



Financial Markets Snapshot

Issue 7
July 2024

Contents

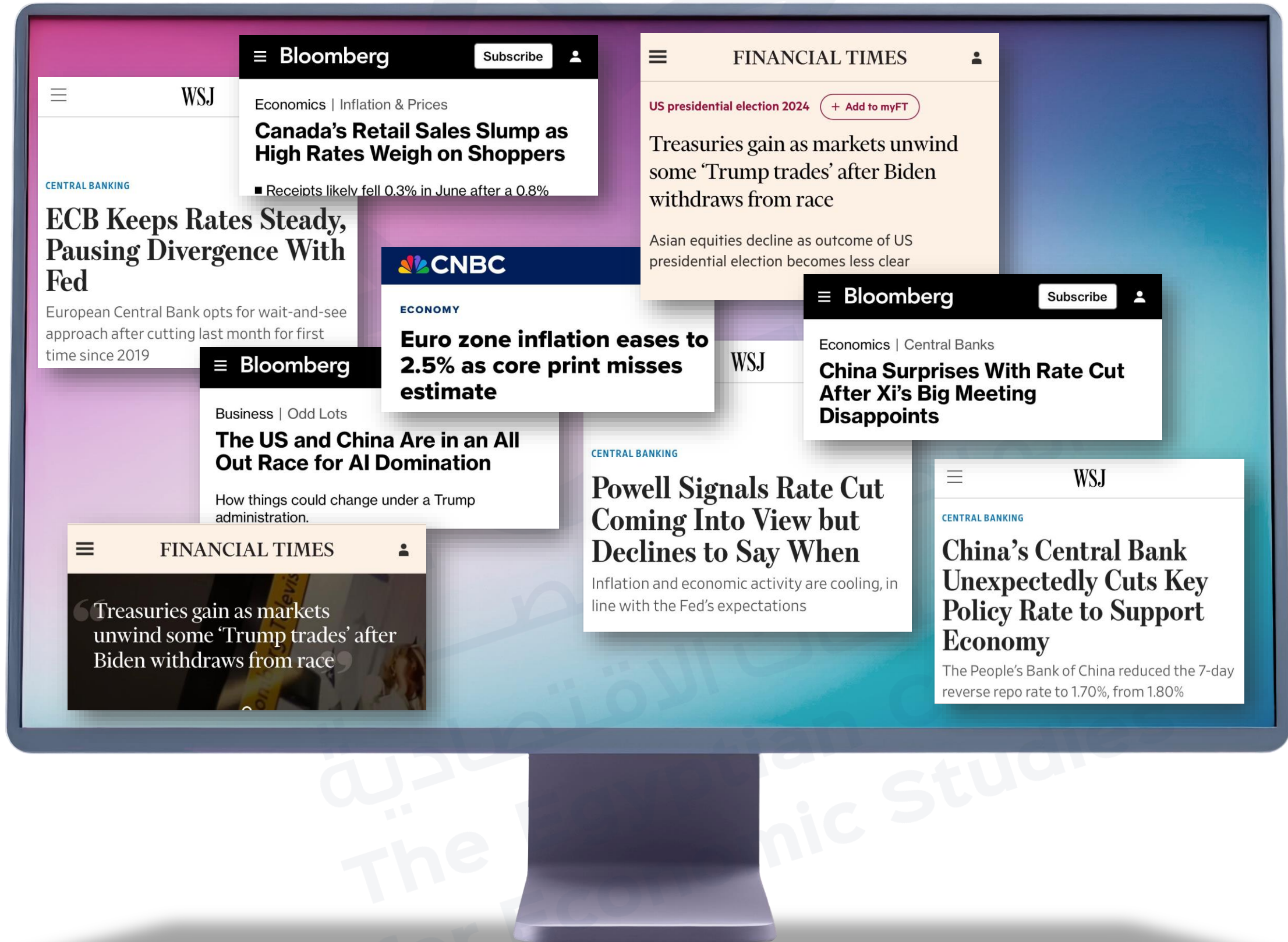
About The Report	3
Latest News – Key Headlines	4
Analysis – Key Takeaways	5
1. Global Markets	6
2. Emerging Markets	10
3. Egyptian Local Market	15
Sources	18
Annex 1: Methodology	19
Annex 2: Terminology	20



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.

Latest News – Key Headlines



Analysis – Key Takeaways

Global Markets



- Commodity prices have generally stabilized in the last month with less divergence across the different commodities, for various reasons among which OPEC decision to decrease restrictions and changing investors' sentiment.
- Inflation rates, as a result, are subsiding in global markets, with some markets even witnessing a decline in inflation, confirming the nearby kickoff of the easing cycle globally.
- Bond yields remain stable with an expected downward outlook due to decreased inflationary pressures and expected easing cycle kickoff commencement. CDSs maintain their downward trend without major spikes.
- Global stock markets keep achieving all-time highs despite the high volatility, driven by geopolitical tensions.

Emerging Markets



- With stabilization of commodity prices and easing cycle in sight globally, inflation rates in emerging markets are subsiding, with some countries witnessing a decline in inflation.
- Central banks still maintain very high interest rates to get inflation under control and protect their currencies.
- The pressure on emerging market currencies is decreasing thanks to stable or even lower local inflation rates, high local policy rates and expected global monetary easing.
- Bond yields as a result started to decline in some markets, while CDSs still maintain their downward trend, with the positive economic outlook and decreased risk of default.

Egyptian Local Market



- The economy keeps showing considerable improvement in the short term thanks to the few mega deals lately such as Ras El-Hekma, IMF and EU deals, which reflected into lower external debt, declining bond yields and CDSs.
- Inflation rate keeps going down for the fourth month in a row, though still at a very high level, thanks to aggressive monetary tightening in terms of high interest rate and liquidity absorption from the money supply.
- Large foreign currency inflows from the mega deals, inflows of hot money and recovery of remittances have helped shore up Central bank reserves, unify the exchange rate in the market and improve net foreign assets position.

Commodity prices have been generally more stable in June compared to the first part of the year, with little divergence in trend between the different commodities. Oil price relatively kept stable for the second month in a row after OPEC announced a gradual plan to ease some of its restrictions. Natural gas also stabilized, while gold, iron and tea went down last month for various reasons whether related to investment sentiment or increased supply. Palm oil and wheat also went down after an increase in the last few months due to high prices of agricultural inputs and transport costs as well as conflict-related market disruptions.

