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BUSINESS

TRUMP CONCERNS : Page 4

Powell signals Fed's focus has returned firmly to inflation

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Qatar's 2025 budget balances key investments with conservative projections, says Oxford Economics

By Pratap John
Business Editor

Qatar's conservative oil price assumption of $60/barrel "underscores the country's fiscal discipline and sustainable policies", Oxford Economics said in a report released yesterday.

Qatar has announced its 2025 budget, focusing on education, healthcare, and sustainability, with total expenditure set at QR210bn.

The municipality and environment sector is allocated QR21.9bn, while the sports sector will receive QR6.6bn.

The budget forecasts revenue of QR197bn, resulting in a projected deficit of QR13.2bn, which Oxford Economics noted is due to conservative oil price assumptions.

"This supports Qatar's strong credit rating, but we believe these oil price assumptions are conservative since Qatar has maintained a budget surplus over the past three years. We expect a surplus of around QR25bn for 2024, narrowing to QR12bn in 2025. These projections underscore Qatar's fiscal discipline and sustainable policies," Oxford Economics said.

In a recent report, Oxford Economics estimated Qatar's non-energy economy would grow by 2.4% in 2024 (versus its previous projection of 2.5%), up from 1.1% in 2023.

Growth in the non-energy sector improved at the end of last year, picking up to 1.7% year-on-year (y-o-y) in Q4, from an average of 0.8% in the preceding three quarters.

Performance was mixed across sectors at the end of last year, with positive trends in the wholesale and retail and hospitality-related sectors offset by drags spanning administrative and professional services, finance and insurance, and information and communications technology.

Tourism has provided a key support to non-energy activities and will remain a driver of future growth. Data show the number of foreign arrivals neared 3mn in the year to July, on track to meet the researcher's forecast of 4.5mn overnight visitors this year.

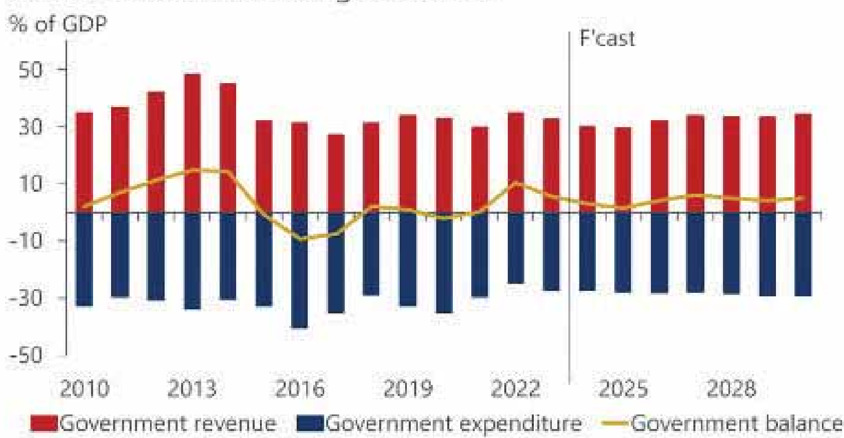
The launch of the pan-GCC visa should help extend the positive performance in 2025.

Oxford Economics sees Qatar's energy sector growing just 1% in 2024, amid the weak performance of industry year-to-date, before strengthening to 2% next year.

The authorities have doubled down on the North Field gas expansion project, which will have a positive medium-term impact. The target liquefied natural gas (LNG) capacity was raised to 142mn tonnes per year (mtpy) by the end of 2030, up nearly 85% from 77 mtpy currently and 13% on the intermediate target of 126 mtpy by 2027.

Last year, Qatar awarded a $10bn contract for the second phase of the project, North Field South, which will include the delivery of two LNG trains.

Qatar: Government budget balance



Source: Oxford Economics/ Haver Analytics

US third-quarter economic growth revised higher

The US economy grew faster than previously estimated in the third quarter, driven by robust consumer spending, reports Reuters.

Gross domestic product increased at an upwardly revised 3.1% annualized rate, the Commerce Department's Bureau of Economic Analysis said in its third estimate of third-quarter GDP on Thursday. The economy was previously reported to have expanded at a 2.8% pace last quarter.

Economists polled by Reuters had forecast GDP would be unrevised. The revision reflected upgrades to consumer spending and export growth, which offset a downward revision to private inventory investment and upward revision to imports.

The economy grew at a 3.0% pace in the April-June quarter. It is expanding at a pace that is well above what Federal Reserve officials regard as the non-inflationary growth rate of around 1.8%.

The US central bank on Wednesday delivered a third consecutive rate cut, but projected only two reductions in borrowing costs next year compared to the four it had forecast in September, citing continued economic resilience and still-elevated inflation. There are also concerns that some of the incoming Trump administration's policies, including tax cuts, mass deportations of undocumented immigrants and tariffs on imported goods, would be inflationary.

The Fed's policy rate was reduced by 25 basis points to the 4.25%-4.50% range. It was hiked by 5.25 percentage points between March 2022 and July 2023 to tame inflation.

Fed Chair Jerome Powell told reporters on Wednesday that "it's pretty clear we've avoided a recession," adding that "the US economy has just been remarkable, I feel very good about where the economy is... and we want to keep that going."

Consumer spending, which accounts for more than two-thirds of economic activity, grew at a 3.7% pace. That was revised up from the previously estimated 3.5% rate.

A measure of domestic demand that excludes government spending, trade and inventories increased at a 3.4% pace. Final sales to private domestic purchasers were previously estimated to have risen at a 3.2% rate. Domestic demand increased at a 2.7% pace in the second quarter.

Boeing wins $36bn deal from Turkiye's Pegasus

Bloomberg
Istanbul

Boeing Co won an order valued at $36bn from Pegasus Hava Tasimaciligi AS, in its biggest commitment so far this year that deals a blow to rival Airbus SE, previously the preferred choice for the Turkish low-cost airline.

The carrier has firm orders for 100 of the as-yet uncertified 737 Max 10 model that it will begin receiving in 2028, with options for another 100, it said in a stock exchange filing.

The total value of the agreement assumes that all options are converted, though customers typically negotiate steep discounts for large deals.

