



Our Economy and The World

The Weekly Report

Issue: 280 Date: 24th July 2022

This week's issue of "Our Economy and the World" includes:

Key Global and Regional Developments over the Past Week

- Bloomberg: EU Proposes 15% Cut in Gas Consumption on Russian Supply Concern
- CNBC: Italian bonds push higher as PM Mario Draghi suggests he'll stay in power
- Reuters: IMF says Russian gas embargo could hit central Europe hard
- BBC: UK interest rates could top 2%, Bank policymaker says
- Bloomberg: China's Premier Signals Flexible Growth Target, Stimulus Caution

Eye on Egypt

- Bank of America Global Research: Egypt – more weakness in store for EGP

Special Analysis

- WSJ: If the U.S. Is in a Recession, It's a Very Strange One

Developments in Financial and Commodity Markets in the past week

- CNBC: Euro slips from 2-week highs as mood turns sour
- Bloomberg: Gold Steady as Traders Weigh Drop in ETFs, Inflation, Dollar

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Key Global and Regional Developments over the Past Week

Bloomberg: EU Proposes 15% Cut in Gas Consumption on Russian Supply Concern

The European Union proposed that the bloc cut its natural gas consumption by 15% over the next eight months in a plan that would affect all households, power producers and industry. The goal is embedded in regulation accompanying demand-reduction guidelines for governments amid growing concern that Russia will cut gas exports to the region after being hit with sanctions following its invasion of Ukraine. The measure put forward by the European Commission includes a mandatory trigger if the situation worsens and voluntary curbs are insufficient.

[\(Read Full Article\)](#)

CNBC: Italian bonds push higher as PM Mario Draghi suggests he'll stay in power

Italy's Mario Draghi said Wednesday he will stay in power provided parliamentarians back his coalition government — offering some relief to bond markets ahead of a key European Central Bank meeting Thursday. Political instability returned to Rome last week when one of the coalition parties decided to oppose a bill in Parliament. The move led Draghi, in power since February 2021, to announce he was quitting.

[\(Read Full Article\)](#)

Reuters: IMF says Russian gas embargo could hit central Europe hard

A Russian natural gas embargo would cause deep recessions in Hungary, Slovakia, the Czech Republic and Italy unless countries can cooperate more to share alternative supplies, the International Monetary Fund said on Tuesday. IMF researchers said in a blog posting that some countries could face shortages of as much as 40% of their normal gas consumption in the event of a total cut-off of Russian gas.

[\(Read Full Article\)](#)

BBC: UK interest rates could top 2%, Bank policymaker says

UK interest rates might have to hit 2% or more next year to order to slow soaring price rises, a member of the Bank of England's rate setting committee has said. Michael Saunders said rate rises "still have some way to go" in the attempt to control inflation. UK interest rates currently stand at 1.25%, up from 0.1% in December.

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[Bloomberg: China's Premier Signals Flexible Growth Target, Stimulus Caution](#)

Chinese Premier Li Keqiang signaled flexibility on the growth target and reiterated caution on excessive stimulus, as the economy shows initial signs of recovery from Covid outbreaks. The most important thing is to keep employment and prices stable, and slightly higher or lower growth rates were acceptable as long as employment is relatively sufficient, household income grows and prices are stable, Li told global business leaders hosted by the World Economic Forum on Tuesday, according to reports in state media.

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Eye on Egypt

Bank of America Global Research: Egypt – more weakness in store for EGP

We estimate EGP needs to depreciate by at least 10-20% from current spot levels to correct the existing Real Effective Exchange Rate (REER) misalignment. We place USD/EGP fair value in the range of c20.5-23.0. We think EGP could overshoot this range, especially as the current account deficit could be wider than projected.

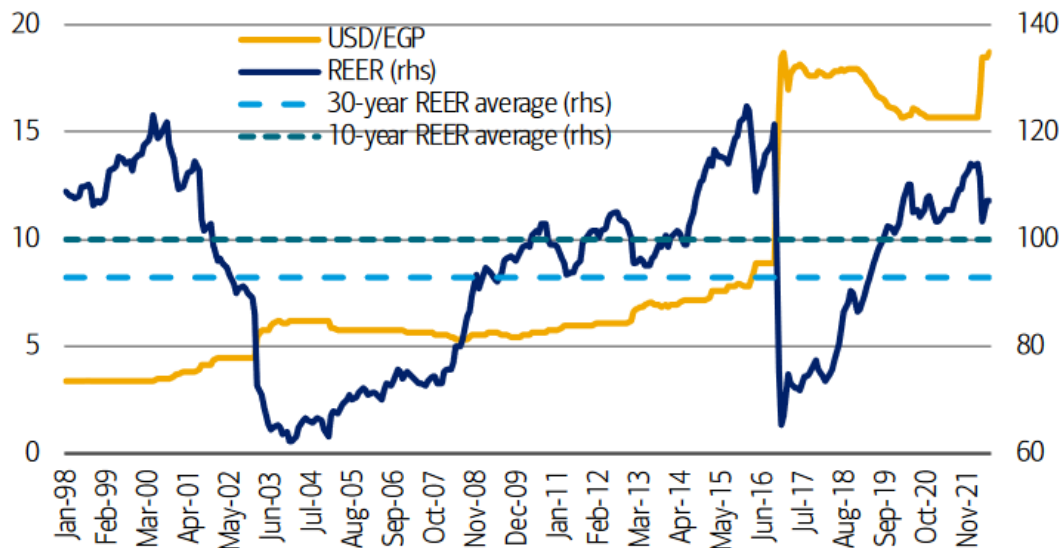
Calibrating from the 2016 devaluation, depreciation at the higher end of the range would improve the non-hydrocarbon trade balance by US\$3.5bn over a year. This would boost exports by US\$3bn and compress imports by US\$0.5bn over a year from 2021 levels.

