Copernican Journal of Finance & Accounting

2025, volume 14, issue 4

e-ISSN 2300-3065
p-ISSN 2300-1240

Abd-Allah, M.H. (2025). The Impact of Exchange Rates on Stock Market Performance: Evidence from the Egyptian Stock Exchange. Copernican Journal of Finance & Accounting, 14(4), 9–24. http://dx.doi.org/10.12775/CJFA.2025.015

Mustafa Hussein Abd-Allah*
Sadat Academy for Management Sciences

THE IMPACT OF EXCHANGE RATES ON STOCK MARKET PERFORMANCE: EVIDENCE FROM THE EGYPTIAN STOCK EXCHANGE

Keywords: exchange rate volatility, Granger Causality, cointegration, VAR model, emerging markets, EGX 30.

J E L Classification: F31, E44, C32.

Abstract: This study assesses the causal connection between the currency pairing of the USD versus the Egyptian Pound (USD/EGP) and stock market activity in Egypt in the short term using quantitative data for each day from 2015–2025. The study utilizes logarithmic return data for both the daily currency exchange rate and the 30 stock index (EGX 30) on Egypt's stock exchanges. Causation and association between variables are detected with standard time series analysis methods: the Augmented Dickey-Fuller (ADF) test for unit root; Phillips-Perron (PP) for unit root; Johansen for long-run relationship between two variables; and the VAR, Granger Causality tests, plus Impulse Response Functions (IRFs), to analyze the short-run dynamics of the stock market and the foreign exchange rate. There is no evidence of long-run cointegration between the foreign exchange rate and equity market performance in our analysis based on the long-run Johansen cointegration tests. Conversely, the Granger Causality test supports the proposition that there exists a unidirectional link from stock returns to initial changes in/removal from exchange rates look for additional supporting evidence; that the stock market provides an indication of future movements in foreign

Date of submission: October 18, 2025; date of acceptance: January 16, 2026.

* Contact information: m_haa60@yahoo.com, Lecturer of Business Administration, Sadat Academy for Management Sciences, Cairo, Egypt, phone: 002 0 109 919 5459; ORCID ID: https://orcid.org/0000-0002-0531-6325.

exchange rates. These findings perhaps are valuable indicators for both investors and policymakers with respect to forecasting and managing risk.

Introduction

For many years, debate has existed within the international finance field on how exchange rates relate to stock market performance and the resulting effects on monetary policy, investment strategy, and risk management are far-reaching; therefore, it is necessary to understand how fluctuations in exchange rates impact the equity value of companies that conduct business in multiple currencies. For example, Goods Market Theory states that when a country's currency depreciates, it becomes more competitive in terms of exports, thereby increasing its profitability and driving up the price of stocks belonging to businesses engaged in exporting goods. Conversely, Asset Market Theory states that an increase in the value of a currency is interpreted as a confidence boost from investors, attracting capital inflows, resulting in increased equity values. Because of the two opposing views, scholars have found it challenging to develop a consistent and universal empirical relationship between exchange rates and stock performance, especially in emerging markets with volatile capital flows, along with repeated structural adjustments.

The research literature reveals that there is no agreement among researchers on whether there is a relationship or a correlation between stock price and exchange rate. Some research has documented a positive long-run cointegration between the two asset classes (Moussa & Delhoumi, 2021) while other studies have not found any significant long-run relationships between stock prices and exchange rates (Rady, Essam, Yahia & Shalaby, 2024). The disagreement continues to persist regarding the relationship between these asset classes in the short run. Some researchers (Agrawal, Srivastav & Srivastava, 2010) believe that stock prices lead currency fluctuations, while Suriani, Kumar, Jamil and Muneer (2015) established that both markets are independent from one another. Research from trade-based economies has provided evidence of significant causal relationships between stock price performance and the exchange rate (Khan, 2019).

