

Today's Story

The Five Stages of Grief – Banks and T-Bill Auctions

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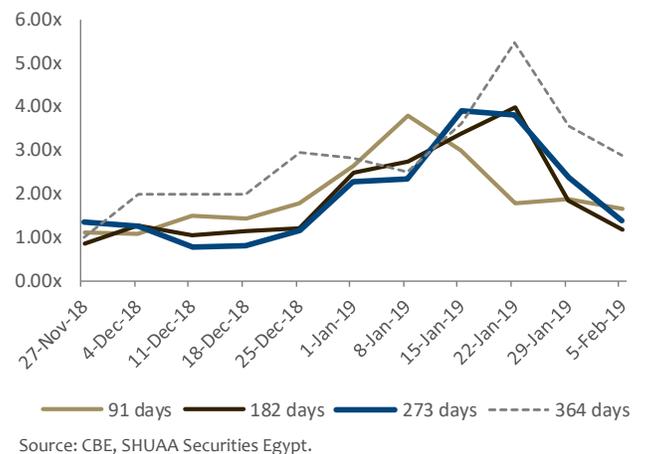
- The past vs. the present:** We often alluded to how the amendment to the income tax law recently approved by the **House of Representatives** will trickle down to the way banks decide on their balance sheet. Since the intention for tax amendments was unveiled, we saw together a roller coaster of reactions triggered by the two sides: the banking sector, represented by **Federation of Egyptian Banks (FEB)**, and the **Ministry of Finance**, before they finally appeared to have reached an area of common ground. Initial expectations tended to point to rising Treasury yields reflecting banks' discouragement towards Treasury on the back of the then-proposed income tax code. However, reality had a different scenario, as shown by the recently-announced Q4 2018 results of some banks—at least for now. While the majority of banks have not yet released their financials for Q4 2018, we were able to trace their behavior here through data captured from **T-Bills auctions** that were taking place since the amendments were teased back on 21 November 2018.

- T-Bills auctions divulged banks' behavior:** Through 11 auctions, the coverage ratios (i.e. submitted bids vs. required amounts) differed substantially. In the early auctions, right after the amendment announcement, we have seen average coverage touching its lowest levels throughout the sample. As negotiations between FEB and Ministry of Finance proceeded, the terms concluded seemed to have changed banks' perception fundamentally. Due to the fact that banks will not be accountable for their past holding of Treasuries under the new code, their attitude towards buying Treasuries has shifted from shy to aggressive, in an attempt to squeeze the last drop out of Treasury investments under the old tax treatment. This was clearly evidenced by the evolution in auctions' coverage after 27 November 2018, where average coverage across tenors jumped from 1.07x up to as much as 3.76x on 22 January 2019. We note that banks' thirst to pile up Treasury investments has waned notably in the last two auctions, with average coverage per auction slipping off its 3.76x high to wind up at 1.77x on 5 February 2019. The shift in the last two auctions might be explained either by the imminent execution of the new tax code or banks having already completed the allocation of their short-term liquidity in T-bills.

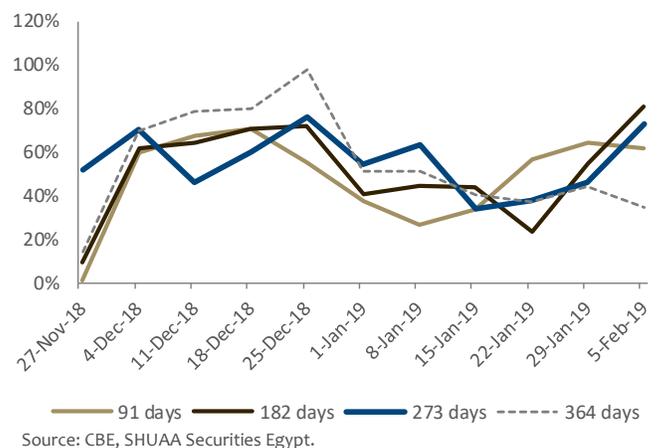
- Ministry of Finance:** On the other hand, the Ministry of Finance entered the first auction on 27 November 2018, with a big exclamation mark, accepting on average only 19% of submitted bids and fulfilling on average only 23% of its financing needs. That question has been mainly answered by the jaded appetite from banks to participate at that point of time, besides the high yields required by banks back then. Later on, as banks went on to pour their liquidity into later auctions as mentioned above, the ministry even started to accept more bids than they originally required, because they liked the yield and the lush volume submitted.

