



# Financial Markets Snapshot

Issue 8  
August 2024

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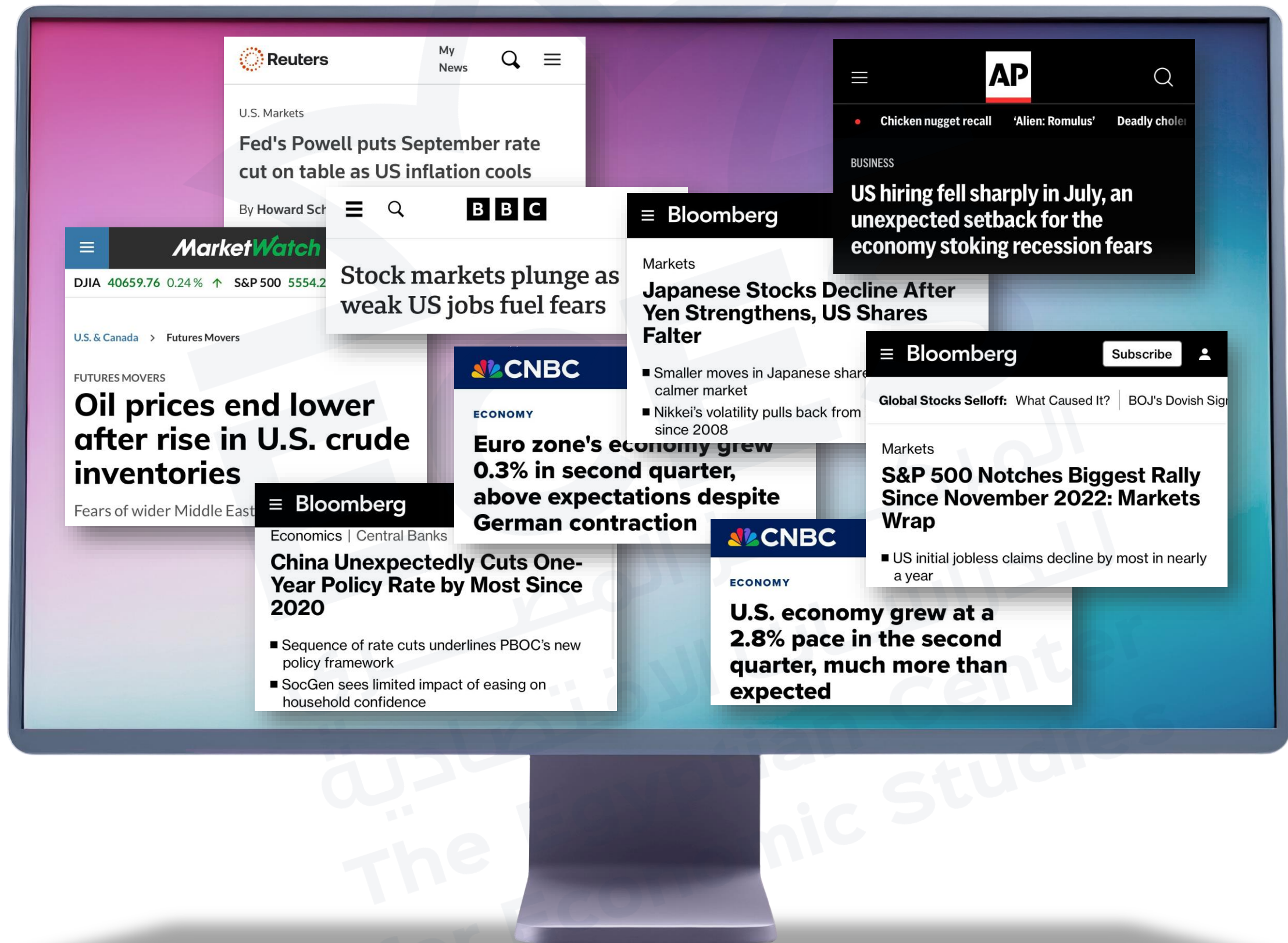




# About The Report

- 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.

# Latest News – Key Headlines



**Reuters** My News

U.S. Markets

**Fed's Powell puts September rate cut on table as US inflation cools**

By Howard Sch...

**AP**

Chicken nugget recall 'Alien: Romulus' Deadly cholera

BUSINESS

**US hiring fell sharply in July, an unexpected setback for the economy stoking recession fears**

**MarketWatch**

DJIA 40659.76 0.24% ↑ S&P 500 5554.2

U.S. & Canada > Futures Movers

FUTURES MOVERS

**Oil prices end lower after rise in U.S. crude inventories**

Fears of wider Middle East...

**BBC**

**Stock markets plunge as weak US jobs fuel fears**

**Bloomberg**

Markets

**Japanese Stocks Decline After Yen Strengthens, US Shares Falter**

- Smaller moves in Japanese shares as market calmer
- Nikkei's volatility pulls back from recent highs since 2008

**CNBC**

ECONOMY

**Euro zone's economy grew 0.3% in second quarter, above expectations despite German contraction**

**Bloomberg**

Economics | Central Banks

**China Unexpectedly Cuts One-Year Policy Rate by Most Since 2020**

- Sequence of rate cuts underlines PBOC's new policy framework
- SocGen sees limited impact of easing on household confidence

**Bloomberg** Subscribe

**Global Stocks Selloff: What Caused It? | BOJ's Dovish Signaling**

Markets

**S&P 500 Notches Biggest Rally Since November 2022: Markets Wrap**

- US initial jobless claims decline by most in nearly a year

**CNBC**

ECONOMY

**U.S. economy grew at a 2.8% pace in the second quarter, much more than expected**



# Analysis – Key Takeaways

## Global Markets



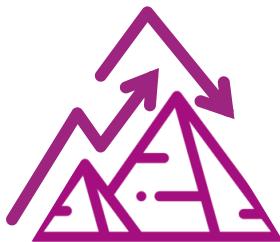
- Commodity have been generally stable for the second month in a row with less divergence among the different commodities. Geopolitical risks have pushed gold upwards to all time-high, while oil didn't spike due to low demand.
- Inflation rates in global markets witnessed a clear downward trend, except for China, confirming the easing cycle.
- Global stock markets have witnessed a rollercoaster lately with extremely high volatility due to the unwinding of the Yen carry trade resulting from interest rate hike in Japan and Yen appreciation.
- Bond yields in global markets witnessed a downward trend last month on the back of expected rate cuts, while CDSs increased on the back of increased risks in global financial markets

## Emerging Markets



- Inflation rates in some emerging markets kept declining, while kept stable in few other markets thanks to stabilization of commodity prices and easing cycle kickoff in sight
- Central banks in emerging markets still maintain very high interest rates to get inflation under control and protect their currencies, especially amid global markets turbulence and hot money partial exit.
- The pressure on emerging market currencies increased due to global markets turbulence and hot money partial exit.
- Stock Markets in emerging markets have witnessed high volatility as a result of global markets rollercoaster.
- Bond yields in emerging markets inched upwards last month and CDSs increased as well due to unwinding of the Yen carry trade and disruption of global flows of hot money, especially into emerging markets dependent on hot money inflows.

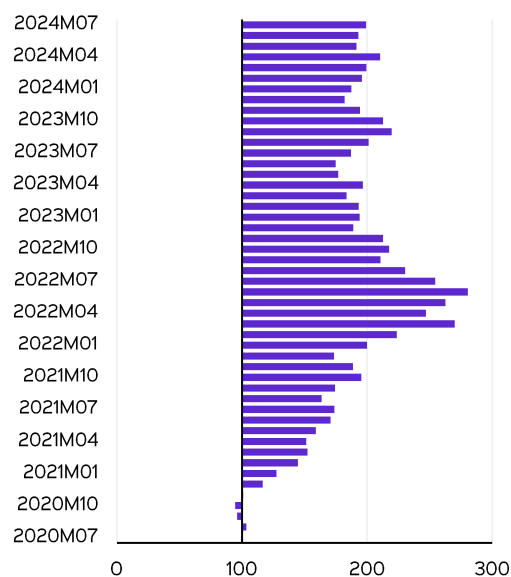
## Egyptian Local Market



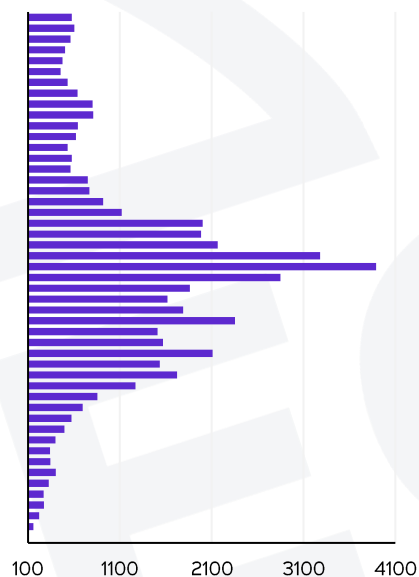
- The conclusion of the few mega deals lately have helped push down total external debt and improve the overall outlook of the economy in the short term, but turbulence in global financial markets and partial exit of hot money have led to higher bond yield and CDSs.
- Inflation rate keeps going down for the fifth month in a row, due to aggressive monetary tightening pursued through the still very high policy rate and liquidity absorption. Despite decline in inflation, policy rate will most likely stay high to protect the currency against mounting pressure from hot money partial exit.
- Large foreign currency inflows from the mega deals, remittances & hot money increased Central bank reserves and helped maintain a unified exchange rate so far, despite hot money partial exit and increased global financial risks.

**Commodity prices have been generally stable for the second month in a row, with little divergence in trend between the different commodities.** Despite the increased geopolitical risks, natural gas price stayed stable, while oil price inched a bit due to low demand. Iron price declined due to low demand on fears of upcoming recession. Gold price increased and achieved a new all-time high due to heightened global geopolitical risks as well as increased probability of September rate cut by US Fed. On the other hand, rice price fell again due to global trade being affected by postponed purchases involving only small quantities, despite efforts by Asian exporters to lower their prices to revive the export market.