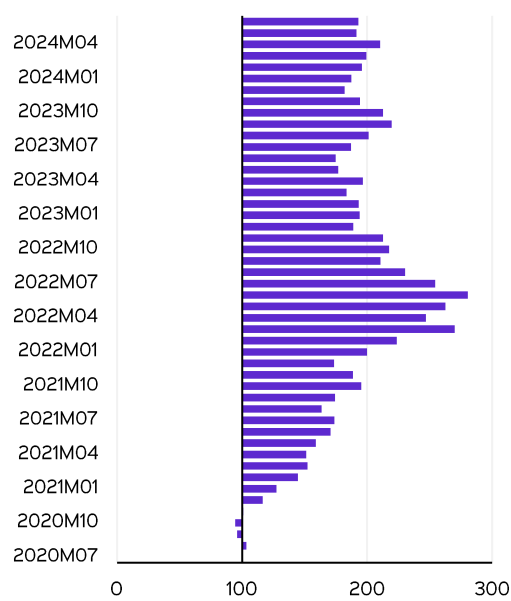
Commodity Markets

Main Rates

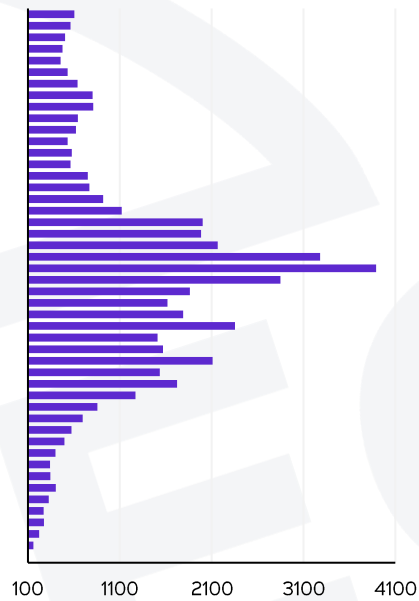
Stock Market

Bond Market

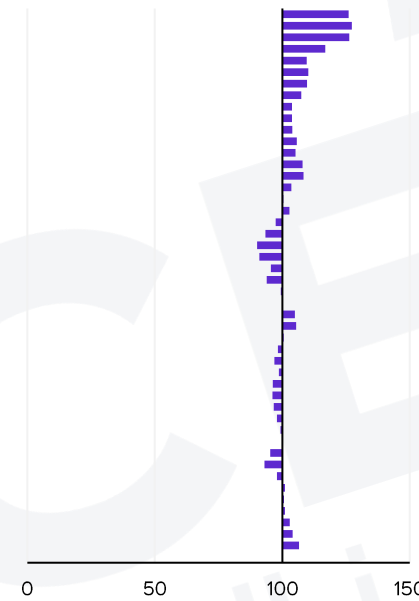
Crude Oil, Brent



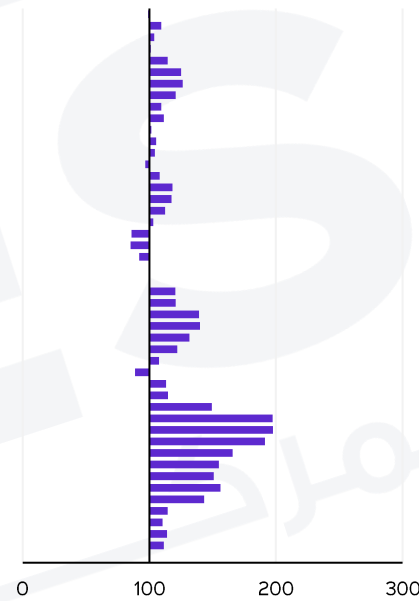
Natural Gas



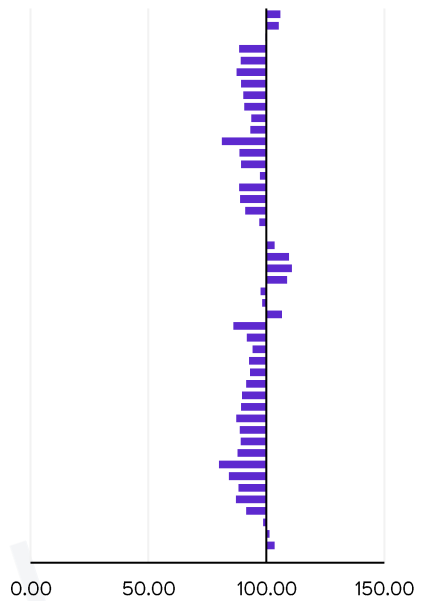
Gold



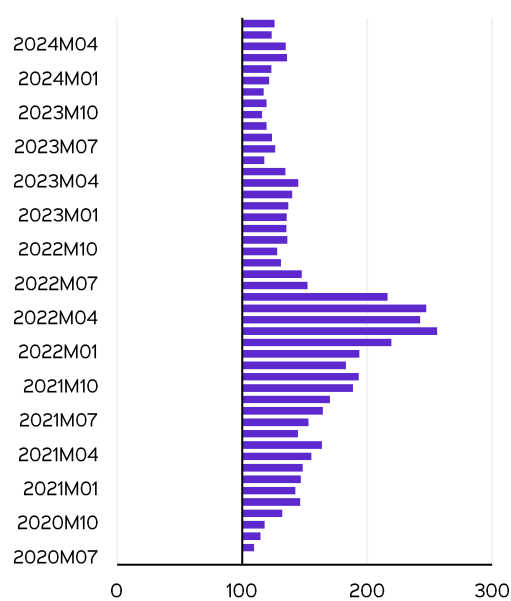
Iron ore



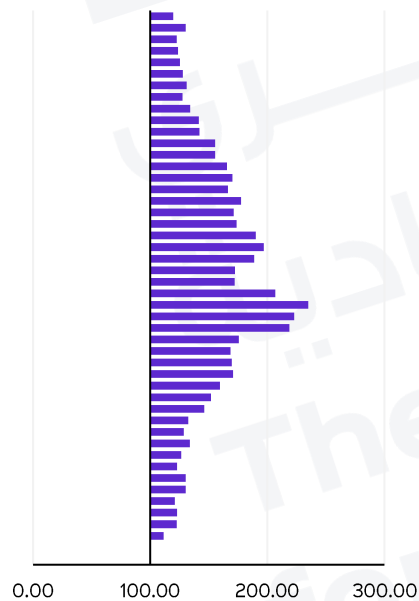
Tea



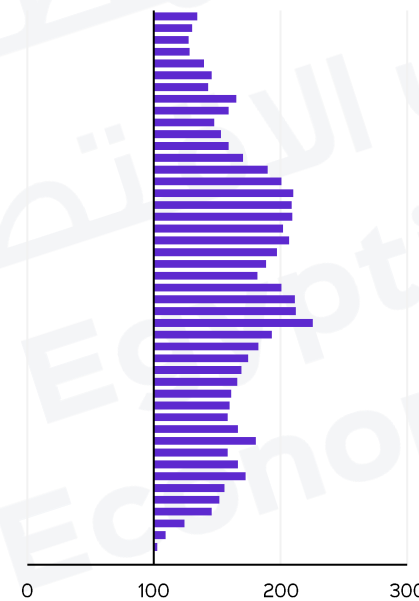
Palm oil



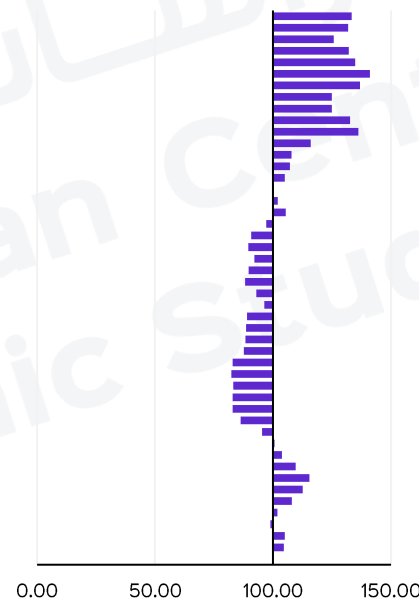
Wheat



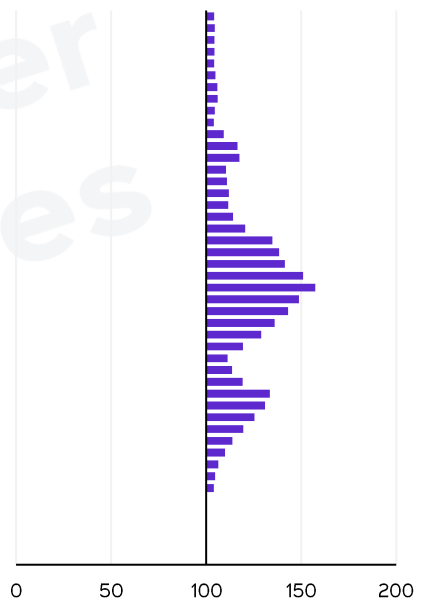
Maize



Rice

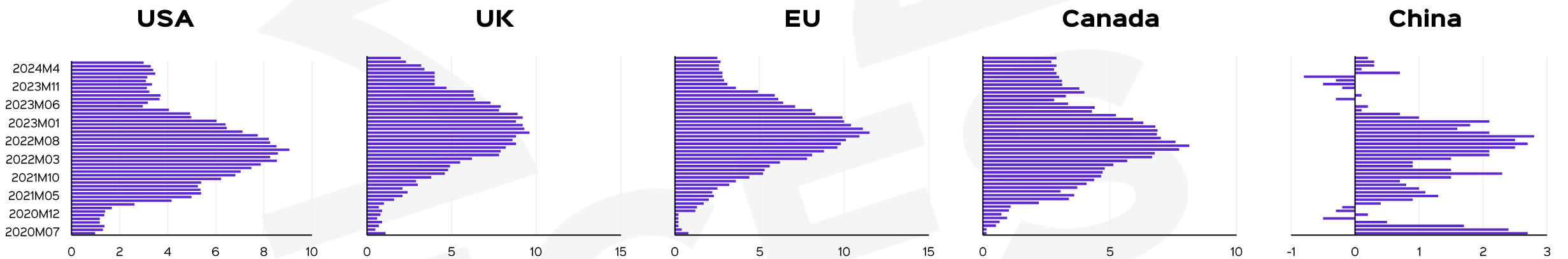


Bovine meat

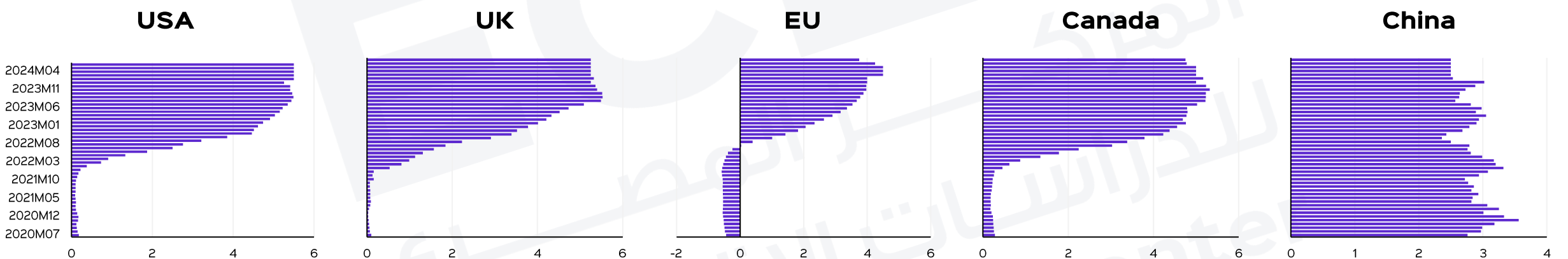


Inflation rates are subsiding across most global markets with a downward trend clearly confirmed across main markets. Inflation rates are going down gradually across global markets with some markets such as UK witnessing clear declines. Such declines are paving the way for policy rates to go down. EU and UK have witnessed decreased inflation and policy rate cuts already, while the US Federal Reserve has started hinting about rate cuts before end of year, with markets expecting the first US rate cut by September. Such expected US monetary easing had its effects on a weakened dollar against the other global currencies, which witnessed some gains against the US dollar lately.

