FUSION AFRICAN MONITOR

FUSION INVESTMENT MANAGEMENT

Current news and analysis from Sub-Saharan money markets

November 2017

Rooted in the African growth story

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in October 2017

- In October 2017, bond yields in Kenya and Nigeria increased across all tenors. Kenya's 3-, 5-, 10-, 20- year yields increased 35, 21, 5 and 24 basis points (bps) respectively. Likewise, Nigeria's 3-, 5-, 10-, 20- year yields increased 137, 49, 62 and 127 bps respectively.
- In October 2017, Kenyan shilling, Ugandan shilling, Nigerian naira, and Tanzanian shilling depreciated against the USD, while Ghanaian cedi appreciated. The Kenyan shilling depreciated to KES 103.7 against the US dollar, as demand for dollars spiked on the back of increased uncertainty about the presidential election. The Ugandan shilling and Tanzanian shilling ended lower at UGX 3,649.4 and TZS 2,243.8 per dollar. The Nigerian naira depreciated to reach NGN 359.8 per dollar, in spite of the central bank injecting USD195 million into the inter-bank Foreign Exchange (Forex) Market. The Ghanaian cedi appreciated marginally to reach at GHS 4.4 against the US dollar supported by targeted central bank dollar sales and a positive current account position (refer to pages 8 and 9 for details).
- Among the money markets, interbank rates in Tanzania declined to 3.5% near the end of the month from 4.0% at the beginning of the month, while interbank rates in Kenya rose to 8.5% near the end of October 2017 from 7.1% at the beginning. (details on page 7).

September Bond Market Summary

	3-yr	5-yr	10-yr	20-yr
Kenya 25-Oct yield (%)	12.1%	12.4%	13.2%	13.3%
Chg from 1-Oct 17 (bps)	35	21	5	24
Nigeria 25-Oct yield (%)	14.6%	15.3%	15.1%	14.7%
Chg from 1-Oct 17 (bps)	137	49	62	127

Movement of Key Currencies versus US Dollar in October 2017

	Average	End Value	MTD	YTD
Kenyan Shilling	103.4	103.7	-0.5%	-1.2%
Ugandan Shilling	3,629.5	3,649.4	-1.4%	-2.0%
Nigerian Naira	357.7	359.8	-0.2%	-12.4%
Tanzania Shilling	2,237.9	2,243.8	-0.4%	-2.9%
Ghanaian Cedi	4.4	4.4	0.5%	-2.6%

Data till 25th Oct 2017

Kimondo's Corner

Will 2018 be a worse year than 2017 for borrowers and lenders in Kenya?

- 2017 will be regarded as one of the worst years for both lenders and borrowers in Kenya.
- The interest rate capping which was effected in late 2016 had its impact reflected in 2017 financial institution financials. The lending growth eased to 2.1% year on year in May 2017, a multi-year low, and down from 10.3% in May 2016.
- IFRS 9 introduces a new expected-loss impairment model requires entities to account for expected credit losses when financial instruments are first recognized and to timely recognize full lifetime expected losses. (details on page 13).

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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

FUSION INVESTMENT MANAGEMENT
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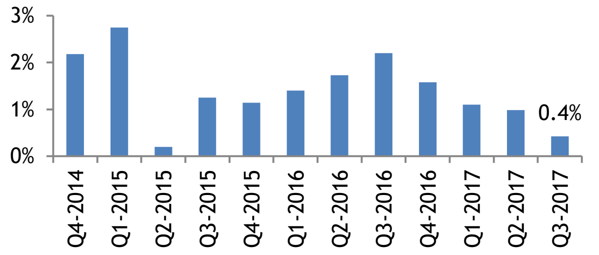
HIGHLIGHTS

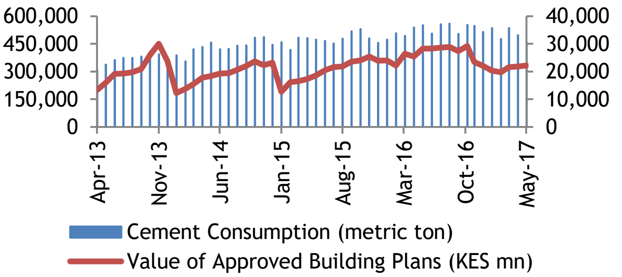
Key Trends in East African Real Estate Sector

- Real estate, in Nigeria, was the most hurt sector with regional growth falling below the projected decline of 2.6%, due to the economy downturn. Now that the economy is out of recession, the sector is expected to take at least six months to a year's time to jump back.
- The property market in Kenya has been under pressure due to prolonged elections and decline in the pace of credit growth in the private sector. Private sector credit expanded by only 2.1% in May 2017
- The other major issues were absence of foreign investors to supply the market with additional cash, and the slow-down in property transactions, creating liquidity and cash flow problems for property owners.
- The value of buildings approved for construction by the government in the first seven months of 2017 declined sharply 18.4% YoY to KES 149.5 billion. As a result, many industry players are struggling to liquidate their positions, sell or even rent out.
- RE/MAX, US's leading real estate franchise, has set up base in Kenya and is expected to revolutionize property transactions. The company uses an agent-centric business model with three tiers, which is banked upon technology and networks.

Kenya Housing Price Change



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



Built to suit: The way of the future for real estate.

- In the recent past there has been increased talks of oversupply of commercial office space in Kenya. In spite of this, we have witnessed increased the level of development all over Kenya for both residential and office space.
- Fusion believes that one of the way to solve the time it takes to fill in the office space or sell is by adopting a built to suit model for office space.
- A build to suit model is an alternative that allows the user/tenant to design and customize a new facility to meet the enterprise's unique space needs without the large up-front capital expenditure that comes with building and owning.
- On the part of the developer, built to suit ensure there is guaranteed uptake and they deliver what exactly is needed in the market. (details on page 12).

