FUSION AFRICAN MONITOR

Current news and analysis from Sub-Saharan money markets

December 2017

FUSION INVESTMENT MANAGEMENT
Rooted in the African growth story

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in December 2017

- In December 2017, bond yields in Kenya stayed flat for 20-year tenor, while they increased for 5- and 10-year tenor. Bond yields on 3-year tenor decreased by 15 bps; whereas, Nigeria's bond yields increased for 3-, 5- and 10- year tenor, while the yield on 20-year tenor decreased by 108 basis points (bps), respectively.
- In December 2017, Kenyan shilling, Ugandan shilling, Nigerian Naira, Tanzanian shilling and Rwanda franc appreciated against USD, while Ghanaian cedi depreciated. The Kenyan shilling remained mostly flat at KES 103.1 against the US dollar, due to increased inflow of dollar and reduced political disruption. The Nigerian naira too remained flat. Tanzanian shilling ended higher at TZS 2,239.9 per dollar. The Ugandan shilling appreciated to reach UGX 3,623.7 per dollar citing low dollar demand and increase in dollar supply. The Ghanaian cedi remained flat at GHS 4.5 against the US dollar due to decreasing demand for the greenback. (refer to pages 8 and 9 for details).
- Among the money markets, interbank rates in Tanzania declined to 2.8% near the end of the month from 3.2% at the beginning of the month. Similarly, interbank rates in Kenya reduced to 7.1% near the end of December 2017 from 8.8% at the beginning. (details on page 7).

December Bond Market Summary

	3-yr	5-yr	10-yr	20-yr
Kenya 22-Dec yield (%)	12.2%	12.7%	13.5%	13.3%
Chg from 1-Dec 17 (bps)	15	-20	-25	0
Nigeria 22-Dec yield (%)	14.1%	14.6%	14.2%	13.4%
Chg from 1-Dec 17 (bps)	-90	-33	-63	108

Movement of Key Currencies versus US Dollar in December 2017

	Average	End Value	MTD	YTD
Kenyan Shilling	103.1	103.1	0.0%	-0.6%
Ugandan Shilling	3,623.7	3,627.1	0.2%	-1.4%
Nigerian Naira	360.1	360.0	0.0%	-12.6%
Tanzania Shilling	2,239.9	2,234.6	0.5%	-2.5%
Ghanaian Cedi	4.5	4.5	1.1%	-5.6%

Data up to 26th Dec 2017

Kimondo's Corner

Blockchain and the Investment Industry

- Blockchain refers to a distributed or decentralised public ledger or database of records of executed and shared digital events among participating parties.
- Blockchain is hailed as a revolutionary technology and is claimed to have the potential to lower transaction charges, improve on efficiency and transform the investment business value chain.
- This technology is ushering in a new set of tools to cut costs and challenge the profit pool of the middle man with a promise to make centralised institutions obsolete.
- Blockchain is a sensational new technology with huge potential to disrupt and improve numerous industries. (details on page 13).

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Fusion Portfolio Management Service

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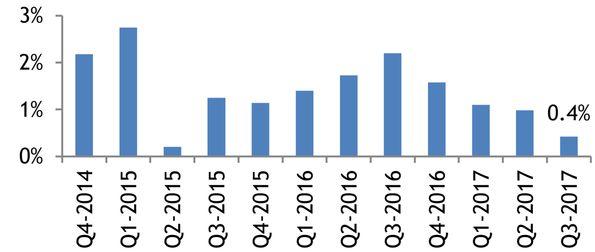
Source: Bloomberg and respective central banks

HIGHLIGHTS

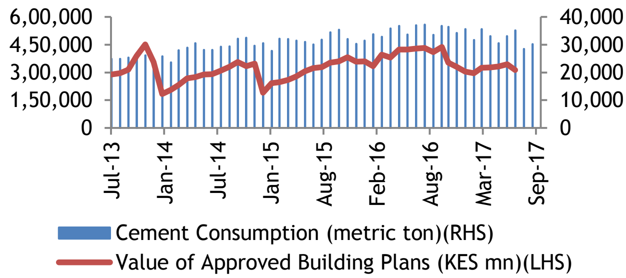
Key Trends in East African Real Estate Sector

- According to BMI research, Kenya's real estate sector is expected to have a growth rate of 8.7% by the end of 2017. Growth in the sector is anticipated to be steady till 2026, recording an annual growth of 6.2%.
- The real estate sector in Nigeria is expected to expand in 2018 owing to the large portion of the untapped market in the country. The growing population of Nigeria will be the major contributing factor to the sector's bright future.
- Kenyan real estate and construction sector has collectively received Sh54 billion in the last two years from three top Chinese companies – AVIC International, China Wu Yi Co. Ltd., Twyford Ceramic.
- The newly elected Kenyan government has promised to create 500,000 new low cost homes by the end of its second term. The development will be supported by various administrative and policy reforms that will reduce the construction costs and improve accessibility to mortgages.
- Despite the recent political disruption slowing down activities in the construction sector of Kenya, investors have been showing increased interest in the construction industry in the Kisumu region. The city has witnessed infrastructural developments in hospitality segment, real estate segment and even retail segment.

Kenya Housing Price Change



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



What should real estate investors look for in 2018?

