FUSION AFRICAN MONITOR

Current news and analysis from Sub-Saharan money markets

January 2015

FUSION INVESTMENT MANAGEMENT

Rooted in the African growth story

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in December 2014

- Yields on **Kenyan** bonds rose across all maturities mainly due to low demand for debt from investors. Similarly, yields on **Nigerian** bonds increased across all maturities mainly due to selling pressure from some offshore investors. (details on page 5).
- Most currencies were under pressure against the US dollar in December 2014. The **Kenyan** shilling depreciated due to high demand for the US dollar from corporates. **Nigerian** naira depreciated despite the central bank's measures to support the local currency by devaluing it by 8.0% in November 2014. **Ghana's** currency the cedi fell for the first time in three months and was down 0.5%. However, the **Tanzanian** shilling strengthened by 0.5% due to dollar inflows from different sectors. The **Ugandan** shilling appreciated 0.4%, mainly due to some commercial banks unwinding long dollar positions and companies converting hard currency to pay taxes (more on pages 7 and 8).
- In money markets, **Kenya's** interbank rate increased to 7.2%, whereas that of **Tanzania** decreased to 9.9% towards the end of December 2014. Interbank rates in Nigeria rose to 15.2% towards the end of December as the central bank took measures to mop up excess liquidity from the markets (details on page 6).

December Bond Market Summary

	3-yr	5-yr	10-yr	20-yr
Kenya 31-Dec yield (%)	11.1%	11.4%	12.4%	12.9%
Chg from 1-Dec 14 (bps)	17	22	10	23
Nigeria 31-Dec yield (%)	15.3%	15.4%	15.1%	15.2%
Chg from 1-Dec 14 (bps)	126	194	197	206

Movement of Key Currencies vs. US Dollar in December

	Average	End Value	MTD	YTD
Kenyan Shilling	90.5	90.6	-0.6%	-4.7%
Ugandan Shilling	2,765.0	2,765.0	0.4%	-8.6%
Nigerian Naira	181.8	183.5	-2.6%	-12.6%
Ghanaian Cedi	3.2	3.2	-0.5%	-25.9%
Tanzanian Shilling	1,726.6	1,733.0	0.5%	-8.3%

Kimondo's Corner

Tumbling Oil Prices and the East African Economies

The global oil prices have fallen sharply in the last seven months and more than halved to the current price that is below USD 50 a barrel.

The huge oil price dip can be attributed to various factors including the rapid growth in shale oil production in the USA, China's managed economic growth slowdown and the failure by OPEC to reach an agreement on production curb.

With oil a major import expense for the East Africa economies, the price drop is expected to have a positive direct impact in boosting the region economic growth as a result of lower energy costs. We expect portfolio investors targeting Africa to focus more on oil-importing countries.

(See more on page 11)

Author: Michael Kimondo - Head of Treasury Operations at Fusion

For any further information, please contact:
Michael mkimondo@fusiongroupafrica.com
or Moses mkorir@fusiongroupafrica.com

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Kenneth Muchina (Africa)
+ 254 721 294 680
kmuchina@fusiongroupafrica.com

James Maclean (UK and Europe)
+ 44 7815 780 076
jmaclean@fusiongroupafrica.com

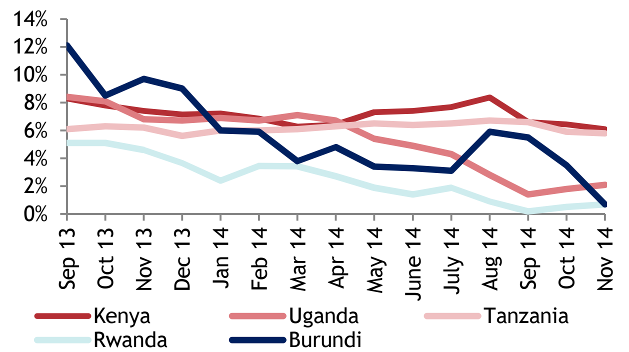
Source: Bloomberg and respective central banks

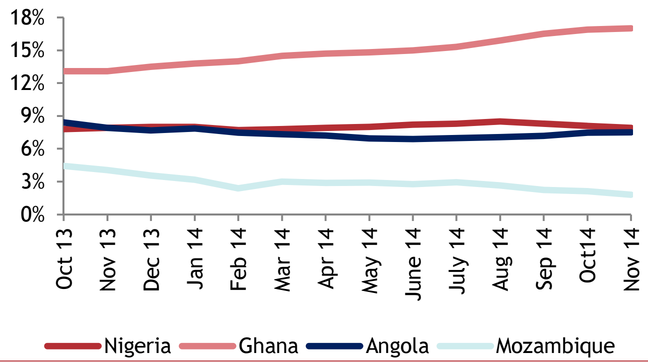
HIGHLIGHTS

Activity Across Africa: Economy and Politics

- **Kenya's** economic growth slowed to 5.5% in 3Q 2014, mainly due to a sharp drop in tourism following terrorist attacks in the country. However, the government stated that construction and agriculture sectors performed well and that the nation's economy remains on course to grow 5.3%-5.5% in 2015 as forecast previously by the government. Meanwhile, the Federal and 31 state governments of **Nigeria** have proposed austerity budgets to tackle the challenges brought forth by the slowing national economy (details on page 3 and 4).
- In December 2014, the central banks of **Uganda** and **Angola** retained their benchmark policy rates at 11.0% and 9.0%, respectively. Meanwhile **Rwanda's** central bank maintained its key repo rate at 6.5% for the first quarter of 2015 to support the economy (more on pages 3 and 4).
- Inflation across African countries varied in November 2014. In **Kenya**, inflation declined to 6.1% YoY, primarily due to a fall in the prices of food, housing, water, electricity and gas. In **Nigeria**, inflation decelerated to 7.9% YoY in November 2014 from 8.1% YoY in October 2014, whereas in **Ghana**, it increased for the 15th consecutive month to 17.0% YoY. In **Uganda**, inflation rose to 2.1% YoY in November from 1.8% YoY in October, led by a rise in food prices (details on pages 3 and 4).

