

Egypt default chances judged to be low - Investment International

Written by Ray Clancy
Thursday, 03 February 2011 13:35

Amundi Asset Management may start increasing exposure to Egypt's sovereign external bonds despite ongoing political turmoil as the probability of default is extremely low, the funds head of emerging debt said.

Cairo markets have been shut after falls in stock markets and the tightly controlled currency, with protestors demanding the removal of President Hosni Mubarak showing no sign of dispersing.

Sergei Strigo told a briefing he had cut exposure to the Middle East in the wake of the uprising in Tunisia earlier this month and last week he sold all his holdings of local Egyptian pound denominated debt.

But he said; 'We are currently trying to increase exposure to external debt. From an external debt perspective, it's difficult to see Egypt default whether Mubarak stays or goes. Egypt's debt to GDP ratio is low, they have enough (central bank) reserves and they are a close ally of the United States.'

Amundi which manages almost €700 billion in assets worldwide, was created by combining the asset management arms of Credit Agricole and Societe Generale.

Egypt's debt insurance costs have surged more than 150 bps this year while its most traded 2020 dollar bond is yielding 7.2% versus 5.2% at the start of 2011.

Strigo conceded, however, that political risks remain extremely high, especially for local assets which could fall further.

Foreigners were estimated to hold around \$25 billion worth of local Egyptian assets before the uprising, of which half was in Treasury bills and bonds, according to Barclays.

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'Egypt was a carry trade with very low volatility, many people considered it as good as cash. You got 9% in one year (T-bill) with very little volatility, it was a pure carry trade. The speed at which things moved caught everyone by surprise. Egypt has repriced and could reprice more,' Strigo explained.

Egypt and the rest of North Africa and the Middle East account for less than 4% of JP Morgan's EMBI Global index and its portion of the index is currently trading at 392 bps over US Treasuries, 4 bps tighter on the day.