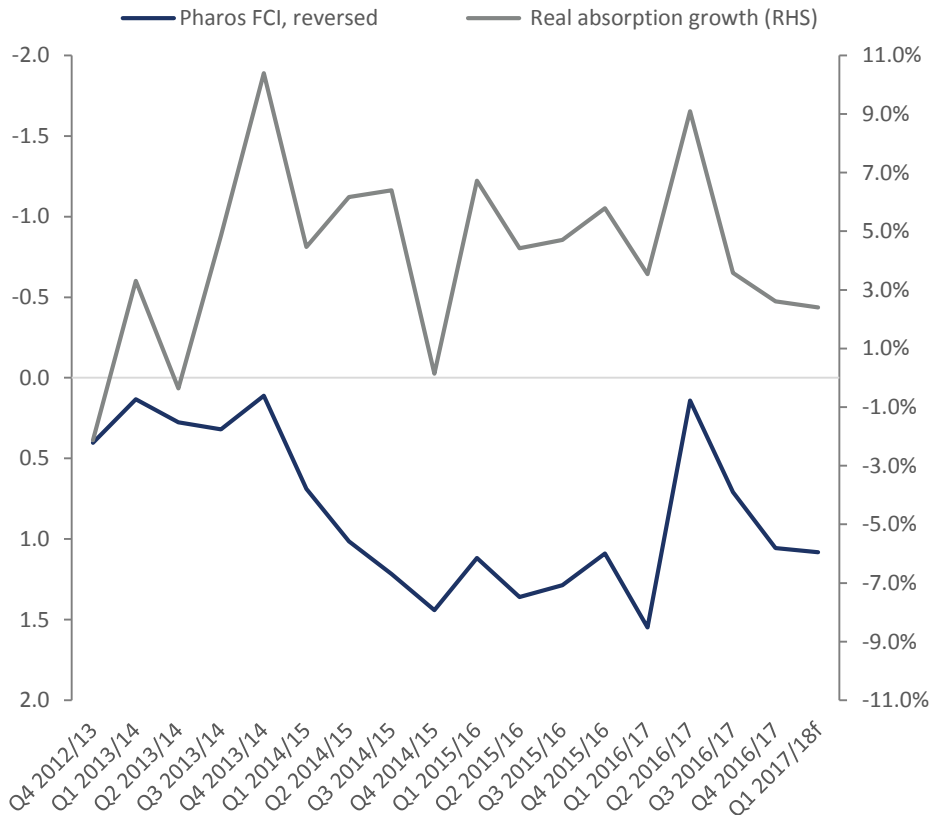
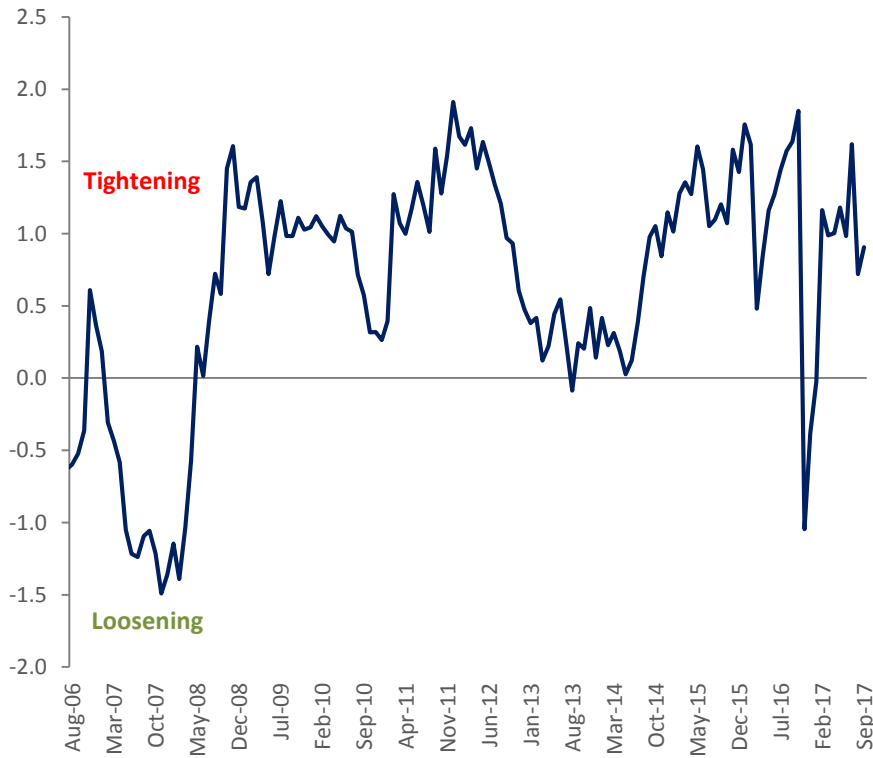




