

# RMB Global Markets Research

## Africa markets update

9 December 2013

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### The week in focus

#### Botswana

- Least corrupt country in Africa—Transparency International
- BWP: Pula remains steady against the greenback

#### CMA

- Namibia: Fitch affirms “BBB-” sovereign rating
- ZAR: Rand holds, risks reduce

#### Ghana

- Ratings agency acting on fiscal concerns
- GHS: Depreciatory pressure on the cedi is unrelenting

#### Kenya

- Unplanned expenses necessitate increase in government borrowing
- KES: The shilling has withstood the surge in year-end demand reasonably well

#### Mozambique

- EMATUM’s US\$500m 7-year bond to be included in JP Morgan’s EM Bond Index
- MZN: The metical bucked its recent trend against the rand, weakening a tad

#### Nigeria

- Building capacity in the sugar industry gains prominence
- NGN: The naira is still basking in the glow of month-end US dollar inflows

#### Tanzania

- Inflation eased slightly to 6.2% y/y in November from 6.3% in October
- TZS: Shilling firmly entrenched below USD/TZS1,610

#### Zambia

- BoZ to commence Basel II testing in January 2014
- ZMW: The justification for kwacha weakness is largely domestic in nature

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## Botswana

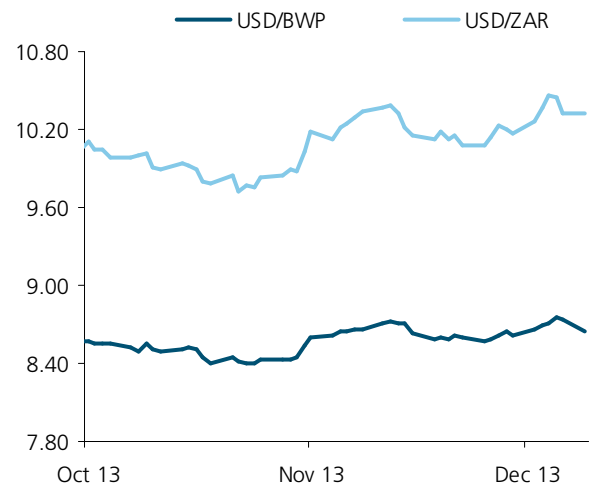
### News flash

- Transparency International's 2013 report on corruption ranks Botswana as the least corrupt country in sub-Saharan Africa (SSA). The Corruption Perceptions Index measures the perceived levels of public sector corruption in 177 jurisdictions worldwide. Scores vary from highly corrupt (0) to very clean (100). Ninety percent of countries in SSA score below the mid-point, with Somalia rated as the worst, emphasising that corruption remains one of the most problematic factors for doing business in Africa. The index is a key input in RMB's operational index which is used to derive our annual results on the most attractive investment destinations in Africa.

### Pula (BWP) in brief

- The pula remained steady against the greenback on Friday mainly taking cue from the rand. The rand was unshaken by the death of the former South African president Nelson Mandela. The investors were awaiting the US payrolls data in the afternoon for clear direction. However, we expect the pula to open stronger this morning around 0.1152/54 compared with Friday's close at 0.1142/45. Against the rand the pula should open weaker at 1.1898/1.1928 from 1.1953/83 close on Friday.

