Standard Bank
Also trading as Stanbic Bank

African Markets Revealed

September 2019

Ferishka Bharuth
Mulalo Madula
Phumelele Mbiyo
Fausio Mussa
Jibran Qureishi
Dmitry Shishkin
Gbolahan Taiwo

www.standardbank.com/research

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

Contents

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.

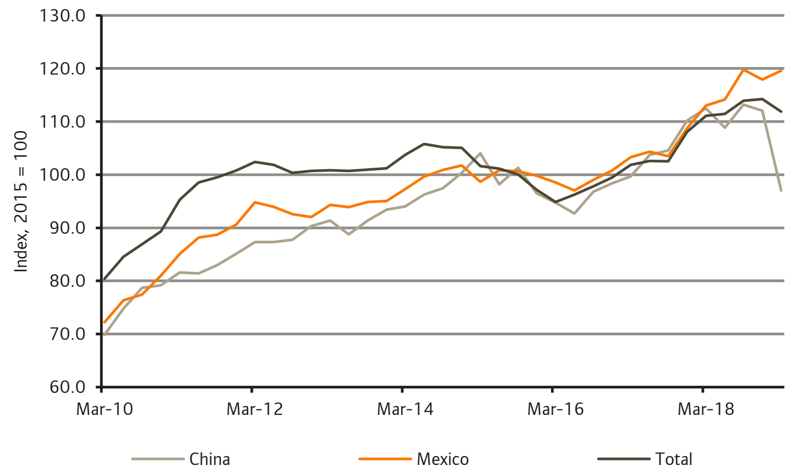
What we find strange regarding the trade war is the responsiveness of the financial markets to every twist and turn, every announcement – be it new tariffs, recanting new tariffs, or going back to imposing them. The market moves can seem to be exaggerated somewhat, with the markets apparently anticipating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



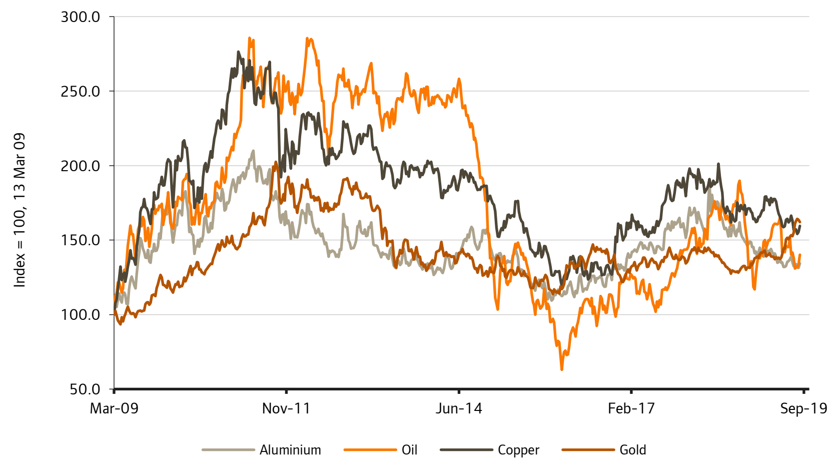
Source: United States Bureau of Economic Analysis

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.

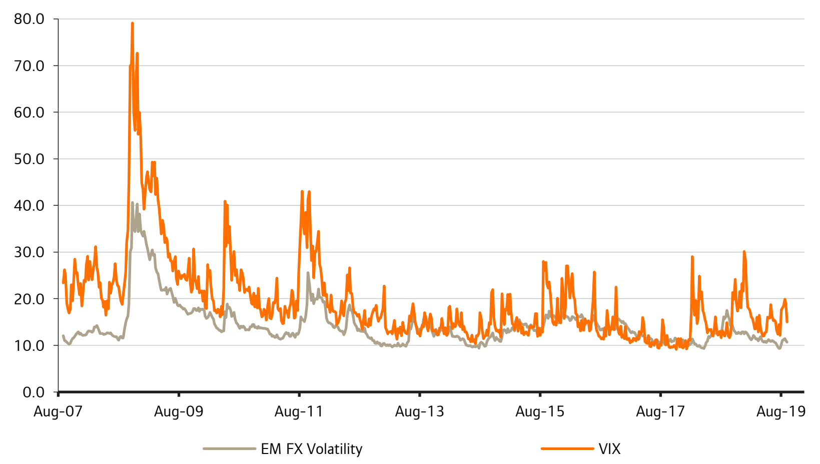
Of course, the supply-demand balance for oil might have a significant impact on oil prices. The broad expectation of the International Energy Agency has been that global oil demand growth would subside, thereby potentially depressing oil prices. Any upward revisions to those forecasts might support oil 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

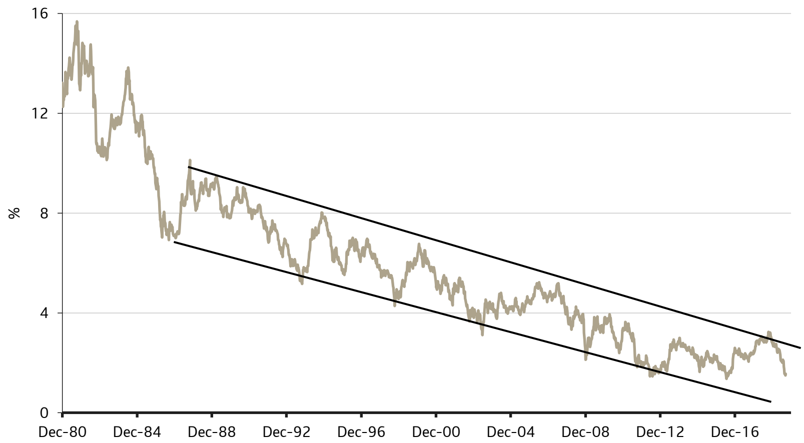
That same pattern is likely to be repeated over the next 4 – 6 months. The markets went from worrying that overtightening of monetary policy by the Fed potentially put the US economy on a trajectory to recession. Having seemingly resisted the market's forecasts, the Fed not only called a pause in its 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

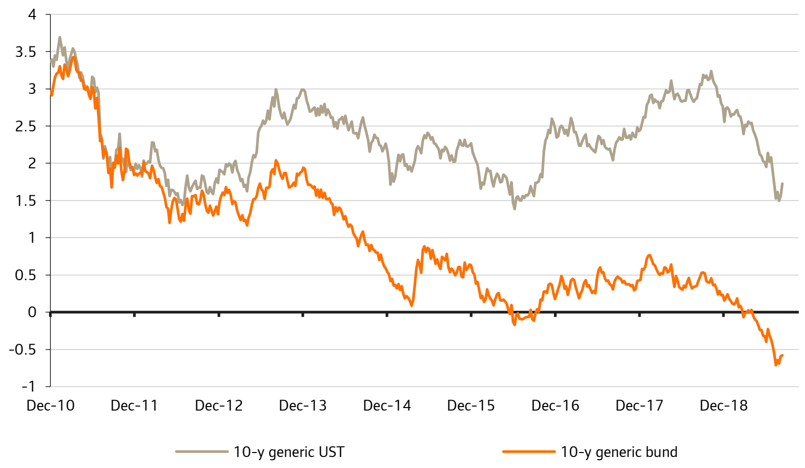
The case for the Fed to cut its policy rates has built up over the course of the past 5-m, with consensus forecasts being ratcheted lower over that period. There has been mounting evidence that economic activity has been decelerating.

