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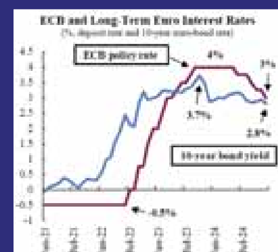

QNB COMMENTARY : Page 8

Euro area economy sets the stage for deeper ECB rate cuts

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Ministry of Finance hosts Qatar-France Strategic Joint Economic and Financial Dialogue Subcommittee meeting

The Ministry of Finance hosted the Qatar-France Strategic Joint Economic and Financial Dialogue Subcommittee meeting in Doha. The meeting was chaired by Dr Saud Abdullah al-Attiyah, Deputy Undersecretary for Economic Affairs at the Ministry of Finance along with Magali Cesana, Head of the Bilateral Affairs and International Business Development Department, at France's Ministry for Economy, Finance and Industry. The meeting addressed bilateral relations, particularly in the areas of finance and economy, as well as joint Qatar-French initiatives to provide financial aid to developing countries.

Discussions also focused on investment opportunities in strategic sectors, food security, public-private sector partnerships frameworks and collaborative ventures within the digital sector.

The meeting was chaired by Dr Saud Abdullah al-Attiyah, Deputy Undersecretary for Economic Affairs at the Ministry of Finance, and Magali Cesana, Head of the Bilateral Affairs and International Business Development Department, at France's Ministry for Economy, Finance and Industry.

QCB launches 1st phase of its Primary Dealer framework in collaboration with Bloomberg

QNA
Doha

The Qatar Central Bank (QCB) has launched the first phase of its Primary Dealer framework in collaboration with Bloomberg, marking a key milestone in the development of Qatar's capital markets.

Aligned with the QCB's Third Financial Sector Strategy, the initiative is set to modernise the market infrastructure, enhancing efficiency, transparency, and participation in Qatar's financial markets. This effort is a key component of Qatar National Vision 2030, aimed at diversifying the economy and increasing its attractiveness for foreign direct investment.

The QCB has adopted Bloomberg's Auction System to streamline its local currency debt issuance and liquidity management workflows. Integrated with the Bloomberg Terminal, this system supports the development of the QCB's debt issuance process, marking a significant milestone with the successful conclusion of its first auction on Dec 26, 2024.

In addition to the Auction System, the QCB has also implemented Bloomberg AIM, a leading order and investment management solution that delivers multi-asset solutions and provides comprehensive front-to-back workflows. This integration enhances the QCB's ability to manage the entire trade lifecycle with advanced analytics to optimise fiscal strategy and improve operational oversight.

Aligned with the QCB's Third Financial Sector Strategy, the initiative is set to modernise the market infrastructure, enhancing efficiency, transparency, and participation in Qatar's financial markets

Assistant Governor of Financial Market Instruments and Payment Systems at the QCB, Sheikh Ahmed bin Khalid al-Thani, emphasised the strategic importance of this initiative, highlighting that the QCB is committed to enhancing Qatar's market infrastructure to increase its attractiveness to investors.

He stated that the Primary Dealer framework supports the issuance and distribution of government bonds, including Islamic sukuk, and is a crucial part of the broader strategic plan, emphasising that this development is a testament to the QCB's dedication to creating a modern and transparent financial market, reinforcing Qatar's position as a leading financial hub in the region.

This first phase of the Primary Dealer framework rollout ensures a structured and effective approach to enhancing market infrastructure and boosting investor participation and confidence, he said.

Bloomberg's Global Head of Electronic Trading Solutions, Nicholas Bean, underlined the importance of collaboration with the QCB, highlighting that the adoption of Bloomberg's solutions will enable the QCB to enhance its operations, improve transparency, and strengthen connectivity with the global financial community, further contributing to the growth of Qatar's financial market.

The QCB's phased implementation of the Primary Dealer framework represents a key initiative to strengthen Qatar's financial infrastructure. The first phase focuses on integrating the Bloomberg Auction System to enhance the local currency debt issuance process and workflows. Future phases will focus on enabling cross-border access, scalability, and deepening liquidity in secondary markets.

Qatar real GDP growth to scale up to 5.5% in 2026, says World Bank

By Pratap John
Business Editor

Qatar's real GDP growth will scale up to 5.5% in 2026, the World Bank said in its revised forecast.

This year, the World Bank forecasts Qatar's real GDP to grow 2.7%, from an estimated 2% in 2024.

In 2022, Qatar economy grew at 4.2% and 1.2% in 2023, the World Bank noted in its latest report on 'Global economic prospects'.

Last month at a media event in Doha, HE the Minister of Finance Ali bin Ahmed al-Kuwari said Qatar's GDP growth was expected to average 4.1% between 2025 and 2029.

The medium-term outlook is bolstered mainly by the huge expansion of Qatar's LNG production at the North Field, al-Kuwari said.

Next year, Qatar's economy is expected to grow at 2.4%, al-Kuwari said. The GDP growth expected in 2026 is 5.2% and 7.9% in 2027, 3.5% in 2028 and 1.6% in 2029.

Meanwhile, the World Bank said growth in GCC countries is forecast to increase to 3.3% in 2025 and 4.6% in 2026.

Compared to the June (2024) forecasts, the projection for 2025 has been downgraded by 1.4 percentage points because of the extension of the voluntary production cuts by Opec+.

In Saudi Arabia, growth is projected to strengthen, driven by robust activity in the non-oil sector — especially in services — as well as higher oil production and exports.

According to the World Bank, fiscal policies in the region are expected to have a "neutral influence" on growth in 2025, with region-wide fiscal deficits remaining broadly stable, though there are variations among countries.

Among oil exporters, expected declines in fiscal surpluses in GCC countries will be offset by smaller fiscal deficits in other countries.

In GCC countries, despite projected declines in oil revenues, fiscal policies will likely support activity, particularly in Kuwait.

"Monetary easing in GCC countries is anticipated to continue in tandem with projected monetary policy easing in the United States and favourable financial conditions, supporting activity over the forecast horizon," the World Bank said.

In oil importers, central banks are projected to start easing monetary policy in 2025 as inflationary pressures recede.

In much of the region, monetary policy easing will boost investment, the World Bank noted.

Per capita income growth in the region is forecast to rise to 2% in 2025 and 2.7% in 2026, well above the pre-pandemic decade average at 1.2%. In oil importers, the 2.5% average increase in per capita income growth in 2025-26 will reflect gradual progress toward narrowing the income gap with advanced economies.

However, in these countries, poverty is projected to remain elevated, partly reflecting higher inflation, especially for food.

Heightened food price inflation will also exacerbate food insecurity, particularly in economies in the fragile and conflict-affected states (FCS).

Risks to the outlook for the region are tilted to the downside, the World Bank said. An escalation of armed conflicts in the region and heightened policy uncertainty, particularly unexpected global policy shifts, are major downside risks.

In oil exporters, lower global demand for oil and lower oil prices could further delay the end of the Opec+ oil production cuts, reducing region-wide growth prospects.

In oil importers, a further increase in protectionist measures by trading partners could reduce exports, while more persistent global inflation and tighter than-expected monetary policy could adversely affect the cost and availability of foreign financing.

Other downside risks to growth forecasts include surges in social unrest and more frequent extreme weather events and other natural disasters. On the upside, easier-than-expected global monetary policy amid faster-than-projected global disinflation could lead to an easing of financing conditions.

Stronger-than-expected growth in the world's major economies is another upside risk, which would benefit activity in the region through higher global demand, the World Bank said.

Dukhan Bank posts 3% growth in 2024 profit to QR1.34bn

Dukhan Bank has reported a net profit of QR1.34bn in 2024, representing a 3% growth compared to the previous year.

Dukhan Bank chairman Sheikh Mohammed bin Hamad bin Jassim al-Thani said: "Over the past year, we have ascended to unprecedented milestones, demonstrating the strength and adaptability of our business models. Despite external challenges, we have upheld institutional stability, further solidifying our position as a cornerstone of progress and innovation.

"We continue our journey with a renewed focus on expanding our digital capabilities and services, investing in cutting-edge technology to enhance the customer experience and simplify banking services, making them accessible anytime, anywhere. At the same time, we remain steadfast in advancing our commitment to sustainability with consistent and deliberate steps forward."

