

Cytonn Q3'2024 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 3.4% in 2024, which is 0.8% higher than the 2.6% growth estimate recorded in 2023. The expected recovery is primarily driven by private consumption growth as declining inflation boosts the purchasing power of household incomes. Nevertheless, the risk of debt distress remains high with more than half of countries facing unsustainable debt burdens as the region's **public debt to GDP ratio** is expected to remain high at 57.0% in 2024, albeit a decline from 60.0% in 2023. The public debt is expected to remain high due to increased debt servicing costs as a result of continued currency depreciation and high 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 Q3'2024, most of the select Sub-Saharan currencies depreciated against the US Dollar, primarily due to elevated inflationary pressures in the region, high debt servicing costs that continued to deplete foreign exchange reserves, and monetary policy tightening by advanced economies. High interest rates in developed countries resulted in significant capital outflows as investors, both institutional and individual, sought higher returns offered in these economies. Additionally, the rising inflation across most Sub-Saharan economies exerted pressure on local currencies due to the increasing cost of imports. However, the Kenyan Shilling emerged as the best performer among the selected currencies, appreciating by 17.7% against the USD on a year-to-date basis, closing Q3'2024 at Kshs 129.2, from Kshs 157.0 at the beginning of the year. 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

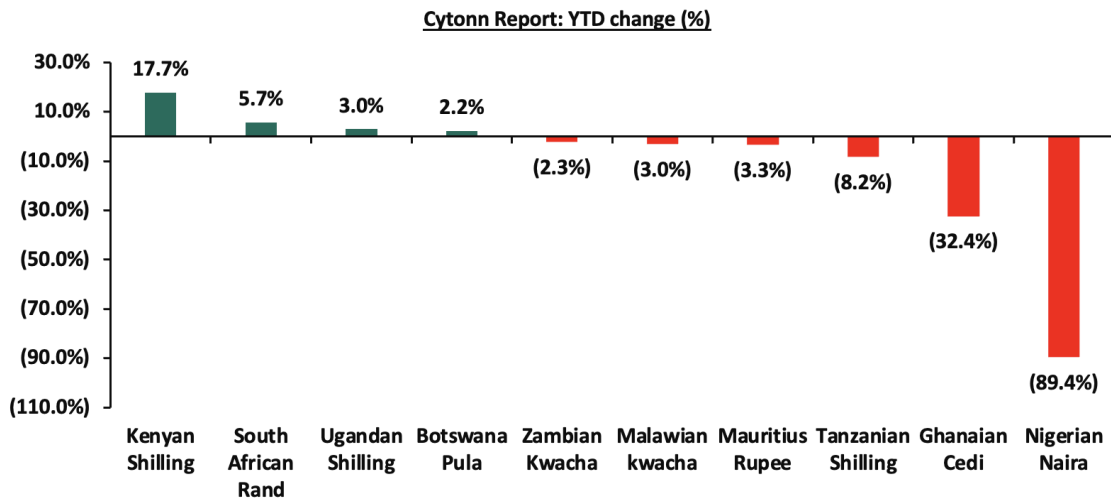
Currency	Sep-23	Jan-24	Sep-24	y/y change (%)	YTD change (%)
Kenyan Shilling	148.1	157.0	129.2	12.8%	17.7%
South African Rand	18.9	18.3	17.3	8.8%	5.7%
Senegal CFA Franc	617.0	589.3	582.8	5.6%	1.1%
Botswana Pula	13.8	13.3	13.0	5.4%	2.2%
Ugandan Shilling	3755.0	3790.7	3678.0	2.1%	3.0%
Mauritius Rupee	44.3	44.3	45.8	(3.2%)	(3.3%)
Tanzanian Shilling	2505.0	2524.1	2730.0	(9.0%)	(8.2%)
Zambian Kwacha	21.0	25.8	26.4	(25.8%)	(2.3%)
Ghanaian Cedi	11.6	11.9	15.8	(36.4%)	(32.4%)

