



Financial Markets Snapshot

Issue 3
 March 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.

Commodity prices stabilized for few months in a row, with some commodity prices even witnessing a decline. Prices of nearly all commodities have been stable for the last few months, with many commodities witnessing a decline in price, except for oil, palm oil and corn, which have inched upwards a bit in the last month, yet still without major spikes, sending positive signals about overall stability of commodity prices.

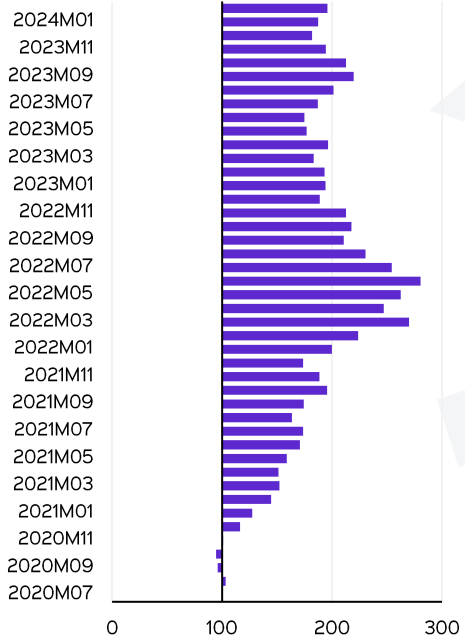
Commodity Markets

Main Rates

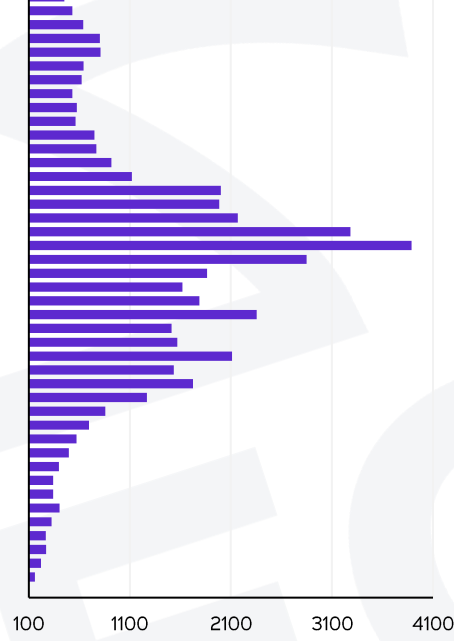
Stock Market

Bond Market

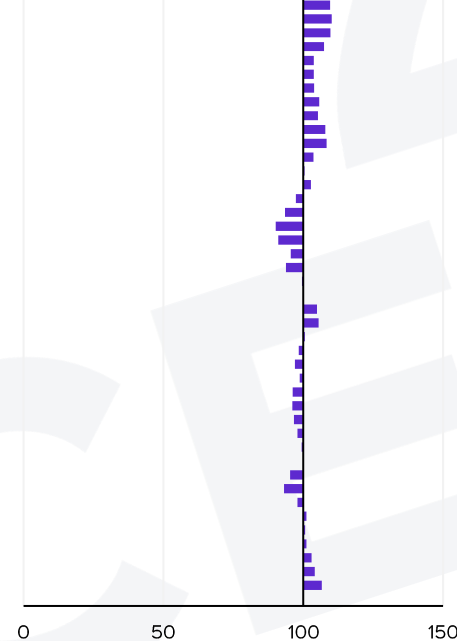
Crude Oil, Brent



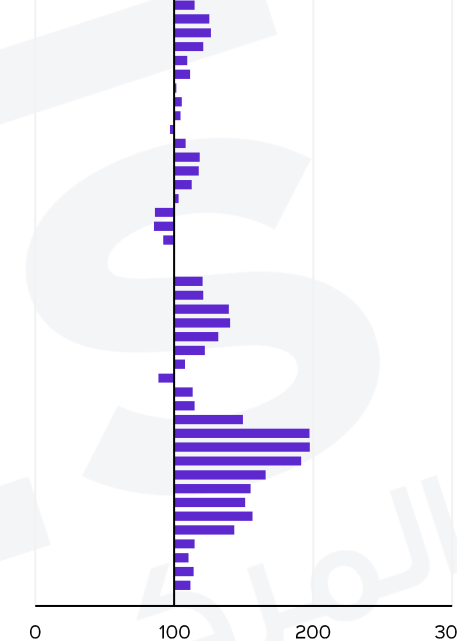
Natural Gas



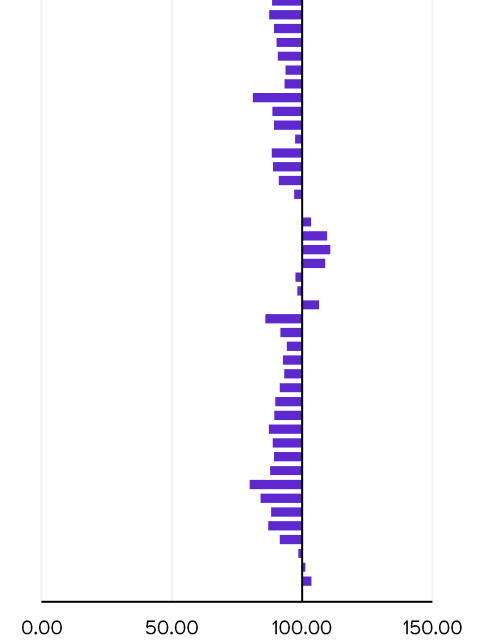
Gold



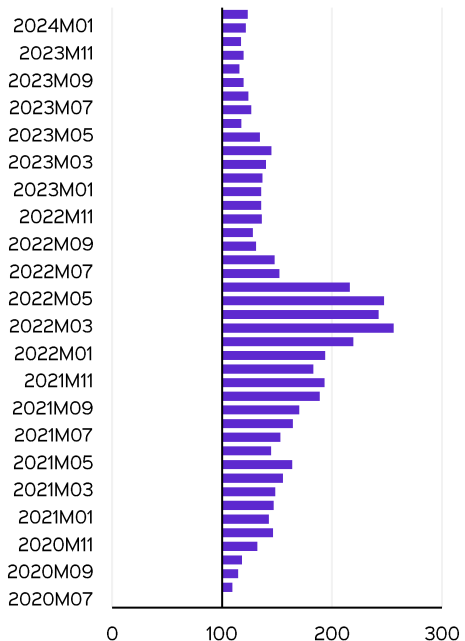
Iron ore



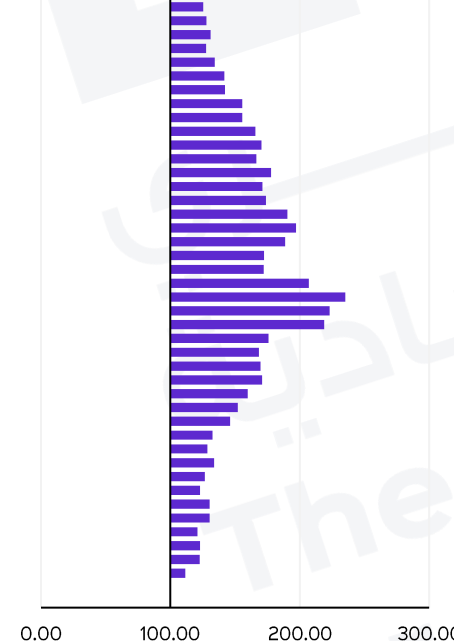
Tea



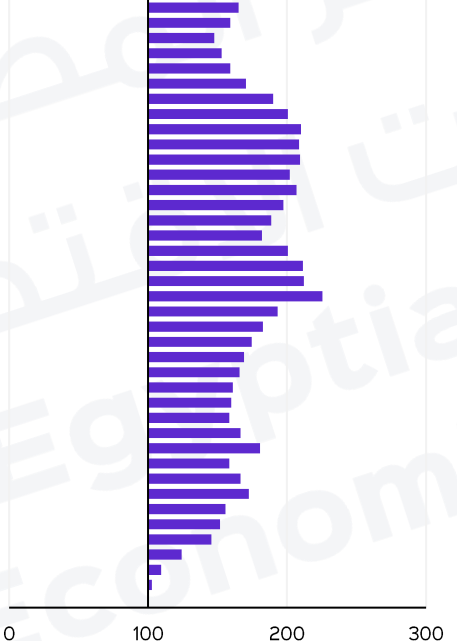
