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Our Economy & the World

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Key Global Developments

Britain to launch Brexit process on March 29: EU sources

Reuters

Prime Minister Theresa May will write to the European Union on March 29 formally announcing Britain's withdrawal from the bloc, EU sources told Reuters, saying Brussels had been told of the plan by British officials.

That letter next Wednesday will start the clock ticking on a two-year countdown to Brexit and allow negotiations to start between London and Brussels in the coming weeks.

By the end of next week, after he has received May's letter, European Council President Donald Tusk should have distributed draft guidelines for the negotiations to the 27 other national governments. Tusk will also summon those 27 leaders for a summit to endorse the final guidelines, probably in early May.

Once those are in place, giving a negotiating mandate to the EU executive, the European Commission, chief EU negotiator Michel Barnier should be able to schedule talks with his British counterpart, Brexit Secretary David Davis.

$ 1 trillion in Arab investments in the energy sector until 2022

Mubasher

A report issued by the Arab Petroleum Investment Company (APICORP) revealed that the total committed and planned investments in the energy sector in the region could reach one trillion dollars over the next five years (2017-2022).

According to the APICORP report, although investments in the global energy sector declined by 2016 by 24 percent compared to 2015, the Middle East and North Africa witnessed an increase in investment activity in this sector by 7 percent compared to the previous year.

According to the report, a number of significant projects are expected to be implemented, as energy projects are on top of the regional countries' agenda over the coming five years .The volume of planned energy projects amount to $622 billion.

Apicorp pointed out that the GCC countries are presently driving investment in the region and will be well positioned when oil prices begin to increase.

Iran and Egypt also enjoy a promising outlook, with the former having vowed to make heavy investments in the upstream sector and the latter facing the challenge to meet rapidly rising power demand.

Total committed investments in energy projects currently amount to $337 billion, including $121 billion in the oil sector, $108 billion into gas sector, $91 billion for power and $17 billion into chemicals.

The GCC boasts about $174 billion, more than 50 percent of the MENA’s total committed investments.

J.P. Morgan cuts its 2017 and 2018 oil price forecasts

Reuters

J.P. Morgan cut its crude oil price forecasts in line with the reassessment of non-OPEC supply prospects from the US, Canada and the UK.

In its memorandum, the bank expected $55.75 and $55.50 for Brent, and $53.75 and $53.50 for WTI, in 2017 and 2018 respectively.

"The risks that OPEC has painted itself into a corner cannot be ignored and it may need to extend, or even increase, cuts if the response from shale producers is more vigorous than we currently model," they said in a report.

In a further sign that OPEC kingpin Saudi Arabia was adhering to its output cut pledges, official data showed that its crude exports fell by about 300,000 bpd in January.

The price of oil fell more than 1 percent on Monday with record cuts of investors' bets on rising crude prices after issuance of strong data on US oil drilling platforms that fueled concerns about the effectiveness of OPEC-led output cuts to curb over supply.

The cost of Scotland's exit from the UK

Al-Arabiya Net

A report by the Bank of America Merrill Lynch showed that the separation of Scotland from Britain (scoxit) would have significant costs, just like the previous referendum in 2014.

The report said that Scotland would face financing pressures and there is confusion about the currency it would adopt. Most importantly, trade between the two countries - Scotland and the UK - would be severely affected. The report added that scoxit would have a more negative impact on Scotland than the UK, with exacerbated deficit to 9.5 percent of the GDP in 2015 and 2016.

The UK is as important for Scotland as the European Union is for Britain in terms of trade, its economy is larger, it is geographically close and it is considered the largest trading partner.

Scotland's relationship with the UK is closer to that of the latter with the EU. Scotland’s exports to the UK account for 64 percent of total exports. British exports to the EU account for 49 percent. Britain's exports to Scotland are only 14 percent.

Will Scotland be able to survive in the EU if it exits the UK?

The report answered this question, stating that this is not yet clear, because it would be unprecedented. However, in principle, it seems that Scotland will be able to negotiate to remain in Europe, and this will take time. What complicates the situation more is that the UK may have already exited the EU.

The report pointed to an important point, which is that the continuation of Scotland's membership in the EU common market would compensate for some of the damage it would bear due to hurt trade with Britain.

The report added that the losses caused by exiting Britain would occur only if Britain punished Scotland after the separation by imposing trade restrictions.

G20 encourages private investments in Africa

AFP

Ministers from the world's top economies heralded plans to boost development in Africa, at an otherwise fractious G20 gathering in Germany. Berlin, which holds the presidency of the powerful nations' club this year, has made a hoped-for "Compact with Africa" a top priority for 2017.

