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African Markets Revealed

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Welz, Jean Max Friedrich (1900 – 1975). Still-Life, Undated, Oil On Panel, 41 x 62cm

Jean Welz was born in Salzburg, Austria, into a family in the picture-framing and gilding trade. He studied art and architecture, and in 1925 travelled to Paris, where he stayed until 1937. In 1937 he emigrated to South Africa and began work as an architect at the University of the Witwatersrand, where he designed the entrance foyer of the Great Hall and the Institute for Geophysical Research. In 1939 he became ill with tuberculosis and moved with his family to Barrydale in the Little Karoo, where he and his family operated a tea-room.

In 1941 Welz became principal of the Hugo Naudé Art Centre in Worcester, Western Cape, remaining in Worcester for 28 years. He held his first exhibitions in Stellenbosch and Cape Town in 1942, and the same year became a member of the New Group of South African artists. Welz was a successful and influential artist until he again became ill in 1968. His health deteriorated and he died in 1975. One of his sons, Martin Welz, is a well-known South African investigative journalist, his other son, Stephan Welz was an art dealer.

There is nothing of Africa imprinted on his paintings, there is little that is truly modern, even in his abstract style. He explained that his paintings were “documents of his soul” and said that his objective was to create “painterly poems”.

Source: Standard Bank Corporate Art Collection

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Unperturbed by trade uncertainty

- Our constructive assessment of Africa's economic progress is informed by a number of factors that still point to robust economic growth on a multi-year basis. Commodity-exporting countries that experienced recession at some point between 2015 and 2018 are likely to have economic growth accelerating over the next 2-y. Of course, some of them, like Angola and Namibia, are still in recession. However, even in these economies, growth seems likely to resume next year. Combined with persistently high growth among the non-commodity-exporting countries, economic growth in Africa seems set to accelerate.
- We are not alone in our relatively positive assessment of Africa's growth potential. The IMF's *World Economic Outlook* points to Sub-Saharan Africa as the only region likely to have economic growth accelerating this year relative to last year despite the uncertainty that rising trade protectionism poses to global economic growth. Sure, in its Jul Update of the WEO the IMF lowered its forecast for SSA growth to 3.4% y/y in 2019 from the 3.8% y/y that it had forecast in the Jul 18 Update of the WEO. But the 2019 growth forecast is still higher than the Fund's estimated 3.1% y/y growth in 2018 despite the forecast slowdown in global growth to 3.2% y/y in 2019 from 3.6% y/y in 2018.
- Uncertainty regarding trade is a factor leading to flux in financial markets too. But the nature of the impact of this uncertainty is quite curious. Suppose the end result of the US administration's trade policy was to increase the effective tariff rate on Chinese imports to some number – say 50%. Consider another possible outcome being to increase the effective tariff rate on all imports to the US in the same manner. Then tariffs on Chinese imports would trigger substitution of imports from China to other low-cost manufacturing sources, perhaps in Asia. But an increase in tariffs on all imports would not trigger such substitution. Either way, the implications of either tariff policy on US economic growth could be estimated with a reasonable degree of confidence. Regardless, trade uncertainty hardly warrants the degree of flux we have seen in financial markets, seemingly with every communication from either set of policymakers triggering an exaggerated movement in asset prices.

- There haven't been many opportunities to put on recovery trades in carry or local currency duration trades thus far this year. As the adjacent table shows, the FX return with carry, on the most tradable currencies in our coverage, is less than 5% thus far this year. UGX duration seems sufficiently compelling for us to enter a trade. Perhaps KES duration warrants a careful look. In the 3-m to the end of Jul, it depreciated at over a 10% annualised pace. If the pressure persists in Q4:19, then it might offer the chance of a recovery trade since a surge in flower exports during Q1 tends to support the KES. Given conservative monetary policy management, the MZN is also worth a look. Pity the implied NDF yields are so low and the bonds have this fixed-floating structure. But, even with the upcoming elections, the medium-term outlook for the BOP should be favourable for the MZN.
- We are inclined to believe that the Eurobond market will experience a solid recovery in the next 2 – 3 months. We like Egypt and Senegal, and have recently taken tactical overweight exposure to Gabon and Nigeria.

USD performance, YTD

Asset class	Return, %
FX	
Africa 8, spot (with carry)	-2.6 (4.8)
Africa 10, spot (with carry)	-2.4 (4.1)
EM 10, spot (with carry)	-0.8 (3.7)
Bloomberg USD index, spot	1.2
Local bonds	
Africa 8	13.3
Africa 10	11.2
EM 10	10.8
Bloomberg DM Sovereign	5.8
Credit	
Africa (ex SA)	16.9
Africa	16.7
EMBI Global	12.2
Bloomberg HY Global Corporate	9.9
Equity	
MSCI Frontier Africa	-5.2
MSCI Africa	2.7
MSCI EM	5.3
MSCI DM	16.5

Source: Bloomberg; Standard Bank Research

SSA growth acceleration proceeding against global slowdown

Despite the often dramatic reaction in the financial markets to every twist and turn of the US-China trade negotiations, we find it hard to believe that the economic impact of this on Africa is going to be significant. Hence, we retain a constructive outlook for economic growth on the continent.

We continue to stress that the channel through which the trade spat between these two countries can affect economic growth on the continent would be through its impact on commodity prices. By extension, it would be the commodity-producing countries that would feel it the most.

Despite these concerns, it is worth pointing out that even the IMF expects economic growth in Sub-Saharan Africa to accelerate to 3.4% y/y this year from 3.1% y/y in 2018, and then further on to 3.6% y/y in 2020. Contrast that with the Fund's forecast deceleration in global growth to 3.2% y/y from 3.6% y/y in 2018. Notably, the Fund expects global growth to accelerate to 3.5% y/y in 2020.

The Jul update of the *World Economic Update* points to the slowing in global growth being widespread. In fact, the forecast recovery in 2020 might be in doubt. The IMF forecasts growth among advanced economies decelerating to 1.9% y/y and 1.7% y/y in 2019 and 2020 respectively from 2.2% y/y in 2018. Interestingly, it expects the deceleration in US economic growth to extend to 2020 as well, with the economy growing by 1.9% y/y from 2.6% y/y it expects for 2019 and the actual growth rate of 2.9% y/y in 2018. Evidently, this deceleration is not limited to the unwinding of the fiscal stimulus in 2018.

The Fund expects Chinese growth to decelerate to 6.2% y/y and 6.0% y/y in 2019 and 2020 respectively from 6.6% y/y in 2018. Curiously, it expects emerging and developing economies to accelerate to 4.7% y/y growth in 2020 from 4.1% y/y in 2019 and 4.5% y/y in 2018. The recovery that the Fund projected in 2020 seems to be predicated on a recovery in Latin America and emerging and developing Europe. Of course, some Latin American countries scored own goals through the macro policies they pursued.

Also noteworthy is the Fund's expectation of a recovery in the euro area in 2020. It expects growth there to accelerate to 1.6% y/y from 1.3% y/y in 2019 and 1.9% y/y in 2018. It expects countries like Germany and Italy to sponsor that recovery. Perhaps if this recovery were not to materialise, then even emerging and developing European countries would not see the revival that the IMF expects.

Trade uncertainty – the impact is probably overstated

One reason we have not been overly concerned about the impact of the trade war on African economic growth is that it is very much US-centric. It is the US administration that is either imposing tariffs or threatening to do so on other countries. First in the crosshairs were the US's NAFTA partners, then China, then the EU. Interestingly, the EU, China, Mexico and Canada are not engaged in any trade war among themselves.

What we find strange regarding the trade war is the responsiveness of the financial markets to every twist and turn, every announcement – be it new tariffs, recanting new tariffs, or going back to imposing them. The market moves can seem to be exaggerated somewhat, with the markets apparently anticipating doom one moment, then prolonged prosperity the next.

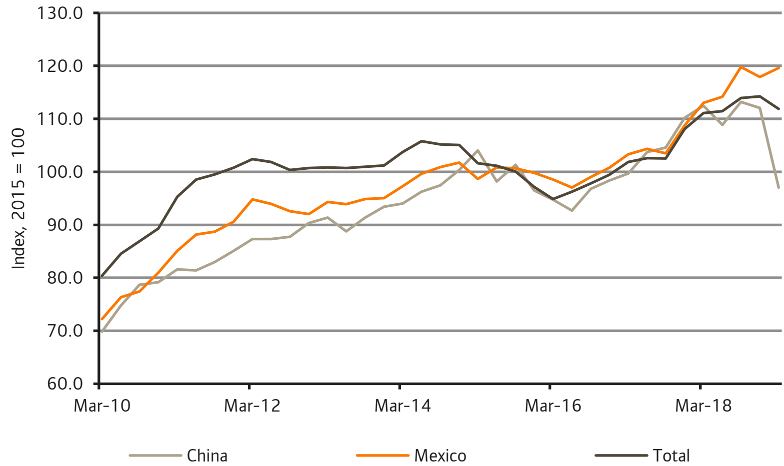
Suppose instead there was a reasonable basis to believe that the end-game of all these trade policy moves by the US administration was to increase effective tariff rates in the US on Chinese imports to some number, say 50% or 150%, then the impact of that on US economic growth can be estimated with a fair degree of confidence. Of course, in making such estimates, the market would have to factor in the potential substitution of Chinese imports with imports from other low-cost locations, perhaps also in Asia.

This is, in fact, not an idle academic exercise. There are already some indications that this substitution is taking place. The trajectory of the US trade deficit has not changed much as a result of the trade war. While overall US imports are still elevated, US imports of Chinese goods have slowed down, and has been countered by increased imports from somewhere else such as say Mexico (Figure 1).

So, evidently imposing tariffs on Chinese imports has a distributional effect, shifting US demand away from China. So, the impact of US tariffs on Chinese imports may not affect global demand that much, especially of commodities. It's not so clear what the

impact of retaliatory Chinese tariffs on US imports is. But we suspect it would not affect the prices of the commodities that matter to Africa's commodity exporters in such a deleterious manner that we would need to get worried.

Figure 1: US import trajectory – quarterly seasonally adjusted data



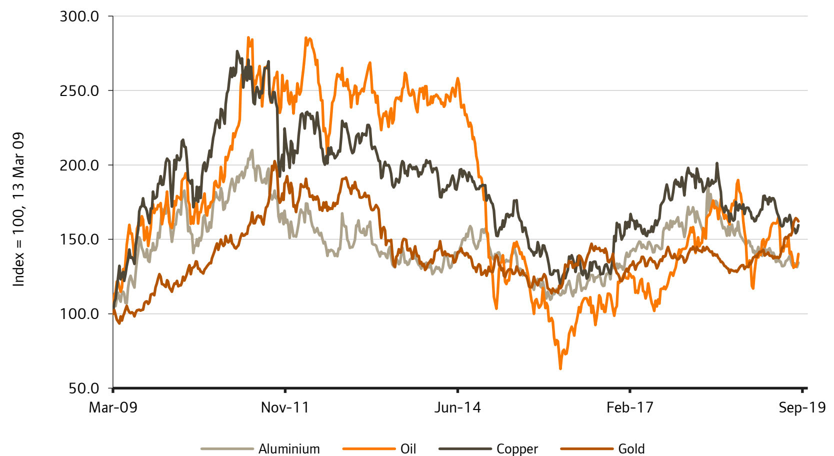
Source: United States Bureau of Economic Analysis

Of course, there is always the likelihood that the end result of US trade policy moves is to increase the effective tariff rate on all US imports, not just those sourced from China. Arguably, the impact of this trade policy would be a larger negative impact on commodity prices that matter for Africa's commodity exporters than just tariffs on imports of Chinese goods.

Crucially, the key take-away is that if there was a reasonable basis for predicting what the end game of US trade policy moves is, then much of the flux in financial markets, especially commodity markets, would be far less than what we are seeing right now. For that reason, we don't see the flux in global financial markets having much impact on Africa's economic trajectory.

Commodity prices: no longer falling

Figure 2: Commodity prices seem to be bottoming out



Source: Bloomberg

Commodity prices have broadly declined since publication of the last edition of this report in May. Most notably are oil prices that, at the time of writing, were roughly 13%

lower than they were in mid-May. They are off the lows reached during this period, up over 10% from those lows.

There is still plenty to suggest that oil prices will remain mostly above USD60.0/bbl over the next 4 – 6 months. Geopolitical strains surrounding Iran, lately implicated in an attack on a Saudi Arabian oil facility, could push oil prices higher. Additionally, OPEC seems prepared to stick with production quotas to keep prices elevated.

