



Financial Markets Snapshot

Issue 12
December 2024

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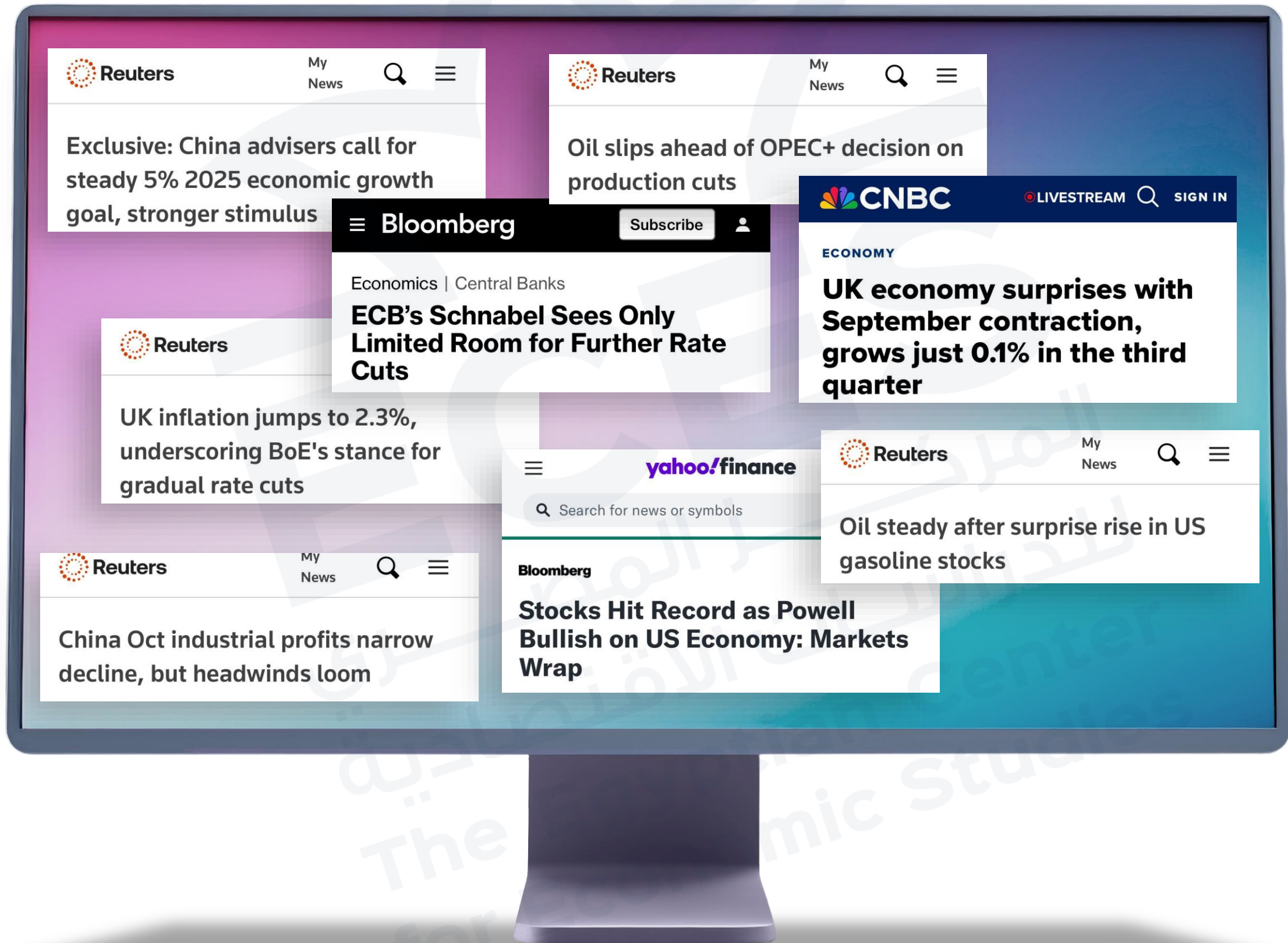
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About The Report

- 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



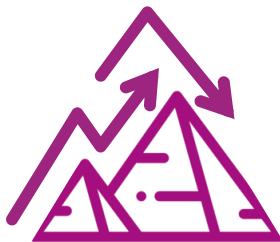
- Commodity prices have generally stabilized after Trump got elected,, with few exceptions such as Palm Oil and Maize increasing due to supply shortages.
- Despite inching upwards, inflation rates stayed within expectations, giving room for Central banks to proceed with easing and cut rates as witnessed across global markets. Such moves have reflected into stronger US Dollar against most currencies.
- With the election of Trump, the US stock market has rallied, pushing most global stock markets upwards. Yet the volatility in global markets have been very high, while Chinese stock market has turned out as the loser in the last rally.
- Bond yields in global markets have not declined further, after the interest rate cuts. CDSs even spiked in some countries reflecting high volatility and uncertainty in global markets.

Emerging Markets



- Divergence in Inflation rates across emerging markets have prevailed, reflecting the stickiness of inflation and lagging effect.
- As a result, emerging markets Central banks have diverged in their response as most of them kept interest rates high. Few lowered rates while others like Brazil have hiked interest rates to curb inflation and protect its currency.
- Though most emerging markets kept interest rates high, emerging markets currencies are facing big pressures against the US Dollar, explaining the divergence of emerging markets Central banks in cutting rates.
- Trump elections and the new prospect approach in global conflicts resolutions had its toll on stock markets in emerging markets, which witnessed another turbulent month. This was intensified by a stronger US Dollar that is pressuring money flows to emerging markets.
- Bond yields in emerging markets are still high and even spiked in some countries. The same applies to CDSs due to global geopolitical risks, high volatility and pressure on local currencies.

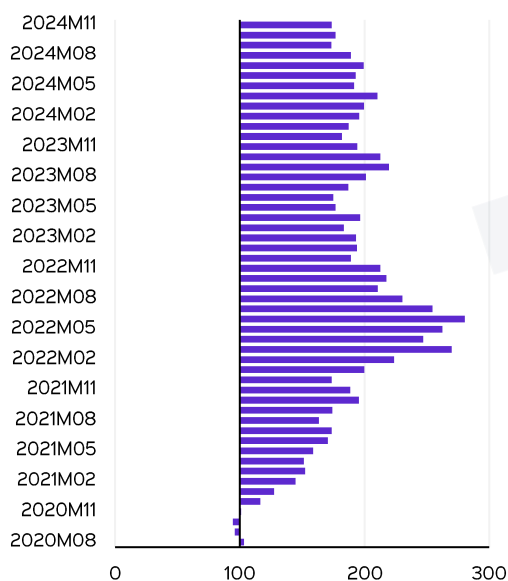
Egyptian Local Market



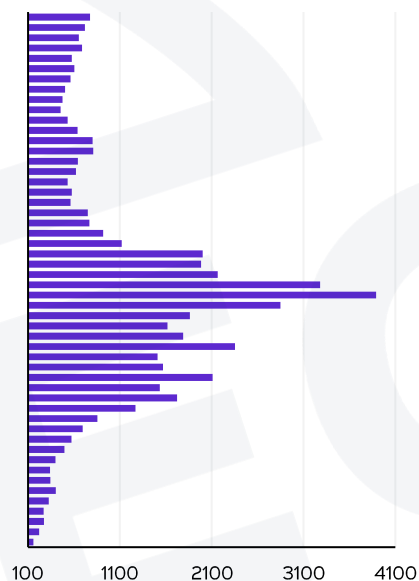
- Total external debt is declining because of mega deals concluded this year but external debt service due in the coming year is sizable. The high debt service coupled with a strong US Dollar have increased bond yields. On the other hand, CDSs got contained due to solid external support from the Gulf and multilateral organizations.
- Inflation rate declined last month, after few months of rising, thanks to having no price hikes enacted lately and the decrease in growth in money supply. Still, the Central bank is keeping interest rates high to curb inflation and protect the currency.
- Central bank reserves of foreign currency have kept the increasing trend and net foreign assets in the banking system stayed stable, supported by inflows of foreign funds and remittances. Having said so, the official exchange rate increased and a gap with other prevailing rates is getting created, again.

Commodity prices have generally stabilized and even trended downwards after Trump got elected,, with Palm Oil and Maize increasing due to supply shortages. The election of Trump to US presidency once again has offered global markets some clarity about the approach for global conflicts resolution and economic policy, which has reflected into stabilization or even decline in many commodities. Besides, the recessions fears have pushed iron ore prices downwards. The US Fed cautious stance towards interest rate cutting has reflected into the decline of gold, which has reached all-time high. On the other hand, Palm Oil and Maize prices have increased due to supply shortages.

