



Inflation decelerates in March 2019

A halt on the acceleration trend

The monthly total inflation rate decelerated to 0.9% in March 2019, after having accelerated by 1.8% in February 2019, while the annual inflation rate stabilized at 13.8% in March 2019, slightly down from 13.9% in February, halting the acceleration trend that started in December 2018.

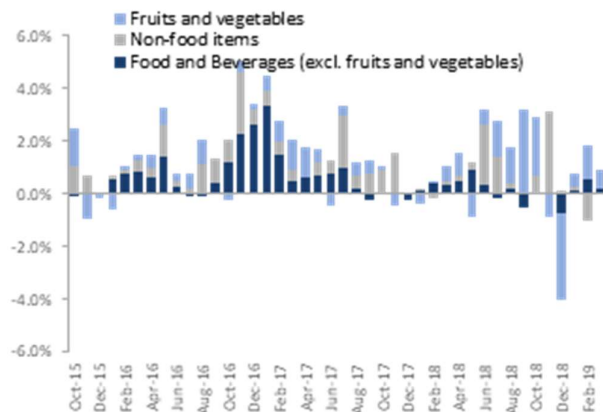
The monthly inflation drop in March was mainly attributed to Food & Beverages slowing down from a 3.3% MoM increase in February to a 1.5% MoM increase in March. On the other hand, the slight deceleration in Food & Beverages to 15.1% YoY in March down from 15.3% YoY in February could explain the annual disinflation recorded in March 2019.

Inflation is driven by Foods & Beverages

The category contributing the most to the monthly inflation in March is Food & Beverages, contributing to inflation by 0.86 points, while the rest of the categories have an insignificant contribution rate on monthly inflation. Within this category, the main drivers were vegetables; increasing by 3.9% MoM and contributing to inflation by 0.63 points.

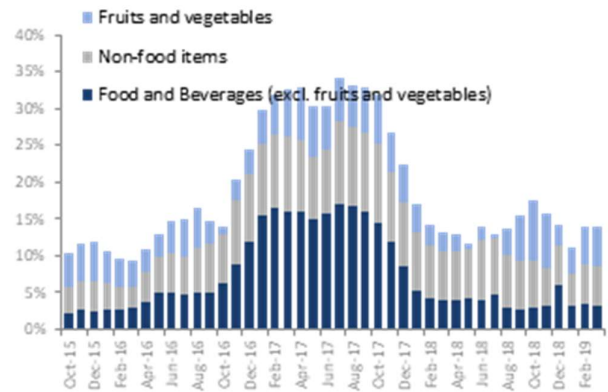
Annual inflation was also heavily driven by Foods & Beverages scoring a 15.1% increase YoY and contributing to inflation by 8.36 points. The main driver of the category being Vegetables as well, contributing on its own 5.24 points into annual inflation in March. The Housing & Utilities section showed a 15.2% increase as well but given the difference in weights assigned to this section, it contributed to annual inflation by 1.56 points. It is then followed by the Transportation category contributing to inflation by 1.11 points.

Chart 1: Contribution to Monthly Inflation



Source: Pharos Research, CAPMAS

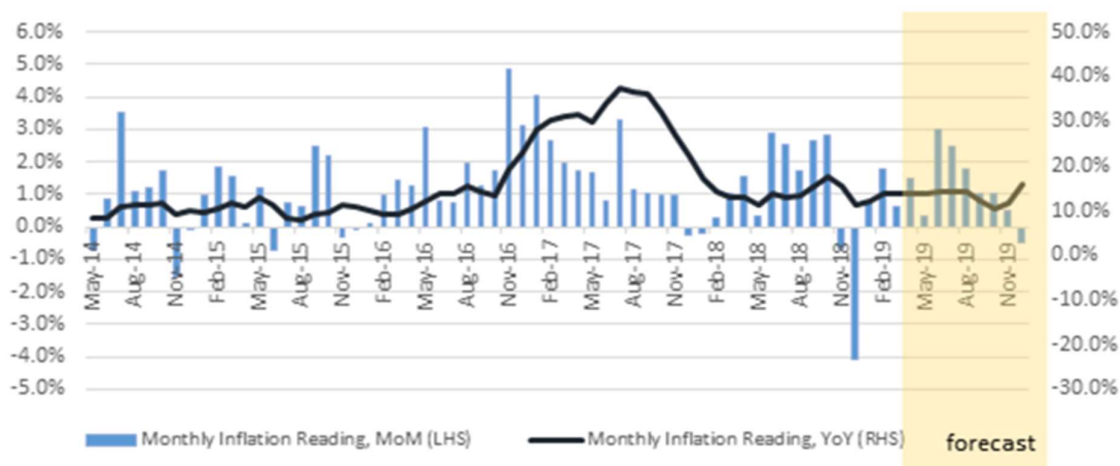
Chart 2: Contribution to Annual Inflation



Source: Pharos Research, CAPMAS

Annual inflation to stabilize, supported by the base effect

Inflation in March fell into our bound of expectations of 0.7 – 1.0% MoM and 13.5 – 14.0% YoY. Going forward we expect monthly inflation to hike up in April as preparations for Ramadan have historically put pressure on prices to increase as well as on the exchange rate, driving relative weakness in the EGP. We see inflation accelerating to monthly rates higher than March reaching a peak of 3.0% MoM in June 2019 as a response to the next round of fuel subsidy reforms and again in September as the automatic fuel pricing mechanism committee reevaluates fuel prices and introduced to the formula the rest of fuel items. In addition, this coincides with the Back-To-School season, which generally pushed prices around 1% on a monthly basis. Annually, we see inflation stabilizing between 14.0% and 14.5% to reach an average of 13.3% by then end of December 2019, for the calendar year 2019.



Source: Pharos Research, CAPMAS

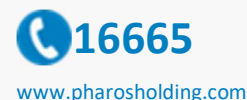
Rates to be maintained till 4Q2019

With the stated inflation path over the course of 2019, we expect rates to remain on hold until 4Q2019, when we expect to witness another 100-200 bps cut(s).

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