

24 June 2013

### Analysts

Celeste Fauconnier

Africa Analyst

Celeste.fauconnier@rmb.co.za  
+27 11 282-1923



Nema Ramkhelawan-Bhana

Africa Analyst

Nema.ramkhelawan@rmb.co.za  
+27 11 282-8519



### The week in focus

#### Botswana

- The central bank cut its key lending rate by 50bp to 8.5%
- BWP: Pula weakens in line with other emerging market currencies

#### CMA

- Namibia: The central bank kept its key lending rate unchanged at 5.5%
- ZAR: Rand resilient post fed but risk of a run weaker remains

#### Ghana

- Inflation rose to a three-year high of 10.9% y/y in May
- GHS: Despite being maintained a breach is looming

#### Kenya

- Kenya budget outline
- KES: Holding its ground at USD/KES86.00

#### Mozambique

- The central bank cuts its benchmark lending rate to 9%
- MZN: Maintaining an appreciatory trend

#### Nigeria

- Government spends NGN192.5bn (US\$1.2bn) on fuel subsidy this year
- NGN: CBN steps in to quell demand

#### Tanzania

- Tanzania budget outline
- TZS: Bucking trend, expecting strength relative to peers

#### Zambia

- The government plans to double electricity generation in 5 – 6 years
- ZMW: Risky assets suffer at the hands of global investors

### Contents

- 2 Botswana and CMA
- 3 Ghana and Kenya
- 4 Mozambique and Nigeria
- 5 Tanzania and Zambia
- 6 Spot and forward exchange rates
- 7 General information
- 8 Contact pages
- 9 Disclaimer



## Botswana

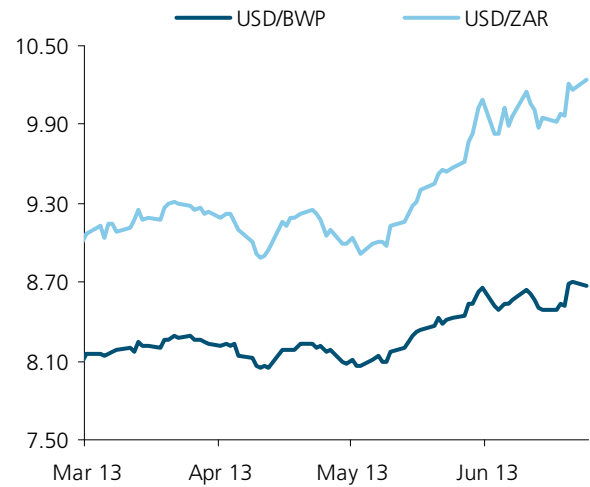
### News flash

- The central bank cut its key lending rate by 50bp to 8.5% to help spur growth which is currently below potential. The fast pace of falling inflation also gave the central bank the opportunity to be more accommodative — inflation slowed to 6.1% y/y in May from 7.2% in April. We continue to look for a trend decline in inflation in the coming months because of the change in the pula currency regime i.e. the lower crawl depreciation rate. Therefore we believe a third cut could be possible this year.

### Pula (BWP) in brief

- The pula came under pressure against the greenback last week in line with other emerging market currencies. The dollar was strong across the board on the back of expectations of an eventual end to super-easy US monetary policy. The pula closed at 0.1152/57. Against the rand, however, the pula was strong. It managed to break above the 1.1800 level last Friday before closing at 1.1646/1.1813.

