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### Market snapshot

African markets were strong again across the board in December. The largest positive movers were South Africa +10.1%, BRVM +9.7%, Botswana +4.8%, Egypt +2.5% and Nigeria +0.7. The decliners were Zimbabwe -14.0%, Kenya -2.6% and Morocco -0.7%. On the currency front, the Rand was very strong in December on the back of political developments and Euro linked currencies enjoyed a small appreciation.

For the year Africa lagged the broader EM, however outperformed MSCI World. EM +34.4%, World +20.1%, Africa ex SA for S&P +28.2% and MSCI +22.3%.

### Economic and political overview

**Nigeria** – We have included a number of charts, at the end of the report, to frame the macro economic developments over the last two years. Across the board, the trend is very encouraging and points to a positive outlook for 2018. Probably the most positive measure just in, is FX reserves, which topped USD 40bn for the first time in three years. The reason we place emphasis on this is that the development potential in Africa is clear, however due to low industrialization, infrastructure and growth require imports. Increased FX reserves increase the capacity to grow, without adversely affecting the exchange rate and confidence in the economy.

**Egypt** – We have included charts at the end of the report. The trend also looks encouraging, despite an export slowdown driven dip in PMI in December. We highlight the following factors that we believe will reinforce the positive trends and point toward a positive outlook.

- **Zohr gas field ramping up** – launched in December, production will be rapidly increasing in January. This will substantially address the looming deficit from current resource depletion and increased demand, alleviating pressure on the import bill and reducing reliance on LNG shipments. Gas is a critical resource as 70% of gas goes to electricity production and the balance goes to feedstock for the country's large fertilizer industry.
- **Russian tourists return** – Cairo has been re-opened, with the coast to follow shortly. This is a critical event for Egypt tourism as Russians make up a third of all visitors. The chart shows the impact that the ban had and that the lifting should have. Tourism is one of the Egypt's largest employers and main sources of FX.
- **Interest rate cuts** – with steadily declining inflation and a firming currency, we see 200-300bps of rate cuts during 2018. We believe this is a critical ingredient for Egypt to move from its first stage of growth, recovery phase, to a more sustained growth that will drive, amongst other things, credit extension from working capital to capex funding.

**Kenya** – There is an inverse relationship between time and relevance. As we write, Raila Odinga's relevance is being ravaged by the passage of time as he moves from one farcical event to the next. The entire event has already been dubbed as "Last year's news". With the World Bank having cut its forecast for 2018 growth from 5.5% to 4.9%, the onus is now firmly on Uhuru to demonstrate how he plans to reinvigorate the economy after a slow second half.

**Morocco** – Most economic indicators point toward stability, but relatively low growth in 2017 and into 2018. Recent data points:

- Q3 GDP +3.8%, with non-Agric 2.5% and Agric +14.5%.
- Interest rates left unchanged at 2.25%.
- November cement volumes +5.2%.
- 2017 car sales +3.4%.

**Zambia** – 2017 copper output is expected to increase to between 800,000 and 850,000 tons due to stable power supply and higher prices (+30%) from 774,290 tons in last year. This is encouraging for 2018, given the weak currency and economic performance.

**Mauritius** – Recent tourism numbers (main FX source and large employer) of arrivals +5.2% and earnings +7.5% point toward continued stability and moderate growth in the island's economy.

**Zimbabwe** – the key event was the announcement of the new budget. While the targets might seem ambitious, the critical factor is the will to reform and engage the international community. We can provide summary highlights of the budget on request.

