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Key Global Developments

Eurozone Producer Prices Unexpectedly Drop in August

Argaam

Eurozone producer prices unexpectedly edged lower in August for the first time since April, according to the latest figures from Eurostat.

Producer prices fell 0.2 percent from July compared to expectations for a 0.1 percent increase. On the year, prices were down 2.1 percent, in line with economists' expectations.

Energy sector prices fell 0.8 percent and prices of intermediate goods declined 0.1 percent. Prices for both capital goods and durable consumer goods were stable, while prices for non-durable consumer goods were up 0.1 percent.

Economists expect consumer prices to increase at a faster pace during the remaining months of 2016 as well as the early months of 2017, in addition to a sharp decline in energy prices.

World Bank: Inequality Threatens Fight against Extreme Poverty

AFP

Extreme poverty has been falling steadily around the world, but eliminating it by 2030 could be stymied by unequal distribution of the gains of economic growth, the World Bank said.

The "Poverty and Shared Prosperity" report said that some 767 million people were living below the global poverty threshold of $1.90 per day, half of them in Sub Saharan Africa.

These figures reveal a decline in extreme poverty by 12 percent in the world, which benefited hundreds of millions of people despite slowing growth.

The report, published before the joint annual meetings of the World Bank and the International Monetary Fund in Washington D.C. noted that extreme poverty continues to fall globally despite the slowdown in the global economy.

This decline is more notable in the long run, as the number of the poorest fell by more than half compared to the nineties of the last century, when this number was nearing two billions.

But World Bank President Jim Yong Kim warned in a statement that the number of those deprived of acceptable income is still much lower. However, the World Bank warned that the eradication of extreme poverty by 2030 will not be possible unless the poorest benefit from growth. "The message is clear: to end poverty, we must make growth work for the poorest, and one of the surest ways to do that is to reduce high inequality, especially in those countries where many poor people live," he said

In half the countries covered by the report, average income went up for people living in the bottom 40 percent of their countries between 2008 and 2013.

To reduce these disparities, the World Bank calls the most affected countries to invest in young children and provide universal insurance in addition to other procedures.

Kim noted that some of these actions could have a quick effect in reducing the income differences, but will give results gradually.

Global Property Investment Falls for First Time in 7 Years
Argaam

Global property investment volumes have fallen for the first time in seven years as investors retreated from mounting international risks.

Roughly $919.7bn was committed to property globally in the year to the end of June— 5.7 percent below the total a year earlier, according to Cushman & Wakefield, the property adviser.

The data also showed that New York had supplanted London as the city attracting most cross-border investment, due to waning appetite for property in the UK capital prompted by high prices and the Brexit vote.

The London metropolitan area attracted $24.88bn of overseas property investment in the year to June — just below New York's $24.89bn. A year earlier, London had attracted $39.4bn compared with New York's $15.8bn.

$128 billion Worth of Infrastructure Projects in the Region until 2019
Arabia.net

Business Monitor International reported that the UAE will top the Middle East and North Africa region in infrastructure projects until 2020. The magazine added that there is great diversity in the region, where the UAE, Saudi Arabia and Iran are expected to be the biggest three markets for infrastructure projects in terms of value, with Qatar being the only country in the region that is close by between now and 2020.

The magazine pointed out that those countries are ahead of the overall average growth of infrastructure projects in the region, and are expected to continue as such over the projection period, according to the newspaper Al-Bayan.

One of the key factors behind this drive is the desire of countries in the region to diversify their economies, given the decline in world oil prices. The other factor is that Dubai will host the World Expo 2020, while Qatar will host the FIFA World Cup 2022. Egypt and Morocco will continue to give priority to infrastructure projects in their spending plans.

Some $128 billion worth of projects will be completed annually between now and 2019. Here again Dubai and Qatar come in the lead in terms of their share in these projects.

