

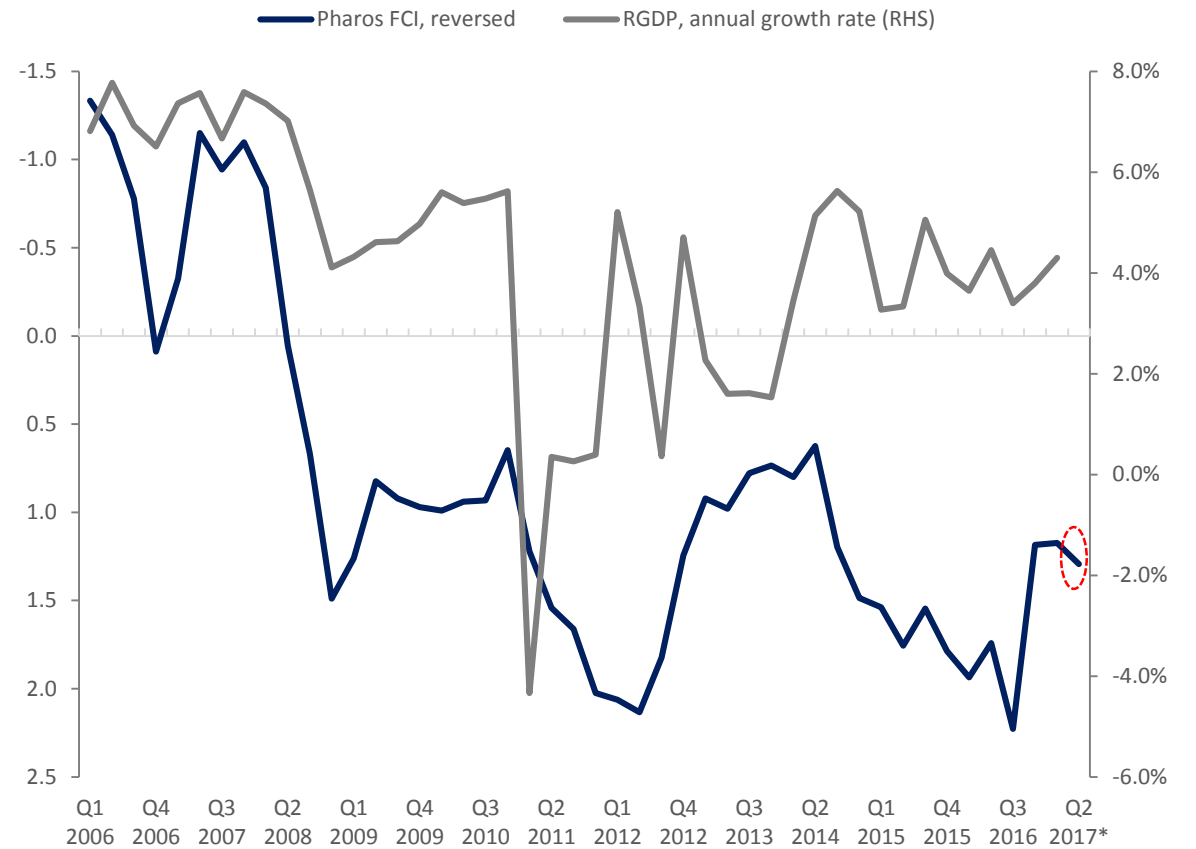
The FCI reversed its course and rose in June, reflecting the CBE's decision to raise policy interest rates by 200bps in May. Meanwhile, further monetary tightness is still expected as financial markets fully absorb the additional 200bps interest rate hike on July 6.

The FCI indicates that economic activity slowed down in 2Q 2017. We note that the IMF has recently revised the real GDP growth downwards to 3.5% and 4.5% in FY2016/17 and FY2017/18, respectively. This is in line with our real GDP forecast of 3.8% in FY2016/17 and 4.5% in FY2017/18.

