

RMB Global Markets Research

Africa markets update

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The week in focus

Botswana

- Headline CPI moderates to 5.7% y/y in July
- BWP: Pula propped up by rand recovery

CMA

- Namibia: Bank of Namibia retains its benchmark rate at 5.5%
- ZAR: At 10.25, USD/ZAR is at the uncomfortably high end of the range

Ghana

- Seven-year bond issuance oversubscribed
- GHS: Cedi records weakest level on record against the US dollar

Kenya

- Government signs infrastructure deals worth US\$5bn with China
- KES: Shilling in a precarious position ahead of September MPC meeting

Mozambique

- There were no significant data releases or events last week
- MZN: Metical stagnates at 29.60, suggesting little change in local liquidity

Nigeria

- Headline CPI increased to 8.7% y/y in July from 8.4% in June
- NGN: Naira to benefit from seasonal month-end sales by oil companies

Tanzania

- Natural gas reserves could reach 200 trillion cubic feet in two years
- TZS: Shilling likely to appreciate on the back of month-end US dollar inflows

Zambia

- Government growth expectation dropped to 6%
- ZMW: Kwacha to drift in a range this week

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Botswana

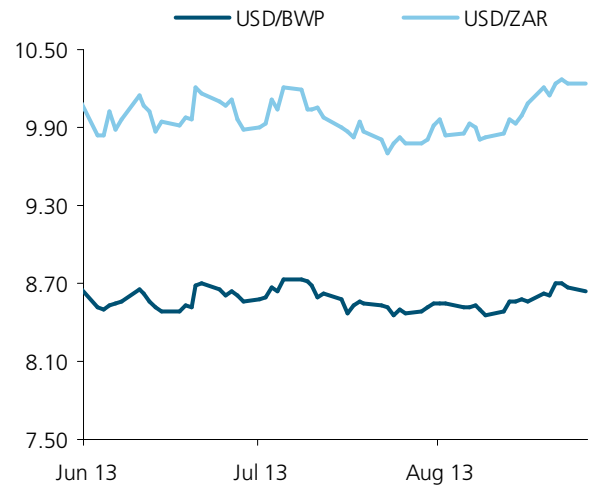
News flash

- Headline inflation moderated to 5.7% y/y in July on account of lower goods and transport costs relative to the same period last year. According to the Statistics Office, group indices were stable between June and July, recording changes of less than 1%. Core inflation is almost on par with the headline figure, printing at 5.5% y/y reflecting a lessening in imported pressures owing to the change in the pula crawl. We expect inflation to average around 6% for the rest of this year. After the higher rates at the beginning of the year, this implies an annual average rate of 6.5%.

Pula (BWP) in brief

- The pula recovered slightly against the greenback last Friday, in line with other EM currencies which received a reprieve from the recent heavy selling. The rand managed to recover from a four year low which helped prop up the pula's recovery. The pula closed the day at 0.1152/55 from 0.1149/52 in the morning. Against the rand the pula was weaker closing the day at 1.1767/1.1797 from 1.1789/1.1818 in the morning.

Figure 1: Rand recovery provides impetus for BWP gains against the US dollar



Source: Bloomberg
Data as at August 2013

CMA

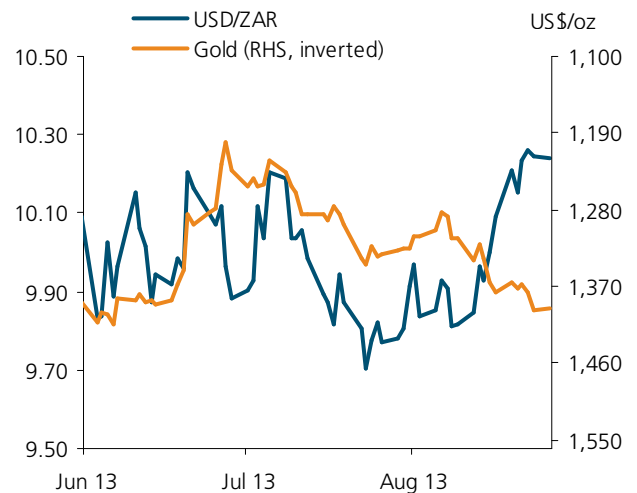
News flash

- Namibia: The Bank of Namibia (BoN) maintained its lending rate at 5.5% last week, noting that a moderation in external demand and global commodities prices poses downside risk to the local economy. The central bank expects the economy to expand by 4.7% in 2013 but concedes that growth will remain below its targeted level of 5% owing to variations in key commodities prices, notably copper and uranium; elevated food and energy costs and the adverse impact of drought on agricultural output. While the secondary industry is expected to thrive on account of construction activities, the tertiary sector is set to decline almost 2% compared to last year. At 5.8% y/y, inflation is poised at what the Bank considers an acceptable level.

