



Financial Markets Snapshot

Issue 11
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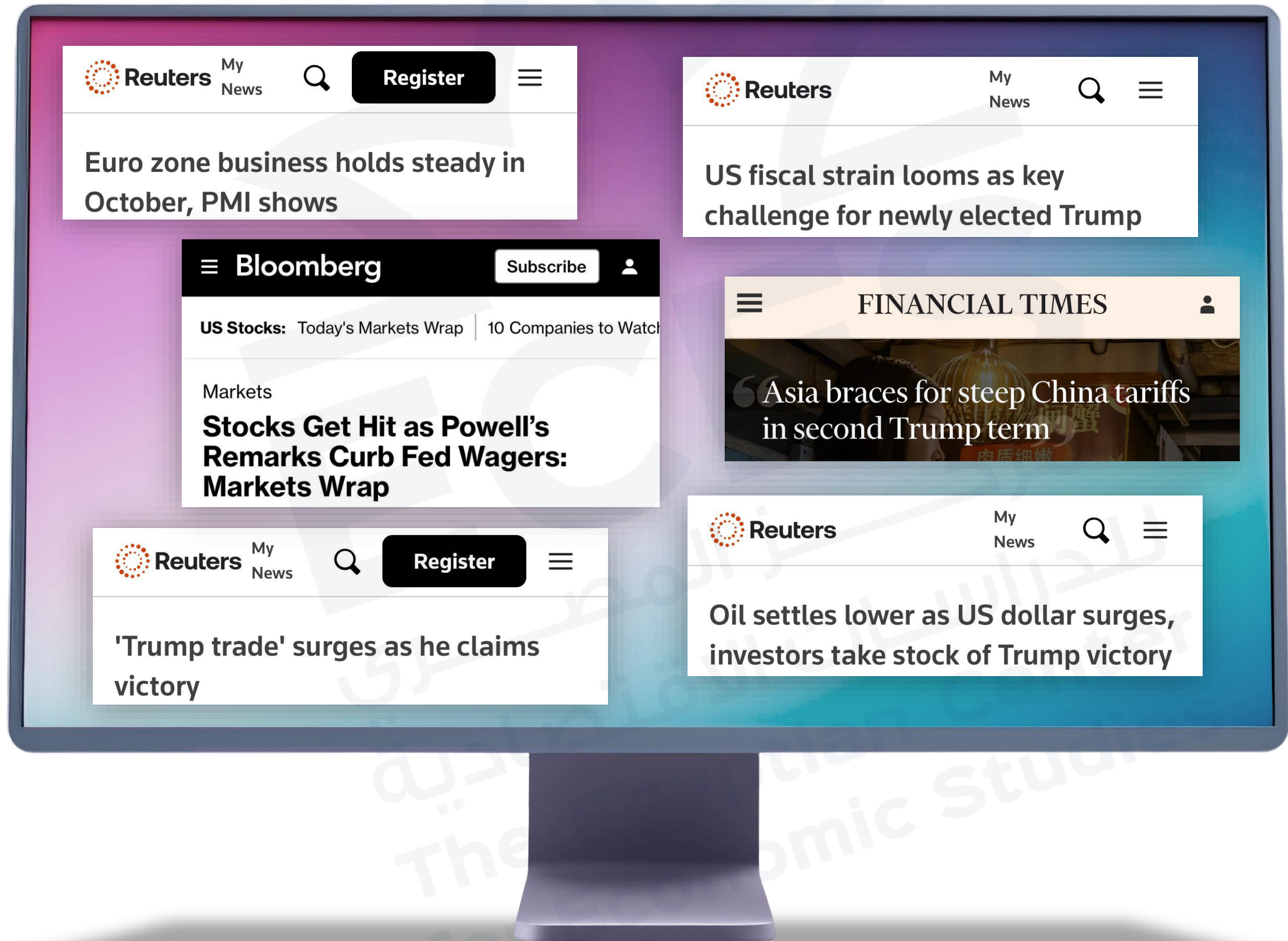
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About The Report

- 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



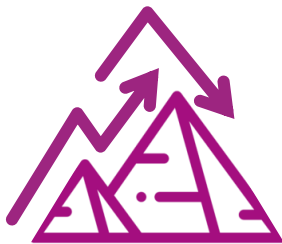
- Commodity prices have kept their divergence and volatility due to changes in economic outlook and geopolitical tensions, with oil and gold exhibiting the biggest divergence. Palm oil spiked due supply shortfall.
- The stance of global Central banks on monetary easing is confirmed with inflation rates going down further.
- With US elections concluded and a second rate cut, US stock market rallied, while other global markets have been volatile due to economic uncertainty and geopolitical tensions.
- For the second month in a row, bond yields in global markets have not declined and the same mostly for CDSs, despite the interest rate cuts, indicating high volatility and uncertainty in global markets

Emerging Markets



- Inflation rates across most emerging markets have witnessed a general decline due to stabilization in most commodity prices, except for India which witnessed a spike in inflation.
- Emerging markets Central banks have diverged in their direction towards interest rates, with some cutting interest rates following decline in inflation, while others are keeping interest rates fixed or even hiking them, such as Brazil.
- Emerging markets currencies are under big pressure against US Dollar, which explains why many Central banks still delay interest rate cuts, despite the decline in inflation.
- Bond yields in emerging markets as well as CDSs stayed high, mirroring the trend in global markets and reflecting the heightened volatility and geopolitical risks.

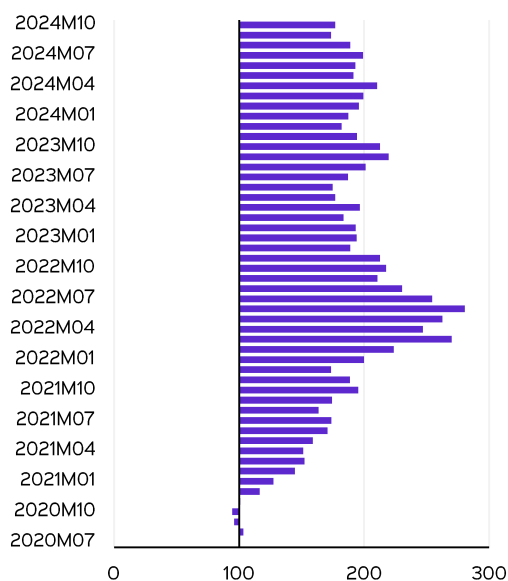
Egyptian Local Market



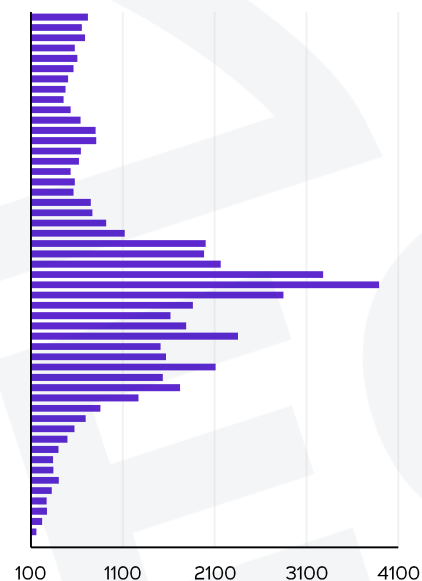
- Outstanding external debt is slightly declining thanks to mega deals, yet still external debt service due next year is sizable. The stable credit rating and positive outlook is helping contain bond yields and decrease CDSs in the short-term.
- Inflation rate has increased for the third month in a row due to the different fiscal reforms enacted. The persistent increase in inflation rate, coupled with a higher than previous months increase in money supply have made it harder for the Central bank to start cutting interest rates.
- Despite global markets turbulence, Central bank reserves of foreign currency and net foreign assets in the banking system have inched upwards. This has reflected into a unified exchange rate in the market, yet the US Dollar exchange rate is inching upwards gradually, opening the room for speculation about the future value of the pound.

Commodity prices have kept their 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 confirmation of interest rate cuts globally, gold has been reaching new highs, especially with the increasing geopolitical tensions. The escalating middle east war has created uncertainty about oil price, yet the declining risk of an extensive war has pushed oil price downwards for the second month in a row. Iron ore price stayed low due to recession fears. Palm oil price increased due to supply shortfall from Indonesia, the world's biggest palm oil producer.

