المركز المصري للدراسات الاقتصادية
The Egyptian Center for Economic Studies

Our Economy and The World

The Weekly Report

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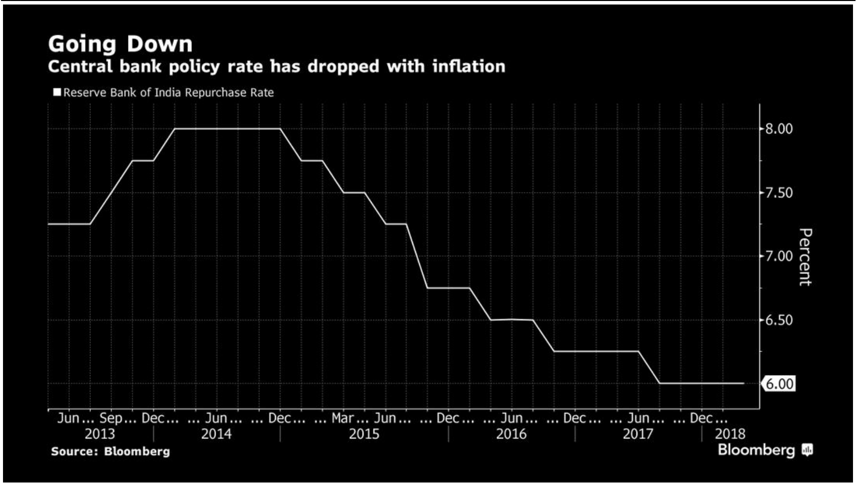
This week's issue of "Our Economy and the World" includes:

Key Global and Regional Developments over the Past Week

Bloomberg: India's $35 billion government pension fund sees stock boost

India's $2.3 trillion equity market has surged in recent years, and is about to get a new endorsement -- from the nation's pension regulator. "We are pressing the government to increase the equity proportion for government employees, and expect a favorable response very soon," from the Finance Ministry, Hemant Contractor, chairman of the Pension Fund Regulatory and Development Authority, said in an interview. The PFRDA has called for a bump to 50 percent, from 15 percent -- to match the maximum for private-sector pensions overseen by its National Pension System arm.



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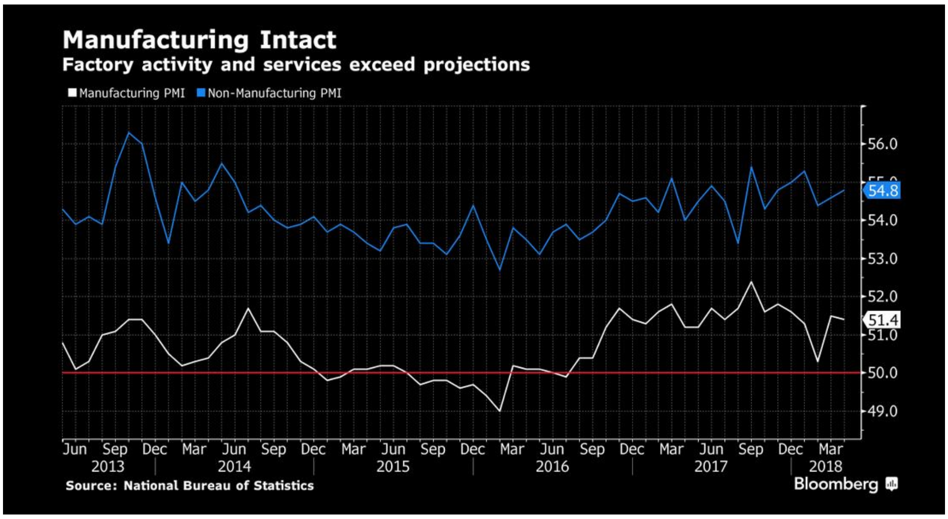
Bloomberg: China's economy gives little sign of slowdown as PMIs hold up

China's economy is giving little sign that a slowdown is approaching, with services strengthening and manufacturing remaining robust. The official manufacturing purchasing managers index stood at 51.4 in April versus the 51.3 estimate in a Bloomberg survey and 51.5 last month. The non-manufacturing PMI, covering services and construction, rose to 54.8, the statistics bureau said Monday, beating estimates. Levels above 50 indicate improvement.



