Issue : 12

Date : 15 May 2016

Our Economy & the World

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Key Global Developments

Russian Oil Giant: OPEC Effectively Finished and will not Impose Its Will on the Market
CNN

Igor Sechin, Russia's former deputy prime minister and current Executive Chairman of Rosneft, Russia's largest oil company, said that OPEC is effectively finished, and no longer has the ability to influence the global market, as it did in the past.

Sechin added that OPEC, as a unified organization, is effectively finished and the era in which it was able to control the oil market should be forgotten. Now, a set of objective factors makes it impossible for any producer unions to force its will on the market, as quoted by the Russian Sputnik news agency.

Sechin continued that we must forget about the seventies when a group of the largest producers in the Middle East controlled market conditions through the formation of conglomerates such as OPEC.

Britain Takes Economic Measures to address its Potential exit from the EU
KUNA

George Osborne, Chancellor of the Exchequer, said that his ministry has developed in cooperation with the Central Bank of England several precautionary measures to address possible Brexit from the EU following a referendum to be held next month.

Osborne said before the Economic Affairs Committee at the House of Commons that these measures are designed to mitigate the negative effects related to financial stability, which will be affected “significantly” in case the vote is to end Britain's membership in the EU.

Osborne did not rule out that the central bank could be forced to adjust interest rates and perhaps inject more money into the quantitative easing program adopted after the global financial crisis in 2008, which since then cost 375 billion sterling pounds.

He pointed out that the country’s revenues will decline by about 36 billion sterling pounds due to shrinking tax receipts and declining company incomes and house prices vis-a-vis higher interest rates.

He added that this situation will increase country debts due to high fiscal deficit and the government’s resorting to financial borrowing. He warned that this scenario would have complex negative consequences on Britain's standing in the world.

Schengen Collapse More Destructive than Eurozone Woes - Italy's Padoan
Reuters

A breakdown in Europe's borderless Schengen area as a result of the migrant crisis will be more destructive for the region than a crisis of the eurozone, Italian Economy Minister Pier Carlo Padoan said.

"If Schengen fails, this is going to be much more destructive than a crisis of the Eurozone," Padoan said at an EBRD conference in London.

Germany and other Schengen countries introduced emergency border controls last year in an effort to stem movements of refugees and migrants across Europe after more than 1 million reached the bloc in the last year, mainly via Greece.

Border controls between Schengen countries are usually not allowed, but in a situation of emergency, such as Europe's migration crisis, checks can be reintroduced for a maximum of two years.

Padoan added that the refugee crisis that Europe currently faces is "not a one off shock, it is a major structural change that is going to be with us for a long time."

Big Oil is Dipping a Few More Toes into Clean Energy

Al-Youm El Sabe’

According to Bloomberg, major oil companies began moving to invest considerably in clean energy projects, given the decline in oil prices, and growth prospects of renewable energy sources.

Bloomberg said that Exxon Mobil Corp. is partnering with a company to capture carbon-dioxide emissions from power plants. Total SA, the French oil supermajor, announced a $1.1 billion deal Monday to buy the battery maker Saft Groupe SA, complementing its 2011 purchase of a majority stake in the solar-panel maker SunPower Corp.

The Canadian pipeline company Enbridge Inc. announced Tuesday it would pay $218 million for stakes in offshore wind farms as it attempts to double its low-carbon generating capacity.

While fossil fuel companies have been dabbling in clean energy for years, they typically stayed close to their roots by focusing on ethanol and other biofuels.

This round of investments takes them into the heart of the clean-energy industry. As crude prices struggle to recover and growth projections for renewables soar, oil companies see a chance to diversify.

U.S. Posts $106 Billion Budget Surplus in April
Reuters

The U.S. government posted a $106 billion budget surplus in April, down 32 percent from the same period last year, the Treasury Department said.

The government had a surplus of $157 billion in April of 2015, according to the Treasury's monthly budget statement. Analysts polled by Reuters had expected a $112 billion surplus for last month.

The current fiscal year-to-date deficit was $355 billion, up 25 percent from a $283 billion deficit this time last year.

IMF: Bribes Consume Two Trillion Dollars of Global Economy
AFP

The International Monetary Fund said that bribery sucks up between $1.5 and $2.0 trillion annually around the world, dragging down economies and worsening social services for the poor.

In a new report on the economic impact of corruption, the IMF said that bribery, graft and other cheating common in both rich and poor countries limits economic growth and undermines sound government policies.

In a speech prepared for the global Anti-Corruption Summit in London, IMF Managing Director Christine Lagarde said that more and more leaders are openly seeking help to fight the scourge.

