Issue: 52

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Our Economy & the World

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

- **Key Global Developments Over the Past Week**
- **From the International Press: EU Agreement on Stopping Trade in Conflict Minerals**
- **Special Analysis: Energy Investments in MENA to Exceed $1 Trillion**
- **An Analysis of Global Financial Market Performance and Changes in Prices of Goods and Raw Materials**

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Key Global Developments

Chair of the Federal Reserve: There are still areas of high unemployment despite the economic recovery

Argaam

Despite US economic recovery and continuous improvement in the labor market, there are still areas in the United States experiencing a rise in unemployment and a decline in income, according to statements by Chair of the Federal Reserve Janet Yellen.
She added that the policy of raising interest rates is not the best tool to address this problem, but there is a need for effective factors to develop these communities, such as development programs.
She noted that such programs include vocational training in various areas, and did not discuss economic forecasts or monetary policy outlook.

UK and Qatar set up joint committee to pave way for post-Brexit trade deal: May

Reuters

Britain is establishing a joint economic and trade committee to pave the way for a post-Brexit trade agreement with Qatar and the rest of the Gulf, Prime Minister Theresa May said.
May, who is due to begin the formal process of leaving the European Union, said Britain was seeking to deepen its relationship with Qatar in areas including defense, education, healthcare, energy and financial services.
"I'm delighted that we are also establishing a new joint economic and trade committee," she told a Qatar-UK investment conference in Birmingham, central England. She added "I hope we can pave the way for an ambitious trade agreement for when the UK has left the EU including exploring whether we can forge a new trade agreement for the whole of the Gulf area," she added.

Companies spend $1.7 trillion on “Industrial Internet of Things'”

UAE Etihad

A recent report showed that global corporate spending on industrial Internet of things applications will rise to $1.7 trillion a year by 2020.
PwC and the Global Manufacturing and Industrialization Summit (GMIS), have released their latest report highlighting the growing role of IT chiefs in strategizing companies. The report was launched a few days ahead of GMIS in Abu Dhabi.
The report stressed the need for IT managers in industrial companies to perform their functions in managing the complex and difficult transformation process towards the adoption of the Industrial Internet of Things applications.
The PWC Fourth Industrial Revolution survey showed that the process of transformation to the adoption of Industrial Internet of Things applications is progressing rapidly. The survey revealed that industrial companies plan to allocate about $907 million a year for Industrial Internet applications initiatives. Companies expect $421 billion in cost saings.

Dr. Anil Khurana, Partner, Strategy & Innovation at PwC Middle East and the report's lead author, said: "The IIoT will place huge demands on the CIO. It is indeed an opportunity that few will want to miss."

30 million Middle Eastern in the grip of hunger

Asharq Al-Awsat

According to a new FAO report, Food security in the Middle East and North Africa have sharply deteriorated over the past five years, undermining the steady progress made before 2010 when food production increased and levels of Undernourishment, stunting, anemia and poverty.

The Regional Overview of Food Insecurity in the Near East and North Africa report stated that the main reason for this deterioration is the intensity of conflicts and protracted crises. FAO's assessment using food insecurity index shows that the prevalence of acute food insecurity among the adult population in the Near East and North Africa was close to 9.5 percent in 2014-2015, representing around 30 million people.

"The region is facing unprecedented challenges to its food security due to multiple risks arising from conflicts, water scarcity and climate change," FAO Assistant Director-General and Regional Representative for the Near East and North Africa Abdessalam Ould Ahmed said.

He added that regional countries need to implement long-term and comprehensive sustainable water management in order to attain the Sustainable Development Goal of ending hunger by 2030.

"A peaceful and stable environment is an absolute pre-condition for farmers to respond to the challenges of water scarcity and climate change," the senior FAO official commented.

Slowing money supply and Corporate Loans in the Eurozone in February

Argaam

The pace of credit growth to households accelerated, while loans to businesses in the Eurozone fell back a little in February, according to ECB data. Household loans rose 2.3 percent year on year, after growing 2.2 percent in the first month, and corporate lending growth slowed to 2 percent from 2.3 percent.

A broader measure of money supply growth (M3), rose by 4.7 percent year-on-year in February compared to 4.8 percent in January, while analysts predicted 4.9 percent in growth.

European Commission considers proposals to blockade Chinese Takeovers

Asharq Al-Awsat

The European Commission in Brussels said that Europe needs more stringent monitoring of takeovers of European companies by Chinese investors, who receive help from the Chinese state, according to European Commissioner leading the project team Jobs, Growth, Investment and Competitiveness Jyrki Katainen.

