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Our Economy & the World

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Key Global Developments

GCC sovereign and corporate bond issuance amounts to around USD 22 billion in five months

UAE Etihad

Sovereign and corporate bond issuance in the GCC amounted to $22 billion in the first five months of this year, according to Fisch Asset Management. Total gross bond issuance in the GCC has already surpassed 2016's total.

Current market conditions have created a favourable landscape for new bond issuances, with the GCC Sukuk market issuing up to USD 22 billion in sovereign and corporate bonds year-to-date.

In 2016, a total of USD 21 billion bonds were issued; this figure is up by 74.6% on 2015 when issuances amounted to USD 12.6 billion.

Positive performance in 2017 is linked to ongoing strong investor demand for emerging market assets, due to the higher yield available compared to developed markets and supported by upbeat global economic growth.

Philipp Good, CEO at Fisch Asset Management, commented: "Many factors have contributed to this positive trend in 2017, for example lower oil prices mean higher funding requirements, there is attractive pricing after markets have rallied, there is ample liquidity in the region and there has been a strong revival in credit markets on a year-to-date basis so far."

Corporate debt in the Middle East has also been a solid performer in 2017. Spreads of investment-grade rated bonds have dropped by 20 bps, significantly outperforming Asia, where spreads have seen a decline of only 4 bps.

U.S. Treasury posts $88 billion deficit in May

Reuters

The U.S. government had an $88 billion deficit in May as spending outpaced revenues, according to Treasury Department data. The budget deficit was $53 billion the same month one year earlier, according to Treasury's monthly budget statement. Economists polled by Reuters had forecast the Treasury reporting an $86.5 billion deficit last month.

The fiscal 2017 year-to-date deficit was $433 billion, or $473 billion on an adjusted basis, compared with $405 billion in the same period of fiscal 2016.

Receipts last month totaled $240 billion, up 7 percent from one year ago, while outlays were $329 billion, a jump of 19 percent from the same month a year earlier.

World Bank: $90 Trillion in Infrastructure for Developing Countries

Al-Youm El-Sabe'

According to a world bank report, the world will need about $90 trillion in new infrastructure over the next 15 years, mostly in developing and middle-income countries. Therefore, it is necessary to make the right choices in order to create an infrastructure that can adapt to the effects of climate change.

Moving now will help avoid huge costs later on. Funding required for orderly transition to a global low-carbon economy capable of adapting to the effects of climate change could be estimated in trillions rather than billions of dollars.

The report called for urgent action to reduce vulnerability, allow access to basic services and build resilience, stressing that the effects of severe natural disasters are equivalent to 520 billion dollars in losses of annual consumption and forcing about 26 million people to fall into poverty each year.

Climate change increased volatilities and threatens poverty alleviation efforts, and should be taken into account in the preparation of developmental plans. Climate change impacts could push another 100 million people into poverty by 2030, and affect countries and communities around the world. The greatest damage will be in the most vulnerable countries and communities.

The report noted that in order to mobilize private sector funding to address the impacts of climate change on a large scale, the world needs a more environment-friendly financial sector that combines the risks and opportunities of climate change, and increases the use of approaches such as risk mitigation, co-financing and environmental bonds.

OPEC sees oil market rebalancing at slower pace, says output rises

Reuters

OPEC said a long-awaited rebalancing of the oil market was under way at a "slower pace" and reported that its own output in May jumped due to gains in nations exempt from a pact to reduce supply.

In a monthly report, the Organization of the Petroleum Exporting Countries said its output rose by 336,000 barrels per day (bpd) in May to 32.14 million bpd led by a rebound in Nigeria and Libya, which were exempted from supply cuts.

OPEC cut its estimate of oil supply growth from producers outside the group this year to 840,000 bpd from 950,000 bpd.

Bill Gross says all financial markets are 'increasingly at risk'

Mubasher

Bond investor Bill Gross said that low interest rates, aging populations and global warming are an obstacle to economic growth and raise the risk of financial markets.

The manager of Janus Henderson fund for global bonds warned, in statements to Bloomberg, investors that all global financial markets are "increasingly vulnerable."

US stocks have hit record highs recently, backed by government plans to cut taxes and raise spending on infrastructure, before witnessing a significant decline in the last few sessions

Gross criticized central banks' monetary policy for raising asset prices, such as stocks and real estate, while not seeking to support real economic growth.

