

Egypt – Impact of surging oil and food prices

Pressure on budget, external balance, and inflation; a large rate hike can stabilize the EGP-USD and FX reserves

- Inflation pressure (8.8% y/y and 1.6% m/m in Feb) is mitigated mainly due to administrative prices of bread and fuel, even as global food inflation reached 3% m/m and 20% y/y in February. We expect inflation to accelerate to 9.9% y/y in March.
- The pressure on Egypt's budget is significant (i.e., food and fuel subsidies), with an impact of 3.5% of GDP if current controlled prices persist. Public CAPEX may need to be reined in to ease the fiscal strain. The pressure on the current account from food prices and drop in tourism is limited to 1.5% of GDP, which will widen the CA deficit to 5.2%.
- We expect a sharp rate hike at the next CBE meeting of 200-300bps, much larger than the 50bps anticipated by consensus. This will be enough to reestablish interest rate parity implied in the forward rates, and to anchor the EGP-USD peg and FX reserves.
- Credit spreads of Eurobonds sharply widened over the last week, despite yesterday's rebound, wider than other single B-rated countries. We expect USD 15bn in deposits provided by the GCC to be rolled over, and welcome further support from SWFs by placing new deposits/investments in the Eurobonds. We remain UW Egyptian equities.

We increase our inflation rate forecasts to almost 10% next month. CPI rose 8.8% y/y (vs. ACe: 8.8%) in Feb, up from 7.3% in Jan, just within the CE's 5-9% target range. On a monthly basis, CPI was up 1.6% (vs. ACe 1.6% and 0.9% in Jan) and we pencil in 9.9% in March (+1.8% m/m), sheltered by administrative prices of bread and fuel. We could see a much larger surge in inflation if Egypt adjusts fuel (and less likely bread), which could push inflation well above the 10% handle, outside the CBE's 5-9% target range. Food scarcity is a latent issue, as it imports 26% of its corn from Ukraine and 86% of its wheat from Russia and Ukraine. However, it has 4 months of inventory of wheat and the local production could last another 4 months, limiting the short-term food scarcity issues.

Current account deficit to widen to 5.2%. The sharp rise in food prices (but not oil) will have a large impact on the current account, coupled with a collapse in Russian and Ukrainian tourism. We estimate the negative effect on the current account of 0.8% from higher food prices (mostly due to corn and wheat of USD 2.1bn each per year) and 0.8% from lower tourism receipts (as 30% of tourism is from Russia/Ukraine, with an estimated impact USD 3bn).

Pressure on fiscal deficit of c3.5%, import curbs and spending may weigh on growth. We estimate a negative effect on the fiscal account of 2.0% of GDP (USD 9bn) if Egypt does not increase fuel prices, and 1% (USD 4bn) due to bread subsidies. Fuel subsidies are now only 0.3% of GDP, and bread subsidies are 0.7%. We expect a slowdown in public investments to mitigate the fiscal and current account impact, further weighing on economic growth. Coupled with a slowdown in tourism, and a higher CPI, this could knock off 2-3ppt from real GDP growth. We also expect measures to curtail imports.

Policy rates will need to be adjusted by c300bps, much more than consensus anticipates, in line with pressure on forward rates, to avoid a currency depreciation. We expect the MPC to sharply raise rates at the next meeting (March 24-25), even as the US Fed will only hike rates by 25bps (March 15) and has, at the margin, turned more dovish in response to the surging energy and commodity prices. Availability of USD and the stability of the EGP remain key priorities for the CBE, in our view. With inflation possibly reaching close to 10% in March, to keep the carry trade continuing, and a low tolerance to see FX reserves slip, we now expect a rate hike in the range of 200-300bps at the next meeting. The Egypt pound forwards have spiked to 21844bps or 14% vs. spot, and prices in interest rates of 12.5% in 12-month time (vs US Libor12M of 1.4%), up 325bps from current policy rates. As such, we expect CBE to match the implied forward interest rates, with a large upfront adjustment in March, more than the 50bps the consensus expects, a better option than a depreciation for the CBE.

The positive role of IMF (exposure USD 19bn) and the GCC (USD 15bn). We expect the USD 15bn deposits from GCC countries to be rolled forward, but we think Egypt will need more support from the GCC, for example through an investment in the Eurobonds as sign of strong commitment, or new deposit injections. We also think Egypt can draw additional funding from the IMF, as it continues to meet the criteria, with current IMF loans at USD 19bn, second largest after Argentina. However, as a condition for a much larger IMF package, the CBE could be forced to let the effective EGP-USD peg go, which is overvalued on a REER by 10-15%, on our estimates. We expect the CBE to resist a devaluation.

CBE's low tolerance to see FX reserves come down. FX reserves have steadily increased, now at USD 41bn. However, the NFA position of the banks has deteriorated to EGP 11.5bn, or USD 0.7bn as they attracted USD liquidity to fund future FX loans commitments. About USD 29bn of USD being allocated to T-bills by foreigners. Access to the Eurobond market is effectively cut off (USD 4.4bn in new funding FY21/21). As a result, we expect CBE to target fresh inflows by sufficiently raising rates. We also expect public banks (NBE, Banque du Caire, Banque Misr) to hike CD rates ahead of the next MPC meeting.

Selection is key in Egypt as we remain cautious about the equity market. Valuations will remain compressed as local investors could increase their T-bill holdings after the expected rate hike(s). We only have a 5.5% weight in Egypt in our MENA model portfolio (ex 2% in CEY LN, a gold miner), after more than halving our position Ytd. Our positions are COMI (2.5%, a beneficiary of higher interest rates), ABUK and MFPC (0.5% and 1%, as beneficiaries of higher urea prices, with gas prices fixed, for now) and TMGH (0.5%, as an index play as we expect it to replace FWRY or HRHO after the FAB bid).

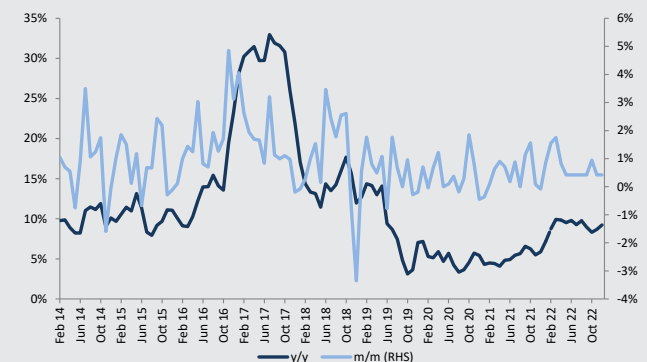
Key Charts

Inflation y/y vs. discount rate



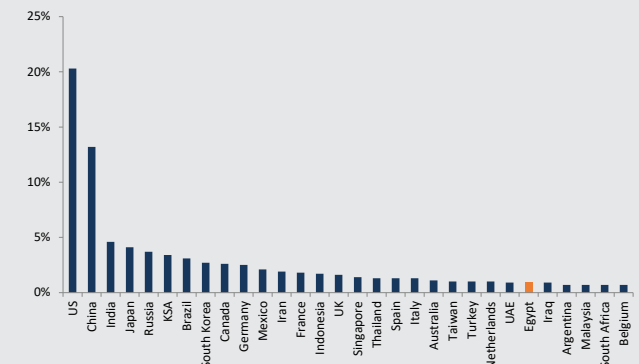
Source: CBE, Arqaam Capital Research

Inflation – y/y vs. m/m



Source: CBE, Arqaam Capital Research

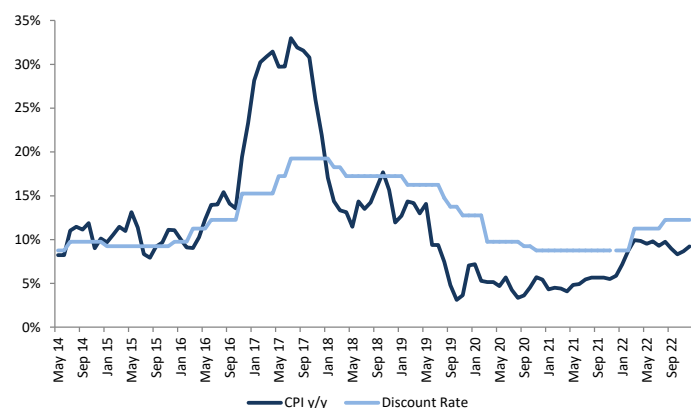
Top 30 Oil Consumers – Egypt consumes 0.9% of world share