The Egyptian case has been one of the most compelling examples of a country going through these changes, providing an excellent opportunity to study the effects of these adjustments. The exchange rate of Egypt has undergone several major changes mainly due to both domestic and international economic

developments. For years, Egypt utilized a strict fixed exchange rate system and used the Central Bank of Egypt (CBE) to maintain stability within their currency (Ahmed, 2020). However, when faced with increasing strains on their foreign reserve and balance of payments, the Egyptian government began to slowly change their exchange rate policies following the year 2013. On November 3, 2016, Egypt moved to implement a flexible exchange rate regime as part of an IMF-supported economic reform initiative to achieve sustainable fiscal policy (International Monetary Fund, 2016). This was linked to the establishment of a loan agreement with the IMF of $12 billion in August 2016. Subsequently following the announcement of the flexible exchange rate, the value of the Egyptian pound dropped dramatically from approximately 8.8 EGP/USD down to approximately 18 EGP/USD – an over 100% fall in value.

The floatation initially relieved some of the pressure that had been put on Foreign Reserves (approximately $19 billion in October 2016 and more than $32 billion in November 2017) and subsequently improved the competitiveness of Egyptian Exports according to IMF (2022), but it also created an environment for tremendous Inflationary Effects and decreased domestic purchasing power (IMF, 2022). The Egyptian Peso encountered downward pressure due to the ongoing state of global economic dislocations. After the Russia/Ukraine Incident, the Peso was devalued on three occasions from 2022 to 2023 for a total of nearly half of its value to a point where, in January 2023, 1 US dollar was worth approximately EGP 31. Inflation rose to 31.9 percent as of February (CBE) illustrating the extreme vulnerability of the economy. The Crisis continued in March 2024 when the central bank of Egypt (CBE) allowed the Peso to float freely again resulting in a rapid devaluation that saw the exchange rate exceed EGP 45 for US dollars and subsequently decline further to approximately EGP 49.

Egypt's extreme economic instability throughout 2016 has greatly affected many aspects of the economy and has created an excellent opportunity for a closer observation of the short-run relationships between the stock market and the value of the Egyptian pound in relation to the US dollar. Despite extensive macroeconomic restructuring occurring in Egypt from 2016 onward, academic studies focusing on the EGX 30 Index and the Egyptian Exchange remain limited and inconclusive. Therefore, the purpose of this research is to determine if there is a short-run causal connection between fluctuations in the value of the dollar against the Egyptian pound and stock price performance on the EGX 30 Index using high-frequency time series data for the period following the floatation of the Egyptian pound. In particular, this research will test for

the existence and directionality of any short-run causal relationships between the dollar-to-pound exchange rate and the price of stocks on the EGX 30. Specifically, this research will determine whether stock price movements lead or respond to changes in dollar-to-pound exchange rates (stock-to-FX) or whether fluctuations in dollar-to-pound exchange rates lead or respond to movements in EGX stock prices (FX-to-Stock), or whether stock prices and dollar-to-pound exchange rates are functionally independent in the short-run.

By providing robust empirical evidence on this relationship during one of the most volatile periods in Egypt's economic history, this study contributes to both the theoretical and policy-oriented understanding of exchange rate stock market dynamics in emerging economies. The findings are expected to offer valuable insights for policymakers, institutional investors, and foreign portfolio managers seeking to navigate Egypt's evolving financial environment.

The remainder of this paper is organized as follows: Part I presents a comprehensive review of the existing literature; Part II outlines the data and methodological framework used for empirical testing; and Part III reports and discusses the main findings.

Literature Review

The relationship between exchange rates and stock market performance is a critical and continually evolving area of research in international finance, characterized by persistent empirical disagreement across global markets. This complexity arises from the conflicting theoretical predictions of the Goods Market Theory (linking currency depreciation to trade competitiveness and corporate profits) and the Asset Market Theory (connecting currency movements to capital flows, investor sentiment, and monetary policy expectations).