- The economy is expected to rebound in 2018 following a difficult 2017. Some of this rebound will trickle down to the Real Estate market but developers and property owners should not expect things to normalise immediately. In this instance, where should Real Estate Investors focus their attention in 2018? Where to invest in 2018
    - Low Income Housing Development
    - Existing Commercial Properties
    - Student Housing
    - Warehousing and Factory Development
    - Secondary City Retail
- The country in expected to bounce back in 2018 although the impact on the Real Estate sector may take a little longer to fully materialise. The outlook is significantly brighter if the Banks are incentivised to start lending again, but dimmer if political uncertainty returns.(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**

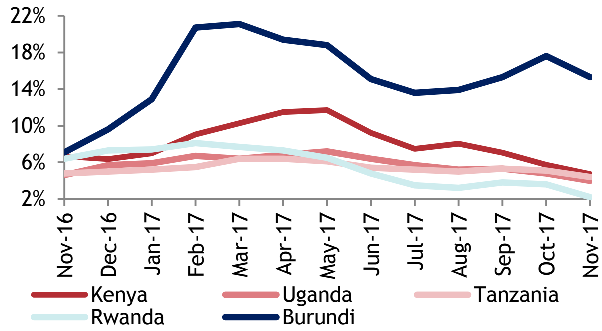
Source: Kenya Bankers Association and Kenya National Bureau of Statistics

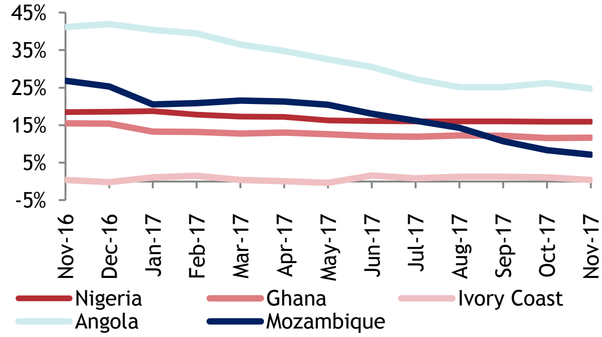
HIGHLIGHTS

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 December 2017, Mozambique's national bank reduced its Central Bank Rate by 150 bps to 20.5%. On the other hand, National Bank of Angola increased its lending rate to 18%, whereas, Central Bank of Uganda retained its lending rate at 9.5% in order to curb inflation.
- In November 2017, inflation eased for all of the Sub Saharan African countries. For **Burundi**, inflation decreased to 15.3% YoY in October 2017 due to slower pace in rising prices of food, non-alcoholic beverages and transport. In **Angola**, inflation decreased to 24.7% YoY in November 2017 due to slower growth in prices of food, non-alcoholic beverages, clothing, footwear and miscellaneous goods and services. Annual inflation rate in **Kenya** fell to 4.7% YoY in November compared to 5.7% YoY in October, mainly due to a fall in price of food items due to favourable weather conditions. Inflation in **Nigeria** decreased nominally to 15.90% YoY in November 2017 due to decline in prices of clothing, housing and utilities. Inflation in **Uganda** decreased to 4.0% YoY in November 2017 from 4.8% YoY in October 2017, mainly due to a drop in prices of food items, especially vegetables . In **Ghana**, consumer inflation increased to 11.7% YoY in November 2017, mainly due to increase in prices of non-food items like transport and clothing and footwear. (details on pages 4 and 5).

Inflation (YoY)





Kenya's Retail Real Estate Sector

- Kenya's economic growth and infrastructure development have increased over the past decade. Increased urbanization coupled with increasing incomes have led to a 65% rise in consumer spending.
- Between 2000 and 2008, Nairobi added 72,000 square meters of retail real estate, while between 2009 and 2017, the capital city added 351,900 square meters (approximately five times of earlier addition) of retail real estate across 17 developments to East Africa's largest commercial hub. The country's retail and real estate sector leveraged this opportunity.
- Even though Nairobi currently has an oversupply of retail space, Kenya's strong growth potential is expected to generate demand in the city's real estate sector. Factors, such as development of oil and gas sectors, can contribute to the upward trend in Kenyan real estate by supporting infrastructure development and urbanization in the country.
- However, the oversupply of retail spaces is expected to exist in the near future, which along with increasing costs, long investment tenors and slow rate of retail stock utilization, tempers investors' expectations of high returns in the short term.
- Nairobi's retail market has evolved with new entrants, who have rapidly adapted to changed consumer behaviour.
- Kenya's vibrant retail market, which has a current penetration rate of just 30%, has lured foreign retail chains such as Carrefour, Choppies, Shoprite etc., in turn witnessing a rise in investment as well as competition in the last 18 months.
- The performance of these retailers in the coming years and the progress of the retail market will drive growth in the retail real estate space. Further, satellite towns in the country-side provide room for expansion and development of retail shops and malls, as an attractive investment option.
- Summarizing, the growth prospects of Kenya, developing infrastructure and oil and gas sectors, strong financial services sector, flourishing real estate sector, proliferating interest of global retailers and increasing digitalization and evolution of Kenyan consumers augur stellar well for the long term growth of Kenyan retail real estate sector.

Source: Individual News websites

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- Kenya recorded its lowest inflation rate since May 2013 of 4.7% YoY in November 2017 easing from 5.7% YoY in October 2017 and below market expectations of 5.5%. 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 and other cooking fuels prices, and house rents pushed up prices for housing utilities.

Uganda

- The consumer price index (CPI) decreased to 4.0% YoY in November 2017 from 4.8% YoY recorded in October 2017. The decrease was primarily due to a drop in food prices, especially that of vegetables. Core inflation, which excludes food, electricity and metered water, declined to 3.3% in November 2017 from 3.5% in October 2017.
- The Central Bank of Uganda in its monetary policy meeting, held the key lending rate at 9.5% stating that earlier policy actions were effective.

Tanzania

- Tanzania's annual headline inflation declined to 4.4% YoY in November 2017 from 5.1% YoY in October 2017. The decline is largely attributable to a decrease in prices of food items such as meat, fish, vegetables etc. The inflation recorded in November 2017 was the lowest inflation rate since March 2015.