Figure 1: Pula remaining steady against the US dollar



Source: Bloomberg  
Data as at December 2013

## CMA

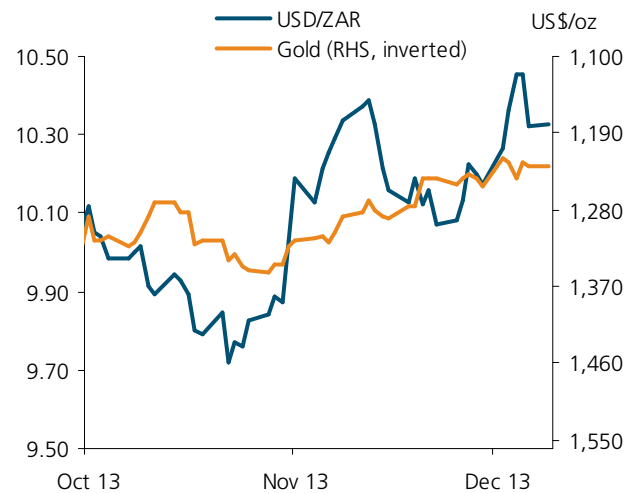
### News flash

- **Namibia:** Fitch Ratings has affirmed Namibia's long-term foreign currency rating at 'BBB-' with a stable outlook. The rating is supported by low public debt at 26% of GDP, robust growth, necessary fiscal prudence, an expected increase in foreign exchange reserves and a stable political environment. Fitch reports that the up and downside risks are well balanced. Positive aspects include strong improvements in the mining sector (especially uranium), government strategy to diversify the economy and focus on other sectors like tourism and manufacturing, and continued efforts to develop non-SACU revenues. On the negative front, a rating action can be caused by weaker global growth through SACU receipts and low demand for commodities, while a higher-than-expected government deficit would weaken the country's debt ratio.

### Rand (ZAR) in brief

- USD/ZAR is back in the low 10.30s this morning. Risks still remain but the threat of a run on the rand has reduced meaningfully, not least because tapering may now be priced. This week is quiet on the data and event front but expect volatility today as the markets continue to absorb the US jobs data. The focus will then shift to next week's Fed meeting.

Figure 2: Threats of a run-off reduces



Source: Bloomberg  
Data as at December 2013



## Ghana

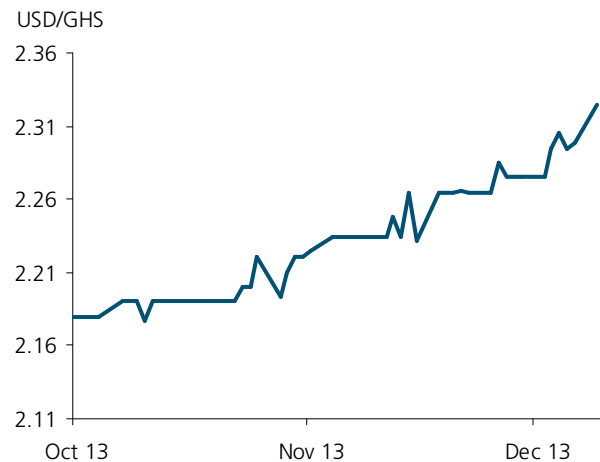
### News flash

- Standard & Poor's revised the sovereign risk rating outlook from stable to negative, citing the possibility of a downgrade over the next two years as the fiscal and external position poses a threat to the country's debt position.
- The Dutch government has extended a hand to Ghana's cocoa industry by initiating a rehabilitation and intensification programme aimed at providing economic, social and environmental assistance to farmers. The programme, valued at €21m, is a joint initiative undertaken by the Dutch government and private investors to promote cocoa production in the world's second largest producer of the bean. The support is welcomed as exports are declining — according to the BoG, cocoa exports dropped by 33.5% between January and October this year.

### Cedi (GHS) in brief

- Depreciatory pressure on the cedi is unrelenting. The indicative bid rate, quoted on Reuters, has breached USD/GHS2.30 on the back of robust year-end demand for hard currency. Support and resistance is apparent at 2.2950 and 2.3250. The cedi is expected to ebb and flow within this narrow range.

