



Financial Markets Snapshot

Issue 13
 January 2025

Contents

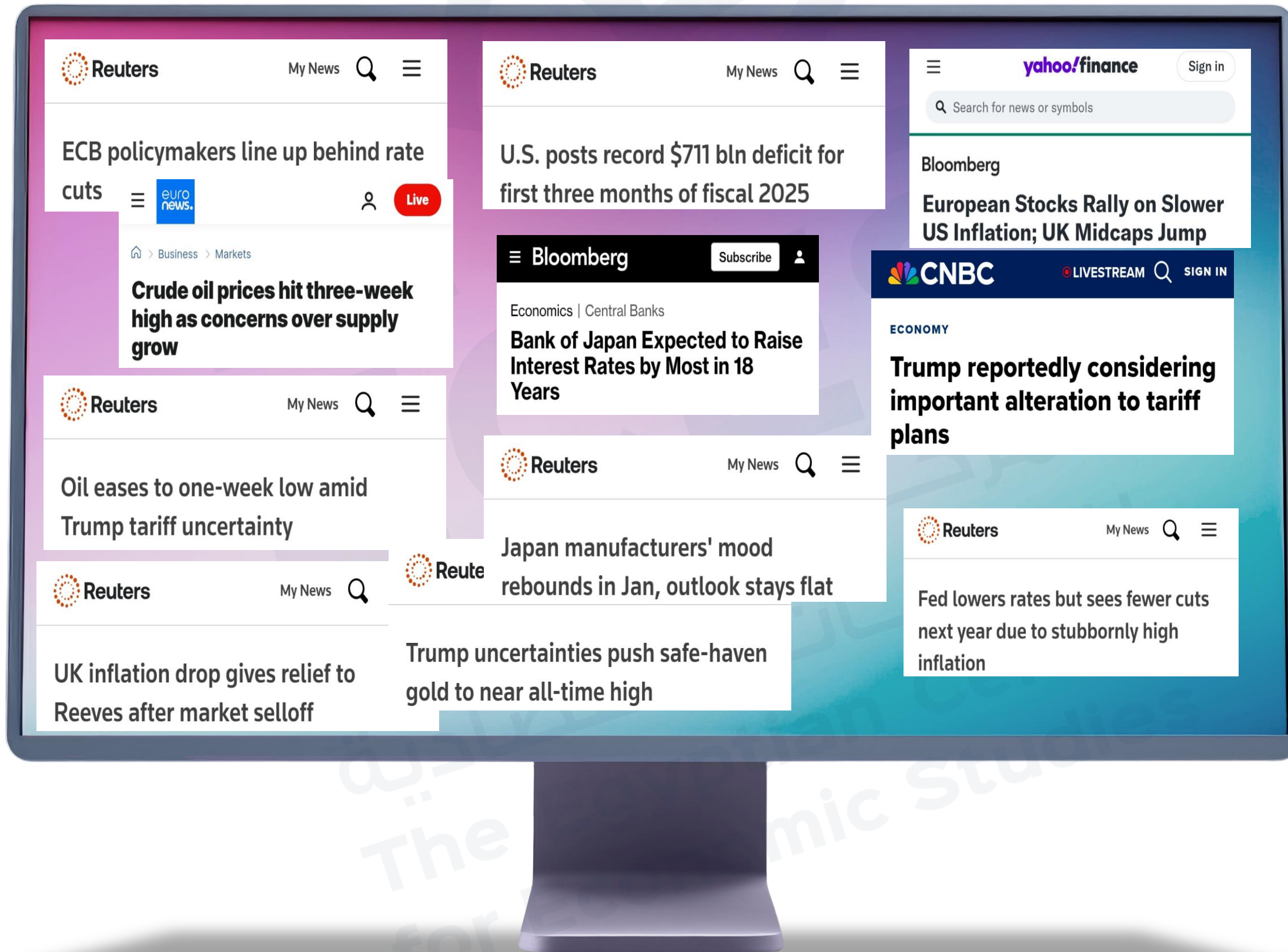
| | |
|------------------------------------|-----------|
| About The Report | 3 |
| Latest News – Key Headlines | 4 |
| Analysis – Key Takeaways | 5 |
| 1. Global Markets | 6 |
| 2. Emerging Markets | 10 |
| 3. Egyptian Local Market | 15 |
| Sources | 18 |
| Annex 1: Methodology | 19 |
| Annex 2: Terminology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



About The Report

- The report explores the linkages between global, emerging and local financial markets, trying to examine the changes taking place in the global markets, and how they reflect on emerging markets, which in turn have implications on the local Egyptian economy and its financial markets. The cascading impact is one of the most prevalent characteristics of financial markets.
- The report targets economic policy makers, the business community, financial institutions, economic actors and the public in general, thus, the report uses simple terminology and tries to explain different economic and financial terms in layman's terms as much as possible.
- The report is descriptive, aiming at plotting the current state of the Egyptian economy as a result of the different financial market dynamics. It is not in any way prospective, thus no future forecasts are provided for the different economic indicators. The report is not prescriptive either, thus no policy advice is provided to policy makers or economic actors.
- The report is issued on a monthly basis and tries to highlight the changes across the different markets and across the different indicators and their interlinks.
- Data in the report is presented mainly in rates such as inflation rates or interest rates or in an indexed format, with base points at 100 to ease comparison and analysis across different countries and indicators.

Latest News – Key Headlines



Reuters My News Q ☰

ECB policymakers line up behind rate cuts



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Crude oil prices hit three-week high as concerns over supply grow

Reuters My News Q ☰

Oil eases to one-week low amid Trump tariff uncertainty

Reuters My News Q

UK inflation drop gives relief to Reeves after market selloff

Reuters My News Q ☰

U.S. posts record \$711 bln deficit for first three months of fiscal 2025

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ECONOMY Trump reportedly considering important alteration to tariff plans

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Fed lowers rates but sees fewer cuts next year due to stubbornly high inflation

Analysis – Key Takeaways

Global Markets



- Commodity prices continued to stabilize after Trump got elected with some commodities even trending downwards, yet Palm Oil and Maize prices increased due to supply shortages.
- Despite inching upwards, inflation rates in global markets have softened compared to expectations, giving room for Central banks to proceed with easing; coupled this with Trump in office led to a stronger US Dollar.
- The US stock market rallied after the election of Trump, sparked by the AI spending initiatives, which was disrupted lately by new Chinese AI technology. Such developments have magnified volatility in global markets.
- Having said so, bond yields in global markets have increased due to inflationary fears, and so did CDSs due to high volatility.

Emerging Markets



- Divergence in inflation rates across emerging markets has prevailed, reflecting difference in circumstances and stickiness of inflation.
- As a result, emerging markets Central banks have diverged in their responses as few lowered rates, mirroring global markets. Others kept rates high, while others like Brazil have hiked interest rates to protect its currency.
- Emerging markets currencies are facing big pressures against the US Dollar, which became stronger with Trump policies and approach towards managing global conflicts, causing high volatility and pressure on emerging economies.
- Emerging markets stock markets have witnessed another turbulent month post Trump election.
- Bond yields have stayed high and even inched upwards in some emerging markets, mirroring global markets. This has reflected into higher CDSs as the cost of servicing debt increases.

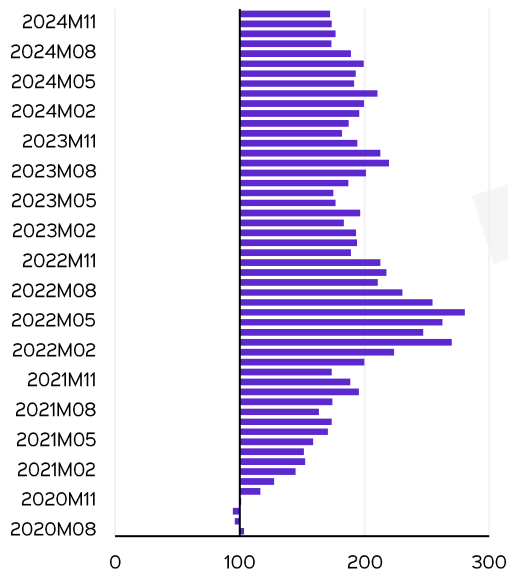
Egyptian Local Market



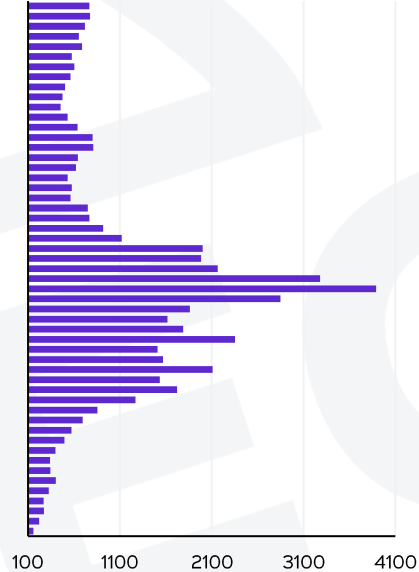
- Total external debt increased again, after few months of a declining trend, due to new borrowing and currency devaluation. Bond yields and CDSs have been volatile, but were contained thanks to solid external support.
- For the second month in a row, inflation rate declined thanks to having no price hikes enacted lately as well as the observable decrease in growth in money supply. Central bank is still maintaining high interest rates to curb inflation and protect the currency.
- Central bank reserves of foreign currency have increased, yet again, and net foreign assets in the banking system inched upwards. This has been supported by inflows of foreign funds and remittances. Yet, official exchange rate increased again and the gap with other prevailing rates persisted, though still limited.

Commodity prices continued to stabilize after Trump got elected with some even trending downwards, with Palm Oil and Maize increasing due to supply shortages. The recent election of Trump to US presidency once again has offered some clarity to financial markets about different commodities especially Oil prices, which started falling given the direction to increase production and to pressure Gulf countries to cut prices. Gold prices persisted at high level in fear of inflationary pressures from Trump policies. While Palm Oil, Maize and Rice prices increased due to shortage in supply. Having said so, Trump presidency seems to bring an element of high volatility in global markets due to the Trump's many directions and executive orders issued.

