



Financial Markets Snapshot

Issue 4
April 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



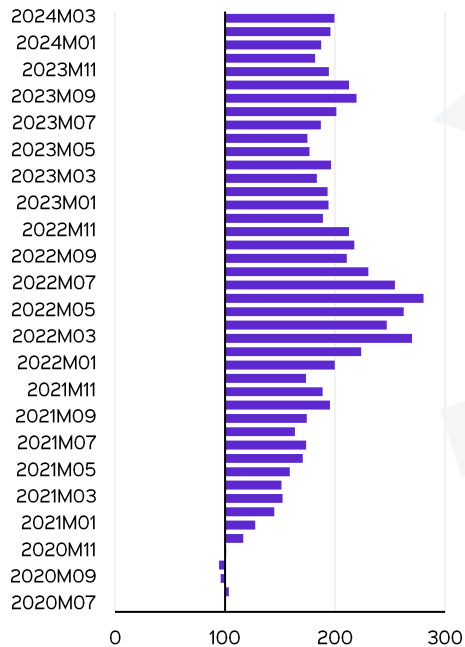
- Like any other emerging market, the local market in Egypt is affected by dynamics in the global markets as well as the policy choices adopted by other emerging markets.
- The report tries to understand the effects of changes in global markets as well as changes in emerging markets on the local market 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

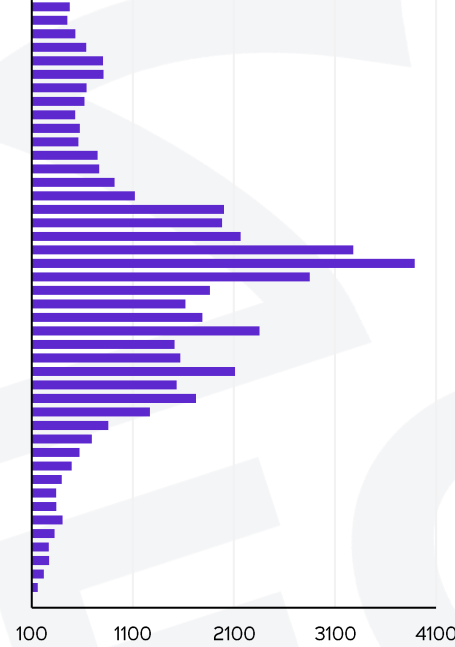
Term	Explanation
Policy Rate	The central bank policy rate (CBPR) is the rate used by the Central Bank to signal or implement its monetary policy stance.
LCU / USD	The change in the value of one currency in comparison to another currency (the US Dollar) in the free-floating exchange rate regime.
CDS	A 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 have moved in different directions, with some spiking and others declining. After a period of stability and a general trend for decline, prices of commodities have diverged. Oil prices have spiked due to geopolitical risks and gold prices have also increased due to Chinese aggressive purchases. Besides, there is a slight increase for palm oil and maize. While, iron ore prices have significantly declined due to excess capacity and rice prices have also declined due to larger than expected harvest.

