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Key Global Developments

Trump to begin renegotiating NAFTA pact soon with Mexico, Canada

Reuters

U.S. President Donald Trump said he plans talks soon with the leaders of Canada and Mexico to begin renegotiating the North American Free Trade Agreement (NAFTA).

"We will be starting negotiations having to do with NAFTA," Trump said at a swearing-in ceremony for his top White House advisers. "We are going to start renegotiating on NAFTA, on immigration and on security at the border."

Trump pledged during his presidential campaign that if elected he would renegotiate the NAFTA trade pact to provide more favorable terms to the United States.

Canada's ambassador to the United States said it was clear the Trump team were concerned above all about trade deficits with Mexico and China.

"I don't think Canada is the focus at all," David MacNaughton told reporters in Calgary, Alberta, ahead of a two-day government retreat focused on how to handle the new Trump administration.

Trade experts, academics and government officials say Canada and Mexico will also seek tough concessions and that NAFTA's zero-tariff rate would be extremely difficult to alter. Any renegotiation would likely take several years, they say.

Trump said he would be meeting with Canadian Prime Minister Justin Trudeau and Mexican President Enrique Pena Nieto to begin work on overhauling the deal.

China’s 2016 capital outflows estimated at about $728 Billion in 2016

Argaam

A new report from Standard Chartered estimates capital outflows from the world’s second largest economy at about $730bn in 2016, a near-record level, close to the previous year’s record high of $744bn in conjunction with continued slowing growth.

This comes while outflows had moderated in December to $66bn, down from November’s $75bn.

Bank analysts estimated China’s foreign exchange reserves had fallen $41bn last month to end the year at $3.01tn as depreciation of the euro, yen and pound against the greenback. That reduced the dollar value of China’s holdings in those currencies by about $13bn.

Thomson Reuters: Middle Eastern debt issuance hits $77.8 billion in 2016

WAM

According to a report released by Thomson Reuters/ Freeman Consulting on investment banking in the Middle East, Middle Eastern debt issuance reached $77.8 billion during 2016, a 145 percent increase compared to the value raised during 2015 and by far the highest annual total in the region since records began in 1980.

The Middle Eastern investment banking fees jumped by 18 percent in 2016 compared to fees recorded during 2015. The banking fees reached $820.8 million, the highest annual fee total in the region since 2008, said the report.

Nadim Najjar, managing director, MENA, Thomson Reuters, said: "Bolstered by Saudi Arabia's $17.2 billion bond sale in October, Middle Eastern debt issuance reached $77.8 billion during 2016.

He added that Saudi Arabia was the most active nation in the Middle East accounting for 29 percent of overall activity, followed by the United Arab Emirates (UAE) and Qatar. International Islamic debt issuance increased 24 percent year-on-year to reach $37.9 billion during 2016.

Saudi finance ministry says no fees on remittances out of the country

Reuters

The Saudi finance ministry said on Sunday there would be no fees applied on remittances out of the country, days after the kingdom's advisory Shura Council said it was considering a proposal to impose a 6 percent levy on expatriate remittances to reduce the large deficit in the Kingdom's budget.

Saudi Arabia is "committed to the principle of free movement of capital in and out of the kingdom, in line with international standards," the ministry's official Twitter account said.

WEF Concludes in Davos with more questions than answers

KUNA

The 47th session of the World Economic Forum concluded its activities with more questions than those of the three thousand participants, who tried to find answers in avail.

KUNA interviewed participants after the forum ended its activities in the resort of Davos eastern Switzerland. There was a consensus on the need to find solutions to curb the spread of nationalist sentiments in the West's most liberal countries, which undermines the standards on which the West settled since nearly seventy years.

The interviewees added that Brexit was a shock to supporters of the European idea as an economically and politically integrated entity, in addition to the uncertainty surrounding separation on both the European and British sides and its implications for the countries that signed agreements with the EU when the UK was a member thereof, as the gains of those agreements will change after the separation between London and Brussels.

They stressed that they are now in a quandary about how to deal with the worsening humanitarian crises that register record levels day after day, both in the number of refugees, which became the highest in the history of the modern world, or also immigration seekers, both experiencing serious difficulties during their search for a better future.

