RMB Global Markets Research

Sub-Saharan Africa Outlook

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27 February 2015

What to watch

- Ghana: IMF agrees to Ghana support

The IMF has agreed to a US$933m, 3-year loan to support Ghana's ailing economy. The plan will be presented to the IMF's board for approval in April, with the first payment of about US$100m to come to fruition shortly thereafter. The loan will have a zero interest rate ,with repayment over 10 years, and will be used by the central bank to boost foreign-currency reserves (currently at US$4.9bn).

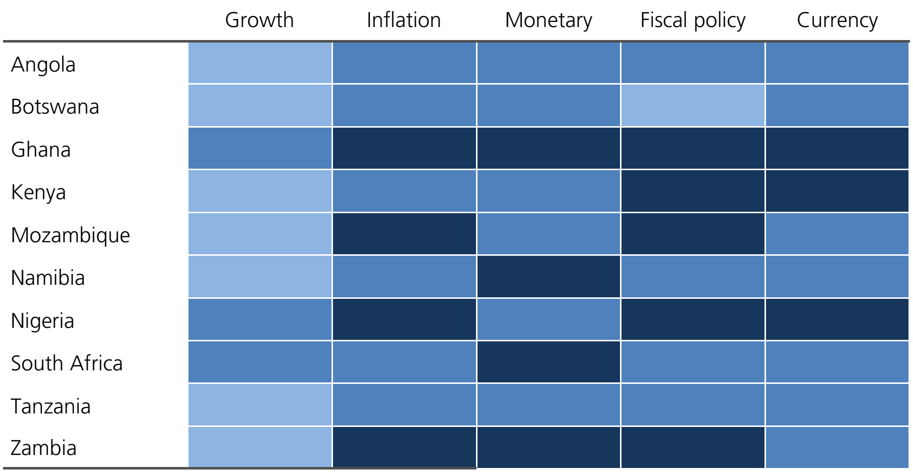
- Nigeria: RDAS closed for business

In an unprecedented but necessary move, the CBN pronounced the RDAS/WDAS window closed with immediate effect on 18 February. All foreign exchange demand is now routed through the interbank market, suggesting that the naira will eventually be determined by forces of supply and demand. For now, the CBN will sell US dollars at a set rate to ensure that liquidity is readily available to meet legitimate demand. This serves as an effective devaluation of the naira, following a period of sustained divergence between the interbank and RDAS rates.

- Zambia: Tapping the international capital market

The government is set to issue a US$1bn dual-tranche bond to fund infrastructure projects, especially for transport. The bond will be split between US dollar- and kwacha-denominated paper, with the first US$250m to be issued next month. Funds for the kwacha-bond will be sourced from local banks and the dollar tranche from international lenders.

February highlights and risks



Note:
The colours represent risks to each macroeconomic indicator, where dark blue represents a deterioration in the outlook.

Contents

Analysts

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Angola

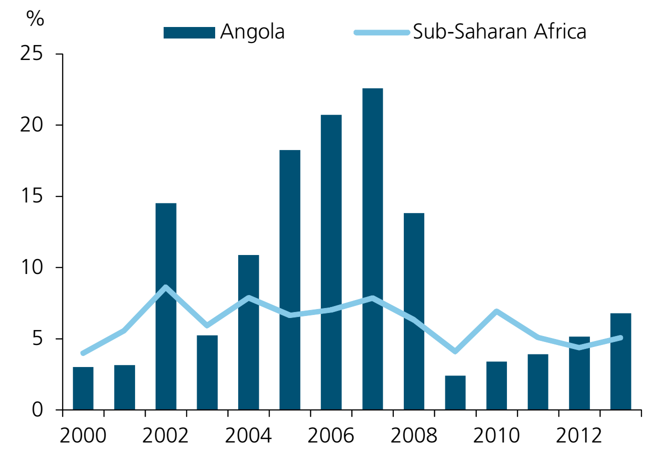
Macroeconomics

GDP	The declining trends in crude oil prices continue to increase risks to growth. In fact, ratings agency S&P downgraded Angola in February from 'BB'- to 'B+' (stable outlook). Oil-related revenues still accounted for 70% of total fiscal receipts in 2014 and an estimated 95% of exports. Lower public and private expenditures, weaker credit growth, and lower corporate profitability combined with lower-than-expected oil prices have prompted us to downwardly adjust our growth forecast from 3.5% to 3% in 2015 and 4% in 2016.
Inflation	Headline inflation dropped slightly to 7.44% y/y in January from 7.48% in December, mainly due to stable food and non-alcoholic beverage prices. However, the lower oil prices continue to drive the weakness seen in the kwanza over the past few months. Although not our core view, oil prices have been low for a sustained period and could possibly lead to a large jump in the currency peg. Consequently, the trade balance will feel the pain as almost 80% of all consumer goods are imported (especially food and fuel). For now we expect inflation to average 8.3% and 8.5% in 2015 and 2016.
Monetary policy	The BNAleft its benchmark lending rate unchanged at 9% in February, citing stable inflation. The oil price dip has been a game-changer for Angola's monetary policy stance. After cutting rates in July 2014, the BNA hiked its policy rate to 9% in October as a precaution to maintain current inflation levels for the first time since its inception in 2011. Although inflation remains below 10%, which is a main target for the central bank, inflationary pressures remain strong, including the effect of the fuel subsidy reduction as well as the significant pressure on the import bill as the kwanza continues to depreciate as a result of falling oil prices. We anticipate a 100bp – 150bp hike in 2015 if the oil price remains lower for longer.
Fiscal policy	The new proposal for changes to the budget assumptions has prompted us to change our 5% deficit view for 2015 and 2016 to 7% and 6% respectively. The cabinet has requested Parliament to drop the oil price assumption of the 2015 budget from US$81/bbl to US$40/bbl. The finance ministry said the cut would reduce US$14bn of the overall budget. We also expect large cuts to the capital expenditure budget, subsidies, and purchases of goods and services. Payments abroad to public construction companies have already been temporarily suspended, which will mostly affect Portugal's construction industry. The continued fall in international oil prices prompted S&P to widen its budget deficit forecast to 5% over the medium term (2015 – 2017). The ratings move was expected as S&P had an initial 1% surplus forecast for the budget. Although Angola has external and fiscal reserves to buffer against a significant worsening in the economic environment, S&P anticipates a deterioration in Angola's debt metrics, with government debt rising to over 30% of GDP in 2015 from 23% in 2014 .

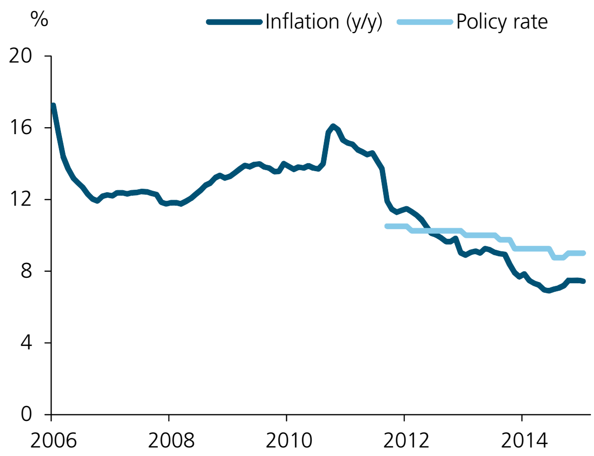
Financial markets

Foreign exchange	One need only track the oil price to estimate the kwanza's movements as the currency moves in tow with the Brent crude price. Substantially lower prices have eroded Angola's terms of trade, setting the kwanza on a steep depreciatory trend. The parallel rate is trading almost 30% weaker than the official unit, highlighting the severe strain on domestic liquidity which has been exacerbated by stringent capital controls. The central bank's attempts to smooth adverse currency movements by selling US dollar reserves had little impact on the foreign exchange market. USD/AOA105 is a key resistance level. A consistent breach of this mark increases the possibility of a sharp once-off adjustment.
Fixed income	The government has announced its intention to borrow US$10bn offshore and a further US$16bn onshore to support its battling economy. Lower oil prices has prompted authorities to look at tapping the international market via a World Bank loan, a Eurobond issuance, and getting billions in funding from China. The government is also set to pay up to 7% for maturities ranging between three months and five years in domestic paper. This will substantially increase Angola's current debt levels – the Finance Ministry expects public debt stock to increase to US$48.3bn, which is 35.5% of GDP split between foreign debt of 24.5% and domestic debt of 11%.

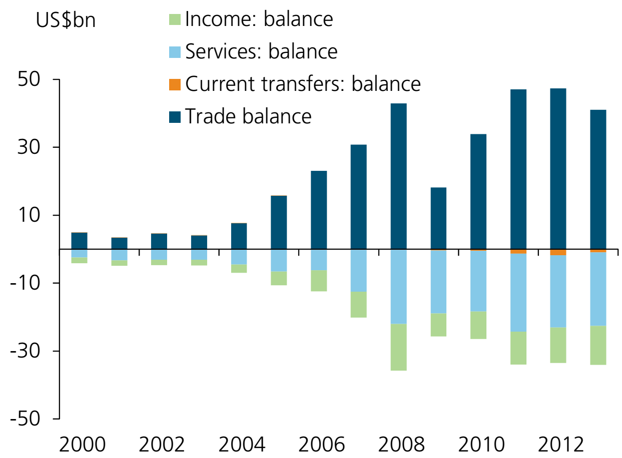
Real GDP growth vs. sub-Saharan Africa growth



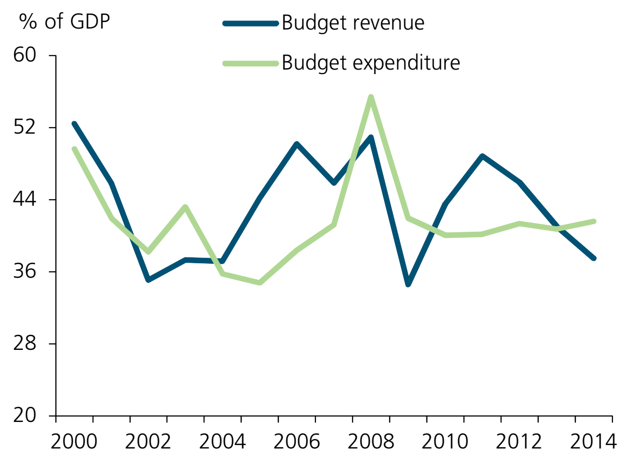
Inflation vs. policy rate



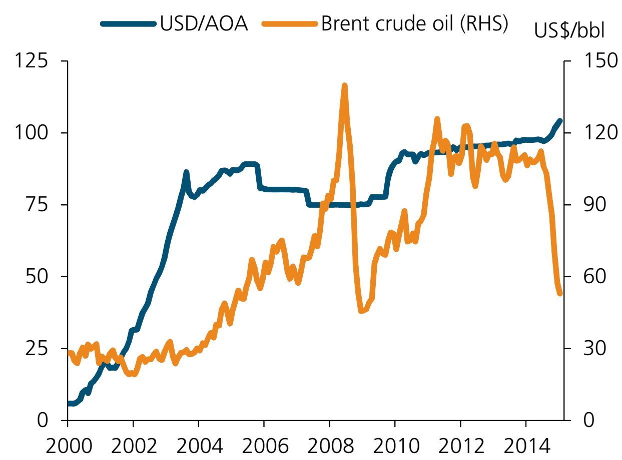
Current account breakdown



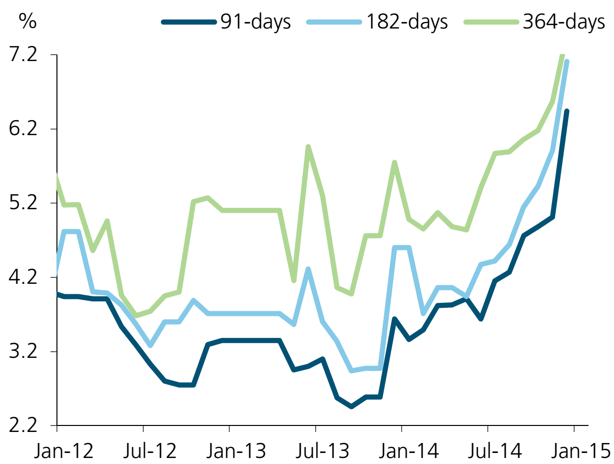
Budget revenue vs. budget expenditure



Currency vs. main commodity export (monthly data)



