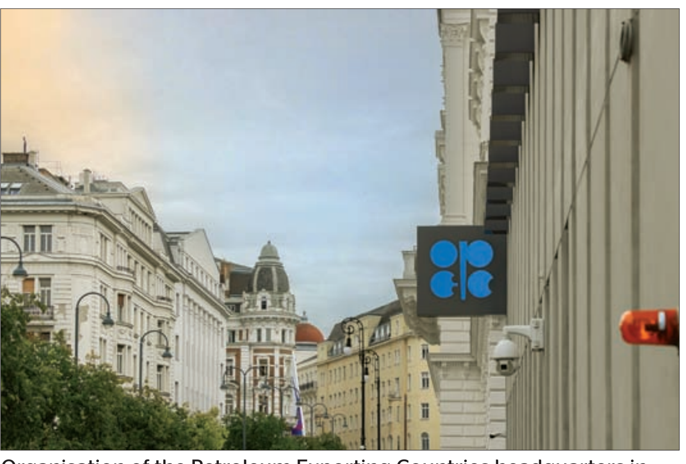
UAE to curb oil shipments amid Opec+ push for quota discipline

Bloomberg
Abu Dhabi

The United Arab Emirates, a key member of Opec+, will reduce oil shipments early next year as the alliance seeks stronger discipline in meeting production targets to shore up prices.

Abu Dhabi National Oil Co, known Adnoc, has cut the allocation of crude oil cargoes for some customers in Asia, according to companies with contracts to receive the shipments. Volumes were reduced by as much as 230,000 barrels a day across a range of crude grades, they said, asking not to be identified as the transactions are private.

Oil traders have been closely scrutinising flows from the UAE in recent months, as Abu Dhabi and its partners in the Organisation of Petroleum Exporting Countries attempt to defend faltering prices. Brent futures have lost 16% since early July to trade near $74 a barrel.



Organisation of the Petroleum Exporting Countries headquarters in Vienna. The United Arab Emirates, a key member of Opec+, will reduce oil shipments early next year as the alliance seeks stronger discipline in meeting production targets to shore up prices.

While data compiled by the group shows the UAE mostly abiding by its output quota of 2.912mn barrels a day, some traders have been sceptical. Estimates from International Energy Agency in Paris suggest production may have been significantly higher.

Adnoc didn't respond to a request for comment.

Abu Dhabi has been eager to deploy recent additions in production capacity, boosting revenues and monetising billions in investments. Adnoc says it can pump as much as 4.85mn barrels per day, almost 2mn barrels above its Opec+ limit.

The UAE's determination to make use of its capabilities has led to clashes with group leader Saudi Arabia in recent years, threatening to shatter the entire Opec+ coalition, though a compromise has been found each time.

Opec+'s leadership has pressured several members for failing to implement their share of production cutbacks agreed at the start of the year, mostly notably Iraq, Kazakhstan and Russia.

The trio have repeatedly pledged to comply better. Yet while they've shown considerable progress in recent months, they're yet to really begin additional cutbacks promised as compensation for their initial overproduction.

Last week, Opec+ agreed once again to delay a planned restart of halted production as faltering demand in China and swelling output from the Americas threatens to unleash a new global glut. The group now plans to begin a series of modest 120,000 barrel-a-day hikes from April.

As a gesture of commitment to the coalition's goals, Abu Dhabi agreed to postpone an extra 300,000 barrel-a-day ramp-up it had been accorded in recognition of its expanded capabilities.

Rather than pumping 2.912mn barrels a day as stipulated, the Paris-based IEA estimates that UAE production is around 3.25mn per day. Tanker-tracking by Bloomberg indicates that the country's oil exports alone may be as much as 3.86mn barrels a day, suggesting that production could be higher still.

An IPO sign and bell at the Euronext stock exchange in Paris. Bankers see Europe's IPO rebound broadening in 2025 despite the threat of trade frictions and political upheaval, as private equity firms look to unload portfolios and secure returns.

Bankers expect Europe's IPO market to defy dangers in 2025

Bloomberg
Paris

Bankers see Europe's IPO rebound broadening in 2025 despite the threat of trade frictions and political upheaval, as private equity firms look to unload portfolios and secure returns.

European bourses have seen more than $19bn raised through initial public offerings this year — a jump of more than 30% from 2023's volume. But that still lags historical averages, including the pandemic-era peak and the decade preceding it.

Dealmakers are optimistic that the upward trend will continue, with listings expected in early 2025 — such as HBX Group in Spain and Stada Arzneimittel AG in Germany — paving the way for others later in the year and into 2026.

"There's undeniably a tricky macroeconomic picture to navigate for IPOs next year, but the need for sellers, and in particular private equity sellers, to be recycling capital back to limited partners will likely trump everything else," said Lawrence Jamieson, co-head of ECM for Europe, the Middle East and Africa at Barclays Plc.

Buyout and venture capital groups are sitting on trillions of dollars of unrealised investments. The sudden rise in borrowing costs that followed the Covid-19 pandemic sent valuations tumbling and left investors that had bought into IPOs of the cheap-money era nursing painful losses.

Now, those groups are warming up to the idea of IPOs to unlock cash when interest rates are coming back down and stocks are hitting record highs.