The question of long-run equilibrium between these two financial aggregates remains a central methodological challenge, particularly in the Egyptian context. A large body of recent research focusing on global emerging 7 markets and the MENA region (Moussa & Delhoumi, 2021) suggests that a long-run relationship exists, often finding cointegration and a significant positive relationship where currency appreciation supports stock prices. However, the stability of this relationship is fiercely contested by studies focusing directly on Egypt and the region. Moreover, specific studies on the Egyptian market such as Rady et al. (2024) has also consistently found no evidence of cointegration between the EGX 30 and the exchange rate, reinforcing the view that these variables

operate independently in the long run. Similar conclusions from Wickremasinghe (2012) on Sri Lanka and Ibrahim (2000) on Malaysia reinforce the necessity of re-evaluating the long-run stability in Egypt after its structural reforms.

Regarding short-run causal dynamics, the literature is profoundly fragmented. A substantial body of recent work on ASEAN and BRICS countries supports the Goods Market Theory, confirming a strong negative relationship where the depreciation of the national currency positively affects stock performance, a finding consistent with Khan's (2019) analysis of China. Conversely, the alternative hypothesis, where the stock market acts as a leading indicator, remains a persistent and critical finding, established by the work of Agrawal et al. (2010) and Wickremasinghe (2012). Crucially for Egypt, Ahmed (2019), consistently found that the exchange rate does not Granger cause stock prices in Egypt, lending strong support to the Stock-to-FX or the independence hypothesis for the EGX 30. Furthermore, other studies, such as Cakan and Ejara (2013) and Jawaid and Ui Haq (2012), confirm the presence of bidirectional causal relations, while Olugbenga (2012) found a clear unidirectional causality running strictly from the exchange rate to stock prices in Nigeria. The foundational work of Dornbusch and Frankel (1988) highlighted that short-run exchange rate movements are largely driven by unanticipated monetary policy shocks, which may explain the difficulty in establishing a consistent causal link with stock returns.

When examining this phenomenon's dynamics, we should also include relevant research studies done on related financial dynamics by other new developing world countries. One such study is authored by Vijayakumar (2020) in the *Copernican Journal of Finance & Accounting* and studied the interdependencies of northern suburban India's stock market's relationship with currency exchange rates, gold, and crude oil. Based on his research and analysis, Vijayakumar determined there were long-term stable interrelations and utilized a multi-period Johansen co-integration method to evaluate multiple correlations. He found evidence of stable relationships for the Indian stock market, while for this research, based on an Egyptian stock market dataset, there was only one stable relation observed – the results are shown in figure 1. Therefore, it appears this relationship, similar to Vijayakumar's, is regime dependent, with the results differing substantially by subperiods of time.

Finally, advanced literature stresses that volatility and asymmetry are paramount factors that simple linear models often fail to capture adequately. The findings of Aftab, Ahmad, Ismail and Phylaktis (2021) critically highlight the

importance of asymmetric effects, where the market's response is non-linear and dependent on the direction and magnitude of the currency shock, severely limiting the efficacy of basic VAR models. This complexity is compounded by the destabilizing effect of volatility itself, which Sichoongwe (2016) demonstrated has a negative impact on stock market capitalization by increasing investment uncertainty. Given the profound structural changes and high volatility that characterized the Egyptian economy post-2016, our research on the benchmark EGX 30 index provides a crucial empirical analysis to definitively establish the short-run causal direction in this highly contested academic area.

Data and Methodology

Data

The study utilizes daily time series data for the Egyptian stock market and the exchange rate spanning the period from January 1, 2015, to September 25, 2025. This period is specifically chosen to capture the significant shifts in the Egyptian financial landscape, particularly the effects of the adoption of the flexible exchange rate regime in November 2016 and subsequent currency devaluations. The Stock Price Index (SP) is represented by the daily closing price of the EGX 30 Index. The EGX 30 is the main benchmark index of the Egyptian Exchange, composed of the top 30 companies in terms of liquidity and market capitalization. This index is a highly accurate reflection of the overall performance and investor sentiment in the largest and most active segment of the Egyptian equity market. The Exchange Rate (ER) is defined as the daily nominal exchange rate of the Egyptian Pound against the US Dollar (EGP/USD). To ensure statistical reliability and to allow for the interpretation of results as elasticities, all raw data series were converted into their natural logarithmic form (LSP and LER). The first difference of the logarithmic series (D(LSP) and D(LER)), which represents daily returns or changes, is used for the primary short-run modeling.

