FUSION AFRICAN MONITOR

Current news and analysis from Sub-Saharan money markets

March 2015

FUSION INVESTMENT MANAGEMENT
Rooted in the African growth story

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in February 2015

- Yields on **Kenyan** bonds grew across 3- and 20-year maturities, while they fell for 10-year bonds. Yields for Kenyan bonds are expected to be under pressure in the near term. On the other hand, yields on **Nigerian** bonds increased across maturities largely due to the rising cost of borrowing amid macroeconomic risks and political uncertainty after the postponement of presidential elections (details on page 5).
- Most currencies were under pressure against the US dollar in February 2015. The **Tanzanian** shilling depreciated due to limited dollar inflows from the export and tourism sectors. The **Nigerian** naira continued to slump mainly due to the prevailing negative sentiment resulting from uncertainties in the market with the postponement of elections. **Ghana's** currency cedi has also been under pressure in 2015 so far mainly due to rising dollar demand. The **Ugandan** shilling declined mainly due to month-end US dollar demand from importers. However, the **Kenyan** shilling appreciated against the US dollar mainly due to US dollar inflows from overseas investors into local debt and stock markets (more on pages 7 and 8).
- In money markets, **Kenya's** interbank rate increased to 6.1%, whereas that of **Tanzania** decreased to 3.1%. **Nigeria's** interbank rate rose to 16.3% towards the end of February 2015 (details on page 6).

February Bond Market Summary

	3-yr	5-yr	10-yr	20-yr
Kenya 27-Feb yield (%)	11.3%	11.6%	12.7%	13.4%
Chg from 1-Feb 15 (bps)	2	0	-5	25
Nigeria 27-Feb yield (%)	16.5%	16.0%	16.0%	16.7%
Chg from 1-Feb 15 (bps)	125	70	88	123

Movement of Key Currencies vs. US Dollar in February

	Average	End Value	MTD	YTD
Kenyan Shilling	91.5	91.4	0.3%	-0.9%
Ugandan Shilling	2,872.1	2,890.0	-1.2%	-4.1%
Nigerian Naira	198.4	202.8	-7.5%	-9.5%
Ghanaian Cedi	3.4	3.5	-3.7%	-25.9%
Tanzanian Shilling	1,826.1	1,837.5	-3.5%	-5.7%

Kimondo's Corner

Inflationary Pressure in East African Countries Continues to Ease

The inflation rates in the East Africa countries continue to fall, to the lows of 5% and below from highs of 30% in the year 2011.

The region is benefitting from low international crude oil prices, low energy and food prices leading to low inflationary pressure.

This is expected to have a positive impact on interest rates since the region will have stable lending rates leading to expanded credit uptake by the private sector.

The low inflationary rates could also have a positive impact on the region's economies as individuals and firms will have more disposable income to invest in new ventures.

More details on page 11

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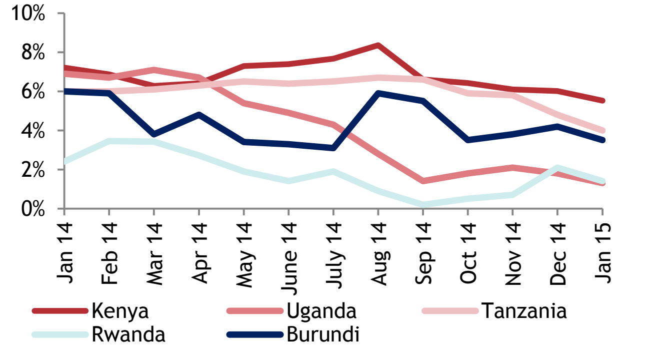
Source: Bloomberg and respective central banks

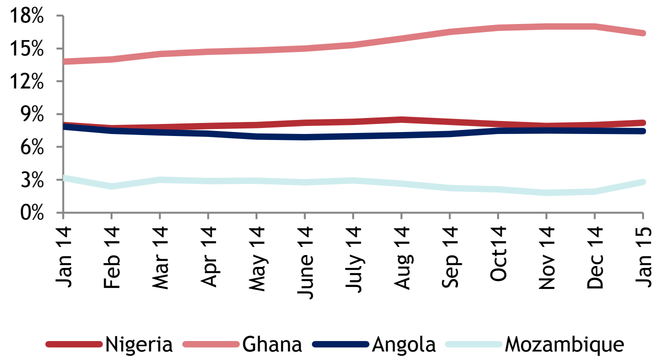
HIGHLIGHTS

Activity Across Africa: Economy and Politics

- In February 2015, Bloomberg marked down Nigeria's economic growth rate for 2014. It expects the country's GDP to expand by 4.9%, compared with the Nigerian finance ministry's estimate of 5.5%. This reflects the major decline in government revenue (28% drop between July 2014 and January 2015) due to falling oil prices (details on page 4).
- In January 2014, the central banks of **Kenya, Angola** and **Mozambique** retained their benchmark policy rates at 8.5%, 9.0% and 7.5%, respectively. While the central banks of Kenya and Angola cited reduced inflationary pressures for their decision, Mozambique's central bank reasoned the move on the impact of flooding on the economy, global economic risks and the decline in key export prices (more on pages 3 and 4).
- Inflation deceased in most sub-Saharan African countries. In **Kenya**, inflation declined to a 19-month low of 5.5% YoY in January 2015 primarily due to low inflation in the clothing and footwear, health and transport segments. Inflation in **Ghana** eased to 16.4% YoY in January 2015 from 17.0% YoY in December 2014. In **Uganda**, inflation fell to 1.3% YoY in January 2015 from 1.8% YoY in December. However, **Nigeria's** inflation rose to 8.2% YoY in January 2015 from 8.0% YoY in December 2014 (details on pages 3 and 4).

