



Financial Markets Snapshot

Issue 9
 September 2024

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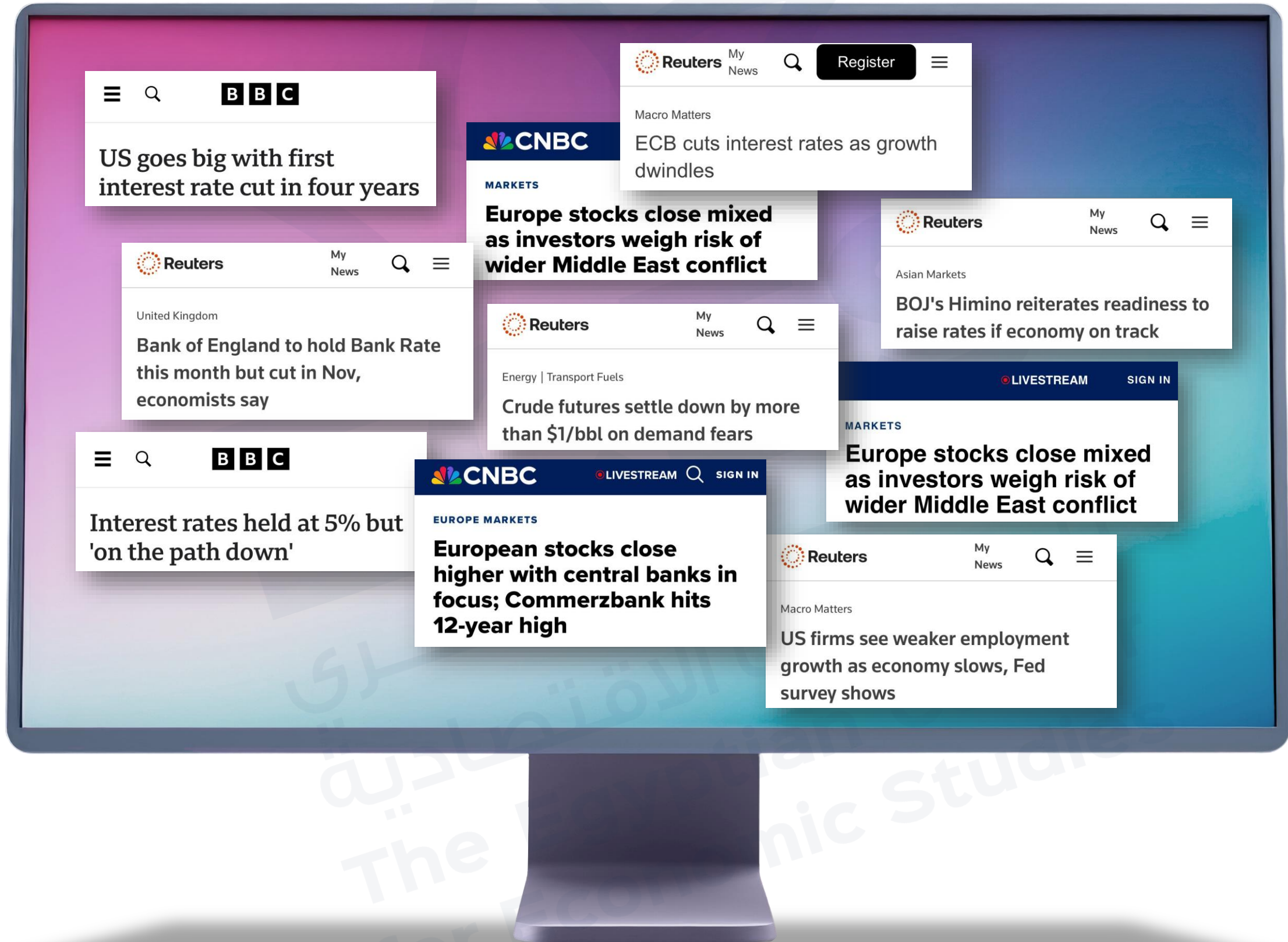
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About The Report

- 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



Analysis – Key Takeaways

Global Markets



- Most commodity prices kept stable, while few such as oil and iron decreased due to recession fears. Natural gas increased due to supply problems, while gold spiked as a result of US Fed interest rate cuts.
- Inflation rates in global markets kept going down and the US Fed has cut policy rate for the first time in couple of years with 50 bps, sending clear signal of quick monetary easing going forward, with little fears of inflation.
- Global stock markets have witnessed a turbulent month due to disappointing economic data related to job market and inflation and the suspense about the US Fed move in return.
- As a result of interest rate cuts, bond yields in global markets have declined and CDSs have followed suit.

Emerging Markets



- Inflation rates across emerging markets have declined thanks to stabilization in commodity prices.
- With the decline in inflation rates, some Central banks in emerging markets such as UAE cut interest rates while others still maintain very high policy rates, yet with the expectation to start cutting soon.
- Most emerging markets currencies gained against the US Dollar as the US Fed cut interest rates and pressure on emerging market currencies subsided.
- Mirroring global markets, stock markets in emerging markets have witnessed quite a turbulent month with the added risk of heightened global geopolitical tensions.
- Bond yields and CDSs inched upwards due to heightened global geopolitical risks as well as economic uncertainty.

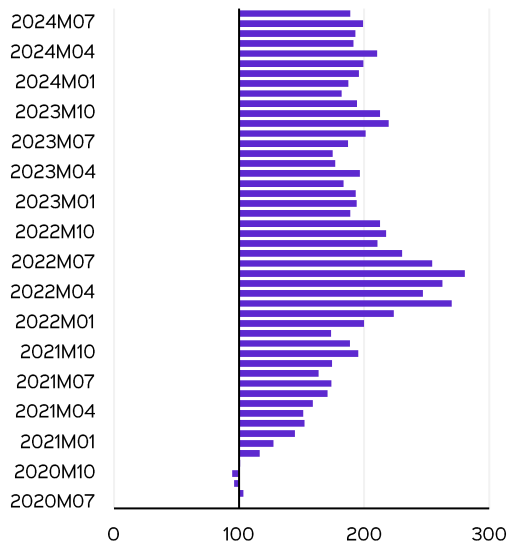
Egyptian Local Market



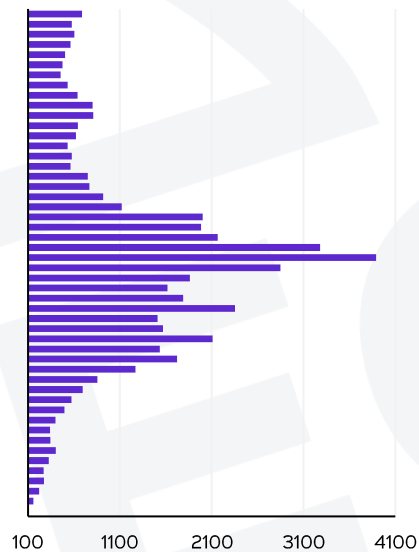
- The mega deals such Ras El-Hekma and IMF deals, concluded earlier this year, have helped decrease total external debt, yet still external debt service due next year is sizable, which resulted into high bond yields especially with Yen carry trade unwinding.
- After few months of declining trend, inflation rate reversed the trend and inched upwards due to the new reforms enacted, while growth in money supply slowed down again but still couldn't overshadow the inflationary effect of reforms enacted. Central bank is still following monetary tightening with liquidity absorption and high policy rate.
- Despite global markets turbulence and regional war, Central bank foreign currency reserves and net foreign assets in the banking system inched upwards, which reflected into a stable and unified exchange rate in the market.

Most commodity prices kept stable keeping the trend, while few such as oil, natural gas gold and iron witnessed some divergence due to changes in economic outlook and geopolitical tensions. Most commodity prices kept stable for the third months in a row keeping the stable trend with no major spikes or declines. The expectation to this trend is limited to few commodities. Due to the economic slowdown in the US and recession fears, demand for oil declined pushing down its price. Same applies for iron ore. While the cutting of interest rate by the US Fed has pushed gold upwards, besides the global geopolitical tensions that is increasing gold price as well as natural gas price.

