المركز المصري للدراسات الاقتصادية
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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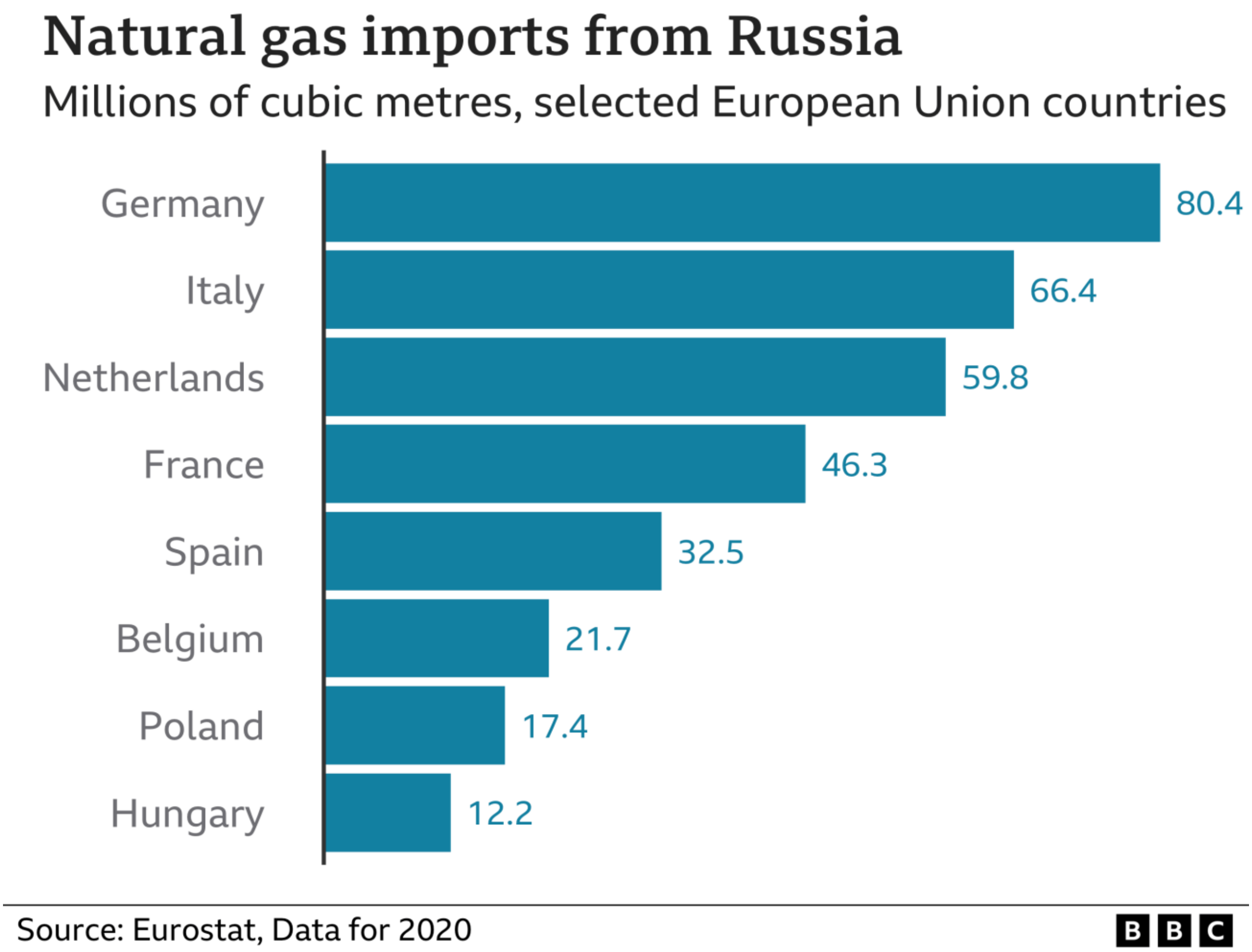
Key Global and Regional Developments over the Past Week