Figure 3: Cedi continues to lose ground to the US dollar



Source: Bloomberg  
Data as at December 2013

## Kenya

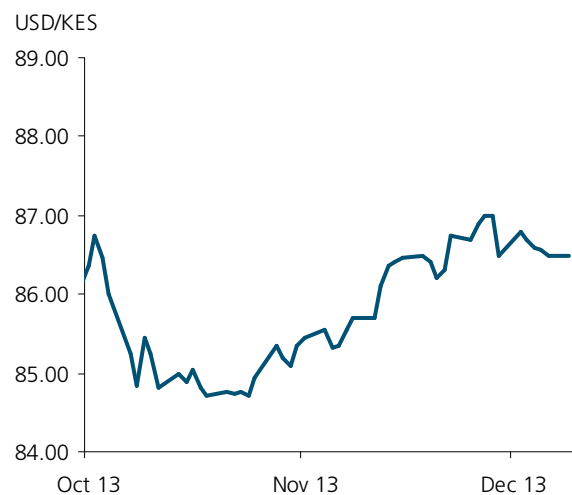
### News flash

- Unplanned expenses, notably the higher than expected teacher's wage settlement agreed to in July, will result in a KES20bn to KES30bn expansion in government borrowing in the current fiscal year. The Finance Ministry stated that a ballooning wage bill poses a threat to the funding of vital projects outlined in the Vision 2030. It is unclear whether the additional funds will be derived from the domestic market or extracted from the proceeds of the forthcoming Eurobond issuance. Details will be announced as part of a supplementary budget which should be released before the end of the calendar year. Regardless of the source, borrowing is 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

- Notwithstanding the 1.1% loss in November, the shilling has withstood the surge in year-end demand reasonably well. We could, however, observe a burst of activity next week as orders are fulfilled before year-end and commercial banks make the most of abundant money market liquidity. The shilling is likely to come under pressure but losses should occur at a measured pace.

Figure 4: Withstanding surge in dollar demand



Source: Bloomberg  
Data as at December 2013



## Mozambique

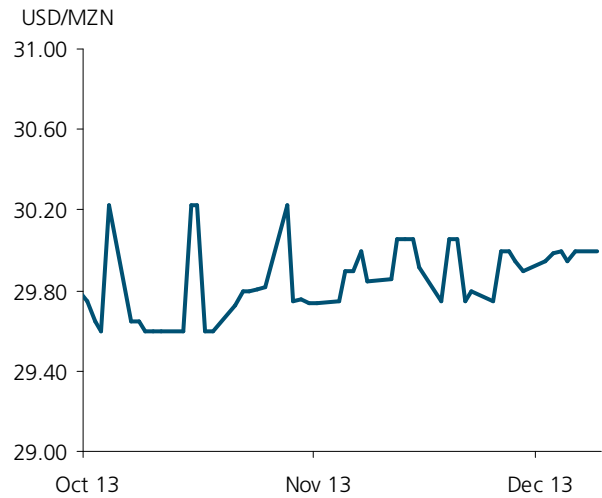
### News flash

- JP Morgan has incorporated Mozambique's maiden US dollar issuance into its emerging markets bond index. Only issues with a current face value of US\$500m or more and a remaining life of greater than 2.5 years are eligible for inclusion. The US\$500m 7-year amortising bond was issued by the Mozambique Tuna Company (EMATUM) in September and sold as loan participation notes at a yield of 8.5%. A further US\$350m was raised on behalf of the SOE shortly thereafter to satisfy overwhelming demand. Although there are concerns regarding the allocation of funds, with 68% of funds lying in wait, investors seem unperturbed, clamoring to gain exposure to Mozambique's favourable growth prospects.

### Metical (MZN) in brief

- The metical bucked its recent trend against the rand, weakening a tad last week. The possibility of further rand depreciation bodes well for local importers of South African products, however, a percentage of gains will be eroded through translation as the metical loses ground to the US dollar.