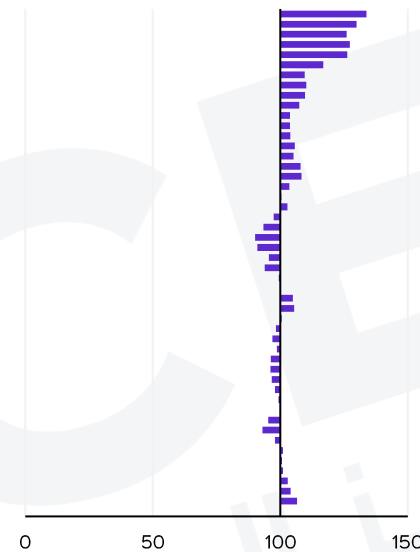
Crude Oil, Brent



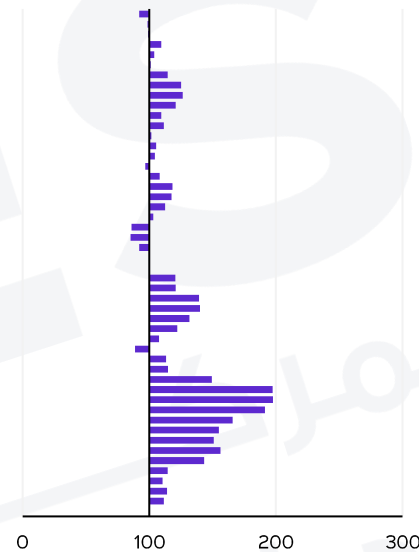
Natural Gas



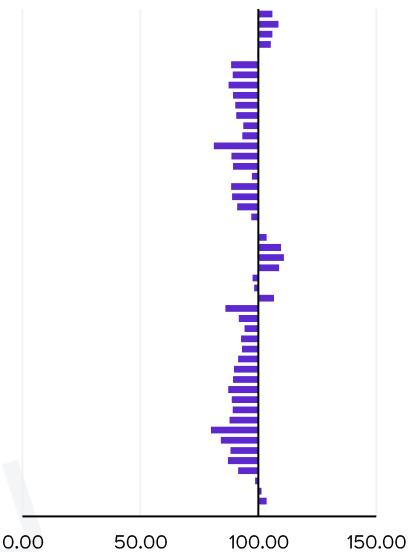
Gold



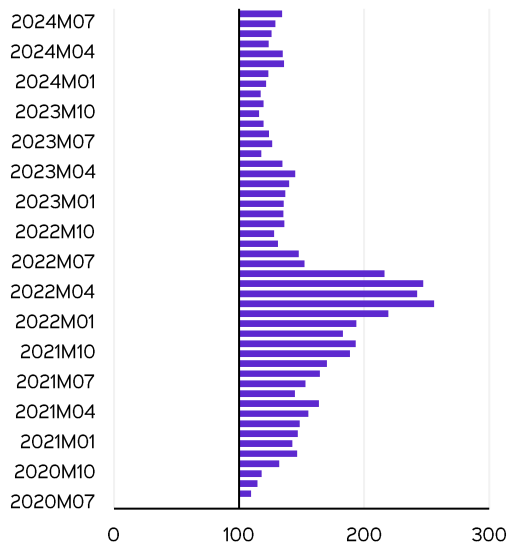
Iron ore



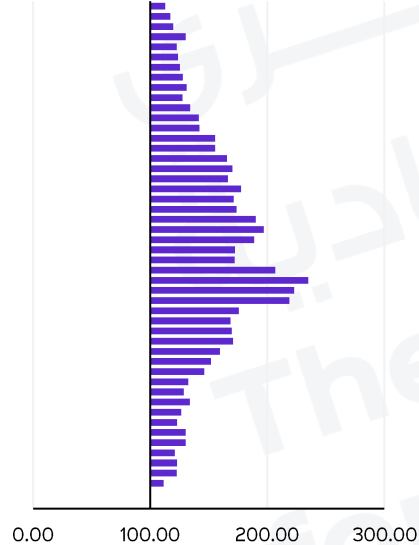
Tea



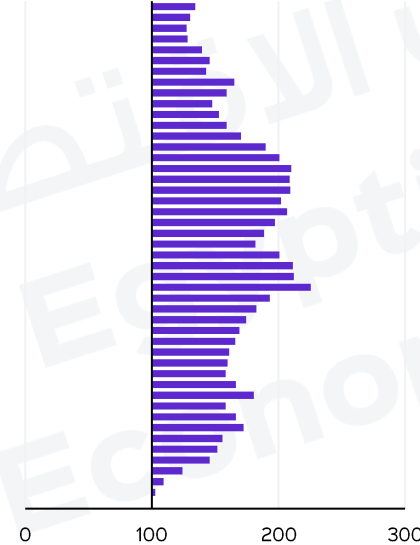
Palm oil



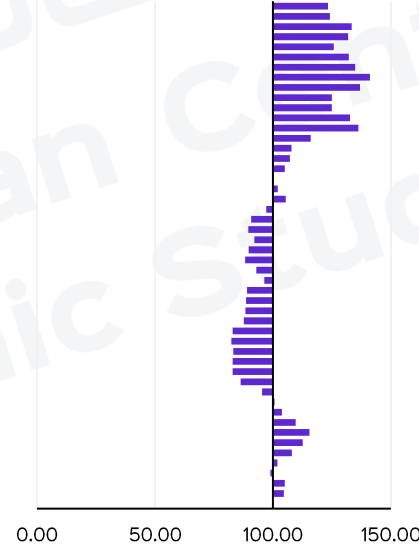
Wheat



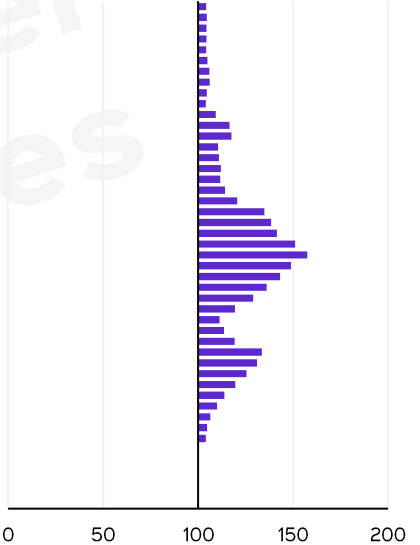
Maize



Rice

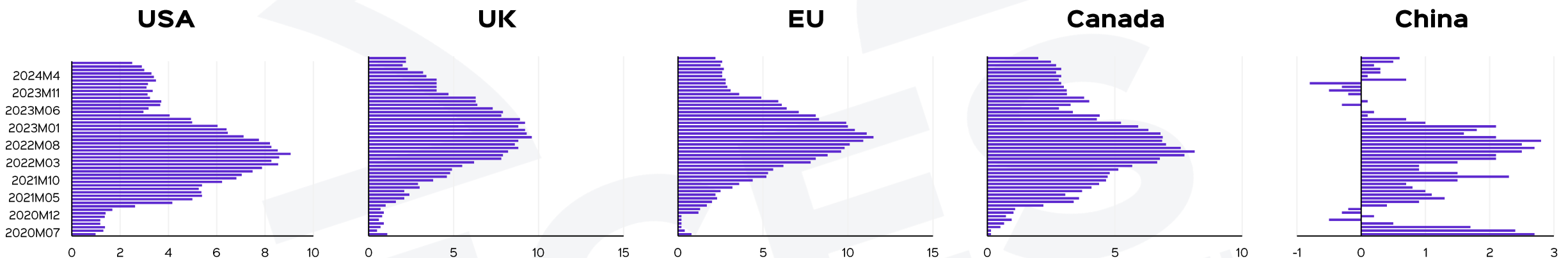


Bovine meat

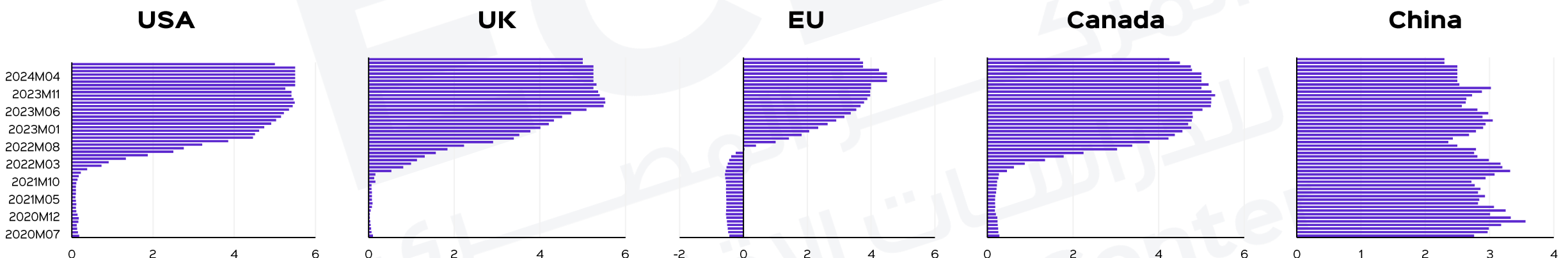


Inflation rates in global markets kept going down and the US Fed has cut policy rate for the first time in couple of years with 50 bps, sending clear signal of quick monetary easing. Inflation rates are going down consistently across global markets for few months in a row. With consistent decline in inflation rate, the US Fed has finally cut down interest rate by 50 basis points. Such aggressive cutting has made it clear to market that inflation is not a concern anymore and on its way to the target, while the US Fed is concerned about the slowdown of the economy, thus monetary easing will progress quickly. UK and EU kept interest rates at the same level after earlier cuts, leading to gains of global currencies against the US Dollar.

