FUSION AFRICAN MONITOR

Current news and analysis from Sub-Saharan money markets

January 2018

FUSION INVESTMENT MANAGEMENT
Rooted in the African growth story

HIGHLIGHTS

Key Movements in Fixed Income and Currency Markets in January 2018

- In January 2018, bond yields in Kenya increased by 11 and 21 basis points (bps) for 3- and 20-year tenors, respectively, while they decreased by 35 bps for 10-year tenor and remained flat for 5-year tenor; whereas, Nigeria's bond yields declined across tenors. Nigeria's 3-, 5-, 10-, 20- year yields decreased by 32, 36, 65 and 84 bps, respectively.
- In January 2018, Kenyan shilling, Ugandan shilling and Tanzanian shilling appreciated against USD, while Ghanaian cedi and Nigerian naira depreciated. The Kenyan shilling appreciated to KES 102.4 against the US dollar, as demand for dollar was supported by inflows from exporters. The Tanzanian shilling ended higher at TZS 2,240.3 per dollar, while the Nigerian naira fell to end at 360.1. The Ugandan shilling appreciated to reach UGX 3,631.9 per dollar citing low dollar demand and increase in dollar supply. The Ghanaian cedi, on the other hand, depreciated to reach GHS 4.5 against the US dollar due to unmet dollar demand from local businesses and offshore investors. (refer to pages 8 and 9 for details).
- Among the money markets, interbank rates in Tanzania declined to 2% near the end of the month from 2.8% at the beginning of the month. Meanwhile, interbank rates in Kenya also decreased to 6.3% from 6.9% during the same period. (details on page 7).

January Bond Market Summary

	3-yr	5-yr	10-yr	20-yr
Kenya 26-Jan yield (%)	12.3%	12.6%	13.0%	13.4%
Chg from 2-Jan 18 (bps)	-11	0	35	-21
Nigeria 26-Jan yield (%)	13.9%	13.7%	13.4%	13.2%
Chg from 2-Jan 18 (bps)	32	36	65	84

Movement of Key Currencies versus US Dollar in January 2018

	Average	End Value	MTD	YTD
Kenyan Shilling	103.0	102.4	0.9%	0.9%
Ugandan Shilling	3,642.5	3,631.9	0.3%	0.3%
Nigerian Naira	360.2	360.1	-0.02%	-0.02%
Tanzania Shilling	2,240.5	2,240.3	0.3%	0.3%
Ghanaian Cedi	4.5	4.5	-1.3%	-1.3%

Data till 26th Jan 2018

Kimondo's Corner

The Wealth Management Industry in Africa

Wealth Management is the ability of an advisor or advisory team to deliver a full range of financial services and products to affluent clients in a consultative way. Its size and growth make the High Net Worth Individuals (HNI) segment of the global wealth management market, particularly, attractive. Today's market for net investable assets already exceeds USD 55 trillion and it is expected to grow to USD 70 trillion, by 2021. In 2016, total wealth held on the African continent amounted to approximately USD 2.2 trillion.

In Kenya wealth preservation and capital growth are the two most important factors that high net-worth Kenyans are considering when making wealth management and investment decisions (details on page 13).

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Fusion Portfolio Management Service

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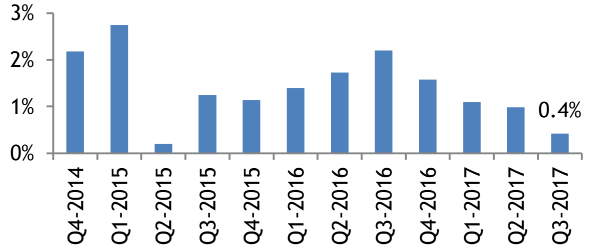
Source: Bloomberg and respective central banks

HIGHLIGHTS

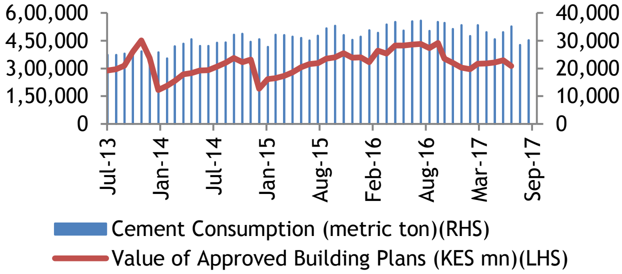
Key Trends in East African Real Estate Sector

- According to a report by FSDH Merchant, real estate sector, which is expected to grow at 2.5% in 2018, will be one of six sectors to contribute significantly to Nigeria's growth.
- Principal Secretary for Housing and Urban Development in Kenya recently stated that the country will increase investments in affordable modern houses as a part of the government's sustainable urbanization agenda. Kenyan President Kenyatta, during his inaugural address, had announced plans to develop 200,000 housing units annually.
- Tatu City's new luxurious estate in Kiambu county is set to rival Nairobi's lavish neighbourhoods Muthaiga and Karen. Tatu City has partitioned its residential land so as to keep the apartments closer to the road area. The apartments will be followed by bungalows and villas, which will be built on half and a quarter acre plots.
- According to Nigerian Real Estate in 2018 by JLL, the real estate sector is set to grow once again in 2018. The growth is expected to be modest in the near term as the country exits recession but with easing inflation the pressure on naira will decline giving rise to disposable income and in turn consumer demand.

Kenya Housing Price Change



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



Distressed asset real estate investing - is now the time to be buying?

