Cytonn Annual Markets Review - 2022

Sub-Saharan Africa Region Review

Economic Growth

The Sub-Saharan Africa economy is projected to grow by 3.3% in 2022 according to the World Bank's Pulse Issue and 3.6% according to the International Monetary Fund (IMF), down from the 4.1% and 4.7% growth in 2021 according to the World Bank and the IMF respectively. Notably, the projected region's growth was revised downwards from the initial growth forecast of 3.6% and 3.8% in April 2022 by the World Bank and the IMF, respectively. The decline in the region's economic growth is attributable to;

i. Elevated inflationary pressures, emanating from the spill over effects of the Russian Invasion to Ukraine have led to increased fuel and food prices in the global markets given that majority of the SSA countries are net importers, coupled with adverse weather conditions that have undermined agricultural productivity in the region,
ii. Rising risk of debt distress in the region is expected to weigh down on the region's growth, and notably, countries like Ghana and Zambia have initiated forms of public debt restructuring during the year, due to unsustainable debt levels,
iii. Pre-existing supply chain constraints have been worsened by disruptions arising from increasing lock downs to curb the spread of COVID-19 in China which is the region's largest trading partner, and,
iv. Hiked interest rates in advanced economies such as the United States of America (USA) has increased capital outflows in the region further fuelling the economic decline in the SSA.

Currency Performance

In 2022, all select Sub-Saharan African currencies depreciated against the U.S Dollar, mainly on the back of elevated inflationary pressures in the region, high debt servicing costs that continue to dwindle foreign exchange reserves, coupled with monetary policy tightening by United States Federal reserve. The table below shows the performance of select African currencies against the USD;

Cytonn Report: Select Sub-Saharan Africa Currency Performance vs USD

Currency	Dec-20	Dec-21	Dec 22	2021 y/y change(%)	2022 y/y change (%)
Ghanaian Cedi	5.8	6.0	8.6	**(4.3%)**	**(42.8%)**
Malawian kwacha	770.8	816.4	1,026.4	**(5.9%)**	**(25.7%)**
Kenyan Shilling	109.2	113.1	123.4	**(3.6%)**	**(9.0%)**
Botswana Pula	10.8	11.7	12.8	**(8.8%)**	**(8.8%)**
Zambian Kwacha	21.2	16.7	18.1	**21.2%**	**(8.4%)**

Cytonn Report: Select Sub-Saharan Africa Currency Performance vs USD

Currency	Dec-20	Dec-21	Dec 22	2021 y/y change(%)	2022 y/y change (%)
Nigerian Naira	379.5	413.0	447.1	**(8.8%)**	**(8.3%)**
Senegal CFA Franc	532.0	577.0	615.0	**(8.5%)**	**(6.6%)**
South African Rand	14.6	15.9	16.9	**(8.5%)**	**(6.5%)**
Ugandan Shilling	3,650.1	3,544.7	3,717.5	**2.9%**	**(4.9%)**
Mauritius Rupee	39.4	43.5	43.9	**(10.3%)**	**(1.1%)**
Tanzanian Shilling	2,298.5	2,297.8	2,308.9	**0.0%**	**(0.5%)**

Key take outs from the table include;

i. The Ghanaian Cedi was the worst performer during the year, depreciating by 42.8% against the dollar, attributable to the deteriorated macroeconomic environment, evidenced by its elevated inflation, with November 2022 inflation rate coming in at a record of 50.3%, tightened monetary policy as Ghana's interest rates were hiked to 27.0% in November 2022 and a high debt distress with its public debt to GDP coming in at 75.9% in September 2022. As a result, the government announced a cease of debt servicing on foreign bonds, commercial and bilateral loans in December 2022 and also initiated a Domestic Debt Exchange Programme (DDEP) for its domestic bonds coupled with a staff level agreement for a financing assistance package of USD 3.0 bn from the IMF. This partially increased confidence in their economy and consequently the Cedi appreciated by 34.6% to close the year at GHc 8.6 from the adverse exchange rate of GHc 13.1 against the U.S Dollar recorded on 17th November 2022,