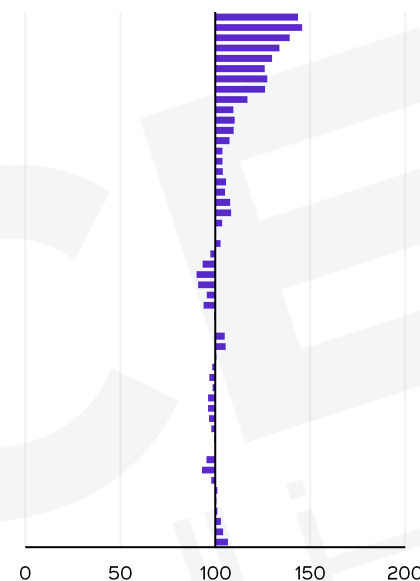
Crude Oil, Brent



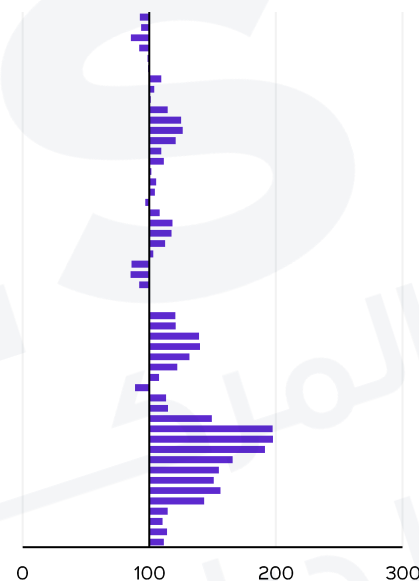
Natural Gas



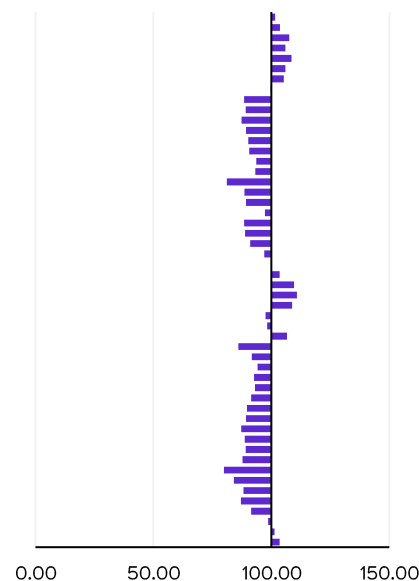
Gold



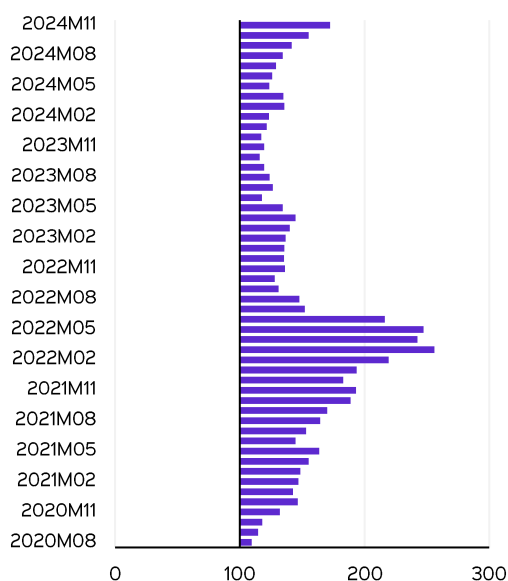
Iron ore



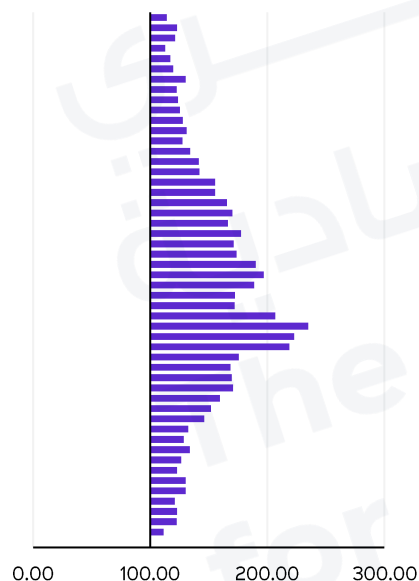
Tea



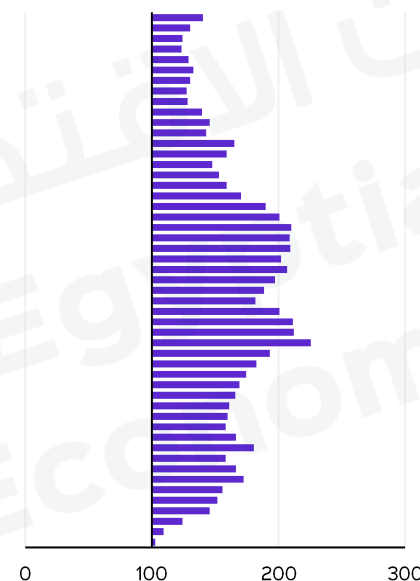
Palm oil



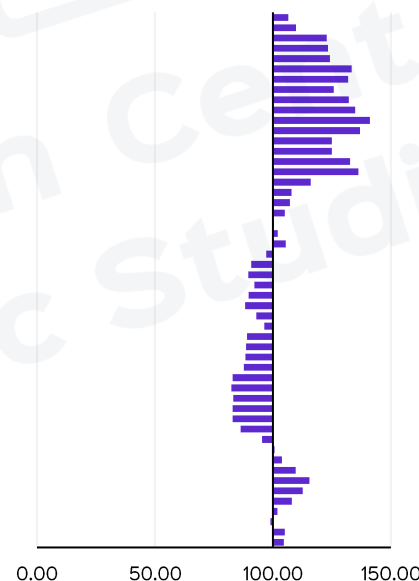
Wheat



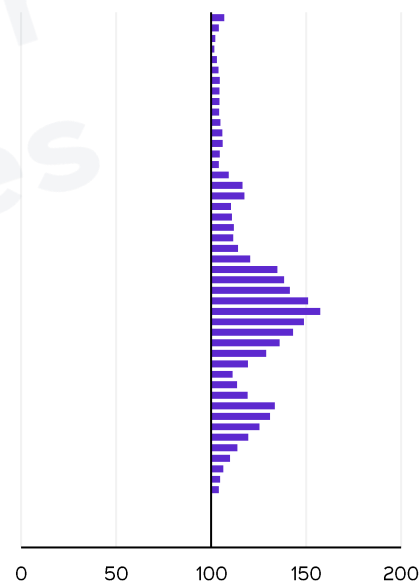
Maize



Rice

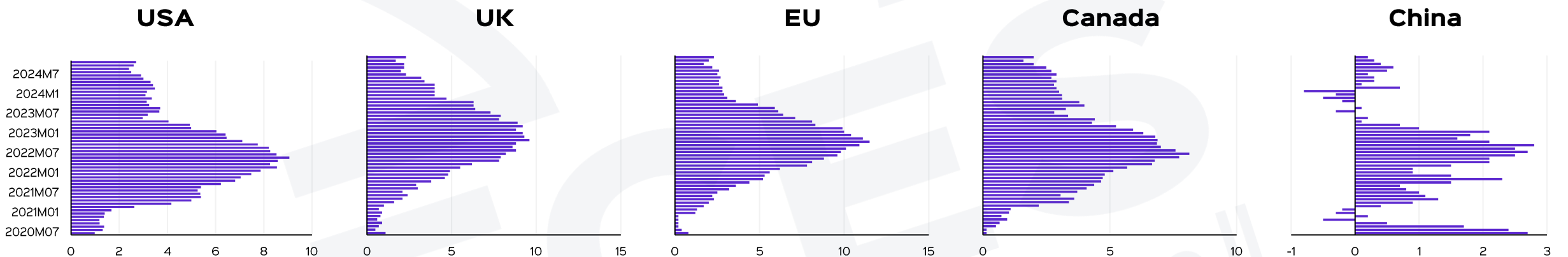


Bovine meat

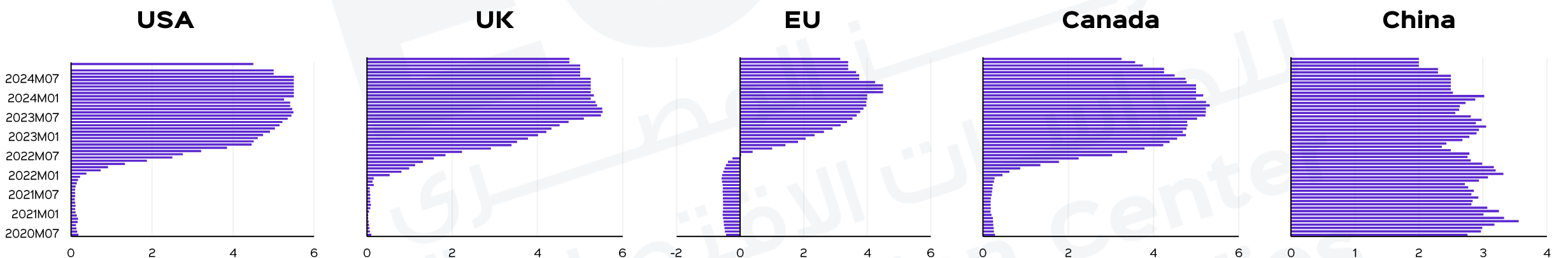


Inflation rates in global markets have inched upwards yet stayed within expectations, giving room for Central banks to proceed with easing and cut rates as witnessed across global markets. This has reflected into a stronger US Dollar against most currencies. Though inflation rates in few global markets have slightly increased, the overall rates are still within expectations, giving Central banks the confirmation and the room to continue on their monetary easing and cutting rates as witnessed by global Central banks. Such interest rates coupled by a cautious approach by the US Fed have led to a stronger US Dollar against most global currencies.