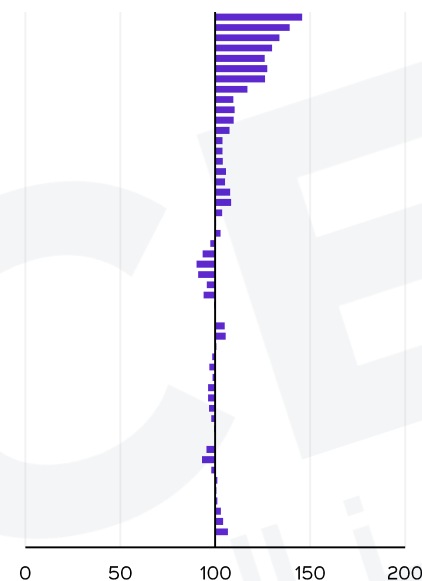
Crude Oil, Brent



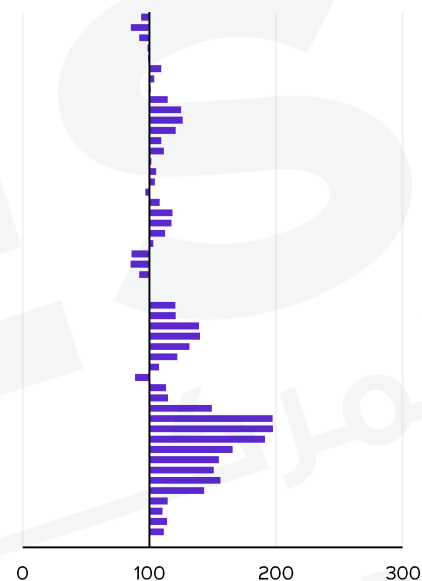
Natural Gas



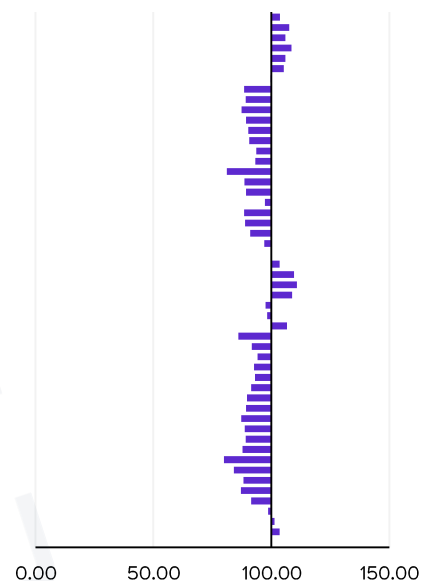
Gold



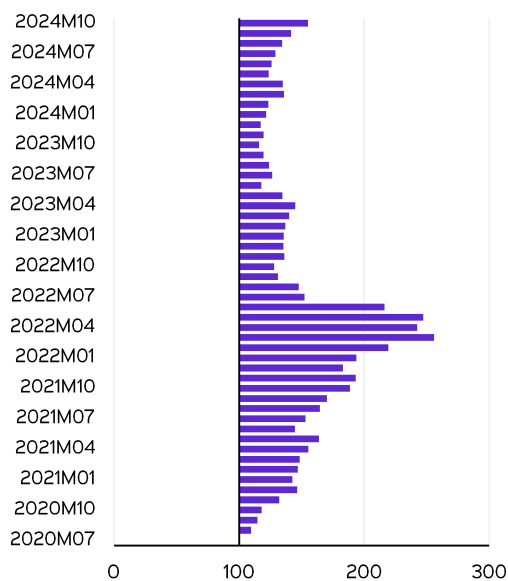
Iron ore



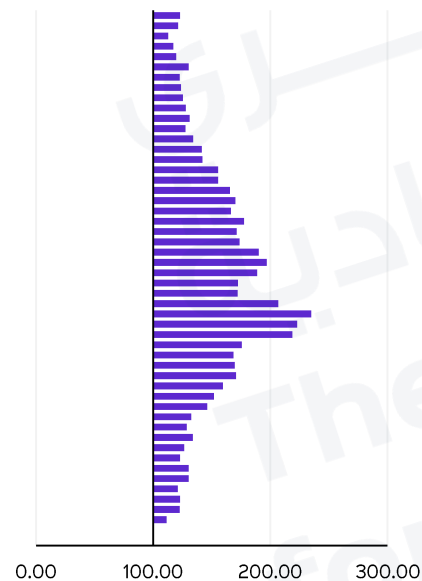
Tea



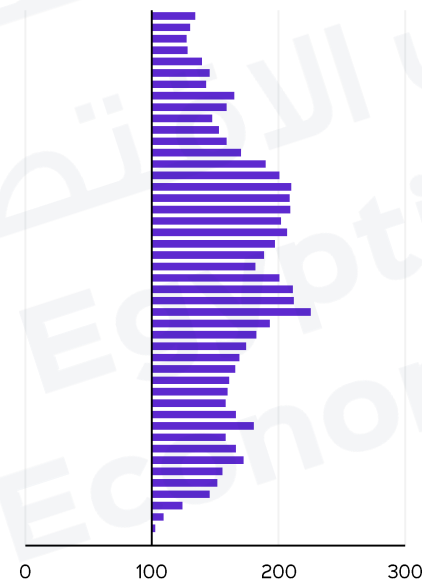
Palm oil



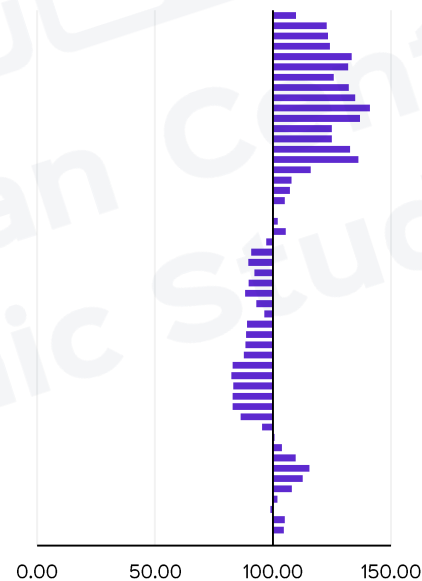
Wheat



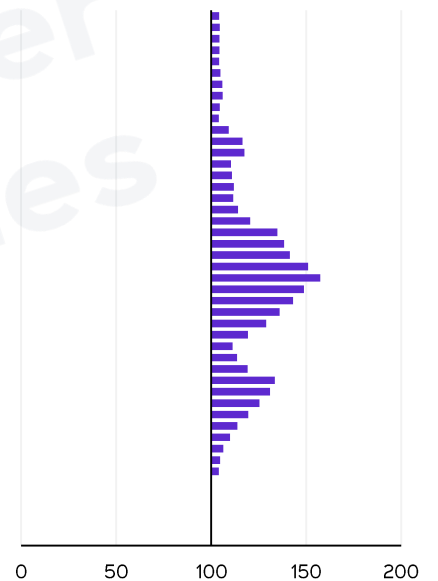
Maize



Rice

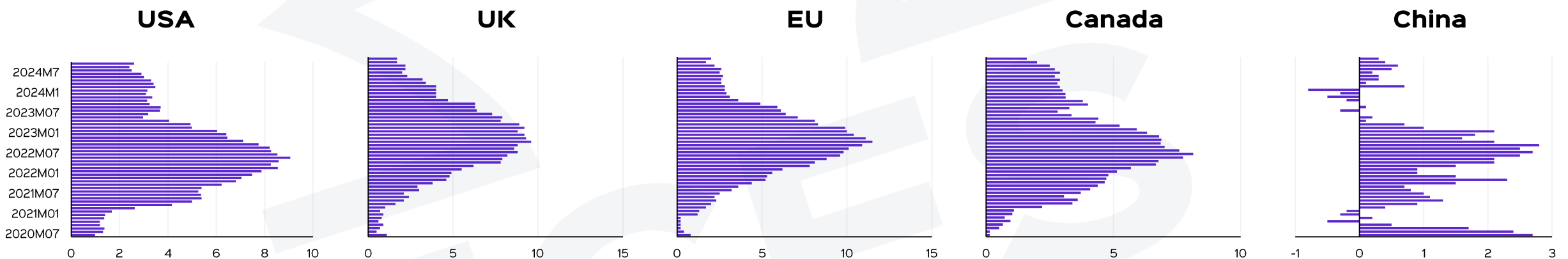


Bovine meat

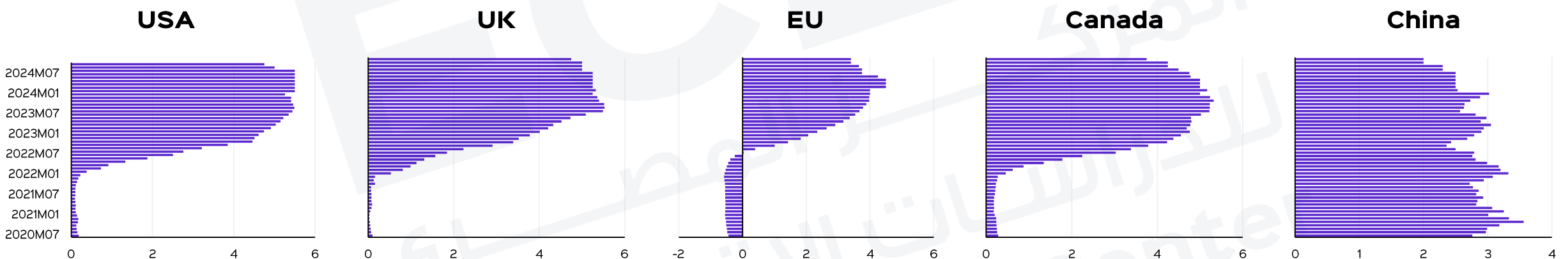


Inflation rates in global markets kept going down, confirming the stance of Central banks to keep cutting rates further as witnessed across global markets. Inflation rates across global markets have kept their declining trend for few months in a row giving confidence to Central banks that focus should be on growth. And after some earlier cuts last few months, Central banks have cut interest rates further last month as witnessed across the different global markets, yet the speed of interest rate cuts may slowdown if inflation rate increased again. Despite the interest rate cuts by the US Fed, the US Dollar has strengthened against most of global market currencies, which are also mirroring the US Fed easing.