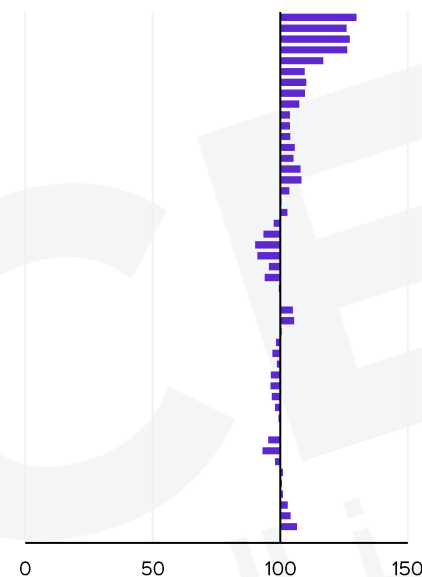
Crude Oil, Brent



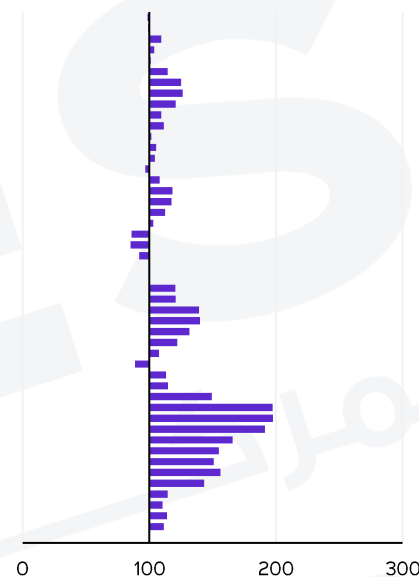
Natural Gas



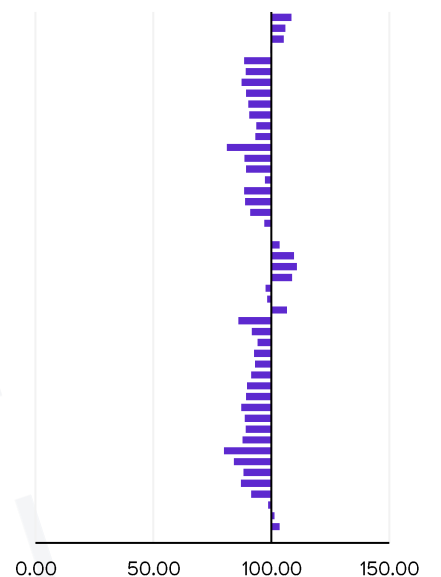
Gold



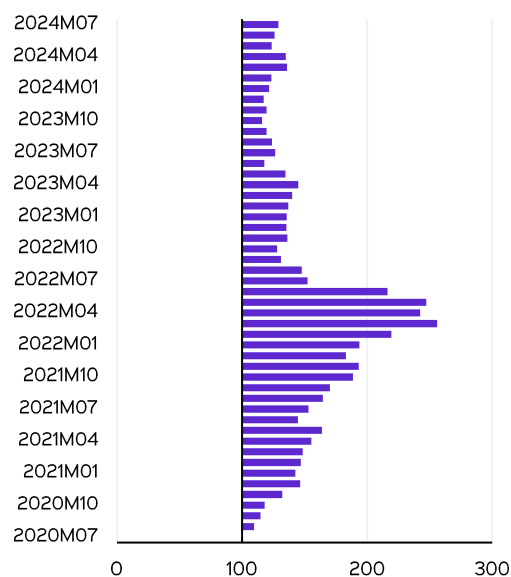
Iron ore



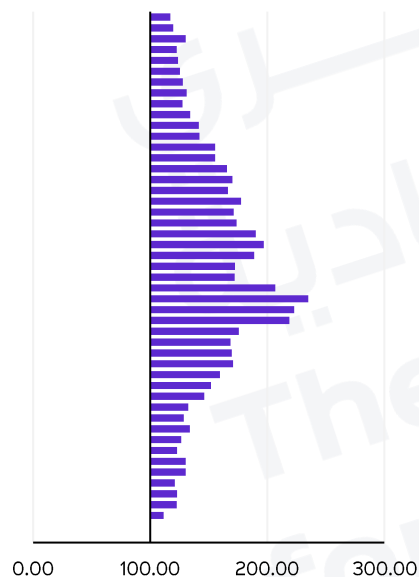
Tea



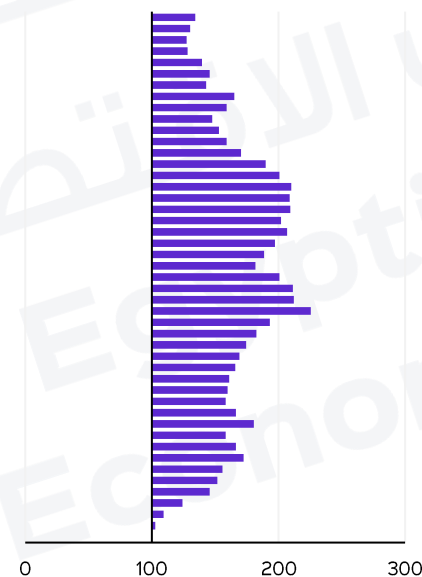
Palm oil



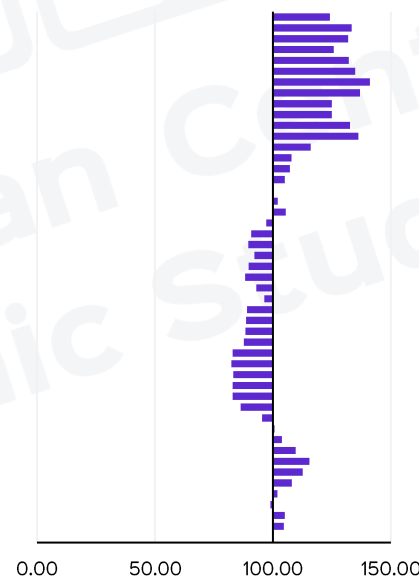
Wheat



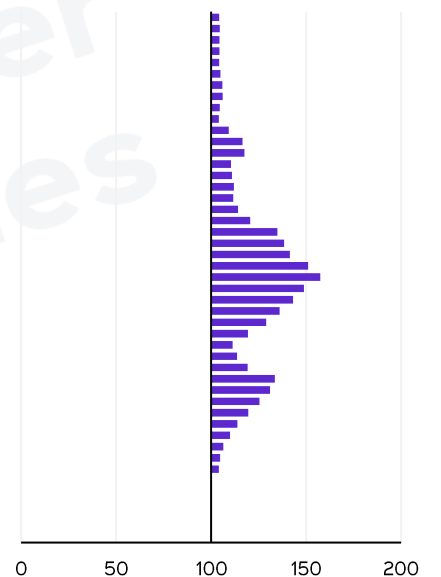
Maize



Rice

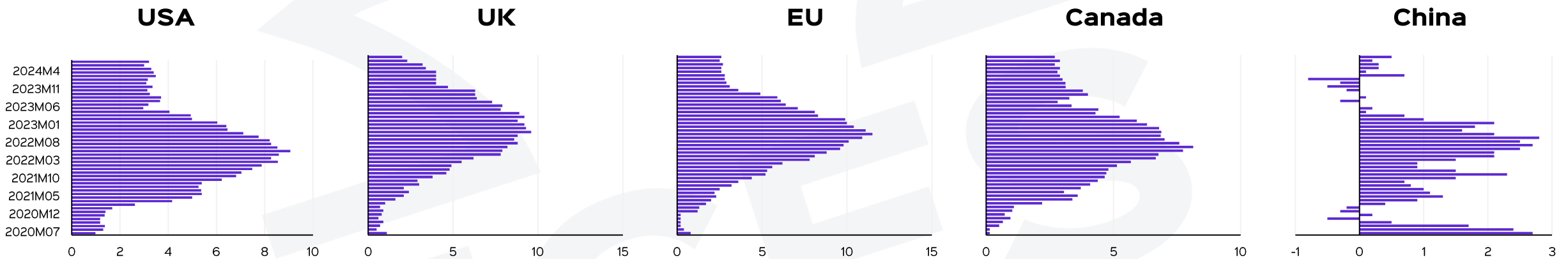


Bovine meat

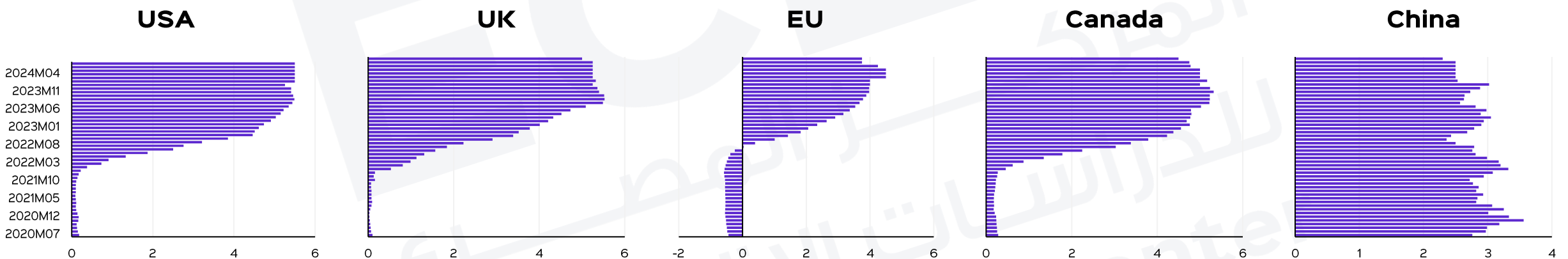


**Inflation rates in global markets are subsiding, confirming the nearby easing cycle kickOff, except for China on the back of increased pork prices.** Inflation rates keep going down gradually across global markets with some markets such as UK witnessing clear declines. The consistency of the downward trend in inflation confirms the nearby easing cycle kickoff. Central banks in EU, UK, and Canada have already cut interest rates earlier this year, while the US Fed is expected to start cutting in September, with variant expectations about number and scale of cuts. The exception to this trend is Japan, where interest rate rose for the first time in decades on the back of a healthy economy, sending ripple effects across global markets.

