



# Financial Markets Snapshot

Issue 2  
February 2024

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# About The Report

- The report explores the linkages between global, emerging and local financial markets, trying to examine the changes taking place in the global markets, and how they reflect on emerging markets, which in turn have implications on the local Egyptian economy and its financial markets. The cascading impact is one of the most prevalent characteristics of 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 is presented mainly in rates such as inflation rates or interest rates or in an indexed format, with base points at 100 to ease comparison and analysis across different countries and indicators.

# Methodology

## Global Markets



- Global markets such as the 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 report 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 commodity prices, yet with a slight increase in the prices of some commodities.** Generally, the volatility in the prices of commodities have decreased over the last few months, yet the prices in January of some critical commodities such as oil, palm oil and maize, have started to increase, putting some pressure on inflation rates across the world.

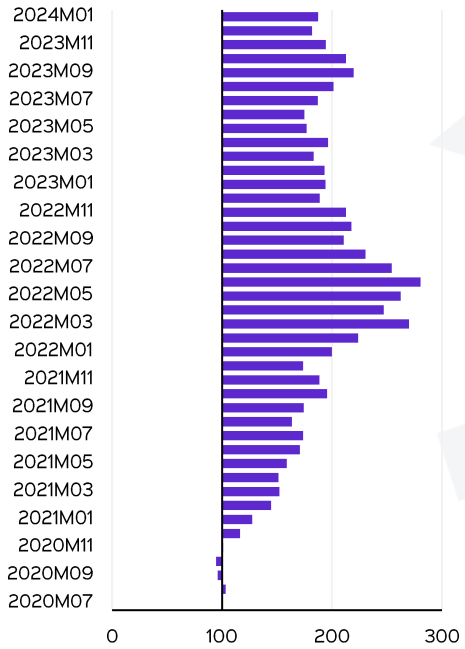
Commodity Markets

Main Rates

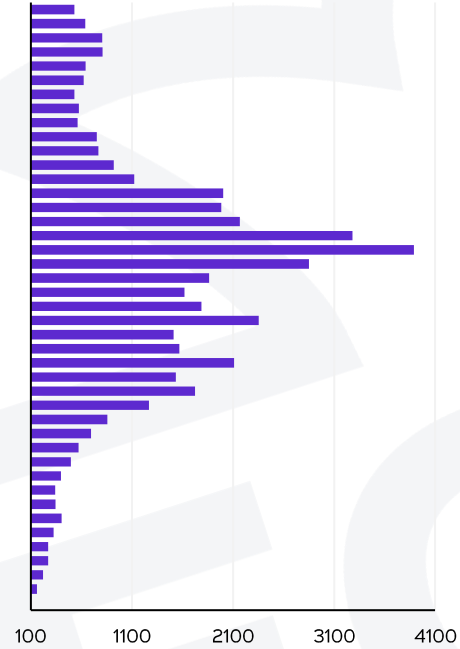
Stock Market

Bond Market

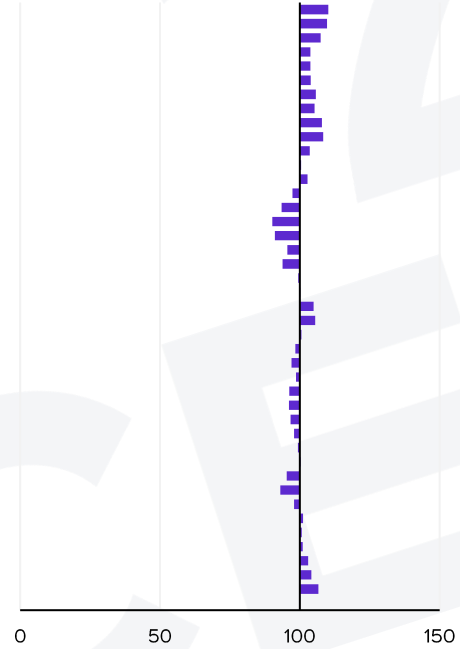
Crude Oil, Brent



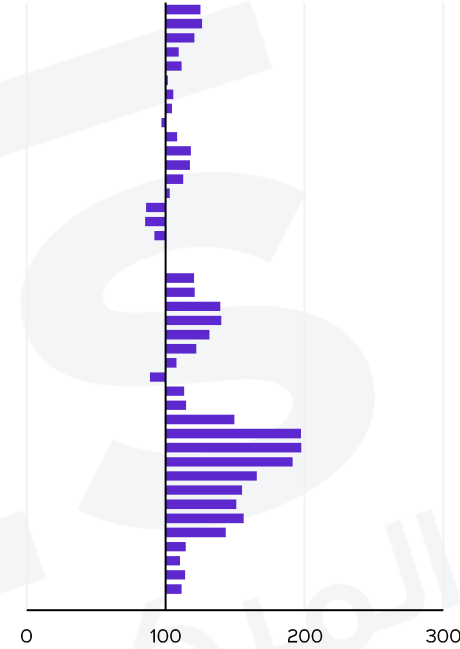
Natural Gas



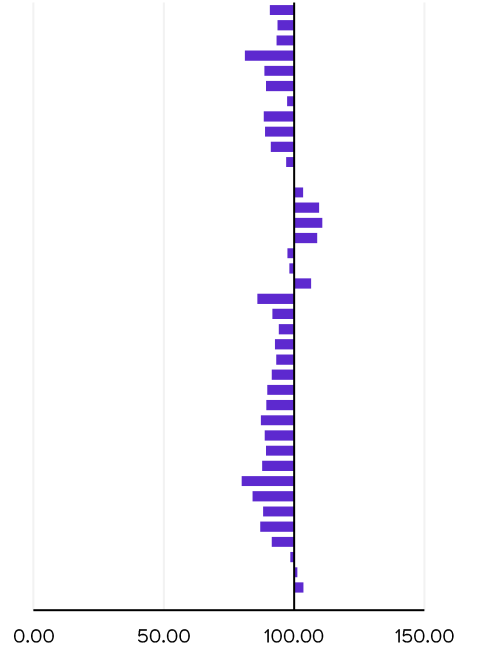
Gold



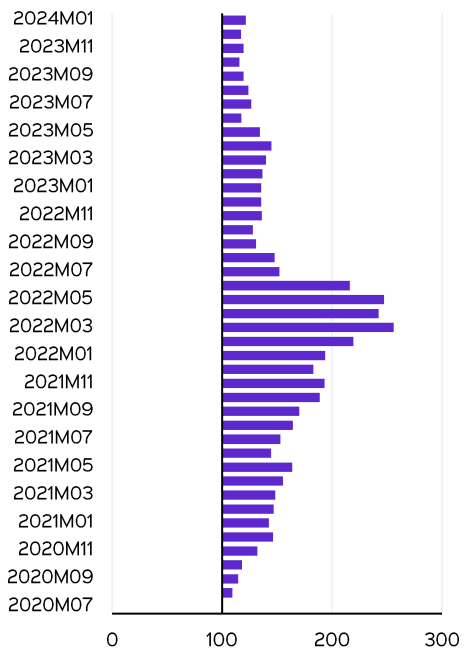
Iron ore



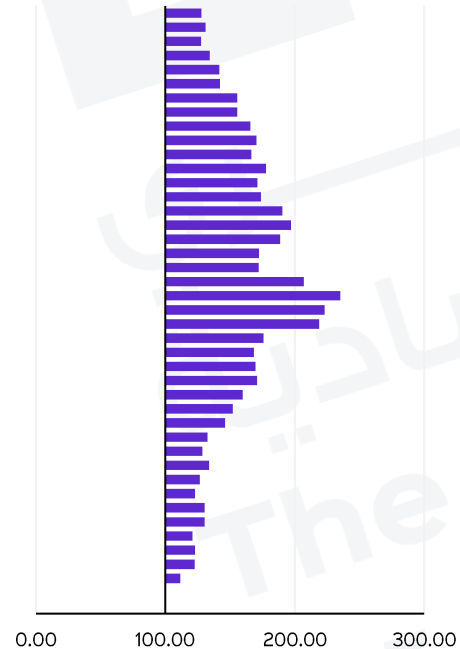
Tea



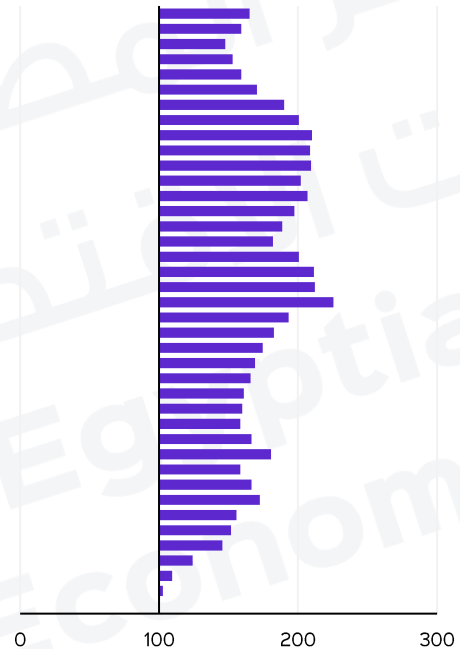
Palm oil



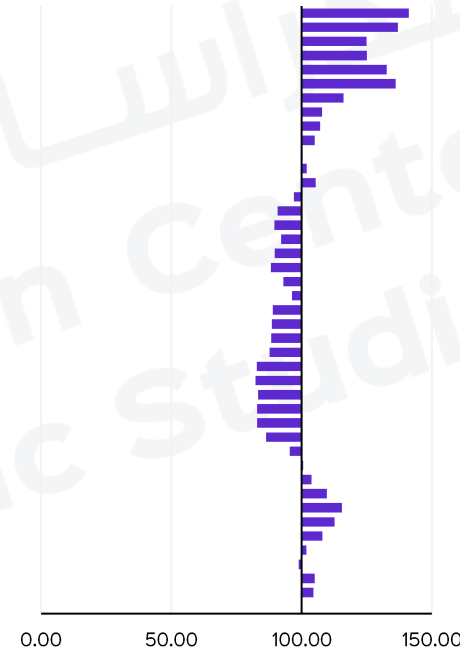
Wheat



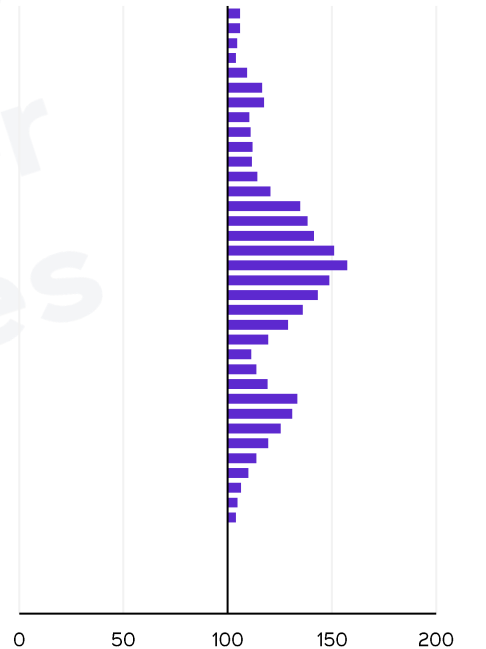
Maize



Rice

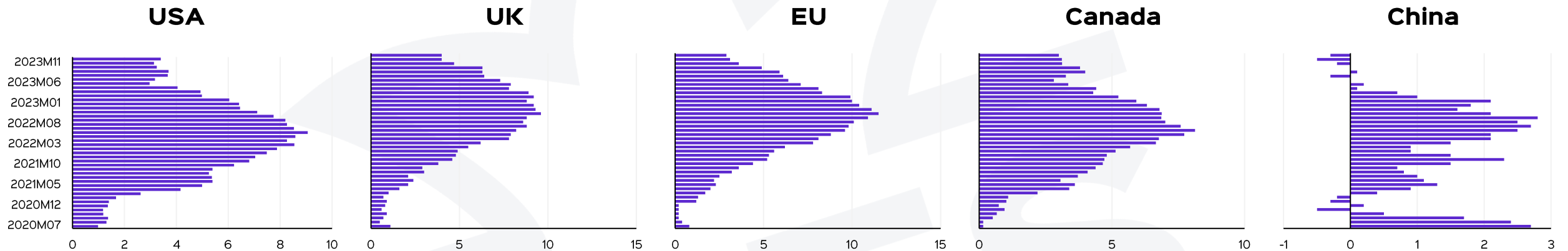


Bovine meat

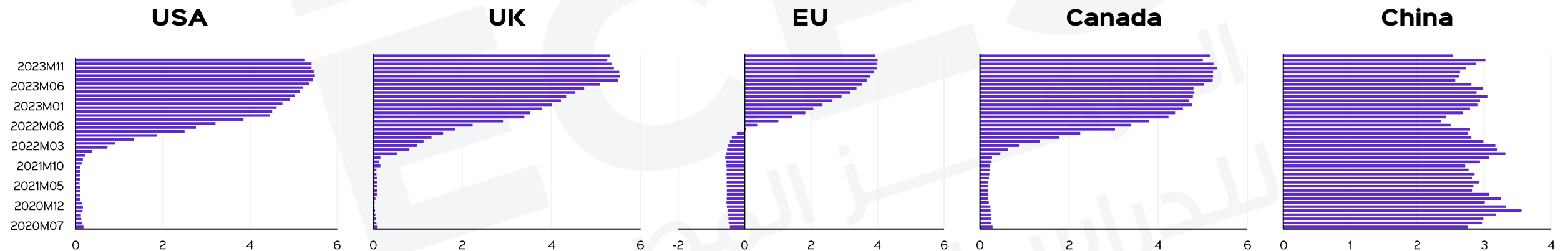


**Inflation rates getting under control, but lately rates have not declined as expected hinting a slower easing pace.** Inflation rates started to get under control in different global markets lately, yet the inflation in January didn't go down as expected, signaling that expected easing cycle will start later than expected. This has affected interest rates, which didn't drop as expected. And with a stronger dollar, other currencies lost value.