- With some residential and commercial nodes facing an oversupply, depressed sales figures across the board, and the disappearance of the senior debt market, we have to assume that some real estate investors are hurting and in desperate need of liquidity. As any equities trader will tell you, this is the best time to buy.
- A distressed asset is defined as an asset that is put on sale, usually at a cheap price, because its owner is forced to sell it.
- There are, however, many instances where landlords are forced to sell perfectly fine buildings because of external factors. These deals are often hard to spot but can significantly improve the returns of a real estate investment (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**

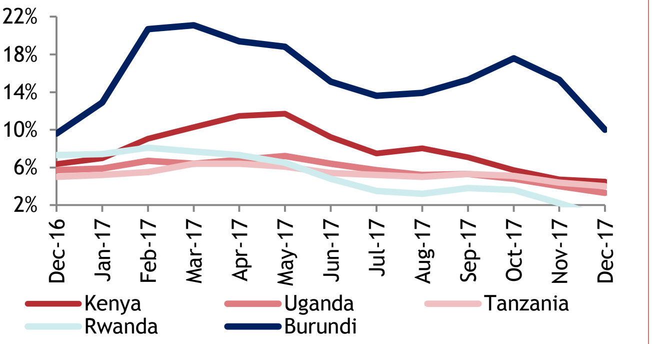
Source: Kenya Bankers Association and Kenya National Bureau of Statistics

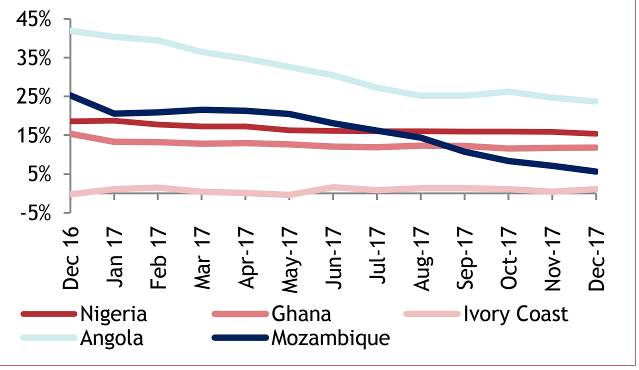
HIGHLIGHTS

Activity Across Africa: Economy and Politics

- According to a report by the International Monetary Fund (IMF), economic growth in the Sub Saharan region is expected to be 3.3% in 2018 and 3.5% in 2019, as compared to an estimated 2.7% for 2017. IMF raised its growth forecast for Nigeria, but expects the South African economy to witness subdued growth (below 1.0%) in 2018-19, due to increased political uncertainty.
- In January 2018, Central bank of Kenya maintained its Central Bank Rate at 10% due to inflation trending down and a positive macro-environment. Similarly, Bank of Ghana retained its lending rate at 20%, in order to curb inflation. Meanwhile, Central Bank of Nigeria cancelled its monetary policy meeting and stated that the rate will remain unchanged at 14%.
- In December 2017, inflation increased in Ghana and Ivory Coast, while the rest of SSA countries recorded a decrease in inflation. For **Burundi**, inflation decreased to 10.0% YoY in January 2018 due to slower growth in prices of food, non-alcoholic beverages, housing and utilities. In **Kenya**, inflation rate decreased to 4.5% YoY in December 2017 from 4.7% in November, due to a slower growth in prices of housing and utilities. Annual inflation rate in **Nigeria** fell to 15.4% YoY in December 2017 from 15.9% YoY in November as prices for food and non-alcoholic beverages and housing and utilities rose at a slower pace. Inflation in **Uganda** decreased to 3.3% YoY in December 2017 from 4.0% in November due to easing prices of fruits and vegetables. Inflation in **Ghana** increased marginally to 11.8% YoY in December 2017 from 11.7% in November, mainly due increase in price of food and non-alcoholic beverages. In **Ivory Coast**, consumer inflation increased to 1.1% YoY in December 2017, mainly due to increase in prices of food and non-alcoholic beverages. (details on pages 4 and 5).

Inflation (YoY)





The Affordable Housing Plan of Kenya

Affordable Housing Plan:

- Kenya faces an annual housing deficit of around 200,000 housing units and in an effort to reduce this deficit the recently elected Kenyan government has decided to pay special attention to housing along with three other areas.
- The government announced an affordable housing plan worth KES 2.6 trillion, with a target of constructing one million houses by 2023.
- The government plans to partner with 35 private players to develop these housing units and has also approved a number of facilitative policies.
- Moreover, in order to attract private sector investment in building housing for low income families, the government has rolled out incentives.

Why do developers avoid to be a part of affordable housing plan?

- Majority of the construction projects in Kenya encounter more cost and time than expected; however, as most of these are high-end projects targeting people with higher incomes, the selling price of the units are adjusted such that it makes up for the additional cost and time incurred on the project.
- Due to the existence of these cost and time overruns and unavailability of an opportunity to recover the additional spend, developers find it risky to take part in such projects.

What will help the government?

- With numerous countries planning and executing affordable housing programme, Kenyan government can adopt from them many lessons and strategies.
- Providing real estate developers with various incentives such as free sale areas, extra floor space index (FSI) and facilitative policies can stimulate developers' interest in low cost developments.
- An analysis of cost from developers' perspective will help in saving on additional cost while use of geographical information systems and use of technology in implementation can smoothen the process in turn speeding up the execution.
- Private sector can play a significant role in facilitating financing needs, technology needs and efficient delivery of the project. Innovations on these fronts can help in reduction of construction cost, maximizing returns for developers as a result.

Source: Individual News websites

ACTIVITY ACROSS AFRICA: ECONOMY AND POLITICS

East African Community

Kenya

- Inflation rate in Kenya eased to 4.5% YoY in December 2017, its lowest level since May 2013, from 4.7% YoY in the previous month. The decline came mainly on the back of lower food prices as well as softer growth in prices of housing and utilities (5.13% in December 2017 vis-à-vis 5.27% in November 2017). On the other hand, transport prices rose during the period as a result of increased fuel prices.
- In its January meeting, the Central Bank of Kenya held its lending rate at 10% for the eighth time in a row, citing macroeconomic stability, better growth prospects and improving business environment as well as a satisfactory inflation level.
- The GDP of Kenya in the third quarter of 2017 grew at 4.4% as compared to 5.6% registered during the same period last year. Political uncertainty and adverse weather conditions slowed down the performance of the economy.