The magazine also expects infrastructure projects in the region to grow by 5.3 percent over the said period, a rate higher than the average growth in emerging markets. However, it expected the pace of spending on infrastructure projects to calm down in 2020, and the projects expected after this date will be limited.

Report: GCC Countries' Deficit May Increase and Lead to More Cuts in Rating
Argaam

A report issued by "Fish Asset Management Limited" expected the deficit in the Gulf countries will grow, with a continued rise in sovereign and corporate debts, due to the continued decline in oil prices.

The report noted that the growing deficit will naturally lead to more cuts in GCC countries' ratings.

According to the report, though the value of new debt issues until the end of the year is estimated at approximately $50 billion, most debt investors around the world will take a cautious approach with countries issuing bonds in the Gulf.

The report added that the GCC debt market is still good compared to the negative revenues in the developing markets, and that investors should have confidence in bond issuers, especially after the economic reforms that Saudi Arabia is planning to undertake.

Report: Islamic financing assets amounted to $2 trillion in 2015
Mubasher

A recent report said that the value of the world's Islamic economy was estimated at $1.9 trillion in 2015.

The report, which was obtained by Mubasher, said that the value of assets in the Islamic finance industry in the world reached about $2 billion last year.

The report, which was released by the State of Global Islamic Economy and Global Islamic Economy Indicator, 2016 - 2017, attributed the development of Islamic economics to consumers' being keen on choosing Shariah compliant products and services, forcing producing companies to respond to their requirements in the market.

This report will be released prior to the World Islamic Economic Forum in 2016, which will be organized by the Dubai Chamber of Commerce and Industry (DCCI), in cooperation with the Dubai Islamic Economy Development Center and Thomson Reuters on 11 and 12 October in the Dubai city of Jumeirah.

Global Inflation Rates Drop to their Lowest Level in 7 years

Argaam

Global inflation fell in August to its lowest level in nearly seven years, marking the second decline in a row.

The Organization for Economic Co-operation and Development (OECD) said that the annual inflation rate in the G-20 countries, which represent 85 percent of global economic output, fell to 2.1 percent from 2.2 percent, the lowest level since October 2009.

However, while inflation rose slightly in the advanced economies, it declined significantly in the densely populated developing economies, especially in China and India.

Lower inflation is usually a concern for central banks, which has been paying great attention since the financial crisis in 2008 to the attempts of raising inflation and growth.

China's Foreign Trade still Faces big Downward Pressure: Xinhua

Reuters

China's foreign trade still faces big downward pressure despite some improvement in August, Xinhua news agency reported, citing Shen Danyang, a spokesman for the Ministry of Commerce.

"Difficulties facing China's foreign trade are not short term, the downward pressure on foreign trade is still big and uncertain and unstable factors are increasing," Shen was quoted as saying.

"We cannot be blindly optimistic about China's imports and exports and the situation is still complex and grim."

But Shen said China's foreign trade is stabilizing and the ministry will work with other government agencies to help cut costs for exporters and importers, he said.

China's imports unexpectedly rose in August for the first time in nearly two years, boosted by coal and other commodities, while exports also showed signs of improvement, adding to signs of steadying in the world's second-largest economy.

China has seen more trade frictions with its trade partners this year, Shen said.

In the first eight months of this year, 20 countries and regions have launched 85 investigations into China's exports with a total value of $10.3 billion, which showed a 94 percent jump from a year earlier, he said.

Implications for Egypt:

Recent global economic volatility points to escalating pressures on global economic growth opportunities. This requires Egypt to enhance measures taken to increase economic growth, particularly promoting SMEs output, in light of the expected recession in Britain and shifts in movement of global investment flows worldwide as well as the emergence of an escalating trade war between the US and China amid slow global economic growth. Against this backdrop, Egypt has to move more quickly to encourage domestic consumption while supporting its presence in the Arab and African regional markets in order to capture larger market shares in the medium term and to benefit from trade agreements with these countries.

