

The African Development Bank Group Chief Economist Complex



Market Brief

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1. Market Commentary

1.1 Stock Markets

During the week of 20 – 24 September 2010, most African stock markets rose, reflecting rallies in the commodity markets bolstered by the weakened U.S. dollar. Markets in Egypt gained the most, recording a rise of 2.9%, followed by those in Kenya, South Africa, and Côte d'Ivoire, all of which registered gains of around 1%. Moderate gains of between 0.3% and 0.8% were posted by those in Uganda, Morocco, and Ghana. In contrast, three African stock markets remained bearish. The Nigerian stock market recorded a loss of 1.3%, while those of Tunisia and Mauritius registered marginal losses of 0.1% and 0.6%, respectively.

Equity Focus

South Africa: The All Share Index rose by 1.1%, tracking the gains in the U.S. market. The rise of the All Share Index was helped by retail sales growth of 7.9 % year-on-year in July, the appreciation of financial sector and gold miners' counters. In particular, Nedbank, which is currently the target of an acquisition bid from HSBC, gained nearly 2 %, reaching its highest in nearly three years.

Nigeria: The NGSE All Share Index fell by 1.3% over the week, reflecting heightened instability in the market after the Security Exchange Commission intervened in the

governance of the Stock Exchange through a series of directives and reorganization including sacking of a substantial number of staff. This partly resulted in investors' remaining less active.

1.2 Commodity Markets

Crude Oil (Brent): The price of crude oil rose by 1.7% over the week to USD 74.9 a barrel as the US dollar dropped against the Euro, bolstering the appeal of commodities as an alternative investment.

Gold and Silver: Gold price rose by 1.8% to a record high at USD 1,297 per ounce, propelled by weak US dollar and continued concerns about global economic health, while silver rose by 2.4%, rushing to its highest since October 1980.

Cotton: The cotton price increased by 1.3% over the week, on renewed signs that global demand will outpace limited supplies.

1.3 Exchange Rates

During the week under review, eighteen African currencies rallied against the US dollar, following Euro's appreciation against the US dollar. This was as a result of a report showing that German business confidence unexpectedly increased to a three-year high in September.

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“In Mozambique, inflation rose to 15.26 % year-on-year in August, the highest rate in nearly two years ...”

The Gambian Dalasi recorded the largest appreciation of 9.1%, partly reflecting high dependence of the country's tourism industry on German customers. Besides, São Tomé & Príncipe's Dobra, Cape Verde Escudo, Comoros Franc, and CFA Franc registered substantial appreciation of between 1.9% and 3.1%. On the other hand, seventeen African currencies depreciated against the US dollar in the inter-bank foreign exchange markets. The Guinea Franc recorded the largest depreciation of 23.6%, reflecting the political turmoil surrounding postponement of the second round of presidential election, followed by the Mozambique New Metical (2.8%).

2. Regional Developments

Africa: The Commonwealth Secretary-General, talking in a meeting on the *Mauritius Strategy* for the sustainable development of the Small Island Developing Countries (SIDS), reaffirmed the Commonwealth's commitment to strengthening the SIDS. In particular, he stressed the need for consensus on development-oriented international trade rules and ways to let small states bring have access to larger markets, trade finance and the money market. The Commonwealth's recent work in this regard includes efforts to boost the export strategies of countries like Mauritius. He also reiterated the need to be channeled finances to the SIDS to help them take initiatives which will lessen the negative impacts of climate change such as the rising sea levels.

3. Countries in Focus

Burundi: Coffee earnings are forecasted to soar to USD 81.6 million in the 2010/11 season from USD16.7 million for the 2009/10 crop. Coffee is country's top foreign exchange earner and employs 800,000 smallholder farmers in the country of 8 million people.

Cameroon: The Government announced that it will provide farmers with more than 1 billion CFA francs worth of chemicals to

combat pests and diseases. Cameroon is the world's No. 5 cocoa grower with around 200,000 tons of annual output.

Kenya: Kenya's central bank left its rate (CBR) unchanged at 6.0 % on perception that inflation and exchange rates remain stable. Kenya has made six rate cuts totaling 300 basis points since December 2008. Commercial banks responded by reducing their rates to around 14 percent. However, there are fears inflation might start to creep up on food price pressures brought about by a drought anticipated in the later of the year and early 2011.