South Africa is the only nation from the continent to hold G20 membership. The issue of developing Africa has never been discussed before within the G20.

The main idea of the initiative is to encourage private investment through G20 political support, leading to the development of the employment and infrastructure sectors in African member countries. The G-20 has made no financial commitment.

This somewhat vague encouragement passes through political support by the G-20 and mobilization of the international financial institutions’ capacities (the World Bank, IMF and regional banks) and private sector participation. All of this should theoretically lead to coordinated and sustained investments in the African countries.

European Commissioner for Economic Affairs Pierre Moscovici said that for a promising and happy future, Africa needs the rest of the world to stand by its side.

The project will be studied in depth on June 12 and 13 at an African conference of the G-20 in Berlin, weeks before the summit of the group heads in Hamburg in July. An encouraging sign, according to Amadou Ba, is that Argentina, which will take over the G20 presidency in 2018, wants to continue this initiative, which is supposed to expand gradually to include other countries.

Eurozone growth to ease in 2017, says a report

Mubasher

Qatar National Bank (QNB) Group expects Eurozone economic growth to be affected by three major factors after ECB's decision to keep interest rate unchanged.

The report said that European growth is affected by declined oil prices, pointing out that oil prices affect consumption, the main engine of overall growth over the past two years.

The report predicted that monetary policy support will shrink this year after quantitative easing helped boost demand over the past two years by cutting short-term lending costs.

The report added that the third factor is the support provided by the weak euro to net exports, a positive effect, partly limited by falling demand from major Eurozone trading partners.

It also predicted the euro to fall against the dollar from an average of 1.1 to 1.05 in 2017.

The European Central Bank (ECB) decided in a statement on March 9 to keep interest rates at current levels, stressing that interest rates remain at their current level over the coming period.

Russia central bank: Need to address weak growth

Reuters

Many regions globally are showing economic growth but it's weaker than the members of the G20 group had expected, Russian central bank governor Elvira Nabiullina said.

Nabiullina attended a two-day meeting of the finance ministers and central bank governors of the 20 biggest economies in the German town of Baden-Baden.

To address the issue of weak economic growth, efforts in monetary and fiscal policy, as well as in the policy of structural reforms are needed, Nabiullina said in emailed comments.

She added that capital flow volatility has become "a challenge for many".

"Cooperation on the international level could help to solve the problem of sources of sharp capital flow volatility and its consequences," Nabiullina said.

Implications for Egypt:

In light of escalating global developments and growing recession fears in several regions worldwide, 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.

Therefore, Egypt has to accelerate structural economic reforms, increase financial support, and to maintain its easy monetary policy. Also, there is a need for more fiscal consolidation in light of the current public domestic debt situation. These reforms should be associated with supply-side measures for fiscal stimulus to boost demand in the near term and absorb adverse shocks, especially that emerging markets, according to several international reports, will adapt better towards the recent wave of capital outflows thanks to increased reserves, lower foreign currency denominated debts, and adopting more flexible interest rates.

This requires the Egyptian government to put together stimulus policies that rely mainly on the development and revitalization of domestic industries, import substitution, and export promotion to markets where Egypt enjoys a comparative advantage, especially Arab and African markets. Egypt must also develop medium-term policies for the development of small and medium enterprises to promote economic growth and development away from the effects of the global financial crisis, which is currently taking new turns.

From the International Press

A new breed of sovereign wealth fund - without the wealth

Reuters

Once the preserve of rich oil exporters or nations with trade surpluses, like Norway, Kuwait and Singapore, an unlikely new breed of sovereign wealth fund is emerging - in countries with large deficits and deep debt.

Sovereign wealth funds (SWFs), which first emerged in the 1950s, are traditionally associated with huge financial firepower. They control about $6.5 trillion, according to data provider Preqin, and have transformed the global investment landscape by snapping up stakes in multinational companies and landmark real estate in cities from London to Melbourne.

Now Turkey, Romania, India and Bangladesh are launching sovereign funds - but for very different reasons than usual, and with very different methods.

Traditionally, wealthy nations use SWFs to invest their surplus billions overseas to prevent inflation at home, diversify income streams and accumulate savings for the day when commodity revenues run out.

In stark contrast, the countries launching the new funds, burdened by large current account deficits or external debt, are using them as vehicles to get their economies moving in the face of a global slowdown and lower trade volumes. And rather than splashing cash abroad, the plan is to attract finance from overseas and invest it at home to stimulate growth.

