FUSION AFRICAN MONITOR

Current news and analysis from Sub-Saharan money markets

November 2017

FUSION INVESTMENT MANAGEMENT

Rooted in the African growth story

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in November 2017

- In November 2017, bond yields in Kenya stayed flat across all tenors; whereas, Nigeria's bond yields decreased across tenors. Nigeria's 3-, 5-, 10-, 20- year yields decreased by 64, 23, 44 and 2 basis points (bps), respectively.
- In November 2017, Kenyan shilling and Ugandan shilling appreciated against USD, while Nigerian naira, Tanzanian shilling and Ghanaian cedi depreciated. The Kenyan shilling appreciated to KES 103.4 against the US dollar, as demand for dollars was supported by inflows from foreign investors. The Nigeria naira and Tanzanian shilling ended lower at NGN 360.5 and TZS 2,244.0 per dollar. The Ugandan shilling appreciated to reach UGX 3,633.3 per dollar citing low dollar demand and increase in dollar supply. The Ghanaian cedi depreciated to reach at GHS 4.5 against the US dollar due to unmet dollar demands. (refer to pages 8 and 9 for details).
- Among the money markets, interbank rates in Tanzania declined to 3.2% near the end of the month from 3.5% at the beginning of the month, while interbank rates in Kenya rose to 8.8% near the end of November 2017 from 8.5% at the beginning. (details on page 7).

November Bond Market Summary

	3-yr	5-yr	10-yr	20-yr
Kenya 24-Nov yield (%)	12.3%	12.5%	12.5%	13.3%
Chg from 1-Nov 17 (bps)	0	0	0	0
Nigeria 24-Nov yield (%)	14.5%	14.7%	14.6%	14.7%
Chg from 1-Nov 17 (bps)	64	23	44	2

Movement of Key Currencies versus US Dollar in November 2017

	Average	End Value	MTD	YTD
Kenyan Shilling	103.6	103.4	0.4%	-0.9%
Ugandan Shilling	3,638.0	3,633.3	0.4%	-1.5%
Nigerian Naira	358.5	360.5	-1.3%	-12.7%
Tanzania Shilling	2,239.5	2,244.0	-0.3%	-2.9%
Ghanaian Cedi	4.5	4.5	-2.4%	-5.4%

Data till 24th Nov 2017

Kimondo's Corner

Uganda Financial Sector: Growth in the Private Sector Credit to remain subdued

- The Uganda financial sector has been struggling, amid a rising portfolio of bad loans
- The return from government papers have averaged double digits
- Ugandan banks have continued to rely on Government investments that ensures higher returns and low risk.
- Private-sector lending has been recovering slowly, as a result of the continually high rates of interest and a weak economic environment.
- The high increase in NPLs has resulted in a risk aversion by banks, which has led to a decline in the growth of the private sector credit
- The BoU has limited capability to drive economic growth through policy intervention to support the trend of government borrowing crowding out the private sector (details on page 13).

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Fusion Portfolio Management Service

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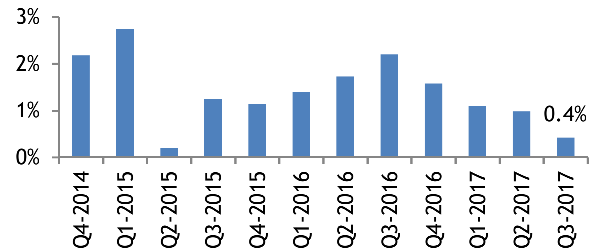
Source: Bloomberg and respective central banks

HIGHLIGHTS

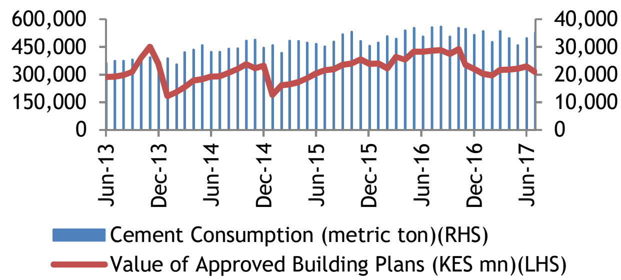
Key Trends in East African Real Estate Sector

- Real estate, in Nigeria, was the one of the most affected sectors due to regional growth falling below the projected decline of 2.6%, due to the economic downturn. Now that the economy is out of recession, the sector is expected to take at least six months to a year's time recover.
- The Kenyan government announced plans to build a million units of public rental housing in the next five years so as to limit the number of informal settlements in the country and also to provide housing to low income earners. The State department of Housing and Urban Development is in the process of inviting bidders, who aim to develop 800 houses on a 55-acre plot in Mavoko, Machakos County.
- Under the Nigeria in Diaspora Housing Programme (NIDHOP), the country is creating Diaspora cities to provide safe and sustainable home ownership to Nigerians abroad. The project will be divided in two phases and the estimated investment of US$ 630 million will be needed for construction of the first phase.
- US based PE firm, Milost Global, announced investment of US$ 450 million in Kenyan real estate development and investment company, Kings Pride Properties. The working capital and development facility for the company will be in the form of debt and equity worth US$ 300 million and US$ 150 million, respectively.

Kenya Housing Price Change



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



AFFORDABLE HOUSING PROVISION: LESSON FROM SINGAPORE

- Over the last decade, the real estate sector has been booming in Kenya driven by both local and international private developers chasing development returns.
- The public housing programs in Singapore are widely regarded to have succeeded in meeting critical housing shortages, preventing housing prices from spiraling out of control, and encouraging social cohesion.
- The housing program is implemented through a formula that takes into account national planning goals and the development of technical and manpower resources, and a home ownership scheme that focuses on the needy and elderly
- Kenya certainly needs to develop its own solution, but can learn a lot from those who have gone before (details on page 12).

