



## The Stars Seem to Be Aligned for International Reserves

### Mona Bedeir

Senior Economist

T +202 3300 5722

[MBedeir@egy.primegroup.org](mailto:MBedeir@egy.primegroup.org)

**The simultaneous increase in both headline and non-official figures, for the third month in a row, drove the overall reserves to remain in an upward trend.** Egypt's overall reserves (NIR + non-official reserves) grew by USD851mn by end of October 2020, on the back of a USD791mn increase in official reserves and a USD57mn increase in the non-official account. Overall reserves stood at USD44.414bn by end of October, covering 8.4 months of merchandise imports. Furthermore, the stock of foreign currencies in official reserves grew by 2.4% m/m, the fastest pace since March 2020, registering USD34.68bn. Meanwhile, the stock of gold fell slightly by 0.8% m/m due to the decline in gold prices.

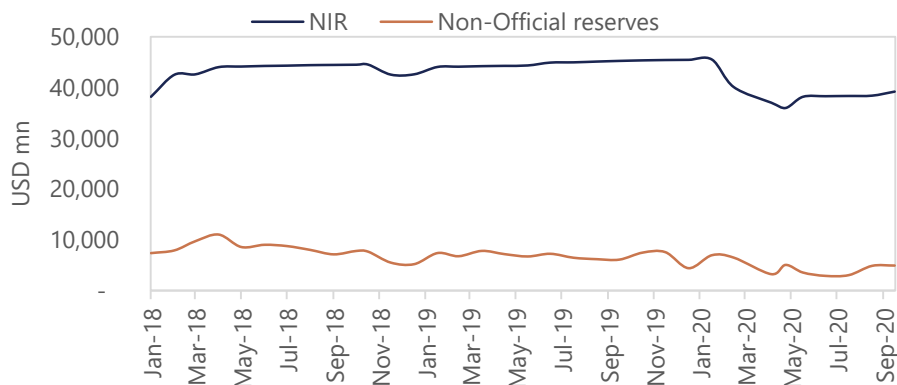
#### **FX reserves bolstered by capital inflows and receding trade balance:**

Foreign appetite in the local debt market gained huge momentum since August, thanks to lucrative real yields, the financing agreement with the IMF, and resilient macro fundamentals. Foreign holdings of local debt more than doubled to USD21.1bn by mid-October, up from USD10.4bn by end of May. Meanwhile, the receding trade deficit remained supportive of a lower current account deficit. According to the most recently available data published by CAPMAS, the trade deficit fell in August by 14% y/y as both imports and exports declined by 10% y/y and 3% y/y, respectively. The current trend in oil prices and depressed demand for imported goods should keep the trade deficit on a downward trend. However, tourism revenues will suffer another blow as the recent travel ban and restriction measures in Europe will affect the influx of tourists.

#### **NFAs at commercial banks restored their net asset position in September, thanks to carry trade inflows.**

For the first time in three months, NFAs at commercial banks registered a net asset position of USD2bn, thanks to the surge in foreign assets which reached USD21bn (up from USD18.7bn in August) and the fall in foreign liabilities to USD19bn (down from USD19.8bn in August). We still expect banks' NFAs to recover further on the back of the significant favorable risk-return profile and EGP stability (possibly slight strengthening), both providing further incentive for carry trade positions. This should also further support more stability in EGP until the end of 2020.

#### **Chart 1: Official reserves remain in an upward trend for the fifth consecutive month**



Source: CBE.



## Prime Securities

### Shawkat El Maraghy

Managing Director

T +202 3300 5622

[SElmaraghy@egy.primegroup.org](mailto:SElmaraghy@egy.primegroup.org)

## Sales

### Mohamed Ezzat

Head of Sales & Branches

T +202 3300 5784

[MEzzat@egy.primegroup.org](mailto:MEzzat@egy.primegroup.org)

### Mohamed Ashmawy

Head of Institutional Sales

T +202 3300 5612

[MAshmawy@egy.primegroup.org](mailto:MAshmawy@egy.primegroup.org)

### Amr Alaa CFE

Team Head –Institutional Desk

T +202 3300 5609

[AAlaa@egy.primegroup.org](mailto:AAlaa@egy.primegroup.org)

### Mohamed El Metwaly

Manager

T +202 3300 5610

[MElmetwaly@egy.primegroup.org](mailto:MElmetwaly@egy.primegroup.org)

### Emad El Safoury

Manager

T +202 3300 5624

[EElsafoury@egy.primegroup.org](mailto:EElsafoury@egy.primegroup.org)

### Shawkat Raslan

Heliopolis Branch Manager

T +202 3300 5110

[SRaslan@egy.primegroup.org](mailto:SRaslan@egy.primegroup.org)

### Mohamed El Henawy

Nasr City Branch Manager

T +202 3300 5166

[MElhenawy@egy.primegroup.org](mailto:MElhenawy@egy.primegroup.org)

### Nashwa Abuelatta

Alexandria Branch Manager

T +202 3300 5173

[NAbuelatta@egy.primegroup.org](mailto:NAbuelatta@egy.primegroup.org)

## Research

### Amr Hussein Elalfy CFA

Head of Research

T +202 3300 5724

[AElalfy@egy.primegroup.org](mailto:AElalfy@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, 7<sup>th</sup> Fl.  
Mohandessin, Giza, Egypt

T +202 3300 5700 / 770 / 650 / 649

F +202 3760 7543

## Branches

### Heliopolis

7 Elhegag Square  
Heliopolis, Cairo, Egypt

T +202 2777 0600

F +202 2777 0604

### Nasr City

9 Elbatrawy St.  
Nasr City, Cairo, Egypt

T +202 3300 8160

F +202 3305 4622

### Alexandria

7 Albert Al Awal St.  
Smouha, Alexandria, Egypt

T +202 3300 8170

F +202 3305 4622

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