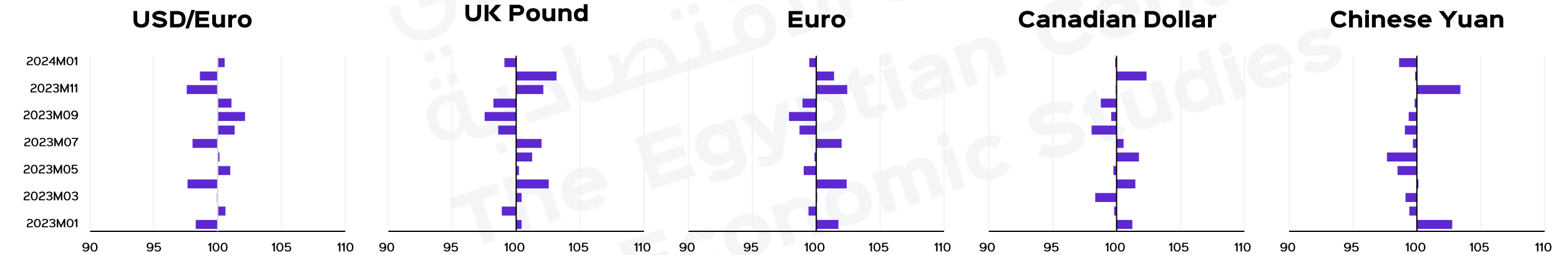
**Inflation Rate**



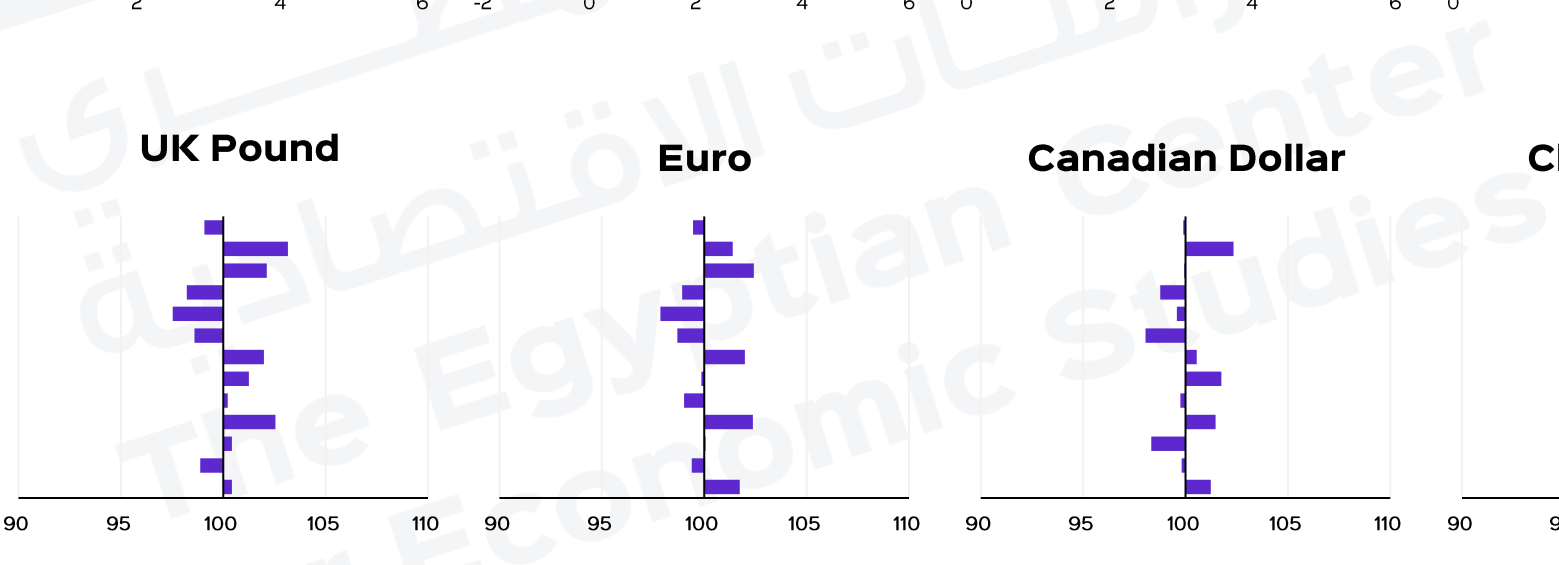
**Policy Rate**



**LCU / USD**



Commodity Markets  
Main Rates  
Stock Market  
Bond Market

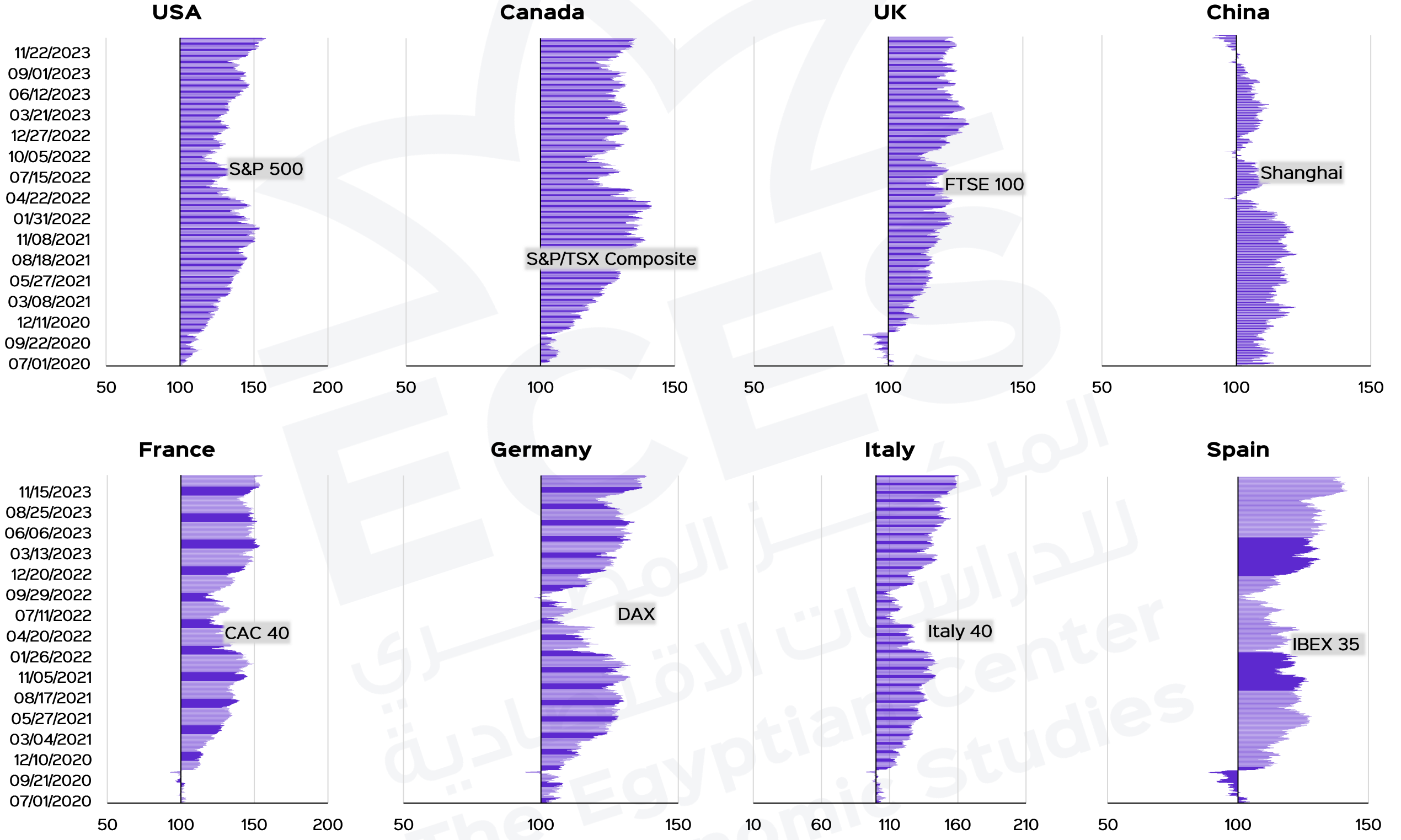


**January 2024 ended as a good month for global stock markets, though a turbulent one due to fears of consistent inflation and thus high policy rates.** With policy rates going down, financial markets started the year with very optimistic outlooks. The situation became somewhat confusing when inflation figures signaled a delayed easing, but the markets rebounded again with the belief that easing will come this year, even if a few months later than expected.

Commodity Markets

Stock Market

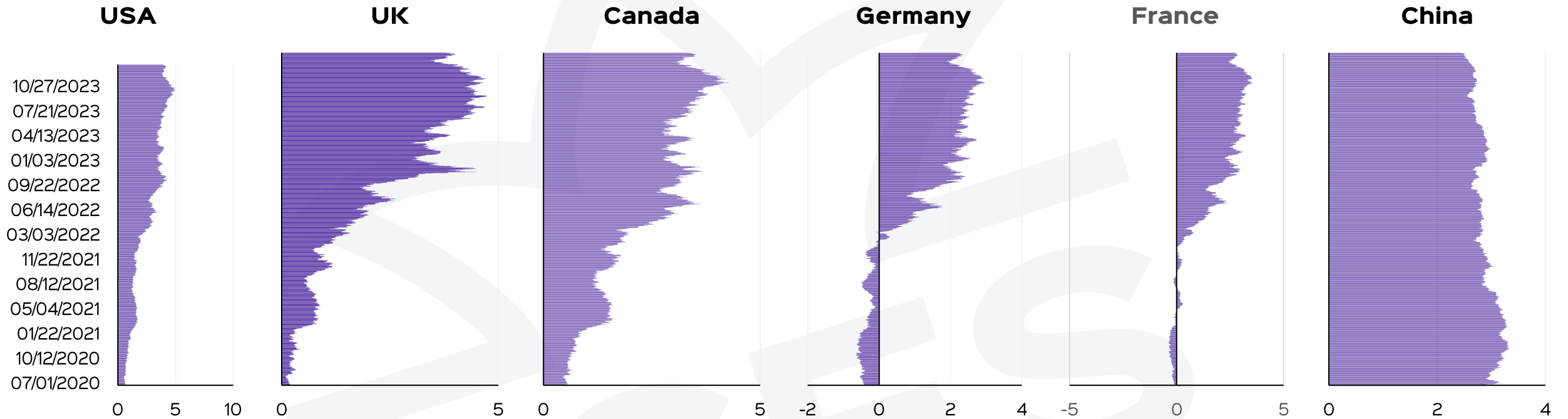
Bond Market



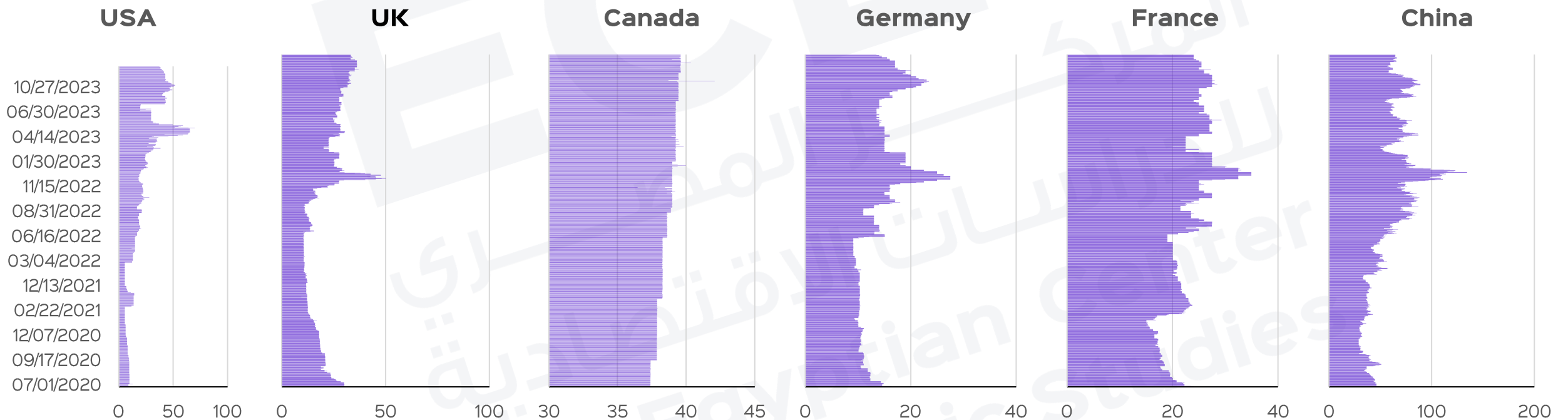


**Bond yields inched a bit thanks to the delayed easing, while CDSs are getting contained amid decreased risks.** With the obvious delay of the easing cycle, bond yields in major countries increased slightly, given a slower than expected decline in interest rates. Still, the risks to global markets have subsided resulting in low CDSs across the global markets, even if easing will take a few more months to commence.

