

Egypt, Dollars and History

Any comment on Egypt, and the rapidly evolving political situation there, could look very old by the end of the week. But, the odds favor the forced-retirement of long-serving President Hosni Mubarak. Clearly, at this point in time, it is *impossible* to know whether a change in leadership would be in the interests of the United States or whether it would lead to more or less stability in the Middle East/North Africa.

In the late 1970s, the Iranian Revolution against the Shah was similarly broad-based. Revolutionaries included secular democrats like the first post-Shah president Abulhassan BaniSadr, devout Marxist-Leninists like Sadegh Ghotbzadeh, and, of course, radical clerics like Ayatollah Khomeini. In the end, the first fled for his life, the second was executed for treason, and the third acquired absolute control, becoming a thorn in the side of the West for the past thirty years.

In contrast, Egypt has been a rock of stability in a volatile region and has been viewed as a friend of the United States. Several factors seem to be undermining this stability. The transition of Iraq, through US force, from a brutal dictatorship into an often-chaotic democracy is clearly providing an alternative for citizens of the Middle East. Second, the Internet is making it harder and harder for government propaganda to prevail. Third is the recent successful revolt in Tunisia.

However, no analysis would be complete without considering the role of overly loose US monetary policy. The Federal Reserve controls the value of the dollar and the dollar is the most important currency in the world.

When the Fed prints too many dollars, the inflation that results often shows up in commodity prices first. When it lifts energy commodities, countries and regions of the world which export oil typically benefit and have largesse to throw around. Egypt is an oil producer and a large refiner. So, rising energy prices are neutral to slightly positive for the nation's economy.

Food prices are a different story. In the second-half of 2010, the Goldman Sachs Agricultural Index climbed 66%, the most for any 6-month period since 1974. According to Egyptian Ag Minister Amin Abaza, [the country imports 40% of its food](#). In other words, the impact of a declining dollar and rising food prices has been devastating to the average standard of living in Egypt. No wonder there is unrest.

The Iranian Revolution occurred amidst rapidly rising inflation, when Jimmy Carter was President. And as Mark Twain once said, "history does not repeat itself, but it does rhyme." When the North Star of US political and economic leadership fades, the world can go wobbly. Free markets, hard money and strong leadership are the answer.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-31 / 7:30 am	Personal Income - Dec	+0.4%	+0.6%	+0.4%	+0.3%
7:30 am	Personal Spending - Dec	+0.5%	+0.5%	+0.7%	+0.4%
8:45 am	Chicago PMI - Jan	64.5	69.4	68.8	66.8
2-1 / 9:00 am	ISM Index - Jan	58.0	58.8		58.5
9:00 am	Construction Spending - Dec	+0.1%	-0.1%		+0.4%
<i>sometime</i>	Domestic Auto Sales - Jan	4.0 Mil	4.0 Mil		4.0 Mil
<i>during the day</i>	Domestic Truck Sales - Jan	5.5 Mil	5.4 Mil		5.4 Mil
2-3 / 7:30 am	Q4 Non-Farm Productivity	+2.0%	+2.4%		+2.3%
7:30 am	Q4 Unit Labor Costs	+0.2%	-1.5%		-0.1%
7:30 am	Initial Claims - Jan 29	420K	425K		454K
9:00 am	ISM Non-Man. - Jan	57.0	57.7		57.1
9:00 am	Factory Orders - Dec	-0.4%	-0.9%		+0.7%
2-4 / 7:30 am	Non-Farm Payrolls - Jan	140K	185K		103K
7:30 am	Private Payrolls - Jan	145K	195K		113K
7:30 am	Manufacturing Payrolls - Jan	9K	15K		10K
7:30 am	Unemployment Rate - Jan	9.5%	9.4%		9.4%
7:30 am	Average Hourly Earnings - Jan	+0.2%	+0.2%		+0.1%
7:30 am	Average Weekly Hours - Jan	34.3	34.3		34.3