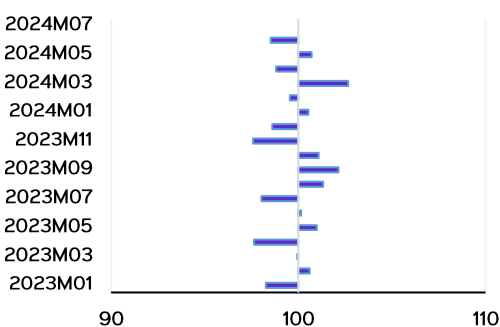
## Inflation Rate



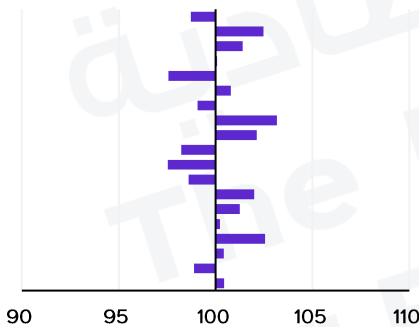
## Policy Rate



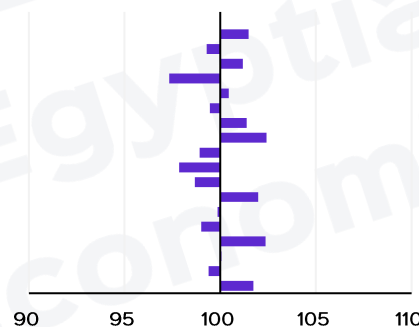
## LCU / USD



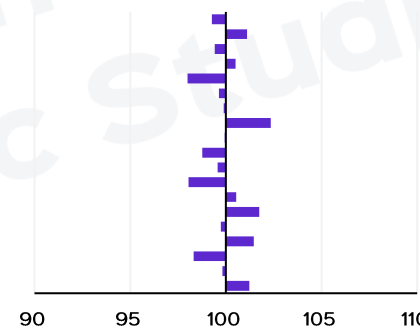
## UK Pound



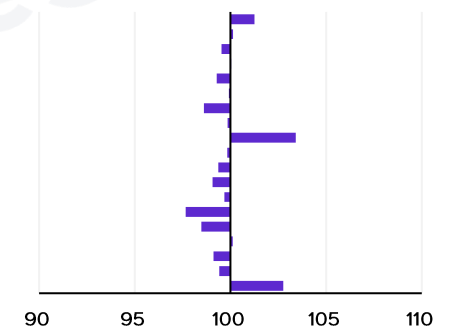
## Euro



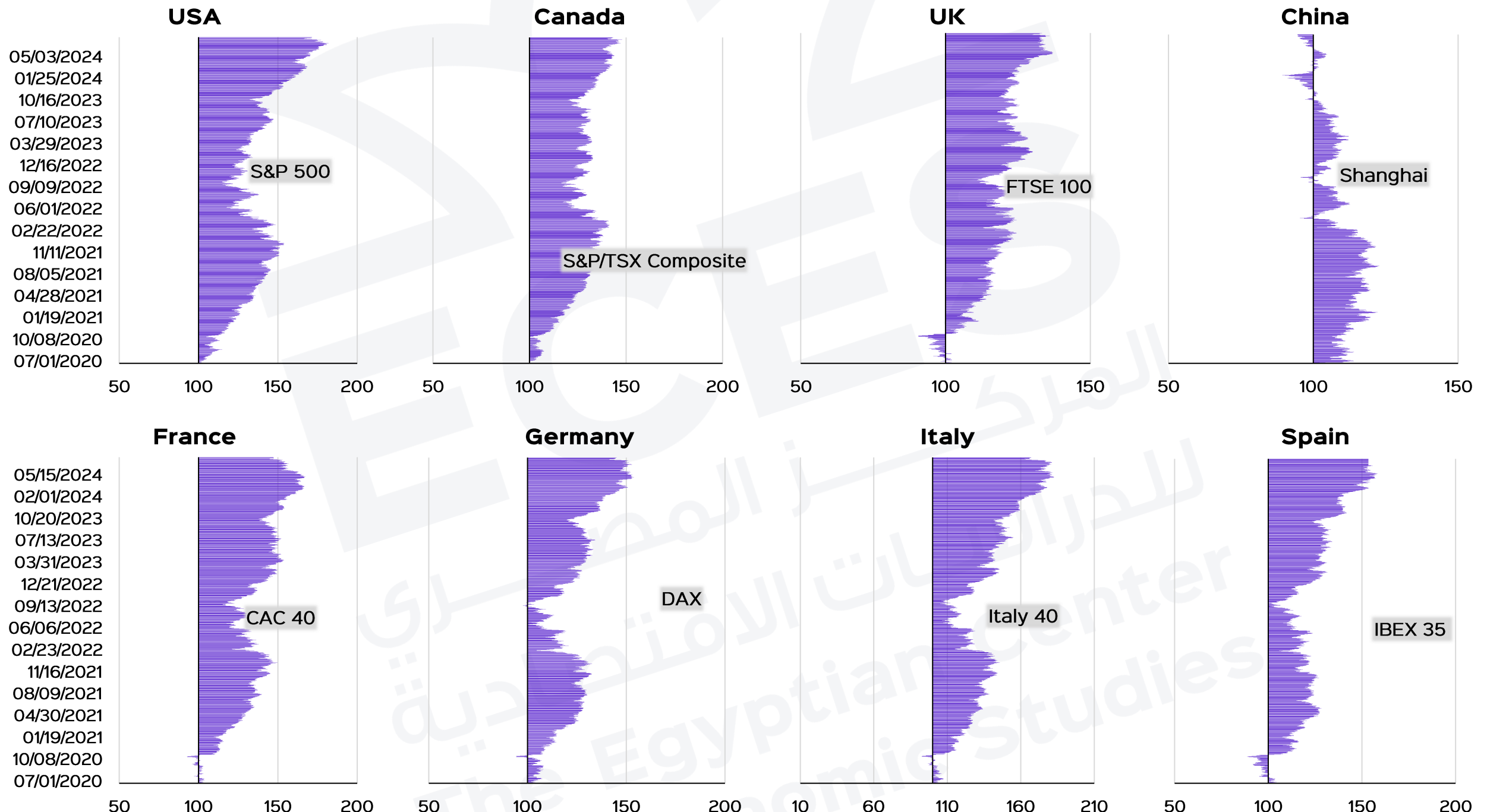
## Canadian Dollar



## Chinese Yuan



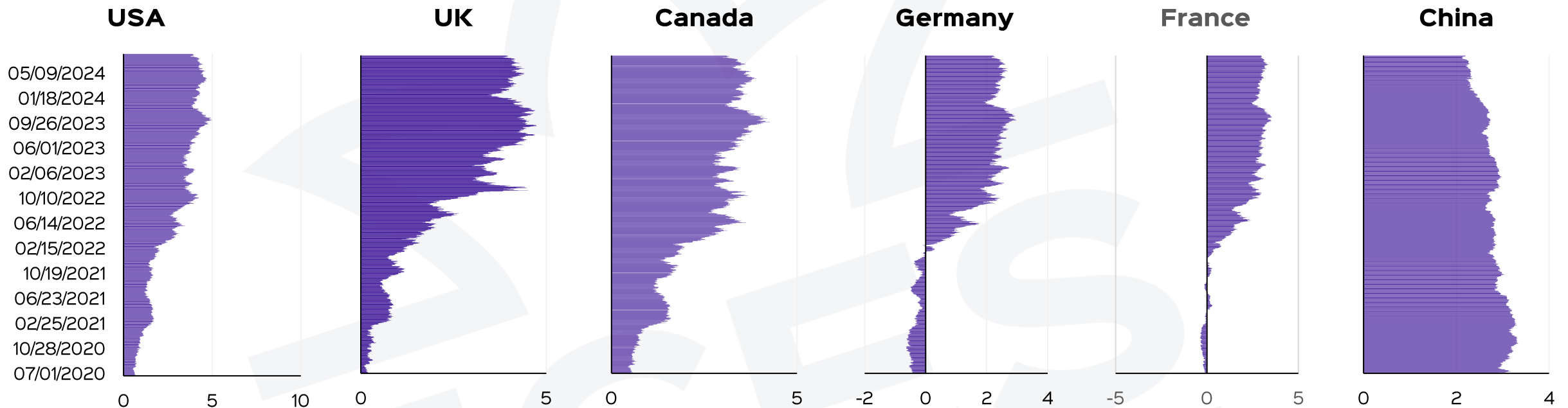
**Global stock markets have witnessed a turbulent month with some sharp declines and partial recoveries due to the unwinding of the Yen carry trade.** Global stock markets have been through a turmoil last month with some heavy losses posted in some days, especially Black Monday, due to the decision of Japan Central bank to increase interest rate for the first time in decades, causing appreciation of the Yen and forcing global investors to unwind their Yen carry trades. This was coupled with increased geopolitical tensions, increased fears of recession in the US as well as correction in AI related stocks. Most global markets have been through this rollercoaster and despite the partial recovery in most markets, investors are in a cautious mood.



