Corporate and Investment Banking

African Markets Revealed

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African markets: exciting times

- *We remain bullish on global growth and are relatively comfortable with the major risks to this scenario from US consumer deleveraging, funding problems for European sovereigns and monetary tightening in China.*
- *We expect EM growth outperformance to attract investment and we see frontier markets catching up with broader EM as the search for yield increases and the memories of the illiquidity during the 2008 financial crisis diminish.*
- *EM currencies are expected to continue outperforming G4 currencies, even though our expectation for EUR/USD downside in coming months may limit gains against the USD.*
- *We expect to see higher commodity prices, with the influence of higher food and fuel prices fostering supply-side inflation pressure globally and more so in economies where food is still a large portion of consumption.*
- *Higher inflation is likely to foster monetary tightening via both higher rates and stronger currencies creating an interesting backdrop for carry trades. We like carry trades in NGN, GHS, EGP and even MZN and AOA, albeit that access is limited. We would also be buyers of UGX post late-Feb elections.*
- *With the exception of Nigeria where we have seen a massive back-up in yields to attractive levels, we would be unwinding duration generally across Africa's local curves and especially in Kenya.*
- *Africa's macro equity story remains strong and we continue to expect solid upside multi-month returns, with Nigeria expected to be the outperformer.*
- *Africa's sovereign Eurobonds returns will be undermined by a likely back-up in US Treasury yields. We see limited value in Gabon 17s, we are neutral on Ghana 17s and see some value in Senegal 14s. After some further downside, we believe Côte d'Ivoire 32s will be the best performing sovereign Eurobond in 2011.*

Global growth: supportive for investment

During our last publication, back in Sep 10, we reiterated our default position on global growth held since mid-2009 to be more positive than the market. At the time we argued that concerns over a double-dip global downturn were overdone. Such concerns have certainly diluted substantially in recent months. Our view continues to be driven by two main principals: Emerging Markets (EM) are in a strong position to increasingly contribute to global growth, and Developed Market (DM) policymakers are determined to make the necessary deleveraging process in their countries as smooth as possible.

The merit of positioning on the bullish side of global GDP growth once again proved appropriate when the IMF in its Oct 10 World Economic Outlook additionally revised up its 2010 outlook to 4.8% from 4.6%. That said, it revised down its projection for 2011 to 4.2%. Although these growth rates still have strong base influences from negative growth of 0.6% in 2009 and subdued growth of 2.8% in 2008, they still stack up pretty well against average GDP growth of 3.5% registered between 1970 and 2009. Risks to this broadly constructive scenario come from several sources.

Orderly US deleveraging

First, there are significant concerns over US consumer confidence in the face of deleveraging. The second round of quantitative easing (QE2) by the US Federal Reserve and the extension of US fiscal stimulus has gone a reasonable distance to allay concerns of double-dip recession. Interestingly, the shift up in US T-bond yields since the announcement of additional monetary and fiscal expansion undermines the Fed's intention in its bond purchase strategy. There is even tentative evidence that offshore UST demand (especially from central banks) is beginning to wane. Should such upward pressures persist, we fully expect there will be another round of Fed UST purchasing (QE3) until inflation or employment picks up. However, our core scenario is that the back in yields is more of a technical move that will reverse in 2011.

European debt (market) restructuring

Second, there are risks to a number of DM sovereigns from onerous debt situations. During 2010, these issues were most pronounced in Western Europe, where Greece and then Italy have had to be bailed out to prevent bankruptcy. We suspect the debt overhang issue will remain focussed on EU sovereigns in 2011. Portugal, Spain and perhaps Italy and Belgium have also seen the price at which they can raise debt increase dramatically. We believe that there are three potential solutions: a) kick out some member states, b) allow extensive debt restructuring or c) shift to a centralised EUR bond market underwritten by all member states. Of the three, the last is likely to prove the most palatable to EU politicians, eventually.

We expect to see a central institution, like the European Stability Mechanism (ESM) or its forerunner, the European Financial Stability Fund (EFSF), issuing debt and then on-lending the funds to national debt agencies. The rates applied will not be uniform, with those with poor credit metrics paying more. Such a system would impose widely needed budget discipline on countries. It would also create a huge debt market to rival US treasuries. For instance, Eurozone debt issuance this year is likely to be just over USD1tr, which is similar to the amount we expect to see issued by the US Treasury.

At a time when global confidence in the treasury market is waning, the Eurozone has a real opportunity to create an alternative asset to treasuries, just as the EUR is a key alternative currency to the USD in things like reserve holding, capital raising and trade invoicing. Now we don't doubt that creating a Eurozone debt market will be an extremely tortuous affair but, with the alternatives being so unpalatable, we believe that a single market will be created this year, or possibly in 2012, if policymakers drag their feet.

But ahead of such a policy shift there will be plenty of negative sentiment against the EUR, fostering weakness even against the USD which is standing its ground in the ugly-currency parade.

China: inflation versus growth

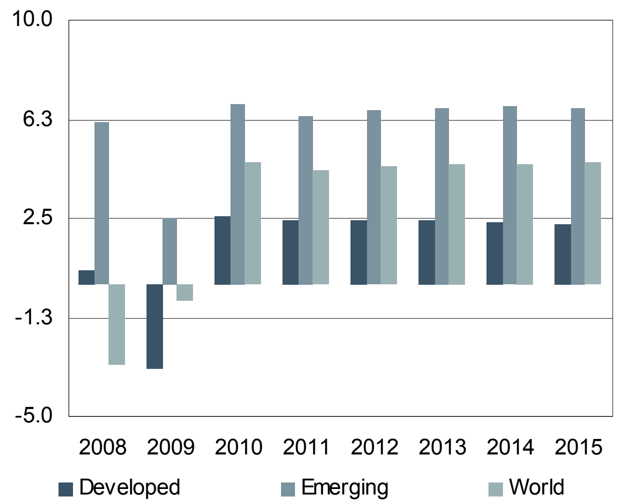
Third, having supplanted Japan as the second-largest global economy, China's economic growth is a potential source of anxiety, especially for commodity producers. The IMF's WEO is looking for growth of 10.5% in 2010 and slowing to 9.6% in 2011. We suspect they are in the right ball park and that concerns of a sharp policy induced decline in activity are overdone, even as tail risks. Indeed, we expect to see a further gradual appreciation of the CNY as part of the monetary tightening process and a continuation of the switch towards consumer (rather than export) led economic growth. Of total world merchandised trade, China was 9.6% in 2009 (probably more in 2010) up from 3.8% in 2000. For SSA, China accounted for 13.6% of merchandised trade in 2009, up from 3.4% in 2000.

Continuing EM outperformance

We have argued for some time that the global financial crisis of 2008 marks a significant turning point in the organisation of the international economic system. It marks the end of the historically perverse financial flows from EM to DM which fostered higher than sustainable growth and eventually the crisis of over-leverage in DM. The deleveraging in the DM means slower growth and a sustained reversal of financial flows. The result will be a sharp outperformance in terms of EM growth, currencies, stocks, bonds and credit.

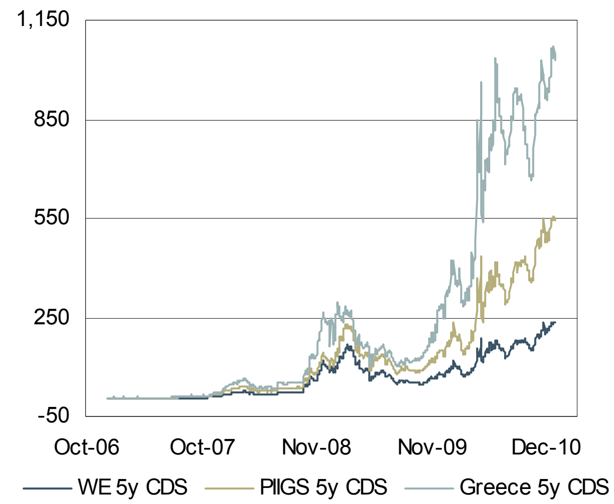
In its latest WEO, the IMF revised up its EM growth forecast to 7.1% y/y (from 6.8% y/y) in 2010 and kept growth expectation the same for 2011 at 6.4%. Interestingly, while the IMF is looking for DM to grow on average by around 2.4% y/y over the next 5-y, they expect EM to

Figure 1: IMF economic growth forecasts



Source: IMF

Figure 2: European CDS spread remain under pressure



Source: Bloomberg, Standard Bank Research

Figure 3: Emerging versus developed equity performance

Source: Bloomberg, Standard Bank Research

Figure 4: USD/DM versus USD/EM

Source: Bloomberg, Standard Bank Research

grow an average of 6.2% y/y over the same period, producing an average global growth of 4.4% y/y. Accordingly, while EM account for 32.7% of current global GDP (in USD terms) in 2009 (up from 20% in 2000), this proportion will increase to 38.7% in 2015. So while EM are less than a third of global GDP, they are expected to produce around half of global GDP growth. If these expectations are extrapolated forward, EM will be larger economies than DM by around 2028.

Equity outlook

Certainly, EM equities have again outperformed DM equities during 2010. The MSCI EM index was up 18.2%, while the MSCI DM index was up a more moderate 9.3%. Moreover, this came on the back of MSCI EM increasing 67.7% in 2009 compared to a 23.8% increase in DM. We are reasonably content that this clear EM outperformance is set to continue in 2011 and possibly beyond. That said, we continue to be reasonably constructive on DM equities in so far as we do not see a significant bear market developing during 2011. Indeed, our end-2010 target of 1,200 on S&P500 was marginally surpassed and we see a target of around 1,400 during 2011. The positive tone on S&P500 is important because the correlation between global risk sentiment, DM and EM equity pricing remains reasonably high.

Rates outlook

Key to our constructive equity outlook, is our G4 monetary policy expectation which is for policy rates to remain broadly unchanged at extremely low levels for most of 2011, with the risks to the upside in the US and to the downside in the EU.

Outside G4 the picture is much less clear but in broad terms we see the risks biased towards monetary tightening. Indeed, our constructive growth and commodity price view lends itself towards inflation pressures picking up outside of G4. Certainly we have started to see these in China, and further monetary tightening is likely there in order to counter the price pressures.

Yet interestingly, we still think the risks are towards short rates remaining lower for longer than perhaps they should be. The driver for this comes very much from G4 rates that are only likely to be tightened at the last minute when consumer confidence has recovered and the white of the inflation eyes can be clearly seen.

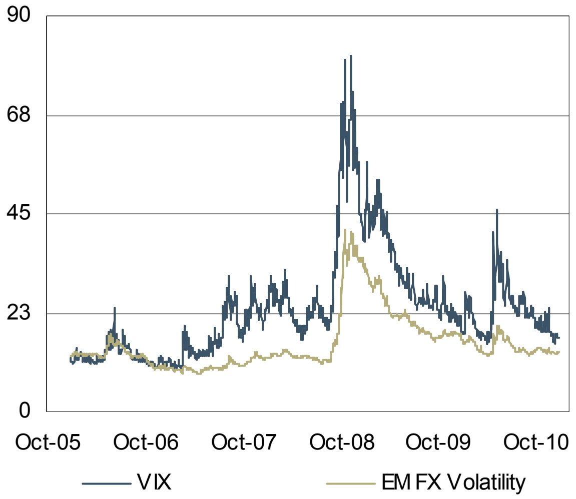
To some extent this has already started to be priced into the US Treasury curve, which steepened markedly over recent months. Although such steepness will always prove attractive for roll-down, providing period of bull flattening, we suspect that the general trend for Treasury curves globally in 2011 will be a towards further steepening.

Currency outlook

Our predilection for EM out-performance also applies to currencies. The USD depreciated by around 1.1% against other DM currencies during 2011, but by 3.6% against a trade-weighted basket of EM currencies. Interestingly, the level of USD weakness since Jan 09 has been relatively consistent, however, the movement in EM has been much less volatile producing a relatively consistent trend relative to the weakness against DM currencies (predominantly the EUR).

Basically we continue to favour a strategy of being long EM currencies versus a basket of G4 currencies all of

Figure 5: VIX index versus EM currency volatility



Source: Bloomberg, Standard Bank Research

which have problems. Indeed, we expect to see continued volatility in the EUR/USD cross. Our core house view is that resumed concern over the Eurozone debt crisis is likely to place resumed downward pressure on EUR/USD, with a move back towards 1.10 or even parity likely over the next 6-12 months. Concerns over EUR sovereign debt will weigh more heavily on the EUR than the additional printing of USD will undermine the US currency.

Importantly, it is not clear that such a move has to be associated with global risk aversion in terms of equities and higher-risk currencies and bonds selling off and thus an across the board surge in the USD. Indeed, when one compares a measure of global risk appetite such as the VIX index (S&P500 volatility index) with volatility across a basket of the key high-beta EM currencies, their relative and growing immunity becomes reasonably apparent (see Figure 5).

Moreover, if we get a swift shift away from national bond markets towards a single Eurozone bond market then that should provide solid support for the EUR and our house view is for a move back to 1.40 or more in 2012.

Another key global macro-driver in 2011 will be developments in the Chinese yuan (CNY). We are probably more constructive on the pace of USD/CNY downside than the NDF market which is presently pricing around a 2.0% move. Certainly, the Chinese authorities are in monetary tightening mode in order to curtail inflation pressures. The key question will be the degree to which they attempt to achieve this via a stronger currency. As a key provider of global consumer goods, any marked appreciation of the CNY will likely place upwards pressure on global inflation.

Frontier market bias

Another key global theme that is especially important for Africa is the argument that as returns on assets decline across DM and more mature EM economies investment flows will look down the risk curve towards the frontier markets including Africa. Moreover, the further we get from the nervousness created by the 2008 financial crisis, the more willing investors will be to take on less liquid assets, which have tempered post-crisis investment flows into Africa. The result is an expectation that frontier markets will outperform relative to DM and more established EM.

That said, the out-performance of frontier markets (FM) versus EM in the equity space was extremely limited in 2010 with the MSCI FM growing 19.4% compared to MSCI EM of 18.2% and MSCI DM of 9.3%. Moreover, FM equities still continue to even lag DM equity performance since Jan 09. Clearly associated with post-crisis nervousness over more illiquid assets, we see the potential for catch up that got started in 2010 continuing and accelerating during 2011. Much will depend on global risk sentiment as FM are still viewed as a complimentary trade (offering yield pick-up) during periods of solid risk appetite. The shaky risk sentiment in Q2 and Q3 2010 undermined FM performance, with a solid outperformance from Sep 10. Our constructive global risk scenario is thus a key driver of our FM out-performance expectation for 2011.

Constructive on commodity prices

Our optimistic global growth outlook is clearly supportive for commodity prices, which we see continuing to increase over the coming year. The widely-traded Commodity Research Bureau (CRB) index was up a modest 11.0% during 2010 (in USD terms) and 7.8% (in CNY terms). We see the relatively shallow price uptrend registered in recent years to continue during 2011. In addition to reasonable global growth optimism, we believe that the appeal of commodities as investment assets will continue to be a key driver for higher prices. In particular, we believe that while G4 interest rates remain extremely low, the high-beta commodities like oil, gold or copper will continue to trade more like currencies, and importantly, currencies that cannot be printed. In terms of oil prices, we are looking for WTI front-month to trade above USD100/bbl in 2011, while averaging around USD92/bbl. We also see price volatility declining relative to recent years. Such a scenario is clearly positive for oil producers across Africa, while the additional inflation pressures should not be too onerous.

That said, we are a little concerned by the potential for

Figure 6: Commodity price development

Source: Bloomberg, Standard Bank Research

some commodity-led inflation pressure via food prices. The S&P Soft commodity index has doubled since Jan 09, a similar price action to that experienced in oil. (Figure 6) Interestingly, the massive spike in oil prices in the couple of years into mid-2008 fostered some upside in soft commodity prices, but the magnitude was nothing compared to the price action being seen presently. Indeed, soft commodity prices are now at all time highs (in nominal terms) and way above previous highs in mid-2008, whereas oil prices are still a long way from their highs in mid-2008. It is of course possible to argue that soft commodity prices have been bid up by cyclical factors that will be reversed as they were in early 2010. However, our core scenario is that there is a more structural trend towards higher soft prices in place which will keep upward pressure on these prices during most of 2011 and possibly beyond.

While such a scenario would certainly place upward pressure on global inflation, it will place even greater pressure on FM inflation, where food remains a much larger portion of the consumption basket. Importantly, while high levels of non-traded food production remain in many frontier countries, the increasing ability of domestic farmers to tap into international market prices means the feed through is still material. Such an outcome would certainly support our view that higher than expected inflation will foster curve steepening and possibly greater than expected monetary tightening, especially in the EM and FM.

Political outlook: plenty of event risk

While the global environment is extremely supportive for investment-led growth across the African continent, there are a number of countries facing significant political risk in the coming year which will dampen investment enthusiasm. We identify a few of the most important political risks for the continent from our perspective.

Nigeria: incumbency is key

According to the Independent National Electoral Commission (INEC), the presidential poll will be held on 9 April, a week after the parliamentary elections and a week prior to governorship and state assembly elections. Incumbent President Goodluck Jonathan formally launched his campaign in Oct. Yet perhaps the key election has already taken place at the ruling People's Democratic Party (PDP) primaries on 13 Jan 11, when the presidential candidate was chosen. Assisted by incumbency Jonathan convincingly beat Atiku Abubakar. The good money should certainly be on Jonathan winning the April poll. Perhaps the key risk now comes from the ability of the INEC to deliver a free and fair election, recognized by all parties.

Côte d'Ivoire: taking it to breaking point

According the Independent Electoral Commission (CEI) and thus most of the local population and the international community, President Laurent Gbagbo was defeated by Alassane Ouattara in the 28 Nov 2010 presidential election run-off. The Constitutional Court proved sympathetic to Gbagbo's demands to ignore sections of the vote and declared him President. The impasse threatens to take the country back to civil war. This is not our core scenario.

Ouattara clearly has moral democratic authority and the support of the international and African diplomatic community. EU and UN sanctions look likely which will postpone debt relief completion point under the HIPC initiative due in 2011. External political pressure is being combined with dissention from high profile figures of Gbagbo's Ivorian Popular Front (FPI). Clearly the hardcore FPI leadership as well as the presidential guard and some factions of the gendarmerie have plenty to lose if Ouattara were to become president. Although security forces have predominantly supported Gbagbo in the south, we believe moderate elements within the army (including many senior officers) are unlikely to back an increasingly isolated regime.

Democratic Republic of Congo: spend, spend, spend

There are already signs of excess fiscal spending ahead of DRC's general elections planned for Nov 11 as President Joseph Kabila prepares to stand again. The need for the incumbent to spend is increased by the fact that the contest is likely to be a close race as veteran opposition leader Etienne Tshisekedi of the UPDS has announced he will run. Dissensions have also surfaced in the ruling coalition between Kabila's PPRD and the pro-Lumumbist PALU. Besides, Vital Kamerhe, who has been a close ally of Kabila until recently and is a former President of the National Assembly, will also challenge the incumbent president. While Jean-Paul Bemba is tried by the International Criminal Court for alleged war crimes, his political organization (MLC) still formally remains the first opposition party in the country.

Zambia: will the coalitions hold?

Zambia will most likely hold presidential and parliamentary elections in Sep 11. Our core scenario is that the ruling Movement for Multiparty Democracy (MMD) retain power. In particular, we are not convinced that the opposition coalition between the Patriotic Front (PF) and United Party for National Development (UPND) will be able to hold together, once again stumbling on a single presidential candidate. Our core scenario also requires incumbent President Rupiah Banda to hold his MMD party together, with the litmus test being his nomination as MMD presidential candidate in the party's primaries to be held earlier in 2011.

Uganda: end of an era?

President Yoweri Museveni of the National Resistance Movement (NRM) will run in the Feb 2011 presidential contest. He is probably the favorite to win, but it is far from a done deal. His main challenger is Kizza Besigye of the Forum for Democratic Change, who also stood in 2001 and 2006. Other candidates such as Norbert Mao of the Democratic Party and Olara Otunnu of the Uganda Peoples Congress are likely to perform well. With the contest likely to be close, the potential for a disputed outcome is not insignificant.

Southern Sudan: a separate state?

Southern Sudan will hold an independence referendum on 9 Jan which will decide whether Sudan splits into two countries. We think the election is likely to result in the formation of a new country in Sub-Sahara Africa. Clearly the President of Southern Sudan, Salva Kiir, and the Sudan Peoples' Liberation Movement (SPLM) openly backed independence for their region. The uncertainty is the terms via which the separation from the north would take place. There are many unresolved issues including the status of the Abyei region, the oil-revenue sharing framework, the breakdown of assets and debts as well as the citizenship of southerners living in the north. The opportunity for a political impasse is not small.

Egypt: like father, like son

The National Democratic Party (NDP) remains the dominant political force in Egypt and now controls almost the entire parliament following the opposition's boycott of the second round of the parliamentary elections held on 5 Dec. The outlook for the Sep 11 presidential election is somewhat ambiguous because of the uncertainty over President Hosni Mubarak's succession. The two most likely scenarios at this stage are that Hosni Mubarak runs for another term or that his son Gamal Mubarak is selected by the NDP as its presidential nominee. In the second case, the transition period is likely to be smooth since Gamal Mubarak would still be supported by his father and the security forces.

Zimbabwe: early elections loom

The power sharing government between President Robert Mugabe's Zimbabwean African National Union – Patriotic Front (ZANU-PF) and Prime Minister Morgan Tsvangirai's Movement for Democratic Change (MDC) has reached an impasse. President Mugabe is now calling for early presidential and parliamentary elections in 2011, while Tsvangirai would prefer to only hold a presidential poll at this stage. Tsvangirai argues that the 2008 parliamentary results are not in dispute in contrast with the presidential result where he boycotted the run-off.

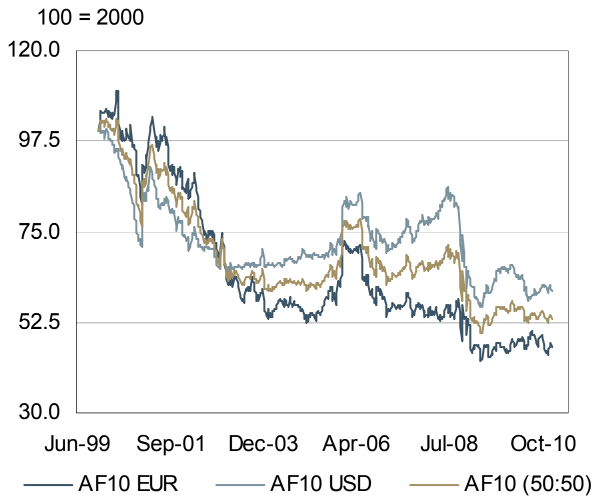
Outlook for African currencies

Our mildly constructive multi-month view on African currencies back in Sep 10 has proved broadly correct. Generally Africa's currencies traded sideways over the last 4 months as measured by our AF10 index (10 of the more widely traded African currencies). Moreover, with EUR/USD trading back to where it was in early Sep 10, then the move sideways in the AF10 occurred against both the EUR and the USD.

