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ECES
The Egyptian Center for Economic Studies

Our Economy & the World

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

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Key Global Developments

Solar, Wind Costs Could Fall up to 59 percent by 2025, study says

Reuters

The average cost of electricity generated by solar and wind energy could fall by up to 59 percent by 2025 if the right policies are in place, a report by the International Renewable Energy Agency (IRENA) said.
Since 2009, solar photovoltaic (PV) module prices have fallen by 80 percent and wind turbine prices have fallen by around 30-40 percent as renewable energy capacity has grown to record levels and technologies have improved.
Solar and wind technologies can continue to fall in price to 2025 and beyond if governments set policies to minimize transaction costs and to streamline administrative procedures and approval processes, the report said.
IRENA estimates the global weighted average levelized cost of electricity (LCOE) of solar PV could fall by 59 percent by 2025 from 2015; the LCOE of offshore wind could fall by 35 percent and the LCOE of onshore wind by 26 percent.
The LCOE of concentrating solar power could also be as much as 43 percent lower by 2025.

Fed Keeps Rates Unchanged

Al Borsa News

The U.S. Federal Reserve kept interest rates unchanged at 0.5 percent.
The US Federal Reserve has kept interest rates at its level set during its last meeting in April in light of what it called slowing economic growth, which prevents tightening the monetary policy at present.
The US Central Bank kept interest rate at zero for almost ten years before raising it last December from a quarter to half a percentage point.

Wood Mackenzie: Global Upstream Spending Slashed by US$1 trillion since the Oil Price Drop

Reuters

According to consultant Wood Mackenzie Ltd, global spending on oil exploration and extraction has declined by about $1 trillion since the collapse in crude oil prices.
According to researchers, global spending on upstream development has been reduced by 22 percent or $740 billion, which adds up to slightly over $1 trillion when taking into account the reductions in traditional exploration investments.

Malcolm Dickson, Principal Analyst at Wood Mackenzie says: "The impact of falling oil prices on global spending has been enormous. Compared to pre-oil price fall expectations, capital investment will be down by around $370 billion or 30 percent in 2016 and 2017."

As a result, global production is set to drop by seven billion barrels of oil equivalent from 2016-2020 compared to earlier expectations before the oil price drop.

The sharpest reductions were concentrated in the US and Russia, while the Middle East was the least affected in general.

China Spends More on Infrastructure than the US and Europe Combined

Argaam

"China spends more on economic infrastructure annually than North America and Western Europe combined, since the global financial crisis," according to a new study.

Investment in infrastructure has fallen notably in 10 major economies, since the financial crisis, according to a study by the McKinsey Global Institute. Meanwhile, China is still going gangbusters on roads, bridges, sewers, and everything else.

Infrastructure spending fell as a share of gross domestic product in 10 countries from 2008 to 2013, namely: the US, U.K., Italy, Australia, South Korea, Brazil, India, Russia, Mexico, and Saudi Arabia.

However, data revealed that infrastructure spending grew in Japan, Germany, France, Canada, Turkey, South Africa, and China.

OPEC Oil Export Revenue Seen Down for Third Straight Year: U.S. EIA

Reuters

OPEC's full-year 2016 oil export revenues will probably fall 15 percent, down for the third straight year and possibly the lowest in more than a decade before rising in 2017, the U.S. Energy Information Administration (EIA) said.

Members of Organization of the Petroleum Exporting Countries (OPEC), including Iran, will likely earn about $341 billion in 2016, about 15 percent below 2015 levels, based on projections of global oil prices and the group's production levels, the U.S. government's EIA said in a report.

The last time OPEC's export revenues fell for three years straight was 1983-86.

At the projected level, OPEC's 2016 export earnings would be the lowest since 2004, when it earned about $295 billion.

Early in 2016, oil prices touched 12-year lows before staging a recovery to about $50 a barrel over the last two months. After a long run of oversupply, the oil market is expected to return to balance, driven by output declines, making the forecast for 2017 less bleak.

