FUSION AFRICAN MONITOR

Current news and analysis from Sub-Saharan money markets September 2017

FUSION INVESTMENT MANAGEMENT
Rooted in the African growth story

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in September 2017

- In September 2017, bond yields in Kenya increased on 3-, 10- and 20-year tenure, while yields on 5-year tenor remained flat. Whereas bond yields in Nigeria decreased across all tenors during the month.
- In September 2017, Kenyan shilling and Nigerian naira depreciated against the USD, while Ugandan shilling and Tanzanian shilling remained flat and Ghanaian cedi appreciated. The Kenyan shilling depreciated to KES 103.3 against the US dollar, primarily due to increased dollar demand from manufacturers and oil importers for meeting their month end obligations. The Ugandan shilling and Tanzanian shilling stayed flat at UGX 3,602.9 and TZS 2,244.0 per dollar. The Nigerian naira depreciated to reach NGN 356.5 per dollar, mainly due to a high demand. The Ghanaian cedi appreciated marginally to reach at GHS 4.4 against the US dollar due to improved liquidity conditions, despite some marginal demand pressure (refer to pages 8 and 9 for details).
- Among the money markets, interbank rates in Tanzania declined to 4.0% near the end of the month from 4.16% at the beginning of the month while interbank rates in Kenya increased to 7.1% near the end of September 2017 from 4.88% at the beginning. (details on page 7).

September Bond Market Summary

	3-yr	5-yr	10-yr	20-yr
Kenya 25-Sept yield (%)	12.4%	12.2%	13.0%	13.6%
Chg from 1-Sept 17 (bps)	-23	0	-14	-20
Nigeria 25-Sept yield (%)	15.9%	15.9%	16.1%	16.0%
Chg from 1-Sept 17 (bps)	73	87	54	54

Movement of Key Currencies versus US Dollar in September 2017

	Average	End Value	MTD	YTD
Kenyan Shilling	103.1	103.3	-0.2%	-0.8%
Ugandan Shilling	3,600.1	3,602.9	0.0%	-0.7%
Nigerian Naira	357.5	356.5	-0.3%	-11.6%
Tanzania Shilling	2,237.4	2,244.0	0.0%	-2.9%
Ghanaian Cedi	4.4	4.4	0.5%	-3.1%

Data till 25th Sept 2017

Kimondo's Corner

Financing Kenya Infrastructure through Tolls

- Kenya and other East Africa nations continue to demonstrate a strong ability to attract international interest and construction project finance, with many mega infrastructure projects currently underway.
- A cheaper, reliable and dedicated infrastructure funding solution from among a variety of potential revenue sources and finance options is critical for Kenya to achieve economic growth, and meet the demands of a growing population as the traditional sources are losing their effectiveness.
- Kenya is looking into introducing tolls as one of the ways of financing infrastructural projects and has earmarked some roads.
- Infrastructure projects could be packaged as financial instruments and if structured as infrastructure bond, there will be an added advantage as infrastructure Bonds in Kenya are interest free (details on page 11).

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Fusion Portfolio Management Service

Is a Fusion Investments Ltd-managed portfolio management service. Fusion Portfolio Management Service 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, or contact:

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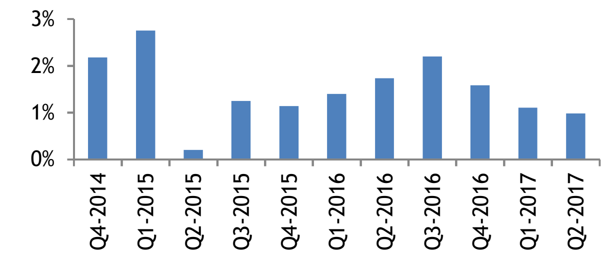
Source: Bloomberg and respective central banks

HIGHLIGHTS

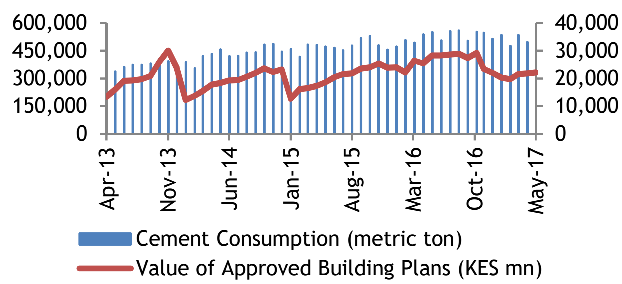
Key Trends in East African Real Estate Sector

- The Supreme Court decision to re-conduct Presidential elections has added to the political uncertainty and is causing further slowdown in the real estate sector. Especially the residential property market appears to be affected more than other segments, due to investors holding back on long-term investments. However, a study by Cytonn Real Estate expected that rental unit demand will sustain as compared to units for sale.
- Cyntonn Real Estate launched a US$ 190 million worth of mixed-use development project named 'Cyntonn Towers' that will be developed in Nairobi's Kilimani area. The project will have a sky bridge restaurant, which will be the country's highest suspended restaurant. The 35 floors triplex towers, consisting of offices, hotel and service apartments, and residential apartments, will also have a ballroom, a double horizon fitness club and an observatory deck. The construction is expected to start in the fourth quarter of 2018 and end by December 2022.
- An industrial park at Eldoret Special Economic Zone is being constructed by a Chinese firm. The project, which costs around US$ 2 billion, is a joint venture between China based Guangdong New South Group Ltd. and Africa Economic Zones Ltd. The projects aims at developing and operating a high-end SEZ with world class infrastructure in Eldoret, Uasin Gishu County.

Kenya Housing Price Change



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



CONVENIENT RETAIL HAS ITS PLACE IN THE KENYA REAL ESTATE PLAY

- Over the past 10 years, investors have been scrambling to develop state of the art large scale retail developments to serve Kenya's widely coveted growing middle class. However, concerns are emerging around the viability of some of these new retail projects – especially in and around the capital, Nairobi.
- We also believe that Consumer shopping habits are changing. Shoppers are increasingly forgoing weekly, two hour trips to major malls in favour of daily shopping in convenience stores - which offer either proximity to work or ample parking, extended business hours and short checkout lines. All things attractive to working families committed to long working days and busy social lifestyles.
- It is for these reasons that Fusion believes that there is huge opportunity in the local adaption and development of convenience retail outlets.

