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Our Economy & the World

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

- **Key Global Developments Over the Past Week**
- **From the International Press: BIS Calls on Central Banks to Hike Rates**
- **Special Analysis: Migrant Flows Exceed Official Assistance and Direct Investment**
- **An Analysis of Global Financial Market Performance and Changes in Prices of Goods and Raw Materials**

Key Global Developments

China pumps $ 30 billion in investment in Africa

Asharq Al-Awsat

China pumped nearly $30 billion to help African countries in various projects it has pledged to the Black Continent, thus becoming the largest reliable partner that contributes to accelerate agricultural modernization and industrial development efforts.

China had pledged $60 billion in support for Africa at the Sixth Forum on China-Africa Cooperation hosted by Johannesburg in South Africa in December 2015.

Chinese Foreign Minister Yang Yi, in remarks on the sidelines of a parliamentary session in the Chinese capital Beijing, stressed his country's further strengthening of its relations with Africa in order to support the continent in difficult economic conditions and troubled global situations.

Yi pointed out that Beijing has allocated $60 billion for development in Africa and has already pumped nearly half of its pledges. He added that there is a close bond between China and Africa in a common future. Mutual cooperation, regardless of how the international situation or the global economy is going, will continue and China always keeps its promises.

He noted that there are projects already implemented since the Johannesburg Summit, including the completion of the Addis Ababa and Djibouti railway. A railway linking Mombasa and Nairobi is expected to be completed in the near future along with a number of projects being implemented in Congo, Tanzania and other countries.

According to the minister, there is steady progress in establishing a number of industrial zones throughout Africa. He stressed that China will become the most reliable partner in accelerating agricultural modernization and industrial development so as to enable the African continent to achieve its sustainable development goals.

Japan and the EU on the Verge of signing a Free Trade Agreement

Reuters

The European Union and Japan are approaching the signing of a broad free trade agreement. The agreement may be seen as a push back against a feared U.S. turn toward protectionism under President Donald Trump.

EU Trade Commissioner Cecilia Malmstrom said that she was "quite confident" that a broad agreement could be announced at the meeting with the Japanese Prime Minister Shinzo Abe on July 6th, with both sides lowering tariffs on vehicles and agrarian products.

Malmstrom told reporters: "You can do good, fair, transparent and sustainable trade agreements where you win and I win, and not the American view, which seems to be, 'You lose and I win'."

Malmstrom made these remarks after two days of meetings with Japanese Foreign Minister Fumio Kishida in Tokyo over an agreement that would eliminate a large number of trade restrictions. Kishida told reporters that progress was made, but there are still important points left.

He added that as they are trying to reach a broad agreement, the plan is to travel to Brussels to do that. Japan and the European Union have been negotiating an agreement since 2013, but negotiations have become more urgent since the US president withdrew from the Trans-*Pacific* partnership agreement.

Russian Presidency: Capital outflows are caused by price fluctuations and market conditions

Asharq Al-Awsat

Spokesperson for the *Russian* presidency, Dmitry Sergeyevich Peskov, said that the reason for capital outflows from the country is due to markets' conditions and price fluctuations, noting that it is not related to the legal proceedings between Sistema Financial and Industrial Group and Rosneft.

Peskov said in a statement to Sputnik that certain price fluctuations can happen because capital outflows and inflows can freely occur, affected by the state of markets and price fluctuations, and depending on the degree of investors' appetite for these types of investments according to their expected profitability, economic efficiency and social and environmental impacts, including the costs required to implement social measures and protect the environment.

Foreign media have reported that foreign investors have been reducing their investments in Russian assets for four months in a row. Foreign investments withdrawn from Russian assets amounted to more than $1.6 billion.

One of the reasons for this phenomenon is the relationship between the US and Russia, and the litigation between Sistema and Rosneft, as well as lower oil prices.

Mnuchin says United States is supportive of IMF

Reuters

U.S. Treasury Secretary Steven Mnuchin said that the United States was supportive of the International Monetary Fund's mission, although it always wanted to make sure taxpayer funds were spent wisely.

"We're supportive of the IMF, although we'll look at our contributions to the IMF like we look at all contributions: very carefully and making sure we're spending the taxpayers money properly," Mnuchin told reporters at the White House.