Mr. Katainen told Handelsblatt in an interview that all private investments are welcome but foreign investments (referring to China) should not cause imbalance for the European market. He added that there must be a guarantee of fair competition from both sides, which is not the case when Investors from China receive state subsidies.

According to the Belgian media, the European official was commenting on the current state of concern and controversy in Germany over the activity of Chinese companies last year and the acquisition of up to 68 companies in Germany, for 12 billion euros, including one company specialized in the manufacture of German robot. At the same time, there is concern in other EU countries due to China's 2025 industrialization plan, through which Beijing seeks to help Chinese companies acquire companies in different sectors, so that they have global leadership.

Matthias Machnig, German State Secretary at the Federal *Ministry* for *Economic* Affairs and Energy has again called on EU member states to reject acquisitions of European companies by investors that receive subsidies from the Chinese state, calling it an unequal battle. He added that the EU has to be open to foreign acquisitions, but not in a naive way.

According to the German newspaper, the European Commission is currently preparing proposals that will be discussed in May to ban politically motivated acquisitions of companies, especially those operating in the areas of defense, technology and infrastructure.

The newspaper pointed out that Katainen’s remarks are in line with the statements made by the ministers of the economy in Germany, France and Italy in February, that expressed concern about the growing expansion of China.

Monetary policy not a panacea, says China c.bank governor

Reuters

Monetary policy is not a panacea and governments should optimize the use of policy instruments to manage the economy, said People's Bank of China governor Zhou Xiaochuan Zhou speaking during the Boao Forum of Asia.

He said a week ago that growth prospects had improved in the world's second-largest economy, but the monetary policy would remain cautious and neutral. In the first week of March, China published optimistic data showing a strong start to its economy growth in 2017 backed by bank lending, government spending on infrastructure and a long-awaited recovery of private investment.

He added that the economic growth rate of China is generally stable and growth prospects are improving. China will continue to implement an active fiscal policy and cautious and neutral monetary policy.

Implications for Egypt:

We believe that Egypt should start 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. Against this backdrop, Egypt has to move more quickly to encourage domestic consumption while supporting its presence in the Arab and African regional markets in order to capture larger market shares in the medium term and to benefit from trade agreements with these countries.

The world has been seeing significant acquisition activity recently in light of troubled assets of a number of large companies following the global economic crisis. Many indicators confirm that the recent period has seen investor sentiment being inclined towards seizing opportunities and cheap deals. In light of the rule that says if there is a limited number of investors in the market, and numerous assets for sale, investors conclude the cheapest investment deals. Here we have to stress that acquisitions over the past years led to a large inflow of liquidity due to these companies' restructuring of those acquired companies and the development of their production lines, which led to increased production capacity and rising demand for labor.

The fact that helped attract Western companies to the Egyptian market through acquisitions is availability of investment opportunities, whether in the industrial, agricultural, or tourist sectors. Therefore, evidence confirms international interest in investing in Egypt, especially if the country takes more serious steps to resolve economic disputes. That is why sectors such as food, agriculture, medicine and basic resources in Egypt may be a target for acquisition in the coming period, which calls for the need to tighten control over the transactions and the development of a new legal mechanism for the exit of major shareholders.

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From the International Press

EU Agreement on Stopping Trade in Conflict Minerals

Asharq Al-Awsat

European Commission hailed EU Parliament's adoption of a proposal to stop trade in minerals used to finance armed conflicts. ensure that their business does not contribute to armed conflict. Commenting on the EU parliament's voting by a large majority for the proposal, "I'm very glad we now have an ambitious, workable solution to eliminate conflict minerals from supply chains," said Commissioner for Trade Cecilia Malmström after the vote. "Trade needs to take account of our values.

The Parliament's decision shows clearly that it is possible to set new rules to ensure that exporters and importers of minerals respect their responsibilities "in a way that does not harm populations in mining regions and does not fuel war," she added. The new Regulation will reduce the hardship and human rights abuses that have for too long accompanied this trade.

The Regulation brokered by the Commission and voted by the European Parliament will impose due diligence rules on companies importing tin, tantalum, tungsten and gold. Such metals and minerals are used in the production of everyday products such as mobile phones, car and jewelry. The rules will cover up to 95 percent of imports as of 1 January 2021. In the meantime, the Commission and Member States will work to make sure that the necessary structures are in place to ensure EU-wide implementation.