Methodology

The study employs a sequential econometric approach based on the properties of the time series variables.

Stationarity Testing (Unit Root Tests)

The first step involves testing the stationarity of the time series variables. The Augmented Dickey-Fuller (ADF) test is used for this purpose. The test is applied to the LSP and LER series at both their level and first difference. The results determine the order of integration of the variables and guide the choice of the appropriate dynamic model. The null hypothesis (H_0) for the ADF test is that the series contains a unit root (is non-stationary).

Cointegration Analysis (Long-Run Relationship)

If both series are found to be integrated of the same order (I(1)), the Johansen Cointegration Test is employed to investigate the existence of a stable long-run equilibrium relationship. The test is conducted under the appropriate trend assumption (case 3: linear deterministic trend in the data, with an intercept in the cointegrating equation). The test yields two statistics: the Trace statistic and the Maximum Eigenvalue statistic.

- Decision Rule: If cointegration is detected ($r \geq 1$), the Vector Error Correction Model (VECM) is appropriate.
- Actual Finding: Based on the empirical results, cointegration was not found ($r=0$), which dictates the exclusive use of the VAR model on the first differences.

Short-Run Dynamics and Causality Testing (VAR Model)

Since the series were found to be I(1) but not cointegrated (I(0) in the long run), the short-run relationship is modeled using the Vector Autoregression (VAR) model applied to the stationary first differences (D(LSP) and D(LER)). The VAR model allows for the simultaneous analysis of the interaction between the two variables without the restriction of a long-run relationship.

The VAR system is represented by the following equations:

$$\Delta \mathrm{LSP}_t = \alpha_1 + \sum_{i=1}^{p} \beta_{1,i} \Delta \mathrm{LSP}_{t-1} + \sum_{i=1}^{p} \gamma_{1,i} \Delta \mathrm{LER}_{t-1} + \varepsilon_{1t}$$

$$\Delta \mathrm{LER}_t = \alpha_2 + \sum_{i=1}^{p} \beta_{2,i} \Delta \mathrm{LSP}_{t-1} + \sum_{i=1}^{p} \gamma_{2,i} \Delta \mathrm{LER}_{t-1} + \varepsilon_{1t}$$

Where $p=2$ is the optimal lag length determined by the VAR estimation.

Granger Causality Test

Finally, the Granger Causality Test is conducted on the established VAR system to formally test the direction of causality. This test determines whether the past values of one variable (D(LER)) can significantly improve the forecast of the other variable (D(LSP)). The test hypotheses are:

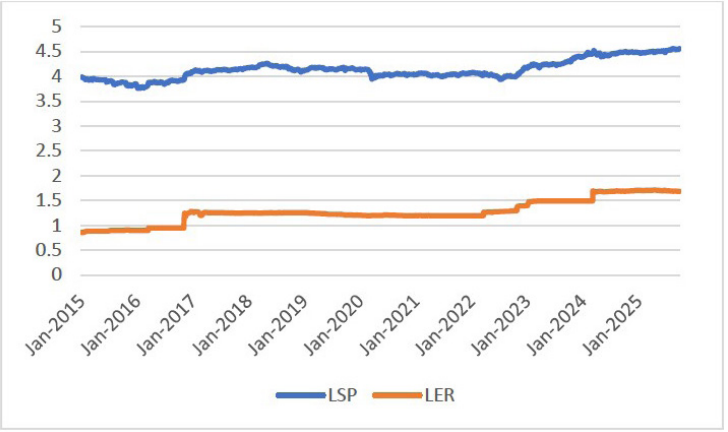
- H_{01}: D(LER) does not Granger Cause D(LSP) (=0 for all i).
- H_{02}: D(LSP) does not Granger Cause D(LER) (=0 for all i).

The results of this test provide the final answer to the study's main research question regarding the influence of the exchange rate on the stock market in the short run.