Author: James Maclean – Director of Real Estate, Fusion Capital

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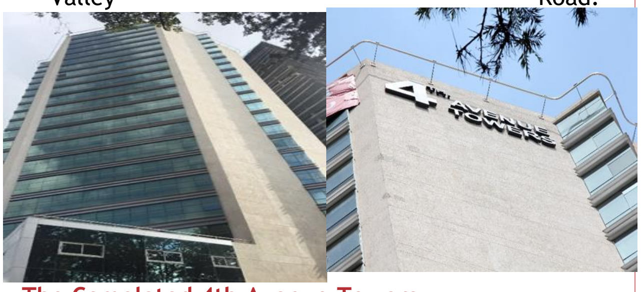
Fusion's Real Estate Portfolio

Project Feature: 4th Avenue Towers

Salient Feature

- Grade A office available for sale and let to clients looking for a strategically located office space, built and finished to high grade A standard.
- Great Location: Community Area, Nairobi It is at the heart of the legal, medical and financial services with easy accessibility to major hospitals-Kenyatta Hospital, Nairobi Hospital, Upperhill Medical Centre; and legal services such as the Lands Registry office and Milimani Law Courts. The office is accessible from both Ngong Road and Valley Road.



The Completed 4th Avenue Towers

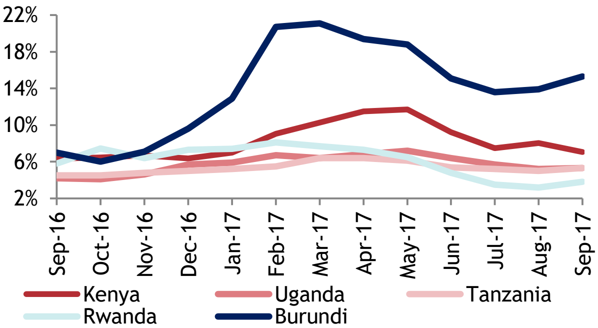
Source: Kenya Bankers Association and Kenya National Bureau of Statistics

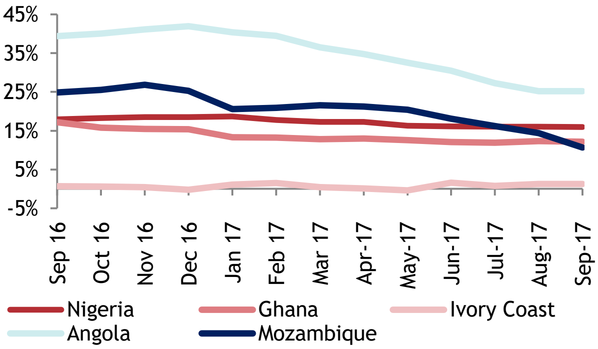
HIGHLIGHTS

Activity Across Africa: Economy and Politics

- Sub Saharan Africa's economic growth is expected to pick-up next year on the back of South Africa and Nigeria, which contribute to more than 50% of GDP of the region. As these economies have, finally started recovering, they are expected to contribute to its growth and push it to 3.2% in 2018.
- In October 2017, Central bank of Uganda reduced its Central Bank Rate by 0.5% to 9.5%, following a strategy of cautious easing of policy to boost growth, while inflation expectations remain around near term target of 5%. This was the first time in decades the rate was lowered below 10%.
- In September 2017, inflation increased in four of the SSA countries – **Uganda, Tanzania, Rwanda and Burundi**. In **Uganda**, inflation increased to 5.3% YoY in September 2017 due to higher prices of housing and utilities and miscellaneous goods and services. In **Tanzania**, inflation increased to 5.3% YoY in September 2017 due to increase in prices of housing, water, electricity, gas and other fuels. **Burundi's** annual inflation rate jumped to 15.2% YoY in September compared to 13.9% YoY in August, due to 7.4% YoY jump in housing, water and electricity prices. Inflation in **Nigeria** decreased nominally to 15.98% YoY in September 2017 due to slower growth in prices of housing and utilities, clothing and footwear. Inflation in **Kenya** decreased to 7.06% YoY in September 2017 from 8.04% YoY in August 2017, mainly on the back of decrease in Food and Non-Alcoholic drinks' prices. In **Ghana**, consumer inflation decreased to 12.2% YoY in September 2017, mainly due to decrease in prices of non-food items like housing, water, electricity, gas and other fuels. (details on pages 4 and 5).

Inflation (YoY)





Agriculture, Africa's Quiet Revolution

- African economies, in the last few years, have registered unprecedented economic growth as well as rapid urbanization. However, unlike a few Asian countries, this growth hasn't led to a shift of occupations from agriculture to urban-based industries such as manufacturing etc.
- Agrarian nature of African economies has hold out real hopes of getting rid of poverty, unemployment and hunger, and driving economic growth. Despite a fast growth in the services sector, agriculture is the backbone of the economy as it accounts for more than 1/3rd of its GDP and employs 2/3rd of its workforce. Also, urbanization and globalization have changed the dietary habits of people, who are now shifting to more urban-based diet that meet quality and food safety criteria.
- This kind of urbanization without industrialization limits sustainability and economic growth. It is, therefore, important to modernize agriculture so as to benefit from its significant contribution to economy. These changes have created an opportunity for African economies to grow not just in agribusinesses, but in the entire food system.
- Africa spends US$ 35 billion, annually, on food imports which is expected to rise to US$ 110 billion by 2025.
- This condition can be attributed to low agricultural productivity along with political instability and violence. Governments and investors are now, however, increasing their focus on agriculture as a sector.
- In September 2017, many agro-business deals, amounting to more than US$ 6 million, were signed. Also, new partnerships are emerging, like the multi-million dollar Partnership for Inclusive Agricultural Transformation in Africa (PIATA), which aims to increase income and improve the food security of 30 million smallholder farm households across Africa by 2021.
- A boost to smallholder farmers and SMEs will help in alleviating poverty and hunger in the region. Public-Private partnership can be formed to provide aid with financial services, insurance and marketing to smallholder farmers. Setting up of training institutions for entrepreneurship and agribusiness can help in establishment and operations of SMEs.
- Agriculture is the road to alleviating poverty and hunger, and establishing robust economic growth and boost smallholders and SMEs will give a boost to agriculture.