The arteries of capitalism are almost closed, and when this is accompanied by weak interest rate that may reach the negative range, it will increase the demand for safe assets, which harms the economic growth of the US and the world in general.

Bill Grosse has previously warned that US stocks markets are at the top of the "fragile" phase since the financial crisis in 2008.

Brexit: Europe's new finance rules put thousands of U.K. jobs at risk

Argaam

The bloc proposed rules that would give it the power to force a large slice of London's financial services to move out of the city after Brexit, putting at risk an estimated 83,000 jobs.

Despite not using the euro itself, the U.K. acts as the primary go-between for buyers and sellers of financial products priced in euros that play a vital role in Europe's economy.

Known as euro clearing, it's a massive business involving transactions worth as much as $1.5 trillion each day. Rival financial centers such as Paris and Frankfurt have coveted the lucrative activity for decades but have failed so far to loosen London's grip.

The European Central Bank has long argued that the clearing of such vast quantities of trades should take place inside the group of 19 countries that use the currency. The bank says it needs to monitor what's happening to ensure the financial stability of the eurozone.

Now with Britain set to leave the EU, the central bank may become able to force London to drop the business.

Implications for Egypt:

Global economic conditions indicate volatile economic performance, especially with fundamental changes affecting the EU's cohesion after Brexit. There is also a rise in critical criticism of central banks' monetary policies due to the rise in the prices of assets such as stocks and real estate.

Solving the current problems of the Egyptian economy requires sustainable industrial development under an economic restructuring to prepare industries for import replacement and increase exports. Signs of this strategy are currently evident in the SMEs development and funding strategy, and establishing integrated agro processing complexes as part of the one and a half million feddens project. This strategy requires complementary reforms in other economic activities to remove export and investment constraints through real economic reforms.

It is important to have an investment strategy in Egypt that reflects the vision of the state regarding the role of foreign direct investment in the Egyptian economy, including the most important economic sectors that wish to attract foreign investments, especially in high technology fields. This requires reviewing the applicable intellectual property protection law in Egypt. It is also important to increase the linkages between foreign and domestic investments by encouraging the formation of partnerships, especially with small and medium enterprises, contributing to the transfer of technology to local companies, including the latest management practices.

From the International Press

FAO: Increasing Food Production without Damaging the Environment

Al-Hayat

To achieve sustainable development we must transform current agriculture and food systems, including by supporting smallholders and family farmers, reducing pesticide and chemical use, and improving land conservation practices, FAO Director-General José Graziano da Silva said today addressing European lawmakers.

"Massive agriculture intensification is contributing to increased deforestation, water scarcity, soil depletion and the level of greenhouse gas emission," Graziano da Silva said. He stressed that while high-input and resource intensive farming systems have substantially increased food production, this has come at a high cost to the environment.

"Today, it is fundamental not only to increase production, but to do it in a way that does not damage the environment. Nourishing people must go hand in hand with nurturing the planet," he said. This is in line with the 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change, he added.

"We have to move from input intense to knowledge intense production systems," the FAO Director-General said.

Speaking to members of the European Parliament's Committee on Agriculture and Rural Development, Graziano da Silva highlighted the findings of FAO's report, *The future of food and agriculture: trends and challenges.*

Among the 15 trends described in the report, are the impacts of climate change, conflicts and migration. The FAO report also foresees 10 challenges for achieving food security, improving nutrition and promoting sustainable agriculture worldwide.

In his address, the FAO Director-General focused on four main issues: climate change; the spread of transboundary pests and diseases; food loss and waste; and the importance of eradicating not only hunger, but all forms of malnutrition in the world.

Graziano da Silva underscored that no sector is more sensitive to climate change than agriculture - especially for smallholders and family farmers from developing countries - while at the same time, agriculture and food systems account for around 30 percent of total greenhouse emissions.

"In agriculture, adaptation and mitigation go hand in hand. There is no trade-off between the two," the FAO Director-General said. He pointed to the need to reduce greenhouse gas emissions while at the same time building the resilience and promote the adaptation of farmers to the impacts of climate change.

To this end, FAO supports countries through different initiatives and approaches, including climate-smart agriculture, agroecology and agro-forestry.

