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Our Economy & the World

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Key Global Developments

Luxembourg Launches World's First 'Green Bond' Platform

Al-Borsa newspaper website

The Luxembourg Stock Exchange (LuxSE) became the world' first stock exchange to introduce a platform for green financial instruments (LGX). Luxembourg Green Exchange (LGX) is for issuers who dedicate 100 percent of the raised funding to green investments and sustainable development goals.

Asked why doing this, Robert Scharfe, CEO of LuxSE says: "Why are we doing it? We think the time is right. New issuance of green securities has taken off since COP21. When we look at the market it is good news that it is growing so fast, but is it growing fast enough? No, it is not. As the International Energy Agency (IEA) has estimated, the world needs $1 trillion a year until 2050 to finance a transition to low emissions."

LGX will immediately become home to the majority of the 114 green bonds listed at LuxSE, worth over $45 billion. Securities will have to state their nature clearly as "green" or equivalent: "climate-aligned," for example.

As far back as 2007, LuxSE became the first exchange in the world to list a Green Bond. It was issued by the European Investment Bank (EIB) to finance part of its climate projects.

Renewables Not Cost Competitive Until Mid-Century - Glencore

Reuters

Renewable energy will not be cost competitive with fossil fuels until 2050, Glencore said, much later than energy organizations forecast and supporting the mining and trading giant's case for continued investment in coal.

Glencore has said coal is still an investment opportunity, forecasting global demand will grow by 7 percent by 2030, driven by emerging economies and industrial demand.

Glencore Chairman Tony Hayward told a conference in London that, like oil companies, the group would get a return on its investment.

"The investment we put in the ground today will come out in 10 years. The same applies to the world's oil and gas companies - their investments will come out in 20 years," Hayward said.

Renewables won't achieve cost parity with fossil fuels until 2051, he predicted.

Energy company officials attending the same conference, the Institute of Directors' (IoD) annual convention, believe parity will come much earlier.

UK Needs to Open Brexit Talks Before April, EU's Economics Commissioner Says

Argaam

UK Prime Minister Theresa May needs to trigger the start of negotiations on the country's exit from the European Union before the end of March, any wait beyond the first quarter of 2017 "might be too long," Pierre Moscovici said in Brussels.

Though the majority of British voters voted for exiting the EU in June, formal talks with the other EU members can't begin until the prime minister activates Article 50 of the bloc's Lisbon Treaty, which would set in motion two years of discussions about the terms of departure.

"Let's not take too much time because uncertainty is the worst enemy of the economy," Moscovici called on the British government.

Goldman Cuts Q4 Crude Oil Price Forecast by $7 on Supply Glut

Reuters

Goldman Sachs slashed its fourth quarter 2016 oil price forecast by $7 per barrel, citing a mounting crude surplus that could outweigh any short-term price support from a potential deal among top producers to limit output.

The bank lowered its fourth-quarter West Texas Intermediate price outlook to $43 a barrel from $50 a barrel.

"With our demand outlook unchanged, with year-on-year growth of 1.4 million barrels per day, this leaves us now forecasting that inventories will build in 4Q16 by 400 kb/d (thousands of barrels per day) vs. our prior expectation for a 300 kb/d draw during the quarter," the bank said in a note.

It went on to say the forecast assumes a limited additional increase in production from Libya and Nigeria of 90,000 barrels per day compared with current estimated output.

Goldman kept its 2017 average price forecast of $52 per barrel unchanged.

Hard Brexit Could Cost the UK Billions of Dollars in Lost Taxes

Argaam

A so-called "hard Brexit" deal, that would see the UK drifting away from cooperation with the rest of the EU, could reportedly cost the UK billions in lost taxes, treasury officials have privately told the "Independent."

According to officials, Hard Brexit is likely to show the Exchequer losing at least £10 billion ($13 billion) a year in taxes.

The tax contribution of the UK banking sector climbed to £31.3 billion ($40.7) in 2014, according to the British Bankers Association (BBA).