The accord, the largest order in Pegasus's history, is an important win for Boeing as it works to overcome the fallout from a prolonged strike and a near-catastrophic accident at the start of the year. For Pegasus, the deal marks a strategic reversal after the carrier said less than two years ago that it wanted to become an all-Airbus operator.

The long-delayed 737 Max 10 is the largest variant of Boeing's popular single-aisle family, and carriers including United Airline Holdings Inc and Virgin Australia have switched out some of their orders for the model due to uncertainty about when it will be certified.

Boeing now expects the Max 10 to be certified in 2025, years behind schedule, as the US manufacturer grapples with tougher regulatory scrutiny and redesign of the jet engines anti-ice system.

A Boeing B737-10 Max aircraft during a flight demonstration at the Paris Air Show in Le Bourget, Paris.

Pegasus said in 2023 that it was working on a fresh aircraft order to expand and go further afield into destinations in North Africa and the Baltic states. The carrier has a fleet of more than 100 planes, including 16 older 737 NGs and the rest made up of Airbus A320 family jets, according to its website. Guliz Ozturk, chief executive officer of Pegasus Hava Tasimaciligi AS The airline also has outstanding orders for another 53 A321 jets, according to Airbus's tally. So far this year, Boeing has received 427 gross orders, and the company has a backlog for the Max 10 variant of 1,109 units.

Turkiye has ambitions to turn itself into a bigger tourism and business hub, using its new Istanbul airport as a global airfield. Pegasus operates from Sabiha Gokcen airport, Istanbul's second hub, which recently opened a second runway.

The deal also stands to deepen corporate and political ties between the two countries.

Pegasus said the order will "open new doors and create production and export opportunities both for Turkish manufacturers and for the wider aviation industry," implying that local companies and industries stand to share in some of the value chain.

Airbus has also gained an important foothold in Turkiye, winning an order for 220 aircraft a year ago from flag carrier Turkish Airlines that consisted of 150 A321 narrow-body jets and 70 of the A350 widebody.

Global central banks urge caution before Trump arrival

The imminent arrival of Donald Trump in the White House is already shaping global economic policy-making as the US Federal Reserve flagged fewer rate cuts and other leading central banks signalled caution over their paths

Reuters
Washington

The imminent arrival of Donald Trump in the White House was already shaping global economic policy-making this week as the US Federal Reserve flagged fewer rate cuts and other leading central banks signalled caution over their rate paths.

The Fed cut rates as expected on Wednesday but accompanied the move with a message that the incoming Trump administration gave cause for caution — a sentiment echoed by its counterparts in London, Tokyo, Frankfurt and elsewhere.

As Fed officials dialled back projections for future easing in the face of stubborn inflation, Chair Jerome Powell said some in the bank were trying to judge how Trump's planned tariffs, lower taxes and immigration curbs might affect policy. "Some people did take a very preliminary step and start to incorporate highly conditional estimates of economic effects of policies into their forecasts at this meeting," Powell said of higher estimates for both growth and inflation in 2025.

Powell's repeated urging of caution around further rate cuts triggered a slide in stock prices. Just a single Fed rate cut is now priced in for 2025. As expected, the Bank of England kept its main interest rate unchanged at 4.75% on Thursday and said it needed to stick to its existing gradual approach to cutting rates.

"With the heightened uncertainty in the economy we can't commit to when or by how much we will cut rates in the coming year," BoE Governor Andrew Bailey said.

Earlier in Asia, the Bank of Japan kept ultra-low interest rates as the threat of Trump's policies cast a shadow over the export-reliant economy.

"There's uncertainty over the policies of the incoming US administration, so we need to scrutinise the impact more carefully," BoJ Governor Kazuo Ueda told a press conference, adding that Trump trade and fiscal policies would have a huge impact on the global economy and financial markets.

A Reuters survey of Japanese businesses published last week showed nearly three-quarters expect Trump to have a negative effect on their operating environment.

Norway's central bank held its policy interest rate unchanged at a 16-year high of 4.50% and highlighted the risk of a trade war between the US and China.

"Higher tariffs will likely dampen global growth, but the implications for price prospects in Norway are uncertain," the bank said.

Sweden's central bank cut its key interest rate by a quarter percentage point to 2.50% as expected, but said it now saw reasons to be more cautious about cutting rates in early 2025.

In central Europe, the Czech National Bank paused its year-long rate-cutting campaign as expected, with lingering inflation pressures, especially for services, keeping it cautious. The US economy was thrown into further uncertainty after Trump pressured fellow Republicans in Congress to reject a bill to keep the government funded past the deadline of midnight on Friday and demanded lawmakers raise the nation's debt ceiling.

In the past week, the European Central Bank and Bank of Canada had already lowered interest rates. Both are seen easing further in 2025 amid weakening outlooks.

UAE oil giant sees chemical firm Covestro as base for growth

Bloomberg
Abu Dhabi

The largest oil producer in the United Arab Emirates is focused on closing its nearly $13bn acquisition of German chemical maker Covestro AG which would establish a base for international growth.

Abu Dhabi National Oil Co, which secured 91.3% of Covestro stock after an offer period that closed on December 16, plans to keep it as a standalone business, according to the executive that led the UAE firm's push for its biggest deal yet.

"This deal was a milestone deal for us," Khaled Salmeen, Adnoc's executive director for downstream and trading, told Bloomberg Television in an interview. "We have a growth strategy around it" which Adnoc will implement once it completes the "significant amount of regulatory approvals" needed to close the deal, he said.

Adnoc is the biggest oil producer in the United Arab Emirates. The country is expanding its energy business beyond oil to focus on natural gas trading and chemicals like plastics on expectation they'll benefit from the energy transition.

While Salmeen sees current markets as stable, Adnoc is preparing for a future that favours different types of energy supplies. China, for example, should see continued demand growth even though its gasoline consumption is unlikely to expand further, he said.

"Globally fundamentals are sound and oil markets are strong," Salmeen added. "We are far away from the peak oil scenario or peak energy." Adnoc is still in the process of setting up XRG PJSC, its vehicle for expanding in international gas and chemicals businesses and developing low-carbon energy supplies like blue ammonia or biofuels, Salmeen said. The unit will hold the shares and become the majority owner of Covestro.

