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Our Economy & the World

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Key Global Developments

Global Prescription Drug Spending Seen at $1.5 trillion in 2021: report
Reuters

Global spending on prescription medicines will reach nearly $1.5 trillion by 2021, although the annual rate of growth will decrease from recent years, according to a forecast by Quintiles IMS Holding.

That figure is based on wholesale pricing. The United States will account for up to $675 billion of the $1.5 trillion. When accounting for anticipated discounts and rebates to health insurers and other payers, 2021 net spending will be closer to $1 trillion, the Quintiles IMS Outlook for Global Medicines through 2021 report found.

Annual spending growth over the next five years is forecast at 4–7 percent, primarily driven by newer medicines for cancer, diabetes and autoimmune diseases in developed markets. That compares with spending growth of nearly 9 percent in 2014 and 2015 fueled in part by surging demand for new hepatitis C cures that has since leveled off.

"After two years of unexpectedly high levels of growth, we are returning to a more balanced and sustainable level of expansion that we think health systems and payers will be able to manage," Murray Aitken, executive director of the Quintiles IMS Institute, which compiled the data, said in an interview. Quintiles IMS regularly tracks prescription drug data for the industry.

Spending in the United States, the largest market with by far the highest drug prices, is expected to account for more than half of global growth over the period, at a compound annual rate of 6 to 9 percent, or 4 to 7 percent including discounts and rebates. That is down from 12 percent spending growth in 2015.

The report projects a slowdown in U.S. branded drug price increases, possibly a result of rising political pressure. It sees annual wholesale price increases of 8 to 11 percent and net prices rising 2 to 5 percent.

The report predicts an average of 45 new drug launches each year, a historically high rate.

Euro Zone Economy Grew by 0.3% in Q3
Argaam

According to the European statistics agency, Eurostat, the Eurozone grew by 0.3 percent in the third quarter, backed by strong growth in Portugal and Greece. On an annual basis, the euro zone's economy grew by 1.7 percent.

On a quarterly basis, GDP in the 19 countries that use the euro grew by 0.3 percent, driven by consumer spending, while exports grew by 0.1 percent in the three months to the end of September.

Both Greece and Portugal registered growth of 0.8 percent, which is among the highest quarterly growth rates in the bloc. Growth pace in France accelerated to 0.2 percent, while German economic growth slowed to 0.2 percent. Slovenia grew by 1 percent, the fastest pace of growth in the Eurozone in the previous quarter.

OPEC Raises Oil Production to Record High above 34 million Barrels per day in November: Reuter's survey
Reuters

A Reuters survey found that OPEC's oil output rose in November to 370,000 barrels per day, led by Angola, with less increases from Nigeria, Libya, Iran and Iraq.

OPEC had decided on a November-30 meeting in Vienna to cut its output to 32.50 million barrels per day, in the first agreement to cut oil supply since 2008.

However, the agreement will not enter into force before first of January, which means there is no output target currently. OPEC's supply level in November, excluding Indonesia and AL Gabon, is at 33.23 million bpd, which is considered the highest since the launch of the Reuters survey in 1997.

Brexit Deal could be reached in 2018, says Lead EU Official
Argaam

EU's chief Brexit negotiator, Michel Barnier, said that it is too early to discuss details of the exist plan. He noted that there would be no negotiations without notification.

Michel Barnier said in his first speech about this issue in Brussels that the negotiations would proceed for no less than 18 months. He noted that Britain has to notify the EU of Brexit by the end of next March.

He added that the negotiations could start weeks after the notification and a deal about article 50 is expected to be reached by October 2018.

Social Media ads to hit $50 billion by 2019 – Zenith
Reuters

The amount of money spent on advertising on social media is set to catch up with newspaper ad revenues by 2020, said advertising agency Zenith Optimedia.

The rapid expansion of social media platforms on mobile devices, as well as faster internet connectivity and more sophisticated technology, has triggered a huge shift in the way many people get their news.