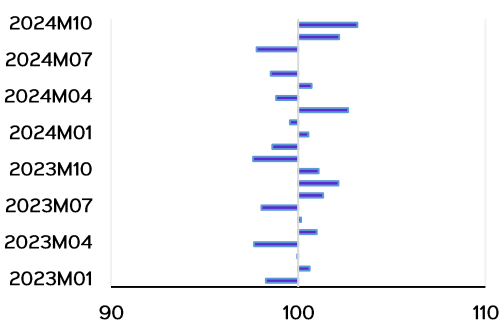
Inflation Rate



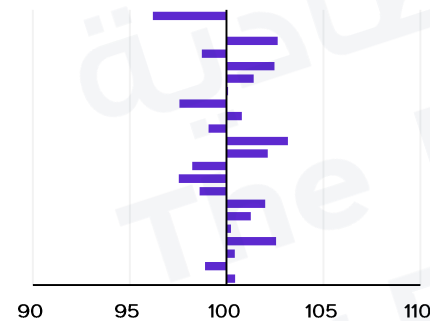
Policy Rate



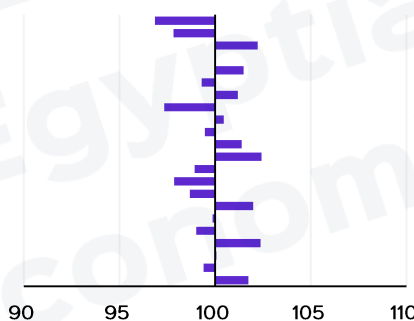
LCU / USD



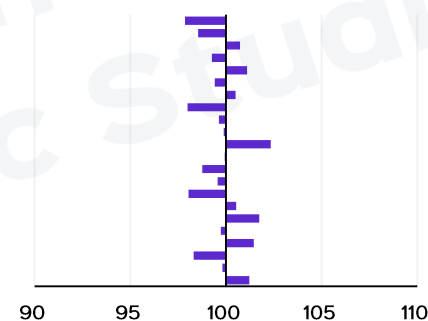
UK Pound



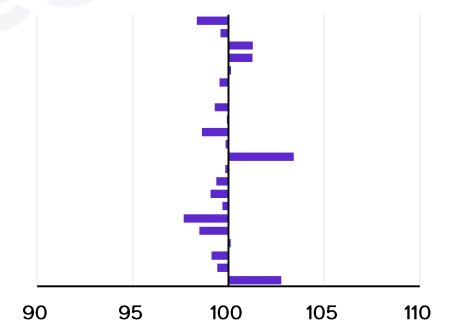
Euro



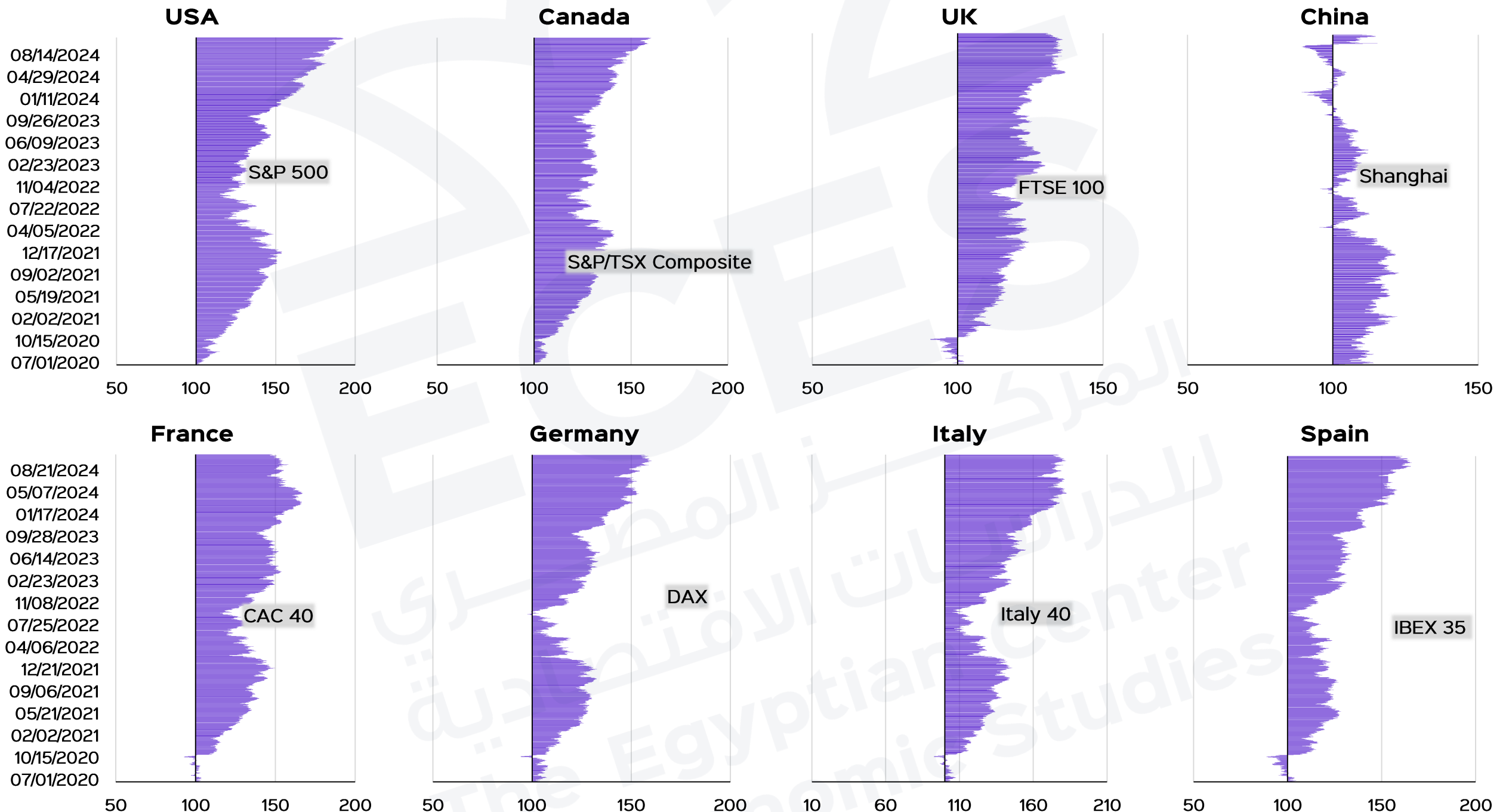
Canadian Dollar



Chinese Yuan

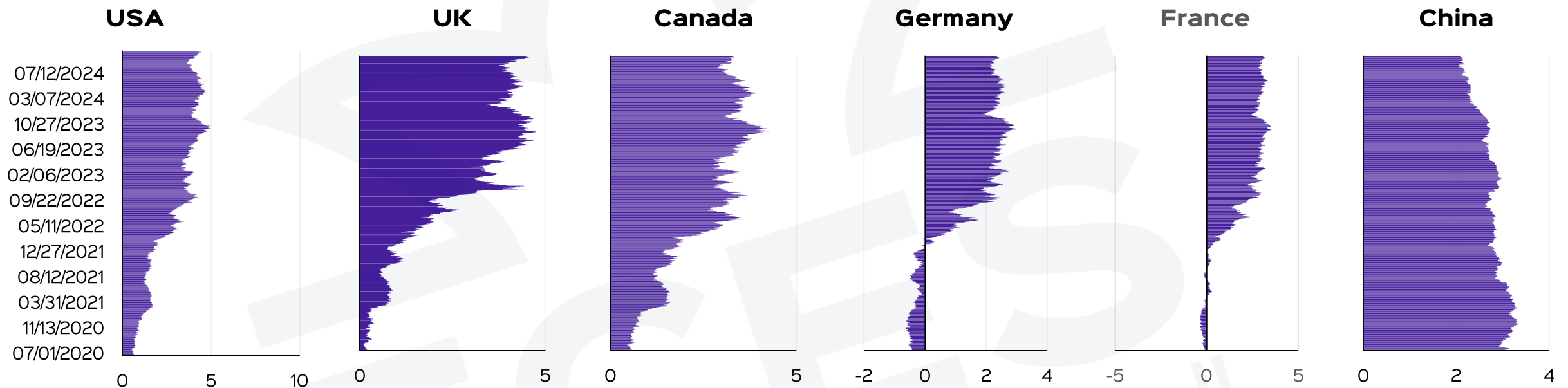


Global stock markets have diverged last month, with the US market rallying after US elections and interest rate cut, while other global markets witnessing high volatility. With the US elections over peacefully and the Republicans back in full control to the office coupled with another interest rate cut by the US Fed, the US market rallied in anticipation of business-friendly administration and monetary easing cycle. Other global stock market have witnessed high volatility due to the expected protective US policies under Trump presidency, with Chinese market recording massive losses in expectation of Trump tariffs on Chinese imports.

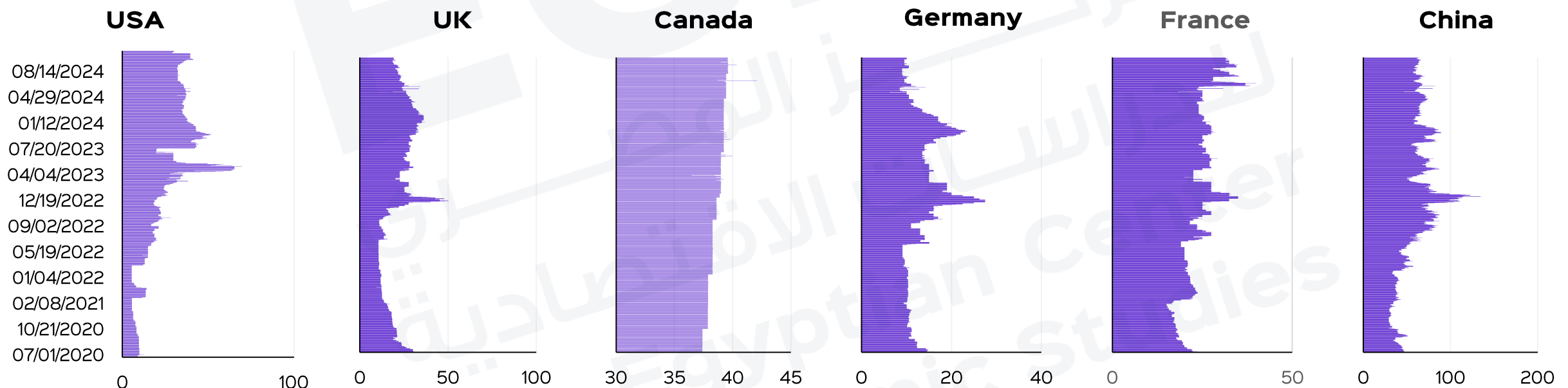


Bond yields in global markets have not declined despite interest rate cuts, mostly the same for CDSs which indicates high volatility and uncertainty in global markets due to US elections and geopolitical tensions. With the confirmation of easing cycle kickoff and interest rate cuts across global markets, bond yields were expected to decline. The opposite happened, where bond yields increased in the last couple of months due to uncertainty about US elections and increased geopolitical risks globally. CDSs have not declined in most of global markets despite the interest rate cuts and decreased risk of default, except for the US, which has witnessed retreat in CDSs after the elections.