Rand (ZAR) in brief

- General global market factors are rand supportive but gains will be held back by the local labour situation and pressures on selected emerging market currencies. At 10.25, USD/ZAR is at the uncomfortably high end of the range; and at slightly over 13.70, EUR/ZAR remains outside the old range. Today's trade will be limited by the UK holiday but two-way risks remain large for the week.

Figure 2: Rand uncomfortably high at USD/ZAR10.25



Source: Bloomberg
Data as at August 2013



Ghana

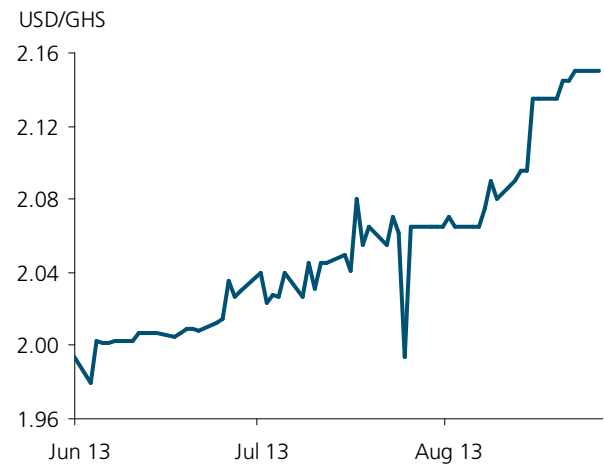
News flash

- The government issued a GHS100m 7-year bond last week in an attempt to lengthen and distribute issuance pressure across its bond curve. The auction was heavily oversubscribed at an average yield of 17.5%, below our expectation of between 20% and 23%. Our view was based on investor concerns surrounding Ghana's large fiscal deficit, weakening currency and low dollar liquidity. The large interest in the bond points to investors still viewing Ghana as an attractive investment destination in sub-Saharan Africa, mainly due to its stable political and business environment and strong growth potential. The government received total bids of GHS270m, with buyers demanding yields between 12% and 26%.

Cedi (GHS) in brief

- Having hit USD/GHS2.12/15, the cedi is now trading at its weakest level on record. Interbank liquidity has failed to quell the relentless demand for US dollars. The restoration of foreign exchange stability requires strong intervention on the part of the central bank, which is complicated by Ghana's low international reserves position.

Figure 3: Cedi continues to weaken amid persistent import demand



Source: Bloomberg
Data as at August 2013

Kenya

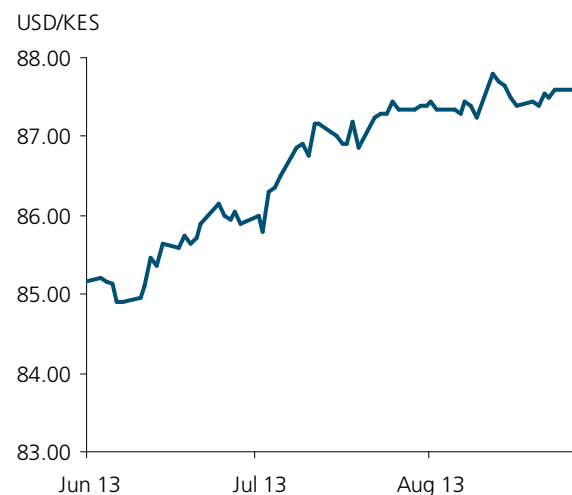
News flash

- The government signed deals worth US\$5bn with China to construct a railway line between Mombasa and Malaba, and to fund energy projects. The rest of the moneys will help improve the country's wildlife protection programmes. In President Kenyatta's state visit to China this week, he urged President Xi Jinping to invest in the up and coming oil sector, power generation, a technology city, and a new port in Lamu. China declared its support for Kenya's plans to industrialise and is set to host a clearing house for the Chinese renminbi currency in Nairobi.

Shilling (KES) in brief

- The shilling is in a precarious position as importers continue to demand US dollars to pay for month-end shipments and the market repositions ahead of September's MPC. Though the local unit is at risk of greater volatility, it is unlikely to depreciate markedly as the central bank remains mindful of the currency's effect on inflation.