Source: Bloomberg, Arqaam Capital Research

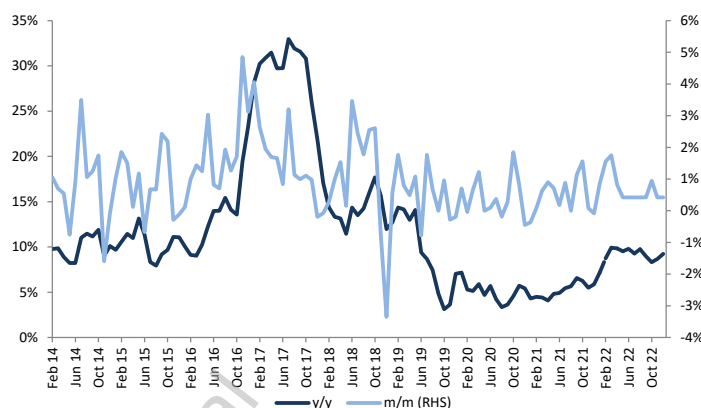
Revised Inflation Forecasts, upward risk if price controls are lifted

Exhibit 1: CPI y/y vs. discount rate



Source: CBE, Arqaam Capital Research

Exhibit 2: CPI – y/y vs. m/m



Source: CBE, Arqaam Capital Research

Exhibit 3: 2022 m/m Inflation Estimates

m/m	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22
FOOD AND NON ALCOHOLIC BEVERAGES	2.02%	3.00%	3.50%	2.00%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
TOBACCO	0.17%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
CLOTHING AND FOOTWEAR	0.45%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
HOUSING, WATER, ELECTRICITY, GAS AND FUEL	0.53%	2.70%	3.00%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
FURNITURE AND EQUIPMENTS	0.83%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
HEALTH	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
TRANSPORT	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
COMMUNICATION	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
RECREATION AND CULTURAL	0.07%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
EDUCATION	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	7.00%	0.00%	0.00%
HOTELS, CAFES AND RESTAURANTS	0.50%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%
MISCELLANEOUS	0.26%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Total	0.85%	1.55%	1.75%	0.82%	0.42%	0.42%	0.42%	0.42%	0.42%	0.95%	0.42%	0.42%

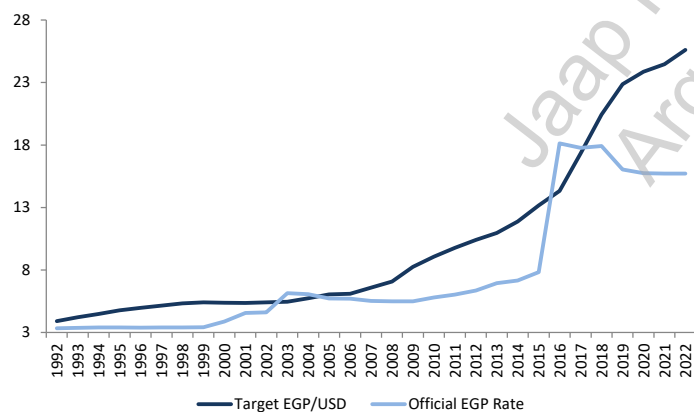
Source: CBE, Arqaam Capital Research

Exhibit 4: 2022 y/y Inflation Estimates

y/y	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22
FOOD AND NON ALCOHOLIC BEVERAGES	12.46%	15.84%	17.28%	16.96%	16.03%	16.68%	17.00%	17.88%	14.74%	14.44%	15.83%	17.77%
TOBACCO	3.44%	1.38%	1.30%	1.30%	1.56%	1.47%	-0.09%	-0.09%	0.09%	0.09%	0.17%	0.17%
CLOTHING AND FOOTWEAR	3.46%	4.25%	4.54%	3.08%	1.66%	1.94%	1.94%	2.03%	2.79%	2.41%	0.73%	0.45%
HOUSING, WATER, ELECTRICITY, GAS AND FUEL	4.66%	7.00%	10.41%	11.06%	11.01%	11.67%	9.54%	10.09%	10.64%	11.19%	11.25%	11.22%
FURNITURE AND EQUIPMENTS	3.29%	3.45%	3.51%	3.58%	3.74%	3.52%	3.58%	3.46%	3.52%	3.59%	3.66%	3.63%
HEALTH	2.73%	2.90%	2.98%	3.15%	3.32%	3.32%	3.49%	3.66%	3.57%	3.65%	3.04%	3.04%
TRANSPORT	4.89%	4.89%	4.98%	3.35%	2.68%	2.60%	2.60%	1.93%	1.44%	0.72%	0.48%	0.00%
COMMUNICATION	0.67%	0.86%	0.86%	0.86%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	0.00%	0.00%
RECREATION AND CULTURAL	14.74%	15.51%	15.98%	16.37%	16.55%	14.42%	9.54%	10.00%	10.47%	4.75%	5.19%	5.72%
EDUCATION	12.72%	12.72%	12.72%	12.72%	12.72%	12.72%	12.72%	12.72%	12.72%	7.00%	7.00%	7.00%
HOTELS, CAFES AND RESTAURANTS	3.40%	3.64%	3.97%	4.30%	4.53%	4.78%	5.02%	5.26%	5.15%	5.48%	4.94%	5.01%
MISCELLANEOUS	3.62%	4.05%	4.57%	4.63%	5.06%	5.40%	4.55%	4.98%	5.33%	5.67%	5.93%	5.91%
Total	7.17%	8.80%	9.94%	9.84%	9.52%	9.79%	9.29%	9.75%	8.97%	8.31%	8.68%	9.23%

