

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in February 2013

- The yields on **Kenyan** bonds increased in the last three weeks as the Central Bank of Kenya (CBK) tightened liquidity to support the shilling. (More on page 5)
- **Nigerian** bond yields across maturities continued to edge lower in February 2013, as demand for sovereign bonds remained high given the risk and marginal rates in developed markets. (More on page 5)
- In currency markets, the **Kenyan** and **Tanzanian** shillings have remained under pressure in 2013 primarily due to increased demand for US dollars from the energy sector. On the other hand, **Ugandan** shilling appreciated 1.1% against the greenback, as offshore investment in government securities increased. (More on page 7)
- In money markets, interbank rates in **Kenya** almost doubled as CBK tightened liquidity to support the currency. Rates in **Ghana** continued to remain high vis-à-vis peers in Sub-Saharan Africa. (More on page 6)

February bond market summary

	3-yr	5-yr	10-yr	20-yr
Kenya 13-Feb yield	11.0%	11.5%	11.7%	12.6%
Change from 1-Feb (bps)	15	5	-1	4
Nigeria 13-Feb yield	11.2%	10.8%	10.9%	12.1%
Change from 1-Feb (bps)	-13	-5	-33	-17

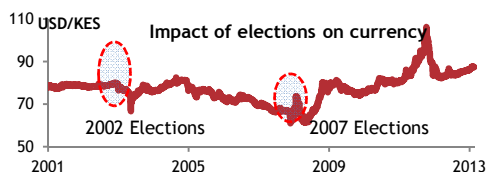
Movement of key currencies vs. US dollar in February

	Average	End value	MTD	YTD
Kenyan Shilling	87.5	87.3	-0.1%	-1.1%
Tanzanian Shilling	1618.7	1620.5	0.0%	-2.2%
Nigerian Naira	157.3	157.3	0.0%	-0.7%
Ghanaian Cedi	1.90	1.91	0.3%	0.2%

Kimondo's Corner

Time to Buy the Kenyan Shilling?

Markets don't like uncertainty, and elections are traditionally said to cause currency weakness. Are the Kenyan elections, which are just around the corner, the reason for the Kenyan shilling's weakness? Looking at the graph below the data seems to support the case.



Other factors weighing on the shilling include widening current account deficit, dollar demand from business, and reduced central bank rate to boost the Economy.



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Source: Bloomberg, individual news websites, respective central banks, IMF

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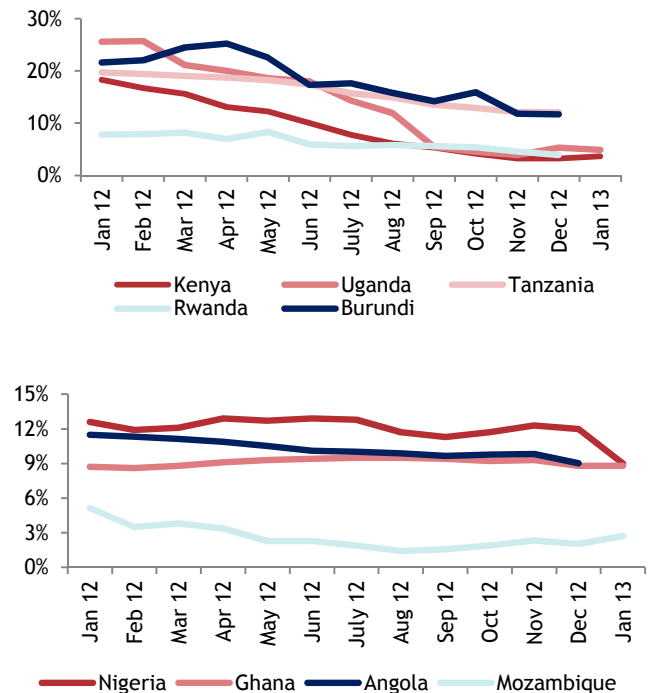


HIGHLIGHTS

Activity Across Africa: Economy and Politics

- According to recently released data, inflation trends across the East African Community seem varied. While inflation in **Kenya** went up for the first time in 13 months in January 2013, **Uganda** witnessed a decline. Inflation in **Burundi** is expected to increase in the coming months, as a massive fire that occurred in the main market is likely to disrupt supplies. (More on page 3)
- In the rest of Sub-Saharan Africa (SSA), inflation in **Mozambique** rose in January 2013 owing to the impact of recent floods, while in **Nigeria** it fell sharply due to a high base effect. **Angola** reported inflation at 9.0% YoY in December, the lowest in a decade. (More on page 4)
- Monetary policy reviews were conducted across the region. All the countries held their policy rates except **Angola**, which cut its policy rate by 25bps to 10.0%. (More on pages 3 and 4)
- On the political front, elections are due in **Kenya** in March 2013. In **Uganda**, Florence Nebanda Andiru won the Butaleja district parliamentary seat. In **Nigeria**, opposition parties merged to form the All Progressive Congress in February. (More on pages 3 and 4)

