

The Sky Is No Blue

Mona Bedeir

Chief Economist

T +202 3300 5722

mbedeir@egy.primegroup.org

The overall stock of reserves (official and non-official) fell for the first time in eight months. The overall stock of reserves reversed its upward trend for the first time since late 2020, falling 5.4% m/m to USD47.98bn by end of July 2021 from USD50.7bn at end of June. Net official reserves (NIR), however, were slightly up by USD25mn, standing at USD40.61bn by end of July (+6% y/y). Thus, most of the decay in the overall headline figures was attributed to the fall in non-official reserves. After crossing USD10bn in June 2021, the highest level seen since April 2018, non-official reserves declined by USD2.76bn (-27% m/m) to USD7.37bn by end of July 2021.

Pressures on external sectors are still accumulating as the rally in global commodity prices continues and COVID-19-related threats are still active. The CBE depends on its non-official reserves to alleviate the pressures on NIR, therefore it's more volatile. However, July's decline in non-official reserves came at the time where the global headwind is accumulating on the country's external account.

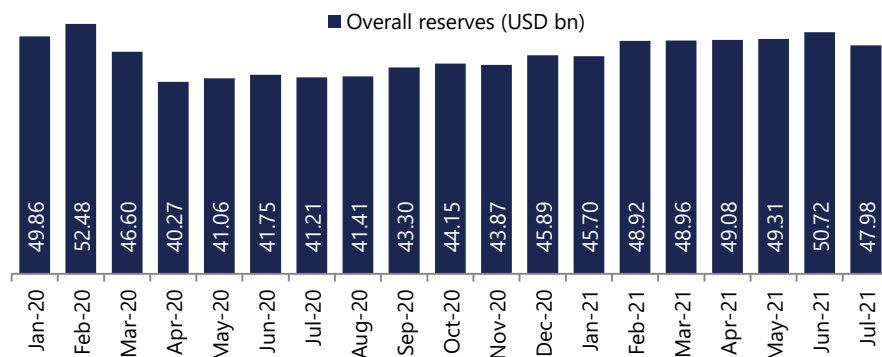
First, the new Delta variant of COVID-19 is threatening the recovery of the tourism sector.

Second, the rally in global commodity prices is driving the imports bill higher. According to the latest available data of CAMPAS, the monthly trade deficit widened by 9% m/m in May on the back of a 55% m/m increase in imports bills, which reached USD6.5bn (highest monthly reading since March 2019) and a 95% m/m surge in exports. The trade deficit is still subject to further expansion as the sky-high shipping cost (5-10% of the imported prices) is also feeding imports prices.

Third, the debt payment is set to surge also in 2021 and afterwards. According to the CBE's external sector report, debt service payments are set to surge to USD13.2bn in H2 2021, up from USD9.8bn in H1 2021 and USD1.8bn in H2 2020.

Given the limited availability of data, it would be hard to expect which in particular the factor the drove the non-official reserves to fall, but all combined factors were and still are adding pressures on the country's FX reserves.

Chart 1: First decline in overall reserves since November 2020



Source: CBE, 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 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 8130

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

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