



# Financial Markets Snapshot

Issue 1  
 January 2024

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# About The Report

- The report explores the linkages between global, emerging and local financial markets. It tries to examine the changes taking place in the global markets and how they reflect on emerging markets. These in their turn, have implications on the local Egyptian economy and its financial markets.
- The report targets economic policy makers, the business community, financial institutions, economic actors and the public in general, thus, the report uses simple terminology and tries to explain different economic and financial terms in layman's terms as much as possible.
- The report is descriptive, aiming at plotting the current state of the Egyptian economy as a result of the different financial market dynamics. It is not in any way prospective, thus no future forecasts are provided for the different economic indicators. The report is not prescriptive either, thus no policy advice is provided to policy makers or economic actors.
- The report is issued on a monthly basis and tries to highlight the changes across the different markets and across the different indicators and their interlinks.
- Data in the report are presented mainly in rates such as inflation rates or interest rates or in indexed format with base points at 100 to ease the comparison and analysis across different countries and indicators.

# Methodology

## Global Markets



- Global markets such as USA, UK, EU, China and Canada set the tone of the global economy.
- The report begins by analyzing the changes in global markets in terms of economic policy directions and financial markets and tries to plot how those dynamics are interlinked.
- The report then tries to examine the ripple effect of changes in global markets on emerging market economies, and the choices available to such markets.

## Emerging Markets



- Emerging markets such as Brazil, India, South Africa, Turkey, and others are widely affected by the tides in global markets.
- The reports tries to understand the effects of changes in policies in global markets on the choices available for different emerging markets.
- The report then tries to analyze the progress of different emerging markets in light of global economic changes and the policy options available for emerging markets as a group.

## Egyptian Local Market



- Like any other emerging market, the local market in Egypt is affected by dynamics in the global markets as well as the policy choices adopted by other emerging markets.
- The report tries to understand the effects of changes in global markets as well as changes in emerging markets on the local market in Egypt.
- The report also tries to link between external factors as well as local policies such as fiscal and monetary policy, and how they interact resulting in the current economic situation.

# Terminology

Term	Explanation
Policy Rate	The central bank policy rate (CBPR) is the rate used by the Central Bank to signal or implement its monetary policy stance.
LCU / USD	The change in the value of one currency in comparison to another currency (the US Dollar) in the free-floating exchange rate regime.
CDS	A credit default swap (CDS) is a type of credit derivative that provides the buyer with protection against default and other risks. The buyer of a CDS makes periodic payments to the seller until the credit maturity date. In the agreement, if the debt issuer defaults, the seller commits to paying the buyer all premiums and interest that would've been paid up to the date of maturity.
Credit Rating	A credit rating is an opinion of a particular credit agency regarding the ability and willingness of an entity (government, business, or individual) to fulfill its financial obligations in full and within the established due dates. A credit rating also signifies the likelihood a debtor will default. It is also representative of the credit risk carried by a debt instrument – whether a loan or a bond issuance.
Net Foreign Assets of the Banking System	Net foreign assets are the sum of foreign assets held by monetary authorities and deposit money banks, less their foreign liabilities. Data is in current local currency.
External Debt Service	The external debt to be paid in a certain period, is composed of the sum of principal installments and interest.



**Less volatility in majority of commodities prices, with an observed tendency for prices to decrease with the exception of natural gas and maize.** After a long spike, major commodity prices started to stabilize, hinting at a return to normal price ranges with limited future effect on inflation rates across the world.

