

The African Development Bank Group Chief Economist Complex



Market Brief

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1. Market Commentary

1.1 Stock Markets

Despite eased worries about the economic outlook in the U.S.A. and Asia, African stock markets registered mixed performance during the week of 13 – 17 September 2010. The stock markets of Mauritius, Uganda, and Tunisia recorded substantial gains exceeding 3%, while those of Kenya, South Africa, Egypt, and Ghana also recorded moderate gains of between 0.4% and 1.4%. However, some stock markets, including those in Nigeria, Côte d'Ivoire and Morocco, posted negative returns, with the Nigerian market registering the largest loss of 3.6%.

Equity Focus

Mauritius: The Mauritius stock market rose by 5.1% during the week on the back of a 50% surge in the stock price of Savannah Sugar. The sharp increase in the stock price was triggered by a bonus issue of preference shares to ordinary shareholders.

Nigeria: The All Share Index dropped by 3.6% over the week, continuing its declining trend since August 2010 after the Central Bank of Nigeria ordered banks to draw down their risk assets in the capital market to a maximum of 10%. Consequently, in the year-to-date, the index had fallen by about 10% by

the end of the week.

1.2 Commodity Markets

Crude Oil (Brent): The price of crude oil fell by 3.7% over the week to USD 73.7 a barrel. The decline was driven by an earlier than expected restart of a major oil pipeline between Canada and the US, which was drained and shut down early in the week.

Cotton: The price of cotton rose by 5.7% as supply concerns continued. In particular, adverse weather conditions in China and the export limitations in India are bolstering prices.

1.3 Exchange Rates

The majority of African currencies strengthened against the US dollar, tracking the movement of the Euro, which appreciated by 2.8% against the US dollar. The Euro strengthened after Spain conducted a successful debt auction to calm fears about the fiscal situation in the country. The Mozambique New Metical recorded the highest appreciation of 3.5% vis-à-vis the US dollar, followed by the CFA franc, Morocco Dirham, Cape Verde Escudo, and Comoros Franc, which posted gains in value of between 2.5% and 2.9%. Overall, 23 African currencies appreciated against the US dollar during the week under review.

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“The Central Bank of Kenya reported that it licensed almost 5,000 banking agents so far to help bring financial services to areas not currently covered.”

“The Government of Senegal revised its growth target for 2011 upwards to 4.4% from an earlier forecast of 4.1% amid expectations of better performance across a number of sectors including mining, chemical, and refinery and building sectors.”

In contrast, 12 African currencies depreciated against the US dollar. The largest depreciation was registered by the Gambian Dalasi (-3.1%), followed by the Congolese Franc (-2.2%) and the Liberian Dollar (-1.2%).

2. Regional Developments

Southern Africa: The African Development Fund (ADF) will provide a grant of USD 8.6 million to finance the Airspace Integration Project of the Common Market for Eastern and Southern Africa (COMESA). The grant will finance the technical assistance component of the project to replace existing ground-based air navigation aids by a more cost-effective satellite-based air navigation. With this new system, Air Traffic Services from a single control center is expected to be able to cover large areas, thereby facilitating the rationalization of investments in infrastructure and equipment for air transportation in the region.

3. Countries in Focus

Angola: Angola's year-on-year inflation rose to 14% in August 2010 from 13.7% the previous month due to higher food and transportation costs. The Angolan government said it expects short-term inflation to rise after this month's announcement of a rise of up to 50% in fuel prices, prompting taxi drivers to threaten an increase in cab fares.

Egypt: The Central Bank kept its key overnight interest rates unchanged on 16 September 2010, despite an increase in core inflation. The central bank maintained its lending rate at 9.75% and its borrowing rate at 8.25%. Core inflation jumped to an annual level of 8.2% in August from 7.1% in the previous month, while urban consumer inflation inched up to 10.9% from 10.7% during the same period.

