

# Cytonn Annual Markets Review – 2019

## Sub-Saharan Africa Region Review

According to World Bank’s latest **African Pulse Issue**, Sub-Saharan Africa’s economic performance remained sluggish in 2019 with the preliminary projections indicating that the region grew marginally by 2.6% in 2019 from 2.5% in 2018. The growth was hampered by a challenging external environment, which saw the softening of global growth, falling commodity prices, increased trade tensions leading to heightened uncertainty, and subdued agricultural production partly due to drought in various countries in the region, coupled with security concerns, which affected production in some countries.

### Currency Performance

Regional currencies were relatively volatile in 2019, which saw mixed performance against the US Dollar in various countries. The volatility was partly attributable to:

- ?. Uncertainty in the global markets, which included the trade war between China and the US that put pressure on emerging market currencies, and,
  - i. The sustained series of US Fed rate cuts, which saw three interest rate cuts in the second half of 2019 leading to improved performance of various currencies in the African region compared to the first of the year driven by the cash outflows by yield seeking investors channeling funds to emerging markets due to the low interest rate environment in the US, thus putting additional pressure on the US Dollar.

Below is a table showing the performance of select African currencies, ranked by 2019 y/y change:

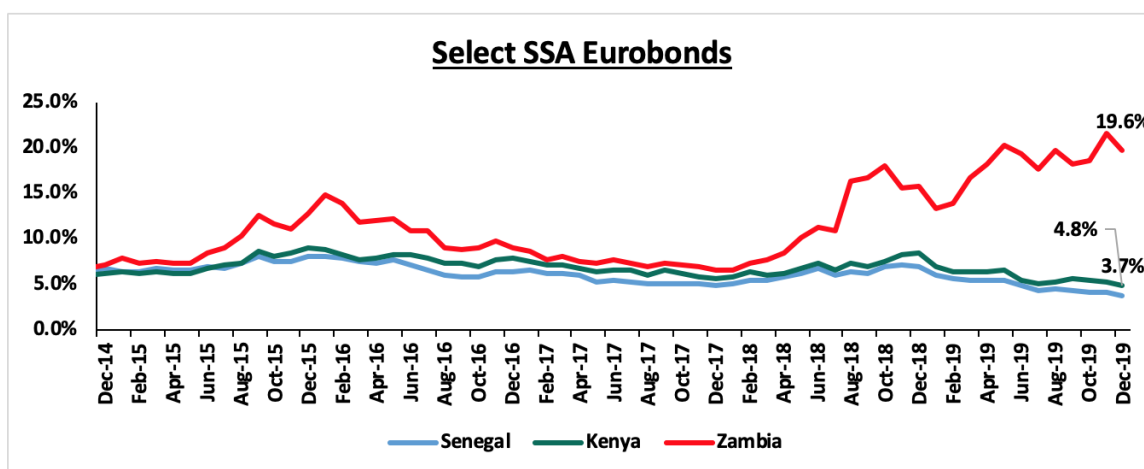
### Select Sub Saharan Africa Currency Performance vs USD

Currency	Dec-17	Dec-18	Dec-19	2018 y/y change (%)	2019 y/y change (%)
South African Rand	12.4	14.3	14.0	(16.1%)	2.5%
Botswana Pula	9.8	10.7	10.5	(8.9%)	1.8%
Ugandan Shilling	3632.0	3699.3	3660.0	(1.9%)	1.1%
Kenyan Shilling	103.1	101.8	101.3	1.3%	0.5%
Nigerian Naira	306.4	307.0	306.0	(0.2%)	0.3%
Tanzanian Shilling	2235.0	2295.0	2293.0	(2.7%)	0.1%
Malawian Kwacha	713.5	719.8	729.1	(0.9%)	(1.3%)
Mauritius Rupee	33.4	34.2	36.2	(2.2%)	(6.0%)
Ghanaian Cedi	4.5	4.8	5.7	(6.6%)	(17.4%)
Zambian Kwacha	10.0	11.9	14.1	(19.2%)	(18.1%)

### African Eurobonds:

Yields on African Eurobonds generally declined in 2019. This was partly attributed to the adoption of a looser monetary policy regime in the Eurozone and the United States, thus leading to a decline in yields in advanced economies. As a result, there was increased investor interest in Africa’s debt market. Yields on the Zambia Eurobond however recorded a rise during the year, 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. The debt to GDP ratio was estimated at 74.4%, further raising fears of a debt crisis in the country. This saw the downgrading of the Government of Zambia's long-term issuer ratings in Q3’2019 to Caa2 from Caa1, and the outlook changing to negative from stable.

