

## HIGHLIGHTS

### Key Movements in Fixed Income and Currency Markets in July 2013

- Yields on **Kenyan** bonds reversed their downward trend in July 2013 owing to a depreciating shilling and substantial government demand for funds to support the deficit budget. (More on page 5)
- **Nigerian** bond yields rose across maturities in July 2013 after the central bank increased the cash reserve requirement (CRR) for public sector deposits to 50.0% from the earlier 12.0%. (More on page 5)
- In currency markets, the **Kenyan** shilling and **Ghanaian** cedi depreciated in July 2013. Political unrest in Egypt impacted **Kenya's** tea exports and consequently the shilling, while the record low for cedi can be attributed to prospect of presidential re-elections. The CRR rate hike resulted in appreciation of **Nigerian** naira; **Tanzanian** shilling appreciated owing to strong dollar inflows from agricultural exports. (More on Page 6 and 7)
- In money markets, **Kenyan** T-bills lagged compared to the interbank and repo rates. Interbank rates in **Tanzania** and **Nigeria** rose substantially in July 2013.

#### July bond market summary

	3-yr	5-yr	10-yr	20-yr
<b>Kenya 26-July yield</b>	10.6%	11.4%	12.7%	12.8%
<b>Change from 1-July (bps)</b>	0	19	61	32
<b>Nigeria 26-July yield</b>	14.1%	14.2%	13.7%	13.7%
<b>Change from 1-July (bps)</b>	40	47	8	40

#### Movement of key currencies vs. US dollar in July

	Average	End value	MTD	YTD
<b>Kenyan Shilling</b>	86.9	87.4	-1.5%	-1.2%
<b>Tanzanian Shilling</b>	1,624.4	1,622.0	0.8%	-2.3%
<b>Nigerian Naira</b>	161.2	160.7	0.5%	-2.8%
<b>Ghanaian Cedi</b>	2.05	2.07	-1.2%	-7.8%

### Kimondo's Corner

#### Infrastructure Bonds - An option for EAC governments?

- East Africa Community governments last month unveiled their budgets with infrastructure development being one of their top priorities. These developments require substantial resources, to be financed at a time when is already a fiscal deficit.
- We expected this would be likely to lead to an Infrastructure Bond issue, and indeed in July 2013 the Government of Kenya announced plans to issue USD 0.8 bn worth of bonds to fund broadband infrastructure.
- An Infrastructure Bond will be a good opportunity for investors to earn a premium to the prevailing rates on T-Bills. The last time Kenya government issued an infrastructure bond in 2011, it was oversubscribed by a massive 143%.



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Source: Bloomberg, individual news websites

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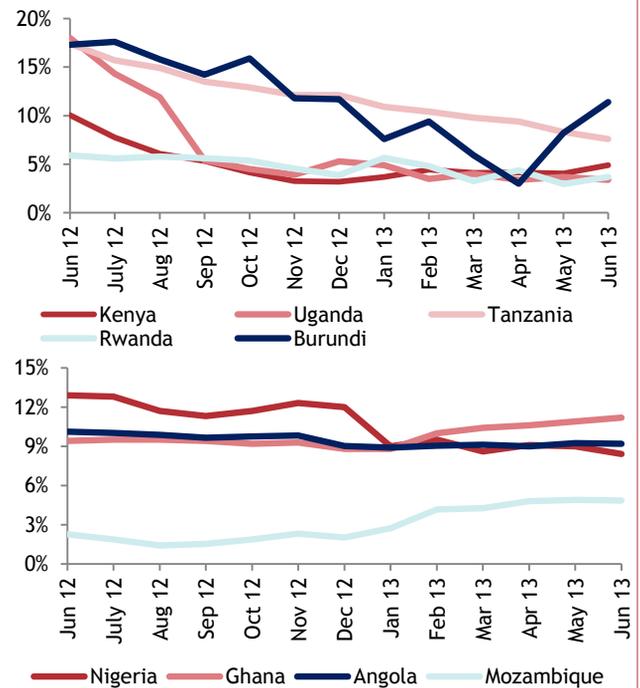
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## HIGHLIGHTS

### Activity Across Africa: Economy and Politics

- Monetary policy reviews were conducted in **Kenya**, **Uganda** and **Nigeria** during July 2013. All the nations kept their rates unchanged. While the Central Bank of Kenya (CBK) cited high current account deficit and instability in the region as the key reasons, **Ugandan** central bank anticipates a short term rise in prices due to adverse weather conditions. A depreciating naira and oil theft were key concerns for the Central Bank of Nigeria (CBN). (More on pages 3 and 4)
- Inflation for the region remained varied. In **Kenya** and **Ghana**, inflation rose to 4.9% YoY and 11.4% YoY, respectively in June 2013 due to a surge in prices of food and non-alcoholic beverages. Meanwhile, inflation eased in **Uganda** and **Tanzania** to 3.4% YoY and 7.6% YoY respectively, due to slower rise in food prices. Additionally, in **Nigeria** inflation dropped to a five year low to 8.4% YoY in June 2013; however prices of food and non alcoholic beverages were on the rise. (More on pages 3 and 4)
- In **Ghana**, The Supreme Court of Ghana is likely to give a final ruling in August 2013 on the petition to overturn the 2012 presidential elections. (More on page 4)

