

# RMB Global Markets Research

## Africa markets update



Traditional values. Innovative ideas.

21 October 2013

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### The week in focus

#### Botswana

- Inflation slows to 5% y/y in September
- BWP: The pula maintained its strength against the greenback

#### CMA

- Namibia: Headline CPI dips below 6% at the end of 3Q13
- ZAR: Risk rally supportive of rand

#### Ghana

- Fitch downgrades long-term foreign and local currency IDR ratings from B+ to B
- GHS: Upward pressure is still apparent especially after Fitch's sovereign downgrade

#### Kenya

- Total debt-to-GDP spikes above 50%
- KES: Mammoth demand for local assets leads to shortage of shillings

#### Mozambique

- BDM cuts Standing Lending Facility rate by 50bp to 8.25%
- MZN: The metical is firmly entrenched below USD/MZN30.00

#### Nigeria

- Government revenues fall 4% in September
- NGN: month-end inflows and renewed interest in naira assets supportive of NGN

#### Tanzania

- Government concludes five MoUs with China
- TZS: Shilling enjoys a period of relative stability

#### Zambia

- Finance ministry sets out budget objectives for 2014
- ZMW: Thinning of local liquidity could restrict kwacha strength

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## Botswana

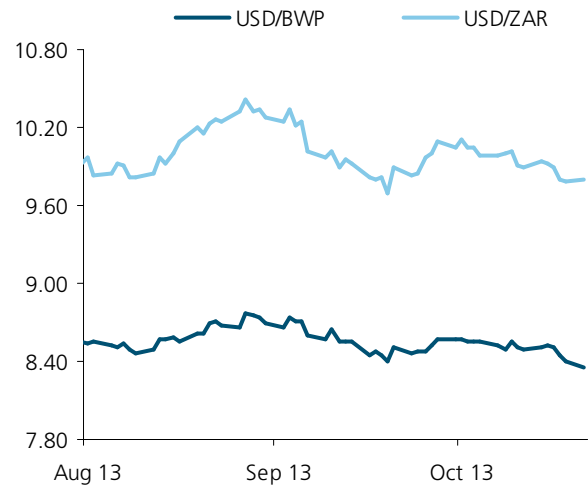
### News flash

- Inflation slowed to 5% y/y in September from 5.6% in August. The major contributors to the decline were stable commodities prices especially affecting the main inflation components such as transport and food and non-alcoholic beverages which dropped by 5.9% and 2.9%, with each of these components carry a weighting of 18.98% and 21.84% respectively. The drop in headline CPI is consistent with ours and the Bank of Botswana's expectations. It is the lowest rate since November 2009, and opens the way for a 50bp rate cut at the next meeting.

### Pula (BWP) in brief

- The pula maintained its strength against the greenback on Friday in line with other emerging market currencies. The onslaught on the dollar started after a resolution to the US fiscal standoff was reached. As a result, fresh doubts as to whether the tapering will occur this year led to investors' increasing their risk appetite. The pula closed the day at 0.1188/91 from 0.1184/87 in the morning. Against the rand the pula closed the day at 1.1607/36 from 1.1635/64 in the morning.

Figure 1: Pula maintaining strength against US dollar



Source: Bloomberg  
Data as at October 2013

## CMA

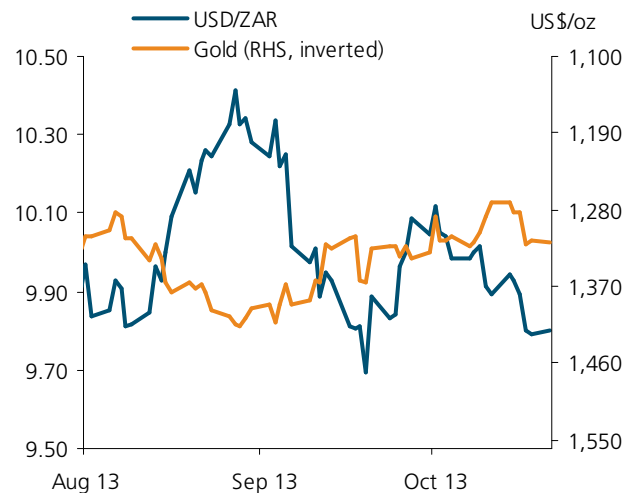
### News flash

- Namibia: Inflation eases to 5.5% y/y in September from 6.0% in August. Barring transport and communication, there was a moderation in inflation in all categories. The BoN believes that inflation is currently at tolerable levels and that monetary policy should continue to support growth given the external risk to the growth environment. This is a view we share but we interpret this to mean that the current policy of low interest rates will prevail for this year.

