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Our Economy & the World

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

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Key Global Developments

Chinese President: Our Economy Shifts to a New Growth pace
Reuters:

Chinese President Xi Jinping said that his country's economy is now in a new normal and is shifting to slower growth levels.

Speaking before a Czech-Chinese business forum in Prague, Xi said that the global economy is currently going through a period of profound changes, and that the situation is complex and unstable.

He added that the Chinese economy has begun a state where it is normal in a new way, shifting from a high to moderate pace of growth. However, the Chinese business sector stands on solid foundation.

Asian Development Bank Lowers Outlook for Growth in Asia's Developing Economies in

Reuters:

The Asian Development Bank lowered its outlook for economic growth in Asia's developing countries this year. The bank referred to the global negative effects and weaker growth prospects in China.

The Manila-based bank said in its latest expectations for development in Asia, which were published on Wednesday, that developing economies in the continent are expected to grow by 5.7 percent this year and in 2017.

In its previous estimates issued in December, the bank had predicted a 6.0 percent growth for the region in 2016.

The region, which includes 45 countries in Asia and the Pacific Ocean, grew by 5.9 percent last year.

The Bank of England Warns against the Risk of the Referendum for Exiting the EU
BBC:

The Monetary Policy Committee of the Bank of England said that financial stability expectations have fallen significantly since last November.

According to the Committee, the biggest domestic threats to financial stability are associated with the referendum on the UK's membership in the EU. There is a risk of increasing uncertainty that would last a long time, it said.

The committee did not specify exactly, however, whether the uncertainty period refers to the period following the vote for exiting the EU, though this is the most likely scenario.

Committee members said that the results of this uncertainty may affect the cost and availability of funding for a wide range of borrowers in Britain.

Net Foreign Assets of the Saudi Central Bank Falls by 1.7 percent MOM in February
Reuters:

Data of the Saudi Central Bank showed on Tuesday that net foreign assets of the Bank fell by 1.7 percent in February to 2.19 trillion riyals ($584 billion) compared to the previous month.

Also, assets fell by 17.3 percent to the lowest level since May 2012, compared to the year before. Assets reached a record high of $737 billion in August 2014 before they began to shrink.

Iran Changes Stance and Declares Attending the Doha Meeting Without Freezing Production
Asharq al-Awsat:

The number of countries wishing to attend the top oil producers' meeting in the Qatari capital, Doha, increased, which would support the stability of oil markets and prices, and hence, the volume of oil produced by countries wishing to attend the meeting will represent more than half of the world oil production.

An Iranian source told "Bloomberg" that Iran would attend the summit, but would not join the agreement. Thus, all OPEC countries will be present in Doha except Libya, while non-OPEC participants include Russia and Oman. Until yesterday, Saudi Arabia, Iraq, Qatar, Venezuela, Angola, Algeria, Kuwait, Nigeria, Ecuador, the UAE, Indonesia, Iran and Russia have confirmed attending the meeting, which will be held on April 17th.

Rising Consumer Spending and Falling Inflation in the US during the Last Month

Reuters:

US consumer spending rose slightly during last February, while headline inflation declined, indicating that the Federal Reserve (US central bank) will continue increasing interest rates gradually this year.

The US Department of Commerce said on Monday that consumer spending rose by 0.1 percent following the 0.1 percent increase therein after the downward adjustment last January. Preliminary estimates show a 0.5 percent increase in consumer spending in December.

A Member of the Federal Reserve: Increasing Interest Rates in the April Meeting Would be Surprising

Argaam:

President and chief executive officer of the Federal Reserve Bank of Chicago Charles Evans said that there is some hesitation regarding the decisions to raise interest rates in light of the global risks.
This comes after statements of the Chair of the Federal Reserve, Janet Yellen, in which she defended the Federal Reserve's cautious policy concerning tightening monetary policy.

Evans said that he is confident the unemployment rate is moving towards its target of 2 percent, but would be surprised if the decision was made to raise interest rates at the meeting next month.

It is worth mentioning that Yellen hinted after the last meeting's statement that the next meeting in June might see an increase in the interest rate.