"The reason we haven't seen more IPOs this year is that both sides of the table, issuers and investors, have been a bit reluctant," said Richard Cormack, head of ECM EMEA at Goldman Sachs Group Inc. "I think that's starting to thaw, and there's a coming together across all those different points including the bid-ask spread."

Several IPO candidates this year opted to push deals into 2025, citing uncertainty ahead of the US election.

Risks to next year's outlook include US President-elect Donald Trump's threat to impose tariffs on goods from outside the US. Such measures could dent European stocks at a time of political upheaval in France and Germany, the region's biggest economies.

On the flip-side, advisers hope the wide valuation gap between US and European stocks will entice investors, while Trump's potentially inflationary policies could create a scenario where interest rates fall more quickly in Europe.

"You have to look through those geopolitical risks," said Andrew Robinson, who heads up HSBC Holdings Plc's ECM business in EMEA and its global ECM syndicate. While investors will continue to be selective, "they are open to looking at the right IPOs", he said.

Equity indexes are trading around all-time highs despite the uncertainty, and there's a "fair chance" stocks will climb further if rates continue edging down, according to Andreas Bernstorff, head of ECM at BNP Paribas SA. "We think 2025 will bring many elements that could combine to create a great window for new issuance," he said in e-mailed comments.

This year's most successful offerings were tied to private equity, including Swiss skincare giant Galderma Group AG, French software firm Planisware SA and even buyout house CVC Capital Partners Plc itself. The deals came at attractive discounts and rose in the aftermarket, enabling shareholders to trim positions.

"This year demonstrated that the IPO market is functioning and that listings and follow-ons are a valuable monetisation route for sponsors," said Valery Bertin, head of EMEA ECM at Citigroup Inc.

That's not to say all deals are equal. Shares in CVC-backed Polish convenience store Zabka Group SA and German perfume retailer Douglas AG are trading below their issue price despite their IPOs having been among the region's largest this year. Other candidates such as Spanish bakery firm Europastry SA and Italian sneaker maker Golden Goose SpA postponed their listing ambitions.

Besides private equity-backed businesses, European firms under pressure to streamline their operations and unlock value for shareholders are expected to be a source of listings in 2025. Germany's Continental AG is pressing on with plans to spin off its car parts business, while Sweden's Embracer Group AB is planning to spin off its unit Asmodee Group AB.

"Corporate carve-outs are still very much in play, we still live in an activists' world, and I would expect that dynamic to continue to be pretty active on both sides of the Atlantic," said James Palmer, head of ECM EMEA at Bank of America Corp.

Europe's IPO market has been dominated by larger deals, with about 70% of the value raised this year coming from offerings over $500mn apiece, data compiled by Bloomberg show. Advisers are confident the gates will open to more mid-sized companies.

"It's still not an 'anything goes' kind of market, but the top quartile of IPOs has done very well, and I would expect the market to progressively open up to a broader set of companies," Martin Thorneycroft, global co-head of ECM at Morgan Stanley, said.

A $500bn haul reignites passive controversy on Wall Street

Bloomberg
New York

The passive-investing juggernaut is picking up speed — and it's stirring up fresh angst about the dangers posed by the index-tracking boom across Wall Street.

With almost a month still to go in 2024, index funds have raked in some $500bn in fresh cash, while their active counterparts are set for outflows. In recent weeks, that growing dominance prompted outcry from active manager behemoths Apollo Global Management and Citadel, who have blamed the surge in index-following cash for derailing the crucial role of stock pickers as drivers of market efficiency, among other charges.

But two of Wall Street's largest banks have mounted a fresh defence of the allocation frenzy, which has seen US-listed passive ETFs grab a record $105bn in the last month alone.

Contrary to popular claims that the price-agnostic money is fuelling market distortions by blithely lavishing capital just to the largest companies, a Goldman Sachs Group Inc study showed the role of fundamentals, like the stability of corporate earnings, remains an all-powerful driver for stock valuations. Meanwhile, passive players hold a far weaker sway, if any.

Similarly at Citigroup Inc, a team led by Scott Chronert found that active managers themselves exert a far bigger influence than their passive rivals on a stock's performance relative to its industry. It's a rebuttal to critics like AllianceBernstein's Inigo Fraser Jenkins, who have alleged that index players are distorting asset prices to a unique degree.

The controversy continues to rage as ETFs, which are dominated by passive products, increase their stranglehold over cost-conscious investors. Passive products now account for 62% of US equity fund assets, up from 35% about a decade ago per Bloomberg Intelligence. In turn, suspicions are only growing that something is off in the underbelly of markets as benchmark-hugging managers become the go-to buyer across the largest indexes.

"The market is not broken, but arguably less efficient," said Matthew Fine, a value-focused fund manager at Third Avenue Management.

Among passive equity vehicles, ETFs lured $500bn in the first 11 months of 2024, while mutual funds added $38bn through October, according to Bloomberg-compiled data. Active counterparts, by contrast, have been hit by total outflows of more than $150bn.

The passive era is coinciding with an increasingly top-heavy equity market, where the seven largest companies, mostly technology related, keep getting bigger. To some market watchers, it's proof that the index-fund proliferation is changing the fundamentals of investing, leaving no natural buyer to lift up the equity laggards and close a valuation gap between cheap and expensive stocks that is now among the widest in history. A gauge tracking tech-heavy growth stocks, for instance, has crushed a value benchmark in all but two years since 2012.