## Holdings review

**There were no specific company events in December.**

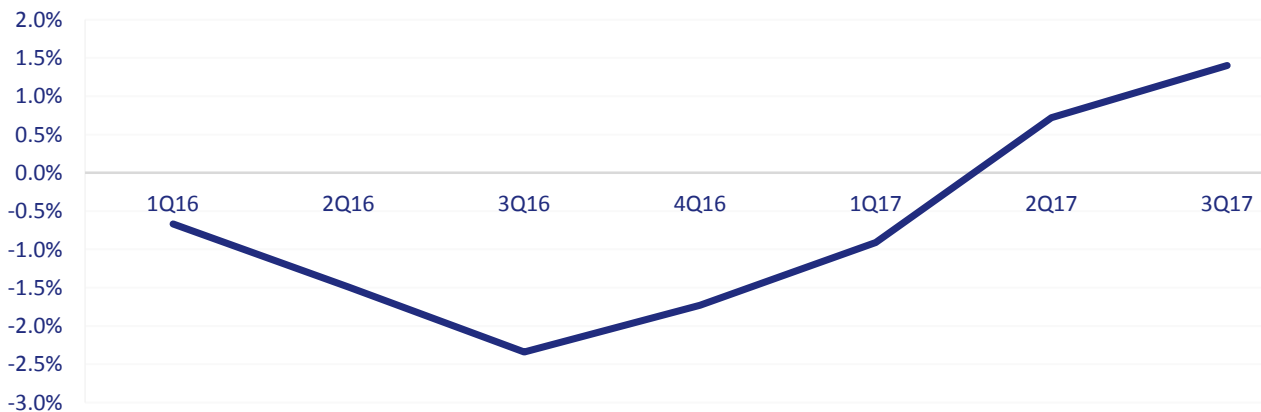
## Market outlook

**Nigeria and Egypt** – the outlook remains positive heading into Q4 results and dividend announcements, as well as continued signs of economic recovery. **Kenya** – positive outlook, however political spillover into economic activity could dampen Q4 results. We are particularly interested in the banks Q4 results, which will be the first quarter where the base ie Q4 16, includes the full effect of the rate cap. **Morocco** – stronger H2 economic activity and a bumper agricultural season should see continued positive sentiment. **Zimbabwe** – Despite the many challenges, we are positive on the outlook for Zimbabwe and were particularly encouraged by the Budget.

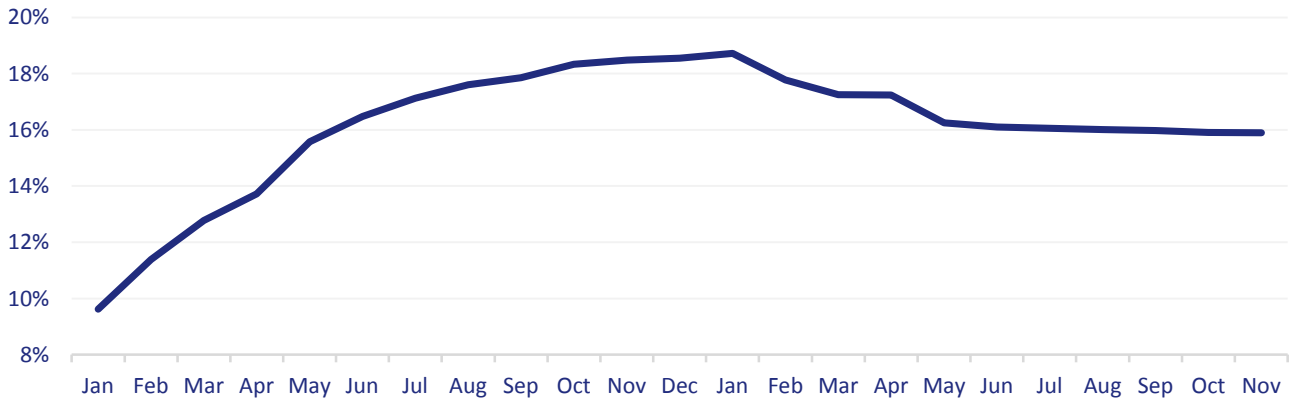
**Nigeria - PMI Index (monthly 2016-2017)**