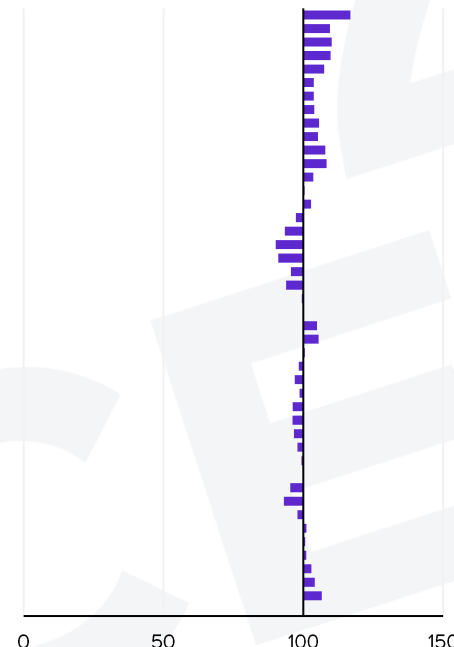
Crude Oil, Brent



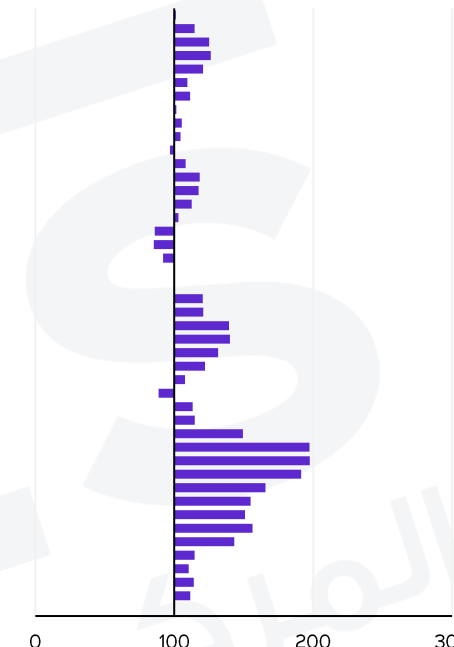
Natural Gas



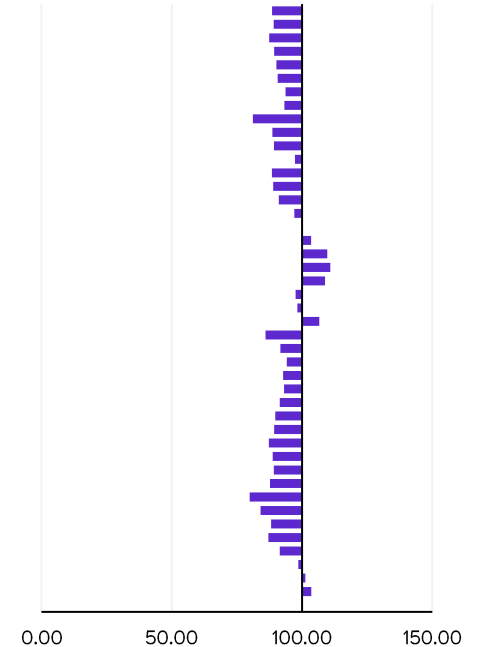
Gold



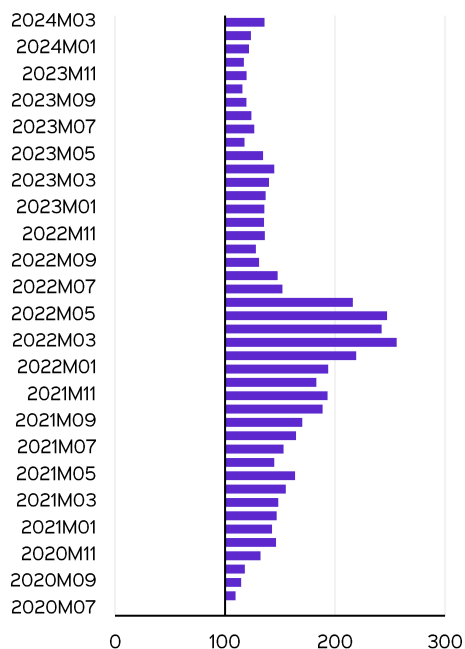
Iron ore



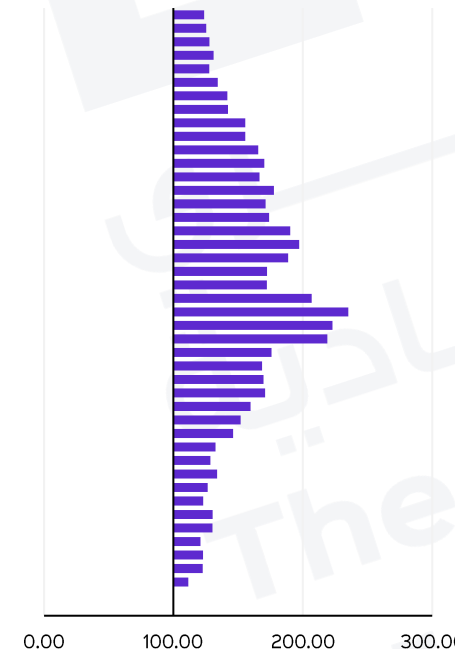
Tea



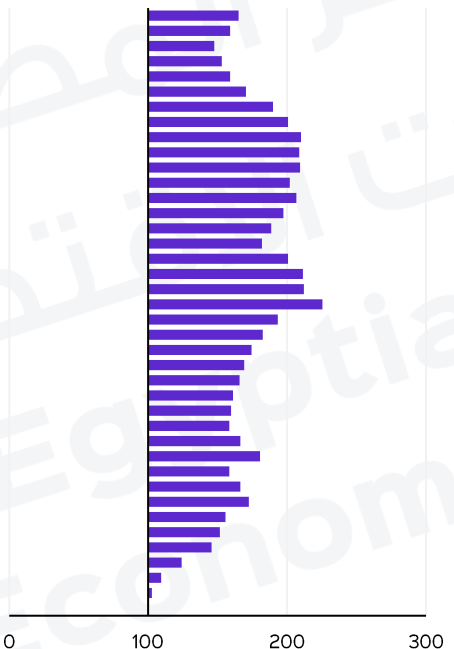
Palm oil



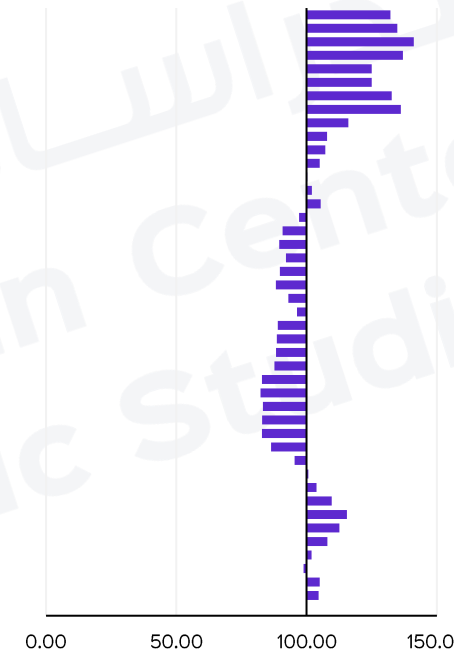
Wheat



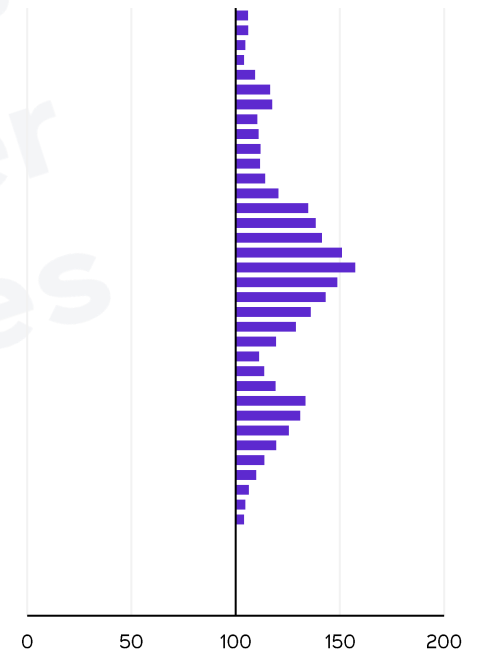
Maize



Rice



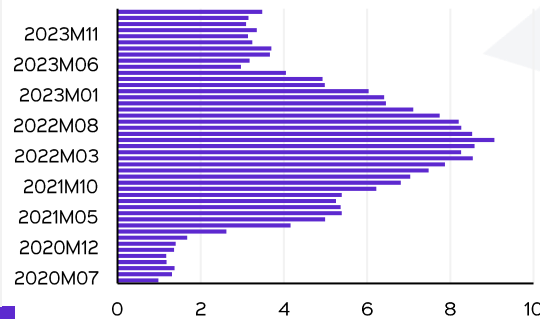
Bovine meat



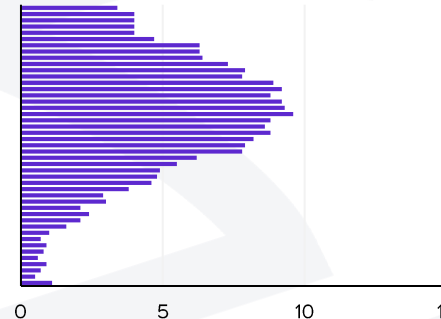
Contrary to expectations, inflation rates didn't decline but persisted and in some countries especially USA, it even increased, delaying the easing cycle kickoff. After few months of declining inflation rates and with expectations that inflation is finally getting contained, inflation rates in the last couple of months didn't decline further as expected, they actually persisted in most developed markets, with some case such as USA witnessing an increase in inflation rate, thus delaying the start of the easing cycle. China is a unique case where inflation picked up thanks to lunar year vacation spending.

Inflation Rate

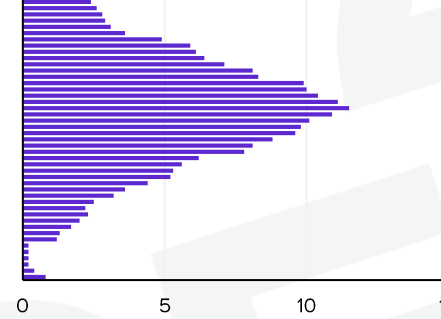
USA



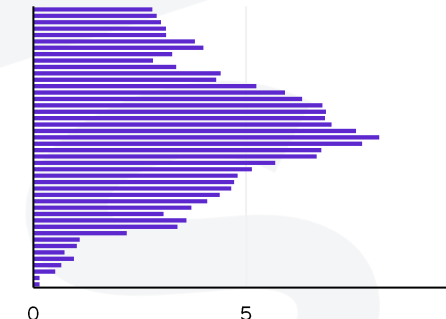
UK



