

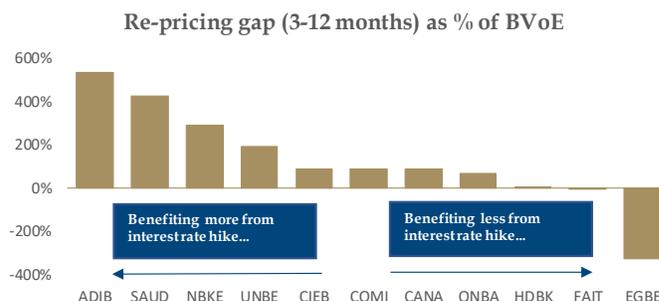
Today's Story

Mind the Gap

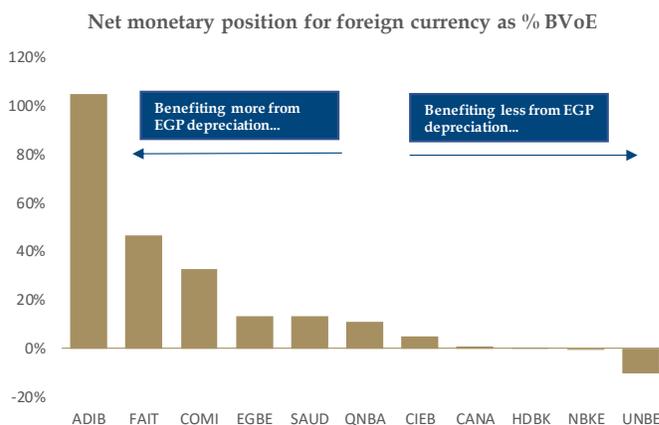
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- On 4 October 2018, the **Central Bank of Egypt (CBE)** issued a new regulatory framework concerning interest rate risk of the banking book (i.e. not for trading financial assets), within the context of the second pillar of **Basel II**. The paper which followed two previous papers (issued in March 2011 and March 2018) urged banks to shield against interest rate risks which may arise from gap risk, basis risk, or option risk. Also, the CBE reiterated that banks consider the implications of fluctuating interest rate risks over measures such as **Earnings at Risk (EaR)** and **Economic Value of Equity (EVE)**. As per the October 2018 paper, a bank's maximum possible loss in EVE should not exceed 15% of its Tier I capital. However, if it exceeds 15%, the bank will be required to either reduce its risk exposure or create a capital buffer in order to comply with the aforementioned 15% ratio.
- Understandably, the October 2018 paper encouraged some thoughts over the future of interest rates and the likelihood of more volatile monetary policy tools throughout the course of FY2018/19. Since the last rate cut end of March 2018, we were led to believe that we were in the middle of an easing cycle which was temporarily interrupted in view of a shift in global liquidity. Such a view meant that options for policy makers (in this case the CBE) became limited to either ease or freeze rates at current levels. To a great extent, we have skipped hiking rates from our scenarios as the consequences could be complicated. We note that our senior economist expects a cumulative 200bps rate cut by end of FY2018/19, but what if we witnessed a paradigm shift? Due to an increased involvement of **Egypt's** economy into the global economy, our policies have become more sensitive to global variables. Thus, policy making goals and actions have been more controversial. So, instead of widely embracing the "interrupted easing cycle" view, it seems wise for the policy maker to conduct a cost-benefit analysis. This means the CBE may assume the marginal benefit of a rate hike in terms of retaining or encouraging foreign inflows as opposed to the marginal cost against the backdrop of a high interest rate environment. So far this year, we believe the marginal cost of a rate hike has exceeded the marginal benefit, but this could change, especially if headline inflation readings for October and the following months exceeded the upper boundary of the CBE inflation target (i.e. 16%).
- Playing it safe, whether rates are hiked or remain unchanged at currently high levels, lenders should remain beneficiary. For the 11 EGX-listed banks:

- The first chart depicts their re-pricing gap as of H1 2018 ended 30 June 2018 (i.e. financial assets minus financial liabilities) as a percentage of each bank's **Book Value of Equity (BVoE)**. Banks with positive gaps will be much stronger candidates to benefit from a rate hike. We prefer to look at figures in the 3-12 months' window as the next interest rate change could take place during this timeframe.



- The second chart represents net foreign currency monetary position as of H1 2018 as a percentage of the bank's BVoE. A negative net position indicates vulnerability in case of any EGP depreciation in the future.



Source: Bank financials

Top Headlines

Corporate

- **Sixth of October for Development & Investment Company (OCDI) and Palm Hills Developments (PHDC)** intends to bid for a land plot in **New El Alamein City** in addition to three other real estate developers. The land plot area is 32 acres with a four-year duration to complete development works. ([Hapi Journal](#))
- **Beltone Financial Holding's (BTFH) BoD** has approved the cancelation of its capital increase of EGP1bn, awaiting the ratification of an EGM. ([Company Disclosure](#))
- **Obour Land for Food Industries (OLFI)** is planning to launch a new product "Mozzarella Cheese" by Q4 2018 as a part of its expansion plan to add new products in the market. This comes in addition to the company's ongoing expansion in the milk segment and the awaited operation of OLFI's subsidiary **Obour Farm** by end of 2019. (Al-Mal)
- **Edita Food Industries (EFID)** is preparing to increase its stake in its subsidiary, **Edita Confectionery Industries**, from 78% to 100% by end of 2018. (Al-Mal)
- **Electro Cable Egypt (ELEC)** released its 9M 2018 results ended 30 September 2018, where net profit reached EGP87.8mn versus a net loss of EGP12.2mn a year ago. ([Company Disclosure](#))
- **Zahraa Maadi Investment & Development (ZDIM)** net profit declined 15.8% y/y to EGP87.2mn in 9M 2018 despite 81% y/y higher revenues of EGP223.6mn on lower profits and accrued interest from land sales, higher wages, and interest expense. ([Company Disclosure](#))