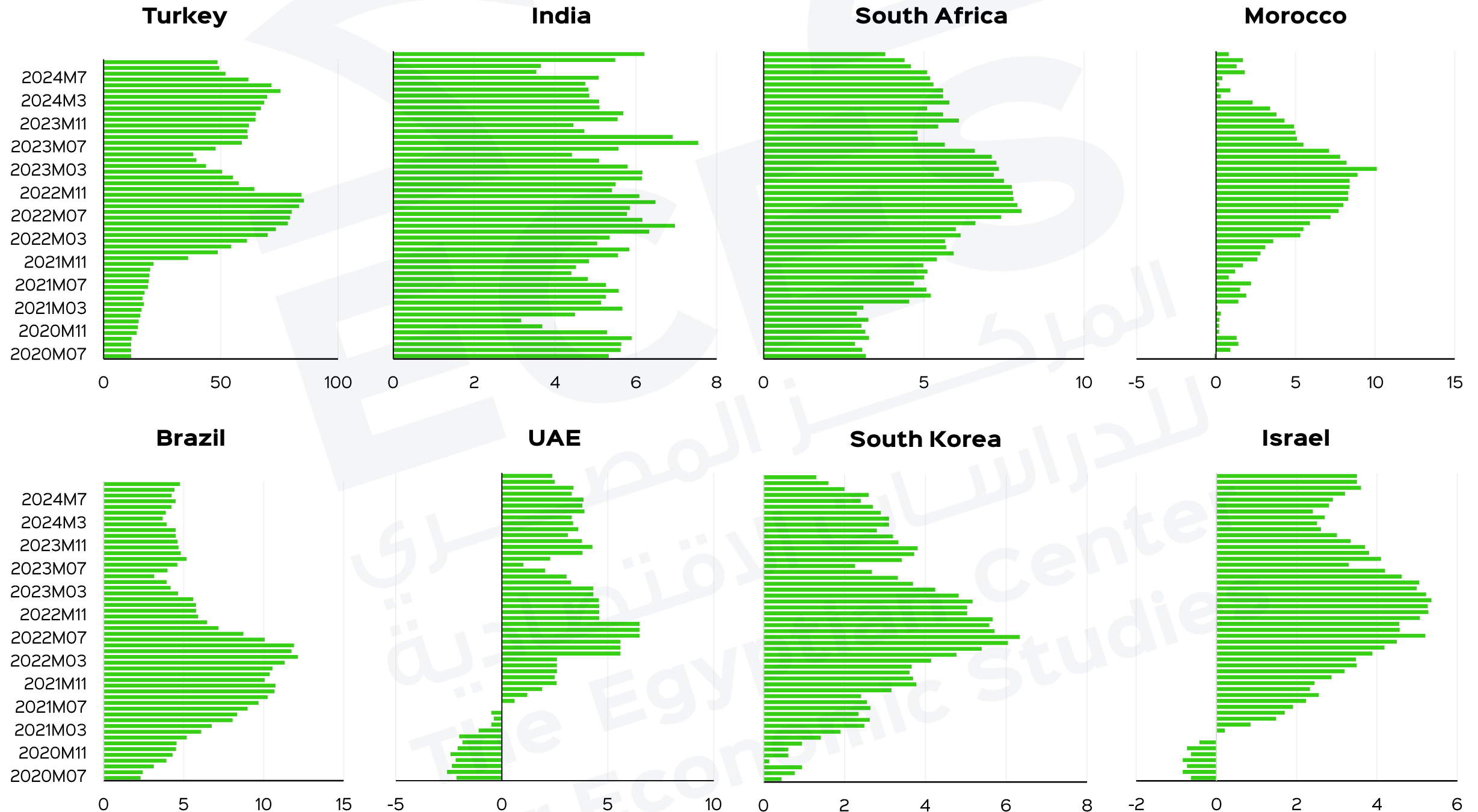
10-Year Bond Yield



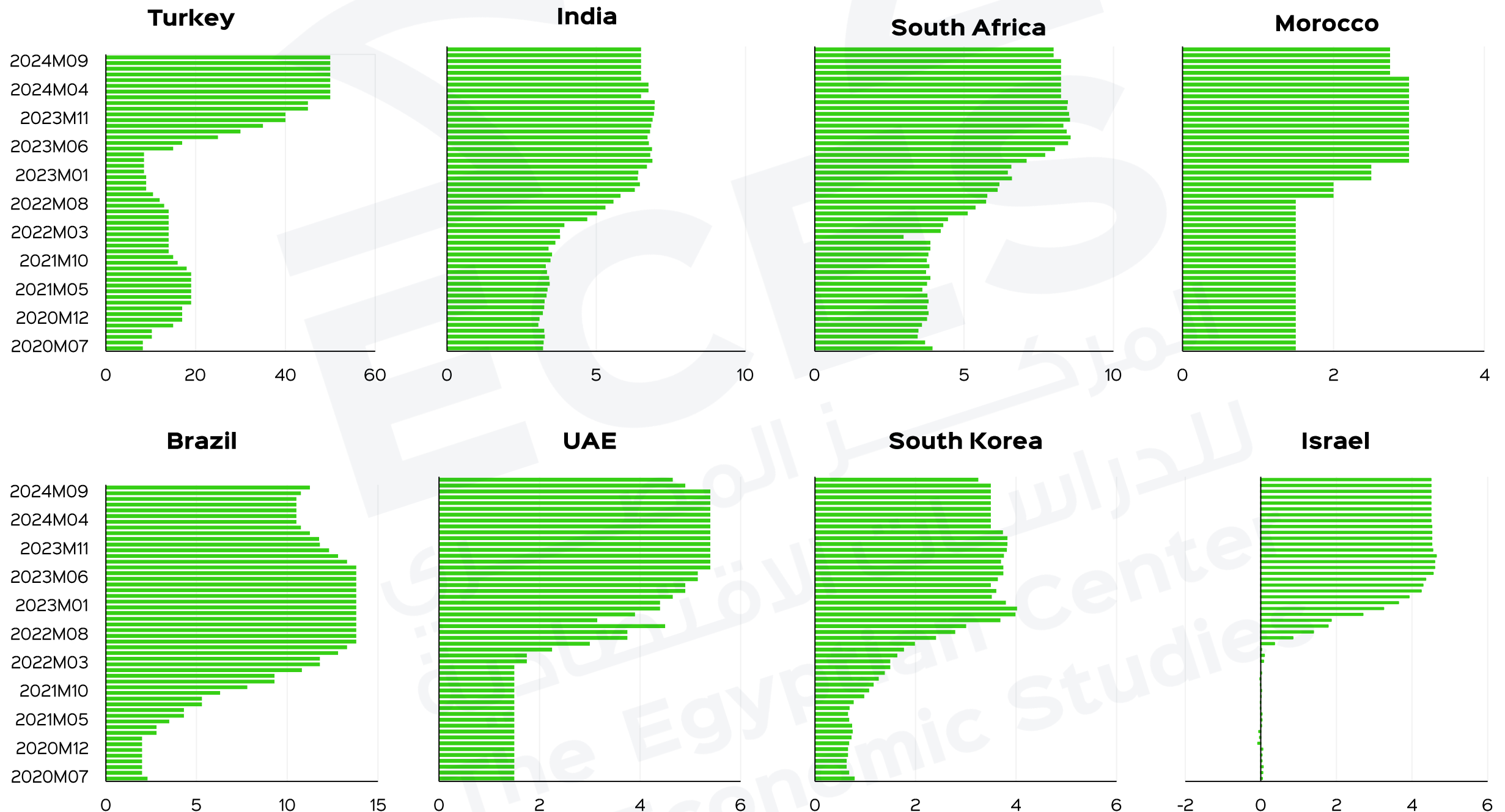
5-Year CDS



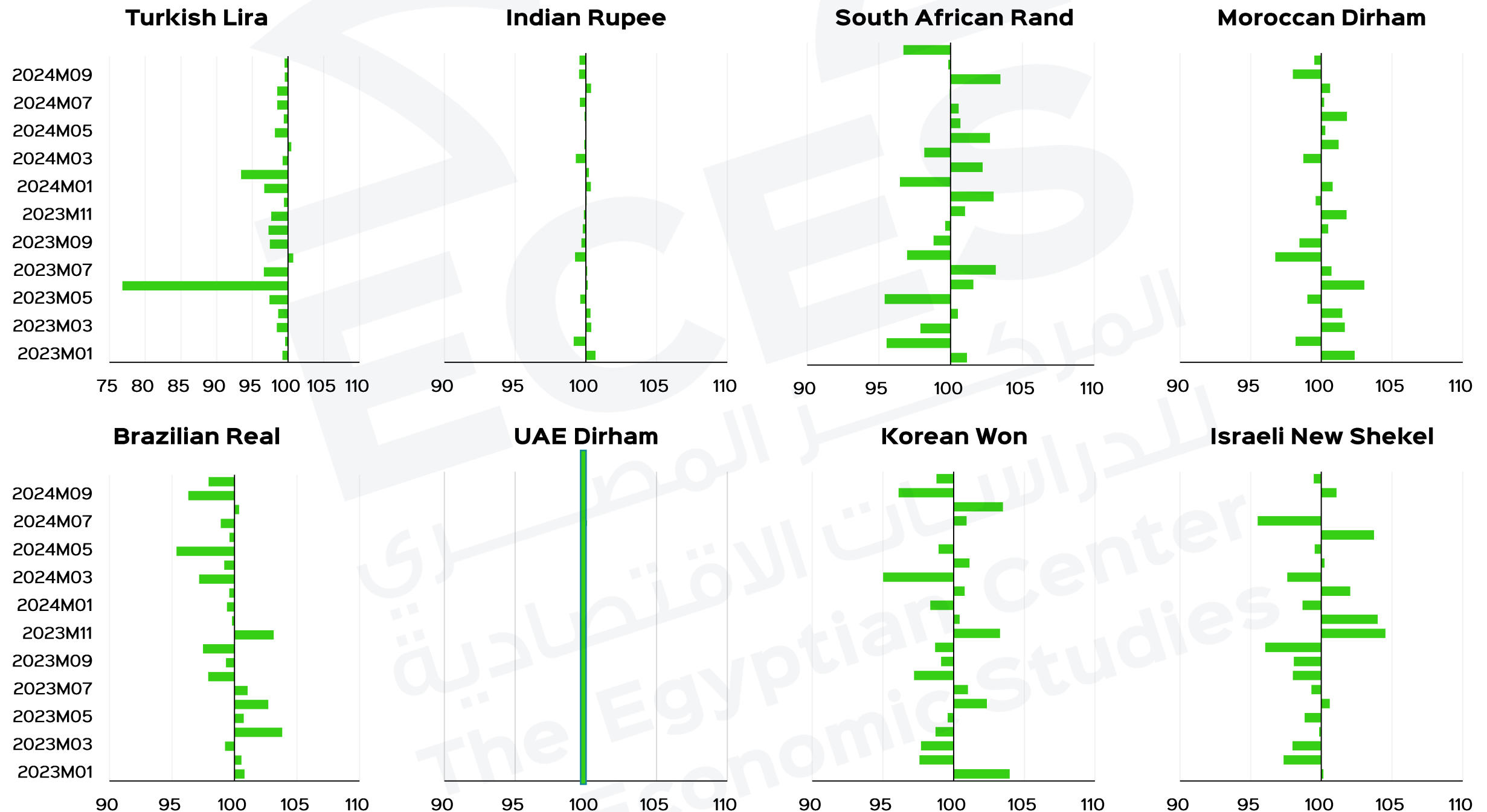
Inflation rates across emerging markets have witnessed a general decline thanks to stabilization in most commodity prices, except for India which witnessed a spike in inflation. Like global markets, emerging markets have been witnessing a decline in inflation rates due to stabilization in most commodity prices and the long adopted tight monetary policy by emerging markets Central banks over the last couple of years. An exception to the trend of decreasing inflation rate is India, which witnessed an increase in inflation rate lately due to the spike in food prices, especially for vegetables pushing inflation rate upwards.



