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ECES
The Egyptian Center for Economic Studies

Our Economy & the World

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

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- **From the International Press: The deficit of trade in goods in the Arab countries rises to $66 billion**
- **Special Analysis: Here's what central banks may do in the rest of 2017**
- **An Analysis of Global Financial Market Performance and Changes in Prices of Goods and Raw Materials**

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Key Global Developments

France says Europe should make U.S. companies pay fair share of taxes

Reuters

Time has come for the European Union to make multinationals, such as U.S. giants Amazon, Facebook and Google, pay their fair share of taxes, the French Finance Minister, Bruno Le Maire, said.

Bruno Le Maire statements were at a conference in the southern French city of Aix-en-Provence where many French and international executives gather every year.

The minister said France could cut taxes and public spending at the same time, and that his country struggles to reduce the budget deficit to below 3 percent of economic output, which is set by the European Union.

Le Maire said no final decision had been made on the timeframe for tax cuts pledged by President Emmanuel Macaron during his election campaign, suggesting there could be a change in the decision to postpone cuts announced by the French prime minister last week.

Prime Minister *Édouard Philippe* said earlier this week that the implementation of Macaron's costly financial measures, including wealth tax exemptions and a single tax on capital income, would start in 2019 rather than 2018 as previously planned.

OPEC: Oil Pact Monitors Won't Discuss Further Cuts

Asharq Al-Awsat

OPEC said that the ministerial committee monitoring an OPEC-led pact on cutting oil production will not discuss the possibility of further cuts at its regular meeting on July 24 in Russian city of Petersburg.

OPEC Secretary General Mohammad Barkindo, who was speaking to journalists in Istanbul before the World Petroleum Congress, said such discussions would be premature.

The Joint OPEC-Non-OPEC Ministerial Monitoring Committee (JMMC), set up to monitor the global deal on oil output curbs, meets on July 24 in the Russian city of St Petersburg. The committee was formed by OPEC members and others to follow up on the global agreement on oil cuts.

Russian Energy Minister Alexander Novak said last week that Moscow was ready to discuss proposals, including amending the agreement if necessary

The Organization of the Petroleum Exporting Countries and its allies, such as Russia, agreed to cut output by about 1.8 million barrels per day (bpd) from January 2017 until the end of March 2018 to reduce bloated inventories and prop up prices.

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But oil prices have fallen since May, as oil production from the United States and other producers not bound by the pact has risen. Oil output from two OPEC members, Nigeria and Libya, both exempt from the limits, has also climbed.

Electricity investment overtakes oil and gas for the first time ever, IEA says

Reuters

International Energy Agency said that investment in the electricity sector exceeded oil and gas investments for the first time ever in 2016 due to the spike in spending on renewable energy and electricity networks and the decline in crude oil prices.

The agency said that total energy investment fell for the second year in a row, falling 12 percent to $1.7 trillion from 2015. Oil and gas investments fell 26 percent to $650 billion in 2016, while electricity generation investments fell 5 percent.

IEA chief economist Lazlo Farrow told reporters that the decline (in energy investments) is due to two reasons:

The reaction of oil and gas industry to the long-term decline in oil prices, which has been a period of sharp investment cuts, and the technological advances, which reduce the cost of investment in electricity from renewable sources and in oil and gas.

According to the IEA report, investments in oil and gas are expected to rise modestly by 3 percent in 2017 due to a 53 percent increase in US shale oil investments and spending by Russia and the Middle East.

Electricity investments around the world reached $718 billion, backed by increased spending on networks, offsetting the decline in investments in electricity generation.

The report added that investing $297 billion in renewable energy remains the largest spending in the electricity sector, despite a 3 percent decline.

According to the IEA, although renewable energy investment has fallen 3 percent from five years ago, investment in generation capacity has grown 50 percent. The projected output of renewable energy is up 35 percent due to lower unit costs and technological advances in solar and wind power.

