



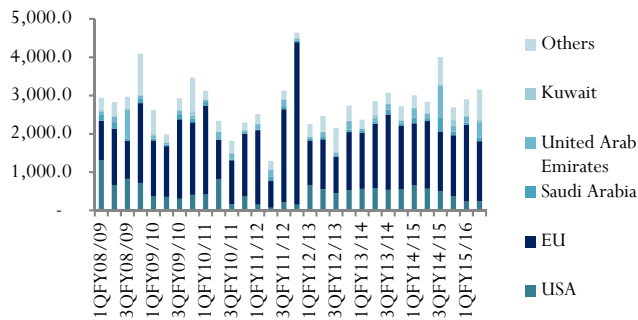
THE VIEW | Macro Thoughts on Brexit

Vulnerability elongates road to recovery; rather than triggers a steep decline

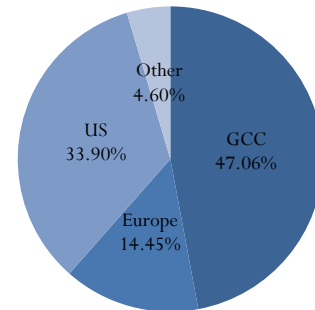
Egypt's external sector is exposed significantly to the UK/EU

- 30 - 35% of imports and exports are accounted for by trade with the EU
- 50 - 75% of tourist nights are spent by European tourists (versus 15 - 30% for Middle Eastern visitors)
- 15% of remittances are sourced from Europe (versus c.30% for the USA and c.50% for the GCC)
- 40 - 50% of FDI stems from EU investors