XRG, announced last month with an $80bn enterprise value, is planned as Adnoc's investment vehicle to expand in natural gas, chemicals and low-carbon energy. The company will hold the oil producer's stake in a Middle East gas venture with BP Plc in addition to the Covestro stake.

Adnoc offered nearly $13bn for Covestro in what's set to be the largest Middle Eastern acquisition of a European firm. The takeover would give the state behemoth control over a pioneering company that supplies materials for some of the world's most prominent phone and carmakers.

Abu Dhabi National Oil Co, which secured 91.3% of Covestro stock after an offer period that closed on December 16, plans to keep it as a standalone business

Mideast IPO momentum faces valuation test after $13bn year

Bloomberg
Dubai

A bumper pace of new share sales across the Middle East in 2024 is expected to continue next year, even though a few recent disappointing trading debuts have flashed warning signs on valuations.

Firms have raised $13bn from initial public offerings in 2024, marking the Middle East's second-best year since the pandemic. But unlike in previous years, buoyant early returns are no longer a given.

The three largest Gulf offerings of the year — Talabat Holding PLC, OQ Exploration & Production SAOG and Lulu Retail Holdings PLC — had muted debuts recently after drawing significant demand. Lulu and Talabat's deals were both upsized at a late stage, potentially leading to oversupply, some analysts said.

"Investors are expressing more sensitivity on valuation, and are more attuned to paying for growth companies as opposed to just buying the yield opportunities," according to Ali Khalpey, head of equity capital markets at EFG Hermes.

Still, as Gulf governments continue a push to diversify their economies and deepen capital markets, market participants expect the rush of listings to continue.

"I don't see anything stopping it," said Andrew Briscoe, Bank of America Corp's head of equity capital markets syndicate in Europe, the Middle East and Africa. "IPOs haven't all worked well of late, but I don't think it stops the issuance levels, although it might impact investor interest."

For context on how busy it's been, the United Arab Emirates is set to be the leading venue for listings in the broader Europe, Middle East and Africa region for the third year in a row, according to data compiled by Bloomberg. The UAE and Saudi Arabia also rank among the top ten venues for share sales globally.

There were also sizeable IPOs outside those markets. Two large deals helped Oman leapfrog the likes of UK and Germany by total volume of share sales. The sultanate has a further pipeline of about 30 assets it wants to privatise, including logistics company Asyad Group and Oman Electricity Transmission Co, while OQ also plans to line up further listings in coming years.

In the UAE, Abu Dhabi's flag carrier Etihad Airways is considering a landmark IPO that could make it the first Gulf hub carrier to go public, while a conglomerate owned by Dubai's ruler is weighing two real estate listings. Other potential deals include a classifieds website, an information technology services firm and a construction company.

Saudi Arabia is also likely to see a string of listings, potentially including low-cost carrier Flynas, buy-now-pay-later unicorn Tabby and tech firm Ejada. The country's wealth fund, which has been on a drive to raise cash, could sell stakes in medical procurement firm Nupco and a port operator.

EFG Hermes' Khalpey expects the kingdom to generate the largest number of IPOs next year, including both state-owned and private businesses.

"Many companies have scaled over the last few years and want to take advantage of the positive macro trends in the kingdom," said Khalpey, whose bank has advised on the highest number of listings in the Gulf in 2024, according to Bloomberg's league tables. "That's going to crystallise in a number of IPOs from different sectors."

Recent Saudi listings such as United International Holding and Tamkeen have tended to buck the trend of muted early trading seen in the UAE and Oman.

While the uptick in IPO activity in the US and Europe has given investors more choice and an opportunity to be more discerning, there are reasons to believe more international money will flow to the Gulf.

The IPO boom of recent years has meant that Middle Eastern volumes are becoming a larger part of global indexes, making it harder for global fund managers to ignore the region, according to Rami Sidani, head of frontier investments at Schroder Investment Management.

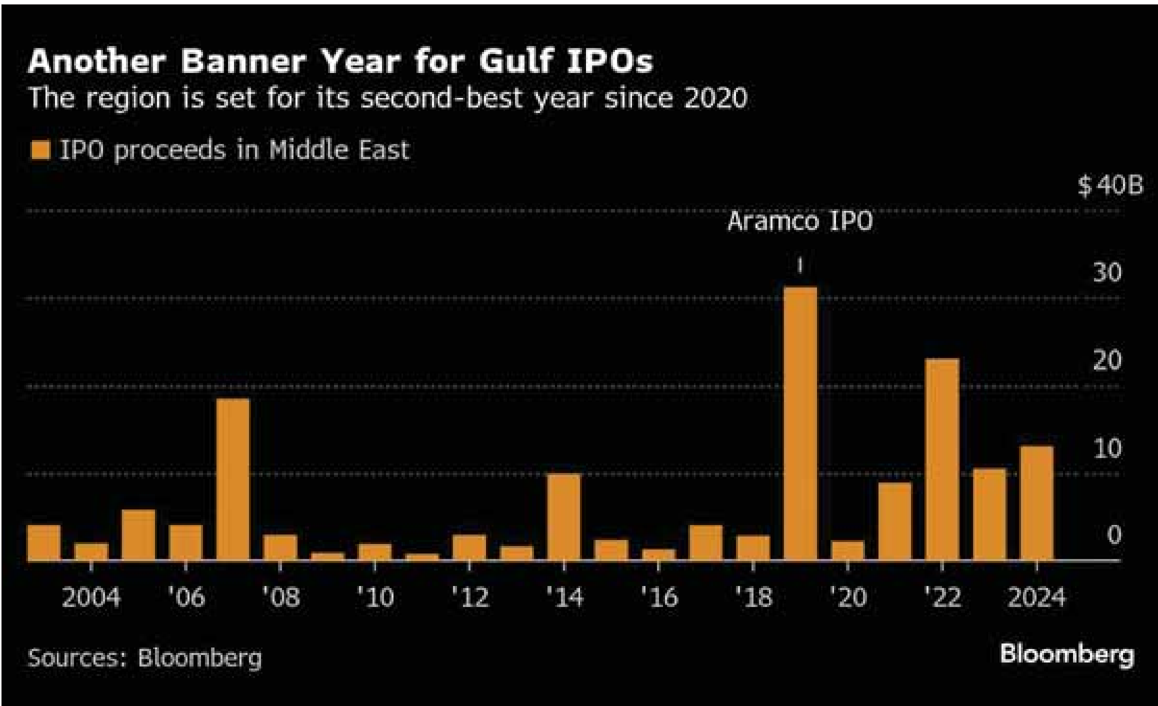
Lulu's IPO, for one, drew in Vanguard Group Inc and Singapore sovereign wealth fund GIC Pte.