١٤٠ million youth are unemployed in the MENA

Al-Youm Al-Sabe'

According to a report by a conference on Youth and Employment in the Middle East and North Africa (MENA) , there are about 140 million youths (males and females) aged 15-29 unemployed in the Mediterranean region, representing about 20 percent of the population.

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This percentage represents a large reservoir of untapped human resources with the highest unemployment rate in the world among young men and women. The report noted that employment in the private sector is undeveloped, while the civil service is more attractive, so the promotion of job creation and employment is necessary to integrate youths.

According to the report a robust investment climate and an active private sector are prerequisites for a vibrant economy that reduces the current pressure on the state to ensure employment through unsustainable expansion of the civil service,.

In order for private sector jobs to be competitive, they should provide competitive salaries and social guarantees. Thus, labor market regulations that encourage youth employment and effective social insurance systems are essential elements of growth and partnership.

In addition, countries in the Middle East and North Africa need to move gradually to knowledge-based economies because knowledge is a key driver of productivity and economic growth.

May says several G20 members want ambitious trade deals with UK

Reuters

Leaders from several members of the Group of 20 economic powers expressed a "strong desire" to forge "ambitious new bilateral trading relationships" with Britain after it leaves the European Union, British Prime Minister Theresa May said.

Speaking at the end of a G20 summit in Hamburg, May said: "Some of the countries I've been talking to here have shown great interest in working with us on trade arrangements in the future - the United States, Japan, China, India."

Turning to the Paris accord aimed at combating climate change, she added: "Like other world leaders here, I am dismayed at the U.S. decision to pull out of the Paris agreement and I've urged President Trump to rejoin the Paris agreement."

$57.4 billion of debt issues in the Middle East

Al-Arabiya Net

According to Thomson Reuters' quarterly report on investment banking in the Middle East, investment banking fees in the Middle East amounted to $462.1 million during the first half of 2017, a decrease of 15 percent from the same period last year.

Commissions for debt issues amounted to $136.9 million, up 88 percent from the same period last year, the lowest value recorded in the first half since the beginning of data issuance in 2000.

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Nadim Najjar, Managing Director, Middle East and North Africa, Thomson Reuters said that equity capital markets fees increased 36 percent to $39.7 million. Fees generated from completed M&A transactions totalled $98 million, a 20 percent decrease from last year and the lowest first six month total since 2012. Syndicated lending fees declined 41 percent year-on-year to $187.6 million, a three year low.

Middle Eastern equity and equity-related issuance totalled $1 billion during the six months of 2017, a 72 percent decline year-on-year and the lowest annual start for issuance in the region since 2004.

Five initial public offerings raised $603.3 million and accounted for 60 percent of first half ECM activity in the region. Dubai-based oil and gas production services firm ADES International Holding raised $243.5 million on the London Stock Exchange in May, the largest IPO in the region so far this year. Follow-on offerings accounted for the remaining 40 percent of activity. The National Bank of Kuwait took first place in the H1 2017 Middle Eastern ECM ranking with a 24 percent market share.

Bolstered by Saudi Arabia's $9 billion international Islamic bond in April and Kuwait's $8 billion debut international bond sale in March, Middle Eastern debt issuance reached $57.4 billion during the first half of 2017, 53 percent more than the proceeds raised during the same period last year and by far the best annual start in the region since records began in 1980.

Saudi Arabia was the most active nation in the Middle East accounting for 21 percent of activity by value, followed by Kuwait with 18 percent. International Islamic debt issuance increased 50 percent year-on-year to reach $31.4 billion so far during 2017.

JP Morgan took the top spot in the Middle Eastern bond ranking during the first half of 2017 with a 13.4 percent share of the market, while HSBC took the top spot for Islamic DCM issuance with a 12.3 percent share.

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Implications for Egypt:

Global economic conditions are moving towards a short-term fluctuation until there is certainty about the vision for the new economic policies backed by President Trump to revitalize and support the US economy in a way that could affect other economies.

