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Our Economy & the World

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

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Key Global Developments

Global Sovereign Wealth Funds Assets Grow to $6.51 Trillion
Amwal Al Ghad:

According to Preqin for research, assets held by sovereign wealth funds across the globe increased by $200 billion to $6.51 trillion in the 12-month period through March 2016 in spite of market volatility and low oil prices recently.

This means an annual growth rate of about three percent compared with 16 and 17 percent in previous years. However, assets held by sovereign funds are currently more than double their size in 2009 when they were $3.22 trillion.

The research firm reported that funds that do not derive their assets from commodities added $290 billion in assets over the year, while funds reliant on extraordinary revenues from oil and gas lost $10 billion.

With the drop in oil prices to about $40 per barrel, sovereign funds and central banks of oil exporting countries such as Norway, Russia and Saudi Arabia had to withdraw from reserves and liquidate assets to help close budget deficit gaps.

Britain gives lawmakers veto power over banking regulator appointment
Reuters:

British finance minister George Osborne said he would give parliament the right to veto future appointments to run the country's Financial Conduct Authority (FCA), which has sweeping powers over the banking industry.

Osborne also said chief executives of the FCA would be subject to a fixed, renewable, five-year term although this would only apply to the successors of Andrew Bailey, who takes over as CEO in July.

Osborne made the comments in a letter sent to the head of the Treasury Select Committee (TSC) in Britain's parliament, which reviews monetary and financial policy.

IMF Meetings Conclude .. Expectations of Increasing the Voting Powers of Developing Countries in 2017

Al Ahram Gate:

The annual meetings of the IMF and the World Bank concluded in Washington, DC after five days of discussions and meetings between the central bank governors of the 188 member states, the ministers of finance and international cooperation representing their respective countries.

The IMF's International Monetary and Financial Committee (IMFC) issued its closing statement for its no. 33 meeting.

Agustin Carstens, governor of the Central Bank of Mexico and IMFC chairman, announced several recommendations, most importantly, calling for the implementation of structural reforms and macroeconomic policies using instruments to stimulate actual growth, promoting financial stability, avoiding potential risks to avoid economic deflation, and adopting a disclosure policy to curb market fluctuations and the negative repercussions of the previous crisis.

The Fund stressed the importance of reviewing the voting powers of member states, with preparations for the fifteenth review due to take place and new quotas will be set by the 2017 meetings, and a report on this matter will be prepared. It is expected that quota realignment under this review would increase the quotas of dynamic economies in line with their relative positions in the world economy.

Bank of England's Carney: Brexit Risks Already Weighing on Economy

Reuters:

Bank of England Governor Mark Carney said on Tuesday that uncertainty about the outcome of Britain's European Union membership referendum already appeared to be weighing on Britain's economy.

Carney told members of parliament that risks related to the referendum included pressures on Britain's wide current account deficit, its property markets, liquidity in financial markets and a possible negative impact on the rest of the EU.

"Some elements of these risks may be beginning to manifest," he said.

A Rise in the Number of Troubled Companies around the World

Sky News Arabia:

A recent Standard & Poor's survey showed a significant increase in the number of companies that default on their debts, affecting the corporate bond market and signaling deep problems in the global economy.

Total unpaid corporate debts amounted in the first few months of this year to $50 billion.

This affects the potential of companies' resorting to borrowing from the bond market, which has been in turmoil since last year.

By the end of last month, the number of troubled companies that will not be able pay back their debts and debt securities reached 242.

The number of troubled companies has been increasing at a rapid pace not seen by the global economy since the 2009 crisis. Last week alone, five companies were added, including the first large European company this year.
Although the largest number of companies is in the energy and goods sectors, the rest of the sectors have not been spared.

Top European Powers Join Forces to Clamp Down on Tax Evasion
Reuters:

Europe's biggest nations launched a joint scheme on Thursday to clamp down on tax evasion, responding to revelations of the rich and powerful stashing money in far-away tax havens in the so-called Panama Papers.

Finance ministers of Britain, Germany, France, Italy and Spain agreed to share detailed data on the ownership of companies, trusts and foundations, making it more difficult for actual owners to hide their wealth and income from tax authorities.

The leak of thousands of confidential documents from a Panamanian law firm earlier this month has had political repercussions in many countries, forcing Iceland's prime minister to quit and putting British Prime Minister David Cameron under pressure over his family's financial affairs.