In a report by Apollo last month, Felix von Moltke and Torsten Slok pointed to the concentration of so-called "Magnificent Seven" as one unwelcome outcome from the passive fervour, among other alleged aftershocks like higher volatility and lower liquidity.

Goldman, for one, is pushing back. Strategists led by David Kostin found that the Mag Seven overall have lower passive ownership than other S&P 500 members. In other words, indexing money has played a smaller role than expected in the cohort's dominance. Further, the team showed that fundamental factors, such as earnings-growth expectations and asset turnover, help explain half of the variation in valuations today, while passive ownership has no discernible impact.

At Citi, Chronert and his colleagues compared stock returns against industry peers, and concluded that the differences are more sensitive to active buying than passive. Put another way, despite an expansion in market share, indexing funds remain "tailwinds for, not determinants of" share performance, the strategists wrote.

Discretionary buyers are certainly capable of creating market dislocations in the short term.

Super Micro Computer's entry into the S&P 500 and Nasdaq 100 this year followed a stock surge that was fuelled by AI-enamoured day traders and institutional investors — who later saw the shares plunge amid allegations of accounting and governance issues.

Given the stock's addition into major benchmarks, passive demand may have added fuel to the runup.

Still in reality, the line between active and passive is thin because behind each index-tracking strategy, there is a human in every step, writing the investment rules and executing the trades. Super Micro was added to the S&P 500 following a decision by the panel which oversees the benchmark.

The shrinking pool of active mangers continues to fuel fears about market health over the long haul.

Those investors play a prime role in ensuring an optimal allocation of capital in the economy by identifying market mispricing, according to Stephen Berger, Citadel's global head of government and regulatory policy. That role is under-valued by regulators, which "could present a material financial stability risk," he said on a panel at a recent conference.

VW, Stellantis brace for another rough year in auto industry

Bloomberg
Berlin

Volkswagen AG and Stellantis NV face painful cutbacks after a tumultuous 2024 with deep, structural changes reshaping the European auto industry. And the next 12 months don't look any easier.

Analysts fear there's more trouble looming and point to the potentially bruising effects of a full-blown trade war with the US when Donald Trump returns to the White House next month. If exports to the important US market take a hit it would only add to massive pressure to cut costs in a push to stop profits from eroding further.

December is already proving a harbinger for the carnage ahead. Stellantis ousted its Chief Executive Officer Carlos Tavares, and VW saw nearly 100,000 workers walk out of factories over plans for unprecedented cuts to make the carmaker competitive. With a fourth round of talks and more walkouts set for December 9, there's little indication for now that VW's management and labour leaders are close to a deal.

The industry "faces an almost perfect storm", UBS Group AG analysts led by Patrick Hummel said in a note to clients. "Pricing pressure, market-share losses in China, tighter CO2 regulation, tariff risk and continued lacklustre demand will likely drive sector earnings down further, despite intensifying restructuring efforts."

A key employer across Europe, the automotive industry has been the worst-performing sector so far this year. Even with company valuations some 30% below historical averages, investors are cautious as the timing for a broader and sustained market rebound remains uncertain. "For as long as the end of the downgrade cycle isn't visible, any potential bounce from current lows will likely be short-lived," UBS said.

The Ifo Institute, one of Germany's most-renowned economic research centres, echoed UBS's sobering outlook, saying in a recent report that sentiment in the nation's auto industry was "deteriorating rapidly".

The car industry had long been buoyed by full order books after the Covid-19 pandemic and supply bottlenecks left manufacturers without enough semiconductors to meet demand. But now those backlogs have been worked down, and with demand for EVs stagnating and growth in China failing to pick back up, new orders are only trickling in. The decline has left carmakers with excess capacity, Ifo Institute's automotive expert Anita Wölfl said.

As a result, manufacturers are having to cut back. Ford Motor Co. plans to reduce about 14% of its European workforce, primarily in Germany and the UK, by the end of 2027, while Germany's luxury-car makers Mercedes-Benz Group AG and Porsche AG are looking to slash costs.

The downturn is rippling through the supply chain. Robert Bosch, Continental and ZF Friedrichshafen combined have announced around 20,000 job cuts in their home market Germany, where auto-parts makers are a key piece of the economy. Schaeffler AG plans to close two sites to save money and will eliminate or relocate thousands of positions.

The job losses add to a dim picture for Europe's biggest economy, which has continued to stagnate this year with a shrinking manufacturing sector. Factory orders dropped again in October, though less than economists predicted, raising the prospect that the country's multi-year industrial recession may at least have started to bottom out. Yet, there's still little concrete evidence that a meaningful, sustainable economic rebound is in sight, especially in the auto sector.

Carmakers' dire outlook will be visible again on Monday, when VW reconvenes for another round of negotiations with its powerful labour union IG Metall about cuts to its beleaguered namesake brand. Management has said it needs to close factories in Germany to address a drop in EV demand, rising operational costs and intensifying competition.

Oracle Corp is on track for its best year in over two decades

Bloomberg
California

Oracle Corp is on track for its best year in over two decades because its once-struggling cloud business is being taken seriously by customers and investors.

The software giant has long tried to find its place in the lucrative business of renting out computing power and storage over the cloud, which is dominated by much-larger rivals led by Amazon.com Inc's Web Services and Microsoft Corp.