Therefore, Egypt has to take more robust actions through economic reform packages that focus on reducing government expenditure and rationalizing consumption, encouraging certain productive sectors, and revitalizing marginalized investment economic sectors. These actions could help reduce the deficit and improve the economy.

Attention should be also be given to the Gulf-Egyptian economic and commercial relations, which are strategic. This requires developing the concept of integration and going beyond the status quo. 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 over the coming period.

From the International Press

The Black Continent … A Diversified Investment Treasure for the Gulf States

Al-Sharq Al-Awsat

For nearly five years, admiration has been growing about rapid growth in the African economies and its consumer markets. Since then, interest of the international business community and companies has increased in a wide variety of African industries from consumer goods to financial services intended for technological industries.

Africa is preparing to be one of the great economic success stories of this century, with growing income, and increasing investments in infrastructure and technology, and acceleration of growth in a wide range of industries. Africa today is home to about 700 companies that achieve revenue greater than $500 million annually. According to global estimates, the continent is expected to account for a quarter of the labor force in the global economy by 2050.

There is no doubt economic and political unrest in large parts of Africa in recent years was a shock to the business community. Lower resource prices and high levels of social and political unrest had the greatest impact on real GDP in Africa, which grew by an average of 3.3 percent annually between 2010 and 2015—a level that is much slower than the growth achieved in 2000-2010 (5.4 percent), attracting the attention of investors around the world. However, African countries have not veered off the impressive growth path.

New research conducted by the McKinsey Global Institute makes it clear that Africa faces real economic headwinds including declining investment and savings, and rising government indebtedness. Yet the overall picture disguises stark divergence. Growth has slowed sharply among oil exporters and North African countries affected by the 2011 Arab Spring democracy movements—but the rest of Africa posted accelerating growth at an average annual rate of 4.4 percent from 2010 to 2015, compared with 4.1 percent between 2000 and 2010.

East African countries have seen strong economic growth. The GDP grew in Kenya to $63 billion in 2015 from $55 billion in 2013, according to the World Bank. Commodity importing countries in East Africa such as Tanzania, Kenya, Ethiopia and Rwanda benefited directly from the lower oil prices, with a decline in spending on goods.

Comparative Advantages

That points to robust long-term economic fundamentals. In an aging world, Africa has the advantage of a young and growing population and will soon have the fastest urbanization rate in the world. By 2034, the countries of Africa are expected to have a larger workforce than either China or India—and, so far, job creation is outpacing growth in the labor force. Accelerating technological change is unlocking new opportunities for consumers and businesses, and Africa still has abundant resources.

All this means that the continent still offers promising opportunities for global investors and businesses. Spending by African consumers and businesses today totals $4 trillion. Household consumption is expected to grow at an average 3.8 percent a year to reach $2.1 trillion in 2025, fueled both by population growth and rising incomes. In East Africa alone, more than six million households are expected to enter the consumer class by 2025. Business spending is even greater, and is expected to grow from $2.6 trillion in 2015 to $3.5 trillion by 2025.

Africa has more large firms than is commonly assumed. When we ask business audiences to guess how many companies with revenues above $1 billion are operating across the continent, their answers range from 50 to 100—but the true number is 400, with a combined annual income of $1.2 trillion. Across most sectors, these companies are growing faster and are more profitable than their global peers.

African markets are also preparing to take advantage of several long-term trends, including the rapid growth of the middle class in the world, and the expansion of the urban population, and increasing access to mobile technology and the Internet. By the end of this century, some estimates expect about 40 percent of the world youth to be from the African continent.

Investment Opportunities

Our database of large companies shows that Africa has a more diversified corporate landscape than might have been expected. For instance, we find that only 30 percent of revenues are earned by companies that operate in the resources sector. Around two-fifths of the 400 companies are publicly listed, and just under 30 percent of them are multinational corporations.

Yet corporate Africa needs to step up its performance to make the most of the continent's economic opportunities. To unlock growth, Gulf companies should look for opportunities in six sectors that we find have "white space"— wholesale and retail, food and agri-processing, health care, financial services, light manufacturing, and construction. All these sectors are characterized by high growth, high profitability, and low consolidation.