When the returns against the forward curve are considered (Figure 8) including additional currencies not in the more-tradable AF10 index, Africa currencies performed more favourably with only Uganda delivering a negative overall return. We maintain our expectation for a broadly constructive performance from Africa's currencies in coming months, certainly on a trade-weighted basis and possibly even against the USD.

First, arguably with the exception of SA, most of the African currencies considered still look cheap relative to their historical values, on a real effective basis, against their BOP fundamentals or compared to the performance

Figure 7: African 10 Currency Index (1)



Source: Bloomberg, Standard Bank Research

of other non-African EM currencies.

Second, the policy predilection for low (often negative) real interest rates in order to foster post-crisis economic stimulus is now giving way to tighter monetary policy in order to combat higher inflation. With the major monetary pass through from interest rates to inflation still via the currency, we expect to see many African currencies increasingly supported by higher interest rates.

Third, although we see the potential for some short-term profit-taking on commodities in early 2011, our positive global growth outlook remains supportive for the broader uptrend in commodity price to continue. Such an environment will prove broadly beneficial for Africa, but obviously particularly supportive for the oil producers.

Fourth, we expect to see the search for yield continue to grow and the post-2008 concerns about illiquidity dilute. We expect to see considerable additional financial flows to FM in 2011, into equities, bonds and carry trades.

Fifth, after having a relatively benign view for EUR/USD over the last 4 months, we now see significant risk to the downside re-emerging in H1:11, as EU sovereign debt concerns resurface. While this may well be associated with some risk aversion (and a USD bid), which will temper financial inflows, we see the influence from the EU sovereign debt problems on risk appetite for EM and FM assets becoming increasingly diluted.

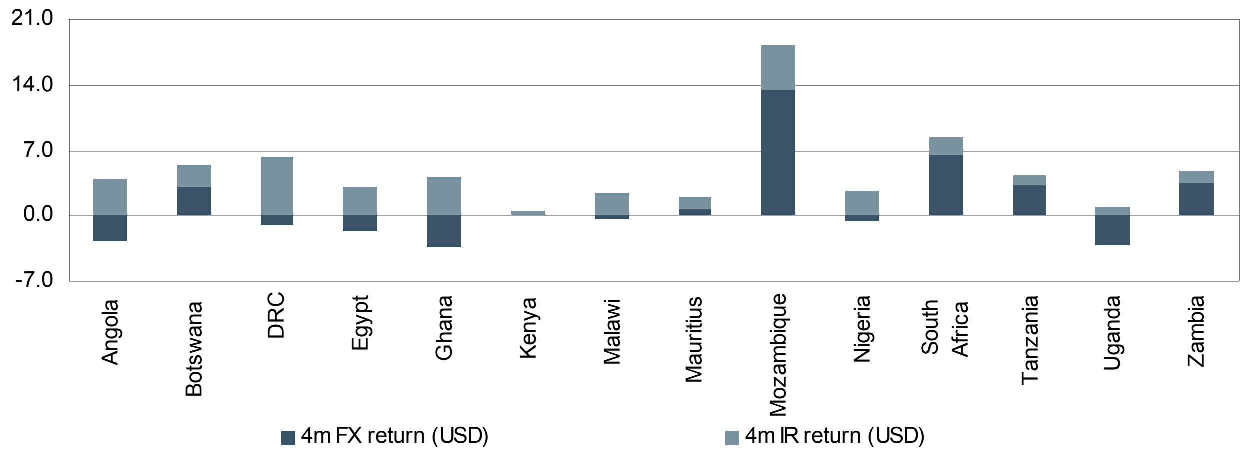
Sixth, the rather hectic political risk calendar across Africa in 2011 will continue to exert considerable negative pressure on Africa's currencies in terms of uncertainty and inappropriately loose monetary and fiscal policy.

In terms of attractive carry trades in 2011, we continue to favour heavily managed currencies with strong BOP positions and high yields. These are broadly found among Africa's hydro-carbon producers.

Perhaps the carry trade we like most in 2011 is to be short USD/NGN. In particular, the monetary policy shift towards making real interest rates positive (having been highly negative) has reiterated our confidence in the authorities' ability and willingness to persist with holding USD/NGN in a tight trading range around 150. The C/A continues to register huge oil-related surpluses, but previously low rates, excessive fiscal spending and election uncertainty has fostered a loss of confidence in the NGN. With longer-dated bonds now positive in real terms and the short-end heading that way, we believe the turning point via which NGN confidence returns is not far off.

Although interest rates have been heavily reduced in Angola, they remain solidly in double figures and in combination with the strong C/A fundamentals continue to

Figure 8: Carry trade return against the USD since early Sep 10



Source: Bloomberg, Standard Bank Research

1. Note AF10 is Botswana, Egypt, Ghana, Kenya, Mauritius, Nigeria, South Africa, Tanzania, Uganda and Zambia.

make short USD/AOA an attractive proposition. Indeed, if anything there is a possibility of some USD/AOA downside in line with the C/A fundamentals in order to pull inflation back down to desirable levels.

While the EGP has lost modestly against a EUR/USD basket the positive carry continues to make a reasonably interesting trade. Indeed, we suspect that the trade-weighted EGP may be in for some appreciation going forward in order to dampen down growing inflation influences.

Having started oil production in mid-Dec 10, Ghana also sits in the long African hydrocarbon producer currencies we like. Although it is still far from having the attractive C/A fundamentals of Nigeria, Angola or Egypt, its solid high positive real interest rates and a policy predilection for a stronger currency to meet inflation targets continue to make it an interesting carry trade. Indeed, the back-up in USD/GHS in Nov and Dec 10 suggest interesting entry points for the carry trade.

The star carry trade performer over the last few months has been USD/MOZ, which delivered almost a 20% return. The argument for the trade was for a policy induced rebound in the currency after almost a two year depreciation-inflation spiral. The key has been less political uncertainty, high real interest rates, improving C/A fundamentals from some large projects and a market that was very long USD. We believe the trade has longer to run and is thus still attractive.

Zambia also has a strong story around copper earnings and the structural transformation of the economy. However, the ZMK remains vulnerable to adverse global risk sentiment in early 2011 and election concerns towards the end of the year.

Uganda's currency has been a strong underperformer in 2010, but we expect to see a solid post-elections rebound in Q2:11 (similar to the one seen in Tanzania in recent months) assuming (as we do) that the elections deliver business as usual in the country. Perhaps of more risks will be the succession process in neighbouring Southern Sudan, following the referendum on 9 Jan.

Outlook for African fixed income

Back in Sep 10 the outlook for fixed income across Africa was extremely mixed. It still is. Perhaps the most interesting opportunity is now in Nigeria where the whole curve has backed up significantly. The 20y yield bond backed up to 14.5% and has now rallied down mildly to around 14.0%. However, while previously we had been constructive on Nigeria duration for perhaps the wrong reasons (the desire to create ample liquidity for the troubled banking sector), we like the trade for arguably the right reasons, which is the belief that the CBN is looking at bringing inflation down into single digits and delivering positive real interest rates. That said, higher rates at the short-end while delivering something of a bear flattening, will place resistance to price appreciation at the long-end for a little while yet.

We are also moderately constructive on duration in Ghana, where we expect to see an extension of the yield curve to 5-y and perhaps even 10-y in 2011 as the bond market's regulatory and institutional framework develops. Yet more importantly, we remain reasonably happy that the BOG will deliver on its target to bring inflation down to a 6.5-10.5% range for 2011.

The situation in South Africa is more nuanced. Having rallied into early Nov 10 yields backed up in the rest of Nov before rallying back a bit in early Jan 11. While we suspect there are some further short-term gains in Q1:11, the risk reward is once again shifting towards lightening up on duration for the rest of the year as monetary policy direction shifts back to inflation concerns.

Our core bearish duration view remains with Kenya. Back in early Sep 10, we argued that yields in Kenya had rallied too far and were due an upward correction. While this was fairly aggressive over the last 4 months, we still believe there is further to go. However, after some further bear steepening we expect to see some flattening as the authorities catch up with the markets longer-term concerns regarding inflation and the still too low short-term rates.

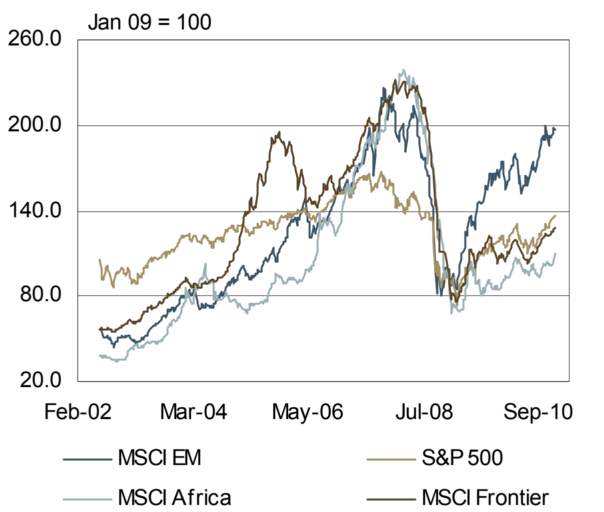
We have already started to see similar bear flattening trades in Uganda, Tanzania and Zambia and we expect these to continue in coming months. We remain relatively neutral on rates in Botswana, Mauritius, and Egypt.

African equity market outlook

Having looked somewhat shaky in the year-to-end Aug 10, global equity markets hit a much more constructive tone there after. Africa's frontier equity markets (MSCI Africa) made similar progress. In fact, MSCI Africa index rose 22.8% during 2010, compared to MSCI Frontier being up 19.4%, MSCI EM up 18.2% and MSCI DM up a more modest 9.3%.

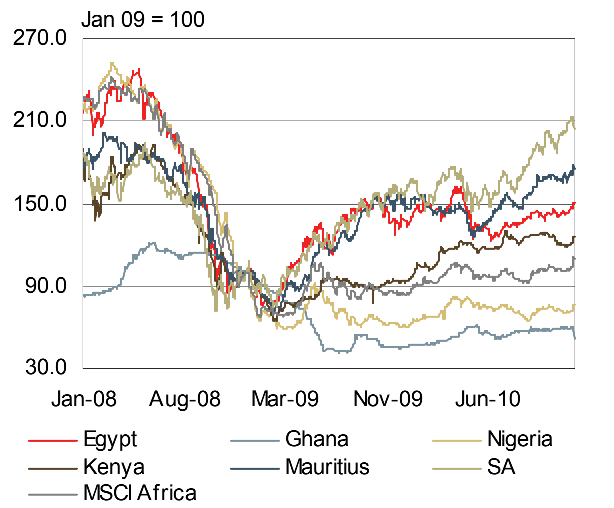
However, in many ways we had been looking for Africa's frontier markets to outperform more than they did relative to the other categories to provide some catch up for the underperformance registered in 2009. We saw the rebound as part of the shift to more illiquid frontier markets as the search for yield progressed and risk appetite recovered from the nervousness installed during the 2008 financial crisis.

Figure 9: Africa aggregate comparative equity performance



Source: Bloomberg, Standard Bank Research

Figure 10: Africa's individual stock market performances



Source: Bloomberg, Standard Bank Research

In many ways, our expectations were undermined by two variables. The deeper period of risk aversion during mid-2010 and the underperformance of Nigeria due to a number of domestic factors. These included political risk from forthcoming elections, a sharp back up in yields, nervousness over currency depreciation and delays in the delivering AMCON. That said, in early Sep 10 we targeted 1,200 for the benchmark NGSE-30 by end 2010, from around 1,000. It is presently around 1,150. We continue to believe a move to our target of 1,500 in 2011 is achievable.

African Eurobond outlook

Africa's sovereign credits had a very mixed performance over recent months. Gabon 17 and Ghana 17 have continued to close their spread with the EMBI+ benchmark since our last publication in early Sep. However, it is worth noting that much of the tightening was a product of the bonds not selling off as much as US Treasuries, which backed up almost 100 bps over the period in the key 10-y portion of the curve. With US Treasury yields likely to back up more during 2011, return on Eurobonds including those in Africa are unlikely to match those in 2010, even if spread remain reasonably constant.

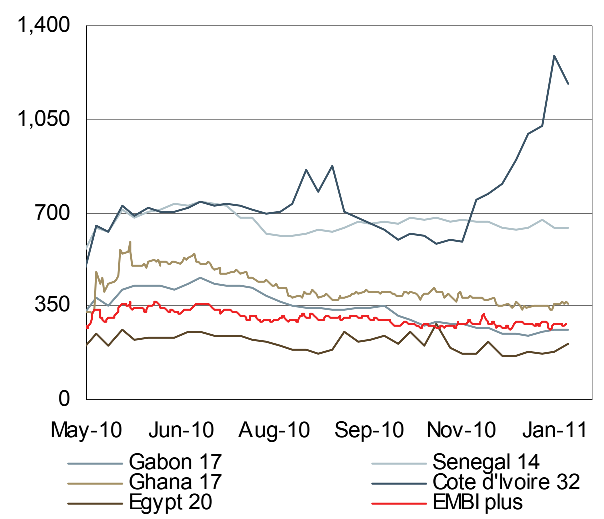
Gabon 17s now trade tight to EMBI+ on a spread basis. In some ways, the out performance is a product of the low liquidity in the bonds, the solid performance of hydro -carbon credits and the technical support from the informal amortisation structure. Going forward we would be underweight Gabon.

Ghana 17s spread continued to tighten relative to EMBI+ over the last few months despite S&P downgrading the sovereign rating in late Aug. The credit clearly benefited from the upward revision in GDP, a relatively cautious budget, the removal of oil subsidies in early Jan and the start of oil production in late Dec. Nevertheless, we suspect the price upside is limited from here and we would be neutral, taken the modest pick up over EMBI+.

Senegal 14's spread underperformed relative to EMBI+ in the last few months. The illiquidity, because of the small size of the issue (USD200m) made it relatively impervious to the upside in US Treasury yields. We are moderately constructive on Senegal as a low-beta and thus defensive credit in a higher US Treasury yield environment. Moreover, we suspect the government will undertake some sort of switch auction of the bond, rolling it into a larger USD500m issue in 2011, which would add to the bond's attraction.

Côte d'Ivoire 32's have been major underperformers in recent months. Having rallied well into the second round of the presidential elections in late Nov 10, the bonds

Figure 11: EMBI+ versus African sovereign spreads



Source: Bloomberg, Standard Bank Research

sold off aggressively as it became clear that the incumbent president Laurent Gbagbo would not accept the result announced by the Electoral Commission (and broadly accepted locally and internationally) that opposition leader Alassane Ouattara won the election. The political impasse, with effectively two government's claiming control, makes it extremely unlikely that the Eurobonds USD29m coupon payment will be made by the end of the 30-day grace period (end Jan 11) after the payment was missed on 31 Dec 10. The result is likely to be more price downside as some accounts will be unable to hold the bonds in a situation of official default. That said, we believe that Gbagbo's position is untenable. Without international support and control of large sways of the domestic economy, it is difficult to see Gbagbo's regime being able to finance a functioning state. For us, the question is how long it will be before an alternative political solution is found. We believe it is reasonable to assume such a solution will be in place by the time we write the next *African Markets Revealed* in May 11.

Going forward, Nigeria's USD500m Eurobond, previously expected in late 2010, looks like it will now be offered by end Jan 11. We would expect it to price somewhere between Gabon and Ghana. This would create a spread of around 320 bps or a yield of around 6.4% (with 10-y US treasuries at 3.2%).

Other likely sovereign African issuers in 2011 include Ghana, Senegal and Zambia. Countries that have suggested interest in issuing Eurobonds include Angola, Kenya, Uganda and Tanzania.

Standard Bank

Angola: possibly growing faster than government estimates

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10	Q4:10e	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	1.3	2.4	2.8	3.2	4.3	4.8	5.6	6.8	7.3	7.8	8.4	8.3
CPI (% y/y) pa	13.5	13.9	13.7	14.0	13.8	13.7	15.7	17.9	18.2	18.4	16.5	11.0
M3 (% y/y) pe	73.6	54.0	22.7	21.5	23.8	14.6	23.4	26.0	28.0	30.0	32.0	34.0
CA/GDP (%) pe	-11.3	-11.3	-11.3	-11.3	5.7	5.7	5.7	5.7	5.3	5.3	5.3	5.3
FX reserves (USD bn) pe	13.2	12.1	12.8	12.6	13.8	15.9	16.2	16.4	16.7	17.2	17.5	17.8
Import cover (months) pe	7.0	6.4	6.8	6.7	7.3	8.4	8.6	8.7	8.1	8.3	8.4	8.6
3-m rate (%) pe	15.0	15.5	15.8	15.0	20.0	19.0	18.0	17.0	16.0	15.0	13.5	11.0
1-y rate (%) pe	15.0	10.3	10.0	20.4	25.0	25.0	21.0	20.0	19.0	18.0	16.5	14.0
USD/AOA pe	75.5	77.8	77.8	89.2	92.3	92.6	91.8	92.3	92.3	91.7	91.7	90.0
REER pe	626.1	635.5	645.0	612.8	582.1	590.9	598.9	603.4	600.2	601.6	610.6	619.8
NEER pe	29.6	30.8	33.5	35.3	36.4	36.5	36.2	36.4	36.4	36.2	36.2	35.5
USD/AOA vol (20 day)	2.8%	0.9%	0.0%	3.8%	3.1%	0.2%	2.1%	1.0%	1.5%	1.5%	1.5%	1.5%

Notes: pe — period end; pa — period average; na — not available
Source: Banco Nacional de Angola, Angola Ministry of Finance. Standard Bank Research

Political risk: limited

With elections only due in 2012, political risks are limited, given the dominance of the governing MPLA and its leader and President, José Eduardo dos Santos. A source of risk in the medium term would be succession to President Dos Santos within the MPLA. But even that has been mitigated somewhat by the specification of presidential term limits in the constitution that was passed by Parliament in Jan 10. The president is limited to two five-year terms, with the slate wiped clean so that dos Santos's 31 years already in power do not count. In all likelihood, Dos Santos will run again, implying that the succession question could be postponed until 2021. Another potential source of risk near term is possible protests following the increase in fuel prices. Inflation has increased aggressively following a decision by the government to raise fuel prices at the pump by up to 50%.

Election results

Presidential election (1992)	Party	% of votes
José Eduardo do Santos	MPLA	49.57
Jonas Malheiro Savimbi	UNITA	40.07
António Alberto Neto	PDA	2.16
Holden Roberto	FNLA	2.11

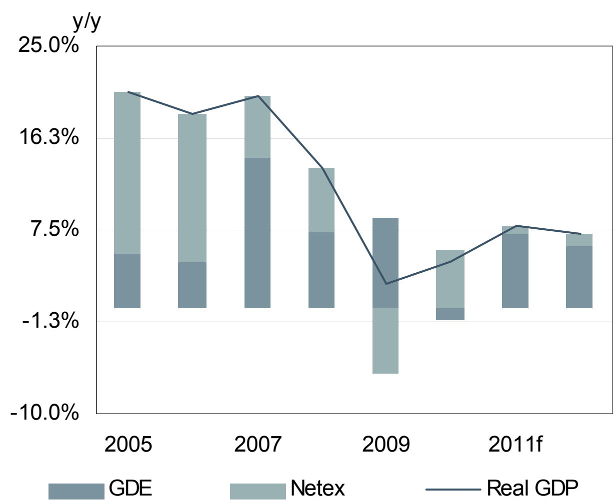
Legislative election (2008)	% of votes	Seats
Movimento Popular de Libertação de Angola (MPLA)	81.73	191
União Nacional para a Independência Total de Angola (UNITA)	10.38	16
Frente Nacional de Libertação de Angola (FNLA)	1.13	3
Partido de Renovação Social de Angola (PRS)	3.10	8

Source: Comissao Nacional Eleitoral

GDP growth: steady uptrend in place

The recovery in GDP growth following the 2009 slump appears to have been entrenched over the course of 2010. Growth is likely to exceed 8.0% y/y on average over the next 2-y. Although the government revised its estimate of 2009 GDP growth to 2.4% y/y, from 1.3% y/y previously, it still estimated that GDP growth was 4.5% y/y in 2010, a somewhat conservative estimate in our view. Evidently, non-oil GDP propped up overall GDP growth in 2009 — the 8.3% growth in non-oil sectors of the economy helping to counter the 5.3% y/y decline in the oil sector that year. Yet the government estimated that the oil sector swung to only 2.7% y/y growth in 2010 despite oil export volume rising by some 7.0% y/y. Fixed investment spending is likely to recover over the coming 2-y, following disruptions caused by the non-settlement of arrears to construction companies in early 2010.

Composition of GDP



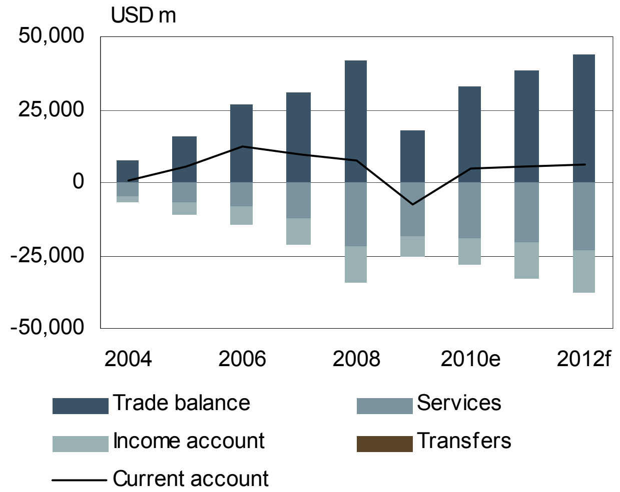
Source: Banco Nacional de Angola, Standard Bank Research

Angola

Balance of payments: healthy position

Exports over the next 2-y will probably remain robust, supported by strong production and a higher oil price. While oil production has ranged between 1.73m and 1.9m bpd during 2010, the country has capacity to produce closer to 2.0m bpd. Naturally, the higher oil price will likely support overall exports, but it will also spur import demand as well. The higher government revenues resulting from a higher oil price will probably encourage an increase in fixed capital spending. The resultant recovery in construction spending will likely lead to a resurgence of imports, both merchandise as well as services. Hence, it is likely that the C/A surplus will be limited around 5.7% of GDP over the coming 2-y. The government has committed itself to raising FX reserves, with USD17.8bn (accounting for 8.6 months of imports) likely in Dec 11, from USD15.3bn (8.1 months) in Oct 10.