### Inflation (YoY)



### Infrastructure bonds - An emerging asset class in Africa

- Despite a strong GDP growth in the Sub-Saharan Africa (SSA) in the past few years, many MNCs have kept away from the region owing to poor infrastructure services.
- Moreover, players in the private sector have also kept away owing to low incentives and looming sector risk and political instability.
- Consequently, nations are resorting to infrastructure bonds. In SSA, **Kenya** and recently **Nigeria**, **Uganda** and **Ivory Coast** have issued infrastructure bonds.
- The increased interest in the infrastructure bonds has arisen from the success stories in various emerging markets like **Malaysia** and **Chile**.
- However, to make the bond issue a success, the SSA nations will have to undertake various reforms like incentivising private players, clear sector regulation, efficient governance to name a few.

### Kenya Infrastructure Bonds

Year of Issue	Year of Maturity	Coupon	Amount (KES bn)	Amount (USD mn)
2009	2021	12.50%	18,573	218.5
2009	2021	12.00%	18,417	216.7
2010	2018	9.75%	16,264	191.3
2010	2019	6.00%	30,590	359.9
2011	2023	12.00%	35,919	422.6

Source: Bloomberg, African Development Bank Group, individual news websites, respective central banks

## ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

### East African Community

#### Kenya

- The Central Bank of Kenya (CBK) left its policy rate unchanged at 8.5%, citing high current account deficit and instability in Middle East and North Africa (MENA) as primary reasons. Regional instability could impact oil prices and tea exports and thereby affect balance of payments and inflation.
- Inflation in Kenya rose to 4.9% YoY in June 2013 from 4.1% YoY in May 2013 on a surge in prices of food and non-alcoholic drinks. CBK's survey indicates an increase in inflation in the foreseeable future due to the proposed reintroduction of value added tax on staples such as rice, wheat, milk and bread.
- The IMF expects Kenya's economic growth to improve to 5.5% in 2013 and 6.5% in 2014 vis-à-vis 4.7% in 2012 on the back of a smooth political transition post March 2013 elections.

#### Uganda

- Inflation eased to 3.4% YoY in June 2013 from 3.7% YoY in May 2013, as food prices fell due to good harvest. However, the Bank of Uganda (BOU) left its policy rate at 11.0%, anticipating a short-term price rise following adverse weather conditions in July 2013.
- The BOU revised the country's growth forecast for the fiscal year 2013-14 to 6.0% from 5.1% earlier.
- In July 2013, Uganda passed an anti-money laundering bill (joining Kenya, Rwanda and Tanzania) in an attempt to reduce corruption, drug trafficking and terrorism financing. The bill would have retrospective effect once approved by the President.

#### Tanzania

- Inflation in Tanzania eased to 7.6% in June 2013 from 8.3% in May 2013, led by slower increase in food and energy prices. Inflation eased in 16 of last 17 months.

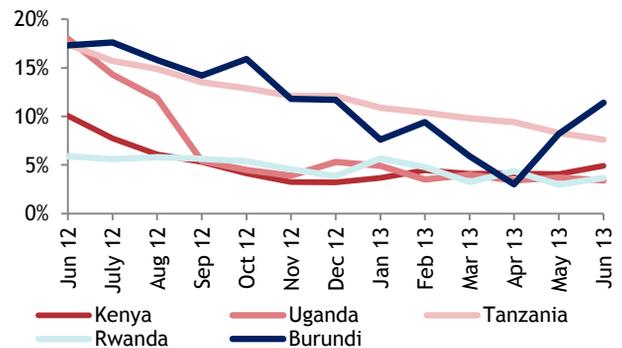
#### Rwanda

- Rwanda attracted investments worth RWF 810 bn (USD 1.25 bn) in H1 2013, nearly achieving its RWF 842.4 (USD 1.3 bn) investment target for full year 2013.

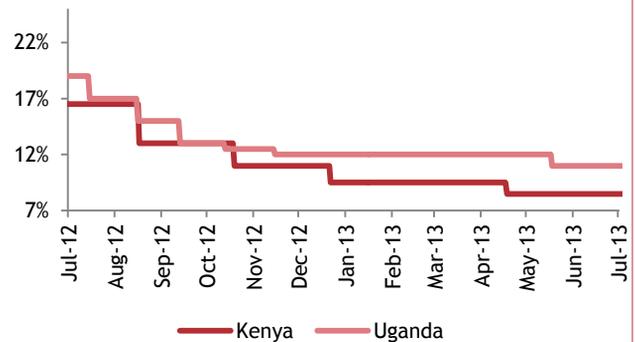
#### Burundi

- The IMF expects Burundi's economy to grow 4.5% in 2013 vis-à-vis 4.0% in 2012, led by infrastructure projects and good harvests. The forecast remains below the government's estimated growth of 4.8%.

