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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

Franklin Templeton: Gulf reforms reduce credit risk

Al-Arabeya.Net

A recent report by Franklin Templeton showed that although Gulf countries' reserves have fallen by $173 billion over the past two years due to lower oil prices, current sovereign funds and reserves total $3 trillion, equivalent to 200 percent of the GCC GDP.

The low debt ratio in the Middle East and North Africa, compared to emerging and developed countries, allows better management of structural reforms and supports government spending and economic growth, the report said.

According to Mohieddine Kronfol, Chief *Investment* Officer,*Global Sukuk* and MENA *Fixed Income* Reforms in the Gulf at Franklin Templeton, reforms help in reducing credit risk and debt markets.

In an interview with Al Arabiya, Mr. Kornfol pointed to a different impact of these economic reforms in the GCC region on other sectors such as equity and real estate markets, which will face a decline in growth, anticipating the recovery of fixed income markets, reflecting positive developments that serve the diversity of risks.

The report pointed out that current oil prices will ease the pressure on GCC budgets, noting that agreement among OPEC and non OPEC countries is important to maintain price stability. With regard to bond pricing in the Middle East, it remains attractive compared to the US and Europe.

Goldman Sachs cuts U.S. second quarter GDP growth view to 2.9 percent

Reuters

Goldman Sachs experts downgraded their outlook on U.S. economic growth in the second quarter from 3 percent to 2.9 percent, and raised their first quarter estimates from 0.7 percent to 0.9 percent following issuance of data on wholesale stocks data for March.

The U.S. gross domestic product was on track to expand at an annualized pace of 1.80 percent, slower than the prior estimate of 2.33 percent on April 28, the New York Fed's "Nowcast" program showed.

"This morning’s data suggested a firmer pace of inventory investment in the first quarter but a somewhat smaller contribution to growth in the second quarter," Goldman economists Spencer Hill and Avisha Thakkar wrote in a research note.

Report: Middle East and North Africa (MENA) reports 84 transactions worth $18.2 billion in the first quarter of 2017

WAM

Mergers and acquisition (M&A) activity in the Mena region declined in the first quarter (Q1) of 2017 recording 84 deals, compared to 115 deals in Q1 of 2016, according to the Q1 2017 M&A report from global professional services firm EY.

However, Mena deal values remained broadly stable reaching $18.2 billion in Q1 2017, compared to $18.4 billion in Q1 2016.

The outbound announced deal value increased substantially by 636 percent from $1.3 billion in Q1 2016 to $9.3 billion in Q1 2017, the report said.

Furthermore, the announced inbound deal value also rose exponentially from $0.5 billion in Q1 2016 to $5.7 billion in Q1 2017. On the contrary, the announced deal activity value for domestic transactions witnessed a significant decrease of 81 percent in Q1 2017 compared with Q1 2016. Within the Mena region, the overall top ten deals contributed over 90 percent to the total deal value registered in the period.

In the region, Saudi Aramco's acquisition of a 50 percent stake in Malaysian state-owned energy company Petronas' RAPID project for $7 billion was the largest deal of the quarter. The biggest technology deal of the quarter was the acquisition of Souq.com by Amazon for approximately $650 million. Amazon's acquisition of Souq marks the company's first move into serving the Middle East region.

The report said that the most interesting aspect of the current deal environment is the emergence of the strategic buyer. Whether it's the Tronox Cristal deal, or the Amazon Souq deal, Strategic Buyers, in particular international strategics, doing deals is a strong vote of confidence in the entire M&A ecosystem.

Middle East and North Africa executives predicted major economic risks, including slowing global trade flows, increased protectionism, large currency and capital market volatility, and increasing geopolitical uncertainties, the report said.

IMF says Asia facing risks from rise in protectionism

reuters

The International Monetary Fund said Asia's economic outlook faces "significant" uncertainty and downside growth risks from any sudden tightening in global financial conditions or rise in protectionist trade policies.

The IMF said loose monetary and fiscal policies across most of the region would underpin domestic demand.

In April, the IMF raised the Asia-Pacific growth forecast from 5.4 percent in October to 5.5 percent, and kept the 2018 growth outlook unchanged at 5.4 percent. The Asia-Pacific recorded 5.3 percent growth in 2016.