The Pharos Financial Conditions Index (FCI) rose slightly in September as the yield curve slope dipped further into negative territory from -2.5% in August to -4.0% in September.

In the light of September data, we lowered our real absorption growth initial forecast in Q1 FY2017/18. This indicates a reduced upside demand risks to the current disinflation path.

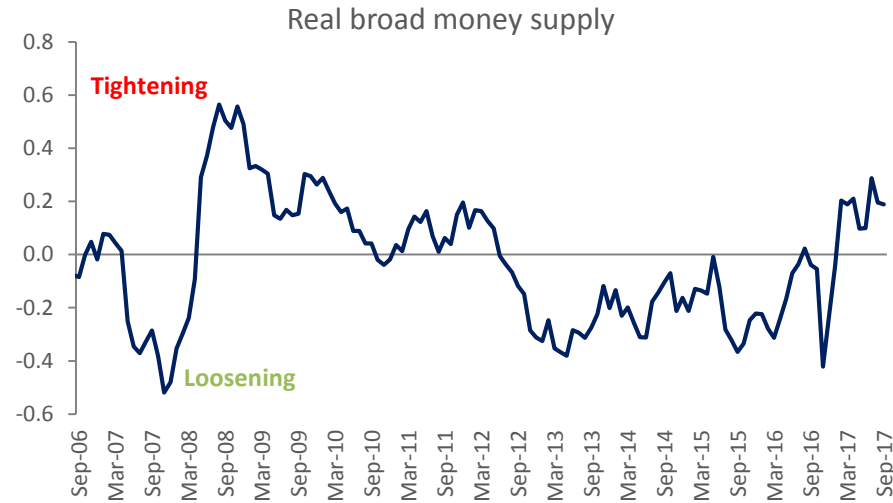
Pharos Financial Conditions Index



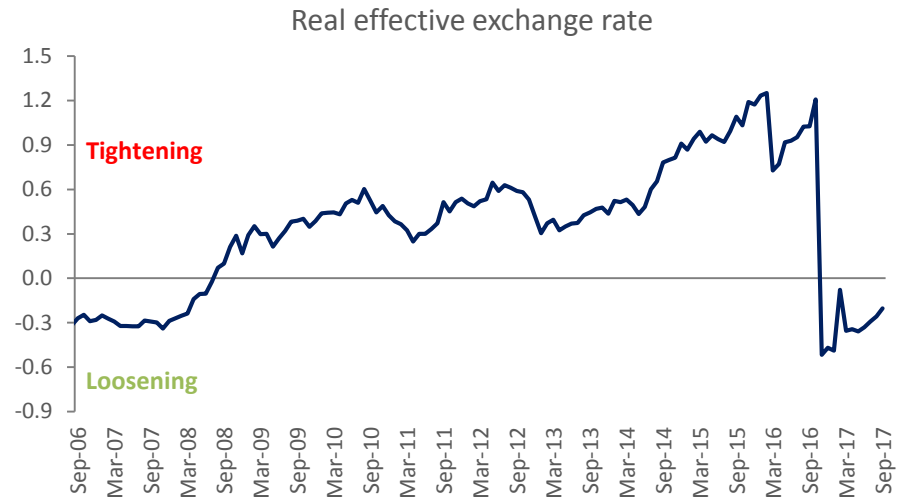
Source: Central Bank of Egypt, Egyptian Stock exchange, JP Morgan CPI-broad based REER index, Pharos research

