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ECES
The Egyptian Center
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Our Economy & the World

This week's issue of "Our Economy and the World" includes:

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Key Global Developments

Saudi Arabia Increases Holdings of US T-Bills, and the UAE lowers them

(CNN)

Saudi Arabia's holdings of US T-bills rose to $102.8 billion by the end of December last year, while the UAE reduced its holdings of US T-bills to $60.6 billion.

By the end of November last year, Saudi Arabia had owned about $100.1 billion in bonds, and increased its holdings in December by 2.7 percent. The UAE had owned $63 billion by the end of November last year, and decreased its holdings in December by 3.81 percent.

According to data from the US Treasury Department, Saudi Arabia is the largest Arab investor in US bonds, and was ranked 13th globally, followed by the UAE, which is ranked 22nd globally.

Japan topped the list of major investors in US T-bills at the end of 2016, by $1.091 trillion, followed by China ($1.058 trillion).

CEOs of 16 U.S. companies urge Congress to pass border tax

Reuters

Chief executive officers of 16 companies, including Boeing Co, Caterpillar Inc and General Electric Co, have urged the U.S. Congress to pass a comprehensive tax code rewrite, including a controversial border tax.

In a letter to Republican and Democratic leadership, the CEOs said a Republican-proposed border adjustment tax would make U.S.-manufactured products more competitive abroad and at home by making imported goods face the same level of taxation.

It was the latest move in a back-and-forth lobbying effort from companies over changes to the tax code.

Republican House Speaker Paul Ryan has proposed lowering the corporate income tax to 20 percent from 35 percent, imposing a 20 percent tax on imports and excluding export revenue from taxable income.

The proposal has drawn opposition from large U.S. corporations that require imports, like retailers and auto manufacturers. Those that export much of their output tend to support the tax code changes.

A group of retail CEOs met last week with President Donald Trump and congressional leaders to argue against the border adjustment tax.

Trump is expected to release his tax proposal in the coming weeks. While he has said the border adjustment tax is too "complicated," his administration has said taxing goods from Mexico could fund construction of a wall along the border.

Europe wants Britain to pay billions into EU schemes up until 2023

Argaam

The European Commission wants Britain to be paying into EU projects for four years after it has signed a Brexit deal for exiting the EU in 2019, the Daily Telegraph has learned.

The suggestion that Britain should pay in instalments up until 2023 was made at a meeting earlier this month between Michel Barnier, the European Commission's chief Brexit negotiator, and senior officials from the 27 remaining EU member states.

The aim of the payments would be to help smooth over the €10bn-a-year black hole left in the EU budgets by Britain's departure from the EU, which could see richer countries like Germany and France paying more or poorer countries, like Poland and Hungary receiving less.

Institutional investors pull $469 billion from equities in 2016 - report

Reuters

Institutional investors pulled $468.8 billion out of equities in 2016, a report by the research firm eVestment showed, notwithstanding a rally late in the year that drove stock markets to record highs.

Investors piled into stocks after Donald Trump was elected as U.S. President in early November, betting that his much-touted tax cuts and spending plans would stimulate growth.

Both U.S. and world stocks have powered to record highs, with the S&P 500's market capitalization climbing past $20 trillion this month for the first time ever.

But in the fourth quarter of 2016, institutional investors continued to pull money from external asset managers, with equities suffering $147.9 billion of net outflows, the latest data from eVestment showed.

The firm, which tracks more than $37 trillion in institutional money globally, aggregates data from asset managers overseeing money for pension funds, insurers, sovereign wealth funds and foundations.

Oil prices may fall to $30 a barrel if "OPEC agreement not extended

Argaam

According to Dutch bank "ABN AMRO, oil prices could easily go back to the low $30s", unless OPEC extends its current agreement on output restraint, which is the main pillar for current market stability.

Hans van Cleef, senior energy economist for Dutch bank ABN Amro, told Bloomberg that if OPEC and other big producers do not extend their current deal after next June, crude prices would likely fall to their level two years ago.

He added that the downside risk has become much bigger than previously, especially with the existence of indicators that the current level of prices reflects production cuts.