The global economic situation indicates increased investment in risk assets, which provides more space for major challenges, starting from possible transmission of global volatility to regional markets or the occurrence of changes in local currencies' prices, especially those pegged to the dollar. In addition, oil prices' volatility may impact the investment appeal of emerging economies in particular.

Recent figures in Egypt highlight initial results of the economic reform program, which is a short term progress in light of the many changes surrounding timing of the program and the related structural measures. The current challenges have been apparent for long, and their effects have been measured since the preparation of this program, which necessitates the continuation of fiscal consolidation and adopting integrated policies to stimulate investment, boost economic growth rates and increase foreign exchange flows. This should coincide with social security networks and restructuring of the internal trade system to minimize the impact on low-income people.

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From the International Press

Deficit of trade in goods in the Arab countries rises to $66 billion

Alhayat

According to a report by the Arab Investment and Export Credit Guarantee Corporation (Dhaman), deficit in the balance of trade in goods and services in the Arab countries rose from $60.3 billion in 2015 to $66.4 billion in 2016, as well as its share of Arab output from 2.4 percent to 2.7 percent.

This can be Attributed to many reasons, most notably the continued decline in oil prices in world markets, which led to a decline in the value of exports of Arab goods to $740.2 billion.

Dhaman Director General Fahad Rashid Al-Ibrahim said that the geographical concentration of 10 Arab countries dominating more than 92 percent of the total foreign trade of the Arab countries, including two countries that held more than 52 percent of the total in 2016 continued.

He pointed out that trade in goods represented about 77 percent of total trade in the Arab countries on average between 2014 and 2016. However, the control of raw materials, which include agriculture products, fuel and mining over exports declined in the same period.

According Dhaman quarterly report, which was based on national and international data, Arab manufacturing exports increased to $234 billion, while their share of world total exports rose to 2 percent. Exports of agricultural products also increased to $33.4 billion (2.1 percent of the world total in 2015).

Regarding the largest exporters of manufactured products in terms of value, the performance of the UAE, Saudi Arabia and Morocco excelled, while in terms of ratio to output Tunisia came first followed by Jordan then Morocco.

The report noted that Arab intra-trade made a remarkable growth of 9.7 percent from $133.6 billion in 2014 to 146.6 billion in 2015. Data revealed the disparate impact of trade agreements and regional arrangements, particularly those of the GCC, which had a trade volume of about $75.3 billion. The share of GCC countries of Arab intra-exports reached about 84 percent, while their share of Arab intra-imports was 58 percent in the same year. Thus, their total contribution is estimated at about 71 percent of Arab intra-trade, despite the similarity of their economies, output structure and trade.

On the other hand, the volume of intra-trade between the five Maghreb countries amounted to $3.6 billion, so their contribution did not exceed 8 percent of Arab intra-imports and 2.5 percent of Arab intra-exports, despite the diversity of their economies, output structure and trade.

Dhaman conveyed wishes that its services in the area of export credit and imports of capital and strategic goods in the Arab countries would contribute to the growth of Arab exports, in line with international

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expectations of the growth of Arab countries' trade in goods and services to $2135 billion this year and $2220 billion in 2018.

It stressed its interest in foreign trade, as a way to dispose surplus production and increase the balance of foreign exchange. It is also an indicator of the productive and competitive ability of countries in world markets and the growing challenges facing the Arab region on the commercial level.

Implications for Egypt:

The decline in imports in Egypt is mainly related to the restrictive measures taken by the government and the banking system to limit the growth of imports, which was not a purpose in itself but was necessary to stimulate the local industry and reduce the depletion of dollar resources. In light of the recent actions taken by the government or the Central Bank of Egypt, it has become necessary to conduct a thorough sensitivity analysis of the effects of changes in the exchange rate on export indicators and on the cost of imports, which have yet to appear in full. It is likely that recent changes in the exchange rate will improve Egypt's competitiveness. However, it must be taken into account that many procedures are still increasing the cost of Egypt's foreign trade transactions, especially with regards to exporting. Therefore, it is necessary to address such procedures to boost export growth, such as facilitating licensing, customs clearance procedures, and tax administration, in addition to reducing the cost of financing deals and the number of required procedures and approvals.

