



Financial Markets Snapshot

Issue 10
 October 2024

Contents

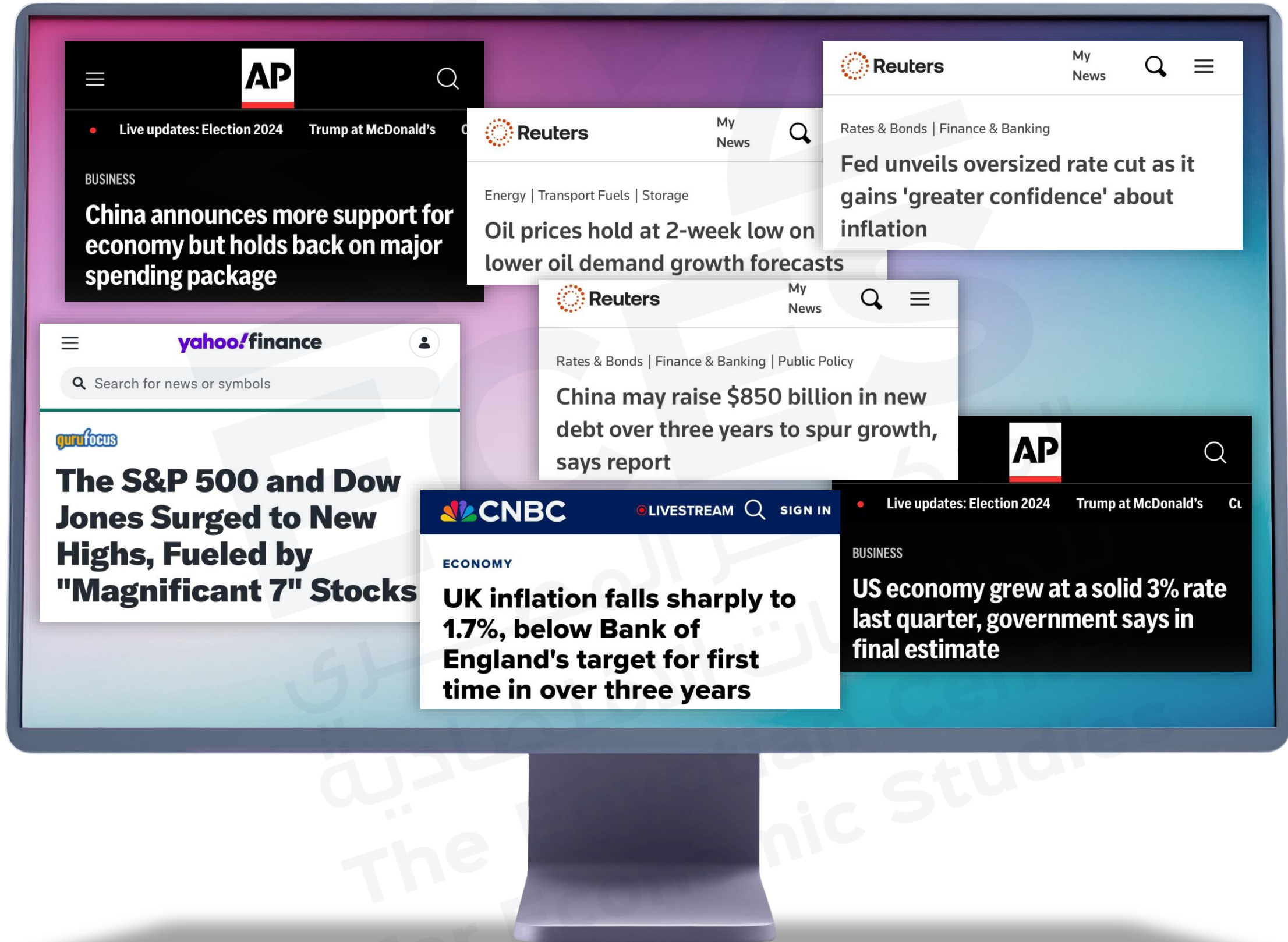
<u>About The Report</u>	<u>3</u>
<u>Latest News – Key Headlines</u>	<u>4</u>
<u>Analysis – Key Takeaways</u>	<u>5</u>
<u>1. Global Markets</u>	<u>6</u>
<u>2. Emerging Markets</u>	<u>10</u>
<u>3. Egyptian Local Market</u>	<u>15</u>
<u>Sources</u>	<u>18</u>
<u>Annex 1: Methodology</u>	<u>19</u>
<u>Annex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



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 witnessed divergence and volatility over last month due to changes in economic outlook and geopolitical tensions, with oil and gold exhibiting the biggest divergence.
- With Inflation rates in global markets kept going down, giving room for Central banks to officially kick off the easing cycle and cut rates as witnessed across global markets. Even China has cut interest rate to keep its relative currency value
- With interest rate cuts, global stock markets have rallied, with some high volatility due to recession fears, while China has witnessed a short and suppressed rally due to concerns about the government stimulus package.
- Despite interest rate cuts, bond yields in global markets have not declined further in the last month and even spiked in some countries, same for CDSs which indicates high volatility and uncertainty in global markets

Emerging Markets



- Inflation rates across most emerging markets have witnessed a general decline thanks to stabilization in most commodity prices and tight monetary policy. .
- Despite of the decline in inflation rates, emerging markets Central banks have diverged in their direction, some such as UAE, South Africa and South Korea have started cutting rates, while others still keep interest rates high to protect their currencies and tame down inflation.
- Emerging markets currencies are still facing pressure against US Dollar, which explains why many Central banks still delay interest rate cuts, despite the decline in inflation.
- Stock markets in emerging markets have witnessed another turbulent month due to increased geopolitical tensions, which are affecting money flows to emerging markets in general.
- bond yields in emerging markets inched upwards, and so did CDSs, due to heightened global geopolitical risks as well as market volatility prevailing.

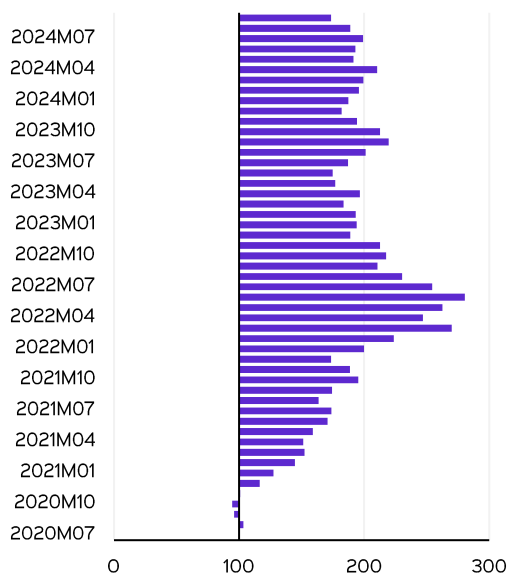
Egyptian Local Market



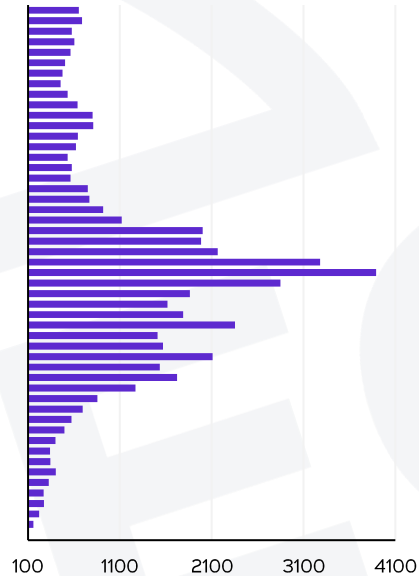
- Thanks to mega deals concluded this year, external debt is declining, but external debt service due in the coming year is quite sizable. This is putting pressure on bond yields, which increased especially with the surrounding geopolitical tensions.
- As a positive sign, economic growth increased slightly, but inflation rate increased for the second month in a row due to the different fiscal reforms enacted. The increase in inflation rate and pressure on currency have overshadowed the decrease in growth in money supply, thus, making it harder for Central bank to start cutting rates.
- Despite global markets turbulence, Central bank reserves of foreign currency have slightly increased yet again and net foreign assets in the banking system stabilized after the previous month decline due to hot money exit. This in general reflected into a stable and unified exchange rate in the market.

Commodity prices have witnessed divergence and volatility over last month due to changes in economic outlook and geopolitical tensions, with oil and gold exhibiting the biggest divergence. With the commencement of interest rate cuts globally, gold has been reaching new highs. The geopolitical tensions and the escalating middle east war has pushed oil prices upwards before the risk of an extensive war declined and oil prices retreated accordingly. Iron ore price declined due to recession fears. Wheat price increased due to unfavourable weather conditions in exporting countries, while other commodities have more or less stayed within the same range with no major changes.