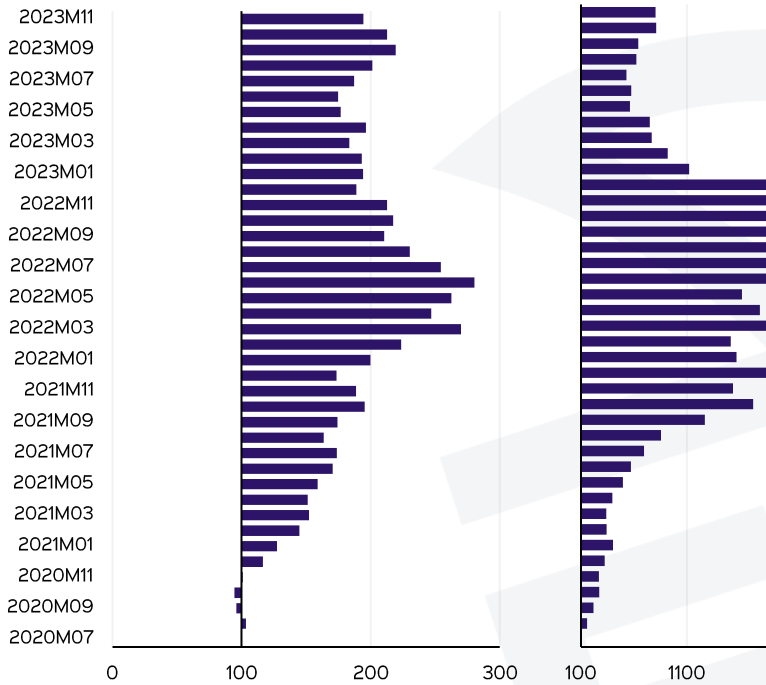
Commodity Markets

Main Rates

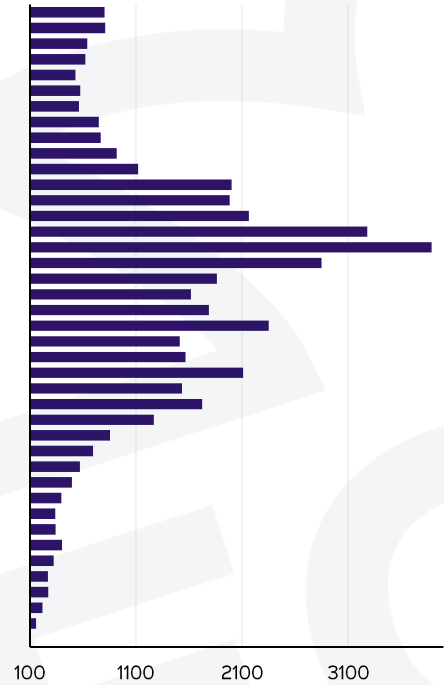
Stock Market

Bond Market

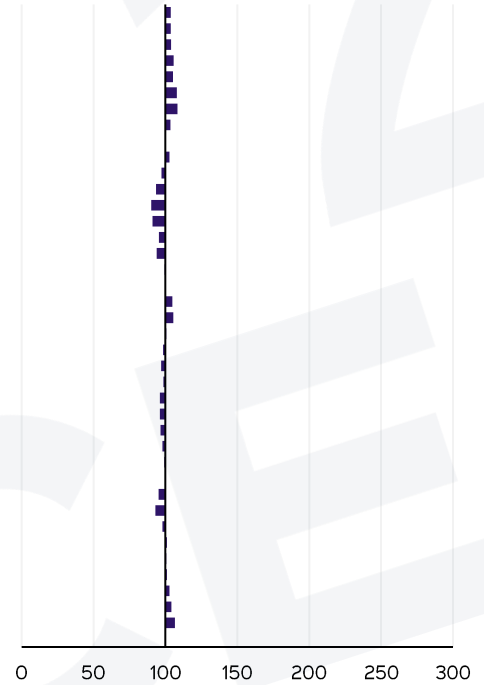
Crude oil, Brent



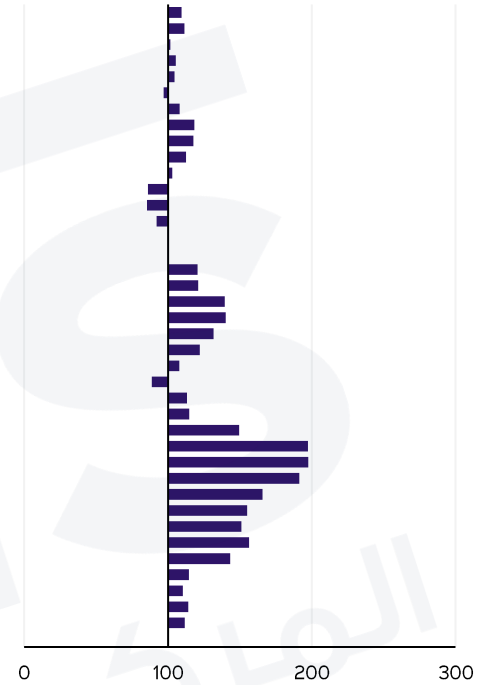
Natural Gas



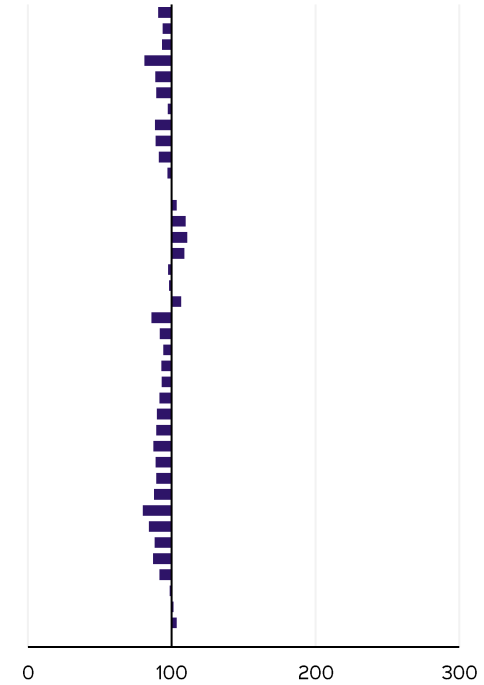
Gold



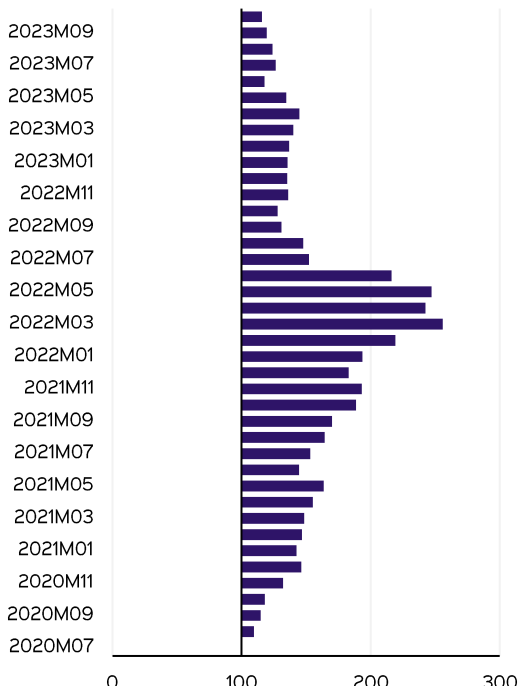
Iron ore



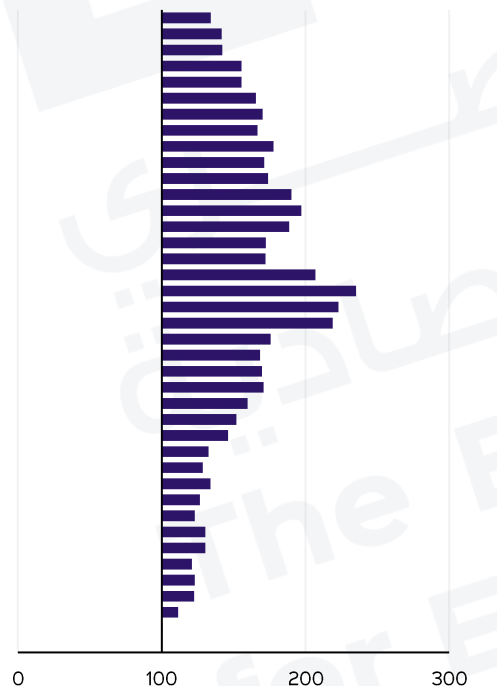
Tea



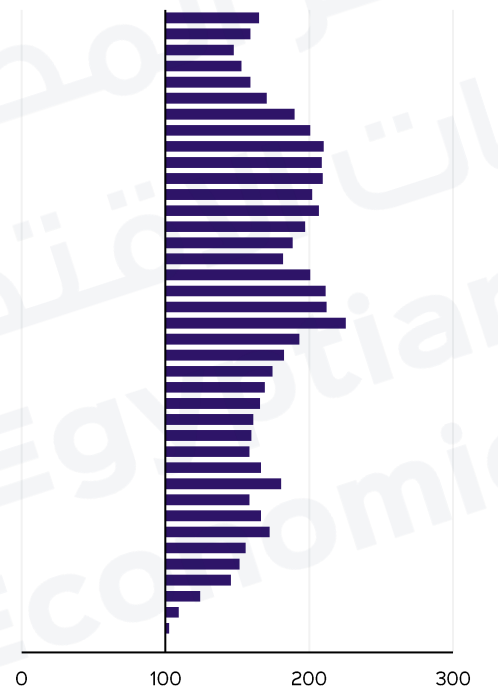
Palm oil



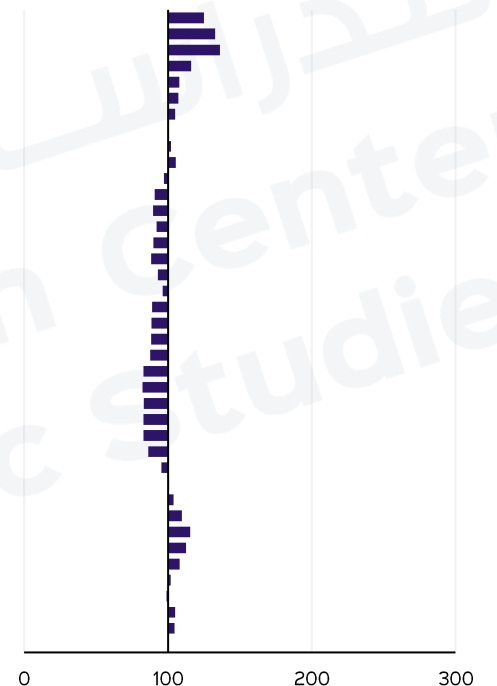
Wheat



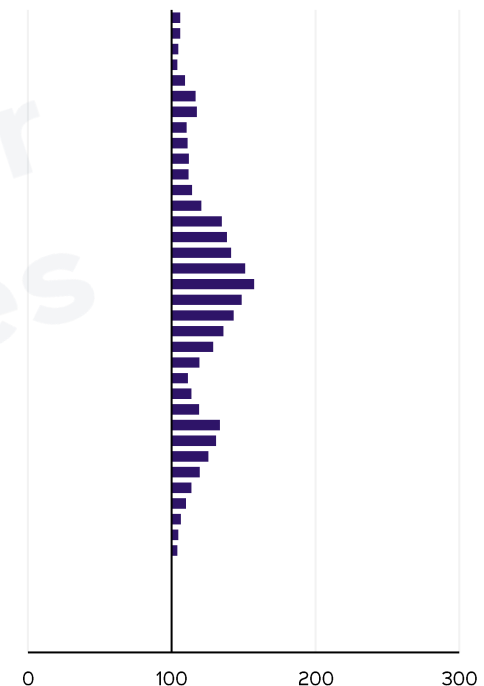
Maize



Rice

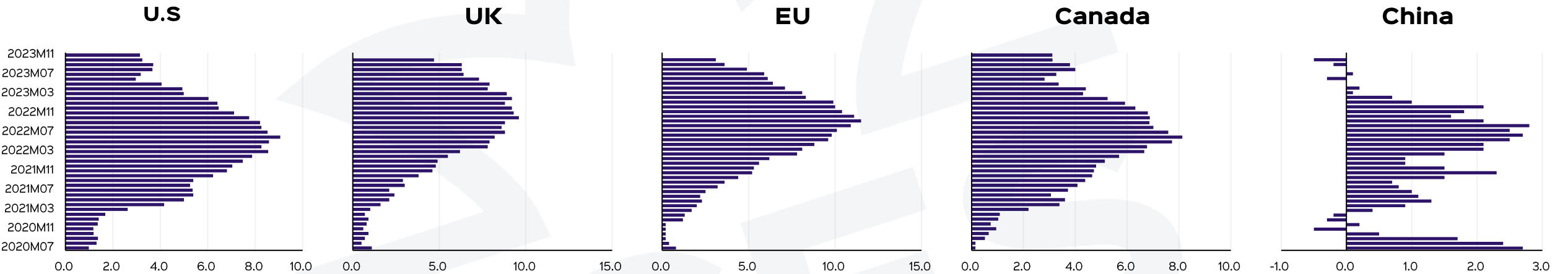


Bovine meat

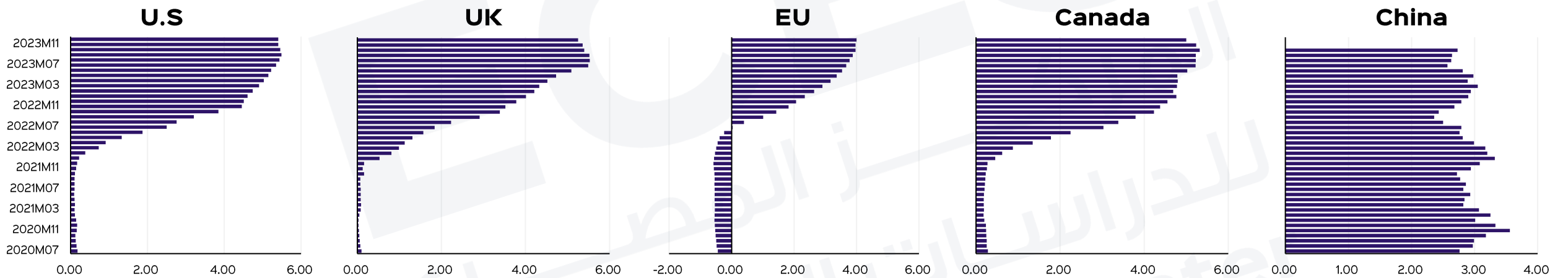


**Inflation rates getting under control with an optimistic outlook, and a turning point for policy rates with weakness in USD performance.** Inflation rates started to get under control in different global markets, signaling nearing the end of tightening cycle followed by central banks in the last couple of years. This has reflected into lower policy rates across developed markets with the USD getting weaker ahead of other currencies, given easing started in the US market.

