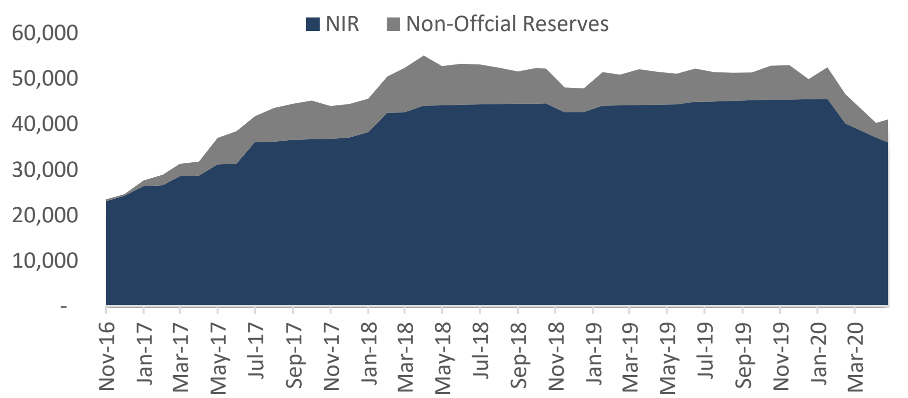
Monday, 8 June 2020 / 12:30 pm CLT
Egypt / Reason for note: International reserves May 2020 reading

Solid buffers and moderate depreciation: The CBE's recipe to deal with COVID-19

Mona Bedeir
Senior Economist
Tel.: +202 3300 5722
MBedeir@egy.primegroup.org

NIR fall at a slower rate; non-official reserves receive a boost from the IMF rapid financing facility: Egypt's net international reserves (NIR) took a USD1.03bn hit in May 2020 after the pandemic outbreak continued to dry up the country's main sources of FX inflows, tourism, and remittances. Nonetheless, non-official reserves accumulated some additional inflows from IMF's rapid financing instrument (RFI) loan and increased by USD1.8bn. **Technically, this means that the country's total reserves have risen by c.USD800mn.** We note that Egypt has successfully tapped the international bond market by selling USD5bn Eurobonds by end of May 2020; however, it seems the May figures did not reflect those inflows, suggesting they should be a part of the June reading. In addition, Egypt will soon be receiving USD5.2bn from the IMF, as per a staff-level agreement announced at the end of last week. Also, the country is seeking another USD4bn from other multilateral institutions.

Chart 1: New fund dulls the COVID-19 pain racking international reserves

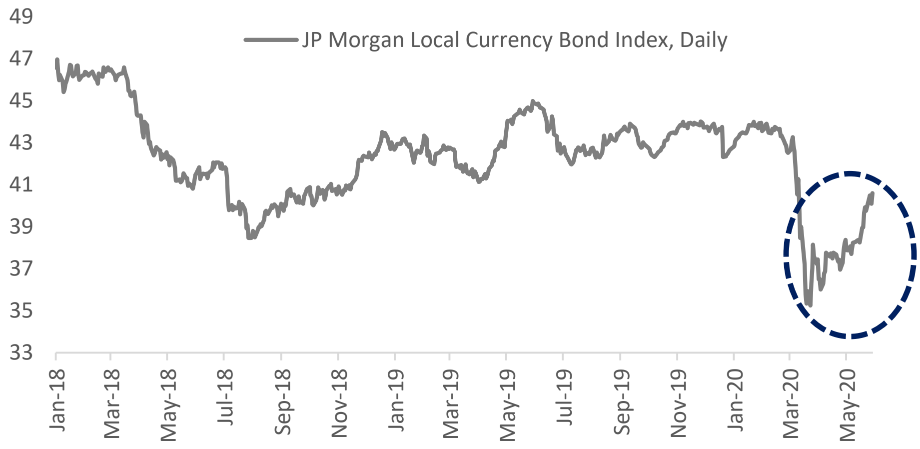


Source: CBE.

CBE takes pre-emptive steps toward building more resilient buffers to shield the economy against protracted uncertainty: Total reserves (official and non-official) stand now at USD41bn, covering in excess of 7.8 months of merchandise imports and 3.6 times short-term external debt. Also, the debt inflows Egypt expects to receive until end of FY20 (seen reaching USD14.2bn) should be enough to service short- and long-term debt obligations totaling USD12bn in H2 FY20, according to the CBE's external position report issued in September 2019). That said, the CBE is likely to roll over most of its debt obligations, including the GCC deposits which account for 51% (equivalent to USD4.7bn) of total long-term debt service in H2 FY20. In our view, the CBE's behavior is cautious, trying to build enough external buffers that would enable it to (1) relieve pressure on the EGP/USD rate, given the growing external debt burden, (2) diversify external debt profile, and (3) preserve an adequate level of foreign reserves.