He added that the Trump administration has not made a decision yet regarding the new chair of the Federal Reserve.

The Brexit bill for U.K. banks? Up to $17 billion, warns financial industry group

Argaam

U.K. banks could be saddled with up to $17 billion in extra costs to relocate parts of their businesses to the European Union after Brexit, according to a study by the Boston Consulting Group.

The Boston Consulting Group warned that Britain’s divorce from the EU could force U.K.-based banks to set up shop on the continent in order to continue their EU operations. The restructuring costs could be as much as €15 billion, which could have a “material impact” on the bank’s bottom line.

“We found that in aggregate the cost, in the event passporting is lost, would be significant, both in terms of transferring bank operations and capital to new entities, as well as restructuring costs” said Philippe Morel, senior partner at BCG, in the report.

Article can be found at: http://www.marketwatch.com/story/the-brexit-bill-for-uk-banks-up-to-17-billion-warns-financial-industry-group-2017-07-03

Upbeat outlook, investor inflows lift emerging market first half debt issuance

Reuters

An improving economic backdrop and yield-hungry investors helped lift hard-currency debt sales from emerging market governments and firms to fresh heights in the first six months of 2017.

Bond sales from corporate and sovereign issuers across developing nations have risen to just over $355 billion in the first six months of 2017 -- the strongest half year performance in at least 10 years, according to Thomson Reuters data.

All global regions saw an increase in both the volume and amount of deals, the data showed, with issuers in the Asia-Pacific region making up nearly 50 percent of all debt sales.

"It's an alliance of convenience," said Michael Power, a strategist at Investec Asset Management. "Emerging markets want to borrow and on the other side are people who want the yield."

Fund managers, faced with low interest rates across much of the developed world, have been ploughing money into emerging markets for months, at levels similar to those seen during the so-called commodity super cycle.

Yet the prospect of policymakers in the developed world hiking interest rates or withdrawing stimulus has also prompted issuance, said Patrick Esteruelas at Emso Asset Management.

"It makes sense to lock in long-term funding at favourable rates," said Esteruelas, adding the threat from U.S. President Donald Trump's reflationary policies had contributed to the mix.

Issuance from emerging market governments, which account for around a third of debt sales, is expected to continue at a fast pace, said JPMorgan in its emerging market outlook sent to clients earlier in the month.

Egypt sold $3 billion in May -- twice as much as expected -- following a five-year hiatus after the Arab Spring uprising. Argentina surprised markets with a 100-year issue in June, of which it sold $2.75 billion just over a year after emerging from its latest default.

JPMorgan, which runs the most widely-used emerging debt indexes, expects total sovereign debt issuance from developing countries to amount to $143 billion in 2017, compared to just under $130 billion last year.

It estimated corporate debt issuance across emerging markets would amount to $380 billion in 2017, with just over $208 billion already issued by early June.

Article can be found at: https://www.reuters.com/article/us-emerging-debt-idUSKBN19L2MG

Implications for Egypt:

World economic conditions point to a mixed economic performance, with fundamental changes affecting the EU's cohesion after Brexit. There is also a surge in critical criticism of central banks' monetary policies because of rising asset prices while not seeking to support real economic growth.

Addressing problems currently facing the Egyptian economy requires sustainable industrial development under an economic strategy to replace imports and increase exports. Signs of this strategy is currently evident in the development and financing of small and medium enterprises, and the establishment of integrated manufacturing agricultural complexes as part of the one million and a half fedden project, accompanied by complementary reforms in the other economic fields to remove barriers to export and investment through real economic reform.

It is also 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 key economic sectors that wish to attract foreign investment, especially in high-tech fields. This requires a revisiting of the intellectual property protection law applied in Egypt. It is also important to the links between foreign and domestic investments by encouraging the formation of partnerships, especially with SMEs, which contributes to the transfer of technology to local companies, including the latest management practices.

From the International Press

BIS Calls on Central Banks to Hike Rates

Asharq Al-Awsat

The Bank for International Settlements called on the world's major central banks to increase interest rates.

Turbulences in global financial markets will need to be tackled along the way.