"OPEC" had reached an agreement late last year, where its members along with non-member producers, led by "Russia", pledged to cut their crude production by about 1.8 million barrels per day during the first half of this year.

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EU commissioner: EU to profit from US protectionism

Al-Youm Al-Sabe'

EU Commissioner Cecilia Malmstrom said that Donald Trump's protectionist policy makes many countries turn to the EU, warning against a trade war that will have no winner.

The bloc's top trade official told the German business daily "Handelsblatt" that this had helped speeding up the free trade agreement with Canada, which was passed by the EU parliament mid-February.

Donald Trump withdrew from the Trans-Pacific Partnership trade deal, threatening to impose protectionist measures particularly against imports from China and Mexico.

Malmstrom said that the EU is having talks with various countries in the pacific area because "they believe protectionism is not the right answer." "We are already negotiating with almost all of [the TPP] nations or preparing talks with the countries around the Pacific Rim that had signed up to the US-led treaty," Malmstrom noted.

She added that the European Commission is negotiating many deals, pointing to speedy talks with Mexico, South American trade bloc Mercosur and Japan, and is working on speedy conclusion of these deals.

Malmstrom said that the commission was preparing possible trade talks with Australia and New Zealand, while it already had a completed deal with Vietnam on the table.

Regarding next trade policy with the US, she said that the commission has to know first what the US administration intends to do, and that it is normal to watch closely. However, it cannot make a move for something that is not existent yet.

She warned that if the US president applies the announced protectionist measures, there's a risk of worldwide trade war. "If things really go that far, there will be no winners," she added.

Platts revamps Brent oil benchmark for first time in a decade

Reuters

Oil pricing agency S&P Global Platts said it was making the first major overhaul of its Brent oil assessment in a decade to address falling supply underpinning the benchmark that prices most of the world's oil.

A decline in supply from North Sea fields has led to concerns that physical volumes could become too thin and hence at times could be accumulated in the hands of just a few players, making the benchmark vulnerable to manipulation.

Platts said on Monday it would add Norway's Troll crude to the four British and Norwegian crudes it already uses to assess dated Brent from Jan 1. 2018. This will join Brent, Forties, Oseberg and Ekofisk, or BFOE as they are known.

"Overall we have had significant support for the addition of a new grade to the basket," Jonty Rushforth, global editorial director for S&P Platts Global's oil and shipping price group, said at an industry conference. "Far and away, Troll has received the most support."

Brent is used to set the price of billions of dollars of daily oil trade. Supply of the four BFOE grades is expected to fall next month to a rate of 884,000 barrels per day (bpd), from February's originally planned 943,000 bpd rate, based on loading programs from trading sources.

Typically, Troll produces about 10 to 15 cargoes of 600,000 barrels each per month. Platts said its inclusion should boost volumes by about 20 percent, helping to improve liquidity.

Implications for Egypt:

The above news points out the emerging signs of a temporary decrease in oil market crises, with most reports noting that oil prices are tending to stabilize at better levels in light of growing demand. This would reduce the budget deficit in GCC states and would avail Egypt better opportunities to attract Gulf investments along with continued short-term Gulf support.

We believe that Egypt should starts activating measures implemented through the economic programs, which focus on adjusting government spending and rationalizing consumption, while focusing on specific production sectors, as well as reviving certain marginalized investment economic sectors. All these measures can reduce the deficit and will be capable of improving the economic capacity.

The economic and commercial relations between Egypt and the Gulf are strategic, which calls for developing integration rather than the status quo. The establishment of joint economic zones, expansion of bilateral trade agreements and the introduction of new sectors such as services to these agreements, as well as the establishment of joint industries to replace imports in the Arab region that rely on raw materials. The Egyptian-Gulf economic diversification will be a foundation for the development of economic and trade relations over the coming period.

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From the International Press

Japan to establish a market for liquefied natural gas

UAE from the Economy Watch

During last year's G7 summit, Japan announced its vision of creating a LNG market to meet increasing energy demand. Natural resource markets are a foundation for trade and economic development. What is less well known is the close link between the natural resource markets and the currency markets.

