

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in January 2013

- The yield on 10- and 15-year Kenyan bonds continued to rise in January 2013, despite a 150 bps rate cut by the central bank.
- Nigerian bond yields across maturities continued to edge lower in January 2013 due to easing inflation expectations. Meanwhile, bonds are still benefitting from December's sovereign rating upgrade by the three major rating agencies.
- In currency markets, the Naira and the Tanzanian shilling came under pressure in January 2013, offsetting the gains in December 2012. The decline was primarily due to increased demand for dollars from corporate entities and commercial banks. For the Kenyan shilling, a policy rate cut by the central bank added to the downside.
- In money markets, interbank rates in Kenya and Uganda declined due to a rate cut by their respective central banks. Noticeably, rates in Ghana continued to remain high vis-à-vis peers in Sub-Saharan Africa.

January bond market summary

	3-yr	5-yr	10-yr	20-yr
Kenya 11-Jan yield	11.1%	11.3%	11.6%	12.1%
Change from 1-Jan (bps)	-3	-17	6	-5
Nigeria 11-Jan yield	11.7%	11.1%	11.1%	12.2%
Change from 1-Jan (bps)	-67	-45	-46	-10

Movement of key currencies vs. US dollar in January

	Average	End value	MTD	YTD
Kenyan Shilling	86.5	86.8	0.0%	-0.6%
Tanzanian Shilling	1592.6	1599.0	-0.9%	-0.9%
Nigerian Naira	156.5	156.9	-0.5%	-0.5%
Ghanaian Cedi	1.90	1.90	0.2%	0.2%

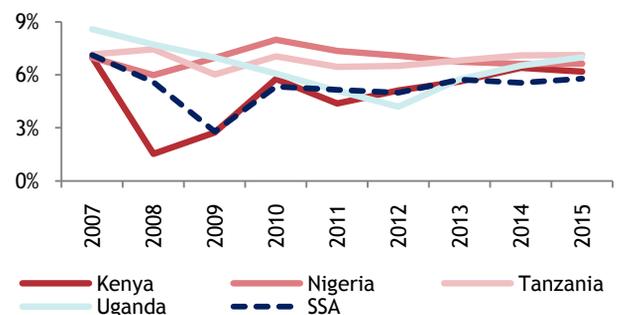
Activity Across Africa: Economy and Politics

- In East Africa, the Central Bank of Kenya continued with monetary policy easing, cutting rates by 150 bps to 9.5%. On the other hand, Uganda maintained its policy rate at 12% even as inflation edged up.
- According to recently released data, inflation trends across Sub-Saharan Africa seem varied. Price pressures in Kenya and Ghana eased in December 2012, while Uganda and Nigeria reported an increase in inflation.
- In Burundi and Angola, respective parliaments approved the 2013 budgets. Burundi has budgeted for a deficit of BIF68.2 bn, while Angola's budget deficit amounts to 3.4% of GDP.
- On the political front, elections are due in Kenya in March 2013. In Ghana, the New Patriotic Party (NPP) challenged John Mahama's election. Furthermore, death of Member of Parliament Cerinah Nebanda has led to political uproar in Uganda.

Special Focus: SSA Economic Outlook 2013

- Growth momentum in Sub-Saharan Africa is expected to continue; the IMF estimates GDP for the region to expand 5.7% in 2013, up from 5.0% in 2012.
- Strong consumption growth, elevated oil prices (key for some) and easing inflation are likely to aid growth.
- However, political risks remain, especially in Kenya where elections are due this year; fluctuating currencies could also dent investor confidence in 2013.

GDP growth for key economies*



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

* Estimates for 2012 and forecasts for 2013-15

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- Economic activity in Kenya picked up, with real GDP expanding 4.7% YoY in 3Q12 vis-à-vis 3.3% in 2Q12. The key drivers in 3Q12 were agriculture, manufacturing, transport & communication and power.
- In January 2013, the Central Bank of Kenya cut its policy rate by 150 bps to 9.5% (more than the consensus estimate of 50 bps) to boost growth. The rate cut came after inflation eased to 3.2% YoY in December 2012 from 3.5% in November, marking its 13th straight decline.
- Meanwhile, as Kenya approaches general elections in March 2013, business owners are suspending operations fearing outbreak of violence similar to the one that took place after the controversial 2007 elections.