"Sovereign wealth fund is a term that's used very loosely in the labeling of some of these new entities, they are more like sovereign holding companies," said Elliot Hentov, head of research for official institutions at asset management firm SSgA. "They need to lever up – they need private sector co-investment to work."

There are both potential benefits and risks to this strategy - and only time will tell whether it will be effective.

One of the advantages of having an SWF, apart from the cachet it bestows, is the fact it opens the door to industry associations and peer group networks that offer guidance and - crucially - contacts in the investment world.

Scrutiny

Turkey runs an annual external financing deficit of around $30 billion, so it must attract foreign money to plug the gap.

By putting the government's stakes in big companies into a sovereign fund, Turkey hopes to attract external funding, by borrowing against the companies and tapping other SWFs for money.

Similarly, Romania plans to finance roads and hospitals by raising debt against the value of the government's company stakes, or selling them via public listings.

India and Bangladesh want to kick-start infrastructure projects via new sovereign funds, with India seeking co-investors amongst SWFs and pension funds for its National Investment and Infrastructure Fund (NIIF).

Other funds have been mooted in countries like Lebanon, but have yet to be established.

Such plans have had a varied reception depending on the country. Economists and industry experts have also warned of potential pitfalls that need to be avoided.

Critics worry that domestic-focused funds in general can fall prey to a misallocation of resources or outright corruption, citing the example of Malaysia's 1MDB, which is the focus of money-laundering probes in at least six countries.

"The danger with (this model) is that in many cases normal budgetary procedures don't apply, so they are a way of getting around parliamentary oversight and ministry scrutiny of projects," said Andrew Bauer, senior economic analyst at the Natural Resource Governance Institute.

Any lack of transparency can mean there is little way to verify how the money is spent, he added. One risk is that unviable "vanity projects" get funded.

Performance

However in many ways it is in the interests of countries to ensure funds are free of political interference, have a robust legal framework, a clear mandate and professional management - as these are likely to improve decision-making and, ultimately, returns.

Grouping state company holdings into a professionally managed fund can improve the performance of the assets - with, for example, Bahrain's Mumtalakat considered a success in this regard. Abu Dhabi's Mubadala is also cited as a fund that has helped diversify the UAE economy by developing industries in different sectors.

In Romania, separating company ownership from policy-making should improve transparency and accountability, said Greg Konieczny, fund manager of Fondul Proprietatea, a Romanian investment fund created by the state to compensate those who lost property under the former communist regime.

"Right now these companies are under line ministers that also set policy and strategy for the sectors they are responsible for - that never works," Konieczny said.

Similarly, in India, where infrastructure projects are hobbled by red tape, a dedicated state fund may offer a way to accelerate the process, said Nikhil Salvi, a manager at Aranca, an investment research and analytics firm.

A major sticking point will be assessing performance - railways and ports may boost economic growth, but won't show up on the fund's balance sheet. The social benefits of new schools and hospitals can take years to come through.

"Many of these (inward-focused) funds do not publish a return benchmark," said Sven Behrendt, managing director of consultancy GeoEconomica. "Whether or not investments are profitable ... often remains unclear."

The new funds also need to avoid the fate of those in poor countries such as Suriname and Zimbabwe, which failed to get off the ground due to a lack of capital.

India's NIIF has been allocated $150 million for the 2017/2018 fiscal year, and plans to tap strategic partners to raise $1.2 billion in the coming fiscal year.

Bangladesh's planned $10 billion fund will be seeded from foreign exchange reserves over the next five years.

"The fund will be used for mega projects, including repayment of any loans taken by the government in dollars," said Jalal Ahmed, additional secretary at the ministry of finance.

Turkish fund head Mehmet Bostan told Reuters last month he would finalize a strategy plan and present it to the cabinet soon. The government has already transferred company stakes worth billions to the fund, and hopes it will be managing $200 billion soon.

Implications for Egypt:

The proposal to establish a fund for management of the state's assets in Egypt is a good step. However, the success of this idea is dependent on having highly efficient economic management of the Fund. How successful the idea is in effect relies on the strength of the economic studies, which will indicate the implementation rates of objectives. The process of establishing the fund must be conducted through a responsible entity or through other cooperative entities, whether from the private sector or the government. This entity will be responsible for developing the economic feasibility of the project to avoid judgmental decisions. Assets of a number of companies may be merged particularly companies operating in similar sectors.