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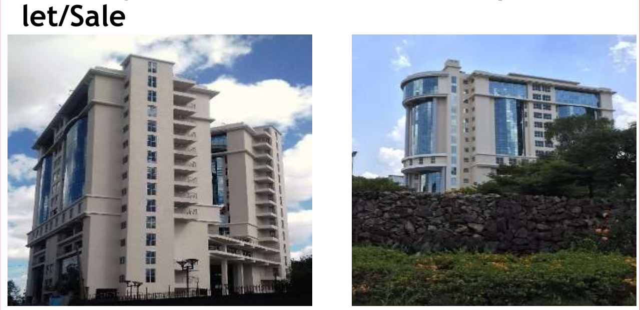
Fusion's Real Estate Portfolio

Project Feature: Flamingo Tower

Salient Feature

- Grade A offices, designed to offer the perfect working environment, merging both efficiency and elegance to ensure seamless and pleasant business operations for its occupants.
- Great Location: Next to the British High Commission and the Embassy of Japan, Upper hill
- Recently awarded the best Mixed use by the Africa Property Investment (API) Award.

Offering: Prime Office and Retail space to let/Sale



The Completer Flamingo Tower

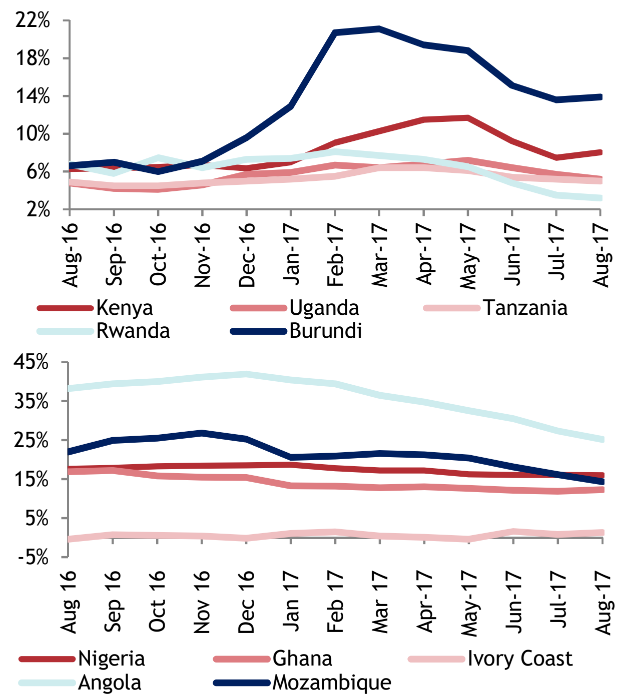
Source: Kenya Bankers Association and Kenya National Bureau of Statistics

HIGHLIGHTS

Activity Across Africa: Economy and Politics

- Sub Saharan Africa (SSA) region is on the road to recovery in 2017 after registering worst decline in 2016 of more than two decades. The region is expected to grow at a rate of 2.6% in the current year, as per an analysis of African economies by The World Bank.
- In September 2017, central banks in **Ghana** and **Nigeria** held their rates constant, citing global economic uncertainties. Central bank of Ghana held rates as against the expectations, due to threat to consumer price stability.
- In August 2017, inflation increased in three of the SSA countries – **Kenya**, **Ghana** and **Ivory Coast**. In **Kenya**, inflation increased to 8.04% YoY in August 2017 from 7.47% YoY in July 2017, due to an increase in food and non-alcoholic beverages' cost. In **Uganda**, inflation decreased to 5.2% YoY in August 2017 from 5.7% YoY in July 2017, primarily due to a decline in annual food crops and core inflation. In **Tanzania**, inflation declined to 5.0% YoY in August 2017 from 5.2% in July 2017, primarily due to a decline in prices of food and non-alcoholic beverages. In **Nigeria**, CPI declined to 16.01% YoY in August 2017 from 16.05% YoY in July 2017, mainly due to slower growth in prices for housing and utilities. In **Ghana**, consumer inflation rose to 12.3% YoY in August 2017 compared with 11.9% YoY in July 2017, mainly due to an increase in prices of food items. In **Mozambique**, consumer inflation eased to 14.35% YoY in August 2017 from 16.17% YoY in July 2017, primarily due to slower growth in food prices (details on pages 4 and 5).

Inflation (YoY)



Need for infrastructure in Uganda

- Only about 20% of Uganda's 36 million people have access to electricity and other basics such as clean water supply. This alone substantiates the need for the government to boost infrastructure in order to achieve economic growth.
- Infrastructure development has a multiplier effect on the entire economy. The poor state of infrastructure in sub-Saharan Africa – electricity, water, roads and railway – cuts national economic growth by 2% to 3% every year, according to The World Bank.
- The economy has faced headwinds such as negative agricultural and industrial productivity growth due to drought, credit constraints to the private sector, in response to non-performing loans of banks climbing to ~6.3% (by March 2017).
- Citing these factors, IMF has revised the 2017 GDP growth estimate from 5% to 3.5% in May 2017.
- In a situation where economic activity is bearish, government investment led growth can help kick start economic engines for developing countries like Uganda.
- The main objective of the government has been to commence oil production and thus achieving middle income status by 2020.
- In the short term, large public sector projects will continue to be the main driver of the economy activity, fairly on account of the fast-tracked development and construction of oil-related infrastructure.
- Most of these large scale projects have been supported by external borrowings, as has been going on in other sub-Saharan economies, including Tanzania, Namibia, Rwanda, Kenya and Ethiopia, which have issued sovereign bonds to fund infrastructure. This has resulted in public debt at 36% of GDP.
- Official sources expected the number to peak at 44% in 2020-2021, as Uganda continues to borrow, but this is relatively lower than that of Kenya's debt at 52.8% of GDP.
- The World Bank claimed that the country continues to borrow money without substantial plans of when and where to spend it. Each Shilling invested in the development of Uganda's infrastructure, yielded less than a shilling (about 70%) of economic activity.
- The government has to continue to spend, but however focus on implementation; partnership with private sector would be a key factor for success.