Consensus forecasts for oil prices drifted marginally lower in recent months, with forecasts putting the Brent crude oil price roughly around USD65/bbl at the end of both 2019 and 2020. The average for the Brent crude oil price is near USD65.0/bbl thus far this year. We have kept USD65.0/bbl as the assumption for our forecasting purposes.

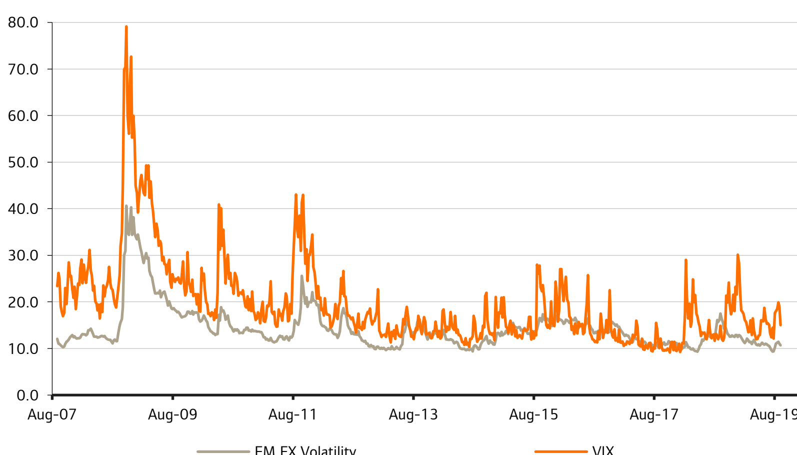
Of course, the supply-demand balance for oil might have a significant impact on oil prices. The broad expectation of the International Energy Agency has been that global oil demand growth would subside, thereby potentially depressing oil prices. Any upward revisions to those forecasts might support oil prices. Additionally, the behaviour of OPEC member countries will be crucial. A few, like Nigeria, have been producing in excess of their quota. Non-compliance for an extended time might prompt others to follow suit.

Consensus forecasts for copper prices were consistently revised lower over the course of this year. The evident global economic slowdown may have been a factor leading to those forecast revisions. Yet, even as copper prices approached USD5,600/MT, consensus forecasts envisaged them being above USD6,000/MT by the end of this year and marginally higher by the end of 2020.

Global risk appetite: in flux, but a risk-on bias will probably prevail

At the time of writing the S&P 500 Volatility index had fallen close to the 15 level, having risen above 20 during Aug. To be fair, the index was pretty much at that level when we published the last edition of this report, first having declined to a low of about 12.

Figure 3: Volatility rising again



Source: Bloomberg; Standard Bank Research

That same pattern is likely to be repeated over the next 4 – 6 months. The markets went from worrying that overtightening of monetary policy by the Fed potentially put the US economy on a trajectory to recession. Having seemingly resisted the market's forecasts, the Fed not only called a pause in its rate hiking cycle but actually switched to cutting the Fed Funds rate. This switch could be enough to resuscitate risk appetite.

There is always a risk that bellicose rhetoric regarding trade from the US administration might agitate the markets now and again over the next 4 – 6 months. However, it is likely that political calculus will start to influence the administration's approach to trade negotiations. Being up for re-election, the US president would be well served by a strong and strengthening economy closer to the election. Evidence thus far has suggested that such bellicose rhetoric undermines sentiment and could add impetus to the slowdown in the real economy. So, refraining from stoking such concerns might be in the president's interest.

Global rates: divergence between US and other developed markets

Over the next 2 – 3 months, perhaps the market will be mostly focussed on whether the Fed will follow through will the widely anticipated cuts to the Fed Funds rate. Consensus forecasts have the Fed Funds rate at 1.75% by the end of the year, 50 bps lower than the current level. During 2020, the consensus expectation is for the Fed to hold its Fed Funds rate unchanged. Steve Barrow, our G10 Strategist, concurs.

Figure 4: US Treasury 10-y yields below Fed Funds rate

Source: Bloomberg

The case for the Fed to cut its policy rates has built up over the course of the past 5-m, with consensus forecasts being ratcheted lower over that period. There has been mounting evidence that economic activity has been decelerating.

Of course, the likelihood of an economic slowdown was not completely a surprise to the market. Economic growth was boosted by fiscal stimulus last year, something that was bound to unwind this year. However, what might have given the market a scare is the impact of the uncertainty regarding trade, especially given the US administration's tariff policy and retaliation by other governments, like China.

Quite frankly, the Fed was slow in coming around to the view that it needed to cut its policy rates. Anxiety in the markets built up in the meantime, with worries mounting that the US economy would slump into a recession. The curve bull flattened as longer-term yields collapsed. Various parts of the yield curve inverted, heightening that anxiety regarding the economic outlook. Inversion of the US yield curve has typically been a good predictor of US recessions.

US 10-y yields fell below 1.5% in late Aug. Since then, they have risen above 1.7%, the level they were at the time of writing. Perhaps this increase reflects waning concerns about the economic outlook. If the Fed indeed delivers the 50 bps of rate cuts that is the consensus forecast, then there is a likelihood that 10-y rates will increase further. Steve Barrow expects the US 10-y yield to rise to 1.9% by the end of Q2:20, on the way to 2.3% by the end of 2020.

Figure 5: 10-y generic US Treasury and German bund yields

Source: Bloomberg

The situation is a bit different among other developed markets. For instance, in the euro zone yields are likely to initially fall further, becoming more negative. Consensus forecasts for the 10-y Bund yield put it closer to -0.5% by the end of this year, rising to -0.14 by the end of 2020. Steve has the 10-y Bund yield reaching -1.0% in Q1:20, before rebounding to -0.4% by the end of 2020.

The ECB is expected to ease the policy stance, perhaps reviving asset purchases. Of course, the transition in leadership of that institution, with Christine Lagarde to replace Mario Draghi as President of the Governing Council of the ECB, creates a bit of uncertainty. But there is a widespread belief that the ECB is somewhat behind the curve, and more easing is baked in.

Other developed country central banks are likely to ease monetary policy. The BOE, Bank of Canada, Reserve Bank of Australia, Reserve Bank of New Zealand are central banks that Steve Barrow expects to ease monetary policy. In all of these cases, he expects the respective 10-y yields to initially fall in the next 3 – 6 months.

Figure 6: EM 10-y average bond yields versus US Treasury 10-y yields

Source: Bloomberg; Standard Bank Research

Political risks: limited in the next 4-m

Among the countries in our coverage that have elections for the remainder of this year, perhaps the most closely watched will be the Mozambican ones in Oct. The outcome of the elections could be close, and contentious.

Our core view is that these elections will be peaceful, and the aftermath will not be characterised by violence. It certainly helps that the RENAMO party and the government signed a peace agreement that, among other things, commit them to integrating RENAMO's fighters into the army and the decentralisation of power.

The latter could be a crucial aspect, allowing RENAMO to appoint governors in provinces that it has a majority following rather than have those appointed by the central government. Certainly, the stakes will be high. The winner of the elections will essentially oversee the process that will lead to the commencement of commercial production of natural gas.

Arguably, Namibia's elections in Nov are not going to be as close, nor as contentious. The ruling party has a large majority currently. So much so that the internal processes that led to nominations for parliament by the party may actually turn out to be more contentious that the elections themselves.

Ghana's elections are at the end of next year. But their impact on the markets could well be felt over the next 4-m. To be sure, it is not that there is much uncertainty. There are two major political parties that the electorate has switched between every two terms since the reintroduction of multi-party democracy in the early 90's. The ruling NPP won the elections in 2016, and it is looking to retain power. Will that empirical regularity of the electorate giving the party in power another term in office persist? That remains to be seen.

Regardless, the market continues to fret that the NPP will essentially try to buy the election by passing a populist budget next year. There are concerns that the government will not observe the Fiscal Responsibility Act that was passed last year. Hence, we see little to suggest that appetite for GHS bonds will recover anytime soon. To be sure, all these vexations aside, foreign investors have not been exiting the GHS bond market in droves.

Côte d'Ivoire's elections are highly unpredictable, something likely to keep the market apprehensive despite the elections only being next year. As is the norm, coalitions will be formed in the run-up to the Oct 20 elections. Yet, at this stage it is not clear how these will be composed. Guillaume Soro, the former President of the National Assembly who fell out with President Ouattarra, seems to be positioning himself for a presidential run.

Other notable players might be Henri Bedie, who pulled his party from the ruling coalition last year, miffed at the refusal of the ruling party to agree to nominating a presidential candidate from his party. It is not clear whether he intends to run for the presidency. Then there is former President Gbagbo, who was acquitted by the International Criminal Court. While he might not run, an endorsement from him might carry significant weight.

Kenya doesn't have elections to concern the market. Yet the latter will likely focus on the parliamentary processes that relate to the interest rate capping provisions of the rate cap. At the time of writing parliament was working through an amendment to the Banking Act. Naturally, the president would rather have it repealed altogether. A repeal would likely have an impact on credit growth and demand for paper in the T-bill and bond markets.

FX strategy: keeping our core EGP exposure

At the time of writing the AOA and GHS had depreciated by an annualised 30% and 18% respectively over the past 4-m, while the EGP and MZN appreciated by13% and 15% respectively in annualised terms over the same period.

The USD/AOA move is clearly policy-determined. It's hard to see how far it could go, and more importantly, what would arrest it. Policymakers have indicated their determination to open the AOA fixed income market to foreign investors. There is still no certainty regarding how long it would take before this happens.

It also seems as if the gap between the official exchange rate and the street rate is not converging. There is no definitive evidence to suggest that the backlog of FX demand has been satisfied. But then, given the USD-linked government bonds that are used as hedging instruments, USD buyers whose outstanding demand has not been satisfied are not incurring losses as a result of the AOA depreciation. Hence, even as the currency loses value, the outstanding demand for USD does not shrink. Instead, the stock of government bonds increases.

Yet, it seems highly probable that the speed at which the pair is rising will dissipate in coming months. The acceleration in the pace of increase of the pair, especially since about early May, does not look durable.

Could the upcoming elections in 2020 be a factor pushing USD/GHS higher? After all, we have encountered many investors who express trepidation at the prospect of an election while the government is without an IMF-funded program. For these investors it is highly probable that the government will increase the budget deficit meaningfully next year as the government tries to secure the election.

Well, if that is the case, then such trepidation has not translated into a notable reduction in exposure to GHS bonds. The Central Securities Depository indicates that foreigners were holders of GHS28.58bn in GHS bonds in Jul, not far from the GHS28.87bn in Mar that is the peak thus far this year. The actual peak was GHS29.22bn in Apr 18. From this, it is not so clear that foreign investors are selling down their holdings of GHS bonds.

This trend strongly suggests that in aggregate foreigner investors are not reinvesting coupons, repatriating them instead. Given the high coupon rates, coupon payments are probably substantial. If one assumes an average 18% coupon rate on bonds held by foreigners, then annual coupon payments would be close to GHS5.0bn.

Arguably, the BOP is in a sufficiently strong position that the BOG can provide FX supply to the market, thereby helping to stabilise the exchange rate for an extended period. It is in the government's interest to restrain the pace of depreciation of the GHS. Doing so might help to anchor inflation expectations, and ultimately help to prevent persistent depreciation of the GHS.

USD/ZMW has been mostly around 13.00 since late-Jun, after shooting up from nearly 12 in late -Mar to nearly 14.00 in mid-May. It is hard to see any fundamental developments that would make this stability around the 13.00 level durable. If anything, the decline in the volume of copper exports suggests some underlying weakness in the BOP that would lead to further upward pressure on the pair.

The government continues to service its external debt. This is one reason there has been so much pressure on FX reserve, which have dropped so much that import coverage is less than 2-m at present. Drought conditions in parts of the country may exacerbate the pressure. Food production has been constrained, as has hydro electricity generation. This might prompt imports to supplement inadequate domestic supply. There have already been indications that ZESCO, the electricity utility, will import power from Eskom, the South African utility. Clearly, that would increase the country's FX requirements.

One of the reasons we did not enter a trade even though USD/ZMW spiked between Apr and May is that we didn't have much conviction that BOP fundamentals would

improve. Ultimately, an improvement in the BOP would require a tighter fiscal policy stance. Perhaps even external support, whether it be for the drought, could help provide assistance to the BOP.

The depreciation of the KES of roughly an annualised 8% might not appear to be much. As we have pointed out in other research, there is a seasonal tendency for the KES to depreciate during Q4 of any year due to increased demand for FX on account of dividend payments, among other things. However, it typically recovers in Q1, helped along by increased flower sales.