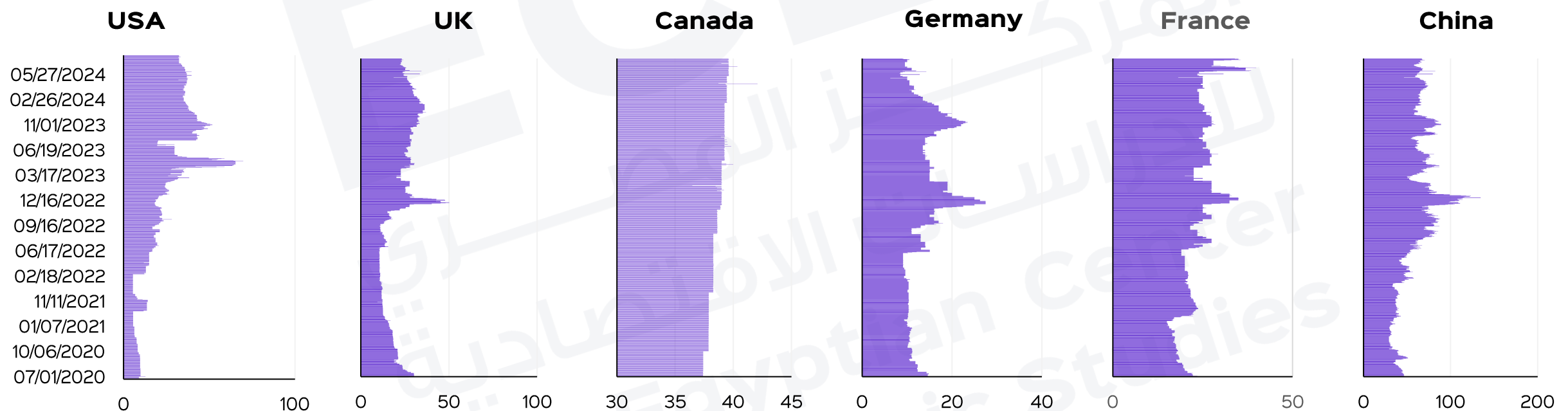


**Bond yields in global markets kept going down on the back of expected rate cuts, while CDSs increased due to increased risks in global markets.** With the easing cycle kick off confirmed and US Fed expected to start cutting in September, bond yields in global markets have kept going down in harmony with expected future low rates. While CDSs have increased due to increased risks in global markets after the lately turmoil in financial markets sparked by the unwinding of the Yen carry trade.

## 10-Year Bond Yield

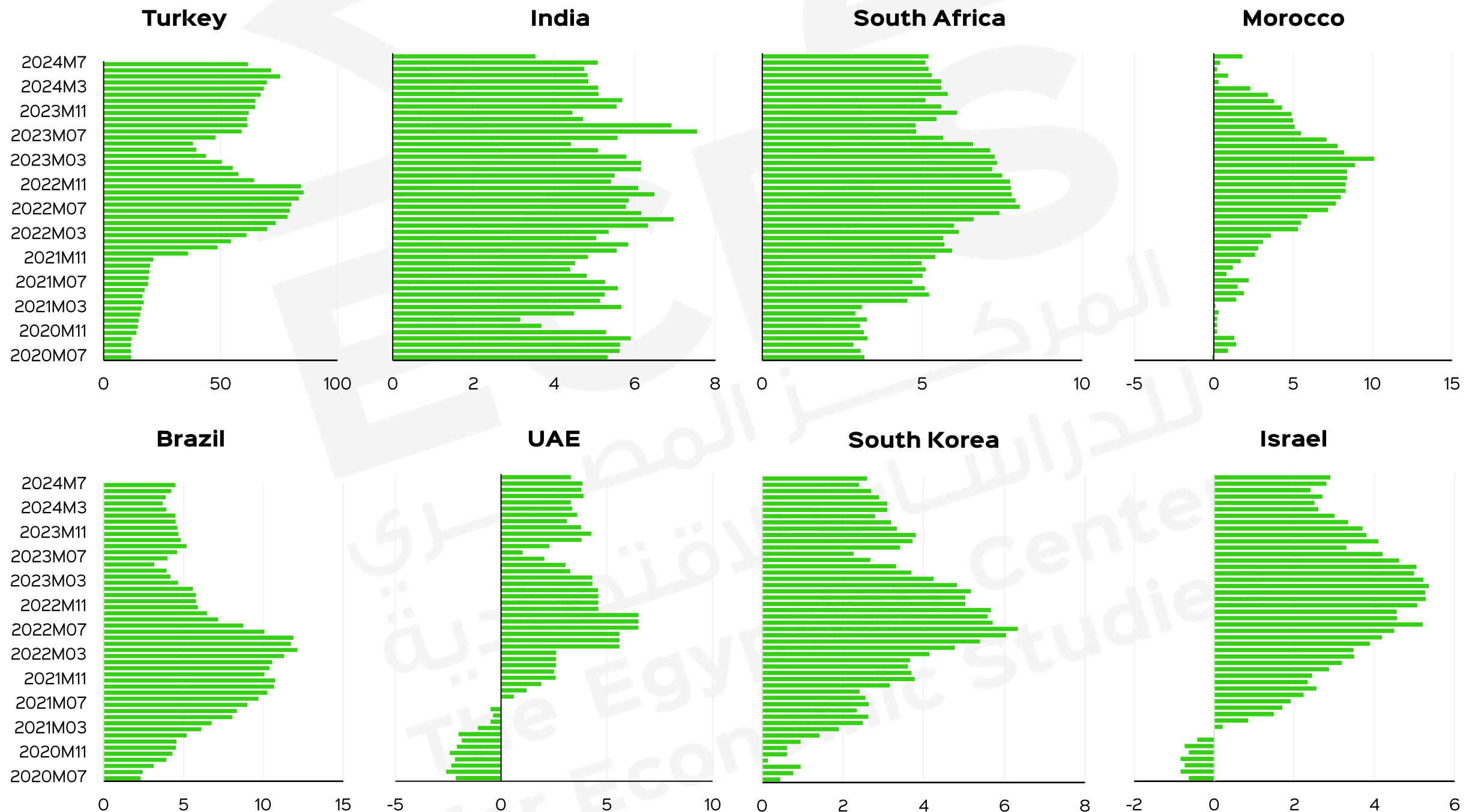


## 5-Year CDS

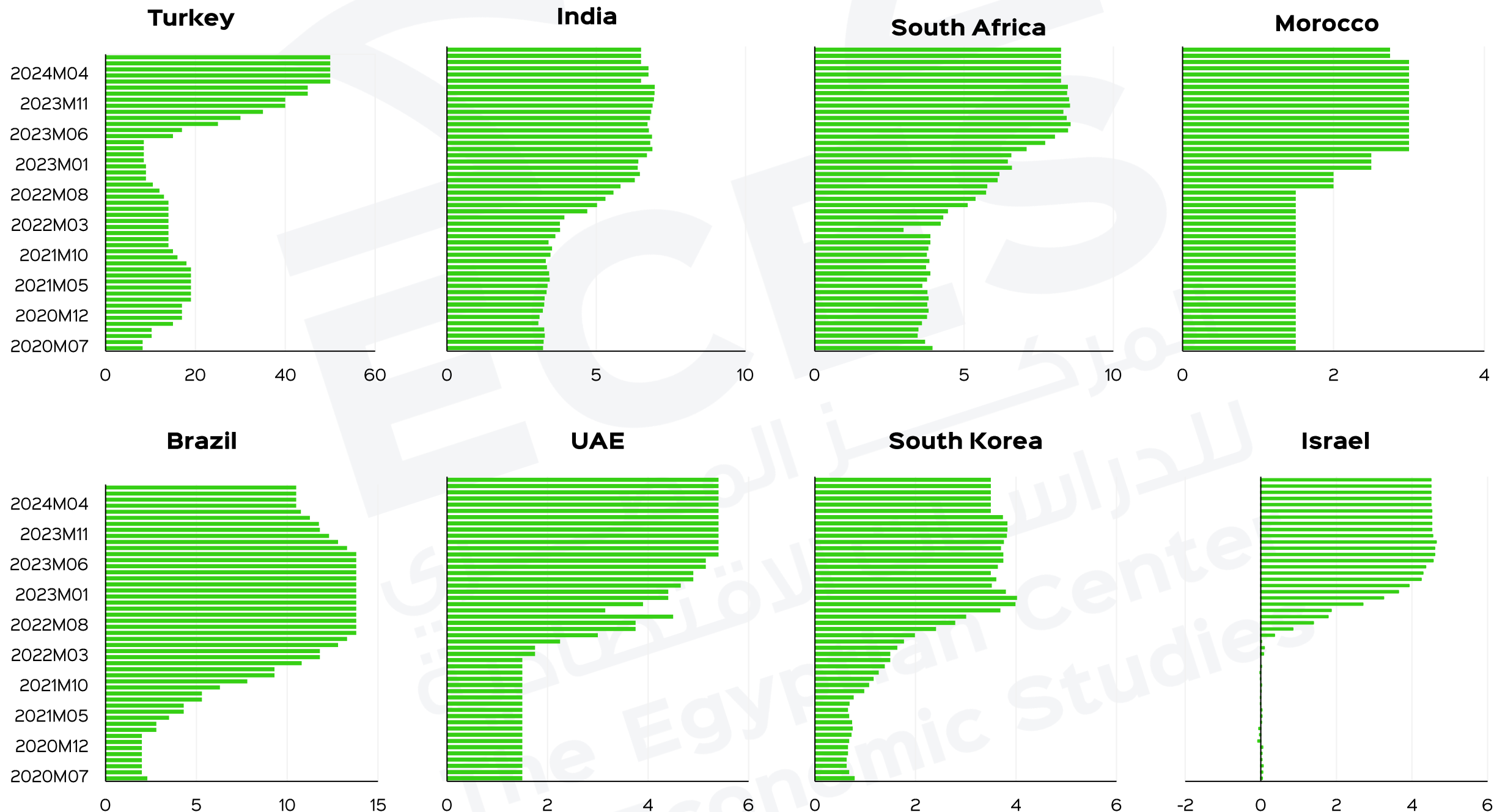


**Inflation rates in some emerging markets continued declining, while they persisted in few others yet without major spikes thanks to stabilization of commodity prices and easing cycle kickoff in sight.**

After few years of persistently high inflation in emerging markets, inflation rates started to decline in the last few months due to general stabilization of commodity prices on one hand and easing cycle nearby kickoff in global markets on the other hand. Inflation rates in Turkey, India & UAE kept their downward trend. While South Africa, South Korea and Brazil witnessed stable inflation without spikes. The exception to this is a spike in inflation rate in Morocco as prices rebounded for food and non-alcoholic beverages, yet still inflation is low and under control.

