Issue: 58

Date : 21 May 2017

Our Economy & the World

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

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Key Global Developments

Global oil market now essentially re-balanced, says IEA

Reuters

The world's crude market has just about regained balance, heading to harmony between supply and demand despite inventories unable to mirror the effect of the OPEC supply cuts, according to the International Energy Agency (IEA). The agency report kept its global demand growth forecast for 2017 unchanged at 1.3 million barrels per day (bpd) due to a gradual decrease in previously active consumer markets, including the US, Germany, and Turkey.

According to the report, commercial inventories decreased for a second straight month in March, by 32.9 million barrels to 3.025 billion barrels.

At the same time, stocks in industrialized countries grew by 24.1 million barrels for the first quarter as a whole, while primary data indicate the rising thereof in April.

"It has taken some time for stocks to reflect lower supply when volumes produced before output cuts by OPEC and 11 non-OPEC countries came into effect are still being absorbed by the market," the agency said.

"In the first quarter of 2017, we might not have seen a resounding return to deficits, but this report confirms our recent message that re-balancing is essentially here and, in the short-term at least, is accelerating," the IEA said.

In April, global supply reportedly dropped by 140,000 bpd to 96.17 million bpd. The decline was mostly due to countries outside of OPEC, such as Canada.

Non-OPEC production could grow by 600,000 bpd this year due to sharp increases in the United States, Brazil, and Kazakhstan, according to the report.

IMF urges Germany to reduce taxes and raise wages

Deutsche Presse Agentur

The IMF urged Germany to reduce taxes, raise wages and invest more.

Following a visit by the IMF experts to Germany, the IMF praised the performance of Europe's largest economy. However, they noted that there is still room for improvement.

"The available fiscal space should be used for initiatives that enhance the growth potential, such as investment in physical and digital infrastructure, child care, refugee integration, and relief of the tax burden on labor," it said.

Looking at the broader euro zone, the Fund said a sustained rise in wage and price inflation in Germany was needed to help lift inflation in the single currency bloc and aid the normalization of monetary policy.

Concerns about unfavorable demographic factors weighed on its long-term growth prospects. The IMF also recommended pension reforms to make it more attractive to work longer.

The IMF urged banking and life insurance sectors to accelerate the restructuring process in order to increase profitability and flexibility.

Euro zone expands trade surplus despite protectionist calls

Reuters

The euro zone increased its trade surplus with the rest of the world in March with both exports and imports rising markedly, in a sign that global commerce has so far not been hampered by protectionist calls.

The European Union statistics office Eurostat said on Tuesday the 19-country currency area recorded a 30.9 billion euro (S$47.7 billion) surplus in March in its goods trade balance with states outside the bloc, according to data not adjusted for seasonal factors.

The March surplus is nearly double that of February when the bloc has a positive balance of 17.8 billion euros, and also higher than a year earlier when the surplus was 28.2 billion euros.

The 19-country bloc, driven by Germany, expanded its exports by 13 percent in March on a yearly basis to a total value of 202.3 billion euros, unadjusted figures show.

Imports to the bloc also increased by 14 percent, although from a lower basis, showing that trade flows have not been affected by growing protectionist calls, such as from US President Donald Trump.

Figures adjusted for seasonal factors showed the euro zone surplus was 23.1 billion euros in March from 18.8 billion euros in February, with a 1.4 percent increase in exports on the month and a 1.1 percent drop in imports.

IMF agrees to increase loans granted for natural disasters

Al-Youm Al-Sabe'

The International Monetary Fund (IMF) has agreed to almost double the possibility of lending countries experiencing major natural disasters.

Sky News reported that the IMF said in a statement it had decided to almost double the ratio, raising it to 60 percent.

The IMF said that this will strengthen the safety net for countries facing urgent balance-of-payments needs due to a major natural disaster and also attract other sources of funding.

China pledges $124 billion for new Silk Road

Reuters

Chinese President Xi Jinping pledged $124 billion on Sunday for his new Silk Road plan to forge a path of peace, inclusiveness and free trade, and called for the abandonment of old models based on rivalry and diplomatic power games.

China has touted what it formally calls the Belt and Road initiative as a new way to boost global development since Xi unveiled the plan in 2013, aiming to expand links between Asia, Africa, Europe and beyond underpinned by billions of dollars in infrastructure investment.