He added: "As we look to the future with confidence and ambition, we reaffirm our commitment to building on our strengths, relentlessly pursuing new growth opportunities, fostering innovation, and delivering greater value to our stakeholders. At the same time, we aim to expand our market share while achieving responsible and sustainable growth that aligns with the needs of society and the environment."

Growth in bottom-line profitability was underpinned by an 11% increase in net income from financing activities and a 14% rise in net income from investing activities, resulting in an overall increase in total income for the group, which grew by 12%. Growth in net income from financing activities reflected positive momentum in overall volumes coupled with better yields.

The group's total assets remained at QR117.9bn. Total assets primarily comprise financing assets of QR86.2bn (73% of total assets) and investment securities of QR19.9bn (17% of total assets).

During 2024, the bank successfully expanded its financing assets, achieving an impressive 11% growth compared to the last year, bringing the total financing book to QR86.2bn. This underscores the bank's strategic intent to increase its market share, while ensuring efficient and balanced resource allocation.

Building on this strong performance, non-performing loan (NPL) ratio improved, decreasing to 4.6% as of December 2024 (5.4% in December 2023). This improvement is largely attributed to the bank's effective recovery management strategies, reflecting the high quality of its loan portfolio and robust credit risk management practices. Additionally, the Stage 3 coverage ratio improved to 73.1% (December 2023: 69.9%), reflecting the group's prudent approach towards managing non-performing loans.

The balance sheet is mainly funded by customer deposits, which stood at QR86.4bn at the end of the financial period. Additionally, the bank successfully issued an $800mn, five-year senior unsecured Sukuk - the largest issue size achieved by a Qatari Islamic bank since 2020. The success of this transaction is reflective of the strength of the Qatari economy and Dukhan Bank's strong credit fundamentals.

The group's liquidity remained robust, with regulatory loans-to-deposits ratio of 98.6%.

Total shareholders' equity amounted to QR13.0bn. The capital adequacy ratio (CAR) was maintained at 17.3% in accordance with Basel III requirements, adequately above the minimum supervisory ratio specified by the Qatar Central Bank.

After reviewing the current year's financial performance, with an assessment of the present and anticipated liquidity position, and considering the prevailing and future macroeconomic conditions along with the business outlook, the board of directors has proposed an additional cash dividend distribution of 8% of the nominal share value (equivalent to QR0.08 per share), subject to the approval of Qatar Central Bank and shareholders at the Annual General Assembly meeting.

Sheikh Mohammed bin Hamad bin Jassim al-Thani, Dukhan Bank Chairman.

The proposed dividend combined with the interim dividend takes the total dividend distribution for the financial year 2024 to 16% of nominal share value (equivalent to QR0.16 per share).

Shippers cautious on return to Red Sea despite Gaza truce

Bloomberg
London

Shipping companies expressed caution about any quick return to the Red Sea route, after the Yemen-based Houthis signalled a pause in their attacks on commercial vessels.

Container giant A.P. Moller-Maersk A/S and oil tanker owner Hafnia Ltd both said they are still monitoring the situation. Maritime risk firm Ambrey said Houthi actions will continue while Israeli military forces operate within the Gaza Strip.

The targeting of vessels by the Iran-backed group has led to re-routing around South Africa that adds thousands of miles to journeys, increasing costs and carbon emissions. Any mass resumption of transits through the Red Sea — which never totally stopped — would be significant for both shippers and commodity markets.

On Thursday, Houthi leader Abdulmalik al-Houthi said the group would follow a ceasefire deal between Israel and Hamas, suggesting a halt in its campaign. Ambrey estimates that phase two of the ceasefire — more than a month away — likely offers grounds for the Houthis to officially end attacks against Israeli, US and the UK's merchant fleets.

"We might see some ships resume Red Sea transits in the coming weeks," said Jakob Larsen, chief safety & security officer at shipping trade group BIMCO. "But it will require fairly strong indications of ceasefire stability before shipping in general resumes transits to pre-conflict levels. The container lines will probably take a little longer."

Maersk said it will return to the Red Sea and sailing through the notorious Bab el Mandeb strait when it's safe, adding it was still too early to speculate about timing.

"This remains a deeply complex and volatile region where the idea of threat levels to vessels and their crews substantially subsiding in the near-term is unrealistic," said Munro Anderson, head of operations at marine war risk and insurance specialist Vessel Protect.

"For there to be any tangible impact on marine risk rates we would need first to see an independent declaration by the Houthis that they were ceasing all operations against commercial shipping within the Red Sea and Gulf of Aden," he added.

Houthi attacks on merchant ships have included the seizing of the Galaxy Leader and hitting an oil tanker with a missile and causing a large fire.

"We will only consider resuming operations through the Red Sea when deemed safe and secure," by trusted authorities, Hafnia said in an emailed statement. In a statement on Friday, Marseilles, France-based CMA CGM Group said it's "closely monitoring the ongoing developments in the region and hopes for a return to stability and safety for all," adding that the priority for the world's third-biggest container carrier is the safety of its crews, ships and cargo.

Much of the world's container fleet has been sailing regularly around the Cape of Good Hope for the past year, adding 10 days or more to journeys to Europe from Asia — roundtrip voyages that can take two months.

It's unlikely major carriers would abruptly change course and head through the Suez Canal within weeks of a Gaza ceasefire. Doing so without assurances that the peace will be lasting would cause congestion at ports and renewed routing havoc if the Houthi attacks resumed.

"Carriers will want to be assured there is an outlook for long-term safe passage before returning to the Red Sea to avoid further massive disruption if the situation deteriorates and they are forced to divert around Cape of Good Hope once again," said Emily Stausboll, a senior shipping analyst at Xeneta, a digital freight platform based in Oslo.

Some industry observers have said it could take three to six months for the container shipping lines to fully return to normal once it's safe to pass by the western coast of Yemen again.

People walk on the beach as a container ship crosses the Gulf of Suez towards the Red Sea before entering the Suez Canal, in El Ain El Sokhna in Suez, east of Cairo (file). Shipping companies expressed caution about any quick return to the Red Sea route, after the Yemen-based Houthis signalled a pause in their attacks on commercial vessels.

Kuwaiti developers seek to tap property boom in Sharjah

Bloomberg
Dubai

Two Kuwaiti developers have announced plans for a 3.5bn dirham ($953mn) housing project in Sharjah — Dubai's neighbour to the north — that's seeing a boom in its property market.

IFA Hotels & Resorts Co and Kuwait Real Estate Co have partnered to develop 1,100 homes on 6mn square feet of land near Sharjah's border with Dubai.

The Al Tay Hills project will feature townhouses, semi-attached villas and standalone villas ranging from 3 to 6 bedrooms. Homes will be sold for between 1.8mn dirhams to 7.3mn dirhams, executives said in an interview.

Sharjah is beginning to lure investors to its shores two years after passing a law that allowed foreigners to buy property in select areas of the emirate. Already, developers are in the process of constructing tens of thousands of homes and buyers are flocking to the emirate where prices remain considerably lower than in Dubai which has seen values surge more than 50% since 2020.

Located around 40kilometers (25 miles) from Downtown Dubai, the Al Tay Hills development will be centred around a man-made river. Amenities will include restaurants, cafes, retail outlets, swimming pools as well as walking and cycling tracks.

The initial phase, comprising of 375 homes, is expected to be completed in the first quarter of 2028. Buyers can pay 30% of the value during construction and the remaining 70% upon completion, when mortgages will be available.

IFA Hotels & Resorts is the developer behind several mixed-use developments on Dubai's man-made Palm Jumeirah island including the Golden Mile and the Fairmont Hotel and Residences. Kuwait Real Estate — one of the oldest developers in the Gulf region — owns an 8.26% stake in IFA, according to its website.

The partners have been biding their time to start the project.

"We bought the land over 15 years ago but the registration and licensing aspects in Sharjah were not yet conducive for developers," IFA's Chairman Khaled Esbaitah said in an interview.

Sharjah has long offered more affordable housing compared to Dubai, but much of its supply consists of old towers with few of the facilities typically offered by its glitzy neighbour.