Figure 4: Shilling is in a precarious position ahead of September MPC



Source: Bloomberg
Data as at August 2013



Mozambique

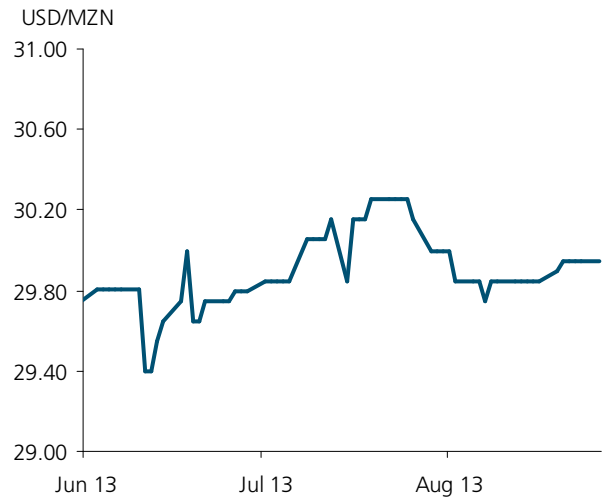
News flash

- There were no significant data releases or events last week.

Metical (MZN) in brief

- A stagnation in the spot rate suggests little change in domestic liquidity conditions. We uphold our year-end view of USD/MZN29.00.

Figure 5: Metical momentum is sideways



Source: Bloomberg
Data as at August 2013

Nigeria

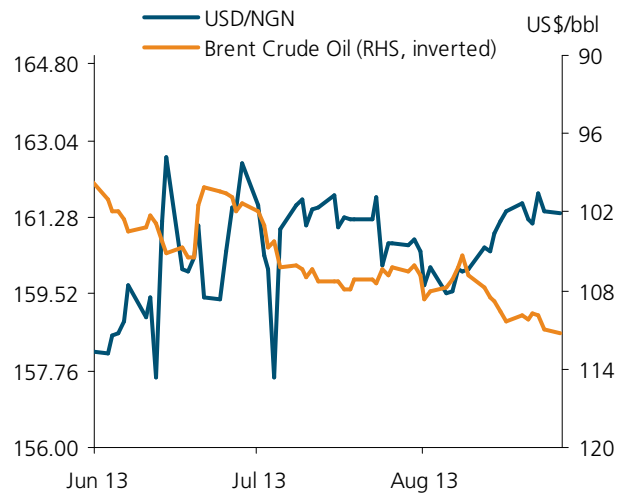
News flash

- Headline CPI increased to 8.7% y/y in July from 8.4% in June mainly due to higher food prices which rose to 10% y/y from 9.6% in June. With oil and food prices anticipated to rise only slightly in 2H13, we believe that headline inflation should drift between 9% and 10% for the remainder of the year. We estimate an annual average inflation rate of 9.3% in 2013.

Naira (NGN) in brief

- Month-end is a boon for the naira as oil firms sell US dollars to fulfil their local currency commitments. An expansion in local liquidity should relieve upward pressure on the currency pair and restrict movements to a USD/NGN160.5 to 161 range.

Figure 6: Naira to strengthen as oil companies sell US dollars



Source: Bloomberg
Data as at August 2013



Tanzania

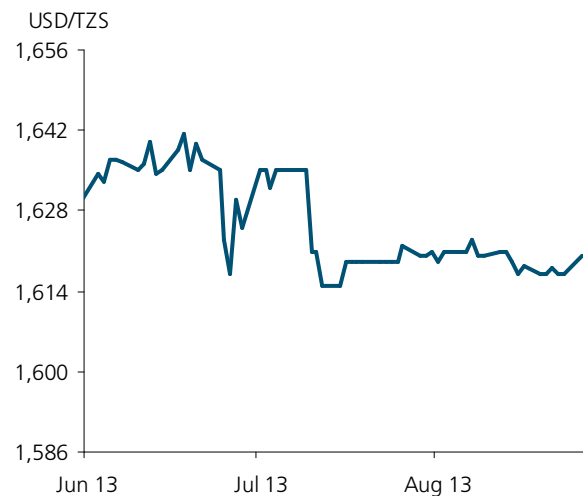
News flash

- Expectations regarding the extent of recoverable gas in East Africa was given a boost following a statement by Tanzania's energy and minerals ministry which said that domestic gas reserves could be as large as 200 trillion cubic feet within the next two years, should the discoveries prove viable. This is five times more than the current estimate of recoverable gas, which is mostly housed offshore in the south of Tanzania.
- The country is set to export energy regionally by 2015 after the completion of the gas pipeline. The pipeline, expected to be completed by December 2014, is forecast to double Tanzania's power generation capacity to 3,000MW.