In manufacturing in particular, McKinsey estimates that Africa could nearly double its output from $500 billion today to $930 billion in 2025. Three quarters of that potential could come from meeting domestic demand, which might turn Africa from a net importer to self-sufficient states: today, Africa imports one-third of the food, beverages, and similar processed goods it consumes.

Recently, there have been many examples of Gulf companies that invested heavily in the African continent. Reports indicate that the volume of trade between Africa and the United Arab Emirates rose from $5.6 billion in 2005 to $17.5 billion in 2014. The United Arab Emirates's share in total international African trade rose from 1.0 percent in 2005 to 1.5 per

Like all emerging markets, there are a range of challenges, such as political risk, weak corporate governance, macroeconomic volatility, and outdated infrastructure. However, there is a set of positive developments that constitute evidence that more African countries have been working in recent years towards establishing a foundation for political stability and developing corporate governance and transparency in order for these countries to be more open to regional and international integration. For Gulf states to make the most of investment in the African continent, companies should consider building deeper consumer markets, in order to find out more about income structures, categories of consumers, and general trends of consumption, including the geography of growth and stability, which varies dramatically across the African continent.

Despite Africa's economic, political and environmental problems, most investors still believe Africa offers a treasure trove of opportunities, particularly in those countries, which commit to structural reforms. "Governments are gradually coming to the realisation that diversification is necessary to foster meaningful growth, but transformation cannot be achieved in isolation," says Nema Ramkhelawan-Bhana, Rand Merchant Bank (RMB) Africa analyst and co-author of RMB's sixth edition of its annual *Where to Invest in Africa – A Guide to Corporate Investment* report.

According to *the Guide*, South Africa continues to stand firm at number one but risks losing its coveted spot in the next few years as a faltering growth outlook and uncertain business environment slowly eats away at its investment score. Despite a stream of negative news, the country remains a bastion of institutional integrity and continues to boast one of the best operating environments in Africa.

The Bank says it is likely that Egypt could unseat South Africa as the leading investment destination in Africa if it succeeds in consolidating the economic gains accumulated in the aftermath of the Arab Spring. However, the country's operating environment could be an inhibiting factor. **Morocco** is hot on the heels of its North African peer, buoyed by solid economic growth, favorable geographic positioning, sturdy infrastructure, strong regulatory policies and a stable political setting. And despite a myriad of economic challenges**, Ghana** remains within a whisker of the top three, brandishing the title as the most attractive investment destination in West Africa.

Implications for Egypt:

In light of the current global situation, integration among African countries, through policies concerned with export promotion, should be a fundamental goal. The aim is to achieve real development. Africa is experiencing an economic recession and difficulties that require inter-African cooperation to address the slow pace of development in the continent, as well as the political and economic problems, considering the need to maintain high growth rates in order for economic growth to become sustainable. We stress that the main engine of development in Africa will be exchanging and intensifying meetings between economic agents. This will facilitate several other issues, including capitalization on available investment opportunities in the African countries.

Egypt's accession to Africa’s economic blocs opens up opportunities for its products with significant facilities in terms of customs, taxes and ease of movement, etc. This presents a chance to double Egypt's exports to these markets. Small and medium industries have an excellent opportunity to export their products to African markets, taking advantage of Egypt's efforts to expand the scope of cooperation with various African countries.

There is growing interest from the private sector as well as industrial and trade associations in Egypt to reinforce African relations, especially that the Egyptian government signed trade agreements to facilitate the entry of Egyptian products into African markets, including Kenya and other countries in the continent. Therefore, serious steps should be taken to facilitate transporting goods among African nations by creating a network of air, land and river routes. Establishing logistics centers represents a key pillar for the development of economic and trade relations.