"We should build an open platform of cooperation and uphold and grow an open world economy," Xi told the opening of the two-day gathering in Beijing.

Xi said the world must create conditions that promote open development and encourage the building of systems of "fair, reasonable and transparent global trade and investment rules".

He added that trade is an important engine for economic development and the world should strengthen the multilateral trading system, establish free trade zones and facilitate free trade.

Xi pledged a major funding boost to the new Silk Road, including an extra 100 billion yuan ($14.50 billion) into the existing Silk Road Fund, 380 billion yuan in loans from two policy banks and 60 billion yuan in aid to developing countries and international bodies in countries along the new trade routes.

In addition, Xi said China would encourage financial institutions to expand their overseas yuan fund businesses to the tune of 300 billion yuan.

Xi did not give a time frame for the new loans, aid and funding pledged.

Trump's Plans Aggravate Income Inequality

Reuters

U.S. President Donald Trump's economic policies risk creating growth that mostly benefits the rich and aggravates income inequality in the United States, Nobel Prize-winning economist Angus Deaton said.

Trump's plans to cut taxes and raise trade barriers, if enacted, might give a short-term income boost to some workers but would not deliver the long-term growth that is essential for mitigating the effects of inequality, he said in an interview.

"I don't think any of it is good" for addressing income inequality, said Deaton, a Princeton University professor, who won the Nobel Prize for economics in 2015 for his work on poverty, welfare and consumption.

He was speaking after addressing a meeting in Italy of finance ministers and central bankers from rich nations at which inequality topped the official agenda.

Deaton said restoring stronger economic growth, preferably through encouraging more innovation, would help reduce the anger among many people who feel they have been left behind.

"A rising inequality that probably wouldn't have bothered people before does become really salient and troublesome to them (during periods of low growth). It poisons politics too because when there are no spoils to hand out it becomes a very sharp conflict," he said.

Deaton said he did not think inequality was inherently bad as long as everyone felt some benefit from growth.

"But I do care about people getting rich at public expense," he said, referring to political lobbying by business groups.

Implications for Egypt:

The Chinese Silk Road Initiative creates some kind of regional competition among countries of the region seeking to become a major transit point on the Silk Road, while providing services to transiting vessels between East and West, in addition to the substantial support they will receive for infrastructure and the investments that will be allocated to these countries by the financial institutions established by China. Regional countries are interested in the initiative not only for the economic and trade benefits it will provide, but also for the political and security stability as the countries benefiting from the road will be keen on ensuring the security and stability of these countries.

Therefore, Egypt should strengthen its role in the new road initiative by signing agreements with China, which will be an important economic push at this stage. This will assign a more important role to Egypt that is in line with the Bank's strategies, strengthen it, and create a leading role for Egypt in Africa and Asia. Egypt's participation as a founding member supports its ability to obtain aids and soft loans from the Bank to finance projects. It should be taken into account that although some of the founding member countries are in a difficult economic situation, they were keen to participate in the bank as founders.

The original direction of Egyptian-Chinese cooperation should be to encourage foreign investments. Therefore, Egypt’s efforts to attract Chinese investments should be intensified, especially in the fields of establishing industrial cities, logistics services, mining, petrochemicals, land reclamation and power generation. These are the sectors that recieve Chinese investments in many countries of the world. It is also important to accelerate establishing a Chinese industrial zone in Egypt’s economic zone at the Suez Canal development project, and complete the project of establishing a textile city in Mineya aimed at replacing Chinese imports with Egyptian products manufactured on Egyptian soil.

From the International Press

$94 billion in foreign investment in Africa

Al-Hayat

The African continent received foreign direct investment estimated at $94 billion last year, an increase of 32 percent over its value in 2015 of $ 71.3 billion, covering 676 projects and providing 129,000 jobs.

According to a report by Britain's Ernst & Young, Morocco ranked first in the attractiveness of investments this year, ahead of South Africa, which topped the volume of financial outflows. Egypt is third, Tunisia is ninth, and Algeria is tenth.

