MARKET UPDATE – AFRICA

NIGERIA | GHANA | KENYA | TANZANIA | UGANDA | RWANDA |

APRIL 2020

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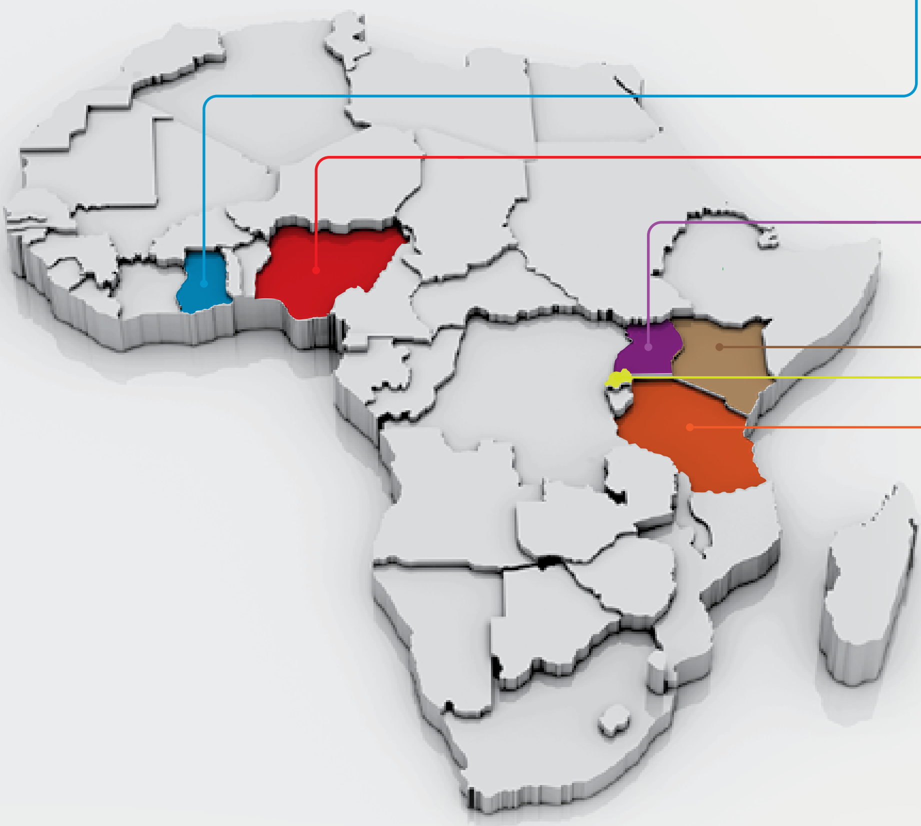


At a Glance

Nigeria
- Economy rattled by twin shocks of the oil price plunge and COVID-19

Ghana
- Ghana floats USD 3.0 billion 41 Year eurobond

Kenya
- Further incentives to support SMEs needed
- MPC cuts key rate and cash reserve ratio

Tanzania
- Current account deficit narrows at the start of 2020 as mild inflation and foreign exchange pressures ris.

Uganda
- Besigye supports public's request to tap NSSF for pandemic relief funds
- Bank of Uganda expected to take monetary easing approach

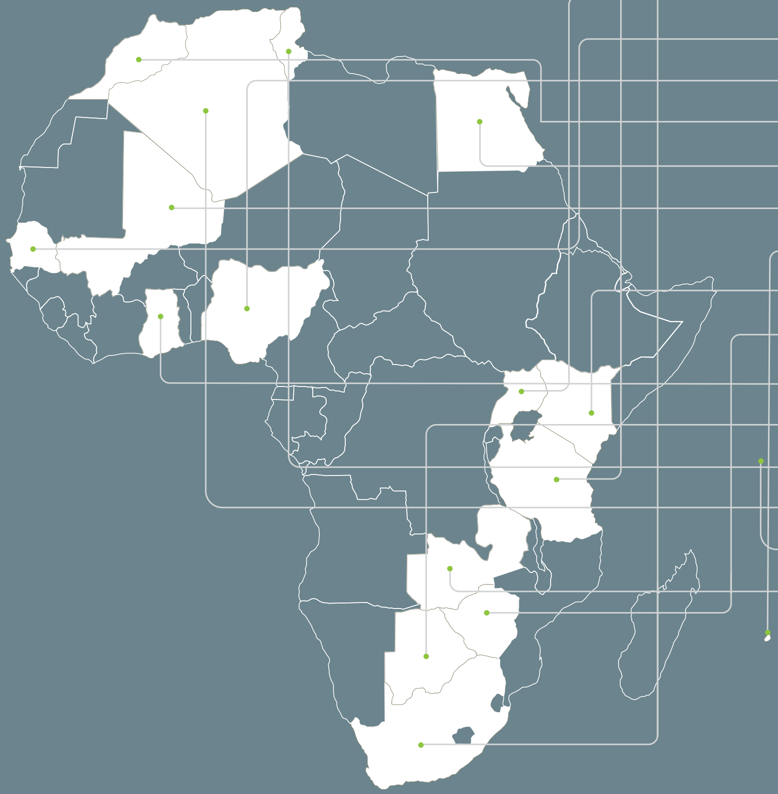
Rwanda
- Government plans social protection scheme in response to pandemice
- Robust economic expansion of 2019 unlikely to be repeated in 2020 as COVID-19 takes toll

Cover image:
Nairobi, Kenya
http://mutuamatheka.co.ke/wp-content/uploads/2012/04/001_NAIROBI_WEBREADY_MUTUA-MATHEKA-10.jpg

AFRICA DEALS LANDSCAPE

JANUARY 2020 – MARCH 2020

VALUE OF DISCLOSED TRANSACTIONS **(USD)**



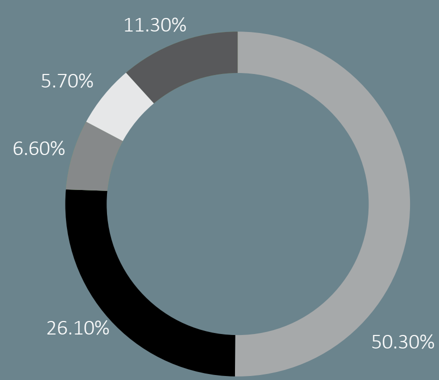
Tanzania	***1.53 Billion***
South Africa	***566.23 Million***
Uganda	***553.40 Million***
Senegal	***430.00 Million***
Nigeria	***286.24 Million***
Morocco	***115.32 Million***
Egypt	***106.45 Million***
Mali	***105.00 Million***
Mauritius	***59.80 Million***
Kenya	***49.65 Million***
Zimbabwe	***25.17 Million***
Ghana	***14.41 million***
Botswana	***1.50 million***
Tunisia	***350,000.00***
Algeria	***150,000.00***
Seychelles	***100,000.00***
Zambia	***50,000.00***

Transaction Activity by Sector

Exploration & Refining	***40.90%***
Commercial Services	***21.80%***
Metals & Mining	***4.90%***
Software	***6.0%***
Others	***29.90%***

Transaction Activity by Deal Type

Merger & Acquisition	***50.30%***
Asset Acquisition	***26.10%***
Buyout	***6.60%***
Management Buy-in	***3.0%***
Others	***11.30%***



Snapshot of Major Deals

- **Morocco:** Pharmaceuticals company, Mohlodi OA Thaba, is in talks to be acquired by Cannsun at a date to be disclosed later
- **Morocco:** Sound Energy is in talks to sell a 51.0% stake to an undisclosed investor at USD 112.8 million
- **South Africa:** Kwena Group reached a definitive agreement to be acquired by Mr. Kevin Gallagher for USD 1.4 million.

Source: *PitchBook, StratLink Africa*

Note from the Research Desk

COVID-19 Pandemic: A considerable downside risk to emerging markets

In our March 2020 Africa Market Update, we indicated that the spread of the Coronavirus Disease of 2019 (hereafter COVID-19) threatened to present a shock which could potentially recast sub-Saharan Africa's growth prospects for 2020. We have since witnessed an increase in confirmed cases in the continent with countries such as Kenya, Rwanda, Ghana and Namibia entering the list of countries confirming cases of COVID-19. On the date of releasing the report (March 4th, 2020), data from the World Health Organisation showed that there were only seven confirmed cases in the continent – one in Algeria, one in Senegal and five in Nigeria. By March 20th, 2020, the continent had seen this number swell to 454 confirmed cases, laying bare the fast spread of the virus within Africa.

COVID-19 is now the foremost downside risk as far as Africa's outlook for 2020 is concerned. We see a number of avenues through which the spread of the virus will deteriorate the risk environment in Africa in the coming months. The following are worthy of note when considering the continent's outlook in the medium-term:

- The continent, like every other part of the globe, now faces the pressure of a rising disease burden and the implications this will have as far as the loss of productive hours is. The state of healthcare infrastructure across the continent is bound to be put to test as countries race to contain the spread of the virus. In the period between 2014 and 2015, countries such as Nigeria were fast to respond to and contain the Ebola outbreak and give hope that given the right measures, the spread of COVID-19 can be mitigated
- Deceleration of the business environment as countries adopt strict measures regarding mobility, and some going on lockdown. With businesses grinding to a halt as many stay at home to slowdown the infection rate, productivity is set to take a hit at least in the foreseeable future. Further to this, countries are closing borders and airports at a time just four months before trading under the Africa Continental Free Trade Area was to start in July 2020. This threatens an adverse impact on regional trade
- COVID-19 will also present a major test for the ability of Africa's economies to respond to and mitigate shocks. Coming at a time when a number of countries are grappling with considerably tight fiscal space, the ability to inject the much needed stimulus into economies is bound to present a major challenge for the continent. What's worse, the twin occurrence of the spread of the virus and the crash of the price of oil in the global market to a four year low leaves economies such as Nigeria, Ghana, Gabon and Angola exposed to a far worse situation as their fiscal positions come under strain
- Markets have been volatile with stock exchanges plunging to multi-year lows and currencies coming under pressure as exports are subdued

Note from the Research Desk

COVID-19 Pandemic: Lockdowns from a developing markets optic

A number of countries have taken to lockdowns in a bid to enforce social distancing and decelerate the spread of the virus. With the number of infections rising across developing markets such as Africa, lockdowns have been touted by some as a viable way to tame the spread of the virus. We hold the view that given the prevalence of the informal economy in developing economies, it is critical that lockdowns are approached with caution so as not to stifle already stressed economies. In economies where majority of the population rely on day-to-day wages, a lockdown, if not carefully managed, could present an amplification channel for further economic downturn.

COVID-19 Pandemic: A wild card for capital raising

The vibrancy of the private transactions landscape is often a reflection of the broader macroeconomic environment in which capital seeking businesses operate. Across the globe, the spread of COVID-19 is precipitating a downshift in the macroeconomic environment, presenting a downside risk which as recently as January 2020 was broadly ignored or understated in markets such as Africa. This is bound to impact the capital raising in a number of ways:

- **The flight to safety effect:** As supply chains are disrupted and day-to-day commerce decelerated, companies' cashflow profiles are bound to deteriorate prodding businesses to seek capital injections more aggressively than they would have anticipated in order to tide through the crisis for the foreseeable future. This state of affairs is also bound to make yield chasing investors more risk-averse when assessing the investibility of companies. This will prove particularly challenging in markets such as Africa where despite high appetite witnessed from investors, the question of viable exit opportunities remains a significant hurdle
- **The sectoral heterogeneity effect:** The impact of the spread of COVID-19 is likely to be heterogeneous across sectors. With sectors such as tourism and hospitality, aviation and retail already bearing the brunt of the pandemic, we expect to see capital flows into sectors with such vulnerability decelerate into a trickle in the coming months. On the flip side, as governments push for use of digital currency to mitigate spread through physical cash, companies in the fintech space are bound to elicit considerable interest from investors especially where they incorporate social impact. Similarly, companies in the pharmaceuticals sector will likely be of increased interest
- **The twin effect of COVID-19 and tanking oil prices:** The fact that the spread of COVID-19 has coincided with the tank in the price of oil in the global market to a four year low is also likely to impact investors' appetite towards energy companies. Markets such as Kenya which have recently witnessed increased activity in this space with transactions such as the take-over of oil markets, KenolKobil, by French firm Rubis Energie could see a slowdown of such deals

StratLink Advisory Group Research Desk
March 28th, 2020.

STRATLINK

COVID-19 Pandemic: Spectrum of impact on Africa's economies

Bilateral Spillovers

African economies take a hit from the slowdown in major bilateral partners such as China, USA and Europe. Exports are subdued and access to critical imports is compromised.

Community Transmission

Economies come under strain due to a rising disease burden which puts a strain on healthcare infrastructure. Countries take a hit from a loss of productive man-hours and a slowdown in business.

Curtailed Crisis Response

Economies grappling with already tight fiscal space are hard pressed to respond to the crisis through stimulus packages. This could see a rise in market volatility and deeper downturn.