Egypt should take three integral steps to activate trade exchange with Africa, including building a network of trade fairs and Egyptian logistics centers in the African capitals to provide goods. Transportation problems, which represent a major obstacle currently, should be addressed to increase Egyptian exports to African markets, considering that there are no roads, rail networks or Egyptian shipping lines linked to African commercial centers, thus weakening Egyptian commercial presence therein.

Special Analysis

Global Trade Growth falls to Slowest Rate since the Financial Crisis
Qatar National Bank

Not long ago, it was difficult to imagine a future without rising global trade and deepening economic integration. Governments pushed through trade liberalization policies, firms cooperated to develop global supply chains and the result was increasing trade flows that drove global growth, said Qatar National Bank (QNB) Group in its weekly economic commentary.

But now nearly eight years since the start of the global financial crisis, much has changed. Trade has slowed in both value and volume terms, including falling below global growth in three of the past four years, QNB added.

Growth of global trade volumes has averaged 3.9 percent per year since 2011, down from an average of 7.3 percent from 2000 to 2007. Moreover, recent data shows that the state of global trade has deteriorated even further. Through the first six months of 2016, global goods trade volumes have averaged just 0.1 percent year-over-year growth, the slowest rate since the financial crisis.

There have been three major factors underlying the slowdown of global trade. The first factor has been the cyclical downturn in aggregate demand emanating from advanced economies. In the aftermath of the financial crisis, the process of gradually rebuilding balance sheets and deleveraging had a protracted negative impact on consumption and investment. The high import content of these components combined with advanced economies accounting for over 60 percent of global imports resulted in a dampening of global trade. Advanced economies' real GDP growth fell from an average of 2.6 percent per year from 2000 to 2007 to an average of 1.6 percent from 2011 to 2015. In response, import growth in advanced economies dropped by nearly half from 6.2 percent to 3.6 percent over the same respective periods.

The second factor has been the influence of structural reforms in China. Chinese authorities have enacted policies aimed at increasing the on-shoring of production and rebalancing away from the import-intensive investment and export sectors to foster consumption-led growth. Considering that China accounts for 10 percent of global goods imports, the impact of these policies will directly slow trade by lowering Chinese imports of capital and intermediate goods. There will also be indirect effects by weakening China's demand for exports from other Asian countries who depend on linkages to China through global value chains (GVCs) and commodity exports.

Indeed, the gradual influence of this shift has already materialised. According to the International Monetary Fund, Chinese import growth declined from an annual average of 13.1 percent over 2006 to 2011, to 6.1 percent from 2012 to 2015, of which approximately half was attributable to China's economic rebalancing. The remaining portion of the decline reflects the weakness in aggregate demand.

The third factor has been the rise of protectionism and slower rate of trade liberalisation. Despite numerous pledges to support trade from the G20, including their most recent meeting in June, member states have increasingly been enacting protectionist measures. Based on the database assembled by Global Trade Alert, discriminatory trade measures increased by 50 percent in 2015, of which more than three-fourths were from G20 member states. Additionally, the pace of trade liberalisation has slowed as evidenced by fewer major trade agreements and the difficulty of finalising some of the major deals that have been agreed to in principle. For example, the much heralded Trans-Pacific Partnership (TPP) is yet to be approved by the US Congress and negotiations over the US-EU trade agreement have dragged on for more than three years. This sentiment has been accompanied by politics that is increasingly hostile to globalisation, clearly seen in the recent successful Brexit campaign in the UK and the strong support for anti-trade positions in the current US presidential election campaign.

What are the implications of slower global trade? The deepening economic integration between countries and the reliance on trade as a source of growth will be increasingly challenged. In particular, emerging market countries will have to look inwards and consider structural reforms to unlock alternative sources of growth. Additionally, the slowing expansion of GVCs that is likely to be accompanied with weaker trade could lower productivity growth. GVCs have been effective purveyors of productivity enhancement by encouraging specialisation and technological diffusion.