T-bill rates

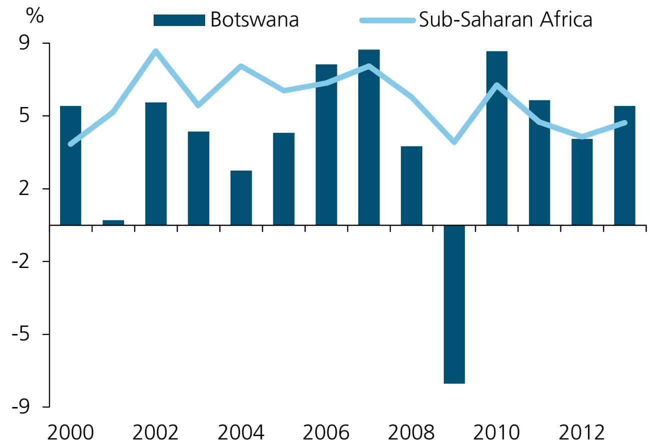


Source: IMF, EIU, BNA, Bloomberg
Data as at February 2015

Botswana

Macroeconomics	
GDP	Total growth is estimated at 4.8% in the twelve months ended September 2014, compared to 5.8% in 2013. This is attributable to mining output which grew by 5.5% compared to non-mining output's 4.7%. We anticipate GDP to moderate around 5.0% over the next three years. Consumer spending and credit growth is expected to be subdued in 2015. Risks to the economy include global underperformance, underperformance of non-mining private sector as well as water and electricity shortages.
Inflation	Inflation remains within the medium-term objective of 3% – 6% and printed at a historic low of 3.6% in January 2015. We expect inflation to average 3.8% in 2015, with relief from imported inflation and sustained low oil prices. The upside risk remains in the anticipated alcohol levy and tariff hikes.
Monetary policy	The Bank of Botswana cut the bank rate by 100bp to 6.5% in February — 50bp more than we had anticipated. Should the Bank keep the rate at this level until December, Botswana's weighted real rate differential with South Africa and the US will move towards the bottom of the historical range exhibited since 2000. The BoB would therefore have limited scope for further reductions in the policy rate. We expect an upward trajectory in 2016.
Fiscal policy	A balanced budget was restored in 2012/13 after four years of deficits. The 2015/16 fiscal budget is estimated with a surplus of BWP1.3bn (0.8% of GDP). The country maintains a twin surplus on fiscal budget and the current account.
Financial markets	
Foreign exchange	Recent adjustments to the pula peg have not had any short-term impact and should have limited impact in the long run. We expect BWP/ZAR to end 2015 at 1.20 and USD/BWP at 9.18. The forecasted currency movements (appreciating against the rand while depreciating against the US dollar) are ideal for a positive current and capital account.
Fixed income	The BWP15bn bond programme is being slowly rolled out, with an issuance of BWP540m scheduled for early March. The central bank is likely to continue accepting bids closer to the inflation rate and therefore the full allotment is unlikely. The longer-term BW003 will mature in October 2015 and there is no indication on whether this will be re-issued.

Real GDP growth vs. sub-Saharan Africa growth



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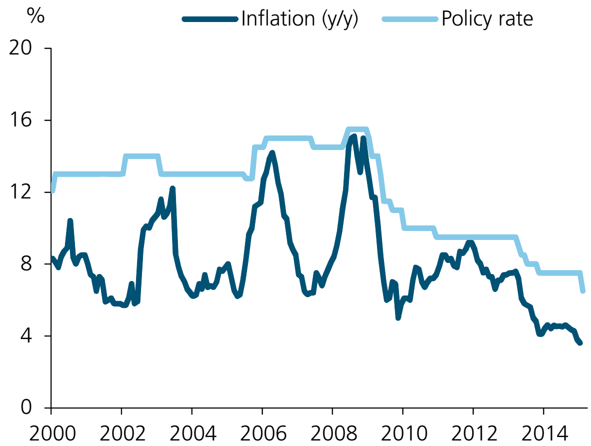

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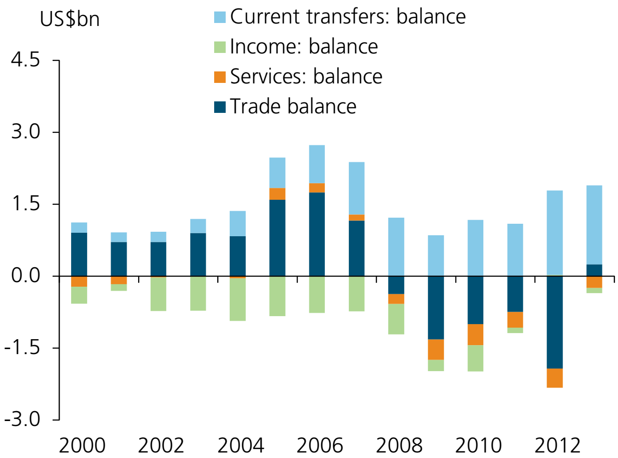

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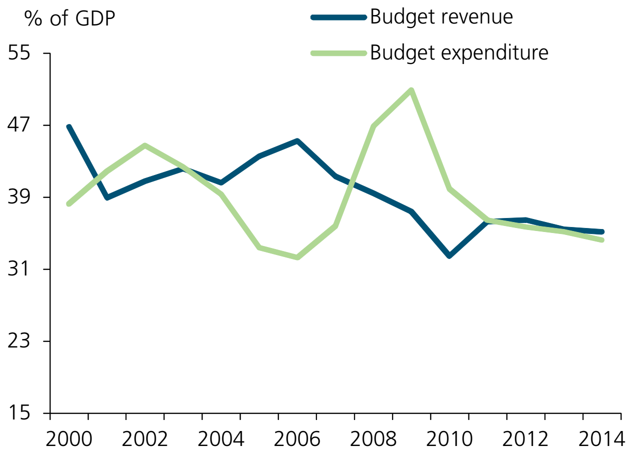

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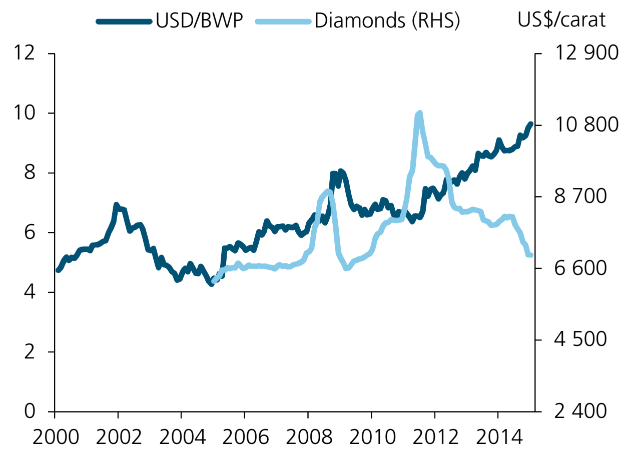
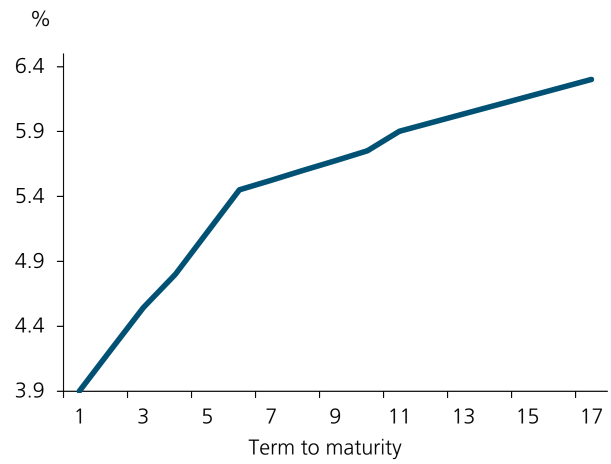


Yield curve



Source: IMF, EIU, Bloomberg, Central Statistics Office of Botswana
Data as at February 2015

Ghana

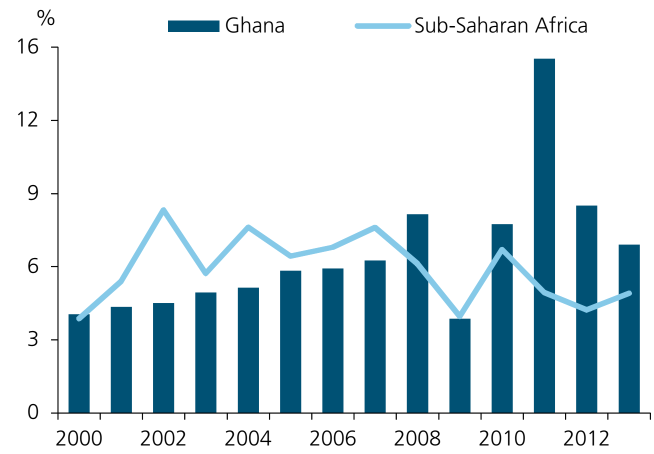
Macroeconomics

GDP	Risks to the growth outlook remain tilted to the downside as a result of energy sector challenges, more fiscal consolidation, a tight monetary policy stance and lower oil prices. The latest data from the statistics office estimates a GDP growth rate of 4.2% for 2014, compared to 7.3% in 2013. On the positive side, consumer and business confidence indicators have picked up over the past month as we saw strong growth numbers in credit to the private sector, while the IMF deal will improve investor sentiment. We forecast economic growth to slow to 4% in 2015 on the back of falling oil and gold prices and fiscal austerity measures. However, in 2016, we expect a recovery to 5%.
Inflation	Headline CPI moderated to 16.4% y/y in January from its peak of 17% in December. Stable food costs and lower international oil prices exerted downward pressure on annual food, transport and fuel inflation. Although a prolonged energy crisis will increase output costs, we believe inflation will continue on a slow downward trend due to base effects, lower inflation expectations, and fiscal consolidation stemming from the imminent IMF programme.
Monetary policy	The central bank kept is benchmark policy rate at 21% in February due to declining inflation, spurred by tight monetary policy, base effects and improved inflation expectations as oil prices remain low. Same as consensus, we expected the MPC to stay put, especially as the central bank and market await more information on the IMF talks on a much-needed financial package. Until then we anticipate the policy rate to remain unchanged — tight monetary policy will continue to keep the currency stable and tame high inflation throughout 2015. The IMF agreement, expected in April, will give more clarity and reassurance to financial markets, easing pressure on the currency, and we can also expect further monetary and fiscal policy tightening thereafter to help rebalance the economy.
Fiscal policy	The IMF has agreed to a US$933m, 3-year loan to support Ghana's ailing economy. The plan will be presented to the IMF's board for approval in April, with the first payment of about US$100m to come to fruition shortly thereafter. The loan will have a zero interest rate ,with repayment over 10 years, and will be used by the central bank to boost foreign-currency reserves (currently at US$4.9bn).The conditions of the programme will include strong fiscal consolidation based on expenditure restraint, especially with regard to the wage bill. The IMF believes the government's budget deficit target for 2015 will me overstepped due to the lower oil price, and should breach 7.5% of GDP, but will narrow to 3.5% by 2017 if the consolidation plans are adopted properly.

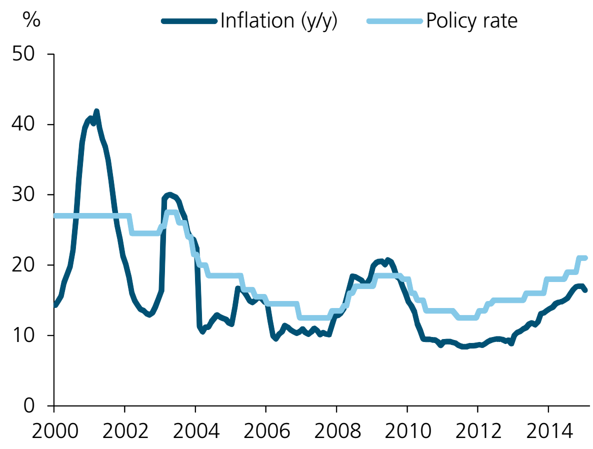
Financial markets

Foreign exchange	Seasonal dollar demand linked to first quarter imports, paired with a hint of speculative dollar buying, has underpinned the cedi's recent bout of weakness. The BoG has kept a close watch on proceedings to ensure that the currency is maintained in a stable band. However, despite its best intentions, the local interbank remains largely illiquid. Regardless of the positive implications of an IMF-led support programme, the onus will still be on policymakers to apply prudent fiscal and monetary measures. That said, the foreign exchange market was impervious to the positive rhetoric expressed by the BoG at its February MPC meeting. The local unit maintained an upward trajectory against the US dollar, weakening to 3.46. The settlement of the GHS630m 3-year bond auction provided marginal support to the cedi, though momentum indicators suggest the unit could sustain a depreciatory trend, at least in the short term. We continue to support gradual currency depreciation this year.
Fixed income	The BoG successfully issued a GHS630m 3-year bond in February — the first in more than six months. The bond was 1.4 times oversubscribed, with more than 70% of the offers emanating from offshore participants. The central bank accepted 74% of the bids at a yield of 23.23%, marginally lower than expected, signalling a slight improvement in confidence. The auction coincided with the commencement of the government's final round of talks with the IMF, which appears to have buoyed market sentiment. While yields continue to appear attractive, we advise caution as the cedi continues to weaken gradually in response to Ghana's external imbalances.

