Egypt: Long Belly, Short Long-End

Recommendation. Overweight EGY 6.875% Jun 2032 [VERIFY CUSIP] versus underweight EGY 8.700% Mar 2049 [VERIFY CUSIP] at current [VERIFY: pull spread differential from Bloomberg `EGYPT GOVT CURVE`, expressed as OAS '49 minus OAS '32, in bps] spread differential. Six-month target: differential widens by [VERIFY: bps, set at 50th-to-25th percentile of 24-mo historical range]. Stop-out: differential compresses to [VERIFY: 75th percentile of 24-mo range]. Trade size: 0.5 to 1.0 percent of a hard-currency EM debt sleeve.

Why this, why now

Pillar 1. The EFF is delivering, but the belly captures the regime; the long-end requires extrapolating past it. The IMF Executive Board completed Egypt's 5th and 6th reviews under the Extended Fund Facility on 2026-02-26, releasing $2.3B in disbursements (`pr-26064`). Twelve of fourteen structural benchmarks were met. Real GDP re-accelerated to 5.3 percent y/y in Q1 FY25/26 versus 4.4 percent in FY24/25 [VERIFY: confirm from Staff Report CR 2026/069 ¶ on real activity]. Headline CPI fell to 11.9 percent in January 2026 from a 2023 print of 33.88 percent (WB FP.CPI.TOTL.ZG). The belly tenor sits inside the credible policy horizon: it earns the carry, the disinflation, and the IMF discipline premium. The long-end (2047, 2049, 2050s) prices a continuation of that regime through a 2027+ horizon when the programme term-structure ends. That is a different bet.

Pillar 2. External vulnerability is widening, not narrowing. Egypt's current account deficit widened to 5.69 percent of GDP in 2024 from 2.21 percent in 2022 (WB BN.CAB.XOKA.GD.ZS). Suez Canal Authority revenue has not normalized to pre-Houthi levels [VERIFY: pull latest SCA monthly revenue disclosure, compare to 2023 baseline]. Gross reserves recovered to $44.9B (WB FI.RES.TOTL.CD, 2024) from the $32.1B 2022 trough, but the recovery is supported by IMF and GCC inflows rather than structural CA improvement. When external balance disappoints, the long-end re-prices first because its credibility premium is the most dependent on continued multilateral support. [VERIFY: latest CBE monthly bulletin reserves print; if below $42B, see Risks.]

Pillar 3. Consensus underweights political tail risk beyond the programme. [VERIFY: identify specific recent sell-side note — likely JPM EM Strategy or Citi EM Fixed Income — that holds Egypt OW the long-end, quote their stated rationale (typically real-yield arguments or roll-down).] The disagreement is on horizon, not direction: their thesis assumes the IMF programme credibility extends through the next election cycle. We think the market should differentiate between programme-period risk (which the belly captures) and post-programme regime risk (which the long-end prices as if the programme is permanent). Real yields compensate for inflation; they do not compensate for FX regime credibility risk on a 20-25 year horizon.

Trade construction

Leg	Bond	Coupon	Maturity	Price [VERIFY]	YTM [VERIFY]	OAS [VERIFY]
OW	EGY [VERIFY CUSIP]	6.875%	Jun 2032	---	---	---
UW	EGY [VERIFY CUSIP]	8.700%	Mar 2049	---	---	---

- Net DV01: sized to capture target bps move on the differential
- Net carry (annualized): [VERIFY: positive or negative carry, in bps. If negative, document the cost and roll-down offset]
- 6-month roll-down: belly leg picks up [VERIFY: bps] on the EGY curve at current shape; long-end gives back [VERIFY: bps]
- Stop logic: exit if differential compresses to 75th percentile of 24-month historical range (per Task 5.4 in build plan)

Catalysts (next six months)

1. **IMF EFF Review #7 — expected [VERIFY: date, likely Jun or Jul 2026 based on six-month review cadence].** Completion on schedule with no waiver requests: belly OAS compresses an estimated 25 to 50 bps; long-end participates modestly given baseline already priced.
2. **CBE Monetary Policy Committee meeting — [VERIFY: next MPC date].** With January 2026 headline CPI at 11.9 percent and policy rate at [VERIFY: current CBE overnight deposit rate], rate-cut path of 100 to 200 bps over six months is consistent with a steepening of the front end and supports belly carry.
3. **Q1 FY26/27 fiscal disclosure and Suez Canal revenue update (approximately Aug 2026).** If SCA monthly revenue stabilizes above [VERIFY: target threshold from baseline historical], current-account deficit prints inside negative 4 percent of GDP for FY25/26 and reduces external-funding gap.

Risks (with falsification triggers)

1. **Gross reserves print falls below $42B in any single CBE monthly bulletin.** Belly thesis breaks. External vulnerability has accelerated; close the trade.
2. **EFF Review #7 delayed beyond 90 days from expected date, or completes with waiver requests on primary balance.** Programme credibility crack. The entire curve widens, but the long-end re-prices more than the belly because its credibility premium is more dependent on programme continuity. Close the OW belly leg; the UW long-end leg may still work but on different reasoning. Re-underwrite.
3. **EGP devaluation greater than 10 percent in any single month versus current approximately [VERIFY: pull EGP/USD spot at cut date from Bloomberg `EGP Curncy`,**

expected around 49 to 51] level. Disinflation reverses, CBE forced into emergency tightening, belly carry compresses faster than long-end roll-down can offset. Close trade.

21-KPI scorecard summary

Full scorecard in `scorecard.xlsx`. Three KPIs where Egypt diverges most from peer set (PAK, NGA, TUR), as of cut date 2026-05-23:

- **Inflation trajectory:** Egypt 11.9% Jan-26 spot (declining from 33.88% 2023 avg). Versus Turkey 58.51% (2024 WB), Pakistan 12.63%, Nigeria 33.24%. Egypt has the cleanest disinflation print in the peer set.
- **Current account:** Egypt -5.69% GDP (2024). Worst in peer set; Nigeria +6.82%, Pakistan +0.13%, Turkey -0.77%. External vulnerability flagged.
- **Reserves trajectory:** Egypt reserves grew 36 percent 2022-2024 ($32.1B to $44.9B). Versus [VERIFY: peer reserves trajectory from WB API pulls].

Scorecard percentiles computed versus 4-country peer comp set (not full 72-sovereign EMIA universe; data limitation noted in `limitations.md`).

What I would want to know but couldn't get

- Bond-level CUSIPs, YTMs, OAS for Egypt USD universe (pending Bloomberg session)
- 24-month historical OAS differential for the belly/long-end pair (pending Bloomberg)
- CBE reserve composition (USD/EUR/gold split) at cut date (pending latest CBE bulletin)
- Direct text of IMF Feb-26 Staff Report CR 2026/069 to verify the 12-of-14 SB claim and IMF projections (PDF pending user download)
- Latest two sell-side EM strategy notes for named consensus identification (pending user pull)

Sources

Full source registry in `sources.md`. Primary doc P1 through P8 to be downloaded per `USER-ACTION-REQUIRED.md`. World Bank public-API pulls staged in `data/macro.csv` and `data/peer_data.csv` with fetch timestamps and indicator codes.

Version

v0.9 (2026-05-28). Republishes as v1.0 once: (a) IMF Staff Report CR 2026/069 read and integrated, (b) Bloomberg session populates bond CUSIPs and OAS values, (c) named consensus identified from at least one current sell-side note. Estimated turnaround once those inputs are in: 3-4 hours.