On "Risk Control" Mode

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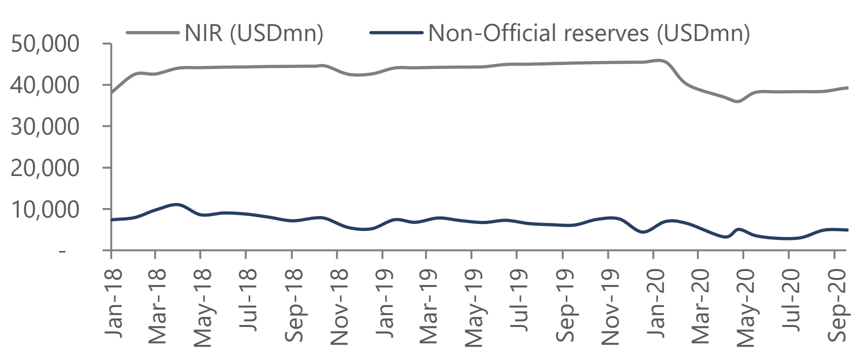
External buffers still on check; both NIR and non-official reserves up again: Egypt's official net international reserves (NIR) remained on an upward trajectory, standing at USD40.83bn by end of September (+6% y/y), driven mainly by an increase in the stock of foreign currency. After the significant fall in August (a decline of USD2.55bn), foreign currency restored some of its lost ground, rising USD351mn to USD33.9bn in September from USD33.6bn in August. Following the same path, non-official reserves offset its last month drop and grew by USD2bn on a Eurobond sale, to end the month at USD9.4bn, the highest level since June 2021. Overall reserves (NIR + non-official reserves) increased significantly as a result by USD2.3bn to USD50.2bn, slightly lower than its 2021 peak in June.

Eurobond issuance alleviated the pressures on external accounts: Egypt successfully tapped the Eurobond market in September by issuing USD3bn, for the second time in 2021, after the USD3.75bn issued in February 2021. The issuance came in line with the government's financing projected needs in the draft budget of FY22. However, the timing was very crucial, given the several headwinds facing the country and EMs in general. Despite Egypt's credit-default swap spreads (CDS) having climbed more than 150bps higher than the time of the February issuance, the latest issue was oversubscribed 3×, and yields on 12- and 30-year tranches were slightly lower than bonds with the same maturity in the May 2020 bond issuance. This sent a signal of confidence in the country's credit worthiness, paving the way for the upcoming issuance of Islamic Sukuk and green bonds.

Yet, the strong buffers should remain intact in the face of multiple global headwinds: Net foreign assets (NFAs) in the banking sector were still falling under the pressure of the country's debt obligation and COVID-19-related global disruptions affecting the speed of recovery in the main FX inflows. NFAs at commercial banks showed a net liability position of USD4.5bn with foreign assets falling in August. We believe NFAs at commercial banks should see a boost in September on inflows from the Eurobond issuance, but the risk of foreign capital outflows is increasing given an imminent tapering of the Fed's asset purchasing program. In the short term, the current stock of external buffers should minimize the risks, keeping pressures on the FX rate contained. However, over the long term, the outlook remains clouded.

Chart 1: External buffers are still intact



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