Supply outages across the world, including Canada and Nigeria, have accelerated crude's price rebound.

For 2017, OPEC revenues are projected to be $427 billion, due to an expected increase in crude oil prices, higher OPEC production and stronger exports, EIA said.

The group earned about $404 billion in net oil export revenues for 2015, down 46 percent, the biggest drop since EIA began tracking the data in 1975.

In 2015, Brent crude LCOc1 prices plummeted about 35 percent, or $20 a barrel, as major producers grappled with one of the worst gluts in history.

Attempts at a deal between OPEC and non-OPEC producers to shore up crude prices by freezing output fell apart this year when Saudi Arabia demanded that Iran join in.

In 2015, Saudi Arabia earned the largest share, about one third of total OPEC oil revenues or $130 billion.

Iran has explicitly said it had no plans to freeze the level of its oil production and exports, as the country tries to raise its crude exports to pre-sanctions levels.

EIA's estimates are not adjusted for inflation.

Brexit Could Spell Austerity for Britain to Secure £30 billion

KUNA

British Chancellor of the Exchequer, George Osborne, warned that after two months he will have to adopt an urgent austerity budget to secure £30 billion, if British citizens vote in favor of withdrawal from the EU.

Osborne said in a press statement that the government will be forced to increase taxes on income between two and three percent, along with reducing public spending in order to fill the financial gaps that would result from the country's exit from the European Union.

He stressed that failure to take direct urgent economic and financial measures after confirming the withdrawal from the EU will push the country's economy into a range of negative "serious" effects. Most notably the decline in investors' confidence in Britain's ability to control the management of its financial resources.

Osborne reiterated the warning that the abandonment of European membership will cost the British economy loss at all levels, especially in its ability to create jobs, exports as well as shrinking value of overseas investments.

It is expected that British voters will vote on June 23 in a popular referendum to decide the fate of their country's membership in the European Union, which Britain joined in 1973.

World Bank: 3.5 Percent in Growth is Expected for the Middle East Next Year

Al- Ahram Newspaper

The World Bank is downgrading its 2016 global growth forecast to 2.4 percent from the 2.9 percent pace projected in January. The move is due to sluggish growth in advanced economies, stubbornly low commodity prices, weak global trade, and diminishing capital flows.

According to the latest update of its World Economic Prospects report, growth in the MENA Region is projected to advance slightly to 2.9 percent this year, a downward revision by 1.1 percent from the January outlook. The downgrading comes with expectations of continued low oil prices over the year averaging $41 a barrel. The report attributed the main reason for this slight improvement in the region's growth in 2016 to expected robust recovery in Iran following the lifting of sanctions in January. It is expected that the awaited rise in oil prices in 2017 would support recovery in the region with the growth rate reaching 3.5 percent in 2017.

The report pointed out that both the emerging markets and commodities-exporting developing countries exerted great effort to adapt to the drop in oil prices and other main commodities, which constitutes half of this downward revision. Growth is expected to rise in these economies at a meagre of 0.4 percent this year, posing a downward revision of 1.2 percent compared with January expectations.

President of the World Bank Group, Jim Yong Kim, said that slowing growth sheds light on the importance of adopting policies that promote and improve the lives of people living in severe poverty. Economic growth remains the most important factor to guide poverty reduction efforts. Therefore, there are deep concerns about the sharp slowdown in growth of developing countries exporting primary commodities due to the drop in the prices of these commodities.

The report points out that emerging markets and commodity-importing developing countries are more resilient than similar countries exporting these commodities, though the benefits from lower energy and other commodity prices materialize slowly. The economies of those countries are expected to expand by 5.8 percent in 2016, recording a slight decrease from the 5.9 percent projected in 2015. Low energy prices and modest recovery in the economies of developed countries boosted economic activity.

Janet Yellen: Conflicting Economic Data Justify Adopting Cautious Monetary Policy

Argaam

Janet Yellen, Chair of the Board of Governors of the Federal Reserve commented in a press conference on the statement issued a short while ago that recent conflicting economic data justify the Federal reserve's adopting a "cautious" monetary policy.