BOP developments



Source: Banco Nacional de Angola, Standard Bank Research

Fiscal policy: surplus budgeted for FY2011

The FY2011 budget was prepared on the assumption of an average oil price of USD68.0/bbl and oil production of 1.9m b/day. Given that the oil price is currently above this assumed level, and will probably remain so for most of the year, chances are that the government will accumulate substantial fiscal savings. This would allow the government to reduce the arrears accumulated over the years. In fact, the projections under the IMF programme envisage that arrears would be fully paid by the end of 2011. Curiously though, the government reported a deficit of 4.3% of GDP in FY2010. This despite the FY2010 budget having been based on an oil price assumption of USD65.3/bbl, well below the annual average of USD78.7/bbl. Moreover, the government raised petrol and diesel prices at the pumps by 50% and 38% respectively in early Sep 10 in an attempt to reduce transfers.

Central government budget

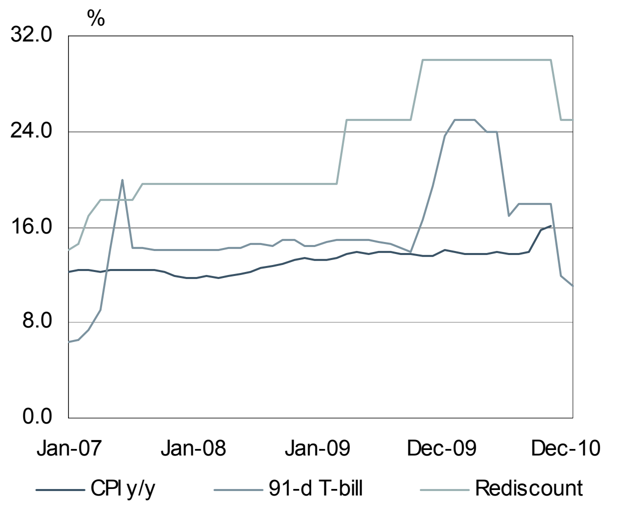
% of GDP	2009e	2010f	2011f
Total revenue (+ grants)	35.2	30.4	37.1
- oil	22.2	19.5	27.9
Total expenditure	45.0	34.6	35.3
- current	30.8	23.4	24.6
- interest	1.5	1.0	0.8
- transfers	8.5	3.9	6.0
- development	14.1	11.2	10.6
Overall balance (- arrears)	-9.8	-4.3	1.8

Source: Angola Ministry of Finance, Standard Bank Research

Monetary policy: pause in the easing cycle

The increase in inflation in recent months will likely shift the near-term policy bias of the BNA to neutral from easing. While it is possible that inflation will rise above 18.0% y/y by Jan 11, the BNA is unlikely to reverse course and start to raise the rediscount rate. After being bound in a 13.2-14.0% y/y range for the 23-m to Aug 08, inflation spiked to 16.1% y/y in Oct 10. But our forecast foresees a return to 11.0% y/y by year-end as much of the recent increase reflects an increase in local fuel prices and will probably be temporary. In any event, the BNA will probably not rely solely on the rediscount rate to manage inflation, but utilise the exchange rate as well. After all, money supply growth was declining for much of H1:10, reaching 14.6% y/y in Jun, from an average of 45.4% y/y during 2009, before rising to 23.4% y/y in Jul.

Inflation and interest rates



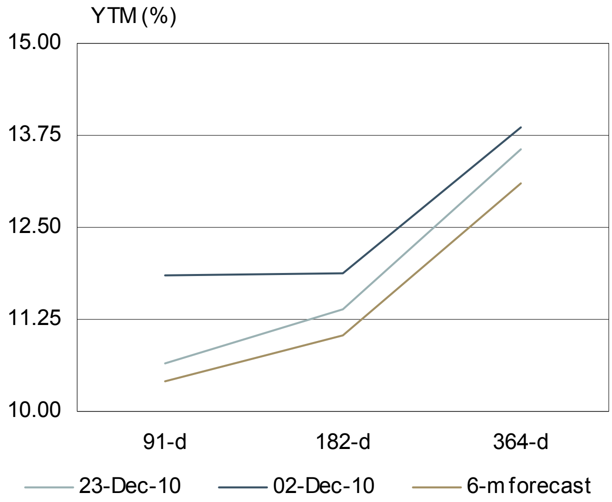
Source: Banco Nacional de Angola, Standard Bank Research

Angola

Bond curve outlook: downward pressure

Yields are likely to drift marginally lower over the coming 3-6 months. The magnitude of such a move lower is likely to be contained because the BNA is unlikely to lower its rediscount rate in the near term. But towards year-end, if our inflation forecast pans out, we'd foresee a more aggressive move lower that pushes the 364-d yield closer to 10.0%. The government resumed issuance of T-bills in Nov. While it may have been motivated by the necessity of financing a 4.5% of GDP FY2010 budget deficit, the government also wants to reform monetary policy management. Prior to T-bill issuance, the BNA, for liquidity management purposes, issued central bank bills that foreigners and non-bank local institutions could not buy. T-bills have replaced BNA bills and the government is likely to issue T-bonds as well.

Changes in yield curve

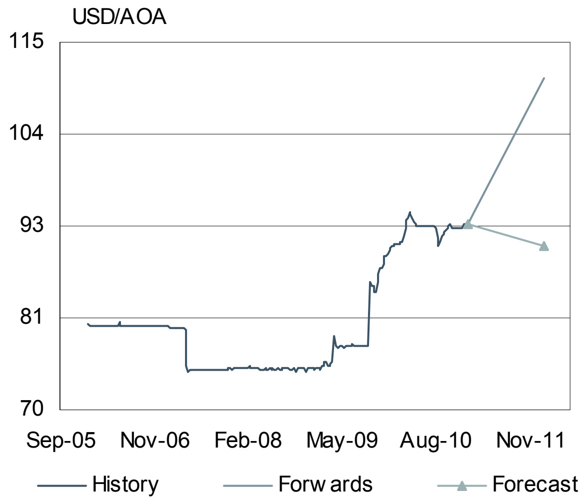


Source: BNA, Standard Bank Research

FX outlook: policy-determined stability

In all probability, the heavily managed USD/AOA will remain fairly stable between 90.0 and 92.5 during the course of 2011. Judging from comments the Minister of Finance made while delivering the FY2011 budget speech, the government will use FX policy to compliment monetary policy in managing inflation. Furthermore, the government wants to reduce the extent of dollarisation in the economy. As such, a stable USD/AOA rate would go a long way towards instilling confidence in the AOA. Indeed, concerted convergence of the parallel market rate towards the official rate probably requires a long period of stability in the official rate. Certainly, BOP fundamentals would support a stronger AOA. The country runs a C/A surplus and enjoys solid financial inflows.

USD/AOA: forwards versus forecast

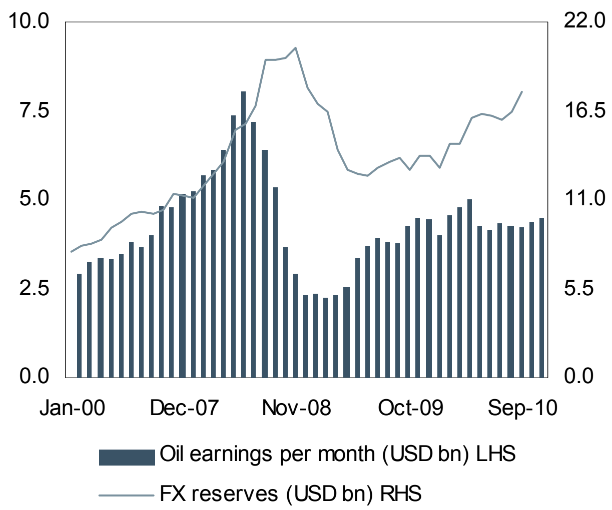


Source: Reuters, Standard Bank Research

Money supply growth: bottoming out

Source: Banco Nacional de Angola, Standard Bank Research

Oil earnings and FX reserves



Source: Reuters, Standard Bank Research

Angola

Angola: annual indicators

	2006	2007	2008	2009f	2010f	2011f	2012f
Output							
Population (million)	14.6	14.8	14.9	15.0	15.2	15.3	15.4
Nominal GDP (AOAbn)	3,627	4,627	6,316	5,989	7,501	9,161	11,048
Nominal GDP (USDbn)	45.2	59.5	84.2	67.1	81.3	101.8	122.8
GDP / capita (USD)	3,094	4,024	5,652	4,476	5,347	6,653	7,971
Real GDP growth (%)	18.6	20.3	13.4	2.4	5.4	8.0	8.5
Oil production capacity ('000 bpd)	1,427	1.698	1.900	1.766	1.892	1.904	1.973
Central Government Operations							
Budget balance / GDP (%)	14.4	10.9	8.8	-9.8	-4.3	1.8	3.5
Domestic debt / GDP (%)	16.7	16.0	17.8	27.3	21.8	19.7	20.9
External debt / GDP (%)	5.0	9.9	15.2	14.9	12.2	9.2	11.6
Balance Of Payments							
Exports of goods (USDbn)	35.6	44.7	62.7	40.5	55.7	63.2	72.5
Imports of goods (USDbn)	8.8	13.7	21.0	22.7	22.7	24.9	28.5
Trade balance (USDbn)	26.8	31.1	41.7	17.8	33.0	38.4	44.0
Current account (USDbn)	12.4	9.7	7.2	-7.6	4.6	5.4	6.2
- % of GDP	27.4	16.3	8.5	-11.3	5.7	5.3	5.0
Capital & Financial account (USDbn)	-3.7	-6.3	-0.7	-1.6	-0.8	-4.0	-5.0
- FDI (USDbn)	-0.2	-1.8	-0.9	-1.6	1.4	1.7	1.8
Basic balance / GDP (%)	26.9	13.2	7.5	-13.6	7.4	6.9	6.5
FX reserves (USDbn) pe	9.3	11.2	17.5	12.6	16.4	17.8	19.0
- Import cover (months) pe	12.7	9.8	10.0	6.7	8.7	8.6	8.0
Sovereign Credit Rating							
S&P	NR	NR	NR	NR	BB-	BB	BB
Moody's	NR	NR	NR	NR	NR	NR	NR
Fitch	NR	NR	NR	NR	BB-	BB	BB
Monetary & Financial Indicators							
Consumer inflation (%) pa	13.4	12.3	12.5	13.7	14.8	16.9	11.0
Consumer inflation (%) pe	12.2	11.8	13.0	14.0	17.9	11.0	12.8
M3 money supply (% y/y) pa	69.2	42.9	74.4	57.3	23.7	30.0	31.8
M3 money supply (% y/y) pe	27.8	45	93.1	21.5	26.0	34.0	24.3
BNA discount rate (%) pa	16.8	18	19.6	24.8	27.5	21.5	16.5
BNA discount rate (%) pe	14	18	19.6	30.0	25.0	18.0	15.0
3-m rate (%) pe	6.3	14.1	14.6	15.0	17.0	11.0	9.5
1-y rate (%) pe	9.53	14.0	14.5	20.4	20.0	14.0	12.0
USD/AOA pa	80.4	77.7	75.0	80.1	92.3	91.4	90.2
USD/AOA pe	80.3	75.0	75.0	89.2	92.3	90.0	90.0
REER pa	503	563	603	630	594	608	612
NEER pa	27.7	28.5	29.4	31.6	36.4	36.1	34.1

Notes: pe — period end; pa — period average; na — not available; nr — not rated

Source: Banco Nacional de Angola, Angola Ministry of Finance, Standard Bank Research, Bloomberg

Botswana: growth recovery on track as mining sparkles

Quarterly indicators

	Q1:09	Q2:09	Q3:09f	Q4:09f	Q1:10f	Q2:10f	Q3:10f	Q4:10f	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	-13.8	-0.2	-10.9	10.7	17.7	4.3	11.3	8.0	5.0	5.0	5.0	5.0
CPI (% y/y) pa	12.1	8.5	6.4	5.9	6.1	7.5	6.9	7.5	8.0	8.2	8.4	8.5
M3 (% y/y) pa	12.5	5.4	0.9	-4.2	3.6	7.1	7.1	8.3	10.6	9.3	8.8	9.9
CA/GDP (%) pe	-13.3	-1.4	-1.2	-7.5	-3.5	-7.9	-6.6	-2.5	-3.3	-3.6	-4.7	-4.7
FX reserves (USD bn) pe	8.1	8.2	9.2	8.7	8.3	7.8	8.4	8.5	8.6	8.6	8.7	8.7
Import cover (months) pe	25.7	22.6	24.8	23.8	23.1	22.7	22.7	22.8	23.0	23.0	23.5	23.5
3-m rate (%) pe	11.4	10.3	8.2	8.2	7.2	7.2	7.1	7.6	7.6	8.0	8.4	8.8
5-y rate (%) pe	9.5	8.9	7.6	7.5	7.6	7.8	7.8	6.8	6.8	7.2	7.5	7.9
USD/BWP pe	7.73	6.78	6.58	6.67	6.77	7.06	6.72	6.56	6.58	6.78	6.81	6.82
REER pe	102.3	100.8	100.8	100.8	100.9	101.9	102.2	102.3	103	103	103	103
NEER pe	95.8	93.7	92.6	91.8	90.9	90.1	89.5	89.0	88	88	87	87
USD/BWP vol (20 day)	19.0%	11.7%	9.4%	15.4%	8.0%	9.5%	6.7%	11.1%	10.0%	9.0%	8.0%	7.0%

Notes: pe — period end; pa — period average; na — not available
Source: Bank of Botswana, CSO, Standard Bank Research

Political risk: opposition is divided

The apparent dominance of the ruling Botswana Democratic Party (BDP) in Parliament is probably a mirage made possible by the country's constituency-based system. In 2009, the BDP won 78% of the parliamentary seats despite only receiving 53% of the votes cast. The Botswana National Front won 23% of the votes, but 10% of the seats, followed by the Botswana Congress Party with 19% of the votes and 7% of the seats. Were the opposition parties more united, they could have won greater representation in Parliament. Despite suffering from internal strife, it is unlikely that the BDP will be compromised in its ability to draft and implement policy although the opposition is more aggressive. A number of political parties have formed a coalition to challenge the ruling party, but it remains to be seen whether they will make much headway before the next elections in 2014.

Election results (2009)

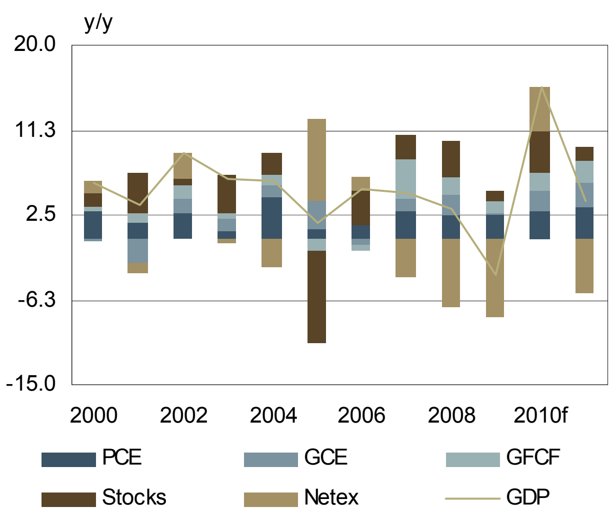
Legislative election	Seats	% of votes
Botswana Democratic Party (BDP)	45	52.9
Botswana National Front (BNF)	6	22.8
Botswana Congress Party (BCP)	4	19.9
Botswana Alliance Movement (BAM)	1	2.2
Botswana People's Party (BPP)	0	1.1
New Democratic Front (NDF)	0	0.1
MELS Movement of Botswana	0	0.1
Independents	1	0.9
Total	57	100

Source: Independent Electoral Commission

GDP growth: strong recovery in sight

We expect the economy to grow by 8% y/y in Q4:10, taking the annual average growth rate to 10.3% in 2010. In 2011, we expect growth to moderate to 5.0% as the low base effects of 2009 unwind. The economy has now recorded four consecutive quarters of positive growth. In Q3:10, real GDP growth continued its positive trend at 11.3% y/y, compared to 4.3% y/y in Q2:10. However, this was below the 17.7% y/y recorded in Q1:10. While the mining sector has underpinned the robust recovery, mining output is still below the 2008 levels in real terms. We expect that investment, particularly in the mining and energy sectors, will provide a strong underpin to GDP growth over the next 2-y. PCE will likely remain a positive contributor, spurred by an accommodative monetary policy stance and real income growth.

Composition of GDP



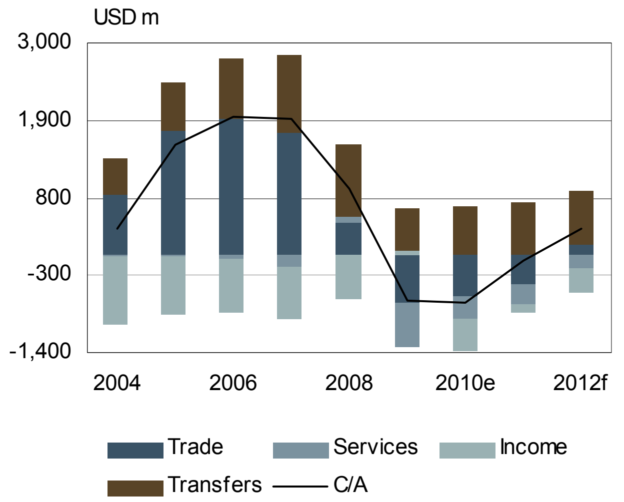
Source: Bank of Botswana, IMF, Standard Bank Research

Botswana

Balance of payments: small C/A deficit expected

Global economic growth has largely recovered, but the growth drivers are now the developing countries. Botswana's traditional export markets are still struggling to shake off the fallout from the financial crisis. Hence, we expect the C/A to remain under pressure in 2011, registering a deficit of 4.1% of GDP (-4.6% in 2010). We expect the trade deficit to persist in 2011 as a result of sluggish diamond exports, due to weak demand in traditional export markets and relatively low diamond prices, and buoyant imports. We also expect service- and income-related outflows to weigh on the C/A. However, Southern African Customs Union transfers will help to offset the service and income outflows, but will fall short of financing the C/A deficit. We expect FX reserves to rise marginally, to USD8.7bn (23.5 months of import cover) by end-2011, as exports start to improve.

Current account developments



Source: Bank of Botswana, IMF, Standard Bank Research

Fiscal policy: fiscal pressures ease somewhat

Although fiscal pressures remain strong, these have eased to some extent as diamond mining tax, royalties and dividend revenues have improved. Sales of rough diamonds are gradually returning to pre-crisis levels but are expected to fully recover only in 2012/13. Domestic revenue growth has been robust on the back of stronger domestic growth. Surprisingly, the non-mining sectors have shown resilience and grew by an estimated 9% in 2009, during which the diamond sector contracted by 20.9% y/y. Revenue will also be buoyed by the increase in the VAT rate in Apr 10 from 10% to 12%. The increase in the alcohol levy, imposed to curb consumption, will also raise revenue. SACU revenue, albeit lower, will continue to contribute to the fiscus. The government's efficiency-orientated budget policy should pay off in the medium term to achieve a balanced budget in 2012/13.

Central government budget

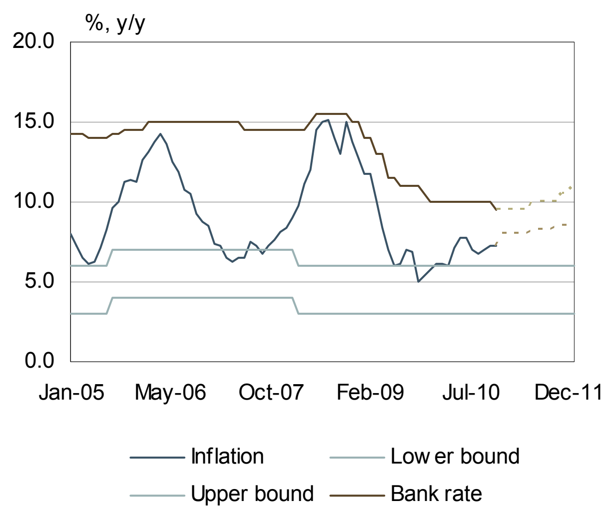
% of GDP	2009/2010	2010/2011
Total revenue	31.2	27.2
Total expenditure	46.3	39.3
- wages	12.2	12.0
- interest	0.3	0.5
- development	16.2	12.2
Overall balance (- grants)	-15.5	-12.5
Overall balance (+ grants)	-15.1	-12.2
Net external borrowing	0.5	0.3
Net domestic borrowing	14.6	11.8
Donor support (grants and loans)	0.4	0.3

Source: Ministry of Finance

Monetary policy: unexpected policy rate cut

We expect inflation to increase in 2011 on the back of higher food and transport prices and to average 8.3% y/y, from 7.0% y/y in 2010. Although the latest inflation reading of 7.2% y/y in Nov 10 (same as in Oct) may appear relatively benign, price pressures are building up. We expect inflation to rise throughout the year, to reach 8.5% y/y in Dec 11. The BOB's forecast that inflation could drop to within the 3%-6% target range in Q2:11 now seems unlikely. However, the BOB unexpectedly cut the policy rate by 50 bps, to 9.5% in Dec 10, which may indicate that the its inflation model shows that the objective target is achievable. We expect that interest rates will rise in line with higher inflation and expect a policy rate of 12% in Dec 11. The stronger economy is well-positioned to absorb marginally higher interest rates.

Inflation and interest rates



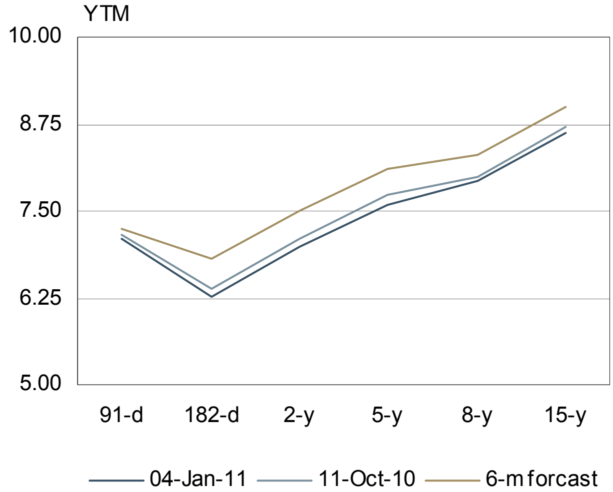
Source: Bank of Botswana, CSO, Standard Bank Research

Botswana

Bond curve outlook: yields to rise

We expect yields to rise by 50 bps or more during 2011. As a consequence of the lowering of the policy rate by 50 bps, to 9.5%, announced on 16 Dec 10, yields dropped between 5 bps and 12.75 bps between Oct 10 and Jan 11. However, we believe that inflation is on an upward trend, and hence yields will rise in response. Thus, monetary policy loosening may quickly be reversed. Fiscal pressure on interest rates have abated somewhat as the domestic economy is recovering well. During FY2009/10, foreign borrowing to finance the budget deficit rose dramatically (to P6.4bn) compared to the previous year's surplus, whereas domestic borrowing dropped to P3bn from P4.8bn. Thus foreign financing may have priority over domestic, taking some pressure off domestic yields over the longer term. The higher total financing bill implies that interest costs will rise.

