

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in May 2013

- Yields on **Kenyan** bonds continued to decline in May 2013 after peaceful elections in March this year. A reduction in the central bank's policy rate also supported the declining trend. (More on page 5)
- **Nigerian** bond yields across maturities remained range bound in May 2013, as traders remained cautious ahead of the monetary policy meet on 21 May 2013. The central bank kept the rate unchanged at 12%. (More on page 5)
- In currency markets, all major currencies depreciated against the US dollar. **Kenyan** and **Ugandan** shillings depreciated owing to high dollar demand from importers. **Nigerian** naira depreciated, as lenders bought dollars in FX auctions. **Ghanaian** cedi continued to depreciate, as importers demanded dollar for payments. (More on pages 7 and 8)
- In money markets, liquidity increased in **Kenya** due to reduced rates. In **Nigeria**, demand for foreign exchange and bond issuances drained liquidity. (More on page 6)

May bond market summary

	3-yr	5-yr	10-yr	20-yr
Kenya 22-May yield	11.3%	11.7%	12.0%	13.0%
Change from 1-May (bps)	-118	-63	-88	-14
Nigeria 22-May yield	11.5%	11.6%	11.4%	11.5%
Change from 1-May (bps)	-17	-20	-32	-10

Movement of key currencies vs. US dollar in May

	Average	End value	MTD	YTD
Kenyan Shilling	83.8	84.5	-1.0%	2.1%
Ugandan Shilling	2,580.9	2,613.0	0.0%	2.6%
Nigerian Naira	157.9	158.3	-0.2%	-1.4%
Ghanaian Cedi	2.0	2.0	-1.1%	-4.6%

Kimondo's Corner

Is it time to consider Investing in Commercial Papers?

- A commercial paper ('CP') is an unsecured short term debt instrument, with tenors of less than one year, issued by firms to raise short term debts.
- They are usually not backed by any form of collateral and therefore it is important to check the credit rating of the issuer.
- Even though they are riskier, they usually offer a higher yield than treasury bills of the same tenors.
- In the face of falling interest rates and low inflation, commercial papers offer better returns in the short term.
- Currently, the CPs in Kenya are yielding a minimum of 200 basis points above T Bills of similar tenors.



Author: Michael Kimondo - Head of treasury operations at Fusion

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

Source: Bloomberg, individual news websites

Fusion Portfolio Management Service

Is a portfolio management service, managed by Fusion Investments Limited. Fusion Portfolio Management helps professional investors select and manage a portfolio of financial assets to meet pre-defined and agreed investment objectives.

This service is available only to professional Investors. Any investment through this service is at risk, including loss of capital. For more information, please visit our website www.fusioninvestafrica.com, or contact:



Kenneth Muchina (Africa)

+ 254 721 294 680

kmuchina@fusiongroupafrica.com



James Maclean (UK and Europe)

+ 44 7815 780 076

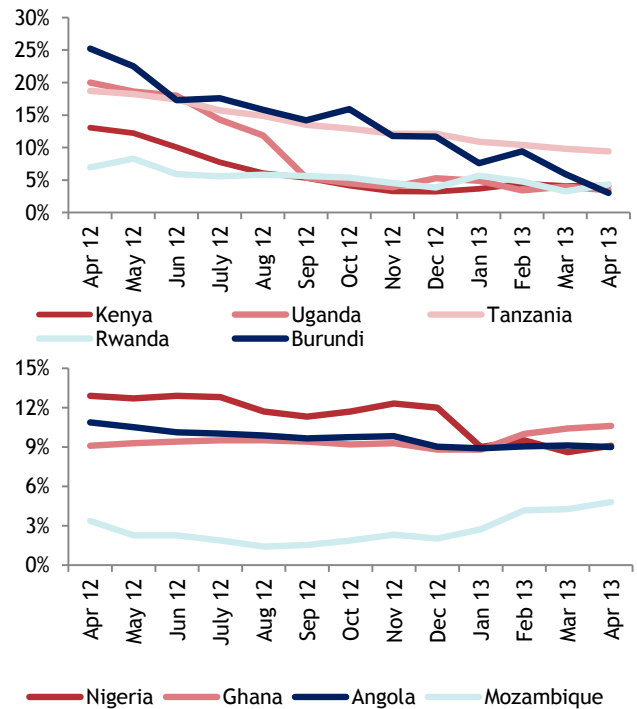
jmaclean@fusiongroupafrica.com

HIGHLIGHTS

Activity Across Africa: Economy and Politics

- Policy rate in **Kenya** was reduced as inflation was well within the government's target. Policy rates in all other Sub-Saharan countries covered remained unchanged. The Central Bank of Kenya (CBK) reduced the policy rate to 8.5% in May 2013. (More on pages 3 and 4)
- Truth Justice and Reconciliation Commission (TJRC) has held President Uhuru Kenyatta among others, responsible for 2007 post-election violence in **Kenya**. (More on page 3)
- **Nigerian** economy contracted in 1Q13 to 6.6% YoY. Moody's maintained its rating for Nigeria at Ba3, indicating slow implementation of reforms. (More on page 4)
- Pricing pressures eased across the East African Community (EAC), except in **Rwanda**, where inflation rose to 4.4% YoY in April 2013 from 3.3% in March. Meanwhile, in key economies across the rest of Sub-Saharan Africa (SSA), inflation surged 20-60 basis points. (More on pages 3 and 4)