OPEC Production Rises in March, with Increased Production from Iran and Iraq

LONDON - Reuters:

A Reuter's survey showed that the production of the Organization of the Petroleum Exporting Countries (OPEC) rose in March after Iran increased its supplies following lifting sanctions. Moreover, south Iraq exports nearly registered a record level, which offset the impact of maintenance works and the halt of production at small producers' fields.

The survey did not record any significant changes in the production of Saudi Arabia, the largest oil exporter in the world, in a new sign that Riyadh is serious about the idea of freezing production to support prices, which reached their lowest level in 12 years at near $27 a barrel in January, but has since risen to $40.

Oil-producing countries will meet on April 17th in Qatar to discuss the production freezing plan.

Standard & Poor's Reduces its Outlook for China's Credit Rating
Argaam:

"Standard & Poor's reduced its outlook for China's credit rating from "stable" to "negative," with expectations of a slowdown in economic rebalancing in the world's second largest economy.

The international credit rating agency rated China's at "AA-" with a negative outlook due to the country's exposure to economic and financial risks.

According to the agency, the change in its assessment of China's credit rating is due to expectations of increasing economic and financial risks related to the Chinese government's creditworthiness.

Saudi Arabia Plans a $2 trillion Investment Fund to End Reliance on Oil
CNN:

Saudi Deputy Crown Prince Mohammed Bin Salman said that Saudi Arabia has developed a plan to create a mega $2 trillion investment fund to help end the country's reliance on oil.

In a five-hour interview, Mohammed Bin Salman said to "Bloomberg" on Friday that within 20 years, the country would not rely mainly on oil.

The prince added that his country would sell a small portion of its giant state-owned oil company, Saudi Aramco, in the markets next year. He also said that his country would soon announce a "National Transformation Plan" to outline ways to increase non-oil revenues.

According to "Bloomberg", the Deputy Crown prince said that Saudi Arabia would only freeze oil output if Iran and other major producers do so. Bloomberg quoted him saying that "if all countries, including Iran, Russia, Venezuela, OPEC countries and all major producers decide to freeze oil production, we will be with them." However, he added, "I do not think that the fall in oil prices poses a threat to us."

Implications for Egypt

News and global developments highlight the growing economic challenges facing Egypt, which prompted Capital Economics to expect growth of the Egyptian economy to slow down to 3 percent during 2016, noting that growth should pick up in 2017. Capital Economics said that in the long run these circumstances would cause economic growth to recover during 2017, as devaluation of the Egyptian pound would eliminate restrictions on foreign exchange, enhance external competitiveness, and encourage foreign investors to return.

On another level, a report by Crescent Petroleum noted that with increased competition it is necessary to focus on economic openness policies to encourage the private sector to play a greater role in economic development. It also stressed the importance of providing businesses with a variety of facilities and benefits, developing infrastructure of international standards, and streamlining doing business procedures to ensure competitiveness and to attract more foreign investments in renewable and conventional energy sectors.

According to the report, stimulus public and private investment policies in the industrial sector played a major role in strengthening integration between local and foreign investments, attracting investments with high value-added that contribute to availing a favorable environment for investments that is consistent with key economic and development priorities and private sector partnership criteria locally and externally. These factors combined will create effective mechanisms to promote investment locally and externally.

Countries' ability to attract foreign investments, according to the report, would be tested by their attempts to overcome the obstacles and the challenges facing investments and foreign investors. Their success in this respect will be the most efficient solution to dealing with the challenges and volatility in the global capital markets, and will also ensure increased economic growth and competitiveness in attracting investment, with positive implications for the share of private sector in GDP in light of declining oil revenues.

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Our Economy & the World

Special Analysis

$105 billion Worth of Mergers and Acquisitions in the Region

A report issued by Al-Masah Capital and published by Mubasher website revealed that the Middle East region has seen mergers and acquisitions during 2010- 2015 valued at $105.5 billion.

According to the report, the value of acquisitions in Qatar, Egypt and the UAE amounted to $22.37 billion, $21.72 billion, and $21.29 billion respectively, accounting for 62 percent of the total value.

The report noted that the number of those deals in real estate totaled 239 valued at $29.51 billion, and 346 in the financial services sector valued at $23.04 billion.