The five nations committed to establishing a register to detail the beneficial owners of companies, trusts, foundations, and shell companies, making it available for tax administration and law enforcement authorities.

In a joint statement, the ministers said they would launch a pilot initiative for automatic exchange of information on beneficial ownership and hope to broaden the scheme to include other nations.

Urging a global exchange of beneficial ownership information in order to remove 'the veil of secrecy under which criminals operate', the ministers acknowledged cracks in the current framework and called on others to apply enhanced standards of transparency.

IMF Says Debt Levels Highest since Second World War
Washington: «Al-Sharq Al-Awsat»:

Public debt has soared significantly in advanced economies to the highest levels since the Second World War as governments struggle against slow growth and deflation, the International Monetary Fund warned.

Levels of government borrowing have picked up since the financial crisis and continue to rise as economic powers such as Japan and those in Europe remain mired in slow growth and many emerging and poorer economies struggle with the plunge in income from key commodities like oil and metals.

The higher borrowing makes it harder for governments to spend any more to support growth, as the Fund has urged.

On average for advanced economies, the IMF said in its semi-annual Fiscal Monitor report released on Wednesday, "public debt now exceeds the level observed during the Great Depression and is approaching the level immediately after World War II".
For advanced economies, debt has risen to above 107 percent of gross domestic product, with Japan at almost 250 percent. Emerging market economies are better off at just under 50 percent of gross domestic product (GDP), but their needs are rising and many face greater challenges, including sharply higher fiscal deficits, than the advanced economies.

The strain between higher debt and the need to keep spending is contributing to the slow pace of growth.

The IMF reduced its outlook for global economic growth to 3.2 percent, and warned against stagnant growth risks in the world unless the necessary steps are taken.

G20 Says Economic Growth Modest, Warns of Downside Risks
Reuters:

The Group of 20 major economies said that economic growth remains "modest and uneven," with downside risks ranging from a potential British exit from the European Union to geopolitical conflicts.

In a communique issued after a meeting of G20 finance ministers and central bank governors, the group reiterated its previous pledges on exchange rates, "including that we will refrain from competitive devaluations and we will not target our exchange rates for competitive purposes."

Implications for Egypt

Egypt must pay attention to the fact that the global economic crisis is witnessing new shifts in terms of effects, which requires the Egyptian government to put together stimulus policies that rely mainly on development and revitalization of domestic industries, import substitution, and export promotion to markets where Egypt enjoys a comparative advantage, especially Arab and African markets. Egypt must also develop medium-term policies for the development of small and medium enterprises to promote economic growth and development away from the effects of the global financial crisis, which is currently experiencing new shifts. And with the financial and economic volatility the world is currently going through along with growing fears of a recession, Egypt should take more robust measures to promote growth.

The above news indicate that new structural changes have transpired globally, starting with the attempt of major powers to change the investment approach of SWFs, availing greater opportunities for economic partnerships. Developing countries are also seeking a radical change in their voting powers in international institutions such as the IMF, in addition to growing fears of default, which previously triggered a crisis in 2008 and 2011. However, the most prominent new phenomena are the efforts aimed at limiting international tax evasion; and Egypt should be part of these efforts.

We hereby reiterate that the only way for Egypt out of this crisis is that instead of denying current challenges, they must be placed in their proper place and dealt with accordingly. Addressing problems has become possible and the vision for the future has become more rooted. The will to reform is what can drive us out of this economic crisis. Hence, the end of the period of economic troubles, which everyone is anxious for, is mainly conditional on the country's ability to achieve growth capable of utilizing the youth, and hence achieve the optimal model of growth and social justice. It is also conditional on the political and economic potential of the government, and its ability to take the right decisions to overcome the crisis.

Special Analysis

Saudi-Iran Tensions Scupper Deal to Freeze Oil Output
Reuters – Argaam:

A deal to freeze oil output by OPEC and non-OPEC producers fell apart on Sunday after Saudi Arabia demanded that Iran join in despite calls on Riyadh to save the agreement and help prop up crude prices.

The development will revive oil industry fears that major producers are embarking again on a battle for market share, especially after Riyadh threatened to raise output steeply if no freeze deal were reached.