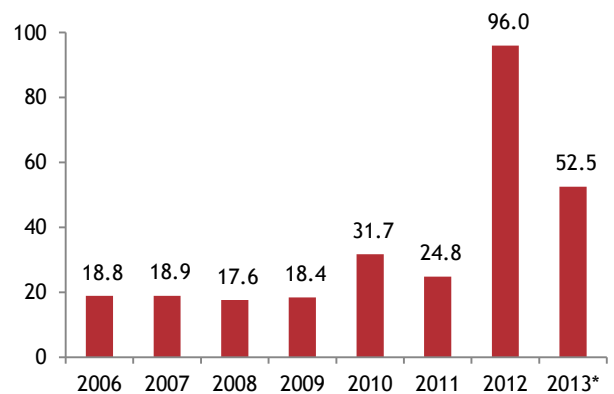
Inflation (YoY)



Sub-Saharan Africa: Emerging Debt Market for International Investors

- International bonds issued by SSA nations are gaining attention from international investors. The latter are attracted to low debt-to-GDP ratio of the African nations as well as higher risk-adjusted returns compared to that in the developed economies.
- This provides the nations an opportunity to access the low-cost debt and broaden their investor base. Following the success of Nigerian Ghanaian and Rwandan bonds, Angola and Kenya plan to tap the international bonds market for the first time this year.
- The purpose of raising bonds varies from infrastructure spending to benchmarking. Bonds are also raised for debt restructuring.
- Currency risk and risk in terms of execution still remain. Raising funds internationally can lead to currency appreciation and dampening of exports. Failure to properly utilise funds can negatively affect an economy.

Bonds issued in Key SSA Economies (USD bn)



Source: Bloomberg, individual news websites, respective central banks, IMF, Reuters, * Until 24 May 2013

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- CBK lowered the policy rate by 100 bps to 8.5% in May 2013 compared to a median estimate of 25 bps cut. The decline was due to low and stable inflation (within government's target of 5%) and exchange rate stability.
- Kenyan citizens protested against MPs demanding pay rise to KES 800,000 (USD 9,543) from KES 532,000 (USD 6,346) per month. However, the Salaries and Remuneration Commission (SRC) rejected the demand stating low revenue collection and natural disasters.
- The TJRC report released in May 2013 included Uhuru Kenyatta's name among others as responsible for post-election violence in 2007. Earlier, a plea was made to the International Criminal Court to end criminal charges against President Kenyatta.

Uganda

- Uganda's central bank maintained its policy rate at 12.0% for the fifth time despite inflation falling to 3.4% YoY in April 2013 from 4.0% in March.
- The Ugandan government returned UGX 38 bn (USD 14.5 mn) to donor countries after alleged large-scale corruption in the Prime Minister's office. Also, Uganda requested foreign donors to tighten financial controls to prevent mismanagement/theft, which had led the donors to halt disbursements in the first place.

Tanzania

- Due to decrease in the pace of price rise in commodities, inflation in Tanzania continued its downward trend in April, falling in 14 of the last 15 months. Inflation dipped to 9.4% YoY in April 2013 compared to 9.8% in March.

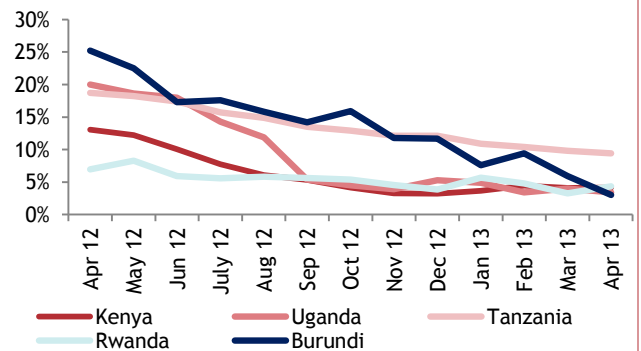
Rwanda

- Rwanda received a grant of USD 50 mn (RWF 32 bn) from the World Bank to execute its strategy of achieving middle class status by 2020.
- National Bank of Rwanda stated that the key policy rate is likely to remain unchanged at 7.5%.

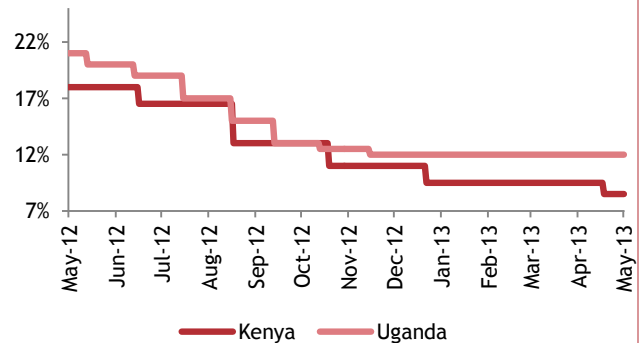
Burundi

- Inflation in Burundi further eased to 3.0% YoY in April 2013 from 5.9% in March, primarily due to moderate rise in the housing, water, and energy costs.