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

The devaluation of the Egyptian pound will not solely achieve the expected effect of increasing exports' competitiveness given the high imported components in the Egyptian products. Therefore, reducing trade deficit requires expanding the production base and improve the quality of Egyptian products, whether to cover the domestic market needs and face competition in local markets, or to increase the local component in Egyptian exports and increase their competitiveness.

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Special Analysis

Here's what central banks may do in the rest of 2017

CNBC

We've entered the second half of the year and with it new rhetoric from central banks.

Since the crisis, the top 50 central banks in the world cut interest rates over 700 times, making an average of one interest rate cut every three trading days, Alex Dryden, global market strategist at JPMorgan Asset Management, told CNBC in an email.

"After nearly a decade, growth is beginning to pick up across all major regions. The synchronized upswing in international economies has seen global equities rally by 14.7 percent since October 2016. But with a healthier diagnosis for the global economy, central bankers are beginning to wean the patient off the ultra-loose monetary policy medicine," he added.

As talks on rate hikes beyond the U.S. emerge, CNBC takes a look at what the Bank of England, the European Central Bank and the Bank of Japan are likely to do this year.

Bank of England – 40% chance of a rate hike this year

Rising inflation is increasing pressure on the Bank of England (BoE) to tighten its policy despite elevated political concerns.

Kallum Pickering, senior U.K. economist at Berenberg, said in a note on Wednesday that "unless the BoE begins to tighten its monetary policy soon, (inflation) will overshoot its 2 percent inflation target even after the current, temporary sterling-driven inflation has passed."

Pickering points to a first rate hike of 25 basis points in the first quarter of next year but "with risks tilted toward a hike sooner."

"We see a 40 percent chance of a rate hike before this year is over. If the BoE hikes this year, it is more likely to happen at the November Inflation Report rather than the August Inflation Report," he added.

Analysts at Barclays also said that the chances of a rate hike in November have increased, but central bank officials will be heavily influenced by upcoming data releases.

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"We still believe the cost of an early hiking mistake outweighs the cost of a late hike," the bank said in a note.

European Central Bank – tapering decision in the making

The European Central Bank (ECB) might have sent a few contradictory statements, but analysts are confident that monetary easing will be slowly reduced throughout 2018 with an announcement in the September or October meeting.

"We expect that the ECB Council will announce a tapering decision at its September meeting, or in October at the latest," Michael Schubert, senior economist at Commerzbank, told CNBC via email. He added that tapering is likely to start in January of next year and it will probably last a year, until December 2018.

Despite a consensus over an announcement on tapering, analysts seem divided on the timing of the first hike.

"We feel that the first deposit rate hike is further away than markets are currently pricing in. We have the first deposit rate hike penciled in for early 2019," Elwin de Groot, senior market economist at Rabobank, told CNBC last week. According to Reuters, 90 percent of currency traders expect a rate hike in the first half of next year.

Bank of Japan - too early to move

"The Bank of Japan is still pulling out all the stops to try to raise inflation," David Stubbs, global market strategist at JP Morgan Asset Management, told CNBC.

"For now, despite very low unemployment and improved confidence, inflation remains well below their 2 percent target, suggesting that they need to continue to do what they can to push growth and inflation upward. The global deflationary environment, and the structural challenges that Japan faces with an aging population and high debt levels, suggests that it will likely be difficult for the Bank of Japan to hit its inflation target any time soon. It is therefore no surprise that market pricing suggests we will not see an end to the negative rate policy until at least 2020," he added.