Snapshot of Healthcare Infrastructure and expenditure

	KENYA	NIGERIA	PAKISTAN	GHANA
Hospital beds per 1,000	14.0	5.0	6.0	9.0
Healthcare expenditure per capita (USD)	169.0	217.0	129.0	145.0
Public healthcare expenditure as percentage of GDP	5.70%	3.70%	2.60%	3.60%
Out of pocket healthcare expenditure as percentage of total expenditure	27.70%	75.20%	65.20%	37.80%
Physicians per 1,000 people	0.2	0.4	1.0	0.2

- Taming the spread of COVID-19 is a matter of priority given the state of healthcare infrastructure in the countries within our universe of coverage. Metrics such as number of hospital beds per 1,000 persons and number of physicians per 1,000 people give an indication of the deficit of healthcare infrastructure as well as the shortage of human capital, respectively
- It therefore critically important that countries such as Ghana and Pakistan put in their best efforts to arrest the spread of the virus in good time. Countries will also need to ensure that budgets are designed to allow response to emergencies

Source: World Health Organisation, World Bank

GHANA MARKET UPDATE

MITIGATING THE EFFECTS OF THE SPREAD OF THE CORONAVIRUS

POLITICAL OUTLOOK

Government Restricts Movement to Combat COVID-19

Effective Monday 30th March, 2020, the government imposed restricted movement in parts of Ghana, the Greater Accra Metropolitan Area and the Greater Kumasi Metropolitan Area. This restricted movement is expected to last for two weeks with an extension being contingent upon developments around new infections in the country. This is one of the measures taken in a bid to control the spread of the virus across the country. Two things are worthy of consideration in light of the country's response to COVID-19 pandemic:

- Whereas efforts to control the spread of the virus are welcome, it will be interesting to assess how the restricted movement affects households, especially those at the low income level. Majority of those who rely on wages are placed at significant risk in the face of restricted movements. This is particularly so given the fact that such households would typically have minimal, if any, savings to help tide through an episode which undermines their ability to generate an incomet
- It will also be a matter of interest to observe how crisis response in light of COVID-19 impacts Ghana's fiscal position and more importantly the fiscal consolidation agenda. As economies tailour fiscal stimulus packages across the world to respond to the slowdown which has been brought about by the adverse effects of the virus, many are bound to be left with a worse off fiscal position than earlier projected. In the case of Ghana, the subdued price of oil in the global market presents an amplification channel for the stress brought about by the ramifications of COVID-19

BUSINESS NEWS ENVIRONMENT

The State of the Business Environment

The executive is moving to the National Assembly seeking the green light for a USD 35.0 million credit line from the World Bank to be deployed in responding to the spread of COVID-19. As the state contemplates which measures to adopt to relieve the economy from the growing scourge of the pandemic, the following are worth considering

- Banking sector stability should be a matter that is given priority. Available data shows that the ratio of loans in Ghana which are deemed impaired stands at 22.6%. This is a high NPL ratio and speaks volumes to the already grave asset quality situation that the banking sector has to grapple with. With the business environment likely to deteriorate owing to the spread of the virus, it will be critical that any response measure targets addressing this issue
- There is need to ensure that which policy levers are pulled to address the spread of the virus provide safety nets for those in the informal economy. A lot of the measures witnessed in Ghana's peer economies such as Kenya focus significantly on the formal economy. Cash transfers, for instance, where well administered would go a long way in ensuring money is put in the hands of consumers
- Ghana could consider engaging its bilateral creditors for possible rescheduling of debt servicing in 2020 and deploy the funds in mitigating the effects of COVID-19. Already, the World Bank and the International Monetary Fund have urged creditor economies to suspend debt payment by low income debtor economies in 2020 in light of the present challenge. This is an avenue that can be pursued by Ghana

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ECONOMIC OUTLOOK

Oil Price Crash Threatens Fiscal Position

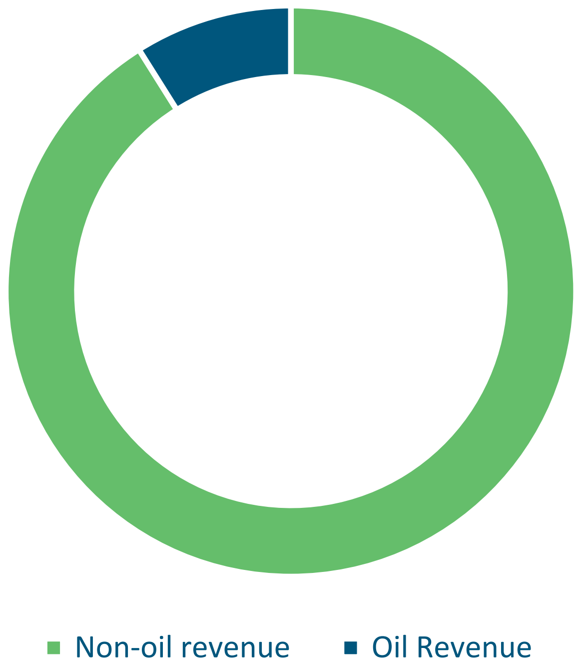
We downgrade our outlook on Ghana with the expectation that the slide in the price of oil in the global market is bound to downshift the economy's growth momentum in the near term. After steadily gaining against major currencies since the start of 2020, the Cedi came under pressure between the latter half of February and March 2020.

Global Price of Oil (USD per Barrel)

Source: Central Bank of Nigeria, StratLink Africa

Provision data shows that in 2019, Ghana realised USD 694.0 million in oil revenue. With the price of oil now subdued, Ghana's coffers are bound to come under strain as the government seeks to find ways of plugging in the revenue hole created by the present situation. The Ghanaian Cedi has, for instance, already shown vulnerability to the softening price of oil. Between the latter half of February 2020 and the end of March, the local unit ceded ground against major currencies.

2019 Disaggregation of Government Revenue

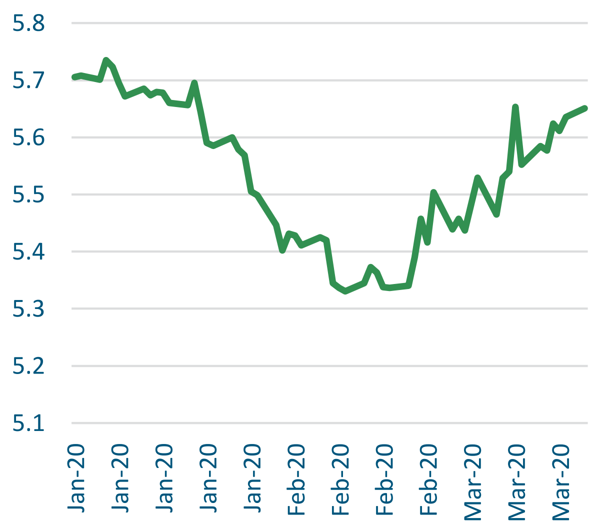


Source: Ministry of Finance Ghana, StratLink Africa

0.8%

Proportion by which the Cedi has appreciated against the USD year-to-date as at March 28th, 2020

Cedi to USD Exchange



Source: Bloomberg, StratLink Africa

DEBT MARKET UPDATE

Ghana Raises USD 3.0 Billion through Eurobond

The February 2020 issuance of a 41 year bond in the international market was greeted with significant investor appetite. The USD 3.0 billion bond attracted bids with USD 14.0 billion, an indication of how much there is for frontier market debt. With Eurobond yields having spiked in March 2020, however, we are likely to see economies such as Ghana slow-pedal their appetite for debt from the international market going forward.

Ghana's February 2020 41 Year Eurobond

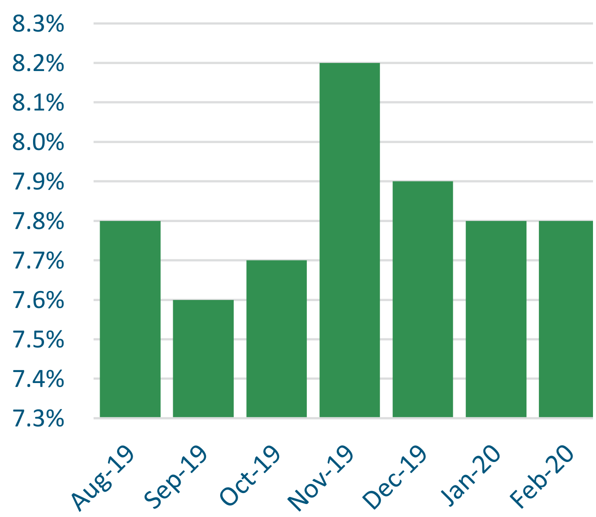
Tranche	Yield
USD 1.25 billion	6.37%
USD 1.0 billion	7.87%
USD 750.0 million	8.75%

Source: Bank of Ghana, StratLink Africa

On the domestic front, we are likely to see yields assume an upward trend owing to two key reasons:

- Domestically, inflation has been on a general decline ever since the November 2019 spike and this has helped keep yields in the fixed income market stable. With Cedi showing weakness, however, we expect to witness upward pressure on headline inflation as imported goods become more expensive

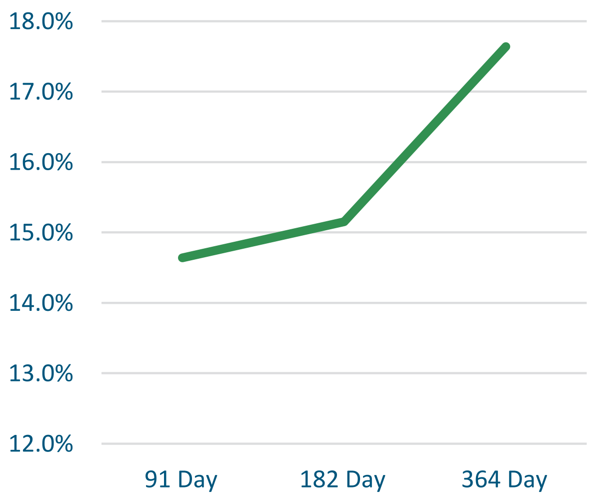
Headline Inflation



Source: Ghana Statistical Service, StratLink Africa

- With economic conditions deteriorating across the globe, investors are likely to begin pricing in higher risk than they have been doing in the recent past. Ghana in particular is rendered vulnerable on two fronts with exposure to both the declining price of oil in the global market as well as the spread of COVID-19.

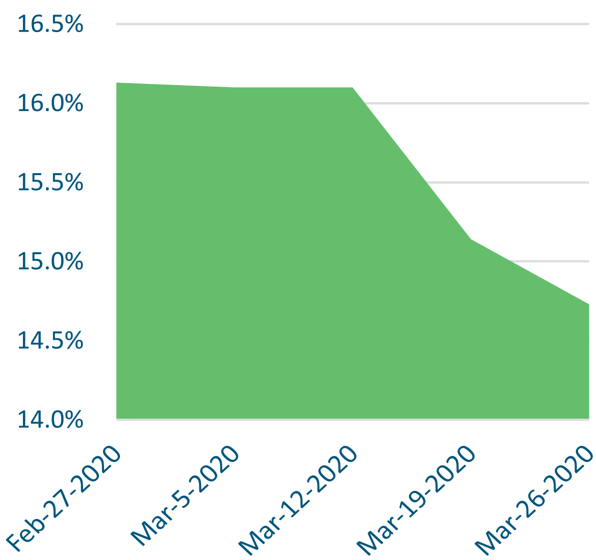
Short-Term Instruments Yield Curve as at March 27th 2020



Source: Bank of Zambia, StratLink Africa

We are likely to see a reversal of the downtrend that has been witnessed on the interbank lending rate front as the Bank of Ghana moves to prop the Cedi by tightening liquidity.

Interbank Lending Rates

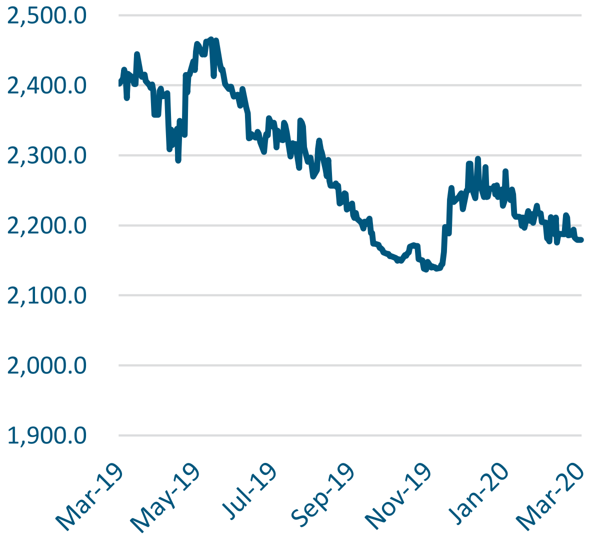


Source: Bank of Zambia, StratLink Africa

EQUITY MARKET UPDATE

Bearish Sentiments Keep Market Subdued

Ghana Stock Exchange Composite Index (Year-on-Year)

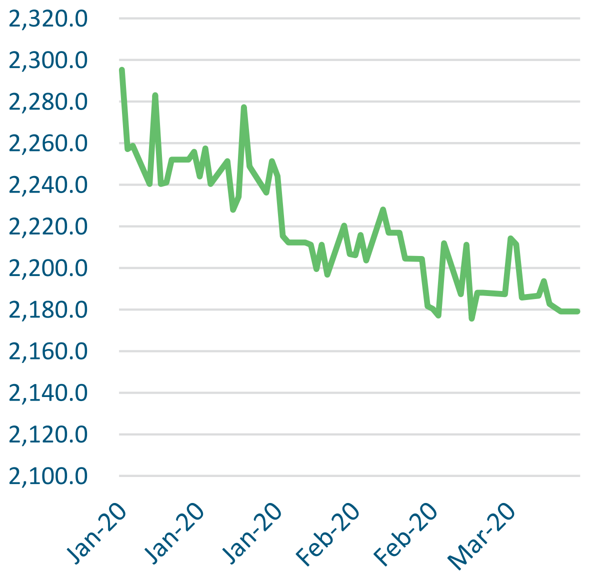


Source: Bloomberg, StratLink Africa

9.29%

Margin by which the Ghana Stock Exchange Composite Index has declined year-on-year as at March 28th, 2020

Ghana Stock Exchange Composite Index (Year-to-Date)



Source: International Institute of Finance, StratLink Africa

5.1%

Margin by which the Ghana Stock Exchange Composite Index has declined year-to-date as at March 28th, 2020

As expected, the stock exchange continued to trend downwards through March 2020 as macroeconomic risks weighed down investor sentiment. Investors are now waiting to see any stimulus packages which will be designed to mitigate the shocks being faced from the declining price of oil as well as the spread of COVID-19.