WTO Cuts 2016 World Trade Growth Forecast to 1.7 Percent
Reuters

The World Trade Organization cut its forecast for global trade growth this year by more than a third, reflecting a slowdown in China and falling levels of imports into the United States.

The new figure of 1.7 percent, down from the WTO's previous estimate of 2.8 percent in April, marked the first time in 15 years international commerce was seen lagging the growth of the world economy, the trade body said.

The figures should be a wake-up call for governments, WTO Director-General Roberto Azevedo said in the six-monthly trade outlook report.

"We need to make sure that this does not translate into misguided policies that could make the situation much worse, not only from the perspective of trade but also for job creation and economic growth and development, which are so closely linked to an open trading system," the report quoted him as saying.

The WTO also said it expected slower 2017 trade growth than in its previous forecast, with a rise of 1.8-3.1 percent rather than the 3.6 percent it had estimated in April.

Citi Group: 200 Million Tons of Iron Supplies to be added Through 2020

Argaam

The world's two largest iron-ore exporters Brazil and Australia will each add about 100 million metric tons of supply through the end of the decade, boosting a global glut and hurting prices in a slump that will then force marginal miners to cut output, according to Citigroup Inc.

The bank said in its report that Brazil's shipments of crude ore will increase to about 480 million metric tons in 2020, compared to 371 million tons, which is the current volume of shipments in 2016.

Australian shipments of crude ore will increase from 835 million tons this year to about 934 million tons in 2018, bringing the size of the surplus globally to 56 million tons compared to 20 million tons currently.

The prices of iron ore with 62 percent content for delivery to the Chinese port of Chengdu declined slightly to settle at $56.77 dry ton, according to "Metal Bulletin Ltd".

Crude prices are experiencing a decline of 3.7 percent in September, heading for the first monthly decline since November 2015.

Implications for Egypt:

The World Trade Organization's report on the decline in global trade and its impact on opportunities to increase the volume of fair global trade is an indicator that requires Egypt to pay attention to what is happening globally to take serious steps in this respect. However, it must be taken into account that there are many measures that still raise the cost of Egypt's foreign trade transactions. It is necessary to address these measures to stimulate export growth rates, such as facilitating licensing procedures, customs clearance procedures, tax transactions and the cost of financing transactions. It is also necessary to reduce the number of procedures and required approvals.

The situation in the global steel market, i.e., price declines and global oversupply, require serious and accurate study of the constraints to the growth of this strategic industry in Egypt, and reasons for the high cost of production, whether on the energy side or other, with a view to protecting the growth of this industry. It is also necessary to start implementing a strategy for industrial development. So far, the focus of the export development strategy has been on access to markets procedures, and giving incentives for export development, either through the drawback program or changes in the exchange rate without addressing the biggest challenge, which is export-related production obstacles.

We reiterate that 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.

From the International Press

Refugees ... Humanitarian Problem Turned Economic Crisis
Al-Sharq Al-Awsat

In a humane gesture, lacking political logic, European supporters welcome receiving refugees and immigrants in their countries. While supporters seek to integrate refugees into their communities to avail from them in the labor market, which will lack youth aged below thirty soon, others - Europeans and Americans – object to refugees' presence in their countries and seek to collect signatures or even participate in demonstrations to expel them, the fate long sought by the Western powers to achieve narrow interests.

Amid talks by world presidents about the refugees' crisis, after the numbers of asylum seekers reached record levels registered after World War II, with the increase in total migration flows in the world, meetings of the seventy-first session of the UN General Assembly were dedicated to refugees under the title "UN Summit on Refugees and Migrants."

In its annual report on international migration, the Organization for Economic Cooperation and Development (OECD) said that its 35 member states saw the number of asylum seekers in 2015 double to reach 1.65 million persons.

Head of the OECD International Migration Division Jean-Christophe Dumont said, "we are at a historic moment. When we look at 2016 we see an increase in the number of asylum seekers even if the flow is less."

The OECD said that the large increase in the number of refugees raised total international migration flows to its member states to 4.8 million immigrants in 2015, a 4 percent increase compared to 2014. It also raised the number of immigrants to unprecedented levels since 2007, before the outbreak of the global financial crisis.

