

Egypt MPC Watch

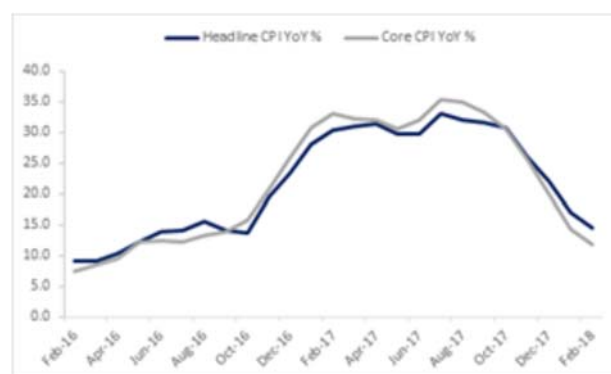
We expect the MPC to cut the policy rates by another 100 bps in the next meeting supported by the following updates.

Inflation deceleration well ahead of CBE targets

The headline inflation rate recorded 0.3% MoM in February, leading the annual headline inflation rate to decelerate significantly from 17.1% YoY in January to 14.4% YoY in February 2018.

Moreover, the annual core inflation rate recorded 0.4% MoM in February, leading the annual core inflation rate to decelerate significantly from 14.4% YoY in January to 11.9% YoY in February. The drop in headline and core inflation figures to the target level (13% YoY +/-3%) is a comfort factor for the CBE to make another cut in policy interest rates.

Chart 1: Headline inflation decelerates to target



Savings and inflation rates differential is pointing at a rate cut

Since the deposit policy rate is positively correlated to the inflation rate, we expect the significant decrease in the inflation rate will lead to a corresponding decrease in the savings rate.

We expect the CBE to cut the policy rates in order to slightly narrow the gap between the inflation rate and the deposit policy rate, which had started to expand from October 2017.

Chart 2: Inflation Rate and Savings Rate



Monetary easing has officially started

Economic activity has picked up significantly, recording a growth of 5.3% YoY in 2Q FY2017/18 from 3.8% YoY in 2Q FY2016/17. Moreover, GDP for 1H2017/18 rose to 5.2%, from 3.6% in 1H2016/17 attributed to a 1.8% rise in Egypt's exports, a 1.9% increase in investments, and a 1.6% rise in consumer spending. This was supported by the acceleration in the oil & gas production, services and tourism recovery.

Pharos Financial Conditions Index (FCI) entered the loosening zone in February after staying in a tightening cycle for a whole year. Entering the loosening phase was driven by the increase in real broad money supply, the continuous depreciation of real effective exchange rate for the EGP and the drop in the O/N spread, despite the widening slope of Egypt's inverted yield curve.

Chart 3: Pharos FCI supports entering to the Easing Phase



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 **16665**

7 Abu El Feda street,
Zamalek 11211, Cairo, Egypt

pharoslive.com