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The Gundlach Anomaly

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1. Today's Trading Playbook

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KEY THEMES

In the time of the global pandemic, there is no shortage of issues to keep investors more anxious and vigilant about the future, yet some distress has more causes than others. The disruptions triggered by a major surge in cases of the new Delta variant cloud the sanguine view about global recovery.

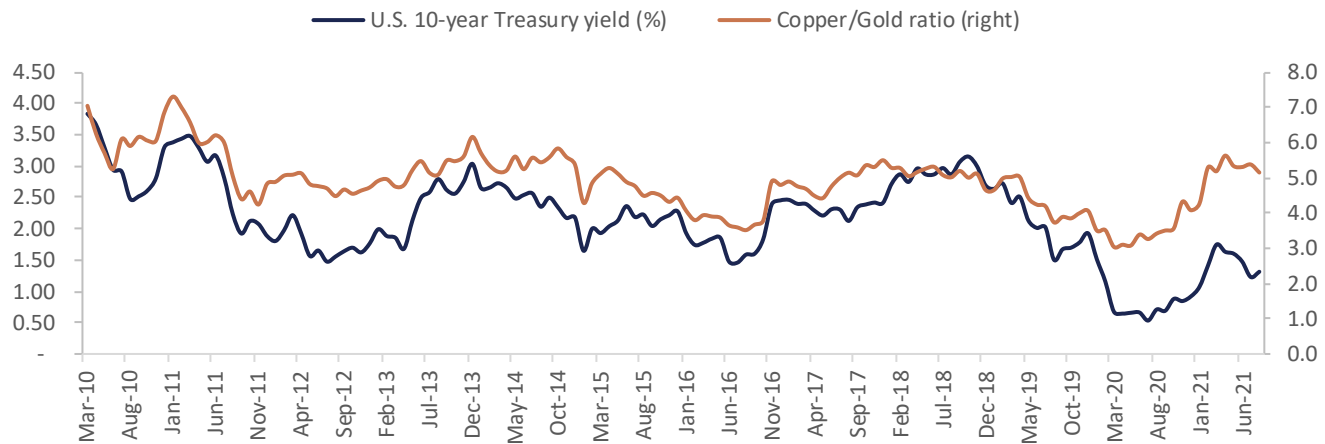
One indicator that historically used to reflect how markets view economic prospects at a given period of time is [Jeffrey Gundlach's famous relationship between copper and gold prices and the U.S. 10-year Treasury yield](#). Copper is a cyclical commodity, thus its demand is closely correlated with economic activity. Meanwhile, gold is considered a popular safe-haven asset, especially during uncertain times. As yields reflect inflation expectations, the correlation between the copper-gold ratio and the U.S. 10-year Treasury yield was significantly positive. However, this correlation has been weakened by COVID-19-driven disruptions and implications, first in late 2020 and more recently in mid-2021.

With divergence seen recently, the relation between the ratio and the yield has been challenged by:

- (1) The uneven economic recoveries.
- (2) Greener economic policies.
- (3) Global supply disruption.
- (4) Excessive monetary support by central banks
- (5) The market's perception of inflation drivers.

Despite the gloomy outlook driven by the Delta variant, copper prices jumped to their highest level in more than four weeks as the supply bottleneck in China fueled imports demand. Meanwhile, gold prices rose above USD1,800, after the Fed's recent hint about tapering its monthly bond purchasing this year.

The conclusion is that the co-movement of the trio no longer means causality; complex changes in the structure of the global economy post-COVID-19 started to weaken the correlation to some extent.



Source: Bloomberg.

Now, on to the top news and analysis for the day.

2. TOP NEWS & ANALYSIS

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MACRO NEWS

Several million Pfizer shots are expected to land here at home by next week, pending the receivable of shipping documents. Meanwhile, Egypt's first shipment of Moderna vaccines is also due to arrive in the first week of September. ([Masrawy](#))

The Administrative Capital for Urban Development Company has formed a committee headed by the head of the financial sector to evaluate the company's assets in the context of preparing for the company's public offering on the Egyptian Exchange. ([Economy Plus](#))

The Ministry of Transport is negotiating with three Spanish, Japanese, and South Korean companies to provide soft financing worth USD1.2bn to finance the purchase of 55 new trains for the first and second metro lines. ([Economy Plus](#))