A boat carrying around 600 migrants capsized off the Egyptian coast last week; the authorities announced 42 dead, while 163 people were rescued.

More than 10,000 migrants have died in the Mediterranean, trying to reach Europe since 2014, including 2800 persons since the beginning of 2016, according to UN estimates.

According to data from the UN High Commission for Refugees (UNHCR), nearly one out of every four asylum seekers was from Syria last year. Afghanistan came next to Syria by 16 percent. Three quarters of all asylum seekers filed their applications in the EU with Germany getting the lion's share of them.

The refugees' problem turned into a political crisis for the presidents of some countries after it affected the economic situation in most countries of the world to the extent that German Chancellor Angela Merkel's party - the Christian Democratic Union Party - suffered electoral losses as time voters reject the open-door policy to refugees applied by Merkel.

Italy faces significant economic problems that may have a negative impact on refugees. Italian Prime Minister Matteo Renzi criticized an EU summit on Sunday for the absence of commitments on the economy and immigration in the final statement. He described the meeting as “a nice cruise on the Danube.”

In an interview with the Corriere della Sera newspaper, Renzi stepped up his criticism of the EU. He said that Italy has fulfilled its obligations towards the flow of migrants crossing the Mediterranean.

In London, thousands of activists put on life jackets in Parliament Square to protest against the refugee crisis in Europe. They created what they called the graveyard of life jackets, which included 2500 life jackets lined up in front of Big Ben and the Parliament, in reference to immigrants’ wearing these life jackets in a perilous journey to cross the sea from Turkey to Greece.

In a promising step by the business community, American billionaire George Soros announced in the Wall Street Journal investing $500 million for the benefit of immigrants and refugees, hoping that other investors would follow suit.

Soros said: “I decided to allocate $500 million in investments to the specific needs of migrants and refugees and their hosts.” “I'll invest in start-up companies, existing companies, social initiatives and activities founded by migrants and refugees,” he added.

The UN announced that more than 300,000 migrants crossed the Mediterranean to Europe in 2016. William Spindler, spokesperson for the UN High Commission for Refugees said in a press statement that the number of refugees and immigrants that arrived at European coasts exceeded 300,000 people. Smugglers put hundreds of illegal immigrants in rickety boats, causing them to sink halfway due to high waves.

Implications for Egypt:

Egypt is one of the countries that suffer most from illegal immigration, as it has become a haven for millions of refugees in the region. Egypt hosts many nationalities fleeing conflict zones in the Middle East and Africa, and has become a haven for those interested in illegal immigration to Europe. With accidents occurring and people victimized, as in the Rashid boat accident, the state with its institutions and society should make sure such accidents do not recur. All parties must cooperate with the state to address illegal migration, bearing in mind that any country will not be able alone to tighten control on illegal immigration, especially that Egypt’s land and sea borders amount to 5,000 km, and that efforts required to secure these borders are immense, and cannot control them a 100 percent. However, the state is committed to protecting its borders, according to Egyptian President Abdel Fattah al-Sisi.

Addressing the problems of illegal migration and refugees requires internationally coordinated effort to ease ongoing regional conflicts, along with a comprehensive developmental program that helps increase employment opportunities and development in those areas to curb illegal immigration. The efforts of countries such as Egypt, which hosts refugees as brothers and not in closed camps, which raises its budget burdens, should be supported. European countries, in particular, should provide Egypt with stable support to continue playing this role in the short term. The George Soros experience in establishing projects in countries such as Egypt should be used to attract foreign investments and direct their revenues to the benefit of refugees and immigrants in Egypt.

Special Analysis

News Analysis: Arab Monetary Fund Expects GCC Growth to Improve to 2.4 percent in 2017

Saudi Al-Eqtisadiah

The Arab Monetary Fund revised down its forecast for overall growth in the Arab countries by 0.3 percent to 2.6 percent in 2016.

The Fund predicted in its March Arab Economic Outlook report that the Arab economies would register growth of around 2.8 percent in 2016.

