



December inflation picks up; remains within target

Inflation picks up; driven by the base effect and price stability

Inflation in December 2019 rose to 6.8% YoY for total Egypt against 2.6% in November, breaking the 6-month long decline started in May 2019. The acceleration in December relies on the base effect as the 12.0% YoY inflation in December 2018 was lower than the previous 4 months ranging from 13.5% YoY in July 2018 to 19.0% YoY in October 2018 and 15.6% YoY in November 2018.

Annually, the highest growing category remains Education, growing at 28.5% YoY followed by Transportation as well as Recreation & Culture, growing at 15.0 % and 13.2% YoY in December. Worthy of attention is the Food & Beverages category turning positive after 3 consecutive months of negative growth rates, growing at 0.1% YoY in December against -6.4% YoY in November (its lowest recorded growth rate); representing a halt in price instability and signaling a potential stability in food prices.

Monthly inflation in December grew at -0.2%, down from -0.5% in November. The highest growing categories were Clothing & Footwear, Healthcare, and Restaurants & Hotels; all growing at a mere 0.2% MoM while the remaining categories remained almost stable. The Food & Beverage category slowed down to -0.8% MoM in December from -1.6% in November as all food items, with the exception of Meat saw their prices decline, such as Cooking Oils and Sugar & Jam falling -6.3% and -6.8% MoM respectively.

The inflation reading for urban Egypt jumped to 7.1% YoY and -0.2% MoM in December, compared to 3.6% YoY and -0.3% MoM in November. The acceleration in annual inflation was driven by the Food & Beverage category recording negative growth rates of 4.6%, although slightly offset by a jump in Education of 21.8% YoY and in Transportation growing at 16.0% YoY.

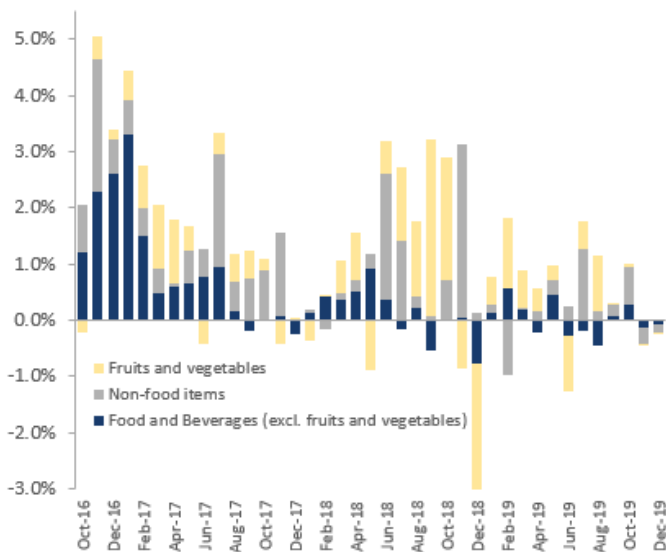
Inflation driven by its heaviest constituents: Food and Utilities

Annual inflation in December was mostly driven by Food & Beverages contributing to 2.2% of the total 6.8% YoY inflation, followed by Housing & Utilities responsible on its own for another 1.8% of YoY inflation. The remaining categories had minimal participation in total inflation of December. These are the top 2 categories in terms of weight in the CPI basket, hence their key impact as they account for 35.8% and 18.1% of total CPI respectively.

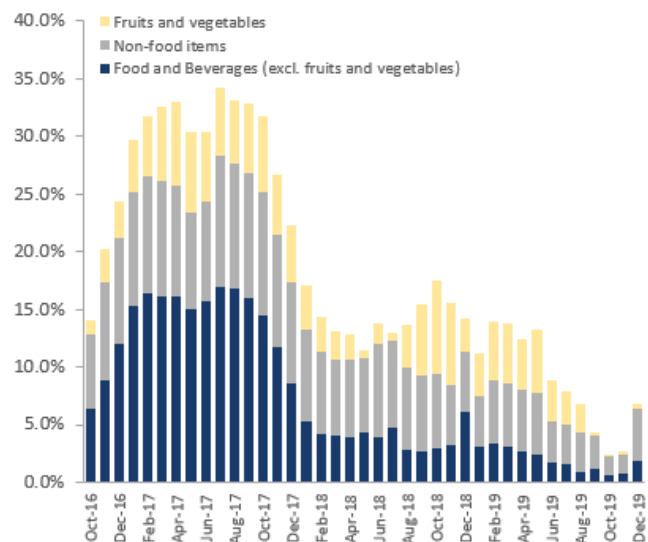
The Food & Beverages category was mostly impacted by the Meat & Poultry category given its weight of 10%; the heaviest item in the Food category, which alone accounted for 0.6% YoY inflation from the total 2.2% YoY Food & Beverage Inflation. Followed by Vegetables and Cheese & Dairy, each adding another 0.3% to total YoY inflation.