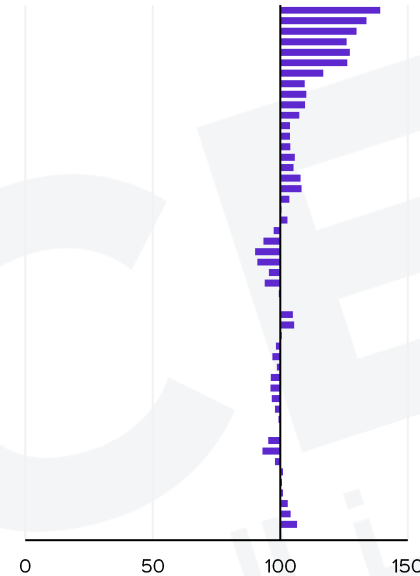
Crude Oil, Brent



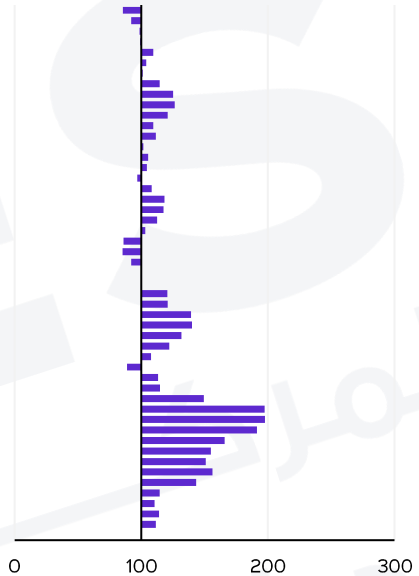
Natural Gas



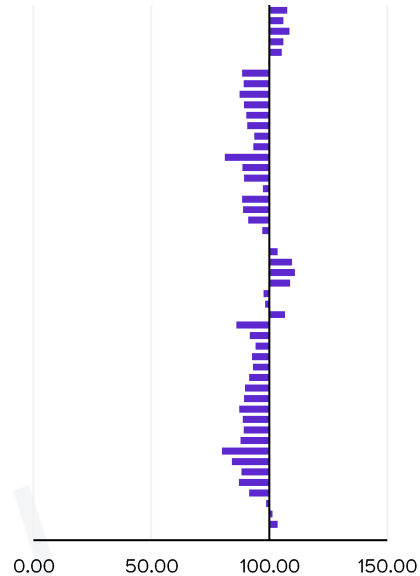
Gold



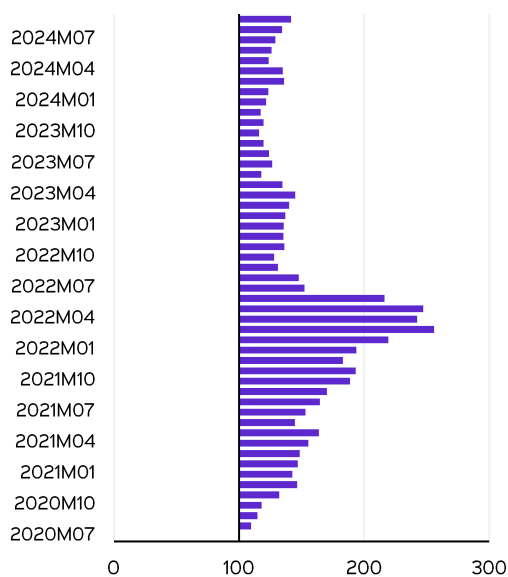
Iron ore



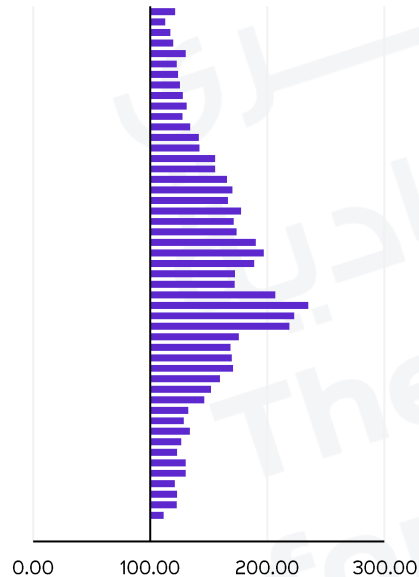
Tea



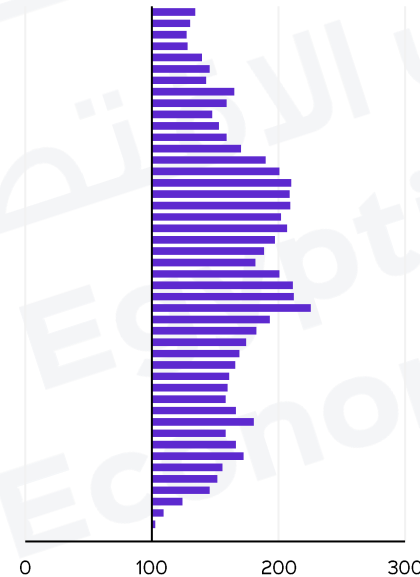
Palm oil



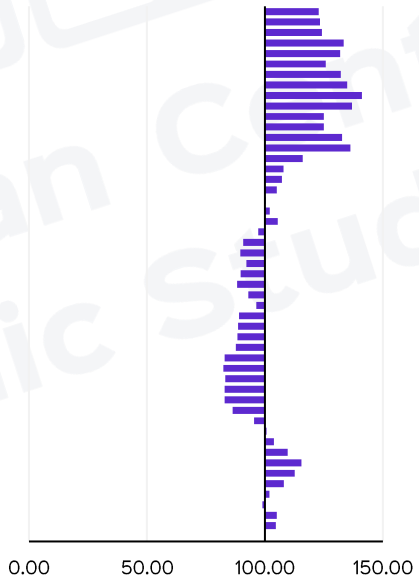
Wheat



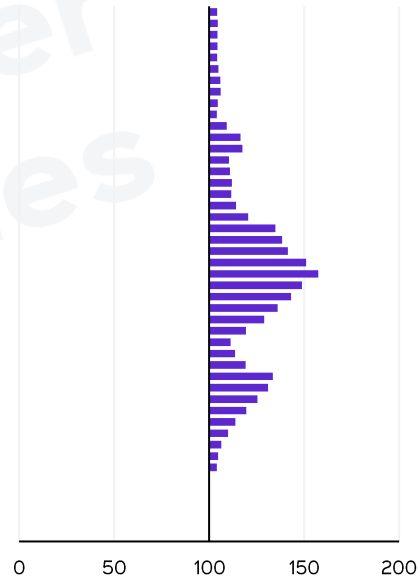
Maize



Rice

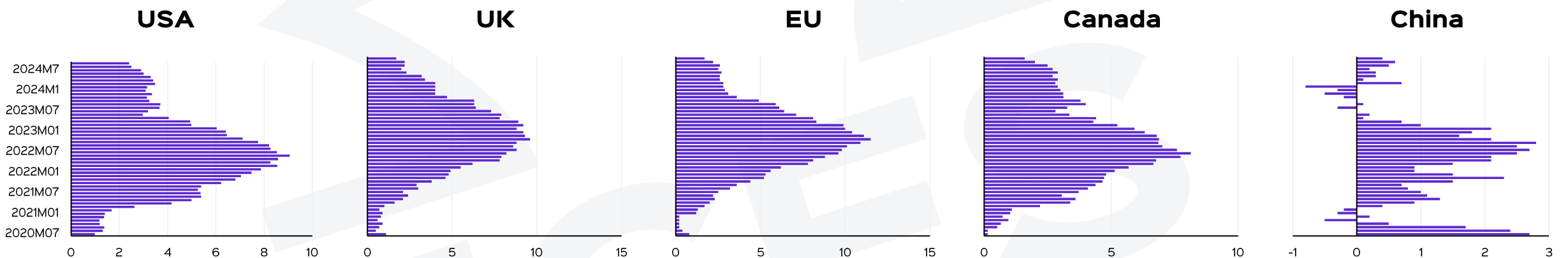


Bovine meat

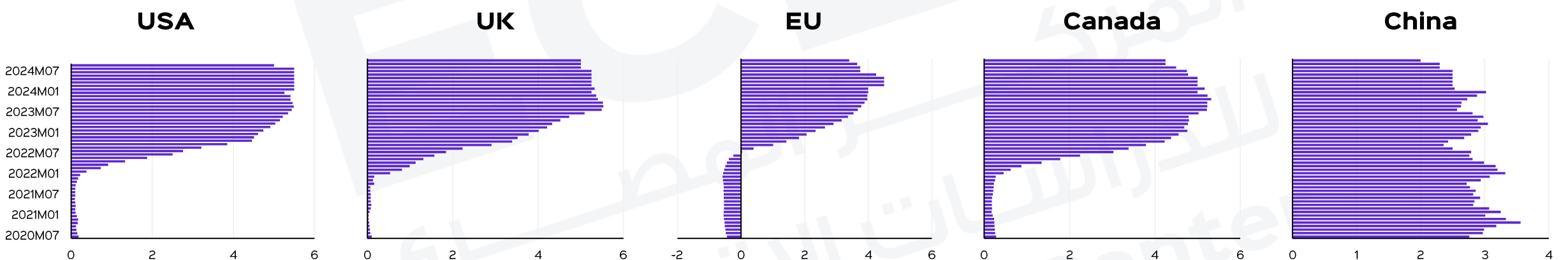


Inflation rates in global markets kept going down, giving room for Central banks to officially kick off the easing cycle and cut rates as witnessed across global markets. Even China has cut interest rate to keep its relative currency value. Inflation rates across global markets have kept their declining trend for few months in a row giving confidence to Central banks that inflation isn't anymore a concern, and growth should be the focus instead. Global Central banks have cut their interest rates further after the US jumbo rate cut. Though inflation rate is increasing in China, China has cut interest rate following the US Fed to keep the relative value of its currency to avoid appreciation, hence hurting its exports.

