ECES
المركز المصري للدراسات الاقتصادية
The Egyptian Center for Economic Studies

اقتصادنا والعالم

Our Economy and the World

Issue: 331 **Date: 27th August 2023**

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

- **Key Global and Regional Developments over the Past Week**
  - Reuters: Brazil proposes yuan guarantees for exports to Argentina, finance minister says
  - Reuters: Dollar retreats as data shows US economy near stalling point
  - BBC: UK faces 'heightened recession risks' as interest rates bite
  - CNBC: U.S. Commerce secretary set to visit China next week as high-level talks continue

- **Special Analysis**
  - Wall Street Journal: China's 40-Year Boom Is Over. What Comes Next?

- **Developments in Financial and Commodity Markets in the Past Week**
  - BBC: Gas prices rise on fears of strikes in Australia
  - CNBC: Europe stocks close higher after PMIs disappoint
  - Reuters: Oil edges down as demand woes outweighs big draw in crude stocks

Key Global and Regional Developments over the Past Week

Reuters: Brazil proposes yuan guarantees for exports to Argentina, finance minister says

Brazil has submitted a proposal to Argentina aimed at securing Chinese yuan guarantees for Brazilian exports to the neighboring country in an initiative involving state-run lender Banco do Brasil, Finance Minister Fernando Haddad said on Wednesday. Banco do Brasil under the proposal would oversee the conversion of yuan back into Brazilian reais, based on provided guarantees, Haddad told a press conference in Johannesburg on the sidelines of the BRICS nation summit.

(Read Full Article)

Reuters: Dollar retreats as data shows US economy near stalling point

The U.S. dollar eased against a basket of currencies on Wednesday after data showed U.S. business activity approached the stagnation point in August, with growth at its weakest since February as demand for new business in the vast service sector contracted. S&P Global said its flash U.S. Composite PMI index, which tracks manufacturing and service sectors, fell to a reading of 50.4 in August from 52 in July, the biggest drop since November 2022.

(Read Full Article)

BBC: UK faces 'heightened recession risks' as interest rates bite

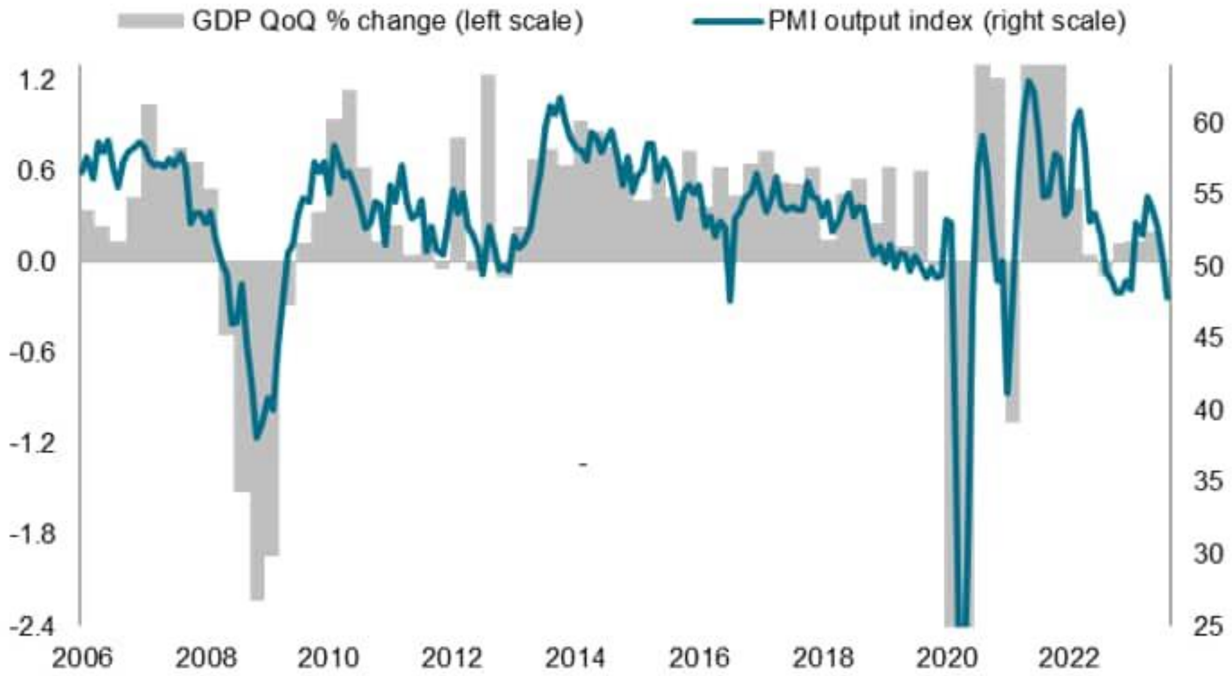
The UK economy is on course to shrink between July and September and could tip into recession, a closely-watched survey suggests. The S&P Global/CIPS UK Purchasing Managers' Index (PMI) found that rising interest rates and weaker household spending led to a sharp drop in demand for goods and services in August.