Military groups in conflict zones often use proceeds from the sale of minerals on their territory to finance their activities. The European Union has worked to put an end to this by establishing a system to encourage importers, smelters and refineries to act responsibly.

African nations said last month that a possible plan by US President Donald Trump to suspend a ban on minerals from conflict zones could help fund armed groups and fuel turmoil in Central Africa.

Media reports quoted sources as saying that Trump was planning to issue a presidential order targeting the Dodd base, which requires companies to disclose whether their products contain "minerals from conflict zones," including war-torn regions in Africa, such as the Democratic Republic of the Congo.

A leaked version seen by Reuters calls for a temporary suspension of this rule for two years. Competition over the Congo's vast mineral resources has provoked two decades of conflict in eastern Congo, including a 1998- 2003 regional war in which millions of people died, mostly from hunger and disease.

The International Conference of the Great Lakes Region - a regional entity with 12 countries including the Congo - warned against the abolition of that rule. It said in a statement that this could eventually lead to a general proliferation of terrorist groups, cross-border money laundering and illegal financial flows in the region. The minerals covered by the Dodd Frank base - namely gold, tin, tantalum and tungsten - are important components in multiple electronics, aviation products and the gem industry.

A few international organizations urged Trump not to suspended the rule. Human Rights Watch said that its suspension would undermine efforts to prevent the entry of minerals from areas of conflict in the supply chain. Business groups opposed to the rule say it obliges companies to disclose politically sensitive information, and tracking mineral sources is costing companies too much.

In mid-2015, proposals were submitted by the European Commission to deal with this issue and were put before the European Parliament, but did not receive positive response. Rights groups said at the time that the proposed European laws on "minerals extracted from conflict zones" would fail to curb the trade in these raw materials. More than 150 human rights groups signed a letter to the European Parliament on May 19, 2015, demanding curbing trade in conflict minerals.

The letter demanded that the regulation should include more producers and types of raw materials, and oblige companies to control supply sources.

The letter signed by rights groups, including Friends of the Earth, Global Witness, Christian Aid and several other organizations, said that the trade in conflict minerals fuels war and increases human rights abuses around the world. Resenting the issue to the European Parliament is a "great opportunity" for Europe to move to prevent this trade and reduce the conflict it generates.

At the same time, however, the letter described legal proposals as "weak" and did not adequately address the problem.

Rights groups say the big problem with the plan proposed by Brussels is that it is applied on a voluntary basis to most companies. As a result, only a few companies will move to disclose the supply sources and provide explanations for their movements

In addition, the letter says the plan included only 4 metals - tin, tantalum, tungsten and gold - in their raw state. It did not address products entering Europe and manufactured from conflict minerals. Many China-made smartphones, tablets and other devices are manufactured using these materials. The plan did not include metals and materials, such as diamonds, jade and chromite known as sources of conflict financing.

The letter urged members of the European Parliament to reject these plans and adopt a single strong plan that includes a mandatory system to ensure that companies check their sources of supply.

"Those who bear the cost of modest efforts to regulate this trade will be among the poorest and most vulnerable people in the world," it said

Implications for Egypt:

In light of the current changes and political instability in many countries exporting raw materials, it is important that the Egyptian government considers issuing a decree requiring companies importing raw materials to disclose whether their products contain «metals from conflict zones», including zones torn by war in Africa. Companies should also be required to track their sources of supply to eliminate the trade in conflict minerals, especially diamonds, gold, tin, tantalum and tungsten, which constitute important components in multiple electronics, aviation products and jewelry. This will support the Egyptian orientation towards achieving stability in various conflict areas as one of the key dimensions of the Egyptian national and economic security.

Special Analysis

Energy Investments in MENA to Exceed $1 Trillion

Al-Sharq Al-Awsat

Total energy investments in the Middle East and North Africa (MENA) region are likely to hit the USD1 trillion mark over the next five years despite the economic and political challenges dominating the region, according to the Arab Petroleum Investments Corporation (APICORP).

A report by APICORP said that despite the 24 percent drop in investment in the global energy sector in 2016 compared to 2015, the MENA region saw a surge of 7 percent in investment compared to 2016.

Based on this evidence, the APICORP research team felt cautiously optimistic for the MENA region.

Governments continue to make investments in the energy sector a priority, and it is expected that a number of important projects will be executed and completed successfully over the course of the next five years.

Plans for power projects are at the top of the five-year agenda in many countries.