Figure 1: Pula weakens in line with other Emerging market currencies



Source: Bloomberg  
Data as at June 2013

## CMA

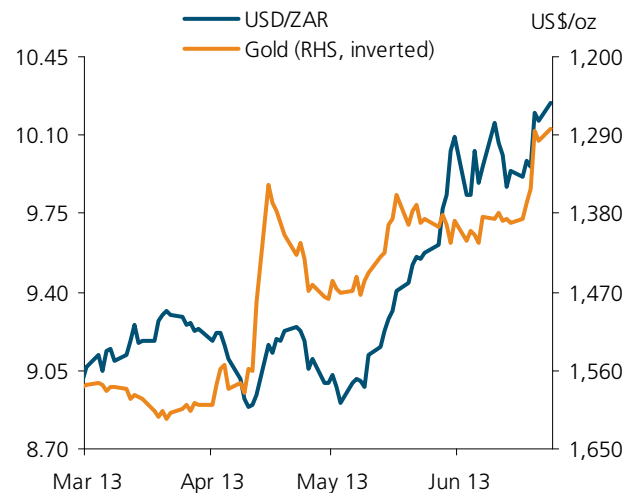
### News flash

- The central bank kept (BoN) its key lending rate unchanged at 5.5% in June to help support economic growth. The BoN believes that inflation is currently at tolerable levels and that monetary policy should continue to prop up growth. We interpret that the current policy of low interest rates will prevail for the rest of 2013.

### Rand (ZAR) in brief

- The rand has remained remarkably resilient post-Fed but with global markets continuing to sell-off, the risk of a run weaker remains. USD/ZAR opens at 10.23, weaker than Friday's close but in the middle of the 10.15 – 10.32 range post-Fed. Despite the global weakness the rand remains surprisingly stable, with no panic evident and trade caught in pretty tight ranges. This stability and relative outperformance is not easily explicable, particularly when you consider that foreigners have continued dumping local bonds, selling around R2bn+ per day since the middle of last week. You could easily argue that the rand is due for some catch-up but price action suggests nothing of the sort and we suspect that stability can continue unless the mild global response to the Treasury sell-off changes into a rout.

Figure 2: Rand resilient post-Fed but global markets continuing to sell-off



Source: Bloomberg  
Data as at June 2013



## Ghana

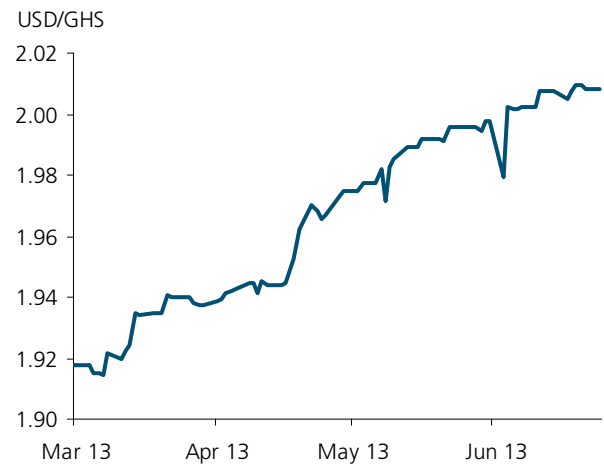
### News flash

- Headline inflation rose to a three-year high of 10.9% y/y in May from 10.6% in April, mainly due to seasonal rises in the cost of education and clothes and a shortage of major staples ahead of the next harvest. We expect inflation to continue its upward trend in 2H13 mainly due to continued cedi weakness and fiscal consolidation: the increase in fuel prices in May is still filtering into the numbers, while cost recovery in the energy sector will add to the pressure.
- The government is also set to renegotiate cocoa-, gold- and oil-exporting contracts to optimise tax revenues and help improve its current fiscal position. Although expenditure has remained within target in 1Q13, there has been a significant shortfall in revenues.

### Cedi (GHS) in brief

- The cedi is being maintained at a consistent level as authorities attempt to rein in losses by introducing more stringent regulations. Ghana's dual deficits pose upside risk to the currency. Subsiding import pressures and the reappearance of portfolio inflows are required to prop up the local unit.