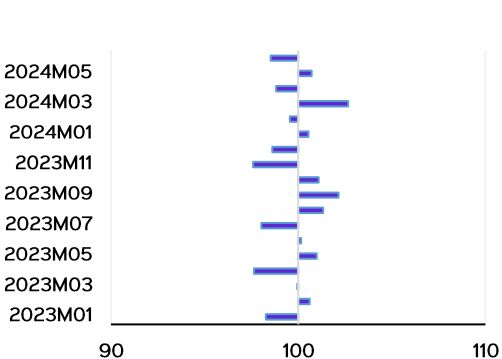
Inflation Rate



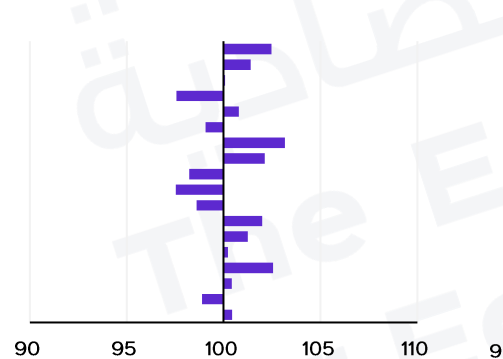
Policy Rate



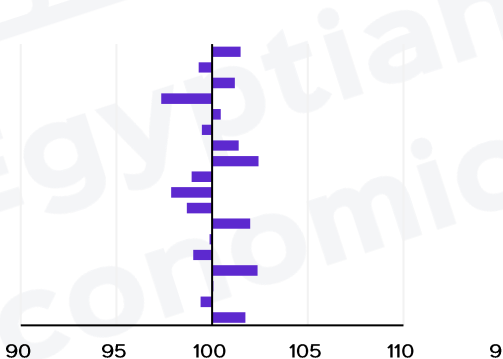
LCU / USD



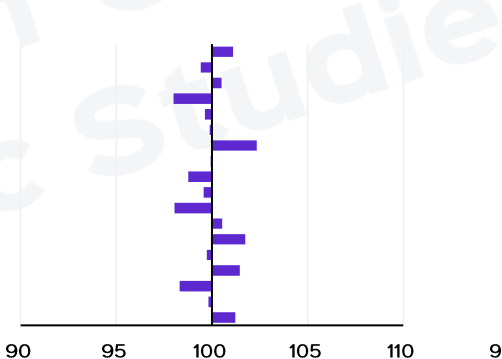
UK Pound



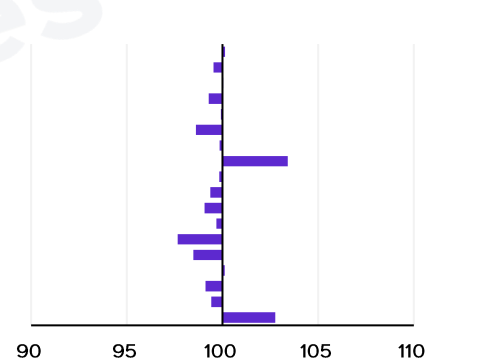
Euro



Canadian Dollar



Chinese Yuan



Commodity Markets
Main Rates

Stock Market

Bond Market

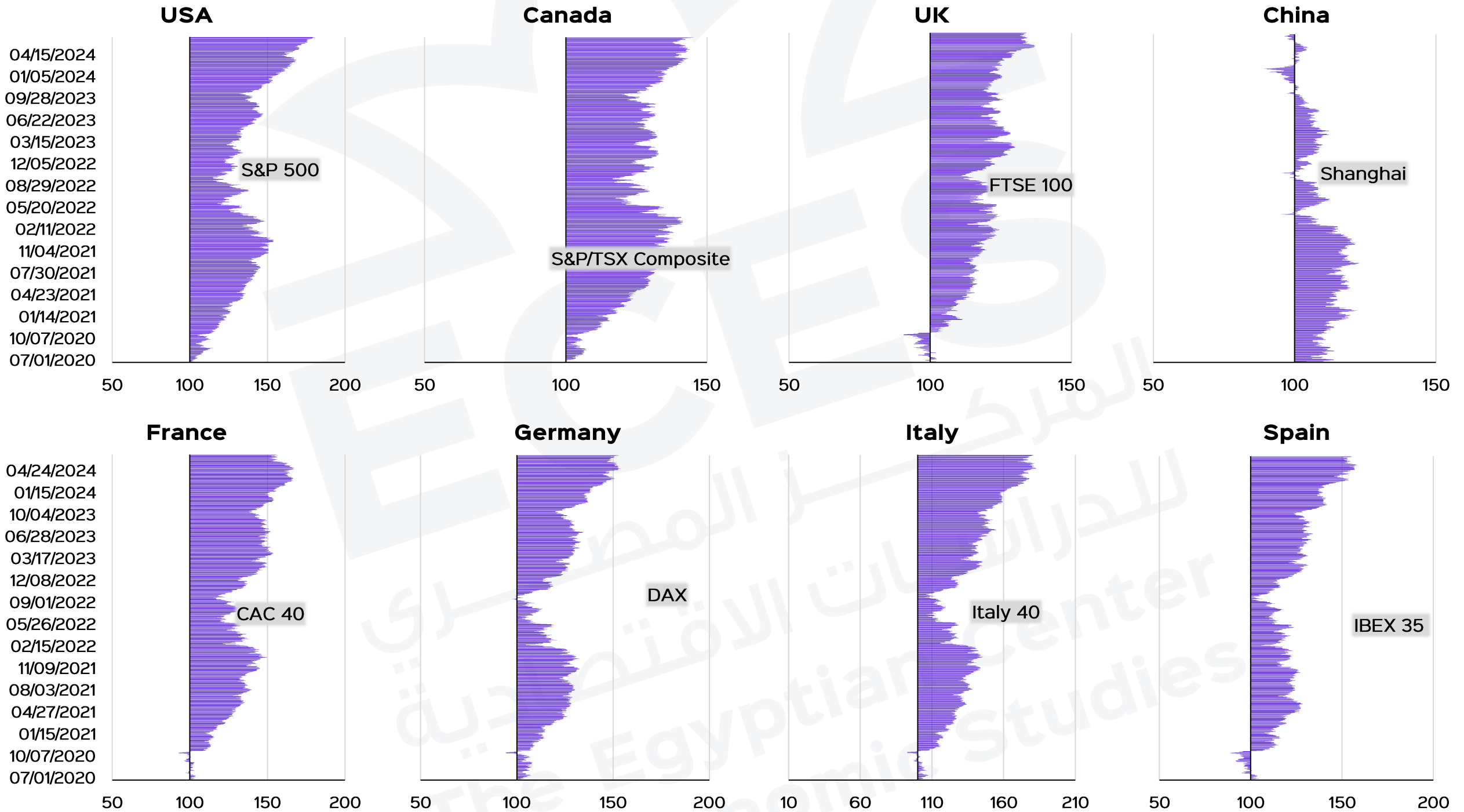
Global stock markets have witnessed high volatility, especially in the US market, despite achieving all-time highs with the anticipation of easing cycle kickoff. Global stock markets have been very volatile thanks to global geopolitical tensions across many fronts, market rally in many global markets in anticipation of the upcoming monetary easing, big jump in tech stocks in anticipation of AI productivity gains as well as market correction after the big jumps. The high volatility didn't prevent indices from reaching all-time highs several times across many markets.

Commodity Markets

Main rates

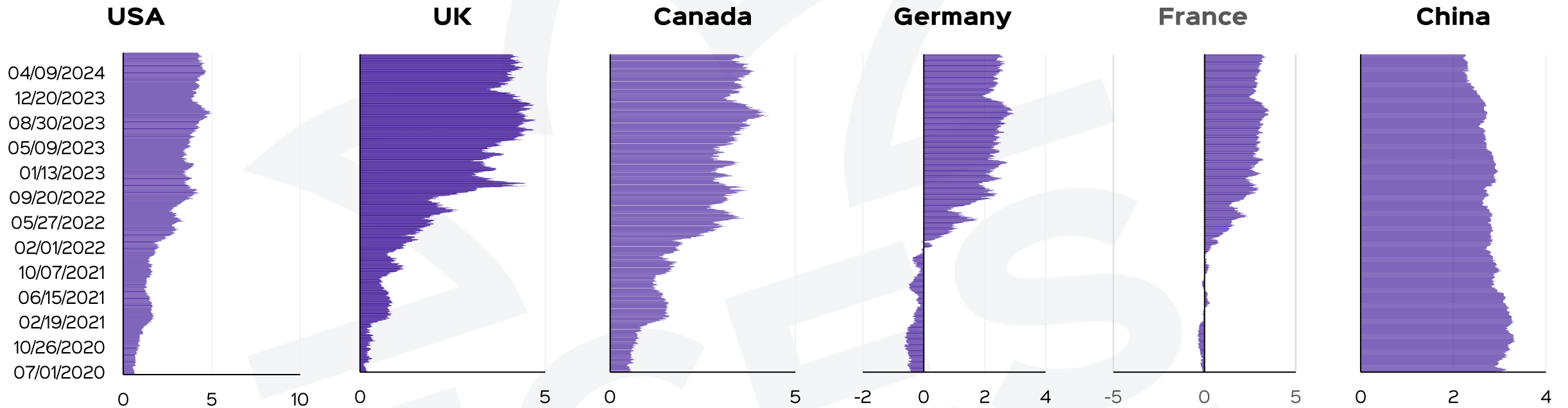
Stock Market

Bond Market

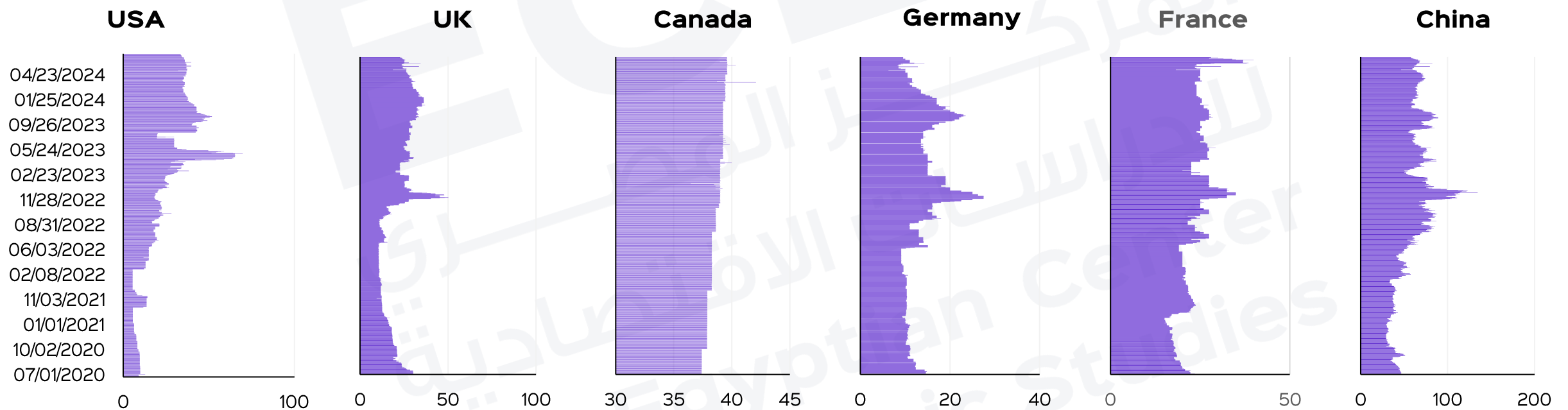


Bond yields remain stable in global markets with a downward outlook and CDSs maintaining their downward trend without major spikes. With the easing cycle kick off in sight, bond yields in global markets stabilized, and even started to go downwards slightly with a downward outlook as future interest rates are expected to go down. CDSs kept going downward with the decreased risk of default. Besides, CDSs have not witnessed spikes despite the continued geopolitical tensions globally.