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

Currency	Sep-23	Jan-24	Sep-24	y/y change (%)	YTD change (%)
Malawian kwacha	1080.0	1683.4	1733.7	(60.5%)	(3.0%)
Nigerian Naira	768.0	881.0	1669.0	(117.3%)	(89.4%)

Source: Yahoo Finance

The chart below shows the year-to-date performance of different sub-Saharan African countries in Q3'2024;



Source: Yahoo Finance

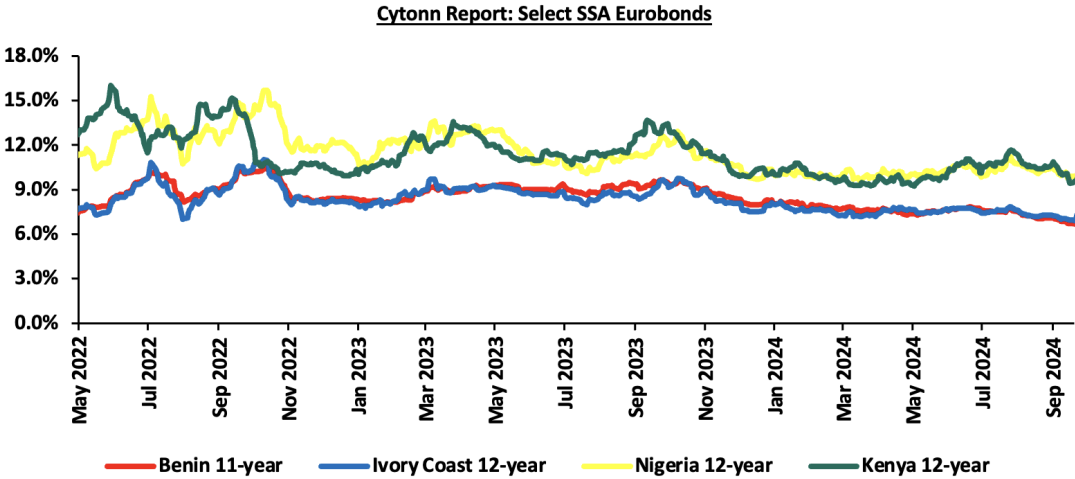
Key take outs from the above table and chart include:

- i. The Kenyan Shilling was the largest gainer against the USD Dollar, gaining by 17.7% year to date to close at Kshs 129.2 as at the end of September from the Kshs 157.0 recorded at the beginning of the year. The shilling's strength has been supported by several factors, including the government's Eurobond buyback in February, which alleviated debt risk. Additionally, foreign reserves have improved by 20.8%, currently standing at USD 8.2 bn—equivalent to 4.2 months of import cover—exceeding the statutory requirement of at least 4.0 months. This improvement is bolstered by increased dollar inflows into the country, including the World Bank funding of USD 1.2 bn under the Development Policy Operations (DPO), which is partly aimed at addressing the upcoming June 2024 Eurobond maturity payment. Furthermore, the US Federal Reserve's decision to cut its benchmark interest rate by 50 basis points to a range of 4.75%-5.00% has also contributed to a favorable environment for the Kenyan Shilling, and,
- ii. The Nigerian Naira was the worst performing currency in Q3'2024, depreciating by 89.4%, mainly as a result of acute foreign-exchange scarcity and instability arising from lower crude production and a lack of economic diversification,

African Eurobonds:

Africa's appetite for foreign-denominated debt has increased in recent times with the latest issuers during the nine months to end of Q3'2024 being Ivory Coast, Benin, Kenya, Senegal and Cameroon raising a total of USD 2.6 bn, USD 0.8 bn, USD 1.5 bn, USD 0.8 bn and USD 0.6 bn respectively. Notably, all the bonds were oversubscribed with the high support being driven by the yield hungry investors and also the outlook of positive recovery in the regional economies. It is good to note that there was a general decline in the yields of the various bonds from different countries due to general improvement in investor sentiment as the economy recovers and the easing inflationary pressures in the region. The yields of the Ivory Coasts' 12-year Eurobond maturing in 2032 increased marginally

by 0.6% points to 6.9% as at the end of September 2024 from 7.5% recorded in December 2023. Similarly, the Yields of the Kenya’s 12-year Eurobond maturing in 2032 increased by 0.9% points to 9.5% as at the end of September 2024 from 10.4% in December 2023, partly attributable to improved investor confidence following the successful buy-back of the 2024 Eurobond maturity, increased IMF Credit funding and the strengthening of the Kenyan shilling against the dollar having gained by 17.7% on a year-to-date. Below is a graph showing the Eurobond secondary market performance of select Eurobonds issued by the respective countries:



Source: Bloomberg, CBK

Equities Market Performance:

Sub-Saharan Africa (SSA) stock markets recorded mixed performance in Q3’2024, with Zambia’s stock market (LASILZ) being the best performing market gaining by 46.1% YTD increased foreign investor sentiments following improved macro-economic conditions in Zambia following debt restructuring reforms. Nigeria’s NGSEASI was the worst performing stock market, declining by 28.0% YTD, 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 occasioned by the high inflation at 32.2% as of August 2024 and continued weakening of the Nigerian Naira which has depreciated by 89.4% on year-to-date basis in 2024. Below is a summary of the performance of key indices:

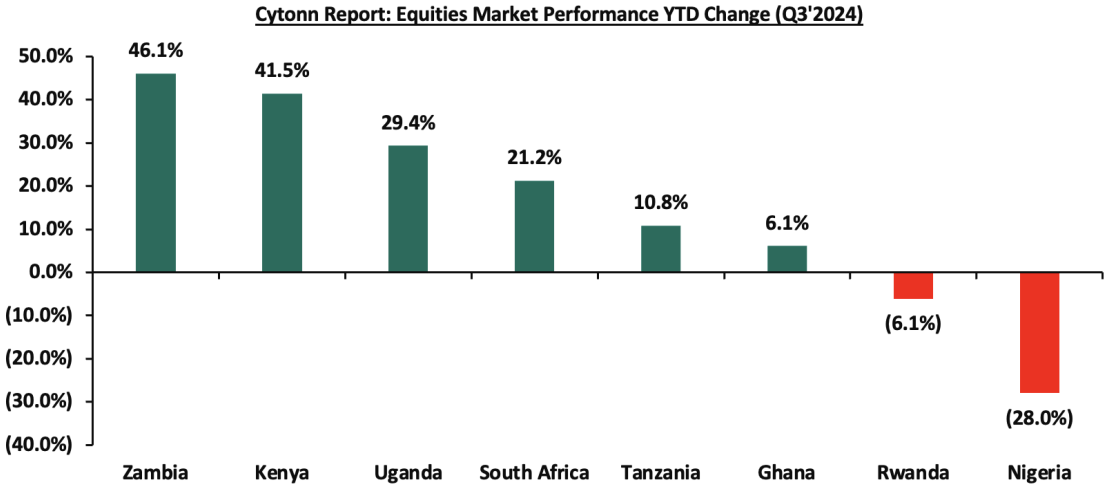
Cyttonn Report: SSA Equities Market Performance Q3’2024 (Dollarized*)

Country	Index	Sep-23	Jan-24	Sep-24	Last 12 months	YTD Change
Zambia	LASILZ	452.4	428.8	626.5	38.5%	46.1%
Kenya	NASI	0.6	0.6	0.8	28.9%	41.5%
Uganda	USEASI	0.3	0.2	0.3	18.9%	29.4%
South Africa	JALSH	3,826.7	4,136.4	5,015.1	31.1%	21.2%
Tanzania	DARSDEI	0.7	0.7	0.8	8.8%	10.8%
Ghana	GSECI	274.7	261.6	277.6	1.1%	6.1%
Rwanda	RSEASI	0.1	0.1159	0.11	(23.0%)	(6.1%)
Nigeria	NGEASI	86.4	83.4	60.1	(31.7%)	(28.0%)

*The index values are dollarized for ease of comparison

Source: Cyttonn Research, Kwayisi, Yahoo Finance

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



Dollarized performance

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.

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