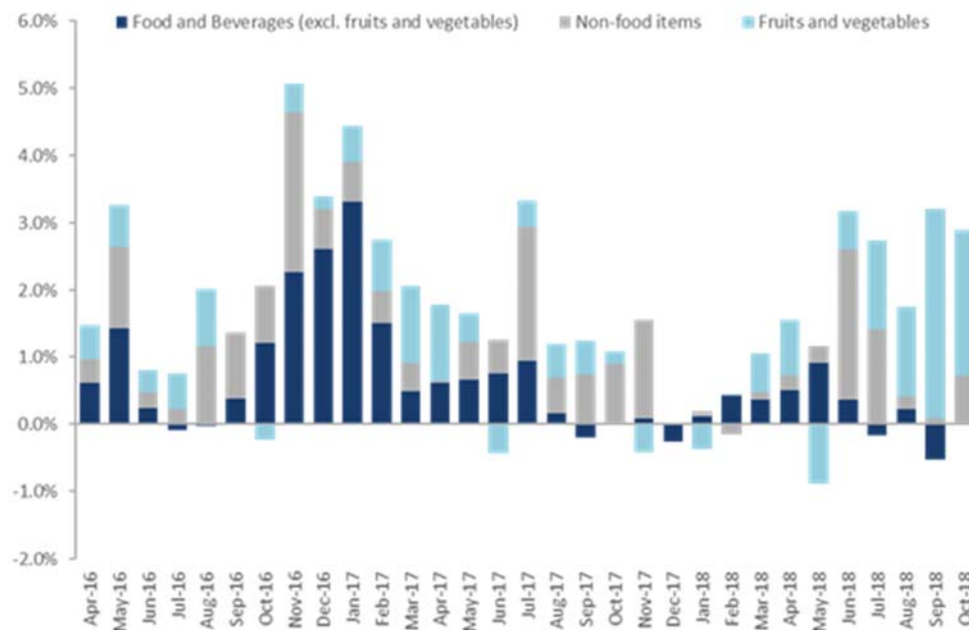


## Domestic Inflation Dynamics and EM Monetary Tightening Support Maintaining Rates

### Monthly Inflation Continues its Spike in October

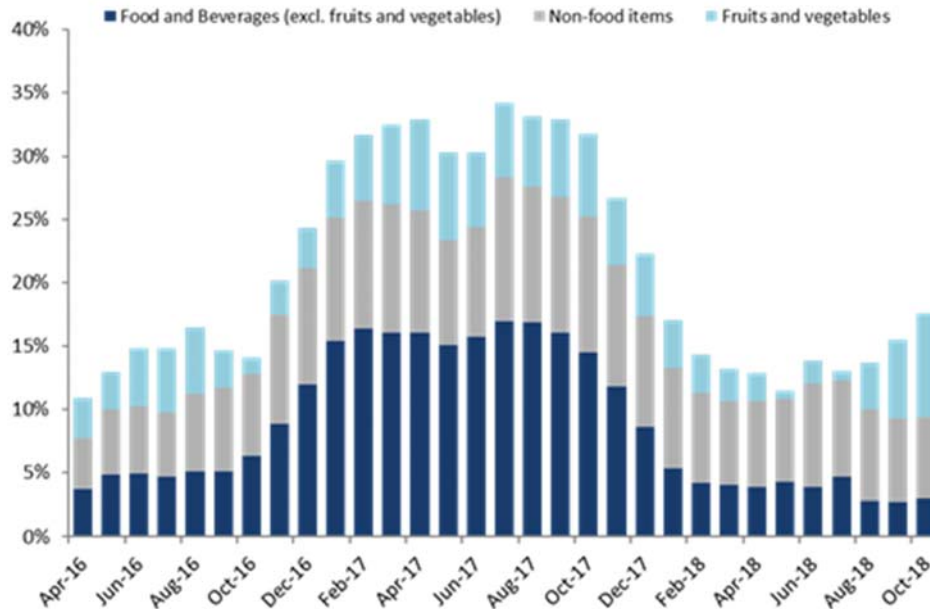
The monthly inflation rate accelerated to 2.8% in October, after recording 2.6% in September, while the annual inflation rate recorded 17.5% in October, up from 15.4% in July. The monthly inflation in October was mainly attributed to the continued increase in vegetable prices by 13.2% MoM, and education fees by 15.1%.