Figure 3: Cedi being maintained at a consistent level



Source: Bloomberg  
Data as at June 2013

## Kenya

### News flash

- The government estimates a budget shortfall at 7.9% of GDP for FY2013/2014. Worryingly, this value excludes domestic debt rollovers. Despite an anticipated increase in both recurrent and development expenditure, the government appears confident that the amount will be fully funded through a combination of foreign financing and domestic borrowing. Local and offshore borrowing are likely to aggravate the government's debt burden, requiring medium-term fiscal consolidation to ensure that public debt does not exceed 50%.

### Shilling (KES) in brief

- Appetite toward the shilling was dampened by local and offshore events last week. A broad sell-off in risky assets, following the US Federal Reserve's meeting, was exacerbated by news of a possible revision of Kenya's capital gains tax, forcing investors to head for the hills. The central bank could offer some respite to the local unit should it elect to cap further losses by intervening directly in the foreign exchange market.

Figure 4: Shilling suffering at the hands of local and global events



Source: Bloomberg  
Data as at June 2013



## Mozambique

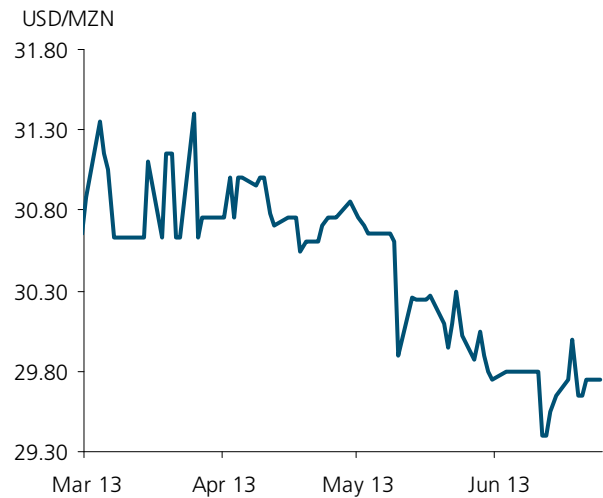
### News flash

- The central bank (BDM) has cut its benchmark lending rate by 50bp to 9% yesterday. In previous MPC statements, the BDM was satisfied with the balance between its concerns over global growth and low base effects in headline CPI. The latest statement shows this balance has now tipped to global growth concerns, especially as the BDM pointed to the OECD's recent downward revision of world economic growth by 30bp to 3.1% for 2013, while inflation remains well below the government's target.

### Metical (MZN) in brief

- The metical has maintained an appreciatory trend with short-term momentum indicators suggesting further currency strength. We expect the unit to end 2Q13 slightly lower than anticipated owing to an improvement in domestic liquidity conditions.

Figure 5: Metical maintains an appreciatory trend



Source: Bloomberg  
Data as at June 2013

## Nigeria

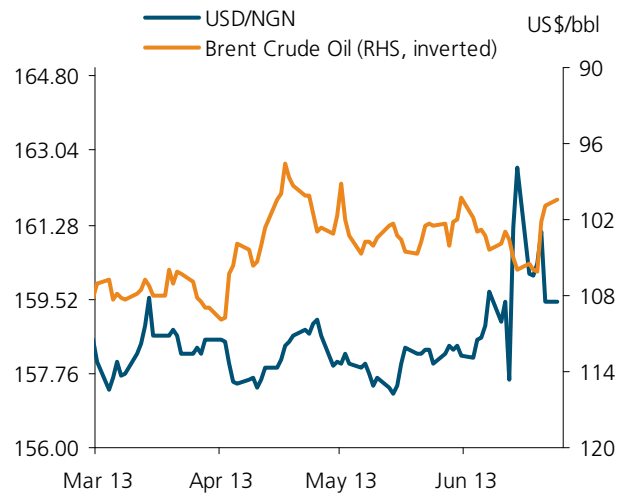
### News flash

- A total of NGN192.5bn (US\$1.2bn) has been paid to fuel importers over the last six months. More than two thirds of the value relates to arrears while the remaining amount is for claims incurred in 2013 — substantially less than the NGN1 trillion (roughly US\$6.25bn) paid over last year.
- Government revenues fell by 5% m/m in May on account of lower oil earnings. Domestic production has been crippled by facility shutdowns stemming from persistent oil theft and vandalism.

