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Our Economy & the World

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Key Global Developments

Morgan Stanley: Emerging-market bonds remain attractive

Mubasher

Michael Kushma, chief investment officer of global fixed income at Morgan Stanley Investment Management, said that emerging markets' bonds remain investment-attractive although rising interest rates hurt global debt markets. She told CNBC that Brazil, Columbia, Indonesia and Argentina are among the attractive emerging markets.

"Better global economic activity should be beneficial to emerging markets and potentially emerging market debt unlike developed market debt which should be hurt by that," she said.

However, the strength in the U.S. dollar is a major risk for emerging markets, especially since both companies and governments have increased their U.S. dollar-denominated debt, said Kushma. The corporate sector would be hit harder compared to governments should the U.S. dollar strengthen further, she added.

A Wall Street Journal report, citing figures from Dealogic, said companies and governments in emerging markets issued $179 billion of U.S. dollar-denominated debt in the first quarter this year – doubling the previous year's amount.

China sees higher risk of mass unemployment, pledges more support

Reuters

China's cabinet said that risks of mass unemployment in some regions and sectors have increased and pledged more fiscal and monetary- policy support to address the potential rise in the jobless rate.

The government plans to cut further excess and inefficient capacity in its mining sector and "smokestack" industries this year, part of efforts to upgrade its economy and reduce pollution, but the move threatens to throw millions more out of work.

The State Council said China faces "intensified structural conflicts" in its current job market, but it must place employment as a top policy priority and address the new challenges to keep its employment rate stable.

China's official unemployment rate - which only accounts for urban, registered residents - has held around 4 percent for years, despite a slowdown that has seen growth cool from the double-digits to quarter-century lows of under 7 percent.

In a guideline post on its website, the government said it will continue to encourage entrepreneurship and help small enterprises thrive as key ways to create more jobs, by building more start-up industrial parks and incubation bases, along with more tax policy bonus for start-ups.

University graduates and workers from sectors affected by capacity cuts such as steel, coal, and coal-fired power were identified as "key groups" that needed extra support, the guidelines said.

China created 3.34 million new jobs in the first quarter of the year and helped some 720,000 laid-off workers find new jobs last year, according to state media reports.

Beijing aims to create more than 11 million jobs this year, 1 million more than last year's target, according to this year's government work report.

March 2017 crude steel production up 4.5%

Mubasher

World crude steel production rose 4.5 percent in March with continued supplies from China. According to data from the World Steel Association (worldsteel), World crude steel production **rose to 145Mt in March 2017 year on year.**

China's crude steel production was 72Mt in March 2017, an increase of 1.8 percent compared to March 2016. Also China's steel production during the first quarter rose 4.5 percent, posting 201.1 million ton.

IMF drops pledge against protectionism and calls it vague term

Argaam

Global finance leaders from the IMF and World Bank have dropped a pledge to fight trade protectionism from the closing note of their spring meetings, in a sign of the ability of the new US stand to impact the global trade dialogue.

An IMF statement said members would "work together" to reduce global trade and current account imbalances. The statement did not stress its previous pledge to fight all forms of protectionism.

The IMF stance is similar to that of the G20 finance ministers and central bank governors taken in their meeting in March after the US had pressured them to drop opposition to protectionism.

Meanwhile, Mexican Central Bank chief Agustin Carstens, who chairs the IMF Steering Committee, attempted to downplay the significance of omitting the pledge on protectionism, saying it was an "ambiguous" term.

He added in a press conference in Washington that the aim is to benefit from trade, and that everyone agree that a free and decent trade is needed.

EU warns Britain - Don't assume free trade deal for the City

Reuters

European Union leaders will warn Britain it cannot assume its big financial services industry will be included in any free trade deal after Brexit, diplomats said after fixing negotiating terms in a draft document.

Britain's Prime Minister Theresa May, who will open negotiations with the EU in June assuming she wins a snap election she called last week, singled out banking and other financial services among her priorities for a future trade deal with the bloc after Brexit.

But France and other member states pressed for changes to the draft to ram home their opening position that any deal to allow the City of London, Europe's leading financial centre, continued easy access to EU markets must bind Britain to continuing regulation and supervision by Brussels.