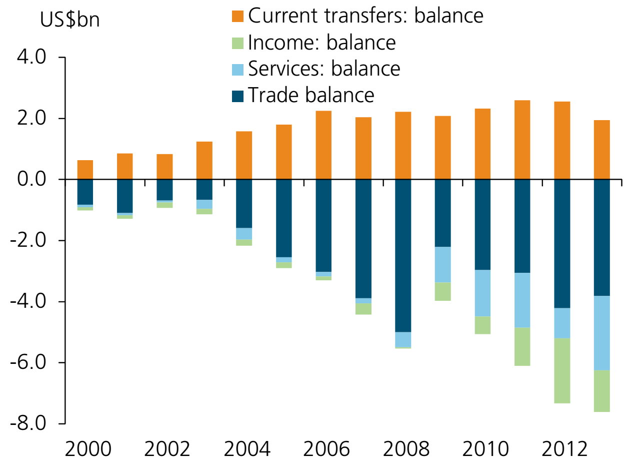
Real GDP growth vs. sub-Saharan Africa growth



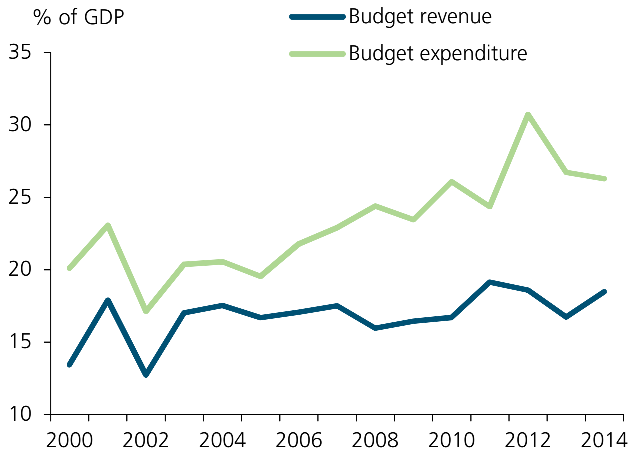
Inflation vs. policy rate



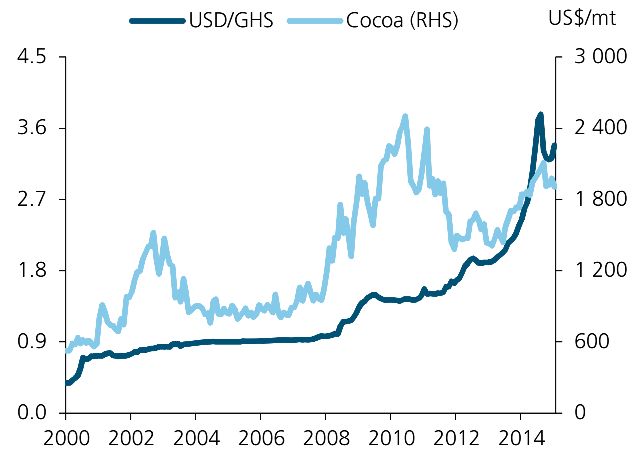
Current account breakdown



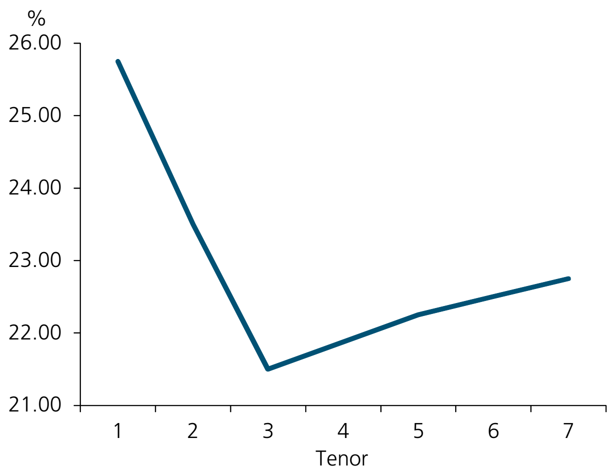
Budget revenue vs. budget expenditure



Currency vs. main commodity export (monthly data)



Yield curve



Source: IMF, EIU, Bloomberg
Data as at February 2015

Kenya

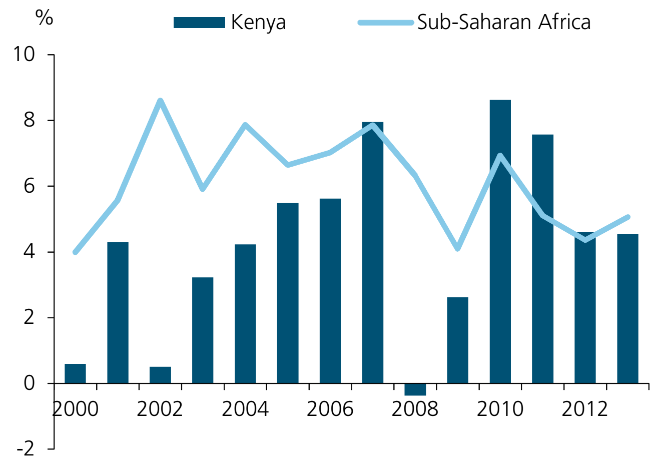
Macroeconomics

GDP	Fitch's recent affirmation of Kenya's long-term foreign and local currency issuer ratings at B+ and BB– is premised on a consistent loosening of its public finances, highlighting a primary risk to our growth medium-term GDP growth forecast. Though stable, the agency's outlook is threatened by growing public debt ratios and the risks associated with increased reliance on commercial debt, high carry costs if shovel-ready projects are unavailable, as well as repayment risk posed by large issue sizes. Kenya's inability to fund its burgeoning current account with sustainable inflows and the prospect of a tenuous political environment could easily trigger a ratings downgrade. An upward adjustment to the country's ratings band would be forthcoming if the state enacts measures to strengthen its business environment, consolidate its finances and improve its record of economic management. This supports our 6.1% and 6.8% forecasts for 2015 and 2016.
Inflation	Annual headline inflation eased to 5.53% in January from 6.02% in December owing to sharp fuel price cuts. The drop in the weighted average cost of imported refined petroleum products lowered the cost of super petrol by KES9.13, while diesel and Kerosene went down by KES7.50 and KES5.78 respectively. A gradual conversion from oil-based power to renewable energy should continue to lower the fuel levy and retail energy tariffs, ensuring that utility prices are contained in 2015. However, an increase in the variable levy (which is added to the basic charge) on account of shilling weakness could offset the reduction in the fuel charge.
Monetary policy	Subsiding inflationary pressures, relative currency stability and growing business confidence, provided the justification for the CBK to stay pat on its benchmark interest rate at its second MPC sitting for the year. We did not foresee any change to the Bank's current monetary policy stance due to the limited FX pass-through to headline inflation and muted demand-driven inflationary forces which have kept core inflation anchored below 4%. Despite the variability in food prices, the CBK contends that inflation will trend toward its medium-term target of 5%. However, a seasonal mean reversal in food prices is likely to arrest the drop in inflation in 2H15, especially if the rainy season between March and May is below average. Coupled with accelerated credit growth, a recovery in the oil price, a narrowing of the output gap and a slightly weaker currency, renewed food price inflation should prompt the CBK to change tack. We anticipate a 100bp of hikes this year, commencing in 2Q15.
Fiscal policy	In an attempt to mitigate repayment risk, the government has secured 1-year precautionary loans from the IMF valued at a total of US$688m. The institution will make the monies available to Kenya should it encounter external shocks which could impair the state's abilities to meet its financial commitments. Roughly 77% of the loan will be made available immediately, with the remaining amount split into two equal tranches upon completion of the IMF's semi-annual programme reviews. Kenyan authorities are adamant that they will not draw down on the funds unless the country encounters severe balance of payments problems, but retain the option to do so under the new Stand-By Arrangement framework.

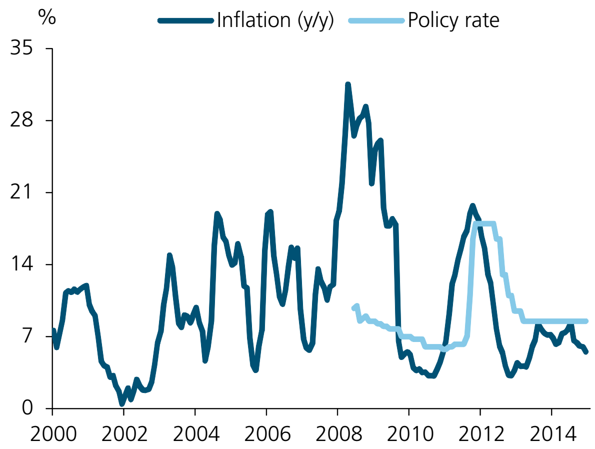
Financial markets

Foreign exchange	Sustained portfolio inflows paired with steady diaspora remittances have slowed the pace of shilling depreciation, which is considerably lower than similarly managed currencies. The local unit was perched at USD/KES91.40 at the time of publication and should remain hemmed in a narrow range in March. The CBK believes it has the capacity to intervene in the foreign exchange market should currency losses become untenable, reinforcing its commitment to exchange rate stability.
Fixed income	The fulfilment of the government's domestic borrowing target for FY2014/15 implies greater issuance in the second half of the fiscal year — January to June 2015 — which could be slightly less supportive of shilling-denominated bonds in the short term. Local participants are likely to sap up the additional supply as offshore participants remain wary of the cost of holding local debt. Withholding tax and the newly introduced capital gains tax could prove restrictive. Infrastructure bonds provide a tax-free alternative and offer relatively good carry prospects which should counter minor shilling and duration losses this year.

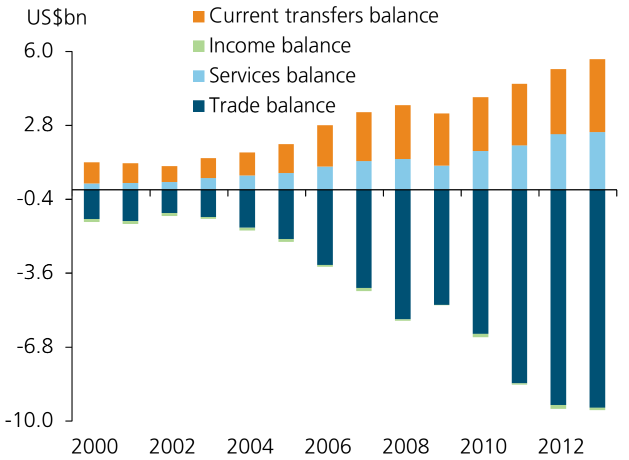
Real GDP growth vs. sub-Saharan Africa growth



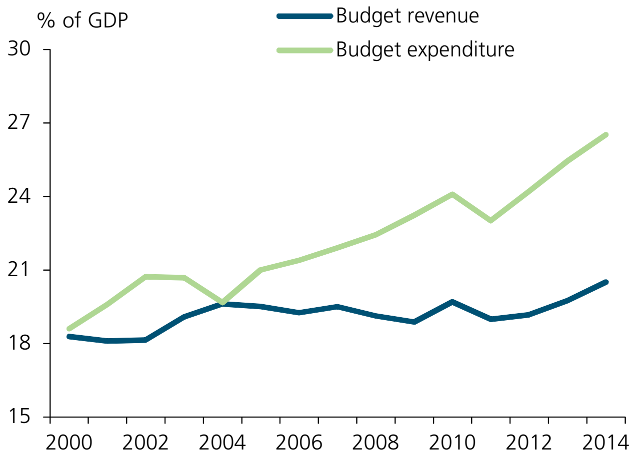
Inflation vs. policy rate



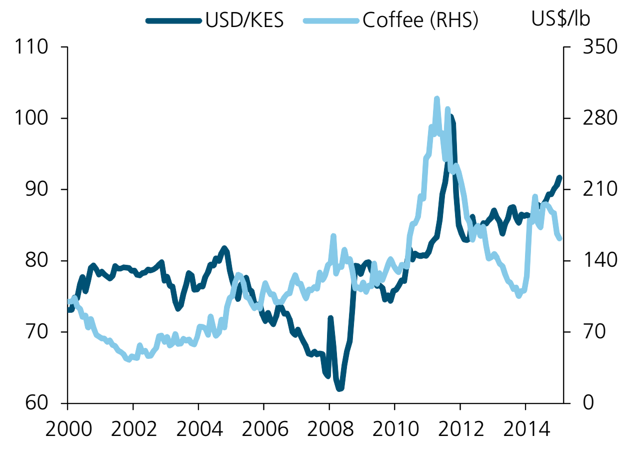
Current account breakdown



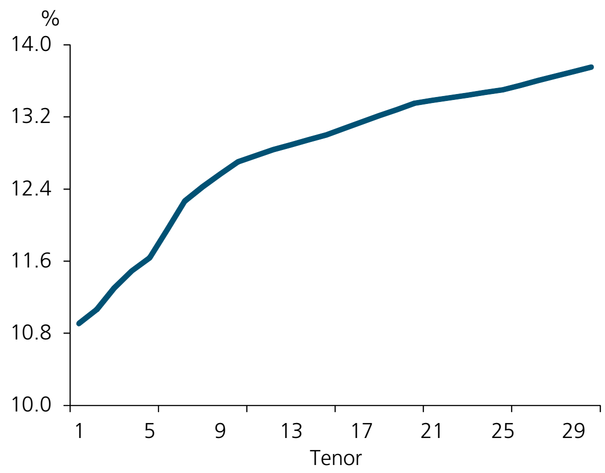
Budget revenue vs. budget expenditure



Currency vs. main commodity export (monthly data)