Uganda

- The consumer price index (CPI) decreased to 3.3% YoY in December 2017 from 4.0% YoY recorded in November 2017. The decline was primarily due to a drop in food crops inflation (-0.7% in December 2017 vis-à-vis 2.3% in November 2017). The decline in food crops inflation was driven by declining prices of vegetable and fruits.
- The GDP of Uganda grew at 7.5% in the third quarter of 2017 as against an upward revised rate of 6.5% recorded for the second quarter of the same year.

Tanzania

- Tanzania's annual headline inflation rate declined to 4.0% YoY in December 2017 from 4.4% YoY in November 2017. The decline is largely attributable to a decrease in prices of food and non-alcoholic beverages. The food and non-alcoholic beverages inflation rate fell to 6.2% in December 2017 as against 7.4% in November 2017.

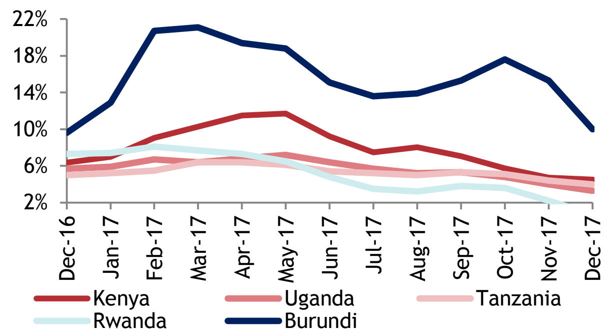
Rwanda

- Rwanda's Urban CPI declined to 0.7% YoY in December 2017 from 2.2% YoY in November 2017. The decline was mainly due to a fall in prices of food and non-alcoholic beverages that declined by 4.5% in December 2017.

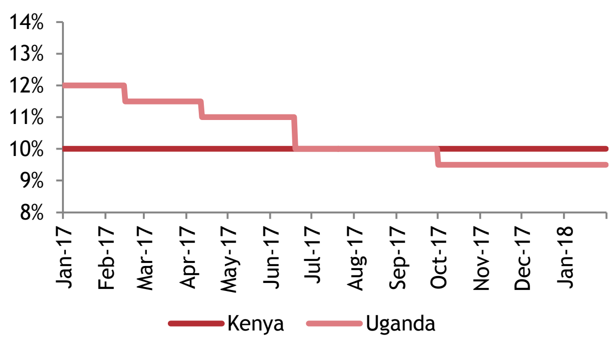
Burundi

- Inflation rate in Burundi decreased to 10% YoY in December 2017 from 15.3% YoY recorded in November 2017 as a result of slower growth in prices of food and non-alcoholic beverages, and housing and utilities.

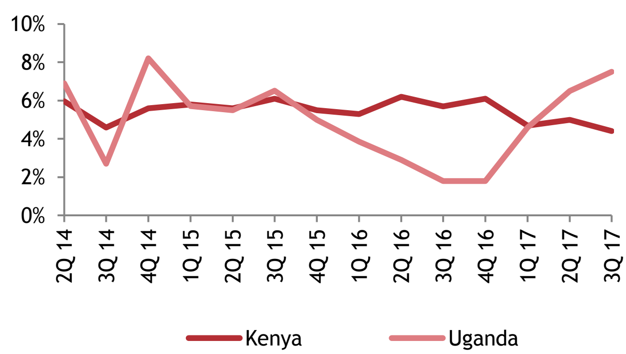
Inflation (YoY)



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 marginally to 15.4% YoY in December 2017 as against 15.9% in the previous month. The inflation slowed in Nigeria for the eleventh consecutive month and was the lowest since April 2016. The easing of inflation can be attributed to decline in prices of food and non-alcoholic beverages (19.4% in December 2017 vis-à-vis 20.2% in November 2017), and housing and utilities (8.3% in December 2017 vis-à-vis 8.4% In November 2017).
- The Central Bank of Nigeria cancelled its Monetary Policy Meeting that was to be held in January, as it was unable to form a quorum and stated that the rates will remain unchanged at 14%.

Ghana

- Consumer inflation increased marginally to 11.8% YoY in December 2017 from 11.7% YoY reported in November 2017, mainly due to a 0.1% increase in inflation rate of food and non-alcoholic beverages.
- The Central Bank of Ghana held its interest rate unchanged at 20% to curb inflation.
- Ghana's GDP in the third quarter of 2017 grew at 9.3%, up from 9% recorded in the second quarter of the same year.

Ivory Coast

- Consumer inflation in Ivory Coast increased to 1.1% YoY in December 2017 as compared to 0.4% YoY recorded in November 2017. The increase can be attributed mainly to rebound in prices of food and non-alcoholic beverages (1.2% in December 2017 vis-à-vis -1.3% in November 2017).

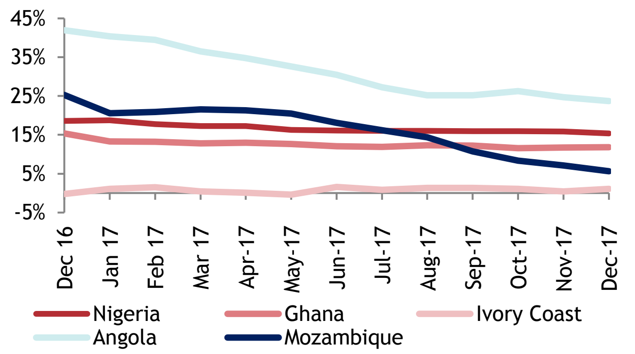
Angola

- Inflation in Angola eased in December 2017 to 23.7% as compared to 24.7% in November 2017. The inflation rate in Angola decreased mainly due to declining prices of food.