That's starting to change. Arada Developments, owned by the son of Saudi Arabian Prince Alwaleed bin Talal, is building a $9.5bn project. Others including Abu Dhabi's Eagle Hills and Sharjah's Alef Group are now developing projects in the city.

The Kuwaiti developers are no strangers to ups and downs of the United Arab Emirates' property market. For years, IFA was locked in a legal dispute with Dubai's state-owned Nakheel PJSC in the aftermath of the 2008 global credit crisis which shaved more than 60% off Dubai's home prices.

"At that time, Nakheel went through a tough time and everyone associated with Nakheel went through the same tough time," said Talal al-Bahar, vice-chairman and chief executive officer of Kuwait Real Estate. "Fortunately and unfortunately, our eggs were in one basket and it was only on the Palm Jumeirah. It affected us, but we weathered that crisis."

Al-Bahar said property demand in Dubai is very strong despite the cyclical nature of the real estate market. He said profit margins in Sharjah are "very attractive", declining to be more specific.

"There is always a buyer in the low time and the high time in Dubai," he said. "I'm a big believer in Dubai real estate and Sharjah is the closest to it."

Lusail

TENDER ADVERTISEMENT

Tender No.: 44000090

Tender Title:
General Cleaning Services for Lusail City

Brief Description of Works:
The Scope of Service under this Tender/Contract shall cover the Citywide cleaning which includes mainly roads, pavement, beaches and streets by utilizing manpower and various equipment such as road and pavement sweepers, street vacuum cleaners etc.

Tender Bond Value:
QAR 2,000,000 (valid for 150 days from Tender Closing Date) in the form of a Bank Guarantee (Cash Payment or Cheque not acceptable)

Bid Closing Date:
18 February 2025 not later than 12:00 hours local Doha time

Tender Collection Location:
Lusail Building, Site Offices, Documents Control Office

Tender Collection Date & Time:
From 19 January 2025 between 08.30 a.m. to 12.30 p.m. (Except Friday & Saturday)

Tender Fee:
A payment of non-refundable tender fee in the amount of Ten Thousand Qatari Riyals (QAR 10,000) to be deposited/TT into Qatari Diar Real Estate Investment Co., Bank Account No. 0013-002643-046 (IBAN-QA55 QNBA 0000 0000 0013 0026 4304 6) with QNB. Email a copy of the deposit/TT slip to Finance at arqd@qataridiar.com mentioning the tender no., Company's name & attach a copy of CR. Finance dept. shall then email back the receipt to be presented for collection of tender documents.

Required documents in order to collect the Tender Documents are as follows:
- Copy of the Company Incorporation/Commercial Registration (if represented in Qatar).
- Company Authorization letter and ID of the person who will collect the tender document.
- Presentation of the receipt of the tender fee submitted to the Finance Department of Qatari Diar in Lusail Site Office.
- Completed Confidentially Agreement which shall be collected from the above-mentioned office or requested by email (procurementlocal@qataridiar.com)
- Tenderers shall provide a letter endorsed by a first-class bank in Qatar agreeing to furnish a Performance Bank Guarantee in amount of ten (10%) percent of the Initial Contract Price, if awarded the contract.

Minimum requirements to be eligible for obtaining the Tender Documents
1) Minimum 5 years of relevant experience and expertise in providing similar Services within Qatar or the GCC.
2) The company shall have a valid Commercial Registration in Qatar and annual turnover should be minimum of QAR 15,000,000 for each of last three year

For further queries please communicate in writing to procurementlocal@qataridiar.com

Bloomberg QuickTake Q&A

How US presidents wield power with executive orders

By Hadriana Lowenkron

Upon taking his second oath of office as US president, Donald Trump is expected to make swift and extensive use of the unilateral powers he will wield. Trump is planning to sign a series of executive actions in his first days in office that would, among other things, set up the mechanics to carry out mass deportations, put a hiring freeze on the federal workforce, and authorise new drilling on federal lands, according to people familiar with the efforts. Many of his anticipated executive actions would overturn actions by his predecessor, Joe Biden. Executive actions can instantly change the course of American governance without any involvement from lawmakers in Congress. Some critics worry they can be overused, even abused, by the inhabitant of the White House.

What's an executive action?

It's a signed directive from the president. The most formal and best known are executive orders, which are legally binding mandates to executive branch agencies that instruct them in how to implement existing federal law. Orders are numbered sequentially and printed in the Federal Register. Presidents can also issue memoranda, which are similar to orders but do not need to be submitted to the Federal Register, and proclamations, which typically address ceremonial matters (like federal observances) and, unlike orders and memoranda, don't typically carry the force of law.

While the US Constitution does not explicitly mention executive orders and other actions, legal consensus holds that presidents are vested with the power to issue orders in policy areas they hold authority over, such as the day-to-day administration of the government. An executive order can't be used to give the presidency new power.

Can the other branches of government limit executive actions?

Yes. While Congress can't overrule executive actions properly rooted in the president's constitutional authority, it can undermine them by passing legislation that makes carrying out the order impossible, such as denying funding to a program or office the president creates. For example, when then-President Barack Obama issued an executive order to close the American military detention facility at Cuba's Guantanamo Bay, Congress voted to block funding for the transfer of detainees to the US, effectively scuttling the plan. Additionally, an executive order can be declared illegal by the courts if a party affected by the order challenges it and the court rules in the complainant's favour.

What are the criticisms of governing via executive action?

Executive orders are meant to be administrative instructions to the executive branch agencies, not legislation-by-other-means when resistance in Congress is too great to pass a bill. But critics argue that presidents often use them to create sweeping policy without Congress's involvement. For example, Trump used executive authority to issue a ban on entry to the US for citizens of several Muslim-majority countries in 2017, and Biden used it to protect access to reproductive health services in 2022 after the Supreme Court overturned Roe v. Wade, eliminating the constitutional right to abortion.

Executive actions can instantly change the course of American governance without any involvement from lawmakers in Congress

Executive orders are often criticised, too, for being easily revoked. Days into Biden's term, *The New York Times* editorial board urged him to slow down on executive actions and instead work with Congress. "Executive actions are far more ephemeral and easily discarded than legislation, which can set up a whipsaw effect, as each president scrambles to undo the work of his predecessor," they wrote.

The so-called Mexico City Policy, which forbids international nonprofit organizations that receive federal money from providing abortion services, is perhaps the clearest example of a US policy that flip-flops depending on who occupies the White House. Enacted in 1984 by Republican President Ronald Reagan, the policy was rescinded by Democrat Bill Clinton when he took office in 1993, reinstated by Republican George W. Bush in 2001, rescinded by Obama in 2009, reinstated (and expanded) by Trump in his first days as president in 2017, and rescinded again by Biden.

Did Trump, in his first term, use executive actions more or less than other presidents have?

According to the American Presidency Project at the University of California-Santa Barbara, during his first term, Trump issued a total of 220 executive orders (not including memoranda or proclamations), or an average of 55 a year.

By comparison, Biden has issued 159 in office, or 38 per year, and Obama, Bush, and Clinton averaged 35, 36, and 46 per year respectively. In fact, Trump's per year average was the highest since Jimmy Carter, though far from the highest in history: The champion of executive action was Franklin D Roosevelt, who issued 3,721, or an average of 307 per year.

BUSINESS

US small caps lose Trump bump as rising interest rates sap strength

Reuters
New York

As investors seek assets that will shine under a Donald Trump presidency, one corner of the US stock market expected to benefit from the Republican's policies has been stumbling.

Shares of smaller US companies have been under pressure, with the small-cap Russell 2000 last week marking a 10% correction from its November highs. The S&P 500, the benchmark for large-cap companies, declined less than 3% in that time.

Trump, who will be inaugurated for his second term on Monday, is expected to back an agenda promoting domestic economic growth, increasing the appeal of small-cap stocks.

But the group encountered a severe headwind in recent weeks: the prospect of higher interest rates than previously expected, which stand to raise borrowing costs that hit smaller companies particularly hard.

"With more pro-growth policies, small caps tend to do better in theory when the economy is stronger," said Keith Lerner, co-chief investment officer at Truist Advisory Services.