Uganda

- Uganda's central bank maintained its policy rate at 12%, even as inflation rose for the second consecutive month to 5.5% YoY in December 2012 from 4.9% in November. The IMF estimates the economy to grow 5% during 2012-13 and 6-7% in the medium term.
- The death of Cerinah Nebanda, a Member of Parliament (MP) who was critical of the President's handling of oil contracts, has sparked political unrest. Many MPs are accusing the government of murder.

Tanzania

- In Tanzania, inflation fell for the 12th straight month to 12.1% YoY in November 2012 from 12.9% in October due to a slower rise in prices of food and fuel.
- On the political front, tensions in the ruling Chama Cha Mapinduzi (CCM) party are on the rise with many members aspiring to succeed the President.

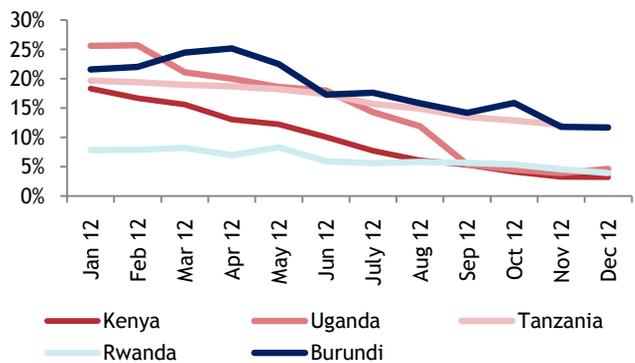
Rwanda

- The Finance Ministry of Rwanda expects the economy to contract 1.5% in 2013 if freezing or delayed disbursement of foreign aid continues.

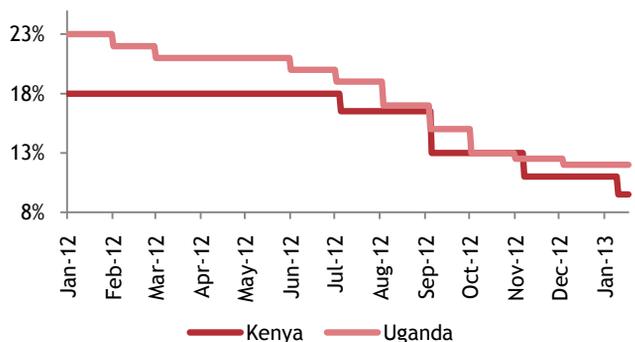
Burundi

- In Burundi, the parliament approved a deficit budget of BIF68.2 bn for 2012. It includes BIF1.3 tn for expenditure, expected to be funded by estimated tax revenues of BIF621 bn and external aid of BIF645.3 bn.

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

- In Nigeria, inflation rose to a four-month high of 12.3% YoY in November 2012 as food prices soared due to floods. However, economists expect inflation to ease to single digits in 2013 on a higher base effect.
- The People's Democratic Party (PDP) set up a committee to scrutinize its board membership and deferred the Chairman's election. It also denied any cracks in the PDP family. Meanwhile, there are ongoing merger talks among opposition political parties.

Angola

- In Angola, inflation came in at 9.8% YoY in November 2012 almost same as October. Meanwhile, in its latest monetary policy review, the central bank left its key rate unchanged at 10.3%.
- The parliament approved the 2013 budget; it accounts for a 3.4% deficit, reversing course from an 8.7% surplus in 2012. The deficit is primarily due to a 26% rise in budgeted spending directed to diversify the economy and boost social services.

Ghana

- Ghana's GDP grew 1.7% YoY in 3Q12, the lowest rate in six years. Meanwhile, inflation dipped to 8.8% YoY in December from 9.3% in November, mainly due to low inflation in food & non-alcoholic beverages (3.9%).
- The New Patriotic Party filed a petition in the supreme court challenging John Mahama's victory in the presidential and parliamentary elections on December 7, 2012. The supreme court is expected to rule on the application on January 22, 2013.