Zenith Optimedia, owned by France's Publicis, predicts global advertising expenditure on social media will account for 20 percent of all internet advertising in 2019, hitting $50 billion and coming in just one percent smaller than newspaper ads. It expects social media to overtake newspapers comfortably by 2020.

"Social media and online video are driving continued growth in global ad spend, despite political threats to the economy," Jonathan Barnard, head of forecasting at Zenith, said.

The media industry has been convulsed by the rapid shift in advertising trends in recent years, with firms moving their ad budgets from traditional sources such as newspapers to websites found on computers and mobile phones.

$1.76 tn in Direct Investment Flows in 2015

UAE Al-Bayan

According to the Global Investment Outlook report 2016-2018 issued by the United Nations Conference on Trade and Development (UNCTAD), the value of global direct investment flows amounted to about $1.76 trillion in 2015. The advanced economies contributed by 54.6 percent of total global flows, while the share of developing economies reached 43.4 percent, ann economies in transition accounted for 2 percent.

The Ministry of Economy issued an analytical reading of the report, which noted that global investment flows grew in 2015 by 38 percent, compared to 2014, as a result of the growth of investment flows to the developed economies by 83 percent and developing economies by 9 percent. The value of these flows for economies in transition declined by 38 percent.

The reading, prepared by Youssef Diab, a Ministry economist, and supervised by Dr. Matar Al-Ali, Director of Analysis and Commercial and Industrial Information Department, is a unique and sophisticated analytical tool whose outputs, outcomes and recommendations would enable decision-makers around the world to develop proactive and targeted policies to encourage and facilitate cross-border investment through a deliberate time plan.

The report discusses global FDI predictions for three years for developed and developing countries and economies in transition. It presents detailed analytical perspectives for geographic and regional areas and blocs such as the G20, APEC, and BRICS.

Moreover, the report offers insights on sectors and promising industries as well as oversees mergers and acquisitions, while highlighting key promising emerging economies and advanced economies for FDI. It also provides a macroeconomic analysis and the policies and factors affecting future FDI.

UNCTAD forecasts reported a 10-14 percent decline in the value of investment flows to developed economies during 2016 compared to 2015, while these economies are expected to grow positively in 2017 compared to 2016 at an average rate of 6 percent, with expectations of an increase to 8 percent in 2018 compared to 2017.

EY: $924 billion in Global Islamic Banking Assets

WAM

The assets of global participation banking (also known as Islamic banking) reached US$924b in 2015, of which 17.2 percent in the UAE.

According to Ernst and Young (EY), the global company engaged in financial auditing and tax consulting business transactions, indicated in its report on banking in emerging markets that the value of global participation Islamic banking assets reached $924 billion last year, of which the UAE accounted for 17.2 percent.

The report of EY, whose regional headquarters is in Dubai, said that the GCC region’s share of participation banking increased to 72 percent, as the size of assets in the Association of Southeast Asian Nations (ASEAN) countries declined during 2015

According to the report, Saudi Arabia, the UAE and Malaysia are the top three participation banking markets in terms of size of assets; as they acquire 34.2 percent, 17.2 percent and 13.3 percent respectively of global market share.

Gordon Bennie, MENA Financial Services Leader, EY, says: “Today more than two billion adults still do not have a bank account. There are also more than 200 million micro, small and medium size businesses with unmet financing needs. The demand for a responsible, Sharia-compliant financial system is huge. There is also a wealth of business opportunities offered by FinTech innovations for participation banks, particularly in emerging markets.”

In the GCC region, FinTech innovations have the ability to enhance market access and profitability of banks, dramatically. A starting point for participation banks is to activate a bold strategy for the finance function – inclusive of advanced data analytics, robotic process automation, the cloud, artificial intelligence and block-chain.

Implications for Egypt:

The conditions of the oil market suggest that it will not be easy to apply the reduced output ceiling decision recently agreed upon, in the light of the lack of a binding agreement on non-OPEC producers. In addition, structural pressures have emerged as reflected in the high volume of production of OPEC members to an unprecedented level, making plans to reduce the volume of production ineffective in the face of a high surplus at the beginning of the year.