### Rand (ZAR) in brief

- The rand extended its gains on Friday to close below USDZAR9.80 last week. While the relief rally, following US policy makers' decision to re-open the Federal Government and lift the debt ceiling continued to play a role, the local unit clearly benefited from two other themes which have been pushing risk assets higher. Firstly, risk assets benefited from the release of stronger Chinese GDP growth numbers for 3Q13. The second factor supporting risk assets is the shift in the market's expectation of when the Fed will start its taper programme. The momentum behind the rally seems strong which suggests the rand should hold onto its gains today.

Figure 2: Rand to hold recent gains supported by risk rally



Source: Bloomberg  
Data as at October 2013



## Ghana

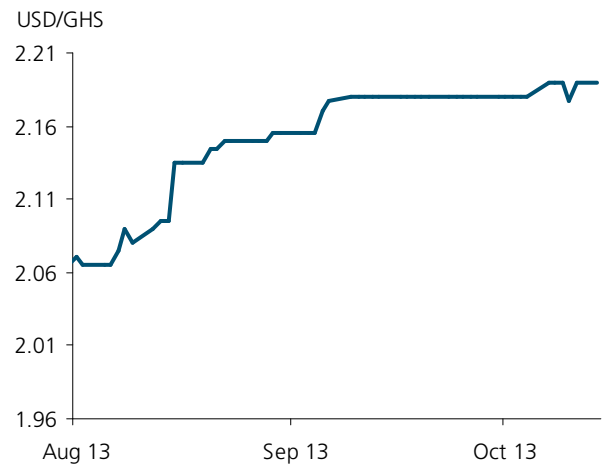
### News flash

- Fitch ratings agency has dealt the first blow to Ghana's credit worthiness by lowering the country's long-term foreign and local currency issuer default and senior unsecured ratings one notch from B+ to B. Ghana's unrelenting dual deficit provides the basis for the downgrade. The agency draws specific attention to what it considers to be the government's failure to fully implement its fiscal consolidation plan and highlights the possibility of a further widening in the current account.

### Cedi (GHS) in brief

- The cedi has eased to USD/GHS2.16, supported by a stream of US dollar inflows. Upward pressure is still apparent especially after Fitch's recent sovereign downgrade, which is likely to impair investor sentiment. The cedi's resolve will certainly be tested ahead of year-end as import demand accelerates in preparation for the festive season. Although the Bank of Ghana does not hold a substantial arsenal of foreign reserves, it stands ready to slow the pace of depreciation.

Figure 3: Cedi remains firm at 2.16, upside risks still apparent



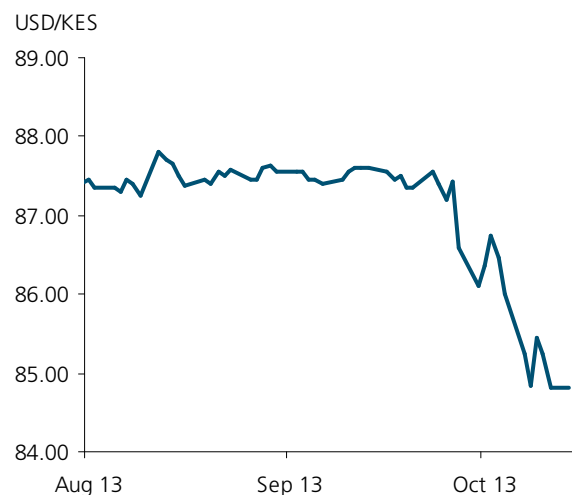
Source: Bloomberg  
Data as at October 2013

## Kenya

### News flash

- Total debt figures rose by 3.15%/y/y in July. Though total debt-to-GDP exceeds 50%, Kenya's public debt is viewed as sustainable, implying a relatively low level of default risk. External debt comprised 44.8% of the state's total commitment at the end of July.
- The government has proposed that it holds a 10% shareholding in large mining concerns via the national mining corporation. If ratified, the law will allow the government to participate in future earnings.
- The Energy Regulatory Commission has reduced the retail prices of petrol, diesel and kerosene following a lessening in shilling volatility and a moderation in the international price of crude oil. The reduction is likely to temper inflationary pressures, which resurfaced last month.

