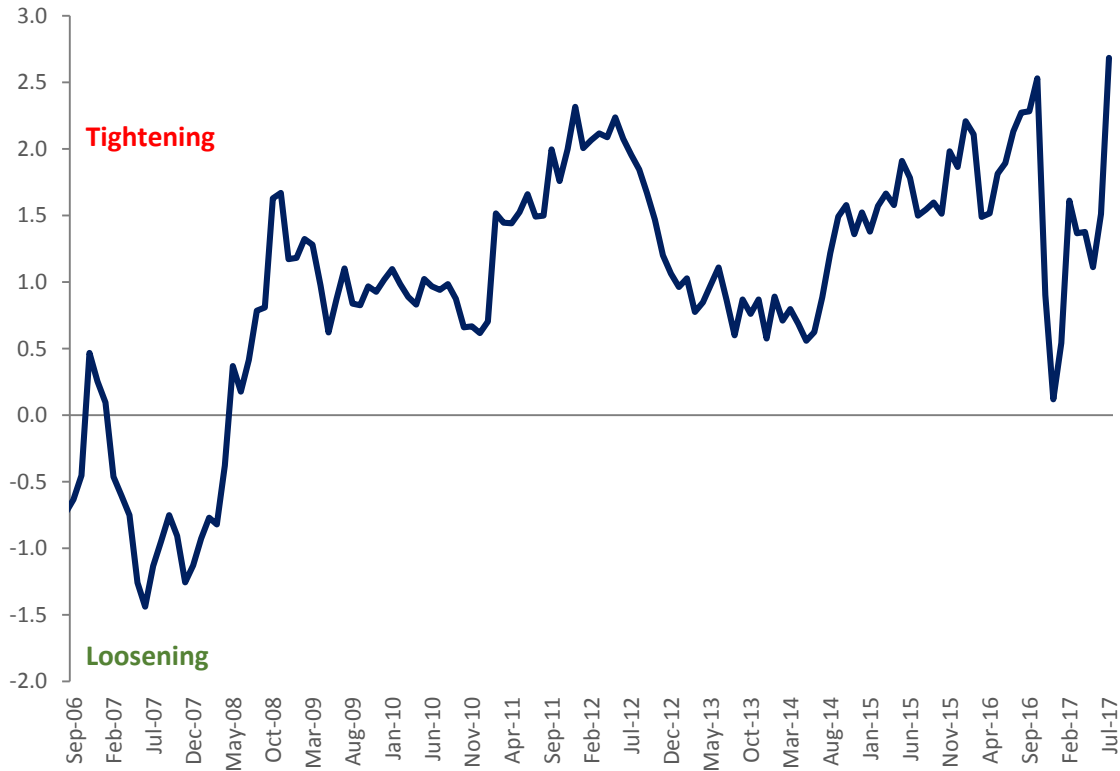


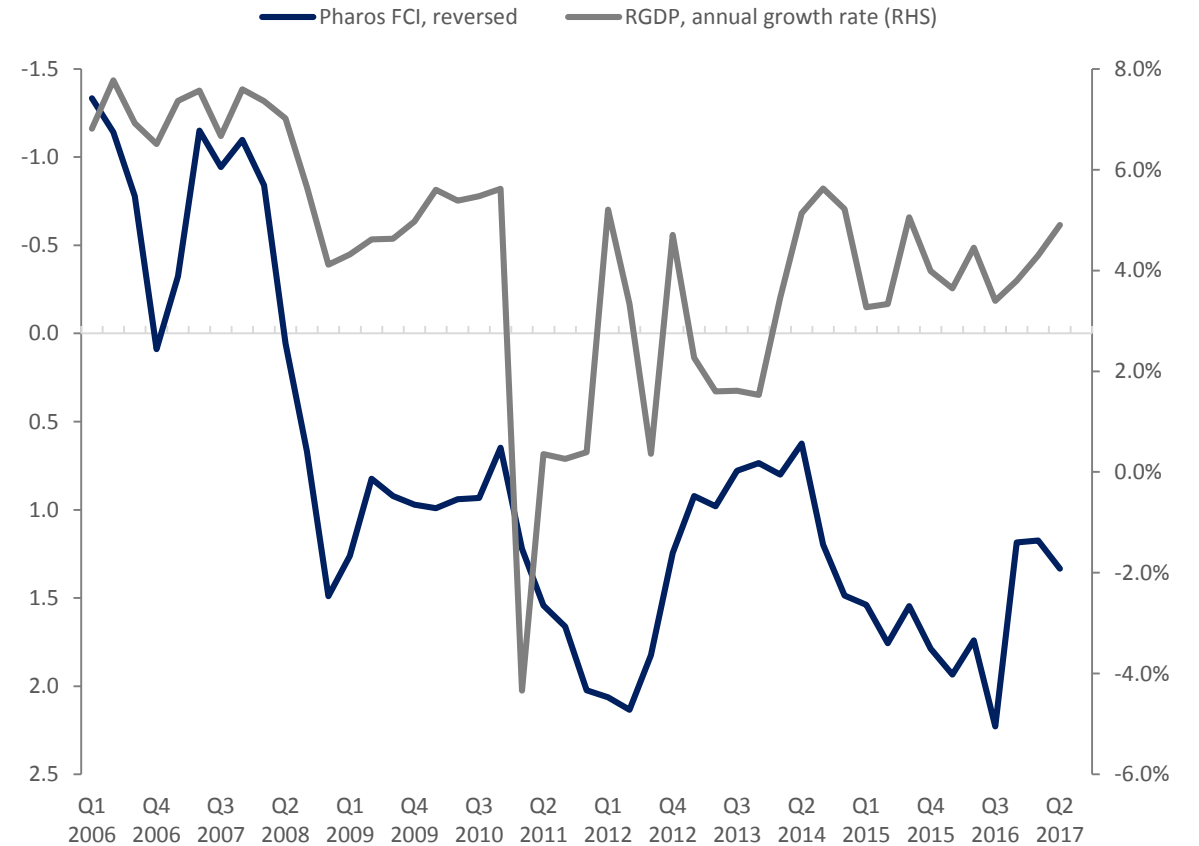
The FCI rose significantly following two consecutive interest rate hikes on May 21 and July 6. We expect the level of monetary tightness to stabilize as the Monetary Policy Committee (MPC) decided to hold interest rates unchanged on August 17.

Following the recently introduced tight monetary and fiscal policy measures, leading