The report comes at a time when policymakers around the region are wrestling with the challenge of how to navigate rising risks of protectionism under U.S. President Donald Trump, and a potential increase in funding costs as the Federal Reserve steps up the pace of rate hikes.

"A possible shift toward protectionism in major trading partners also represents a substantial risk to the region. Asia is particularly vulnerable to a decline in global trade because the region has a high trade openness ratio, with significant participation in global supply chains," the IMF said.

Banks planning to move from Britain after Brexit

Middle East

The largest global banks in London plan to move to the continent in the next two years after Brexit, public statements and information from sources shows.

Thirteen major banks including Goldman Sachs, UBS, and Citigroup have given an indication of how they would bulk up their operations in Europe to secure market access to the European Union's single market when Britain leaves the bloc. Six of the 13 banks favour opening a new office or moving the bulk their operations to Frankfurt. Three of the banks will look to expand in Dublin.

Deutsche Bank said on 26 April up to 4,000 UK jobs could be moved to Frankfurt and other locations in the EU as a result of Brexit - the largest potential move of any bank. JPMorgan last week announced plans to move hundreds of roles to three European cities in the next two years. This is still significantly lower than the 4,000 figure JPMorgan chief executive Jamie Dimon first estimated before the vote.

Fitch: Global Growth Recovery on Track

reuters

The global economic recovery is on track, said Fitch Ratings.

The outlook indicates that Fitch expects global gross domestic product (GDP) growth to rise to 2.9% this year, from 2.5% in 2016. The credit rating agency has slightly revised its 2018 forecast for global growth to 3.1%, up from its previous call of 3.0%.

Fitch has revised its U.S. outlook for 2017 slightly lower, but that this is countered by a brighter outlook for China and Japan. Already this year, it says that weaker Q1 U.S. growth was explained by consumption and looks to have been affected by temporary factors

Falling unemployment, wealth gains, improved consumer confidence and the prospect of income tax cuts should support a recovery in consumption from Q2 2017."

In China, the impact of earlier policy stimulus on activity has proved more powerful than anticipated and the slowdown in the housing market has taken longer to materialize than expected.

Implications for Egypt:

The global economic situation has been moving recently towards a short-term fluctuation until the vision for the new economic policies backed by President Trump in his speech to the Congress is stable. He said that he is president of the US not the world, which asserts the American vision to stimulate and support its economy in a way that may affect other Economies.

The global economic situation also indicates accelerated pace of investment in risk assets, which provides more space for major challenges, starting from possible transmission of global volatility to the regional markets or changes in the prices of local currencies, especially those pegged to the dollar, in addition to the fluctuations of oil prices that may reflect on the investment attractiveness of emerging economies in particular.

Recent digital indicators in Egypt reflect that the initial results of the economic reform program began to show up. This is a positive progress in the short term in light of the current changes surrounding the program timing and the related structural procedures. The challenges revealed by the current situation are acceptable and have been apparent for a long time. Their effects have been measured at the preparation of the program, which necessitates continuation of fiscal consolidation and the adoption of investment stimulating policies to increase economic growth rates and foreign exchange flows. This must coincide with strengthening social safety nets and restructuring the internal trade system to minimize the impact on low-income people.

From the International Press

Chinese tourists highest spenders on international travel in 2016

UAE Etihad

According to a recent UNWTO World Tourism Barometer, with a 12 percent increase in spending, China continued to lead international outbound tourism, followed by the United States, Germany, the United Kingdom and France as top five spenders.

“Despite the many challenges of recent years, results of spending on travel abroad are consistent with the 4% growth to 1.2 billion international tourist arrivals reported earlier this year for 2016. People continue to have a strong appetite for travel and this benefits many countries all around the world, translating into economic growth, job creation and opportunities for development” said UNWTO Secretary-General, Taleb Rifai.

The number of Chinese tourists rose 6 percent to 135 million in 2016, compared to 2015. This growth consolidates China’s position as number one source market in the world since 2012, following a trend of double-digit growth in tourism expenditure every year since 2004.

The growth in outbound travel from China benefited many destinations in Asia and the Pacific, most notably Japan, the Republic of Korea and Thailand, but also long-haul destinations such as the United States and several in Europe. China is ranked fourth in the number of visitors to Dubai in the first two months of 2017, while it is ranked first in Abu Dhabi hotel guests from foreign markets in the same period.