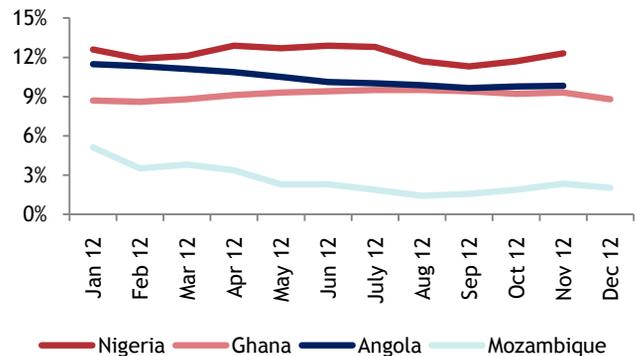
Mozambique

- Mozambique's central bank kept its key rate unchanged at 9.5% as the economy grew 6.8% in 3Q12 and inflation remained low (2.3% YoY in November).
- Meanwhile, the country was on red alert as heavy rains destroyed roads and bridges.

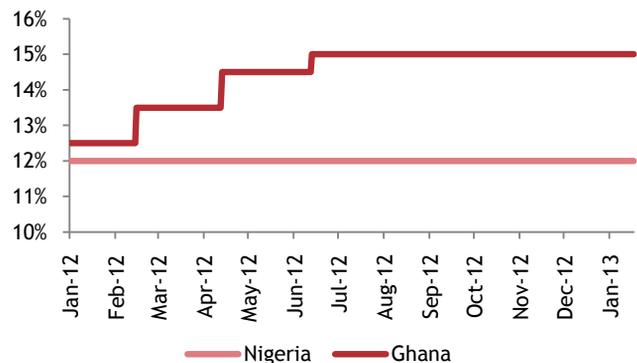
Ivory Coast

- The IMF expects Ivory Coast to rebound with more than 8.5% growth in 2012, as a result of good policies and political stability, after contracting 4.7% in 2011. The government's growth target is 9% for 2013 and 10% for 2014.

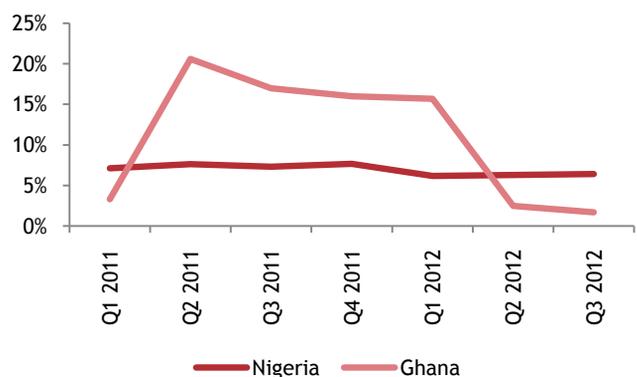
Inflation (YoY)



Key central banks' rate moves



GDP growth in Nigeria and Ghana (YoY)



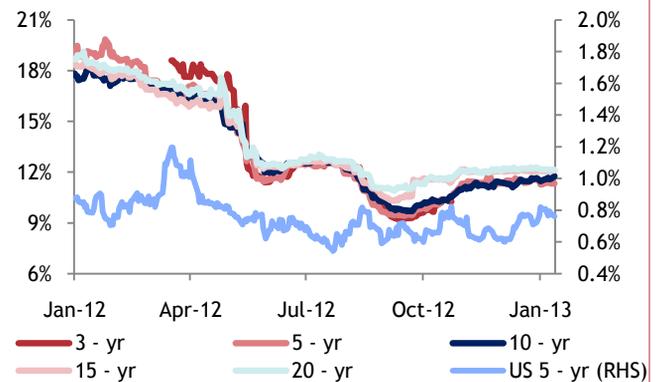
Source: Bloomberg, individual news websites, respective central banks, IMF

ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- The yield on 10- and 15-year Kenyan bonds continued to rise in January 2013, despite a 150 bps rate cut by the central bank; however, that was not true for bonds of other denominations with yields declining for 3-, 5- and 20-year bonds.
- The central bank is expected to reduce interest rates further, especially with inflation declining to a 13-month low of 3.2% YoY in December 2012, well below the central bank's target of 5% for 2012-13. Going forward, this is expected to exert downward pressure on yields.
- The FTSE NSE Kenyan Shilling Government Bond Index declined 2.8% in December 2012. The index continued the downtrend in January 2013, losing 1.3% on MTD basis.

