



Financial Markets Snapshot

Issue 6
 June 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.

Analysis - Key Takeaways

Global Markets



- Commodity prices have kept on their divergence trend with some declining such as oil after OPEC decisions, while others such as gold, iron, tea and wheat increasing for geopolitical, climate and investor preferences reasons.
- Inflation rates stabilized with decline in some countries, yet policy rates are still mostly at the same high level but with an expectation for nearby easing cycle kickoff.
- Bond yields have stayed stable across global markets and CDSs have remained contained as well, except for spikes in some days due to geopolitical tensions.

Emerging Markets



- Emerging markets still witness high, though kind of stable, levels of inflation due to lagging effect of easing cycle kickoff and geopolitical tensions. Still, Central Banks of most emerging markets maintain very high interest rates to curb inflation and protect their currencies.
- Pressure on emerging markets currencies still persists, despite the nearby easing cycle kickoff, due to high local inflation as well as high US interest rates.
- Bond yields stabilized in emerging markets, mirroring global markets, and CDSs stabilized as well with some daily spikes for geopolitical tensions.

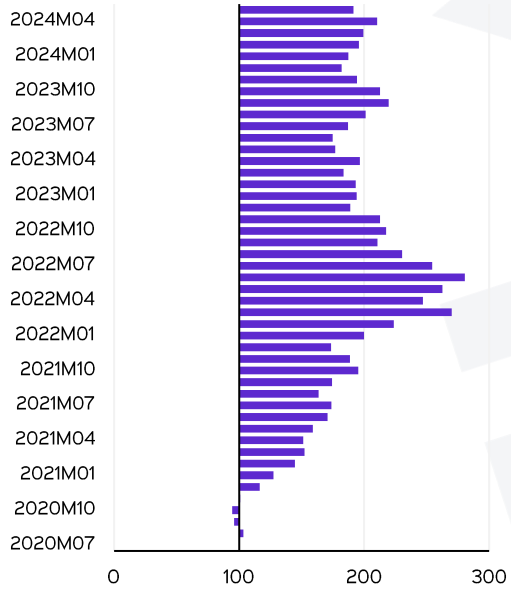
Egyptian Local Market



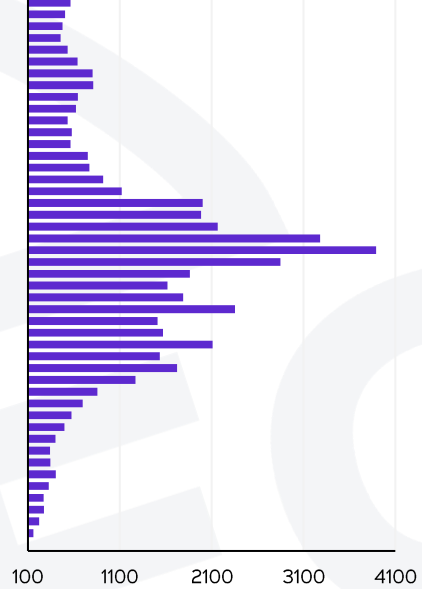
- In the short term, the positive impact of huge inflows from mega deals and hot money continues to show effect, where external debt declined and bond yields also declined, while CDSs stabilized as risk of default decreased.
- Inflation rate showed a trend of decline for the third month in a row, though inflation is still high, thanks to the hike in interest rate and the steep monetary tightening by the Central Bank in terms of liquidity absorption to get inflation under control.
- Central Bank reserves increased for the third month in a row thanks to inflows from mega deals and hot money. In addition, the banking system net foreign assets turned positive for the first time in years sending a positive message about monetary stability in the short term. This has helped stabilize the pound exchange rate in the market, as one exchange rate prevails across the market with parallel market under control.
- The stock market is still going through a rollercoaster trend trying to figure out a direction amid repricing wave that erupted post the Egyptian pound devaluation.

Commodity prices have diverged in direction with oil price going down while gold, iron, tea and wheat going upwards. Oil price relatively went down after OPEC announced a gradual plan to ease some of its restrictions, while gold, iron, tea, wheat and even maize went up last month due to geopolitical tensions, climate change and changing investor/consumer preferences. Even rice price shot up again after a brief decline to demand from Southeast Asia and Africa.