### 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

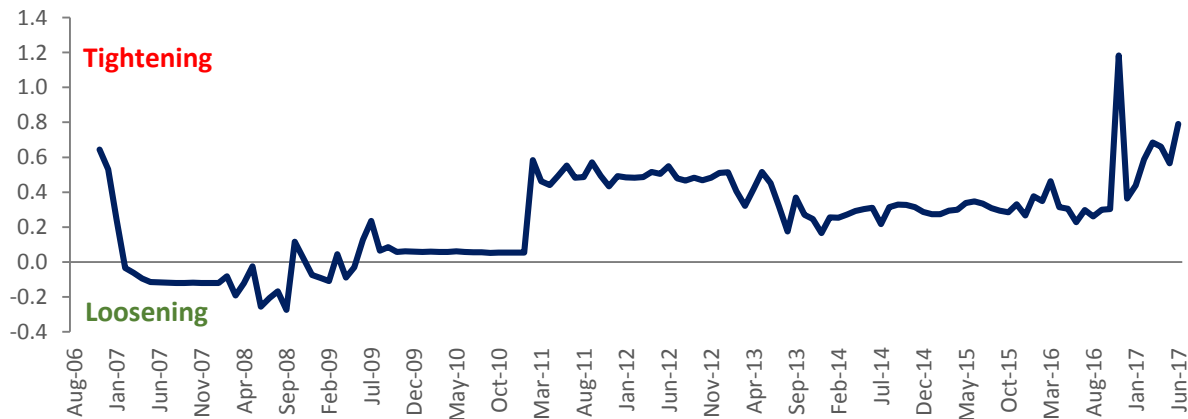
The **real M2 annual growth** continued to accelerate in June, partly as the annual inflation rate stabilized. However, we expect the real broad money sub-index to reflect more tightened monetary conditions, due to the inflationary shock of a higher fuel and electricity prices, in addition to the impact of July's interest rate hike.

### Real broad money supply sub-index



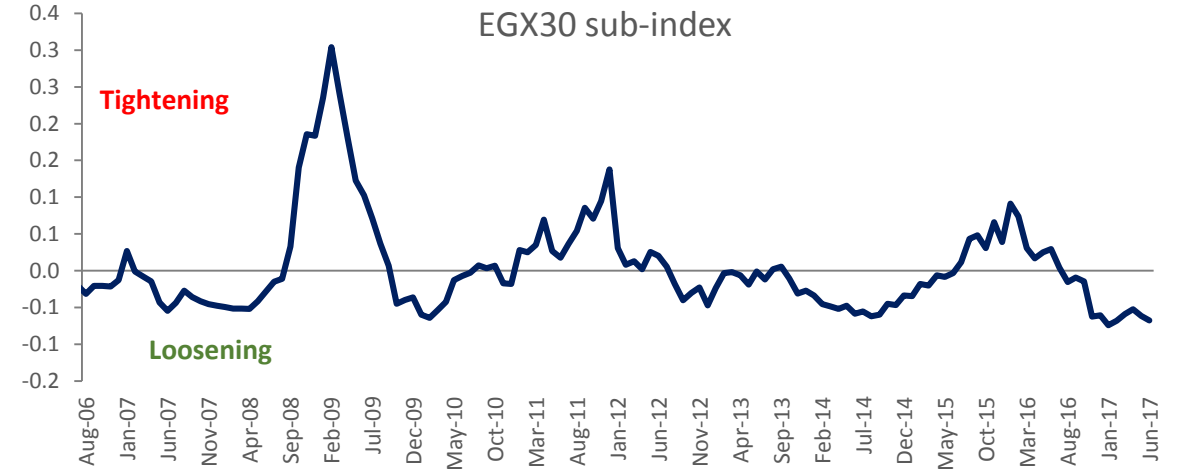
The average daily overnight interbank rate rose significantly, from 15.4% in April to 17.6% in June. Accordingly, the **overnight interbank spread** turned positive, reflecting tightened conditions. We expect the sub-index to continue to move upwards as the impact of the July's 200bps interest rate hike emerges.

### Overnight interest rate spread



The **EGX30 Index** was mostly flat in June. The disbursement of the IMF-EFF second tranche implies that foreign investors purchasing activity will continue. Meanwhile, June's EGX30 sub-index remained around its average level post flotation.

### EGX30 sub-index



The Egyptian Pound nominal exchange rate remained stable around EGP18.10 per USD for four months in a row. Meanwhile, the **real effective exchange rate** appreciated marginally by 0.8% MoM in June. We reiterate that a REER depreciation increases the liquidity in the economy and, therefore, it depicts loose financial conditions.

### 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).

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