### Naira (NGN) in brief

- The naira received much-needed support from the central bank last week as the CBN sold foreign exchange outside of its bi-weekly auctions to help quell rampant US dollar demand. A deterioration in global risk sentiment coupled with thin offerings by IOCs have resulted in a liquidity imbalance, resulting in sustained naira losses. While the local unit is teetering at 160.00, it has the potential to break higher should seasonal month-end sales by oil firms fail to augment US dollar supply.

Figure 6: CBN provides support to the naira



Source: Bloomberg  
Data as at June 2013



## Tanzania

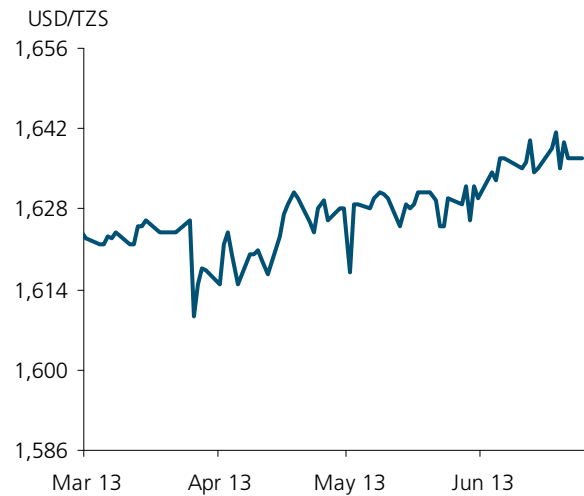
### News flash

- The government outlined the following objectives and targets for FY2013/2014:
  - Real GDP growth of 7.0% in 2013 and 7.2% in 2014, slightly below our expectations of 7.3% and 7.5% respectively
  - Single digit annual inflation with the view to reducing the change in headline CPI to 6% by June 2014
  - Domestic revenue growth of 20.2% of GDP compared to the likely outturn of 17.7% in the prior fiscal period
  - The maintenance of a budget deficit after grants at or below 5.0% of GDP

### Shilling (TZS) in brief

- The shilling is relatively uncorrelated to global events. Reflecting this, the unit appreciated by 0.4% last week while its East African counterparts continued to lose ground against the US dollar. We anticipate moderate gains over the course of the week as the demand for shilling funding, ahead of quarter end, provides support to the local unit.

Figure 7: Shilling likely to record moderate gains over the course of the week



Source: Bloomberg  
Data as at June 2013

## Zambia

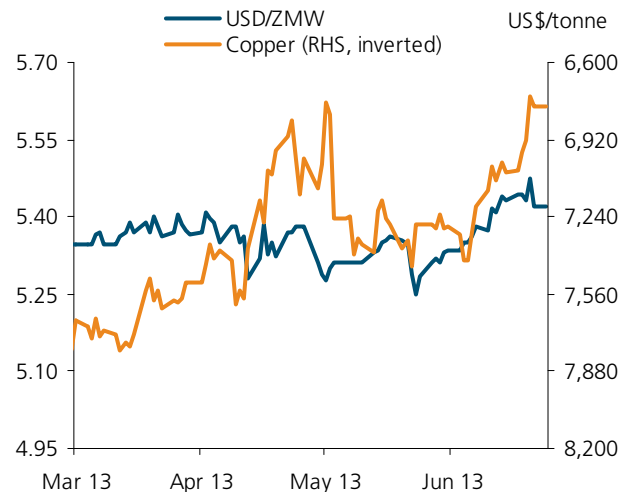
### News flash

- The government plans to double electricity generation in the next 5 – 6 years to 2,800MW to meet the rising demand for power from the mining sector. Zesco plans to invest US\$5.3bn in generation and transmission projects.