According to a press release issued yesterday, the Fund said in its report, which includes performance prospects for Arab economies during 2016 and 2017, that growth in Arab countries in 2017 would witness some improvement to record 3.1 percent, supported by gradual recovery of economic activity in Arab oil-exporting and importing countries.

OPEC and other oil producers, including Russia, are conducting informal talks in Algiers between 26 and 28 September, with respect to a proposed agreement to curb oversupply, which has put pressure on prices for nearly two years.

Major oil producers, both inside and outside OPEC, failed to reach a solution to adjust production levels to halt price declines at a meeting in Doha last April.

Crude oil prices are hovering around 40-50 dollars per barrel, having tumbled from above $115 in June 2014 to less than $30 a barrel last January due a global supply glut.

The report forecast that Arab oil-exporting economies would grow by about 2.4 percent in 2016 compared to 3.3 percent in 2015, with growth expected to rise again to 2.8 percent in 2017.

The Fund reduced growth prospects of GCC economies in 2016 by about 0.4 percent to 2.1 percent compared to 3.6 percent in 2015, with growth expected to improve to 2.4 percent in 2017.

Regarding Arab oil-importing countries, the report cut its growth forecast to 3.1 percent in 2016 compared to 3.6 percent in the Arab Economic Outlook report released in March because of expectations of a slowdown in the pace of economic activity due to lower domestic and external demand.

The Fund predicted inflation in the Arab countries as a group during 2016 would be about 7.8 percent, and would rise to 8.5 percent in 2017.

The Fund's report pointed out renewed concerns during the first half of 2016 that the global economy would continue to move in a vicious circle of slow demand and weak economic growth rates, which increases the uncertainty facing global economic activity during 2016.

In developed countries, despite improved economic conditions, many of these countries are still suffering from a decline in investment spending and productivity, and from signs of challenges in the labor market caused by the aging population, which is putting pressure on potential output that recent studies have shown is witnessing a downward trend.

The report also predicted that other Arab oil-exporting countries would achieve limited growth that does not exceed 1 percent in 2016 in the light of the expected deflationary impact arising from internal conditions in a number of these countries except for Algeria. However, in 2017, and in light of expectations of improvement in oil prices and the assumption of positive developments in the internal environment, growth is expected to rise to 6.2 percent next year, reflecting mainly the weak growth recorded in the comparison year.

With respect to Arab oil-importing countries, economic activity is expected to slow down due to domestic and external demand being influenced by a number of factors that would reflect on the levels of growth recorded in 2016. Most notably, continued slowdown in activity in some key economic sectors as a result of continued weak global demand and the situation in the foreign exchange market and the drought conditions in some countries of the group.

In 2017, economic recovery is expected to continue in the group in light of expected improved activity in a number of key sectors in those countries that will benefit from the expected improvement in global demand. This will be followed by a rise in investment and consumer spending and exports in support of economic activity, which is expected to rise to 3.9 percent.

Concerning trends in domestic prices, inflation rose in most Arab countries during the early months of 2016 as a result of higher prices of food, fuel and energy products. Most Arab countries have pursued policies aimed at rationalizing government subsidies, especially for petroleum products. These countries have benefited in the application of these policies from continued low world prices of oil and basic commodities, which prevented strong hikes in inflation in the Arab countries in general, in addition to the impact of low liquidity growth rates and declining economic performance in easing inflationary pressures. The general level of prices was also influenced in some countries by continued bottlenecks in commodity supply chains as a result of local conditions in those countries, in addition to inflationary pressures generated by the increasing number of displaced persons from some areas.

Implications for Egypt:

The expected economic recovery in the Gulf countries is not only linked to improvement in their economic structures but also to prospects of improvement in oil prices and some policies that have already been initiated. Although these policies might not increase job opportunities for Egyptian labor or their remittances, there are several elements that can be of benefit such as attracting Arab investments to Egypt, especially that the average expected growth in the Gulf is lower than in Egypt. In addition, Gulf growth will increase the volume of trade in the Gulf, and since a fundamental part of it goes through the Suez Canal, this will raise expectations of higher Suez Canal revenues in the coming period.