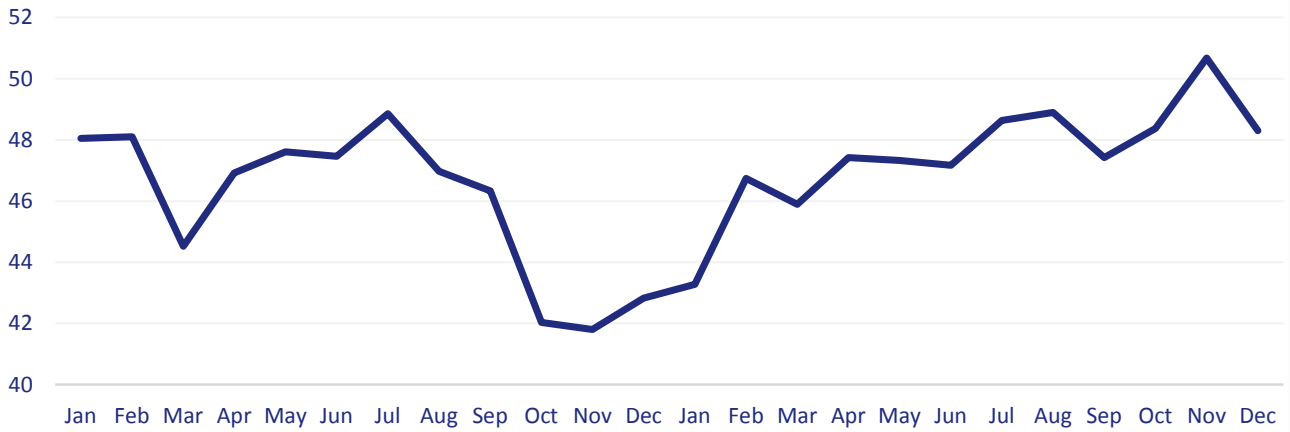
**Nigeria - Real GDP Growth (Quarterly 2016-2017)**



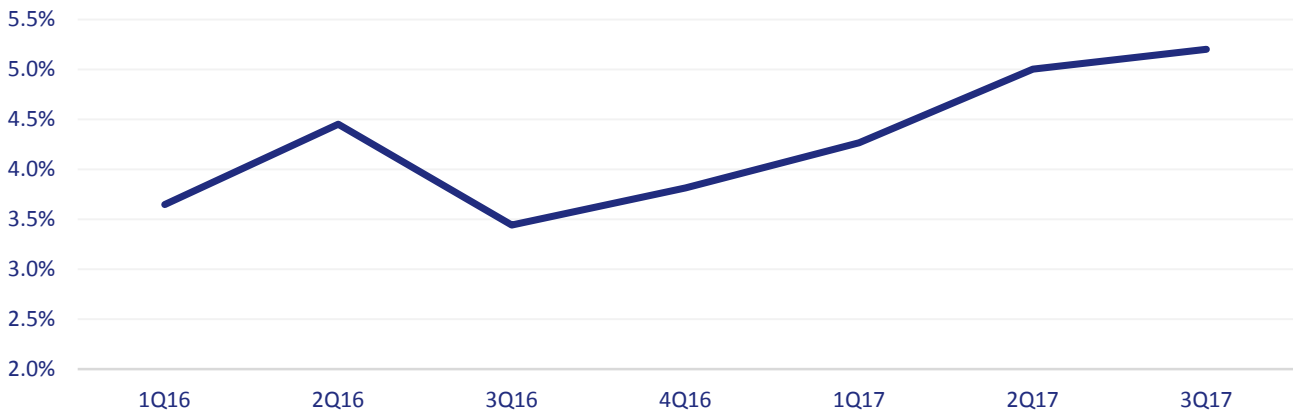
## Nigeria - CPI (Monthly 2016-2017)



## Egypt - PMI Index (Monthly 2016-2017)



## Egypt - Real GDP Growth (Quarterly 2016-2017)



## Egypt - CPI (Monthly 2016-2017)



Tony Schroenn, Craig Bandason, Rainer Orth - Portfolio Managers, January 2018