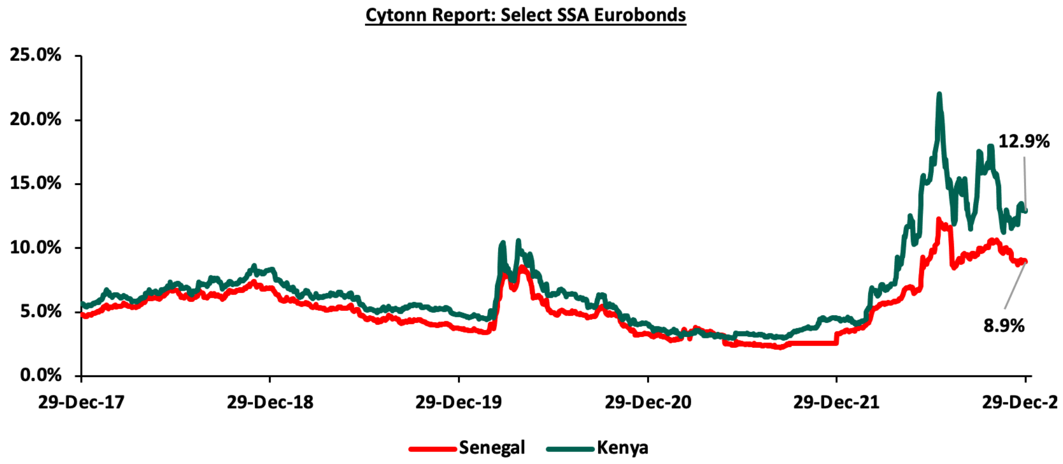
ii. The Kenyan Shilling depreciated by 9.0% in 2022 to close at Kshs 123.4 against the U.S Dollar, compared to the Kshs 113.1 recorded at the end of 2021, driven by increased dollar demand from importers, especially oil and energy sectors against a slower supply of hard currency. Additionally, the 15.1% YTD decline of its foreign exchange reserves which currently stand at USD 7.4 bn representing 4.2 months of import cover, from USD 8.8 bn recorded at the beginning of the year has continued to put pressure on the Kenyan shilling, and,

iii. The Zambian Kwacha depreciated by 8.4% during the year from an appreciation of 21.2% in 2021, attributable to public debt sustainability concerns that have continued to weigh down investor confidence, especially the external debt, which resulted to a 62.1% external debt to GDP ratio at the end of 2021, leading to the country initiating an external debt restructuring. Additionally, with copper being its main export commodity, the 17.3% decline in the global copper prices in 2022 compared with the 37.6% price increase in 2021 has continued to weigh down on the country's current account.

African Eurobonds

The region's appetite for foreign-denominated debt declined during the year, due to its high yields that translates to high borrowing costs, attributable to elevated inflationary pressures and tough macroeconomic conditions that have worsened pre-pandemic debt sustainability concerns. As such, Nigeria and Angola were the only Eurobonds issuers during the year, with the countries raising USD 1.3 bn and USD 1.8 bn in March and April 2022, for Nigeria and Angola, respectively, translating to a total of USD 3.1 bn raised, down from USD 11.8 bn raised in 2021 representing a 73.7% decline. Yields for the African Eurobonds significantly increased during the year, attributable to investors attaching a higher risk premium to the region, driven by the region's elevated inflationary pressures, public debt distress and currency depreciation that have deteriorated the region's macroeconomic environment.

Yields for the Kenyan and Senegal Eurobonds increased by 8.4% and 5.6% during the year, to close the year at 12.9% and 8.9%, from 4.5% and 3.3% recorded at the end of December 2021. The graph below shows the 5-year Eurobond secondary market performance of select 10-year Eurobonds issued by Kenya and Senegal;



Equities Market Performance

Sub-Saharan Africa (SSA) stock markets recorded mixed performance in 2022, with Zambia Stock Exchange (LASILZ) being the largest gainer with an 11.6% gain in 2022 due to improved macroeconomic environment supported by the IMF financial assistance maintaining investor confidence in the country. This has however declined from the 96.9% gain in 2021 partly due to the 17.3% drop in global copper prices in 2022 compared to a 37.6% increase in copper prices in 2021. On the other hand, Ghana's GSCECI was the worst performing index in 2022, recording a loss of 41.7% due to a deteriorated macroeconomic environment and regulatory policies such the re-imposition of capital gains tax on listed equities securities, and this has adversely impacted the stock exchange by dampening investor sentiments. Below is a summary of the performance of the key SSA indices;

Cytonn Report: Equities Market Performance

Country	Index	Dec-20	Dec-21	Dec-22	2021 y/y change (%)	2022 y/y change (%)
Zambia	LASILZ	185.2	364.7	406.9	96.9%	11.6%
Nigeria	NGEASI	105.8	103.5	111.4	(2.2%)	10.8%
Rwanda	RSEASI	0.2	0.1	0.1	(4.0%)	(4.6%)
South Africa	JALSH	4,044.8	4,618.3	4,292.8	14.2%	(7.0%)
Tanzania	DARSDEI	0.7	0.6	0.6	(2.7%)	(8.1%)
Uganda	USEASI	0.4	0.4	0.3	11.6%	(18.6%)
Kenya	NASI	1.4	1.5	1.0	5.5%	(29.8%)
Ghana	GSECI	332.5	465.6	271.5	40.0%	(41.7%)

***The index values are dollarized for ease of comparison**

The tough macroeconomic environment experienced in the region in 2022 coupled with socio-political turmoil in West and Central Africa have continued to adversely impact its economic growth. As such, subdued GDP growth rate in Sub-Saharan Africa is expected to continue in 2023, in line with the rest of the global economy, amid fears of a global

recession in 2023. Elevated inflation rates, debt sustainability concerns and supply chain constraints in the region are expected to persist in 2023, and this will continue to weigh down its economic growth. Additionally, the continued weakening of local currencies will even make debt servicing costlier, and this lead to increased perceived risks in the region, resulting to reduced investor confidence in the region.