Palm oil



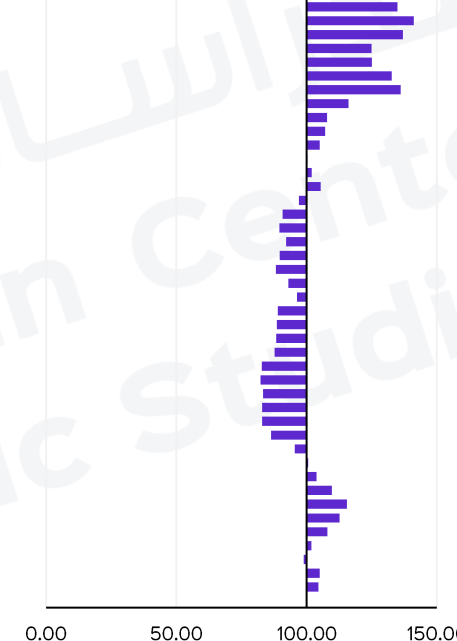
Wheat



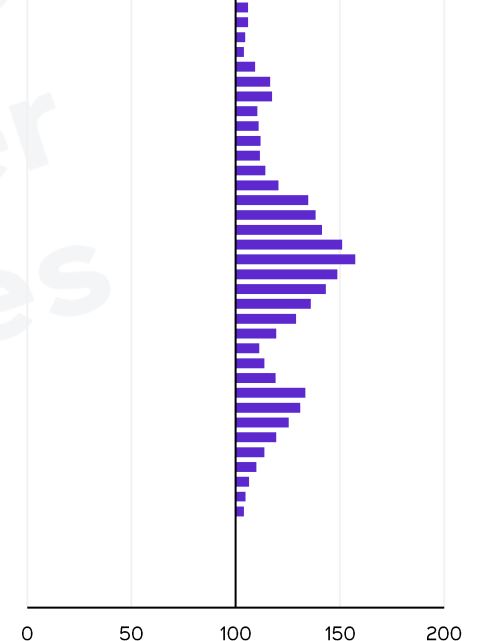
Maize



Rice

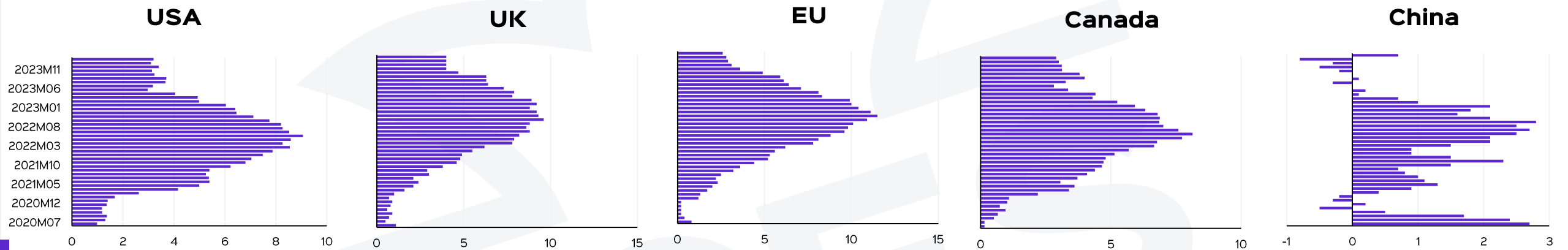


Bovine meat

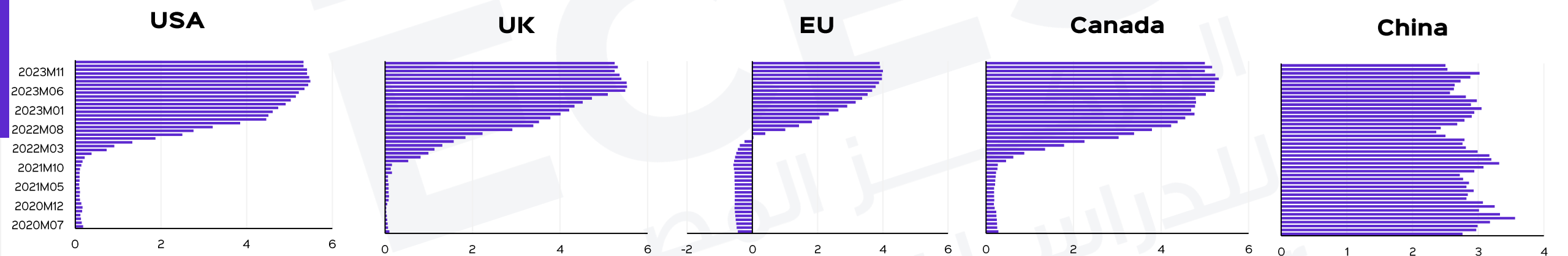


Inflation rates stay contained, yet without significant declines thus delaying the start of the easing cycle. Inflation rates stayed at their current contained levels of the last few months, yet without major declines in the posted figures across major economies, resulting into generally stable interest rates across the different markets, with the exception of China which witnessed a spike in inflation this month due to the Lunar New Year holiday. Currencies didn't show major fluctuations as inflation and interest rates stay within the expected range.

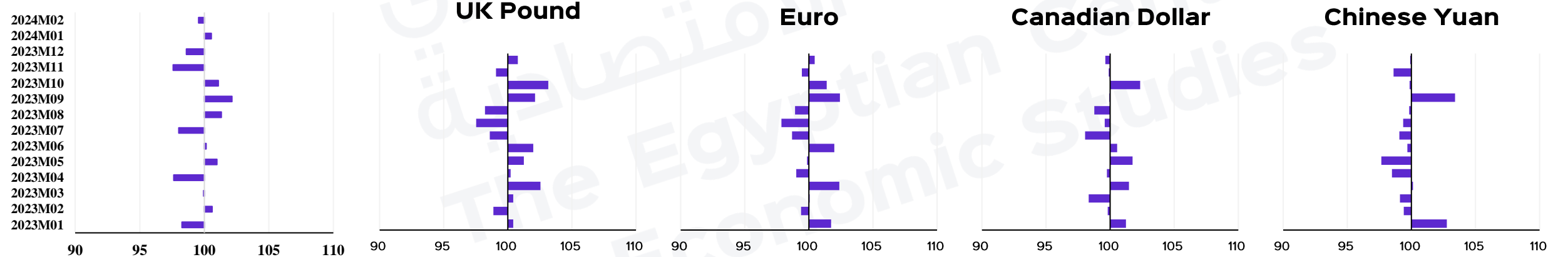
Inflation Rate



Policy Rate



LCU / USD USD/Euro



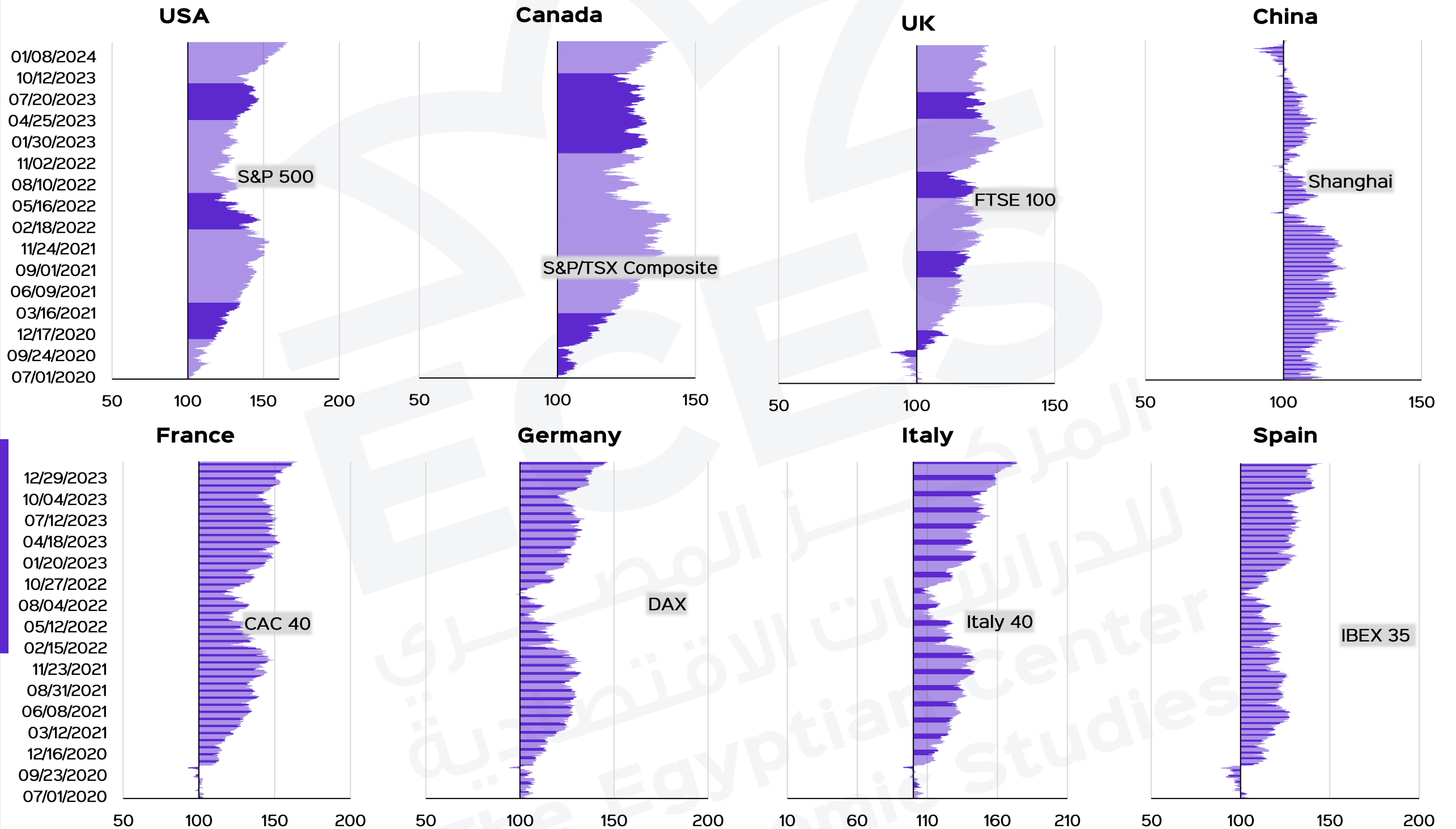
Commodity Markets
Main Rates
Stock Market
Bond Market