Inflation (YoY)

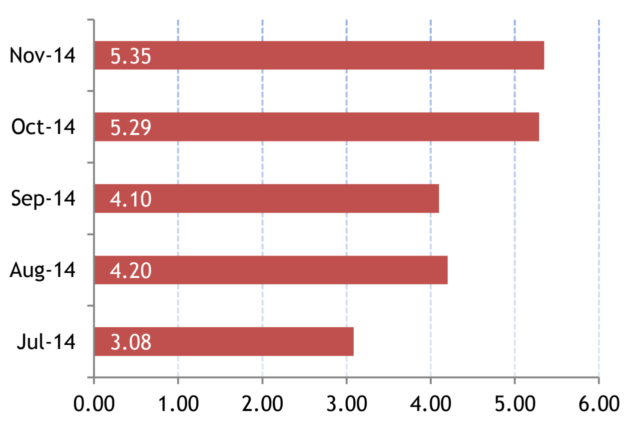




Continuous capital outflow hits Nigeria hard; CBN intervention critical

- Significant capital outflow has dented the Nigerian economy and depleted the country's foreign reserves.
- The capital outflow can be attributed to a reduction in the credit line offered to Nigerian banks by foreign counterparts mainly due to a crash in international crude oil prices in the second half of 2014. Furthermore, uncertainty over the 2015 general elections has contributed to the significant capital flight.
- The increasing capital flight reflects investor uncertainty and has resulted in weakening of the Nigerian naira against the US dollar. The capital outflow is expected to increase the cost of capital, which could lead to a slowdown in economic growth.
- Continuous capital outflow poses significant risks for the Nigerian economy. Depreciation of the naira has led the Central Bank of Nigeria (CBN) to scrap the Retail and Wholesale Dutch Auction of foreign exchange. The CBN should continue to intervene as there are other risks for Nigeria's credit rating, interest rate and domestic polity.

Nigeria: Capital Depletion (USD bn)



Source: Individual news websites

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ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- Kenya's inflation eased for the fifth consecutive month to a 19-moth low of 5.5% YoY in January 2015 from 6.0% YoY in December 2014. This was primarily driven by lower inflation in clothing and footwear (4.36% YoY in January 2015 vis-à-vis 4.40% YoY in December 2014), health (4.96% YoY in January 2015 vis-à-vis 5.47% YoY in December 2014), transport (5.31% YoY in January 2015 vis-à-vis 8.88% YoY in December 2014) and education (4.88% YoY in January 2015 vis-à-vis 5.31% YoY in December 2014) sectors.
- On 26 February 2014, Kenya's central bank held its key lending rate at 8.5% for the 11th session in a row, saying that there were no significant demand-driven inflationary threats to the economy and that the monetary policy measures, coupled with the favourable impact of lower international oil prices, continued to support price stability.

Uganda

- Uganda's annual headline inflation eased to 1.3% YoY in January 2015 from 1.8% YoY in December 2014, mainly due to a 6.5% YoY deflation in annual food crops prices in January 2015 compared to a deflation of 2.7% YoY in December 2014. However, annual energy, fuel and utilities (EFU) inflation edged up to 2.9% YoY in January 2015 from 2.0% YoY in December 2014.

Tanzania

- Tanzania's annual headline inflation eased for the fifth consecutive month to 4.0% YoY in January 2015 from 4.8% YoY in December 2014, mainly due to slower increase in prices of food and non-alcoholic beverages (4.9% YoY in January 2015 following a 5.7% increase in December 2014) and a rise in cost of housing, water, electricity and gas (4.9% YoY in January 2015 vis-à-vis 7.8% in December 2014).

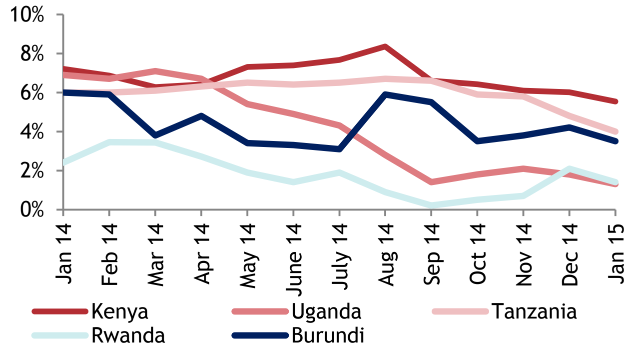
Rwanda

- Inflation in Rwanda eased to 1.4% YoY in January 2015 from 2.1% YoY in December 2014. The country's inflation rate averaged 1.8% last year, mainly driven by a decline in food and international oil prices.

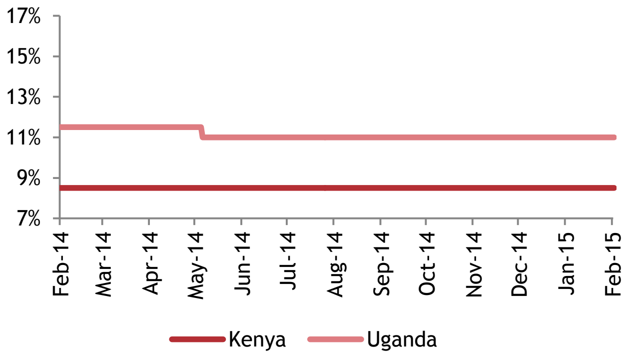
Burundi

- Burundi's inflation eased to 3.5% YoY in January 2015 from 3.8% YoY in December 2014, mainly led by low cost of furnishing and household equipment, the inflation of which dropped to 9.9% YoY in January 2015 from 10.5% YoY in December 2014.