The report indicated that the number of deals in the telecommunications sector amounted to 41 valued at $15 billion, and 99 in the food products sector valued at $ 5.72 billion, as these two sectors were most attractive for such transactions.

The report said that mergers and acquisitions activity in the region came in the context of greater risk appetite and strong liquidity positions achieved during periods of high oil prices.

The report indicated that the year 2015 saw a slowdown in those transactions because of geopolitical tensions and the expected decline in government spending in light of weak oil prices.

Over the past year, Egypt recorded 50 deals—the largest in the region—followed by the UAE (47) and Saudi Arabia (31) then 31 Jordan (21).

However, report noted that the value of global mergers and acquisitions rose to a historic record level in 2015, with the announcement of 43,302 deals worth $4.8 trillion.

The report predicted that such activity would continue with GCC companies aspiring to drive growth through expansion in key emerging economies through strategic acquisition operations.

The report noted that key factors that may affect those deals in the region are the current foreign ownership laws, and low ranking in the World Bank report, as well as tight liquidity due to lower oil revenues.

The report added that government initiatives and reform measures, whether completed or underway, would likely effect a change in the mergers and acquisitions landscape in the region.

Both regional and international investors will benefit from this new phase of expected transformation in the region, the report said.

Implications for Egypt:

The world has been seeing significant acquisition activity recently in light of troubled assets of a number of large companies following the global economic crisis.

The decline of the Egyptian Stock Exchange during the past two years revealed opportunities to acquire a number of important and strategic companies at cheap prices due to the political and security situation. Despite strict controls in the relevant law in these cases, these operations are usually carried out in a legal framework that allows their implementation, especially in light of the fragmented ownership structure of many companies and individual investors' concern about how long investors will retain these investments in light of instability.

Many indicators confirm that the recent period has seen investor sentiment being inclined towards seizing opportunities and cheap deals. In light of the rule that says if there is a limited number of investors in the market, and numerous assets for sale, investors conclude the cheapest investment deals. Here we have to stress that acquisitions over the past years led to a large inflow of liquidity due to these companies' restructuring of those acquired companies and the development of their production lines, which led to increased production capacity and rising demand for labor.

The fact that helped attract Western companies to the Egyptian market through acquisitions is availability of investment opportunities, whether in the industrial, agricultural, or tourist sectors. Therefore, and despite the political instability, evidence confirms international interest in investing in Egypt, especially if the country takes more serious steps to resolve economic disputes.

It is clear that European and US companies have begun looking for new resources and engaging in profitable activities, especially after facing fierce competition from the Chinese, Indian and Korean companies that began invading African markets, acquiring nearly 60 percent of such investments in Africa. Most international corporations have begun looking for alternatives in order to create new entities capable of making large profits to compensate for losses incurred due to the global financial crisis. These alternatives will serve as launching pads to other markets, particularly Africa, which has become a safe haven for these companies thanks to its mineral wealth and large consumer market.

That is why sectors such as food, agriculture, medicine and basic resources in Egypt may be a target for acquisition in the coming period, which calls for the need to tighten control over the transactions and the development of a new legal mechanism for the exit of major shareholders.

The return of confidence to the private equity sector in Egypt in light of the global economic crisis supports optimism about investment in sectors more capable of growth, such as health care, education, consumer goods, oil and gas. It is likely these sectors will benefit from plans for government spending and legislative changes. Transport, toll roads, ports and energy sectors are deemed attractive areas to investors and could bring in large investments.

In addition, scarce investment companies and acquisition-related controls on private equity firms still hamper the flow of purchase offers and may force private equity firms to reconsider how they do business, in terms of ways of searching for companies, monitoring and reporting.

From the International Press

Will the World Witness a New Oil System after the Doha Summit?

Asharq al-Awsat:

When oil and energy ministers meet in Doha in April to negotiate a new agreement to freeze oil production—which is the only solution available to them now—there is a high likelihood that a new global oil system will be born to temporarily replace the current system that is based on two poles, namely, producers in the Organization of Petroleum Exporting Countries (OPEC) and other producers.

The new world order depends on a number of poles or blocs, each relying on a geopolitical basis.

Until last week, four new blocs have emerged that coordinate among one another to defend their oil interests in a way that is compatible with their different approaches; whether economic or political.