LNG was first imported to Japan by the Tokyo Electric Power Company and Tokyo Gas in 1969. Since then, the market has grown substantially and financing large LNG projects has become possible. However, the LNG market is much smaller and geographically dispersed than the crude oil market. Developing the market further requires a spot market, and there are three main requirements that need to be overcome to make the most of this opportunity.

First, storage capacity must grow. The storability of crude oil makes adjusting supply possible — essential for a spot market. Likewise, more LNG tanks must be built so that supply can respond to price changes. It is commonly assumed that storing LNG is difficult due to extreme temperature requirements. However, just like crude oil, LNG storage is feasible if investment in suitable infrastructure is made.

Second, producers and suppliers must be able to trade LNG. The clauses restricting destinations that can be delivered to should be abolished or at least made more flexible. Transportation infrastructure should also expand to allow for changing demand.

Lastly, financial institutions must provide liquidity to facilitate transactions and a means to hedge risks. The construction of a LNG production base requires large investments and most LNG trade is based on a long-term contract with the oil price as a benchmark. The involvement of major electricity and gas companies made financing big LNG related investment possible.

When the oil price was high, many new projects began. Therefore, the rising oil price was the major impetus for the expansion of the LNG production.

The companies dominating the oil industry predominantly use the US dollar and changing the trading currency would require an appropriate market for risk hedging. LNG sales contracts are linked with the oil price and have served the industry well as the US dollar and the oil price are negatively correlated, providing a natural hedge. However, the current low oil price creates a huge gap between the future forecasts of sellers and buyers. Sellers typically anticipate the low price to continue but buyers do not.

Delinking LNG from oil will be useful for new projects and will result in delinking from the US dollar. Multiple currencies should be used since contractors and oil companies are exposed to foreign exchange risk from construction activities.

Natural gas is typically found in rural areas. To avoid the abundance of resources hindering industrial development — the so called 'resource curse' — governments must solve problems associated with oligopoly and diversify the industrial base by global value chain upgrading. Such initiatives require large infrastructure projects with long life cycles, and infrastructure finance is often a bottleneck for sustainable development.

For this reason, most countries welcome foreign capital. LNG exporters can secure the revenue flow for foreign loan repayment. Given that Japan, South Korea and China are the major LNG importers, the Japanese yen, South Korean won and Chinese Yuan should play a bigger role in matching the demands for infrastructure investment and LNG trade.

US consumption has contributed to world economic growth for decades. However, the US growth engine has relied on the reserve currency status of the US dollar and a current account deficit supported by US Treasury bond investors such as China, Japan and South Korea. As they transition to more consumption-driven economies and serve as a new engine of growth for the world economy, their currencies must also gain reserve currency status.

Japan, China and South Korea have a common interest, and responsibility, to establish a LNG spot market to meet future energy demand. In doing so, they may also contribute to sustainable industrial development through infrastructure investment in many parts of the world and ensure future growth for the world.

Implications for Egypt:

Egypt is expected to add between 5.5 to 6 billion cubic feet of natural gas and 28.5 thousand barrels of condensates per day for domestic production, through 13 natural gas field development projects currently being implemented with investments valued at $33 billion. This will raise production to 9.5 or 10 billion cubic feet of gas by 2020, according to estimates by the Ministry of Petroleum and companies working in the field of oil and natural gas projects in Egypt.

Among the factors that qualify Egypt to achieve its goal as a natural gas hub is the existence of infrastructure for the gas sector, such as the liquefaction plant and a large consumption market. This will render any project to develop natural gas production economically feasible according to the Stratfor magazine for the analysis of information on natural gas in the Mediterranean.

According to initial estimates and in light of current circumstances, Egypt is expected to stop importing natural gas starting in 2021, which would represent an important step in easing the pressure on the balance of payments and on the volume of Egyptian imports. In addition, the purchase of gas from the production fields in Egypt is much cheaper than importing it, which will save large funds borne by the state in the import process, notably in the rent of gasification ships, according to experts.