At the same time, the problems of terrorism and violent extremism were highlighted on the forum as it become like cancer sneaking to communities and hitting at any time and any place.

In the same context, the Middle East seemed exhausted from the impact of conflicts in Libya, Yemen, Iraq and Syria and the implications of these crises for the region's stability especially that the conflicts in those countries have a regional dimension.

The WEF sessions revealed that the gap between the North and the South is not only economic but also informational and digital as digital technologies advance in the north at a very fast pace that countries of the South will not be able to catch up with.

The participants, who spoke to (KUNA), described this scene as hazy amid a state of uncertainty that perhaps led to the vote for Brexit and the rise of radical right in Germany, France, Netherlands and Switzerland, which may be explained by citizens' losing confidence in the moderate political parties, especially the middle trench.

To develop solutions to these problems, their causes were supposed to be placed on the table to facilitate finding solutions, but the forum sessions revealed a lack of consensus regarding the causes and therefore it was difficult to develop solutions, or at least a vision for identifying the causes and solutions.

In the midst of this debate, the Forum stopped at two speeches that can be described as historical. The first was that of the Chinese president who introduced himself as "representing a country that follows the communist regime in its policies and is a liberal capitalist in its economy," in the mixture that was not perhaps expected by neither communists nor liberals.

China has established itself before the forum as one of the restructuring elements of the new world regime with an economic power and a political weight both at the regional and international stages, which makes it an element that cannot be ignored at all.

At the same time Britain tried through its Prime Minister's speech to give the impression that after exiting the European Union it will be the head of the liberal economic bayonet and play a major role in the UN and other international organizations, based on its experiences in dealing with different cultures and races since it was an empire on which the sun never sets.

Between these two poles, the forum missed a representative to speak for the new US administration and answer many of the questions that pose themselves. The Europeans also failed to provide a vision of what they intend to do to regain the confidence of citizens in their European identity and liberal thinking, which represents the backbone of the European idea.

Perhaps one of the most positive aspects of the forum is the creation of a unique partnership between major companies and national, global and humanitarian organizations to facilitate the mechanisms of addressing the humanitarian crises that are sweeping the globe with no signs of an end.

According to summarize the discussions at these sessions, the world is now witnessing a historic turning point where globalization is entering a new stage and political and economic blocs are reformulated in multi-polar entities.

Speakers told (KUNA) that they believed the situation is extremely sensitive and requires high sensibility from part of the new and traditional powers in this world, because any error that may happen at the wrong time will not have good consequences.

Global Tourism grew by 3.9 percent despite challenges

Al-Arabiya Net

Demand for international tourism remained robust in 2016 despite challenges. International tourist arrivals grew by 3.9% to reach a total of 1,235 million, according to the latest **UNWTO** *World Tourism Barometer*. Some 46 million more tourists (overnight visitors) travelled internationally last year compared to 2015.

2016 was the seventh consecutive year of sustained growth following the 2009 global economic and financial crisis.

The Middle East received 54 million tourists in 2016, according to Al-Bayan newspaper.

Implications for Egypt:

Egypt has to take more robust actions through economic reform packages that focus on reducing government expenditures 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 also be given to the strategic Gulf-Egyptian economic and commercial relations. 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.

Although the international economic changes have not been reflected fully on the Egyptian economy so far, it should be noted that this situation could see a significant change in the light of what Egypt's current reforms and the persistent attempts to open up to the global economy.

From the International Press

GCC Sukuk issuance will increase to finance the deficit

Kuwaiti Al-Qabas

According to a report by Kamco Investment, some of the key events of 2016, particularly the Brexit and US elections are expected to have long term repercussions on world economic growth. Uncertainty is expected to be high, which could result in higher market volatility for all the asset classes. Moreover, the focus seems to be shifting from emerging markets to developed markets as seen during the year as investors tried to cash-in on the surge in US economic growth rates followed by the unexpected results of the US elections.