The Government announced that the initial phase of a 325-km (202) mile fuel pipeline from Kenya's capital to the western town of Eldoret will be operational in June next year. China Petroleum Pipeline Engineering Corp had been awarded a contract for the phase one worth 13.4 billion Kenyan shillings of the estimated 14.2 billion-shilling cost of a larger project.

Morocco: The Ministry of Trade forecast foreign direct investment this year would match the 3 billion Euros that were attracted in 2009 and a further increase in 2011 thanks to large investments in the fertilizer industry and a Renault car manufacturing plant coming online next year.

Mozambique: Inflation rose to 15.26 % year-on-year in August, the highest rate in nearly two years, driven by a rise in food prices due partly to a weakening currency. At least 13 people were killed in riots over food prices in the country early this month, prompting the government to reverse a bread price hike. Mozambique is heavily dependent on imports from neighboring South Africa and its currency, the Metical, has lost more than a quarter of its value against the South African rand this year.

“In Nigeria, the Central Bank raised the benchmark interest rate by 25 basis points to 6.25 %...”

“The Ghanaian Government signed a USD 13 billion loan agreement with China....”

Nigeria: The Central Bank of Nigeria (CBN) raised the Monetary Policy Rate (MPR) by 25 basis points to 6.25 %. This was a preemptive step to check anticipated inflationary pressure arising from the outlook for government spending in an election year, implementation of a new salary structure, as well as the Assets Management Corporation of Nigeria’s (AMCON’s) purchase of non-performing loans.

The Minister of State for Power in Nigeria announced that privatization strategies for the Power Holding Company of Nigeria (PHCN) have been approved by the National Council on Privatization (NCP), hinting that the sale process will begin in the first quarter of 2011.

South Africa: Exports to the U.S. by the South African defense industry have increased exponentially over the past few years reaching nearly \$1.7 billion (R12.1bn) this year, according to a US commercial service in South Africa.

Tanzania: A Tanzanian reforestation project has become the first forestry investment to be issued carbon offsets under an industry-backed standard, the Voluntary Carbon Standard (VCS), which issued the first batch of credits and placed them in the VCS registry. The project in the southern highlands of Tanzania involves converting degraded grassland into sustainably harvested eucalyptus and pine forests that soak up carbon dioxide from the air as they grow, earning CO2 offsets.

Uganda: Uganda’s Securities Exchange (USE) announced that two corporate bonds would start trading on the bourse by early next year and a Kenyan-listed firm will carry out a secondary listing in October. The USE has been gaining weight over the last few years as more equities cross-list on it from the Nairobi Stock Exchange (NSE) and local companies place bonds to raise capital for expansion.

Zambia: The Zambia Revenue Authority (ZRA) reported that net tax revenue from January to 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 reached 503.4 billion kwacha (USD 102 million) against a target of 239.1 billion (USD 49 million).

4. Development Partnerships

Burundi – The World Bank: Burundi has received a grant of USD 43 million from the World Bank to support the development of agricultural sector as it recovers from more than a decade of civil war. The grant is intended to help fund the Agricultural Rehabilitation and Support project. Burundi’s economy is heavily dependent on agriculture revenues, in particular from tea and coffee sectors.

Ghana: The government signed a USD 13 billion loan agreement with China. The new loan includes 3 billion dollars from the China Development Bank to finance oil and gas infrastructure and agricultural development, and nearly 10 billion dollars for road, rail and power-generation projects. Ghana is due to become an oil exporter by the end of this year, with anticipated revenues of around 800 million dollars per year over the 20-year life of its offshore Jubilee field.

5. Summary

During the week of 20 – 24 September 2010, majority African stock markets rallied, reflecting rebounds in the commodity markets. Positive developments predominated in the real sector, including deepening of Uganda’s security market, an increase in Zambia’s revenue, rising FDI in Morocco, successful construction of pipelines in Kenya. Notably, a private sector initiative to deal with climate change has born fruit in an issue of carbon offsets under an industry-backed standard in Tanzania. However, inflation is lurking behind the recovery of real sector as noted in Mozambique.

