FUSION AFRICAN MONITOR

FUSION INVESTMENT MANAGEMENT
Rooted in the African growth story

Current news and analysis from Sub-Saharan money markets

January 2016

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in December 2015

- Bond yields in Kenya were flat in December 2015 due to a cut in domestic borrowing by the government. Yields on Nigerian bonds declined for most tenors in December 2015 after the central bank implemented several measures to boost liquidity.
- In December 2015, most currencies strengthened against the US dollar. The Kenyan shilling was flat at KES 102.2 against the dollar, supported by strong dollar inflows for infrastructure bonds and weak demand for the dollar from corporations due to the Christmas holidays. The Tanzanian shilling strengthened to TZS 2,152.3 against the US dollar due to strong forex proceeds from agricultural exports and the corporate sector. The Nigerian naira was flat at NGN 199.1 against the US dollar; however, it depreciated in the parallel market to NGN 265, as the central bank suspended the retail Dutch Auction System and enforced tighter controls on dollar outflows via Bureaux de Change (BDCs) to preserve forex reserves. The Ugandan shilling appreciated marginally to UGX 3,385.0 against the US dollar, led by subdued demand for the dollar and tight monetary policy. The Ghanaian cedi weakened against the US dollar to GHS 3.8 due to a continued decline in commodity prices and strong demand for imports. (refer to pages 7 and 8 for details).
- In the money markets, Kenya's interbank rate rose to 6.1% towards the end of December 2015, while Uganda's rate fell to 17.1% (details on page 6).

December Bond Market Summary

	3-yr	5-yr	10-yr	20-yr
Kenya 24-Dec yield (%)	13.9%	14.2%	13.4%	14.8%
Chg from 1-Dec 15 (bps)	37	5	0	0
Nigeria 24-Dec yield (%)	7.3%	11.1%	11.2%	11.3%
Chg from 1-Dec 15 (bps)	136	65	62	40

Movement of Key Currencies versus US Dollar in December 2015

	Average	End Value	MTD	YTD
Kenyan Shilling	102.2	102.2	-0.4%	-11.6%
Ugandan Shilling	3,355.9	3,385.0	0.1%	-17.6%
Nigerian Naira	198.8	199.1	0.0%	-7.2%
Tanzania Shilling	2,152.3	2,156.3	0.9%	-19.0%
Ghanaian Cedi	3.8	3.8	-1.0%	-15.2%

Kimondo's Corner

2016 Economic Performance outlook

The year 2015 marked a difficult year for the East Africa economies marked by high interest environment and significant currencies depreciation.

Anticipated further Federal rate hikes are likely to play a significant part in determining currency direction in 2016 due to anticipated investor flight from emerging markets like those of East Africa to safer economies like the US.

The continued low crude oil prices and improved rainfall will greatly help reduce inflationary pressures.

The region continues to witness significant infrastructural development which are driving economic growth and continues to attract significant foreign direct investment.

A peaceful conduct of election in Uganda would greatly enhance the region reputation for respect of law and attract more foreign investment(More details on page 11.)

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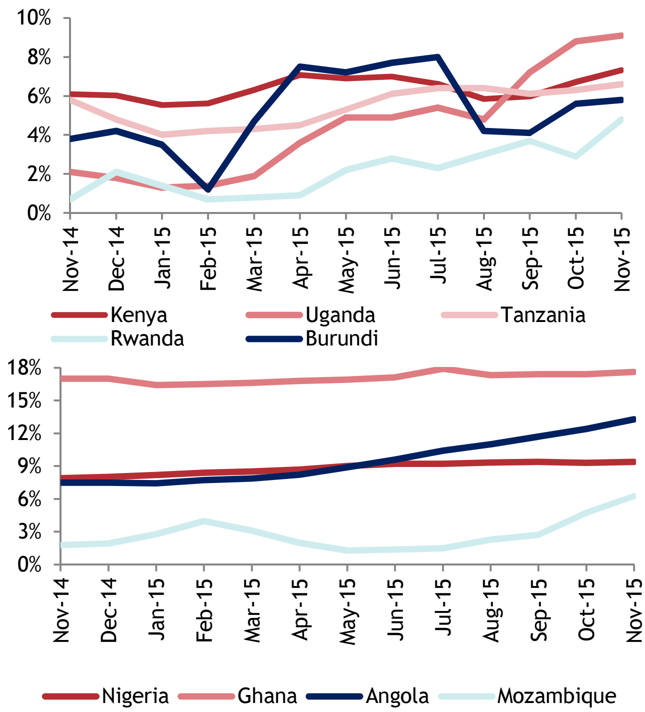
Source: Bloomberg and respective central banks

HIGHLIGHTS

Activity across Africa: Economy and Politics

- The IMF has further downgraded Kenya's GDP growth forecast for 2015 to 5.6% from 6.5%. According to the agency, growth suffered in 2015 because of delays in planned expenditure, weak tourism revenue and volatile trade balance. Economic growth is expected to recover to 6% in 2016 as investment spending and tourism demand pick up (details on page 3).
- In December 2015, **Mozambique's** central bank reduced its benchmark interest rate by 150 bps to 9.75% to control inflation and currency depreciation. The central banks of **Kenya, Uganda, Ghana** and **Angola** kept their benchmark interest rates unchanged. Most of these countries are struggling due to high inflation and trade deficits and are maintaining high benchmark rates to curb currency depreciation (details on pages 3 and 4).
- In November 2015, most sub-Saharan African economies recorded high inflation. In **Kenya**, inflation increased to 7.3% YoY in November from 6.7% YoY in October, primarily due to a continued rise in food and non-alcoholic beverage prices and housing and utility prices. In **Uganda**, inflation rose to 9.1% YoY in November from 8.8% YoY in October, mainly driven by a sustaining surge in food and energy prices. In **Ghana**, inflation rose marginally to 17.6% YoY in November from 17.4% YoY in October, driven by marginal rises in food and non-alcoholic beverage prices. In **Nigeria**, inflation rose marginally to 9.4% YoY in November from 9.3% YoY in October due to a rise in the food sub-index. In **Mozambique**, inflation rose sharply to 6.3% YoY in November from 4.7% YoY in October, driven mainly by increased prices of education, food and non-alcoholic beverages (details on pages 3 and 4)