10-Year Bond Yield

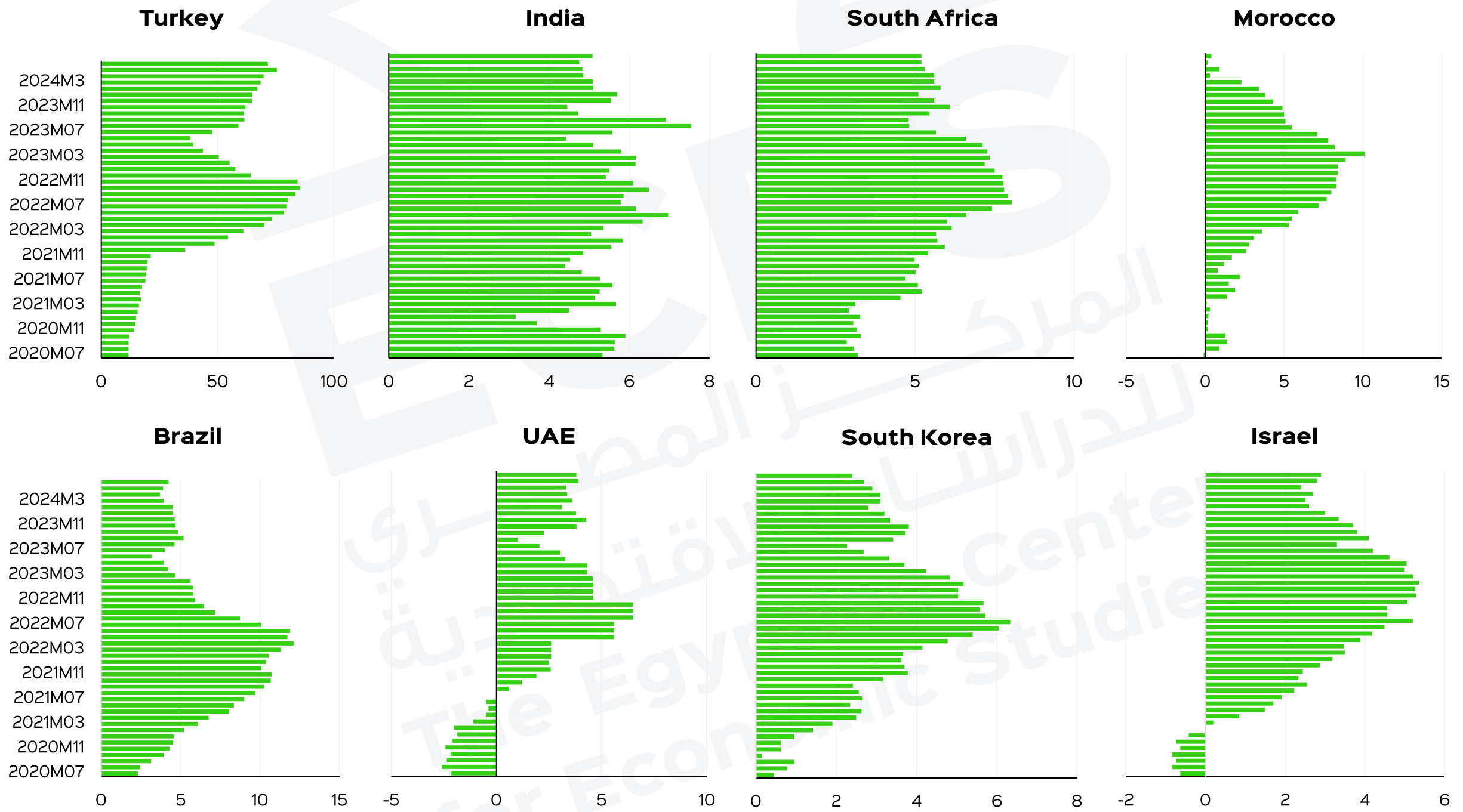


5-Year CDS



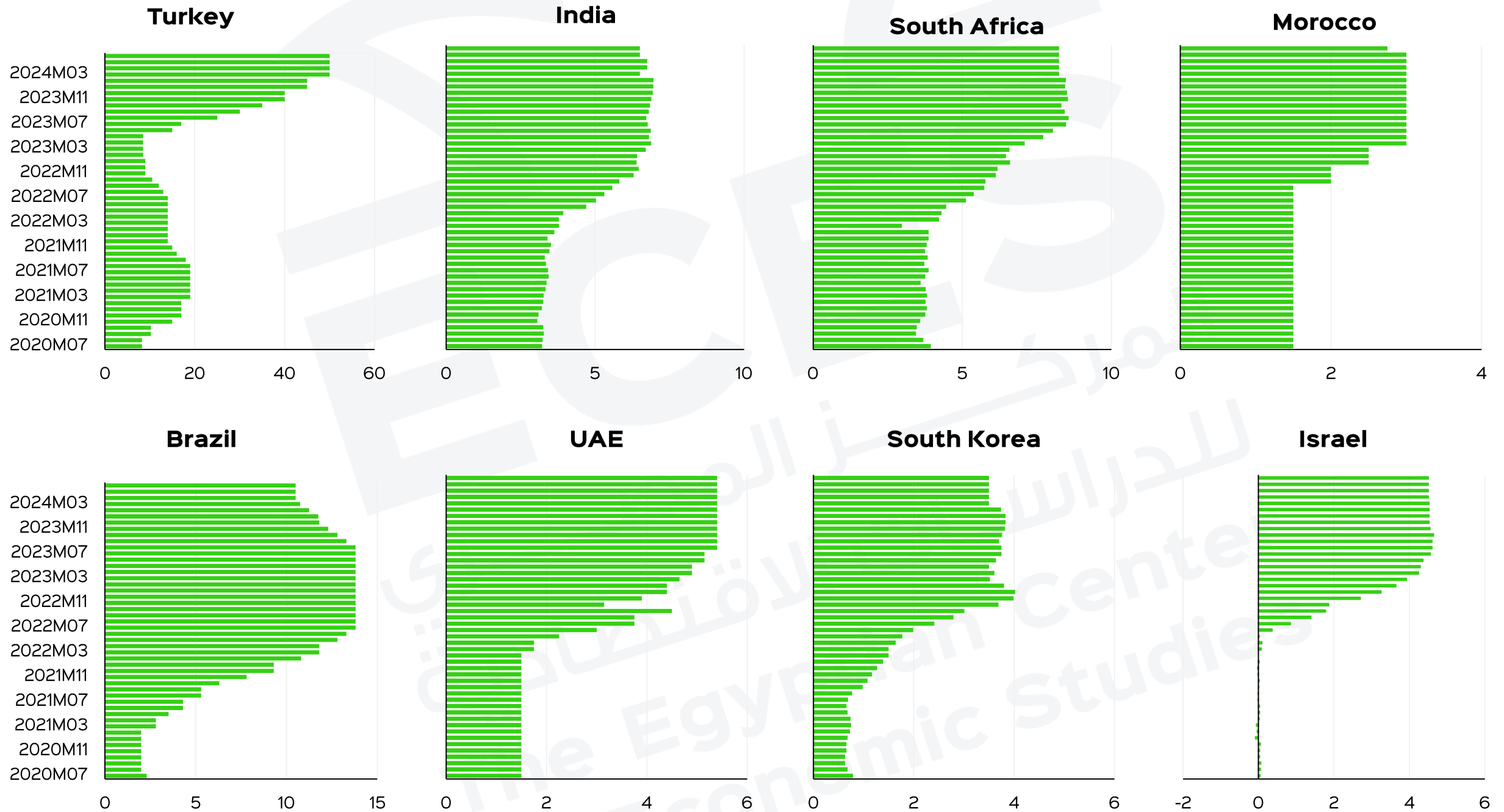
Commodity Markets
Main Rates
Stock Market
Bond Market

Inflation rates in emerging markets are also stabilizing in general with stabilization of commodity prices and easing cycle kickoff in sight. After an extended period of high inflation across emerging markets, inflation rates started to stabilize across different emerging markets for the very first time in the last couple of years thanks to stabilization in commodity prices and confirmation of easing cycle kickoff in global markets this years. This has resulted into stable inflation rates across most markets, with some markets such as Turkey, South Africa and South Korea witnessing a decline in inflation, though inflation rates are still high and above targets, but at least the trend has reversed.



Despite stable inflation rates, Central banks in emerging markets still maintain very high interest rates to get inflation under control and protect their currencies. The stabilization of inflation rates in emerging markets with even declines in some markets didn't reflect yet into policy rate cuts. Central banks in emerging markets still maintain very high policy rates to ensure inflation rates get under control and close to target level, as well as local currencies stay protected from external pressures and dollarization. The latter offering high rates on local currency debt and deposits. Central banks in emerging markets seem to be patient when it comes to monetary easing and will wait for easing cycle to effectively commence in global markets before they move forward.

Inflation Rate
 Policy Rate
 LUC/USD
 Stock Market
 Bond Market

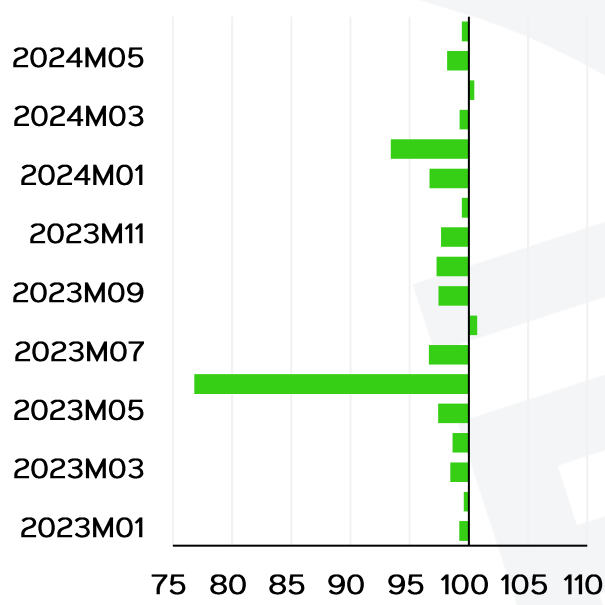


Pressure on emerging markets currencies is subsiding thanks to stable local inflation rates, high local policy rates and easing cycle kickoff in sight in global markets. The stabilization of inflation rates in emerging markets coupled with the still highly maintained policy rates by emerging markets Central banks, as well as monetary easing being in process in global markets, are all decreasing the pressure on emerging markets which stood strong against the US dollar in general last month, after an extended period of pressure and sustained weakness, some of them are even reversing the trend such as Turkey, South Africa and South Korea.