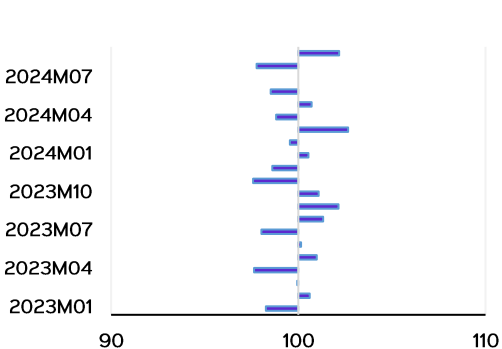
Inflation Rate



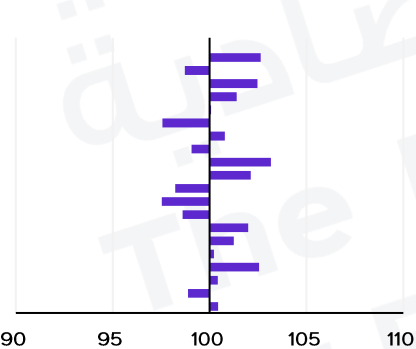
Policy Rate



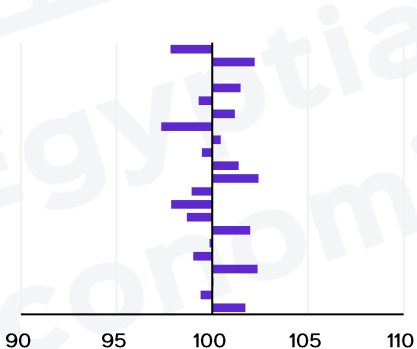
LCU / USD



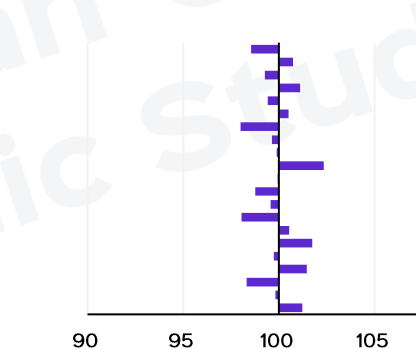
UK Pound



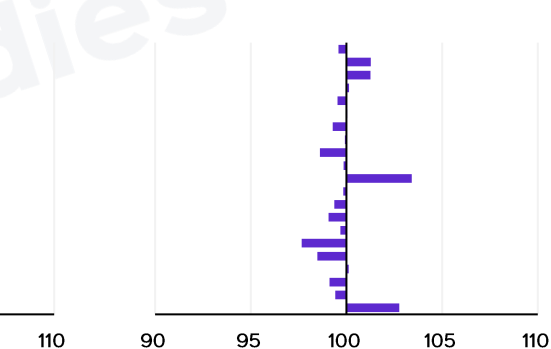
Euro



Canadian Dollar



Chinese Yuan

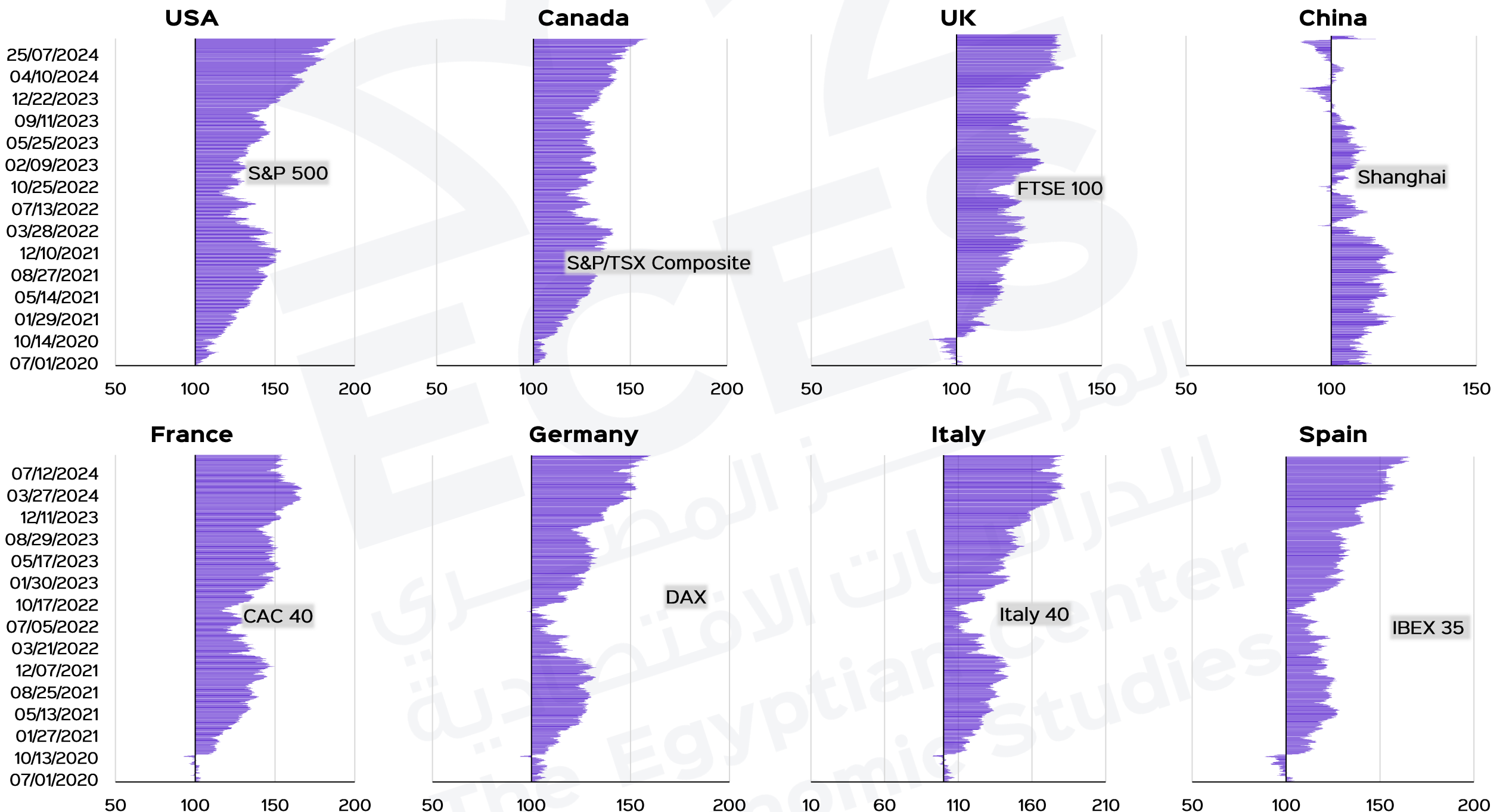


Commodity Markets
Main Rates

Stock Market

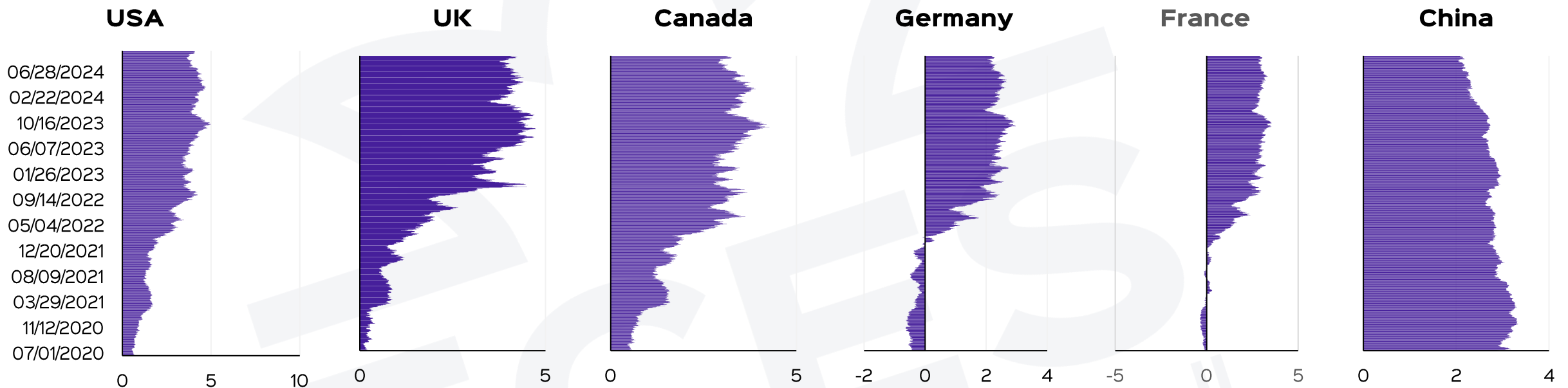
Bond Market

Global stock markets have rallied after interest rate cuts, with some high volatility due to recession fears, while China has witnessed a big rally that retreated quickly due to concerns about the effectiveness of the government stimulus package. With the jumbo interest rate cut by the US Fed and cuts by other global Central banks, global markets have rallied quickly with many indices and stocks reaching all time highs yet again. China has even witnessed a bigger rally sparked by the big stimulus package announced by the government but soon afterwards the market cooled down as doubts about the scale and effectiveness of the stimulus package prevailed.

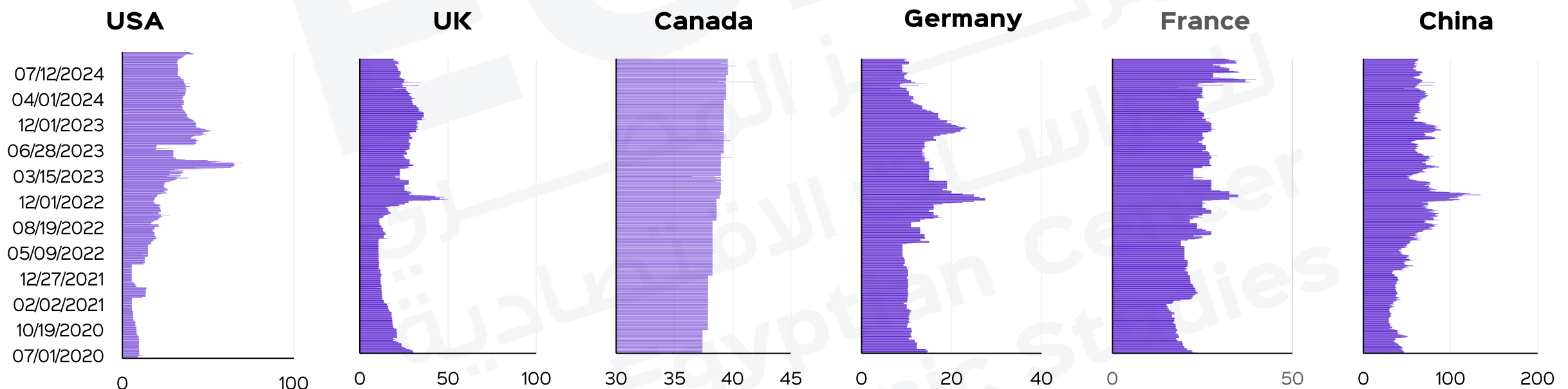


Despite interest rate cuts, bond yields in global markets have not declined further in the last month and even spiked in some countries, same for CDSs which indicates high volatility and uncertainty in global markets. With the confirmation of easing cycle kickoff and interest rate cuts across global markets, bond yields were expected to decline further. On the contrary, bond yields didn't decline in the last month but even spiked in some markets due to increased volatility. The same trend was witnessed by CDSs which didn't decline but even spiked in some countries, reflecting the increased market volatility, heightened geopolitical risks and fears of economic stability and expansion in global markets.