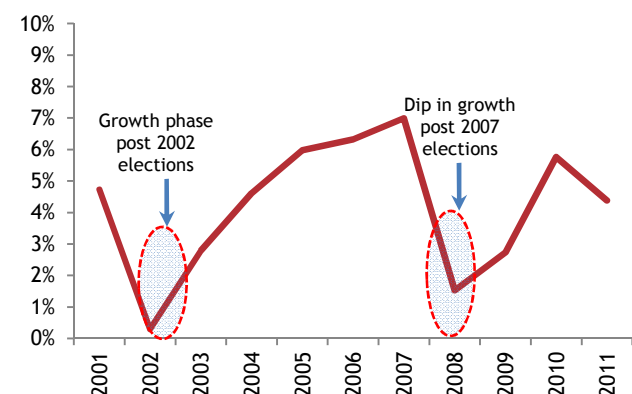
Inflation (YoY)



Special Focus: Elections and Political Risk

- Elections are due in a number of African countries this year. In SSA, investors are monitoring **Kenya** and **Zimbabwe**, where previous elections resulted in violence.
- In **Kenya**, consumers and businesses are wary of the coming elections. The **Kenyan** shilling has been under pressure due to the uncertain political scenario as well as an expected uptick in inflation. Despite concerns, political parties and the electorate are expected to display greater maturity and avoid any outcome that would hit the economy, and **Kenya's** international standing.
- **Zimbabwe** will vote on a new constitution in March and hold presidential elections in July. The probability of any political unrest is higher than in **Kenya**. However, economists will be hoping parties refrain from petty politics to help bolster the economic recovery.

Elections and GDP growth in Kenya



Source: Bloomberg, individual news websites, respective central banks, IMF

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- Inflation in Kenya rose for the first time in 13 months, increasing to 3.7% YoY in January 2013 from 3.2% the previous month. Furthermore, analysts expect inflation to rise in the coming months as spending increases due to elections in March.
- Kenya's finance minister hopes that a peaceful election will boost investment and growth. The previous elections were marred by violence which crippled the economy. The growth rate dropped to 1.6% from 7.1% over 2007-08.
- The Federation of Kenya Employers has demanded that public sector wages be scaled down further so as to ensure greater parity with private sector employees.

Uganda

- Uganda's central bank kept its policy rate unchanged at 12.0% as a rise in core inflation prevented a rate cut. This is despite overall inflation falling to 4.9% YoY in January 2013 from 5.3% in December 2012.
- The contest for the Butaleja district parliamentary seat was won by the ruling party contestant, Florence Nebanda Andiru.

Tanzania

- In Tanzania, the Central Bank missed its year-end inflation target of 10.0% as inflation remained unchanged at 12.1% YoY in December 2012. However, the IMF predicts inflation to drop below 10.0% by June 2013 due to ongoing structural reforms in the economy.
- The investment climate remains tense as residents threaten to block pipelines amid demand for a greater share of benefits from large natural gas discoveries.

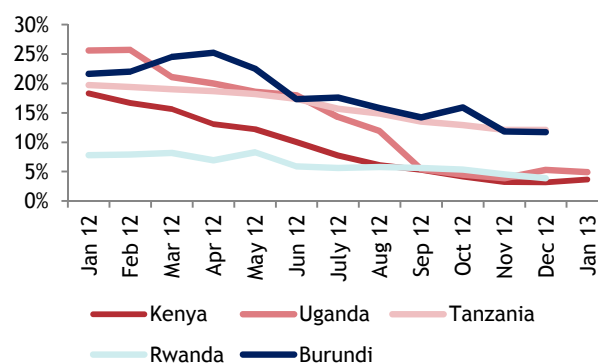
Rwanda

- Rwanda has frozen public sector recruitment, citing reforms in the public sector. However, economists view this as a step to tackle the budget deficit, accentuated by aid cuts by major donors.

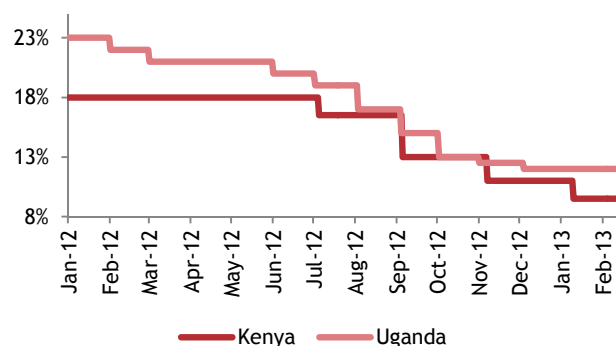
Burundi

- A fire in Bujumbura's main market is likely to disrupt supplies to the rest of the country and prop inflation up in the coming months. Damage to individual merchants is also likely to be large as just 5-10% of them had insurance.