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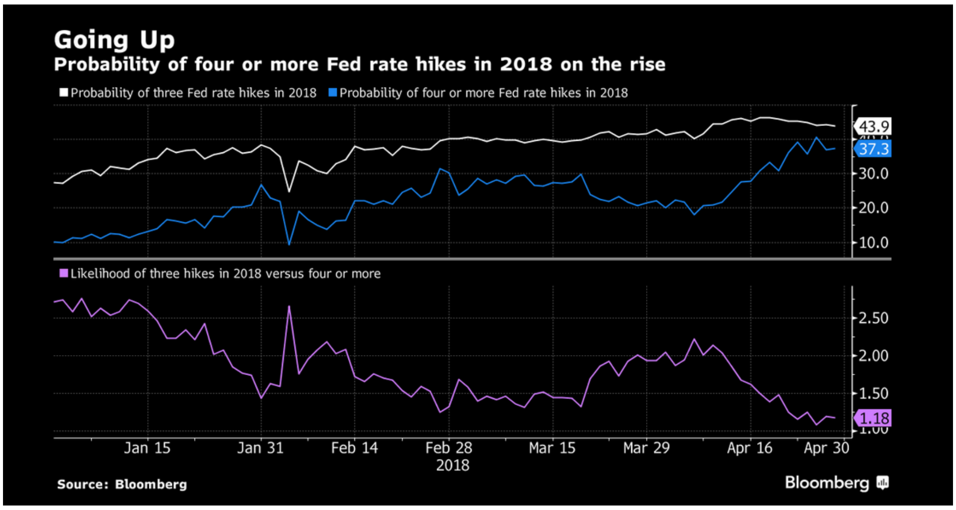
Bloomberg: Fed far from ready to declare mission accomplished on inflation

The Federal Reserve is closing in on its elusive 2 percent inflation target but that doesn't mean policy makers are ready to pronounce mission accomplished. The central bank's preferred measure of inflation probably clocked in at that level last month after spending much of the past six years below target, government data due out on Monday are expected to show.



