

RMB Global Markets Research

Africa markets update

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The week in focus

Botswana

- Rates cut further as inflation drops
- BWP: Pula trades in narrow range against greenback

CMA

- Namibia: Headline inflation eases to 5.8%y/y in July
- ZAR: Rand struggles to escape fears of Fed tapering

Ghana

- Headline inflation accelerates to 11.8% y/y in July
- GHS: Cedi weakness appears to be relentless

Kenya

- Energy regulator raises petrol, diesel and kerosene prices
- KES: Shilling poised at 87.40 but faces further upward pressure

Mozambique

- BDM cuts lending rate to 8.75%
- MZN: Metical trades steadily amid stabilisation in domestic liquidity conditions

Nigeria

- Headline CPI increased to 8.7% y/y in July from 8.4% in June
- NGN: Naira lacks necessary support to remain below USD/TZS162.00

Tanzania

- Current account deficit narrows to 2.2% in year to June
- TZS: Shilling continues to trade in a narrow range against the US dollar

Zambia

- Government growth expectation dropped to 6%
- ZMW: Kwacha weakness on the cards

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Botswana

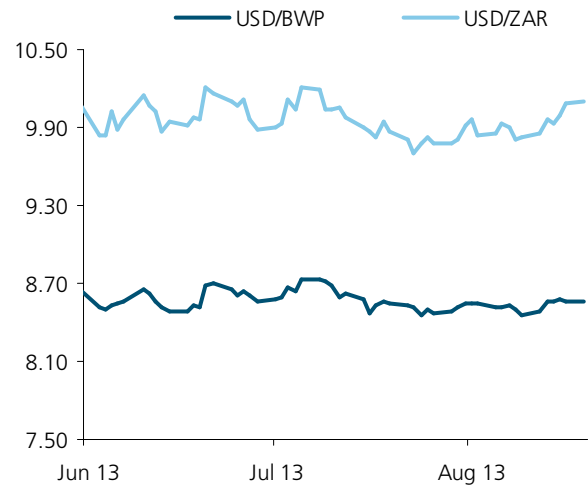
News flash

- The BoB has cut interest rates for a third time this year, this time by 50bp to 8% given, the drop in inflation. Headline CPI dropped to 5.8% y/y in June from 6.1% in May, which sets it within the inflation target band for the first time since the global economic crisis. The decline partly reflects the easing of base pressures, but ultimately comes down to the change in the pula crawl rate that has diminished imported pressures. The lack of feed through from the rand weakness into South African inflation has also been a pleasant surprise and limits the importing of inflation from across the border.

Pula (BWP) in brief

- The pula traded in a narrow range against the greenback at the end of last week, tracking USD/BWP movements. The rand's performance against the dollar was clouded by worries of labour unrest on the first anniversary of the Marikana incident. It skirted around the 10.00 barrier level for most of the day. The pula on the other hand closed Friday at 0.1168/71, stronger than its opening levels — 0.1166/69.

Figure 1: Pula outperforms the rand against the US dollar



Source: Bloomberg
Data as at August 2013

CMA

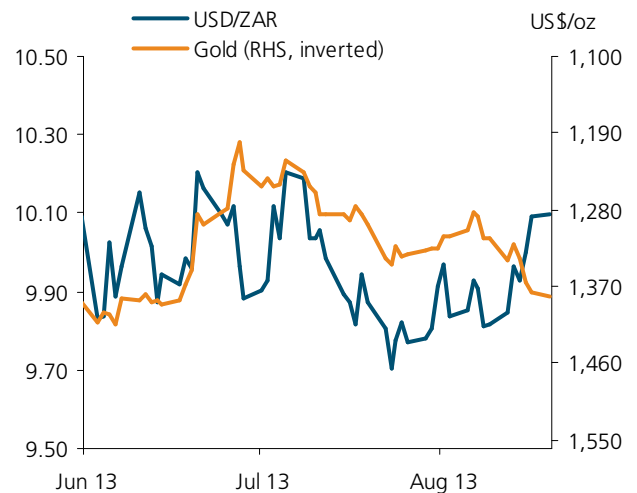
News flash

- Namibia: Headline inflation moderated to 5.8% y/y in July from 6.2% in June on account of the better than expected performance in food inflation. Most of the pricing pressure continues to emanate from the services component of the consumer basket, suggesting that the pricing power has shifted from goods to service providers. We expect inflation to average 6.3% in 2013 and continue to await the adjustment to the CPI basket weights which is likely to have some material effect on our forecast.