(Read Full Article)

CNBC: U.S. Commerce secretary set to visit China next week as high-level talks continue

U.S. Secretary of Commerce Gina Raimondo is set to visit China from Aug. 27 to 30, both countries announced Tuesday. The Chinese side's readout said Raimondo's forthcoming visit was at the invitation of Chinese Minister of Commerce Wang Wentao. The U.S. side did not mention such detail, and said Raimondo is to meet with "senior PRC officials and U.S. business leaders." She is also set to discuss "issues relating to the U.S.-China commercial relationship, challenges faced by U.S. businesses, and areas for potential cooperation," the U.S. readout said.

UK GDP (economic growth) and the flash PMI



Data compiled August 23, 2023.
PMI covers manufacturing and services, 50 = no change on prior month
Sources: S&P Global PMI with CIPS, ONS via S&P Global Market Intelligence.

[(Read Full Article)]

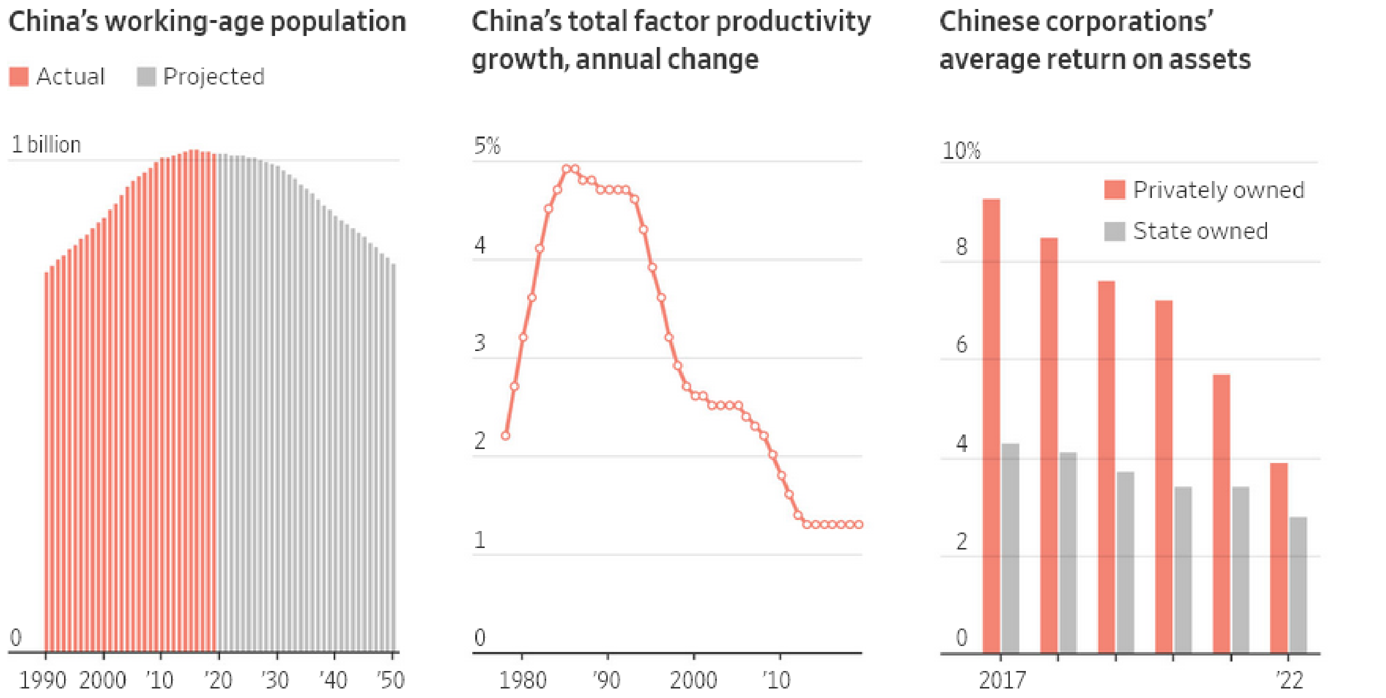
Special Analysis

Wall Street Journal: China's 40-Year Boom Is Over. What Comes Next?