Source: Individual News websites

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ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- Inflation in Kenya increased to 8.04% YoY in August 2017 from 7.47% YoY in July 2017. The increase came mainly on the back of increase in Food and Non-Alcoholic drinks' index, which rose to 13.57% in August from 12.19% in July due to reduction in supply of food items. During the same period, Housing, Gas, Water, Electricity and Other fuels' index rose by 0.54%, as a result of nominal increase in kerosene and electricity prices. Led by increase in pump prices of diesel, Transport index also rose, marginally, by 0.03% in August.

Uganda

- The consumer price index (CPI) fell to 5.2% YoY in August 2017 from 5.7% YoY in July 2017. The drop was primarily due to the decline in annual food crops inflation (down to 11.8% YoY in August 2017 vis-à-vis 12.9% YoY in July 2017) and decrease in annual core inflation (down to 4.1% YoY in August 2017 vis-à-vis 4.5% YoY in July 2017). The drop in food crops inflation was led by the prices of fruits (down to 17.4% YoY in August 2017 vis-à-vis 24.2% YoY in July 2017), while core inflation was impacted by the drop in services inflation (down to 3.3% YoY in August 2017 vis-à-vis 4.0% YoY in July 2017).

Tanzania

- Tanzania's annual headline inflation eased to 5.0% YoY in August 2017 from 5.2% YoY in July 2017. The decrease is largely attributable to a decline in prices of food and non alcoholic beverages (down to 8.6% YoY in August 2017 vis-à-vis 8.9% YoY in July 2017).

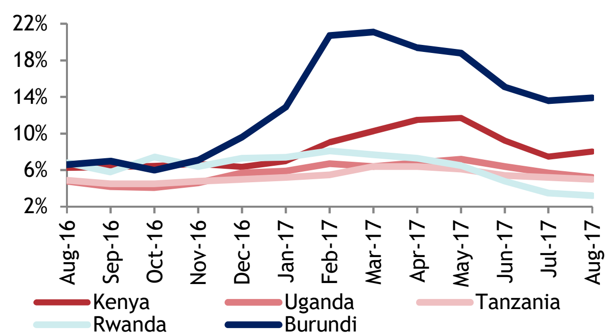
Rwanda

- Rwanda's Urban CPI fell to 3.2% YoY in August 2017 from 3.5% YoY in July 2017. The decrease can be largely attributed to a decline in prices of Housing, Water, Electricity, Gas and Other fuels (down to 0.9% YoY in August 2017 vis-à-vis 1.8% YoY in July 2017).

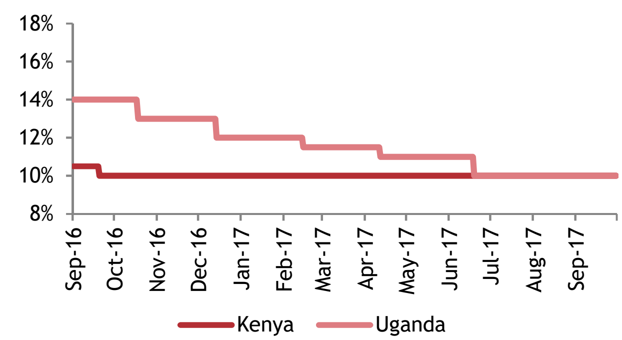
Burundi

- Inflation in Burundi increased to 13.9% in August 2017 from 13.6% in July 2017. The increase was mainly because of an increase in food prices. Food inflation increased to 22.7% in August 2017 vis-à-vis 18.8% in July 2017.

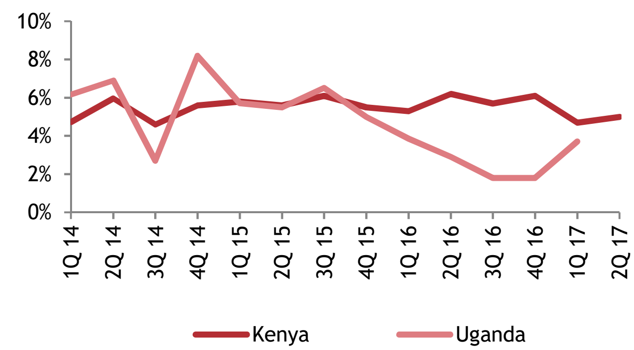
Inflation (YoY)



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 16.01% YoY in August 2017 from 16.05% YoY in July 2017, in line with market expectations. This decrease marks the new low since May 2016. The drop was mainly driven by slower growth in prices for housing and utilities (down to 9.15% YoY in August from 9.56% YoY in July). In August 2017, the core sub-index increased to 12.3% YoY from 12.21% YoY in July 2017 while the urban index increased to 16.13% YoY in August 2017 from 16.04% YoY in July 2017.
- Central bank of Nigeria held its policy rates constant at 14% due to global uncertainties.
- Nigeria recorded positive GDP growth of 0.6% in the second quarter of 2017, after five quarters of negative growth.

Ghana

- Consumer inflation increased to 12.3% YoY in August 2017 from 11.9% YoY reported in July 2017, mainly due to an increase in prices of food items (up to 7.4% YoY in August 2017 vis-à-vis 7.2% YoY in July 2017) and non-food items (up to 14.7% YoY in August 2017 vis-à-vis 14.5% YoY in July 2017).
- Central bank in Ghana kept rates unchanged, as against expectations. The move was taken so as to protect inflation from the emerging risks in the global markets, which can be a threat to consumer price stability.

Ivory Coast

- Consumer inflation increased to 1.3% YoY in August 2017 from 0.8% YoY in July 2017, primarily due to increase in prices for food and non-alcoholic beverages (4.2% YoY in August 2017 vis-à-vis 1.7% YoY in July 2017), clothing and footwear (2.2% YoY in August 2017 vis-à-vis 1.4% in July 2017).