10-Year Bond Yield

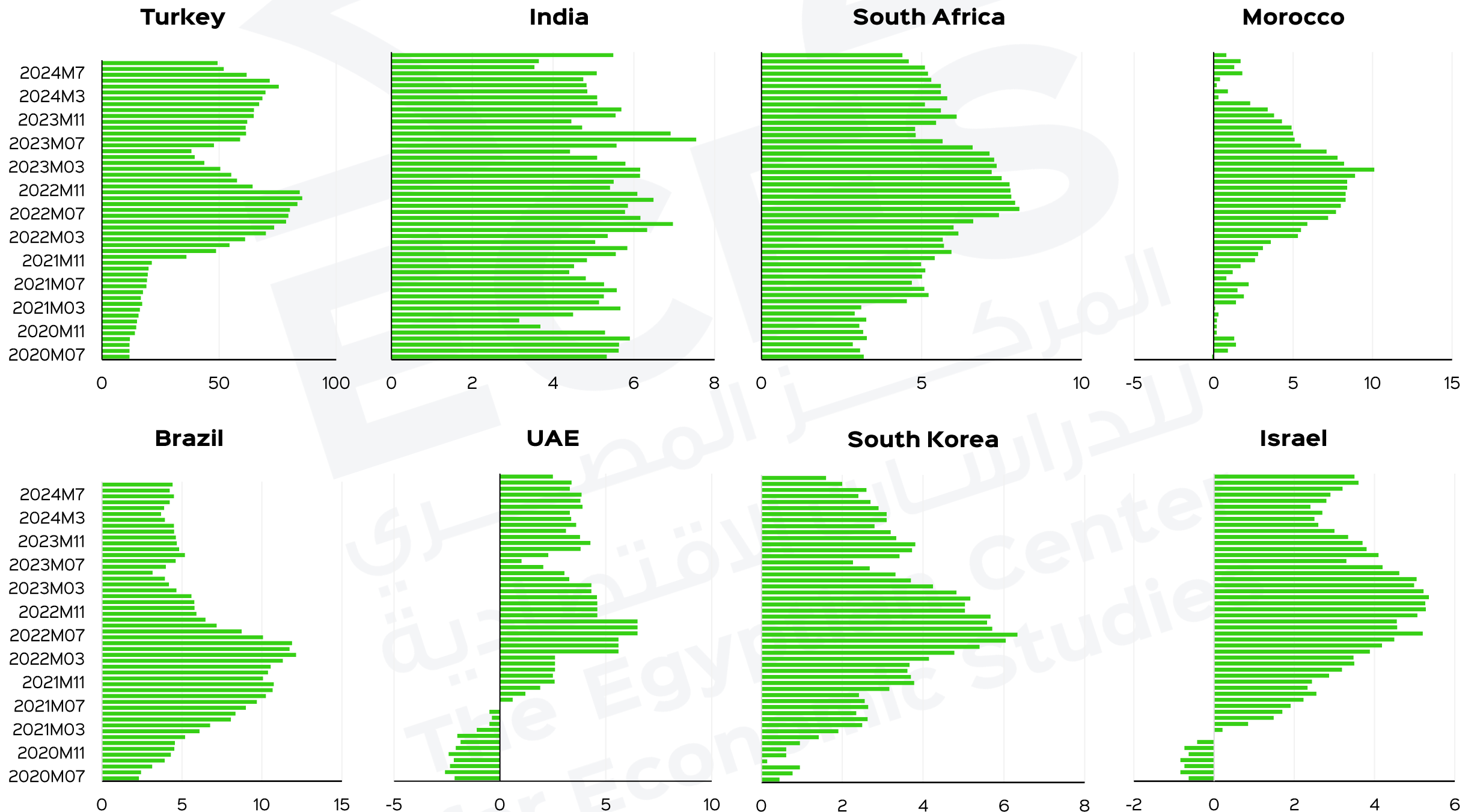


5-Year CDS



Commodity Markets
Main Rates
Stock Market
Bond Market

Inflation rates across most emerging markets have witnessed a general decline thanks to stabilization in most commodity prices and tight monetary policy. Like global markets, emerging markets have started to witness decline in inflation rates due to stabilization in most commodity prices and the tight monetary policy long adopted by emerging markets Central banks. An exception to this trend is India which witnessed an increase in inflation due to base effect and unfavourable weather conditions. But the overall trend in emerging markets is following quite reasonably the trend in global markets when it comes to declining inflation.



Despite of the decline in inflation rates, emerging markets Central banks have diverged in their direction, some such as UAE, South Africa and South Korea have started cutting rates, while others still keep interest rates high to protect their currencies and tame down inflation. The decline in inflation rates in emerging markets following the trend in global markets has not yet reflected fully in interest rates prevailing in emerging markets. Some emerging markets Central banks such as UAE, South Africa and South Korea have cut interest rates, while others such as Turkey, India and Brazil still maintain high interest rate to protect their currencies and make sure inflation is fully in check.

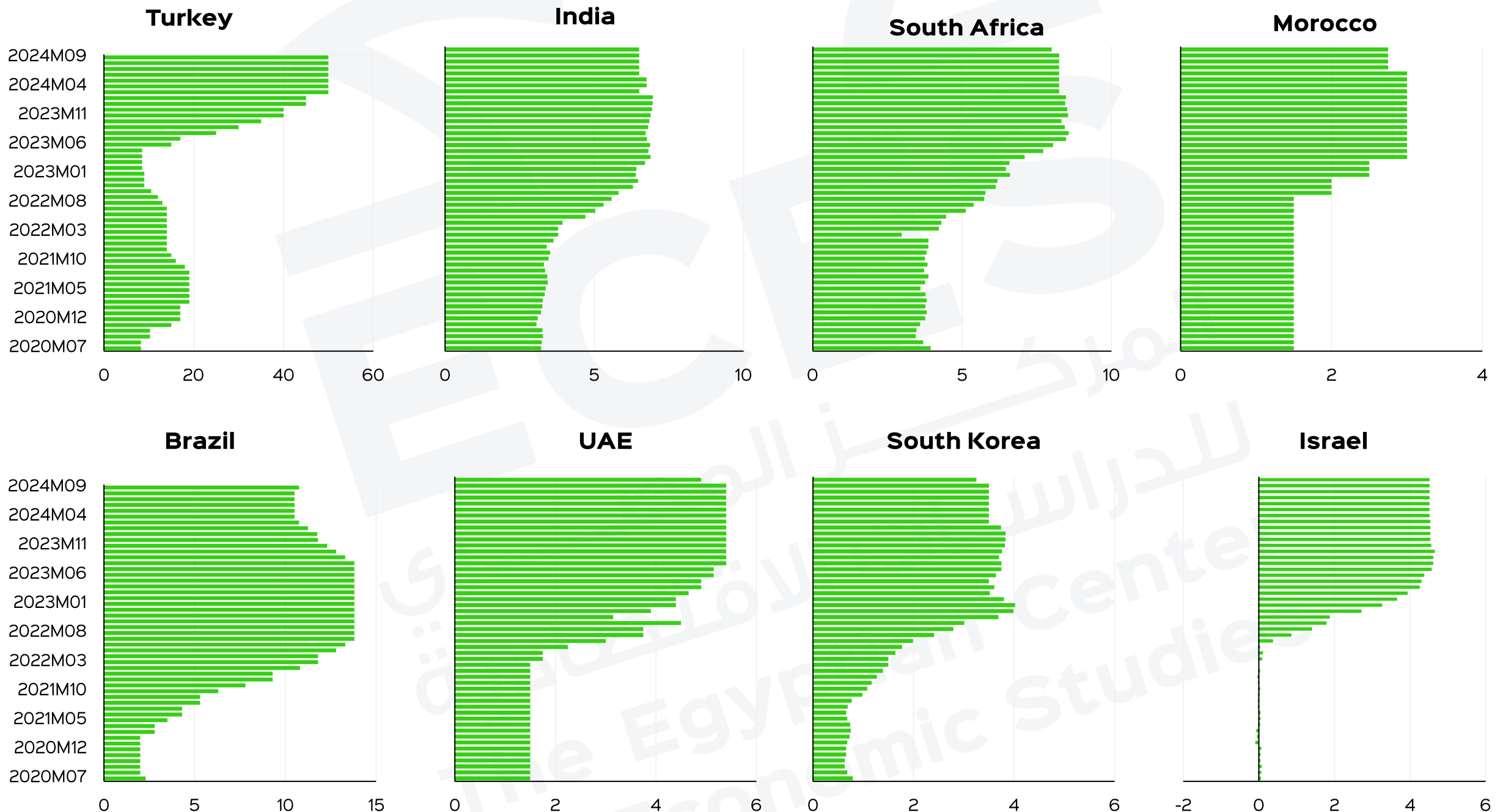
Inflation Rate

Policy Rate

LUC/UDC

Stock Market

Bond Market



Despite declining inflation in emerging markets and cutting interest rates in global markets, emerging market currencies are still facing pressure against US Dollar, which explains why many Central banks still delay interest rate cuts. Emerging markets currencies were expected to enjoy less pressure with decreasing local inflation rates and interest rate cuts in global markets, but the reality is that most emerging markets currencies are losing value against the US Dollar due to market volatility and geopolitical tensions. Such pressure explains why many Central banks in emerging markets are delaying interest rate cuts to avoid further pressure on their currencies.