Inflation (YoY)

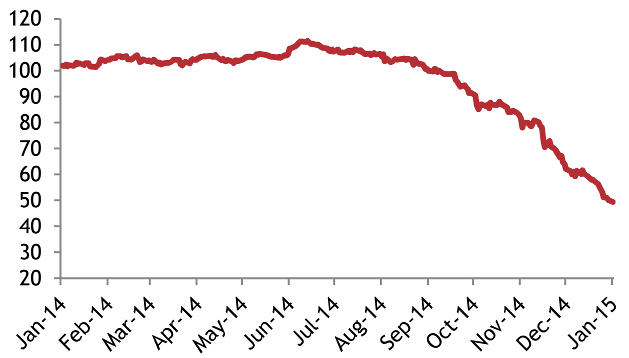




Oil Price Slump: Impact on Sub-Saharan Africa (SSA)

- The continuous decline in crude oil prices in the international market is posing a number of challenges for SSA, especially countries such as Nigeria, Congo, Angola, Gabon and Chad, which generate more than 50% of the total fiscal revenues from oil production.
- The headline growth of SSA's net oil exporters may come under pressure. In addition, fiscal accounts along with external accounts of SSA's oil producers are also at risk as foreign direct investment inflows to the oil sector could decline amid falling prices. Additionally, on going onshore and deepwater explorations and LNG projects in the region are also at risk.
- Bonds of oil exporters such as Nigeria, could be due for a selloff, as investors are becoming wary of countries that rely heavily on oil exports. Oil producers, including Nigeria, Angola, Iraq and Ecuador, have seen their bond prices decline in the previous month. Furthermore, the local currencies of these countries are also expected to be under pressure against the US Dollar.
- However, the decline in oil prices could be beneficial for those SSA countries which are significant oil importers. Kenya, Ivory Coast, Seychelles and Ethiopia could see a reduction in their trade deficits.

Brent Crude price (USD/bbl)



Source: individual news websites

FUSION GROUP: 100 New Bond Street, London, W1S 1SP, UK
T: +44 1625 526928 / +254(20)2710149/53/55 **E:** enquiries@fusiongroupafrica.com
www.fusioninvestafrica.com

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- In November 2014, Kenya's inflation declined for the third consecutive month to 6.1% YoY from 6.4% YoY in October 2014. This can be primarily ascribed to a 0.2% drop in the food and non-alcoholic drinks index and a 0.3% fall in the housing, water, electricity, gas and other fuels index during the month.
- Kenya's economic growth slowed to 5.5% in 3Q 2014, and was down from a revised 6.2% in 3Q 2013. This was mainly due to a sharp drop in tourism, following terror attacks in the country. However, the government stated that construction and agriculture sectors performed well and that the nation's economy remains on course to grow 5.3%-5.5% this year as forecast earlier by the government.

Uganda

- Uganda's annual headline inflation rose to 2.1% YoY in November 2014 from 1.8% YoY in October 2014, mainly due to a rise in food inflation to -1.6% YoY from -2.7% YoY in October 2014. Inflation in October was high as non-food inflation rose to 4.1% YoY in October from 3.5% YoY in September 2014.
- In December 2014, Bank of Uganda retained its benchmark policy rate at 11.0%, citing upward pressure on inflation from growing consumer demand and a weaker currency.

Tanzania

- Tanzania's annual headline inflation eased for the third consecutive month to 5.8% YoY in November 2014 from 5.9% YoY in October, mainly due to a slower growth in the prices of food and non-alcoholic beverages (7.0% YoY in November 2014, following a 7.1% increase in October 2014). Prices of housing, water, electricity and gas rose the most, with inflation of 11.3% YoY. Clothing and footwear index advanced 2.8% YoY, transport's prices rose 1.6% YoY, and the cost of furnishing and house equipment accelerated 1.4% YoY.

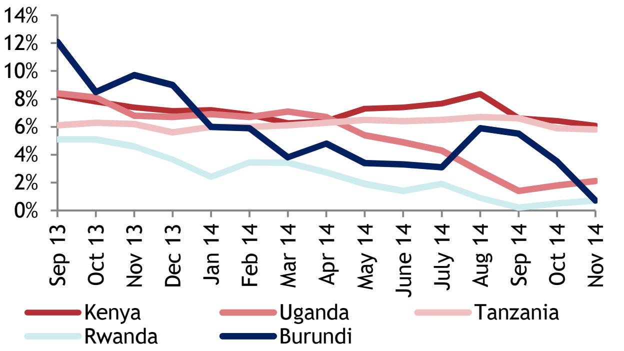
Rwanda

- Inflation in Rwanda rose to 0.7% YoY in November 2014 from 0.5% YoY in October 2014, mainly due to the rising prices of housing, water, electricity, gas and other fuels, which increased 2.9% and 7.4%, respectively.
- In December 2014, Rwanda's central bank maintained its key repo rate at 6.5% for 1Q 2015 to support the economy with its current accommodative policy stance.