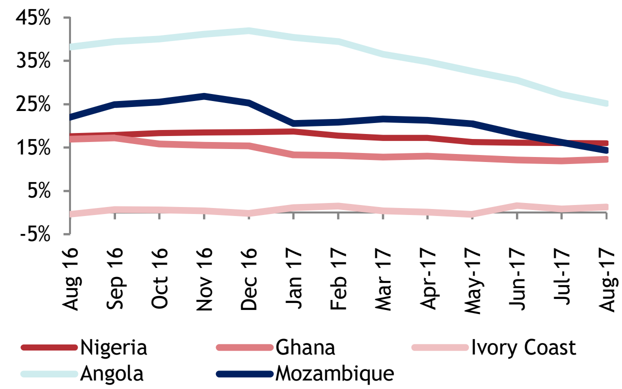
Angola

- The CPI maintained its downtrend since January 2017 by easing further to 25.18% YoY in August 2017, from 27.29% YoY in July 2017. This decline marked the lowest rate since April 2016.

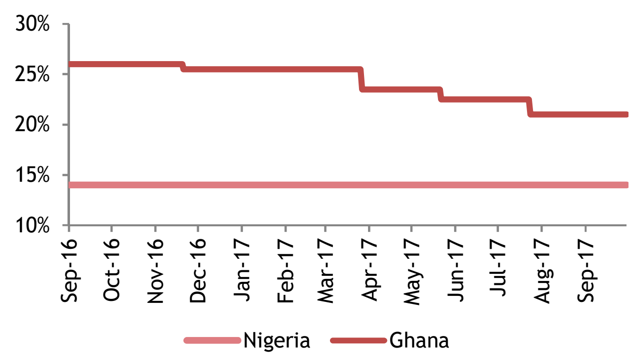
Mozambique

- Consumer inflation eased to 14.35% YoY in August 2017 from 16.17% YoY in July 2017. The inflation rate declined for the fifth consecutive month and is the lowest since March. The decrease was mainly due to decline in prices of foods such as butter beans (-7.8%), tomatoes (-4.4%), maize flour (-4.8%), food oil (-3.5%), beer and dry fish (-1.3% each). Inflation rate averaged 8.61% from 2009 to 2017.

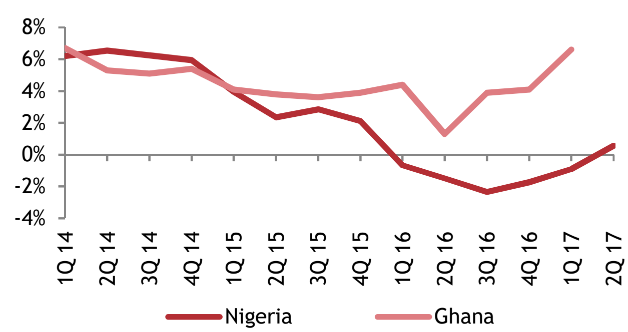
Inflation (YoY)



Movement of Central Banks' Key Rates



GDP Growth in Nigeria and Ghana (YoY)



Source: Bloomberg, individual news websites, respective central banks

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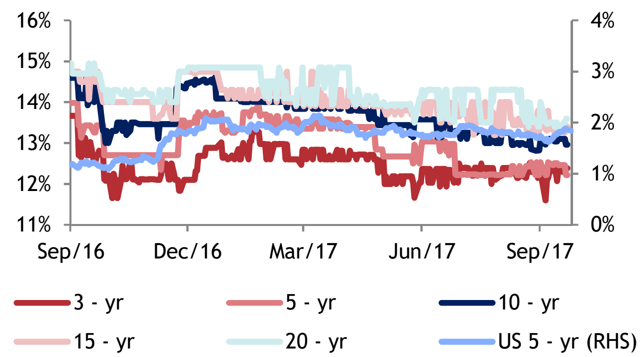
ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- In September 2017, yields on 3-, 10- and 20-year bonds registered an increase of 23 bps, 14 bps and 20bps, respectively. On the other hand, yields on 15-year bonds declined by 39 bps, while yields on 5-yr bonds remained flat.
- The yield on Kenya's benchmark 3-, 10- and 20-year bonds increased as government continued to lure investors.
- Yields on 15-year bonds declined as a result of high liquidity.
- The government extended the sale of the 2-year and 10-year Treasury bonds worth KES 13 billion. The two bonds were originally auctioned on 20th September and later were extended for sale.
- The 2-year bond, with average yield rate and coupon of 11.62%, declined from a yield of 12.50% in December 2016, whereas the 10-year bond, with average yield rate of 13.07% and coupon of 12.97%, gained as against 13.06% in August 2017.

Bond Yield Daily Movement



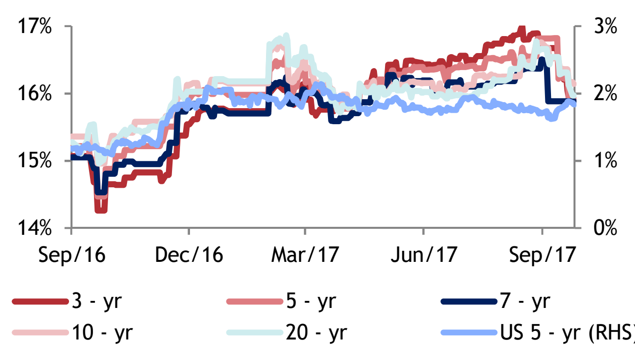
Summary Statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
25-Sept yield (%)	12.4%	12.2%	13.0%	13.4%	13.6%
Chg from 1-Sept 17 (bps)	-23	0	-14	39	-20
Chg from 1-Sept 16 (bps)	79	176	139	125	75

Nigeria

- In September 2017, yields on Nigerian bonds decreased across tenors except for 7-year bond, which remained the same. The yield on 3-, 5-, 10- and 20-year bonds decreased by 73 bps, 87 bps, 54 bps, and 54 bps, respectively.
- Yields on Nigerian bonds decreased across all tenors based on government's efforts to maintain foreign exchange stability.
- The Debt Management Office issued NGN 135 billion worth of FGN bonds, which includes three tenors – NGN 35 billion 5-year 15.5% FGN July2020, NGN 50 billion 10-year 16.28% FGN March2027 and NGN 50 billion 20-year 16.25% FGN April2037.
- The Central Bank of Nigeria kept its benchmark interest rate unchanged at 14.0%, in a bid to stabilise inflation.