indicators suggest that the economic activity growth would slow down in 3Q2017. However, we expect the real GDP growth to accelerate to 4.5% in FY2017/18 on a narrower trade deficit and a higher foreign investment.

Financial Conditions Index

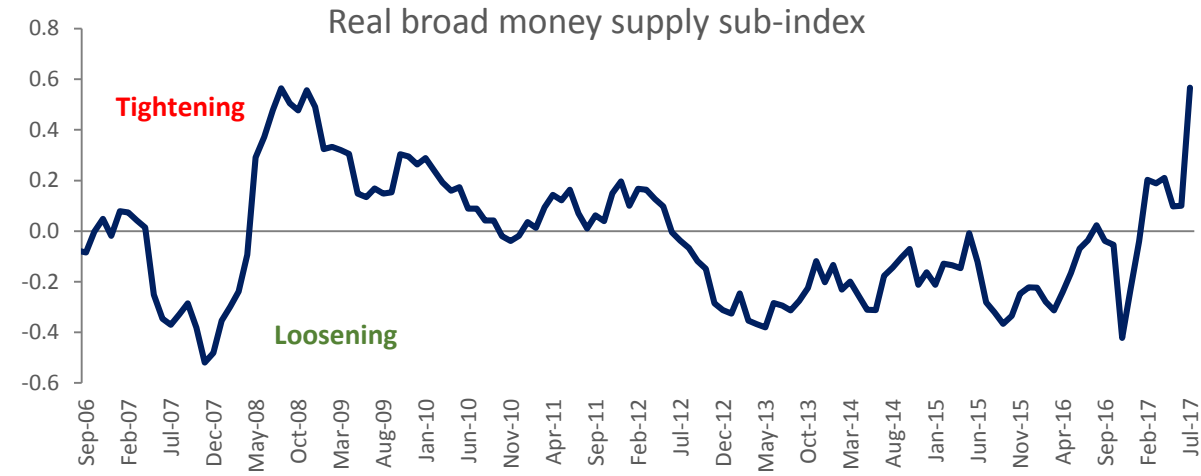


Source: Central Bank of Egypt, Egyptian Stock exchange, JP Morgan CPI-broad based REER index, Pharos research