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Fusion's Real Estate Portfolio

Project Feature: Montey Apartments

Salient Features

- Located in Nakuru County, providing spacious and executive housing for families.
- Eco-friendly amenities incorporated that makes this development a haven of tranquillity, with additional emphasis on privacy and enhanced security.
- Spacious lounge with balcony, master ensuite, modern fitted kitchen, separate dining room, inbuilt wardrobes in all bedrooms, solar water heating solutions and ample parking.
- Rental Yield: North of 6.5%
- **Offering: 3 Bedroom for Sale**

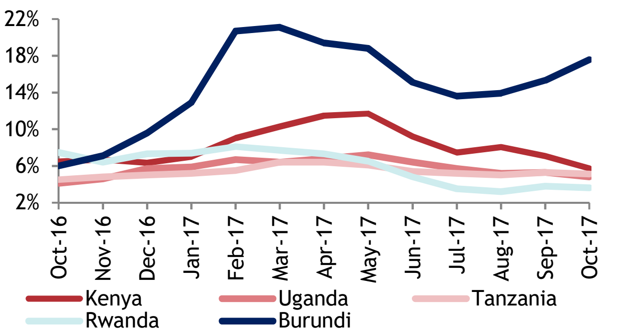
Source: Kenya Bankers Association and Kenya National Bureau of Statistics

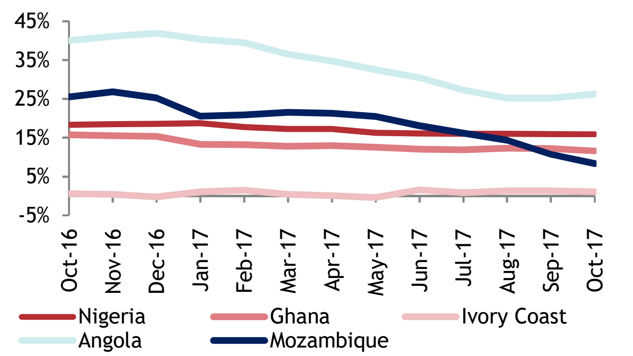
HIGHLIGHTS

Activity Across Africa: Economy and Politics

- According to a report by International Monetary Fund (IMF), economic growth in the Sub Saharan region is expected to be 3.4% in 2018, as compared to 2.6% in 2017. IMF also advised the SSA countries to diversify, in order to maintain growth.
- In October 2017, Central bank of Kenya held its Central Bank Rate at 10% due to inflation trending down, and expected to decline further. Similarly, Central Bank of Nigeria and National Bank of Angola retained their lending rates at 14% and 16%, respectively, in order to curb inflation. On the other hand, Central Bank of Ghana lowered its interest rate to 20% from 21% due to favourable economic conditions.
- In October 2017, inflation increased in Burundi and Angola, while the rest of SSA countries recorded a decrease in inflation. For **Burundi**, inflation increased to 17.6% YoY in October 2017 due to higher prices of food, non-alcoholic beverages and transport. In **Angola**, inflation increased to 26.25% YoY in October 2017 due to increase in prices of health, clothing, footwear and miscellaneous goods and services. Annual inflation rate in **Kenya** fell to 5.7% YoY in October compared to 7.1% YoY in September, mainly due to a fall in price of food prices. Inflation in **Nigeria** decreased nominally to 15.91% YoY in October 2017 due to slower growth in prices of education, housing and utilities. Inflation in **Uganda** decreased to 4.8% YoY in October 2017 from 5.3% YoY in September 2017, mainly due to a drop in service inflation from 4.1% in September 2017 vis-à-vis 2.3% in October 2017. In **Ghana**, consumer inflation decreased to 11.6% YoY in October 2017, mainly due to decrease in prices of non-food items like transport and health cost. (details on pages 4 and 5).

Inflation (YoY)





Kenya – Post-election outlook

- Kenya's re-election has resulted in the incumbent President being declared the winner. While the opposition leader has exhorted the population to continue to oppose the President's rule, the focus will now shift back to the economy.
- The two-month period after announcement of re-election further extended the period of uncertainty and holding back of expenditure by both corporates and consumers. Barring a major flare-up of disruption, the economy may be expected to gradually return to its pre-election status.
- East Africa's dominant economy is facing a widening debt, slowing Gross Domestic Product (GDP) and a credit longing private sector. The political turmoil witnessed in the second half of 2017 along with drought condition that persisted in the first half of the same year downgraded the country's economic growth forecast for the year to 5% from the previous forecast of 5.9%.
- Owing to political turbulence, slow economic activity and interest rate caps, more than Sh700 billions have been wiped out from the stock market. Service sector, especially tourism in the economy, has also been hit. Kenya's exports were severely affected too.
- Kenya's debt problems are gradually widening with Treasury's attempt to float a new Eurobond worth Sh70 billion. Treasury has also revised its 2017-18 budget deficit forecast to 8.5% of the GDP from the previous 6.8%, which shows the extent of duress faced by the government.
- The major concern among the corporates and investment community is whether the disruptions will escalate to the levels witnessed during elections in 2008, which led to economic growth plummeting to 0.2% from 6.9% in the previous year. However, this time, the country is expected to be more resilient and a recovery in the economy is expected in the next six months.
- Historically, economic activity has slowed down during the election period but did not fundamentally affect the economic prospects.
- Market participants are expected to remain cautious for now but will expect normalcy when market conditions improve post the second quarter of 2018 with a resolution to the pending issues relating to the elections. For now, the government will have to focus on more on economic activity to ensure prosperity and stability, and improve its standing among the public.

Source: Individual News websites

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- Inflation in Kenya decreased to 5.7% YoY in October 2017 from 7.1% YoY in September 2017, below the market expectations of 6.7%. The decrease came mainly on the back of decrease in food prices, which were majorly affected due to favourable weather conditions. On the other hand, during the same period, electricity prices and fuel prices pushed up transport prices.
- The Central Bank of Kenya held its lending rate at 10% for the seventh time in a row, citing muted inflation, which was expected to decline further.