Bond yields daily movement



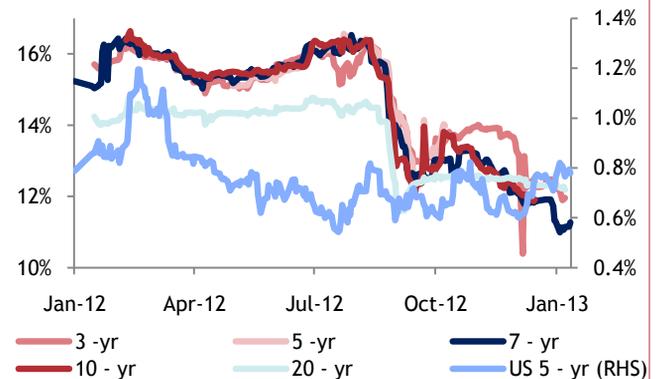
Summary statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
11-Jan yield	11.1%	11.3%	11.6%	12.1%	12.1%
Chg from 1-Jan (bps)	-3	-17	6	2	-5
Chg from 1-Nov (bps)	24	24	60	9	9

Nigeria

- Bond yields across maturities continued to edge lower in January 2013 due to easing inflation expectations. Meanwhile, bonds are still benefitting from December 2012's sovereign rating upgrade by the three major rating agencies.
- The Access Bank FGN Bond Index gained 1.5% MTD in January 2013, after posting a monthly return of 1.3% in December 2012. The index jumped a significant 20.1% in 2012, drawing on the benefits of addition to key global bond indices (Barclays Emerging Market Local Currency Government Bond Index and JPMorgan's GBI-EM Index).
- Meanwhile, the Central Bank of Nigeria (CBN) sold NGN30.1 bn of 91-day bills in January 2013 at a yield of 11.5%; the yield was the lowest in 15 months with bids more than double the amount on offer amid expectation that inflation and interest rates would retreat this year.

Bond yields daily movement



Summary statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
11-Jan yield	11.7%	11.1%	11.1%	11.3%	12.2%
Chg from 1-Jan (bps)	-67	-45	-46	-37	-10
Chg from 1-Nov (bps)	-44	-63	-116	-79	-6

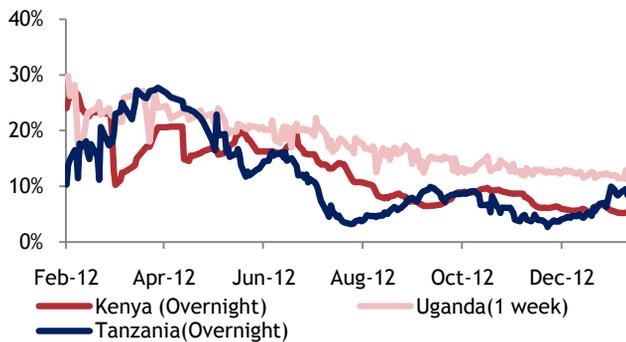
Source: Bloomberg, individual news websites, respective central banks

MONEY MARKETS

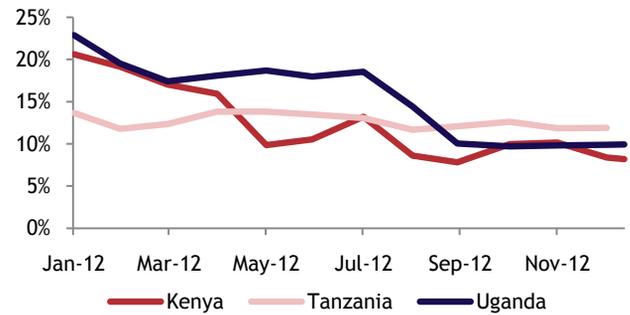
East African Community

- Kenyan interbank rates fell as inflation eased in 4Q12, raising hopes of a rate cut that materialized this month.
- The same was true for Uganda; a 50 bps cut in the policy rate in December 2012 has aided lower interbank rates.