Global stock markets continue to record all time highs, with inflation rates under control and easing cycle kick off in sight. Despite the confusion about inflation and interest rates in February, the situation in March started to become clearer with inflation rates on track to target levels of central banks and signals of easing cycle kick off becoming clearer, thus pushing stock markets to all time highs especially in the US market, which was additionally positively affected with Artificial Intelligence stocks investing frenzy.

Commodity Markets

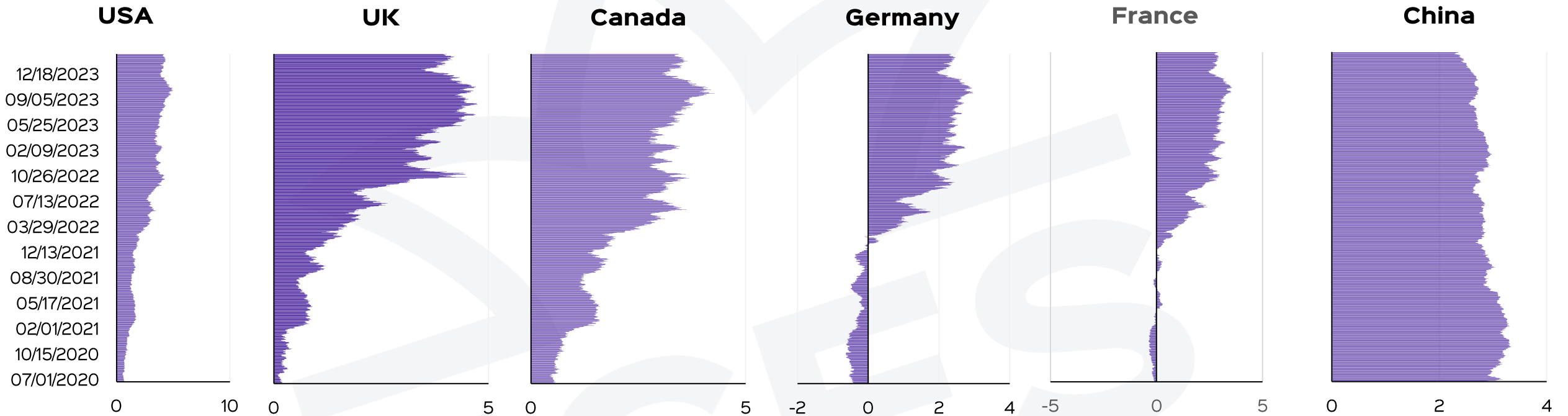
Stock Market

Bond Market

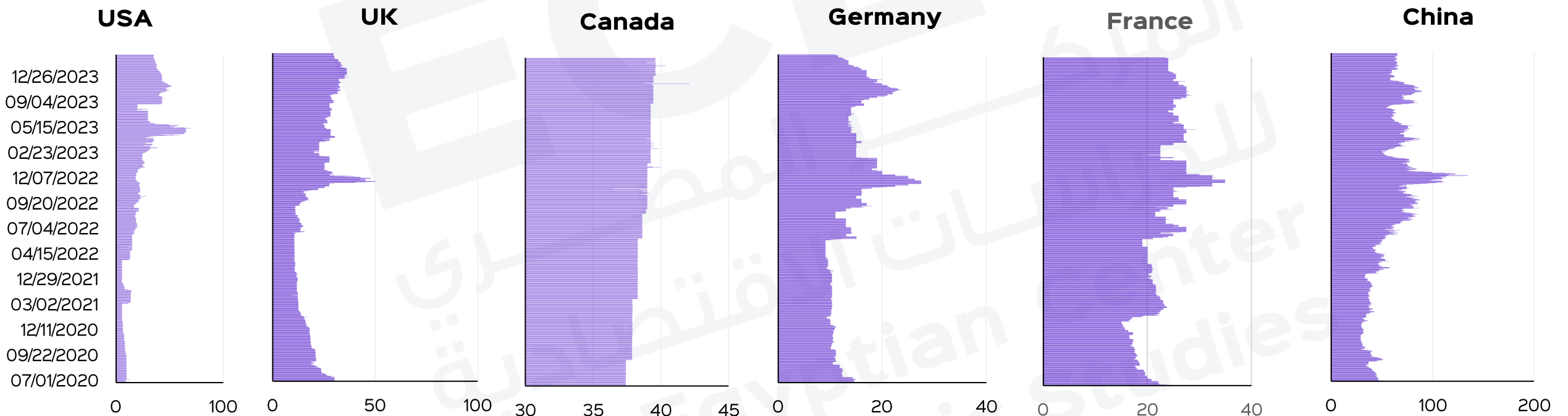


Bond yields got contained a bit thanks to aligned expectations about timing and scale of easing, and CDSs declined even further amid decreased risks. After a confused period about inflation and interest rates, alignment about timing and scale of easing has created enough clarity for bond yields to get contained a bit. Besides, CDSs continued to go down as risks to global markets continue to decline and easing cycle kick off became in sight.

10-Year Bond Yield



5-Year CDS



Commodity Markets
Main rates
Stock Market
Bond Market

Inflation rates in emerging markets are still quite turbulent with no clear direction yet. Despite the nearing of 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 even higher in some markets due to high energy prices, structural economic issues and other internal factors.

