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The Egyptian Center for Economic Studies



Our Economy and The World

The Weekly Report

Issue: 272 Date: 15th May 2022

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

Key Global and Regional Developments over the Past

Week

- Bloomberg: Yellen Says Ukraine War Brings Uncertainty for Global Economy
- Bloomberg: ECB Officials Increasingly See Rate Exceeding Zero This Year
- Bloomberg: Prices in US Outstrip Forecasts in Sign of Inflation Persisting
- Financial Times: Christine Lagarde sends clear signal that ECB will raise rates in July

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- World Bank: A global commodity shock without parallel

Developments in Financial and Commodity Markets in the past week

- CNBC: Nasdaq drops 3%, Dow loses 300 points following hot inflation report
- BBC: Bitcoin value drops by 50% since November peak

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Key Global and Regional Developments over the Past Week

[Bloomberg: Yellen Says Ukraine War Brings Uncertainty for Global Economy](#)

Treasury Secretary Janet Yellen highlighted continuing dangers to the global economy from Russia’s invasion of Ukraine and the pandemic, in prepared remarks to lawmakers on an annual financial-risk report. “There is the potential for continued volatility and unevenness of global growth as countries continue to grapple with the pandemic,” Yellen said in the text of remarks released Monday by the Treasury Department. “Russia’s unprovoked invasion of Ukraine has further increased economic uncertainty.”

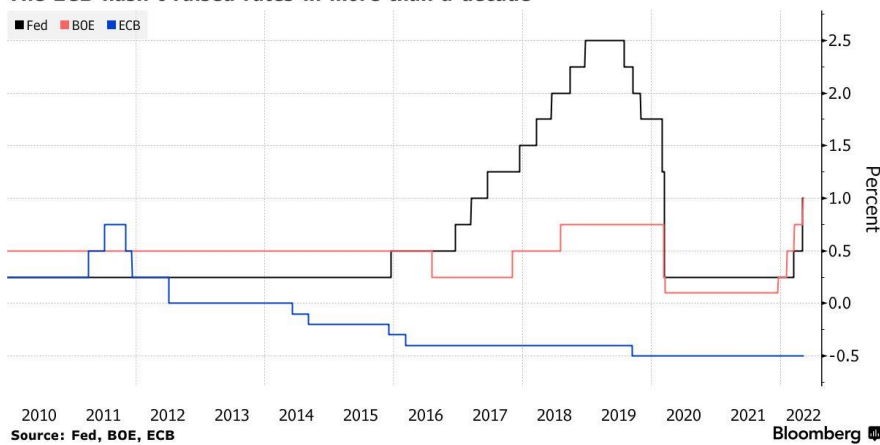
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[Bloomberg: ECB Officials Increasingly See Rate Exceeding Zero This Year](#)

European Central Bank policy makers are increasingly embracing a scenario of taking interest rates above zero before the end of the year, according to officials familiar with the matter. With Governing Council members already converging around a hike of a quarter point in July, at least two further moves of that size before January are becoming a plausible outcome for officials from across the decision-making spectrum, said the people, who asked not to be identified discussing private deliberations.