The report pointed out that the new projects in Africa raise the appetite of foreign investors because of their return on investment and the immunity of some African economies in the face of crises, and the need of transnational companies to expand south, especially from the US, France, China, Britain, UAE, Japan, Italy and Germany

In sub-Saharan Africa, Morocco invested about $4.8 billion in 2016, including 17 projects, up 21 percent, mostly in West Africa, the first investor from the continent. The report said that Morocco has become an important gateway to foreign investment towards the continent, thanks to the attractiveness of its economy and the business climate and infrastructure, and its regional position topping receipt of financial flows.

Morocco's political stability, even during the period of Arab mobility, has helped attract foreign investment. Morocco has become an international export base for the EU, Africa and Middle East markets. It has become a global producer of the automotive and engine sector, which grew by 5 percent in 2014, 10 percent in 2015 and 14 percent in 2016, and is of interest to investors. China's Hiti is building an industrial city south of Tangier on the Mediterranean Sea at a cost of $10 billion for external export

Ernst & Young noted that Egypt and Morocco attract the largest volume of foreign investment to North Africa thanks to the dynamism of their economies. Foreign investments to Egypt increased by 19.7 percent last year, including services, technology, media and communications, helped by easing bureaucratic restrictions, administrative deregulations, business climate and reforms. China, the United States and France are among the largest foreign investors in Egypt.

The report said that five African countries received 58 percent of investment flows to the continent, namely South Africa, Morocco, Egypt, Nigeria and Kenya. The activity of foreign companies in Morocco and Egypt has led to the interest of foreign investors to go to North Africa, despite some financial pressures on local economies, such as exchange liberalization in Egypt and rising inflation. Tunisia and Algeria have made progress in the business climate, and Algeria has moved from 16th place in 2015 to 10th. Tunisia has developed 38 percent in the investment attractiveness index and economic diversification, in which it came third.

Morocco was third in the economic empowerment index because of last year's decline in growth, and the fourth in infrastructure where Egypt ranked second and third in the market size.

The four countries of North Africa have made significant progress in the business environment, the volume of offshore projects, the modernization of laws and the development of infrastructure, despite the uncooperative regional environment and the implications of what remains of the Arab Spring.

Investment flows to Africa hit a record high in 2008, when it exceeded $140 billion, up from 239,000 jobs. However, it continued to decline due to the global economic crisis until it recovered in 2014 with foreign investment estimated at $88 billion.

Implications for Egypt:

The above report confirms the existence of opportunities to attract investments to Egypt. Therefore, any step to reform the investment climate will be positive. Investment legislations and procedures need a thorough review, starting from the need to work on electronic incorporation of companies, governance regulations, procedures of contract conclusions, to establishing a mechanism for land allocation and connecting utilities, reforming the taxation system, re-adjusting market exit system, corporate bankruptcy law, which is key to investment promotion, in addition to establishing a mechanism for investment dispute settlement

Promoting investment in Egypt should adopt an out of the box approach and benefit from the experiences of other countries. Roles should be clearly defined between the different parties of the system to ensure consistency and achieve the goal of this systemic change.

It is important to have a strategy and a clear investment map for available opportunities in Egypt that reflect the state's vision regarding the role of foreign direct investment in the Egyptian economy, including key economic sectors that wish to attract foreign investments, especially in high tech fields. This requires revisiting the intellectual property protection law. It is also important to increase the links between foreign and domestic investments by encouraging partnerships, especially with small and medium enterprises, which would contribute to the transfer of technology to local companies, including the latest management practices.

Special Analysis

Fluctuations in World Gas Markets

Reuters

Egypt is holding talks with its liquefied natural gas (LNG) suppliers to defer contracted shipments this year and aims to cut back on purchases in 2018, as surging domestic gas production squeezes out demand for costly foreign imports.

Cairo's desire for gas self-sufficiency by the end of 2018 bodes ill for traders having to reshuffle LNG out of the country amid concern over the impact on global gas prices if replacement markets for the world's eighth-biggest importer of the super-cooled fuel are not found fast enough.

State-run importer EGAS aims to defer dozens of liquefied natural gas (LNG) cargoes due this year, analyst, trade and industry sources say.

It is also scaling back LNG purchase plans for 2018 from 70 to as low as 30 cargoes, one Egyptian industry source added, signalling the withdrawal of one of the fastest-growing LNG importers from the global stage.

EGAS did not respond to requests for comment.

