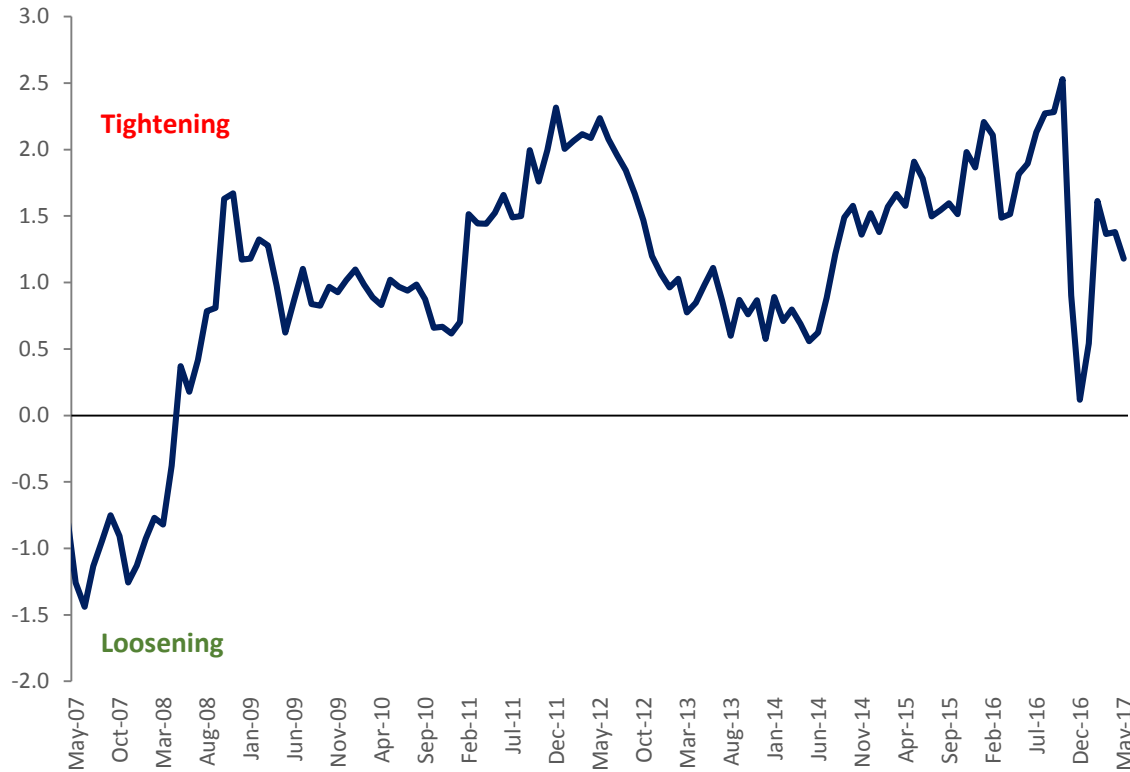


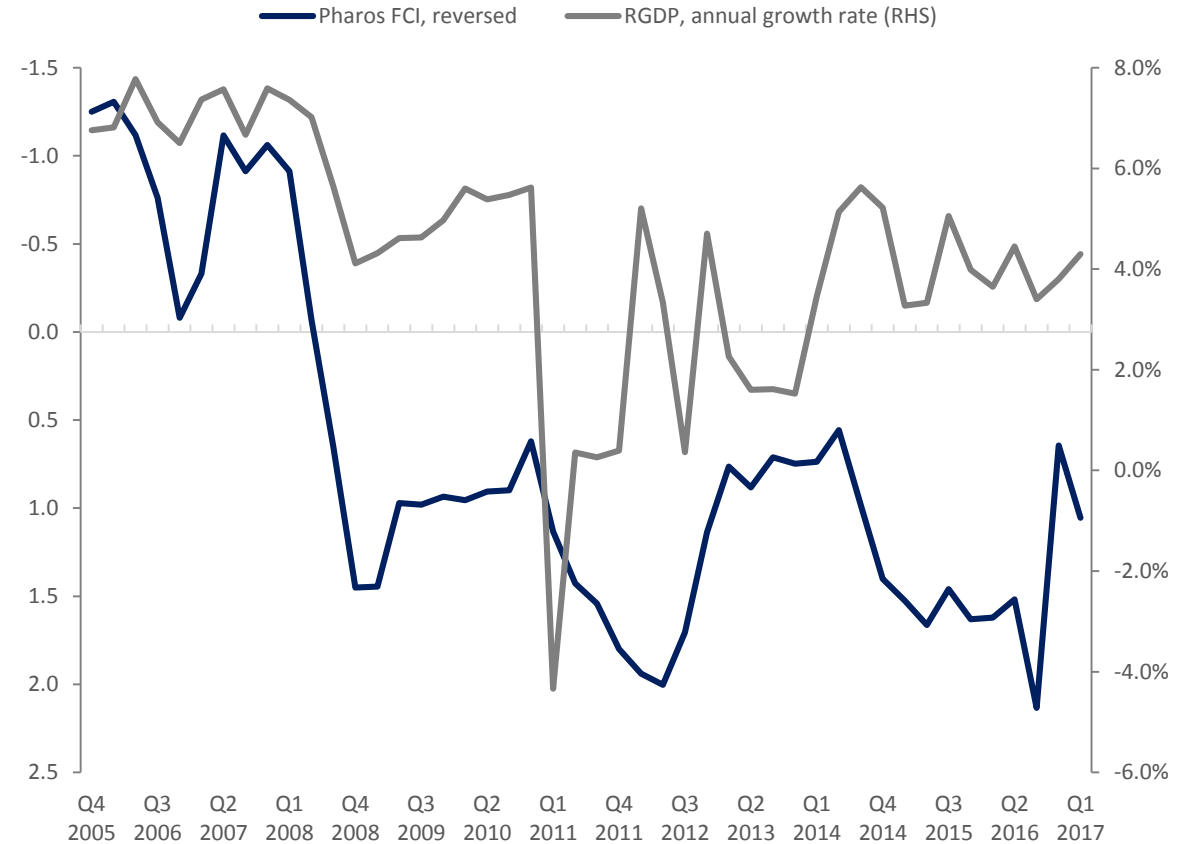
The FCI headed down in May despite further policy tightening by the CBE on May 21. This was expected due to the time-lag between a policy rate change and its effect on financial market. Accordingly, we believe the decline in May was temporary, and we expect the FCI to move upwards starting next month

The Ministry of Planning revised the real GDP growth rate higher from 3.9% to 4.3% in 3Q FY2016/17, predicting 4% by the fiscal year-end. This remains beyond our projection of a slower