NIGERIA MARKET UPDATE

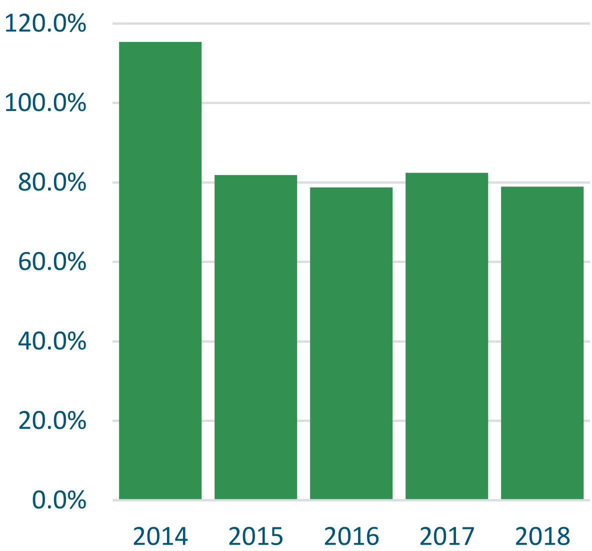
MITIGATING THE TWIN SHOCKS OF THE CORONAVIRUS AND THE PLUNGE IN THE PRICE OF OIL

POLITICAL OUTLOOK

Deploying Policy Levers to Combat COVID-19

The Central Bank of Nigeria has set up a USD 137.0 million facility for lending to businesses in the face of COVID-19. This is a welcome signal that the state is putting foam on the runway in light of the significant risks the economy is now facing. It is a pointer that the policy makers are taking cognizance of the challenged being confronted by the economy. This notwithstanding, we are yet to witness fiscal measures to help mitigate the pressure being inflicted by the spread of the virus. This speaks to the tightened fiscal space which Nigeria is facing even as it looks to respond to rising risks.

Tax Revenue Performance Rate



Source: Nigeria Bureau of Statistics, StratLink

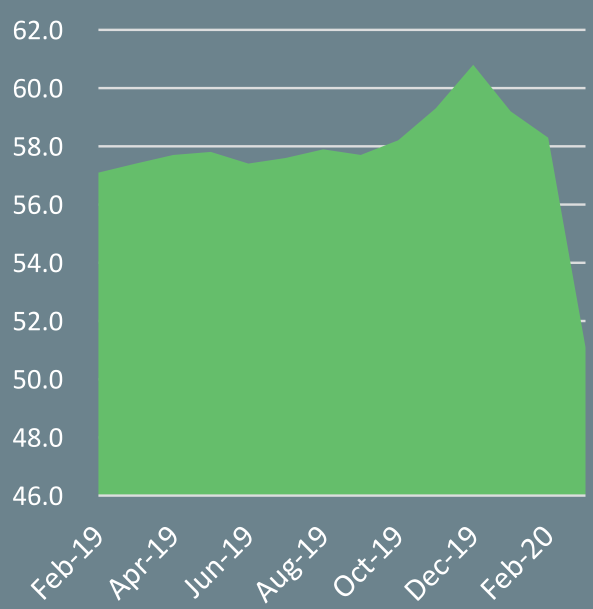
The performance rate of tax has been on a general decline over the last five years, leaving the economy exposed to shocks such as the one now presented by the drastic decline in the price of oil and the deceleration caused by the spread of COVID-19. We believe, however, that it is critical that the country tailors a rescue package for the economy which will include either cash transfers or tax cuts or a blend of the two.

BUSINESS ENVIRONMENT

PMI Inches Closer to the 50.0 Mark

The trend of the Purchasing Manager's Index (PMI) shows a general deterioration in the business environment. March 2020 marked the third consecutive month of decline in the PMI, a clear indication that the general conditions in the business environment are becoming less favourable. We expect the PMI to fall below the 50.0 mark between April 2020 and May 2020 given the downside risk which has been brought about by the collapse of the price of oil in the global market and the disruption occasioned by the spread of COVID-19.

Purchasing Managers' Index



Source: Nigeria Bureau of Statistics, StratLink

The March 2020 monetary policy committee was widely expected to signal dovish adjustment in a bid to cushion businesses from deteriorating conditions. The central bank's decision to retain the policy rate at 13.5 per cent as well as the Cash Reserve Ratio at 27.5 per cent send the signal of a regulator that is likely to be significantly measured in its response in the face of mounting headwinds. We view the caution assumed by the Central Bank of Nigeria as an indication that it is keenly monitoring the slide by the Naira as global uncertainties become increasingly elevated.

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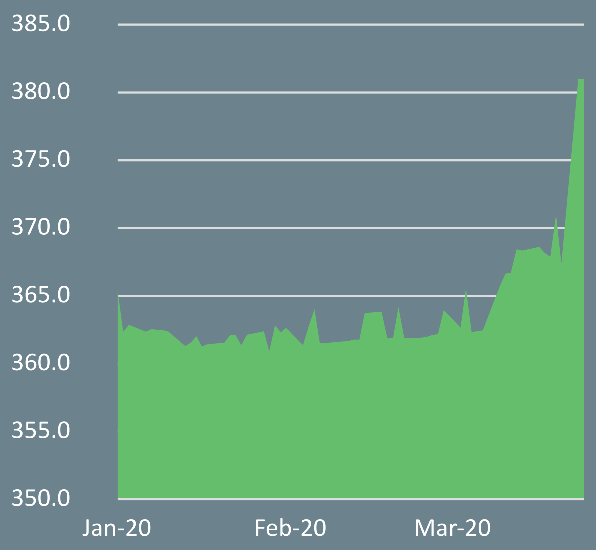
Foreign Exchange Fears Prompt Central Bank to Guarded Stance

Naira to USD Exchange Rate



Source: Bloomberg, StratLink

4.3%

Margin by which the Nigeria Naira has depreciated year-to-date as at March 28th, 2020

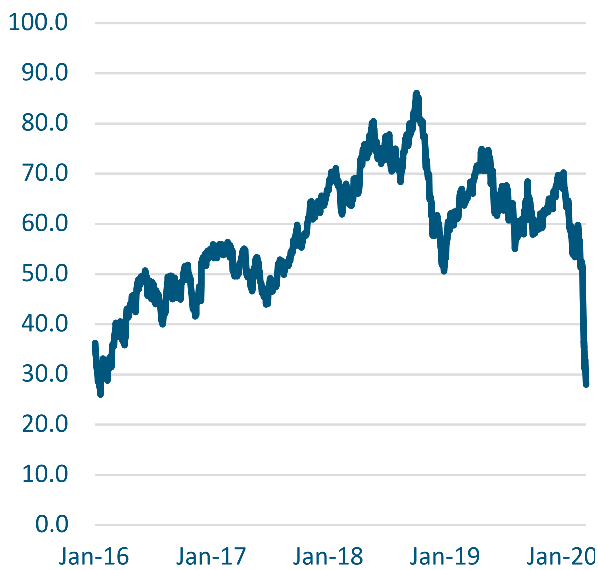
With the Central Bank's reserves of foreign exchange having declined from USD 37.7 billion at the start of 2020 to USD 35.6 billion on March 26th, 2020, it is likely that the Central Bank is treading gingerly whilst watching how pressures on the local unit evolve in the months ahead. The plunge in the price of oil in particular threatens to trigger further deterioration of the Naira in the months ahead as proceeds from exports are subdued. We expect the Naira to remain under pressure in the months ahead especially as frontier and emerging market witness a rise in net capital outflows as investors scout for safety in the face of an increasingly bleak outlook for the global economy.

ECONOMIC OUTLOOK

Fiscal Fears as Price of Oil Tanks for Four-Year Low

The price of oil tanked to a four year low on March 16th, 2020, presenting a new downside risk to Nigeria's economic outlook in 2020 even as the economy is faced with confirmed cases and potential spread of COVID-19. The last time the price of oil cratered to such lows it pushed the Nigeria into a recession which saw the economy contract by 1.6% in the full year 2016.

Global Price of Oil (USD per Barrel)



Source: Central Bank of Nigeria, StratLink Africa

This is important for two reasons:

- In 2019, Nigeria raised USD 5.7 billion in petroleum profit taxes, realising only 49.1% of the targeted amount and implying that proceeds from oil were already punching below their weight even before the tank in the price of oil in the global market. This complicates Nigeria's already challenging position as far as mobilising revenue for public expenditure is concerned.

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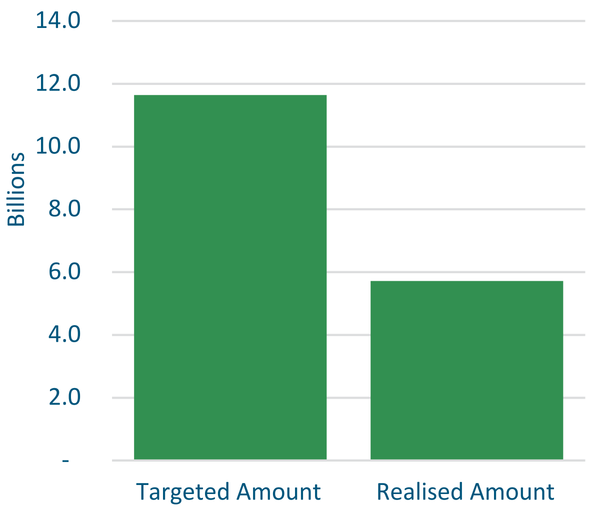
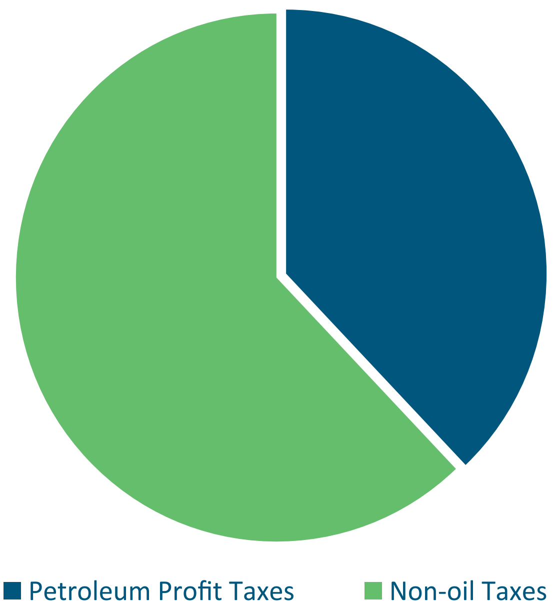
Petroleum Profit Taxes in 2019



Source: Federal Inland Revenue Service, StratLink Africa

- Oil contributes a significant proportion of Nigeria's revenue. A plunge in the price of oil in the global market has grave implications for the country's expenditure and now, more importantly, ability to respond to emergencies such as the one presented by COVID-19. Nigeria could now be compelled to undertake fiscal rationalisation in light of the new realities it is confronting

Taxe Revenue in 2019



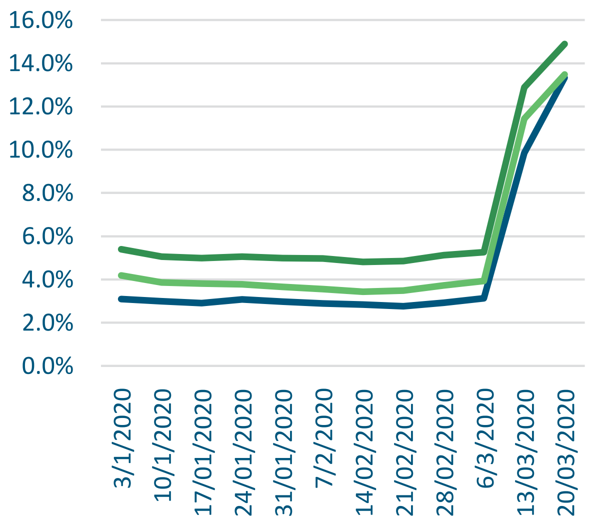
Source: : Federal Inland Revenue Service Nigeria, StratLink Africa

DEBT MARKET UPDATE

Eurobond Yields Spike

The Debt Management Office is scouting for transaction advisors for the country's intended issuance of a Eurobond in 2020. It has been indicated that the federal government seeks to raise up to USD 3.3 billion from the international market in 2020.Yields have, however, spiked in the global market and economies such as Nigeria may be compelled to either take on credit a premium higher than anticipated or shelve the plans of borrowing externally in favour of fiscal rationalisation.