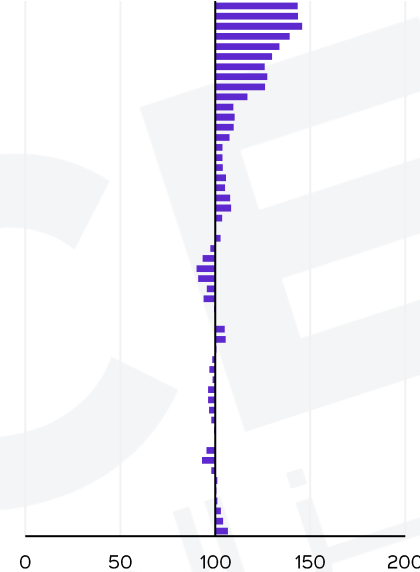
Crude Oil, Brent



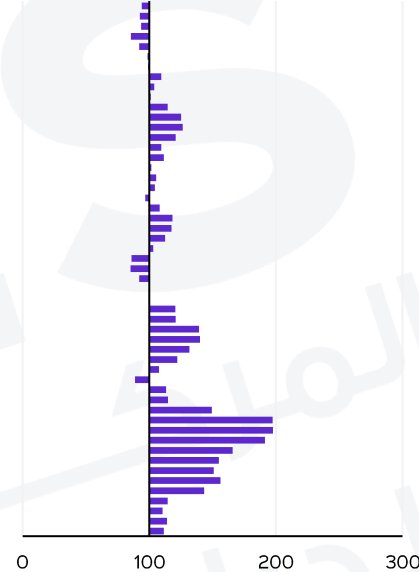
Natural Gas



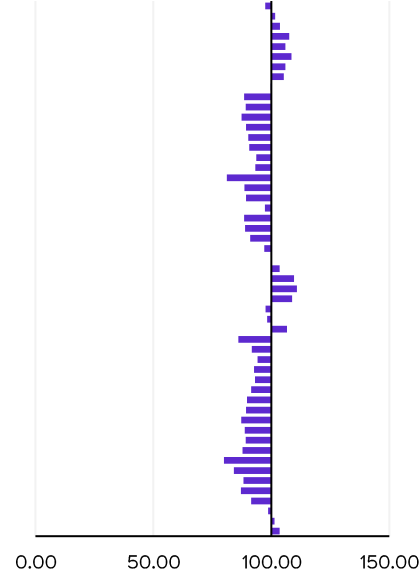
Gold



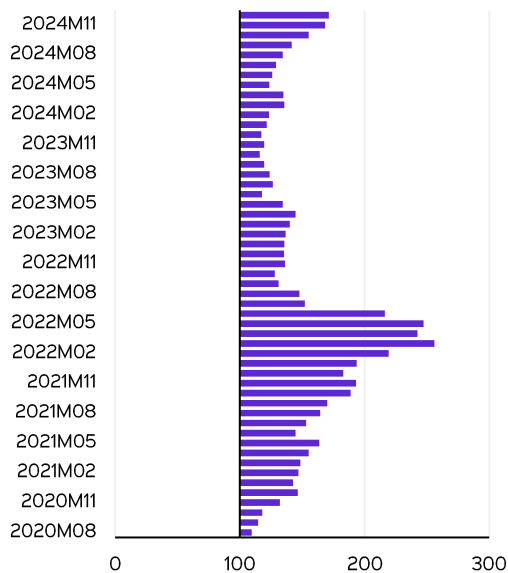
Iron ore



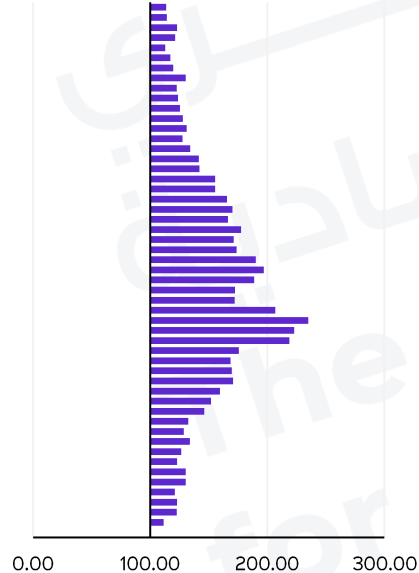
Tea



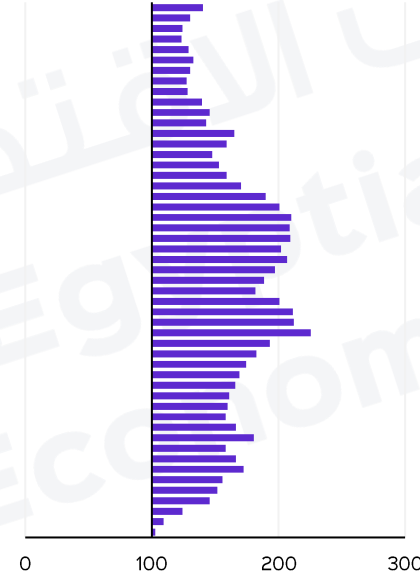
Palm oil



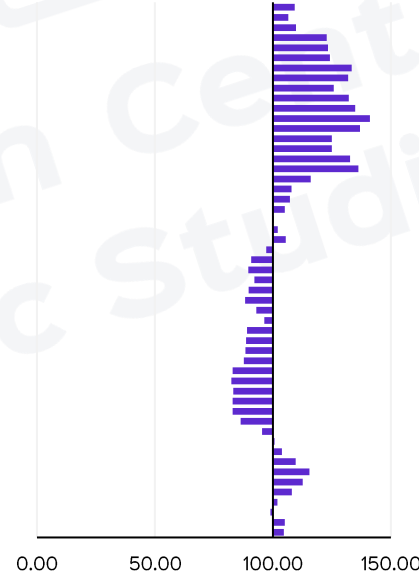
Wheat



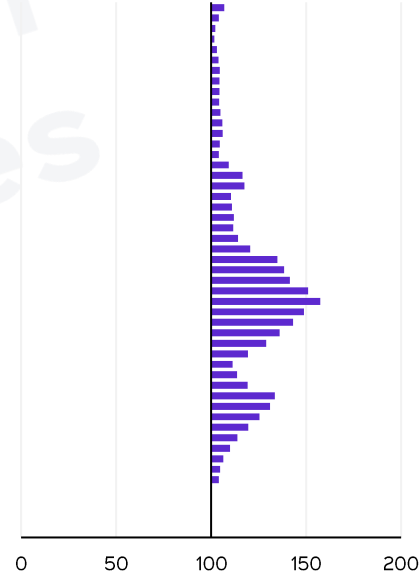
Maize



Rice

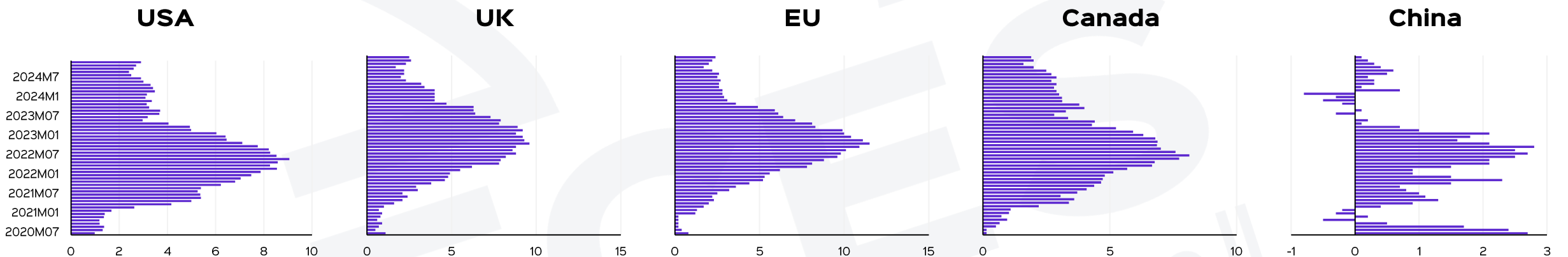


Bovine meat

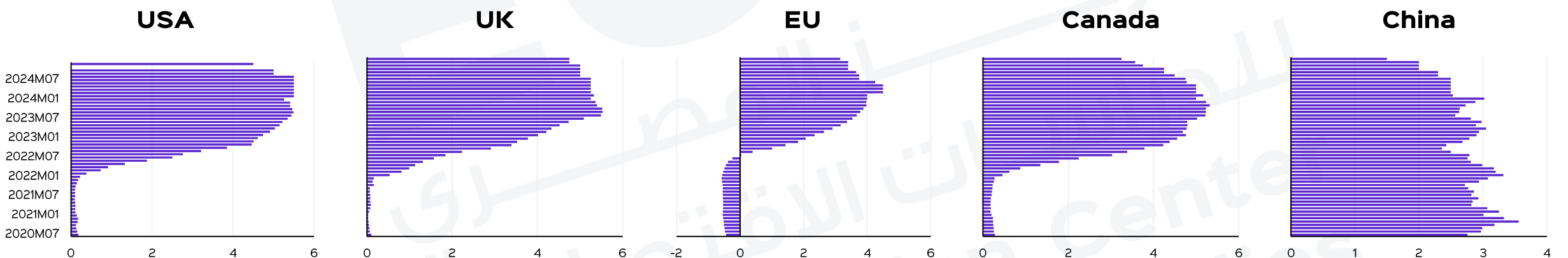


Despite inching upwards, inflation rates in global markets have softened compared to expectations, giving room for Central banks to proceed with easing and cut rates as witnessed across global markets. This with the election of Trump have reflected into a stronger US Dollar against most currencies. Though inflation rates in few global markets have slightly increased, the overall rates are still within expectations or even less, giving Central banks the room to keep on monetary easing and cutting rates as witnessed by global Central banks. These developments as well as the election of Trump have resulted into a stronger US Dollar against nearly all global markets currencies.