Interbank rates



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



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

	Kenya	Tanzania	Uganda
3-m curr dep	6.6%	12.6%	13.1%
91-d/3-m T-bill	8.2%	11.9%	9.9%

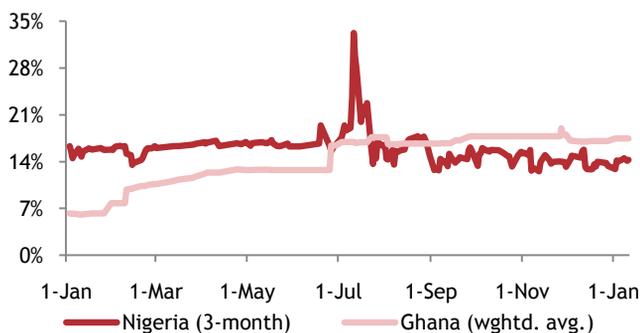
Policy and average interbank rates (Jan 2013)

	Kenya (o)	Tanzania (1-w)	Uganda (o)
Policy	9.5%	12.0%	12.0%
Interbank	5.5%	9.0%	12.4%

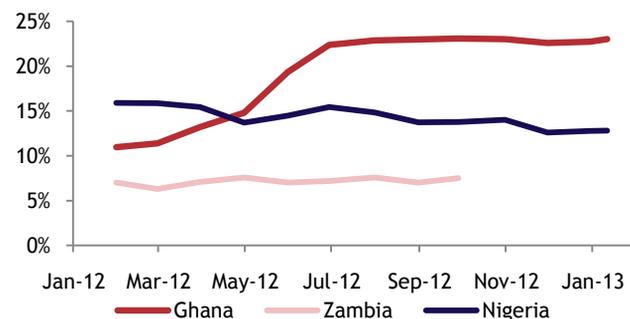
Rest of Sub-Saharan Africa

- Ghana's three-month Treasury bill rate continued to remain high vis-à-vis peers in Sub-Saharan Africa.
- The yield on Nigerian Treasury bills fell to the lowest level in 15 months amid expectation that inflation and interest rates would retreat this year.

Interbank rates



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



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

	Nigeria	Ghana	Zambia
3-m curr dep	13.9%	18.5%	10.6%
91-d /3-m T-bill	12.8%	23.0%	7.5% (Oct)

Policy and average interbank rates (Jan 2013)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	12.0%	15.0%	9.3%
Interbank	14.3%	17.5%	8.9%

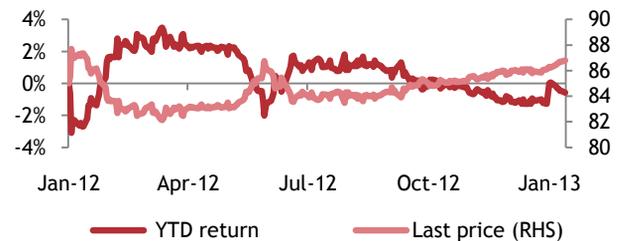
Source: Bloomberg, individual news websites, respective central banks

CURRENCY MARKETS: KENYA, TANZANIA, UGANDA

Kenyan Shilling (KES)

- The Kenyan shilling came under pressure against the US dollar and declined 0.6% (on MTD basis) in January 2013, primarily due to a 150 bps policy rate cut by the central bank.
- Lower inflation in Kenya in December (3.2%) compared to the central bank's target of 5% for 2012-13 has raised expectations of further interest rate cuts; this is likely to weigh on the currency going forward.
- The country's widening current account deficit is also weighing on the currency. According to the latest data, the deficit grew 35.3% YoY to USD4.3 bn during January-September 2012.