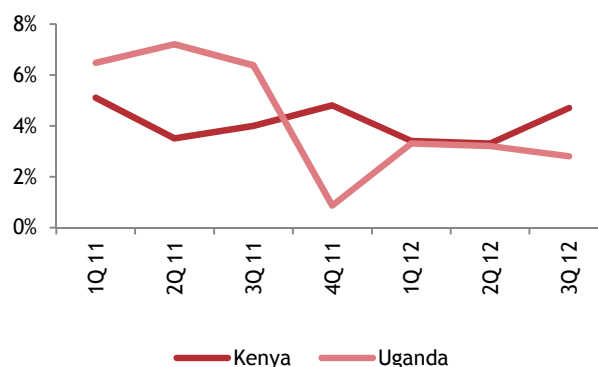
Inflation (YoY)



Key central banks' rate moves



GDP growth in Kenya and Uganda (YoY)



Source: Bloomberg, individual news websites, respective central banks, IMF

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

Rest of Sub-Saharan Africa

Nigeria

- Nigeria's economy picked up pace in Q4 2012 with real GDP growth rising to 7.1% YoY from 6.9% in Q3 2012. Growth was largely driven by the non-oil sector which expanded 8.2% during the quarter.
- Inflation fell sharply in January 2013 to 9% YoY from 12% in December 2012, aided by a high base effect. In January 2012 consumer prices had shot up due to a sharp reduction in gasoline subsidies.
- Earlier, the Central Bank of Nigeria (CBN) shied away from a rate hike and kept its policy rate unchanged at 12.0%, due to reducing price pressures.
- Merger talks among opposition political parties (CPC, ACN, APGA and ANPP) over the last two months resulted in the formation of the All Progressive Congress (APC) in February. The party is set to post a strong challenge in the 2015 presidential elections.

Angola

- Angola's central bank cut its policy rate by 25 bps to 10.0% as the country recorded its lowest inflation rate in a decade (9.0% YoY) in December 2012.
- Over 9000 ex-militants of the opposition party UNITA joined the ruling MPLA party at various ranks.

Ghana

- The Bank of Ghana maintained its policy rate at 15.0%, stating that the risks to inflation and growth were fairly balanced. Meanwhile, inflation came in at 8.8% YoY in January 2013, unchanged from December 2012.
- In order to manage its widening budget deficit, the government has formulated new policies to boost tax collection as well as sell local and foreign bonds.

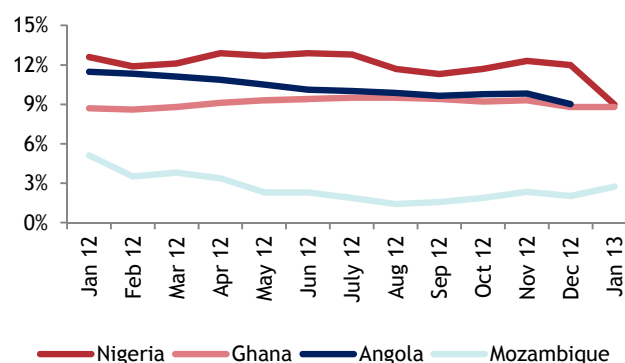
Mozambique

- The Central Bank of Mozambique kept its key rate unchanged at 9.5% for the third straight month. Meanwhile, inflation increased to 2.7% in January 2013 from 2.0% in December 2012, raising concerns over the impact of recent floods on the economy.

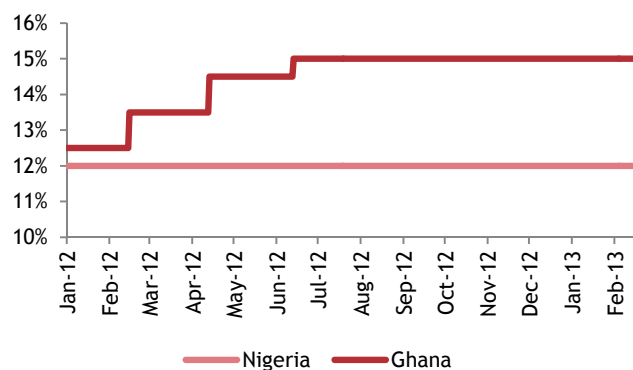
Ivory Coast

- The country's government scrapped the new tax on super profits on gold, adopted in September 2012. It would instead focus on adjusting royalties and revise the mining code to enhance government revenues.