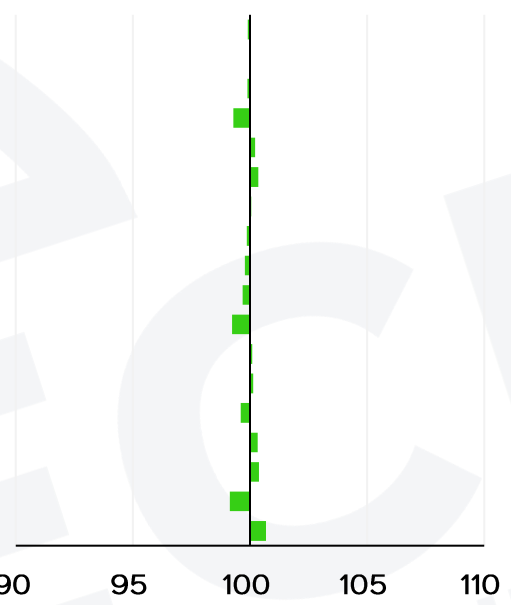
LUC/UDS

Bond Market | Stock Market | Policy Rate | Inflation Rate

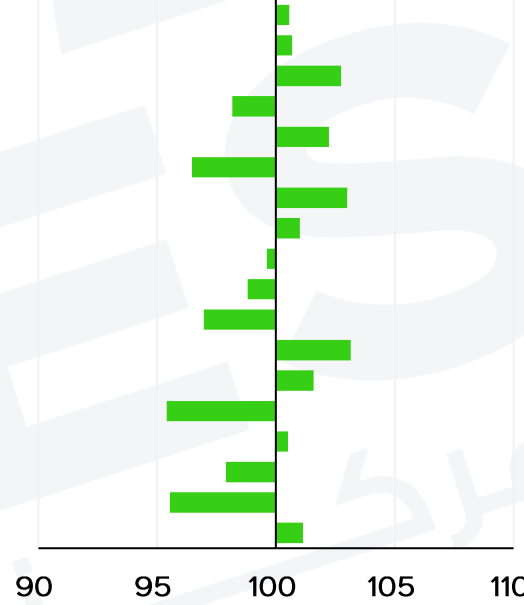
Turkish Lira



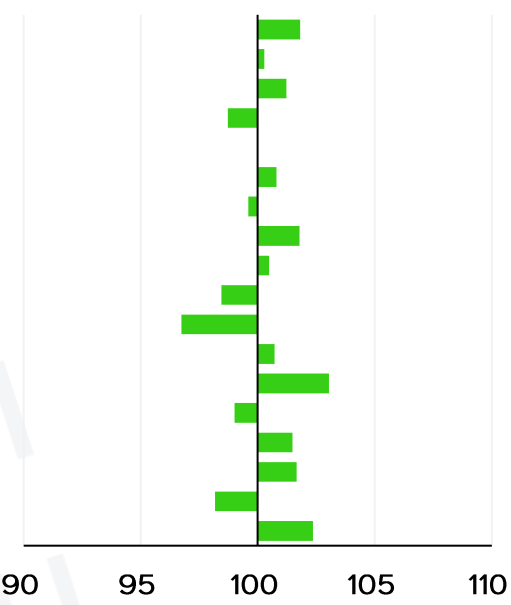
Indian Rupee



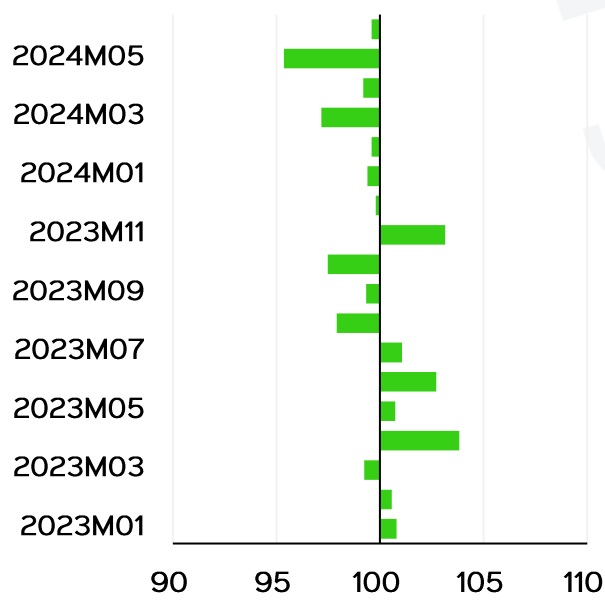
South African Rand



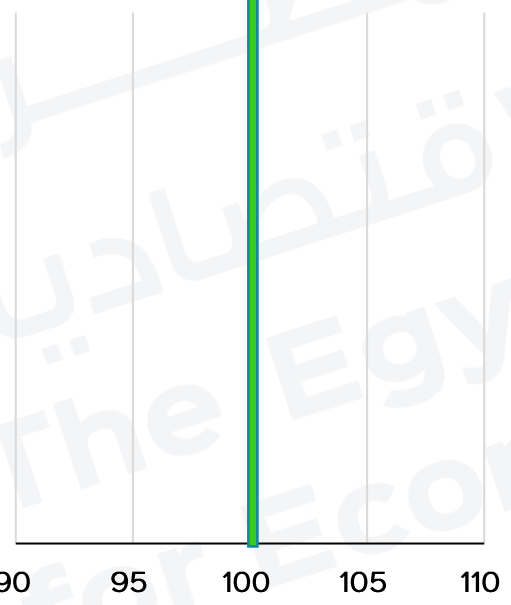
Moroccan Dirham



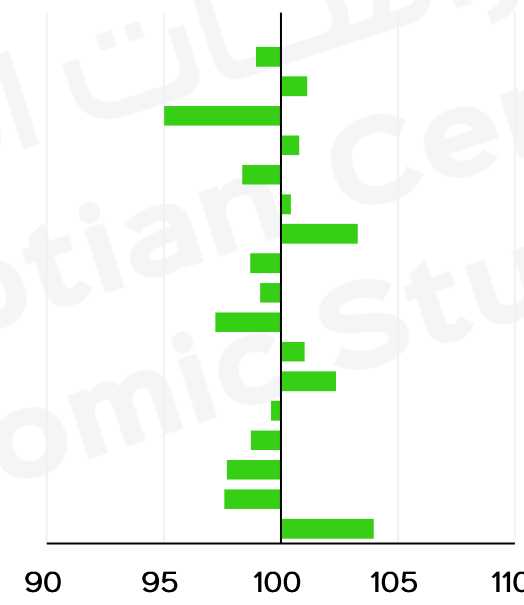
Brazilian Real



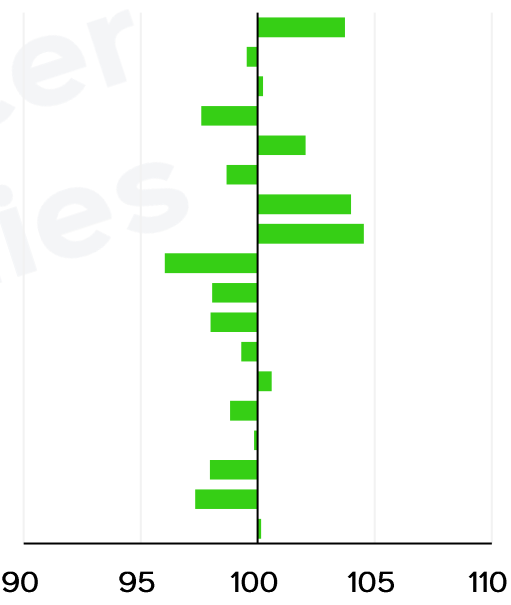
UAE Dirham



Korean Won



Israeli New Shekel



Stock Markets in Emerging Markets have witnessed high volatility and turbulence last month, though still achieving high gains, due to heightened global geopolitical tensions. Global geopolitical tensions across many fronts have resulted into high volatility in emerging markets stock markets, but on the other hand the stabilizing local inflation rates, the still highly maintained local policy rates and the expected nearby easing cycle kickoff have managed to push emerging markets stock markets forward, with expectations of large inflows coming into emerging markets as monetary easing kicks off effectively in global markets. However, the geopolitical tensions will stay to have their own shadows on markets throughout this process.