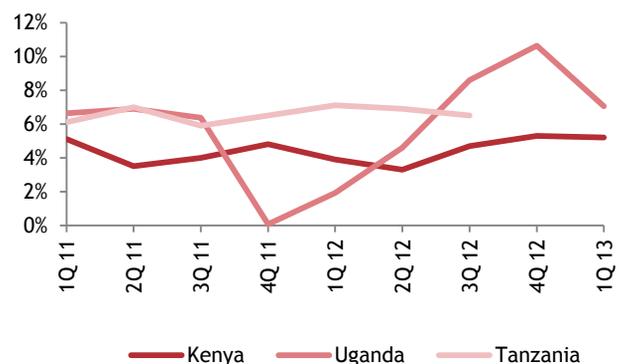
#### Inflation (YoY)



#### Key central banks' rate moves



#### 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

- Inflation in Nigeria eased to a five-year low of 8.4% YoY in June 2013 (below the consensus estimate of 8.8%) from 9.0% YoY in May 2013 due to slower rise in Classification of Individual Consumption According to Purpose (COICOP), except food and non-alcoholic beverages.
- The Central Bank of Nigeria (CBN), in line with analyst expectations, maintained policy rate at 12.0% on depreciating currency and risk to government revenues from oil theft which could result in higher borrowings. CBN also raised the CRR for public sector deposits to 50.0% from 12.0% to drain out excess liquidity from the banking system.

#### Angola

- The law on the Exchange Regime for Oil Sector was amended, mandating foreign oil companies to use local currencies for payment of taxes as well as to domestic suppliers. This is expected to increase liquidity in the banking system and boost foreign reserves.

#### Ghana

- Ghana's inflation peaked to a three-year high of 11.2% YoY in June 2013 from 11.1% YoY in May 2013, due to a rise in prices of food and non-food items. Ghana's statistics office expects inflation to ease in August as the country moves toward the harvest period.
- The Supreme Court of Ghana is likely to give a final ruling in August 2013 on the petition to overturn the 2012 presidential elections.

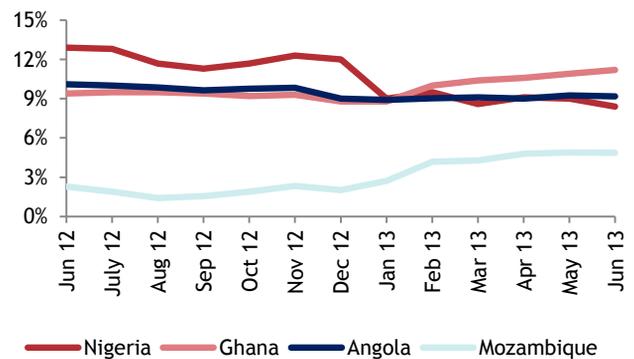
#### Mozambique

- Mozambique's economy grew 4.8% YoY in 1Q13, vis-à-vis 6.2% YoY growth in 1Q12, led by the service sector.
- Fitch upgraded Mozambique's long-term credit rating in foreign currency to 'B+' from 'B' and maintained its stable outlook based on the country's prudent economic policies and commitment towards reforms related to monetary and fiscal policies.

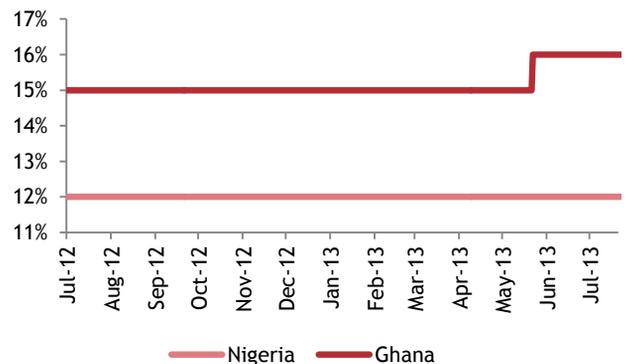
#### Ivory Coast

- Ivory Coast's bond issuance of CFA franc 93.0 bn (USD 188.3 mn) at a coupon rate of 6.0% for infrastructure projects was over-subscribed 1.3 times. It aims to sell international bonds worth CFA franc 246.9 bn (USD 500 mn) by October 2013.