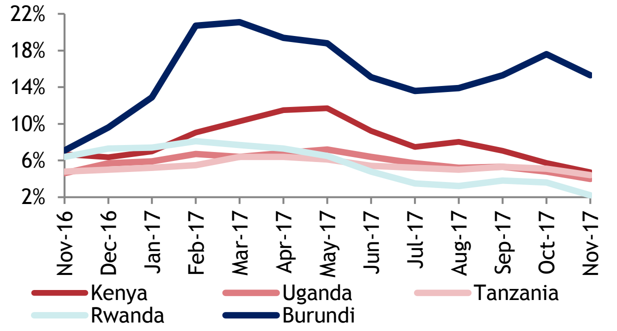
Rwanda

- Rwanda's Urban CPI declined to 2.2% YoY in November 2017 from 3.6% YoY in October 2017. The decline was mainly due to a fall in prices of food and non-alcoholic beverages (2.2% in November 2017 vis-à-vis 6.4% in October 2017), housing water, electricity, gas and other fuels (2.0% in November 2017 vis-à-vis 2.4% in October 2017) and Transport (2.9% in November 2017 vis-à-vis 3.3% in October 2017).
- Rwanda's economy grew by 8% in the third quarter of this year as against 5.4% recorded in the same quarter of the last year.

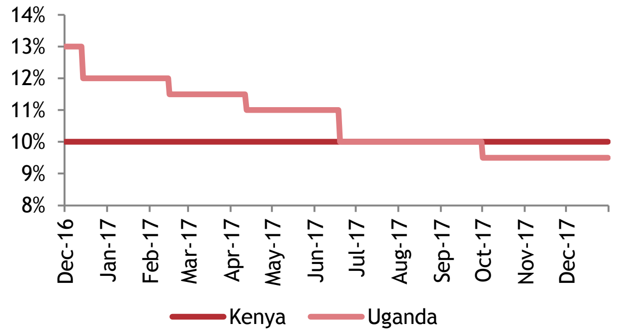
Burundi

- Burundi's annual inflation rate eased to 15.3% YoY in November 2017 compared to 17.6% YoY in October 2017, due to slower pace of rising prices of food and non-alcoholic beverages (22.0% in November 2017 vis-à-vis 27.8% in October 2017), transport (10.1% in November 2017 vis-à-vis 11.1% in October 2017), furniture and housing equipment (7.5% in November 2017 vis-à-vis 8.3% in October 2017) .

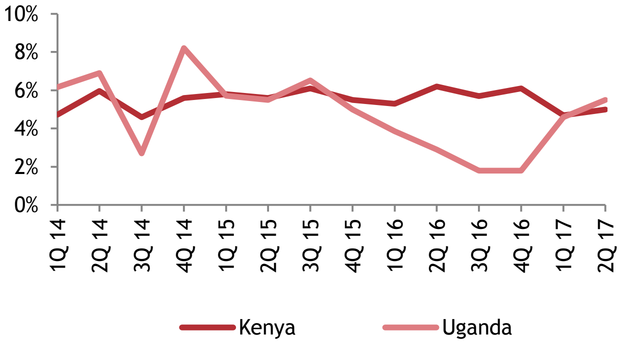
Inflation (YoY)



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 remained nearly the same at 15.9% YoY in November 2017 as compared to 15.91% recorded in October 2017. yet, the inflation slowed in Nigeria for the tenth consecutive month to reach its lowest level since May 2016. The easing of inflation can be attributed to decline in prices of clothing, and housing and utilities.

Ghana

- Consumer inflation increased to 11.7% YoY in November 2017 from 11.6% YoY reported in October 2017, mainly due to an increase in prices of transport, which recorded at inflation of 18.6%, followed by clothing and footwear at 18.3%.
- Ghana's economy grew by 9.3% in the third quarter, up from the 9.0% recorded in the previous quarter of the year.

Ivory Coast

- Consumer inflation in Ivory Coast eased to 0.4% YoY in November 2017 as compared to 1.1% YoY recorded in October 2017. The decline can be attributed mainly to slow growth of prices of food and non-alcoholic beverages (-1.3% in November 2017 vis-à-vis 1.6% in October 2017), clothing and footwear (1.8% in November 2017 vis-à-vis 6.7% in October 2017).

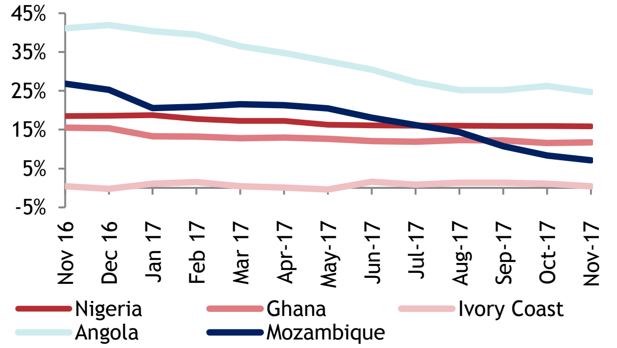
Angola

- Inflation in Angola eased in November 2017 to 24.7% as compared to 26.25% in October 2017. The inflation rate in Angola decreased after increasing in the previous month. The decrease was mainly due to slower growth in price of food and non-alcoholic beverages(0.9% in November 2017 vis-à-vis 1.8% in October 2017), clothing and footwear (2.0% in November 2017 vis-à-vis 3.9% in October 2017) and miscellaneous goods and services (1.3% in November 2017 vis-à-vis 4.0% in October 2017)
- National Bank of Angola increased its interest rate to 18%. It was the first rate hike in the country since July 2016.

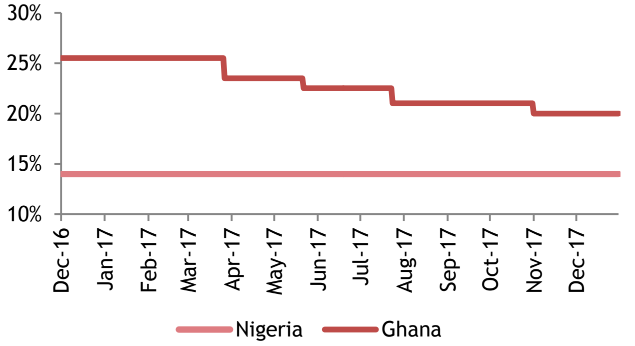
Mozambique

- Consumer inflation eased to 7.2% YoY in November 2017 from 8.4% YoY in October 2017. The inflation rate for November 2017 was the lowest since November 2015. The decrease came mainly on the back of softer pace in price advancement of restaurants and hotels, furniture and household equipment and miscellaneous goods and services.
- Mozambique's central bank reduced its benchmark lending rate by 150 bps to 20.5%.