"The 27 will not necessarily consider financial services in a free trade agreement, as Theresa May has expected," one diplomat said after aides to the 27 EU leaders, who will meet to agree the terms on Saturday, endorsed a draft of the so-called guidelines.

El-Erian: US markets focus on taxation and regulation systems

Argaam

Allianz's chief economic advisor said that the US markets Markets may be ignoring certain risks as they focus on their guiding light. He added "The market is looking past all these little land mines, hoping for tax reform, hoping for deregulation, hoping for infrastructure.

The chief economic advisor at Allianz said markets seem to be less concerned with a government shutdown, as long as they see the legislation that has been promised.

“The critical issue is the implementation of pro-growth policies by the largest economy in the world, the U.S.," said El-Erian.

Implications for Egypt:

Egypt should develop plans and scenarios for dealing with the current situation and its possible developments, along with a comprehensive assessment of the map of foreign transactions in light of the changes that occur, whether at the level of oil markets or the potential for structural changes in the EU in the coming period. This would allow greater flexibility in Egypt's alternatives in dealing with any repercussions of those situations in the future.

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.

Attention should be also be given to the Gulf-Egyptian economic and commercial relations, which are strategic. 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.

Coordinating economic and monetary policies is also essential to achieve economic stability that is manifested in continuing to achieve economic growth rates capable of facing the continuous increase in population; to create adequate jobs to absorb unemployment; and to stabilize the general level of prices.

From the International Press

FAO develops a tool to measure the efficiency of water use in irrigation

Al-Hayat

FAO, the United Nations food and agricultural agency, has launched a new tool named WaPOR to monitor how efficiently farms use water in countries facing water scarcity. According to a FAO statement, FAO created an online database that uses satellite data and Google Earth images to help farmers achieve more reliable agricultural yields and allowing for the optimization of irrigation systems. WaPOR was presented during a high-level partners meeting for FAO's Coping with water scarcity in agriculture: a global framework for action in a changing climate. It provides an accurate analysis of water used in irrigation and practical evidence on the optimum use for achieving the highest productivity.

"Water use continues to surge at the same time that climate change is altering and reducing water availability for agriculture," says Maria Helena Semedo, FAO's Deputy Director-General, Climate Change and Natural Resources. "That puts a premium on making every drop count, underscoring the importance of meeting growing food production needs from efficiency gains."

WaPOR sifts through satellite data and uses Google Earth computing power to produce maps that show how much biomass and yield is produced per cubic meter of water consumed. The maps can be rendered at resolutions of as little as 30 to 250 meters, and updated every one to ten days.

FAO's team of information technology and land and water officers has designed WaPOR - through a $10 million project funded by the Government of the Netherlands, to cover Africa and the Near East, with a focus on key countries that are or are projected soon to face physical or infrastructural water scarcity.

The continental level database is online, while country level data will be made available in June for Benin, Burundi, Egypt, Ethiopia, Ghana, Jordan, Kenya, Lebanon, Mali, Morocco, Mozambique, Rwanda, South Sudan, Syria, Tunisia, Uganda, West Bank and Gaza Strip, and Yemen. Even more detailed data will come online in October, starting with pilot areas in Lebanon, Ethiopia and Mali.

Supporting smallholder farmers with access to geospatial information that can optimize water availability and curb their vulnerability to climate change is a key mission for FAO and this is an important first step," said FAO Assistant Director-General René Castro, head of the Climate, Biodiversity, Land and Water Department.

The IHE Delft Institute for Water Education, part of UNESCO and the world's largest international graduate water education facility, and the International Water Management Institute (IWMI) will support efforts in developing countries to boost capacity to use the new technology - by tailoring relevant direct data queries, conducting time series analyses and downloading data regarding key variables that contribute to water and land productivity assessments.

The work plan anticipates developing apps that can be run on smart phones, enabling locally relevant use of the data from the spatial database. Water accounting is increasingly promoted as an indispensable tool, particularly in water-strained areas. This includes coherent assessments of water resources availability, which must incorporate climate factors and requires consideration of equitable entitlement - in particular allocation of water for domestic and industrial uses and for broader ecosystem services.