Changes in yield curve

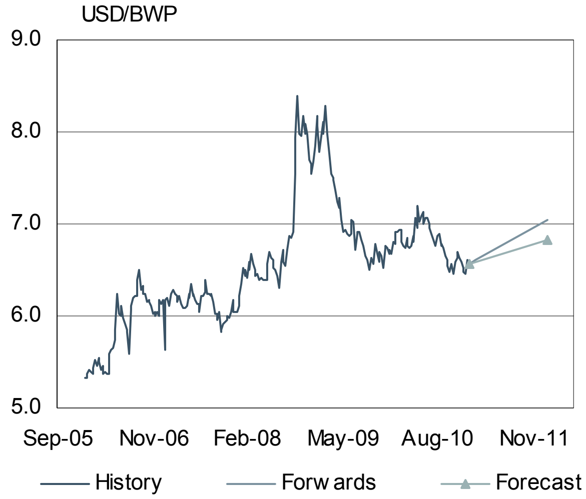


Source: Bank of Botswana, Standard Bank Research

FX outlook: sideways trend expected

The BWP did not depreciate as expected against the USD and closed at 6.56 in Dec 10, mostly dragged down by the ZAR. We expect USD/BWP to trend broadly sideways in 2011 and to trade at 6.8 by year-end with an average of 6.71 (6.77 in 2010). The broad-based weaker USD, including against the ZAR, resulted in the BWP appreciating in 2010, given the ZAR's dominant weight in the BWP's currency basket. The risk is that the USD returns to broad-based strength over the coming 12-m, which should lead to some BWP weakness. The authorities generally prefer a weaker trade-weighted BWP to encourage diversification and promote the country's international export competitiveness. As the export sector found no relief in a weaker currency, the BOB may have lowered the policy interest rate in Dec 10 to help ease monetary conditions.

USD/BWP: forwards versus forecast

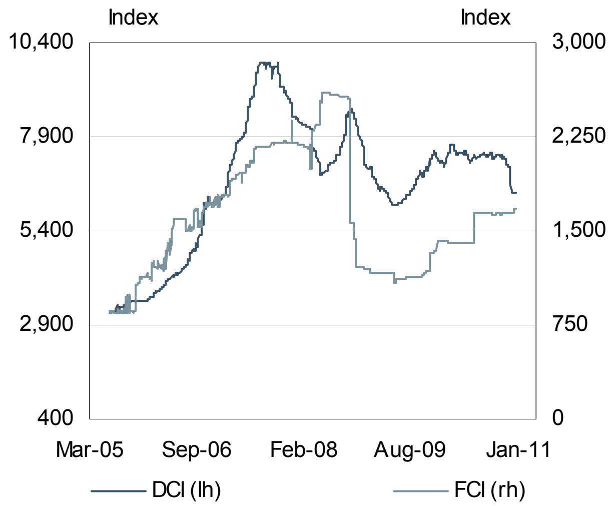


Source: Reuters, Standard Bank Research

Equity market: improved upside potential

In 2011, we expect the performance of the Domestic Company Index (DCI) and Foreign Company Index (FCI) to improve over 2010, as the domestic economy is in a recovery phase and the global economy is growing. The global structural shift to emerging market economies and stock markets will also help boost the BSE. Robust domestic demand, supported by an accommodative fiscal policy stance, should also support the indices. The launch of the NewGold ETF on the BSE will draw more investors to the exchange and will extend investors' ability to diversify their portfolios. However, the risk to the positive outlook is that higher inflation and interest rates in 2011 could contain the market performance.

Botswana Stock Exchange



Source: Bloomberg, Standard Bank Research

Botswana

Botswana: annual indicators

	2006	2007	2008	2009	2010e	2011f	2012f
Output							
Population (million)	1.719	1.736	1.755	1.798	1.802	1.806	1.809
Nominal GDP (BWPbn)	65.7	76.0	91.7	83.2	91.5	100.7	110.7
Nominal GDP (USDbn)	11.2	12.4	13.4	11.7	13.5	15.0	15.7
GDP / capita (USD)	6,522	7,153	7,646	6,499	7,503	8,309	8,681
Real GDP growth (%)	5.1	4.8	3.1	-3.7	10.3	5.0	4.5
Diamond production ('000 carats)	34.3	33.6	32.6	17.7	26.0	28.0	30.0
Copper-nickel production (tons)	56,223	49,121	52,086	53,998	55,078	56,180	57,303
Central Government Operations							
Budget balance / GDP (%)	11.2	4.8	-5.4	-15.1	-12.2	-5.5	-2.0
Domestic debt / GDP (%)	2.7	2.9	3.9	5.4	5.1	4.5	4.0
External debt / GDP (%)	2.9	2.3	2.3	2.5	2.2	1.9	1.7
Balance Of Payments							
Exports (USDbn)	4.54	5.17	4.81	3.38	3.69	4.02	4.54
Imports (USDbn)	2.63	3.45	4.38	4.07	4.28	4.47	4.40
Trade balance (USDbn)	1.91	1.72	0.44	-0.69	-0.59	-0.45	0.14
Current account (USDbn)	1.95	1.91	0.93	-0.67	-0.66	-0.09	0.35
- % of GDP	17.2	15.4	6.9	-5.7	-5.1	-4.1	0.8
Financial account (USDbn)	0.02	0.08	0.10	0.12	0.13	0.13	0.13
- FDI (USDbn)	0.49	0.52	0.60	0.69	0.70	0.70	0.70
Basic balance / GDP (%)	21.71	19.58	11.38	0.15	0.26	4.07	6.71
FX reserves (USDbn) pe	7.99	9.79	9.12	8.70	8.50	8.70	8.90
- Import cover (months) pe	37.70	33.20	27.30	23.80	22.80	23.50	24.00
Sovereign Credit Rating							
S&P	A	A	A	A	A-	A-	A-
Moody's	A2	A2	A2	A2	A2	A2	A2
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	11.6	7.1	12.6	8.2	7.0	8.3	8.6
Consumer inflation (%) pe	8.5	8.1	13.7	5.8	8.0	8.5	8.5
M3 money supply (% y/y) pa	7.6	26.7	21.5	3.7	6.5	9.6	10.0
M3 money supply (% y/y) pe	8.9	29.0	22.7	-0.8	8.7	9.9	12.0
Policy interest rate (%) pa	14.96	14.70	15.08	12.17	9.96	10.00	11.50
Policy interest rate (%) pe	15.00	14.50	15.00	10.00	9.50	11.00	12.00
3-m rate (%) pe	12.72	11.97	13.13	8.20	7.58	8.77	9.00
1-y rate (%) pe	11.89	11.42	na	na	na	na	na
2-y rate (%) pe	na	na	na	7.42	6.99	8.70	na
5-y rate (%) pe	na	10.77	10.31	7.53	6.83	7.90	9.50
USD/BWP pa	5.86	6.12	6.83	7.12	6.77	6.71	7.05
USD/BWP pe	6.04	6.03	7.56	6.67	6.56	6.82	7.18
REER pa	102.2	100.4	98.1	100.7	100.1	101.7	103
NEER pa	111.5	100.8	96.9	95.8	93.5	89.9	87.5

Notes: pe — period end; pa — period average; nr — not rated; na — not available

Source: Bank of Botswana, CSO, Standard Bank Research

Côte d' Ivoire: overcoming the political impasse

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10	Q4:10e	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	4.0	3.8	3.8	3.4	3.1	2.8	2.7	1.8	-5.0	-3.1	3.2	5.7
CPI (% y/y) pa	5.5	2.2	-1.6	-1.7	-0.1	1.0	1.8	4.3	12.1	14.5	15.6	13.9
M2 (% y/y) pe	4.2	3.3	2.0	17.2	20.9	24.6	28.9	10.2	1.2	6.5	14.5	18.5
CA/GDP (%) pe	6.1	6.5	7.5	8.0	4.5	3.9	3.3	-1.5	-2.8	-1.9	0.1	0.8
FX reserves (USD bn) pe	2.2	2.4	2.5	3.2	3.1	3.3	3.4	3.3	3.0	3.2	3.3	3.4
Import cover (mths) pe	4.5	5.2	5.7	6.1	5.8	5.5	5.7	5.9	6.3	6.7	7.1	7.3
BCEAO Lending Rate (%) pe	4.75	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.75	4.75	4.75
USD/XOF pe	494	467	448	457	482	537	483	491	547	570	570	525
REER pe	106	106	105	106	102	98	99	100	102	106	107	104
NEER pe	103	103	104	104	102	99	101	100	98	96	97	98
USD/XOF vol (20 day)	18.1%	14.3%	6.7%	8.5%	10.3%	11.3%	12.0%	9.2%	12.0%	12.0%	11.0%	10.0%

Notes: pe — period end; pa — period average
Source: IMF, Ministere de l'economie et des finances, Institut National de la Statistiques, Standard Bank Research, Bloomberg

Political risk: post-electoral impasse

According to the Independent Electoral Commission, Alassane Outtara won the presidential run-off on 28 Nov with 54.1% of the vote; the result was also recognised by the UN, Western countries, the AU and ECOWAS. Yet the Constitutional Council cancelled the results in seven northern and central departments and overturned the outcome. ECOWAS and AU-led mediation efforts have so far failed to end the political stalemate. Although ECOWAS did not exclude the recourse to legitimate force should Gbagbo refuse to leave power, it remains to be seen whether Nigerian President Goodluck Jonathan would be ready to send troops to Côte d'Ivoire ahead of a presidential election in his country. Gbagbo is still backed by the military and militant groups, but his medium-term political survival is tilted to the downside, given increasing international pressure and severe financial difficulties.

Election results (2000)

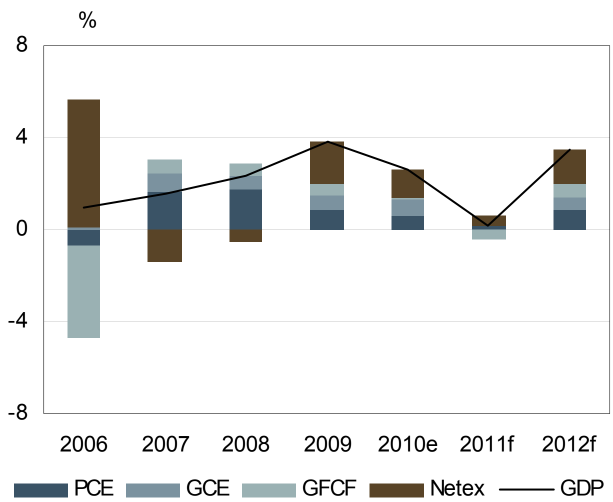
Presidential election (run-off)	Party	% of votes
Alassane Ouattara	RHDP	54.1
Laurent Gbagbo	LMP	45.9
Presidential election (first round)	**Party**	**% of votes**
Laurent Gbagbo	LMP	38.0
Alassane Ouattara	RDR	32.1
Henri Konan Bedie	PDCI	25.2
Albert Mabri Toikeusse	UPDCI	2.6
Francis Wodie	PIT	0.3
Konan Gnamien	UPCI	0.4
Jacqueline Oble	Ind.	0.3

Source: Cote d'Ivoire Independent Electoral Commission

GDP growth: output contraction in H1:11

We have downgraded our growth forecast for 2010 to 2.6% y/y, from 2.8% y/y (3.8% y/y in 2009), given the deterioration of the political and economic climate in late Q4:10. The effects of the post-electoral stalemate will most likely come to the fore in the coming months; as such, we expect growth to fall into negative territory in H1:11 on the back of a downturn in private and government consumption as well as a contraction in investment. Although the crisis will affect export growth, the impact could be contained, as long as armed clashes do not spread to the countryside and the Abidjan and San-Pedro ports continue to operate; also, this trend will be offset by slowing imports given the aforementioned context. Yet we think the normalisation of the political situation in H2:11 will be supportive of a broad rebound in output growth further fuelled by a low base effect in Q4:11.

Composition of GDP



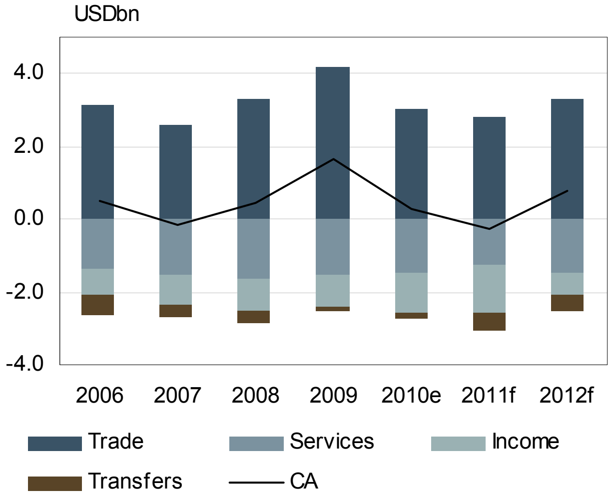
Source: IMF, Standard Bank Research

Côte d l'voire

Balance of payments: poor short-term outlook

A deterioration in the political climate and spillover effect in the countryside would negatively weigh on cocoa exports, notably if the coastal cities are also affected. Yet a fall in export volumes would be offset by a supply-side-led increase in cocoa prices and a contraction in imports as private and public sector consumption declines. Accordingly, we still expect a positive trade balance in 2011 (10.6%/GDP). Meanwhile, the balance of services and current transfers have consistently been negative in recent years; the income balance shortfall could widen due to profit repatriation. We expect the current account deficit to reach a modest USD0.3bn (-1.1%/GDP). We also see FDI easing, although a drop in capital inflows into the BRVM would be nominally marginal given its lack of liquidity. Finally, reserves (USD3.3bn) are unlikely to be depleted since they are mostly held offshore.

Current account developments



Source: IMF, Standard Bank Research

Fiscal policy: downturn in government revenue

Gbagbo's administration is likely to face increasingly severe fiscal constraints, as a downturn in cocoa receipts and tax collections will progressively curtail revenues, but it can still rely on oil royalties. Besides, IMF has suspended its relations with his government while the World Bank, EU and foreign donors are likely to reassess their ongoing programmes. Moreover, the debt relief package associated with the HIPC/MDRI schemes will be delayed. Additionally, the failure of the TPCI 7% 2010-17 (XOF62bn) bond issuance suggests the regime cannot rely on domestic borrowing as in previous years. Nevertheless, we think the administration will probably prioritise expenditure in the coming weeks to service public sector wages, especially in the army. This will be at the expense of domestic arrears and bondholders, but it remains to be seen how long such a scenario would be sustainable.

Central government budget

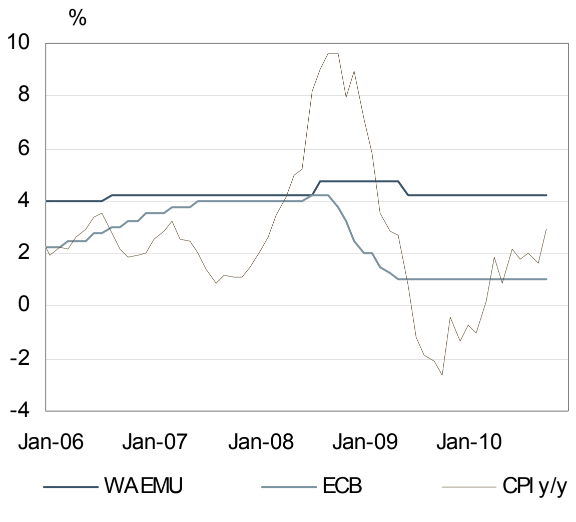
% of GDP	2008	2009	2010
Total revenue	20.6	19.5	20.1
Total expenditure	21.1	21.1	22.1
- wages	6.8	6.8	7.2
- interest	1.8	1.9	1.9
- development + transfers	2.9	2.9	3.1
Overall balance (- grants)	-2.3	-2.2	-2.3
Overall balance (+ grants)	-0.6	-1.6	-2.0
Net external borrowing	-1.2	-14.0	-3.4
Net domestic borrowing	0.5	1.0	0.6
Donor support (grants)	1.7	0.6	0.3

Source: Ministere de l'economie et des finances, Standard Bank Research

Monetary policy: WAEMU's political stance

Deficit financing from the BCEAO is prohibited in its amended regulations, but even if this was possible, Gbagbo's regime has been formally cut off from the Ivorian accounts at the central bank. Indeed, WAEMU's finance ministers instructed the BCEAO to recognise Ouattara's government. Meanwhile, supply side disruptions could result in a spike in inflation, possibly to double-digit y/y rates given the low base effect in 2010. We see inflation surging to 14.0% y/y in 2011, from 1.8% y/y last year. This would in turn have an impact on aggregate inflation in WAEMU since Côte d'Ivoire accounts for 38.1% of its CPI basket. Yet we expect the BCEAO's interest rate response to be moderate (a 50 bps hike in the refi rate), in line with previous similar situations and given the exogenous nature of the inflationary shock and the need to support credit growth (10.0% y/y in Sep).

Inflation and interest rates



Source: Institut National de la Statistiques, Standard Bank Research

Côte d I'voire

Eurobond: rally likely despite default risk

Côte d'Ivoire missed a USD29mn coupon payment on its Eurobond (2.5%; USD2.3bn; due 2032) on 31 Dec 10. The London Club previously said it would start negotiations with Côte d'Ivoire in Jan 11 should this happen (there is a 30-day grace period before a default), but it is unclear who would actually be the Ivorian counterpart. The bond's price collapsed to 38.1 on 5 Jan, from a high of 64.2 a fortnight after the first round of the presidential poll. While there could be more weakness as some accounts are restricted from holding defaulted paper and the political situation could still deteriorate, we see significant upside potential if the current impasse comes to an end and the bond's performance status is ultimately reinstated. Meanwhile, any tangible progress towards the HIPC completion point is unlikely to materialise until a legitimate government effectively assumes office.

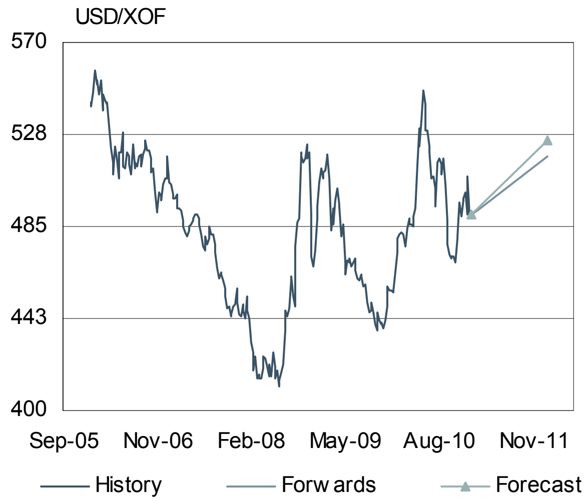
Côte d'Ivoire 2032

Source: Bloomberg, Standard Bank Research

FX outlook: launch of Ivorian currency unlikely

Although there have been unconfirmed reports that Gbagbo's administration was considering the launch of a domestic currency after it was cut off from the Ivorian accounts at the BCEAO, we think such a move is highly unlikely. First, a new currency would be worthless from inception since Gbagbo's government would have significant recourse to central bank financing; second, the currency would have no international and domestic credibility; finally, 65% of Côte d'Ivoire's foreign reserves (a total of USD3.3bn in Sep 10) are held by the Banque de France in the framework of the EUR/XOF peg (655.9) and another sizeable part by the BCEAO. We expect the USD/XOF rate to depreciate towards 570 or so during the next 6-m (from 505 on 6 Jan) tracking expected EUR weakness. Besides, we do not foresee any change in EUR/XOF, which has only been adjusted once (in 1994).

USD/XOF: forwards versus forecast

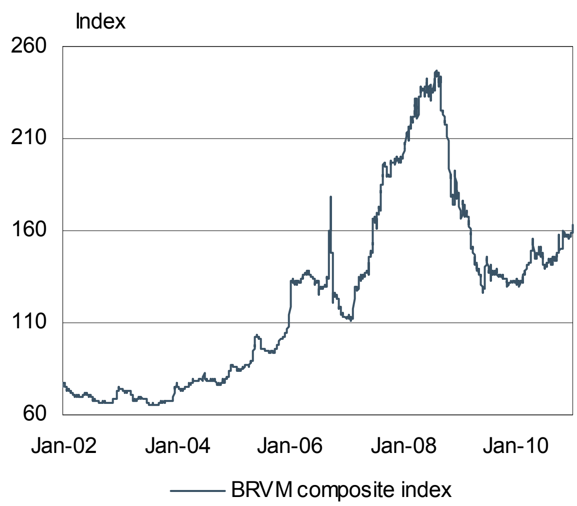


Source: Reuters, Standard Bank Research

Equity market: BRVM discounts political turmoil

The BRVM has continued to rally in recent months, discounting the political turmoil in the country in the aftermath of the disputed presidential run-off. Overall, the bourse gained 24.4% (15.6%) in 2010 and 15.8% (23.3%) in H2:10 in local currency (USD) terms. This reflects the trend in Senegal-based SONATEL, which is by far the largest stock by market capitalisation (a total of USD6.9bn), and the lack of liquidity of Ivorian stocks. Ironically, a similar situation unfolded in Q4:02, when a short-lived civil war erupted in Côte d'Ivoire. Yet a sharp deterioration of the security situation in Abidjan could ultimately weigh on the bourse's operations as most of the BRVM brokers, traders and custody relationships are located in this city. The BRVM's path may also suffer from the expected depreciation of XOF against USD, which would constrain foreign interest in SONATEL.