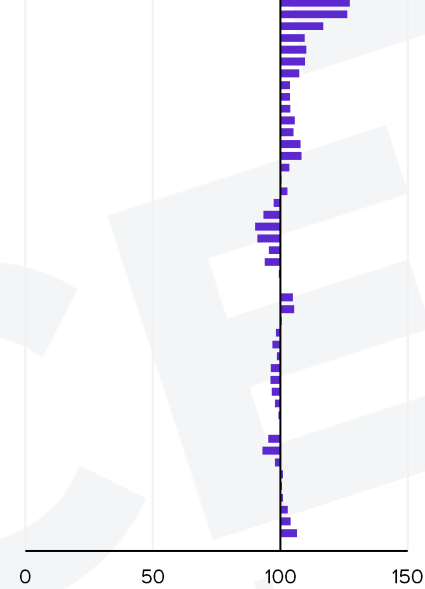
Crude Oil, Brent



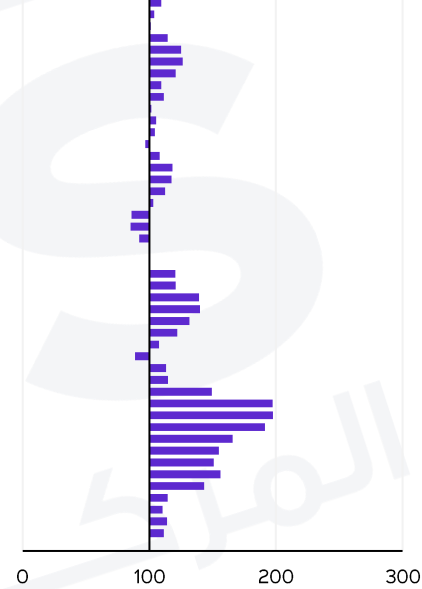
Natural Gas



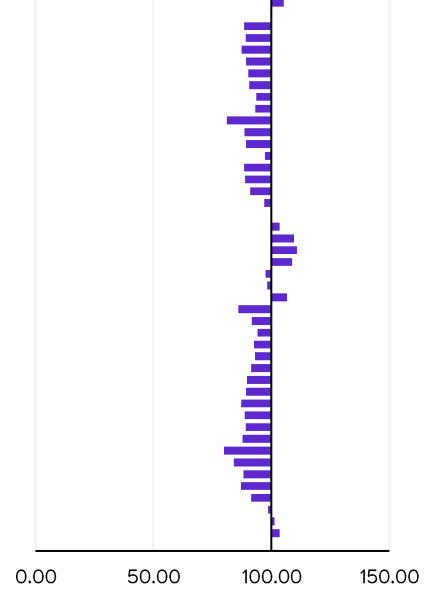
Gold



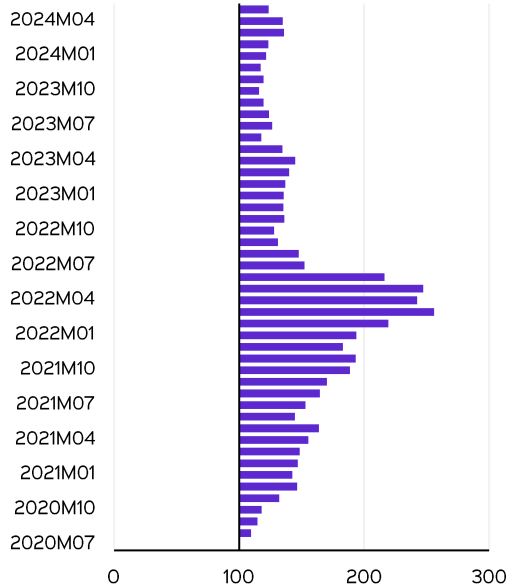
Iron ore



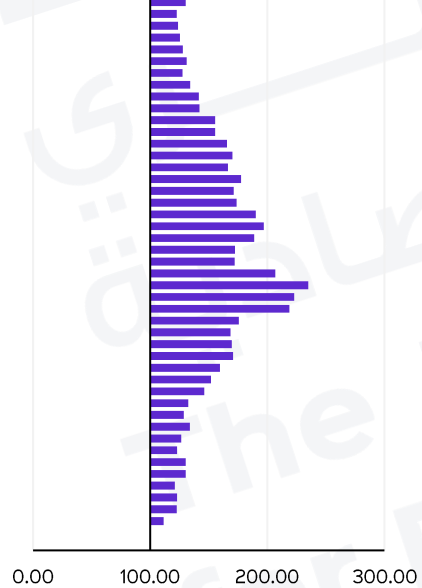
Tea



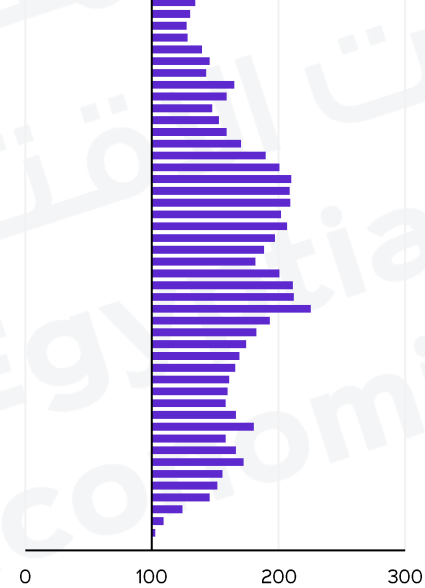
Palm oil



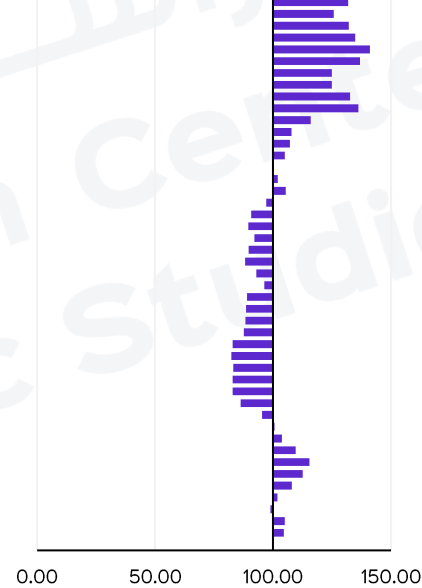
Wheat



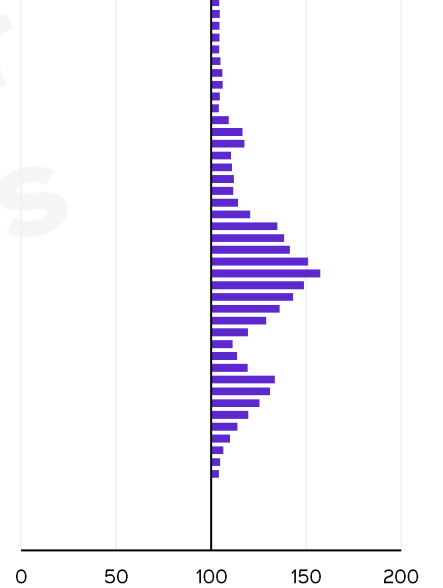
Maize



Rice

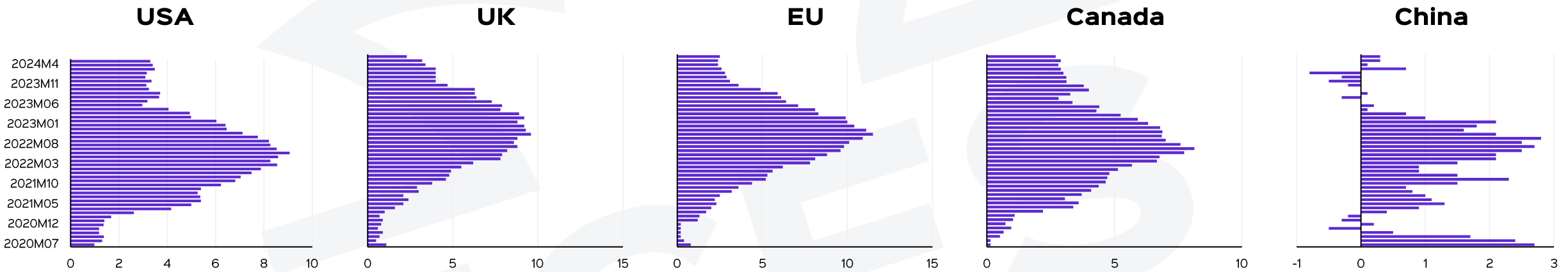


Bovine meat

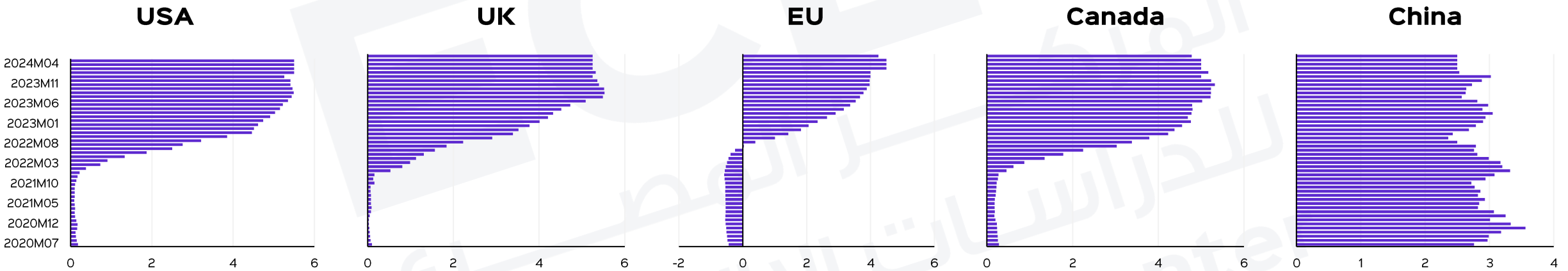


Inflation rates remain stable in global markets with some countries showing declines, while policy rates are still at high levels with expectations for nearby cuts. Inflation rates remain stable for few months in a row without spikes, with some countries such as Canada, UK and EU showing decline, while the US witnessed some stability in inflation rates for the first time in few months. Still Central Banks didn't cut interest rates except in Canada, yet the general forecast is that easing cycle should start this year and probably by end of summer in UK and possibly in the US.