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



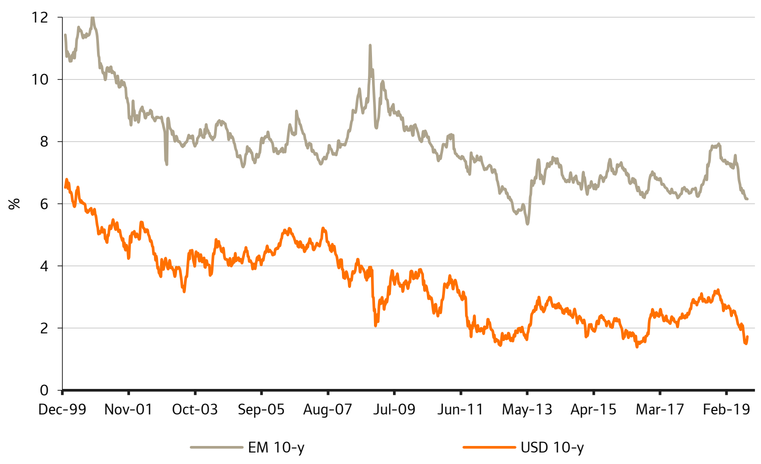
Source: Bloomberg

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.

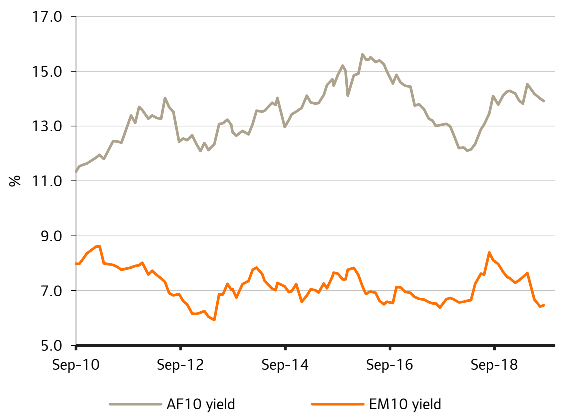
In the past 2 – 3 months we were in the high-liquidity, portfolio-outflow phase of this cycle. It is likely that the CBN will tighten liquidity up over the next 2 – 3 months to bolster FX reserves. Naturally, this would open up interesting re-entry points into the NGN carry trade.

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

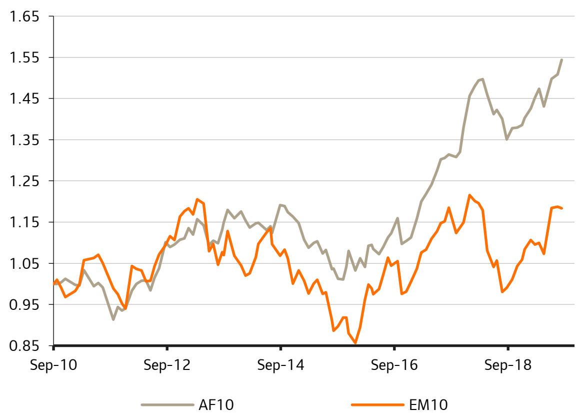
The case for Ugandan duration is quite strong. We often refer to 15% as a yield level that provides some comfort when investing in African local currency bonds. Not many currencies frequently depreciate at over a 15% annualised pace over a 3-y investment horizon. Instead, most currencies typically remain 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.

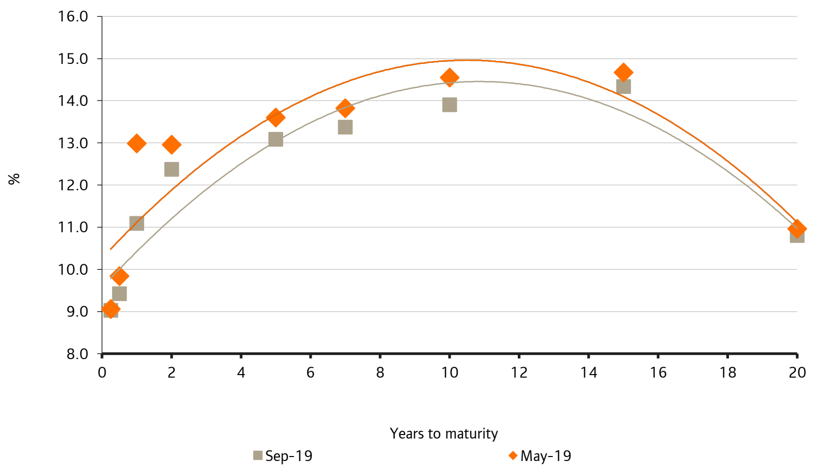
Despite our frustration with fiscal policy management, we have retained our exposure to Zambian duration. Yields are quite elevated, having been in excess of 20% in the primary auction since the end of Dec 18. In fact, BOZ data indicates that the average bond yield rate in the 2-y to Dec 18 was about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

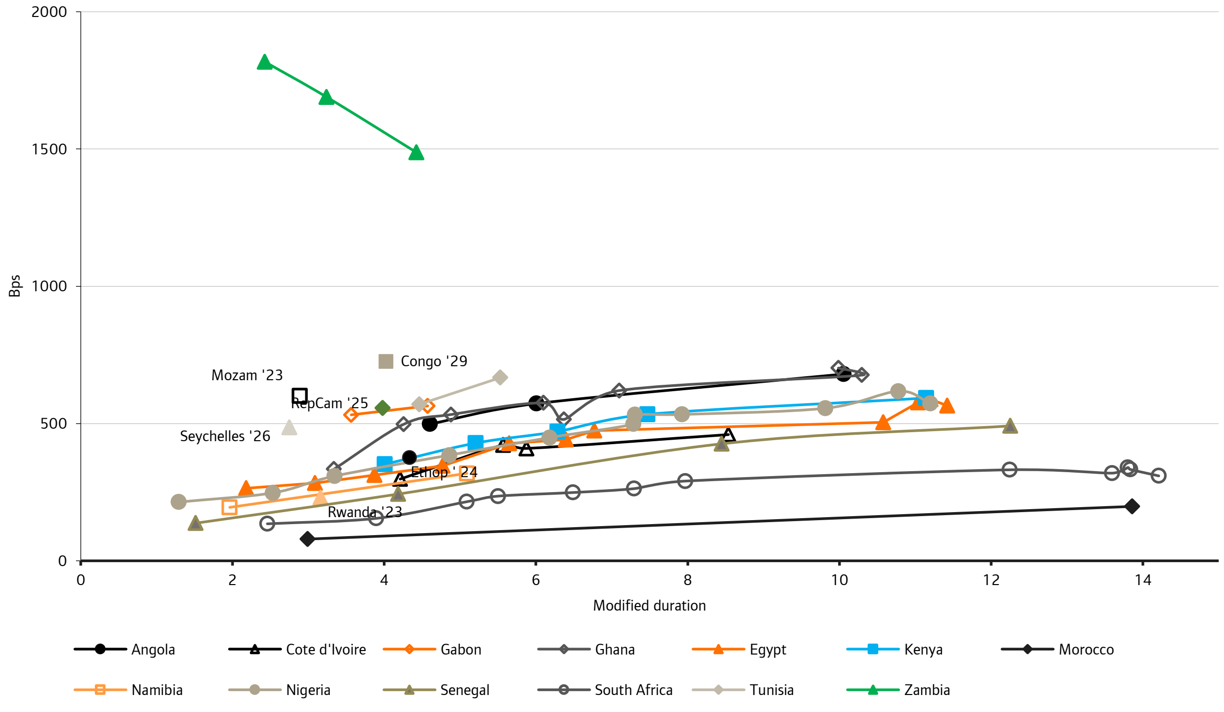
Source: Bloomberg Standard Bank Research

