

HSBC Global Connections

Trade Forecast Update: Egypt

February 2012

Forecast exploring the future of world trade and the opportunities for international businesses

- World trade to grow by 86% in the next 15 years (2012-2026)
- International trade growth will accelerate from 2014
- Companies to increase trade activity by 4.70% annually to achieve projected growth
- Fastest growing emerging sectors support trade infrastructure and the transportation of goods around the world
- Egypt's trade forecast to grow by 167.40% to 2026
- Egyptian companies to increase trade activity by 6.30% annually over the next 15 years
- The largest, fastest growing export sector will be flat-rolled iron and steel which will grow at an annualised rate of 21.70% over the next five years

Trade overview

As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014 the global economy ends a period of slow growth and contraction and sees an upturn in trade in line with GDP forecasts. Over the next five years it is forecast that world trade will grow at an annualised rate of 3.78% (see below graph for year-on-year predictions), due primarily to the expectation of an earlier recovery of the overall global economy. In the period 2017-2021, the Forecast predicts even more rapid annualised growth at 6.23%, as world demand for traded goods recovers its dynamism. As a result world trade is predicted to grow by 86.00% in the next 15 years, taking total trade activity in that year to \$53.8 trillion.

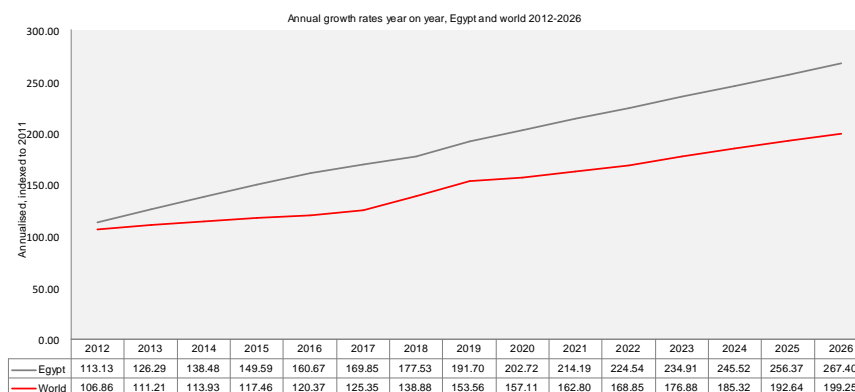
The Trade Forecast predicts that trade in Egypt will grow at an annualised rate of 9.86% over the next five years to 2016. After this, however, it decreases significantly with an annualised growth of 5.92% between 2017-2021. This equates to growth, indexed to a base in 2011, of 167.40%. Annualised total trade growth in the Egypt over the next 15 years will be 6.30% which is the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Please note: We have provided accurate forecasts based on available country level and international data from recognised international sources. This means that data was drawn from Bloomberg and Havers as well as UN Comtrade. Sectors and countries are reported differently in these datasets and the data is therefore not directly comparable with UN Comtrade sources. The modelling process used is the same as for all country summaries but results are indicative rather than absolute because of data inadequacies.

Egypt's trade outlook

The Trade Forecast indexed to a base in 2011, expects that Egyptian trade will perform significantly better than the world's average over the next 15 years. Egyptian trade, which is currently 6.27% higher than the world's average, will increase to 68.15% higher by 2026. This will occur as political unrest eases, the economy - and therefore trade - stabilises and confidence strengthens. Economic stability will help expand Egypt's trade relations with both its largest and fastest emerging trading partners.

Exports to Libya, Egypt's fastest growing large trading partner, are expected to increase by an annualised rate of 17.14% over the next five years, while exports to Chile, its fastest emerging export partner, are forecast to increase by 21.21% in the same period. Importantly, exports of oil, on which the Egyptian economy is strongly dependent, will also provide new opportunities for trade over the next five years; oil based sectors make up eight of Egypt's top 10 emerging export corridors.