Bond yields daily movement



Summary Statistics

	3-yr	5-yr	7-yr	10-yr	20-yr
25-Sept yield (%)	15.9%	15.9%	15.9%	16.1%	16.0%
Chg from 1-Sept 17 (bps)	73	87	0	54	54
Chg from 1-Sept 16 (bps)	-88	-72	-83	-78	-69

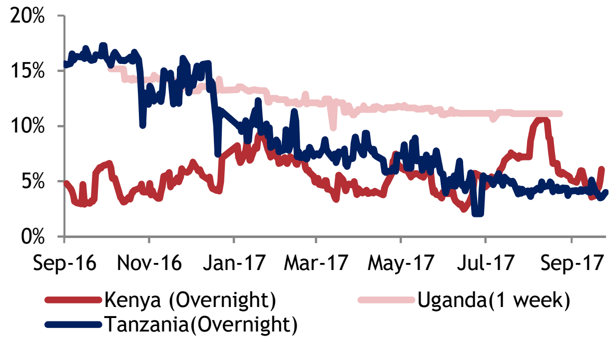
Source: Bloomberg, individual news websites

MONEY MARKETS

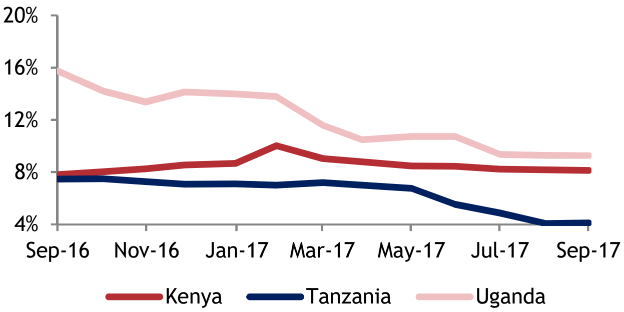
East African Community

- Interbank rates in Tanzania fell to 4.0% on 25th Sept 2017 from 4.16% at the beginning of the month, indicating improvement in liquidity in the interbank market. Whereas interbank rates in Kenya increased to 7.1% on 25th September 2017 from 4.88% at the beginning of the month, reflecting a decline in liquidity in the interbank market.

Interbank Rates



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



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

	Kenya	Tanzania	Uganda
3-m curr dep	9.0%	10.6%	19.3%
91-d/3-m T-bill	8.1%	4.1%	9.3%

Data till 25th Sept 2017

Policy and Average Interbank Rates (Sep 2017)

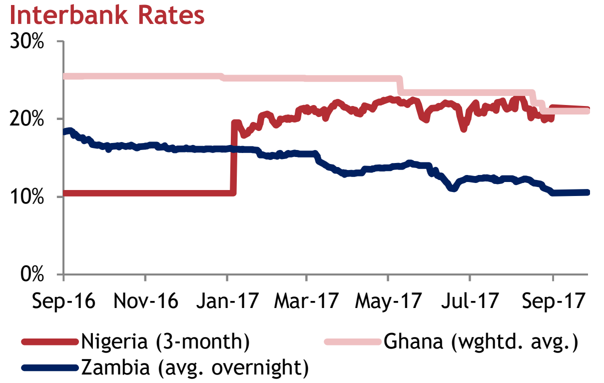
	Kenya (o)	Tanzania (o)	Uganda (1-w)
Policy	10.0%	12.0%	10.0%
Interbank	7.1%	4.0%	10.6%

Data till 25th Sept 2017

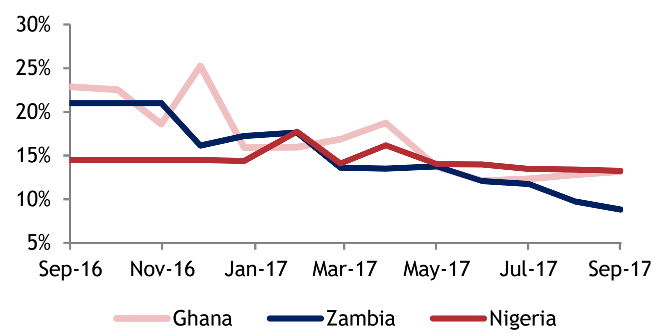
Rest of Sub-Saharan Africa

- Interbank rates in Nigeria remained flat at 21.2% on 25th September 2017 against 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 20.9%.

Interbank Rates



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



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

-	Nigeria	Ghana	Zambia
3-m curr dep	17.8%	16.8%	27.0%
91-d/3-m T-bill	13.5%	12.3%	11.7%

Data till 25th Sept 2017

Policy and Average Interbank Rates (Sep 2017)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	14.0%	21.0%	12.5%
Interbank	21.2%	20.9%	10.6%

Data till 25th Sept 2017

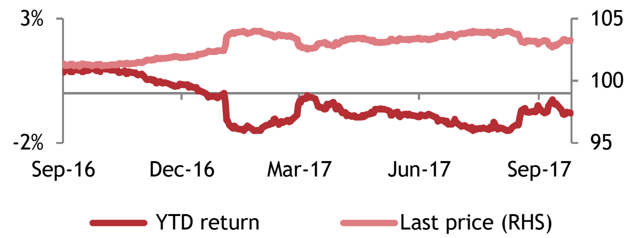
Source: Bloomberg, individual news websites, respective central banks

CURRENCY MARKETS: KENYA, TANZANIA AND UGANDA

Kenyan Shilling (KES)

- The Kenyan shilling depreciated marginally against the US dollar to KES 103.3 as on 25th September 2017. The currency fell 0.2% on MTD basis and 0.8% on YTD basis.
- The shilling depreciated against the dollar in September 2017, primarily due to an increase in dollar demand from manufacturers and oil industry to meet month-end obligations.
- The shilling is however expected to remain stable over the short-term as central bank is expected to intervene in the market to smoothen volatility.