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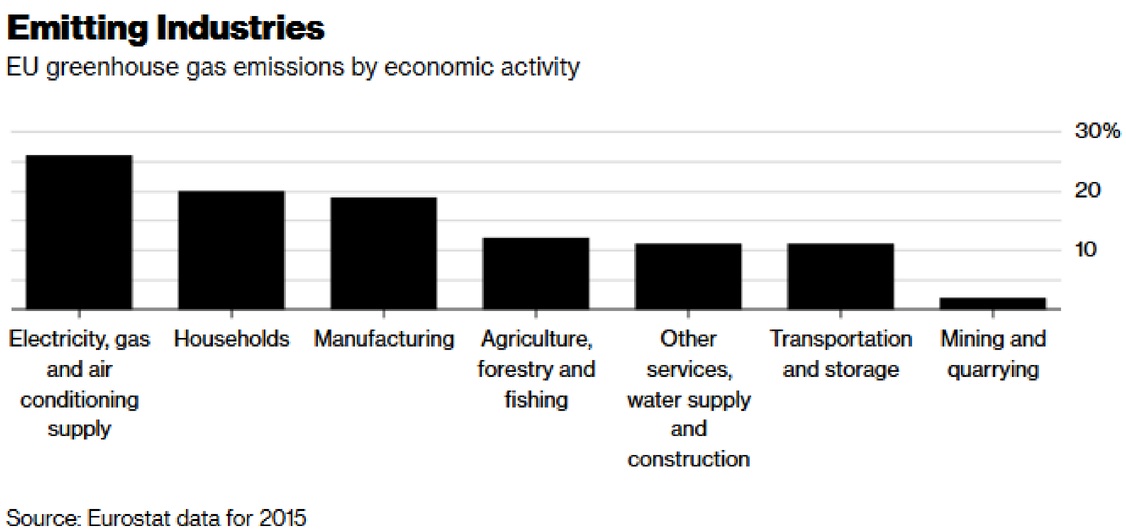
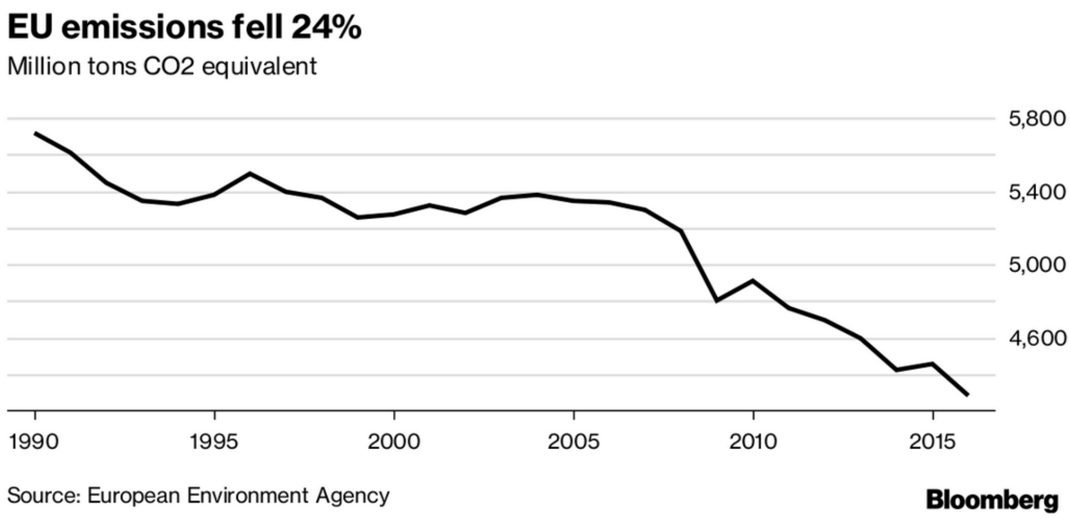
Bloomberg: Climate-linked spending set to rise to a quarter of EU budget

The European Union's executive is poised to propose spending 25 percent of funds available in next EU multiannual budget on activities related to climate protection, making sure new economic and political challenges don't weaken the bloc's resolve to fight pollution. The European Commission's blueprint for the 2021-2027 budget, to be proposed on May 2, will boost the so-called climate mainstreaming from 20 percent in the current multiannual financial plan, according to a person with knowledge of the matter.





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Special Analysis
IMF – Global Financial Stability Report April 2018
A Bumpy Road Ahead

The global economic outlook has continued to improve, as discussed in the April 2018 World Economic Outlook, with the pace of economic growth picking up and the recovery becoming more synchronized around the world. While still supportive of economic growth, global financial conditions have tightened somewhat since the October 2017 Global Financial Stability Report (GFSR). Such a tightening reflects primarily the bout of equity volatility in early February and a decline in risky asset prices at the end of March following concerns about a wider escalation of protectionist measures.