China's economic model that led the country from poverty to global economic prominence is now showing signs of distress. The model that relied on massive investments in infrastructure, factories, and construction is no longer as effective, as China grapples with high debt, underutilized assets, and declining returns on investment. The country's growth is slowing due to unfavorable demographics, a growing divide with the U.S. and its allies, and diminishing returns from traditional growth drivers.

Economists predict a significant slowdown in China's economic growth, with projections estimating GDP growth to be below 4%, much lower than the levels seen in the past few decades. This slowdown could hinder China's ambition to become the world's largest economy and might prevent it from overtaking the U.S. as originally hoped.

China's heavy investments in infrastructure have led to overbuilding, with many unoccupied apartments and underused infrastructure projects. The country's debt levels have soared, and the return on investment has declined. China's labor force is shrinking, and productivity growth is slowing down. To combat these challenges, China needs to shift towards promoting consumer spending and service industries, but this transition has been slow, partly due to concerns about undermining state authority.



Sources: The Lowy Institute based on UN Population Division data (working-age population); The Lowy Institute (productivity); Bruegel (returns)

[(Read Full Article)]

Developments in Financial and Commodity Markets in the Past Week

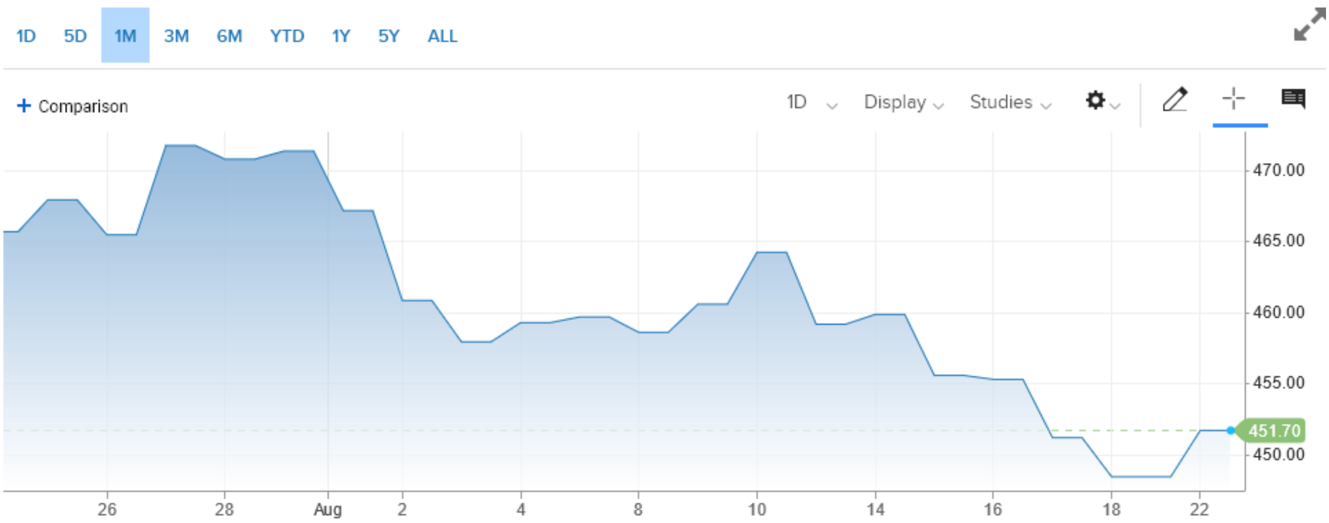
BBC: Gas prices rise on fears of strikes in Australia

The prospect of a possible strike at a liquefied natural gas (LNG) plant in Australia has pushed wholesale gas prices up in Europe. The Offshore Alliance union warned that a strike at the North West Shelf facility could start as early as 2 September if no deal on pay is reached. Benchmark gas prices for the EU and UK rose around 10% on Monday, according to Bloomberg.

(Read Full Article)

CNBC: Europe stocks close higher after PMIs disappoint

European stock markets closed higher Wednesday, with attention focused on earnings and central bank comments in the U.S. The pan-European Stoxx 600 index ended up 0.4%, with most sectors and major bourses in positive territory. Utilities stocks led the gains, up 1.1% as oil and gas stocks fell 1.1%.



[(Read Full Article)]

[Reuters: Oil edges down as demand woes outweighs big draw in crude stocks]

Oil prices dipped 1% on Wednesday as demand woes stemming from a build in U.S. gasoline stocks and weak manufacturing data globally outweighed optimism around a larger-than-expected drop in U.S. crude stocks. Brent crude was down 82 cents, or 0.98%, at $83.21 a barrel, bouncing off a 2.5% decline earlier in the session. U.S. West Texas Intermediate crude was down 75 cents, or 0.9%, at $78.89. At the session low it was down 3.4%.

[(Read Full Article)]