"You almost have this tug of war," Lerner said. "On one side, stronger growth should be good for small caps. On the other side, higher interest rates are negative." Small caps and equities broadly won some relief this week from an encouraging inflation report that calmed surging Treasury yields.

The focus on small caps comes as investors look for "Trump trades" that have room to run. The overall stock market has given up some gains since Trump's Nov 5 victory, when investors were enthused about his pro-growth agenda benefiting equities broadly. The S&P 500 is up 3% since the election.

Some Trump trades continue to thrive. Shares of Tesla, led by Trump backer Elon Musk, have gained over 60% since November 5. Bitcoin, which is expected to benefit from a friendlier crypto regulatory environment, is up over 40%.

Small caps, however, have pulled back. The Russell 2000 index surged nearly 6% on the day after Trump's win. Later in November, it hit its highest closing level in three years. Now the index is little changed since the election. An expectation of fewer interest rate cuts this year has dampened sentiment for small caps, with the Federal Reserve in December projecting less easing as it raised its estimate for inflation in 2025.

Treasury yields have surged. This week, the benchmark 10-year yield hit a 14-month high.

Smaller companies "tend to have greater debt loads…so not getting the follow-through with lower interest rates is something that sort of poured a bit of cold water" on hopes for small-cap strength, said Yung-Yu Ma, chief investment officer at BMO Wealth Management.

The Russell 2000 surged following Trump's 2016 election and the index kept outperforming the S&P 500 in the year following his first victory, rising 24% against a 21% for the large-cap index.

Under Trump, the prospect of reduced regulations and promotion of domestic business should benefit smaller companies, whose businesses tend to be more US-focused than larger, multi-national corporations, said Sameer Samana, senior global market strategist at Wells Fargo Investment Institute.

But while the group's outlook improves under Trump compared to his predecessor Joe Biden, the incoming president's favouring of tariffs could cause problems for smaller companies if they disrupt supply chains, Samana said.

Traders work on the floor of the New York Stock Exchange. As investors seek assets that will shine under a Donald Trump presidency, one corner of the US stock market expected to benefit from the Republican's policies has been stumbling.

UK traders see bonds' best run since 2023 offset by pound pain

Bloomberg
London

The UK's borrowing costs are heading for their biggest three-day drop in more than a year, but traders see little relief ahead for the pound amid lingering concerns about the government's finances.

The country's 10-year yields have slid over 25 basis points since Wednesday, following a combination of weaker retail sales and slowing inflation figures that signal a faltering economy. That's led traders to revive bets on the Bank of England (BoE) slashing rates this year to bolster growth, boosting the bonds but hurting the pound — which a survey showed is the most vulnerable UK asset to further losses.

The drop in borrowing costs — from the highest levels seen since 2008 — is welcome news for Chancellor Rachel Reeves after a week that has seen calls for her resignation and accusations that her budget hurt Britain's economy. But weakening growth forecasts suggest a hole in the finances remains, keeping the pressure on UK assets.

"For bonds, our view is that the bearish trend will prove to be persistent: The challenging fundamental backdrop has scarcely changed," said Laurence Mutkin, director of EMEA rates strategy at BMO Capital Markets.

This month's spike in UK borrowing costs to multi-decade highs fuelled worries Reeves would need to hike taxes again or cut spending to meet her fiscal rules, which would damage her economic agenda. Investors are still worried that inflation will keep yields high.

"The rally in gilts certainly has given the fiscal hawks some breathing room," said Pooja Kumra, senior UK and European rates strategist at Toronto-Dominion Bank. Demand at next week's syndication of 2040 gilts will be scrutinised to see whether investors are willing to return to longer-dated bonds, she added.

Traders will also be watching the UK's jobs and services industry data next week to gauge the outlook for policy. UK retail sales data Friday posted a surprise fall, the latest in a run of soft indicators that have triggered the recovery in gilts. The 10-year yield has fallen to 4.62%, after hitting 4.92% last week.

"The figures come after the downward surprises in CPI and activity data this week and should help to favour a more dovish BoE," said Roberto Cobo Garcia, head of G10 FX strategy at BBVA. "Sterling will continue trading on the back foot" ahead of the central bank's next meeting on February 6, he said.

With money markets now betting on three BoE rate cuts this year — up from less than two a week ago — the pound has continued to fall as more easing would erode its yield appeal. Sterling traded near $1.22 on Friday, having turned into the worst-performing major currency this year.

The pound slide may not be over yet. The options market is showing sizeable demand for contracts that pay out below $1.20, and some traders are even betting on a drop below $1.12.

Wall Street's hedging craze gets second wind after 2024 misfire

Bloomberg
New York

In the euphoric markets of 2024, the biggest mistake was scepticism. A white-hot runup in risky assets made life miserable for anyone buying into the frenzy of fresh products that Wall Street was hawking to hedge and diversify.

Three weeks into this year's market whiplash, it's starting to look like the sales pitch was simply too early. Big, lockstep moves have become the norm on the eve of Donald Trump's inauguration. The latest example: This week's stock-bond rally comes right after an equally large swoon just last week, marking the biggest reversal of its kind in 18 months.

Fueling the choppy market moves is febrile sentiment in the bond market, with the asset class jumping on economic data surprises to a largely unprecedented degree, according to TD Securities. Chalk it up to the lingering fear of inflation just as the incoming commander-in-chief's policy agenda threatens to complicate the fiscal and trade outlook. A notable antidote to the cross-asset churn has been a broad palette of securities marketed to investors for their defensive qualities.

A cohort of exchange-traded funds tracking the likes of real estate and commodities, for example, are up more than 6% so far this year, trend-following vehicles are powering ahead of US stocks, and derivatives-powered products are getting billions in inflows.

"We will likely see an increase in investors requiring portfolio hedges in 2025," said Paisley Nardini, asset allocation strategist at Simplify Asset Management.

The reasons are "heightened interest rate volatility and geopolitical risks that may be exasperated with the incoming US protectionist administration."

Hopes that the buy-and-hold mantra that followed Trump's election will reassert itself got a boost over the last five days when the S&P 500 soared 3% and an ETF tracking long-dated Treasuries jumped 2%, the best showing in six weeks. But the concerted gains followed five straight weeks of losses for the combination, the worst streak since September 2023. Unified moves like those are turning diversification trades that proved too fancy last year into what seem like reasonable alternatives, for now.

Among them are funds that assemble a hodgepodge of away-from-the-mainstream assets like gold, natural resources and real estate — strategies designed to benefit should inflation in goods or services accelerate.

The AXS Astoria Real Assets ETF (PPI) is up more than 6% and the VanEck Real Assets ETF (RAAX) has gained about 5% year to date, for example. Elsewhere, the Simplify Managed Futures Strategy ETF (CTA) — a trend-following ETF buying the likes of bonds and commodities on the way up and selling them on the way down — has added roughly 3% this year.

The fund has doubled its assets in the past four months. Derivatives-based funds, many of which promise shelter when times get tough, are continuing to lure investors. This breed of complex ETFs took in $10bn in the past three months alone, according to Bloomberg data. So-called covered call and buffer ETFs — favoured for their defensive tilt — have taken the bulk of the inflows. More straightforward hedges are doing well. A slew of investing styles that aim to hold up in a rising-rates environment, including the Simplify Interest Rate Hedge ETF (PFIX), have also been outperforming stocks.

"We are no closer to resolving many of the issues challenging the bond market that resulted in one of the weakest end-of-year results in several decades," said Marvin Loh, senior macro strategist at State Street Global Markets. "Investors have chosen to shun the asset class until it can get a handle on fiscal and inflation concerns, keeping bond asset allocations below historical averages, behaviour that is unlikely to change given these nagging, but important questions."

Economic data and announcements about the policies of the incoming administration have been putting more pressure on macro-focused investors. Last Friday, hotter-than-expected jobs data sent stocks and bonds tumbling in unison — only for a slowdown in inflation to send markets to their best concerted cross-asset advance since at least late 2023.

"Investors need to be ready for higher volatility both in data and markets because we are likely to see sizeable policy changes that alter the rules of the game," said Rich Kelly, head of global strategy at TD Securities.