She stressed that slow economic growth in the first quarter this year is temporary, and that some of it was not expected.

She added that the Federal Reserve is confident that the US economy will grow at a moderate pace and that wages will increase in the coming period.

Yellen said that global pressures on the US economy may continue with possible risk potentials persisting, though market volatilities disappeared.

She did not rule out increasing interest rate in the next meeting in July, if justified by released economic data, and implied that the Federal Reserve has concerns about possible Brexit.

Yellen said that the US labor market is slowing, but some indicators such as weekly jobless claims are still positive.

It is worth mentioning that the Federal Reserve kept the interest rate unchanged at a range between 0.25 and 0.50 percent, and cut its forecast for US GDP from 2.2 percent to 2 percent this year. It also reduced its forecasts for the long-term interest rate from 3.3 percent to 3 percent.

Implications for Egypt:

Current trends in the global economy confirm that the economic growth model based mainly on the export of raw materials and commodities is on its way to collapse in the next few years in favor of innovation, processing, maximizing value added, and proper investment of economic resources. The future decline in the cost of production of solar energy and wind power threatens over-reliance on oil and gas as a sole means to generating energy, which calls for the continuation of Egypt's efforts to increase its investments in new and renewable energy and to boost internal manufacturing to contribute to transforming Egypt to an industrial hub for the Arab region, relying on the extractive materials available in the Gulf region.

Egypt must pay attention to the potential impact of Britain's exit from/staying in the EU both at the level of trade with the EU, the size of targeted investments to Egypt, or concerning the movement of international trade and its impact on movement through the Suez Canal. But a particular focus should be given to preparing a scenario for Britain's exit from the EU, which will have a potential impact on the Egypt-Britain relations. Such impact depends on their adherence to the provisions of the Egypt-EU Association Agreement. The scenarios should also include any possible crises the global financial markets may face as a result of this referendum, vulnerability of the Egyptian capital markets, and the effect of this on economic growth prospects locally and on the government's plan to place segments of companies on the Egyptian Stock Exchange.

The decision of the US Federal Reserve to keep interest rates unchanged is a clear indicator of economic and financial fluctuations that started to emerge in the US economy on one hand, and international economic pressure on the US economic decision on the other. This confirms the theory that it is not possible to use monetary policy tools as a sole driver of global economic performance as was the case previously.

Special Analysis

Has the World's Financial Policy become a Threat to the World Economy?

Asharq al-Awsat

The last global financial crisis has left a legacy of enormous challenges to advanced economies, lowering bank interest rates to "zero" and to negative levels in other countries. Most governments resorted to the quantitative easing program (asset purchase) as an easy measure to inject new liquidity into the markets. Countries' sovereign debts rose around the world due to the increase in the yields of bonds and T-bills, as well as expansion of borrowing by most countries to attract new liquidity.

Risks to global financial stability increased, while growth prospects for developed and emerging economies fell, resulting in a liquidity crisis in some markets, with the value of assets dropping to levels not commensurate with macroeconomic fundamentals.

The global economy reached a slowing phase, and even recession in some countries, due to accumulated factors resulting from the global financial crisis, as well as new factors such as the decline in oil and commodity prices. This caused inflation rates in some countries to decline to levels below the targeted rates, as in the US and the Eurozone, for example.

With these negative financial factors, the number of the poor around the world increased, the middle class decreased, while the rich's wealth increased as a result of current financial and monetary policies. This requires a revisiting of countries' fiscal policies to revive their economies.

Egyptian economic researcher Salma Hussein told "Asharq Al-Awsat" that the economic theory collapsed before the global financial crisis, which began late 2007. She said that the economic theories taught in universities collapsed in the face of reality, which was clearly evident in the financial crisis. Dr. Osama El Ansari, Professor of Finance and Banking at the Faculty of Commerce, Cairo University, agrees with Salma. He told Asharq Al Awsat that classical economic theories cannot fit all countries due to country differences. He pointed out that globalization is difficult to apply in light of the disparities between societies. Recently, the International Monetary Fund (IMF) said that it is ready to reconsider its economic thinking and methods related to the financial policies. IMF chief economist Maurice Obstfeld said that the shock resulting from the global financial crisis has led the academic community concerned with policies around the world to broadly revisit the macroeconomic and financial policies. "Given the implications of our decisions for the member countries and the global economic system, it is extremely important to continue reassessing our thinking in light of new evidence."

