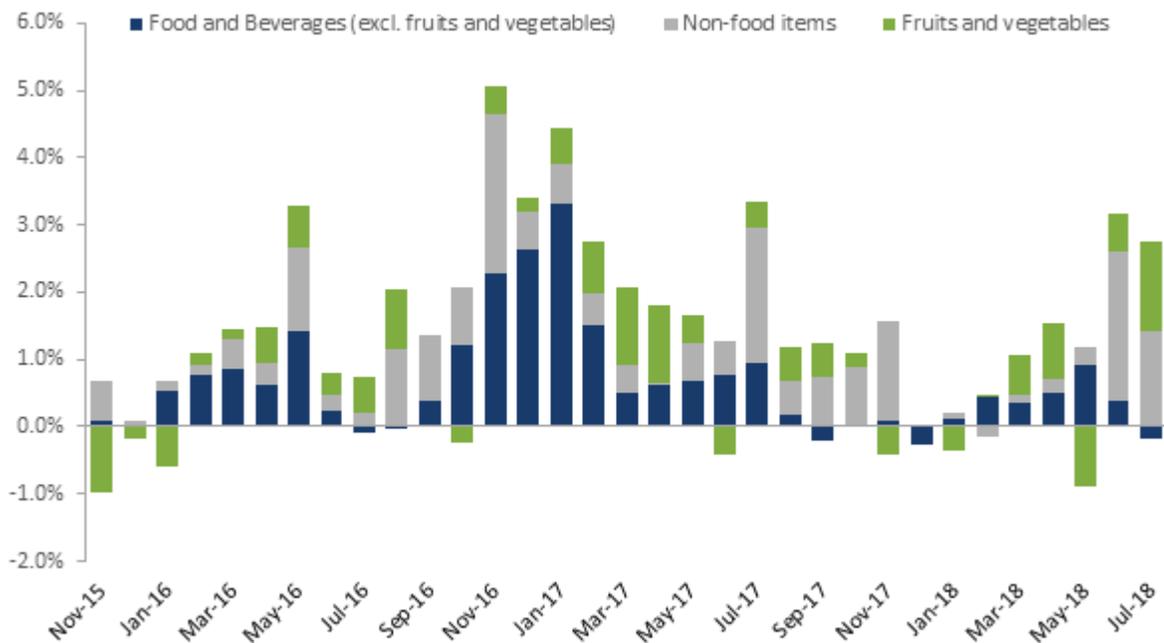


Monthly Inflation Continues its Spike in July on Fiscal Consolidation Factors

The monthly inflation rate decelerated to 2.5% in July, after recording 2.9% in June, while the annual inflation rate recorded 13% in July, down from 14% in June. The increase in inflation rate for the past 2 months was expected due to the fiscal consolidation adopted by the Egyptian government in the beginning of FY2018/19.