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

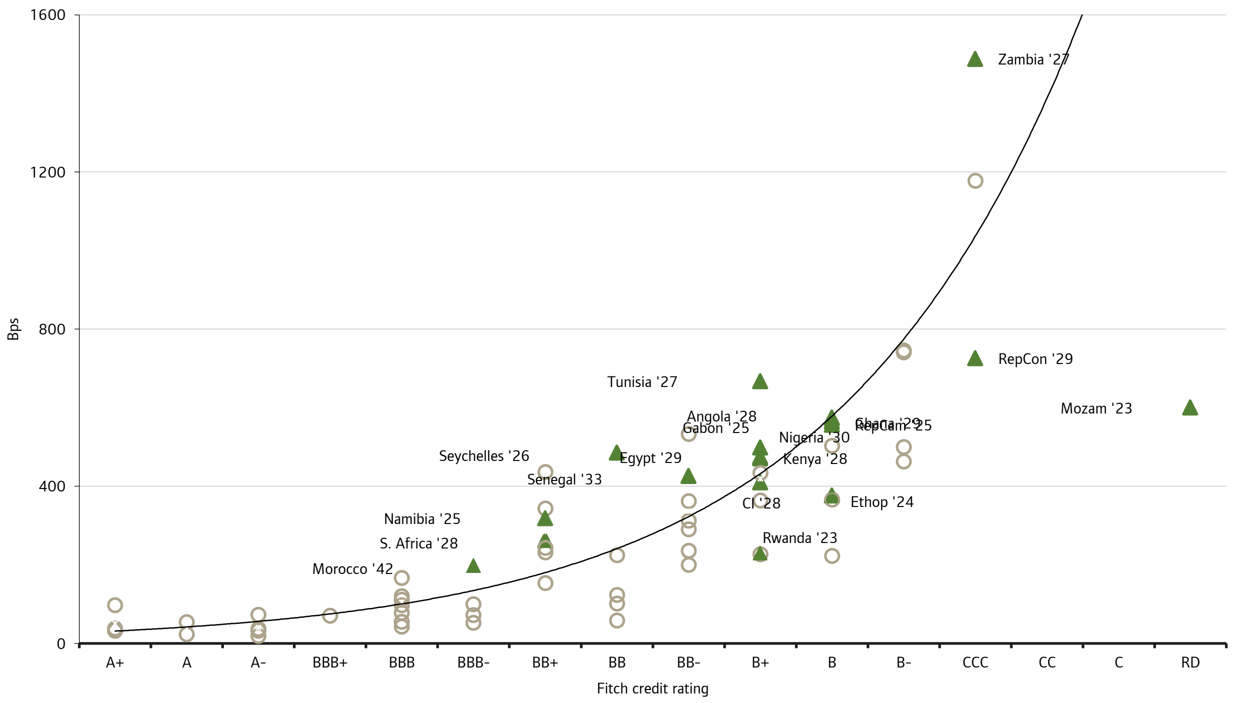
Source: Bloomberg; Standard Bank Research

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



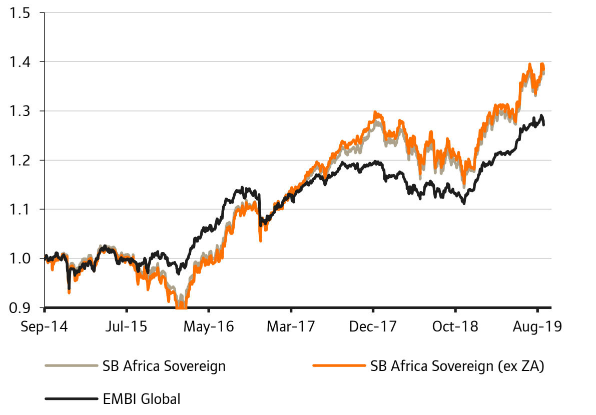
Source: Bloomberg; Standard Bank Research

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



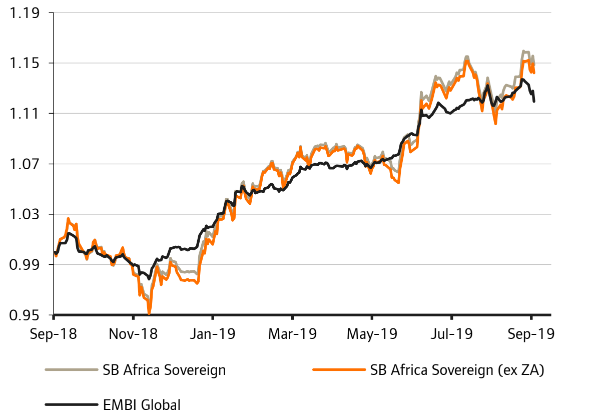
Source: Bloomberg; Standard Bank Research

Figure 12: African Eurobonds (5-y performance)



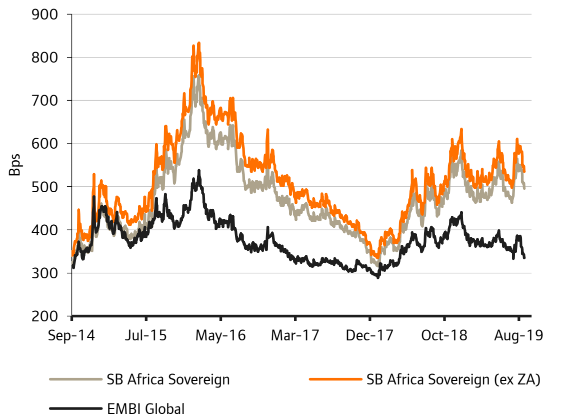
Source: Bloomberg; Standard Bank Research

Figure 13: African Eurobonds (1-y performance)



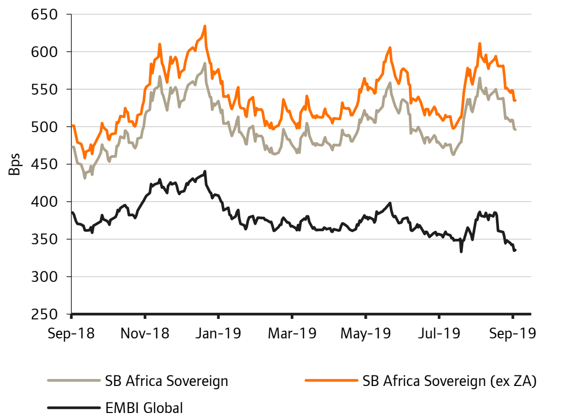
Source: Bloomberg; Standard Bank Research

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



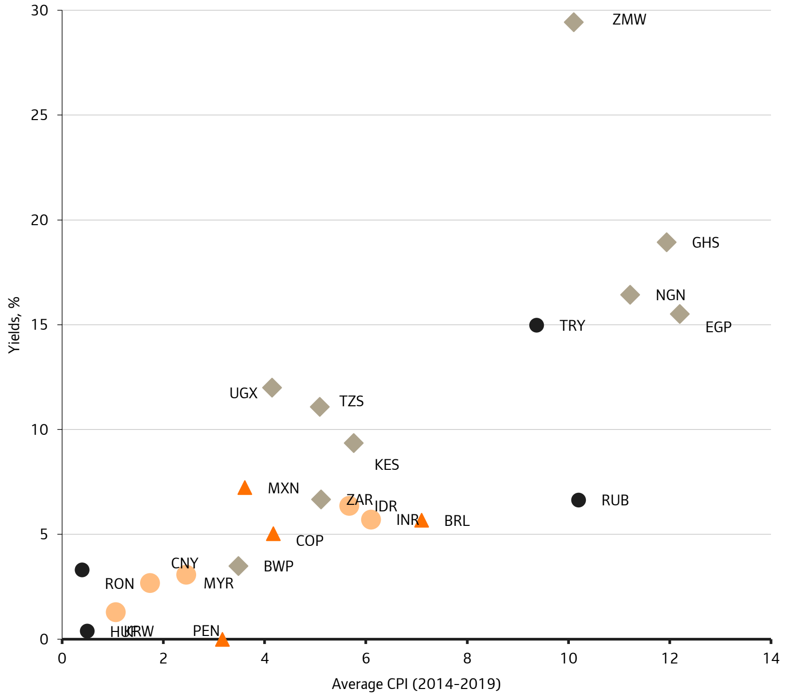
Source: Bloomberg; Standard Bank Research