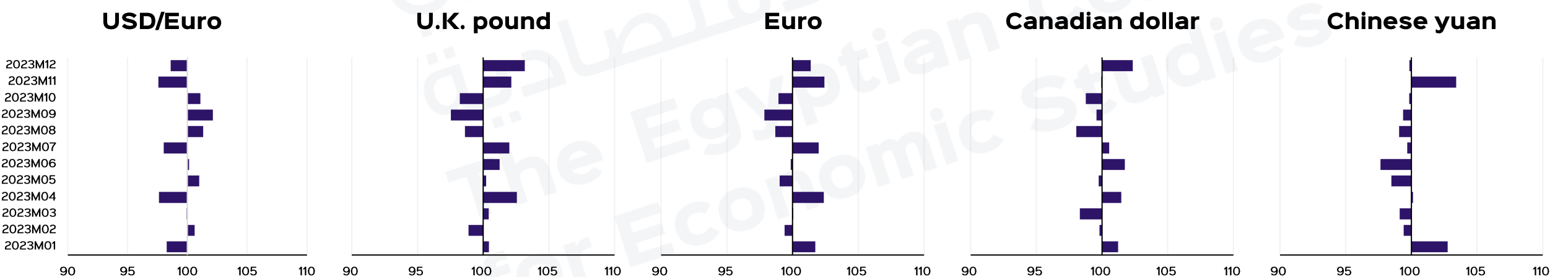
**Inflation Rate**



**Policy Rate**



**LCU / USD**



Commodity Markets

Main Rates

Stock Market

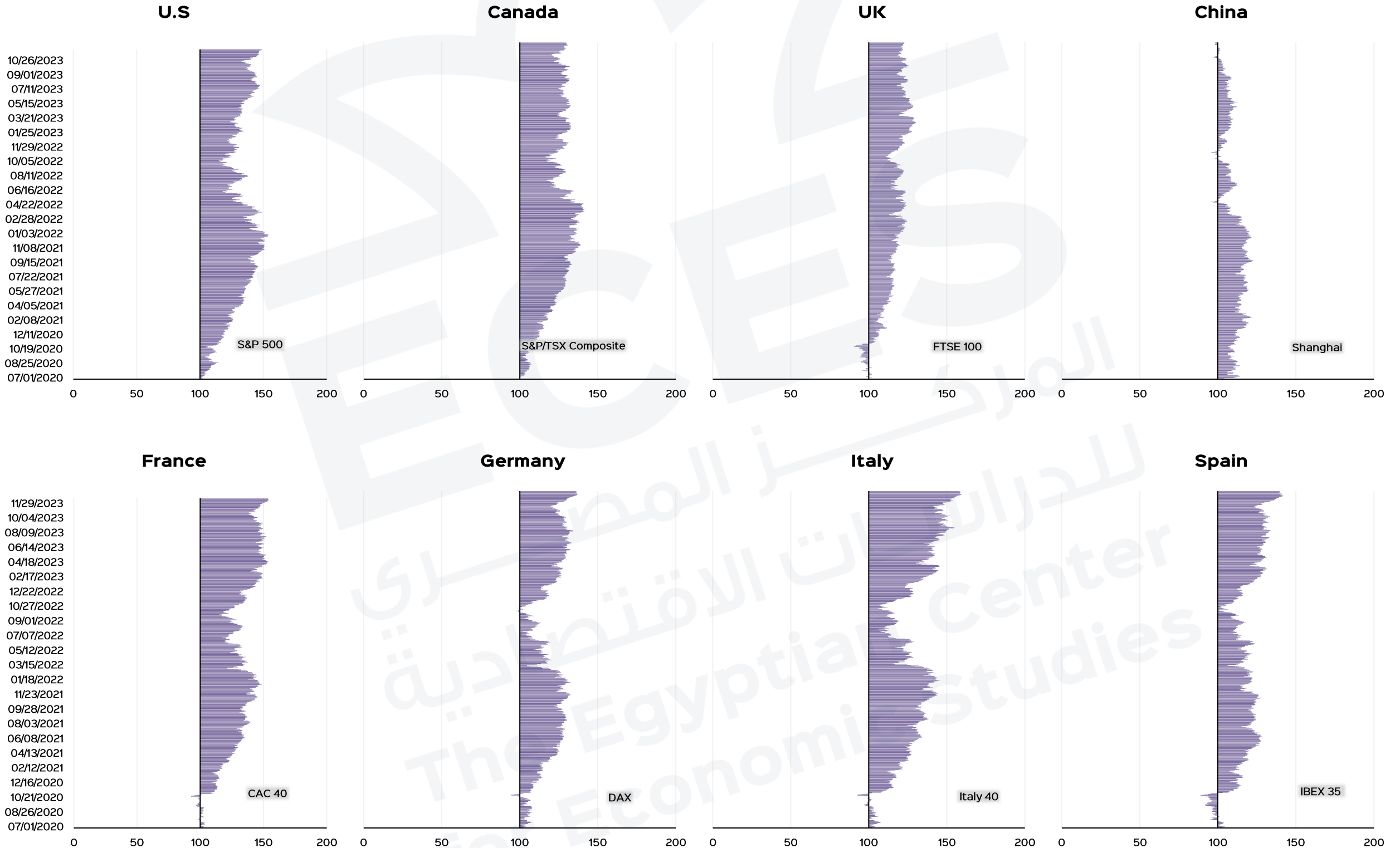
Bond Market

**December 2023 was a positive month for stock markets, given expectations of monetary easing, except for China which is experiencing slow growth.** With policy rates going down and central banks hinting at monetary easing to commence in 2024, global financial markets have mostly picked up steam in expectation of cheaper policy rates. China is the exception, and is still incapable of living up to forecasted growth.

Commodity Markets

Stock Market

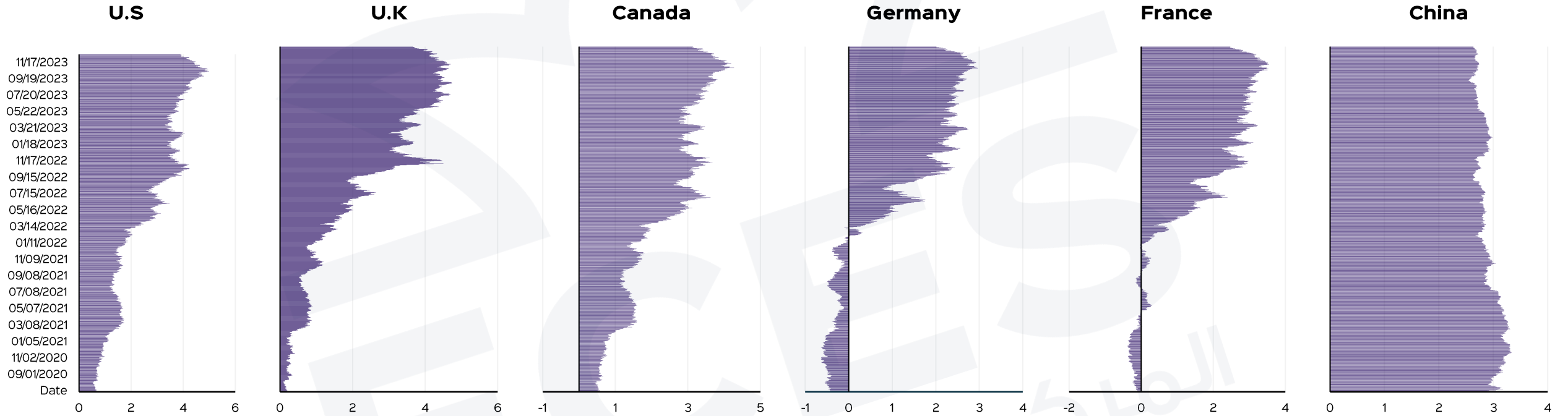
Bond Market



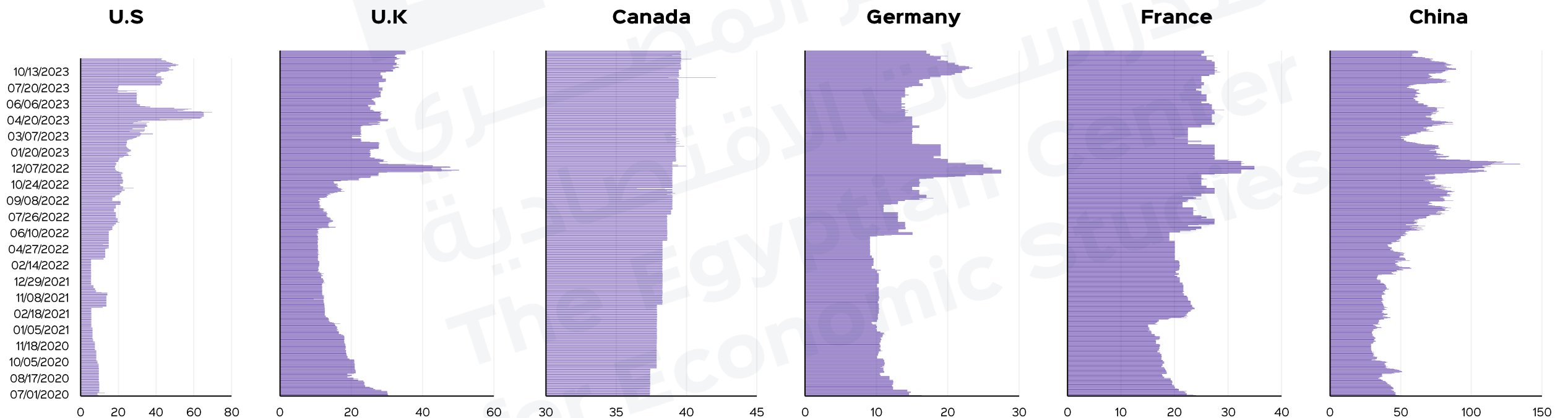


**Bond yields are decreasing thanks to expected easing, and CDSs are getting contained amid decreased risks.** With an expected easing cycle in view across developed markets, bond yields have subsided accordingly, and the risks to global markets have subsided resulting in low CDSs across the global markets.

10-Year Bond Yield



5-Year CDS



Commodity Markets  
Main Rates  
Stock Market  
Bond Market

**Inflation rates in emerging markets are not stable yet, with a spike in the last few months after decreasing in the first half of the year.** Despite the start of the easing cycle in global markets, there is a lagging effect on emerging markets, which still witness unstable inflation rates across different markets, with inflation rates still high in some countries.

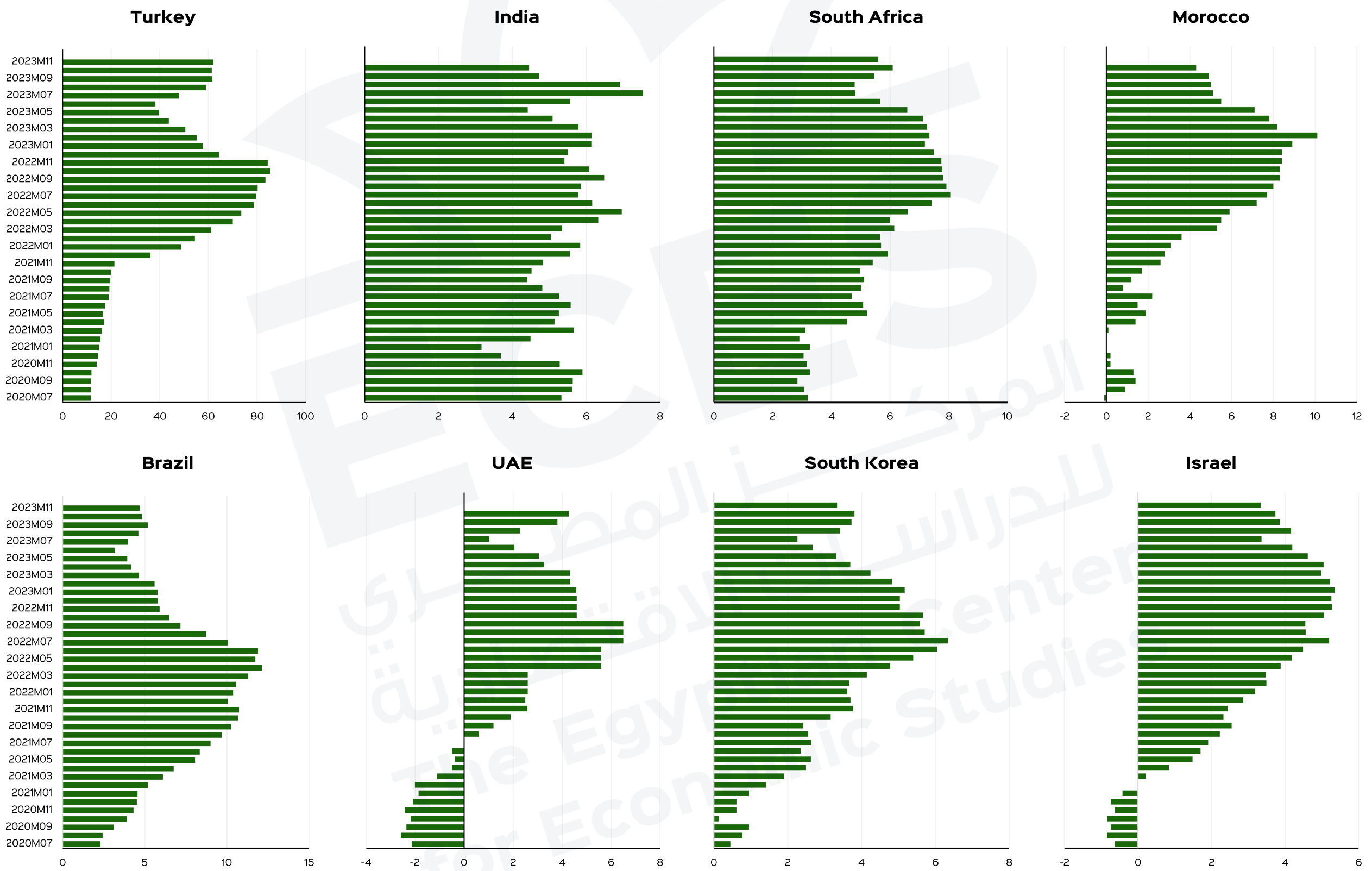
**Inflation Rate**

Policy Rate

LUC/UDC

Stock Market

Bond Market



**The central banks of most emerging markets still maintain very high interest rates to protect their currencies, with the exception of Brazil and Israel, which have started easing.** The lagging effect between global and emerging markets is evident on policy rates which remain quite high to help contain persistently high inflation, as well as defend local currencies that still face some external pressures.