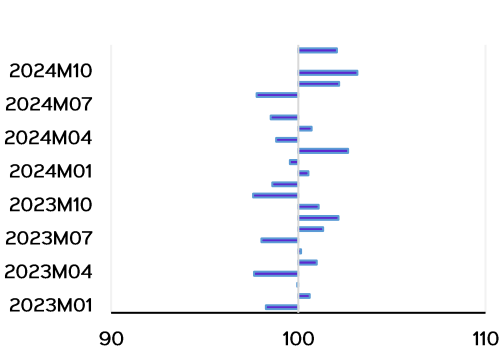
Inflation Rate



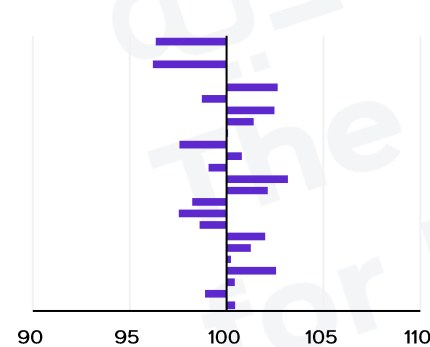
Policy Rate



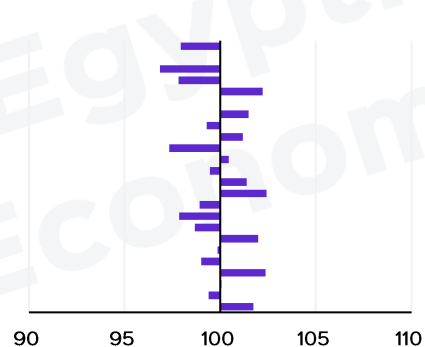
LCU / USD



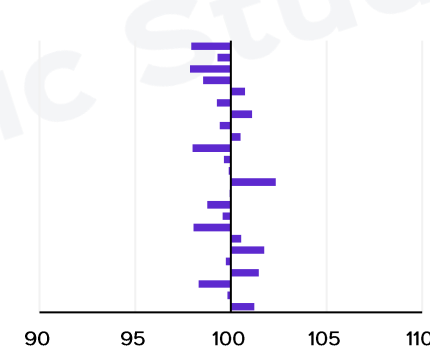
UK Pound



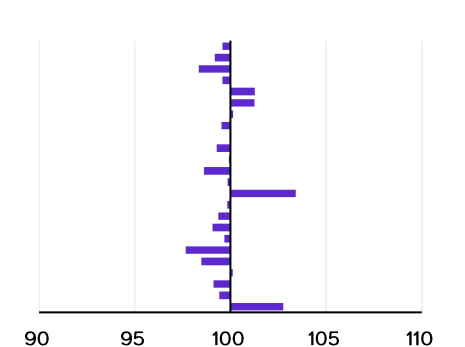
Euro



Canadian Dollar



Chinese Yuan



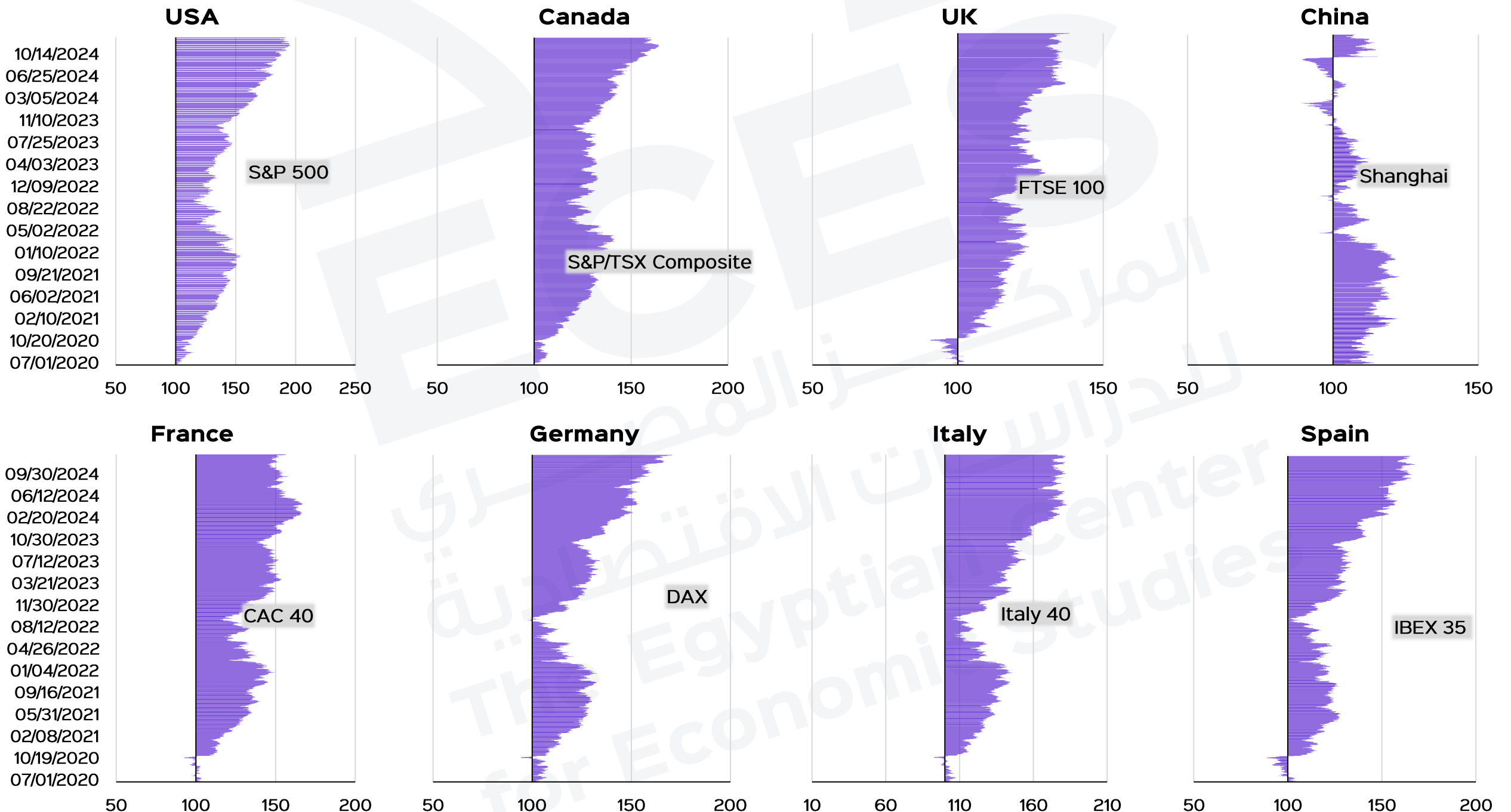
Commodity Markets
Main Rates

Stock Market

Bond Market

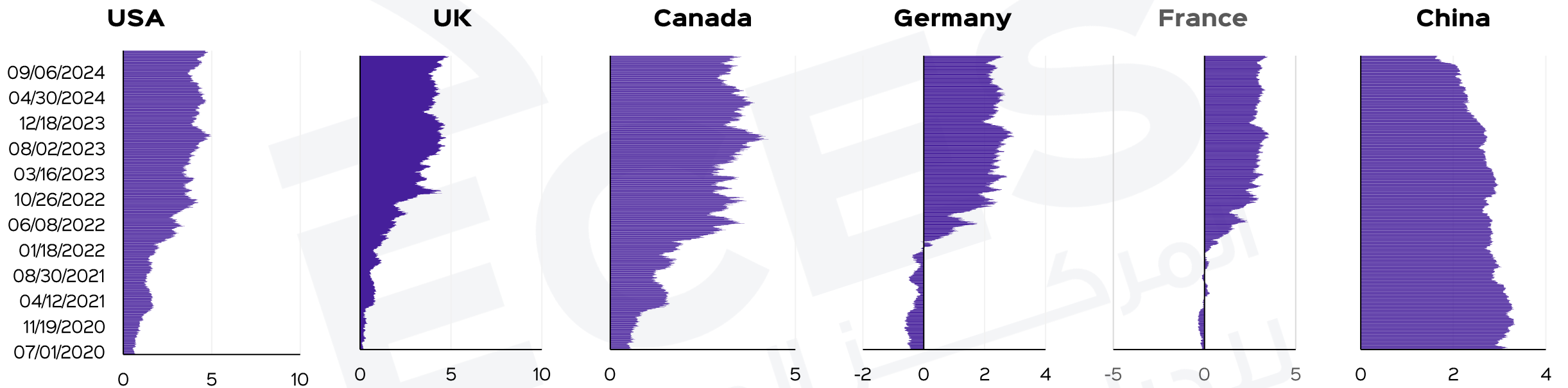
The US stock market has rallied after the election of Trump, sparked by the AI spending initiatives, which was halted lately by new Chinese AI technology. Such developments have resulted into increased volatility in global market. The election of Trump and his business-friendly attitude has sparked a rally in the stock market. Such rally was focused on the Tech sector with Trump's AI spending initiatives. The aggressive rally was halted with the announcement of new Chinese AI technology. Despite the big support of Chinese government, the Chinese stock market has been performing poorly with the anticipation of ever increasing Trump tariffs targeted at China.

Commodity Markets
Main rates
Stock Market
Bond Market

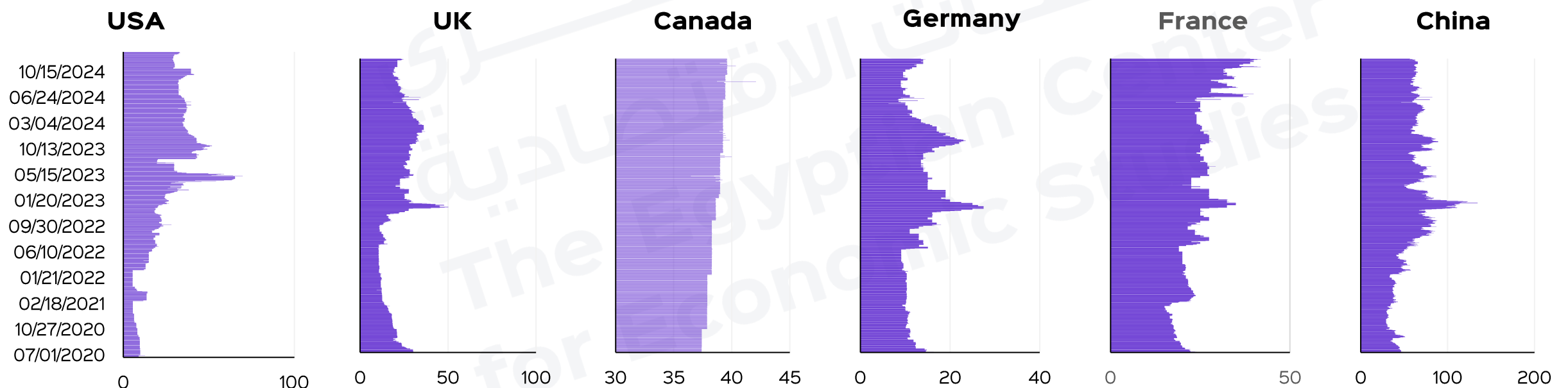


Despite interest rate cuts, bond yields in global markets have increased due to inflationary fears, while CDSs increased due to high volatility and uncertainty in global markets. Despite the confirmation of easing cycle and interest rate cuts across global markets, bond yields didn't decline but actually increased due to inflationary fears from Trump spending initiatives. This has reflected into higher bond yields across global markets as well as increased CDSs, reflecting heightened volatility in global market. Besides, global markets have attained very high levels of debt which increases the risk of debt service in such markets, adding more pressure on CDSs.