Donald Trump is set to take his oath as the next US president on Monday.

While this means that policy announcements may have more power to roil markets, traders have been focused on the potential of the new administration to boost the already strong economy through tax-friendly policies and rolling back regulations for favoured industries.

To John Davi, founder of Astoria Advisors and portfolio manager for PPI, the growing demand for alternatives is not necessarily a sign of investor worry pure and simple. Instead, it could be a bet that the economy is stronger than anticipated, allowing investors to ease away from concentrated stock bets.

"It's the calendar-year turn. People are like, OK, growth is expensive, Mag 7 stocks had a tremendous year," Davi said in an interview. "But if you're constructive on the markets, it makes sense to look elsewhere."

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The Qatar Stock Exchange (QSE) Index moved up by 30.16 points or 0.29% during the week to close at 10,471.69. Market capitalisation was marginally lower by 0.1% to QR613.1bn from QR613.8bn at the end of the previous trading week. Of the 52 traded companies, 17 ended the week up, 32 ended down and 3 remained unchanged. Nakilat (QGTS) was the best performing stock for the week, gaining 5.3%. Meanwhile, Qatar General Insurance & Reinsurance Company (QGRI) was the worst performing stock for the week, losing 5.7%.

Nakilat (QGTS), Commercialbank (CBQK) and Ooredoo (ORDS) were the main contributors to the weekly index rise. QGTS and CBQK added 30.05 and 9.17 points to the index, respectively. Further, ORDS put on another 6.66 points.

Traded value during the week increased 2.4% to reach QR1,890.8mn, from QR1,845.9mn in the prior trading week. QNB Group (QNBK) was the top value traded stock during the week with total traded value of QR263.8mn.

Traded volume went up 4.4% to 670.8mn shares compared with 642.3mn shares in the prior trading week. The number of transactions moved up 3.9% to 72,381 vs 69,688 in the prior week. Ezdan Holding Group (ERES) was the top volume traded stock during the week with total traded volume of 80.9mn shares.

Foreign institutions remained bearish, ending the week with net selling of QR68.2mn vs net selling of QR48.8mn in the prior week. Qatari institutions remained bullish with net buying of QR92.0mn vs net buying of QR22.5mn in the week before. Foreign retail investors ended the week with net selling of QR6.9mn vs net buying of QR30.9mn in the prior week. Qatari retail investors recorded net selling of QR17.0mn vs net selling of QR4.7mn the week before. YTD, global foreign institutions were net sellers by $49.9mn, while GCC institutions were net buyers of Qatari stocks by $17.6mn.

Weekly Market Report

Market Indicators	Week ended. Jan 16, 2025	Week ended. Jan 09, 2025	Chg. %
Value Traded (QR mn)	1,890.8	1,845.9	2.4
Exch. Market Cap. (QR mn)	613,074.9	613,806.5	(0.1)
Volume (mn)	670.8	642.3	4.4
Number of Transactions	72,381	69,688	3.9
Companies Traded	52	51	2.0
Market Breadth	17:32	16:35	–

Source: Qatar Exchange (QE)

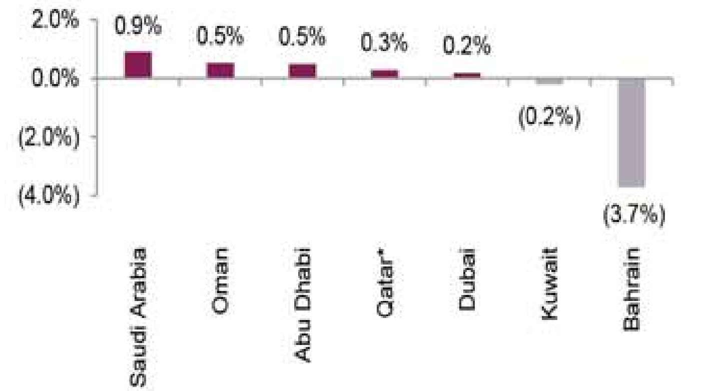
Market Indices	Close	WTD%	MTD%	YTD%
Total Return	23,812.16	(1.2)	(1.2)	(1.2)
ALL Share Index	3,731.37	(1.2)	(1.2)	(1.2)
Banks and Financial Services	4,639.10	(2.0)	(2.0)	(2.0)
Industrials	4,210.93	(0.8)	(0.8)	(0.8)
Transportation	5,109.86	(1.1)	(1.1)	(1.1)
Real Estate	1,577.00	(2.4)	(2.4)	(2.4)
Insurance	2,335.96	(0.5)	(0.5)	(0.5)
Telecoms	1,877.34	4.4	4.4	4.4
Consumer Goods & Services	7,716.73	0.7	0.7	0.7
Al Rayan Islamic Index	4,828.92	(0.9)	(0.9)	(0.9)

Source: Qatar Exchange (QE)

QSE Index and Volume

Source: Qatar Exchange (QE)

Weekly Index Performance



Source: Bloomberg

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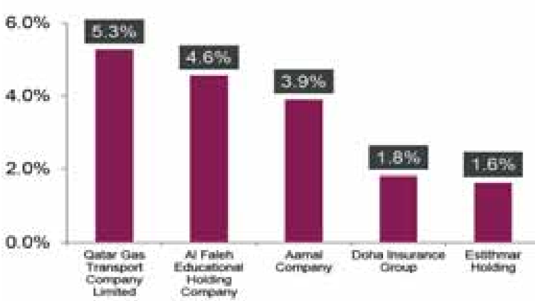
Regional Indices	Close	WTD%	MTD%	YTD%	Weekly Exchange Traded Value ($ mn)	Exchange Mkt. Cap. ($ mn)	TTM P/E**	P/B**	Dividend Yield
Qatar*	10,471.69	0.3	(0.9)	(0.9)	520.10	168,166.4	11.3	1.3	4.1
Dubai	5,235.83	0.2	1.6	1.6	709.92	250,028.3	10.1	1.5	4.6
Abu Dhabi	9,506.29	0.5	1.0	1.0	1,212.80	743,919.3	17.0	2.5	2.1
Saudi Arabia#	12,212.24	0.9	1.5	1.5	8,206.83	2,741,352.6	19.7	2.3	3.6
Kuwait	7,527.46	(0.2)	2.2	2.2	1,404.23	158,540.0	19.5	1.8	4.0
Oman	4,621.70	0.5	1.0	1.0	44.02	32,389.0	11.5	0.9	5.9
Bahrain	1,900.20	(3.7)	(4.3)	(4.3)	11.93	19,601.8	15.3	1.3	9.1

Source: Bloomberg

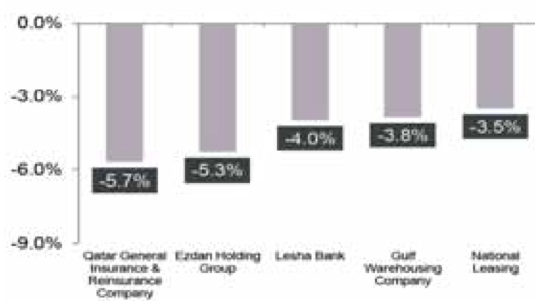
Qatar Stock Exchange

Top Five Gainers



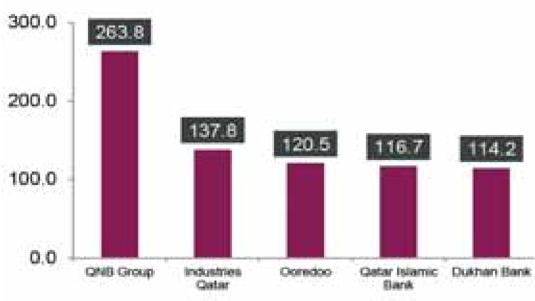
Source: Qatar Stock Exchange (QSE)

Top Five Decliners



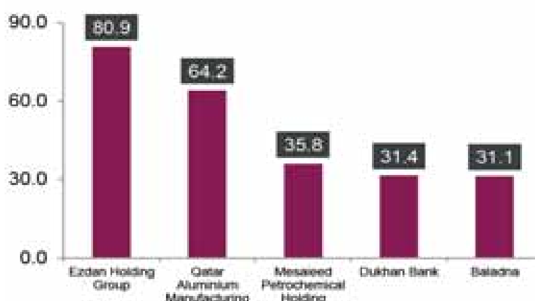
Source: Qatar Stock Exchange (QSE)