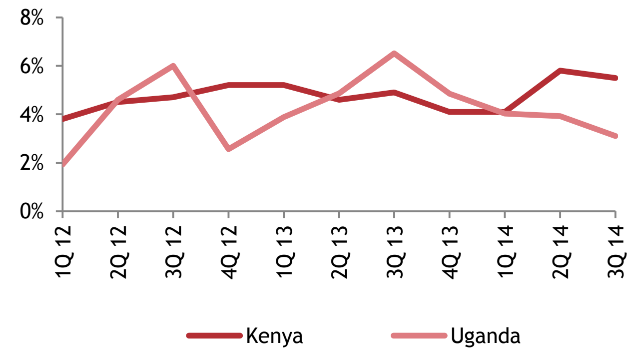
Inflation (YoY)



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 edged up to a four-month high of 8.2% YoY in January 2015 from 8.0% YoY in December 2014. Food inflation was unchanged at 9.2% YoY in January 2015 compared with the previous month. However, prices of major non-food items such as housing, water, electricity, gas, and furnishing and households equipment, clothing and footwear increased at a higher pace in January 2015 compared with December 2014.
- Bloomberg marked down the 2014 economic growth rate for Nigeria and expects the country's GDP to expand 4.9%, compared to Nigeria's finance ministry estimate of 5.5%. This reflects a major decline in government revenue (28% drop between July 2014 and January 2015) on plunging oil prices.

Angola

- Inflation in Angola dropped to 7.44% YoY in January 2015 from 7.48% YoY in December 2014. Food and Non-alcoholic beverages was the largest contributor to inflation.
- In February 2015, Angola's central bank maintained its policy rates, including the benchmark Basic Interest Rate (BNA) at 9.0%, citing a slight decline in inflation in January.

Ghana

- Inflation in Ghana eased to 16.4% YoY in January 2015 from 17.0% YoY in December 2014. This can be mainly ascribed to lower inflation in non-food items (23.0% YoY in January 2015 vis-à-vis 23.9% YoY in December 2014). Also, food inflation was stable at 6.9% YoY in January 2015 vis-à-vis 6.8% YoY in December 2014.

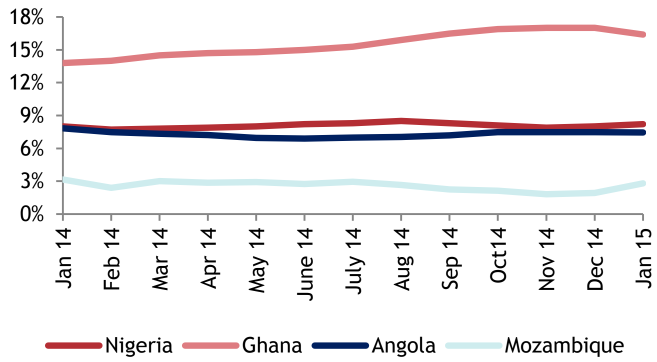
Mozambique

- Inflation in Mozambique increased to 2.79% YoY in January 2015 from 1.93% YoY in December 2014, reflecting the impact of floods that inhibited the transport of products around the country.
- Mozambique's central bank retained its key lending rate at 7.5% in February 2015, citing the impact of floods on the economy, global economic risks and a decline in key export prices.

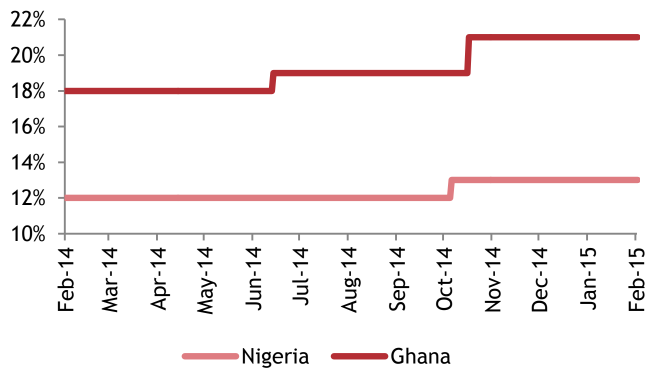
Ivory Coast

- Inflation in Ivory Coast rose to 2.3% YoY in January 2015 from 0.9% YoY in December 2014. Housing and utility, communications, healthcare, and food and soft drink prices rose 11.4%, 1.2%, 2.7%, and 0.4%, respectively. Transport prices fell 0.5%.