Source: Individual News websites

FUSION INVESTMENT MANAGEMENT
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ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- Inflation in Kenya decreased to 7.06% YoY in September 2017 from 8.04% YoY in August 2017. The decrease came mainly on the back of decrease in Food and Non-Alcoholic drinks' index, which fell by 1.28% in September due to an increase in food supply after a depressed August. During the same period, Housing, Gas, Water, Electricity and Other fuels' index fell by 0.16%, as a result of notable decrease in the cost of electricity, which outweighed marginal increase in the cost of house rents and cooking fuels.
- Kenya registered a 5.0% GDP growth in the second quarter of the year, 1.2% lower than that recorded in the same quarter of the previous year.
- The slow growth is attributed to weak performances by agriculture, manufacturing and financial services.

Uganda

- The consumer price index (CPI) increased slightly to 5.3% YoY in September 2017 from 5.2% YoY in August 2017. The increase was primarily due to a rise in prices of housing and utilities (up to 6.8% YoY in September 2017 vis-à-vis 5.1% YoY in August 2017), miscellaneous goods and services (up to 1.5% YoY in September 2017 vis-à-vis 1.2% YoY in August 2017).
- Central Bank in Uganda lowered its policy rate by 0.5% to 9.5% with a view to accelerate flow of credit to the private sector and hence, boost economic growth.
- Uganda's economy grew by 5.5% in Q2 of this year, registering a significant increase over 2.9% recorded in the same quarter of the previous year.

Tanzania

- Tanzania's annual headline inflation rose to 5.3% YoY in September 2017 from 5.0% YoY in August 2017. The rise is largely attributable to an increase in prices of housing, water, electricity, gas and other fuels, which increased by 1.3% in September 2017.

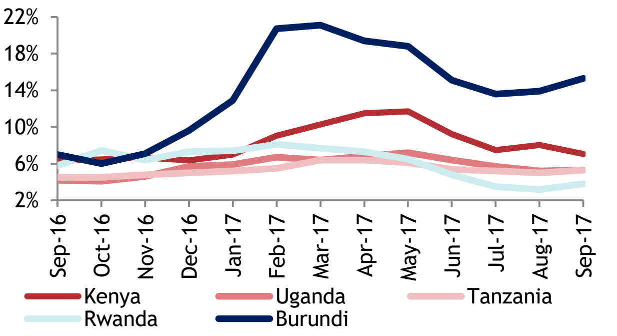
Rwanda

- Rwanda's Urban CPI rose to 3.8% YoY in September 2017 from 3.2% YoY in August 2017. The rise can be largely attributed to a significant increase in prices of Food (up to 8.3% in September 2017 vis-à-vis 3.3% in August 2017), Housing, Water, Electricity, Gas and Other fuels (up to 2.4% in September 2017 vis-à-vis 0.9% in August 2017.

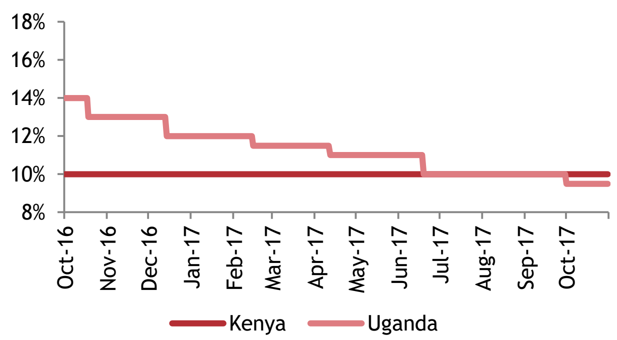
Burundi

- Burundi's annual inflation rate jumped to 15.2% YoY in September compared to 13.9% YoY in August, due to 7.4% YoY jump in housing, water and electricity prices.

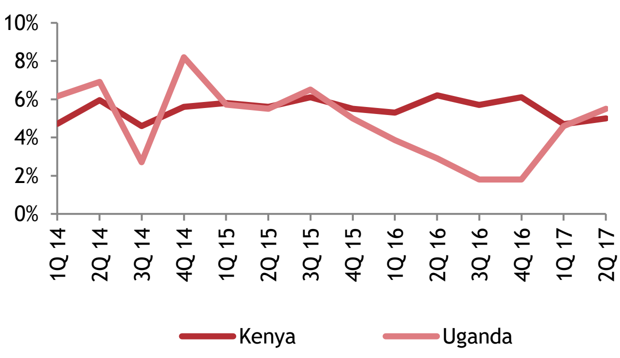
Inflation (YoY)



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

- Inflation in Nigeria decreased nominally to 15.98% YoY in September 2017 as against 16.01% in August 2017. CPI decreased in Nigeria for the eight consecutive month and it is the lowest since May 2016.
- Inflation decrease was mainly supported by slow price growth for housing and utilities, clothing and footwear.
- Nigeria recorded positive GDP growth of 0.6% in the second quarter of 2017, after five quarters of negative growth.

Ghana

- Consumer inflation decreased to 12.2% YoY in September 2017 from 12.3% YoY reported in August 2017, mainly due to an decrease in prices of non-food items (down to 14.1% YoY in September 2017 vis-à-vis 14.7% YoY in August 2017) like housing, water, electricity, gas and other fuels.
- Ghana recorded its biggest GDP growth rate over the last two years, in the Q2 of 2017. The economy grew at 9% on the back of mining and quarrying sector, and oil an d gas production, which recoded 188% growth.