The trend in Egypt over the past years was to export the surplus of natural gas production. There must be a clear investment plan to exploit and maximize benefits from Egypt's current natural gas resources and link them to projects with value-added that increase the return on the use of natural gas, such as petrochemical industries and fertilizers, while reducing the exports of gas in crude form. Such exports would represent a waste of opportunities to establish integrated industries based on local raw materials that would provide strategic depth to take advantage of these resources to create jobs, increase industrial exports and speed up the rate of economic growth and development

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Special Analysis

Central bankers take up arms against protectionism

Asharq Al-Awsat

Officially concerned only with monetary policy, central bankers the world over are weighing in on political debates as fears of economic damage from protectionism mount.

"Protectionism will only lead to a loss of prosperity for all," warned European Central Bank board member Yves Mersch on Friday.

His words came just three weeks after US President Donald Trump took office with a speech that hammered home his "America first" stance, fuelling global concerns.

"Global trade remains subdued due to an increasing tendency towards protectionist policies and heightened political tensions," the Reserve Bank of India said a week ago. The Central Bank of Brazil noted that the US economic policy is surrounding the global economy with uncertainty. “It surely can't be the case that the way to build liberal prosperity is to build barriers between one another," Reserve Bank of Australia governor Philip Lowe said.

Mexican central bank felt that the new US policy could harm relations between the United States and Mexico. In many advanced economies, central banks are free of government control, using their independent economic judgement to set interest rates and safeguard financial stability while remaining above the political fray.

But "central bankers have been advancing on to ground that isn't really theirs for years, offering cautious policy recommendations," Pictet bank economist Frederik Ducrozet said.

Bank governors' newfound readiness to pass comment is more a reflection that protectionism "wasn't much of an issue to talk about until recently" than staking out of a political position, economist Ben May of Oxford Economics said.

There are many causes of concern for central banks, ranging between Britain’s separation from the European Union, US threats to impose new customs duties and changing the procedures and regulations of the US financial sector, while the world is trying to overcome the global financial crisis.

Add to this fears of a possible currency war after the US administration's statements addressed to Germany or Japan, accusing them of manipulating their currencies' prices in order to achieve commercial benefits.

"I don't think protectionism is likely to spread vigorously and widely in the world," Bank of Japan governor Haruhiko Kuroda said in January.

Meanwhile, German central bank president Jens Weidmann warned last week of "mounting skepticism over globalization, a sentiment by no means confined to the United States," and rejection of open markets is increasing.

Central banks has been closely watching for a while the basic election that will be held this year, especially in France and Germany, where the nationalist, anti-euro and anti-EU parties are revived.

In France, if the far-right leader of the National Front Party, Marine Le Pen, wins the elections, that country will exit the EU and this will likely end of the monetary union, according to *Economist Jörg Krämer* at Commerzbank. He added that this possibility is minimal, according to the polls, but increases investors' worries.

The concerns are significant to the extent that ECB's Mario Draghi felt it was necessary to reassure investors that "the euro is irrevocable" as he faced questions from a European Parliament Committee.

His colleague *Benoît* Cœuré, Member of the Executive Board of the *ECB*, warned that exiting the euro bears risks that no one can predict their consequences.

These consequences include that the French debt financing would cost larger amounts that may be up to more than thirty billion euros annually over time, according to *François* Villeroy *de* Galhau, Governor of the Bank of France.

Implications for Egypt:

The escalating global tendency towards protectionism has become a real threat to world economic growth. It adversely affects the chances of increasing fair trade volume worldwide, which requires Egypt to pay particular attention, and to take serious actions in this respect, especially that the Egyptian foreign trade system needs a comprehensive restructuring to enhance exports growth and reduce imports.

It is necessary to finalize a strategy for industrial development and begin its implementation. The focus of the exports development strategy has been so far on market access and granting incentives for exports development through the exports refund program or changing the exchange rate without dealing with the larger challenge of obstacles to productivity

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. This will facilitate developing policies aimed at increasing exports and reducing imports.

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Global Financial Market Performance

Reuters/ Argaam

Chinese stock indexes stabilized at the close of trading but posted weekly gains for the third time in a row since the end of the new lunar year holiday.
At the end of the session, the "Shanghai" composite index rose by 2 points to 3253 points. And posted weekly gains of 1.6 percent.
Media reports indicated that the People's Bank of China is planning to take actions to curb debt-entailed risks and prevent the emergence of an asset bubble. With the fears of.escalating differences between the US and China renewed, US president Donald Trump criticized Beijing again for currency manipulation.