Appendix Table 1: Stock market movements – Week ending on 24 September, 2010

| Stock Markets | | | | | | |
|----------------|---------------------------|------------|---|------------------------------|---------------|-----------------------|
| Region/Country | Index Name | Index Code | Market Capitalization (USD, million) (24-09-2010) | Weekly % change (24-09-2010) | | Year-to-date % Change |
| | | | | Week under review | Previous week | Dec 31 - Sep 24 |
| Côte d'Ivoire | BRVM Composite Index | BRVM CI | 6,413 | ▲ 0.98 | ▼ -0.86 | ▲ 16.7 |
| Egypt* | CASE 30 Index | CASE30 | 18,946 | ▲ 2.91 | ▲ 0.47 | ▲ 8.2 |
| Ghana | Ghana All Share | GSE | 12,921 | ▲ 0.74 | ▲ 0.43 | ▲ 22.8 |
| Kenya | Nairobi SE Index- NSE 20 | NSE 20 | 14,474 | ▲ 1.14 | ▲ 1.42 | ▲ 41.7 |
| Mauritius | Mauritius AllShares | SEMDEX | 5,098 | ▼ -0.60 | ▲ 5.30 | ▲ 6.7 |
| Morocco | Casa All Share Index | MASI | 14,270 | ▲ 0.34 | ▼ -0.09 | ▲ 12.2 |
| Nigeria | NGSE All Share Index | NGSE | 35,347 | ▼ -1.33 | ▼ -3.57 | ▲ 8.9 |
| South Africa | All Share Index | JALSH | 666,497 | ▲ 1.06 | ▲ 1.16 | ▲ 3.8 |
| Tunisia | Tunis se Tnse Index STK | TUNINDEX | 7,304 | ▼ -0.07 | ▲ 2.94 | ▲ 29.4 |
| Uganda* | Uganda SE All Share index | USE | 4,847 | ▲ 0.76 | ▲ 3.67 | ▲ 50.4 |
| Others | | | | | | |
| USA | Dow Jones Industrial | DJ Index | 3,459,268 | ▲ 0.51 | ▲ 1.39 | ▲ 2.2 |
| France | CAC 40 Index | CAC40 | 901,959 | ▼ -0.71 | ▼ -0.10 | ▼ -6.1 |
| Japan | Nikkei 225 Index | N225 | 2,280,093 | ▼ -1.60 | ▲ 4.19 | ▼ -10.2 |