10-Year Bond Yield



5-Year CDS



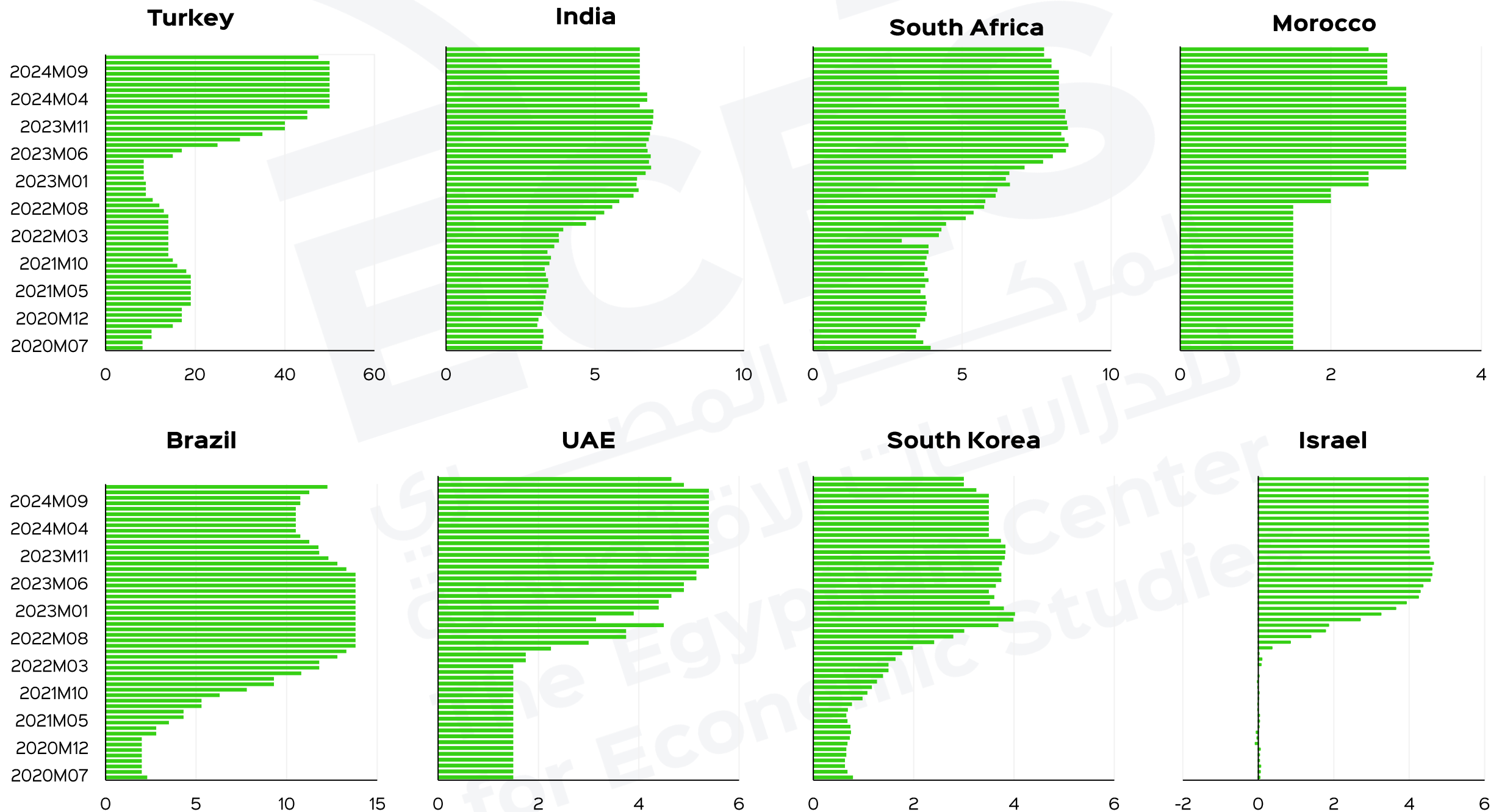
Commodity Markets
Main Rates
Stock Market
Bond Market

Inflation rates across emerging markets have kept their divergence trend for few months in a row, with some countries witnessing an increase in inflation and others witnessing stability or even decline in inflation, yet there is a clear trend towards stabilization. Emerging markets inflation rates have diverged yet again for a variety of reasons between food prices or commodity prices, but on an overall basis the changes have become less severe, reflecting the tendency towards stabilization in most commodity prices and the tight monetary policies. The divergent experience of emerging markets reflects the difference in circumstances faced by each emerging economy as well as the stickiness of inflation across various economies.



Emerging markets Central banks have diverged in their response to the developments in global markets, with most of them cutting interest rates mirroring global markets, few keeping interest rates as is, while countries like Brazil hiked its rate further to protect its currency. The general trend of stability in inflation rates has reflected into most emerging markets Central banks mirroring global markets Central banks by cutting rates. Some Central banks such as South Korea and India preferred to keep interest rates high until there is more clarity and control on inflation, while others such as Brazil hiked its interest rates further to control inflation and protect its currency against the strong US Dollar.

Inflation Rate
Policy Rate
LUC/UDC
Stock Market
Bond Market



Despite monetary easing in global markets and relative stability of inflation in emerging markets, emerging markets currencies are facing big pressures against the US Dollar, which became stronger thanks to Trump planned policies and approach towards managing global conflicts. Emerging markets currencies were waiting to enjoy less pressure on their currencies with the commencement of monetary easing in global markets, but against their expectations, emerging markets currencies are facing big pressures against the strong US Dollar after the election of Trump and the cautious stance of the US Fed towards further interest rate cuts. This highlights the risks emerging markets Central banks are experiencing and explains their divergent reactions.