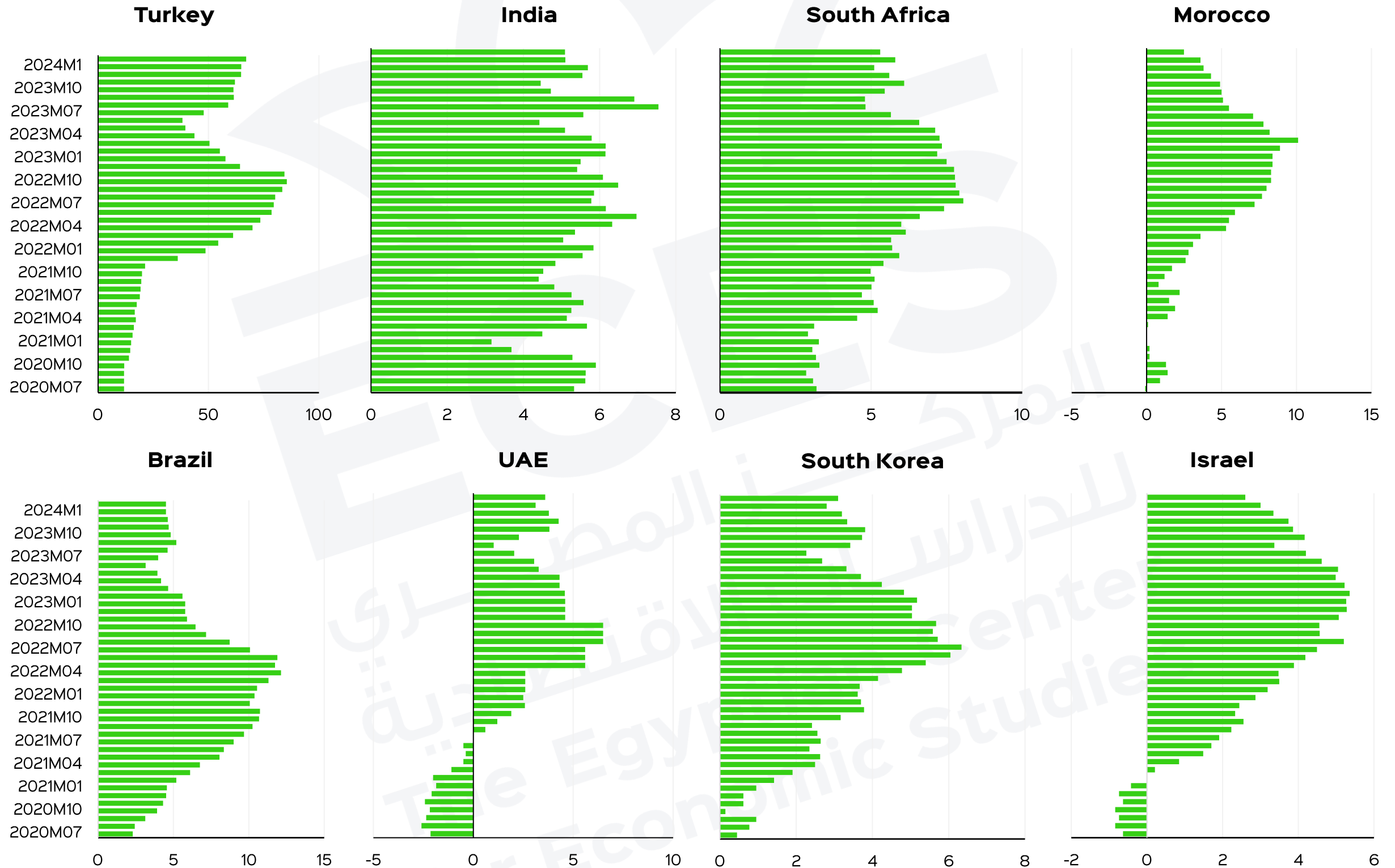
Inflation Rate

Policy Rate

LUC/UDS

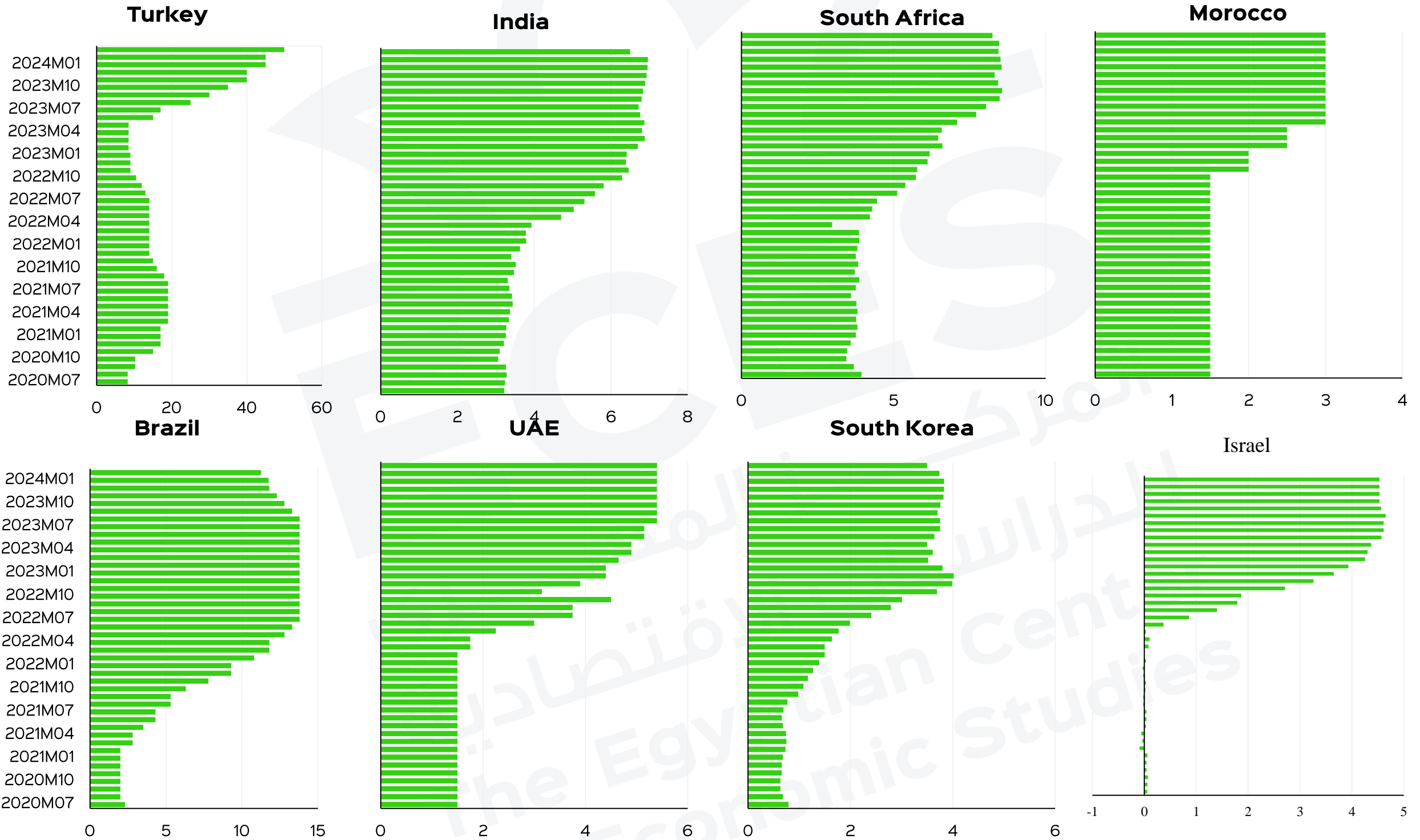
Stock Market

Bond Market



Central banks of most emerging markets still maintain very high interest rates to contain inflation and protect their currencies with some, such as Turkey, hiking the rate to record levels. 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 weak Lira.

Inflation Rate
Policy Rate
LUC/USD
Stock Market
Bond Market



Pressure on emerging markets' currencies stays to be high due to high local inflation rates and still high US interest rates. With very high inflation rates in emerging markets and relatively high interest rates in the US market, emerging markets currencies are still finding it hard to make gains against the US dollar, with some even getting weaker, despite the clear signals of the easing cycle kick off this year in developed markets.

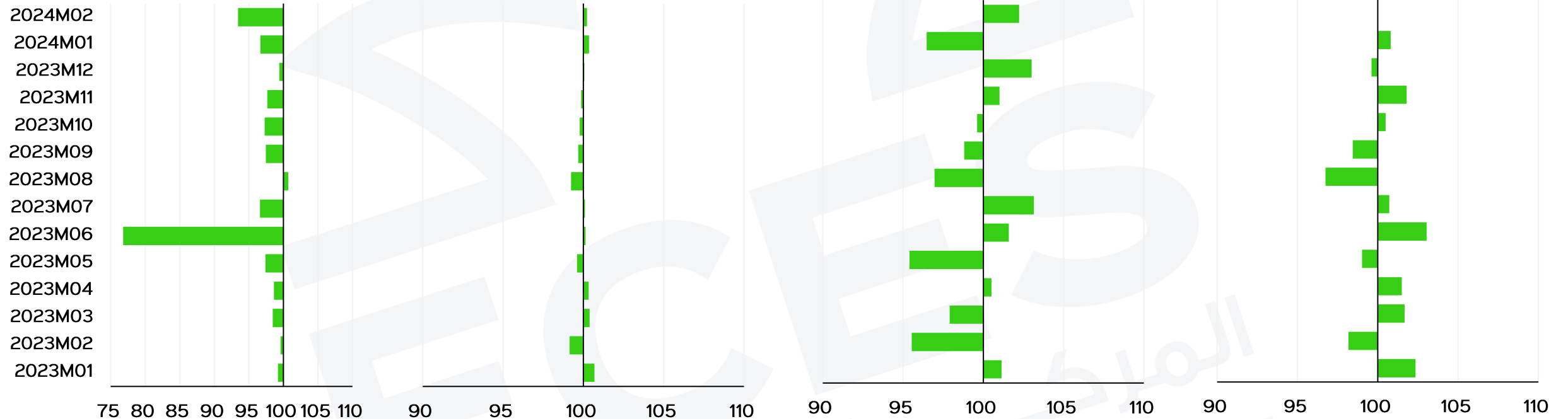
Inflation Rate
 Policy Rate
LUC/UDS
 Stock Market
 Bond Market

