



# Financial Markets Snapshot

Issue 5  
 May 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 kept moving in different directions, with clear divergence between the different commodities.** For the second month in a row, there is no clear trend for commodities in general, after a period of declining trend across the different commodities. Energy prices have increased due to geopolitical instability and the Middle East crisis along with the Red Sea crisis. Gold has also achieved new highs thanks to inflation hedging by investors. While most other commodities declined especially rice due to larger than expected harvest.

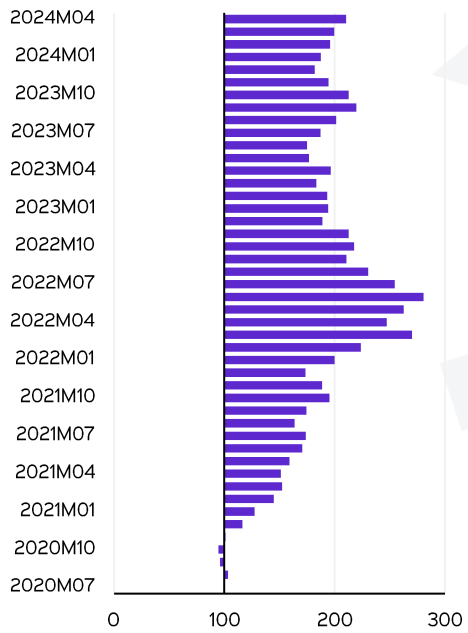
Commodity Markets

Main Rates

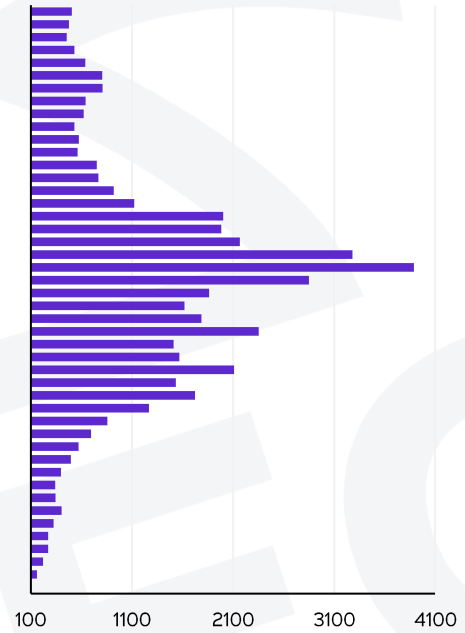
Stock Market

Bond Market

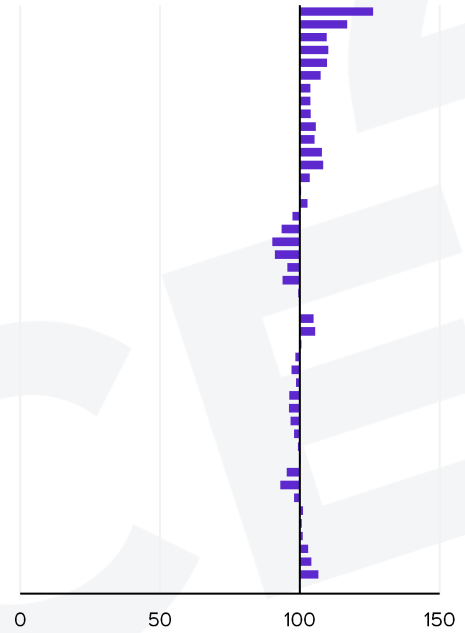
Crude Oil, Brent



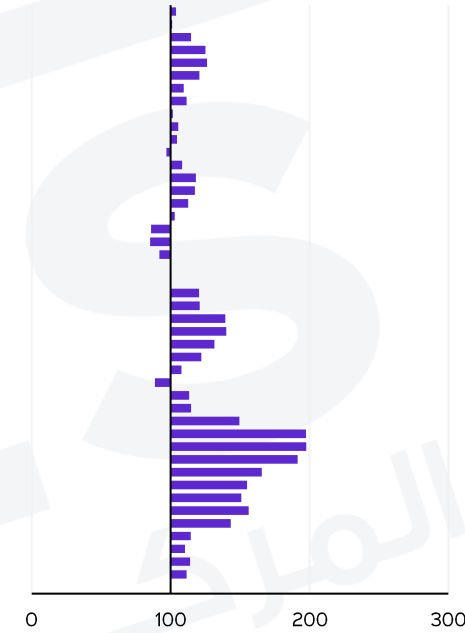
Natural Gas



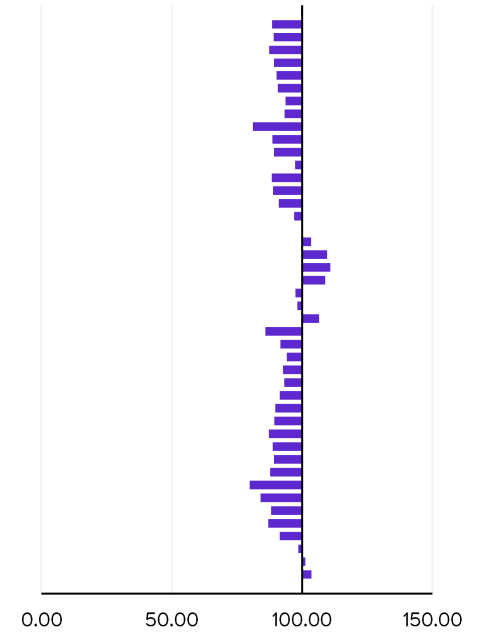
Gold



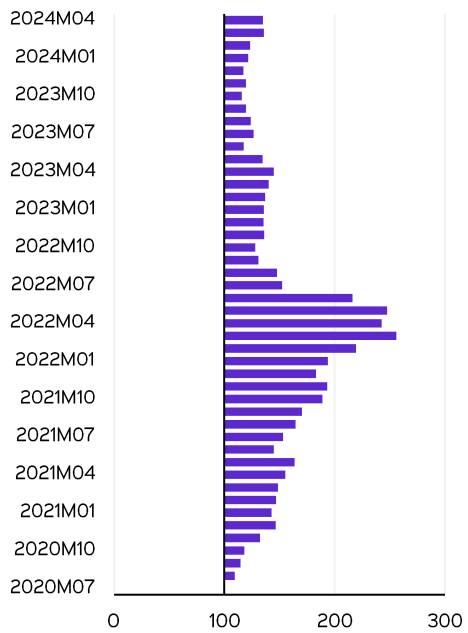
Iron ore



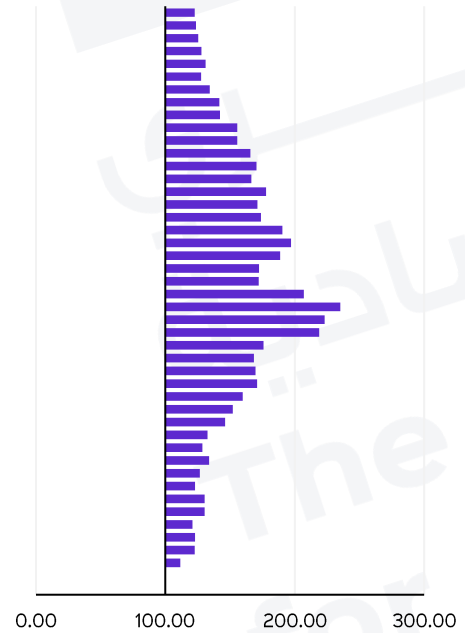
Tea



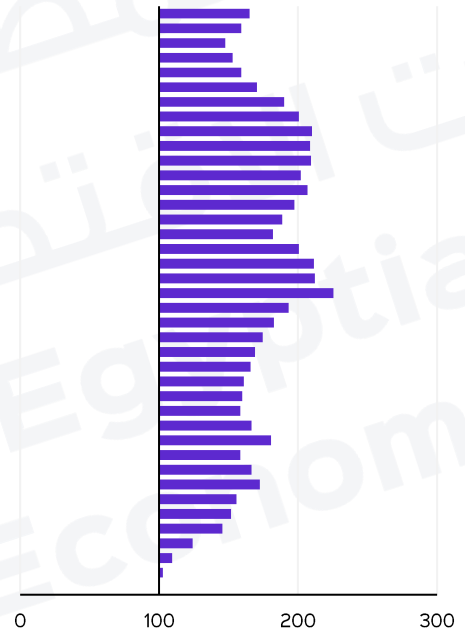
Palm oil



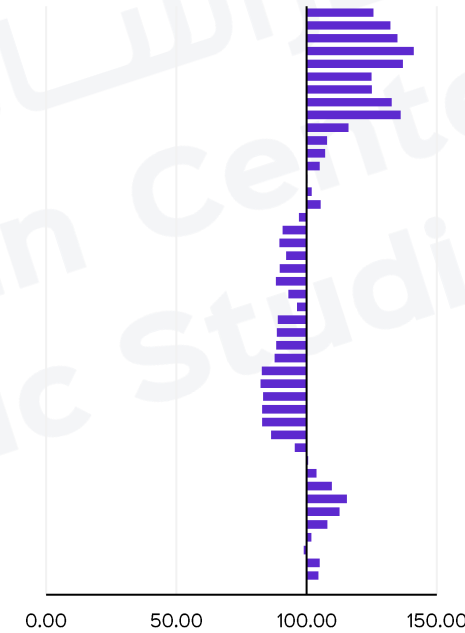
Wheat



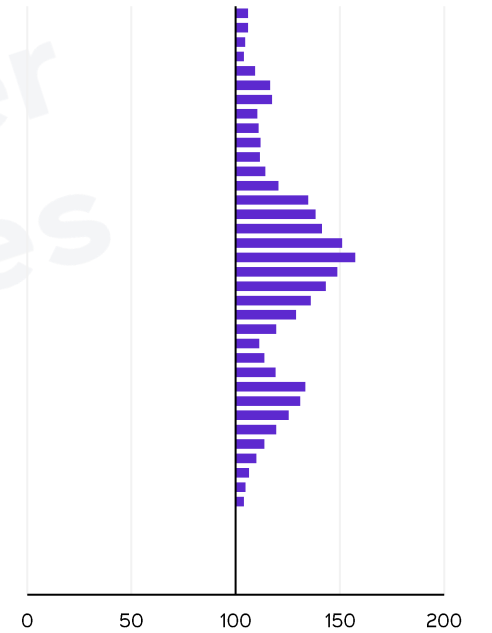
Maize



Rice

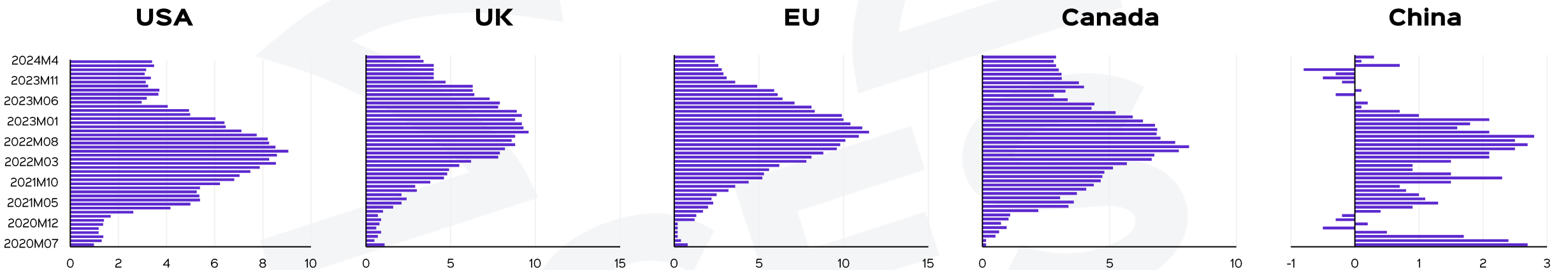


Bovine meat

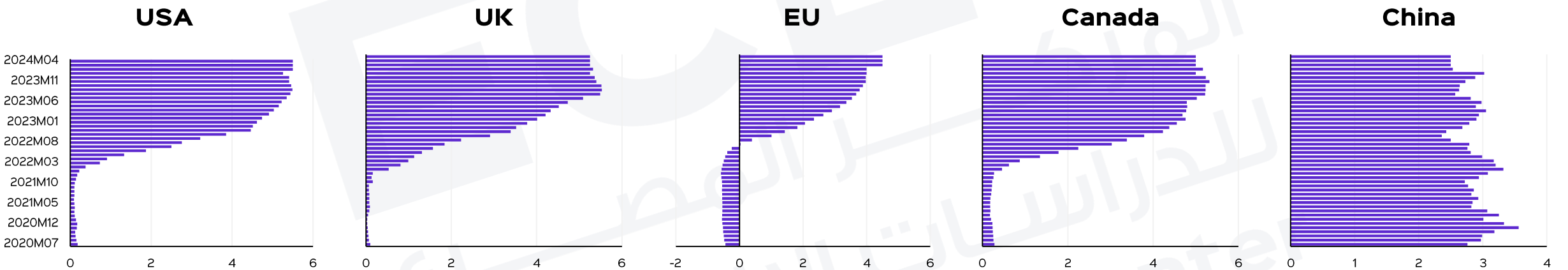


**Inflation rates persisted, proving prices and wages are sticky, with some further increases in the US, while stability in UK and EU indicating that easing cycle may start in Europe before the US this time.