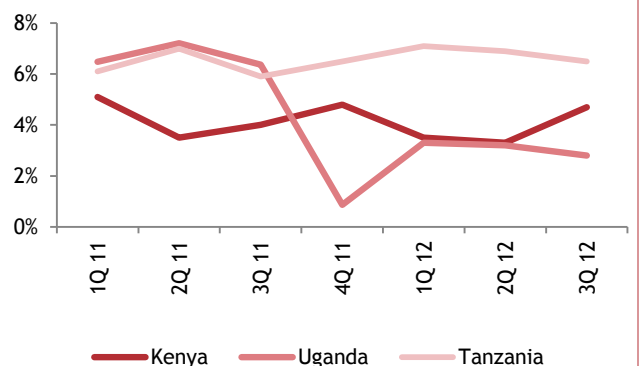
Inflation (YoY)



Key central banks' rate moves



GDP growth in Kenya, Uganda and Tanzania (YoY)



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

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

Rest of Sub-Saharan Africa

Nigeria

- Nigeria's economic growth weakened to 6.6% YoY in 1Q13 from 6.9% YoY in 4Q12. This is ascribed to lower growth in the non-oil sector.
- Central Bank of Nigeria (CBN) maintained its policy rate at 12%. CBN expects government spending to increase amid the deployment of troops in the Northeastern region to deal with an Islamic insurgency; this could stoke inflation.
- Moody's rated Nigeria at Ba3, blaming slow implementation of structural economic reforms to be limiting the possibility of a credit rating upgrade.
- Members of CPC and ANPP parties held their respective conventions in May 2013, where they decided to merge with the ACN, and form the All Progressive Congress.

Angola

- Angola reported inflation at 9.0% YoY in April 2013 compared to 9.1% in March. The central bank kept the rate unchanged for the third month at 10%.
- In a move to boost its revenues, the government has decided to sell off 33 state-owned companies over the next five years.

Ghana

- Ghana's inflation rose to its highest level since June 2010 to 10.6% YoY in April 2013 from 10.4% in March. The rise was primarily due to depreciation of cedi and a carry-on effect of removing fuel subsidies in February.
- The Supreme Court of Ghana denied the request by the respondents in an election petition hearing to cross-examine more witnesses, stating that the court had enough evidence.

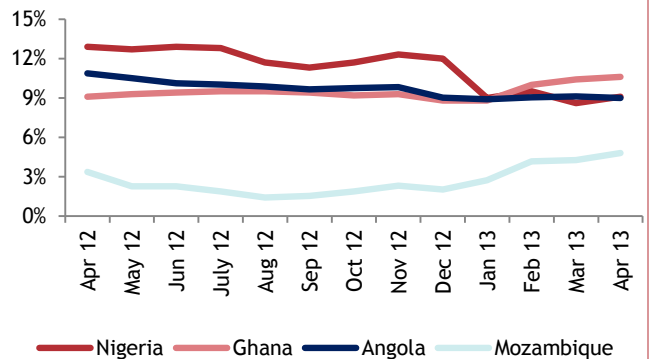
Mozambique

- Mozambique's central bank maintained its policy rate at 9.5% to help mitigate the impact of floods, which led to a rise in annual inflation. Inflation rose to 4.8% in April 2013 from 4.3% in March 2013. The central bank also cut the GDP growth forecast to 7.0% from a revised 7.4% earlier.

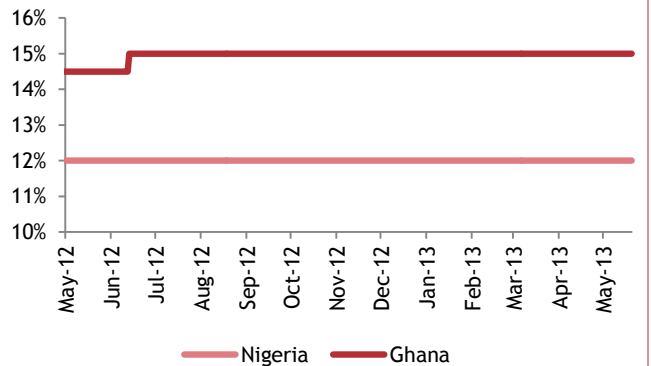
Ivory Coast

- IMF predicts Ivory Coast's GDP to grow by 8% in 2013 as well as in 2014.