Gulf-Egyptian economic and commercial relations are highly strategic, which calls for developing the concept of integration. The establishment of joint economic zones, expanding the scope of bilateral trade agreements and the introduction of new sectors therein such as services, and the establishment of joint industries that are directed to import substitution and dependent on Gulf-Egyptian raw materials will be a basis for developing trade and economic relations in the coming period.

Global Financial Market Performance

Reuters/ Argaam

Chinese stock indices rose at the close of Friday trading, following the release of economic data, and managed to achieve quarterly gains.

The "Caixin" index of industrial purchasing managers rose to 50.1 points in September from 50 points in August. Official data showed the current account surplus in the second quarter adjusted upward to $64.1 billion compared to the initial reading, which amounted to $59.4 billion.

The stock and bond exchange in China is scheduled to close throughout the week to celebrate the National Day.

At the end of trading, the "Shanghai" Composite index rose 0.2 percent to 3004 points, and achieved quarterly gains of 2.6 percent.

Japanese stocks fell at the close of Friday trading, with emerging weak economic data and financial sector losses.

Data showed a decline in the consumer price index in Japan in August for the sixth consecutive month. The core inflation index, which excludes fresh food prices, rose 0.5 percent against a forecast decline of 0.4 percent.

The "Deutsche Bank" crisis continued to pressure bank stocks and prompted investors to abandon them amid growing uncertainty over the bank and its ability to obtain the necessary financing to pay the fines imposed on it.

At the end of trading, the Japanese "Nikki" index fell by 1.45 percent to 16,449 points, while the "TOPIX" index dropped 1.5 percent to 1,322 points.

US stocks rose during Friday trading backed by receding fears about the "Deutsche Bank" crisis and the possibility of reaching a settlement with the authorities in the US. Major indices achieved quarterly gains during the third quarter.

The Dow Jones' industrial average rose by about one percent, or by 164.7 points to 18,308 points after gains of more than 200 points. The "Nasdaq" index rose (+43 points) to 5,312 points, while the S & P 500 index rose (+17 points) to 2,168 points.

On the quarterly level, the "Dow Jones" achieved gains of 2.1 percent, the "S & P" posted gains of 3.3 percent in the third quarter, while "Nasdaq" made gains of 9.7 percent.

In September, the "Dow Jones" recorded losses of 0.5 percent, the "S & P 500" fell by 0.1 percent, while "NASDAQ" posted a monthly gain of 1.9 percent.

The Deutsche Bank share jumped by 14.1 percent and closed at $13.10 after Agence France Press reported that the German bank is close to reaching a settlement with the US Justice Department to pay $5.4 billion rather than a fine of $14 billion due to irregularities related to mortgage-backed securities.

In the European markets, "Stoxx Europe 600" increased by 0.1 percent or by 0.2 points to 343 points. The benchmark index achieved quarterly gains of 12 percent.

The German "DAX" index rose (105.5 points) to 10,511 points, and the French "CAC" index rose (+4 points) to 4,448 points, while the British "FTSE 100" index declined (-20 points) to 6,899 points**.**

On the other hand, gold futures for December delivery declined at settlement by 0.7 percent or by $8.90 to $1,317.10 an ounce. The yellow metal recorded 0.3 percent in losses during the three months ending on September 30.

In the oil markets, the US "NYMEX" rose by 0.9 percent, or by 41 cents to close at $48.24 a barrel, and achieved monthly gains of 7.9 percent and 2 percent in losses in the third quarter. The "Brent" index fell 0.4 percent, or by 18 cents and closed at $49.06 a barrel, but achieved quarterly and monthly gains of about 1 percent 4 percent, respectively.

With regard to economic data, US personal spending last month stabilized compared to a forecast indicating a rise of 2 percent, while income rose by 0.2 percent, the lowest pace of increase in seven months**.**

Implications for Egypt:

We reiterate our pervious comment that the vision this week is consistent with what has recurred recently, as the Egyptian Stock Exchange (EGX) continues to perform independently from the global market because of internal factors. This created a wait and see approach that caused stock market trading during the week to decline, with a tendency for profit-taking, 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.