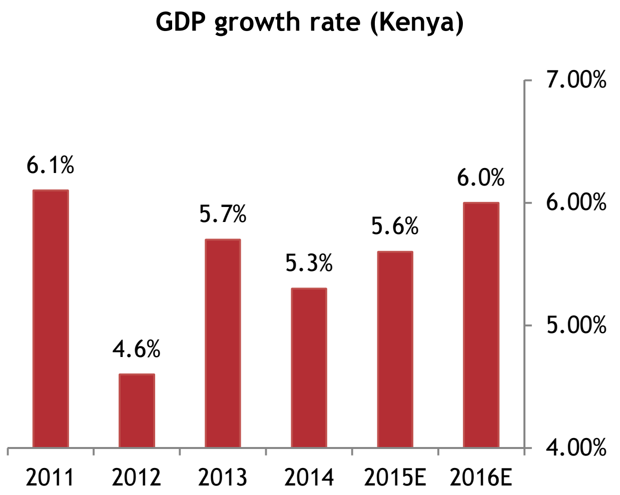
Inflation (YoY)



Key Sectors to Drive Growth on NSE in 2016 amid Headwinds

- The Nairobi Stock Exchange witnessed a less-than-decent performance in 2015, with 16 companies issuing profit warnings during the year compared with 11 in 2014, mainly due to a slowdown in the banking and insurance sectors, with the agriculture sector as the sole gainer.
- However, the fall in crude oil prices is expected to support a recovery in sectors like oil distribution and manufacturing.
- The sectors building and construction and retail and wholesale are expected to benefit from favourable government policies and an uptick in consumption demand.
- Sectors like bank and insurance, which underperformed in 2015, are expected to recover due to renewed demand in the economy and expected recovery in the markets, although not without risks.
- Debt markets and offshore products are also expected to attract investment because of high interest rates and an expected pressure on Shilling because of the wide trade deficit.
- The investment climate is expected to stay challenging yet resilient in 2016, with an upturn expected in the economy, but with risks (details on page 9).

Kenya GDP growth rate (IMF estimates)



Source: Individual news websites

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ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- Inflation rose to 7.32% YoY in November 2015 from 6.72% YoY in October 2015, primarily due to continued gains in food and non-alcoholic beverage, and housing and utilities prices. Food and non-alcoholic beverage prices increased 12.7% YoY in November 2015 compared with a 11.3% YoY surge in October 2015, while housing and utilities prices rose 4.2% YoY in November 2015 vis-à-vis a 4.0% YoY gain in October 2015. Furthermore, although inflation is still within the central bank's medium-term target of 2.5-7.5%, it may exceed beyond the range if prices continue to rise.
- The International Monetary Fund (IMF) downgraded Kenya's economic growth forecast for 2015 to 5.6% from 6.5%. According to the agency, the country's growth suffered in 2015 due to several delays in planned expenditures, weak tourism revenue and volatile trade balance. The economy is expected to expand 6% in 2016, led by gains in investment spending and tourism.

Uganda

- Inflation increased to 9.1% YoY in November 2015 from 8.8% YoY in October 2015, primarily driven by a sustained surge in food and energy prices. Food inflation rose to 17.2% YoY in November 2015 from 16.4% YoY in October 2015, while energy prices increased to 6.7% YoY in November 2015 from 5.5% YoY in October 2015.

Tanzania

- The annual headline inflation rose to 6.6% YoY in November 2015 from 6.3% YoY in October, largely due to higher food and alcoholic beverage prices (up 11.2% YoY in November 2015 vis-à-vis a 10.2% YoY gain in October 2015). However, it was partially offset by a fall in housing and utilities prices (down 1.7% YoY in November 2015 vis-à-vis 1.3% YoY in October 2015).

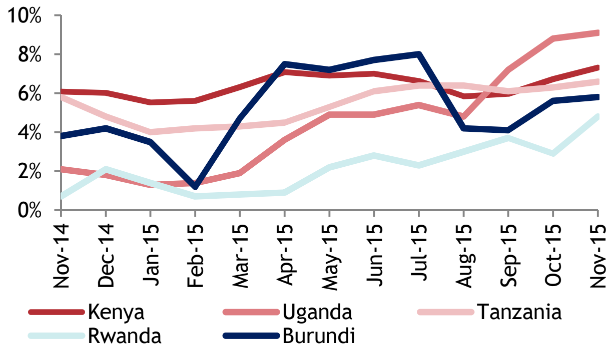
Rwanda

- Rwanda's consumer price index (CPI) rose to 4.8% YoY in November 2015 from 2.9% YoY in October 2015 due to gains in food and non-alcoholic beverage prices (up 1.1% MoM) and transport prices (up 1.9% MoM).