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



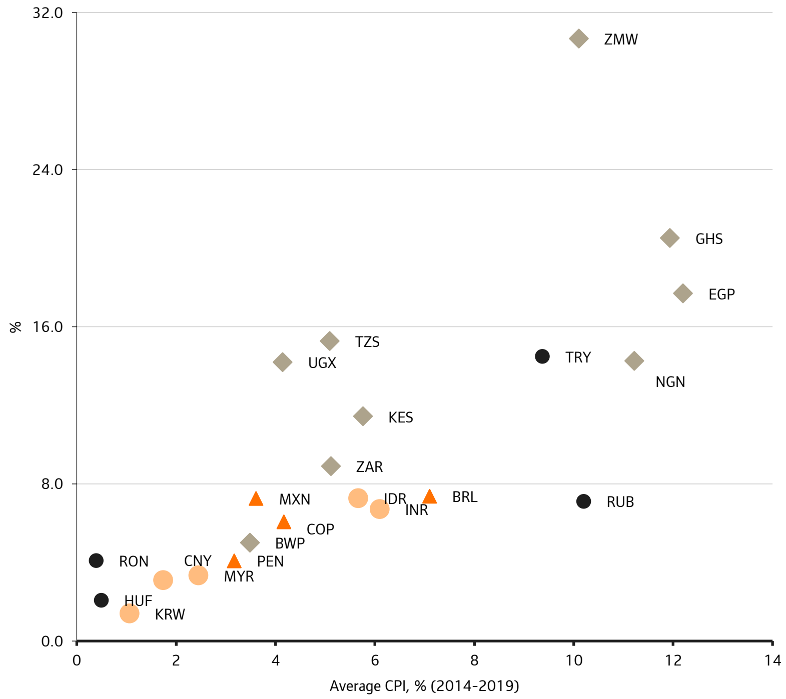
Source: Bloomberg; Standard Bank Research

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



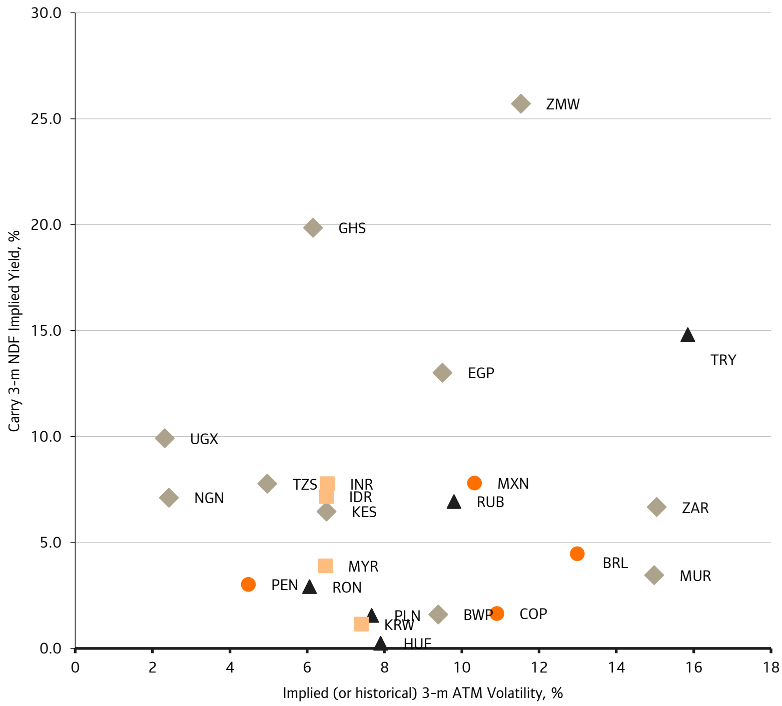
Source: Bloomberg; Standard Bank Research

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, % Current yield	Slide	Forward	SB forecast	Total return, % 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

Uganda: delay in oil investment decision

GDP growth: looking solid despite FID delay

We retain our GDP growth estimate for 2020 at 6.6% y/y. Preliminary data from the Uganda Bureau of Statistics (UBOS) indicates that the economy expanded by 6.1% y/y in FY2018/19, slightly above our 6.0% y/y estimate.

Indeed, much of our optimism for economic growth over the coming year hinges on our assumption that economic activity will be boosted by a further rise in FDI largely associated with the energy sector.

Also, we had initially expected the Final Investment Decision (FID) for commercial oil production to be made towards the end of H2:19. However, we now expect this to be made in H1:20 and probably closer towards the end of that period. Disputes over tax classifications were predominantly holding back the FID, although there were also concerns on local arbitration demands from the Tanzanian government for the crude oil pipeline project.

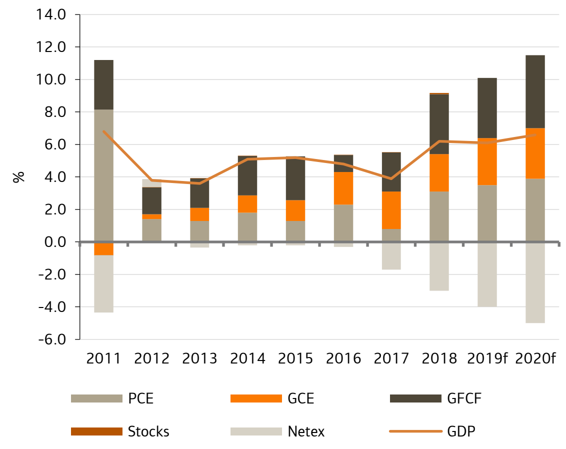
We suspect that the differences between the government and foreign energy companies could be resolved eventually due to the impressive level of recoverable oil reserves that the country holds, a fact that is mutually beneficial for both parties involved.

Nevertheless, economic activity is likely to remain robust even if the FID on oil is say postponed to the end of 2020 or even later. That said, GDP growth will probably not expand by the 6.6% y/y that we currently anticipate in 2020 if this transpired. However, it could remain solid above 6.0% y/y.

Notably, in addition to the rise in public sector investment in infrastructure which has been underpinning economic growth, the private sector has also become an engine of growth over the past few years. More importantly, as the government has consistently been clearing private sector arrears over the past few years, private sector firms cashflow positions have boosted personal consumption expenditure. Furthermore, the private sector is also likely to be supported by a further improvement in access to credit as commercial banks will probably be emboldened to continue extending more credit to the private sector especially as domestic demand remains robust.

Moreover, the ongoing amelioration in economic activity in neighbouring South Sudan in addition to the already positive state of private sector activity domestically, should ensure that the ongoing trade dispute with neighbouring Rwanda doesn't impact on growth substantially over the coming year.