10-Year Bond Yield



5-Year CDS



Commodity Market  
Main Rates  
Stock Market  
Bond Market

**Inflation rates in emerging markets are not yet stable, with a spike in the last few months after decreasing in the first half of the year.** Despite the nearing 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 and rising higher with the delay of the easing cycle.

Inflation Rate

Policy Rate

LUC/UDC

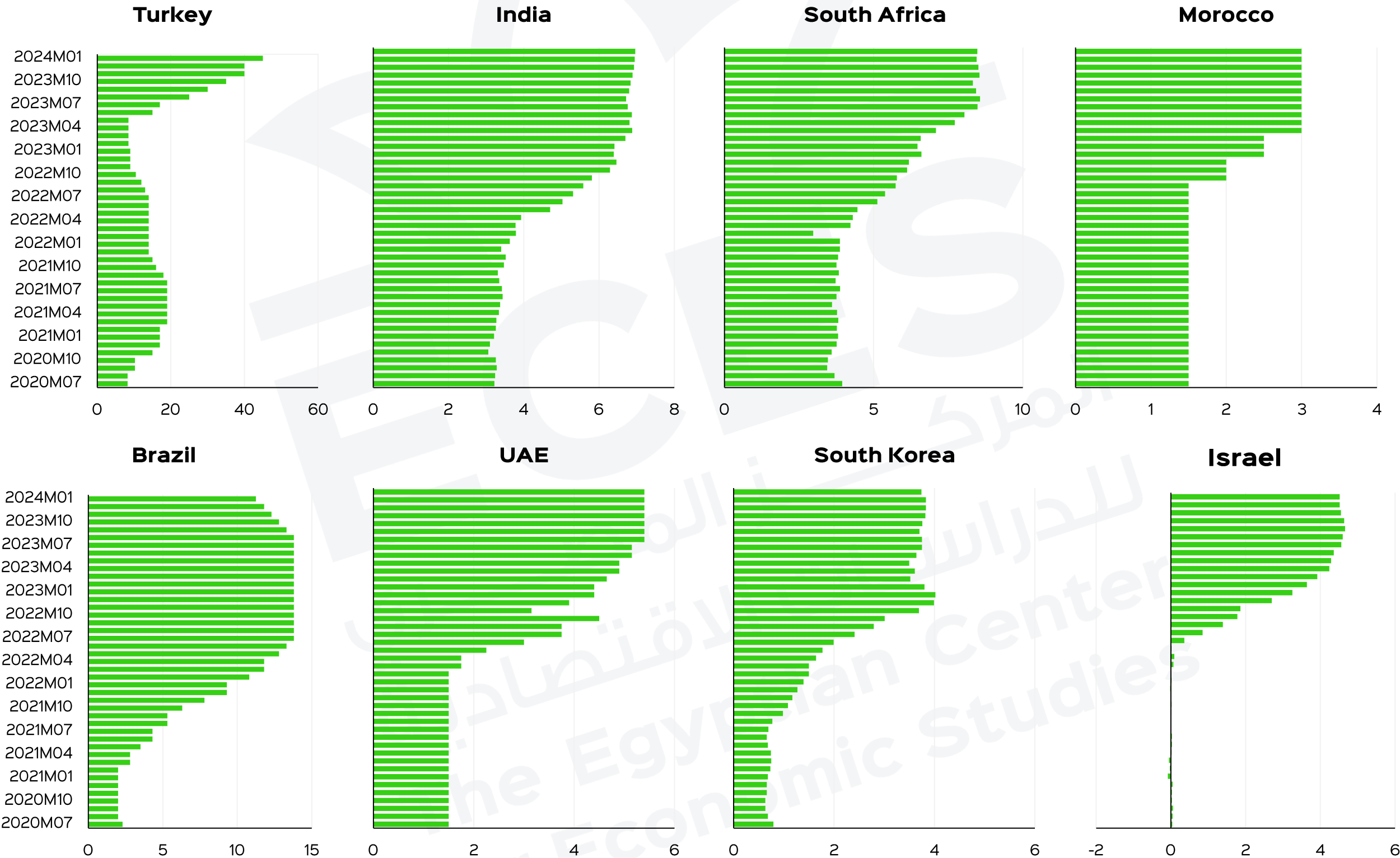
Stock Market

Bond Market



**The central banks of most emerging markets still maintain very high interest rates to protect their currencies with some, such as Turkey, hiking the rate further.** The lagging effect between global and emerging markets is evident in policy rates which remain quite high to help contain persistently high inflation, as well as defend local currencies that still face some external pressures. Turkey even went further in increasing policy rate to contain surging inflation and protect the Lira.

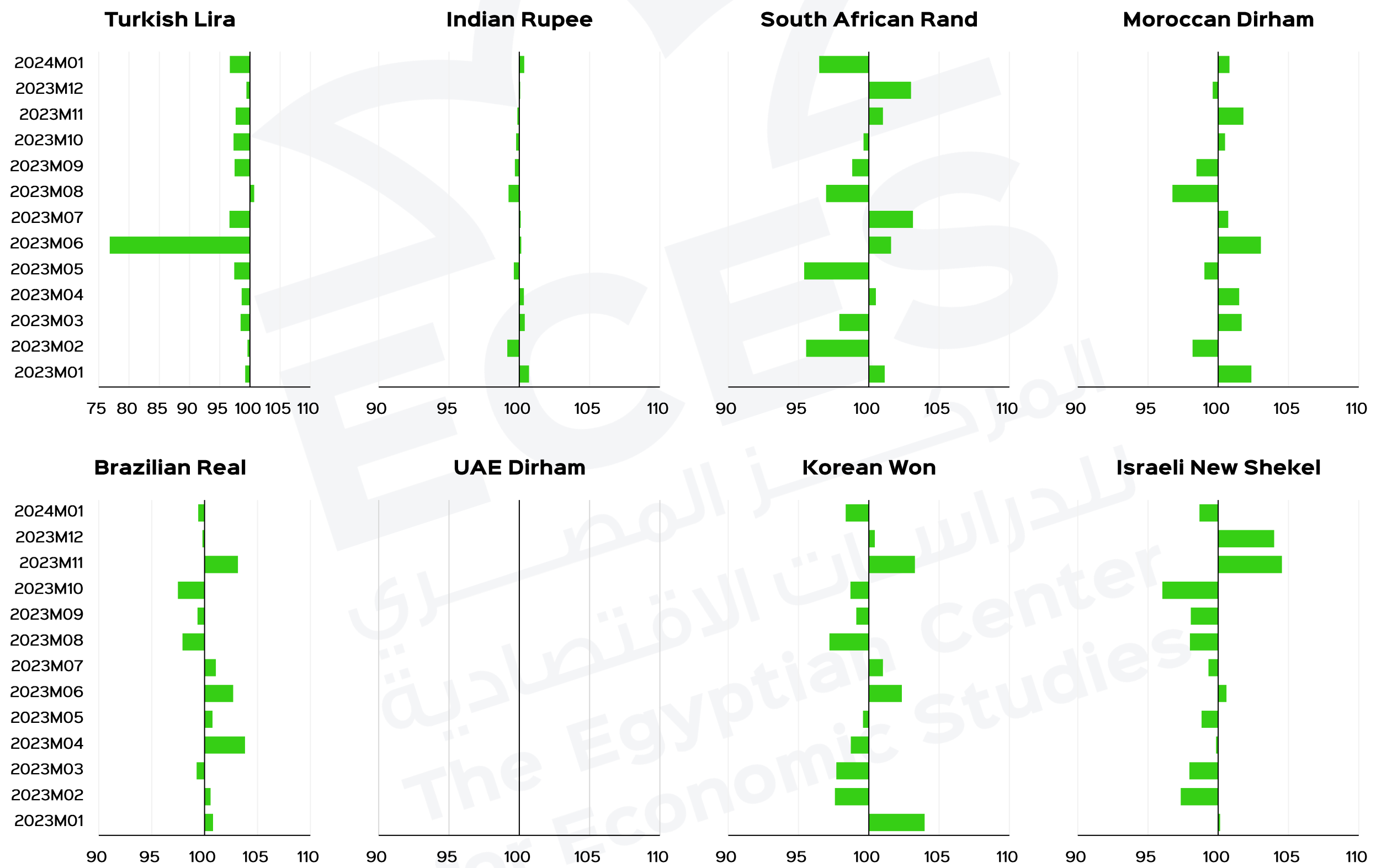
Inflation Rate  
Policy Rate  
LUC/UDS  
Stock Market  
Bond Market



**Pressure on emerging markets' currencies built up with the strengthening of the US dollar.** With the delayed start of the easing cycle, and an interest rate that remains high in the US market, the US dollar has gained strength, causing heavy losses for emerging markets currencies.

