Issue: 28

Date : 25 Sept. 2016

ECES The Egyptian Center for Economic Studies

Our Economy & the World

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Key Global Developments

GCC Budget Deficits Likely to Exceed USD 153 Billion in 2016
KUNA

After recording an estimated USD 119 Bn. of budget deficits in 2015, mainly due to lower oil revenues, GCC budget deficits are forecasted to come in at over USD 153 billion in 2016, according to a report by KAMCO.

According to the report, GCC budget deficits will reach the peak in 2016, then drop gradually with the budget gaps continuing on the medium term.

Lower oil receipts and spending gaps would also mean that Saudi Arabia would incur large budgetary gaps, and is expected to contribute to about 55 percent of the budget deficits of the region in 2016, it said.

Budget deficits are likely to stay over the near future, as deficits of over USD 100 billion are expected each year until 2021. Current account balance for the GCC is also expected to worsen in 2016, as the overall current account deficit (CAD) is expected to reach 6.6 percent of GDP, it said.

According to the report, GCC countries' GDP will drop by 2.2 percent (year on year basis) to $1.38 trillion in 2016, which is less than the level in the past 5 years. The report expects GDP to grow between 2017 and 2021, however.

50 Million Tons of Iron Ore May be Added to the Global Supply
Argaam

The world's biggest miners, including the Brazilian Vale, will add about 50 million tons of iron ore to the market between now and June next year, which can only mean one thing for prices — iron oversupply and price drops, according to Liberum forecasts.

Projects such as Roy Hill in Australia, Anglo American's Minas Rio and Vale's S11D are set to inject 686 million metric tons into in the first half of 2017, from 677.8 million tons in the June-Dec 2016 period and 636.3 million tons in the opening six months of the year, according to Liberum's analyst Richard Knights.

Liberum's vision comes after various forecasts reported by miners such as Vale, and banks such as Morgan Stanley and Citi Group.

While Brazil's largest miner believes iron ore prices will remain at $50, Citi believes the steel-making ingredient will average at $45 in 2017 because of the global glut.

OPEC Chief: Oil Market Stabilization Deal May Last One Year – RIA
Reuters

A possible deal to support oil prices by the world's leading producer countries may last for one year, the secretary-general of OPEC said on Tuesday, longer than other officials have indicated.

OPEC and non-member producers including Russia are discussing a deal to stabilize the market by at least freezing output, although key details such as the timing and baseline for any deal have yet to emerge.

"One year, we are looking at one year," OPEC Secretary General Mohammed Barkindo said, RIA news agency reported.

Russia and members of the Organization of the Petroleum Exporting Countries hold an informal meeting in Algiers on Sept. 28. Algeria's energy minister said any OPEC move to freeze output would help balance the market for at least six months.

Several producers have called for an output freeze to rein in a supply glut that triggered a price collapse in the last two years, hitting their income. Previous talks on an output freeze collapsed in April.

One potential stumbling block - Iran's insistence on boosting exports after sanctions on it were lifted in January - is less of an issue this time because Iran's own figures suggest its production is close to pre-sanctions levels.

Germany no Longer Set to Drive Growth in Europe: Morgan Stanley
Argaam

The powerhouse German economy will no longer outperform the euro zone in 2017 according to a new report from Morgan Stanley.

Germany is the largest economy in Europe with a nominal gross domestic product (GDP) in 2016 of $3.5 trillion, according to the International Monetary Fund (IMF).

The country, a founding member of the European Union, is often lauded for its skilled manufacturing base and strong export surplus.

However, a new note Tuesday from Morgan Stanley's chief European economist, Elga Bartsch, suggests the German engine may be spluttering.

Citing external headwinds, the note forecasts German GDP growth will slow from 1.5 percent this year to just 1 percent next year, no longer outperforming the wider euro zone.

"Ahead of the 2017 general election, we will likely see an increase in the political frictions between the coalition partners, CDU/CSU and SPD, on key issues including fiscal discipline and European integration, in addition to issues of refugees.

Russia Faces a Major Crisis in the Provision of Liquidity
Argaam

After nearly two years of economic recession, Russia is facing a major crisis these days as liquidity contracts at an alarming rate. According to the Russian Ministry of Finance, the general reserve fund shrank to $32.2 billion in September, compared to $91.7 billion in September 2014.

According to CNN Money, the situation is likely to worsen over the coming period, with reserves shrinking to $15 billion by the end of 2016, which will probably run out if oil prices do not rise soon.

The crisis is largely due to the global decline in oil prices, at a time the oil sector is considered one of the most important sectors that contribute to the country' budget, as oil accounts for nearly 37 percent of total government revenues compared with 50 percent two years ago.