Composition of GDP growth by demand



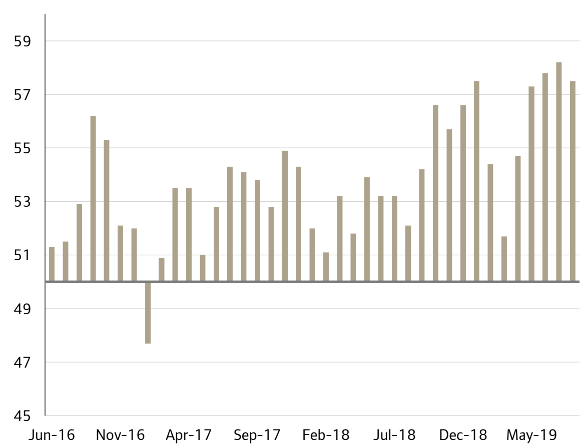
Source: Uganda Bureau of Statistics; Standard Bank Research

GDP by sector (%) contribution

	2008	2010	2014	2016	2018
Agriculture, forestry & fishing	27.1	25.2	22.5	21.1	21.9
Mining & quarrying	1.2	1.2	1.4	1.5	1.6
Manufacturing	8.7	5.6	7.8	7.9	7.6
Construction	5.5	5.6	6.5	6.6	6.6
Trade & repairs	13.3	12.9	11.6	11.0	11.3
Transport & storage	2.6	2.6	2.8	2.8	2.8
Accommodation & food	2.1	2.2	2.4	2.4	3.0
Information & communication	4.2	6.3	8.3	9.2	10.2
Financial & insurance	2.4	2.4	2.8	2.8	2.8
Real estate activities	5.5	5.2	5.3	5.5	5.4
Public administration	2.8	3.1	3	3.3	3.2
Education	5.3	5.0	5.4	5.7	5.9

Source: Uganda Bureau of Statistics

Stanbic Bank Uganda PMI



Source: IHS Markit

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	6.1	5.2	6.8	6.5	5.5	6.0	6.4	6.5	6.6	6.4	6.8	6.7
CPI (% y/y) pe	2.0	2.2	3.7	2.2	2.9	3.4	2.3	4.1	5.0	4.7	5.1	5.6
M3 (% y/y) pe	11.3	12.8	10.8	8.2	6.8	7.1	9.5	10.5	12.7	12.6	13.4	14.9
FX reserves (USD bn) pe	3.6	3.2	3.3	3.4	3.4	3.3	3.4	3.5	3.7	3.6	3.9	4.1
Import cover (months) pe	5.0	4.4	4.5	4.5	4.2	4.1	4.1	4.0	3.9	3.9	4.2	4.3
3-m rate (%) pe	8.7	10.5	9.6	10.4	9.7	9.2	9.0	9.5	9.8	9.9	10.4	11.0
5-y rate (%) pe	12.5	12.7	16.4	16.5	15.5	14.9	14.1	14.8	14.7	15.0	15.3	15.5
USD/UGX pe	3690	3885	3815	3705	3715	3700	3715	3800	3840	3900	3930	3980

Source: Bank of Uganda; Uganda Bureau of Statistics; Standard Bank Research; Ministry of Finance; Bloomberg

Notes: pe – period end; pa – period average; na – not available; nr – not rated

Political risks: focus on Kigali bilateral tensions

Tensions between Uganda and Rwanda remain elevated amidst the recent trade ban at the border. President Kagame of Rwanda had previously accused President Museveni of harbouring opposition rebels and loyalists of them in Uganda. Museveni and Uganda have categorically denied these claims.

At the time of writing, both leaders were expected to engage in conciliatory dialogue at a summit in Luanda at the end of Aug. However, previous attempts by President Kenyatta of Kenya proved to be futile in restoring the previously good relations between these two landlocked neighbours.

While both these economies remain well diversified and thus GDP growth isn't likely to sharply subside owing to the trade tensions between the two, one ought to be concerned if these tensions don't abate soon enough and become entrenched over the medium term.

2020 is a pre-election year and the government will most likely be looking to increase expenditure on infrastructure projects to perhaps appease the electorate. Furthermore, as seen in previous pre-election years in Uganda, there is always a preference by the government to increase spending on security and defence equipment. Next year may be more of the same given that President Museveni's fierce critic, Robert Kyagulanyi better known as Bobi Wine, has officially announced that he will be running for presidency in 2021.

Thus, along with the obvious risk of fiscal slippage prior to an election year, the governments treatment of the main political opposition presidential candidates could also come under close scrutiny from human rights groups as well as multilateral and bilateral donors.

Election results (2016)

Presidential election	Party	% of votes
Yoweri Kaguta Museveni	NRM	39.5 (55.7)
Kizza Besigye	FDC	33.4 (44.3)
Amama Mbabazi	PDP	7.8
Abed Bwanika	CL	5.8

Legislative election	Seats
National Resistance Movement (NRM)	293
Forum for Democratic Change (FDC)	36
Democratic Party (DP)	15
Uganda People's Congress (UPC)	6
Others	76
Total	426

Source: Electoral Commission of Uganda

Balance of payments: FDI to fund wider deficit

We have revised upwards our C/A deficit projections for both 2019 and 2020 to 11.9% and 12.2% of GDP respectively.

As at Jun 19, the C/A deficit had already widened to 11.4% of GDP, breaching our previous estimate of 9.0% for 2019. This has largely been on the back of a quicker rise in the pace of imports, considering that exports of goods have also increased.

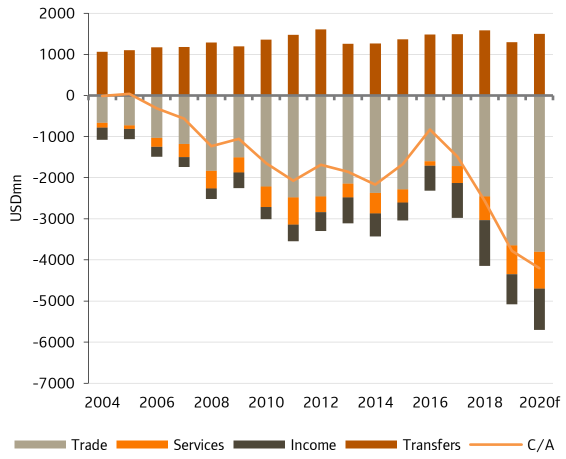
Total imports of goods rose to USD3,584.5m in H1:19 from USD3,199.7m in H2:18. This trend will probably continue over the coming year primarily due to large infrastructure projects that the government will be looking to complete that will be quite import-intensive.

However, given that domestic demand is already robust, private sector imports are also likely to continue contributing to a wider trade balance over the next few years. In fact, in the 6-m to Jun 19, imports from the private sector rose to USD3,177.2m from USD2,880.2m in the prior 6-m.

Coffee export earnings reduced to USD201.3m in H1:19 from USD214.9m in H2:18 mainly due to the delayed long rains season. Although non-coffee exports rose by 28.3% during this same period review underpinned by an increase in demand for Ugandan goods from neighbouring markets such as South Sudan. The political stability and increase in oil production in neighbouring South Sudan should continue to bode well for non-coffee exports over the medium term.