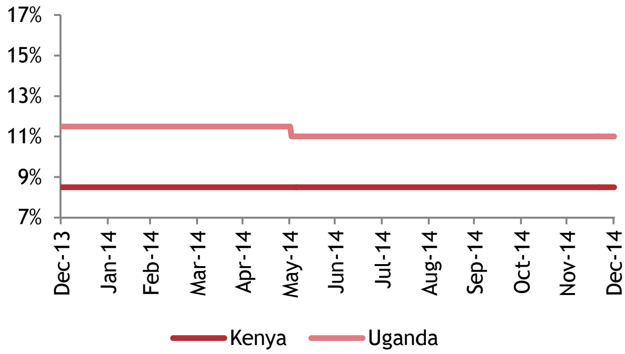
Burundi

- Burundi's inflation rose to 4.2% YoY in November 2014 from 3.5% YoY in October 2014, mainly attributed to higher inflation of food items, the prices of which rose 1.1% YoY in November 2014 from 0.3% YoY in October 2014.

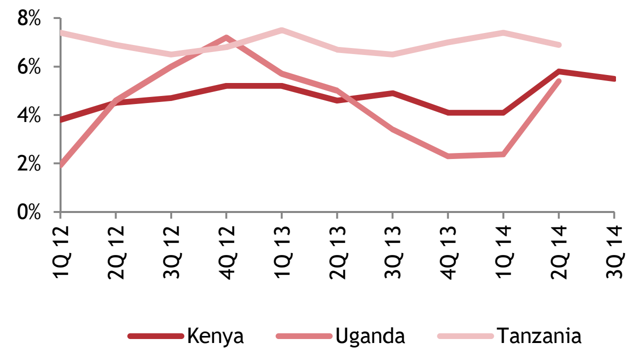
Inflation (YoY)



Movement of Central Banks' Key Rates



GDP Growth in Kenya, Uganda and Tanzania (YoY)



Source: Bloomberg, individual news websites, respective central banks

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

Rest of Sub-Saharan Africa

Nigeria

- Nigeria's inflation eased for the third consecutive month to 7.9% YoY in November 2014 from 8.1% in October 2014. This can be primarily ascribed to a slower rise in food prices. Food inflation dropped to 9.1% YoY in November 2014 from 9.3% YoY in October 2014.
- The Federal and 31 state governments of Nigeria have proposed austerity budgets to tackle the challenges posed by the slowing national economy. The country's 31 states and the Federal Government, barring supplementary appropriations, are expected to spend NGN 9.626 trillion in 2015 as against NGN 12.188 trillion spent in 2014.

Angola

- Inflation in Angola rose to 7.49% YoY in November 2014 from 7.48% YoY in October 2014, the highest level since March 2014, mainly due to an increase in the prices of food and alcoholic beverages.
- In December 2014, Angola's central bank retained its benchmark policy rate at 9.0%. In October 2014, the bank had raised the rate to 9.0% from 8.75%; this was the first increase since the rate was introduced in October 2011.

Ghana

- Inflation in Ghana advanced for the 15th consecutive month to 17.0% YoY in November 2014 from 16.9% YoY in October 2014, the highest level in four years. The rise was largely driven by higher food prices, which rose 6.6% YoY in November 2014 as compared to 6.5% YoY in October 2014.

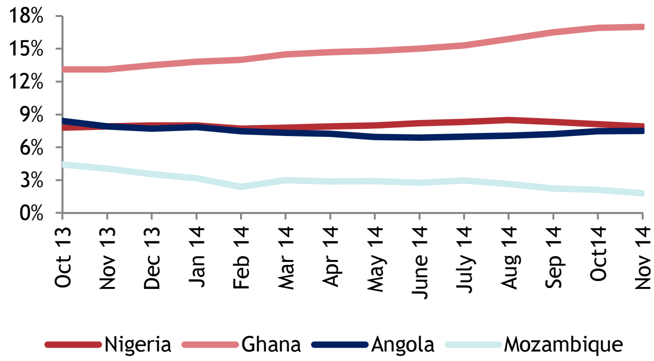
Mozambique

- Inflation in Mozambique eased to 1.79% YoY in November 2014 from 2.1% YoY in October 2014 and 2.2% YoY in September 2014, mainly because decreasing commodity prices made it cheaper for the country to import fuel and grains.

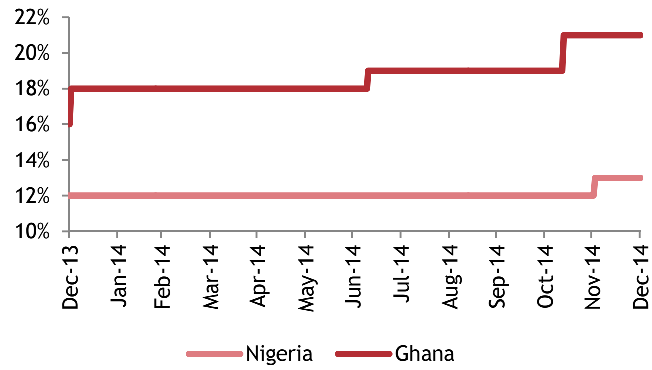
Ivory Coast

- Inflation in Ivory Coast rose to 1.0% YoY in November 2014 from 0.6% YoY in October 2014. Housing and utility, communications, and healthcare prices rose 6.7%, 1.4% and 1.1%, respectively. Transport and food & soft drink prices fell 0.7% and 2.2%, respectively.