"Both poverty and unemployment can be symptoms of chronic corruption," she said, according to the text of her speech.

"While the direct economic costs of corruption are well known, the indirect costs may be even more substantial and debilitating, leading to low growth and greater income inequality."

The late Singapore leader Lee Kuan Yew "was very effective in both signaling a zero-tolerance policy towards corruption and building competent institutions at a time when corruption was pervasive in Singapore," she noted.

The economic impact of corruption is hard to quantify, according to the IMF report.

The cost of bribery alone tops more than two percent of global gross domestic product -- a broad measure of economic output -- and because it is tainted, that money is often sucked out of economies to offshore havens, meaning it does not contribute to growth.

OECD Indicator Flags Improving Outlook in Emerging Countries
Reuters

Economic slowdown in emerging market countries is showing signs of abating, the OECD said on Wednesday, adding that the outlook was improving in Brazil and Russia and stabilizing in China but continuing to deteriorate in the United States.

The Paris-based Organization for Economic Cooperation and Development said its monthly leading economic indicator, a measure designed to flag turning points in the world economy, also showed stable growth momentum in the euro zone.

"CLIs (composite leading indicators) continue to point to easing growth in the United States and the United Kingdom, with the outlook for easing growth now confirmed in Italy," it said in a statement.

On an index where 100 represents the long-term average, the OECD said the reading for OECD countries as a whole edged down to 99.6 in March from 99.7 the month before.

IMF: $900 Billion Fiscal Deficit in Arab Petroleum Countries
Al-Mal newspaper

The International Monetary Fund (IMF) expected Arab oil-producing countries to increase their reliance on borrowing, by issuing sovereign bonds over the next ten years, due to the continuing collapse in crude prices. The IMF also predicted a rise in the accumulated fiscal deficit of the six Gulf Cooperation Council (GCC) countries, in addition to Algeria, to about $900 billion until 2021.

Bloomberg reported that government bond issues in the Middle East jumped during last April by more than 8.5 percent, ascending to the highest level in any other month since January 2014, despite the decline in issuances last year by about 9 percent compared to 2014.

The collapse of oil prices by more than 60 percent since mid-2014 led the Gulf countries to borrow from the international capital markets, to the extent that Saudi Arabia, for example, had to deplete about 20 percent of its foreign assets, and is on the verge of selling the first global debts in its history.

The tendency of petroleum exporting countries to sell bonds in international markets is attributed to the disappearance of liquidity from their local banks, according to Nicholas Samara, a Middle East debt capital markets banker at Citigroup Inc.

The Gulf economies are subject to many global risks, including the US Federal Reserve Board’s moving towards raising interest rates, which means increasing costs of loans needed to finance the fiscal deficit.

Implications for Egypt

In light of the global economic conditions that began to show coherence and a growing shift towards a change in economic balance away from blocs towards alliances, Egypt must realize that economic reform is the most important pillar of confidence building. It is the ideal route for achieving real stability and dissemination of its benefits. This is what we all aspire to as a nation. Reform, in its universal concept at the national level, is the optimal path to putting together an action roadmap with ambitious visions and goals in a way that ensures sustainable development.

We emphasize that the only way out of the current crisis is to believe that addressing the problems has become possible, that the outlook is now more rooted, and that the will to reform is what drives us to overcome the crisis. Hence, the end of the period of economic troubles, which everyone is anticipating, 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.

In light of this apparent change in economic models worldwide, it has become necessary for Egypt to undertake a similar change in its economic plan in key areas such as societal development and quality of life, urban planning and human capital, among others.

We should also be aware that traditional exports will not grow continuously like in the early stages of development, because business opportunities will continuously be reduced and wages will rise, implying reduced competitiveness. Export growth depends on the introduction of new processes and discovering new markets, not just expansion of sales of existing products in the market. To achieve this, innovation and product differentiation to meet the needs of the market is a target in itself for middle-income countries.

Egypt should develop plans and scenarios for dealing with the current situation and its possible developments, along with a comprehensive assessment of the map of foreign transactions in light of the changes that occur, whether at the level of oil markets or the potential for structural changes in the EU in the coming period. This would allow greater flexibility in Egypt's alternatives in dealing dealing with any repercussions of those situations in the future.

Special Analysis

Lessons Learned from the US Steel Crisis in the 80's
Argaam:

The US steel industry entered a deep recession in the seventies and eighties in the context of the economic downturn that lasted ten years for several reasons, including the oil crisis in 1973 and the Iranian Revolution.