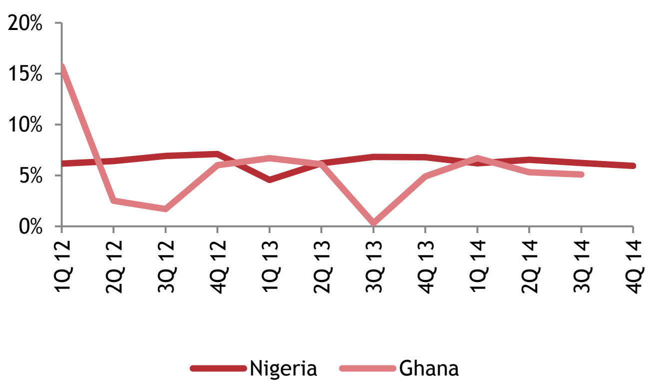
Inflation (YoY)



Movement of Central Banks' Key Rates



GDP Growth in Nigeria and Ghana (YoY)



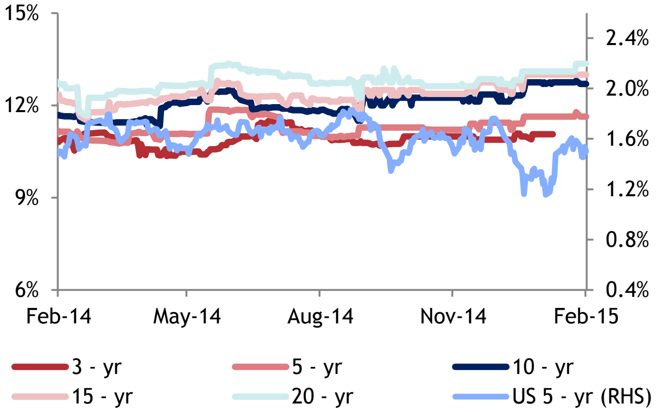
Source: Bloomberg, individual news websites, respective central banks

ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- In February 2015, yields on Kenyan bonds rose for 3-year and 20-year maturities, whereas they fell for 10-year tenure. Yields for bonds with 5- and 15-year tenure were flat.
- In near term, Kenyan bond yields are expected to be under pressure amid good demand for local debt, mainly due to improved liquidity from month-end disbursements by the government to workers and suppliers.
- On 23 February 2015, the Central Bank of Kenya, on behalf of the government, auctioned two-year and 10-year Treasury Bonds with a coupon rate of 11.47% and 12.37%, expiring in 2017 and 2023, respectively. The central bank offered bonds worth KES 25.0 bn for each of the two maturities. The bank received bids worth KES 28.743 bn and KES 22.388 bn and accepted bids worth KES 23.592 bn and KES 11.658 bn for two-year and 10-year bonds, respectively. The market-weighted average rate stood at 11.551% and 13.000% for two-year and 10-year bonds, respectively.
- The FTSE NSE Kenyan Shilling Government Bond Index fell 1.1% on MTD basis in February 2015. On YTD basis, the index was down 0.6%.

Bond Yields' Daily Movement



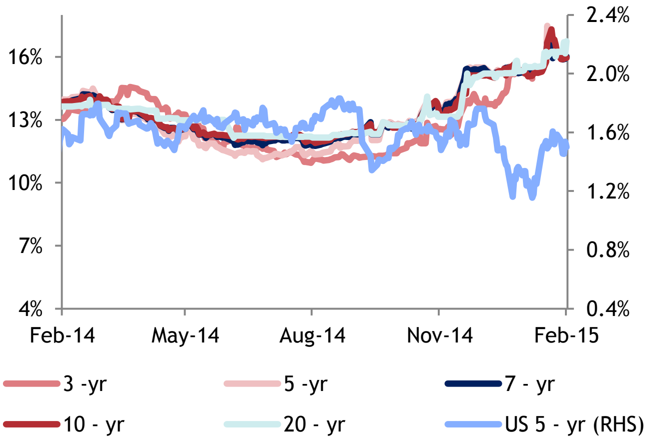
Summary Statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
27-Feb yield (%)	11.3%	11.6%	12.7%	13.0%	13.4%
Chg from 1-Feb 15 (bps)	2	0	-5	0	25
Chg from 1-Jan 15 (bps)	24	21	35	25	50

Nigeria

- In February 2015, Nigerian bond yields rose across maturities. Yields for bonds with three- and 20-year tenure increased the most, by 125 bps and 123 bps to 16.5% and 16.7%, respectively.
- Nigerian bond yields continued to surge due to rising cost of borrowing for the government due to the impact of low oil prices, Boko Haram attacks and political uncertainty after the six-week postponement of the February 2015 presidential elections. Nigeria is expected to hold its general election on 28 March 2015 and 11 April 2015.
- On 11 February 2015, Nigeria's government auctioned five-year NGN 35.0 bn 15.5% February 2020 bonds, 10-year NGN 30 bn 14.2% March 2024 bonds, and 20-year NGN 25 bn 12.15% July 2034 bonds. All three were oversubscribed, with subscriptions worth NGN 60.10 bn for five-year bonds, NGN 35.37 bn for 10-year bonds and NGN 28.14 bn for 20-year bonds.

Bond Yields' Daily Movement



Summary Statistics

	3-yr	5-yr	7-yr	10-yr	20-yr
27-Feb yield (%)	16.5%	16.0%	16.0%	16.0%	16.7%
Chg from 1-Feb 15 (bps)	125	70	78	88	123
Chg from 1-Jan 15 (bps)	154	89	94	93	153

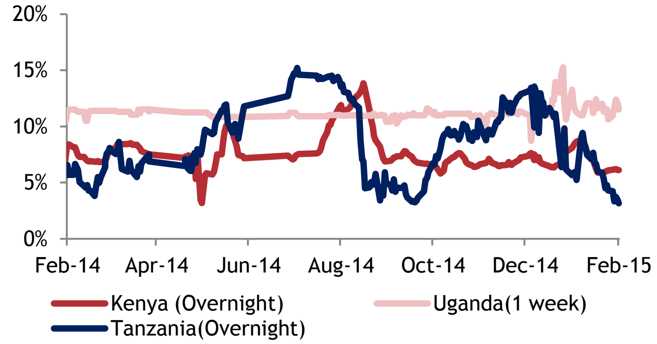
Source: Bloomberg, individual news websites

