



Our Economy and The World

The Weekly Report

Issue: 303 Date: 15th January 2022

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

- **Key Global and Regional Developments over the Past Week**
 - BBC: Global recession warning as World Bank cuts economic forecast
 - Bloomberg: Villeroy says ECB needs to be pragmatic on size of rate hikes
 - Bloomberg: German investor outlook improves as worst-case winter averted
 - Bloomberg: French recession risk eases as main sectors show resilience
- **Eye on Egypt**
 - Goldman Sachs: EGP adjustment has further to run
- **Special Analysis**
 - EIU: Consumer goods and retail outlook 2023
- **Developments in Financial and Commodity Markets in the Past Week**
 - Reuters: Gold flat ahead of key U.S. inflation data
 - Bloomberg: Stocks climb amid optimism over inflation, China
 - CNBC: Dow closes 260 points higher, Nasdaq notches fourth day of gains ahead of key inflation report

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Key Global and Regional Developments over the Past Week

[BBC: Global recession warning as World Bank cuts economic forecast](#)

The global economy is "perilously close to falling into recession", according to the latest forecast from the World Bank. It expects the world economy to grow by just 1.7% this year - a sharp decrease from the 3% it predicted in June. The report blames a number of factors stemming from Russia's invasion of Ukraine and the impact of the pandemic. The effects of higher interest rates are picked out as the key challenge for policy makers to overcome.

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[Bloomberg: Villeroy says ECB needs to be pragmatic on size of rate hikes](#)

The European Central Bank needs to be pragmatic as it raises interest rates in the coming months to get to a level by the summer that is sufficiently high to bring inflation back toward 2%, Governing Council member Francois Villeroy de Galhau said. Speaking on French radio station Radio Classique on Wednesday, the Bank of France governor declined to say how far the ECB will ultimately raise borrowing costs. At 2% currently, he said rates are at a neutral level that neither accelerates nor slows inflation.

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[Bloomberg: German investor outlook improves as worst-case winter averted](#)

The investor outlook for Germany's economy improved to its highest level since Russia's invasion of Ukraine —the latest sign that concerns over a deep winter slump are receding. The ZEW institute's gauge of expectations climbed to -23.3 in December from -36.7 the previous month, better than economists polled by Bloomberg had predicted. It's still below a long-term average, though, as consumers and industry grapple with higher energy costs.

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[Bloomberg: French recession risk eases as main sectors show resilience](#)

The French economy continued to grow at the end of 2022 and should avoid a contraction in the first weeks of the year despite headwinds from surging energy prices, a Bank of France survey showed. According to the monthly poll of about 8,500 firms, activity advanced more than expected in the country's main business sectors in December, bringing economic growth for the

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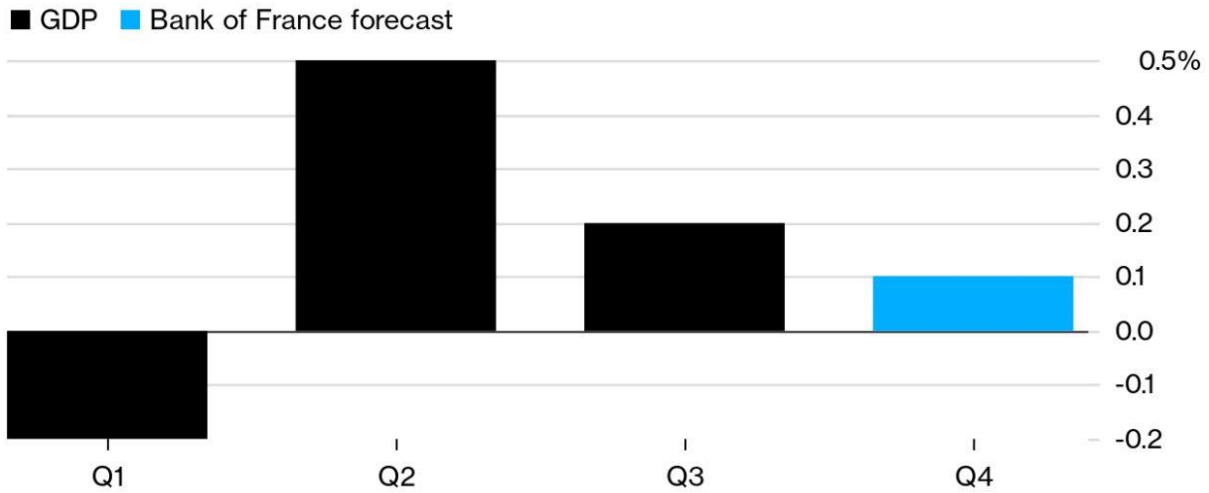


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final quarter to around 0.1%. For January, company chiefs expect the expansion to continue in industry and services, and stabilize in construction.

