

Cytonn Q1'2019 Markets Review

Sub-Saharan Africa Region Review

During Q1'2019, the International Monetary Fund (IMF) released the World Economic Outlook Update for January 2019, projecting Sub-Saharan Africa (SSA) GDP to grow by 3.5% in 2019, and 3.6% in 2020, from an expected 2.9% in 2018. The higher growth rate was majorly attributed to improvement in weather conditions which is expected to boost agricultural production. The projections for both 2019 and 2020 are 30 bps lower than the previous projection of October 2018, which stood at 3.8% and 3.9%, respectively. This was as a result of downward revisions for Angola and Nigeria with the IMF citing concerns on softening oil prices. The largest economy in SSA, Nigeria, is expected to experience less robust GDP growth in 2019 with the IMF revising this downward by 30 bps to 2.0%, from 2.3% previously, citing softening of global oil prices and political uncertainty due to the elections that were held in February 2019.

Currency Performance

Majority of the currencies depreciated against the US Dollar with the Malawian Kwacha, the Kenya Shilling, and the Nigerian Naira being the only gainers. The Ghanaian Cedi was the worst performer, depreciating by 8.4% against the dollar YTD owing to perceptions about the country's inability to manage its finances properly after a four-year bailout with the International Monetary Fund that ends in April 2019. The Kenya shilling appreciated against the dollar with inflows from horticulture exports and non-governmental organizations matching end-month dollar demand from the energy sector. Below is a table showing the performance of select African currencies:

Select Sub Saharan Africa Currency Performance vs USD

Currency	Mar-18	Dec-18	Mar-19	Last 12 Months change (%)	YTD change (%)
Malawian Kwacha	725.7	736.8	724.5	0.2%	1.7%
Kenyan Shilling	101.1	101.8	100.7	0.4%	1.1%
Nigerian Naira	360.0	362.6	361.0	(0.3%)	0.4%
Ugandan Shilling	3691.2	3708.5	3714.9	(0.6%)	(0.2%)
Botswana Pula	9.5	10.7	10.8	(11.7%)	(0.6%)
Tanzanian Shilling	2257.2	2298.7	2315.5	(2.5%)	(0.7%)
South African Rand	11.9	14.3	14.5	(17.9%)	(1.4%)

Select Sub Saharan Africa Currency Performance vs USD

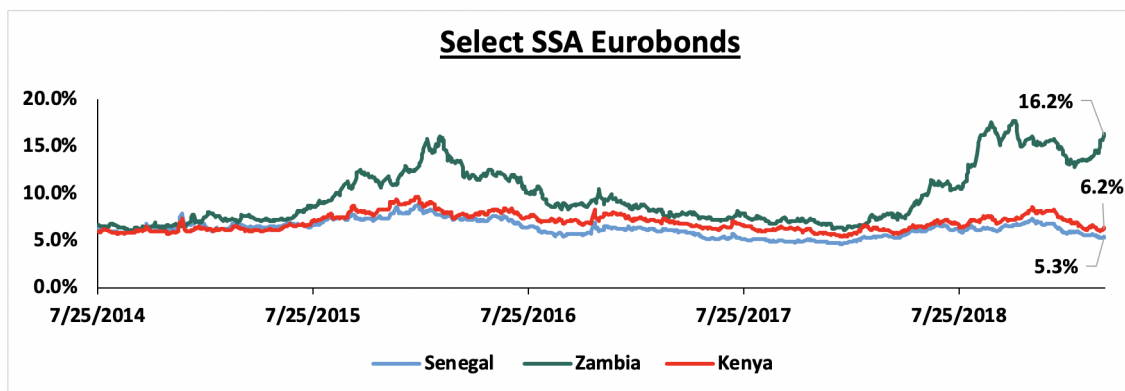
Currency	Mar-18	Dec-18	Mar-19	Last 12 Months change (%)	YTD change (%)
Mauritius Rupee	33.6	34.3	34.9	(3.8%)	(1.8%)
Zambian Kwacha	9.4	11.9	12.2	(22.5%)	(1.9%)
Ghanaian Cedi	4.4	4.9	5.4	(17.8%)	(8.4%)

African Eurobonds:

Yields on African Eurobonds declined in Q1'2019 after an increase in 2018. This was partly attributed to the perceived end to the tightening monetary policy regime adopted by the U.S Federal reserve amid a suddenly cloudy outlook for the US economy. As a result, there was increased investor interest in Africa's debt market.

During the quarter, the government of Ghana, on 19th March 2019 issued its seventh Eurobond after its maiden appearance on the international capital market in 2007. An amount of USD 3.0 bn was raised in 3 tranches of 7, 12, and 31-years, where the bond was 7x oversubscribed. The proceeds of the bond as stipulated in the 2019 budget is for budgetary support and liability management similar to previous bonds.

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



Analysis of trends observed in the chart above is as follows:

- Yields on the Zambia Eurobond increased in 2018 a result of mass exodus of foreign investors amid fears of the country's debt sustainability, most believing it to be close to default.
- Yields on Kenyan and Senegalese Eurobonds have been on a decline since the beginning of the year, signaling that the demand for the instruments has risen during the period. This has been mostly attributed to macroeconomic stability in both countries.

Equities Market Performance

Most of the Sub-Saharan African (SSA) stock markets recorded positive returns in Q1'2019. The region experienced capital inflows, a recovery from last year's recorded outflows. Below is a summary of the performance of key exchanges:

Equities Market Performance (Dollarized*)

Country	Mar-18	Dec-18	Mar-19	Last 12 Months change (%)	YTD change (%)
Kenya	1.9	1.4	1.5	(17.6%)	12.2%
Uganda	0.6	0.4	0.5	(21.3%)	9.4%
South Africa	4690.5	3667.1	3866.2	(17.6%)	5.4%
Zambia	572.6	441.1	460.5	(19.6%)	4.4%
BRVM	0.4	0.3	0.3	(24.9%)	0.1%
Tanzania	1.1	0.9	0.9	(19.0%)	(1.0%)
Nigeria	115.3	86.5	85.4	(25.9%)	(1.3%)
Malawi	34.9	39.8	37.7	8.0%	(5.3%)
Rwanda	0.2	0.2	0.1	(6.2%)	(5.8%)
Ghana	762.2	510.8	458.8	(39.8%)	(10.2%)

***The index values are dollarized for ease of comparison**

NASI is the best performing index following gains made in large cap counters such as NIC Group, Safaricom and Equity Group which have recorded gains of 30.8%, 24.1% and 19.4%, respectively

The Sub-Saharan Africa region is expected to perform well supported by increased public spending on infrastructural development owing to the high demand for basic needs. Key risks remain difficult business conditions and poor infrastructure, reliance on commodity exports, political tension in some countries and debt sustainability due to high levels of public debt in most economies in the region. Stock markets valuations remain attractive for long-term investors. The improved regional economic growth prospects remain key towards enhancing investor sentiment and attracting investment inflows into the region.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com

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