** After few months of declining inflation rates and with expectations that inflation is finally getting contained, inflation rates in the last three months didn't decline further as expected, they actually persisted in most global markets. The US stands out as the critical case in point where inflation rates actually increased, delaying the easing cycle kickoff. Yet on the other hand, inflation rates stabilized in the UK and EU, which would entail that most likely the easing cycle kickoff will take place first in Europe. China still witnessed positive inflation rate with the resumption of economic activity and growth.

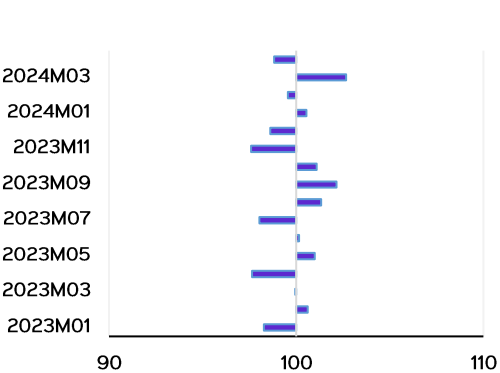
**Inflation Rate**



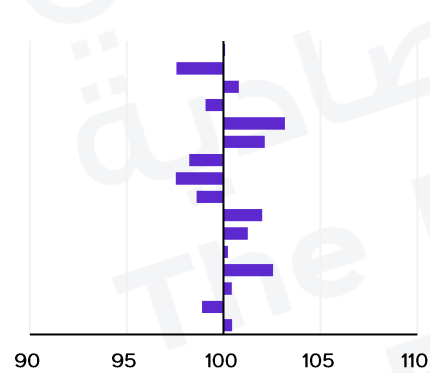
**Policy Rate**



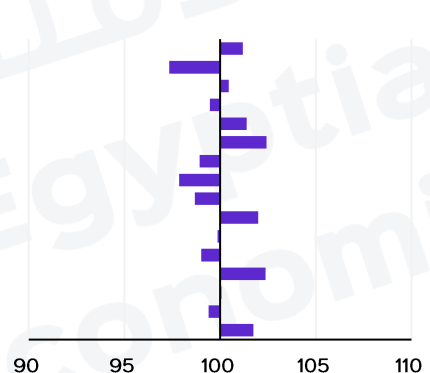
**LCU / USD**



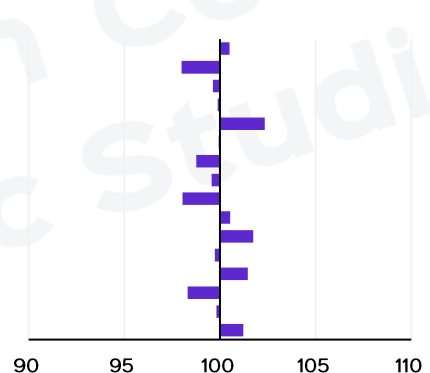
**UK Pound**



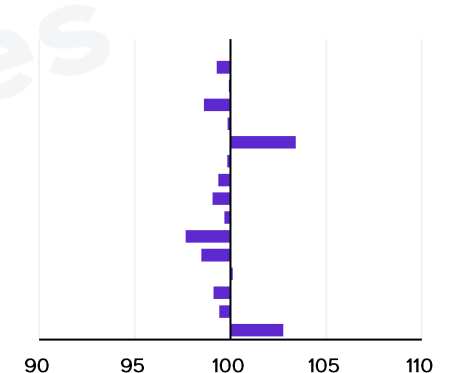
**Euro**



**Canadian Dollar**



**Chinese Yuan**



Commodity Markets  
Main Rates

Stock Market

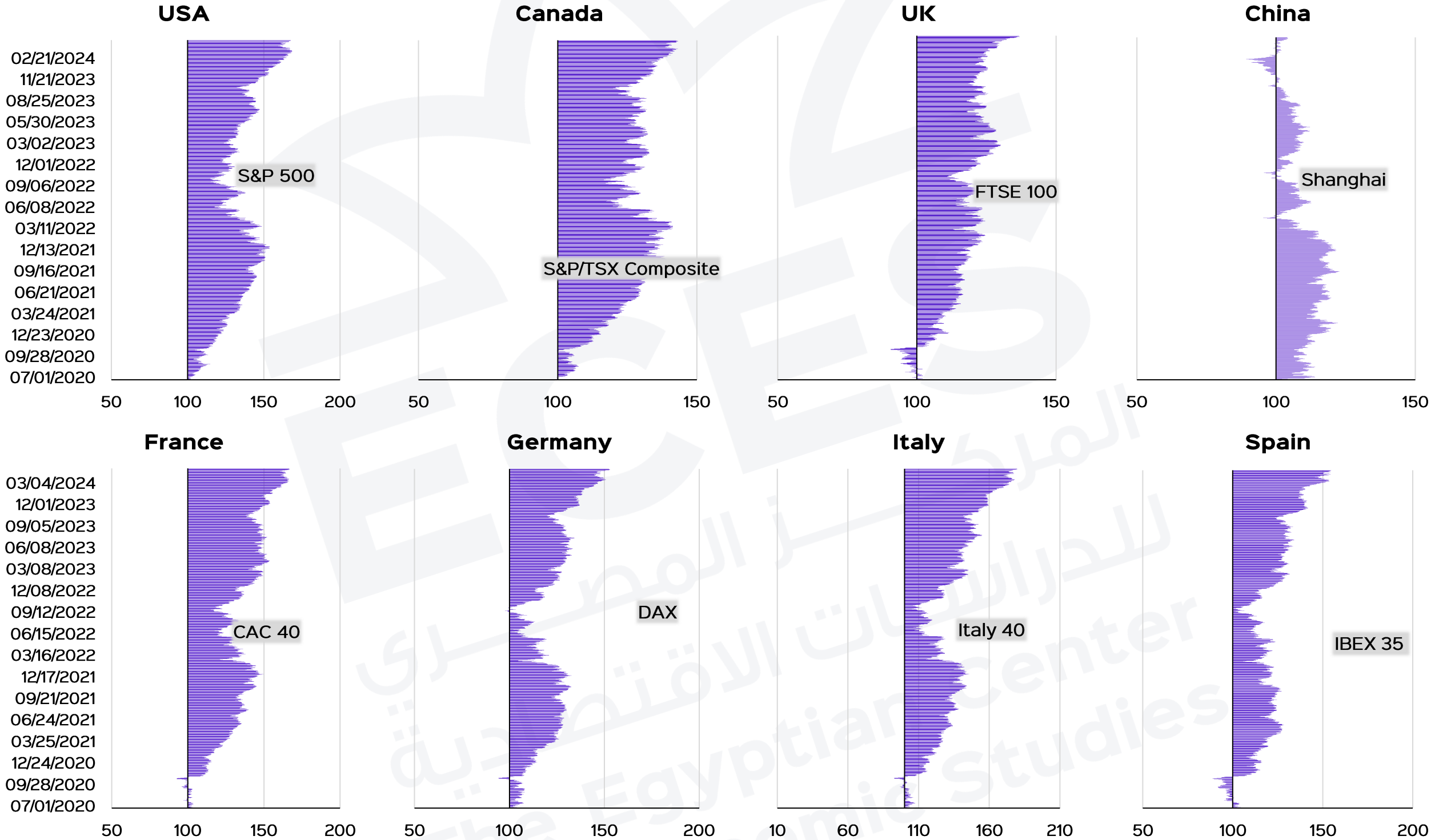
Bond Market

**Global stock markets witnessed another turbulent month with unclear messages about easing kickoff due to higher than expected inflation in US and global geopolitics.** Due to the confusion about easing cycle kickoff thanks to persistent inflation and the global geopolitics resulting from Middle East crisis and economic tensions between US and China, global stock markets has been quite turbulent, despite reaching all time highs in different markets. Still, 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