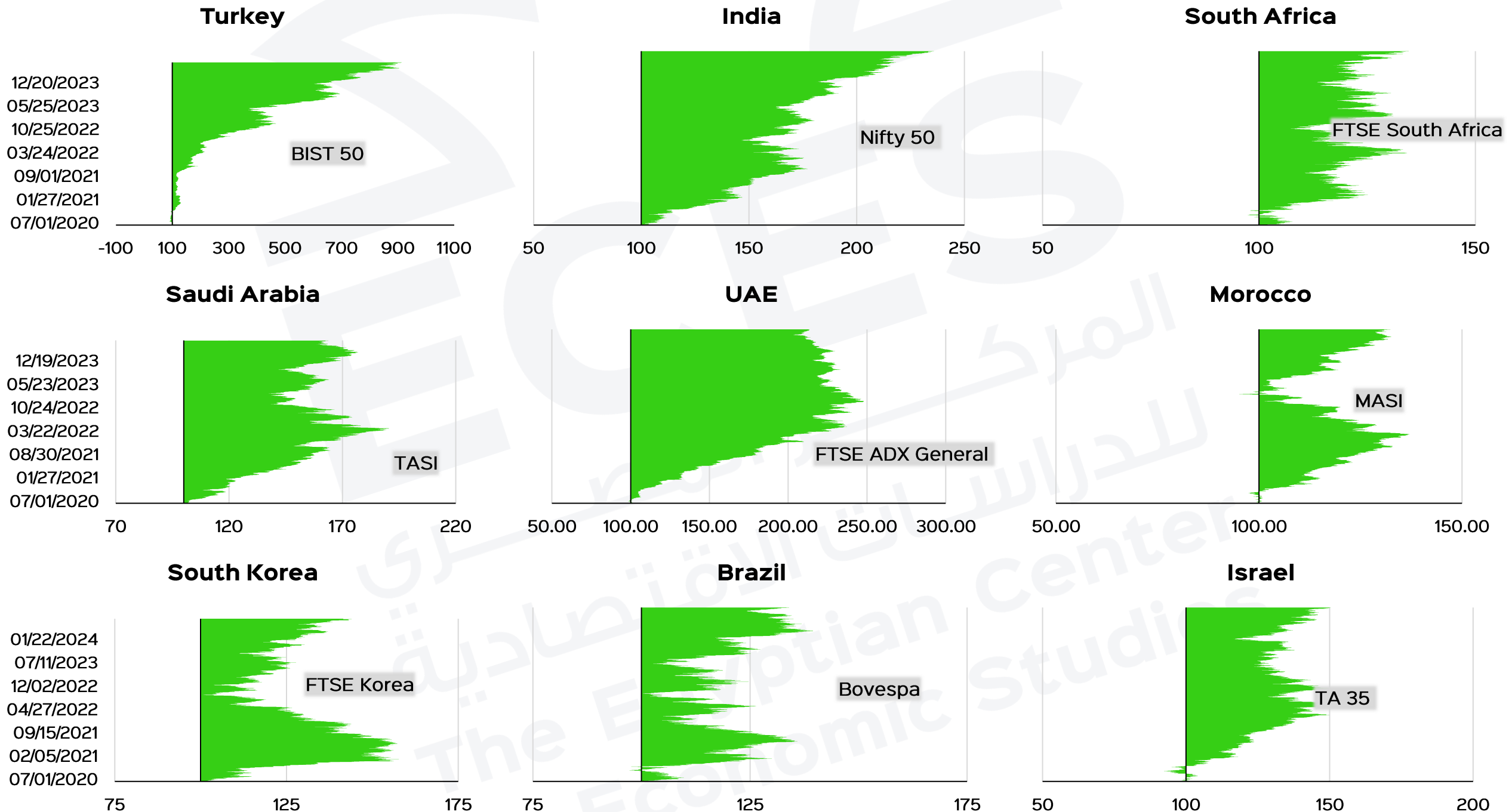
Inflation Rate

Policy Rate

LUC/UBC

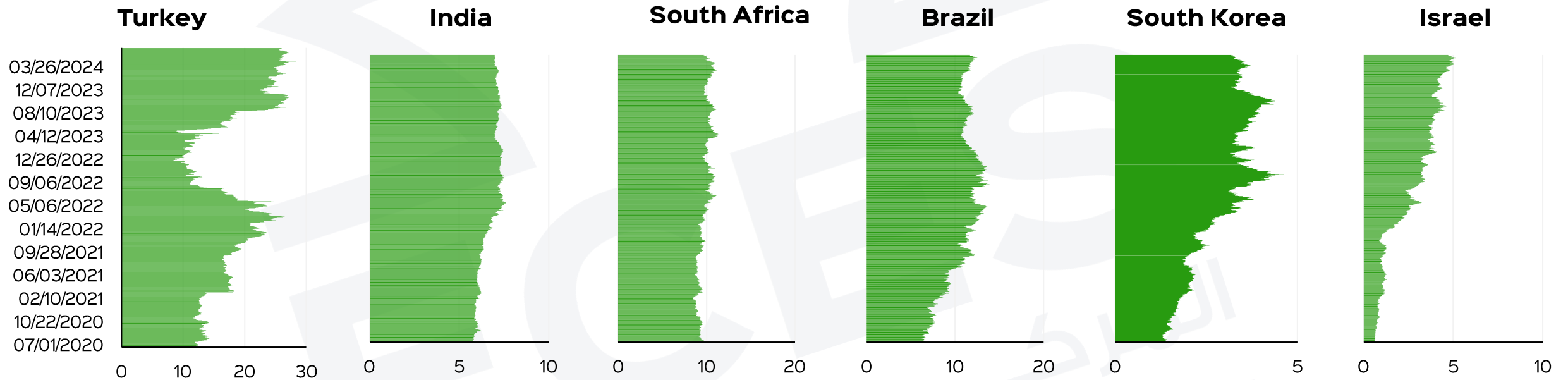
Stock Market

Bond Market

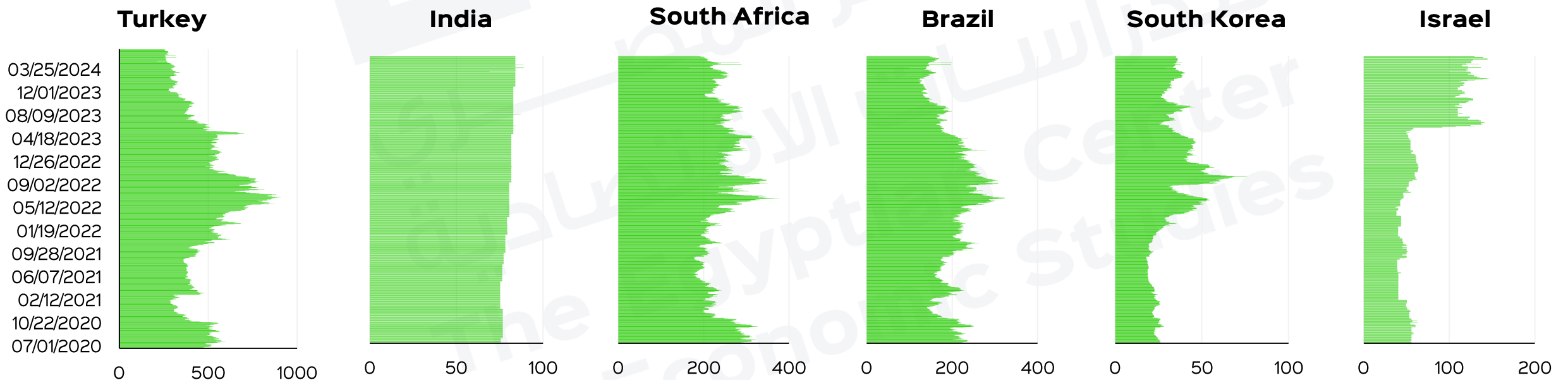


Bond yields in emerging markets started to decline in some markets and CDSs continue their declining trend as well. With the stabilization of bond yields in global markets and even some declines, emerging markets have started to see their bond yields decline especially in markets where local inflation rates started to subside such as Turkey, South Africa and South Korea. CDSs are also continuing their declining trend, especially in countries where local inflation rates are subsiding such as Turkey, South Africa and South Korea, reflecting in general a lower risk of default as general macroeconomic conditions are getting more favorable and interest rates are expected to decline in global markets this year and hence will spillover on emerging markets soon afterwards.

10-Year Bond Yield



5-Year CDS



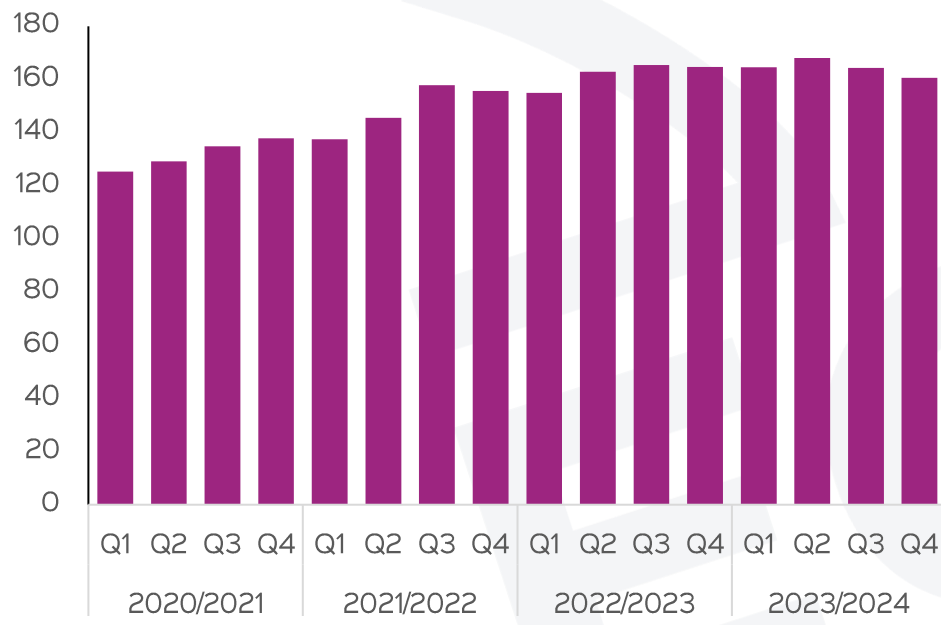
Inflation Rate
 Policy Rate
 LUC/UDS
 Stock Market
 Bond Market

The economy keeps showing considerable improvement in the short term thanks to the few mega deals lately, which reflected into lower external debt, declining bond yields and CDSs. Mega deals such as Ras El-Hekma and IMF deals have resulted into a decline in the external debt outstanding, especially with the recent EU deal, promising another sizable support package. Such deals have transformed the short-term outlook positively and thus the bond yields have kept its declining trend. CDSs also maintained their declining trend as the large inflows of foreign currency provides enough liquidity to support payment of external debt burden and minimizes the risk of default in the short term.