### Kwacha (ZMW) in brief

- Uncertainty over the extent of tapering in the US generated extreme currency volatility last week. Riskier assets suffered adversely as investors adopted a wait and see approach to the Federal Reserve meeting on Wednesday. While the kwacha has tended to turn a blind-eye to happenings further afield of late, it could not escape the sell-off which incurred after the Fed indicated that it would begin to withdraw stimulus towards the end of the year, depending on the performance of the US economy. USD/ZMW is at risk of pushing higher this week as fundamental support from commodities and Asian shares wane. Resistance is evident at 5.50 but we suspect that the central bank is waiting in the wings and will provide support where it deems necessary.

Figure 8: Kwacha resistance evident at USD/ZMW5.50



Source: Bloomberg  
Data as at June 2013



## Spot and implied forward exchange rates

	Currency rates				Outright forwards			
	Last	% change			Maturity			
		1-day	1-week	1-month	1-m	3-m	6-m	12-m
<b>Botswana</b>								
USD/BWP	8.69	1.96	2.09	3.78	8.76	8.85	8.97	9.20
EUR/BWP	11.50	0.72	1.42	6.72	11.48	11.60	11.77	12.08
GBP/BWP	13.45	0.83	0.74	5.44	13.46	13.59	13.78	14.11
BWP/JPY	11.27	0.91	1.50	-7.90	1.17	1.17	1.17	1.17
<b>Ghana</b>								
USD/GHS	2.01	0.00	0.10	0.90	2.04	2.10	2.19	2.34
EUR/GHS	2.66	-1.22	-0.55	3.76	2.67	2.76	2.88	3.07
GBP/GHS	3.11	-1.10	-1.22	2.51	3.14	3.23	3.37	3.59
GHS/JPY	48.73	2.88	3.52	-5.28	199.27	206.64	215.50	229.03
<b>Kenya</b>								
USD/KES	85.72	0.08	0.43	2.23	86.23	87.14	88.46	92.38
EUR/KES	113.48	-1.14	-0.22	5.13	113.16	114.39	116.19	121.49
GBP/KES	132.72	-1.02	-0.89	3.86	132.92	134.28	136.24	142.12
KES/JPY	1.14	2.79	3.17	-6.51	0.88	0.89	0.90	0.95
<b>Mozambique</b>								
USD/MZN	29.65	0.00	0.34	-1.50	29.65	0.00	0.34	-1.50
EUR/MZN	39.25	-1.22	-0.32	1.30	39.25	-1.22	-0.32	1.30
GBP/MZN	45.91	-1.10	-0.99	0.08	45.91	-1.10	-0.99	0.08
MZN/JPY	3.30	2.88	3.27	-2.97	3.30	2.88	3.27	-2.97
<b>Nigeria</b>								
USD/NGN	161.10	0.47	-0.06	1.80	159.75	159.75	159.75	159.75
EUR/NGN	213.28	-0.75	-0.71	4.69	209.64	209.71	209.81	210.08
GBP/NGN	249.43	-0.64	-1.38	3.42	246.25	246.16	246.02	245.77
NGN/JPY	0.61	2.40	3.68	-6.11	0.61	1.64	1.64	1.65
<b>South Africa</b>								
USD/ZAR	10.20	2.44	3.34	8.07	10.29	10.30	10.43	10.80
EUR/ZAR	13.51	1.20	2.66	11.13	13.39	13.52	13.70	14.10
GBP/ZAR	15.80	1.32	1.97	9.79	15.73	15.87	16.07	16.50
ZAR/JPY	9.60	0.42	0.27	-11.56	9.59	9.50	9.37	9.09
<b>Tanzania</b>								
USD/TZS	1,639.50	0.28	0.31	0.52	1,652.00	1,677.00	1,724.50	1,797.00
EUR/TZS	2,170.53	-0.94	-0.35	3.37	2,167.90	2,201.46	2,264.93	2,363.16
GBP/TZS	2,538.44	-0.83	-1.02	2.12	2,546.53	2,584.11	2,655.81	2,764.57
TZS/ZAR	0.06	2.60	3.30	-4.92	16.88	17.14	17.64	18.44
<b>Zambia</b>								
USD/ZMW	5.48	0.83	0.64	2.24	5.34	5.36	5.50	5.77
EUR/ZMW	7.25	-0.40	-0.01	5.14	7.01	7.02	7.21	7.58
GBP/ZMW	8.48	-0.28	-0.68	3.87	8.23	8.23	8.44	8.86
ZMW/JPY	17.88	2.03	2.96	-6.52	0.05	0.05	0.06	0.06