On the other hand, a report issued by "Pricewaterhouse Cooper" for accounting services said that private equity and venture capital firms in China managed to collect funds of a total value exceeding $72 billion last year, an annual increase of 49 percent**.**

Japanese stocks fell at the close of trading with the losses of the financial sector and manufacturers of steel, but posted a weekly gain.

At the end of the session, the Japanese "Nikki" Index fell 0.45 percent to 19,283 points, but made a weekly gain of 0.3 percent. The "TOPIX" index dropped 0.40 percent to 1550 points.

The "Toshiba" share rose 4.65 percent to 225 yen at the end of trading, after it was reported that the South Korean company "SK Hynix" is considering bidding to buy a stake of Toshiba's electronic chips unit .

US stocks stabilized during Friday trading, overcoming earlier losses. The "Dow Jones" managed to achieve the eleventh record closing in a row, in spite of the decline in the financial and energy sectors**.**

The "Dow Jones" Industrial Average rose 11 points to 20,821 points, the broader "S & P 500" index rose (3.5 points) to 2367 points, while the "Nasdaq" index rose (+10 points) to 5845 points.

On the weekly level, the "Dow Jones" posted gains of 1 percent, the third in a row, while "Nasdaq" index gained 0.1 percent, and S & P 500 index made a weekly gain of 0.7 percent.

In the European markets, "Stoxx Europe 600" index fell by 0.7 percent, or about three points to 370 points.

The German "DAX" index dropped (- 144 points) to 11804 points, while the French "CAC" index fell (- 46 points) to 4,845 points, and the British "FTSE 100" index fell (- 27 points) to 7243 points.

Gold futures for delivery in April rose at settlement by 0.6 percent or $6.90 to $1258.30 an ounce, recording the highest close since the tenth of November, and achieved a weekly gain of 1.6 percent.

In the oil markets, "NYMEX" fell by 0.8 percent or 46 cents to close at $53.99 a barrel, but achieved a weekly gain of 1.1 percent. The "Brent" index fell by 1.04 percent or 59 cents to close at $55.99 a barrel, and achieved a weekly gain 1.1 percent.

As for the economic data, the Michigan/ Reuters' Consumer Confidence Index fell to 96.3 points in February, while sales of new homes rose last month by 3.7 percent to 555 thousand units**.**

Implications for Egypt:

There are early signs indicating that global markets could benefit from global central banks' refraining from taking new steps to change their policies amid anticipation of the US Federal Reserve's decision about interest rates this year and developments in the US economic policy. Global markets are still experiencing casual moves with a tendency to rise in light of the current state of anticipation.

The Egyptian Stock Exchange suffered about LE 15.1 billion in losses during the week trading. Thus market capital reached about LE 600.1 billion compared to LE 615.2 billion in the previous week, a decline of 2.4 percent.

According to the Egyptian Stock Exchange's weekly report, main market performance indicators fell collectively. The Egyptian Stock Exchange's main index, EGX 30, fell by about 3.25 percent to reach the level of 12,241 points. Secondary market indicators also tended to drop; as EGX 70 for small and medium shares declined by about 5.53 percent to close at 484 points, while the broader EGX 100 decreased by 4.66 percent, to reach the level of 1163 points. EGX 20 declined by about 1.26 percent to close at 11490 points.

The report noted that transactions by non-Arab foreigners recorded a net sale value of LE 172.28 million during the week, while Arabs recorded LE 106.12 million in net purchases, excluding deals.

The week also witnessed discussions on the stamp tax on stock exchange transactions amid comments by officials at the Ministry of Finance that the proposed price amounts to 2 per thousand for the seller and the same for the buyer.

There is a need for new stimulus measures at the Egyptian Stock Exchange to increase its financial depth and investment flexibility by finalizing the required legislative amendments and taking faster steps towards offering new companies and financial instruments, while deciding on the imposition of a stamp duty on transactions.