Figure 5: Metical teetering close to USD/MZN30.00



Source: Bloomberg  
Data as at December 2013

## Nigeria

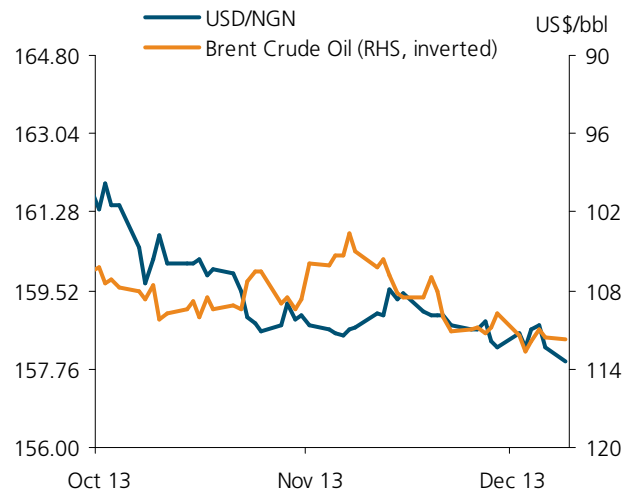
### News flash

- Building production capacity in the sugar industry has gained prominence as the government pursues a target of 1.7m tonnes by 2018 to help reduce its US\$11bn food import bill, stimulate local production and lessen food insecurity. The oil sector has absorbed the lion's share of public and private sector investment over the last 50 years, crippling Nigeria's farming sector which lacks the necessary infrastructure to transform subsistence activities into commercial opportunities. The US Department of Agriculture has expressed scepticism over the Nigerian government's proposed target as it would require a 42.5% increase in production over the next five years.

### Naira (NGN) in brief

- The naira is still basking in the glow of month-end US dollar inflows, trading firmly below USD/NGN159.00, and should receive a further boost from the purchase of government bonds by offshore investors at the securities auction this week. The CBN's management of excess liquidity should ensure that the naira ends 2013 within the upper 3% band.

Figure 6: Naira boosted by month-end US dollar sales



Source: Bloomberg  
Data as at December 2013



## Tanzania

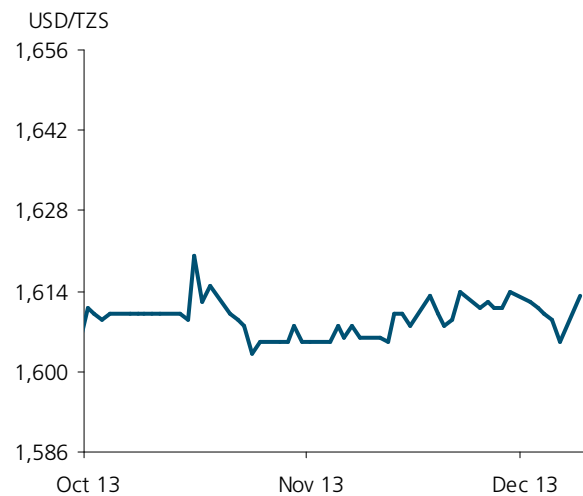
### News flash

- Inflation eased slightly to 6.2% y/y in November from 6.3% in October due to the slowdown in the pace of price increases in commodities. The main driver of inflation was the increase in food and non-alcoholic beverages to 7.2% from 6.9%.
- EWURA has raised retail fuel prices owing to fluctuations in the international oil price. The burden on consumers is likely to be magnified by the recent amendment to the petroleum pricing formula. The increase will probably manifest in December's inflation figure as petroleum products make up the second largest line item in the consumer price index. Headline CPI inched up to 6.3% y/y in October from 6.1% in September.

### Shilling (TZS) in brief

- The demand for local currency to meet year-end commitments should outweigh import orders, keeping the shilling firmly entrenched below USD/TZS1,610 this week. A slowdown in US dollar demand is evident in the BoT's flow data — US\$31m was traded on the interbank market over the past week, slightly less than the US\$32.35m registered in the last week of November.