French Economy Held Off Recession at the End of 2022



Source: Bank of France, Insee

Bloomberg

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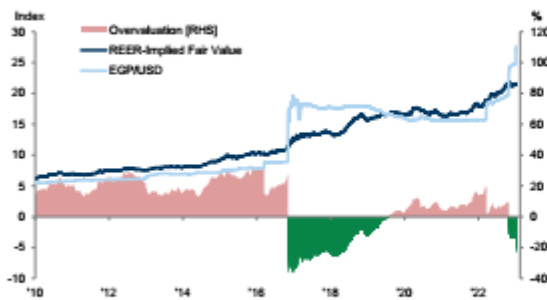
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Eye on Egypt

Goldman Sachs: EGP adjustment has further to run

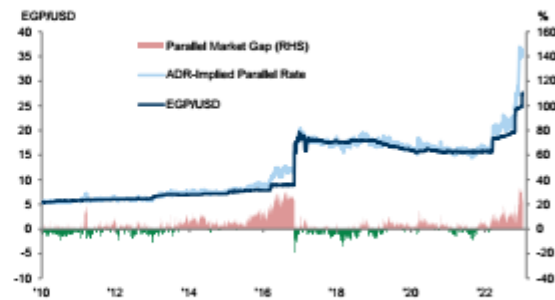
Since January 4, the EGP adjustment that we had flagged in our research note entitled ‘Decisive Action Needed to Ease EGP Pressure’ (December 12) has been underway. But whether this adjustment, the third in under a year, is sufficiently ‘decisive’ to restore the FX market to a functioning equilibrium is still unclear. On the one hand, it is ongoing – the Pound continues to weaken and local money-market rates continue to rise. On the other hand, there are signs that the momentum is slowing: the Pound has depreciated by a cumulative 11.5% in the six trading days since January 4, but by just 1.5% in the past three days.

Exhibit 1: EGP Devaluation has Overshot ‘Fair Value’, But Not by as Much as in 2016



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 2: And the Gap with the Parallel Rate Remains Substantial



Source: Bloomberg, Goldman Sachs Global Investment Research

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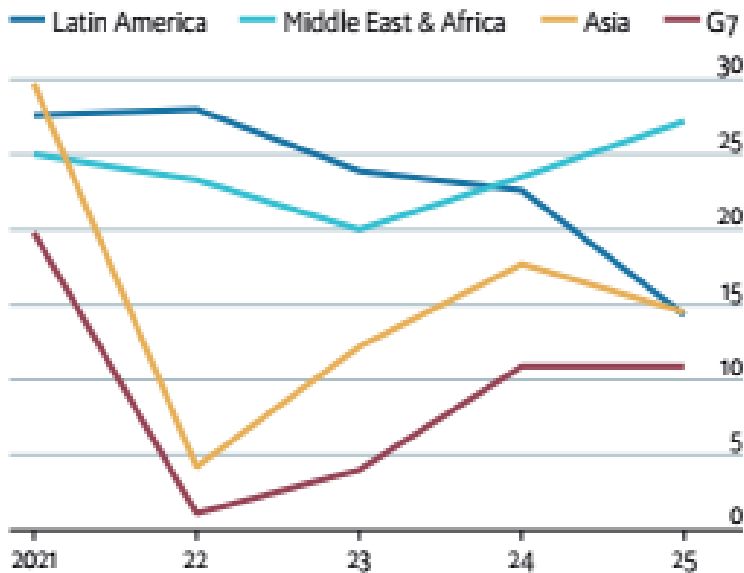
Special Analysis

EIU: Consumer goods and retail outlook 2023

- Inflation will push up global retail sales by a robust 5% in US-dollar terms in 2023, but the lower volume of sales and surging costs will weaken retailers' profits.
- The rollout of automation technologies will offer opportunities to limit wage growth, which means that retail employment is unlikely to return to 2019 levels.
- Online sales growth will slow, but the online share of retail will edge up to about 14% of global retail sales.
- Inflation-wary consumers will prefer to shop at discount stores, helping these retailers to increase their market shares.
- The economic slowdown in China, caused in part by its zero-covid strategy, will mean fresh challenges for global luxury brands already affected by the loss of Chinese tourists

Online retail boom will move to developing markets

(online sales; % change, US dollars*)



Sources: Edge by Ascential; EIU.