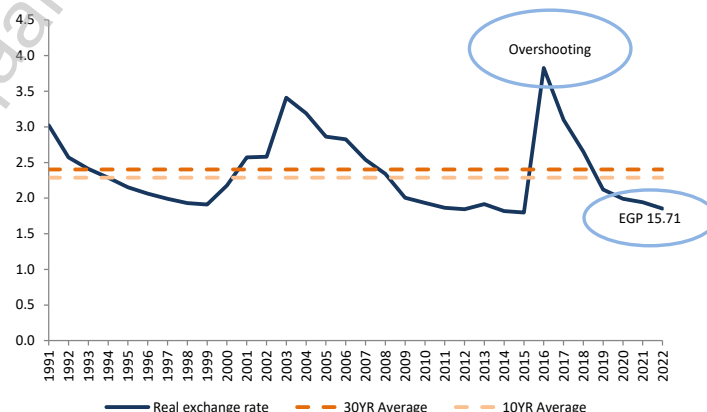
Source: CBE, Arqaam Capital Research

Exhibit 5: Target EGP/USD vs. Official EGP Rate



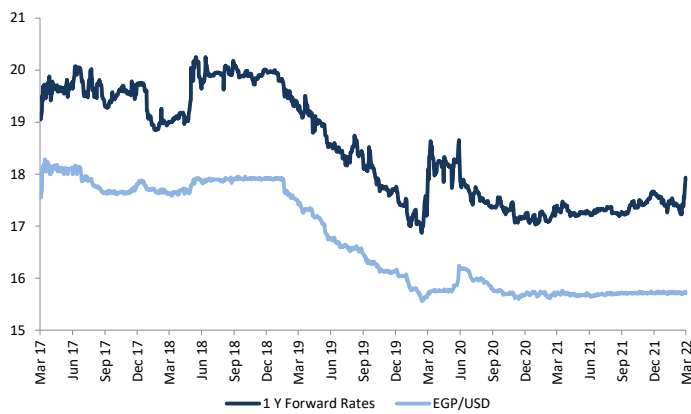
Source: IMF, Thomson Reuters Datastream, Arqaam Capital Research

Exhibit 6: Implied Real Exchange Rate



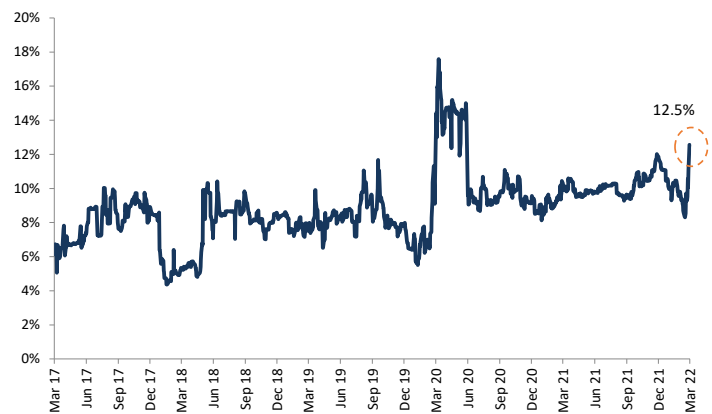
Source: IMF, Thomson Reuters Datastream, Arqaam Capital Research

Exhibit 7: 1 Y Forward Rates vs. Current Rates



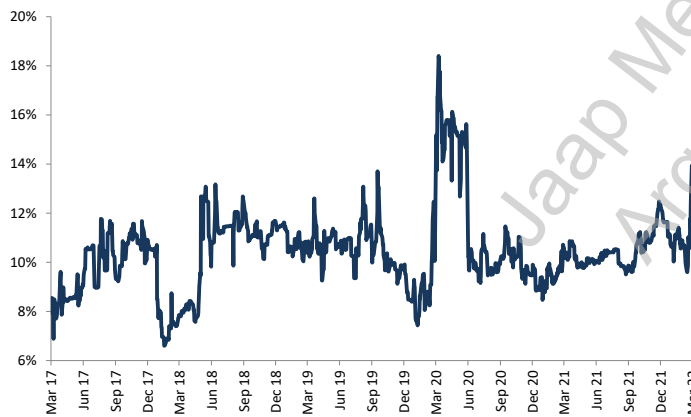
Source: Thomson Reuters Datastream, Arqaam Capital Research

Exhibit 8: 1Y Forward/Current Change vs. 12M LIBOR Spread – pricing in higher interest rates or currency risk



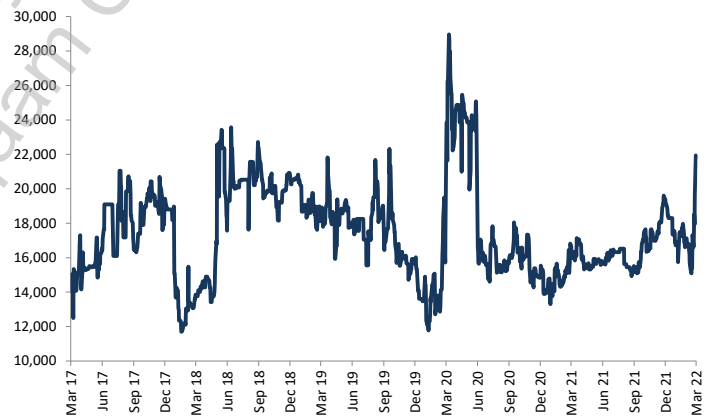
Source: Thomson Reuters Datastream, Arqaam Capital Research

Exhibit 9: 1 Y Forward Rates vs. Current Rates Change



Source: Thomson Reuters Datastream, Arqaam Capital Research

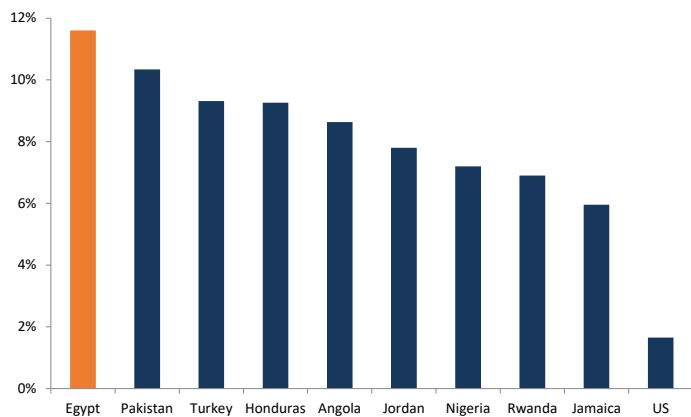
Exhibit 10: 1Y Forward vs. Current Rates Spread in bps



Source: Thomson Reuters Datastream, Arqaam Capital Research

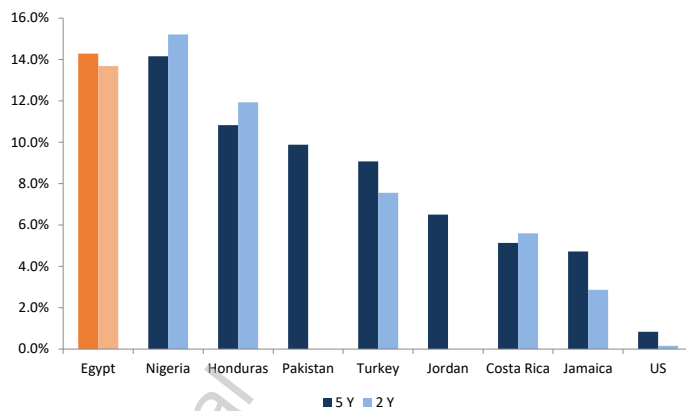
Credit spreads are wider than other single B countries

Exhibit 11: 10 Year Government Bond Yields of other single B (B-to B+ or B3 to B1) rated countries



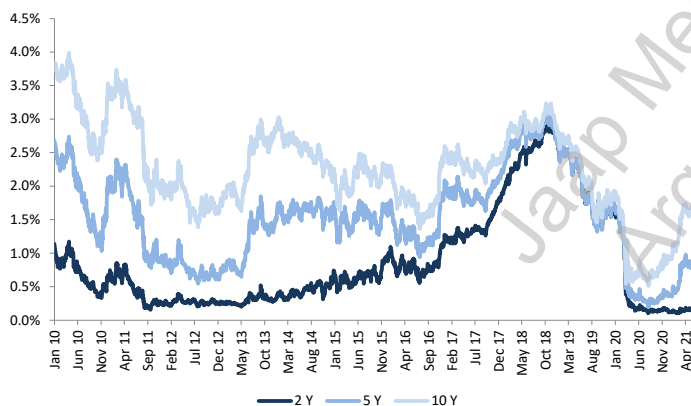
Source: Bloomberg, Arqaam Capital Research