Globalization, trade and climate change, as well as reduced resilience in production systems, have all played a part in dramatically increasing the spread of transboundary pests and disease in recent years. These constitute a major threat to the livelihoods of farmers and the food security of millions of people.

For its part, FAO supports countries to implement prevention and surveillance system. "Even in situations of conflict and protracted crises, we promote programmes of (livestock) vaccination, as we are currently doing in South Sudan and Somalia," the Director-General said.

Today the world produces enough to feed the global population, but about one third of this food is either lost or wasted, while at the same time there is also a waste of natural resources such as land and water.

FAO currently supports about 50 countries in the area of food losses and waste, including through the SAVE FOOD initiative, a unique partnership - with more than 850 members from industry, associations, research institutes and non-governmental organizations - that addresses these issues "across the entire value chain from field to fork," Graziano da Silva told the European parliamentarians.

Citing estimates that indicate that nearly half of the European Union's adult population are overweight, the FAO Director-General noted how malnutrition affects both developed and developing countries.

"The way to combat this is to transform food systems, from production to consumption, and provide healthier diets to people," Graziano da Silva said.

He called on the parliamentarians as lawmakers to ensure that adequate policies, programmes and operational frameworks are anchored in appropriate legislation.

"Parliamentarians not only have the means to place nutrition at the highest level of the political and legislative agenda, they also can guarantee that programmes will have the necessary budgets for implementation," the FAO Director-General said.

He also praised Members of the European Parliament for establishing the "Alliance Fight Against Hunger" which according to Graziano da Silva will play an important role in combating malnutrition in Europe.

Implications for Egypt:

Egypt should be aware from the beginning of the agricultural season of the need to plan agricultural targets in accordance with world developments. Planning should also pay attention that the global situation may drive food commodity prices higher worldwide in the new season, which will increase the burden on citizens and call for preemptive action to reduce the impact on prices and inflation rates, especially at the local level. Global consumption of grains is expected to increase, which requires Egypt to keep strategic stocks of rice from the beginning of the season to ensure price elasticity in the market. The country is also required to declare before the beginning of the year the export policy, the allowed volume of exports, and controls and mechanisms thereof to prevent the frequent problems that occur every season as a result of price fluctuations, which are expected to continue during the current year**.**

Moreover, the government represented by the Ministries of Agriculture and Internal Trade and Supply should encourage farmers to grow grains, and support and compensate them for the difference in the cultivation of other crops more profitable, in addition to determining the crop price before planting it, and providing high-quality fertilizers and seeds. The problems of grains' production are attributed to the reduction of total cropped area and the inability to store grains, as well as the tendency of farmers to grow other crops because they are more profitable. It is also recommend to build more silos, and encourage investment therein. Silos preserve grains from waste.

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Special Analysis

Trump Administration's Push for Gas Exports Faces Market Glut

New York Times

The Trump administration is moving to make the United States the world's leading exporter of natural gas as a central component of both energy and trade policy.

But whether global markets, currently awash with gas, will play along remains a long shot over the next several years. Any breakdown of talks to remodel the North American Free Trade Agreement, which set the regulatory framework that allowed gas exports to Mexico to triple over the last six years, could also get in the way.

The administration's ambitions were explained emphatically last month by Gary D. Cohn, director of the National Economic Council, and they were followed up by the Energy Department's authorization last Tuesday for a Texas export terminal that Exxon Mobil and Qatar Petroleum have pursued for years. Other administration plans include opening the way for more gas exports from Oregon to serve Asia.

In recent years, there was strong domestic opposition to the exports, from manufacturers and others, out of fear that domestic gas prices would rise, and the Obama administration moved cautiously before increasing the pace of export terminal permit approvals during its second term.

With supplies appearing bountiful, and other countries aiming to increase their own production, opposition has mostly abated, except in pockets of the East Coast and Pacific Northwest. There remains enthusiastic support along the gulf coasts of Louisiana and Texas, where there is substantial room for more growth.

For the Trump administration, the economic benefits of gas export infrastructure are paramount. Each natural gas export terminal can require an investment of $10 billion or more, produce thousands of construction jobs and consume millions of pounds of steel. Then there is the additional drilling and production of gas, which is then cooled to minus 260 degrees, condensing it to a liquid known as liquefied natural gas, or L.N.G., to be shipped on giant tankers to Asian, European and Latin American markets.