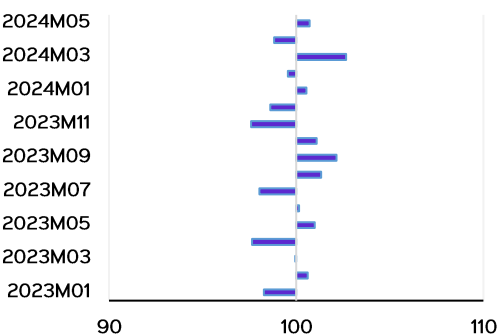
Inflation Rate



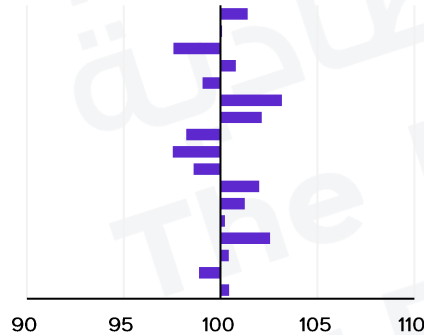
Policy Rate



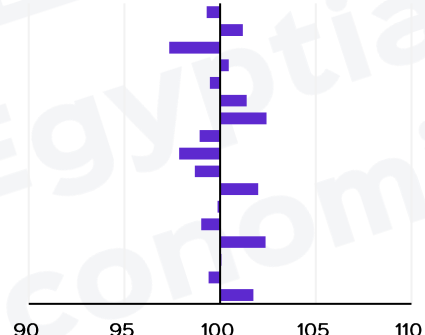
LCU / USD



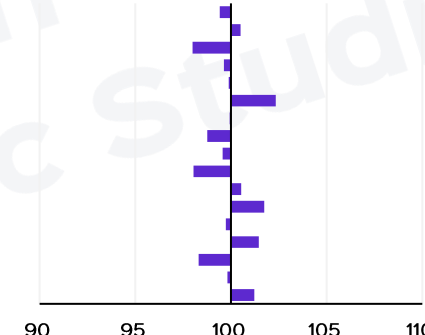
UK Pound



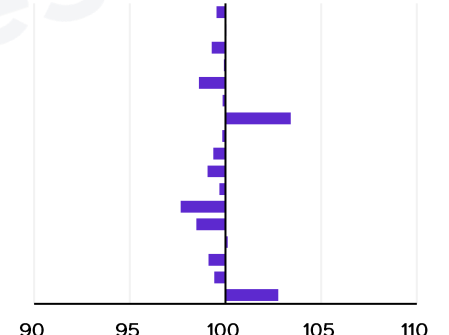
Euro



Canadian Dollar

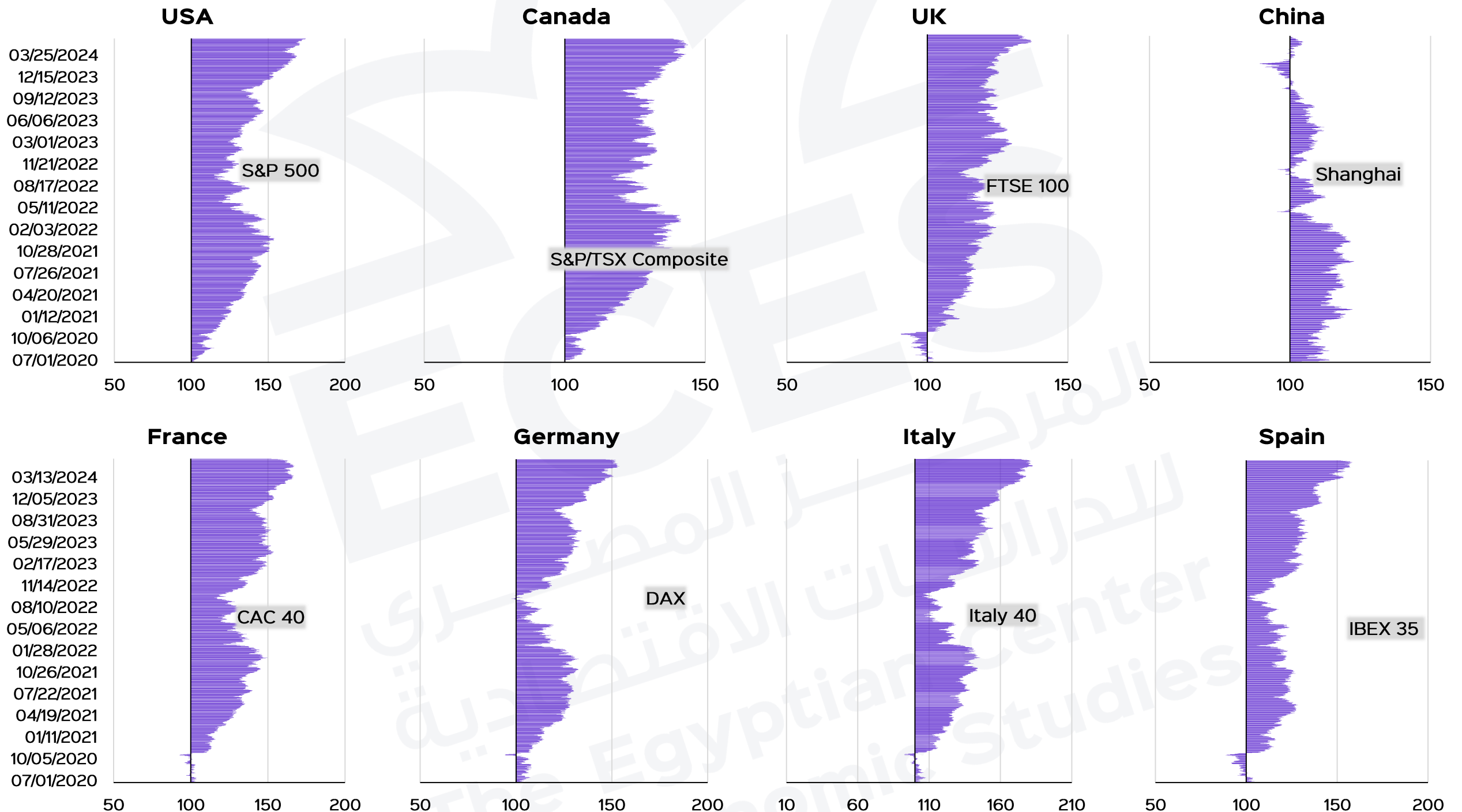


Chinese Yuan



Commodity Markets
Main Rates
Stock Market
Bond Market

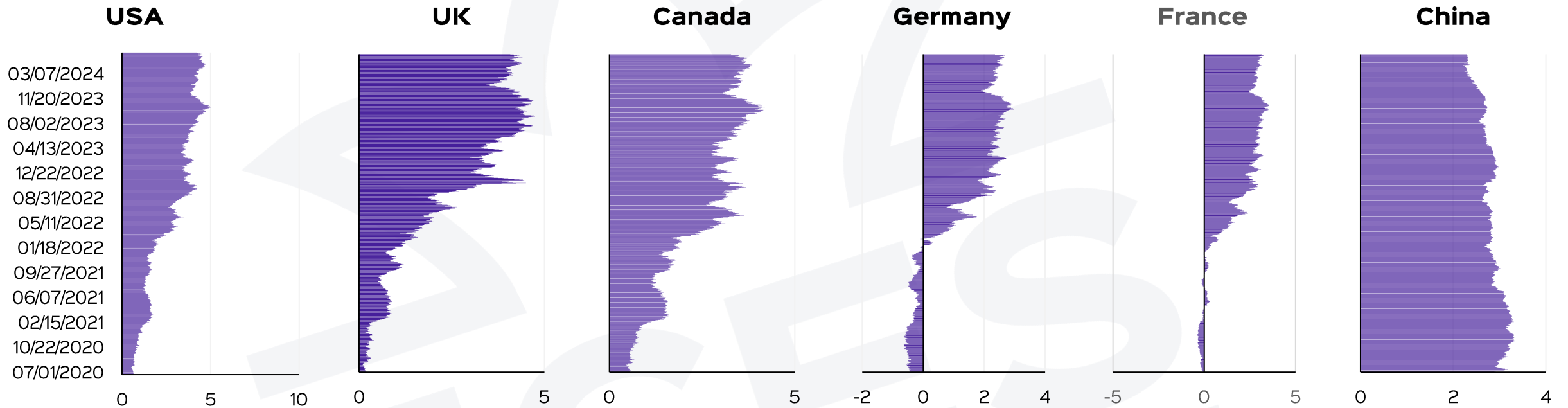
Global stock markets have been very turbulent due to uncertainty about easing cycle kickoff and geopolitical tensions. Global stock markets are still troubled with delaying the easing cycle kickoff due to persistent inflation rates in US even if it is lately stable, as well as global geopolitics resulting from the Middle East crisis and the economic tensions between US and China. Such dynamics are increasing the uncertainty in global markets and increasing the volatility in daily trading, despite some markets such as the US stock market achieving record highs.



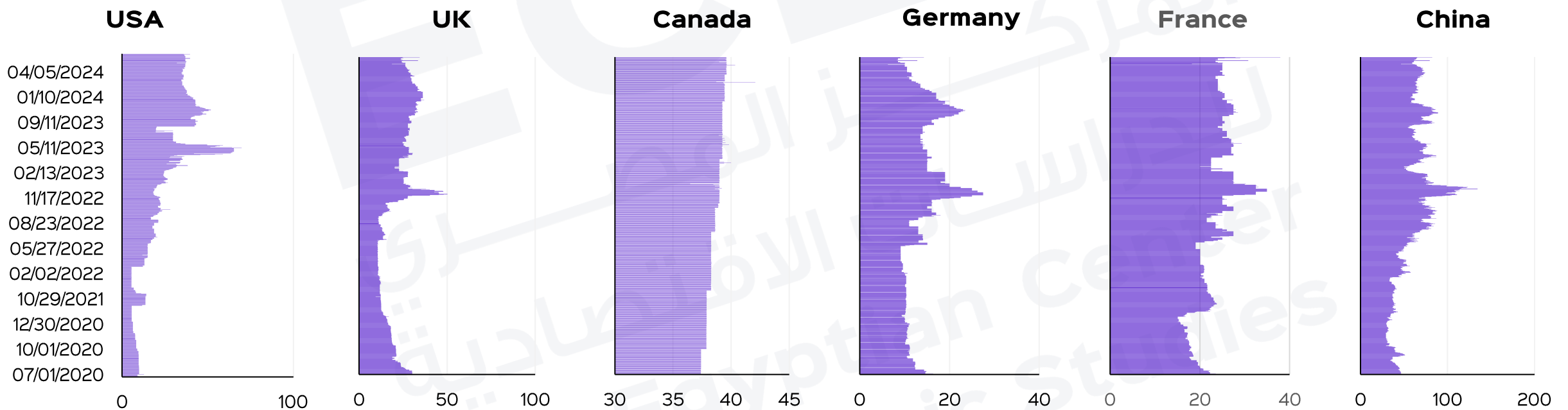
Commodity Markets
Main rates
Stock Market
Bond Market

Bond yields remain stable in global markets and CDSs remain contained except for few spikes. With the easing cycle kickoff in sight, bond yields in global markets stabilized and in some markets such as Canada it even declined, while in other markets it just got contained. CDSs as a result were stable in global markets with the decreased risk of default, yet CDSs witnessed some spikes in some days lately due to increased geopolitical tensions globally, causing turbulence in financial markets and affecting CDSs for brief periods of time.

10-Year Bond Yield

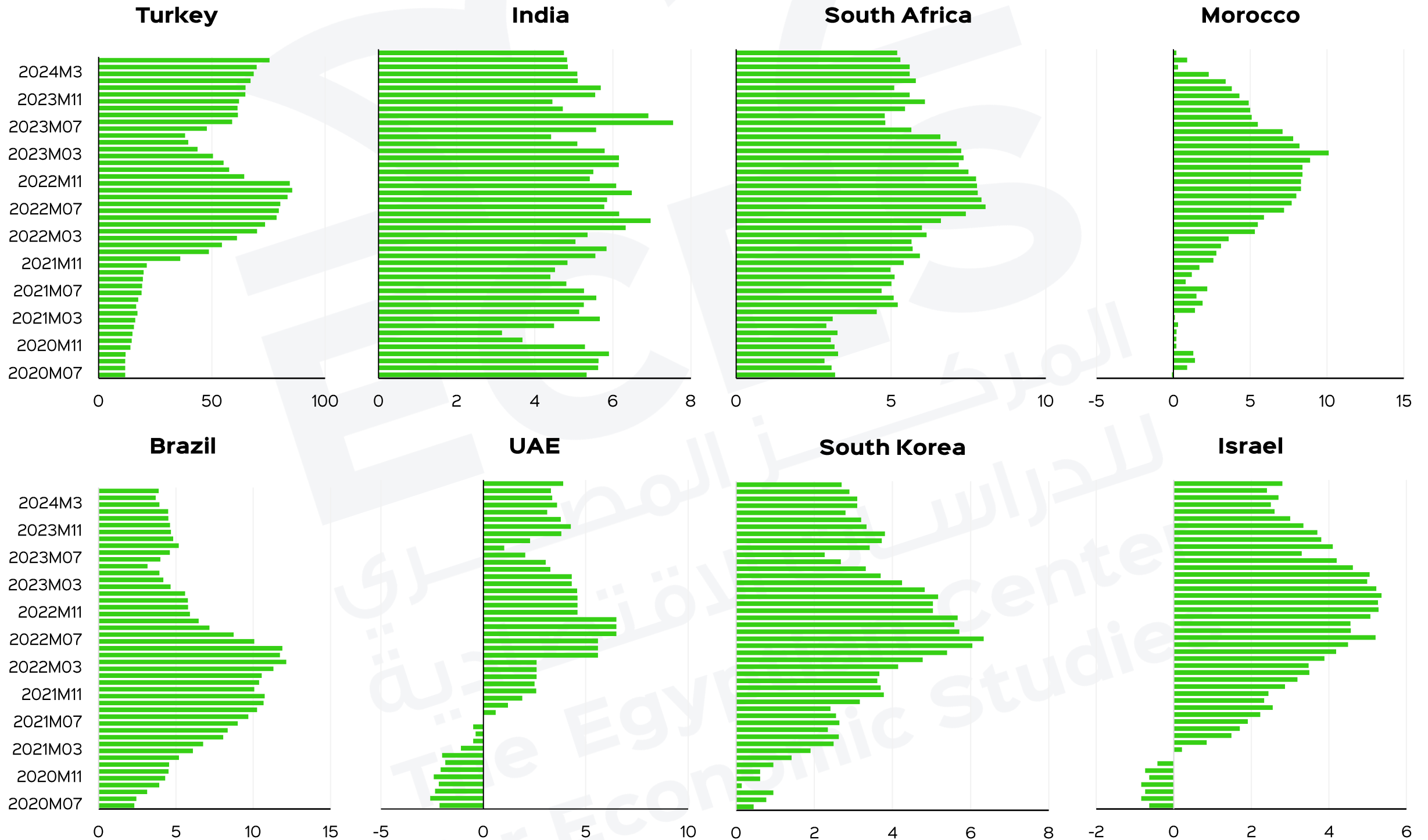


5-Year CDS



Commodity Markets
Main Rates
Stock Market
Bond Market

Inflation rates stay high across most emerging markets due to the lagging effect of easing cycle and geopolitical tensions. Most emerging markets have witnessed higher inflation rates such as Turkey and UAE due to the lagging effect of the easing cycle kickoff in global markets as well as the increased geopolitical tensions especially with the Middle East crisis. An exception to this trend is Morocco which witnessed falling food inflation, thanks to its stable economic situation and its detachment from geopolitics.



Central banks in emerging markets still maintain very high interest rates to curb inflation and protect their currencies. Despite the having the easing cycle kickoff in sight in global markets, inflation rates in most emerging markets are still high and will likely stay at such high levels for a period of time. Central Banks in emerging markets maintain high interest rates to contain inflation and prevent it from getting out of control as well as protect their currencies by offering high rates on local currency debt and deposits.