This coincides with the decline in growth rates in the EU with mounting calls to speed up the pace of Brexit. Along with the results of the Italian referendum, this will exert pressure on European money markets, and their ability to increase growth rates in the short term.

The above news also indicate an international trend of increasing pharmaceutical prices, which may contribute to increased pressure on drug pricing in the Egyptian market, and hence more cost to be borne by citizens. This requires an amendment of the mechanism used currently along with speeding up the introduction of the new health insurance law to allow targeting of pharmaceutical subsidies.

Although the impact on the Egyptian economy of international developments has not fully materialized, it is necessary to point out that this situation could see a significant change in the light of reforms undertaken by Egypt and attempts to open up to the global economy.

From the International Press

Brexit Supporters Criticize the Dark Scenario for the British Economy

Al Arabiya Net

Brexit supporters criticized official predictions that Brexit will cause a £59 billion in deficit. Chancellor of the Exchequer Philip Hammond stressed that the figures are still uncertain.

According to AFP, former Secretary of State for Work and Pensions Iain Duncan Smith said that the predictions of the Office for Budget Responsibility (OBR) drew another dark scenario in its latest report.

Smith told the Daily Telegraph that so far OBR erred in all predictions for the deficit, growth and jobs and in almost everything.

The pro-Brexit MP Jacob Rees-Mogg, who is a member of Prime Minister Theresa May's Conservative Party, told the BBC that experts, fortunetellers and astrologers are all in the same boat.

Presenting his budget, Chancellor of the Exchequer Philip Hammond announced that Brexit will cause economic growth to slow down next year, and will force Britain to borrow additional funds of £122 billion over five years.

Half of these debts would be a direct outcome of Brexit, while the rest are related to the government's desire to stimulate the economy and help families after years of austerity.

In a series of media interviews given by Hammond, he stressed that the figures are not certain, given the fact that Brexit negotiations have not yet begun.

He said that OBR very clearly confirmed that there is a large degree of uncertainty about its issued report due to the current circumstances.

In an interview with the BBC Radio, Hammond said that the report's expectations should be studied and not ignored, noting that these expectations should be regarded as a possible outcome that should be planned for.

Figures showed a better than expected growth rate of 2.1 percent this year, with expectations to decline to 1.4 percent in 2017 to rise back to 2.1 percent in 2019.

Conservative MP John Redwood, a Brexit supporter, said that these figures prove that there is no recession after the referendum, contrary to the expectations of some people.

He pointed out that OBR may be still completely wrong about 2017, expecting the economy to perform well.

British Prime Minister Theresa May declined to confirm whether she would seek to maintain her country's freedom to deal with the European Common Market, or customs union in the Brexit negotiations that she wants launched by end of March.

However, her emphasis on abolishing the freedom of movement of individuals, which represents a fundamental principle of the single market, raised speculations and a state of uncertainty about Britain's full separation from the bloc.

Implications for Egypt:

Many sources see that the impact of Brexit will not stop at the borders of Europe, but will undoubtedly reach many countries in the world including Egypt, which has a trade partnership agreement with the EU. However, this effect remains unassessed for the Egyptian economy. There are questions about the position of various countries' exports - including Egypt – to the EU, and the extent of Britain's compliance with the international agreements concluded in the framework of the EU; most importantly, the European Partnership Agreement.

Therefore, there is a need to review Egyptian export items to European markets and to see the possibility of substituting them with cheaper items. Also, there are opportunities to export Egyptian goods and services in place of the British goods and services that enjoyed the preferential advantage of Britain's presence in the EU.

The Brexit decision could drive investments out of Britain to search for safe havens, including Gulf investments. Such investments may be available to Egypt if it prepares an emergency plan to attract them, noting that the widening inflationary gap between Egypt and its major trading partners in the EU would lead to further rise in real effective exchange rate. As a result, commodity exports would be undermined. So, it is important to take economic measures to significantly improve the investment climate.

