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The Egyptian Center for Economic Studies

Our Economy and The World

The Weekly Report

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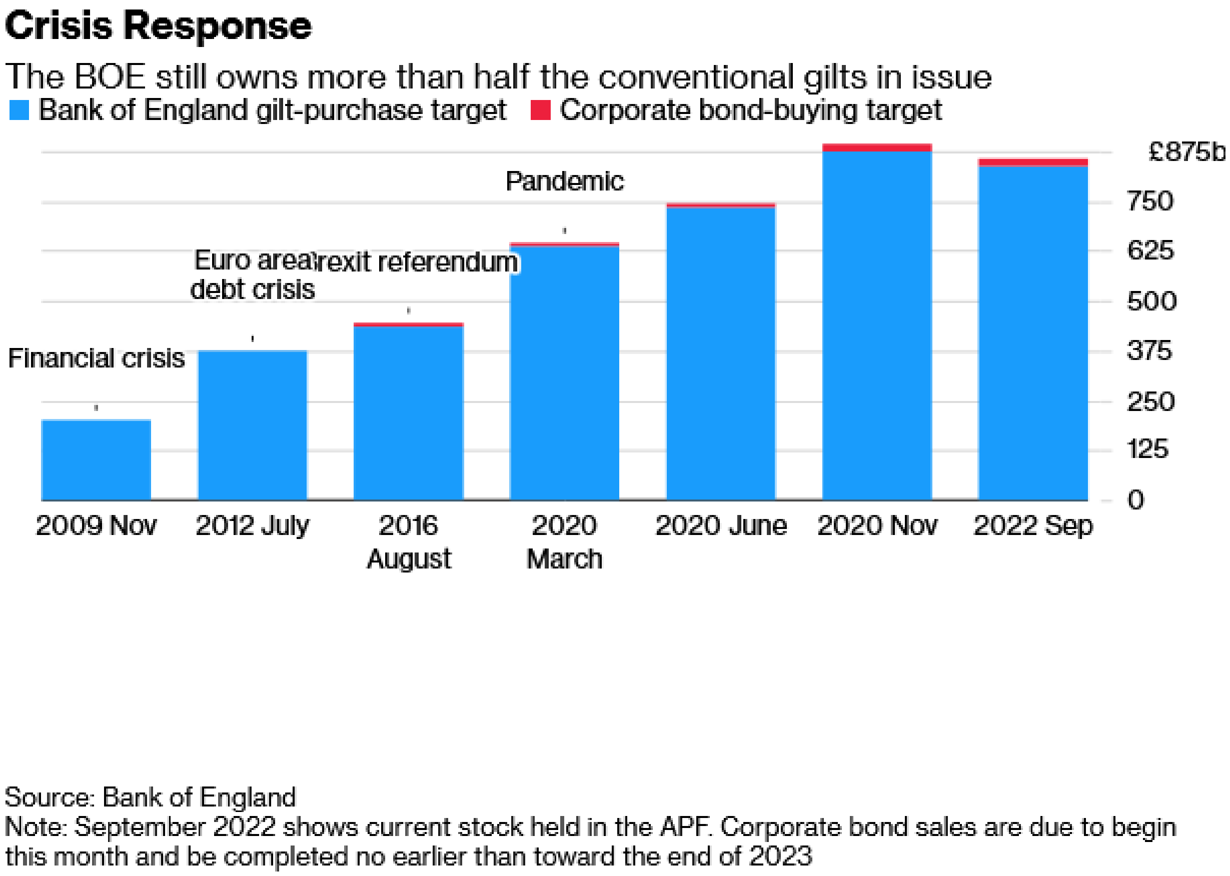
This week's issue of "Our Economy and the World" includes:

Key Global and Regional Developments over the Past Week

Bloomberg: UK Looks at QE Change to Avert £10 Billion Payout to Banks

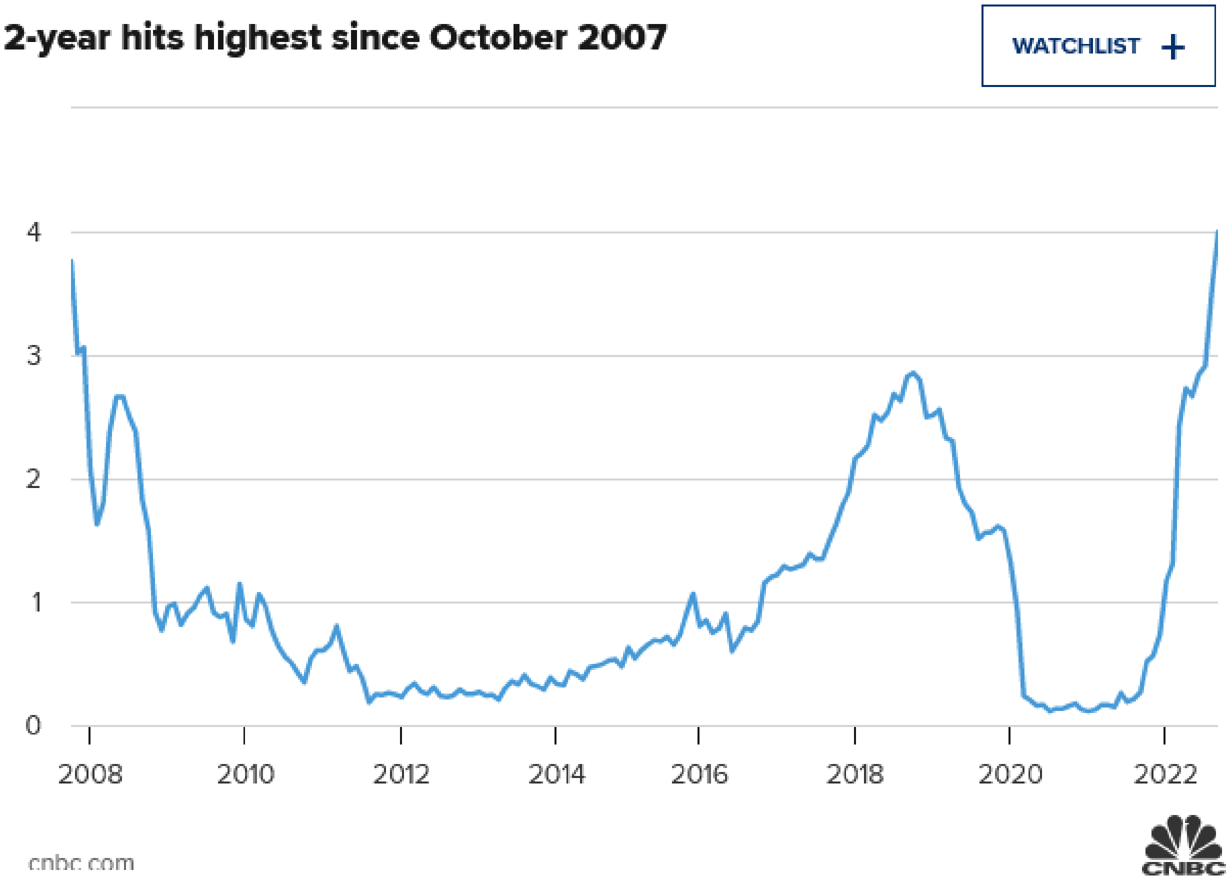
UK Prime Minister Liz Truss's new government has looked at changing the Bank of England's money-printing program to save the UK taxpayer billions of pounds at a time when the public finances are under increasing strain. Under the option, interest paid on some deposits held by commercial lenders at the BOE would be scrapped, potentially saving more than £10 billion a year, based on calculations with the benchmark interest rate at 2.5%.