Uganda

- The consumer price index (CPI) decreased to 4.8% YoY in October 2017 after increasing in the previous month to reach 5.3% YoY. The decrease was primarily due to a drop in service inflation from 4.1% in the previous month to 2.3% in October 2017 YoY.

Tanzania

- Tanzania's annual headline inflation declined to 5.1% YoY in October 2017 from 5.3% YoY in September 2017. The decline is largely attributable to a decrease in prices of commodities. The annual core inflation that excludes food and energy was steady at 1.7%, during the same period.

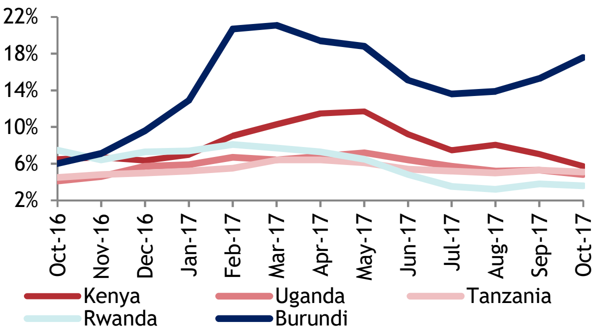
Rwanda

- Rwanda's Urban CPI declined to 3.6% YoY in October 2017 from 3.8% YoY in September 2017. The decline was mainly due to a fall in prices ofnNon-alcoholic beverages. Costs relating to Healthcare also declined.

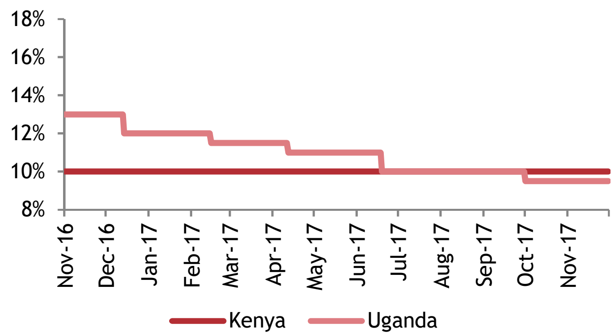
Burundi

- Burundi's annual inflation rate jumped to 17.6% YoY in October compared to 15.3% YoY in September, due to rise in prices of food and non-alcoholic beverages (27.8% in October 2017 vis-à-vis 23.4% in September 2017), transport (11.1% in October 2017 vis-à-vis 7.8% in September 2017), education (35.8% in October 2017 vis-à-vis 31.4%) and furniture and housing equipment (8.3% in October 2017 vis-à-vis 7.4% in September 2017).

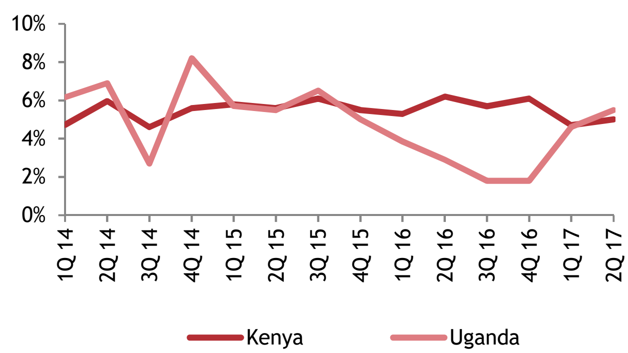
Inflation (YoY)



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

- Inflation in Nigeria decreased nominally to 15.91% YoY in October 2017 as against 15.98% in September 2017. The inflation slowed in Nigeria for the ninth consecutive month. The easing of inflation can be attributed to decline in prices of education, and housing and utilities.
- Nigeria's GDP grew further by 1.4% in the third quarter of 2017, after recording a positive growth of 0.72% for the first time in second quarter of 2017, after five consecutive quarters of negative growth.
- The Central Bank of Nigeria retained its lending rate at 14% to curb inflation .

Ghana

- Consumer inflation decreased to 11.6% YoY in October 2017 from 12.2% YoY reported in September 2017, mainly due to a decrease in prices of transport and health cost.
- The Central Bank of Ghana lowered its interest rate to 20% from 21% due to favourable economic outlook.

Ivory Coast

- Consumer inflation in Ivory Coast eased to 1.1% YoY in October 2017 as compared to 1.3% YoY recorded in September 2017. The decline can be attributed mainly to slow growth of prices of food and non-alcoholic beverages (1.6% in October 2017 vis-à-vis 3.4% in September 2017).

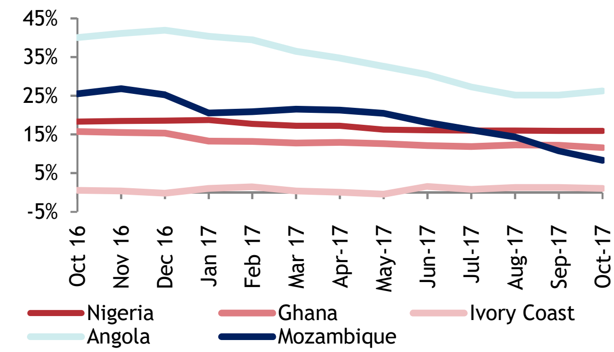
Angola

- Inflation in Angola remained elevated in October 2017 at 26.25% as compared to 25.18% in September 2017. The inflation rate in Angola increased for the first time in nine consecutive months. The increase was mainly due to rise in prices of Health (increased by 5.06%), miscellaneous goods and services (increased by 4.03%), clothing and footwear (increased by 3.85%) and alcoholic beverages and tobacco (increased by 3.17%).
- National Bank of Angola held its interest rate at 16% as the downward trend of inflation was interrupted in September.