Incidentally, the last time the KES depreciated by near 8% annualised pace in a 4-m period was in Q4:18. It staged a recovery in Q1:19, appreciating by close to an annualised 5% pace by the end of Mar. So, there might be an opportunity for a tactical trade at some point over the next 2 – 3 months.

Even though in the 4-m to early May the MZN depreciated at close to a 13% annualised pace, low implied yields on NDFs kept us from taking a position. We were certainly convinced that the increase in the pair up to that point would not prove to be enduring.

So, what do we do now that the MZN has appreciated at more than a 15% annualised pace in the past 4-m? Well, we're still not inclined to do anything. Implied yields on NDFs are even lower now than they were in early May.

There is a case to be made that perhaps the prospective improvement in the BOP, combined with prudent monetary policy management, justifies some exposure to the MZN. Even though headline inflation has been 5.0% y/y or lower since the beginning of 2018, the central bank's MPC has been resolute in keeping a fairly tight policy stance. The real policy rate is the highest of the countries in our coverage.

The announcement of the final investment decision by Anadarko on its gas project is one impetus for the probable improvement in the country's BOP. This announcement seems to have bolstered confidence in the local market, as could be expected. Of course, looking forward to the commencement of natural gas exports, the structural transformation of the economy will support the MZN on a multi-year basis.

The elections in Oct are an obvious risk event. While we expect the elections, and the aftermath, to be peaceful, there is always a chance of some noise around it. But the fact that the opposition RENAMO party and the government signed a peace agreement is a positive step. There has also, reportedly, been progress made in integrating RENAMO's fighters into the army.

We have maintained exposure to the EGP since May 17 without interruptions. Of course, at the time we entered the trade we believed that the CBE would truly let the EGP float. Under that scenario, we expected USD/EGP to eventually fall below 16.00.

It is possible that the latter might transpire in the next 12 – 18 months. So, we have no intentions of relinquishing our exposure to the EGP in that time. While there has been a fair amount of volatility in portfolio flows over the past 18-m, it seems as if inflows will turn out to filter through into EGP strength. The first time that holdings of EGP T-bills by foreigners increased over USD20.0bn equivalent in Apr 18; USD/EGP was not too far away from 18.00, having barely moved over the preceding 12-m.

Foreign portfolio holdings of EGP T-bills fell dramatically last year, especially in H2:18 and bottomed out in Dec. The resurgence since then has been associated with appreciation of the EGP. It seems as if the decline in inflation has given further impetus for foreign portfolio inflows into the EGP bond market. This is adding further support to the EGP.

We see no reason to relinquish our exposure to the NGN either in the near term. We have also had long-running exposure to the NGN beginning in late 2016, although there have been breaks. The CBN tends to fine-tune NGN liquidity conditions, which tends to generate a fair bit of volatility in foreign portfolio flows. The sequence goes something like this: after a prolonged period of stability in the FX market, the CBN allows NGN liquidity to build up in the system. Such liquidity build-up then pushes yields, whether they be T-bill yields or those on OMO bills, lower. As yields decline foreign portfolio investors take profit on their NGN positions and exit the market, increasing FX demand. The latter then prompts the CBN to intervene in the FX market, exerting downward pressure on FX reserves. Eventually the CBN will tighten conditions again, leading to an increase in yields and a resurgence of foreign portfolio inflows.

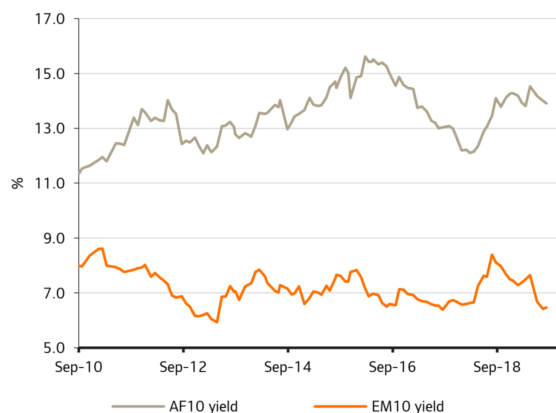
In the past 2 – 3 months we were in the high-liquidity, portfolio-outflow phase of this cycle. It is likely that the CBN will tighten liquidity up over the next 2 – 3 months to bolster FX reserves. Naturally, this would open up interesting re-entry points into the NGN carry trade.

As is always the case, the key risk to this trade is the trajectory of oil prices. While we do not doubt that the CBN would defend the NGN, a sharp and prolonged drop in oil prices, say to less than USD45.0/bbl, would create some policy challenges that might prompt the CBN to let USD/NGN rise in the IEFX window.

Fixed income strategy: focus on East African duration

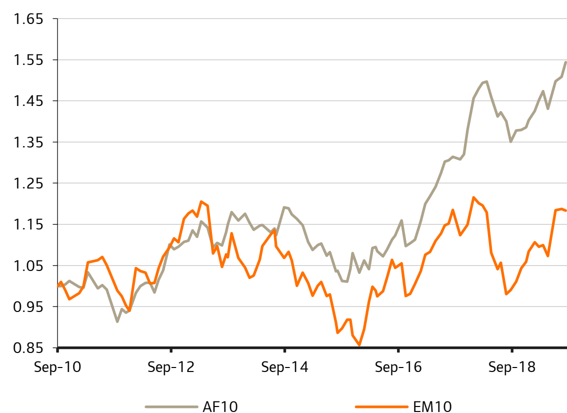
The case for Ugandan duration is quite strong. We often refer to 15% as a yield level that provides some comfort when investing in African local currency bonds. Not many currencies frequently depreciate at over a 15% annualised pace over a 3-y investment horizon. Instead, most currencies typically remain stable for many months before depreciating sharply on account of some BOP shock. After appropriate policy intervention, the currency typically resumes its stability.

Figure 7: EM10 versus AF10 average 10-y bond yield



Source: Bloomberg; Standard Bank Research

Figure 8: EM10 versus AF10 average 10-y bond return



Source: Bloomberg; Standard Bank Research

Where does the UGX fit into all of this? Well, persistent depreciation of the UGX in excess of a 15% annualised pace is quite rare. In any 3-y investment horizon since 2004 the UGX has depreciated at more than a 15% annualised pace in less than 2% of the time. However, 10-y UGX-denominated bonds are yielding less than 15.0%. But the 14.25% pre-tax yield seems sufficiently attractive at this point. As Figure 7 illustrates, this yield is at the higher end of the yields available on the most tradeable markets in our coverage.

Another factor that enhances the attraction of UGX duration is the low inflation rate, providing an extremely high real rate in the context of the markets in our coverage. The roughly 12% real10-y yield for UGX duration is second only to the Zambian real 10-y

yield. Core inflation has been close to the bottom of the BOU's target range, with hardly any indication that it will rise markedly anytime soon. Food inflation is well contained, and the currency has been relatively stable, thereby removing any concerns about potential passthrough of currency depreciation to inflation.

Given this, it would be reasonable to judge that the bias is for the BOU's MPC to cut the policy rate in the near term rather than raise it. Yet, the committee seems to believe that inflation will rise closer to the upper end of the target range in the medium term, perhaps prompting it to adopt a cautionary stance. Specifically, in the statement the committee released following the Aug policy meeting, the committee indicated that it expected core inflation to rise to a peak of 6.4% y/y in Q4:20 driven by stronger domestic demand. It also seemed to believe the bias for inflation to be to the upside.

Even if the committee is correct in its forecast, a nearly 6.5% inflation rate would provide an *ex-ante* real 10-y yield of close to 7.75%. This would still be in the upper end of the range of real yields in the markets in our coverage.

Higher budgeted domestic borrowing is something of a concern, potentially exerting some upward pressure on bond yields. But the likelihood of this increased borrowing shifting yields materially higher, say taking the 10-y yield back above 16%, seems somewhat low.

As we have already argued, there is a strong likelihood that seasonal factor will conspire to weaken the KES further during Q4:19. However, this will likely be reversed in Q1:20. Rather than expressing this view via either the NDFs or T-bills, we would rather express it via a tactical duration trade. However, we are not ready to commit to the trade just yet.

There could be some volatility in KES bond yields over the next few months. Just to be clear, this has nothing to do with either the direction of monetary policy changes or the trajectory of inflation. Core inflation, as has been consistently communicated by the CBK's MPC that indicates that inflation excluding food and fuel is below 5.0% y/y, is well contained. A spurt in food inflation has dissipated, leaving headline inflation still well within the target range. Additionally, thanks to a broadly stable currency, despite the recent depreciation, there doesn't appear to be latent inflation pressures that would arise from passthrough of KES depreciation to inflation. Hence, it is all the more likely that the MPC will keep its policy stance unchanged too.

Instead, it is the probable repeal of the interest rate cap that is at issue, and the impact thereof on the yield curve. As already argued, while it is hard to handicap this outcome, it seems more probable that the cap will be amended such that it is less restrictive. The ramifications of this could be to persuade banks to expand credit, thereby reducing demand for T-bills and bonds. This shift in demand could exert some upward pressure on bond yields.

Despite our frustration with fiscal policy management, we have retained our exposure to Zambian duration. Yields are quite elevated, having been in excess of 20% in the primary auction since the end of Dec 18. In fact, BOZ data indicates that the average bond yield rate in the 2-y to Dec 18 was about 19.3%.

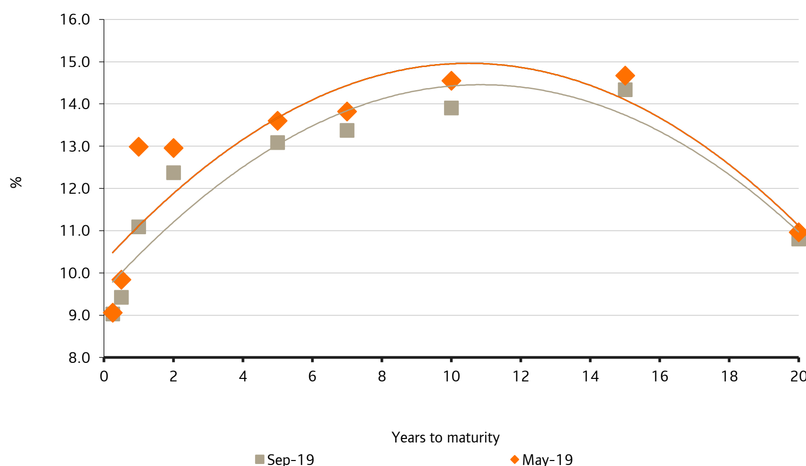
Such high bond yields are bound to affect fiscal policy in a fundamental way. There is a strong likelihood that interest expenditure will absorb an ever rising proportion of revenues, and account for a bigger share of total spending. Barring a fiscal adjustment this scenario could undermine overall macroeconomic stability.

This might be the year that the government finally delivers on the fiscal consolidation to which it has committed itself. We acknowledge, though, that the various shocks to have hit the economy, particularly the drought, could make fiscal consolidation hard to

effect. The government's budget for FY2019/20 and the medium-term expenditure framework will provide some useful guidance in this respect.

We still favour EGP duration. The Egyptian disinflation that we have been looking for has finally transpired, taking both headline and core inflation into single digits. It seems probable that inflation will stay there on a multi-month basis. The MPC of the CBE will deliver more rate cuts over the coming 6 – 9 months, perhaps returning its policy rates to single digits by mid-2020. There is scope for bond yields to decline further during this period.

Figure 9: AF10 yield curve simple yield average



Source: Bloomberg; Standard Bank Research

It's hard to see what the impetus for much lower yields in Ghana and Nigeria will be. Hence, our duration exposure in those markets needs a careful review. As we have pointed out before, our favourite trades are recovery trades. Neither Ghana nor Nigeria can be characterised as such. Indeed, the GHS duration position is the antithesis of a recovery trade. We have held the position since late 2016. At the time, it seemed reasonable to believe that an improving BOP and ongoing disinflation would slow the pace of depreciation of the GHS while also leading to lower government bond yields.

The currency drag on this trade has been far too high. While inflation is low, resulting in very high real yields, the third-largest in the tradable markets in our coverage universe, we don't see impetus for much lower yields. A year ago, we surmised that perhaps the ideal strategy would be to actively trade these bonds, buying them when yields rise well above 20%, perhaps close to 22%, and sell them at yields in the high teens. Well, there hasn't been much chance to do that.