Empirical Results

The empirical analysis investigates the dynamic relationship between the Egyptian Stock Price Index (LSP) and the Egyptian Exchange Rate (LER) using daily data from 01/01/2015 to 09/25/2025. The methodology employs a three-stage time-series approach: stationarity testing, cointegration analysis, and Vector Autoregression (VAR) modeling to establish short-run causality. The next figure is a Time Series Plot that visually represents the movement of the logarithmic stock price index (LSP) and the logarithmic exchange rate (LER) over the study period.

Figure 1. Dynamic Behavior of Stock Prices and Exchange Rate in Egypt



S o u r c e : author's construction.

Based on a visual inspection of figure 1, there is strong evidence that the LSP (blue line) and LER (orange line) series are non-stationary during the entire sample period. Neither series appears to fluctuate around a fixed level or constant mean; thus, the results of the visual inspection corroborate the well-established pattern exhibited by many price-based financial time series and therefore require the application of formal unit root tests to assess the series more accurately.

A detailed inspection of figure 1 indicates that the series experience "piecewise stability" over various intervals. Each interval exhibits a different set of basic economic attributes; therefore, the intervals reflect changes in policy regimes over time in Egypt. Furthermore, the LER series experienced multiple abrupt reductions in value due to major devaluation events (e.g., major depreciation) along with changes in the economy's exchange rate regime (e.g., post-2016 and 2022–2023), resulting in sudden structural shifts.

The separation of these intervals indicates that the relationships between stock market prices and foreign exchange rates are dependent upon the current regime. Thus, performing this study on the three separate intervals will produce different results, since the basic economic drivers and current levels of stability are very different across the three intervals. Therefore, this particular visual demonstration together with the previously mentioned information form the primary basis for the methodology outlined in this study:

1. Necessity of Unit Root Tests (ADF): The observed trends and non-mean-reverting behavior imply that the data are non-stationary, requiring formal ADF testing (as presented in table 1).
2. Structural Instability: The severe structural breaks visible in the LER series suggest that any long-run link between the variables may have been fundamentally altered or severed, a finding that will be critical when interpreting the results of the cointegration test.

Unit Root and Stationarity Tests

The stationarity characteristics of the logarithmic price series (LSP and LER) at both the level and the first difference were investigated using the Augmented Dickey-Fuller (ADF) test. The existence of a unit root (non-stationarity) is assumed by the null hypothesis (H0).

Table 1. Augmented Dickey-Fuller (ADF) Unit Root Test Results

Variable	Test Specification	t-Statistic	Prob.	Conclusion	Order of Integration
LSP (Level)	Constant, Trend	-1.65217	0.7719	Non-Stationary (H0 Rejected)	
LER (Level)	Constant, Trend	-1.69578	0.7532	Non-Stationary (H0 Rejected)	
D(LSP) (1st Diff.)	Constant	-42.8023	0.0000	Stationary (H0 Accepted)	I(1)
D(LER) (1st Diff.)	Constant	-42.3124	0.0000	Stationary (H0 Accepted)	I(1)

* N o t e : The null hypothesis (H0) is that the series has a unit root.

S o u r c e : author's construction.

The ADF test results confirm that both LSP and LER are non-stationary at their level (Prob. >0.05) but become stationary after first differencing (Prob. = 0.0000), classifying them as I(1) variables. This finding is standard for price-based financial time series and provides the necessary precondition for testing cointegration. The transition to a flexible exchange rate regime in Egypt (post-2016), which introduced significant volatility, reinforces the necessity of using differenced, stationary data for dynamic modeling.

Johansen Cointegration Test

Given that both variables are I(1), the Johansen Cointegration test was applied to investigate the presence of a long-run equilibrium relationship. The test was performed using an optimal lag length of p=2 and the suitable case 3 assumption (linear deterministic trend in the data).

Table 2. Johansen Unrestricted Cointegration Rank Test

Hypothesized No. of CE(s) (r)	Trace Statistic	Max-Eigen Statistic	Critical Value (5%)	Prob. (Trace)	Prob. (Max-Eigen)
None (r=0)	13.04106	9.782337	15.49471	0.1133	0.2266
At most 1 (r≤1)	3.258728	3.258728	3.841465	0.0710	0.0710

S o u r c e : author's construction.

