Cytonn H1'2019 Markets Review

Sub-Saharan Africa Regional Review

Regional Economic Growth

In April, the World Bank Group released a report titled 'An Analysis of Issues Shaping Africa's Economic Future', projecting Sub-Saharan Africa (SSA) GDP to grow by 2.9% and 3.3% in 2019 and 2020, respectively, from a growth of 2.5% in 2018. This upturn is to be supported by oil exporting countries, with the demand side being supported by exports and private consumption, and the supply side being supported by a rebound in agriculture, increase in mining production, and stable growth in the services sector in some countries. Overall growth is expected to be affected by the external environment as global growth continues to decelerate and global uncertainty abounds due to trade disputes between the United States and China, SSA's major trading partners. Consequently, the outlook on commodity prices and the oil market is highly uncertain because of expected spill-over effects, especially towards commodity-driven economies such as Angola, Liberia, Uganda, and Mozambique.

According to the International Monetary Fund SSA Regional Economic Outlook (2019), the public debt to GDP in 2018 was estimated at close to 56.0%. 16 African countries are classified as either having a high risk of debt distress or being in debt distress as illustrated in the table below:

No.	Having a High Risk of Debt Distress	No.	Are in Debt Distress
1	Burundi	1	Republic of Congo
2	Cameroon	2	Eritrea
3	Cape Verde	3	The Gambia
4	The Central African Republic	4	Mozambique
5	Chad	5	Sao Tome and Principe
6	Ethiopia	6	South Sudan
7	Ghana	7	Zimbabwe
8	Sierra Leone		
9	Zambia		

The report also reveals that 19 low-income and developing countries have low to moderate debt vulnerabilities, while the remaining middle and upper-income countries have sustainable public debt levels. In 2019, public debt ratios are expected to stabilize or even decline across country groupings driven by debt reductions among oil exporting countries and fiscal consolidation in non-resource-intensive countries.

Regional Currencies

Majority of select regional currencies depreciated against the US Dollar with the South African Rand and Nigerian Naira being the only gainers, while the Tanzanian Shilling remained flat. The Ghanaian

Cedi was the worst performer, declining by 12.0% year to date owing to the end of the four-year bailout with the IMF and failure of foreign holders of domestic debt to roll over their maturing investments. The Kenya Shilling has depreciated against the dollar by 0.5% year to date due to a spike in dollar demand from oil and merchandise importers resulting in the depreciation of the shilling. Below is a table showing the performance of select African currencies:

Select Sub-Saharan Africa Currency Performance vs USD

Currency	**Jun-18**	**Dec-18**	**Jun-19**	**Last 12 Months**	**YTD change %**
South African Rand	13.7	14.3	14.2	(3.2%)	1.0%
Nigerian Naira	302.3	307.0	305.9	(1.2%)	0.4%
Tanzanian Shilling	2271.0	2295.0	2295.0	(1.1%)	0.0%
Kenyan Shilling	100.8	101.8	102.3	(1.4%)	(0.5%)
Botswana Pula	10.4	10.7	10.6	(1.8%)	(0.8%)
Mauritius Rupee	34.5	34.2	35.4	(2.7%)	(3.7%)
Malawian Kwacha	713.5	719.8	761.5	(6.7%)	(5.8%)
Ghanaian Cedi	4.8	4.8	5.4	(13.3%)	(12.0%)

Source: Reuters

SSA Eurobonds

The first half of 2019 was characterized by 4 Eurobond issuances by Sub- Sahara African countries, namely Egypt (USD 4.0 bn and EUR 2.0 bn), Ghana (USD 3.0 bn), Benin (USD 0.6 bn), and Kenya (USD 2.1 bn). According to Bloomberg, other issues are expected in the year from Angola (USD 2.0 bn), South Africa (USD 2.0 bn), and Ivory Coast (USD 1.0 bn).

The table below shows the performance of select Eurobonds with a tenor of 10-years in the Sub-Saharan Africa region during the H1'2019 period. In our select SSA Eurobonds, Zambia's yield recorded an increase of 8.2% in the last 12 months amidst investor concerns over dwindling forex reserves from a high of USD 1.8 bn in June 2018 to an estimated USD 1.0 bn in June 2019.

Select Sub-Saharan Africa 10- Year Tenor Eurobonds Performance

Country	**Jun-18**	**Dec-18**	**Jun-19**	**Last 12 Months (% points)**	**YTD Change (% Points)**
Kenya	5.7%	5.9%	5.7%	0.0%	(0.2%)
Senegal	6.7%	6.9%	4.7%	(2.0%)	(2.2%)
Ghana	7.7%	9.1%	6.5%	(1.2)	(2.6%)
Zambia	11.2%	15.7%	19.4%	8.2%	3.7%

Source: Reuters

Yields on African Eurobonds declined to indicate easing risk concerns over the economy by investors despite specific country rating downgrades. Moody's downgraded Kenya's issuer rating to B2 from B1, assigning a stable outlook. It also downgraded Angola issuer rating to B3 (stable) from B2 due to its elevated liquidity pressures coupled with increasing external vulnerability and weaker fiscal metrics. Further, S&P and Fitch joined Moody's in downgrading Zambia's long-term issuer default rating to CCC (substantial risks) from B- (highly speculative) to reflect the government's high external financing requirements, combined with a continued fall in official foreign exchange reserves, constrained access to domestic and external financing, and a further rise in government debt.

Regional Stock Markets

A few of the Sub-Saharan African stock markets recorded positive returns in H1'2019, from a tough 2018. The market in H1'2019 was characterized by the following factors;

i. In Nigeria, the postponement of presidential elections in February 2019 led to market decline as most investors adopted a wait-and-see strategy in the midst of political uncertainty, and,
ii. In Ghana, the Ghanaian Cedi has been steadily declining against the dollar on account of capital flights by foreign investors who exited the country after the end of the 3-year bailout from IMF due to uncertainty, and rising interest rates in the U.S.

Below is a summary of the performance of key exchanges:

Select Sub-Saharan Africa Stock Market Performance (Dollarized)

Country	Jun-18	Dec-18	Jun-19	Last 12 months	YTD change %
South Africa	0.4	0.4	0.4	(4.9%)	9.6%
Kenya	604.0	519.0	433.0	(15.0%)	6.5%
Rwanda	1.7	1.4	1.5	3.5%	3.8%
Uganda	547.5	440.7	346.2	(20.4%)	(4.4%)
Nigeria	125.4	102.4	97.3	(22.4%)	(5.0%)
Ghana	0.5	0.5	0.4	(28.3%)	(16.6%)
Zambia	131.5	131.2	136.2	(36.8%)	(21.4%)

NB: Please note these indices are dollarized

We are of the view that relative political stability, higher oil production (in oil exporting countries), strong agricultural production and strengthening economic reforms will improve SSA's economic outlook. However, political uncertainty, widening fiscal and current account deficits, and rising public debt levels could continue to weigh on the economic outlook for the region.