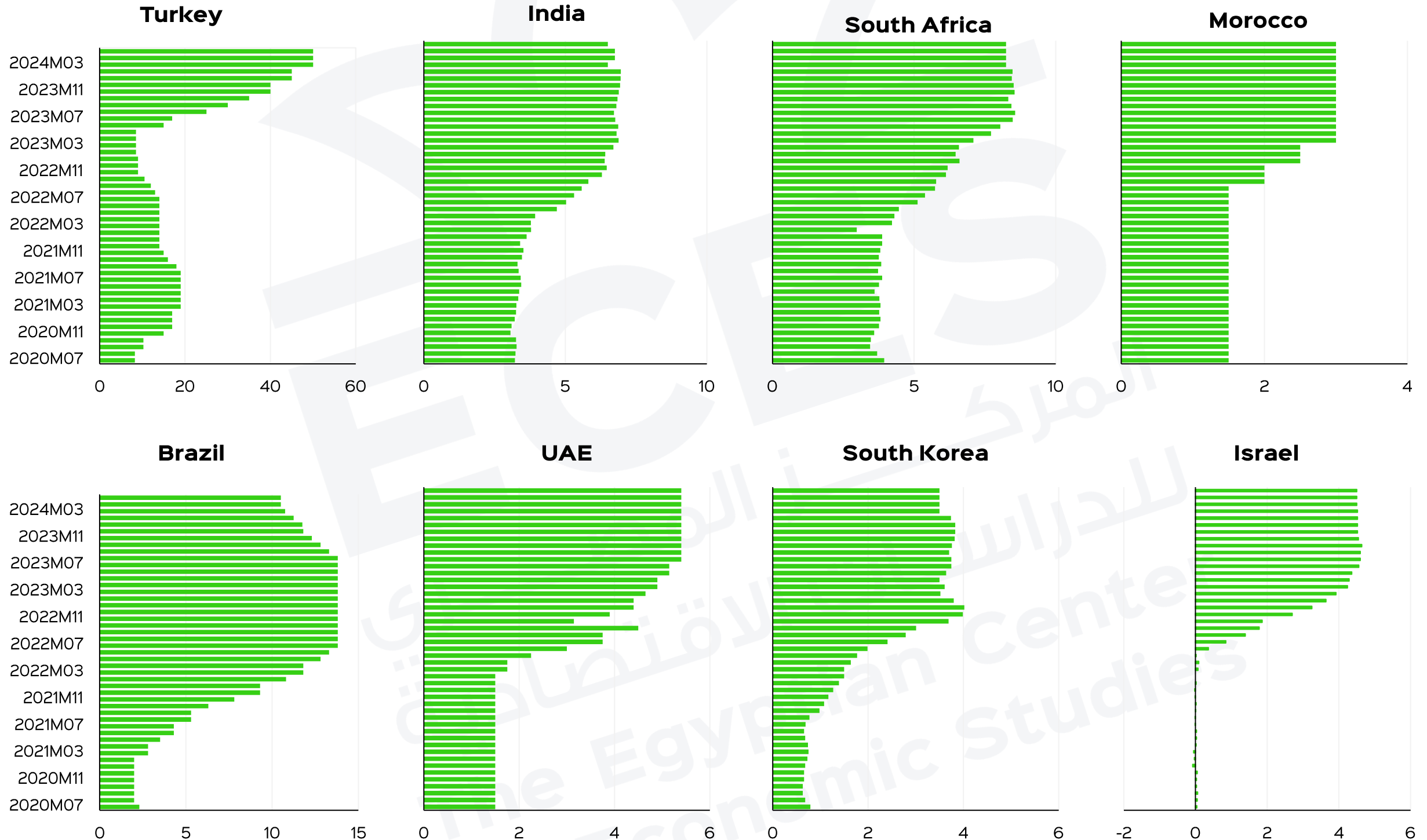
Inflation Rate

Policy Rate

LUC/UDC

Stock Market

Bond Market



Pressure on emerging markets currencies stays high due to high local inflation rates and still high US interest rates. Emerging markets currencies still face huge pressures with many of them depreciating against the US Dollar thanks to high local inflation in most emerging markets as well as the still high US interest rates creating large interest rate differential between global and emerging markets which results into consistent pressure on emerging markets currencies.