Economic researcher Salma Hussein said that the recognition by international institutions such as the IMF and World Bank of errors in their financial policies has not been translated into developing other alternative policies, although there are hundreds of books addressing many alternatives from all directions. New evidence in the global economy, according to the IMF report on global financial stability, which was published in April, indicate that risks to global financial stability have risen. He added that the drop in oil and commodity prices caused high risks to persist in emerging market economies. High uncertainty regarding the Chinese growth model caused the pass-through effects to increase in world markets. These developments further tightened the financial conditions, reduced the appetite for risk-taking, increased credit risks, and disrupted the addressing of budget imbalances, affecting financial stability. Although the market mood improved because of higher oil prices, strong US financial data, and the supporting measures taken by central banks, continued unrest increased instability risks, to the extent of civil wars in some cases, which, in Hussein's words, explains the current state in some troubled Arab countries.

These data indicate rising fears of a new financial crisis, which made the IMF emphasize that additional measures should be taken to reach the most balanced combination of policies to improve growth and inflation outlooks and secure financial stability. In the absence of such measures, market turbulences may return.

The IMF added that in such circumstances, increasing risk premiums may further tighten market conditions, and lead to a devastating cycle of counter-effects in which fragile confidence, weak growth, low inflation and rising debt burdens would alternate. Global market disorders could lead to increased risks of a slowdown that is more serious and longer with financial and economic recession. Salma Hussein clearly warned against the current financial policies that disregard “public interests”. Current policies are in favor of a group representing narrow interests that are usually contrary to public interests. She noted that 60 percent of wealth in the Middle East is owned by only 10 percent of the population, indicating a widening wealth disparity among the population “inequality”, according to Thomas Piketty author of the book “Capital in the Twenty-First Century”.

Those changes in the thinking of the IMF, World Bank and senior economists are in line with the French economic thinker Thomas Piketty who authored the world best-selling book: “Capital in the Twenty-First Century,” in which he addressed the lack of justice in the distribution of wealth around the world.

Piketty shows that wealth is growing faster than economic output growth. He proved that using an economic equation that describes the relationship between wealth and national output. He stressed that capitalism does not correct its path towards greater equality by itself and that increasing concentration of wealth will have an impact that would grow like a snowball if things left unresolved.

Fiscal risks are increasing in almost all countries. In advanced economies, persistent chronic weak growth and low inflation increase challenges facing reducing debt ratios. In emerging market and developing economies, increased tightening of global financial conditions and fluctuations raise the interest bill, while gross financing needs are increasing.

A permanent solution to the problem of excessive debt burdens cannot be reached without achieving higher growth in the medium-term. By maintaining an increase of one percentage point in growth, debt ratios in advanced economies can reach their pre-crisis levels within one decade. This requires accelerating structural reforms, including tax and spending policies, which will boost incentives to work and invest, and increase productivity growth, according to the IMF report on fiscal risks around the world.

There is no doubt that the deteriorating economic situation of governments, due to the financial crisis, makes them encourage businessmen to invest through loose laws, resulting in increased tax evasion among the rich, which was evident recently in the "Panama leaks." And also through privatization, which gives the private sector a greater role to play in controlling the fate of the workforce. Then, governments eliminate or decrease subsidies with the pretext of saving expenditure, hence, increasing poverty rates around the world.

According to Salma Hussein, the financial crisis had negative repercussions on all countries with varying degrees. However, poor communities were more affected by it. She noted that poverty rates increased due to low revenues and wages in these societies, and that poverty has become linked to age. Retirement can move a worker from a good living class to a poor one due to low pension benefits in poor communities.

