

Cytonn Q3'2018 Markets Review

Sub Saharan Africa Regional Review

Regional Growth

Sub-Saharan Africa is estimated to have grown by 2.8% in Q2'2018, which was an increase from 2.6% in Q2'2017. The growth was driven by a supportive external environment and the robust global demand for key commodities. Growth dynamics were, however, far from uniform across the region's two largest economies, Nigeria and South Africa, which are facing political tensions in the run to next year's elections. Regional GDP is projected to grow at 3.2% in 2018, and increase to 3.5% in 2019 which will be supported by, (i) a healthy global economy, (ii) elevated commodity prices, (iii) improved agricultural output and (iv), solid government spending. However, the regional economy still faces downside risks of; (i) difficult business conditions and poor infrastructure, (ii) relatively small private sectors that have restrained the pace of the recovery, (iii) high levels of public debt in most economies in the region, and (iv) perennial security concerns which continue to negatively affect investments in the region.

Regional Currency Performance

Regional currencies registered mixed performances in Q3'2018, with majority of the currencies depreciating against the dollar. In the East African region, the Ugandan Shilling and Tanzanian Shilling depreciated by 5.9% and 2.1%, respectively, against the dollar driven by increased food imports during the drought period and increased oil imports as importers took advantage of the lower global oil prices that were expected to rise. Despite the expiry of the IMF precautionary stand-by arrangement during the quarter, the Kenyan shilling strengthened marginally by 0.1% to Kshs 101.0 from Kshs 1011.1 as at the end of Q2'2018, supported by strong dollar inflows from diaspora remittances coupled with thinner dollar demand from exporters. The Kenyan shilling however, had started declining at the tail-end of the quarter due to uncertainties regarding the IMF stand-by arrangement. Below is a table showing the performance of select African currencies:

Select Sub Saharan Africa Currency Performance vs USD

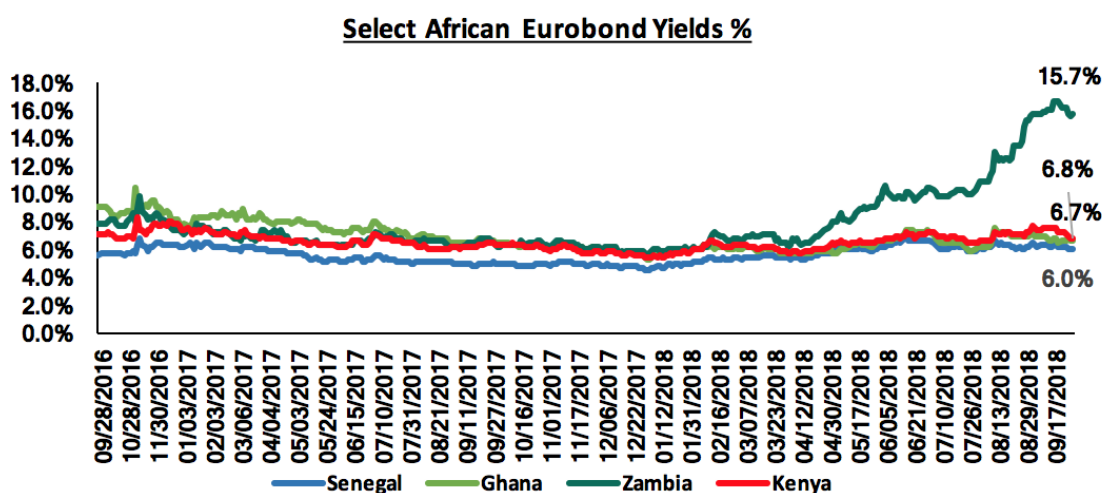
Currency	Sep-17	Dec-17	Sep-18	Last 12 months	YTD change %
Zambian Kwacha	10.5	10.0	12.0	(14.4%)	(20.4%)
South African Rand	13.5	12.4	14.2	(4.8%)	(14.3%)
Botswana Pula	10.2	9.8	10.6	(3.8%)	(7.7%)
Mauritius Rupee	34.0	33.6	34.4	(1.1%)	(2.4%)
Malawian Kwacha	726.2	725.5	727.8	(0.2%)	(0.3%)
Ugandan Shilling	3,603.0	3,643.3	3,816.6	(5.9%)	(4.8%)
Kenyan Shilling	103.2	103.2	100.8	2.3%	2.3%
Tanzanian Shilling	2,238.6	2,234.6	2,284.9	(2.1%)	(2.3%)

Select Sub Saharan Africa Currency Performance vs USD

Currency	Sep-17	Dec-17	Sep-18	Last 12 months	YTD change %
Nigerian Naira	355.0	360.0	362.8	(2.2%)	(0.8%)
Ghanaian Cedi	4.4	4.5	5.0	(12.9%)	(9.8%)

African Eurobonds

Yields on African Eurobonds have continued to rise in Q3'2018, attributed to the adjustments of global yields to normalisation of monetary policies in the advanced economies which saw the Federal Open Market Committee (FOMC) hiking the US bench mark rate by 0.25% points to a range of 2.0% - 2.25% from 1.75%-2.0% set in June 2018. The ten-year tenor Eurobonds issued by Senegal, Ghana and Kenya ended the quarter at 6.0% and 15.7%, while the Kenyan Eurobond yield remained stable at 6.8% over the same period



Equities Markets

Majority of the SSA stock markets recorded negative returns during Q3'2018 a trend that was also replicated in most emerging markets attributed to uncertainties from the escalated trade disputes between world powers which saw deepening sell-off across emerging markets by investors to realize the gains made in various sectors. In the near term, we expect the markets to remain subdued due to the exit by offshore investors but will regain due to gains expected to be realized in full year results. Below is a summary of the performance of key bourses in SSA:

Equities Market Performance of selected indices(Dollarized)

Country	Sep-17	Dec-17	June-2018	Sep-18	Last 12 Months	YTD Change %	Q/Q Change(%)
Malawi	27.4	29.8	42.4	42.3	54.3%	42.1%	(0.2%)
Ghana	518.9	569.7	600.9	580.5	11.9%	1.9%	(3.4%)
Kenya	1.6	1.7	1.7	1.5	(5.5%)	(10.5%)	(14.1%)
Rwanda	0.2	0.2	0.2	0.1	(5.0%)	(5.4%)	(1.6%)
South Africa	4,105.3	4,802.6	4,188.0	3,931.8	(4.2%)	(18.1%)	(6.1%)
Uganda	0.5	0.6	0.5	0.5	0.1%	(13.5%)	(11.4%)

Equities Market Performance of selected indices(Dollarized)

Country	Sep-17	Dec-17	June-2018	Sep-18	Last 12 Months	YTD Change %	Q/Q Change(%)
Zambia	512.5	532.1	546.3	455.2	(11.2%)	(14.4%)	(16.7%)
Tanzania	0.9	1.1	1.0	0.9	(2.3%)	(14.2%)	(8.4%)
Nigeria	98.7	106.2	105.9	89.9	(9.0%)	(15.4%)	(15.1%)
BRVM	0.4	0.4	0.4	0.3	(16.3%)	(23.0%)	(13.0%)

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

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