Chart 1: Contribution to Monthly Inflation



Source: Pharos Research, CAPMAS

**Chart 2: Contribution to Annual Inflation**

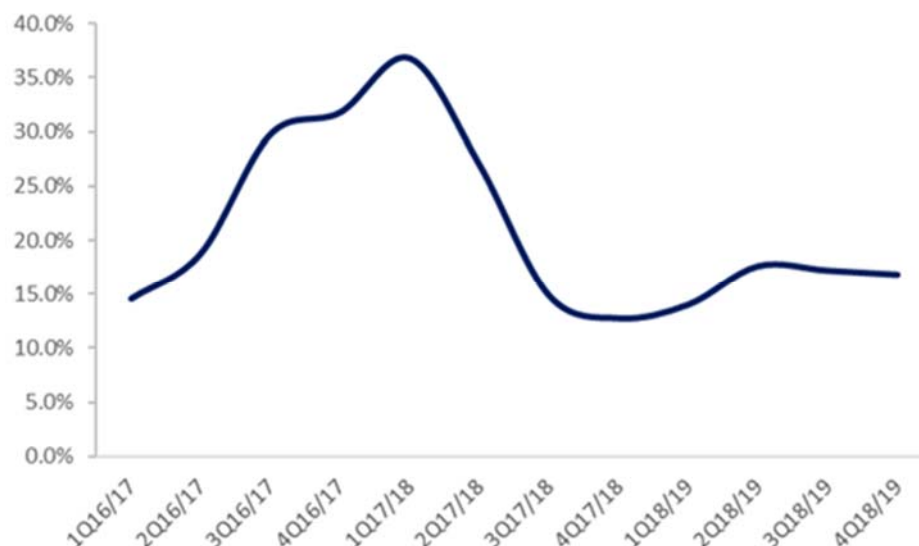


Source: Pharos Research, CAPMAS

## Monthly Inflation will Decelerate in November-January

Going forward, we expect the monthly inflation rate to decelerate, specifically to 1.5% in November 2018 and 1% in December 2018. This is mainly driven by vegetables price normalization when the new harvest season starts. Furthermore, we expect inflation to accelerate from 14% YoY in 1Q FY2018/19 to 17.6% in 2Q FY2018/19. However, we expect it to decelerate again to be 17.1% YoY in 3Q FY2018/19.