Federal Reserve - one more US rate hike this year even if Ivanka Trump becomes the next chair

It's the first of the four major central banks tightening its policy as the U.S. economy has improved since the 2008 financial crisis. Analysts believe that there will be another rate hike before or in December, the third this year.

Paul Donovan, global economist at UBS Wealth Management, told CNBC: "The Fed is locking itself into a long-term strategy and then even if we get Ivanka Trump as head of the Fed next year, they've got a long-term quantitative policy exit strategy, which would be really difficult to overturn."

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According to Nick Gartside, International CIO of Fixed Income at JP Morgan, the "Fed is smart to go now, as continued purchasing by the Bank of Japan and the European Central Bank cushions its actions."

Implications for Egypt:

Egypt's monetary policy suffers from exceptional pressures due to the problems facing the Egyptian economy—a fact that limits opportunities in making progress in monetary instruments in isolation from structural changes in fiscal and economic policies. Hence, the strategy announced by Central Bank of Egypt is an initial step in the reform of monetary policy and integration thereof with fiscal and monetary policies, especially with the establishment of the coordinating council of fiscal and monetary policies, which should play a structural role in regulating the economic process and leading reforms in key sectors. This would lead to steps and strategies that would reduce imports, increase local currency fundraising, boost investment and increase exports.

The Central Bank also needs to develop a program to address the financial troubles that began in the wake of the global financial crisis in 2009 and that increased following the 25th of January Revolution. This will unlock new economic and developmental capabilities and revive economic growth through reactivating capitals and complex investment assets. Various estimates of the size of idle investments reflect the impact on economic growth if monetary and economic policies are supported to end the current financial troubles.

The Central Bank of Egypt should also launch an intensive campaign to provide low-cost financing for the purchase of machinery and capital equipment. The scope of the program should also be extended to include the development and modernization of current production capacities. Absent steps in this respect will increase the pressure on producers and inflationary effects on consumers, which is contrary to the objective of the decision to raise the interest rate, which should be accompanied by a package of policies.

Meanwhile, the reports of Egyptian research institutions noted that the increase in interest rates would lead to a rise in the interest burden on the state budget. Interest payments constituted more than one third of the state's expenditure—a burden that the state budget cannot bear in light of the increasing need to control the budget deficit. Hence, the interest hike is tantamount to a rise in the cost of government borrowing, which directly contributes to the budget deficit. The current economic situation is not likely to tolerate the rise in interest rates for a long time. Inflation, although rising, is an expected matter under structural reforms. Raising the price of many fuel products and repricing many products are mainly driven by cost rather than higher demand for goods and services or increased disposable incomes. Thus, the ability of high interest rates to limit this type of inflation remains limited, and interest rates should be revised.

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Global Financial Market Performance

Argaam/ Reuters

Chinese equities closed Friday trading slightly higher, with emerging-market stocks hitting their worst weekly performance since July 2016 as investors turned to big companies.

The ChiNext index of emerging technology companies fell by 4.9 percent this week as expectations of a large profit in the first half fell.

At the end of the session, the Shanghai composite index rose slightly by 0.13 percent to 3222 points.

During the week, banking stocks outperformed the market as a whole, rising 5.1 percent thanks to improved bank profitability amid stable economic growth.

China recorded a more-than-expected rise in trade in June, backed by global demand for Chinese goods. In a Reuters poll, economists expect China's economic growth to reach 6.6 percent this year, reaching the government's target of 6.5 percent.

Most Asia's stock markets continued their gains on Friday, marking the best weekly performance since March despite Federal reserve Chair Janet L. Yellen's remarks on US interest rate.

Chief Asia Market Strategist at JP Morgan Funds Tai Hui said that Asian markets have made good progress despite Yellen's remarks and recent concerns about US President Trump.

At the end of trading, Japan's Nikkei rose slightly by 0.09 percent to 20118 points, while TOPIX rose 0.39 percent to 1625 points.