Inflation Rate

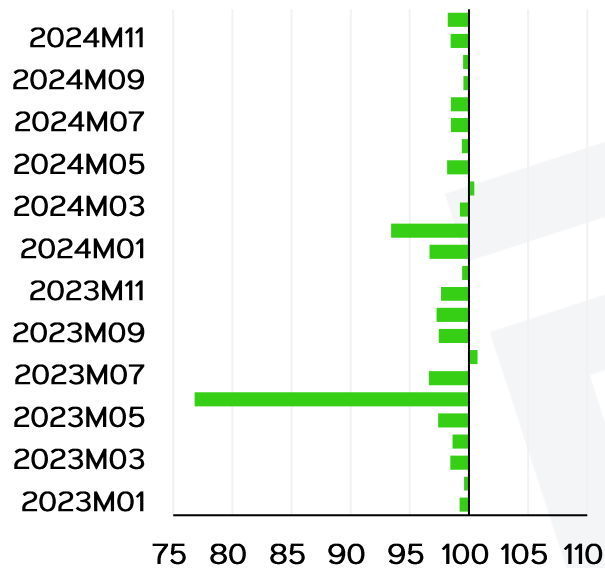
Policy Rate

LUC/UDS

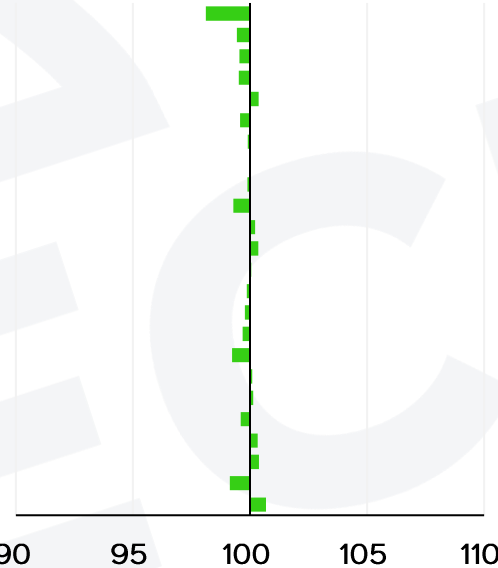
Stock Market

Bond Market

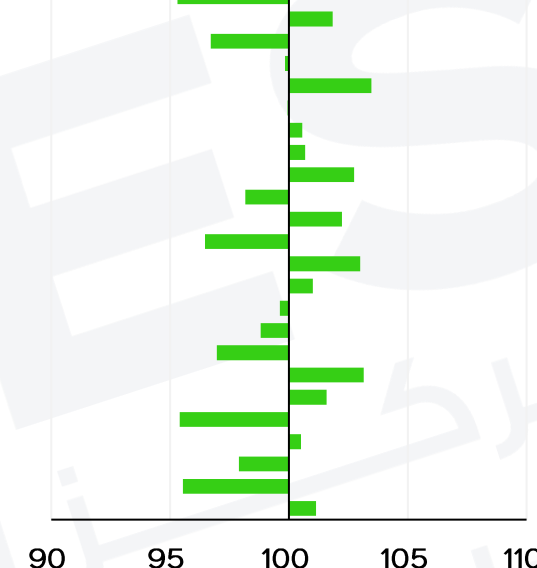
Turkish Lira



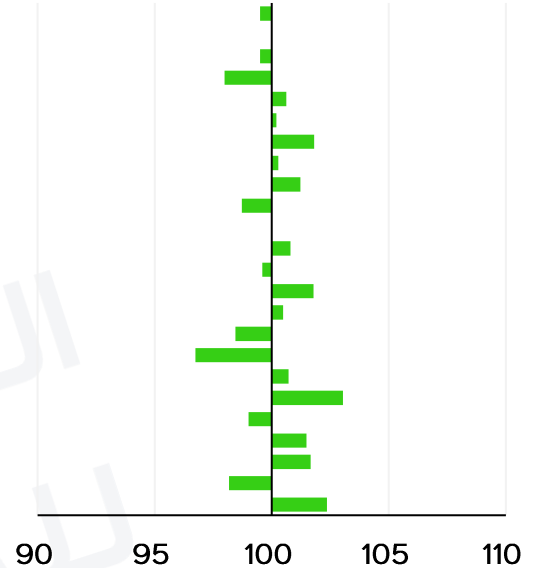
Indian Rupee



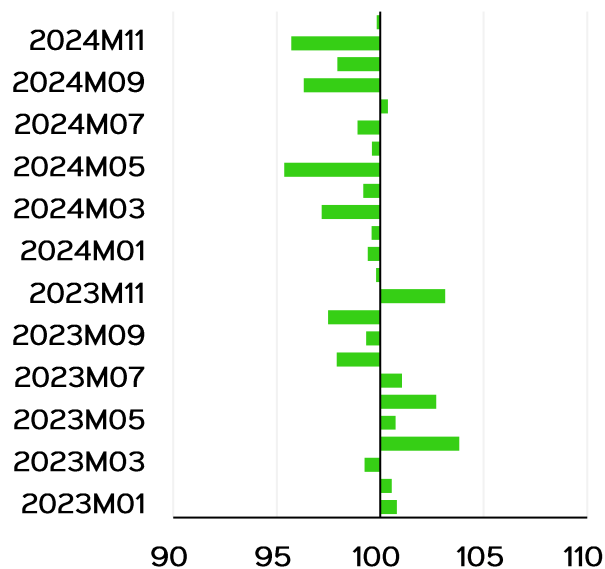
South African Rand



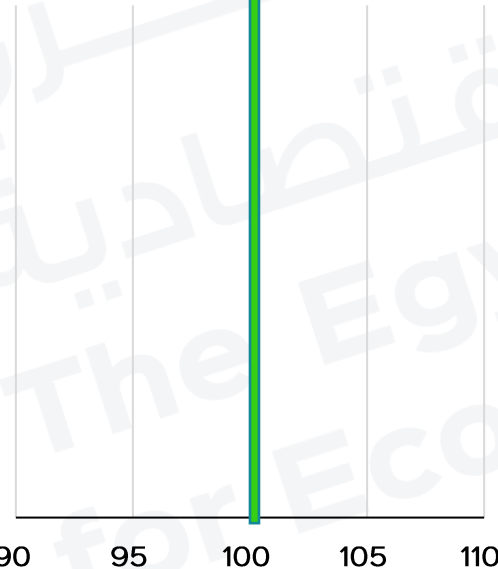
Moroccan Dirham



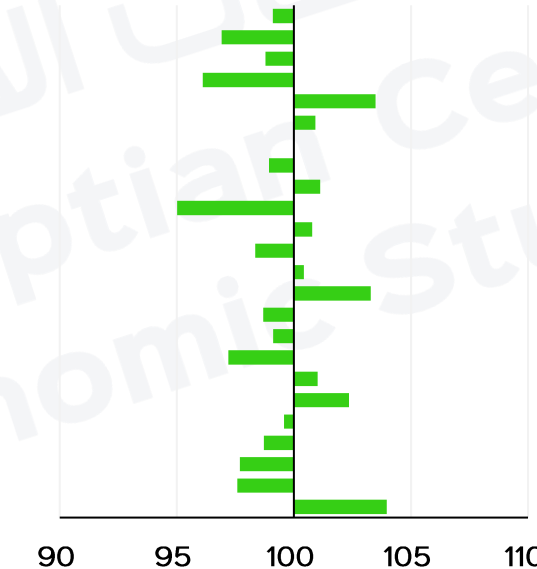
Brazilian Real



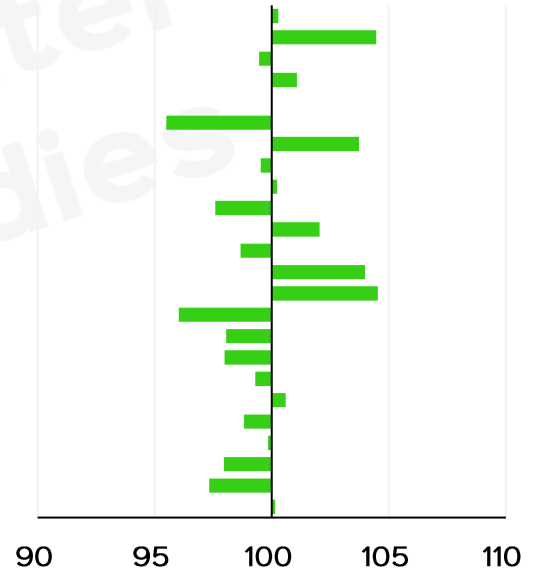
UAE Dirham



Korean Won

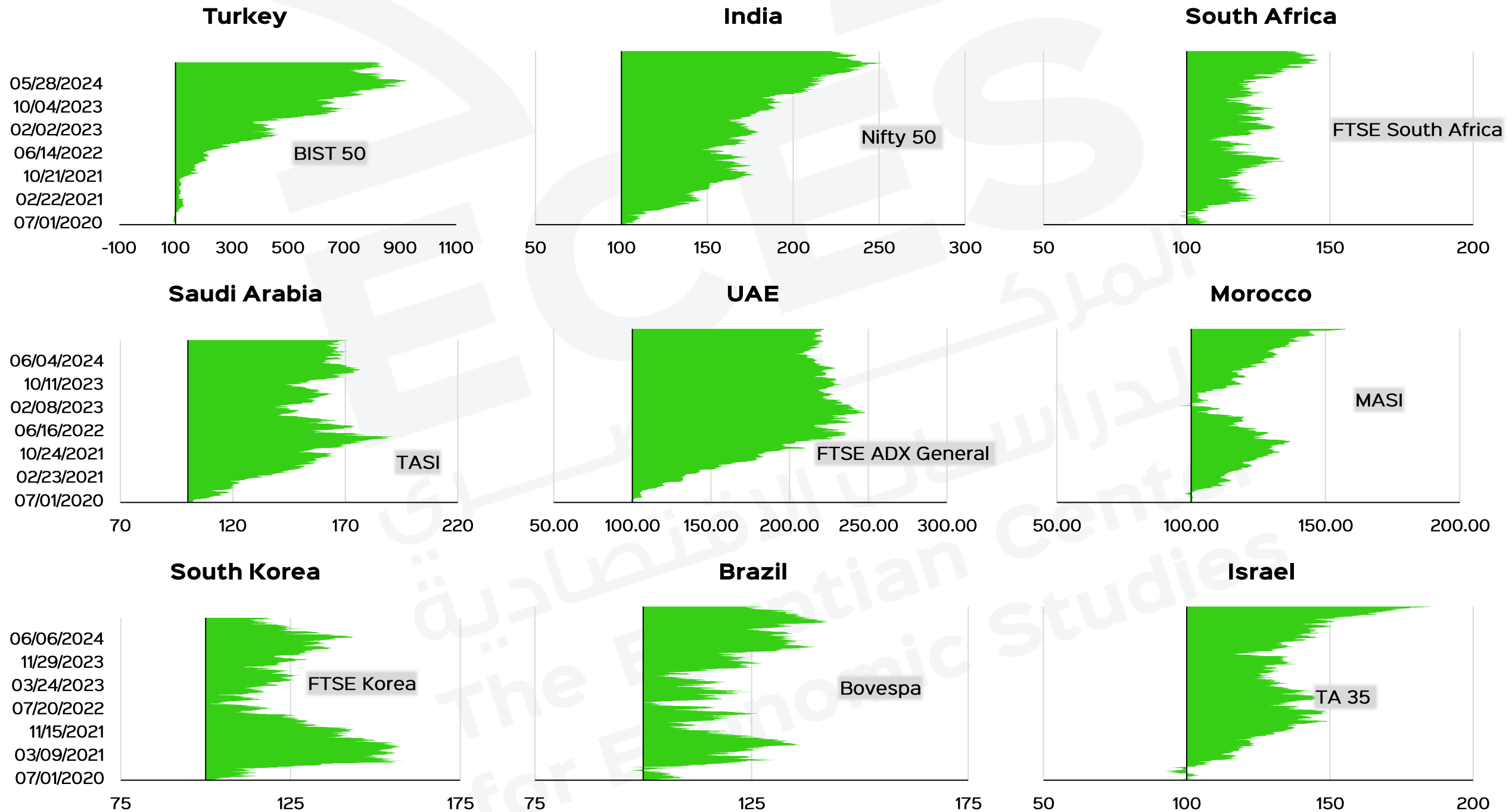


Israeli New Shekel



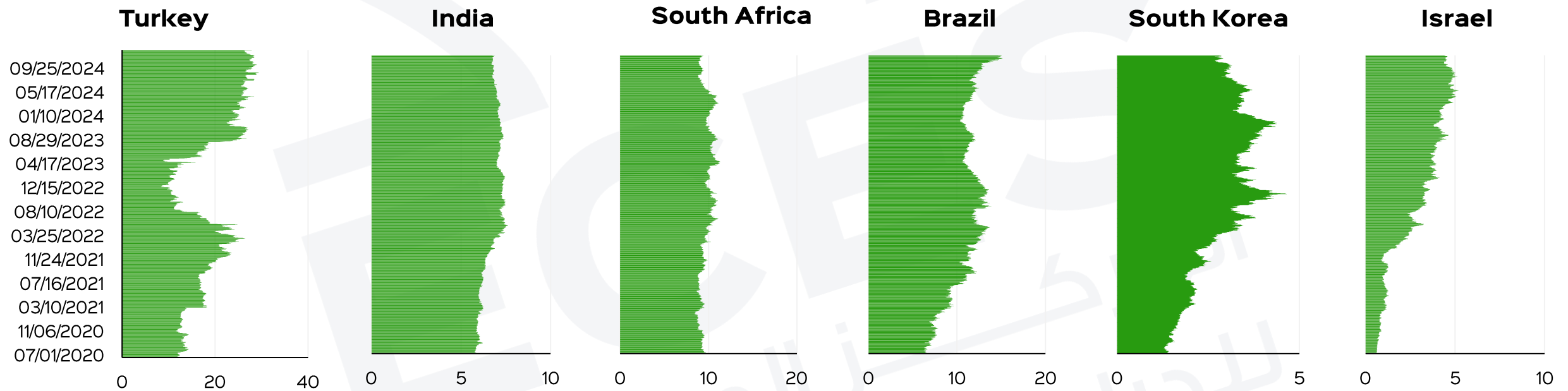
Stock markets in emerging markets have witnessed yet another turbulent month post Trump election, due to heightened global geopolitics risks and the never-ending Trump executive orders as well as the strong US Dollar that is pressuring money flows to emerging markets. The election of Trump has moved many stagnant global topics, but has in itself heightened global geopolitical risks due to the many executive orders that come quickly and unplanned. Besides, the further strengthening of the US Dollar has disrupted money flows to emerging markets and created more volatility in emerging markets stock markets as flows of funds to emerging markets dry out.