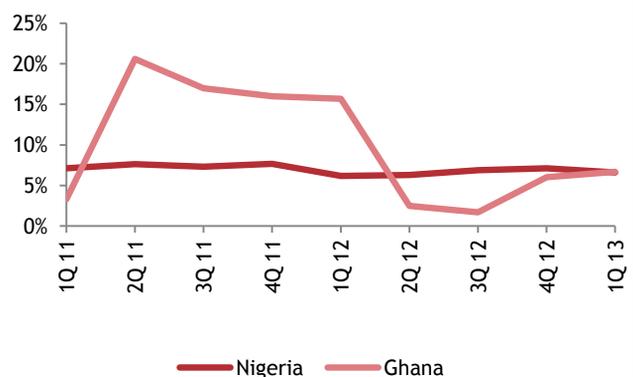
#### Inflation (YoY)



#### Key central banks' rate moves



#### GDP growth in Nigeria and Ghana (YoY)



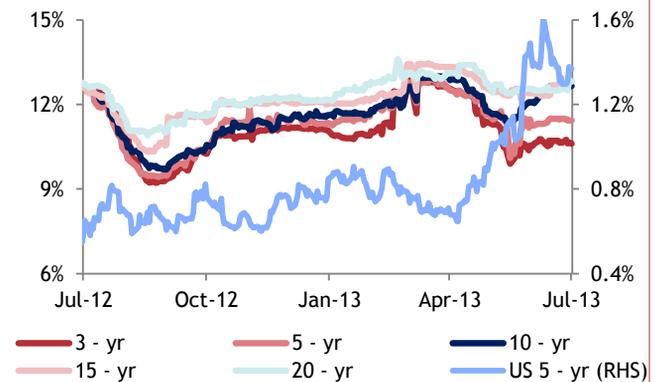
Source: Bloomberg, individual news websites, respective central banks

## ACTIVITY ACROSS AFRICA: BOND MARKETS

### Kenya

- In July 2013, yields on Kenyan bonds rose across maturities, with the 10-year and 15-year bond yields increasing the most (by 61 and 43 bps) to 12.7% and 12.8%, respectively. The reversal in the downward trajectory of yields was primarily due to growing government demand for funds to support the deficit budget for the fiscal year 2013-14.
- Moreover, with the shilling sinking to a five-month low, inflation is expected to be high in the coming months. Consequently, investors are likely to demand for increased yields to help them generate positive real returns on investments. Analysts expect yields to rise by 200 bps in the short term.
- The FTSE NSE Kenyan Shilling Government Bond Index rose 1.1% MTD in July 2013. On YTD basis, the index is up 2.2%.

#### Bond yields daily movement



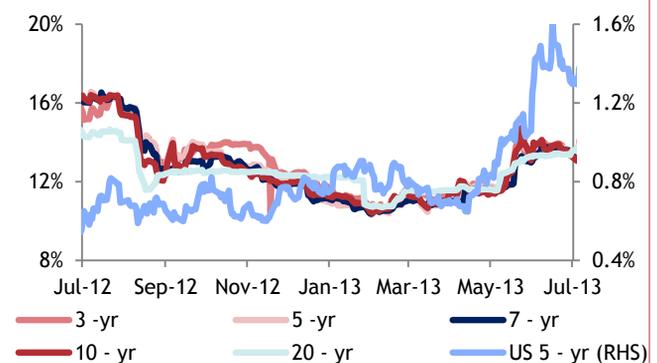
#### Summary statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
<b>26-July yield</b>	10.6%	11.4%	12.7%	12.8%	12.8%
<b>Chg from 1-July (bps)</b>	0	19	61	43	32
<b>Chg from 1-Jan (bps)</b>	-55	-6	113	74	63

### Nigeria

- In July 2013, Nigeria issued NGN 160.7 bn (USD 1 bn) of Eurobonds to fund infrastructure projects. The issue comprised 5-and 10-year notes of NGN 80.4 bn (USD 500 mn) each at a yield of 5.375% and 6.625%, respectively. Despite a recent sell-off in the emerging market debt (due to the Fed's comments on quantitative easing), the Nigerian bond was oversubscribed four times. Investors from the US and the UK contributed 73.0% and 16.0%, respectively, to the total bond issue.
- Yields on Nigerian bonds rose across maturities with 5-year and 3-year bond yields increasing the most (by 40 and 47 bps) to 14.1% and 14.2%, respectively. The spike in the yields can be ascribed as a reaction to the CBN's directive of increasing the CRR rates.
- The Access Bank FGN Bond Index traded flat on MTD basis in July 2013. The index has shed 0.5% so far this year.