Yield curve



Source: IMF, EIU, Bloomberg
Data as at February 2015

Mozambique

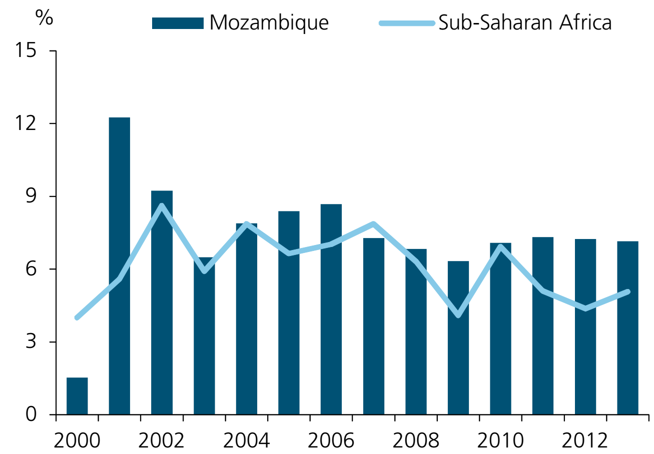
Macroeconomics

GDP	The seasonal floods will have a direct impact on GDP growth for 1Q15. Public and private infrastructure damages will add pressure to the government's fiscal position and general levels of wealth to those affected. The rainy season is set to carry on until March. We have therefore dropped our 2015 growth forecast to 6.9% from 7.3%. The government announced its 2014 estimate growth at a surprising 9.6%, much higher than the previously forecasted 7.7%. We believe this number is overstated — lower coal prices (falling from around US$110/tonne between 2008 and 2011 to around US$60 – US$70/tonne in January 2015) and underdeveloped infrastructure to transport production for exports is putting strain on growth.
Inflation	Inflation rose to 2.79% y/y in January from 1.93% in December, mainly due to a marginal weakness in the metical and increases in food and non-alcoholic beverage prices. As anticipated, the upward trend has kicked in — we expect the low base effects, a slight appreciation of the rand, and a rise in government spending to push inflation up further, yet at a slow pace, to 4.5% and 5.2% in 2015 and 2016. We believe the central bank will remain cautious as to what their next monetary policy move will be as inflation remains a politically contentious issue as seen during the 2011 protests against rising prices.
Monetary policy	Following an assessment of the local macroeconomic landscape and the impact of recent floods on the broader economy, the BDM opted to keep its policy rate at 7.5%. In contrast to our other core economies, we expect the central bank to maintain its relatively loose monetary policy stance throughout 2015 as inflation remains low and the growth outlook stable. However, sustained US dollar strength will make the central bank cautious of not loosening policy too aggressively. The preservation of the value of the currency — expressed in low and stable inflation — remains the main objection of the central bank. Targets included inflation lower than 6%, import cover of at least 2.6 months and a monetary base of less than 18%. The results were favourable: inflation is below 3%, reserves are at US$2.9bn (slightly below target) and the money supply was 2% more than expected at 20.5%. The BDM's efforts led to a 24.3% increase in credit to the private sector between January and November 2014. For 2015, the central bank's target is that the monetary base should not increase by more than 19%, and that PSCE should increase by about 20%.
Fiscal policy	Public sector wages and infrastructure investment will increase spending over the next two years, but the deficit should narrow to 8.5% and 7.0% in 2015 and 2016 as a result of rising coal and gas revenues, mining royalties and sustained lower oil prices — reducing the cost of government subsidies for fuel. In its five-year spending plan, the government will focus mainly on the development of human capital, including education, health, gender issues and investment in the country's youth, and also sectors such as agriculture, fisheries and tourism. Although all of these are positive spending plans, the debt level continue to rise and is heading for its highest level (around 60%) since the debt write-off in the 2000s due to lower GDP growth and falling revenues.

Financial markets

Foreign exchange	The metical relinquished its January's gains as rampant import demand overwhelmed the interbank market, resulting in a sharp ascent from 32.15 to 34.60 in February. Relief efforts will add to the growing economic costs associated with the catastrophic floods which have resulted in significant loss of life. Depreciatory pressure is likely to be sustained over the short term. Recent movements against the US dollar do not necessarily imply a domestic liquidity squeeze as the local unit continues to register gains against the rand, suggesting a fair balance between supply and demand. We envisage a year-end rate of USD/MZN35.00.
Fixed income	There were no significant movements in the money market and fixed income yields.

Real GDP growth vs. sub-Saharan Africa growth



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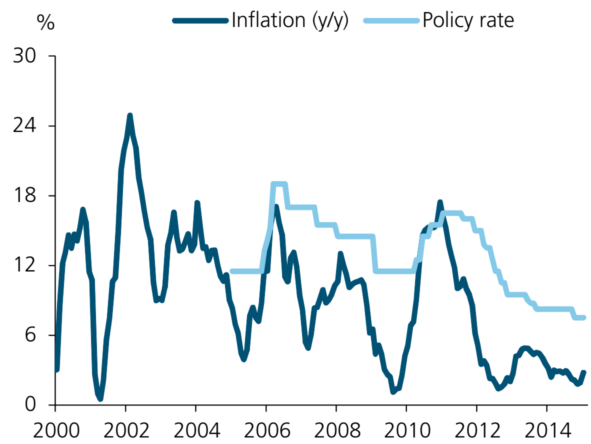

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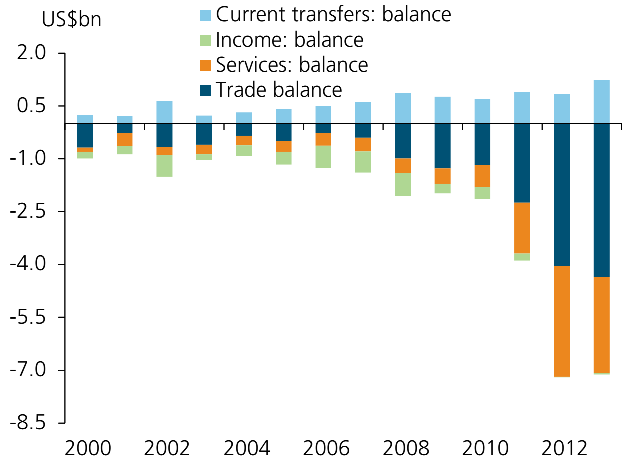

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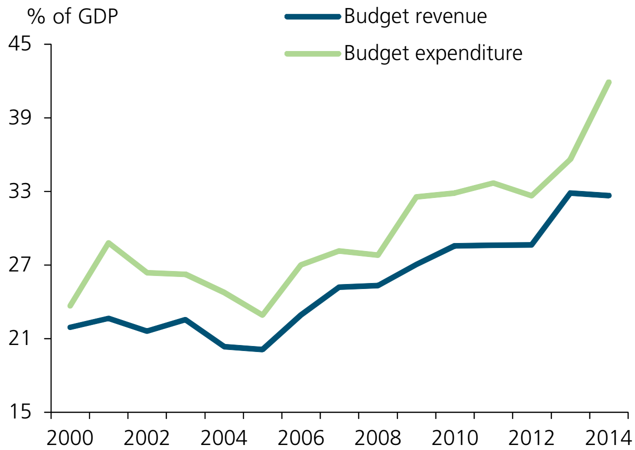

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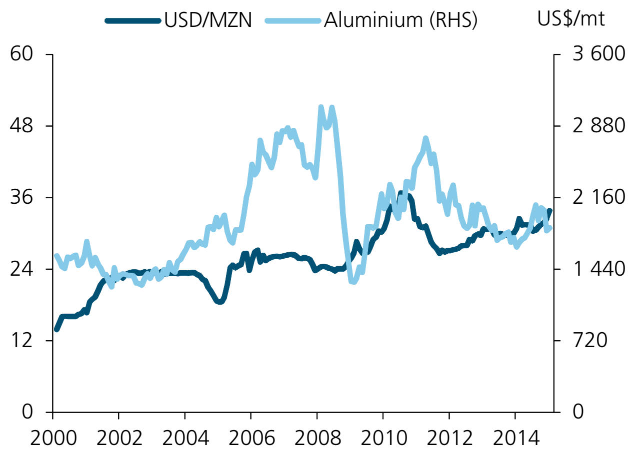
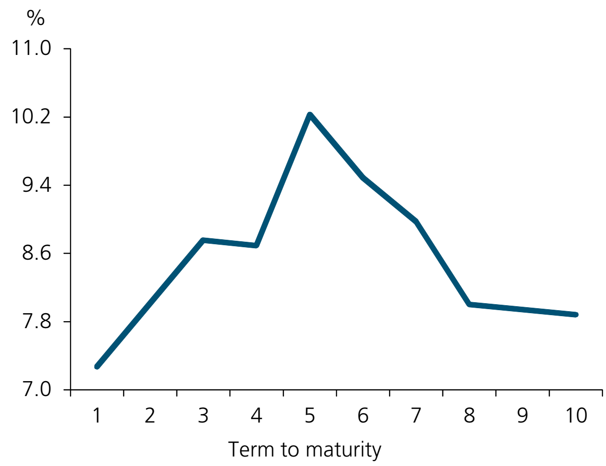


Yield curve



Source: IMF, EIU, Bloomberg, Mozambique Central Statistics Office
Data as at February 2015

Namibia

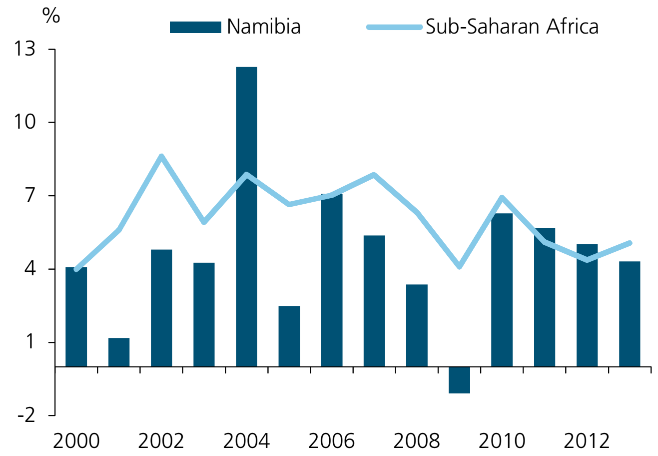
Macroeconomics

GDP	Growth is expected to remain positive in 2015 as robust infrastructure development and mining investment continue to drive transport and construction sector growth, while moderate consumer demand drives the trade sector. The outlook for foreign investment in the extractive sector as well as the infrastructure space remains broadly positive. Continued effort to make the country a key transit route and remain a regional logistics outperformer will drive positive growth across freight modes. Namibia's openness to trade and investment flows have seen the country's economy expand; however, the country’s export sector continues to be weighed down by low commodity prices and fluctuating global demand. Business confidence remains buoyant and is expected to continue on that track as the leading indicator points to a favourable outlook over the next six months. Adverse climatic conditions pose downside risks to the agricultural, fishing and manufacturing sectors, while depressed commodity prices dampen mining output.
Inflation	We have revised our inflation outlook to the lower-end of the target band on account of lower fuel, food and distribution costs. The inflation rate for January fell to 4.5% y/y, a continuation of the downward trend after fuel prices dropped in the latter part of 2014, resulting in lower distribution costs. Inflation should trend downwards for the first half of 2015. However, rising fuel prices and policy rates together with electricity tariffs adjustments later in the year pose upside risks to the inflation outlook.
Monetary policy	The Bank of Namibia’s MPC surprised the market by hiking rates by 25bp to 6.25% from 6% despite inflation trending downwards and a slight current account surplus. The current account surplus was weaker than expected due to robust import demand and sluggish export growth. The nature of the trade deficit remains a concern to the central bank. Although reserves are sufficient to maintain the currency peg, they depleted at an unsustainable rate in 2014, indicative of a country living well above its means and hence the rate hike. Therefore, the policy stance may deviate from South Africa’s as the central bank tries to balance the nature of the trade deficit and encourage further investment.
Fiscal policy	Government will continue with tax reforms to improve efficiency, broaden and deepen the revenue base. Stringent new taxes in the mining sector will detract investors from new investment, leading to lower FDI flows as mining companies head to more open markets. Government spending continues to fuel fixed investment growth in Namibia. Sectors such as health, housing, transport, construction and agriculture are among the main beneficiaries. Therefore, the budget deficit may widen slightly given the increase in the government’s investment spend along with increased social expenditure to mitigate the impacts of the drought. Government debt remains local, thus limiting currency risk and well-below the 35% threshold.

