



The Pharos Financial Conditions Index (FCI) takes a further drop in January, driven by the increase in real broad money supply as well as the depreciation of real effective exchange rate for the EGP.

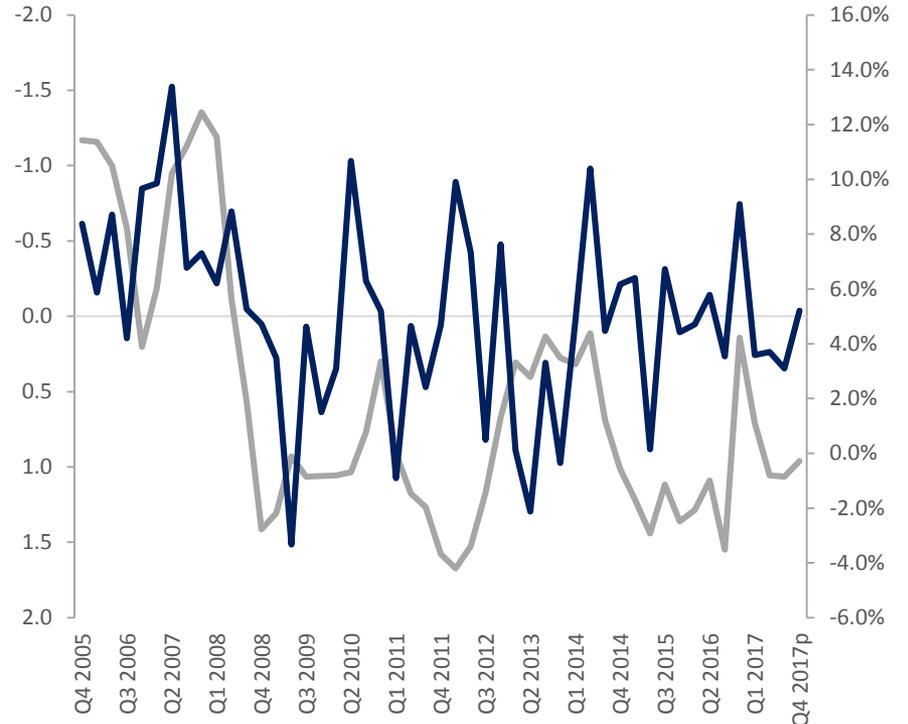
Since financial conditions remained less tight compared to last month, demand growth started to recover.

Financial Conditions Index



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

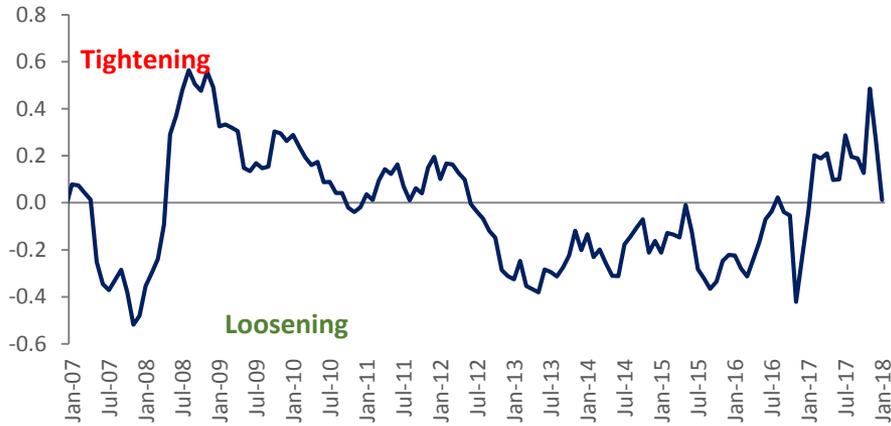
Pharos FCI, reversed | Real Absorption, YoY% (RHS)



Source: Central Bank of Egypt, Pharos research

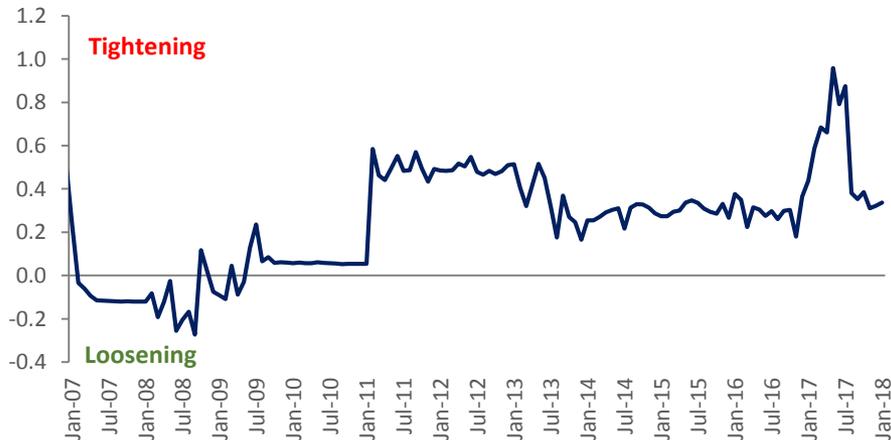
Our estimate for M2 increased in January 2018 by 20.9% YoY. However, the real M2- taking inflation into account- increased by 3.3% YoY. The continuous increase in real M2 reflects the loosening in domestic liquidity.

Real broad money supply sub-index



The overnight interbank spread remained unchanged at 0.3% below the mid-corridor policy interest rate as both policy rates and O/N interbank rate remain unchanged.

Overnight interest rate spread



The real effective exchange rate index depreciated marginally from 76.22 in December to 75.70 in January, partly due to the higher inflation differential between Egypt and its main trading partners. However, REER depreciation enhances Egypt's export competitiveness.

Real effective exchange rate sub-index



The slope of the yield curve is still inverted reflecting more tight conditions in the short term. Moreover, it slightly widened from 3.04% in December to 3.28% in January.

Yield curve slope



Methodology

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 five 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. The overnight interbank spread.
4. The yield curve slope.
5. Real effective exchange rate (REER).

Pharos Securities - Sales and Trading

Essam Abdel Hafiez
Managing Director
+202 27393687
essam.abdelhafiez@pharosholding.com

Ahmed Raafat
VP Local Institutional Sales
Local Institutional Sales
+202 27393627
ahmed.raafat@pharosholding.com

Seif Attia
Head of Local Sales
+202 27393682
seif.attia@pharosholding.com

Ahmed Abutaleb
Head of Foreign Sales
+202 27393632
ahmed.abutaleb@pharosholding.com

Sherif Shebl
AVP of Foreign Sales
+202 27393634
sherif.shebl@pharosholding.com

Omar Nafie
Associate of Foreign Sales
+202 27393635
foreignsales@pharosholding.com

Sally Refaat
Head Online Trading
+202 27393675
sally.refaat@pharosholding.co

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