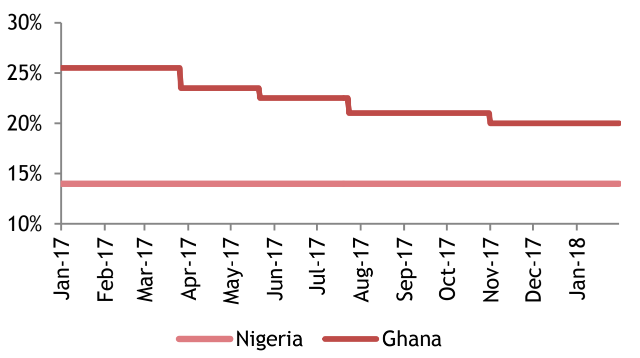
Mozambique

- Consumer inflation eased to 5.7% in December 2017 as against 7.2% recorded in November 2017. The inflation rate of Mozambique fell for the ninth consecutive month. The decline can be ascribed to softer growth in prices for food and non-alcoholic beverages (1.8% in December 2017 vis-à-vis 5.1% in November 2017), clothing and footwear (7.4% in December 2017 vis-à-vis 12.1% in November 2017), restaurants and hotels (8.6% in December 2017 vis-à-vis 9.1% in November 2017).

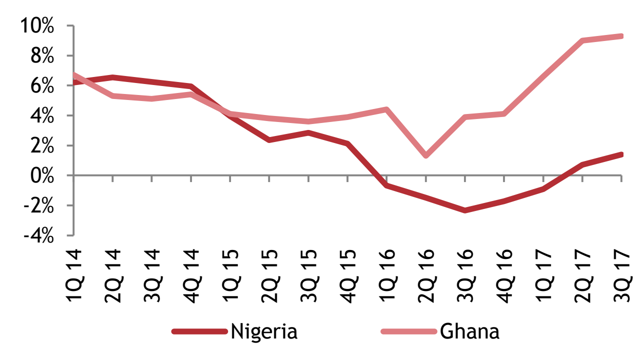
Inflation (YoY)



Movement of Central Banks' Key Rates



GDP Growth in Nigeria and Ghana (YoY)



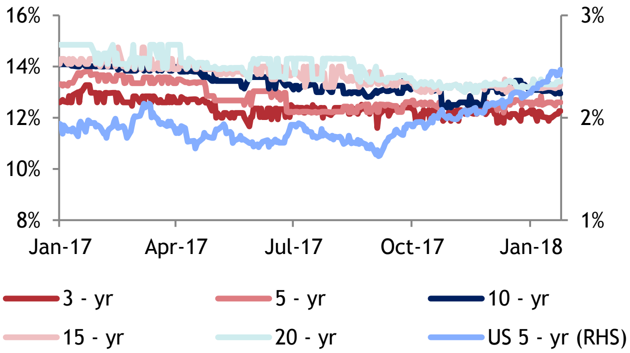
Source: Bloomberg, individual news websites, respective central banks

ACTIVITY ACROSS AFRICA: BOND MARKETS

Kenya

- In January 2018, yields on Kenyan bonds increased by 11 bps, 10 bps and 21 bps for 3-, 15- and 20-year tenors, respectively, while yields on 10-year tenor bonds decreased by 35 bps. Yields on bonds with 5-year tenor remained flat during the same period.
- On a yearly basis, the yields decreased across 3-, 5-, 10-, 15- and 20-year tenors by 44 bps, 65 bps, 114 bps, 100 bps and 144 bps, respectively.
- The Kenyan government floated a KES 40 billion worth 15-year infrastructure bond in January 2018. According to the Central bank of Kenya, the fixed coupon bond will return 12.5% interest per annum on a required minimum investment of KES 0.1 million and maximum of KES 20 million per investor.
- The Central Bank of Kenya held its interest rate at 10% citing macroeconomic stability, better growth prospects, improving business environment as well as a satisfactory inflation level.

Bond Yield Daily Movement



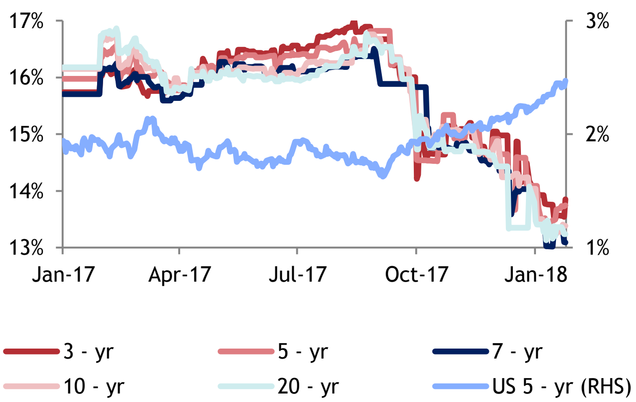
Summary Statistics

	3-yr	5-yr	10-yr	15-yr	20-yr
26-Jan yield (%)	12.3%	12.6%	13.0%	13.3%	13.4%
Chg from 2-Jan 18 (bps)	-11	0	35	-10	-21
Chg from 2-Jan 17 (bps)	44	65	114	100	144

Nigeria

- In January 2018, yields on Nigerian bonds decreased across tenors. The yield on 3-, 5-, 7-, 10-, and 20-year bonds fell by 32 bps, 36 bps, 94 bps, 65 bps, and 84 bps, respectively.
- Yields on Nigerian bonds decreased across all tenors with less buyers on some maturities compressing yields.
- Federal Government of Nigeria (FGN)'s first bond offer for 2018 with coupon of 14.50% for 5-year tenor and 16.29% for 10-year tenor, had a subscription rate of 136%. According to the Debt Management Office (DMO), the 5-year bond was sold at 13.38% and the 10-year bond was sold at 13.49%, higher than 13.19% and 13.21% fetched by 5-year and 10-year bonds, respectively, in the last auction. The total subscription at the sale was of N150 billion.
- The Central Bank of Nigeria called off its monetary policy meeting, which was to be held in January, as it was unable to form a quorum and stated that the interest rate will remain unchanged at 14%.