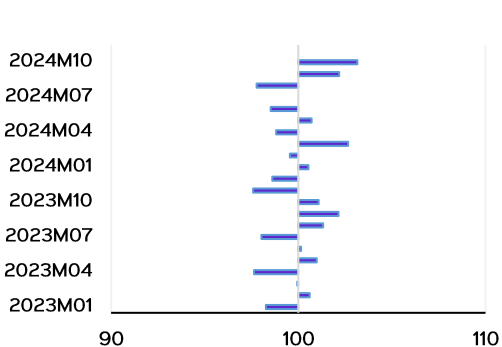
Inflation Rate



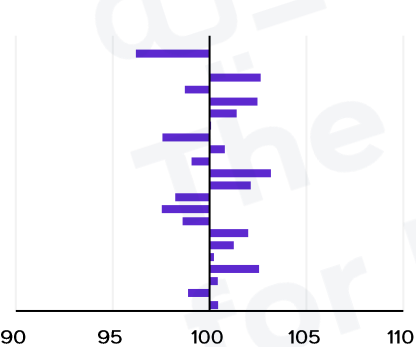
Policy Rate



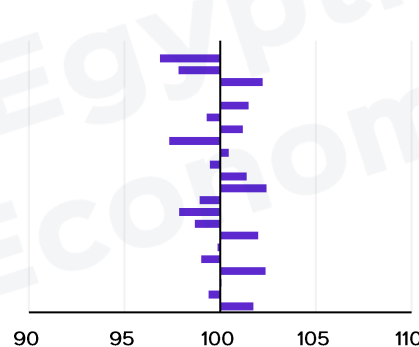
LCU / USD



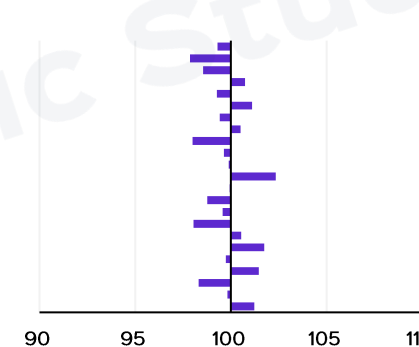
UK Pound



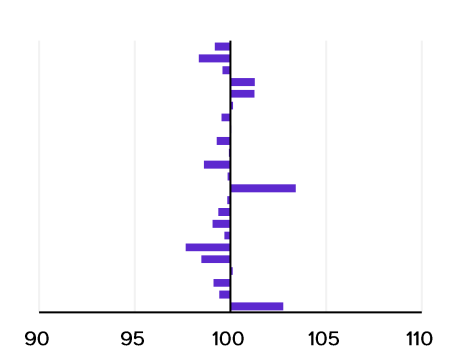
Euro



Canadian Dollar



Chinese Yuan



Commodity Markets
Main Rates

Stock Market

Bond Market

The US stock market has rallied after the election of Trump, pushing most global stock markets upwards. Yet the volatility in global markets have been very high, while Chinese stock market has been the most negatively affected. The election of Trump to US presidency has resulted into euphoria in the US market with the belief that a more business friendly administration will be in office. The US rally has reflected into other global stock markets. But such rally was accompanied by high volatility. The biggest loser has been the Chinese market which has seen some high volatility and big losses, despite the government's effort to stimulate the economy.

Commodity Markets

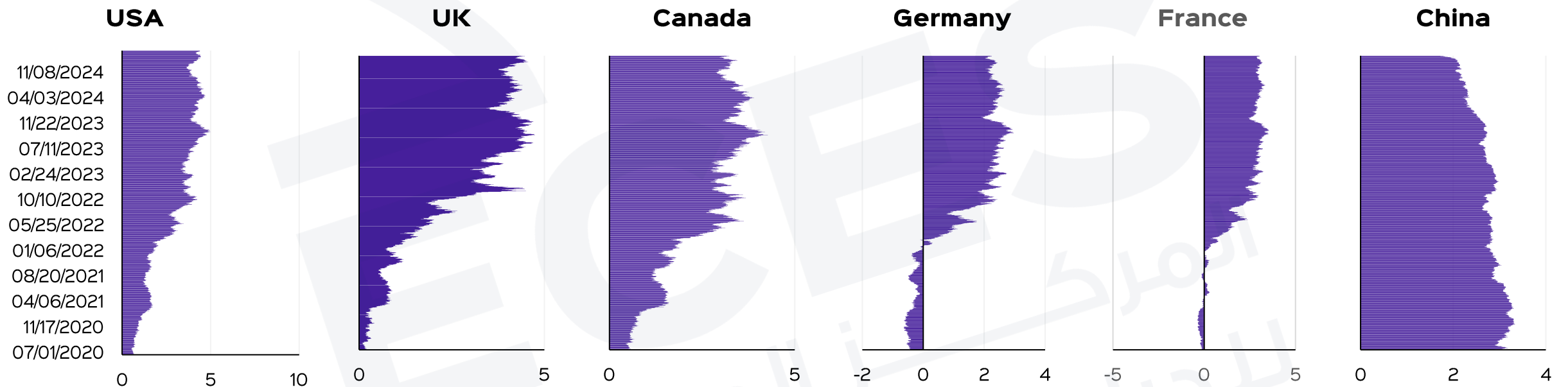
Stock Market

Bond Market

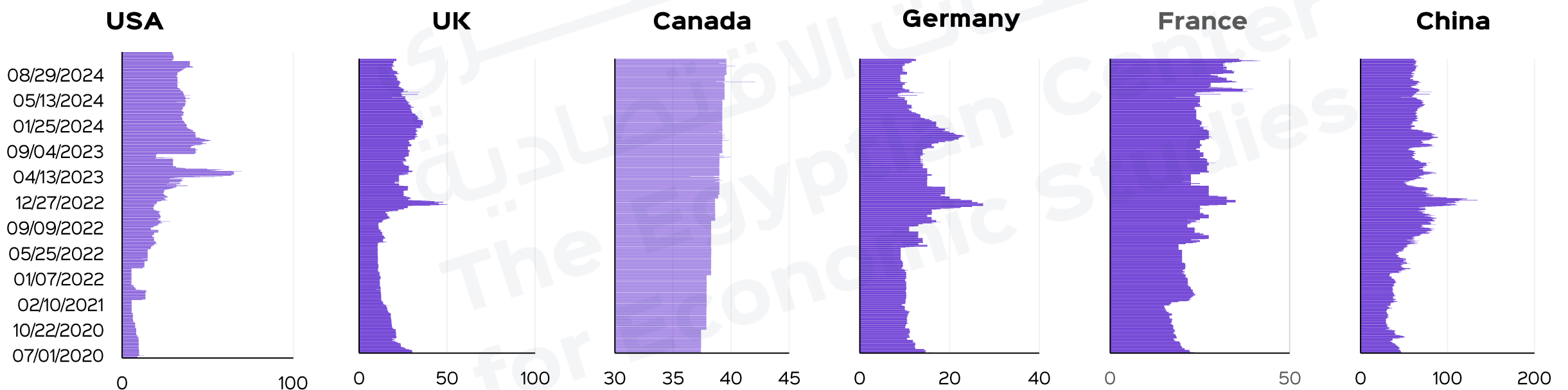


Despite interest rate cuts, bond yields in global markets have not declined further, while CDSs spiked in some countries indicating high volatility and uncertainty in global markets. The confirmation of easing cycle and interest rate cuts across global markets should have reflected into lower bond yields, but this didn't happen, where bond yields fluctuated throughout the month without a real decline. On the other hand, CDSs of most global markets have spiked due to increased uncertainty about interest rates cutting trajectory and some geopolitical tensions and risks, especially in Europe. It is becoming obvious that financial markets need clearer guidance on interest rate and global geopolitics to reflect this on bond yields and CDSs.

10-Year Bond Yield



5-Year CDS



Commodity Market
Main Rates
Stock Market
Bond Market

Inflation rates across emerging markets have diverged with stability in some and inching upwards in others yet staying within expectations, mirroring global markets. Such trend reflects stickiness of inflation and lagging effect in emerging markets. Emerging markets have started to witness stabilization in inflation rates due to stabilization in most commodity prices and the tight monetary policies, though some emerging markets have witnessed a slight increase in inflation yet still within expectations. Such trend is very similar to global markets and is a clear evidence of the stickiness of inflation and the lagging effect in emerging markets compared to global markets.



Emerging markets Central banks have diverged in their response as most of them kept interest rates high, while few moved into easing by cutting interest rates at a time others like Brazil have hiked interest rates to curb inflation and protect its currency. The stability of inflation rates in emerging markets have been reflected into clear monetary easing as most emerging markets Central banks kept their interest rates high to control inflation and protect their currencies, while a few such as South Africa, South Korea and UAE have mirrored global markets in cutting rates due to low pressure on their currencies. On the other hand, Central bank in Brazil has hiked interest rate to curb inflation and protect its currency against the strong US Dollar.