Inflation Rate

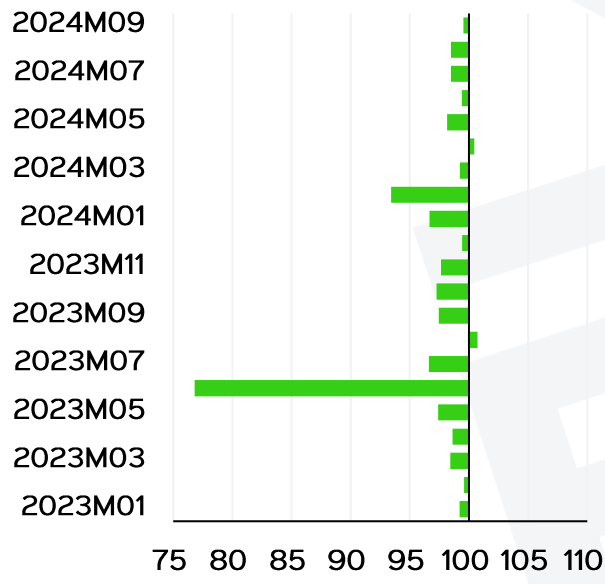
Policy Rate

LUC/UDS

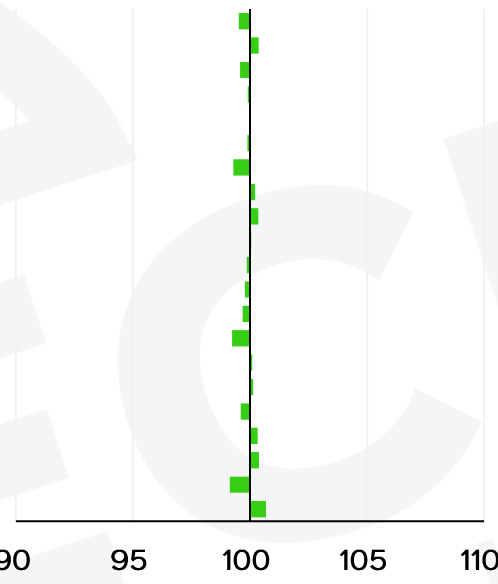
Stock Market

Bond Market

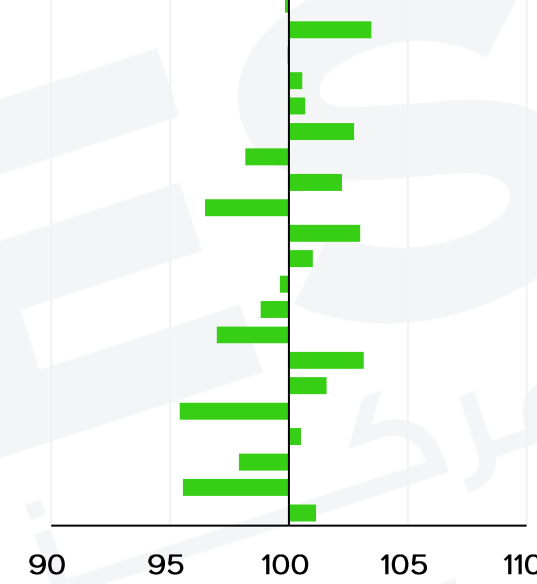
Turkish Lira



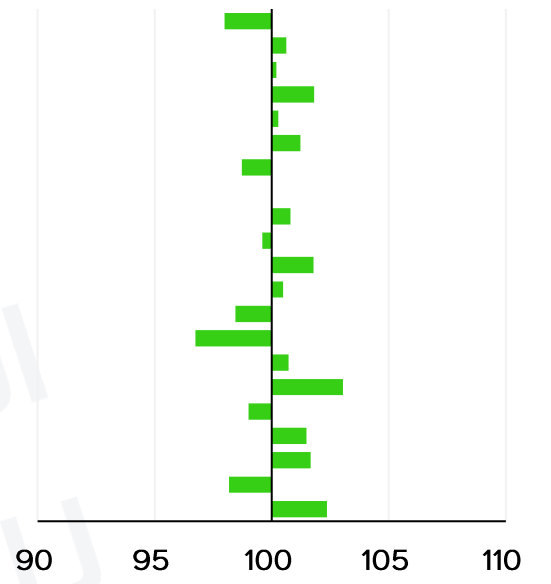
Indian Rupee



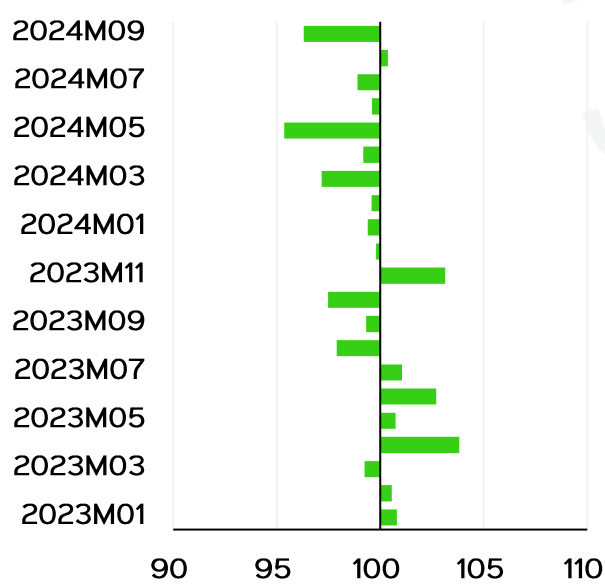
South African Rand



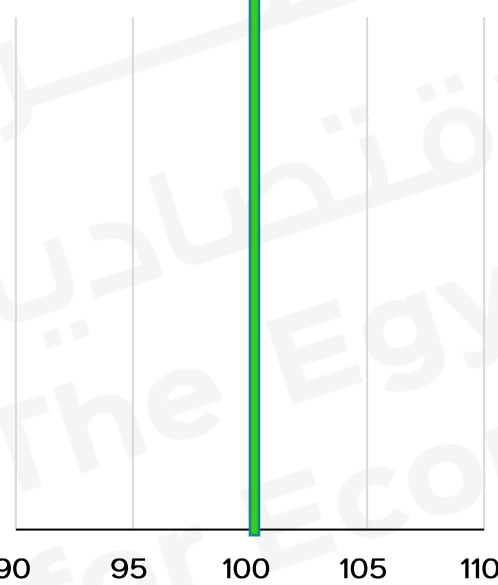
Moroccan Dirham



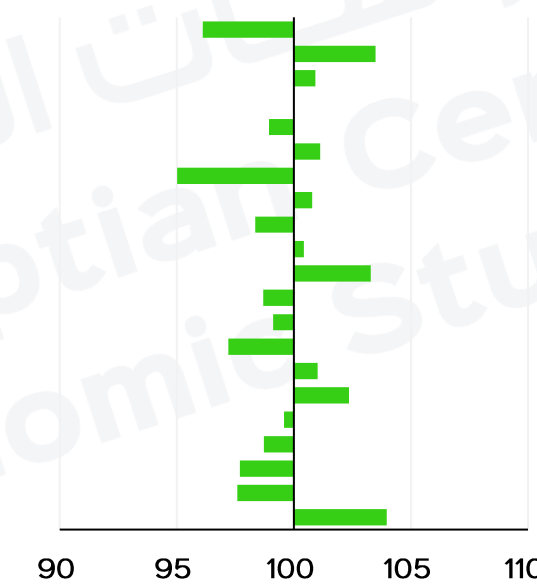
Brazilian Real



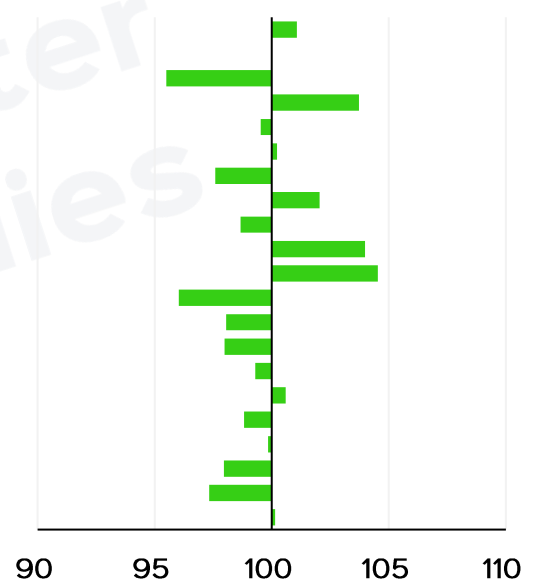
UAE Dirham



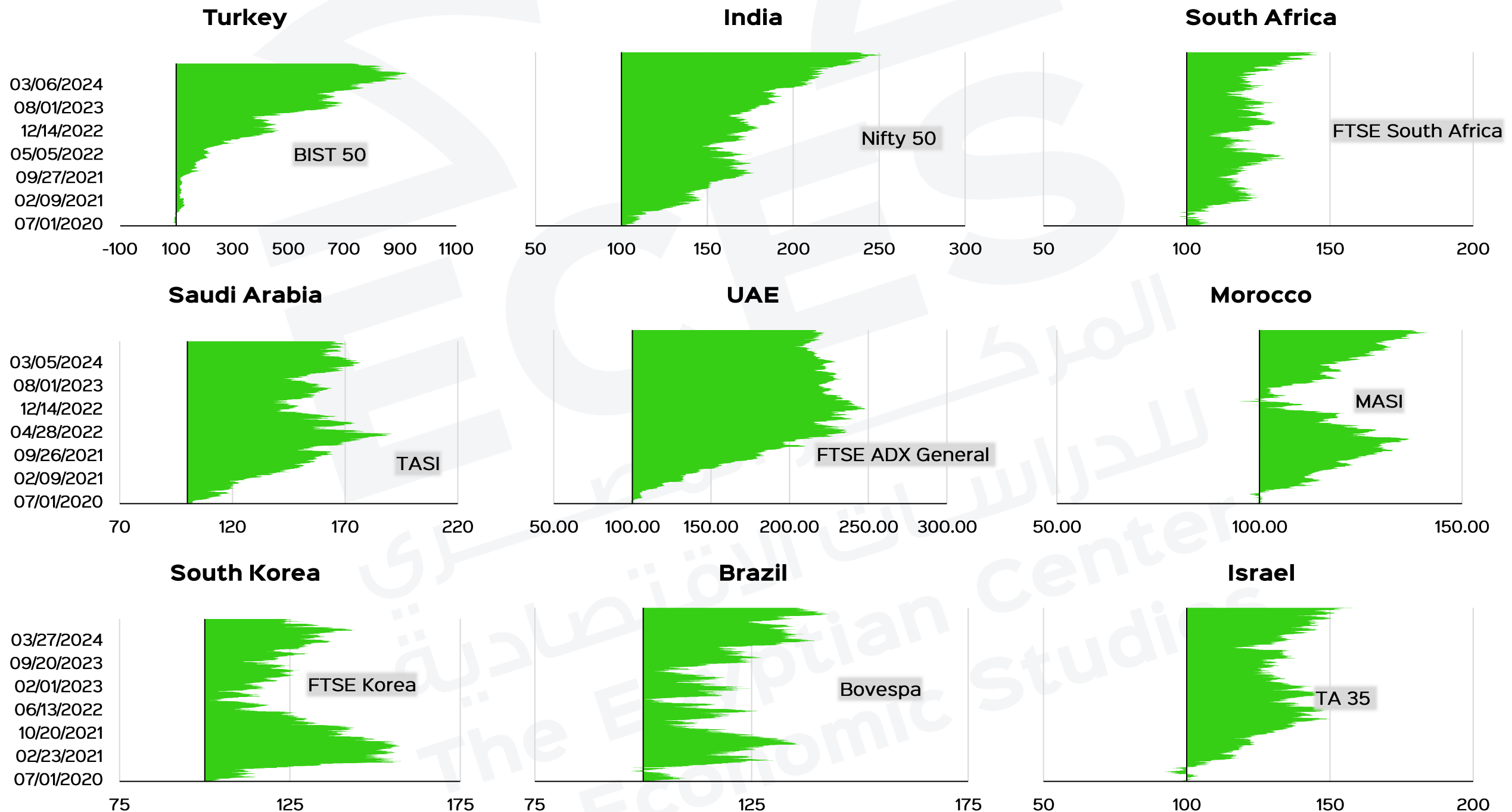
Korean Won



Israeli New Shekel



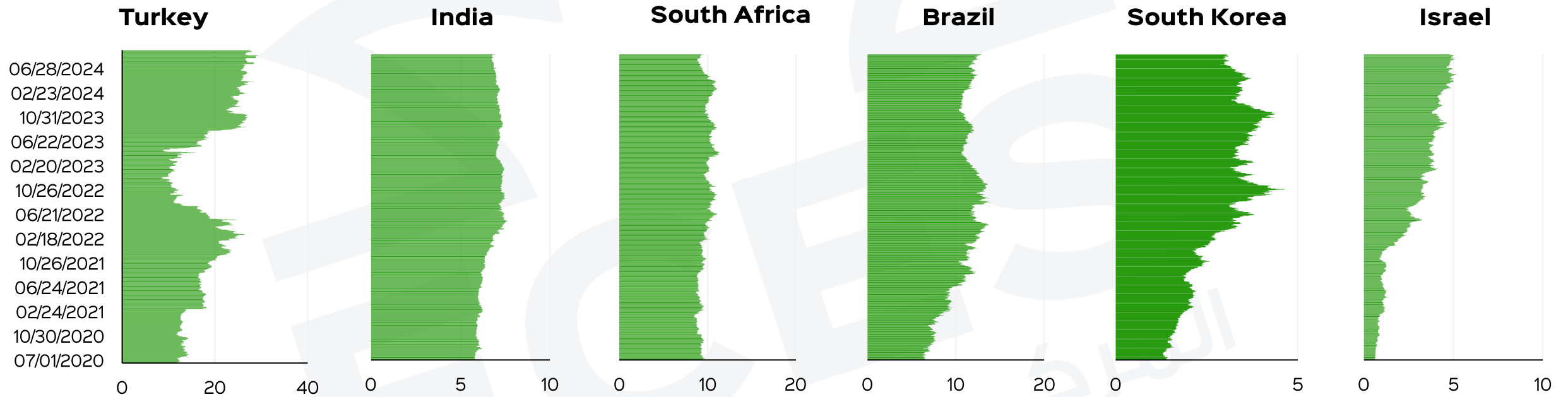
Stock markets in emerging markets have witnessed another turbulent month due to increased geopolitical tensions, which are affecting money flows to emerging markets in general. Heightened global geopolitical tensions have had their toll on emerging markets which witnessed a very turbulent month in their stock markets, especially in the middle east region. Besides, the fears of global recession and changes in monetary policy have resulted into a short term uncertainty which reflected on the money flows to emerging markets. Such turbulence and increased volatility are probably other reasons why Central banks in emerging markets are still keeping interest rates high.



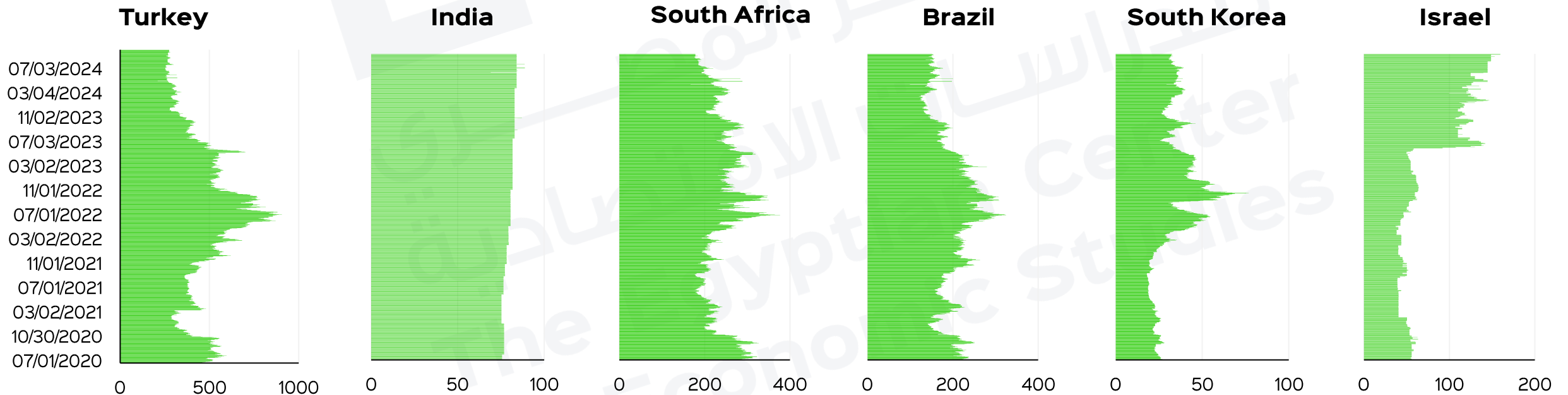
Inflation Rate
Policy Rate
LUC/USD