Our range of fair values for USD/EGP reflects different estimates for current account norms and the scale of Fx-REER elasticity measures typically used in the literature. Our estimates are based on the 2021 current account balance of -US\$18.6bn (-4.6% of GDP), and an inflation differential versus trading partners of 10%.

By J. Saliba

Exhibit 1: USD/EGP and Real Effective Exchange Rate (REER) measures

More weakness likely for EGP



Source: Haver, BofA Global Research.

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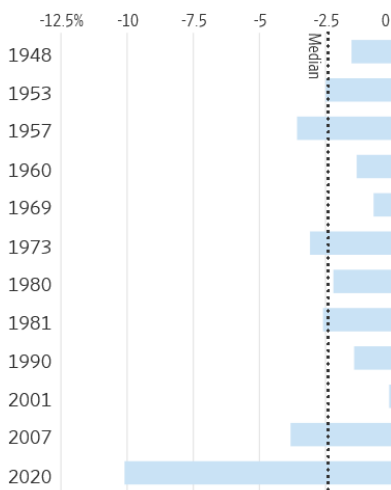
Special Analysis

WSJ: If the U.S. Is in a Recession, It's a Very Strange One

The U.S. economy has experienced 12 recessions since World War II, and each one included two features: Economic output contracted and unemployment rose. Today, something highly unusual is happening. Economic output fell in the first quarter and signs suggest it did so again in the second. Yet the job market showed little sign of faltering during the first half of the year. The jobless rate fell from 4% last December to 3.6% in May. It is the latest strange twist in the odd trajectory of the pandemic economy, and a riddle for those contemplating a recession. If the U.S. is in or near one, it doesn't yet look like any other on record.

Output Drops

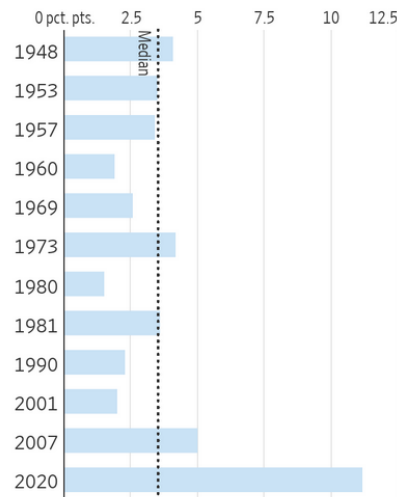
Change in annualized rate of gross domestic product, from peak to trough



Note: Recessions listed by year they began.
Source: Bureau of Economic Analysis

Unemployment Increases

Change in the unemployment rate, from trough to peak, during and after recession



Note: Recessions listed by year they began.
Source: Bureau of Labor Statistics

Watch Video

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Recent Developments in Financial and Commodity Markets

CNBC: Euro slips from 2-week highs as mood turns sour

The euro slipped from two-week highs on Wednesday, as investors braced for a crucial European Central Bank policy meeting on Thursday after policymakers floated the prospects of a 50 bps interest rate hike. The single currency has rallied more than 3% in the last four trading sessions on expectations the European Central Bank (ECB) could deliver a big 50-bps rate hike and a Reuters report that a key Russian gas pipeline would reopen on time after maintenance.



[\(Read Full Article\)](#)

Bloomberg: Gold Steady as Traders Weigh Drop in ETFs, Inflation, Dollar

Gold held near an 11-month low as investors weighed a prolonged decline in holdings in gold-backed exchange traded funds and the dollar's recent bout of weakness. Bullion has hovered in a narrow trading range, closing little changed since Friday, as a gauge of the greenback retreated the last three sessions in a sign of waning haven demand. Holdings in gold-backed ETFs have dropped for 15 days, the longest stretch since March 2021, according to initial data compiled by Bloomberg.

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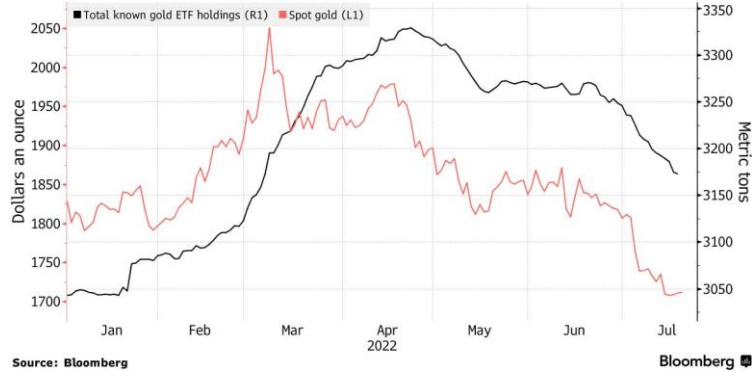


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Investor Demand for Gold Slumps

Holdings in bullion-backed ETFs decline for 15th straight day



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