The study, "Predictions of investment in the MENA Region," pointed out that a total of US$337 billion had already been pledged to ongoing projects by the end of 2016. It estimated that projects worth US$662 billion will be implemented in the next five years, bringing the total worth of projects from 2016 to US$959 billion compared to US$900 billion in 2015.

The study showed that the planned investments increased by 2 percent, while ongoing investments increased by 17 percent.

APICORP noted that the GCC countries are currently 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.

Renewable energy projects will be at the top of efforts to meet power demand that is also increasing in Morocco, Tunisia and Jordan, said the top Arab bank.

APICORP said that the total ongoing investments worth about US$337 billion, including US$121 billion will be pumped into the oil sector, US$108 billion into the gas sector, US$91 billion into power and US$17 billion into chemicals.

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

On the other hand, of the planned investments worth US$622 billion, APICORP said that the power sector accounts for the lion's share at US$D207 billion, while the oil sector has US$195 billion and gas sector US$159 billion, with the remaining investments in petrochemicals.

The report revealed that, at US$289 billion, projects under study constitute the largest portion of planned investments. In the region, Saudi Arabia dominates the investment scenario with 19 percent of the planned projects over the next five years. As a result of concrete plans to increase gas production and the role of gas in its energy mix, the kingdom has a large number of projects in the pipeline to add significant powergenerating capacity. Saudi Arabia is also planning to continue investing in petrochemicals in its drive to diversify and create more value, it added.

Commenting on the report, Dr. Raed al-Rayyes, deputy chief executive and general manager of APICORP, said that “having recently witnessed one of the biggest drops in history, investments in oil and gas are still struggling to recover on a global level.”

However, there are clear signs for an upturn, he added, and they can be found in the MENA region.

Dr. Bassam Fattouh, energy sector specialist and external advisor to APICORP, said budget deficits and tightened public expenditure are a reality across the region.

“Our research suggests however that governments still prioritize critical investments in their energy sectors – some of them to maintain their position as global energy suppliers, some of them in response to local energy supply shortfalls,” he stated.

Implications for Egypt:

Estimates by the Ministry of Petroleum and the companies operating in the field of oil and natural gas in Egypt indicate that, through the development of natural gas fields currently under implementation, Egypt is expected to add 5.5 to 6.5 billion cubic feet of natural gas and 28.5 thousand barrels of condensates per day for domestic production.

One of the factors that would enable Egypt to achieve its goal as a natural gas hub is the presence of the gas sector infrastructure, such as the liquefaction plant and the large consumption market. This would make any project for the development of natural gas production economically feasible, according to the report of Stratfor magazine for the analysis of information on natural gas in the Mediterranean. Initial estimates and the current situation indicate that Egypt is expected to stop importing natural gas over the coming months, which would help ease the pressure on the balance of payments and reduce the volume of Egyptian imports. Experts believe that the purchase of gas from fields of production in Egypt is a lot cheaper than importing it, thus saving large amounts borne by the state in the import process, most notably in renting gasification boats.

The direction in Egypt in the past years was to export surpluses of natural gas production. Therefore, there is a need for a clear investment plan to exploit and maximize the use of Egypt's natural gas resources, and link them to projects and industries with value-added that increase the return on the use of natural gas, such as petrochemical industries and fertilizers. Meanwhile, it is important to reduce exporting gas in its crude form, which would be a waste of opportunities to establish integrated industries based on local raw materials. Such industries would provide an important strategic depth to benefit from these resources in the creation of employment opportunities, increasing the volume of manufactured exports, and promoting economic growth and development.

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Global Financial Market Performance

Reuters/ Argaam

Chinese stocks rose at the end of trading for the first time in five sessions, supported by the release of data that showed industrial activity growth at its best pace in nearly five years. Although they recorded weekly losses, they posted strong quarterly gains.

At the end of the session, the Shanghai Composite Index rose 0.40 percent to 3,222 points and recorded a weekly loss of 1.4 percent, but posted a quarterly gain of 3.7 percent, the best since the end of 2015.

Data showed that the Industrial PMI rose to 51.8 points in March near a five-year high, compared to 51.6 points in February and expectations of 51.7 points. Data also showed that the Non-Manufacturing Purchasing Managers Index rose to 55.1 points this month from 54.2 points last month.

Three major airlines, Air China, China Eastern Airlines and China Southern Airlines, reported disappointing results, with the total losses of the three companies reaching 11.04 billion yuan ($ 1.6 billion) due to exchange rate fluctuations.