LUC/UDS

Bond Market | Stock Market | Inflation Rate | Policy Rate



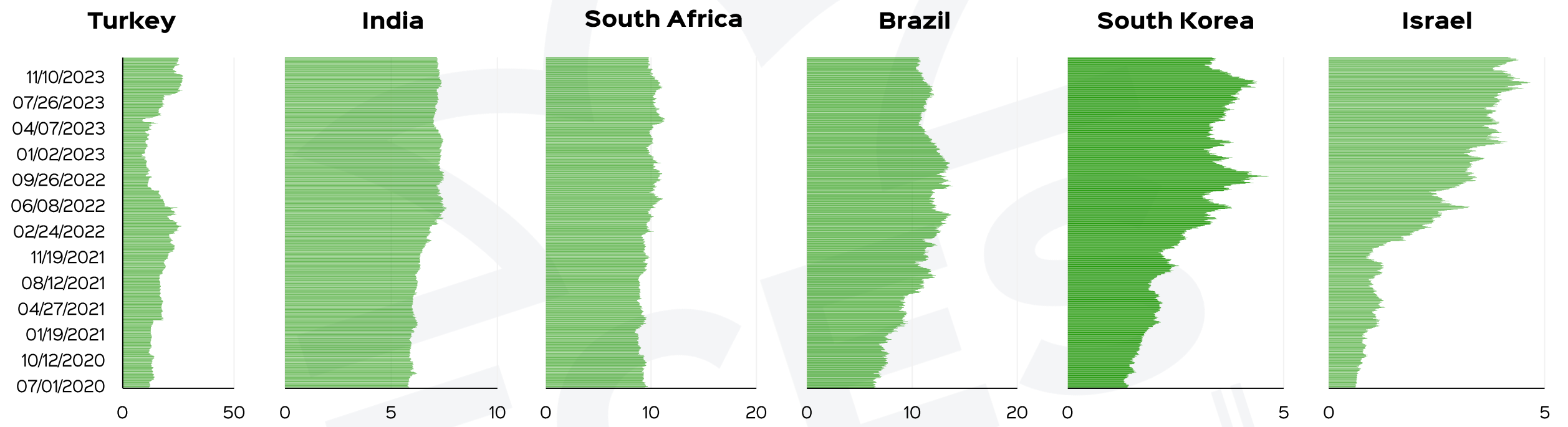
**Most emerging markets' stock markets progressed in Jan 2024, mirroring global financial markets.** Despite the lagging effect in emerging markets, emerging markets' stock markets acted more or less the same as global stock markets, with most ending up higher that end of year, with the expectation that the easing cycle in the global markets will take place in 2024.

Inflation Rate  
 Policy Rate  
 LUC/UBC  
**Stock Market**  
 Bond Market

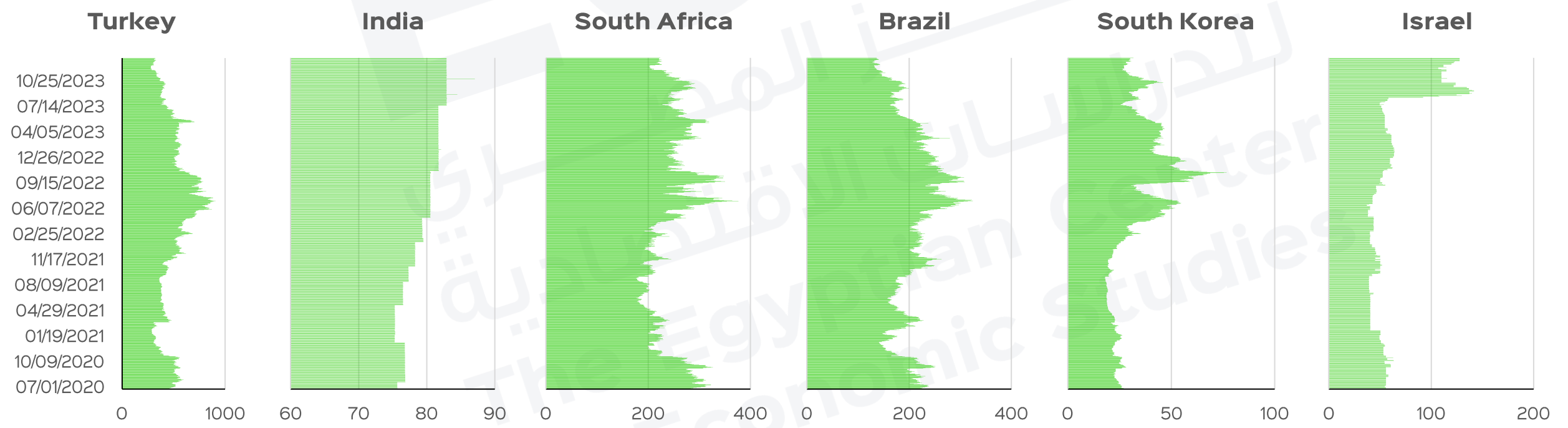


**Bond yields in emerging markets, as well as CDSs inched upwards in January.** With the delay in the easing cycle start and a persistently high interest rate in developed markets. Bond yields in emerging markets and CDS rates increased as well in anticipation of a tenaciously high interest rate environment for a few more months before rate cuts commence.

**10-Year Bond Yield**



**5-Year CDS**



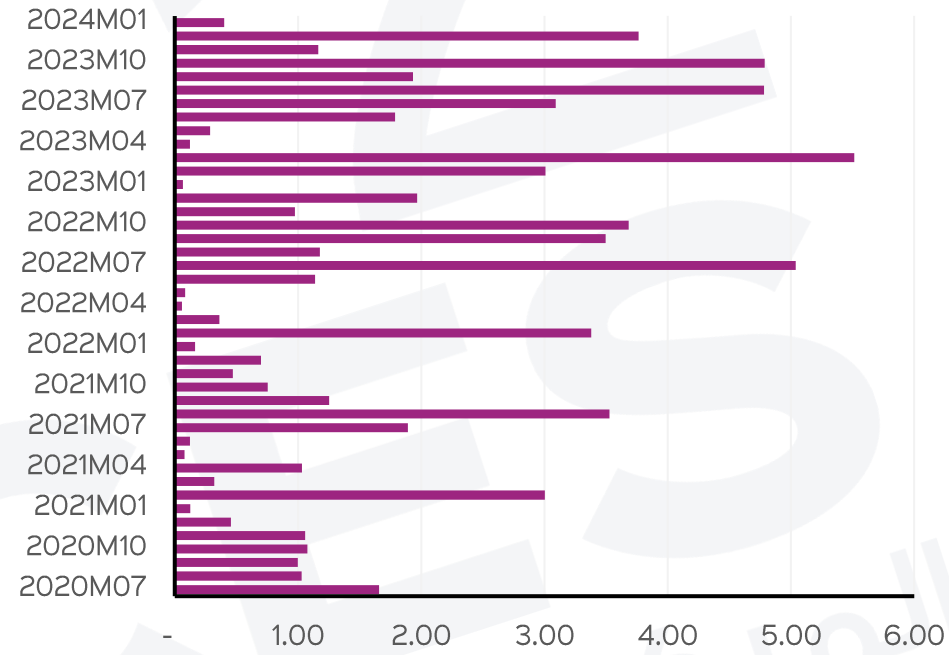
Inflation Rate  
 Policy Rate  
 LUC/UBS  
 Stock Market  
 Bond Market

**Accumulated external debt and high external financing needs are putting pressure on bond yields and access to external financing, especially with low ratings.** The high burden of external debt has resulted in higher bond yields, which could have gone even further, were it not for the prospective IMF deal, which seems close to fruition and helped to contain CDSs rates in turn, as the risk of default subsided with the new deal.