It is estimated that for each 1 °C of global warming, 7 percent of the global population will experience a decrease of 20 percent or more in renewable water resources.

Implications for Egypt:

With the launch of Egypt's largest land reclamation project in its history, which is the one and a half million feddens project, the so-called "Water Economics" and how to achieve the maximum benefit from it have been reintroduced. In view of the current situation facing the water sector in Egypt, it is necessary to create a supreme committee or a council to determine the water policy of Egypt over the next 50 years, identify available alternatives for water usage, increase the value added thereof and increase rationalization mechanisms, and develop economics for water desalination and irrigation and drainage systems in Egypt. This in addition to modernizing the current system of drinking water, developing New alternatives for wastewater treatment and determining the utilization mechanisms of rainwater and groundwater in order to link the urban expansions to this strategy.

The project model should also take into account balancing between the regional and international investment climate to achieve competitiveness, the ability to attract investment for the project and the expected needs of the country of agricultural crops and economic activities related to the nature of the project, and the availability of employment opportunities, in addition to the economic impact of the project and the State’s total output. It is important to note the living, cultural and social conditions of the various regions, such as Upper Egypt. This indicates the importance of not having a unified model or type for all regions but rather a flexible developmental model that is compatible with the nature of each region.

In the event of achieving this vision of development, this project will become a symbol of change for a better future in Egypt through geographical redistribution and proper linkage in the urban plan of Egypt, achieving balanced regional development that limits centralization in Greater Cairo and large cities in Egypt, linking population distribution to the available natural resources in order to improve the quality of life within new urban settlements.

Special Analysis

What does the US want from China?

Al-Yome Al-Sabei

Since he began promoting his election program last October, Donald Trump kept alluding in all his election tours to the US trade position with China. These hints continued now he is the President of the US until they have become direct statements.

Last December, Trump questioned China's monetary policy and dealings, which triggered a crisis with China and prompted the Chinese state to respond to the US President's attack. The response came through official statements by Chinese President Xi Jinping and Chinese government institutions or in Chinese newspapers that have been describing Trump and his remarks as inexperienced, calling him a novice diplomat.

However, in the face of these mutual attacks, questions increase as to will this develop into is a military confrontation between the two countries or will the Chinese president's recent visit to the US alleviate the dispute and contribute to finding mutually acceptable compromises on their trade situation? The following report will answer this question by explaining the reasons behind the disagreement between the US and China and highlighting the conclusions reached by the two leaders in their recent meeting.

According to a number of economic reports showing the volume of trade between the US and China, the value of imports from China to the US last year reached US$463 billion compared to exports of US$116 billion, with a trade deficit of US$347 billion—60 percent of the overall US trade deficit.

US President Donald Trump accused China of robbing the US using its trade policy, saying China is manipulating its currency, as well as causing job losses in the US in the manufacturing sector, as 40 percent of job losses relate to imports from China.

The US lost about 16.9 million jobs in 2000, with the number shrinking in 2007 to 13.6 million, and in 2008 it was 11.2 million, which prompted Donald Trump to propose a 45 percent import tax on China.

The US wants to increase its exports to China and reduce the trade deficit of US$347 billion, according to CNBC Arabia, which noted in a report that in return China wants from the US a number of demands, most importantly easing restrictions on exports of advanced technology and protecting Chinese investments in the US.

Since 2000, China's investments in the US has reached US$109 billion, including US$45 billion last year, providing jobs for 140,000 people. In return for protecting this huge volume of investments, the US wants some facilities from China. Such facilities include lifting the ban on US meat imports, facilitating access to the financial sector through US investors, and reducing taxes on car imports from the US to China.

China today is a rising power in various fields. It is tipped to be a strong contender in the coming period to compete with the US. This is what the world is well aware of, including the US and its president, who tried recently to put obstacles in China’s face. However, after the Chinese-US meeting, the outlook has started to change for the better, especially after the Chinese President's statement that “no one can win a trade war,” stressing his country's unwillingness to engage in any trade war with America.