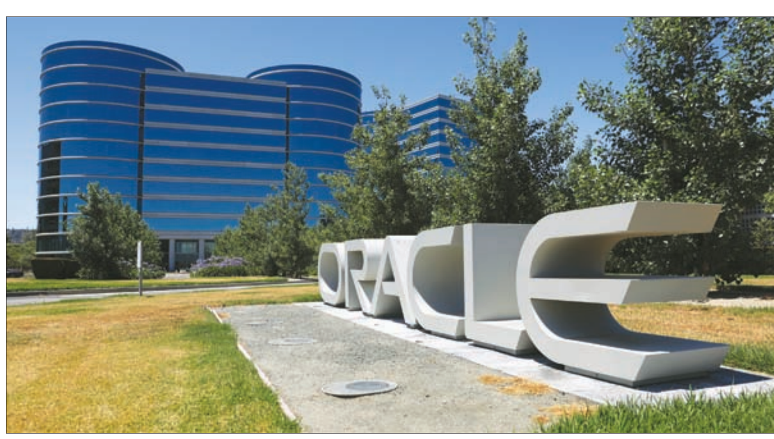
Technically demanding workloads for training artificial intelligence models and marquee customers like Uber Technologies Inc. and ByteDance Ltd's TikTok have fuelled a rapid expansion of Oracle's cloud infrastructure business over the past year.

Wall Street analysts project that the unit will generate more than $10bn in annual sales in the fiscal year ending in May 2025.

Oracle has seen that enthusiasm drive its shares up 82% in 2024, which if it continued would be the stock's largest annual rally since 1999.

Founded in 1977, Oracle's namesake database became dominant in the corporate world, bringing high margins and growth. But the 2010s were kind of a lost decade. Its stock underperformed industry benchmarks and trailed far behind software peers like Salesforce Inc and Adobe Inc, which focused on offering applications via the cloud rather than installing it on customer devices.

Oracle first launched a cloud infrastructure service in 2016, but it struggled to gain traction. Thomas Kurian, who led the initiative, left the company in 2018 over a strategy disagreement with Chairman Larry Ellison and joined Alphabet Inc's Google to run its cloud unit.



Oracle headquarters in Redwood Shores, California. Oracle Corp is on track for its best year in over two decades because its once-struggling cloud business is being taken seriously by customers and investors.

It wasn't until 2022 that customers and investors started taking Oracle's cloud seriously, said John DiFucci, an analyst at Guggenheim Securities. He said he now hears about the cost and performance benefits of Oracle's service compared with other vendors.

"Oracle may not be known as the early leader in the cloud, but its persistent development efforts, large footprint within IT and sizeable wallet share give it a unique position of account leverage," wrote Derrick Wood, an analyst at TD Cowen, in his summary of the company.

The total infrastructure market increased 23% to $84bn in the third quarter, the fourth consecutive period of year-over-year growth, "with generative AI being a major factor," John Dinsdale, chief analyst at Synergy Research Group, said in a statement. While Synergy pegs Oracle for just a single-digit share of that spending, the market is expected to continue to expand with greater demand for AI services, he said.

Ellison, 80, has steered Oracle for more than 40 years. He stepped back from the chief executive officer role about a decade ago and today is chief technology officer as well as board chairman. Ellison's wealth has jumped along with Oracle's stock value, and he is now the world's fourth-richest person, according to the Bloomberg Billionaires Index.

Broadly, software firms have seen slowing revenue growth in recent quarters due to tighter corporate budgets and a changes in spending habits to prioritise AI. By contrast, Oracle is one of the few large software companies to increase its pace of revenue growth over recent quarters, largely due to the cloud infrastructure business.

China economy forecast to maintain growth as stimulus kicks in

Bloomberg
Beijing

China's economy likely maintained momentum last month, with early indicators pointing to further stabilisation as a broad package of stimulus measures took effect.

Industrial output and retail sales are expected to have grown at the same if not slightly faster pace in November compared to October, according to forecasts by economists in a Bloomberg survey. The data are due Monday.

The world's second-largest economy has shown tentative signs of recovery since October after Beijing announced a raft of stimulus measures including interest-rate cuts. This bodes well for China to hit its 2024 growth target of around 5%, although the return of Donald Trump as US president may hurt the economy's key drivers in the coming years.

The elite decision-making Politburo led by President Xi Jinping vowed earlier this week to unleash bolder economic support next year as Beijing braces for a new trade war. Top officials on Thursday signalled more public borrowing and spending in 2025 with a shift of policy focus to consumption. While they didn't provide details, greater domestic demand may offset pressures from rising trade barriers on Chinese exports including steep tariffs threatened by Trump.

Another risk to Beijing is deflation, which could cause a cycle of declining spending, shrinking business revenues and job losses.

"While there have generally been signs of stabilisation in economic activity, not all the data have been so rosy," HSBC economists led by Jing Liu wrote in a note, referring to inflation data released that day showing consumer inflation unexpectedly decelerated last month.

The industrial sector has outpaced consumer growth in a trend that predated the stimulus measures unveiled late September. Last month, both official and private reports showed factory activity exceeded analyst expectations and continued expansion.

China's economy has relied on manufacturing and exports this year, with domestic demand lagging due to a prolonged property crisis and low consumer confidence. While strong production and overseas shipments have been a bright spot for the economy, this has also led countries to curb the influx of Chinese products.