Different Pace

The ECB hasn’t raised rates in more than a decade



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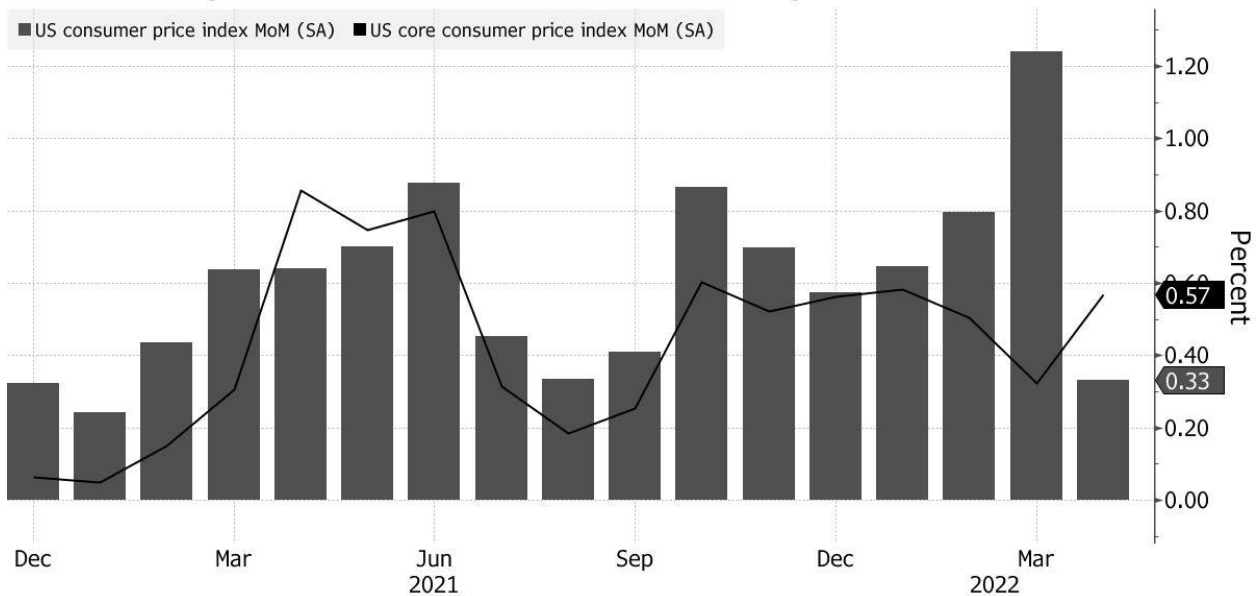
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Bloomberg: Prices in US Outstrip Forecasts in Sign of Inflation Persisting

US consumer prices rose by more than forecast in April, indicating inflation will persist at elevated levels for longer and keeping the Federal Reserve on the path of aggressive interest-rate hikes. The core consumer price index, which excludes food and energy, increased 0.6% from a month earlier and 6.2% from April 2021, according to Labor Department data released Wednesday. The broader CPI rose 0.3% from the prior month and 8.3% on an annual basis, a slight cooling but still among the highest readings in decades.

Inflation Persists

US consumer price measures exceeded estimates in April



Source: Bureau of Labor Statistics

Bloomberg

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Financial Times: Christine Lagarde sends clear signal that ECB will raise rates in July

Christine Lagarde signalled that she would support raising the European Central Bank's main interest rate in July, leading economists to declare that the first increase for more than a decade is almost certain to go ahead. The ECB president said in a speech in Slovenia on Wednesday that she expected the bank to stop expanding its balance sheet through bond purchases "early in the third quarter" and to then raise rates "some time" after that, which "could mean a period of only a few weeks". Lagarde added that "actions that demonstrate our commitment to price stability" would be critical in ensuring businesses' and households' expectations of future inflation did not rise further and test the central bank's credibility. Eurozone inflation hit a record 7.5 per cent in April — almost four times the central bank's target of 2 per cent.

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Special Analysis

World Bank: A global commodity shock without parallel

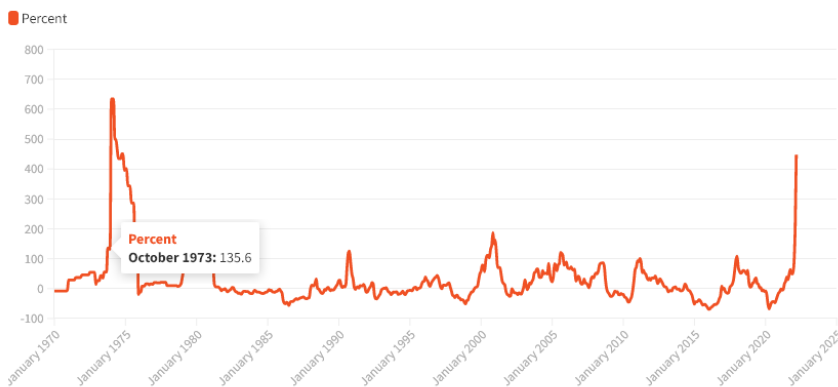
For nearly 30 years, greater trade, investment and innovation bolstered an unprecedented era of prosperity—and brought the world closer to ending extreme poverty. It allowed the incomes of the poorest nations to narrow the gap with the wealthiest and reduced the frequency and severity of national economic crises.