#### Bond yields daily movement



#### Summary statistics

	3-yr	5-yr	7-yr	10-yr	20-yr
<b>26-July yield</b>	14.1%	14.2%	13.4%	13.7%	13.7%
<b>Chg from 1-July (bps)</b>	40	47	-35	8	40
<b>Chg from 1-Jan (bps)</b>	180	263	167	197	142

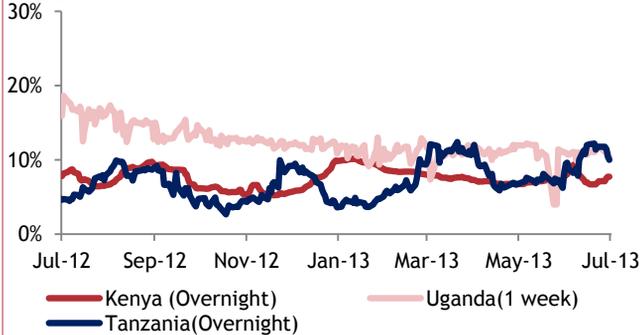
Source: Bloomberg, individual news websites

## MONEY MARKETS

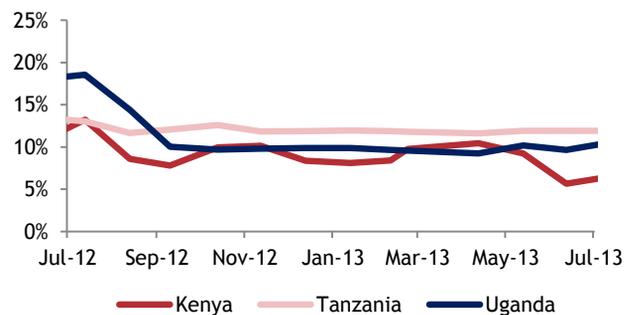
### East African Community

- In Tanzania, interbank rates reached a three-month high of 12.2% in July 2013, signalling liquidity squeeze in the market. Meanwhile, in the Kenyan market, with T-bill lagging the interbank and repo rates, demand for bills is likely to decline in favour of the bonds and interbank market.

#### Interbank rates



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



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

	Kenya	Tanzania	Uganda
3-m curr dep	5.4%	11.8%	10.2%
91-d/3-m T-bill	6.4%	12.5%	10.4%

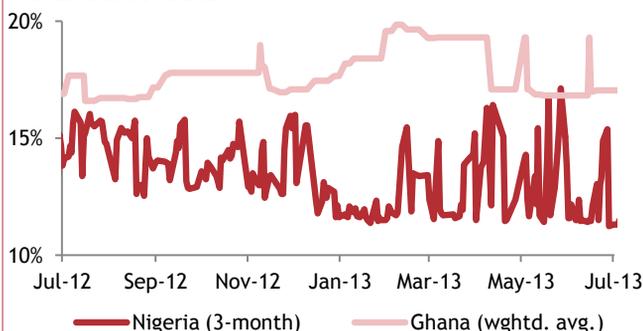
#### Policy and average interbank rates (July 2013)

	Kenya (o)	Tanzania (1-w)	Uganda (o)
Policy	8.5%	12.0%	11.0%
Interbank	7.7%	10.0%	10.4%

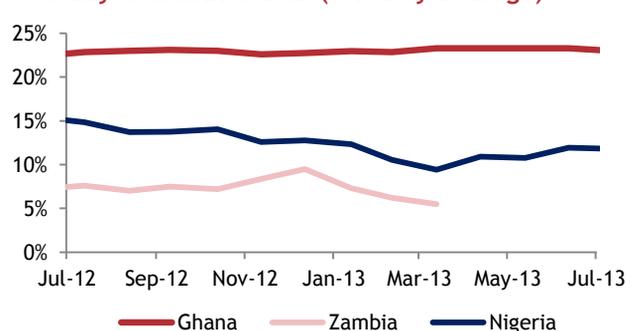
### Rest of Sub-Saharan Africa

- On 19 July 2013, Nigerian Interbank Offered Rates (NIBOR) eased to 11.3%, as more than NGN 350 bn (USD 2.2 bn) from budgetary allocations to various government agencies hit the market and boosted cash liquidity levels. Earlier in July, NIBOR increased to 15.4% due to shortage of funds in the interbank market as central bank sold debt notes.

#### Interbank rates



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



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

	Nigeria	Ghana	Zambia
3-m curr dep	13.9%	17.9%	9.5%
91-d /3-m T-bill	11.9%	23.3%	5.5% (Mar)

#### Policy and average interbank rates (July 2013)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	12.0%	16.0%	9.8%
Interbank	11.3%	17.1%	11.5%

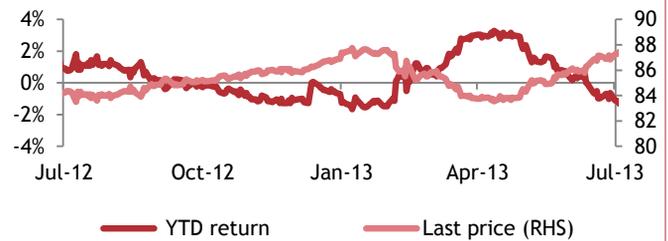
Source: Bloomberg, individual news websites, respective central banks