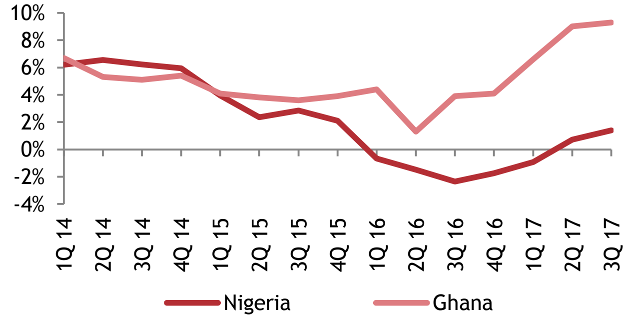
Inflation (YoY)



Movement of Central Banks' Key Rates



GDP Growth in Nigeria and Ghana (YoY)



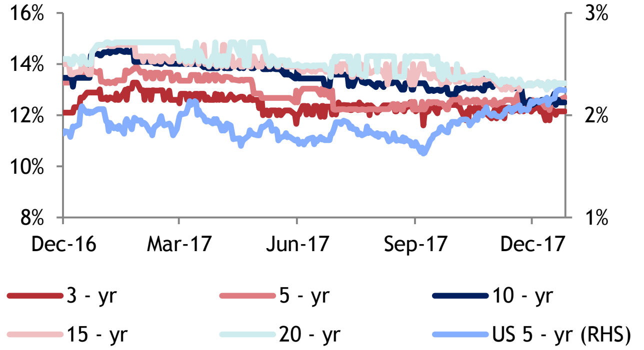
Source: Bloomberg, individual news websites, respective central banks

ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- In December 2017, yields on 3- and 15-year Kenyan bonds decreased by 15 bps and 5 bps, respectively, while yields on 5- and 10-year bonds increased by 20 bps and 25 bps, respectively. Yields on 20-year bonds remained flat.
- The bond yields across the tenors fluctuated during the month.
- A Kenyan government agency is seeking approval from the Treasury to begin July offering of the first tranche of KES 150 billion worth of bonds to finance repairing of roads.
- Most of the cash-rich publicly traded firms withdrew KES 9 billion held in bank and invested in government securities an additional KES 19.6 billion in the last 15 months.
- This was a result of capping of interest rates that was brought into effect last year. The capping lowered the returns on bank deposits, shifting, as a result, investors' interest to high-yield government bonds and T-bills.

Bond Yield Daily Movement



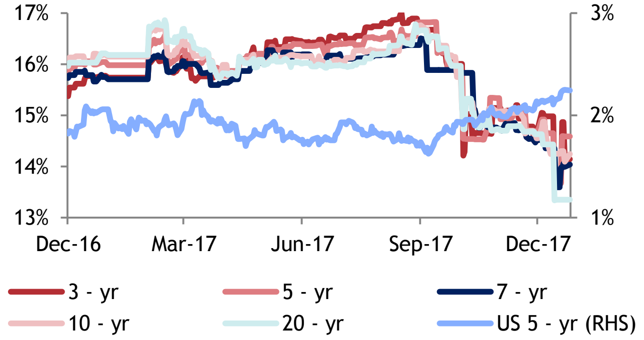
Summary Statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
22-Dec yield (%)	12.2%	12.7%	13.5%	13.2%	13.3%
Chg from 1-Dec 17 (bps)	15	-20	-25	5	0
Chg from 1-Dec 16 (bps)	-5	58	89	155	145

Nigeria

- In December 2017, yields on Nigerian bonds increased for 3-, 5-, 7- and 10- year tenors, while that on 20-year tenor decreased during the same period.
- Yields on Nigerian bonds decreased for 3-, 5-, 7- and 10-year tenors due to less buyers as the economy continue to show signs of stability and investors' preference for high yield emerging market risk assets is increasing.
- The federal government has raised a total of NGN 7.3 billion in the past 10 months from its savings bonds that was introduced in March 2017 to boost investor participation in the bond market.
- The federal government has launched a NGN 10.69 billion Green bond through Debt Management Office to fund clean energy projects. The bond has 5-year tenor and an interest rate of 13.45%.
- Although Kenya had earlier announced to float a Green bond in 2017, Nigeria is the first African country to float its Green bond.

Bond yields daily movement



Summary Statistics

	3-yr	5-yr	7-yr	10-yr	20-yr
22-Dec yield (%)	14.1%	14.6%	14.0%	14.2%	13.4%
Chg from 1-Dec17 (bps)	-90	-33	-48	-63	108
Chg from 1-Dec 16 (bps)	140	134	175	189	268

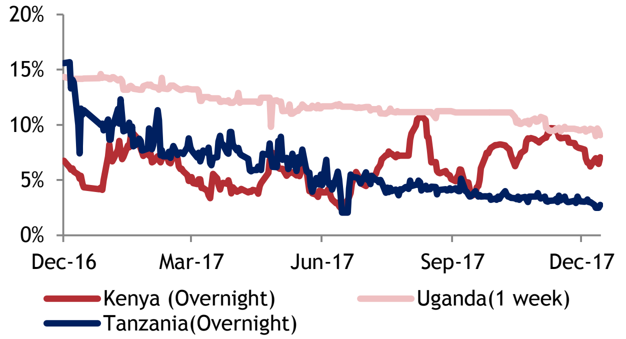
Source: Bloomberg, individual news websites

MONEY MARKETS

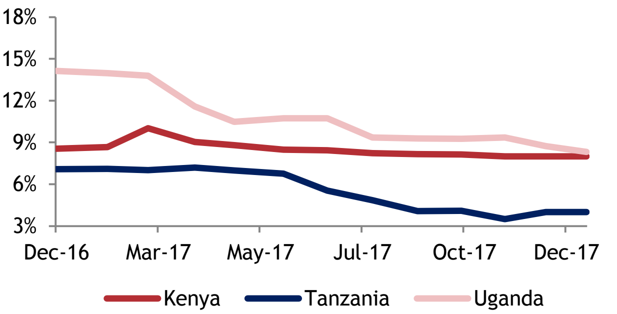
East African Community

- Interbank rates in Tanzania fell to 2.8% on 22nd December 2017 from 3.2% at the beginning of the month, indicating improvement in liquidity in the interbank market. Interbank rates in Kenya decreased to 7.1% on 21st December 2017 from 8.8% at the beginning of the month, reflecting an improvement in liquidity in the interbank market.