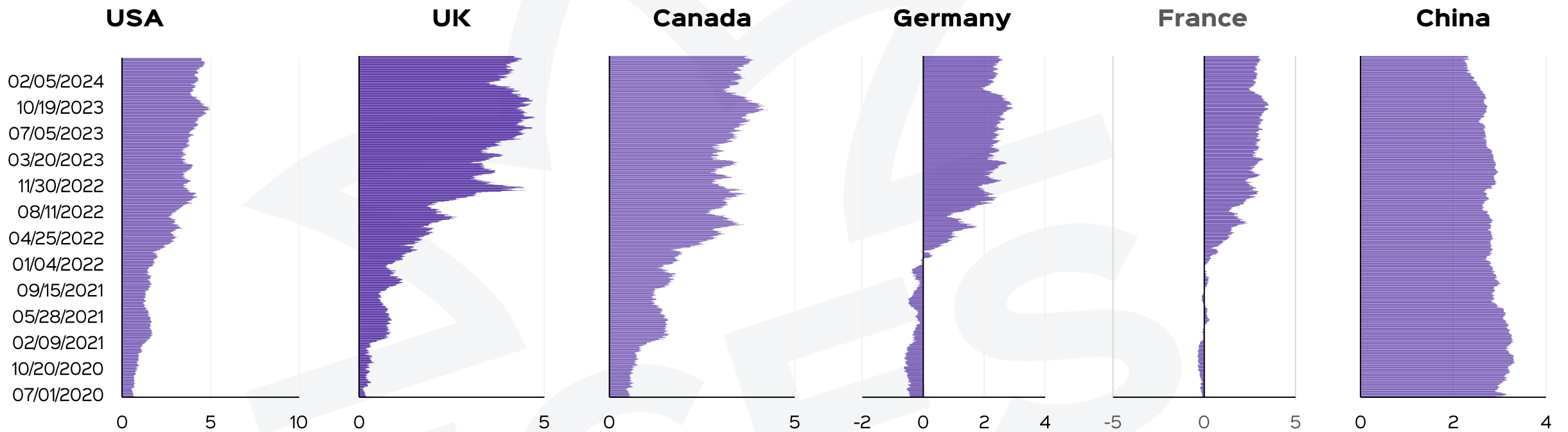
Bond Market



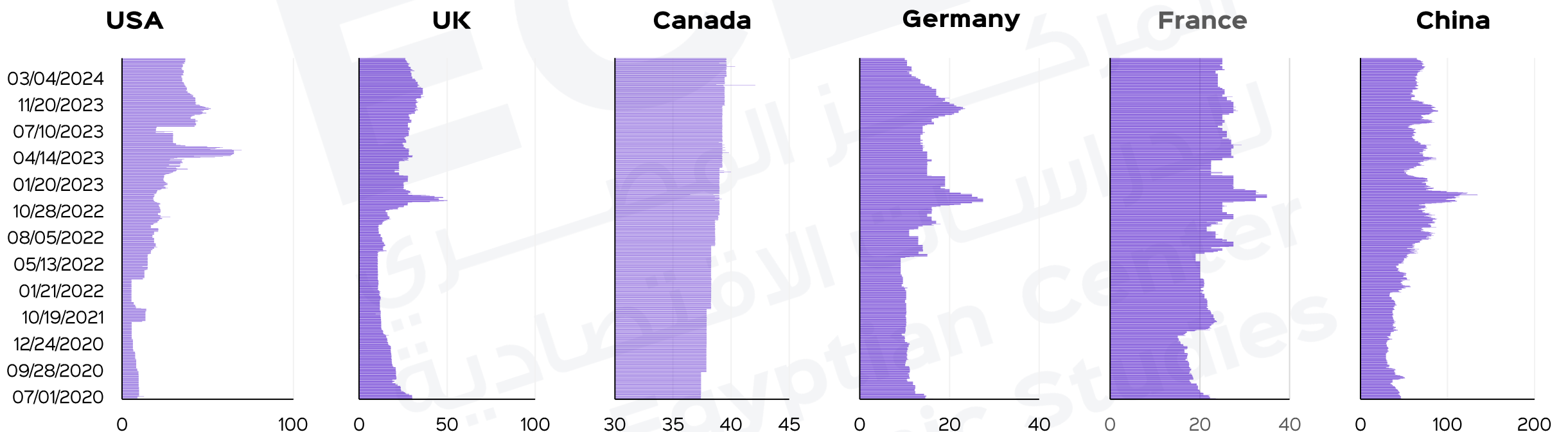


**Despite the delayed kickoff of the easing cycle, bond yields stabilized in global markets and CDSs even got contained a bit, as the market factored in higher for longer interest rates.** Due to persistent inflation and higher than expected inflation rates, markets started to factor in higher for longer interest rates, but as inflation rates didn't jump further and the expectation has been built in, bond yields in global markets stabilized and in some markets even declined a bit. The same trend is witnessed in CDSs which got contained a bit as debt service burden and risk of default declined.