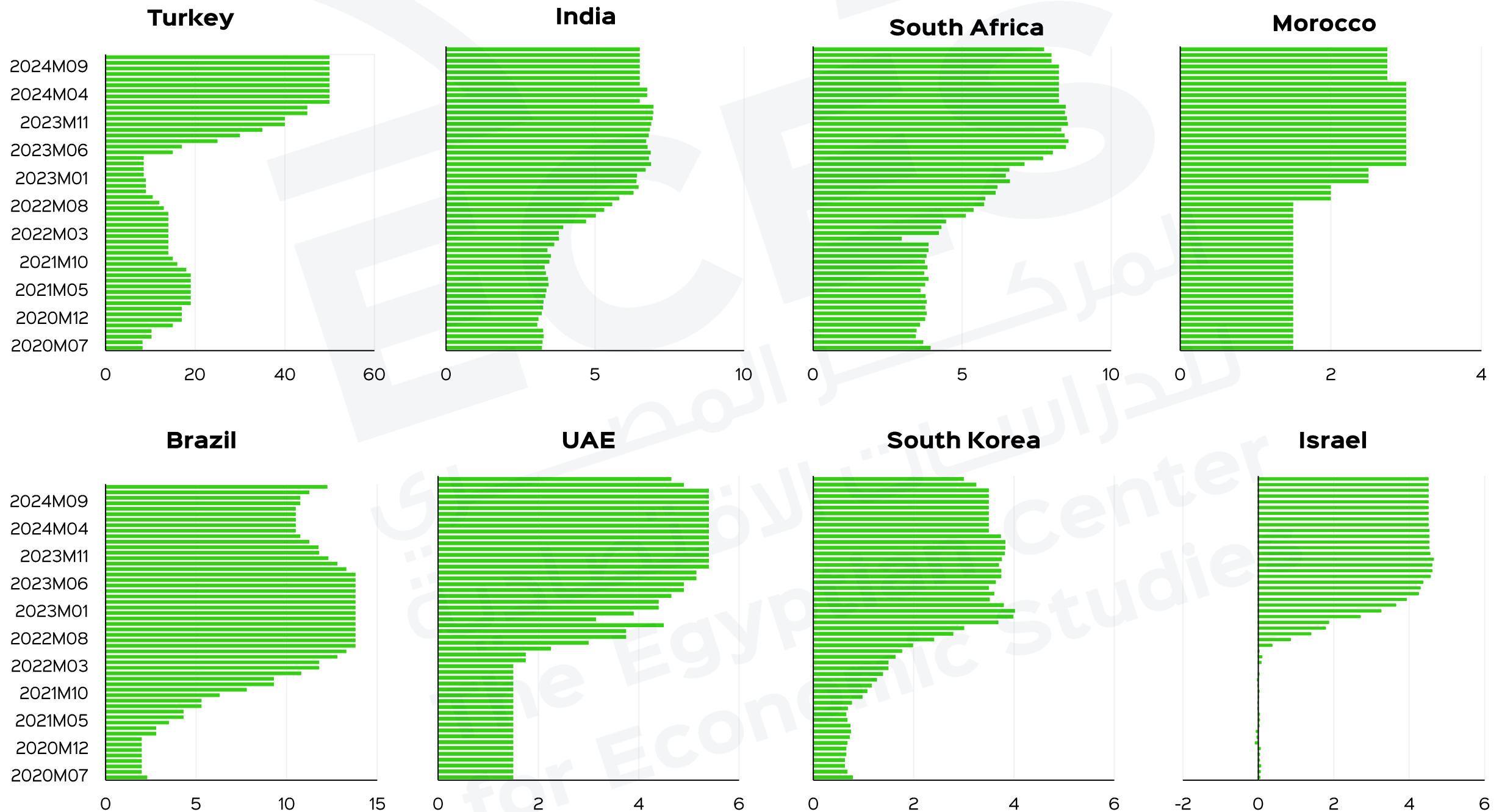
Inflation Rate

Policy Rate

LUC/UDC

Stock Market

Bond Market



Despite relative stability of inflation in emerging markets and cutting interest rates in global markets, emerging markets currencies are facing big pressures against the US Dollar, explaining the divergence of emerging markets Central banks in cutting rates. Emerging markets currencies were expected to enjoy less pressure with decreasing or stable 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 after the election of Trump and the cautious stance of the US Fed towards interest rate cuts. Such pressures highlight the risks emerging markets Central banks are experiencing and explains the divergent reactions.

