

Cytonn H1'2023 Markets Review

Sub-Saharan Africa Regional Review

According to the **World Bank**, the Sub Saharan economy is projected to grow at a moderate rate of 3.2% in 2023, which is 0.5% lower than the 3.7% growth estimates recorded in 2022. The expected slowdown in the regional economic growth is mainly on the back of adverse weather conditions that have undermined agricultural productivity, weak external demand, tight global financial conditions and high inflationary pressures in most countries in the region. The challenges have continued to exacerbate fiscal deficits in most countries leading to increased debt sustainability concerns in Sub-Saharan Africa as the region's **public debt to GDP ratio**, remained high at 56.0% in 2022, albeit a decline from 60.0% in 2021. The public debt is expected to remain high due to increased debt servicing costs as a result of continued currency depreciations and increased interest rates in developed economies. Additionally, many countries are providing subsidies in order to mitigate inflationary pressures which could worsen public finance, increase public debt and weigh down on debt sustainability.

Currency Performance:

In H1'2023, most of the select Sub-Saharan currencies depreciated against the US Dollar, mainly attributable to the elevated inflationary pressures in the region, high debt servicing costs that continue to dwindle foreign exchange reserves, and monetary policy tightening by advanced economies. The high interest rates in developed countries have 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: H1'2023 Select Sub Saharan Africa Currency Performance vs USD

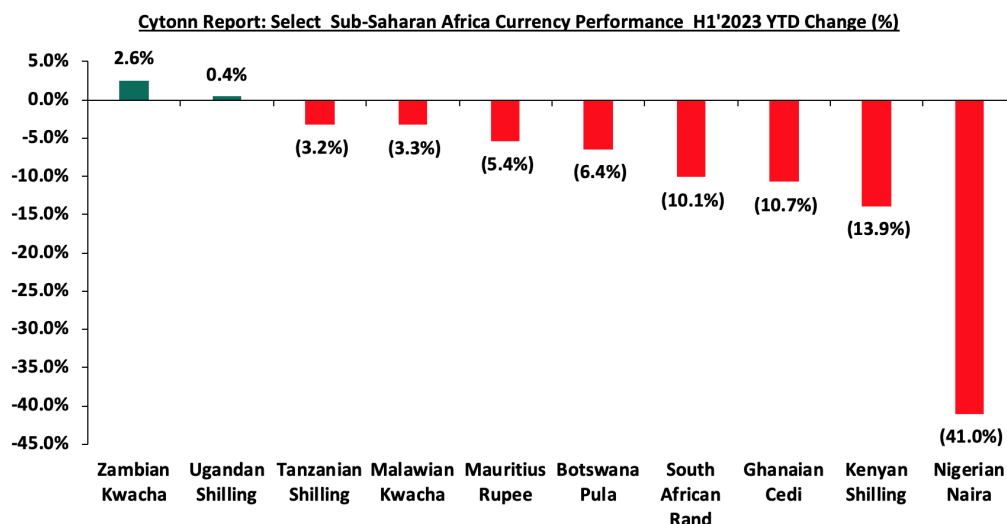
Currency	Jun-22	Jan-23	Jun-23	Last 12 Months change (%)	YTD change (%)
Zambian Kwacha	17.1	18.1	17.6	(3.0%)	2.6%
Ugandan Shilling	3,715.1	3,678.1	3,662.1	1.4%	0.4%
Tanzanian Shilling	2,333.0	2,332.0	2,409.0	(3.2%)	(3.2%)
Malawian Kwacha	1,022.0	1,009.0	1,043.0	(2.0%)	(3.3%)
Mauritius Rupee	43.5	43.0	45.4	(4.3%)	(5.4%)
Botswana Pula	12.1	12.6	13.5	(9.9%)	(6.4%)
South African Rand	16.2	16.9	18.8	(13.8%)	(10.1%)
Ghanaian Cedi	7.9	9.8	11.0	(27.8%)	(10.7%)

Cytonn Report: H1'2023 Select Sub Saharan Africa Currency Performance vs USD

Currency	Jun-22	Jan-23	Jun-23	Last 12 Months change (%)	YTD change (%)
Kenyan Shilling	117.8	123.4	140.5	(19.3%)	(13.9%)
Nigerian Naira	414.6	447.6	758.8	(45.4%)	(41.0%)

Source: Yahoo Finance

The chart below shows the year to date performance of different sub-Saharan African countries in H1'2023;



Source: Yahoo Finance

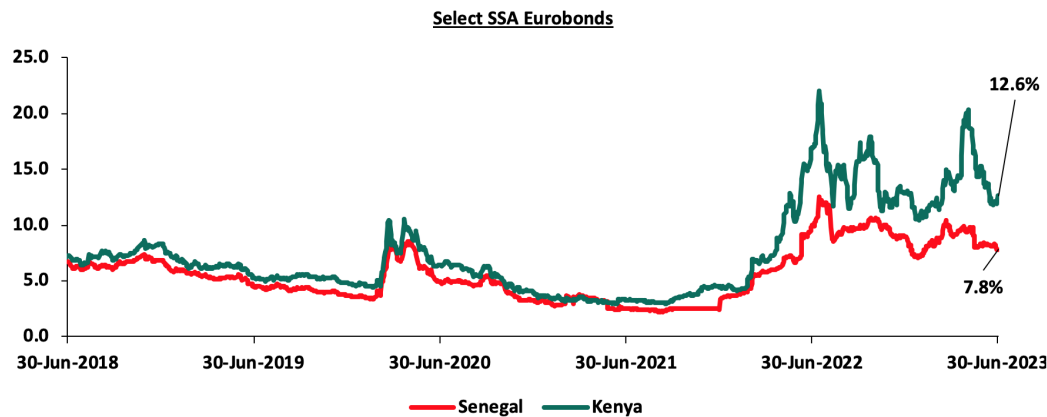
Key take outs from the above table and chart include:

- i. The Zambia kwacha was the largest gainer against the USD Dollar, gaining by 2.6% year to date, mainly attributable to positive investor confidence following Zambia's improved macroeconomic performance and strong trade surplus driven by higher copper price earnings on the back of easing global supply chain constraints,
- ii. Nigeria Naira was the worst performing currency in H1'2023 and the largest decliner over the last twelve months, depreciating by 41.0% and 45.4%, respectively, mainly as a result of the recent decision by the Central Bank of Nigeria to adopt floating exchange rate regime, where the currency value of the Naira is allowed to vary according to the foreign exchange market, and,
- iii. The Kenya Shilling depreciated by 13.9% in H1'2023 to close at Kshs 140.5 against the US Dollar, compared to Kshs 123.4 recorded at the beginning of the year, driven by increased dollar demand from importers, especially in the oil and energy sectors, the ever-present current account deficit, and the need for government debt servicing, which has continued to put pressure on the country's forex reserves.

African Eurobonds:

Africa's appetite for foreign-denominated debt has continued to decline in recent times, with no issuer during H1'2023, 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 a higher risk premium to 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 remained elevated despite recording

marginal declines of 0.3% points and 1.1% points in H1'2023 to 12.6% and 7.8%, respectively, from 12.9% and 8.9% 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:



Source: S&P Capital

Equities Market Performance:

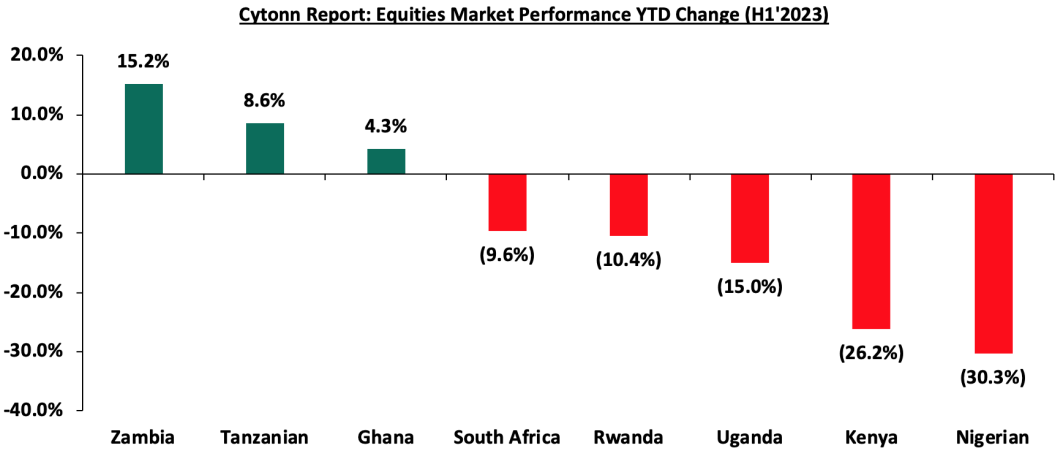
Sub-Saharan Africa (SSA) stock markets recorded mixed performance in H1'2023, with Zambia's stock market (LASILZ) being the best performing market gaining by 15.2% YTD driven by the rallying of commodity prices due to easing global supply chain constraints with the country being the main exporter of Copper to countries such as China, Switzerland and Singapore. Nigeria's NGSEASI was the worst performing stock market, declining by 30.3% YTD, with the index being weighed down by the devaluation of the Nigerian Naira following the recent decision by the Central Bank of Nigeria to adopt floating exchange rate regime. Kenya's NASI was the second worst performing stock market, declining by 26.2% at the end of H1'2023, mainly attributable to increased capital flight with investors chasing higher returns from advanced economies following hiking of interest rates as well as deterioration in investor confidence in the country. This is mainly on the back of macroeconomic uncertainties occasioned by the high inflation rate of 7.9% as of June 2023 and the continued weakening of the Kenyan Shilling which has depreciated by 13.9% on a year to date basis in 2023. Below is a summary of the performance of key indices:

Cytonn Report: Equities Market Performance H1'2023 (Dollarized*)

Country	Index	Jun-22	Jan-23	Jun-23	Last 12 Months change (%)	YTD change (%)
Zambia	LASILZ	398.6	406.2	468.1	17.4%	15.2%
Tanzanian	DARSDEI	1.6	1.6	1.7	7.7%	8.6%
Ghana	GGSECI	318.1	245.2	255.6	(19.7%)	4.3%
South Africa	JALSH	4,197.9	4,408.4	3,984.9	(5.1%)	(9.6%)
Rwanda	RSEASI	0.1	0.1	0.1	(14.5%)	(10.4%)
Uganda	USEASI	0.3	0.3	0.3	(9.4%)	(15.0%)
Kenya	NASI	1.0	1.0	0.8	(23.6%)	(26.2%)
Nigerian	NGSEASI	124.5	115.3	80.4	(35.5%)	(30.3%)

*The index values are dollarized for ease of comparison

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



GDP growth in Sub-Saharan Africa region is expected to slow down, 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.