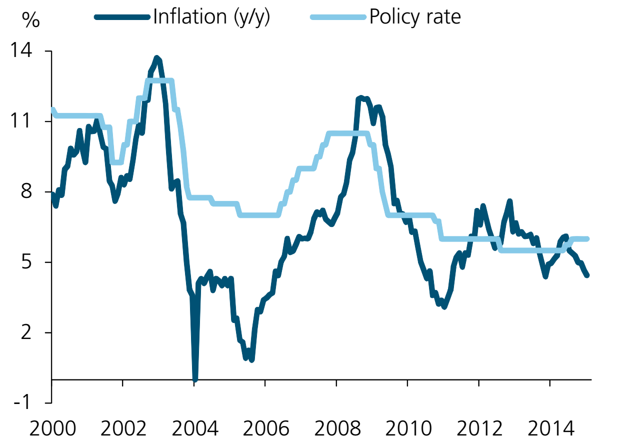
Financial markets

Foreign exchange	The Namibian dollar is pegged at a ratio of 1:1 with the South African rand. Please refer to page 16 for commentary.

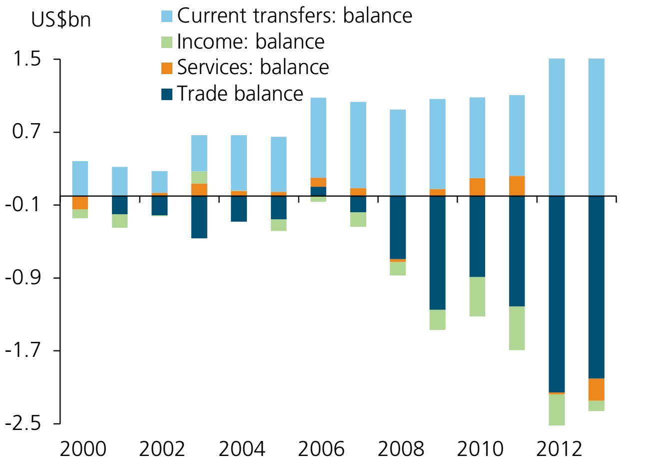
Real GDP growth vs. sub-Saharan Africa growth



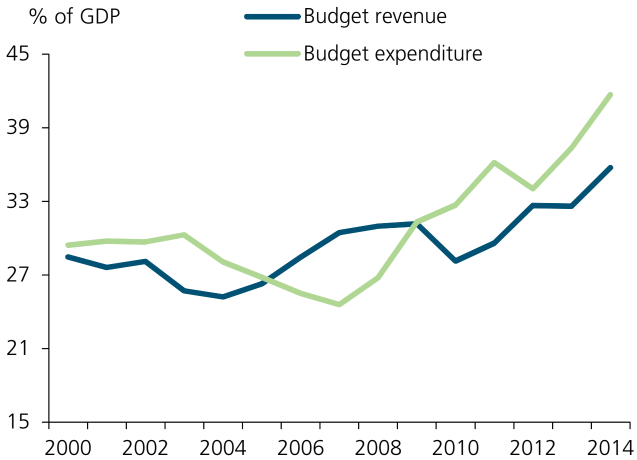
Inflation vs. policy rate



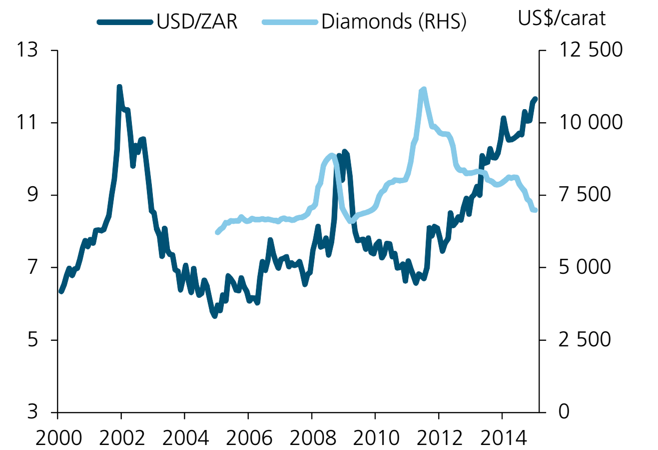
Current account breakdown



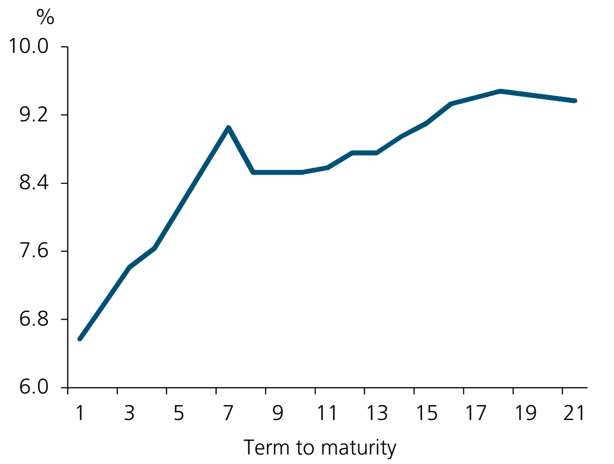
Budget revenue vs. budget expenditure



Currency[1] vs. main commodity export (monthly data)



Yield curve



Note:
1 USD/NAD is pegged at a 1 to 1 ratio with USD/ZAR
Source: IMF, EIU, FNB Namibia, Bloomberg
Data as at February 2015

Nigeria

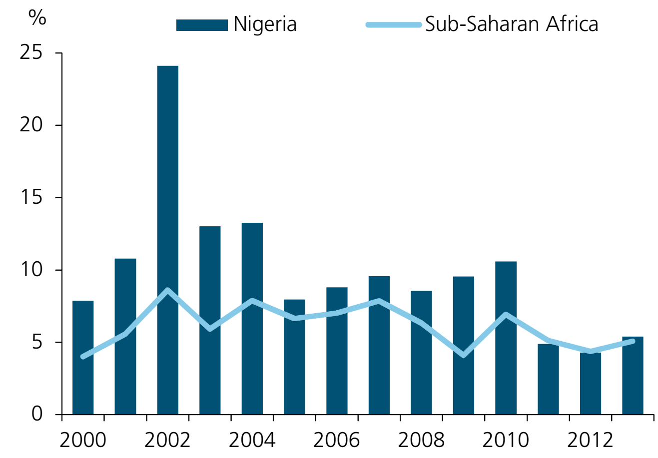
Macroeconomics

GDP	In light of the sharp decline in the oil price and its harmful impact on Nigeria's fiscal and external balances, we have adjusted our GDP growth estimates for 2015 and 2016 to 5.0% and 5.5%. A negative income shock is likely to develop into a destructive feedback loop of reduced fiscal spending, credit cutbacks, lower demand and lesser income. The non-oil sectors — specifically trade, accommodation and food services — are likely to sustain positive levels of growth, emphasising the importance of the services sector to the structure of GDP.
Inflation	Headline inflation accelerated to 8.2% y/y in January from 8% in December. Notwithstanding the positive effect of the lower oil price on fuel costs, a weaker naira will have a more pronounced impact on inflation due to Nigeria's reliance on imports of raw materials, refined products and consumer goods. Repealing 50% of the remaining fuel subsidy, post elections, would exaggerate the effect on goods inflation, resulting in higher real wage demands to counter the negative wealth effect.
Monetary policy	The CBN is faced with the arduous task of having to assess whether the exchange rate pass-through warrants further monetary tightening. The central bank is in the unenviable position of having to deliver its announcement a week before the presidential elections on 28 March. While we do not envisage significant changes to the current monetary policy stance, we believe the CBN should use the March sitting to clarify its foreign exchange policy and shore up market confidence.
Fiscal policy	Increasing revenue constraints have forced the finance ministry to cut its budget severely. According to a revised proposal submitted to the National Assembly, capital expenditure will be decidedly smaller in FY2015/16, comprising a mere 8.9% of total spend which is undesirable given that infrastructure is sorely needed to further growth. Despite the government's efforts to reprioritise expenditure, the budget remains skewed towards (non-debt) recurrent spending, hampering development efforts. Our budget forecast of -1.7% of GDP falls within the 3% provision mandated under the Fiscal Responsibility Act. However, the passage of the budget several months into the fiscal year and multifarious statistics on the level of implementation does not inspire confidence in the government's ability to use funds appropriately. Assuming production levels of 2.1m bpd and an average oil price of US$50/bbl, an exchange rate of USD/NGN207.35 is required to achieve the proposed budget revenue for 2015.

Financial markets

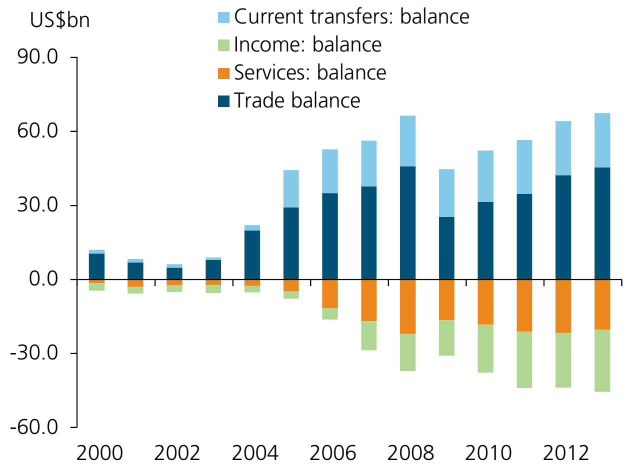
Foreign exchange	The CBN sold US dollars outside of the Retail Dutch Auction (RDAS) and interbank structures of the foreign exchange market between 13 and 18 February. Restricting the interbank trade of US dollars acquired at the RDAS served to reinforce the CBN's objective of rooting out speculative activity. In an unprecedented but necessary move, the CBN then pronounced the RDAS/WDAS window closed with immediate effect on 18 February. All foreign exchange demand is now routed through the interbank market, suggesting that the naira will eventually be determined by forces of supply and demand. For now, the CBN will sell US dollars at a set rate to ensure that liquidity is readily available to meet legitimate demand. This serves as an effective devaluation of the naira, following a period of sustained divergence between the interbank and RDAS rates. The NDF market remains bias toward significant weakness though pricing has improved due to the lower spot rate. We'd argued for more strenuous measures to be imposed, but remain sceptical of the CBN's ability to provide sustained support to the interbank market given its current level of international reserves. While the central bank will apply a greater degree of caution in the provision of US dollar funds, we believe that it cannot service the interbank market indefinitely and continue to favour a more adaptable exchange rate agreement.
Fixed income	Sustained upward pressure on the currency pair could entrench bearish sentiments in the local bond market. Yields are at multi-year highs as investors shy away from long-term exposure and look to exit maturing short-dated positions. Current levels might prompt short spells of opportunistic buying, though investors are likely to be guided by prevailing levels of liquidity, the extent of domestic demand and policymakers' appetite for higher rates.