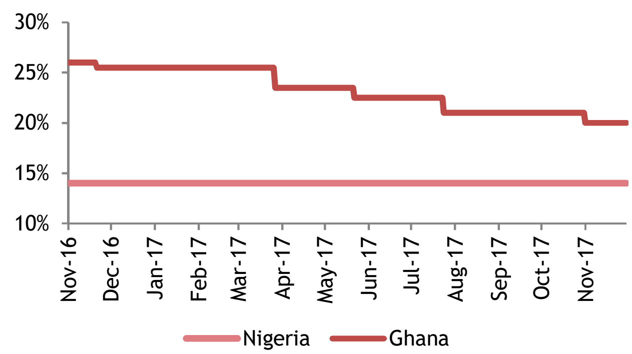
Mozambique

- Consumer inflation eased to 8.35% YoY in October 2017 from 10.76% YoY in September 2017. The inflation rate for October 2017 was the lowest since November 2015. The decrease came mainly on the back of food and non-alcoholic beverages (6.9% in October 2017 vis-à-vis 9.9% in September 2017) and transport (5.7% in October 2017 vis-à-vis 8.8% in September 2017).

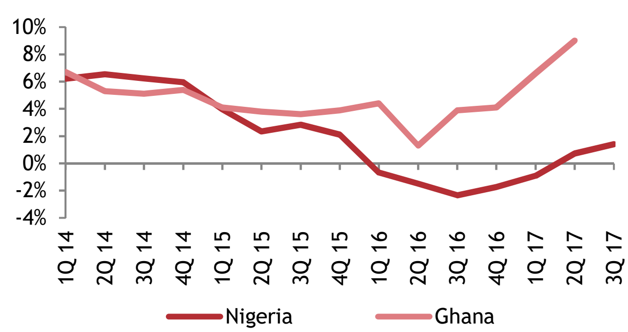
Inflation (YoY)



Movement of Central Banks' Key Rates



GDP Growth in Nigeria and Ghana (YoY)



Source: Bloomberg, individual news websites, respective central banks

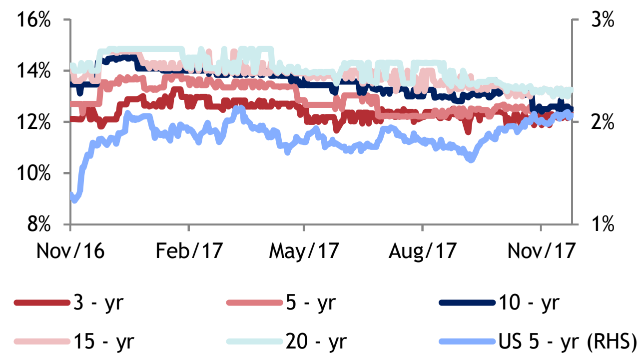
FUSION INVESTMENT MANAGEMENT
Rooted in the African growth story

ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- In November 2017, yields on Kenyan bonds remained flat across tenors.
- The yields on the 3-, 5-, 10-, 15- and 20-year bonds fluctuated during the month; however, they ended on a flat note.
- Kenya's Central bank offered for sale a 7-yr infrastructure bond worth KES 30 billion and coupon rate of 12.5%. The bond will raise funds for construction of infrastructure projects like roads.
- The Central Bank of Kenya held its interest rate at 10% as the inflation is expected to rise further.

Bond Yield Daily Movement



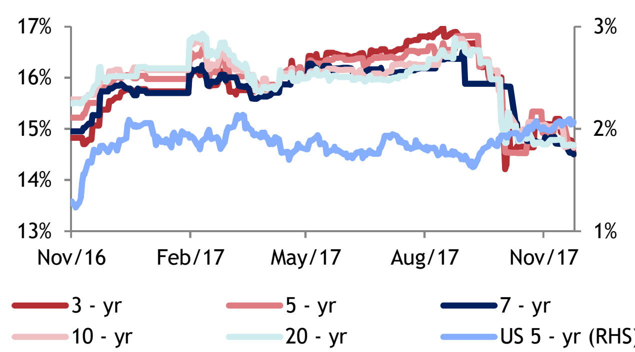
Summary Statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
24-Nov yield (%)	12.3%	12.5%	12.5%	13.3%	13.3%
Chg from 1-Nov 17 (bps)	0	0	0	0	0
Chg from 1-Nov 16 (bps)	-19	21	105	75	95

Nigeria

- In November 2017, yields on Nigerian bonds decreased across tenors. The yield on 3-, 5-, 7-, 10-, and 20-year bonds fell by 64 bps, 23 bps, 22 bps, 44 bps, and 2 bps, respectively.
- Yields on Nigerian bonds decreased across all tenors with less buyers on some maturities compressing yields. Investors expect a further decline in yields.
- Nigeria raised US$ 3 billion in an international bond sale so as to fund fiscal deficit and reduce its local-currency debt burden. The bond sale was done in two parts with equal offerings for 10 year and 30 year tranches. The yield was 6.5% for 10 year portion and 7.63% for 30 year portion.
- 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
24-Nov yield (%)	14.5%	14.7%	14.5%	14.6%	14.7%
Chg from 1-Nov 17 (bps)	64	23	22	44	2
Chg from 1-Nov 16 (bps)	33	53	45	95	82

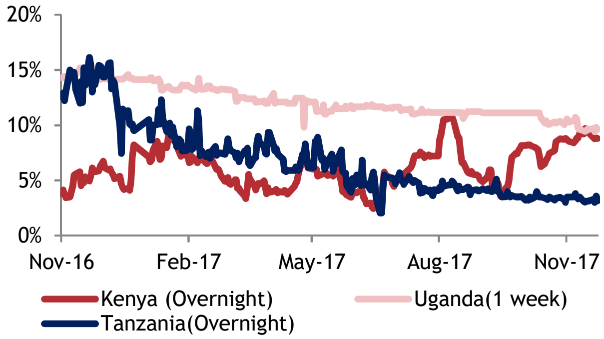
Source: Bloomberg, individual news websites