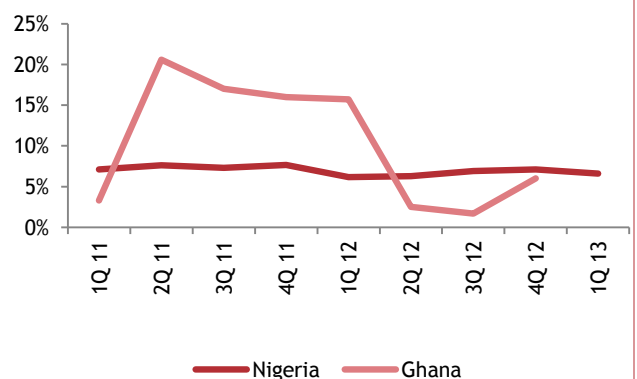
Inflation (YoY)



Key central banks' rate moves



GDP growth in Nigeria and Ghana (YoY)



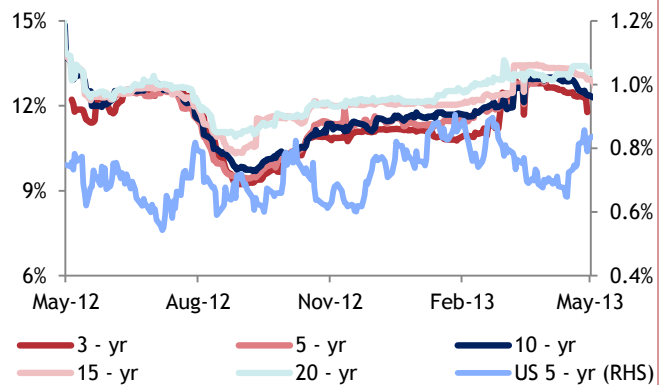
Source: Bloomberg, individual news websites, respective central banks

ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- As anticipated, peaceful elections and search for high-yield bonds led to a higher demand for Kenyan bonds and the resultant decline in their respective yields. Yields on Kenyan bonds declined across maturities in May 2013 with 3-year and 10-year bond yields dropping the most (by 118 and 88 bps) to 11.3% and 12.0%, respectively.
- The fall in yields was further augmented by a reduction in the policy rate of 100 bps by the CBK. This led to a high investor demand for the Kenyan bonds, as they rushed to lock in their investments at the current high yields.
- Analysts expect the yields to fall further owing to increased liquidity in the money market.
- The FTSE NSE Kenyan Shilling Government Bond Index declined 0.4% MTD in May 2013. On a YTD basis, the index is down 3.4%.

Bond yields daily movement



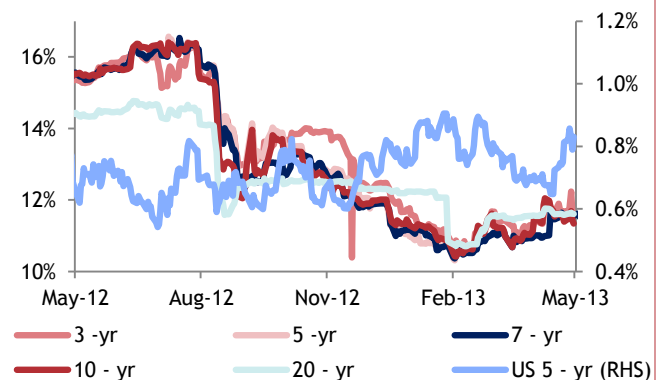
Summary statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
22-May yield	11.3%	11.7%	12.0%	12.6%	13.0%
Chg from 1-May (bps)	-118	-63	-88	-69	-14
Chg from 1-Jan (bps)	11	22	45	55	78

Nigeria

- Yields on Nigerian bonds remained range bound in May 2013, as the CBN maintained the policy rates at 12%. Earlier in the month, traders remained cautious ahead of the CBN meet, resulting in low volatility in the bond market. Yields across maturities fell by 10-32 bps.
- Nigerian government plans to launch a USD 1 bn (NGN 157.9 bn) Eurobond before September 2013 end to fund its power and gas sector reforms.
- To lower the fund costs, Nigeria plans to increase the amount it borrows from overseas investors to 40% of its total borrowings in the next 3-5 years from the current 12%.
- The Access Bank FGN Bond Index remained flat on MTD basis. So far, this year, the index has shed 2.9%.

Bond yields daily movement



Summary statistics

	3-yr	5-yr	7-yr	10-yr	20-yr
22-May yield	11.5%	11.6%	11.5%	11.4%	11.5%
Chg from 1-May (bps)	-17	-20	-12	-32	-10
Chg from 1-Jan (bps)	-82	6	-24	-32	-75

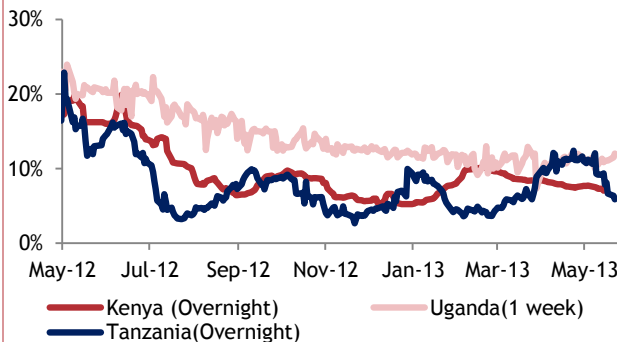
Source: Bloomberg, individual news websites