economic activity in 3Q FY2016/17 as shown by the FCI. However, we expect the GDP breakdown release to provide further insights

Financial Conditions Index



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



Source: Ministry of Planning, Pharos research

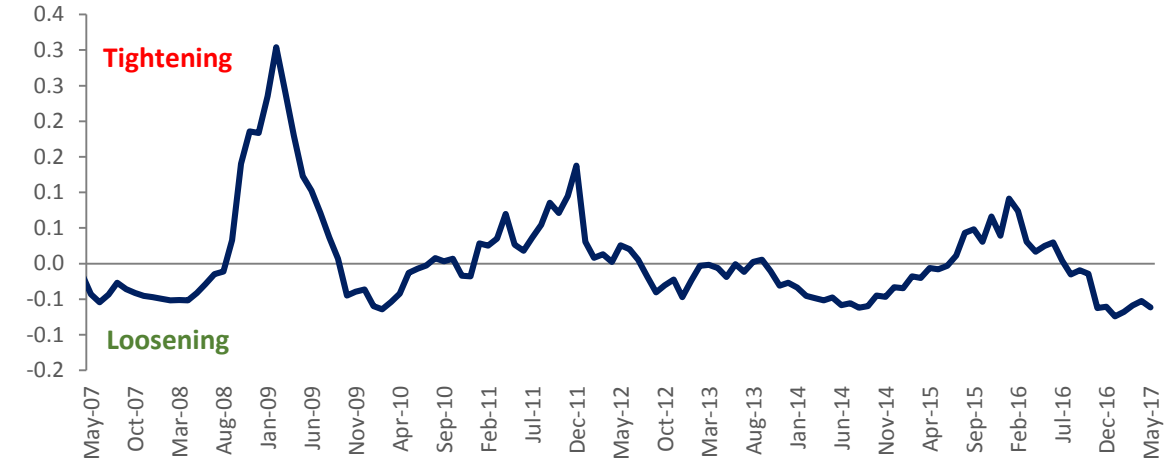
The **real M2 annual growth** accelerated in May, partly as the annual inflation decelerated from 31.5% YoY in April to 29.7% YoY in May. Accordingly, the real broad money sub-index nodded downwards in May, reflecting a less tight monetary conditions versus April 2017

