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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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- **An Analysis of Global Financial Market Performance and Changes in Prices of Goods and Raw Materials**

Key Global Developments

China imposes "strict" regulations on trading in the financial market

Reuters

China's central bank said that it would strictly regulate the country's financial market trading and strengthen the regulation of internet finance. Policymakers are looking for control over risks that regulators call “turbulent financial markets”.

The People's Bank of China said in a statement on its website that China will step up coordinated supervision over its systemically important financial institutions and financial infrastructure. The statement came after an internal meeting at the People’s Bank of China.

President Xi Jinping said that People's Bank of China (PBOC) would take on a bigger role in managing risks in the financial market. However, no details on establishing a new Financial Stability and Development Committee were released.

Analysts interpreted the statements about the need to adjust the financial sector as a sign that tightened monetary policy will continue. However, the bank confirmed that it would maintain an appropriate growth of credit and stability of liquidity while reducing the funding costs of the "real" economy.

The bank said it would press ahead with its plan to further internationalize the Chinese currency while maintaining the Yuan’s stable rate at a reasonable level.

The IMF expects global economy to improve as US growth slows

News agencies

The International Monetary Fund announced better global economic performance, but expected a slowing US economy in 2017 and 2018 compared to previous rates.

In its update of April figures, the IMF said that growth in the Eurozone will be better than expected due to improved performance of the Spanish and Italian economies followed by the French and German economies.

The IMF said the recovery in global growth announced in April forecasts is proceeding as expected, with growth expected to rise from 3.5 percent in 2017 to 3.6 percent in 2018. But these projections mask the differences between countries. The US will post lower-than-expected growth on the assumption of reduced budget expenditures. The IMF therefore revised its forecast for US growth from 2.3 percent and 2.5 percent to 2.1 percent for 2017 and 2018.

Global trade and industrial production growth remained higher than 2015 and 2016, although below the high level recorded at the end of 2016 and the beginning of 2017, according to the IMF, which spoke of globally balanced risks.

Saudi Arabia vows to cut oil exports

Reuters

Leading OPEC producer Saudi Arabia pledged to cut exports in August to help establishing a rebalance between supply and demand, which raised prices to offset previous losses.

In a St. Petersburg gathering of the Organization of the Petroleum Exporting Countries (OPEC) and other producers, Saudi Arabic said that OPEC will address weak commitment by some member countries to cut production, and that it will monitor Nigeria's and Libya's increased output (both are exempted from production-cutting deal).

Saudi Energy Minister Khalid al-Falih said that the oil market has turned to a downturn amid fundamental factors driving it. The committee, which comprises Saudi Arabia, Russia, Kuwait, Venezuela, Algeria and Oman, has the power to propose recommendations for other producers engaged in the agreement based on market conditions.

Falih added that the weak level of commitment on the part of some OPEC members, which exceeded 90 percent in June, according to Kuwaiti Oil Minister Essam al-Marzouq, as well as increased exports of the Organization, contribute to lower prices. He added that although commitment to the production-cutting agreement is in place at high levels, some countries still fail to comply, which is a concern that must be dealt with directly. He noted that exports are now essential for financial markets and we need to find a way to bring about a consensus between production data and reliable export data. The issue of increasing Libya's and Nigeria's production will be dealt with in the context of global supply and demand patterns, he said, adding that Nigeria has shown its willingness to limit production at around 1.8 million barrels per day to join OPEC efforts to support crude prices

The US fears acquisitions

Asharq Al-Awsat

A secretive US government panel has objected to at least nine acquisitions of US companies by foreign buyers so far this year, people familiar with the matter said, a historically high number that bodes poorly for China's overseas buying spree.

The objections indicate that the Committee on Foreign Investment in the United States (CFIUS), which reviews acquisitions by foreign entities for potential national security risks, is becoming more risk-averse under US President Donald Trump.

Chinese companies and investors eyeing US assets could face more roadblocks as a result, at a time when the Chinese government is also restricting the flow of capital out of China following a bonanza of Chinese overseas deals.