(Read Full Article)

CNBC: 2-year Treasury yield tops 4% for the first time since 2007

The yield on the 2-year Treasury note topped 4% for the first time since 2007 on Wednesday as traders bet the Federal Reserve has much further to go in raising rates to fight inflation. The policy-sensitive 2-year Treasury rose 4 basis points to 4.006%, to a level not seen since October 2007. Meanwhile, the yield on the benchmark 10-year Treasury was last at 3.561%, down by roughly 1 basis points, after notching an 11-year high this week. The significant inversion, with short-term rates higher than long-term rates, points to the risk of a recession, some investors believe. Yields and prices move in opposite directions, and 1 basis point is equivalent to 0.01%.



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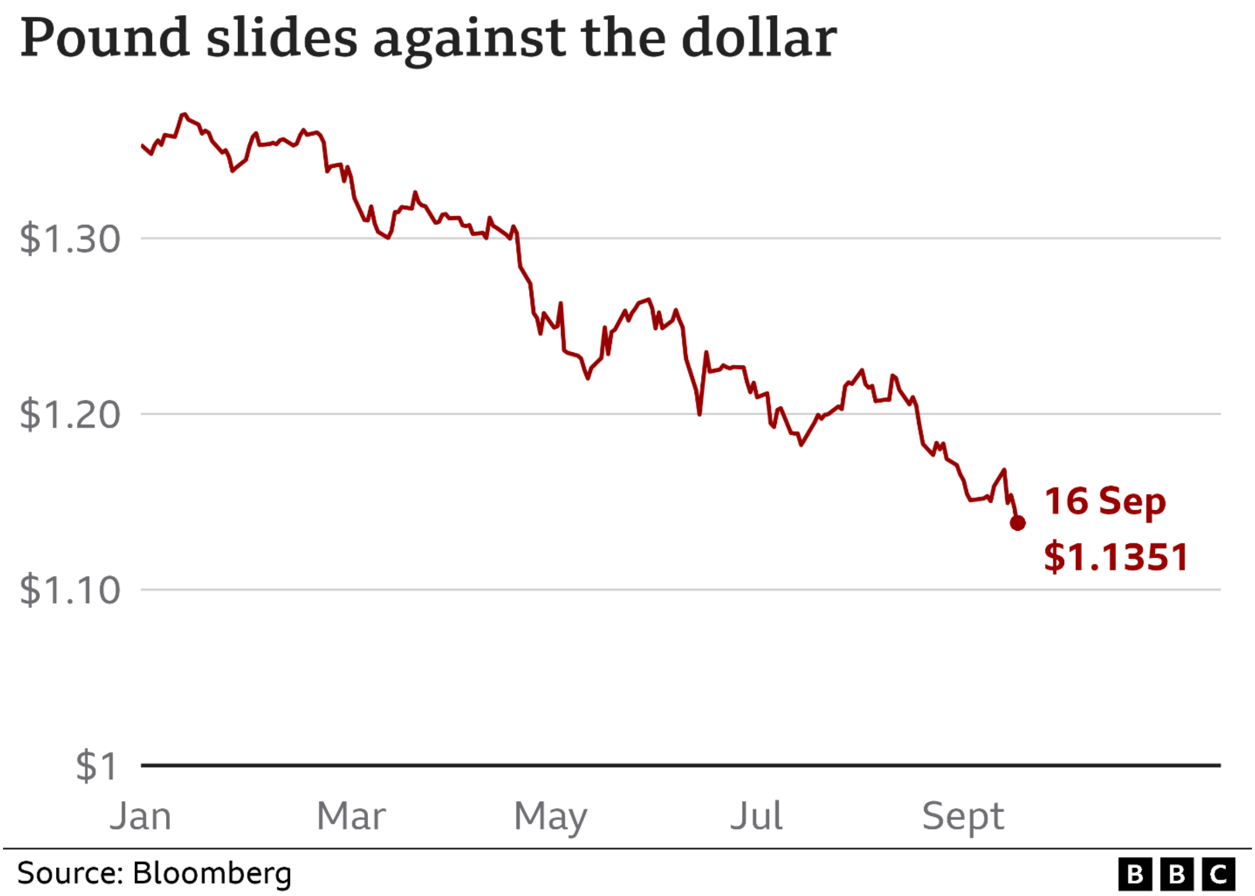
BBC: Pound hits new 37-year low as retail sales slide

The pound has fallen to a new 37-year low against the US dollar after figures showed UK retail sales fell sharply in August as the rise in the cost of living continued to hit households. The larger-than-expected drop in sales volumes of 1.6% prompted fresh concerns over the state of the economy. Sales across all retail sectors fell in August as households cut back in the face of rising prices.