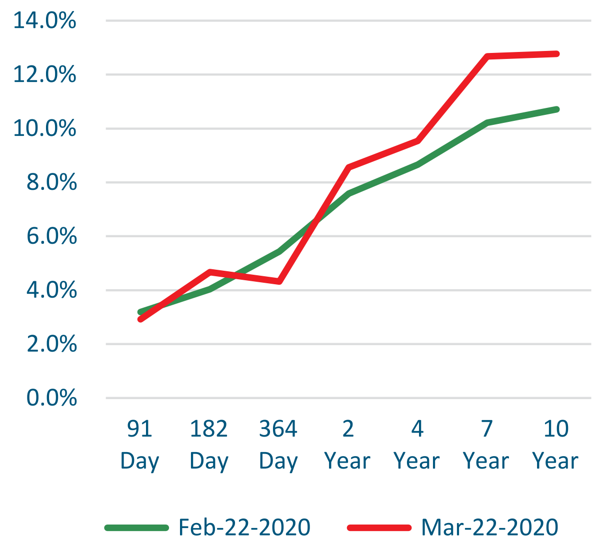
Nigeria's Eurobond Yields



Source: Debt Management Office Nigeria, StratLink Africa

On the domestic scene, long-term yields ticked upwards between February and March 2020 even as yields in the short-term remained largely unchanged. The federal government maintains a tight leash on its appetite for debt from the domestic market. In February 2020, the state borrowed USD 270.6 million, 71.4% of the amount offered through long-term instruments. This is a stark departure from what was witnessed in January 2020 when the federal government borrowed USD 1.11 billion, 264.5% of its target amount.

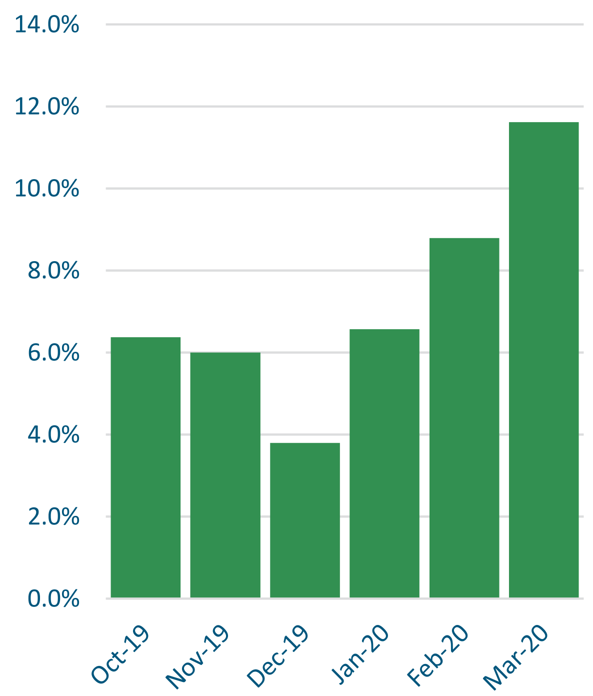
Sovereign Yield Curve



Source: Debt Management Office Nigeria, StratLink Africa

With the price of oil tanking, there is evidence that the Central Bank has begun tightening liquidity in the money market in a bid to arrest the pressure build up on the Naira. The interbank rate sustained its uptick through March 2020, closing the month having crossed the double digit mark to average 11.6%.

Interbank Rate



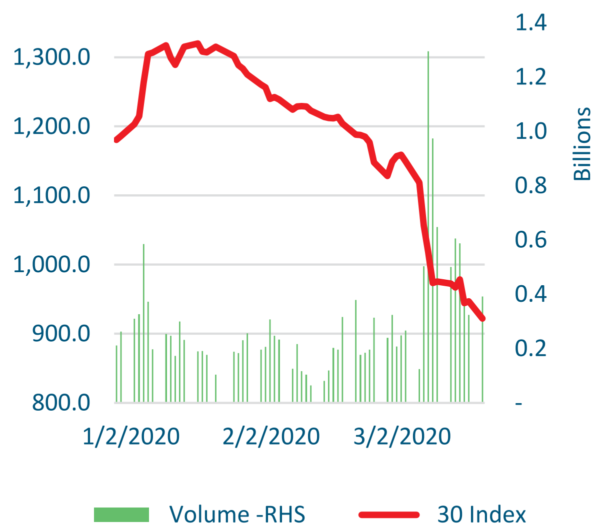
Source: : Central Bank of Nigeria, StratLink Advisory Group

EQUITY MARKET UPDATE

Twin Shocks Batter the Market

The stock exchange has continued to tank with the 30 Index falling below the 1,000 mark on March 12th, 2020. This is expected given the twin shocks the economy now confronts from the spread of COVID-19 and the drastic decline in the price of oil in the global market. In the first two months of 2020, the market has witnessed an increase in net foreign investor outflows which stood at USD 90.3 million in February 2020, up from USD 61.4 million in January 2020.

Nigeria Stock Exchange 30 Index



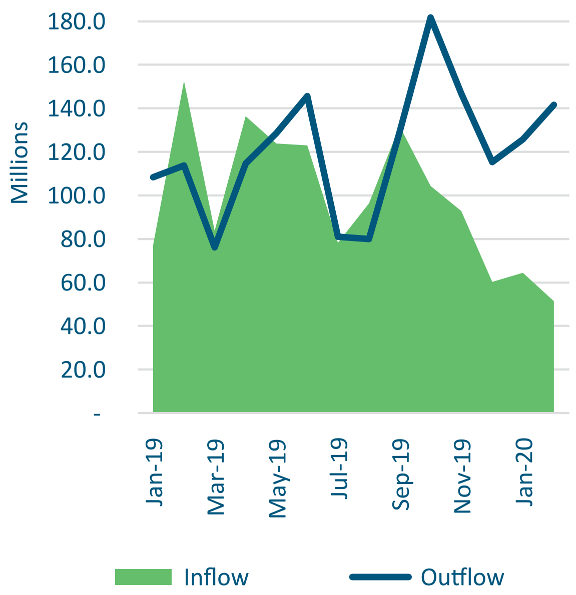
Source: Nigeria Stock Exchange, StratLink Africa

21.9%

Margin by which the Nigeria Stock Exchange 30 Index has fallen year-to-date as at March 26th, 2020

Going forward, we expect this bear run to prevail in the coming months. Despite measures already put in place by the government to cushion the economy from the spread of COVID-19, the fact that the country is now confronting two shocks is bound to keep investor confidence subdued in the near future as the risk of relapsing into a recession cannot be ignored.

Foreign Investor Participation at the Exchange (USD Mln)



Source: Nigeria Stock Exchange, StratLink Africa

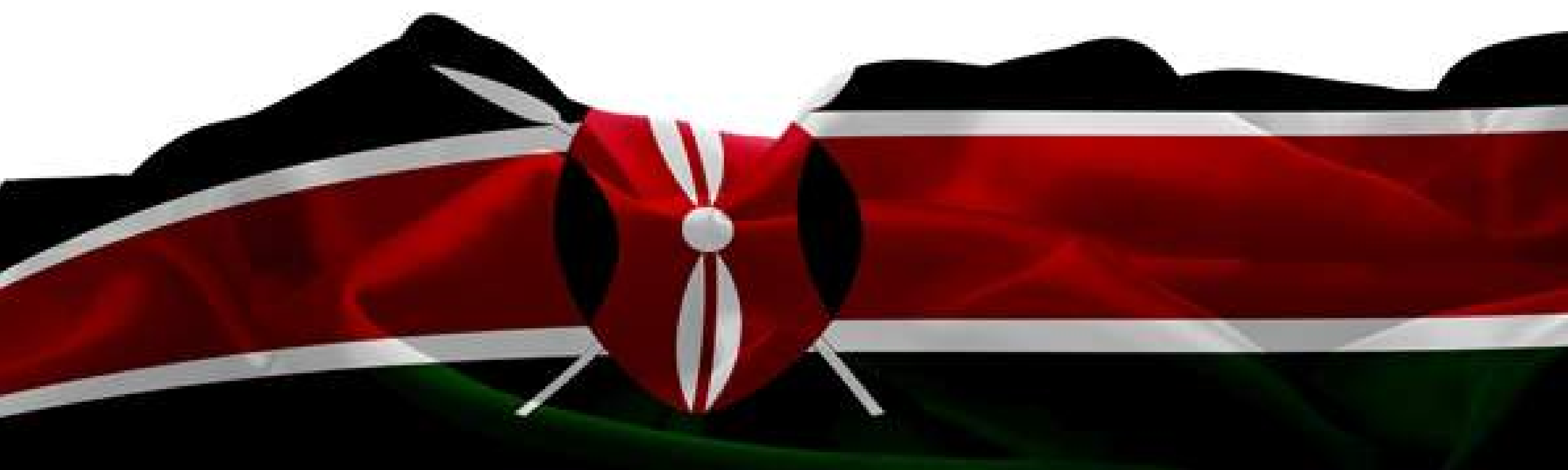
USD 54.9 Mln

Net foreign investor flows at the Nigeria Stock Exchange in December 2019

STRATLINK

KENYA MARKET UPDATE

GOVERNMENT RESPONDS TO PANDEMIC WITH MONETARY EASING AND TAX INCENTIVES



POLITICAL OUTLOOK

COVID-19 Demands Wider Reaching Government Action

The President recently laid out a set of interventions to help the economy deal with the unprecedented global and domestic threat posed by COVID-19, including the following tax based incentives:

- Pay as You Earn (PAYE): exemption for those earning up to KES 24,000. PAYE levied on the highest earners to be reduced from 30.0% to 25.0%
- Corporation tax reduced to 25.0% from 30.0%. Turnover tax cut from 3% to 1%
- VAT cut from 16% to 14%

With 2.9 million in formal employment as of 2018, and 14.9 million engaged in the informal sector, it is unlikely that the reduction in PAYE will have a significant impact on consumer demand and, with the lockdown being enforced it is hard to see how tax savings will translate to greater spending in the near term. What seems to be lacking among these incentives is support for small businesses. In Kenya, there are 1.6 million licensed, and 5.9 million unlicensed MSMEs that employ 14.9 million people and account for 28.5% of value addition in the economy [1]. Most of these enterprises, which are unable to work remotely and have had to freeze operations, will not benefit from tax cuts when they are unable to earn. In addition, these measures do not offer immediate support for basic needs. Furthermore, Kenya has been running a budget deficit of around 7% of GDP which raises concerns around how the country can afford to cut tax earnings without making efforts to cut spending, especially the non-essential kind. The country is seeking USD 1.15 billion in emergency funding from the World Bank and IMF which can certainly have a significant impact but, this will depend on how the funds are spent and on whether the government is able to implement additional, more inclusive measures to counter the effects of COVID-19.

BUSINESS NEWS ENVIRONMENT

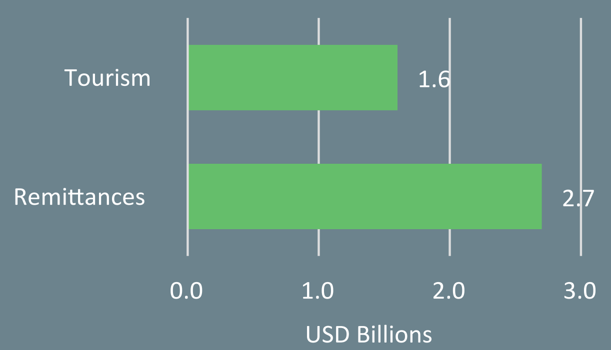
Pandemic to Impact Hard Currency Inflows

COVID-19 has led to the Kenya government closing its borders and restricting movement by locals within the country which has led to a drastic fall in tourism. March 2018 saw bed occupancy rates of 31.6% (KNBS) across the country but in March this year, some hotels in Mombasa have stated that occupancy rates went from over 80.0% pre-COVID-19 to below 10% after the pandemic hit. Given the current trend, in 2020 Kenya will likely bring in a fraction of the USD 1.6 billion in earnings the sector generated in 2018.

Remittances have become a key foreign exchange earner for Kenya with USD 2.7 billion worth of inflows in 2018. In that same year, the main sources of remittances were North America and Europe which accounted for 51.5% and 32.0%, respectively. These two regions of the world have been heavily affected by COVID-19 and it remains to be seen how much of a negative impact this will have on incoming remittances.

The local currency has already taken a hit, see the Economic Outlook section, and we anticipate that lower tourism and remittance inflows will add to the depreciatory pressure in the medium term. It remains to be seen how long the CBK's reserves will be able to support the currency as the pandemic progresses.

Sector Inflows, 2018



Source: Central Bank of Kenya, KNBS

[1] KNBS 2016 MSME Survey

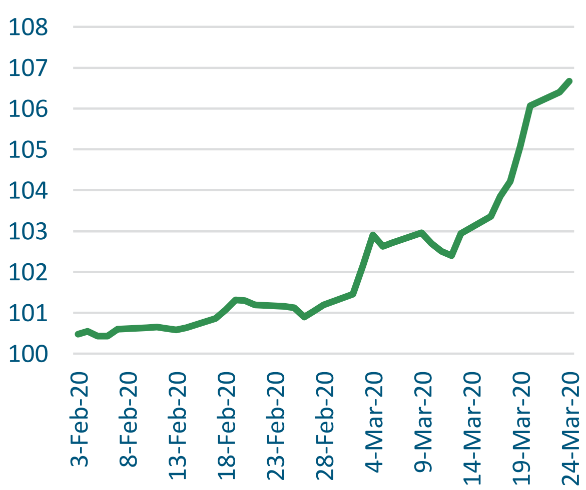
ECONOMIC OUTLOOK

MPC Takes First Steps to Respond to Economic Threat of COVID-19

The Monetary Policy Committee's (MPC) latest meeting was held in March, 2020 in an environment overshadowed by the global effects of the ongoing COVID-19 pandemic.