The average weekly wage for workers in the public sector increased by 24% y/y to EGP1,834 during the past year, compared to EGP1,479 in 2019. While the average weekly wage for workers in the private sector decreased by 13.2% y/y to EGP885 during the past year, compared to EGP1,019. ([Economy Plus](#))

Egyptian businessmen are threatening to file an international arbitration case against the Ethiopian government for alleged damages incurred as a result of the current conflict in Tigray. ([Enterprise](#))

CORPORATE NEWS

Misr Fertilizers Production Company's [MFPC] Q2 2021 consolidated net income increased by 74% q/q to EGP1.4bn. Meanwhile, revenues increased by 9% q/q to EGP2.2bn. Furthermore, GPM improved to 56% vs. 52% in the previous quarter. Bottom-line growth was further supported by lower net financing costs and FX translation differences related to calculation of income taxes. ([Company disclosure](#))

Cleopatra Hospitals Group's [CLCH] net profit inched 7-fold to EGP94.1mn in Q2 2021 vs. EGP14mn in Q2 2020. This was driven by revenue growth of 89% y/y in Q2 2021 to EGP643.6mn. The robust growth was supported by a 72% y/y increase in cases served during the quarter coupled with improving utilization rates, an increasingly optimized service mix, and the effective ramp up of the group's newer revenue verticals. ([Enterprise](#)) CLCH is currently trading at a TTM P/E of 23.9x.

SODIC [OCDI] said that it received a letter from Sheikh Zayed City Development Authority regarding its 500-acre plot in Sheikh Zayed City. As a way of background, OCDI previously stated that NUCA is looking to adjust the location of the aforementioned land plot due to changes in development of new projects adjacent to OCDI's land plot. The letter, which OCDI received, informed the company that a new position of a land plot is being proposed to NUCA. The adjusted plot partially overlaps with the original plot and spans 440 acres, but with a higher efficiency that should allow for an increase in sellable BUA without compromising the project's features. The new land plot also enjoys better connectivity with the infrastructure and projects being developed in the area. ([Company disclosure](#))

Raya Contact Center's [RACC] BoD approved to finalize the acquisition of 85% stake in Gulf Customer Experience (GCX) with a value worth USD14mn. Last July, RACC said that it was negotiating with three local and European banks to borrow USD7mn to finance c.50% of its potential acquisition in the Bahraini company, GCX. ([Company disclosure](#), [Al-Mal](#))

Taaleem Management Services [TALM] announced the implementation of the ownership restructuring plan on its shares, with a total value of c.EGP1.7bn. This comes within the framework of the plan announced back in its IPO prospectus last March. ([Al-Mal](#))

GLOBAL NEWS

Emerging markets cannot "afford" a repeat of the 2013 "taper tantrum" market disruption that occurred when the U.S. Federal Reserve signaled a sooner-than-expected withdrawal of stimulus, sparking a surge in global borrowing costs, the IMF's chief economist has warned. ([FT](#))

A new COVID-19 outbreak in Malaysia, the major center for chip testing and packaging, has forced the implementation of strict lockdowns, hampering production at factories and jeopardizing plans for the rebound of global semiconductor supply chains. ([WSJ](#))

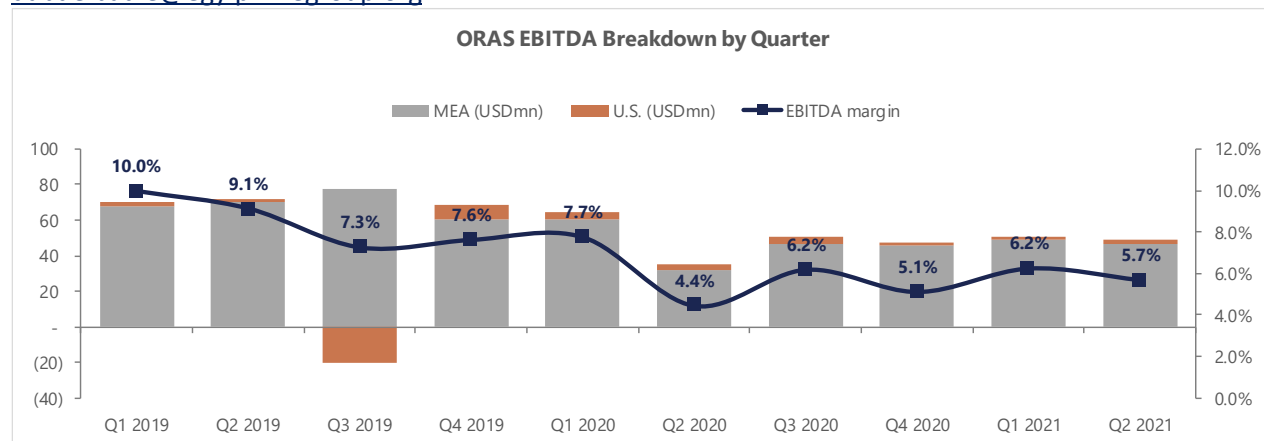
The increase in oil output agreed last month by OPEC+ nations could be reconsidered at its next meeting on September 1st, Kuwait's oil minister said. ([Reuters](#))