The Russian budget for 2016 was prepared based on $50 a barrel, while the average price during the first eight months of 2016 was $43 a barrel.

BIS Warns of a Chinese Bank Crisis
BBC

Risks of a Chinese banking crisis are mounting, according to a warning indicator from the banking industry's global watchdog.

A key gauge of stress in the banking sector is now more than three times above the danger level, the Bank for International Settlements (BIS) said in its latest quarterly review.

China's credit-to-GDP gap hit 30.1 in the first quarter of 2016, it said.

The BIS considers a credit-to-GDP gap of 10 to be a sign of potential danger.

A year ago the BIS quarterly review put the figure for China at 25.4.

The BIS calculates the gap by looking at borrowing in relation to the size of the economy, and comparing that with the long-term trend of that ratio. When the two start to diverge, the BIS argues, a banking crisis could be on the way.

The BIS has a central position in global finance as it provides banking services to central banks and monitors the international flow of money and credit.

China's banking sector strength is subject of global markets' interest.

Since the financial crisis of 2007-2008, there has been a boom in credit as the Chinese government has attempted to spur flagging growth.

But some of that lending has not been productive and the IMF estimates that loans worth $1.3 trillion are at risk of default.

However, as the Chinese banking system is largely owned or controlled by the government, analysts say the government would bail out the banking sector if necessary.

Global Bond Issues at their Highest Level in 10 Years
Argaam

Securities industry is recently growing significantly at the fastest pace in nearly 10 years, and at a time when many countries, companies, and American agencies as "Fannie Mae" and "Freddie Mac" are heading towards indulging in more debts, coinciding with global interest rates dropping to record levels.

According to data issued by "Dealogic," total debts sold since the beginning of the year amounted to $4.88 trillion, compared with $4.91 trillion in the same period in 2007, driven by the policies of negative interest rates, as well as bond purchasing programs backed by the Bank of Japan and European Central Bank.

The increase in bond sales have continued despite recent market turbulences ahead of the meeting between the Bank of Japan's Monetary Policy Committee and the US Federal Reserve, at a time when investors and bankers expect continuing sales of billions of dollars in bonds over the coming days.

The 40-year bonds issued by "Microsoft" fell by 7 percent in August, while the debt prices of "Apple" due in 2046 fell by 6 percent. The majority of losses concentrated in long-term bonds.

Implications for Egypt:

The above news indicate the return of tensions on the international scene, especially in China, which suffers from signs of a banking crisis that requires greater flexibility, and in Russia, whose foreign reserves are eroding due to continued pressure on its economy and the lack of improvement in oil prices, resulting in a liquidity crisis. The German economy is also starting to suffer from signs of slowing growth rates, reducing its role as a key driver of economic growth in the EU.

In light of the above, there is clearly a rising trend to seek stable international sources of funding, resulting in a strong growth in the volume of bonds issued worldwide. This trend could continue in the short run in light of increased likelihood of rising interest rates in many economies.

Under these conditions, Egypt should start implementing an integrated economic reform program to overcome crises, which began floating again on the international scene, whether on the monetary or financial levels. The reform program will be linked mainly to Egypt's attempts to obtain financial packages from a number of international and regional institutions, most importantly, the international Monetary Fund. This will avail it a greater opportunity to achieve financial flexibility in the implementation process. In addition, the program must comprise an integrated project for financial stability in Egypt that includes tightening control over the financial sectors and improving instruments for risk and liquidity management in the short and medium terms.

From the International Press

Emerging Markets Brace for $100 bln Debt Issuance Deluge
Reuters

Emerging market countries, companies and investors are limbering up for what could be a nearly $100 billion avalanche of debt issuance over the next couple of months.

Analysts estimate Gulf countries led by a potential EM record sale from Saudi Arabia could unleash more than $25 billion alone, while companies from Brazil to Russia could all rush the market buoyed by near-perfect conditions.

The queue has formed as average EM sovereign borrowing costs have tumbled below 5 percent in recent weeks towards the record lows of 2012 when the Federal Reserve's quantitative easing was running at full thrust.

This time around the impetus is the miserly developed market interest rates that are forcing investors to look elsewhere, as well as the rebound in commodity prices and nearly $10 billion that will be looking for a home when a host of sovereign bonds mature this month.

"We should expect September to be very busy and rightly so because the market is starving for new paper," said JP Morgan Asset Management's chief investment officer for emerging market debt, Pierre-Yves Bareau.

He expects at least another $46 billion of emerging market sovereign debt to be issued over the remainder of the year, the bulk of it this or early next month, and roughly the same in net terms from big EM companies.