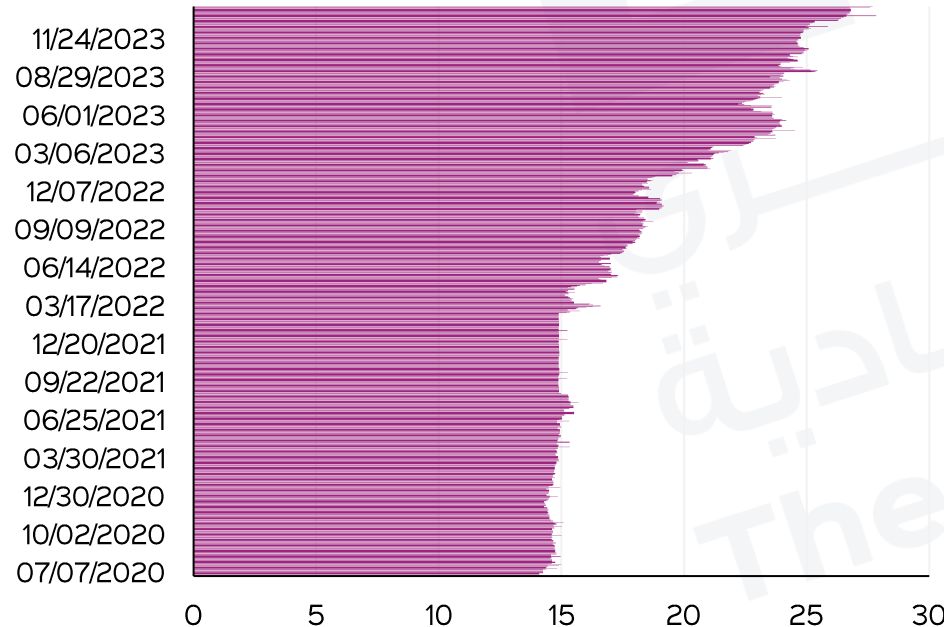
**Total External Debt (bn \$)**



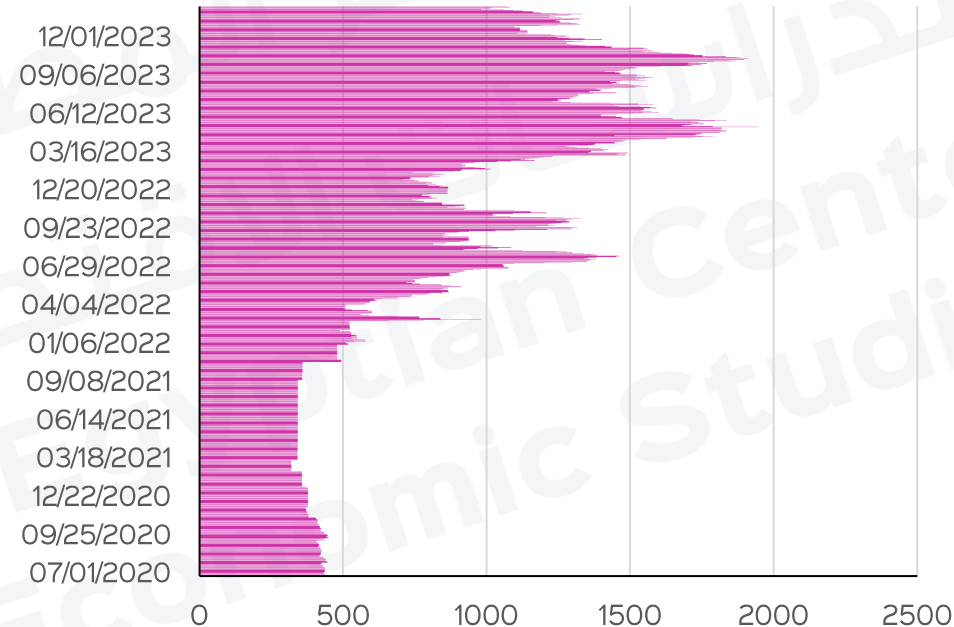
**External Debt Service (bn \$)**



**Egypt 10-Year Bond Yield**



**5Y CDS, Egypt**



**S&P Global Ratings**

**B-** Stable

**Fitch Ratings**

**B-** Stable

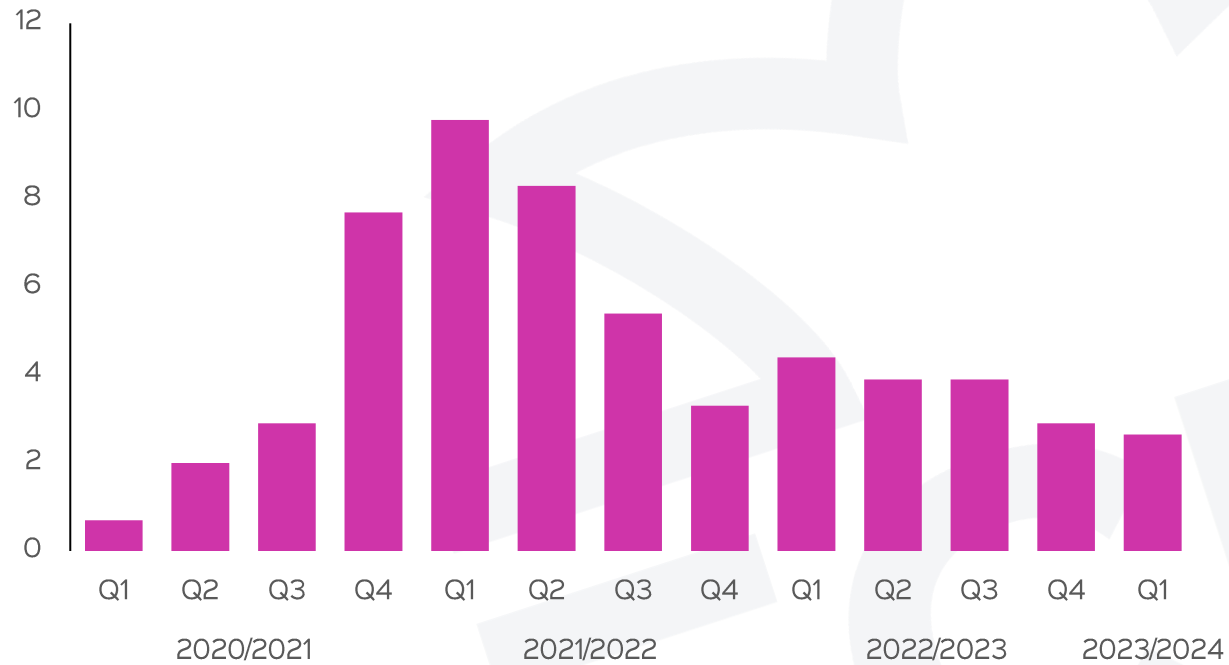
**MOODY'S INVESTORS SERVICE**

**Caa1** Negative

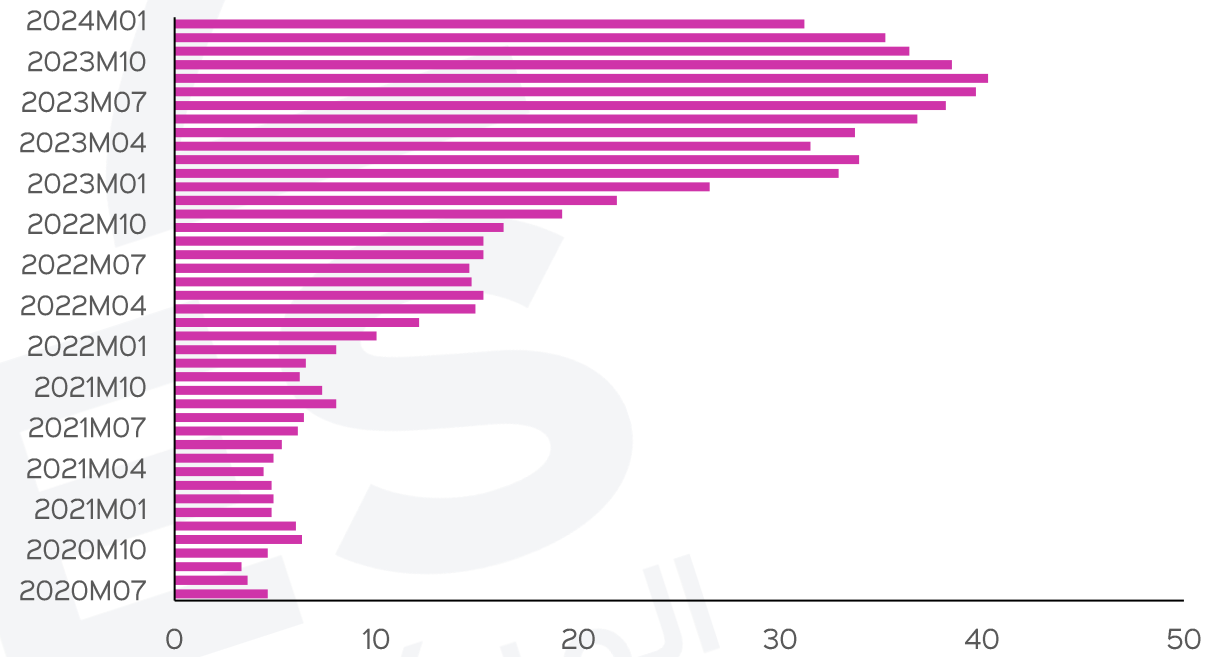
**Economy is still witnessing slow growth. Inflation is decreasing though slowly, and interest rates raised even higher.** Locally, Egypt is still going through an economic slowdown thanks to the foreign currency shortage and general economic uncertainty. Inflation has started to go down, but the Central Bank increased its policy rate to curb inflation and defend the pound, which is under immense pressure in the parallel market.