Ivory Coast

- Consumer inflation in Ivory Coast remained flat in September 2017 at 1.3% YoY as compared to that recorded in August 2017. Prices rose faster for restaurants and hotels (1.9% in September 2017 vis-à-vis 0.9% in August 2017). Prices, on the other hand, grew slowly for food and non-alcoholic beverages (3.4% in September 2017 vis-à-vis 4.2% in August 2017).

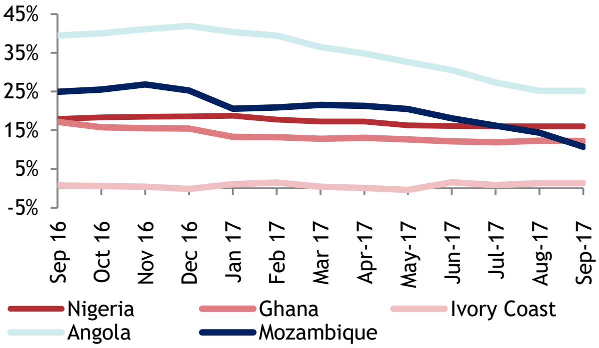
Angola

- Inflation in Angola remained unchanged in September 2017 at 25.18% as compared to August 2017. Inflation rate in Angola averaged 36.91% from 2001 to 2017.

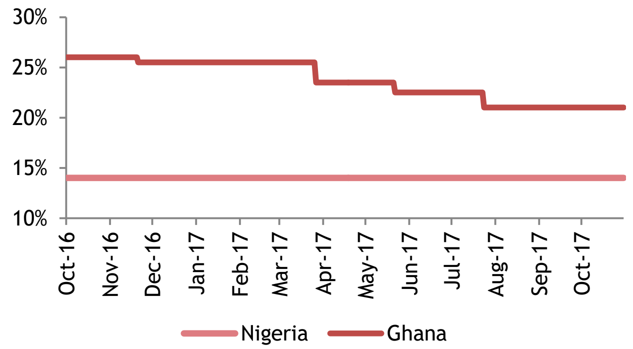
Mozambique

- Consumer inflation eased to 10.76% YoY in September 2017 from 14.35% YoY in August 2017. The inflation rate declined for the sixth consecutive month and is the lowest since December 2015. The decrease was mainly due to decline in prices of food items. Inflation rate averaged 8.63% from 2009 to 2017.

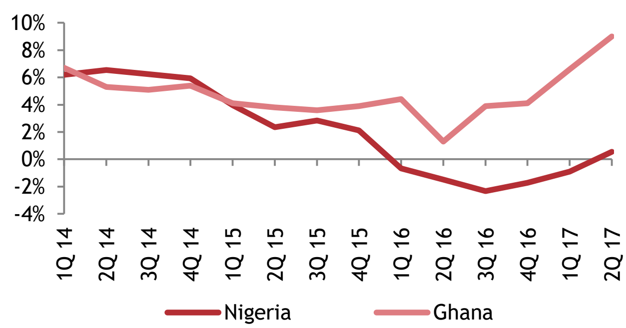
Inflation (YoY)



Movement of Central Banks' Key Rates



GDP Growth in Nigeria and Ghana (YoY)



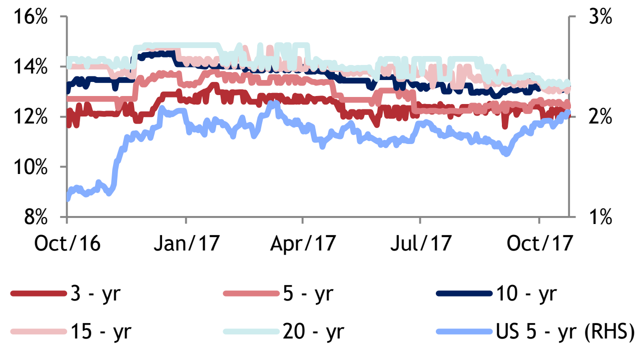
Source: Bloomberg, individual news websites, respective central banks

ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- In October 2017, yields on 3-, 5-, 10-, 15-, and 20-year bonds registered an increase of 35 bps, 21 bps, 5 bps, 29 bps and 24 bps, respectively.
- The yield on Kenya's benchmark 3-, 10- and 20-year bonds increased as Kenya's foreign debt investors were cautiously confident despite uncertainty in presidential election.
- The government extended the sale of the 5-year Treasury bonds worth KES 16.5 billion (USD 159.1 million). The bond was originally auctioned on 23rd October and later were extended for sale.
- The 5-year bond, will have average yield rate and coupon of 12.5%, gained as against 12.2% in September 2017.

Bond Yield Daily Movement



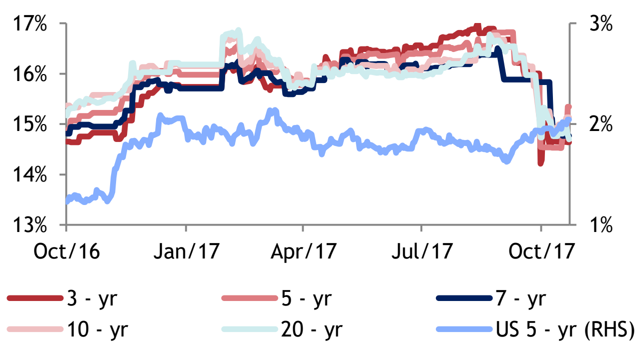
Summary Statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
25-Oct yield (%)	12.1%	12.4%	13.2%	13.2%	13.3%
Chg from 1-Oct 17 (bps)	35	21	5	29	24
Chg from 1-Oct 16 (bps)	6	31	12	85	100

Nigeria

- In October 2017, yields on Nigerian bonds increased across tenors. The yield on 3-, 5-, 7-, 10-, and 20-year bonds rose by 137 bps, 49 bps, 107 bps, 62 bps, and 127 bps, respectively.
- Yields on Nigerian bonds increased across all tenors as investors anticipated higher liquidity from repayments.
- The Debt Management Office sold NGN 100 billion worth of 5- and 10-year bonds at a flat rate of 15% to curtail borrowing costs as inflation declines.
- The Central Bank of Nigeria kept its benchmark interest rate unchanged at 14.0% to tighten liquidity, as it could fluctuate inflation and affect bond yields adversely.