Figure 7: Slowdown in US dollar demand



Source: Bloomberg  
Data as at December 2013

## Zambia

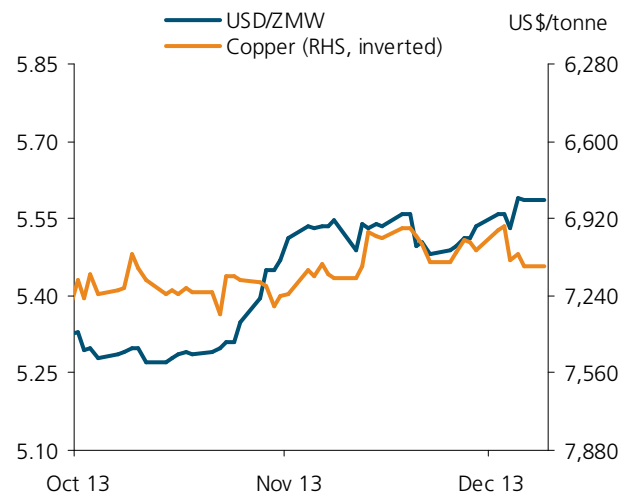
### News flash

- The BoZ will commence Basel II testing in January 2014 to assess the solvency of Zambia's banking sector and bring it in-line with international regulatory standards. The second of the Basel Accords aims to align economic and regulatory capital to reduce the scope for regulatory arbitrage — taking advantage of loopholes in regulatory systems to avoid unfavourable regulations. The BoZ increased the minimum capital requirements on local and foreign entities in January 2012 in an effort to fortify the banking sector. A bank closure was last observed in the 1990s following a liquidity crisis which led to the rationalisation of the sector. There are currently 19 commercial banks in operation.

### Kwacha (ZMW) in brief

- The kwacha's recent movements are akin to those in emerging markets suggesting that it is trading off similar fundamentals. US dollar demand consumed the foreign exchange market last week, rendering the kwacha helpless in the absence of inflows, from either export earnings or the central bank. The USD/ZMW5.60 is within reach, though a breach of this level would have an impact on inflation. This might force the BoZ to intervene.

Figure 8: Kwacha trading off global fundamentals



Source: Bloomberg  
Data as at December 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	8.76	0.57	1.36	1.58	8.62	8.72	8.84	9.11
EUR/BWP	11.97	1.09	1.87	2.73	11.81	11.94	12.12	12.48
GBP/BWP	14.30	0.21	1.35	3.99	14.09	14.24	14.43	14.83
BWP/JPY	11.62	-0.90	-1.87	1.54	1.20	1.20	1.19	1.19
<b>Ghana</b>								
USD/GHS	2.30	-0.43	0.88	2.68	2.21	2.28	2.38	2.54
EUR/GHS	3.14	0.08	1.39	3.85	3.03	3.12	3.25	3.48
GBP/GHS	3.75	-0.79	0.87	5.12	3.61	3.72	3.88	4.14
GHS/JPY	44.34	0.10	-1.40	0.45	227.36	234.39	244.34	260.69
<b>Kenya</b>								
USD/KES	86.56	-0.05	-0.51	1.18	87.01	87.96	89.47	93.10
EUR/KES	118.28	0.47	0.00	2.33	119.25	120.56	122.63	127.65
GBP/KES	141.35	-0.40	-0.52	3.58	142.22	143.71	146.06	151.73
KES/JPY	1.18	-0.29	-0.03	1.94	0.85	0.86	0.87	0.91
<b>Mozambique</b>								
USD/MZN	29.95	-0.17	0.00	0.67	29.71	30.36	30.96	32.06
EUR/MZN	40.93	0.35	0.51	1.82	41.28	41.61	42.44	43.96
GBP/MZN	48.91	-0.52	-0.01	3.06	49.23	49.60	50.55	52.25
MZN/JPY	3.40	-0.17	-0.54	2.45	3098.52	3122.11	3182.05	3289.56
<b>Nigeria</b>								
USD/NGN	158.75	0.06	0.22	0.06	159.75	159.75	159.75	159.75
EUR/NGN	216.93	0.58	0.73	1.20	218.94	218.95	218.96	219.03
GBP/NGN	259.24	-0.29	0.21	2.44	261.11	261.00	260.81	260.35
NGN/JPY	0.64	-0.40	-0.76	3.08	0.64	1.57	1.57	1.57
<b>South Africa</b>								
USD/ZAR	10.45	-0.02	2.49	3.22	10.38	10.47	10.61	10.94
EUR/ZAR	14.28	0.49	3.01	4.39	14.21	14.34	14.55	14.99
GBP/ZAR	17.07	-0.37	2.48	5.67	16.95	17.10	17.33	17.82
ZAR/JPY	9.73	-0.31	-2.95	-0.07	9.92	9.83	9.68	9.39
<b>Tanzania</b>								
USD/TZS	1,609.00	-0.06	-0.12	0.25	1,623.50	1,657.00	1,718.75	1,813.75
EUR/TZS	2,198.70	0.45	0.38	1.39	2,225.04	2,271.01	2,355.77	2,486.74
GBP/TZS	2,627.50	-0.42	-0.14	2.63	2,653.64	2,707.25	2,805.98	2,955.91
TZS/ZAR	0.06	-0.27	-0.41	2.89	15.78	16.11	16.72	17.68
<b>Zambia</b>								
USD/ZMW	5.59	1.08	1.45	0.99	5.34	5.36	5.50	5.77
EUR/ZMW	7.64	1.61	1.97	2.14	7.32	7.34	7.53	7.91
GBP/ZMW	9.13	0.73	1.44	3.39	8.73	8.75	8.97	9.41
ZMW/JPY	18.20	-1.40	-1.96	2.13	0.05	0.05	0.05	0.06