USD/KES daily movement

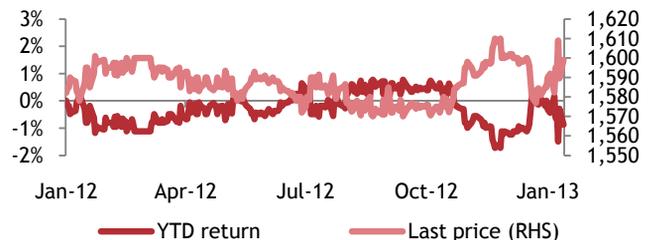


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	86.5	86.8	86.8	86.3	-0.6%	-0.6%
EUR	114.1	116.1	116.7	112.4	-2.2%	-2.2%

Tanzanian Shilling (TZS)

- The Tanzanian shilling's decline (on MTD basis) in January 2013 has offset its gains in December 2012. So far, the currency has shed 0.9% this year.
- The currency depreciated in January 2013, as demand for dollars from banks and corporate entities rose with commencement of business activity in the new year.
- The currency had posted strong gains in December 2012 due to declining demand for dollars and tax payments by corporate firms at the end of the quarter.

USD/TZS daily movement

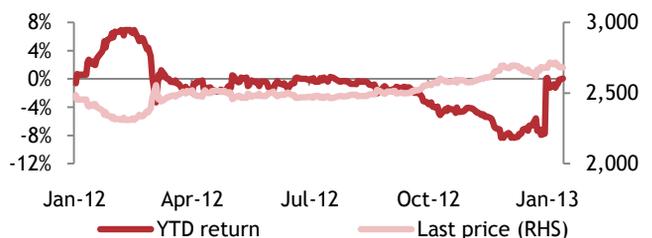


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	1592.6	1599.0	1609.0	1582.3	-0.9%	-0.9%
EUR	2098.7	2141.6	2141.6	2075.4	-2.3%	-2.3%

Ugandan Shilling (UGX)

- The Ugandan shilling gained 0.1% (on MTD basis) in January 2013, offsetting losses in December 2012, as the central bank left its lending rate unchanged at 12%.
- This was the central bank's first pause in a sustained easing cycle that began in June 2012.
- The currency is expected to remain under pressure due to increased demand for dollars from oil companies and commercial banks with commencement of business activity in the new year.

USD/UGX daily movement



	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	2696.1	2680.0	2715.0	2677.4	0.1%	0.1%
EUR	2098.7	2141.6	2141.6	2075.4	-2.3%	-2.3%

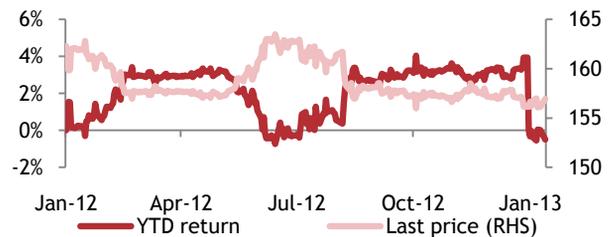
Source: Bloomberg, individual news websites, respective central banks

CURRENCY MARKETS: NIGERIA, RWANDA, GHANA

Nigerian Naira (NGN)

- The naira fell 0.5% (on MTD basis) in January 2013, partially offsetting the gains in December. As businesses started resuming for the year, demand for dollars from oil companies and banks grew.
- The naira has been one of the best performing currencies in Africa, gaining 3.9% in 2012.
- Demand for dollars is expected to go up as imports of consumer and capital goods rise, thereby exerting downward pressure on the Naira.

USD/NGN daily movement

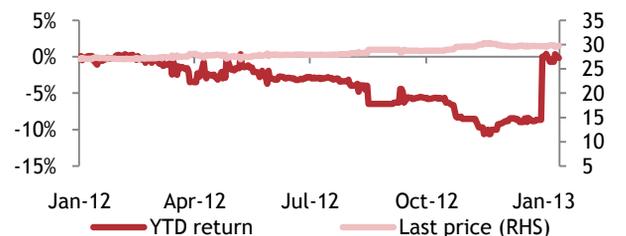


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	156.5	156.9	157	156.1	-0.5%	-0.5%
EUR	206.2	209.9	209.9	203.9	-1.8%	-1.8%

Rwanda Franc (RWF)

- The Rwandan franc appreciated 0.1% (on MTD basis) in January 2013, reversing the previous year's trend when the currency fell 4.3% due to the impact of foreign aid suspension.
- The aid suspension has led to heightened political risk, which, in turn, has pushed yields higher. Due to this, the government recently postponed plans to issue its maiden dollar-denominated foreign bond.
- Given this stalemate, pressure on the currency is not expected to ease any time soon.