Figure 4: Shilling dips below USD/KES85.00



Source: Bloomberg  
Data as at October 2013

### Shilling (KES) in brief

- USD/KES dipped below 85.00 last week as mammoth demand for shilling-denominated assets led to a shortage of local currency. Support is evident at 84.50. The CBN is unlikely to tolerate stronger levels due to a potential loss of export competitiveness, especially as mining production increases.



## Mozambique

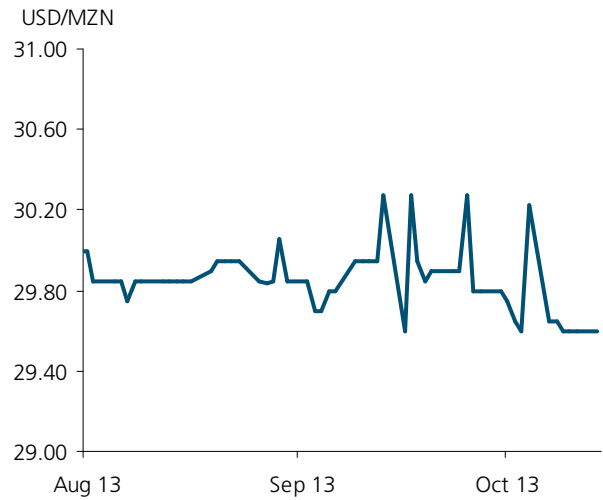
### News flash

- The BDM lowered the interest rate on its Standing Lending Facility by 50bp to 8.25% last week to stimulate domestic demand. We noted that inflation remains well below the government's average target of 7% for 2013, increasing the likelihood of a further rate cut in the last three months of the year. While production activity continues to soar, the private domestic investment component of aggregate demand appears constrained. A deterioration in the demand outlook over the last month, as reflected by waning business confidence and a worsening in employment prospects, prompted the BDM to reassess its monetary policy stance. The BDM is likely to keep the rate at 8.25% for the rest of the year as inflation ticks up ahead of the festive season.

### Metical (MZN) in brief

- The metical is firmly entrenched below USD/MZN30.00 due to balanced local liquidity conditions. Despite the high level of demand for Ematum 2020s, the bond flows are unlikely to be channelled into the BdM's account as the monies are to be paid directly to ship builders in France and Abu Dhabi.

Figure 5: Metical continues to hover at USD/MZN29.60/70



Source: Bloomberg  
Data as at October 2013

## Nigeria

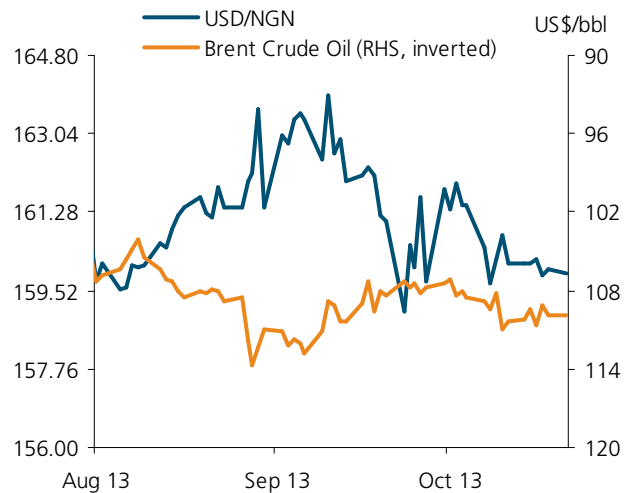
### News flash

- Production challenges in the oil sector continue to erode government profits. Fiscal revenues fell 4% at the end of 3Q13 following a series of setbacks at Nigeria's Brass terminal, including a force majeure, maintenance issues and persistent bunkering activities. Despite a moderation in earnings, the three tiers of government are still expected to receive almost 17% of the revenue accrued in September.

### Naira (NGN) in brief

- Naira-denominated bonds have regained favour among offshore investors as evidenced by an inflow of US dollars prior to the 3- and -20 year local debt issuances last week. This, combined with month-end seasonal flows from local oil firms should ensure that the naira is maintained below USD/NGN160.00