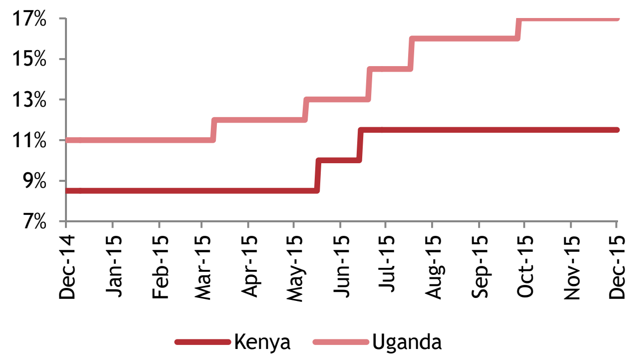
Burundi

- Inflation increased marginally to 5.8% YoY in November 2015 from 5.6% YoY in October 2015, primarily driven by a rise in food inflation. Food inflation surged to 7.2% YoY in November from 5.4% YoY in October.

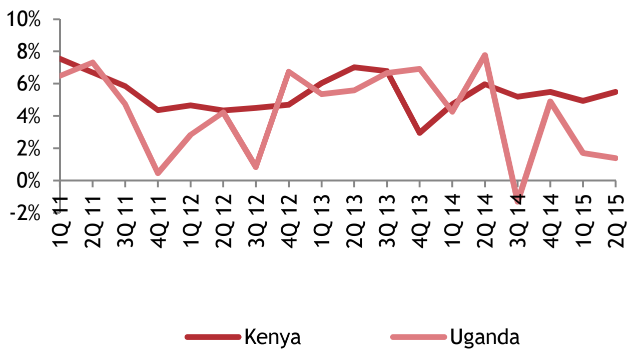
Inflation (YoY)



Movement of Central Banks' Key Rates



GDP Growth in Kenya and Uganda (YoY)



Source: Bloomberg, individual news websites, respective central banks

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

Rest of Sub-Saharan Africa

Nigeria

- Nigeria's CPI rose marginally to 9.4% YoY in November 2015 from 9.3% YoY in October 2015, mainly due to an increase in food and non-alcoholic beverage prices. The food sub-index gained 10.3% YoY in November 2015 compared with a 10.1% YoY rise in October 2015, led by higher prices of fish, bread and cereals, cheese, milk, meat, and vegetables. The core sub-index was flat at 8.7% YoY in November 2015.

Angola

- Inflation continued to rise in Angola, with prices gaining 1.19% MoM in November vis-à-vis a 1.17% MoM increase in October. Angola's CPI surged to 13.3% YoY in November 2015 from 12.4% YoY in October 2015.

Ghana

- Inflation increased marginally to a four-month high of 17.6% YoY in November 2015 from 17.4% YoY in October 2015, primarily led by a slight gain in food and non-alcoholic beverage prices (up 7.9% YoY in November 2015 compared with 7.8% YoY growth in October 2015). In addition, non-food inflation rose to 23.2% YoY in November 2015 from 23.0% YoY in October 2015, while utility prices surged 24.1% YoY in November 2015 vis-à-vis a 23.1% YoY gain in October 2015.

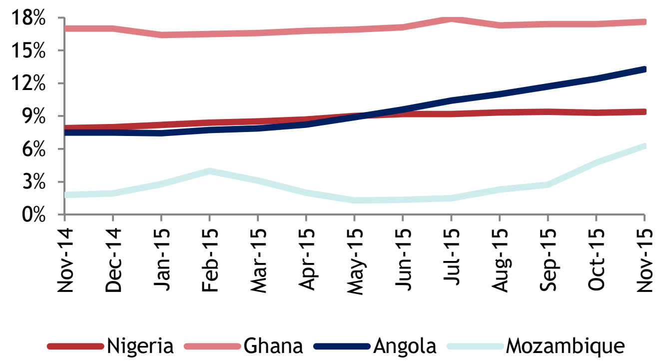
Mozambique

- Consumer inflation rose to 6.3% YoY in November 2015 from 4.7% YoY in October 2015, mainly driven by increase in education costs, and food and non-alcoholic beverage prices.
- In December 2015, the Bank of Mozambique increased its benchmark interest rates by 150 bps to 9.75%. Previously, the bank had raised the rates by 50 bps in November. Due to an increase in high inflation risk and currency depreciation impacting the economic growth objectives, the Bank of Mozambique intends to control these risks by reducing the money supply.

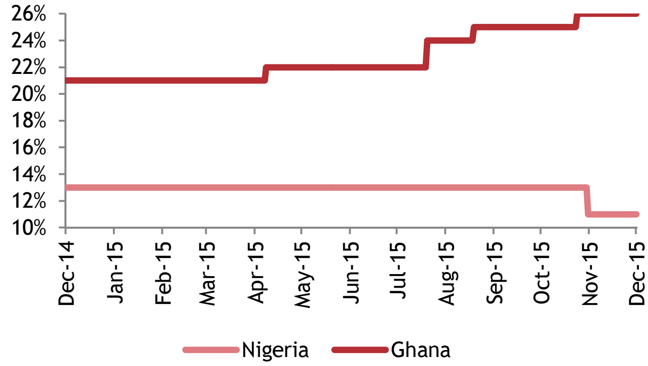
Ivory Coast

- Ivory Coast's CPI rose to 0.8% YoY in November 2015 from -0.3% YoY in October 2015 2015. According to the National Statistics Office, food and soft drink prices increased 3.2% YoY in November 2015, while housing and utility prices rose 15.2% YoY in September 2015.