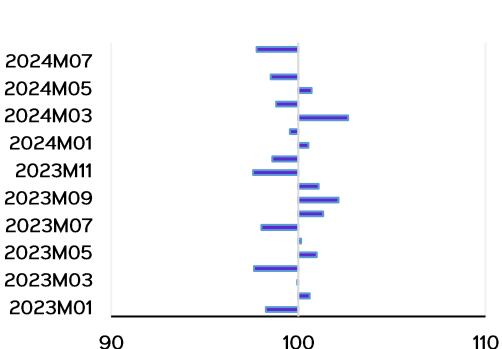
Inflation Rate



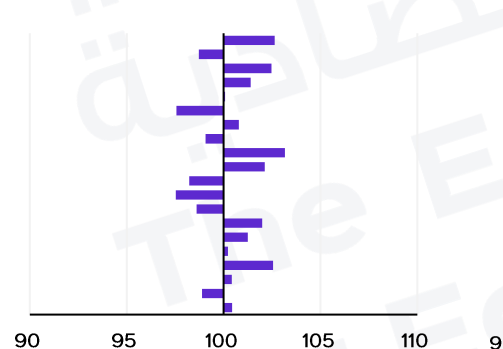
Policy Rate



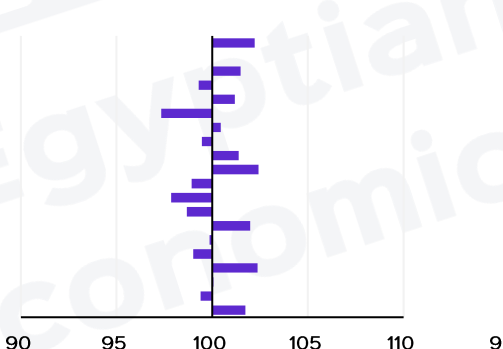
LCU / USD



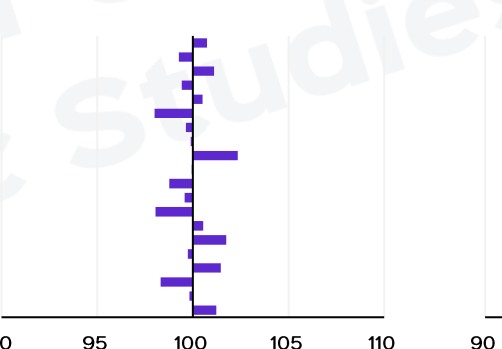
UK Pound



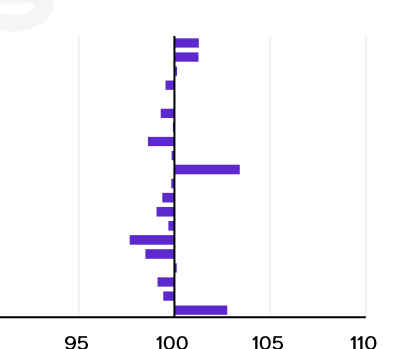
Euro



Canadian Dollar



Chinese Yuan



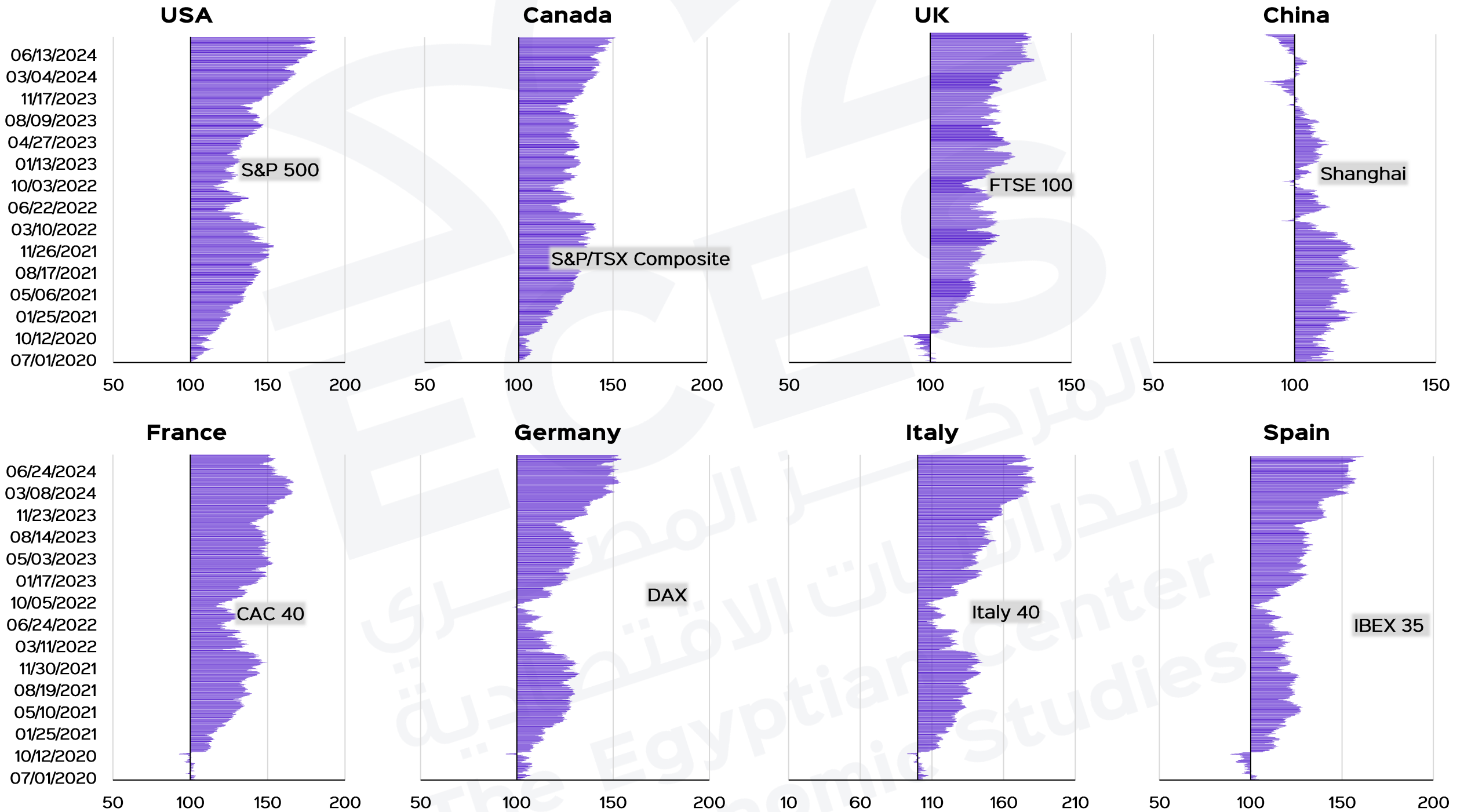
Commodity Markets
Main Rates

Stock Market

Bond Market

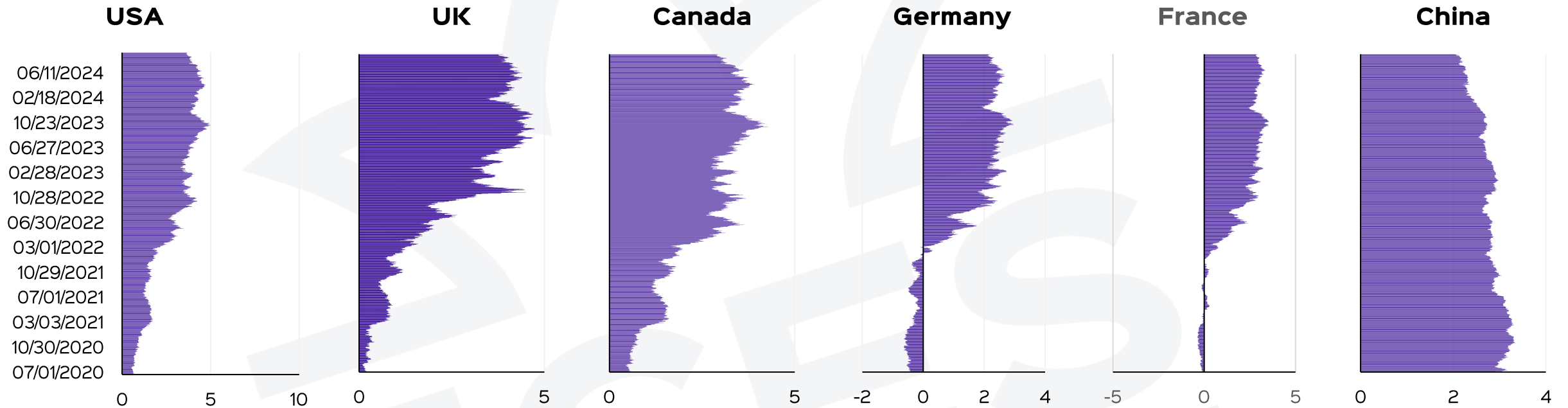
Global stock markets have witnessed another turbulent month due to disappointing economic data, suspense about the US Fed move and fears of recession. The speculation about the US Fed move and the timing and magnitude of the interest rate cut has resulted into big volatility in the market. This was coupled with disappointing and in some cases confusing economic data about the US job market and inflation, which sparked recessionary fears. Such confusion has cascaded across global stock markets which witnessed very high volatility during the last month as a result.

Commodity Markets
Main rates
Stock Market
Bond Market

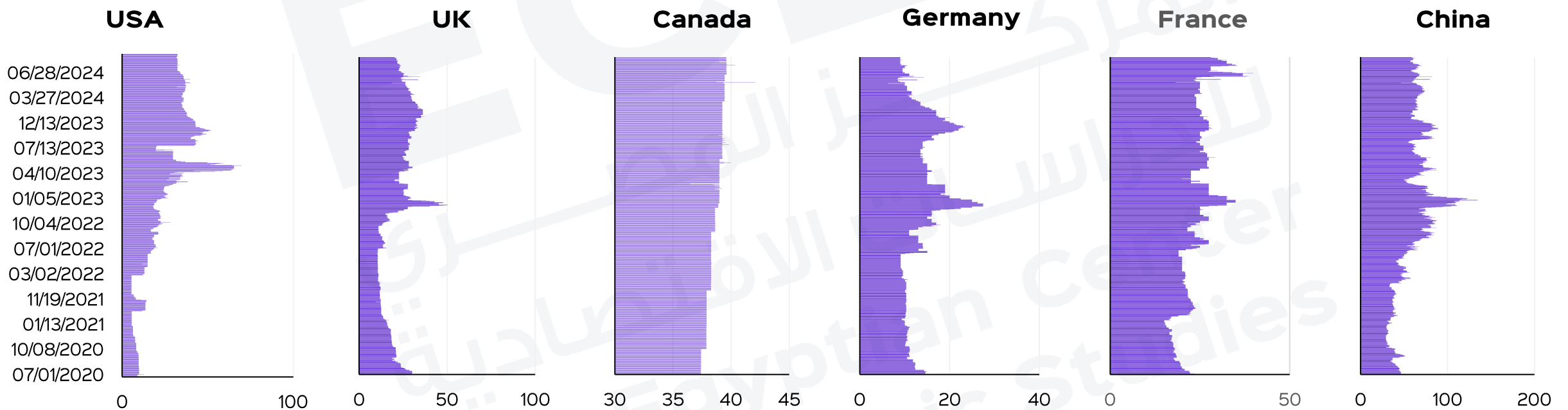


Bond yields in global markets have declined due to interest rate cuts and CDSs have followed suit as cost of debt declined. With the jumbo interest rate cut by the US Fed and earlier cuts by ECB and Bank of England, global markets have started effectively on the easing cycle, while reflected into lower bond yields across global markets. Besides, CDSs have generally declined a bit or at least stabilized as cost of debt declined and hence risk of default, with the start of the easing cycle.