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Reuters: U.S. mortgage interest rates reach 6.25%, highest level since October 2008

The average interest rate on the most popular U.S. home loan climbed to its highest level since October 2008, Mortgage Bankers Association (MBA) data showed on Wednesday. Rising mortgage rates are increasingly weighing on the interest-rate-sensitive housing sector as the Federal Reserve pushes on with aggressively lifting borrowing costs in order to tame high inflation.

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Reuters: Fed delivers another big rate hike; Powell vows to 'keep at it'

Federal Reserve Chair Jerome Powell vowed on Wednesday that he and his fellow policymakers would “keep at” their battle to beat down inflation, as the U.S. central bank hiked interest rates by three-quarters of a percentage point for a third straight time and signaled that borrowing costs would keep rising this year. In a sobering new set of projections, the Fed foresees its policy rate rising at a faster pace and to a higher level than expected, the economy slowing to a crawl, and unemployment rising to a degree historically associated with recessions.

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Special Analysis

IMF: Stress Testing the Global Economy to Climate Change-Related Shocks in Large and Interconnected Economies

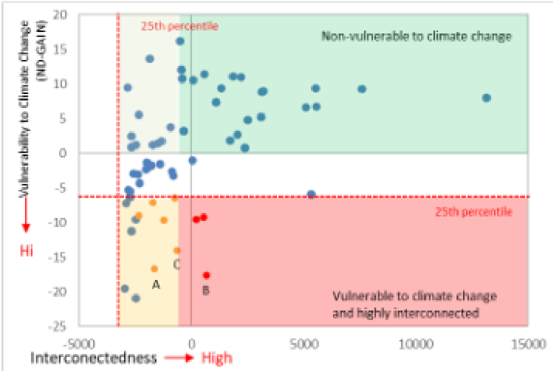
Climate change has become an existential issue. Global temperatures have increased at unprecedented levels over the past 40 years and are expected to increase by 1.5ºC by 2030 and by 2.2 to 3.5ºC by 2100 (IPCC, 2022). While there is uncertainty about the specific development and speed of climate change, these trends will lead to a significant increase in the frequency and severity of extreme weather events, such as heat waves, droughts, and floods (IMF, 2020a). Aside from inflicting devastating natural disasters, climate change is changing the pattern of diseases and mortality of the global population.

Not surprisingly, the number of countries suffering from the adverse impacts triggered by climate change is increasing. While many small economies have been the most affected by climate change, no country will be spared from these trends. Extreme weather events over the past couple of years, including record-breaking rainfalls and floods in China and Western Europe (e.g., Germany), or the scorching heatwaves in Asia (e.g., India), South and North America (e.g., Brazil, Canada, the United States, and the United Kingdom), confirm the exposure of large economies to climate change-related shocks.

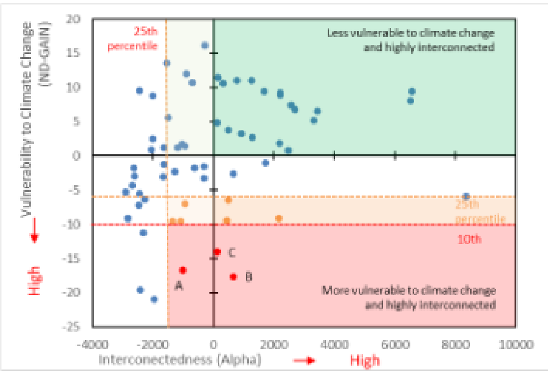
Figure 1. Economic Size, Interconnectedness, and Climate Change Vulnerability