Inflation Rate
Policy Rate
LUC/USD
Stock Market
Bond Market

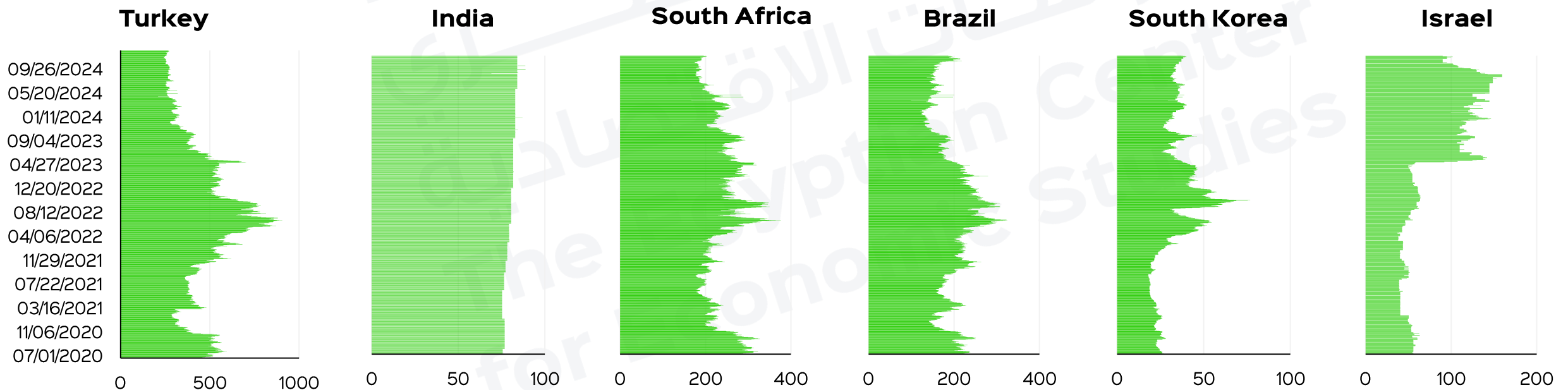


Bond yields in emerging markets have stayed high and even inched upwards in some markets, mirroring global markets, which reflected into higher CDSs across emerging markets as the cost of servicing debt increases. Against the expectations of lower bond yields and CDSs in emerging markets after the kickoff of the easing cycle in global markets, both bond yields and CDSs increased. The increase in bond yields mirrors the situation in global markets with the inflationary fears resulting from Trump spending policies. The increased bond yields and the unclear path of cutting interest rates further increases the cost of debt service for emerging markets and thus the risk of default as witnessed by the increase in CDSs of emerging markets economies.

10-Year Bond Yield



5-Year CDS



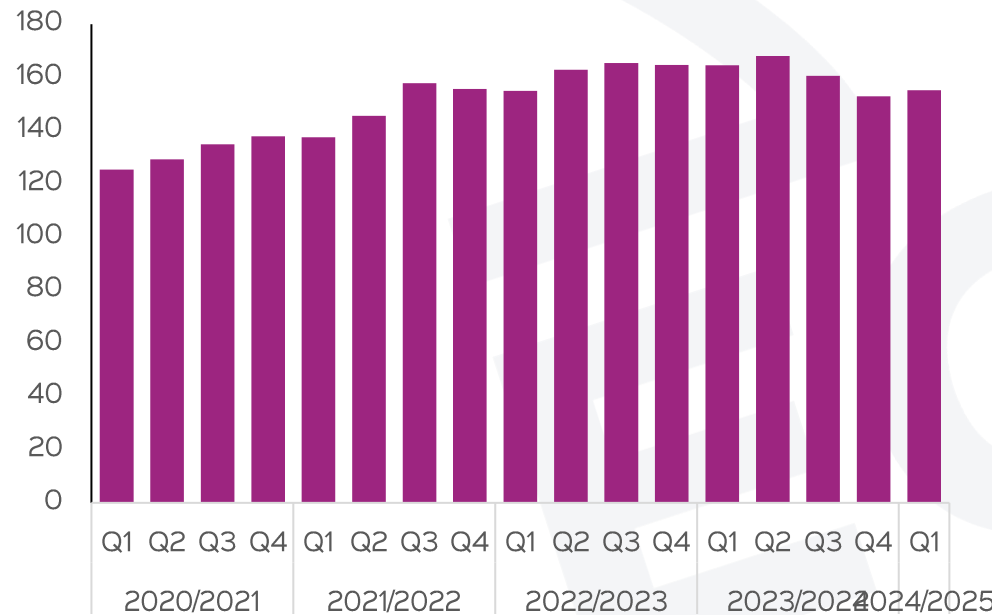
Inflation Rate
Policy Rate
LUC/UDC
Stock Market
Bond Market

After declining for few quarters, total external debt increased again due to new borrowing, currency devaluation and accumulated debt servicing cost. Bond yields fluctuated and same did CDSs, but both are contained thanks to solid external support. Mega deals concluded last year helped contain external debt, but this trend has been reversed lately where total external debt increase. This has been the result of new borrowing, currency devaluation effect and accumulation of debt servicing cost. Having said so, bond yields and CDSs were contained though volatile, thanks to solid external support from the Gulf and multilateral organizations.