Rand (ZAR) in brief

- Fed tapering fears are pressurising emerging markets once again. South Africa can't escape the burden with weakness and volatility in our bonds and the rand. USD/ZAR and EUR/ZAR open at 10.08 and 13.45 with high two-way risks and a bias for rand weakness. For now, moves are orderly and well contained, but unease will grow if the market weakness continues.

Figure 2: Rand struggles to escape fears of Fed tapering



Source: Bloomberg
Data as at August 2013



Ghana

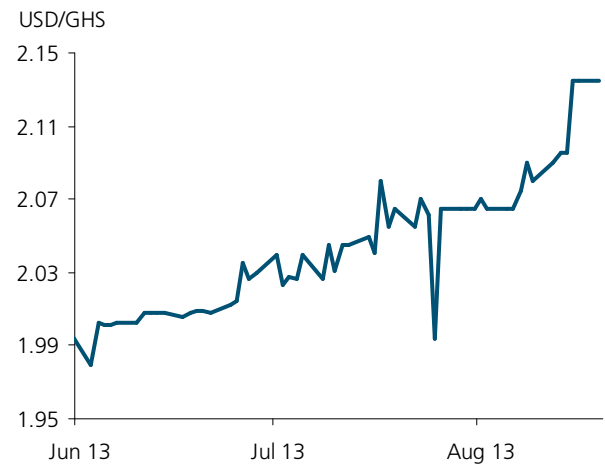
News flash

- Inflation accelerated to 11.8% y/y in July from 11.6% in June owing to a persistent increase in the food and non-alcoholic beverage component. The effect of a weaker cedi is apparent in the month-on-month change in the clothing and footwear component which increased by 2.4%. Non-food inflation remains sticky at above 10% underpinned by increases in transport and communications costs.

Cedi (GHS) in brief

- The depreciatory pressure on the cedi appears to be relentless as local corporate US dollar demand continues to outstrip supply. The impact of export proceeds are being masked by capital import requirements driving the unit weaker. The market continues to await central bank intervention, however, the BoG has limited foreign reserve holdings to smooth currency fluctuations, perhaps highlighting the need for external support. While the proceeds from the Eurobond issuance, impending 7-year local currency bond offering and forthcoming cocoa-bod auction could provide some respite to the local unit, the proceeds are unlikely to provide the necessary downward impetus to stabilise the cedi at 2.00

Figure 3: Cedi continues to drift weaker



Source: Bloomberg
Data as at August 2013

Kenya

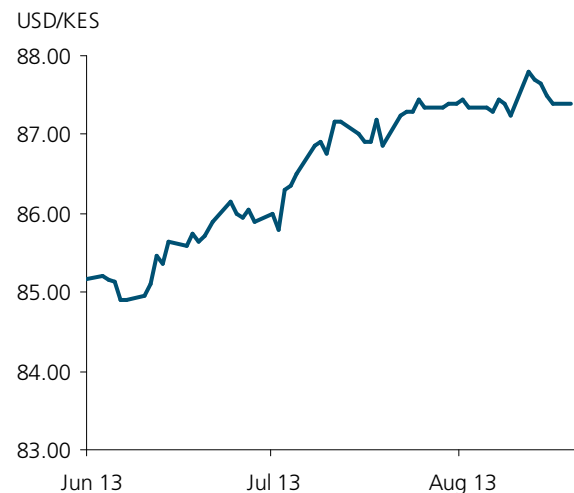
News flash

- Rising global oil prices and a weakening shilling have forced energy regulators to increase the retail prices of petrol, diesel and kerosene by KES2.74, KES1.58 and KES4.44 respectively. The change will take effect on 15 August, spanning a period of a month. This is likely to exert upward pressure on headline CPI, which printed at 6% in July primarily due to base effects.