Figure 6: Naira to benefit from renewed interest in local assets



Source: Bloomberg  
Data as at October 2013



## Tanzania

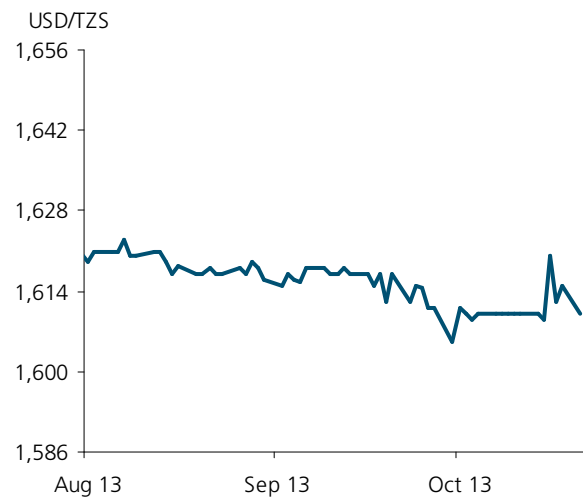
### News flash

- The recent signing of five Memorandums of Understanding between China and Tanzania will assist in the deepening of ties. The bilateral agreements focus on enhancing efforts in science and technology, tourism and the sale of Tanzanian marine products in China. Other synergies include the establishment of a textile industry zone, the bettering of cotton production and the enlargement of China's interests in cashew nut processing factories in Southern Tanzania.

### Shilling (TZS) in brief

- The shilling has enjoyed a period of relative stability, trading within a range of USD/TZS 1,604/1,615 over the last few weeks. However, market activity is likely to gain momentum in the run-up to year end.

Figure 7: Shilling prosperity could come to an end as import activity picks up



Source: Bloomberg  
Data as at October 2013

## Zambia

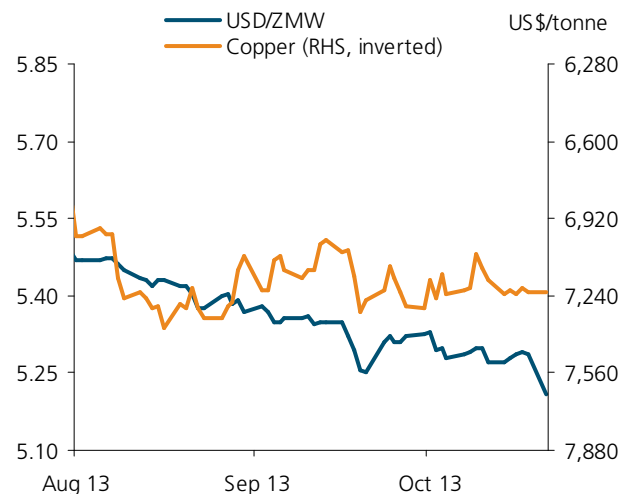
### News flash

- The finance ministry has proposed several macroeconomic targets for the 2014 fiscal year including:
  - Real GDP growth of above 7%
  - Inflation of no more than 6%
  - A fiscal deficit of 4.3% of GDP
  - Gross domestic revenue of at least 20% of GDP
  - International reserves equivalent to at least four months of import cover; and
  - Two hundred thousand additional jobs

### Kwacha (ZMW) in brief

- The approval of a bill that reopened the US government until 15 January and lifted the debt ceiling until 7 February, unleashed a wave of calm across global financial markets. The rand, to which the kwacha is closely correlated, rallied hard in response to the end of the fiscal impasse. The bias remains downwards, implying further kwacha strength, although the easy moves are probably already over since local flows have dried up.