MONEY MARKETS

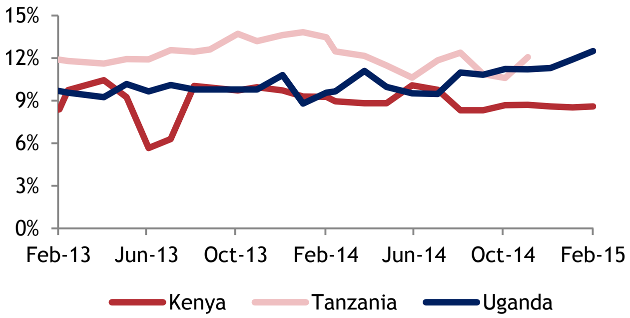
East African Community

- Kenya's interbank rate rose to 6.1% toward the end of February 2015 from 5.9% at the mid of the month, indicating decreased liquidity in the market. This can be ascribed to the CBK's frequent mopping of shilling liquidity from the market (a total of KES 88 bn) during the month. Tanzania's interbank rate decreased to 3.1% toward the end of February 2015 from 9.4% 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 (Feb 2015)

	Kenya	Tanzania	Uganda
3-m curr dep	8.8%	7.6%	7.4%
91-d/3-m T-bill	8.6%	11.3%	12.5%

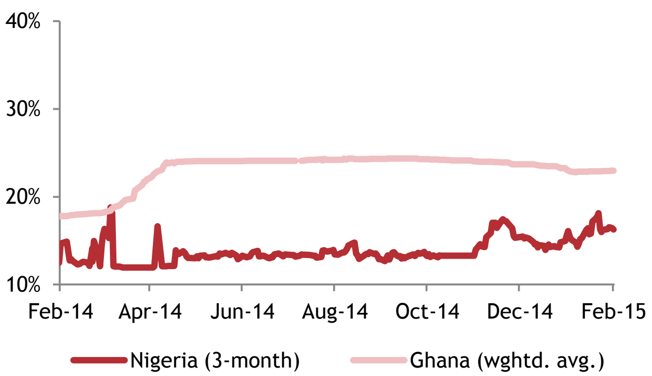
Policy and average interbank rates (Feb 2015)

	Kenya (o)	Tanzania (1-w)	Uganda (o)
Policy	8.5%	12.0%	11.0%
Interbank	6.1%	3.1%	11.5%

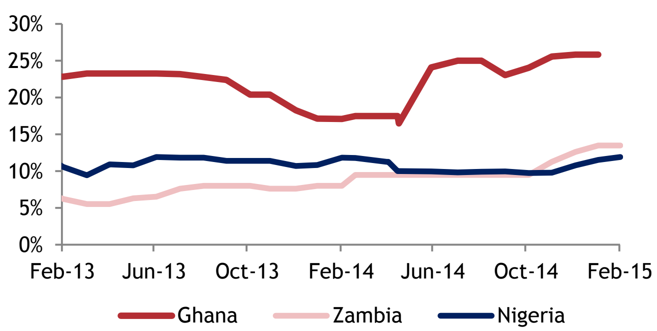
Rest of Sub-Saharan Africa

- The Nigerian Interbank Offered Rate (NIBOR) rose to 16.3% at the end of February 2015 from 14.8% at the start of the month, as Nigeria's central bank mopped up NGN 142 bn through the sales of treasury bills during the month.

Interbank rates



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



3-month currency deposit and T-bill rates (Feb 2015)

	Nigeria	Ghana	Zambia
3-m curr dep	13.0%	25.9%	25.8%
91-d/3-m T-bill	11.9%	0.0%	13.5%

Policy and average interbank rates (Feb 2015)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	13.0%	21.0%	12.5%
Interbank	16.3%	23.0%	12.5%

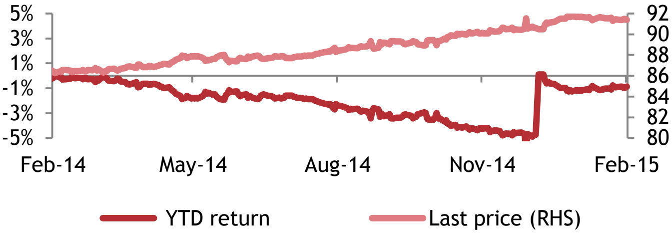
Source: Bloomberg, individual news websites, respective central banks.

CURRENCY MARKETS: KENYA, TANZANIA AND UGANDA

Kenyan Shilling (KES)

- The Kenyan shilling appreciated against the US dollar in February 2015 and was up 0.3% on MTD basis. However, the currency was down 0.9% on YTD basis.
- The Kenyan shilling was supported mainly by the inflow of US dollars from investors abroad into the local debt and stock markets. The local currency has been gradually weakening against the greenback over the past few months, mainly as Kenya's dented tourism sector led to limited US dollar inflow.
- The shilling is expected to trade in the 91.20–91.75 range in near term. The local currency is also expected to find support from the frequent liquidity mop ups by the CBK, along with the positive sentiment arising from the appointment of the new central bank governor who will replace Mr. Njuguna Ndung'u.