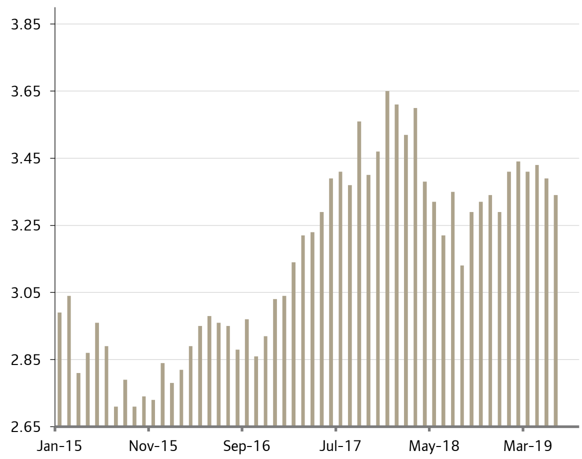
Even as the trade balance is likely to widen further owing to solid economic activity driven by both higher private sector activity and public sector infrastructure investment, we still believe this wider deficit will be adequately funded from the capital and financial account especially once the FID on oil has been made.

Current account developments



Source: Bank of Uganda; Standard Bank Research

FX reserves (USD bn)



Source: Bank of Uganda

FX outlook: moderate UGX weakness ahead

We now expect USD/UGX to rise to 3750-3800 levels by the end of 2019, from our previous forecast of 3900. Clearly, the UGX has been more stable for the better part of 2019 than we had initially expected. Of course, while the C/A deficit widened even faster than our expectation, the UGX remained steady. This has been courtesy of the sufficient funding available from both direct and portfolio investment. Once the government lowered withholding tax on bonds with a maturity of 10-y or more at the beginning of FY2019/20, foreign portfolio investors have been actively involved at the longer end of the yield curve. However, the BOU has been buying USD at the 3680-3700 levels from the market, thus, creating a floor for the pair. However, despite the likelihood that FDI will increase further especially post-FID, prior to that there is likely to be a rise in imports of goods as the government prepares the required infrastructure for commercial oil production, hence creating a weaker UGX bias.

USD/UGX: forwards versus forecasts

Source: Bloomberg; Standard Bank Research

Monetary policy: hawkish bias from H1:20

We now expect the MPC to hike its policy rate from H1:20, rather than Q4:19 which was our previous expectation.

The unexpected stability in USD/UGX for the better part of 2019 will probably provide comfort to the MPC that core inflation will rise more moderately than they previously expected.

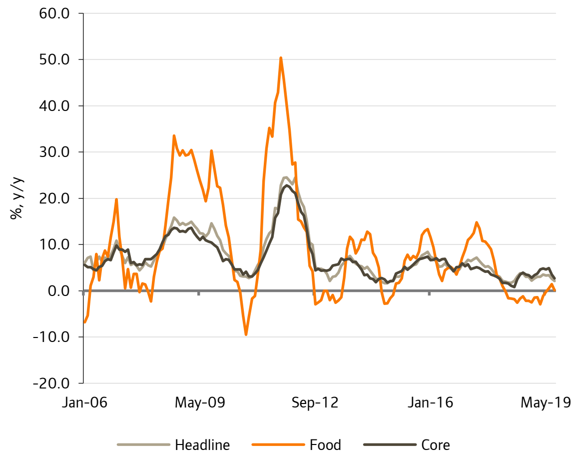
Of course, in re-evaluating this view we still acknowledge that the Bank of Uganda's MPC has always been very pre-emptive and in the past have not been afraid to raise their policy rate well before headline and core inflation begins to increase.

We see headline inflation rising to 4.1% y/y in Dec 19 and thereafter to 5.0% y/y in Mar 20 and 5.2% y/y in Jul 20. By Dec 20 headline inflation will probably be at around 5.6% y/y. However, our forward-looking inflation outlook largely depends on our current pre-conditional assumption that USD/UGX will only gradually drift higher in Q4:19. But with that said, considering that 2020 is a pre-election year and risks of fiscal slippage are higher, the UGX could possibly weaken more swiftly than we currently expect.

Perhaps this is also something that prompts the MPC to remain cautious with their own forward-looking inflation estimates where they see core inflation peaking at 6.4% y/y in Q4:20.

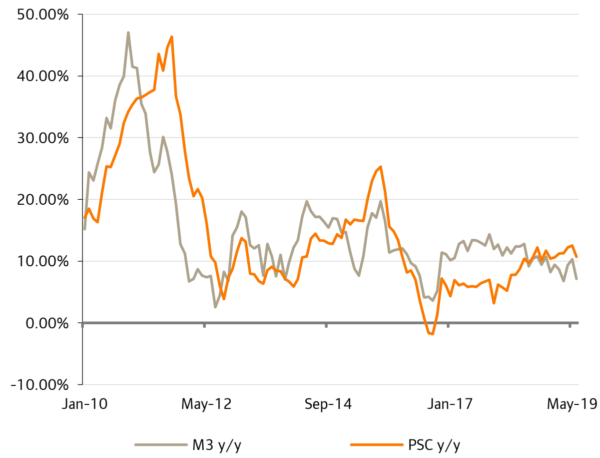
Total Private Sector Credit (PSC) grew by 10.7% y/y in Jun 19 slightly lower than the 11.1% y/y average recorded in Q1:19 but higher than the 9.2% y/y average of 2018. In any case, as total banking sector NPLs have reduced to 3.8% as at Jun 19 from 5.3% in Q1:18, PSC growth will probably improve further over the coming year, specifically as domestic demand continues to look solid. However, we wouldn't be too concerned that the economy is exhibiting warnings signs of an overheating at this stage or even in the next year or so.

Inflation



Source: Uganda Bureau of Statistics

Monetary aggregates

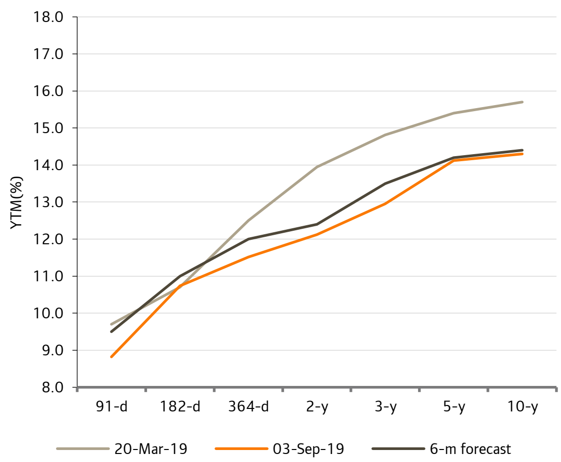


Source: Bank of Uganda

Yield curve outlook: bear-flattening, gradually

We expect the yield curve to bear-flatten over the next 6-m or so. Government bond yields fell sharply after withholding tax on tenors above 10-y maturity was reduced to 10.0% from 20.0% previously. This increased foreign portfolio inflows more notably from the beginning of FY2019/20. Moreover, the domestic market remains relatively liquid. At the time of writing, there were approximately UGX1.2trn in outstanding maturities of repos and auction deposits. However, the local borrowing target for FY2019/20 had been increased by UGX1.0trn. Interestingly, auction sizes have already been increased since Jul 19 to reflect this which is why we still expect T-bill yields to begin edging higher from H2:19. Nevertheless, owing to the amount excess liquidity in the system, the bear-flattening of the yield curve is likely to be gradual. All the same, elevated expenditure requirements in the 2020 pre-election year could also continue to force the government to borrow more from the local market.

Changes in the yield curve



Source: Bank of Uganda; Standard Bank Research

Fiscal policy: higher expenditure for oil infrastructure

The FY2019/20 budget was always going to be expansionary given that 2020 is a pre-election year, but also since the government will have to ramp up expenditure on large infrastructure projects ahead of the FID and more importantly commercial oil production.

In FY2019/20 the planned budget deficit inclusive of grants is seen rising to 8.7% of GDP, from a projected outturn of 5.8% in the previous fiscal year. To recall, the governments initial target was a 6.6% of GDP fiscal deficit for FY2018/19. However, under absorption mainly for the development budget resulted in lower expenditure than originally planned.