Most Active Shares by Value (QR Million)



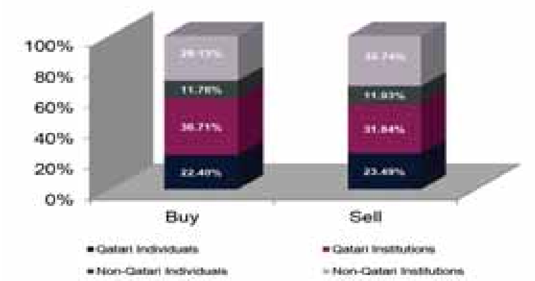
Source: Qatar Stock Exchange (QSE)

Most Active Shares by Volume (Million)



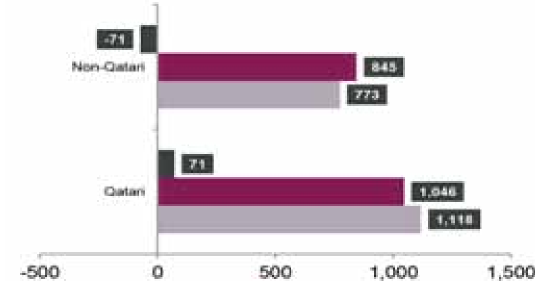
Source: Qatar Stock Exchange (QSE)

Investor Trading Percentage to Total Value Traded



Source: Qatar Stock Exchange (QSE)

Net Traded Value by Nationality (QR Million)



Source: Qatar Stock Exchange (QSE)

Company Name	Price January 16	% Change Weekly	% Change YTD	Market Cap. QR Million	TTM P/E	P/B	Div. Yield
Qatar National Bank	16.80	(0.47)	(2.83)	155,172	10.0	1.7	3.9
Qatar Islamic Bank	20.74	0.19	(2.90)	49,007	11.2	1.8	2.4
Commercial Bank of Qatar	4.32	1.62	(0.71)	17,480	6.2	0.9	5.8
Doha Bank	2.02	(0.69)	1.61	6,272	7.9	0.6	3.7
Al Ahli Bank	3.44	(0.09)	(0.17)	8,786	10.6	1.2	7.3
Qatar International Islamic Bank	10.50	(1.87)	(3.67)	15,894	15.3	2.2	4.4
Masraf Al Rayan	2.42	(1.91)	(1.95)	22,460	15.4	0.9	4.1
Lesha Bank	1.28	(3.97)	(5.32)	1,436	10.9	1.1	N/A
National Leasing	0.75	(3.49)	(4.36)	369	21.4	0.6	4.0
Dlala Holding	1.13	(0.44)	(1.39)	216	35.9	1.2	N/A
Qatar & Oman Investment	0.68	(0.73)	(3.13)	214	N/A	0.9	N/A
Islamic Holding Group	3.71	(1.41)	(2.09)	210	12.2	1.2	1.3
Dukhan Bank	3.65	(1.43)	(1.35)	19,078	15.4	1.5	4.4
Banking and Financial Services				**296,594**			
Zad Holding	14.95	(2.61)	5.50	4,297	21.8	3.2	4.3
Qatar German Co. for Medical Devices	1.35	(0.52)	(1.46)	156	462.5	4.4	N/A
Salam International Investment	0.66	(1.36)	(0.76)	749	12.3	0.5	4.6
Baladna	1.29	(0.62)	(2.43)	2,443	13.2	1.0	5.4
Medicare Group	4.58	(0.22)	0.66	1,289	15.1	1.3	4.8
Qatar Cinema & Film Distribution	2.55	0.00	6.25	160	35.7	1.2	2.7
Qatar Fuel	14.91	0.07	(0.60)	14,824	14.2	1.7	5.4
Widam Food	2.24	(3.20)	(4.85)	402	21.5	2.6	N/A
Mannai Corp.	3.56	(1.41)	(2.23)	1,623	N/A	1.7	7.0
Al Meera Consumer Goods	14.31	(1.17)	(1.45)	2,948	15.9	1.9	5.9
Mekdam Holding Group	3.50	(1.69)	(2.51)	578	12.9	2.2	N/A
Meeza QSTP	3.07	(2.61)	(6.41)	1,989	35.4	2.8	2.6
Al Faleh Education Holding	0.71	4.57	2.01	170	13.6	0.6	2.6
Consumer Goods and Services				**31,628**			
Qatar Industrial Manufacturing	2.51	(0.28)	(0.12)	1,192	8.9	0.6	5.2
Qatar National Cement	4.10	(0.82)	2.02	2,679	14.6	0.9	7.3
Industries Qatar	13.18	0.23	(0.68)	79,739	14.9	2.2	4.7
Qatari Investors Group	1.55	(1.52)	0.78	1,927	10.6	0.6	9.7
Qatar Electricity and Water	15.75	0.96	0.32	17,325	10.5	1.2	3.2
Aamal	0.90	3.91	5.85	5,695	14.1	0.7	N/A
Gulf International Services	3.28	0.98	(1.32)	6,103	10.6	1.5	4.6
Mesaieed Petrochemical Holding	1.47	0.34	(1.67)	18,468	23.2	1.1	3.7
Estithmar Holding	1.86	1.64	(0.21)	6,332	16.6	1.2	N/A
Qatar Aluminum Manufacturing	1.23	1.57	1.16	6,841	13.2	1.0	4.9
Industrials				**146,301**			
Qatar Insurance	2.09	(0.48)	(1.60)	6,823	12.6	1.1	4.8
QLM Life & Medical Insurance	2.04	(0.73)	(1.21)	714	9.0	1.1	6.1
Doha Insurance	2.57	1.83	2.60	1,283	7.9	1.0	6.8
Qatar General Insurance & Reinsurance	1.11	(5.68)	(3.56)	973	N/A	0.3	N/A
Al Khaleej Takaful Insurance	2.31	(3.06)	(3.31)	590	8.1	1.0	5.2
Qatar Islamic Insurance	8.58	(0.23)	(1.15)	1,286	8.4	2.3	5.8
Damaan Islamic Insurance Company	3.95	0.00	0.00	791	10.0	1.5	4.6
Insurance				**12,459**			
United Development	1.08	0.00	(3.83)	3,824	9.3	0.3	5.1
Barwa Real Estate	2.77	(1.32)	(2.30)	10,759	8.7	0.5	6.5
Ezdan Real Estate	0.95	(5.27)	(9.85)	25,252	300.1	0.7	N/A
Mazaya Qatar Real Estate Development	0.59	1.03	0.51	587	N/A	0.6	4.3
Real Estate				**40,422**			
Ooredoo	12.29	1.24	6.41	39,367	12.0	1.4	4.5
Vodafone Qatar	1.87	0.48	2.35	7,917	13.5	1.6	5.9
Telecoms				**47,284**			
Qatar Navigation (Milaha)	10.82	1.50	(1.55)	12,293	11.4	0.7	3.5
Gulf Warehousing	3.25	(3.85)	(3.59)	190	9.8	0.8	3.4
Qatar Gas Transport (Nakilat)	4.39	5.28	5.69	24,294	14.8	2.1	3.2
Transportation				**36,778**			
Qatar Exchange				**613,075**			

Source: Bloomberg

Technical analysis of the QSE index

Source: Bloomberg

This week, the QE Index closed at 10,471.69, marking a modest 0.3% gain. Over the longer term, the index remains range-bound, encountering resistance at 10,800 and finding support at 10,000. For the index to achieve a meaningful upward breakout, it is crucial to secure a close above the 10,800 level, supported by strong volume accumulation. Until then, the index is likely to continue trading within its established range.

Definitions of key terms used in technical analysis

RSI (Relative Strength Index) indicator – RSI is a momentum oscillator that measures the speed and change of price movements. The RSI oscillates between 0 to 100. The index is deemed to be overbought once the RSI approaches the 70 level, indicating that a correction is likely. On the other hand, if the RSI approaches 30, it is an indication that the index may be getting oversold and therefore likely to bounce back.

