

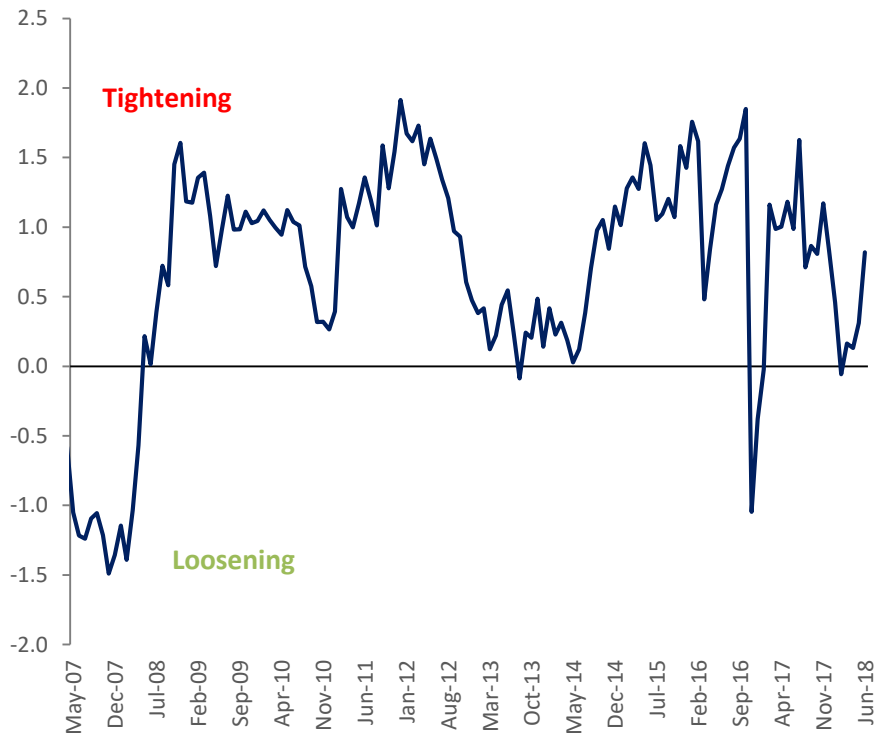


July 19, 2018

The Pharos Financial Conditions Index (FCI) has strongly risen in June. Staying in the tightening phase has been confirmed by all indicators and is driven by the slower acceleration in the real broad money supply, the lower competitiveness of the Egyptian exports, the lower liquidity in the banking sector and the stable slope of Egypt's inverted yield curve.

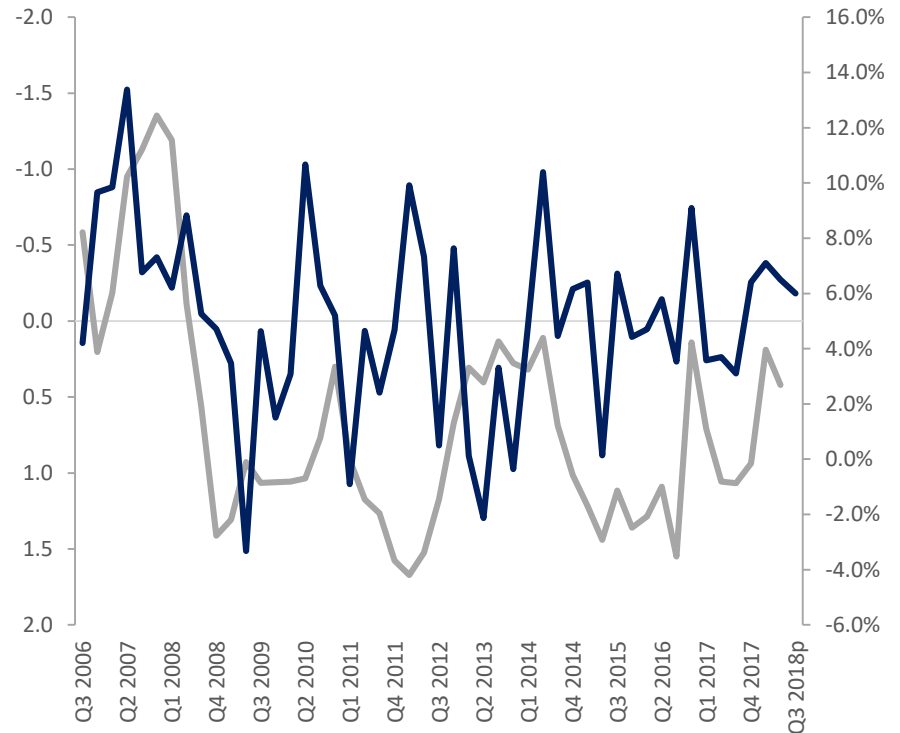
In the light of June data, we lowered our demand growth forecast in Q3 2018, despite the recent high real GDP growth figures announced by the government. This indicates an upside in demand risks due to the current inflation path driven by the fiscal consolidation impact expected in Q3 2018.

