



The Pharos Financial Conditions Index (FCI) resumed tightening in October on higher required reserve ratio and REER appreciation.

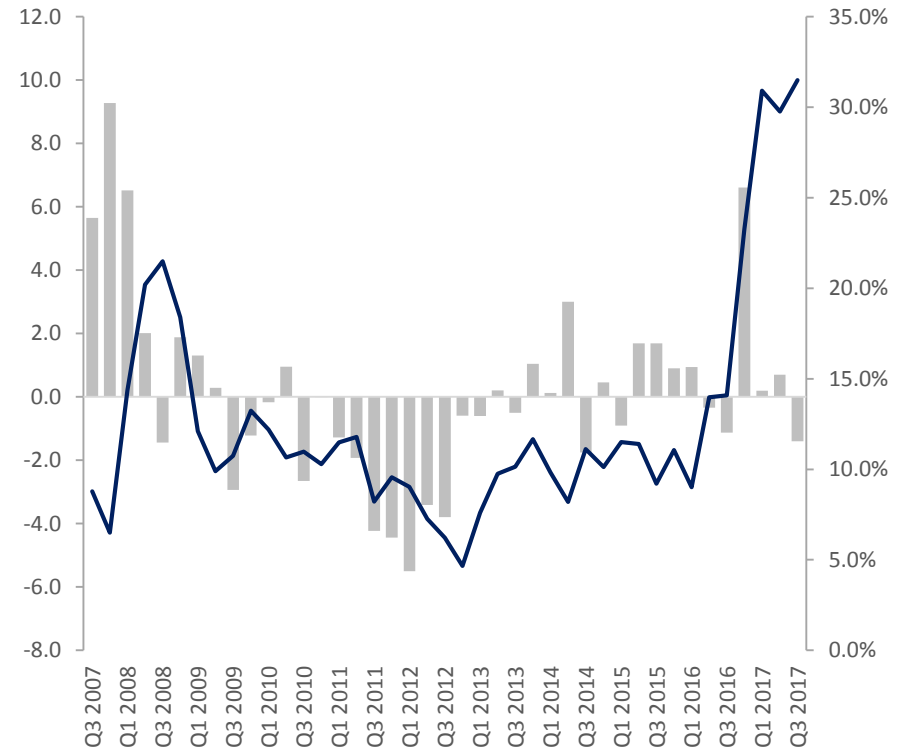
A negative money overhang, which is another measure of excess money supply, emerged in 2Q FY2017/18, reflecting the current tight monetary stance. This is a prerequisite for the inflation rate to decelerate going forward.

Financial Conditions Index



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

Money Overhang Inflation rat (RHS)



Source: Central Bank of Egypt, Pharos research

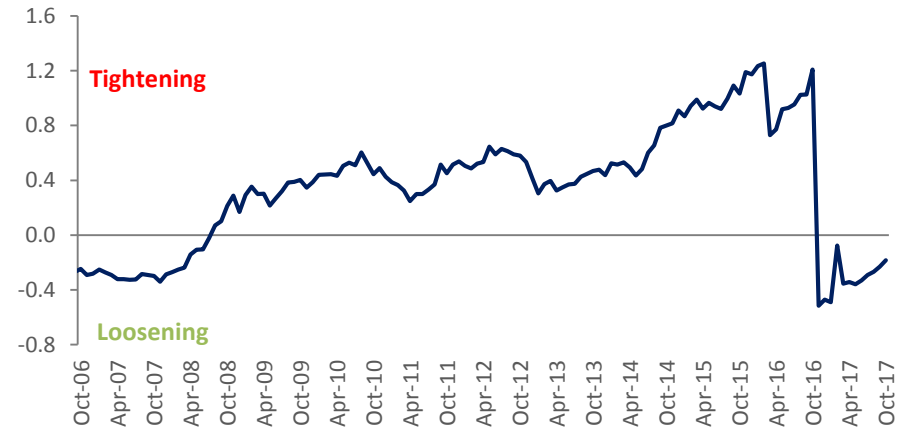
The real broad money supply growth remained tight in October as the money multiplier is expected to decline, absorbing the monetary base expansion in reaction to the recent required reserve ratio hike.

## Real broad money supply sub-index



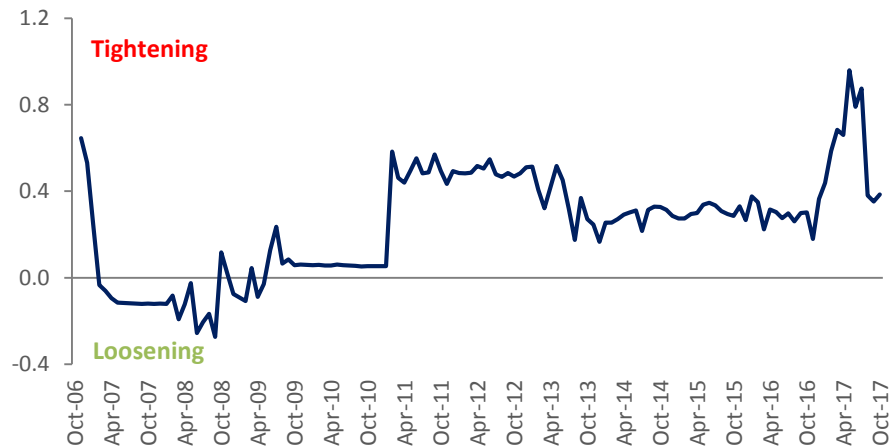
The real effective exchange rate continued to appreciate as Egypt's trading partners' inflation rate deceleration outpaced the domestic inflation rate deceleration in October.

## Real effective exchange rate sub-index



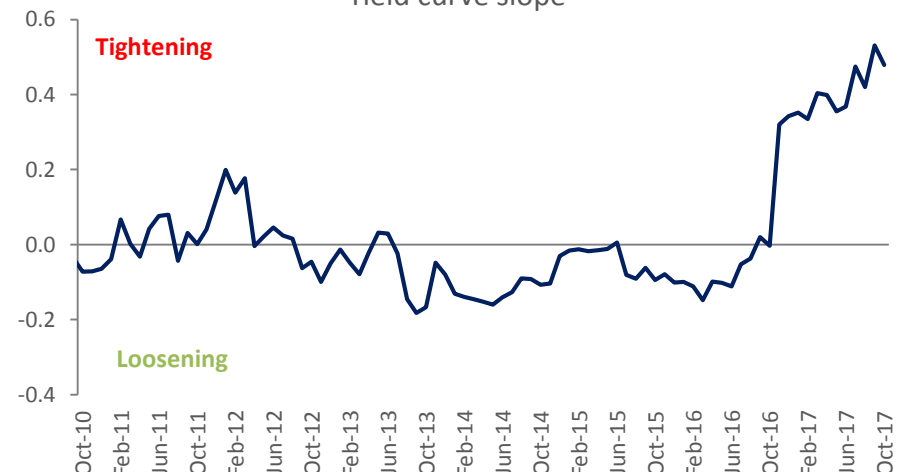
The overnight interbank spread was nearly unchanged, recording 0.24% below the mid-corridor policy interest rate in October.

## Overnight interest rate spread



The slope of the yield curve recorded -3.3% in October (versus -4.0% in September), reflecting less tight conditions.

## Yield curve slope



## 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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