As of 24 March, 2020, the Kenya shilling reached 106.7 against the dollar of, an all-time low for the local currency. The slip reflects a combination of lower expected future export earnings due to the negative impact COVID-19 is having on trade as well as the markets action in response to the Central Bank's plan to purchase dollars in the month of March to shore up its reserves. As of 19 March the CBK was in safe territory with USD 8.3 billion in forex reserves, or 5.04 months of import cover, however that buffer shrank by USD 460 million since 2 January, at a pace that will surely not be sustainable for long.

KES to USD



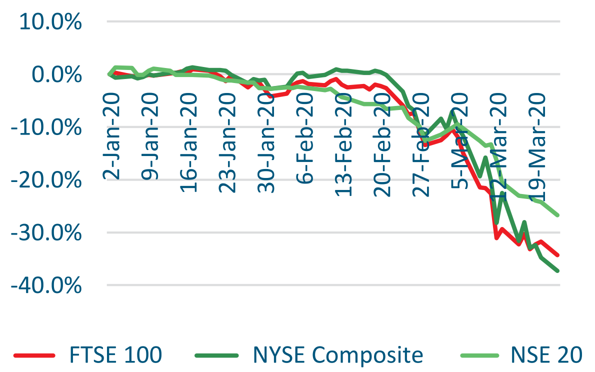
Source: Central Bank of Kenya

Fears that the impact of COVID-19 on economic growth will be inevitable, regardless of government interventions, has sent stock markets tumbling. In the year to 23 March, 2020 the NYSE Composite, FTSE 100 and the local NSE 20 dropped by 37.3%, 34.3% and 26.8%, respectively. In response, central banks in over 50 countries globally have cut interest rates to spur growth.

The Bank of England cut interest rates to 0.1%, the lowest ever in the institution's history.

America's Federal Reserve cut the federal funds rate to a range of 0% to 0.25% in its second emergency response to COVID-19 outbreak. The rate cuts are part of a wider raft of measures aimed at supporting local and global economies against the pandemic.

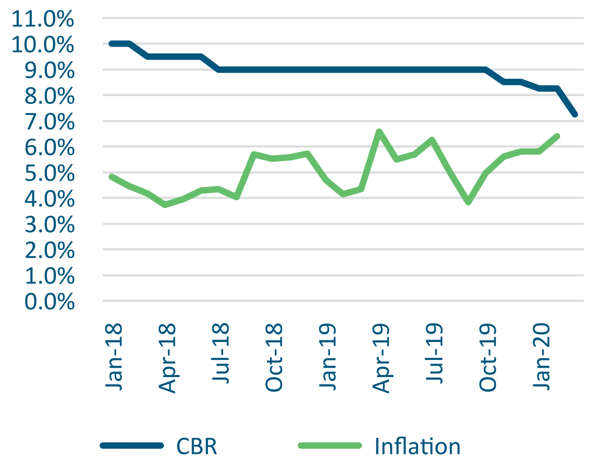
FTSE 100, NYSE and NSE 20 % Change YTD



Source: National Treasury

In Kenya, the MPC opted to lower the Central Bank Rate (CBR) by 1.0% to 7.25%, and reduce the Cash Reserve Ratio (CRR) to 4.25% from 5.25%, freeing up USD 330.9 million of additional liquidity for banks to potentially lend. The MPC also plan to hold another meeting in a month's time to assess the outcome of these measures. If the international responses to mitigate COVID-19's economic impact are anything to go by, Kenya will certainly need to take additional measures in the short run to support the economy.

Headline Inflation and the CBR



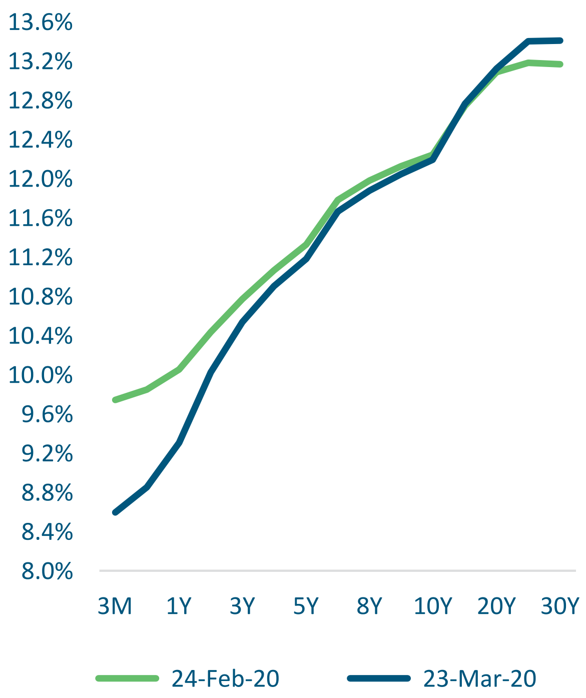
Source: Central Bank of Kenya

DEBT MARKET UPDATE

Dovish Monetary Policy to Support Lower Yields

Yields on the short-term maturity end of the yield curve fell quite significantly in the month to 23 March 2020 while rates at the other end of the spectrum rose slightly.

Bloomberg BVAL Yields Index



Source: Bloomberg, StratLink Advisory Group

Yields on the three month and six month treasury bills fell by 1.15% and 1.00%, respectively over the period in question. This was likely the result of investors anticipating a cut in the CBR by the Central Bank in their latest meeting as the country implements measures to support economic activity, including making private sector borrowing more affordable.

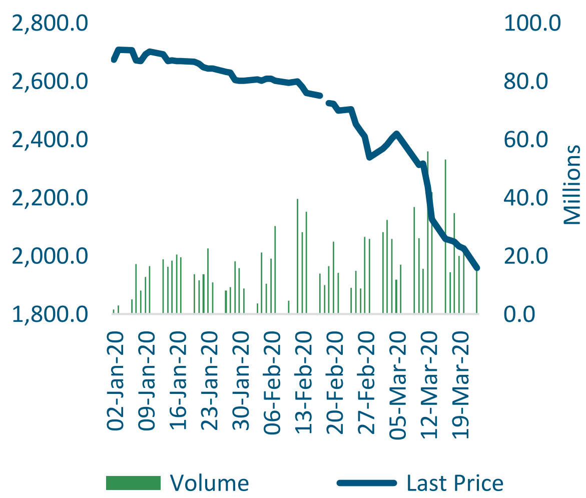
In the year to date, the MPC has already cut the CBR by 1.25% and there is a strong likelihood that the key rate will fall further in the near term. Currently, inflationary pressure (6.4% in February) is within the CBK's target range with upside risks including the effect of the locust invasion on food costs but falling crude oil prices will likely counteract that effect. We anticipate that rates on T-Bills are likely to keep falling considering that the CBK will maintain a dovish stance on monetary policy with the support of stable inflation.

EQUITY MARKET UPDATE

Bear Market Persists

The bourse fell even more steeply in the month of March with the NSE 20 index having fallen by over a quarter in the year to date, at the time of writing, as investors, especially foreign ones, react to the evolving pandemic. On the 14th of the month trading was halted for 30 minutes, in line with rules at the bourse, in order to prevent panic-driven selling of shares.

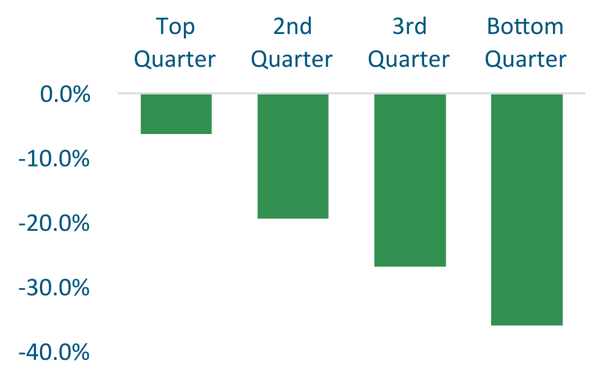
Nairobi Securities Exchange 20 Share Index



Source: Bloomberg, StratLink Advisory Group

The trend hit all counters on the NSE 20 with the bottom quarter of them losing 36.0% of their share price on average, in the year to date. The biggest losers over the period in question are Bamburi Cement (-38.8%), Nation Media Group (-37.2%), Kenya Power and Lighting (-35.9%), Equity group (-35.5%) and KCB Group (-32.6%).

NSE 20 Average % Change in Share Price by Group 1st Jan to 24th Mar, 2020



Source: Bloomberg, StratLink Advisory Group

STRATLINK

TANZANIA MARKET UPDATE

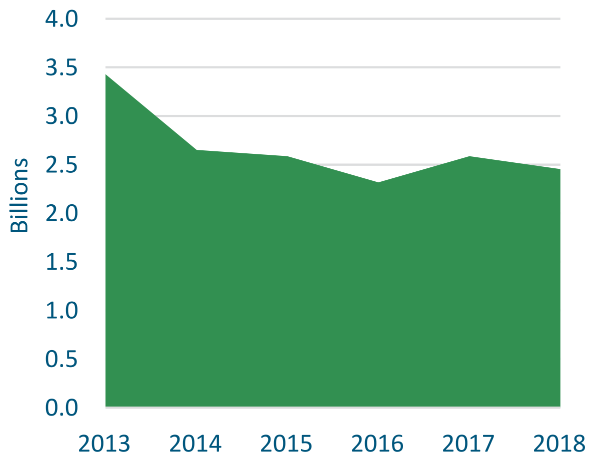
CURRENT ACCOUNT NARROWS AT THE START OF 2020 AS MILD INFLATION AND FOREIGN EXCHANGE PRESSURES RISE

POLITICAL OUTLOOK

Preparedness to Combat the Spread of COVID-19

Our core view around Tanzania's political risk profile lies in concerns around the country's ability to respond adequately to the emerging threat of the spread of COVID-19. Data from the World Health Organisation shows that as at March 29th, 2020, the country has reported fourteen confirmed cases of the disease. The state needs to deploy resources to enhance its testing and response ability if the spread of the disease is to be contained in good time. A key challenge we foresee lies in the fact that Tanzania has in the recent past run into headwinds with some of its development partners which has occasioned a decline in the official development assistance received.

Net Official Development Assistance (USD)



Source: World Bank Data, StratLink Africa

32.0%

EAC Upper Common External Tariff

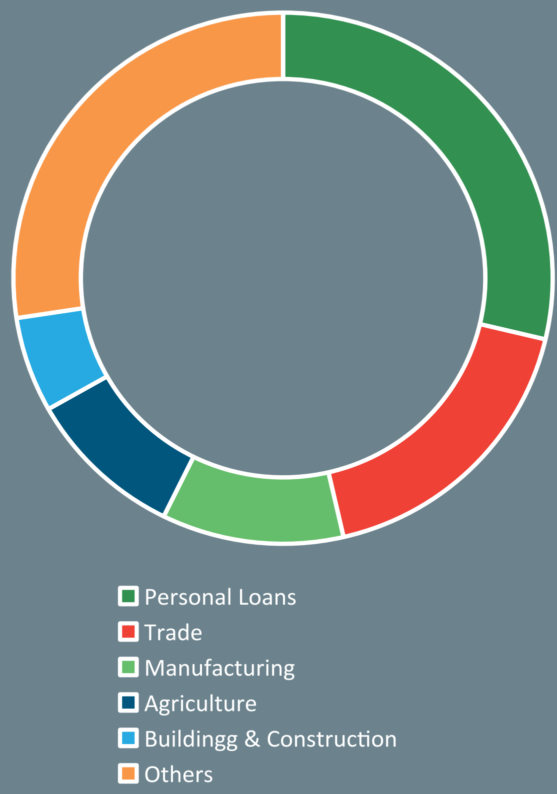
Given the role of official development assistance in support healthcare programmes in Tanzania (in 2018 for example, 23.2% of the development assistance received from USA was channelled towards health programmes), this slowdown in inflows is bound to have an adverse effect on the country's ability to contain the spread of COVID-19.

BUSINESS ENVIRONMENT

Outlook on Bank of Tanzania's Action

We expect the Bank of Tanzania to slash the discount rate from the present 7.0% to the 5.0% to 6.0% band with the first half of 2020. There will be need to provide a buffer for the economy in the months ahead especially as the spread of COVID-19 presents an increasingly grave risk to the prospects of the economy going forward. Banks are, however, likely to exercise caution in extending credit to the private sector as the general risk profile deteriorates due to an adverse business environment.

Credit to the Private Sector as at December 2019



Source: Bank of Tanzania, StratLink Africa

Bank of Tanzania is also expected to keep a close eye on developments in the foreign exchange market and as far as inflation is concerned given the mild pressures that have emerged on both fronts in the recent past. With inflation ticking up gradually, the central bank is bound to be considerably measured in any expansionary adjustments as it monitors the impact this has on the real economy.