Inflation Rate

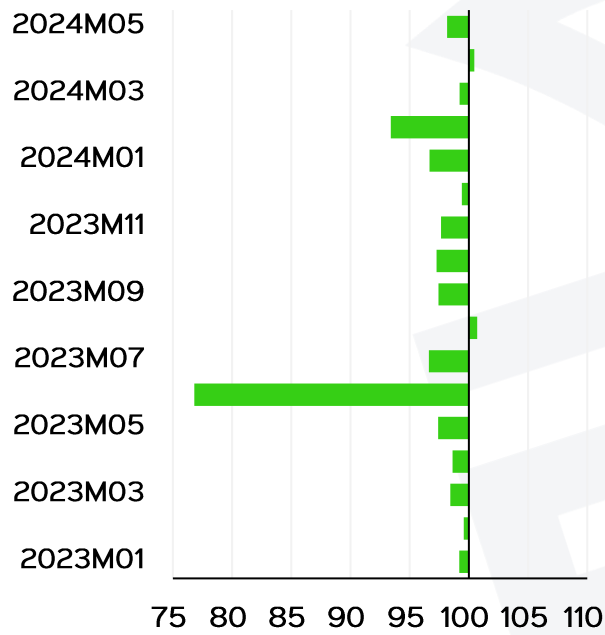
Policy Rate

LUC/UDS

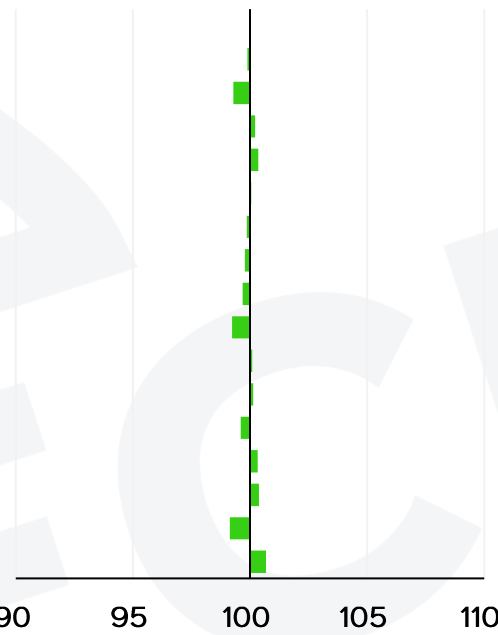
Stock Market

Bond Market

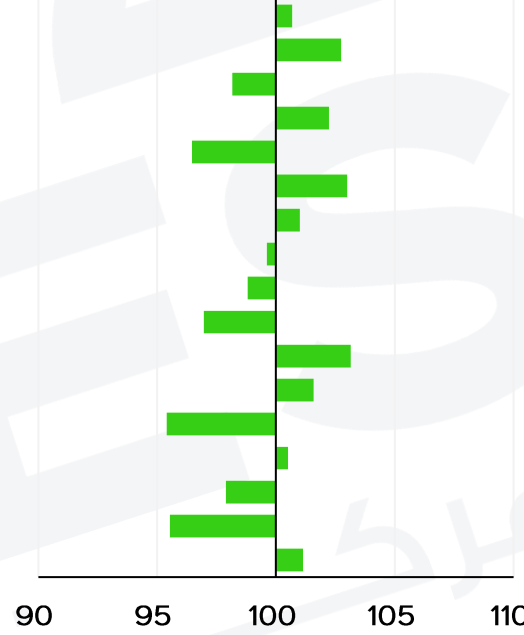
Turkish Lira



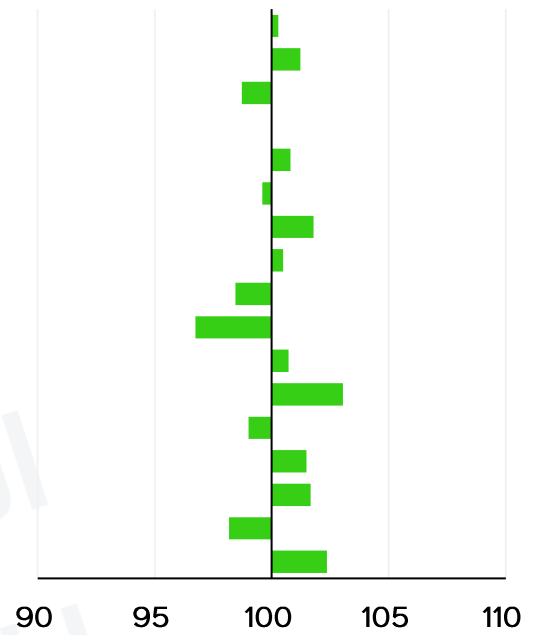
Indian Rupee



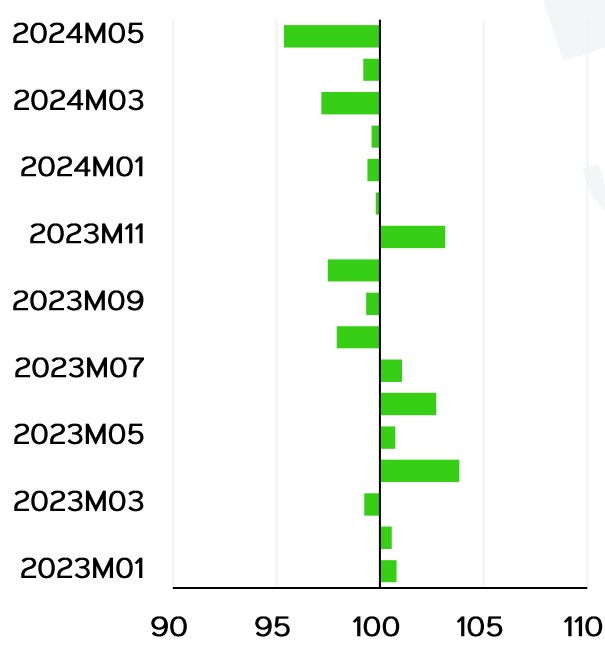
South African Rand



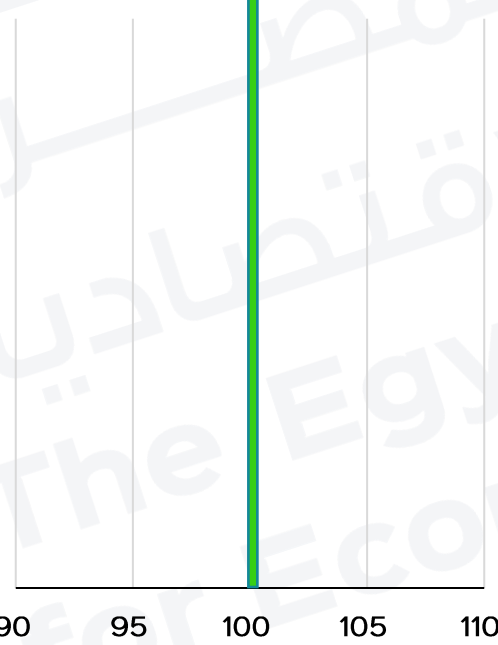
Moroccan Dirham



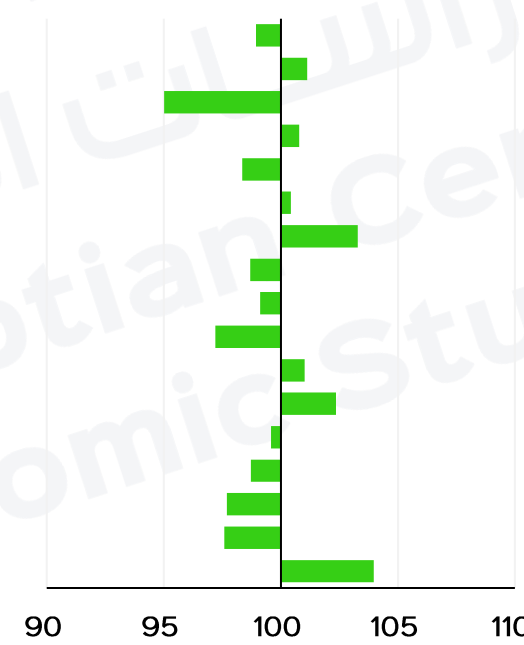
Brazilian Real



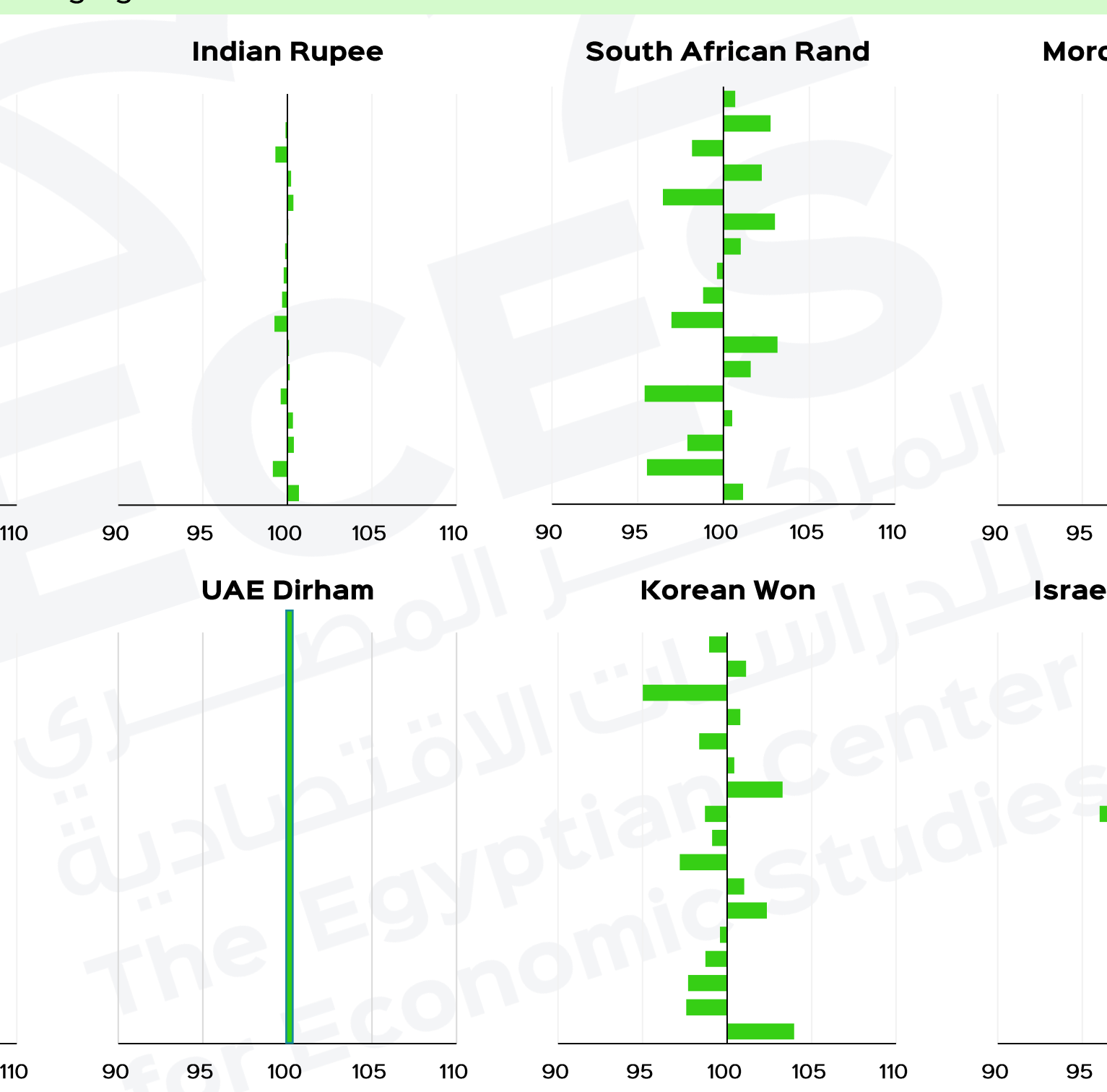
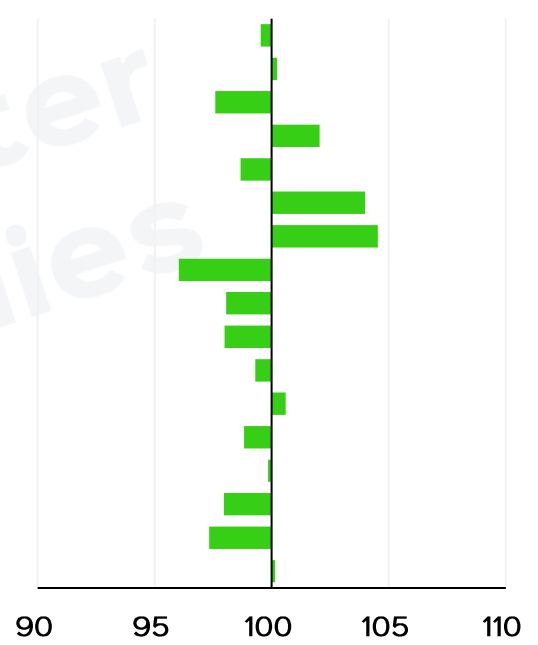
UAE Dirham