During the crisis that lasted from 1974 until 1986, the market experienced a significant contraction and weak demand, prompting steelmakers to make large production cuts.

Production reduction in some companies reached a third, and losses in 1982 alone reached three billion US dollars, according to a report published by 'The Conversation."

A Look Back

- Steel production strikingly increased since the Industrial Revolution and demand was exceptionally high during the world wars, but prices fell significantly after the market was saturated.

- The decline in the sector was linked to a larger decline in the global economy after the economic boom that followed World War II.

- Among the other reasons that caused the recession, the entry of new producers to the global steel markets, changes in the relative costs, and the rise of Japan and developing countries.

- The recession did not hit the steel industry in the US alone, but also the "English Midlands" region in the UK, West Germany and Sweden.

US Companies

- The eight largest US companies sought to reduce losses by laying off large numbers of workers and permanently closing a number of their factories. In the period between 1979 and 1982, companies laid off more than 150 thousand workers and closed hundreds of plants.

- The city of Youngstown, Ohio was one of the areas that were most affected by the crisis worldwide, where the "Youngstown Sheet and Tube" company was closed in 1977 on a day the locals still remember as the "Black Monday." The city has not recovered from the crisis since then.

- Under their conviction of the need to take other measures to reduce the economic problems, companies asked the government to impose trade restrictions and take action to prevent any flooding of the market from abroad.

Carter's and Reagan's Efforts

- In 1977 and 1979, the Jimmy Carter's administration set lower limits on the price of imported steel.

- In 1984, when it appeared that the industry was on the verge of collapse, President Reagan's administration further tightened trade policies by negotiating with countries on specific quota allowed to enter the US market.

- Despite steps taken by the Carter and Reagan administrations, they have ruled out further intervention in the industry or the application of costly programs. The Carter administration refused to provide financial support to a group of investors in Ohio who were trying to buy factories abandoned by major steelmakers in the country.

- Carter refused to approve a modernization plan that would cost ten billion dollars of public funds out of the conviction that factory closure was inevitable and that companies need to address own problems by themselves.

- The Reagan administration refused to provide the steel industry with a rescue package, driving two of the major steelmakers in the country to bankruptcy and rejected calls for imposing more restrictions on imports.

Self-Reliance

- Major steelmakers had to solve their problems on their own after they were unable to rely on direct financial aid from the government. They have taken some measures, including the closure of factories considered by officials of these companies as unable to compete or too expensive to modernize.

- Companies laid off thousands of workers and called on the remaining staff to accept wage and benefit cuts.

- A massive restructuring of the steel industry carried out by the major steelmakers in the US in the eighties was successful, at least from an economic standpoint.

- Companies that suffered throughout most of the eighties finally survived the deep recession that hit the sector in the late seventies and eighties to the point that some major companies reported profits in 1987.

- The experience was not successful in all its aspects, but had a great cost, as companies reduced the number of staff and production significantly. As a whole, around 300 thousand workers lost their jobs during the period between 1976 and 1986.

- The most important lesson of the crisis is the need for companies to bear even a part of the repercussions of the recession, and that government bailouts should not go beyond support so as to maintain fundamentals of market economies, and in order for the sector to address most of its problems alone.

Implications for Egypt:

This experience reflects a comprehensive vision for dealing with any possible trouble in key sectors of the economy. It also ensures greater flexibility in reducing the negative effects and strengthens the viability of these troubled industries. This is something that Egypt should start implementing as a successful model in facing the rising number of troubled factories in different industries and sectors post-January 25 revolution, which requires establishing a fund or a sustainable mechanism for facing repeated cases of financial trouble recently.

Small and medium enterprises in Egypt have faced a difficult operating environment in the past, which resulted in financial troubles at a time they are facing restrictions and difficulties related to liquidity. Therefore, it has become necessary to launch a program or establish an economic entity that aims to alleviate the financial constraints faced by the companies that still have operational viability at this time. The purpose is to achieve sustainable employment and increase thereof, and support the expansion of this sector in Egypt, which would be a fundamental pillar for an initiative to revitalize the private sector. SMEs have tremendous potential to create needed jobs for the growing numbers of the youth.

This mechanism avails the dynamic micro and small business sector the ability to create job opportunities and access to the opportunities available in the market at a rate commensurate with this growth. We need to start this engine, and availing funding opportunities is of the essence.

Drawing on international experience, it is also important and urgent that the launch of the program or establishment of a relevant economic entity include ceasing the collection of sovereign arrears until the project recovers from its financial troubles.