MONEY MARKETS

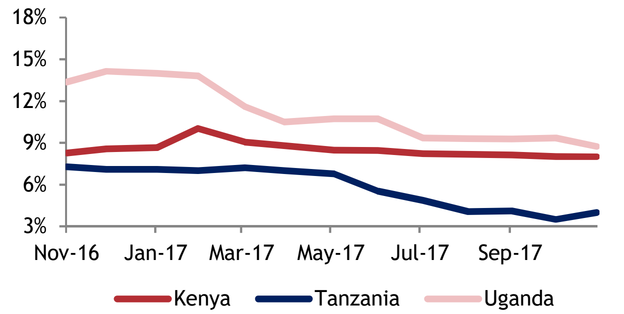
East African Community

- Interbank rates in Tanzania fell to 3.2% on 24th November 2017 from 3.5% at the beginning of the month, indicating improvement in liquidity in the interbank market. Whereas interbank rates in Kenya increased to 8.8% on 24th November 2017 from 8.5% 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 (Nov 2017)

	Kenya	Tanzania	Uganda
3-m curr dep	8.3%	4.5%	8.0%
91-d/3-m T-bill	8.0%	4.0%	8.7%

Data till 24th Nov 2017

Policy and Average Interbank Rates (Nov 2017)

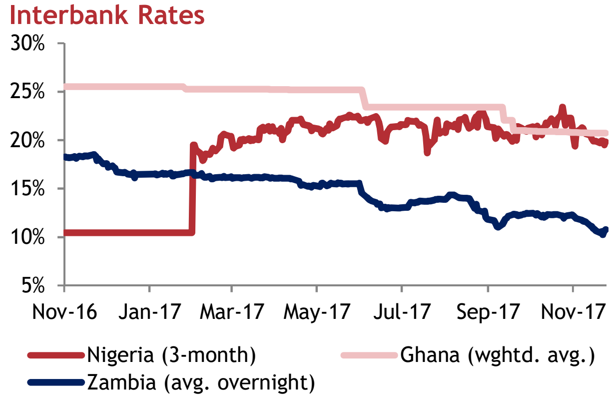
	Kenya (o)	Tanzania (o)	Uganda (1-w)
Policy	10.0%	12.0%	9.5%
Interbank	8.8%	3.2%	9.6%

Data till 24th Nov 2017

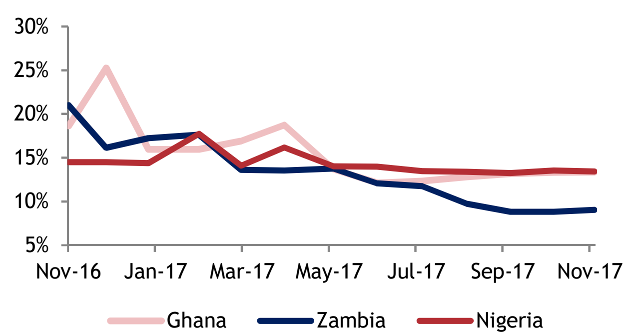
Rest of Sub-Saharan Africa

- Interbank rates in Nigeria decreased to 19.8% on 24th November 2017 from 21.5% at the start of the month, indicating improvements in liquidity in the interbank market. Whereas, interbank rates in Zambia increased marginally to 10.8% in November from 10.6% at the start of the month. Interbank rates in Ghana decreased nominally to 20.7% on 24th November 2017 from 20.8% at the start of the month.

Interbank Rates



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



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

-	Nigeria	Ghana	Zambia
3-m curr dep	13.8%	17.5%	27.0%
91-d/3-m T-bill	13.4%	13.3%	9.0%

Data till 24th Nov 2017

Policy and Average Interbank Rates (Nov 2017)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	14.0%	20.0%	10.3%
Interbank	19.8%	20.7%	10.8%*

*Data till 24th Nov 2017; * As of 28th Nov 2017*

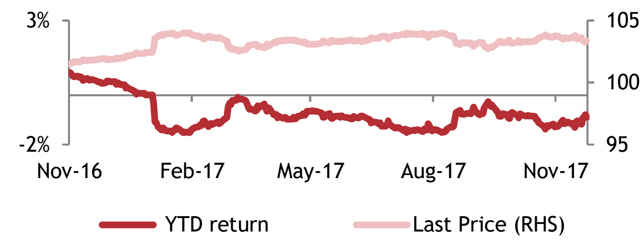
Source: Bloomberg, individual news websites, respective central banks

CURRENCY MARKETS: KENYA, TANZANIA AND UGANDA

Kenyan Shilling (KES)

- The Kenyan shilling appreciated marginally against the US dollar to KES 103.4 as on 24th November 2017. The currency rose 0.4% on MTD basis but fell by 0.9% on YTD basis.
- The Kenyan shilling appreciated due to demand from oil importers being more than fulfilled by inflows from foreign investors.
- Further, the shilling is however expected to firm up in the near term as the court has upheld the re-election of President Uhuru Kenyatta, and the election related uncertainty appears to be over.