Inflation Rate

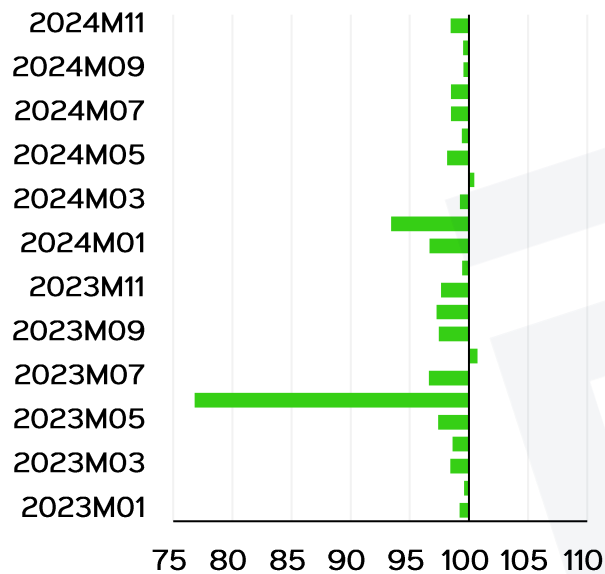
Policy Rate

LUC/UDS

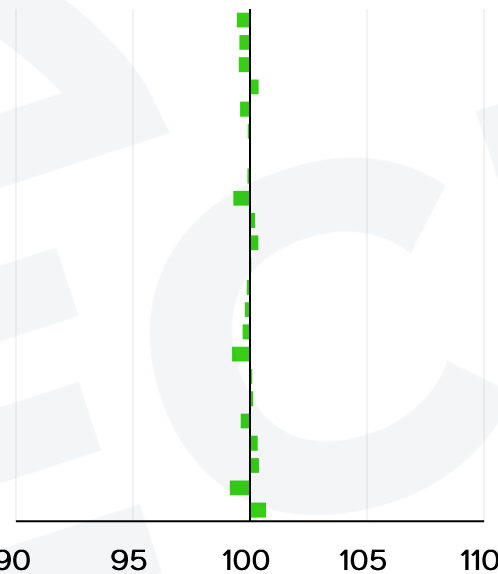
Stock Market

Bond Market

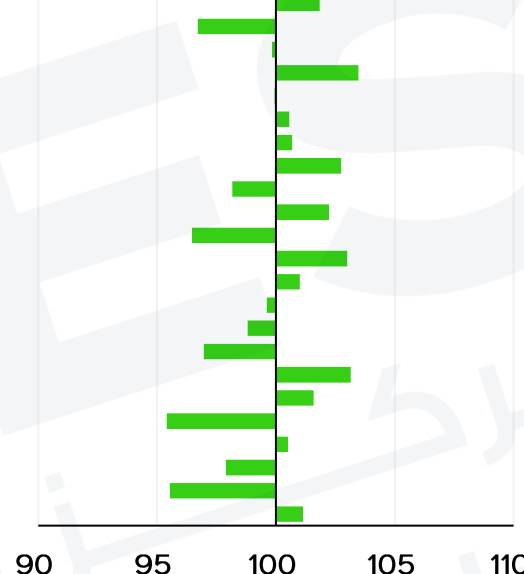
Turkish Lira



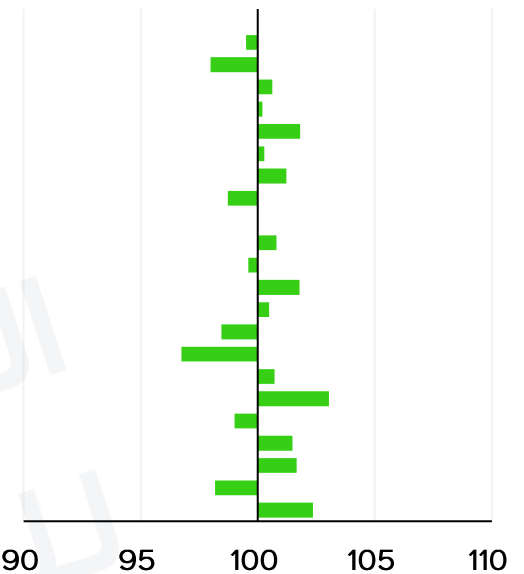
Indian Rupee



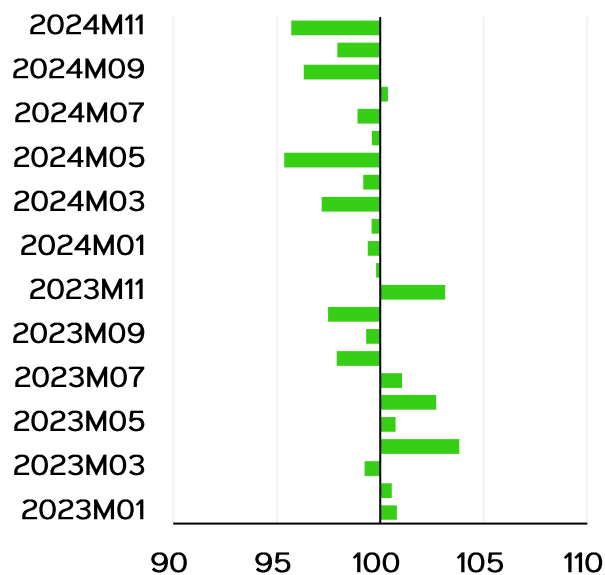
South African Rand



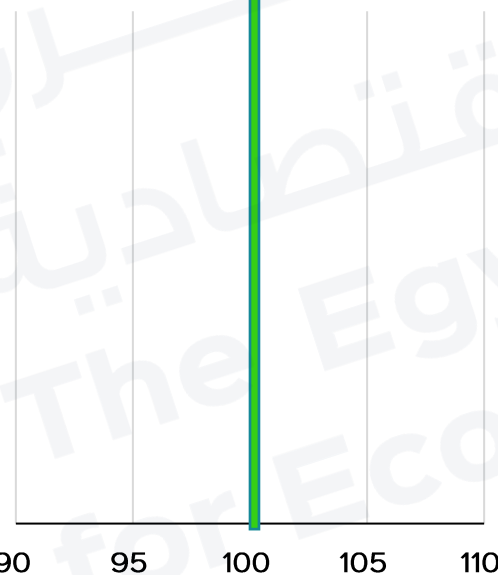
Moroccan Dirham



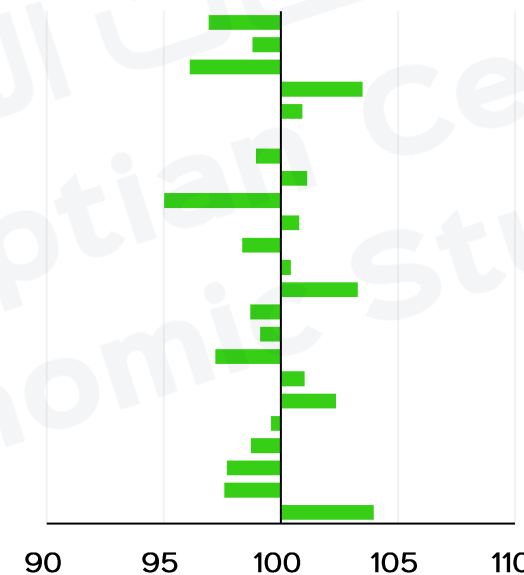
Brazilian Real



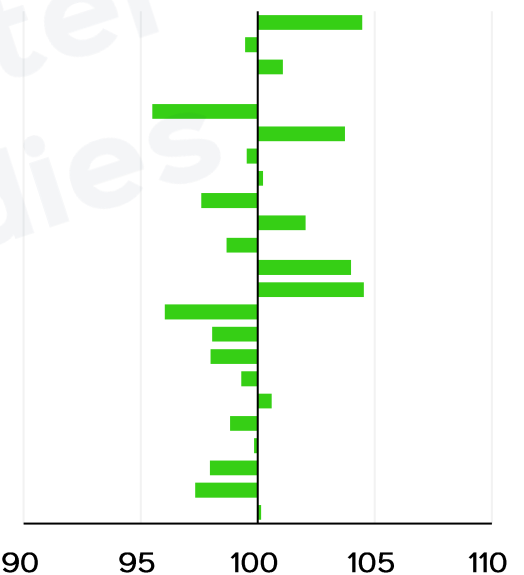
UAE Dirham



Korean Won



Israeli New Shekel



Stock markets in emerging markets have witnessed another turbulent month post Trump elections, due to global geopolitics affecting emerging markets as well as a stronger US Dollar that is pressuring money flows to emerging markets. The election of Trump to presidency has created clarity on global tensions resolutions which had positive effects on global markets, but such directions have increased geopolitical risks to many emerging markets that will be affected by such directions. Besides, a stronger US Dollar is putting pressure on local currencies and negatively affecting flows of funds to emerging markets causing an increased volatility in emerging markets stock markets.

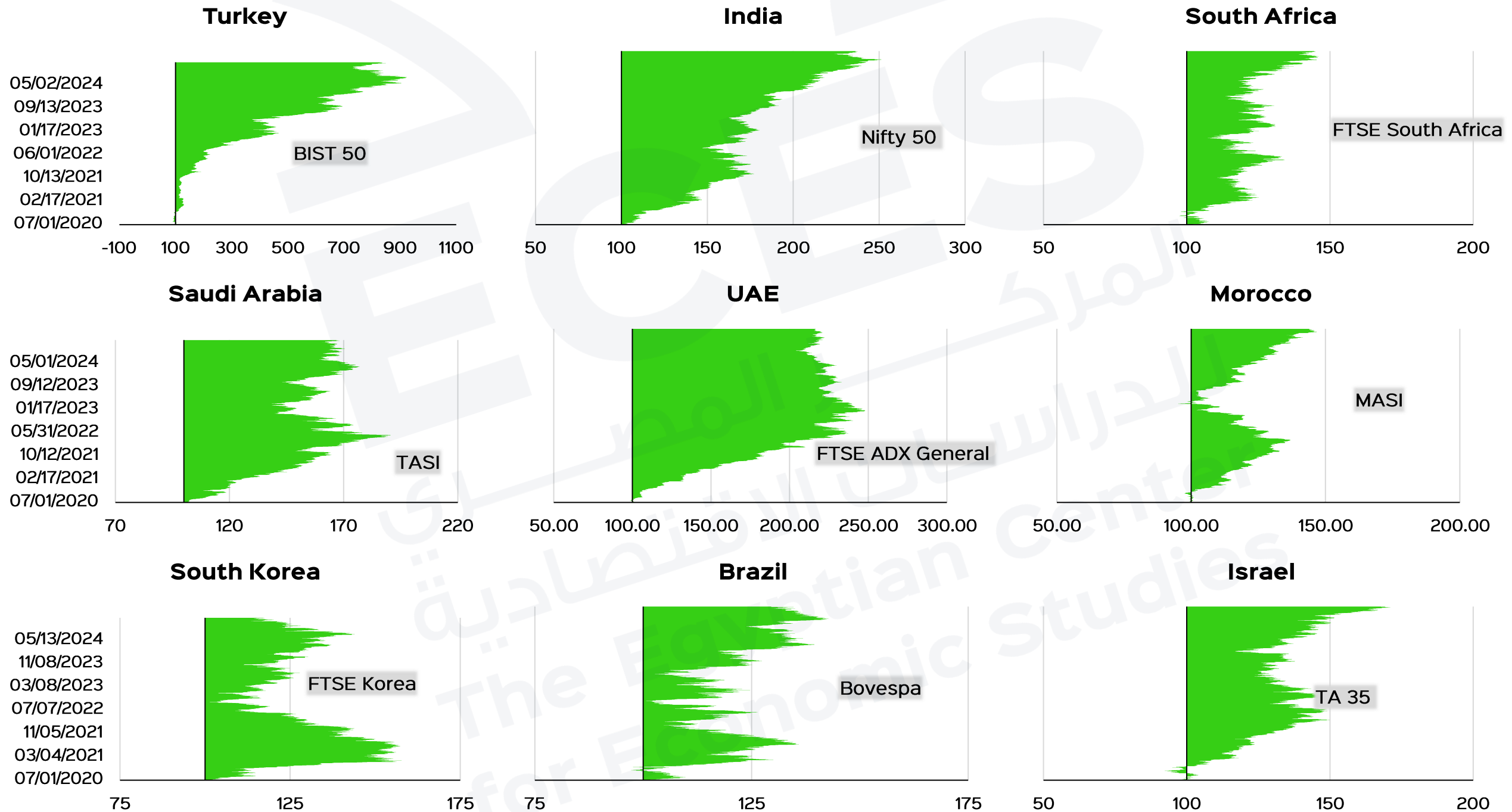
Inflation Rate

Policy Rate

LUC/USD

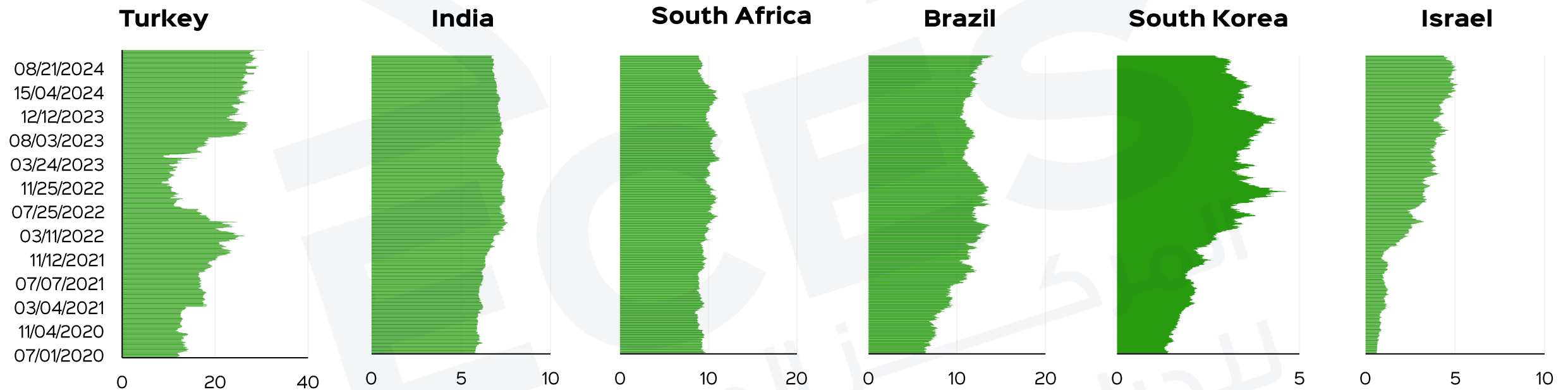
Stock Market

Bond Market

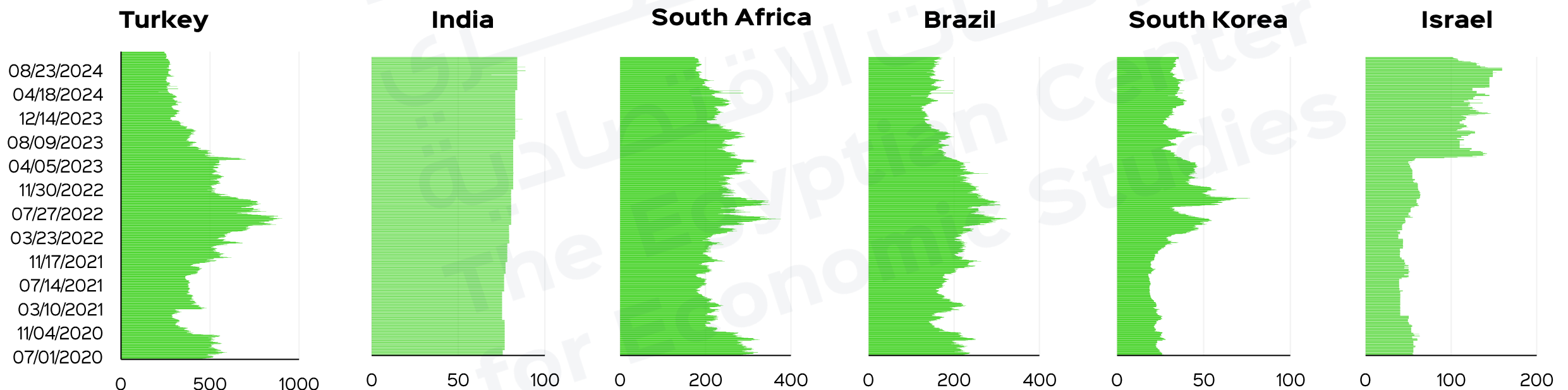


Despite the easing cycle kick-off globally, bond yields in emerging markets are still high and even spiked in some countries. The same trend applies to CDSs due to global geopolitical risks, high volatility and pressure on local currencies. With the easing cycle kickoff, bond yields and CDSs in emerging market should have declined. But emerging markets are still experiencing high bond yields, and in some countries, even increasing bond yields. CDSs are also still high in most emerging countries due to increase in geopolitical risks after Trump election as well as high market volatility because of disturbance to money flows going to emerging markets thanks to a strong US Dollar that is pressuring emerging markets currencies.