Exhibit 12: 5- and 2-Year Government Bond Yields; Egypt credit spreads widened well above other B rated countries



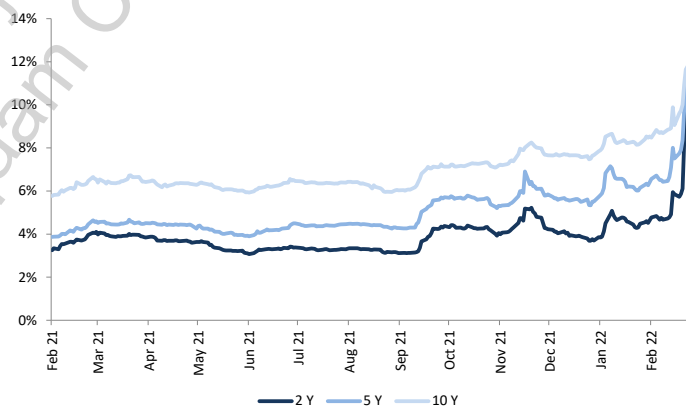
Source: Bloomberg, Arqaam Capital Research

Exhibit 13: US Government Bond Yields



Source: Bloomberg, Arqaam Capital Research

Exhibit 14: Egypt Government Bond Yields



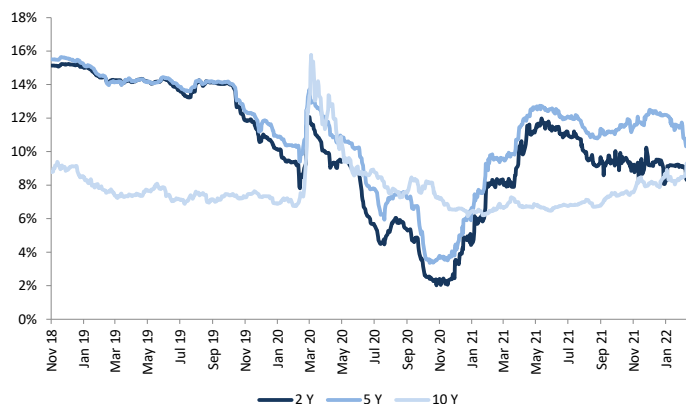
Source: Bloomberg, Arqaam Capital Research

Exhibit 15: Turkey Government Bond Yields



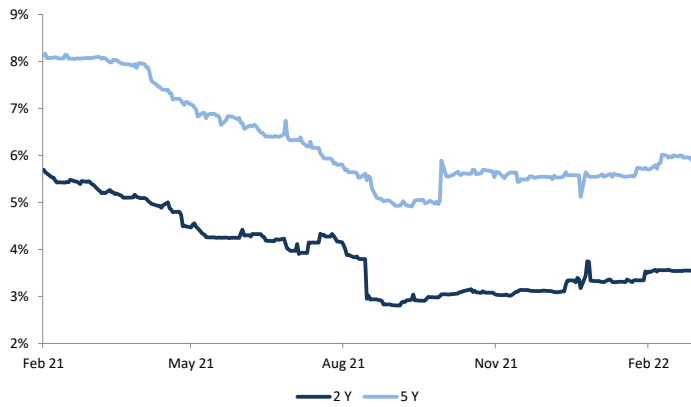
Source: Bloomberg, Arqaam Capital Research

Exhibit 16: Nigeria Government Bond Yields



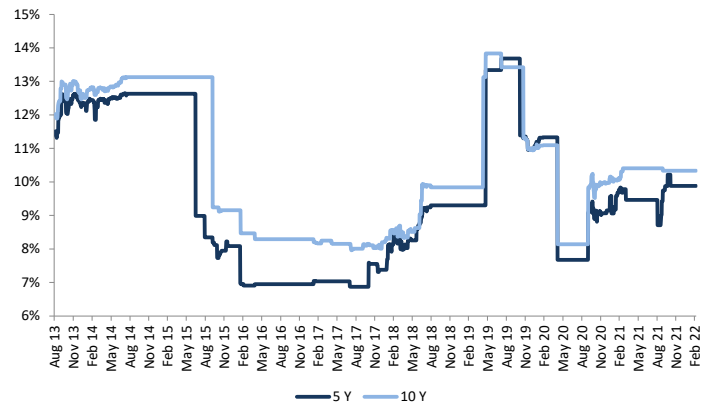
Source: Bloomberg, Arqaam Capital Research

Exhibit 17: Costa Rica Government Bond Yields



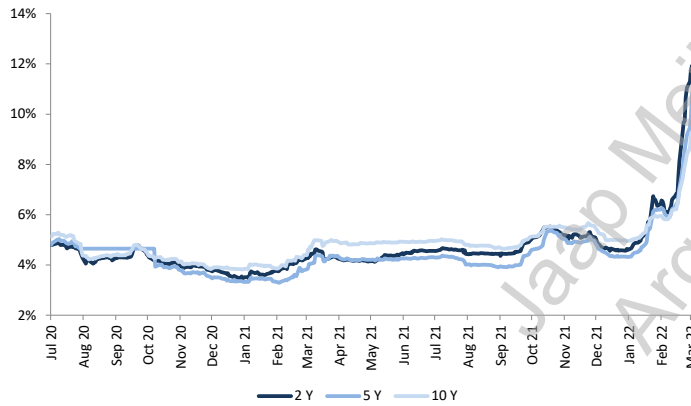
Source: Bloomberg, Arqaam Capital Research

Exhibit 18: Pakistan Government Bond Yields



Source: Bloomberg, Arqaam Capital Research

Exhibit 19: Honduras Government Bond Yields



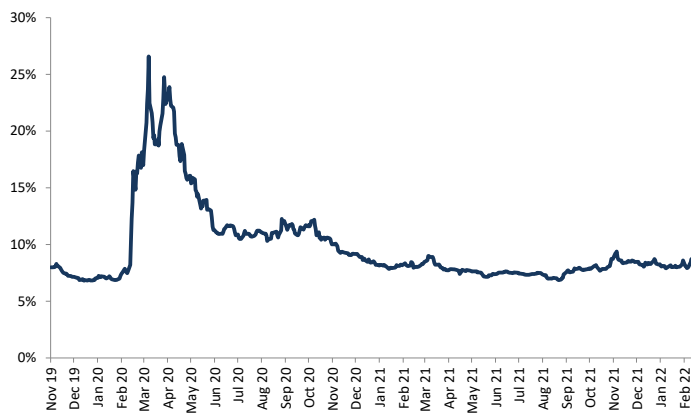
Source: Bloomberg, Arqaam Capital Research

Exhibit 20: Jordan Government Bond Yields



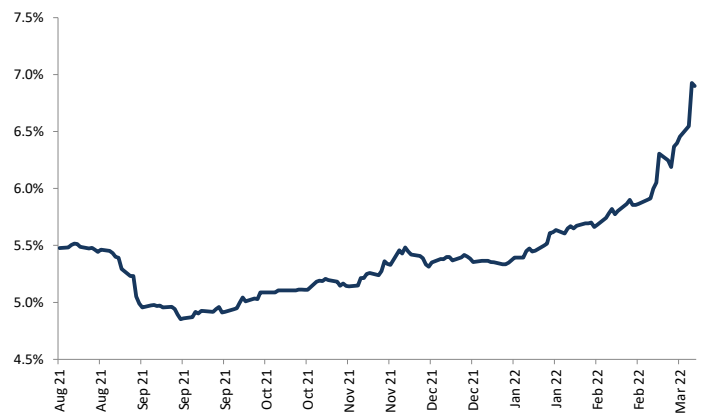
Source: Bloomberg, Arqaam Capital Research