Japanese stocks fell for the second consecutive session, deepening their quarterly losses after erasing all gains since the beginning of the year, despite the stability of the yen against the dollar and positive economic data.

At the end of the session, Japan's Nikkei index fell 0.80 percent to 18,909 points, while the Topix index dropped 1 percent to 1,512 points.

Since the beginning of the year, the Nikkei index lost 1.1 percent, while the Topix index lost 0.4 percent.

On the other hand, data showed that consumer prices in Japan - excluding fresh foods - rose 0.2 percent in February from a year ago, but other data showed that household spending fell by 3.8 percent last month.

Separate data showed the country's unemployment rate fell to 2.8 percent in February, its lowest level since June 1994.

US stocks fell on Friday as the financial sector watched Trump's financial policies after failing to pass the Health Care Act at the Congress. The main indexes posted weekly and quarterly gains.

The Dow Jones industrial average fell 65 points to 20,663 points, the Nasdaq index fell 2.5 points to 5,911 points, while the Standard & Poor's 500 Index slipped 5 points to 2,362 points. On a weekly basis, the Dow Jones Industrial Average gained 0.3 percent, Nasdaq gained 1.4 percent, and S & P gained 0.8 percent. In March, the Dow Jones lost 0.7 percent, the Nasdaq index posted 1.5 percent while S & P stabilized near the closing level of the last February session. On the quarterly level, the Dow Jones gained 4.6 percent, the Nasdaq jumped 9.8 percent, while the broader S & P posted 5.5 percent.

In Europe, the Stoxx Europe 600 index rose 0.2 percent or 0.7 points to 381 points, and recorded weekly gains of 1.2 percent, while rose in the first quarter of 2017 by 5.5 percent, the strongest in two years. The German DAX rose (+ 56 points) to 12313 points, the French CAC rose (+ 33 points) to 5122 points, while the British FTSE 100 fell 46 points to 7323 points.

On the other hand, gold futures for June delivery settled up 0.3 percent or $3.2 an ounce to $1251.20 an ounce. The precious metal posted weekly gains of 0.2 percent, making quarterly gains of 8.2 percent in the first quarter, the biggest in a year, while recorded monthly losses of 0.2 **percent.**

In the oil markets, the US Nymex rose 0.5 percent or 25 cents to 50.60 dollars a barrel, and recorded a loss of 5.8 percent in the first quarter this year, as well as a monthly loss of more than 6 percent, while achieving weekly gains of 5.5 percent. In contrast, Brent fell 0.3 percent or 13 cents and the London session closed at $52.83 a barrel. The benchmark crude recorded a quarterly loss of 6.7 percent.

In terms of economic data, the Michigan/ Reuters index of consumer confidence fell to 96.9 points in March, compared with analysts' expectations of 97.6**.**

Implications for Egypt:

Global markets disregarded the impact of the triggering of the UK exit process from the EU. However, fears of slowing global economic growth recently and the lack of clarity in the developments of US economic policy led to a state of anticipation in the market, especially that results of some large companies in the global markets were not positive, showing initial shifts of global investment managers towards less risky bonds.

The Egyptian Stock Exchange (EGX) achieved record gains in the first quarter of this year amounting to about LE 53.4 billion, with market capitalization of listed shares reaching LE 654.4 billion against LE 601.4 billion during the corresponding period last year—an increase of 8.9 percent.

The EGX quarterly report indicated a rise in the main and secondary market indices, with the main market index, EGX30, jumping 5.26 percent to 12,995 points, and the index of small and medium-sized shares, EGX70, rising by 22.93 percent to 570 points. The broader EGX100 index also rose by 21.14 percent to 1,328 points.

The report noted a decrease in the total value of trading during the first quarter of the year to LE 105.3 billion, while the volume of trading amounted to about 21.581 billion through 2.072 million operations. This is compared to a trading value of LE 111.7 billion and a volume of trading of LE 26.692 billion through 2.067 million operations in the previous three months.

The report noted that Egyptian investors accounted for 75.78 percent of total market dealings, with non-Arab foreigners and Arabs accounting for 15.72 and 8.50 percent, respectively, after excluding deals. It also noted that non-Arab foreign investors netted purchases of LE 3.185 billion during 3 months, while Arabs netted purchases of LE 215.02 million, excluding deals.

Non-Arab foreign investors netted purchases of LE 3.185 billion since the beginning of the year, while Arabs netted purchases of LE 215.02 million during the same period, excluding deals.