External Position  
  
Local Developments

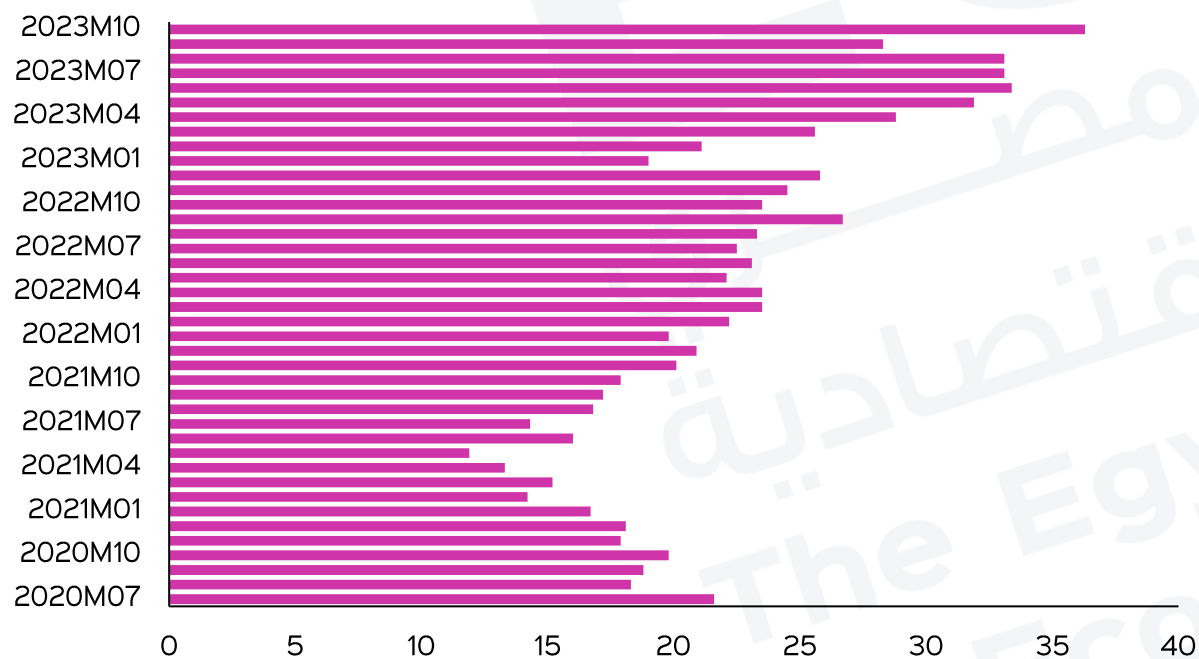
**GDP Growth Rate (%)**



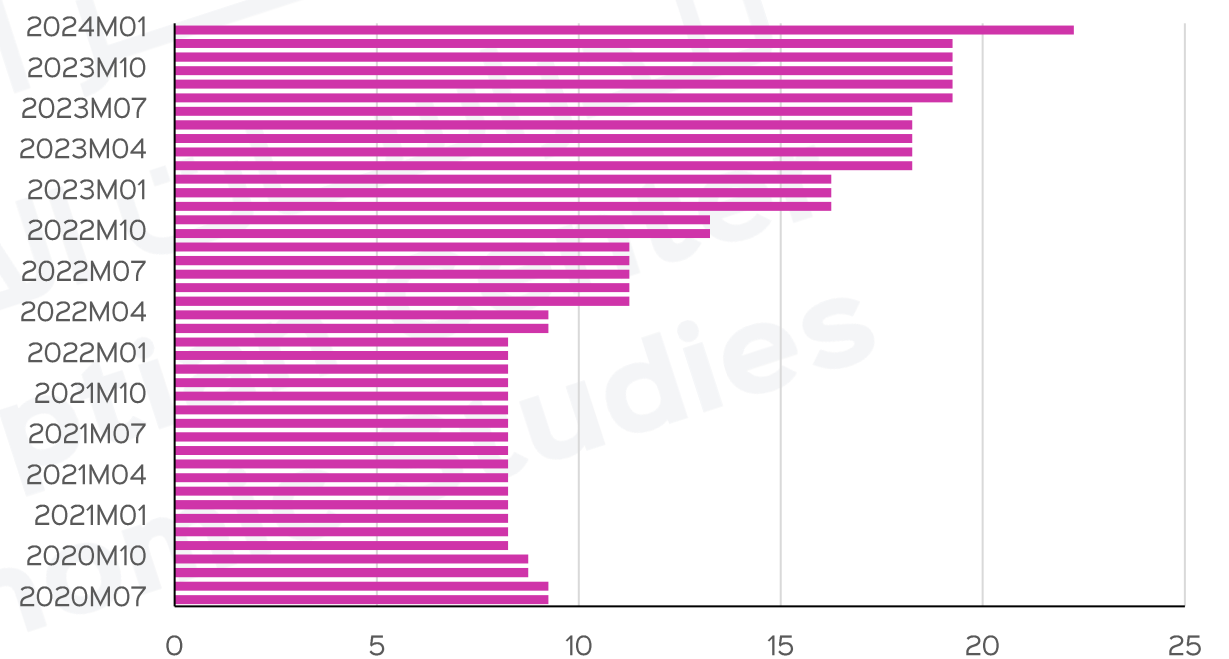
**Inflation Rate (%)**



**Growth Rate of Money Supply (M1)**



**Policy Rate (%)**



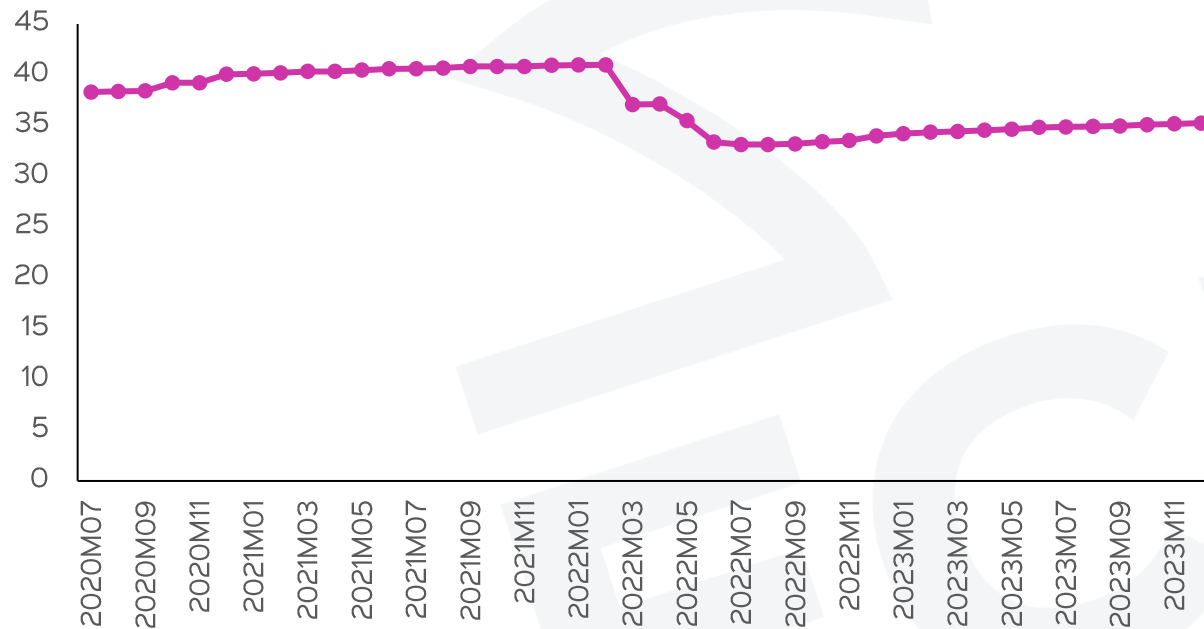


**International reserves are effectively declining, leading to huge pressure on the Egyptian pound, with multiple exchange rates prevailing; the stock market is uncertain with regards to the IMF deal timeline.** The negative net foreign assets position in the banking sector increases with time, signaling more pressure on the pound, which is effectively reflected in having multiple exchange rates in the market with wide gaps. While the stock market serves as a hedge, it has been very volatile in January due to speculation about IMF deal timeline, which could stabilize the pound and remove the need for hedging against its further devaluation.

