

Egypt Turmoil Curbs Demand for Black-Market Dollars: Arab Credit

Ahmed A. Namatalla reports for Bloomberg.



Demand for dollars on [Egypt's](#) black market declined as the crisis that forced President Mohamed Mursi out of power spurred importers to scale back their purchases and manufacturers to cut production.

The U.S. currency traded at 7.56 Egyptian pounds on the unregulated market today, a 7.6 percent premium over the official rate of 7.0283, according to the average quote of five

dealers in Cairo who asked not to be identified because the business is illegal. The premium narrowed from 8 percent yesterday and as high as 15 percent in April. Egypt's benchmark stock index and bonds soared today.

Businesses and consumers have gone into "panic mode" and are limiting purchases to essentials, according to Magdy Tolba, who manages two companies that make textiles locally for brands including Calvin Klein Inc. and Levi Strauss & Co. The pound has weakened 9.5 percent this year, the biggest drop in the [Middle East](#) after [Syria's](#) currency.

"Politics are casting a shadow over the economy as a whole, almost bringing everything to a standstill," said Tolba, who sent his 6,500 workers home early yesterday and postponed deliveries. "Importers, exporters, consumers -- everyone -- is worried."

Army Acts

Egypt's military-appointed interim president was sworn in today, starting a polarized nation on a new course hours after Mursi was ousted as the country's first democratically elected civilian leader in what he described as a coup. Minister of Defence Abdelfatah Al-Seesi yesterday called early presidential elections as part of a road map agreed on with politicians and religious leaders.

The yield on the 5.75 percent bonds due in April 2020 plunged 1.48 percentage points, the most since the notes were sold in 2010, to 9.29 percent at 2:57 p.m. in Cairo, data compiled by Bloomberg show. That compares with 6.27 percent a year ago. The EGX 30 Index of stocks rallied 7.3 percent, the biggest jump since June 25, 2012, the first trading day after Mursi was declared president. Commercial International Bank Egypt SAE led the gains, surging 10 percent.

Twelve-month non-deliverable forwards on the pound, which

reflect expectations of where the currency is headed, strengthened 1.1 percent to 8.95 a dollar, still near the lowest on record and indicating a depreciation of about 21 percent in the period.

Credit Risk

Five-year credit-default swaps, which protect investors against non-payment of Egyptian government debt, dropped 113 basis points today to 787 basis points. The contracts are still among the 10 most expensive globally. The Market Vectors Egypt [exchange-traded fund](#) rallied a fifth day in [New York](#) yesterday.

Egypt's pound has weakened this year as the central bank loosened its grip on the currency to stem the drop in [foreign reserves](#), which plunged by more than 50 percent following the 2011 revolt that ousted former president [Hosni Mubarak](#). The central bank allowed the pound to depreciate 0.1 percent yesterday, the most since May 16, before the military's deadline.

Importers, who bring in about \$4.8 billion of goods every month, according to central bank data, are waiting to see how the transition pans out after a political impasse in the past year pitted Mursi against detractors who claimed he sold out the goals of the 2011 revolt.

'Risky Environment'

"This is a very risky environment for business," Nour Mohei-el-Din, assistant general manager for treasury at BNP Paribas Egypt, said by phone yesterday before the military removed Mursi. "We're seeing imports, excluding very basic goods, come almost to a complete halt."

Political bickering since Mursi was elected in June 2012 complicated the government's ability to pull the nation of almost 85 million people out of the [worst economic slump](#) in two decades. It has also prolonged talks with the [International](#)

[Monetary Fund](#) for a \$4.8 billion loan.

Egypt's economy probably grew 2.1 percent in the fiscal year that ended June 30, approaching the slowest pace since 1992, the median of 17 analysts' estimates compiled by Bloomberg shows. Unemployment exceeds 13 percent and revenue from tourism, one of the government's main sources of foreign currency, has dried up.

Debt Mounting

The need for stability in Egypt is amplified by the fact that the nation is facing a mountain of debt, including 1.4 trillion pounds (\$199 billion) of domestic liabilities and another \$39 billion of external debt, according to Finance Ministry data. Together, that represents about 94 percent of economic output.

The central bank has taken steps to ease the burden of a currency shortage on importers since it started foreign-exchange auctions on Dec. 30 to limit banks' access to dollars. Those sales typically take place three times a week, and the regulator has held exceptional auctions to provide banks with funds to cover imports of basic commodities, helping narrow the black-market premium since April.

The pound appreciated for the first time since the start of the auctions today, [strengthening](#) to 7.0184 per dollar from 7.0189, according to an e-mail from the central bank.

Importers are getting used to the higher costs, according to Tolba, whose companies sometimes turn to the black market. To cope with the added expense, companies operate at a much lower capacity and put off buying intermediate goods, he said.

Once circumstances become safe enough for employees to return to work, Tolba is willing to shell out more to import materials for the garments his factories produce. He's just waiting for greater political stability.

“We need solid economic management, which doesn’t exist right now,” he said yesterday. “We’re a very labor-intensive industry, so when our employees can’t come to work, we have to shut down. Hopefully tomorrow we can return to normal.”