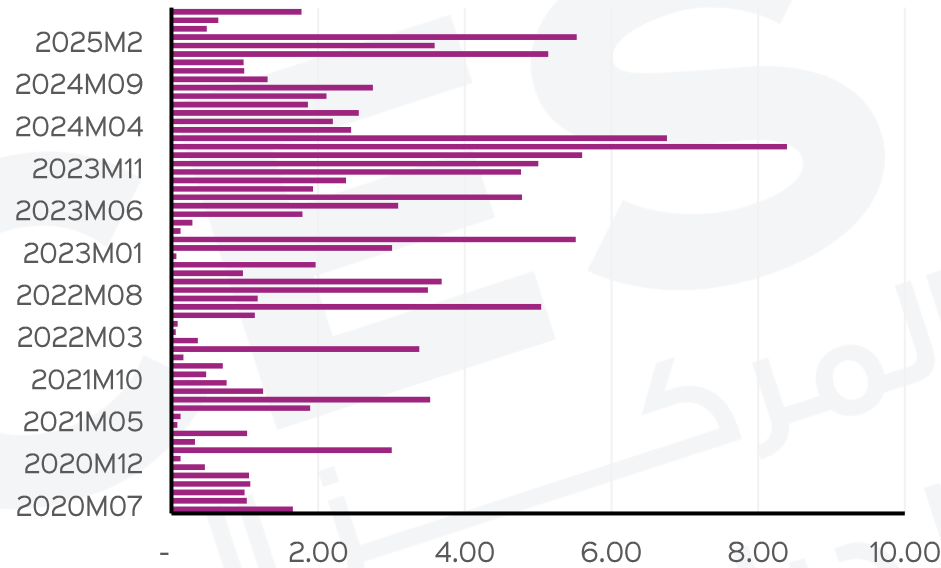
External Position

Local Developments

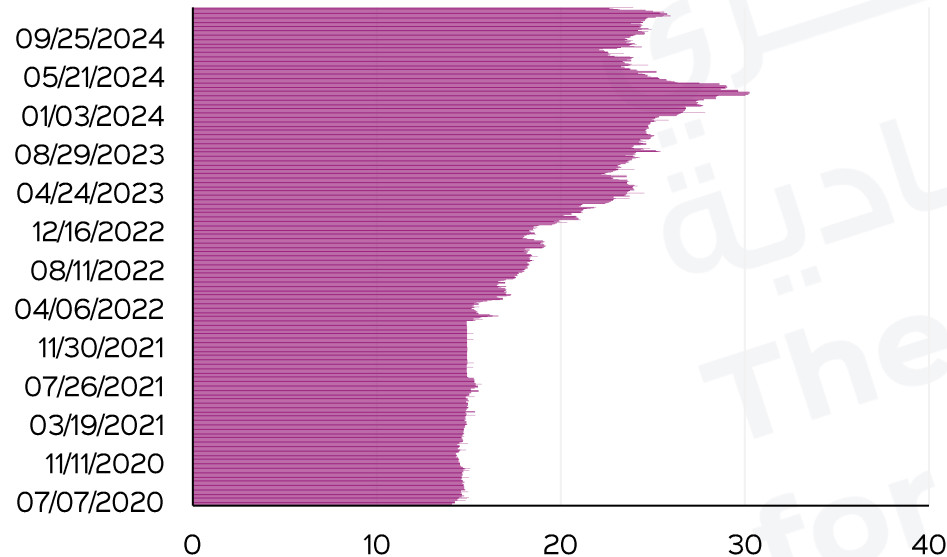
Total External Debt (bn \$)*



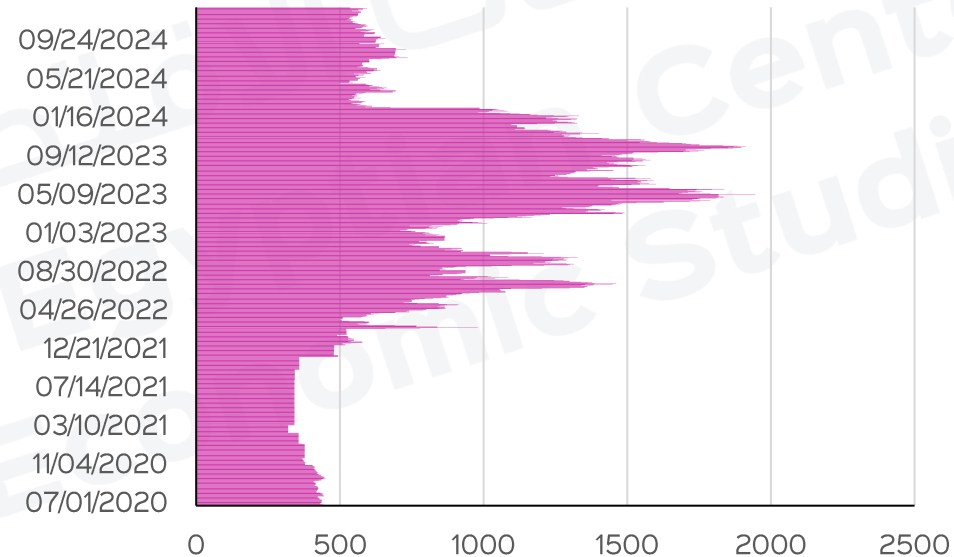
External Debt Service (bn \$)*



Egypt 10-Year Bond Yield



5Y CDS, Egypt



S&P Global Ratings
B- Positive

Fitch Ratings
B Stable

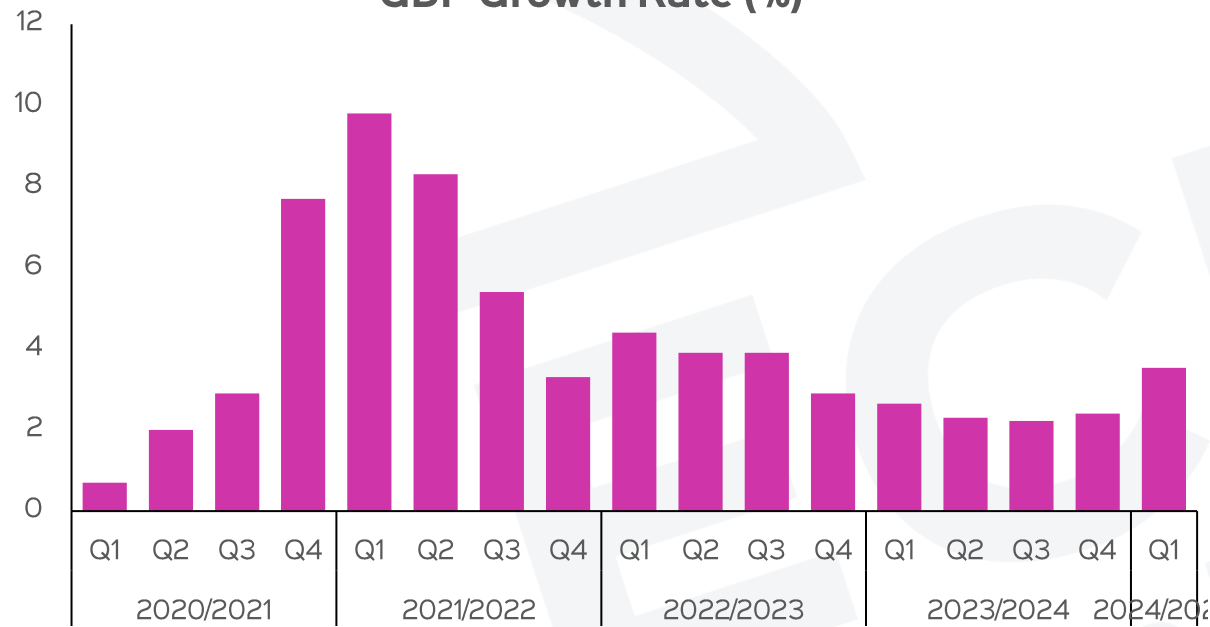
MOODY'S INVESTORS SERVICE
Caa1 Positive

Inflation rate declined for the second month in a row thanks to having no price hikes enacted lately as well as the observable decrease in growth in money supply. Central bank is still keeping interest rates high to curb inflation and protect the currency. After few months of rising inflation, inflation rate decreased for the second month in a row since no price hikes were enacted by the government. Also, the high base effect of last year has helped show a contained inflation, despite still being very high. Still, the critical part is the very tight monetary policy as reflected by the steep decline in growth in money supply through liquidity absorption by the Central bank, which still maintains interest rates high as well to protect the currency.

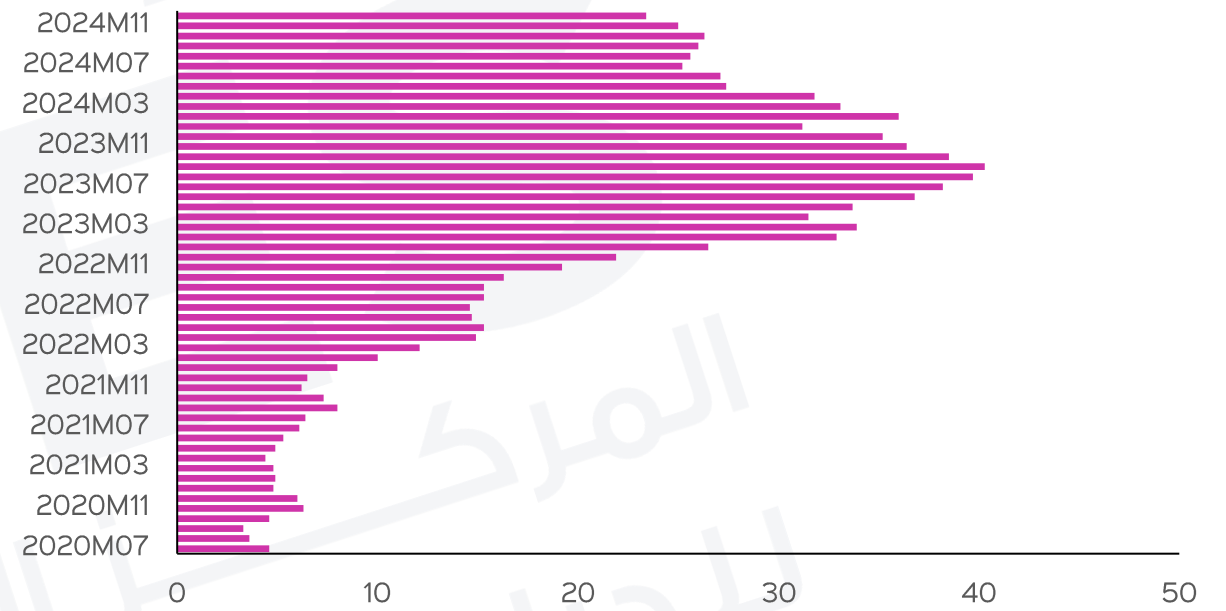
External Position

Local Developments

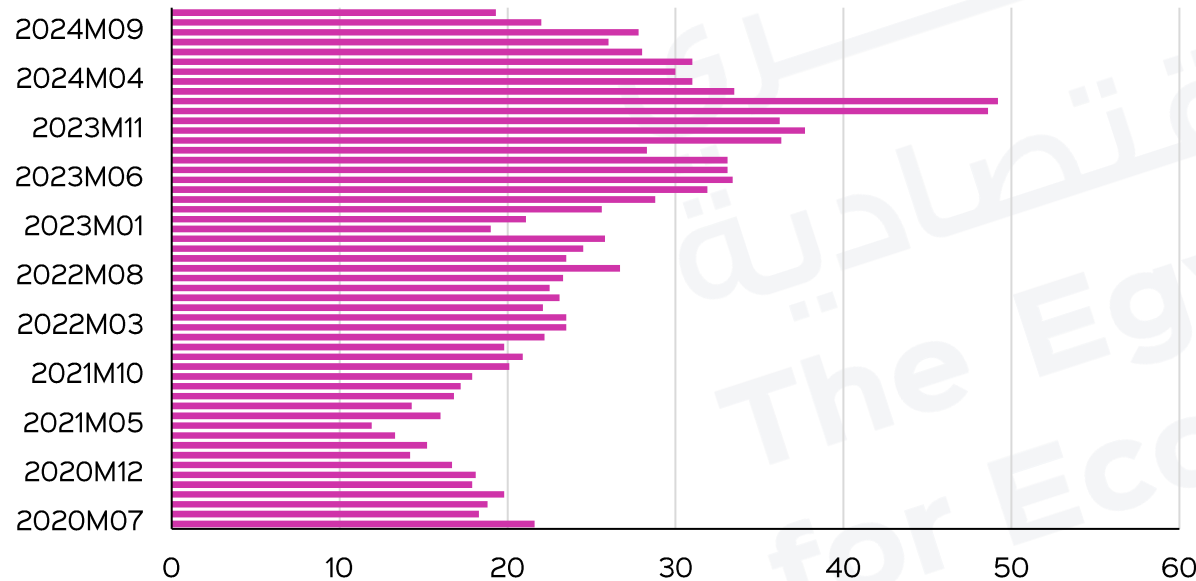
GDP Growth Rate (%)*



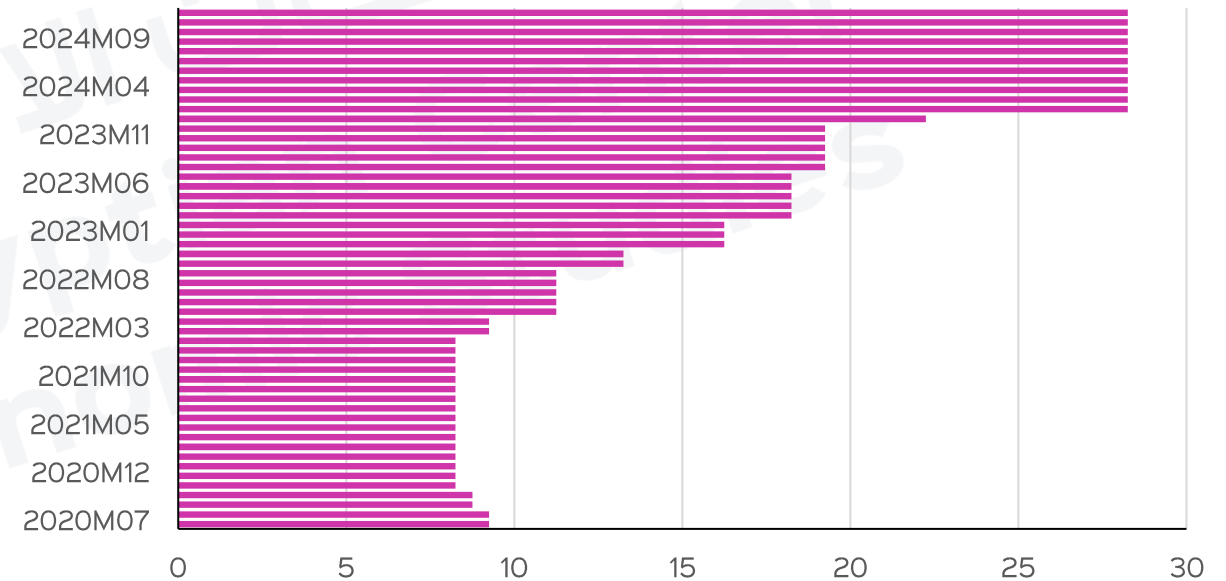
Inflation Rate (%)