The results from both the Trace and Max-Eigenvalue statistics fail to reject the null hypothesis of no cointegration (r=0), as the probability values (0.1133 and 0.2266) are above the 0.05 significance level. This conclusively indicates the absence of a long-run equilibrium relationship between the Egyptian Stock Price Index and the Exchange Rate. This finding is highly critical and aligns with contemporary literature by Aftab et al. (2021), which suggests that the relationship between exchange rates and stock markets in emerging economies is highly fragmented and context-dependent, often failing to establish a stable long-run link. The lack of cointegration contrasts sharply with the earlier study by Moussa and Delhoumi (2021), who found cointegration for Egypt, potentially highlighting the impact of the extreme volatility and successive devaluations in the post-2016 period covered by our sample. The structural instability inherent in this period may have severed any predictable long-term link between the two variables. This result mandates that the analysis must proceed to the short-run dynamics using a standard VAR model on the first differences, rather than the VECM.

Granger Causality Test (Short-Run Dynamics)

The short-run interaction was investigated using the VAR model estimated on the stationary first-differenced series (D(LSP) and D(LER)) with 2 lags. The Granger Causality/Block Exogeneity Wald Test was then conducted to assess predictive causality.

Table 3. VAR Granger Causality / Block Exogeneity Wald Tests

Dependent Variable	Excluded Variable	H_0 (Null Hypothesis)	Chi-sq	Prob.	Causal Conclusion
D(LSP)	D(LER)	H01: D(LER) does not Granger Cause D(LSP)	4.126029	0.1271	No Causality
D(LER)	D(LSP)	H02: D(LSP) does not Granger Cause D(LER)	19.89136	0.0000	Causality Exists

Source: author's construction.

The test results provide the conclusive finding of a unidirectional short-run causal relationship. The null hypothesis (H_{01}) that D(LER) does not Granger Cause D(LSP) could not be rejected (Prob. =0.1271). This is a critical finding, implying that changes in the exchange rate do not significantly predict or cause short-run fluctuations in the stock market. This is supported by studies on other emerging markets like Pakistan, where Suriani et al. (2015) and Hunjra, Chani, Shahzad, Farooq and Khan (2014) also found no significant relationship. Furthermore, the rejection of the LER→LSP channel directly counters the findings of Olugbenga (2012) for Nigeria and Abdalla and Murinde (1997) for India and Korea, which reported causality running from exchange rates to stock prices.

Conversely, the null hypothesis (H_{02})that D(LSP) does not Granger Cause D(LER) was firmly rejected (Prob. =0.0000), establishing that changes in the stock price index do significantly Granger Cause changes in the exchange rate. This result strongly supports the "Stock Market as a Leading Indicator" hypothesis. This specific causal flow aligns with the findings of Agrawal et al. (2010) in India and Wickremasinghe (2012) in Sri Lanka, where the stock market was found to possess predictive power over the exchange rate.

In the context of Egypt's real estate sector (the focus of the stock index), this unidirectional causality suggests that the market's pricing mechanisms effectively embed information about future economic stability, inflation, or anticipated capital flows. This aggregated market sentiment, reflected in stock price changes, then precedes and predicts the direction of exchange rate adjustments, establishing the stock market as a key economic barometer.

Conclusion

Over the time span of January 1, 2015 to September 25, 2025, this study conducted an extensive investigation into short-term causality between Exchange Rate and Stock Market Performance in Egypt, using more robust econometric methods including Cointegration, Vector Auto regression (VAR), Granger Causality Tests etc., to determine how closely related these two items are to each other. It has been found that there is little to no evidence of cointegration between the US Dollar per Egyptian Pound (USD/EGP) (USD per Egyptian) and EGX 30 index (EGX30), which suggests there has not been established a long-term equilibrium relationship between these two variables over the study period. In short, this finding provides evidence that, while economic reforms

have been made to the Egyptian economy, such as Exchange Rate Liberalisation since 2016, the financial markets of Egypt remain long-term separated.