## CURRENCY MARKETS: KENYA, TANZANIA, UGANDA

### Kenyan Shilling (KES)

- In July 2013, the Kenyan shilling dropped to a five-month low of KES 87.6/87.8 against the US dollar, as importers bought dollars to meet their month-end payments for supplies. Moreover, political unrest in Egypt (one of the biggest importers) negatively impacted Kenya's tea exports, which affected the shilling, as tea is Kenya's top foreign exchange earner.
- Earlier in the month, the shilling got some respite, as the central bank sold an unspecified sum of dollars and mopped up liquidity to support the shilling.
- Despite the central bank's intervention, analysts predict a gloomy outlook for the shilling due to a growing current account deficit (above 12.0% of GDP).

#### USD/KES daily movement

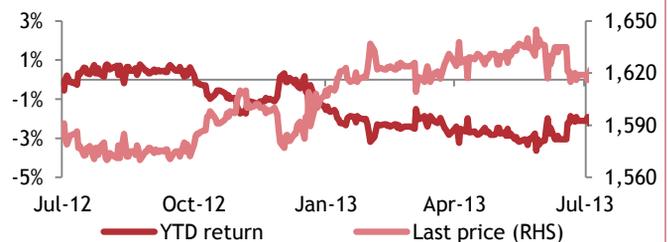


	Avg	End val	High	Low	MTD (%)	YTD (%)
<b>USD</b>	86.9	87.4	87.5	85.8	-1.5%	-1.2%
<b>EUR</b>	113.5	116.0	116.4	110.9	-3.2%	-2.1%

### Tanzanian Shilling (TZS)

- As anticipated, the shilling appreciated 0.8% MTD in July 2013 on strong dollar inflows due to export of agricultural products. Moreover, corporates paid their tax in the local currency in June, alleviating pressure on the shilling.
- Analysts expect the shilling to come under pressure due to liquidity easing in the money market and a rise in demand for dollars from oil importers. In addition, higher government spending with the beginning of the new fiscal year 2013-14 is likely to add pressure on the shilling.

#### USD/TZS daily movement

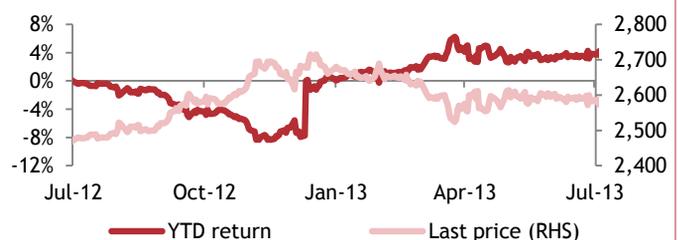


	Avg	End val	High	Low	MTD (%)	YTD (%)
<b>USD</b>	1,624.4	1,622.0	1,635.0	1,615.0	0.8%	-2.3%
<b>EUR</b>	2,122.6	2,153.9	2,153.9	2,089.7	-0.8%	-2.8%

### Ugandan Shilling (UGX)

- In July 2013, the Ugandan shilling declined by 0.2% MTD, trading in a narrow range of UGX 2,572.1-2,599.4. On YTD basis, the shilling gained 3.7%.
- Stability in the shilling can be ascribed to tight local currency liquidity conditions, an upcoming bond auction and lower demand for dollars from corporates, as they use shillings to pay their mid-month tax payments.
- Money market analysts predict the medium- to long-term outlook for shilling to remain bearish due to aid cuts and tax hikes in fiscal year 2013-14. However, the central bank's conservative monetary policy stance may provide some cushion in the short term.

#### USD/UGX daily movement



	Avg	End val	High	Low	MTD (%)	YTD (%)
<b>USD</b>	2,587.6	2,590.0	2,599.4	2,572.1	-0.2%	3.5%
<b>EUR</b>	3,380.3	3,428.7	3,428.7	3,326.3	-1.5%	3.6%

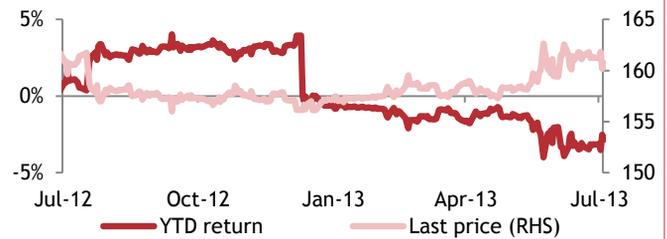
Source: Bloomberg, individual news websites

## CURRENCY MARKETS: NIGERIA, RWANDA, GHANA

### Nigerian Naira (NGN)

- The Nigerian naira recovered 0.5% MTD in July 2013 after declining 2.7% in June. The firmness in the naira can be ascribed to a substantial increase in CRR by the CBN that prompted public sector banks to sell dollars to meet the policy requirements.
- The recovery, to an extent, was also supported by dollar sales by state-owned energy firm NNPC (USD 350 mn) and oil firms Chevron, ExxonMobil and Royal Dutch Shell (USD 205 mn).
- Analysts expect naira to strengthen, as oil companies sell further dollars and banks cover their short positions on the currency.