Stock Market
Bond Market

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 market volatility prevailing. With the easing cycle kickoff, bond yields and CDSs on emerging market should have declined. But like global markets, emerging markets didn't witness this decline. On the contrary, bond yields and CDSs in emerging markets stayed high and even spiked in some countries due to increased geopolitical tensions, overall market volatility and most importantly the still high bond yields and CDSs in global markets.

10-Year Bond Yield



5-Year CDS



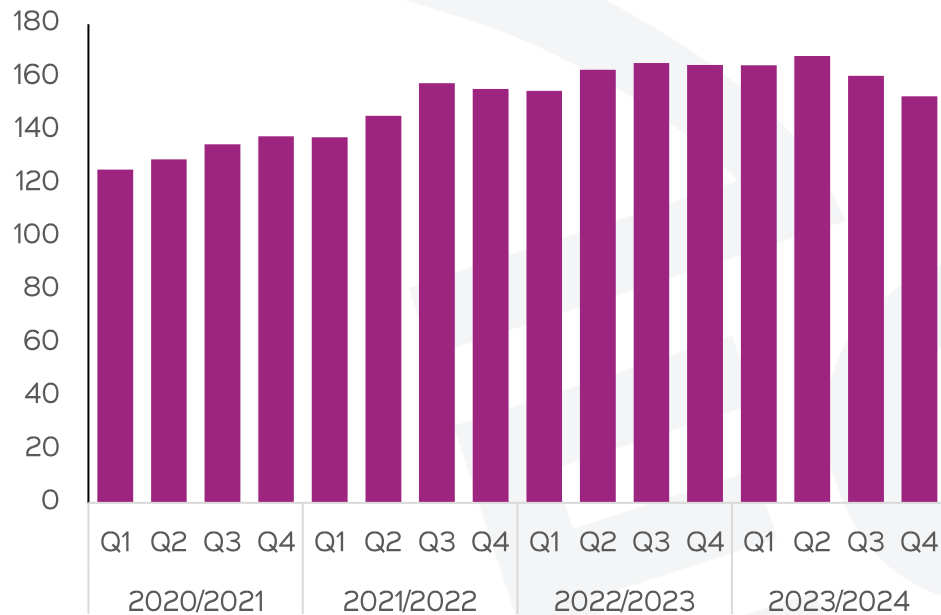
Inflation Rate
Policy Rate
LUC/UDS
Stock Market
Bond Market

Total external debt is declining thanks to mega deals concluded this year but external debt service due in the coming year is quite sizable. This is putting pressure on bond yields which shot higher amid the geopolitical tensions. Mega deals concluded this year led to decline in the external debt outstanding, but the external debt service due next year is quite high. In addition, the increasing bond yields in emerging markets as well as regional geopolitical tensions have resulted into higher bond yields. Having said so, CDSs are still stable and even declining with the clear signals that the country will get external help to prevent it from default as witnessed by the few mega deals concluded this year.