Bourse Regionale Valuers Mobiliers



Source: Bloomberg, Standard Bank Research

Côte d I'voire

Côte d I'voire: annual indicators

	2006	2007	2008	2009	2010	2011f	2012f
Output							
Population (million)	20.2	20.5	20.8	21.1	21.5	22.1	22.8
Nominal GDP (XOFbn)	9081	9487	10,485	10,999	11,483	13,113	13,244
Nominal GDP (USDbn)	17.6	19.8	23.4	23.8	23.2	26.4	28.2
GDP / capita (USD)	871	966	1,125	1,128	1,079	1,196	1,241
Real GDP growth (%)	0.9	1.6	2.3	3.8	2.6	0.2	3.5
Oil Production ('000 bbl)	63,132	53,132	60,209	58,861	45,295	48,265	65,150
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-2.4	-1.9	-2.3	-2.2	-2.3	-4.0	-2.1
Budget balance (incl. Grants) / GDP (%)	-1.8	-1.3	-0.6	-1.6	-2.0	-3.8	-1.5
Domestic debt / GDP (%)	12.8	10.8	11.0	10.0	9.4	8.3	8.5
External debt / GDP (%)	71.4	64.8	60.7	53.4	49.6	45.1	46.8
Balance of Payments							
Exports of goods and services (USDbn)	8.5	8.7	10.4	10.5	10.2	8.9	10.5
Imports of goods and services (USDbn)	-5.4	-6.1	-7.1	-6.3	7.2	6.1	7.2
Trade balance (USDbn)	3.1	2.6	3.3	4.2	3.1	2.8	3.3
Current account (USDbn)	0.5	-0.1	0.5	1.7	0.3	-0.3	0.8
- % of GDP	2.7	-0.7	1.9	7.0	2.5	-1.1	2.8
Capital & Financial account (USDbn)	0.0	0.9	-0.7	-1.0	-0.8	-1.3	0.7
- FDI (USDbn)	0.3	0.4	0.4	0.8	0.9	0.4	1.3
Basic balance / GDP (%)	4.5	1.5	3.8	10.5	5.2	0.4	7.4
FX reserves (USDbn) pe	1.8	2.5	2.3	3.2	3.3	3.4	3.8
- Import cover (months) pe	4.0	4.9	3.8	6.1	5.5	6.7	6.3
Sovereign Credit Rating							
S&P	NR	NR	NR	NR	NR	nr	nr
Moody's	NR	NR	NR	NR	NR	nr	nr
Fitch	NR	NR	NR	NR	NR	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	2.5	1.9	6.5	1.1	1.8	14.0	-2.5
Consumer inflation (%) pe	2.0	1.5	8.9	-1.6	6.8	11.0	1.1
M2 money supply (% y/y) pa	8.9	12.0	24.6	6.7	23.1	11.2	22.4
M2 money supply (% y/y) pe	10.3	19.6	18.2	17.2	10.2	18.5	27.5
BCEAO lending rate (%) pa	4.25	4.75	4.75	4.25	4.25	4.75	4.75
USD/XOF pa	522	479	448	462	496	553	469
USD/XOF pe	497	447	467	457	491	525	452
REER pa	98	101	106	106	100	105	99
NEER pa	100	103	105	104	100	97	99

Notes: pe — period end; pa — period average; na — not available; nr — not rated

Source: Institut National de la Statistique, Ministere de l'economie et des finances, IMF, Standard Bank Research, Bloomberg

Democratic Republic of the Congo: growth accelerating

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10e	Q3:10f	Q4:10f	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	2.5	2.3	3.0	3.4	5.7	6.2	5.8	6.7	6.8	7.5	8.3	8.0
CPI (% y/y) pa	42.7	46.7	39.4	55.1	39.2	26.5	22.6	10.5	8.3	9.1	11.4	12.1
M2 (% y/y) pa	38.3	36.4	35.1	30.7	25.5	26.6	29.9	32.0	33.2	31.5	27.6	26.5
Current account/GDP (%) pe	-15.8	-12.6	-11.3	-10.0	-12.4	-15.6	-15.3	-17.6	-17.8	-18.0	-18.3	-19.8
FX reserves (USD m) pe	237	268	876	1,001	1,019	1,095	1,165	1,190	1,200	1,215	1,225	1,235
Import cover (months) pe	0.5	0.6	2.0	2.3	2.0	2.1	2.3	2.3	1.8	1.9	1.9	1.9
1 m rate (%) pe	60.7	64.5	65.0	68.3	66.7	45.0	20.5	18.7	18.8	18.6	18.8	18.9
USD/CDF pa	729	796	802	891	913	898	902	910	918	920	920	925
REER (Q1:05=100) pe	139	145	150	165	167	177	171	161	149	153	154	152
NEER (Q1:05=100) pe	71	74	77	85	85	90	86	84	76	78	79	78
USD/CDF vol (20 day)	30.7%	7.2%	9.9%	5.9%	5.8%	14.6%	5.7%	9.6%	8.0%	8.0%	8.0%	8.0%

Notes: pe — period end; pa — period average; na — not available
Source: Banque Centrale du Congo, IMF, Standard Bank Research

Political risk: backdrop of simmering conflict

Simmering conflict in the eastern provinces of the country could form a backdrop to the elections due in Nov 10. The findings of a UN appointed task team alleged the involvement of the army in violence in the east of the country. Given the coalition nature of current governance arrangements, since no party could obtain a parliamentary majority in the 2006 elections, we foresee friction within the ruling coalition, with jockeying for power within the coalition government intensifying as the poll date approaches. Already President Joseph Kabila has been condemned by his coalition partners after his PPRD suggested that the country should eliminate the 2nd round of the 2-round electoral system for the presidency on account of the exorbitant costs involved. Also, disquiet is rising in the provinces after the government missed a 15 May 10 deadline to devolve more powers to them.

Election results (2006)

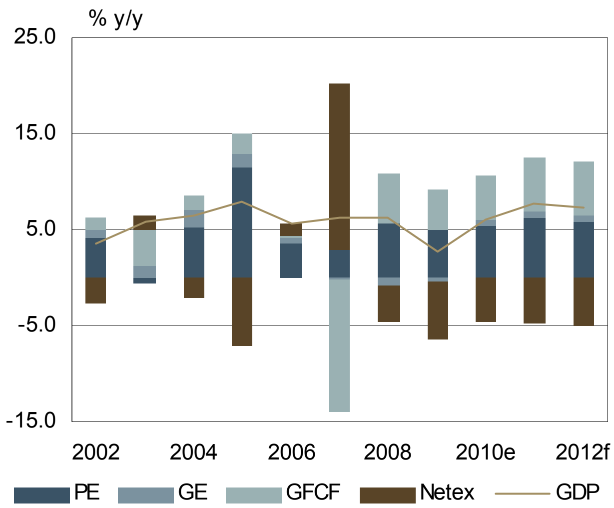
Presidential election	% of votes 1st round	% of votes 2nd round
Joseph Kabila Kabange	44.81	58.05
Jean-Pierre Bemba Gombo	20.03	41.95
Francois Joseph Mobutu Ngangawe	13.06	-
Other	22.10	-
Legislative election	**Seats**	
People's Party for Reconstruction & Democracy	111	
Movement for the Liberation of Congo	64	
Unified Lumumbist Party	34	
Social Movement for Renewal	27	
Forces for Renewal	26	
Other	238	
Total	500	

Source: Cote d'Ivoire Independent Electoral Commission

GDP growth: accelerating

The acceleration in GDP growth since the 2009 global recession is likely to be sustained over the next 2-y. We expect GDP growth to top 7% in 2011 and 2012, from the 6.1% y/y growth estimated by the government for 2010 and 2.8% y/y in 2009. Investment spending is likely to play a key role, boosted by increased public sector infrastructural development and the ongoing revival of the mining sector. The structural breakthrough in reaching the HIPC competition point is likely to usher an improved macro framework, providing the government with the fiscal space to raise pro-poor and investment spending. Inflation is likely to remain fairly stable as well, supporting private consumption spending. The elections later in the year pose downside risks to our view as the political noise may lead to a poor business climate ahead of the polls.

Composition of GDP



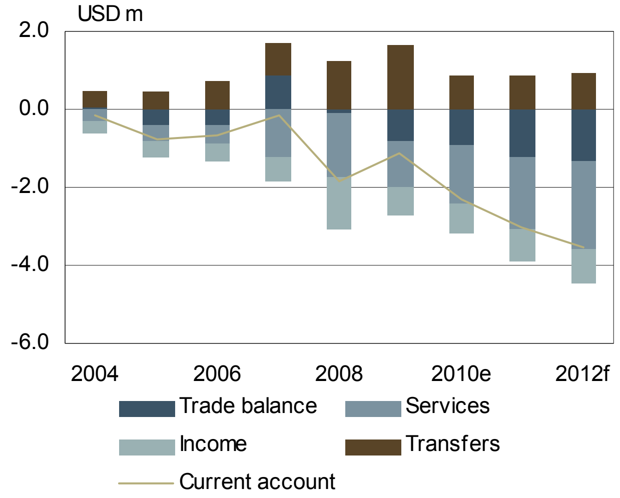
Source: IMF, Standard Bank Research

Democratic Republic of the Congo

Balance of payments: widening deficits

Increased capital spending by both the private and public sectors is likely to boost import demand, leading to a worsening C/A balance. We estimate that the C/A deficit widened to 17.6% of GDP in 2010; we foresee it reaching 19.8% of GDP in 2011. We expect much of this worsening trend to be attributable to rising goods and services imports as the revival of the mining sector continues. Preliminary estimates show that diamond production (diamonds account for ca. 38% of merchandise exports) surged to 19.5m carats in the 10-m to Oct 10, compared to 15.0m carats in the same period in 2009. The debt relief should allow the country to attract more official financial inflows in the medium term. Nonetheless, investor uncertainty about the stability of mining policy will probably depress FDI inflows. Hence, FX reserves are likely to rise to USD1.24bn (1.9m of imports) by Dec 11.

Current account developments



Source: IMF, Standard Bank Research

Fiscal policy: near-term challenges

The government could face considerable challenges in maintaining fiscal discipline in the run-up to the elections later this year. The elections could spark a flare-up of violence in the volatile eastern provinces, forcing the government to increase military spending. There might also be some donors who withhold disbursements as well. Nevertheless, on a medium-term basis, donor funding to support spending on infrastructure and poverty-reducing social programmes is likely to rise, given the debt relief the DRC secured. Similarly, funding budget deficits is likely to come mainly from external sources, perhaps mostly on concessional terms. In accordance with the ECF-supported programme, the government is also likely to reduce domestic arrears and refrain from resorting to central bank funding. Consequently, the government is likely to pay down its domestic debt obligations.

Central government budget

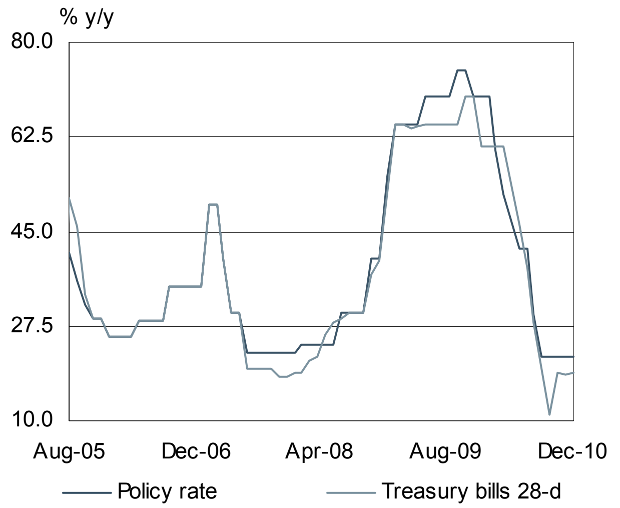
% of GDP	2009	2010	2011
Total revenue	17.2	19.4	19.7
Total expenditure	27.5	33.3	38.0
- Wages	17.2	16.0	15.6
- Interest	4.5	2.4	2.5
- Transfers and subsidies	7.8	14.6	21.2
Cash basis balance before int. res.	-10.3	-13.9	-18.3
Domestic fiscal balance	-3.7	-3.6	-8.5
Net domestic financing	-0.1	-1.3	-0.5
Net foreign borrowing	4.7	5.2	8.9
Donor support (grants and loans)	6.6	10.3	9.8

Source: Banque Centrale du Congo, IMF, Standard Bank Research

Monetary policy: on hold

The BCC is likely to keep the policy rate steady at 22.0% over the coming 6-m. Inflation has declined aggressively to fall into single digits in Nov. Even though headline inflation rose to 9.6% y/y in Dec, from 9.0% y/y in Nov, the trend in the constituent parts of the CPI suggests that headline inflation will remain low for quite some time. There are upside pressures that appear significant though. The rising oil price internationally is likely to exert upward pressure on local fuel prices. However, considering that the growth rate of the transport index declined to 31.7% y/y in Oct, from 68.9% y/y in Feb, such an increase will most probably only serve to slow the pace of disinflation of that index, rather than reverse the trend.

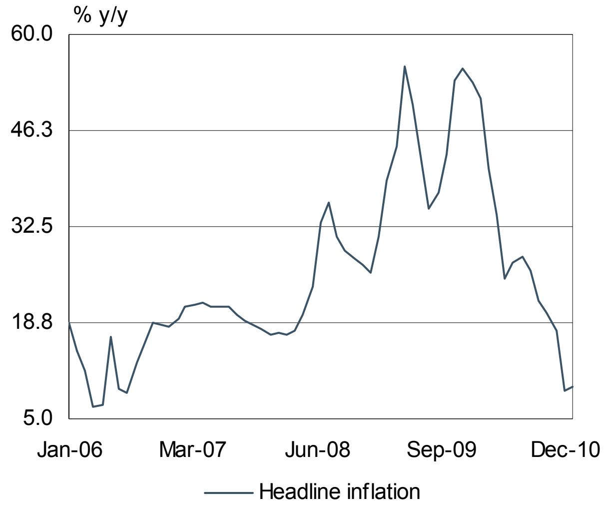
Interest rates



Source: Banque Centrale du Congo, IMF, Standard Bank Research

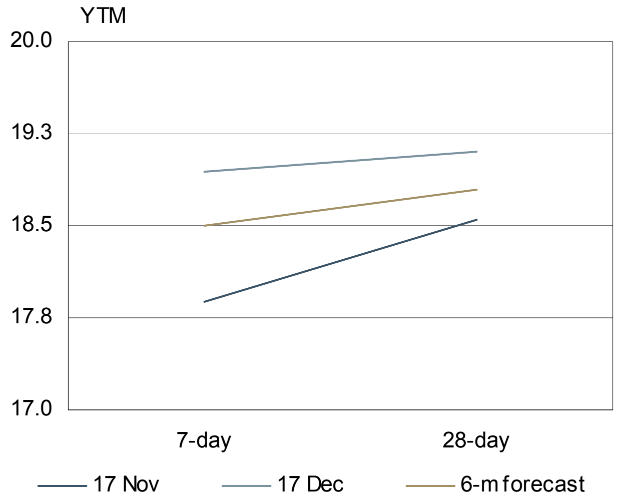
Democratic Republic of the Congo

Disinflation possibly coming to an end



Source: Banque Centrale du Congo, IMF, Standard Bank Research

Yield curve outlook

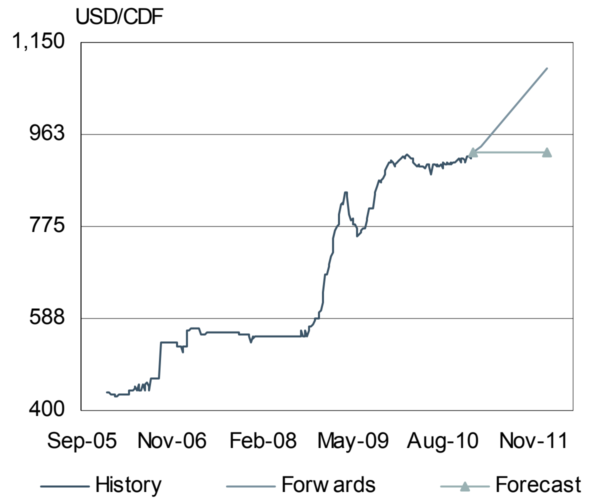


Source: Banque Centrale du Congo, IMF, Standard Bank Research

FX outlook: policy-determined stability

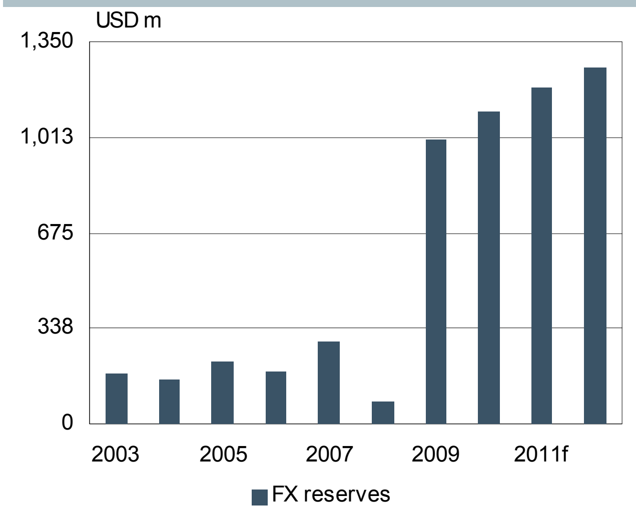
The CDF is likely to face a number of considerable headwinds over the coming year. The low interest rates will probably dissuade foreign investor participation in the rates market, removing a source of support for the unit. Additionally, the BOP position is likely to remain weak despite improved mining activity and continued growth of exports. There will be elections towards the end of the year, with heightened political risk likely to put upside pressure on USD/CDF in H2:11. However, the authorities will probably actively intervene in the FX market to prevent a depreciation of the CDF. After all, the authorities are keen to progressively de-dollarise the economy which still remains heavily dollarised, hence they will probably maintain exchange rate stability. A depreciation of the CDF would probably reduce confidence in the CDF, entrenching dollarisation.

USD/CDF: forwards versus forecast



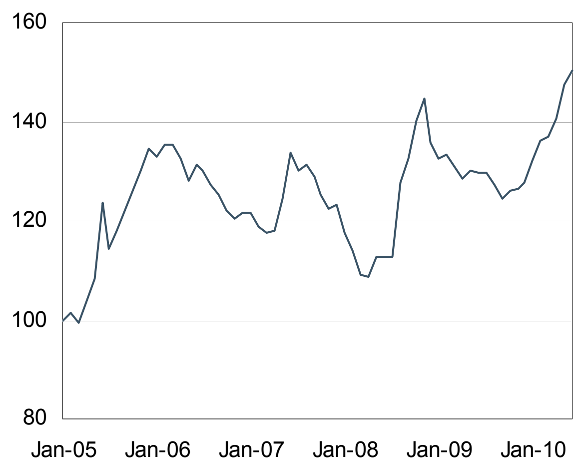
Source: Reuters, Standard Bank Research

FX reserves accumulation led by BOP support



Source: BCC, IMF, Standard Bank Research

The REER has appreciated



Source: BCC, IMF, Standard Bank Research

Democratic Republic of the Congo

Democratic Republic of Congo: annual indicators

	2006	2007	2008	2009	2010f	2011f	2012f
Output							
Population (million)	61.5	63.3	65.2	67.2	69.2	71.3	73.4
Nominal GDP (CDFbn)	4,132	5,182	6,674	9,027	11,950	14,088	17,186
Nominal GDP (USDbn)	8.8	9.3	11.8	11.1	13.2	15.3	18.2
GDP / capita (USD)	143.6	146.9	181.3	164.5	190.6	214.4	247.7
Real GDP growth (%)	5.2	6.1	6.3	2.8	6.1	7.7	7.2
Diamond production (m carats)	28.9	28.3	21.0	18.3	25.1	26.7	28.4
Crude oil (‘000 barrels)	9,009	8,816	8,365	9,382	8,625	9,575	9,980
Copper	97.4	94.1	335.1	309.2	525.8	663.2	805.0
Central Government Operations							
Domestic budget balance / GDP (%)	-0.1	-2.5	-2.3	-3.7	-3.6	-8.5	-6.1
Domestic debt / GDP (%)	na	na	na	na	na	na	na
External debt / GDP (%)	131.8	144.3	111.2	115.7	22.2	28.8	31.1
Balance Of Payments							
Goods exports (USD m)	2,319	6,143	6,585	4,445	5,258	6,573	8,019
Goods imports (USD m)	2,740	5,257	6,711	5,255	6,180	7,792	9,351
Trade balance (USD m)	-421	886	-126	-810	-921	-1,220	-1,332
Current account (USD m)	-644	-153	-1,840	-1,103	-2,319	-3,034	-3,539
- % of GDP	-7.3	-1.6	-15.6	-10.0	-17.6	-19.8	-19.5
Financial account (USD m)	644	153	1,936	1,804	2,538	3,109	3,706
Basic balance	-537	-501	-645	-548	-1,094	-1,509	-1,714
- % of GDP	-6.1	-5.4	-5.5	-5.0	-8.3	-9.9	-9.4
FX reserves (USDm) pe	220	184	290	1,001	1,190	1,235	1,442
- Import cover (months) pe	1.0	0.4	0.5	2.3	2.3	1.9	1.9
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody’s	nr	nr	nr	nr	nr	nr	nr
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Headline inflation pa	13.3	16.9	17.9	46.0	24.7	10.2	14.8
M2 money supply (% y/y) pa	49.5	55.7	32.8	35.1	28.5	29.7	24.3
Policy interest rate (%) pa	29.7	30.8	28.5	67.9	55.5	22.0	24.0
Policy interest rate (%) pe	35.0	22.5	40.0	70.0	22.0	22.0	25.5
1-m rate (%) pa	29.7	29.0	27.6	64.6	37.7	18.8	20.3
2-y rate (%) pa	na	na	na	na	na	na	na
USD/CDF pa	468	557	564	817	906	921	945
USD/CDF pe	530	550	630	907	915	928	945
REER (05M1=100) pa	108	100	106	150	169	152	137
NEER (05M1=100) pa	80	63	58	77	86	78	71

Notes: pe — period end; pa — period average, nr — not rated

Source: Banque Centrale du Congo, IMF, Standard Bank Research

Egypt: like father, like son?

Quarterly indicators

	Q1:09	Q2:09	Q3:09e	Q4:09f	Q1:10	Q2:10	Q3:10f	Q4:10f	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	4.2	4.3	4.6	5.0	4.6	4.6	5.5	6.1	6.3	6.2	6.0	6.0
CPI (% y/y) pa	18.5	16.5	13.4	11.5	11.1	10.8	10.9	10.5	10.0	11.0	12.0	12.5
M2 (% y/y) pe	6.9	8.0	7.0	9.5	9.8	9.4	11.4	12.5	14.0	15.0	16.0	17.0
CA/GDP (%) pe	-2.16	-2.20	-0.91	-1.54	-2.61	-3.35	-1.34	-2.11	-2.29	-5.05	-2.18	-1.23
FX reserves (USD bn) pe	32.2	31.3	33.5	34.2	34.5	35.2	35.5	36.0	36.4	36.9	37.4	38.0
Import cover (months) pe	-9.2	-8.1	-8.0	-9.5	-8.6	-8.3	-7.7	-9.1	-8.2	-7.9	-7.3	-9.4
3-m rate (%) pe	10.5	10.3	9.6	9.8	10.0	10.2	9.0	8.0	9.0	9.5	10.0	10.5
5-y rate (%) pe	10.5	10.2	10.2	10.5	12.2	12.5	12.5	12.4	12.4	12.4	12.4	12.4
USD/EGP pe	5.63	5.59	5.48	5.48	5.45	5.69	5.70	5.80	5.82	5.85	5.80	5.75
REER pe	85.0	86.0	88.0	90.0	91.5	93.1	93.0	95.0	96.0	97.0	96.0	95.0
NEER pe	53.0	52.5	51.5	52.0	53.7	54.9	54.0	53.4	54.0	53.0	54.0	53.0
USD/EGP vol (20 day)	5.7%	0.9%	3.5%	2.1%	1.2%	0.7%	0.6%	0.9%	1.0%	1.0%	1.0%	1.0%

Notes: pe — period end; pa — period average

Source: Central Bank of Egypt, Central Authority for Public Mobilization and Statistics, Standard Bank Research, Bloomberg

Political risk: business as usual

Egypt reiterated the dominance of the ruling National Democratic Party (NDP) at the People's Assembly of Egypt elections in late Nov 10. The NDP gained an additional 90 seats (420), while the previous major opposition (Independent Muslim Brotherhood) lost 87 of its 88 seats previously held. The poor opposition performance also looks set to undermine the authenticity the 2011 presidential vote. Article 76 of the Constitution requires a party to meet a 5.0% threshold in order to put forward a presidential candidate. The 5.0% rule either needs to be removed or the poll will end up similar to the single candidate vote Egypt has used in the past. Either way, it looks like the NDP candidate is likely to win. The question is who that candidate will be. We still expect it to be the President's son Gamal Mubarak, who is presently chairman of the influential NDP policies committee.