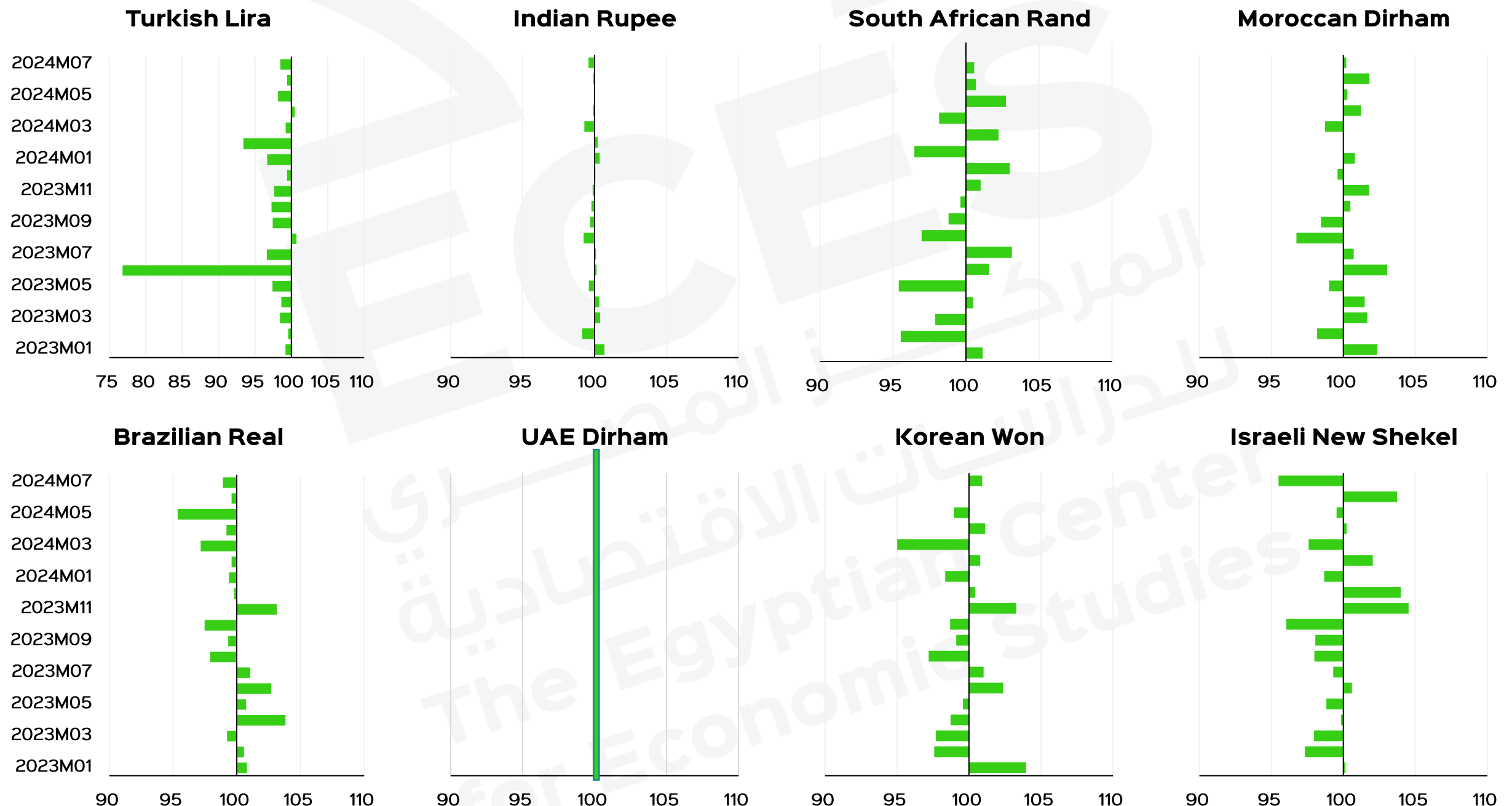


**Despite the general stability or even decline in inflation rates, Central banks in emerging markets still maintain very high interest rates to get inflation under control and protect their currencies.** The stabilization of inflation rates in emerging markets with even declines in some markets didn't 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. This is very critical after the unwinding of the Yen carry trade has affected hot money flow globally, especially emerging markets, which are more vulnerable to changes in global financial markets.

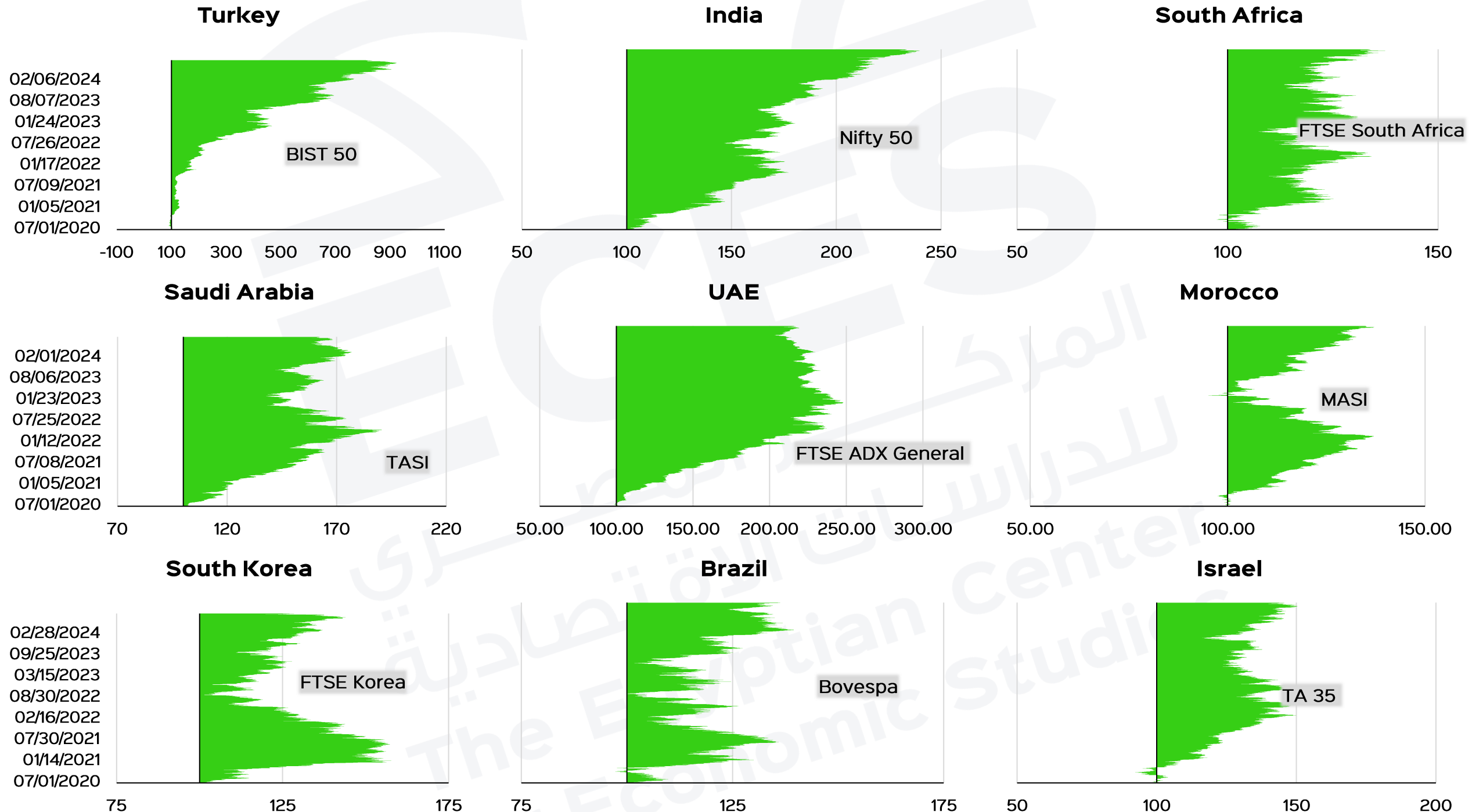




**Despite having declining inflation rates and high policy rates, pressure on emerging markets currencies have heightened due to the unwinding of the Yen carry trade.** The hike in interest rate by Central bank of Japan and appreciation of the Yen have led to the unwinding of lucrative Yen carry trade, which has negatively impacted global financial markets. Emerging markets had their fair share of the heat, where hot money had to exit partially, increasing the pressure on emerging markets currencies, which witnessed declines last month as a result. The exception is South Korea which saw the Yen appreciate given its minor dependence on hot money. The trend confirms the high vulnerability of emerging markets to stress and dynamics in global financial markets.

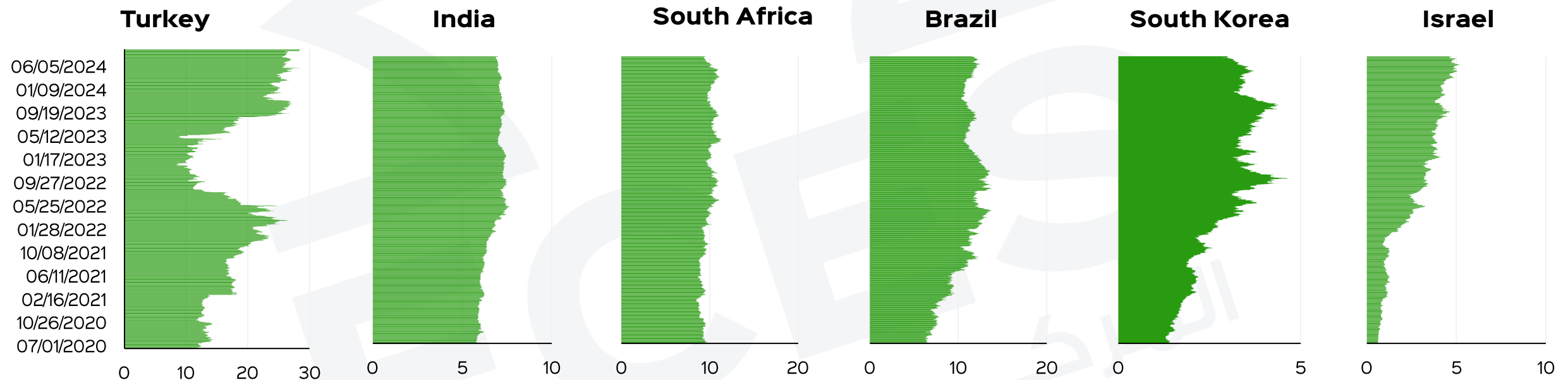


**Stock markets in emerging markets have witnessed a turbulent month with some sharp declines due to turbulence in global financial markets.** The unwinding of the Yen carry trade resulted into big turbulence in global financial markets resulting into high volatility and some sharp declines in some markets. Such turbulence had its ripple effects on emerging markets, which witnessed high volatility as well, along with some sharp declines. Such effects have been magnified in markets that are dependence on hot money, where the partial exit of hot money from such markets has caused extra stress locally in such markets, even more severe than global markets.