Earlier we alluded to an NGN liquidity cycle that the CBN has encouraged to develop in the past 2-y or so. Perhaps we should look to actively trade the bonds, taking advantage of these liquidity swings.

African Eurobonds: spread compression ahead

African Eurobonds have outperformed the broader EM, as measured by the EMBI Global Index, as the table on page 2 indicates. Incidentally, African Eurobonds outperformed local currency bonds too, returning over 16% at the time of writing, compared with just over 13% for local currency bonds as measured by our Africa 8 index.

It hasn't been straightforward, with gyrations in global risk sentiment due to the trade war not leaving African Eurobonds unscathed. Earlier in the year, African Eurobonds were swept up in the bullish run in risk assets that followed the decision by the Fed to pause. But when the trade war's so-called truce was over, sentiment deteriorated,

undermining risk assets like African Eurobonds. Lately, easing by the Fed has added impetus to risk assets, with African Eurobonds dragged along as well. This will likely last for a few months.

To be sure, increased confidence that the Fed will lower its policy rates seems to have removed anxiety about economic growth from the market. Hence, US Treasury yields have increased, with the market also seemingly reducing the magnitude of rate cuts that it is pricing the Fed to make. With that increase in base rates, spreads have compressed since mid-Aug. Yet, interestingly, African sovereign spreads are little changed from their levels in mid-May.

We still believe that the improvement in Egypt's macroeconomic performance warrants an overweight position, one of our core overweight positions. The government's determination to arrest the debt is indubitable. In all likelihood it will target primary surpluses, perhaps of at least 2% of GDP, in the coming 3 – 5 years. We are likely to see the economy continue to record solid economic growth above 5.0% y/y on a multi-year basis. Even though the major credit rating agencies have upgraded the country's credit rating, there is a chance of more upgrades in the next 2-y.

Senegal is another core overweight. Despite election uncertainty now out of the way, Senegalese bonds have underperformed, especially against Côte d'Ivoire and Kenya. We suspect that the latter was playing catchup. Hence, it is likely that Senegal will outperform again.

With tensions between the US and China thawing in recent weeks, we have taken a decision to tactically increase our exposure to oil sovereigns, specifically Gabon and Nigeria. Gabon has underperformed the other oil sovereigns, something we believe will not be enduring.

We have recently chosen to increase our exposure to long duration bonds. One motivation for switching to longer duration bonds is that the spread between these and shorter duration bonds is close to historical highs. Take the spread between the Egypt '47s and '23s. At the time of writing it was nearly 2 standard deviations away from the mean. Similarly, the spread between the Senegal '48s and '21s was nearly 1.9 standard deviations away from the mean. Notably, over the past month or so, this spread has stopped widening. There is a chance that it might even compress on a multi-week basis.

Hedging CNY exposure

Trade consummated between Africa and China is still predominantly conducted in USD. Yet, for importers, it is often cheaper to hedge CNY exposure than to hedge USD exposure. Standard Bank offers forwards that allow African importers to hedge CNY exposure.

Indicative CNY forward prices

	Historical prices				Forward prices		
	-12m	-6m	-3m	spot	+3m	+6m	+12m
CNY/BWP	1.54	1.60	1.55	1.54	1.54	1.54	1.53
CNY/GHS	0.71	0.77	0.79	0.78	0.80	0.83	0.88
CNY/KES	14.67	15.01	14.91	14.70	14.78	14.87	15.05
CNY/MUR	5.00	5.20	5.19	5.10	5.09	5.08	5.06
CNY/ZAR	2.06	2.16	2.05	2.07	2.09	2.11	2.15
CNY/UGX	555.87	553.44	538.10	518.86	525.44	534.17	557.96

Source: Bloomberg Standard Bank Research

African Eurobonds

Name	Moody's/Fitch	Mid Price	Mod Dur	Yield, %	Spread, bps		Spread change, bps			Total Return, %		
					Over UST	Z-Spread	1 wk	YTD	12mths	1 wk	YTD	12mths
ANGOL 9.5% 12-NOV-2025	B3/B	113.754	4.6	6.73	498	504	-15	-92	35	-0.6	14.2	11.3
ANGOL 8.25% 09-MAY-2028	B3/	104.527	6.0	7.53	573	580	-14	-80	52	-0.8	16.6	12.1
ANGOL 9.375% 08-MAY-2048	B3/	106.809	10.1	8.72	680	685	-14	-54	65	-1.5	21.0	13.5
REPCAM 9.5% 19-NOV-2025	/B	109.246	4.0	7.31	556	562	-22	-98	-47	-0.1	13.7	15.6
REPCON 3% 30-JUN-2029	/CCC	88.046	4.0	9.01	726	728	-9	-167	-142	-0.7	18.0	21.6
EGYPT 6.125% 31-JAN-2022	B2/B+	103.816	2.2	4.40	264	264	-11	-164	-103	-0.2	9.9	11.3
EGYPT 5.577% 21-FEB-2023	B2u/B+	103.138	3.1	4.58	283	287	-15	-171	-99	-0.3	12.7	13.5
EGYPT 6.2004% 01-MAR-2024	B2/B+	105.283	3.9	4.87	312	318	-16			-0.4		
EGYPT 5.875% 11-JUN-2025	B2/B+	103.348	4.8	5.19	346	351	-16	-164	-67	-0.5	18.0	16.3
EGYPT 7.5% 31-JAN-2027	B2/B+	108.435	5.6	6.06	427	435	-11	-140	-32	-0.9	18.5	16.1
EGYPT 6.588% 21-FEB-2028	B2u/B+	102.384	6.4	6.22	442	449	-14	-124	-20	-0.9	19.4	16.6
EGYPT 7.6003% 01-MAR-2029	B2/B+	107.280	6.8	6.55	474	481	-9			-1.3		
EGYPT 6.875% 30-APR-2040	B2/B+	98.904	10.6	6.99	504	512	-19	-110	-15	-1.2	27.8	21.6
EGYPT 8.5% 31-JAN-2047	B2/B+	108.676	11.0	7.73	576	585	-16	-99	9	-1.6	25.9	19.2
EGYPT 8.7002% 01-MAR-2049	B2/B+	109.621	11.2	7.86	588	598	-16			-1.6		
EGYPT 7.903% 21-FEB-2048	B2u/B+	103.151	11.4	7.63	565	575	-13	-89	13	-1.9	25.3	18.8
ETHOPI 6.625% 11-DEC-2024	B1/B	105.014	4.3	5.51	376	382	-26	-119	-34	-0.1	14.3	13.7
GABON 6.375% 12-DEC-2024	/B	97.529	3.6	7.06	532	537	-37	-113	33	0.4	13.5	10.9
GABON 6.95% 16-JUN-2025	Caa1/B	97.962	4.6	7.39	564	570	-37	-89	59	0.5	14.5	10.7
GHANA 7.875% 07-AUG-2023	B3/B	109.714	3.3	5.09	334	339	-21	-254	-45	-0.2	17.1	12.1
GHANA 8.125% 18-JAN-2026	B3/B	106.158	4.3	6.73	498	504	-15	-155	41	-0.5	16.4	10.7
GHANA 7.875% 26-MAR-2027	B3/B	102.902	4.9	7.08	533	538	-7			-0.9		
GHANA 7.625% 16-MAY-2029	B3/B	100.433	6.1	7.55	575	582	-16	-91	98	-0.7	17.6	8.8
GHANA 10.75% 14-OCT-2030	B1/BB-	127.120	6.4	6.95	515	520	-21	-103	47	-0.4	18.5	12.0
GHANA 8.125% 26-MAR-2032	B3/B	99.790	7.1	8.02	620	625	-20			-0.6		
GHANA 8.627% 16-JUN-2049	B3/B	99.255	10.3	8.69	676	683	-17	-47	97	-1.4	20.4	9.8
GHANA 8.95% 26-MAR-2051	B3/B	100.115	10.0	8.94	702	707	-16			-1.3		
IVYCST 5.375% 23-JUL-2024	Ba3/B+	102.801	4.2	4.72	298	304	-24	-172	-62	-0.2	15.9	14.3
IVYCST 2.5% 31-DEC-2032	/B+	98.577	5.6	6.00	422	425	-2	-108	-4	-1.3	16.2	13.6
IVYCST 6.375% 03-MAR-2028	Ba3/B+	102.875	5.9	5.89	409	418	-18	-137	-41	-0.5	18.9	17.0
IVYCST 6.125% 15-JUN-2033	Ba3/B+	97.020	8.5	6.47	460	467	-25	-91	0	-0.4	21.6	17.4
KENINT 6.875% 24-JUN-2024	/NR	106.711	4.0	5.26	352	358	-5	-218	-117	-0.9	18.4	17.3
KENINT 7% 22-MAY-2027	B2u/B+	105.076	5.2	6.06	429	436	-5			-1.2		
KENINT 7.25% 28-FEB-2028	B2u/B+	104.724	6.3	6.51	471	479	-3	-162	-68	-1.5	22.1	20.4
KENINT 8% 22-MAY-2032	B2u/B+	106.417	7.5	7.18	534	539	-6			-1.7		
KENINT 8.25% 28-FEB-2048	B2u/B+	103.936	11.1	7.90	593	602	-12	-110	-36	-2.0	27.5	25.1
MOROC 4.25% 11-DEC-2022	/BBB-	105.264	3.0	2.54	79	83	-25	-88	-53	0.0	7.9	9.2
MOROC 5.5% 11-DEC-2042	/BBB-	120.919	13.9	4.10	198	220	-28	-50	-3	-0.6	21.6	18.7
MOZAM 10.5% 18-JAN-2023	Caa3u/	104.533	2.9	7.75	600	604	-22	-381	-569	0.0	11.2	24.4
REPNAM 5.5% 03-NOV-2021	Ba1/BB+	103.554	2.0	3.74	195	196	-10	-135	-23	-0.2	8.2	7.5
REPNAM 5.25% 29-OCT-2025	Ba1/BB+	101.569	5.1	4.95	318	326	-27	-138	-21	0.0	16.8	13.5
NGERIA 6.75% 28-JAN-2021	/B+	103.585	1.3	4.02	214	209	-9	-140	-49	0.0	6.8	7.3
NGERIA 5.625% 27-JUN-2022	B2/B+	103.586	2.5	4.24	247	250	-21	-161	-62	-0.1	10.8	10.4
NGERIA 6.375% 12-JUL-2023	/B+	105.311	3.3	4.83	309	314	-14	-179	-36	-0.4	13.9	11.5
NGERIA 7.625% 21-NOV-2025	B2/B+	110.439	4.9	5.60	385	391	-16	-183		-0.6	19.5	
NGERIA 6.5% 28-NOV-2027	B2/B+	101.303	6.2	6.29	449	457	-19	-123	0	-0.6	19.3	14.8
NGERIA 7.143% 23-FEB-2030	B2/B+	102.447	7.3	6.81	498	505	-14	-111	15	-1.1	20.6	15.2
NGERIA 8.747% 21-JAN-2031	B2/B+	112.243	7.3	7.15	532	538	-14	-114		-1.0	21.4	
NGERIA 7.875% 16-FEB-2032	B2/B+	105.500	7.9	7.20	533	540	-15	-105	38	-1.2	21.4	13.9
NGERIA 7.696% 23-FEB-2038	B2/B+	102.291	9.8	7.47	556	561	-12	-80	32	-1.7	22.4	15.9
NGERIA 9.248% 21-JAN-2049	B2/B+	112.403	10.8	8.13	618	626	-16	-61		-1.4	21.9	
NGERIA 7.625% 28-NOV-2047	B2/B+	99.068	11.2	7.71	573	582	-13	-70	39	-1.8	23.5	15.5
RWANDA 6.625% 02-MAY-2023	/B+	108.632	3.2	4.04	229	234	-20	-198	-125	-0.2	13.8	14.2
SENEGL 8.75% 13-MAY-2021	Ba3/	108.816	1.5	3.23	137	137	-19	-200	-104	0.0	8.2	8.2
SENEGL 6.25% 30-JUL-2024	Ba3/	109.050	4.2	4.18	243	249	-20	-186	-92	-0.3	16.1	15.2
SENEGL 6.25% 23-MAY-2033	Ba3/	101.010	8.4	6.13	426	433	-20	-99	-14	-0.8	22.0	18.4
SENEGL 6.75% 13-MAR-2048	Ba3/	97.726	12.3	6.94	491	505	-20	-65	-8	-1.5	22.8	21.4
SEYCHE 3% 01-JAN-2026	/BB	103.928	2.8	6.61	485	489	-45	-28	35	0.6	8.0	9.2
SOAF 5.875% 30-MAY-2022	Baa3/BB+	107.125	2.5	3.11	135	137	-29	-82	-70	0.1	7.1	9.4
SOAF 4.665% 17-JAN-2024	Baa3/BB+	105.500	3.9	3.29	155	161	-21	-109	-97	-0.3	11.0	14.0
SOAF 5.875% 16-SEP-2025	Baa3/BB+	110.375	5.1	3.92	215	223	-16	-90	-70	-0.7	12.7	15.6
SOAF 4.875% 14-APR-2026	Baa3/BB+	104.193	5.5	4.14	236	245	-13	-68	-63	-0.9	12.5	16.3
SOAF 4.85% 27-SEP-2027	Baa3/BB+	103.752	6.5	4.29	249	258	-11	-72	-46	-1.1	14.6	16.9
SOAF 4.3% 12-OCT-2028	Baa3/BB+	98.830	7.3	4.46	263	272	-14	-46	-32	-1.1	14.0	17.1
SOAF 5.875% 22-JUN-2030	Baa3/BB+	109.188	8.0	4.77	290	300	-14	-55	-34	-1.2	15.9	18.2
SOAF 6.25% 08-MAR-2041	Baa3/BB+	111.732	12.2	5.34	332	345	-13	-38	-17	-2.2	18.7	21.5
SOAF 5.375% 24-JUL-2044	Baa3/BB+	101.250	13.6	5.28	319	338	-20	-35	-19	-1.6	19.2	22.3
SOAF 6.3% 22-JUN-2048	Baa3/BB+	111.375	13.8	5.51	340	361	-16	-48	-31	-2.1	21.8	24.0
SOAF 5.65% 27-SEP-2047	Baa3/BB+	103.000	13.8	5.44	333	354	-14	-34	-18	-2.3	19.6	22.0
SOAF 5% 12-OCT-2046	Baa3/BB+	96.631	14.2	5.23	309	333	-12	-22	-11	-2.6	18.0	21.0
BTUN 5.75% 30-JAN-2025	B2/B+	92.613	4.5	7.44	570	576	-21	-92	5	-0.3	14.3	13.8
BTUN 8.25% 19-SEP-2027	B2/WD	98.820	5.5	8.46	667	674	-28	38	233	0.1	8.7	1.0
ZAMBIN 5.375% 20-SEP-2022	/CCC	68.202	2.4	19.93	1,818	1,821	7	513	498	-0.4	0.1	6.8
ZAMBIN 8.5% 14-APR-2024	/CCC	69.629	3.2	18.65	1,690	1,696	3	385	295	-0.7	0.9	11.4
ZAMBIN 8.97% 30-JUL-2027	/CCC	69.439	4.4	16.62	1,488	1,491	-2	292	205	-0.9	1.3	12.2
SB Africa Eurobond (incl. SA)	B+		6.9	6.77	496	498	-16	-76	16	-0.9	16.6	15.1
SB Africa Eurobond (excl. SA)	B+		6.6	7.15	535	536	-17	-83	26	-0.8	16.8	14.6