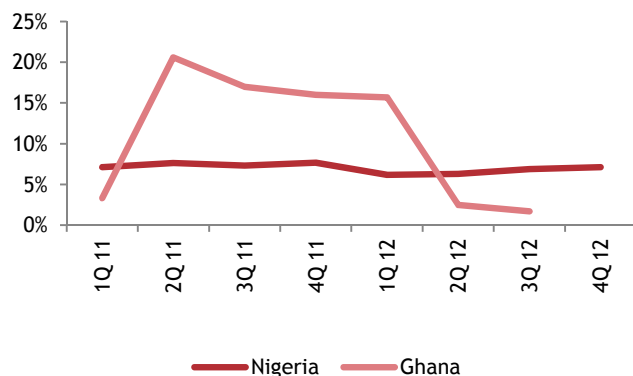
Inflation (YoY)



Key central banks' rate moves



GDP growth in Nigeria and Ghana (YoY)



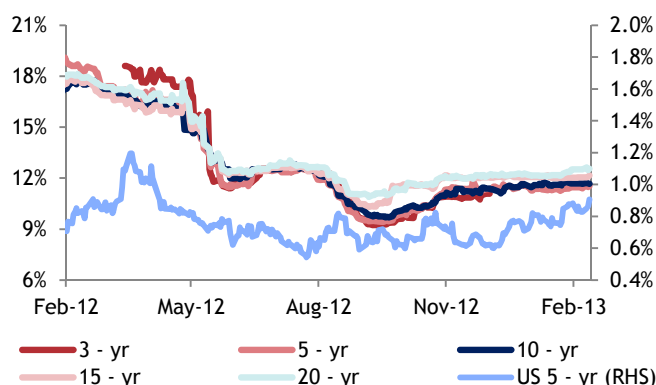
Source: Bloomberg, individual news websites, respective central banks, IMF

ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- Yields on treasury bonds have increased in the last three weeks as the central bank has tightened liquidity to support the shilling. At the same time, uncertainty before the March elections is contributing to investor caution. Yields on the 20- and 5-year bonds have increased by 23bps and 12bps respectively this month.
- Going forward, yields are likely to remain under pressure until the elections. A peaceful transition would however force yields lower. If this is accompanied by a strengthening of the shilling (as expected), bonds would benefit even more as the central bank would shift away from any liquidity tightening.
- The FTSE NSE Kenyan Shilling Government Bond Index declined 1.1% in January 2013. However, the index staged a reversal in February 2013, gaining 0.2% on a MTD basis.

Bond yields daily movement



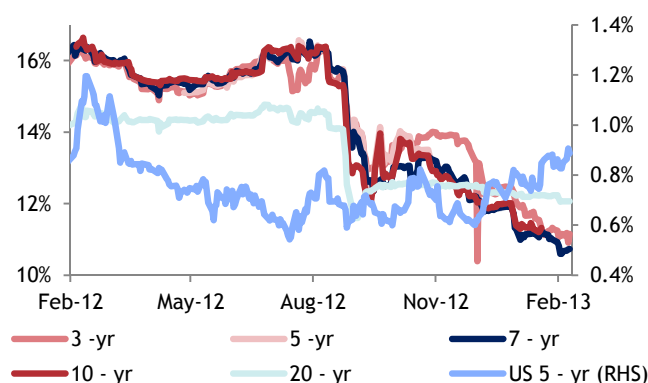
Summary statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
13-Feb yield	11.0%	11.5%	11.7%	12.2%	12.6%
Chg from 1-Feb (bps)	15	5	-1	12	4
Chg from 1-Dec (bps)	-11	15	33	13	31

Nigeria

- The Nigerian bond market, characterised by falling yields in the recent weeks, continued to trend downwards in February 2013. The decline occurred across maturities as offshore and domestic demand remained high, given rising risks associated with international markets and marginal rates in advanced economies.
- Furthermore, in a move to broaden the capital market, the Nigerian Stock Exchange opened a new trading platform called the Fixed Income Market Making System on 1 February 2013, allowing retailers to trade in government and corporate debt in the secondary market.
- The International Finance Corporation, a unit of the World Bank, raised the size of the "Naija bond" issue by 50.0% to NGN 12 bn following rising demand from the investor community (with orders amounting to NGN 20 bn).

