

# Cytonn Q1'2023 Markets Review

## Sub-Saharan Africa Region Review

According to the International Monetary Fund (IMF), the Sub Saharan economy is projected to grow at a moderate rate of 3.8% in 2023, unchanged from the estimated economic growth of 3.8% in 2022. Notably, the projection is an upward revision from both the World Bank's Global Economic Prospects - 2023 and the initial IMF Regional outlook projection of 3.6%. The upward revision of the regional growth by the IMF is mainly as a result of expected easing of inflationary pressures in line with the ongoing reduction of global inflation as the central banks around the world continue to tighten the monetary policies aimed at bringing down the inflation rate to the target ranges. However, the growth is expected to be significantly weighed down by sustained supply constraints worsened by the geopolitical tensions arising from the Russia-Ukraine invasion given that most countries in the Sub-Saharan African are net importers, adverse weather conditions that have undermined agricultural productivity, and elevated risk of debt distress in the region;

### Currency Performance

In Q1'2023, all of the select Sub-Saharan currencies depreciated against the US Dollar, similar to the trend witnessed in FY'2022. The depreciation trend is attributable to the elevated inflationary pressures in region, high debt servicing costs that continue to dwindle foreign exchange reserves and monetary policy tightening by advanced economies such as the United States Federal reserve and the European Central Bank. For instance, in March 2023, the USA increased its interest rate by 25.0 bps to the range of 4.75%-5.00% from 4.50% -4.75%. Similarly, in March 2023, the European Central Bank increased its benchmark rate by 50.0 bps to 3.50%, from 3.00%. The high interest rates in developed countries has led to massive capital outflows as investors both institutional and individual seek to take advantage of the higher returns offered in developed economies. Further, the elevated inflationary pressures in most economies in the region puts pressure on the value of local currencies due to expensive importation. Below is a table showing the performance of select African currencies against the US Dollar:

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

| Currency           | Mar-22 | Jan-23  | Mar-23  | Last 12 Months change (%) | YTD change (%) |
|--------------------|--------|---------|---------|---------------------------|----------------|
| Tanzanian Shilling | 2320.0 | 2,332.0 | 2,334.0 | (0.6%)                    | (0.1%)         |
| Malawian Kwacha    | 802.0  | 1,009.0 | 1,012.1 | (26.2%)                   | (0.3%)         |
| Nigerian Naira     | 415.3  | 447.6   | 459.0   | (10.5%)                   | (2.6%)         |
| Ugandan Shilling   | 3553.5 | 3,678.1 | 3,785.1 | (6.5%)                    | (2.9%)         |
| Botswana Pula      | 11.3   | 12.6    | 13.2    | (16.8%)                   | (4.5%)         |
| South African Rand | 14.5   | 16.9    | 17.7    | (22.5%)                   | (5.0%)         |
| Mauritius Rupee    | 43.4   | 43.0    | 45.4    | (4.6%)                    | (5.6%)         |
| Kenyan Shilling    | 115.0  | 123.4   | 132.3   | (15.1%)                   | (7.2%)         |
| Zambian Kwacha     | 19.9   | 18.1    | 21.2    | (6.1%)                    | (17.1%)        |

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

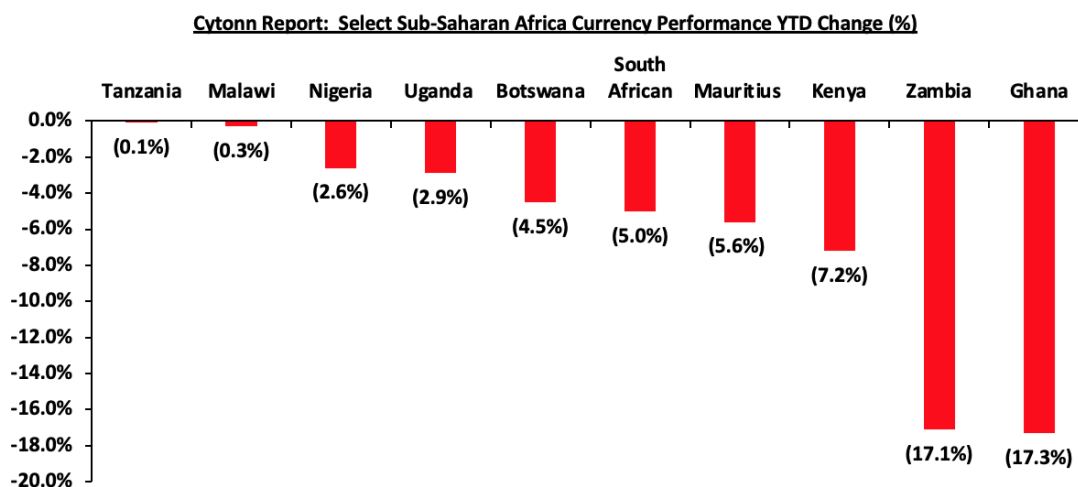
| Currency      | Mar-22 | Jan-23 | Mar-23 | Last 12 Months change (%) | YTD change (%) |
|---------------|--------|--------|--------|---------------------------|----------------|
| Ghanaian Cedi | 7.3    | 9.8    | 11.5   | (57.5%)                   | (17.3%)        |