Growth Rate of Money Supply (M1)*



Policy Rate (%)

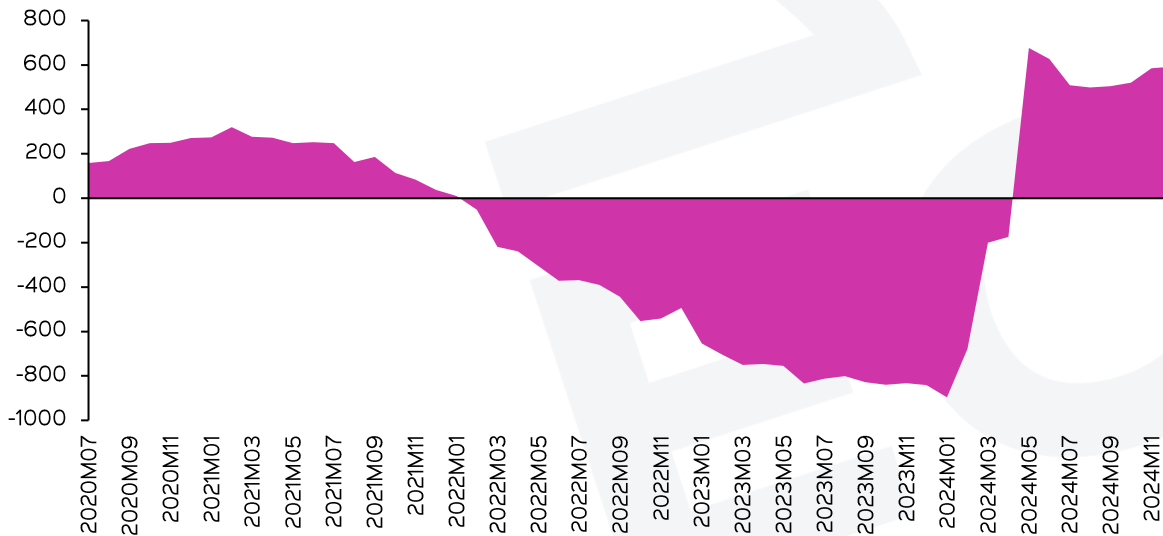


Central bank reserves of foreign currency have kept their increasing trend and net foreign assets in the banking system inched upwards, supported by inflows of foreign funds and remittances. Yet, official exchange rate increased and the gap with other prevailing rates persisted, though limited. Currency inflows from remittances have increased significantly thanks to having a unified exchange rate in the market. These inflows together with other inflows of foreign currency have helped stabilize net foreign assets in the banking as well as Central bank reserves of foreign currency. Still, the Pound official exchange rate increased and the gap between the official and other prevailing rates in the market persisted for the second month in a row, though still limited.

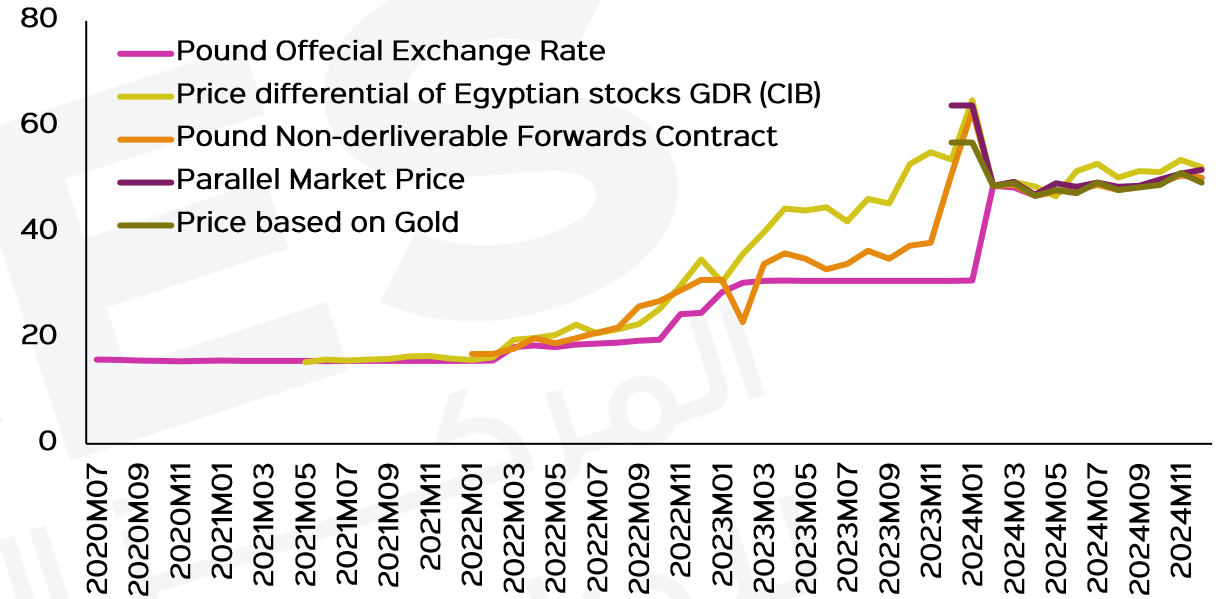
External Position

Local Developments

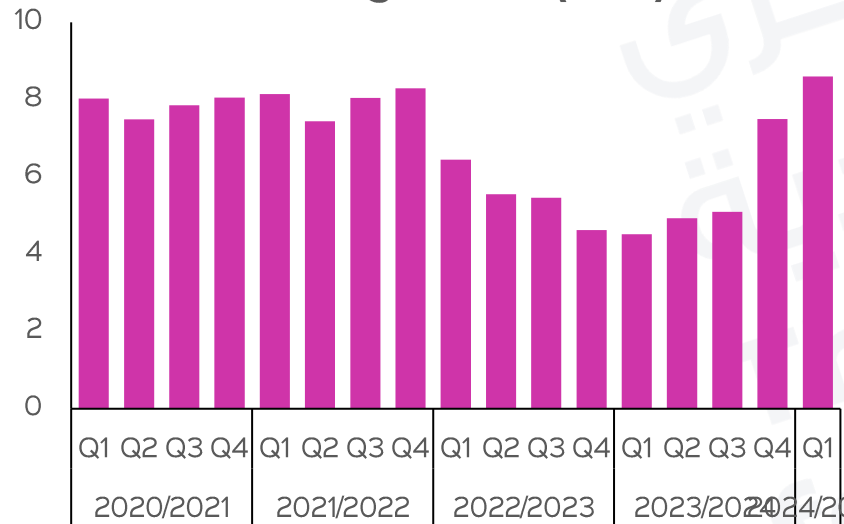
Net Foreign Assets of the Banking System (bn LE)*



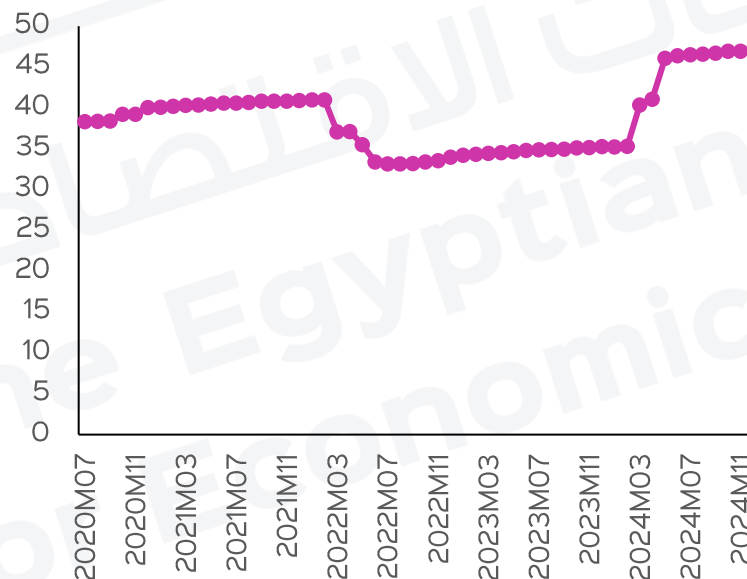
Pound Exchange Rate



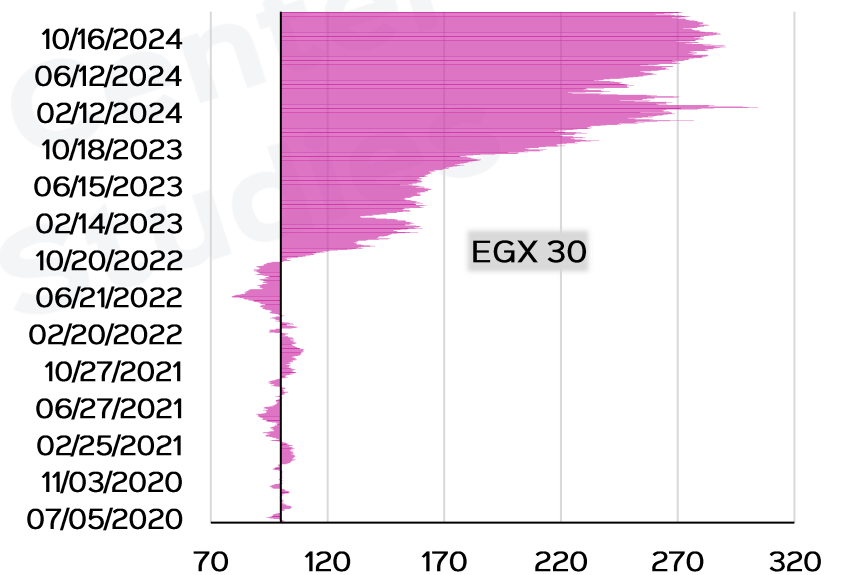
Remittances of Egyptians working abroad (bn \$)



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