Short-run causality analysis generated more informative results. The causal connection between stock market return and exchange rate changes was statistically significant at 0.0000 level. Thus, the Stock Market as Leading Indicator Hypothesis is confirmed regarding exchange rate movements following stock market movements.

This finding is important for the Egyptian context. This supports the theoretical framework of the Asset Market Theory in which stock market prices are usually more efficient at rapidly assimilating information regarding the economy and are thus able to correctly evaluate how they will respond to changes in macroeconomic conditions or investor expectations regarding the future. For example, based upon the EGX 30 index, it appears that the Egyptian stock market quickly incorporates investor's macroeconomic expectations regarding corporate profit, investment sentiment, and future economic conditions into its stock price.

The results of this study are supportive of regional studies conducted throughout Asia such as the study conducted in 2010 by Agrawal et al. in India and the study conducted in 2012 by Wickremasinghe in Sri Lanka that have documented a similar relationship between the stock markets and the exchange rate of the local currency. The results of this study are in disagreement with earlier work in Egypt that has shown no causal link between the stock market and exchange rates (Ahmed et al., 2019). This difference may indicate that the structural and institutional changes within the last decade may have changed how the two markets influence one another (the way they are connected). Additionally, even though there is no long-term relationship between the two markets, this is consistent with the findings of Aftab et al. (2021) that have observed this trend throughout Africa, suggesting that although reforms are taking place, both exchange rate stability and financial integration remain a challenge in Egypt.

In light of these findings, several important policy implications can be derived. For the Central Bank of Egypt (CBE), the results emphasize the value of monitoring stock market movements as a short-term forecasting tool for predicting potential exchange rate pressures and liquidity fluctuations. Policymakers should therefore incorporate EGX 30 returns into their analytical frameworks for monetary policy and exchange rate management. Enhancing fiscal and monetary transparency remains crucial, as the forward-looking

nature of the stock market reflects expectations about economic fundamentals and policy credibility.

The study emphasizes to both investors and Financial Regulatory Authority (FRA) that stock market indicators may become valuable early warning signals for both currency risk exposure and hedging based upon the findings of this research. The EGX 30 Index is seen as a useful tool in assisting portfolio allocation decisions and predicting possible changes in the overall market environment for investors during periods of extreme volatility of exchange rates. As a result of these findings, additional research to better understand the causal relationship between Stock and Foreign Exchange can be facilitated by the additional use of more sophisticated Nonlinear Models such as Threshold VAR (TVAR) Testing and Nonlinear Autoregressive Distributed Lag (NARDL) Approach to Modeling. These models can assess asymmetries in responses to currency-related shocks and assess whether they have the same predictive capability during depreciation periods and appreciation periods. Future Research may also want to explore the role of inflation and interest rates as mediators for determining whether there is an anticipation of Central Bank actions regarding inflation by the Stock Market and whether such anticipation has an effect on Exchange Rate Levels. Finally, disaggregation of the EGX 30 Index into its various sectoral components would enable researchers to identify sectors such as Exporters or Importers that play a significant impact in either predicting Exchange Rate Movements or enhancing the efficiency of the overall market.

The findings of this research support the conclusion that, although there is no long run equilibrium between these two markets, the stock market in Egypt acts as a leading indicator on a shorter time scale concerning expected movements in currency values. In doing this, the stock market reflects a growing degree of information efficiency and its position as a primary source of signals regarding economic sentiment due to the speed at which the financial markets evolve over time.

References

Abdalla, I.S.A., & Murinde, V. (1997). Exchange Rate and Stock Price Interactions in Emerging Markets: Evidence on India, Korea, Pakistan and the Philippines. *Applied Financial Economics*, 7(1), 25–35. https://doi.org/10.1080/096031097333826.

Aftab, M., Ahmad, R., Ismail, I., & Phylaktis, K. (2021). Economic integration and the currency and equity markets nexus. *International Journal of Finance and Economics*, 26(4), 5278–5301. https://doi.org/10.1002/ijfe.2065.

Agrawal, G., Srivastav, A.K., & Srivastava, A. (2010). A study of exchange rates movement and stock market volatility. *International Journal of Business and Management*, 5(12). https://doi.org/10.5539/ijbm.v5n12p62.