US stocks rose on Friday, backed by the technology and energy sectors, as oil prices rebounded, with major indexes posting weekly gains, with Dow Jones and S & P making record closing.

The Dow Jones Industrial Average rose 84 points to 21637 points, while NASDAQ rose 38 points to 6312 points, and S & P 500 index rose 11 points to 2459 points.

On a weekly basis, the Dow Jones gained 1 percent and NASDAQ posted a gain of 2.6 percent, the biggest this year, while S & P gained 1.4 percent.

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In European markets, STOXX Europe 600 fell less than a single point to close at 386 points, gaining weekly gains of 1.6 percent.

Britain's FTSE 100 fell 35 points to 7378 points, the French CAC fell 0.1 points to 5235 points, and Germany's DAX fell 9 points to 12,631 points

On the other hand, gold futures for August delivery rose 0.8 percent or $10.20 to $ 1227.50 per ounce. The precious metal posted weekly gains of 1.5 percent.

In the oil markets, the US NYMEX rose 1 percent or 46 cents to close at 46.54 dollars a barrel, achieving weekly gains of 5.2 percent, while Brent "benchmark" rose by 1 percent or 49 cents, and closed at 48.91 dollars per barrel, achieving gains this week by 4.7 percent.

In terms of economic data, US consumer price index stabilized in June. Retail sales fell 0.2 percent over the same period, while industrial production rose 0.4 percent.

Implications for Egypt:

A report by the Office of Strategic Studies at ADS Securities said the US labor market is the main driver and safety valve of economic growth. It is also the main reason behind the Fed's policy of raising interest, despite market perception of the Fed Chairman's remarks as negative as they stop short of clarifying the path of hiking the interest rate.

The report noted that the Brexit negotiations are approaching the serious phase, as competition is becoming more intense on the acquisition of the financial market from London. Competition is particularly intense between Paris and Frankfurt to host the euro clearing house (Euro Clearing), which is to be moved from London. The report pointed out that the G20 meeting showed the renewed strength of Europe after the strategic alliance between Merkel and Macaron, where the German Chancellor took the spotlight during the summit as a major influence in the new global system. This supports the euro again, and is consistent with previous reports that indicated that the euro is heading toward a positive course after the emergence of the EU as a strong and coherent state that puts Europe back on the global map.

The Egyptian Stock Exchange continued augmenting its gains for the second week in a row earning about EGP 13 billion, with market capitalization of listed companies reaching LE 713.8 billion compared to EGP 700.8 billion during the previous week, a rise of 1.9 percent. Both main and secondary indices witnessed a collective rise. The benchmark EGX30 rose 3.39 percent to 13823 points, while the SME index EGX70 rose 1.73 percent to 686 points. The broader EGX-100 index rose by about 1.58 percent, reaching 1571 points, while EGX 20 rose by about 0.98 percent to reach 12233.

The weekly EGX report noted that the total value of trading rose during the week, reaching about EGP 6

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billion, while the volume of trading amounted to 1.9 billion shares via 134 thousand operations compared to total value and volume of trading of EGP 4.5 billion and 1.122 billion shares (via 107 operations), respectively, during the previous week. Egyptian Investors accounted for 76.95 percent of total market trading, while non-Arab foreigners accounted for 13.70 percent and Arabs for 9.35 percent after excluding deals. Trading by non-Arab foreign investors recorded net sales of EGP 70.02 million during the week, while the Arabs accounted for net purchases of EGP 193.28 million, after excluding deals.

Non-Arab foreign investors posted net purchases of EGP 7.084 billion since the beginning of the year, while Arabs recorded net purchases of EGP 262.24 million during the same period, after excluding deals. The report also showed that institutions accounted for 44.89 percent of market trading, with individuals accounting for the rest (55.11 percent). Institutions posted net purchases of EGP 40.28 million, after excluding deals.

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