Cytonn Q1’2018 Markets Review

Sub-Saharan Africa Region Review

During Q1’2018, the International Monetary Fund (IMF) released the World Economic Outlook Update for January 2018, projecting Sub-Saharan Africa (SSA) GDP to grow by 3.3% in 2018, and 3.5% in 2019, from an expected 2.7% in 2017. Improved growth in 2018 is expected to be driven by (i) continually increasing infrastructure expenditure by various regional governments, (ii) strengthening of the commodities market and a price rally of global crude prices that is expected to boost growth in major oil producing countries across SSA, including some of the largest economies in the region such as Nigeria and Angola, and (iii) an improving macroeconomic and political environment. The largest economy in SSA, Nigeria, is expected to experience improved GDP growth in 2018 with the IMF revising this upwards by 20 bps to 2.1% from 1.9% previously supported by continued improving of global oil prices and the increased production in the agriculture sector. However, GDP in South Africa for 2018 was revised downwards to 0.9% from 1.1% previously mainly due to political uncertainties and continued corruption allegations against government officials, which has dented investor sentiment.

More than 40 African countries signed the African Continental Free Trade Area (AfCFTA) Agreement during the quarter, aimed at encouraging regional trade by reducing the existing trade barriers such as import duties and non-tariff barriers. Among the most notable countries to refuse signing the agreement was Nigeria, citing perceived threats to their locally manufactured goods and possible dumping of finished goods in the Nigerian market, and requested for more time to review the agreement and report back to the Union with a decision to sign or not. The agreement, if ratified by at least 22 individual governments that signed the accords, will lead to increased trade amongst African countries, which currently stands at approx. 16.0% of total trade in the continent, promote the manufacturing sector in Africa and uphold the support of “*Made in Africa*” goods by Africans.

Currency Performance

Regional currencies generally appreciated during the quarter driven by an improved macroeconomic environment as most economies experienced; (i) recovery from economic shocks occasioned by political uncertainty, (ii) improved weather conditions and, (iii) commodity exports fetching better prices in the global commodities markets. The stability in currencies against the USD was further supported by the general weakening of the dollar in the global markets as indicated by the dollar index, which has shed 2.2% YTD. The table below shows the performance of the various currencies:

Select Sub-Saharan Regional Currency Performance vs USD

Currency	Mar-17	Dec-17	Mar-18	Last 12 months Change (%)	YTD Change (%)
South African Rand	13.4	12.4	11.9	**12.9%**	**4.2%**
Botswana Pula	10.4	9.8	9.5	**9.7%**	**3.7%**

Select Sub-Saharan Regional Currency Performance vs USD

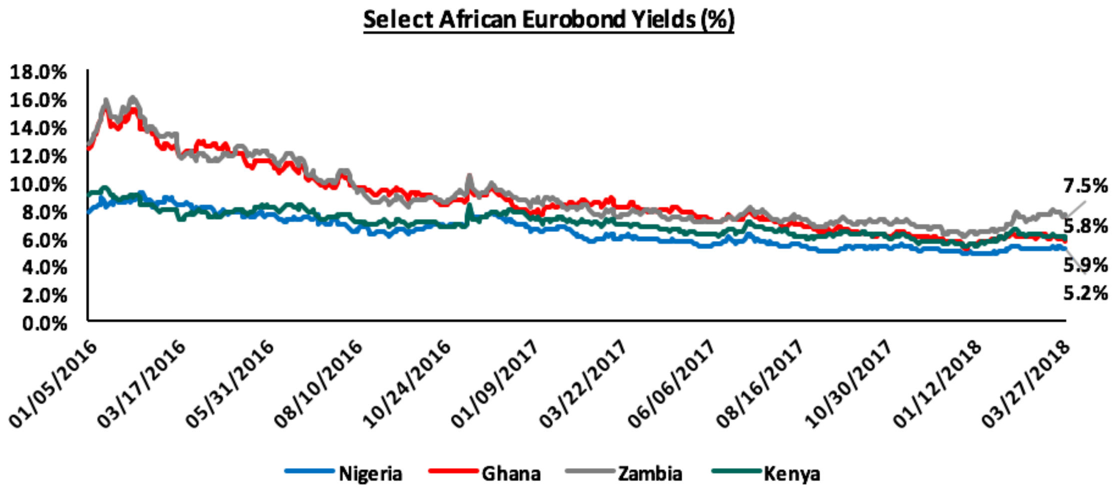
Currency	Mar-17	Dec-17	Mar-18	Last 12 months Change (%)	YTD Change (%)
Zambian Kwacha	9,665.0	9,976.0	9,688.0	(0.2%)	3.0%
Ghanaian Cedi	4.3	4.5	4.4	(2.6%)	2.5%
Kenyan Shilling	103.0	103.2	101.1	1.8%	2.0%
Nigerian Naira	314.3	360.0	360.0	(12.7%)	(0.0%)
Malawian Kwacha	725.2	725.5	725.7	(0.1%)	(0.0%)
Mauritius Rupee	35.8	33.6	33.6	6.5%	(0.2%)
Tanzania Shilling	2,230.9	2,234.6	2,257.2	(1.2%)	(1.0%)
Ugandan Shilling	3,615.4	3,643.3	3,691.2	(2.1%)	(1.3%)