Interbank Rates



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



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

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

Data for Kenya-25th Dec'17, Tanzania - 27th Dec'17, Uganda - 21st Dec'17

Policy and Average Interbank Rates (Dec 2017)

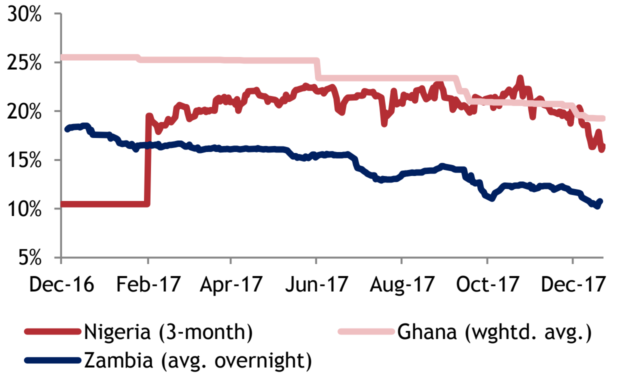
	Kenya (o)	Tanzania (o)	Uganda (1-w)
Policy	10.0%	12.0%	9.5%
Interbank	7.1%*	2.8%	9.1%

*Data till 22nd Dec 2017; * As of 21st Dec 2017*

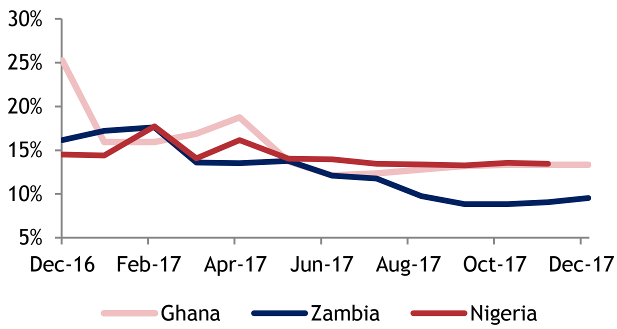
Rest of Sub-Saharan Africa

- Interbank rates in Nigeria decreased to 16.4% on 22nd December 2017 from 19.8% at the start of the month, indicating improvements in liquidity in the interbank market. Interbank rates in Ghana decreased nominally to 19.3% on 22nd December 2017 from 20.7% at the start of the month.

Interbank Rates



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



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

-	Nigeria	Ghana	Zambia
3-m curr dep	13.8%	17.5%	27.0%
91-d/3-m T-bill	13.5%*	13.3%	8.8%

*Data till 22nd Dec 2017; * As of 29th Nov 2017*

Policy and Average Interbank Rates (Dec 2017)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	14.0%	20.0%	10.3%
Interbank	16.4%	19.3%	10.5%*

*Data till 22nd Dec 2017; *As of 30th Nov 2017*

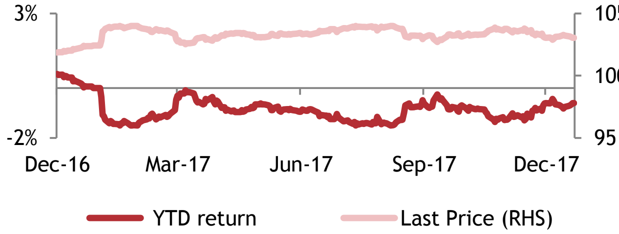
Source: Bloomberg, individual news websites, respective central banks

CURRENCY MARKETS: KENYA, TANZANIA AND UGANDA

Kenyan Shilling (KES)

- The Kenyan shilling appreciated very marginally against the US dollar to KES 103.1 as on 22nd December 2017. The currency rose 0.02% on MTD basis but fell by 0.6% on YTD basis.
- The Kenyan shilling appreciated due to reduced political disruptions and inflows of the greenback from non-governmental organizations.
- Further, the shilling is expected to remain stable in the short term.

USD/KES Daily Movement



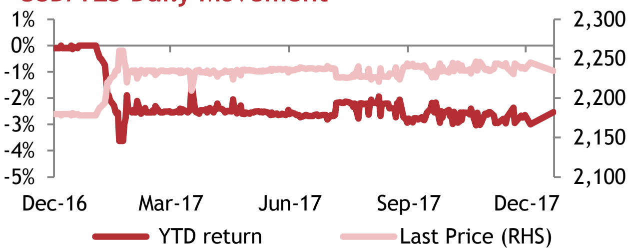
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	103.1	103.1	103.3	102.9	0.02%	-0.6%
EUR*	121.9	122.1	122.5	121.1	0.33%	-12.3%

*Data till 22nd Dec 2017; * As of 26th Dec 2017*

Tanzanian Shilling (TZS)

- The Tanzanian shilling ended higher against the US dollar at TZS 2,234.6 as on 22nd December 2017. The currency rose by 0.5% on MTD basis but fell by 2.5% on YTD basis.
- The Tanzanian shilling strengthened on the back of inflows from exports of cashew nuts and reduced demand from importers.
- The domestic currency is expected to remain firm in near-term as the supply of dollar is expected to increase.