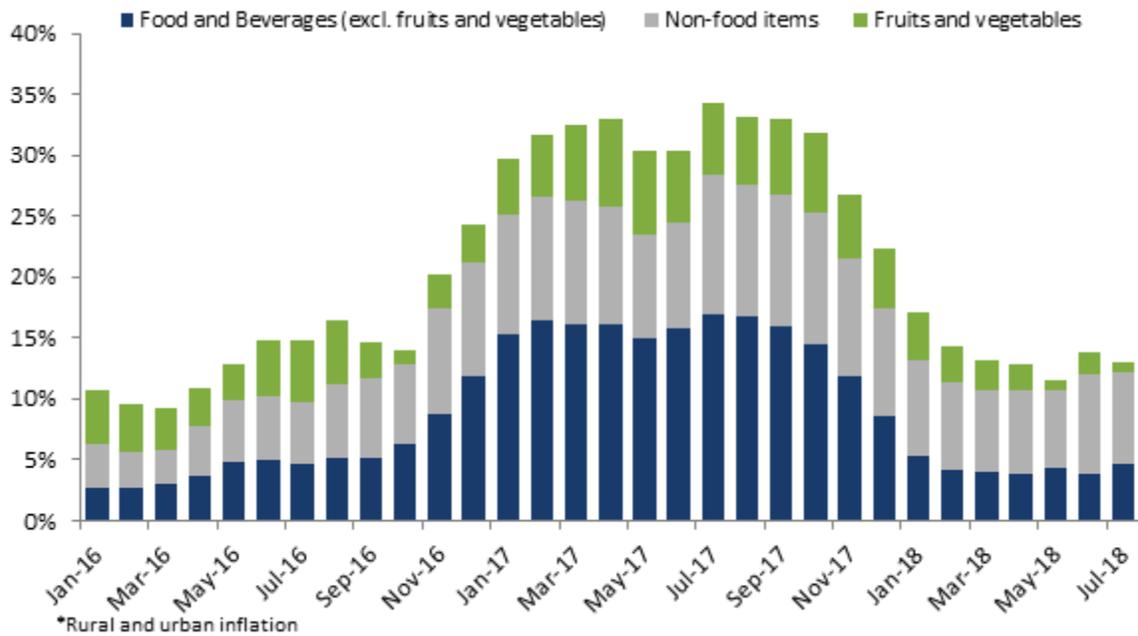
The monthly inflation in July was mainly attributed to the increase in vegetables prices by 8.8% MoM, tobacco by 7.2% MoM, electricity and fuel prices by 5.2% MoM, and hotels and restaurants prices by 4.8% MoM.

Chart 1: Contribution to Monthly Inflation



Source: Pharos Research, CAPMAS

Chart 2: Contribution to Annual Inflation



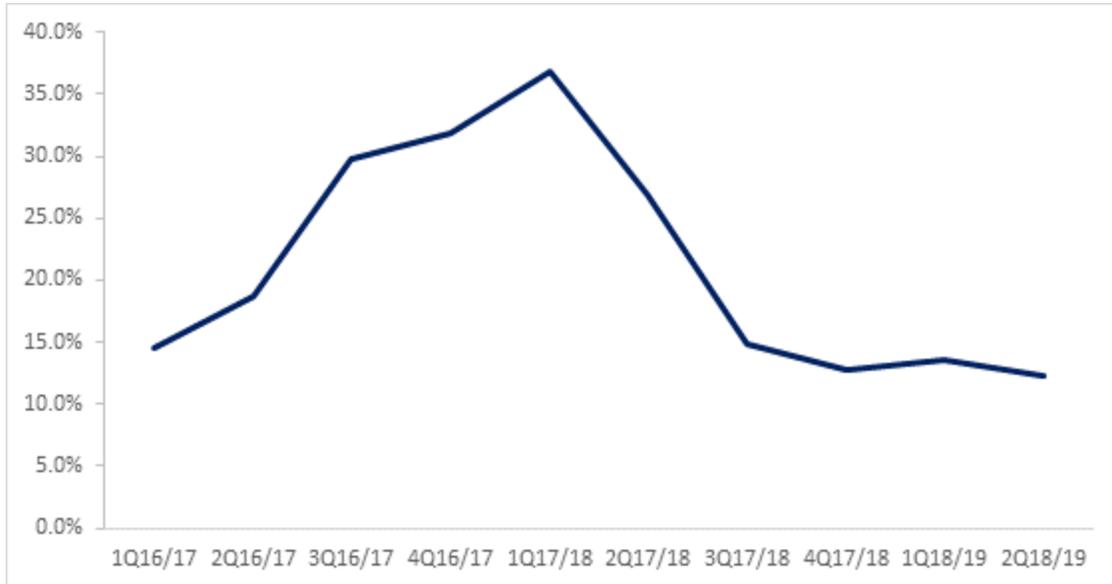
Source: Pharos Research, CAPMAS

Annual Inflation to Remain above 1% in August-September Supporting a Hold in Rates

Going forward, we expect the monthly inflation rate to decelerate to 1.5% in August and 1% in September, however we expect the annual inflation to record 13.3% in August and stabilize in September.