Aside from China, three other Asian outbound markets among the first ten showed very positive results. The Republic of Korea (US$ 27 billion) and Australia (US$ 27 billion) both spent 8 percent more in 2016 and Hong Kong (China) entered the top 10 following 5 percent growth in expenditure (US$ 24 billion).

Tourism spending from the United States increased 8 percent in 2016 to US$122 billion, up US$9 billion compared with 2015. For a third year in a row, strong outbound demand was fuelled by a robust US dollar and economy. The number of US residents travelling to international destinations increased 8 percent through November 2016.

By contrast, Canada, the second source market from the Americas in the top ten, reported flat results, with US$29 billion spent on international tourism, while the number of outbound overnight trips declined by 3 percent to 31 million. Germany, the United Kingdom, France and Italy are the four European markets in the top ten and all reported growth in outbound demand last year. Germany, the world’s third largest market, reported 5 percent growth in international tourism spending last year, rebounding from weaker figures in 2015, reaching US$81 billion. Demand from the United Kingdom, the world's fourth largest source market, remained sound despite the significant depreciation of the British pound in 2016, with expenditure close to US$64 billion.

France, the world's fifth largest market, reported 7 percent growth in tourism expenditure in 2016 to reach US$41 billion. Italy recorded 1 percent growth in spending to US$25 billion and a 3 percent increase in overnight trips to 29 million.

Among the largest 50 source markets, there were another nine that recorded double-digit growth in spending in 2016: Vietnam (+28 percent), Argentina (+26 percent), Egypt (+19 percent), Spain (+17 percent), India (+16 percent), Israel and Ukraine (both +12 percent), Qatar and Thailand (both +11 percent).

By contrast, outbound tourism from some commodity exporters continued to be depressed as a consequence of their weaker economy and currencies. Expenditure from the Russian Federation declined further in 2016 to US$24 billion. International tourism spending from Brazil also decreased in 2016.

Implications for Egypt:

There is a need to encourage Chinese tourism to Egypt as Chinese authorities eased restrictions on Chinese travel abroad. This requires focusing on the growing Chinese middle class, whose incomes have increased and they have more freedom to travel, to make Egypt their preferred tourism destination without much trouble, especially when they are in tourist groups.

In this context, we should not only launch websites in Chinese language to promote tourism, intensify promotional campaigns, offer programs to Chinese tourists or increase the number of direct tourist trips from China to Egypt, but also establish an office in China to promote tourism for this purpose. We should also increase the number of Egyptian monuments fairs in China, especially in the more affluent areas such as Beijing, Shanghai, Canton and Hong Kong.

Also, building an Egyptian village in China that reflects the Egyptian touch in shops, restaurants that serve famous Egyptian dishes, bazaars selling Egyptian handicrafts and a playground area to attract families to Egypt, will attract tourists from china to Egypt.

Special Analysis

What is the “Buy American” Act that will Promote US Manufacturing?

Argaam

During his campaign for the US Presidency, Donald Trump promised to implement the "Buy American" rules, which aim to encourage buying local products rather than imported ones as a means of restoring jobs and reviving US manufacturing.
Trump signed an executive order during a trip on April 18 to Snape-on, a Wisconsin-based utility company that guides US government agencies to review compliance with laws requiring them to choose domestic materials to manufacture anything from roads to weapons. But this simple idea will be faced with the complexities of the global supply chain.

What is the "Buy American" act that will promote US manufacturing?	
What is the problem with the current implementation of the law?	- The law aims to limit the number of foreign goods purchased under government contracts, but many agencies overlook this, especially when foreign goods are less expensive or unavailable in the US. - The Trump Order gives agencies 150 days to review their enforcement of the rules of the act and calls for revision of agreements allowing foreign products from WTO countries or with which the US has trade agreements to treat them as domestic products.
What is the Buy American Act?	**There are three acts:** - The 1933 Act states that manufactured goods purchased on government contracts must be made in the US. - The second appears in the 1982 Surface Transport Assistance Act and applies to bridge projects since the iron and steel used must be manufactured in the US. - The third law, the Water Resources Reform and Development Act of 2014, requires that iron and steel used in water and wastewater projects under the US Environmental Protection Agency (EPA) are made in the US.
How effective are these acts?	- Not highly effective. One of the main reasons is that agencies often issue so-called waiver of public interest when they cannot buy goods made in the US, and when goods do not meet quality and quantity specifications. - The 1933 law is bypassed when Washington enters into commercial deals that grant foreign companies access to the US procurement process. - Products of more than 120 countries belonging to the WTO or that have free trade agreements with the US are now allowed into the country.
How often do agencies make concessions or exceptions?	- Difficult to know as there is no standardized data for this process, which prompted Trump to ask agencies to report on their practices.