The report added that 2016 was also in a number of ways a turning point for the MENA region in terms of the structure of the capital market. GCC, in particular, witnessed a great deal of volatility in its primarily capital market, the equity market, due to the decline in oil prices, whereas the sovereigns were compelled to turn to the largely untapped fixed income market to fund budget deficits giving a boost to the number of instruments in the fixed income space.

According the latest available number from IMF's Global Financial Stability Report (October-14) the global average of total debt securities as a percentage of total capital market size (total of stock market capitalization, bank assets and debt securities) was at 35%; however, for the MENA region, the share stood at merely 7 percent, the lowest in the world. In addition, the share of debt as a percentage of GDP was also the lowest for the MENA region. On the positive side, 2016 saw a rebound in bond issuances in the MENA region primarily led by sovereign issuances to fund budgeted spending.

Total bond issuances for the MENA region during 2016 reached the highest level since the financial crisis and was recorded at USD 75.8 Bn resulting in a year-on-year increase of 81 percent.

Sukuk market has declined consistently for the fourth year in a row. In terms of country of domicile, Saudi Arabia dominated the market in 2015, while 2016 belonged to Bahrain and Qatar as Saudi Arabia focused on international bond issuance against previous focus on sukuks. In terms of type of instruments, Ijara is the preferred structure.

A decline in sovereign sukuk issuances in 2016 in favor of conventional international bonds that were aimed at tapping liquidity from international investors was the key reason for the decline in total sukuk issuances during 2016. However, we believe that there exists a vacuum for local investors in sukuk that would drive the attractiveness of future issuances.

KAMCO expects Malaysia to be the largest sukuk issuer in 2017, however, the country's share is expected to decline due to its central bank's policies. We believe that this decline would be more than offset by higher issuances from GCC countries that are expected to increasingly tap the Sukuk market in order to finance the budget deficits.

Debt instrument financing in the MENA region continues to account for a miniscule pie of the total capital market when compared to other markets globally. The share of the MENA region was the lowest when compared to all other regions in the world.

Despite strong growth, Islamic finance still accounts for a miniscule portion of the total global financial assets. Total global commercial banking assets stood at USD 162 Trillion at the end of 2015 vs. merely USD 1.5 Trillion for Islamic banking assets. GCC continues to maintain its regional lead in with assets totaling USD 922 Bn as strong balance sheets allowed them to sustain the oil price shock.

GCC economies are increasingly looking at alternative sources of funding for the massive ongoing infrastructure projects in the region. Private sector participation is being encouraged which would require a well structured fixed income market as a source of funding. However, governments will have to lead the market in terms of issuing bonds for all maturities, so that there can be a 'yield curve' which can be used to price other fixed income securities.

With the expected hike in US Fed interest rates in 2017, the regulators in the MENA region would react in line with the Fed policies as the majority of the countries have their currencies pegged to the greenback. Low oil prices is one of the key reason for the decline in spending initiatives in the oil exporting nations. However, as the market visibility improves and as oil price moves north, the investment cycle is expected to get a boost with both government and corporate issues expected to tap the bond and sukuk markets.

Governments' role is crucial in developing a broad-based fixed income market in the region. On a positive note, the fall in oil prices have triggered GCC governments to tap the international conventional bond market, which we believe would serve as the triggering point for more local issuances. A higher institutionalization of the MENA fixed income markets would help to increase the breadth of the market in the region.

Implications for Egypt:

* The current importance of sukuks is attributed to their expanded application, at the regional and international level. Financial and banking institutions adopt these sukuks as a source of funding that suits the desires of many investors. The sukuk market has grown and its use increased significantly in the last decade.
* There is a consensus that sukuks are a significant financing instrument that plays a prominent role in financing investment, and are used by private companies, banks, governments and other legal entities to finance their various activities and projects or expand therein.
* It is necessary to take advantage of this instrument as part of the State's plan to develop and diversify the financial instruments to increase the ability of companies, government and other legal entities to obtain funding. This will have a positive impact on increasing investment and employment in the national economy, and on enabling these entities to diversify their funding sources and meet the needs of a large segment of public and private legal persons and companies wishing to finance their activities and projects or expand thereof through sukuks. Moreover, many investors prefer this type of investment.
* Activating this instrument requires a revisiting of Law No. 10/2013 concerning the issuance of sukuks after its entailed popular and economic debates as a result of a defective legislation that caused disruption of this important financial instrument. Also, a section on sukuk should be added to the Capital Market Law.