BBC: EU Allows Get-out Clause in Russian Gas Cut Deal

European Union members have agreed to cut gas use in case Russia halts supplies but some countries will have exemptions to avoid rationing. EU members, locked in talks since the idea was suggested last week, have now agreed to voluntarily reduce 15% of gas use between August and March. "This was not a Mission Impossible!", tweeted the Czech Republic, which holds the rotating EU presidency. However, the deal was watered down after previously not having exemptions. The EU has said its aim from the deal is to make savings and store gas ahead of winter, warning that Russia is "continuously using energy supplies as a weapon". The voluntary agreement would become mandatory if supplies reach crisis levels.



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Bloomberg: UK Retailers Report Prices Rising at Sharpest Pace Since 2005

Prices in UK shops accelerated at the sharpest pace since at least 2005, stretching consumers' spending power even further. The British Retail Consortium said its measure of inflation increased to 4.4% in July from 3.1% from last month, the highest since its survey first started. Supply chain disruptions and rising production and shipping costs, combined with the Ukraine crisis to push up prices. The findings add to the challenge for the Bank of England, which has raised interest rates to 1.25% to rein in inflation. It also feeds into an argument between the two contenders to succeed Boris Johnson as prime minister, with Liz Truss and Rishi Sunak debating how to help consumers.

(Read Full Article)

CNBC: IMF Slashes Global GDP Forecast as Economic Outlook Grows 'Gloomy and More Uncertain'

The International Monetary Fund on Tuesday cut its global growth projections for 2022 and 2023, dubbing the world's economic outlook "gloomy and more uncertain." The IMF now expects the world economy to grow 3.2% this year, before slowing further to a 2.9% GDP rate in 2023. The revisions mark a downgrade of 0.4 and 0.7 percentage points, respectively, from its April projections. The Washington-based institute said the revised outlook indicated that the downside risks outlined in its earlier report were now materializing. Among those challenges are soaring global inflation, a worse-than-expected slowdown in China and the ongoing fallout from the war in Ukraine.

(Read Full Article)

Bloomberg: Turkey Says Ukraine Grain Exports Could Start Within a Week

Turkey said grain exports from Ukrainian ports could resume within a week and reach 25 million tonnes by the end of the year, after it brokered a deal between Kyiv and Moscow that eased fears of a global food crisis. Exactly when exports halted by Russia's invasion would begin will be determined by logistical groundwork, Turkish President Recep Tayyip Erdogan's spokesman, Ibrahim Kalin, said in an interview on Tuesday.

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Bloomberg: Fed Hikes 75 Basis Points Second Time, Signals Third is Possible

Federal Reserve officials raised interest rates by 75 basis points for the second straight month and Chair Jerome Powell said a similar move was possible again, rejecting speculation that the US economy is in recession. Policy makers, facing the hottest cost pressures in 40 years, lifted the target for the federal funds rate on Wednesday to a range of 2.25% to 2.5%.