Global trade has faltered considerably, declining to its slowest pace of growth since the financial crisis. The weakness reflects both cyclical and structural factors, including already weaker Chinese imports and the rise of protectionism. Looking to the future, countries will have to find alternative sources of growth. For example, the world is becoming increasingly digitalised and the flow of information is growing while trade flows decline, a phenomenon that is being called digital globalisation. This could present opportunities in the future.

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

Argaam/ Reuters

Japanese stock indices fell at the close of Friday trading for the first time in five sessions, with the release of economic data.

The data showed a slight decrease by 0.1 percent in Japan's average wages in August compared to the corresponding period last year, marking the first decline since May. Economists stress the need to increase the average wage in Japan to promote recovery of the country's local economy. Prime Minister "Shinzo Abe" appealed to companies to raise salaries, but the modest gains affected these plans.

Investors are watching closely the release of the monthly employment situation report in the United States to assess the prospects of raising US interest rates this year.

At the end of trading, the Japanese "Nikki" Index fell by 0.25 percent to 16,860 points, while the "TOPIX" Index fell by 0.25 percent to 1,350 points.

US stocks fell during Friday's trading influenced by the monthly employment situation report, which registered weak data. The energy sector stocks came under pressure, in conjunction with the decline in oil prices, and the major indices posted weekly losses.

The "Dow Jones" industrial average fell by about 28 points to 18,240.5 points, after losses of more than 110 points. The Nasdaq index fell by -14 points to 5,292 points, while the S&P 500 benchmark fell by - 7 points to 2,153.7 Points.

On the weekly level, the "Dow Jones" posted losses of 0.4 percent, "Nasdaq" fell by 0.4 percent, and the broader "S & P 500" recorded a weekly loss of 0.7 percent.

In European markets, the "Stoxx Europe 600" declined by about 1 percent or by 3 points to 339.6 points. The benchmark scored weekly losses of about 1 percent.

The French "CAC" index also dropped by - 30 points to 4,450 points, the German "DAX" index by -78 points to 10,491 points, while the British "FTSE 100" index rose by + 44 points to 7,044 points.

On the other hand, gold futures for December delivery declined by 0.1 percent or by $1.10 to $1,251.90 an ounce. The yellow metal recorded weekly losses of 5 percent.

In the oil markets, the US "NYMEX" fell by 1.3 percent or by 63 cents to close at $49.81 a barrel, but achieved a weekly gain of 3.3 percent. The benchmark "Brent" fell by 1.1 percent or by 58 cents to close at $51.93 a barrel, and achieved weekly gains of 3.5 percent.

With regard to economic data, the US Department of Labor announced that the economy added 156,000 jobs in September compared to forecasts of 172,000 jobs. Unemployment rate rose from 4.9 percent to 5 percent.

US Monthly Employment Situation Report

	Forecasts	Previous	Current	Change
Number of jobs (thousand)	172000	167000	156000	11
Unemployment (%)	4.9	4.9	5	0.1
Average wage per hour ($)	--	--	25.79	0.2
Number of weekly working hours	--	34.3	34.4	0.1

Implications for Egypt:

Global capital markets are still experiencing sharp fluctuations, resulting mainly from the continued pressure on economic indicators and the escalation of the debt crisis in most countries, especially sovereign debt. In addition, there are the Deutsche Bank problems and low liquidity in the US bond market over fears of Arab investment reactions after the issuance of the US Justa law against Saudi Arabia.

Despite the declines witnessed by a number of global financial markets and some Arab markets throughout the week, the performance of the Egyptian Stock Exchange continued for the seventh consecutive week to perform consistently with internal factors, especially in light of speculation about the exchange rate over coming period as part of Egypt’s economic reform program.

Estimates indicate the Egyptian Stock Exchange continues to interact positively with any positive reform developments in the Egyptian economic structure, especially that the volume of trading still indicates the presence of idle liquidity that is willing to invest in the stock market if conditions improve over the coming period.

We reaffirm that 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, strengthen the supervisory tools and increase the number of investment instruments available for trading.