Bond yields daily movement



Summary statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
13-Feb yield	11.2%	10.8%	10.7%	10.9%	12.1%
Chg from 1-Feb (bps)	-13	-5	-25	-33	-17
Chg from 1-Dec (bps)	-213	-185	-140	-133	-42

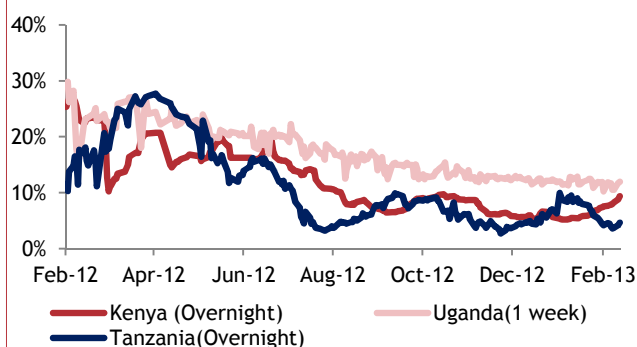
Source: Bloomberg, individual news websites, respective central banks

MONEY MARKETS

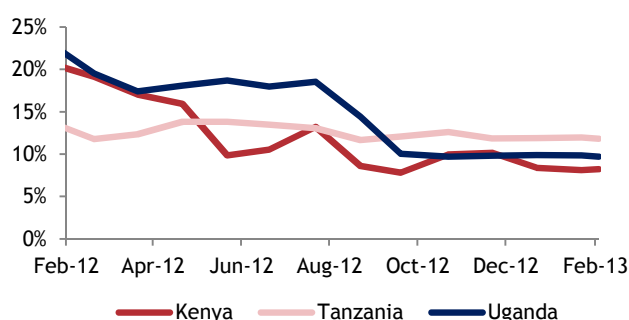
East African Community

- Kenyan interbank rates shot up in February as CBK's intervention to prop up the shilling led to liquidity tightening.
- On the other hand, Tanzania's overnight interbank rate fell as liquidity conditions improved.

Interbank rates



91-day/ 3-month T-bills (monthly average)



3-month currency deposit and T-bill rates (Feb 2013)

	Kenya	Tanzania	Uganda
3-m curr dep	7.7%	12.2%	11.9%
91-d/3-m T-bill	8.2%	11.8%	9.7%

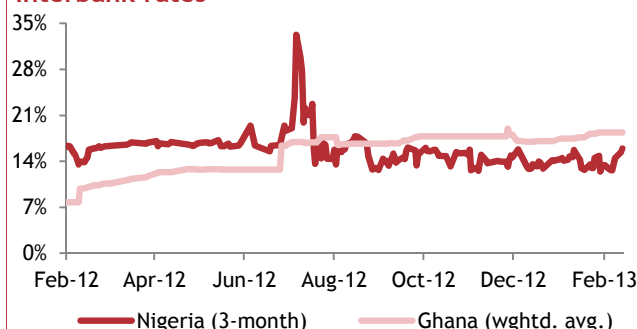
Policy and average interbank rates (Feb 2013)

	Kenya (o)	Tanzania (1-w)	Uganda (o)
Policy	9.5%	12.0%	12.0%
Interbank	9.4%	4.7%	12.0%

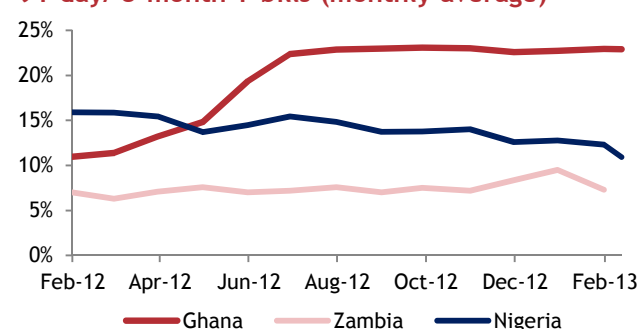
Rest of Sub-Saharan Africa

- Ghana's three-month Treasury bill rate continued to remain high relative to peers in Sub-Saharan Africa.
- The yield on Nigerian Treasury bills continued to fall as offshore demand took subscriptions to a record high. However, interbank rates increased, primarily due to open market operations by the central bank.

Interbank rates



91-day/ 3-month T-bills (monthly average)



3-month currency deposit and T-bill rates (Feb 2013)

	Nigeria	Ghana	Zambia
3-m curr dep	13.9%	18.5%	10.6%
91-d /3-m T-bill	10.9%	22.9%	7.3%(Jan)

Policy and average interbank rates (Feb 2013)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	12.0%	15.0%	9.3%
Interbank	16.0%	18.4%	8.9%

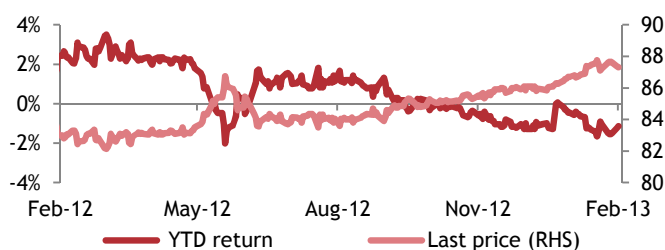
Source: Bloomberg, individual news websites, respective central banks

CURRENCY MARKETS: KENYA, TANZANIA, UGANDA

Kenyan Shilling (KES)

- The Kenyan shilling came under pressure against the US dollar, primarily due to higher demand for dollars from oil companies. The shilling has declined 1.1% on a YTD basis against the greenback.
- Rising demand for dollars from importers amid election concerns and inflationary pressure is also expected to exert pressure on the shilling.
- In order to support the shilling, CBK sold an undisclosed amount of dollars after the former hit a one-year low in January 2013. Furthermore, it offered KES 2 bn of seven-day repurchase agreements on 1 February 2013.

