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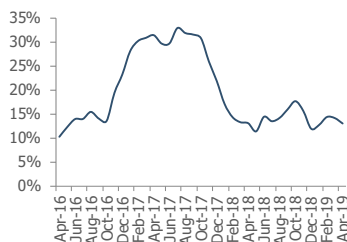
Macro | Egypt

Inflation ease in April may allow continued monetary easing

Macro Note | Egypt

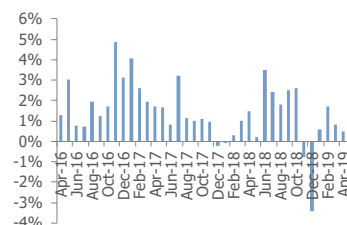
May 9, 2019

Headline inflation slows in April



Source: CAPMAS, CBE

0.5% increase on a monthly basis



Source: CAPMAS

Food prices drive lower inflation reading in April; slightly below our estimates

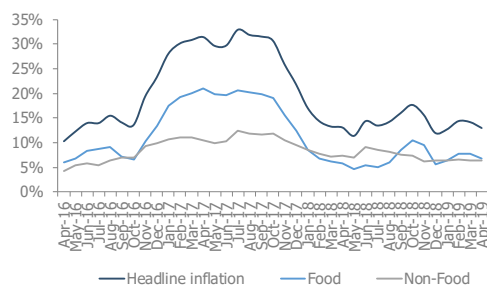
April annual headline inflation saw an increase of 13%, down from 14.2% in March 2019, slightly below our expectations of 13.9%. This was driven by a 13% increase in food prices vs a rise of 15% in March, which we attribute to a slowdown in fruits and vegetables prices as well as poultry. On the other hand, the recreation and culture segment saw an increase of 7% in April, up from 4.6% a month earlier, reflecting the Easter holiday spending. Monthly inflation rose by 0.5%, vs 0.8% in March, below our expectations of 1.3%.

The chances for an interest rate cut in May increase with benign reading

We reiterate our view that there is room for another 100bps cut in the next meeting on May 23, 2019, which was pending confirmation on eased inflation with April reading. The earlier-than-expected cut last February, aimed at boosting investors' confidence by sending a strong message of confidence in the current monetary policy as well as the path of the local currency, reduces the fundamental economic component in the decision making process and opens room for a move in rates ahead of the subsidies removal. Favorable global conditions, with the ease in monetary tightening, will continue to provide the buffer for the CBE to resume its monetary easing. Meanwhile, the most likely scenario for us will remain a 100bps cut in rates by the end of the year, accounting for the expected inflationary repercussions of the wider implementation of the fuel indexation mechanism. On the other hand, we believe Egypt still provides a decent carry trade, supported by the recent credit rating upgrade and the strength of the local currency. The rise in foreign holdings of government T-bills to USD16.9bn in April 2019, bridging outflows in 2H18 and returning back to July 2018 levels, confirms our view.

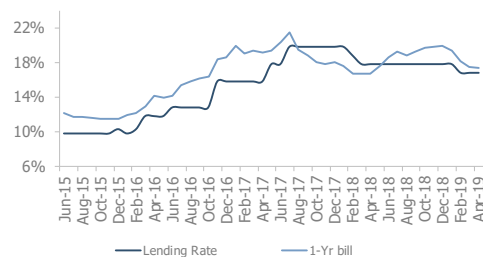
I. Illustrating Charts

Figure 1: Food inflation slows



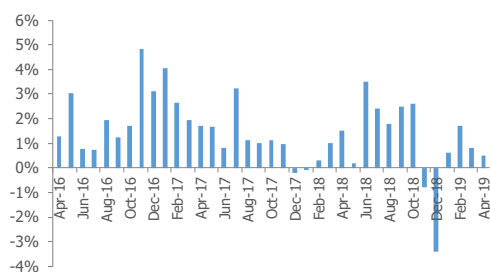
Source: CAPMAS

Figure 2: Treasury yields are still attractive



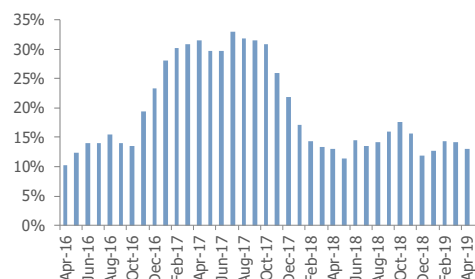
Source: CBE, Bloomberg, March figures are expected