3. CHART OF THE DAY

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Source: Company reports.

Orascom Construction's [**ORAS**] EBITDA jumped by 40% y/y in Q2 2021, driven by the MEA region (the main contributor to EBITDA at 94% in Q2 2021). EBITDA margin improved significantly to 5.7% in Q2 2021 compared to 4.4% a year before.

4. MARKETS PERFORMANCE

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Current equity market cap (EGPbn)						Equity turnover (EGPmn): Last, ytd avg.					
735.5						3,408.5 1,178.6					
daily chg. ytd chg.						daily chg. ytd chg.					
	↓	EGX 30	11,113.74	(0.11%)	2.48%		↗	Gold	1,817.57	1.40%	(4.45%)
	↗	EGX 30 TR	4,342.90	0.55%	4.10%		↗	Silver	24.03	1.96%	(9.24%)
	↗	EGX 70 EWI	2,956.44	0.13%	37.82%		↓	Brent Oil	72.70	(0.04%)	40.29%
	↗	EGX 100 EWI	3,963.81	0.23%	27.95%		↓	WTI	68.74	(0.57%)	40.87%
	↗	DFMGI	2,901.21	0.04%	16.42%		↗	Natural Gas	4.37	1.33%	74.40%
	↗	ADSMI	7,652.15	0.36%	51.48%	EGP	↓	USD/EGP	15.70	(0.09%)	(0.28%)
	↗	TASI	11,180.19	0.46%	28.66%	€	↗	EUR/USD	1.18	0.01%	(3.44%)
	↓	QE Index	11,081.98	(0.19%)	6.19%	£	↓	GBP/USD	1.38	(0.01%)	0.67%
	↗	S&P 500	4,509.37	0.88%	20.06%	¥	↓	USD/JPY	109.84	(0.05%)	6.32%
	↗	Dow 30	35,455.80	0.69%	15.84%		↓	6M TB yield	12.80	(18)	7
	↗	NASDAQ	15,129.50	1.23%	17.39%		↓	1Y TB yield	13.13	(6)	36
	↓	VIX	16.39	(13.00%)	(27.96%)		↗	10Y TB yield	14.80	0	41
	↗	STOXX 50	4,190.98	0.51%	17.97%		↗	2Y TB yield	0.23	1	10
EM	↗	MSCI Emerging	1,272.67	0.52%	(1.44%)		↓	10Y TB yield	1.31	(3)	38
FM	↗	MSCI Frontier	658.99	0.50%	15.28%		↓	30Y TB yield	1.92	(4)	26

* As of market close, except for commodities and currencies at 8.45am CLT. Change in Treasuries is in basis points.

Source: Bloomberg, CBE.

5. LATEST EGX VALUATION MULTIPLES

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[Find out](#) how your favorite stocks compare to the rest of the market.

6. KEY DATES

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DATE	TICKER	TYPE	EVENT
30-Aug-21	MICH	BoD meeting	Following up on production, sales and exports.
31-Aug-21	MBSC	Cash dividend	The deadline for eligibility for a dividend of EGP1.5/share.
1-Sep-21	AMES	Stock dividend	Last date for eligibility for a 0.09-for-1 stock dividend.
1-Sep-21	MBSC	Cash dividend	Date for ex-dividends of EGP1.5/share.
1-Sep-21	MSCI		The effective date for MSCI's August 2021 Quarterly Index Review.
2-Sep-21	AMES	Stock dividend	Date for distributing a 0.09-for-1 stock dividend.
2-Sep-21	DAPH	EGM	Approving increasing the issued capital and amending articles 6 & 7 of the bylaws.
5-Sep-21	MBSC	Cash dividend	Date for paying out a dividend of EGP1.5/share.
8-Sep-21	CNFN	EGM	Adding investment banking to the company's activities.
16-Sep-21		MPC Meeting	Determining the CBE's policy rate.
18-Sep-21	EGTS	Lawsuit	A court session discussing legal disputes relevant to the company.
19-Sep-21	MNHD	Lawsuit	To recover EGP24.8mn owed by MNHD to NRPD for the development of 32 buildings in 6th of October project.
21-Sep-21	CIRA	OGM	Discussing the dividend distribution suggested by the BoD.