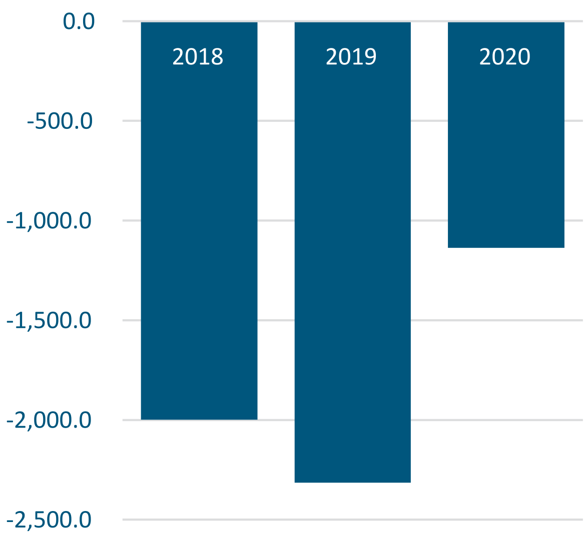
STRATLINK

ECONOMIC OUTLOOK

Current Account Deficit Narrows in January 2020

Tanzania's current account position improved in the twelve months ending January 2020, registering a deficit that was 50.9% lower than that registered twelve months earlier. This is favourable for the country, especially at a time when the foreign exchange market globally has been rattled by fears of the spread of COVID-19. The Tanzania Shilling has, by and large, held firm against major currencies in the recent past.

Current Account Deficit (USD Mln)



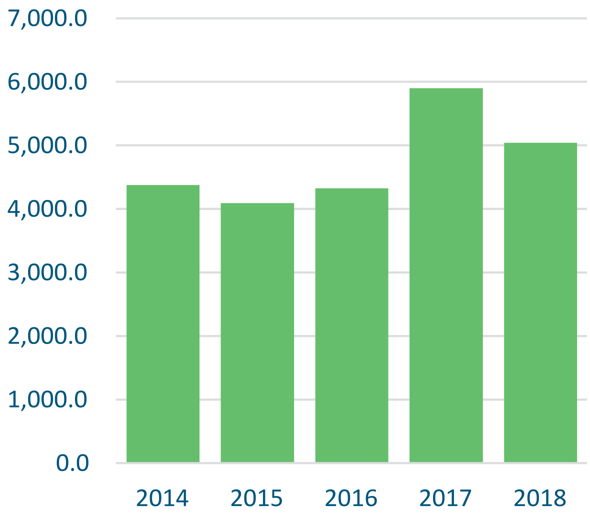
Source: Ministry of Finance Tanzania, StratLink Africa

USD 1.14 billion

Tanzania's current account deficit as at the end of the twelve months ending January 2020

Tanzania's foreign exchange reserves will be of interest going forward as we foresee need for the central bank to step the degree to which it supports the local unit against rising pressures. Bank of Tanzania is also likely to be aggressive in the money market mopping up liquidity to prop the Shilling. Whereas the interbank rate is low at the moment, an uptick has already been taking place.

Foreign Exchange Reserves (USD Mln)

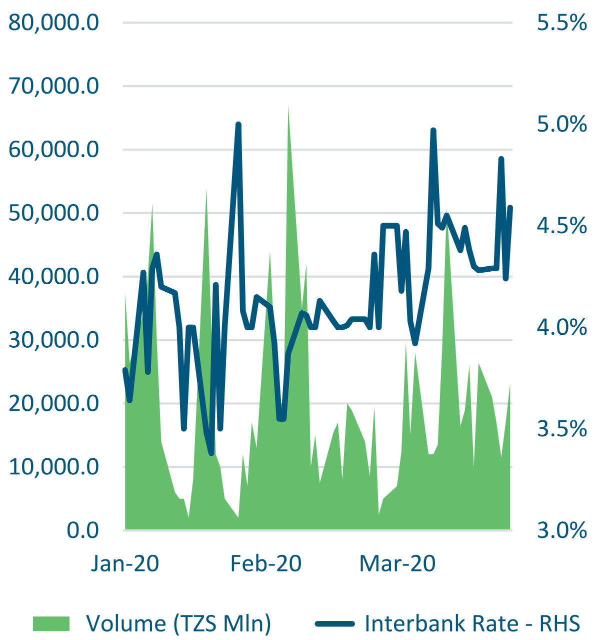


Source: Ministry of Finance Tanzania, StratLink Africa

4.4%

The average interbank rate in March 2020, up from the average 4.0% reported in February 2020. The rate has been on a gentle rise since the start of 2020.

The Interbank Market



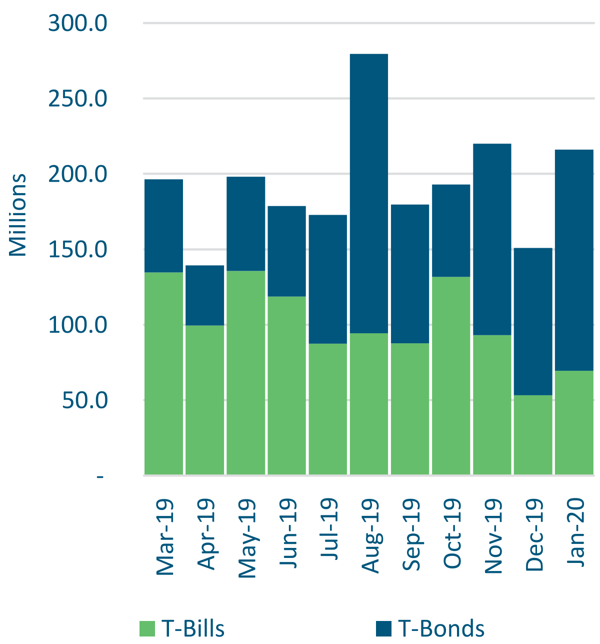
Source: Ministry of Finance Tanzania, StratLink Africa

DEBT MARKET UPDATE

Realigning Tanzania's Domestic Debt Profile

The government of Tanzania continues to implement its strategy shifting its borrowing concentration for short-term to long-term instruments. In March 2019, T-Bills accounted for 69.0% of all the domestic debt. By January, 2020, this proportion had declined to a paltry 32.0%. This is in line with the country's debt management strategy which seeks to address repayment risk which was bound to present a major challenge given the extent to which the country's domestic debt was held in short-term instruments.

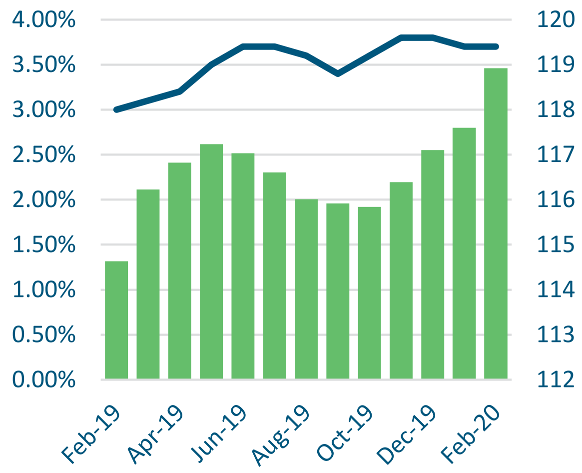
Holding of Domestic Public Debt (USD)



Source: Bank of Tanzania, StratLink Advisory Group

On the short-term end of the market, yields registered minimal movement between January and March 2020. Inflation remains broadly quiescent even as a gentle uptick was discernible in the first two months of 2020. The Consumer Price Index (CPI) has also been on a steady rise, an indication that we are likely to experience upward pressure on inflation in the coming months.

Headline Inflation and CPI

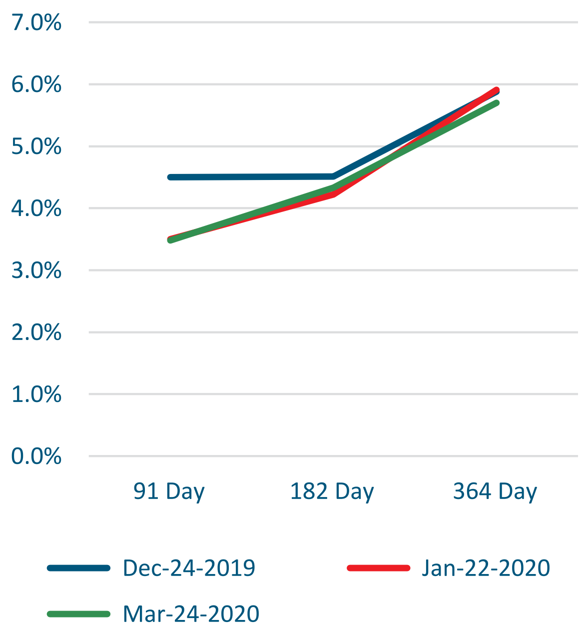


Source: Tanzania Statistical Service, StratLink Africa

3.7%

Tanzania's headline inflation as at February 2020. Inflation has averaged at 3.5% over the last twelve months

Short-Term Instruments Yield Curve



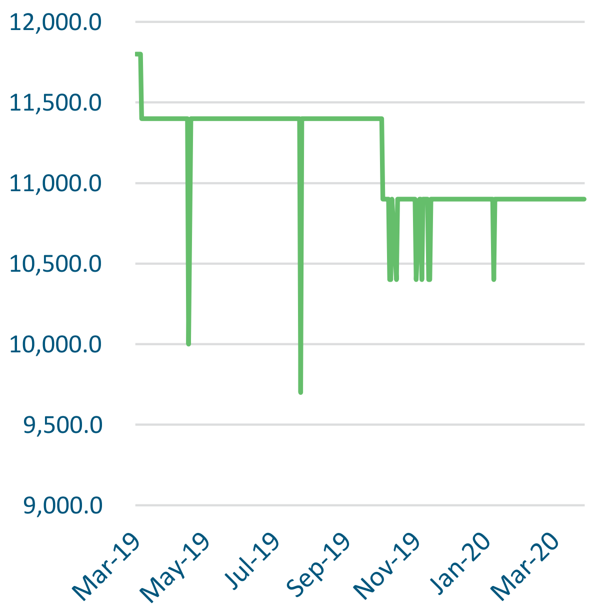
Source: Tanzania Statistical Service, StratLink Africa

EQUITY MARKET UPDATE

Bearish Sentiments Keep Market Subdued

Investors at the Dar es Salaam Stock Exchange are on a guarded stance. The All Share Index has remained on a plateau since the start of 2020 with indication that the market could have found resistance level after the decline witnessed since 2018.

Dar Stock Exchange All Share Index



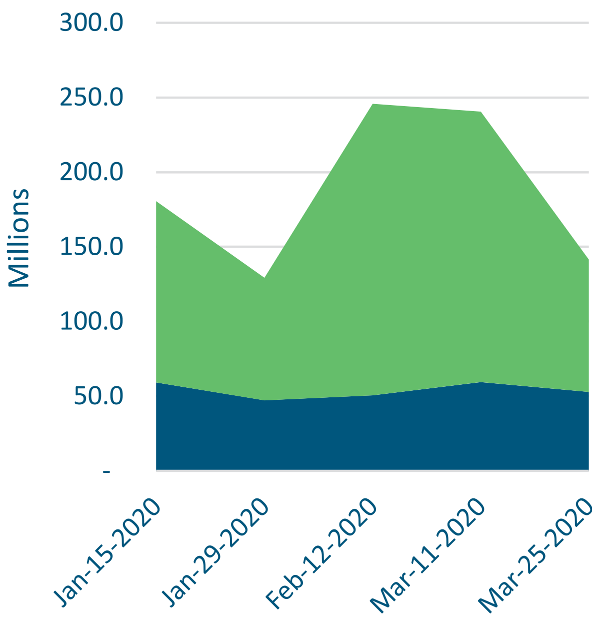
Source: Bloomberg, StratLink Africa

7.6%

Margin by which the Dar es Salaam Stock Exchange All Share Index has declined year-on-year as at March 30th, 2020

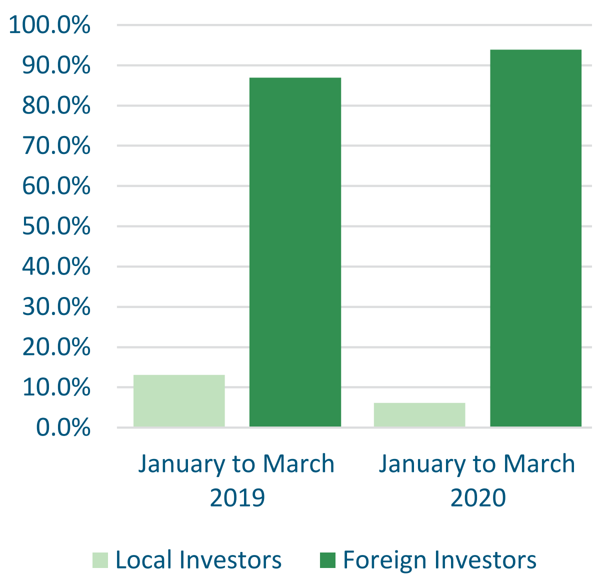
Investors are on a flight to safety mode as the country, like many others across the globe, take a hit from the adverse effects of the spread of COVID-19. This can be seen in the value of subscriptions that have been registered by Bank of Tanzania on long-term instruments issued in 2020.