Exhibit 21: Angola 10Y Government Bond Yields



Source: Bloomberg, Arqaam Capital Research

Exhibit 22: Rwanda 10Y Government Bond Yields



Source: Bloomberg, Arqaam Capital Research

Valuations – higher rates to keep valuations compressed

Exhibit 23: EGX30: P/E Ratio



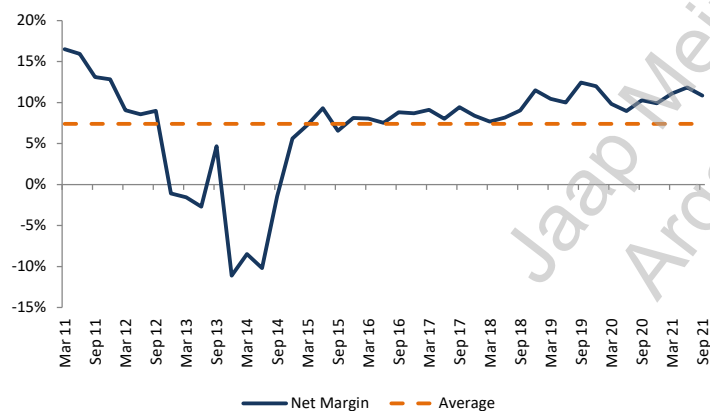
Source: Bloomberg, Arqaam Capital Research

Exhibit 24: EGX30: P/B Ratio



Source: Bloomberg, Arqaam Capital Research

Exhibit 25: EGX30: Net Margin



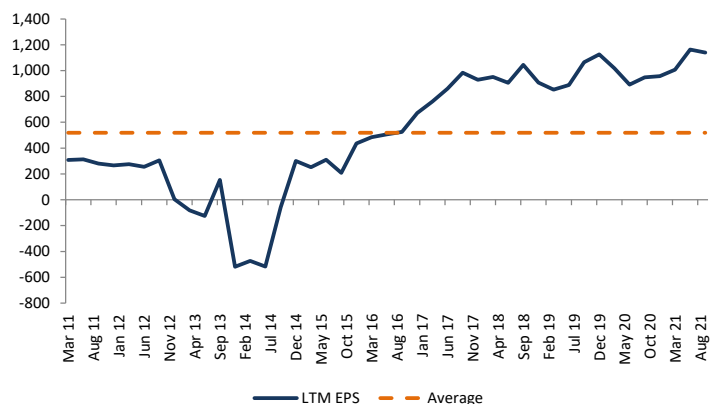
Source: Bloomberg, Arqaam Capital Research

Exhibit 26: EGX70: Dividend Yield



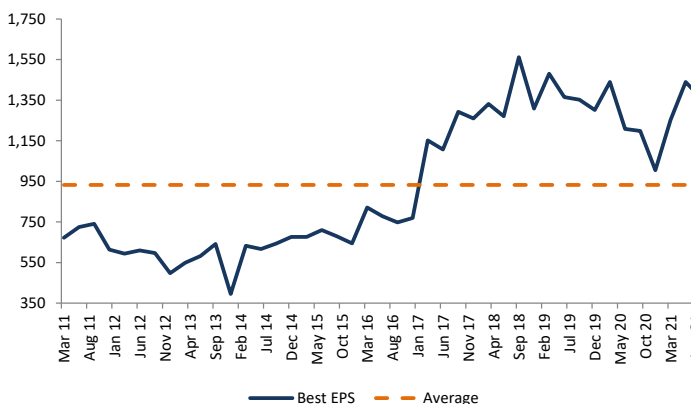
Source: Bloomberg, Arqaam Capital Research

Exhibit 27: EGX30: Trailing EPS



Source: Bloomberg, Arqaam Capital Research

Exhibit 28: EGX70: Consensus EPS



Source: Bloomberg, Arqaam Capital Research

Balance of payments details

Exhibit 29: Exports by Geographical Distribution (USDm)

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Total Exports	21,728.2	25,827.0	28,495.0	26,376.0	28,676.5
EU	7,031.9	8,979.1	10,180.1	8,155.8	8,773.7
Other European Countries	1,712.1	2,126.6	2,068.3	2,033.5	2,631.5
Russia Federation & CIS	213.8	301.2	244.8	282.1	325.5
USA	1,813.3	2,080.7	2,856.0	2,403.8	2,891.8
Arab Countries	6,409.0	6,037.7	6,147.2	6,772.5	6,732.0
Asian Countries (excl Arab)	1,670.1	2,678.9	3,398.6	3,263.4	4,409.5
African Countries (excl Arab)	527.9	670.8	600.9	548.9	606.6
Australia	37.8	33.5	34.5	34.2	42.8
Other countries & regions	2,312.3	2,918.5	2,964.6	2,881.8	2,263.1

Source: CBE, Arqaam Capital Research

Exhibit 30: Total Imports by Geographical Distribution (USDm)

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Total Imports	59,003.0	63,103.0	66,529.4	62,841.1	70,736.1
EU	15,894.0	16,708.8	17,753.4	17,944.0	19,318.0
Other European Countries	4,182.2	4,258.2	5,344.4	4,680.4	5,280.0
Russia Federation & CIS	4,295.2	4,833.3	6,048.3	4,412.5	4,440.7
USA	2,906.0	2,940.6	3,383.8	3,197.5	3,665.1
Arab Countries	10,971.1	12,370.7	12,871.2	12,580.3	13,204.9
Asian Countries (excl Arab)	10,749.3	12,558.5	14,420.2	14,508.3	17,403.8
African Countries (excl Arab)	794.6	697.3	461.6	397.5	437.4
Australia	233.7	279.9	384.2	315.5	291.8
Other countries & regions	8,976.9	8,455.7	5,862.3	4,805.1	6,694.4

Source: CBE, Arqaam Capital Research

Exhibit 31: Balance of Payments (USDm)