Source: Bloomberg; Standard Bank Research

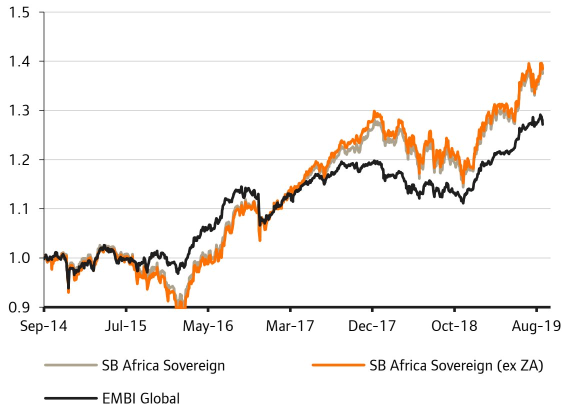
Figure 10: African sovereign USD bonds (spread over US Treasuries versus modified duration)

Source: Bloomberg; Standard Bank Research

Figure 11: African and broader EM bonds (spread over US Treasuries versus credit rating)

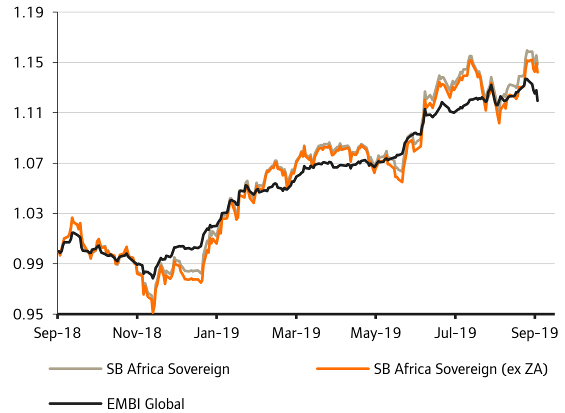
Source: Bloomberg; Standard Bank Research

Figure 12: African Eurobonds (5-y performance)



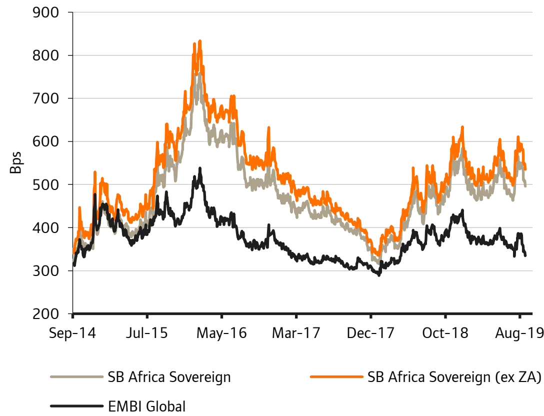
Source: Bloomberg; Standard Bank Research

Figure 13: African Eurobonds (1-y performance)



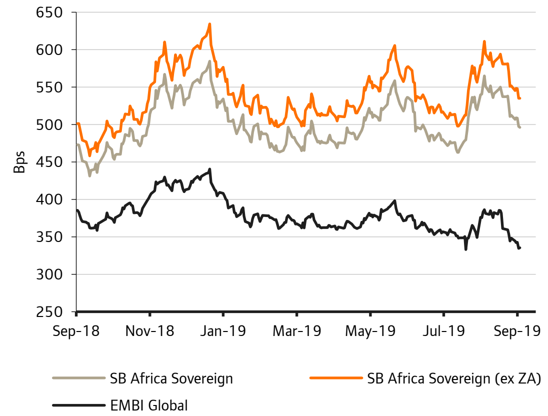
Source: Bloomberg; Standard Bank Research

Figure 14: African Eurobonds spread over UST (5-y)



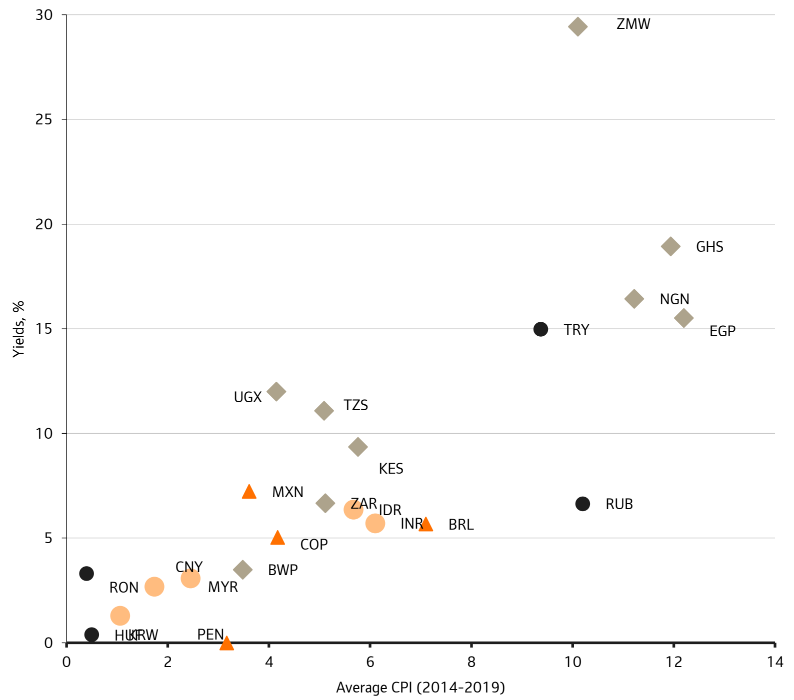
Source: Bloomberg; Standard Bank Research

Figure 15: African Eurobonds spread over UST (1-y)



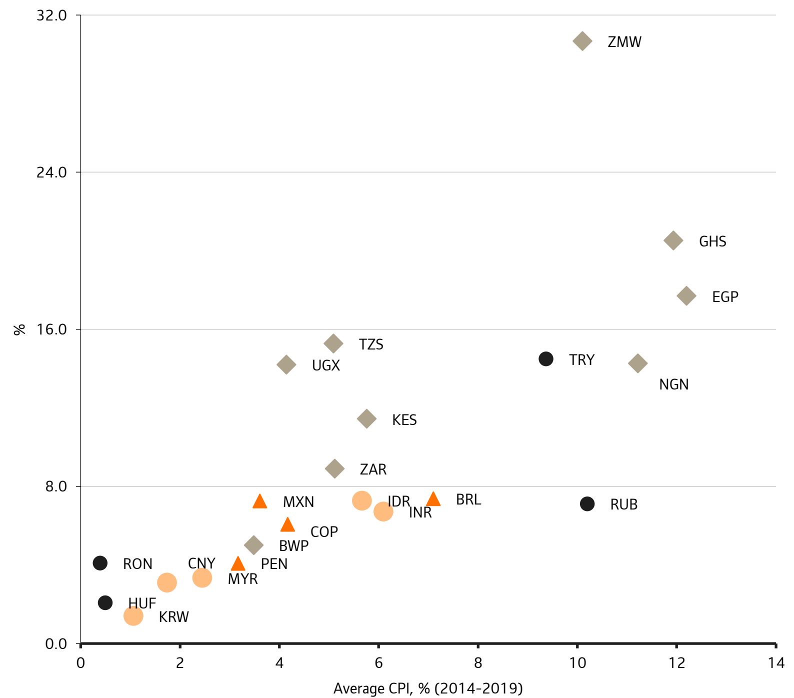
Source: Bloomberg; Standard Bank Research

Figure 16: Local 2-year bonds vs. past and forecast inflation



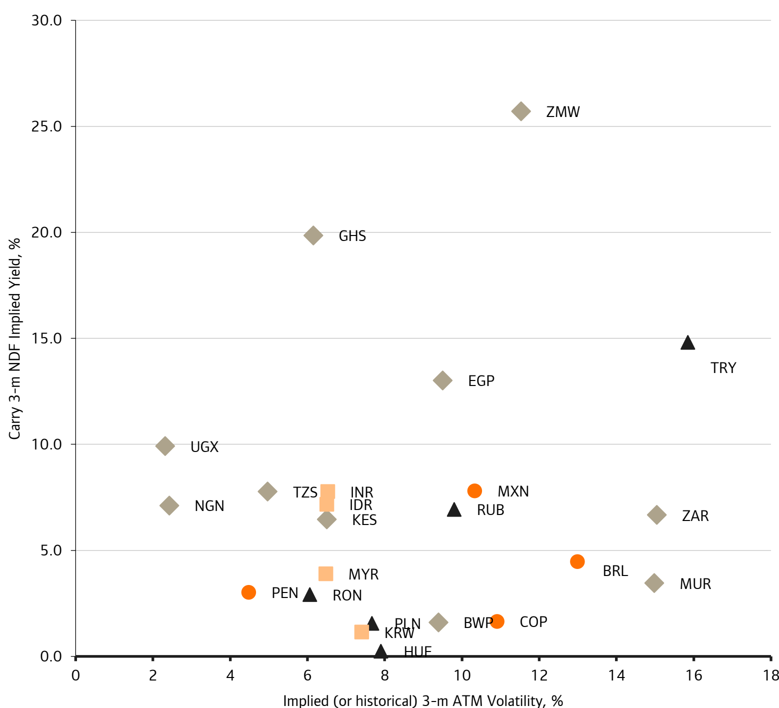
Source: Bloomberg; Standard Bank Research