As demand growth among the old guard of Asian gas-consuming nations such as Japan slows, new entrants - led by Egypt - has accounted for 86 percent of net growth since mid-2014, EDF's head of energy market analysis Teddy Kott said.

"That was a demand disruption that not only exceeded Fukushima in terms of scale but rivalled it in terms of pace," he said, referring to Japan's 2011 nuclear meltdown, and resulting reactor closures that lifted the LNG out of its last downturn.

A trader said: "Egypt was the biggest short going".

Global LNG output is set to jump by a third, hitting 452 million tonnes by 2020, and with Asian spot prices LNG-AS down by 72 percent since early 2014, adding new markets to soak up the glut is key to stemming the rout.

At the heart of Egypt's revival is a stunning run of discoveries, a potential boon for the government as it embarks on politically sensitive economic reforms and struggles to rein in inflation running at a three-decade high.

"Test flows from (BP's) West Nile Delta have started ahead of schedule and Eni's giant Zohr find is progressing quickly on track for first gas later this year, but it's output from the Nooros field that has surprised everyone this year," said Adam Pollard, senior North Africa oil and gas analyst at Wood Mackenzie.

Production from two BP fields in the West Nile Delta development, Taurus and Libra, just started eight months ahead of schedule. Its North Alexandria gas fields are set to boost output as well.

DEFERMENTS

"Talks with Egypt on deferring cargoes are ongoing," a LNG trader said. "And there are also talks between the traders and producers on where to divert these supplies to," he added. Once a top-10 LNG exporter, the Arab country of 92 million people and has so far consumed around 12.5 million tonnes since it started importing in 2015, according to Reuters data.

Benefiting from several multi-billion-dollar LNG buying sprees, commodity traders from Trafigura to Glencore carved out a niche for themselves by shouldering credit risks for producers, including Qatar, averse to supplying Egypt directly.

Any deferments therefore will disproportionately hit trade houses who must wrangle approvals from producers before diverting the cargoes into other markets.

Already this year EGAS has deferred about ten shipments, with about 10-15 shipments left to go, trade sources said.

The scale and speed of Egypt's turnaround suggests the government may yet wean itself off foreign gas but how sustainable that turns to be will depend on domestic pent-up demand.

"Natural gas demand in Egypt has been constrained from power generation to fertilizer production so gas demand could potentially rebound much more than initially anticipated," Anne-Sophie Corbeau, research fellow at the King Abdullah Petroleum Studies and Research Centre said.

"The appetite for LNG in that region is going to be challenged but will not disappear."

Eni's Nooros is churning out 900 million cubic feet of gas daily, Pollard said, becoming Egypt's biggest producing field since it came on stream late in 2015.

Implications for Egypt:

According to estimates by the Ministry of Petroleum's project plan and companies working in the field of oil and natural gas in Egypt, Egypt stands ready to achieve self-sufficiency in gas starting 2018. Among the factors that qualify Egypt to achieve its goal of becoming a hub of natural gas is the presence of infrastructure for the gas sector, such as the liquefaction plant and a large consumption market. Such factors render any project to develop natural gas production economically feasible, says a report by "Stratfor" magazine analyzing 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.

Global Financial Market Performance

Argaam/ Mubasher/ Reuters

Japanese stocks closed higher as investors weighed the risk of political crises in Brazil and the United States. Investors are still on alert as concerns about the strength of the global economy rise as they wait for the Federal Reserve's decision to raise interest rates this year. Japan's Nikkei rose 0.19 percent to 19590 points, while the TOPIX index rose 0.30 percent to 1559 points.

Ric Spooner Chief Market Analyst at CMC Markets said that while investors will think the selloffs will not happen again, it's too early to assume that, as markets have shown that the political situation in the US has the potential to influence them. said Rick Spooner.

The crisis in Brazil increased investors' fears after President Michel Tamer challenged his calls to step down, saying an inquiry by the Supreme Court would reflect recent allegations.

Chinese stocks ended slightly higher, but ended the week higher for the first time in five weeks after regulatory comments dampened concerns over current tightening policies and economic growth. Premier Li Keqiang said China would strike a balance between financial stability and gradual reduction of debts and sustained economic growth, noting that the government is able to maintain stability in financial markets. The Shanghai Composite Index closed at a marginal rise of 0.02 percent at 3090 points.