10-Year Bond Yield



5-Year CDS



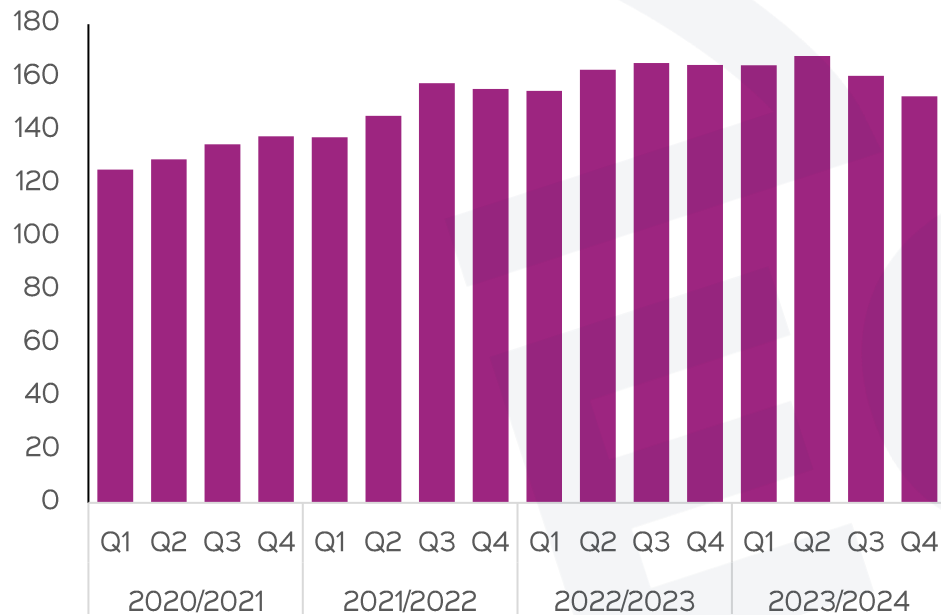
Inflation Rate
Policy Rate
LUC/USD
Stock Market
Bond Market

Total external debt is declining yet again thanks to mega deals concluded this year but still external debt service due in the coming year is sizable. The high debt service coupled with a strong US Dollar have pushed bond yields upwards, while CDSs got contained due to solid external support. Mega deals concluded this year keep reaping fruits in the form of declining the external debt outstanding, though external debt service due next year is quite high. Such high debt service coupled with a strong US Dollar lately have resulted into a spike in bond yields. Despite this, CDSs have been contained thanks to large and solid external support from the Gulf and multilateral organizations, thus limiting risk of default.