Some 18 oil nations, including non-OPEC Russia, gathered in the Qatari capital of Doha for what was expected to be the rubber-stamping of a deal - in the making since February - to stabilize output at January levels until October 2016.

But OPEC's de facto leader Saudi Arabia told participants it wanted all members of the Organization of the Petroleum Exporting Countries to take part in the freeze, including Iran, which was absent from the talks.

Tehran had refused to stabilize production, seeking to regain market share post-sanctions.

After five hours of fierce debate about the wording of a communique - including between Saudi Arabia and Russia - delegates and ministers announced no deal had been reached.

"We concluded we need time to consult further to reach an output freeze agreement between OPEC members and major producers, which could take place in June," an OPEC source said.

The failure to reach a global deal could halt a recent recovery in oil prices.

"With no deal today, markets' confidence in OPEC's ability to achieve any sensible supply balancing act is likely to diminish and this is surely bearish for the oil markets, where prices had rallied partly on expectations of a deal," said Natixis oil analyst Abhishek Deshpande.

"Without a deal, the likelihood of markets balancing is now pushed back to mid-2017. We will see a lot of speculators getting out next week," Deshpande added.

Saudi Arabia has taken a tough stance on Iran, the only major OPEC producer to refuse to participate in the freeze.

Deputy Crown Prince Mohammed bin Salman told Bloomberg that the kingdom could quickly raise production and would restrain its output only if Iran agreed to a freeze.

Iran's oil minister Bijan Zanganeh said on Saturday OPEC and non-OPEC should simply accept the reality of Iran's return to the oil market: "If Iran freezes its oil production ... it cannot benefit from the lifting of sanctions."

Cost of Producing a Barrel of Oil in USD in 12 Countries					
Country	**Taxes**	**Capital Spending**	**Production Cost**	**Admin and Transportation cost**	**Total**
Saudi Arabia	0.0	3.5	3.0	2.49	8.98
Iran	0.0	4.48	1.94	2.67	9.08
Iraq	0.91	5.03	2.16	2.47	10.57
Russia	8.44	5.10	2.98	2.69	19.21
Indonesia	1.55	7.65	6.87	3.63	19.71
US non-shale	5.03	7.70	5.15	3.11	20.99
Norway	0.19	13.76	4.24	3.12	21.31
US shale oil	6.42	7.56	5.85	3.52	23.35
Canada	2.48	9.69	11.56	2.92	26.64
Venezuela	10.48	6.66	7.94	2.54	27.62
Nigeria	4.11	13.10	8.81	2.97	28.99
Brazil	6.66	16.09	9.45	2.80	34.99
UK	0.0	22.67	17.36	4.30	44.33

Implications for Egypt

OPEC's credibility to coordinate output is now very low. As Reuters said, this is not just about oil for the Saudis. It is as much about regional politics.

Morgan Stanley said the failure shed light on weakening OPEC relations, adding that it sparked "a growing risk of higher OPEC supply," especially as Saudi Arabia threatened it could hike output following the failed deal.

Although Egypt is not a major oil producer but rather one of the major consumers of oil in the Middle East, the extent of being affected by oil developments is linked to its economic relations with the Gulf States. In spite of the relative improvement in oil prices over the last period against fragile hopes to reduce oil supply, oil prices are still low. Therefore, Egypt is still benefiting from the decrease in oil prices due to the reduced cost of imports of oil and derivatives, which are mainly used as production inputs. Thus, the government has an opportunity to reduce its budget deficit, and alleviate inflationary pressures. In addition, the recent drop in oil prices is in favor of the government in its pursuit to reduce the deficit in the public budget and the trade balance.

From the International Press

What is Awaiting Real Estate Markets around the World this Year?
Argaam

Real estate markets around the world are active in spite of the drop in primary commodity prices and the low growth of the world's major and emerging economies, as well as the IMF's low global growth projections amid volatile financial markets.

Real estate markets around the world continued to attract capitals as investors' interest and the rising values of units continued amid expectations of stable or rising investment values of properties in 2016 compared to last year.

A report published by the "World Economic Forum" questioned whether the steady progress of real estate markets represented the usual lag between developments in the financial markets and those in real estate markets, and whether the slowdown in growth and market volatility would lead to a decline in the real estate market in the future.

Factors Influencing the Market

- JLL Research reported that the volume of commercial real estate leasing around the world rose by 8 percent in 2015, with expectations to grow by about 5 percent this year.