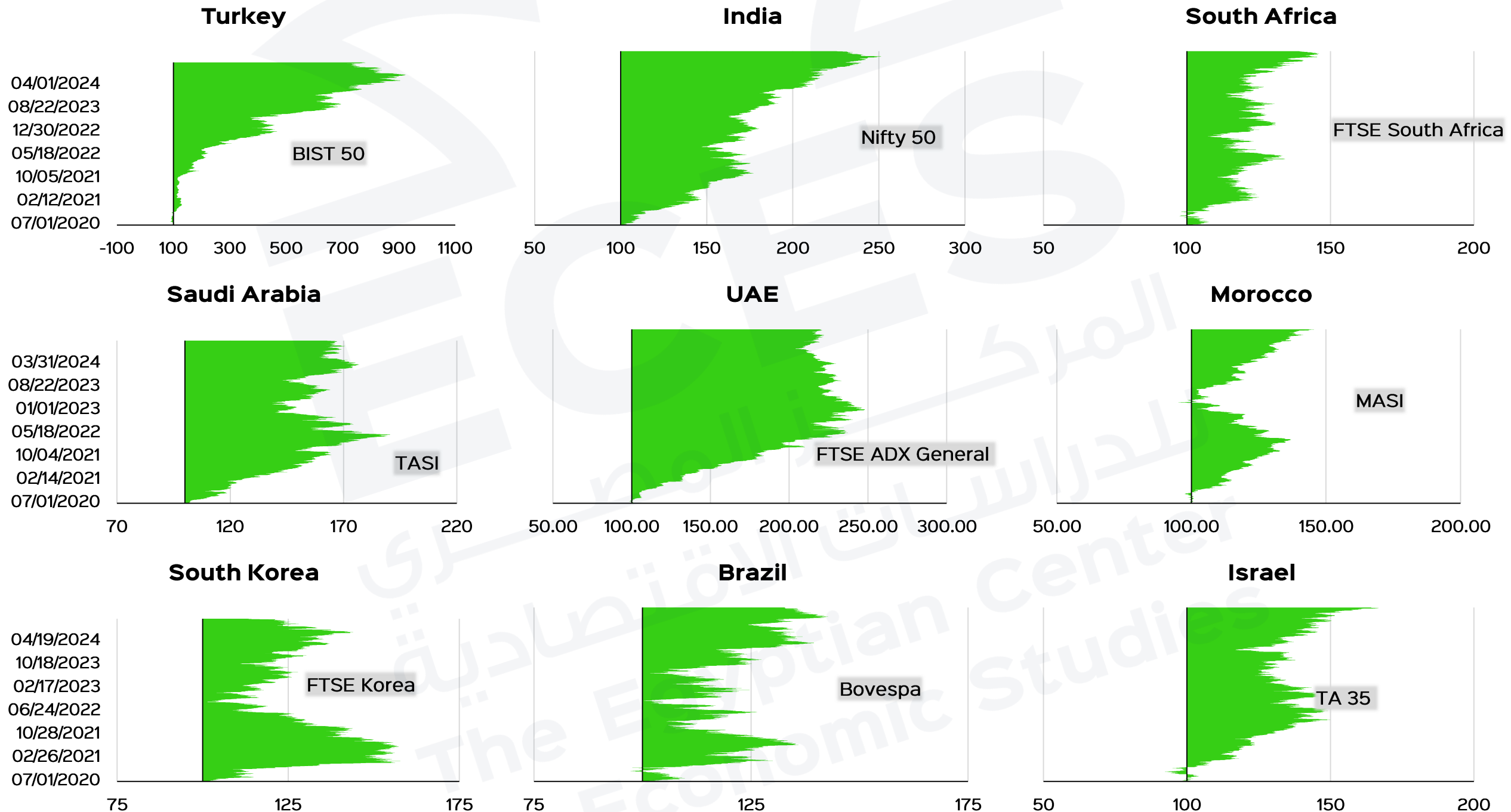
Despite the decline of inflation rates, emerging markets Central banks have diverged in their direction, some such as UAE, South Africa and South Korea have cut interest rates, while others kept interest rates high or even hiked them. Emerging markets Central banks have taken different stances towards interest rates. Some Central banks have followed global markets by cutting rates in countries like South Africa, South Korea and UAE, which was helped by tamed inflation. Other emerging markets Central banks have kept interest rates unchanged to protect their currencies and get inflation under control, while others such as Brazil had to resort to hiking interest rate again to tame down inflation.



Emerging markets currencies are under big pressure against the US Dollar, despite declining inflation in emerging markets and cutting interest rates in global markets. Decreasing local inflation and interest rate cuts in global markets should have given emerging markets currencies some space to breathe against the strong US Dollar, but the reality turned out to be different. The rising volatility across most markets and geopolitical tensions are exacerbating money flows and putting pressure on emerging markets currencies. This is why many Central banks in emerging markets are delaying interest rate cuts or doing them very cautiously.

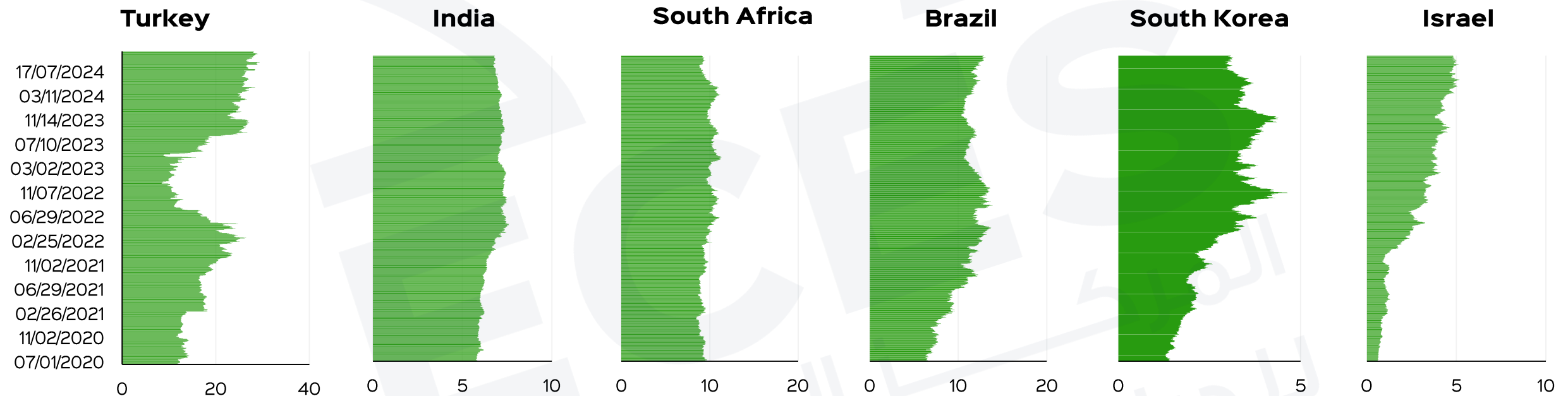


Emerging markets stock markets have witnessed another turbulent month for the second month in a row due to increased geopolitical tensions that are increasing volatility and affecting money flows to emerging markets in general. Heightened global geopolitical tensions have had their toll on emerging markets which witnessed another very turbulent month in their stock markets, especially in the middle east region. Besides, the uncertainty about the US elections and the prevailing economic risks as a result have heightened that uncertainty in the short-term, which affected the money flows to emerging markets and thus turbulence in their stock markets.