10-Year Bond Yield

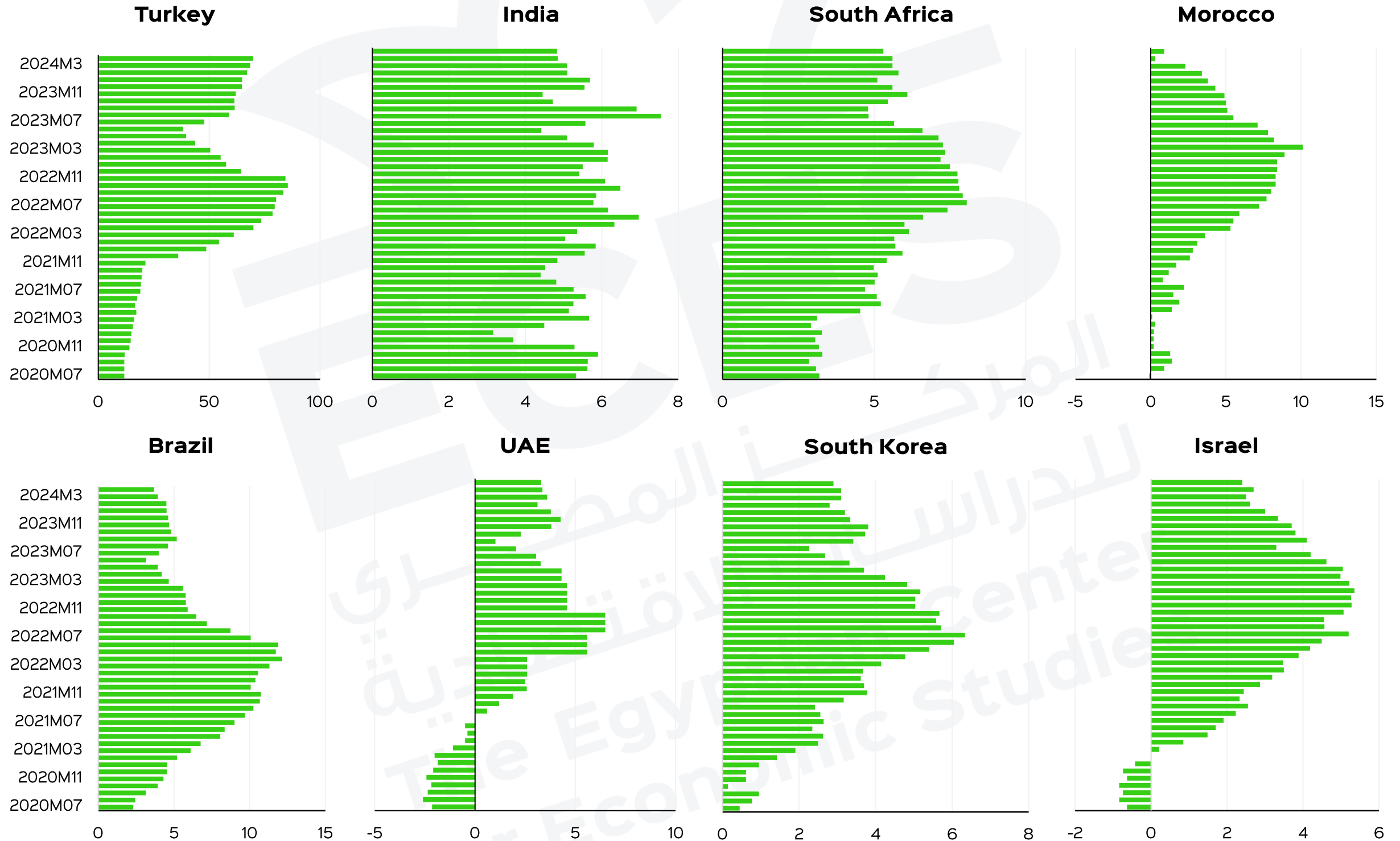


5-Year CDS



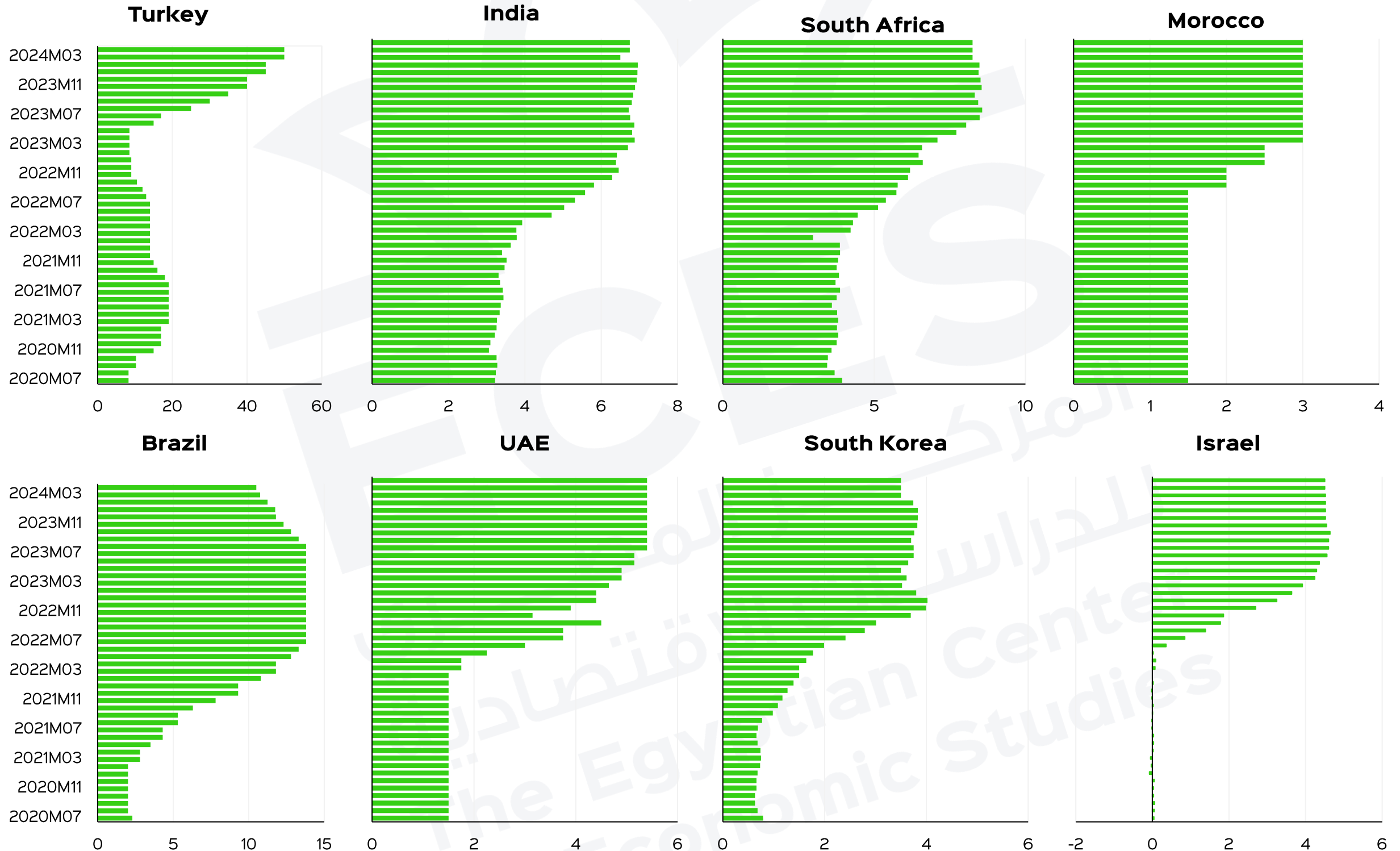
Commodity Markets  
Main rates  
Stock Market  
Bond Market

**Inflation rates in most emerging markets started to get contained a bit, thanks to declining of major food items and key commodity prices.** Inflation rates in emerging markets started to show a declining trend, though still at quite high levels, thanks to a decline in food related items. Still inflation rates are quite high, but their stability and even declining trend sends a positive signal. The exception to this trend is Morrocco, which witnessed an increase in prices of food and non-food items.



**Central banks of most emerging markets still maintain very high interest rates to keep inflation under check and protect their currencies.** The lagging effect between global and emerging markets is evident in policy rates which remain quite high to help contain persistently high inflation. And even though inflation started to stabilize in many emerging markets, inflation rates are still quite high hinting for higher for longer interest rates in emerging markets. Besides, central banks of emerging markets try to defend local currencies that still face some external pressures, especially amid persistent inflation in global markets and delayed easing cycle kickoff.

Inflation Rate  
Policy Rate  
LUC/USD  
Stock Market  
Bond Market



**Pressure on emerging markets' currencies decreased a bit, though still present, with some emerging markets currencies appreciating against the US Dollar.** With inflation rates stabilizing and even showing a declining trend in few emerging markets and hints about easing in sight even if delayed in global markets, emerging markets currencies started to face less pressure, with some such as the Rand, Dirham and Won appreciating against the US Dollar last month in a reverse to the depreciation trend.