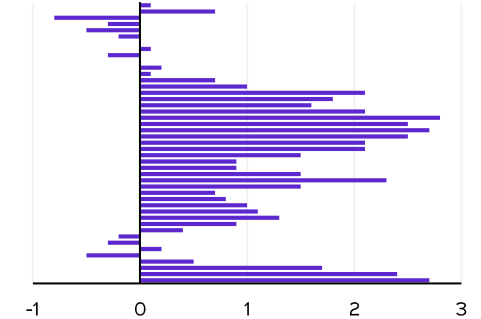
EU



Canada

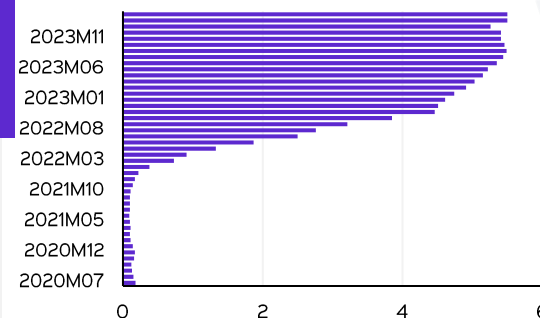


China

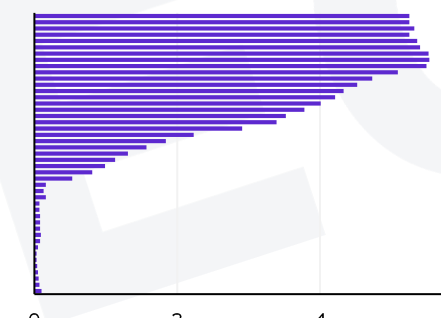


Policy Rate

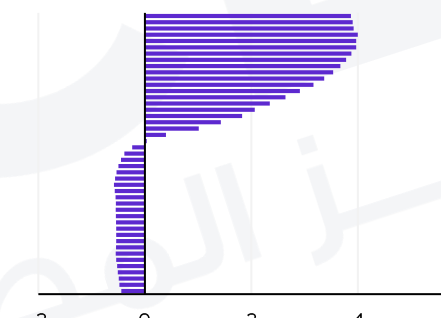
USA



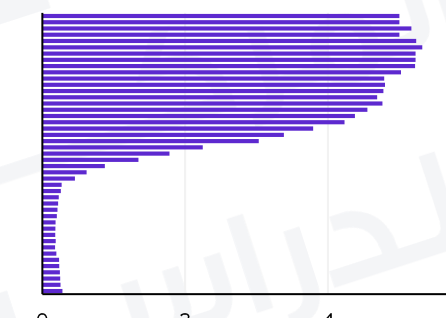
UK



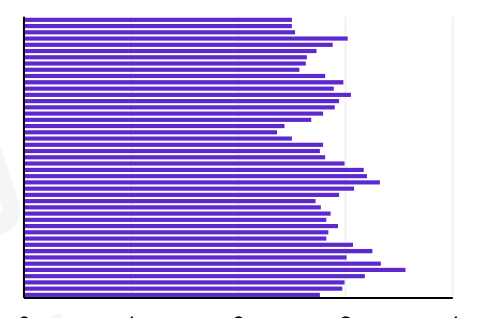
EU



Canada

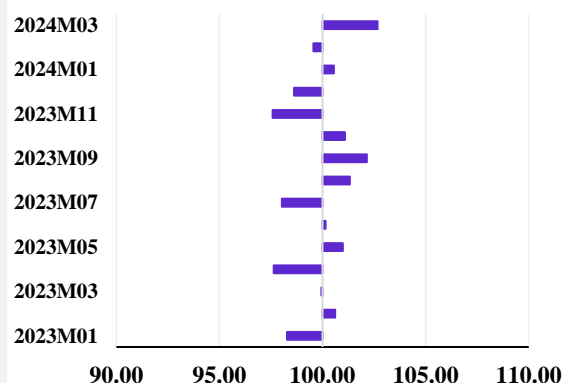


China

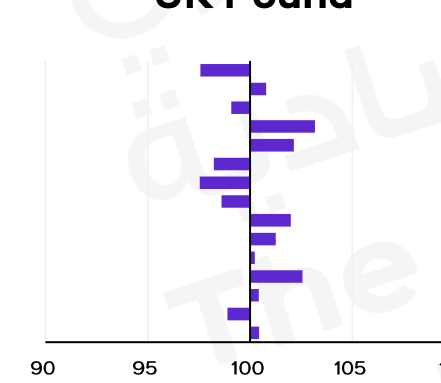


LCU / USD

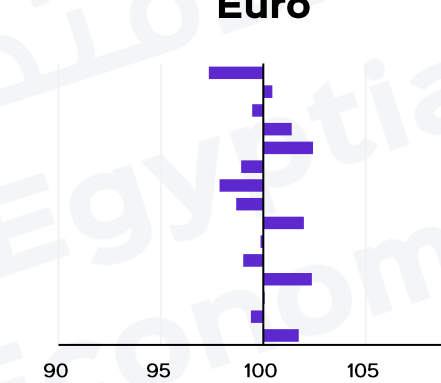
USD/Euro



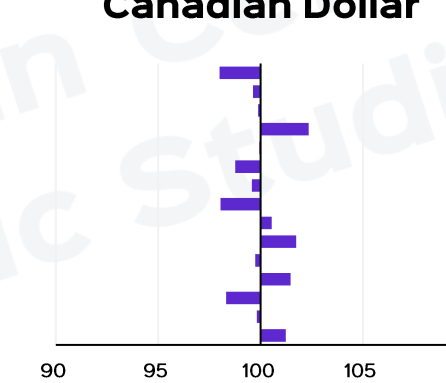
UK Pound



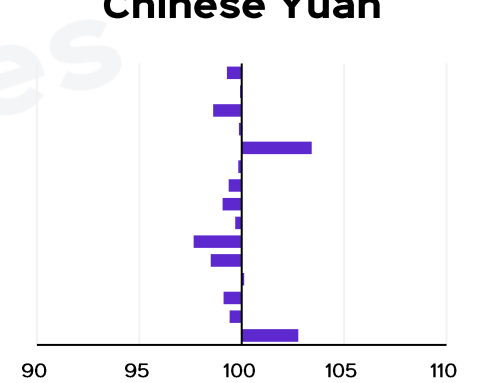
Euro



Canadian Dollar



Chinese Yuan



Global stock markets witnessed a turbulent month with conflicting messages about easing kickoff thanks to higher than expected inflation. Due to the confusion about easing cycle kickoff with central bank governors in global markets confirming interest cuts to start this year while inflation is still persistent and turning out to be higher than expected, global stock markets have witnessed a turbulent period, exacerbated by the global geopolitical tensions and the Middle East crisis. The turbulence in global stock markets is bewildering investors and causing panic as investors are uncertain about outcomes of global geopolitical tensions.