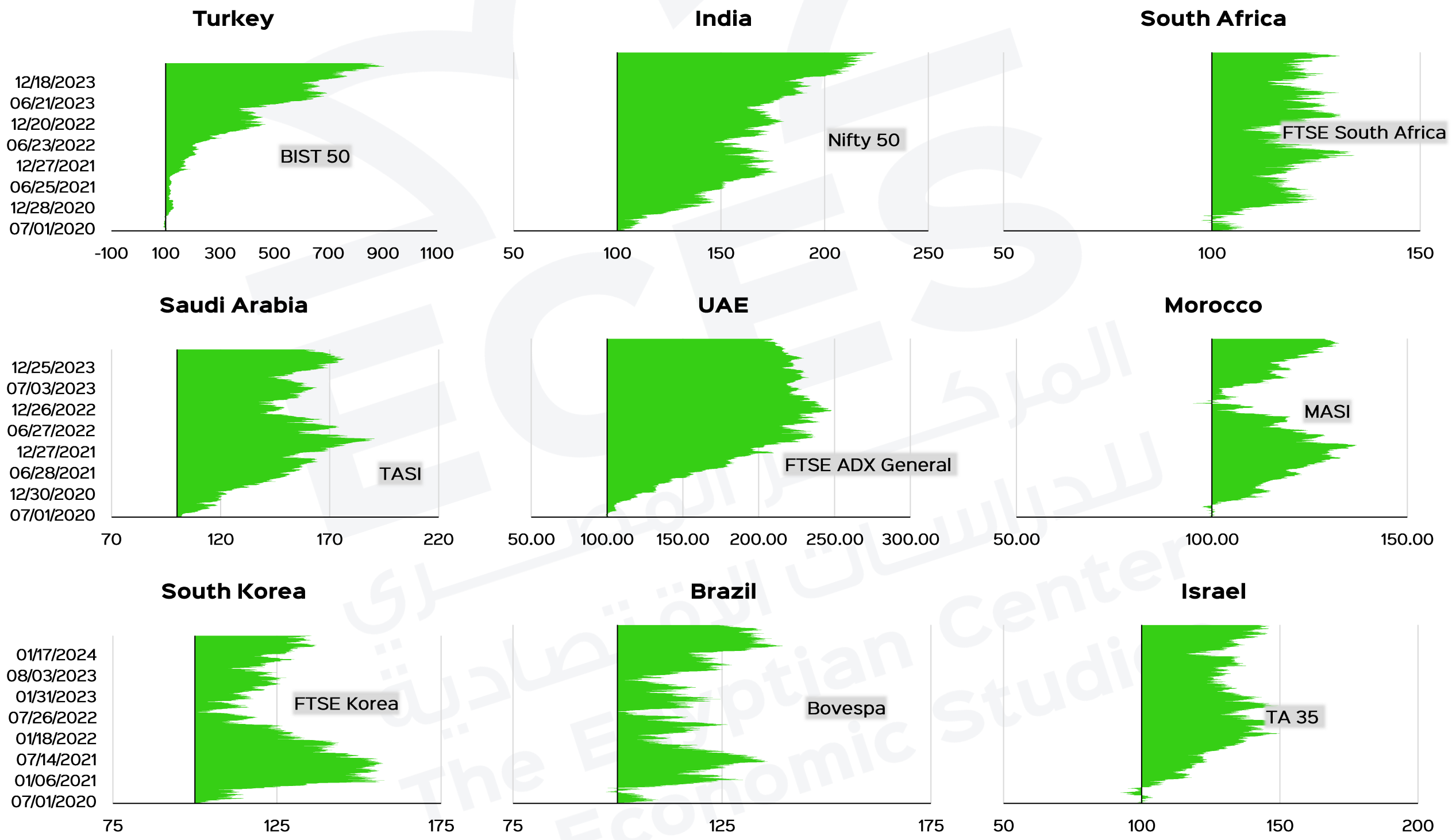
Korean Won



Israeli New Shekel



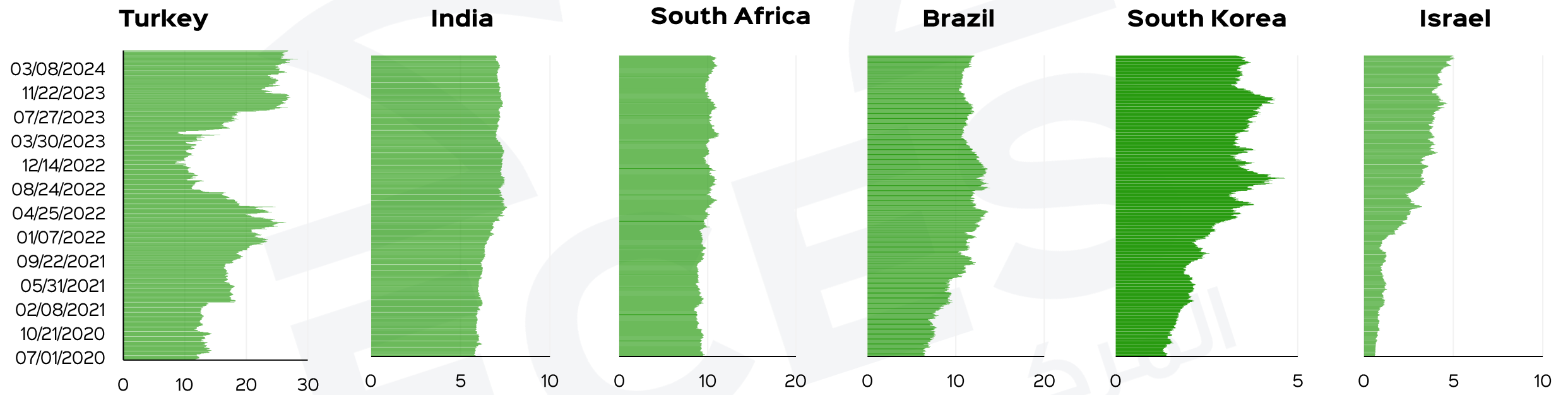
Emerging markets stock markets witnessed another turbulent month with unclear messages about easing kickoff and heightened geopolitical tensions. Despite the big rally in emerging markets stock markets at the beginning of the year, stock markets in emerging markets stayed turbulent for the second month in a row due the uncertainty about easing cycle kickoff in global markets and its cascading to emerging markets as well as the increased global geopolitical tensions that are spanning nearly all the corners of the universe.



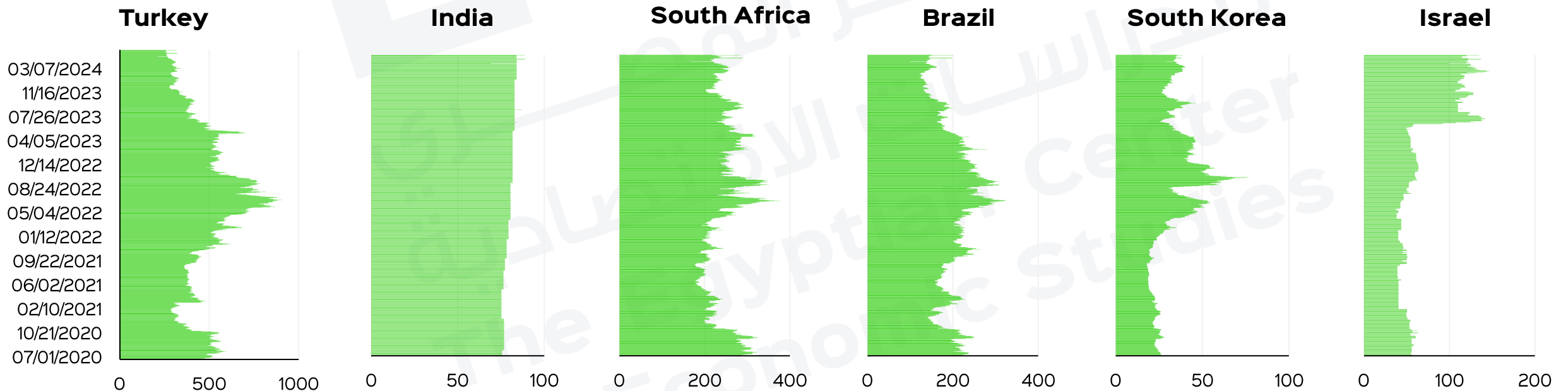
Inflation Rate
Policy Rate
LUC/UBS
Stock Market
Bond Market

Bond yields in emerging markets stabilized, mirroring global markets with the delayed easing cycle kickoff, and CDSs stayed low with some daily spikes due to geopolitical tensions. 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 stabilized for few months in a row now. This has reflected in a clearer way on CDSs which have declined reflecting lower risk of default, yet last month has witnessed spikes in CDSs in some days due to geopolitical tensions that are having their implications on financial markets.

10-Year Bond Yield



5-Year CDS

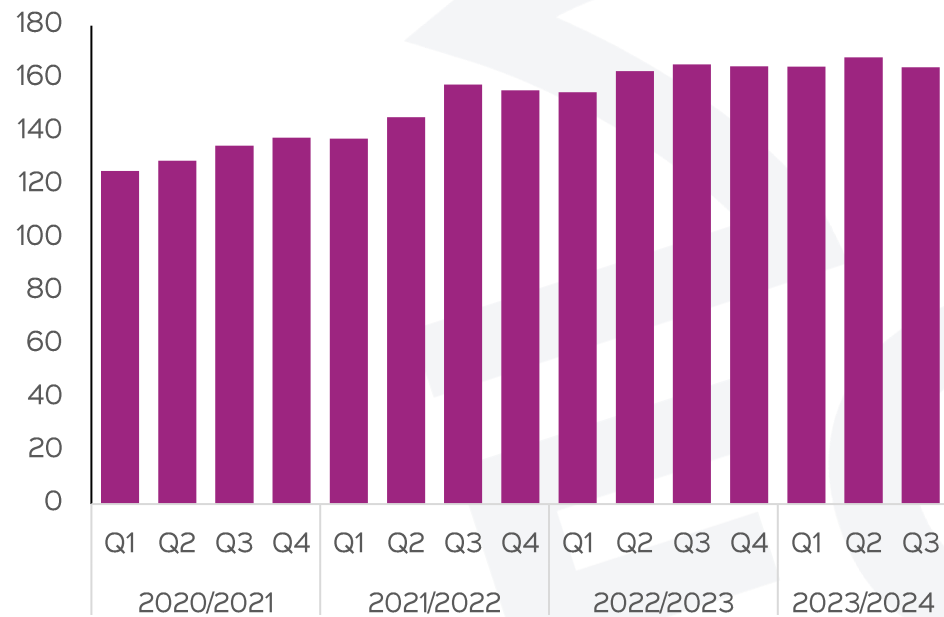


Inflation Rate
Policy Rate
LUC/UDS
Stock Market
Bond Market

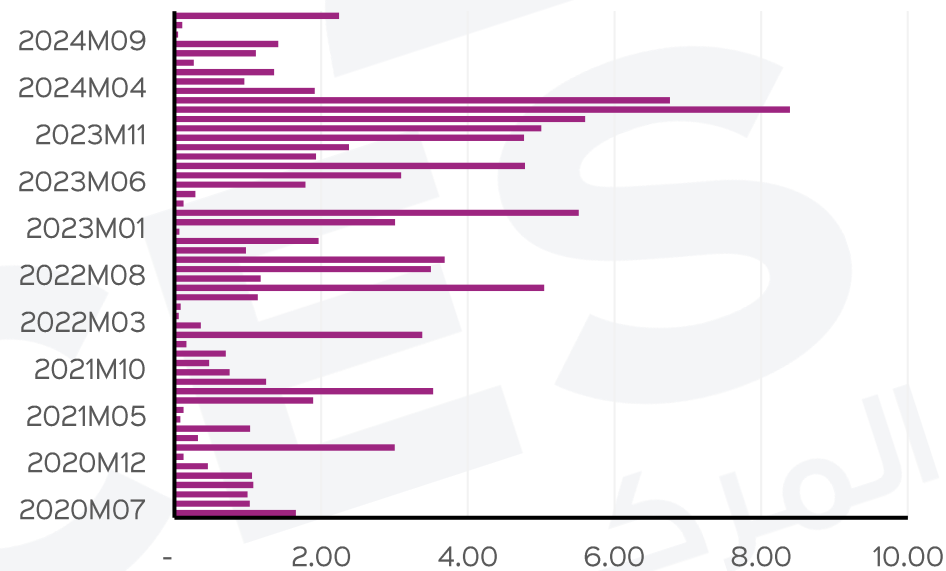
External debt declined as well as bond yields declined, while CDSs stabilized due to huge inflows of foreign currency from mega deals and hot money. The economy keeps showing monetary improvements in the short term post the mega deals such as Ras El-Hekma and IMF deals, resulting into decline of external debt outstanding and subsiding of bond yields due to large inflows of hot money. As a result, the risk of default in the short term got contained thus stabilizing CDSs for few months in a row.