USD/KES daily movement

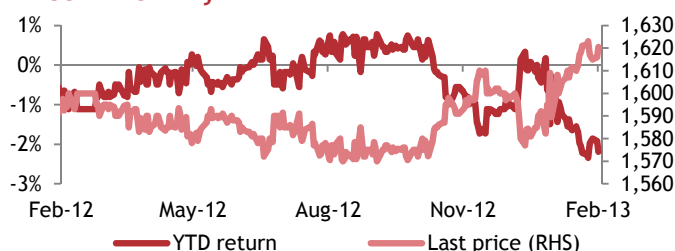


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	87.5	87.3	87.7	87.2	-0.1%	-1.1%
EUR	118.0	117.3	119.3	117.1	1.7%	-3.2%

Tanzanian Shilling (TZS)

- The Tanzanian shilling remained flat on a MTD basis in February 2013. So far, the currency has shed 2.2% this year.
- The shilling has lost ground against the dollar this year due to higher demand for dollars from the energy sector. At the same time, dollar inflows from NGOs have been relatively small.
- Interestingly, the auto sector has had to bear the brunt of the depreciating shilling; car prices in January 2013 recorded a 30.0% YoY rise, a worrying trend for the sector relying on more middle-class customers.

USD/TZS daily movement

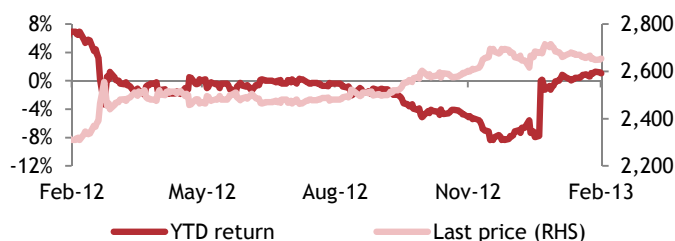


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	1618.7	1620.5	1623.0	1615.0	0.0%	-2.2%
EUR	2182.6	2177.6	2211.1	2158.4	1.5%	-3.9%

Ugandan Shilling (UGX)

- The Ugandan shilling has been strengthening over the past month, appreciating 1.1% against the US dollar on a YTD basis as the demand for dollars from the manufacturing and energy sectors remained low.
- Dollar inflows from offshore investors targeting government securities are also helping the currency appreciate.
- However, over the medium term, the currency is expected to remain under pressure as western donors cut aid following evidence of embezzlement of funds.

USD/UGX daily movement



	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	2654.0	2653.5	2666.0	2648.0	0.1%	1.1%
EUR	3577.1	3559.8	3624.0	3539.7	1.8%	-0.2%

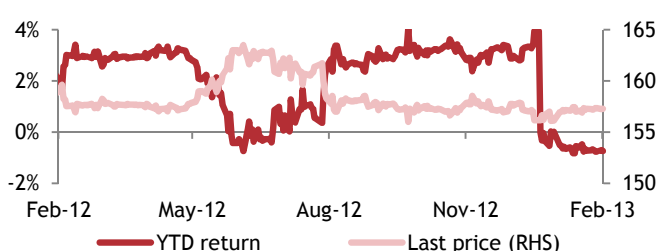
Source: Bloomberg, individual news websites, respective central banks

CURRENCY MARKETS: NIGERIA, RWANDA, GHANA

Nigerian Naira (NGN)

- The naira remained flat against the dollar on a MTD basis in February 2013. After a strong rally in 2012 (up 3.9%), the naira has remained weak this year; the currency has fallen 0.7% YTD vs. the greenback.
- A key reason for the naira remaining flat in February is the intervention by the central bank, which sold dollars worth more than 300 mn to lenders in February, with the largest sale of USD 180 mn taking place on 11 February 2013.
- Furthermore, foreign exchange reserves increased to USD 46.15 bn, the highest since July 2010. The rise in reserves is likely to provide a buffer for the naira against any rise in dollar demand pressures.