Shilling (KES) in brief

- The shilling is poised at USD/KES87.40 but faces further depreciatory pressure over the next few days as importers purchase US dollars to fulfil month-end commitments. The reduced cost of holding long US dollar positions in the money market, following a series of reverse Repo transactions by the central bank, is likely to squeeze liquidity further.

Figure 4: Shilling is at risk of further weakness amid rising corporate demand



Source: Bloomberg
Data as at August 2013



Mozambique

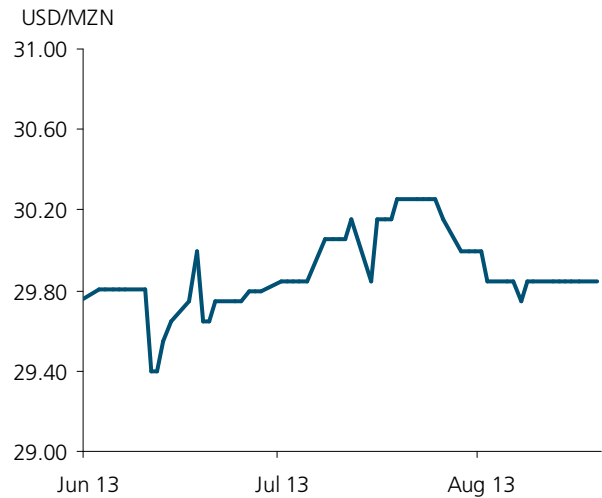
News flash

- The MPC cut its key lending rate by 25bp to 8.75% mainly due to some signs of recovery in certain developed economies like the US, while domestic inflation is slowing down. Inflation slowed for a second month in a row to 4.58% y/y in July from 4.86% in June, reflecting primarily the impact of lower food prices and the recent depreciation of the rand in neighbouring South Africa, which has taken significant pressure off Mozambique's import bill.
- S&P has lowered its ratings outlook on Mozambique from stable to negative following a string of data which reflects a significantly higher current account deficit than anticipated. The agency has cautioned against a ratings downgrade within the next year should large scale investment projects fail to come to fruition or generate the necessary economic growth to lessen Mozambique's dual deficits.

Metical (MZN) in brief

- A narrowing of the bid/ask USD/MZN spread over the course of last week suggests an improvement in domestic liquidity conditions.

Figure 5: Metical momentum is sideways



Source: Bloomberg
Data as at August 2013

Nigeria

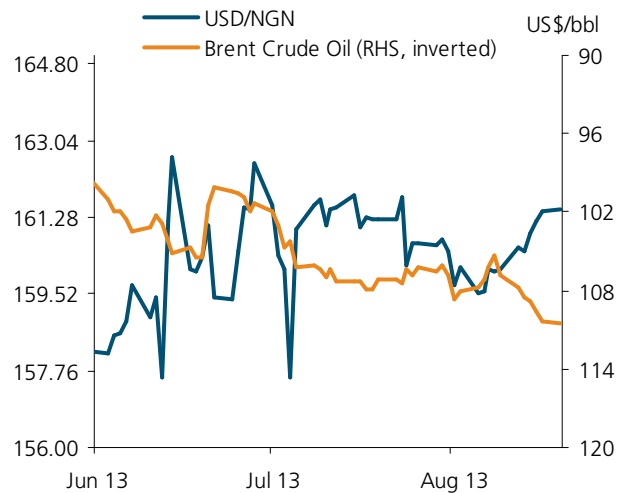
News flash

- 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

- The naira is at risk of breaching USD/NGN162.00 this week as lenders sell the local currency to fund short US dollar positions. Despite having withdrawn NGN1 trillion in liquidity from the banking system on 7 August, the CBN continues to struggle to rein in the currency to within 3% of the reference rate. A reversal in the current momentum requires a resumption in portfolio flows coupled with a boost to export proceeds.