On the monthly level, the main contributor to inflation was Food & Beverages responsible for -0.1% from the total -0.2% MoM inflation, while the remaining categories remained stable with zero to minor change in December.

Chart 1: Contribution of major items to monthly inflation **Chart 2: Contribution of major items to annual inflation**



Source: Pharos Research, CAPMAS



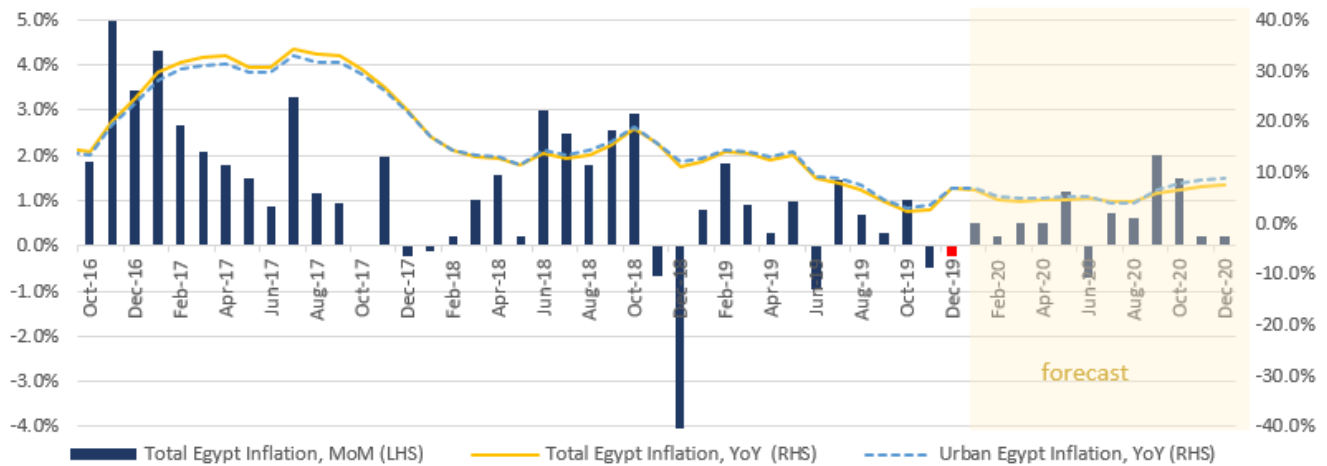
Source: Pharos Research, CAPMAS

Inflation to remain below 7% until December 2020

Inflation for total Egypt in December came above our expectations of -1.0% MoM and 6.0% YoY, and has ended 2019 with an average of 8.8% YoY inflation, close to our forecast of 9.0% for the year. Going forward, the relatively lower inflation rates recorded in January 2019 through May 2019 compared to 2H2018 should create bigger room for YoY growth over the coming months and break with the record-low levels seen from June 2019 to November 2019. Hence, inflation is forecasted to **record** 6.5% YoY and 0.5% MoM in January 2020, then fluctuate within 4.5-6.5% YoY during 1Q2020.

According to our forecasts, inflation should end FY2019/20 with an average of 5.1% YoY. Additionally, we see inflation remaining in the single digits, and within the CBE's monetary policy target of 9% (+/-3%) all through 2020

Chart 3: Inflation Reading



Source: Pharos Research, CAPMAS

No rate cut on January 16th

We expect the CBE to hold rates constant on January 16, in light of the uptick in inflation, in order to assess the impact of the previous rate cuts, and in light of geopolitical unrest in the region, but to start resuming a less aggressive easing cycle in 2020 whereby we expect a 200-300bps cut in rates over the course of the calendar year.

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ANALYST CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON LAST PAGE OF THIS REPORT

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