USD/KES Daily Movement



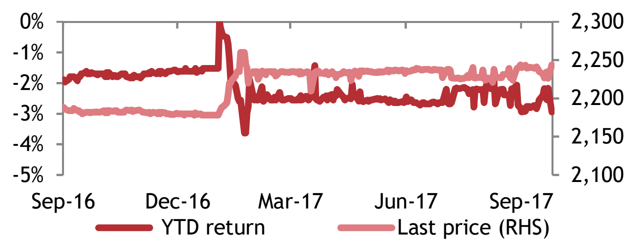
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	103.1	103.3	103.3	102.7	-0.2%	-0.8%
EUR	123.1	122.4	124.1	122.3	0.12%	-8.6%

Data till 25th Sept 2017

Tanzanian Shilling (TZS)

- The Tanzanian shilling ended flat against the US dollar at TZS 2,244.0 as on 25th September 2017. The currency remained flat on MTD basis but fell by 2.9% on YTD basis.
- In September 2017, the domestic currency held its own against the US dollar due to increased dollar sales by mining companies and other corporates so as to get local currency to pay month end taxes and salaries.
- The domestic currency is expected remain stable in the coming week supported by hard currency inflow from the mining sector and foreign investors.

USD/TZS Daily Movement



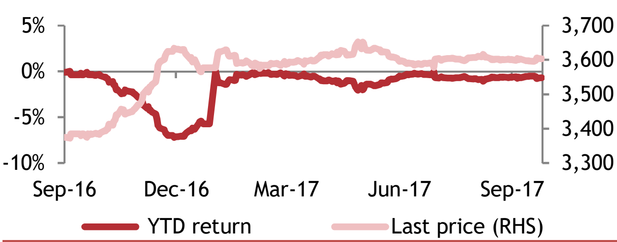
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	2,237.4	2,244.0	2,244.0	2,226.4	-0.0%	-2.9%
EUR	2,670.4	2,658.7	2,696.8	2,656.3	0.5%	-14.8%

Data till 25th Sept 2017

Ugandan Shilling (UGX)

- The Ugandan shilling was relatively stable against the US dollar to UGX 3,602.9 as on 25th September 2017. The currency remained flat on MTD basis but fell by 0.7% on YTD basis.
- The Ugandan shilling remained stable due to liquidity in the money market.
- The Ugandan shilling is expected to strengthen citing weak demand and increase in inflow from foreign investors.

USD/UGX Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	3,600.1	3,602.9	3,606.1	3,596.0	0.0%	-0.7%
EUR	4,294.9	4,265.2	4,334.0	4,265.2	0.1%	-11.4%

Data till 25th Sept 2017

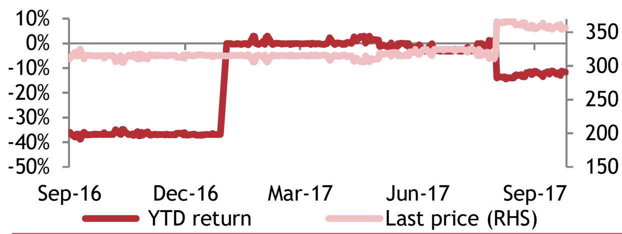
Source: Bloomberg, individual news websites

CURRENCY MARKETS: NIGERIA, RWANDA AND GHANA

Nigerian Naira (NGN)

- The Nigerian naira depreciated slightly against the US dollar to NGN 356.5 on 25th September 2017. The naira remained depreciated marginally on MTD basis by -0.3% but declined by -11.6% on YTD basis.
- The naira depreciated in the month of September 2017 in spite of increase in dollar supply from central bank, which sold treasuries to battle inflation and weakness in local currency.
- The naira is expected to be in flux over the short-term as the central bank is expected to intervene in the market.

USD/NGN Daily Movement



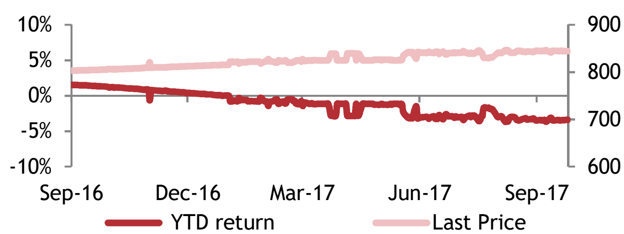
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	357.7	356.5	363.5	354.0	-0.3%	-11.6%
EUR	429.3	426.0	432.7	425.1	0.2%	-23.1%

Data till 25th Sept 2017

Rwandan Franc (RWF)

- The Rwandan franc appreciated marginally against the US dollar to settle at RWF 844.2 on 25th September 2017. The currency increased 0.1% on MTD basis but fell by 3.4% on YTD basis.
- The franc performed well, slightly, against the US dollar in September 2017 due to demand and supply factors.
- Rwanda's currency is expected to depreciate as GDP rate slowed down to 4% YoY in Q2 of 2017.

USD/RWF Daily Movement



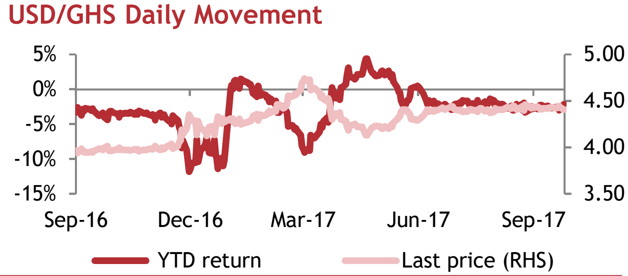
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	844.6	844.2	846.5	841.9	0.1%	-3.4%
EUR	1,008.0	1,000.3	1,018.9	1,000.3	0.6%	-15.2%

Data till 25th Sept 2017

New Ghanaian Cedi (GHS)

- The Ghanaian cedi appreciated against the US dollar to GHS 4.4 on 25th September 2017. The currency rose by 0.5% on MTD basis but has fallen by 3.1% on YTD basis.
- The cedi appreciated due to improved liquidity conditions, despite some marginal demand pressure.
- The cedi is expected to be depreciate marginally against the dollar as the central bank kept the rate unchanged citing global economic uncertainties and threat to consumer price stability.