Côte d'Ivoire: Annual inflation rose to 2% in August 2010 from 1.8% in the previous month due to increases in food, transport and energy prices. Food prices rose by 5.7% year-on-year in August, while transport costs rose by 2.4% and water, energy and accommodation costs increased by 1.9%.

Kenya: Trading volumes in Kenya's bond market jumped more than six times in the first eight months of 2010 from the same period last year. Nairobi Stock Exchange (NSE) statistics showed a total of 361.2 billion shillings (USD 4.3 billion) worth of bonds were traded over January-August, compared with 62.3 billion (USD 0.7 billion) previously. Market analysts argued that this rally was due to increases in the size and frequency of government bond issues and the banks' participation in the debt market, as well as the introduction of the automatic bond trading system.

The Central Bank reported that it has licensed almost 5,000 banking agents so far to help bring financial services to areas not currently covered. Changes to Kenya's banking law that took effect from January 1, 2010 allow for agent-banking, where commercial banks can recruit agents to offer front-teller services including taking deposits at locations such as supermarkets and petrol stations.

Mauritius: The Central Bank plans to set a cap on commercial banks' holdings of government securities at 15-20% of a bank's liquid assets, in an effort to boost lending. The Central Bank argued that commercial banks preferred to pile surplus funds into short-term government and central bank securities rather than lend to the private sector.

Senegal: The Government revised its growth target for 2011 upwards to 4.4% from an earlier forecast of 4.1% amid expectations of better performance across a number of sectors including mining, chemical, refinery and construction sectors. The Government also raised the 2010 growth outlook to 4% from an earlier 3.4%.

“In Nigeria, the Government is planning to allow pension funds, which are currently restricted to investing into only equities, government bonds and bank deposits, to invest up to 40% of their portfolios in corporate and infrastructure bonds and 5% in private equity funds.”

“The Government of Uganda expects coffee exports to rise by 15% during the 2010/11 season (October – September) because of better weather and improved crop husbandry methods.”

Nigeria: Inflation rose to 13.7% year-on-year in August 2010 from 13% in the previous month. Inflation was driven by increases in food prices, which rose to 15.1% year-on-year in August from 14% in July. Meanwhile, the governor of the Central Bank of Nigeria Sanusi Lamido Sanusi commented that weak bank lending to the Nigerian economy is a "major worry", compared to the risk of inflation. However he also noted that the central bank wanted to maintain inflation within the single-digit range by the end of the year.

The Government is planning to allow pension funds, which are currently restricted to investing into government bonds and bank deposits, to invest up to 40% of their portfolios in corporate and infrastructure bonds and 5% in private equity funds. The Government expects this measure to help pension funds improve portfolio yields and long-term financing for infrastructure.

Uganda: The Government expects coffee exports to rise by 15% during the 2010/11 season (October – September) because of better weather and improved crop husbandry methods. Exports for the 2010/11 season are expected to reach 3.1 million 60-kilogram bags, from the 2.7 million bags for the 2009/10 season.

As a part of the Rural Financial Services Strategy (RFSS), the Government launched a communications strategy to increase information dissemination to improve the public's financial knowledge and access to financial services. The Government also plans to have a Savings and Credit Cooperative (Sacco) in each county to enable people access credit.

Zambia: The Government reported that net tax revenue for January-August 2010 rose by 29% to 8 trillion kwacha (USD 1.6 billion) from 6.2 trillion kwacha (USD 1.3 billion) in the same period last year. The increase in revenue was largely due to strong performance of personal, company and trade taxes. Mining company tax collections during the period were above target by 265.3 billion kwacha (USD 54 million), reaching 503.4 billion kwacha

(USD 102 million) against a target of 239.1 billion (USD 49 million).

The Government plans to spend a total of 71.7 trillion kwacha (USD 14.5 billion) over the next three years. State spending, which is expected to amount to 22.5% of GDP in 2010, is expected to steadily rise to 23.8% of GDP in 2011, 24.9% in 2012 before dropping to 23.7% in 2013.