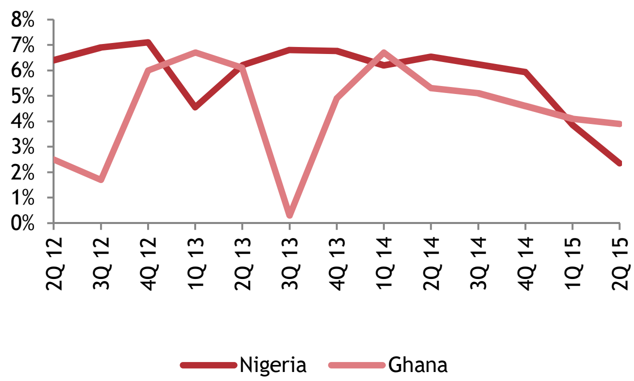
Inflation (YoY)



Movement of Central Banks' Key Rates



GDP Growth in Nigeria and Ghana (YoY)



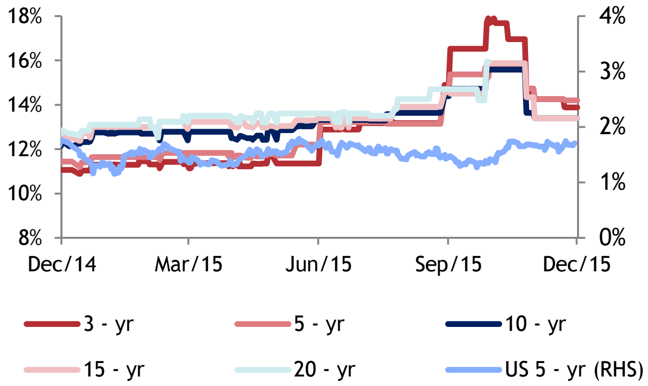
Source: Bloomberg, individual news websites, respective central banks

ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- In December 2015, yields on Kenyan bonds were flat for most tenors. The yields on three- and five-year bonds fell 35 bps and 5 bps, respectively. The yields on 10-, 15- and 20-year bonds were flat in December.
- Bond yields were flat as the government reduced its domestic borrowing to reduce the interest rates. The yields are expected to increase as the government resumed domestic borrowing.
- On 14 December 2015, CBK, on behalf of the government, auctioned nine-year, 14.75% bonds due in February 2024. The bank received bids worth KES 16.58 bn and made allotments worth KES 13.96 bn.
- The FTSE NSE Kenyan Shilling Government Bond Index fell 1.2% MTD and 3.6% YTD on 3 December 2015.

Bond yields daily movement



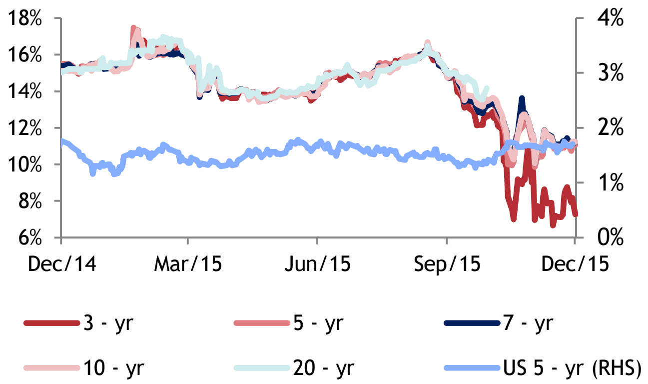
Summary Statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
24-Dec yield (%)	13.9%	14.2%	13.4%	13.4%	14.8%
Chg from 1-Dec15 (bps)	37	5	0	0	0
Chg from 1-Jan 15 (bps)	-282	-277	-104	-64	-190

Nigeria

- In December 2015, yields on Nigerian bonds declined for most tenors. The yields on3-, 5-, 7-, 10- and 20-year bonds fell 136 bps, 65 bps, 66 bps, 62 bps and 40 bps, respectively.
- Bond yields in Nigeria continued to fall due to high liquidity after the central bank's decision to cut rates and allow open-market operations. The interest rates are expected to remain low in the short term to fully realise the benefits of these steps and support economic growth by maintaining high liquidity.
- On 9 December 2015, the government auctioned five-year, 10.95% February 2020 bonds worth NGN 30.0 bn and 10-year, 11.00% March 2024 bonds worth NGN 20.0 bn. The government received subscriptions totalling NGN 86.81 bn and made allotments worth NGN 30.0 bn for the five-year bonds. It received bids worth NGN 58.97 bn and made allotments worth NGN 20.0 bn for the 10-year bonds.

Bond yields daily movement



Summary Statistics

	3-yr	5-yr	7-yr	10-yr	20-yr
24-Dec yield (%)	7.3%	11.1%	11.2%	11.2%	11.3%
Chg from 1-Dec 15 (bps)	136	65	66	62	40
Chg from 1-Jan 15 (bps)	769	399	386	379	390

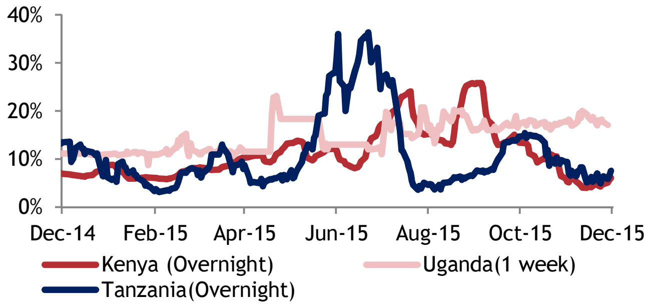
Source: Bloomberg, individual news websites