From the International Press

Global Concern over the Growing Food Security Crisis in Asia

Asharq al-Awsat:

Most countries in the world are experiencing a state of slow economic growth and low commodity prices, which reflected on food prices. Although low prices benefit urban consumers, they pose potential problems for agricultural businesses and rural producers. Hence, agricultural investment could face a significant slowdown in agricultural countries, generating the food insecurity problem.

The world has suffered a series of food crises over the past decade due to bad weather. In the case of rice, Thai rice prices reached a record high of thousand dollars per ton in 2008. The high price of rice increased the demand on other grains such as wheat, soybeans and corn, driving their prices up as well.

As a matter of national concern, food security cannot be isolated from the economic, social and physical environments broadly speaking. In recent years, many countries have experienced slow economic growth, which affected disposable incomes and thus consumer spending and food consumption patterns. The environment has also seen a number of challenges such as climate phenomena that led to continued loss of fresh water resources and arable land.

Asian countries are suffering from economic slowdown, which affected the incomes of many of those who suffer greatly from lack of food security. It is expected that rice producers in Asia will suffer from drought, threatening to cut production and increase the prices of a food staple for nearly half the world's population.

The problem now is that extreme weather has already caused a rice crop decline worldwide, a phenomenon that has exacerbated in Asian countries. According to Shawn Hackett, the author of the financial flow report in the Hackett *Financial Advisors*, Inc., the drought in Southeast Asia is still affecting the crop. Global rice stocks are now less than half their normal size. In the coming monsoon, there may not be any ability to irrigate crops, which would hurt the rice crop that requires large amounts of water.

The global rice production is expected to decline this year for the first time since 2010, with low rainfall in Asia and a heatwave in most of the rice exporting countries - such as India - clearly reducing the vast rice cultivated areas. Vietnam and Thailand are expected to face drought in 2016. The three countries represent more than 60 percent of global rice trade, amounting to about 43 million tons.

Rice stocks are expected to decline in the first three exporting countries by about one third (about 19 million tons) at the end of 2016, which is the biggest year-on-year drop since 2003, according to Reuters calculations based on US Department of Agriculture data.

James Fell, an economist at the International Grains Council, said that so far we have not seen a significant price reaction with the hot and dry weather because both India and Thailand have a large rice surplus, but this cannot continue forever. The International Grains Council expects the global harvest to reach 473 million tons in 2016, down from 479 million in 2015, representing the first decline in six years.

Any major supply disruption would be very critical. In 2008, Asian rice production declined due to the "El Nino" phenomenon that prompted India to ban exports, driving world prices to extremely high levels, causing riots in many rice-consuming countries.

"El Nino" is a global climate phenomenon, where a change in temperature in one ocean affects the climate of another far away area. El Niño–Southern Oscillation (ENSO) occurs due to seasonal variation of temperature between the city of Darwin in Australia and the islands of Tahiti. El Nino spread between 1997 and 1998 and caused massive climatic disturbances in the tropics and North America, leading to massive fires in Indonesia and Brazil that lasted for months. It also caused floods and disasters in Latin American and East African shores.

While the rice price is currently well below the highs reached in 2008, it reached earlier this month $389.50 a ton, which is its highest since July, up 13 percent from its lowest level in eight years of $344 hit in September.

Although the production of rice in India in 2015 was largely stable, very high temperatures pose a threat to a second crop in the eastern regions. Traders expect further increases in prices by June, since India is not expected to produce a large crop before September, and Thailand will not produce its main crop before the end of the year. The government in Vietnam said that production will fall by 1.5 percent this year to reach 44.5 million tons, while exports will be 8.7 million tons.

In contrast, some Asian countries are also considering increasing imports. Indonesia is expected to record a jump in purchases in 2016, by more than 60 percent, to reach two million tons compared with the level a few years ago. China, the world's largest importer, purchases about 5 million tons per year and this rate is expected to continue. The International Grains Council expects China's production in 2016 to be less than consumption for the third year in a row.

Implications for Egypt:

Egypt should be aware from the beginning of the agricultural season of the need to plan agricultural targets in accordance with world developments. As for global grain production forecasts, the expected level of global production means continued lower growth rates for a third consecutive season. This reflects the continued negative impact of abnormal weather conditions caused by “El Nino” in the southern hemisphere, requiring serious steps to produce new varieties of less water-consuming and higher-productivity rice and grains, while setting tight controls for the agricultural process and volume of cultivated grains, especially rice.