MONEY MARKETS

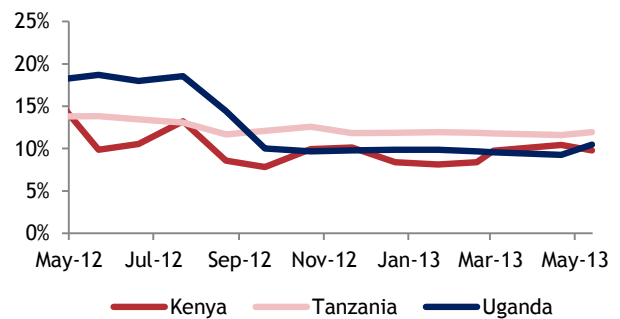
East African Community

- In Kenya, liquidity in the money market increased as CBK slashed the policy rate. To provide support to the shilling, CBK mopped up KES 13 bn (USD 154.1 mn) on 23 May 2013 through repo agreements.
- In Tanzania, interbank rates fell to 5.9% in May 2013 from 12.4% in April, indicating easing liquidity conditions.

Interbank rates



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



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

	Kenya	Tanzania	Uganda
3-m curr dep	8.0%	12.4%	10.8%
91-d/3-m T-bill	9.8%	11.9%	10.5%

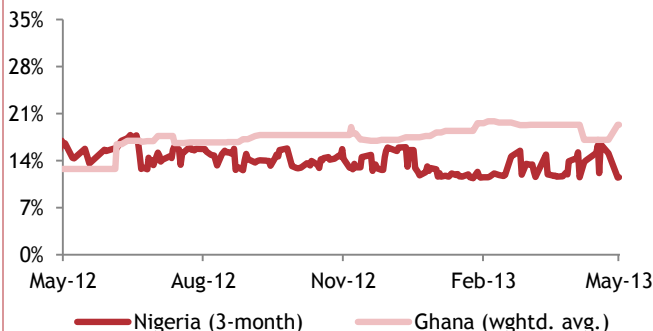
Policy and average interbank rates (May 2013)

	Kenya (o)	Tanzania (1-w)	Uganda (o)
Policy	8.5%	12.0%	12.0%
Interbank	7.0%	5.9%	12.0%

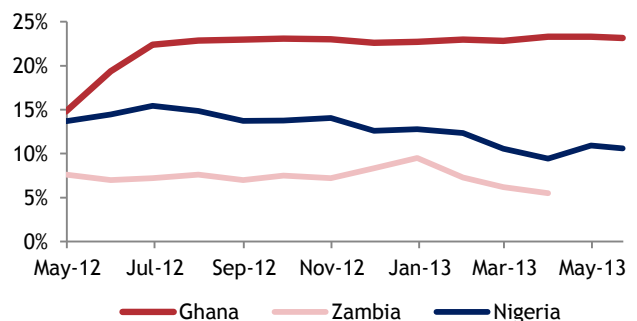
Rest of Sub-Saharan Africa

- In May 2013, payment for foreign exchange and bonds worth NGN 110 bn (USD 700 mn) drained liquidity. Nigeria interbank rate (NIBOR) reached its highest level during the last eight months, peaking at 16.4% on 17 May 2013. However, as on 21 May 2013, the rate dropped back to 11.5%.

Interbank rates



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



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

	Nigeria	Ghana	Zambia
3-m curr dep	13.9%	16.9%	7.6%
91-d /3-m T-bill	10.6%	23.1%	5.5%(Feb)

Policy and average interbank rates (May 2013)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	12.0%	15.0%	9.3%
Interbank	11.5%	19.3%	10.8%

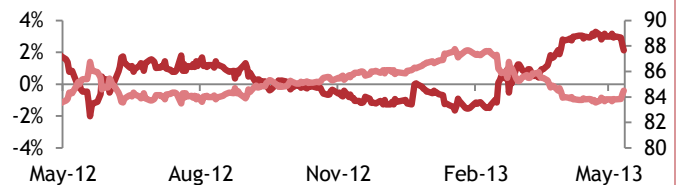
Source: Bloomberg, individual news websites, respective central banks

CURRENCY MARKETS: KENYA, TANZANIA, UGANDA

Kenyan Shilling (KES)

- In May 2013, Kenyan shilling dropped 1.0% MTD against US dollar. The shilling was depressed by energy sector importers buying dollars with a view that the shilling has bottomed out. Corporate clients' demand to meet month-end commitments added pressure on the shilling.
- Earlier in the month, Kenyan shilling was steady, as foreign investor participation in equities on prospects of a robust earnings season supported the shilling.
- Traders expect shilling to weaken, as dollar inflows from traditional sectors are low. However, the currency is likely to get support from forex inflows on account of bonds auction due in the last week of May.