Turkish Lira

Indian Rupee

South African Rand

Moroccan Dirham

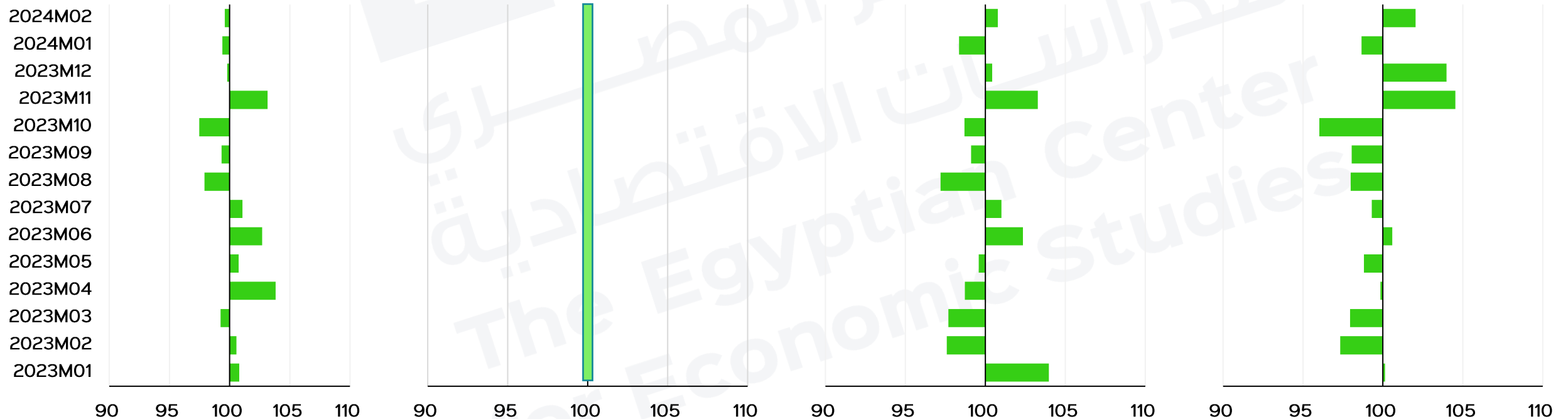


Brazilian Real

UAE Dirham

Korean Won

Israeli New Shekel



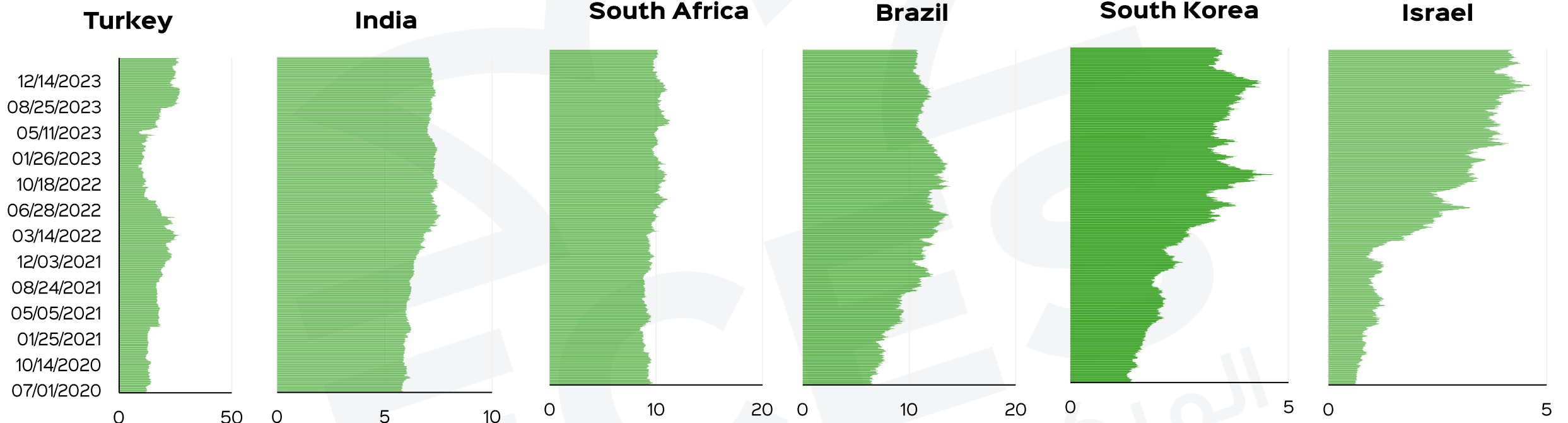
Most emerging markets' stock markets progressed in Feb 2024, mirroring global financial markets. Despite the lagging effect in emerging markets, emerging markets' stock markets acted more or less the same as global stock markets, with most ending up higher than end of year, with the expectation that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

Inflation Rate
Policy Rate
LUC/UBC
Stock Market
Bond Market

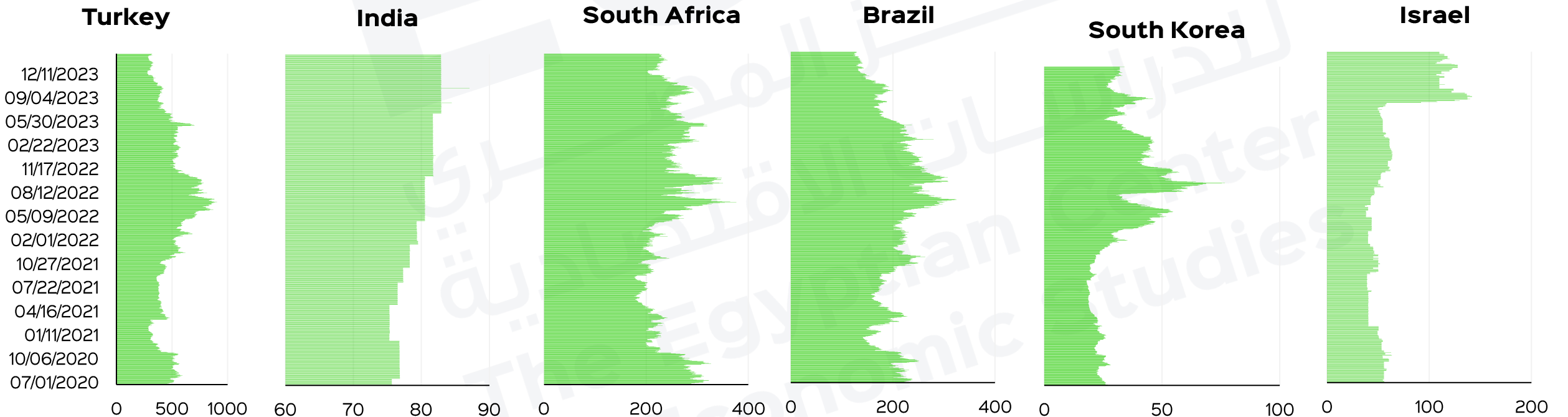


Bond yields in most emerging markets stayed more or less the same with the delayed easing cycle, while CDSs got contained a bit with clarity about the easing cycle timing and scale. With clarity about the timing and scale of the easing cycle in developed markets, bond yields in emerging markets stayed at the same high levels with some even showing a spike, yet CDSs for emerging markets generally got contained with the decreased level of global risks and expected easing cycle.