The first bloc is that of the Gulf members of OPEC, deemed the strongest global power thanks to the presence of Saudi Arabia in that cluster. It also includes Kuwait, Qatar, and the UAE. These four countries have many geopolitical and economic factors in common.

Although Saudi Arabia leads this bloc, negotiations for the production freeze agreement are led by Qatar, which will host the April 7th meeting of producers favoring a freeze of production. Qatar leads the talks because it heads the ministerial conference of OPEC this year as dictated by organizational rules.

The second is the Latin bloc, which suffers from coordination difficulties, like the case of many Latin countries suffering from internal political and economic conditions. This bloc is led by Venezuela and Ecuador, both OPEC members. Venezuela in particular has always played a pivotal role in the organization; it is one of the founding members and together with Saudi Arabia initiated the idea of establishing OPEC. Venezuela also contributed to the previous production reduction agreement among OPEC and non-OPEC countries during 1999-2000.

Ecuador and Venezuela are seeking to unite oil producers in South America and to convince them to join the production freeze agreement. Latin American ministers were scheduled to meet early last week, but the meeting was postponed to the end of this month or early April.

The third is the African bloc, considered the most organized and clearest in its declared objectives. This bloc is led by Nigeria, which called for a meeting that was held last week and lasted for four days in the Nigerian capital Abuja.

Following the African bloc meeting, Nigerian Oil Minister Emmanuel Katcheko noted the importance of African producers' creating a bloc, adding that African producers should unite before the producers' meeting next month in Doha.

The fourth bloc is the Russian bloc, which is weakest in terms of coordination. It is led by Russia and includes both Azerbaijan and Kazakhstan. Russia wants to exercise its influence to convince Azerbaijan and Kazakhstan to join the production freeze agreement.

Russia wanted to be a key player in the production freeze agreement by hosting the meeting in St. Petersburg, as declared by the ministers of energy and oil in Nigeria and Ecuador. However, it seems that the GCC bloc managed to convince the Russians that Doha is the appropriate place.

Undeclared Bloc

The fifth bloc, which is undeclared, is the Iranian-Iraqi bloc. It is based more on political rather than economic rapprochement. It is led by Iran as evidenced by the fact that when Venezuela and Qatar wanted to invite Iran and Iraq to join the initial production freeze agreement in Doha on 16 February, they did so from Tehran, where they met the Iranian and the Iraqi ministers of oil a few days after the Doha meeting.

Russia, Saudi Arabia, Qatar and Venezuela reached a tentative agreement last month to freeze oil production at January levels, which are near record high levels for Russia and Saudi Arabia. The four countries stipulated that the rest of big oil producers join the agreement before it enters into force.

Reasons and Timing

Why did those blocs emerge? What is the role of international organizations such as OPEC and the International Energy Agency in coordination to find a way out of this crisis?

Analyst Dr. Mohammad Al Ramady says that the emergence of such blocs can be ascribed to the weak role of international organizations, adding that OPEC relies basically on one system, namely, the quota system. Currently, this system is halted because countries do not want to abide by it and OPEC still produces according to the 2011 self-imposed ceiling. OPEC in fact exists, but it is in a coma, he said.

Implications for Egypt

Although Egypt is not a major oil producer but rather one of the major consumers of oil in the Middle East, the extent of being affected by oil developments is linked to its economic relations with the Gulf States. In spite of the relative improvement in oil prices over the last period against fragile hopes to reduce oil supply, oil prices are still low. Therefore, Egypt is still benefiting from the decrease in oil prices due to the reduced cost of imports of oil and derivatives, which are mainly used as production inputs. Thus, the government has an opportunity to reduce its budget deficit, and alleviate inflationary pressures. In addition, the recent drop in oil prices is in favor of the government in its pursuit to reduce the deficit in the public budget and the trade balance.

Despite this benefit, there are other concerns, including pressure from foreign companies operating in Egypt in the energy sector, after the decline of their profits recently, which may drive them to exercise pressure on the Egyptian government, claiming their arrears. Add to this the position of foreign investment inflows from the Gulf countries, the status of Egyptian workers, and their transmittances.