10-Year Bond Yield

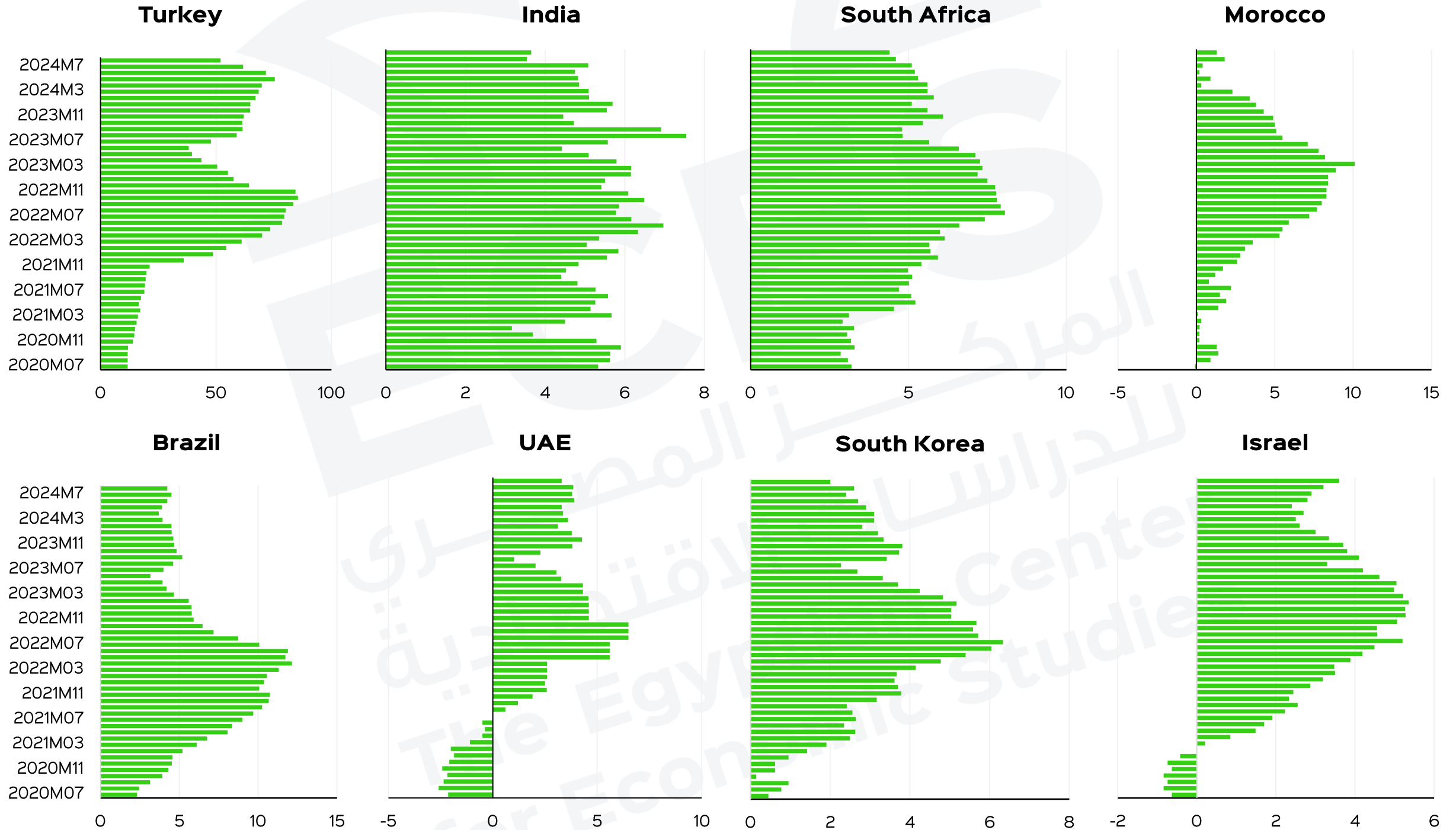


5-Year CDS



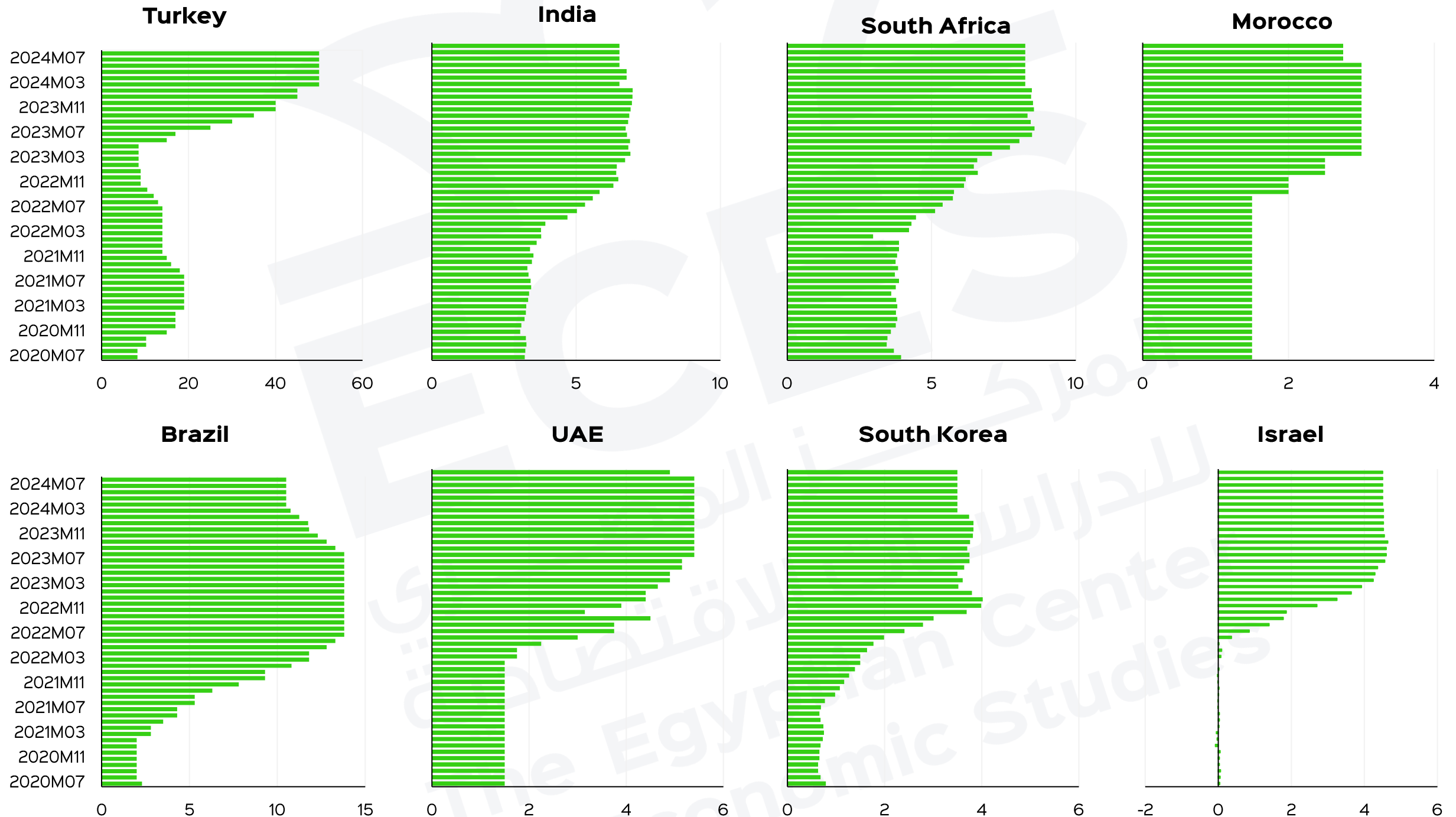
Commodity Markets
Main Rates
Stock Market
Bond Market

Inflation rates across emerging markets have witnessed a general decline thanks to stabilization in commodity prices and tight monetary policy. After an extended period of high inflation across emerging markets, inflation rates declined for the second month in a row across different emerging markets thanks to stabilization in commodity prices. In addition, the tight monetary policy adopted in most emerging markets have helped contain inflation. Yet the remarkable point is the start of inflation rates decline in emerging markets lately, few months after the trend started in global markets.



With the decline in inflation rates, some Central banks in emerging markets such as UAE cut interest rates while others still maintain very high interest, yet with the expectation to follow suit and start cutting soon. The decline in inflation rates in emerging markets started to reflect into policy rate cuts as evidenced in the case of UAE and other Gulf countries which have mirrored the US Fed cut. Other Central banks in emerging markets still maintain very high policy rates to ensure inflation gets really under control and within the targeted levels as well as to protect their currencies, yet with the expectation to start on easing soon, probably by end of year.

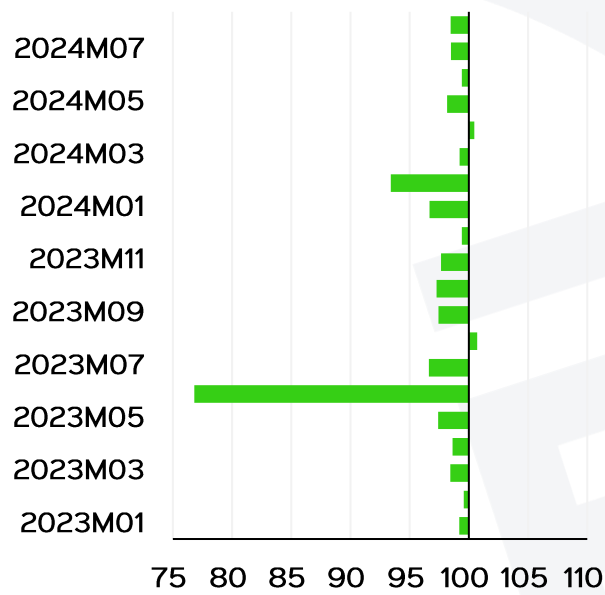
Inflation Rate
Policy Rate
LUC/UDC
Stock Market
Bond Market



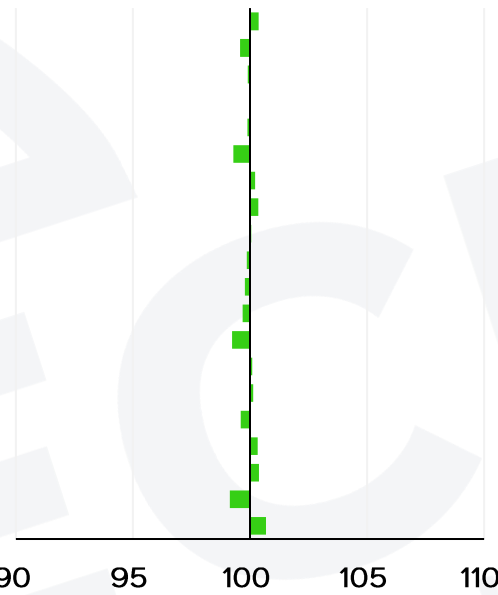
Pressure on emerging markets currencies subsided as inflation rates get contained and US Fed cut rates resulting into gains for most of emerging markets currencies. Emerging markets currencies have been under pressure for extended period of time, losing value against the strong US Dollar consistently. Yet, with the official kickoff of the easing cycle by the US Fed jumbo rate cut, the US Dollar got weaker, giving room for emerging markets currencies to breathe. Such monetary easing globally coupled with lower inflation rates have resulted into less pressure on emerging markets currencies and some appreciation against the US Dollar.

