



Below End-of-Year Target

Mona Bedeir

Senior Economist

T +202 3300 5722

mbedeir@egy.primegroup.org

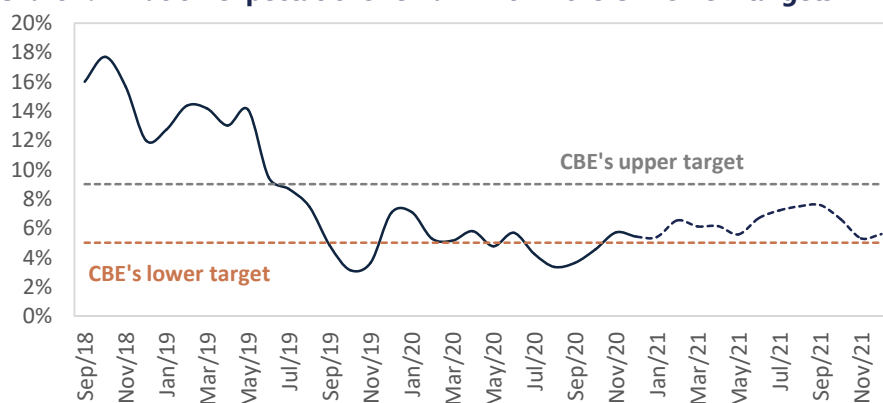
Driven by the deceleration in food inflation, annual headline inflation eased for the first time in three months. Annual urban headline fell to 5.4% in December, down from 5.7% in November, ending 2020 at average inflation of 5.1%. The average inflation level in Q4 2020 came in line with expectations, registering 5.2%, below the Central Bank of Egypt's (CBE) target range of $9\% \pm 3\%$ in Q4 2020. Thus, the CBE modified its target to $7\% \pm 2\%$, given the subdued demand-driven inflationary pressures and stable food prices. On a monthly basis, inflation eased further to -0.4% in December, down from +0.8% in November and +1.8% in October.

On an annual basis, favorable base-year effect and food prices drove inflation to fall. Food inflation dropped to 2.8% in December from 3.7% in November. This muted the contribution of the F&B basket to the headline figure down to 0.84% vs. 1.1% in November. The fall in food inflation was driven by seasonality factors affecting some of the vegetable crops, which drove vegetable inflation to fall from +23.3% y/y in November to +11% y/y in December. Besides, poultry inflation declined to +2.1% y/y vs. +4.2% y/y in November. Meanwhile, non-food inflation is still hovering around 7%, dominated by the contribution of education, housing and utilities, and medical care baskets.

On a monthly basis, food prices dropped by 1.3% in December vs. an increase of 2.7% in November; thus its contribution to monthly inflation plunged to -0.4%. Monthly food inflation was driven mainly by the significant fall in the prices of vegetables (-9.9% in December vs. +23.4% in November), while non-food inflation eased to -0.1% m/m, down from +0.1% in November.

We believe the CBE may opt to resume its easing cycle early 2021 (in February and March meetings) given subsided inflationary pressures and a stable Egyptian pound. The Monetary Policy Committee (MPC) of the CBE will head into its first meeting of the year on 4 February with ample room to resume its easing cycle. The decision will depend, inter alia, on the development of pandemic trajectory on the ground, the outbreak-driven global headwinds, and domestic growth dynamics. That said, we will release our expectations prior to each meeting depending on the flow of data.

Chart 1: Inflation expectations remain within the CBE's new targets



Source: CAPMAS, Prime Research.



Prime Securities

Shawkat El Maraghy

Managing Director

T +202 3300 5622

SElmaraghy@egy.primegroup.org

Sales

Mohamed Ezzat

Head of Sales & Branches

T +202 3300 5784

MEzzat@egy.primegroup.org

Mohamed Ashmawy

Head of Institutional Sales

T +202 3300 5612

MAshmawy@egy.primegroup.org

Amr Alaa CFE

Team Head –Institutional Desk

T +202 3300 5609

AAlaa@egy.primegroup.org

Mohamed El Metwaly

Manager

T +202 3300 5610

MElmetwaly@egy.primegroup.org

Emad El Safoury

Manager

T +202 3300 5624

EElsafoury@egy.primegroup.org

Shawkat Raslan

Heliopolis Branch Manager

T +202 3300 5110

SRaslan@egy.primegroup.org

Mohamed El Henawy

Nasr City Branch Manager

T +202 3300 5166

MElhenawy@egy.primegroup.org

Nashwa Abuelatta

Alexandria Branch Manager

T +202 3300 5173

NAbuelatta@egy.primegroup.org

Research

Amr Hussein Elalfy CFA

Head of Research

T +202 3300 5724

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, 7th 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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