The two presidents agreed a 100-day plan for talks and trade negotiations between the two sides aimed at reducing the US trade deficit, and increasing US exports to China. Moreover, Trump remarked that he made tremendous progress on US-China relations during his meeting with Ping, accepting an invitation from the Chinese president to visit Beijing. The visit is planned to take place this year, but has yet to be scheduled.

It is worth noting that there is currently unprecedented tension between the US and North Korea, which has reached the point of exchanging threats of using deadly weapons, against the backdrop of North Korea's recent nuclear tests to develop its capabilities in this field, drawing the wrath of the US.

Meanwhile, China stands baffled between supporting Korea, its ally, against the US, and taking a neutral stance to avoid entering into an economic war with the US, especially that the US and Chinese presidents have recently agreed to finding economic solutions about trade between the two states.

Implications for Egypt:

These global developments affect chances to increase the fair volume of trade worldwide, which requires Egypt to pay particular attention, and to take serious actions in this respect. However, Egypt must take into account that many measures still increase the cost of foreign trade transactions, especially in relation to exports. It is important to address these measures to stimulate export growth, such as facilitating licensing, customs clearance procedures and taxation, as well as reducing the cost of financing transactions and the number of required procedures and approvals.

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. It is likely that recent changes in the exchange rate will improve Egypt’s competitiveness. But the conduct of a sensitivity analysis of the detailed impact of changes in the value of the US dollar on exports and imports from the different sectors will facilitate developing policies that aim to increase exports and reduce imports.

It is also necessary to finalize and to start implementing a strategy for industrial development. The focus of the export development strategy so far has been on market access procedures and giving incentives for export development, whether through the export refund program or changing the exchange rate without dealing with the larger challenge of production impediments to exports.

Global Financial Market Performance

Reuters/ Argaam

Chinese stocks ended trading marginally higher amid profit-taking following strong gains for banks and companies over the last three sessions. Despite the acceptable performance this week, Chinese stocks recorded monthly losses.

At the end of the session, the Shanghai Composite Index rose 0.10 percent to 3,154 points, but recorded a 2.1 percent in losses in April.

Analysts and asset managers expect the composite index to end the 2017 trading at 3,525 points, down from the previous forecast at the end of December to reach 3,800 points, according to Bloomberg.

Trading witnessed a strong demand for the purchase of banking shares after good quarterly results were announced recently by a number of banks.

The Stock and bond exchanges in Hong Kong, Shanghai and Shenzhen are due to close on Monday to mark Labor Day.

Japanese stocks closed lower for the second day in a row after a series of mixed economic data and ahead of the golden week of several official holidays.

At the end of the session, Japan's Nikkei fell 0.30 percent to 19196 points, but recorded a weekly gain of 3.1 percent, while the TOPIX index dropped 0.30 percent to 1,531 points.

Issued data showed that Japan's industrial production fell 2.1 percent month-on-month in March from 3.2 percent in February, while expectations indicted a 1 percent drop only.

Retail sales rose by 2.1 percent in March from a year ago, compared to 0.2 percent in February, while analysts had expected a rise of 1.5 percent.

Other data showed that unemployment fell to 2.8 percent from 2.9 percent, while consumer prices - excluding fresh food - rose by 0.2 percent from a year ago.

At the end of trading, Nintendo gained 2.1 percent to 28045 thousand yen, after the company reported net income of 102.6 billion yen in the fiscal year ending in March, compared with expectations of only 93.6 billion yen.

European stocks fell on Friday as investors headed for profit taking, but posted their best weekly performance since December as political fears eased and brokers expected strong earnings growth to support valuations.

The European Stoxx 600 index closed 0.2 percent lower at 387.09 points, extending losses of the previous session, while Britain's Financial Times 100 fell 0.3 percent, and France's CAC 40 barely changed.

The index of major European shares ended the week up 2.5 percent in its strongest weekly performance since December as new money poured into the region's shares thanks to the results of the first round of the French presidential election, which was positive for the market.

The index posted gains for the third month in a row and remained close to a 20-month high recorded on Wednesday.

Of the 28 percent of companies that reported their results, 71 percent exceeded expectations, while 20 percent of those companies didn't meet expectations, according to Thomson Reuters data.

Shares on Wall Street fell on Friday after data showed the US economy grew at its slowest pace in three years in the first quarter, giving traders a reason to take profits.