USD/GHS Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	4.4	4.4	4.4	4.4	0.5%	-3.1%
EUR	5.3	5.2	5.3	5.2	0.3%	-15.4%

Data till 25th Sept 2017

Source: Bloomberg, individual news websites

SPECIAL FOCUS

Need for infrastructure in Uganda

Uganda Infrastructure:

Only about 20% of Uganda's 36 million people have access to electricity and other basics such as clean water supply. This alone substantiates the need for the government to boost infrastructure in order to achieve economic growth.

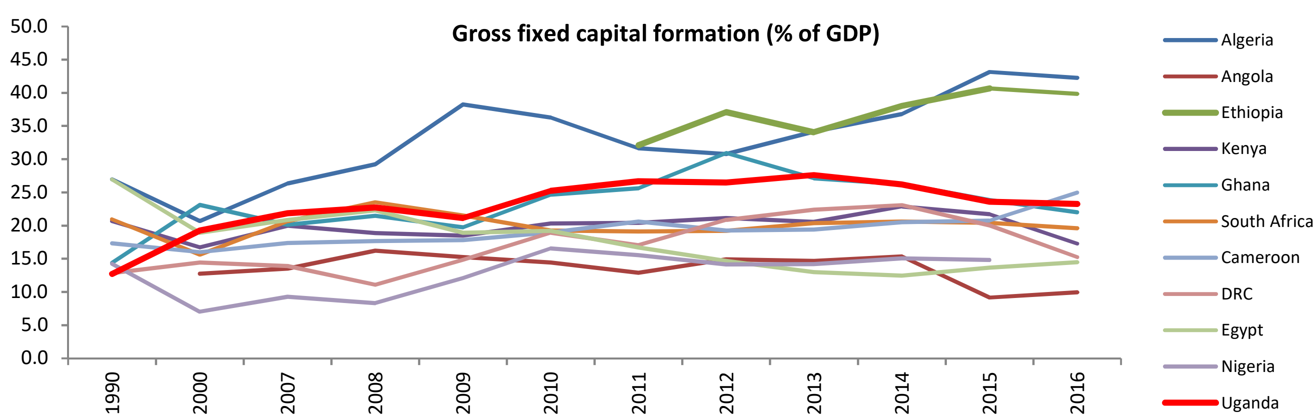
Infrastructure development has a multiplier effect on the entire economy. The poor state of infrastructure in sub-Saharan Africa – electricity, water, roads and railway – cuts national economic growth by 2% to 3% every year, according to The World Bank. The effect on Uganda's GDP is visible in slowdown in GDP growth from a five year average up to 2016 of 4.6% compared to more than 7% in the earlier years. The economy has faced headwinds such as negative agricultural and industrial productivity growth due to drought, credit constraints to the private sector, in response to non-performing loans of banks climbing to ~6.3% (by March 2017). Moreover, private investments have been heavily skewed towards real estate.

Another key feature has been the slow execution of externally financed public investments. Gross fixed assets formation (as % of GDP) as a result has reduced in the past two years, from 26.2% in 2014 to 23.2% in 2016. Citing the above factors, IMF has revised the 2017 GDP growth estimate downward from 5% to 3.5% in May 2017.

The government has focused on infrastructure investments in five-year plans to address key bottlenecks in in electricity and transports, where total investments stood at 31% of the 2016-2017 budget. The main objective of the government has been to commence oil production and thus achieving middle income status by 2020.

In the short term, large public sector projects will continue to be the main driver of the economy activity, fairly on account of the fast-tracked development and construction of oil-related infrastructure. Most of these large scale projects have been supported by external borrowings, as has been going on in other sub-Saharan economies, including Tanzania, Namibia, Rwanda, Kenya and Ethiopia, which have issued sovereign bonds to fund infrastructure. This has resulted in public debt at 36% of GDP. Official sources expected the number to peak at 44% in 2020-2021, as Uganda continues to borrow, but this is relatively lower than that of Kenya's at 52.8% of GDP.

The World Bank claimed that the country continues to borrow money without substantial plans of when and where to spend it. Each Shilling invested in the development of Uganda's infrastructure, yielded less than a shilling (about 70%) of economic activity. The government has to continue to spend, but needs to focus on implementation. Partnership with private sector would be a key factor for success.



Source: The World Bank

Source: Individual News websites

AUCTIONS AND EVENTS

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

Uganda's Latest Issuance: 2-yr and 5-yr Bonds (Sept 2017)

Issue Date	Maturity	Amt (UGX)	Bid/Cover	YTM	Coupon
6-Sept	2-yr	80.0 Bn	2.57	12.32%	13.75%
Details of issuances in August					
9-Aug	3-yr	80.0 Bn	2.57	13.24%	13.25%
9-Aug	10-yr	120.0Bn	1.71	14.92%	16.00%

1 USD = 3,600.1 GX (average till 25th Sept 2017)

Ghana's Latest Issuance: 1-yr and 2-yr Notes (Sept 2017)

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int. rate
8-Sept	2-yr	115.1 Mn	FXR Note	1.0	17.0%
15-Sept	1-yr	82.9 Mn	FXR Note	NA	15.0%
Details of issuances in August					
4-Aug	1-yr	35.13 Mn	FXR Note	1.06	15.0%
11-Aug	2-yr	26.91 Mn	FXR Note	1.02	17.0%
31-Aug	1-yr	203.6 Mn	FXR Note	1.03	19.04%

**Fixed rate; 1 USD = 4.4 GHS (average till 25th Sept 2017)*

Tanzania's Latest Issuance: 2-yr and 15-yr Bonds (Sept 2017)