Can Trump ban foreign goods in government projects?	- The Executive Order says that the bidding process would be described as unfair business practices and will be treated as goods purchased at less than the cost of production or those subsidized by a foreign government. - However, doing so would violate WTO rules and many free trade agreements. - The White House overlooks these concerns and says most countries have laws that encourage local suppliers to work with the government. - A government accountability report in March 2017 revealed that foreign governments allow US companies far less bids than other international companies.
Will Trump apply the act on the Keystone pipeline between the US and Canada?	- He repeatedly said he would make it a condition for his approval of the project, but he dropped the idea because the pipeline owner, Trans Canada, had already bought the foreign steel needed for the 1900-km line.
How does this system affect the steel industry in particular?	- Many factories import thick sheets of crude steel, which are converted to by heating to finished products. Therefore, the final manufactured products are not US products. - Because there are only a limited number of steel makers in the US, compliance with the law and the non-importation of these sheets will raise the costs of factories and also the profits of steel makers.
Will this increase employment opportunities in the US and revive manufacturing?	*There are two schools of thought:* - One says that this will happen because contractors will have to buy locally made goods, which will increase demand and create jobs. - Opponents say nothing will happen except the delay of much-needed public works projects and increased costs. Competition will also be reduced by the closure of foreign companies, which could lead to higher prices.
Is the act popular?	Nearly 70 percent of respondents in a national poll said it was important to ask all taxpayer-funded industries to use US-made goods whenever possible. Representatives in both parties have expressed support, but like the Health Care Reform Act and a better trade deal with China, the details could be complex.
How does this law affect employment?	Trump also calls for a crackdown on what he says are violations of the government's foreigner work programs, particularly the temporary H-1B visa program, often used by technology companies to recruit non-Americans

Implications for Egypt:

The Egyptian government should expedite the implementation of the provisions of Article No. 9 of Law No. 5/ 2015 concerning the formation of the committee of Egyptian Industrial Product Preference. This step will contribute to the confirmation of the state's direction to support domestic products and activate the Egyptian industries, taking into consideration the following:

*** The Egyptian Industrial Product Preference act in government contracts aims to encourage investors to inject new investments in the industrial field to capitalize on the preferential advantages granted to Egyptian industrial products. In particular, requiring a minimum contribution of Egyptian industrial components in contracts of infrastructure projects and public utilities, and the corresponding creation and generation of new jobs and opening up many areas of technology transfer in industries related to the projects in question.**

*** The law contributes to improving the performance of the balance of payments by saving foreign currencies that are used in the purchase of imported products and have an equivalent in the Egyptian market. It will drive the foreign competitor to provide the best price offers to face up to the competitive advantage given by the draft law to Egyptian products that conform to quality standards, leading to purchase savings.**

*** The law also contributes to supporting the Egyptian industrial product by precluding the inclusion of the terms of the tender in the contracts to which the provisions of this law apply, which constitutes discrimination against the Egyptian industrial products conforming to the Egyptian standard specifications.**

*** The law aims to stimulate national industries to compete, and to limit the preferential benefits granted under the draft law to the Egyptian industries conforming to the approved standard specifications, with Egyptian industrial component of no less than 40 percent. It also aims to facilitate the process for the parties addressed by the provisions of this law to conclude contracts by granting them the right to purchase a non-Egyptian industrial products when required by reality considerations or considerations of public interest or national security.**

Global Financial Market Performance

Argaam/ Mubasher

Chinese stocks rose at the end of trading for the second session in a row, as investors were optimistic about the US-China understanding on trade issues, but nevertheless recorded weekly losses for the fifth time in a row.

At the end of the session, the Shanghai Composite Index rose 0.70 percent to 3,083 points, but its weekly loss was 0.6 percent.

