

Cytonn Q3'2019 Markets Review

Sub-Saharan Africa Region Review

Currency Performance

Majority of the currencies in the Sub Saharan Africa Region have depreciated against the US Dollar on an YTD basis with the Ugandan Shilling and the Nigerian Naira being the only gainers. The Ghanaian Cedi was the worst performer, depreciating by 12.4% against the US Dollar YTD owing to perceptions about the country's inability to manage its finances properly after a four-year bailout by the International Monetary Fund that ended in April 2019. The Kenya Shilling's depreciation against the US Dollar YTD has mainly been attributable to high dollar demand from merchandise importers and the energy sector. Below is a table showing the performance of select African currencies:

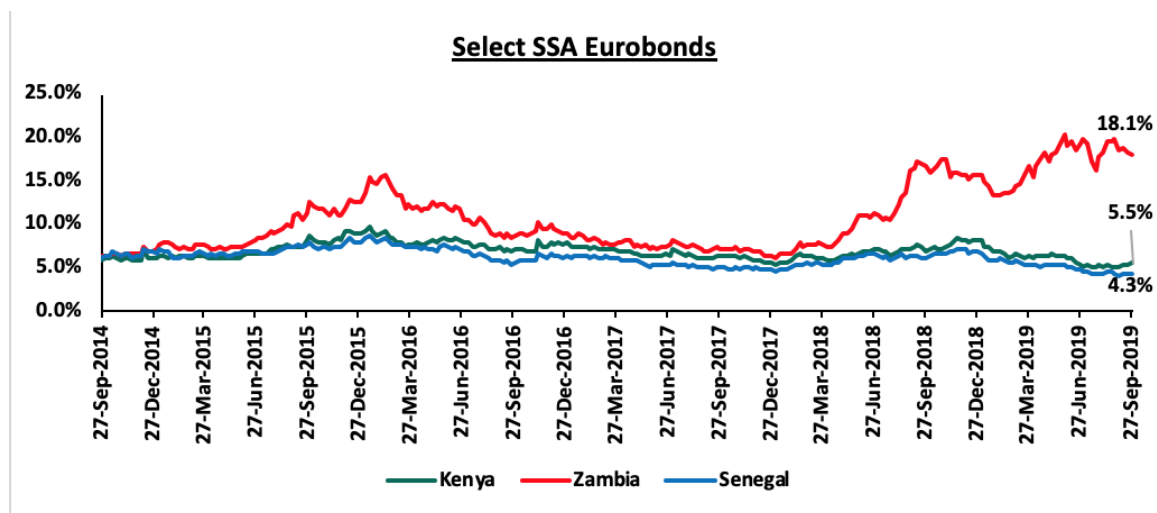
Select Sub Saharan Africa Currency Performance vs USD

Currency	Sep-18	Dec-18	Sep-19	Last 12 Months Change (%)	YTD Change (%)
Ugandan Shilling	3,820.0	3,699.3	3,675.0	3.8%	0.7%
Nigerian Naira	306.4	307.0	306.0	0.1%	0.3%
Tanzanian Shilling	2,257.2	2,298.7	2,315.5	(2.6%)	(0.7%)
Malawian Kwacha	718.4	719.8	727.6	(1.3%)	(1.1%)
Kenyan Shilling	100.7	101.8	103.8	(3.0%)	(1.9%)
Botswana Pula	10.6	10.7	11.0	(4.2%)	(3.1%)
South African Rand	14.1	14.3	15.1	(7.1%)	(5.5%)
Mauritius Rupee	34.2	34.2	36.1	(5.5%)	(5.7%)
Ghanaian Cedi	4.8	4.8	5.4	(13.5%)	(12.4%)

African Eurobonds

Yields on African Eurobonds generally declined in Q3'2019. This was partly attributed to the adoption of a looser monetary policy regime in the Eurozone and the United States that led to a decline in yields in advanced economies. As a result, there was increased investor interest in Africa's debt market.

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



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

- i. Yields on the Zambia Eurobond continued to increase in Q3'2019, attributable to the exodus of foreign investors amid fears of the country's debt sustainability, with most believing it to be close to default as the country is struggling with high debt levels. Zambia's external debt has risen to USD 10.1 bn at the end of 2018, compared with USD 8.7 bn in 2017, with the debt to GDP ratio estimated at 74.4% further, raising fears of a debt crisis in the country. This has seen the downgrading of the Government of Zambia's long-term issuer ratings to Caa2 from Caa1 and changed the outlook to negative from stable.
- ii. Yields on Kenyan and Senegalese Eurobonds both declined in Q3'2019, signalling that the demand for the instruments had risen during the period, mostly attributed to macroeconomic stability in both countries.

Equities Market Performance

Majority of the SSA stock markets recorded negative returns during Q3'2019, attributed to expectations of slower global economic growth, coupled with uncertainties from the escalated trade dispute between the United States and China, which saw widespread sell-offs across emerging markets by investors. In the near term, we expect the markets to remain subdued due to the exit of offshore investors. Below is a summary of the performance of key hourses in SSA:

Equities Market Performance (Dollarized*)

Country	Sep-18	Dec-18	Sep-19	Last 12 Months Change (%)	YTD Change (%)
Kenya	1.5	1.4	1.4	(6.0%)	1.4%
Rwanda	0.1	0.1	0.1	(1.3%)	0.0%
South Africa	3,939.8	3,675.7	3,622.9	(8.0%)	(1.4%)
Uganda	0.5	0.5	0.4	(12.5%)	(6.7%)
Nigeria	107.0	102.4	90.3	(15.6%)	(11.8%)
Tanzania	1.0	1.0	0.8	(11.8%)	(19.2%)
Ghana	604.0	519.0	408.0	(32.5%)	(21.4%)
Zambia	448.0	440.7	336.2	(25.0%)	(23.7%)

*The index values are dollarized for ease of comparison

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.

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