The recent expansion of the Panama Canal has quickened the route to growing markets in Japan, South Korea and elsewhere in Asia, making American gas more competitive.

"Exporting L.N.G. meets many objectives, including helping to address the trade imbalance," said Daniel Yergin, the energy historian and vice chairman of IHS Markit, a consultancy. "This supports jobs, this supports investment in energy, this supports exports, a whole host of administration objectives."

Once six facilities under construction or being expanded are completed over the next few years, the additional liquefied gas exports could amount to as much as $50 billion in annual revenue, depending on gas prices. Much of that would help balance the trade deficit with China, an administration objective.

Additionally, four big pipelines are being built this year to take more gas to Mexico, and at least two more are slated to begin transporting gas by the end of 2018. With Mexico converting its power sector to natural gas from fuel oil, the country already imports more than 5 percent of United States gas production, which particularly helps Texas gas producers and pipeline companies.

Some L.N.G. executives say that the global demand for gas will grow as more export and import terminals are built and that the United States will continue to have a cost advantage over other major producers, including Qatar and Russia, because of the abundance of American gas production.
“It’s been demonstrated over the last two years that when you have low natural gas prices, demand increases much faster than what people think,” said Charif Souki, chairman of Tellurian, a Houston company developing a $15 billion L.N.G. export project south of Lake Charles, La.
“The Trump administration has discovered the power of natural gas,” Mr. Souki added. “Today, we are the top gas producer in the world, and in another three or four years, we’ll be one of the top two gas exporters in the world, right up there with Russia.”
That is certainly what the Trump administration is hoping for, although its policies may not have much of an immediate impact.
“We could be and should be the largest exporter of L.N.G. in the world,” Mr. Cohn said at a Washington conference in April. He said the first thing the administration would do was issue a permit for an export facility in the Northwest, a reference to the Jordan Cove L.N.G. terminal in the Oregon port of Coos Bay, where a Canadian company, Veresen, has proposed to build.
The Federal Energy Regulatory Commission last year denied a permit to the terminal as well as a pipeline to link it to production, saying the pipe would have “adverse effects on landowners.” There was also strong opposition from local environmental groups.
The commission can reconsider the issue, but not any time soon, because three of its five seats are vacant and the Senate has been known to take months to confirm commission nominations.
With additional fanfare, the Energy Department last week authorized Golden Pass Products, a partnership between Exxon Mobil and Qatar Petroleum, to export domestically produced gas from the Texas coast.
“This is not only good for our economy and American jobs but also assists other countries with their energy security,” said Energy Secretary Rick Perry, who championed the oil and gas industry as Texas governor.
The Golden Pass facility, originally designed for gas imports before the shale production boom created a glut, has largely remained dormant for the last six years. With an additional investment of $10 billion or so, the plant could become a force on international markets and export two billion cubic feet of gas a day, nearly 3 percent of current American gas production.
Golden Pass claims construction of the facility would mean 45,000 direct and indirect jobs over five years, and 3,800 direct and indirect permanent jobs.
The partnership released a one-line statement in response to the administration announcement: “Golden Pass Products is pleased to have achieved this important regulatory milestone as we continue to work to develop the export opportunity.”

But executives noted that the companies had not yet made a final decision on whether to go ahead with the investment.

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

Argaam/ Reuters/ Al-Youm El-Sabe'

Chinese stocks fell at the end of trading despite the People's Bank of China's largest injection of funds in the banking system from mid-January to increase liquidity in the market. At the end of the session, the Shanghai Composite Index fell 0.30 percent to 3123 points, a weekly loss of 1.1 percent .

The People's Bank of China injected 250 billion yuan ($36.73 billion) into its banking system, a measure analysts said was an attempt to ease the seasonal liquidity pressures caused by tax payments and regulatory requirements on bank capital.

Investors still focus on one of the country's most powerful insurance companies, Anbang Insurance, whose chairman Wu Xiaohui was arrested by the Chinese authorities a few days ago. However, markets remain constrained by investors' fears from possible oppressive regulatory measures against companies in China, which is expected to continue during the near term.

Japanese stocks rose after the Bank of Japan's decision to keep its softened policies unchanged and coincided with the depreciation of the yen against the dollar, but recorded weekly losses. At the end of the session, the Japanese Nikkei rose 0.55 percent to 19943 points, while the TOPIX index was up 0.50 percent to 1,596 points.