Source: Ministry of Planning, Pharos research

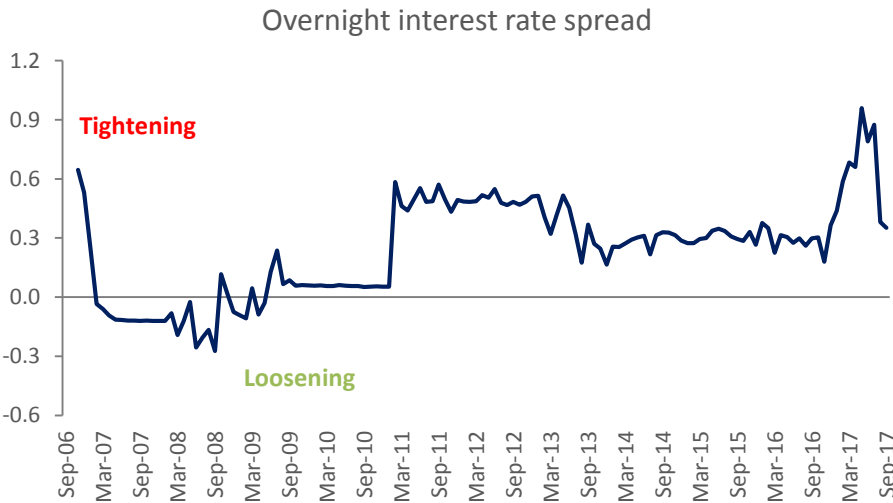
The real broad money supply growth stabilized in September, partly due to the annual inflation rate marginal deceleration from 31.9% in August to 31.6% in September.



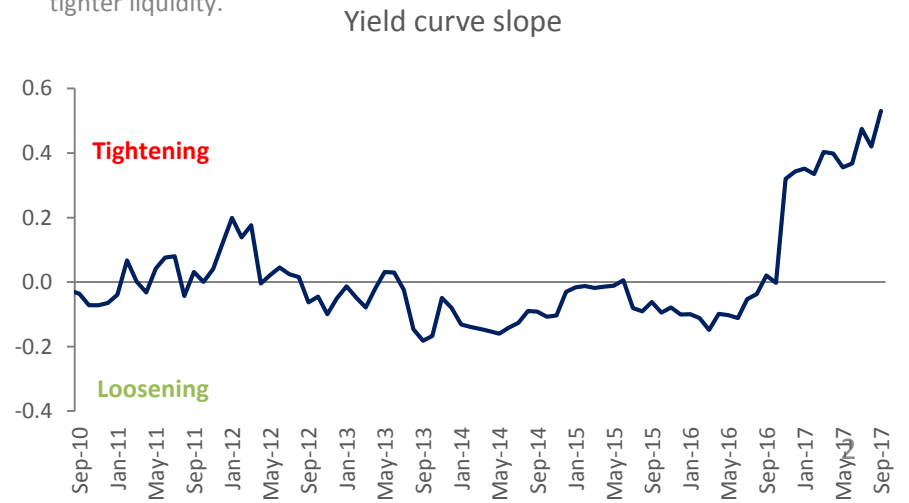
The real effective exchange rate appreciated by 2.0% in September, partly as the EGP nominal exchange rate appreciated by 0.5%, in addition to the impact of our trading partners' inflation deceleration pace in September.



The overnight interbank spread was nearly unchanged as the average daily overnight interbank interest rate recorded 0.3% below the mid-corridor policy interest rate in September.



Yields have continued to decline for the second consecutive month, however, the 10-year yield decline was larger than the drop in the 3-month yield. Such a pace led the slope of the yield curve to record -4.0% in September, reflecting a tighter liquidity.



Methodology

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 five 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. The overnight interbank spread.
4. The yield curve slope.
5. Real effective exchange rate (REER).

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