The BIS, which is a banking body for leading central banks said in one of its most upbeat annual reports for years that global growth may be seen on long term average levels after sentiment improved last year.

Although risk remains due to growing debt levels and low productivity growth, the BIS stated that policymakers should utilize "the improving economic outlook and its surprisingly negligible effect on inflation to accelerate the "great unwinding" of quantitative easing programmes and record low interest rates.

The bank is thus contradicting the views of the International Monetary Fund, which called for more lending to increase liquidity and increase inflation.

"Since we are now emerging from a very long period of very accommodative monetary policy, whatever we do, we will have to do it in a very careful way," BIS's head of research, Hyun Song Shin, told Reuters.

Good communication from central bankers will be important, but even more crucial is the need for banks to be strong enough to cope with any turbulence.

The BIS identified four main risks to the global outlook in the medium-term.

A sudden flare-up of inflation, which forces up interest rates and hurts growth, financial stress linked to the contraction phase of financial cycles, a rise in protectionism and weaker consumption not offset by stronger investment.

The BIS’s financial results, which were also published on Sunday, showed the Swiss-based bank had made a net profit $1.124 billion over the year to March 31 and had a balance sheet worth $329 billion.

Developed economies continued to grow during the current fiscal year, with unemployment falling to full employment in some cases and the risk of deflation easing.

There are clear signs that growth has gained momentum, said the bank's report, which is owned by 60 central banks around the world**.**

Article can be found at: **https://www.reuters.com/article/us-cenbank-bis-report-idUSKBN19G0EX**

Implications for Egypt

According to Egyptian research institutions, raising interest rates will increase the burden of interest on the budget. Interest payments constituted more than one third of the state's expenses, a burden that the budget cannot afford with the increasing need to control the deficit. Higher interest rates mean higher cost of government borrowing, which directly affects the budget deficit. Moreover, current economic conditions cannot afford high interest rates to continue for a long time. Inflation, even with higher rates, as expected under the structural reforms, fuel subsidy cuts, and the re-pricing of many products, including medicines, are mainly driven by cost rather than higher demand for goods and services or higher disposable incomes. Thus, the ability of high interest rates to limit this type of inflation remains limited and interest rates must be revisited.

Therefore, it is necessary for the Central Bank of Egypt (CBE) to launch an intensive awareness campaign for a program to provide low cost financing for the purchase of machinery and capital equipment, while expanding the base of the program to include the development and modernization of current production capacities. If CBE does not take strong steps in this direction, the pressures on producers and the inflationary effects on consumers will be increased, which is contrary to the objective of the decision to raise the interest rate that should be accompanied by a package of policies.

It is also important in light of the current developments to revisit the restrictions imposed on the contribution of banks in the capitals of new companies, which limits the diversification of the financing process in the domestic market. It should be taken into account that despite higher interest rates and their impact on the cost of financing in the manufacturing sector, inflation rates exceeding interest rates indicate that the recent increase approved by the CBE should not be a justification for any possible price increases of products in the Egyptian market over the coming period.

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Special Analysis

Migrant Flows Exceed Official Assistance and Direct Investment

IFAD, New York

The amount of money migrants send to their families in developing countries has risen by 51 per cent over the past decade - far greater than the 28 per cent increase in migration from these countries, according to a new report released by the International Fund for Agricultural Development (IFAD) today.

Sending Money Home: Contributing to the SDGs, One Family at a Time is the first-ever study of a 10-year trend in migration and remittance flows over the period 2007-2016. While the report shows that there have been increases in sending patterns to almost all regions of the world, the sharp rise over the past decade is in large part due to Asia which has witnessed an 87 per cent increase in remittances.

Despite the decade-long trend, Gilbert F. Houngbo, President of IFAD, said the impact of remittances must first be viewed one family at a time. “It is not about the money being sent home, it is about the impact on people’s lives. The small amounts of $200 or $300 that each migrant sends home make up about 60 per cent of the family’s household income, and this makes an enormous difference in their lives and the communities in which they live.”

More than 200 million migrant workers are now supporting an estimated 800 million family members globally. It is projected that in 2017, one-in-seven people in the world will be involved in either sending or receiving more than US$450 billion in remittances. Migration flows and the remittances that migrants send home are having large-scale impacts on the global economy and political landscape.