An article published on the IMF website last week raised doubts about the neo-liberal policy, which dominated economic thinking over the past three decades. Economists Jonathan D. Ostry, Prakash Loungani, and Davide Furceri see a growing movement against some neo-liberal principles. They believe that free movement of capital across borders, and austerity measures by world governments hinder rather than help the world. They concluded that the current financial policy raised the rates of inequality and poverty around the world, which negatively affect growth rates.

Osama El-Ansari, professor of finance and banking, told Asharq Al-Awsat that regionalization should replace globalization because the latter failed, as apparent in the global financial crisis. Economic researcher Salma Hussein called on the world to unite to get out of the crisis. No country can address the crisis by itself, but it can be addressed regionally at least. She asserted that the international community can face up to the economic crisis in the twenty first century.

Implications for Egypt:

This article confirms the vision set forth by the Center more than once, namely, that fiscal policies should go through a structural shift in Egypt, and that over-reliance on monetary policy instruments to address economic problems should be decreased. This is particularly important as the state budget still reflects high spending on items such as wages and debt service, reducing the financial savings that were supposed to be directed mainly to spending on health, education, and scientific research. The increase in the budget deficit is mainly due to the fact that the draft budget included exaggerated revenues, particularly tax revenues, although the country is facing a relative economic slowdown caused by internal and external factors. The budget indicates that the methods of increasing revenues did not change. No new tools or methods were introduced to attract new non-tax revenues, or to restructure the tax system to increase the tax revenues.

Therefore, there is a need to transform and change the approach of preparing the state budget in order to start applying program and performance budgeting to a number of agencies and ministries, linking budget implementation to the targeted economic performance indicators.

Addressing these problems requires establishing sustainable industrial development with economic restructuring to establish industries that replace imports on the one hand and develop exports on the other. Signs of this strategy are clear in the strategy of developing and financing SMEs, and establishing integrated agricultural-manufacturing clusters as part of the one and a half million feddan reclamation project. CBE decisions are the real beginning of economic reform, but they must be accompanied with complementary reforms in other economic areas to remove export and investment barriers through real economic reforms.

However, it must be noted that the current CBE policies should develop a program to address the financial distress caused by the banking measures that began in the wake of the global financial crisis in 2009 and increased after the January 25 revolution. This would unleash new economic and developmental potentials, and revive economic growth rates through re-employing capital investments and complex private assets, particularly that the various estimates of stalled investments as a result of financial distress clearly reflect the magnitude of the impact on economic growth.

From the International Press

3.5 Percent Rise in Regional Growth in 2017

Albayan/ News Agencies

The World Bank predicted that the growth rate in the Middle East and North Africa would rise slightly to 2.9 percent in 2016, down 1.1 percentage points from the January forecast. The Bank pointed out that the awaited rise in oil prices in 2017 is expected to strengthen recovery in the region, bringing the growth rate up to 3.5 percent in 2017.

The World Bank is downgrading its 2016 global growth forecast to 2.4 percent from the 2.9 percent pace projected in January. The move is due to sluggish growth in advanced economies, stubbornly low commodity prices, weak global trade, and diminishing capital flows.

According to the latest update of the World Bank's Global Economic Outlook report, commodity-exporting emerging market and developing economies have struggled to adapt to lower prices for oil and other key commodities, and this accounts for 40 percent of the downward revision. Growth in these economies is projected to advance at a meager 0.4 percent pace this year, a downward revision of 1.2 percentage points from the January outlook.

"This sluggish growth underscores why it's critically important for countries to pursue policies that will boost economic growth and improve the lives of those living in extreme poverty," said World Bank Group President Jim Yong Kim, "Economic growth remains the most important driver of poverty reduction, and that's why we're very concerned that growth is slowing sharply in commodity-exporting developing countries due to depressed commodity prices."