*2022-25 are forecasts.

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Developments in Financial and Commodity Markets in the Past Week

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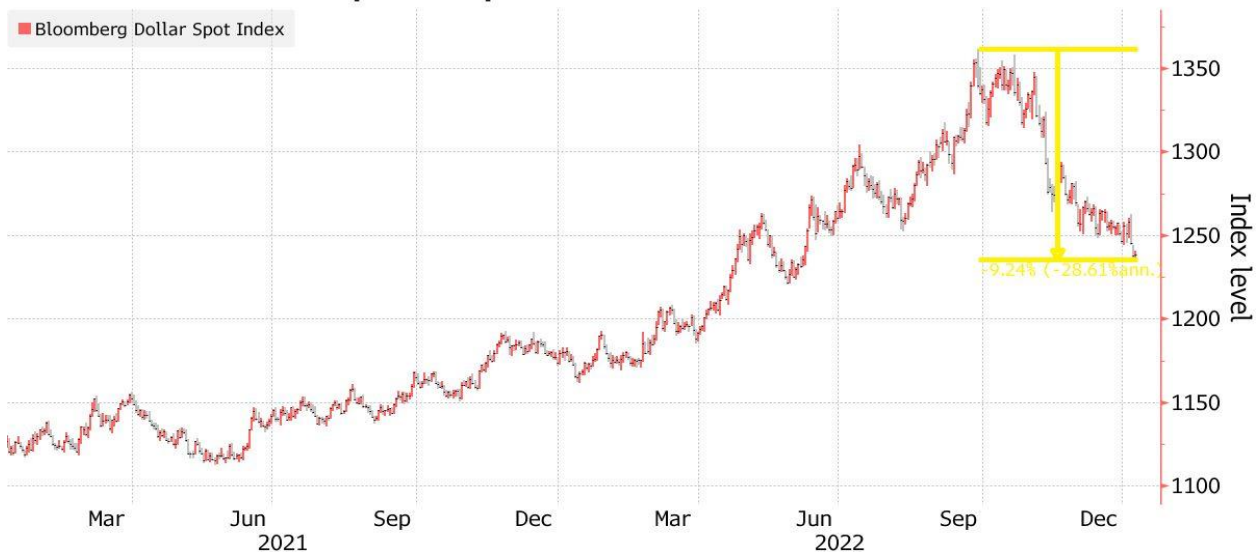
Gold prices were flat on Wednesday, as traders awaited key U.S. inflation data due this week to gauge the Federal Reserve's rate hike stance. Spot gold was little changed at \$1,876.49 per ounce, as of 0023 GMT. U.S. gold futures rose 0.3% to \$1,881.30.

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Bloomberg: Stocks climb amid optimism over inflation, China

European stocks rose and Wall Street equity futures edged higher as traders bet that US consumer price data on Thursday will show further softening, bolstering the case for less-aggressive interest-rate hikes. Miners were among outperformers in the Stoxx Europe 600 Index, boosted by optimism China's economic reopening will spur demand for metals. S&P 500 contracts were more modestly higher after the underlying index moved back above its key 3,900 mark. Bath & Beyond Inc. shares surged in US premarket trading, advancing alongside fellow meme stocks, with the troubled home-goods retailer on course for a third day of gains.

Dollar at 7-Month Low **Fallen over 9% since September peak**



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[CNBC: Dow closes 260 points higher, Nasdaq notches fourth day of gains ahead of key inflation report](#)

Stocks rose Wednesday as investors grew increasingly confident Thursday's consumer price index will show cooling inflation and signal to the Federal Reserve that previous interest rates hikes have had their intended effects. The Dow Jones Industrial Average closed up 268.91 points, or 0.80%, at 33,973.01



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