Inflation Rate

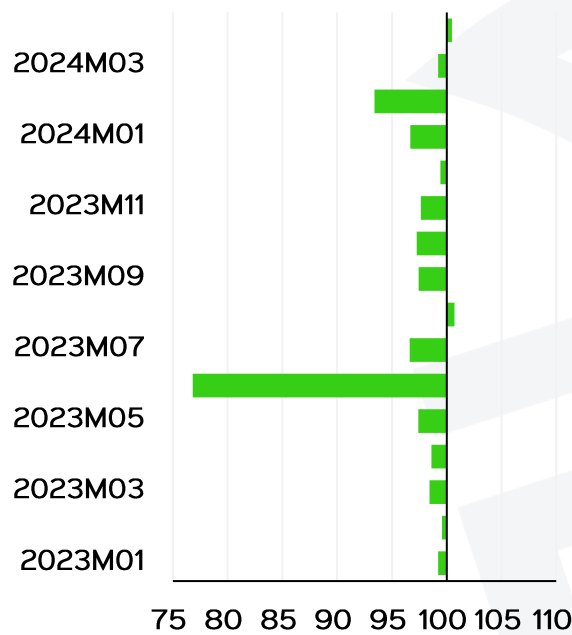
Policy Rate

**LUC/UDS**

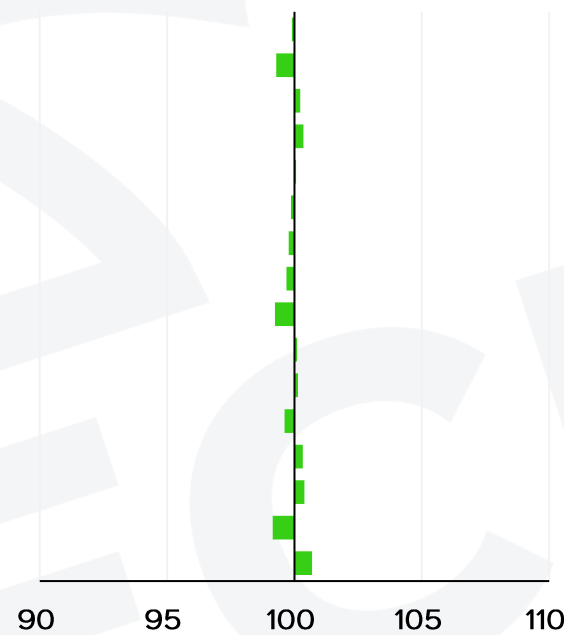
Stock Market

Bond Market

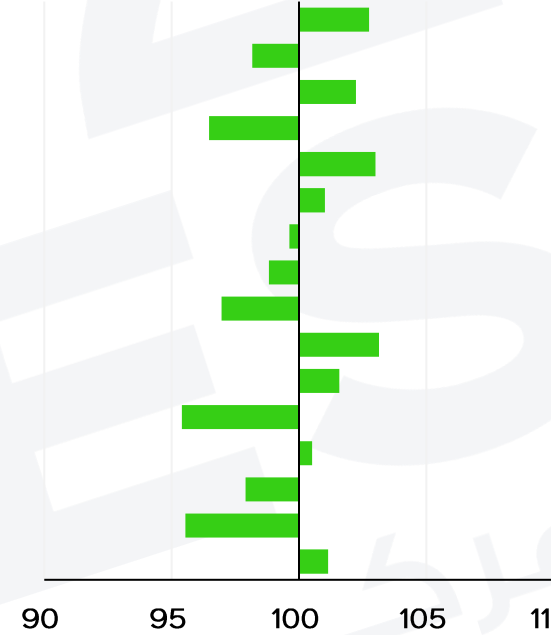
**Turkish Lira**



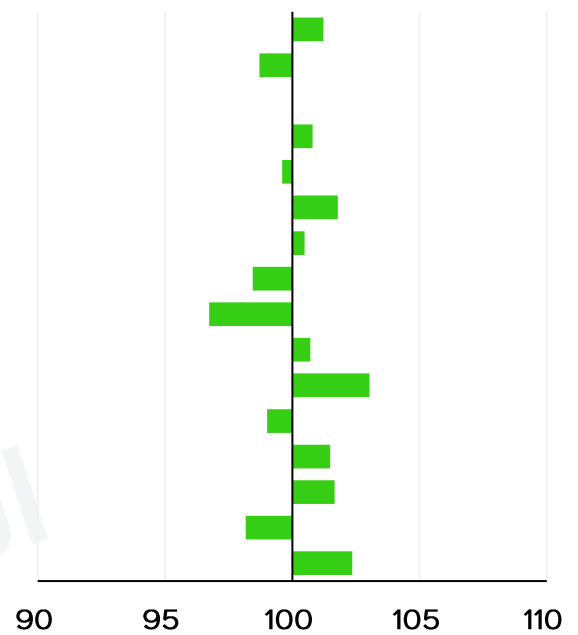
**Indian Rupee**



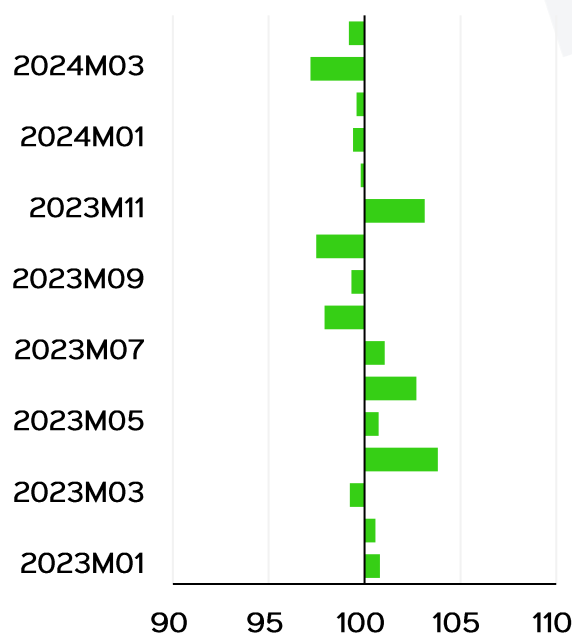
**South African Rand**



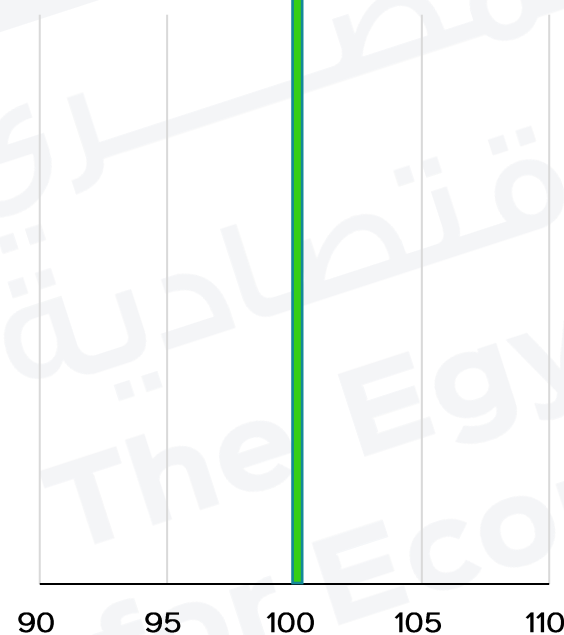
**Moroccan Dirham**



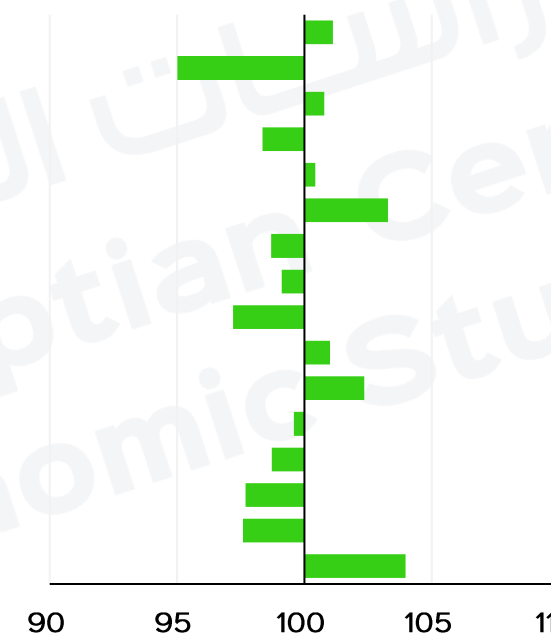
**Brazilian Real**



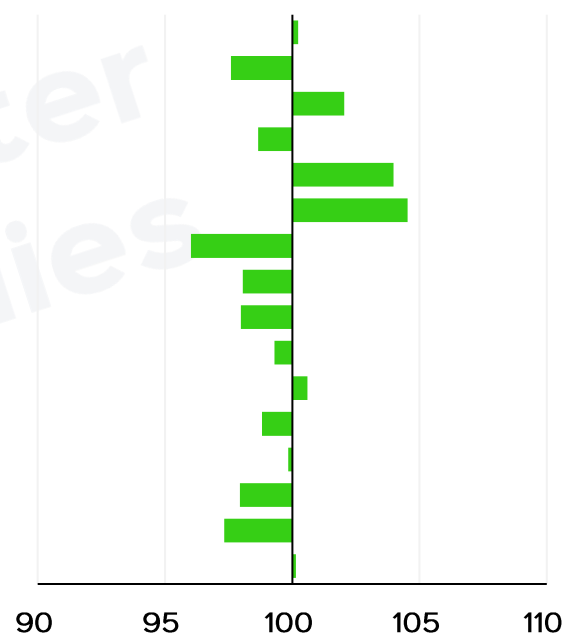
**UAE Dirham**



**Korean Won**

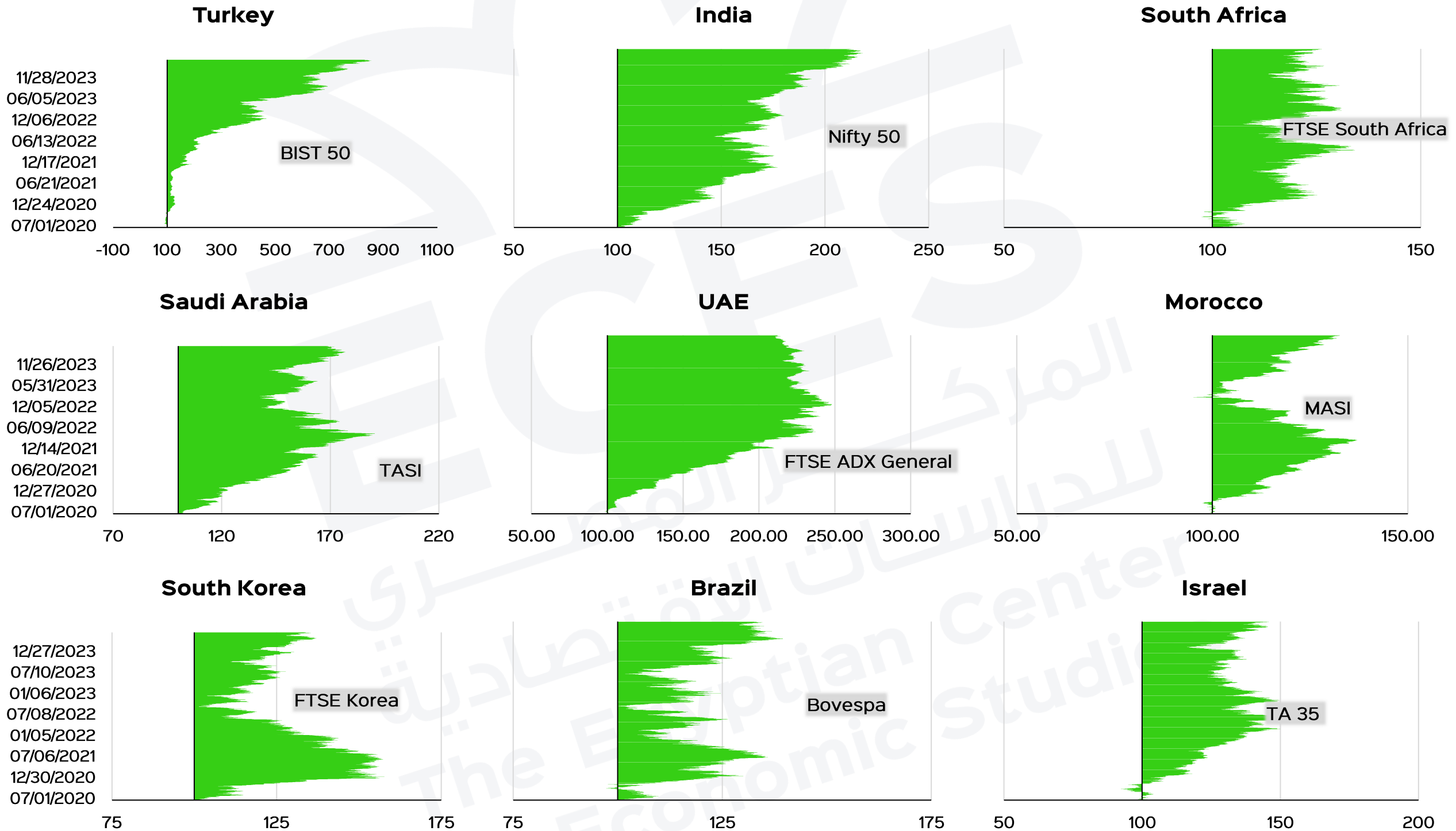


**Israeli New Shekel**



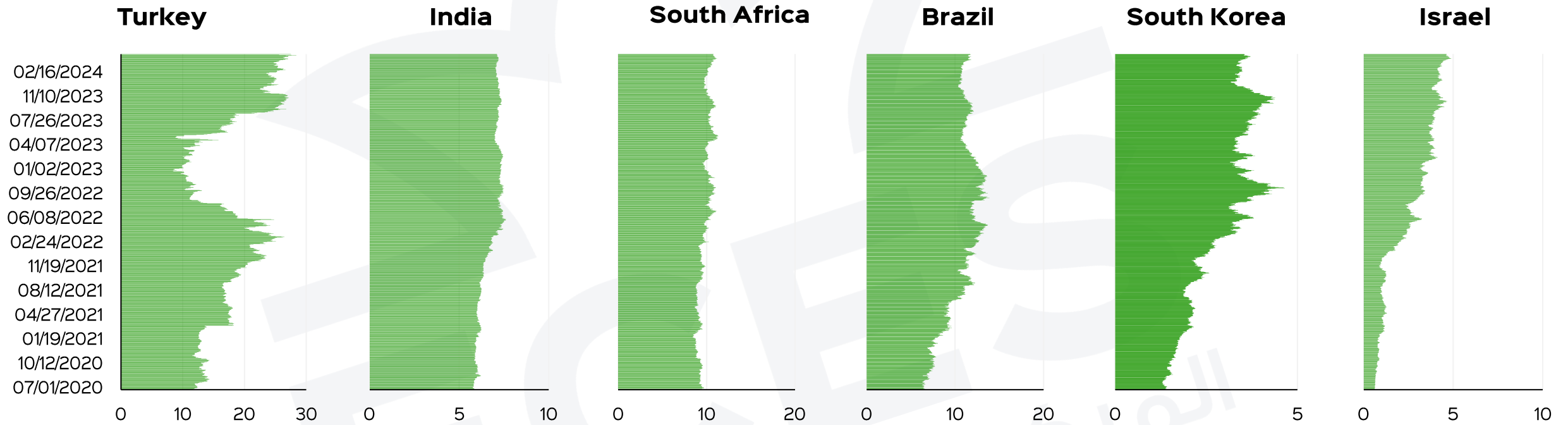
**Most emerging markets stock markets progressed in this month in anticipation of the easing cycle and in some cases as an inflation hedge, with the exception of KSA and UAE which have been negatively affected with geopolitical tensions.** Despite the lagging effect in emerging markets and uncertainty 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. But in some countries like KSA and UAE, the Middle East crisis and the geopolitical tensions have had major implications on their stock markets which witnessed huge turbulence in the last month.