Saudi Arabia will be key to whether the overall amount gets close to $100 billion. It has been signalling its first major bond sale for a while and some Middle East bankers say the Saudis may top the record $16.5 billion issued by Argentina when it returned to markets in April.

The Saudi time frame seems to be inching backwards, with the Financial Times reporting on Thursday that it may be finalised at next month's IMF meeting. But assuming it does come, it will set the tone, and prices, for the entire market.

Gulf counterpart Bahrain has also chosen banks for an issue, Kuwait may sell $10 billion of conventional bonds and sukuk in global markets, while at least half-dozen major Gulf companies are also gearing up for moves.

"I think anyone who is an oil exporter is fair game," said Pictet asset management's Guido Chamorro. "Egypt is another country that could come and I would also expect some of the Latin American countries to be opportunist."

He says some may be looking to nip in ahead of the Saudis to ensure they don't soak up all the demand, and also try and avoid any potential market recoil if the Fed makes clear later this month that U.S. rates are set to go up.

"$50 billion would be a big month (for sovereign issuance overall), but if Saudi Arabia issues 15-20 billion then it is certainly possible," Chamorro said, adding that market conditions are so good at present that few countries were bothering to formally present, or 'roadshow', to investors.

RECORDS SHATTERED

EM government debt markets are already heading for a record year as the lure of cheap funding options brings new countries to the market and sees experienced borrowers refinance maturing and existing bonds.

JP Morgan's Bareau estimated that EM sovereigns have sold roughly $95 billion of debt so far this year, which means the $40-$50 billion expected still to come would take the total well over the $106 billion set in 2014.

On top of that, gross issuance by EM firms is seen at a steady $220-$240 billion.

Digesting it all shouldn't be too much of a stretch for investors.

Though the prospect of U.S. rate hikes and blockages in Asia swaps markets could impact slightly, EM-focused funds have seen a record $20 billion shovelled into them over the last two months, meaning there is plenty of cash sloshing around. .

Other names potentially joining the issuance frenzy include Mexico, Colombia, Nigeria, Kenya and even strained Mongolia.

Aberdeen Asset Management's head of EM debt, Edwin Gutierrez, also tips big hitter Brazil, which has been one of 2016's best bond market performers and formally ousted President Dilma Rousseff on Wednesday.

Its cash-hungry corporates such as Petrobras he said could well be preparing moves having been out of markets for months.

Russian firms that have been effectively locked out after some were put under Western sanctions could start testing the waters too after Euroclear cleared its first post-sanctions dollar bond, though they are likely to stick to a select group of buyers.

"We are waiting, everyone is waiting, the simple fact is that there is more demand than supply," Aberdeen's Gutierrez said with respect to the broad EM issuance prospects. "It will start as a trickle but it could turn into a flood."

Implications for Egypt:

Egypt is expected to face challenges in the coming issuance of international bonds, because of the likelihood of higher interest on the US dollar, unrest in emerging markets, and the shock caused by Britain's exit from the EU. In addition, there is a growing trend of countries with similar economies to issue international bonds during the current period. However, the difficulty is reduced by virtue of the economic reforms to be applied and changes in monetary policy and hence similar improvement in financial policies and their economic impact.

But it must be emphasized that the issuance of dollar-denominated bonds currently represents part of Egypt’s fiscal policy and mechanisms to bridge the widening financing gap. However, the resources resulting from the issuance should be directed to investments and development projects that are able to generate stable cash flows in foreign currency to finance bond payments of principal and interest in a way that does not represent an escalating burden on the state budget. In fact, issuances should always be linked to the way their resources and revenue are used. Therefore, before embarking on the issuance, its marketing prospects should be studied closely.

The importance of the issuance at this time lies in Egypt’s return to international funding markets in light of the national economy’s need to finance the funding gap, through borrowing or dollar-denominated bonds or other methods. However, the results of the issuance promotion process should be taken into account in light of the situation in global markets, Egypt's international credit rating and revenue levels on issuances by developing countries in global markets.

Special Analysis

Protectionist Measures .. Major Impediment to Global Economic Growth
Al-Sharq Al-Awsat

Countries around the world - both developed and emerging alike - are trying to agree on clear solutions to address protectionist measures in order to improve international trade, given the slow global economy. Countries tend to mitigate these measures, which reflect negatively on cargo traffic and affect different sectors from electronics to agricultural products.

Despite repeated pledges, the number of new measures imposed by developed countries, which limit the exchange of goods and services, reached a monthly record between mid-October 2015 and mid-May 2016, since the financial crisis that erupted in 2008. In mid-August, the governments of the G20, the world's largest economies, imposed about 350 new measure against foreign commercial interests, nearly four times the number of measures taken in 2009.