Source: Bloomberg, Reuters, RMB Global Markets  
All data as at June 2013



## Commodities prices

	Current	m/m % change	y/y % change	Implied volatility	3-month future	12-month future
<b>Metals</b>						
Gold US\$/oz	1,284.99	-7.3	-18.3	21.7	1,292.0	1,297.9
Copper US\$/tonne	6,777.00	-6.4	-7.4	20.7	6,818.0	6,880.8
<b>Softs</b>						
Cattle US\$/lb	146.93	11.6	-3.8	16.7	121.6	129.6
Cocoa US\$/tonne	2,171.00	-3.3	3.7	23.2	2,151.0	2,180.0
Coffee — Arabica US\$/lb	118.70	-6.7	-23.5	26.0	119.3	127.5
Coffee — Robusta US\$/tonne	0.00	-	-	22.6	1,743.0	1,798.0
Cotton US\$/lb	85.68	5.1	15.5	23.9	85.7	82.8
Maize — Yellow R/tonne	2,294.00	5.9	12.6	25.2	2,337.0	2,370.0
Maize — White R/tonne	2,326.00	5.9	11.5	23.2	2,369.0	2,178.0
Raw Sugar US\$/lb	16.74	-0.6	-17.3	19.2	17.8	17.8
<b>Energy</b>						
WTI Crude US\$/bbl	93.46	-0.7	17.2	22.1	93.3	88.4

## Interest rates

	3-m T-Bill		Policy rate
	May-13 <sup>1</sup>	Current	Current
Botswana	4.20	4.82	8.50
Ghana	23.02	23.09	16.00
Kenya	9.50	5.11	8.50
Mozambique	3.21	4.06	9.50
Namibia	5.15	5.15	5.50
Nigeria	11.99	11.50	12.00
South Africa	5.11	5.23	5.00
Tanzania	11.90	11.82	OMO <sup>2</sup>
Zambia	6.50	6.50	9.50

1 End of month

2 Open Market Operations

Source: Bloomberg, Reuters, RMB Global Markets

All data as at June 2013

## All rated sub-Saharan countries

	Fitch	Moody's	S&P
Angola	BB- (P)	Ba3 (P)	BB-
Benin	B	–	B
Botswana	–	A2	A-
Burkina Faso	–	–	B
Cameroon	B	–	B
Cape Verde	B+	–	B+
Gabon	BB-	–	BB-
Ghana	B+ (N)	B1	B
Kenya	B+	B1	B+
Lesotho	BB- (N)	–	–
Mauritius	–	Baa1	–
Mozambique	B (P)	–	B+
Namibia	BBB-	Baa3	–
Nigeria	BB-	Ba3	BB-
Rwanda	B	–	B (P)
Senegal	–	B1	B+ (N)
Seychelles	B	–	–
South Africa	BBB	Baa1	BBB (N)
Uganda	B	–	B+
Zambia	B+ (N)	B1	B+

P = Positive outlook N = Negative outlook SD = Selective Default

Note: For full ratings disclosure, please refer to the last page

The sources used to compile this document are: Bloomberg, Reuters, AllAfrica.com, respective central bank and national statistical websites.