10-Year Bond Yield



5-Year CDS



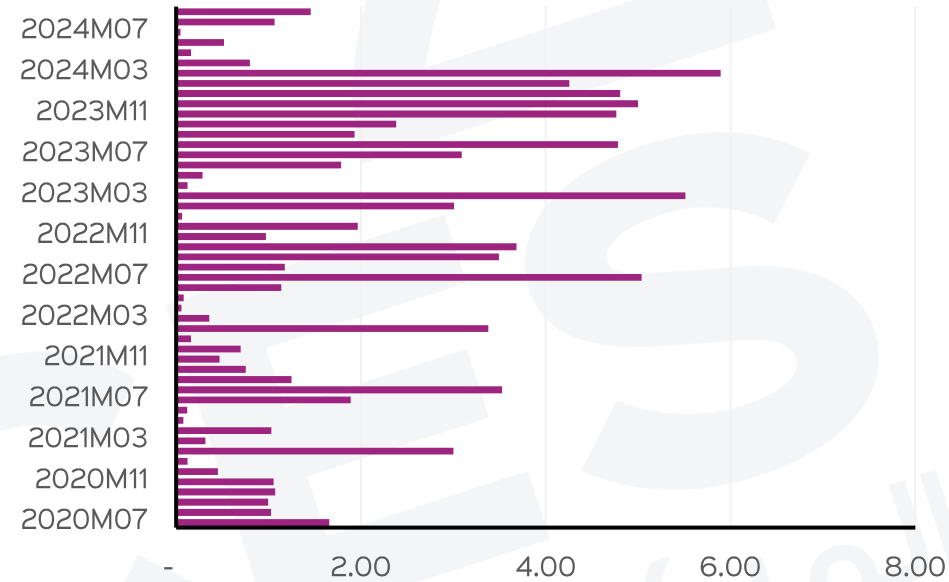
Inflation Rate
Policy Rate
LUC/UDS
Stock Market
Bond Market

Unexpected mega deals changed the economic outlook in the short-term, improving credit rating and containing CDSs. Mega deals such as Ras El-Hekma and IMF deals have changed the landscape in the short term, providing enough liquidity to cover external debt service for the coming few years, thus changing the rating of the country by major agencies and pushing CDSs downwards aggressively as the country skips the risk of default. Bond yields spiked with the increase in policy rate, proving a no-miss opportunity for hot money which is returning to the market in droves.

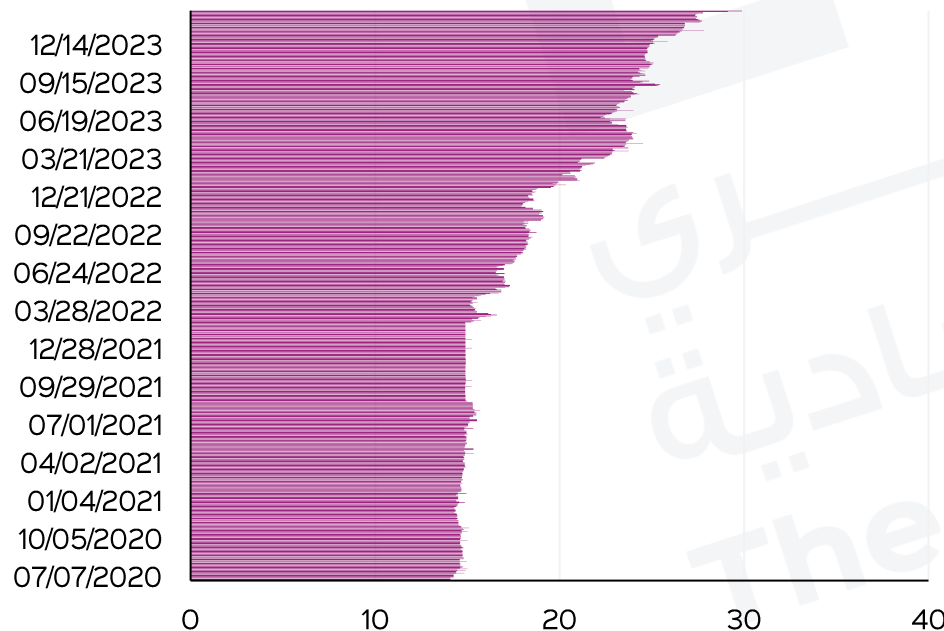
Total External Debt (bn \$)*



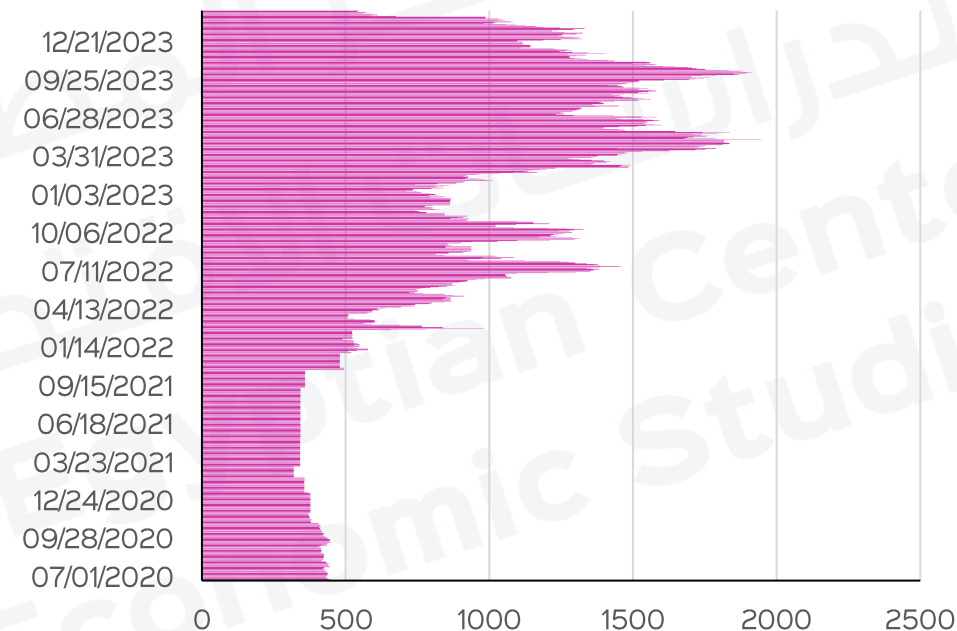
External Debt Service (bn \$)*



Egypt 10-Year Bond Yield



5Y CDS, Egypt



* Latest publication was issued in Dec 2023

S&P Global
Ratings

B- Positive

Fitch Ratings

B- Stable

MOODY'S
INVESTORS SERVICE

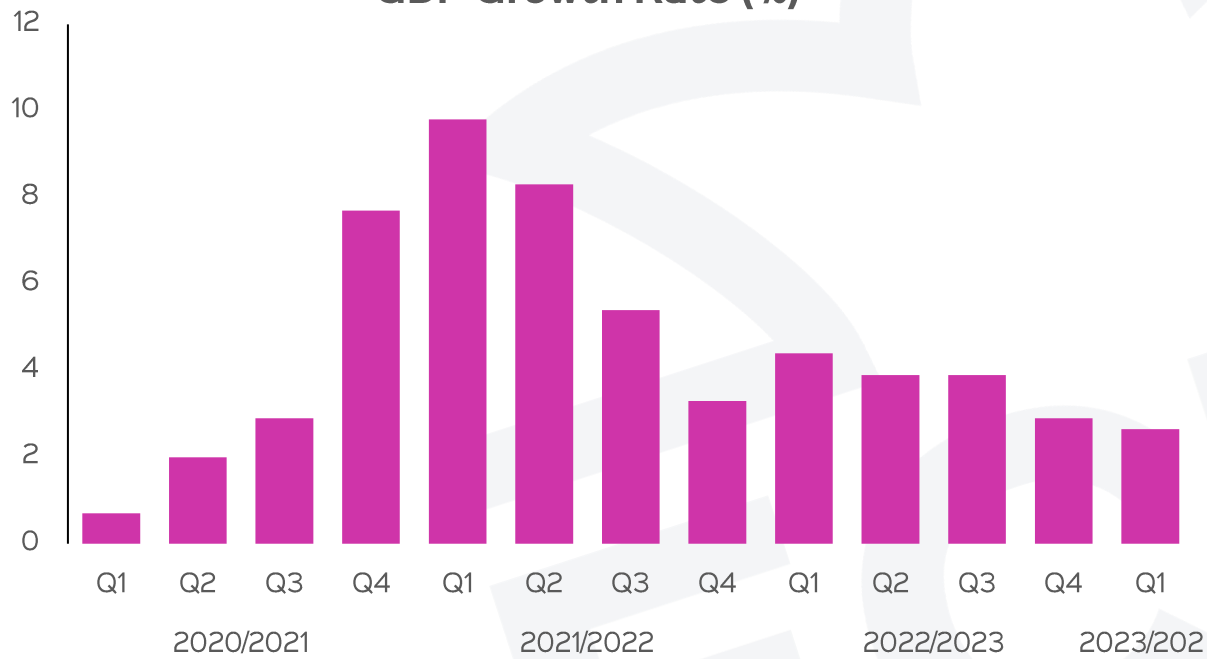
Caa1 Positive

Devaluation of the pound and sustained expansion of money supply resulted into higher inflation, and policy rate has been hiked by 6% as a counter measure. The devaluation of the pound and increase of energy prices as a result of the IMF deal are pushing inflation rate higher, along with the accumulated growth in money supply over the past period. The Central Bank has hiked policy rate by 6% in a preemptive measure to tame down the rising inflation and to defend the pound by luring local savers to let go of their dollars and get into high-rate bank deposits