USD/KES Daily Movement



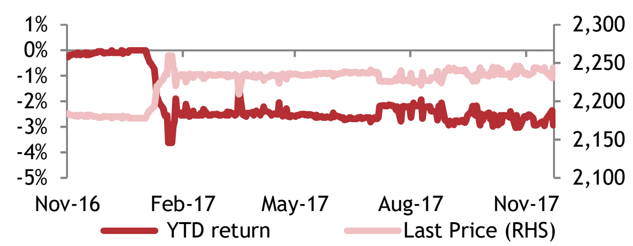
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	103.6	103.4	103.8	103.3	0.4%	-0.9%
EUR	121.4	123.3	123.3	120.0	-2.24%	-13.2%

Data till 24th Nov 2017

Tanzanian Shilling (TZS)

- The Tanzanian shilling ended marginally lower against the US dollar at TZS 2,244.0 as on 24th November 2017. The currency was fell by 0.3% on MTD basis and 2.9% on YTD basis.
- In November 2017, the domestic currency fell only marginally against the US dollar primarily due to subdued demand for dollars and inflows from agricultural exports.
- The domestic currency is expected to strengthen in near-term as the supply of dollar is expected to increase.

USD/TZS Daily Movement



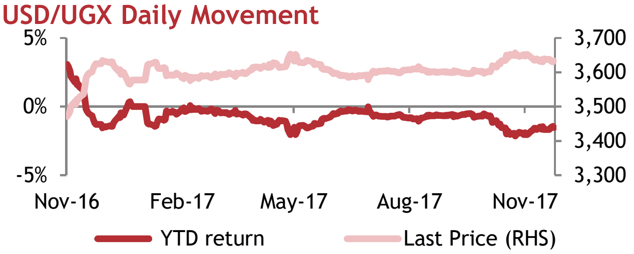
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	2,239.5	2,244.0	2,246.2	2,231.5	-0.3%	-2.9%
EUR	2,626.1	2,677.5	2,677.5	2,597.9	-2.9%	-14.8%

Data till 24th Nov 2017

Ugandan Shilling (UGX)

- The Ugandan shilling appreciated against the US dollar to UGX 3,633.3 as of 24th November 2017. The currency rose 0.4% on MTD basis; however, fell by 1.5% on YTD basis.
- The Ugandan shilling appreciated against dollar due to low demand from importers, inflows from non-governmental organisations and remittances from Ugandans working abroad.
- However, the Ugandan shilling is expected to weaken in the near term due to an expected increase in demand for US dollars from commercial banks.

USD/UGX Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	3,638.0	3,633.3	3,652.1	3,630.2	0.4%	-1.5%
EUR	4,264.6	4,349.0	4,349.0	4,211.7	-2.3%	-13.5%

Data till 24th Nov 2017

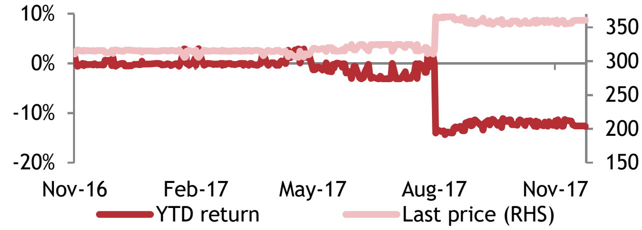
Source: Bloomberg, individual news websites

CURRENCY MARKETS: NIGERIA, RWANDA AND GHANA

Nigerian Naira (NGN)

- The Nigerian naira depreciated against the US dollar to NGN 360.5 as of 24th November 2017. The naira remained depreciated by 1.3% on MTD basis
- The naira depreciated in the month of November 2017, as the demand for greenback increased from agriculture, airline, petroleum and raw materials industries. The Central Bank intervened by injecting US$ 287.89 million into the currency market in order to alleviate shortages.
- The naira is expected to remain stable over the short-term as the central bank will continue to intervene.

USD/NGN Daily Movement



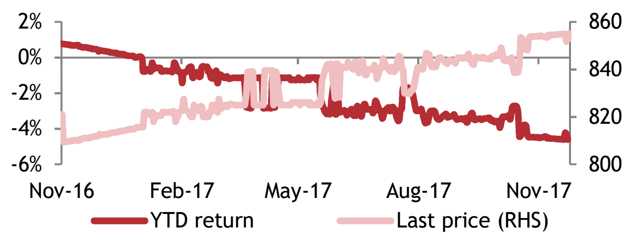
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	358.5	360.5	360.5	354.7	-1.3%	-12.7%
EUR	422.0	429.4	429.4	417.1	-2.5%	-23.7%

Data till 24th Nov 2017

Rwandan Franc (RWF)

- The Rwandan franc depreciated against the US dollar to settle at RWF 855.1 as of 24th November 2017. The currency fell 0.1% on MTD basis and 4.6% on YTD basis.
- The franc depreciated steadily against the US dollar in November 2017 as the International Monetary Fund (IMF) lowered the country's 2017 GDP growth forecast from 6.2% to 5.2%.
- Rwanda's currency is expected to remain mostly stable with some bias towards weakening due to dollar demand from importers gearing up for Christmas and end-of-year period.

USD/RWF Daily Movement



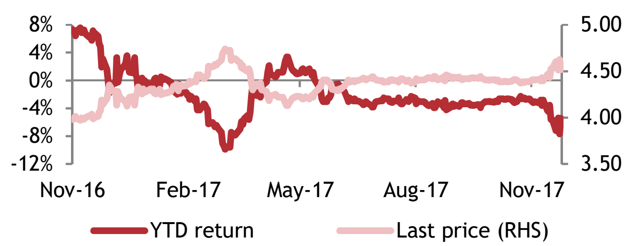
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	854.1	855.1	855.1	851.7	-0.1%	-4.6%
EUR	998.5	1,020.4	1,020.4	979.7	-2.7%	-16.9%

Data till 24th Nov 2017

New Ghanaian Cedi (GHS)

- The Ghanaian cedi depreciated against the US dollar to GHS 4.5 as of 24th November 2017. The currency declined by 2.4% on MTD basis and by 5.4% on YTD basis.
- The cedi depreciated against US dollar due to unmet demand for the greenback by businesses for their year end imports.
- The cedi is expected to fall further due to low supply of dollar.