African Eurobonds

Yields on African Eurobonds have continued to decline, highlighting the improved investor sentiment regarding the future economic growth prospects of African countries. During the quarter, there were two Eurobond issues as follows:

i. **Kenya**: On 23rd February 2018, Kenya issued its second set of Eurobonds, a 10-year, and 30-year Eurobonds at yields of 7.3% and 8.3%. The issue was 7.0x subscribed with bids received at USD 14.0 bn as compared to the USD 2.0 bn target, and
ii. **Senegal**: Senegal issued two Eurobonds, a 9-year and 29-year, at yields of 4.8% and 6.8%: 2.5% points and 1.5% points lower than Kenya's February 2018 issue with nearly similar tenures, respectively. We believe that Senegal managed to issue its Eurobonds at lower yields than similar tenure issues in the continent as (a) recent offshore oil & gas discoveries has enabled the country to bring more investors on board, (b) the country enjoys strong political stability with no sign of any upheaval in the future as well, unlike other issuer countries like Kenya, Nigeria, Egypt and South Africa, and (c) Senegal's 2017 GDP growth is estimated at 6.8% and the economy is projected to grow by 7.0% in 2018, one of the fastest growing economies in SSA. The issue was 4.5x subscribed with bids received worth USD 10.0 bn, against a target of USD 2.2 bn.

Below is a graph showing the Eurobond secondary market performance of select 10-year Eurobonds issued by the respective countries:



Source: Bloomberg

Equities Market Performance

Most SSA stock markets recorded positive returns during the quarter. This can be attributed to (i) prospects of improving economic performance in 2018, and (ii) renewed investor confidence and sentiment in the markets, with investors opting to take advantage of attractively priced counters in the respective markets. Below is a summary of various stock market performances:

Select Sub-Saharan Regional Equities Performance (dollarized)

Stock Exchange	17-Mar	17-Dec	18-Mar	LTM	YTD Change (%)
Ghanaian	432.5	569.7	762.2	**76.2%**	**33.8%**
Malawi	20.1	29.8	34.9	**73.4%**	**17.1%**
Kenyan	1.3	1.7	1.9	**49.5%**	**14.1%**
Nigerian	83.4	106.2	115.3	**38.3%**	**8.5%**
Ugandan	0.4	0.6	0.6	**38.5%**	**8.0%**
Zambian	457.5	532.1	572.6	**25.2%**	**7.6%**
Mauritius	54.9	65.1	69.1	**25.8%**	**6.1%**
BRVM	0.5	0.4	0.4	**(3.2%)**	**0.6%**
Tanzania	1.0	1.1	1.1	**3.3%**	**(0.4%)**
South Africa	3,883.7	4,802.6	4,690.5	**20.8%**	**(2.3%)**

**please note these indices are dollarized and may differ from the equities section which is in Kshs*

We are of the view that increased government spending on infrastructure development, improving commodity prices in the global markets, better weather conditions and relative political stability will be the key drivers for Sub-Sahara Africa growth in 2018.