Election results (2005)

Presidential election	Party	% of votes
Mohamed Hosni Mubarak	NDP	88.6
Ayman Abdel Aziz Nour	Al Ghad	7.6
Noman Khalil Gomaa	Al Wafd	2.9
Osama Abdel Shafi Shaltout	Al Takaful	0.4

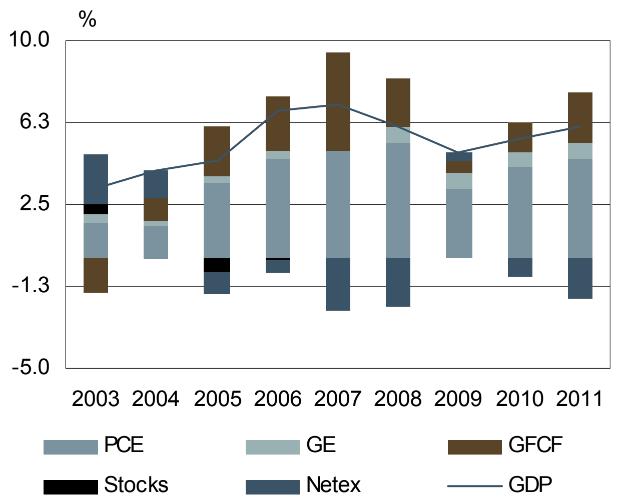
Parliamentary election	Seats	% of votes
National Democratic Party (NDP)	311	68.5
Independents (Muslim Brotherhood)	88	19.4
New Wafd Party	6	1.3
Independents	24	4.6
Total	454	100

Source: Egypt Election Commission

GDP growth: picking up nicely

According to the government GDP, growth was estimated at around 6.1% y/y in Q4:10, up from 5.5% in Q3 and 4.2% in Q2. The government suggests that this stronger growth is on the back of higher activity from the Suez Canal, tourism and construction. They are looking for growth in the FY to mid-11 to be around 6.1%. We broadly agree with their outlook. On the supply side, the data suggests that the drag on growth is coming from the oil and gas sector, agriculture and the service portion of the real estate business. On the demand side, a continue expansionary fiscal policy into next year's elections will provide additional stimulus for investment (including public sector) which is gradually picking up and more importantly private sector consumption, which remains a little subdued by historic standards. Higher import growth relative to exports will foster a small net drain on growth.

Composition of GDP



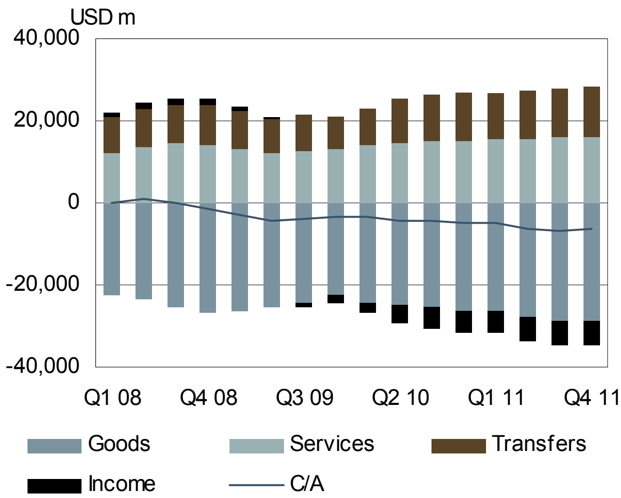
Source: Central Bank of Egypt, Standard Bank Research

Egypt

Balance of payments: solid surplus

The CBE's FX reserves reached USD36.0bn in Dec 10, up from USD34.16bn in Dec 09. This increase points to the improving BOP position. Yet the size of the improvement is undermined, as it does not include the CBE's FX deposits at commercial banks, which increased to USD7.3bn in Dec 10, from USD1.86bn in Dec 09. Moreover, these have fallen from USD10.1bn in Sep 10. The real increase in FX reserves is thus nearer USD7.3bn to USD43.3bn. Basically, financial inflows have significantly outstripped the moderate deterioration in the C/A, to an estimated USD5.0bn (2.3% of GDP) in 2010, from USD3.2bn in 2009. We expect to see the deficit to deteriorate further in 2011, to USD6.4bn (2.5% of GDP), mainly due to a deterioration in the trade balance. Yet we still expect the BOP to be in surplus via strong financial inflows (even if portfolio flows are excluded).

Current account developments



Source: Central Bank of Egypt, Standard Bank Research

Fiscal policy: still expansionary

The budget deficit (including grants) for FY10/11 is set at around 8.5% of GDP, slightly higher than the outcome for FY09/10. Provisional data for Jul-Nov 10 suggests that the deficit may be slightly larger. In particular, total revenue is slightly down y/y at EGP66.1bn, while total expenditure is up 5.2% to EGP121.6bn. Auspiciously, the shortfall was a product of non-tax revenue (mainly lower property income earnings) and smaller grant assistance. The MT plans remains to bring the deficit down to 3-4% of GDP by FY12/13. The introduction of a new property tax and VAT also looks set to wait until after the 2011 elections. Although the strong growth in nominal GDP is holding down the debt ratio, at 70.0% of GDP government debt remains onerous and its servicing increasingly painful, despite a policy of gradually extending its average maturity structure.

Central government budget

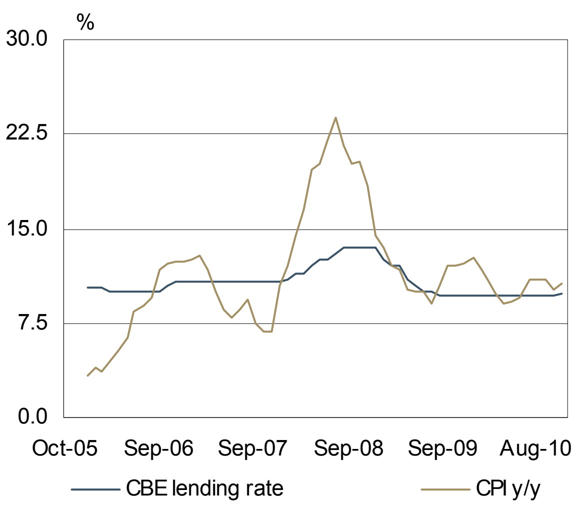
% of GDP	09/10	10/11
Total revenue	22.1	20.6
Total expenditure	30.2	29.1
wages	7.1	6.9
interest	6.1	6.6
subsidies	8.6	8.4
grants	0.3	0.4
Overall balance (+ grants)	-8.2	-8.5
Net asset position	0.4	-0.6
Net external borrowing	0.2	0.2
Net domestic borrowing	8.4	7.6

Source: Egypt Ministry of Finance, Standard Bank Research

Monetary policy: neutral

The CBE once again left monetary policy neutral at its mid-Dec 10 MPC meeting. The lending rate has remained unchanged at 9.75% since Sep 09, and we suspect it will remain that way for most of 2011, albeit that the risks are probably now towards tightening rather than further easing. Headline inflation finished the year flat at around 10.3% y/y, marginally below the average for the year. Meanwhile, the CBE's core measure increased to 9.7% y/y in Dec, from 8.9% in Nov and 7.7% in Oct, reiterating the shift in risks towards tightening as the next move. In particular, we are concerned about the likely feed through from higher global food and fuel prices, albeit that these will be moderated until after the elections via increased subsidy spending. Domestic demand appears to be picking up with private sector credit extension up to 12.5% y/y in Q410, from 8.8% in Q4:09.

Inflation and interest rates



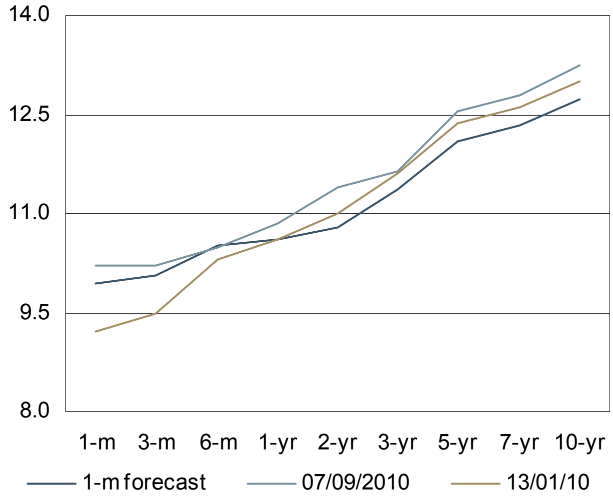
Source: Central Bank of Egypt, Standard Bank Research

Egypt

Bond curve outlook: bear flattening

We were looking for some bull flattening along the curve since the last publication in early Sep. The curve actually delivered more of a bull steepening, with the short-end rallying more than the long-end. We have a reasonably benign view over the next few months, with the possibility of some bear flattening. Much will depend on whether we see a resumed bid from foreign investors in the EGP carry trade. Certainly the moderate back-up in yields in the short-end in the last couple of months has been the product of foreign investors exiting positions, primarily because of EGP underperformance. Yet while the curves steepness and growing liquidity in the benchmark bonds supports the longer dates, they are unlikely to rally much, given higher inflation pressures and the larger debt issuance schedule. Bond issuance in Q4:10 was up 20% y/y, to EGP135.5bn.

Changes in yield curve

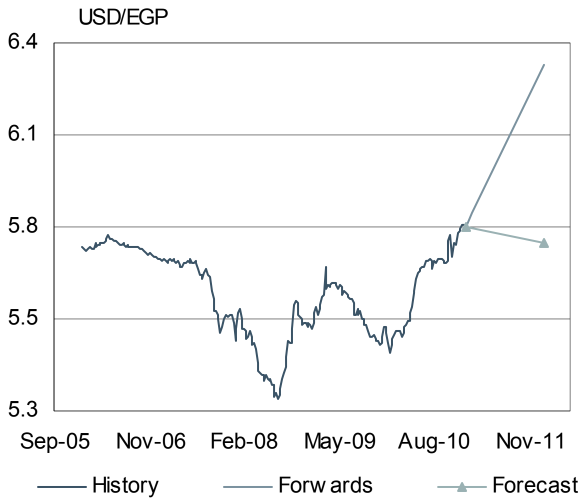


Source: Bloomberg, Standard Bank Research

FX outlook: USD/EGP 5.75-5.85 range

Our expectation for trade-weighted appreciation failed to materialise over the last few months. Actually against a 50/50 EUR/USD basket, the EGP lost around 4.0% since our last publication in early Sep. The move appears to be part of a deliberate policy to allow more flexibility in the currency (previously discussed with the IMF) in order to prevent fixed income investment inflows becoming a one-way bet. It arguably worked. We suspect that such a policy has probably run its course now and we expect to see some trade-weighted appreciation going forward in order to quell growing inflation pressures, not least from higher food and fuel prices internationally. We are thus looking for USD/EGP to trade sideways in a 5.75-5.85 range, with the direction broadly determined by changes in EUR/USD. Our broadly bearish EUR view will likely limit USD/EGP downside in coming months.

USD/EGP: forwards versus forecast

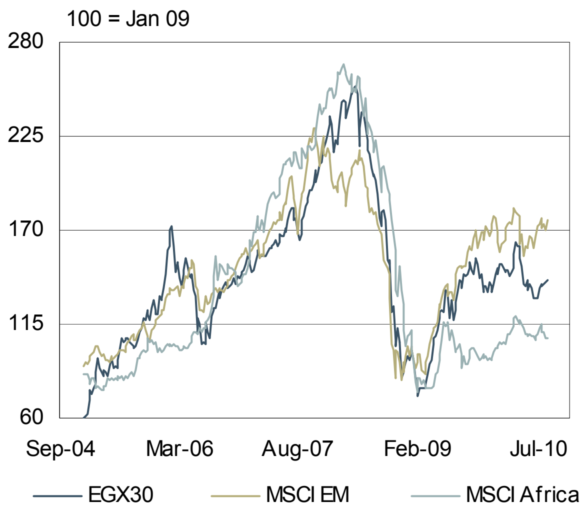


Source: Reuters, Standard Bank Research

Equity market: further upside expected

Egyptian equities (as measured by the EGX 30 index) were up a relatively solid 10.8% since the last publication in early Sep 10. However, Egyptian equities still lagged the 13.2% increase in the MSCI EM and the 17.0% increase in MSCI Africa index. The relative underperformance reflects partly concerns around the political risk from ongoing elections, which is likely to persist into 2011's presidential contest. Nevertheless, we still believe there is moderate room to remain bullish on Egyptian equity prices. At 13.99x (up from 13.38x in Sep 10), the P/E ratio compares reasonably with the S&P500 at 15.99x (from 14.6x in Sep 10), while the dividend yield of 2.8% compares well with 1.85% on the S&P500. The economy is rebounding nicely and we remain constructive on equities globally as the combination of cheap liquidity and better growth boosts expected earnings.

Cairo Stock Exchange



Source: Bloomberg, Standard Bank Research

Egypt

Egypt: annual indicators

	2006	2007	2008	2009	2010	2011f	2012f
Output							
Population (million)	71.3	72.8	74.2	75.7	77.2	78.8	80.3
Nominal GDP (EGPbn)	618	744	931	1069	1231	1416	1628
Nominal GDP (USDbn)	108.3	131.9	168.9	195.2	212.3	246.3	280.5
GDP / capita (USD)	1,518	1,813	2,275	2,578	2,749	3,126	3,491
Real GDP growth (%)	7.0	7.1	6.0	4.6	5.2	6.1	6.5
Oil Production ('000 b/d)	632.0	619.0	639.0	643.0	641.5	640.0	640.0
Gas Production (bcm)	34.6	44.7	46.5	50.0	54.0	55.0	55.0
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	8.00	-7.10	-8.00	-7.40	-8.50	-8.90	-7.50
Budget balance (incl. Grants) / GDP (%)	-7.30	-6.80	-6.50	-6.60	-8.20	-8.50	-6.75
Domestic debt / GDP (%)	89.40	78.98	63.68	66.93	69.91	66.15	65.01
External debt / GDP (%)	27.34	22.67	20.07	16.65	16.49	14.82	13.55
Balance of Payments							
Exports of goods and services (USDbn)	20.55	24.45	29.85	23.09	24.53	26.36	30.00
Imports of goods and services (USDbn)	-33.27	-45.26	-56.62	-45.56	-50.60	-54.71	-60.00
Trade balance (USDbn)	-12.72	-20.81	-26.77	-22.48	-26.07	-28.36	-30.00
Current account (USDbn)	2.51	0.24	-1.33	-3.19	-5.01	-6.41	-7.50
- % of GDP	2.32	0.18	-0.79	-1.64	-2.36	-2.60	-2.67
Capital & Financial account (USDbn)	-0.02	4.90	6.00	2.70	8.20	4.50	4.50
- FDI (USDbn)	10.04	11.60	7.60	6.10	7.00	8.00	8.00
Basic balance / GDP (%)	11.60	8.98	3.71	1.49	0.94	0.65	0.18
FX reserves (USDbn) pe	26.05	31.68	34.11	34.20	36.00	38.00	39.50
- Import cover (months) pe	-9.39	-8.40	6.00	-9.01	-8.54	-8.33	-7.90
Sovereign Credit Rating							
S&P	B+	B+	BB+	BB+	BB+	BB+	BB+
Moody's	Baa2	Baa2	Baa2	Baa2	Baa1	Baa1	Baa2
Fitch	BB+	BB+	BB+	BB+	BB+	BB+	BB+
Monetary & Financial Indicators							
Consumer inflation (%) pa	7.60	9.56	17.73	14.98	11.00	11.50	11.94
Consumer inflation (%) pe	12.40	7.09	18.30	11.50	10.50	12.50	11.38
M2 money supply (% y/y) pa	12.93	17.16	16.06	7.85	10.78	14.75	16.25
M2 money supply (% y/y) pe	15.13	19.12	10.50	9.50	12.50	17.00	15.50
CBE Lending rate (%) pa	10.23	10.75	12.13	11.75	10.50	11.00	11.50
CBE Lending rate (%) pe	10.75	10.75	13.50	10.00	11.00	11.00	12.00
3-m rate (%) pe	9.65	7.10	11.84	9.80	8.00	10.50	10.50
1-y rate (%) pe	10.05	7.65	12.20	11.30	11.80	11.00	11.00
2-y rate (%) pe	10.41	7.45	10.35	11.50	12.00	12.00	12.00
5-y rate (%) pe	10.72	8.84	11.75	10.50	12.35	12.50	12.50
USD/EGP pa	5.73	5.67	5.58	5.55	5.66	5.78	5.78
USD/EGP pe	5.70	5.64	5.51	5.48	5.80	5.75	5.81
REER pa	74.1	76.5	87.0	87.3	93.2	96.0	99.0
NEER pa	53.6	51.3	51.4	52.3	54.0	53.5	55.0

Notes: pe — period end; pa — period average; na — not available

Source: Central Bank of Egypt, Central Authority for Public Mobilization and Statistics, Standard Bank Research, Bloomberg

Gabon: reforming public finance management

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10	Q4:10e	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	-2.0	-1.3	0.7	1.9	4.7	5.1	5.4	5.5	5.5	5.7	5.8	5.9
CPI (% y/y) pa	4.2	1.7	0.9	0.9	2.5	-2.3	-2.6	-2.5	-3.6	0.8	1.0	1.3
M2 (% y/y) pe	11.3	4.3	-0.9	-1.0	-1.2	16.0	20.5	28.4	30.2	23.5	22.1	21.2
CA/GDP (%) pe	1.0	7.9	9.3	14.5	15.5	15.7	16.1	15.1	15.5	14.9	14.5	14.2
FX reserves (USD bn) pe	1.7	1.8	2.0	2.0	2.0	2.0	2.0	2.0	1.9	2.0	2.1	2.1
Import cover (months) pe	10.6	11.6	12.9	12.6	11.0	10.8	10.9	10.9	8.4	9.0	9.2	9.3
BEAC financing rate (%) pa	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00
USD/XAF pe	494	467	448	457	482	537	483	491	547	570	570	525

Notes: pe — period end; pa — period average

Source: IMF, Ministere de l'economie et des finances, BEAC, Standard Bank Research, Bloomberg

Political risk: pre-electoral political manoeuvres

The amended constitution passed by parliament on 28 Dec reinforced the powers of the president, but it did not address the limitation of presidential terms or reinstate a two-round contest. Meanwhile, the short- to medium political priority for the PDG is to preserve its majority in the forthcoming legislative elections, even as the ruling party will be challenged by the (recently formed) UN and UPG. Yet reports have emerged that the UPG of Pierre Mamboundou was considering its participation in a reshuffled coalition Cabinet; if confirmed, this would be a major political development given the party's previous radical stance and prevent the formation of an opposition alliance. Also, UN leader and former PDG Interior Minister Andre Mba Obame stressed in late Dec he was the actual winner of the 2009 presidential poll, although this is likely to have a limited immediate practical impact.

Election results (2009)

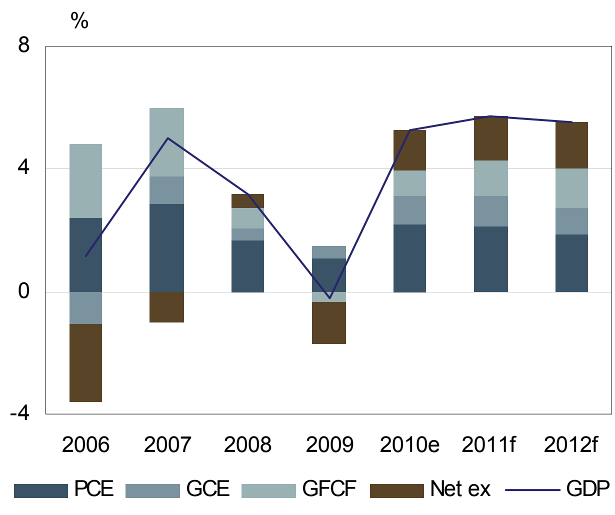
Presidential election 2009	Party	% of votes
Ali-Ben Bongo Ondimba	PDG	41.7
Pierre Mamboundou	UPG	25.8
Pierre Mamboundou	UPG	25.2
Zacharie Myboto	Independent	3.9
Parliamentary election 2006	**Seats**	**% of votes**
Gabonese Democratic Party (& allies) (PDG)	99	82.5
Union of the Gabonese People (UPG)	8	6.7
Gabonese Union for Democracy & Development (UGDD)	4	3.3
Gabonese Progress Party (PGP)	2	1.7
Congress for Democracy and Justice	1	0.8

Source: Gabon Electoral Commission

GDP growth: tilted to the upside

We anticipate a pick up in GDP growth in 2011, to 5.7%, from 5.2% in 2010, primarily driven by higher oil prices which would support net exports. The sharp drop in inflation is also likely to positively impact private consumption in H1:11. Besides, the fiscal expansionary stance should be an upside for government consumption and government-related investment, especially as infrastructure projects materialise ahead of the 2012 African Cup of Nations. Furthermore, we think private investment will benefit from the government's attempts to diversify the economy and attract foreign capital into mining, agricultural and resource-oriented development programs. Gabon's economy will expand faster than the CEMAC region in 2011 (4.8% expected by the BEAC), but it will probably somewhat lag the average growth in SSA oil-exporting countries, as has been the case in recent years.