The decline of oil prices over the past two years led to a decline of oil and gas revenues in total revenues of countries in the region, particularly in the Gulf, albeit oil continues to be the highest source of budget revenues. This also led to a reduction in government spending in the GCC and the emergence of a deficit after years of equilibrium or surplus. GCC countries that peg their currencies to the US dollar have to develop independent monetary policies that are at arms' length from the US monetary policy. They should not follow in the footsteps of the US monetary policy, as it does not favor economic diversification—a policy pursued vigorously by the Gulf States.

In a nutshell, oil markets are currently more concerned about the oil glut, expansion of production at deeper levels in the oceans, and the shale oil boom in the US, which makes it a future export competitor. Add to this increased production from countries such as Canada, Brazil, Iraq, Kenya, Uganda, and the decline of consumption by European countries due to improved vehicle fuel efficiency, especially the development of environmentally friendly technologies.

In light of these variables, the Egyptian government needs to reconsider the basis on which it relied in setting the average price of oil at $40 per barrel in the new 2016/2017 budget, as this figure may be exceeded if an agreement is reached among oil producers.

Global Financial Market Performance

Reuters – Argaam:

Chinese stocks have successfully shifted upwards at the end Friday's trading session, registering weekly gains in the wake of industrial data that raised more optimism among investors.

The main Chinese stock market index rose by 12 percent in March, registering its biggest monthly gain in almost a year.

The "Shanghai" Composite Index rose by 0.2 percent to 3009 points at closing, after falling by 1.6 percent during the session, recording a weekly increase of 1 percent.

Japanese stocks posted the largest daily losses in seven weeks at the end of Friday trading, with the decline in business confidence, and low expectations for listed companies' profits.

The Japanese "Nikki" index fell by 3.5 percent to 16,164 points, registering a decline of 4.9 percent during the current week. Topix index declined by about 3.4 percent to 1301 points.

US stocks also eliminated the losses recorded at the start of Friday trading after the monthly jobs report and falling oil prices, tending to rise after economic data showed a rise in industrial activity in the US for the first time in six months. Major indices also posted weekly gains.

The "Dow Jones" industrial index increased by 107.7 points to 17,792.8 points, after falling earlier in the session by about 110 points. NASDAQ index also rose by (44.6 points) to 4914.5 points, while the "S&P 500" benchmark index rose by (13.04 points) to 2072.7 points.

On a weekly level, "Dow Jones" registered a gain of 1.6 percent, the biggest in two weeks, NASDAQ rose by 3 percent, which is the best in six weeks, while the broader "S&P 500" registered a weekly gain of 1.8 percent, the largest in a month.

In Europe, "Stoxx Europe 600" index fell by 1.3 percent or by 4.3 points to 333.1 points, recording a weekly loss of 0.6 percent. The "FTSE 100" British index fell by (- 28.8 points) to 6146 points. The German "DAX" index also fell by (- 170.8 points) to 9794.6 points, while the French "CAC" index declined by (- 62.8 points) to 4322.2 points.

On the other hand, Gold futures for June delivery at settlement fell by 1 percent or by $12.10 to $1223.50 an ounce. The precious metal registered a weekly gain of 0.2 percent.

In the oil markets, the US "NYMEX" fell by 4 percent, or by $1.55, closing at $36.79 a barrel, the lowest close since 15 March and recorded a weekly loss of 6.8 percent. The "Brent" benchmark index fell by 4.1 percent or by $1.66 and closed at $38.67 a barrel, recording a weekly loss of about 6 percent.

Implications for Egypt:

The performance of global financial markets continues to be affected by stimulus programs and movements in oil prices related mainly to attempts to curb oil supply, which reflects positively on the Middle Eastern markets and the Arab region amid moderate liquidity. This suggests that Egypt, the region and the world are anticipating strong local or international developments that would be the main driver of change in financial market performance. Estimates suggest shifts in the trading of institutions in the global markets with expansion of investment in risky assets at the expense of bonds and fixed-income assets, which could contribute to improving performance of the global financial markets at the present time. Also, global capital markets have been monitoring recent developments in the US economy, which maintains an upward pace and is perhaps one of the few economies in the world that the IMF revised figures were relatively optimistic about.