An alert report on global trade, recently published by a London-based economic policy research center, said that trade protectionist measures are increasing all over the world since the financial crisis. According to the report, the US took more than 600 measure against foreign companies between November 2008 and May 2016, the most protectionist measures taken by the G20 members and in the world.

Although developed countries tend to liberalize trade, the US and the EU accuse China of violations and hindering access to its enormous markets. These warnings target China in particular, which is accused of dumping the world with low-cost steel to reduce the massive surplus in its steel sector. Chinese metal exports are subject to anti-dumping measures in the EU, and to prohibitive taxes in the US. The US publically accused China of responsibility for the surplus in the steel sector’s production capacity, which led to the collapse of world prices, saying that Chain’s pledges are insufficient to solve the problem.

The Chinese Ministry of Commerce said in a statement last August that the European Commission decided to impose duties of 19.7 to 22.1 percent on steel products imported from China, in a second step to impose anti-dumping duties on Chinese steel products. The ministry added that this move will raise the price of related products in the EU and will hurt competition in the manufacturing sector, noting that collecting fees retroactively increases legal uncertainty and strongly hinders international trade.

The protectionist measures imposed by the US take a variety of names, while practices totally ignore the World Trade Organization (WTO) rules. For example, the US Department of Commerce (DOC) imposed an obligation of 522 percent - about 266 percent in anti-dumping duties and about 256 percent in anti-subsidy duties - on imports of cold flat-rolled Chinese steel in May.

According to WTO rules, the imposition of anti-dumping and anti-subsidy duties at the same time on the same product from the non-market economy poses a threat to the world trade, contradicting the US obligations under the WTO agreements. On the other hand, trade liberalization poses a dilemma for many countries faced with rising populist movements protesting the results of globalization, which are believed by their compatriots to be not in the interest of the poor.

Emerging countries are among those facing popular demands for increased protectionism. In addition to the safeguards restricting imports, there are large scale moves to impose anti-dumping duties on imports from certain countries, which are sold at very low prices. The purpose is to protect domestic industries. Last May, Malaysia began research work to determine whether it can impose preventive measures on rebar and other products. South Africa also launched a similar research in July to impose duties and fees on steel sheets.

These measures are applied with the assumption that imports of these products significantly weaken the domestic industry. However, in recent years, there have been many cases of countries applying preventive measures without following adequate unilateral procedures restricting imports.

Chinese President Xi Jinping's warnings during the last G-20 summit coincide with similar warnings from the heads of three international organizations of the risks facing the global economy due to the rise of anti-free trade measures in many developed countries. The Managing Director of the International Monetary Fund, Christine Lagarde, urged company executives to press governments to ensure freedom of trade, noting that the outlook for global economic growth in 2017 are not encouraging. She warned that increased protectionist measures at the level of politicians, leaders of public opinion and official policies prevent the flow of international trade, and reduce cross-border investments, goods, services and employment.

On his part, the Director General of the WTO Roberto Azevedo said that the rise in protectionist measures raises concerns about the global economy. He added that allowing the anti-trade sentiment to spread means opposing development, growth and job creation, pointing to the need to rely on facts to highlight the errors of opponents of free trade.

The WTO predicted weak trade growth in the third quarter of 2016 in its first quarterly trade barometer. The current reading of the WTO barometer is 99, which is slightly less than the overall trend and closer to the low-end of the latest data. A reading above one hundred indicates trade growth in line with the general trends in the medium term.

According to a recent WTO report, global trade growth is expected to remain weak at 2.8 percent in 2016, making it the fifth consecutive year in which global trade grows at less than 3 percent. The report also warned of moving towards more protectionism, which strangled the already weak global economic recovery. However, it seems that the US does not care. The Republican presidential candidate Donald Trump threatened to terminate existing trade agreements and impose high tariffs on Mexico and China. But according to statistics released by the US Department of Commerce, US imports from China have grown at a cumulative rate of 383 percent between 2000 and 2015, while its exports to China rose by about 614.2 percent over the same period.

Implications for Egypt:

These global developments affect chances to increase the fair volume of trade worldwide, which requires Egypt to pay particular attention, and to take serious actions in this respect. However, Egypt must take into account that many measures still increase the cost of foreign trade transactions, especially in relation to exports. It is important to address these measures to stimulate export growth, such as facilitating licensing, customs clearance procedures and taxation, as well as reducing the cost of financing transactions and the number of required procedures and approvals.