### Real broad money supply sub-index



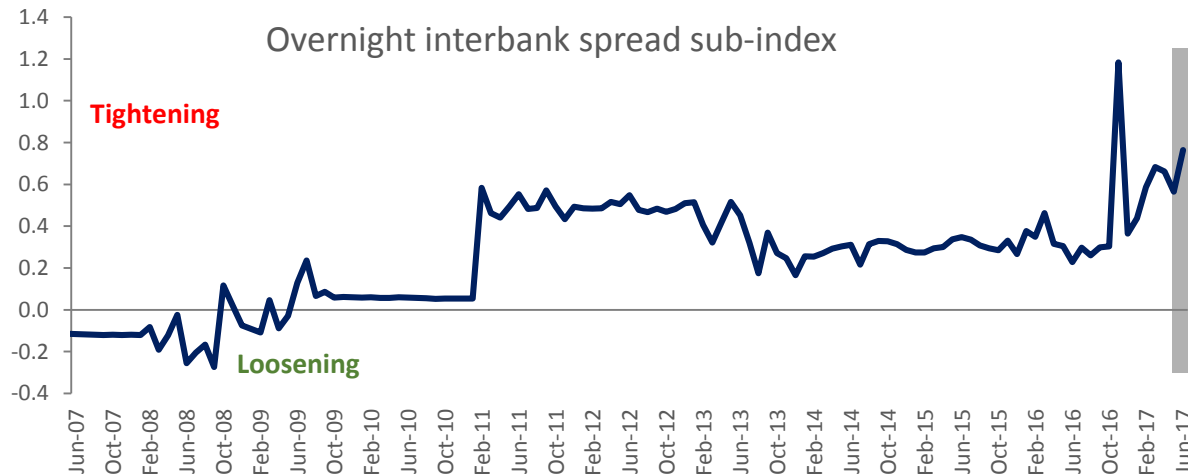
Although the **EGX30 Index** rose 7.3% MoM in May, as the foreign investors maintained their net buying activity, May's EGX30 sub-index stood around its average level post flotation

### EGX30 sub-index



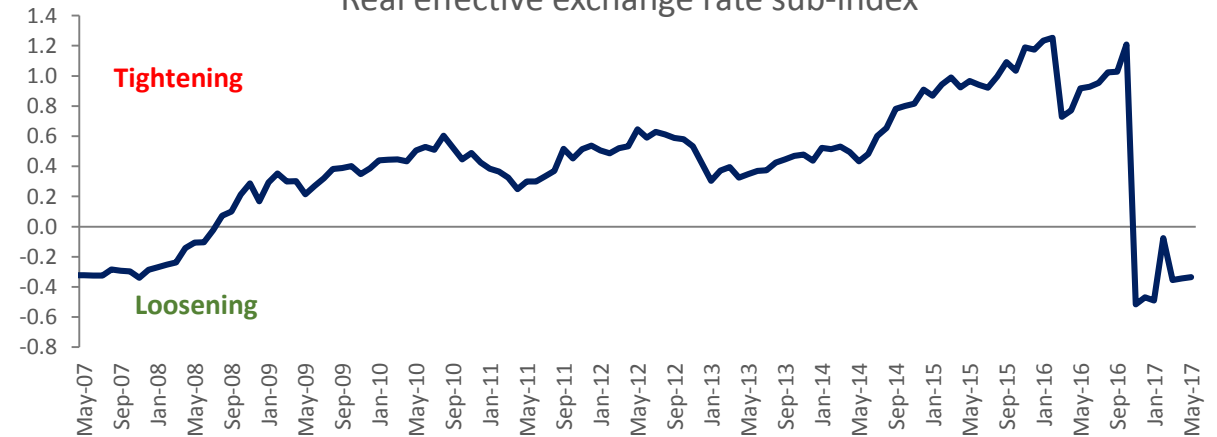
The **overnight interbank spread** sub-index decline in May was no surprise since the impact of the CBE's 200bps policy rate hike on the average daily overnight interbank rate was not fully felt yet. As of June 14, the sub-index reverted back to reflect the policy tightening. In the same sense, the negative slope of the yield curve narrowed from -2.3% in April to -1.7% in May, partly due to the active foreign purchasing of the local debt

### Overnight interbank spread sub-index



The Egyptian Pound nominal exchange rate remained stable around EGP18.10 per USD for the third consecutive month. Meanwhile, the **real effective exchange rate** appreciated marginally by 0.3% MoM in May. A REER depreciation increases the liquidity in the economy

### Real effective exchange rate sub-index



**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 four 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. Short term interest rates: **Overnight interbank spread\*** and 1-year treasury bill nominal yield
4. Real effective exchange rate (REER).

**\*Methodology Update:** We added the overnight interbank spread instead of the CBE interbank rate. The overnight interbank spread is calculated as the average daily overnight interbank rate minus the CBE mid corridor. A positive (negative) overnight interbank spread reflects tight (loose) conditions. In our view, the inclusion of the overnight interbank spread will help better capture the financial market's short term interest rate dynamics than the CBE-set policy rate, in addition to gauging the monetary policy transmission mechanism.

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