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The Egyptian Center for Economic Studies

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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: Germany to Test Haven Demand as Ultra-Long Bond Coupon Set at 0%

Germany will sell an ultra-long bond at a 0% coupon for the first time on Wednesday, in a flurry of debt sales in the next two weeks offering negative rates. The nation has previously only sold debt with a 0% coupon up to 10 years of maturity, including sales in the past month during a global debt rally. This week's 30-year auction will test the continued demand for haven assets now that the whole of Germany's yield curve is in negative territory.

(Read Article)

Bloomberg: India's Central Bank Governor Says Growth Remains Key Focus

India's central bank Governor Shaktikanta Das said reviving economic growth remains his top priority and urged bankers to pass on past interest rate cuts to borrowers at a faster pace. The six-member monetary policy committee is giving growth the "highest priority," Das said at a banking conference on Monday in Mumbai. Policy makers, financial sector representatives and bankers were all concerned about how to revive activity in Asia's third-largest economy, he said.

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BBC: Argentina's economy minister resigns as peso sheds value

Argentina's economy minister Nicolas Dujovne has resigned amid a financial crisis exacerbated by the president's defeat in a primary poll. The country's peso shed 20% of its value against the US dollar after President Mauricio Macri suffered the resounding loss last Sunday.

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BBC: Trump calls for big rate cut and economic stimulus

The US central bank should consider cutting interest rates by one percentage point and introduce "some quantitative easing" stimulus measures, president Donald Trump has said. In a Twitter post he again complained about a strong dollar, which "is sadly hurting other parts of the world".

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BBC: Department store sales rise for first time in 2019

Sales in department stores rose for the first time this year in July, the Office for National Statistics said, with data showing an unexpected rise in total retail sales in the month. Monthly retail sales rose 0.2% - defying forecasts for a 0.2% fall - boosted by online sales.

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Special Analysis: Deloitte - Weekly global economic update

ThE world increasingly appears to be on recession watch. This is evident from the behavior of investors. Last week, global equities fell sharply after the yield spread between the 10-year and 2-year US bonds inverted for the first time in a decade.1 The spread between the yields on the 10-year bond and the 3-month bill had already inverted in May. Yet the latest inversion shook investors, increasing many investors' expectations of recession. In the past 50 years, every time this spread inverted, a recession followed. This, however, doesn't mean that the inversion causes recessions, although it is possible that the inversion contributes to a weakening of credit market activity. Rather, the inversion is a reflection of investor sentiment. It signals that investors expect inflation to fall, which itself reflects expectations of greater economic weakness. Moreover, sentiment can have real consequences. After all, if investors and businesses expect a recession, they might behave in ways that help to bring on recession.

Why are investors so vexed? An important reason is that the economies of the United States, Europe, and China have decelerated, with a variety of indicators pointing to trouble. In recent weeks, we have seen a contraction in the economies of Germany, United Kingdom, and Italy; a sharp deceleration in China's industrial production; a drop in Japan's industrial production; and a severe weakening of the US manufacturing sector.2 Thus, the worrisome numbers from the bond market likely reflect investor concern about what the real numbers are saying.

Moreover, it is likely that investors are worried that the trade war between the United States and China will not get better or might even get worse. At the least, the unpredictability of this conflict has already had a chilling effect on business investment, something that is likely to persist. Moreover, there is fear that tariffs will rise further, thereby hurting consumer and business spending and further decelerating trade. Plus, the trade war between the United States and China is just one part of a larger uncertainty regarding global trade. After all, there is uncertainty about Brexit, the future of the new trade agreement in North America, and the future of automotive trade between the United States and Europe. This lack of certainty is likely contributing to investment weakness.

(Read the Full Report)

Recent Developments in Financial and Commodity Markets

Reuters: Oil prices rise on stimulus hopes, trade optimism

Oil prices rose on Tuesday on optimism U.S.-China trade tensions will ease and on hopes major economies will take stimulus measures to ward off a potential economic slowdown that could hit oil demand.

(Read full Article)

Reuters: Global stocks inch higher as stimulus hopes spur tentative rebound

Stock markets edged higher on Tuesday as investors welcomed signs that more monetary and fiscal stimulus was on its way, hoping more easing would help stave off a major global economic downturn. After a tumultuous first half of August when investors dumped equities and poured their money into government debt and other safe havens, some calm has returned to markets this week amid talk of more stimulus in China and Germany.

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