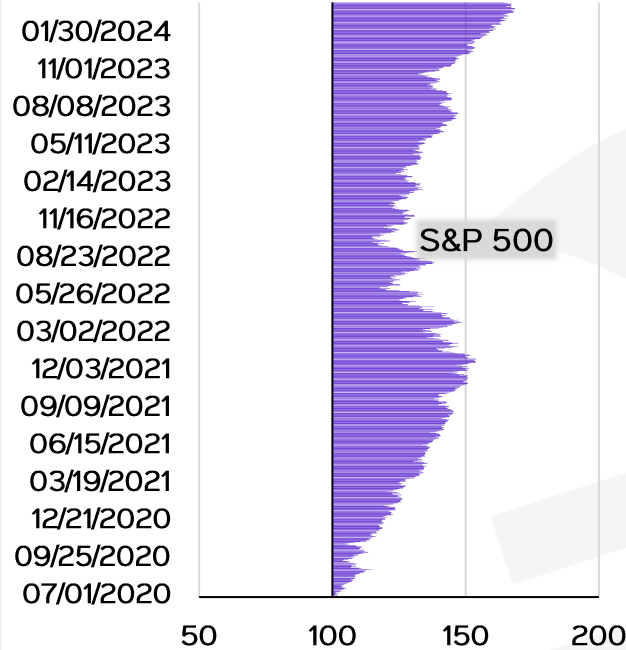
Commodity Markets

Main Rates

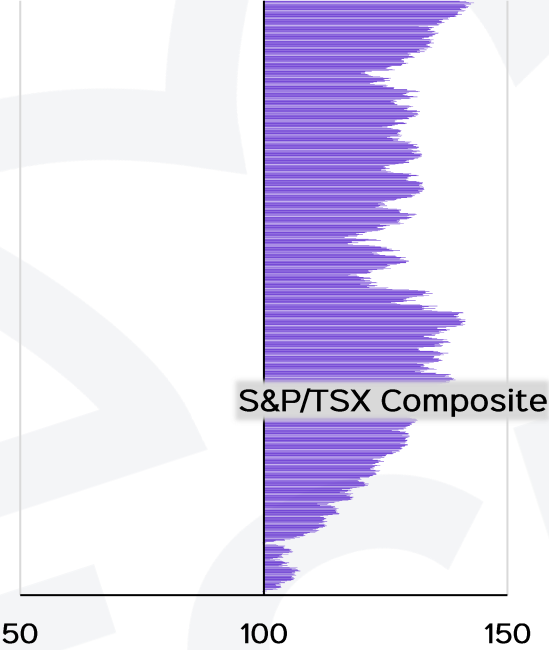
Stock Market

Bond Market

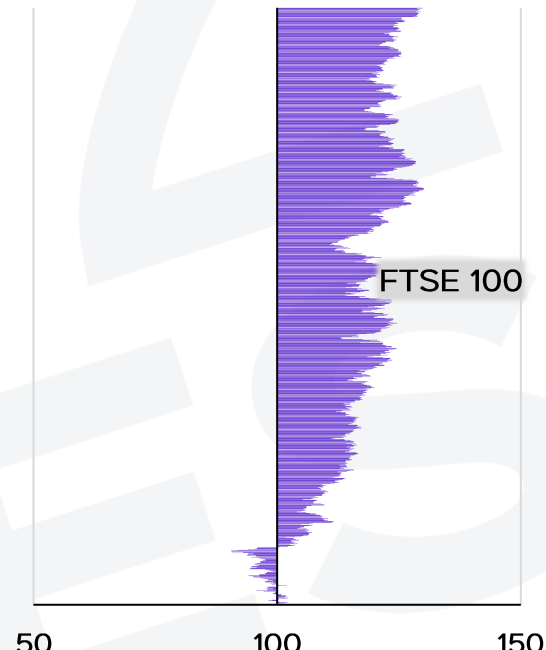
USA



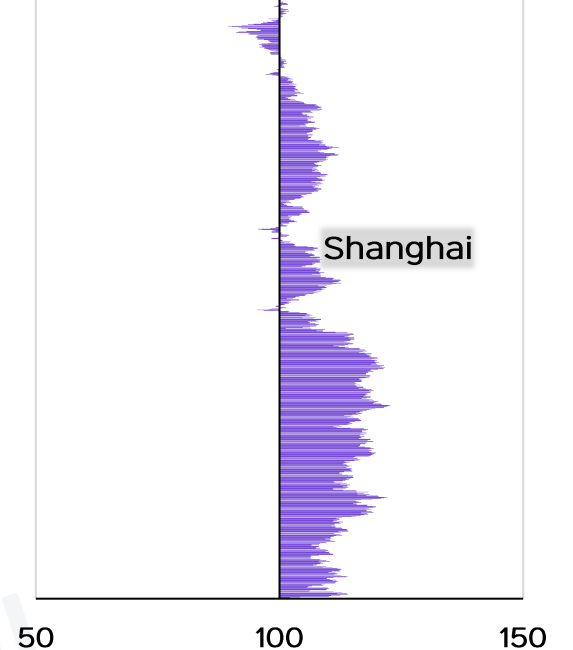
Canada



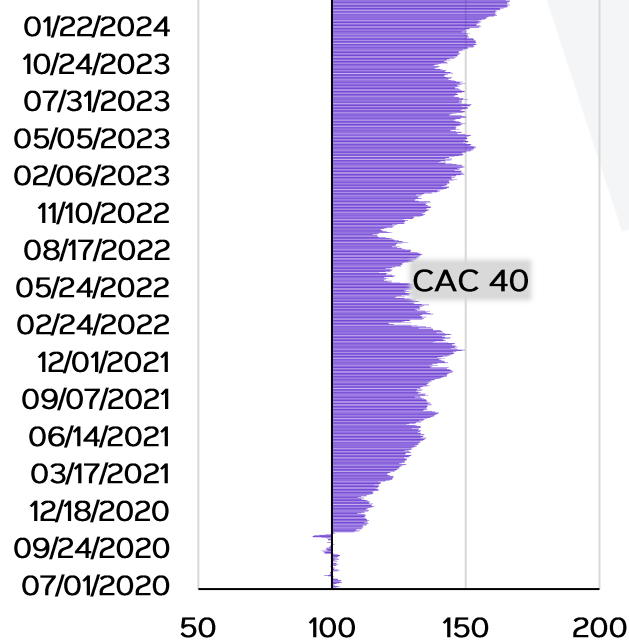
UK



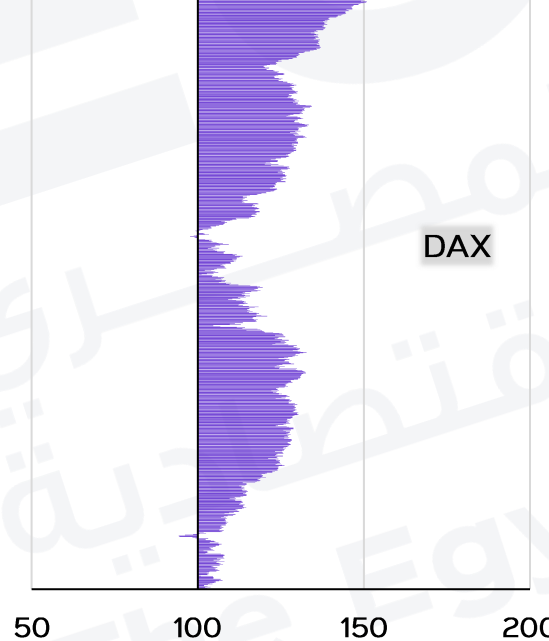
China



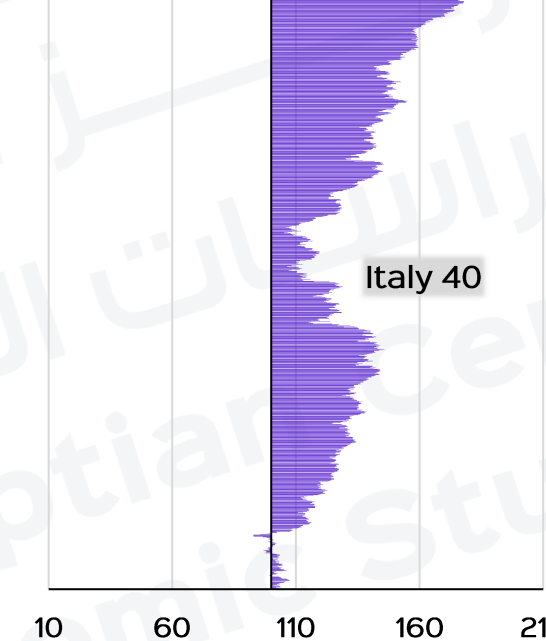
France



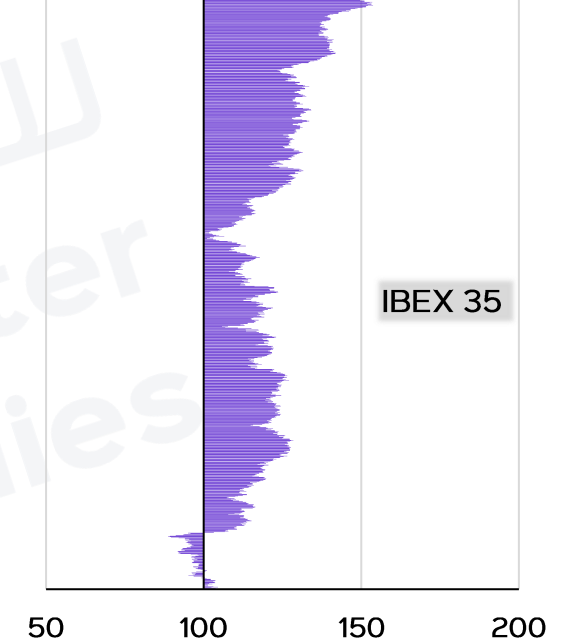
Germany



Italy

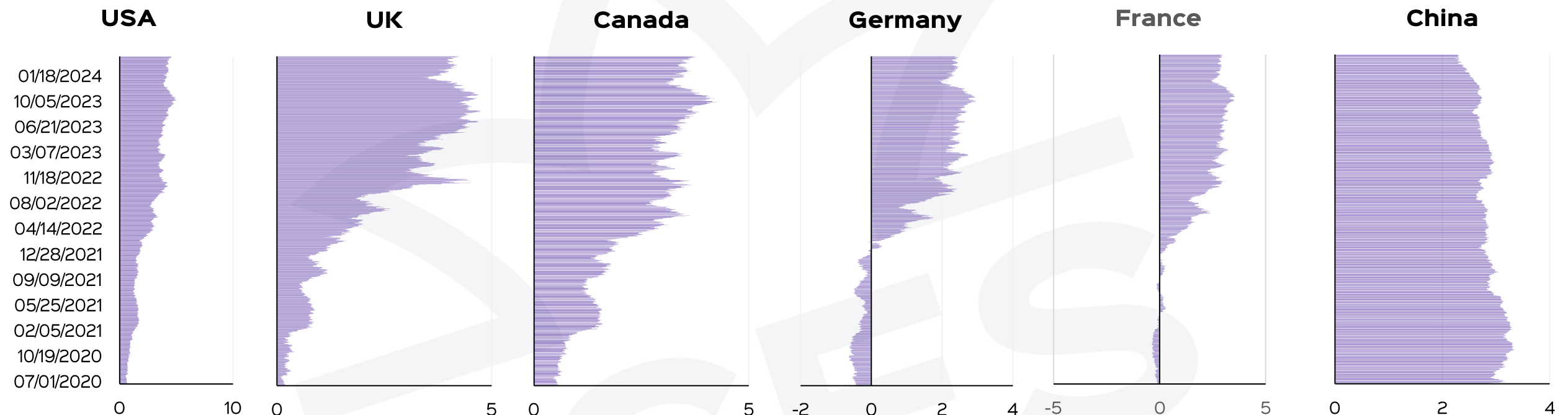


Spain

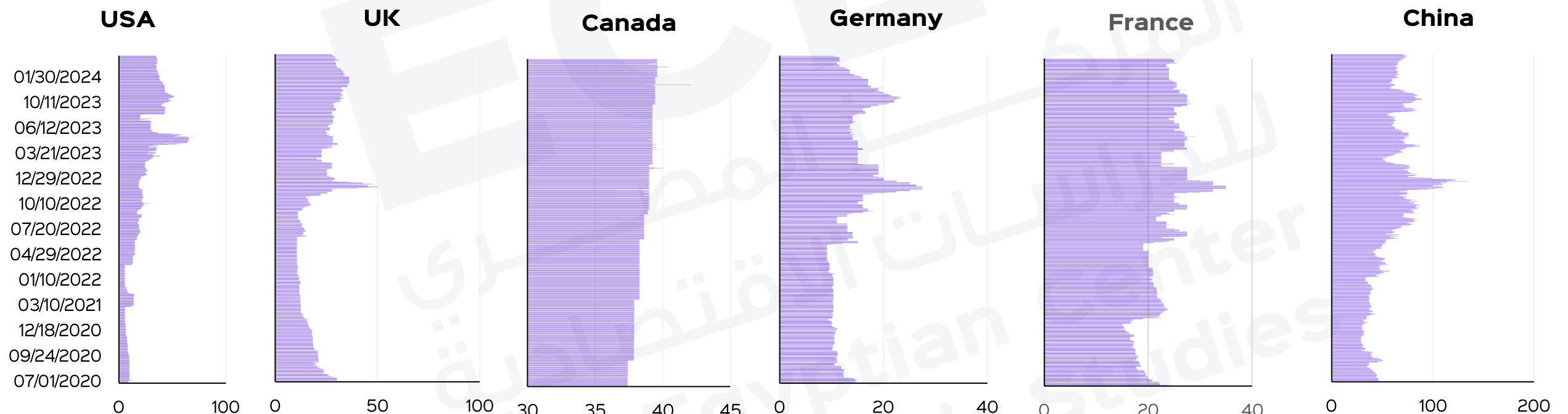


Bond yields edged higher as easing kickoff gets uncertain and CDSs increased in some markets reflecting risk of higher for longer interest rates. Due to persistent inflation and higher than expected inflation rates, bond yields in global markets have actually edged upwards after few months of a declining trend. CDSs started to increase again as markets interpret the uncertainty about easing cycle kickoff to reflect high for longer interest rates and thus higher debt burden and higher risk accordingly.