There have been 87 announced acquisitions of US companies by Chinese firms so far in 2017, the highest on record and up from 77 deals in the corresponding period in 2016.

CFIUS's more conservative stance toward deals coincides with growing political and economic tensions between the United States and China. The two countries failed to agree on major new steps to reduce the US trade deficit with China.

Since the start of the year, CFIUS has sent letters to companies involved in at least nine deals to say they would be blocked based on measures they have proposed to address potential national security risks, the people familiar said.

Many of these deals are in the technology sector, the sources said. A rise in cyber security threats and rapid advances in technology makes it more difficult to establish whether a deal poses any threat, lawyers who represent companies before CFIUS said.

An initial objection by the watchdog does not necessarily kill the deal immediately.

Read the original article at: http://www.businessinsider.com/china-foreign-deals-cfius-2017-7

World needs $94 trillion spent on infrastructure by 2040: report

Reuters

Nearly a fifth of the $94 trillion in global infrastructure investment needed by 2040 risks being unfunded if current spending trends continue, the G20-backed Global Infrastructure Hub said.

To close the spending gap, annual infrastructure spending needs to rise to 3.5 percent from 3 percent of global gross domestic product, the GIH said in a report.

The report details how much each country needs to spend on infrastructure to 2040, which sectors need it the most and how far they are from meeting these needs based on current spending trends.

"We believe this information will be key to governments, and indeed those organizations that fund, plan and build infrastructure projects into the future – and providing sustainable cities with social and economic benefits for all," GIH Chief Executive Chris Heathcote said.

The GIH, set up by the G20 in 2014, aims to help to increase opportunities for public and private investment in infrastructure around the world. It is funded by governments including Britain, Australia, China, Korea and Singapore.

Every year, $3.7 trillion needs to be invested in infrastructure to meet demand - equivalent to the annual economic output of Germany, the world's fourth largest economy.

Read the original article at: https://in.reuters.com/article/global-infrastructure-report-idINKBN1AA1AD

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Report: "zombie companies" in Europe exceed 2009 levels

Mubasher

According to a report by the Bank of America Merrill Lynch, the number of companies on the verge of bankruptcy or the so called "zombie" companies have increased in Europe at higher levels compared to the pre world crisis period.
Zombie is a term used for companies that make losses or are on the verge of bankruptcy but continue to operate, and thus are affected by interest rate increases and are among the biggest beneficiaries of low interest rates.
The report warned against a rapid rate hike, which would in turn affect "zombie companies" that rely on low interest rates.
Barnaby Martin, head of European Credit Strategy at BofA Merrill Lynch, said businesses in Europe, which have benefited from the ECB's corporate bond purchase program, would struggle once the bank raises interest rates, expected sometime in 2018.
The BofA Merrill Lynch said that 9 percent of non-financial European companies in the "Stocks 600" index are zombie companies compared to 6 percent before the global crisis, and 5percent in late 2013.

Implications for Egypt:

Egypt has to take more robust actions through economic reform packages that focus on reducing government expenditure and rationalizing consumption, encouraging certain productive sectors, and revitalizing marginalized investment economic sectors. These actions could help reduce the deficit and improve the economy.
Attention should also be given to the Gulf-Egyptian economic and commercial relations, which are strategic. This requires developing the concept of integration and going beyond the status quo. The establishment of joint economic zones, expanding the scope of bilateral trade agreements and the introduction of new sectors therein such as services, and the establishment of joint industries that are directed to import substitution and dependent on Gulf-Egyptian raw materials will be a basis for developing trade and economic relations over the coming period.

Egypt should intensify attempts to develop the internal economic infrastructure and industrial bases. Real encouragement of manufacturing industrial components by developing small and medium enterprises is recommended. In light of continued global volatility, the prospects of recession and slowing growth rates are increasing. This requires Egypt to stimulate sustainable growth engines that are relatively less affected by the global situation, which will support local economic growth rates.