Meanwhile, about 60% of Saudi Aramco's $12bn sale of existing shares was allocated to foreign investors, a marked shift from its 2019 listing, where only 23% of the shares went to international buyers. That deal was one of three share offerings by public companies in the Middle East this year.

While sales of new and existing shares in listed firms are still relatively rare in the Gulf, more are expected next year. That will give investors opportunities to top up on stocks they might have missed out on during IPOs, while also helping firms reach the level of free float they need to be included in indexes.

"Companies looking to do follow-ons will have to compete for investor attention amid a number of new names," said Samer Deghaili, co-head of investment banking for the Middle East and Turkiye at HSBC Holdings Plc, which is the top-ranked institution for regional equity offerings by value, according to Bloomberg's league tables.

"For a company to do a follow-on, they will have to offer a strong growth story where investors can still come in and top up in the stock," Deghaili said.



Turkiye's central bank expected to start cutting rates next week

Reuters
Istanbul

Turkiye's central bank is expected to start a cycle of interest rate cuts next week after eight months of steady policy, according to a Reuters poll on Thursday.

Fourteen of 17 poll respondents forecast that the bank would cut its policy rate next Thursday, according to the poll. Three respondents expect the central bank to keep rates on hold until the first quarter.

While most expected that the easing cycle will be launched this month, economists differed over the size of the first cut.

Five economists expect the first rate cut to be 150 basis points from the current 50% on the back of a slower-than-expected improvement in inflation, while five others see a 250 basis point easing next week.

Two institutions expected the policy rate to be cut by 100 basis points while two forecast an easing of 200 basis points next week, according to the poll.

To tackle inflation that has soared for years, the central bank has raised its policy rate by 4,150 basis points in total since mid-2023, reversing a previous low-rates policy championed by President Tayyip Erdogan to boost economic growth.

As inflation started to decline, the central bank is expected to cut the policy rate by 2,150 basis points by the end of next year to 28.5%, according to the poll median.

Forecasts ranged between 25% and 33%, in the poll. The central bank expects inflation to fall to 21% by the end of 2025.

Citi said in a recent research note that an expected normalisation in unprocessed food prices and the central bank's latest communication suggest the easing cycle could start at the final meeting of the year.

"The combination of growing evidence of an economic slowdown and historically tight financial conditions faced by bank dependent borrowers also lends support to our view that a 250bp cut in December is likely. However, we concur that a less aggressive easing cannot be entirely ruled out."

November inflation was higher than expected at 47.09% annually while monthly, it rose 2.24% on the back of unprocessed food prices. The central bank is monitoring monthly inflation closely as it decides when to cut its main interest rate.

The central bank has said that the developments in food prices are outside the scope of the monetary policy. Separately, Governor Fatih Karahan said that although inflation is shifting slower than expected, the main trend continues to improve.

Expectations the rate cutting-cycle would begin in December were heightened after the central bank revised its inflation forecasts in November, with Governor Karahan's remarks over maintaining monetary tightness as inflation declines.

The central bank will announce its next interest rate decision on December 26.

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Behind a Honda and Nissan tie-up, existential threat posed by China EVs

- Honda and Nissan in talks to deepen ties, merger possible
- Chinese EVs pose huge threat to traditional carmakers, Japan Inc
- Japan auto industry broadly employs 8% of workforce

Reuters
Tokyo

Some unions are born of necessity, others from convenience. In the case of Honda and Nissan's potential merger, it is mostly defensive as Chinese rivals take the world by storm.

While the challenge from China's seemingly boundless EV expertise looms large for all traditional automakers, for Japan it represents a threat to the vast car-manufacturing supply chain that has been the country's economic engine for years.

Honda, Japan's second-largest car company, and Nissan, its third-largest, are in talks to deepen ties, including the possibility of setting up a holding company, two people familiar with the matter said on Wednesday. The automakers are discussing a potential merger, one of the people said.

Like other foreign carmakers, both Honda and Nissan have lost ground in China, the world's biggest auto market, as BYD and other domestic brands win over consumers with EVs and hybrids loaded with innovative software.

Like other foreign carmakers, both Honda and Nissan have lost ground in China, the world's biggest auto market, as BYD and other domestic brands win over consumers with EVs and hybrids loaded with innovative software.

Honda reported a 15% drop in quarterly profit last month, hit by the decline in China and has been scaling back its workforce there. Nissan — a long-struggling company — plans to cut 9,000 jobs globally and manufacturing capacity by 20% due to slumping sales in China and the US.

Sanshiro Fukao, an executive fellow at the Itochu Research Institute in Tokyo, warns that the speed at which Chinese EV makers have been able to innovate means that Honda and Nissan have "no time" to pursue business as usual. "We're no longer in the age where carmakers would join together, churn out profits through economies of scale and then reinvest them in a five-year restructuring plan."

Others note that any steep decline for Japan's auto industry would be particularly painful. It's the strongest sector in the world's fourth-largest economy and Japan's position in other key industries such as consumer electronics and chips has waned over the years.

"For Japan, it's ultimately all about cars. If the auto industry doesn't improve, then the whole of Japanese manufacturing will not get better," said Takumi Tsunoda, a senior economist at Shinkin Central Bank Research Institute.

Japan's automotive supply chain totalled around 60,000 companies as of May this year, according to a survey by research firm Teikoku Databank. Total business transactions were estimated at ¥42tn ($270bn), equivalent to 7% of nominal GDP in the 2023 fiscal year.

Broadly, the industry employs more than 5mn people, representing 8% of the entire workforce, according to the Japan Automobile Manufacturers Association.

Consolidation through mergers can help by slashing costs and pooling resources but it remains to be seen whether Japan's auto industry — like the US or German auto industry — can sufficiently compete in EVs.