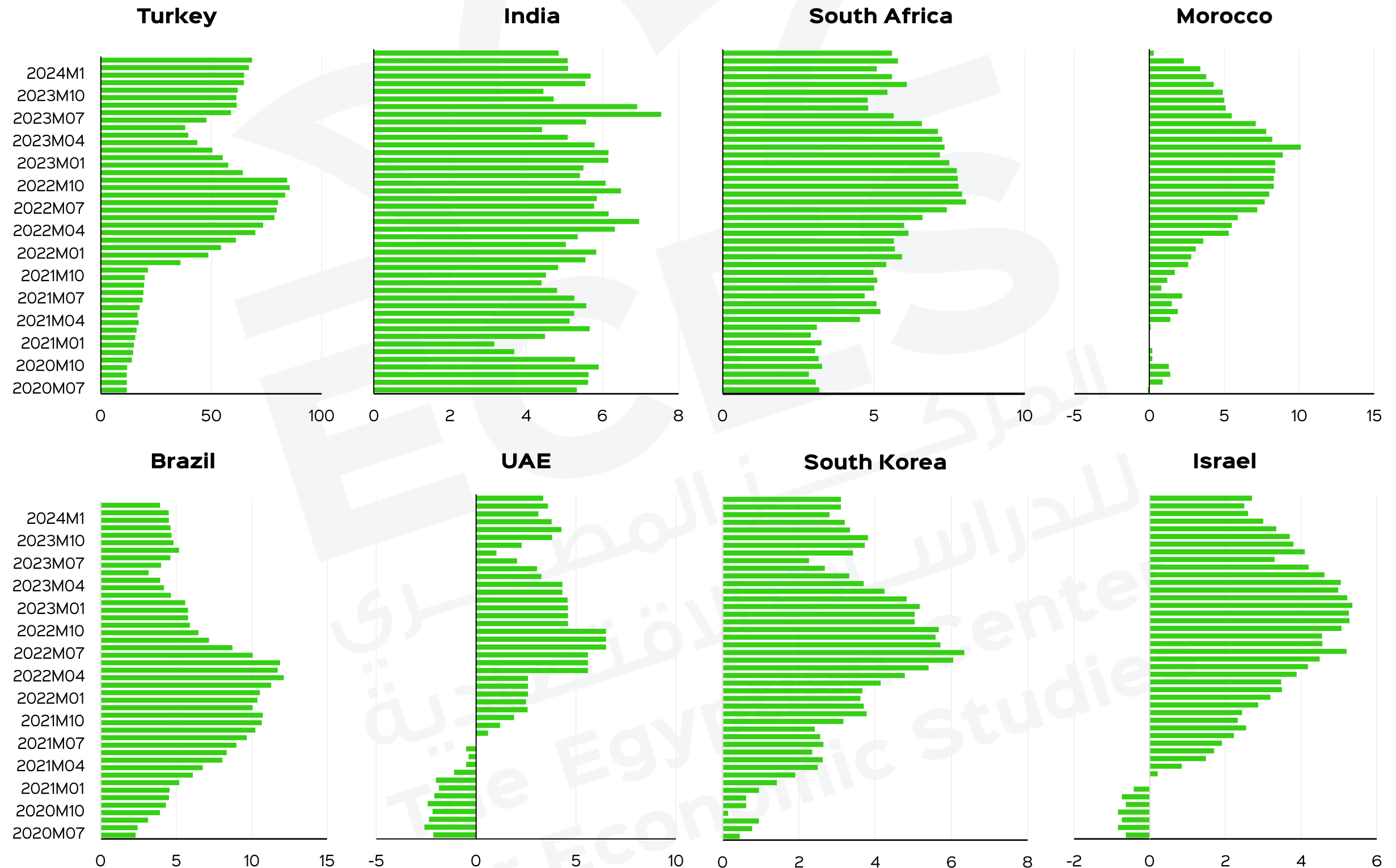
10-Year Bond Yield



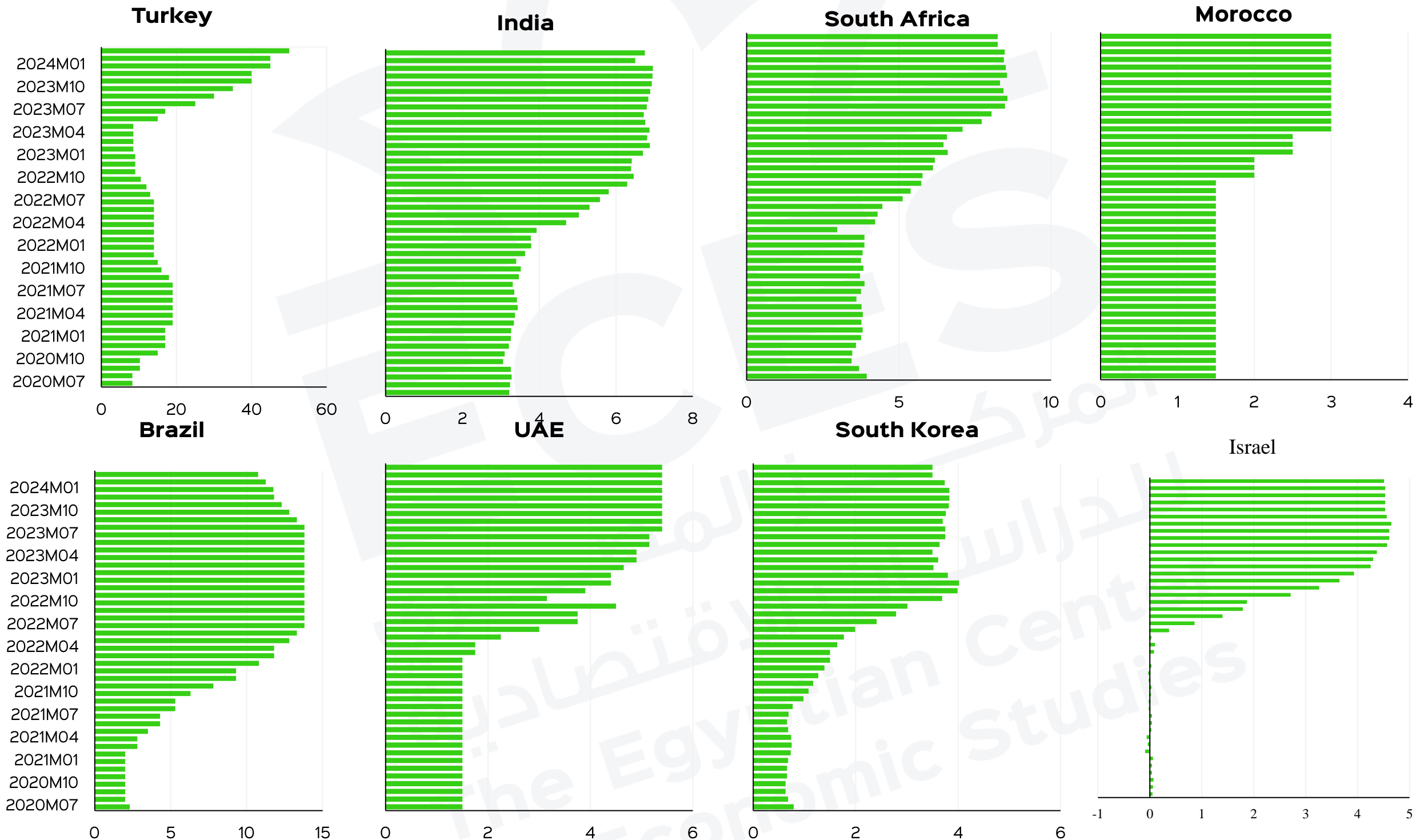
5-Year CDS



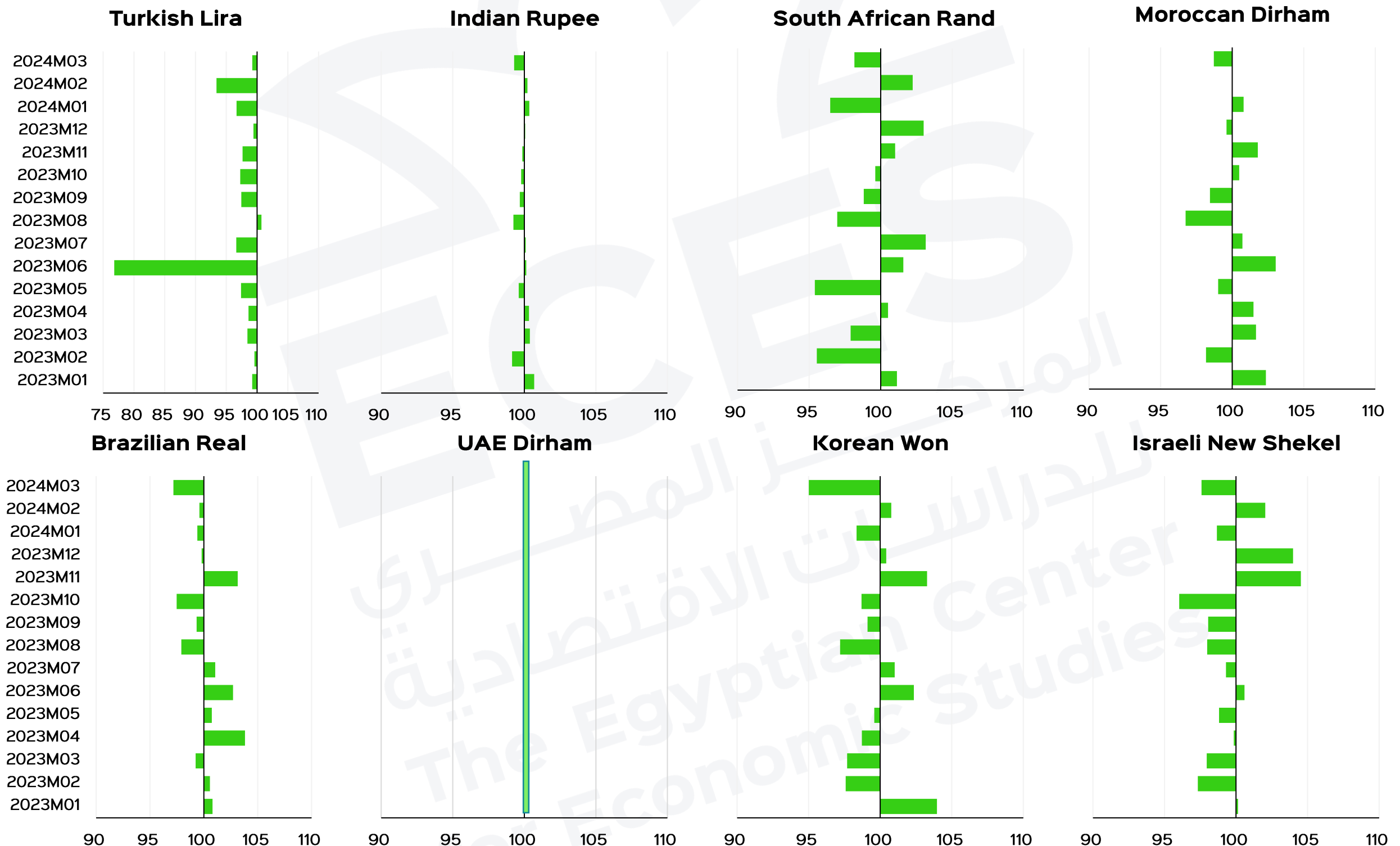
Inflation rates in emerging markets are still quite turbulent with no clear direction yet. Inflation rates in emerging markets are still quite high and didn't start declining due to lagging effect in emerging markets. In addition, the increase in some commodity prices is having its toll on inflation rates in emerging markets, an exception to the trend is Morocco where food prices declined taking down inflation rate.



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, especially amid persistent inflation in global markets and delayed easing cycle kickoff.



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, especially with persistent inflation in global markets and delayed easing cycle kickoff.

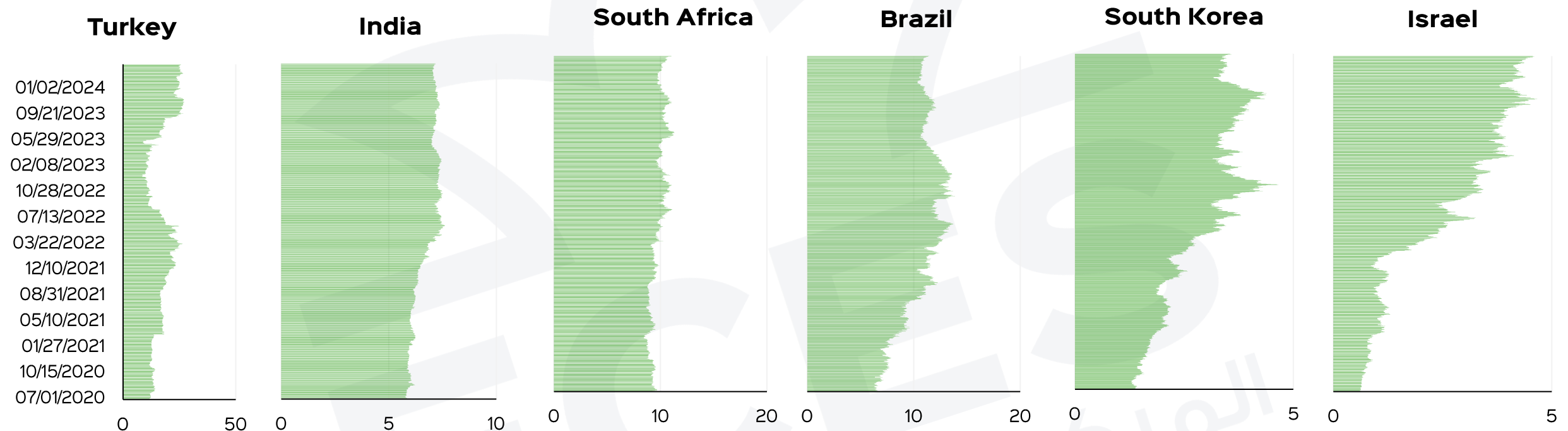


Most emerging markets' stock markets progressed in Mar 2024 in anticipation of the easing cycle and in some cases as an inflation hedge in countries with high inflation. Despite the lagging effect in emerging markets and uncertainty in global markets, emerging markets' stock markets rallied further in anticipation that easing cycle will start in 2024 and in the case of countries with high inflation like Turkey, it rallied exceptionally as an inflation hedge.

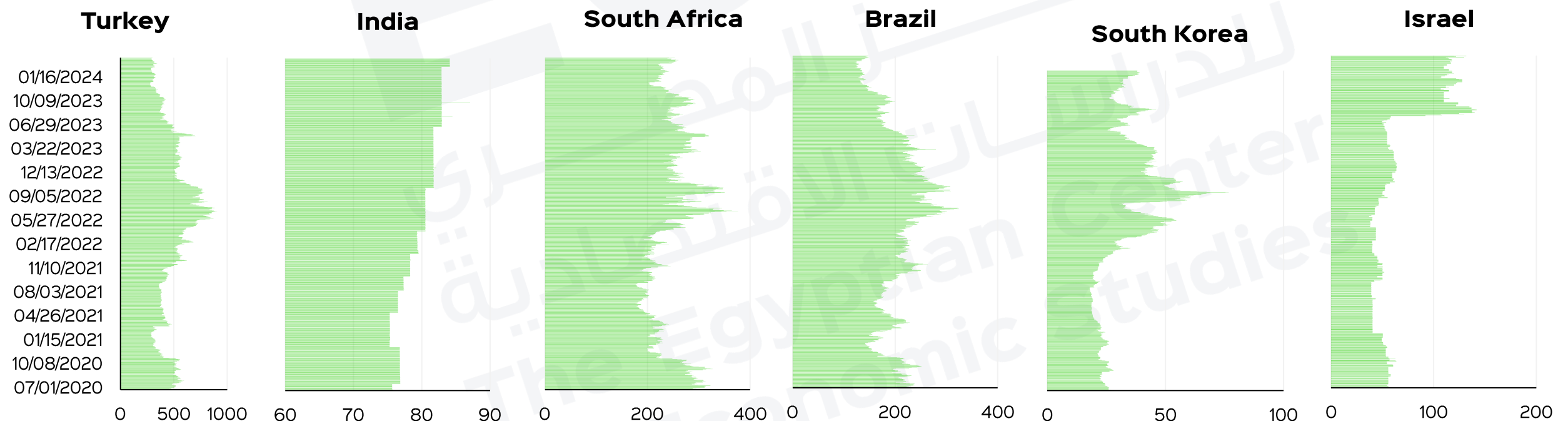


Bond yields in emerging markets edged up mirroring global markets with the delayed easing cycle kickoff, and CDSs increased as well reflecting higher perceived risks. With delayed kickoff of the easing cycle in global markets, interest rates are expected to stay higher for longer in emerging markets, thus bond yields edged upwards mirroring the global markets. With the large debt burden accumulated in emerging market economies, higher interest rates for longer translate into higher risk of repayment and thus higher CDSs as kickoff of easing cycle pushed forward.