From the International Press

LNG exports to reach 650 bcm by end of 2022

Reuters

The United States is on track to have capacity to become the world's second largest exporter of liquefied natural gas (LNG) by the end of 2022, just behind Australia and ahead of Qatar, the International Energy Agency (IEA) said.
Overall, global LNG export capacity would reach 650 billion cubic meters (bcm) a year by the end of 2022, compared to less than 452 bcm a year in 2016, the IEA said in its annual report on gas markets.
Of that amount, Australia would have capacity to export 117.8 bcm a year of LNG, followed by the United States with 106.7 bcm a year and Qatar with 104.9 bcm a year, it said.
Australia would stay top by adding 30 bcm a year of capacity by the end of 2022 to its existing capacity, but the United States, which has seen shale gas output surge, would add about 90 bcm a year to its capacity of about 14 bcm a year now.
"By the end of our forecast period, the United States will be well on course to challenging Australia and Qatar for global leadership among LNG exporters," the report said. However, the new LNG capacity is being added to an already well-supplied market, while demand is falling in some of the traditionally large importing nations, such as Japan, it said.
With demand expected to reach 460 bcm a year by 2022, the market would have 190 bcm a year in excess capacity, putting pressure on gas prices and discouraging new upstream investment.
Current low LNG prices are already making it tougher for exporters, and competition is loosening the typically rigid contracts that have dominated the long-distance trade.
"This change will be further accelerated by the expansion of U.S. exports, which are not tied to any particular destination and so will play a major role in increasing the liquidity and flexibility of LNG trade," the IEA said. The IEA report did not assess the impact of Qatar's plans as the extra capacity was expected to be in place after the report's forecast period of 2016-2022, Keisuke Sadamori, the IEA's director of energy markets and security, told reporters.
Overall, the IEA said global gas production would grow faster than oil and coal in the next five years, helped by low price and ample supply, alongside a growing preference for gas because of its lower emissions compared to other fossil fuels.

Global gas demand was expected to rise by 1.6 percent a year to 4,000 bcm in 2022, slightly higher than last year's forecast of 1.5 percent, the IEA said. Most of the expected growth was expected to come from developing countries, led by China.

The United States, the world's largest gas producer, would increase output more than any other country in the next five years, the IEA. By 2022, U.S. production was expected to be 890 bcm, accounting for 22 percent of the total global gas output.

Read the original article at: http://www.reuters.com/article/us-gas-lng-iea-idUSKBN19Y0L1

Implications for Egypt:

Among the factors that qualify Egypt to achieve its goal as a natural gas hub is the existence of infrastructure for the gas sector, such as the liquefaction plant and a large consumption market. This will make any project to develop natural gas production economically feasible according to the Stratfor World View, analyzing information on natural gas in the Mediterranean.

According to preliminary estimates and in light of current circumstances, Egypt is expected to stop importing natural gas starting in 2021, which would represent an important step in easing the pressure on the balance of payments and on Egyptian imports as a whole. In addition, the purchase of gas from the production fields in Egypt is much cheaper than importing it, which will save large funds borne by the state in the importation process, notably the rent of gasification ships, according to experts.

The trend in Egypt over the past years was to export surplus gas. There must be a clear investment plan to exploit and maximize benefits from Egypt's current natural gas resources and link them to projects with value-added that increase the return on the use of natural gas, such as petrochemical industries and fertilizers, while reducing the exports of crude gas. Such exports would represent a waste of opportunities to establish integrated industries based on local raw materials that would provide strategic depth to take advantage of these resources to create jobs, increase industrial exports and speed up the rate of economic growth and development

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Special Analysis

OECD and FAO see slower growth in demand keeping world food prices low

FAO-Rome

Global food commodity prices are projected to remain low over the next decade compared to previous peaks, as demand growth in a number of emerging economies is expected to slow down and biofuel policies have a diminished impact on markets, according to the latest 10-year agricultural outlook published recently by the OECD and FAO.