Bond yields daily movement



Summary Statistics

	3-yr	5-yr	7-yr	10-yr	20-yr
26-Jan yield (%)	13.9%	13.7%	13.1%	13.4%	13.2%
Chg from 2-Jan 18 (bps)	32	36	94	65	84
Chg from 2-Jan 17 (bps)	188	223	261	277	294

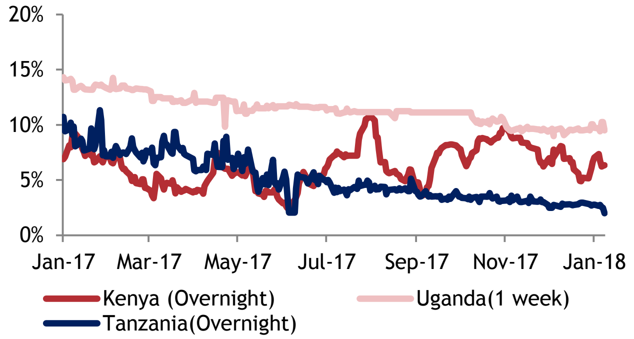
Source: Bloomberg, individual news websites

MONEY MARKETS

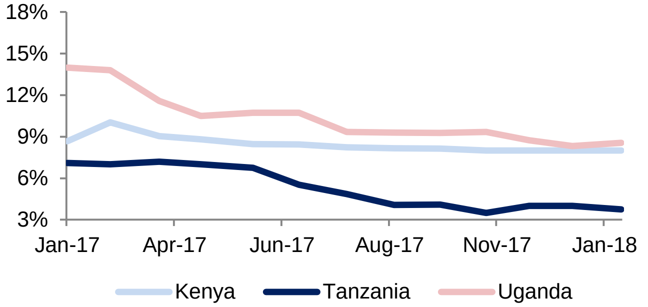
East African Community

- Interbank rates in Tanzania fell to 2.0% on 26th January 2018 from 2.8% at the beginning of the month, indicating improvement in liquidity in the interbank market. Similarly, interbank rates in Kenya decreased to 6.3% on 25th January 2018 from 6.9% at the beginning of the month.

Interbank Rates



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



3-month Currency Deposit and T-bill Rates (Jan 2018)

	Kenya	Tanzania	Uganda
3-m curr dep	8.3%*	4.5%	8.0%
91-d/3-m T-bill	8.0%	3.8%	8.6%

*Data till 26th Jan 2018; *As of Dec 2017*

Policy and Average Interbank Rates (Jan 2018)

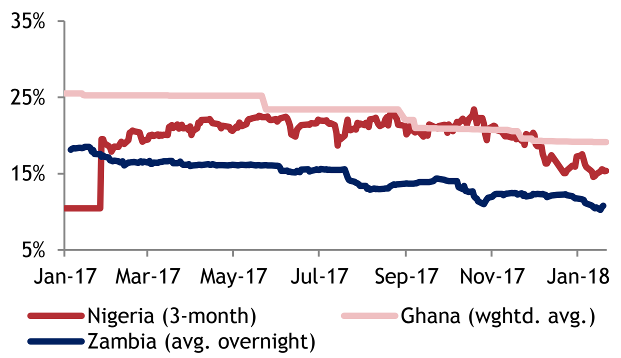
	Kenya (o)	Tanzania (o)	Uganda (1-w)
Policy	10.0%	12.0%	9.5%
Interbank	6.3%*	2.0%	9.5%*

*Data till 26th Jan 2018; *As of 25th Jan 2018*

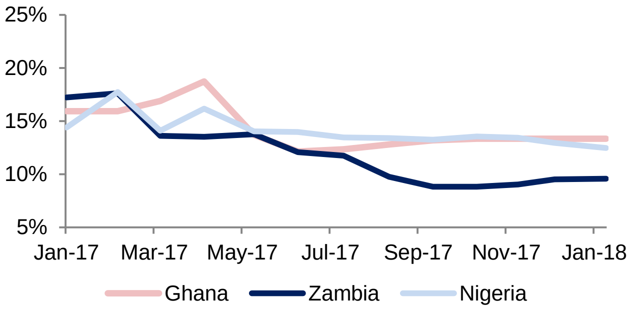
Rest of Sub-Saharan Africa

- Interbank rates in Nigeria decreased to 15.4% on 26th January 2018 from 16.02% at the start of the month, indicating improvements in liquidity in the interbank market. Similarly, interbank rates in Ghana decreased marginally to 19.14% on 26th January 2018 from 19.19% at the start of the month.

Interbank Rates



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



3-month Currency Deposit and T-bill Rates (Jan 2018)

-	Nigeria	Ghana	Zambia
3-m curr dep	13.8%*	16.7%	27.0%**
91-d/3-m T-bill	12.5%	13.4%	9.6%

*Data till 26th Jan 2018; *As of Dec 2017; **As of Aug 2017*

Policy and Average Interbank Rates (Jan 2018)

	Nigeria (3-m)	Ghana (wt avg)	Zambia (o)
Policy	14.0%	20.0%	10.3%
Interbank	15.4%	19.1%	10.5%*

*Data till 26th Jan 2018; *As of Nov 2017*

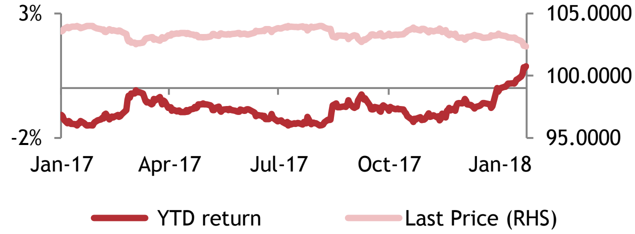
Source: Bloomberg, individual news websites, respective central banks

CURRENCY MARKETS: KENYA, TANZANIA AND UGANDA

Kenyan Shilling (KES)

- The Kenyan shilling appreciated against the US dollar to KES 102.4 as on 26th January 2018. The currency rose 0.9% on MTD basis in the first month of the year.
- The Kenyan shilling appreciated due to demand from offshore investors buying government debt. Also, a weakening greenback and inflows from horticulture exporters that satisfied dollar demand from oil companies and traders supported the shilling.
- However, the shilling is expected to weaken going forward due increase in dollar demand from traders.