10-Year Bond Yield

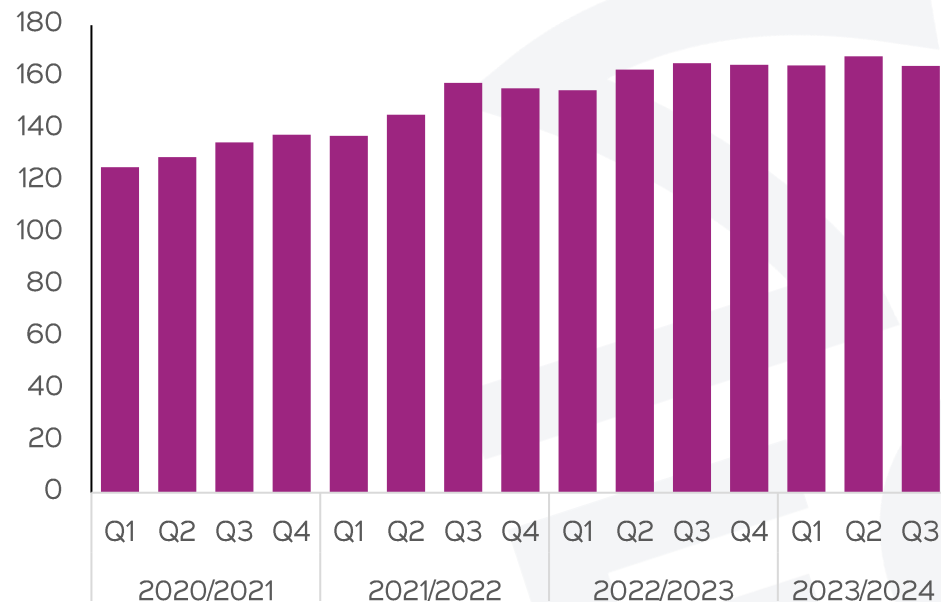


5-Year CDS

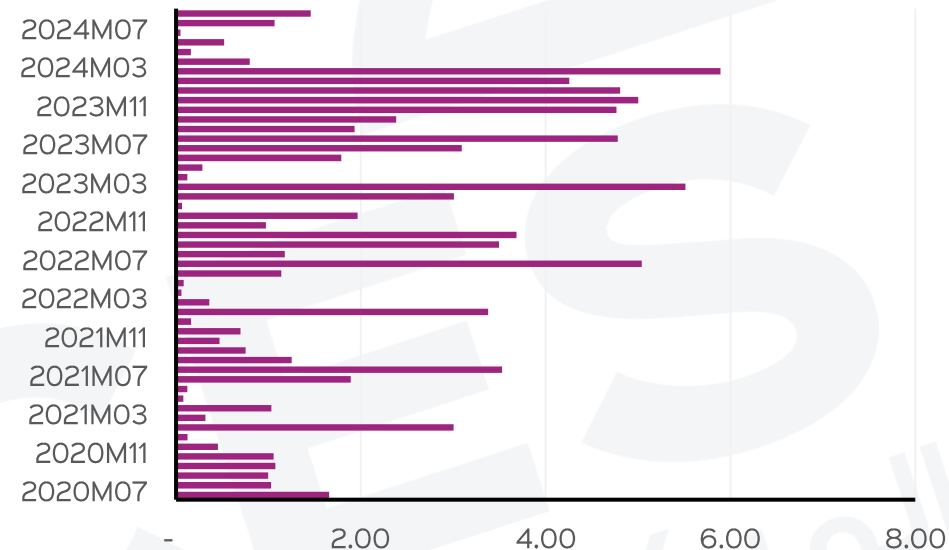


With the support of mega deals, external debt declined a bit and CDSs stabilized, while bond yields are still high due to the high policy and inflation rates locally. Mega deals such as Ras El-Hekma and IMF deals have changed the economic outlook in the short term, pushing external debt downwards a bit, providing enough liquidity to allow the country to access financial markets again and hence probably able to cover external debt service for the coming few years, thus helping stabilize credit ratings and CDSs as the country skips the risk of default. Though still high due to high policy and inflation rates locally, bond yields decreased a bit due to extremely high demand from hot money fund managers.

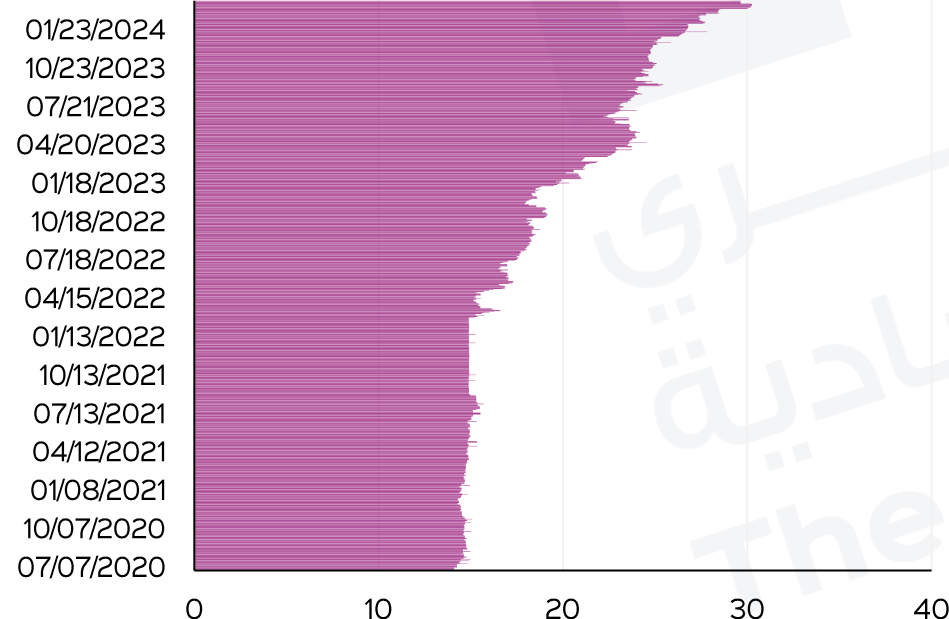
Total External Debt (bn \$)*



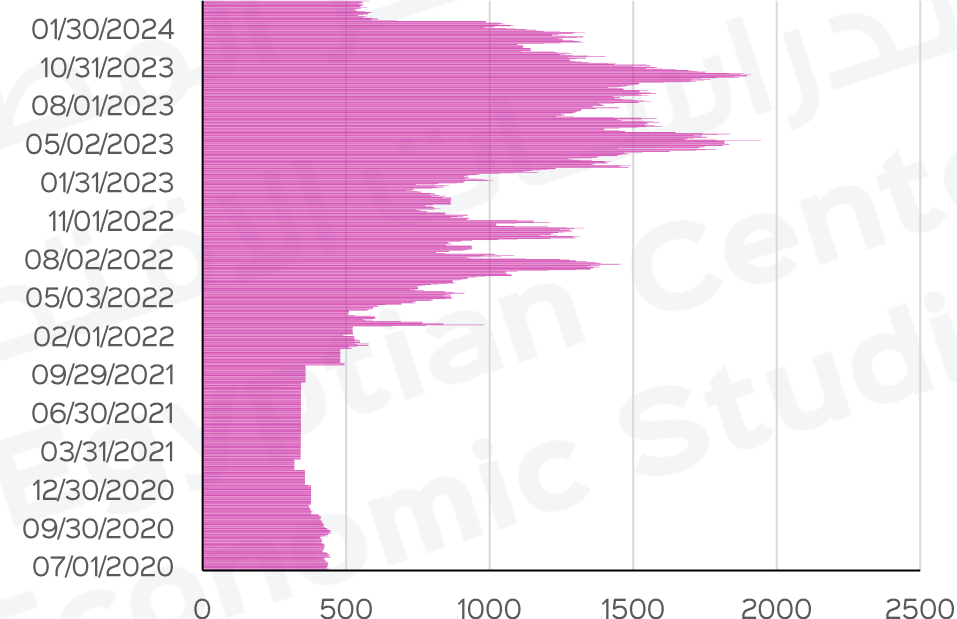
External Debt Service (bn \$)*



Egypt 10-Year Bond Yield



5Y CDS, Egypt



S&P Global
Ratings

B- Positive

Fitch Ratings

B- Stable

MOODY'S
INVESTORS SERVICE

Caa1 Positive

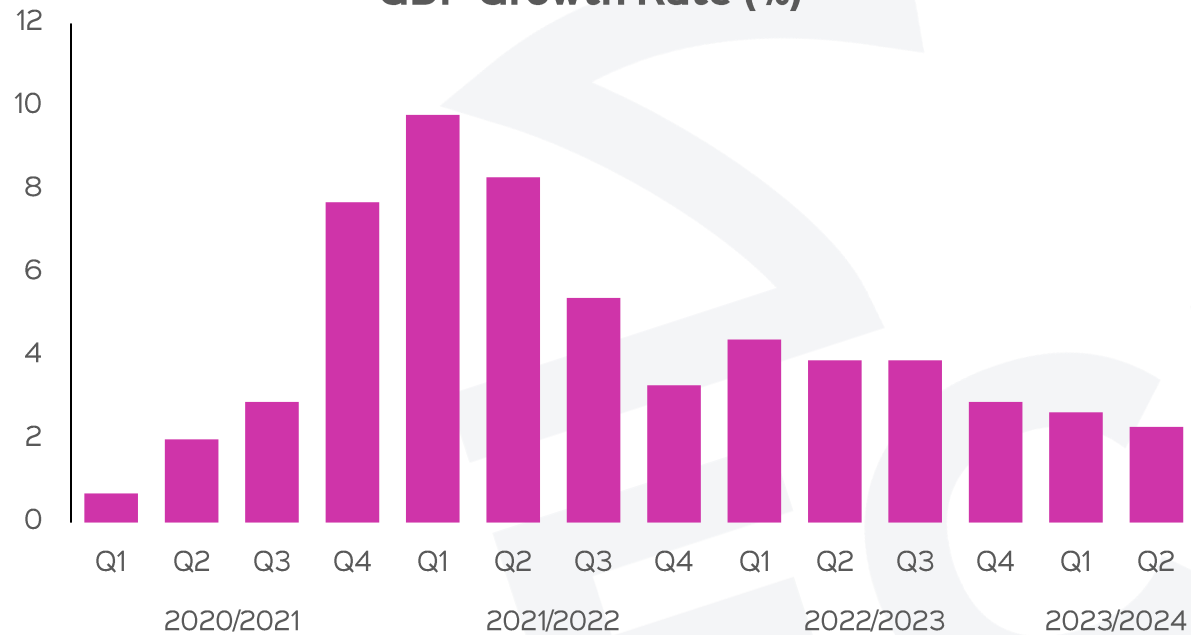
* Latest publication was issued in Dec 2023