The OECD-FAO Agricultural Outlook 2017-2026 says that the completed replenishment of cereal stocks by 230 million metric tonnes over the past decade, combined with abundant stocks of most other commodities, should also help limit growth in world prices, which are now almost back to their levels before the 2007-08 food price crisis.

The report foresees per capita demand for food staples remaining flat, except in least developed countries. Additional calories and protein consumption over the outlook period are expected to come mainly from vegetable oil, sugar and dairy products. Growth in demand for meat is projected to slow, with no new sources of demand projected to maintain the momentum previously generated by China.

By 2026, average calorie availability is projected to reach 2450 kcal per person per day in least developed countries, and to exceed 3000 kcal in other developing countries. Food insecurity and malnutrition in all its forms will nonetheless remain a persistent global problem, requiring a coordinated international approach, according to the report.

Future growth in crop production is projected to be principally attained through higher yields - 90 percent of the increase in maize production is expected to come from increased yields and just 10 percent from area expansion. Growth in meat and dairy production, by contrast, is expected to come from both larger herds and higher output per-animal. Milk production growth will accelerate when compared to the previous decade, most notably in India and Pakistan. It is foreseen that aquaculture would dominate growth in the fish sector and farmed fish production will be the fastest-growing protein source among all commodities analysed in the Outlook.

The growth in agriculture and fish trade is projected to slow to about half the previous decade's growth rate, and average less than 2 percent per year in volume terms for most commodities. Nevertheless, agricultural trade is expected to remain more resilient to economic downturns than trade in other sectors. For nearly all commodities, exports are projected to remain concentrated in a few supplying countries, which may imply a greater susceptibility of world markets to supply shocks.

"Real prices of most agricultural and fish commodities are expected to decline slightly over the ten-year Outlook period," OECD Secretary-General Angel Gurría said at the launch event in Paris. "As we have seen in the past, unexpected events can easily take markets away from these central trends, so it is essential that governments continue joint efforts to provide stability to world food markets. It is equally important that we look ahead as we seek to meet the fundamental challenge facing world food and agriculture: to ensure access to safe, healthy, and nutritious food for a growing world population, while at the same time using natural resources more sustainably and making an effective contribution to mitigating climate change."

"The report foresees that the average calorie availability per person per day will increase in least developed countries and in most emerging economies," said FAO Director-General José Graziano da Silva. "But we also know that more food alone is not enough to eliminate undernourishment and other forms of malnutrition. Access to the additional calories is extremely important. More challenging is the fight against malnutrition: Fighting malnutrition requires a diversified, safe and nutritious diet, ideally produced with a lower environmental footprint."

Focus on Southeast Asia

Every year the Outlook contains a special feature, and this year it covers Southeast Asia.

Economic growth has been strong and the agriculture and fish sectors have developed rapidly in the region. The report finds that this broad-based growth has enabled the region to significantly reduce undernourishment in recent years. However, the growth of agriculture and fisheries, in particular in the export-oriented fish and palm oil sectors, has led to rising pressure on natural resources.

A greater focus on sustainable development in Southeast Asia will slow the growth of palm oil production, according to the Outlook. Across the agricultural sector, yields will continue to increase, but cropland is projected to expand by only 10 percent over the next 10 years, compared to 70 percent over the previous decade.

Improved resource management and increased R&D will be needed to achieve sustainable productivity growth across the agricultural sector. Support for rice production could also be reoriented to facilitate the diversification of agriculture. Given the region's sensitivity to climate change, investments to facilitate adaption will be required.

Other findings from the report include:

- Large low-income groups will keep growth in per capita global meat demand at 1 percent over the next ten years, compared to 6 percent increase over the previous decade.
- Per capita demand for sugar is expected to increase more rapidly, at 8.1 percent over the next ten years, compared to 5.6 percent growth over the previous decade.
- India is projected to be the most populous country by 2026. With high and still rising per capita consumption levels for milk, the country is projected to account for 42 percent of the increase in global milk production over the coming decade.
- Biofuel production is projected to grow by 17 percent over the next ten years, compared to a 90 percent increase over the previous decade.