Japan's automakers have been steeped in the country's traditions of "monozukuri" or manufacturing craftmanship, and have been influenced by market leader Toyota which revolutionised modern manufacturing with its system of lean production and just-in-time delivery of components.

Those methods helped develop a culture of incremental improvement and production-line efficiency that powered the Japanese auto industry's rise from the late 1970s.

However, the shift to battery-powered smart cars has seen much of the consumer's interest focus on software-reliant self-driving features and their digital experience inside the vehicle — areas where the Chinese excel.

Among Japan's automakers, Toyota has been the most vocal about the potential harm from a dramatic shift to EVs, with Chairman Akio Toyoda warning in October that an EV-only future would lead to many job losses in the industry, especially at suppliers and those working on engines.

Toyota has long championed what it calls a "multi-pathway" strategy that includes producing hybrids, hydrogen cars as well as EVs.

Eikei Suzuki, a lawmaker from the ruling Liberal Democratic Party who represents Mie prefecture — home to a Honda plant and its Suzuka Circuit race course — said he hoped if Honda and Nissan were to integrate, it would increase their global competitiveness.

But he added that if the merger were to adversely impact local manufacturing and employment, that would go against the policies of Prime Minister Shigeru Ishiba, who has pledged to revitalise Japan's provincial economies.

"We hope that consideration will be given to regional employment in Japan," he said.

Bloomberg QuickTake Q&A

Why Europe can’t seem to kick its Russian energy habit

By Elena Mazneva and Anna Shiryaevskaya

Three years ago, Russia was the world’s biggest exporter of natural gas and Europe was its top customer. For the continent’s leaders, access to all that cheap Russian energy outweighed any misgivings over doing business with President Vladimir Putin.

Then Russia launched its full-scale invasion of Ukraine, and this overwhelming reliance on a single supplier suddenly looked like a threat to the region’s economic and political security.

Fear that Putin would cut off deliveries of gas, coal and oil to punish European nations for supporting Ukraine prompted a frantic scramble in search of alternative energy sources. The shift was formalised by sanctions on Moscow aimed at de-funding Putin’s war machine.

Today, European leaders are hailing an energy supply revolution. Many gas, oil and coal importers dropped Russia in favour of alternative sources. Consumers found ways to use less energy, reducing demand.

In the end, the lights stayed on and most factories kept humming. But Europeans are now paying more for their energy, and some of its more power-hungry industries are struggling to remain globally competitive.

What many aren’t aware of is that Russia remains one of the continent’s most important energy suppliers, and the European Union’s goal to end its dependence on Russian fossil fuels by 2027 is looking hard to achieve.

How did Europe get so hooked on Russian energy?

It started more than half a century ago. The Soviet Union needed money and equipment to develop newly discovered giant gas fields in Siberia amid tensions with China and the US. West Germany was hunting for cheap energy to support its fast-growing manufacturing sector.

In 1970, the USSR and West Germany signed a “pipes for gas” deal in which German factories supplied thousands of miles of pipes to carry Russian gas to Western Europe. Energy flows grew steadily in the following decades until Germany found it was buying more than half of its gas from Russia, along with about a third of all its oil.

Germany and other European countries began to shift into wind and solar energy in recent years. But piped Russian gas remained a convenient, affordable option for generating the baseload power needed when the wind wasn’t blowing and the sun wasn’t shining.

How is Europe still using Russian energy?

Imports of Russian fossil fuels to the European Union stood at around $1bn per month at the end of 2023, down from a high of $16bn per month in early 2022, according to the Bruegel think tank in Brussels.

Most of those remaining imports were natural gas. Russia still accounted for 15% of the EU’s total gas imports in 2023, behind Norway and the US at 30% and 19% respectively, and ahead of North African countries at 14%, according to data from the European Commission.

Much of that Russian gas arrives in pipelines crossing Ukraine and Turkiye. Among the biggest buyers are Austria, Slovakia and Hungary, whose economies are heavily reliant on the fuel.

Big energy consumers including Spain, France, Belgium and the Netherlands are also still importing Russian liquefied natural gas on tankers. Some of it ends up being mixed with other gas sources in Europe’s pipeline network, meaning it potentially goes to Germany, despite that country’s pledge to avoid Russian gas.

Why aren’t all Russian gas contracts being scrapped?

Russia’s European customers were often locked into iron-clad, long-term contracts that weren’t easy to wriggle out of.

And making the switch can be costly as available supplies in the global gas market are expected to remain tight for at least another year, until a new wave of supply emerges from leading exporting nations. A good part of the gas available for import into Europe is being soaked up by countries that closed their coal-fired and nuclear power stations in recent years.

Key buyers, including Slovakia and Hungary, have said they are looking for alternative sources. But industries in these landlocked countries were built to run on energy from the east, and would pay more if they bought non-Russian gas arriving at new LNG terminals being built in Western Europe.

Major companies from those countries are pushing for a deal that will allow the continued transit of gas through Ukraine in 2025, after the current agreement expires between Moscow and Kyiv. The talks have been going on for months, with buyers lately stepping up pressure and the discussions intensifying.

There is no Europe-wide ban on Russian gas for now, although some countries such as the UK, Germany and the Baltic states decided to stop imports of the fuel. Some of the biggest and oldest customers of Russian state-run gas giant Gazprom, such as German utility Uniper SE and Austrian energy firm OMV AG, have terminated their contracts.

