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The Egyptian Center for Economic Studies



Our Economy and The World

The Weekly Report

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This week's issue of "Our Economy and the World" includes:

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 - Bloomberg: U.S. inflation hits 39-year high of 7%, sets stage for Fed hike
 - Financial Times: Lael Brainard says fighting inflation is Fed's 'most important task'
 - CNBC: Goldman predicts the euro area will outgrow the U.S. economy over the next two years
 - Reuters: Canada adds more jobs than expected, but Omicron threat looms
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- **Developments in Financial and Commodity Markets in the past week**
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 - Reuters: Asian bonds see a surge in foreign inflows in Dec 2021
 - CNBC: European markets close higher as U.S. inflation heats up; Philips down 15%

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Key Global and Regional Developments over the Past Week

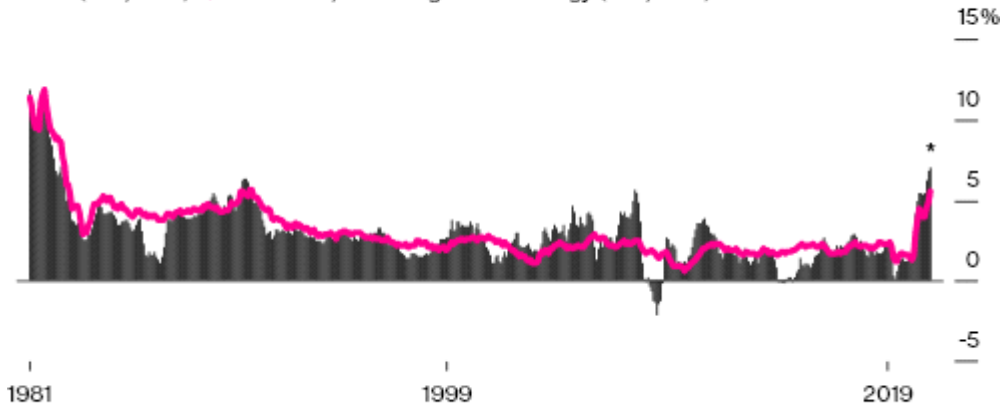
Bloomberg: U.S. inflation hits 39-year high of 7%, sets stage for Fed hike

U.S. consumer prices soared last year by the most in nearly four decades, sapping the purchasing power of American families and setting the stage for the Federal Reserve to begin hiking interest rates as soon as March. The consumer price index climbed 7% in 2021, the largest 12-month gain since June 1982, according to Labor Department data released Wednesday. The widely followed inflation gauge rose 0.5% from November, exceeding forecasts.

Hottest in Decades

U.S. headline inflation jumped in December by the most since 1982

■ CPI (YoY, NSA) / Core CPI, excluding food & energy (YoY, NSA)



* Headline est. = 7% Core est. = 5.4%

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Financial Times: Lael Brainard says fighting inflation is Fed's 'most important task'

Lael Brainard, Joe Biden's nominee for vice-chair of the Federal Reserve, will tell Congress that the fight against high inflation is the US central bank's "most important task" in an embrace of the Fed's pivot towards tighter monetary policy. "Inflation is too high, and working people around the country are concerned about how far their pay cheques will go," said Brainard, a Fed governor, in prepared remarks released ahead of her confirmation hearing before the Senate banking committee on Thursday.

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CNBC: Goldman predicts the euro area will outgrow the U.S. economy over the next two years

The euro zone will grow at a faster clip than the U.S. economy in the next two years, analysts at Goldman Sachs have predicted, primarily due to a difference in government policy. The investment bank expects the 19-member euro region to grow at a pace of 4.4% this year, compared to a rate of 3.5% for the United States. Looking at 2023, Goldman foresees the euro zone growing by 2.5% and the U.S. by 2.2%.