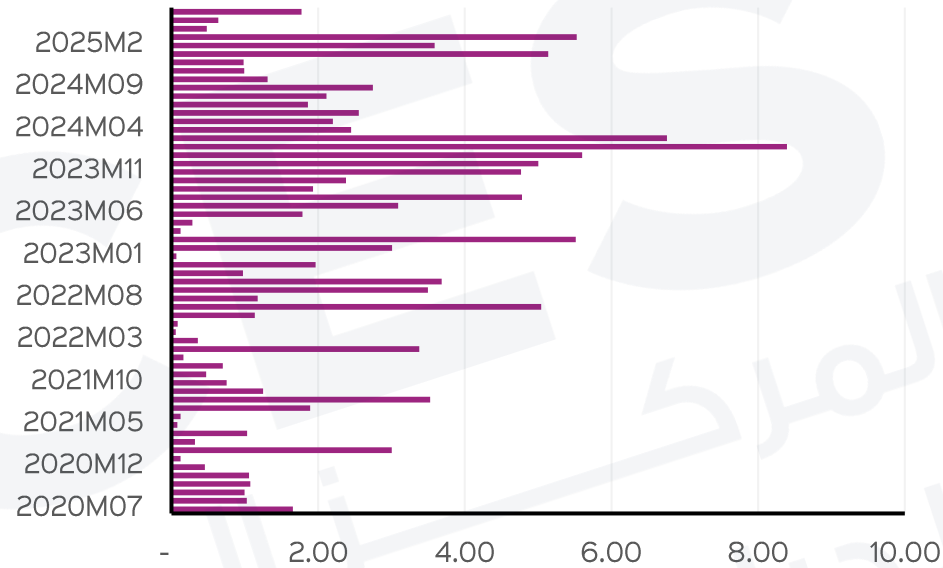
External Position

Local Developments

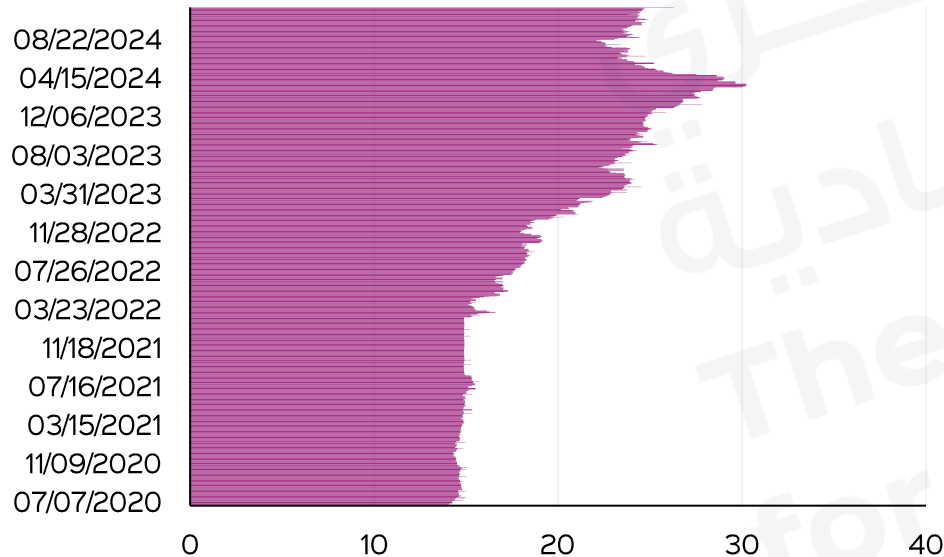
Total External Debt (bn \$)*



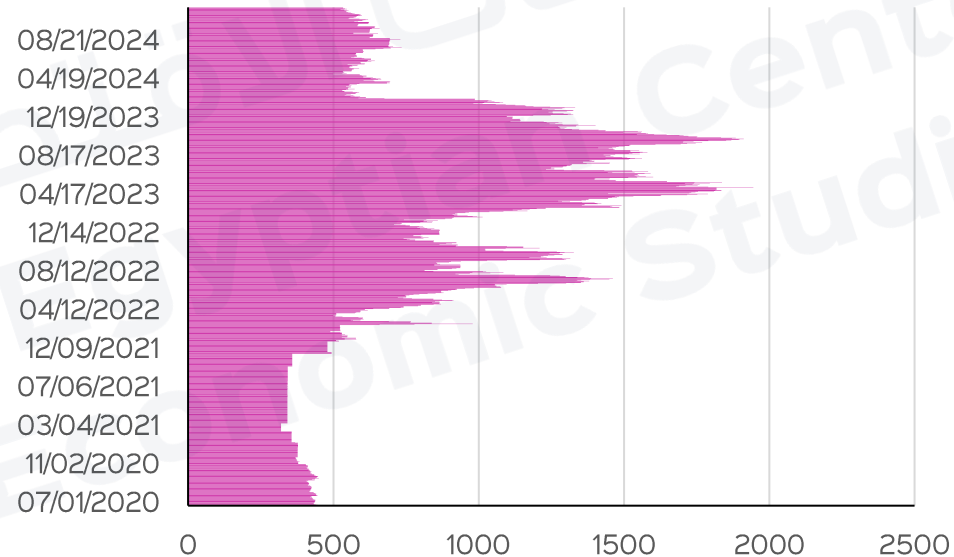
External Debt Service (bn \$)*



Egypt 10-Year Bond Yield



5Y CDS, Egypt



S&P Global Ratings
B- Positive

Fitch Ratings
B Stable

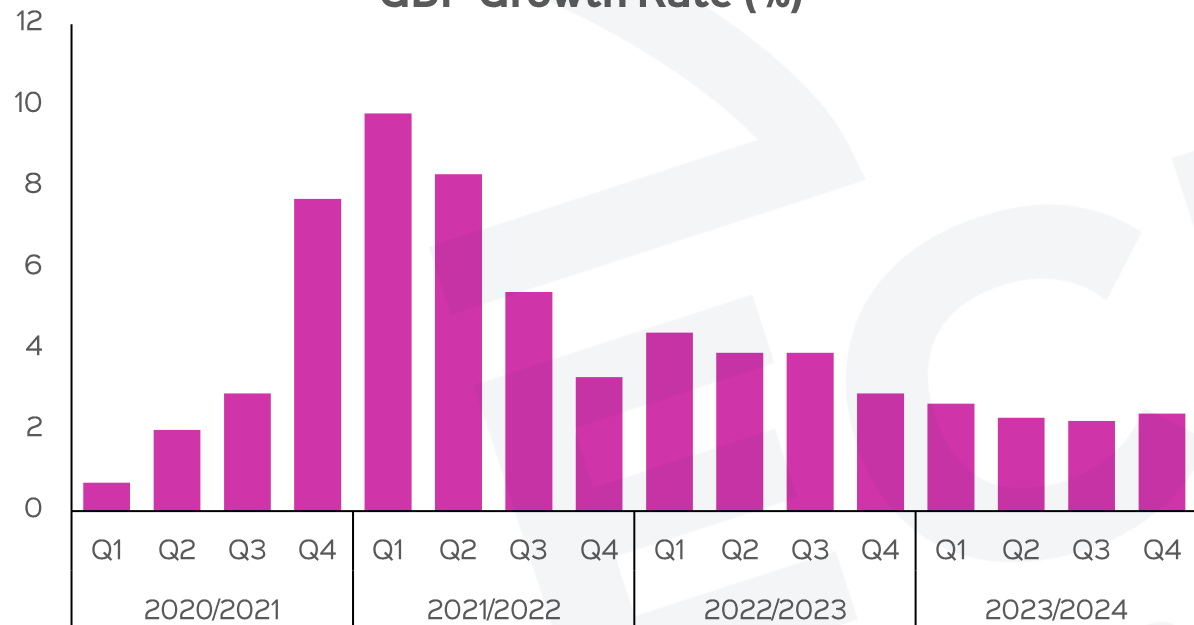
MOODY'S INVESTORS SERVICE
Caa1 Positive

After few months of increasing inflation rate, inflation rate last month declined thanks to having no price hikes enacted lately and the decrease in growth in money supply. Central bank is still keeping interest rates high to curb inflation and protect the currency. Inflation rate kept climbing for few months but only reversed last month since no price hikes were enacted. Also, the high base effect of last year has helped show a contained inflation, despite still being very high. The critical part is the very tight monetary policy as reflected by the decrease in growth in money supply through liquidity absorption by the Central bank, which still maintains interest rates high to further curb inflation and protect the Pound against the strong US Dollar.

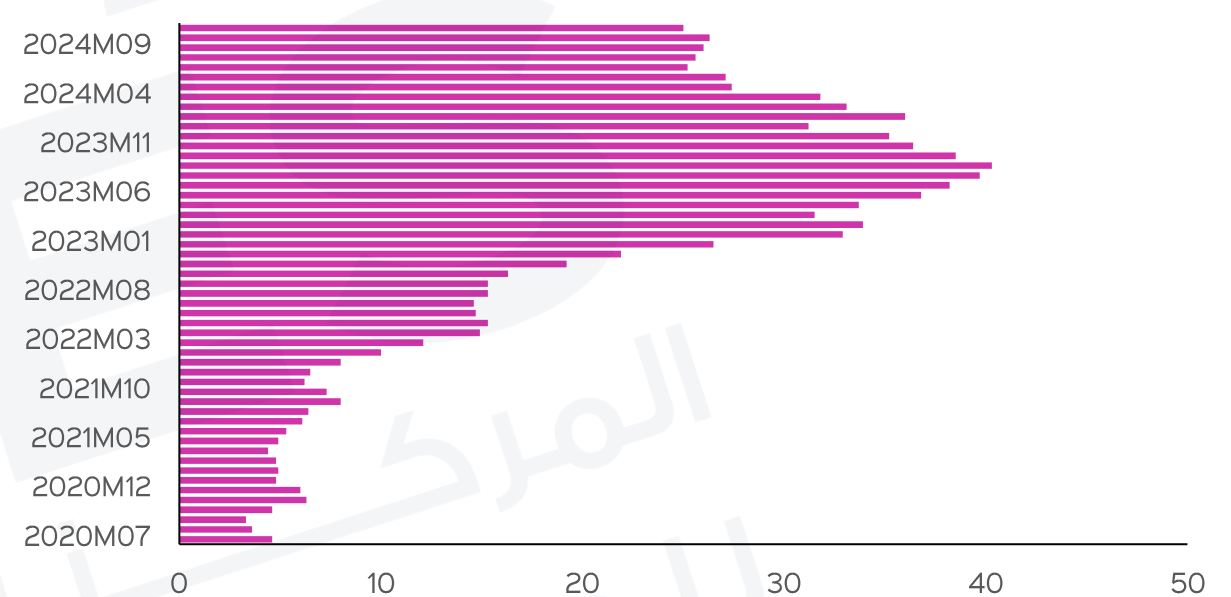
External Position

Local Developments

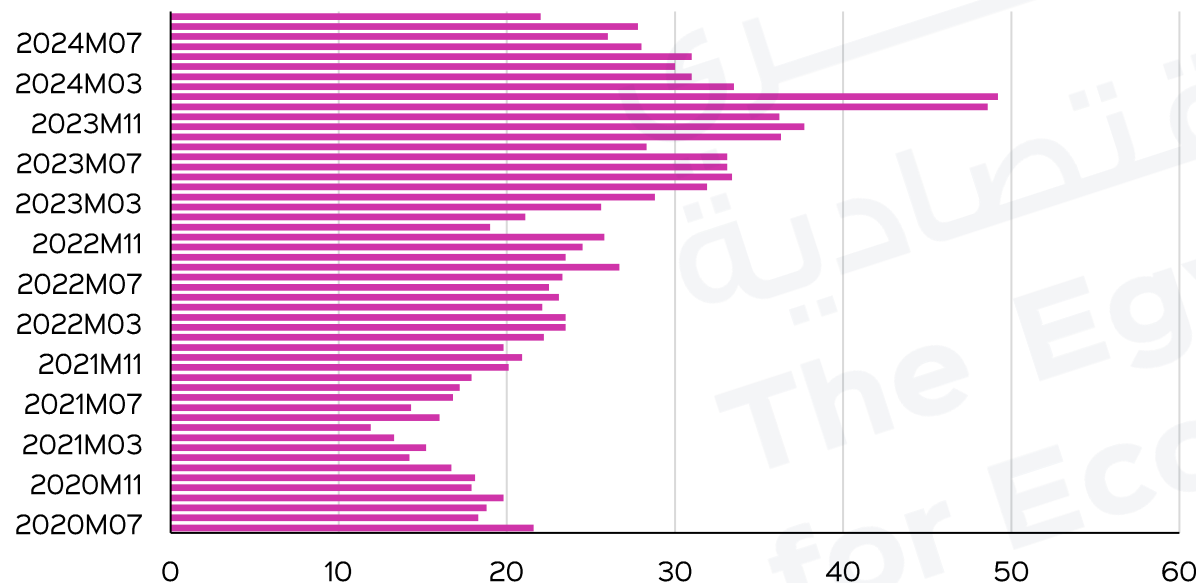
GDP Growth Rate (%)*



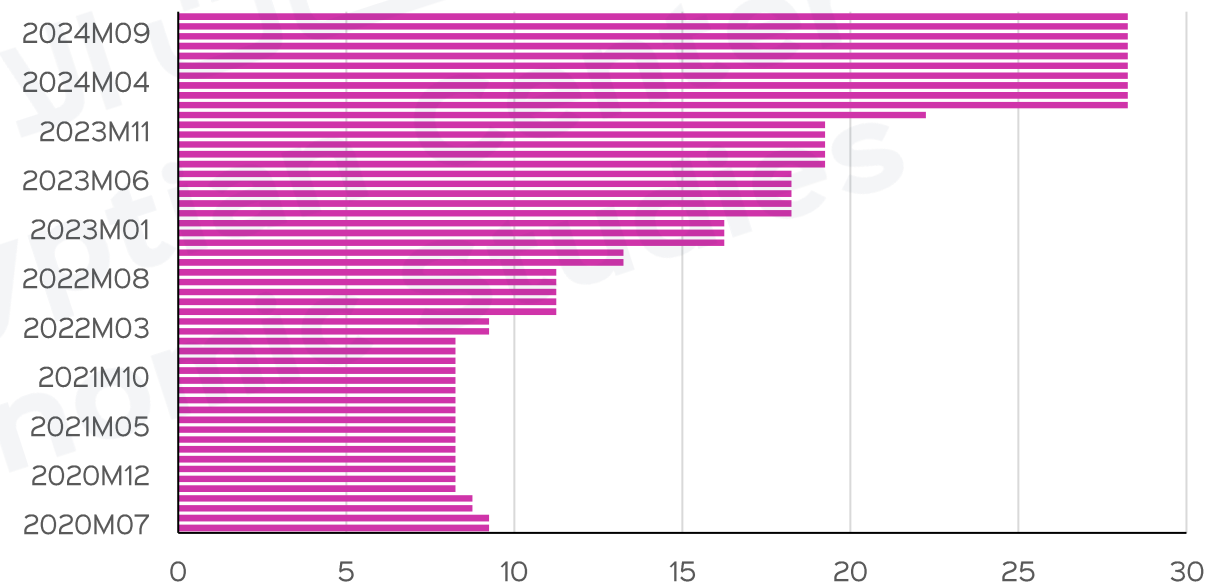
Inflation Rate (%)



Growth Rate of Money Supply (M1)*



Policy Rate (%)