Shilling (TZS) in brief

- The shilling continues to benefit from muted corporate demand, trading in a narrow range of USD/TZS 1,613 – 1,623 for the better part of last week. There is a strong possibility that the shilling could amass further gains this week on the back of month-end US dollar inflows. Despite the recent market behaviour, we remain bearish on the currency on account of Tanzania's structural current account deficit.

Figure 7: Shilling likely to appreciate on the back of month-end USD inflows



Source: Bloomberg
Data as at August 2013

Zambia

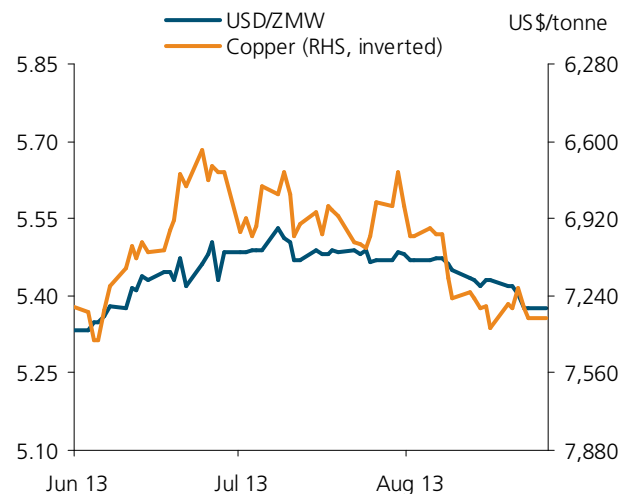
News flash

- The government has dropped its 2013 growth expectation for the economy to 6% from its original 7% target due to the decline in copper prices putting strain on output costs. Finance Minister Chikwanda added that the budget deficit now stands at 5% of GDP, which is above the government's initial 4.3% target, mainly due to delays in the cut of the fuel subsidy and higher civil service wages.
- The Bank of Zambia anticipates an increase in copper production this year. Output is expected to increase over the medium-term. It could breach 1m tonnes by 2015 due to new mines coming online.

Kwacha (ZMW) in brief

- An easing in the supply of US dollars is likely to slow the pace of potential kwacha gains. The local unit should remain range-bound this week with a bias towards slight appreciation. International markets appear to have rebounded after a rather gloomy week, marred by uncertainty over the commencement of Fed tapering. This should provide support to the kwacha, although we do not expect any major moves.

Figure 8: Kwacha to remain range bound this week



Source: Bloomberg
Data as at August 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
Botswana								
USD/BWP	8.71	0.13	1.48	2.11	8.55	8.63	8.77	9.00
EUR/BWP	11.63	0.01	2.23	3.39	11.44	11.55	11.74	12.05
GBP/BWP	13.57	-0.51	1.57	3.64	13.31	13.43	13.63	13.97
BWP/JPY	11.31	0.79	-0.80	-3.05	1.20	1.20	1.20	1.20
Ghana								
USD/GHS	2.15	0.23	0.70	4.62	2.18	2.25	2.35	2.51
EUR/GHS	2.87	0.11	1.45	5.94	2.92	3.01	3.14	3.36
GBP/GHS	3.35	-0.41	0.79	6.20	3.40	3.49	3.65	3.89
GHS/JPY	45.82	0.69	-0.03	-5.38	215.37	221.50	231.09	246.28
Kenya								
USD/KES	87.50	-0.06	0.00	0.29	88.14	89.32	91.13	94.81
EUR/KES	116.88	-0.18	0.74	1.55	117.97	119.58	122.05	127.07
GBP/KES	136.41	-0.70	0.08	1.79	137.19	138.97	141.70	147.28
KES/JPY	1.13	0.98	0.67	-1.29	0.89	0.90	0.92	0.96
Mozambique								
USD/MZN	29.95	0.00	0.34	-0.99	29.71	30.30	30.84	31.94
EUR/MZN	40.01	-0.12	1.08	0.25	40.25	40.57	41.30	42.81
GBP/MZN	46.69	-0.64	0.42	0.50	46.80	47.15	47.95	49.62
MZN/JPY	3.29	0.92	0.34	-0.01	-	-	-	-
Nigeria								
USD/NGN	161.85	0.43	0.40	0.37	159.75	159.75	159.75	159.75
EUR/NGN	216.20	0.31	1.15	1.64	213.83	213.88	213.95	214.10
GBP/NGN	252.32	-0.21	0.49	1.88	248.67	248.56	248.42	248.15
NGN/JPY	0.61	0.49	0.27	-1.37	0.62	1.62	1.62	1.62
South Africa								
USD/ZAR	10.26	0.26	2.64	4.66	10.28	10.39	10.53	10.84
EUR/ZAR	13.71	0.14	3.40	5.98	13.78	13.91	14.11	14.54
GBP/ZAR	16.00	-0.39	2.73	6.23	16.02	16.16	16.38	16.85
ZAR/JPY	9.60	0.66	-1.92	-5.41	9.59	9.50	9.36	9.07
Tanzania								
USD/TZS	1,617.00	-0.06	0.00	-0.12	1,632.00	1,657.00	1,704.50	1,777.00
EUR/TZS	2,159.99	-0.18	0.74	1.13	2,184.52	2,218.48	2,282.81	2,381.51
GBP/TZS	2,520.90	-0.71	0.08	1.38	2,540.38	2,578.18	2,650.52	2,760.32
TZS/ZAR	0.06	0.98	0.67	-0.88	16.53	16.79	17.28	18.06
Zambia								
USD/ZMW	5.38	-0.56	-1.01	-2.09	5.34	5.36	5.50	5.77
EUR/ZMW	7.18	-0.67	-0.28	-0.86	7.15	7.17	7.36	7.73
GBP/ZMW	8.38	-1.20	-0.93	-0.62	8.31	8.33	8.55	8.96
ZMW/JPY	18.33	1.49	1.70	1.11	0.05	0.05	0.06	0.06