Non-Corporate

- **Net international reserves** inched up slightly from USD44.46bn in September 2018 to USD44.50bn in October 2018. ([CBE](#))
- The **Ministry of Finance** sold EGP500mn in **10-year T-bonds** and EGP750mn in **five-year T-bonds** in an auction held on 5 November 2018 at lower yields than the latest similar auction. Yield on **10-year T-bonds** fell from 18.092% to 18.033%, and yield on **five-year T-bonds** fell from 18.259% to 18.068%. ([CBE](#))

Markets

↗	EGX 30	13,234.62	0.49%	↗	EGX 70	682.09	0.01%
↘	DFMGI	2,794.80	(0.01%)	↗	ADSMI	4,972.28	1.07%
↘	TASI	7,802.27	(0.57%)	↗	QE Index	10,458.28	1.23%
↗	S&P 500	2,738.31	0.56%	↘	MSCI EM	992.38	(0.44%)
↘	Gold	1,229.94	(0.13%)	↘	Brent Oil	72.91	(0.36%)

*As of market close, except for commodities at spot price as of 8.05am CLT.

- **MENA Markets:** The **EGX 30** ended up on Monday, driven by **COMI, ABUK, SWDY, MNHD,** and **PHDC**. **UAE indices** were mixed; **ADSMI** closed in the green driven by the **banking** and the **telecommunication** sectors, while **DFMGI** closed in the red dragged by losses from the **banking** sector. **TASI** declined, dragged by losses from the **banking** and the **materials** sectors.
- **Global Markets:** **Asian stocks** were mixed on Tuesday afternoon in anticipation of the **US** midterm elections set for later in the day. The **Dow Jones Industrial Average** and **S&P 500** rose on Monday as gains in **Berkshire Hathaway** buoyed the broader financials sector. **Oil** prices slipped on Tuesday, weighed down by exemptions from Washington that will allow **Iran's** biggest **oil** customers to keep buying from **Tehran**.

Number of the Day

USD4.1bn

Orascom Construction's (ORAS) backlog as of 30 September 2018.

Today's Quiz

What was Egypt's percentage contribution to Orascom Construction's (ORAS) new awards in Q3 2018?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Export Development Bank	EXPA	Dividends	7-Nov	Distribution of cash dividends of EGP 0.50 per share
Extracted Oils	ZEOT	Dividends	8-Nov	Distribution of cash dividends of EGP 0.05 per share
Six of October Development and Investment	OCDI	EGM	8-Nov	Reviewing Agenda Items
Beltone Financial Holding	BTFH	EGM	8-Nov	Discussing cancelling the global depository receipts (GDRs) system
Orascom Development Egypt	ORHD	EGM	8-Nov	Discussing capital increase
Ibsina Pharma	ISPH	BOD	8-Nov	Discussing financial results
Heliopolis Housing & Development	HELI	EGM/AGM	10-Nov	Reviewing Agenda Items
International Agricultural Products	IFAP	GM	11-Nov	Reviewing Agenda Items
Arabia Investments and Development	AIND	Lawsuit	11-Nov	Legal Disputes Relevant to the Company
Orange Egypt for Telecommunications	OREG	OPR	11-Nov	Opening of the OPR market at price per share of EGP17.29
Alexandria Flour Mills	AFMC	Dividends	12-Nov	Record date for cash dividends distribution of EGP 0.65 per share
National Co For Maize Products	NCMP	EGM	12-Nov	Reviewing Agenda Items
Egyptian Transport and Commercial	ETRS	EGM	13-Nov	Reviewing Agenda Items
Orascom Development Egypt	ORHD	Earnings Release	13-Nov	Announcing Q3 2018 financial results
Orascom Development Egypt	ORHD	Conference call	13-Nov	Discussing Q3 2018 financial results
Telecom Egypt	ETEL	Earnings Release	14-Nov	Announcing Q3 2018 financial results
Arabia Investments and Development	AIND	EGM/AGM	14-Nov	Discussing capital reduction
GB Auto	AUTO	Earnings Release	14-Nov	Announcing Q3 2018 financial results
Alexandria Flour Mills	AFMC	Dividends	15-Nov	Distribution of cash dividends of EGP 0.65 per share
Global Telecom Holding	GTHE	EGM/AGM	15-Nov	Discussing extending of maturity of revolving credit facility of USD 100 million
Dice Sport & Casual Wear	DSCW	EGM	15-Nov	Discussing stock split
Ibsina Pharma	ISPH	Lawsuit	19-Nov	Legal Disputes Relevant to the Company
Modern Shorouk Printing & Packaging	SMPP	EGM	21-Nov	Discussing capital increase
Edita Food Industries	EFID	EGM	25-Nov	Reviewing Agenda Items
Ezz Steel	ESRS	EGM	26-Nov	Reviewing Agenda Items
Porto Group Holding	PORT	Lawsuit	29-Nov	Legal Disputes Relevant to the Company
Al Ahram Co for Printing	EPPK	GM	11-Dec	Discussing recomposition of board of directors

Quiz Answer

60%.

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