USD/TZS Daily Movement



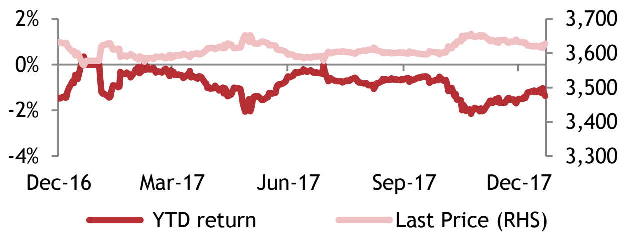
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	2,239.9	2,234.6	2,245.3	2,234.6	0.5%	-2.5%
EUR*	2,649.5	2,649.9	2,664.1	2,636.4	0.5%	-14.6%

*Data till 22nd Dec 2017; *As of 26th Dec 2017*

Ugandan Shilling (UGX)

- The Ugandan shilling appreciated against the US dollar to UGX 3,627.1 as of 22nd December 2017. The currency rose 0.2% on MTD basis; however, fell by 1.4% on YTD basis.
- The Ugandan shilling appreciated against dollar due to low demand and high inflows from non-governmental organisations and commodity exporters.
- 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	3,623.7	3,627.1	3,632.4	3,615.0	0.2%	-1.4%
EUR*	4,281.7	4,295.1	4,322.8	4,250.5	0.6%	-12.9%

*Data till 22nd Dec 2017; *As of 26th Dec 2017*

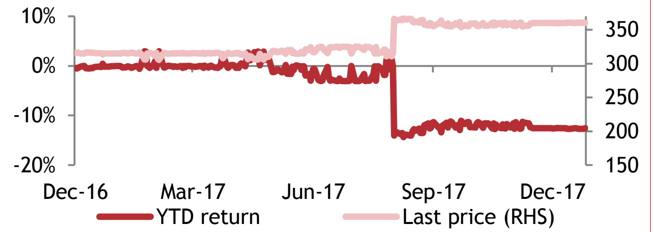
Source: Bloomberg, individual news websites

CURRENCY MARKETS: NIGERIA, RWANDA AND GHANA

Nigerian Naira (NGN)

- The Nigerian naira appreciated very nominally against the US dollar to NGN 360.0 as of 26th December 2017. The naira appreciated by 0.03% on MTD basis; however, fell by 12.6% on YTD basis.
- The naira appreciated in the month of December 2017, as the demand for dollars decreased.
- The naira is expected to appreciate over the short-term due to an expected increase in inflow of dollars from exports.

USD/NGN Daily Movement



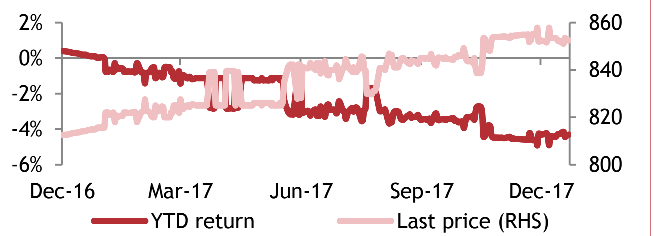
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	360.1	360.0	360.5	359.7	0.03%	-12.6%
EUR	425.7	427.5	428.9	422.1	0.4%	-23.1%

Data till 26th Dec 2017

Rwandan Franc (RWF)

- The Rwandan franc appreciated against the US dollar to settle at RWF 852.4 as of 22nd December 2017. The currency fell 0.05% on MTD basis and 4.3% on YTD basis.
- The franc appreciated as Rwanda's economy grew at 8% in the third quarter of 2017 compared to 4% in the second quarter and 5.4% in the same period of the next period.
- Rwanda's currency is expected to remain mostly stable with some bias towards weakening due to dollar demand.

USD/RWF Daily Movement



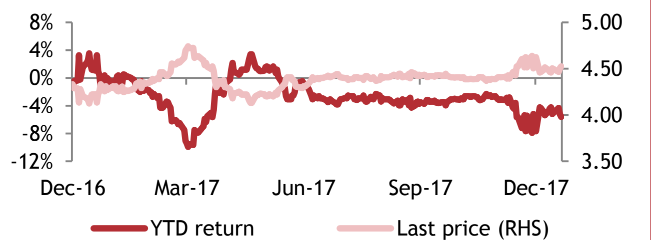
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD*	852.9	852.4	857.8	851.0	-0.05%	-4.3%
EUR	1,005.2	1,011.2	1,012.6	996.2	0.4%	-15.6%

*Data till 26th Dec 2017; * As of 22nd Dec 2017*

New Ghanaian Cedi (GHS)

- The Ghanaian cedi remained flat against the US dollar at GHS 4.5 as of 21st December 2017. The currency strengthened by 1.1% on MTD basis but fell by 5.6% on YTD basis.
- The cedi remained firm against US dollar due to receding demand for the greenback.
- The cedi is expected to remain strong further due to low demand for dollar and improved supply form corporates.

USD/GHS Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD*	4.5	4.5	4.6	4.5	1.1%	-5.6%
EUR	5.3	5.4	5.4	5.2	1.4%	-17.3%

*Data till 26th Dec 2017; *As of 21st Dec 2017*

Source: Bloomberg, individual news websites

SPECIAL FOCUS

Kenya's Retail Real Estate Sector

Kenya's economic growth and infrastructure development have increased over the past decade. Increased urbanization coupled with increasing incomes have led to a 65% rise in consumer spending, These factors have pushed the retail real estate sector to grow five times in the last decade.

Nairobi is the second largest market after South Africa with approximately six million square feet of formal retail space, up 41% from the 3.9 million square feet registered in 2016. It is further expected to grow to 6.9 million square feet by 2020. Between 2000 and 2008, Nairobi added 72,000 square meters of retail real estate, while between 2009 and 2017, the capital city added 351,900 square meters (approximately five times of earlier addition) of retail real estate across 17 developments to East Africa's largest commercial hub. The country's retail and real estate sector leveraged this opportunity. Presence of global banks and a robust financial services sector also contributed to the growth of retail real estate in the country.