Bond yields daily movement



Summary Statistics

	3-yr	5-yr	7-yr	10-yr	20-yr
25-Oct yield (%)	14.6%	15.3%	14.8%	15.1%	14.7%
Chg from 1-Oct 17 (bps)	137	49	107	62	127
Chg from 1-Oct 16 (bps)	1	-46	5	24	47

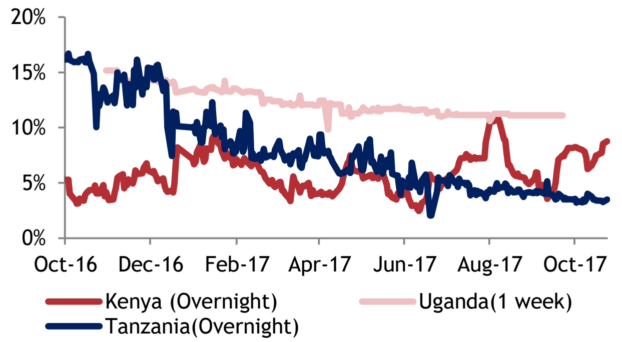
Source: Bloomberg, individual news websites

MONEY MARKETS

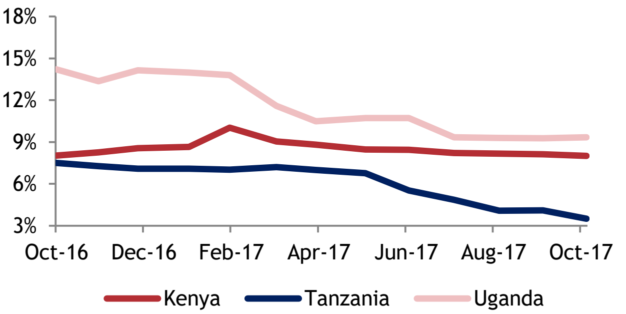
East African Community

- Interbank rates in Tanzania fell to 3.5% on 25th October 2017 from 4.0% at the beginning of the month, indicating improvement in liquidity in the interbank market. Whereas interbank rates in Kenya increased to 8.5% on 25th October 2017 from 7.1% 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 (Oct 2017)

	Kenya	Tanzania	Uganda
3-m curr dep	10.8%	4.5%	8.0%
91-d/3-m T-bill	8.0%	3.5%	9.4%

Data till 25th Oct 2017

Policy and Average Interbank Rates (Oct 2017)

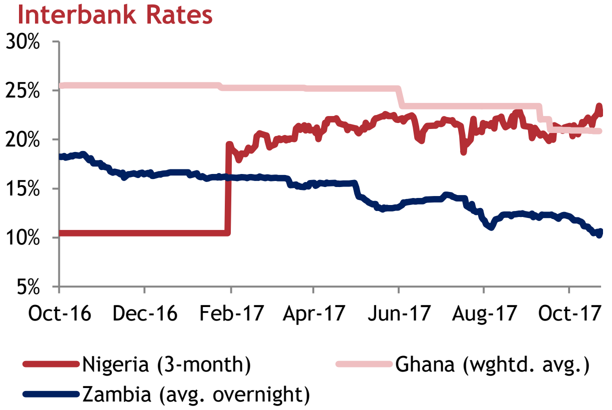
	Kenya (o)	Tanzania (o)	Uganda (1-w)
Policy	10.0%	12.0%	10.0%
Interbank	8.5%	3.5%	9.7%*

*Data till 25th Oct 2017, *-Latest available as of 18th Oct 2017*

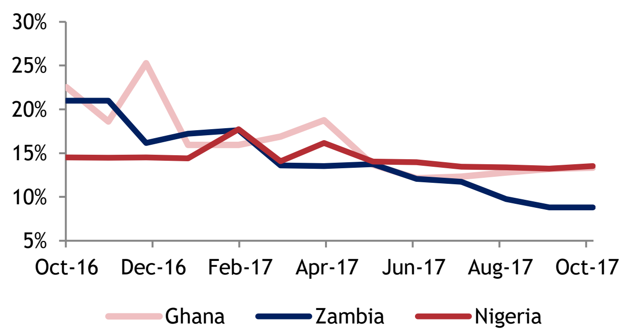
Rest of Sub-Saharan Africa

- Interbank rates in Nigeria increased to 22.6% on 25th October 2017 from 21.2% at the start of the month, indicating a decline in liquidity in the interbank market. Whereas, interbank rates in Zambia and Ghana remained unchanged at 10.6% and 20.9%, respectively, as on 25th October 2017.

Interbank Rates



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



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

	Nigeria	Ghana	Zambia
3-m curr dep	21.6%	16.7%	27.0%
91-d/3-m T-bill	13.5%	13.3%	8.8%

Data till 25th Oct 2017

Policy and Average Interbank Rates (Oct 2017)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	14.0%	21.0%	12.5%
Interbank	22.6%	20.9%	10.6%

Data till 25th Oct 2017

Source: Bloomberg, individual news websites, respective central banks

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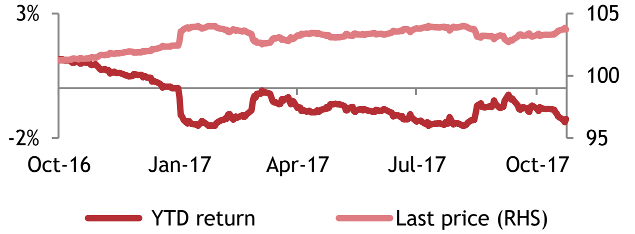
CURRENCY MARKETS: KENYA, TANZANIA AND UGANDA

Kenyan Shilling (KES)

- The Kenyan shilling depreciated marginally against the US dollar to KES 103.7 as on 25th October 2017. The currency fell 0.5% on MTD basis and 1.2% on YTD basis.
- The shilling tumbled further against the dollar in October 2017, the weakest level in two months, as demand for dollars spiked on the back of increased uncertainty about the presidential election.
- The shilling is however expected to remain stable over the short-term as central bank intervened in the market to stabilize the local currency over increased political pressure.