The Dow Jones industrial average was down 40.82 points, or 0.19 percent, to 2,940.51 points. Standard & Poor's 500 Index was down 4.58 points, or 0.19 percent, to 2,384.19 points, and the NASDAQ Composite Index dropped 1.33 points, or 0.02 percent, to 6047.61 points.

Over the course of the week, the Dow Jones climbed 1.9 percent, the S & P 500 gained 1.5 percent and the NASDAQ index gained 2.3 percent.

During April, the Dow Jones climbed 1.3 percent, while S & P 500 gained 0.9 percent and the NASDAQ index jumped 2.3 percent.

Gold also rose on Friday as the euro strengthened against the dollar after more than expected inflation in the single currency area, while global stock markets fell from record highs on Wednesday amid concerns about global trade.

The euro rose to a five-and-a-half-month high as the data are seen as putting pressure on the ECB to begin cutting stimulus measures in early June. This led to the rise of gold in US currency.

By 1842 GMT, the spot price of gold rose 0.3 percent to $1266.9 an ounce towards the end of April, up 1.5 percent.

US gold futures for June delivery rose 0.2 percent to $1268.30 an ounce.

However, the yellow metal is heading for the biggest weekly loss in seven weeks as fears over Korea fade and with the strong appearance of center-right candidate Emmanuel Macron in the first round of the French presidential election.

Among other precious metals, silver fell 0.1 percent to $17.20 an ounce after falling to $17.12 an ounce, its lowest level since March 15.

Palladium rose 1.2 percent to $825 an ounce after hitting a two-year high of $831.50 an ounce. The metal is the only gainer this week among precious metals and is heading for a 4.2 percent increase this week.

Platinum rose 0.1 percent to $941.50 an ounce.

Implications for Egypt:

A report by the Office of Strategic Studies at ADS Securities noted that global financial markets are dealing cautiously with the tax cuts bill announced by the Donald Trump administration, which has the largest tax cut in US history.

The report said that the reason behind investors' caution is that they are primarily concerned about Trump's ability to convince Congress. Second, no details and explanations were presented, which raised questions on how to offset the deficit that would result from this move that could increase US debt by US$7 trillion. However, the Treasury Secretary said that tax cuts of this magnitude would spur companies to spend and invest, thereby achieving returns that exceed the expected deficits, generating trillions of dollars and revitalizing the national economy.

The report pointed out that the current situation in financial markets has been affected and rapidly fluctuating with the changes occurring in the short term such as instability of Trump's economic programs. There are daily developments that affect the course of these programs, as happened recently regarding NAFTA with Mexico and Canada, where the US President announced at the last minute the reversal of his decision to cancel the agreement, which directly and quickly affected the markets.

On the other hand, the Egyptian Stock Exchange indices fell during the week, which included four sessions only due to Tuesday's holiday on the occasion of Sinai Liberation Day, amid local sales against foreign and Arab purchases.

The main index of the Egyptian Stock Exchange "EGX 30" declined during the week by 2.95 percent (380.16 points) to 12,525.69 points. The value of trading on this index during the week amounted to EGP 2.47 billion through trading of 564.3 million shares.

The share of the Commercial International Bank of Egypt (CIB), with the largest relative weight of the main index, lost 4.91 percent to EGP 73 with a trading value of EGP 261.1 million.

Egyptian investors recorded net sales of 1.4 billion during the week, compared to net purchases of foreigners and Arabs of EGP 1.17 billion and EGP 269 million, respectively.

Institutional investors were net sellers at EGP 241.9 million, against comparable purchases by individuals. Institutions accounted for 54.4 percent of total transactions compared to 45.6 percent by individuals.

Egyptians accounted for 67.1 percent of trading during the week, while foreigners accounted for 21.9 percent, and Arabs 11 percent.

The EGX70 index fell 0.68 percent during the week to 587.01 points, while the EGX100 index fell by 1.08 percent to 1351.78 points.

The Egyptian Stock Exchange is looking forward to the start of Parliamentary discussions on amendments to the Capital Market Law and the Tax Law during the coming period, which would influence trading in the coming period.