In November, exports to the US rose to their highest level since September 2022, as factories rushed to capture the window of opportunity before Trump comes into power. The president-elect has threatened to impose additional tariffs on goods from China.

China's retail sales are forecast to continue expanding in November, but signs of a slowdown are already emerging.

The official and private non-manufacturing measures of activity in construction and services both slipped in November from a month ago and missed estimates.

Boosting domestic consumption is becoming more important as Beijing's push for manufacturing to propel the economy has seen the US and European Union accuse China of flooding their markets with cheap goods.

Top Chinese policymakers elevated the importance of growing spending at a meeting this week, promising to "forcefully lift consumption" and drive domestic demand "in all aspects".

That could indicate more support for a cash-for-clunkers programme that subsidises the purchases of appliances and cars to replace old products.

A pedestrian along the Bund across from commercial buildings in Pudong's Lujiazui Financial District in Shanghai. China's economy likely maintained momentum last month, with early indicators pointing to further stabilisation as a broad package of stimulus measures took effect.

Asian markets retreat as China pledges fail to spark excitement

AFP
Hong Kong

Asian markets fell yesterday as China's latest vows to boost the beleaguered economy failed to stir much excitement, while traders looked ahead to a key Federal Reserve policy meeting next week.

In Tokyo, the Nikkei 225 closed down 1.0% to 39,470.44 points; Hong Kong – Hang Seng Index ended down 2.1% to 19,971.24 points and Shanghai – Composite closed down 2.0% to 3,391.88 points yesterday.

A tepid week was on course for a damp finish, with Wall Street offering a negative lead after fresh data pointing to a pick-up in inflation.

Hong Kong and Shanghai both tumbled as investors shrugged at Beijing's pledge to introduce measures aimed at "lifting consumption vigorously" as part of a drive to reignite growth in the world's number two economy.

President Xi Jinping and other key leaders said they would implement a "moderately loose" monetary policy, increase social financing and reduce interest rates "at the right time".

The annual Central Economic Work Conference was being closely watched for signs of more stimulus, though the announcement – which included stabilising foreign trade and supporting the troubled property sector – was unable to boost sentiment.

The gathering came after Beijing began unveiling in September a raft of policies to reverse a growth slump that has gripped the economy for almost two years.

Julian Evans-Pritchard of Capital Economics said it remained unclear how big a boost there would be, adding that, "while we may get a near-term stimulus bounce, we're still not convinced that policy support will prevent the economy from slowing further next year".

And strategists at Bank of America Global Research said: "We await more evidence of implementation to assess the impact of such an indicated turnaround".

Shares fell in Tokyo even as the Bank of Japan's closely watched Tankan survey indicated a slight increase in confidence among Japan's major manufacturers.

Sydney, Taipei, Bangkok, Jakarta and Manila also dropped while Singapore, Mumbai and Wellington edged up.

Seoul reversed early losses to extend to four days a rebound from the selling sparked by South Korean President Yoon Suk-yeol's brief martial law declaration, as the focus there turns to a second impeachment vote planned for Saturday.

The advance helped the Kospi briefly rise back above the level it sat at before Yoon's December 3 shock.

All three main indexes in New York closed in the red, with investors taking to the sidelines ahead of the Fed's Wednesday gathering, when it is tipped to cut borrowing costs for the third time.

However, there is growing concern that with inflation still above the bank's target – and president-elect Donald Trump pledging to cut taxes and impose tariffs – officials will not make as many next year as initially hoped.

Bond vigilantes are still hibernating as market sizes up Trump 2.0

Bloomberg Markets
New York

Donald Trump's pledges to slash taxes, crack down on immigration and impose steep tariffs have long stirred concern that his policies may widen the budget deficit and fuel inflation, sparking higher interest rates and bond yields. That would be bad news for bond investors, since prices fall when yields rise. But by all measures, the $29tn US Treasury market has been relatively peaceful since Trump won the election on November 5. The benchmark yield on 10-year bonds dropped to its pre-election level, following an initial selloff.

The so-called term premium — a measure of the perceived risk of holding long-term government debt — declined to a one-month low, according to a model by the New York Federal Reserve.

The calmness partly reflects that some worries about a too-hot economy had already been priced in before election night. Bonds had sold off steadily since mid-September, driven by better-than-expected economic data and rising expectations of a Republican sweep.

But investors also seem to be assuming that Trump won't follow through on his campaign promises. "No one really knows what the policies are going to be in the Trump agenda," says Greg Peters, co-chief investment officer at PGIM Fixed Income. "The belief is that the worst part of the agenda items will be tempered, and the good parts will be amplified. That seems a little kind of hopeful in my mind."

Markets cheered when Trump picked Scott Bessent as his nominee for secretary of the treasury. The hedge fund manager, who once worked for financier George Soros, is seen on Wall Street as a more conventionally business-friendly figure than others in the MAGA circle. After the announcement, 10-year bonds staged their second biggest daily rally in 2024. The appointment also suggested that Trump cares about how Wall Street reacts to his moves — and might be constrained by it. Just days later, Trump vowed additional tariffs on Mexico, Canada and China, briefly roiling markets again with his first specific threats to the top US trading partners since his win. But for now, bond investors are feeling enough good will for Trump to keep them quiet, says Baylor Lancaster-Samuel, chief investment officer at Amerant Investments Inc in Coral Gables, Florida. "The bond vigilantes are still hibernating, and we do not know when they will eventually awake from their slumber," she says.

