

Cytonn Q3'2020 Markets Review

Sub-Saharan Africa Regional Review

According to the World Bank, the African regional growth is expected to contract by 2.8% in 2020 and rebound by 3.1% in 2021. The region has been more resilient with much fewer COVID-19 related deaths compared to the other regions.

Currency Performance

All select currencies depreciated against the US Dollar in Q3'2020 with the Zambian Kwacha being the worst performer, depreciating by 42.2% against the dollar YTD. The depreciation recorded by the currencies is partly attributable to the ongoing COVID-19 pandemic, which has seen a fast-falling demand for export commodities given the lockdown measures put in place. The performance of the Zambian Kwacha can be attributable to the low economic productivity given the fall of copper prices as well as high demand for hard currency from the government as it seeks to meet its debt repayment obligations. The Kenya Shilling depreciated by 7.1% in Q3'2020 to close at Kshs 108.4 against the US Dollar.

Below is a table showing the performance of select African currencies:

Select Sub Saharan Africa Currency Performance vs USD

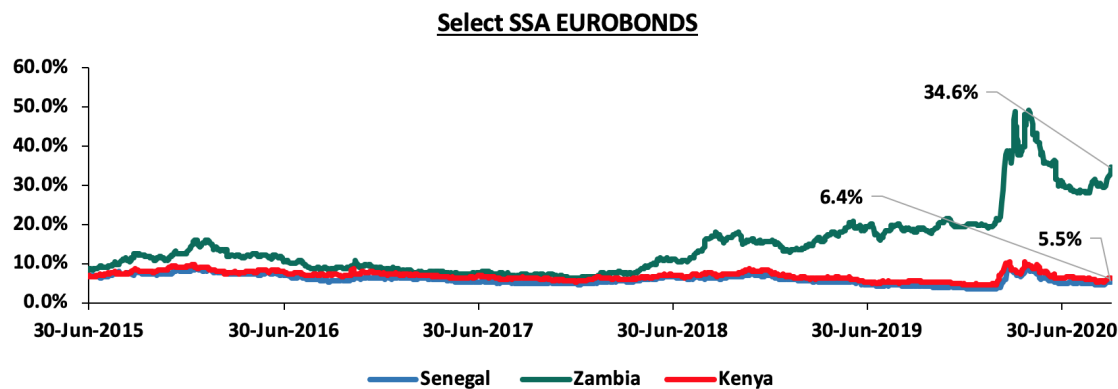
Currency	Sep-19	Dec-19	Sep-20	Last 12 Months change (%)	YTD change (%)
Tanzanian Shilling	2293.0	2293.0	2315.0	(1.0%)	(1.0%)
Ghanaian Cedi	5.4	5.7	5.7	(5.8%)	(1.3%)
Ugandan Shilling	3678.0	3660.0	3712.0	(0.9%)	(1.4%)
Malawian Kwacha	727.5	729.1	743.9	(2.3%)	(2.0%)
Kenyan Shilling	103.8	101.3	108.4	(4.5%)	(7.1%)
Mauritius Rupee	36.1	36.2	39.7	(10.0%)	(9.7%)
Botswana Pula	11.1	10.5	11.7	(5.0%)	(11.0%)
South African Rand	15.1	14.0	16.7	(10.6%)	(19.6%)
Nigerian Naira	306.0	306.0	380.6	(24.4%)	(24.4%)
Zambian Kwacha	13.1	14.1	20.0	(53.0%)	(42.2%)

Source: Reuters

African Eurobonds:

Yields on the African Eurobonds increased in Q3'2020 partly attributable to the COVID-19 health crisis which saw investors attaching a high risk premium to the COVID-19 affected regions due to the anticipation of slow economic growth. Below is a graph showing the Eurobond secondary market

performance of select 10-year Eurobonds issued by the respective countries:



Source: Reuters

Key Takeout from the chart:

- i. Yields on the Zambia Eurobond increased in Q3'2020 by 15.0% points to 34.6% from 19.6% recorded at the end of December 2019, attributable to the flight by foreign investors amid concerns of the country's high debt burden. Fitch ratings recently downgraded the county's Long Term Debt Rating pointing out that Zambia is bound to face acute liquidity pressures given their high debt serving levels which is likely to elevate their defaulting risks.

Equities Market Performance

Most of the Sub-Saharan African (SSA) stock markets recorded negative returns in Q3'2020, attributable to foreign investors' selloffs in favor of safe havens, given the expected economic fallout. Below is a summary of the performance of key exchanges:

Equities Market Performance (Dollarized*)

Country	Index	Sep-19	Dec-19	Sep-20	Last 12 Months change (%)	YTD change (%)
Rwanda	RSEASI	0.1	0.1	0.2	4.1%	5.5%
Kenya	NASI	1.4	1.6	1.3	(8.0%)	(19.4%)
Nigeria	NGSEASI	90.3	87.7	70.5	(21.9%)	(19.6%)
Ghana	GGSECI	407.7	405.5	323.6	(20.6%)	(20.2%)
South Africa	JALSH	3,622.9	4,079.3	3,242.8	(10.5%)	(20.5%)
Uganda	USEASI	0.4	0.5	0.4	(13.5%)	(26.6%)
Zambia	LASILZ	336.2	303.3	190.2	(43.4%)	(37.3%)
Tanzania	DARSDSEI	0.8	1.5	0.7	(15.2%)	(52.5%)

*The index values are dollarized for ease of comparison

Source: Reuters

Analysis of trends observed in the chart above is as follows:

- i. Rwanda is the best performing index showing resilience amid the COVID-19 pandemic following gains made by cross-listed stocks such as Equity Bank, which has recorded YTD gains of 25.7%,
- ii. DARSDSEI was the worst-performing index with losses of 52.5% YTD, attributable to the continued selloffs brought by concerns about the economic fallout caused by the Coronavirus. The

ban on International travel bans took a toll on the country's tourism sector, which had been one of the fastest-growing sectors in the economy, and,

- iii. Nairobi All Share Index (NASI), recorded losses of 19.4% YTD, attributable to the huge capital flight by investors as they sought for safer havens.

GDP growth in Sub-Saharan Africa region is expected to decline owing to the ongoing COVID-19 pandemic that is expected to disrupt global supply chains and as the currencies lose value against the dollar in an uncertain global economy. Key risks remain difficult business conditions and poor infrastructure, reliance on commodity exports, political tension in some countries and debt sustainability due to high levels of public debt in most economies in the region. Stock market valuations remain unattractive for long-term investors.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com
Generated By Cytonn Report

A product of Cytonn Technologies