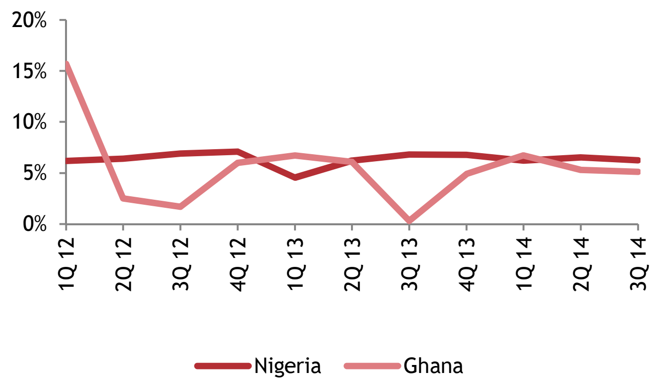
Inflation (YoY)



Movement of Central Banks' Key Rates



GDP Growth in Nigeria and Ghana (YoY)



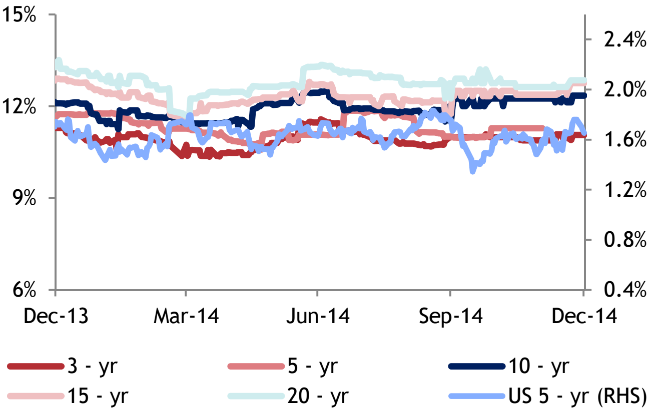
Source: Bloomberg, individual news websites, respective central banks

ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- In December 2014, yields on Kenyan bonds rose across all maturities. Yields for bonds with 15- and 20-year tenures rose the most, by 38 bps and 23 bps to 12.8% and 12.9%, respectively.
- Bond yields rose mainly due to low investor demand for debt.
- On 22 December 2014, the Central Bank of Kenya, on behalf of the government, auctioned two-year and 15-year Treasury Bonds with a coupon rate of 10.89% and 11.25%, expiring in 2016 and 2028, respectively. The central bank received bids worth KES 13.113 bn and KES 13.900 bn, respectively. The bank offered bonds worth KES 20.0 bn in total (for both the bonds), and bids worth KES 8.905 bn and KES 11.920 bn were accepted for two-year and 15-year bonds, respectively. The market-weighted average rate was 11.014% and 12.828% for the two-year and 15-year bonds, respectively.
- The FTSE NSE Kenyan Shilling Government Bond Index fell 0.6% on MTD basis in December 2014. On YTD basis, the index advanced 2.3%.

Bond Yields' Daily Movement



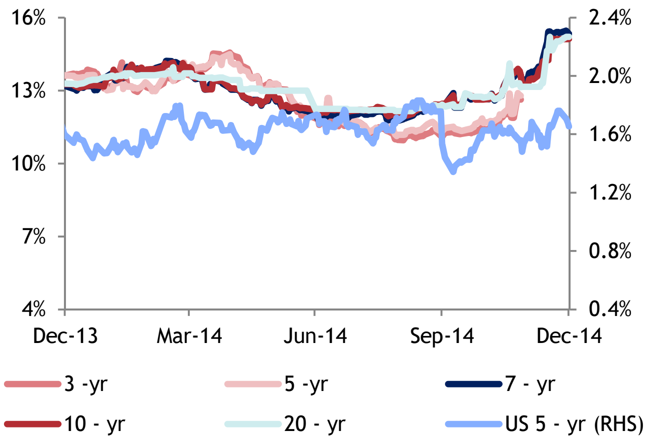
Summary Statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
31-Dec yield (%)	11.1%	11.4%	12.4%	12.8%	12.9%
Chg from 1-Dec 14 (bps)	17	22	10	38	23
Chg from 1-Jan 14 (bps)	-23	-33	25	-15	-66

Nigeria

- In December 2014, Nigerian bond yields rose across all maturities. Yields for bonds with 15- and 20-year tenures increased the most by 197 bps and 206 bps to 15.1% and 15.2%, respectively.
- Nigerian bond yields have been on the rise since the central bank hiked the benchmark interest rate to 13.0% in November 2014, whereas concerns on falling global oil prices have led to a sell off by offshore investors in Nigeria's debt. Additionally, concerns over a possible downgrade of the country's credit risk rating due to falling global oil prices led to the rise in yields.
- On 17 December 2014, Nigeria's government auctioned three-year NGN 10.0 bn 13.05% August 2016 bonds, 10-year NGN 30 bn 14.2% March 2024 bonds, and 20-year NGN 25 bn 12.15% July 2034 bonds. All the three bonds were oversubscribed, with subscriptions worth NGN 24.79 bn for three-year bonds, NGN 29.12 bn for 10-year bonds, and NGN 39.69 bn for 20-year bonds.

Bond Yields' Daily Movement



Summary Statistics

	3-yr	5-yr	7-yr	10-yr	20-yr
31-Dec yield (%)	15.3%	15.4%	15.3%	15.1%	15.2%
Chg from 1-Dec 14 (bps)	126	194	195	197	206
Chg from 1-Jan 14 (bps)	211	225	213	187	193

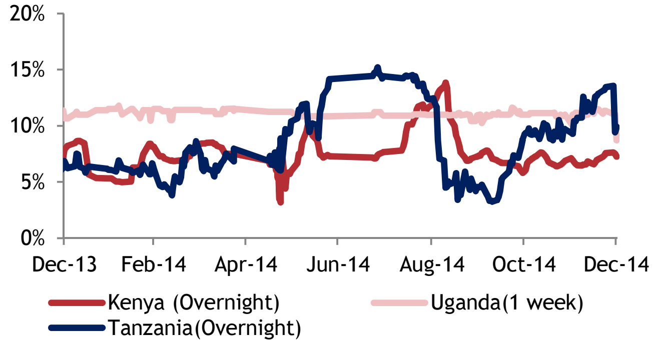
Source: Bloomberg, individual news websites