Special Analysis

Britain is not ready for Brexit yet

Kuwaiti Al-Qabas

Dembik Christopher, Economist at Saxo Bank, said that if the UK wants full separation from the EU, it would have to restructure its economy completely by 2019. He added that of all the political events that will occur in the first quarter (German presidential election on February 12, general election in the Netherlands on March 15), the UK triggering article 50 by the end of March will certainly be the riskiest because of the economic weight of the UK and the euro area, whose share of global GDP in USD is 3.9 percent and 15.7 percent respectively. Until now, the most visible effect of Brexit has been sterling's depreciation (the other factor explaining the depreciation is the UK's large current account deficit which is close to 7 percent of GDP). GBP has decreased by almost 17 percent versus the dollar and 9.3 percent against the euro since June 23.

It is certainly too early to talk about the emergence of a new political philosophy in the UK. One can, however, recognize that May has comprehensively analyzed the reasons for the 'No' victory in the referendum and she has started formulating possible solutions that she will have to develop further in the coming months. Contrary to her predecessors who promoted a minimal state, she considers government as the solution, not the problem. It must have three main objectives:

1) reducing financial and geographic inequalities that have skyrocketed to such a point in recent years that the income share of top 1 percent has grown to where it was 80 years ago to a level of 14 percent versus its lowest historical point of 6 percent during the 1970s.
2) safety-and-soundness financial regulation in order to limit the type of egotistical behavior that led to the great financial crisis.
3) using public spending as a buffer against internal and external shocks, such as the process of leaving the EU.

May raises many hopes but it is way too early to judge her policies since she has not delivered anything yet. Opting for a hard Brexit means that the UK would need to completely change the structure of its economy by 2019 (the effective date of exit from the EU), which is obviously a very short timeframe.

Challenges

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There are mostly three immediate economic issues that will appear in 2017:

The surge in inflation. The lower GBP exchange rate, which is certainly here to stay, leads to higher inflation through imports (forecast of 2.4 percent in 2017 and 2.5 percent in 2018) hurting households' purchasing power. The rise in inflation is also accentuated by higher global commodity prices (+4.70 percent in November 2016 compared to November 2015).

Until now, wage growth has been sufficiently high (+2.3 percent according to the latest data) to partly offset higher inflation but this should not be the case in 2017 if inflation forecasts are confirmed. In the medium term, however, lower GBP is likely to favour the substitution of imported goods by locally produced goods, whenever it is possible. Nonetheless, the gain in terms of purchasing power will not be that substantial.

Worries over wages. In a normal economic period, full employment is expected to lead to higher wages but this may not be the case as UK firms may be encouraged to postpone hiring due to the uncertain economic conditions. The triggering of Article 50 will probably have a significant psychological effect on British firms and will result in a hiring freeze.

Competitiveness at stake. In theory, the depreciation of sterling should help the British economy in this period of uncertainty but the real gain remains limited because the price elasticity of exports is low. Indeed, a study conducted by the Office for Budget Responsibility concludes that a 1 percent decrease in relative price only results in a 0.41 percent increase in exports (excluding petroleum products) after nine quarters. By comparison, a similar decline leads to a 0.8% increase in exports for France.

Therefore, it can be concluded that the expected gain in price competitiveness for British firms due to the fall of GBP will not be as decisive as has often been claimed. Lower corporate tax may constitute an incentive for UK firms to invest in the short term but, in the medium term, the UK will need to implement an ambitious reindustrialization plan if it fails to reach a favorable association agreement with the EU.

This plan would mean uncontrolled deficit spending which would increase the debt burden in a context of tensions in bond markets (the UK 10-year sovereign bond yield has been multiplied by 2.3 since its annual lowest point) and certainly a fresh credit rating downgrade for the country.

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, and whether the exit will take effect immediately after the referendum or postponed.