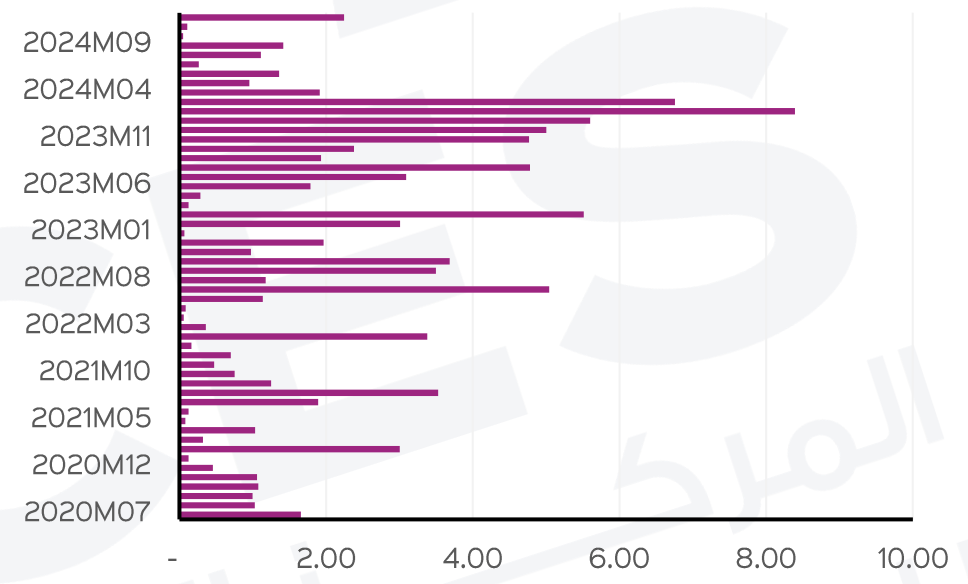
External Position

Local Developments

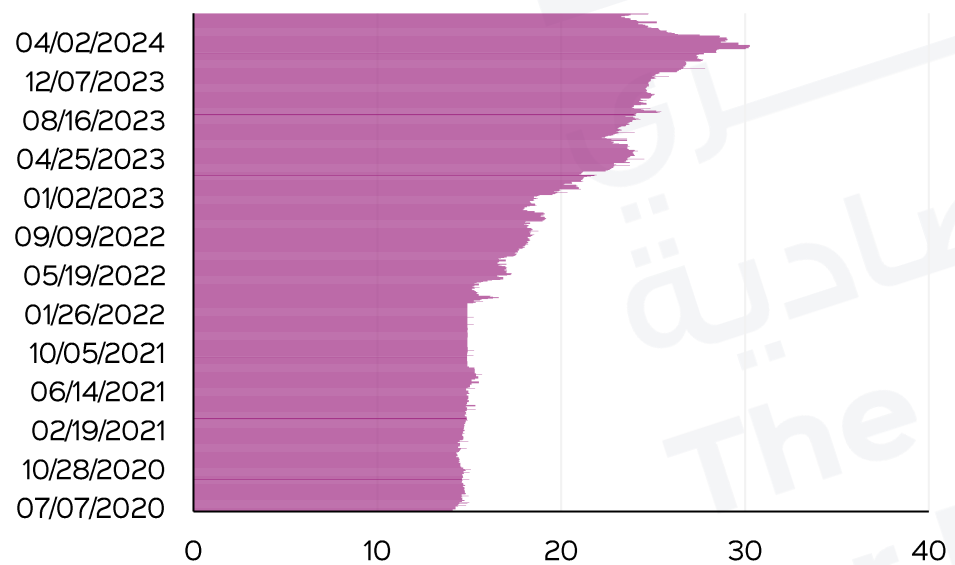
Total External Debt (bn \$)*



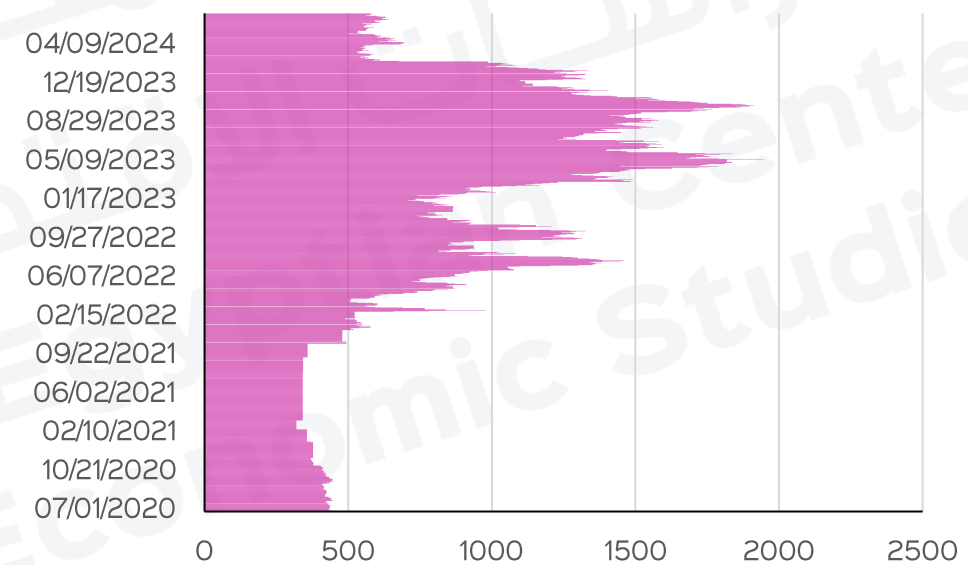
External Debt Service (bn \$)*



Egypt 10-Year Bond Yield



5Y CDS, Egypt



S&P Global Ratings
B- Positive

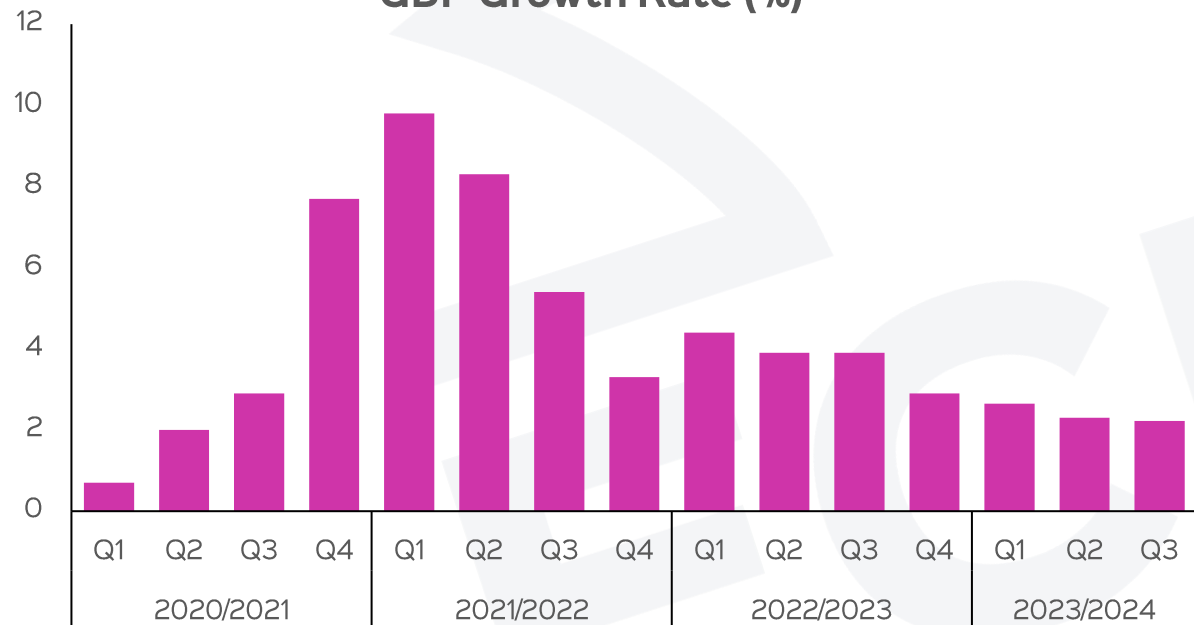
Fitch Ratings
B- Positive

MOODY'S INVESTORS SERVICE
Caa1 Positive

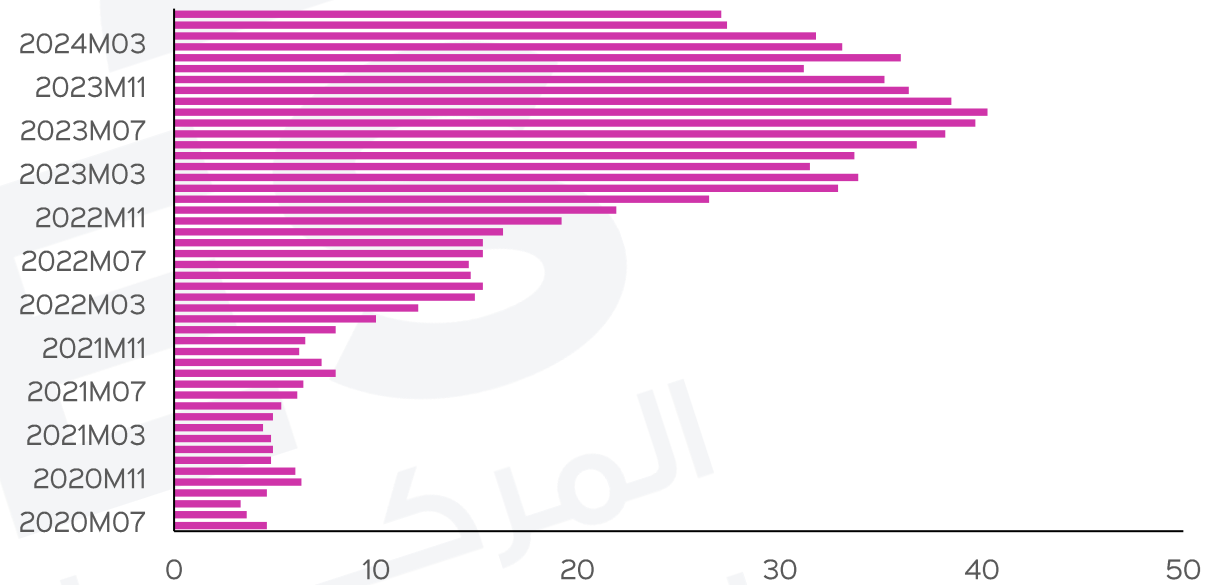
Inflation rate keeps going down for the fourth month in a row, though still at a high level, thanks to aggressive monetary tightening. Inflation rate which has spiked earlier this year has kept its declining trend for the fourth month in a row. Though still at a high level, the declining inflation rate is driven by aggressive monetary tightening pursued through the still very high policy rate and most importantly liquidity absorption from the banking system which has managed to decrease money supply in the economy. Liquidity absorption to contain money supply is believed to be the most relevant tool to curb supply side inflation resulting from pound devaluation, subsidies removal and other reform measures.