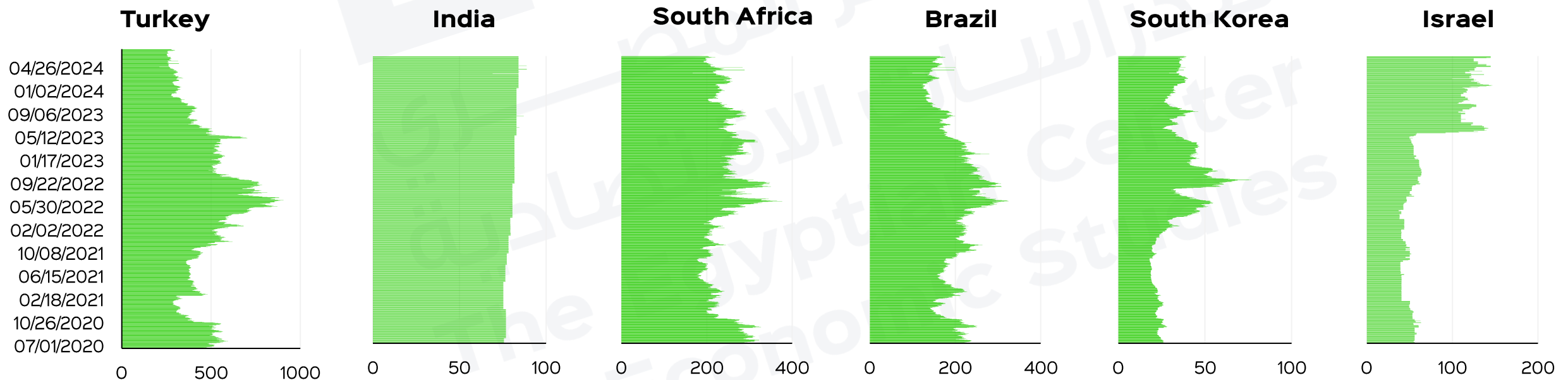


**Bond yields in emerging markets inched upwards in some markets and CDSs increased as well due to turbulent global financial markets and carry trade disruption.** The hike of interest rate in Japan and the Yen appreciation have pushed for the unwinding of the Yen carry trade, which affected negatively global carry trade and hot money flows in general. This has reflected on emerging markets which have seen their bond yields increase to be able to decrease the outflow of hot money from their markets, especially those highlight dependent on hot money. With the increased risks to the global financial system, CDSs of most emerging markets spiked reflecting the increased risk of default and thus increased cost of insuring emerging markets debt.

### 10-Year Bond Yield



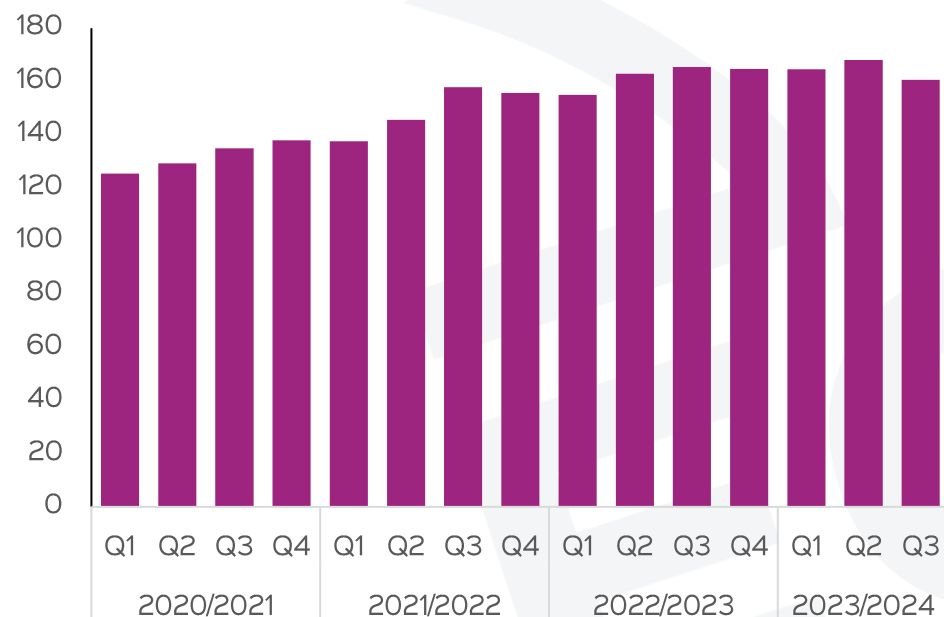
### 5-Year CDS



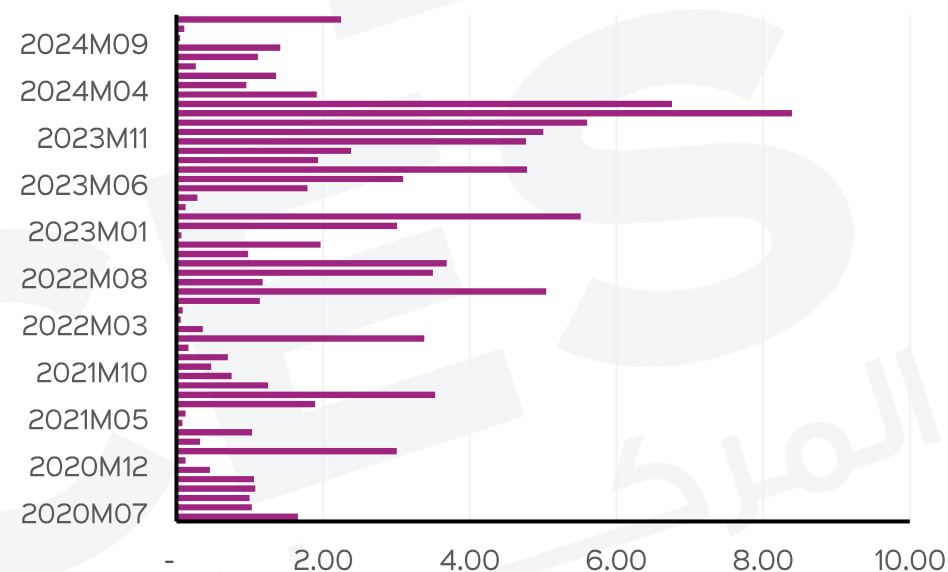


**The few mega deals lately have helped push down total external debt, yet turbulence in global financial markets and partial exit of hot money have resulted into higher bond yield and higher CDSs.** Mega deals such as Ras El-Hekma and IMF deals have resulted into a decline in the external debt outstanding, especially with the recent EU deal. Despite the improvement resulting from such mega deals, the economy is highly vulnerable to hot money movements. Thus, with the latest turbulence in global financial markets and partial exit of hot money, bond yield increased again though slightly, while CDSs spiked with the increased risk of default and thus risk of insuring outstanding debt, amid such global market dynamics.