- The JLL report links fluctuations in the financial sector to the strength of real estate markets around the world. It highlights two influential factors in determining developments in real estate markets.

- External shocks are but one of the factors expected to impact real estate markets, as history suggests the importance of other factors not related to the sector such as the interest rate and capital flows in determining how healthy the real estate sector is.

- Investors tend to purchase office and commercial properties with optimistic expectations for the economy in the future. This raises the value of real estate assets, but the global slowdown would affect all economic activities, including real estate.

- Internal imbalances are another factor influencing the real estate market. The continued boom in construction and rising demand through higher funding usually lead to oversupply, which reduces rentals and the value of assets.

Current Market Status

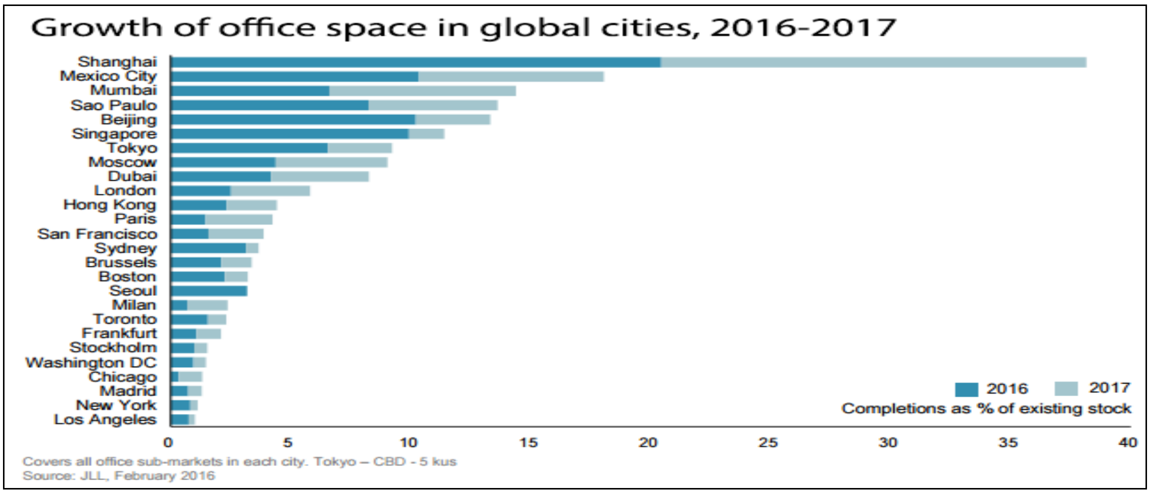
- Globally, the strength of the real estate sector continues, attracting steady cash flows. Real estate investments registered a growth rate of 8 percent last year amid expectations of steady or high growth by 5 percent during 2016.

- JLL expects an increase of 17 million square meters in the commercial real estate market across about 90 world office markets this year, which is less than the reported value in 2001 and 2008.

- These statistics are mainly global and cannot substitute for detailed domestic analysis of each market.

- With the rise in supply, JLL expects rentals to decline in four global office markets this year, namely, "Mexico City," "Sao Paulo," "Mumbai," and "Singapore."

- On the contrary, some of the major markets are experiencing a decline in the vacancy rate, such as "London's West End," "the Center of Hong Kong," and major US markets such as "Chicago," "New York," and "Boston."



- The report points out that despite the importance of statistical analysis in the real estate market over the past years, it cannot replace human judgment.

- JLL expects that some real estate markets will have imbalances in both supply and demand during 2016 and 2017, as the boom in real estate market must end at some point of time.

- It is important to look at developments beyond the real estate sector. Shocks outside the sector, especially related to the macroeconomy, usually play a significant role in the strength or weakness of the market.

Implications for Egypt

The Egyptian real estate sector is now notably active, especially with respect to the purchase rate of new units. The sector is recuperating following a significant decline of demand over the past years.

The market is active due to renewed demand for new housing units, as there is half a million marriages annually in Egypt in addition to carried forward demand. Demand for housing units includes all unit levels, i.e., low-cost housing, limited income housing, middle-income housing and even luxury housing, whose demand, though less, is notably significant with the increasing desire to invest in real estate following the depreciation of the Egyptian pound vis-a-vis foreign currencies.