Moderate depreciation driven by a widening CAD and a faster-than-expected rebound in foreign inflows: We estimate the current account deficit (CAD) to expand by 11% to USD12bn in FY20 or 3.5% of GDP, slightly lower than the 3.6% recorded in FY19. We also expect the rebound in tourism and remittances will not be seen before H2 FY21 (January-July 2021). This should keep the local currency under intense pressures. However, foreign inflows into the local debt market are expected to bounce back in H1 FY21. J.P. Morgan's local currency emerging markets bond index has been showing upward swings since May, reflecting growth in foreign appetite for high-yield assets on the back of (1) significantly low interest rates in advanced economies, (2) FX correction moves in most EMs, (3) a weak US dollar outlook, (4) a massive Fed balance sheet expansion, and (5) a better shape of most EMs in terms of their external buffers compared to 2008, which leads us to believe that the set of blocks halting foreign inflows will not stay long compared to earlier. Currently lucrative real yield on Egypt's local debt instruments, recent correction move in FX rate, and the funds the country received from the IMF should all place Egypt back on the "best carry trade destinations" among EMs. **The rebound in carry trade inflows should support our view that the FX rate will depreciate moderately over the course of 2020 and is expected to end the year at EGP16.8/USD.**

Chart 2: Capital inflows to EMs show signs of recovery



Source: Bloomberg.

Prime Securities

Shawkat El Maraghy
Managing Director
Tel.: +202 3300 5622
SElmaraghy@egy.primegroup.org

Sales

Mohamed Ezzat
Head of Sales & Branches
Tel.: +202 3300 5784
MEzzat@egy.primegroup.org

Mohamed Ashmawy
Head of Institutional Sales
Tel.: +202 3300 5612
MAshmawy@egy.primegroup.org

Amr Alaa, CFTe
Team Head – Institutional Desk
Tel.: +202 3300 5609
AAlaa@egy.primegroup.org

Mohamed El Metwaly
Manager
Tel.: +202 3300 5610
MElmetwaly@egy.primegroup.org

Emad El Safoury
Manager
Tel.: +202 3300 5624
EElsafoury@egy.primegroup.org

Shawkat Raslan
Heliopolis Branch Manager
Tel.: +202 3300 5110
SRaslan@egy.primegroup.org

Mohamed El Henawy
Nasr City Branch Manager
Tel.: +202 3300 5166
MElhenawy@egy.primegroup.org

Nashwa Abuelatta
Alexandria Branch Manager
Tel.: +202 3300 5173
NAbuelatta@egy.primegroup.org

Head Office

Prime Securities S.A.E.
Regulated by FRA License No. 179.
Member of the Egyptian Exchange.
2 Wadi Elnil St., Liberty Tower, 7th Fl.
Mohandessin, Giza
Egypt
Tel: +202 3300 5700/770/650/649
Fax: +202 3760 7543

Branches

Heliopolis
7 Elhegaz Square
Heliopolis, Cairo
Egypt
Tel: +202 2777 0600
Fax: +202 2777 0604

Nasr City
9 Elbatrawy St.
Nasr City, Cairo
Egypt
Tel: +202 3300 8160
Fax: +202 3305 4622

Alexandria
7 Albert Al Awal St.
Smouha, Alexandria
Egypt
Tel: +202 3300 8170
Fax: +202 3305 4622

Disclaimer

Information included in this report has no regard to specific investment objectives, financial situation, advices or particular needs of the report users whether they received them directly or through any research pool and other specialized websites. The report is published for information purposes only and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Unless specifically stated otherwise, all price information is only considered as indicator. No express or implied representation or guarantee is provided with respect to completeness, accuracy or reliability of information included in this report. Past performance is not necessarily an indication of future results. Fluctuation of foreign currency rates of exchange may adversely affect the value, price, or income of any products mentioned in this report. Information included in this report should not be regarded by report users as a substitute for the exercise of their own due diligence and analysis based on own assessment and judgment criteria. Any opinions given are subject to change without notice and may significantly differ or be contrary to opinions expressed by other **Prime** business areas as a result of using different assumptions and criteria. **Prime Group** is under no obligation responsible to update or keep current the information contained herein. **Prime Group**, its directors, officers, employees or clients may have or have had interests or long or short positions in the securities and/or currencies referred to herein, and may at any time make purchases and/or sales in them as principal or agent. **Prime Group**, its related entities, directors, employees, and agents accept no liability whatsoever for any loss or damage of any kind arising from the use of all or part of these information included in this report whether it is received directly or through research pools and other specialized websites. Certain laws and regulations impose liabilities which cannot be disclaimed. This disclaimer shall, in no way, constitute a waiver or limitation of any rights a person may have under such laws and/or regulations. Furthermore, **Prime Group** or any of the group companies may have or have had a relationship with or may provide or have provided other services, within its objectives to the relevant companies.