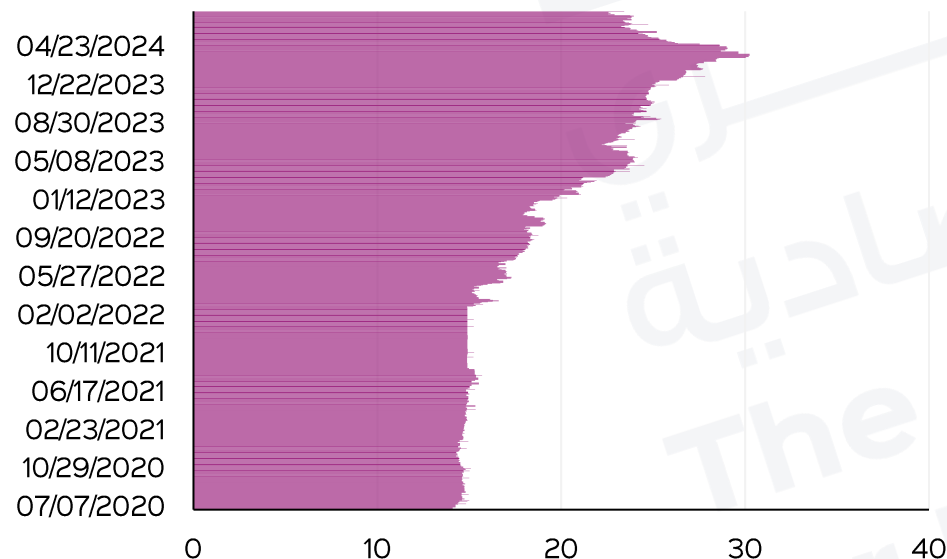
Total External Debt (bn \$)\*



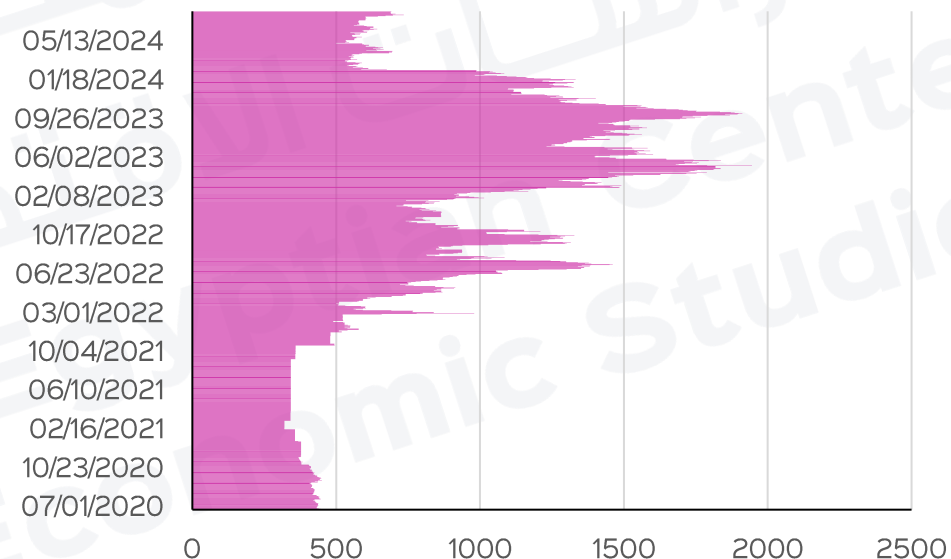
External Debt Service (bn \$)\*



Egypt 10-Year Bond Yield



5Y CDS, Egypt



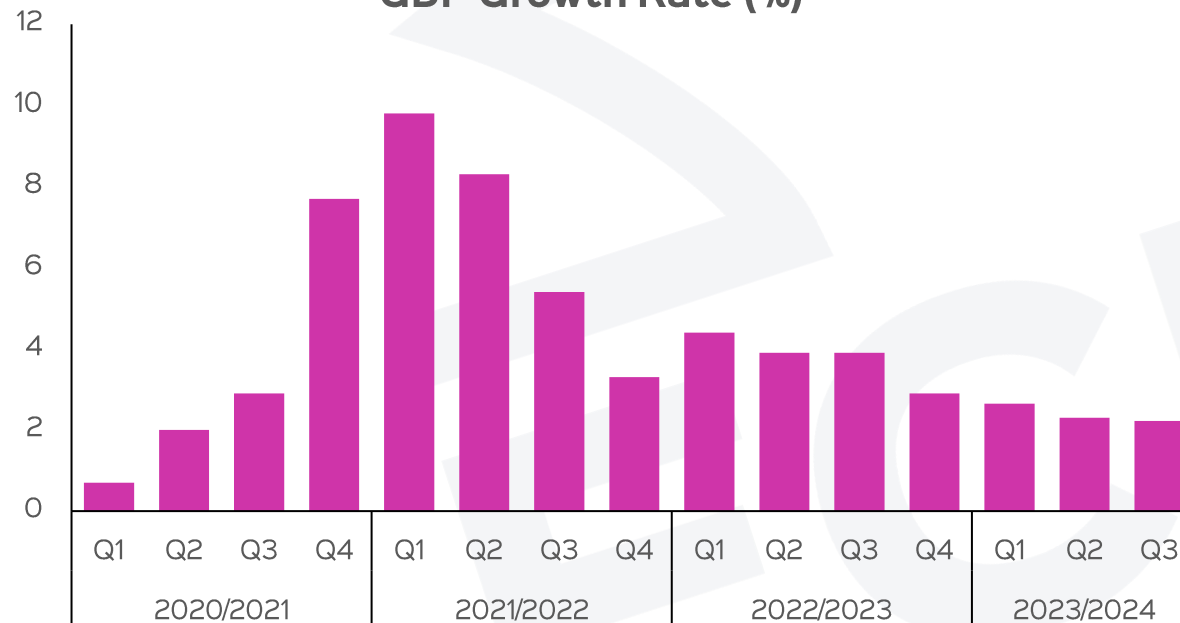
**S&P Global**  
Ratings  
**B-** Positive

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

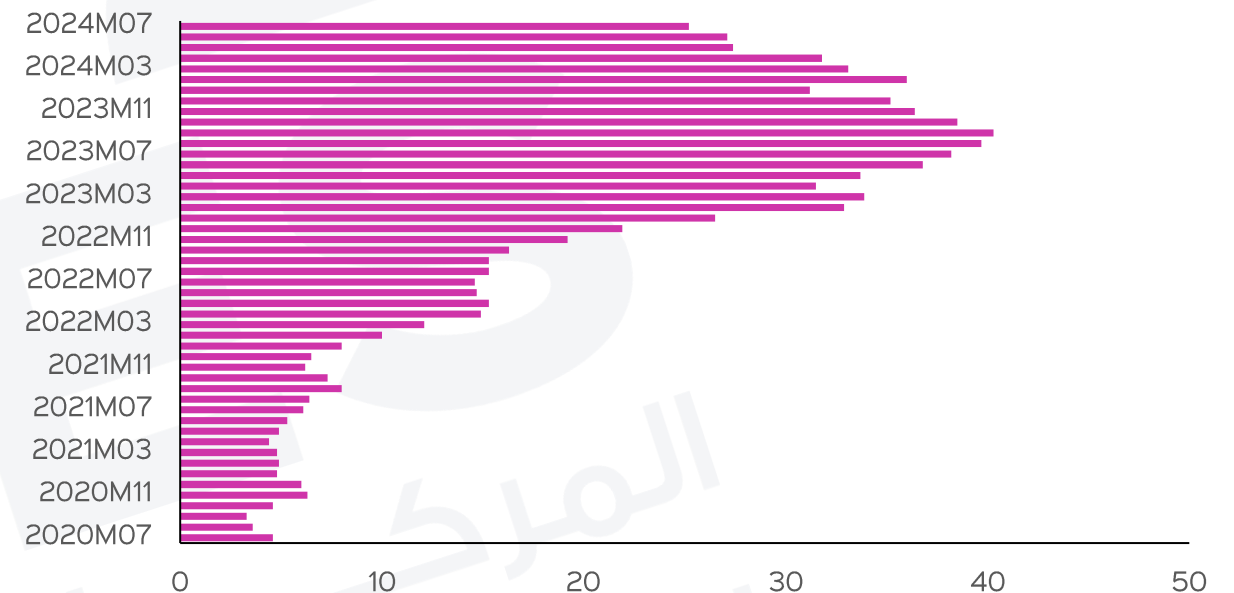
**MOODY'S**  
INVESTORS SERVICE  
**Caa1** Positive

**Inflation rate keeps going down for the fifth month in a row, thanks to aggressive monetary tightening, yet inflation is still high.** Inflation rate kept its downward trend for the fifth month in a row after spiking earlier this year. The high but declining inflation rate is driven by aggressive monetary tightening pursued through the still very high policy rate and liquidity absorption from the banking system that resulted into low growth of money supply. The mix of tools by the Central bank seems to be working well together and it is expected to continue until inflation is back under control. The high policy rate will most likely be kept as well to help protect the currency against mounting pressure from hot money partial exit.