Issue Date	Maturity	Amt (TZS)	Bid/Cover	YTM	WACY*
13-Sept	15-yr	95.48 Bn	1.33	16.74%	13.5%
27-Sept	2-yr	84.37 Bn	NA	14.8%	13.8%
Details of issuances in August					
2-Aug	7-yr	100.3 Bn	1.85	14.28%	10.08%
16-Aug	10-yr	67.4Bn	NA	15.74%	11.44%
30-Aug	5-yr	58.5 Bn	2.07	13.95%	9.18%

**Weighted average coupon yield; 1 USD = TZS 2,237.4 (average till 25th Sept 2017)*

Kenya's Latest Issuance: 10-yr Bond (Sept 2017)

Issue Date	Maturity	Amt Bid (KES)	Amt Acpt (KES)	MWAR*	Coupon
20-Sept	10-yr	9.90 Bn	6.28 Bn	13.0%	12.9%
Details of issuances in August					
23-Aug	5-yr	12.1 Bn	NA	12.5%	12.5%
23-Aug	10-yr	5.47 Bn	NA	13.06%	12.9%
31-Aug	5-yr	13.0 Bn	NA	NA	12.46%

**Market weighted average rate; 1 USD = 103.1 KES (average till 25th Sept 2017)*

Upcoming Bond Auctions and Monetary Policy Meetings

- **04 October 2017:** Uganda to sell bonds
- **18 October 2017:** Nigeria to sell bills

Monetary policy meetings are scheduled to be held on:

- **06 October 2017** (Central bank of Uganda)
- **24 October 2017** (Central bank of Angola)
- **26 October 2017** (Central bank of Mozambique)

Source: Bloomberg, individual news websites, respective central banks

Fusion Real Estate Focus Article

CONVINIENT RETAIL HAS ITS PLACE IN THE KENYA REAL ESTATE PLAY

Nairobi is currently the fifth most populous city in sub-Saharan Africa but the second largest in terms of retail space – after Johannesburg in South Africa.

Over the past 10 years, investors have been scrambling to develop state of the art large scale retail developments to serve Kenyans. However, concerns are emerging around the viability of some of these new retail projects – especially in and around the capital, Nairobi.

Empty prime retail space is becoming a common site in new and old malls alike. This is especially true in malls where anchor tenants are scaling back operations – as we have seen with Nakumatt in recent months. We believe this increase in empty retail space can be attributed to three main factors:

Slowdown in Economic Growth
The recent prolonged drought, the tumultuous 2017 general elections, and a slowdown in private sector lending as a result of interest rate capping last year, has led to a slowdown in economic growth and consequently a decline in main stream consumer spending.

Over supply of similar products
Save for a-few exceptions, developers have failed to supply the market with anything new in the retail sector. Take Limuru road as an example, shoppers have three world class malls within a 5-minute drive of each other. Each mall offers a premium shopping experience, a wide variety of line shops, and both high end and affordable food outlets.

Consumer shopping habits
We also believe that Consumer shopping habits are changing. Shoppers are increasingly forgoing weekly, two hour trips to major malls in favour of daily shopping in convenience stores - which offer either proximity to work or ample parking, extended business hours and short checkout lines. All things attractive to working families committed to long working days and busy social lifestyles.

It is for these reasons that Fusion believes the future of retail investment in Nairobi is in the local adaption and development of a convenience retail outlets.

Convenience retail outlets – common in Europe and the US - usually consist of a small anchor store with ten or less complimentary line shops set in either a compact city centre location (close to large office developments) or spacious leafy locations on the outskirts of major cities (usually with access to major commuter highways). Convenience stores are designed for quick and easy shopping with anchors selling mostly fresh groceries and precooked meals, and "frequent use" line shops including pharmacies, coffee shops and restaurants.

KIMONDO'S CORNER

Financing Kenya Infrastructure through Tolls

Kenya and other East Africa nations continue to demonstrate a strong ability to attract international interest and construction project finance, with many mega infrastructure projects currently underway in the region. Despite having made the significant progress in infrastructure development in recent years, Kenya's transport infrastructure is inadequate to meet the country's needs. Road and rail connections with neighbouring countries are still limited, yet Kenya is an important regional hub for air transport, railways, and ports.

A cheaper, reliable and dedicated infrastructure funding solution from among a variety of potential revenue sources and finance options is critical for Kenya to achieve economic growth, and meet the demands of a growing population. Our traditional transportation revenue sources, the state, petroleum levies and taxes, grants and concessionary loans have served us well for the last few decades. But in recent years, they have lost their effectiveness due to escalating construction costs, high cost of borrowing, and falling crude oil prices in the global markets.

Kenya is looking into introducing tolls as one of the ways of financing infrastructural projects. Some roads and highways have been earmarked for setting up of toll stations and include Nairobi-Mombasa highway, Nairobi- Nakuru highway among others. This move is expected to help raise funds for infrastructural development of roads as well as boost the economy. Road tolling was conceptualised in the developed world as a form of taxation through which governments could recoup the cost of road construction and maintenance given the huge growth in the number of motor vehicles. This would be achieved through a public private partnership. Being an income producing project, the project can be modelled or structured like a Real Estate Investment Trusts which is and income producing real estate and traded like a financial instrument.

All Infrastructure projects could be packaged as financial instruments which are secured by the revenues from the tolls. There will be constant cash flow from tolling which would be used as interest for investors making them very secure unless traffic vanishes. If structured as infrastructure bond, there will be an added advantage as infrastructure Bonds in Kenya are interest free.
In Europe, Private companies are not only operating and financing roads but they are also designing and building them. The trend is producing investment opportunities, as private and government-owned highway operators begin to sell shares on the stock market. But even in countries with more public resources and much road construction, there are numerous opportunities including telecommunication connectivity, road maintenance station setup, emergence service and other services related to running the road for highway operators.

This venture by the government is likely to face hurdles including legal as stakeholders including road users compel the government to build toll free roads for motorist who do not want to use toll roads. Human rights, equity and fairness issues have been successfully argued in many jurisdictions that introducing tolls on major roads without providing viable toll-free alternatives amounts to a breach of citizens' right to free movement while choosing to charge tolls on particular roads while leaving others free amounts to discrimination of citizens based merely on where they live. Double taxation issue also arise where a road was built using public funds since motorists are charged road maintenance levy.

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