

## HIGHLIGHTS

### Key Movements in Fixed Income and Currency Markets in August 2017

- In August 2017, bond yields in Kenya increased on 3- and 5-year tenure, while yields on 10-year and 20-year bonds declined. Whereas bond yields in Nigeria increased across all tenors during the month except 3-year bonds.
- In August 2017, most currencies depreciated against the US dollar except Kenya and Uganda. The Kenyan shilling appreciated to KES 102.9 against the US dollar, primarily due to an increase inflow of dollar from investors abroad in local debt and equity markets. The Ugandan shilling appreciated to UGX 3,601.8 per dollar mainly due to low dollar demand from importers. The Nigerian naira depreciated to reach NGN 355.5 per dollar, due to greater demand for foreign exchange by pilgrims. The Tanzanian shilling depreciated marginally at TZS 2,244.0 against the US dollar due to a pressure from oil and infrastructure industries. The Ghanaian cedi depreciated against the US dollar to GHS 4.4, mainly due to higher corporate demand for foreign currency without matching inflows (refer to pages 8 and 9 for details).
- Among the money markets, interbank rates in Nigeria increased to 21.4%, for Ghana remained unchanged at 21.0%, and increased to 4.1% for Tanzania. Interbank rates in Kenya decreased to 5.1% towards the end of August 2017 (details on page 7).

### August Bond Market Summary

	3-yr	5-yr	10-yr	20-yr
<b>Kenya 31-Aug yield (%)</b>	12.3%	12.5%	12.8%	13.4%
<b>Chg from 1-Aug 17 (bps)</b>	-10	-31	44	91
<b>Nigeria 31-Aug yield (%)</b>	16.7%	16.8%	16.7%	16.7%
<b>Chg from 1-Aug 17 (bps)</b>	14	-30	-43	-46

### Movement of Key Currencies versus US Dollar in August 2017

	Average	End Value	MTD	YTD
<b>Kenyan Shilling</b>	103.5	102.9	0.9%	-0.5%
<b>Ugandan Shilling</b>	3,604.4	3,601.8	0.1%	-0.6%
<b>Nigerian Naira</b>	360.6	355.5	-11.4%	-11.5%
<b>Tanzania Shilling</b>	2,230.9	2,244.0	-0.3%	-0.4%
<b>Ghanaian Cedi</b>	4.4	4.4	-0.3%	-2.8%

### Kimondo's Corner

#### Kenya's Economy Post 2017 election

- Elections season in Kenya is always a time of uncertainty and most of the times dampen the investment mood of the country as most investors practice the 'wait-and-see approach'.
- The Nairobi Securities Exchange 'NSE' performance rallied up post-elections showing investor confidence before dropping marginally when the opposition filed a petition in the supreme court to challenge the results of the 2017 presidential election.
- The Kenyan Shilling too continued to strengthen post the general elections mainly from inflow of Foreign Direct Investments and Diaspora Remittances
- Generally, the Kenyan economy tends to do very well the period post the general election. This positive momentum, however, was reversed last week after the Supreme court ruling nullifying the presidential election (details on page 13).

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Source: Bloomberg and respective central banks

### Fusion Portfolio Management Service

Fusion PMS is a Portfolio Management Services that assists professional investors with the selection and management of a portfolio of financial assets to meet predetermined 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](http://www.fusioninvestafrica.com), or contact:



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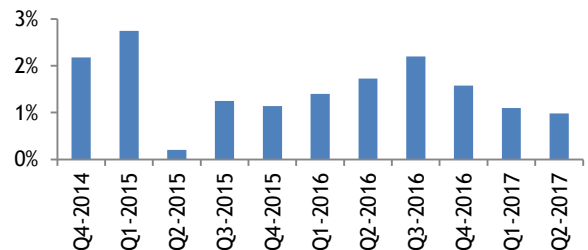
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## HIGHLIGHTS

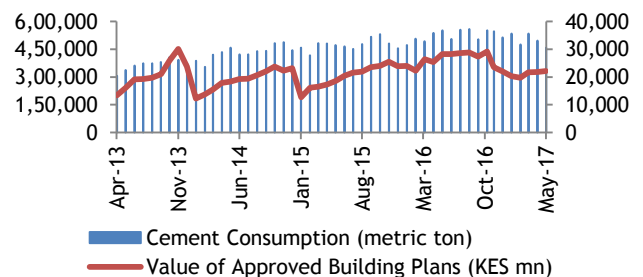
### Key Trends in East African Real Estate Sector

- In Q2 2017, house prices in Kenya grew at its slowest pace since the third quarter of 2016. House prices rose 0.98% in the second quarter of 2017 compared with a 1.10% increase in the previous quarter. Subdued Q1 2017 GDP growth, sustained decline in credit growth to private sector due to interest rate capping as well as a wait-and-watch approach ahead of the upcoming general elections continue to impact the real estate demand and supply dynamics in the country. Property developers' outlook appears negative, with the value of building plans in Nairobi declining by 22% YoY in May 2017.
- Tatu City, one of East Africa's largest real estate projects, is being developed around 24 km from Nairobi city. Licensed as a Special Economic Zone, Tatu City, would provide significant benefits to businesses, including 10% corporate tax for the first ten years and zero-rated VAT as compared with 30% corporate tax and 16% VAT applicable at present in Kenya.
- Uganda real estate sector is characterised by inadequate housing, with shortage of about 1.6 million housing units in rural and urban areas. Consequently, National Housing and Construction Corporation announced a 16.4% reduction in the price of its apartments in Impala Estates Namungoona, a Kampala suburb, to UGX 250 million per unit.

### Kenya Housing Price Change



### Value of Building Plans Vs. Cement Production & Consumption in Nairobi



### Improving Mortgage Uptake In Kenya Through Mortgage Backed Securities

- As at the end of 2016, Kenya had less than 25,000 mortgages representing USD 2.0B worth of mortgages
- It is estimated that Kenya faces a deficit of 150,000 units annually which has continued to rise due to fundamental constraints on both the demand and supply side.
- One of the ways that Kenya can overcome the demand side is through introduction of Mortgage Backed Securities 'MBS'. Mortgage-backed securities are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.
- In developed countries including those in Asia, MBS has been the main strategy to expand housing finance.
- The Kenya Capital Markets Authority has already published a Policy Guidance Note (PGN) to facilitate the issuance of Asset-Backed Securities (ABS).

