PRIME

Buffers Grew Despite Signs of Unwelcome Tightening of Financial Conditions

Mona Bedeir
Chief Economist
T +202 3300 5722

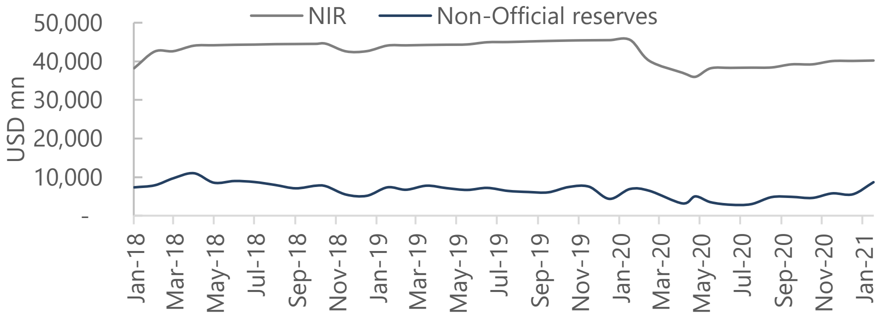
mbedeir@egy.primegroup.org

Headline NIR spurred in tandem with significant growth in non-official reserves: Egypt's NIR grew by USD100mn to USD40.2bn by the end of February 2021. At the same time, non-official reserves grew by USD3bn to stand at USD7.8bn, the highest level since the end of March 2020. Thus, overall reserves (NIR + non-official reserves) reached USD48.9bn, covering nine months of merchandise imports. The overall level of reserves is now closer to restore most of its losses triggered by the massive pandemic-driven capital outflows by end of March 2020. However, we note that changes in the non-official account are usually temporary; indeed, the significant growth in February was mainly driven by the issuance of USD3.75bn Eurobond on 8 February, which will soon be allocated for fiscal financing.

Foreign assets at commercial banks are also bolstering, thanks to capital inflows: The most recently availed data indicate that foreign assets at commercial banks are only a step away from their pre-COVID-19 level, to stand at USD22.7bn compared to USD23bn by the end of February 2020, right before the pandemic-induced sell-off wave that hit the country. Net foreign assets (NFAs) also continued their upward trend, reaching USD4.5bn by the end of January 2021. Yet, NFAs are still well below their pre-pandemic level of USD7.9bn due to elevated foreign liabilities. Foreign assets at commercial banks have gained much support from the recovery in foreign appetite in the local debt market, which pushed foreign holdings of debt instruments to exceed their pre-pandemic level, standing at USD28.5bn, the highest level on record. However, risks of tightening global financial conditions have been looming recently on the back of higher U.S. yields which already started to impact capital inflows to EMs.

Global commodity prices and unwelcome tightening financial conditions are growing risks: Strong commodity demand driven by the vaccination progress in addition to U.S. inflation concerns and its impact on yields and monetary policy stance, are all alarming signs for Egypt's external position. While higher commodity prices will take their toll on the expected CAD and inflation outlook, a hawkish Fed reaction could reverse capital inflows to Egypt as it will undermine the appetite for risky assets. Hence, we should keep our eyes widely open for forthcoming developments. However, we still see the current level of external buffers are enough to shield the economy. Meanwhile, macro fundamentals still provide Egypt with favorable financing conditions.

Chart 1: Eurobond issuance spurred non-official reserves



Source: CBE.

PRIME

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 CFTe
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

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 Elhegaz Square
Heliopolis, Cairo, Egypt
T +202 2777 0600
F +202 2777 0604

Alexandria
7 Albert Al Awal St.
Smouha, Alexandria, Egypt
T +202 3300 8170
F +202 3305 4622

Website

www.primeholdingco.com

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.