Figure 8: Kwacha trends lower, albeit at a slower pace than the ZAR



Source: Bloomberg  
Data as at October 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	8.45	-0.69	-0.68	0.17	8.48	8.57	8.72	8.97
EUR/BWP	11.55	0.44	0.36	2.60	11.60	11.73	11.93	12.28
GBP/BWP	13.66	0.80	0.56	1.72	13.71	13.85	14.08	14.46
BWP/JPY	11.58	-0.24	0.48	-1.32	1.15	1.15	1.15	1.15
<b>Ghana</b>								
USD/GHS	2.19	0.00	0.57	0.46	2.21	2.28	2.38	2.54
EUR/GHS	2.99	1.13	1.62	2.90	3.03	3.12	3.25	3.47
GBP/GHS	3.54	1.50	1.83	2.01	3.57	3.68	3.84	4.09
GHS/JPY	44.71	-0.93	-0.77	-1.60	216.00	223.08	232.53	248.03
<b>Kenya</b>								
USD/KES	84.80	-0.29	-0.53	-3.14	85.56	86.45	88.02	91.95
EUR/KES	115.86	0.84	0.51	-0.79	117.12	118.35	120.52	125.95
GBP/KES	137.05	1.20	0.71	-1.64	138.29	139.66	142.10	148.22
KES/JPY	1.15	-0.64	0.33	2.05	0.88	0.89	0.90	0.94
<b>Mozambique</b>								
USD/MZN	29.60	-2.07	0.00	0.00	29.71	29.96	30.55	31.62
EUR/MZN	40.44	-0.96	1.04	2.43	40.68	41.02	41.83	43.32
GBP/MZN	47.84	-0.60	1.25	1.55	48.04	48.40	49.32	50.98
MZN/JPY	3.31	1.16	-0.20	-1.15	2904.42	2926.55	2981.80	3081.03
<b>Nigeria</b>								
USD/NGN	159.87	-0.21	-0.54	-1.38	159.75	159.75	159.75	159.75
EUR/NGN	218.43	0.92	0.50	1.02	218.67	218.70	218.73	218.83
GBP/NGN	258.37	1.29	0.70	0.15	258.21	258.08	257.90	257.51
NGN/JPY	0.61	-0.72	0.34	0.23	0.61	1.63	1.63	1.64
<b>South Africa</b>								
USD/ZAR	9.80	-0.91	-1.12	-0.11	9.85	9.92	10.05	10.34
EUR/ZAR	13.39	0.21	-0.09	2.32	13.46	13.58	13.76	14.14
GBP/ZAR	15.84	0.57	0.12	1.43	15.89	16.03	16.23	16.64
ZAR/JPY	9.99	-0.02	0.92	-1.04	9.94	9.84	9.71	9.44
<b>Tanzania</b>								
USD/TZS	1,612.00	-0.49	0.12	-0.31	1,635.00	1,666.00	1,732.00	1,837.50
EUR/TZS	2,202.48	0.63	1.17	2.11	2,238.05	2,280.73	2,371.45	2,517.00
GBP/TZS	2,605.15	1.00	1.37	1.23	2,642.66	2,691.45	2,796.10	2,961.98
TZS/ZAR	0.06	-0.44	-0.33	-0.84	16.73	17.06	17.74	18.86
<b>Zambia</b>								
USD/ZMW	5.29	0.09	-0.19	-1.12	5.34	5.36	5.50	5.77
EUR/ZMW	7.23	1.23	0.85	1.28	7.31	7.33	7.52	7.90
GBP/ZMW	8.55	1.60	1.06	0.41	8.63	8.66	8.88	9.31
ZMW/JPY	18.51	-1.02	-0.02	-0.03	0.05	0.05	0.06	0.06

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



## Commodities prices

	Current	m/m % change	y/y % change	Implied volatility	3-month future	12-month future
<b>Metals</b>						
Gold US\$/oz	1,318.50	-0.6	-23.4	19.0	1,314.6	1,318.4
Copper US\$/tonne	7,241.50	-0.7	-10.8	19.1	7,245.8	7,293.0
<b>Softs</b>						
Cattle US\$/lb	166.08	5.7	13.6	14.8	132.0	127.6
Cocoa US\$/tonne	2,721.00	4.3	9.3	22.5	2,721.0	2,719.0
Coffee — Arabica US\$/lb	114.65	0.0	-29.1	22.0	114.7	124.2
Coffee — Robusta US\$/tonne	0.00	-	-	21.3	1,618.0	1,630.0
Cotton US\$/lb	83.15	-0.2	8.2	19.5	83.1	81.0
Maize — Yellow R/tonne	2,185.00	1.9	-14.7	24.0	2,185.0	1,990.0
Maize — White R/tonne	2,376.00	2.9	-6.6	23.7	2,376.0	2,077.0
Raw Sugar US\$/lb	19.50	13.5	-3.6	19.3	19.6	19.6
<b>Energy</b>						
WTI Crude US\$/bbl	100.75	-3.7	11.9	19.0	100.5	95.2

## Interest rates

	3-m T-Bill		Policy rate
	Sept - 13 <sup>1</sup>	Current	Current
Botswana	3.60	3.65	8.00
Ghana	20.80	20.44	16.00
Kenya	9.10	8.50	8.50
Mozambique	5.11	5.15	8.25
Namibia	5.15	5.15	5.50
Nigeria	10.85	10.85	12.00
South Africa	5.10	5.11	5.00
Tanzania	13.84	13.76	OMO <sup>2</sup>
Zambia	7.99	7.99	9.75

<sup>1</sup> End of month

<sup>2</sup> Open Market Operations

Source: Bloomberg, Reuters, RMB Global Markets

All data as at October 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+	B1	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+

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



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