Investors' Appetite for Long-term Debt



Source: Bank of Tanzania, StratLink Africa

Investor Participation at the Dar Stock Echange



Source: Dar es Salaam Stock Exchange, StratLink Africa

STRATLINK

UGANDA MARKET UPDATE

COVID-19 HAS MIXED EFFECTS ON CURRENT ACCOUNT

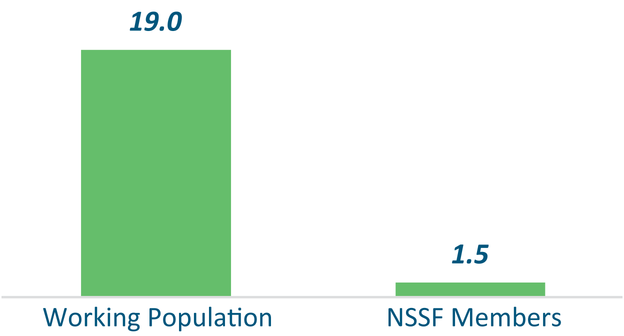
POLITICAL OUTLOOK

COVID-19 Calls for More Comprehensive Policy Response

Uganda has implemented a few measures to deal with the impact of COVID-19 pandemic including banning public transport for 14 days and waiving fees and other charges on markets and facilities controlled by the Kampala Capital City Authority up until the end of April in order to support traders. Some unorthodox suggestions to help deal with the virus have come to light.

There was a recent wave of requests from the public for the National Social Security Fund (NSSF) to release some of the money held by them to its members to help the cope with the impact of COVID-19.

Working Population and NSSF Membership



Source: NSSF

The sentiment was echoed by opposition politician Dr Kizza Besigye but the NSSF was quick to respond that there is no legal basis for such ad hoc payments from the fund. The collects contributions from employees and employers of 5.0% and 10.0%, respectively, of an employee's gross monthly and is meant to provide funds for retirement, permanent incapacitation, etc. For the NSSF to make any such payments it would have to liquidate its holding of government securities which would create a funding gap for the state and may affect spending towards dealing with the epidemic, at the national level.

A faster, more comprehensive policy response by the government to COVID-19 would remove the need for interventions like withdrawals from the NSSF.

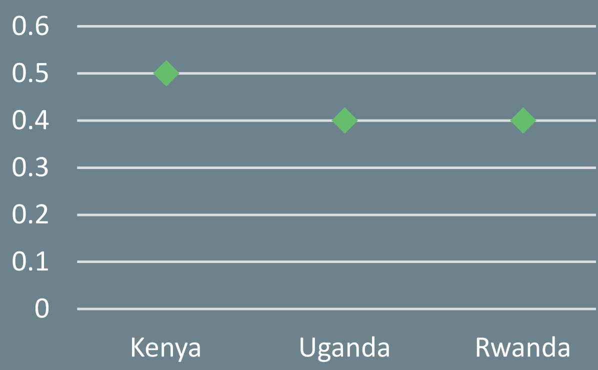
BUSINESS NEWS ENVIRONMENT

Investment in Education Necessary

The Uganda Bureau of Statistics (UBOS) planned to carry out the Education Census 2020 in March with the aim of collecting a range of data from institutions of learning across the country.

Uganda scores in the bottom quartile of the World Bank's Human Capital Index (HCI) and a child born in the country is expected to achieve 38.0% of the productivity they would have attained if provided with a complete education and full health[1].

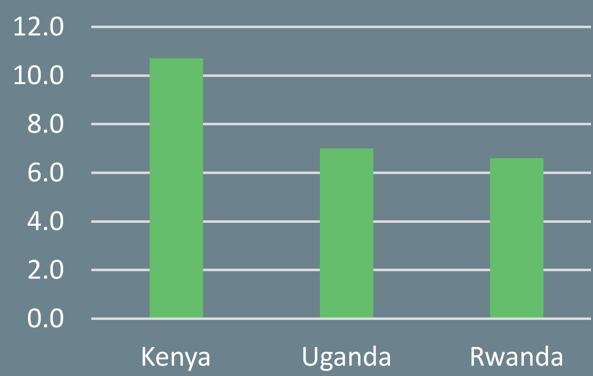
HCI (2017)



Source: World Bank

This is largely due to inadequate schooling time with Ugandans expected to only complete 7 years relative to Kenya's 10.7 years by the age of 18. Fixing this issue is key to safeguarding the nation's long term growth prospects and will require improving the quality of education as well as allocating additional public funds to the sector.

Expected Years of School (2017)



Source: World Bank

[1] World Bank: Uganda Economic Update, 13th Edition

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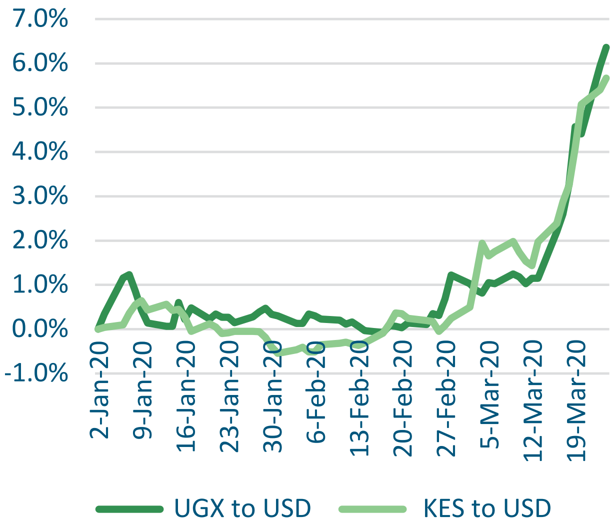
ECONOMIC OUTLOOK

Further Measures Will be Needed to Support the Economy

Similarly to regional counterparts, Uganda's economy has already felt the brunt of the global pandemic that has impacted every corner of the globe.

The Uganda shilling lost 6.4% of its value against the greenback in the year to date (as of 24th March) however, the depreciation only really began at the end of February. The currency closely followed the path of Kenya's shilling which devalued by 5.7% against the dollar over the same timeframe.

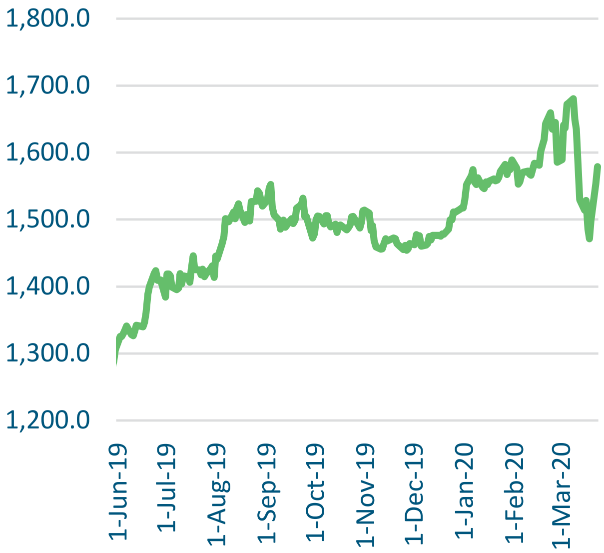
Uganda and Kenya Shilling Depreciation Against USD



Source: Bloomberg, StratLink Advisory Group

Two key commodities to the nation's current account have been seriously affected by COVID-19, gold and oil. The price of WTI crude and Brent crude have fall by more than half in the year to date, which does not bode well for the country's plans to become a net exporter of the commodity in the near future, although it is possible that the price may rebound. Gold surpassed coffee as Uganda's main export a few years ago and accounted for 14.3% of exports in 2018, against coffee's 12.2%. The precious metal has always served as safe haven for investors and its price increased by 6.2% between the first of the year and 25th March, 2020. It remains to be seen what the net effect of the changing values of the two commodities will have on Uganda's current account deficit.

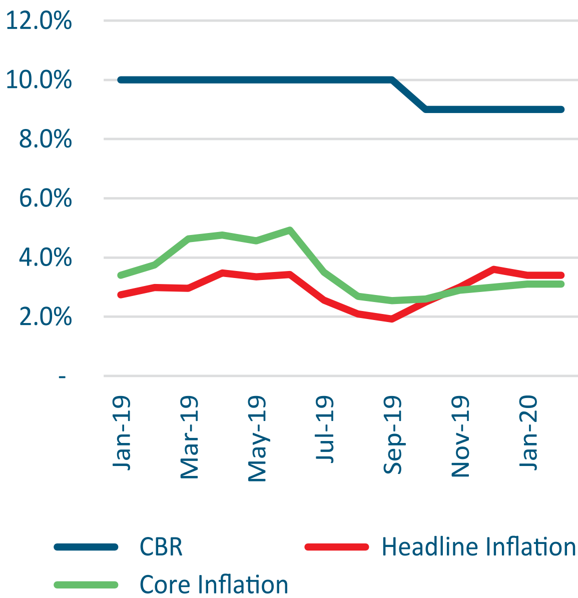
Gold Spot Price USD Troy Ounce



Source: Bloomberg

The Monetary Policy Committee (MPC) maintained the key rate at 9.0% in their latest meeting held on 13 February 2020. At the time of their meeting, the country was yet to report its first case of COVID-19 and the local currency was still unaffected which explains the decision to leave the Central Bank Rate (CBR) unchanged. However, we expect that the MPC will look to meet again soon and will most likely cut the CBR in order to support economic growth.

Inflation and the CBR



Source: BoU

STRATLINK

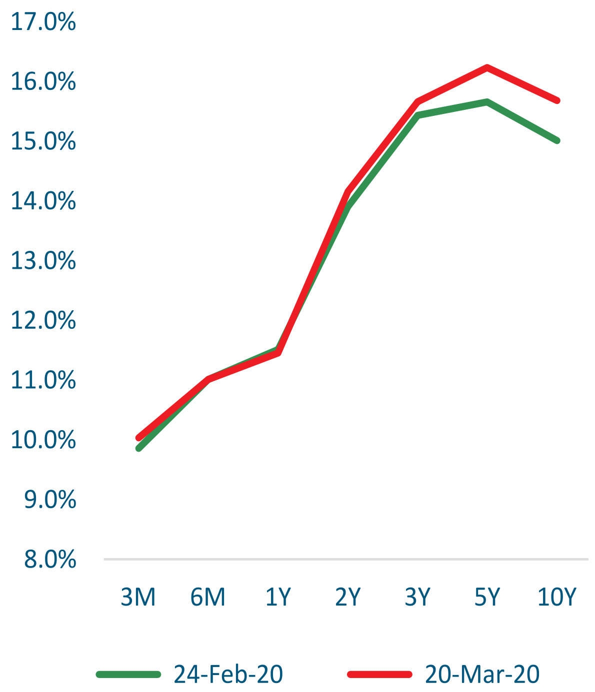
DEBT MARKET UPDATE

Yields on Short-Term Securities to Edge Down in the Near Term

Yields on government bonds with maturities of five to ten years increased between 24 February and 20 March, 2020, while the rest of the yield curve remained unchanged.

For the second month in a row, there was a higher return on five year bonds relative to 10 year bonds implying higher demand for the latter.

Sovereign Yield Curve



Source: Bloomberg

Headline and core Inflation in February were 3.4% and 3.1%, respectively, close to the floor of the Bank of Uganda's (BoU) target range. The lack of price pressure in the economy provide ample room for the BoU to cut interest rates in their next meeting, which we believe will be necessary to survive the current economic climate.

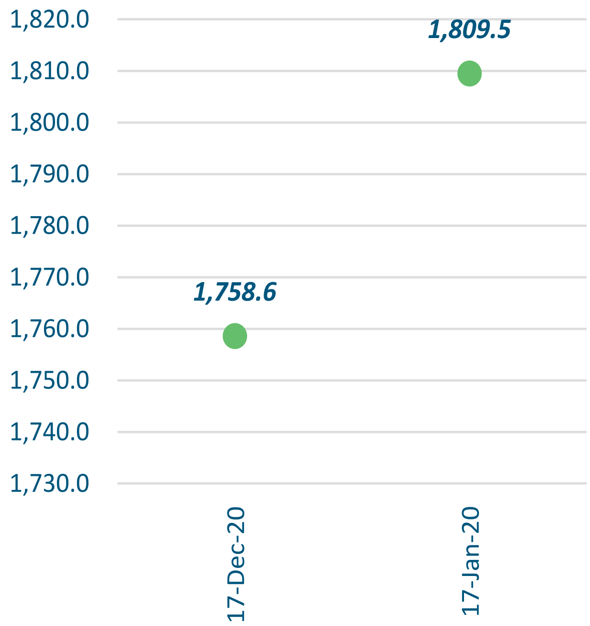
As a result, it is likely that yields, especially for Treasury Bills, will fall in line with the lower central bank rate.

EQUITY MARKET UPDATE

Weakened Economy to Hit Share Prices

The Ugandan Securities Exchange will feel the impact of the share price fall seen among companies from neighboring Kenya that are cross listed on the bourse. Local listed companies will, for the most part, be negatively impacted by COVID-19 which promises to suppress economic growth for the year and lead to poorer performance for firms.

