IMARA
Asset Management

Monthly Market Report

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Author: Tony Schroenn, Craig Bandason, Rainer Orth

Market snapshot

African markets were very strong across the board in January. The largest positive movers were Nigeria +15.1%, Morocco +7.1%, South Africa +3.8%, Egypt +2.8% and Kenya +1.6%. BRVM was the only decliner falling 3.5%. Currency wise, the month was characterized by USD weakness against the Euro, which boosted most of the indices, particularly those closely correlated to the Euro.

Economic and political overview

Nigeria – We believe that the country is well positioned for economic acceleration and the positive trickle down of currency reform, high oil price and global risk appetite. The main risk to our view is on the oil production side where the militants in the Niger Delta (the Niger Delta Avengers) are threatening to resume attacks on the oil infrastructure. While we think the probability of an attack is low and it is just brinkmanship from the Avengers, the risk remains, and it is the one area of concern in an otherwise very bullish environment. From our discussions with brokers and domestic institutions the rally is being driven by domestic institutions as well as retail investors. January also tends to be the month where PFAs make their asset allocation shifts and the skew towards equities has grown as the Nigerian yield curve flattens.

Egypt – Headline inflation continued to decelerate, dropping to 17% for January 2018 from a peak of 33% in July 2017. The latest number sets the stage for a potential rate cut at the next MPC meeting on the 15th of February 2018. The consensus view from domestic institutions is that they may cut the rate by up to 50bps. This will be supportive of equity prices.

Kenya – Headline inflation increased to 4.8% in January from 4.5% in December. It seems the CBK is comfortable with this number and the interest rate cap leaves the CBK somewhat limited in terms of policy options. We remain of the opinion that the interest rate cap won't be repealed but it is likely to be modified/changed to incorporate wider bands. Without some changes there is a risk to the currency as inflation comes under pressure from rising fuel prices. Politically Odinga continues to fight the election result going to the extent of swearing himself in during a mock inauguration on Tuesday the 30th of January 2018. We believe that the opposition is angling for another government of national unity (like April 2008 – April 2013 following the election violence).

Morocco – Morocco remains a very stable macroeconomic environment with strong links to Europe (zero tariff access to the EU) and a growing manufacturing exports base driven by the automotive industry. The central bank made positive announcements on FX reforms, but they will remain pegged to the euro and the dollar (60% EURO and 40% USD) with a wider band (2.5% instead of 0.3%), which gives them a little more wiggle room to weaken the currency as a release valve. The view in Morocco is that this was the first step towards a more flexible exchange regime, there remains significant resistance to a fully liberalized exchange rate. However, long term the prospects look good as the central bank Governor is particularly vocal about moving towards a more flexible regime to increase the competitiveness of the Moroccan economy.

Zimbabwe – Emmerson Mnangagwa continues his charm offensive, meeting global leaders and affirming his commitment to credible, free and fair elections in July/August 2018. We are yet to see significant new money on the exchange but remain confident on the prospects for the economy having passed the point of maximum pessimism. On current earnings streams valuations appear fair, but on normalized/recovery earnings they appear attractive. On an asset basis there are plenty of opportunities too. What is particularly interesting is the convergence in policies, the new Zanu PF regime has pretty much the same policies as the MDC. Both are pro-business and recognize the need to pursue strong fiscal reforms.

Market outlook

Nigeria – the outlook remains positive and we look forward to seeing the result of the Eurobond issuance of USD2,5bn in 1Q18, this is part of the dollar debt program of the debt management office (DMO) with a view to reduce reliance on domestic debt and reduce crowding out and high interest rates. Currently Nigeria has a spilt of 77% domestic debt and 23% external debt. The target for the DMO is to bring this number to 60% domestic and 40% external. The yield on this Eurobond will give us a good indicator of the global risk appetite for Nigeria.

Egypt – The outlook for Egypt remains very positive, in the near term tailwinds from IMF support, recovery of tourism revenues and new gas production will support domestic industry. Whilst long term we are happy about supply side reforms such as revisions to the investment law and the new bankruptcy law which was passed towards the end of January.

Kenya – we had flagged the negative spillover of politics on economic activity in Q4 17 and the EABL results were consistent with this. The banking sector remains our biggest opportunity with the interest rate cap presenting a buying opportunity. We feel that in the near term the rate cap will be modified and over the long term it is likely to be removed as the negative impact on credit lending becomes obvious to policy makers, parliamentarians, and the public.

Morocco – positive sentiment linked to Europe recovery and manufacturing exports. However, it remains difficult to find reasonably priced opportunities.

Zimbabwe – we remain positive on the long term prospects for sustained economic growth. It is crucial that Mnangagwa builds legitimacy through credible actions, we are encouraged so far by his policies on indigenisation and respect of BIPPAs.