Inflation Rate  
Policy Rate  
LUC/UDC  
Stock Market  
Bond Market

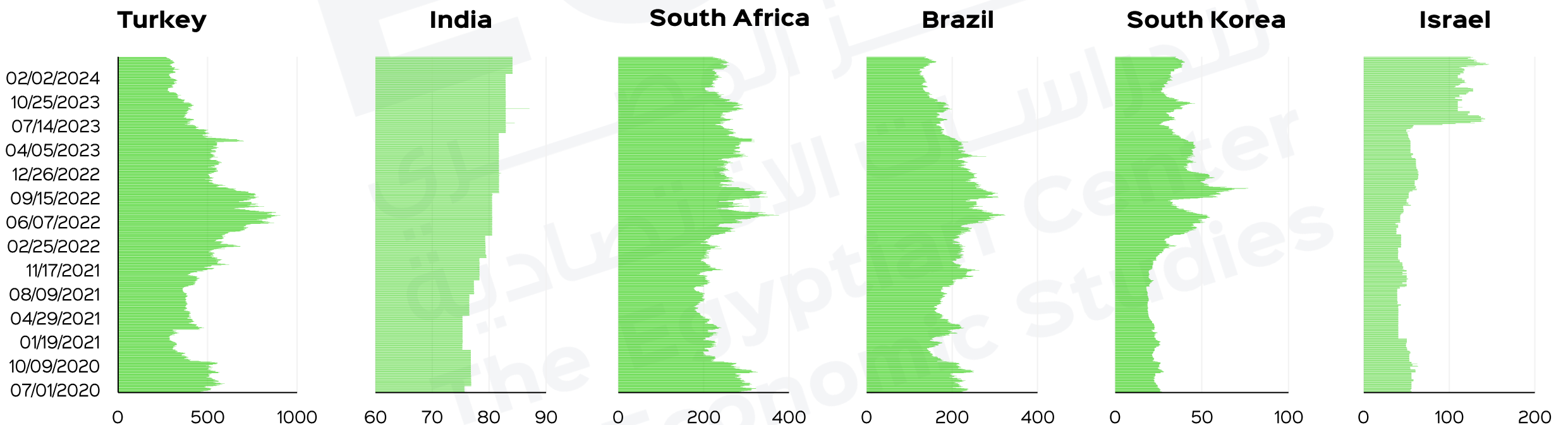


**Bond yields in emerging markets stabilized, and in some cases decreased, mirroring global markets with the delayed easing cycle kickoff, and CDSs declined reflecting lower future debt service burden and lower risk of default.** With the stabilization of bond yields in global markets as the delayed kickoff of the easing cycle has been factored in, interest rates in emerging markets started to stabilize, and in some markets, it even decreased a bit. This has reflected in a clearer way on CDSs which have declined reflecting lower risk of default as expectations about easing cycle become aligned and factored in market calculations.

**10-Year Bond Yield**



**5-Year CDS**



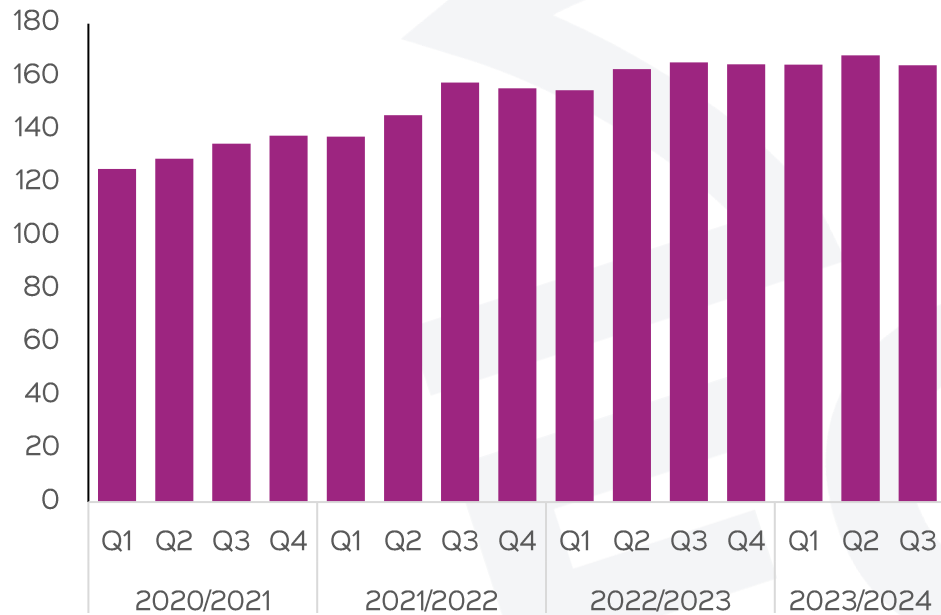
Inflation Rate  
 Policy Rate  
 LUC/UDC  
 Stock Market  
 Bond Market

**With the support of mega deals, economic outlook improved in the short term, external debt declined a bit and CDSs stabilized, while bond yields, though still high, started to decline thanks to huge inflows of hot money.** Mega deals such as Ras El-Hekma and IMF deals have changed the economic outlook in the short term, improving the outlook as viewed by rating agencies. In addition, the mega deals managed to decrease external debt a bit and contain CDSs to relatively reasonable level compared to the extremely high level before the deals. Bond yields are still quite high to curb inflation and protect the currency, but bond yields started to decline thanks to the huge inflows of hot money entering the market to capture the lucrative carry trade, thus increasing demand on local debt and thus pushing bond yields downward.

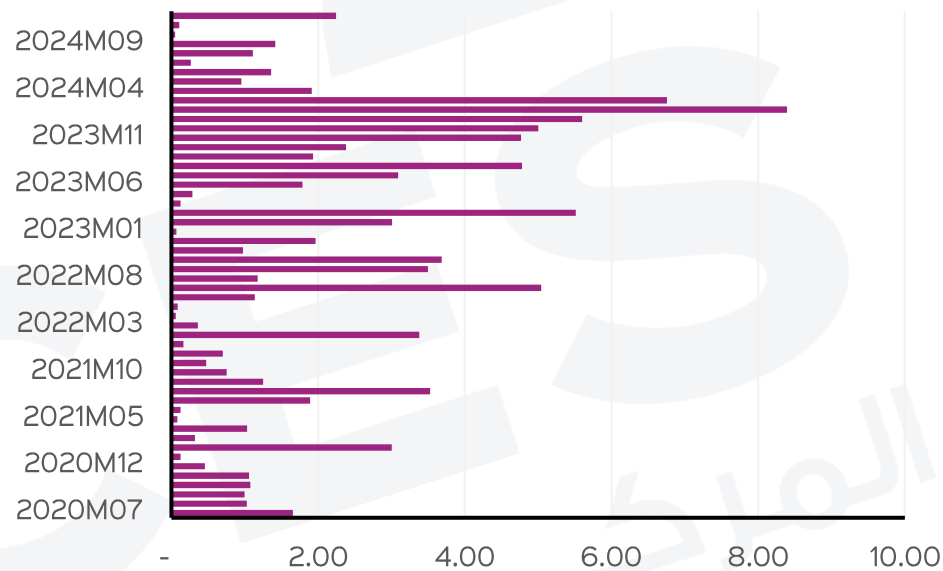
External Position

Local Developments

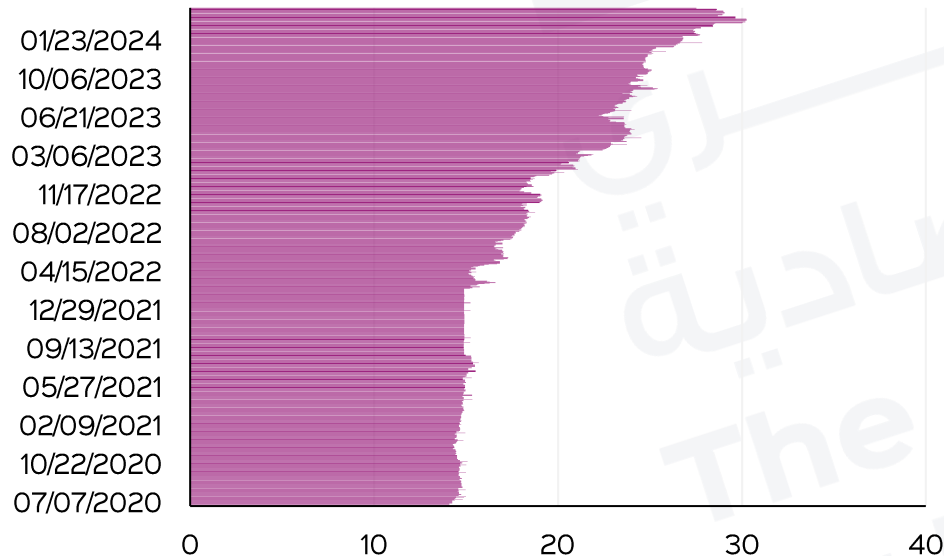
**Total External Debt (bn \$)\***



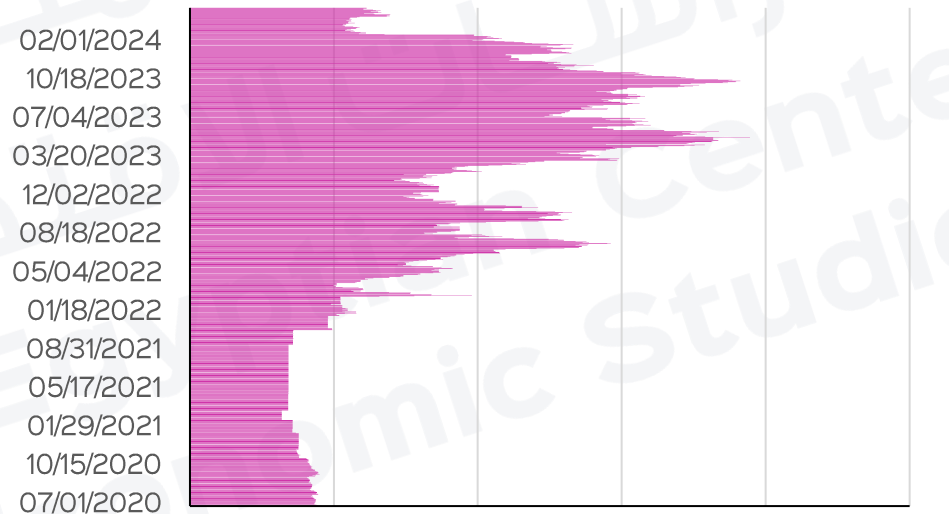
**External Debt Service (bn \$)\***



**Egypt 10-Year Bond Yield**



**5Y CDS, Egypt**



**S&P Global Ratings**  
**B-** Positive

**Fitch Ratings**  
**B-** Positive

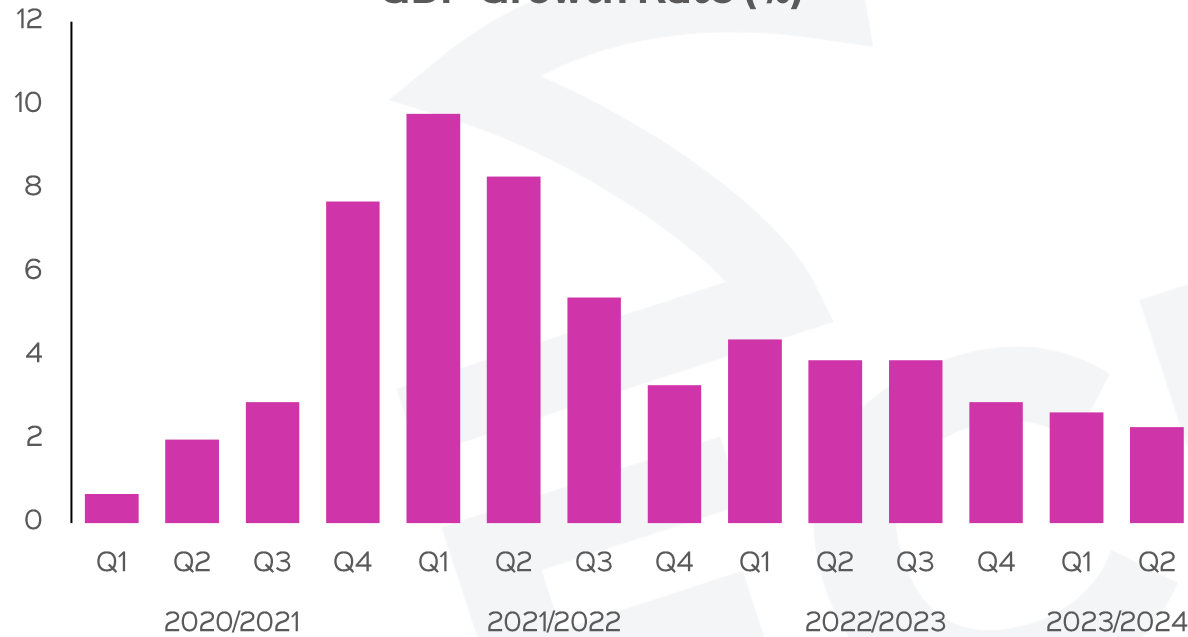
**MOODY'S INVESTORS SERVICE**  
**Caa1** Positive