Also, the Fund's business model may need to inject liquidity to strike a balance between the sectors it will manage; as a significant part of these sectors faces massive losses and needs restructuring. Partnerships in affiliated funds with the private sector, regional, Arab or international organizations, or through bank financing may face difficulties as a stable business model in the first phase of the Fund's work. It is worth mentioning that in the global model no fixed amounts are allocated from the budget, but rather a percentage of one of the resources or economic activities.

We also stress the need not to grant any preferential treatment to the Fund relative to other investment transactions that can be done immediately as there is a need to set clear standards for dealing with state assets and not be just a decision of the Fund's Board of Directors, but also through the general policy adopted by the annual Council of Ministers upon the submission of the Fund's board with the need to fund projects linked to the state's plan in 2030, taking into account the investment map of the state projects that are currently being prepared and updated to ensure the Fund's involvement in economic development projects more effectively

In light of international experiences, countries see that increasing investments in illiquid assets is an effective method for long-term growth, but it must be emphasized the need to ensure full transparency of operations of the Fund and to ensure compliance with international standards in disclosure and transparency of operations and the fund's activities

Special Analysis

Approval of Brexit … Beginning of the End

Akhbar Misr/Agencies

The British Parliament passed a law allowing the government to initiate Brexit. This approval will pave the way for Prime Minister Theresa May to trigger the process of exiting the EU before the end of March. This comes hours after First Minister Nicola Sturgeon announced her intention to request a new referendum on independence.

By a majority of 45 (331 votes to 286), the Commons rejected an amendment from the Lords that would have given parliament an effective veto on Mrs. May walking out of Brexit talks without a deal. They also rejected, by 335 votes to 287 votes, another amendment that would have guaranteed the rights of European citizens now living in the UK after Brexit. In the end, the House of Lords gave its final approval of the law.

Scottish Referendum

Scotland will begin the process next week for making a request to the British government to hold a new independence referendum between late 2018 and early 2019, Scottish First Minister Nicola Sturgeon said Monday.

"Next week I will seek the authority of the Scottish parliament to agree with the UK government… the procedure that will enable the Scottish parliament to legislate for an independence referendum," Sturgeon said.

"In my view it is important that Scotland is able to exercise the right to choose our own future at a time when the options are clearer than they are now, but before it is too late to decide our own path," she added.

After these statements, the British government warned that organizing a second referendum on Scottish independence would be divisive factor and would lead to a state of economic uncertainty at the worst possible time.

The Scottish national government's announcement of the referendum on secession is not entirely a surprise, but raises concerns once again about the UK's break-up.

Scotland voted for Britain to remain in the EU by 62 percent in the June 2016 referendum, while 52 percent of the British opted to leave the EU.

Scotland rejected independence by 55 percent in a September 2014 vote, but a recent opinion poll revealed that 48 percent of the Scots support seceding from the UK, but this would require approval by the British government.

An independent Scotland would have to apply to join the EU, a senior official in Brussels has said.

End of 40 Years of Volatile Relations

Once the British Queen approves the Brexit bill, the Prime Minister must inform Brussels that London has exited the EU.

The Brexit secretary, David Davis, had urged MPs 'not to tie PM's hands' over the Brexit bill, which would presumably end more than 40 years of volatile relations.

The popular Teresa May requested to trigger Article 50 of the Lisbon Treaty, thereby starting the two-year countdown to Brexit, in implementation of 23 June Referendum result, noting that European partners made clear that the process has to proceed forward, a point which she agreed.

Leaders of the 27 other member states of the EU are scheduled to hold a summit on the sixth of April aimed at determining "guidelines" for future negotiations. Europeans will seek to show their unity in the face of Britain, which may exploit divisions within the bloc.

The Cost of Brexit: EUR 60 Billion

Among hot issues is the cost of Brexit as the EC might demand that the UK pay €60 billion, which is equivalent to the amount London pledged to contribute to the EU budget.

There is also the issue of what will become of the 3 million Europeans resident in Britain, for whom May refuses to guarantee rights before obtaining similar guarantees for the 1.2 million Brits living in the EU.

Negotiations will presumably continue for two years, but their completion would be an enormous task to achieve the most “complicated” secession in history as described by former governor William Hague.

The UK and the EU would bring to an end more than four decades of relations, at a time the EU is celebrating the sixtieth anniversary of signing the Treaty of Rome, which is supposed to represent a new stage in the European building process.

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.

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 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.

Global Financial Market Performance

Reuters/ Argaam

Chinese stocks rose at the end of trading for the second session, and posted weekly gains for the second time in a row, with the rise in shares related to sports activities and the infrastructure sector.