Inflation Rate
Policy Rate
LUC/UDS
Stock Market
Bond Market

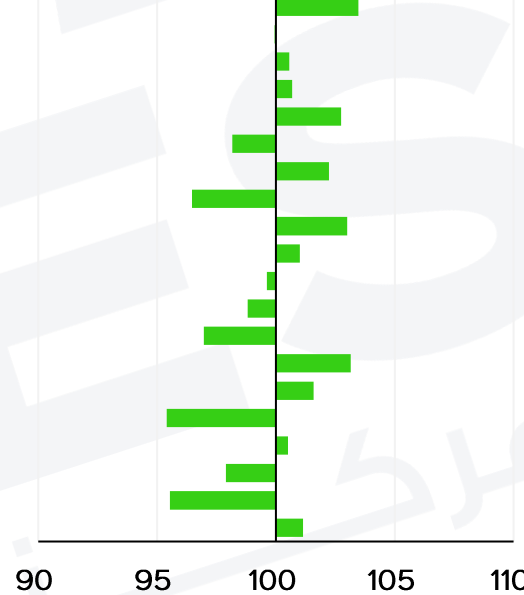
Turkish Lira



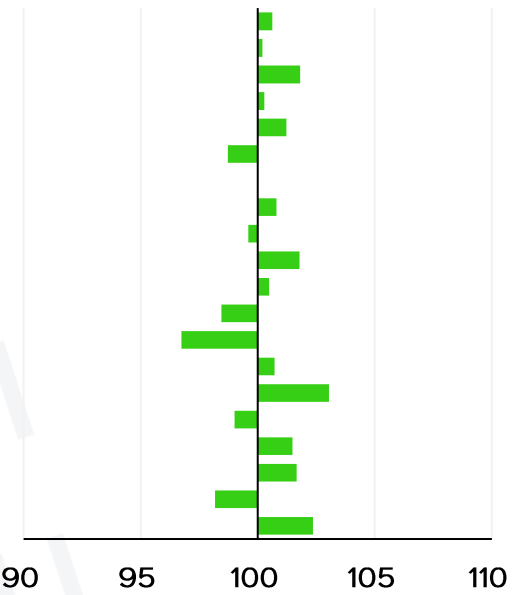
Indian Rupee



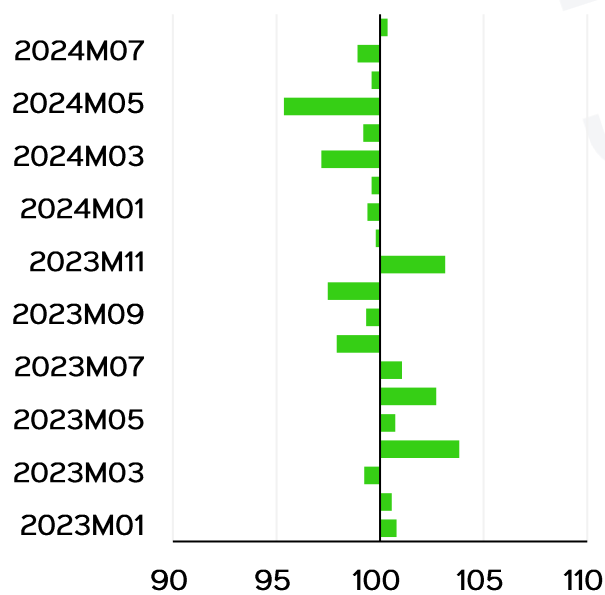
South African Rand



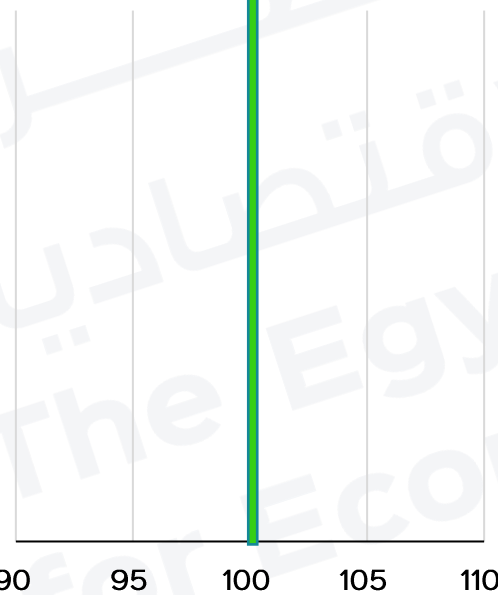
Moroccan Dirham



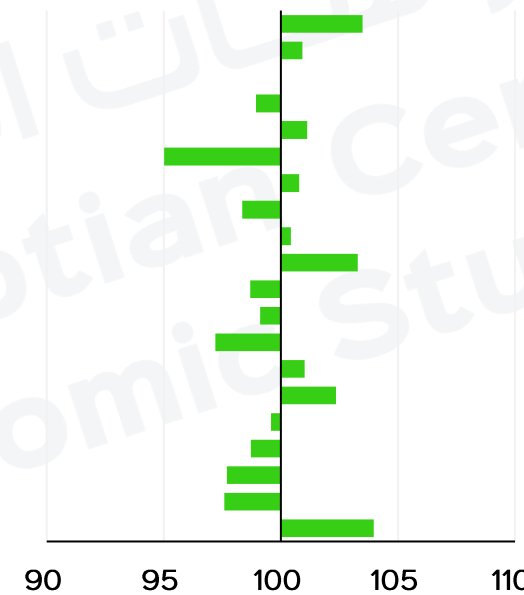
Brazilian Real



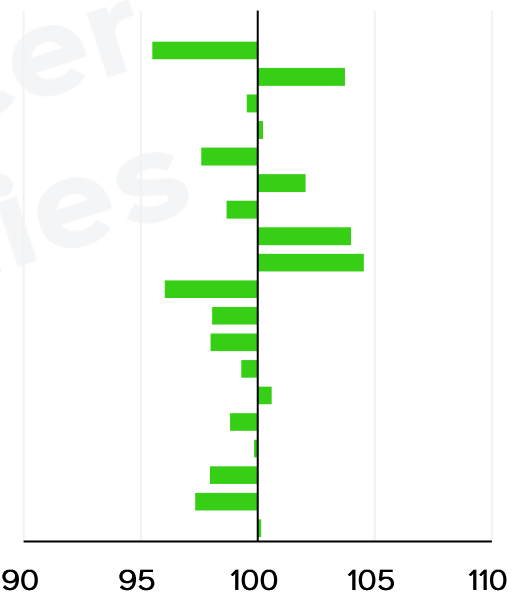
UAE Dirham



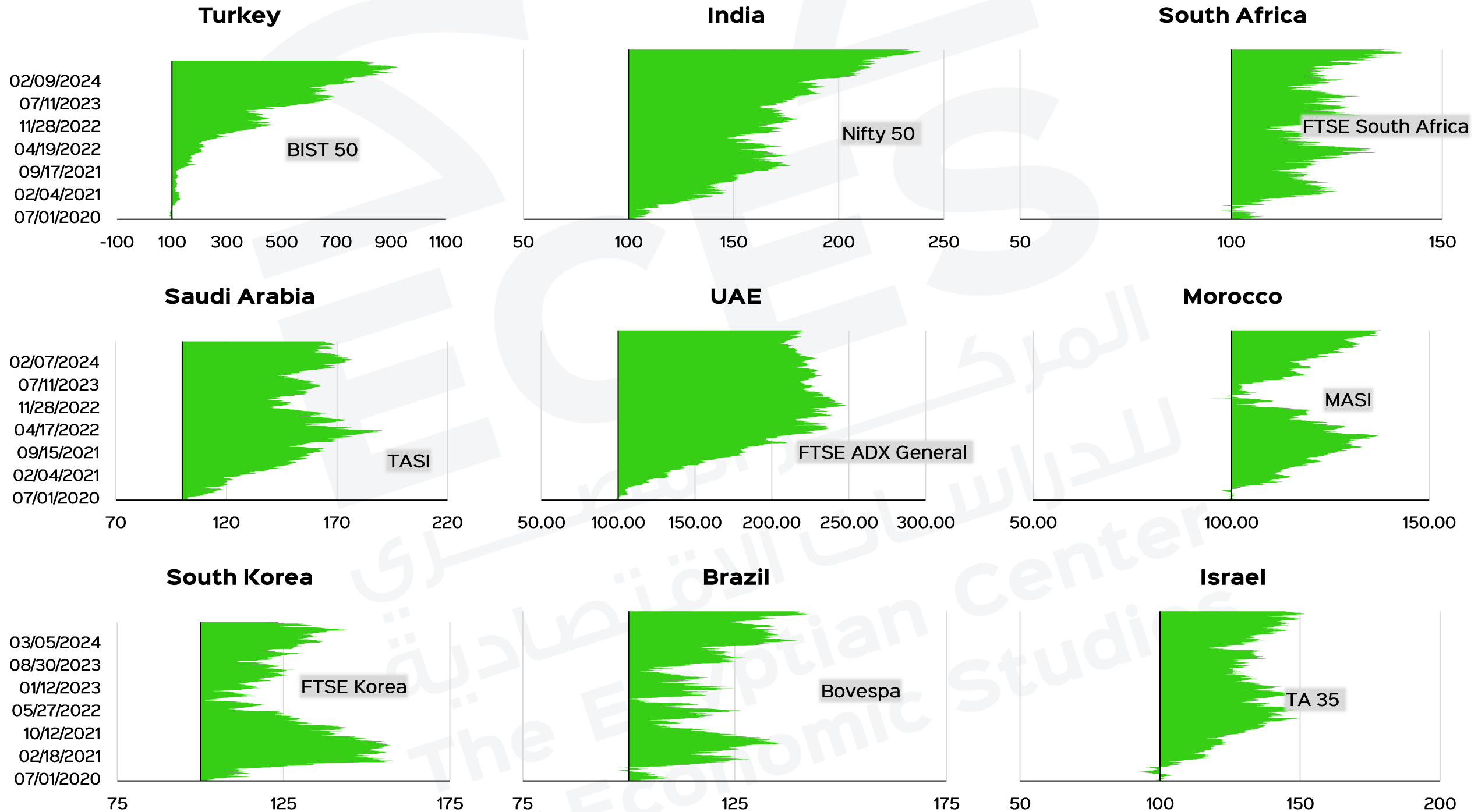
Korean Won



Israeli New Shekel



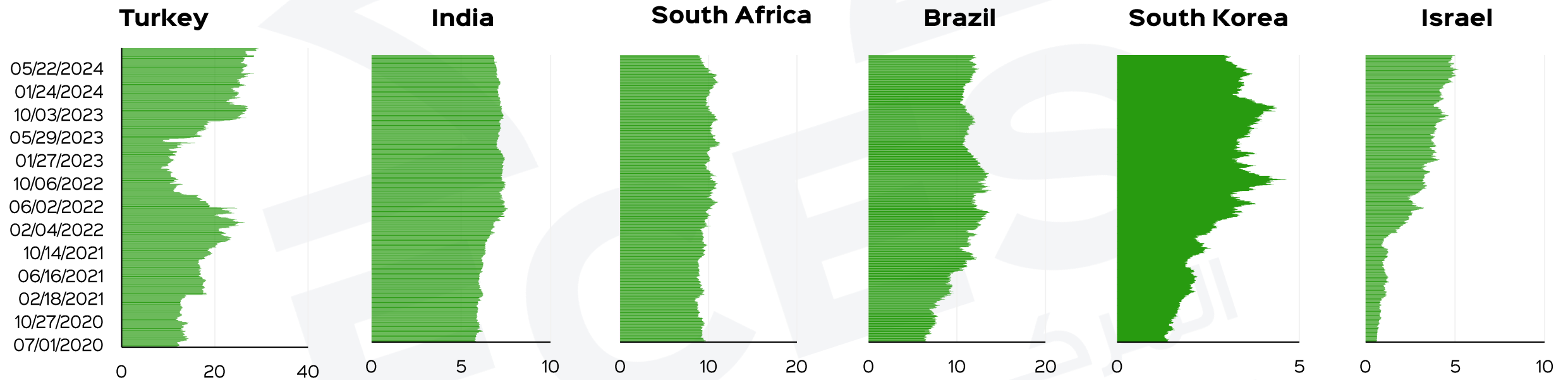
Stock markets in emerging markets have witnessed quite a turbulent month mirroring global markets turbulence in addition to heightened global geopolitical tensions. High volatility in global markets has cascaded into emerging markets stock markets which witnessed a very turbulent month. Besides, fears of recession have had its effect on emerging markets, which depend on money flowing from global markets as well as exports to global markets. Heightened global geopolitical tensions across many fronts have also increased the level of volatility in emerging markets.