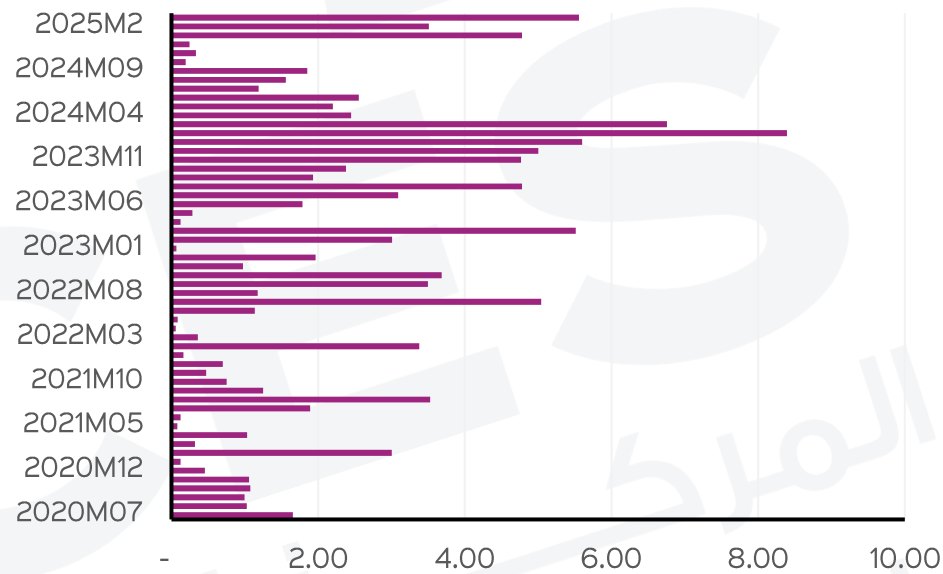
External Position

Local Developments

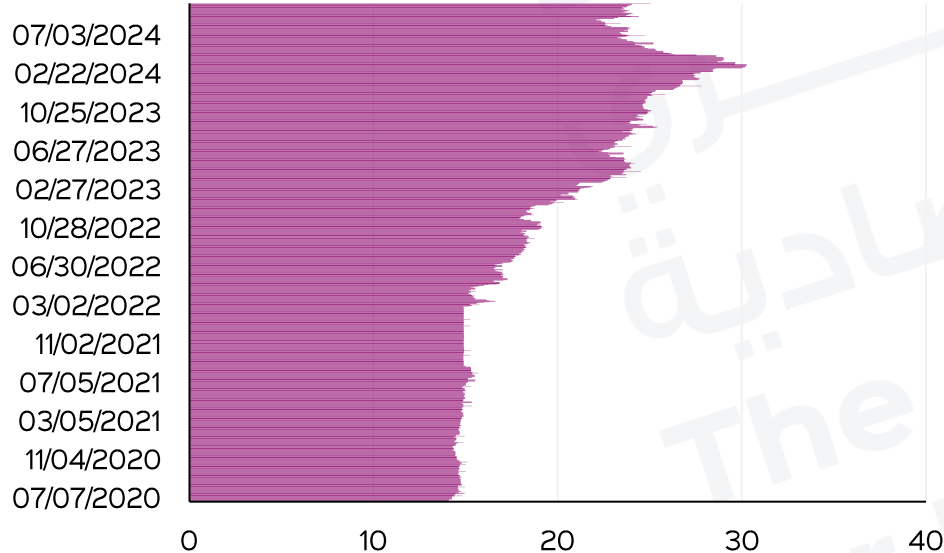
Total External Debt (bn \$)*



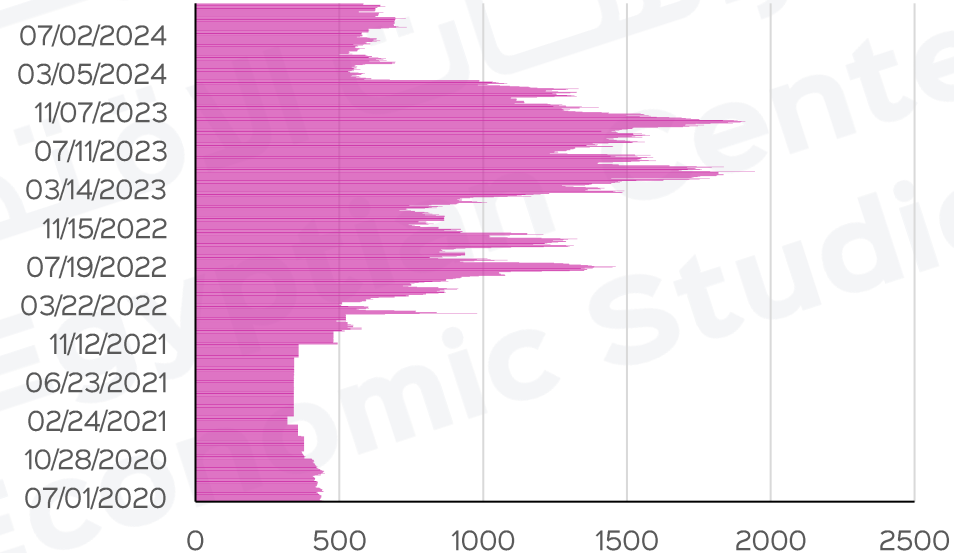
External Debt Service (bn \$)*



Egypt 10-Year Bond Yield



5Y CDS, Egypt



S&P Global Ratings
B- Positive

Fitch Ratings
B- Positive

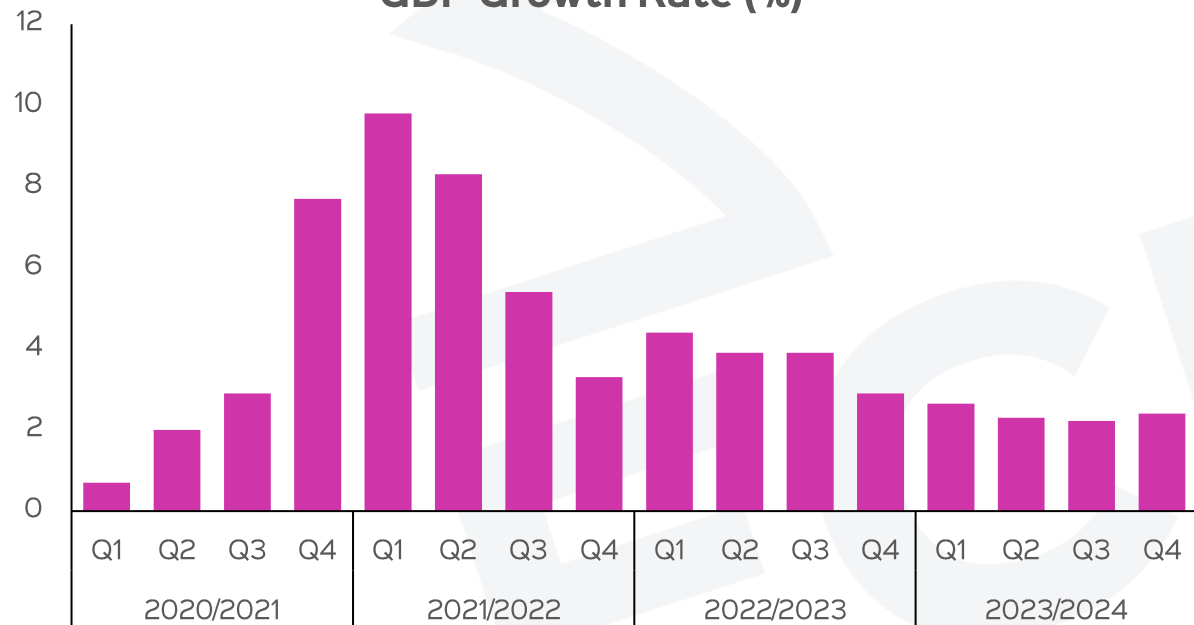
MOODY'S INVESTORS SERVICE
Caa1 Positive

Economic growth inched upwards slightly giving a positive sign, but inflation rate increased for the second month in a row due to the fiscal reforms. Despite the decrease in growth in money supply, the high inflation rate and pressure on currency is resulting into a still high interest rate by the Central bank. Inflation rate increased for the second month in a row 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 higher inflation rate. Central bank is keeping its monetary tightening stance through liquidity absorption and still quite high policy rate.

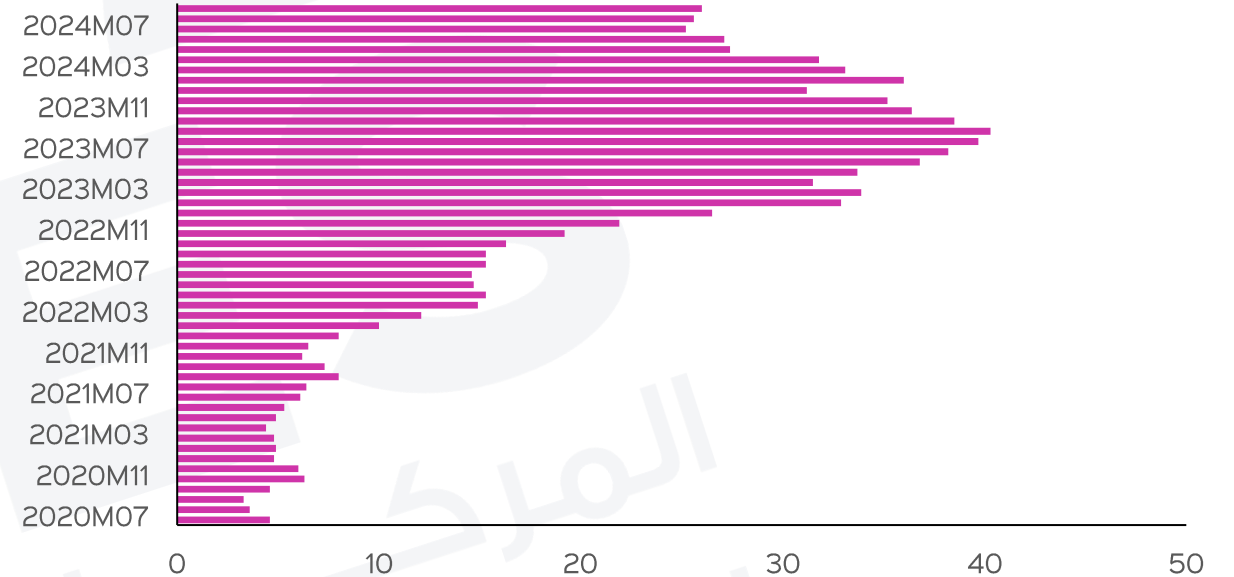
External Position

Local Developments

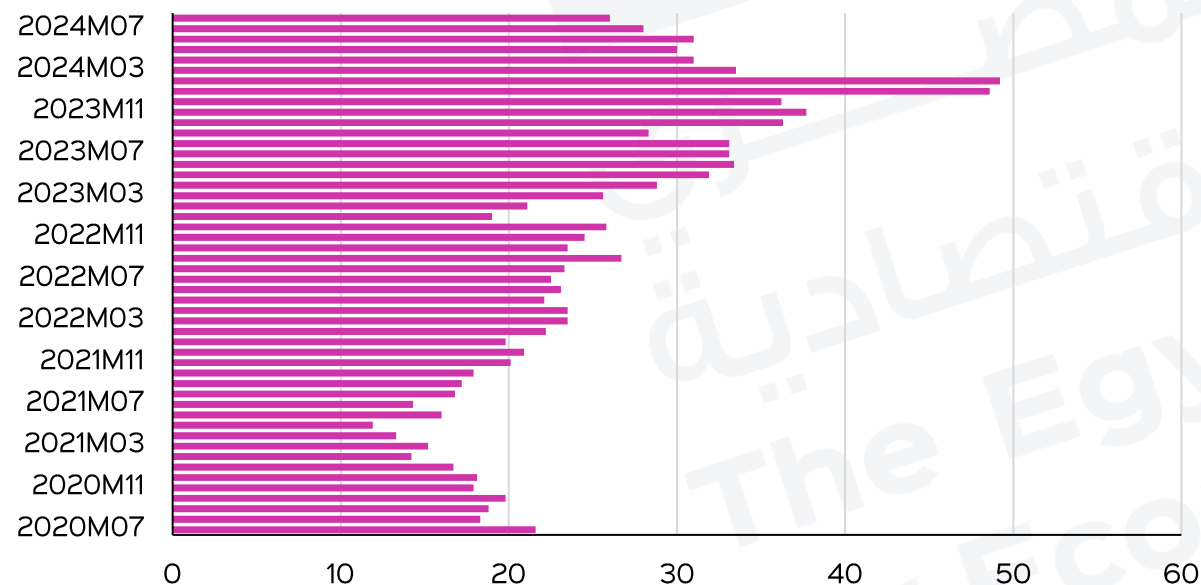
GDP Growth Rate (%)*



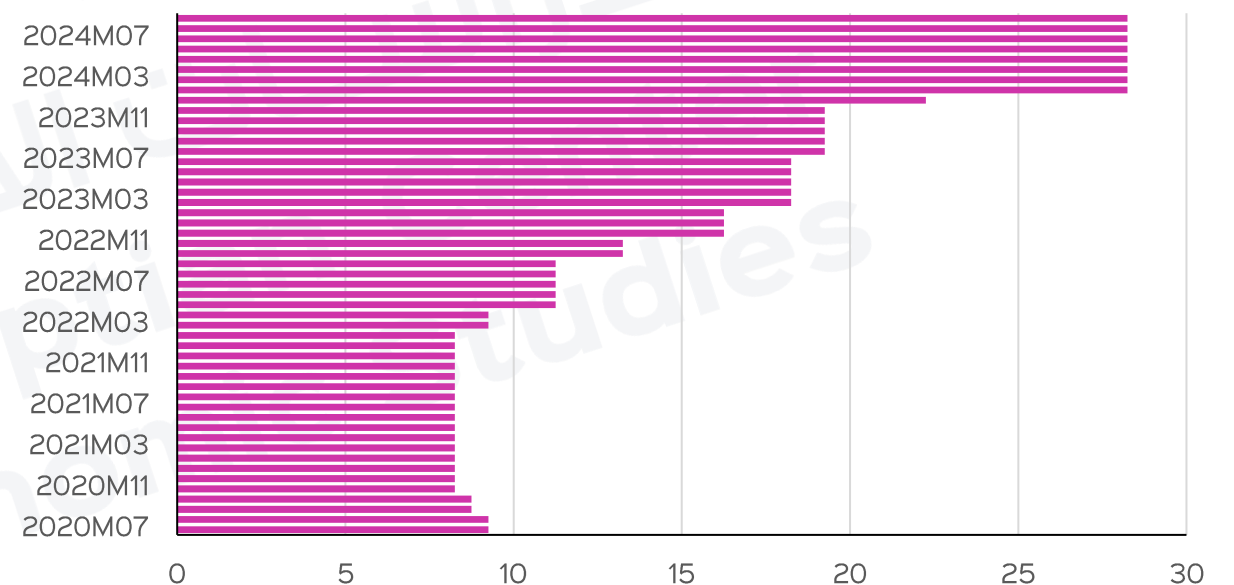
Inflation Rate (%)