Figure 6: Naira could breach USD/NGN162.00



Source: Bloomberg
Data as at August 2013



Tanzania

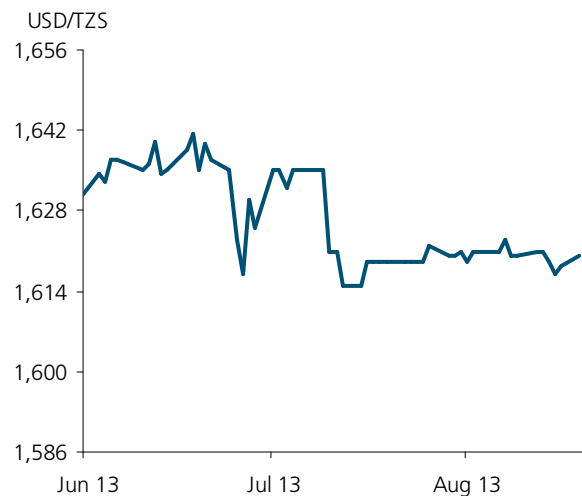
News flash

- The current account deficit has narrowed to 2.2% in the year to June due to stronger tourism and agricultural performance while imports have slowed. Revenues from tourism rose to US\$1.75bn from US\$1.49bn, but gold exports, declined to US\$1.83bn in the year to June, from US\$2.28bn a year ago, due to a decline in both export volumes and prices.

Shilling (TZS) in brief

- A slowdown in corporate demand, particularly from the oil sector, will contribute to a lessening in shilling volatility this week. We expect the currency to remain relatively range bound between USD/TZS1,611 and 1,620 with short-term momentum indicators suggesting broadly sideways trade.

Figure 7: Shilling continues to drift in a narrow range



Source: Bloomberg
Data as at August 2013

Zambia

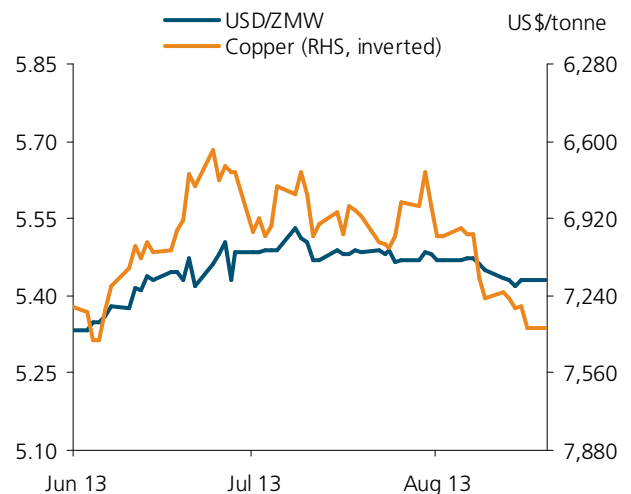
News flash

- 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

- After a good run last week, the kwacha is expected to open weaker this morning above USD/ZMW5.435. Thereafter, gradual kwacha depreciation is expected due to a favourable ZAR/ZMW rate. With the rand trading above 10.0 against the greenback, ZAR/ZMW is quite firm, trading below 0.545. This should see rand demand increase as corporates take advantage of the current levels. As market players close off their rand positions, we will see the kwacha lose ground against the dollar.