MACD (Moving Average Convergence Divergence) indicator – The indicator consists of the MACD line and a signal line. The divergence or the convergence of the MACD line with the signal line indicates the strength in the momentum during the uptrend or downtrend, as the case may be. When the MACD crosses the signal line from below and trades above it, it gives a positive indication. The reverse is the situation for a bearish trend.

Candlestick chart – A candlestick chart is a price chart that displays the high, low, open, and close for a security. The 'body' of the chart is portion between the open and close price, while the high and low intraday movements form the 'shadow'. The candlestick may represent any time frame. We use a one-day candlestick chart (every candlestick represents one trading day) in our analysis.

WEEKLY ENERGY MARKET REVIEW

Oil prices dip but post 4th straight weekly gain on US sanctions

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Oil

Oil prices settled lower on Friday but notched their fourth straight weekly gain, as the latest US sanctions on Russian energy trade added to worries about oil supply disruptions. Brent crude futures dipped 50 cents, or 0.6%, at $80.79 per barrel, but gained 1.3% last week.

US West Texas Intermediate crude futures lost 80 cents, or 1%, at $77.88 a barrel, having climbed 1.7% for the week. Sanctions on Russia are causing tightness of supply in Europe, India and China, analysts said.

The Biden administration unveiled broader sanctions last week targeting Russian oil producers and tankers. Investors are also assessing the potential implications of President-elect Donald Trump's return to the White House on Monday. Trump's pick for Treasury secretary said he was ready to impose tougher sanctions on Russian oil.

However, weighing on oil prices were expectations of a halt in attacks by Yemen's Houthi militia on ships in the Red Sea following a Gaza ceasefire deal.

The Houthis' attacks have disrupted global shipping, forcing ships to make longer and more expensive journeys around southern Africa for more than a year. The Israeli security cabinet approved the ceasefire deal on Friday, paving the way for the return of the first hostages from Gaza as early as Sunday. The accord was still conditional on approval by the full cabinet, which was meeting on Friday afternoon.

An oil tanker pumps oil to a special offshore oil receiver for the De-Kastri terminal. Oil prices settled lower on Friday but notched their fourth straight weekly gain, as the latest US sanctions on Russian energy trade added to worries about oil supply disruptions. *Picture supplied by the Abdullah bin Hamad Al-Attiyah International Foundation for Energy and Sustainable Development.*

Gas

Asian spot LNG prices slightly declined last week, weighed by healthy inventory levels in the region and weak demand.

The average LNG price for March delivery into north-east Asia LNG-AS slipped to $13.90 per million British thermal units (mmBtu), versus $14.00 per mmBtu last week, industry sources estimated.

The slight decrease was attributed to weak demand in Asia, as buying interest remained muted despite colder weather, owing to healthy inventory levels.

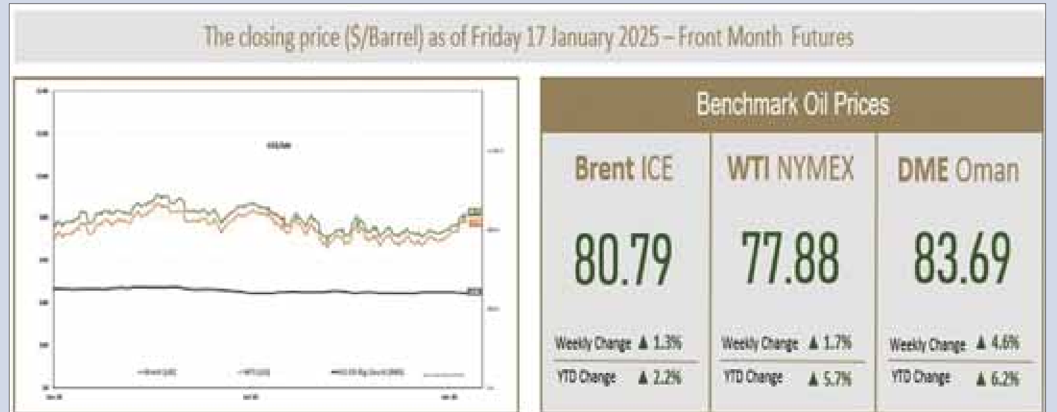
Going forward in Asia for the week ahead, analysts expect to see some bearishness in prices driven by balanced inventories and average to warmer-than-usual temperatures across key markets.

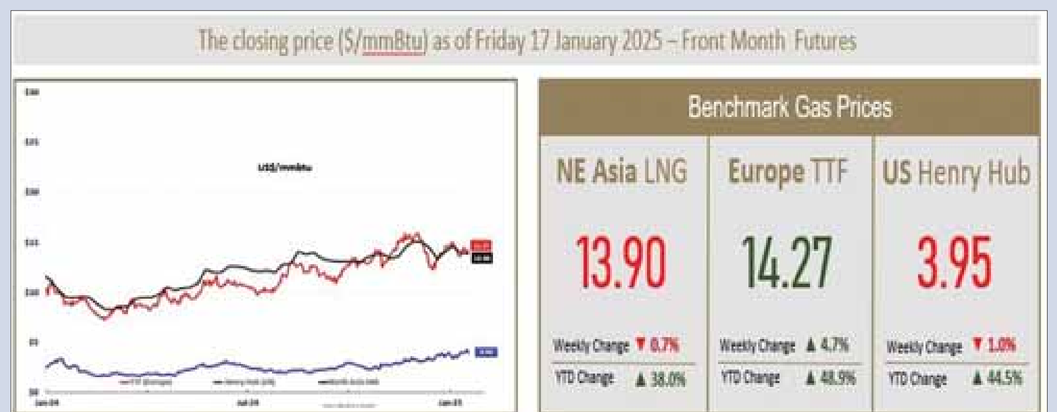
In the world's second-largest importer Japan, LNG stockpiles held by major electric utilities were at 2.11mn metric tonnes as of January 12, down from 2.15mn tonnes last January but above the five-year average of 1.96mn tonnes, data from Japan's industry ministry showed.

Northeast Asian demand has also been muted as current prices are too high for spot demand to emerge from price-sensitive buyers in India and China, analysts said.

In Europe, prices rose on transit concerns on the TurkStream gas pipeline, unplanned maintenance at Azerbaijan's Shah Deniz field, US sanctions on two Russian export terminals and forecast of colder temperatures in northwest Europe. For the week, the Dutch TTF hub was up 4.7% at 14.27 per mmBtu.

■ *This article was supplied by the Abdullah bin Hamad Al-Attiyah International Foundation for Energy and Sustainable Development.*





Euro area economy sets the stage for deeper ECB interest rate cuts: QNB

The European Central Bank (ECB) is expected to take the benchmark rate to 1.75% on the back of a balance of risks that should lean more heavily on economic growth risks over inflation concerns, according to QNB.

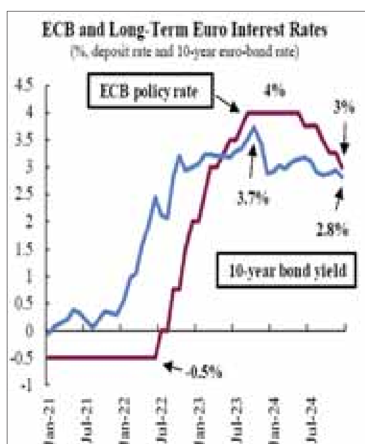
Skyrocketing inflation was finally brought under control last year after an unprecedented cycle of policy rate increases by the European Central Bank (ECB). The ECB began the record tightening sequence of 10 consecutive rate hikes in mid-2022, taking the benchmark deposit rate to 4%, QNB said in an economic commentary.

After a period of highly-restrictive monetary policy, helped by the gradual normalisation of supply chains, inflation steadily descended from its peak of 10.6% towards the 2% target of monetary policy, QNB said. In June last year, the ECB Governing Council finally felt confident that price pressures had been subdued, and began the new phase of interest rate cuts, progressively taking the benchmark deposit rate to 3% in December.