USD/KES Daily Movement

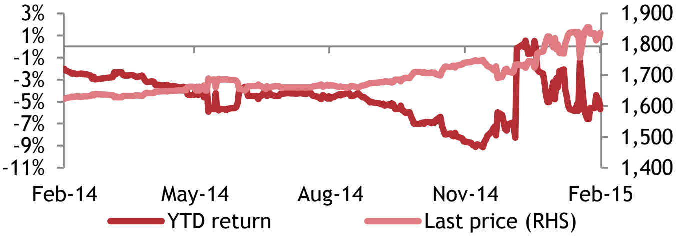


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	91.50	91.4	91.7	91.3	0.3%	-0.9%
EUR	103.9	102.3	105.0	102.3	1.1%	7.1%

Tanzanian Shilling (TZS)

- The Tanzanian shilling depreciated against the US dollar in February 2015. The currency was down 3.5% and 5.7% on MTD and YTD basis, respectively.
- The local currency weakened against the US dollar, mainly due to limited dollar inflow from export and tourism sectors.
- Analysts expect the shilling to remain under pressure against the US dollar in the near term due to limited expectations of US dollar inflow from tourism and agriculture sectors. It is currently off season for tourism and the end of cashew nut season is approaching. Furthermore, the delay of western donor aid due to corruption scandals in the energy sector has added to the local currency's woes.

USD/TZS Daily Movement

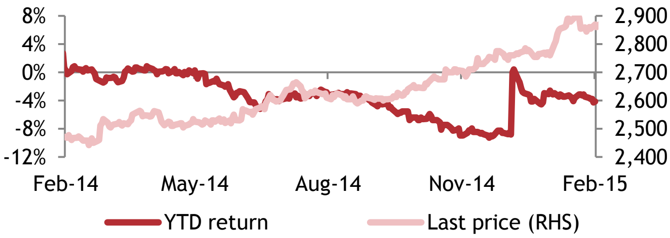


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	1,826.1	1,837.5	1,855.0	1,756.5	-3.5%	-5.7%
EUR	2,074.2	2,057.1	2,114.2	2,000.7	-3.2%	1.9%

Ugandan Shilling (UGX)

- The Ugandan shilling depreciated 1.2% against the greenback in February 2015. On YTD basis, the currency is down 4.1%.
- The Ugandan shilling weakened against the US dollar mainly due to month-end US dollar demand from importers amid local currency liquidity in the interbank market.
- The local currency is, however, expected to strengthen against the US dollar in the medium term, supported by strong appetite for the Uganda government debt from offshore investors seeking high yields. The yields have been rising on expectations of a surge in public spending ahead of the election due in early 2016.

USD/UGX Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	2,872.1	2,890.0	2,894.0	2,860.0	-1.2%	-4.1%
EUR	3,260.4	3,235.9	3,294.1	3,235.9	-0.4%	3.6%

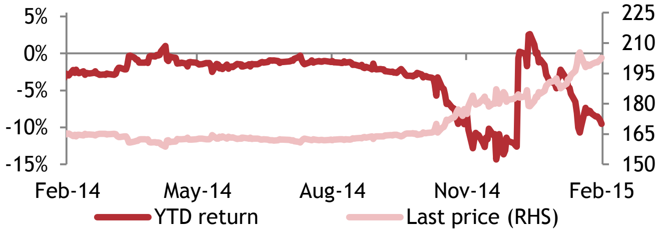
Source: Bloomberg, individual news websites

CURRENCY MARKETS: NIGERIA, RWANDA AND GHANA

Nigerian Naira (NGN)

- The Nigerian naira continued to slump against the greenback in February 2015, reaching a record low of 205.45 on 12 February 2015. The currency fell 7.5% on MTD basis and was down 9.5% on MTD basis.
- The naira depreciated mainly due to the prevailing negative sentiment caused by uncertainties in the market with the postponement of the election. Furthermore, there is a lot of US dollar buying activity amid speculation that the local currency might be devalued before the election or after.
- In the near term, the naira is likely to remain under pressure against the dollar, as tightening of monetary policy is likely only after election results.

USD/NGN Daily Movement

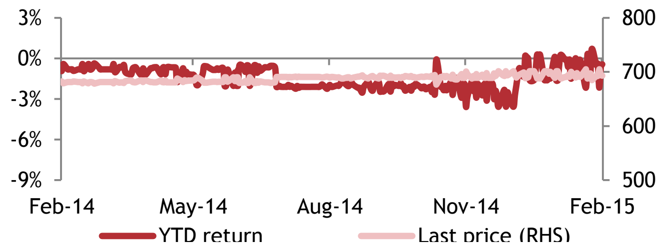


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	198.4	202.8	205.5	189.4	-7.5%	-9.5%
EUR	224.8	225.6	234.2	211.2	-6.1%	-1.9%

Rwandan Franc (RWF)

- Rwandan franc depreciated 0.7% on MTD basis against the US dollar in February 2015. On YTD basis, the currency was up 0.3%.
- The franc has been under pressure against the US dollar due to a high demand for the greenback to finance imports amid widening current account deficit. In 2014, Rwanda's total import bill went up by 6.8% and 3.7% in terms of volume and value, respectively. This widened the trade deficit by 7.5% to around USD 1.8 bn, up from about USD 1.7 bn.
- The currency is likely to stay weak against the dollar due to persistent demand for US dollar to finance imports.