Then, in quick succession, two shocks brought progress to a halt. For developing economies, the war in Ukraine erupted before they had a chance to dig out from the COVID-19 recession—and already it's clear that the economic damage will be both severe and long-lasting. The war has delivered the largest commodity-price shock we've experienced since the 1970s. It will likely shave a full percentage point off global growth in 2022.

The war has also shifted global patterns of trade, production, and consumption of commodities in ways that might keep prices high for years. Many countries are turning away from Russia as a coal and oil supplier and have been finding alternatives in more distant locations. Other major coal importers could undercut this by dropping current suppliers and turning to Russia. The result may be greater transportation distances that make the diversion costly, because coal is bulky and expensive to transport. Similar diversions have begun to occur with oil and gas.

The Largest Energy Price Spike in Decades

Total changes in nominal prices during the 23-month period (April 2020-March 2022) resulted in the largest increase in energy prices since the 1973 oil price spike.



Source: [Commodity Markets Outlook, World Bank Group](#). Note: Chart shows the percent change in monthly price indices over a 23-month period. This facilitates a comparison of the April 2020 trough with the most recent data (March 2022). Due to data limitations, prior to 1979, the energy price change is proxied using the oil price change.



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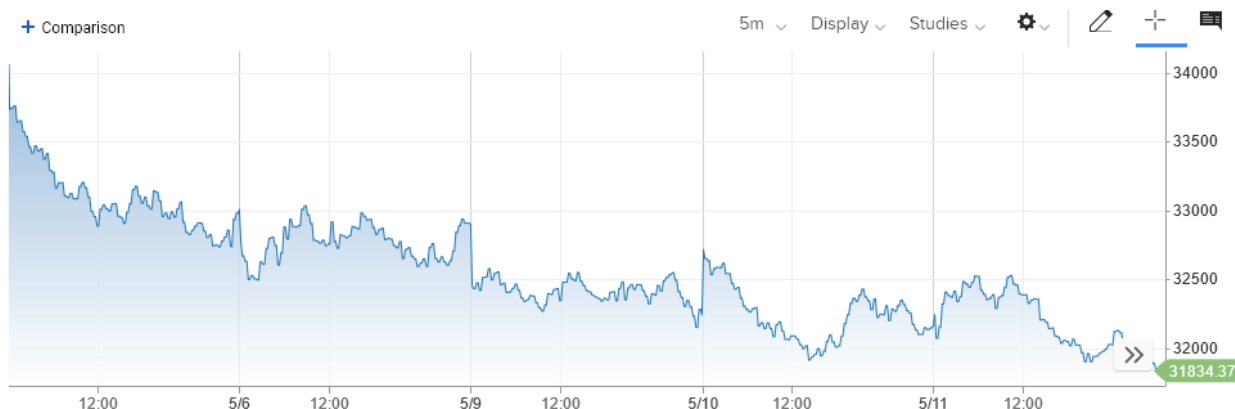
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Recent Developments in Financial and Commodity Markets

[CNBC: Nasdaq drops 3%, Dow loses 300 points following hot inflation report](#)

Stocks fell on Wednesday, dialing back earlier gains as investors continued to digest the latest U.S. inflation data. The Dow Jones Industrial Average fell 326.63 points to 31,834.11, or 1.02%. The S&P 500 slipped 1.65% to 3,935.18, and the Nasdaq Composite dropped 3.18% to close at 11,364.24. During the trading session, the S&P 500 touched a new 52-week low of 3,928.82. The broad-market index also closed at its lowest level of the year. The S&P 500 is down more than 18% off its 52-week high and off by more than 17% since the start of 2022.



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[BBC: Bitcoin value drops by 50% since November peak](#)

The value of Bitcoin has dropped below \$31,000 (£25,140) - less than half of what it was at its peak last November, according to the Coinbase cryptocurrency exchange. The fall of the world's largest cryptocurrency by market value comes as stock markets around the world have also tumbled in recent days. On Monday, key European, Asian and US indexes slid lower again. Investors are fleeing riskier assets for safe havens like the dollar.

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