USD/KES daily movement

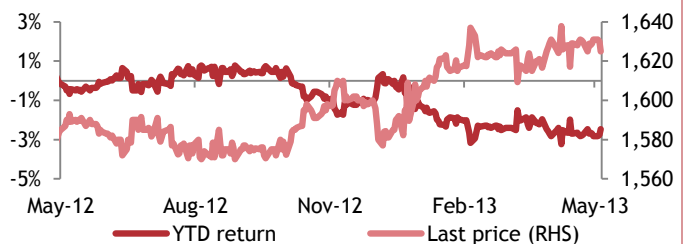


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	83.8	84.5	84.5	83.6	-1.0%	2.1%
EUR	108.9	108.6	110.3	107.6	1.6%	4.6%

Tanzanian Shilling (TZS)

- Tanzanian shilling traded in a narrow range of 1,617-1,631 against the US dollar in May 2013. So far, this year, the currency has shed 2.5% against the greenback.
- In April, the shilling depreciated 0.8% against the dollar on MTD basis, closing at TZS 1,628. The currency declined as demand for US dollar from corporate remitting dividends increased substantially. On a YTD basis, the shilling depreciated 2.6%.
- Analysts expect the shilling to trade at 1,620-1,630 in the short term. Many companies are holding their demand for dollars anticipating an appreciation in the shilling.

USD/TZS daily movement

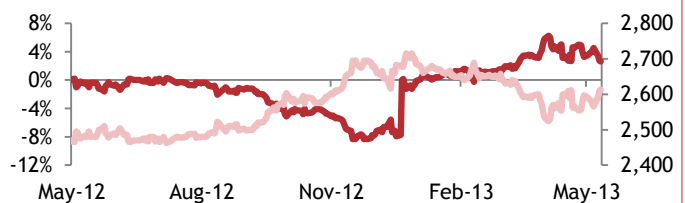


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	1,628.3	1,625.0	1,631.0	1,617.1	-0.5%	-2.5%
EUR	2,115.2	2,089.4	2,145.1	2,089.4	2.0%	0.2%

Ugandan Shilling (UGX)

- In May 2013, the Ugandan shilling traded in a wide range of UGX 2,555-2,613 after appreciating to UGX 2,523 against the dollar in April 2013. On a YTD basis, the shilling gained 2.6%.
- The volatility in shilling can be ascribed to weakening of the currency in the latter part of May, as fuel importers bought a lot of dollars. Earlier in May, low dollar demand amid mid-month tax payments supported the shilling.
- Analysts forecast the shilling to further weaken against the dollar, as demand for the greenback from oil importers is expected to remain high.

USD/UGX daily movement



	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	2,580.9	2,613.0	2,613.0	2,555.0	0.0%	2.6%
EUR	3,349.8	3,359.9	3,409.6	3,292.6	1.5%	5.7%

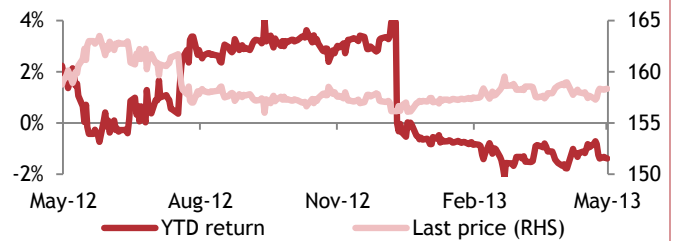
Source: Bloomberg, individual news websites

CURRENCY MARKETS: NIGERIA, RWANDA, GHANA

Nigerian Naira (NGN)

- In May 2013, the naira depreciated against the US dollar by 0.2% on MTD basis. The decline was primarily due to purchase of over USD 500 mn dollars by the lenders at the central bank FX auctions.
- Earlier, naira strengthened to a three-month high of NGN 157.3 against the US dollar, as oil companies sold dollars to banks. The high demand for Nigerian treasury bills in an auction held by the central bank also supported the currency.
- Analysts expect naira to trade in a narrow range due to greenback flows from energy companies and offshore investors buying local debt.

USD/NGN daily movement

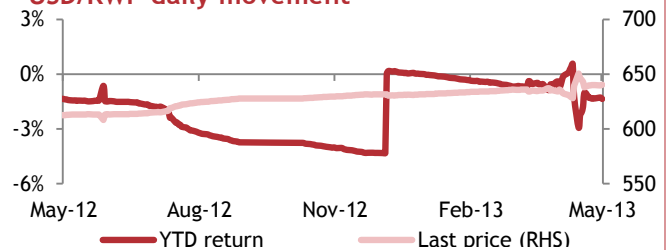


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	157.9	158.3	158.4	157.3	-0.2%	-1.4%
EUR	205.1	203.7	208.2	202.8	2.3%	1.2%

Rwandan Franc (RWF)

- Rwanda's franc depreciated in May 2013 by 1.7% on MTD basis, giving away the returns gained in the earlier month. On a YTD basis, the franc depreciated 1.4% against the dollar.
- Despite central bank keeping its rates unchanged to support the currency, the franc continued to fall. On 6 May 2013, it reached a low of RWF 650.5 against the dollar. Since then, the franc traded in a narrow range of RWF 638-646.