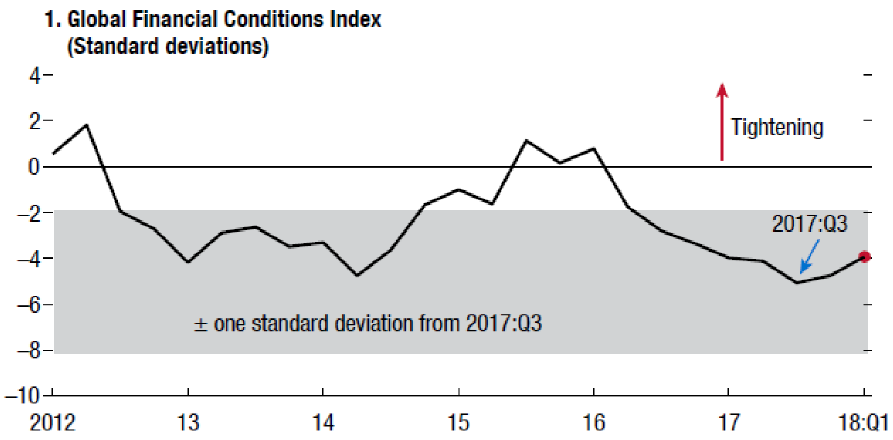
Short-term risks to financial stability have increased somewhat relative to the previous GFSR, and medium term risks continue to be elevated. Financial vulnerabilities, which have accumulated during years of extremely low rates and volatility, could make the road ahead bumpy and could put growth at risk. Indeed, Growth-at-Risk analysis (described in Chapter 3 of the October 2017 GFSR) shows that risks to medium term economic growth, stemming from easy financial conditions, remain well above historical norms.

In advanced economies, stronger growth momentum and the firming of inflation have eased to some extent a key challenge facing central banks: maintaining the monetary accommodation required to support the economic recovery while addressing medium-term financial vulnerabilities. But the firming of inflation also brings risks. For example, inflation may pick up faster than currently anticipated, possibly propelled by significant fiscal expansion enacted in the United States. Central banks may respond to higher inflation more aggressively than currently expected, which could lead to a sharp tightening of financial conditions. This tightening could spill over to risky asset prices, bank dollar funding markets, and both emerging market economies and low-income countries, as discussed below. To minimize these risks, central banks should continue to normalize monetary policy gradually and communicate their decisions clearly to support the economic recovery.

Valuations of risky assets are still stretched, with some late-stage credit cycle dynamics emerging, reminiscent of the precrisis period. This makes markets exposed to a sharp tightening in financial conditions, which could lead to a sudden unwinding of risk premiums and a repricing of risky assets. Moreover, liquidity mismatches and the use of financial leverage to boost returns could amplify the impact of asset price moves on the financial system. Although no major disruptions were reported during the episode of volatility in early February, market participants should not take too much comfort. Investors and policymakers must remain attuned to the risks associated with higher interest rates and greater volatility. Policymakers should address financial vulnerabilities by using more actively the micro- and macroprudential tools at their disposal or by enhancing their toolkits as needed—for example, to address risks in the nonbank financial sector.

Figure 1.1. Global Financial Conditions

Global financial conditions have tightened somewhat, but remain supportive of growth.



The price of risk is low, markets are buoyant, and leverage is high across both advanced and emerging market economies.

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Recent Developments in Financial and Commodity Markets

Bloomberg: Here are the stocks to watch after two Koreas agree to end war

If you're trying to figure out how it's all going to play out on the South Korean stock market on Monday after Kim Jong Un's historic call for peace, don't worry, we've got the list for you. South Korea's Kopi index climbed as much as 0.6 percent Monday after the North Korean leader and South Korean President Moon Jae-in agreed to finally end a seven-decade war this year, and pursue the "complete denuclearization" of the Korean Peninsula. On Sunday, Kim promised to close his main nuclear weapons test site in May.
Read the full article

Bloomberg: Oil heads for monthly gain on Iran risks and as OPEC clears glut

Oil's poised for a second monthly advance, propelled by the prospect of a disruption in Iranian supplies and as OPEC closes in on its target of wiping out a global glut. Futures were little changed in New York Monday. Crude's heading for a 4.6 percent monthly gain as investors weigh whether U.S. President Donald Trump will pull out of a 2015 nuclear deal between world powers and Iran. A withdrawal would reimpose American sanctions on the producer, curbing its exports. Meanwhile, OPEC continues to trim output even after concluding it's cleared 97 percent of the surplus that's weighed on prices for three years.

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