USD/RWF Daily Movement

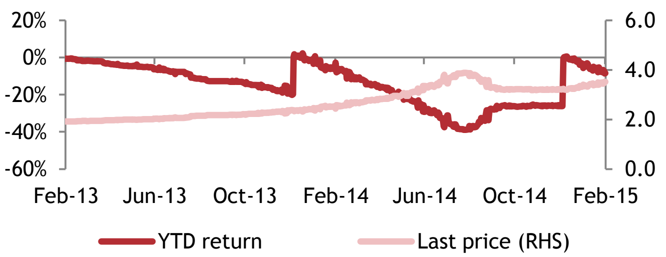


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	693.7	692.8	705.0	685.0	-0.7%	0.3%
EUR	782.8	775.4	806.1	771.1	0.4%	7.7%

New Ghanaian Cedi (GHS)

- Ghanaian cedi continued its downtrend, falling 3.7% against the US dollar in February 2015. On YTD basis, the currency fell 8.5%.
- The local currency slumped 31% in 2014 and has been under pressure in 2015 so far mainly due to rising dollar demand.
- The cedi is expected to strengthen against the greenback in near term, mainly on the back of positive sentiments after the government's successful negotiations with the International Monetary Fund for a USD 930 mn three-year aid program to fix its economy.

USD/GHS Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	3.43	3.52	3.52	3.32	-3.7%	-8.5%
EUR	3.90	3.93	3.98	3.82	-4.1%	-1.1%

Source: Bloomberg, individual news websites

SPECIAL FOCUS

Continuous capital outflow hits Nigeria hard; CBN intervention critical

Nigerian economy suffers amid capital outflow

Significant capital outflow has dented the Nigerian economy. Capital flight from Nigeria in the last weeks of the July to November 2014 period totalled USD 22.1 bn. Consequently, the country's foreign exchange reserves stood at USD 33.04 bn in February 2015 compared with USD 53.0 bn in 2008. The capital flight can be mainly attributed to a crash in international crude oil prices in the second half of 2014.

Decline in oil prices, currency speculation result in outflow

Foreign counterparts have reduced the credit line offered to Nigerian banks due to the crash in international crude oil prices. The usual 90-day trade credit line has been exhausted by some banks, which met customer needs through cash payments. Furthermore, Nigerian residents have been buying up US dollars with their Naira and moving it offshore. Uncertainty over the 2015 general elections has also contributed to the significant capital flight. The decision to postpone Nigeria's presidential elections along with the plummeting oil prices has damaged investor sentiment towards Nigeria, driving the naira to a succession of lows despite the Central Bank of Nigeria's efforts.

Economy to be hit hard; currency under threat

The increasing capital flight reflects investor uncertainty and has resulted in weakening of the naira against the US dollar. In February 2015, the naira fell sharply to an all-time low of NGN 200 against the US dollar, despite intervention by CBN. CBN attributed the collapse of the naira to currency speculators who buy and hold currency to sell at a future date for gains.

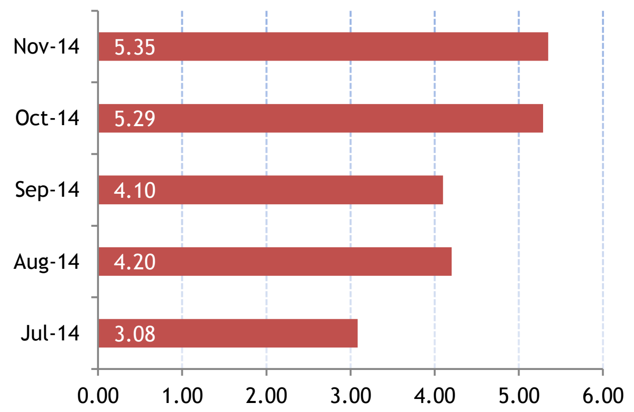
The capital outflow is expected to increase the cost of capital, which may lead the economy to suffer, thus resulting in slower growth in the first quarter of 2015.

Central bank intervention required

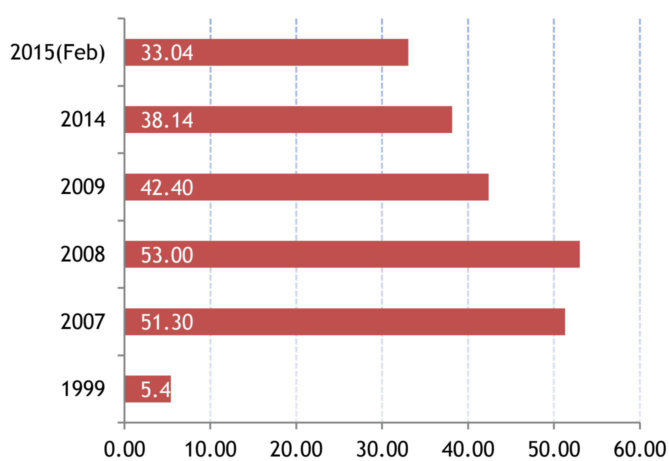
On 18 February 2015, CBN scrapped the Retail and Wholesale Dutch Auction of foreign exchange, stating that all genuine importers should source funds from the inter-bank market. This impacted the capital markets the most. However, CBN should intervene in the inter-bank foreign exchange market when required. Inflows from foreign portfolio investors (FPIs) are not expected in the near term as foreign exchange risks are evident despite...

...re-assurance from CBN to defend the naira. Other risks around Nigeria's credit rating, interest rate and domestic polity continue to be critically significant. Bond yields are expected to remain high, driven by various macroeconomic risks; however, the equities market would continue to trade sideways. The pressure on the naira in the foreign exchange market may continue to mount and result in depreciation of the naira in 2015.