USD/RWF daily movement

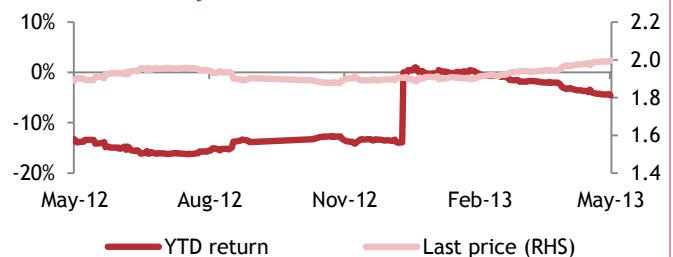


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	639.9	640.2	650.5	628.0	-1.7%	-1.4%
EUR	831.2	823.2	850.6	820.5	0.7%	1.3%

New Ghanaian Cedi (GHS)

- The Ghanaian cedi continued to decline against the dollar and closed at GHS 2.00 on 22 May 2013. The currency depreciated 4.6% against the dollar on a YTD basis, as companies increased demand for dollars to pay import bills and repatriate profits.
- Earlier in April, the currency witnessed pressure, as demand for dollars outstripped the supply (owing to firms buying dollars to pay shareholders).
- Despite the fall, the central bank is optimistic on the outlook for the Ghanaian cedi and ensured that it will intervene to maintain a stable exchange rate.

USD/GHS daily movement



	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	1.98	2.00	2.00	1.97	-1.1%	-4.6%
EUR	2.58	2.57	2.60	2.56	1.4%	-1.9%

Source: Bloomberg, individual news websites

SPECIAL FOCUS

Sub-Saharan Africa: Emerging Debt Market for International Investors

SSA bonds - an attractive market...

The SSA nations are tapping the international bond markets, as investor interest is picking up in these high-growth emerging markets. Low interest rates in the developed economies and low debt-to-GDP ratio (less than 60%) in the African nations have provided them an opportunity to raise debt in the international markets. While the sovereigns broaden their investor base, it provides international investors a potential for higher returns and portfolio diversification, but with higher risk.

...but still in a nascent stage

Compared to other countries, SSA nations are still in the preliminary stages of issuing international bonds. The IMF reports that SSA outstanding bonds constitute 0.02% of the total outstanding international bonds issued by 34 emerging and developed nations. In the last decade, only 11 sub-Saharan nations have accessed international sovereign bond markets.

Rationale for sovereign bond issues vary across nations

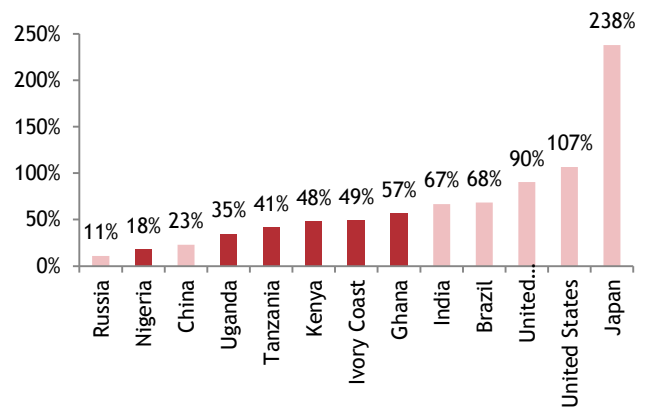
The reason for bond issuances vary across nations. While Ghana issued bonds to fund the energy and transport sector, Nigeria issued bonds for benchmarking (benchmark for government/corporate bond issues in future). Countries such as Republic of Congo and Ivory Coast issued bonds for debt restructuring. These countries issued bonds under the Heavily Indebted Poor Countries (HIPC) initiative, wherein international bonds were issued in exchange for defaulted bonds issued earlier. With favourable credit rating and moderate debt levels, Angola and Kenya may issue international bonds for the first time this year, while repeat investors are likely to include Nigeria and Ghana among others.

Perceived risk remains high

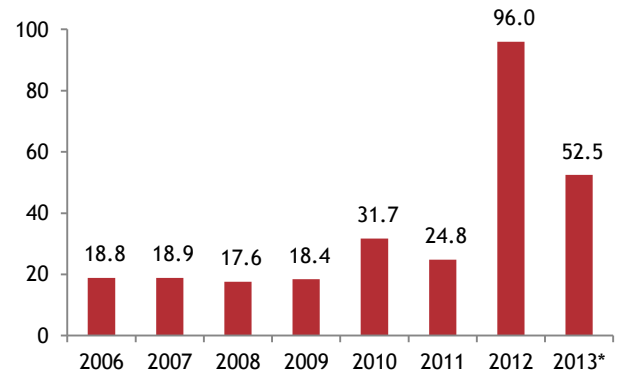
Issuing international bonds has its own benefits and risks. Weak governance in the SSA nations can lead to poor selection (low returns) of investment projects financed by bond issuance. Exchange rate may also be affected. A high-value international bond issuance can result in significant local currency appreciation, thereby harming export competitiveness.