Composition of GDP



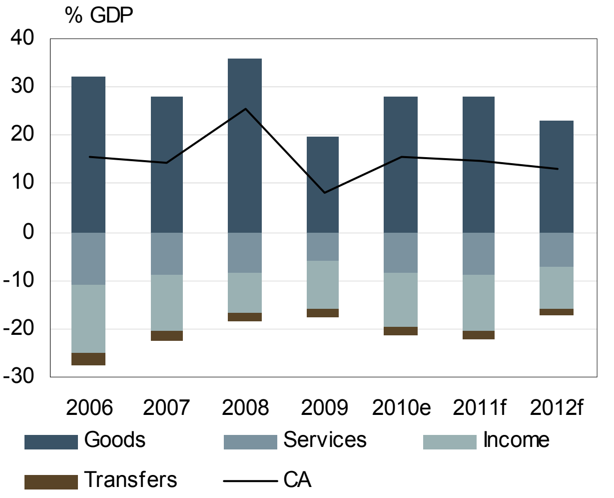
Source: IMF, Standard Bank Research

Gabon

Balance of payments: robust C/A surplus

We see the C/A surplus remaining robust in 2011, at around 14.8% of GDP, primarily driven by a significant trade balance surplus. Indeed, oil accounts for 75-80% of total exports and will continue to offset imports by a substantial margin. Still, the continued increase in oil prices is constrained by the rather flat oil production metrics (ca. 250,000bpd) while imports are tilted to the upside given the country's infrastructure requirements and a weaker XAF. The balance of services, income balance and current transfers should remain in negative territory as in previous years. Although the authorities' ambition to diversify the economy will support the FDI outlook, we expect sluggish portfolio inflows due to the absence of tradable assets on the BVMAC and unattractive interest rates. FX reserves are likely to stabilise at USD2.1bn in 2011, the equivalent of 9.3 months of import cover.

Current account developments



Source: IMF, Standard Bank Research

Fiscal policy: reforming public finances

The national assembly adopted a 2011 budget amounting to XAF2,366bn which suggests targeted expenditure will rise 6.8% y/y. That said, we forecast some marginal reduction in the budget deficit to 1% of GDP in 2011, from 1.5% in 2010, which however discounts the magnitude of arrears. The IMF stressed in late Nov the need for fiscal consolidation to ensure long-run macro stability and a set of reforms in public finance management. One of the recommendations was also to link annual budgets to longer-term policies and fiscal objectives. Besides, the authorities' ambitious capex programme (despite significant capacity constraints) should not jeopardise fiscal sustainability and would require the enhanced appraisal and monitoring of projects. Finally, we think the development of a more mature domestic bond market could help bridge the funding gap for specific infrastructure projects.

Central government budget

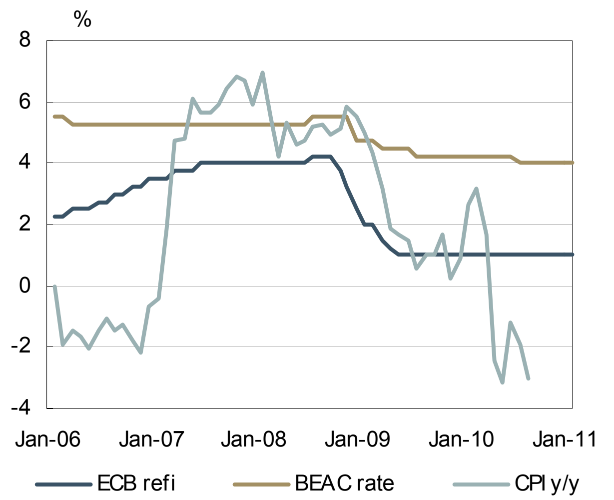
% of GDP	2009	2010	2011
Total revenue (+ grants)	18.1	23.0	24.1
Oil revenue	7.2	12.6	13.2
Non-oil revenue	10.9	10.4	10.9
Total expenditure	18.3	24.5	25.1
- interest	2.2	1.5	1.6
Overall balance	-0.2	-1.5	-1.0
Net external borrowing (saving)	0.0	-0.2	*0.2*
Net domestic borrowing (saving)	0.2	1.7	0.8

Source: IMF, BEAC, Standard Bank Research

Monetary policy: neutral interest rate outlook

Inflation fell into negative territory in Q2:10 and will probably be positive starting from Q2:11, making highly unlikely a 7.6% y/y official forecast for 2011. Yet CPI metrics have been mixed in CEMAC (2.1% and 1.8% expected by the BEAC for 2010 and 2011) as inflation increased elsewhere. As such, we think that the BEAC will keep interest rates on hold in 2011 after having cut its benchmark rate to 4% in July 09. This would actually be consistent with the relatively stable sub-regional long-run interest rate path. Indeed, the BEAC called for prudent monetary and fiscal policies during its last MPC (10 Dec), but an interest rate hike would have been at odds with its growth objectives. Meanwhile, Gabon's private sector credit growth has oscillated between 6.5% y/y and a low of –19.6% y/y in 7M10 (-0.1% YTD), but this performance was offset by soaring public sector credit (91.1%).

Inflation and interest rates



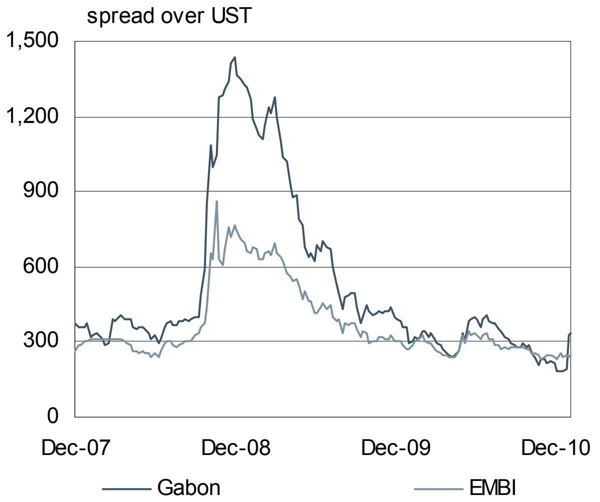
Source: IMF, BEAC, Standard Bank Research

Gabon

Eurobond: neutral to bearish

The yield on Gabon's Eurobond has stabilised at about 5.2% since early Dec, although it retreated from an historical low of 4.7% on 26 Oct. Although the spread to US treasuries rebounded somewhat in recent weeks, to 263 bps on 11 Jan, it is close to the EMBI+ spread which has fluctuated between 220 and 250 bps since early Dec10. Some yield compression cannot be discounted in light of the current spreads over UST in the case of some comparable bonds (Philippines), but downside risks stem from the possible rebound in US treasuries this year. As such, the bias is neutral to bearish. While Gabon2017 was until now perceived as a benchmark for the remaining SSA (excluding South Africa) Eurobonds given its BB – rating and robust external fundamentals, the loose fiscal policies and lack of reserve accumulation could cause concerns among bondholders.

Eurobond spread over UST vs. EMBI+ spread

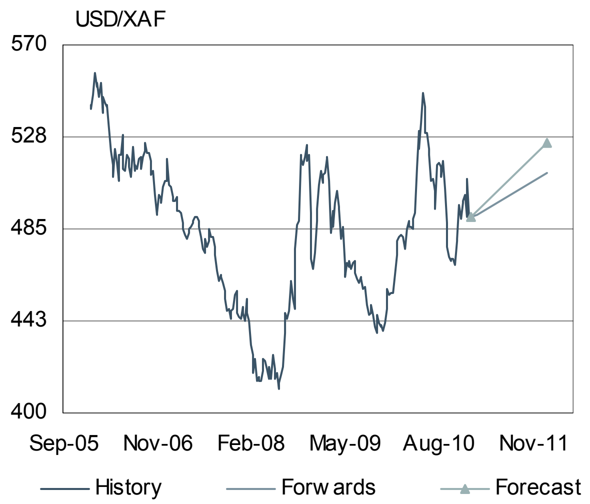


Source: Bloomberg, Standard Bank Research

FX outlook: XAF to shadow EUR/USD weakness

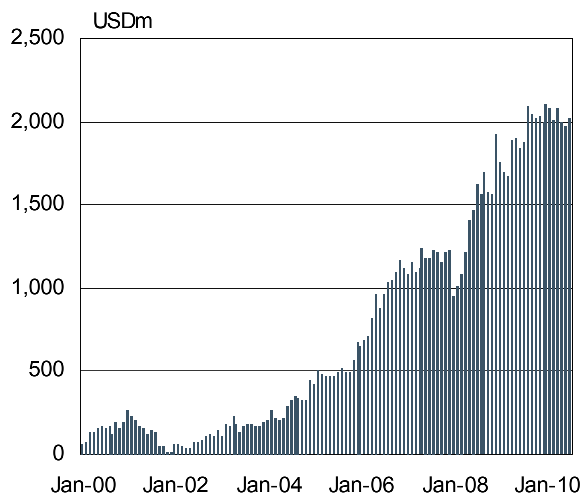
USD/XAF continues to track EUR/USD via the CFA peg which is backed by the French Treasury. We expect the USD/XAF rate to depreciate towards 570 or so during the next 6-m (from 505 on 6 Jan), tracking expected EUR weakness. Besides, we do not foresee any change in EUR/XAF (655.9), which has only been adjusted once in 1994 due to sizeable structural imbalances at the time. This view reflects the robust 300 bps interest differential between the Euro and CEMAC zones, but the C/A metrics are somewhat mixed among CEMAC countries (Gabon and the Congo will post surpluses). As Gabon is an oil exporting economy, EUR weakness will mitigate the trade balance surplus via higher imports. FX reserves are likely to pick up only marginally to USD2.1bn in 2011; more generally, the BEAC stressed on 5 Nov the decline in net external assets in 2010 in the CEMAC zone.

USD/XAF: forwards versus forecast



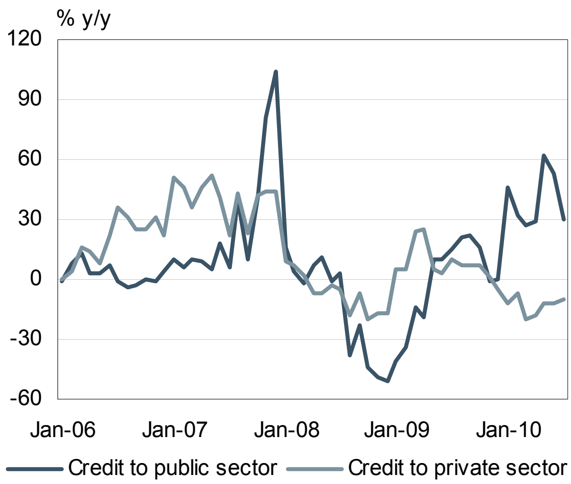
Source: Reuters, Standard Bank Research

Net FX reserves: flat despite rising oil prices



Source: IFS, Standard Bank Research

Reserve money growth: subdued



Source: IFS, Standard Bank Research

Gabon

Gabon: annual indicators

	2006	2007	2008	2009	2010	2011f	2012f
Output							
Population (million)	1.39	1.43	1.47	1.55	1.61	1.65	1.69
Nominal GDP (XAFbn)	4,990	5,489	6,622	6,732	7,002	7,394	7,934
Nominal GDP (USDbn)	10.0	12.3	14.2	14.7	14.3	14.1	17.6
GDP / capita (USD)	7,223	8,587	9,653	9,504	8,857	8,536	10,380
Real GDP growth (%)	1.2	5.0	3.2	-0.2	5.2	5.7	5.5
Oil Production (k bbls/day)	227	225	212	228	240	260	270
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	8.4	9.1	8.6	-0.2	-1.5	-1.0	-0.5
Budget balance (incl. Grants) / GDP (%)	8.4	9.1	8.6	-0.2	-1.5	-1.0	-0.5
Domestic debt / GDP (%)	5.6	7.4	7.0	6.3	7.8	8.2	8.2
External debt / GDP (%)	31.6	20.0	20.0	15.5	15.5	15.3	15.5
Balance of Payments							
Exports of goods and services (USDbn)	5.9	6.4	8.7	5.7	7.5	7.9	7.9
Imports of goods and services (USDbn)	-1.6	-1.9	-2.4	-1.9	-2.2	-2.7	-2.6
Trade balance (USDbn)	4.3	4.5	6.3	3.8	5.3	5.2	5.3
Current account (USDbn)	1.6	1.8	3.6	1.2	2.2	2.1	2.3
- % of GDP	15.4	14.3	25.6	8.2	15.6	14.8	13.1
Capital & Financial account (USDbn)	0.4	0.5	1.7	-0.8	0.2	0.0	0.1
- FDI (USDbn)	-0.31	-0.23	0.80	0.82	1.10	1.20	1.30
Basic balance / GDP (%)	12.4	12.4	31.2	13.8	23.3	23.3	20.5
FX reserves (USDbn) pe	1.1	1.3	1.9	2.0	2.0	2.1	2.2
- Import cover (months) pe	8.5	8.2	9.6	12.6	10.9	9.3	10.2
Sovereign Credit Rating							
S&P	nr	BB-	BB-	BB-	BB-	BB-	BB-
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	nr	BB-	BB-	BB-	BB-	BB-	BB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	-1.4	5.0	5.3	1.9	-1.2	-0.1	1.8
Consumer inflation (%) pe	-0.7	5.9	5.5	0.9	-3.2	1.2	2.3
M2 (% y/y) pa	25.2	12.2	7.8	3.5	4.0	14.3	23.1
M2 (% y/y) pe	16.9	11.6	12.8	-2.9	-1.0	28.4	21.2
BEAC discount rate (%) pa	5.5	5.5	5.1	4.4	4.2	4.0	4.0
BEAC discount rate (%) pe	5.50	5.50	4.75	4.25	4.00	4.00	4.00
USD/XAF pa	522	479	448	462	496	553	469
USD/XAF pe	497	447	467	457	491	525	452

Notes: pe — period end; pa — period average; na — not available; nr — not rated

Source: IMF, Bancaire de Afrique Centrale (BEAC), Standard Bank Research

Ghana: let the oil games begin

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10f	Q4:10f	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	4.7	4.7	4.7	4.7	6.6	6.6	6.6	6.6	15.6	15.6	15.6	15.6
CPI (% y/y) pa	20.2	20.5	19.5	17.0	14.1	10.6	9.4	9.0	10.0	9.0	9.0	9.0
M2 (% y/y) pe	26.9	29.2	22.1	21.2	24.5	32.0	35.0	33.0	33.0	33.0	33.0	33.0
CA/GDP (%) pe	-5.6	1.1	-8.1	-2.5	-8.2	-0.7	-10.8	-8.3	-6.8	2.7	-9.6	-4.8
FX reserves (USD bn) pe	1.7	1.7	2.2	3.2	3.3	3.5	3.6	4.4	4.5	4.6	4.7	4.8
Import cover (months) pe	2.4	2.6	3.3	4.6	3.5	4.1	4.0	4.3	3.8	4.4	4.2	3.7
3-m rate (%) pe	25.4	25.8	25.0	24.0	20.0	14.0	12.5	12.3	12.0	12.0	12.0	12.0
5-y rate (%) pe	28.0	28.0	28.0	28.0	20.0	16.0	14.5	13.5	13.0	13.0	13.0	13.0
USD/GHS pe	1.41	1.50	1.45	1.43	1.42	1.44	1.42	1.48	1.45	1.43	1.41	1.40
NEER pe	104.0	106.0	109.0	112.0	115.0	115.0	116.0	113.0	118.0	120.0	121.0	122.0
REER pe	205.0	220.0	225.0	231.0	232.0	234.0	240.0	236.0	242.0	245.0	249.0	252.0
USD/GHS vol (20 day)	3.5%	3.0%	3.1%	3.1%	6.3%	2.3%	2.1%	6.9%	3.0%	3.0%	3.0%	3.0%

Notes: pe — period end; pa — period average; na — not available.

Source: Bank of Ghana, Ghana Central Statistical Service, Standard Bank Research, Bloomberg

Political risk: how to spend it?

Arguably the key political risk in Ghana at present surrounds the Petroleum Revenue Management Bill which will provide the legal framework for how the government can spend its share of the oil revenue. Under an agreement with the IMF, the bill was supposed to be passed by end 2010, but the heated parliamentary negotiation pushed the deadline into the new session in early 2011. As oil production started on 15 Dec 10, revenue will go into an escrow account until the regulations are passed. On balance, it is arguably preferable to trade off timeliness for better structured legislation. Reflecting how seriously the authorities are taking the issue, a sticking point has been collateralisation of oil receipts. We are reasonably happy that the eventual framework (which includes a benchmark oil price formula, a stabilisation fund and a future generation fund) will be robust.

Election results (2008)

Presidential election	Party	% of votes
Second-round run-off		
Prof. John Atta-MIlls	NDC	50.23
Nana Akuffo Addo	NPP	49.77

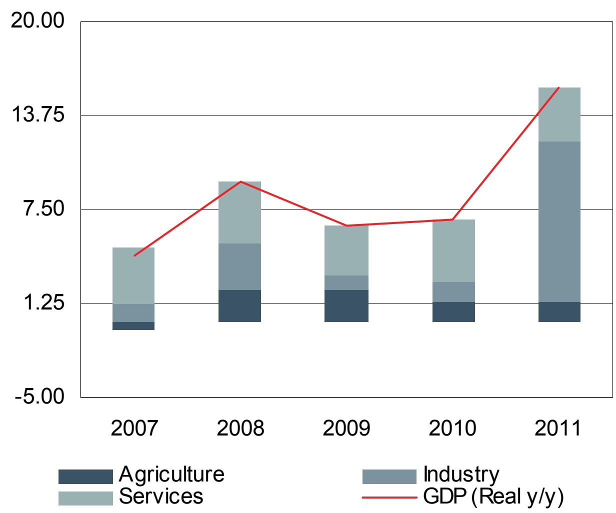
Legislative election	Seats
New Patriotic Party (NPP)	108
National Democratic Congress (NDC)	115
People's National Convention (PNC)	2
Convention People's Party (CPP)	1
Independent	4
Total	230

Source: Ghana Electoral Commission

GDP growth: so much higher

There have been two major issues hanging over the GDP data in Ghana: a likely upward revision from a rebasing, and the structural influence of oil production. In early Nov 10, the GSS finally released a new GDP series based on a 2006 survey compared to the previous 1994 version. Official GDP was revised up 60.3%, although the new USD31.3bn figure for 2010 is some 79.9% higher than our previous USD17.4bn figure. The key change is in the importance of the service sector, which increased to over 51.1% in 2010, and shrank the relative contribution of agriculture and industry. Agriculture is estimated to have grown 4.8% y/y, industry 6.0% y/y, and services 8.2% in 2010, taking the real GDP growth figure to 6.6% y/y. We are looking for the growth figure to be around 15.6% y/y in 2011 as the massive contribution of oil production to the industrial sector feeds into the figures.

Composition of GDP



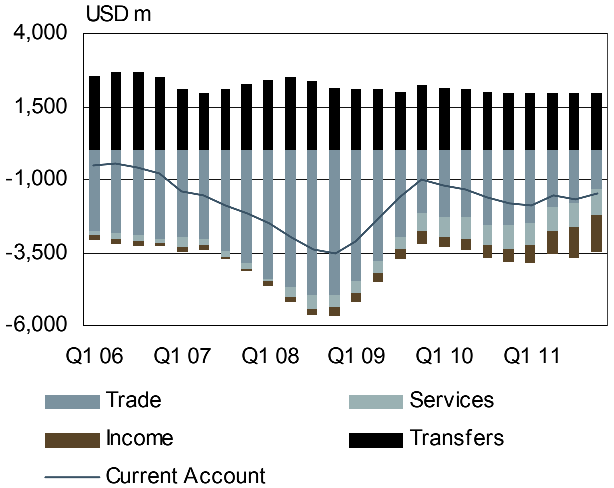
Source: Bank of Ghana, Standard Bank Research

Ghana

Balance of payments: oil rebalancing act

BOG FX reserves rose to USD4.4bn at end-2010, from USD3.2bn at end-2009. The clear improvement in the BOP occurred despite a moderate deterioration in the C/A to an estimated USD2.1bn (which is around 6.7% of the new GDP), up from a deficit of USD1.0bn in 2009 (3.8% of GDP). The additional funding was the product of strong FDI inflows estimated at USD2.5bn and the residual from strong portfolio flows, particularly into the local debt market, and a shift in deposit holdings out of USD and into GHS. We see FX reserves climbing moderately, to USD4.8bn in 2011, as continued strong financial inflows combine with a moderately improving C/A position as early FX earnings from oil production assist the trade balance. We are also reasonably constructive on increased gold and cocoa earnings based on both price and production influences.

Current account developments



Source: Bank of Ghana, Standard Bank Research

Fiscal policy: improving

Ghana's budget release for 2011 was strange in so far as, although it came following the revised GDP figures, these were not built into the budget pronouncements. So the provisional budget deficit of GHS2.5bn was not 9.7% of GDP as suggested, but rather 5.6%. On a very positive note, the budget was conservative on estimated oil earnings, which we suspect will be surpassed. Indeed, the estimated GDP growth of 12.3% y/y in 2011 (which is based on the old numbers) also looks a little conservative to us and again reflects timid estimates on oil earnings. As such, the reduction to a deficit of 4.2% of GDP in 2011 also looks achievable. The key area of concern remains arrears, which were around GHS1.5bn at end 2010, as they have systemic risks for the banking sector. The government is looking at issuing another Eurobond in order to remove its arrears overhang.

Central government budget

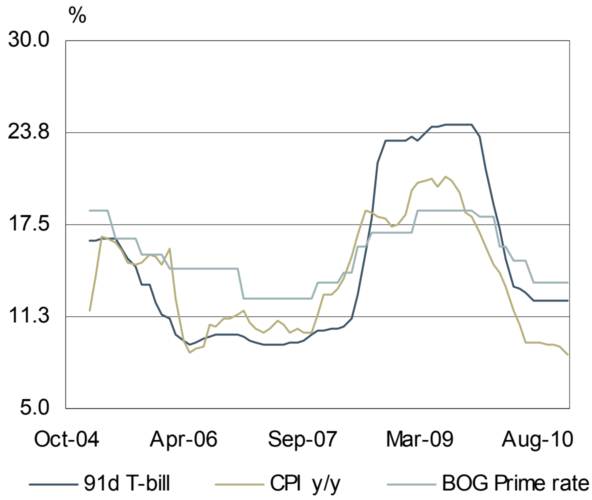
% of new GDP	2009	2010	2011
Total Revenue & Grants	19.6	19.7	18.9
Oil revenue	0.0	0.0	1.0
Total expenditure	23.8	24.6	22.6
- recurrent	16.5	17.5	15.9
- debt service	2.9	2.9	3.3
- development/transfers	4.9	4.7	4.2
Overall balance (- grants)	-9.3	-8.2	-6.5
Overall balance (+ grants)	-6.0	-5.6	-4.2
Net external borrowing	2.1	2.7	1.8
Net domestic borrowing	3.5	3.6	2.2
Donor support (grants and HIPC)	3.3	2.6	2.3

Source: Ghana Ministry of Finance, Standard Bank Research

Monetary policy: neutral

Between Nov 09 and Jul 10, the BOG cut its reference rate by 500 bps, to 13.5%. The BOG has been on hold since, and we suspect it will continue with a reasonably neutral bias through most of 2011. After a low print of 8.6% y/y for inflation in Dec 10, we see some upside in inflation following the 30% increase in petrol rice in Jan 11, with a print nearer 9.7% y/y in Jan 11. Nevertheless, we are still willing to give the BOG the benefit of the doubt in terms of delivering its mid-point inflation target of 8.5% y/y for 2011, with a 6.5-10.5% range. Key to our view is an expectation that the BOG will allow some moderate trade-weighted GHS appreciation in order to limit inflation. There is evidence of domestic demand picking up, with private sector credit extension at 12.2% y/y in Oct 10, from 4.1% y/y in Oct 09. M2+ money growth was 34.0 y/y in Oct 10.

