

Cytonn Q3'2023 Markets Review

Sub-Saharan Africa Regional Review

According to the International Monetary Fund (IMF), the Sub-Saharan African economy is projected to grow at a rate of 3.5% in 2023, a 0.3% points decline from a growth of 3.8% recorded in 2022. Notably, the projection is an upward revision from the World Bank's Global Economic Prospects - 2023 projection of 3.2%. 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 expected slowdown in the regional economic growth in 2023 from 2022 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. Additionally, 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.

Currency Performance

In Q3'2023, most of the select Sub-Saharan currencies depreciated against the US Dollar, mainly 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. 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	Sep-22	Jan-23	Sep-23	Last 12 Months change (%)	YTD change (%)
Mauritius Rupee	44.1	43.0	43.1	2.4%	(0.4%)
Ugandan Shilling	3,814.7	3,678.1	3,713.3	2.7%	(0.9%)
Malawian Kwacha	1,011.0	1,009.0	1,067.0	(5.2%)	(5.4%)
Tanzanian Shilling	2,332.0	2,332.0	2,505.5	(6.9%)	(6.9%)
Botswana Pula	13.2	12.6	13.6	(3.3%)	(7.4%)
South African Rand	17.6	16.9	19.0	(7.1%)	(10.9%)
Zambian Kwacha	15.7	18.1	20.73	(24.1%)	(12.9%)
Ghanaian Cedi	10.1	9.8	11.6	(12.7%)	(15.3%)
Kenyan Shilling	119.8	123.4	148.1	(19.1%)	(20.0%)

Cytonn Report: Select Sub Saharan Africa Currency Performance vs USD

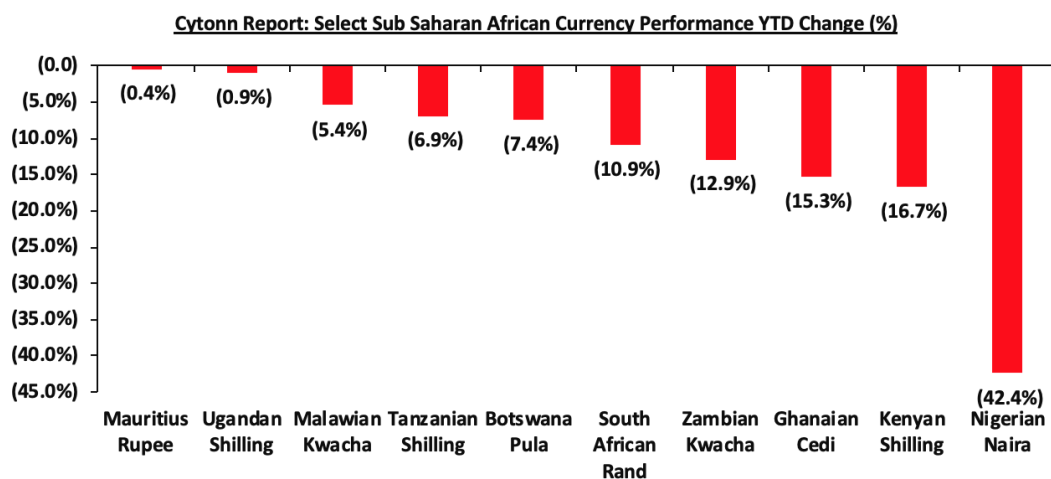
Currency	Sep-22	Jan-23	Sep-23	Last 12 Months change (%)	YTD change (%)
Nigerian Naira	431.5	447.6	777.6	(44.5%)	(42.4%)

Source: Yahoo Finance

Key take outs from the table include:

- I. The Mauritius Rupee was the largest gainer against the USD Dollar over the last twelve months gaining by 2.4% and the least decliner on YTD basis by 0.4%, mainly attributable to positive investor confidence following Mauritius improved macroeconomic performance following the expansion of the Mauritius economy by 6.0% as of Q2'2023.
- II. Nigeria Naira was the worst performing currency in Q3'2023 and the largest decliner over the last twelve months, depreciating by 42.4% and 44.5%, respectively, mainly as 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 20.0% in Q3'2023 to close at Kshs 148.1 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, 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.

The chart below shows the year to date performance of different sub-Saharan African countries in Q3'2023;

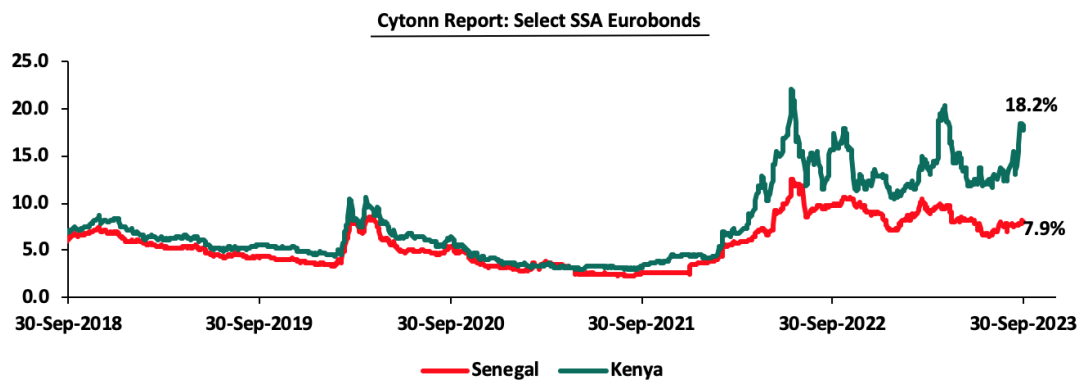


Source: Yahoo Finance

African Eurobonds:

Africa has been less interested in borrowing money in foreign currencies, with no issuer in the third quarter of 2023. Most countries avoided the Eurobonds market because of the high and persistent interest rates and the difficult economic situation. The main reason for the rise in interest rates was that investors demanded more compensation for lending to Sub-Saharan Countries, because of the high inflation, debt problems, and weakening local currencies in the region. Yields on the Senegal Eurobond remained elevated despite recording marginal increase of 0.2% points in Q3'2023 to 8.0% from 7.8% recorded at the end of June 2023. However, the yield on Kenya's Eurobond increased sharply by 5.2% points to 17.8% at the end of Q2'2023, up from 12.6% recorded at the end of the previous quarter, on the back of credit crunch concerns ahead of the 2024 bond maturity as

evidenced by the downgrade of Kenya’s long-term foreign currency and local-currency issuer ratings and senior unsecured debt ratings from B3 from B2 with a negative outlook by Moody’s Credit Rating Agency. 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 Q3’2023, with Zambia’s stock market (LASILZ) being the best performing market gaining by 12.8% YTD driven by the gains in the financial as well as energy sectors coupled with increased copper exports in the country to countries such as China, Switzerland and Singapore driving the country’s growth prospects. Kenya’s NASI was the worst performing stock market, declining by 37.7% YTD at the end of Q3’2023, 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 country on the back of macroeconomic uncertainties. Additionally, investors have continued to attach higher risk premium to the country as a result of the inflationary pressures coupled with the sustained depreciation of the Kenyan shilling against the dollar having depreciated by 20.0% on year to date basis in 2023. Below is a summary of the performance of key indices. The table below shows a summary of the performance of key indices;

Cytonn Report: Equities Market Performance Q3’2023 (Dollarized*)

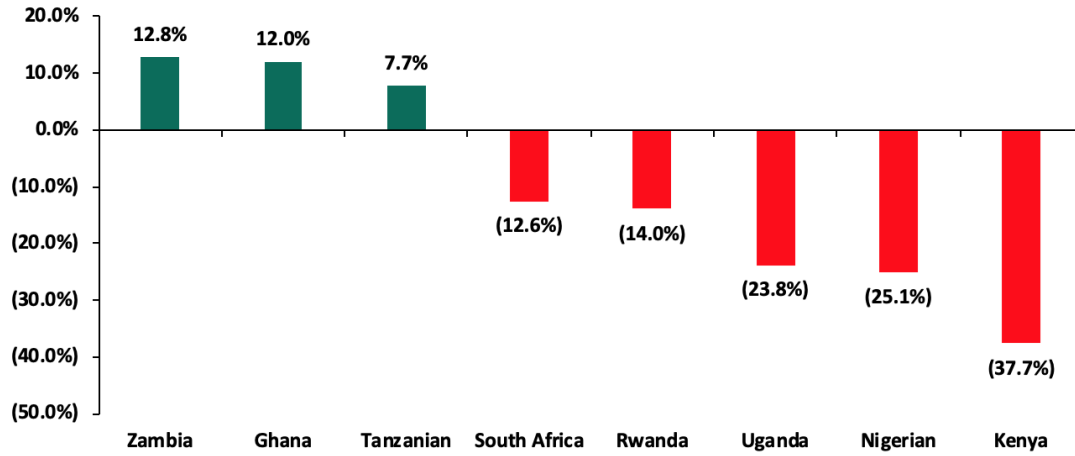
Country	Index	Sep-22	Jan-23	Sep-23	Last 12 Months change (%)	YTD change (%)
Zambia	LASILZ	479.7	406.2	458.1	(4.5%)	12.8%
Ghana	GGSECI	242.5	245.2	274.7	13.3%	12.0%
Tanzanian	DARSDEI	1.5	1.6	1.7	13.7%	7.7%
South Africa	JALSH	3,511.4	4,408.4	3,853.4	9.7%	(12.6%)
Rwanda	RSEASI	0.1	0.1	0.1	(15.5%)	(14.0%)
Uganda	USEASI	0.3	0.3	0.2	(24.6%)	(23.8%)
Nigerian	NGSEASI	113.5	115.3	86.3	(24.0%)	(25.1%)
Kenya	NASI	1.1	1.0	0.6	(39.3%)	(37.7%)

*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 (Q3'2023)



GDP growth in the 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.