USD/GHS Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	4.5	4.5	4.6	4.4	-2.4%	-5.4%
EUR	5.3	5.5	5.5	5.1	-7.0%	-19.6%

Data till 24th Nov 2017

Source: Bloomberg, individual news websites

SPECIAL FOCUS

Kenya – Post-election outlook

Kenya's re-election has resulted in the incumbent President being declared the winner. While the opposition leader has exhorted the population to continue to oppose the President's rule, the focus will now shift back to the economy. The anticipation of violence during election period had led to economic activities slowing down. The two-month period after announcement of re-election further extended the period of uncertainty and holding back of expenditure by both corporates and consumers. Barring a major flare-up of disruption, the economy may be expected to gradually return to its pre-election status.

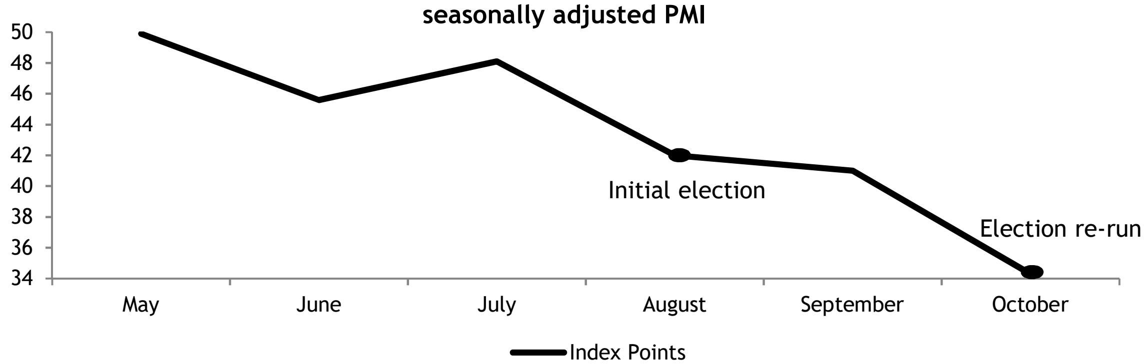
East Africa's dominant economy is facing a widening debt, slowing Gross Domestic Product (GDP) and a credit longing private sector. The political turmoil witnessed in the second half of 2017 along with drought condition that persisted in the first half of the same year downgraded the country's economic growth forecast for the year to as low as 5% from the previous forecast of 5.9%.

Owing to political turbulence, slow economic activity and interest rate caps, more than Sh700 billions have been wiped out from the stock market. Service sector, especially tourism in the economy, has also been hit. Kenya's exports were severely affected too with Mombasa, which is East Africa's busiest port, recording a 70% drop in the quantum of cargo leaving the port during the August 2017 general election week. Cargo deliveries from Mombasa by road registered a 10% decline a week before the presidential election re-run.
Kenya's debt problems are gradually widening with Treasury's attempt to float a new Eurobond worth Sh70 billion. Treasury has also revised its 2017-18 budget deficit forecast to 8.5% of the GDP from the previous 6.8, which shows the extent of duress faced by the government.

The major concern among the corporates and investment community is whether the disruptions will escalate to the levels witnessed during elections in 2008, which led to economic growth plummeting to 0.2% from 6.9% in the previous year. However, this time, the country is expected to be more resilient and a recovery in the economy is expected in the next six months. A recent poll of economists by local media indicated that investment activity is expected to pick up in 2018 if stability returns in the country soon. Eight out of ten analysts surveyed expected the elections to have a slightly negative impact on growth this year and next. Just two thought it would take a severe hit. The economists also said that they expect the investors to return soon to the markets.

Historically, economic activity has slowed down during the election period but did not fundamentally affect the economic prospects. Even after the worst of 2007-2008 post-election violence, economic growth bounced back to a 6% high in 2012-2013 from 0.2% in 2007-2008. Market participants are expected to remain cautious for now but will expect normalcy when market conditions improve post the second quarter of 2018 with a resolution to the pending issues relating to the elections. For now, the government will have to focus on more on economic activity to ensure prosperity and stability, and improve its standing among the public. Its recent announcement to build a million units of public rental housing in the next five years looks like a step in the right direction.

Political Instability in Kenya leads to drop in business activity as indicated by seasonally adjusted PMI



Source: Bloomberg

Source: Individual News websites

AUCTIONS AND EVENTS

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

Tanzania's Latest Issuance: 5-yr and 15-yr Bonds (Nov 2017)

Issue Date	Maturity	Amt (TZS)	Bid/Cover	YTM	WACY*
08-Nov	5-yr	90.13 Bn	NA	NA	9.18%
23-Nov	15-yr	97.8 Bn	2.61	15.87%	13.50%
Details of issuances in October					
25-Oct	10-yr	65.32 Bn	NA	NA	11.44%

**Weighted average coupon yield; 1 USD = TZS 2,239.5 (average till 24th Nov 2017)*

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

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int. rate
03-Nov	1-yr	84.9 Mn	FXR Note	NA	15.00%
10-Nov	2-yr	193.38 Mn	FXR Note	NA	17.24%
17-Nov	1-yr	55.21 Mn	FXR Note	1	15.00%
Details of issuances in October					
06-Oct	2-yr	265.6 Mn	FXR Note	1.02	17.00%
13-Oct	1-yr	288.27 Mn	FXR Note	1	15.00%

**Fixed rate; 1 USD = 4.5 GHS (average till 24th Nov 2017)*

Uganda's Latest Issuance: 3-yr, 5-yr and 15-yr Bonds (Nov 2017)