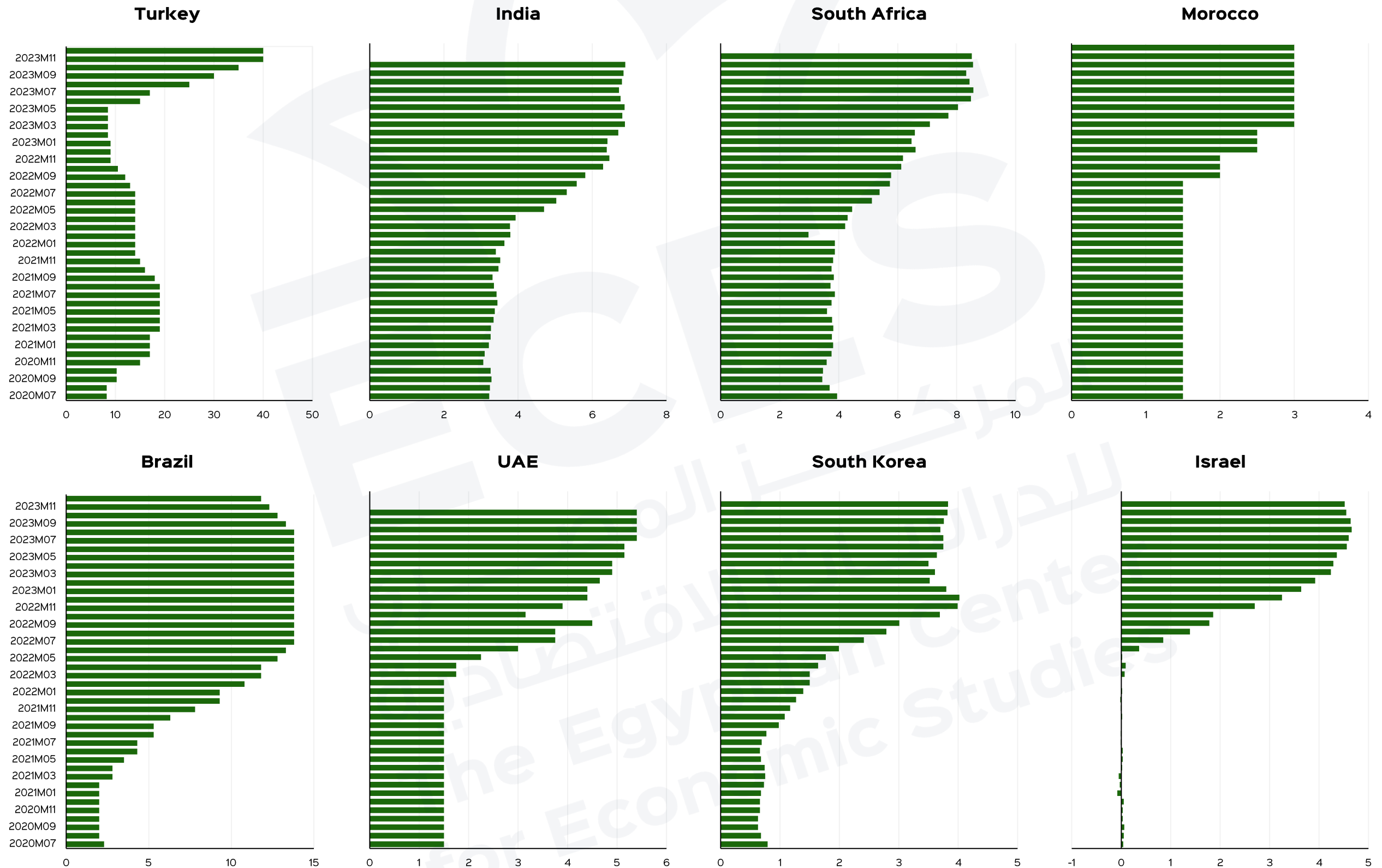
Inflation Rate

Policy Rate

LUC/UDC

Stock Market

Bond Market





**Pressure on emerging markets' currencies started to cool down with some currencies even gaining value.** Despite beginning to ease globally emerging markets' currencies still face external pressures, yet high policy rates in emerging markets are helping ease the pressure and emerging markets are maintaining their values or even making gains against USD.

Inflation Rate

Policy Rate

LUC/USD

Stock Market

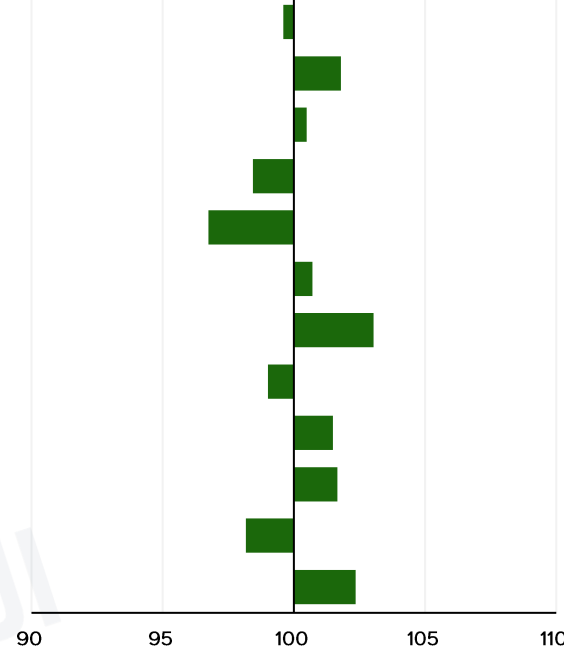
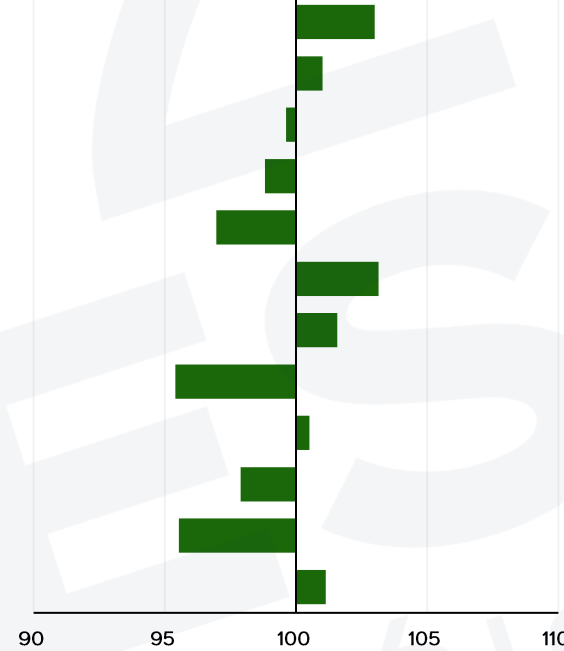
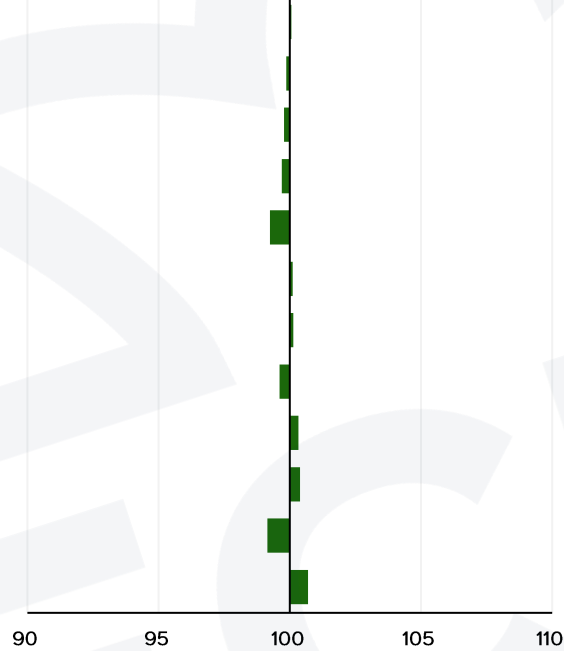
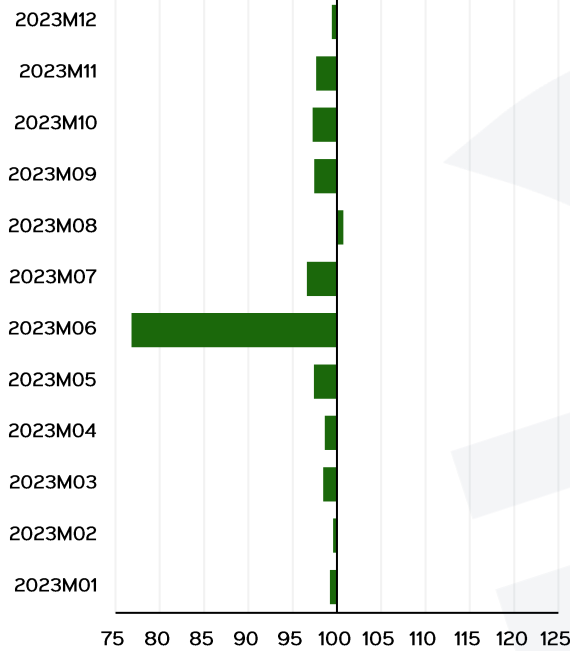
Bond Market