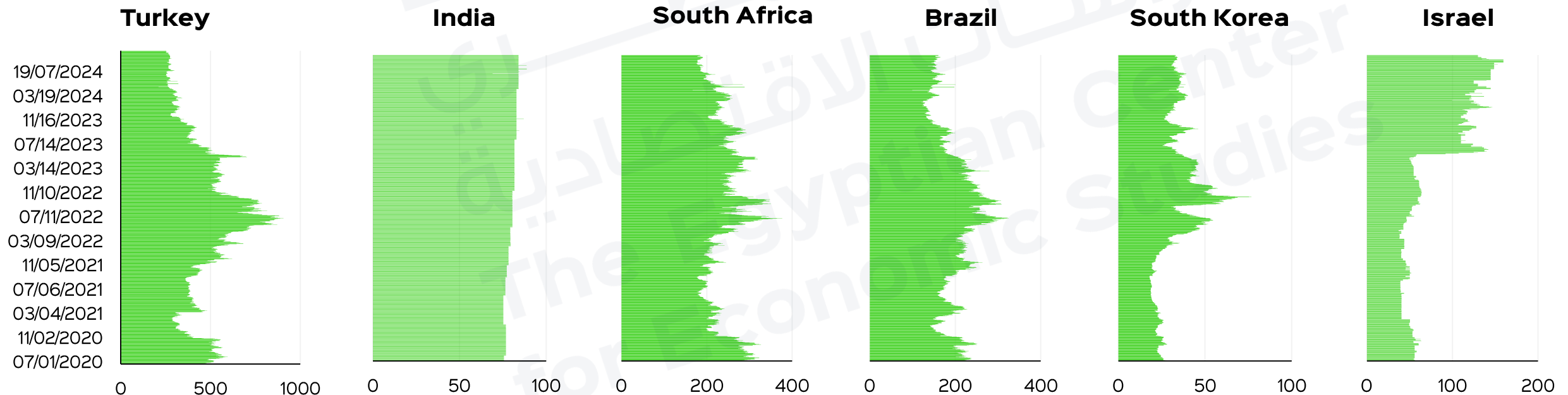


Bond yields in emerging markets stayed high and didn't decline. The same happened with CDSs, despite the interest rate cuts in global markets, which were overshadowed by heightened global geopolitical risks and market volatility prevailing. With the interest rate cuts across global markets and some emerging markets, bond yields and CDSs on emerging markets should have declined. But effectively, the opposite happened where emerging markets are witnessing high bonds yields and still high CDSs, with even spikes in some countries due to heightened global geopolitical risks, increased volatility in emerging markets and the still high bond yields and CDSs in global markets.

10-Year Bond Yield

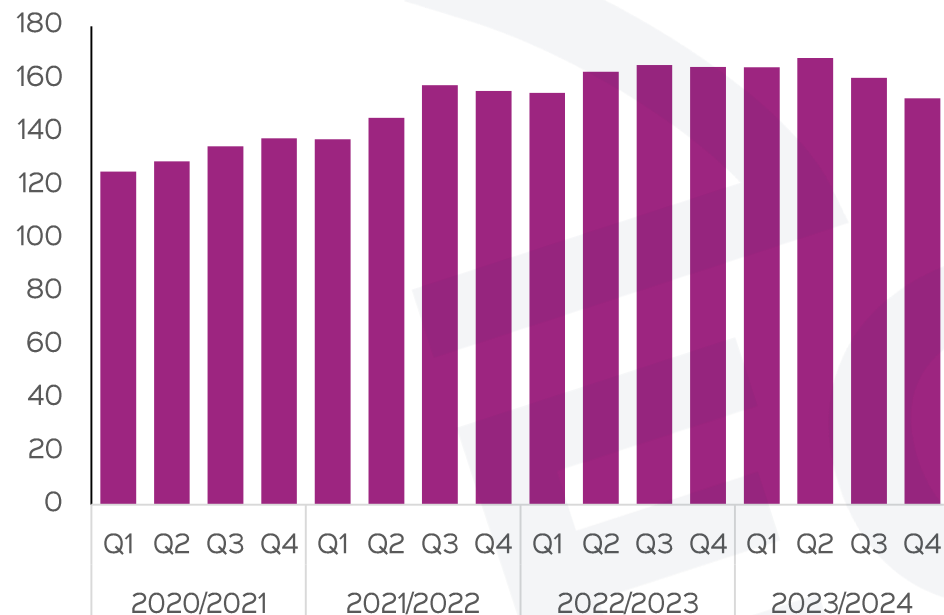


5-Year CDS

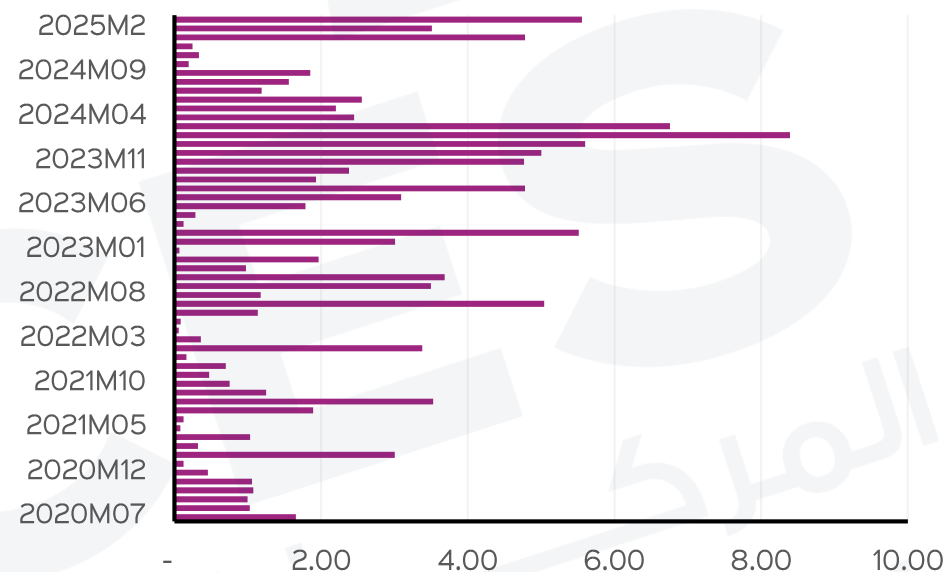


The conclusion of mega deals this year has helped contain outstanding external debt, yet still external debt service due next year is sizable. The stability of the credit rating and positive outlook are pushing bond yields down a bit and containing CDSs. External debt is a big dilemma. While the total outstanding external debt declined due to mega deals, external debt service due next year is quite high. Yet the stability and gradual improvement of country rating is giving some relief in the short-term. This has resulted into a slight decline in bond yields and an observable containment of the CDSs, with the increased confidence that the government will be able to manage its short-term refinancing needs.