4. Development Partnerships

AfDB/IFC/Citigroup – Africa: In September 2010, the African Development Bank (AfDB), the International Finance Corporation (IFC) and Citigroup approved a facility to provide USD 300 million in trade financing for exporters and importers in Africa. The facility provides further support to the continent's economies and address the shortage of trade finance.

5. Summary

During the week of 13 – 17 September 2010, African stock and commodity markets showed mixed performance. The bond market in Kenya has deepened, assisted by government efforts to improve the functioning of the bond markets during the last two years. Some other countries also took measures to improve the financial sector, with Mauritius urging banks to lend, Kenya and Uganda introducing innovations to help the unbanked have access to banking, and Nigeria loosening regulations on pension funds' investment in risky assets such as private bonds. Meanwhile, the Bank in cooperation with the IFC and Citigroup has provided the much needed trade finance resources for African exporters and importers. At the macroeconomic level, increased domestic revenues in Zambia have enabled the government to spend more for boosting economic growth. However, inflation has started to pick up in Angola, Egypt, Cote d'Ivoire, and Nigeria, requiring vigilance by the central banks for the lagged effects of the expansionary monetary policy they had adopted to alleviate the recessionary pressure caused by the global financial crisis.

Appendix Table 1: Stock market movements – Week ending on 17 September, 2010

Stock Markets							
Region/Country	Index Name	Index Code	Market Capitalization (USD, million) (17-09-2010)	Weekly % change (17-09-2010)		Year-to-date % Change	
				Week under review	Previous week	Dec 31 - Sep 17	
Africa							
Côte d'Ivoire	BRVM Composite Index	BRVM CI	6,157	▼ -0.86	▼ -0.71	▲ 15.6	
Egypt*	CASE 30 Index	CASE30	18,398	▲ 0.47	▼ -0.41	▲ 5.2	
Ghana	Ghana All Share	GSE	12,893	▲ 0.43	▲ 1.49	▲ 21.9	
Kenya	Nairobi SE Index- NSE 20	NSE 20	14,300	▲ 1.42	▲ 1.09	▲ 40.1	
Mauritius	Mauritius AllShares	SEMDEX	5,083	▲ 5.30	▼ -0.31	▲ 7.3	
Morocco	Casa All Share Index	MASI	14,005	▼ -0.09	▼ -0.06	▲ 11.9	
Nigeria	NGSE All Share Index	NGSE	36,237	▼ -3.57	▼ -1.78	▲ 10.4	
South Africa	All Share Index	JALSH	650,780	▲ 1.16	▲ 0.52	▲ 2.7	
Tunisia	Tunis se Tnse Index STK	TUNINDEX	7,192	▲ 2.94	▼ -0.12	▲ 29.5	
Uganda*	Uganda SE All Share index	USE	4,848	▲ 3.67	▼ -0.71	▲ 49.3	
Other regions							
USA	Dow Jones Industrial	DJ Index	3,402,428	▲ 1.39	▲ 0.14	▲ 1.7	
France	CAC 40 Index	CAC40	885,304	▼ -0.10	▲ 1.46	▼ -5.4	
Japan	Nikkei 225 Index	N225	2,266,154	▲ 4.19	▲ 1.37	▼ -8.7	