Nigeria: Capital Depletion (USD bn)



Nigeria: Depleting Forex Reserves (USD bn)



Source: Individual news websites

AUCTIONS, EVENTS

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

Uganda's latest issuance: 2-yr and 15-yr bonds (February 2015)

Issue Date	Maturity	Amt (UGX)	Bid/Offer	YTM	Coupon
25-Feb	2-yr	80.00 bn	1.59	16.684%	1.00%
25-Feb	15-yr	100.00 bn	2.48	17.407%	14.25%
Details of issuances in January					
28-Jan	2-yr	35.20 bn	1.86	16.175%	13.75%
28-Jan	10-yr	145.00 bn	1.17	17.019%	17.00%

I USD = 2,872.4 UGX (average for February 2015)

Tanzania's latest issuance: 10-yr and 5-yr bonds (February 2015)

Issue Date	Maturity	**Amt (TZS)	Bid/Offer	YTM	WACY*
4-Feb	10-yr	20.00 bn	1.38	16.9047%	15.4484
18-Feb	5-yr	62.00 bn	1.90	15.2600%	NA
Details of issuances in January					
7-Jan	2-yr	68.067 bn	1.72	15.2507%	8.9279
21-Jan	7-yr	60.00 bn	1.37	16.3381%	13.5443

**Weighted average coupon yield; I USD = 1,826.1 TZS (average for February 2015)*

Ghana's latest issuance: 2-yr note (February 2015)

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int rate
23-Feb	2-yr	12.20 mn	FXR Note	1	23.00%
16-Feb	2-yr	1.71 mn	FXR Note	1	23.00%
09-Feb	2-yr	2.55 mn	FXR Note	1	23.00%
Details of previous 2-yr issuances					
26-Jan	2-yr	7.68 mn	FXR Note	1	23.00%
16-Jan	2-yr	4.28 mn	FXR Note	1	23.00%
12-Jan	2-yr	72.07 mn	FXR Note	1	23.00%
05-Jan	2-yr	3.37 mn	FXR Note	1	23.00%

**Fixed rate; 1 USD = 3.43 GHS (average for February 2015)*

Kenya's latest issuance: 2-yr and 10-yr bonds (February 2015)

Issue Date	Maturity	Amt bid (KES)	Amt acpt (KES)	MWAR*	Coupon
18-Feb	2-yr	28.743 bn	23.592 bn	11.551%	11.470%
18-Feb	10-yr	22.388 bn	11.658 bn	13.000%	12.371%
Details of issuances in January					
21-Jan	5-yr	14.112 bn	8.0298 bn	11.576%	10.870%
21-Jan	20-yr	12.836 bn	12.359 bn	13.624%	12.0%

**Market weighted average rate; I USD = 91.37 KES (average for February 2015)*

Upcoming Bond Auctions, Monetary Policy Meetings

- **27 March 2015:** The central bank of Ghana to sell bonds

- **Monetary policy meetings** are scheduled for:
  - **24 March 2015:** Central Bank of Nigeria

Source: Bloomberg, individual news websites, respective central banks

FUSION INVESTMENT MANAGEMENT
Rooted in the African growth story

KIMONDO'S CORNER

Inflationary Pressure in East Africa Continues to Ease

The inflationary pressure in the East Africa countries continues to ease, to lows of 5% and below from highs of 30% in the year 2011. Inflation in the month of February hit the lows of 5.61%, 1.4% , 4.2% and 0.7% in Kenya, Uganda, Tanzania and Rwanda respectively. The region has witnessed continuous drop in rate of inflation from the year end of 2011 where it had peaked in the higher 20% and above.

The countries are benefiting from low international crude oil prices which have fallen to the lows of USD 50 per barrel, low energy and food prices leading to low inflationary pressures. Crude oil accounts for a large portion of the region's import bills. Reduction in oil prices has led to reduced import bill thereby leading to reduced current account deficit. According to the 11th Edition of Kenya Economic Update by the World Bank, a 30% decline in the price of oil from a baseline price of USD 65 per barrel could increase GDP growth by up to 1.2% points in 2015. The region has also enjoyed low food prices due to improved harvest last year. Countries such as Kenya have enjoyed reduced energy prices due to increased injection of cheaper power to the national grid.

The low inflationary environment will have a positive impact on interest rates since the region will have stable lending rates leading to expanded credit uptake by the private sector. According to Central Bank of Kenya, credit to the private sector increased by 22.2% from USD 16.7 Bn in 2013 to USD 20.5 Bn in 2014 with Finance and Insurance sector recording the highest growth of 68.4% over the same period of time.

The low inflation will also benefit the region's governments as they seek to borrow funds from domestic markets to bridge huge budget deficit. In 2014, the region had a combined budget deficit of USD 6 Bn with Kenya, Tanzania, Uganda and Rwanda having budget deficits of USD 3.4 Bn, USD 2.2 Bn, USD 0.31 Bn and USD 0.26 Bn respectively. According to the Budget Policy Statement issued by the Treasury, Kenya's budget deficit for the year 2015/2016 is estimated at USD 5.2 Bn with USD 2.2 Bn supposed to be raised from the domestic markets.

The low inflationary rates could also have a positive impact on the region's economies as individuals and firms will have more disposable income to invest in new ventures. Real Estate looks like the biggest destination of these disposable income. According to Kenya Bureau of Statistics, the value of approved new buildings has grown at a compounded annual growth rate of 6.1% from USD 2.0 Bn in 2009 to USD 2.6 Bn in 2013. Firms will have more funds to invest leading to increased output thus expansion of the region's economies.

Going forward however risks like increase in crude oil prices and poor rainfall could result in inflationary pressures leading to increase in inflation rates, and a reversal of the gains expected at the moment.

DISCLAIMER

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