- What is awaiting banks?** Reading through the past events, we see how banks found their way out of the tax amendment situation. As psychology suggests, you pass through five stages in response to grief: **Denial, Anger, Bargaining, Depression**, then **Acceptance**. Reacting to the bad news, we saw banks moving on from **denial** and **anger**, manifested in the weak participation of banks in the first auction on 27 November 2018, to convening comprehensive meetings led by FEB. On to the **bargaining** stage, they negotiated a better deal of treatment, allowing the law—for example—to be levied in a non-retroactive manner. While **depression** is hard to

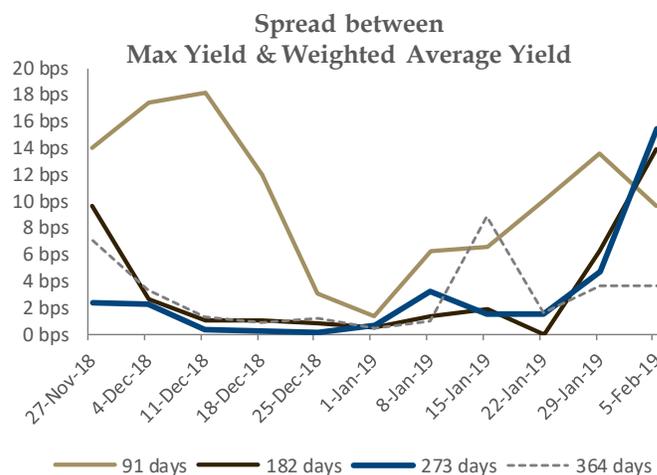
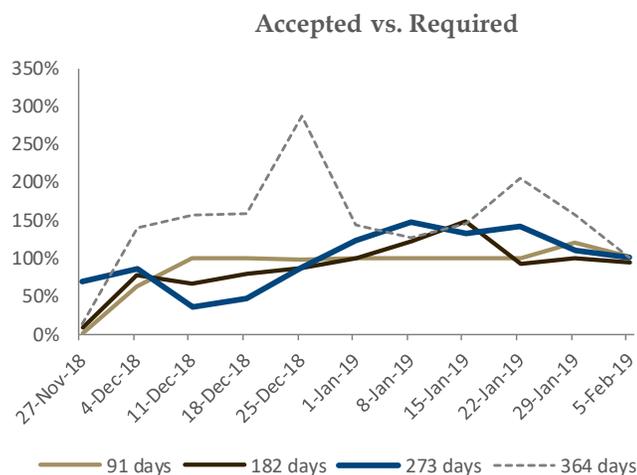
Bid-to-Cover Ratio



Accepted vs. Submitted



capture and translate in the financial world, 2019 should mark the final stage: **acceptance**. Going forward, it's highly thinkable that banks' appetite for auctions will gradually fade as 2019 will fall under the umbrella of the new tax code. Banks' net interest margins (NIMs) should be peaking in 2019 on the back of bulky purchase of Treasuries through Q4 2018. In addition, banks which will carry on their buying behavior towards Treasuries with the same enthusiasm level will face a decoupling between their NIMs and their bottom line margins, as higher yields on Treasuries will support NIMs, where higher effective tax rates will punish net earnings.



Source: CBE, SHUAA Securities Egypt.