Commodity-importing emerging markets and developing economies have been more resilient than exporters, although the benefits of lower prices for energy and other commodities have been slow to materialize. These economies are forecasted to expand at a 5.8 percent rate in 2016, down modestly from the 5.9 percent pace estimated for 2015, as low energy prices and the modest recovery in advanced economies support economic activity.

Among major emerging market economies, China is forecasted to grow at 6.7 percent in 2016 after 6.9 percent last year. India's robust economic expansion is expected to hold steady at 7.6 percent, while Brazil and Russia are projected to remain in deeper recessions than forecasted in January. South Africa is forecasted to grow at a 0.6 percent rate in 2016, 0.8 of a percentage point more slowly than the January forecast.

Potential Risks

A significant increase in private sector credit— fueled by an era of low interest rates and, more recently, rising financing needs—raises potential risks for several emerging market and developing economies, the report finds.

"As advanced economies struggle to gain traction, most economies in South and East Asia are growing solidly, as are commodity-importing emerging economies around the world," said World Bank Chief Economist and Senior Vice President Kaushik Basu. "However, one development that bears caution is the rapid rise of private debt in several emerging and developing economies. In the wake of a borrowing boom, it is not uncommon to find non-performing bank loans, as a share of gross loans, to quadruple."

Anemic Growth

In an environment of anemic growth, the global economy faces pronounced risks, including a further slowdown in major emerging markets, sharp changes in financial market sentiment, stagnation in advanced economies, a longer-than-expected period of low commodity prices, geopolitical risks in different parts of the world, and concerns about the effectiveness of monetary policy in spurring stronger growth. The report introduces a tool to quantify risks to the global outlook and finds that they are now more tilted to the downside than in January.

"Flagging growth prospects in emerging markets and developing economies would slow or even reverse their progress in catching up to income levels of advanced economies," said Development Economic Prospects Group Director Ayhan Kose.

Regional Outlook

As for the Middle East and North Africa, the Bank expects growth to pick up slightly to 2.9 percent in 2016, 1.1 percentage points less than expected in the January outlook. The downward revision comes as oil prices are expected to track lower for the year, at an average of $41 per barrel. The main reason for the slight improvement in regional growth in 2016 is an expected strong recovery in the Islamic Republic of Iran following the lifting of sanctions in January. An envisaged upturn in average oil prices in 2017 is projected to support a recovery in regional growth to 3.5 percent in 2017.

The Bank cut its forecast for growth in the US for 2016 by 0.8 percentage points due to a sharp decline in investments of the energy sector and decline in exports to reach 1.9 percent in growth rate.

The Eurozone saw a slight reduction of growth forecast in 2016 to 1.6 percent, despite the strong support of monetary policy as well as the support the region gets as a result of low energy and commodity prices.

The World Bank's reducing its projections comes after a similar step taken by the International Monetary Fund, which cut its estimates for growth two months ago.

Slowdown

The World Bank expected growth in China to remain the same at 6.7 percent this year after a growth rate of 6.9 percent in 2015.

Chinese growth is projected to slow to reach 6.3 percent in 2018, with the world's second largest economy rebalancing by contracting its reliance on exports and adopting a more consumer-based growth model.

Implications for Egypt:

Egypt should pay attention to the impact of slow global growth on the region. Declining growth in the Gulf will lead to a slowdown in aid for Egypt as well as a possible reduction in investments and the number of Egyptian workers there, and consequently their remittances.

The legislative system related to the investment climate in Egypt needs a comprehensive review. It is important to establish a system of electronic establishment of firms and lower the establishment time spent and its procedures. Legislations should also be amended concerning company establishment and its procedures, governance, contracting, land allocation mechanism, utility connections, the tax system, the market exit system, and bankruptcy. In addition, an effective mechanism for settling investment disputes should be put in place. The current investment law needs amendment to reflect the country's vision for investment and avoid the flaws that appeared in implementation following the amendments in March 2015, which did not produce the expected effects so far, especially in the absence of a clear investment map.

The country' strategy should include further geographic distribution of developmental projects based on the unemployment levels in the rural areas, especially among females. Rising unemployment rates among females indicate that their economic potentials are not properly utilized. Projects like "your job near your home" will achieve the goal of reducing unemployment and raise employment rates among females in particular.