"Bond vigilantes" is a term coined in the 1980s to describe investors who dump government debt to enforce fiscal discipline. On the surface, conditions seem ripe for them to make a comeback. Trump's economic plan, including cutting corporate taxes, would increase the debt by $7.75tn above the current projected levels through fiscal year 2035, according to an October estimate by the advocacy group Committee for a Responsible Federal Budget. But the group says its estimates are highly uncertain, with the possible outcome in a range from $1.65-15.55tn.

Trump says the key to addressing the budget outlook is to shrink government spending, lower taxes to boost economic growth and impose tariffs to increase revenue. Most economists disagree. Tariffs work by raising the prices of foreign-made goods, which could cause an inflationary shock. If they force a shift to US-made products, they'll raise less revenue.

"The main thing I would suggest has probably not been priced in, because we cannot price it in, is what the fiscal deficit looks like," Sonal Desai, chief investment officer for fixed income at Franklin Templeton, told Bloomberg Television on November 20. "Right now the market is in a bit of a wait-and-see mode: to see if everything that the incoming administration wished to do, it could do. It would be a massive fiscal blowout. We do not think that is likely to happen. But until we know, we cannot take a position."

The market seems to be assuming, for now, an extended version of the status quo. Perhaps that's because the current situation is good enough—with inflation slowing and the Fed steadily cutting rates—that investors feel there's some room for error. In their 2025 outlook, Goldman Sachs Group Inc. economists expected the Fed to continue to bring down borrowing costs. Deutsche Bank AG economists, on the other hand, are more bearish. They expect the Fed to pause the easing cycle next year after making a quarter-point cut in December. Deutsche Bank predicts that "modest" tax cuts and a deregulation push will lift growth, while "a significant increase in tariffs" will keep inflation elevated. That would lead 10-year bond yields to rise to 4.7% in 2025, from about 4.2% currently, pushing prices down.

Of course, Trump hasn't taken office yet. Bond trading desks are going to watch closely for any sign of change. "There's a lot of moving parts in terms of policy," says PGIM's Peters.

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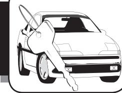
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German central bank cuts growth forecasts as headwinds intensify

AFP
Frankfurt

Germany's central bank yesterday sharply downgraded its growth forecasts for next year and 2026, predicting a prolonged period of weakness for Europe's biggest economy as it battles multiple headwinds.

From a manufacturing slowdown and weak export demand to heightened political uncertainty at home and the risk of renewed trade tensions under US President-elect Donald Trump, the German economy is facing a perfect storm. The Bundesbank forecast output will grow a meagre 0.2% in 2025, down from a forecast in June of a 1.1% expansion. For 2026 it forecast growth of 0.8%, down from a 1.4 expansion expected previously.

The estimates are substantially worse than the last projections from the government released in October, and will ring alarm bells among policymakers who had hoped for a strong rebound starting next year.

"The German economy is not only struggling with persistent economic headwinds, but also with structural problems," said Bundesbank chief Joachim Nagel, as he unveiled the bank's latest six-monthly forecast.

As widely expected, the central bank also cut its forecast for 2024 to a contraction of 0.2% — which largely lines up with other recent estimates, including from the government.

The latest bleak forecast is a headache for Chancellor Olaf Scholz, who already faces an uphill battle to persuade voters to re-elect him at polls expected in February, seven months earlier than scheduled.

The country's economic malaise is a central campaign issue after Scholz's coalition government collapsed in November amid a bitter row over the budget and the best approach to reboot the world's third-biggest economy.

Some economists have voiced hoped the looming election will produce a stronger government than Scholz's three-party coalition, which was riven by constant infighting, that is better able to tackle the country's woes.

But the outcome is still uncertain, and the polls are likely to be followed by weeks of coalition-building.

The Bundesbank cited "uncertainty" surrounding "future fiscal and economic policy" linked to the early elections which have delayed the government budget for 2025. Nagel singled out problems in the export-driven economy's vast industrial sector as a key challenge.

Manufacturers have been struggling since Russia's invasion of Ukraine in 2022 sent energy prices soaring, and their problems have been compounded by deep-rooted issues, such as a shortage of skilled workers.

The central bank chief also raised concerns about the weakening labour market and consumer spending, a key support for the economy, losing steam.

Weak demand for "made in Germany" products is also weighing, an issue highlighted by a heavier than expected fall in exports in October.

Exports slipped 2.8% on the previous month, according to official statistics released yesterday, driven by a 14-percent fall in shipments to key trading partner the US.

The trading relationship with Washington may be set to worsen when Trump takes office next month, as he has vowed to levy tariffs on all imports into the US.

Currencies decline as China disappointment rattles EMs

Bloomberg
London

Emerging-market currencies in Asia and the South African rand retreated as China's policy makers appeared to disappoint investors expecting fiscal measures to boost the economic outlook.

The EM currency index fell for the third day, with the Thai baht, South African rand and the Indonesian rupiah leading the losses yesterday. China 10-year yields fell to a fresh low as the government signalled more easing, and Chinese equities were in the red yesterday, driving benchmark EM indices lower as well. The MSCI EM equity index also fell 0.5% to pare this week's gains to 0.2%, which would be the second week of gains.