USD/KES Daily Movement



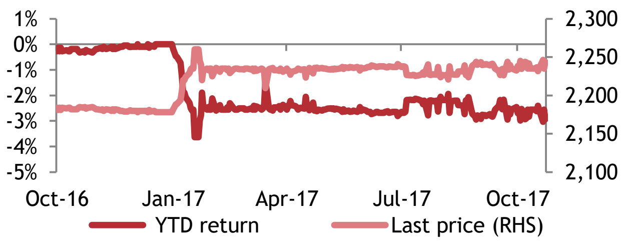
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	103.4	103.7	103.9	103.2	-0.5%	-1.2%
EUR	121.8	122.6	122.7	120.9	0.07%	-12.6%

Data till 25th Oct 2017

Tanzanian Shilling (TZS)

- The Tanzanian shilling ended marginally lower against the US dollar at TZS 2,243.8 as on 25th October 2017. The currency was marginally lower on MTD basis but fell by 2.9% on YTD basis.
- In October 2017, the domestic currency fell only marginally against the US dollar primarily due to subdued demand for dollars and inflows from the agriculture sector.
- The domestic currency is expected remain stable in near-term due to low pressure on shilling supported by currency inflows from the agricultural sector.

USD/TZS Daily Movement



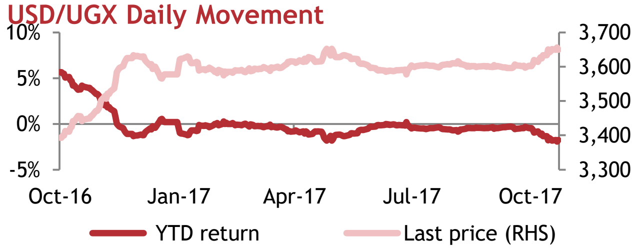
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	2,237.9	2,243.8	2,246.2	2,231.5	-0.4%	-2.9%
EUR	2,636.3	2,650.7	2,651.8	2,619.6	-0.4%	-14.6%

Data till 25th Oct 2017

Ugandan Shilling (UGX)

- The Ugandan shilling depreciated significantly against the US dollar to UGX 3,649.4 as of 25th October 2017. The currency fell 1.4% on MTD basis and 2.0% on YTD basis.
- The Ugandan shilling slumped against the greenback, the weakest level in two years, as the local currency was under immense pressure due to strong demand from the inter-bank market, as commercial banks rushed to cover their short positions.
- The Ugandan shilling is expected to remain volatile due to strong demand for US dollar coupled with negative sentiment due to political developments.

USD/UGX Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	3,629.5	3,649.4	3,656.2	3,601.8	-1.4%	-2.0%
EUR	4,286.0	4,320.8	4,335.0	4,228.3	0.3%	-10.0%

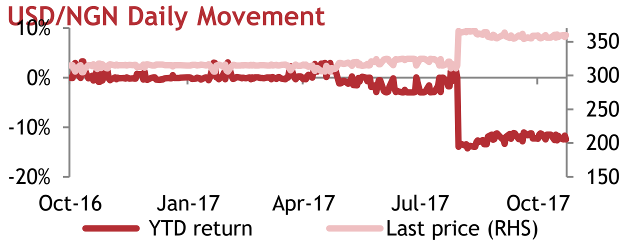
Data till 25th Oct 2017

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 359.8 as of 25th October 2017. The naira remained depreciated marginally on MTD basis by -0.2% but declined by -12.4% on YTD basis.
- The naira depreciated in the month of October 2017, as the central bank injected USD195 million into the inter-bank Foreign Exchange (Forex) Market.
- The naira is expected to remain stable over the short-term as the central bank continues to intervene in the market and foreign investors buy Nigerian assets.

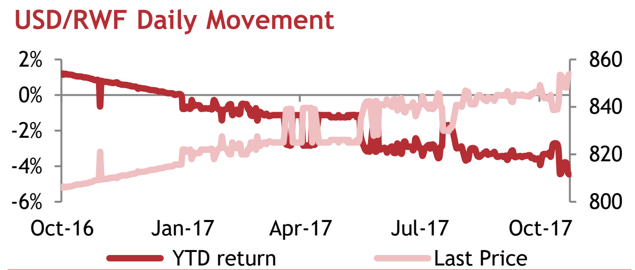


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	357.7	359.8	360.6	355.0	-0.2%	-12.4%
EUR	424.5	425.9	426.9	421.2	-0.4%	-23.1%

Data till 25th Oct 2017

Rwandan Franc (RWF)

- The Rwandan franc depreciated against the US dollar to settle at RWF 853.8 as of 25th October 2017. The currency fell 0.9% on MTD basis and 4.5% on YTD basis.
- The franc depreciated against the US dollar in October 2017 despite the National Bank of Rwanda deciding to allow less US dollars into circulation.
- Rwanda's currency is expected to remain mostly stable with some bias towards weakening due to dollar demand for imports in construction sector and from importers gearing up for Christmas and end-of-year period.