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Source: Kenya Bankers Association and Kenya National Bureau of Statistics

### Fusion's Real Estate Portfolio

#### Project Feature: Kigali Heights

##### Salient Feature

- Grade A offices and a world class retail experience
- Great Location: Faces the Kimihurura Roundabout in Gasabo district opposite the Kigali Convention Centre and Radisson Blu
- Roof Top Terraces suitable for holding corporate events
- Centralized air conditioning. Gray water recycling and Ample Parking Space
- Recently awarded the best Mixed use by the Africa Property Investment (API) Award.

#### Offering: Office and Retail space to let



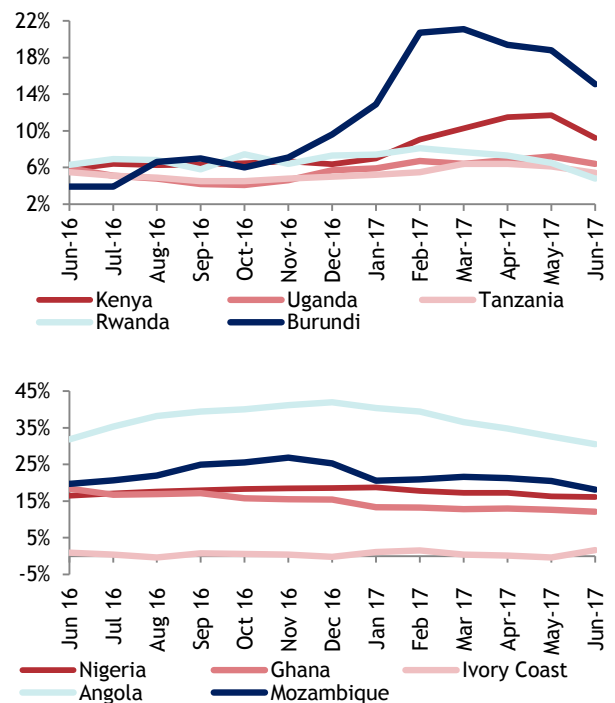
**The completed Kigali Heights**

## HIGHLIGHTS

### Activity Across Africa: Economy and Politics

- The IMF has predicted SSA's economy to recover to 2.6% in 2017, mainly due to expectations of recovery in oil production in Nigeria and higher public spending ahead of elections in Angola. The World Bank also predicted SSA's economy to further rise to 3.2% and 3.5% in 2018 and 2019 respectively.
- In August 2017, the central bank of Uganda and Angola did not change their benchmark interest rates, citing easing inflation rates meeting the targets. However, the central bank of Zambia and Mozambique reduced their key rate to boost economic growth.
- In July 2017, inflation declined in most of the SSA countries. In Kenya, inflation declined to 7.47% YoY in July 2017 from 9.2% YoY in June 2017, due to a decline in food and non-alcoholic beverages cost. In Uganda, inflation decreased to 5.7% YoY in July 2017 from 6.4% YoY in June 2017, primarily due to a decline in annual food crops and core inflation. In Tanzania, inflation declined to 5.2% YoY in July 2017 from 5.4% in June 2017, primarily due to a decline in prices of food and non-alcoholic beverages. In Nigeria, CPI declined to 16.05% YoY in July 2017 from 16.1% YoY in June 2017, mainly due to slower growth in prices for housing and utilities. In Ghana, consumer inflation fell to 11.9% YoY in July 2017 compared with 12.1% YoY in June 2017, mainly due to a decline in transport prices. In Mozambique, consumer inflation eased to 16.17% YoY in July 2017 from 18.1% YoY in June 2017, primarily due to decline in food prices. (details on pages 3 and 4).

### Inflation (YoY)



### Kenya Ghana trade shows the way for greater economic activity in SSA

- Intra-African trade holds the key to sustainable economic development, maintenance of stability and growth in the continent. Over the past few years, trade in the African countries has expanded significantly going up from 10% in the year 2000 to 16% in 2014.
- However, poor infrastructure, low manufacturing and processing capacity, restrictive policies etc. have limited trade in the African countries. In the process of improving these internal trade relations, Kenya-Ghana trade plays a major role.
- Kenya and Ghana are the second largest economies in East Africa and West Africa, respectively. With logistics routes, strong transport connectivity and administrative solutions to facilitate internal trade as well as policies for infrastructure and administration, Kenya acts as a regional leader and central trade hub for East Africa. Ghana, on the other hand, has large trade sectors and strong infrastructure in West Africa.
- Kenya-Ghana trade relations are vital for the growth of intra-African trade and both the countries have been constantly working towards improving them. In 2014, Kenya's exports to Ghana were valued at around US\$4.6mn, while Ghana's exports to Kenya were valued at around US\$3.5mn.
- A base for this relation was established by signing 7 trade agreements that covered topics such as reduction in the cost of doing business between the two countries, exchange of technical information in agriculture, cooperation in tourism training, trade and investment etc. Also, a Kenya-Ghana Expo was started in 2015 to help Kenyan and Ghanaian businessmen explore partnership opportunities and meet the right audience in these two countries.
- A number of African countries have realized the importance of intra-regional trade and are taking appropriate measures such as single window operation, which helps to reduce time and cost of trade transactions, and one-stop joint border posts, which are jointly managed by neighboring countries and where activities are streamlined to increase efficiency in trade. Also, several RTAs such as COMESA, SADC, ECOWAS, UDEAC, EAC etc. have been designed to boost internal trade.
- A reduction in limiting factors is essential to the growth of intra-regional trade. Huge investments are required for development of infrastructure, trade deals are required between economies, reduction in restrictions such as excessive regulations, weak legal systems and strict immigration policies need to be alleviated.