Real GDP growth vs. sub-Saharan Africa growth

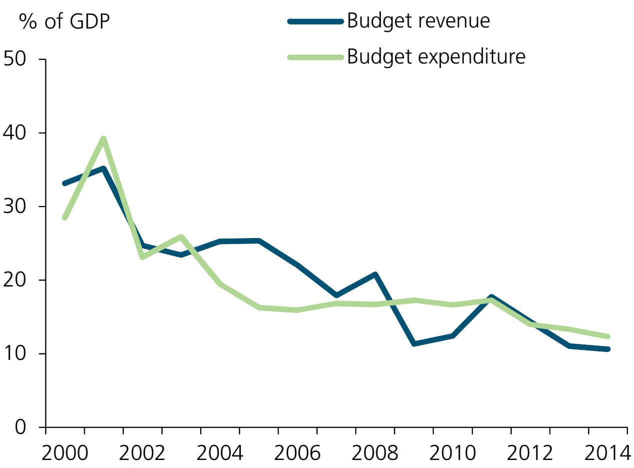


Inflation vs. policy rate

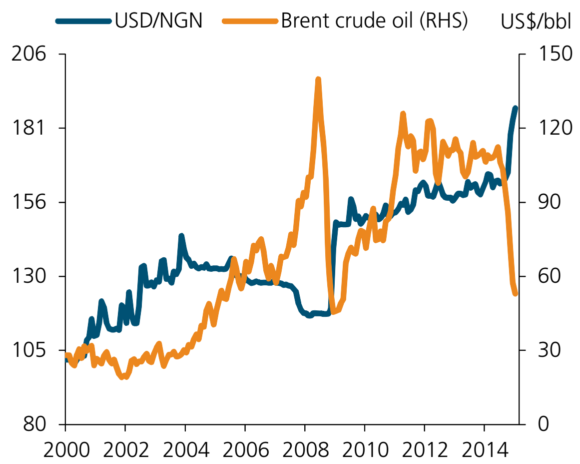
Current account breakdown



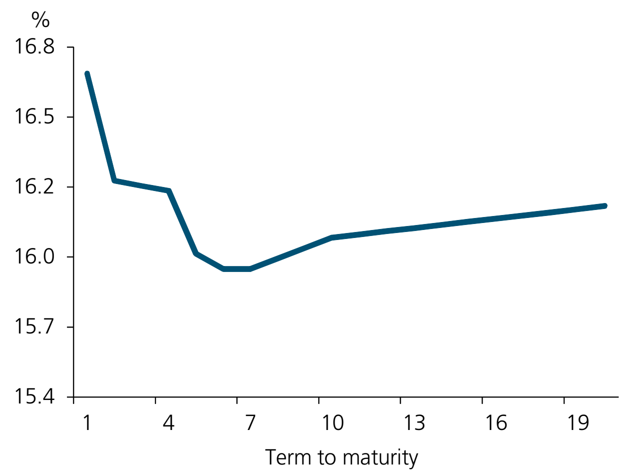
Budget revenue vs. budget expenditure



Currency vs. main commodity export (monthly data)



Yield curve



Source: IMF, EIU, Bloomberg, CBN
Data as at February 2015

South Africa

Macroeconomics

GDP

GDP growth accelerated sharply in 4Q14 from an upwardly revised 2.1% q/q saa in 3Q14 to 4.1%. The supply disruptions experienced during the course of 2014 resulted in a moderation in full-year growth from 2.2% to 1.5%. The stronger performance toward the end of 2014 was due to the recovery in mining (15.2% q/q saa) and manufacturing (9.5%) output — combined they accounted for just over half of 4Q14 growth. Excluding mining and manufacturing, GDP increased by 2.0% in 4Q14, slightly slower than the 2.5% in 3Q14. The other main contributor to the slight upside surprise was the large-weight financial, real estate and business services sector. Government services and personal and community services showed pedestrian growth of around 1.0%. Given the constraints on the fiscal position, stronger growth in these sectors is unlikely. Our baseline forecast is unchanged at 2.3% for 2015, but this is at the upper-end of our core range of 1.8% – 2.3%. While there may be short-term reacceleration in global growth, local capacity constraints, in particular power, will limit the upside.

Inflation

Disinflation continued in January based on the fall in CPI inflation from 5.3% y/y in December to 4.4%. Core inflation nudged upwards, from 5.7% to 5.8% due to a combination of exchange rate pass-through and opportunistic price increases in demand inelastic and services components. Food inflation continued to moderate, but the delay in the rains pushed grain prices higher, which poses some upside risk to our forecast. Following the January CPI release and incorporating the rebound in the oil price via a 94c/litre petrol price increase for March, our average rate for 2015 rises from 3.8% to 4.0% and the average rate for 2016 falls from 5.6% to 5.5%. The lower oil price will continue to dampen headline inflation measures (PMI prices, PPI and CPI), while the output gap and anticipated currency appreciation should ensure that core inflation moderates over the course of the year.

Monetary policy

The SARB has maintained a hawkish tone in its recent communications. Uncertainty regarding the Fed and the exchange rate, and stickiness in inflation and wage expectations are the main factors preventing the Bank from joining the global easing bias. The SARB's growth and inflation forecasts were revised sharply lower in January, yet this was not enough justification to step away from normalisation. The statement explicitly indicated a pause, which means the next move will come in the wake of an offshore trigger for further rand weakness. The medium-term inflation outlook may also deteriorate enough to warrant policy tightening, but this transmission channel will depend on the state of the economy outside of the impact of electricity shortages and strikes. Our base case is for the repo rate to peak at 6.25% in early 2016 in the wake of tentative rate hikes by the Fed.

Fiscal policy

The 2015 budget was a slight disappointment relative to expectations. While the FY2014/15 deficit is now smaller, from 4.1% of GDP to 3.9%, the FY2015/16 deficit is projected to be wider, from 3.6% to 3.9%. Over the medium term, the government is still targeting a deficit of 2.5%. Tax adjustments included a 1ppt hike in personal tax rates, a 30.5c/l increase in the fuel levy and a 50c/l rise in the RAF levy. The upward revisions to GDP have lowered the debt ratio to 47.6% at the end of the forecast period. While partly following through on promises in the MTBPS, Fitch's post-budget comments were still quite bearish, suggesting that a rating downgrade in June should not be dismissed.

Financial markets

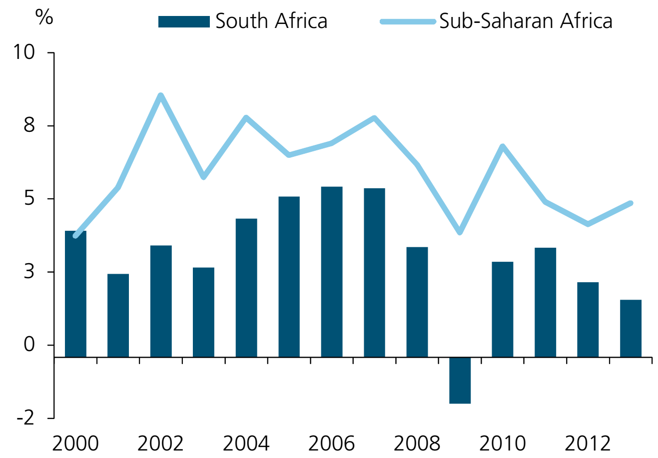
Foreign exchange

US dollar appreciation and the large current account deficit should keep the rand undervalued. Even so, we expect a recovery to USD/ZAR11.00 by the end of 2015. The weakness in the euro should, however, counter US dollar strength, leaving the trade-weighted rand stronger in the medium term.

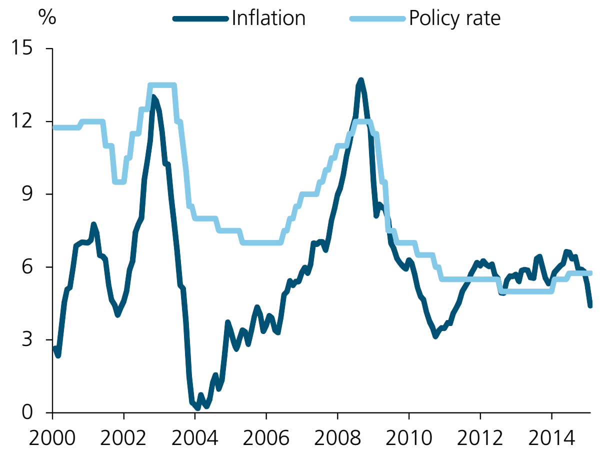
Fixed income

Profit-taking and the rising US Treasury yield have put notable upward pressure on local yields. The curve is trading in line with fair value (7.4% on the 10-year yield) but we remain tactically bullish due to the anticipated decline in inflation and our expectation that the Fed will not hike rates before September 2015. On a 12-month view, our fundamental forecasts point to higher yields (7.9%) and a flatter curve in the wake of rising inflation and modest SARB tightening.

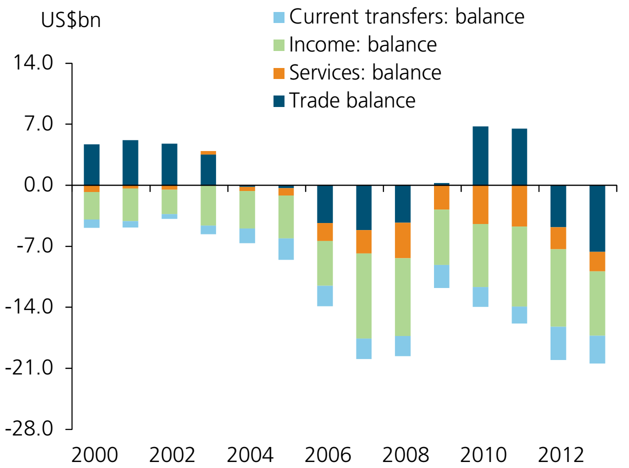
Real GDP growth vs. sub-Saharan Africa growth



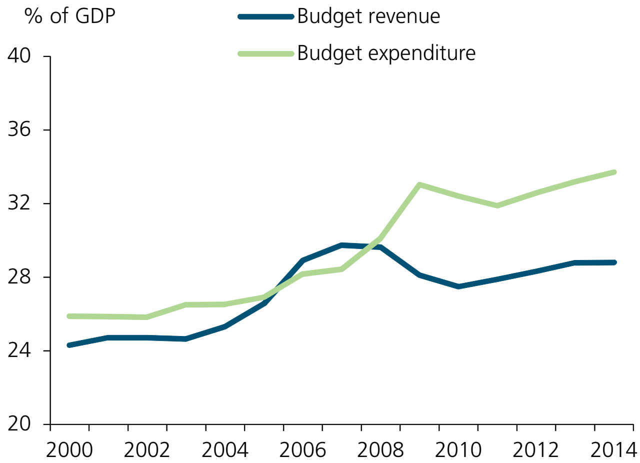
Inflation vs. policy rate



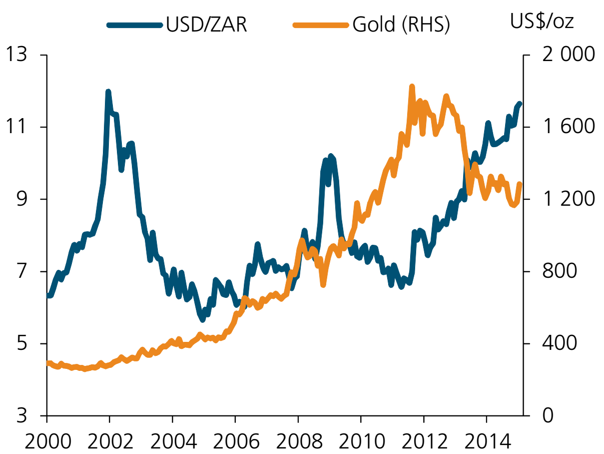
Current account breakdown



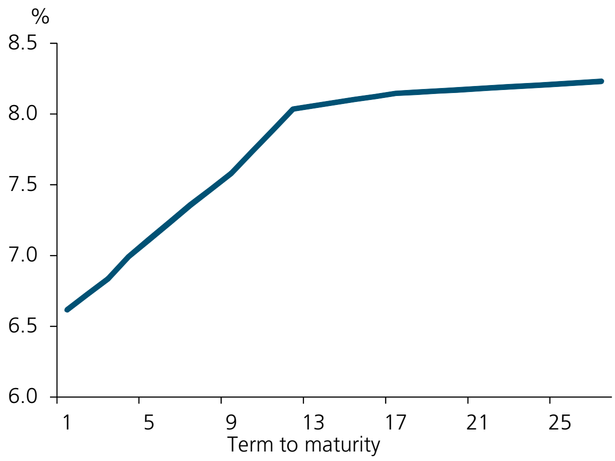
Budget revenue vs. budget expenditure



Currency vs. main commodity export (monthly data)



Yield curve



Source: IMF, EIU, Reuters Ecowin, Stats SA, Bloomberg
Data as at February 2015

Tanzania

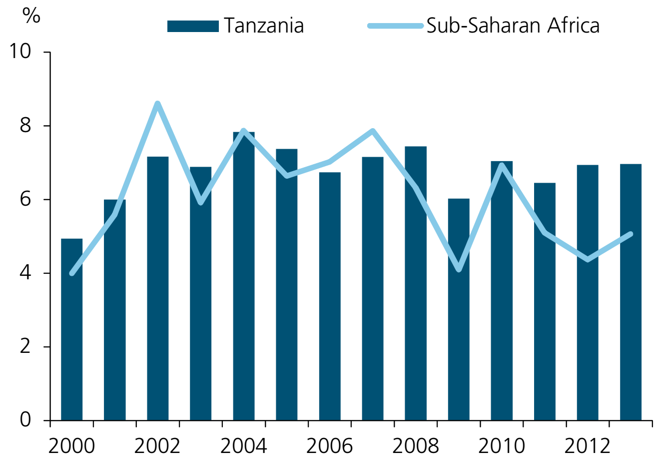
Macroeconomics

GDP	Tanzania's most recent revision to national output, its fifth in 48 years, has resulted in a 27.8% increase in the level of GDP after shifting the base year from 2001 to 2007. We expect real GDP to accelerate to 7.1% in 2015 and moderate slightly to 6.9% in 2016 as the government tightens its belt. Over the next two years, services — in particular telecommunications, transport, and financial intermediation — will continue to provide the impetus for growth while manufacturing output should grow steadily, boosted by the local processing of commodities. However, a shortage of skilled labour will restrict progress up the value chain.
Inflation	Inflation eased to 4% y/y in January, primarily due to base effects. Food inflation slipped to 5%, dragging the headline figure down to its lowest level in more than 10 years. The housing, utilities and fuel component, which comprises 9.2% of the consumer basket, provided further downward impetus to the all items index figure, printing at 4.9% y/y. Services inflation remained muted, with transport inflation likely to fall into negative territory in February. Despite persistent shilling weakness, we believe the potential for stronger FX rate pass-through should be countered by lower fuel and food price inflation.
Monetary policy	The BoT will maintain a restrictive monetary policy stance to cement the positive macroeconomic gains that were achieved in the first half of the fiscal year and ensure that inflation is restricted to its medium-term target of 5%. In light of recent macroeconomic developments, the central bank has revised its monetary targets for the remainder of the fiscal year. Annual growth in average reserve money, M3 and private sector credit are restricted to 15%, 15.8% and 19.5% respectively, while gross official reserves must be maintained at levels adequate to cover at least four months of projected imports of goods and services. We expect greater sterilisation activity in 2Q15 as the BoT attempts to offset the impact of a weaker exchange rate on M3 money supply. The central bank remains committed to the implementation of a forward-looking monetary policy framework but did not specify a timeline for implementation in its recent monetary policy statement.
Fiscal policy	Rising pension and creditor arrears, missed revenue targets and delays in the disbursement of aid by donors were prevalent in 2014, compelling the government to borrow significantly from the domestic capital market. Domestic debt stock was 18.9% higher in September 2014 relative to the previous year. A continuation of this trend poses the greatest risk to our -4% budget balance forecast for the 2015 fiscal year. The upturn in the national debt stock, owing to new disbursements from concessional and non-concessional sources, as well as the accumulation of interest arrears for certain bilateral creditors whose rescheduling agreements have yet to be finalised, is concerning.