Figure 17: Local 10-year bonds vs. past and forecast inflation



Source: Bloomberg; Standard Bank Research

Figure 18: NDF carry rates vs. implied vols



Source: Bloomberg; Standard Bank Research

Table of expected returns over the next 3 months

Country	Tenor	Yield, %				Total return, %		
		Current yield	Slide	Forward	SB forecast	Slide	Forward	SB forecast
Botswana	2Y	3.16	3.03	3.32	3.50	1.4	0.1	0.2
	5Y	4.19	4.13	4.32	4.00	1.5	0.1	1.9
	10Y	4.88	4.86	4.97	5.20	1.4	0.5	-1.3
Egypt	2Y	14.96	15.13	14.81	14.80	3.5	4.0	4.0
	5Y	14.35	14.39	14.24	14.25	3.5	4.0	3.9
	10Y	14.67	14.70	14.75	14.55	3.5	3.3	4.3
Ghana	2Y	18.02	17.85	18.65	18.70	4.8	3.6	3.5
	5Y	18.69	18.70	19.08	19.20	4.6	3.5	3.1
	10Y	18.91	18.93	19.19	19.60	4.6	3.5	1.8
Kenya	2Y	9.03	8.79	9.32	9.8	2.6	1.8	1.0
	5Y	10.72	10.63	10.97	10.4	3.0	1.7	3.8
	10Y	11.76	11.74	11.97	11.8	3.1	1.8	2.7
Nigeria	2Y	15.65	15.73	16.39	14.85	3.8	2.8	5.1
	5Y	14.67	14.73	14.95	14.52	3.5	2.7	4.2
	10Y	14.26	14.28	14.42	14.63	3.5	2.8	1.7
Tanzania	2Y	9.43	8.91	10.19	11.3	3.2	1.1	-0.7
	5Y	13.38	13.18	14.00	13	4.0	1.2	4.6
	10Y	15.50	15.45	16.03	15.4	4.1	1.3	4.4
Uganda	2Y	12.27	12.08	12.67	12.4	3.4	2.4	2.9
	5Y	13.55	13.51	13.82	14.4	3.5	2.5	0.5
	10Y	14.08	14.08	14.29	14.7	3.5	2.5	0.3
Zambia	2Y	30.81	30.31	33.51	31.20	8.3	4.2	7.2
	5Y	31.16	31.29	32.72	31.60	7.5	4.1	6.8
	10Y	30.51	30.58	31.69	30.80	7.4	4.2	6.8

Source: Bloomberg; Standard Bank Research

Notes: Yield curve scenarios: "Slide" = the bond yields slide along the unchanged yield curve, "Forward" = the yield curve evolves according to its embedded forward rates, "SB forecasts"= Standard Bank Research expectations

Asset class expected performance summary (3 months)

	FX	Rates	Credit
Angola	↑	↓	↓
Botswana	↑	↑	
Côte d'Ivoire	↑	→	→
Democratic Republic of the Congo	↓	↓	
Egypt	↑ ↑	↑ ↑	↑
Ethiopia	↓	→	→
Ghana	→	↑	↑
Kenya	↓	→	→
Malawi	→	↓	
Mauritius	↓	→	
Morocco	↑	→	↑
Mozambique	→	↓	↓
Namibia	↑	↑	↑
Nigeria	↑	↓	↑
Rwanda	→	↓	→
Senegal	↑	→	↑
Tanzania	→	↓	→
Tunisia	→	↑	↓
Uganda	↓	↓	
Zambia	↓	→	↓

Source: Bloomberg; Standard Bank Research

Recommended trades: performance

Open Trades

Positions	Entry date	Entry yield, %	Entry FX	Latest yield, %	Latest FX	Total return, %	
						Since inception	1-month
Ghana: buy GHGB '20	31-Oct-16	20.00	3.99	18.15	5.46	18.9	0.4
Zambia: buy ZAMGB '26	18-Nov-16	24.50	9.81	30.50	13.15	21.4	1.8
Egypt: buy Egypt '27	23-Nov-17	15.88	17.69	14.66	16.35	44.9	6.5
BEAC: sell USD/XAF 2-y NDF	24-Nov-17	4.25	550.62	1.82	593.04	0.4	-0.8
Nigeria: buy NIGB '27	27-Feb-18	13.70	361.00	14.19	362.92	16.9	0.8
Nigeria: buy 12-m T-bill	01-Nov-18	16.82	363.00	12.32	362.92	13.3	1.0
Egypt: buy 12-m T-bill	06-Nov-18	19.78	17.92	16.61	16.35	26.6	3.0
Angola: sell USD/AOA 12-m NDF	09-Jan-19	18.77	311.62	15.68	369.37	-4.5	-1.3
Total portfolio internal rate of return since prev. AMR (15-May-2019)						5.2	

Source: Bloomberg; Standard Bank Research

Ghana: transitioning to a period without IMF support

GDP growth: still robust

We still look to export-oriented sectors of the economy accelerating over the course of the next 2-3 years, keeping economic growth quite robust. We expect GDP growth of 6.8% y/y in 2019, accelerating to 7.2% y/y in 2020.

Growth registered 6.3% y/y in 2018, down from 8.2% y/y in 2017 but up from 3.4% y/y in 2016 and 2.2% y/y in 2015. Domestic demand was extremely subdued in 2015 and 2016, understandable given the elevated inflation figures at the time that would have constrained real household incomes, thereby depressing household consumption.

Of course, given the fiscal challenges at the time, it was inevitable that government consumption expenditure would be undermined as well. The fiscal consolidation effort that has brought the fiscal deficit down to less than 5% of GDP is complete. It is reasonable to expect that government consumption will pick up in the medium term. Of course, we still think that restraint will characterise the government's fiscal policy conduct in the medium term despite the 2020 elections. After all, the Fiscal Responsibility Law mandates a 5.0% of GDP ceiling for the fiscal deficit.

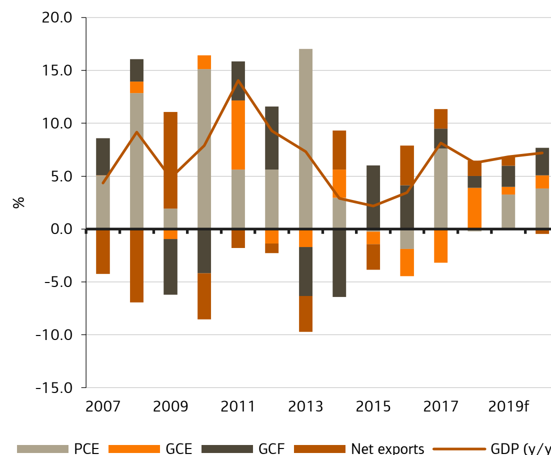
After growing at an average pace of 5.4% y/y in H1:18, GDP growth accelerated to an average of 6.9% y/y in H2:18. It grew by a comparable 6.7% y/y in Q1:19. A notable contributor to that acceleration was the services sector that grew at less than 2.0% y/y in H1:18, to 7.2% y/y in Q1:19. The financial sector went from contracting by an average of 12.5% y/y in H1:18, to growing by 2.1% y/y in Q1:19.

The agricultural sector slowed down quite a bit in Q1:19, growing by 2.2% y/y after growing by an average of 4.9% y/y per quarter in 2018. The Q1:19 growth rate is the lowest since the 0.4% y/y growth rate in Q1:16. Value added in crops and cocoa production contracted by 3.8% y/y, with value added in cocoa production contracting by 22.9% y/y, contributing the most to the slowdown in the agricultural sector.

Of course, the government and the Ivorian counterpart have agreed to fix the price of cocoa at no less than USD2,600/MT. In the medium term this price floor might come to affect the value added by cocoa production.

The contribution of net exports to economic growth is likely to subside this year and next. Indeed, after contributing positively to growth in the 4-y to 2018, we expect it to detract from overall growth in 2020. Nevertheless, there is a great deal of uncertainty in that forecast. While gold production is likely to pick up next year, growth in oil production is likely to decelerate. Furthermore, there is always a chance that government capital expenditure might accelerate, thereby boosting machinery and equipment imports.

Composition of GDP by demand



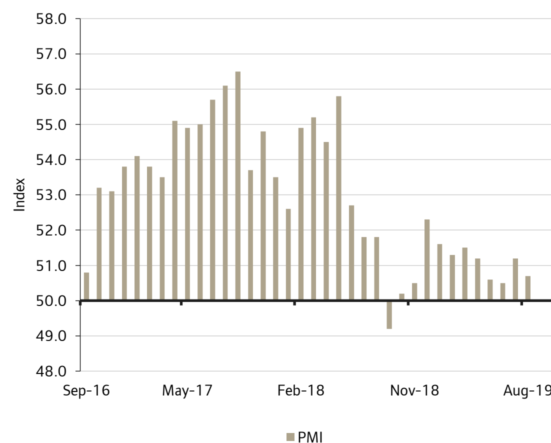
Source: Ghana Statistical Services; Standard Bank Research

Contribution to GDP by sector

% of GDP	2013	2017	2018
Crops	14.6	15.4	14.5
- Cocoa	1.7	1.8	1.6
Livestock	3.7	3.0	2.7
Mining and Quarrying	13.6	10.9	13.6
- Oil and gas	5.8	3.5	3.8
Manufacturing	12.4	11.3	11.3
Construction	9.1	8.2	7.1
Trade	11.2	14.0	15.2
Hotels and Restaurants	3.9	3.9	3.8
Transport and Storage	6.0	7.2	7.5
Financial services	5.1	5.0	4.2
Public administration	3.7	3.3	3.3
Education	4.0	3.4	3.2

Source: Ghana Statistical Service

Purchasing Managers' Index



Source: Markit; Bloomberg

Quarterly indicators

	Q1:18	Q2:18	Q3:18	Q4:18	Q1:19	Q2:19e	Q3:19f	Q4:19f	Q1:20f	Q2:20f	Q3:20f	Q4:20f
GDP (% y/y) pa	5.4	5.4	7.4	6.8	6.7	6.7	6.5	7.4	7.3	7.2	6.3	7.8
CPI (% y/y) pa	10.4	9.8	9.8	9.4	9.2	9.3	9.1	9.2	9.1	9.0	9.3	9.7
M2 (% y/y) pa	13.5	16.6	21.3	17.4	21.2	19.1	12.8	18.1	17.0	18.7	19.2	18.8
CA/GDP (%) pe	-3.4	-3.3	-3.2	-3.2	-3.2	-3.0	-3.1	-2.8	-2.9	-3.1	-3.2	-3.3
FX reserves (USD bn) pe	4.4	4.1	4.0	3.9	4.2	4.7	5.0	5.1	5.4	5.7	6.0	6.1
Import cover (mths) pe	4.0	3.8	3.6	3.6	3.8	4.2	4.5	4.6	4.4	4.7	5.0	5.0
3-m rate (%) pe	11.7	11.4	15.3	16.5	16.5	16.0	15.5	15.1	15.2	15.2	15.3	15.3
5-y rate (%) pe	17.5	16.0	18.0	21.5	18.5	17.5	17.0	19.0	19.1	19.3	19.2	19.2
USD/GHC pe	4.41	4.79	4.97	4.91	5.51	5.47	5.38	5.53	5.66	5.77	5.72	5.77

Source: Bank of Ghana; Ghana Statistical Service; Bloomberg; Ministry of Finance; Standard Bank Research

Notes: pe – period end; pa –a period average

Political risks: fiscal policy implementation risks

Since the return to multi-party democracy in 1992, the Ghanaian electorate has always switched between the NPP and NDC, giving each party 2 terms in office. Will 2020 be any different?

At face value, the afore-mentioned empirical regularity should allow the ruling party not to worry about attempting to pursue populist policies in order to win the election. In any event, the NDC managed to stick with the fiscal consolidation campaign in 2016, facing a tough election that it would ultimately lose.

Over the next 4-m, perhaps the key policy risk to watch out for is whether the government will keep to the budgeted fiscal deficit target. In the past 3-y or so, the government had to cut spending, specifically capital expenditure, in order to meet the fiscal deficit target.

Another argument we have come across from investors concerned about the government maintaining fiscal prudence is that, arguably, the government was constrained by the IMF-funded program. Perhaps it had to sacrifice some of the programs and projects that would have allowed it to make some headway towards achieving its pre-election campaign promises. Now that the IMF does not need to closely monitor fiscal performance, there is a chance that the government would not feel the need to sacrifice capital expenditure.

Yet, notably, capital expenditure was nearly 45% below programmed levels in H1:19. Over the same period, expenditure on the use of goods and services was 30.1% above the programmed level for that period.