MONEY MARKETS

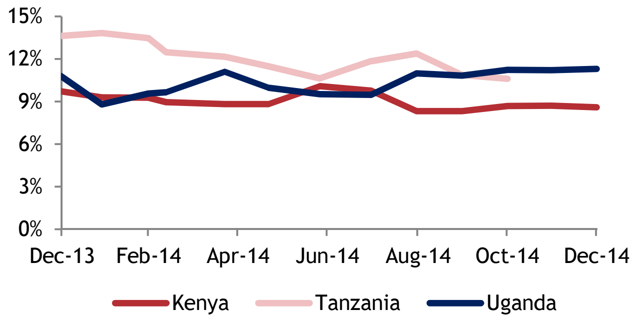
East African Community

- Kenya's interbank rate rose to 7.2% towards the end of December 2014 from 6.9% at the start of the month, indicating decreased liquidity in the market. Tanzania's interbank rate decreased to 9.9% towards the end of December 2014 vis-à-vis 10.4% at the start of the month, indicating increased liquidity in the market.

Interbank rates



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



3-month currency deposit and T-bill rates (Dec 2014)

	Kenya	Tanzania	Uganda
3-m curr dep	8.8%	11.6%	7.4%
91-d/3-m T-bill	8.6%	10.6%(Oct*)	11.3%

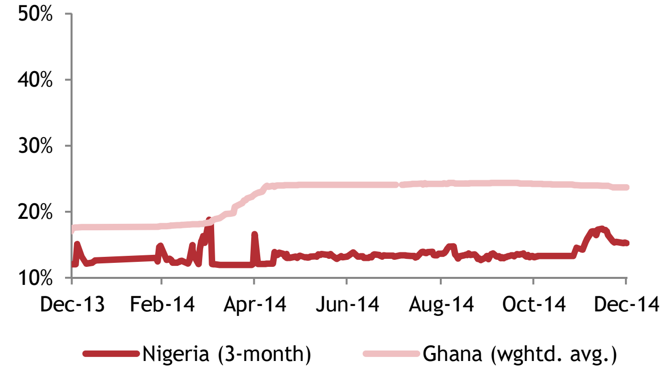
Policy and average interbank rates (Dec 2014)

	Kenya (o)	Tanzania (1-w)	Uganda (o)
Policy	8.5%	12.0%	11.0%
Interbank	7.2%	9.9%	8.7%

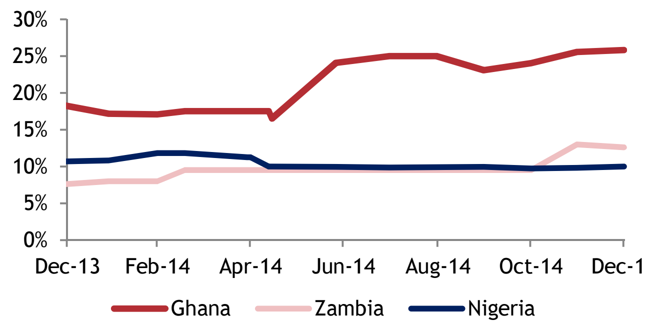
Rest of Sub-Saharan Africa

- The Nigerian Interbank Offered Rate (NIBOR) rose to 15.2% by the end of December 2014 from 14.3% at the start of the month as Nigeria's central bank mopped up naira from the market in order to support the falling currency.

Interbank rates



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



3-month currency deposit and T-bill rates (Dec 2014)

	Nigeria	Ghana	Zambia
3-m curr dep	13.0%	24.6%	19.5%
91-d/3-m T-bill	10.0%	25.8%	12.6%

Policy and average interbank rates (Dec 2014)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	13.0%	21.0%	12.5%
Interbank	15.2%	23.7%	12.3%

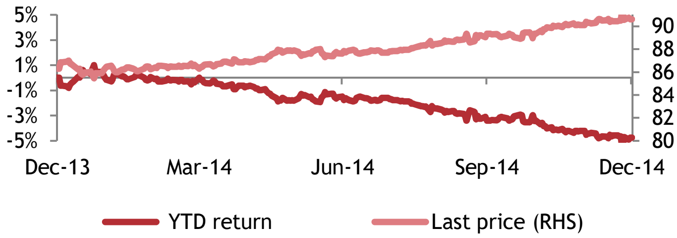
*Source: Bloomberg, individual news websites, respective central banks. Note: * Provisional*

CURRENCY MARKETS: KENYA, TANZANIA AND UGANDA

Kenyan Shilling (KES)

- The Kenyan shilling continued to depreciate against the US dollar and reached a three-year low of 91.55 on 25 December 2014. The currency fell 0.6% MTD in December 2014 and was down 4.7% on a YTD basis.
- Earlier in the month, the shilling weakened due to high demand for the US dollar from corporates, especially in the oil sector. The importers were buying dollars to meet their obligations ahead of the holidays. However, the local currency strengthened at the end of the month, supported by the central bank entering the market to mop up excess liquidity (KES 5.8 bn).
- The currency is expected to remain in a tight band of 90.50-90.80 against the US dollar in near term. However, it could strengthen against the dollar if the central bank enters the market to drain excess liquidity.