The White House said that Washington had agreed with Beijing on a package of measures aimed at boosting the access of some US exports to Chinese markets, and reports indicated that the deal dealt with some of the issues that caused fears between the two sides.

This comes ahead of the summit of world leaders in Beijing on the Silk Road project scheduled for this weekend.

Chinese stocks have been under heavy pressure this week and the week before due to concerns over the authorities' intervention in financial markets, but these concerns have significantly receded during Thursday's trading after regulatory action was reported to target non-benchmark assets.

Japanese stocks ended lower for the first time in three sessions, resembling US stocks and under pressure from the rise of the yen against the dollar, but gained weekly gains.

At the end of the session, Japan's Nikkei fell 0.40 percent to 1,883 points, but recorded a weekly gain of 2.3 percent. The TOPIX index fell 0.40 percent to 1,580 points.

Investors looked forward for Nikkei's psychological level to exceed 20 thousand points this week, which did not happen since December 2015.

However, fears about political uncertainty in the US and US consumer spending had a negative impact on equities during the shift without reaching that level.

US stocks performance varied on Friday, as the Dow Jones and S & P indexes trimmed their losses and closed lower, while NASDAQ got rid of its losses at the beginning of the session and closed at a marginal high, gaining weekly gains. Fears over Trump's tweet, in which he threatened former FBI director, James Comey, prevailed markets

The Dow Jones industrial average dropped 23 points to 20,896 points. The benchmark S & P 500 index fell 3.5 points to 2,391 points, while the NASDAQ Composite Index rose 5 points to 6121 points.

On the weekly level, the Dow Jones lost 0.6 percent, while the S & P lost 0.4 percent, and NASDAQ posted 0.3 percent in weekly gains.

In the European markets, Stocks Europe 600 rose 0.3 percent or 1 point to 395.6 points, and posted weekly gains of 0.3 percent.

The FTSE 100 index also rose to 48 points to 7435 points. The German DAX rose 59 to 12,770 points, while the French CAC rose 22 points to 5405 points.

On the other hand, gold futures for June delivery rose 0.3 percent or $3.50 to $1227.70 an ounce. The precious metal posted weekly gains below 0.1 percent.

In the oil markets, the US NYMEX crude rose 1 cent to close at $47.84 a barrel in New York, and posted 3.5 percent in weekly gains, while Brent rose 0.1 percent or 7 cents, and closed the London session at $50.84 a barrel. The crude benchmark posted 3.6 percent in weekly gains.

In terms of economic data, the US consumer price index rose by 0.2 percent in April, driven by a 1.1 percent rise in energy costs. Retail sales also rose 0.4 percent month-on-month, and 4.5 percent year on year.

There are fears in the markets after a tweet by US President Donald Trump on his Twitter account about the FBI director saying that it's better for Comey not to have records of our mutual conversations before they seep into the press.

Implications for Egypt:

Global financial markets are still cautiously watching the geopolitical developments taking place in the world with the US President's ability to implement his economic programs being the main point pressuring markets, which are still clearly affected by events and developments despite optimism following results of the French elections.

On the other hand, the main index of the Egyptian Stock Exchange, EGX30, rose by 1.55 percent during the week, at 12,906.98 points, a rise of 197 points, and market capitalization rose to about 7.9 billion pounds.

Trading volume on the main index reached 1.37 billion shares, valued at EGP 3.43 billion.

The equal-weights EGX50 was up 1.64 percent at 2,065.35 points.

The EGX70 was down 0.79 percent at 587.39 points, while EGX100 stabilized at 1360.22 points, slightly down by 0.01 percent.

The Commercial International Bank (CIB) stock rose 2.03 percent during the week to EGP 77, with a trading volume of 4.9 million shares valued at EGP 375.8 million.

Market capitalization closed at EGP 667.3 billion, up EGP 7.9 billion.

Foreign investors were net buyers at EGP 370.27 million, while Egyptians and Arabs were net sellers at EGP 331.9 million and EGP 38.35 million, respectively.

The impact of lack of investment incentives, anticipation of monetary policy trends, and resolving the situation regarding taxes on stock market transactions—especially as the end of the period of postponement on 16 May 2017 nears—in addition to not discussing the draft law so far, drive the stock market to the horizontal trend amid lack of investment liquidity.