LIGHTHOUSE RESEARCH

MACRO STRATEGY

FX OUTLOOK

EGP: How Far Can the Rally Run?

Jean-Paul Pigat
Head of Research
+971 4 362 3139
Pigat@lighthouseresearch.me
www.lighthouseresearch.me

EGP Outlook

- The Egyptian pound's recent rally has defied the broader sell-off in global emerging market assets…
- …while the currency's broad stability up until late January seemingly defied the massive external rebalancing in the economy…
- …which suggests to us that the EGP remains tightly managed and is not operating under a freely floating exchange rate regime.
- The EGP looks set to continue its gradual appreciation, while exchange rate risks are increasingly less pertinent to the broader Investment Thesis.

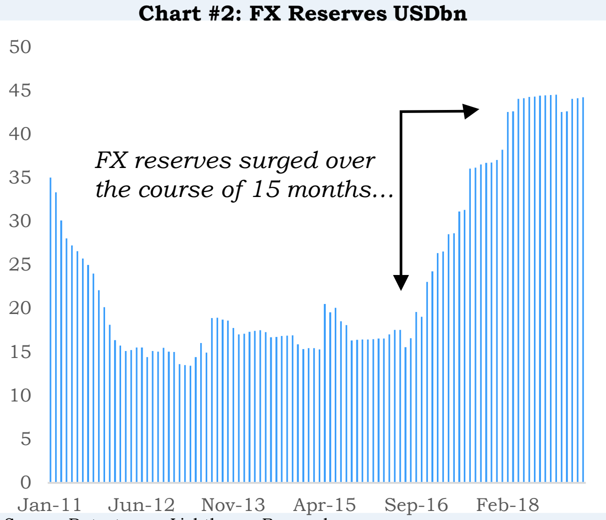
In recent weeks, the Egyptian pound has bucked the broader global EM FX sell-off, having rallied against the USD by roughly 4% since March to trade near 16.80 at the end of May. In contrast, over this same time period, other EM FX benchmarks such as the KRW, ZAR and TRY have depreciated against the greenback by 6%, 4%, and 15% respectively. Views as to how far this rally can run will largely rest on what one believes is driving the appreciation.

Chart #1: USD/EGP

Source: Eikon, Lighthouse Research

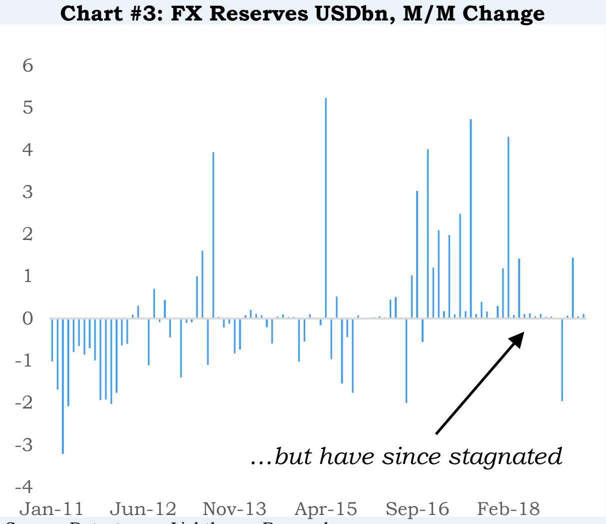
The economy's external rebalancing since the EGP devaluation in November 2016 has been pronounced, which is evident in the rise in FX reserves from USD19bn (three months of imports, with capital controls) to USD44bn (seven months of imports, with a more open capital account) as of April 2019. That said, the majority of these gains occurred between November 2016 and February 2018, with FX reserves jumping USD23.5bn through this time period, whereas since March 2018, they have increased by only a cumulative USD1.7bn *(charts #2 & #3)*. Moreover, as we argue below, headline figures on FX reserves might not be the most useful barometer for underlying macro trends.

Chart #2: FX Reserves USDbn



Source: Datastream, Lighthouse Research

Chart #3: FX Reserves USDbn, M/M Change



Source: Datastream, Lighthouse Research

The current account deficit is now running at a monthly average of roughly USD0.5bn, which is effectively one third the size of the monthly shortfall before the EGP devaluation *(chart #4)*. Several factors account for this improvement, including stronger hydrocarbon exports which has flipped the net oil trade balance into surplus for the first time since early 2013 *(chart #5)*, a recovery in the tourism sector that has seen visitor arrivals rebound to their highest levels since 2010 *(chart #6)*,

Contact Us

To Read the Remainder of this Report, or Enquire About Subscription Packages, Please Contact:
info@lighthouseresearch.me