We expect inflation to accelerate from 12.8% YoY in 4Q FY2017/18 to 13.2% in 1Q FY2018/19, and decelerate to be 12.3% YoY in 2Q FY2018/19. According to our estimates, the acceleration of inflation should ease after September, once the fiscal consolidation impact is fully absorbed by the economy and has fully reflected on the prices of goods and services, in addition to the end of “back to school season”.

Chart 3: Average Quarterly Inflation

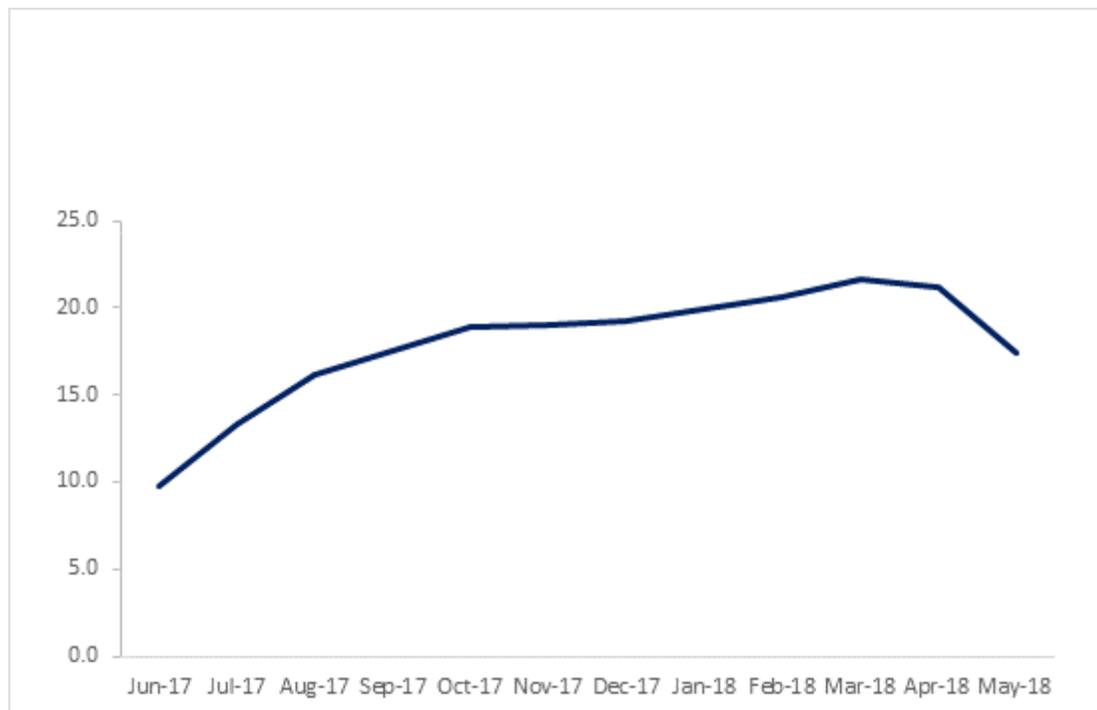


Source: Pharos Research, CAPMAS

Foreign Portfolio Investments Dictates Cautious Monetary Easing

Despite the Fed decision to keep the rates unchanged in their last meeting, the strength of the USD against emerging market currencies continues, which causes more sell off in EM nu global investors. Moreover, the lucrative rates in other EM such as Argentina and Turkey are putting more pressure on the CBE. This might lead to a more cautious monetary easing to avoid portfolio investment outflows especially after reaching USD 17.4 billion in May 2018 down from USD 21.2 billion in April 2018 and a peak of USD23 billion.

Chart 4: Foreign Holdings of EGP T-bills (USD billion)



Source: Pharos Research, CAPMAS

In conclusion, the expected acceleration in monthly inflation over August-September due to seasonal factors and fiscal consolidation measures, in addition to recent decline in foreign holdings of Egyptian T-bills support maintaining rates in the upcoming MPC meeting on August 16.

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