**Turkish Lira**

**Indian Rupee**

**South African Rand**

**Moroccan Dirham**

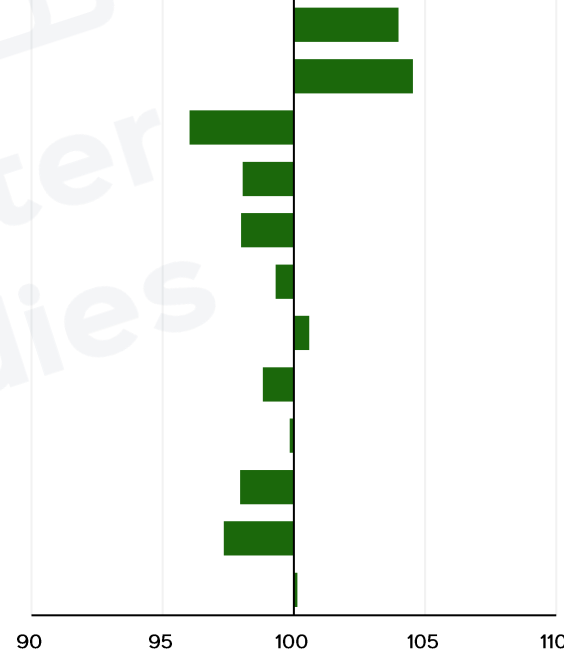
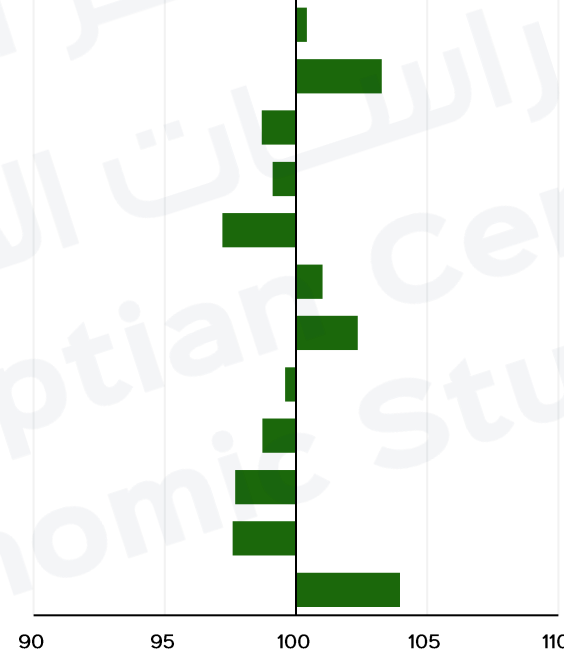
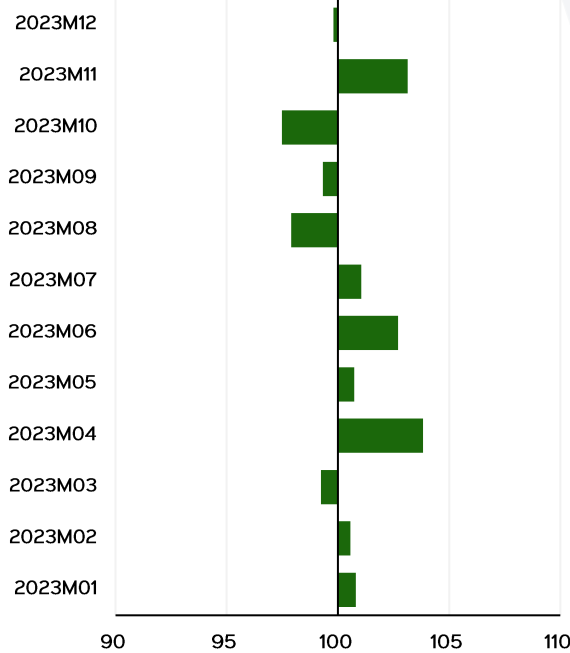


**Brazilian Real**

**U.A.E. Dirham**

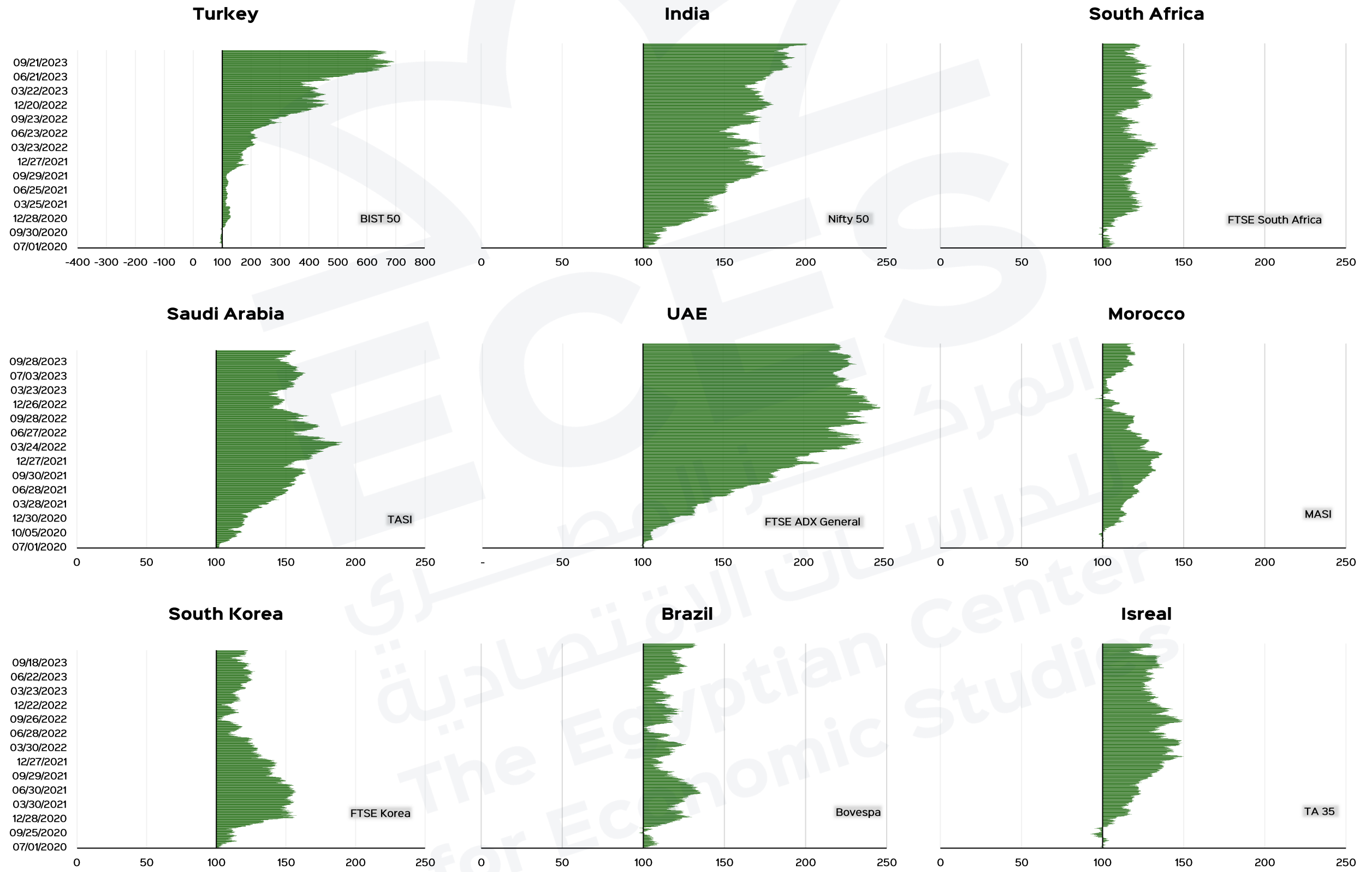
**Korean Won**

**Israeli New Shekel**



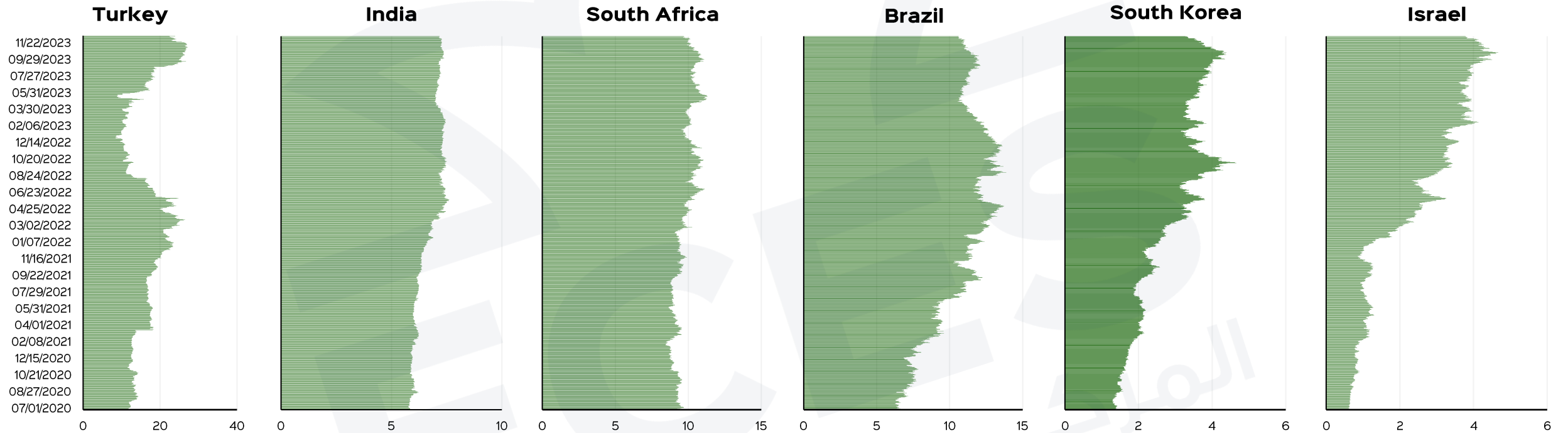
Most emerging markets' stock markets rebounded in December 2023 expecting future easing to cascade to their markets. Despite the lagging effect in emerging markets, the easing cycle is expected to commence in 2024 in most emerging markets even if later than global markets, and this has resulted in heightened expectations of rebound in emerging markets' stock markets.