At the end of the session, the Shanghai Composite Index rose 0.65 percent to 3269 points and recorded a weekly gain of about 1 percent.

This comes despite Beijing's further restrictions on home buying measures, hoping to curb the hikes in housing prices despite restrictions by the central government and local governments over the past months.

China's top five banks are poised to release 2016 business results next week, with outlook for better performance in the last three months of the year after three consecutive quarters of weak margins and rising non-performing loans.

Investors are looking closely at the March 26 elections to elect the chief executive of Hong Kong, the first election since the 2014 "umbrella revolution" protests.

Japanese stock indexes rose at the end of the session, driven by the depreciation of the local currency against the dollar, and despite weak economic data, but posted weekly losses.

At the end of the session, the Japanese Nikkei index rose 0.95 percent to 1,262 points, and its weekly loss fell to 1.3 percent. The TOPIX index rose 0.90 percent to 1,543 points, and reduced its weekly loss to 1.5 percent.

The depreciation of the Yen usually boosts the shares of exporting companies, as it gives them a competitive advantage by making their products cheaper in foreign markets.

Issued data showed that Japan's manufacturing PMI fell to 52.6 points in March from 53.3 in February, compared to expectations of 53.5 points this month.

US stocks performance varied during Friday trading, which saw volatilities due to anticipation for the vote on the draft health care bill amended by the Republicans that was recently withdrawn from the Congress. The main indexes saw weekly losses.

The Dow Jones industrial average fell 60 points to 20,296 points, after gains of more than 30 points and losses of more than 100 points. The Standard & Poor's 500 Index fell 2 points to 2,344 points, while the Nasdaq Composite Index rose (+ 11 points) to 5828 points.

At the weekly level, the Dow Jones lost 1.5 percent, the largest loss since September, while Nasdaq posted 1.2 percent in losses, and the broader S & P recorded losses of 1.4 percent.

In European markets, the STOXX Europe 600 index fell 0.2 percent, or 0.7 points, to 376.5 points. The benchmark index recorded a weekly loss of 0.4 percent.

The German DAX rose 24 points to 120,644 points, while the French CAC fell 12 points to 5020 points, and the British FTSE 100 index fell 4 points to 7336 points.

On the other hand, gold futures for April delivery settled up 0.1 percent or $1.30 to $1248.50 an ounce. The precious metal posted weekly gains of around 1.5 percent.

In the oil markets, the US NYMEX rose 0.6 percent or 27 cents to close at 47.97 dollars a barrel, but recorded a weekly loss of 1.7 percent. Brent rose 24 cents and closed in the London session at 50.80 dollars per barrel. It recorded a weekly loss of 1.8 percent.

In terms of economic data, US durable goods orders rose 1.7 percent in February from 2.3 percent in January. The Republicans withdrew their proposed health care bill to supersede the Obama Care Act, raising uncertainty about Trump's ability to carry out his other commitments, including tax policy and increased spending on infrastructure.

Implications for Egypt:

Global markets overcame the effects of rising US interest rates over the course of the year, with most markets posting small gains during the week.

Market capitalization of EGX-listed shares registered a profit of LE 5.55 billion during the week, closing at 653.195 billion pounds against LE 647.541 billion last week.

Concerning indices, EGX30 rose during the week to close at 13,032 points compared to 12,904 points at the end of last week, a rise of 1 percent.

Regarding shares of medium-sized enterprises, EGX70 rose by 5.6 percent to close at 562 points, compared to 532 points last week. EGX100 rose by 4 percent to close at 1,310 points against 1,260 points.

The total value of trading in the stock exchange during the week amounted to about LE 5.5 billion, while the volume of trading amounted to about 1.4 billion securities through 156,000 operation, compared to a total value of trading of LE 5.9 billion pounds and volume of trading of 1.1 billion securities through 151,000 operations in the previous week.

Last week's transactions coincided with the approval by the Cabinet of the stamp tax draft law on the Egyptian Stock Exchange transactions to be implemented over three stages. In the first phase, it will be applied at about LE 1.25 per mille for a year on both the seller and buyer; then at LE 1.5 per mille in the second year; and finally at LE 1.75 per mille in the last year. The capital gains tax on the trading of listed securities will be suspended for three years beginning May 17^{th}.

The first session of the week coincided with the CIB's announcement of the sale of 74.75 percent of its stake in its subsidiary CI Capital with a value of US$710.15 million to a number of non-related Egyptian and Arab investors, bringing down its stake to 25.24 percent.