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Trade Balance	(37,274.8)	(37,276.0)	(38,034.4)	(36,465.1)	(42,059.6)
Export Proceeds	21,728.2	25,827.0	28,495.0	26,376.0	28,676.5
Petroleum Exports	6,589.5	8,773.0	11,557.0	8,479.9	8,597.2
Other exports	15,138.7	17,054.0	1,638.0	17,896.1	20,079.3
Import payments	(59,003.0)	(63,103.0)	(66,529.4)	(62,841.1)	(70,736.1)
Petroleum imports	(12,015.5)	(12,489.8)	(11,548.9)	(8,900.9)	(8,603.9)
Other imports	(46,987.5)	(50,613.2)	(54,980.5)	(53,940.2)	(62,132.2)
Service Balance	5,614.2	11,122.4	13,036.5	8,972.5	5,119.0
Receipts	15,400.1	21,486.9	24,423.6	21,288.9	15,995.1
Transportation	7,911.2	8,707.9	8,600.3	7,881.1	7,527.7
Of which: Suez Canal dues	4,945.3	5,706.7	5,730.7	5,805.7	5,911.2
Travel (Tourism Revenues)	4,379.9	9,804.3	12,570.6	9,859.4	4,861.5
Government Receipts	776.4	636.7	718.8	758.5	513.1
Others	2,332.8	2,338.0	2,533.9	2,789.9	3,092.8
Payments	9,785.9	10,364.5	11,387.1	12,316.4	10,876.1
Transportation	1,332.1	1,480.2	1,792.4	2,050.1	1,812.2
Travel (Tourism Revenues)	2,739.9	2,451.5	2,902.9	3,213.0	2,708.2
Government Expenditures	1,124.1	1,493.5	692.4	975.8	1,246.6
Others	4,589.8	4,939.3	5,999.4	6,077.5	5,109.1
Investment Income Balance	(4,568.5)	(6,279.6)	(11,009.6)	(11,354.0)	(12,399.2)
Receipts	497.9	835.4	1,014.1	942.1	572.9
Payments	5,066.4	7,115.0	12,023.7	12,296.1	12,972.1
Of which: Interest Paid	1,231.9	1,414.1	2,574.1	2,947.7	2,518.7
Current Transfers	21,835.1	26,470.9	25,113.6	27,679.9	30,903.4
Private (net)	21,686.1	26,264.7	24,763.1	27,461.8	3,110.3
Of which: Remittances of Egyptians working abroad	21,816.3	26,392.9	25,150.8	27,758.0	31,425.3
Official (net)	149.0	206.2	350.5	218.1	(276.9)
Balance of Current Account	(14,394.0)	(5,962.3)	10,893.9	(11,166.7)	(18,436.4)
Capital & Financial Account	31,015.1	21,996.5	10,856.9	5,374.6	23,374.0
Capital Account	(113.3)	(150.7)	(129.2)	(248.5)	(153.0)
Financial Account	31,128.4	22,147.2	10,986.1	5,623.1	23,527.0
Direct Investment abroad	(175.1)	(271.2)	(374.0)	(351.2)	(379.1)
Direct Investment in Egypt (net)	7,932.8	7,719.5	236.3	7,453.0	5,214.2
Portfolio investment abroad	208.4	(20.8)	(96.4)	(818.1)	(750.7)
Portfolio investment in Egypt (Net)	15,985.3	12,094.8	4,230.1	(7,307.3)	18,742.4
Of which: Bonds	5,491.5	5,293.2	5,094.2	4,594.9	4,548.9
Other Investments (Net)	7,177.0	2,624.9	(1,009.9)	6,646.7	700.2
Net Borrowing	9,699.2	10,278.8	6,253.4	4,541.6	7,964.7
Medium and Long Term Loans	5,156.8	6,738.5	3,333.7	7,216.8	4,263.7
Disbursements	7,641.1	8,846.4	5,525.2	9,253.1	6,502.4
Repayments	(2,484.3)	(2,107.9)	(2,191.5)	(2,036.3)	(2,238.7)
Medium and Long term Suppliers' Credit	2,795.1	1,118.5	828.8	(644.9)	2,173.6
Disbursements	2,912.2	1,313.6	1,160.8	34.3	3,304.1
Repayments	(117.1)	(195.1)	(332.0)	(679.2)	(1,130.5)

Source: CBE, Arqaam Capital Research

Exhibit 32: Balance of Payments (USDm) - Continued

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
ST Suppliers' Credit (Net)	1,747.3	2,421.8	2,090.9	(2,030.3)	1,527.4
Other Assets	(12,095.7)	(4,511.9)	8,881.6	(100.4)	(6,039.4)
CBE	(27.5)	(116.4)	(23.4)	(231.7)	(115.4)
Banks	(9,462.5)	2,161.7	(1,764.7)	4,306.4	(5,014.6)
Others	(2,605.7)	(6,557.2)	(7,093.5)	(4,175.1)	(909.4)
Other Liabilities	9,573.5	(3,142.0)	1,618.3	2,205.5	(1,225.1)
CBE	8,128.6	(3,879.2)	1,537.8	(141.0)	(2,734.9)
Banks	1,444.9	737.2	80.5	2,346.5	1,509.8
Net Errors & Omissions	(2,903.9)	(3,246.5)	(65.5)	(2,795.1)	(3,075.9)
Overall Balance	13,717.2	12,787.7	(102.5)	(8,587.2)	1,861.7
Change in CBE Reserves Assets	(13,717.2)	(12,787.7)	102.5	8,587.2	(1,861.7)
Indicators					
Merchandise Exports / Merchandise Imports	36.8%	40.9%	42.8%	42.0%	40.5%
Service Receipts / Service Payments	157.4%	207.3%	214.5%	172.9%	147.1%
Current Receipts / Current Payments	80.5%	92.6%	87.9%	87.2%	80.5%
Trade Balance/GDP	-15.9%	-14.9%	-12.6%	-10.0%	-10.4%
Current Account/GDP	-6.1%	-2.4%	-3.6%	-3.1%	-4.6%
Overall Balance/GDP	5.8%	5.1%	0.0%	-2.4%	0.5%
FDI in Egypt (Net)/GDP	3.4%	3.1%	2.7%	2.0%	1.3%

Source: CBE, Arqaam Capital Research

Exhibit 33:

	Jul/Sept 2020/2021					
	Exports		Imports		Volume Trade	
	Value (USDm)	%	Value (USDm)	%	Value (USDm)	%
Total	6,280.6	100.0%	14,839.9	100.0%	21,120.5	100.0%
Main Trade Partners	3,951.8	62.9%	9,968.5	67.2%	13,920.3	65.9%
China	34.2	0.6%	1,939.7	13.1%	1,973.9	9.4%
USA	527.7	8.4%	748.9	5.0%	1,276.6	6.0%
KSA	316.3	5.0%	849.8	5.7%	1,166.1	5.5%
UAE	1,000.2	15.9%	1,094.2	7.4%	2,094.4	9.9%
Germany	236.9	3.8%	1,201.1	8.1%	1,438.0	6.8%
Switzerland	313.9	5.0%	480.8	3.2%	794.7	3.8%
India	274.4	4.4%	429.1	2.9%	703.5	3.3%
Italy	353.9	5.6%	558.3	3.8%	912.2	4.3%
Turkey	232.4	3.7%	563.0	3.8%	795.4	3.8%
UK	395.0	6.3%	535.3	3.6%	930.3	4.4%
Belgium	38.3	0.6%	240.5	1.6%	278.8	1.3%
Russia	46.5	0.7%	563.6	3.8%	610.1	2.9%
France	152.4	2.4%	518.2	3.5%	670.6	3.2%
Argentina	29.7	0.5%	246.0	1.7%	275.7	1.3%
Other Countries	2,328.8	37.1%	4,871.4	32.8%	7,200.2	34.1%