Emerging-market sentiment was subdued after China's Central Economic Work Conference ended without policy details on fiscal stimulus, even as authorities pledged to boost consumption. Traders have watched data and measures from China as the market is affected by its size and trading relationships with other developing countries. The nation's benchmark yields fell to a fresh low as investors continue to expect monetary policy to do most of the legwork for now.

"These broader FX moves are being driven by China spillovers - headlines this morning are pointing to weak growth yet again, and that is weighing on currencies sensitive to Chinese demand," said Nick Rees, an analyst at Monex Europe. "Given scepticism around the reliability of official statistics, even measures that would ordinarily be supportive are not in China, with markets more inclined to take their steer from the policy response as to the state of the underlying economy."

The pessimism concerning China and emerging markets has been exacerbated as Donald Trump's election in November reignited US dollar and stock market gains, as well as putting the focus on potential new US trade tariffs. "We are bearish on EMFX next year, expecting everything to get steamrollered by the dollar," said Rees. "But by how much, that will depend on the specifics of Trump tariffs, and we are still waiting for clarity right now."

The rupiah also weakened against the greenback as Bank Indonesia signalled that it was intervening to support the local currency. The won edged lower against the dollar for a second day as traders await the results of another impeachment vote against President Yoon Suk-yeol expected today.

The direction of the yuan is clear but the magnitude of depreciation is down to China's policy makers, said Mark Ledger-Evans, a portfolio manager at Ninety One. "Allowing the currency to weaken too much may work against EMs," he said.

Broadcom shares set for biggest surge since 2020 on AI chip boom

Bloomberg
California

Broadcom Inc, a chip supplier for Apple Inc and other big tech companies, is headed for its biggest share-price rally in more than four years after predicting a boom in demand for its artificial intelligence (AI) chips.

Sales of AI products will gain 65% in the fiscal first quarter, far faster than its overall semiconductor growth of about 10%, the company said during a post-earnings conference call. The chipmaker also predicted that the addressable market for AI components that it designs for data centre operators would reach as high as $90bn by fiscal 2027.

Like Nvidia Corp, Broadcom is positioning itself to be a major beneficiary of the AI spending frenzy. And Chief Executive Officer Hock Tan said his company had won two major new hyperscaler customers — the biggest operators of data centres.

The stock rose as much as 19% in pre-market trading yesterday, putting its share price on track for an all-time high and bringing it closer to a $1tn market valuation. The shares have gained 62% this year, giving the company a market value of $843.8bn as of Thursday's close.

Investors have piled into Broadcom's stock this year, lured by AI optimism. The Palo Alto, California-based company had predicted that it would get more than $10bn in annual revenue from that market, outpacing other parts of its business. Ultimately, the number reached $12.2bn in the last fiscal year.

AI revenue grew 220% during the year, fuelled by demand for processors and networking components, Tan said. Demand for non-AI chips, meanwhile, will be down in the first quarter. Total sales will be $14.6bn in the period, which runs through January, in line with estimates. Tan has assembled one of the most valuable companies in the chip industry through a string of acquisitions. He also has built a software unit that's approaching the scale of its semiconductor operations.

That reach makes the company's forecasts a bellwether for demand over a broad swath of the technology industry.

Profit was $1.42 a share in the fourth quarter, excluding some items, the company said. Revenue rose to nearly $14.1bn in the period, which ended November 3. Analysts had estimated $1.39 a share in earnings and revenue of $14.1bn on average, according to data compiled by Bloomberg.

Data centre providers rely on Broadcom's custom-chip design and networking semiconductors to build their AI systems. The company also sells components for cars, smartphones and internet access gear. Its push into software, meanwhile, includes products for mainframe computers, cybersecurity and data centre optimisation.

Broadcom's semiconductor division had revenue of $8.23bn in the fourth quarter, up 12%. Software sales grew nearly 200% to $5.82bn. The company is much larger than it was a year ago, partly because of its acquisition of VMware Inc, which it bought for roughly $69bn.

Prior to the report, analysts raised concerns that Broadcom's chip designing business was suffering from weaker demand. They cited the slower introduction of a new version of a Broadcom processor for Alphabet Inc.

Apple is a top customer of Broadcom, which provides components for the iPhone. During earnings calls, Tan typically gives updates on Broadcom's often-contentious relationship with that company, which he refers to as his "large North American customer" or another vague term.

Europe's rates head lower in readiness for another Trump era

Bloomberg
Frankfurt

European Union flags outside the headquarters of the European Central Bank in Frankfurt. Europe's central banks are taking a determined dovish turn to aid economies bracing for more disruption from Donald Trump's second stint in the White House.

Europe's central banks are taking a determined dovish turn to aid economies bracing for more disruption from Donald Trump's second stint in the White House.

Decisions by policymakers in Frankfurt and Bern on Thursday to cut interest rates left little doubt over the prospect of possible future easing to cushion the effect of unknowns ranging from trade tensions to geopolitically stoked currency volatility.

Most drastic was the Swiss National Bank's surprise half-point reduction to 0.5%, further undoing constriction to reach a level last seen in September 2022, when officials ended almost eight years of subzero monetary policy.

The European Central Bank's own quarter-point move — bringing its rate to a 1 1/2-year low — was accompanied by President Christine Lagarde's observation that "the direction of travel currently is very clear."

There'll probably be moves of the same size in January and March, according to people familiar with the matter.