## Africa

### Global Markets Africa

Ebrahim Motala  
+27 11 269-9964  
ebrahim.motala@rmb.co.za

### Global Markets Africa Sales

Sylvester Selepe  
+27 11 282-1148  
sylvester.selepe@rmb.co.za

### Global Markets Africa Trading

Roy Daniels  
+27 11 282 4412  
roy.daniels@rmb.co.za

### Africa Structuring

Raveen Ramlakan  
+27 11 269-9150  
raveen.ramlakan@rmb.co.za

### Botswana

Phila Nhlekisana  
+267 364-2830  
pnhlekisana@fnbbotswana.co.bw

### Mozambique

Jeronimo de Faria-Lopes  
+258 21 356-921  
jeronimo.defarialopes@fnb.co.mz

### Namibia

Michelle van Wyk  
+264 61 299-2265  
michellew@fnbnamibia.com.na

### Nigeria

Pardon Muzenda  
+234 1 463-7922  
pardon.muzenda@rmb.com.ng

### Swaziland

Khetsiwe Dlamini  
+268 404-2463  
kdlamini@fnb.co.za

### Tanzania

Keith Blakeway  
+255 768 989-049  
kblakeway@fnb.co.tz

### Zambia

Llewellyn Foxcroft  
+260 (211) 366-800  
lfoxcroft@fnbzambia.co.zm

### India

Harihar Krishnamoorthy: Head: Global Markets  
India  
+91 22 6625-8701  
harihar.krishnamoorthy@firststrand.co.in

## Global Markets regional offices

### Cape Town

+27 21 658-9333

### Durban

+27 31 580-6390

### Port Elizabeth

+27 41 394-2511

### India

+91 22 6625-8701

### London

+44 20 7939-1700

## Business Development — Africa

### Banks and DFIs

Minos Gerakaris  
+27 11 282-8269  
minos.gerakaris@rmb.co.za

### Structured Trade and Commodity Finance

Gregory Havermahl  
+27 11 282-4847  
gregory.havermahl@rmb.co.za

### Investment Banking Business Development: Africa

Ayodele Olajiga  
+27 11 282-4619/+ 234 808 300 2890  
ayodele.olajiga@rmb.co.za

### Investment Banking Property Finance: Africa

Ryan Rhodes  
+27 11 282-4354  
ryan.rhodes@rmb.co.za

## Global Markets contact details

### Africa Sales and Trading

+27 11 282-8664/4412

### Agricultural Trading and Hedging

+27 11 269-9800

### Cross-Asset Solutions

+27 11 269 9030

### Customer Dealing and Sales

+27 11 269-9230/9175

### Distribution and Institutional Solutions

+27 11 269-9295

### Energy and Metals Trading

+27 11 269-9140

### Equities Prime Broking

+27 11 282-1941

### Equity Sales and Research

+27 11 282-8286

### Fixed Income Derivatives Trading

+27 11 269-9065

### Fixed Income Prime Broking

+27 11 282-1941

### Fixed Income Sales

+27 11 269-9040/9100

+27 21 658-9375

### Fixed Income Trading

+27 11 269-9040

### Foreign Exchange Forwards

+27 11 269-9130

### Foreign Exchange Options Trading

+27 11 269-9150

### Funding

+27 11 269-9075

### Global Markets Fund Solutions

+27 11 269 9520

### Futures Clearing

+27 11 282 8375

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+27 11 269 9150/9030

### Inflation

+27 11 269-9300

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+27 11 269-9075

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+27 11 282-1284

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+27 11 269-9260

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+27 11 282-8401

### Securities Lending

+27 11 269-9719

### Structured Credit Trading

+27 11 269-9295

### Structured Trade and Commodity Finance

+27 11 282-8542

Please email us at [globalmarkets@rmb.co.za](mailto:globalmarkets@rmb.co.za) for more information

[www.rmb.co.za/globalmarkets](http://www.rmb.co.za/globalmarkets)

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