MONEY MARKETS

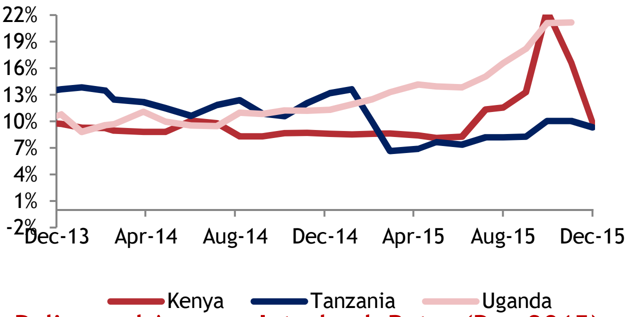
East African Community

- Kenya's interbank rate rose to 6.1% on 24 December 2015 from 5.3% at the beginning of the month. The central bank injected KES 2 bn in the interbank market to provide liquidity to the banks struggling to obtain funding. Uganda's interbank rate reduced marginally to 17.1% on 24 December 2015 from 17.4% at the beginning of the month, as the Ugandan shilling depreciated after increased demand for the US dollar in the interbank market.

Interbank Rates



91-day/3-month Treasury Bills (Monthly Average)



3-month Currency Deposit and T-bill Rates (Dec 2015)

	Kenya	Tanzania	Uganda
3-m curr dep	17.5%	10.6%	19.3%
91-d/3-m T-bill	9.8%	9.3%	20.2%

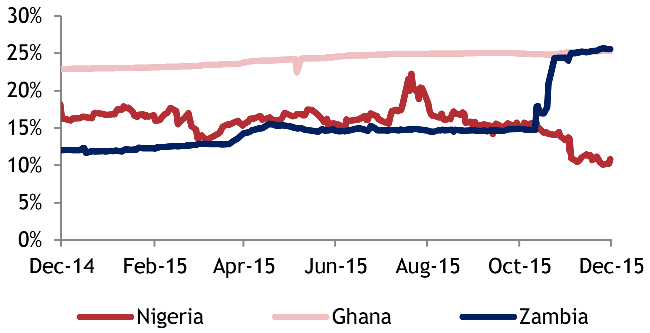
Policy and Average Interbank Rates (Dec 2015)

	Kenya (o)	Tanzania (1-w)	Uganda (o)
Policy	11.5%	12.0%	17.0%
Interbank	6.1%	7.5%	17.1%

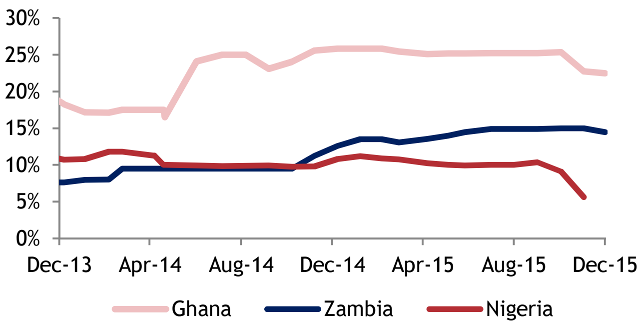
Rest of Sub-Saharan Africa

- The Nigerian Interbank Offered Rate (NIBOR) rose marginally to 10.8% on 24 December 2015 from 10.6% at the start of the month. Interbank rates stayed on the lower side due to excess liquidity from central banks and financial institutions. In Ghana, the interbank rate increased slightly to 25.3% on 24 December 2015 from 25.2% at the beginning of the month, as the central bank kept the benchmark interest rate unchanged at 26%.

Interbank Rates



91-day/3-month Treasury Bills (Monthly Average)



3-month Currency Deposit and T-bill Rates (Dec 2015)

	Nigeria	Ghana	Zambia
3-m curr dep	11.0%	26.0%	32.1%
91-d/3-m T-bill	5.6%	22.5%	14.5%

Policy and Average Interbank Rates (Dec 2015)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	11.0%	26.0%	15.5%
Interbank	10.8%	25.3%	25.6%

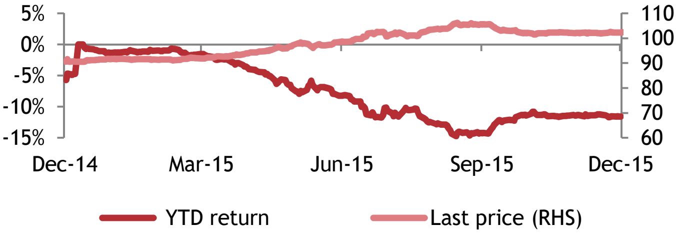
Source: Bloomberg, individual news websites, respective central banks.

CURRENCY MARKETS: KENYA, TANZANIA AND UGANDA

Kenyan Shilling (KES)

- The Kenyan shilling depreciated marginally against the US dollar to KES 102.4 on 24 December 2015. The currency declined 0.4% MTD and 11.6% YTD.
- The shilling remained flat in December 2015, supported by strong dollar inflows due to robust demand for infrastructure bonds and weak demand for the US dollar from corporations owing to the Christmas holidays.
- The shilling is expected to gain, led by subdued demand for the dollar and strong foreign fund inflows. The shilling continues to be aided by reduced import bill due to falling oil prices.