Reportedly, vacancy rates in Nairobi have only reduced below 10% after two – three years of operation and as a result many of Nairobi's newer developments have taken more time than expected to mature. Even though Nairobi currently has an oversupply of retail space, Kenya's strong growth potential is expected to generate demand in the city's real estate sector. Factors, such as development of oil and gas sectors, can contribute to the upward trend in Kenyan real estate by supporting infrastructure development and urbanization in the country.

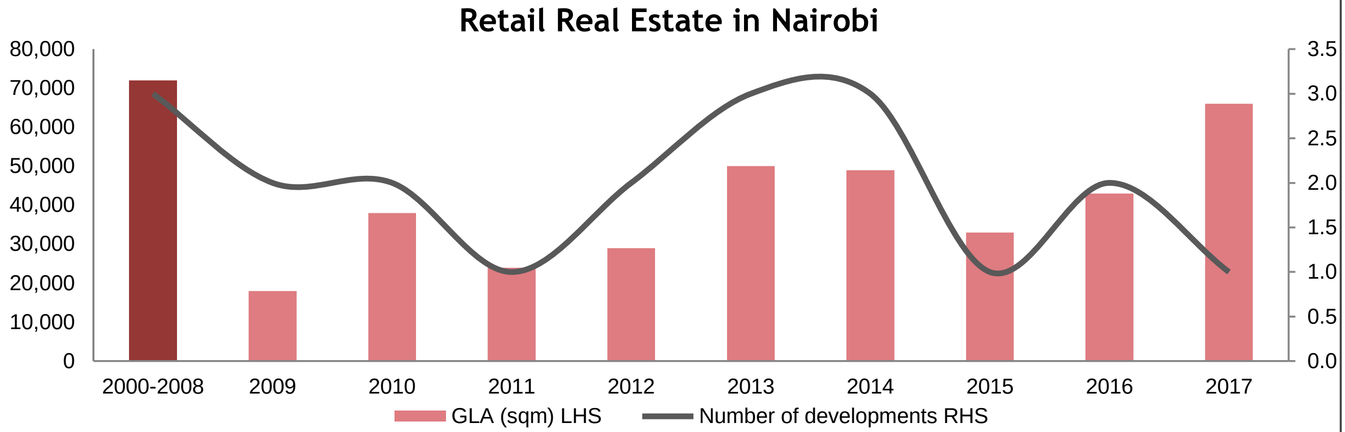
However, the oversupply of retail spaces is expected to exist in the near future, which along with increasing costs, long investment tenors and slow rate of retail stock utilization tempers investors' expectations of high returns in the short term.

Nairobi's retail market has evolved with new entrants, who have rapidly adapted to changed consumer behaviour. Recently built malls reflect the evolution of retail real estate market by offering experiences for the whole family as well as allocating the space to retail as well as entertainment and leisure activities etc.

Kenya's vibrant retail market, which has a current penetration rate of just 30%, has lured foreign retail chains such as Carrefour, Choppies, Shoprite etc., in turn witnessing a rise in investment as well as competition in the last 18 months. The performance of these retailers in the coming years and the progress of the retail market will drive growth in the retail real estate space.

Further, satellite towns in the country-side provide room for expansion and development of retail shops and malls, as an attractive investment option.

Summarizing, the growth prospects of Kenya, developing infrastructure and oil and gas sectors, strong financial services sector, flourishing real estate sector, proliferating interest of global retailers and increasing digitalization and evolution of Kenyan consumers augur stellar well for the long term growth of Kenyan retail real estate sector.



Source: EPROP; Note: GLA - Gross Lease Area

Source: Individual News websites

AUCTIONS AND EVENTS

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

Tanzania's Latest Issuance: 8-yr Bond (Dec 2017)

Issue Date	Maturity	Amt (TZS)	Bid/Cover	YTM	WACY*
20-Dec	8-yr	100.4 Bn	NA	NA	10.08%
Details of issuances in November					
8-Nov	5-yr	90.13 Bn	NA	NA	9.18%
23-Nov	15-yr	97.8 Bn	2.61	15.87%	13.50%

**Weighted average coupon yield; 1 USD = TZS 2,239.9 (average till 22nd Dec 2017)*

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

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int. rate
8-Dec	2-yr	305.91 Mn	FXR Note	1.49	17.50%
Details of issuances in November					
3-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%

**Fixed rate; 1 USD = 4.5 GHS (average till 21st Dec 2017)*

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

Issue Date	Maturity	Amt (UGX)	Bid/Cover	YTM	Coupon
27-Dec	3-yr	86.59 Bn	1.08	10.91%	11.00%
27-Dec	5-yr	60.39 Bn	1.07	12.57%	14.13%
Details of issuances in November					
1-Nov	3-yr	80 Bn	1.35	11.02%	11.00%
1-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%

1 USD = 3,623.7 UGX (average till 22nd Dec 2017)

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

Issue Date	Maturity	Amt Bid (KES)	Amt Acpt (KES)	MWAR*	Coupon
Details of issuances in November					
2-Nov	5-yr	16.5 Bn	NA	NA	12.52%

**Market weighted average rate; 1 USD = 103.1 KES (average till 22nd Dec 2017)*

Upcoming Bond Auctions and Monetary Policy Meetings

- **03 January 2018:** Nigeria to sell bills
- **17 January 2018:** Nigeria to sell bills
- **31 January 2018:** Nigeria to sell bills

Monetary policy meetings are scheduled to be held on:

- **22 January 2018** (Central bank of Ghana)
- **23 January 2018** (Central bank of Nigeria)
- **24 January 2018** (Central bank of Angola)
- **24 January 2018** (Central bank of Kenya)

Source: Bloomberg, individual news websites, respective central banks

Fusion Real Estate Focus Article

What should real estate investors look for in 2018?

The economy is expected to rebound in 2018 following a difficult 2017. Some of this rebound will trickle down to the Real Estate market but developers and property owners should not expect things to normalise immediately. In this instance, where should Real Estate Investors focus their attention in 2018?