USD/KES Daily Movement

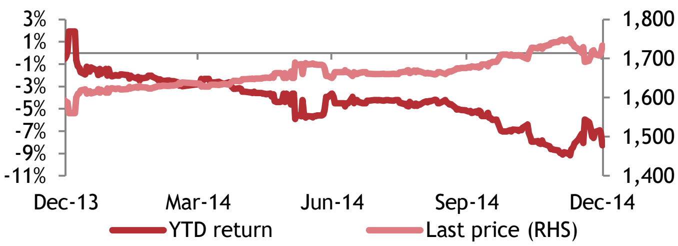


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	90.52	90.6	91.6	90.1	-0.6%	-4.7%
EUR	111.4	109.6	113.2	109.6	2.4%	8.4%

Tanzanian Shilling (TZS)

- The Tanzanian shilling strengthened against the US dollar in December 2014 and rose 0.5% MTD. On a YTD basis, the currency declined 8.3% against the greenback.
- The shilling appreciated mainly due to dollar inflows from different sectors. Furthermore, increased demand for the local currency for shopping and travel expenses in the holiday season also supported the shilling.
- Analysts expect that the shilling, which has lost 8.3% against the US dollar in 2014, would remain under pressure against the dollar in the near term, provided the dollar inflows improve further.

USD/TZS Daily Movement

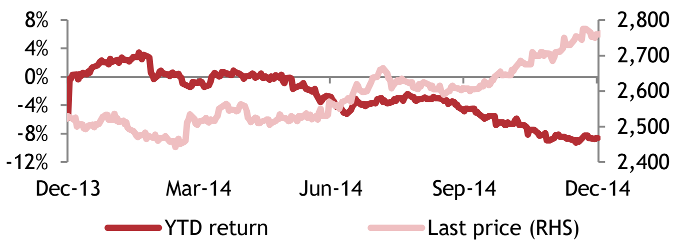


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	1,726.6	1,733.0	1,750.0	1,691.0	0.5%	-8.3%
EUR	2,125.6	2,097.1	2,176.7	2,067.8	3.4%	4.1%

Ugandan Shilling (UGX)

- The Ugandan shilling appreciated 0.4% MTD in December 2014. However, the local currency was down 8.6% YTD against the greenback.
- The Ugandan shilling gained ground against the US dollar in December after some commercial banks unwound long dollar positions and companies converted hard currency to pay taxes. However, the shilling lost 8.6% against the dollar in 2014 after demand for imports rose, in line with the broader weakening of currencies across emerging markets.
- The shilling is likely to remain under pressure against the US dollar in the near term amid the anticipated increase in demand for dollar as the corporates open post the holiday season. However, the shilling might find some support if the central bank intervenes.

USD/UGX Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	2,765.0	2,765.0	2,785.0	2,750.0	0.4%	-8.6%
EUR	3,404.9	3,346.6	3,484.1	3,346.6	3.2%	4.2%

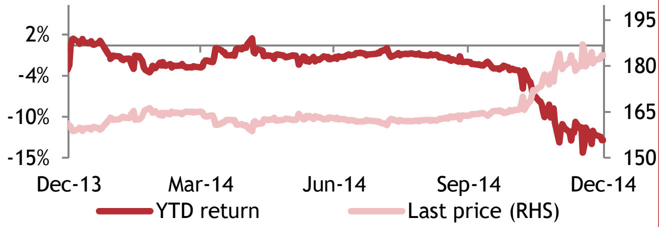
Source: Bloomberg, individual news websites

CURRENCY MARKETS: NIGERIA, RWANDA AND GHANA

Nigerian Naira (NGN)

- The Nigerian naira depreciated 2.6% against the US dollar in December 2014. The currency fell 12.6% YTD.
- In November 2014, the central bank had devalued the naira by 8% in an effort to stem its foreign reserve losses and defend the currency against dropping oil prices. However, the naira has traded well outside that band, and reserves are still falling. Nigeria's foreign reserves stood at USD 34.5 bn in November 2014, down 22.8% from the level in November 2013.
- In the near term, the naira is likely to remain under pressure against the dollar in an environment of falling oil prices, and with elections coming up in February 2015, prospects of big spending cuts seem unlikely.

USD/NGN Daily Movement

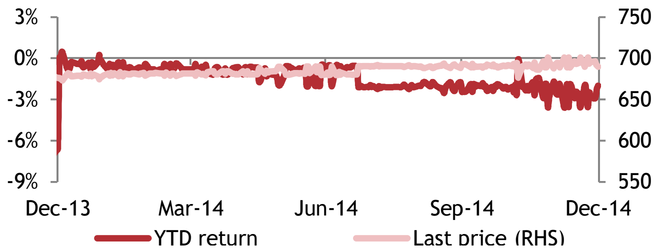


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	181.8	183.5	187.1	178.5	-2.6%	-12.6%
EUR	223.9	221.3	230.0	220.3	0.6%	-1.0%

Rwandan Franc (RWF)

- The Rwandan franc declined 0.3% against the US dollar in December 2014; it fell 2.0% YTD against the dollar.
- The franc was under pressure against the US dollar in 2014 due to a high demand for the greenback to finance imports such as construction material and technological equipment. Furthermore, lower fuel prices have led to the depreciation of the local currency against the greenback.
- The currency is likely to stay weak against the dollar as tea prices decline and the trade deficit remains wide. However, if the planned issue of sovereign bonds (amounting to about USD 1 bn) in 2015 is successful, the franc would be relieved of some pressure.