Issue Date	Maturity	Amt (UGX)	Bid/Cover	YTM	Coupon
01-Nov	3-yr	80 Bn	1.35	11.02%	11.00%
01-Nov	5-yr	100 Bn	1.75	12.70%	14.13%
29-Nov	3-yr	80 Bn	NA	NA	13.25%
29-Nov	15-yr	100 Bn	NA	NA	16.38%
Details of issuances in October					
04-Oct	3-yr	60 Bn	1.33	11.97%	13.25%
04-Oct	10-yr	120 Bn	NA	14.54%	16.00%

1 USD = 3,638.0 UGX (average till 24th Nov 2017)

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

Issue Date	Maturity	Amt Bid (KES)	Amt Acpt (KES)	MWAR*	Coupon
02-Nov	5-yr	16.5 Bn	NA	NA	12.52%
Details of issuances in October					
18-Oct	5-yr	13.51 Bn	NA	12.52%	12.52%

**Market weighted average rate; 1 USD = 103.6 KES (average till 24th Nov 2017)*

Upcoming Bond Auctions and Monetary Policy Meetings

- **22 December 2017:** Angola to sell 3-yr bonds

Monetary policy meetings are scheduled to be held on:

- **10 December 2017** (Central bank of Mozambique)
- **11 December 2017** (Central bank of Uganda)
- **24 December 2017** (Central Bank of Angola)

Source: Bloomberg, individual news websites, respective central banks

Fusion Real Estate Focus Article

AFFORDABLE HOUSING PROVISION: LESSON FROM SINGAPORE

Over the last decade, the real estate sector has been booming in Kenya driven by both local and international private developers chasing development returns. The majority of this group have been targeting the middle and higher income earners, leaving the affordable housing market significantly under supplied.

In his swearing in ceremony in November, the president of Kenya - president Uhuru Kenyatta - announced that his government intends to facilitate affordable housing through a home ownership program. Initially, his administration will aim to create 500,000 new home owners funded by both public and private sources by attracting patient, low-cost capital into the housing sector. In the long run, the aim is to provide all working families with a decent home.
This is an admirable but ambitious goal. We at Fusion believe Kenya can achieve this in the long term if it adopts similar strategies to those used in other countries, and in particular Singapore.

Singapore case study:
The public housing programs in Singapore are widely regarded to have succeeded in meeting critical housing shortages, preventing housing prices from spiraling out of control, and encouraging social cohesion. It is estimated that over 80% of Singaporeans live in apartments built by the country's Housing and Development Board (HDB).

The housing program is implemented through a formula that takes into account national planning goals and the development of technical and manpower resources, and a home ownership scheme that focuses on the needy and elderly. The program ensures that every citizen has a permanent residence, a diversity of home designs, and a vibrant secondary market for public housing products that is governed by clear and transparent rules. So what tools has Singapore used and are they applicable to Kenya?

Government subsidies and direct investment
Singapore has built a supply of affordable housing through subsidy programs and the direct investment of substantial sums of government funds into both construction and management. The Kenyan government should consider this, although its already constrained budget may limit its impact. Tax breaks (especially on materials) however may be a viable alternative.

Using Pension for down-payments on houses
Singaporean individuals can use their State Pension to make down-payments on HDB house purchases. It is widely acknowledged that many Kenyans are in a position to afford mortgage repayments, but see the 20% down payment as a huge barrier to entry. This could be reduced by passing the necessary laws to allow Kenyans to use their state pension towards the purchase of their first house. This may need to be coupled with a more progressive form of pension contribution instead of the current statutory minimum amount of Kes 200 (USD 2).

Cheaper land for public housing
Another technique the Singaporean government has used effectively, since the passing of the Land Acquisition Act of 1967, is allowing the government to acquire land for public use at low costs. One of the factors prohibiting access to affordable housing in Kenya has been the high cost of land. Legislation could be passed allowing the Government to secure land for public housing at a discount, improving the desirability of low cost housing developments.

Kenya certainly needs to develop its own solution, but can learn a lot from those who have gone before.

KIMONDO'S CORNER

Uganda Financial Sector: Growth in the Private Sector lending to remain subdued

For the last two years, the Uganda financial sector has been struggling, amid sluggish economic growth, a rising portfolio of bad loans and potential contagion from the collapse of Crane Bank.

The return from the Government papers have averaged double digits and because of this, the Ugandan Banks have continuously relied on these investments that ensure higher returns and lower risks.

Private-sector lending in Uganda, which only grew by 6% year on year during the first half of 2017, has been recovering slowly, as a result of mainly two factors: the continually high rates of interest, despite systematic monetary easing by the central bank, and a weak economic environment, with real GDP growth coming in at an estimated 3.8% in 2017. Unless banks transmit the lower central bank rates into the credit market, where double-digit interest rates remain the norm (averaging 22.3% in August), credit will remain too costly for most potential borrowers in the private sector.

In the recent months, though the government yields have been falling slowly (from an average of 15.9% on 91-day securities in 2016 to 8.4% in November 2017), this relatively low risk/high return lending option will continue to draw capital away from the private sector. The BoU's limited capability to drive economic growth through policy intervention is therefore likely to support the trend of government borrowing crowding out the private sector.

The BOU *Annual Supervision Report 2016*, revealed the poor performance of banks in 2016. The sector's profitability declined by 44.2% year on year, to USh302.1bn (US$84m) while the total asset growth slowed considerably to 0.9% over the year and was largely driven by increased commercial bank holdings of government securities; these increased by 25.6% across the financial sector, implying a sharp slowdown in private-sector lending. The aggregate of bad loans more than doubled in 2016, around half of which was accounted for by the now defunct Crane Bank. The former fourth-largest bank was taken over by the BoU because of its severe undercapitalization, and later had the majority of its assets transferred to another bank, DFCU. This drove up the ratio of non-performing loans (NPLs) from 5.3% at the end of 2015 to 10.5% a year later. This high increase in NPLs has resulted in a risk aversion by banks, which has led to a decline in the growth of the private sector credit.

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