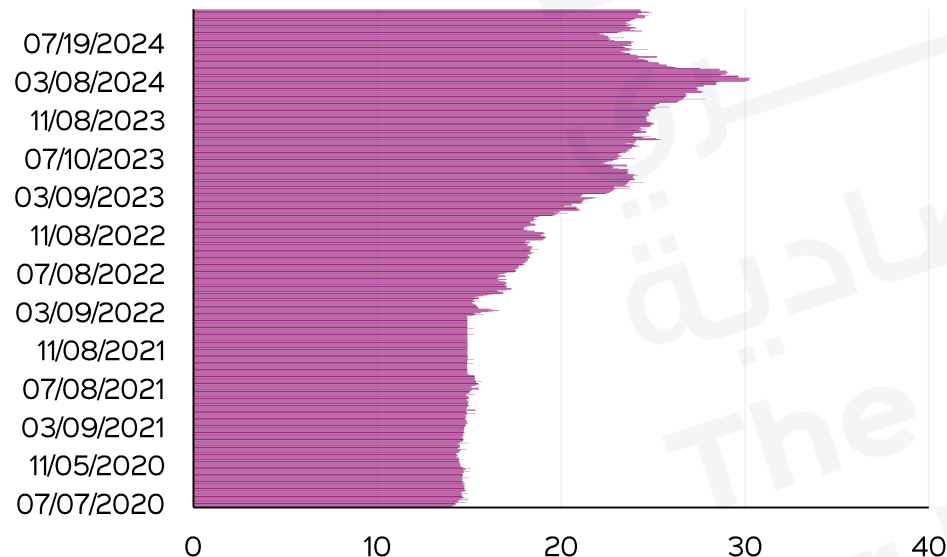
Total External Debt (bn \$)*



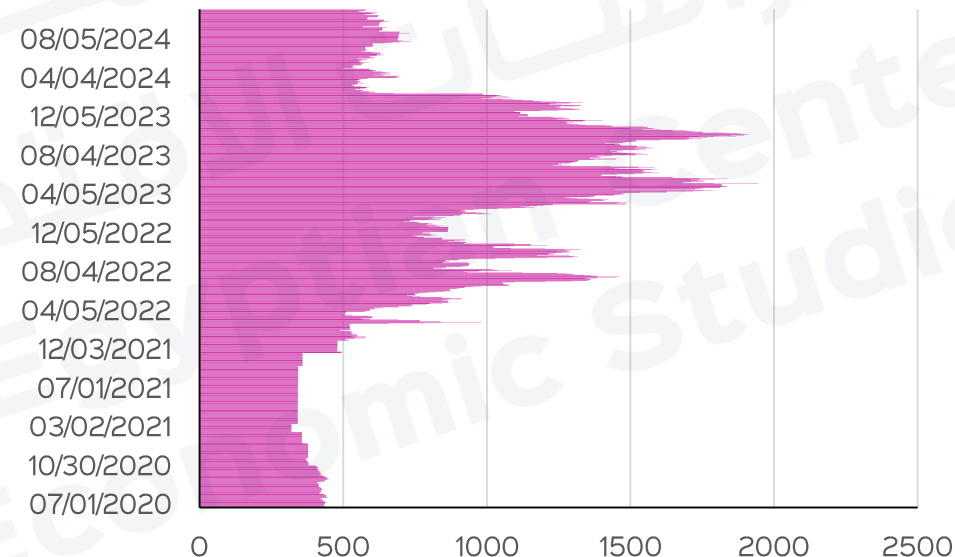
External Debt Service (bn \$)*



Egypt 10-Year Bond Yield



5Y CDS, Egypt



S&P Global
Ratings
B- Positive

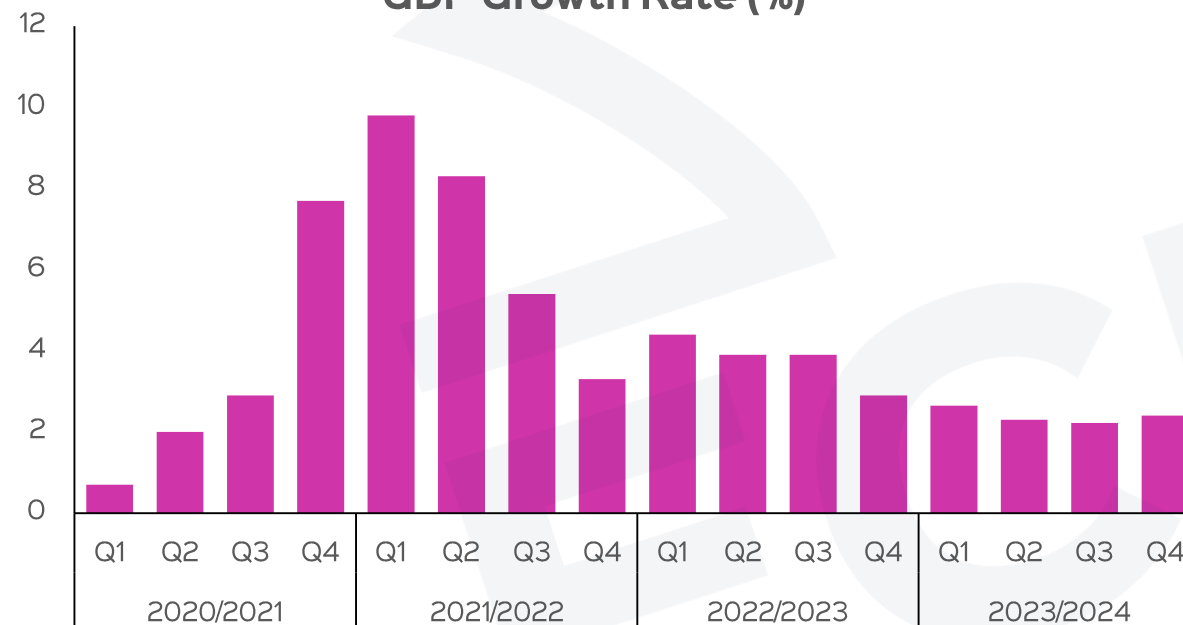
Fitch Ratings
B Stable

MOODY'S
INVESTORS SERVICE
Caa1 Positive

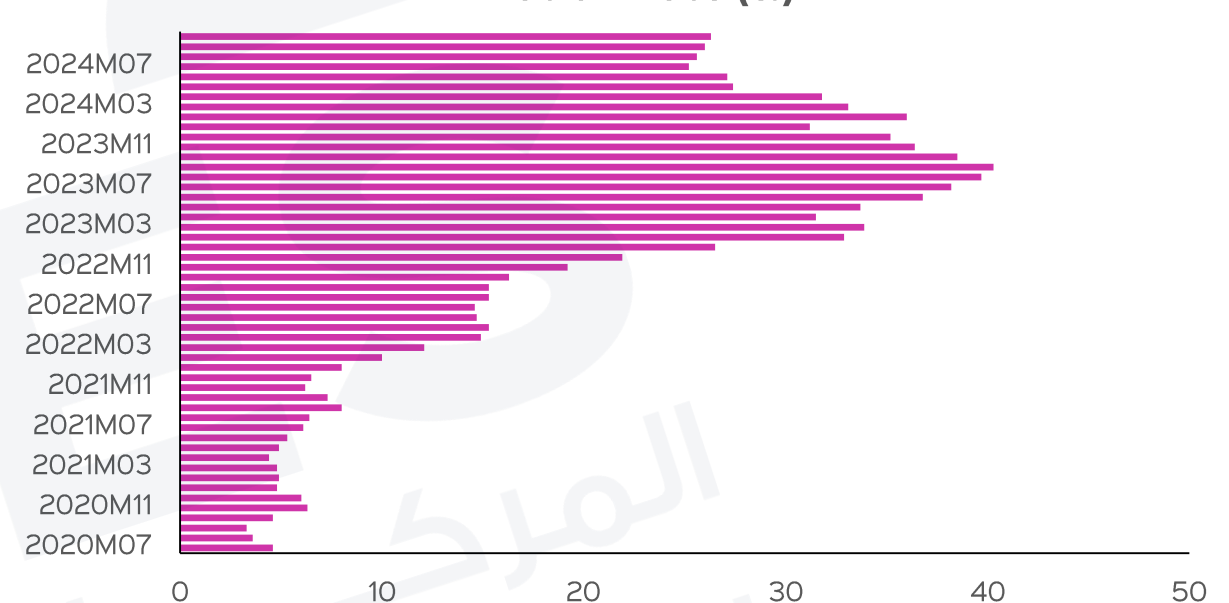
Economic growth is slightly recovering, but inflation rate has increased for the third month in a row thanks to fiscal reforms. Besides, the declining trend of decrease in money supply has reversed and together with the high inflation rate is making it harder for the Central bank to cut interest rate.

Inflation rate increased for the third month in a row due to the fiscal reforms enacted by the government lately resulting into increase in prices of various goods and services. Besides, money supply growth has increased at higher rates compared to previous months resulting into higher inflation rate. As a result, it is no surprise that the Central bank is keeping its tightening approach through liquidity absorption and still quite high policy rate.

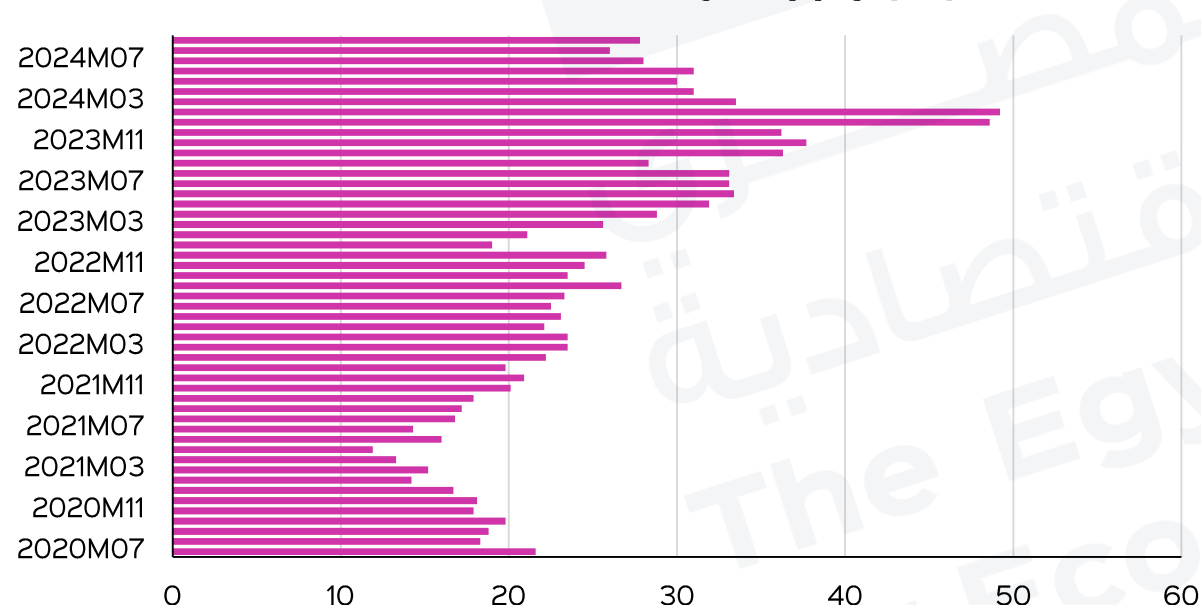
GDP Growth Rate (%)*



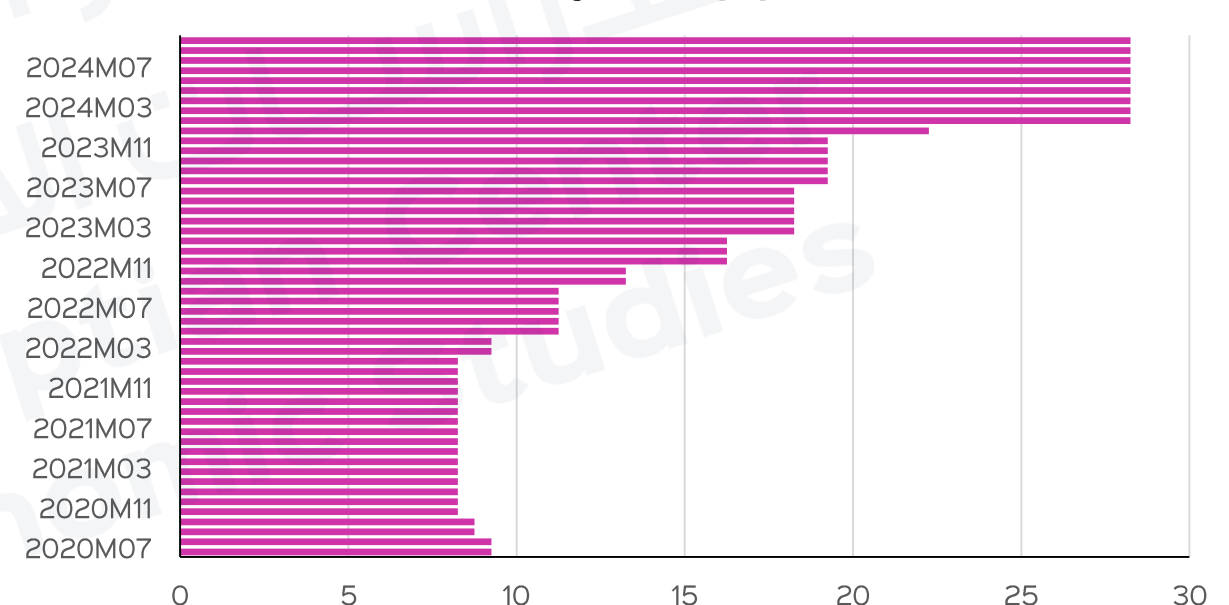
Inflation Rate (%)