External Position

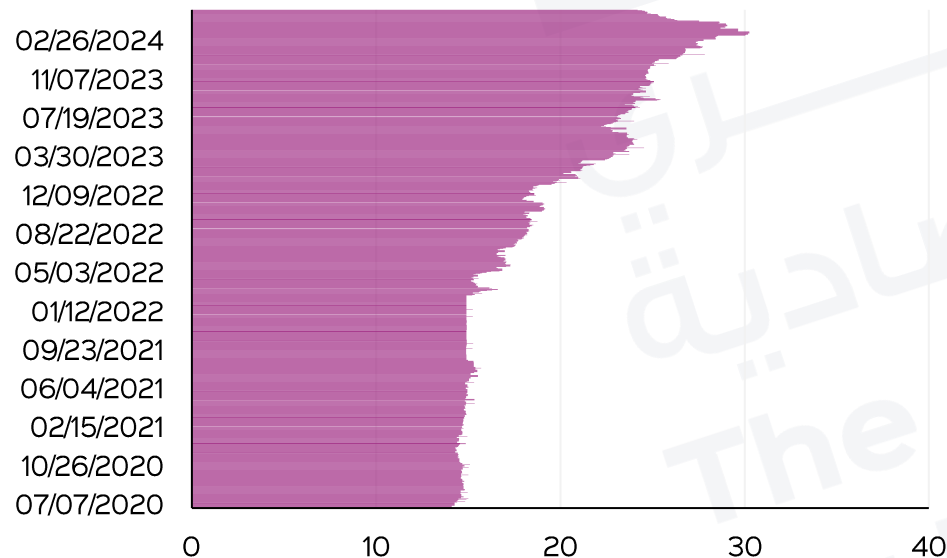
Total External Debt (bn \$)*



External Debt Service (bn \$)*



Egypt 10-Year Bond Yield



5Y CDS, Egypt



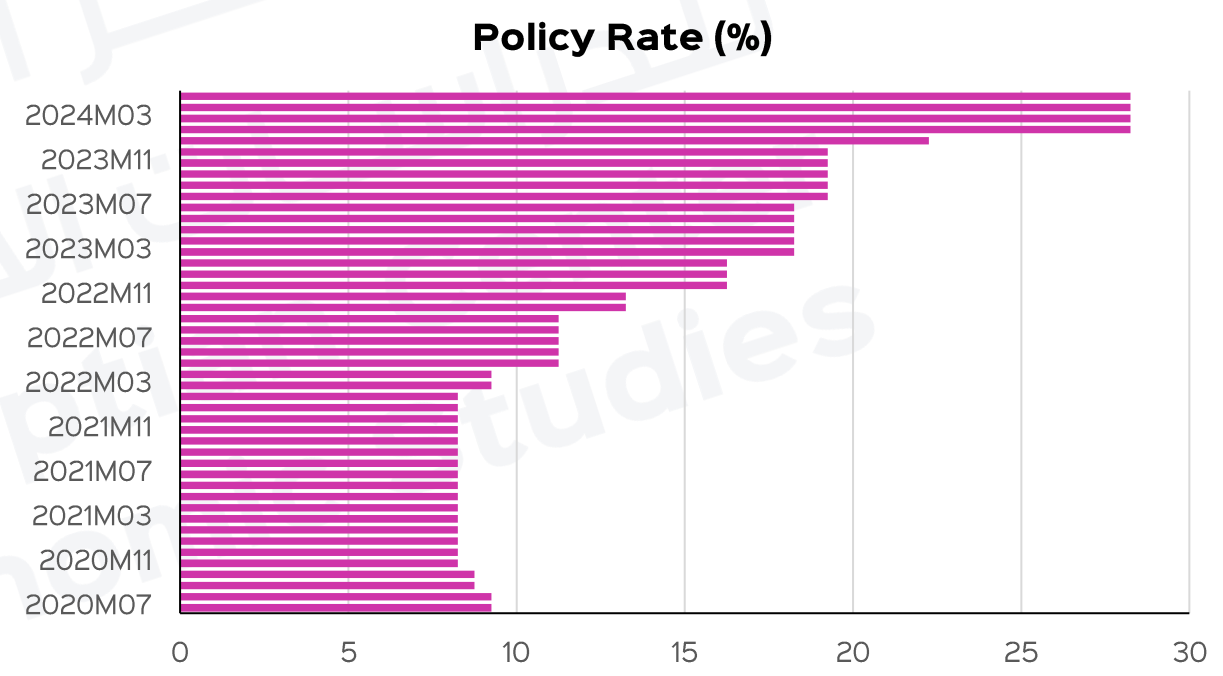
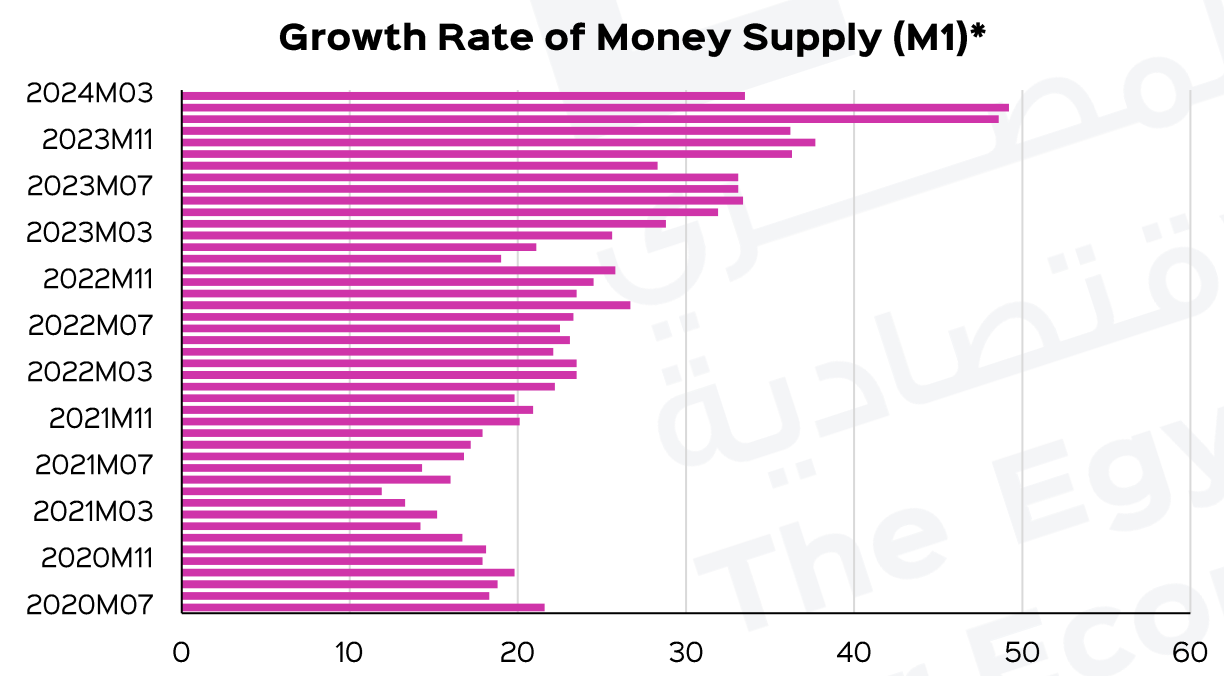
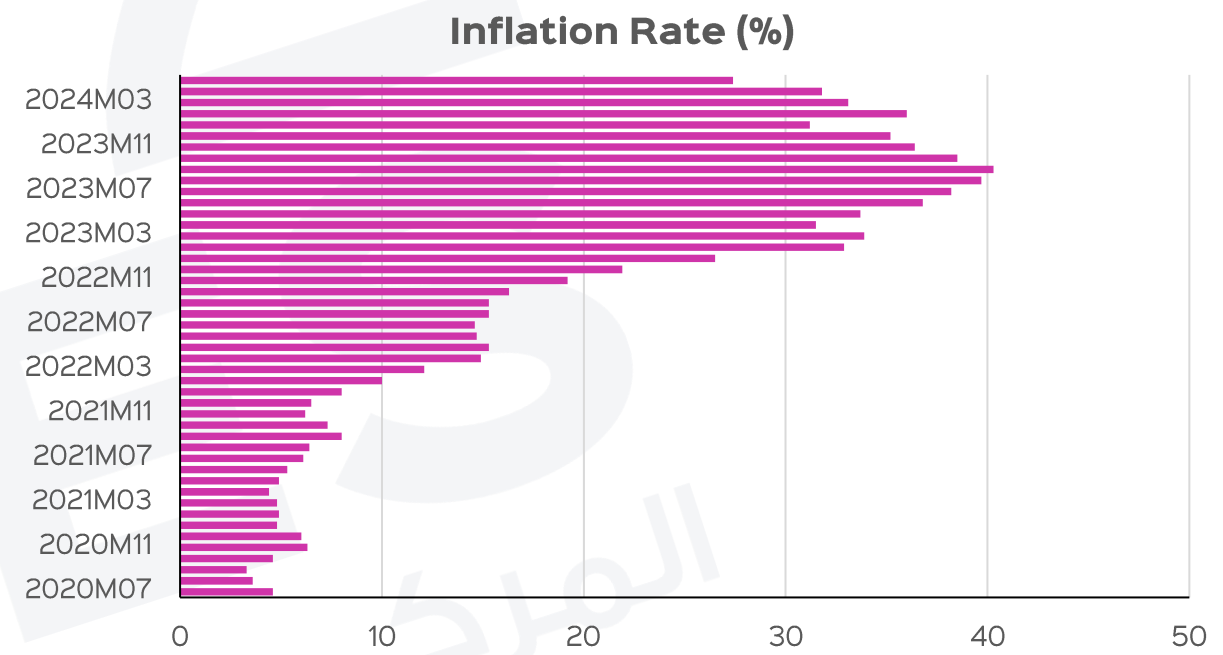
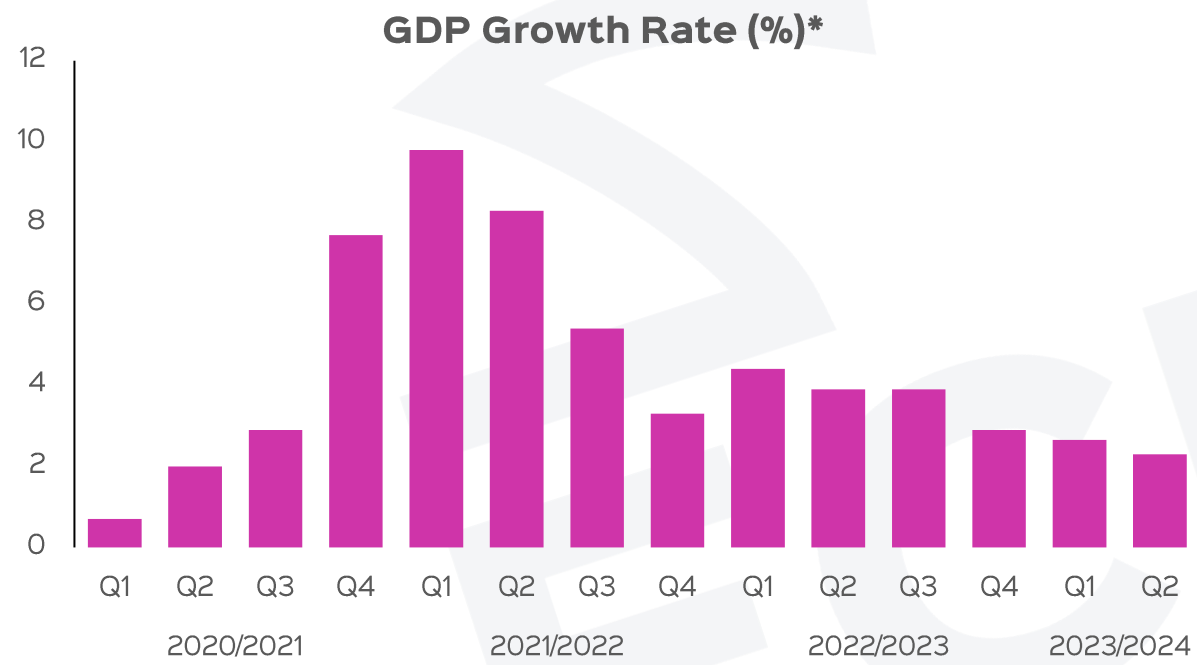
S&P Global Ratings
B- Positive

Fitch Ratings
B- Positive

MOODY'S INVESTORS SERVICE
Caa1 Positive

Inflation rate continues to decline for the third month in a row, though still relatively high due to monetary tightening. Inflation rate spiked earlier this year due to devaluation, energy prices increase and other economic reforms as well as expansion in money supply. Yet for the third month in a row, inflation rate is declining, which means prices are increasing at a slower pace, thanks to aggressive monetary tightening in terms of high policy rate as well as Central Bank measures to absorb liquidity from the market to curb inflation and get it under control.