USD/KES Daily Movement

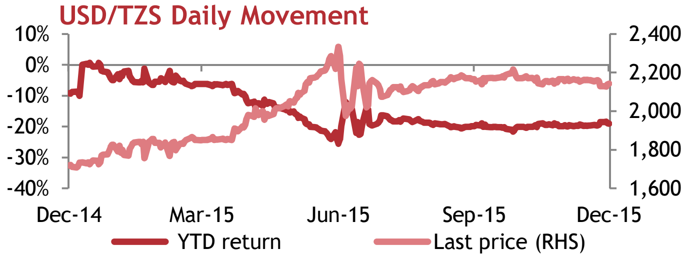


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	102.2	102.4	102.5	101.9	-0.4%	-11.6%
EUR	111.3	111.9	112.4	108.5	-2.9%	-2.7%

Tanzanian Shilling (TZS)

- The Tanzanian shilling appreciated against the US dollar to settle at TZS 2,142.9 on 24 December 2015. The currency gained 0.9% MTD and fell 19.0% YTD.
- The shilling rose against the dollar due to forex proceeds from agriculture exports and the corporate sector.
- The restrictions imposed by the government on unnecessary foreign travel by government officials could help channel scarce forex reserves in a more efficient manner and would support the currency in the medium to long term. In addition, strong agricultural exports are expected to support the shilling.

USD/TZS Daily Movement

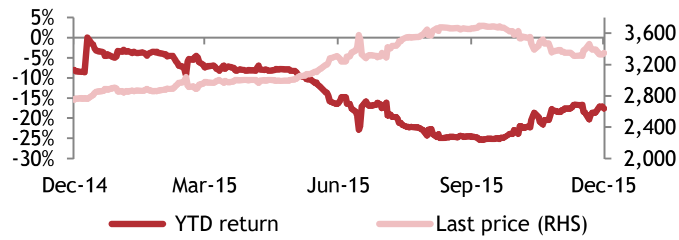


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	2,152.3	2,142.9	2,163.0	2,128.0	0.9%	-19.0%
EUR	2,341.9	2,343.8	2,383.6	2,292.8	-1.9%	-11.2%

Ugandan Shilling (UGX)

- The Ugandan shilling appreciated marginally against the US dollar to UGX 3,447.5 on 24 December 2015. The currency gained 0.1% MTD basis, but declined 17.6% YTD.
- The Ugandan shilling was flat against the dollar in December 2015 after the central bank maintained its tight monetary policy. The weak demand for the US dollar from the corporate sector also supported the shilling.
- The shilling is expected to weaken against the US dollar in the medium to long term, as the US Federal Reserve finally raised the interest rates by 0.25%, halting global liquidity supply. Moreover, Moody's downgrading the country's outlook would continue to exert pressure on the shilling.

USD/UGX Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	3,355.9	3,347.5	3,463.0	3,310.0	0.1%	-17.6%
EUR	3,655.7	3,667.7	3,825.7	3,527.3	-3.4%	-8.9%

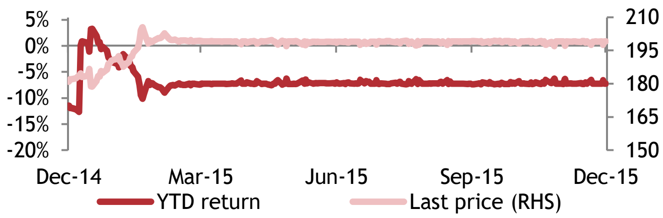
Source: Bloomberg, individual news websites

CURRENCY MARKETS: NIGERIA, RWANDA AND GHANA

Nigerian Naira (NGN)

- The Nigerian naira was relatively flat against the US dollar at NGN 199.1 on 24 December 2015. The naira was flat on a MTD basis, but declined 7.2% YTD.
- Despite being pegged at a clearing rate of NGN 197, the naira depreciated to NGN 265 in the parallel market against the US dollar. The central bank suspended the retail Dutch Auction System and enforced tighter controls on dollar outflows via Bureaux de Change (BDCs) to preserve forex reserves.
- In the long term, the naira is expected to remain weak due to structural issues such as declining forex reserves, falling oil prices and worsening government finances.

USD/NGN Daily Movement

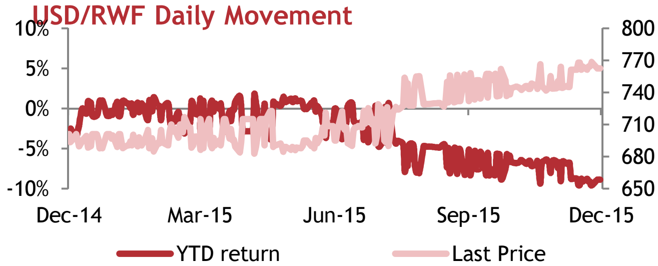


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	198.8	199.1	199.2	197.4	0.0%	-7.2%
EUR	216.5	217.7	219.6	211.4	-2.8%	2.2%

Rwandan Franc (RWF)

- The Rwandan franc fell against the US dollar to RWF 762.5 on 24 December 2015. The currency declined 2.4% MTD and 8.9% YTD.
- The franc depreciated against the dollar, as the central bank kept interest rates low on 23 December, citing positive results of the expansionary monetary policy in the form of improved demand.
- Rwanda's currency is expected to be supported in short to medium term by low imports as the oil prices continue to remain low. However, low prices of key export commodities (minerals) on account of global slowdown in consumption will hurt exports and also put pressure on the currency in the longer term.