Election results (2016)

Presidential election	**% of votes**
Nana Akuffo Addo (NPP)	53.9
John Dramani Mahama (NDC)	44.4

Legislative election	Seats
New Patriotic Party (NPP)	171
National Democratic Congress (NDC)	100
People's National Convention (PNC)	1
Independent	3
Total	275
Registered voter turnout	68.60%

Source: Electoral Commission of Ghana

Balance of payments: stronger

It seems highly improbable that the C/A surplus recorded in H1:19 will persist for the rest of this year. The cumulative surplus year-to-date actually fell in Q2:19 despite the trade surplus remaining strong. The cumulative C/A surplus amounted to USD276.7m in Q1:19 but fell to just USD39.1m by the end of Jun. Meanwhile, the cumulative trade surplus rose to USD1.9bn from USD777.4m over the same period. Evidently, there was a normalisation of service and income flows during Q2:19.

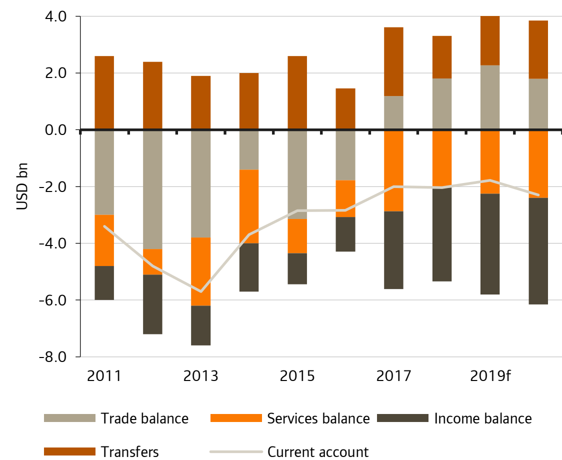
Even though we still expect the C/A balance to be in deficit for 2019, we have lowered our forecast to a deficit of 2.8% of GDP this year and 3.3% of GDP in 2020. It looks highly probable that import demand will pick up going to next year, resulting in a lower trade surplus than this year.

While we are cognisant of 2020 being an election year, we still hold that the impact on the BOP is likely to be minimal. Granted, there are some notable risks in this regard. The government noted that public employees working for entities that are not on the Single Spine Salary Structure (SSSS) have had salary increases that are faster than those working for entities that are on the structure. This has led to a widening of pre-existing salary discrepancies, which the government is committed to eliminate. In this regard it will ensure that the salaries of those on the SSSS will rise faster. Naturally, this might boost domestic spending and bolster imports.

Government external borrowing will remain a main source of capital inflows in the next 2-y. It is likely that the government will return to the Eurobond market during H2:19. That is certainly the indication from the Mid-year Budget Review. Additionally, it indicated that it is looking for USD500m from the World Bank.

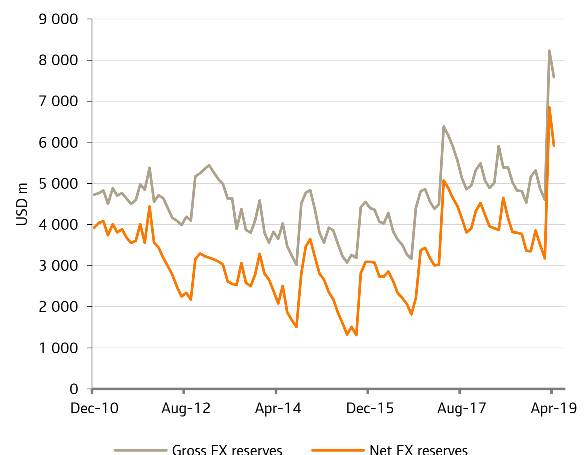
We expect gross FX reserves to end the year at USD5.1bn, covering 4.6-m of imports, rising to USD6.1bn (5.0-m of imports) in 2020. They were at USD8.6bn in Jun, bolstered by the issuance of Eurobonds by the government. To be sure, they are down from their USD10.0bn level in Mar.

Current account developments



Source: Bank of Ghana; Standard Bank Research

FX reserves



Source: Central Bank of Ghana

FX outlook: depreciation bias intact

USD/GHS is likely heading higher over the coming 12-m. We still see the pair rising at an annualised pace closer to 5%-8% in the medium term, instead of the more than 20% that was predominant between 2012 and 2015. That said, the completion of the IMF-funded program and the upcoming elections in 2020 raise the risk that the pair will be characterised by a great deal of volatility. It is highly probable that the BOG will be quite active in the market, intervening regularly to try to stabilise the pair. Arguably, given the strength of the BOP the BOG would be justified to intervene. Of course, there is also the need to ensure that GHS depreciation does not pass through to inflation. Although inflation has declined and stayed within the target range for more than 12-m, a depreciation of the GHS could jeopardise the inflation outlook.

USD/GHS: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: on hold despite easing bias

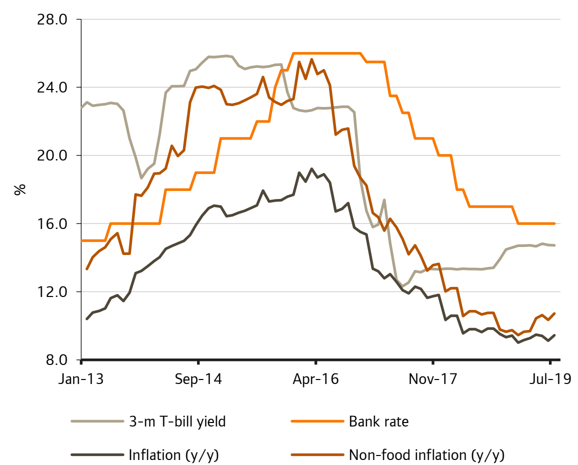
The BOG's MPC will likely leave the policy stance unchanged over the next 4-m. Given that headline inflation has been below the 10% y/y upper bound of the target range, the committee will probably have an easing bias.

Upon observing the long-term inflation trends, our remains the significant divergence between food and non-food inflation components of the headline CPI. While food inflation has been in single digits since the current CPI series was launched in 2012, non-food inflation has only recorded 6 single-digit readings in that time. But then, since Q2:19, non-food inflation has reverted to double digits.

Typically, one indication that inflation pressures are subdued, and will likely remain so in the medium term, is a clustering of low inflation readings among the headline CPI sub-indices. During Q418 and Q1:19, non-food inflation was in single digits, averaging 9.7% y/y and 9.6% y/y respectively. Yet in that time the clothing and footwear sub-index, household goods, operations and services sub-index, the transport sub-index and the recreation, entertainment and cultural services sub-index remained in double digits, ranging from 11.6% y/y to 13.3% y/y. To be fair, the miscellaneous goods and services sub-index was on the cusp, never definitively falling into single digits. These sub-indices account for 30.7% of the CPI basket, more than half of the non-food CPI.

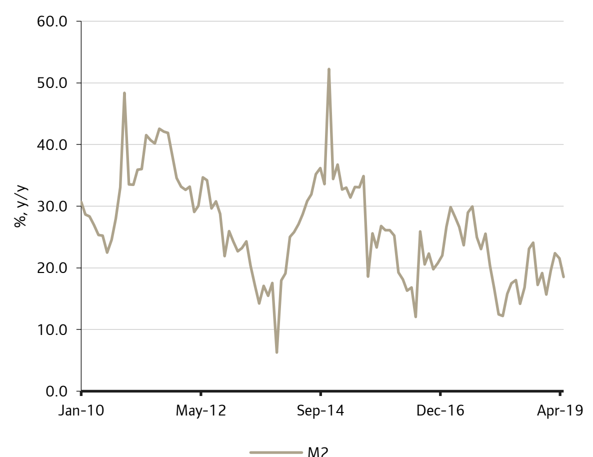
The rising trajectory of non-food inflation since Mar, taking it to an average of 10.5% y/y in the past 4-m, is concerning. It seems to have been instigated by rising utility costs. The housing and utilities sub-index grew at an average of 3.0% y/y in the 12-m to Mar but accelerated to 9.8% y/y in Jul. Of course, the Public Utilities Regulatory Commission approved an 11.17% average tariff increase effective from 1 Jul.

Inflation and interest rates



Source: Bank of Ghana; Ghana Statistical Service

Money supply growth

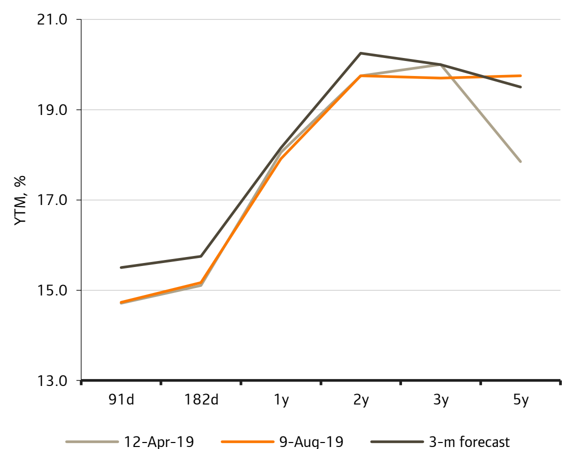


Source: Bank of Ghana

Yield curve outlook: upward pressure

We still believe that the balance of risks points to some upward pressure on yields across the curve. In part this will be due to increased supply of paper. The government has increased the budgeted deficit for this year slightly, while reducing net external issuance. Thus, increased domestic issuance is required both to accommodate a higher deficit and lower net external issuance. Thus far, the BOG has been unwilling to allow yields to rise. This might have discouraged demand from foreign investors. To be sure, data is not indicating that there are significant portfolio outflows, perhaps just repatriation of coupon payments that have not been re-invested. Local investors, who have been keen buyers of long-dated bonds in recent years, will be watching the inflation numbers closely. Certainly, if the rising trajectory of non-food inflation comes to characterise headline inflation, then these investors are likely to demand higher yields or reduce duration.

Yield curve changes



Source: Bank of Zambia; Standard Bank Research

Fiscal policy: higher gross financing requirements

A notable aspect of the Mid-Year Budget Review was the government's revelation of contingent liabilities related to take-or-pay contracts that the Electricity Company of Ghana (ECG) signed with independent power producers. In Sep 18, the Minister of Energy revealed that the ECG signed some 40 power purchase agreements (PPAs) with independent power producers that would result in installed generation capacity of about 11,000 MW, far in excess of peak demand of 2,400 MW. Following a review of 26 of these PPAs, 11 were terminated, 4 deferred to between 2018 and 2025, and 3 deferred beyond 2025.

The government will make an amortisation payment of GHS5.1bn with respect to the contingent liabilities arising from these PPAs, a payment that was not originally budgeted. Hence, this results in an increase in gross external financing requirements for this year. While net external financing is lower by GHS1.5bn, net domestic financing rises by GHS2.6bn, budgeted issuance of Eurobonds has increased by GHS4.0bn, or slightly under USD750m.

Overall, the government revised the fiscal deficit to 4.5% of GDP from the originally budgeted 4.2% of GDP. Even though revenue collection did not meet the government's expectations, it did not revise the target for the year much. In part, this shortfall was due to lower oil shipments than the government expected in H1:19. So, this will likely correct in H2:19. But the government is also banking on increases in several levies such as the Road Fund Levy and the Energy Debt Recovery Levy, and a higher Communication Service Tax rate. In addition, the government expects revenue to be boosted by proceeds from the sale of electromagnetic spectrum and telecommunication companies' licence renewals.

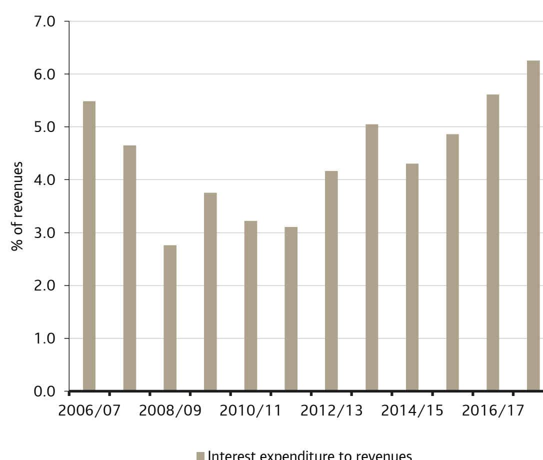
A weaker exchange rate and higher domestic borrowing necessitated an upward adjustment to budgeted interest expenditure. Security expenses have also increased. Also notable is a commitment by the government to increase salaries of employees on the Single Spine Salary Structure at a faster pace than those not on it, in order to eliminate disparities.