Source: Yahoo Finance

Key take outs from the table include:

- i. The Ghanaian Cedi was the worst performing currency in Q1'2023 and the largest decliner over the last twelve months, depreciating by 17.3% and 57.5%, respectively, mainly as result a deteriorated macro-economic environment driven by the high debt unsustainability concerns, with the total **public debt** to GDP as of March 2023 coming in at 93.5%, similar to what was recorded in November 2022. Additionally, the country’s currency performance has been weighed down by the elevated inflationary pressures with February 2023 inflation coming in at 52.8%, way above the Ghana Central Bank target rate of 8.0% - 10.0%, and,
- ii. The Kenya Shilling depreciated by 7.2% in Q1'2023 to close at Kshs 132.3 against the US Dollar, compared to Kshs 123.4 recorded at the beginning of the year, driven by increased dollar demand from importers, especially oil and energy sectors against a slower supply of hard currency. Additionally, the declining foreign reserves has continued to weigh down on the value of the shilling, with foreign exchange reserves currently standing at USD 6.4 as at 31 March 2023, equivalent to 3.6 months of import cover and below the statutory requirement of maintaining at least 4.0 months of import.

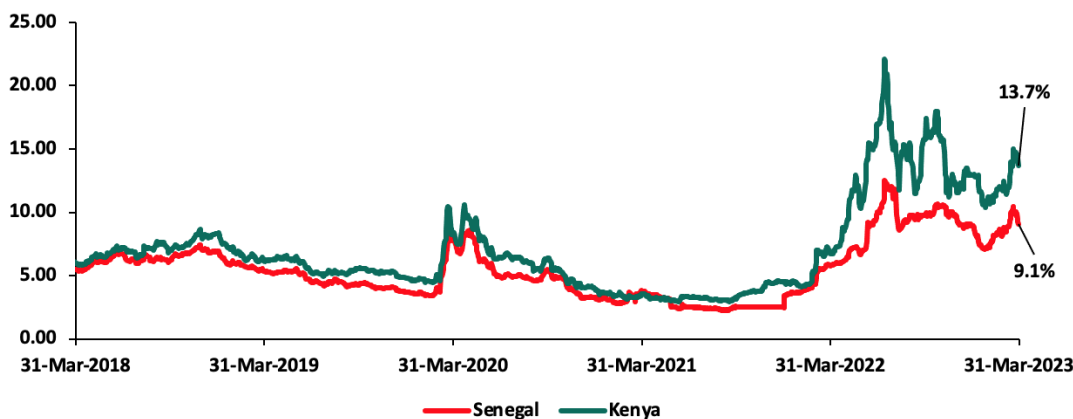
The chart below shows the year to date performance of different sub-Saharan African countries in Q1'2023;



**African Eurobonds**

Africa’s appetite for foreign-denominated debt has continued to decline in recent times with no issuer during Q1'2023, with most countries shying away from the Eurobonds market due to sustained high yields and tough macroeconomic conditions. The significant increase in yields was partly attributable to investors attaching higher risk premium on Sub-Saharan Countries, driven by the region’s elevated inflationary pressures, public debt distress and continued depreciation of local currencies. Yields on the Kenyan and Senegal Eurobonds increased by 0.8% points and 1.1% points in Q1'2023 to 13.7% and 9.1%, from 12.9% and 8.9%, respectively, recorded at the end of December 2022. Below is a 5-year graph showing the Eurobond secondary market performance of select 10-year Eurobonds issued by the respective countries:

**Cytonn Report: Yields of Select SSA Eurobonds**



**Equities Market Performance**

Sub-Saharan Africa (SSA) stock markets recorded mixed performance in Q1'2023, with Nigeria's stock market (NGSEASI) being the best performing market gaining by 2.5% YTD driven by the high global fuel prices with the country being a net fuel exporter. Kenya's NASI was the worst performing stock market, declining by 17.4% at the end of Q1'2023, mainly attributable increased capital flight with investors chasing higher returns from advanced economies following hiking of interest rates as well as deterioration in investor confidence in country on the back of macroeconomic uncertainties occasioned by the high inflation at 9.2% as of March 2022 and continued weakening of the Kenyan Shilling which has depreciated by 7.2% on year to date basis in 2023. Below is a summary of the performance of key indices:

**Cytonn Report: Equities Market Performance Q1'2023 (Dollarized\*)**

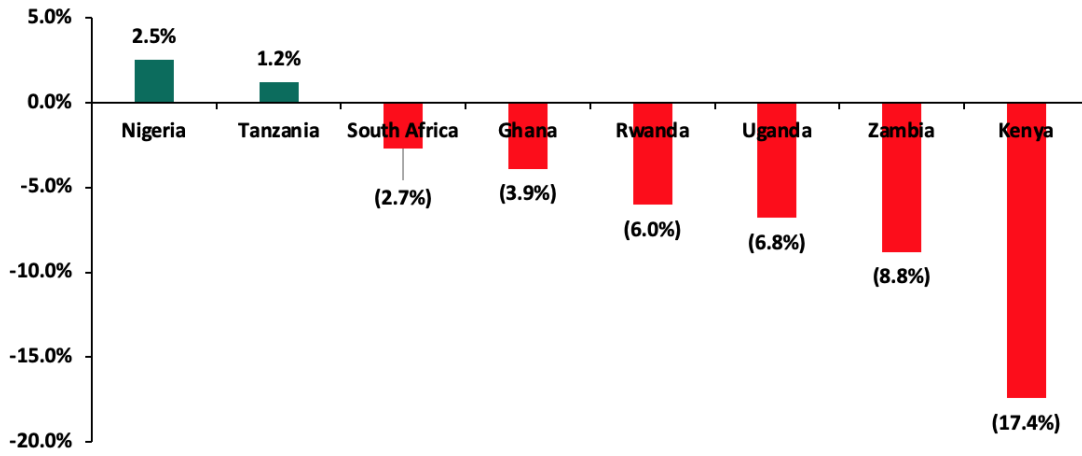
| Country      | Index   | Mar-22 | Jan-23  | Mar-23  | Last 12 Months change (%) | YTD change (%) |
|--------------|---------|--------|---------|---------|---------------------------|----------------|
| Nigerian     | NGSEASI | 113.00 | 115.3   | 118.2   | 4.6%                      | 2.5%           |
| Tanzanian    | DARSDEI | 1.5    | 1.7     | 1.8     | 17.9%                     | 1.2%           |
| South Africa | JALSH   | 5160.0 | 4,408.4 | 4,289.8 | (16.9%)                   | (2.7%)         |
| Ghana        | GGSECI  | 375.6  | 245.2   | 238.7   | (36.4%)                   | (3.9%)         |
| Rwanda       | RSEASI  | 0.1    | 0.1     | 0.1     | 29.2%                     | (6.0%)         |
| Uganda       | USEASI  | 0.4    | 0.33    | 0.3     | (24.0%)                   | (6.8%)         |
| Zambia       | LASILZ  | 377.2  | 406.2   | 370.6   | (1.8%)                    | (8.8%)         |
| Kenya        | NASI    | 1.5    | 1.03    | 0.9     | (41.2%)                   | (17.4%)        |

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

Source: Cytonn Research, Kwayisi, Yahoo Finance

The chart below shows the YTD Performance of the sub-Saharan Equities Market;

**Cytonn Report: Equities Market Performance YTD Change (Q1'2023)**



*GDP growth in Sub-Saharan Africa region is expected to record moderate growth, in line with the rest of the global economy. Additionally, public debt continues to be a major headwind, with high debt levels experienced in the region on the back of continued weakening of local currencies, which will make debt servicing costlier, making the region less attractive to foreign capital.*

Liason House, StateHouse Avenue  
The Chancery, Valley Road  
www.cytonn.com  
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