USD/KES Daily Movement



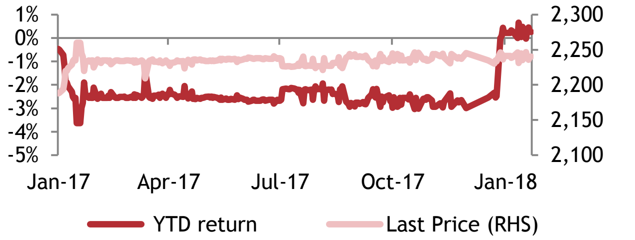
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	103.0	102.4	103.4	102.4	0.9%	0.9%
EUR	125.2	127.2	127.2	123.2	-2.6%	-2.6%

Data till 26th Jan 2018

Tanzanian Shilling (TZS)

- The Tanzanian shilling rose against the US dollar at TZS 2,240.3 as on 26th January 2018. The currency appreciated by 0.3% on MTD basis.
- In January 2018, the domestic currency rose against the US dollar primarily due to a weak dollar and subdued demand for it.
- The domestic currency is expected to remain stable in the near-term as the demand for dollar from importers is expected to decrease.

USD/TZS Daily Movement



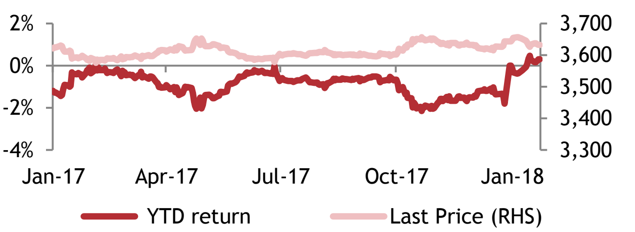
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	2,240.5	2,240.3	2,246.5	2,231.4	0.3%	0.3%
EUR	2,724.1	2,783.5	2,783.5	2,674.5	-3.1%	-3.1%

Data till 26th Jan 2018

Ugandan Shilling (UGX)

- The Ugandan shilling appreciated against the US dollar to UGX 3,631.9 as of 26th January 2018. The currency rose 0.3% on MTD basis
- The Ugandan shilling appreciated against dollar due to low demand from importers, inflows from farm exporters, which was supported by mid month tax payments that kept most firms out of the market, during January 2018.
- However, the local currency is expected to decline against the dollar during the month end due to rising demand from manufacturing and energy sectors.

USD/UGX Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	3,642.5	3,631.9	3,656.6	3,626.0	0.3%	0.3%
EUR	4,428.6	4,512.4	4,512.4	4,369.1	-3.1%	-3.1%

Data till 26th Jan 2018

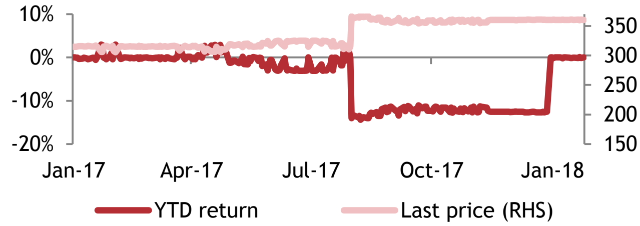
Source: Bloomberg, individual news websites; Note: Reference point for 2018 YTD returns is the start of 2018 and for 2017 YTD returns is the start of 2017

CURRENCY MARKETS: NIGERIA, RWANDA AND GHANA

Nigerian Naira (NGN)

- The Nigerian naira depreciated marginally against the US dollar to NGN 360.1 as of 26th January 2018. The naira depreciated by 0.02% on MTD basis.
- The naira depreciated only marginally against the greenback as the Central Bank intervened by injecting US$ 304.4 million into the currency market in order to alleviate shortages.
- The naira is expected to rise going forward on the back of tepid dollar demand as the Central Bank will sustain its intervention to ensure liquidity in the money market.

USD/NGN Daily Movement



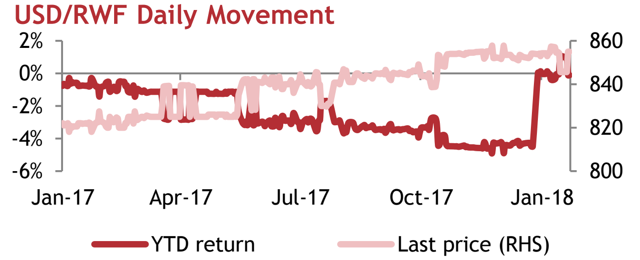
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	360.2	360.1	360.7	359.8	-0.02%	-0.02%
EUR	438.3	446.9	447.6	430.1	-3.3%	-3.3%

Data till 26th Jan 2018

Rwandan Franc (RWF)

- The Rwandan franc fell against the US dollar to settle at RWF 855.0 as of 26th January 2018.
- The franc appreciated against the US dollar during the current month as the International Monetary Fund (IMF) approved the extension of Rwanda's policy support instrument and also enabled US dollar 25.8 million disbursement from a standby credit facility for the country, taking the total receivable amount by Rwanda to US dollar 207.7 million.
- Post appreciation, the local currency gradually declined to end 0.2% lower on a month-on-month basis.

USD/RWF Daily Movement



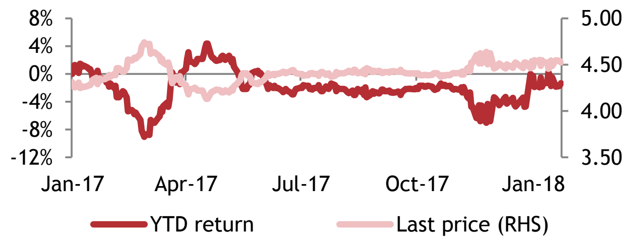
	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	852.7	855.0	857.4	845.5	-0.2%	-0.2%
EUR	1,038.0	1,062.8	1,062.8	1,018.1	-3.5%	-3.5%

Data till 26th Jan 2018

New Ghanaian Cedi (GHS)

- The Ghanaian cedi depreciated against the US dollar to GHS 4.5 as of 26th January 2018. The currency declined by 1.3% on MTD basis
- Rising dollar demand from local businesses and offshore investors led to cedi's depreciation.
- The cedi is expected to be stable in the near-term due to increasing inflows of greenback.

