

Thursday, 10 January 2019

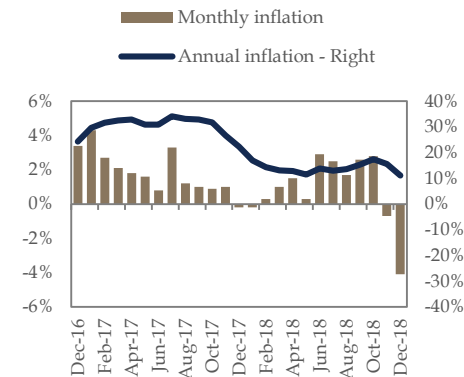
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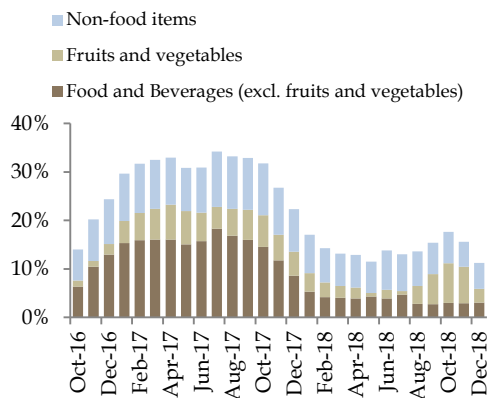
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Annual and monthly urban inflation rates (total republic)



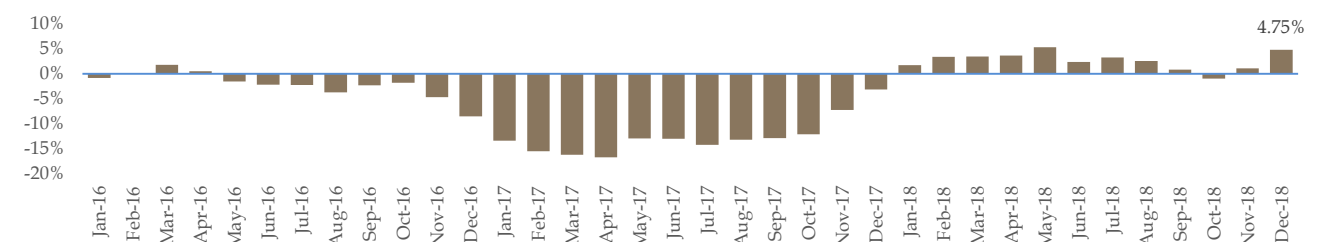
Source: CAPMAS

Contribution to annual headline inflation (total republic)



Source: CAPMAS

Real O/N deposit rate lies comfortably in the positive territory



Source: CBE, CAPMAS

New Year's gift: Inflation drops sharply in December

Inflation data released by CAPMAS for December showed that annual urban inflation decelerated noticeably in December to 12% from 15.7% in November. Total Republic's inflation, in turn, recorded a deceleration from 15.6% in November to 11.1% in December. We believe this is a great New Year's gift, as it gives a breather to consumers' purchasing power and brightens the monetary stance as well, giving the CBE more room to resume its easing cycle in the near future.

- Prices fell on a monthly basis led, as usual, by food and beverage:** Urban monthly inflation retreated remarkably, recording -3.4% in December. Total Republic's monthly inflation decreased as well, recording 4.1%, led mainly by the decrease in most food items including meat and poultry, vegetables and fruits, and fish.
- We expect inflation to maintain its low double-digit readings in the current quarter (January–March):** We expect inflation to maintain its current calm profile, given “no surprises” by the government in the near future. As we expect a “neutral” effect of the base-numbers, we believe fluctuations in inflation rates will be led by food items with relative stability in other components of the index. This “calm profile” is expected to be interrupted modestly by shifting prices of Octane-95 gasoline in April, followed by subsidy cuts anticipated by June 2019 for remaining fuel grades.
- More room for the CBE to breathe, especially if the global scene becomes more supportive:** We see a higher possibility of a 1% cut by the CBE during Q1 2019, based on two facts: (1) Lower inflation rates give the CBE a better real interest rates profile. With a 12% inflation rate, we have a real 4.75% O/N deposit rate at the CBE. (2) Globally, the Fed showed tendency to slow down the pace of its rate hikes, allowing emerging markets to get a second wind with a less aggressive global tightening. We believe these two facts, if maintained, may give Egypt's easing cycle a more plain sailing.

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