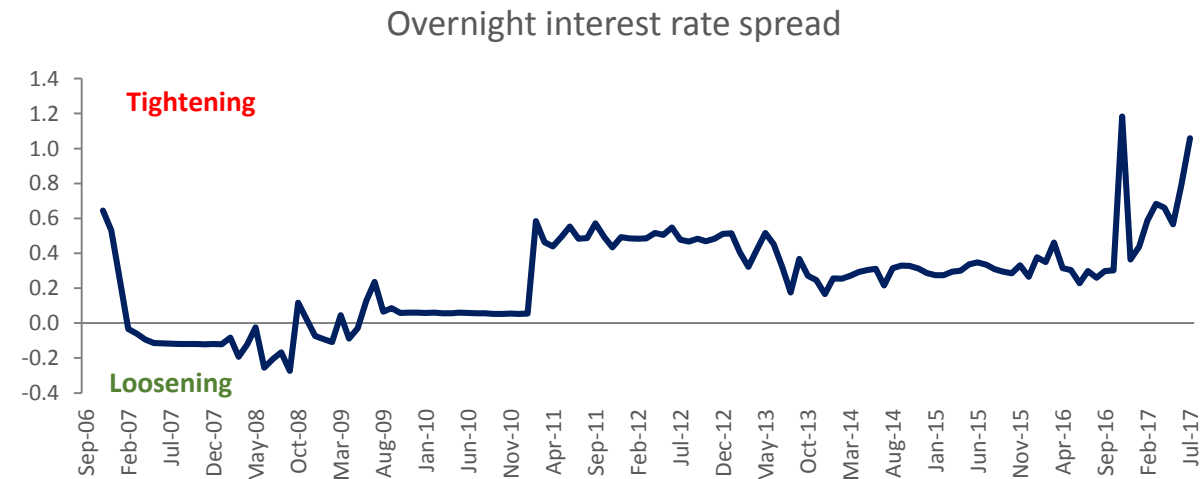


Source: Ministry of Planning, Pharos research

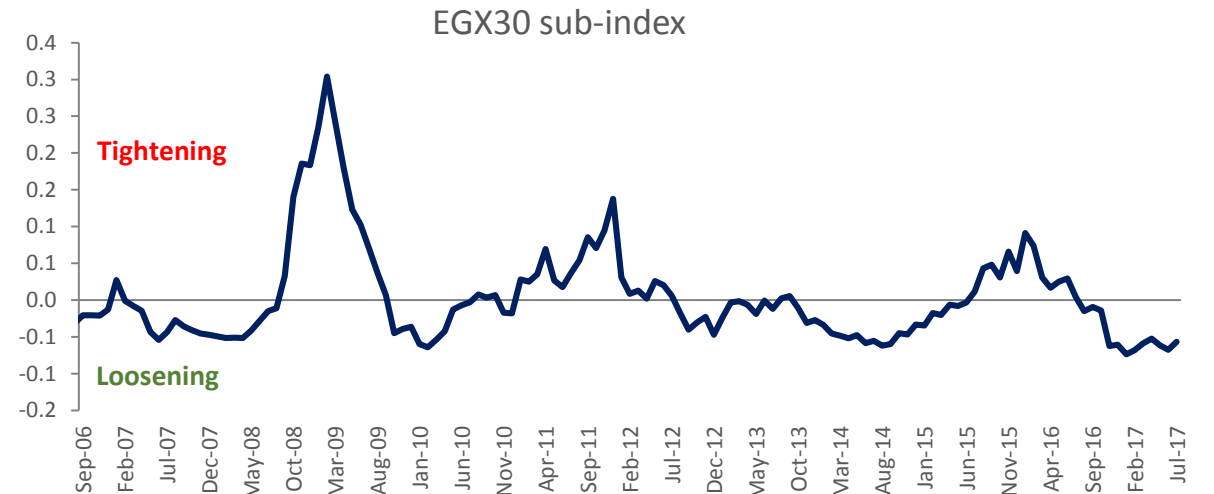
The **real M2 annual growth** reflected further tightened monetary conditions, partly due to the impact of the inflationary reaction to higher fuel and electricity prices in July.