Growth Rate of Money Supply (M1)*



Policy Rate (%)

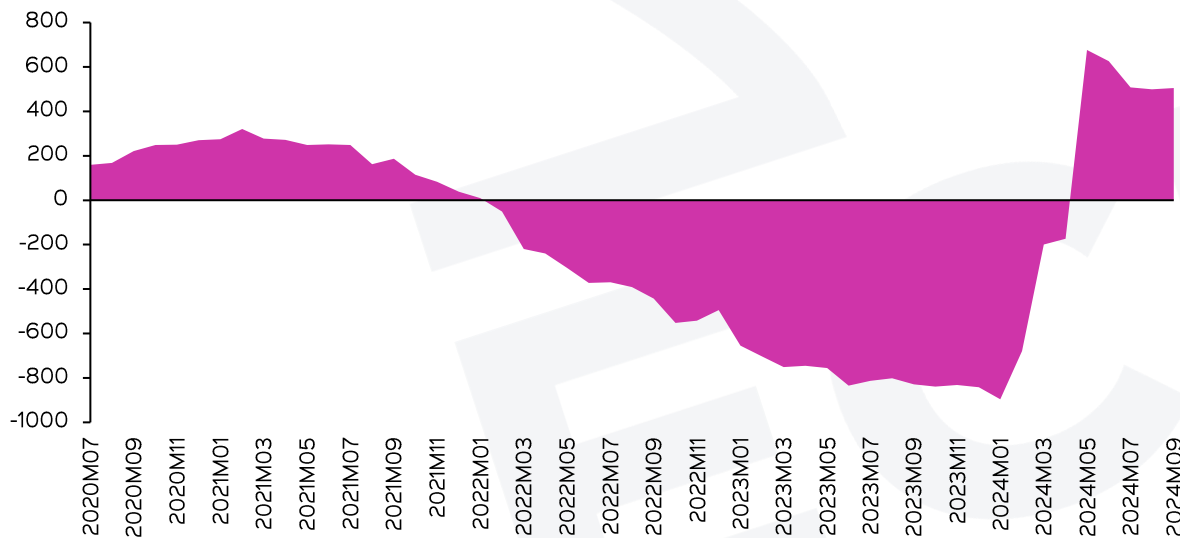


Despite global markets turbulence, Central bank reserves of foreign currency have inched upwards yet again and net foreign assets in the banking system stabilized, which reflected into a stable and unified exchange rate in the market. Despite the turbulence in global financial markets, emerging markets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

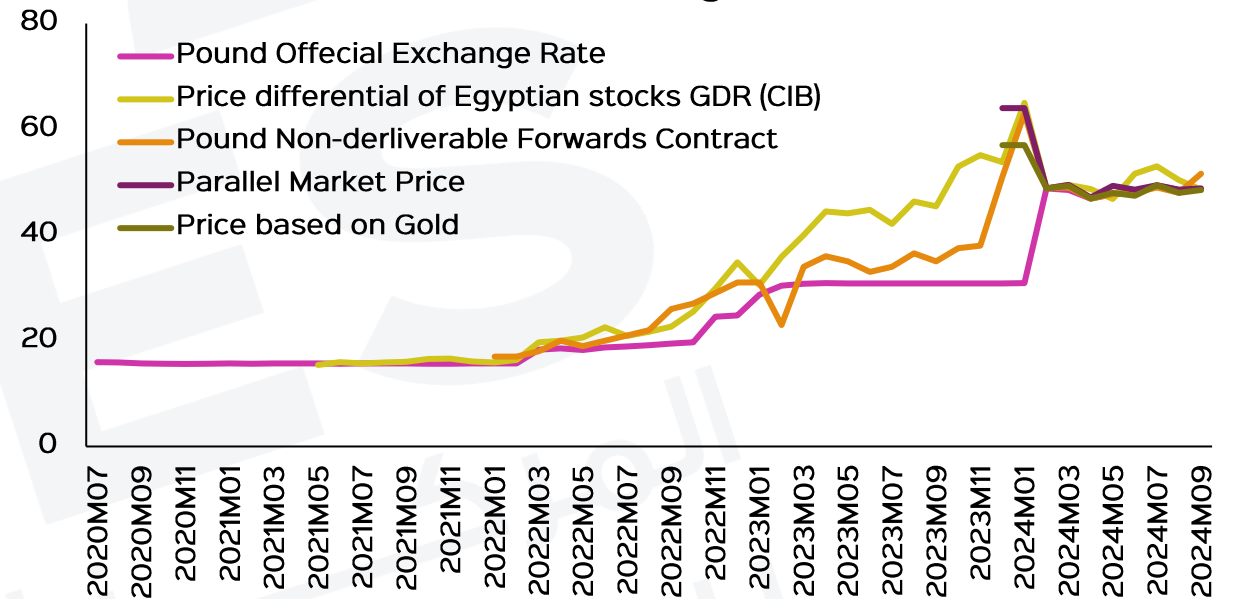
External Position

Local Developments

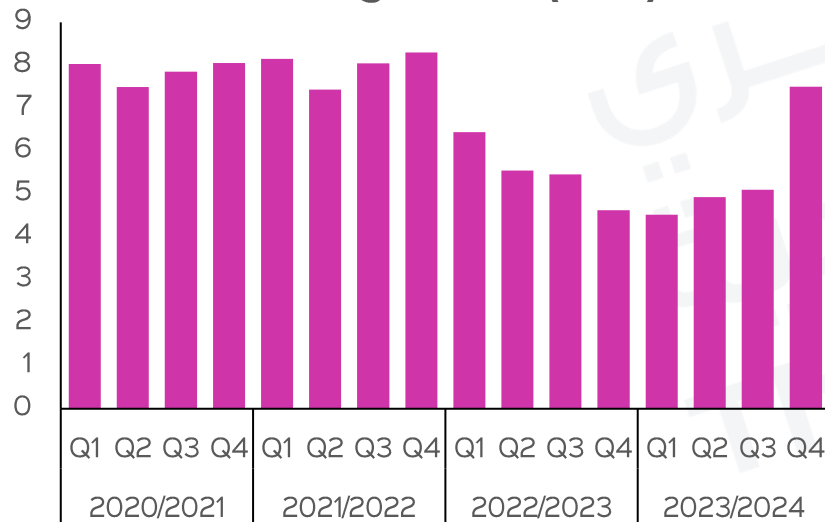
Net Foreign Assets of the Banking System (bn LE)*



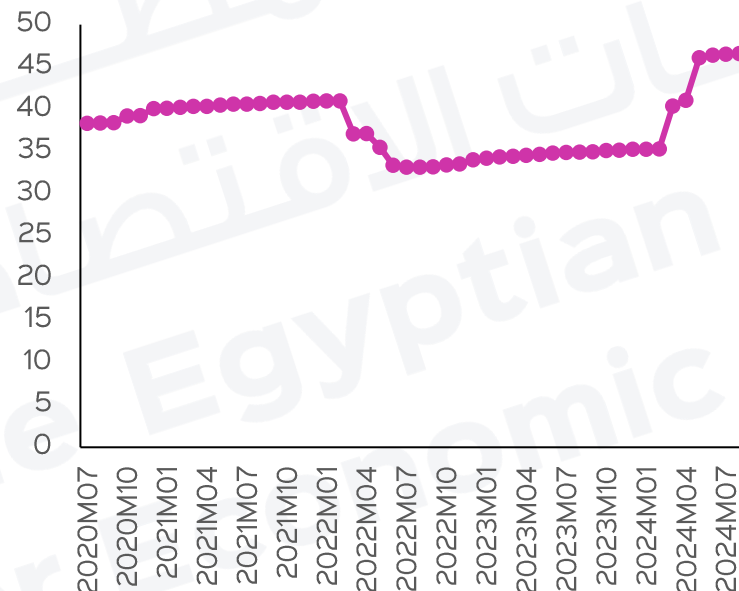
Pound Exchange Rate



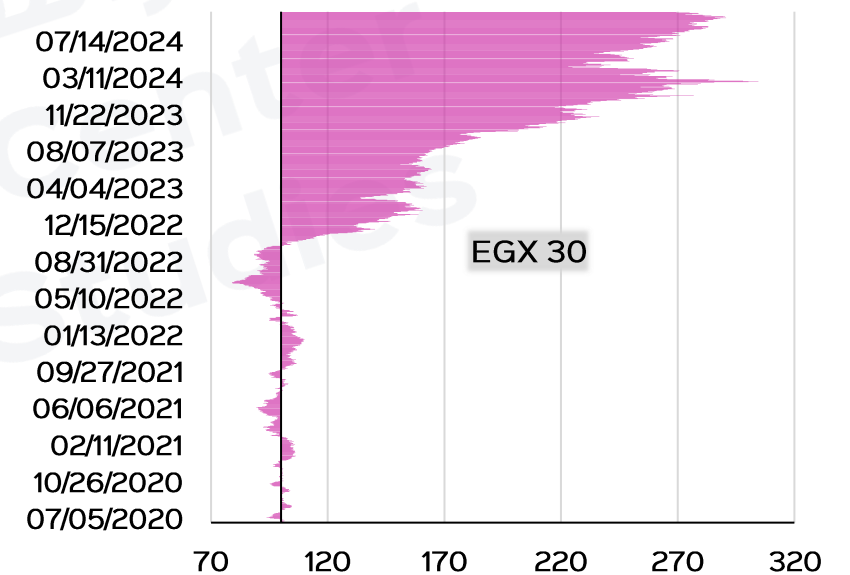
Remittances of Egyptians working abroad (bn \$)



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