Source: Individual News websites

## ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

### East African Community

#### Kenya

- Inflation in Kenya fell to 7.47% YoY in July 2017 from 9.21% YoY in June 2017. The inflation reached its lowest since January after hitting a 5-year high of 11.7% in May. The inflation declined primarily due to food and non-alcoholic beverages (down 12.19% in July 2017 against 15.81% in June) as well as transport (down 2.77% in July against 4.23% in June 2017).

#### Uganda

- The rebased consumer price index (CPI) fell to 5.7% YoY in July 2017 from 6.4% YoY in June 2017. The drop was primarily due to the decline in annual food crops inflation (down to 12.9% YoY in July 2017 vis-à-vis 18.1% YoY in June 2017) and decrease in annual core inflation (down to 4.5% YoY in July 2017 vis-à-vis 4.9% YoY in June 2017). The food crops inflation was impacted by a drop in the prices of vegetables (down to 4.9% YoY in July 2017 vis-à-vis 9.6% YoY in June 2017) and fruits (down to 24.2% YoY in July 2017 vis-à-vis 32.4% YoY in June 2017).
- The BoU has maintained its lending rate at 10.0% citing increase in economic activity and lower inflation, which fell to 5.7% in July 2017 from 6.4% in June 2017, meeting its target. BoU also cited increase in external demand, FDI and agricultural activity, which improved due to favourable weather conditions, as a reason for an unchanged rate.

#### Tanzania

- Tanzania's inflation rate slowed down to a 6-month low at 5.2% YoY in July 2017 from a 5.4% in June 2017. The decrease can primarily be attributed to a decline in prices of food and non-alcoholic beverages (down to 8.9% in July 2017 from 9.6% in June 2017), transport (down to 0.1% in July 2017 from 0.4% in June 2017) and tobacco (down to 2.4% in July 2017 from 3% in June 2017).

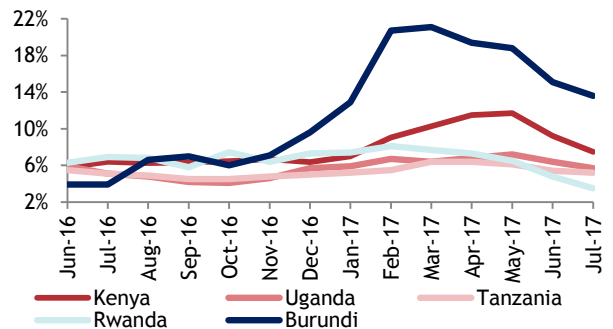
#### Rwanda

- Rwanda's Urban CPI fell to 3.5% YoY in July 2017 from 4.8% YoY in June 2017. The decrease can be largely attributed to a decline in prices of food and non-alcoholic beverages (down to 6.9% YoY in July 2017 vis-à-vis 9.8% YoY in June 2017).

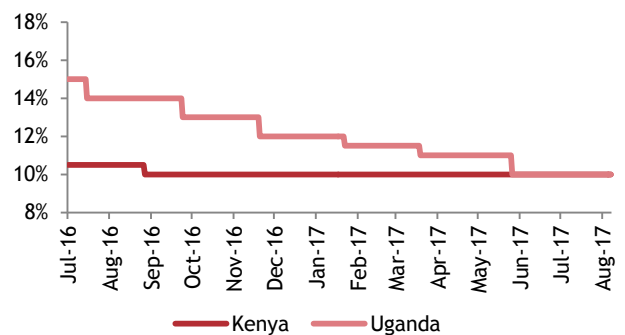
#### Burundi

- Inflation in Burundi fell to 13.6% YoY in July 2017 from 15.1% YoY in June 2017, as growth in food inflation fell from 20.8% YoY in June 2017 to 18.8% in July 2017.

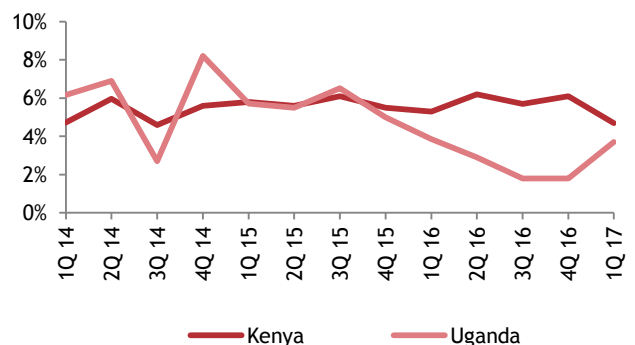
#### Inflation (YoY)



#### 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

- The CPI eased to 16.05% YoY in July 2017 from 16.1% YoY in June 2017, representing the sixth consecutive decline since January 2017, mainly driven by slower growth in prices for housing and utilities (down to 9.56% in July 2017 from 10.93% in June 2017). In July 2017, the core sub-index eased to 12.21% YoY from 12.46% YoY in June 2017. The downward trend in inflation indicates an expansion in agriculture and manufacturing activities.

#### Ghana

- Consumer inflation fell to 11.9% YoY in July 2017 from 12.1% YoY reported in June 2017, mainly due to a decline in prices of non-food items like transport (down to 22% YoY in July 2017 vis-à-vis 23.1% YoY in June 2017) and easing cedi.
- The country is working towards lowering its inflation rate to 11.2% by the end of year to restore stability, with the help of IMF.

#### Ivory Coast

- Consumer inflation decreased from 1.6% YoY in June 2017 to 0.8% YoY in July 2017, primarily due to slowing prices for clothing and footwear (1.4% YoY in July 2017 vis-à-vis 2.5% YoY in June 2017), miscellaneous goods and services (down to 1% in July 2017 from 16.9% in June 2017) as well as housing and utilities (down to -0.5% in July 2017 vis-à-vis 8.8% in June 2017).