Total migrant worker earnings are estimated to be $3 trillion annually, of which approximately 85 per cent remains in the host countries. The money migrants send home averages less than one per cent of their host country’s GDP.

Taken together, these individual remittances account for more than three times the combined Official Development Assistance (ODA) from all sources, and more than the total foreign direct investment to almost every low- and middle-income country.

“About 40 per cent of remittances - $200 billion – are sent to rural areas where the majority of poor people live,” said Pedro de Vasconcelos, the manager of IFAD’s Financing Facility for Remittances and lead author of the report. “This money is spent on food, health care, better educational opportunities and improved housing and sanitation. Remittances are therefore critical to help developing countries achieve the Sustainable Development Goals.”

Transaction costs to send remittances currently exceed $30 billion annually, with fees particularly high to the poorest countries and remote rural areas. The report makes several recommendations for improving public policies and outlines proposals for partnerships with the private sector to reduce costs and create opportunities for migrants and their families to use their money more productively.

“As populations in developed countries continue to age, the demand for migrant labour is expected to keep growing in the coming years,” said de Vasconcelos. “However, remittances can help the families of migrants build a more secure future, making migration for young people more of a choice than a necessity.”

Other key findings from the Report:

- Remittance flows have grown over the last decade at a rate averaging 4.2 per cent annually, from $296 billion in 2007 to $445 billion in 2016.
- One hundred countries receive more than $100 million in remittances each year.
- It is projected that an estimated $6.5 trillion (at no growth) in remittances will be sent to low- and middle-income countries between 2015 and 2030.
- The top ten sending countries account for almost half of annual flows, led by the United States, Saudi Arabia and the Russian Federation.
- Eighty per cent of remittances are received by 23 countries, led by China, India and the Philippines.
- Asia receives 55 per cent of all remittance flows.

The report is released ahead of the International Day of Family Remittances commemorated annually on 16 June. Its analysis and recommendations set the stage for discussions at the Global Forum on Remittances, Investment and Development 2017 on 15-16 June at UN Headquarters in New York.

Implications for Egypt:

Despite relative growth in remittance flows to Egypt, it should be borne in mind that liberalization of the exchange rate has managed to direct cash flows to the official banking sector. Comparing Egyptians’ remittances on a monthly basis shows that growth rates in remittances are relatively slowing down, and witnessed a slight decline in April.

In light of the above, there is a need for the Egyptian Central Bank to develop a strategy to activate the branches of Egyptian banks worldwide, or other foreign banking institutions abroad with a view to attracting the savings and remittances of Egyptians abroad. The aim is to make sure they are not brought in by illegal means, and prevent the creation of a parallel transfer market by exchange bureaus and different foreign entities that may target the national economy. It is also important to abolish fees slapped on remittances from Egyptians abroad to encourage their inflows. It is also necessary to sign agreements with Arab countries with a large Egyptian workers’ presence to tighten control on illegal transfer operations.

The launch of the new phase of Beit Al Watan land sales for Egyptians abroad should be accelerated to encourage remittances from Egyptians abroad, especially as they are expected to be negatively affected by global economic developments and slow economic growth, particularly in the Gulf region.

Global Financial Market Performance

Argaam/ Reuters

Chinese shares rose at the end of trading for the third session, and recorded gains for the third week in a row, coinciding with the G20 summit attended by the President of the country, " Xi Jinping".

At the end of the session, the Shanghai Composite Index rose 0.15 percent to 3217 points, and recorded weekly gains of 0.8 percent.

These gains came after stocks managed to reverse on Friday after falling as investors worried about state efforts to reduce corporate debt and poor liquidity.

Chinese stocks usually post gains during international events involving senior state leaders, as government funds are believed to be stepping in to support the market at this time.

On the other hand, the People's Bank of China (CBB) canceled open market operations, a major liquidity injection tool, scheduled for Friday for the 11th session in a row.

Japanese stocks fell at the end of the session, recording weekly losses, despite the decline of the yen against the dollar, and with investors' fears of tightening monetary policies around the world.