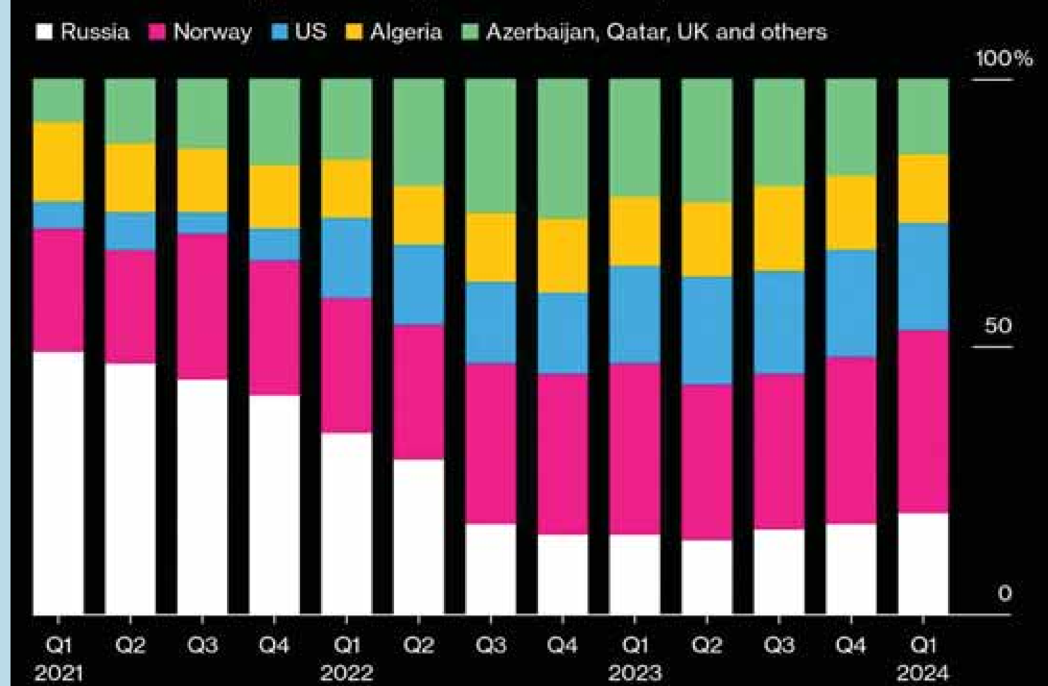
Other large European corporations still have long-standing investments in Russian energy that they are reluctant to abandon. France’s TotalEnergies SE remains a shareholder in the giant Yamal LNG project in Russia’s Arctic. Spanish utility Naturgy Energy Group SA holds a 20-year contract to purchase liquefied fuel from Yamal until 2038.

How else is Russian energy finding its way through?

Pipeline imports of Russian crude oil and land deliveries of some unsanctioned petroleum products have continued, though in far smaller volumes than previously. There’s still no ban on oil products made at refineries outside Europe using Russian oil, such as in Turkiye. Sales from those refineries into the EU brought Russia an estimated €1.1bn ($1.2bn) in tax revenue in 2023, according to Global Witness.

It’s likely that some Russian crude oil finds its way to Europe after being bought by middlemen in other countries and mixed with supplies from other origins. Tracing Russian crude and LNG to its destination has become harder since Moscow deployed a large tanker “shadow fleet” to skirt the impact of international sanctions.

Some of the shadow fleet has been sanctioned by the UK, the EU and their allies, and there’s been no evidence of direct deliveries to Europe. But it’s hard to monitor all re-sales across the globe.



What’s the state of play now?

Russia accounted for less than 10% of Europe’s gas consumption in 2023, down from more than a third before 2022. Norway has supplanted Russia as the continent’s biggest provider of pipeline gas. Thanks partly to the new facilities built to offload LNG from alternative exporting nations, the US has become Europe’s top supplier of the liquefied fuel.

On top of that, Europe has been consuming less fossil fuels, in part because some industries struggling with high energy bills have cut back production or shifted to making less energy-intensive goods, and also because of energy savings and record installations of renewable power.

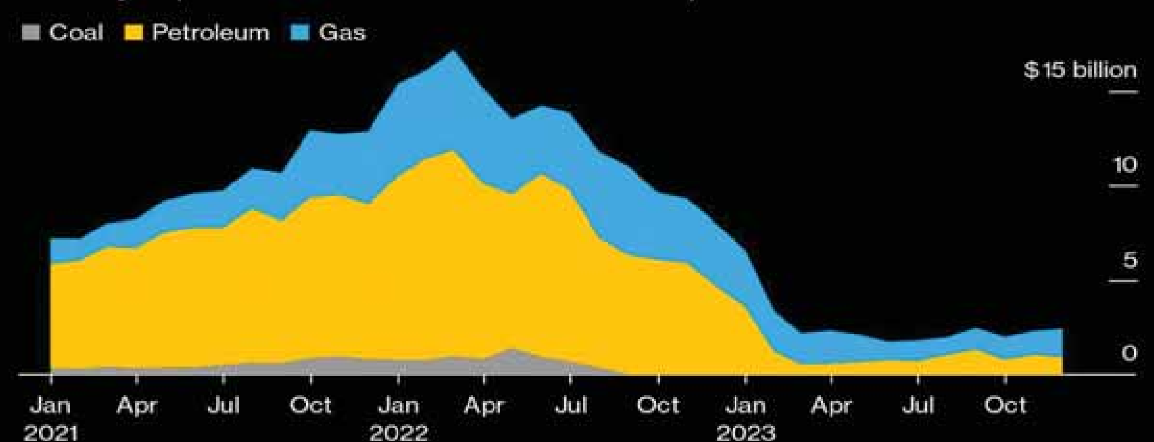
The 2022 crisis made European governments more determined to accelerate the adoption of cleaner energy. As a result, gas and coal power generation has fallen by a record amount, according to London-based energy research firm Ember.

In 2023, wind for the first time produced more power than gas. European gas demand was 20% below the pre-crisis average in the January-August period, according to UBS Group AG.

How is Europe coping with higher energy prices?

Energy prices surged in 2022, at times more than 20-fold compared to their historic norms. Some European factories were forced to shutter their operations or reduce output, and many small businesses closed.

Prices have fallen since then, but remain above their pre-crisis levels, making Europe’s most energy-hungry industries less competitive. While subdued demand abroad is now the main challenge for many German manufacturers, costly energy remains one reason why companies such as Volkswagen AG and BASF SE are struggling.



A ship backs into a terminal at Lubmin Port, opened in 2022 specifically for importing LNG, in Germany. Europeans are now paying more for their energy, and some of its more power-hungry industries are struggling to remain globally competitive.