Following suit, Danish policymakers in Copenhagen also reduced borrowing costs.

With Thursday's round of easing marking the final scheduled chance for officials to get their ducks in a row before Trump takes office in January, worries about growth or too-low inflation are taking firm precedent over concerns about lingering price pressures. "For the moment, there's only one way for European rates – down," said Allianz Chief Economist Ludovic Subran. "The real question is, how far this will go. For the ECB I think there is a risk that the ECB may be forced to cut rates faster and more than anticipated now."

Angst about the regime change in the White House is apparent elsewhere too. Canada's central bank, cognizant of the danger of higher trade tariffs from its southern neighbour, cut by a half-point on Wednesday.

Brazilian policymakers, fresh from currency gyrations amid fiscal turmoil and Trump's threat to Brics members not to challenge the dollar's dominance, later raised their own rate by 100 basis points.

It was currency worries in particular that motivated the SNB's move. A new era of speculation in the franc, long seen by investors as a haven at times of geopolitical stress, is keeping officials on alert to stave off such speculation.

Vice-President Antoine Martin told reporters that "developments abroad represent the main risk" to Switzerland's economy. SNB chief Martin Schlegel warned traders that policymakers will lower rates if needed, could intervene in currency markets and will take borrowing costs negative again if they have to.

The ECB, meanwhile, changed the language of its statement to show it no longer wants to restrict the economy, also unveiling wholesale cuts to its 2024-2026 growth projections.

Officials now see the euro-zone economy expanding just 1.1% in 2025, down from 1.3%, with Lagarde adding that risks to the outlook are "to the downside." "Tariffs will ultimately prove to be a disinflationary shock" for the euro area, economists Nick Kounis, Jan-Paul van de Kerke and Bill Diviney at ABN Amro said in a report.

Fed to cut once more before slowing pace in 2025: Economists

Bloomberg
Washington

Federal Reserve officials will lower interest rates this month for a third straight time and pare back the number of rate cuts they anticipate next year, according to economists surveyed by Bloomberg News.

Fed Chair Jerome Powell and his colleagues are expected to deliver another quarter-point rate cut at their December 17-18 meeting, bringing the central bank's key benchmark rate down to a range of 4.25-4.50%. That would mark a full percentage point of reductions since September.

Rate cuts are seen slowing next year by more than officials projected three months ago, with a majority of economists predicting just three reductions in 2025 amid less progress on cooling inflation down toward the central bank's 2% target.

"The case for further US rate cuts beyond this month has decreased meaningfully," said Dennis Shen, an economist with Scope Ratings. "Inflation has remained sticky, the economy and financial markets are overheating, the slight rise in unemployment earlier this year has reversed and the incoming Trump administration threatens more near-term inflation risk."

After next week's meeting, economists expect the Fed to hold rates steady at the January gathering and cut again in March. The two remaining 2025 reductions will come in June and September, according to the median estimates in the Bloomberg survey of 50 economists. The survey was conducted December 6-11.

Forecasts for the US economy and monetary policy have changed markedly from just a few months ago, when concern about a weakening labour market had many economists predicting a more aggressive path of rate reductions in 2025.

In September, most respondents were more concerned with the employment picture deteriorating than with a stalling in inflation progress. Now, that dynamic has flipped. After substantially cooling from a four-decade high in 2022, inflation has held at roughly the same elevated level for months.

Trump Policies May Mean Higher Rates

Economists see policies like mass deportations, tariffs and tax cuts translating to fewer rate reductions in 2025 than previously thought

2% More cuts
40% No change
58% Fewer cuts

Source: Bloomberg survey.
Bloomberg

Data out earlier this week showed a key gauge of consumer prices that strips out food and energy costs rose 3.3% on a year-over-year basis, a point first reached in June.

Without additional progress toward the central bank's goal, policymakers may have to keep interest rates at higher levels to bring inflation down further.

Economists expect Fed officials to mark up their forecasts for price growth slightly in 2025 while continuing to see 2% inflation in 2026. That persistence in price pressures, and continued solid economic growth, will likely further drive up policymakers' estimates of the neutral rate of interest, where policy neither stimulates nor weighs on the economy, to 3% from 2.9% in September.

While economists are split on how exactly President-elect Donald Trump's policy proposals — including mass deportations, a fresh round of tariffs and renewed tax cuts — will ultimately impact the economy, most forecasters do anticipate fewer rate cuts in 2025 as a result of those policies.

"We look for the Fed to hold rates steady early next year as they assess prospective policy changes under the Trump administration and take stock of the economic and inflation environment at that time," said Kathy Bostjancic, chief economist at Nationwide.

Economists don't see much change to key parts of the post-meeting statement this time. A large majority of them see Fed officials keeping their current characterization of inflation as somewhat elevated and unemployment as low.

But they could indicate an intention to move at a more gradual pace in the part of the statement that references future adjustments to policy, according to Brett Ryan, senior US economist at Deutsche Bank.

Nearly a third of those surveyed said there could be a dissent at this meeting, most likely from Governor Michelle Bowman, who voted against September's outsize rate reduction and has expressed concern about inflation.

Economists are more mixed about the future of balance-sheet policy. While a majority think the current caps on how many Treasuries and mortgage-backed securities the Fed allows to mature off its balance sheet might be reduced in the first half of 2025, there's less certainty about when the process known as quantitative tightening will come to a complete end.