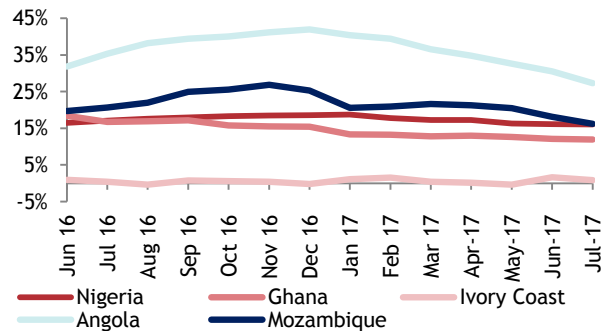
#### Angola

- The CPI maintained its downtrend since January 2017 by easing further to 27.29% YoY in July 2017, from 30.5% YoY in June 2017. Inflation had averaged 37.03% during 2001-07. The Central bank of Angola had maintained its benchmark interest rate at 16.0% in July 2017 in a bid to control inflation levels.
- Angola's budget deficit is projected at 7.3% of GDP for 2017, and is expected to decline to only 6.1% of GDP by 2021, as oil prices, which account for 97.0% of Angolan exports, are expected to remain subdued, according to Economist Intelligence Unit (EIU).

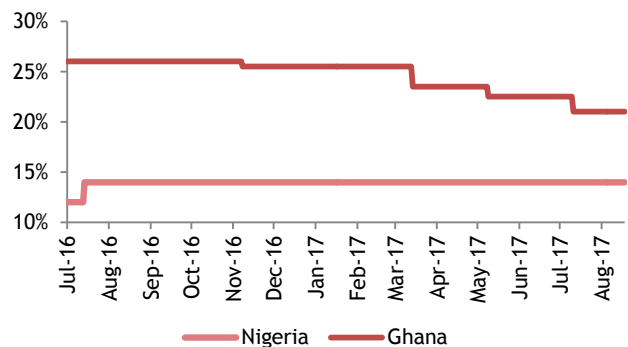
#### Mozambique

- Consumer inflation eased to 16.17% YoY in July 2017 from 18.1% YoY in June 2017, mainly due to decline in food prices such as tomatoes, which declined to 13.4%, peanuts declined to 9.9%, fish to 1.8% in July 2017.

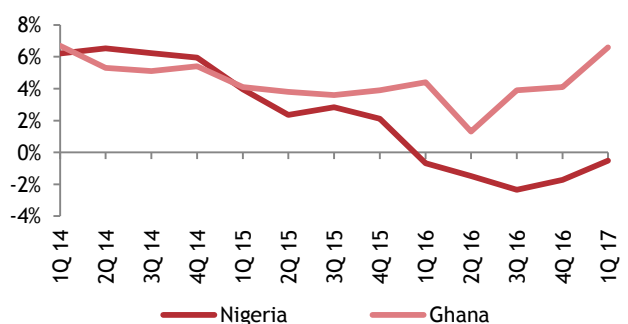
#### Inflation (YoY)



#### Movement of Central Banks' Key Rates



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



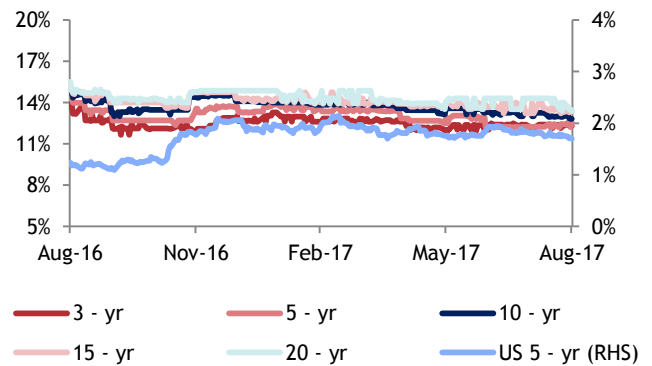
Source: Bloomberg, individual news websites, respective central banks

## ACTIVITY ACROSS AFRICA: BOND MARKETS

### Kenya

- In August 2017, yields on 3- and 5-year bonds registered an increase of 10 bps and 31 bps respectively, yields on 10-year bond declined by 44 bps. The yield on 15-year bonds increased by 14 bps, while the yield on 20-year bond declined by 91 bps.
- The yield on Kenya's benchmark 3-, 5- and 15-year bonds increased as government continued to lure investors due to a rapid increase in levels of Kenya's indebtedness. Yields on 10- and 20-year bonds declined as a result of high liquidity.
- In August 2017, the government auctioned a 10-yr bond and 5-yr for a total amount of KES 30.0 Bn. The FXD 1/2017/5 and 1/2017/10 carry a coupon rate of 12.96% for 10-yr bond and market determined rate for 5-yr bond.
- The government extended the sale of 5-yr treasury bond worth KES 13Bn in a tap sale in August 2017. The bids were opened from 29th August 2017 to 30th August 2017 after its auction on 23rd August 2017.

#### Bond Yield Daily Movement



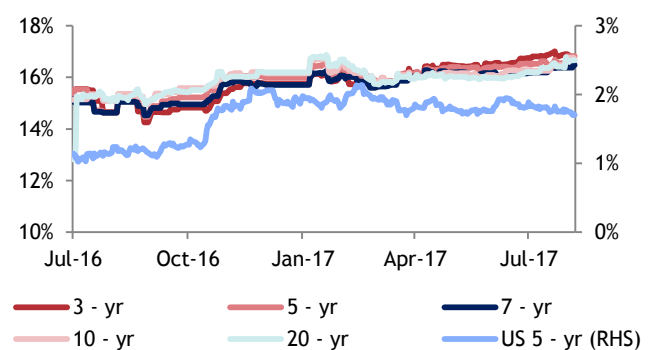
#### Summary Statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
<b>31-Aug yield (%)</b>	12.3%	12.5%	12.8%	13.3%	13.4%
<b>Chg from 1-Aug 17 (bps)</b>	-10	-31	44	-14	91
<b>Chg from 1-Aug 16 (bps)</b>	131	146	198	151	150

### Nigeria

- In August 2017, yields on Nigerian bonds decreased only for 3-year bond by 14 bps. The yield on 5-, 7-, 10-, and 20-year bonds increased by 30 bps, 28 bps, 43 bps and 46 bps, respectively.
- Yields on Nigerian bonds increased across 5-, 7-, 10-, 20-year tenors based on government's efforts to increase investors' interest in order to improve government funding and promote savings culture in Nigeria.
- The Debt Management Office held auction in August 2017, re-opening 14.5% FGN July 2021 bond, 16.28% FGN March 2027 bond and 16.24% FGN April 2037 bond.
- The inflation in Nigeria has been falling for past six months. However, the decline has been slow and may take some more time for fixed income investors to gain confidence in investing in sovereign bonds.