* Value at end of 16 September, 2010

Appendix Table 2: Exchange rate movements – Week ending on 17 September, 2010

Exchange Rates (currency per US\$)								
Region/Country	Currency Name	Currency Code	Weekly % change (17-09-2010)		Year-to-date % Change			
			Week under review	Previous week	Dec 31 -Sep 17			
Africa								
Algeria	<i>Algerian Dinar</i>	DZD	▼	-0.54	▼	-0.26	▼	-3.7
Angola	<i>New Kwanza</i>	AON	▼	-0.26	▼	-0.42	▼	-1.7
Botswana	<i>Pula</i>	BWP	▲	1.21	▲	0.17	▼	-0.5
Burundi	<i>Burundi Franc</i>	BIF	▼	-0.05	▼	-0.01	▲	0.9
Cape Verde	<i>Escudo</i>	CVE	▲	2.54	▼	-1.12	▼	-12.4
Comoros	<i>Comoros Franc</i>	KMF	▲	2.75	▼	-0.61	▼	-8.7
Congo. Dem. Rep. of	<i>Congolese Franc</i>	CDF	▼	-2.19	▲	2.30	▼	-11.7
Djibouti	<i>Djibouti Franc</i>	DJF	▼	-0.45	▲	0.49	▼	-2.4
Egypt	<i>Egyptian Pound</i>	EGP	▲	0.08	▼	-0.02	▼	-3.9
Ethiopia	<i>Birr</i>	ETB	▼	-0.07	▼	-16.58	▼	-22.5
Gambia. The	<i>Gambian Dalasi</i>	GMD	▼	-3.14	▼	-0.43	▼	-11.5
Ghana	<i>New Cedi</i>	GHS	▲	0.57	▼	-0.15	▲	0.5
Guinea	<i>Guinea Franc</i>	GNF	▲	0.38	▼	-0.36	▼	-11.2
Kenya	<i>Kenyan Shilling</i>	KES	▲	0.91	▼	-1.03	▼	-6.2
Liberia	<i>Liberian Dollar</i>	LRD	▼	-0.69	▲	1.39	▼	-3.4
Libya	<i>Libyan Dinar</i>	LYD	▲	1.48	▼	-0.80	▼	-2.6
Madagascar	<i>Ariary</i>	MGA	▲	1.60	▲	0.02	▼	-2.5
Malawi	<i>Kwacha</i>	MWK	▲	0.66	▼	-0.89	▼	-3.2
Mauritania	<i>Ouguiya</i>	MRO	▲	0.17	▲	0.13	▼	-8.1
Mauritius	<i>Mauritius Rupee</i>	MUR	▲	0.53	▼	-0.53	▼	-2.0
Morocco	<i>Dirham</i>	MAD	▲	2.54	▼	-0.69	▼	-6.9
Mozambique	<i>New Metical</i>	MZN	▲	3.54	▲	0.68	▼	-22.1
Nigeria	<i>Naira</i>	NGN	▲	0.51	▼	-1.38	▼	-0.6
Rwanda	<i>Rwandan Franc</i>	RWF	▼	-0.04	▼	-0.23	▼	-2.8
São Tomé & Príncipe	<i>Dobra</i>	STD	▲	1.67	▼	-0.44	▼	-16.3
Seychelles	<i>Seychelles Rupee</i>	SCR	▲	1.25	▼	-0.90	▼	-9.8
Sierra Leone	<i>Leone</i>	SLL	▼	-1.23	▲	0.67	▼	-2.5
Somalia	<i>Somali Shilling</i>	SOS	▼	-0.11	▼	-0.16	▼	-7.8
South Africa	<i>Rand</i>	ZAR	▲	1.29	▲	0.59	▲	3.9
Sudan	<i>Sudanese Pound</i>	SDG	▲	0.14	▼	-0.10	▼	-2.0
Tanzania	<i>Tanzanian Shilling</i>	TZS	▼	-0.19	▲	0.25	▼	-11.9
Tunisia	<i>Tunisian Dinar</i>	TND	▲	1.93	▼	-0.34	▼	-9.1
Uganda	<i>Uganda Shilling</i>	UGX	▲	0.35	▲	0.07	▼	-15.1
Zambia	<i>Zambian Kwacha</i>	ZMK	▲	1.12	▲	0.01	▼	-3.9
CFA zone Countries	<i>CFA Franc</i>	XOF	▲	2.89	▼	-0.84	▼	-8.6
Other regions								
Europe	<i>Euro</i>	EUR	▲	2.74	▼	-0.81	▼	-8.9
Japan	<i>Yen</i>	JPY	▼	-2.18	▲	0.54	▲	7.7

Sources: AfDB Statistics Department, September 2010.