Figure 3: Monthly inflation momentum slows



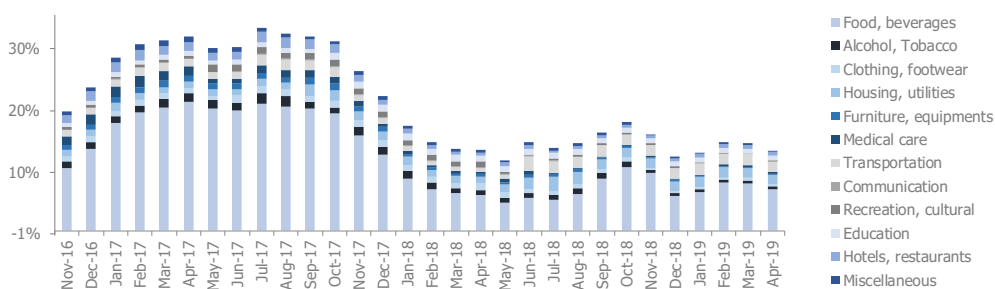
Source: CAPMAS

Figure 4: Annual headline inflation to remain in double digits



Source: CAPMAS, Beltone estimates

Figure 5: Annual headline inflation breakdown (% weighted change)



Source: CAPMAS

II. Macro-economic Indicators

	FY14/15	FY15/16	FY16/17	FY17/18	FY18/19e	FY19/20e	FY20/21e
Real sector							
GDP, current (USDbn)	332	333	235	301	303	372	463
Real GDP growth (%)	4.4%	4.3%	4.3%	5.3%	5.5%	5.9%	6.2%
GDP/capita, current (USD)	3,554	3,608	2,548	2,654	3,161	3,928	4,450
External sector							
Trade balance (USDbn)	(39.1)	(38.7)	(37.3)	(37.3)	(37.7)	(39.6)	(41.1)
Tourism revenues (USDbn)	7.4	3.8	4.4	9.8	12.3	14.0	15.1
Suez Canal revenues (USDbn)	5.4	5.1	4.9	5.7	6.0	6.3	6.6
Transfers (USDbn)	21.9	16.8	21.8	26.5	25.6	25.6	25.8
Current account (USDbn)	(12.1)	(19.8)	(14.4)	(6.0)	(4.6)	(3.9)	(4.3)
Current account % GDP	-3.7%	-6.0%	-6.1%	-2.4%	-1.5%	-1.0%	-1.0%
FDI (USDbn)	6.4	6.9	7.9	7.7	7.3	7.5	7.7
FDI % GDP	1.9%	2.1%	3.4%	2.6%	2.4%	2.0%	1.7%
EGP/USD exchange rate (period avg)	7.36	8.15	14.76	17.72	17.67	17.10	17.86
Net international reserves (end of period) (USDbn)	20.1	17.5	31.3	44.3	46.5	47.4	46.0
Reserves/imports coverage (months)	3.9	3.7	6.4	8.4	8.2	7.8	7.1
Monetary sector							
Inflation (CPI, %)	11.0%	10.2%	23.3%	21.6%	14.6%	15.6%	13.3%
M2 Growth (%)	16.4%	18.6%	39.4%	18.3%	18.3%	19.1%	17.2%
Deposits rate (end of period, %)	8.75%	10.75%	16.75%	16.75%	15.75%	13.75%	12.25%
Lending rate (end of period, %)	9.75%	12.75%	17.75%	17.75%	16.75%	14.75%	13.25%
Fiscal sector							
Fiscal deficit (EGPbn)	279.4	339.5	379.6	433.9	461.5	514.6	540.6
Fiscal deficit % GDP	-11.4%	-12.5%	-10.9%	-9.8%	-8.6%	-7.8%	-6.8%
Primary balance % GDP	-3.5%	-3.5%	-1.8%	0.1%	1.9%	2.0%	1.9%

Source: CBE, MoF, Beltone estimates

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