USD/RWF Daily Movement

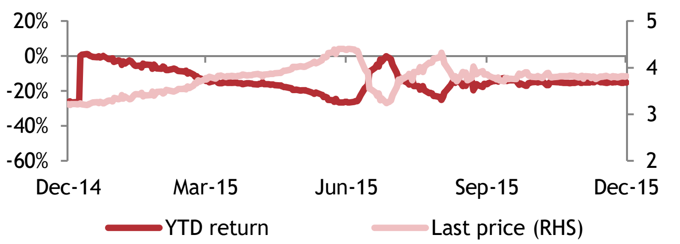


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	759.7	762.5	768.5	744.3	-2.4%	-8.9%
EUR	826.5	832.0	840.0	788.1	-5.3%	0.4%

New Ghanaian Cedi (GHS)

- The Ghanaian cedi weakened against the US dollar to GHS 3.8 on 24 December 2015. The currency fell 1.0% MTD and 15.2% YTD.
- The cedi depreciated against the US dollar in December due to a continuous decline in commodity prices and increased demand for imports.
- Despite the central bank's measures such as repatriation of export proceeds into the banking system, the demand for imported goods remains high in the absence of quality domestic manufacturing, which is likely to weaken the cedi in the medium to long term.

USD/GHS Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	3.8	3.8	3.8	3.8	-1.0%	-15.2%
EUR	4.2	4.2	4.2	4.0	-2.7%	-6.8%

Source: Bloomberg, individual news websites

SPECIAL FOCUS

Key Sectors to Drive Growth on NSE in 2016 amid Headwinds

Below par market performance in 2015

The Kenyan equity markets witnessed a less than decent performance in 2015, as 16 out of 62 companies listed on the Nairobi Securities Exchange issued profit warnings (indicating that their full-year profit may drop by over 25%) compared with 11 such companies that issued similar warnings in 2014. This was driven by a slowdown in sectors like insurance and banking because of factors like market volatility and a weak macro-economic environment, with agriculture as the only sector that performed well mainly driven by the weakening shilling and the strengthening prices of tea in the international markets. However, the situation is likely to change in 2016 as the performance of several key sectors is expected to improve.

Fall in oil prices and improving demand to support certain sectors

The fall in global oil prices is expected to benefit various players in the oil sector value chain, including oil distribution companies like KenolKobil and Total Kenya (with lowered working capital requirements and better margins). The fall in oil prices is also expected to benefit sectors like manufacturing due to reduced energy costs. On the other hand, sectors like building and construction would gain traction on the back of an increase in new commercial-property developments.

In the retail and wholesale sector, factors like favourable government policies and an uptick in consumption demand are expected to drive growth. A local supermarket chain in Kenya, Nakummat, has already expanded its presence in 2 new counties (Busia and Bungoma) by investing KES 200 million. This highlights the effect of the Kenyan government's devolution policy on the retail and wholesale trade sector.

Banks and insurance companies to recover in 2016

Sectors like bank and insurance, which were laggards in 2015, are expected to pick up pace in 2016. Growth in the bank sector is expected to be driven by an increase in loans to sectors like SMEs, manufacturing and agriculture. Growth in the insurance sector is also expected to recover in 2016, as corporate earnings are likely to advance, leading to improvement in investment income. Also, technological innovations in the sector - like digitisation schemes - are likely to curb insurance frauds, fast track case settlements and reduce the cost of premiums.

However, these opportunities are accompanied by a few risks. For instance, banks in Kenya do have to maintain a balance between their lending activities and debt recovery because of increasing NPLs in the sector. On the other hand, the insurance sector also faces the risk of a weakness in investment income if market volatility continues.

Debt and offshore products also expected to attract investors

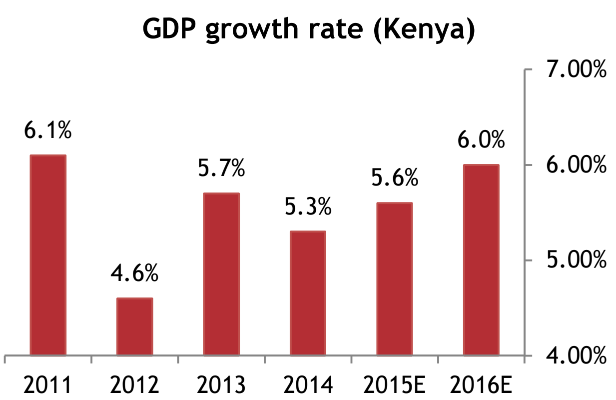
Other asset classes like fixed-income securities also remain attractive to investors, with high interest rates and volatile stock markets. Interest rates are also expected to remain high in the short to medium term to avoid capital flight after the US Federal Reserve hiked interest rates by 0.25% in December.

With a wide trade deficit in Kenya and the Shilling expected to remain under pressure, more capital may be put into offshore products because those products may see an increase in their value if the Shilling depreciates further.

Investment climate expected to be resilient in 2016 amid risks

Growth is expected to be resilient in 2016 primarily from increased tourism demand, expected favorable weather conditions in 2016, new investments from both public and private sectors and probable completion of several key infrastructure projects. However, the campaigning for the general elections, which are scheduled to be held in 2017, is also expected to begin in the later part of 2016. This may pose a risk to the government's spending plan and may derail the fiscal consolidation process. Furthermore, the economy would continue to face risks from several factors like corruption, high interest rates (specifically for equity markets), cheaper imports from China, a depreciating Shilling and higher global interest rates (particularly for borrowings for key projects).