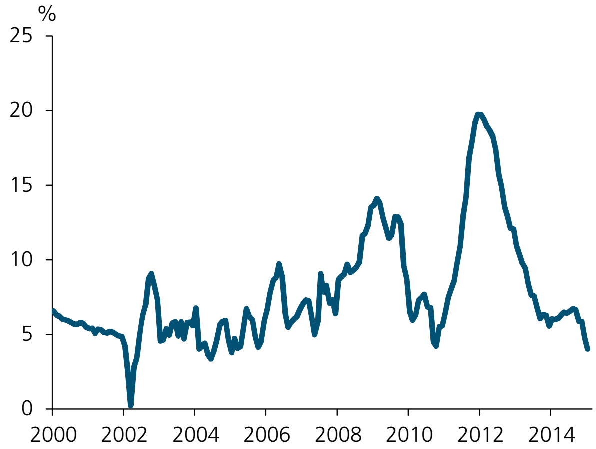
Financial markets

Foreign exchange	Hard-currency inflows paired with US dollar sales by the central bank occasioned significant currency gains, at the end of January. But, the seasonal month-end effect petered out as importers increased their demand for US dollars, which is common for this time of the year. We anticipate a widening of the USD/TZS bid offer spread in March as import demand outpaces the supply of US dollars. Moves to 1,830.00 cannot be ruled out in light of mounting liquidity pressures. A retracement to 1,790.00 depends on the magnitude of quarter-end conversions by corporates seeking out local currency to meet salary and tax obligations. Proceeds from external non-concessional borrowing (ENCB), coupled with an expected increase in offshore participation in the local equities market, following the removal of restrictions from September 2014, should buffer the foreign exchange market in 2Q15. A gradual easing in the import bill, on account of depressed international oil prices, should begin to ease US dollar demand and narrow Tanzania's trade deficit.
Fixed income	T-bill rates have softened to below 14% across all tenors while the overnight interbank cash market rate remained fairly stable at 5%, with occasional spikes owing to seasonal effects. The continued steepening of the yield curve represents a lack of demand from local participants, with yields on the long-end of the curve averaging between 16.9% and 17.9%.

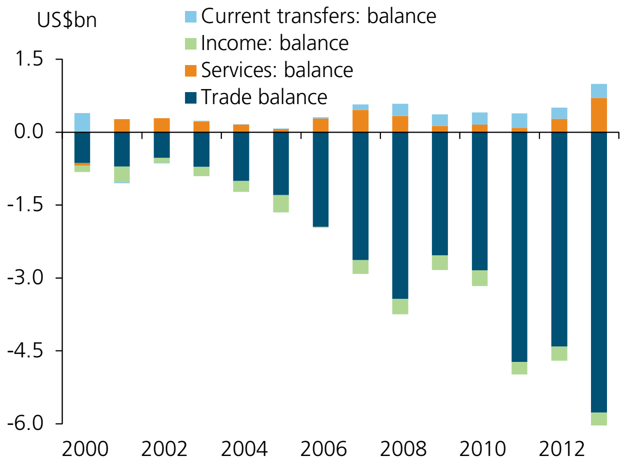
Real GDP growth vs. sub-Saharan Africa growth



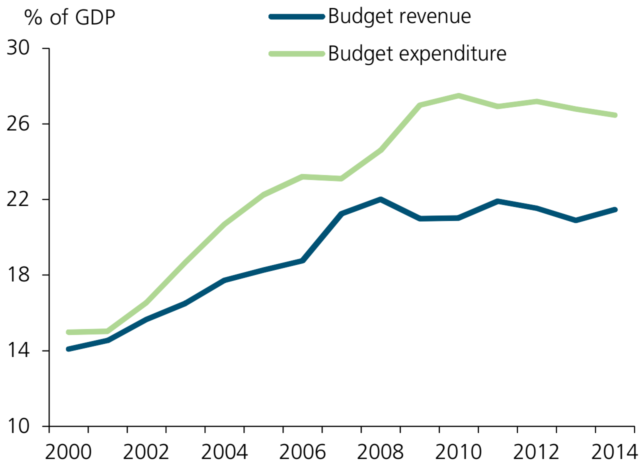
Inflation (y/y %)



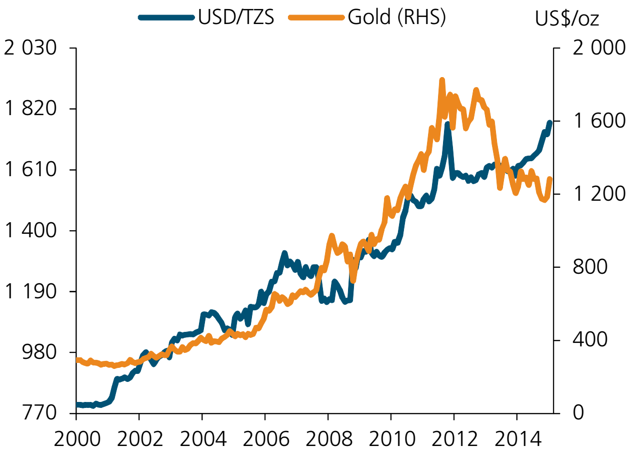
Current account breakdown



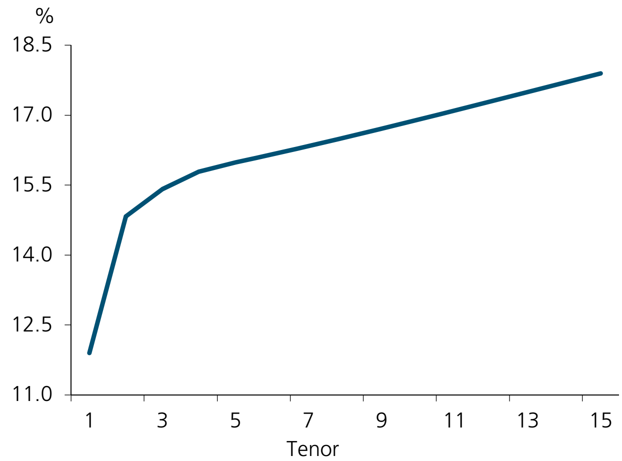
Budget revenue vs. budget expenditure



Currency vs. main commodity export (monthly data)



Yield curve



Source: IMF, EIU, Bloomberg, BoT
Data as at February 2015

Zambia

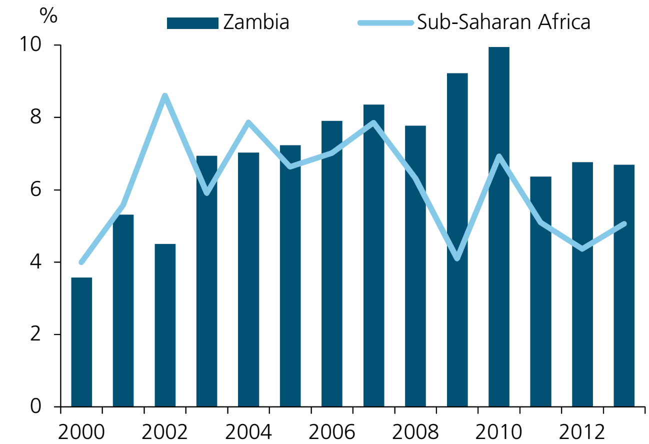
Macroeconomics

GDP	We expect growth to reach 6.5% in 2015 based on foreign investment and large metal reserves. However, copper production will be lower as a result of weak global copper prices and the new mining tax, and could easily fall to 790,000 tonnes from almost 840,000 in 2014. We expect copper prices to reach US$6,200/tonne in 3Q15, while prices averaged US$7,740/tonne over 2011 – 2014. There are more conservative views of between US$5,000 and US$6,000, and if reached will prompt us to downwardly adjust our growth forecast.
Inflation	A moderation in the annual rate of food and fuel inflation contributed largely to the 0.3% y/y decline in headline inflation, which printed at 7.4% y/y in February. Core inflation descended to below 8%, 1.2% lower than its peak of 9.2% in July 2014, reflecting subsiding demand led pressures. The outlook remains stable as a result of a tight monetary policy. Inflation is expected to average 7% in 2015 and election spending pressures will increase the rate to 7.7% in 2016. Inflationary pressures will be somewhat relieved by the expected record harvests this year while fuel costs will also find some respite from the lower oil prices over the next few months.
Monetary policy	Interest rates are set to remain elevated in the medium term on account of both tight monetary policy and continued strong demand for domestic borrowing by government. The central bank is keen to remain ahead of the inflation curve and also hopes that the tight monetary conditions will constrain the rapid depreciation of the currency. The central bank left its benchmark lending rate at 12.5% at its last MPC meeting, especially in light of the falling copper price and its effects on the current account and in turn the kwacha. This was regardless of a moderation in inflation. We expect inflation to remain above the government's 7% target for at least the first half of 2015. This together with the pressure of lower copper prices could lead the BoZ to hike its policy rate marginally (50bp) in 1H15.
Fiscal policy	The government is faced with the arduous task of having to scale back state expenditure in a pre-election year to reassure the World Bank and the IMF of Zambia's fiscal health. The finance ministry presented a rather conservative budget for 2015, projecting a 4.6% fiscal deficit compared to its forecast of 5.5% for 2014. We believe the deficit will remain elevated at 6% due to recurrent spending, especially wage increases and larger investment spending on infrastructure. President Lungu approved ZESCO's proposed tariff structure which includes hiking electricity tariffs payable by mines. The state's development plans could come at the expense of the private sector, eroding both business and market confidence and potentially lowering capital and financial market inflows.

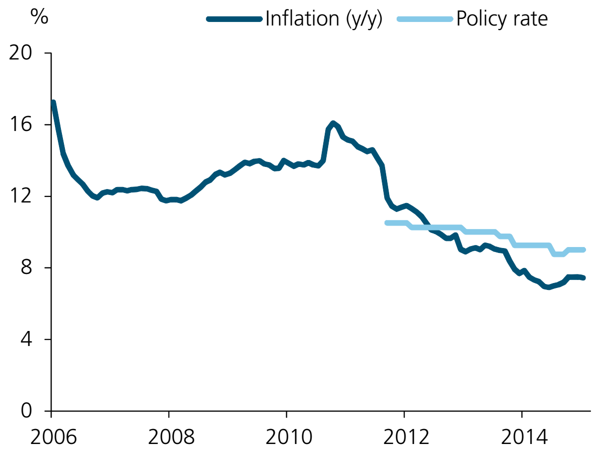
Financial markets

Foreign exchange	As in 1Q14, the kwacha has come under intense depreciatory pressure, breaching USD/ZMW7.0 amid strained US dollar supply. Miners withheld US dollar proceeds while the state held back VAT refunds. In an effort to smooth relations with the mining sector, the government then relaxed the regulation requiring exporters to produce documents from destination countries to claim tax refunds, stalling the pace of depreciation. Central bank injections should provide temporary respite to the local unit but sustained inflows are required for the kwacha to stage a meaningful pullback. As a commodity currency, the kwacha is vulnerable to sluggish global growth, weak copper prices and changes in Fed rhetoric regarding the timing of monetary tightening.
Fixed income	The government is set to issue a US$1bn dual-tranche bond to fund infrastructure projects, especially for transport. The bond will be split between US dollar- and kwacha-denominated paper, with the first US$250m to be issued next month. Funds for the kwacha-bond will be sourced from local banks and the dollar tranche from international lenders. The performance of government bonds and T-bill auctions remains weak. Yields at the last bond tender were mixed but generally signalled reluctance by the government to pay up at the high-end of the curve.