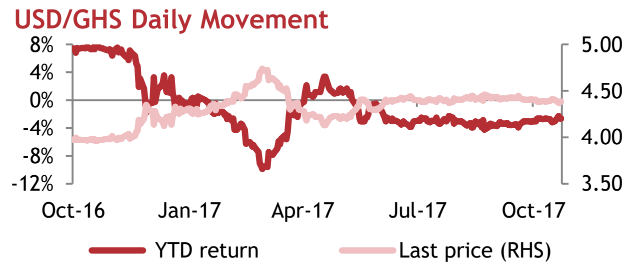


	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	846.2	853.8	853.8	838.7	-0.9%	-4.5%
EUR	996.8	1,008.6	1,011.2	988.4	-0.9%	-15.9%

Data till 25th Oct 2017

New Ghanaian Cedi (GHS)

- The Ghanaian cedi appreciated against the US dollar to GHS 4.4 as of 25th October 2017. The currency rose by 0.5% on MTD basis but fell 2.6% on YTD basis.
- The cedi appreciated against US dollar supported by targeted central bank dollar sales and a positive current account position.
- The cedi is expected to be remain stable on improved US dollar inflows underpinned by a growing investor confidence in the economy and weak corporate forex demand.



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	4.4	4.4	4.4	4.4	0.5%	-2.6%
EUR	5.2	5.2	5.2	5.1	0.2%	-15.3%

Data till 25th Oct 2017

Source: Bloomberg, individual news websites

SPECIAL FOCUS

Agriculture, Africa's Quiet Revolution

Introduction:
African economies, in the last few years, have registered unprecedented economic growth as well as rapid urbanization. However, unlike a few Asian countries, this growth hasn't led to a shift of occupations from agriculture to urban-based industries such as manufacturing etc.

Agrarian nature of African economies has hold out real hopes of getting rid of poverty, unemployment and hunger, and driving economic growth. Despite a fast growth in the services sector, agriculture is the backbone of the economy as it accounts for more than 1/3rd of its GDP and employs 2/3rd of its workforce. Also, urbanization and globalization have changed the dietary habits of people, who are now shifting to more urban-based diet that meet quality and food safety criteria. This kind of urbanization without industrialization limits sustainability and economic growth. It is, therefore, important to modernize agriculture so as to benefit from its significant contribution to economy. These changes have created an opportunity for African economies to grow not just in agribusinesses, but in the entire food system.

Smallholder Farmers and SMEs - Drivers of Agriculture:

Africa spends US$ 35 billion, annually, on importing food and is estimated to spend around US$ 110 billion by 2025. This condition can be attributed to low agricultural productivity along with political instability and violence. Governments and investors are now, however, increasing their focus on agriculture as a sector. In September 2017, many agro-business deals, amounting to more than US$ 6 million, were signed. Also, new partnerships are emerging, like the multi-million dollar Partnership for Inclusive Agricultural Transformation in Africa (PIATA), which aims to increase income and improve the food security of 30 million smallholder farm households across Africa by 2021.

As a part of urbanization, many African countries have spent significantly on various sectors; however, agriculture is yet, considered the key to Africa's growth. Major drivers of this key contributor sector are small and medium enterprises (SMEs) and smallholder farmers. Out of the 51 million farms of Africa, about 41 million are smaller than 2 hectares in size and provide approximately 70% of the food requirements of the continent.

Smallholder farmers are becoming recognized for their small businesses. Initiatives like Farm to Market Alliance that help these farmers secure long term buyers for their produce, boost their confidence to harvest crops and conduct businesses. Smallholder farmers are also being developed to adapt to weather conditions and to improve the quality of the crops.

What will help?

A boost to smallholder farmers and SMEs will help in alleviating poverty and hunger in the region. Public-Private partnership can be formed to provide aid with financial services, insurance and marketing to smallholder farmers. Setting up of training institutions for entrepreneurship and agribusiness can help in establishment and operations of SMEs. Technological advancements can benefit these businesses and farmers by giving them access to global markets. One such portal, Selina Wamucii, helps farmers in selling their produce to in the global markets and this helps them to overcome difficulties in maintaining market standards and also, solves their financing problems.

Agriculture is the road to alleviating poverty and hunger, and establishing robust economic growth and boost smallholders and SMEs will give a boost to agriculture.

Source: Individual News websites

AUCTIONS AND EVENTS

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

Uganda's Latest Issuance: 3-yr and 10-yr Bonds (Oct 2017)

Issue Date	Maturity	Amt (UGX)	Bid/Cover	YTM	Coupon
04-Oct	3-yr	60 Bn	1.33	11.97%	13.25%
04-Oct	10-yr	120 Bn	NA	14.54%	16.0%
Details of issuances in September					
6-Sept	2-yr	80.0 Bn	2.57	12.32%	13.75%

1 USD = 3,629.5 UGX (average till 25th Oct 2017)

Tanzania's Latest Issuance: 10-yr Bond (Oct 2017)

Issue Date	Maturity	Amt (TZS)	Bid/Cover	YTM	WACY*
25-Oct	10-yr	111.6 Bn	NA	NA	11.44%
Details of issuances in September					
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%

**Weighted average coupon yield; 1 USD = TZS 2,237.9 (average till 25th Oct 2017)*

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

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int. rate
06-Oct	2-yr	265.6 Mn	FXR Note	1.02	17.0%
13-Oct	1-yr	288.27 Mn	FXR Note	1.0	15.0%
Details of issuances in September					
08-Sept	2-yr	115.1 Mn	FXR Note	1.0	17.0%
15-Sept	1-yr	82.9 Mn	FXR Note	NA	15.0%
29-Sept	1-yr	107.16 Mn	FXR Note	1.01	15.0%

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

Kenya's Latest Issuance: 5-yr Bond (Oct 2017)