All market indicators confirm the return of consumer confidence in the Egyptian real estate market, as evidenced by increased purchasing of newly offered housing units, in addition to the return of demand and the notable rise in real estate prices, particularly land. Obviously, this year will see a surge in investor demand in the real estate market, which requires the government to provide more land and grant permits quickly to avoid significant price increases, and to ensure the sustainability of ongoing projects. It is also important to speed up the issuance of the federation of real estate developers' act to regulate the sector.

Global Financial Market Performance

Reuters – Argaam

Chinese stocks rose at the end of the Friday session, but recorded the biggest weekly loss in almost three months, with speculations about not injecting new stimulus measures.

The "Shanghai" Composite Index fell 0.2 percent to 2959.2 points at closing, but recorded a decline of about 3.5 percent this week.

The Japanese stocks rose at the end of the Friday session in volatile trading, following reports that the Bank of Japan is considering measures to support financial institutions, which led to a drop in the yen value.

The "Nikki" index rose by 1.2 percent to 17,572 points, registering weekly gains of almost 4 percent. The "TOPIX" index also increased by about 1 percent to 1407 points.

Most US stock indices were stable during Friday trading amid investors' assessments of quarterly business results for some companies in conjunction with the rise in oil prices and its impact on the performance of the energy sector. The "Dow Jones" and "S&P" recorded weekly gains, while "NASDAQ" declined.

The "Dow Jones" industrial index increased by 21.2 points to 18,003.7 points. The "S&P 500 benchmark index" rose by less than one point to 2091.5 points, while the "NASDAQ" index fell (- 39.6 points) to 4906.2 points**.**

At the weekly level, the "Dow Jones" index made 0.6 percent in gains. The broader "S&P" index rose 0.5 percent, while the "NASDAQ" recorded a weekly loss of 0.7 percent.

In the European markets, the "Stoxx Europe 600" index fell by 0.3 percent or by 1.1 points to 348.4 points. The index achieved a weekly gain of 1.7 percent.

The "FTSE 100" British index dropped (- 71 points) to 6310.4 points. The German "DAX" index also fell by (- 62.2 points) to 10,373.4 points, while the French "CAC" index declined (- 13.1 points) to 4569.6 points**.**

On the other hand, gold futures for June delivery fell at settlement by 1.6 percent or by $20.30 to $1230 an ounce. The precious metal recorded a weekly loss of about 0.4 percent.

In the oil markets, the US "NYMEX" rose by 1.3 percent, or 55 cents, to close at $43.73 a barrel and achieved a weekly gain of 8.3 percent. The "Brent" index rose by 1.3 percent, or 58 cents, to close at $45.11 a barrel and recorded a weekly gain of 4.7 percent.

Implications for Egypt

Trading in global markets focused last week on the leading stocks, as well as on speculative transactions and profit-taking. Volatility and decline dominated traded liquidity between one session and the other, which led directly to cautious investment caused by internal factors, mainly in the stock market, in light of slow positive response to financial and economic developments in the region.

In other words, the leading stocks during the announcement of results and the preceding expectations constitute the main pillar that controls the performance of the Egyptian Stock Exchange, with no guarantees that the performance results would be positive for all stocks. Many medium and small stocks have positive and accumulative operating results that can be classified as good investment opportunities. But the strength of the leading stocks and increase in their dominance of trading, its values and their impact on the general index weaken other stocks' ability to influence and acquire more of the traded liquidity.

We believe that the current situation highlights the powerful opportunities availed by the Egyptian Stock Exchange, which is one of the largest emerging markets in terms of growth during the first quarter of the year and size of available liquidity that is clear from capital increases over the past two years, surpassing EGP 25 billion. Add to this the strong issuances the market has witnessed more recently. The market saw the conduct of a large issuance in excess of one billion pounds in recent days. Such issuance avails greater opportunities to expand significantly the financing of infrastructure and energy projects. It also provides support for small and medium enterprises and helps improve state-owned asset management and the possibility of relying on the money market as a primary financing platform. This will have a positive impact on the growth process over the coming period, but this would require making visible the progress achieved by the Egyptian Stock Exchange in governance and protection of shareholders' equity. The Egyptian Stock Exchange was selected by the World Bank as one of the best six markets that achieved improvement in the protection of shareholders' rights.