Source: CBE, Arqaam Capital Research

Exhibit 34: Exports

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Total Exports	2,178.2	25,827.0	28,495.0	26,376.0	28,676.5
Fuel, Mineral Oils & Products, of which:	6,796.6	8,961.8	11,838.9	8,622.2	8,775.2
Crude oil	3,879.0	4,600.8	4,851.3	3,245.0	2,677.8
Oil product	2,713.5	4,172.2	6,705.7	5,234.9	5,919.4
Raw Materials, of which:	1,891.5	2,235.6	2,394.0	2,703.8	3,167.0
Fresh, chilled, or cooked vegetables	415.9	523.9	516.4	564.8	533.0
Fresh or dried fruits	352.8	474.8	486.7	515.4	522.3
Potatoes	202.9	198.0	271.2	364.7	393.2
Raw cotton	60.2	84.8	112.9	91.8	169.6
Semi-finished goods, of which:	4,006.2	4,277.3	3,657.0	5,240.0	5,439.7
Gold	1,870.1	1,749.2	1,221.5	2,786.9	2,017.1
Ethylene-propylene polymer	515.9	705.5	745.3	499.8	503.5
Organic and inorganic compounds	539.3	568.9	681.2	866.7	1,159.5
Animal or vegetable fats, greases, and oils	143.2	106.6	120.9	200.4	369.5
Pipes, tubes, and hoses	41.1	25.7	21.9	11.5	12.2
Cast Iron	348.6	366.1	245.9	202.8	381.0
Finished goods, of which:	9,027.6	10,351.4	10,604.2	9,808.8	11,293.1
Textiles	771.2	895.5	1,002.8	848.3	646.3
Household electrical appliances	496.4	740.4	648.2	477.9	854.7
Ready-made clothes	649.8	716.2	748.0	793.0	860.8
Milk, Dairy products and cheese	291.7	226.3	250.7	212.1	207.5
Phosphate or mineral fertilizers	761.5	964.8	1,020.4	966.8	1,183.9
Medicines, serums, vaccines, and pharmaceuticals	301.4	391.9	331.5	499.7	501.8
Wires and cables	458.4	542.9	508.9	319.6	584.8
Cane or beet sugar and pure sucrose	210.0	176.7	184.1	163.2	197.8
Aluminum and articles thereof	264.1	344.1	399.6	294.8	445.3
Communication and telephone equipment	297.1	109.3	115.5	44.6	952.7
Passenger vehicles	213.1	76.2	89.3	71.6	56.8
Carpets and other floor coverings	180.9	251.5	219.8	222.3	336.4
Glass & glassware	212.9	297.4	270.2	273.2	310.2
Soap and organic detergents	236.8	233.6	281.5	225.9	212.3
Undistributed Exports	6.3	0.9	0.9	1.2	1.5

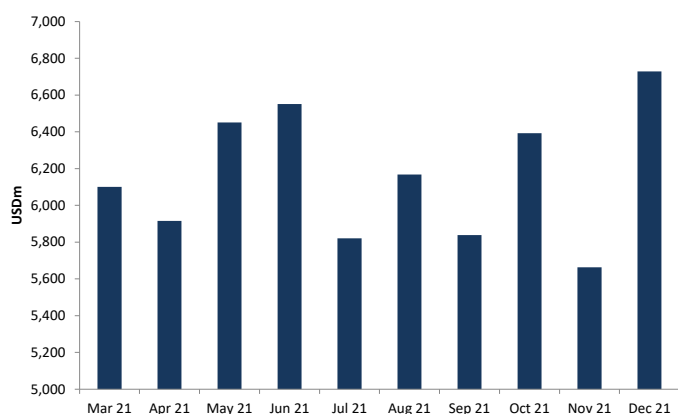
Source: CBE, Arqaam Capital Research

Exhibit 35: Imports

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Total Imports	59,003.0	63,103.0	66,529.4	62,841.1	70,736.1
Fuel, Mineral Oils & Products, of which:	12,367.7	13,007.7	12,110.3	9,344.5	9,014.1
Oil products	10,116.6	9,955.4	8,981.1	4,614.6	5,164.9
Crude Oil	1,898.9	2,534.4	2,567.8	4,286.3	3,439.0
Raw Materials, of which:	6,191.7	5,926.8	6,129.3	6,778.2	7,514.5
Wheat	2,177.1	1,570.9	2,126.6	2,219.0	2,130.0
Iron ore	640.3	495.3	412.2	361.6	420.2
Maize	1,437.4	1,573.1	1,403.6	1,543.1	2,123.7
Raw cane sugar	117.6	68.1	110.0	273.3	168.6
Intermediate Goods, of which:	15,749.7	19,759.8	20,964.6	19,681.0	22,974.8
Spare parts and accessories for cars and tractors	1,280.0	1,280.5	1,765.2	1,628.6	2,055.0
Polypropylene	1,227.6	1,410.2	1,399.8	1,226.0	1,668.5
Organic and inorganic compounds	1,524.3	1,546.8	1,694.6	1,476.8	1,618.0
Spare parts for machines and appliances	1,028.4	1,293.7	1,385.5	1,143.2	1,419.9
Animal and vegetable fats, greases, and oils	1,139.4	1,039.4	1,058.1	1,294.3	1,258.0
Paper and paperboard	203.6	469.0	479.4	598.2	618.0
Investment Goods, of which:	8,806.2	8,927.6	10,555.9	9,053.7	9,583.0
Communication and telephone equipment	495.0	366.5	427.1	407.3	352.4
Liquid and air pumps	614.1	444.7	645.8	448.4	402.4
Data treatment computers	533.2	447.1	819.3	786.6	817.1
Cranes and bulldozers	155.5	146.9	148.0	131.5	178.4
Consumer Goods	12,634.2	12,993.9	14,945.4	16,891.0	18,973.4
A - Durable Goods, of which:	2,764.5	2,755.1	3,787.9	4,945.7	6,003.2
Passenger vehicles	857.6	764.2	1,266.9	1,809.0	2,499.6
Household electrical appliances	465.8	323.1	297.3	352.7	752.5
Televisions	307.2	259.1	505.7	553.7	481.8
B - Non-Durable Goods, of which:	9,869.7	10,238.8	11,157.5	11,945.3	12,970.2
Medicines	1,520.4	1,329.6	1,733.5	1,693.6	2,113.8
Meat and offals	938.5	1,142.3	886.8	862.1	1,048.2
Pharmaceutical preparations, gauze pads, and vaccines	1,165.9	1,072.9	1,141.8	1,471.1	1,402.1
Textiles	886.6	1,098.6	1,289.5	1,244.5	1,291.4
Ready-made clothes	354.8	300.9	376.8	479.3	521.2
Dairy Products	519.2	572.8	554.3	640.7	591.6
Yarn	367.6	314.9	213.1	343.5	308.6
Tea	196.4	243.4	218.1	182.9	196.8
Organic soap and detergents	292.1	264.0	209.8	336.1	338.7
meat preparations	130.7	126.4	164.8	208.8	175.7
Articles for the conveyance or packing of goods	140.3	152.7	121.1	45.5	35.3
Live, fresh, chilled or dried fish	338.7	376.4	473.6	433.2	442.6
Undistributed Imports	3,253.5	2,487.2	1,820.9	1,092.7	2,676.3