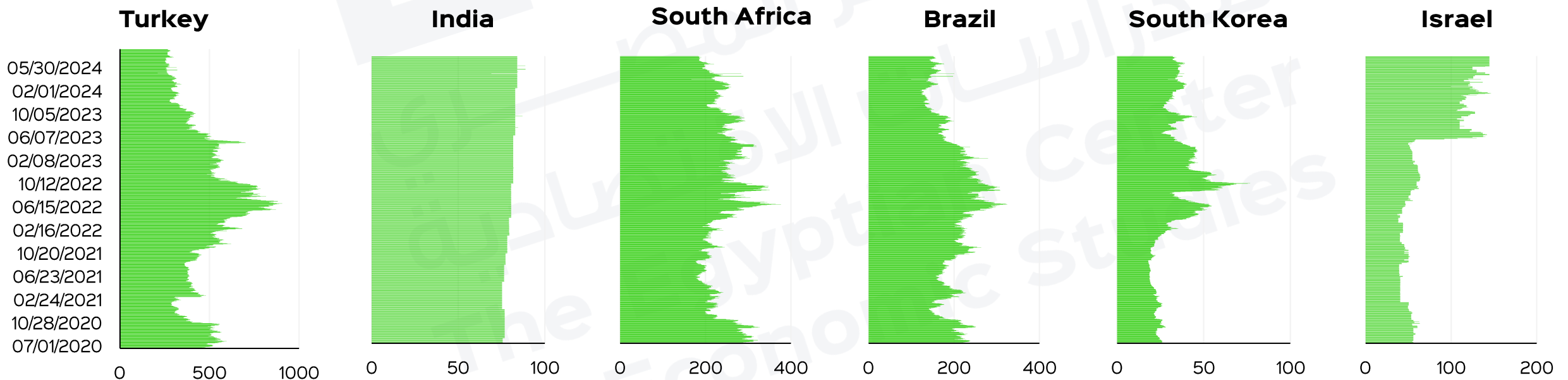
Inflation Rate
 Policy Rate
 LUC/USD
Stock Market
 Bond Market

Despite the easing cycle kickoff globally, bond yields in emerging markets inched upwards, and so did CDSs, due to heightened global geopolitical risks as well as economic uncertainty that prevailed last month about the US Fed move. Easing cycle has officially commenced with the jumbo rate cut by the US Fed. This should have reflected into decreased bond yields and also CDSs across emerging markets as interest rates tend to move together. On the contrary, emerging markets witnessed an increase in bond yields as well as CDSs due to the increased global geopolitical tensions as well as the lack of clarity that prevailed before the US Fed actually announced its big rate cut.

10-Year Bond Yield



5-Year CDS



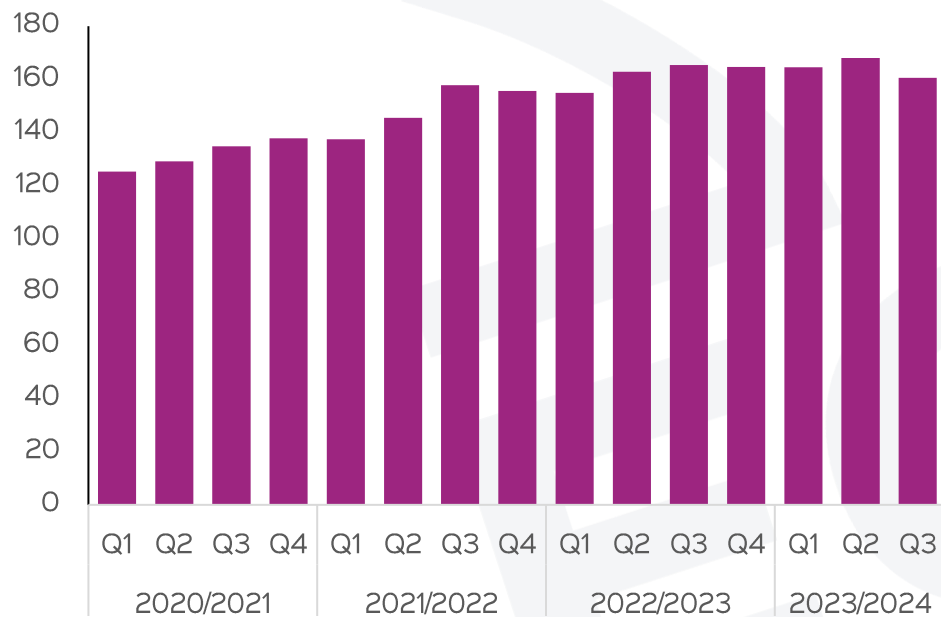
Inflation Rate
Policy Rate
LUC/UDC
Stock Market
Bond Market

The mega deals concluded earlier this year have helped decrease total external det, yet still external debt service is sizable next year, which resulted into high bond yields especially with Yen carry trade unwinding. Mega deals such as Ras El-Hekma and IMF deals have resulted into a decline in the external debt outstanding, but the external debt service due next year is quite high. In addition, bond yield started to increase due to unwinding of the Yen carry trade and exit of some hot money from local market. This has had its effect on CDSs which fluctuated in the last month yet ended on a lower level as the country maintains positive relations with its strategic partners regionally and globally.

