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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: EU strikes Russia sanctions compromise, adding oil price cap

European Union countries reached a compromise on a new package of Russia sanctions that includes support for a price cap on oil sales to third countries, with a formal agreement expected on Wednesday, according to people familiar with the matter. EU ambassadors on Tuesday night discussed ways to mitigate the impact the new package would have on countries with large shipping industries, said the people, who asked not to be identified because the talks were private.

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Bloomberg: OPEC+ Agrees on 2 Million-Barrel-a-Day Cut to Output Limit

OPEC+ agreed to cut its collective output limit by 2 million barrels day, delegates said, as the group seeks to halt a slide in oil prices caused by the weakening global economy. It's the biggest reduction by the Organization of Petroleum Exporting Countries and its allies since 2020, but will have a smaller impact on global supply than the headline number suggests. Several member countries are already pumping well below their quotas, meaning they would already be in compliance with their new limits without having to reduce production.

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Reuters: U.S. trade deficit lowest in more than a year as imports drop

The U.S. trade deficit dropped to its lowest level in more than a year in August as slowing domestic demand amid stiff interest rate increases from the Federal Reserve weighed on imports. The trade deficit narrowed 4.3% to $67.4 billion last month, the lowest level since May 2021, the Commerce Department said on Wednesday. Imports declined 1.1% to $326.3 billion. Exports slipped 0.3% to $258.9 billion.

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BBC: Chancellor Kwasi Kwarteng to set out debt plan earlier than planned

Chancellor Kwasi Kwarteng will set out his plan to get UK debt falling earlier than planned, after markets reacted badly to his package of tax cuts. He is expected to publish details on how the cuts will be paid for later this month despite previously insisting he would wait until 23 November. The move follows a dramatic U-turn on scrapping the 45p rate of income tax for higher earners. Mr Kwarteng said he wanted to "move forward" with no "distractions". Meanwhile, Prime Minister Liz Truss has said that abolishing the top rate of tax was only a "tiny part of the plan" for economic growth.

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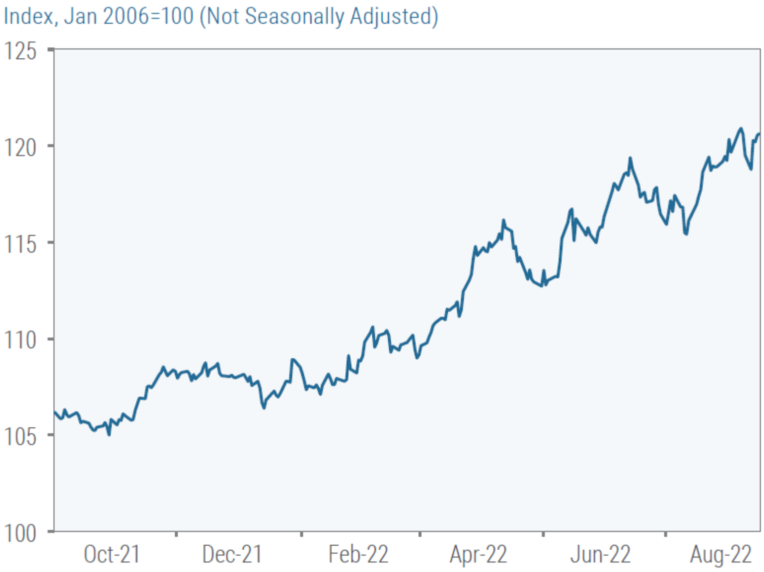
Special Analysis

UN Department of Economic and Social Affairs: World Economic Situation and Prospects: October 2022 Briefing

In recent months, the U.S. dollar has reached historic high levels in two decades, as the United States Federal Reserve increased its interest rates aggressively since March 2022, amid stubbornly high inflation. Higher interest rates and the relative stability of the United States' economy have boosted the dollar's appeal and triggered the 'flight to safety' in the international capital market. The impact of the Ukraine conflict on energy prices has deteriorated the economic outlook in Europe, while COVID-19 shutdowns continue to undermine China's near-term growth prospects. For the developing countries, rising interest rates in the United States, and the appreciation of the U.S. dollar are translating to rising costs of imports, higher inflationary pressures, rising debt servicing and borrowing costs and worsening fiscal and current account balances, undermining the prospects of their full economic recovery from the pandemic.

Figure 1
U.S. Dollar Index



Source: Trading Economics and the Federal Reserve Bank of St. Louis.

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Developments in Financial and Commodity Markets in the Past Week

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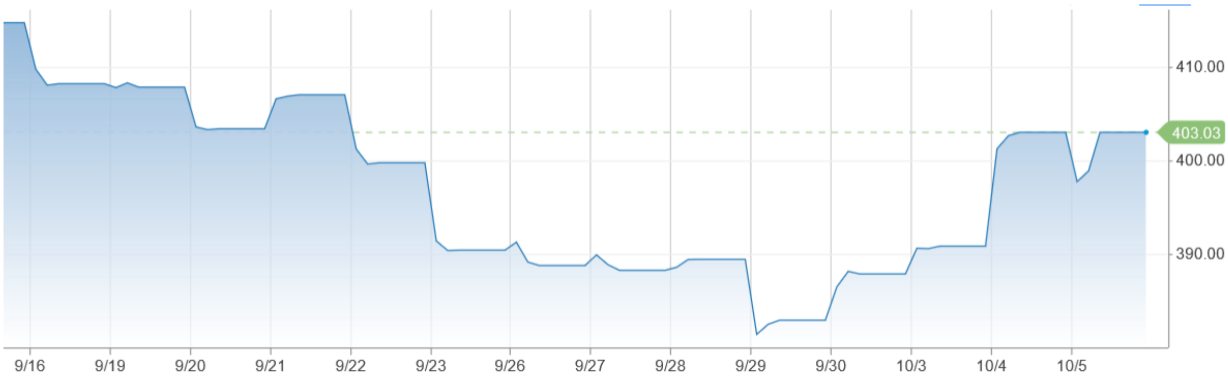
CNBC: European markets retreat as rally fades; PMI data points to recession

The pan-European Stoxx 600 was down 1.2% by mid-afternoon. Autos dropped 3.9% to lead losses as the majority of sectors and all major bourses slid into the red. Oil and gas stocks were the only sector in the red Wednesday afternoon, trading up 0.3%. After a mildly negative start to trading, markets sold off further on Wednesday following September's euro zone PMI reading, which cemented fears of a recession across the 19-member currency bloc.



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Financial Times: US stocks jump to start new quarter while bond yields slide

US stocks rallied on the first day of the fourth quarter, notching their largest daily increase since August after the UK government on Monday reneged on its plans for an unfunded tax cut that had spooked investors and roiled bond markets. Wall Street's benchmark S&P 500 share index closed up 2.6 percent, while the technology-heavy Nasdaq Composite added 2.3 percent. Both indices recorded their biggest daily increases since August. US stock indices have had a bruising year to date, with declines over each of the three quarters to September in the longest quarterly losing streak since 2008.

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