Inflation Rate  
Policy Rate  
LUC/UDC  
Stock Market  
Bond Market

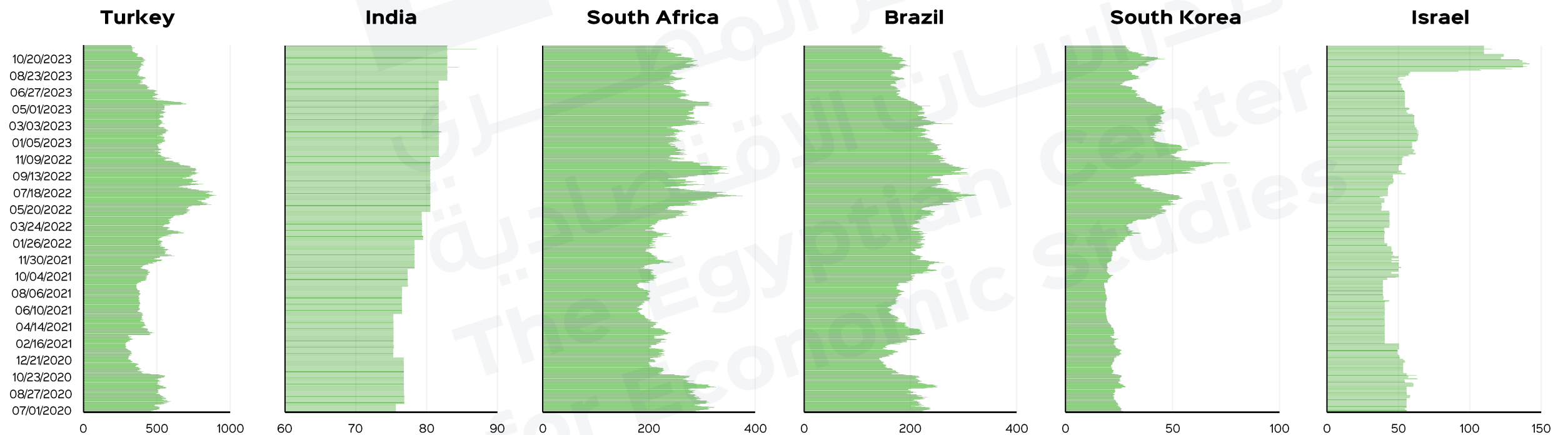


**High bond yields of emerging markets have started to decrease, but at a slower rate than in CDSs, reflecting an expected easing cycle.** Despite the lagging effect in emerging markets, the easing cycle is expected to commence in 2024 in most emerging markets even if later than global markets; this has resulted in decreasing bond yields as well as less risk of default as reflected by the decline of CDSs.

**10-Year Bond Yield**



**5-Year CDS**

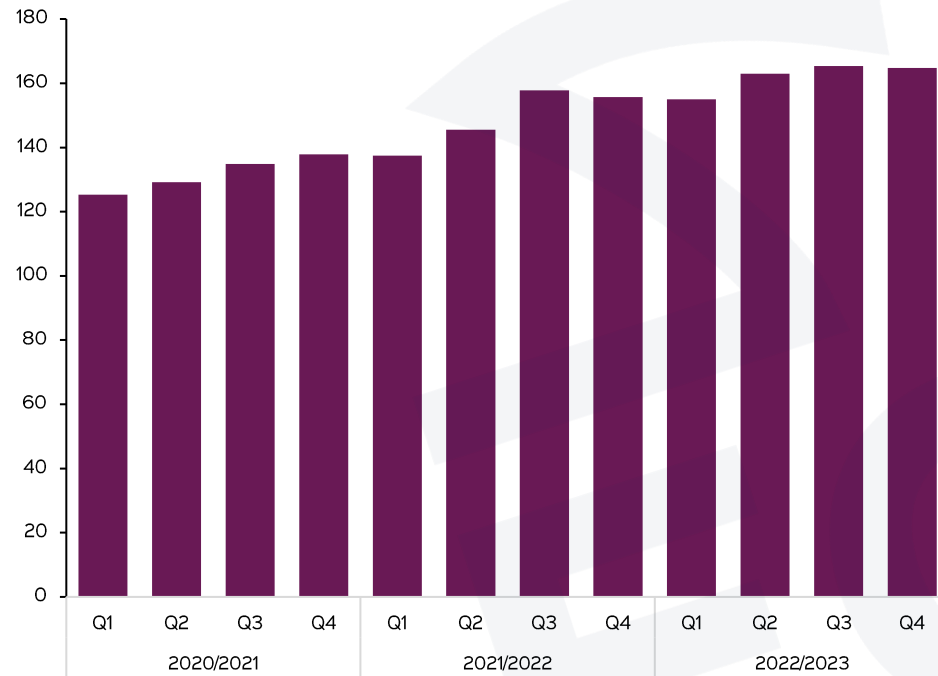


Inflation Rate  
 Policy Rate  
 LUC/UDS  
 Stock Market  
 Bond Market

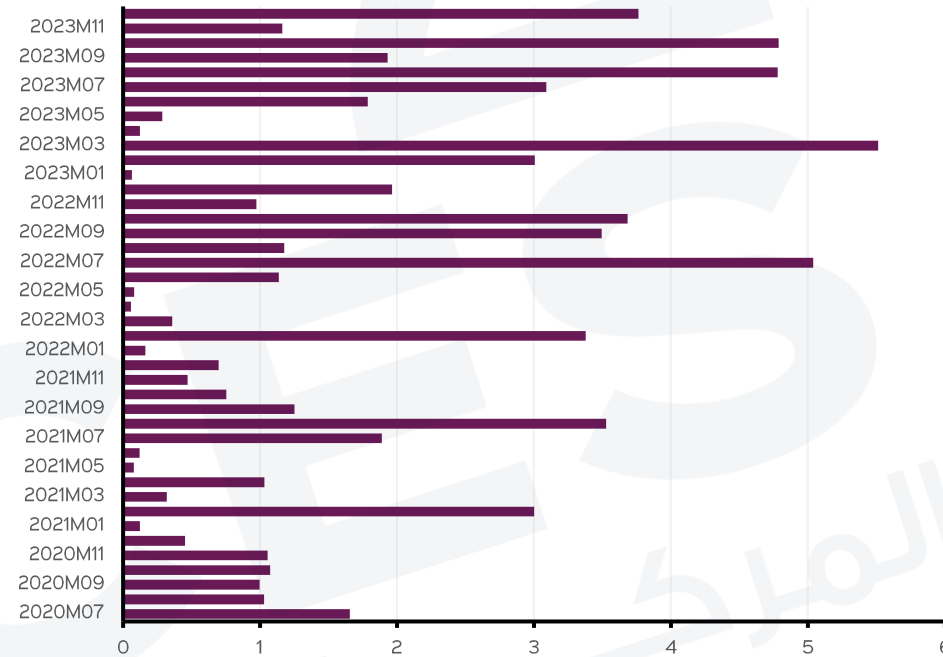


**Accumulated external debt and high external financing needs are putting pressure on bond yields and access to external financing, especially with low ratings.** Egypt has reached a critical position with a huge external debt burden, increasing the cost of debt service, which gets exacerbated by the low credit rating that has resulted into higher bond yield and higher cost to insuring the country's external debt as reflect by the spike in CDS.