Tim Reid, Regional Head of Commercial Banking, HSBC Bank Middle East said:

"There is no denying the challenges the region has faced and continue to face this year. Nevertheless today's data very much supports our belief in the long term economic potential of the region. As the region's leading international trade bank, we know that trade lies at the core of ensuring international economic recovery particularly as businesses explore new trade corridors and take advantage of the new global opportunities. The Middle East as a whole remains an ideal hub for North to South, East to West and intra-regional trade flows. Businesses should continue to feel confident about the future."

Trade corridors and trends

Egypt's largest export partner is Italy, with exports forecast to grow by 15.83% annually over the next five years - largely driven by oil. Egypt's fastest growing large export partner is Libya with exports forecast to grow annually over the next five years by 17.14%. Its other two largest, fastest growing export partners are China and Turkey and both of these countries will grow significantly as export destinations over the next five years at 16.92% and 16.91% annualised respectively.

Intra-regional trade is vital to Egypt's growth and four of Egypt's top 10 largest export partners are within the region (Libya, Turkey, Saudi Arabia and Jordan). Oil is the cornerstone of Egypt's export sector and exports of this commodity will drive growth over the next five years. Europe and Asia Pacific in particular are expected to play a major role in developing supply chains. For example, Egypt's export of petroleum oils over the next five years to the South Korea, India and Japan are set to increase annually by 19.25%, 15.90% and 10.91%, respectively; while exports of oil to France, Spain and Italy are expected to increase annually by 18.16%, 16.67% and 16.31%, respectively. Chile is one of the fastest emerging export partners with exports forecast to increase annually over the next five years by 21.21%. Egypt's largest import partner is the USA, with imports forecast to grow by 16.00% annually over the next five years. This will largely be driven by coal and soya beans (16.54% and 16.71% annualised growth to 2016). Egypt's fastest growing large import partner is South Korea with imports forecast to grow by 17.27% annually over the next five years. This growth will be driven by Egypt's import of motor vehicles. Many of Egypt's fastest emerging import partners are developing economies, for example Cyprus, Georgia and Nigeria. This demonstrates how the impact of the eurozone crisis and the global slowdown has shifted Egypt's focus away from its traditional trading partners towards other economies and trade corridors.

| Egypt's Emerging Growth Importers and Exporters (2012-2016) | | | | | | | |
|---|-------------|--------------------------------|--------|---|-------------|--------------------------------|--------|
| Egypt's Largest (2012) Export Partners Ordered by Value | CAGR (2012) | Emerging Growth Export Partner | % | Egypt's Largest (2012) Import Partners Ordered by Value | CAGR (2012) | Emerging Growth Import Partner | % |
| Italy | 15.83% | Chile | 21.21% | USA | 16.00% | Cyprus | 20.65% |
| Spain | 16.42% | Zimbabwe | 20.17% | China | 16.41% | Georgia | 20.10% |
| USA | 16.74% | Austria | 19.94% | Germany | 16.62% | Nigeria | 19.98% |
| Saudi Arabia | 16.69% | Malaysia | 19.82% | Italy | 16.27% | Columbia | 19.47% |
| India | 15.67% | Uruguay | 19.80% | Saudi Arabia | 15.48% | Algeria | 19.31% |
| Libya | 17.14% | Canada | 18.89% | Russia | 15.80% | Bangladesh | 19.26% |
| Turkey | 16.91% | Slovenia | 18.74% | Turkey | 17.16% | Malta | 19.24% |
| United Kingdom | 16.39% | Bolivia | 18.64% | France | 16.93% | Cambodia | 18.35% |
| Jordan | 16.46% | Switzerland | 18.55% | Japan | 15.88% | Bulgaria | 18.33% |
| France | 16.82% | Algeria | 18.53% | India | 16.03% | Lithuania | 18.26% |

N.B. Emerging Growth Import and Export Partners are trade partners that are growing most quickly over the period, albeit potentially from a small base.