External Position
Local Developments

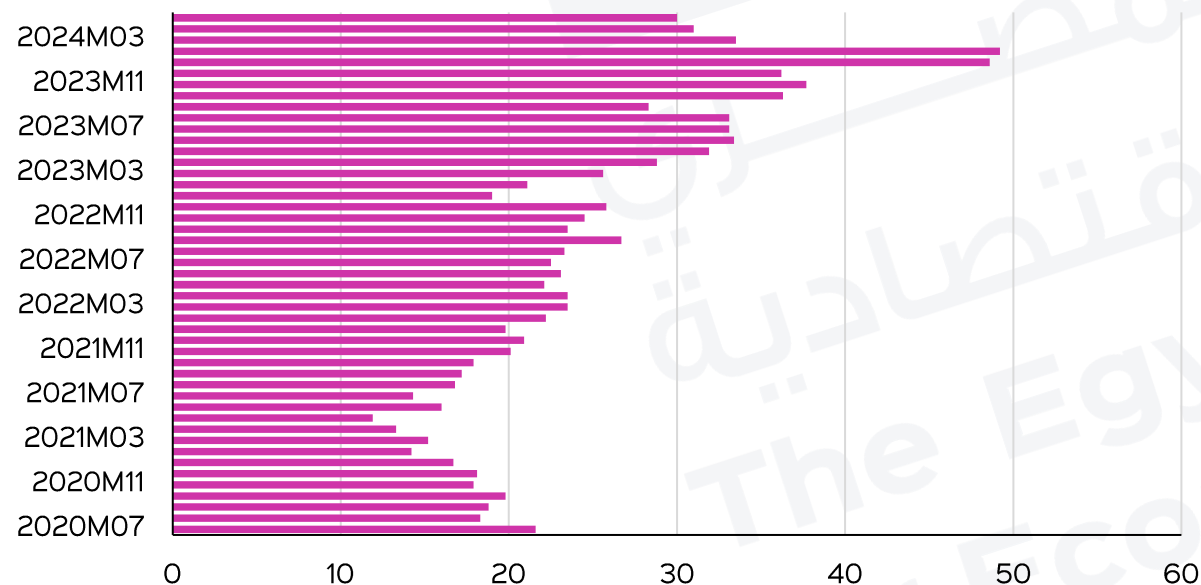
GDP Growth Rate (%)*



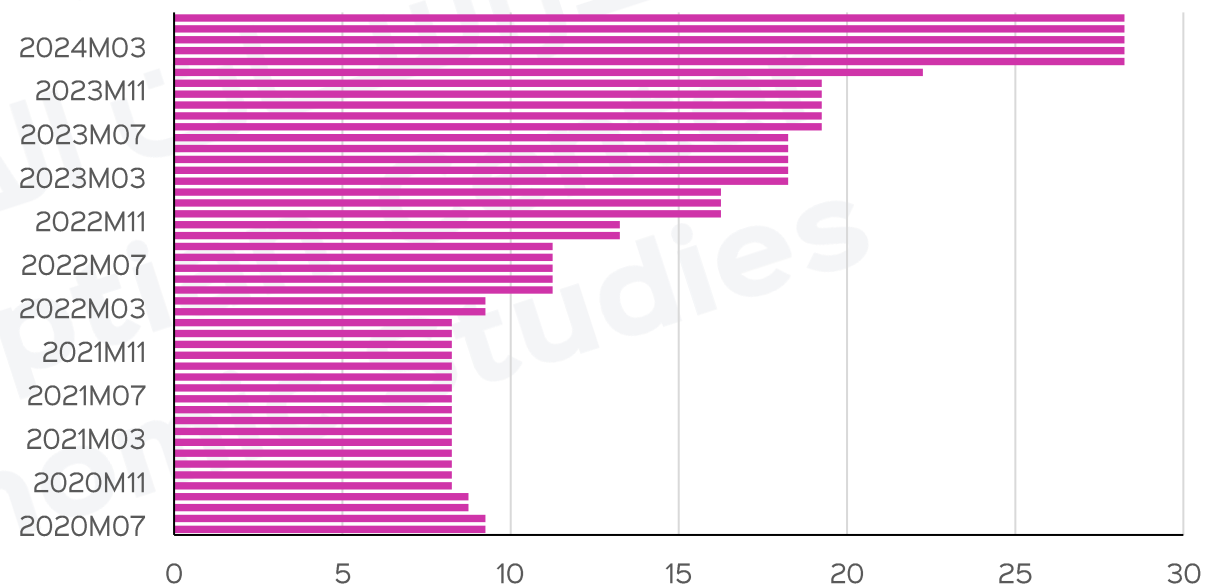
Inflation Rate (%)



Growth Rate of Money Supply (M1)*



Policy Rate (%)

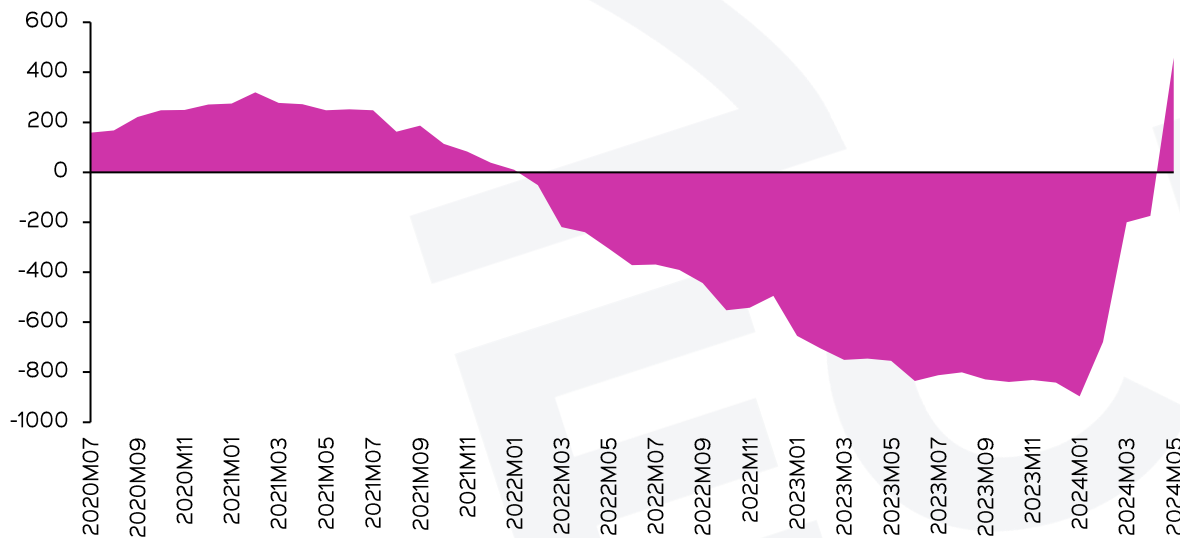


Large foreign currency inflows from the mega deals have helped shore up Central bank reserves and unify the exchange rate in the market for the fourth month in a row. After a very rough period of depleting foreign reserves and pressure on the pound, Central bank reserves are increasing for the fourth month in a row thanks to the large inflows from mega deals, as well as recovering remittances from Egyptians abroad. Such inflows have allowed the Central bank to have a unified exchange rate across the market as well as transform the negative net foreign assets balance in the banking system into positive, offering stability and positive outlook in the short-term.

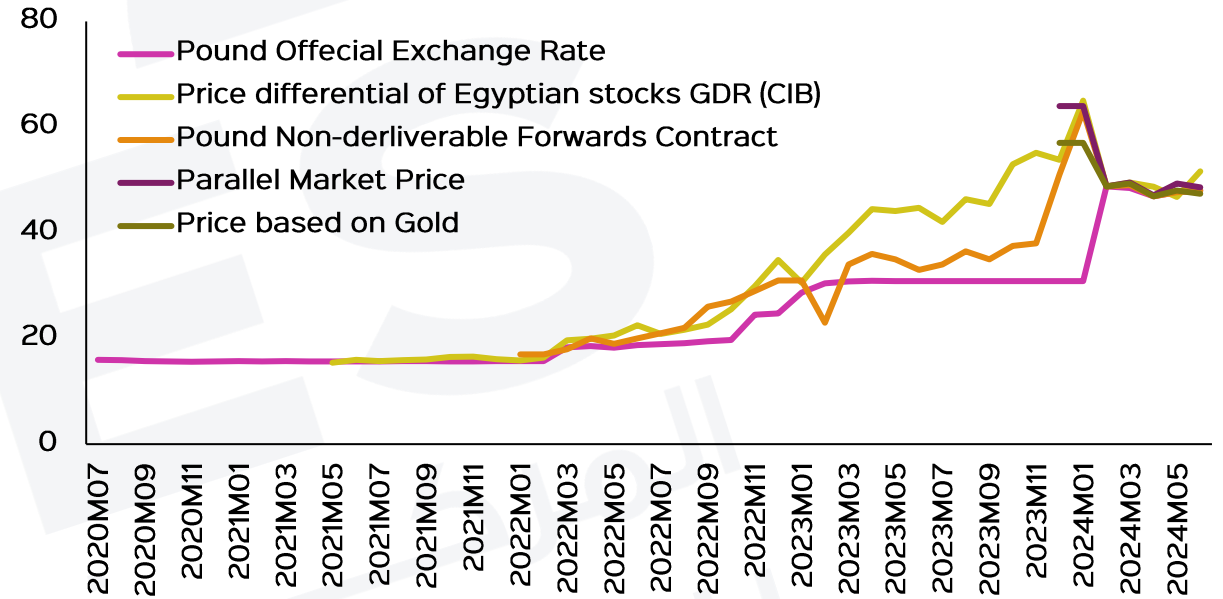
External Position

Local Developments

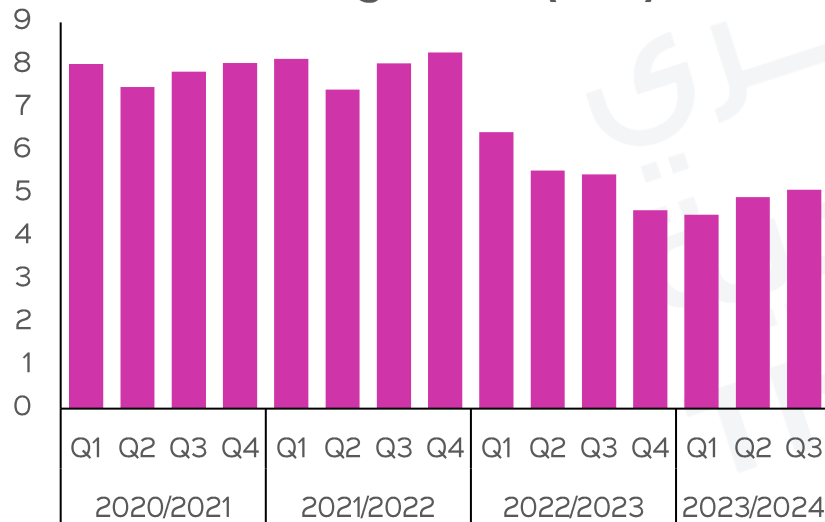
Net Foreign Assets of the Banking System (bn LE)*



Pound Exchange Rate



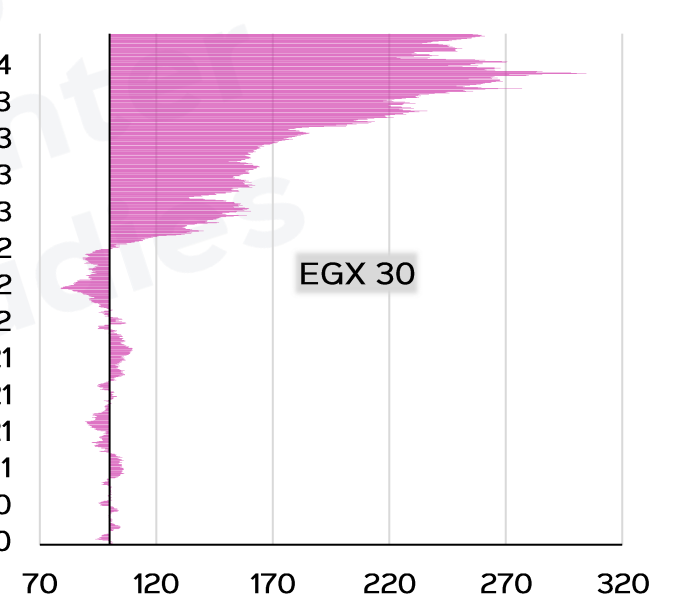
Remittances of Egyptians working abroad (bn \$)



Net International Reserves



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