#### Bond yields daily movement



#### Summary Statistics

	3-yr	5-yr	7-yr	10-yr	20-yr
<b>31-Aug yield (%)</b>	16.7%	16.8%	16.5%	16.7%	16.7%
<b>Chg from 1-Aug 17 (bps)</b>	14	-30	-28	-43	-46
<b>Chg from 1-Aug 16 (bps)</b>	-359	-335	-284	-269	-384

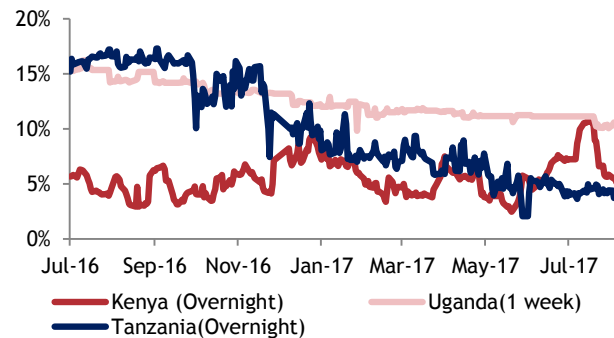
Source: Bloomberg, individual news websites

## MONEY MARKETS

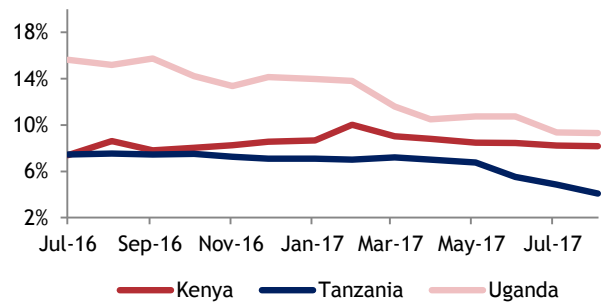
### East African Community

- Interbank rates in Tanzania fell to 4.1% on 31 August 2017 from 4.2% at the beginning of the month, indicating improvement in liquidity in the interbank market. Whereas interbank rates in Kenya fell to 5.1% on 31 August 2017 from 7.2% at the beginning of the month, reflecting an improvement in liquidity in the interbank market. Meanwhile, interbank rates in Uganda decreased to 10.3% on 31 August 2017, from 11.1% at the beginning of the month.

#### Interbank Rates



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



#### 3-month Currency Deposit and T-bill Rates (Aug 2017)

	Kenya	Tanzania	Uganda
<b>3-m curr dep</b>	9.0%	10.6%	19.3%
<b>91-d/3-m T-bill</b>	8.2%	4.1%	9.3%

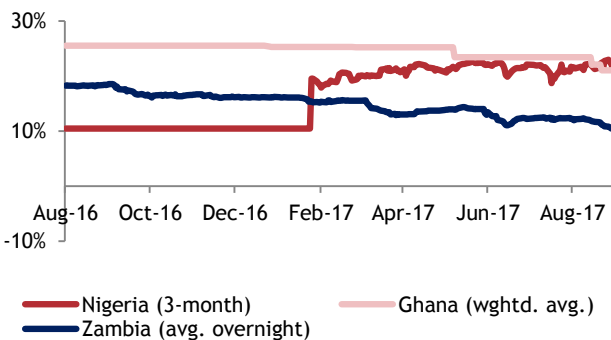
#### Policy and Average Interbank Rates (Aug 2017)

	Kenya (o)	Tanzania (o)	Uganda (1-w)
<b>Policy</b>	10.0%	12.0%	10.0%
<b>Interbank</b>	5.1%	4.1%	10.3%

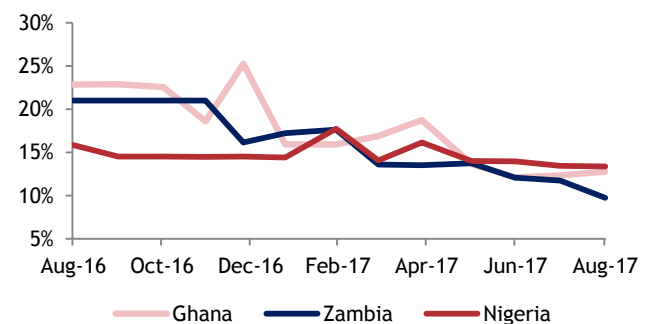
### Rest of Sub-Saharan Africa

- Interbank rates in Nigeria increased to 21.4% on 31 August 2017 from 20.9% at the start of the month, indicating tightening liquidity in the interbank market. Whereas, interbank rates in Zambia fell to 10.6% at end of August from 12.3% at beginning of the month. Interbank rates in Ghana remained unchanged at 21%.

#### Interbank Rates



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



#### 3-month Currency Deposit and T-bill Rates (Aug 2017)

	Nigeria	Ghana	Zambia
<b>3-m curr dep</b>	17.3%	21.4%	27.0%
<b>91-d/3-m T-bill</b>	13.4%	12.8%	9.8%

#### Policy and Average Interbank Rates (Aug 2017)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
<b>Policy</b>	14.0%	21.0%	12.5%
<b>Interbank</b>	20.9%	21.0%	10.6%

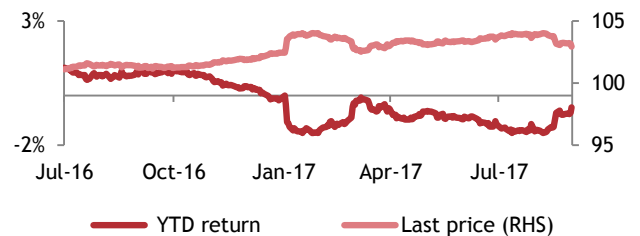
Source: Bloomberg, individual news websites, respective central banks

## CURRENCY MARKETS: KENYA, TANZANIA AND UGANDA

### Kenyan Shilling (KES)

- The Kenyan shilling appreciated against the US dollar to KES 102.9 as on 31 August 2017. The currency rose by 0.9% on MTD basis and improved to 0.5% decrease on YTD basis from 1.5% decrease last month.
- The shilling appreciated against the dollar in August 2017, primarily due to an increase inflow of dollar from investors abroad in local debt and equity markets.
- The shilling, however, weakened after court's ruling that ordered fresh polls and nullified previous ones. However, this decrease is expected to be short lived.