- Yield gains are projected to account for 85 percent of the increase in wheat production and 90 percent of the increase in maize production, keeping the increases in harvested area to 2 percent. By contrast, a 14 percent expansion in soybean area, mainly in South America, is projected, accounting for about 60 percent of the global production increase.
- Fish is projected to account for half of animal protein consumed in China and Southeast Asia by 2026.
- The total production of fish from aquaculture is projected to overtake production from capture fisheries in the middle of the outlook period.

Implications for Egypt:

The strategy of land reclamation should not be limited to expansion of agricultural area, but include the establishment of integrated communities that rely mainly on agricultural products and their manufacture. It should also include the establishment of integrated urban communities as an extension to the old valley without being separate from it. The aim is to overcome a major problem faced by previous experiences of desert agriculture, namely, that separation from old valley dissuaded labor from forming the targeted urban community. Hence, choosing reclamation areas that are near road links to the old valley, especially in Upper Egypt, will help attract workers and farmers to settle in the new areas.

Expansions in agricultural area should rely on: developing new urban communities with an integrated set of services and facilities, opening new horizons for agricultural development, and achieving food security. This should take place through building new communities based on sound agricultural and economic bases and complementary industries, along with opening new horizons for the export of competitive goods and the use of modern technology and automation in agricultural and industrial development.

The most serious challenge facing the success of sustainable agricultural projects is the human resources needed for achieving quality, profitability, competitiveness, and continuity. Preparing those resources is very important, and should be included in the strategic objectives. Hence, the need to design a program for training and rehabilitation as well as to support the establishment of specialized agricultural schools and an agricultural academy in cooperation with international institutions.

The new reclamation and expansion projects should take into account the so-called "water economics" and how to maximize benefits thereof. In light of the current situation facing the water sector in Egypt, it is necessary to form a Higher Committee or a Higher Council to determine Egypt's water policy over the coming 50 years. It is also important to develop the irrigation and drainage systems in Egypt, modernize the current potable water system, develop new alternatives to wastewater treatment, and take advantage of rainwater and underground reservoirs. In other words, it is of the essence that urban expansions be linked to Egypt's water strategy.

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Global Financial Market Performance

Argaam/ Reuters

Chinese stocks rose as the Shanghai Composite Index rose for the sixth week in a row, boosted by an improvement in recent economic data and Beijing's pledge to continue supply-side reforms.

China's economic growth in the second quarter rose more than expected, and the International Monetary Fund said it expected the Chinese economy to grow by 6.7 percent this year.

The government issued a series of measures earlier this year to eliminate speculative financing in the midst of rising debt risks. Beijing is expected to keep these measures at least until the end of the year.

A Chinese economic official said policymakers are ready to sacrifice some short-term economic growth to deal with regulatory risks, according to Reuters.

At the end of the session, the Shanghai Composite Index rose 0.11 percent to 3253 points, and during the week the index rose 0.5 percent.

Japanese stocks fell at the end of trading, despite a combination of strong economic data and the impact of the yen's rise on export stocks.

Consumer prices rose 0.4 percent year-on-year in June, while unemployment fell to 2.8 percent from 3.1 percent in May. Household spending rose 2.3 percent year-on-year last month, after falling 0.1 percent in May.

Sony Shares fell almost 1 percent, while Toshiba fell nearly 8 percent amid speculation that the company is at high risk for its listing on the Tokyo Stock Exchange after the delay in the sale of the memory chip module. Among the most prominent gainers are Hitachi and "Takara" for electronic games, which rose nearly 4 percent, while GS Yousa for manufacturing batteries rose by nearly 3 percent.

At the end of the session, Japan's Nikkei fell 0.60 percent to 19959 points, and TOPIX dropped 0.35 percent to 1,621 points.