All Share Index



Source: Uganda Securities Exchange

2.9%

All Share index percentage change in month to 17 January 2020

10.5%

All Share index percentage change in the 6 months to 17 January 2020

RWANDA MARKET UPDATE

PANDEMIC TO PREVENT REPEAT OF STRONG 2019 GROWTH

POLITICAL OUTLOOK

Government Puts Measures in Place to Deal with Pandemic

The government has put in place a set of measures to mitigate the economic effects of COVID-19, including:

- Banks have been allowed to restructure outstanding loans for those who are facing repayment challenges due to the pandemic. Here, issues may arise with borrowers who try to take advantage of the new directive which would in turn negatively affect bank liquidity
- Liquidity support via 1) the introduction of an extended lending facility to banks worth USD 52.2 million, for a period of six months; 2) reviewing the bond rediscount window; and 3) reducing the reserve requirement ratio from 5.0% to 4.0%
- Encourage the use of digital channels and contactless payments in order to minimize the transmission of COVID-19

Similarly to what has been the case in other east African nations, the government has taken steps toward increasing lending to the private sector. However, these measures do not directly address the immediate needs of the low income segment of the population who rely on day-to-day earnings to support their livelihoods.

At the time of writing, the Ministry of Local Government had announced that it would put in place a door-to-door provision of food and other items to vulnerable homes at the village and sector level. In addition, President Kagame announced a social protection plan which aims to support the country's most vulnerable during the lockdown period. Given the rapidly evolving situation and changing measures being adopted, only time will tell what the final outcome of the pandemic will be.

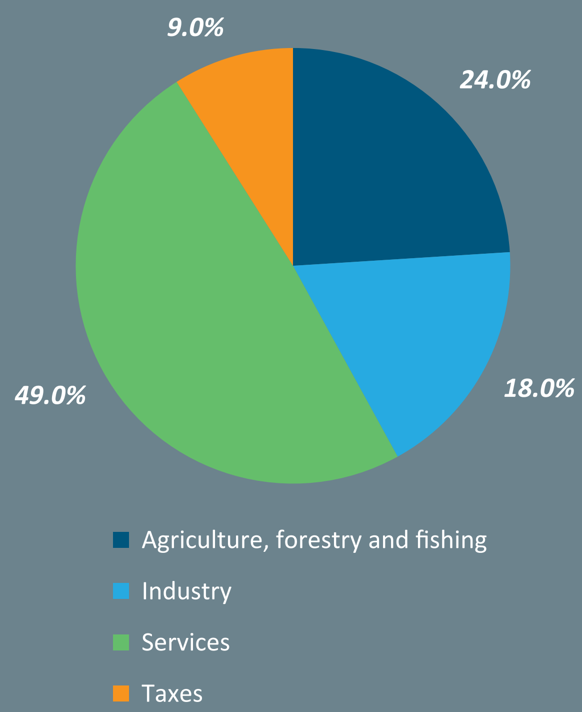
BUSINESS ENVIRONMENT

Support for the Agricultural Sector Remains Despite Shrinking Contribution to GDP

The Howard G Buffet Foundation has committed to build a center for agriculture research and extension in Rwanda. The foundation plans to build a 36km road connecting the Rwanda Institute of Conservation Agriculture to the recently operational Nasho Irrigation Scheme which will facilitate the development of the proposed research and extension center. The USD 54.0 million irrigation scheme is made up of 63 center pivot irrigation systems, serving 2,099 farmers covering 11.7 sq km of area.

As the Rwandan economy has evolved over time, agriculture's contribution to GDP has become smaller, shrinking from 37.0% in 2000 to 24.0% two decades later.

Sector Contribution to GDP, 2019



Source: NISR

The building of the research and extension center affirms the government's commitment to supporting Rwanda's agriculture sector in the long run.

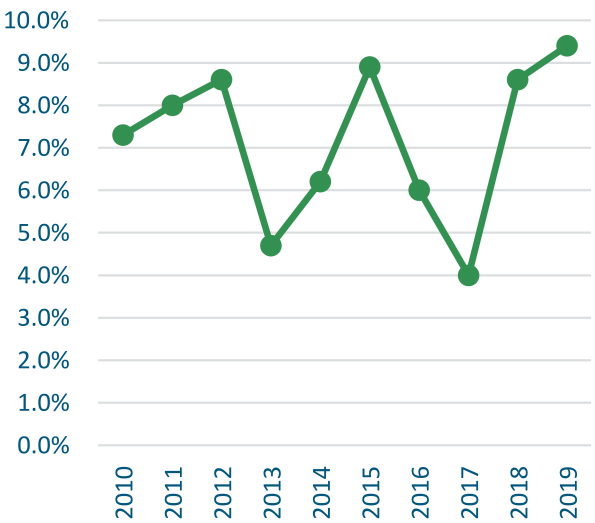
STRATLINK

ECONOMIC OUTLOOK

Strong Growth in 2019 Unlikely to be Repeated in 2020

In 2019, Rwanda recorded a GDP growth of 9.4% which is the highest the nation has achieved since 2008.

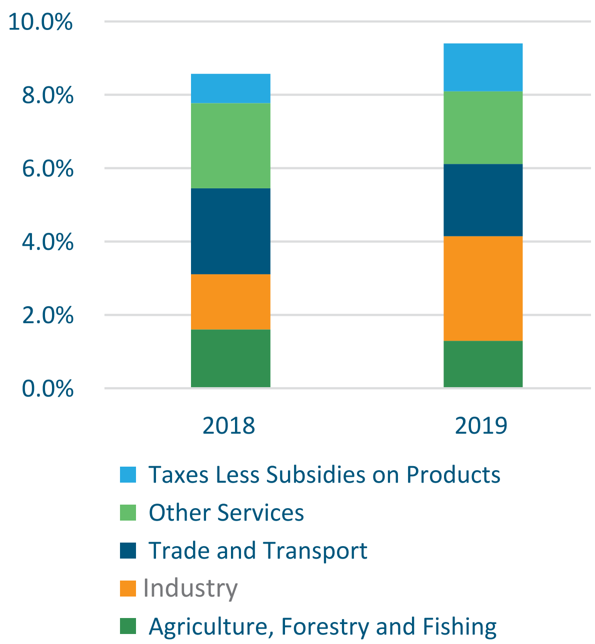
GDP Growth



Source: NISR

In 2019, industry accounted for the largest proportion of growth, contributing 2.9% of the overall 9.4% growth the economy experienced. This is in contrast to 2018, where trade and transport made up 2.3% of growth against industry's 1.5%.

Sectoral Contribution to GDP Growth

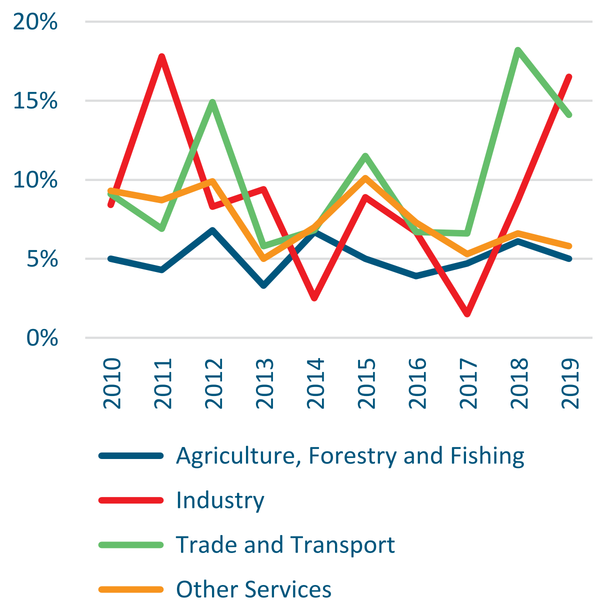


Source: NISR

Within the industry sector, growth in 2019 was driven by construction and manufacturing which expanded by 33.0% and 11.0%, respectively.

Within the services sector, growth was driven by a 15.6% increase in wholesale and retail trade of locally made and imported products, a 12.3% rise in transport services coming mainly off the back of a 17.0% increase in air transport activities, an 8.0% growth in financial services and a 10.0% in hotel and restaurant services.

Sector Growth Rates % Change y-o-y



Source: NBR, StratLink Advisory Group

As part of the nation's response to COVID-19 pandemic, a select number of industries are to remain operational during the current lockdown period of two weeks, including those involved in agro-processing, medical and pharmaceutical production as well as beverage processing.

Companies involved in the production of raw materials for these exempted industries are also to remain operational.

These initiatives will determine which sectors in Rwanda see growth in 2020 however, it is very likely that GDP growth for the year ahead will be far below that seen in 2019, a scenario we are likely to see globally as well.

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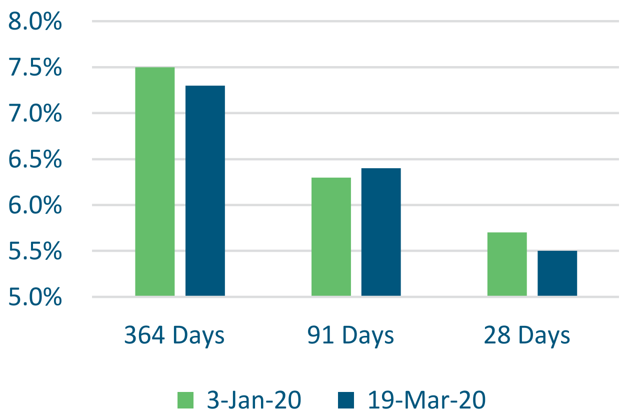
DEBT MARKET UPDATE

MPC to Face Headwinds in Near-Term

Between the first auction of the year and the one held on 19 March 2020, there has been a slight drop in yields for the 28 day and 364 day Treasury Bills while the yield on the 91 day security edged up slightly.

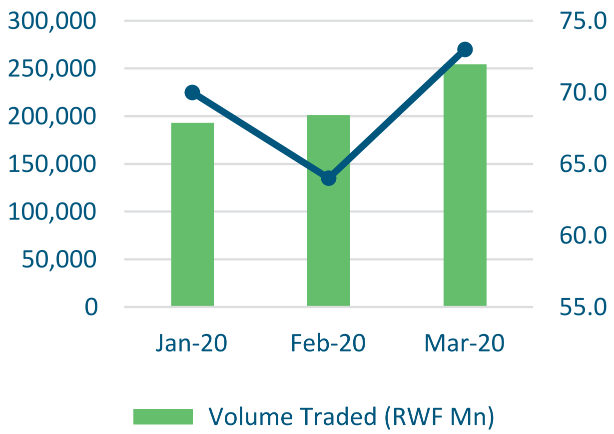
T-Bill Yields



Source: NBR, StratLink Advisory Group

The Monetary Policy Committee (MPC) met in early February where they decided to maintain the key rate at 5.0%. The near term will see the MPC battle between the need to adopt a monetary easing stance to minimize the economic impact of COVID-19 and the need to keep inflation from rising too high, considering that overall inflation accelerated to 13.5% in February this year. March 2020 saw an increase in activity in the interbank market, likely a result of the liquidity support measures taken by the Central Bank as part of its COVID-19 response.

Interbank Market



Source: National Bank of Rwanda, StratLink Advisory Group

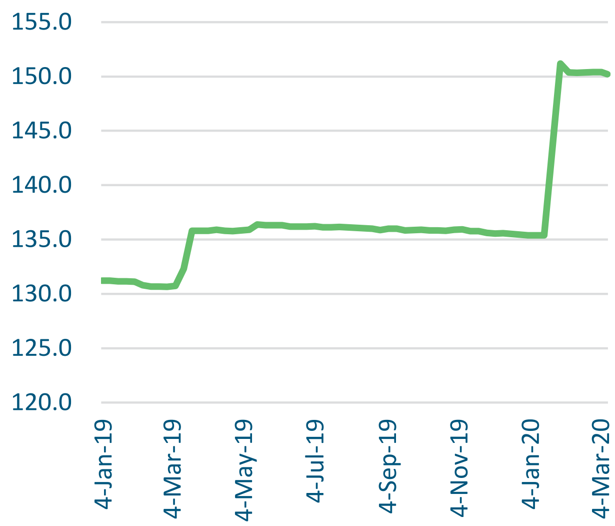
EQUITY MARKET UPDATE

Index Sees Uptick

The Rwanda Stock Exchange is trading at higher levels than were seen for the entirety of 2019.

This trend goes against that seen in neighboring Kenya where the bourse has taken a sharp dip over fears around the effects of COVID-19. The uptick in share prices on the index is likely to have been influenced by government incentives brought on by COVID-19, including those to support lending by the banking sector. However, it remains to be seen how long this trend will hold.

RSE All Share Index



Source: Bloomberg, StratLink Advisory Group

-0.1%

All share Index month-on-month change, as at 11th March, 2020

14.9%

All share Index y-o-y change, as at 11th March, 2020

STRATLINK ADVISORY GROUP - WHO WE ARE

StratLink is an emerging markets focused financial advisory company with Capital Raising Advisory, Corporate Advisory and Market Research as our core business lines. We believe in the growth potential of emerging markets and partner with our clients to execute their vision by providing quality services and access to capital. We recognize opportunities in the region and connect the fastest growing middle market companies with leading global investment banks, private equity firms and family offices. We value the importance of making informed decisions and leverage our regional knowledge to the advantage of our clients.

Our guarantee: Competent team, reliable data

Our research is anchored in a competent and versatile team traversing the fields of economics and finance with qualifications from globally recognized institutions. The team is backed by subscription to reliable databases such as Business Monitor International, Bloomberg, Thomson One Research, World Economics and The World Today. As such, our guarantee is reliable and up to date data in an increasingly dynamic region. Further, we reach out to relevant bodies in concerned markets including Central Banks, ministries and state departments.

Where we are based

StratLink Advisory Group's head office is located in Dubai. The company has its Africa headquarters in Nairobi, Kenya, and its Asia headquarters in Karachi, Pakistan.

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