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



Commodities prices

	Current	m/m % change	y/y % change	Implied volatility	3-month future	12-month future
Metals						
Gold US\$/oz	1,396.58	4.7	-16.4	20.0	1,395.6	1,399.9
Copper US\$/tonne	7,300.50	5.7	-3.9	20.0	7,360.5	7,411.5
Softs						
Cattle US\$/lb	155.00	1.6	10.3	14.8	126.7	126.3
Cocoa US\$/tonne	2,427.00	4.0	-0.4	25.0	2,465.0	2,481.0
Coffee — Arabica US\$/lb	113.05	-7.5	-30.5	25.8	113.1	124.0
Coffee — Robusta US\$/tonne	0.00	-	-	22.5	1,772.0	1,814.0
Cotton US\$/lb	85.06	-0.4	14.3	21.9	84.1	82.7
Maize — Yellow R/tonne	2,150.00	1.5	-19.6	24.0	2,150.0	2,114.0
Maize — White R/tonne	2,302.00	1.5	-14.0	23.7	2,302.0	2,135.0
Raw Sugar US\$/lb	16.47	0.0	-15.9	18.0	17.5	17.5
Energy						
WTI Crude US\$/bbl	106.94	2.1	11.2	20.8	104.5	95.3

Interest rates

	3-m T-Bill		Policy rate
	July - 13 ¹	Current	Current
Botswana	4.05	4.18	8.00
Ghana	21.81	22.76	16.00
Kenya	6.86	10.40	8.50
Mozambique	4.91	5.06	8.75
Namibia	5.15	5.15	5.50
Nigeria	10.73	11.50	12.00
South Africa	5.15	5.16	5.00
Tanzania	12.6	12.44	OMO ²
Zambia	8.00	7.99	9.75

1 End of month

2 Open Market Operations

Source: Bloomberg, Reuters, RMB Global Markets

All data as at August 2013

All rated sub-Saharan countries

	Fitch	Moody's	S&P
Angola	BB-	Ba3	BB-
Benin	-	-	B
Botswana	-	A2	A-
Burkina Faso	-	-	B
Cameroon	B	-	B
Cape Verde	B+	-	B+
Egypt	B	Caa1	CCC+
Gabon	BB-	-	BB-
Ghana	B+	B1	B
Kenya	B+	B1	B+
Lesotho	BB-	-	-
Mauritius	-	Baa1	-
Morocco	BBB-	Ba1	BBB-
Mozambique	B+	-	B+
Namibia	BBB-	Baa3	-
Nigeria	BB-	Ba3	BB-
Rwanda	B	-	B
Senegal	-	B1	B+
Seychelles	B	-	-
South Africa	BBB	Baa1	BBB
Tunisia	BB+	Ba2	BB-
Uganda	B	-	B+
Zambia	B+	B1	B+

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.



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