USD/NGN daily movement

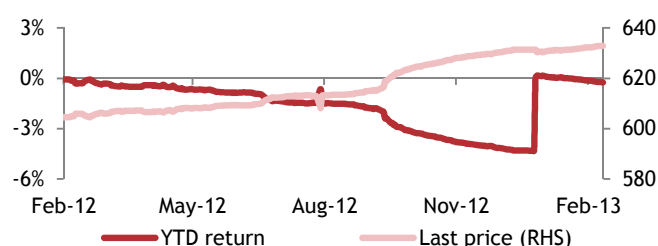


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	157.3	157.3	157.4	157.2	0.0%	-0.7%
EUR	212.1	211.4	214.5	210.3	1.5%	-2.5%

Rwandan Franc (RWF)

- The impact of foreign aid suspension still seems to be weighing on the Rwandan franc with the currency shedding 0.1% MTD in February against the US dollar.
- The currency has also been hit by declining foreign exchange reserves; reserves stood at USD 843.5 mn at the end of 2012, down from USD 1.1 bn in 2011.
- Going forward, the franc is likely to remain under pressure, especially with the central bank forecasting a drop in foreign investments.

USD/RWF daily movement

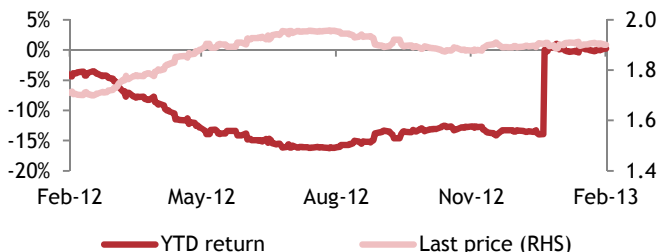


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	632.6	633.0	633.0	632.2	-0.1%	-0.2%
EUR	852.9	850.4	862.4	845.8	1.4%	-2.0%

New Ghanaian Cedi (GHS)

- Stable inflation was the key reason behind a stable Ghanaian cedi; the currency appreciated marginally (0.3% MTD) against the US dollar in February 2013.
- The cedi is expected to get further support as Ghana may sell additional USD 750 mn bonds to refinance its Eurobond due in October 2017.
- Analysts expect the cedi to be range-bound between 1.88/USD and 1.96/USD with potential for depreciation up to 2.05/USD unless the country undergoes deep structural reforms.

USD/GHS daily movement



	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	1.90	1.90	1.91	1.90	0.3%	0.2%
EUR	2.57	2.55	2.60	2.55	1.8%	-1.4%

Source: Bloomberg, individual news websites, respective central banks

SPECIAL FOCUS

Elections and Political Risk

Positive political outlook

2013 will be important for Sub-Saharan Africa as key economies gear up for elections. Most anticipated of these will be Kenya and Zimbabwe where there was political strife post previous elections, leading to a dip in growth. Countries can borrow from Nigeria where in the past two elections, smooth transition has ensured continuity in GDP growth.

Kenya

Kenya witnessed one of the worst outbreaks of political unrest following the 2007 presidential elections. The result was a sharp 550bps dip in GDP growth over 2007-08 with a large number of people displaced. While the country has moved on, consumers and businesses are concerned about the March elections. The shilling has already come under pressure, as businesses hold on to dollars and investors await the outcome of elections.

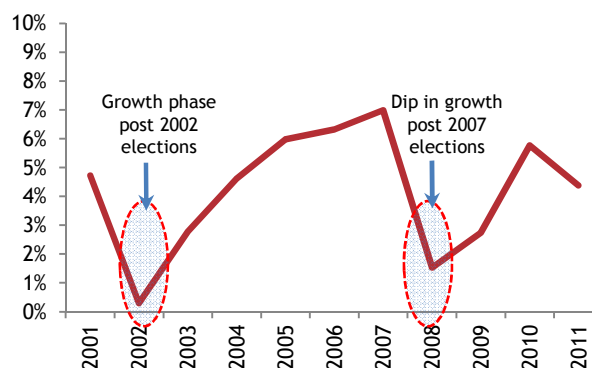
Notwithstanding the current bout of uncertainty, a repeat of 2007-08 seems unlikely. The power sharing agreement (after the previous election) and key reforms reflect greater maturity among political parties who, on their part, would be wary of implications (including international ones) of any violence. An orderly election will not only prove Kenya's democratic credentials but also lead to increasing foreign investments and thereby growth. In fact, IMF predicts Kenya's GDP growth to rise to 5.8% this year (up from an earlier prediction of 5.0%) if violence, similar to the one in 2007, can be avoided.