China's central bank injected $24.67 billion into the money market on Tuesday, the biggest amount in nearly four months, to offset liquidity pressures from corporate tax payments and repurchase agreements, signaling Beijing's intention to maintain market stability amid fears of Current tightening policy.

Yang Hai, analyst at Kaiyuan Securities in Xi'an said investors are worried that China's economy will slow again, according to a report this week that Investors' confidence in Chinese stocks fell for the second month in a row in April to a seven-month low due to economic concerns.

US stocks rose for the second consecutive session on Friday, supported by gains led by energy stocks, and coincided with a temporary lull in market concerns about the stability of the administration of US President "Donald Trump".

The Dow Jones Industrial Average rose 0.7 percent or 141 points to 20,804 points, while the NASDAQ index rose 28 points to 6083 points, and the Standard & Poor's 500 Index gained 15 points to 2381 points.

On the weekly basis, the Dow Jones lost 0.6 percent, marking its second weekly decline in a row, with both NASDAQ and S & P losing 0.4 percent.

In the European markets, the STOXX Europe 600 index rose 0.60 percent to 391 points. The British FTSE is up 0.45 percent to 7,470 points, the German DAX rose 0.40 percent to 12,638 points, and the French CAC rose by 0.65 percent to 5324 points.

On the other hand, gold futures for June delivery settled up 0.1 percent or 80 cents to close at $1253.60 an ounce, with the yellow metal gaining 2.1 percent weekly, the highest since mid-April.

In the oil markets, when closing, the US NYMEX crude futures for June delivery rose 2 percent or 98 cents, and the New York session closed at $50.33 a barrel, recording the highest close in about a month with a weekly gain of 5 percent.

Brent crude futures for July delivery also settled up 1.9 percent or $1, closing the London session at $53.51 a barrel, with weekly gains of 5.2 percent.

Implications for Egypt

Global financial markets have been affected by political developments in the US as hopes for tax cuts and other business stimulus policies faded after reports that President Donald Trump tried to intervene in a federal inquiry. Market jitters prevailed following a New York Times report that President Trump has asked the fired director of the FBI James Comey to drop charges against the former national security adviser, Mike Flynn.

Results of a survey conducted by CME Group showed that the chances of the Fed raising interest rates at the June meeting fell to 64.6 percent from 90 percent last week as a result of the fall in equity markets.

Meanwhile, the main index of the Egyptian Stock Exchange, the EGX30, rose by 0.35 percent during the week, at 12,952.38 points, gaining 45.4 points, amid foreign purchases, compared to local and Arab sales. The trading volume of shares in the main index during the week was about 1.38 billion shares, valued at EGP 3.8 billion.

The Commercial International Bank (CIB) share gained 0.18 percent during the week to EGP 77, with a trading volume of 3.4 million shares, valued at EGP 264.6 million.

The EGX-70 index rose 0.64 percent to 591.14 points, while the EGX-100 index gained 1.49 percent to 1,380.54 points.

The equal weights EGX-50 index was down 0.40 percent at 2,057.07 points. Market capitalization closed at EGP 666.86 billion, down 484.36 million pounds.

Foreign investors posted net sales of EGP 265.6 million during the week compared to EGP 151.6 million and EGP 114 million by Egyptians and Arabs, respectively. Retail investors accounted for 60.6 percent of total trading during the week, with a net sell-off of EGP 67.9 million, while institutions accounted for a net purchase of 39.4 percent. Egyptian investors accounted for 67.2 percent of total trading during the week, while foreigners and Arabs accounted for 19.3 percent and 13.5 percent, respectively.

The MSCI Emerging Markets (EM) Index semi-annual review showed that Egyptian Financial Group Hermes Holding (EFG Hermes) was added to the large companies' index, and removed from the small- and medium-sized companies' index. Meanwhile, Telecom Egypt and Talaat Moustafa Group Holding (TMG) were relisted in the small- and medium-sized companies sector. Furthermore, South Valley Cement Co was removed from the small companies' index.

Shares of EFG-Hermes Holding rose by 7.92 percent to EGP 26.7 during the week, while TMG Holding shed 11.09 percent to LE 7.62. Telecom Egypt lost 0.3 percent during the week to EGP 10, while South Valley Cement fell 6.02 percent during the week to 4.53 pounds.