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. In addition, there is a need for the Egyptian Stock Exchange to closely monitor transactions at the current period, especially that there are Egyptian shares listed on the London Stock Exchange. In particular, there is a need to prepare quick alternatives to deal with any possible trouble that may result from the Brexit decision with a view to reducing its effects on the Egyptian Stock Exchange.

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's would lead to a 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.

A recession in world trade is expected after Brexit, which means a decrease in revenues from trade, exports or navigation traffic. Therefore, these movements and expectations should be studied, while working on finding alternatives. It must be taken into consideration that the Gulf investments are the largest source of investment in Egypt, while Britain comes second. The Gulf investments are now flowing out of Britain, and Egypt should have a plan to attract part of those investments, which requires having a stimulating business climate.

Global Financial Market Performance

Reuters/ Argaam

The Japanese stock indexes rose at the close of trading, recording weekly gains, with the depreciation of the yen against the dollar and gains of the financial sector backed by speculations of raising US interest rates.

At the end of the session, the Japanese "Nikki" index rose by 0.35 percent to 19,467 points, recording a weekly gain of 1.7 percent, while the "TOPIX" index rose 0.25 percent, 1549 points near its highest level in a year.

Official data showed a decline in core consumer price index by 0.2 percent in December compared to what it was during the same period in 2015, and after declining by 0.4 percent in November.

US stocks stabilized during Friday trading after absorbing weak economic data in conjunction with the pressure on the energy sector, but the major indexes posted weekly gains.

The Dow Jones industrial average fell 7 points to 20093.7 points, the broader S & P 500 index fell (-two points) to 2294.7 points, while the Nasdaq index rose (5.6 points) to 5660.7 points.

On the weekly level, the Dow Jones industrial posted gains of 1.3 percent, and "Nasdaq" rose 1.9 percent, while "S & P 500 index" gained 1 percent.

In the European markets, "Stoxx Europe 600" fell by 0.3 percent, or about one point to 366.4 points, and achieved a weekly gain of 1.1 percent.

The German "DAX" index fell (- 34 points) to 11814 points, and the French "CAC" index declined (-27 points) to 4840 points, while the British "FTSE 100" index rose (+23 points) to 7184.5 points.

On the other hand, Gold futures for February delivery settled down by 0.1 percent, or $1.40 to $1188.40 an ounce. The precious metal recorded a weekly loss of 1.4 percent.

In the oil markets, the US "NYMEX" fell by 1.1 percent or 61 cents, closing the New York session at $53.17 a barrel. It recorded weekly gains of 1.4 percent, while raw "Brent" fell by 1.3 percent or 72 cents and closed the London session at $55.52 a barrel.

As for the economic data, US economic growth slowed to 1.9 percent in the fourth quarter of 2016, while durable goods orders fell 0.4 percent last month, and the Michigan/ Reuters' Consumer Sentiment Index rose 0.3 percent to 98.5 in January, the highest level since 2004.

Implications for Egypt:

Global markets are still witnessing casual movements with a tendency to rise in a state of anticipation of developments under recent US decisions in addition to the beginning of Britain's exit from the European Union and amid mixed economic indicators**.**

For its part, the Egyptian Stock Exchange achieved during this week's trading, which was confined to four sessions because of the 25th January holiday, gains of LE16 billion, thus the market capital of the shares of listed companies reached about LE 628.4 billion compared to LE 612.4 billion in the previous week, a rise of 2.6 percent**.**

The weekly report of the Egyptian Stock Exchange indicated a collective rise in the performance of main market indicators, as EGX 30 rose by about 2.22 percent to 13091 points. The secondary market indicators tended also to rise, as «EGX 70» for small and medium shares increased by about 3.89 percent to close at 478 points, while the broader «EGX 100» index rose by 4.7 percent to reach the level of 1181 points. As for the «EGX 20 multi weights », it rose by about 0.4 percent to reach 12,617 points**.**

We emphasize the need to develop new stimulus measures for the Egyptian Stock Exchange to increase its financial depth and investment flexibility by completing the required legislative amendments and taking faster steps towards the offering of companies and new financial instruments at the Stock Exchange, and deciding on the imposition of a new stamp on transactions in the Egyptian Stock Exchange.