USD/RWF daily movement

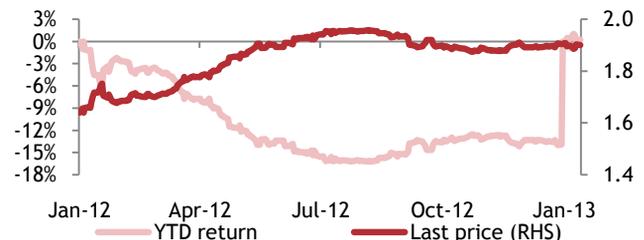


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	630.9	631.0	631.5	604.0	0.1%	0.1%
EUR	832.5	844.5	844.5	822.8	-1.3%	-1.3%

New Ghanaian Cedi (GHS)

- The cedi gained 0.2% (on MTD basis) in January 2013 due to bond auctions, partially offsetting the losses in December 2012 when rising demand for dollars from importers weighed on the currency
- The cedi is expected to get further support as the Bank of Ghana (BoG) plans to sell three-year bonds worth GHS1.2 bn in the first half of 2013
- Higher demand for dollars from importers could however dent the upward movement in the currency

USD/GHS daily movement



	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	1.90	1.90	1.89	1.88	0.2%	0.2%
EUR	2.54	2.54	2.44	2.38	1.0%	-1.0%

Source: Bloomberg, individual news websites, respective central banks

SPECIAL FOCUS

Sub-Saharan Africa Economic Outlook 2013

Sub-Saharan Africa poised for strong growth

Sub-Saharan Africa (SSA) is expected to continue its growth momentum; the IMF estimates its GDP to rise 5.7% in 2013. Strong domestic demand, infrastructure spending and development of mineral resources would drive growth across the region. In the East African Community, Kenya is set to expand 5.6% as corporate investment and construction activity remain buoyant. The IMF predicts strong growth in Tanzania (6.8%) and Uganda (5.7%) as well as in 2013; oil exporters Angola and Nigeria are also set for strong economic expansion.

Oil and other resources

High prices and output of oil and rapid infrastructure development are expected to stem growth in Angola and Nigeria. After a decade of political turmoil in the Ivory Coast, which ended in 2011, an increase in coffee exports is expected to boost the economy.

Easing inflation to aid growth-oriented policy

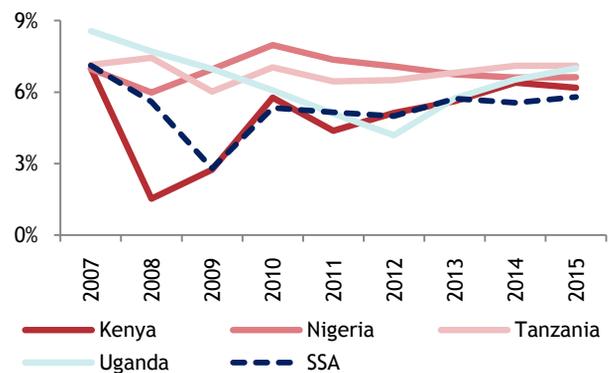
In 2012, easing pressures on global commodity prices coupled with the impact of fiscal tightening in Kenya and Uganda and improved climatic conditions curbed inflation in SSA. The IMF expects regional inflation to fall to 7.1% in 2013 from an estimated 9.1% last year. This in turn will provide scope for reduction in policy rates across the region. Kenya's central bank has already taken the cue and cut its policy rate by 150 bps this month. As inflation softens further, other central banks are likely to follow suit.