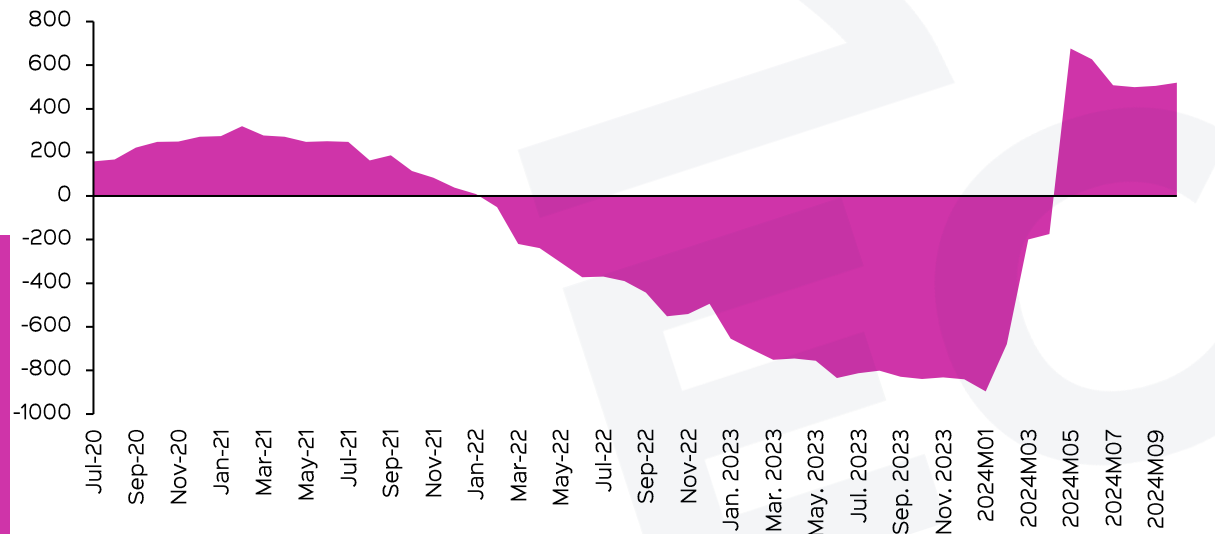


Central bank reserves of foreign currency have inched upwards yet again and net foreign assets in the banking system stayed stable, supported by inflows of foreign funds and remittances. Yet, official exchange rate increased and a gap with other prevailing rates is getting created, again. Despite the 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 stayed stable, thanks to large foreign currency inflows from remittances and other sources. Still, the Pound official exchange rate increased and a gap between the official and other prevailing rates in the market is getting created, after months of having a unified rate in the market.

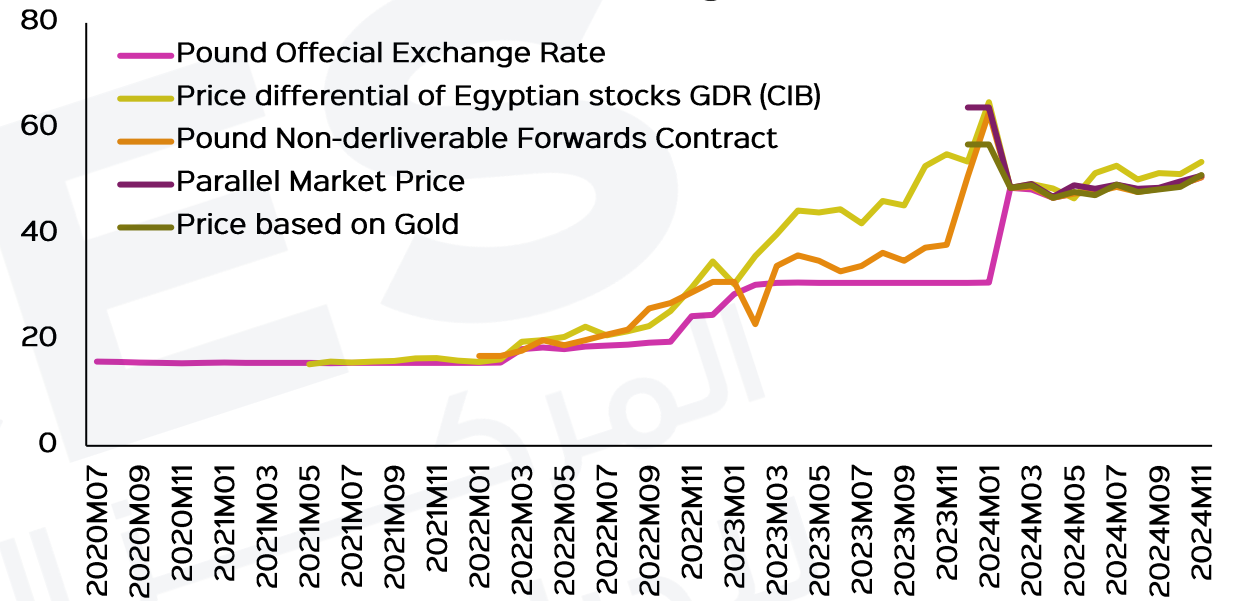
External Position

Local Developments

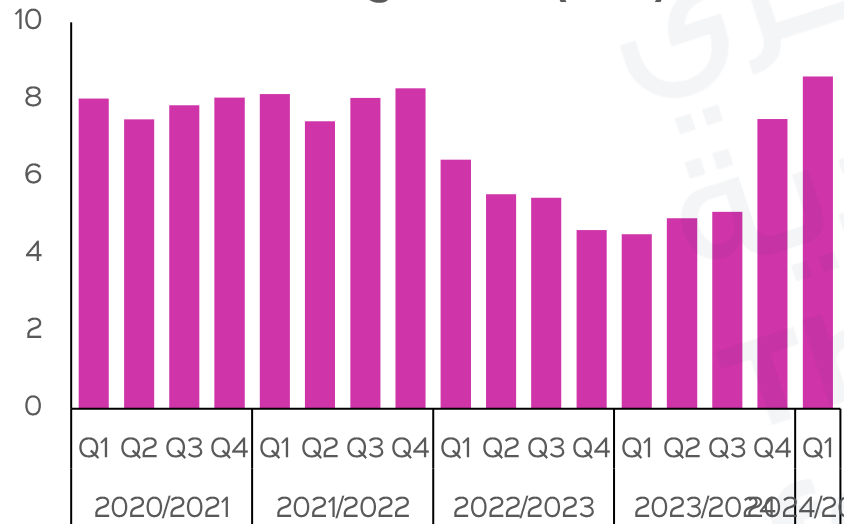
Net Foreign Assets of the Banking System (bn LE)*



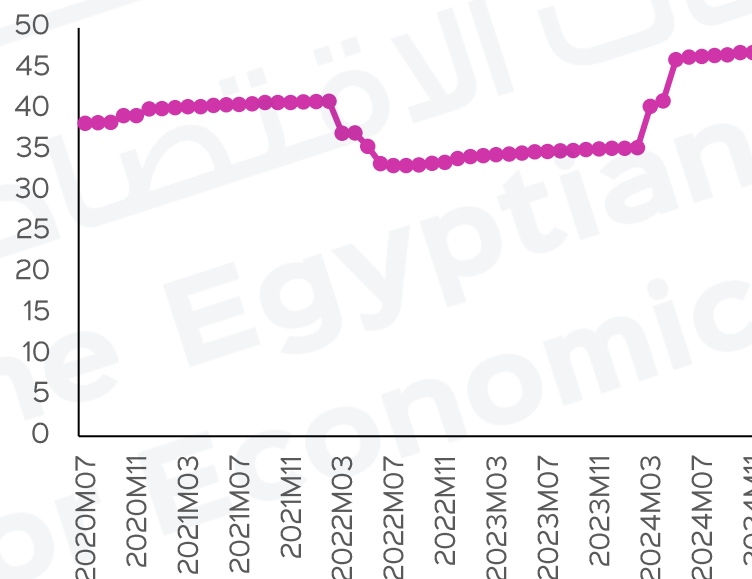
Pound Exchange Rate



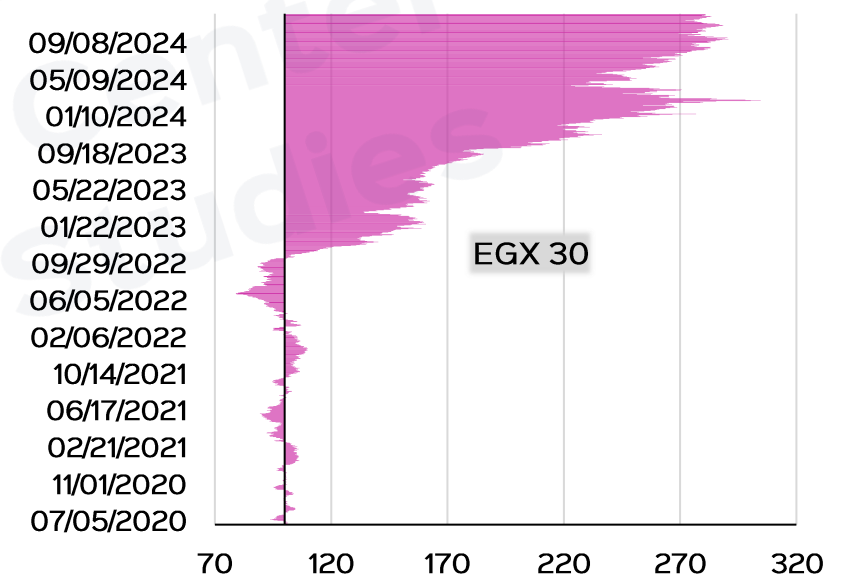
Remittances of Egyptians working abroad (bn \$)



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




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