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

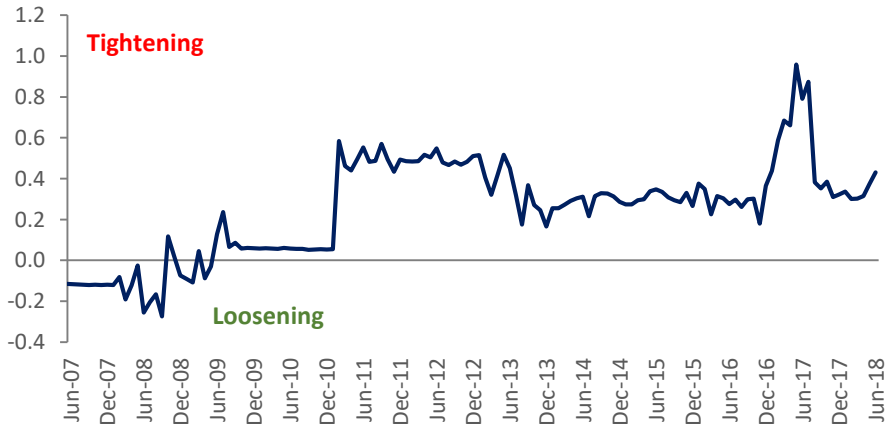
M2 increased in June 2018 by 17.12% YoY and 0.6% MoM. However, the real M2- taking inflation into account- increased by only 2.4% YoY that is lower than the normal level, compared to 7% YoY in May 2018.

Real broad money supply sub-index



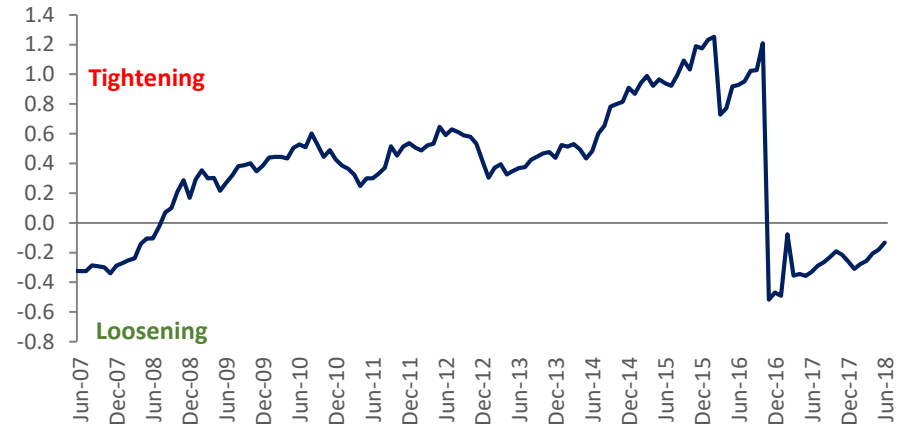
The overnight interbank rate has stayed below the mid-corridor rate by 0.17% in June. However, it reflects the lowest level of liquidity available in the banking sector in 11M period.

Overnight interest rate spread



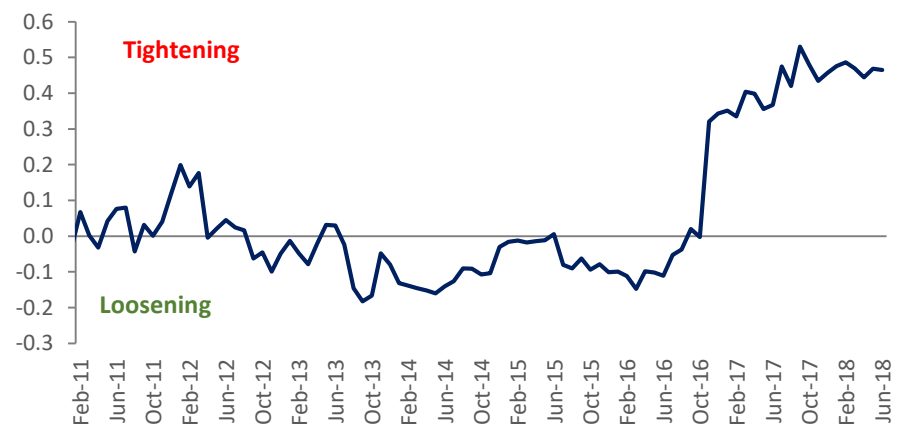
The real effective exchange rate index appreciated from 77.54 in May to 79.19 in June 2018, despite the depreciation in the EGP nominal exchange rate by 0.27% MoM. Egypt's exports are still competitive, though.

Real effective exchange rate sub-index



The slope of Egypt's inverted yield curve has slightly flattened from 3.18% in May to 3.13% in June, which reflects continuous tight conditions in the short term.

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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