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Reuters: Canada adds more jobs than expected, but Omicron threat looms

The Canadian economy added twice as many jobs as expected in December and the unemployment rate hit a 22-month low, though analysts see a grim January amid fresh restrictions to slow the fast-spreading Omicron variant of COVID-19. Canada added a net 54,700 positions, beating analysts' expectations of a gain of 27,500, while the jobless rate dipped to 5.9% from 6.0% in November, Statistics Canada said on Friday.

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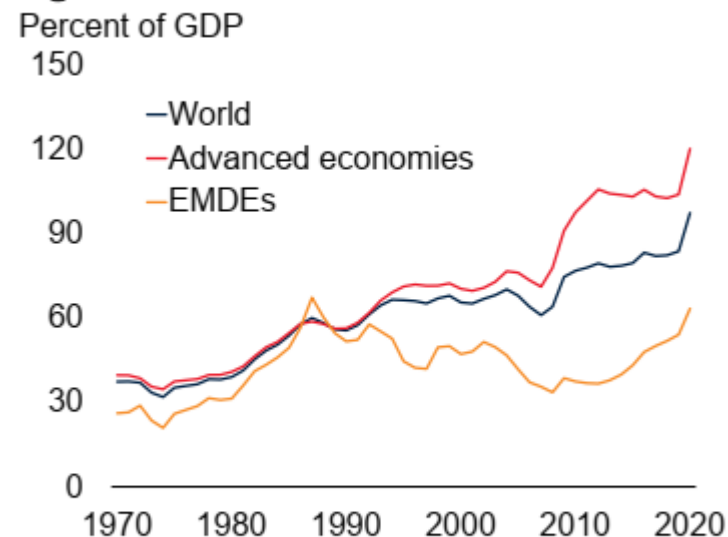
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Special Analysis

World Bank: A Mountain of Debt - Navigating the Legacy of the Pandemic

The COVID-19 pandemic has triggered a massive increase in global debt levels and exacerbated the trade-offs between the benefits and costs of accumulating government debt. This paper examines these trade-offs by putting the recent debt boom into a historical context. It reports three major findings. First, during the 2020 global recession, both global government and private debt levels rose to record highs, and at their fastest single-year pace, in five decades. Second, the debt-financed, massive fiscal support programs implemented during the pandemic supported activity and illustrated the benefits of accumulating debt. However, as the recovery gains traction, the balance of benefits and costs of debt accumulation could increasingly tilt toward costs. Third, more than two-thirds of emerging market and developing economies are currently in government debt booms. On average, the current booms have already lasted three years longer, and are accompanied by a considerably larger fiscal deterioration, than earlier booms. About half of the earlier debt booms were associated with financial crises in emerging market and developing economies.

Figure 1. Government debt



Sources: Kose et al. (2017, 2020).

Note: Aggregates are weighted averages using current GDP in U.S. dollars as weights.

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Developments in Financial and Commodity Markets over the Past Week

Financial Times: US stocks push higher as traders parse inflation data

Global stock and government bond prices picked up for a second consecutive day on Wednesday, as investors looked past data showing US inflation had reached its highest level in nearly 40 years to focus on expectations that price rises would soon peak. Wall Street's blue-chip S&P 500 closed 0.3 percent higher, while the tech-heavy Nasdaq Composite climbed 0.2 percent.

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Reuters: Asian bonds see a surge in foreign inflows in Dec 2021

Emerging Asian bonds ex-China attracted the biggest monthly foreign inflow in over four months in December, shrugging off worries over the Federal Reserve's tightening of its monetary policy as businesses showed higher productivity. Overseas investors purchased a combined net total of \$4.72 billion in South Korean, Thai, Indian, Indonesian, and Malaysian bonds last month, their biggest net buying since August, data from regulatory authorities and bond market associations showed.

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CNBC: European markets close higher as U.S. inflation heats up; Philips down 15%

The pan-European Stoxx 600 closed 0.7% higher, with basic resources climbing 3.2% to lead gains while health care stocks dropped 0.7%. French electrical parts supplier Rexel saw its shares climb 10.3% to lead the Stoxx 600 after hiking its full-year 2021 outlook.



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