Planning should also pay attention that the situation in Asia may drive food commodity prices higher worldwide in the new season, which will increase the burden on citizens and call for preemptive action to reduce the impact on prices and inflation rates, especially at the local level. Global rice consumption is expected to increase by 1.4 percent to reach 503 million tons in the 2016-2017 season, of which 405 million tons are expected to be consumed as food, which is enough to keep the annual world per capita share fixed at 54.6 kg.

These developments require the country to keep strategic stocks of rice from the beginning of the season to ensure price elasticity in the market. The country is also required to declare before the beginning of the year the export policy, the allowed volume of exports, and controls and mechanisms thereof to prevent the frequent problems that occur every season as a result of price fluctuations, which are expected to continue during the current year**.**

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ECES
The Egyptian Center for Economic Studies

Our Economy & the World

Global Financial Market Performance

Reuters, Argaam

Japanese Stocks dropped at the end of Friday trading with the rise in the yen and investors' tendency for profit reaping after continuous gains in the past four sessions.

Japanese stocks were negatively affected by losses of companies that provide supplies to the US Company Apple, in addition to falling oil prices and investors' preference to reap profits before the end of the week. Despite the decline, the Japanese stock market recorded weekly gains, supported by a fall of the yen during the past sessions, and positive business results of some listed companies. The Japanese "Nikki" index fell by 1.4 percent to 16412 points, but scored a weekly gain of about 2 percent. The "TOPIX" index fell by about 1.3 percent to 1302 points**.**

Meanwhile, Chinese stocks fell at the end of Friday trading, registering losses for the fourth consecutive week, marking the longest wave of decline in two years. China's stock market was negatively affected by the fall in metal prices, and falling Chinese Yuan's value, amid concerns over the abstention of the authorities to introduce more stimulus measures, with the improvement of some economic indicators. The "Shanghai" composite index fell by 0.3 percent to 2827 points at closing, marking a decline of about 3 percent this week.

The US stocks also fell during Friday trading and its losses increased affected by the negative performance of the energy sector in conjunction with the decline in oil prices, despite the release of positive economic data. The "Dow Jones" and "S&P" indices recorded losses for the third consecutive week, while the "NASDAQ" recorded losses for the fourth consecutive week.

The "Dow Jones' industrial average index dropped by more than 1 percent or by 185.1 points to 17,535.3 points, its lowest close since the end of March. The "NASDAQ" index also fell (-19.6 points) to 4717.6 points, while the "S & P 500" benchmark declined (-17.5 points) to 2046.6 points.

On a weekly level, the "Dow Jones" recorded losses of 1.2 percent, while the broader "S&P 500" declined by 0.5 percent, and the "NASDAQ" recorded a weekly loss of 0.4 percent.

In the European markets, "Stoxx Europe 600" benchmark index rose by 0.4 percent or by 1.5 points to 334.6 points, and recorded a weekly gain of 0.9 percent after two weeks of losses.

Also, the British "FTSE 100" index rose (+34.3 points) to 6138.5 points, the German "DAX" index rose (+90.7 points) to 9952.9 points, and the French "CAC" index rose (+26.7 points) to 4319.9 points.

On the other hand, gold futures for June delivery rose at settlement by 0.1 percent, or by $1.50 to $1272.70 an ounce. However, the precious metal recorded a weekly loss of about 1.7 percent.

In oil markets, the US "NYMEX" fell by 1.1 percent or by 49 cents to close at $46.21 a barrel and achieved a weekly gain of 3.5 percent. The "Brent" index fell by 0.5 percent or by 25 cents to close at $47.83 a barrel, and achieved gains of about 5.3 percent this week.

Implications for Egypt:

The performance of global financial markets during the week continues to be affected by stimulus programs and movements in oil prices related mainly to attempts to curb oil supply, which reflects on the Arab markets, including Egypt's, amid moderate liquidity. This suggests that Egypt, the region and the world are anticipating strong local or international developments that would be the main driver of change in financial market performance.

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 would require making visible the progress achieved by the Egyptian Stock Exchange in exercising 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.

The Egyptian market is also witnessing a state of cautious anticipation in transactions, which has reflected on the values and volumes of trading during the past period, and returned transactions to their selective levels that were dominant during the second half of 2015. However, performance will likely witness increased activity in the medium and long runs in light of transformations highlighted by recent global indicators.

Estimates suggest shifts in the trading of institutions in the global markets with expansion of investment in risky assets at the expense of bonds and fixed-income assets, which could contribute to improving performance of the global financial markets at the present time. Also, global capital markets have been monitoring recent developments in the US economy, which maintains an upward pace and is perhaps one of the few economies in the world about which the IMF's revised figures were relatively optimistic.