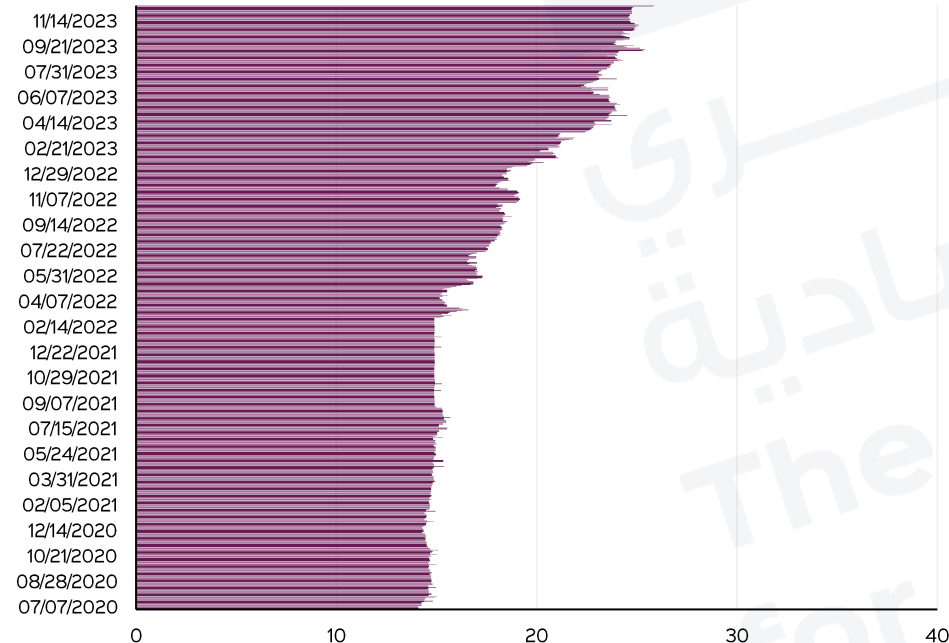
**Total External Debt, (bn USD)**



**External Debt Service (bn \$)**



**Egypt 10-Year Bond Yield**



**Egypt CDS 5 Years**



**S&P Global Ratings**

**B-** Stable

**Fitch Ratings**

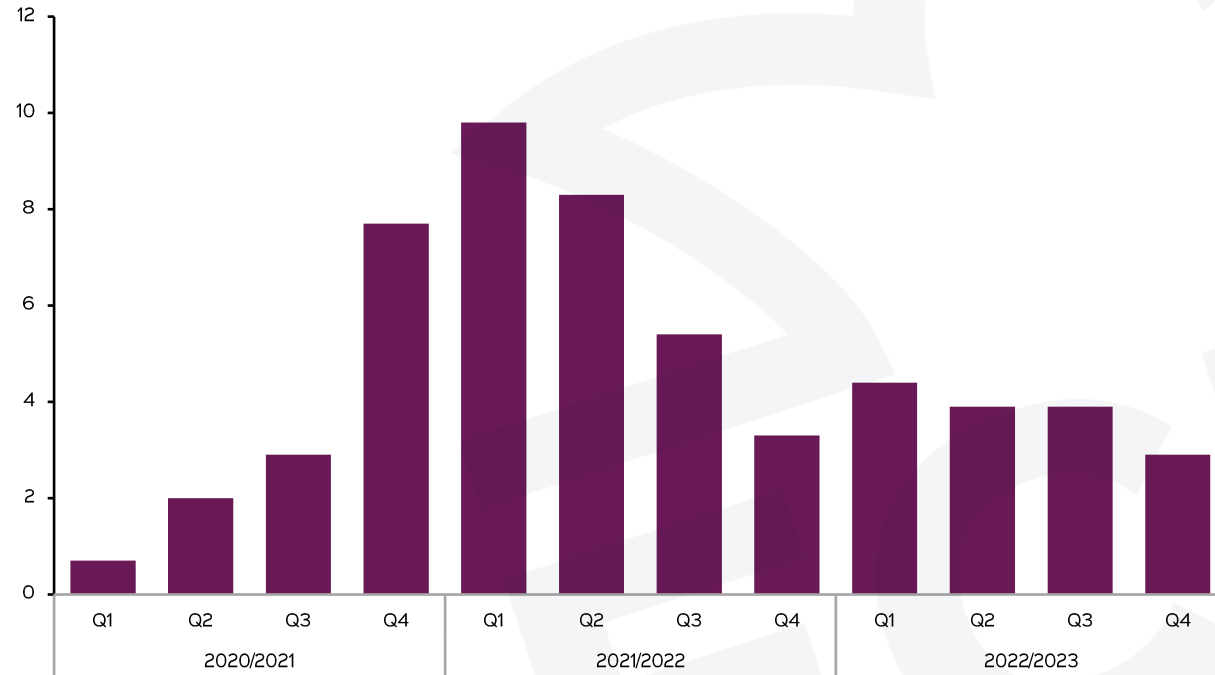
**B-** Stable

**MOODY'S INVESTORS SERVICE**

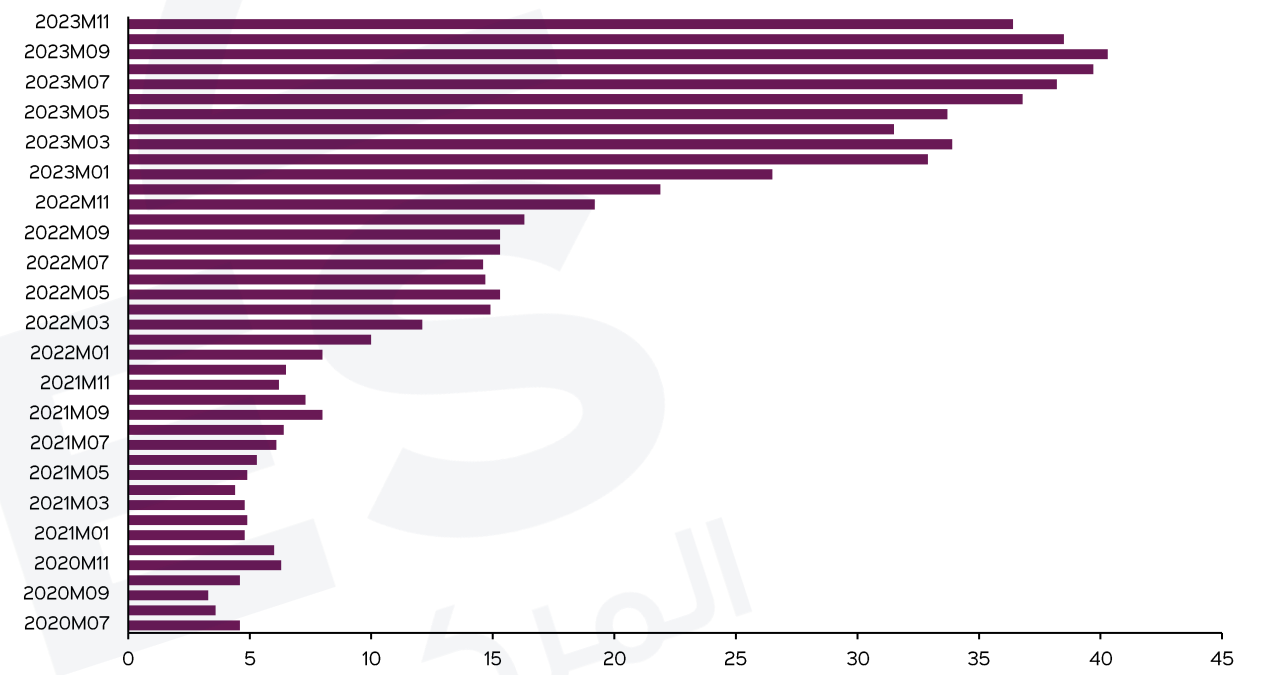
**Caa1** Negative

**Economy is still witnessing slow growth. High (though not rising) inflation and expansion in money supply has resulted into high interest rate.** Locally, Egypt is still going through an economic slowdown coupled with high inflation and expansion in money supply by the central bank, entailing a high policy rate that is not anticipated to go down soon.

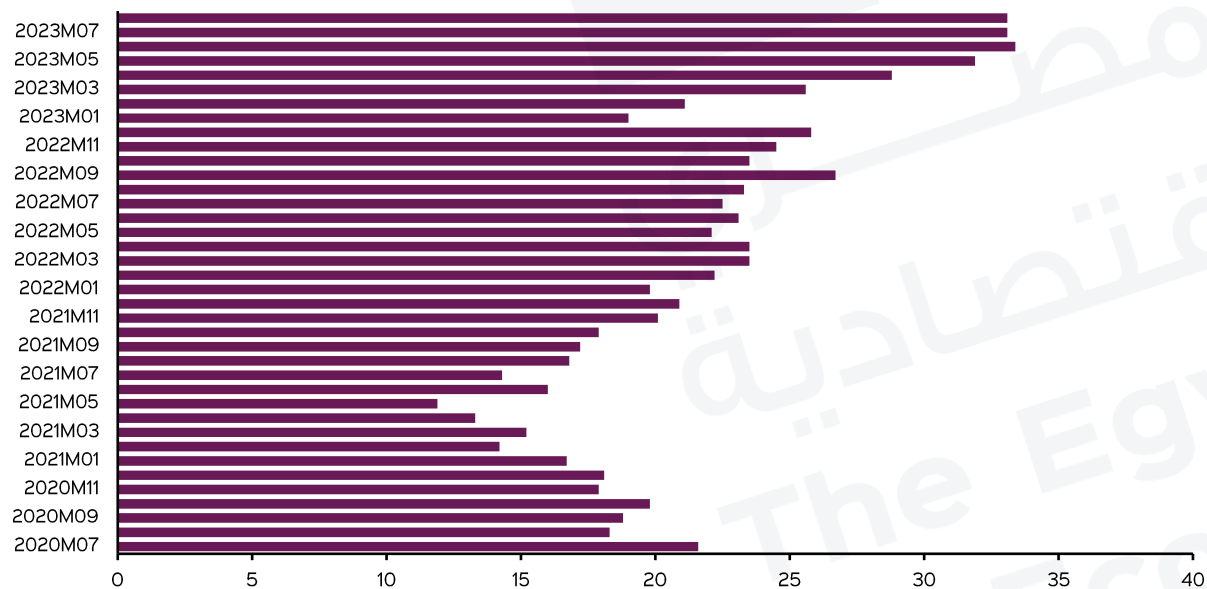
**GDP Growth Rate (%)**



**Inflation Rate (%)**



**Growth rate of money supply (M1)**



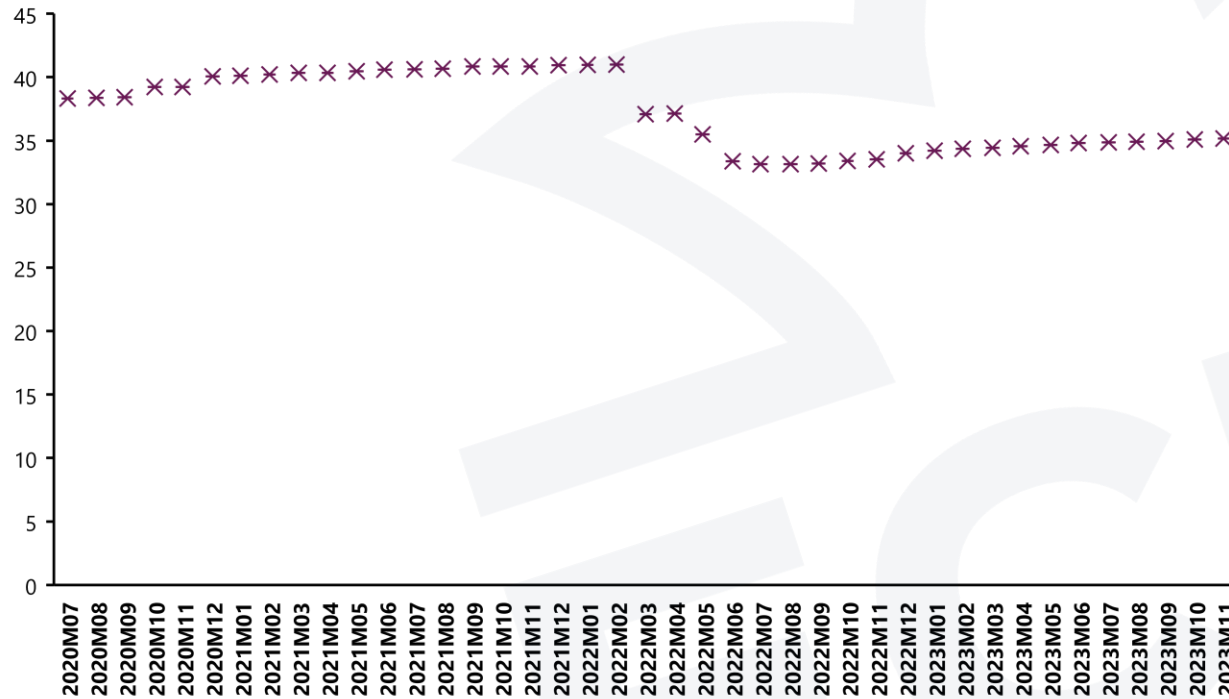
**Policy Rate(%)**



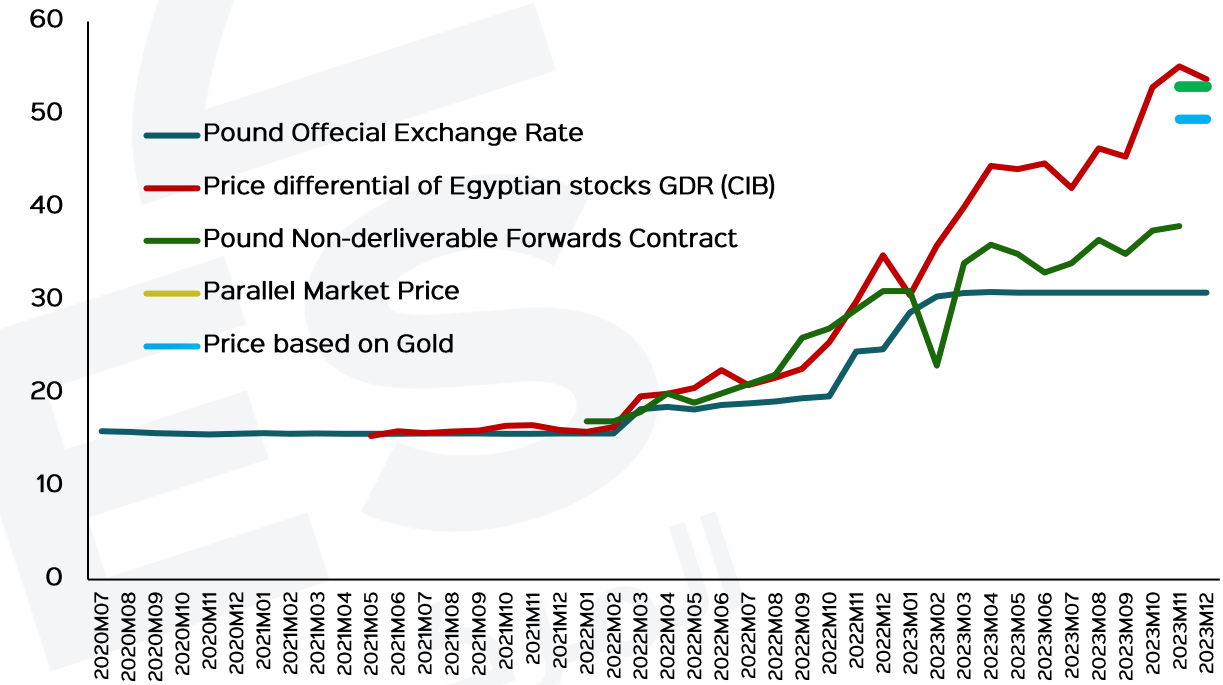
**International reserves are effectively declining, leading to huge pressure on the Egyptian pound, with multiple exchange rates prevailing; the stock market rallies as a hedge.** Despite a seemingly stable international reserves level, the negative net foreign assets position in the banking system signals an effectively declining level of real reserves in the banking system, with the direct result of having multiple exchange rates with widening gaps between these rates in the market.