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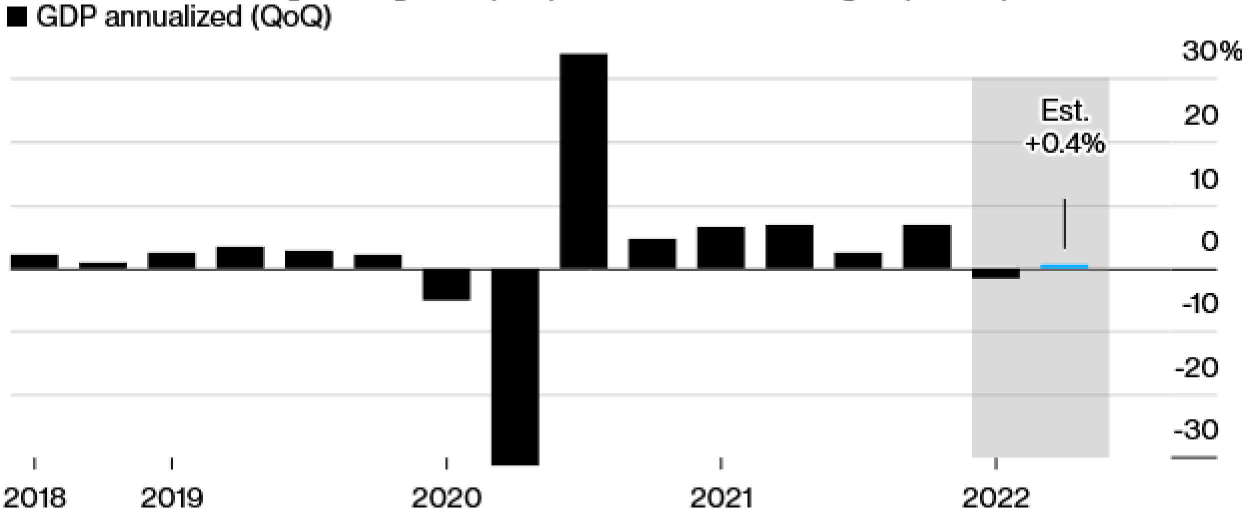
Weak First Half

US 2Q GDP seen growing at tepid pace after declining in prior quarter



Source: Bureau of Economic Analysis, Bloomberg

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Special Analysis

IMF: Gloomy and More Uncertain

A tentative recovery in 2021 has been followed by increasingly gloomy developments in 2022 as risks began to materialize. Global output contracted in the second quarter of this year, owing to downturns in China and Russia, while US consumer spending undershot expectations. Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation worldwide—especially in the United States and major European economies—triggering tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID- 19 outbreaks and lockdowns; and further negative spillovers from the war in Ukraine.

The baseline forecast is for growth to slow from 6.1 percent last year to 3.2 percent in 2022, 0.4 percentage point lower than in the April 2022 World Economic Outlook. Lower growth earlier this year, reduced household purchasing power, and tighter monetary policy drove a downward revision of 1.4 percentage points in the United States. In China, further lockdowns and the deepening real estate crisis have led growth to be revised down by 1.1 percentage points, with major global spillovers. And in Europe, significant downgrades reflect spillovers from the war in Ukraine and tighter monetary policy. Global inflation has been revised up due to food and energy prices as well as lingering supply-demand imbalances, and is anticipated to reach 6.6 percent in advanced economies and 9.5 percent in emerging market and developing economies this year—upward revisions of 0.9 and 0.8 percentage point, respectively. In 2023, disinflationary monetary policy is expected to bite, with global output growing by just 2.9 percent.

The risks to the outlook are overwhelmingly tilted to the downside. The war in Ukraine could lead to a sudden stop of European gas imports from Russia; inflation could be harder to bring down than anticipated either if labor markets are tighter than expected or inflation expectations unanchor; tighter global financial conditions could induce debt distress in emerging market and developing economies; renewed COVID-19 outbreaks and lockdowns as well as a further escalation of the property sector crisis might further suppress Chinese growth; and geopolitical fragmentation could impede global trade and cooperation. A plausible alternative scenario in which risks materialize, inflation rises further, and global growth declines to about 2.6 percent and 2.0 percent in 2022 and 2023, respectively, would put growth in the bottom 10 percent of outcomes since 1970.

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Developments in Financial and Commodity Markets in the Past Week

Financial Times: European gas prices soar after Russia deepens supply cuts

Futures contracts for delivery next month tied to TTF, the European benchmark wholesale gas price, jumped 20 percent on Tuesday to breach €210 per megawatt hour, the highest level since early March, a day after Russia warned of lighter flows on the largest pipeline supplying the region. Prices are more than 10 times higher than the average between 2010 and 2020. Russian state-backed energy group Gazprom on Monday said flows on the Nord Stream 1 (NS1) pipeline would plummet to 33mn cubic metres from Wednesday because of turbine maintenance issues. That would amount to a fifth of the pipeline's capacity and half of current levels.