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Rupee breaching 85 has traders watching for RBI's line in sand

Bloomberg
New Delhi

The rupee breaching 85 per dollar has traders speculating about the next line in the sand under the new central bank governor.
The currency is expected to weaken further after falling to a record low on Thursday as signals of fewer Federal Reserve interest-rate cuts boost the dollar. Nuvama Institutional Desk predicts the rupee will hit 86 against the greenback by March-end, while Kotak Securities Ltd sees it breaching that level.
While global factors weigh on the rupee, traders will be focusing on the central bank's foreign exchange market interventions as new Governor Sanjay Malhotra succeeds a monetary regime that had firmly curbed volatility in the currency.
"There's going to be continued intervention from the RBI to limit the volatile moves, but given the pressure mounting on peers, particularly the Chinese Yuan, the rupee may not see very tight ranges," said Sakshi Gupta, an economist with HDFC Bank Ltd, predicting the rupee in 85-86 per dollar bracket until March.
The rupee has seen a series of record lows as the country's trade deficit expanded more-than-expected in November to a record of $37.8 billion. Despite that, it fell the least among emerging Asia peers this year due to the RBI's firm grip.
While the RBI has not yet signalled a shift in its intervention strategy under the new chief, analysts say a decline in import cover may prompt the central bank to allow the rupee to weaken in line with peers.

The Reserve Bank of India logo is seen at the gate of its office in New Delhi. While global factors weigh on the rupee, traders will be focusing on the central bank's foreign exchange market interventions as new Governor Sanjay Malhotra succeeds a monetary regime that had firmly curbed volatility in the currency.

"Our sense is that now import cover is down to 10 months," Standard Chartered Bank economist Anubhuti Sahay said. "The tolerance for a stronger dollar at the RBI increases significantly once the import cover moves toward nine months," she said, predicting the rupee at 85.50 by the month-end.

BoJ keeps ultra-low rates, gives few clues on when it might hike

Reuters
Tokyo

The Bank of Japan kept interest rates unchanged on Thursday and its governor offered few clues on how soon it could push up borrowing costs, sending the yen and bond yields tumbling on fresh doubts over the near-term chances of a rate hike. As widely expected, the nine-member board maintained its short-term policy rate at 0.25% in a sign policymakers preferred to tread cautiously amid uncertainty over US president-elect Donald Trump's economic plans.
But hawkish board member Naoki Tamura dissented and proposed, unsuccessfully, to raise interest rates to 0.5% on the view that inflationary risks were building.
The BoJ's meeting concluded hours after the US Federal Reserve cut interest rates but signalled a more cautious path of easing next year, sending global stocks sharply lower.
BoJ Governor Kazuo Ueda reiterated the central bank's resolve to keep raising rates from their current very low levels if the economy and prices move in line with its forecasts.
Asked why the BoJ stood pat, Ueda told a news conference that the bank preferred to await data on whether wages would retain their upward momentum next year, and to gain more clarity on Trump's economic policies.
"Taken together, the likelihood of Japan's economy moving in line with our forecast is heightening. But we'd like one notch more information to believe we can raise interest rates. That includes the sustainability of wage increases," he said.
Investors widely interpreted his remarks as diminishing the chance of a rate hike at the BoJ's next meeting in January.
The dollar rose to 157.075 yen, up 1.4% on the day and its highest since July.
"There's a chance the BoJ might wait until March, given he stressed the need to scrutinise next year's wage negotiations," said Junki Iwahashi, senior economist at Sumitomo Mitsui Trust Bank.
Ueda said the BoJ would not necessarily need to wait for a particular event or piece of data to hike rates, although it could take its time as Japan's underlying inflation remained moderate. The rise in import prices, a key contributor to inflation that has been blamed in part on the weak yen, was slowing, he added. The yen has been languishing in recent months near its lowest in 30 years as Japanese interest rates lag other major economies. Market players have pointed to yen weakness as a key reason for the BoJ to hike rates or get more hawkish in its communications.
The BoJ holds it next policy meeting on January 23-24. The central bank's report on regional economies, due on January 9, will offer clues on whether wage hikes are broadening out and taking root among smaller firms.
BoJ Deputy Governor Ryozo Himino will deliver a speech and hold a news conference on Jan. 14, which may offer further hints on whether the bank will raise rates in January.
The next window for a move after January will come two months later, on March 18-19. The BoJ on Thursday also released its review of the pros and cons of monetary easing tools, including negative interest rates, deployed during its 25-year battle with deflation.
The review warned of various side effects from unconventional monetary easing measures, rendering them unsuitable as a substitute for traditional tools like interest rate cuts.
The BoJ ended negative interest rates in March and raised its short-term policy target to 0.25% in July. It has signalled a readiness to hike again if wages and prices move as projected. All respondents in a Reuters poll taken earlier this month expected the BoJ to raise rates to 0.50% by end-March, although they had been divided on whether the move would come in December, January or March.
Japan's economy expanded an annualised 1.2% in the three months to September, slowing from the previous quarter's 2.2% increase, with consumption up a feeble 0.7%.

BoE holds interest rate after inflation rise

The Bank of England on Thursday kept its key interest rate at 4.75%, deciding against a cut in line with the US Federal Reserve, as UK inflation rises again, reports AFP.
"We've held interest rates today following the two cuts since the summer," BoE governor Andrew Bailey said in a statement.
"We need to make sure we meet the two-percent inflation target on a sustained basis," he added following a regular policy meeting and after data this week showed UK annual inflation rising to 2.6%.
The expected rate decision came a day after the Fed cut US borrowing costs by a quarter-point but signalled fewer reductions for next year.
The European Central Bank cut eurozone rates last week while the Bank of Japan made no change in a decision announced Thursday.
Britain's Finance Minister Rachel Reeves said she supported the latest BoE call despite the pressure that it puts on Britons.
Had the BoE cut its rate, retail banks would likely have followed suit by reducing borrowing costs on mortgages.