Inflation rate started to show signs of decline due to monetary policy tightening, while economic growth still didn't return to the previous levels as the economy adjusts post the mega deals. The devaluation of the pound and increase of energy prices along with the accumulated growth in money supply over the past period have pushed inflation rate higher in the past months, yet with the interest rate big hike, inflation rate started to show signs of decline, though still inflation is quite high. The economy is growing at very low rate, below the previous levels and well below its capacity, and it is expected to take time to resume growth at the previous levels as the economy gets through the adjustment phase post the mega deals.

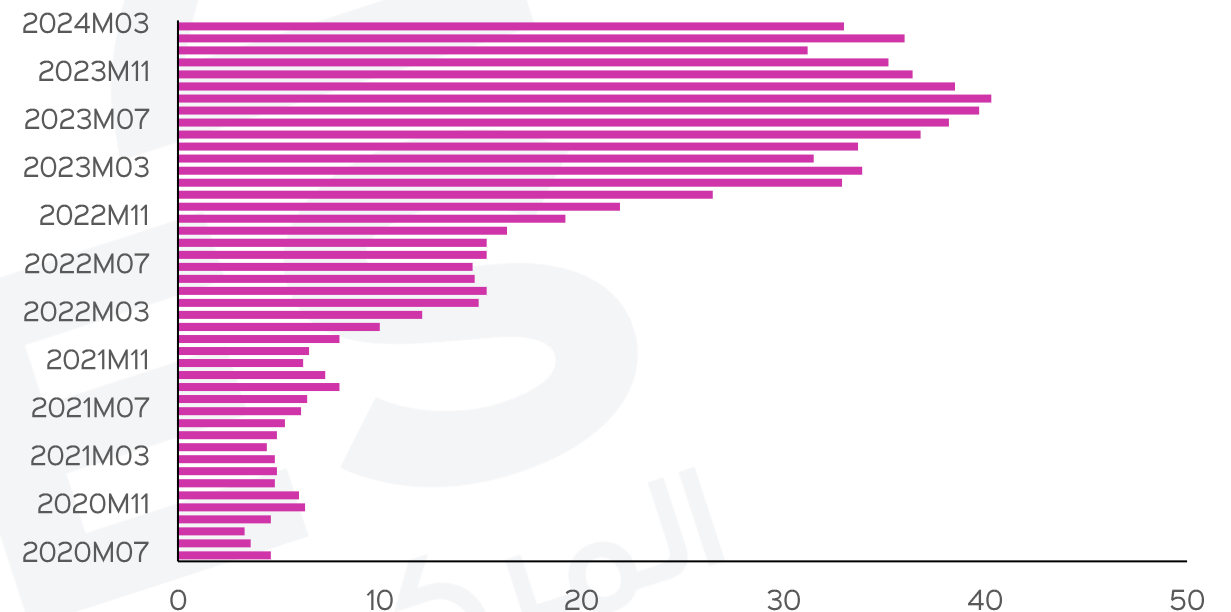
External Position

Local Developments

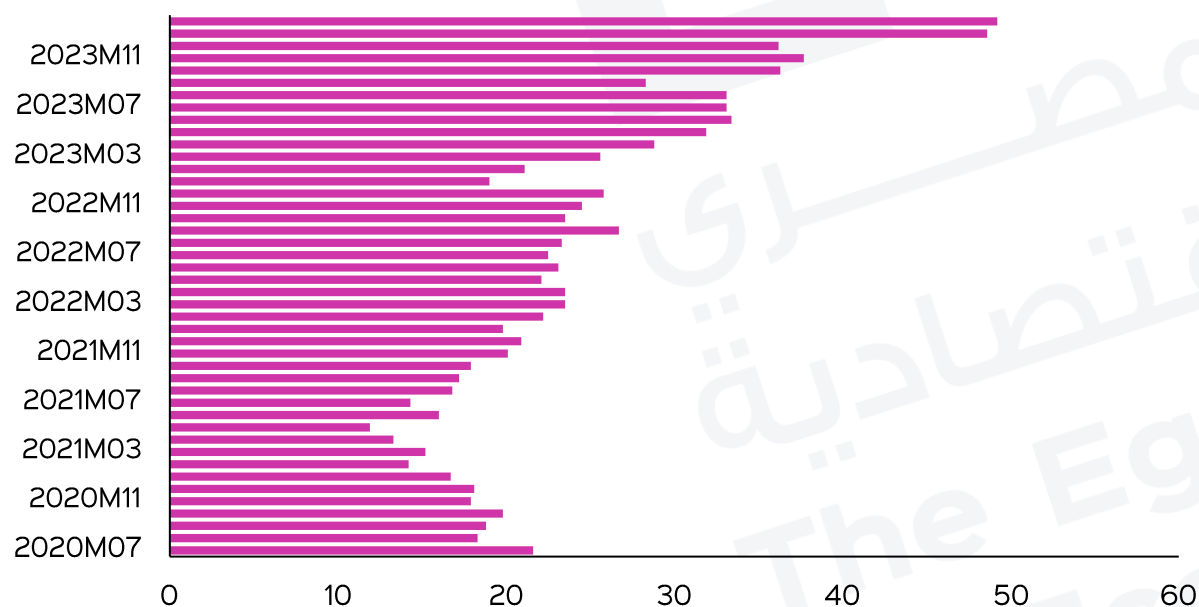
GDP Growth Rate (%)*



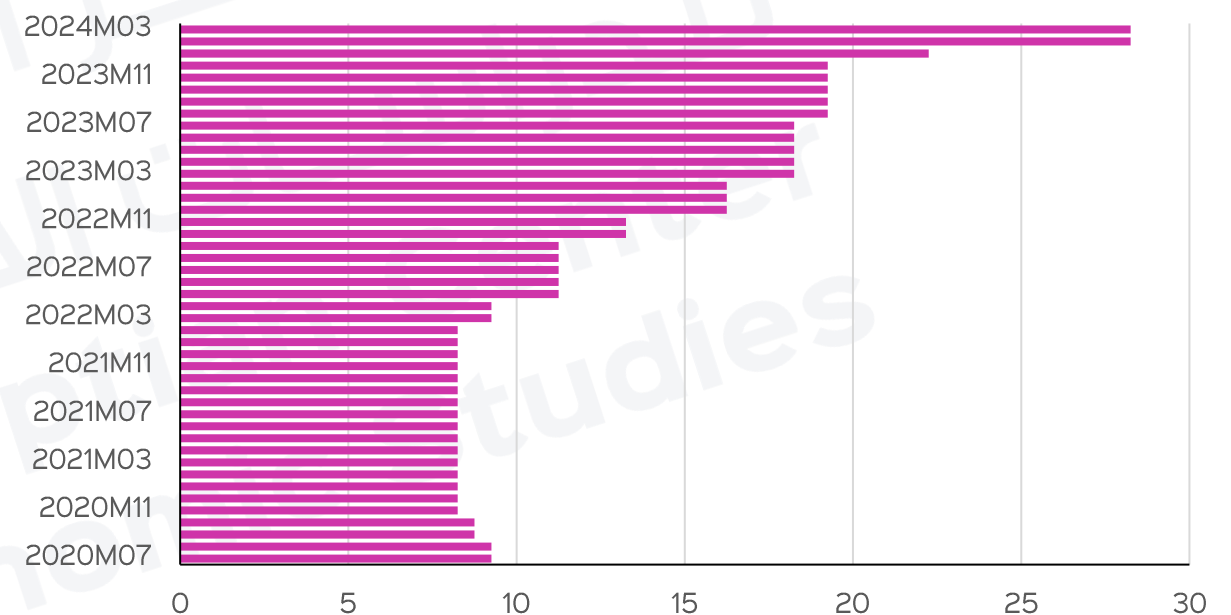
Inflation Rate (%)



Growth Rate of Money Supply (M1)*



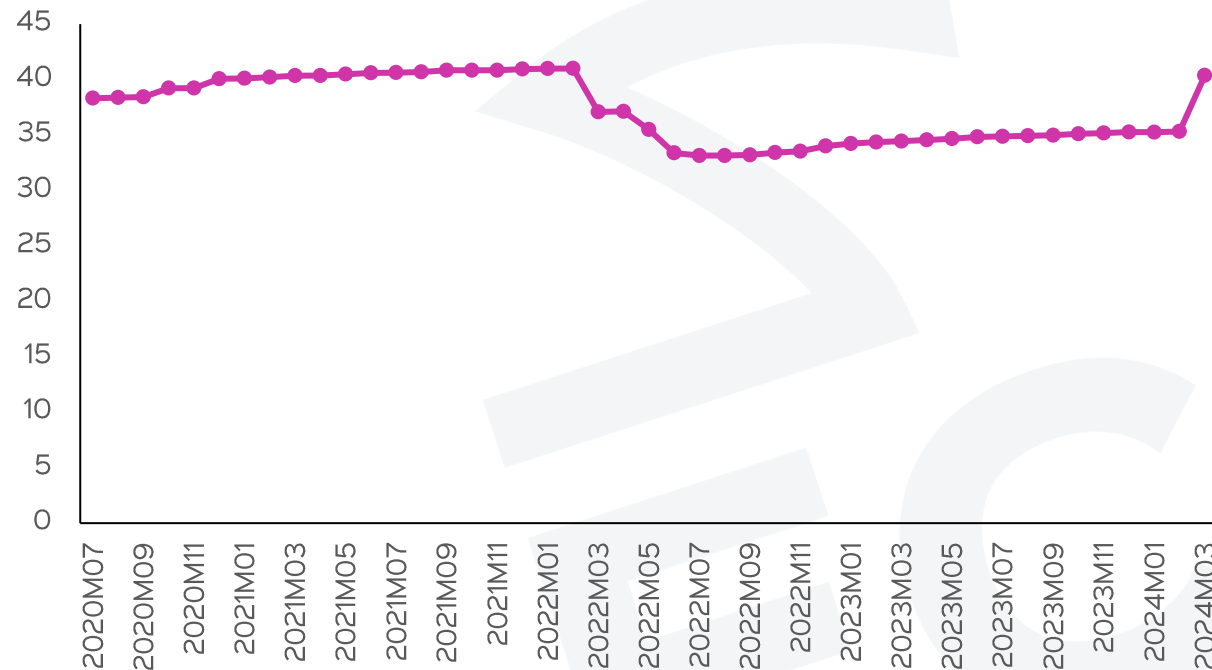
Policy Rate (%)