US stocks' performance were also mixed on Friday, with the Dow Jones shedding a marginal gain towards a new closing record, while NASDAQ was hit by the weak performance of the technology sector, especially the loss in Amazon shares.

The Dow Jones Industrial Average rose 33 points to 21830 points, while NASDAQ fell 7.5 points to 6,374 points. The broader S & P 500 fell 3 points to 2472 points and, on a weekly basis, Jones gained 1.2 percent, while" S & P "stabilized near the closing level of last Friday. NASDAQ recorded losses this week by 0.2 percent, and Amazon.com (AMZN.O) fell about 2.5 percent to close at $1020 after release of disappointing results for the second quarter.

In Europe, Stokes Europe 600 fell by 1 percent or 4 points to 378 points, with weekly losses increasing by about 3 percent. Britain's FTSE 100 fell by 74 points to 7,368 points, the German DAX fell (49 points) to 12,162 points, while the French CAC fell (-55 points) dropped to 5131 points.

On the other hand, gold futures for August delivery were up 0.7 percent or $8.40 to $1268.40 an ounce, the highest close since mid-last month. The yellow metal gained 1.1 percent this week.

In the oil markets, NYMEX rose 1.4 percent or 67 cents to close at $49.71 a barrel, the highest closing since May 26, posting a weekly gain of 8.6 percent, the largest since December, while Brent rose by 2 percent or $1.03, closing at $52.52 a barrel, and posting weekly gains of 9.3 percent.

In terms of economic data, the first reading of US GDP grew by 2.6 percent in the second quarter, compared with a 1.2 percent growth in the first quarter. The Michigan/ Reuters Consumer Sentiment Index rose to 93.4 in July.

Implications for Egypt:

A report by the Office of Strategic Studies at ADS Securities said the Chinese economy remains the most active among the world economies. While growth rates fell below 7 percent, they are still three times higher than in other countries. The report highlighted the importance of the Chinese economy as the main engine of the global economy since October 2013. Back then, it pointed out the importance of the Chinese yuan as a currency that would take up a major position among the major international currencies only to become part of the IMF's currency basket shortly after. The report noted that the Chinese currency is the only one that outperformed the world currencies against the US dollar; for example while the sterling declined by 40 percent, the yuan lost only 12 percent.

The Egyptian Stock Exchange continued its gains during the week that comprised only 4 sessions due to the holiday of the 23rd of July Revolution. The market realized gains of EGP 1.9 billion, with market capitalization of listed firms reaching EGP 712.5 billion compared to EGP 710.6 billion during the previous week, a rise of 0.3 percent. The weekly report of the Egyptian Stock Exchange showed mixed performance of main and secondary market indices, with EGX-30 rising 0.77 percent to 13,609 points. The EGX-70 index of small and medium-sized shares rose by 3.84 percent to reach 701 points. The broader EGX-100 index rose by about 2.62 percent to reach 1595 points. EGX-20 recorded a rise of about 0.25 percent to reach 12114 points.

The report noted that the total value of trading during the week reached about EGP 3.2 billion, while the volume of trading amounted to about 1.178 billion shares via 89 thousand operations compared to a total value of trading of EGP 4.5 billion and volume of trading of 1.702 billion shares via 122 thousand operations in the previous week.

Egyptian Investors accounted for 76.75 percent of total market trading, while non-Arab foreigners accounted for 23.66 percent and Arabs for 7.59 percent after excluding deals. Trading by non-Arab foreign investors recorded net purchases of EGP 142.03 billion during the week, while the Arabs accounted for net sales of EGP 118.02 million, after excluding deals. It is noteworthy that non-Arab foreign investors posted net purchases of EGP 7.214 billion since the beginning of the year, while Arabs recorded net purchases of EGP 44.42 million during the same period, after excluding deals.

The report also showed that institutions accounted for 37.39 percent of market trading, with individuals accounting for the rest (62.61 percent). Institutions posted net purchases of EGP 30.92 million, after excluding deals.