USD/GHS Daily Movement



	Avg	End Val	High	Low	MTD (%)	YTD (%)
USD	4.5	4.5	4.6	4.5	-1.3%	-1.3%
EUR	5.5	5.6	5.6	5.4	-3.5%	-3.5%

Data till 26th Jan 2018

Source: Bloomberg, individual news websites; Note: Reference point for 2018 YTD returns is the start of 2018 and for 2017 YTD returns is the start of 2017

SPECIAL FOCUS

The Affordable Housing Plan of Kenya

Affordable Housing Plan:

Kenya faces an annual housing deficit of around 200,000 housing units and in an effort to reduce this deficit the recently elected Kenyan government has decided to pay special attention to housing along with three other areas. The government announced an affordable housing plan worth KES 2.6 trillion, with a target of constructing one million houses by 2023.

The government plans to partner with 35 private players to develop these housing units and has also approved a number of facilitative policies. Moreover, in order to attract private sector investment in building housing for low income families, the government has rolled out incentives such as reduction of corporate tax and removal of levies charged by National Construction Authority (NCA) and National Environment Management Authority (NEMA).

Why do developers avoid to be a part of affordable housing plan?

Majority of the construction projects in Kenya encounter more cost and time than expected; however, as most of these are high-end projects targeting people with higher incomes, the selling price of the units are adjusted such that it makes up for the additional cost and time incurred on the project.

Since even a little increase in sale price can impact the decision of a buyer of low cost housing units, the freedom of price adjustment is unavailable for these developments.

Due to the existence of these cost and time overruns and unavailability of an opportunity to recover the additional spend, developers find it risky to take part in such projects.

What will help the government?

With numerous countries planning and executing affordable housing programme, Kenyan government can adopt from them many lessons and strategies.

Providing real estate developers with various incentives such as free sale areas, extra floor space index (FSI) and facilitative policies can stimulate developers' interest in low cost developments. An analysis of cost from developers' perspective will help in saving on additional cost while use of geographical information systems and use of technology in implementation can smoothen the process in turn speeding up the execution.

Private sector can play a significant role in facilitating financing needs, technology needs and efficient delivery of the project. Innovations on these fronts can help in reduction of construction cost, maximizing returns for developers as a result. A transparent management and clear investment structure can attract private investment.

Approved and Actual Government Expenditure on Housing (2012-13 to 2015-16)

Year	Expenditure in KES Million		Actual Expenditure as Percentage of Approved
	Approved	Actual	
2012-2013	5,208.2	3,452.9	66.3
2013-2014	7,032.0	6,088.6	86.6
2014-2015	7,395.0	5,857.0	79.2
2015-2016*	7,342.7	6,034.5	82.2
2016-2017**	4,300.2	NA	NA

*Source: Kenya's Economic Survey 2017 (State Department for Housing and Urban Development); Note: * Provisional, **Estimates, NA -Not available*

Source: Individual News websites

AUCTIONS AND EVENTS

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

Tanzania's Latest Issuance: 5-yr, 8-yr, 10-yr and 15-yr Bonds (Jan 2018)

Issue Date	Maturity	Amt (TZS)	Bid/Cover	YTM	WACY*
3-Jan	10-yr	110.99 Bn	1.62	11.44%	15.09%
17-Jan	5-yr	90.00 Bn	3.14	9.18%	12.16%
31-Jan	15-yr	98.07 Bn	NA	13.5%	NA
Details of issuances in December					
20-Dec	8-yr	100.4 Bn	NA	NA	10.08%

**Weighted average coupon yield; 1 USD = TZS 2,240.5 (average till 26th Jan 2018)*

Ghana's Latest Issuance: 2-yr Notes (Jan 2018)

Issue Date	Maturity	Amt (GHS)	Type	Bid/Cover	Int. rate
5-Jan	2-yr	233.12 Mn	FXR Note	1.00	17.18%
Details of issuances in December					
8-Dec	2-yr	305.91 Mn	FXR Note	1.49	17.50%

1 USD = 4.5 GHS (average till 26th Jan 2018)

Uganda's Latest Issuance: 3-yr, 5-yr and 10-yr Bonds (Jan 2018)

Issue Date	Maturity	Amt (UGX)	Bid/Cover	YTM	Coupon
24-Jan	3-yr	80.00 Bn	1.53	11.26%	18.38%
24-Jan	10-yr	100.0 Bn	1.55	14.05%	0%
Details of issuances in December					
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%

1 USD = 3,642.5 UGX (average till 26th Jan 2018)

Kenya's Latest Issuance: 5-yr and 10-yr Bonds (Jan 2018)

Issue Date	Maturity	Amt Bid (KES)	Amt Acpt (KES)	MWAR*	Coupon
NA					
Details of issuances in December					
14-Dec	5-yr	10.09 Bn	4.68 Bn	12.58%	12.5%
14-Dec	10-yr	11.81 Bn	5.37 Bn	13.09%	12.97%

**Market weighted average rate; 1 USD = 103.0 KES (average till 26th Jan 2018)*

Upcoming Bond Auctions and Monetary Policy Meetings

- **7 February 2018:** Tanzania to sell bills
- **14 February 2018:** Nigeria to sell bills
- **14 February 2018:** Uganda to sell bills
- **22 February 2018:** Nigeria to sell bills
- **28 February 2018:** Uganda to sell bills

Monetary policy meetings are scheduled to be held on:

- **12 February 2018** (Central bank of Uganda)
- **22 February 2018** (Central bank of Mozambique)
- **26 February 2018** (Central Bank of Angola)

Source: Bloomberg, individual news websites, respective central banks

Fusion Real Estate Focus Article

Distressed asset real estate investing – is now the time to be buying?