**Chart 3: Average Quarterly Inflation**

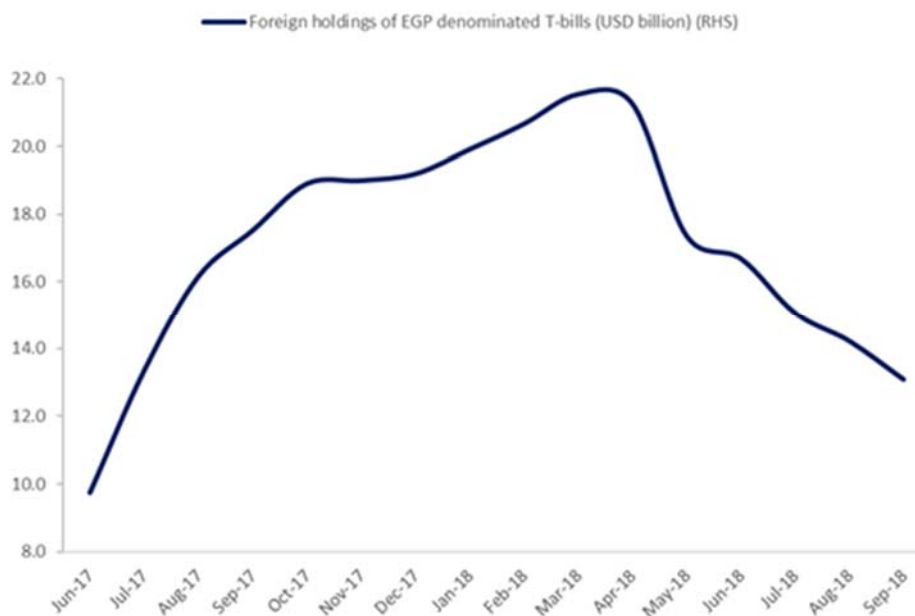


Source: Pharos Research, CAPMAS

## Foreign Ownership of Domestic Short Term Debt Declines

The foreign ownership of domestic short term debt has declined 7.8% MoM at the end of September 2018 to be USD 13.1 billion, down from USD 14.2 billion in August 2018. It worth mentioning that foreign holdings of T-bills to total outstanding T-bills issued has decreased to its 16-month low to record 18%, down from its peak at 32.3% in October 2017.

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

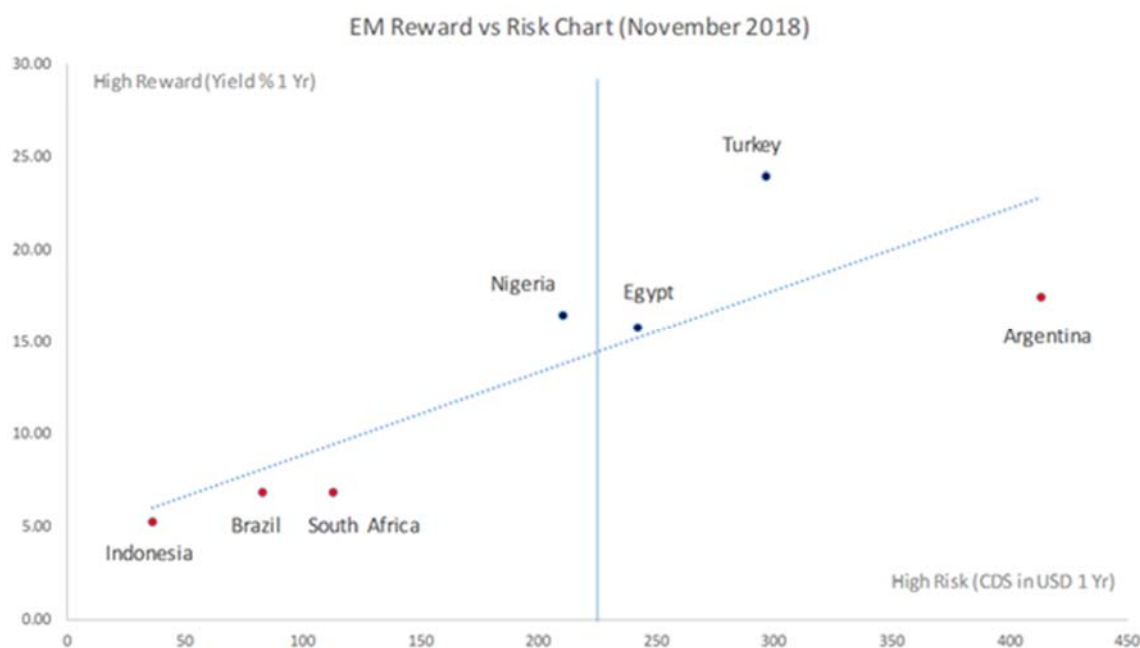


Source: Pharos Research, CBE

## Emerging Markets High Yields Dictates Rate Stability

The high yields in other EM such as Argentina, Turkey, and Nigeria are putting more pressure on Egypt to maintain policy rates. The after-tax yield on 1Y Turkish government T-bill has reached 23.97%, while the yield on 1Y Argentinian government T-bill has reached 17.44%, and the yield on the Nigerian government T-bill has reached 16.5%. However, Egypt after-tax yield is 15.78%, which is still competitive among these high yields due to Egypt's moderate risk levels, as reflected by the CDS rates.

Chart 5: EM Risk/Reward Matrix



Source: Pharos Research, CBE, Bloomberg

**In conclusion, domestic inflation rate dynamics and EM monetary conditions support maintaining rates in the upcoming MPC meeting on November 15.**

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