Ahmed, H.S.N. (2019). Exchange rate volatility and tourism stock prices: Evidence from Egypt. *Journal of Association of Arab Universities for Tourism and Hospitality*, 17(2), 55–68. https://doi.org/10.21608/jaauth.2019.91944.

Ahmed, W.M.A. (2020). Asymmetric impact of exchange rate changes on stock returns: Evidence of two de facto regimes. *Review of Accounting and Finance*, 19(2), 147–173. https://doi.org/10.1108/RAF-02-2019-0039.

Cakan, E., & Ejara, D.D. (2013). On the relationship between exchange rates and stock prices: evidence from emerging markets. *International Research Journal of Finance and Economics*, 111, 115–124.

Dornbusch, R., & Frankel, J. (1988). The flexible exchange rate system: experience and alternatives. In *International Finance and Trade in a Polycentric World: Proceedings of a Conference held in Basel by the International Economic Association* (pp. 151–208). London: Palgrave Macmillan UK.

Hunjra, A.I., Chani, M. I., Shahzad, M., Farooq, M., & Khan, K. (2014). The impact of macroeconomic variables on stock prices in Pakistan. *International Journal of Economics and Empirical Research*, 2(1), 13–21.

Ibrahim, M. (2000). Cointegration and Granger Causality Tests of Stock Price and Exchange Rate Interactions in Malaysia. *ASEAN Economic Bulletin*, 17(1), 36–47.

International Monetary Fund (IMF). (2016). *IMF executive board approves US$12 billion extended arrangement under the extended fund facility for Egypt*. https://www.imf.org/en/News/Articles/2016/11/11/PR16501-Egypt-Executive-Board-Approves-12-billion-Extended-Arrangement (accessed: 02.10.2025).

International Monetary Fund (IMF). (2022). *Frequently asked questions on Egypt and the IMF*, https://www.imf.org/en/Countries/EGY/Egypt-qandas (accessed: 02.10.2025).

Jawaid, S.T., & Ul Haq, A. (2012). Effects of interest rate, exchange rate and their volatilities on stock prices: Evidence from banking industry of Pakistan. *Theoretical & Applied Economics*, 19(8), 153–166.

Khan, M.K. (2019). Impact of Exchange Rate on Stock Returns in Shenzhen Stock Exchange: Analysis through ARDK Approach. *International Journal of Economics and Management*, 1(2), 15–26.

Moussa, F., & Delhoumi, E. (2021). The asymmetric impact of interest and exchange rate on the stock market index: evidence from MENA region. *International Journal of Emerging Markets*, 17(10), 1746–8809. https://doi.org/10.1108/IJOEM-01-2020-0089.

Olugbenga, A.A. (2012). Exchange rate volatility and stock market behaviour: The Nigerian experience. *European Journal of Business and Management*, 4(5), 31–39.

Rady, A., Essam, F., Yahia, H., & Shalaby, M. (2024). The dynamic relationship between exchange rate volatility and stock prices in the Egyptian real estate market and the moderating effect of interest rates. *European Journal of Business and Management Research*, 9(5), 31–44. https://doi.org/10.24018/ejbmr.2024.9.5.2230.

Sichoongwe, K. (2016). Effects of exchange rate volatility on the stock market: the Zambian experience. *Journal of Economics and Sustainable Development*, 7(4), 114–119. https://doi.org/10.12691/jfe-5-5-4.

Suriani, S., Kumar, M.D., Jamil, F., & Muneer, S. (2015). Impact of exchange rate on stock market. *International Journal of Economics and Financial Issues*, 5(1), 385–388.

Vijayakumar, A. (2021). Relativity of Indian Stock Market with exchange rate, gold and crude oil. *Copernican Journal of Finance & Accounting,* 9(4), 101–118. https://doi.org/10.12775/CJFA.2020.024.

Wickremasinghe, G.B. (2012). Stock prices and exchange rates in Sri Lanka: some empirical evidence. *Investment Management and Financial Innovations*, 9(4), 8–14.