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



Appetite for government securities in Sub-Saharan Africa remained strong in 2019, as risk-adjusted returns remained higher compared to those in developed economies. Collectively, 2019 saw the African continent as a whole raise USD 12.4 bn through the various Eurobond issues as highlighted below:

### Africa YTD 2019 Eurobond Issues

	Amount Issued (USD millions)	coupon	Issue date	Maturity Date	Tenor (Years)	Subscription
	1,250.00	8.13%	26/03/2019	26/03/2032	12	
Ghana	750	7.88%	26/03/2019	26/03/2027	7	7.0X
	1,000.00	8.95%	26/03/2019	26/03/2051	31	
	1,500.00	8.70%	26/02/2019	01/03/2049	30	
	1,750.00	7.60%	26/02/2019	01/03/2029	10	5.0X
Egypt	750	6.20%	26/02/2019	01/03/2024	5	
	1,020.70	4.75%	11/04/2019	11/04/2025	6	
	1,701.10	6.38%	11/04/2019	11/04/2031	12	4.0X

## Africa YTD 2019 Eurobond Issues

	Amount Issued (USD millions)	coupon	Issue date	Maturity Date	Tenor (Years)	Subscription
Kenya	900	7.00%	22/05/2019	22/05/2027	7	4.5X
	1,200	8.00%	23/05/2019	23/05/2032	12	
Benin	567	5.75%	26/03/2019	26/03/2026	6	2.3X
<b>Total</b>	<b>12,388.80</b>					

The Eurobond issues in 2019 attracted a lot of interest evidenced by the oversubscription rates, with the Ghana issue recording the highest oversubscription of over 7.0x, underlining the sustained investor confidence in the African debt market. This has partly arisen because, by comparison, African sovereign debt offers the highest yields globally. This coupled with the political uncertainties in the US, and the adoption of a looser monetary policy regime in both the Eurozone and the United States has led to a decline in yields in advanced economies. On the other hand, due to the investor interest in Africa's debt market, the increased demand has pushed the prices up and consequently the yield down.

### Equities Market Performance

A number of Sub-Saharan African (SSA) stock markets recorded negative returns in dollar terms as at the end of 2019 as the stock prices dipped at year end, attributable to profit-taking investors exiting the markets to realize the gains recorded in most emerging markets stocks. The gains had been driven by renewed demand for riskier assets as trade tensions between the United States and China eased and uncertainty around Brexit declined. The price correction due to the capital outflows coupled with the depreciating currencies resulted in most exchanges registering a decline in performance. The Nairobi Stock Exchange was among the biggest gainers driven by a price rally in large-cap stocks in the banking sector following the repeal of the interest rate cap, which saw improved investor sentiment in the sector with expectations of improved profitability. Below is a summary of the performance of key bourses in SSA:

#### Equities Market Performance (Dollarized\*)

Country	Dec-17	Dec-18	Dec-19	2018 y/y change (%)	2019 y/y change (%)
Kenya	1.7	1.4	1.6	(16.9%)	18.8%
South Africa	4815.3	3675.7	4079.3	(23.7%)	11.0%
Uganda	0.5	0.5	0.5	(16.7%)	8.9%
Tanzania	1.8	1.6	1.5	(8.3%)	(7.0%)
Nigeria	124.8	102.4	87.7	(18.0%)	(14.3%)
Ghana	570.4	518.5	405.5	(9.1%)	(21.8%)
Zambia	533.3	440.7	303.3	(17.4%)	(31.2%)

\*The index values are dollarized for ease of comparison

***Growth in the Sub-Saharan Africa region is expected to remain stable 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.***

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