#### USD/KES Daily Movement

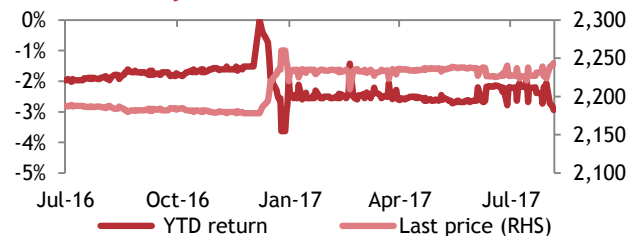


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	103.5	102.9	104.0	102.9	0.9%	-0.5%
EUR	122.4	122.6	123.6	121.3	0.03%	-9.6%

### Tanzanian Shilling (TZS)

- The Tanzanian shilling depreciated against the US dollar to TZS 2,244.0 as on 31 August 2017. The currency declined 0.3% on MTD basis and 0.4% on YTD basis.
- In August 2017, the domestic currency depreciated against the US dollar due to a pressure from oil and infrastructure industries.
- The domestic currency is expected to hold steady against dollar in the near term but can depreciate slightly if there is strengthening of USD due to spike in demand for energy and construction sectors.

#### USD/TZS Daily Movement

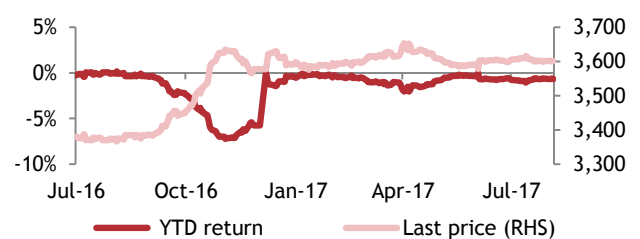


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	2,230.9	2,244.0	2,244.0	2,221.0	-0.3%	-0.4%
EUR	2,636.5	2,672.4	2,682.0	2,611.6	-1.2%	-10.0%

### Ugandan Shilling (UGX)

- The Ugandan shilling appreciated marginally against the US dollar to UGX 3,601.8 as on 31 August 2017. The currency rose by 0.1% on MTD basis but fell by 0.6% on YTD basis.
- The Ugandan shilling appreciated against the dollar in August 2017 mainly due to low dollar demand from importers.
- The Ugandan shilling may weaken in the coming weeks based on the expected increase in demand from energy importers and other manufacturers.

#### USD/UGX Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	3,604.4	3,601.8	3,616.0	3,599.3	0.1%	-0.6%
EUR	4,261.2	4,287.6	4,318.4	4,224.1	-0.7%	-10.1%

Source: Bloomberg, individual news websites

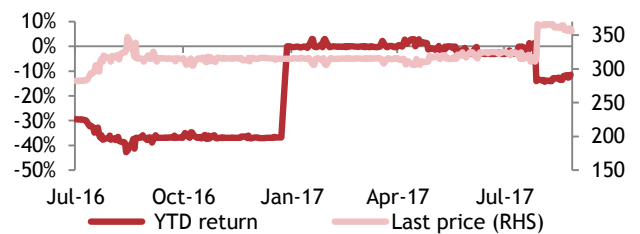


## CURRENCY MARKETS: NIGERIA, RWANDA AND GHANA

### Nigerian Naira (NGN)

- The Nigerian naira depreciated against the US dollar to NGN 355.5 on 31 August 2017. The naira fell 11.4% on MTD basis and 11.5% on YTD basis.
- The naira depreciated in the month of August 2017 due to demand for foreign exchange by pilgrims. The 2,000 USD auctioned to pilgrims at subsidized rate appears to be insufficient leading to greater demand for USD.
- The naira is expected to remain steady due to weak demand and increased supply of dollar.

#### USD/NGN Daily Movement

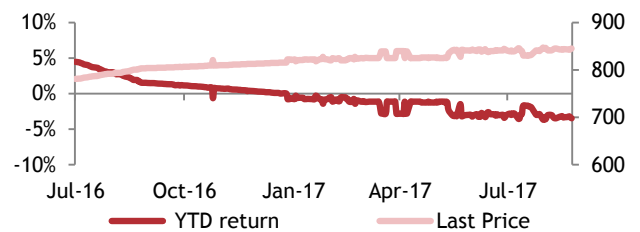


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	360.6	355.5	367.5	315.0	-11.4%	-11.5%
EUR	428.5	426.9	435.0	424.0	1.2%	-24.3%

### Rwandan Franc (RWF)

- The Rwandan franc depreciated slightly against the US dollar to RWF 845.0 on 31 August 2017. The currency decreased by 0.5% on MTD basis and by -3.5% on YTD basis.
- The franc closed lower against the US dollar in August 2017 due to increased demand for dollars from importers between the months of June and August.
- Rwanda's currency is expected to remain stable over the short-term based on improvement in commodity prices and narrowing trade balance.