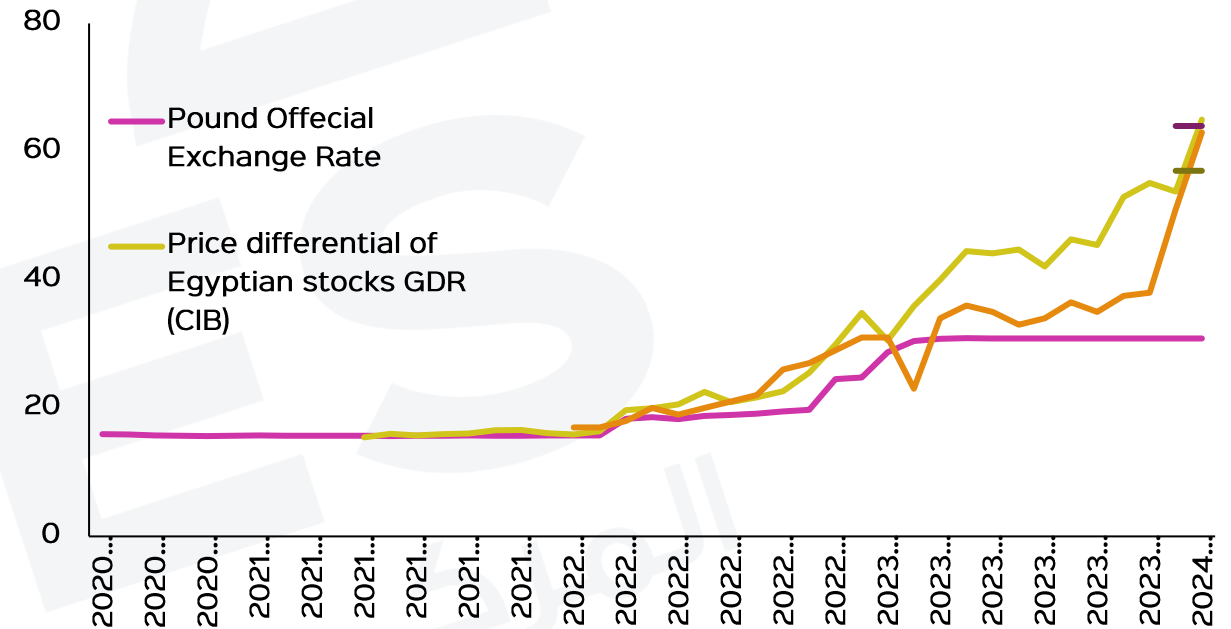
External Position

Local Developments

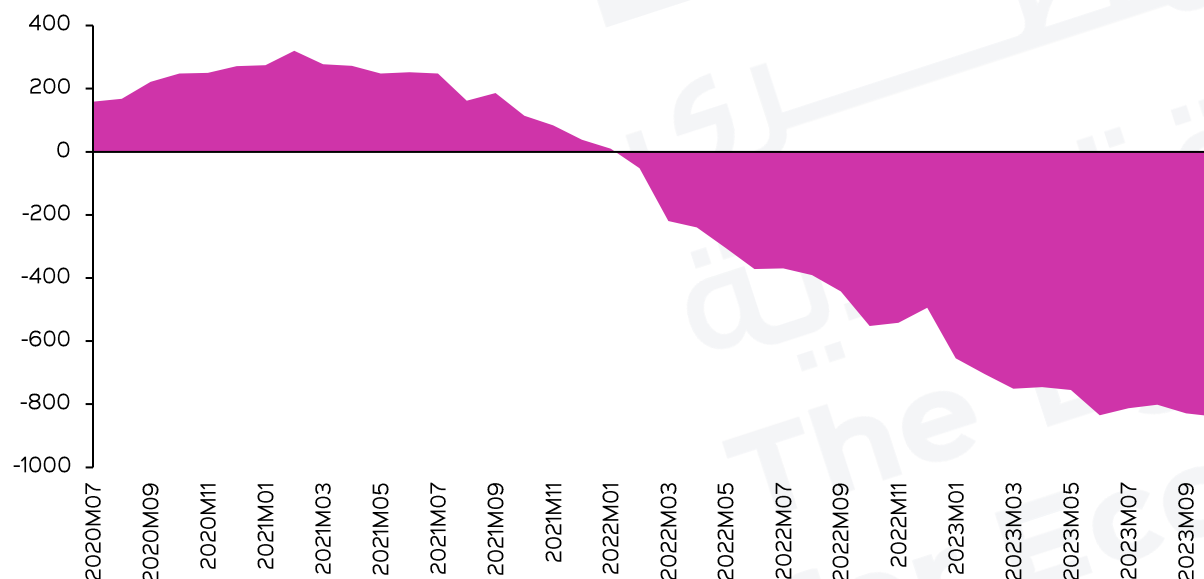
**Net International Reserves**



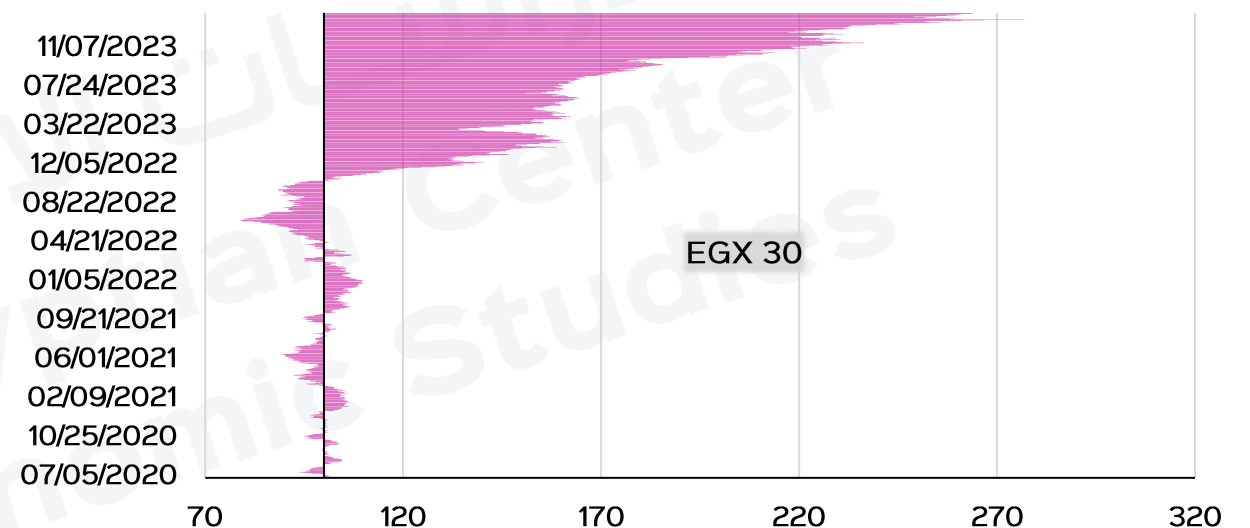
**Pound Exchange Rate**



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



**Egypt**



# Analysis - Key Takeaways

## Global Markets



- Commodity prices are less volatile than before, yet some commodity prices have risen lately, putting pressure on inflation.
- Despite signaling the start of the easing cycle, Global Central banks have been signaling lately that the easing cycle shall start later than previously planned, due to higher than expected inflation rates.
- Global stock markets have witnessed a turbulent and volatile month in January, with speculation about the timeline for the start of the easing cycle, though January remained a good month for markets.

## Emerging Markets



- Emerging markets have also yet to start on the easing cycle themselves, and many emerging economies are still witnessing high inflation, due to the lagging effect between developed and emerging economies.
- With inflation rates still high, emerging economies' Central banks are keeping policy rates high and some are even raising them higher to protect their currencies against a stronger US dollar.
- Emerging markets' stock markets have been volatile like global markets in January 2024, and bond yields have edged up as interest rates are expected to stay high for little longer before the easing cycle starts in global markets cascades to emerging markets.

## Egyptian Local Market



- Egypt still suffers from slow economic growth due to the foreign currency shortage and economic uncertainty, while the inflation rate started to go down slightly, though is still relatively high.
- Egypt's policy rate was raised further by the Central bank to curb inflation and preserve the pound, but with little success since it still suffers from immense pressure, and multiple currency rates still prevail in the market due to the high and expanding negative net foreign assets position in the banking system.
- With the progress of discussions with the IMF about a new deal, the prospects for the Egyptian economy have revived and this has reflected on CDS rates which have subsided in anticipation of the deal, which should give a lifeline to the Egyptian economy, though not for long without real structural changes.

# 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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...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