Special Analysis

Why Central Banks No Longer have much to do to avoid the Next Recession?
Argaam

No one likes to admit defeat, as decision-makers still insist that there is more that can be done to revive economic growth and inflation. In fact, governments and central banks around the world no longer have but a small number of tools, and probably lost any chance they once had to avoid the global economy entering into a long recession.

Clearly, the global economy has not responded as hoped to the zero, and sometimes negative, interest rate policy. On the contrary, a range of economic factors continue to drive personal spending lower, such as rising debt, unemployment and lack of jobs. Even the rich who have benefited greatly from the previous period of rising asset prices, cannot increase their spending from what it is now. In spite of the mountains of cheap money availed by central banks, global demand slowed down and excess capacity increased in many industries—matters that in turn became among the most important factors behind declining investments.

Low or negative interest rates harm bank funding and profits, and if the trend goes towards even lower rates, this could simply lead to depositors transferring their money to another place or even turning them into cash, unless governments restrict such measures.

Meanwhile, non-traditional monetary policies restrict market forces. The Japanese central bank, for example, now has plenty of government and corporate bonds and even influential stocks. This reminds of the Soviet attempt during the rule of Lenin to extend government control over the so-called “edifices” of the economy.

The limits of these policies have become obvious to all, and central banks in Europe and Japan now face the difficulty of finding appropriate securities for purchase, and any cuts in interest rates or increases in asset purchase programs are likely not to leave any significant impact on markets or even asset prices and currency values.

Now, the credibility of decision-makers is in a dilemma, because any withdrawal of reduction of support by central banks may lead to significant losses in existing investments and a sharp decline in the value of assets.

The recent volatility in bond prices, which caused some long-term securities to lose about 15 percent of their value, showed the extent to which poor policies could lead to a major meltdown.

Decision-makers have missed the best chance for years to avoid this dilemma, shortly after the collapse in 2008, as authorities should then have avoided the model that depended on investment or debt-driven consumption, by restructuring unsustainable and unfunded future claims, and addressing global imbalances.

No doubt, these measures would have led to a sharp contraction, and may have driven communities to rethink the issue of "wealth distribution," but at the same time, they would have laid the groundwork for a stronger and more sustainable recovery.

Implications for Egypt:

The main reasons behind the current crisis in Egypt—whether on the monetary or economic levels—are the inability of the economy to boost foreign currency resources, the decline in the state's revenues from tourism, inadequate growth of foreign direct investment, lower export earnings, and weak production capacity of commodities such as food, forcing the country to resort to importation. Also, many existing industries rely on imported inputs and the local content is too weak.

Addressing these problems requires sustainable industrial development with economic restructuring to establish import substitution industries on the one hand and increase exports on the other. This strategy is currently visible in the development and funding strategy of SMEs, and the establishment of integrated agro-processing clusters as part of the one and a half million fedden reclamation project.

We must stress that the Central Bank of Egypt will not work alone away from the government, which has yet to intervene to develop a program to attract investment in light of the depreciation of the Egyptian pound, which provides an attractive environment for investment. With the continued lack of foreign currency resources after the collapse of tourism, the decline in exports and the government's inability to develop investment programs to attract projects yielding foreign currency, banks will run out of dollar reserves, especially that Egypt is more of consumer.

We reaffirm that central bank actions alone will not suffice to address the economic crisis. A prudent financial and investment policy is imperative. Assistance should also be extended to limited income groups in addition to addressing the current imbalance of payments caused by the trade imbalance, as well as revisiting the export policy and competitiveness of Egyptian exports.

Global Financial Market Performance

Reuters / Argaam

Chinese stocks rose at the close of Friday trading, following official data that showed a rise in Chinese consumer prices - the main measure of inflation - in November.

The National Bureau of Statistics of China released data showing an increase of 2.3 percent in the consumer price index YOY in November, and of 0.1 percent on a monthly basis.

On his part, Bureau analyst, Sheng Guoqing, attributed the strong growth in the rate of inflation to rising prices of food and fuel. Vegetable prices rose by 15.8 percent YOY compared to an increase of 13 percent in October.

In another context, some reports indicated that the Chinese authorities reduced the size of the cash that can be withdrawn through ATMs in gambling casinos in Macau.