#### USD/RWF Daily Movement

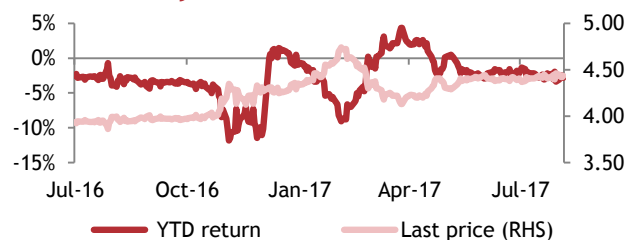


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	843.1	845.0	846.8	840.0	-0.5%	-3.5%
EUR	996.0	1,006.3	1,010.2	988.8	-1.4%	-14.6%

### New Ghanaian Cedi (GHS)

- The Ghanaian cedi depreciated slightly against the US dollar to GHS 4.4 on 31 August 2017. The currency fell by 0.3% on MTD basis and by 2.8% on YTD basis.
- The cedi depreciated slightly in August 2017 due to higher corporate demand for foreign currency without matching inflows.
- The cedi is expected to remain fairly stable against the dollar on the news of successful review and extension with the IMF, that renews hope for new investors.

#### USD/GHS Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	4.4	4.4	4.5	4.4	-0.3%	-2.8%
EUR	5.2	5.3	5.3	5.2	-1.5%	-14.7%

Source: Bloomberg, individual news websites

## SPECIAL FOCUS

### Kenya Ghana trade shows the way for greater economic activity in SSA

Intra-African trade holds the key to sustainable economic development, maintenance of stability and growth in the continent. Although it is not the only element required for faster growth and development, it is one of the most important ones. Over the past few years, trade in the African countries has expanded significantly going up from 10% in the year 2000 to 16% in 2014. However, poor infrastructure, low manufacturing and processing capacity, restrictive policies etc. have limited trade in the African countries. In the process of improving these internal trade relations, Kenya-Ghana trade plays a major role.

#### Kenya-Ghana Trade: The East meets the West

Kenya and Ghana are the second largest economies in East Africa and West Africa, respectively. With logistics routes, strong transport connectivity and administrative solutions to facilitate internal trade as well as policies for infrastructure and administration, Kenya acts as a regional leader and central trade hub for East Africa. Ghana, on the other hand, has large trade sectors and strong infrastructure in West Africa.

Kenya-Ghana trade relations are vital for the growth of intra-African trade and both the countries have been constantly working towards improving them. In 2014, Kenya's exports to Ghana were valued at around US\$4.6mn, while Ghana's exports to Kenya were valued at around US\$3.5mn.

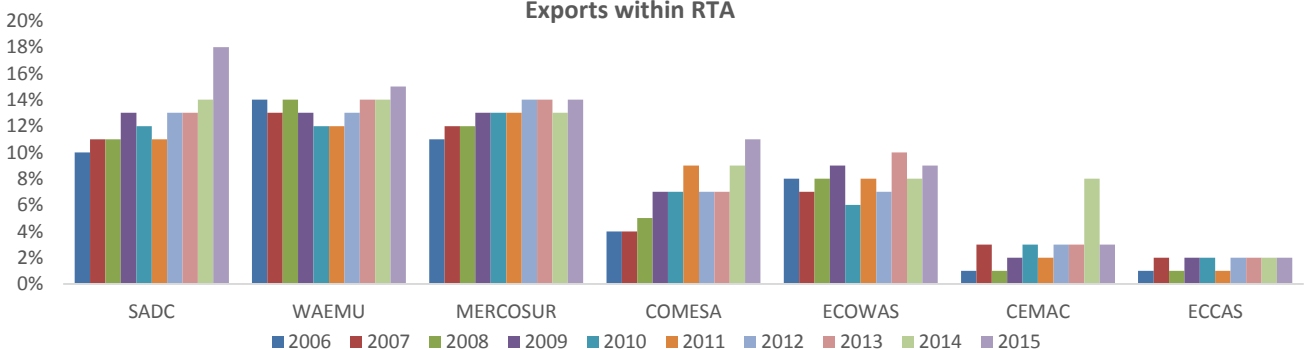
A base for this relation was established by signing 7 trade agreements that covered topics such as reduction in the cost of doing business between the two countries, exchange of technical information in agriculture, cooperation in tourism training, trade and investment etc. Also, a Kenya-Ghana Expo was started in 2015 to help Kenyan and Ghanaian businessmen explore partnership opportunities and meet the right audience in these two countries.

#### What will help intra-Africa trade?

A number of African countries have realized the importance of intra-regional trade and are taking appropriate measures such as single window operation, which helps to reduce time and cost of trade transactions, and one-stop joint border posts, which are jointly managed by neighboring countries and where activities are streamlined to increase efficiency in trade. Also, several RTAs such as COMESA, SADC, ECOWAS, UDEAC, EAC etc. have been designed to boost internal trade.

A reduction in limiting factors is essential to the growth of intra-regional trade. Huge investments are required for development of infrastructure, trade deals are required between economies, reduction in restrictions such as excessive regulations, weak legal systems and strict immigration policies need to be alleviated.

Exports within RTA



Source: Individual News websites

## AUCTIONS AND EVENTS

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

#### Uganda's Latest Issuance: 3-yr Bond (Aug 2017)

Issue Date	Maturity	Amt (UGX)	Bid/Cover	YTM	Coupon
09-Aug	3-yr	80.0 Bn	2.11	13.2%	13.25%
<b>Details of issuances in July</b>					
12-Jul	2-yr	80.0 Bn	2.4	12.8%	13.8%

1 USD = 3,604.4 UGX (average for Aug 2017)

#### Ghana's Latest Issuance: 5- yr Bond (Aug 2017)

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int. rate
18-Aug	5-yr	138 Mn	FXR Note	NA	17.0%
<b>Details of issuances in July</b>					
7-Jul	2-yr	70.6 Mn	FXR Note	1.0	17.0%
14-Jul	1-yr	60.8 Mn	FXR Note	1.1	15.0%

\*Fixed rate; 1 USD = 4.4 GHS (average for Aug 2017) ; NA - Not available

#### Tanzania's Latest Issuance: 5-, 7-, 10-yr Bonds (Aug 2017)

Issue Date	Maturity	Amt (TZS)	Bid/Cover	YTM	WACY*
02-Aug	7-yr	100.3 Bn	1.85	14.29%	10.08%
16-Aug	10-yr	67.40 Bn	NA	15.75%	11.44%
30-Aug	5-yr	58.51 Bn	2.07	13.96%	9.18%