Zimbabwe

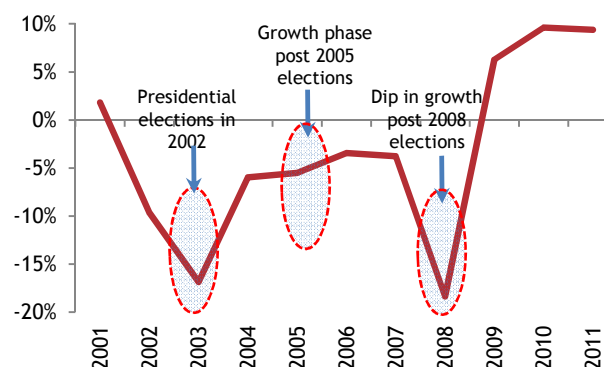
Investors' radar will also be on Zimbabwe where political turmoil has been a key contributor of worsening economic fundamentals over the years. This changed somewhat after the previous elections when substantial domestic and international pressure brought rival parties into a coalition government. Tensions still remain, however, and it would not be a surprise if the July polls are accompanied by political strife.

Political parties are, however, aware of the benefits of peace. The Global Political Agreement initiated in 2009 paved the way for a unity government and a multi-currency system, which resulted in average real GDP growth of 8.5% between 2009-11. A peaceful electoral exercise and transition would ensure that this growth rate continues for the next five years.

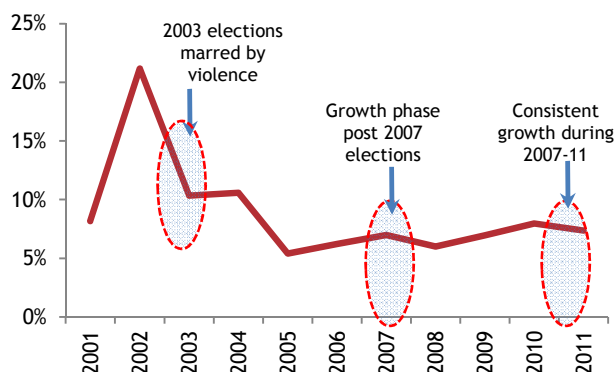
Elections and GDP growth in Kenya



Elections and GDP growth in Zimbabwe



Elections and GDP growth in Nigeria



Source: Bloomberg, individual news websites, respective central banks, IMF

AUCTIONS, EVENTS

Latest Issuances of Key Government Bonds (duration greater than one year)

Uganda's latest issuance: 5-yr bond (Jan 2013)

Issue Date	Maturity	Amt (UGX)	Bid/Offer	YTM	Coupon
3-Jan	5-yr	100 bn	1.12	15.3%	10.8%

Details of previous 5-yr issuance

11-Oct	5-yr	100 bn	1.50	12.2%	10.8%
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Issuances in November

8-Nov	2-yr	100 bn	1.67	13.5%	10.0%
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Tanzania's latest issuance: 7-yr bond (Jan 2013)

Issue Date	Maturity	Amt (TZS)	Bid/Offer	YTM	WACY*
9-Jan	7-yr	55 bn	1.30	15.6%	13.1%

Details of previous 7-yr issuance

14-Nov	7-yr	55 bn	1.40	15.3%	12.9%
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Issuances in December

28-Dec	5-yr	35 bn	1.37	14.9%	11.5%
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*Weighted average coupon yield

Ghana's latest issuance: 2-yr note (Feb 2013)

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int rate
18-Feb	2-yr	69.3 mn	FXR Note	1.00	23.0%

Details of previous 2 yr issuance

11-Feb	2-yr	193.2 mn	FXR Note	1.00	23.0%
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Issuances in December

31-Dec	2-yr	31.8 mn	FXR Note	1.00	23.0%
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*Fixed rate

Kenya's latest issuance: 5 and 20-yr bonds (Jan 2013)

Issue Date	Maturity	Amt bid (KES)	Amt acpt (KES)	MWAR*	Coupon
28-Jan	5-yr	26.1 bn	17.7 bn	13.2%	11.9%

28-Jan	20-yr	6.3 bn	4.4 bn	13.9%	12.0%
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Details of previous 5 yr and 20 yr issuance

30-Jul	5-yr	11 bn	7.5 bn	13.9%	11.9%
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26-Nov	20-yr	12 bn	3.1 bn	14.2%	12.0%
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*Market weighted average rate

Upcoming Bond Auctions, Monetary Policy Meetings

- **25 February:** The Central Bank of Kenya is scheduled to issue bonds worth KES 25 bn with maturity of 2-year and 15-years. While 2-year coupon rate will be market determined, 15-year coupon rate will be 11.3%.
- **13 March:** The Central Bank of Nigeria is scheduled to issue bonds worth NGN 50-90 bn with 5-year and 10-year maturity.
- **Monetary policy meetings** are scheduled for -
 - **5 March 2013:** Central Bank of Uganda
 - **18 March 2013:** Central Bank of Nigeria

Source: Bloomberg, individual news websites, respective central banks

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