Kenya GDP growth rate (IMF estimates)



Source: IMF, World Bank, Individual news websites

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AUCTIONS AND EVENTS

Latest Issuances of Key Government Bonds (Duration Greater Than One Year)

Uganda's Latest Issuance: 2-yr and 5-yr Bonds (December 2015)

Issue Date	Maturity	Amt (UGX)	Bid/Offer	YTM	Coupon
2 Dec	2-yr	80.00 bn	1.13	20.10%	20.00%
2 Dec	5-yr	150.00 bn	1.76	19.47%	20.00%
Details of issuances in November					
4 Nov	3-yr	91.56 bn	2.01	20.31%	14.63%
4 Nov	15-yr	100.00 bn	1.41	19.21%	17.50%

1 USD = 3,355.9 UGX (average for December 2015)

Tanzania's Latest Issuance: 5-yr and 15-yr Bonds (December 2015)

Issue Date	Maturity	Amt (TZS)	Bid/Offer	YTM	WACY*
8 Dec	5-yr	10.00 bn	0.58	17.52%	12.58%
22 Dec	15-yr	38.50 bn	1.35	18.73%	13.50%
Details of issuances in November					
11 Nov	7-yr	73.67 bn	1.27	17.58%	14.31%
25 Nov	10-yr	8.59 bn	NA	18.12%	11.44%

**Weighted average coupon yield; 1 USD = TZS 2,152.3 (average for December 2015)*

Ghana's Latest Issuance: 1-yr and 2-yr Notes (December 2015)

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int. rate
3 Dec	1-yr	32.68 mn	FXR Note	1.00	22.50%
11 Dec	2-yr	255.88 mn	FXR Note	1.00	23.30%
18 Dec	1-yr	6.31 mn	FXR Note	1.00	23.00%
Details of issuances in November					
6 Nov	2-yr	129.03 mn	FXR Note	1.27	23.95%
13 Nov	1-yr	27.08mn	FXR Note	1.04	22.50%
27 Nov	5-yr	516.53mn	FXR Note	1.25	24.00%

**Fixed rate; 1 USD = 3.8 GHS (average for December 2015)*

Kenya's Latest Issuance: 9-yr Bond (December 2015)

Issue Date	Maturity	Amt Bid (KES)	Amt Acpt (KES)	MWAR*	Coupon
14 Dec	9-yr	16.58 bn	13.97 bn	14.95%	11.00%
Details of issuances in November					
30 Nov	5-yr	33.00 bn	30.70 bn	14.04%	13.92%

**Market weighted average rate; 1 USD = 102.2 KES (average for December 2015)*

Upcoming Bond Auctions and Monetary Policy Meetings

- **6 January 2016:** Bank of Tanzania to sell bonds
- **13 January 2016:** Bank of Tanzania to sell bonds

- **Monetary policy meetings** are scheduled to be held on:
  - **24 January 2016** (The National Bank of Angola)
  - **20 January 2016** (Central bank of Kenya rate announcement)

Source: Bloomberg, individual news websites, respective central banks

FUSION INVESTMENT MANAGEMENT
Rooted in the African growth story

KIMONDO'S CORNER

2016 Economic Performance outlook

The year 2015 marked a difficult year for the East Africa economies marked by high interest environment brought about by tight monetary stance to try and contain significant currency depreciation against major currencies. The currencies were weakened by margins of up to lower teens resulting in hiking of key rates by central banks as they battled the depreciation.

According to IMF, the Kenyan economy is projected to continue to expand robustly in 2016, though at a slower-than-projected pace. Real GDP is projected to grow by 5.6% in 2015 driven by public infrastructure spending, buoyant credit growth and strong consumer demand. Growth in real GDP is projected to accelerate to about 6% in 2016 on account of the continuation of strong investment momentum, effects of good rain on agriculture, and a pick-up in tourism following removal of travel advisories from major tourism source markets.

Anticipated further Federal reserve rate hikes are likely to play a significant part in determining currency direction due to anticipated investor flight from emerging markets like those of East Africa to safer economies like the US. The US Federal Reserve hiked its key rates for the first time in a decade in December 2015 from 0% to 0.25% due to continued improvement of US economy. The Fed Reserve has predicted four rate increases in 2016 , though this is highly likely to happen after the Wall street got off to its worst start in its history.

The continued low crude oil prices and improved rainfall will greatly help reduce inflationary pressures. The crude oil prices continues to fall reaching USD 28 per barrel due to over supply with no respite in price falls. Low crude oil prices will help the region reduce its current account deficit since they are all net importers thus reducing currency volatility caused by huge current account deficit.

The slowdown of China's economy is expected to affect global economy as weaker than expected economic growth continues to have its impact on global markets. The region is highly unlikely to be affected by the slowdown due to lo exports to China. However it could impact its infrastructural development since it's a major funder of the regions infrastructural development.

The region continues to witness significant infrastructural development which are driving economic growth and continues to attract significant foreign direct investment. The construction of USD 4.4 Bn standard gauge railway in Kenya and USD 11 Bn Bagamoyo Port in Tanzania would continue to significantly drive economic growth. The real estate sector and energy sector continues to attract significant foreign investment thus boosting the regions growth prospects.

A peaceful conduct of election in Uganda would greatly enhance the region's reputation for respect to rule of law and attract more foreign investments. Tanzania has already conducted peaceful election and power handover thereby enabling continuity in business development.

With regards to fixed incomes, we expect that this will continue to offer the favourable returns in the short term due to anticipated rise in rates as the regions government raise funds domestically to bridge huge fiscal deficit. Also if the currency weakness could lead to key rate hikes further raising yields on fixed income investments.

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