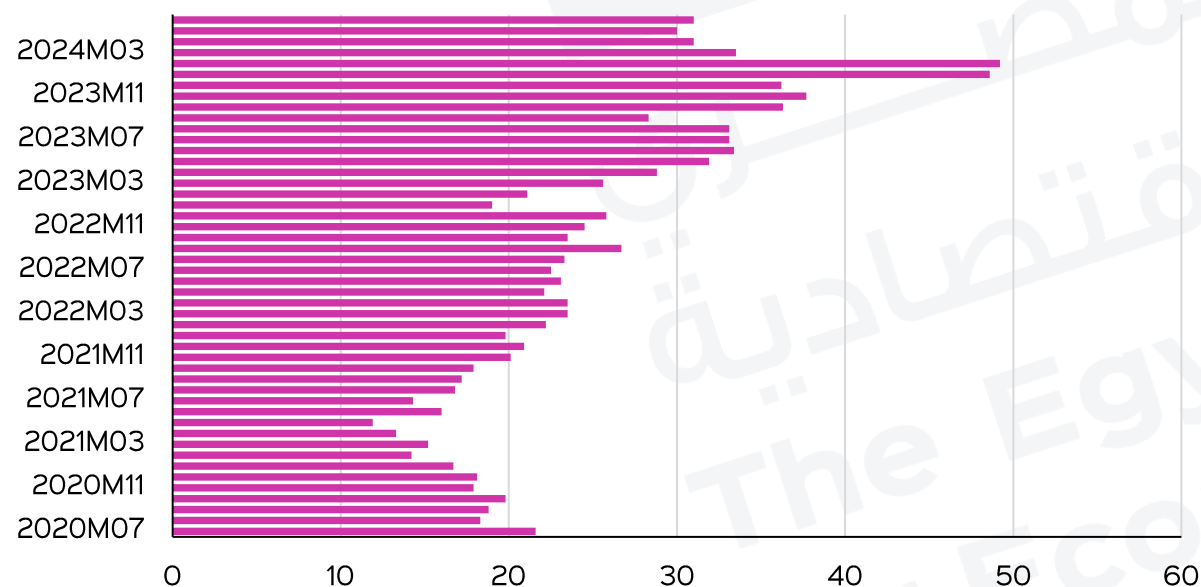
GDP Growth Rate (%)\*



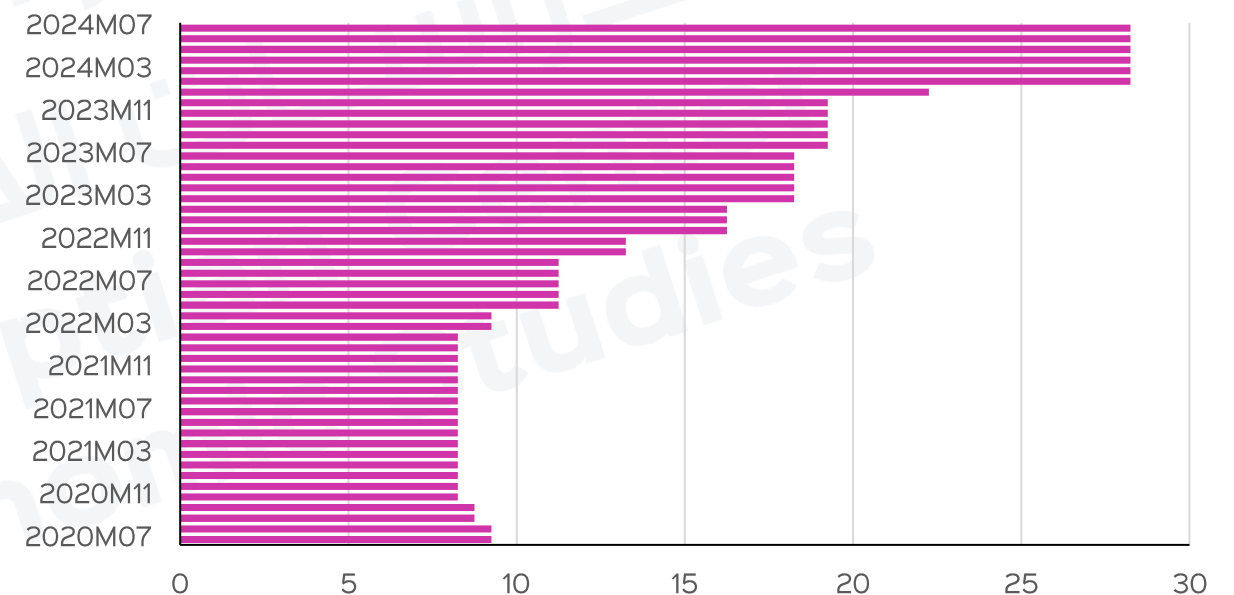
Inflation Rate (%)



Growth Rate of Money Supply (M1)\*

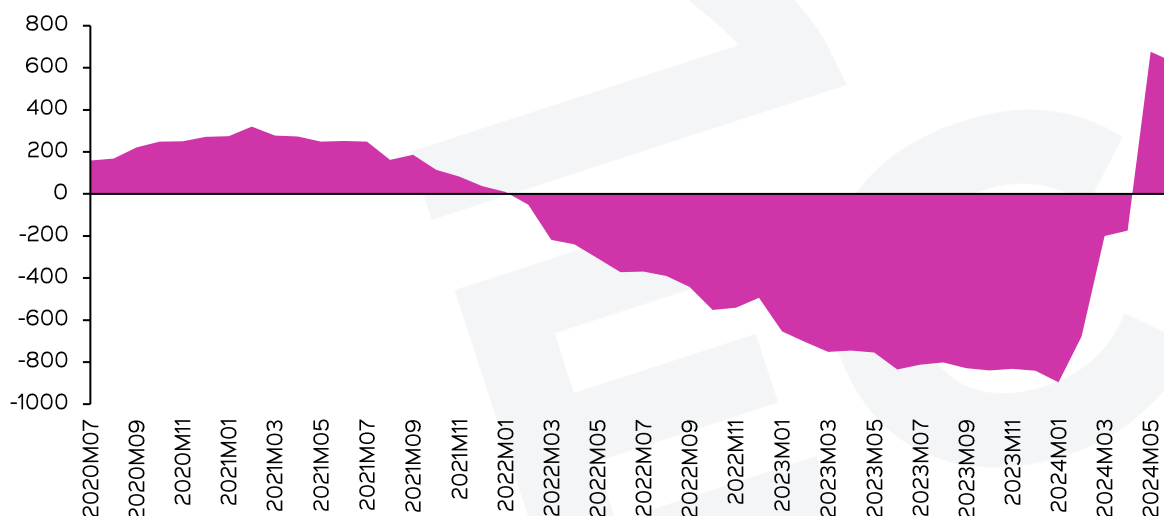


Policy Rate (%)

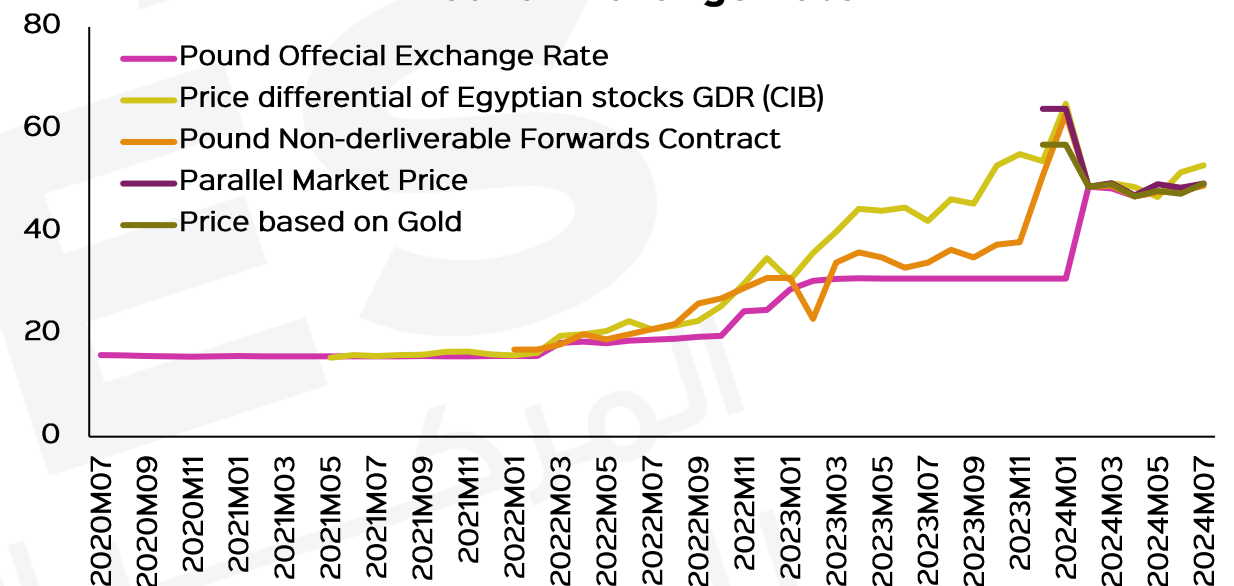


**Large foreign currency inflows from mega deals, remittances & hot money helped shore up Central bank reserves and helped maintain a unified exchange rate despite hot money partial exit.** Since the conclusion of the mega deals, large inflows of foreign currency entered the economy which increased Central bank reserves and helped turn the net foreign assets balance in the banking system into positive. Yet, lately with the turbulence in global markets and partial exit of hot money, after their large inflows post the devaluation, resulted into a decline in the net foreign assets of the banking system and a slight increase in the pound GDR exchange rate compared to the official price. Still, the Central bank has been able to maintain a unified exchange rate, so far, thanks to large inflows from mega deals and revived remittances.

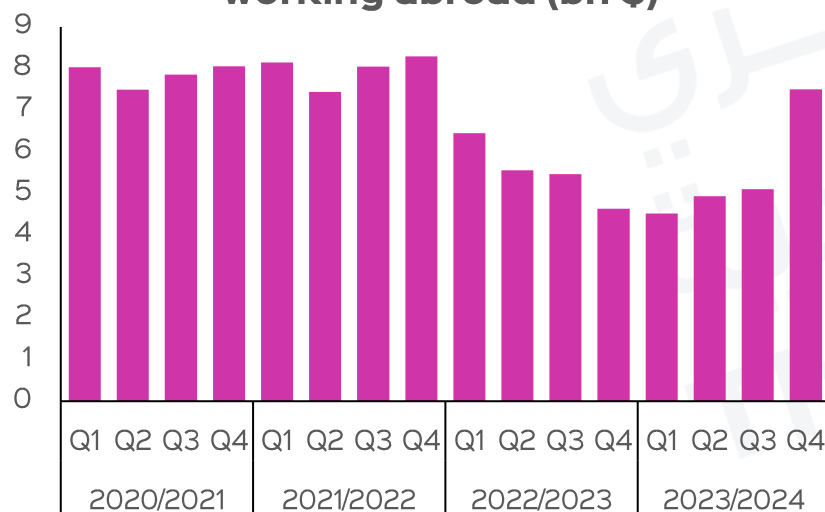
**Net Foreign Assets of the Banking System  
(bn LE)\***



**Pound Exchange Rate**



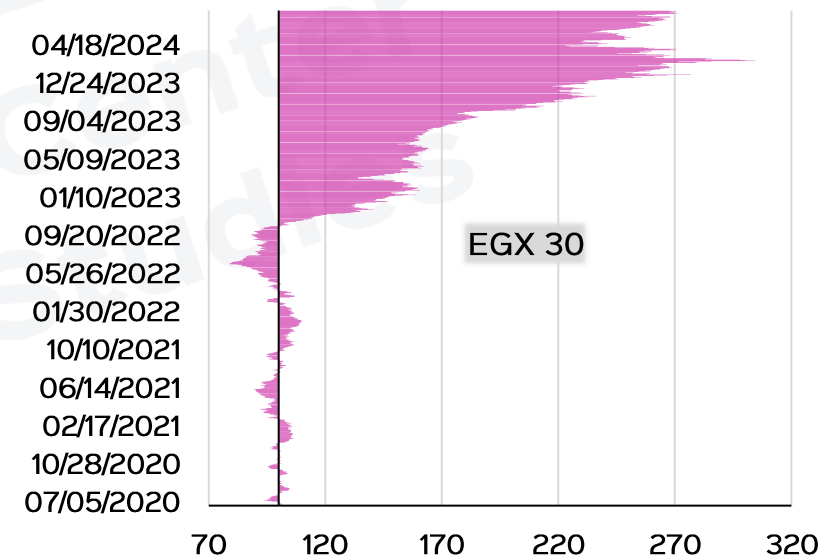
**Remittances of Egyptians  
working abroad (bn \$)**



**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.



