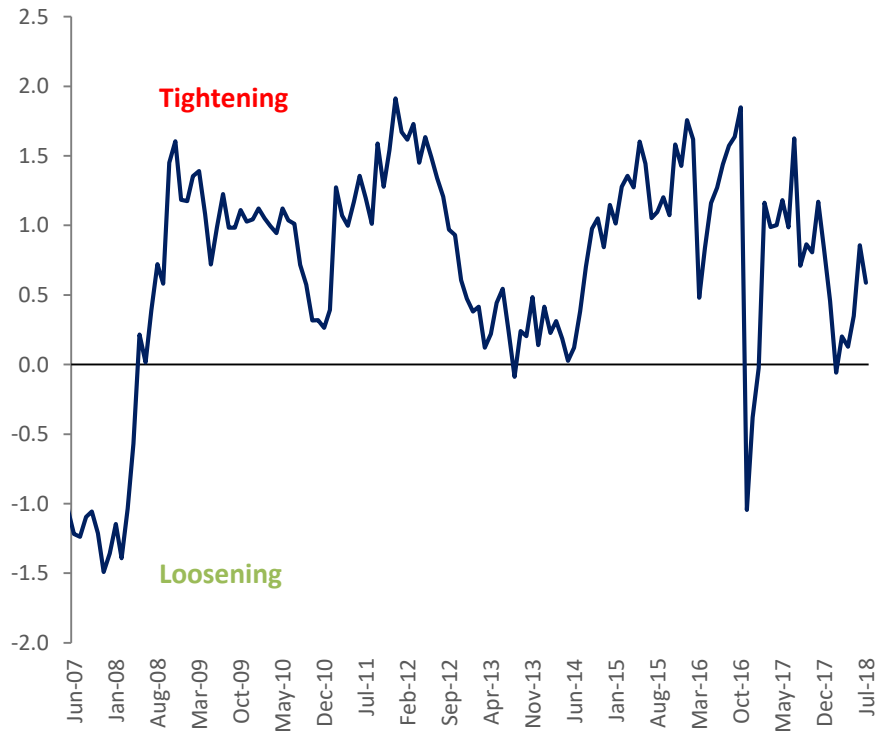




The Pharos Financial Conditions Index (FCI) started to move downward in July. The drop in FCI is driven by 3 indicators, which are the increase in real broad money supply, the higher liquidity in the banking sector and the flatter slope of Egypt's inverted yield curve.

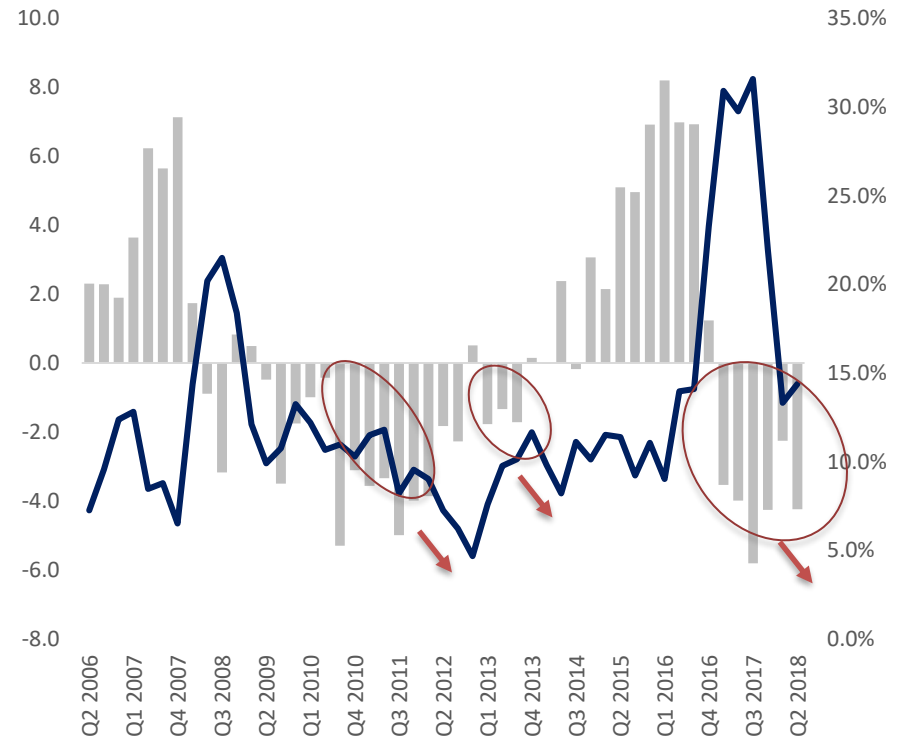
The monetary overhang, which is another measure of excess money supply, has been negative since 1Q 2017. Moreover, the money overhang has declined further in 2Q 2018, which is confirming sending the signal that inflation rate will decelerate for three quarters ahead., until 1Q 2019.