Recently, several ECB Council members have cautiously signalled that they expect policy rates to reach a level that no longer restricts economic activity by mid-2025. Going forward, the path of interest rates needs to be carefully calibrated, as the balance of risks gives more weight to economic stagnation than to inflation concerns.

In QNB's view, the current economic outlook favours a more aggressive monetary easing cycle than is expected by the consensus. In this article, we discuss the three main factors that support our views.

First, with prices already under control, there is now an increasing risk that inflation drops too far below the objective of the ECB. The latest prints of consumer prices show that monthly inflation, in annualized terms, has already fallen below the 2% target of monetary policy. Furthermore, inflation displays a downward trend that could drive it further below the target. The Survey of Professional Forecasters by the ECB already shows inflation expectations of 1.9% for both 2025 and 2026.



Labour market conditions provide useful evidence of inflation pressures. The ECB has begun to make publicly available its Wage Tracker Index, a measurement that gathers and aggregates data from thousands of collective bargaining agreements, providing valuable forward-looking information regarding the evolution of wages. After reaching a peak in Q4-2024, the wage tracker shows a rapid deceleration going forward, reflecting a sharp easing of wage pressures.

In a context of below-target inflation and falling wage pressures, a deflation spiral is now becoming a conceivable threat on the horizon. A deflation environment is negative for the economy, as households and firms delay expenditures and investment to benefit from lower prices in the future, generating a negative economic feedback loop. The dangers represented by low inflation, and even the possibility of a deflation spiral, should press the ECB to a more rapid reduction of its policy rates.

Second, the Euro area has remained on the verge of a recession during the last couple of years, and its economic performance is likely to remain underwhelming. For the last half-year, the prints of the Purchasing Managers Index (PMI) have pointed to a stagnant economy. The PMI is a benchmark survey-based indicator that provides a measurement of improvement or deterioration in economic conditions. The composite PMI, which tracks the joint evolution of the services and manufacturing sectors, has remained below or close to the 50-point threshold that separates contraction and expansion in overall activity. Importantly, real GDP growth forecasts for 2025 have been on a downward trajectory since mid-2024.

According to the Bloomberg consensus survey forecasts, the Euro area will deliver 1% growth this year, only slightly above the 0.8% estimated for 2024, and markedly below the long-term average of 1.4%. The weak economic outlook for the Euro area increases the likelihood of faster interest rate cuts by the ECB.

Third, financial conditions remain restrictive on the back of still-high policy rates and the steady contraction of the central bank balance sheet. The current level of the deposit facility interest rate at 3% is close to one percentage point (p.p.) above the rate that is typically considered "neutral" for the economy, which neither stimulates nor restrains economic activity.

Similarly, although long-term interest rates have come down from their peak in October of last year, they still remain close to their decade highs, QNB said.

Long-term interest rates are key for the economy, given their influence on business investment and household demand. Additionally, the ECB continues to revert the balance sheet expansion that was put in place during the pandemic, a normalisation that is restraining the availability of credit. As a result of lower liquidity and higher credit costs, credit volumes are still contracting in real terms, signalling to the ECB that monetary conditions are excessively restrictive.

"All in all, while the consensus expects a 2% policy rate by the end-2025, we believe the ECB will take the benchmark rate to 1.75% on the back of a balance of risks that should lean more heavily on economic growth risks over inflation concerns," QNB added.

Traders ditch EMs in rocky start of the year

Bloomberg
London

Investors are yanking money from emerging markets at the start of 2025 as they weigh how many of Donald Trump's threats will become policy upon his return to the White House next week.

Money managers pulled $8.5bn from funds dedicated to developing-world stocks and bonds so far this year, according a JPMorgan Chase & Co report citing EPFR data. The selloff has hit assets across the globe from Chile's peso to stocks in China and India to sovereign bonds from Romania and El Salvador. The outflows mark the continuation of a trend that has beset the asset class for the past three years.

Traders have already been struggling to make a case for emerging markets while the US economy hums along, the outlook for Federal Reserve interest rate cuts dims and some of the biggest developing economies, from China to Brazil, struggle.

Trump's inauguration on Monday poses a fresh set of risks.

The Republican president-elect has doubled down on his proposal to impose sweeping tariffs on the rest of the world, while adding threats to seize the Panama Canal and Greenland.

"It's hard for the market to take big bets in front of big events," said Pablo Goldberg, a portfolio manager at BlackRock in New York. "Markets don't like uncertainty, and right now we're still in a very uncertain period."

The start of the year has been bumpy, with an index of emerging stocks sinking into a correction in early January and dollar bonds posting losses. Most emerging currencies are down versus the dollar this year, with some including the Indian rupee and the Brazilian real trading at or near record lows as changing bets on US rate cuts and Trump policies boost the dollar.

Asian central banks, which have been shielding their currencies through interventions in the face of the greenback's relentless rally, are beginning to rethink their strategy, considering rate cuts to boost their economies instead of focusing on currency management.

Carlos Legaspy, chief executive officer at Insight Securities, said investors are opting for safety, at least until they see how the early days of Trump's second presidency plays out.

"I'd rather buy a two-year Treasury with a yield near 4%," he said, "then to wait and give Trump 100 days to see if he starts delivering on his threats."

Arif Joshi, a portfolio manager at Lazard Asset Management, said he's expecting the changes in trade and tax policy to be significant during Trump's second term.

"The magnitude and timing of those changes are highly uncertain," he said. "It's not wise at this time to have duration or FX risk in emerging markets."

Microsoft-OpenAI partnership raises antitrust concerns, says FTC

Bloomberg
New York

Microsoft Corp's $13bn investment in OpenAI raises concerns that the tech giant could extend its dominance in cloud computing into the nascent artificial intelligence (AI) market, the Federal Trade Commission (FTC) said in a report released on Friday.

The commission said Microsoft's deal with OpenAI, as well as Amazon.com Inc and Google's partnerships with AI company Anthropic, raise the risk that AI developers could be "fully acquired" by the tech giants in the future.

In the two-plus years since ChatGPT kicked off a frenzy around generative AI, leading AI startups have turned to large tech firms for support developing the costly and computationally intensive technology. But in its report, the FTC raised concerns that the cloud giants require some of their investments into these startups to be spent on their own products and services. The FTC also said there are risks of consolidating coveted AI talent around these large firms and potential for the companies to gain advantageous data related to chip development, model training and data centre construction.

"The FTC's report sheds light on how partnerships by big tech firms can create lock-in, deprive startups of key AI inputs, and reveal sensitive information that can undermine fair competition," FTC Chair Lina Khan said in a statement.

The report also noted that at least one of the big tech firms — it didn't say which — received access to "confidential and potentially sensitive financial performance information" as part of its deal with one of the AI startups, receiving weekly reports about revenue trends and updates about customers.

Additionally, it pointed out that at least one of the agreements provides for a big tech firm to have access to the output from an AI startup's model — such as the text or other information spit out by a chatbot in response to a user's prompt. The tech firm planned to use this information, which is often referred to as "synthetic data", to train its own AI model.

Google, Amazon and Anthropic declined to comment. OpenAI didn't immediately respond to requests for comment.

"The partnership between Microsoft and OpenAI has enabled one of the most successful AI startups in the world and spurred a wave of unprecedented technology investment and innovation in the industry, creating thousands of new startups in the US and around the world," said Rima Alaily, Microsoft's deputy general counsel.

The FTC has the power to open market studies to glean more information about industry trends. The findings can be used to inform future actions. It's unclear what the agency's new leadership under the Trump administration will do with the report. The FTC opened the inquiry last year focusing on the billions of dollars of investments by the world's cloud-services giants into AI startups. That included Big Tech investments in OpenAI and in Anthropic, a company founded by former OpenAI employees.

The FTC is conducting the inquiry under its so-called 6(b) authority that allows it to issue subpoenas to conduct market studies. The agency generally issues a report on its findings after analysing the information from companies, though that process can take years to complete.

None of the companies notified US antitrust agencies of the deals ahead of time because of how they were structured.

The FTC said the partnerships between tech and AI could result in dominant tech companies holding "exclusivity rights" to their AI partners' tools, and it could discourage AI companies from working with multiple tech companies by increasing "switching costs for the AI developer partners".