#### USD/NGN daily movement

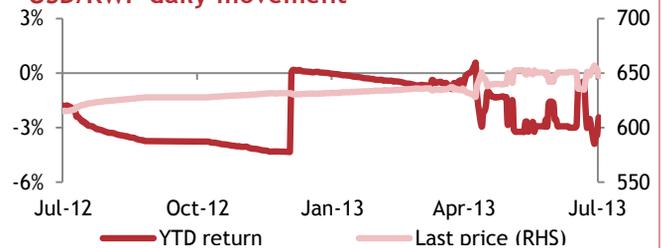


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	161.2	160.7	161.8	160.1	0.5%	-2.8%
EUR	210.6	213.3	214.0	206.7	-1.1%	-3.4%

### Rwandan Franc (RWF)

- The Rwandan franc continued to appreciate in July 2013 by 0.4% on MTD basis after appreciating 0.3% in June. However, the franc depreciated 2.7% against the dollar on YTD basis.
- The YTD decline in the franc is a result of Rwanda's high import requirement, especially capital goods. Moreover, the franc is going through the steepest depreciation in the past three years. However, the government believes that the economy is doing well and the currency will appreciate against the US dollar as the global economy recovers.

#### USD/RWF daily movement

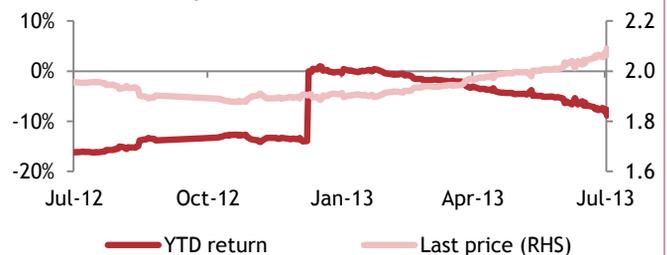


	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	648.0	647.8	656.9	634.8	0.4%	-2.5%
EUR	847.2	857.1	863.8	830.4	-0.9%	-2.7%

### New Ghanaian Cedi (GHS)

- The Ghanaian cedi tumbled to a record low against the dollar in July 2013 on prospect that the Supreme Court of Ghana will cancel President John Mahama's election. As a precautionary stance, importers and investors are buying dollars ahead of time; this is the primary factor driving the cedi downward.
- Furthermore, falling prices of commodities like gold and cocoa resulted in a drop in dollar supply, thereby adding pressure on the cedi.
- The currency is expected to depreciate further for the next six months, as importers and investors continue to stockpile dollars.

#### USD/GHS daily movement



	Avg	End val	High	Low	MTD (%)	YTD (%)
USD	2.05	2.07	2.09	2.01	-1.2%	-7.8%
EUR	2.67	2.74	2.77	2.60	-2.9%	-8.3%

Source: Bloomberg, individual news websites

## SPECIAL FOCUS

### Infrastructure bonds - An emerging asset class in Africa

#### Region requires huge investment in infrastructure...

The Sub-Saharan Africa's (SSA) has attracted interest from various MNCs on the back of rapid economic expansion. However, lack of infrastructure support continues to be a major hindrance. The Program for Infrastructure Development in Africa (PIDA) "Priority Action Plan" (PAP) estimates infrastructure financing need for regional projects in at USD 68.0 bn by 2020. The current sources are estimated to provide for only USD 30.0 bn leaving a massive shortfall of USD 38.0 bn.

#### ...with limited financing options at present

The private sector's involvement in the sector has remained subdued owing to low incentives. Moreover, sector specific risk, political instability and poor governance kept the private sector investments at bay. Amidst low private sector participation and absence of long-term banking finance, the governments are mulling infrastructure bonds issue to bridge the funding gap.

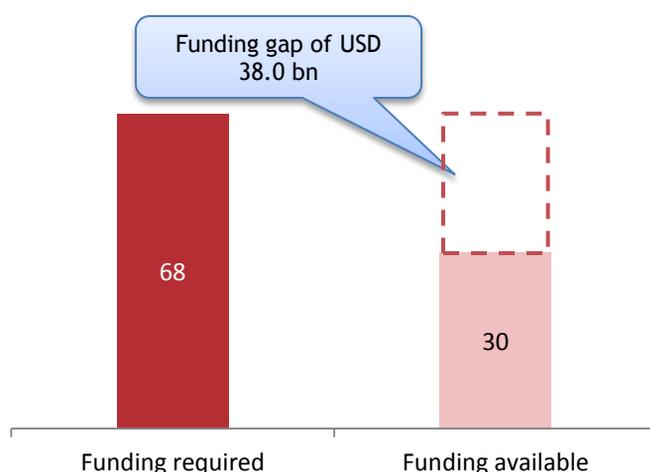
#### Infrastructure bond issues gaining prominence

There is tremendous scope to develop infrastructure bond market and the region could take cues from the experience of the emerging countries like Malaysia, and Chile where the government created an investor friendly environment by ensuring political stability, low inflation and capital markets reforms.