The final choice depends on how each country weighs the issuance of bonds against alternative forms of financing, in case bond proceeds cannot be put to a high-return use.

Debt-to-GDP (%)



Bonds issued in Key SSA Economies (USD bn)



Sub-Saharan Africa: Key Sovereign Bond Issuances

Country	Year of Issue	Yield at issue	Tenor (Years)	Size (USD mn)	Bond type	Coupon type
Ghana	2007	8.5	10	750	Bullet	Fixed
Ivory Coast	2010	17.4	22	2,330	Sinkable	Flat trading
Nigeria	2011	7.1	10	500	Bullet	Fixed
Namibia	2011	5.8	10	500	Bullet	Fixed
Zambia	2012	5.6	10	750	Bullet	Fixed
Tanzania	2013	N.A.	7	600	Sinkable	Floating
Rwanda	2013	6.9	10	400	N.A.	Fixed

Source: Bloomberg, individual news websites, respective central banks, IMF, Reuters * Until 24 May 2013

AUCTIONS, EVENTS

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

Uganda's latest issuance: 2-yr bond (May 2013)

Issue Date	Maturity	Amt (UGX)	Bid/Offer	YTM	Coupon
23-May	2-yr	100 bn	1.54	13.0%	10.0%

Details of previous 2-yr issuance

28-Mar	2-yr	100 bn	2.09	12.3%	10.0%
--------	------	--------	------	-------	-------

Other Issuances in May

9-May	5-yr	10 bn	2.29	14.0%	10.8%
-------	------	-------	------	-------	-------

1 USD = 2,580.9 UGX (average for May 2013)

Tanzania's latest issuance: 10-yr bond (May 2013)

Issue Date	Maturity	Amt (TZS)	Bid/Offer	YTM	WACY*
15-May	10-yr	34 bn	0.74	15.3%	14.2%

Details of previous 10-yr issuance

20-Mar	10-yr	71 bn	1.33	14.3%	13.4%
--------	-------	-------	------	-------	-------

Issuances in April

30-Apr	7-yr	36 bn	0.65	15.2%	12.9%
--------	------	-------	------	-------	-------

*Weighted average coupon yield; 1 USD = 1,628.3 TZS (average for May 2013)

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

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int rate
27-May	2-yr	15.2 mn	FXR Note	1.0	22.4%

Details of previous 2-yr issuance

20-May	2-yr	251.7 mn	FXR Note	1.0	22.4%
--------	------	----------	----------	-----	-------

Issuances in April

29-Apr	2-yr	6.0 mn	FXR Note	1.0	22.4%
--------	------	--------	----------	-----	-------

*Fixed rate; 1 USD = 2.0 GHS (average for May 2013)

Kenya's latest issuance: 20-yr bond (May 2013)

Issue Date	Maturity	Amt bid (KES)	Amt acpt (KES)	MWAR*	Coupon
27-May	20-yr	25.9 bn	10.1 bn	13.3%	12.0%

Details of previous 20-yr issuance

28-Jan	20-yr	6.3 bn	4.4 bn	13.9%	12.0%
--------	-------	--------	--------	-------	-------

Issuances in April

29-Apr	5-yr	33.8 bn	20.2 bn	13.1%	12.9%
--------	------	---------	---------	-------	-------

*Market weighted average rate; 1 USD = 83.8 KES (average for May 2013)

Upcoming Bond Auctions, Monetary Policy Meetings

- **12 Jun:** Central Bank of Tanzania is scheduled to issue 9.2% five-year bonds.
- **12 Jun:** Central Bank of Nigeria is scheduled to issue bonds across maturities.
- **Monetary policy meetings** are scheduled for:
 - **5 June 2013:** Central Bank of Uganda
 - **5 July 2013:** Central Bank of Kenya
 - **23 July 2013:** Central Bank of Nigeria

Source: Bloomberg, individual news websites, respective central banks

DISCLAIMER

This newsletter has been prepared by Aranca, under the supervision of Fusion Group. Whilst Aranca has used reasonable endeavours to ensure that the information provided in the newsletters is accurate and up to date as at the time of issue, it reserves the right to make corrections and does not warrant that it is accurate or complete. News will change with time. Aranca and Fusion Group hereby disclaim all liability to the maximum extent permitted by law in relation to the newsletters and does not give any warranties (including any statutory ones) in relation to the news. This is a free service and therefore you agree by receiving any newsletter(s) that this disclaimer is reasonable. Any copying, redistribution or republication of Fusion Group newsletter(s), or the content thereof, for commercial gain is strictly prohibited. The content of this newsletter is not appropriate for the purposes of making a decision to carry out a transaction or trade. Nor does it provide any form of advice (investment, tax, legal) amounting to investment advice, or make any recommendations regarding particular financial instruments, investments or products.