**Inflation rate continues to show signs of decline for the second month in a row 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 as well as the aggressive tightening policy of absorbing liquidity by the central bank, inflation rate started to show signs of decline for the second month in a row, though still inflation is still quite high. The economy is still growing at very low rate, below the previous levels and well below its capacity.

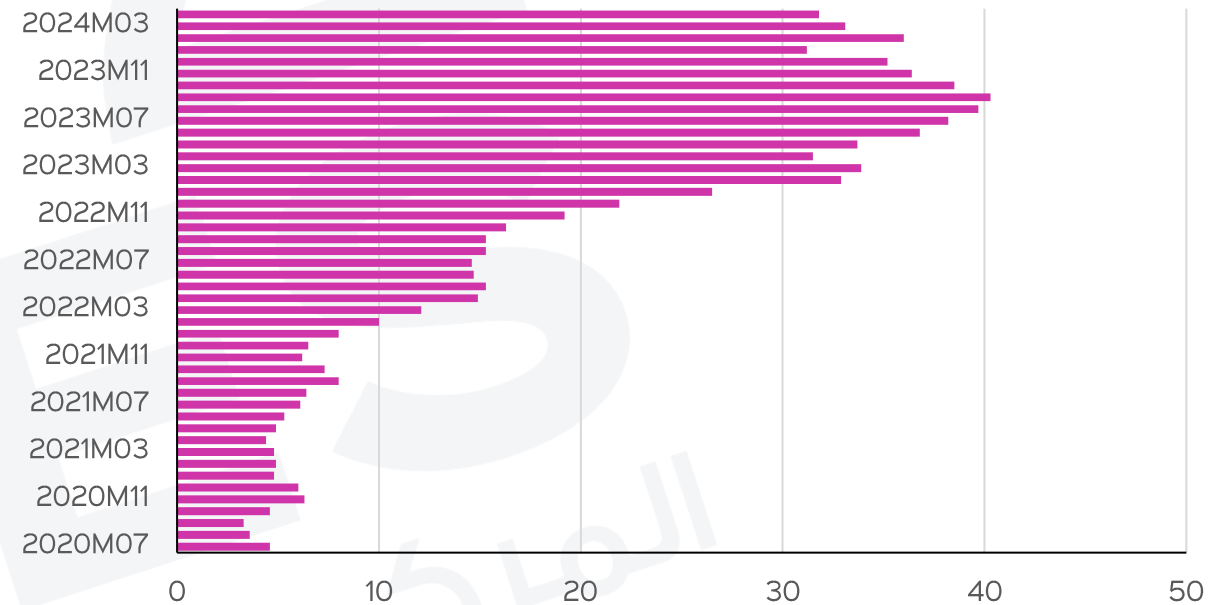
External Position

Local Developments

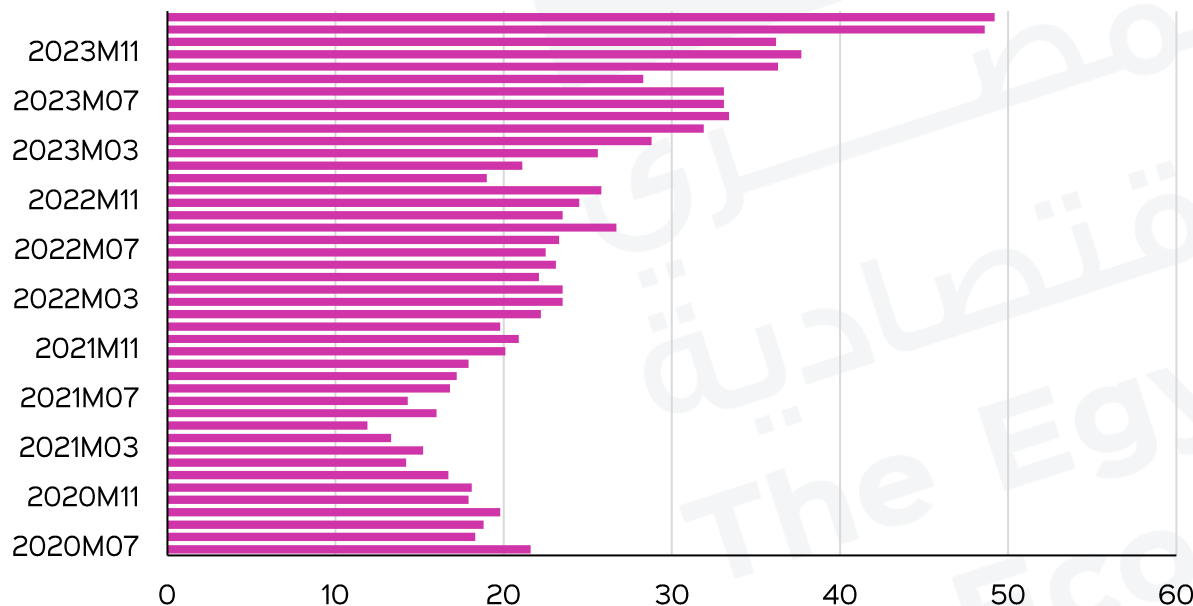
**GDP Growth Rate (%)\***



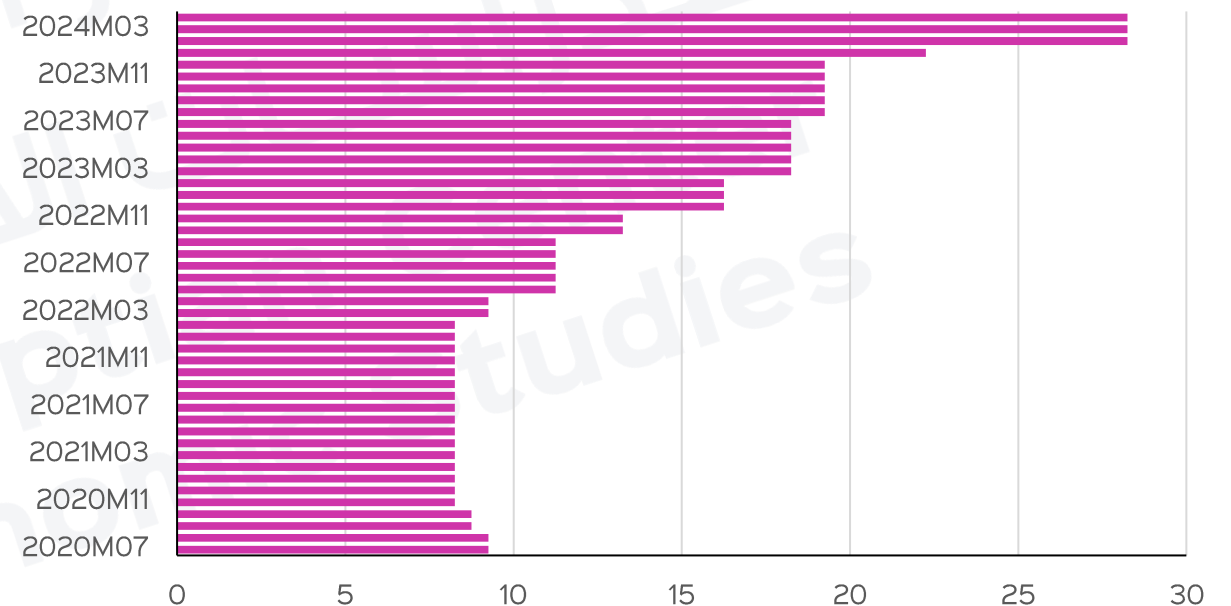
**Inflation Rate (%)**



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



**Policy Rate (%)**



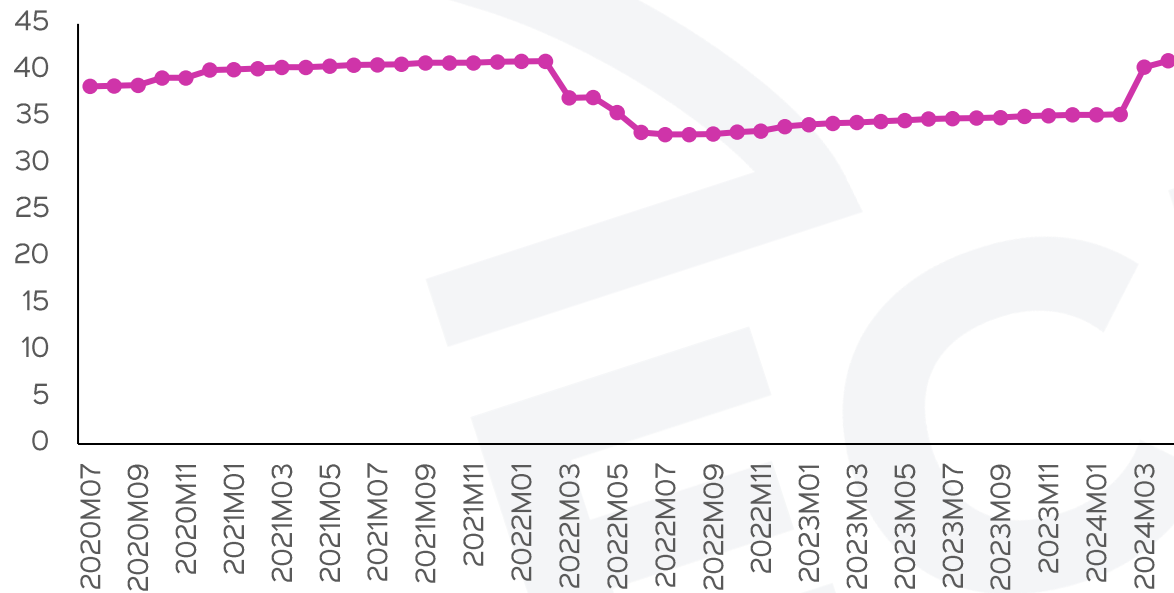


**Central bank reserves increased for the second month in a row thanks to Inflows from mega deals, which also helped decrease banking system net foreign assets negative balance significantly as well as unified FX exchange rate in the market, where the FX exchange rate started even to decline gradually.** Foreign currency inflows from Ras El-Hekma and IMF deals are shoring up central bank official reserves as well as contain the negative net foreign assets balance of the banking system. The unification of the exchange rate has helped stabilize the pound and together with the external inflows, the dollar exchange rate started to go down gradually. Despite the positive monetary improvements, the stock market is still going through a steep correction phase as the market is adjusting to the new exchange rate as compared to the previous speculative levels before devaluation.