#### Details of issuances in July

5-Jul 15-yr 111.0 Bn 1.6 16.2% 15.8%

\*Weighted average coupon yield; 1 USD = TZS 2,230.9 (average for Aug 2017); NA - Not available

#### Kenya's Latest Issuance: 5-, 10-yr Bonds (Aug 2017)

Issue Date	Maturity	Amt Bid (KES)	Amt Acpt (KES)	MWAR*	Coupon
23-Aug	10-yr	NA	5.48 Bn	13.06%	12.97%
28-Aug	5-yr	18.7 Bn	12.1 Bn	12.5%	12.4%

#### Details of issuances in July

26-Jul 10-yr 19.0 Bn 5.2 Bn 12.9% 12.9%

\*Market weighted average rate; 1 USD = 103.5 KES (average for Aug 2017) ; NA - Not available

### Upcoming Bond Auctions

- 06 September 2017: Uganda to sell 2-yr bonds
- 06 September 2017: Uganda to sell 15-yr bonds

Source: Bloomberg, individual news websites, respective central banks

## Fusion Real Estate Focus

### Improving Mortgage Uptake in Kenya through Mortgage Backed Securities

As at the end of 2016, Kenya had less than 25,000 mortgages amounting to USD 2.0B worth of mortgages. This value, compared to 2015, declined by 8%, a factor that can be attributed to a decline in credit growth generally reported in the second half of 2016 after the legislation of the interest rate capping. After the legislation, the commercial banks tightened their credit standards leading to lower volumes of loans going to customers. For the period between August 2016 and April 2017, for example, commercial bank lending to SMES fell by 5.7%. With the interest rate cap (currently at 14%) and where the government securities are paying lower double digits, commercial banks may find it hard unattractive to do the long term loans, and would prefer to do the short term loans. Secondly, the deposits in banks may not be large enough to finance all the mortgage applications.

It is estimated that Kenya faces a deficit of 150,000 units annually which has continued to rise due to fundamental constraints on both the demand and supply side. One of the ways that Kenya can overcome the demand side is through introduction of Mortgage Backed Securities 'MBS'. Mortgage-backed securities are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property. These loans purchased from banks, mortgage companies, and other originators and then assembled into pools by a governmental, quasi-governmental, or private entity. The entity then issues securities that represent claims on the principal and interest payments made by borrowers on the loans in the pool.

In developed countries including those in Asia, mortgage -backed securitization (MBS) has been the main strategy to expand housing finance. In particular, secondary mortgage institutions 'SMLs' have been established to contribute to the development of the private securities market. These institutions purchase housing loans originated by banks or other financial institutions and convert these loans into freely tradable investment instruments or securities. MBS has been effectively used in these countries to address not only liquidity constraints but also rising interest rates on housing loans and in overcoming constraints faced by financial institutions e.g., capital adequacy in expanding their loan portfolio for home lending. The MBS also enable the transformation of sticky debt into a more tradeable asset. The MBS would also open up the capital markets to individual investors and to borrowers that were previously out of reach.

The Kenya Capital Markets Authority has already published a Policy Guidance Note (PGN) to facilitate the issuance of Asset-Backed Securities (ABS). ABS, which has been tested and proven in other countries and helped expand housing finance, will be a great opportunity for both developers and potential homeowners in Kenya. Potential homeowners will appreciate that increased financing will be availed and for the developers, the home ownership uptake will increase.

However, the experience of the US subprime mortgage crisis in late 2000's should never be ignored as it shows what need to be avoided and the need for rigorous evaluation of mortgages to be securitized.

## KIMONDO'S CORNER

### Kenya's Economy Performance Post 2017 Election

Elections season in Kenya is always a time of uncertainty and most of the times dampens the investment mood of the country as most investors practice the 'wait-and-see approach'. Historically, GDP growth rates have been highly variable. Growth collapsed in 1992 when the first election was held after the return of multiparty democracy in 1992. It fell again in 1997 when the second multiparty election was held. Both elections were held against a backdrop of violent ethnic conflicts in which many people were displaced, especially in the Rift Valley, the stronghold of the then ruling political party, KANU. Growth was interrupted in the subsequent electoral periods of 2002/3 and 2007/8. It declined also in 2000 when there was a major crisis around how to undertake the constitution review process: whether to have a people-led or a parliamentary-led initiative.

The 2017 election came at a time when the economy has been vulnerable to shocks springing from a biting drought, rising inflation rates, and a slowdown in private sector credit. The demand for salary increase from public servants like lecturers, nurses and teachers, besides the cumulative cost of Kenya's security intervention in Somalia, also weighed heavy on government expenditures. The concerns about violence in the lead up to election was also feared to dampen short-term growth, and weaken both local and foreign investor confidence. The initial GDP estimate shows the pace of expansion faded to 4.7% annually in Q1 of 2017, compared to 5.9% in 2016.

This year's election was held on 8th of August peacefully and the results were announced on 11th August. Immediately, the National Super Alliance 'NASA' rejected the results and moved to the supreme court. The court on September 1<sup>st</sup> nullified the election citing irregularities and non-conformity with the law. The Electoral body was to conduct new presidential elections within 60 days as per the constitution.

The Nairobi Securities Exchange 'NSE' performance rallied up post-elections showing investor confidence before dropping marginally when the opposition filed a petition in the supreme court to challenge the results of the 2017 presidential election. On the day the Supreme court decision was delivered, the NSE was halted due to panic selling, causing the NSE 20 Share index to drop by 9.71% in intra-day trading.

The Kenyan Shilling too had continued to strengthen post the general elections mainly from inflow of Foreign Direct Investments and Diaspora Remittances. The Central bank had been mopping up excess liquidity from the money markets on an almost daily basis, while occasionally selling dollars to banks to maintain stability. Earlier in July the USD/KES touched a six-month low due to dollar demand from oil companies, food importers and firms that were paying dividends to investors abroad. However, on the same day the ruling was made, the shilling lost 0.34% to the USD.

The positive performance that had been experienced in the last few days post the election may now be compromised as the country awaits the repeat election.

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