Figure 8: Kwacha weakness on the cards



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	8.58	0.21	0.99	0.09	8.55	8.64	8.77	9.00
EUR/BWP	11.38	0.24	0.00	1.69	11.39	11.52	11.69	12.01
GBP/BWP	13.37	0.62	1.12	3.35	13.35	13.49	13.68	14.02
BWP/JPY	11.40	-0.55	0.55	-2.17	1.19	1.18	1.18	1.18
Ghana								
USD/GHS	2.14	1.91	2.15	4.15	2.17	2.23	2.33	2.52
EUR/GHS	2.83	1.94	1.15	5.81	2.89	2.97	3.11	3.36
GBP/GHS	3.33	2.32	2.28	7.54	3.38	3.48	3.64	3.93
GHS/JPY	45.83	-2.20	-0.59	-5.99	211.13	217.33	227.14	244.80
Kenya								
USD/KES	87.50	-0.17	0.11	0.57	87.96	89.14	91.14	94.88
EUR/KES	116.03	-0.14	-0.86	2.19	117.25	118.86	121.56	126.63
GBP/KES	136.30	0.23	0.24	3.85	137.41	139.20	142.23	147.91
KES/JPY	1.12	-0.17	1.43	-2.65	0.90	0.91	0.94	0.98
Mozambique								
USD/MZN	29.85	0.00	0.00	0.00	29.71	30.20	30.74	31.84
EUR/MZN	39.58	0.03	-0.98	1.60	39.95	40.27	41.00	42.50
GBP/MZN	46.50	0.41	0.13	3.26	46.82	47.16	47.97	49.64
MZN/JPY	3.28	-0.34	1.55	-2.09	-	-	-	-
Nigeria								
USD/NGN	161.20	0.19	0.72	-0.37	159.75	159.75	159.75	159.75
EUR/NGN	213.75	0.22	-0.27	1.22	212.95	213.00	213.07	213.22
GBP/NGN	251.10	0.59	0.85	2.88	249.57	249.46	249.31	249.05
NGN/JPY	0.61	-0.52	0.82	-1.73	0.61	1.64	1.64	1.65
South Africa								
USD/ZAR	10.00	0.69	1.89	1.05	10.14	10.23	10.36	10.65
EUR/ZAR	13.26	0.72	0.90	2.67	13.52	13.64	13.82	14.22
GBP/ZAR	15.57	1.10	2.02	4.35	15.84	15.97	16.17	16.61
ZAR/JPY	9.79	-1.02	-0.34	-3.11	9.62	9.53	9.40	9.12
Tanzania								
USD/TZS	1,617.00	-0.12	-0.19	0.12	1,635.00	1,660.00	1,707.50	1,780.00
EUR/TZS	2,144.14	-0.09	-1.16	1.73	2,179.53	2,213.34	2,277.43	2,375.77
GBP/TZS	2,518.80	0.28	-0.06	3.39	2,554.24	2,592.16	2,664.75	2,774.93
TZS/ZAR	0.06	-0.21	1.73	-2.21	16.77	17.03	17.53	18.32
Zambia								
USD/ZMW	5.43	0.18	-0.55	-1.09	5.34	5.36	5.50	5.77
EUR/ZMW	7.20	0.21	-1.52	0.49	7.12	7.14	7.33	7.70
GBP/ZMW	8.46	0.59	-0.42	2.13	8.34	8.36	8.58	9.00
ZMW/JPY	18.02	-0.52	2.11	-1.01	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	1,380.62	6.5	-14.6	19.6	1,371.0	1,375.7
Copper US\$/tonne	7,335.50	6.0	-2.1	19.2	7,395.0	7,428.5
Softs						
Cattle US\$/lb	154.78	1.7	10.2	14.8	127.9	127.0
Cocoa US\$/tonne	2,445.00	3.4	-1.7	25.5	2,445.0	2,514.0
Coffee — Arabica US\$/lb	120.50	-1.7	-24.8	24.6	120.5	130.4
Coffee — Robusta US\$/tonne	0.00	-	-	28.0	1,901.0	1,906.0
Cotton US\$/lb	93.40	8.0	28.5	24.9	93.3	85.7
Maize — Yellow R/tonne	2,131.00	-3.1	-22.1	24.0	2,131.0	2,079.0
Maize — White R/tonne	2,289.00	-1.3	-15.7	23.7	2,289.0	2,118.0
Raw Sugar US\$/lb	16.94	4.0	-16.1	19.2	18.0	18.0
Energy						
WTI Crude US\$/bbl	107.54	-0.5	12.0	21.3	105.2	96.2

Interest rates

	3-m T-Bill		Policy rate
	July - 13 ¹	Current	Current
Botswana	4.05	4.18	8.00
Ghana	21.81	22.77	16.00
Kenya	6.86	10.40	8.50
Mozambique	4.91	5.01	8.75
Namibia	5.15	5.15	5.50
Nigeria	10.73	11.50	12.00
South Africa	5.15	5.17	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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