These measures come as part of Beijing's attempt to crack down on corruption, as well as the sense of concern over capital outflows, which weakened the local currency against the dollar.

At the end of trading, the "Shanghai" Composite index rose by 0.54 percent to 3,232 points.

The Japanese stocks rose at the close of Friday trading, supported by the rise in US markets and weakened Japanese yen.

During the session, the Japanese "Nikkei" index touched 19,000 points for the first time in a year. Investors felt that the weakened yen and pro-growth economic policies by the new US administration would support large exporters in Japan.

On his part, Eiji Kinouchi, chief technical analyst at Daiwa Securities said that market strength in the US gives a boost to Japanese stocks.

At the end of trading, the Japanese "Nikkei" index rose by 1.2 percent to 18,996 points, which is the highest closing level since December, while the broader "Topix" index was up b y 0.8 percent to 1,525 points.

US stocks rose during Friday trading backed by the transport and energy sectors in conjunction with the rise in oil prices. The major indices achieved new closing records, and recorded weekly gains.

The "Dow Jones" Industrial Average rose by 0.7 percent, or 142 points, to 19,757 points. The "Nasdaq" index rose by 27 points to 5,444.5 points, while the "S&P 500" index rose by +13.3 points to ,259.5 points.

On a weekly level, the "Dow Jones" index achieved gains of 3.1 percent, the broader "S&P 500" posted gains of 3.1 percent, the largest in five weeks, and "Nasdaq" posted a gain of 3.6 percent.

In Europe, "Stoxx Europe 600" index rose by 0.9 percent, or 3.4 points, to 355.4 points. The index achieved a weekly gain of 4.7 percent, the largest since January 2015.

The British "FTSE 100" index rose by 22.6 points to 6,954 points, the French "CAC" index rose by 28.5 points to 4,746 points, and the German "DAX" index rose by +24 points to 11,203.6 points.

On the other hand, gold futures for February delivery settled lower by 0.9 percent, or $10.50 to $1161.90 an ounce, the lowest close since the beginning of February. The yellow metal recorded a weekly loss of 1.1 percent.

In the oil markets, the US "NYMEX" rose by 1.3 percent or 66 cents to close at $51.50 a barrel, but recorded a weekly loss of 0.4 percent, while crude "Brent" rose by 0.8 percent or 44 cents to close at $54.33 a barrel, and recorded a weekly loss of about 0.2 percent.

With respect to economic data, the Michigan/Reuters index of US consumer confidence increased by 4.5 percent to 98 this month, while analysts' forecasts indicate an increase in the index to of 95.

Implications for Egypt:

During the trading week, the global financial markets witnessed extraordinary activity not seen in years, where most stock markets rose significantly and the US stock markets recorded the highest increases in years, driven by the transport and energy sectors in conjunction with the rise in oil prices. The major indices closed at record new levels.

Early signals indicate that the global markets could benefit from global central banks backing down on taking new steps to change their policies amid anticipation of a decision by the US Federal Reserve about interest rates. According to international reports, it is the first time for a long time that expectations of Fed Board members regarding prices are not on the downside, but will remain largely unchanged, while markets will look forward to more increases over time.

Unlike the global trend, the Egyptian Stock Exchange suffered losses during the first week of December that amounted to about LE 8 billion, with market capitalization of listed shares amounting to about LE 563.5 billion compared to LE 571.5 billion in the previous week—a decline of 1.4 percent. The main index "EGX 30" saw a decline of about 2.17 percent to reach 11,298 points. The secondary market indices witnessed a downward trend, with EGX 70 of small and medium shares falling by 3.07 percent to close at 449 points, while the broader "EGX 100" index declined by about 2.51 percent to reach 1,061 points. With respect to the multi-weighted "EGX 20," it declined by about 2.81 percent to 10,977 points.

We see the need for new stimulus measures for the Egyptian Stock Exchange to enhance its financial depth and investment flexibility, through completing the required legislative amendments and faster steps towards selling new companies and new financial instruments in the stock market.