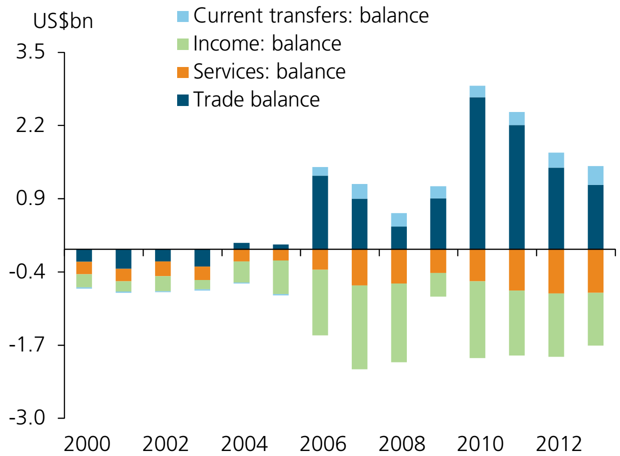
Real GDP growth vs. sub-Saharan Africa growth



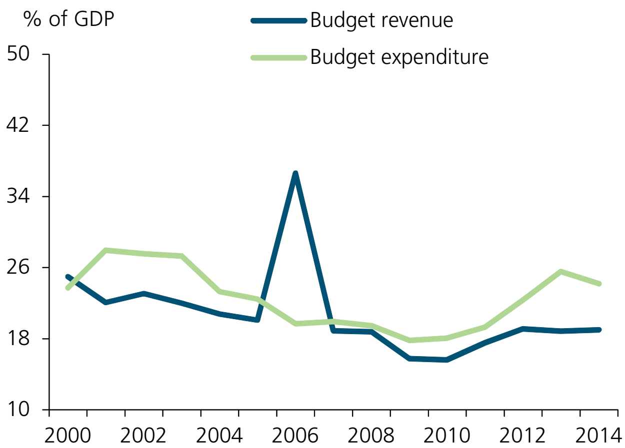
Inflation vs. policy rate



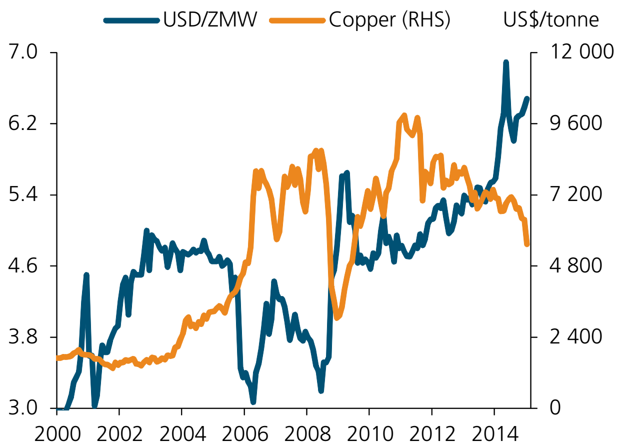
Current account breakdown



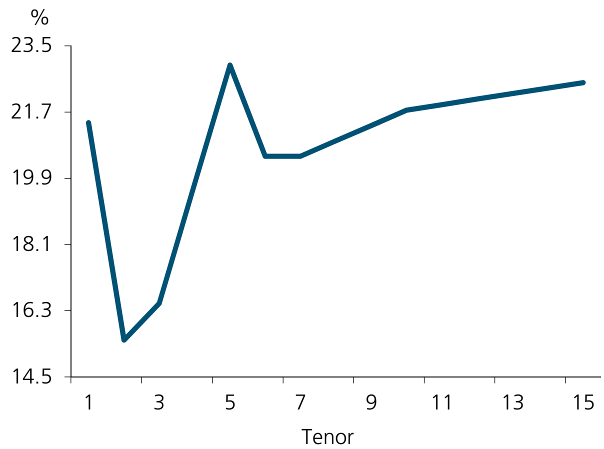
Budget revenue vs. budget expenditure



Currency vs. main commodity export (monthly data)



Yield curve



Source: IMF, EIU, BoZ, Bloomberg
Data as at February 2015

Macroeconomic forecasts

	GDP growth (%)			Average inflation (%)			Budget balance (%)			Current account (%)		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Angola	3.0	4.0	5.8	8.3	8.5	8.5	-7.0	-5.0	-2.0	2.0	-0.1	0.2
Botswana	5.0	4.7	4.8	3.5	4.0	4.2	1.6	1.9	2.1	8.5	8.3	8.5
Ghana	4.0	5.0	6.5	13.5	12.0	10.0	-7.3	-6.0	-4.0	-8.5	-7.2	-6.6
Kenya	6.1	6.8	7.2	6.0	7.6	7.3	-5.7	-5.5	-4.8	-8.1	-7.5	-6.5
Mozambique	6.9	7.5	7.5	4.5	5.2	5.0	-8.5	-7.0	-7.0	-48.2	-45.0	-52.9
Namibia	4.5	5.6	6.0	5.5	5.7	5.7	-3.0	-1.2	-2.4	-2.5	-1.0	-4.1
Nigeria	5.0	5.5	5.8	8.6	8.9	8.3	-1.7	-0.7	-0.4	-5.8	-3.7	-3.0
South Africa	2.3	2.2	2.4	4.4	5.3	5.6	-4.0	-3.7	-3.7	-4.3	-4.8	-4.5
Tanzania	7.1	6.9	7.0	4.4	5.9	5.5	-4.0	-3.8	-3.8	-13.1	-12.5	-11.8
Zambia	6.5	6.5	6.7	7.0	7.7	7.0	-6.0	-5.0	-5.0	2.3	2.6	2.1
WORLD	3.8	4.0	4.1	3.9	3.8	3.7						
SSA	5.8	6.0	5.9	7.0	6.5	6.1						

2015 macro indicators and currency values relative to 2014

Country	GDP	Inflation	Fiscal balance[1]	Current account[2]	Currency[3]
Angola	↓	↑	↓	↓	↑
Botswana	→	↓	↑	↑	↑
Ghana	↓	↓	↑	↑	↑
Kenya	↑	↓	↑	↓	↑
Mozambique	↓	↑	↑	↓	↑
Namibia[4]	↑	↑	↓	↓	↓
Nigeria	↓	↑	↓	↑	↑
South Africa	↑	↓	↑	↑	↓
Tanzania	↓	↓	↑	↑	↑
Zambia	↓	↓	↑	↓	↑

Note:
1 The view relates to fiscal years specified in respective country text. The up arrow depicts an improvement in the fiscal balance, and the down arrow depicts a deterioration in the fiscal balance
2 The up arrow depicts an improvement in the current account balance, and the down arrow depicts a deterioration in the current account balance
3 The up arrow depicts an average depreciation, and the down arrow an average appreciation against the USD between 2014 and 2015
4 USD/NAD (Namibia) is pegged to USD/ZAR
Source: IMF, RMB Global Markets Research
All data as at February 2015

Exchange rate forecasts

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Dollar rates							
USD/AOA	106.50	108.00	109.50	112.00	112.98	113.96	114.94
BWP/USD	0.1055	0.1064	0.1073	0.1082	0.1085	0.1089	0.1093
USD/GHS	3.48	3.49	3.49	3.50	3.60	3.70	3.80
USD/KES	91.58	91.97	92.35	93.00	93.50	94.00	94.50
USD/MZN	33.39	33.55	33.72	34.00	34.20	34.41	34.61
USD/NAD[1]	11.53	11.35	11.18	11.00	11.00	11.00	11.00
USD/NGN	201.10	206.47	211.83	217.20	219.92	222.63	225.35
USD/ZAR	11.53	11.35	11.18	11.00	11.00	11.00	11.00
USD/TZS	1,827.92	1,836.67	1,845.42	1,860.00	1,866.00	1,872.00	1,878.00
USD/ZMW	6.92	6.86	6.80	6.70	6.78	6.87	6.95
ZAR cross rates							
ZAR/AOA	9.24	9.51	9.80	10.18	10.27	10.36	10.45
BWP/ZAR	1.2158	1.2073	1.1986	1.1898	1.1939	1.1979	1.2019
ZAR/GHS	0.3021	0.3072	0.3124	0.3182	0.3273	0.3364	0.3455
ZAR/KES	7.95	8.10	8.26	8.45	8.50	8.55	8.59
ZAR/MZN	2.90	2.96	3.02	3.09	3.11	3.13	3.15
ZAR/NGN	17.45	18.19	18.96	19.75	19.99	20.24	20.49
ZAR/TZS	158.58	161.81	165.13	169.09	169.64	170.18	170.73
ZAR/ZMW	0.60	0.60	0.61	0.61	0.62	0.62	0.63

Notes
1 USD/NAD (Namibia) is pegged to USD/ZAR
Source: RMB Global Markets, Bloomberg
Data as at February 2015

Commodities

	Current	m/m % change	y/y % change	Implied volatility	3-month future	12-month future
Metals						
Gold US$/oz	1,204.20	-6.9	-9.1	17.3	1,204.9	1,208.6
Copper US$/tonne	5,707.00	2.3	-20.9	17.6	5,693.0	5,675.5
Softs						
Cattle USc/lb	199.18	-6.8	16.7	14.8	148.5	144.1
Cocoa US$/tonne	3,027.00	9.9	3.3	21.3	2,979.0	2,917.0
Coffee — Arabica USc/lb	148.65	-8.5	-11.8	37.1	152.9	162.0
Cotton USc/lb	-	-	-	22.2	1,974.0	2,047.0
Maize — Yellow R/tonne	65.40	14.1	-24.9	21.0	64.7	65.0
Maize — White R/tonne	2,417.00	18.6	-25.8	24.0	2,440.0	2,455.0
Raw Sugar USc/lb	2,691.00	33.2	-14.7	23.7	2,731.0	2,842.0
Energy	14.39	-5.1	-13.9	22.5	16.2	16.2
WTI Crude US$/bbl						
	50.91	11.7	-50.2	52.2	53.5	60.2

Source: Bloomberg, RMB Global Markets
Data as at February 2015

Interest rates

	3-m T-bill		Policy rate
	Jan-15	Feb-15	Current
Angola	6.44	6.48	9.00
Botswana	3.19	3.19	6.50
Ghana	25.83	25.84	21.00
Kenya	8.68	8.64	8.50
Mozambique	5.38	5.43	8.25
Namibia	5.66	6.09	6.25
Nigeria	12.30	13.08	13.00
South Africa	6.00	5.95	5.75
Tanzania	14.28	11.34	OMO[2]
Zambia	13.50	13.50	12.50

Note:
1 Open Market Operations
Source: Bloomberg, Reuters, RMB Global Markets Research
All data as at February 2015

All rated sub-Saharan countries

	Fitch	Moody's	S&P
Angola	BB-	Ba2	BB-
Botswana	-	A2	A-
Burkina Faso	-	-	B
Cameroon	B	-	B
Cabo Verde	B	-	B
Congo	B+	Ba3	B+
Côte d'Ivoire	B	B1	-
DRC	-	B3	B-
Egypt	B-	Caa1	B-
Ethiopia	B	B1	B
Gabon	BB-	-	BB-
Ghana	B	B2	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	-	-	B+
Seychelles	B	-	-
South Africa	BBB	Baa2	BBB-
Tunisia	BB-	Ba3	-
Uganda	B	B1	B
Zambia	B	B1	B+

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

The sources used to compile this document are:

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Events calendar

Month	Day	Event and country
March 2015	12	Youth Day (Zambia)
	21	Independence Day (Namibia)
	21	Human Right's Day (South Africa)
	26	MPC (South Africa)
	30	Independence Day (Ghana)
April 2015	3	Good Friday
	6	Easter Monday
	7	Women's Day (Mozambique)
	7	Heroes' Day (Zanzibar)
	10	Maulid Day (Tanzania)
	17-19	Spring meeting IMF and World Bank Group
	26	Union Day (Tanzania)
	27	Freedom Day (South Africa)
May 2015	1	Worker's Day
	4	Cassinga Day (Namibia)
	14	Ascension Day (Namibia and Botswana)
	21	MPC (South Africa)
	25	Africa Day
	29	Democracy Day (Nigeria)
June 2015	1	Madaraka Day (Kenya)
	16	Youth Day (South Africa)
	25	Independence Day (Mozambique)
July 2015	1	Sir Seretse Khama Day (Botswana)
	1	Republic Day (Ghana)
	6	Heroes' Day (Zambia)
	7	Unity Day (Zambia)
	7	Saba Saba (Tanzania)
	20	President's Day (Botswana)
	23	MPC (South Africa)
	18	Eid-al-Fitr (End of Ramadan)
August 2015	3	Farmer's Day (Zambia)
	8	Farmer's Day (Tanzania)
	9	Women's Day (South Africa)
	26	Heroes' Day (Namibia)

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