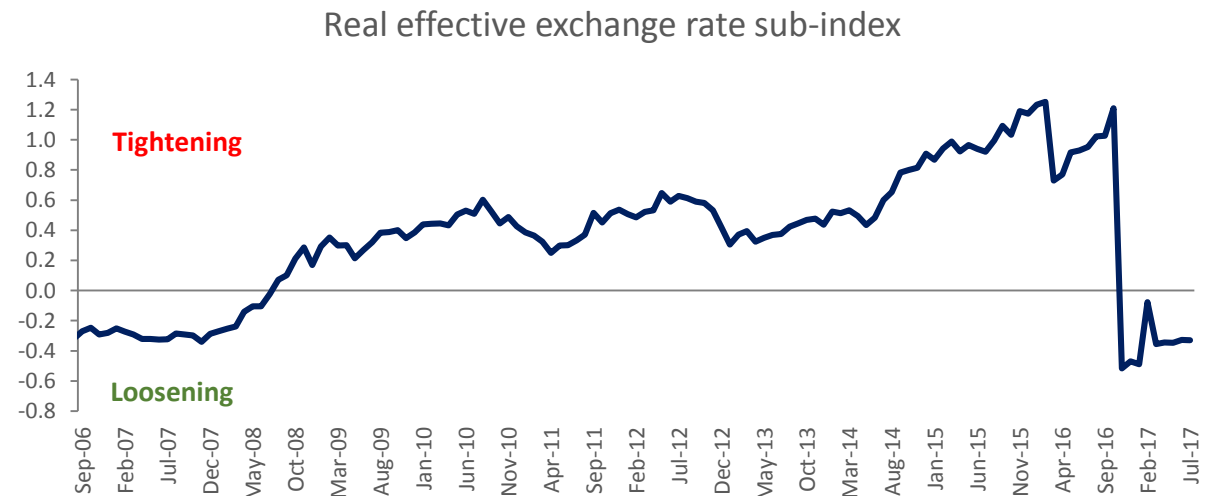
Following July's 200 bps interest rate hike, the average daily overnight interbank rate rose from 17.6% in June to 19.0% in July. The **overnight interbank spread** rose from 0.4% in June to 0.8% in July, reflecting more tightened conditions. We expect the sub-index to stabilize as the financial sector accommodates the two consecutive interest rate hikes in May and July.



The **EGX30 Index** continued to move within a flat range in July, affected by leaning appetite towards the local debt market in order to take advantage of the short-term interest rate hikes. July's EGX30 sub-index remained around its average level post flotation.



The Egyptian Pound nominal exchange rate appreciated by 1.5% to EGP17.9 per USD in July. However, the **real effective exchange rate** remained stable in July. While we expect the EGP nominal exchange rate to appreciate gradually, we believe that the EGP will remain undervalued for quite some time in the future.



**Pharos Financial Conditions Index (FCI)** provides our clients with a quantitative tool to assess the stance of the Egyptian macroeconomic policy through tracking key financial market indicators. The Pharos FCI is also a useful leading indicator of the economic activity in Egypt which is more efficient, in our view, than other sentiment indices (e.g. Purchasing Managers' Index).

Our monthly FCI includes four sub-indices, which are weighted to reflect the relative importance of each variable in affecting GDP, and normalized by subtracting the mean and dividing by the standard deviation for each sub-index.

What do we track?

1. Real broad money supply (% YoY) as a measure of domestic liquidity
2. The EGX30 Index (%YoY)
3. Short term interest rates: Overnight interbank spread and 1-year treasury bill nominal yield
4. Real effective exchange rate (REER).

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Essam Abdel Hafiez  
Managing Director  
+202 27393687  
essam.abdelhafiez@pharosholding.com

Ahmed Raafat  
VP Local Institutional Sales  
+202 27393627  
ahmed.raafat@pharosholding.com

Seif Attia  
Head Local Sales  
+202 27393682  
seif.attia@pharosholding.com

Ahmed Abutaleb  
Head Foreign Sales  
+202 27393632  
ahmed.abutaleb@pharosholding.com

Sherif Shebl  
AVP Foreign Sales  
+202 27393634  
sherif.shebl@pharosholding.com

Omar Nafie  
Associate Foreign Sales  
+202 27393635  
omar.nafie@pharosholding.com

Sally Refaat  
Head Online Trading  
+202 27393675  
sally.refaat@pharosholding.com