Central government budget

	2018	2019	
% of GDP	Estimate	Budget	Revised
Revenues	15.6	16.8	16.7
Expenditure	19.5	21.1	21.4
- Wages	6.6	6.6	6.6
- Interest	5.3	5.4	5.7
- Capital	1.6	2.5	2.2
- Arrears clearance	0.3	0.2	0.2
Budget deficit (- grants)	-4.2	-4.5	-4.9
Budget deficit (+ grants)	-3.8	-4.2	-4.5
Net domestic financing	3.3	1.3	2.0
Net external financing	0.9	2.8	2.4
Other financing	0.0	0.4	0.4
Petroleum funds	0.1	-0.1	-0.1
Sinking fund	-0.3	-0.2	-0.2
Contingency fund	0.0	0.0	0.0
Grants	0.4	0.3	0.3

Source: Ministry of Finance

Interest expenditure

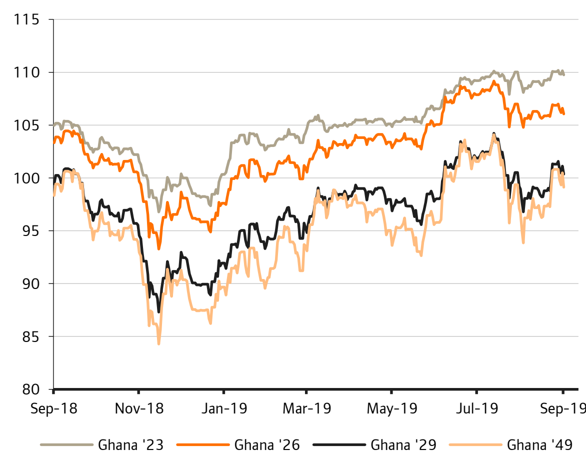


Source: Ministry of Finance and Economic Planning

Eurobond outlook: still underperforming

Ghanaian Eurobonds have underperformed in the past 4-m. The completion of the IMF-funded program is a factor that might have dampened investor appetite. There has always been a pervasive feeling that the government would not be able to restrain spending and the fiscal deficit in the period leading up to the 2020 elections, especially so in the absence of an IMF-funded program. The mid-year budget statement for this year will do nothing to dispel these fears. The amortisation of GHS5.1bn with respect to contingent liabilities for the energy sector, giving rise to additional gross external financing requirements, is notable. Additionally, the market may regard the undertaking by the government to increase the salaries of public employees that are on the Single Spine Salary Structure faster than those that are not as a populist measure. Anyway, it leaves doubts as to whether restraint on salary expenditure will materialise. Given this, it is hard to see the bonds outperforming in the next 4-m.

Eurobond prices - mid



Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	26	27	28	29	29	30	31
Nominal GDP (GHC bn)	155	180	215	257	298	346	402
Nominal GDP (USD bn)	56	47	55	58	64	64	70
GDP / capita (USD)	2 133	1 770	1 947	2 035	2 174	2 140	2 288
Real GDP growth (%)	2.9	2.2	3.5	8.2	6.3	6.8	7.2
Gold Production ('000 FO)	3 344	3 200	3 300	3 795	4 175	4 383	4 602
Cocoa bean production ('000 MT)	880	875	870	870	887	910	930
Oil production (k bpd)	102.7	101.4	97.0	149.0	168.0	185.0	215.0
Central Government Operations							
Budget balance (excl. grants) / GDP (%)	-8.0	-6.5	-7.8	-5.4	-4.2	-4.9	-4.9
Budget balance (incl. grants) / GDP (%)	-7.4	-5.4	-7.3	-4.8	-3.8	-4.5	-4.7
Domestic debt / GDP (%)	22.5	22.4	24.8	26.0	28.3	29.2	29.5
External debt / GDP (%)	28.7	33.2	32.0	29.6	29.2	30.2	30.6
Balance of payments							
Exports of goods (USD bn)	13.2	10.3	11.1	13.8	14.9	15.6	16.4
Imports of goods (USD bn)	-14.6	-13.5	-12.9	-12.6	-13.1	-13.3	-14.6
Trade Balance	-1.4	-3.1	-1.8	1.2	1.8	2.3	1.8
Current account (USD bn)	-3.7	-2.8	-2.8	-2.0	-2.0	-1.8	-2.3
- % of GDP	-6.6	-6.0	-5.2	-3.4	-3.2	-2.8	-3.3
Capital & Financial account (USD bn)	3.9	3.1	2.6	3.0	1.8	3.0	3.3
- FDI (USD bn)	3.4	3.0	3.5	3.2	2.5	2.6	2.4
Basic balance / GDP (%)	-0.5	0.3	1.2	2.1	0.7	1.3	0.1
Net FX reserves (USD bn) pe	3.2	2.9	3.4	4.5	3.9	5.1	6.1
- Import cover (months) pe	2.6	2.6	3.2	4.3	3.6	4.6	5.0
Sovereign Credit Rating							
S&P	BB-	BB-	BB-	B-	B-	B-	B-
Moody's	B2	B3	B3	B3	B3	B3	B3
Fitch	BB	BB	BB	B	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	15.8	17.1	17.5	12.4	9.8	9.2	9.2
Consumer inflation (%) pe	17.0	17.7	15.4	11.8	9.4	9.1	9.1
M2 money supply (% y/y) pa	33.1	28.7	19.9	25.4	17.2	17.8	18.4
M2 money supply (% y/y) pe	34.4	26.1	20.8	20.3	19.2	16.6	18.8
BOG prime rate (%) pa	18.5	23.6	25.9	22.7	17.7	16.0	16.0
BOG prime rate (%) pe	21.0	26.0	25.5	21.0	17.0	16.0	16.0
3-m rate (%) pe	25.0	22.8	19.0	11.5	16.5	15.1	15.3
1-y rate (%) pe	25.0	22.5	20.5	14.8	19.5	15.5	15.6
2-y rate (%) pe	23.0	22.0	20.9	18.0	21.3	19.3	19.0
5-y rate (%) pe	22.0	22.0	19.0	17.9	21.5	19.0	19.2
USD/GHC pa	2.78	3.81	3.93	4.40	4.69	5.40	5.72
USD/GHC pe	3.20	3.81	4.22	4.52	4.91	5.53	5.77

Source: Bank of Ghana; Ghana Statistical Service; Bloomberg; Ministry of Finance; Standard Bank Research

Notes: pe – period end; pa –a period average

Glossary

For brevity, we frequently use acronyms that refer to specific institutions or economic concepts. For reference, below we spell out these and provide definitions of some economic concepts that they represent.

14-d	14-day, as in 14-d deposit, which denotes 14 day deposit
10-y	10-year
16 Jan 13	16 January 2013
3-m	3 months
3m	3 million, as in USD3m, which denotes 3 million US dollars
3bn	3 billion, as in UGX3bn, which denotes 3 billion Ugandan shillings
3tr	3 trillion, as in TZS3.0tr, which denotes 3 trillion Tanzanian shillings
AOA	Angola Kwanza
BAM	Bank Al Maghrib
BCC	Banque Central du Congo (Central Bank of Congo)
BCEAO	Banque Central des États de L'Afrique de l'Ouest (Central Bank of West African States)
BCT	Banque Central de Tunisie
BM	Banco de Moçambique
BNA	Banco Nacional de Angola
BOB	Bank of Botswana
BOG	Bank of Ghana
BOM	Bank of Mauritius
BON	Bank of Namibia
BOP	Balance of payments – a summary position of a country's financial transactions with the rest of the world. It encompasses all international transactions in goods, services, income, transfers, financial claims and liabilities.
BOT	Bank of Tanzania
BOU	Bank of Uganda
BOZ	Bank of Zambia
BR	Bank Rate (Reserve Bank of Malawi)
BRVM	Bourse Régionale des Valeurs Mobilières (Regional Securities Exchange)
BWP	Botswana Pula

C/A	Current account balance. This is the sum of the visible trade balance and the net invisible balance of a country. The latter includes net service, income and transfer payments.
Capital account	Captures the net change in investment and asset ownership for a nation by netting out a country's inflow and outflow of public and private international investment.
CBE	Central Bank of Egypt
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CDF	Congolese Franc
CPI	Consumer Price Index – An index that captures the average price of a basket of goods and services representative of the consumption expenditure of households within an economy.
Discount rate	Policy rate for Bank of Uganda
Disinflation	A decline in the rate of inflation. Here prices are still rising but with a slower momentum.
Disposable income	After tax income
DM	Developed markets
ECB	European Central Bank
EGP	Egyptian pound
EM	Emerging markets
ETB	Ethiopian Birr
Eurobond	A bond denominated in a currency other than the home currency of the issuer.
Exports	The monetary value of all goods and services produced in a country but consumed broad.
FMDQ	FMDQ OTC Securities Exchange, Nigeria
FX	Foreign Exchange
FY2016/17	2016/17 fiscal year
GCE	Government Consumption Expenditure - Government outlays on goods and services that are used for the direct satisfaction of the needs of individuals or groups within the community. This would normally include all non-capital government spending.
GDE	Gross domestic expenditure, the market value of all goods and services consumed in a country – both private and public – including imports but excluding exports. This is measured over a period of time – usually a quarter/year.
GFCF	Gross Fixed Capital Formation – this is investment spending, the addition to capital stock such as equipment, transportation assets, electricity infrastructure, etc to replace the existing stock of productive capital that is used in the production of goods and services in a given period of time, usually a year/quarter. Normally, the higher the rate of capital, the faster an economy can grow.
GDP	Gross Domestic Product – the monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter.

GHS	Ghanaian Cedi
H1:16	First half of 2016
Imports	The monetary value of goods and services produced abroad and consumed locally.
Inflation	The rate at which the general level of prices of goods and services are rising. It is usually measured as the percentage change in the consumer price index over a specific period, usually a month/year.
Invisible trade balance	The value of exports of services, income and transfers, less imports of same.
Jan 16	January 2016
KBRR	Kenya Bankers' Reference Rate
KES	Kenya Shilling
KR	Key Rate (Bank Al Maghrib)
KRR	Key Repo Rate
m/m	Month on month, in reference to a rate of change
MAD	Moroccan Dirham
MLF	Marginal Lending Facility
MOF	Ministry of Finance
MPC	Monetary Policy Committee, the committee that makes the decision on policy rates
MPR	Monetary Policy Rate
MUR	Mauritian Rupee
MWK	Malawian Kwacha
MZN	Mozambican Metical
NAD	Namibian Dollar
NBE	National Bank of Ethiopia
NBR	National Bank of Rwanda
NEER	Nominal Effective Exchange Rate. This is the weighted average rate at which a country's currency exchanges for a basket of currencies, usually trading partner currencies. It is measured in index format.
NGN	Nigerian Naira
Nominal GDP	The monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter, measured in current prices.
NPL	Non-Performing Loans

Parity	Refers to the par or nominal value of a debt instrument. This is usually the price at which the said instrument is redeemed on maturity.
PCE or HCE	Personal or Household Consumption Expenditure: The monetary value of household purchases of durable goods, non-durable goods, semi durables and services within a given period of time, usually a year/quarter.
PR	Policy Rate
Prime rate	key lending rate
q/q	quarter on quarter, in reference to a rate of change
Q1:16	First quarter of 2016
RBM	Reserve Bank of Malawi
Real GDP	The monetary value of all finished goods and services produced in a country in a specific period, usually a year/quarter, measured in constant prices.
REER	Real Effective Exchange Rate. This is the weighted average rate at which a country's currency exchanges for a basket of currencies - usually trading partner currencies – while taking into account any changes in relative prices between the host country and its trading partners. It is often measured in index format.
RWF	Rwandan Frank
SARB	South African Reserve Bank
SDF	Standing Deposit Facility (Mozambique)
SLF	Standing Lending Facility (Mozambique)
T-bill	Treasury bill – A short-dated, government backed security that yields no interest but is issued at a discount over a period of less than one year.
TND	Tunisian Dinar
Treasury bond	A marketable government debt security with a maturity of a year or longer
TZS	Tanzanian Shilling
UGX	Uganda Shilling
USD	US Dollar
VAT	Value Added Tax
Visible trade balance	The value of exports of visible goods less imports.
WAEMU	West African Economic and Monetary Union, also known as Union Economique et Monetaire Ouest Africaine (UEMOA)
XAF	Central African Franc
XOF	West African Franc
y/y	Year on year, in reference to a rate of change

Yield	The return on an investment, usually expressed as a percentage over a period of time, usually a year.
YTD	Year to date
ZAR	South African Rand
ZMW	Zambian Kwacha

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