Powell signals Fed's focus has returned firmly to inflation

Bloomberg
Washington

Federal Reserve officials capped 2024 with a third-straight interest-rate cut and a strong signal that inflation concerns are back in the fore.
Chair Jerome Powell put it plainly: The central bank's year-end inflation projection has "kind of fallen apart."
Officials now see it taking much longer for inflation to reach their 2% target, which they have missed for nearly four years. As a result, they dialled back expectations for rate cuts next year, and Powell made clear that any adjustments will hinge on further progress in cooling price increases.
The stronger focus on inflation is a significant shift in strategy from September when officials saw labour market softening as the greater risk. But recent data have reignited concerns about inflation stalling above the central bank's 2% goal — as have policy proposals from President-elect Donald Trump.
"As we think about further cuts we're going to be looking for progress on inflation," Powell said on Wednesday during a press conference. "We have been moving sideways on 12-month inflation."
The median policymaker now sees just a half-percentage point of reductions next year, half of what was expected in September.
Markets reacted swiftly and violently to the Fed's new projected path. US Treasury markets and stocks tumbled, while the US dollar rallied to the strongest level in more than two years.
Just a few months ago, Powell coaxed the committee to a bell-ringing half-point cut as their first move. With the quarter-point cuts in November and Wednesday, the Fed has reduced borrowing costs by a full percentage point over three meetings, the steepest series of reductions outside of a crisis since 2001.

Federal Reserve Chair Jerome Powell speaks during a press conference where he announced the Fed had cut interest rates by a quarter point following a two-day meeting of the Federal Open Market Committee on interest rate policy in Washington on December 18.

The latest move, which brought the federal funds rate down to a range of 4.25%-4.5%, was a closer call, Powell said. Cleveland Fed President Beth Hammack voted against the action, preferring to hold rates steady.
"From here on out it is going to be much harder to get rate cuts without much further improvement on inflation," said Conrad Dequadros, senior economic adviser at Brean Capital LLC. "I would imagine that the lack of consensus is probably greater than what the one dissent suggests."
Fifteen of 19 officials now see a higher risk inflation will exceed their expectations rather than undershoot them, a massive shift from the three who felt the same back in September. And 14 officials said they see higher uncertainty around their inflation forecast.
Many economists have said Trump's plans for tax cuts, mass deportations and fresh tariffs run the risk of stoking inflation. Powell said some people did start to incorporate the proposed policies into their forecasts at the December meeting.
"It's kind of common sense thinking that when the path is uncertain you go a little bit slower," Powell said. "It's not unlike driving on a foggy night or walking into a dark room full of furniture. You just slow down."
"Though Fed Chair Jerome Powell once said officials won't speculate on the policies of the incoming Trump administration, the sunnier growth and unemployment forecasts in the new Summary of Economic Projections (SEP) suggest most officials did assume the Tax Cuts and Jobs Act — set to expire next year — will be extended. Powell confirmed as much at his news conference." Says Anna Wong, Stuart Paul, Eliza Winger and Chris Collins of Bloomberg Economics.
Officials now see inflation at 2.5% at the end of next year, up from the September median of 2.1% and above where they see price growth settling at the end of this year. Policymakers don't expect to reach their 2% goal until 2027, the updated projections showed.
"The committee is definitely focused on the challenges of inflation for people," said Patricia Zobel, head of macroeconomic research at Guggenheim Investments and a former senior official at the New York Fed. "And they are committed to the mandate of getting it back down."

Companies that spent billions on M&A are now selling for peanuts

Bloomberg
New York/London

Companies that spent billions on poorly timed acquisitions in recent years are now offloading those assets at knockdown prices.
Alibaba Group Holding Ltd announced on Tuesday it's going to sell Chinese department-store chain Intime to a local apparel group for $1bn. The price is around 30% of the company's valuation when Alibaba bought it during the heady days of 2017. The Internet giant, which has largely abandoned its acquisitive ways amid government pressure, said it will book a $1.3bn loss on the transaction.
The deal came a day after BlackBerry Ltd said it would divest its Cylance endpoint security unit to software startup Arctic Wolf for $160mn plus a small amount of stock. That's a far cry from the $1.4bn BlackBerry paid when it agreed to buy the business in 2018. Under BlackBerry's ownership, Cylance reported substantial losses and its revenue fell over 50%, according to Royal Bank of Canada analysts.
The moves show how companies that were major acquirers during the boom times may sober up and regret those purchases only a few years later. Just last month, Just Eat Takeaway.com NV agreed to sell US food delivery service Grubhub for $650mn, a roughly 90% discount to the price it paid to buy the business at the height of the Covid pandemic.
Overpayment was the inevitable byproduct of an era when competition for assets was fierce, according to Oliver Scharping, a portfolio manager at Berenberg. "Years of zero interest rates and pandemic-fuelled deal hysteria sent valuations soaring in hype sectors, often detached from fundamentals," Scharping said. "Now, as the zeitgeist demands a sober look in the mirror, companies are trimming excess, dumping underperformers, and opting for brutal honesty over sunk-cost fantasy — even if it means a multibillion-dollar haircut."
Valeriya Vitkova, a senior lecturer at City University of London's Bayes Business School, said that companies didn't properly assess synergies and the expected benefits of some deals were overestimated.
Now may be a good time to find buyers for these assets as the M&A market has become active again, Vitkova said. Overall M&A volumes have risen 16% this year to $3.2tn, according to data compiled by Bloomberg, and bankers expect the pace to pick up next year.
These divestments allow the companies to focus on shoring up their main operations at a pivotal time. Alibaba has been working to reignite growth in its Chinese e-commerce division, where it faces fierce competition from PDD Holdings Inc and ByteDance Ltd.
Meanwhile, BlackBerry Chief Executive Officer John Giamatteo is trying to turn around the company by devoting more attention to its Internet of Things business as well as its secure communications platforms.
A representative for Just Eat Takeaway said the market has changed since it bought Grubhub, with competition increasing and sector valuations falling. The sale to Wonder Group Inc represents the "most attractive outcome" and "reflects the current trajectory of the business," the representative said. Alibaba didn't immediately respond to queries.
A spokesperson for BlackBerry said it's "incredibly pleased" with the outcome for Cylance, which will help profitability and let it focus on the growth engines in its portfolio. Investors seem happy too, with BlackBerry shares jumping 15% the day the deal was announced, the biggest gain since August 2023.
Companies will continue to pursue divestments of acquisitions that didn't work out, as markets are rewarding focus and punishing bloated firms, Berenberg's Scharping said. That could provide good opportunities for cash-rich corporate buyers looking for bargains, as well as private equity firms that Bloomberg-compiled data show are sitting on $1.6tn of dry powder.