USD/RWF Daily Movement

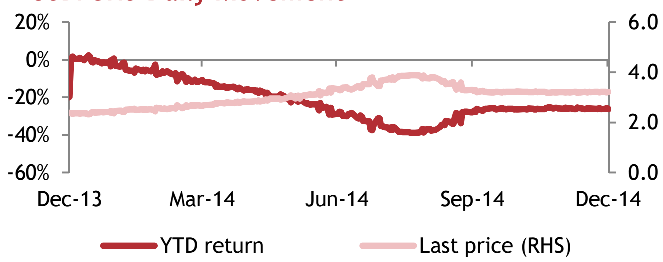


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	694.1	689.8	701.0	687.7	-0.3%	-2.0%
EUR	856.5	848.6	867.8	840.5	2.0%	8.1%

New Ghanaian Cedi (GHS)

- The Ghanaian cedi depreciated for the first time in three months against the US dollar in December 2014 and was down 0.5% MTD. On YTD basis, the currency was down 27.6% against the dollar.
- The cedi had fallen around 40.0% earlier in 2014, but a Eurobond issue, cocoa loan inflows, and talks with the International Monetary Fund (IMF) on bailout helped it recover some losses. Ghana is expected to conclude a three-year support program with the IMF by end of February 2015.
- The cedi is forecast to remain stable in the near term, driven by positive sentiment due to the finance minister's pledge to reduce the nation's fiscal deficit. However, Fitch has warned that cedi could start depreciating again if the government does not reach an agreement with the IMF soon.

USD/GHS Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	3.21	3.22	3.22	3.19	-0.5%	-27.6%
EUR	3.95	3.89	4.02	3.89	2.6%	-18.1%

Source: Bloomberg, individual news websites

SPECIAL FOCUS

Oil Price Slump: Impact on Sub-Saharan Africa

Significant drop in oil prices would damage SSA economy

The continuous decline in crude oil prices in the international market is posing a number of challenges for SSA, especially countries such as Nigeria, Congo, Angola, Gabon and Chad, which generate more than 50% of the total fiscal revenues from oil production. The negative impact on oil producers could include deteriorating external and fiscal accounts, weaker currencies, higher inflation and decreased investment.

Headline growth and budget deficits to come under pressure

With the recent decline in oil prices, the headline growth of SSA's net oil exporters would be under pressure. For example, Nigeria's growth has been revised down from 6.4% to 5.2% for 2015 as a result of lower oil prices and tighter policy. In addition, fiscal accounts would come under pressure. Nigeria's 2014 budget assumes an average oil price of USD 77.50/bbl, below the current spot price of less than USD 50.0/bbl. Also, the country's spending is expected to be ramped up in the lead up to the general election in February 2015. Other SSA countries such as Chad, Sudan and Cameroon are also vulnerable as they have only marginally positive or negative trade account balances and low levels of foreign exchange reserves. Furthermore, external accounts of SSA's oil producers are also at risk as foreign direct investment inflows to the oil sector could decline amid falling prices. Additionally, deepwater explorations off the coasts of Ivory Coast, pre-salt projects in Angola, LNG projects in East Africa and the ongoing onshore explorations in Kenya and Uganda (Tullow Oil) are also at risk. However exploration companies are prioritizing onshore explorations over offshore explorations, owing to their relatively lower cost.

Bond markets face risk; currencies under pressure

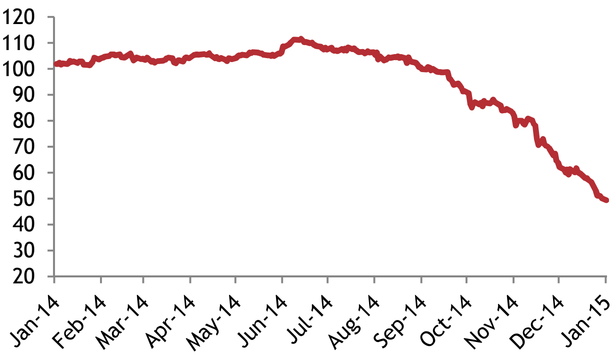
Analysts believe that frontier bonds, especially bonds of oil exporters such as Nigeria, could be due for a selloff, as investors are becoming wary of countries that rely heavily on oil exports as global oil prices have plunged by more than 40% since June 2014. Oil producers, including Nigeria, Angola, Iraq and Ecuador, have seen their bond prices decline in the previous month. If oil prices stay under pressure in 2015, frontier countries that depend on oil exports as a large part of their revenue could find themselves struggling to pay off their international debt.

Finally, lower oil prices are likely to be accompanied by US dollar strength, which would weigh on all SSA currencies. Nigeria has been hit particularly hard and in a bid to stabilise the financial system, the Central Bank of Nigeria has devalued the currency by 8.0%.

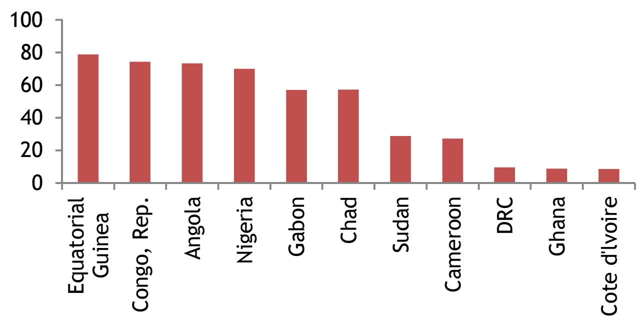
Net oil importers stand to benefit

The decline in oil prices could be beneficial for those SSA countries which are significant oil importers. For example, oil constitutes around 20.0% of the import bill in Kenya, Ivory Coast, Seychelles and Ethiopia. These countries could see a reduction in their trade deficits. Also, lower oil prices would help moderate inflation across these countries.