* Value at end of 23 September, 2010

Appendix Table 2: Exchange rate movements – Week ending on 24 September, 2010

| Exchange Rates (currency per US\$) | | | | | | |
|------------------------------------|---------------------------|---------------|----------------------------------|---------------|--------------------------|-------|
| Region/Country | Currency Name | Currency Code | Weekly % change (24-09-2010) | | Year-to-date % Change | |
| | | | Week under review | Previous week | Dec 31 -Sep 24 | |
| Africa | | | | | | |
| Algeria | <i>Algerian Dinar</i> | DZD | ▲ 1.07 | ▼ -0.54 | ▼ | -2.7 |
| Angola | <i>New Kwanza</i> | AON | ▼ -1.00 | ▼ -0.26 | ▼ | -2.7 |
| Botswana | <i>Pula</i> | BWP | ▲ 0.70 | ▲ 1.21 | ▲ | 0.2 |
| Burundi | <i>Burundi Franc</i> | BIF | ▲ 0.09 | ▼ -0.05 | ▲ | 1.0 |
| Cape Verde | <i>Escudo</i> | CVE | ▲ 2.66 | ▲ 2.54 | ▼ | -10.0 |
| Comoros | <i>Comoros Franc</i> | KMF | ▲ 2.17 | ▲ 2.75 | ▼ | -6.8 |
| Congo. Dem. Rep. of | <i>Congolese Franc</i> | CDF | ▼ -0.08 | ▼ -2.19 | ▼ | -11.8 |
| Djibouti | <i>Djibouti Franc</i> | DJF | ▼ -0.08 | ▼ -0.45 | ▼ | -2.5 |
| Egypt | <i>Egyptian Pound</i> | EGP | ▲ 0.06 | ▲ 0.08 | ▼ | -3.8 |
| Ethiopia | <i>Birr</i> | ETB | ▲ 0.04 | ▼ -0.07 | ▼ | -22.5 |
| Gambia. The | <i>Gambian Dalasi</i> | GMD | ▲ 9.10 | ▼ -3.14 | ▼ | -3.4 |
| Ghana | <i>New Cedi</i> | GHS | ▼ -0.25 | ▲ 0.57 | ▲ | 0.3 |
| Guinea | <i>Guinea Franc</i> | GNF | ▼ -23.64 | ▲ 0.38 | ▼ | -32.2 |
| Kenya | <i>Kenyan Shilling</i> | KES | ▼ -0.27 | ▲ 0.91 | ▼ | -6.5 |
| Liberia | <i>Liberian Dollar</i> | LRD | ▼ -0.75 | ▼ -0.69 | ▼ | -4.2 |
| Libya | <i>Libyan Dinar</i> | LYD | ▲ 0.68 | ▲ 1.48 | ▼ | -1.9 |
| Madagascar | <i>Ariary</i> | MGA | ▼ -0.74 | ▲ 1.60 | ▼ | -3.3 |
| Malawi | <i>Kwacha</i> | MWK | ▼ -1.64 | ▲ 0.66 | ▼ | -4.8 |
| Mauritania | <i>Ouguiya</i> | MRO | ▼ -0.05 | ▲ 0.17 | ▼ | -8.1 |
| Mauritius | <i>Mauritius Rupee</i> | MUR | ▲ 1.21 | ▲ 0.53 | ▼ | -0.8 |
| Morocco | <i>Dirham</i> | MAD | ▲ 1.59 | ▲ 2.54 | ▼ | -5.4 |
| Mozambique | <i>New Metical</i> | MZN | ▼ -2.75 | ▲ 3.54 | ▼ | -24.2 |
| Nigeria | <i>Naira</i> | NGN | ▼ -1.64 | ▲ 0.51 | ▼ | -2.3 |
| Rwanda | <i>Rwandan Franc</i> | RWF | ▼ -0.20 | ▼ -0.04 | ▼ | -3.0 |
| São Tomé & Príncipe | <i>Dobra</i> | STD | ▲ 3.11 | ▲ 1.67 | ▼ | -13.7 |
| Seychelles | <i>Seychelles Rupee</i> | SCR | ▼ -0.13 | ▲ 1.25 | ▼ | -9.9 |
| Sierra Leone | <i>Leone</i> | SLL | ▼ -0.59 | ▼ -1.23 | ▼ | -3.0 |
| Somalia | <i>Somali Shilling</i> | SOS | ▲ 0.96 | ▼ -0.11 | ▼ | -6.9 |
| South Africa | <i>Rand</i> | ZAR | ▲ 1.03 | ▲ 1.29 | ▲ | 4.9 |
| Sudan | <i>Sudanese Pound</i> | SDG | ▼ -0.02 | ▲ 0.14 | ▼ | -2.1 |
| Tanzania | <i>Tanzanian Shilling</i> | TZS | ▲ 0.17 | ▼ -0.19 | ▼ | -11.8 |
| Tunisia | <i>Tunisian Dinar</i> | TND | ▲ 1.14 | ▲ 1.93 | ▼ | -8.1 |
| Uganda | <i>Uganda Shilling</i> | UGX | ▼ -0.02 | ▲ 0.35 | ▼ | -15.1 |
| Zambia | <i>Zambian Kwacha</i> | ZMK | ▲ 0.62 | ▲ 1.12 | ▼ | -3.3 |
| CFA zone Countries | <i>CFA Franc</i> | XOF | ▲ 1.89 | ▲ 2.89 | ▼ | -6.9 |
| Others | | | | | | |
| Europe | <i>Euro</i> | EUR | ▲ 2.24 | ▲ 2.74 | ▼ | -6.9 |
| Japan | <i>Yen</i> | JPY | ▲ 1.39 | ▼ -2.18 | ▲ | 9.2 |

Source: AfDB Statistics Department, September 2010