Key 2018 Macroeconomic trends

The year 2017 saw a significant reduction in consumer spending and both local and international investment. This slowdown was largely due to two factors: the prolonged presidential election, and a legislation driven slowdown in lending.

The election period led to a “wait and see” attitude in everything from large scale investment to supermarket spending. Assuming the political climate remains calm, we expect this consumer confidence to normalise rapidly in 2018.

In addition to this, the interest rate cap led to a massive reduction in SME and Real Estate Loans. Simply put, the cap made the margin between lending to companies and investing in government securities too low to warrant the additional risk. A reversal of this cap would lead to a significant increase in investment and give a well needed boost to the economy. During a recent press conference in September, the Central Bank Governor, Dr Patrick Njoroge, commented that the interest rate cap on loans would soon be reversed admitting that it had been “problematic in many ways”, analysts expect this reversal to take 6-12 months.

International investors continue to fund large scale infrastructure projects including: the improvement of major highways, feeder roads, rail networks; and airport facilities. These schemes coupled with government led incentives – e.g. the Energy Regulation Commission (ERC) proposed late night commercial and industrial power tariff discounts - will lead to an increase in manufacturing demand and output. But what does all this mean for the Real Estate sector?

Where to invest Real Estate in 2018

1. Low Income Housing Development – There continues to be a significant undersupply in low to middle income housing (Kes 2 – 10 million price range) as highlighted in the Government’s plan to build a million units of public rental housing over the next five years. This sector is undersupplied because margins remain razor thin. If the government creates the relevant incentives to widen this margin, low income housing could be a boom market for 2018.
2. Existing Commercial Properties – Businesses looking to move office in 2017 firmly adopted the “wait and see” election approach mentioned above. A major upswing in office enquiries is therefore expected in Q1 2018. Existing commercial property backed with impatient capital is currently very affordable and the right property purchase should be able to provide 12%+ yields over a 5+ year horizon.
3 .Student Housing – Universities are keen to move to the European model of housing all first year students on campus. This guaranteed tenanting makes the development of student accommodation very attractive to yield investors.
4. Warehousing and Factory Development – The increase in manufacturing will increase demand for warehouses. Long lease warehousing has been, and continues to be, one of the most attractive Real Estate investment opportunities.
5. Secondary City Retail – Nairobians now have ample options for consumer spending, however the majority of the county towns remain undersupplied. The county retail must be customized to fit its demographics. Developers will need to avoid copy pasting the Nairobi model.

Real Estate Areas to avoid in 2018

High income residential – There continues to be an oversupply of High income residential within Nairobi and its environs. The reality is that until the mortgage market opens up, there are very few people able to spend Kes 20M+ on a residential unit.

Nairobi Large Scale Retail – The widely mentioned oversupply in malls within Nairobi has not curbed developer’s enthusiasm for the sector. Almost weekly we are approached with new proposals for Retail developments in and around the countries capital. In 2017, the vacancy rates increased, a trend expected to worsen in 2018 as we see more demand for convenience shopping and online retail offerings.

Conclusion

In summary, the country in expected to bounce back in 2018 although the impact on the Real Estate sector may take a little longer to fully materialise. The outlook is significantly brighter if the Banks are incentivised to start lending again, but dimmer if political uncertainty returns. Despite these factors, Real Estate investment remains a great low risk investment option, especially for people looking at longer term investment horizons.

KIMONDO'S CORNER

Blockchain and the Investment Industry

Blockchain refers to a distributed or decentralised public ledger or database of records of executed and shared digital events among participating parties. When persons transact in a blockchain system, a public record of all transactions is automatically generated and are visible to all participants which increase trust and reliability since participants can access the transactions from different nodes if one-point node fails. These transactions are verified by computers using sophisticated algorithms to confirm transfer of value and create a historical record of all activity which are impossible to change thus it contains an accurate and verifiable record of each and every transaction ever made which reduces opportunity for fraud.

The technology was originally devised to help traders trade in Bitcoin which is the best-known example of blockchain technology. However, the technology is not limited to cryptocurrencies, but has unlimited potential in application. Blockchain is hailed as a revolutionary technology and is claimed to have the potential to lower transaction charges, improve on efficiency and transform the investment business value chain. This technology is ushering in a new set of tools to cut costs and challenge the profit pool of the middle men with a promise to make centralised institutions obsolete.

Blockchain technology has the ability to create new financial connection through an automated payment system or an automated securities transfer by capturing and securing on the blockchain technology time, location, and electronic signature characteristics for each component of the new financial connection or relationship. Blockchain can have a deep impact on the settlement of securities transactions and afford huge opportunity to reduce the frictional costs of asset managers leading to reduced charges for investors.

The ability of blockchain distributed ledgers to replace intermediary centralised systems of record has attracted real interest in buy-side firms given the potential to cut cost, reduce delays, provide more timely and accurate data and enhance reporting accuracy. Firms will be able to very easily track chain of custody on asset transactions and easily allow verification of ownership of those assets that are moving.

In order to provide services to customers a value chain of activities that are performed in an investment firm, some activities within the chain processes are more suited to transition to a blockchain infrastructure than others. Transactions or processes that have multiple parties giving approval, strong audit, compliance, and regulatory oversight tend to be better suited for blockchain adoption.

Venture capital–backed Ripple Labs is using blockchain technology to reinvent the banking ecosystem and allow traditional financial institutions to conduct their own business more efficiently. Ripple's payment network lets banks transfer funds and foreign exchange transactions directly between themselves without a third-party intermediary, as is now required. Regional banks can now move money bilaterally to other regional banks without having to relay those funds through an intermediary.

Blockchain is a sensational new technology with huge potential to disrupt and improve numerous industries. But it is not the answer to everything. Understanding which use cases you should pursue requires business understanding and technology knowledge, including your business strategy and process, the market you operate in, technology provider landscape and evolution of the technology.

DISCLAIMER

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