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



## Commodities prices

	Current	m/m % change	y/y % change	Implied volatility	3-month future	12-month future
<b>Metals</b>						
Gold US\$/oz	1,229.55	-4.6	-27.8	18.4	1,229.0	1,231.8
Copper US\$/tonne	7,113.00	-0.2	-10.7	19.0	7,122.5	7,100.3
<b>Softs</b>						
Cattle US\$/lb	164.48	0.0	10.6	14.8	132.9	129.0
Cocoa US\$/tonne	2,813.00	6.3	13.8	24.5	2,803.0	2,783.0
Coffee — Arabica US\$/lb	105.80	1.7	-25.5	22.6	106.4	116.4
Coffee — Robusta US\$/tonne	0.00	-	-	30.1	1,721.0	1,628.0
Cotton US\$/lb	80.48	4.7	9.1	19.5	80.4	76.6
Maize — Yellow R/tonne	2,670.00	14.7	6.5	24.0	2,580.0	2,117.0
Maize — White R/tonne	2,723.00	12.5	11.8	23.7	2,673.0	2,198.0
Raw Sugar US\$/lb	16.59	-8.2	-13.6	15.2	18.0	18.0
<b>Energy</b>						
WTI Crude US\$/bbl	97.81	3.4	13.8	15.0	97.7	92.5

## Interest rates

	3-m T-Bill <sup>1</sup>		Policy rate
	Nov - 13	Current	Current
Botswana	3.61	3.58	8.00
Ghana	18.15	18.68	16.00
Kenya	9.82	9.63	8.50
Mozambique	5.21	5.21	8.25
Namibia	5.15	5.15	5.50
Nigeria	11.02	10.89	12.00
South Africa	5.11	5.15	5.00
Tanzania	13.40	13.54	OMO <sup>2</sup>
Zambia	7.50	7.41	9.75

## 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+

<sup>1</sup> End of month

<sup>2</sup> Open Market Operations

Source: Bloomberg, Reuters, FNB Mozambique, RMB Namibia, RMB Global Markets  
All data as at December 2013

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



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