In light of the recent actions taken by the government or the Central Bank of Egypt, it has become necessary to conduct a thorough sensitivity analysis of the effects of changes in the exchange rate on export indicators and on the cost of imports, which have yet to appear in full. It is likely that recent changes in the exchange rate will improve Egypt's competitiveness. But the conduct of a sensitivity analysis of the detailed impact of changes in the value of the US dollar on exports and imports from the different sectors will facilitate developing policies that aim to increase exports and reduce imports.

It is also necessary to finalize and to start implementing a strategy for industrial development. The focus of the export development strategy so far has been on market access procedures and giving incentives for export development, whether through the export refund program or changing the exchange rate without dealing with the larger challenge of production impediments to exports.

Global Financial Market Performance

Global Markets Performance

Reuters/ Argaam

Chinese stock indices declined during Friday trading, with increasing investor trading in the Hong Kong stock exchange.

Chinese Investors appetite for shares traded on the Hong Kong stock exchange increased compared with the Shanghai stock exchange, due to low value and stable exchange rate, and in preparation for the second link program with the Hong Kong stock exchange.

The Chinese government recently announced approval of a program to link the Shenzhen and Hong Kong stock exchanges, to enter into effect later this year. This is the second of its kind after the link between Shanghai and Hong Kong stock exchanges.

At the end of trading, the "Shanghai" Composite Index fell 0.3 percent to 3033 points.

The Japanese stock indices closed Friday trading at a lower level, with the decline in the financial sector and exporters' losses caused by the yen's strength against the dollar.

At the end of trading, the Japanese "Nikki" index fell by 0.3 percent to 16,754 points, while the "TOPIX" index dropped by 0.2 percent to 1,349 points.

The US stocks declined during Friday trading after the effects of the Federal Reserve's decision to keep its monetary policy unchanged dissipated, and its losses increased in conjunction with the fall in oil prices, which had a negative impact on the performance of energy shares, but the major indices posted weekly gains.

The "Dow Jones" industrial index fell by 0.7 percent, or by 131 points to 18,261 points, the "Nasdaq" index declined (-34 points) to 5,306 points, while the "S & P 500" benchmark declined (- 12.5 points) to 2,165 points.

On the weekly level, the "Dow Jones" index was up 0.8 percent, and the broader "S & P 500" recorded gains of 1.2 percent, while the "Nasdaq" index rose this week by 1.2 percent.

In a related context, the TWTR.N share jumped by 21.4 percent, or about four dollars and closed at $22.6, after a report pointed out that "Salesforce" and "Google" are among the companies considering buying the social networking site.

In Europe, the "Stoxx Europe 600" fell by 0.7 percent or by 2.5 points to 345.3 points. But the index achieved a weekly gain of 2.2 percent, the largest since mid-July.

The British "FTSE 100" index fell by (- 2 points) to 6,909 points, the French "CAC" declined by (- 21 points) to 4,488.7 points, and the German "DAX" dropped by (-47 points) to 10,627 points.

On the other hand, gold futures for December declined by 0.2 percent or by $3 to $1,341.70 an ounce. The precious metal achieved gains this week of 2.4 percent.

In the oil markets, the US "NYMEX" fell by 4 percent, or by $1.84 and closed at $44.48 a barrel, its biggest daily loss since mid-July. However, it achieved a weekly gain of about 2 percent. The benchmark "Brent" also fell by 3.7 percent or by $1.76 and closed at $45.89 a barrel, achieving a weekly gain of about 0.3 percent.

Implications for Egypt:

We reiterate what has been mentioned in previous reports that the Egyptian Stock Exchange (EGX) continues to perform independently from the global market because of internal factors, most importantly, monetary policy and interest rates. This created a wait and see approach that caused stock market trading during the week to decline, with a tendency for lower liquidity, contributing to a relative decline in stock indices.

We reaffirm that the country's current approach in considering the sale of company quotas in the Egyptian stock exchange or global markets requires deliberate study of its timing and pricing mechanisms. Its chances of success should also be studied in light of the current situation in most global markets, to ensure the success of these planned placements as part of the financial package announced by the Egyptian government. The Egyptian Stock Exchange needs more government attention to complete its development, and improve its legislative institutional framework. This requires speeding up the amendment of the Capital Market Law No. 95 of 1992 as well as modifying the Presidential law governing the institutional setup of the stock market to allow more investment flexibility and strengthen the supervisory tools and increase the number of investment instruments available for trading.

It is worth noting that with the start of implementing the program of economic reform, the stock market needs to intensify activity in the direction of attracting foreign investment, especially that the reform measures are expected to make such investment more attractive. This will make the stock market more prepared for the placements expected over the coming period along with increasing trading volumes and investment inflows.