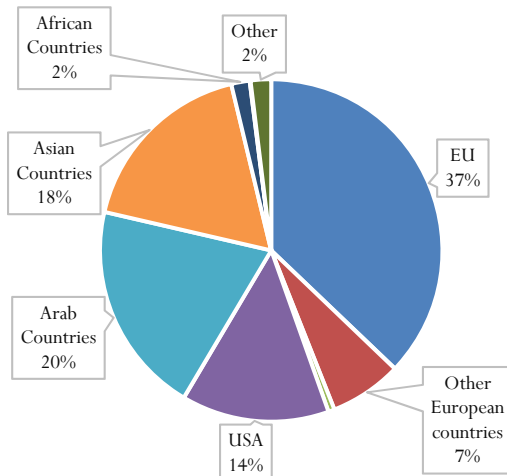
FDIs by Investor Origin



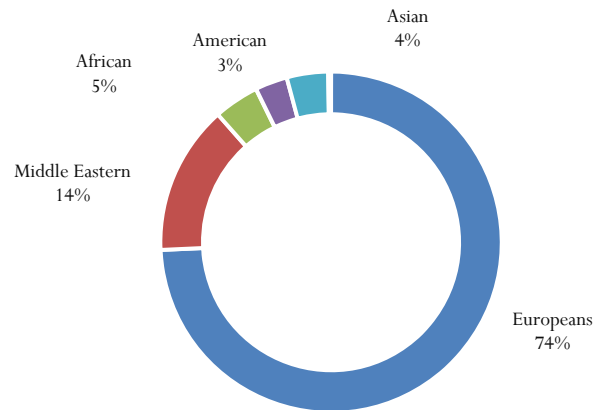
Remittances by Source



Egypt Trade by Partner

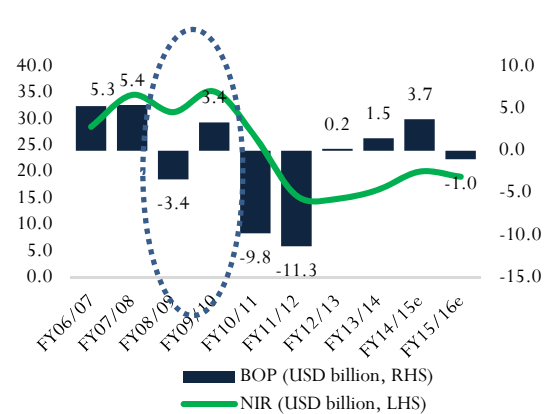
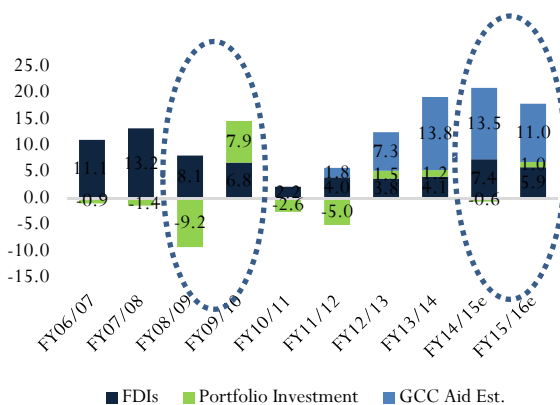
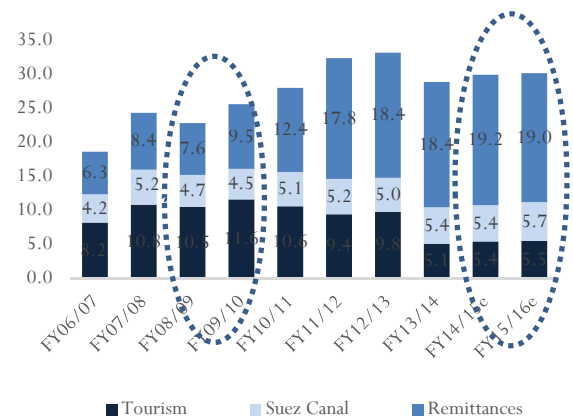
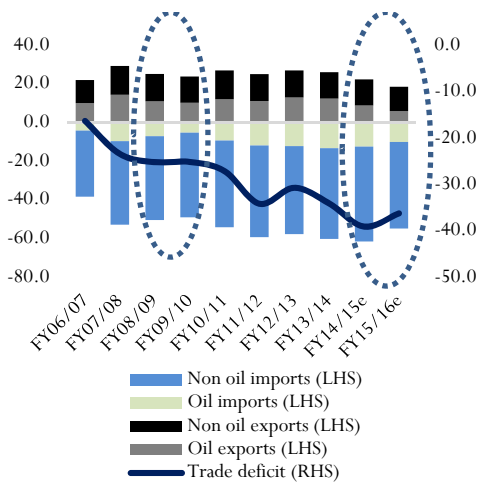


Tourist Nights by Nationality



Egypt's external sector has already been hit, which means that the Brexit hit should not be massive, but Egypt's road to recovery could now take longer

- Imports and exports will be affected, but since Egypt's exposure to Europe is almost 30% of trade, the net effect on the trade balance should be expected to be minimal
- Egypt has already been hit by the lower tourism receipts, and European visitors to Egypt have already been diminished in total by rising numbers of Middle Eastern and Asian visitors
- Suez Canal revenue might suffer a potential reduction of c.25%, but it has been hovering around the EGP4.0 - 5.0 billion over the last ten years
- Remittances, which have been very important since the revolution in 2011 are only 15% exposed to Europe, and are mostly secured from the GCC (although they are under pressure from the effects of lower oil revenues)
- Portfolio investments are almost non-existent
- GCC aid was estimated to level off anyway, due to lower commodity prices
- 50% of FDI stems from European investors but are mostly within the oil and gas sectors, which we believe will continue to receive some inflows. However, FDI is already 50% below their peak, limiting the downside



USD is stronger and the pressure on the EGP is there to stay

Decline in international bond yields will improve the spread versus Egyptian treasury instruments and will translate into less chances of policy rate hikes by Egypt's MPC this year. Further pressure on Egypt's external balance will mean higher chances for a weaker currency.

The stock market will definitely be hit hard; High volatility is BACK

High volatility will be the name of the game in the medium term as the volatility brought to the global markets by the British vote to leave the EU brings about different repercussions in the short, medium and long term. However, the British news is a catalyst that highlights that some parts of the market had been mispriced for risk and it is useful to take a more defensive posture in the market. The fall in the stock market does, however, create a window of opportunity and we shall advise on these after the initial market reaction calms.

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