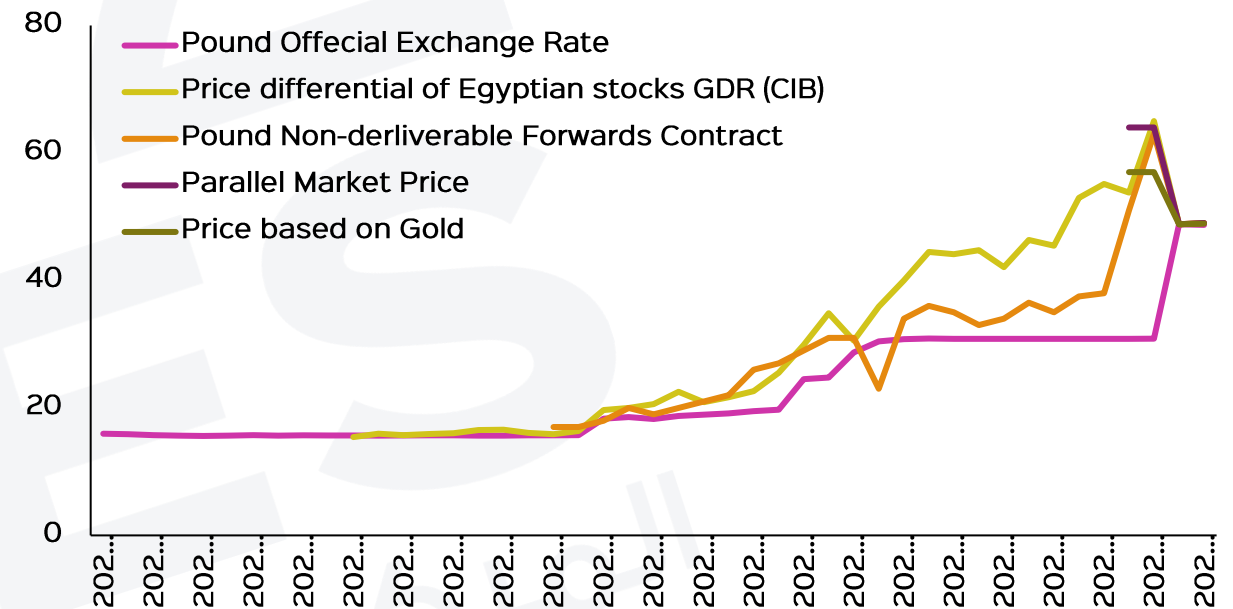
* Latest publication was issued in Dec 2023

Inflows from mega deals shored up central bank reserves a bit and helped decrease banking system net foreign assets negative balance as well as unified FX change rate in the market. 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, with central bank reserves increasing and banking system net foreign assets negative position decreasing, while stock market stays turbulent as stocks get repriced at the new exchange rate, after a long speculation phase.

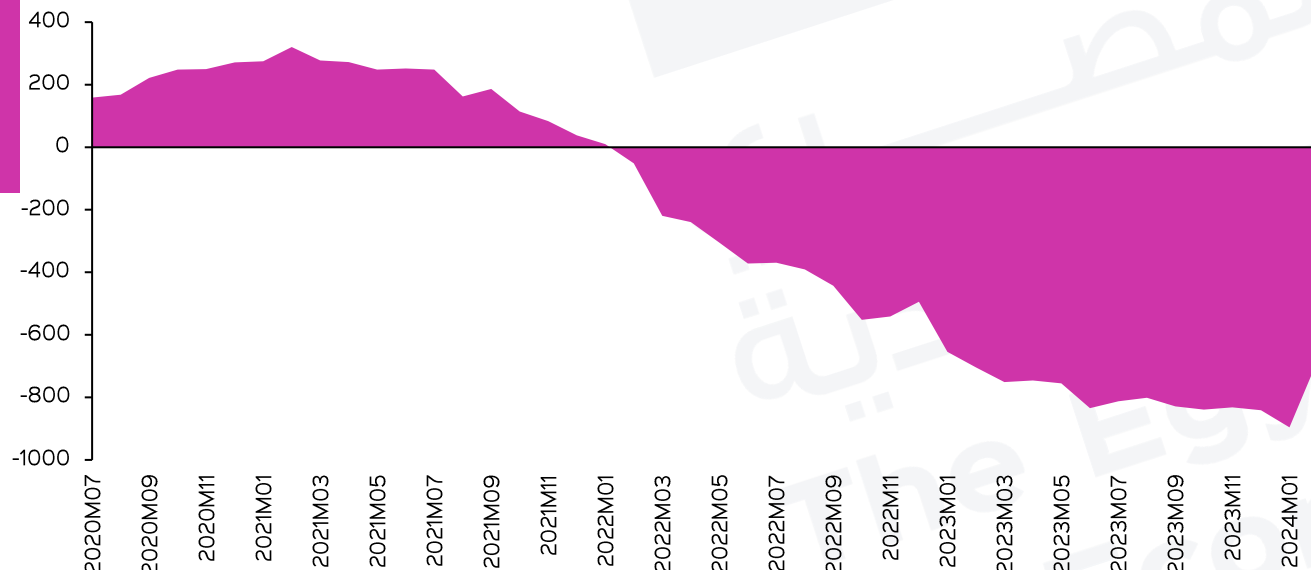
Net International Reserves



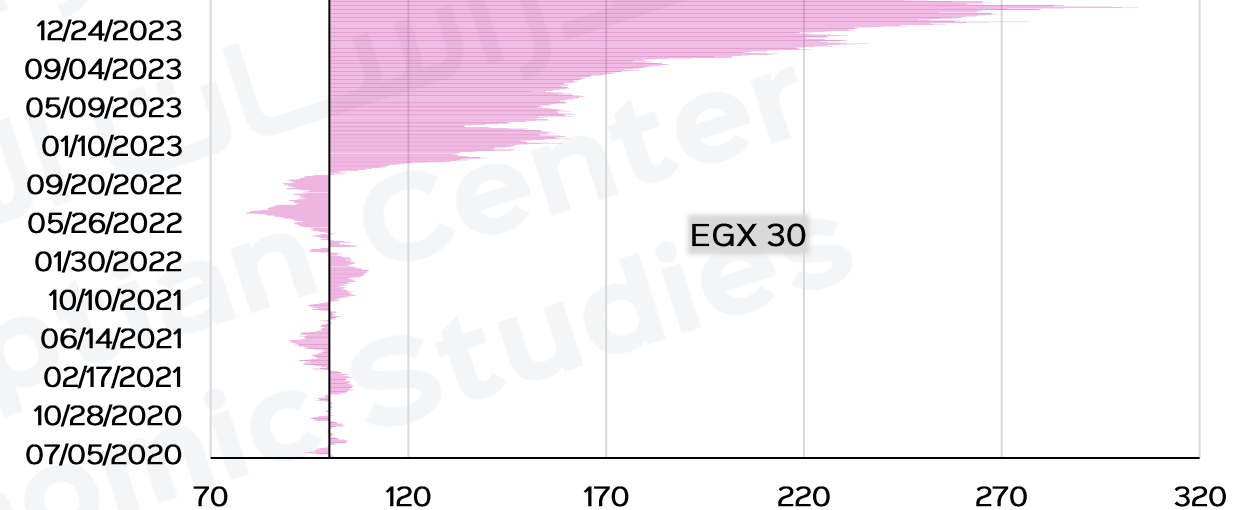
Pound Exchange Rate



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



Egypt



* Latest publication was issued in Dec 2023

Analysis - Key Takeaways

Global Markets



- Commodity prices have diverged with some spiking such as oil for geopolitical reasons and gold for Chinese massive purchases, while others declining such as iron for excess capacity and rice large harvest.
- Inflation rates persisted and in some cases increased higher than expectation as happened in the US market, thus delaying the easing cycle kickoff and pushing rate cuts later in the year.
- Bond yields edged higher thanks to persistent inflation and delay of easing cycle kickoff and CDSs also increased with higher for longer interest rates. Global stock markets have witnessed a turbulent month with the conflicting messages on inflation.

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.
- 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 emerging markets increased mirroring global markets with the delayed easing cycle kickoff, and CDSs increased as well reflecting higher perceived risks, exacerbated with the high level of debts accumulated in emerging markets making them vulnerable in higher for longer interest rate environment.

Egyptian Local Market



- Mega deals such as Ras El-Helma and IMF deals changed the economic outlook in the short terms as it resulted into a decline in external debt as well as stabilization of CDSs, while bond yields are still high due to the high policy and inflation rates locally that will take time to get contained.
- Devaluation, energy prices increases and accumulated increase in money supply have pushed inflation rate upwards in the previous months, but lately inflation rate started to show signs of decline due to monetary policy tightening, though still inflation is high, while economic growth still didn't return to its previous levels, which is well below its capacity, as the economy adjusts post the mega deals.
- Inflows from mega deals helped shore up central bank reserves and decrease the banking system net foreign assets negative balance. It also helped unify FX change rate in the market. While the stock market stays to be in a turbulent phase amid assets repricing, post devaluation.

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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