Sector watch

The table below shows Egypt's fastest growing export and import sectors by partner:

| Egypt's Fastest Growing Export and Import Sectors by Partner (2012-2016) | | | | | |
|--|----------------|----------------|--|----------------|----------------|
| Export Sector | Export Partner | CAGR (2012-16) | Import Sector | Import Partner | CAGR (2012-16) |
| Oils petroleum, bituminous, distillates, except crude | South Korea | 19.25% | Oils petroleum, bituminous, distillates, except crude | Italy | 19.70% |
| Gold, unwrought, semi-manufactured, powder form | Switzerland | 18.59% | Petroleum gases and other gaseous hydrocarbons | Algeria | 19.33% |
| Mineral or chemical fertilizers, nitrogenous | France | 18.16% | Oils petroleum, bituminous, distillates, except crude | Malta | 19.25% |
| Petroleum oils, oils from bituminous minerals, crude | Spain | 16.67% | Wheat and meslin | France | 18.81% |
| Petroleum gases and other gaseous hydrocarbons | Italy | 16.31% | Motor vehicles for transport of persons (except buses) | South Korea | 18.37% |
| Petroleum gases and other gaseous hydrocarbons | France | 16.05% | Oils petroleum, bituminous, distillates, except crude | Russia | 18.22% |
| Petroleum oils, oils from bituminous minerals, crude | India | 15.90% | Electric apparatus for line telephony, telegraphy | China | 18.21% |
| Petroleum gases and other gaseous hydrocarbons | Jordan | 15.58% | Parts and accessories for motor vehicles | South Korea | 18.16% |
| Petroleum gases and other gaseous hydrocarbons | Spain | 15.30% | Iron/steel bar, only forged hot-rolled drawn, extruded | Turkey | 17.99% |
| Petroleum gases and other gaseous hydrocarbons | USA | 14.83% | Meat of bovine animals, frozen | Brazil | 17.78% |

NB: Fastest growing import and export sectors by partner are developed from the country's top 50 export and import partners and are selected alongside the trade sectors that constituted values of above \$100 million at the end of 2010. The top 10 fastest growing partners by sector were selected for this table.

Sector opportunities

Infrastructure, Commodities and Consumer Electronics: A priority for Egypt is infrastructure development. This will mean, in part, diversifying away from the country's traditional exports of oil in order to allow for opportunities in for example, trading iron and steel and electronic apparatus for line telephony and telegraphy. Imports of iron and steel articles are forecast to grow by 16.97% over the next five years, of iron ores and concentrates by 15.98%. An emerging trade corridor is building with Turkey, with imports from the country forecast to grow by 17.99% annualised over the next five years. Imports of electronic apparatus for line telephony and telegraphy are forecast to grow by 16.41%, indicating further this strong commitment to increasing infrastructural activity. China will be the major import partner for this sector, with growth forecast at 18.21%. In terms of exports within these sectors however, there is forecast growth of 16.41% for insulated wire and cable and optical fibre cables over the next five years, suggesting that Egypt is expanding its manufacturing base in order to diversify away from its oil trade. Businesses in these sectors will have to grow above 14.45% in order to gain from the opportunities created by international trade between 2012-2016.

Gold: Egypt has a long history of trade in gold; unwrought, semi-manufactured and powdered gold are the country's fifth largest export sector. In accordance with this, the Trade Forecast expects that gold will not only remain a vital sector in Egyptian trade but one that will increasingly become a source of new business opportunities. By 2016 it is expected that Egyptian exports of gold will have increased at 19.03% (annualised). Growth is driven by two key things: firstly, the easing of political unrest will stabilise the economy and increase demand for Egyptian exports. Secondly, gold is a strongly traded commodity and once countries begin to recover from the current economic crisis, demand for gold will drive the acceleration of trade here. Gold will also be an important catalyst for trade between Egypt and top emerging export partners such as Switzerland, to whom exports are expected to increase by 18.55% in the next five years. Therefore, gold will represent a major opportunity for growth. Companies seeking to take advantages of these opportunities will need to increase their international activity by 19.03% annually to 2016.

HSBC Trade Connections Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 37 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics. The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

About HSBC Commercial Banking

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