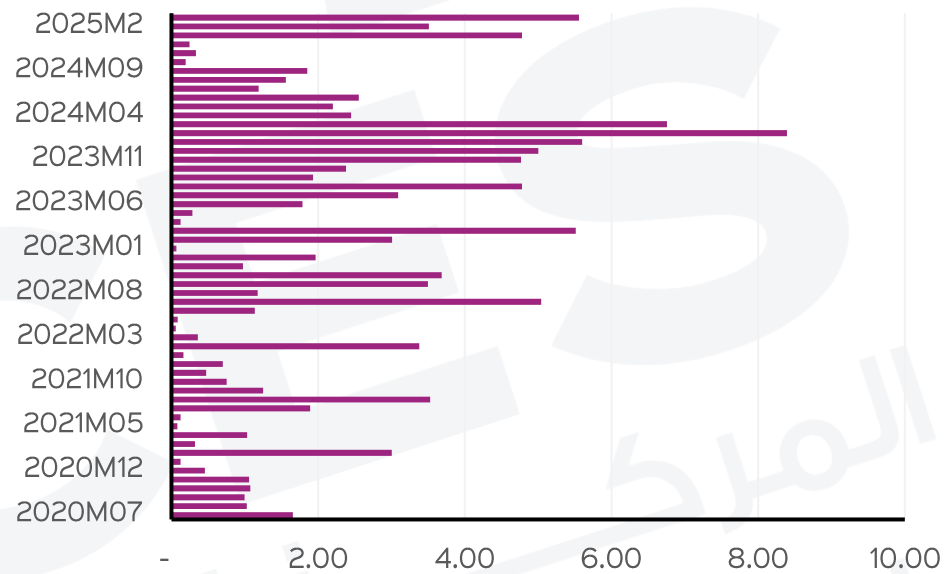
External Position

Local Developments

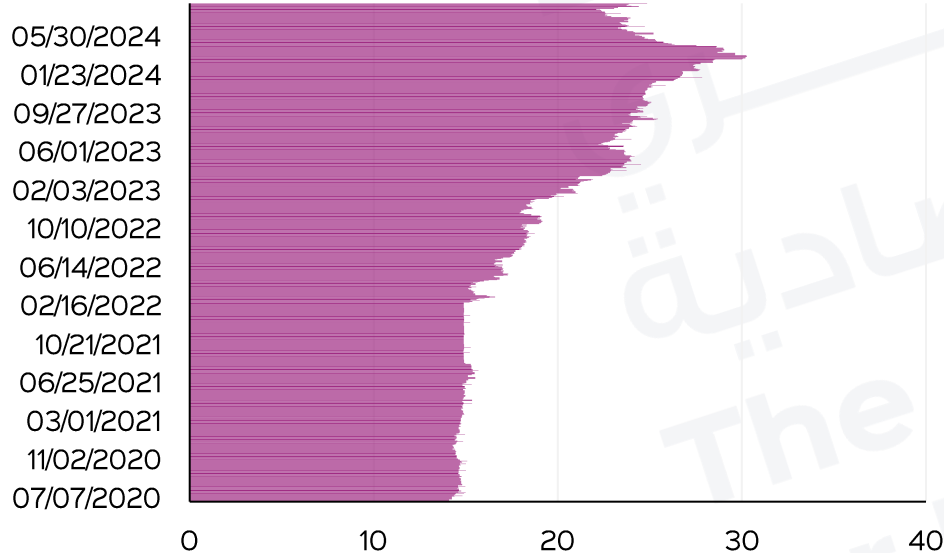
Total External Debt (bn \$)*



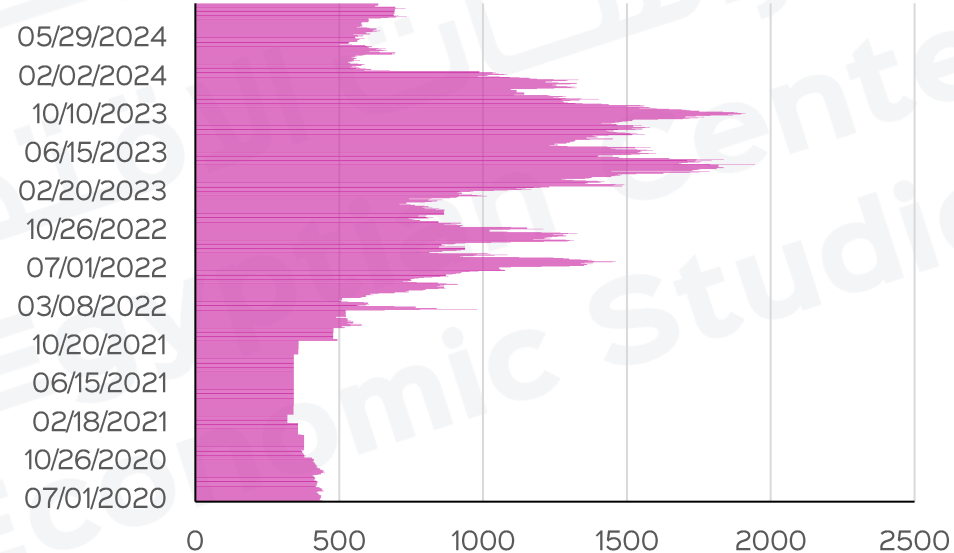
External Debt Service (bn \$)*



Egypt 10-Year Bond Yield



5Y CDS, Egypt



S&P Global Ratings
B- Positive

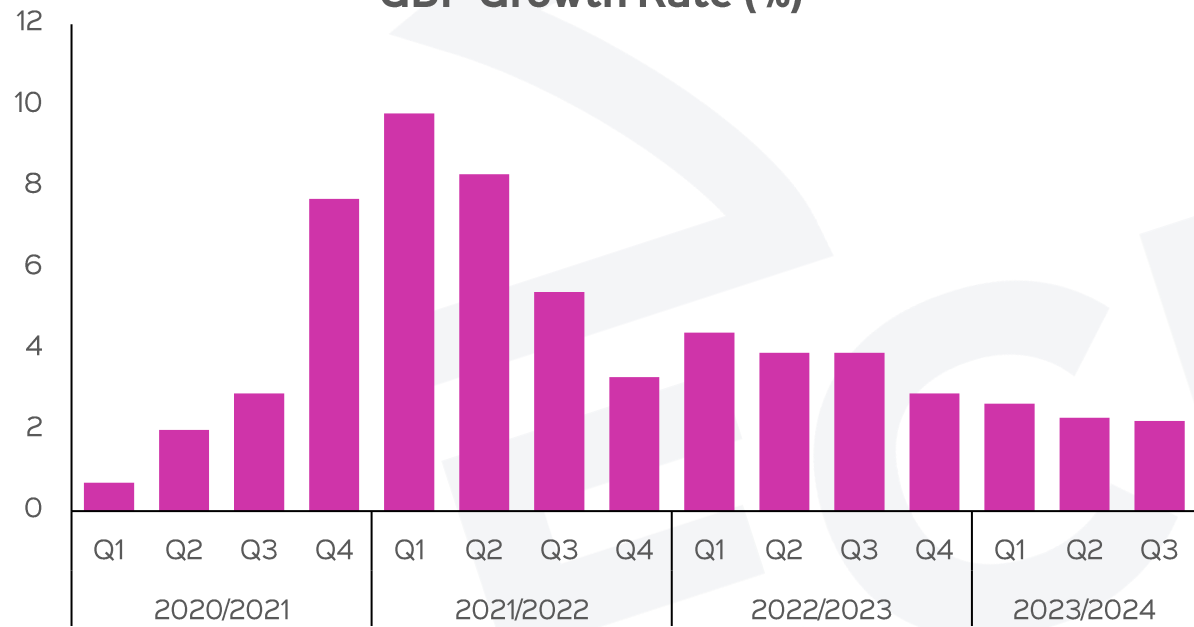
Fitch Ratings
B- Positive

MOODY'S INVESTORS SERVICE
Caa1 Positive

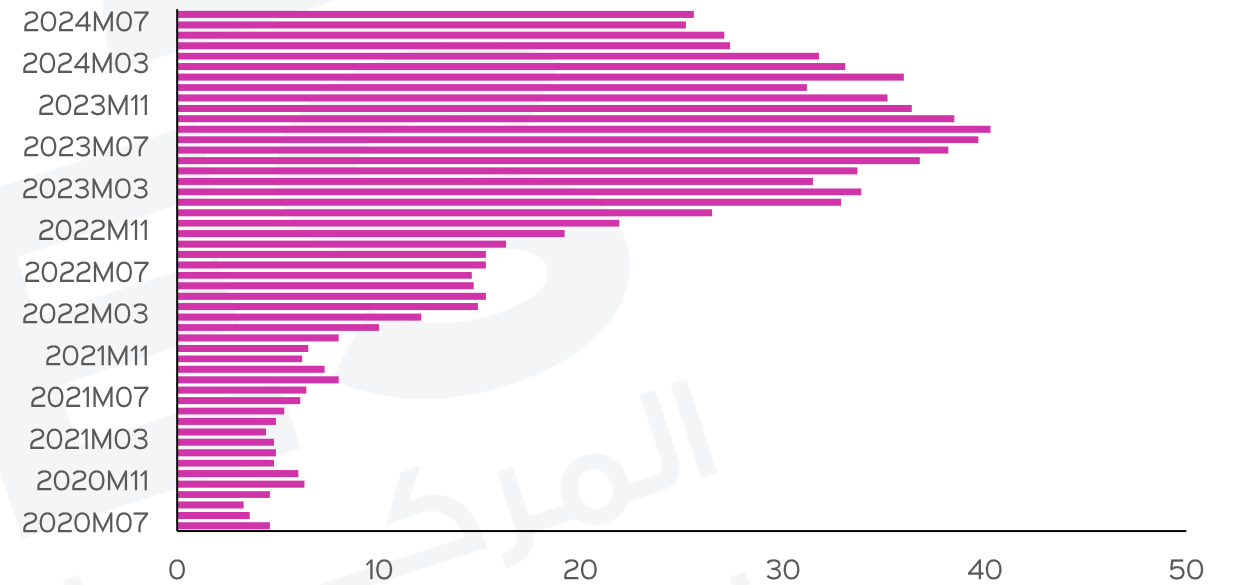
Inflation rate reversed the trend and inched upwards for the first time in few months, while growth in money supply slowed down again, but still the Central bank is keeping the monetary tightening approach in place. Inflation rate increased for the first time in few months due to the different reforms enacted by the government lately resulting into increase in prices of various goods and services. The reforms enacted have overshadowed the effect of the retreat in growth of money supply resulting into inflation rate reversing the trend. Central bank is keeping its monetary tightening stance through liquidity absorption and still quite high policy rate. Yet with the US Fed cutting rate, Central bank can have the room to follow suit soon.

External Position
Local Developments

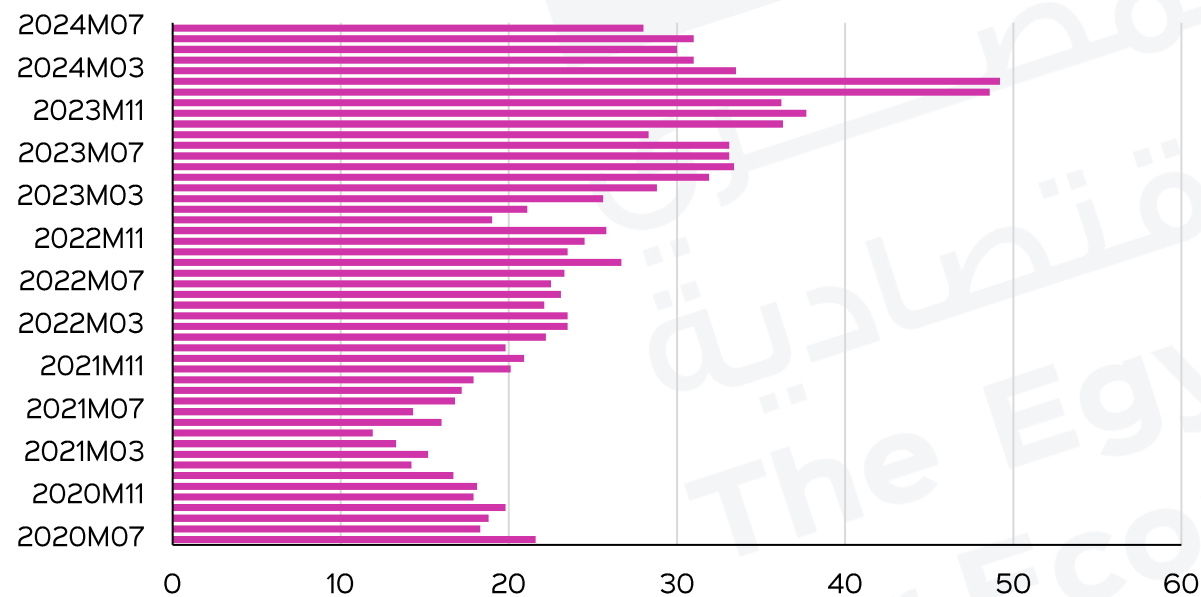
GDP Growth Rate (%)*



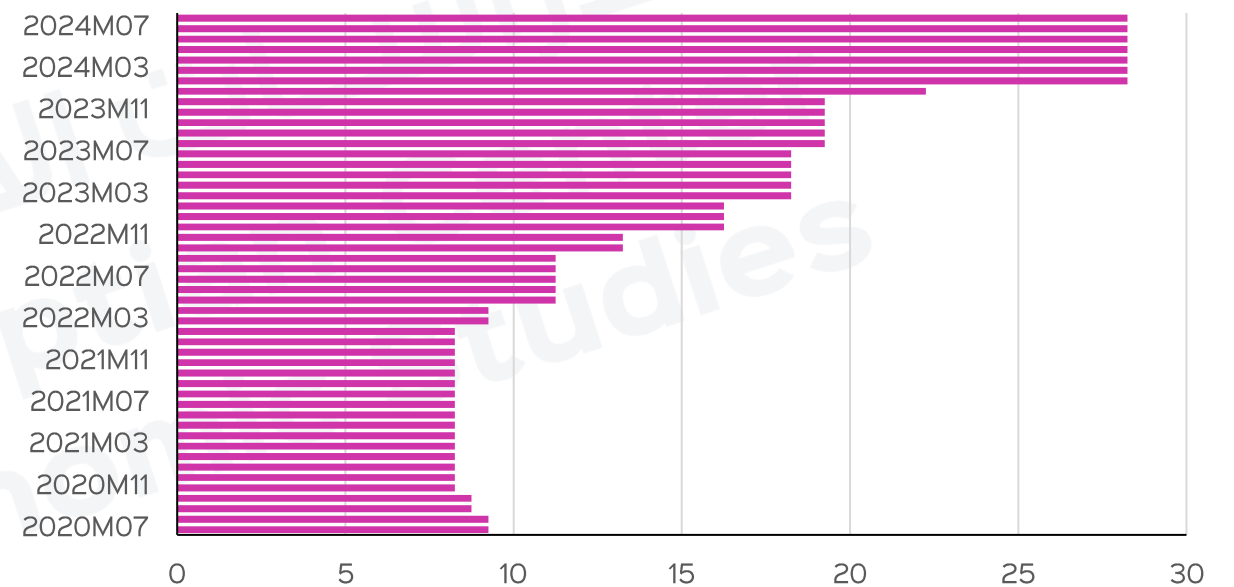
Inflation Rate (%)