Key risk considerations

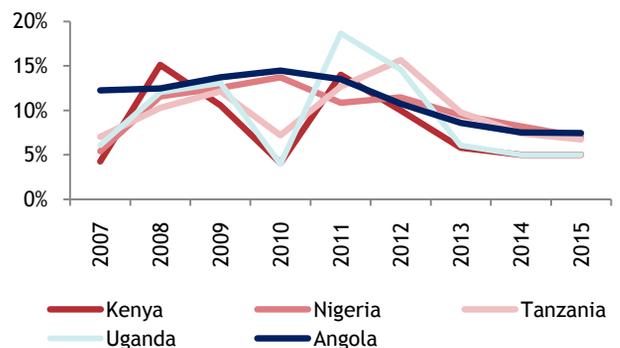
Growth in SSA depends on both domestic and external factors. As agriculture accounts for 20-40% of the GDP in most countries, adverse weather conditions (as witnessed in certain parts in 2012) can significantly impact GDP. Political instability is another key domestic risk. For example, in 2013, elections are due in Kenya and there are already concerns about a repeat of the violence that followed the 2007 election results.

Externally, further quantitative easing by the Fed could affect commodity export-driven economies through US dollar depreciation vis-à-vis local currencies. Furthermore, any slowdown in China and a worsening of the crisis in the Eurozone, which account for more than 40% of SSA's exports, can impact growth in the region.

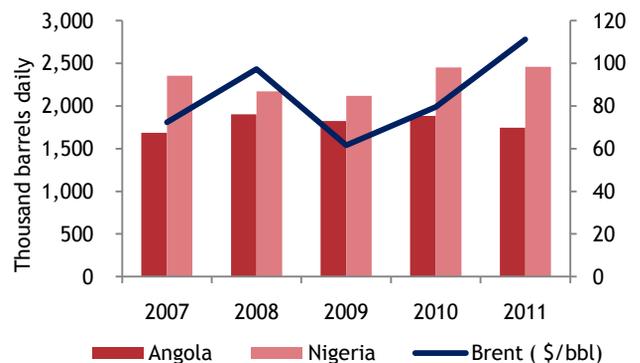
Growth in key SSA economies*



Inflation in key SSA economies*



Oil production and prices



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

* Estimates for 2012 and forecasts for 2013-15

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: 5-yr bond (Dec 2012)

Issue Date	Maturity	Amt (TZS)	Bid/Offer	YTM	WACY*
28-Dec	5-yr	35 bn	1.37	14.9%	11.5%

Details of previous 5-yr issuance

1-Nov	5-yr	43 bn	1.46	14.5%	11.3%
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Issuances in November

28-Nov	10-yr	55 bn	1.01	15.8%	14.6%
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*Weighted average coupon yield

Ghana's latest issuance: 3-yr note (Jan 2013)

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int rate
14-Jan	3-yr	2.2 bn	FXR Bond	1.00	16.7%

Details of previous 3 yr issuance

25-Oct	3-yr	1.5 bn	FXR Bond	1.07	21.0%
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Issuances in December

31-Dec	2-yr	1.5 bn	FXR Note	1.00	23.0%
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*Fixed rate

Kenya's latest issuance: 2-yr bond (Dec 2012)

Issue Date	Maturity	Amt offd (KES)	Amt acpt (KES)	Bid/Offer	YTM
24-Dec	2-yr	15 bn	20.8 bn	2.53	12.5%

Details of previous 2-yr issuance

29-Oct	2-yr	12 bn	13.8 bn	2.09	12.5%
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Issuances in October

4-Oct	15-yr	15 bn	19.5 bn	1.61	12.1%
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Upcoming Bond Auctions, Monetary Policy Meetings

- **28 January:** The Central Bank of Kenya is scheduled to issue bonds worth KES15 bn with maturity of 5-year and 20-year with coupon rate of 11.8% and 12% respectively.
- **30 January:** The Central Bank of Uganda is schedules to issue bonds worth UGX100 bn with three year maturity and 10.25% coupon rate.
- **Monetary policy meetings** are scheduled for -
 - **22 January 2013:** Central Bank of Nigeria
 - **5 February 2013:** Central Bank of Uganda

Source: Bloomberg, individual news websites, respective central banks