The Bank of Japan decided to leave its policies unchanged, adhering to its monetary stimulus program, amid inflationary pressures other than the other strengths of the country's economy. The bank said it would continue to buy government bonds at an annual rate of 80 trillion yen (720 billion dollars) and keep interest on the ten-year government bonds close to zero.

Most US stocks rose marginally, but NASDAQ was hit by pressure on the technology sector, while the Dow Jones posted the fourth weekly gain in a row. The Dow Jones Industrial Average rose 24 points to 21,384 points, the S & P 500 index rose 0.6 points to 2433 points, while the NASDAQ index fell 13 points to 6151 points. Amazon.com rose 2.4 percent, closing at $987.7, after announcing the company's plan to acquire Hall Foods for $13.7 billion.

On the weekly level, the Dow Jones gained 0.5 percent, the broader S & P posted gains of less than 0.1 percent, and NASDAQ posted weekly losses of 0.9 percent.

In Europe, Stokes Europe 600 rose 0.6 percent or 2.5 points to 388.5 points, but recorded a weekly loss of 0.5 percent. The British FTSE 100 index rose 44 points to 7,743 points, while the German DAX rose 91 points to 12,752 points, and France's CAC rose 46 points to 5263 point.

On the other hand, gold futures for August delivery settled up 0.2 percent or $1.90 to $1256.50 an ounce. The .precious metal recorded a 1.2 percent in losses this week

In the oil markets, the US NYMEX rose by 0.6 percent or 28 cents to close at 44.74 dollars per barrel, but recorded a weekly loss of 2.4 percent. Brent also rose by 1 percent or 45 cents to close at 47.37 dollars a barrel, and recorded a weekly loss of 1.6 percent.

In terms of economic data, the number of US homes whose construction started has decreased by 5.5 percent to 1.09 million units. Building permits decreased 4.9 percent to 1.17 million, the lowest level since April 2016. The consumer confidence index fell 2.6 points in June to reach 94.5 points, the lowest since November.

Implications for Egypt:

A report by the Office of Strategic Studies at ADS Securities noted that the reality of the US economy and positive data in the world's largest economy have forced the Fed to pursue a monetary policy that raises interest rates, with expectations of a continuation of this policy if the pace of growth stays as is.

The report noted that the US labor market remains the focus of the Fed’s policy despite the decline in inflation expectations. As indicated in several reports of the Office of Strategic Studies, the strength of the labor market reflects the robustness and development of the US economy, and that is the main driver of inflation, wages and consumption. This is what Fed’s President Janet Yellen pointed out after the announcement of a 1 percent to 1.25 percent interest rate hike. She underscored the importance of a drop in unemployment to 4.3 percent to historic levels, despite the decline in non-agricultural jobs. According to Yellen, this is caused by supply and demand, and lack of job seekers.

The report added that the fate of the US dollar is now tied to Trump’s economic projects, which require a weak dollar even if the interest rate is raised. However, markets are now waiting to see the seriousness of these programs, and whether they will be approved and launched. These are all questions awaiting clarification, which currently gives a vague picture of the dollar's path until matters unfold.

On the other hand, market capitalization of the Egyptian Stock Exchange (EGX) increased by EGP 282 million during trading sessions last week, reaching EGP 686.721 billion. Market capitalization gained about EGP 1.3 billion at the end of Thursday’s trading, the end of the week, to close at EGP 686.721 billion, amid diverging indicators.

The total value of shares traded on EGX reached EGP 1.3 billion during Thursday’s trading. Trading by foreign individuals as well as Egyptian, Arab and foreign firms tilted towards net sales, with a value of EGP 194.5 million, EGP 34.8 million, EGP 19.5 million and EGP 84.9 million, respectively. Trading by Egyptian and Arab individuals tilted towards net purchases, with a value of EGP 39.8 million and EGP 99.5 million, respectively.

The index EGX30 fell by 0.17 percent to close at 13,478 points, while the index EGX-50 rose by 0.23 percent to close at 2,094 points, and the index EGX20 fell by 0.24 percent to close at 12,291 points.

The index of medium and small enterprises, EGX70, rose by 0.19 percent to close at 619 points, and the broader EGX100 index rose by 0.59 percent to close at 1,459 points.