Cytonn H1’2018 Markets Review

B. Sub-Saharan Africa Regional Review

Regional Economic Growth:

During H1’2018, the IMF released their Regional Economic Outlook report for Sub-Saharan Africa (SSA) dated April 2018, with a focus on domestic revenue mobilization and private investment. The key take-outs from the report were:

i. GDP growth in SSA is projected to come in at 3.4% in 2018, up from 2.8% in 2017, supported by higher commodity prices, and improved capital markets access,
ii. The average current account deficit in SSA is estimated to have narrowed to 2.6% of GDP in 2017, from 4.1% in 2016. The improvement was due to an increase in international receipts in about half of the region’s economies. For large oil exporters, external balances improved due to higher oil production, improvement in oil prices, and reduced imports with the current account deficit in the Central African Economic and Monetary Community (CEMAC) declining to 4.3% of GDP in 2017, from 13.8% of GDP in 2016. In non-resource intensive countries, the current account deficits remained high in 2017, due to a combination of low exports, high capital goods imports, high food and fuel imports, and increased imports related to public infrastructure projects, and,
iii. Regional annual inflation in SSA fell to just over 10.0% in 2017, from 12.5% in 2016, and is expected to fall further in 2018, driven by declining food prices due to improved weather conditions.

The report points to an improved operating environment in SSA with (i) a projected higher GDP growth in 2018 of 3.4%, compared to 2.8% in 2017, (ii) the average current account deficit narrowing to 2.6% of GDP in 2017, from 4.1% in 2016, and (iii) average annual inflation declining to 10.0% in 2017 from 12.5% in 2016, expected to fall further in 2018. The key concern, however, remains the rising debt burden, as public debt continued to rise in 2017, with about 40.0% of low-income developing countries in the region being in debt distress or at a high risk of debt distress, and the median level of public debt in SSA exceeding 50.0% of GDP. With the rise in debt, interest payments have also been on the rise, with the median interest payments-to-revenue ratio close to 10.0%, up from the 5-year average of 5.0%.

Regional Currencies:

Regional currencies generally declined during H1’2018 due to the strengthening of the US dollar as evidenced by the dollar index gaining 2.5% on a year to date basis. The table below shows the performance of the various currencies:

Select Sub Saharan Africa Currency Performance vs USD

Currency	Jun-17	Dec-17	Jun-18	Last 12 months	YTD change %
Kenyan Shilling	103.7	103.2	101.1	**2.5%**	**2.1%**
Malawian Kwacha	725.4	725.5	726.3	**(0.1%)**	**(0.1%)**

Select Sub Saharan Africa Currency Performance vs USD

Currency	Jun-17	Dec-17	Jun-18	Last 12 months	YTD change %
Zambian Kwacha	9.2	10.0	10.0	**(8.6%)**	**(0.1%)**
Nigerian Naira	324.5	360.0	361.2	**(11.3%)**	**(0.3%)**
Tanzanian Shilling	2237.0	2234.6	2270.0	**(1.5%)**	**(1.6%)**
Mauritius Rupee	34.7	33.6	34.6	**0.3%**	**(2.9%)**
Botswana Pula	10.2	9.8	10.4	**(1.5%)**	**(5.7%)**
Ghanaian Cedi	4.4	4.5	4.8	**(8.4%)**	**(6.0%)**
Ugandan Shilling	3578.0	3643.3	3884.2	**(8.6%)**	**(6.6%)**
South African Rand	13.1	12.4	13.7	**(5.0%)**	**(10.8%)**

SSA Eurobonds:

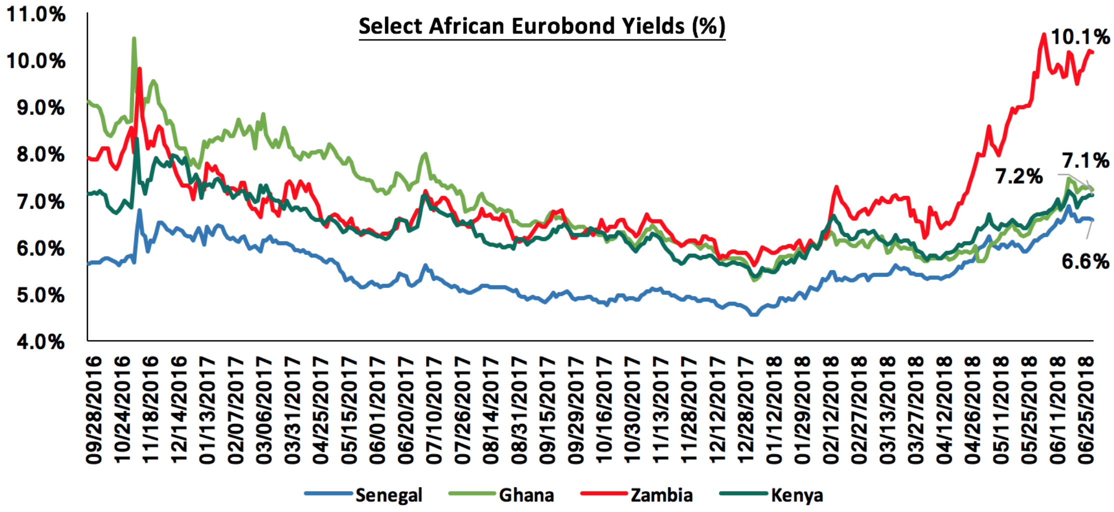
The first half of 2018 was characterized by Eurobond issuance by 5 Sub Saharan African countries (Kenya - USD 2.0 bn, Nigeria - USD 2.5 bn, Senegal - USD 2.2 bn, Ghana - USD 2.0 bn, and South Africa - USD 2.0 bn) jointly raising USD 10.7 bn; see our Focus Note on the Eurobonds in Sub-Saharan Africa here.

The table below shows the performance of select Eurobonds with a tenor of 10-years in the Sub-Saharan Africa region, with all yields having increased during the H1'2018 period:

Select Sub Saharan Africa 10-Year Tenor Eurobonds Performance

Country	Jun-17	Dec-17	Jun-18	Last 12 Months (% Points)	YTD Change (% Points)
Ghana	7.4%	5.7%	7.2%	**(0.2%)**	**1.5%**
Kenya	6.4%	5.6%	7.1%	**0.7%**	**1.5%**
Senegal	5.2%	4.7%	6.6%	**1.3%**	**1.9%**
Zambia	6.8%	5.9%	10.1%	**3.4%**	**4.3%**

Yields on African Eurobonds have risen attributed to corrections in global markets in line with the rising US Treasury yields, which act as a crucial benchmark for financial markets. This has also seen flight of capital as investors move to the relatively less risky USA securities. These corrections were driven by the end of the US Federal Reserve's expansionary policy measures with 2 Fed rate hikes in the first half of 2018, which has seen a rise in the US Treasury yields against a backdrop of tighter monetary policy, rising interest rates, and inflation expected to rise in the coming months having edged up to 2.8% in May from 2.5% in April.



Regional Stock Markets:

Majority of the SSA stock markets recorded negative returns during H1’2018, largely attributable to capital outflows from the markets as profit taking investors exited the markets to realize the gains made in various sectors such as oil and gas, that was boosted by a global rally in crude prices, and the financial services sector. Various markets had experienced bullish runs from the previous year to Q1’2018 as indicated in our Q1’2018 Markets Review, however, price correction due to the capital outflows resulted in the declining performance in the second quarter of 2018. Below is a summary of the performance of key bourses in SSA:

Equities Market Performance (Dollarized)

Country	Jun-17	Dec-17	Jun-18	Last 12 Months	YTD Change(%)
Malawi	21.8	29.8	42.4	**94.6%**	**42.3%**
Ghana	446.5	569.7	600.9	**34.6%**	**5.5%**
Kenya	1.5	1.7	1.7	**17.1%**	**4.0%**
Zambia	519.4	532.1	547.4	**5.4%**	**2.9%**
Nigeria	105.2	106.2	105.9	**0.6%**	**(0.3%)**
Uganda	0.5	0.6	0.5	**15.4%**	**(2.5%)**
Rwanda	0.1	0.2	0.1	**0.8%**	**(4.3%)**
Tanzania	1.0	1.1	1.0	**1.6%**	**(6.4%)**
BRVM	0.5	0.4	0.4	**(13.2%)**	**(11.6%)**
South Africa	3953.1	4802.6	4188.0	**5.9%**	**(12.8%)**

NB: 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 SSA growth in 2018.