25-Sep-21	ABUK	OGM	Approving the financial statements ending 30 Jun. 2021 and the proposed dividend.
25-Sep-21	ELNA	OGM	Approving the financial statements and other agenda items.

7. LATEST RESEARCH

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DATE	PUBLISHED REPORT
29-Aug-21	<u>Orascom Construction [ORAS] – Recovery on Track Although Below Estimates</u>
24-Aug-21	<u>Abu Qir Fertilizers [ABUK] – When the Stars Align</u>
18-Aug-21	<u>EFG Hermes Holding [HRHO] – Solid Business, Strong Financial Growth</u>
17-Aug-21	<u>Elsewedy Electric [SWDY] – Impressive Set of Results</u>
17-Aug-21	<u>Commercial International Bank [COMI] – Adjustment Post Stock Dividend</u>
16-Aug-21	<u>B Investments Holding [BINV] – Growth Dented Across the Board</u>
11-Aug-21	<u>Crédit Agricole Egypt (CAE) [CIEB] – Non-Interest Income Heals Earnings Growth</u>
10-Aug-21	<u>MACROView – July's Feverous Inflation</u>
9-Aug-21	<u>CI Capital Holding [CICH] – Robust Exit Saves the Day</u>
5-Aug-21	<u>MACROView – The Sky Is No Blue</u>
4-Aug-21	<u>MACROView – Constrained Recovery</u>
26-Jul-21	<u>EFG Hermes Holding [HRHO] – FV and 12MPT Adjustment to Bonus Share Action</u>
13-Jul-21	<u>Commercial International Bank [COMI] – Tamed Credit Provisions Spur Annual Growth</u>
8-Jul-21	<u>MACROView – Inflation Edged Up, As Expected</u>
8-Jul-21	<u>MACROView – External Buffers Still Powering Ahead</u>
6-Jul-21	<u>MACROView – A Steady and Slow Recovery in the Making</u>
5-July-21	<u>Abu Qir Fertilizers [ABUK] – Talking U</u>
16-June-21	<u>B Investments Holding [BINV] – Strong Financials, Growing Investments</u>
14-June-21	<u>Al-Shams Housing & Development [ELSH] – Earnings Flattened by Factoring Cost</u>
10-June-21	<u>MACROView – Inflation Risk Rising, but Still Within Target</u>
8-June-21	<u>TAKEStock – Telecom Egypt [ETEL] – Show Me the Dividends</u>
6-June-21	<u>MACROView – Further Enhancement</u>
3-June-21	<u>MACROView – Contraction Eased</u>
23-May-21	<u>Orascom Construction [ORAS] – Earnings Short of Our Estimates</u>
23-May-21	<u>CI Capital Holding [CICH] – Earnings Dented by One-off ESOP Expense</u>
22-May-21	<u>Commercial International Bank [COMI] – Earnings Growth Driven by Lower Provisions</u>
20-May-21	<u>Crédit Agricole Egypt (CAE) [CIEB] – Slowing Lending Inhibits Earnings Growth</u>