In SSA, Kenya has raised funds in the past through bonds earmarked for infrastructure development. In July 2013, the Kenyan government announced its plans to issue KES 70 bn (USD 0.8 bn) worth of broadband infrastructure bonds. To ensure positive response for its issues, Kenyan government incentivises investors and allows partial redemption after six to eight years, exemption from certain taxes and allows listing for trading purpose amongst others. To emulate Kenya's success, Uganda and Nigeria have now prioritised infrastructure funding.

The SSA region appears to be on the right track and aims to strengthen the pension and insurance sector, which is the most important domestic institutional investor, by establishing independent pension regulators and investment guidelines. Reforms should also include incentivising private sector, promoting public private partnerships, sector regulation, proper tariff setting framework and efficient governance. Maintaining macroeconomic stability and getting a credit rating will also boost investor confidence.

#### Infrastructure funding (USD bn)



#### Kenya Infrastructure Bonds

Year of Issue	Year of Maturity	Coupon	Amount (KES bn)	Amount (USD mn)
2009	2021	12.50%	18,573	218.5
2009	2021	12.00%	18,417	216.7
2010	2018	9.75%	16,264	191.3
2010	2019	6.00%	30,590	359.9
2011	2023	12.00%	35,919	422.6

#### Credit Ratings

Rating	S&P	Fitch	Moody's
Kenya	B+	B+	B1
Nigeria	BB-	BB-	Ba3
Ghana	B	B+	B1
Uganda	B+	B	NR

Source: Bloomberg, African Development Bank Group, individual news websites

## AUCTIONS, EVENTS

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

#### Uganda's latest issuance: 3-yr bond (July 2013)

Issue Date	Maturity	Amt (UGX)	Bid/Offer	YTM	Coupon
18-July	3-yr	145.0 bn	2.38	14.6%	10.3%

##### Details of previous 3-yr issuance

8-May	3-yr	100.0 bn	2.68	13.3%	10.3%
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##### Other Issuances in June

20-June	2-yr	90.0 bn	1.11	14.2%	10.0%
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1 USD = 2,587.6 UGX (average for July 2013)

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

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int rate
29-July	2-yr	32.5 mn	FXR Note	1.0	22.2%

##### Details of previous 2-yr issuance

22-July	2-yr	5.1 mn	FXR Note	1.0	22.3%
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##### Other Issuances in July

15-July	2-yr	3.4 mn	FXR Note	1.0	22.3%
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\*Fixed rate; 1 USD = 2.1 GHS (average for July 2013)

#### Tanzania's latest issuance: 2-yr bond (July 2013)

Issue Date	Maturity	Amt (TZS)	Bid/Offer	YTM	WACY*
24-July	2-yr	45.1 bn	1.10	14.8%	8.9%

##### Details of previous 2-yr issuance

3-Apr	2-yr	35.0 bn	2.25	14.1%	8.7%
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##### Other Issuances in June

26-June	7-yr	8.7 bn	0.36	15.8%	13.2%
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\*Weighted average coupon yield; 1 USD = 1,624.4 TZS (average for July 2013)

#### Kenya's latest issuance: 15-yr bond (July 2013)

Issue Date	Maturity	Amt bid (KES)	Amt acpt (KES)	MWAR*	Coupon
24-July	15-yr	9.1 bn	6.3 bn	14.0%	11.3%

##### Details of previous 15-yr issuance

29-Apr	15-yr	22.7 bn	15.6 bn	13.8%	12.0%
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##### Other Issuances in July

01-July	10-yr	14.1 bn	12.1 bn	12.5%	12.4%
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\*Market weighted average rate; 1 USD = 86.9 KES (average for July 2013)

### Upcoming Bond Auctions, Monetary Policy Meetings

- **02 August 2013:** Central Bank of Ghana is scheduled to issue 2-year bonds.
- **14 August 2013:** Central Bank of Nigeria is scheduled to issue 3-and 20-year bonds with an offer amount ranging NGN 25-45 for each term.
- **15 August 2013:** Central Bank of Uganda is scheduled to issue 3-year bonds worth 80 bn and 9-year bonds worth UGX 60 bn.
- **Monetary policy meetings** are scheduled for:
  - **5 Aug 2013:** Central Bank of Uganda
  - **16 Sep 2013:** Central Bank of Kenya

Source: Bloomberg, individual news websites, respective central banks

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