Top Headlines

Corporate

- **Egypt Kuwait Holding (EKHO)** mulls acquiring **Emisal Salts** where **National Bank of Egypt (NBE)**, the largest shareholder, expected to lead the sale. (Enterprise, Al Borsa)
- **Public Enterprises Minister** Hisham Tawfik said that the floating of the 4.5% additional stake of **Eastern Company (EAST)** on the EGX will depend on the performance of the stock market and achieving an average daily trading value of at least EGP1bn. (Arab Finance)
- The **EGX** approved the listing of **Raya Holding for Financial Investments (RAYA)** capital increase of 88.28mn shares through distributing 0.7:1 stock dividend. (Arab Finance)

Non-Corporate

- The **Central Bank of Egypt** has received the USD2bn fifth tranche of the USD12bn **IMF** loan after the fund had concluded its fourth review of **Egypt's** economic reforms. (Reuters)
- **Egypt's** unemployment rate fell to 8.9% in Q4 2018 from 10% in the previous quarter, the **Prime Minister's** office said in a statement. (Reuters)
- The government is discussing a new revenue strategy with the goal of cutting the budget deficit to 5% over the next 3-4 years. Under the new strategy, the government expects tax revenues to surpass EGP1tn over the coming years through improving collection process and expanding the formal economy. (Enterprise)
- **The Cabinet** approved the draft Consumer Credit Act, which would govern retail financing and consumer credit. The 30-article bill would set up a federation for non-banking consumer finance and require companies to obtain a license from the Financial Regulatory Authority to sell goods on installment. All consumer finance players will be subject to the legislation if it passes, but retailers and manufacturers are subject to it only if more than 25% of their annual sales are made on installment plans. (Enterprise)
- **The Ministry of Finance** will make electronic payment of gov't fees mandatory by early May for amounts exceeding EGP500. The ministry is planning to have installed by April some 22k ATMs and points-of-sale (PoS) across government service offices. (Enterprise)

Markets

↗	EGX 30	14,766.59	0.23%	↘	EGX 70	689.34	(0.03%)
↗	DFMGI	2,557.01	0.56%	↗	ADSMI	5,143.24	0.12%
↗	TASI	8,633.33	0.11%	↘	QE Index	10,683.94	(0.29%)
↘	S&P 500	2,731.61	(0.22%)	↘	MSCI EM	1,048.46	(0.33%)
↘	Gold	1,304.42	(0.17%)	↘	Brent Oil	62.44	(0.40%)

*As of market close, except for commodities at spot price as of 8.19am CLT.

- **MENA Markets:** EGX 30 ended higher in Wednesday for the tenth session in a row, supported by gains over COMI, JUFO, and MNHD. UAE indices closed in green, with ADSMI boosted by its telecom and banking stocks, while DFMGI was strengthened on the telecom and the service sectors. Also, TASI delivered a positive performance fueled by gains in banking and materials sectors.
- **Global Markets:** US stocks slid on Wednesday dragged by video games stocks, Oil prices slipped on Thursday after US crude inventories rose and the country's production held at record levels, but OPEC-led supply cuts and Washington's sanctions against Venezuela supported the markets.

Number of the Day

58.5%

The contribution of fuel oil blend to Alexandria Mineral Oils Co.'s (AMOC) total sales in Q1 FY2018/19.

Today's Quiz

What is the nameplate capacity of Sidi Kerir Petrochemicals' (SKPC) ethylene cracker?

(Answer located at the end of this newsletter)

Corporate Events

Company	Ticker	Event Type	Event Date	Reason
Egyptian Electrical Cables	ELEC	EGM	10-Feb	Reviewing Agenda Items
Commercial International Bank (CIB)	COMI	Dividends	14-Feb	Distribution of 25% stock dividends
Arabia Investments and Development	AIND	Lawsuit	17-Feb	Legal Disputes Relevant to one of the company's subsidiaries
Assiut Islamic Trading	AITG	EGM	18-Feb	Reviewing Agenda Items
Ibnsina Pharma	ISPH	Lawsuit	19-Feb	Legal Disputes Relevant to the Company
Qatar National Bank Alahly	QNBA	EGM / AGM	28-Feb	Discussing capital increase, stock split
Arabia Investments and Development	AIND	Lawsuit	17-Mar	Legal Disputes Relevant to the Company
Global Telecom Holding	GTHE	AGM	27-Mar	Discussing capital increase
Paints & Chemical Industry	PACH	Dividends	30-Apr	Distribution of cash dividends of EGP1.5/share

Quiz Answer

300,000 ton per annum.

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