Issue Date	Maturity	Amt Bid (KES)	Amt Acpt (KES)	MWAR*	Coupon
18-Oct	5-yr	13.51 Bn	NA	12.52%	12.52%
Details of issuances in September					
20-Sept	10-yr	9.90 Bn	6.28 Bn	13.0%	12.9%
28-Sept	2-yr	11.14 Bn	NA	11.62%	11.62%
28-Sept	10-yr	634.9 Mn	NA	13.07%	12.97%

**Market weighted average rate; 1 USD = 103.4 KES (average till 25th Oct 2017)*

Upcoming Bond Auctions and Monetary Policy Meetings

- **01 November 2017:** Uganda to sell 3-yrs and 5-yrs bonds
- **02 November 2017**: Kenya to sell bonds

Monetary policy meetings are scheduled to be held on:

- **21 November 2017** (Central bank of Nigeria)
- **23 November 2017** (Central bank of Kenya)
- **23 November 2017** (Central Bank of Angola)
- **27 November 2017** (Central bank of Ghana)

Source: Bloomberg, individual news websites, respective central banks

Fusion Real Estate Focus Article

BUILT TO SUIT: THE WAY OF THE FUTURE FOR REAL ESTATE

In the recent past there has been increased talks of oversupply of commercial office space in Kenya. In place like Upper Hill for example, are now taking longer to fill in than it did five years ago. In spite of this, we have witnessed increased the level of development all over Kenya for both residential and office space. Fusion believes that one of the way to solve the time it takes to fill in the office space or sell is by adopting a built to suit model for office space.

A build to suit model is an alternative that allows the user/tenant to design and customize a new facility to meet the enterprise's unique space needs without the large up-front capital expenditure that comes with building and owning. In a build to suit to lease arrangement, a company selects a real estate developer to design and build a customized facility on a preferred site and then leases or buy it from the developer.

A build to suit lease can offer several advantages to the company whose current space no longer ideally meets their objectives. It allows the tenant to expand the realm of optimal location choices and maximum space efficiency, since the facility is designed specifically for the tenant. Most important, built to suit allows the landlord to concentrate on their core business. New construction allows a developer to incorporate the most recent cost-effective energy systems in the project, incorporate state of the art technology and construction materials with the goal of operating efficiency. The building can be designed to project the company's image, attract and retain employees as well as enhance productivity and logistics.

On the other hand, a build to suit lease may be considered more expensive than leasing existing office space, particularly in today's market where office vacancy rates have risen and building owners are aggressively courting office tenants with attractive lease terms and concessions. However, the difference may be offset in the long-term by savings in office space efficiency, reduced operating costs and improved company image. Secondly, build-to-suit office space is a long-term commitment, and one that requires excellent credit to procure financing. It is significantly more expensive than finding and leasing vacant space, but companies may realize savings in efficiency, reduced operating costs, and an improved image among clients.

Constructing and owning the building is a good option for very large companies with plenty of up front capital and big borrowing power. However, some companies would find it difficult to invest so much capital in the building, rather than back into the business, where they are sure to receive a better return on investment. In addition, business owners may not want the hassle of managing and operating real estate, or being tied to the building if the company outgrows it in any way.

On the part of the developer, built to suit ensure there is guaranteed uptake and they deliver what exactly is needed in the market. Because of this guaranteed uptake, it is also easier to raise required funding a condition that financiers always ask in real estate development.

KIMONDO'S CORNER

Will 2018 be a worse year than 2017 for borrowers and lenders in Kenya?

2017 will be regarded as one of the worst years for both lenders and borrowers in Kenya. First the impact of the interest rate capping which was effected in late 2016 had its impact reflected in 2017 financial institution financials. The lending growth eased to 2.1% year on year in May 2017, a multi-year low, and down from 10.3% in May 2016. Lending growth in real, inflated-adjusted terms has been negative since August 2016, and in June-August, the lending growth moved to below 2% (Provisional figures) year on year.

For the banks, the non-performing-loan ratio continued to move higher in May, reaching 9.9%, another multi-year record. Slower lending and higher bad debts inevitably translated into weaker aggregate profits, which fell by 31.1% to KSh44.6bn (US$433m) on a pre-tax basis in the first five months of 2017 from a year earlier. Even more starkly, banks made a rare net loss of KSh0.7bn in May, compared with a KSh14.1bn profit in May 2016. As a results of all these, several banks including Barclays, Bank of Africa, Ecobank etc. have closed or merged branches and shed jobs in the year 2017. Others like Equity Bank have frozen new branches.
Further, 2017 was a general election year and together with other factors such as the drought saw the Kenya's economy growth slow down to 5.0% in the second quarter of 2017 compared to 6.3% in the corresponding quarter of 2016. The loans defaults increased.

For the consumers, as a result of the interest rate cap and according to a research done by Kenya Bankers Association, credit to the private sector is nearly grinding to a halt, with the most affected being unsecured personal loans. This can be attributed to the constrained ability of banks to freely price risk under the law, which has resulted into a heightened scrutiny of loans. The loan disbursement has been on a declining trend, regardless of the fact that applications have been on an upward trajectory. In June 2017, for example, while about 3.2 million loan applications were made, only about 1.1 million of loans were disbursed. This representing a 34% success rate.

Come 1st January 2018, international accounting standard 'IAS' 39 will be replaced by International Financial Reporting Standards 'IFRS9' will replace. IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. The new standard requires entities to account for expected credit losses when financial instruments are first recognized and to timely recognize full lifetime expected losses. Currently, such loss on credit exposures is only accounted for when is incurred.

Secondly, the standard brings cross-product default, and if a customer defaults on one loan item like a credit card, a bank has to provide for impairment across all products advanced to them.
In our view, if the interest rate cap is not repealed in 2018 and coming into effect of the IFRS9, the banks may further cut down on personal and unsecured loans. Secondly, loans with collaterals cannot be foreclosed easily on default may also reduce. And finally, we expect to see some banks preferring short term lending to reduce on the risk and the required provisions

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