Financial Conditions Index



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

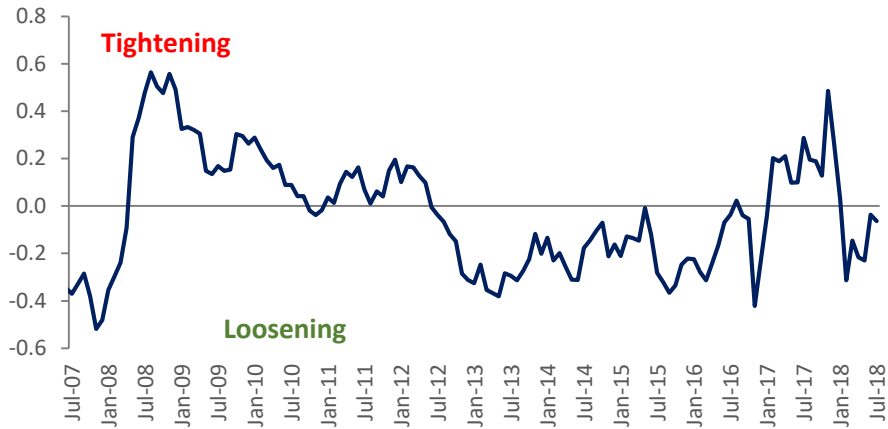
Money Overhang and Inflation rate (RHS)



Source: Central Bank of Egypt, Pharos research

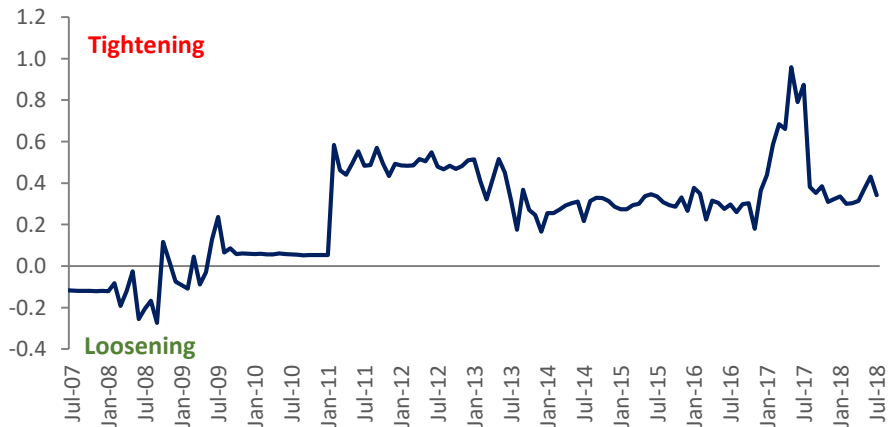
M2 increased in July 2018 by 17.84% YoY and 0.24% MoM. However, the real M2- taking inflation into account- increased by 3.8% YoY, compared to 3.5% YoY in June 2018.

Real broad money supply sub-index



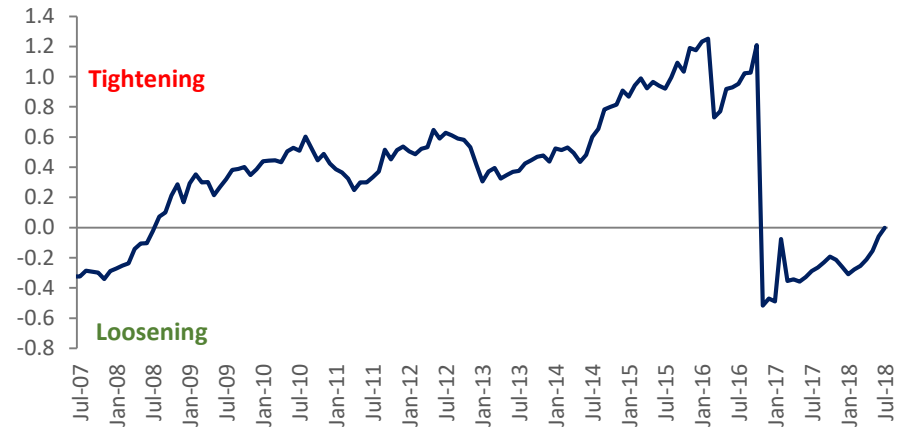
The overnight interbank rate has moved further below the mid-corridor rate by 0.31% in July compared to 0.17% in June. Hence, it reflects higher liquidity available in the banking sector.

Overnight interest rate spread



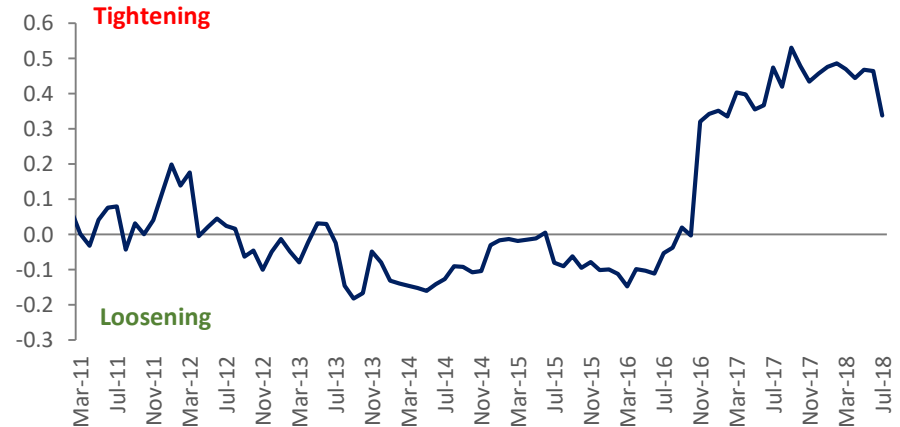
The real effective exchange rate index appreciated from 81.70 in June to 83.63 in July 2018 driven by the appreciation in the EGP nominal exchange rate by 0.10% MoM. However, Egypt's exports are still competitive.

Real effective exchange rate sub-index



The slope of Egypt's inverted yield curve has flattened from 3.13% in June to 1.46% in July, which reflects less tight conditions in the short term.

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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