Furthermore, the lower fiscal deficit for FY2018/19 was also on the back of improving revenue collections. We see tax collections continuing to outperform in FY2019/20 primarily due to the impressive rebound in economic activity that's only likely to accelerate over the next few years.

More importantly, in the event our core view that the FID will be made in H1:20 is wrong, then the fiscal deficit will probably be much lower in FY2019/20 than the government expects. However, contingent on external funding coming through, the government will probably still look to increase development spending even if the FID were to be delayed towards the latter part of 2020.

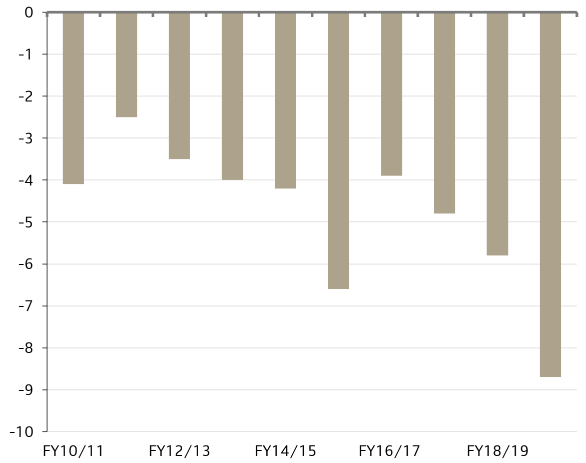
The government will be looking to source UGX9,433.6bn in FY2019/20, up from UGX3,569.8bn last year, in external project support. External General Budget Support (GBS) will rise to UGX675.2bn from UGX147.0bn. This sharp rise in external project support over external GBS probably suggests that the government will look to keep its external funding strategy intact, where their preference remains on the concessional side rather than borrowing through non-concessional and more commercial sources.

Central government budget

% of GDP	FY2018/19	FY2019/20
Total revenue (- grants)	14.6	15.3
Total expenditure	21.9	25.4
Wages	3.8	3.9
Interest	2.3	2.5
Development expenditure	10.7	12.2
Overall balance (- grants)	-7.3	-10.1
Overall balance (+ grants)	-5.8	-8.7
Net domestic borrowing	2.4	3.5
Net external borrowing	4.9	6.6
Donor support (grants)	1.5	1.4

Source: Ministry of Finance

Fiscal deficit incl. grants (%) of GDP



Source: Ministry of Finance

Equity market outlook: neutral

Foreign telecommunication firms may be forced to list on the Uganda Securities Exchange (USE). No timelines have been provided by the government yet, but it's a law that they may look to implement over the next few years. Of course, concerns on how this will be implemented will arise especially given the recent case study in neighbouring Tanzania. Uganda however is a fairly liberal economy, and we would be surprised if restrictions were placed for foreigners to invest in new offerings.

In fact, while we are not proponents of force listings, one may mildly celebrate some 'action' on a rather quiet USE. Over the years, trading activity has remained limited to only two stocks despite the cross-listings. Indeed, the All Share Index (ASI) has also been static for the most part of 2019.

Uganda Securities Exchange

Source: Bloomberg

Annual indicators

	2014	2015	2016	2017	2018	2019f	2020f
Output							
Population (million)	34.47	35.49	36.56	37.67	38.82	40	41.22
Nominal GDP (UGXbn)	72 351	81 333	86 951	97 919	110 649	118 980	134 550
Nominal GDP (USDbn)	27.6	24.4	25.3	27.1	29.3	31.9	34.4
GDP / capita (USD)	801	687	693	719	755	797	834
Real GDP growth (%)	5.1	5.2	4.8	3.9	6.2	6.1	6.6
Coffee production ('000 Tonnes)	216.5	221.8	226.5	229.7	225.5	222.4	230.5
Tea production ('000 Tonnes)	60.5	50.7	56.6	75.6	73.8	65.5	70.2
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5	-5.4	-8	-4.6	-5.9	-7.3	-10.1
Budget balance (incl. Grants) / GDP (%)	-4	-4.2	-6.6	-3.5	-4.8	-5.8	-8.7
Domestic debt / GDP (%)	13	13.1	13	13.5	13.9	14.1	14.5
External debt / GDP (%)	18.8	21.4	19.2	19.7	23.5	25	25.8
Balance of Payments							
Exports of goods and services (USDbn)	4.91	4.73	4.79	5	5.6	5.9	6.1
Imports of goods and services (USDbn)	7.77	7.33	6.4	7.2	8.63	9.55	9.9
Trade balance (USDbn)	-2.86	-2.6	-1.61	-2.2	-3.03	-3.65	-3.8
Current account (USDbn)	-2.18	-1.68	-0.7	-1.27	-2.56	-3.8	-4.2
- % of GDP	-7.9	-6.9	-2.8	-4.7	-8.7	-11.9	-12.2
Financial account (USDbn)	1.82	0.88	0.99	1.29	1.14	1.29	1.35
- FDI (USDbn)	1.03	0.74	0.63	0.7	1.15	1.4	1.8
Basic balance / GDP (%)	-4.2	-3.9	-0.3	-2.1	-4.8	-7.5	-7
FX reserves (USDbn) pe	3.2	2.8	3	3.7	3.4	3.5	4.1
- Import cover (months) pe	5.5	5.5	5.2	5.1	4.5	4	4.3
Sovereign Credit Rating							
S&P	B	B	B	B	B	B	B
Moody's	B1	B2	B2	B2	B2	B2	B2
Fitch	B	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	4.3	5.8	5.5	5.4	2.5	3.2	5.1
Consumer inflation (%) pe	1.8	8.7	5.7	3.3	2.2	4.1	5.6
M3 money supply (% y/y) pa	16.9	13.9	8.2	12.9	10.8	10.5	13.4
M3 money supply (% y/y) pe	17.1	11.7	11.1	12.8	8.2	8.5	14.9
BOU policy rate (%) pa	11.2	14	14.9	10.5	9.2	10	10.9
BOU policy rate (%) pe	11	17	12	9.5	10	10	11
3-m rate (%) pe	11.82	19.5	14	8.4	10.4	9.5	11
1-y rate (%) pe	13.92	22.3	15.9	9	13.2	12.5	13.4
2-y rate (%) pe	14.32	20.1	16.7	11.2	14.9	12.5	13.7
5-y rate (%) pe	14.39	22.3	16.9	12.7	16.5	14.8	15.5
USD/UGX pa	2 636	3 334	3433	3615	3773	3733	3913
USD/UGX pe	2 766	3 381	3596	3643	3705	3800	3980

Source: Bank of Uganda; Uganda Bureau of Statistics; Standard Bank Research; Ministry of Finance; Bloomberg

Notes: pe — period end; pa — 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

Protection of Personal Information Consent

Standard Bank Group, its subsidiaries and associate business units (including Standard Bank Research) have committed to treat the personal information that it collects as private and confidential and has published a comprehensive privacy statement accessible on this link. Should you wish to withdraw your consent to the processing of your personal information kindly email ResearchCompliance@standardbank.co.za