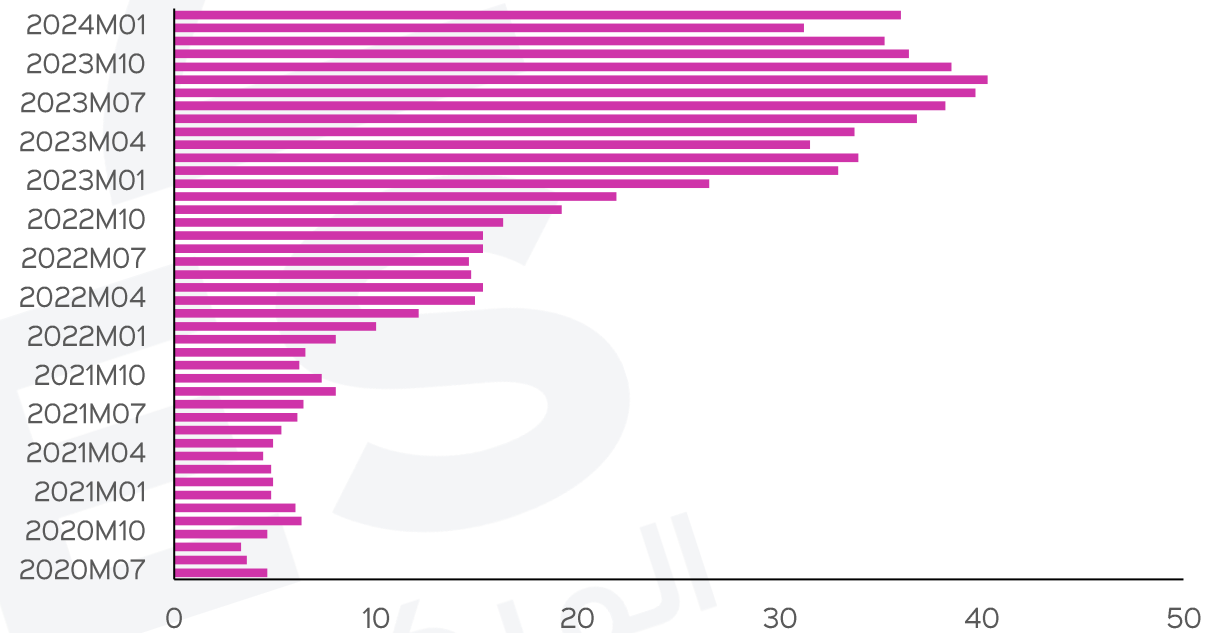
External Position

Local Developments

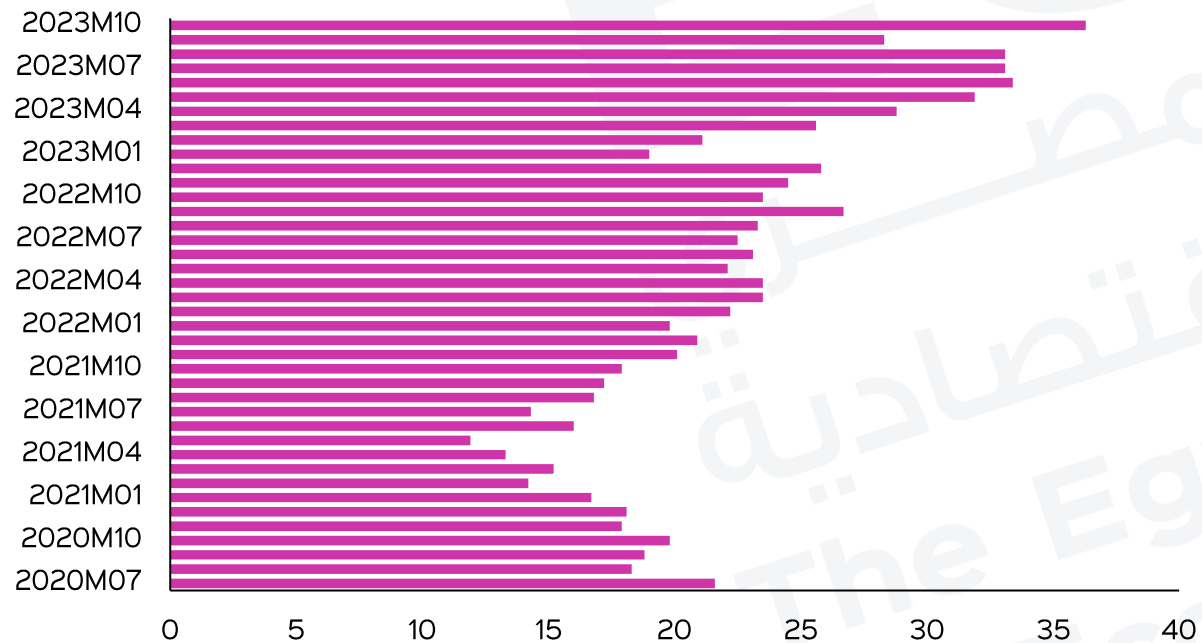
GDP Growth Rate (%)*



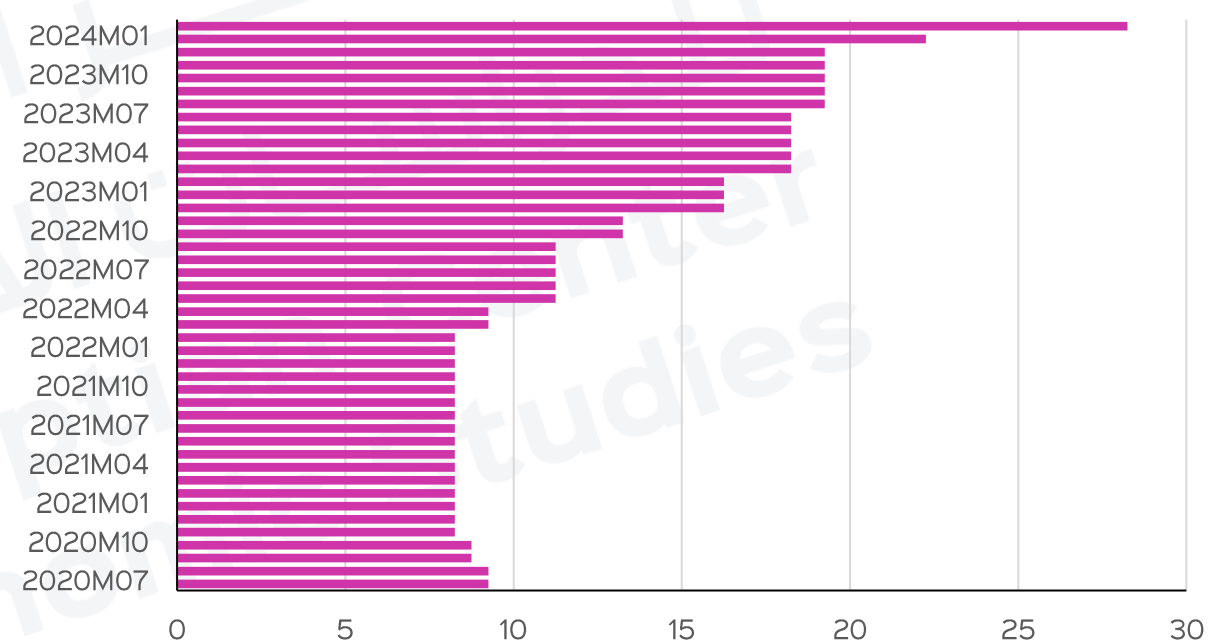
Inflation Rate (%)



Growth Rate of Money Supply (M1)*



Policy Rate (%)