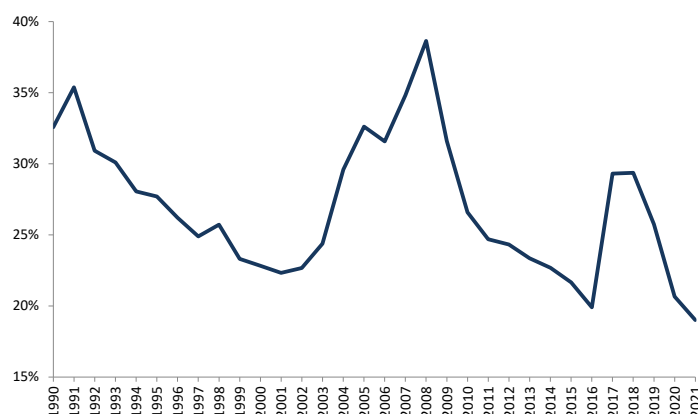
Source: CBE, Arqaam Capital Research

Exhibit 36: Egypt 2021 Monthly Imports



Source: CBE, Arqaam Capital Research

Exhibit 37: Yearly Imports as % of GDP



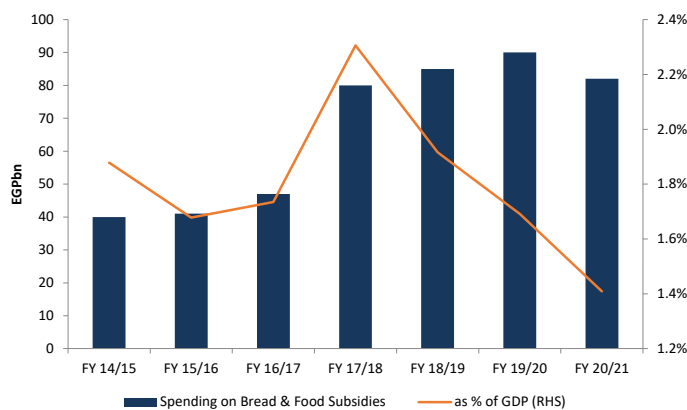
Source: CBE, Arqaam Capital Research

Exhibit 38: IMF Key Economic Indicators (October 2021 Update)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real GDP Growth	4.1%	5.3%	5.6%	3.6%	3.3%	5.2%	5.6%	5.7%	5.8%	5.8%
Nominal GDP Growth	28.1%	27.9%	19.9%	9.8%	7.1%	12.2%	13.6%	13.6%	13.6%	13.5%
Inflation	23.5%	20.9%	13.9%	5.7%	4.5%	6.3%	7.1%	7.1%	7.1%	7.1%
Government Revenues (LCUbn)	755.1	917.2	1,080.2	1,121.4	1,245.3	1,475.2	1,689.1	1,933.0	2,217.5	2,525.7
Government Expenditure (LCUbn)	1,117.0	1,336.0	1,505.2	1,580.9	1,703.6	1,919.3	2,130.6	2,399.7	2,720.4	3,037.8
FA as % of GDP	-10.4%	-9.4%	-8.0%	-7.9%	-7.3%	-6.3%	-5.5%	-5.2%	-4.9%	-4.4%
Gross Debt/GDP	103.0%	92.5%	84.2%	89.8%	91.4%	89.5%	86.2%	82.3%	78.2%	74.1%
CA as % of GDP	-6.1%	-2.4%	-3.6%	-3.1%	-3.9%	-3.7%	-2.7%	-2.6%	-2.6%	-2.6%

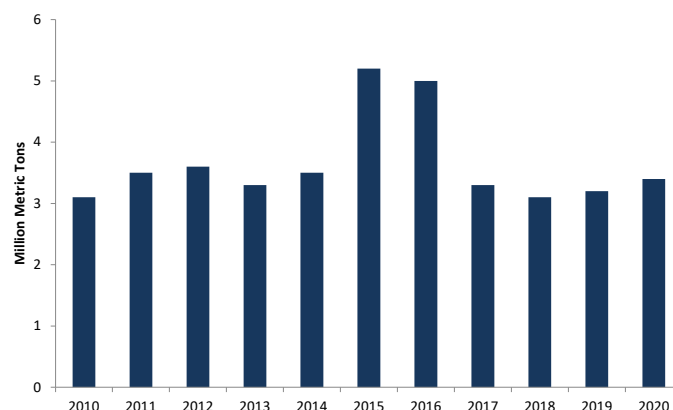
Source: IMF, Arqaam Capital Research

Exhibit 39: Egypt's Spending on Bread and Food Subsidies



Source: FAS Cairo, Arqaam Capital Research

Exhibit 40: Locally Purchased Wheat



Source: FAS Cairo, Arqaam Capital Research

Details bread, corn, and fuel subsidies mechanism

Bread Subsidy System – 90% of the cost of bread: Egypt allocated 150 loaves of subsidized bread/month to recipients, 5 loaves/day. Traditional bread is sold at a subsidized price of EGP 0.05/loaf (<1/10th of the actual cost), and the government compensated bakeries for the difference in production costs. Current cost of subsidizing one loaf of traditional bread is EGP 0.60. Beneficiaries who consume less than the quota amount are allowed to convert their 'savings' into points where EGP 0.01 is equivalent to 1 point. Points are redeemable and beneficiaries can use these points to choose from 28 other food items sold at a 20% discounted price (at MoSIT partnered private grocery stores). The program uses both imported and locally grown wheat (blended to reach the quality of traditional bread). 30,000 bakeries produce 250m to 270m subsidized loaves/d.

Pasta Subsidy: As of Jan 2021, SMART cardholders can buy a kilogram of packaged pasta at a price of EGP 7.6 and ½ a kg at a price of EGP 4. The subsidized pasta is distributed at a 20-25% discounted price vs. retail depending on the brand.

Trade: FAS Cairo forecasts Egypt's wheat imports in FY 21/22 at 13.2MMT (+1.53% y/y). Its largest foreign suppliers are Russia (7.56MMT), Ukraine (1.9MMT), EU-28 (0.39MMT) and Australia (0.25MMT).

Stocks: GASC normally keeps 4-6 months' supply of stocks (including wheat) in the import pipeline and an additional 1-month supply of wheat in transit to Egypt.

Wheat: Egypt's wheat production in FY 21/22 is expected to reach 9MMT, +1.2% y/y attributed to an increase in total area harvested, through the development of cultivation and breeding techniques. The Central Administration for Seed Production of MALR lowered the price of wheat seeds per sack of 30kg by 16% y/y for the planting season of FY 20/21.

Domestic Production: FAS Cairo expects Egypt to procure 3.8-4.0MMT in FY 21/22 of locally grown wheat. The amount of locally grown wheat purchased by the government was 3.27MMT in 2019 and 3.5MMT in 2020. The Ministry of Supply and Internal Trade (MoSIT) sets the price it pays farmers based on international market prices (derived from a moving average of prices paid by MoSIT's General Authority for Supply Commodities (GASC) for imported wheat during previous months). The GASC's governmental wheat purveyors are: The Holding Company for Food industries, The Egyptian Holding Company for Silos and Storage, The General Company for Silos and Storage and the Egyptian Agriculture Bank

Consumption: FAS Cairo forecasts the country's wheat consumption for FY 21/22 to come in at 21.3MMT, +2.4% y/y on the back of a 2.5% increase in food, seed and industrial use (FSI) consumption which is in turn attributed to a population growth (set to reach 119.8m by 2030 according to CAPMAS). Egypt also hosts 5m refugees from Iraq, Syria, Libya, Yemen and Sudan.

Corn Production: FAS Cairo expects corn production to reach 6.4MMT in FY 21/22 (unchanged from the previous year's estimates). Planted areas remain the same as well as harvested areas.

Consumption: Total corn consumption estimates were increased by c.1.2% in FY 21/22 to reach 16.9MMT.

Trade: Egypt's top three suppliers in FY 19/20 were Ukraine (3.15MMT), Brazil (2.63MMT) and Argentina (2.4MMT).

Fuel Subsidies cut by 86% over last 4 years, price hike needed to keep subsidy bill under control: Egypt's bill for subsidizing fuel fell to EGP 17bn in 2021 from EGP 128bn 4 years ago. The Finance of Ministry was able to cut nearly half of its fuel subsidies in FY 20/21 aided by the collapse in global oil prices during the pandemics. Subsidies on most fuel products were lifted during the summer of 2019, raising their prices by up to c.30%. An automatic pricing system that allows prices to move in line with global benchmarks was introduced and has seen two hike prices since. Refined petroleum still accounted for c.7% of Egypt's imports while crude petroleum accounted for c.3%.

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