European gas prices shoot higher

€ per megawatt hour

Source: Refinitiv
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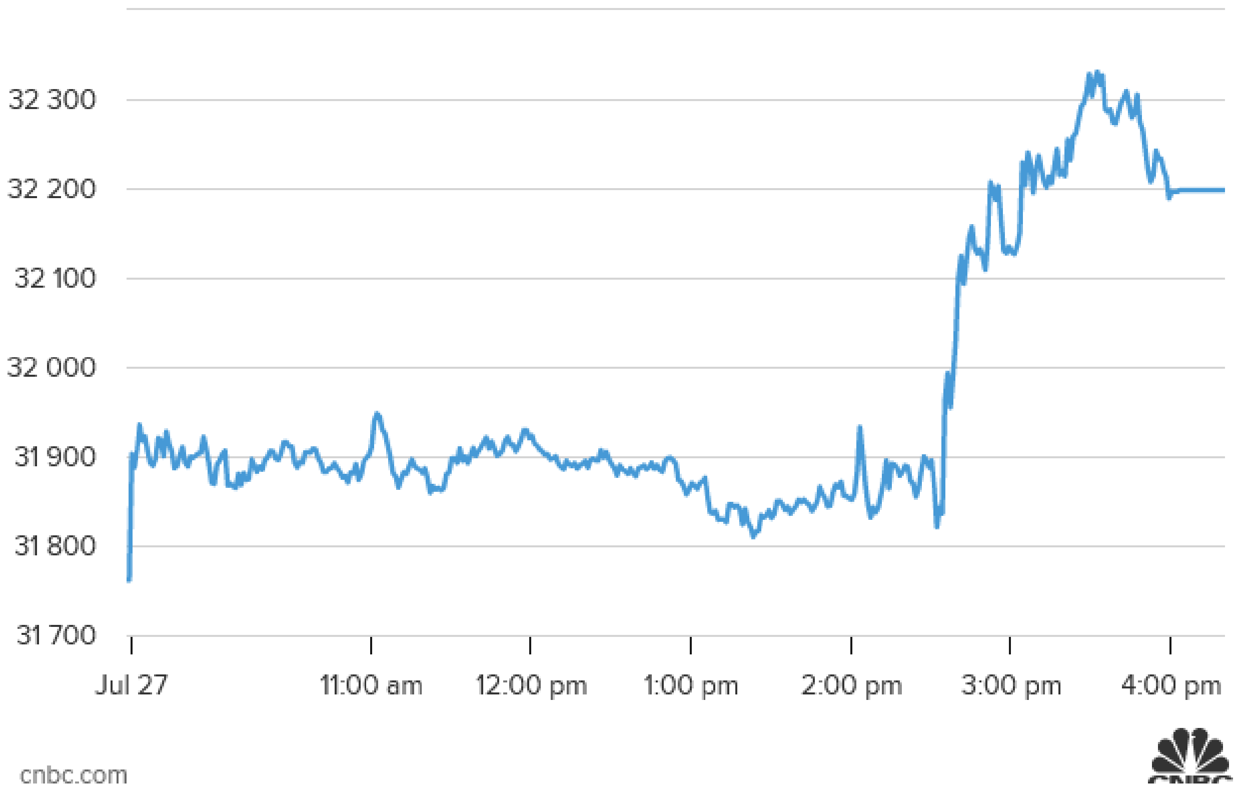
CNBC: Dow rallies 400 points as Powell hints Fed could slow pace of rate hikes, Nasdaq jumps 4%

Stocks rallied Wednesday after the Federal Reserve announced its much anticipated 0.75 percentage point rate increase to fight inflation, but hinted that it could slow the pace of its hiking campaign at some point. The Dow Jones Industrial Average jumped 436.05 points, or nearly 1.4%, to 32,197.59. The S&P 500 gained 2.62% to close at 4,023.61. The Nasdaq Composite climbed 4.06% to 12,032.42.



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