A. Economic Size and Climate Change Vulnerability

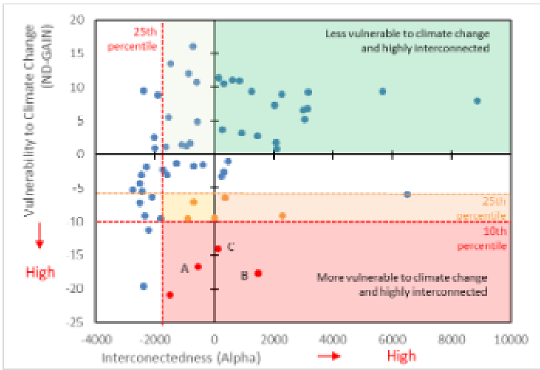
B. Financial Interconnectedness and Climate Change Vulnerability



C. Export Interconnectedness and Climate Change Vulnerability



D. Import Interconnectedness and Climate Change Vulnerability



Source: Definitions for ND-Gain Index see text. Economic size captured by GDP from the World Bank data (https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?view=chart). Interconnectedness indices correspond to the geometric average of the degree and strength of the network (see Porter et al, 2022). All figures expressed as deviation from sample average. Each dot represents a country.

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Developments in Financial and Commodity Markets in the Past Week

CNBC: European stocks close higher as markets brace for more Fed action

The pan-European Stoxx 600 provisionally ended the day up 0.9%, having recouped opening losses of around 0.4%. Utilities stocks led gains, closing up 1.8%, with most sectors and major bourses ending in positive territory. Travel and leisure stocks, meanwhile, slumped 1.9%. Investors expect that the central bank will deliver its third consecutive 0.75 percentage point rate hike to tame high inflation at the conclusion of its latest two-day policy meeting Wednesday.

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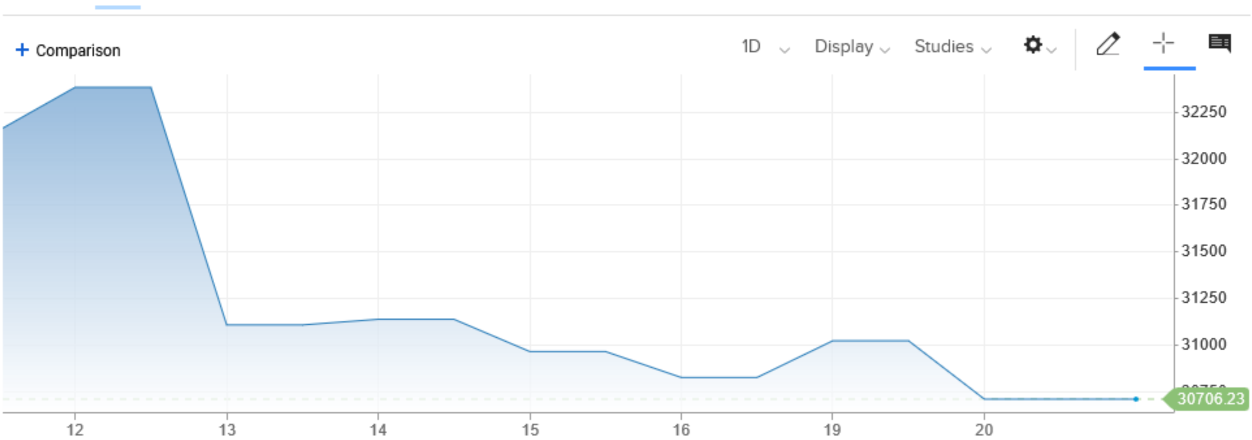
CNBC: Dow closes 500 points lower after the Fed delivers another aggressive rate hike

Stocks fell in volatile trading Wednesday after the Federal Reserve raised rates by 75 basis points and forecast more sizable rate hikes ahead in its fight to tame surging inflation. The Dow Jones Industrial Average slid 522.45 points, or 1.7%, to close at 30,183.78. The S&P 500 shed 1.71% to 3,789.93, and the Nasdaq Composite slumped 1.79% to 11,220.19.



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