20-May-21	<u>EFG Hermes Holding [HRHO] – Recovery Signs; Back on Track</u>
18-May-21	<u>B Investments Holding [BINV] – Exits Kick Off, Unlocking Value</u>
18-May-21	<u>Elsewedy Electric [SWDY] – Financials promise a buoyant year ahead</u>
17-May-21	<u>Misr Chemical Industries [MICH] – Another Chapter of Strong Annual Growth</u>
11-May-21	<u>MACROView – Inflation Eased but Stage Still Set for a Pick-Up</u>
9-May-21	<u>MACROView – Stability Prevailed</u>
6-May-21	<u>MACROView – The Road to Recovery Gets Longer</u>
18-Apr-21	<u>MACROView – Challenges Remain Daunting</u>
13-Apr-21	<u>Crédit Agricole Egypt (CAE) [CIEB] – The Value Algorithm</u>
12-Apr-21	<u>Orascom Construction [ORAS] – Rich in Value</u>
11-Apr-21	<u>MACROView – Monthly Reading Pressured By Seasonality</u>
6-Apr-21	<u>MACROView – FX Assets Well Placed to Mitigate Potential Risks</u>
6-Apr-21	<u>MACROView – Still Downbeat</u>
28-Mar-21	<u>Taaleem Management Services [TALM] – Enriching the Education Sector</u>
18-Mar-21	<u>EFG Hermes Holding [HRHO] – Challenging Year, Yet Growth Continues</u>
10-Mar-21	<u>MACROView – Still Below the Target, but Global Headwinds Cloud the Horizon</u>
8-Mar-21	<u>MACROView – Buffers Grew Despite Signs of Unwelcome Tightening of Financial Conditions</u>
7-Mar-21	<u>Al-Shams Housing & Development [ELSH] – Making Hay While the Sun Shines</u>
3-Mar-21	<u>MACROView – Weak Demand Still Weighing on the Rebound Trajectory</u>
2-Mar-21	<u>MACROView – Commodity Supercycle: Real or Hype?</u>
1-Mar-21	<u>Commercial International Bank [COMI] – Earnings Beat Despite Higher Provisions</u>
25-Feb-21	<u>Elsewedy Electric [SWDY] – Strong Set of Results Driven by Turnkey</u>
22-Feb-21	<u>CI Capital Holding [CICH] – Got the Hit, Yet Better Than Expected</u>
10-Feb-21	<u>MACROView – Disinflation Continues Amid Acceleration in Global Commodity Prices</u>
8-Feb-21	<u>Misr Chemical Industries [MICH]– Annually Wild, Quarterly Tamed</u>
4-Feb-21	<u>MACROView – External Buffers Are Still Restoring Grounds</u>
3-Feb-21	<u>MACROView – A Fragile Improvement but Favorable Sentiment</u>
3-Feb-21	<u>MACROView – External Woes vs. Cautious Optimism</u>
1-Feb-21	<u>STANDPoint – Egypt 2021 Investing Playbook</u>
14-Jan-21	<u>CI Capital Holding [CICH] – New Expansions = Further Growth</u>
10-Jan-21	<u>MACROView – Below End-of-Year Target</u>
6-Jan-21	<u>MACROView – On the Path to Further Recovery</u>



5-Jan-21	<u>MACROView – Ruttet Road to Recovery</u>
28-Dec-20	<u>Elsewedy Electric [SWDY] – More Growth to Come</u>
22-Dec-20	<u>EFG Hermes Holding [HRHO] – Blueprinting Its Eminence</u>
16-Dec-20	<u>CIB [COMI] – Earnings beat despite higher provisions</u>
10-Dec-20	<u>MACROView – The Highest Reading in Seven Months</u>
7-Dec-20	<u>MACROView – Restored Ground</u>
6-Dec-20	<u>MACROView – Lost Momentum</u>
3-Dec-20	<u>MACROView – Not as Severe as Expected but All Eyes on the Scars</u>
25-Nov-20	<u>Misr Chemical Industries [MICH] – Pandemic Proof</u>
10-Nov-20	<u>MACROView – An expected rise as the new school year began</u>
4-Nov-20	<u>MACROView – The Stars Seem to Be Aligned for International Reserves</u>
3-Nov-20	<u>MACROView – The Highest Reading in Six Years</u>
25-Oct-20	<u>CIB [COMI] – Short-term pain for longer-term gain</u>
11-Oct-20	<u>MACROView – Disinflationary trend interrupted</u>
11-Oct-20	<u>MACROView – External strains are slacking and reserves are growing</u>
6-Oct-20	<u>CIB [COMI] – A Good Bet for the “Risk On” Mode</u>
5-Oct-20	<u>MACROView – Egypt’s recovery is broadening</u>
10-Sep-20	<u>MACROView – A Stunning Chapter Towards Targets</u>
8-Sep-20	<u>MACROView – Crawling Out of the Troughs</u>
3-Sep-20	<u>MACROView – Job losses and the bumpy road to recovery</u>

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