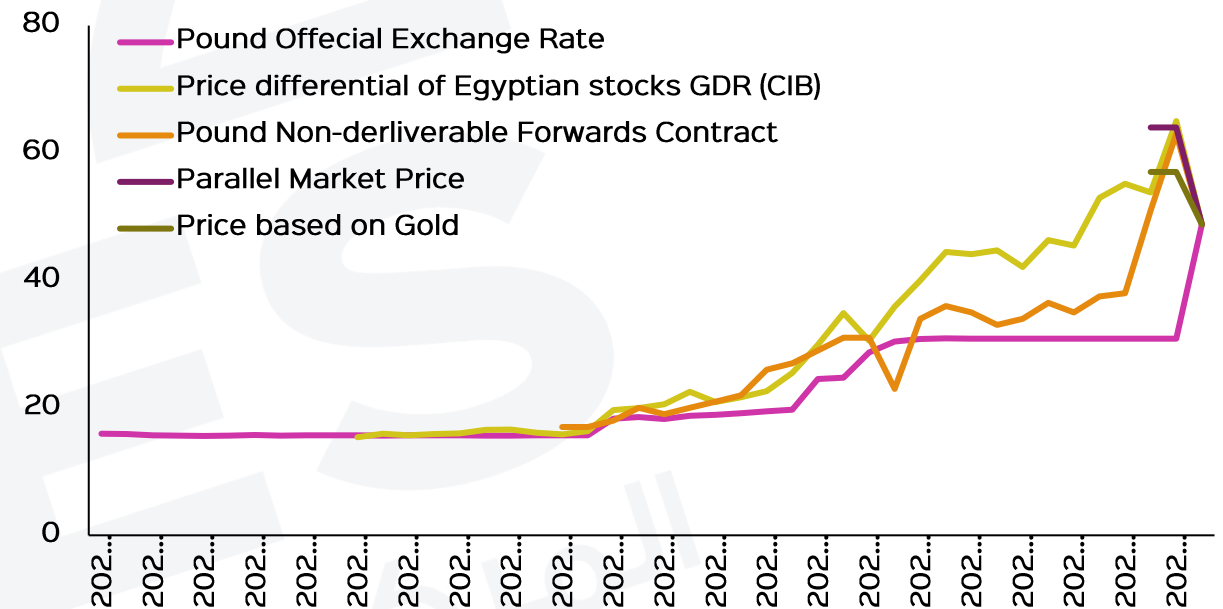
* Latest publication was issued in Dec 2023

Mega deals and pound devaluation have helped tame down the parallel market, bringing the different prevailing exchange rates to the same level. Foreign currency inflows from Ras El-Hekma and IMF deals along with the pound devaluation have helped close the gap between the different prevailing rates for the pound in the market. Net foreign assets as well as international reserves are in wait to be shored off, while stock market has become turbulent as stocks get repriced at the new exchange rate, after a long speculation phase.

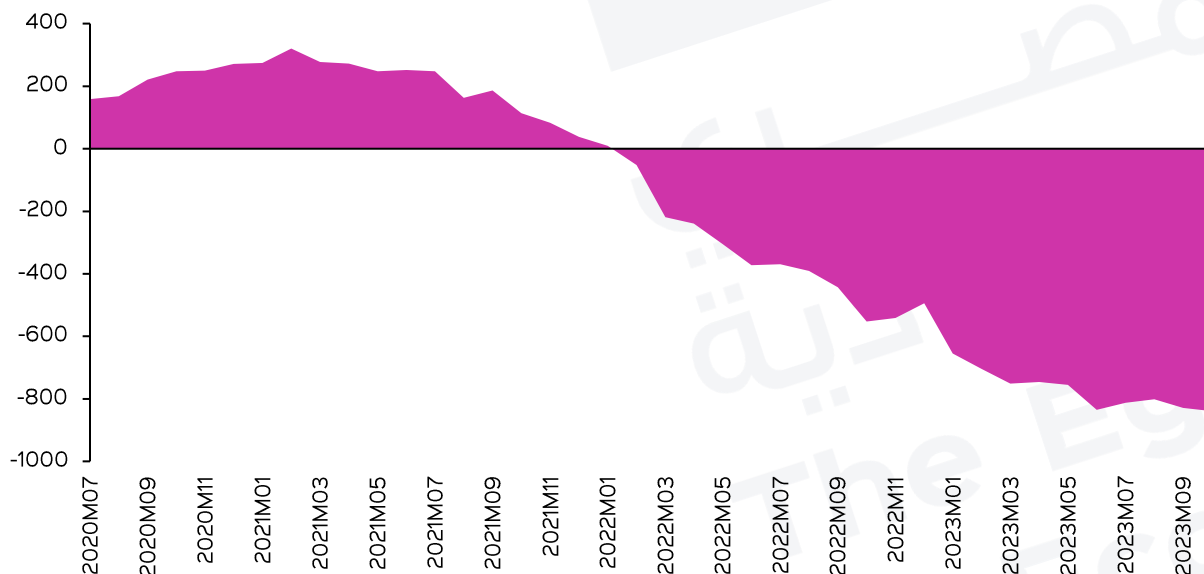
Net International Reserves



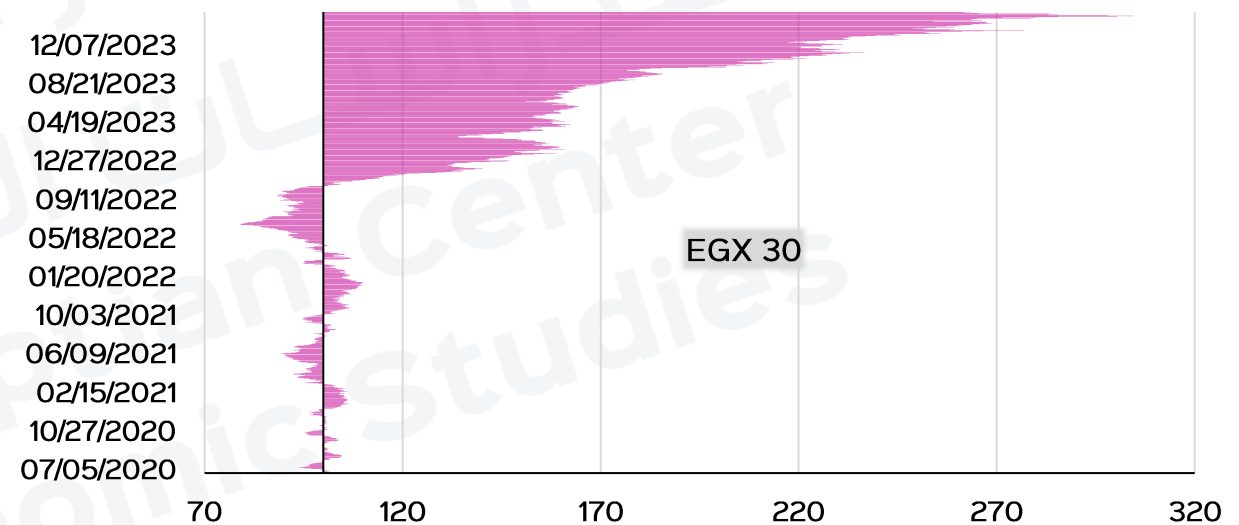
Pound Exchange Rate



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



Egypt



* Latest publication was issued in Dec 2023

Analysis - Key Takeaways

Global Markets



- Commodity prices stabilized for few months in a row, with some commodity prices even witnessing a decline, except for few commodities.
- Inflation rates stay contained lately, yet without significant declines thus delaying the start of the easing cycle. Though delayed, the timing and scale of the easing cycle has become clearer to the market, thus pushing global stock markets to all time highs.
- Bond yields got contained a bit lately with clarity about the prospect easing, and CDSs declined even further amid decreased global financial risks.

Emerging Markets



- Emerging markets are still witnessing high and turbulent inflation rates with no clear direction yet. As a result, Central banks of most emerging markets still maintain very high interest rates to contain inflation and protect their currencies, with some hiking the rate to record levels.
- Pressure on emerging markets' currencies continues due to high local inflation rates as well as the still relatively high US interest rates.
- Bond yields in most emerging markets stayed at the same level with the delayed easing cycle, while CDSs declined further with clarity about the easing cycle timing and scale.

Egyptian Local Market



- Ras El-Hekma and IMF mega deals changed the economic outlook in the short-term and provided enough liquidity to cover external debt service for the coming few years, improving credit rating by agencies and containing CDSs downwards as the country skips the risk of default.
- The devaluation of the pound, increase of energy prices and sustained expansion of money supply are pushing inflation higher. The Central Bank has hiked policy rate to preemptively contain inflation and defend the pound by attracting savers to let go of their dollars and get into high-rate bank deposits.
- Mega deals and pound devaluation have given the Central Bank fire power to tame down the parallel market, bringing the different prevailing exchange rates to the same level, while stock market has become turbulent as stocks get repriced at the new exchange rate, after a long speculation phase.

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