At the end of the session, Japan's Nikkei fell 0.30 percent to 19929 points, with a weekly loss of 0.5 percent, while TOPIX dropped 0.50 percent to 1,607 points.

This coincided with the Bank of Japan's offer to buy an unlimited amount of 10-year government bonds against a 0.110 percent rate of return, as well as increase its purchases of 5-10 year bonds through auctions to 500 billion yen from 450 billion yen.

US stocks rose on Friday following the release of the monthly employment situation report amid investor optimism about the strength of the country's labor market, with major indexes posting weekly gains.

The Dow Jones Industrial Average rose 94 points to 21414 points, while NASDAQ rose 63 points to 6153 points, and the broader S & P 500 index rose 15 points to 2425 points.

On a weekly basis, the Dow Jones gained 0.3 percent, and NASDAQ gained 0.2 percent, while the S & P 500 gained 0.1 percent.

In European markets, the Stoxx Europe 600 fell less than 0.1 percent or 0.2 points to 380 points, but posted 0.2 percent in weekly gains.

Britain's FTSE 100 rose 13 points to 7351 points, while the German DAX rose 7 points to 12,388 points, and France's CAC fell 7 points to 5145 points.

On the other hand, gold futures for August delivery fell by 1.1 percent or $13.60 to $1209.70 an ounce. The yellow metal recorded about 2.6 percent in losses this week.

In the oil markets, the US NYMEX fell 2.8 percent or $1.29, closing at $44.23 a barrel, recording a weekly loss of 3.9 percent. Brent fell 2.9 percent or $1.40 per barrel to close at $46.71 a barrel, recording losses of 4.2 percent this week.

The monthly employment situation report showed the US economy added 222,000 new jobs in June, compared with expectations of an additional 180,000, while the unemployment rate rose to 4.4 percent from 4.3 percent.

Implications for Egypt:

A report by the Office of Strategic Studies at ADS Securities indicated that the fate of the US dollar stands between the direction of the US Federal Reserve, which it has become clear will raise interest rates, and the policy of US President, which calls for a weak dollar to implement his programs.

The report pointed out that the G20 summit will be more specific in this regard, especially that Trump insists on considering serious solutions during the summit to address his country's trade deficit, which exceeded $700 billion dollars annually. The position of the dollar against the major currencies may be a key focus in the debate as a solution to reducing the deficit.

The report said the US Federal Reserve appears to be conducting monetary policy in isolation from the administration's demands for a weak dollar, perhaps waiting for the actual start of the programs, as the picture will then be clearer.

The Egyptian Stock Exchange witnessed gains of EGP 13.4 billion during the week. The market capitalization of listed companies reached EGP 700.8 billion compared to EGP 687.4 billion during the previous week, an increase of 2 percent.

The weekly report of the Egyptian Stock Exchange noted that performance of the main and secondary market indices varied during the week. EGX30 fell by 0.19 percent to 13,370 points, while EGX70 rose 3.76 percent to reach 674 points. The broader EGX-100 index also rose, adding about 2.47 percent to its value to reach 1546 points, while EGX-20 fell by 1.72 percent to reach 12114.

The report pointed out that the total value of trading during the week reached about EGP 4.5 billion, while the volume of trading amounted to 1.122 shares via 107 thousand operations compared to a total value of one billion pounds and a volume of 175 million shares via 22 thousand operations during the past week.

With regard to the Nile Stock Exchange, the report showed that it registered a trading value of EGP17.4

million and a trading volume that amounted to 12 million shares via 1200 operations during the week. The stock market accounted for 86.17 percent of the total value of trading inside the exchange, while the value of bond trading accounted for about 13.83 percent during the week.

The report noted that Egyptians accounted for 74.64 percent of total market transactions, while non-Arab foreigners accounted for 15.58 percent and Arabs for 9.79 percent after excluding deals. Non-Arab foreign investors recorded net purchases of EGP 239.48 million during the week, while Arabs recorded net sales of EGP 60.79 million, after the exclusion of deals.

It is worth noting that non-Arab foreign investors recorded net purchases of EGP 7.154 billion since the beginning of the year, while Arabs posted net purchases of EGP 68.96 million during the same period after excluding deals.