External Position

**Net international reserves (\$ bn)**

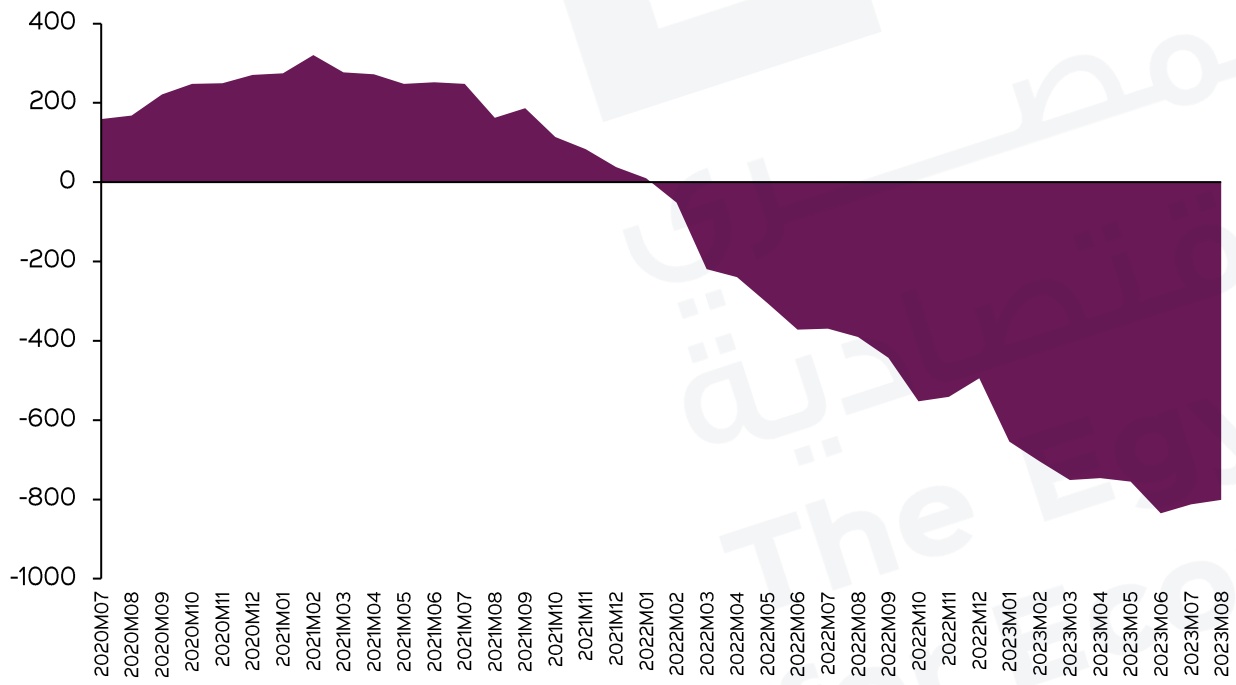


**Pound Exchange Rate**

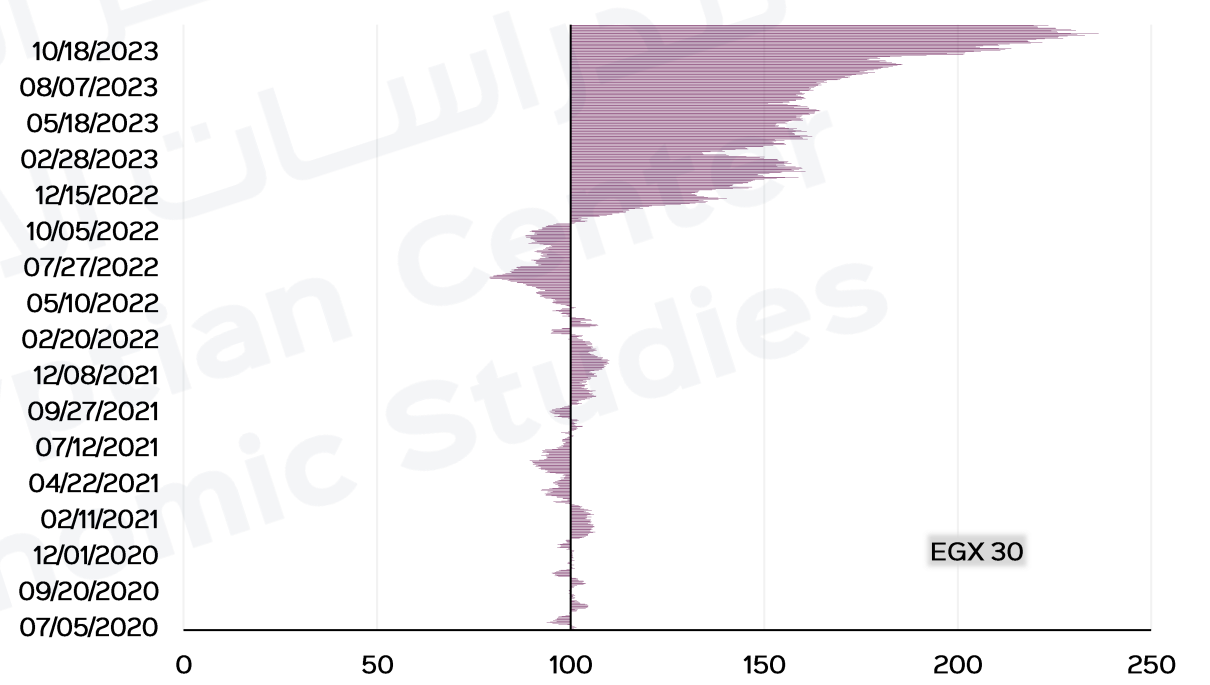


Local Developments

**Net Foreign Assets of the Banking System (bn LE)**



**Egypt**





# Analysis - Key Takeaways

## Global Markets



- After a long rising streak, commodity prices have started getting under control and has inflation started to be contained.
- Global central banks are signaling the start of the easing cycle, after a tough cycle of tightening to curb inflation.
- Global stock markets have reached record levels, and debt yields and CDSs are subsiding across most global markets.

## Emerging Markets



- Emerging markets still started on the easing cycle where inflation is still high, due to spill over effects from developed markets.
- Some emerging markets' central banks are even raising policy rates to protect their currencies, which have started to face less pressure.
- Emerging markets' stock markets have rebounded in December 2023, and bond yields have started to subside in anticipation of the easing cycle starting in emerging markets not too long after developed markets.

## Egyptian Local Market



- Unlike other emerging economies, the situation in Egypt is deteriorating.
- Egypt suffers from slow economic growth coupled with very high inflation, driven by pressures on the pound and increases in money supply.
- Egypt's policy rate has gone higher to curb inflation and preserve the pound, but with little success since it still suffers from immense pressure and multiple currency rates are propagated in the market due to the high negative net foreign assets position in the banking system.
- Egypt's accumulated external debt, negative net foreign assets, low credit ratings, and high short term external financing needs are all putting more pressure on the pound and making it hard to access international financial markets.

# Latest News\* of Potential Future Impact on Financial Markets

## Global Markets



- Yemen's Houthis attack Israel-bound ships in Red Sea.
- US strikes Houthi fighters amid continued attacks on ships off Yemen.
- Mediterranean Shipping Company (MSC), has announced it is diverting its ships away from the Red Sea because of an increased threat of attacks.
- Container shipping giant A.P. Moller-Maersk said it would stop its vessels from sailing through the Red Sea.
- Pause in Qatar gas shipments through Red Sea.
- Russian Government introduces temporary ban on durum grain exports.
- Drop in Panama Canal traffic due to a severe drought.

## Emerging Markets



- IMF Staff and the Argentine Authorities Reach Staff-Level Agreement on Seventh Review under the Extended Fund Facility Arrangement
- Turkey returns to dollar bond market.
- Saudi Arabia Issues \$12bn Bond.
- Indian companies' rupee bond issuance at record in 2023 on jumbo debt sales.
- NDB makes a strong return to South African Bond Market with successful ZAR 1.3bn bond issuance.
- Argentina pulls out of plans to join BRICS bloc.

## Egyptian Local Market



- Egypt Grapples With Impact of Red Sea Hits on Suez Canal Revenue.
- The Central Bank of Egypt (CBE) imposed restrictions on credit cards issued on or after December 21 regarding foreign exchange (FX) transaction.
- The Egyptian government is in talks with the International Monetary Fund (IMF) for a new timeline for the loan deal.
- Egypt's Market witnesses new wave of rising prices.
- AlShaya Group trims operations in Egypt due to economic conditions.
- Moody's changes outlook on Egypt to negative, Affirms Caa1 Ratings.

\* at publishing time

# Sources

## Global Markets



- Food and Agriculture Organization of the United States
- OECD.Stat
- International Monetary Fund
- Corporate Finance Institute
- World Bank
- Investing.com

## Emerging Markets



- OECD.Stat
- Central Bank of Saudi Arabia
- Central Bank of Morocco
- Central Bank of UAE
- Investing.com

## Egyptian Local Market



- Central Bank of Egypt
- World Bank
- Ministry of Planning and Economic Development
- Egyptian Exchange
- Central Bank Of Egypt
- Investing.com

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...one high...  
...und is still suffering huge pro...  
...at due to the high negative net foreign assets...  
...ternal debt, negative net foreign assets, low credit rating and high...  
...ancing needs are all putting more pressure on the pound and makin...  
...national financial markets