As discussed in our "Where to invest in 2018?" article, 2017 was a difficult year for the Kenyan real estate market. With some residential and commercial nodes facing an oversupply, depressed sales figures across the board, and the disappearance of the senior debt market, we have to assume that some real estate investors are hurting and in desperate need of liquidity. As any equities trader will tell you, this is the best time to buy.

A distressed asset is defined as an asset that is put on sale, usually at a cheap price, because its owner is forced to sell it. Sometimes the asset is genuinely distressed and should be avoided at all costs. Examples include -

- A poorly designed building may have prohibitively high maintenance costs which the landlord is unable to cover
- The development of a building being stalled due to lack of demand for the final product
- Where a project has run out of money due to high on-going unforeseen costs

There are, however, many instances where landlords are forced to sell perfectly fine buildings because of external factors. These deals are often hard to spot but can significantly improve the returns of a real estate investment. Here are some of the opportunities to look out for:

Market related funding gaps:
It is not uncommon for funding to be pulled out from a perfectly good project because of external market forces – something we are seeing a lot in Kenya, currently. The 2017 interest rate cap made the margin between lending to real estate developments and investing in government securities too low to warrant the additional risk. This has had two marked effects on the real estate market -
1) Banks with debt in recently completed development projects (ranging from private houses to entire malls) are reluctant to restructure financing to longer term asset financing – something that was common place just 16 months ago – in favour of forcing the landlord to sell at a discount and repay the loan; and,
2) Funding committed to on-going developments, which had just started to drawdown are being taken off the table.

Private lenders and non-banking financial institutions, who are not constrained by the rate capping legislation, are well placed to refinance these opportunities at low risk with high interest rates in cases where landlords are desperate.

Impatient capital in a slow market:
When traffic is slow, we all know the best thing to do is to pull over and find a place to have coffee or do some work until traffic clears. Unfortunately, some people cannot afford to be patient and these are the people you see driving into oncoming traffic and getting arrested by the police. The same is true about real estate investing. The prolonged 2017 election led to low investor confidence, resulting into stagnated or falling land prices in many of the Nairobi suburbs.

The patient investors (investors with patient capital) used this time to process titles and maybe do a spot of farming. Some land owners (e.g. those, who borrowed in order to buy the land), however, are looking to sell quickly and are offering significant discounts.

Unrelated capital requirements:
It is not uncommon for corporations in Kenya to house multiple business and assets under one group company. This has some benefits. For example, the company can borrow against its multiple assets to fund expansion. The downside is that in a market slowdown, companies are forced to sell these assets to raise cash to sustain business. Though yielding real estate is relatively non-liquid, it is usually easier to sell than a business going through tough times. In 2017, we saw some manufacturers, who were feeling the retail market pinch, choose to sell their godowns/factories at 12%+ yield in order to raise money to keep their core business afloat.

Distressed asset investing however is risky. Investors looking to play in this space need a very good understanding of both the real estate market and the market leading to the external factors. Resist the urge to make bets on the market improving or on your ability to raise additional funding. Look for true value opportunities and focus on yield and exit.

KIMONDO'S CORNER

The Wealth Management Industry in Africa

Wealth Management is the ability of an advisor or advisory team to deliver a full range of financial services and products to affluent clients in a consultative way. Financial Services sector has developed significantly post the financial crisis. Global wealth managers now face the challenge of adapting to a constantly evolving market, if not a modernizing one. Client needs, shareholder expectations, stricter new regulations and milestone developments in technology are driving future business models and shaping their requirements. While we must wait to see the full impact of these changes, it is already clear that new industry structures will emerge in the coming years. Adapting to the new reality on time will open doors to a profitable future and growth opportunities.

Its size and growth make the HNI segment of the global wealth management market, particularly, attractive. Today's market for net investable assets already exceeds USD 55 trillion and is expected to grow to USD 70 trillion, by 2021. In 2016, total wealth held on the African continent amounted to approximately USD 2.2 trillion.

In Kenya, wealth preservation and capital growth are the two most important factors that high net-worth Kenyans are considering when taking wealth management and investment decisions. Innovative investing, portfolio diversification, portfolio liquidity and the ability to move wealth quickly around the world also play important roles in these decisions. There are three key factors that will amplify the accumulation of assets by HNIs in Africa -

Market Access:

The expansion of the regulatory realm, entry and ease of doing business in Kenya have continued to attract HNIs and will help determine the allocation of resources by wealth managers. Regulations are evolving in response to new business models, with non-traditional players focusing on digitalisation. Creation of new investment opportunities in developing nations like Kenya will make it one of the most attractive countries to invest in. Political instability drive away investors who are seeking stable environments. Lastly, it creates entry barriers for aspiring entrants.

Expertise:

The demand for investment products, the low interest rates, high volatility and loss of trust with market intermediaries have meant that conventional asset classes such as shares, bonds or money market investments are paving way for alternative investments such as hedge funds or private equity funds, which are being supplemented by direct real asset investments in real estate, infrastructure, loans, agriculture or co-investments with alternative funds. Expertise and understanding of wealth preservation and development mechanisms amplify the accumulation of assets by wealthy individuals. There is, therefore, a need for skilled financial experts in finance and investment fields. The preparedness and willingness to increase the financial capital products will depend highly on the level of investment expertise of the population. In Africa, developments of capital markets and growth of investment experts is the highest in Kenya.

Scale-based negotiation power:

High investment and private wealth create options for more unusual and complex investments and give negotiating powers. Successful negotiation is like horse-trading as it requires a sense of timing, creativity, keen awareness and the ability to anticipate the other party's next move. Generally, your moves should get progressively smaller and you can expect the same from the other party. Many opportunities in Africa require a team of skilled negotiators for deals and an understanding of the investment environment and parties dealing with wealth managers.

DISCLAIMER