It is worth noting that low foreign direct investment in Egypt is not attributed to geopolitical factors in the region or to the global financial crisis looming on the horizon alone. They can be explained also by the internal factors related to managing the investment climate, addressing its obstacles and eliminating administrative overlaps as well as the length of licensing procedures and approvals regardless of all the reform efforts exerted in this respect.

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Global Financial Market Performance

Chinese stocks managed to end Friday's trading session higher, supported by declining prospects for Brexit.

The stock market in China turned its downward trend at the beginning of the session to a rising one with end of trading, following other Asian and European markets' gains, in the wake of the killing of a British parliamentarian that was pro staying in the EU. This caused analysts to predict that voters would vote in favor of staying in the EU.

The Chinese market started the session with a decline, influenced by concerns of a weak economy, falling value of the yuan, and shares not joining the "MSCI" Emerging Markets index.

The "Shanghai" Composite Index rose 0.4 percent to 2885 points at closing, but achieved weekly losses of about 1.4 percent.

Japanese stocks rose at the close of Friday trading, with the yen falling against the dollar after its gains on Thursday, with support from rising US stocks.

Investors' expectations for the British to vote against Brexit on 23 June increased.

The Bank of Japan announced keeping its monetary policies unchanged, and the Federal Reserve kept the interest rates unchanged. This pushed the yen to appreciate to the highest level in 21 months. "Nikki" index rose 1.1 percent to 15,599 points, while the "TOPIX" index rose by 0.8 percent to 1,250 points.

US stocks fell during Friday trading with continued global markets fears from a referendum that will seal the fate of Britain's membership to the EU, and the major indices posted weekly losses.

The "Dow Jones" industrial index dropped by 57.9 points to 17,675.1 points, the "Nasdaq" index declined (-44.5 points) to 4800.3 points, and the benchmark "S & P 500" declined (- 6.7 points) to 2071.2 points.

On a weekly level, the "Dow Jones" recorded losses of 1.1 percent, the "Nasdaq" Index fell 1.9 percent, and the broader "S & P 500" recorded losses of 1.2 percent this week, the largest since the end of April.

In the European markets, "Stoxx Europe 600" rose by 1.4 percent or by 4.4 points to 325.7 points, and scored a weekly loss of 2.1 percent.

The British "FTSE 100" index rose by 70.6 points to 6021 points, the French "CAC" index rose 40.8 points to 4193.8 points, while the German "DAX" index rose 80.8 points to 9631.3 points.

Meanwhile, gold futures for August delivery was lower at settlement by 0.3 percent, or by $3.60 to $1294.80 an ounce. The precious metal recorded weekly gains of about 1.5 percent.

In the oil markets, the US "NYMEX" rose by 3.8 percent or by $1.77, closed at $47.98 a barrel and recorded a weekly loss of 2.2 percent, the largest since May 6th. The "Brent" benchmark also jumped by 4.2 percent or by $1.98, closed at $49.17 a barrel, and recorded a weekly loss of about 2.7 percent.

Concerning economic data, the number of US under-construction houses fell by 0.3 percent to 1.16 million houses in May. Building permits rose by 0.7 percent to 1.14 million units during the same period.

Implications for Egypt:

The return of fears about Brexit and preliminary US signals to re-consider raising interest rates dominated the markets during trading last week, especially with the approach of the British referendum this Thursday. This clearly affected the performance of global markets in the absence of a clear picture about the repercussions of this situation. Hence, there is a need for the Egyptian Stock Exchange and the Egyptian Financial Supervisory Authority to monitor transactions' movement closely during the current period, especially that there are Egyptian shares listed on the London Stock Exchange. In particular, there is a need to prepare quick alternatives to deal with any possible trouble that may result from a British decision to exit the EU in order to reduce its effects on the Egyptian Stock Exchange.

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 present. 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.

We believe that 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 long-run in light of expected transformations in global financial markets.