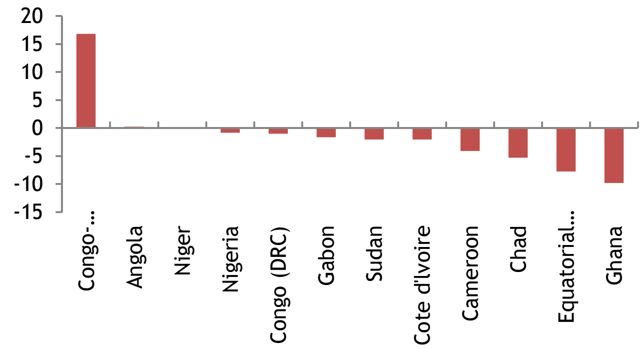
Brent Crude price (USD/bbl)



Share of net oil exporters' budgets derived from oil (%)



Budget Balance (2013e) of SSA Oil Exporters, % GDP



Source: individual news websites

AUCTIONS, EVENTS

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

Uganda's latest issuance: 3-yr and 15-yr bonds (December 2014)

Issue Date	Maturity	Amt (UGX)	Bid/Offer	YTM	Coupon
3-Dec	3-yr	90.00 bn	1.14	14.322%	13.75%
3-Dec	15-yr	90.00 bn	1.49	15.946%	14.25%
Details of issuances in November					
5-Nov	10-yr	100.00 bn	1.04	14.770%	14.00%
5-Nov	5-yr	39.14 bn	1.08	14.385%	10.75%

I USD = 2,764.96 UGX (average for December 2014)

Tanzania's latest issuance: 15-yr (December 2014)

Issue Date	Maturity	**Amt (TZS)	Bid/Offer	YTM	WACY*
23-Dec	15-yr	No bids were accepted			
Details of issuances in November					
12-Nov	7-yr	66.639 bn	1.08	15.97%	13.31%
26-Nov	10-yr	20.010 bn	1.59	16.50%	15.13%

**Weighted average coupon yield; I USD = 1,726.63 TZS (average for December 2014)*

Ghana's latest issuance: 2-yr note (December 2014)

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int rate
29-Dec	2-yr	3.53 mn	FXR Note	1	23.00%
22-Dec	2-yr	6.82 mn	FXR Note	1	23.00%
15-Dec	2-yr	5.13 mn	FXR Note	1	23.00%
8-Dec	2-yr	1.85 mn	FXR Note	1	23.00%
Details of previous 2-yr issuances					
7-Nov	2-yr	20.80 mn	FXR Note	1	23.00%
14-Nov	2-yr	2.78 mn	FXR Note	1	23.00%
21-Nov	2-yr	53.13 mn	FXR Note	1	23.00%

**Fixed rate; 1 USD = 3.21 GHS (average for December 2014)*

Kenya's latest issuance: 2-yr and 15-yr bonds (December 2014)

Issue Date	Maturity	Amt bid (KES)	Amt acpt (KES)	MWAR*	Coupon
22-Dec	2-yr	13.113 bn	8.905 bn	11.014%	10.890%
22-Dec	15-yr	13.900 bn	11.004 bn	12.828%	11.250%
Details of issuances in November					
24-Nov	15-yr	11.805 bn	10.617 bn	12.478%	10.250%
Details of issuances in October					
27-Oct	12-yr	38.77 bn	15.805 bn	11.63%	11.00%

**Market weighted average rate; I USD = 90.52 KES (average for December 2014)*

Upcoming Bond Auctions, Monetary Policy Meetings

- **23 and 30 January 2015:** The central bank of Ghana to sell bonds

- **Monetary policy meetings** are scheduled for:
  - **20 January 2015:** National Bank of Nigeria
  - **24 January 2015:** National Bank of Angola

*Source: Bloomberg, individual news websites, respective central banks; Note: ** No bids were accepted*

KIMONDO'S CORNER

International Crude Oil Prices and East African Economies

Tumbling oil prices and the East African economies

The global oil prices have fallen sharply in the last seven months and more than halved to the current price that is below USD 50 per barrel. This is the first time, since 2009, that the price is below USD 50 a barrel.

There are various reasons that have contributed to the huge oil dip including the rapid growth in shale oil production in the USA, the managed slowdown of China's economic growth and the failure by OPEC to reach an agreement on production curb which has resulted in an oversupplied market.

What does the dip in oil prices mean for the East African Economies?
For the East African countries, oil is a major import expense, and therefore the drop in oil prices is expected to have a positive direct impact in boosting East Africa's economic growth.

Oil is a major factor of production in East African Economies. Firstly, some of the factories in the region are powered by petroleum products directly or indirectly and therefore lower price of crude oil will mean lower cost of production. Secondly, almost all the industries' supply chains are dependent on oil. Lower oil prices will mean that the transport component in the final price that a consumer pays will be lower. This will in turn mean that the cost of goods produced in East African may become lower, allowing the goods to become competitive in markets.

Low oil prices in the East African economies may translate into lower inflation. Inflation and interest rates have a direct relationship and as inflation reduces, the interest rates will also decline. The lower interest rates will in turn make borrowings cheaper, encouraging spending and investment and in turn stimulating economic growth.

It is also expected that portfolio investors targeting Africa will be focusing more on oil-importing countries like Kenya and looking away from oil-exporting countries. This is because as oil prices continues to dip, the oil exporting countries' local currencies depreciate, resulting into currency loss for the foreign investors which in turn reduces the investors' income. Secondly low prices means reduced foreign currency inflows, making the currency market illiquid and therefore difficult for foreign investors to exit. These two factors will discourage new investment in oil rich countries, and the foreign investors will prefer the oil importing countries. It is not surprising, that Bloomberg recently reported that that stocks have surged 22% in Tanzania, 18% in Uganda and 9.4% in Kenya since oil prices began falling on June 19 2014, while the benchmark Nigerian stock Index fell by 24%.

On the negative side, Kenya and Uganda, countries that have invested heavily in recently discovered oil could suffer negative effects if the trend persists. Sustained low oil price will impact on their future earnings from oil and negatively affect expected oil driven investments and job growths.

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