Growth Rate of Money Supply (M1)*

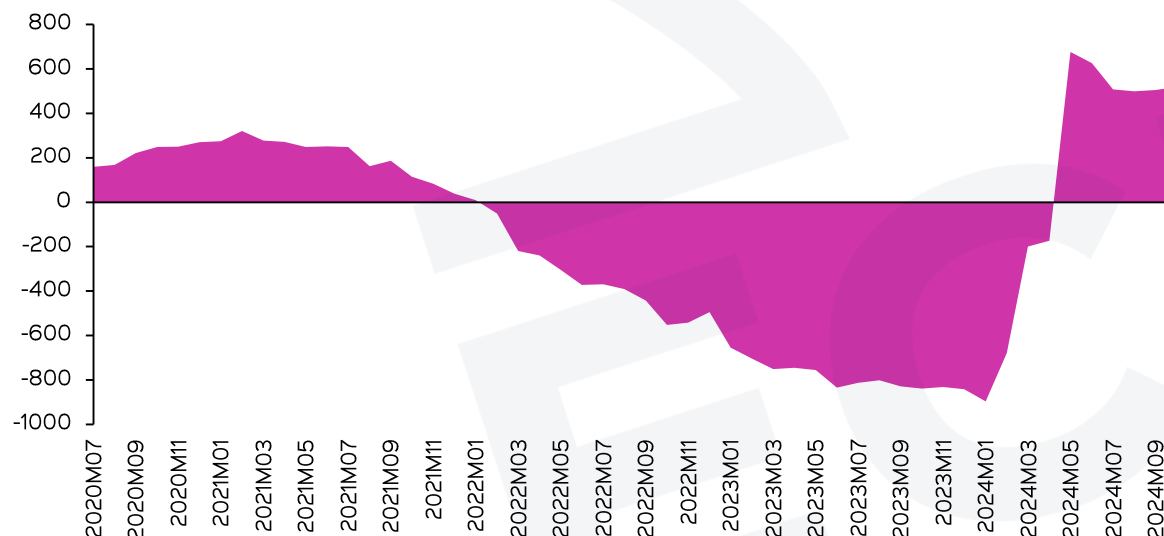


Policy Rate (%)

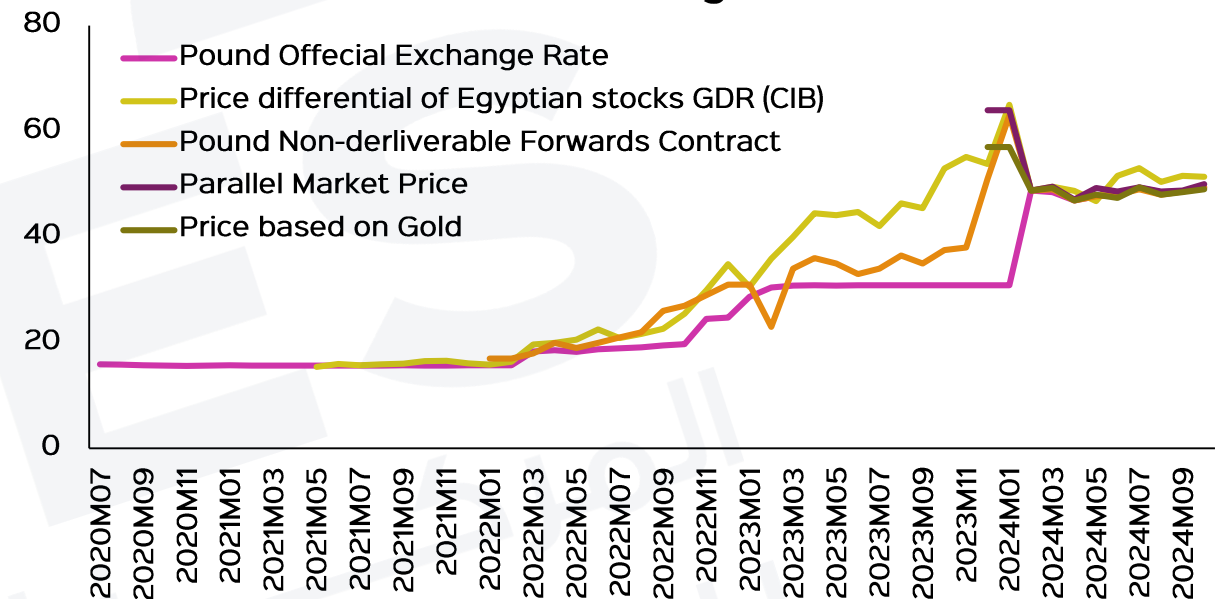


Central bank reserves of foreign currency have inched upwards and so did net foreign assets in the banking system, which reflected into a unified exchange rate in the market, yet the US Dollar rate is crawling upwards gradually. Despite the turbulence in global financial markets, emerging markets turbulence and regional war, Central bank reserves kept going upwards and net foreign assets in the banking system also inched upwards. This has been coupled with a sizable increase in remittances, which reflected into a unified exchange rate in the market. Having said so, the US Dollar exchange rate in the market has been increasing upwards with an increasing trend of speculation about the future value of the pound.

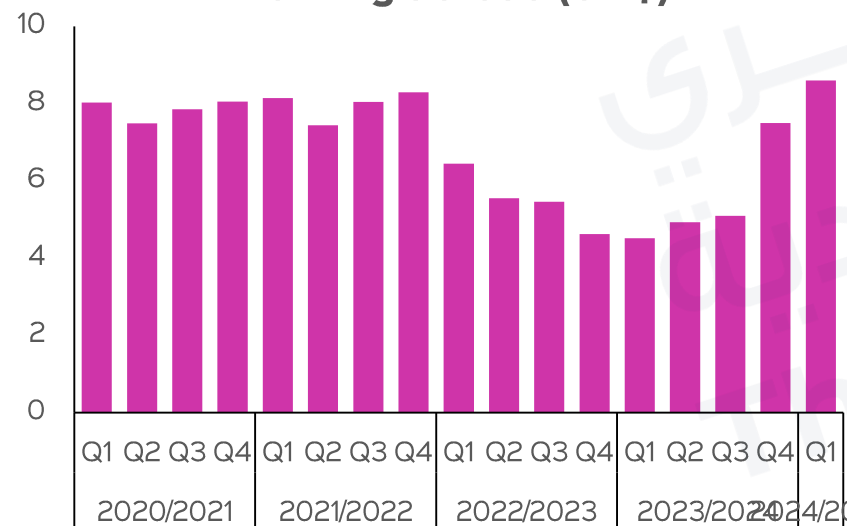
**Net Foreign Assets of the Banking System
(bn LE)***



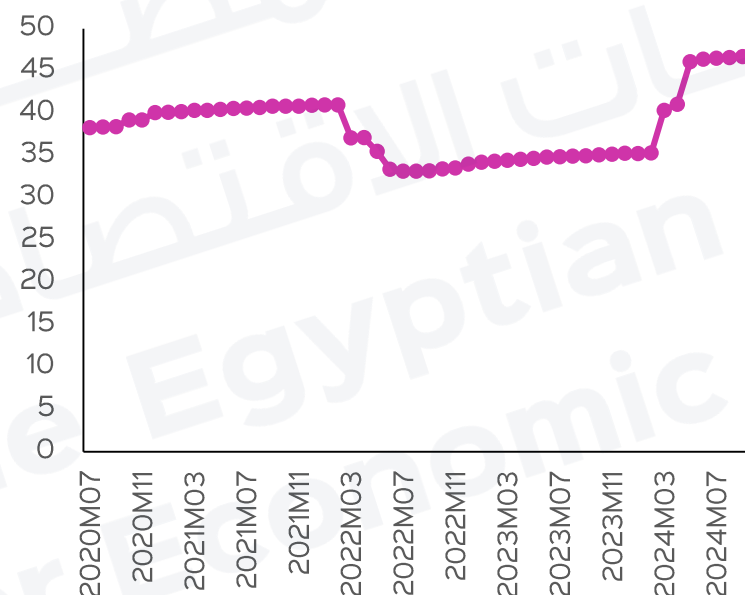
Pound Exchange Rate



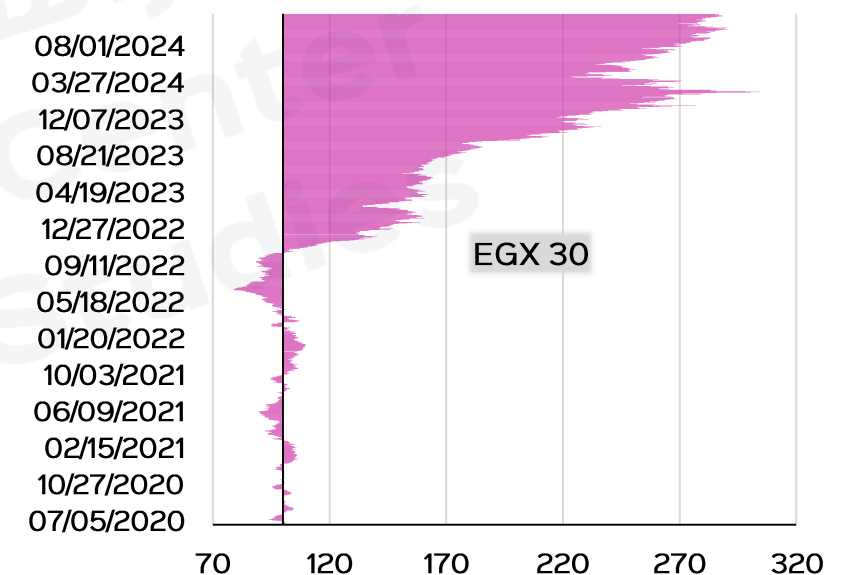
**Remittances of Egyptians
working abroad (bn \$)**



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.