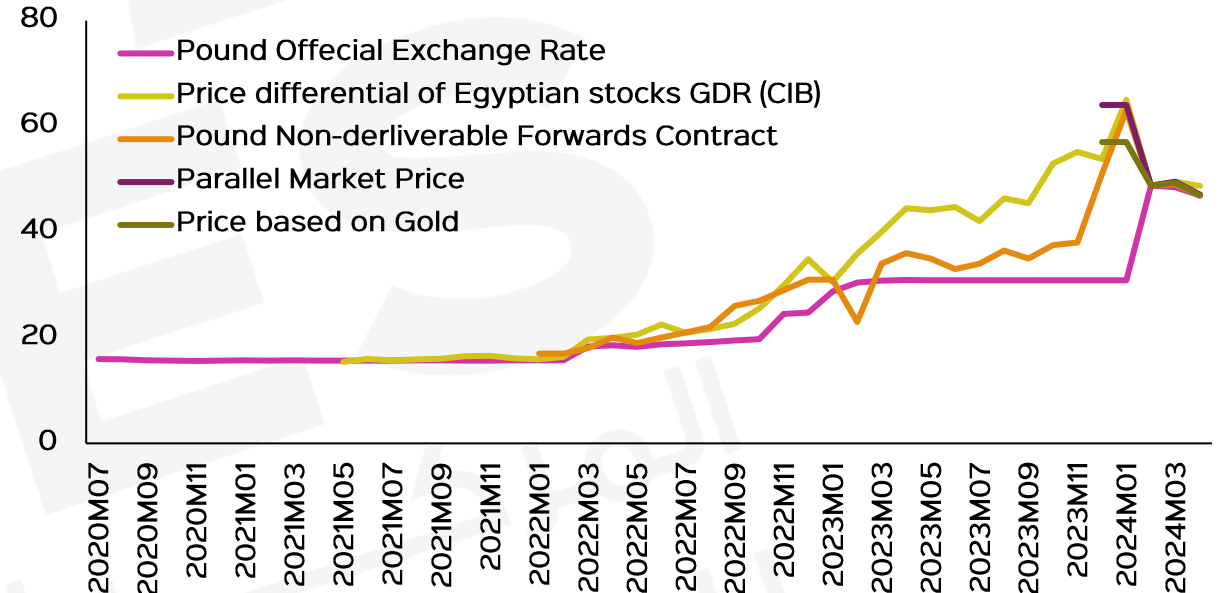
External Position

Local Developments

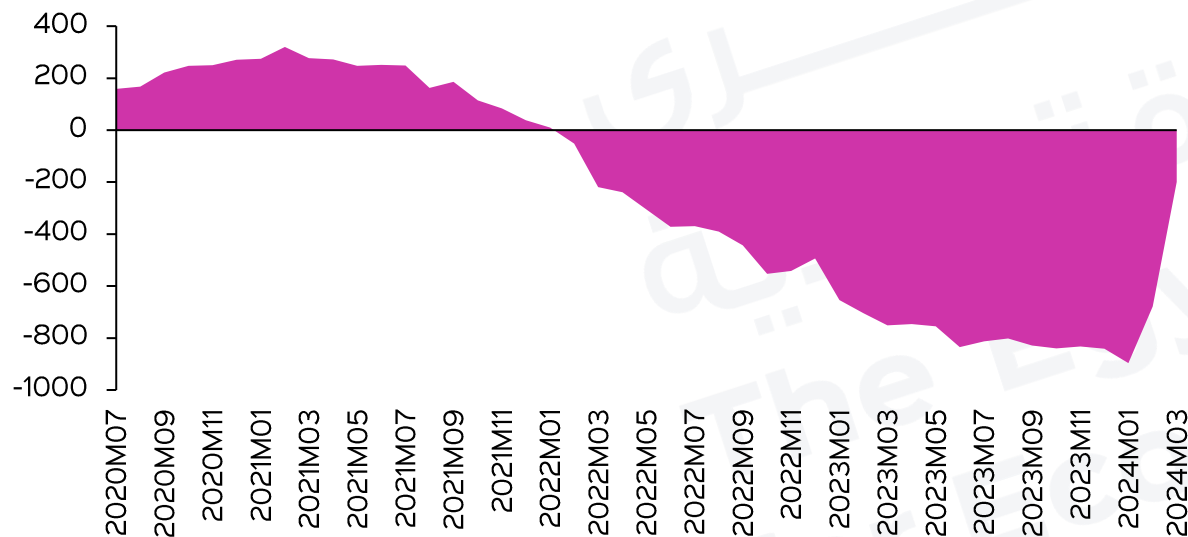
**Net International Reserves**



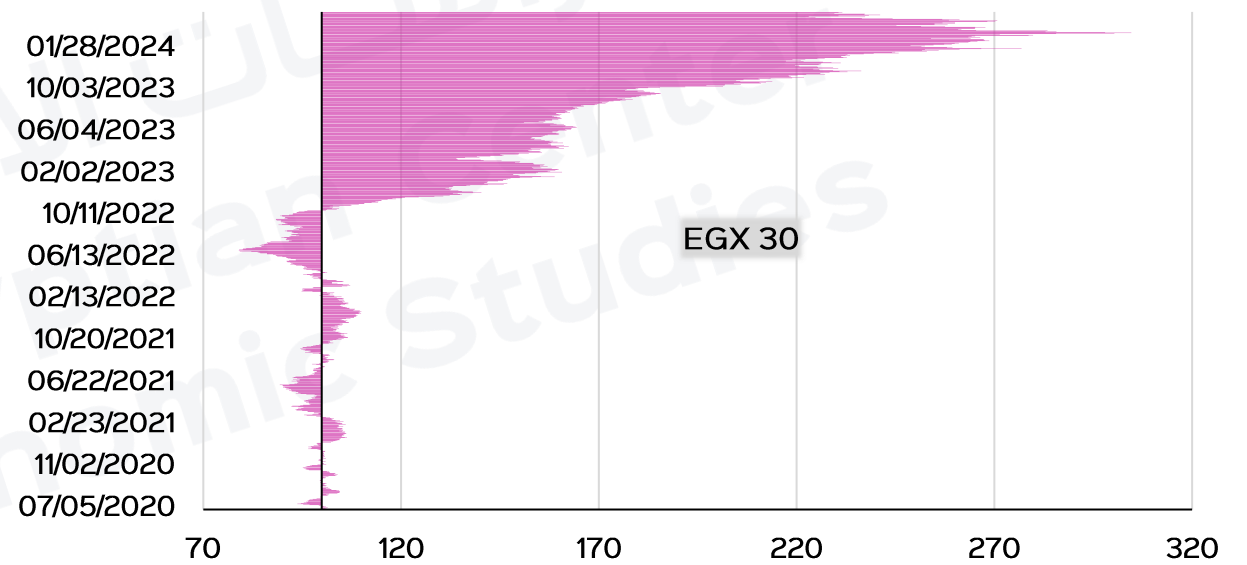
**Pound Exchange Rate**



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



**Egypt**



# Analysis - Key Takeaways

## Global Markets



- Commodity prices have kept on their divergence trend with some spiking such as oil for geopolitical tensions and gold as an inflation hedge, while others declining such as rice due to large harvest.
- Inflation rates persisted with some countries such as US witnessing an increase in inflation, while UK and EU witnessing stability in inflation rates or even a small decline, thus delaying the easing cycle kickoff in the US and indicating that the start of the easing cycle this time will probably be in Europe .
- Bond yields stabilized as markets factored in higher for longer inflation and interest rates in their expectations, while CDSs got contained as debt service burden and risk of default decline. Global stock markets have witnessed another turbulent month with higher than expected inflation in the US and global geopolitical tensions.

## Emerging Markets



- Emerging markets started to witness stable inflation rates thanks to decline in food items and key commodities prices. Still, central banks of most emerging markets maintain very high interest rates to curb inflation and protect their currencies.
- Pressure on emerging markets currencies decreased a bit, with some emerging markets currencies appreciating against the US Dollar.
- Bond yields in emerging markets stabilized mirroring global markets as the delayed easing cycle kickoff became factored in the market view already, and CDSs actually declined reflecting lower debt service burden and lower risk of default.
- Most emerging stock markets progressed in April, except for UAE and KSA due to geopolitical tensions.

## Egyptian Local Market



- Mega deals continue to affect the economic outlook in the short term, resulting into an improved outlook by rating agencies and a decrease in external debt. CDSs stabilized reflecting subsiding of the risk of default in the short term, while bond yields declined, though still at a very high level, thanks to huge inflows of hot money. Though not sustainable, hot money inflows to capture the lucrative carry trade have increased demand on local debt and drove the bond yields lower.
- Inflation rate showed a trend of decline for the second month in a row thanks to the hike in interest rate and the steep monetary tightening by the central bank in terms of liquidity absorption. The economy is still growing at very low rate, below the previous levels and well below its capacity.
- Inflows from mega deals helped shore up central bank reserves for the second month in a row. The unified exchange rate in the market along with the inflows of foreign currency from mega deals and hot money helped decrease the negative net foreign assets balance in the banking system as well as pushed the US Dollar exchange rate downward. The stock market is still going through a steep correction to adjust to the new exchange rate level.

# 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