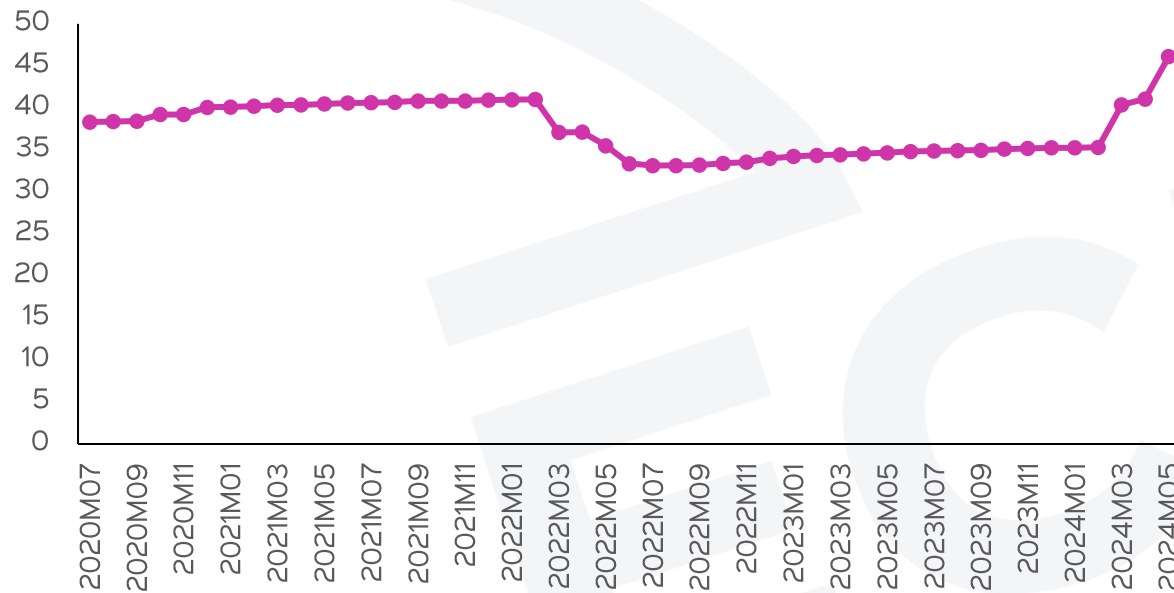
External Position
Local Developments



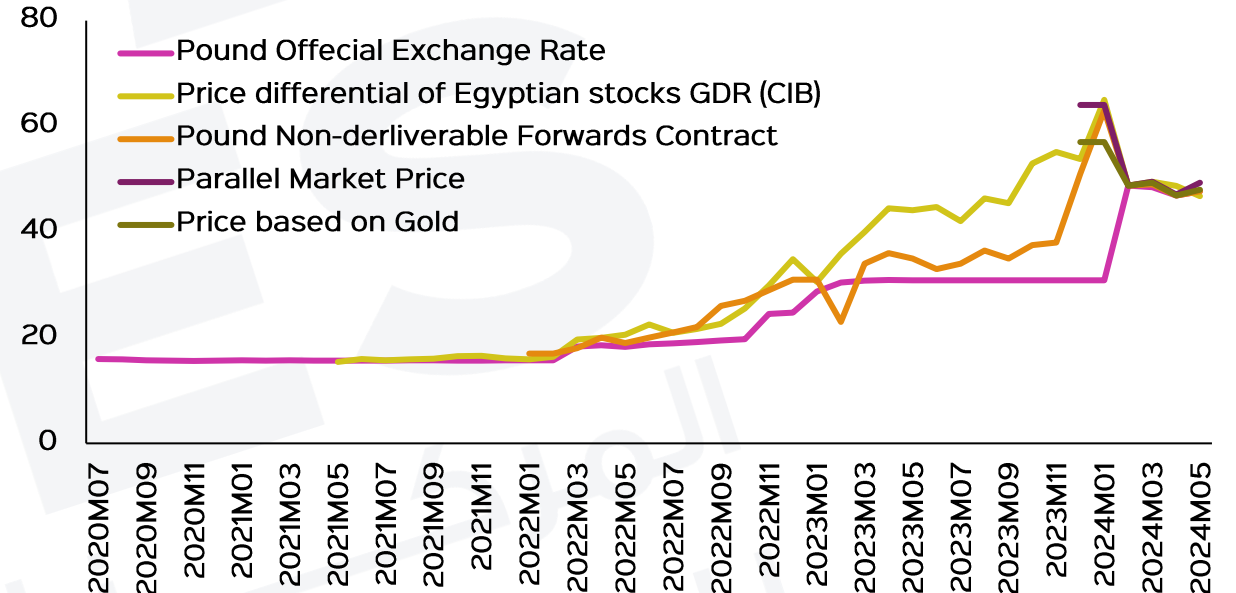
Central Bank reserves increased for the third month in a row and banking system net foreign assets turned positive for the first time in years thanks to inflows from mega deals. Large inflows from mega deals as well as significant inflows of hot money resulted into increase of Central Bank reserves for the third month in a row. Besides, net foreign assets of the banking system turned positive for the first time in years, giving a positive sign and helping the stabilization of the pound exchange rate in the market. Still the stock market is going through a rollercoaster.

External Position
Local Developments

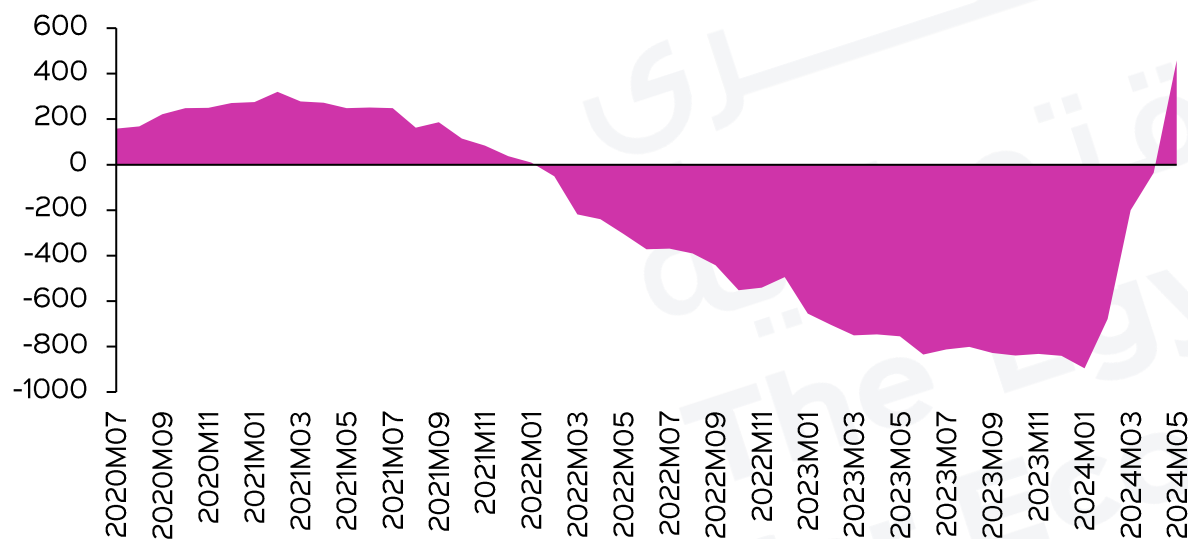
Net International Reserves



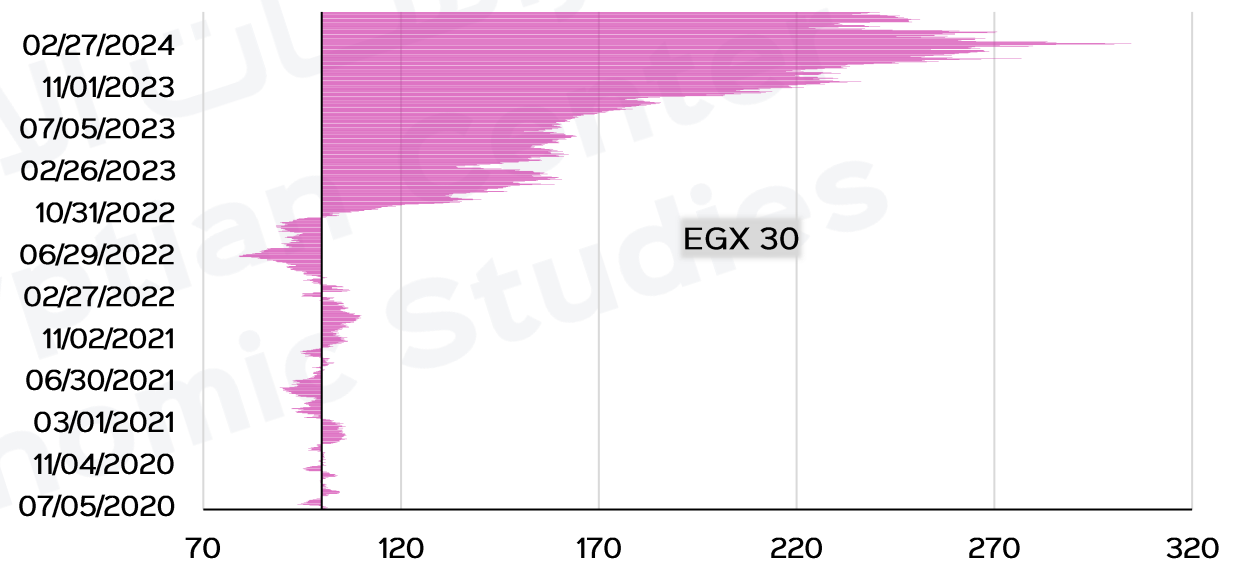
Pound Exchange Rate



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



Egypt



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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Annex 1: 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.

Annex 2: 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.

...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