Growth Rate of Money Supply (M1)*



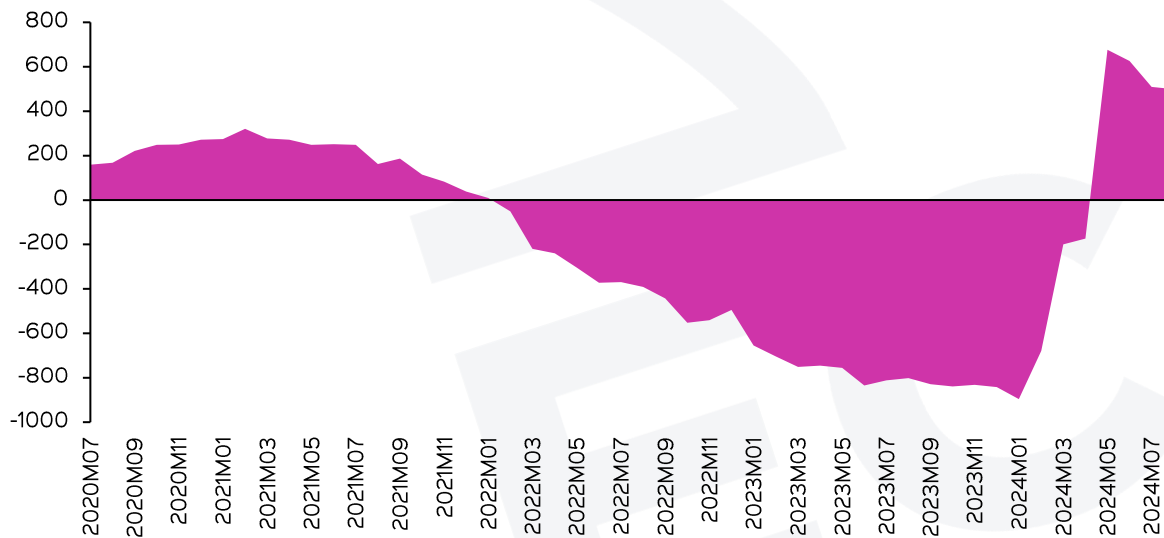
Policy Rate (%)



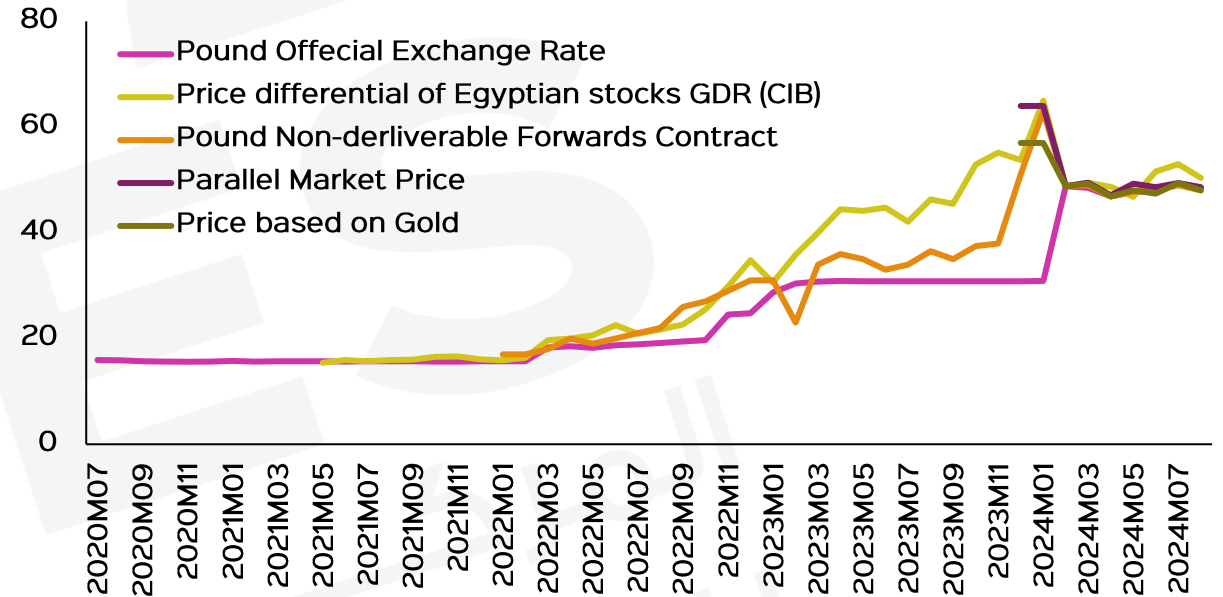
Despite global markets turbulence, Central bank reserves of foreign currency have inched upwards and net foreign assets in the banking system stabilized, which reflected into a stable and unified exchange rate in the market. Despite the turbulence in global financial markets, the Yen carry trade unwinding and regional war, Central bank reserves kept going upwards. In addition, net foreign assets in the banking system stayed positive and stable to a large extent even with some hot money exit, thanks to large foreign currency inflows from remittances and other sources. As a result, the pound exchange rate stayed stable and unified across the different markets and the GDR rate got contained close to the official rate lately.

External Position
Local Developments

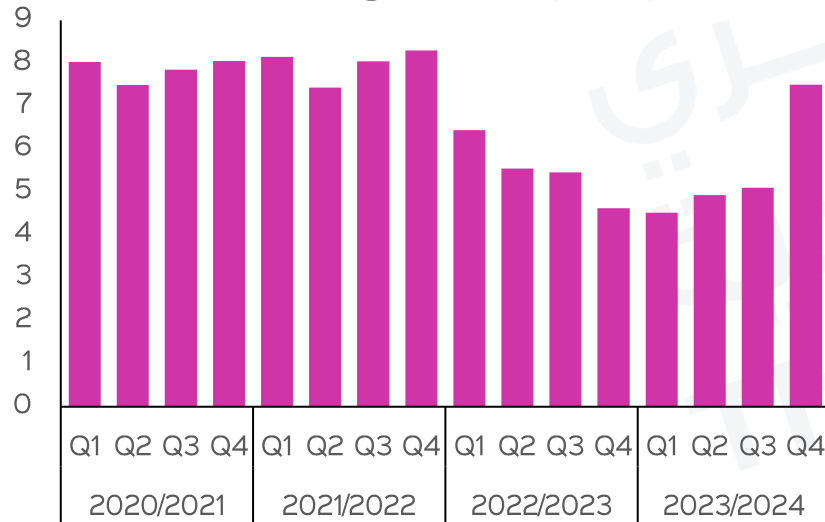
Net Foreign Assets of the Banking System (bn LE)*



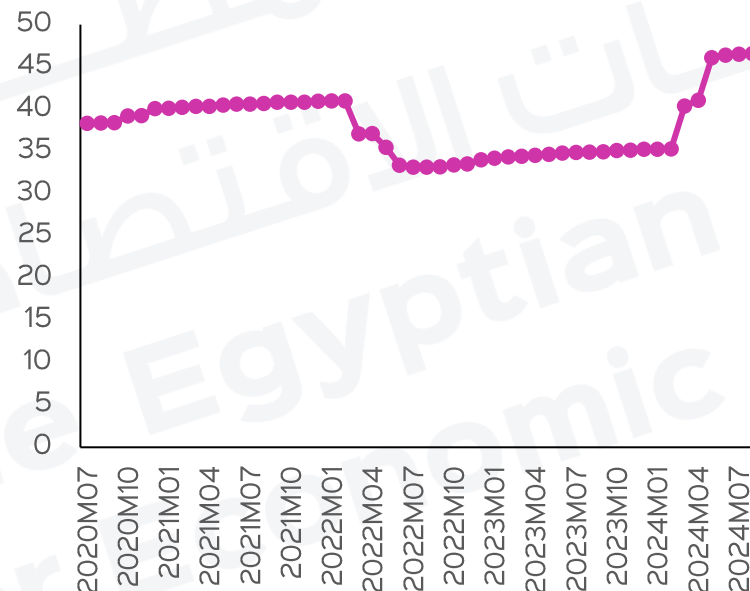
Pound Exchange Rate



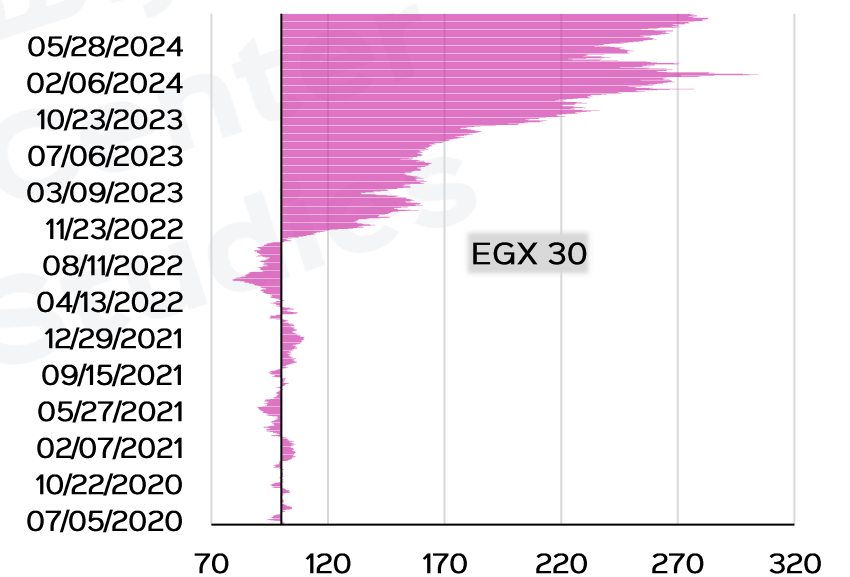
Remittances of Egyptians working abroad (bn \$)



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...
...external 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