Client:	means, for the purpose of this section, any natural or juristic person acting through their duly authorise representative(s), who has subscribed to or consented to being subscribed to receiving research Services
Personal Information:	means information relating to an identifiable, natural or juristic person, including information relating to race, gender, sex, marital status, nationality, ethnic or social origin, colour, sexual orientation, age, physical or mental health, religion, belief, disability, language, birth, education, identity number, telephone number, email, postal or street address, biometric information and financial, criminal or employment history as well as correspondence sent by the person that is implicitly or explicitly of a private or confidential nature or further correspondence that would reveal the contents of the original correspondence.
Process:	means any operation or activity, whether automated or not, concerning Personal Information, including collection, receipt, recording, organisation, collation, storage, updating, modification, retrieval, alteration, consultation, use, dissemination (whether by means of transmission, distribution or making available in any form), merging, linking, blocking, degradation, erasure or destruction
Research Reports:	means investment research reports, in relation to the Services, prepared by an independent research analyst, non-independent research analyst or strategist who is part of an investment research team in a stock brokerage, global markets desk or corporate and investment bank environment.
Services:	means, *inter alia*, the provision of the Research Reports and other communications and events with respect to equities, market strategy, companies, industries, commodities and countries and associated sales and trading commentary by Standard Bank Research ("SBR")

CONSENT FOR PROCESSING PERSONAL INFORMATION

1.1 The Client acknowledges that:

1.1.1 Applicable laws may at times require SBR to collect the Client's Personal Information;

1.1.2 Personal Information may be collected from public sources;

1.1.3 SBR may be unable to fulfil its regulatory obligations and provide Services to the Client without Processing the Client's Personal Information;

1.1.4 All Personal Information which the Client provides to SBR is voluntarily provided;

1.1.5 SBR shall determine the Services and means of Processing any Personal Information that is provided by the Client;

1.1.6 Personal Information may be processed by SBR and/ or, The Standard Bank of South Africa Limited and/or its associated entities or duly authorised third party service providers.

1.1.7 The Client consents to SBR processing its Personal Information in order to:

1.1.7.1 create and administer the Client's profile as contemplated by regulation;

1.1.7.2 carry out statistical and other analysis to identify potential markets and trends;

1.1.7.3 develop new products and services; and/or

1.1.7.4 any other purpose SBR reasonably believe is required to fulfil its obligations in accordance with regulation or this agreement.

1.1.8 The Client has consented to the Processing of its Personal Information for the purpose of clause 1. 7 above.

1.1.9 The Client hereby expressly consents that SBR may disclose to or share its Personal Information with duly authorised third parties, which may be located in the Republic of South Africa or other jurisdictions, where it is necessary in order for SBR to fulfil its obligations in accordance with the regulation and/or this agreement.

1.1.10 SBR will require any third-party service providers to whom the Client's Personal Information is provided to agree to SBR' data privacy principles policy and practices in accordance with the prevailing regulations including data privacy laws.

Disclaimer

This material is non-independent research. Non-independent research is a "marketing communication"

This material is "non-independent research". Non-independent research is a "marketing communication" as defined in the UK FCA Handbook. It has not been prepared in accordance with the full legal requirements designed to promote independence of research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Additional information with respect to any security referred to herein may be made available on request. This material is for the general information of institutional and market professionals' clients of Standard Bank Group (SBG) only. Recipients who are not market professionals or institutional investor customers of SBG should seek advice of their independent financial advisor prior to taking any investment decision based on this communication or for any necessary explanation of its content. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendations in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The information, tools and material presented in this marketing communication are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This material is based on information that we consider reliable, but SBG does not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. The information and opinions contained in this document were produced by SBG as per the date stated and may be subject to change without prior notification Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update the material in this report on a timely basis, but regulatory compliance or other reasons may prevent us from doing so.

SBG or its employees may from time to time have long or short positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. Where SBG designates NON- INDEPENDENT Research to be a "marketing communication", that term is used in SBG's Research Policy. This policy is available from the Research Compliance Office at SBG. SBG does and seeks to do business with companies covered in its non-independent research reports including Marketing Communications. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

SBG has published a Conflicts of Interest Policy that is available upon request which describes the organisational and administrative arrangements for the prevention and avoidance of conflicts of interest. Further disclosures required under the FCA Conduct of Business Sourcebook and other regulatory bodies are available on request from the Research Compliance Department and or Global Conflicts Control Room, unless otherwise stated, share prices provided within this material are as at the close of business on the day prior to the date of the material. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of SBG. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of SBG or its affiliates.

SBG believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of this communication were obtained or derived from sources SBG believes are reliable, but SBG makes no representations as to their accuracy or completeness. Additional information is available upon request. SBG accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to SBG.

The services, securities and investments discussed in this material may not be available to nor suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss. Past performance is no guide to future performance. In relation to securities denominated in foreign currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Some investments discussed in this marketing communication have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make them investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report is issued and distributed in Europe by Standard Advisory London Limited 20 Gresham Street, London EC2V 7JE which is authorised by the Financial Conduct Authority ("FCA"). This report is being distributed in Kenya by Stanbic Bank Kenya ; in Nigeria by Stanbic IBTC; in Angola by Standard Bank de Angola S.A.; into the People's Republic of China from overseas by the Standard Bank Limited; in Botswana by Stanbic Bank Botswana Limited; in Democratic Republic of Congo by Stanbic Bank Congo s.a.r.l.; in Ghana by Stanbic Bank Ghana Limited; in Hong Kong by Standard Advisory Asia Limited; in Isle of Man by Standard Bank Isle of Man Limited; in Jersey by Standard Bank Jersey Limited; in Madagascar by Union Commercial Bank S.A.; in Mozambique by Standard Bank s.a.r.l.; in Malawi by Standard Bank Limited; in Namibia by Standard Bank Namibia Limited; in Mauritius by Standard Bank (Mauritius) Limited; in Tanzania by Stanbic Bank Tanzania Limited; in Swaziland by Standard Bank Swaziland Limited; in Zambia by Stanbic Bank Zambia Limited; in Zimbabwe by Stanbic Bank Zimbabwe Limited; in UAE by The Standard Bank of South Africa Limited (DIFC Branch).

Distribution in the United States: This publication is intended for distribution in the US solely to US institutional investors that qualify as "major institutional investors" as defined in Rule 15a-6 under the U.S. Exchange Act of 1934 as amended, and may not be furnished to any other person in the United States. Each U.S. major institutional investor that receives these materials by its acceptance hereof represents and agrees that it shall not distribute or provide these materials to any other person. Any U.S. recipient of these materials that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this document, must contact and deal directly through a US registered representative affiliated with a broker-dealer registered with the U.S. Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA). In the US, Standard Bank Group [SBG} has an affiliate, ICBC Standard Securities Inc. located at 520 Madison Avenue, 28th Floor, USA. Telephone +1 (212) 407-5000 which is registered with the SEC and is a member of FINRA and SIPC.

Recipients who no longer wish to receive such research reports should call +27 (11) 415 4272 or email SBRSupport@standardbank.co.za.

In jurisdictions where Standard Bank Group is not already registered or licensed to trade in securities, transactions will only be effected in accordance with the applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Standard Bank Group Ltd Reg.No.1969/017128/06) is listed on the JSE Limited. SBSA is an Authorised Financial Services Provider and it also regulated by the South African Reserve Bank.

Ferishka Bharuth
+27-11-415-4553
Ferishka.Bharuth@standardbank.co.za

Mulalo Madula
+27-11-415-4552
Mulalo.Madula@standardbank.co.za

Phumelele Mbiyo
+27-11-415-4486
Phumelele.Mbiyo@standardbank.co.za

Fausio Mussa
+258-215-01012
Fausio.Mussa@standardbank.co.mz

Jibran Qureishi
+254-203-638138
Jibran.Qureishi@stanbic.com

Dmitry Shishkin
+44-203-145-6963
Dmitry.Shishkin@standardbank.com

Gbolahan Taiwo
+234 1 422 8290
Gbolahan.Taiwo@stanbicibtc.co.za