Inflation and interest rates



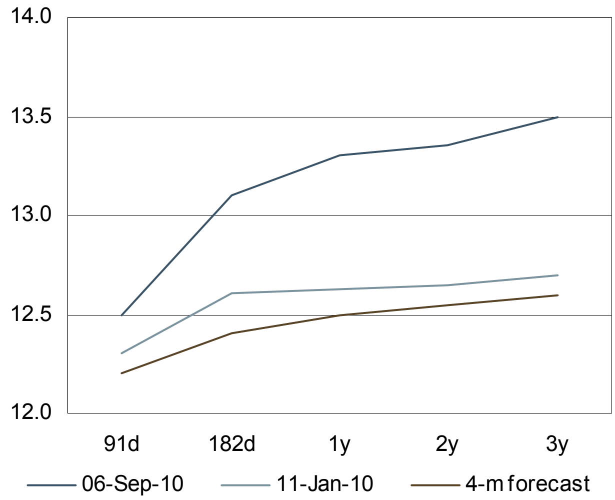
Source: Bank of Ghana, Standard Bank Research

Ghana

Bond outlook: neutral/bullish

Our expectation for moderate compression in the local yield curve since our Sep 10 publication proved appropriate. Moreover, the curve also delivered further bull flattening. We are now relatively benign on the curve in coming months. We are sanguine on inflation, seeing the potential for some downside after Jan's petrol price hike works through the system. The long-end will also be supported by international client interested in carry trades in double digits (but disqualified from easily holding the short-end). Our expected GHS appreciation would support foreign investor interest. Additional USD government borrowing should remove some pressure from domestic issuance, as should the gradual improvement in the fiscal position. Plans to extend the yield curve to 5y or even 10y will likely place some pressure on the long-end, especially if secondary trading remains thin.

Changes in yield curve

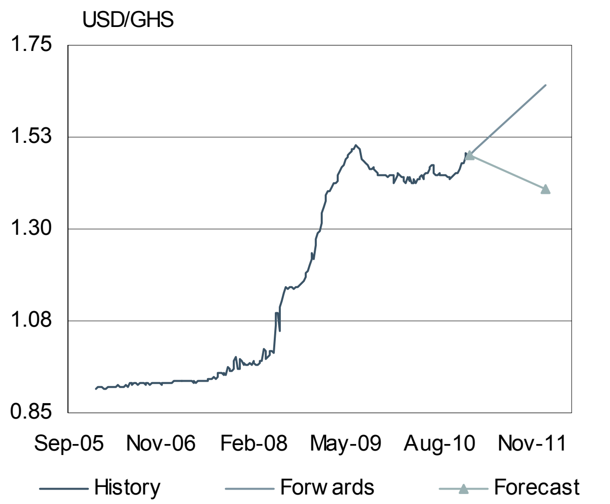


Source: Reuters, Standard Bank Research

FX outlook: modest appreciation

USD/GHS traded up to 1.48 by end 2010, above our expected the 1.41-1.45 trading range persisting. That said, the unit still outperformed the forward curve. We think the risks are now towards the downside in coming months and expect a stronger outperformance of the forwards. From a policy perspective, we expect some moderate trade-weighted GHS appreciation to be allowed, which is expected to materialise as modest USD/GHS downside in coming months. Key to our view is a supportive BOP position and an expectation that the BOG will foster GHS appreciation in order to temper inflation pressure, which is expected to develop especially from higher global oil prices. In particular, the BOG will certainly allow some appreciation in an endeavour to sterilise the affect of using Eurobond receipts to pay down domestic arrears and larger FX inflows from oil earnings.

USD/GHS: forwards versus forecasts



Source: Bank of Ghana, Standard Bank Research

Equity market: constructive

Ghana's all share equity index was up 35.5% in 2010, placing it among the star performers. By comparison, the MSCI EM index was up 18.2%. Interestingly, while most of the MSCI EM gains occurred in the months since our last publication in Sep 10, Ghana's market was up a more modest 8.6% over the same period. The difference clearly depicts the low beta nature of the market. Certainly our constructive call paid of with the index moderately surpassing our year-end target of 7,130. We believe the market is well placed to rally further in coming months with a conservative 7,500 target for 2011. We continue to see the market bolstered by strong economic growth, relatively low interest rates, growing private sector credit extension and a stable or firmer currency encouraging growing foreign participation. We see limited risk from a spill-over of insecurity from Côte d'Ivoire at present.

Ghana Stock Exchange

Source: Bloomberg

Ghana

Ghana: annual indicators

	2006	2007	2008	2009	2010	2011f	2012f
Output							
Population (million)	22.5	23.0	23.4	23.8	24.3	24.8	25.2
Nominal GDP (GHSbn)	18.7	23.2	30.2	36.9	44.8	55.9	67.4
Nominal GDP (USDbn)	20.3	23.9	23.6	25.8	30.3	40.0	46.6
GDP / capita (USD)	900	1,042	1,008	1,081	1,246	1,614	1,846
Real GDP growth (%)	6.4	5.7	7.2	4.7	6.6	15.6	12.0
Gold production ('000 FO)	2,120	2,215	2,400	2,550	2,700	2,900	2,900
Cocoa bean production ('000 MT)	741	620	676	720	740	775	800
Oil production (m bpd)						0.120	0.240
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-8.8	-14.1	-20.2	-15.8	-7.6	-5.9	-3.9
Budget balance (incl. Grants) / GDP (%)	-9.3	-9.8	-14.9	-9.9	-4.9	-3.6	-1.9
Domestic debt / GDP (%)	16.0	16.0	15.9	16.5	17.6	16.3	15.5
External debt / GDP (%)	17.5	24.8	14.1	19.2	17.8	16.0	13.7
Balance Of Payments							
Exports of goods (USDbn)	3.7	4.2	5.3	5.9	8.3	12.2	15.0
Imports of goods (USDbn)	6.8	8.1	10.3	8.1	11.1	13.9	16.0
Trade balance (USDbn)	-3.0	-3.9	-4.9	-2.2	-2.9	-1.7	-1.0
Current account (USDbn)	-0.8	-1.9	-3.5	-1.0	-2.1	-1.8	-1.4
- % of GDP	-4.0	-7.9	-15.0	-3.8	-7.0	-4.6	-3.0
Capital & Financial account (USDbn)	0.0	2.3	2.6	2.4	2.5	2.2	2.0
- FDI (USDbn)	0.0	0.9	1.1	0.7	1.1	1.0	1.0
Basic balance / GDP (%)	-4.0	-1.6	-8.8	2.7	-2.3	-1.6	-0.9
FX reserves (USDbn) pe	2.3	2.8	2.1	3.2	4.4	4.8	5.4
- Import cover (months) pe	3.8	3.6	2.4	4.7	4.7	4.1	4.1
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B	B+	BB-
Moody's	NR	NR	NR	NR	NR	NR	NR
Fitch	B+	B+	B+	B+	BB-	BB	BB
Monetary & Financial Indicators							
Consumer inflation (%) pa	11.0	10.7	16.5	19.3	10.8	9.3	8.5
Consumer inflation (%) pe	10.5	12.7	17.6	17.0	9.0	9.0	8
M2 money supply (% y/y) pa	38.8	36.3	32.2	26.2	27.1	33.0	35.0
M2 money supply (% y/y) pe	38.8	40.0	31.2	21.2	33.0	33.0	38.0
BOG discount rate (%) pa	14.3	12.7	15.4	18.1	16.0	13.5	13.5
BOG discount rate (%) pe	12.5	13.5	17.0	18.5	13.5	13.5	13.5
3-m rate (%) pe	10.7	10.6	24.7	24.0	12.3	12.0	11.0
1-y rate (%) pe	13.5	12.0	21.0	21.0	12.6	13.0	12.0
2-y rate (%) pe	15.2	12.5	20.0	30.0	12.6	13.0	12.0
5-y rate (%) pe	14.5	15.0	28.0	28.0	13.5	13.0	12.0
USD/GHS pa	0.92	0.94	1.12	1.36	1.46	1.44	1.45
USD/GHS pe	0.92	0.97	1.28	1.43	1.48	1.40	1.45
NEER pa	85.5	86.5	97.0	107.8	114.8	120.3	125.0
REER pa	138.2	145.8	176.3	220.3	235.5	247.0	260.0

Notes: pe — period end; pa — period average; nr — not rated; na — not available. The cedi was rebased in mid 2007 by 10,000. For easier reference historical data has also been rebased.

Source: Bank of Ghana, Ghana Central Statistical Service, Standard Bank Research, Bloomberg

Kenya: setting foot on a solid growth path

Quarterly indicators

	Q1:09	Q2:09	Q3:09e	Q4:09f	Q1:10f	Q2:10f	Q3:10f	Q4:10f	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	5.5	0.9	0.4	3.6	4.6	5.3	6.1	5.0	6.1	5.7	5.5	5.9
CPI (% y/y) pa	14.2	10.2	7.5	5.6	4.8	5.3	4.8	5.4	5.6	6.4	7.7	8.0
M3 (% y/y) pa	11.5	10.4	14.8	14.9	20.6	24.0	24.8	23.0	27.4	22.5	21.3	19.4
CA/GDP (%) pe	-7.2	-6.7	-6.4	-5.5	-5.4	-5.3	-4.9	-5.0	-4.6	-4.0	-3.7	-3.0
FX reserves (USD bn) pe	2.7	3.2	3.7	3.8	3.7	3.8	4.1	4.1	4.2	4.5	4.7	4.9
Import cover (months) pe	3.1	3.3	4.0	4.2	3.9	3.9	4.0	4.1	4.1	3.9	4.0	4.0
3-m rate (%) pe	7.3	7.3	7.3	6.8	6.0	3.1	2.0	2.4	2.9	3.6	4.5	5.4
5-y rate (%) pe	10.2	10.2	10.5	9.9	8.3	4.7	4.4	6.8	7.1	8.8	9.2	9.5
USD/KES pe	79.8	76.5	74.6	75.8	77.3	81.6	80.8	80.7	80.3	79.3	78.1	76.3
REER pe	146.1	149.8	151.2	151.1	144.9	137.2	139.4	142.2	143.1	145.4	147.1	151.3
NEER pe	100.1	104.6	106.6	106.2	103.0	98.2	99.6	99.9	100.1	101.2	103.2	105,4
USD/KES vol (20 day)	7.5%	7.0%	7.1%	7.0%	3.9%	10.0%	4.7%	1.7%	5.0%	7.0%	7.0%	7.0%

Notes: pe — period end; pa — period average

Source: Central Bank of Kenya, Kenya National Bureau of Statistics, Standard Bank Research

Political risk: attention shifting to 2012 elections

Following the approval of the constitution in Aug 10, attention turned to the drafting and approval of the legislation required for it to be implemented. This process will likely put a strain on Parliament, and will require cooperation between the parties in the governing coalition. There is a large amount of outstanding work that the legislators need to wade through in the run-up to the 2012 elections. The steps by the ICC against the alleged perpetrators of the post-election violence could lead to a rise in tension within the coalition government. Charges by the ICC may also dash the hopes of some with presidential aspirations. There is likely to be intense competition within the PNU to determine the successor of Mr Kibaki as the party's leader. While the new constitution is likely to reduce the probability of a reoccurrence of violence, there remains risks of political instability.

Election results (2007)

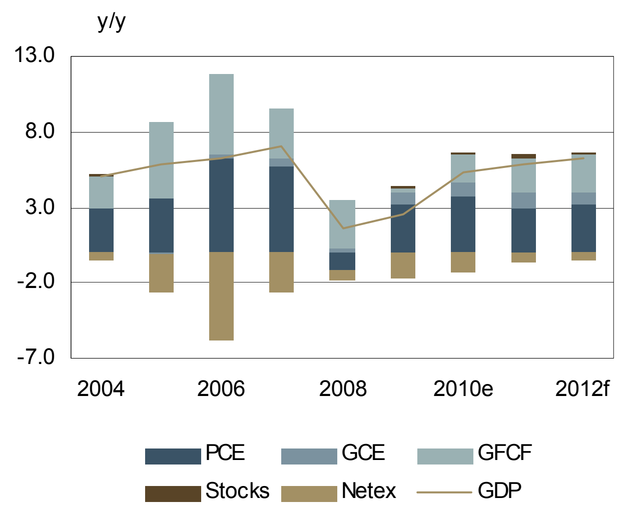
Presidential election	Party	% of votes
Mwai Kibaki	PNU	47.1
Raila Amolo Odinga	ODM	46.5
Stephen Kalonzo Musyoka	ODM-K	5.9
Others		0.5
Parliamentary election		**Seats**
Orange Democratic Movement (ODM)		99
Party of National Unity (PNU)		43
Orange Democratic Movement -Kenya (ODM-K)		16
Kenya African National Union (KANU)		14
Total		207

Source: Electoral Commission of Kenya

GDP growth: growing confidence

Economic growth in 2010 is likely to have exceeded our previous estimate of 3.8% y/y. We now expect growth to have reached 5.3% y/y, improving further to 5.8% y/y in 2011. GDP growth amounted to 6.1% y/y in Q3:10, from 5.3% y/y in Q2, mainly on the back of the improved agricultural production (6.8% y/y, from 4.6% y/y in the previous quarter). We expect real income growth, boosted by low inflation and strong remittance inflows, to underpin private consumption expenditure. The expansionary budget is likely to give government consumption and investment spending a significant boost. Domestic private investment will probably expand on the back of improved confidence and strong regional growth prospects. Tourist arrivals, growing by 15% y/y in the first 8-m of 2010, have benefited from the calm political atmosphere and are likely to boost export earnings.

Composition of GDP



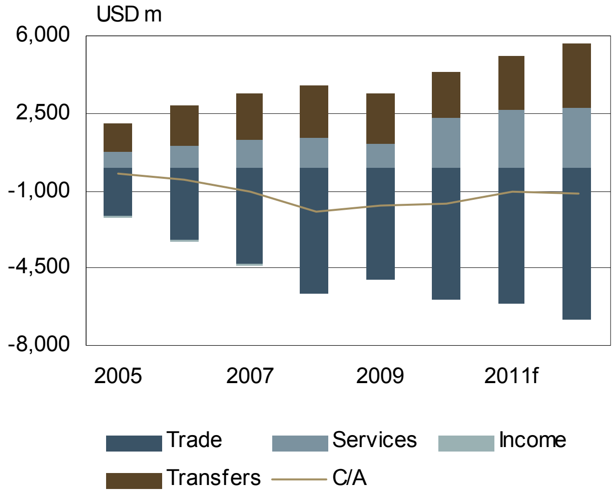
Source: National Bureau of Statistics, Standard Bank Research

Kenya

Balance of payments: services support C/A

Despite our expectations that growth in imports will excel in 2011, sustained current transfers as well as growth in exports of goods and services are likely to contain the C/A deficit to 3.0% of GDP. In the year to Sep 10, net receipts for non-factor services amounted to USD2.6bn, from USD1.7bn a year earlier, mainly on the back of higher tourism and transportation services earnings. Growth in these areas is likely to persist in 2011, which bodes well for the C/A outlook. Stronger growth in the region is likely to increase the demand for transportation services through its effect on trade. Remittances remain a highly important source of foreign exchange, growing by 6.0% to USD624m in the year to Oct 10 (according to data provided by the CBK). The level of official FX reserves, which stood at USD4.1bn (or 4.1 months of import cover), is likely to reach USD4.5bn by year-end.

Current account developments



Source: Central Bank of Kenya, Standard Bank Research

Fiscal policy: rising public debt

Public expenditure is set to grow by 16% under the FY2010/11 budget, to KES918bn. The budget further envisages an 13% increase in revenue collections (to KES609bn) which, together with more support from development partners, would allow the deficit to decline to 6.9% of GDP, from 7.2% in FY2009/10. Revenue collections in Q1 of FY2010/11 have, however, remained 10.3% below target. The expansion of domestic revenue collections to 22.5% of GDP (from 22.4%) may therefore not be realised, likely resulting in a higher fiscal deficit. The government intends to finance the budget deficit predominantly through domestic borrowing, putting upward pressure on the level of domestic public debt. Domestic public debt was equal to approximately 28% of GDP (USD8.6bn) in Sep 10, while external debt amounted to ca. 23% of GDP (USD6.9bn).

Central government budget

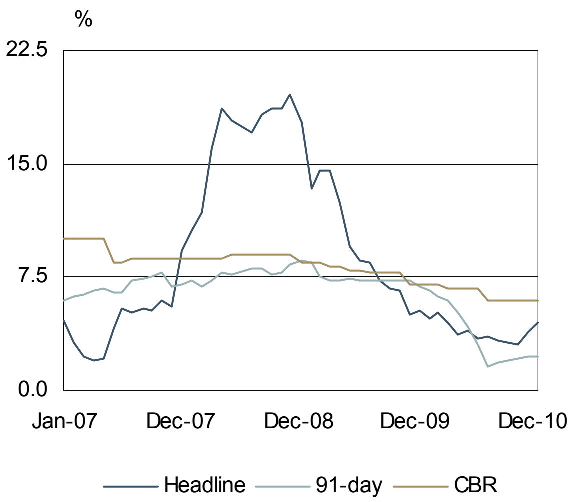
% of GDP	2009/2010	2010/2011
Total revenue	24.3	25.4
Total expenditure	32.9	33.8
wages	7.2	7.1
interest	2.7	2.8
development	10.6	11.9
Overall balance (- grants)	-8.5	-8.4
Overall balance (+ grants)	-7.2	-6.9
Net external borrowing	2.0	3.1
Net domestic borrowing	5.2	3.9
Donor support (grants and loans)	4.1	5.1

Source: Kenya Ministry of Finance

Monetary policy: remaining neutral

Inflation is likely to tick up in Q1:11 as a result of rising food prices. The La Niña phenomenon has significantly increased the probability of rising food prices throughout the region in this period. Food inflation jumped to 7.8% y/y in Dec 10, from 6.7% y/y in Nov. The level of non-food inflation on the other hand is benign: 1.4% y/y in Dec, from 1.1% y/y in Nov 10. We expect headline inflation to reach 5.3% y/y at the end of Q1:11, from 4.5% y/y in Dec 10. The CBK is therefore not likely to significantly tighten its stance in this period. This follows the more neutral stance that the CBK adopted in Q4:10. The level of excess reserves declined in this period, implying that the central bank withdrew some liquidity from domestic markets. The level of excess reserves reached on average KES10.1bn in the last week of Dec, from KES17.1bn a month earlier and KES26bn at the beginning of Q4:10.

Inflation and interest rates



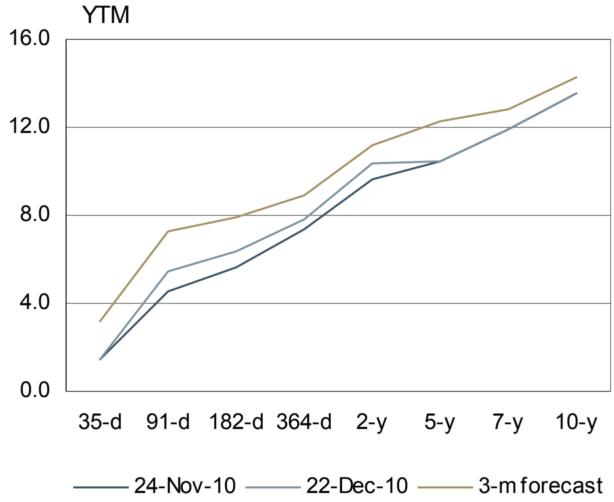
Source: National Bureau of Statistics, Reuters

Kenya

Bond curve outlook: bear flattening

Rates have continued to push higher in the past 4-m, resulting in a significant bear steepening of the curve. The yield on 15-y bonds increased by 352 bps in the period Sep to Dec 10, while 91-day T-bills increased by 35.8 bps. We maintain that rates will face upward pressure in coming months, albeit less forcefully than in the recent past at the long-end of the curve. The upward bias is likely to stem from tighter liquidity and elevated domestic financing needs of the government in H1:11. Domestic borrowing (in FY2010/11) is set to reach KES120bn, higher than the KES105bn in the original budget. Mounting inflation expectations could put further upward pressure on rates. The effect of rising food prices, likely to push headline inflation higher in Q1:11, could nonetheless be moderated by benign non-food inflation.

Changes in yield curve

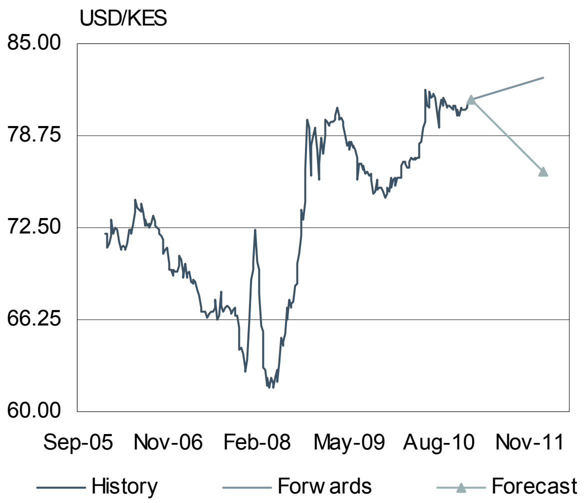


Source: Reuters, Standard Bank Research

FX outlook: downside risks to re-emerge

The prospect of increased foreign interest in the local equity and fixed income market could herald some downside risks to the USD/KES in 2011. Rising yields are likely to increase the attraction of government securities to foreign investors, adding to growing portfolio inflows to the NSE. The associated growth in the financial account, in combination with a declining C/A deficit, will potentially generate appreciation pressure on the KES. We do, however, believe that in the absence of significant upside pressures on headline inflation in Q1:11, the central bank will continue to favour a weaker exchange rate, thus constraining KES appreciation. We target a move below 80.0, from the current level of 81.3, on a multi-month basis. We believe that growing upside threats to headline inflation will incentivise the CBK to welcome further appreciation later this year.

USD/KES: forwards versus forecasts

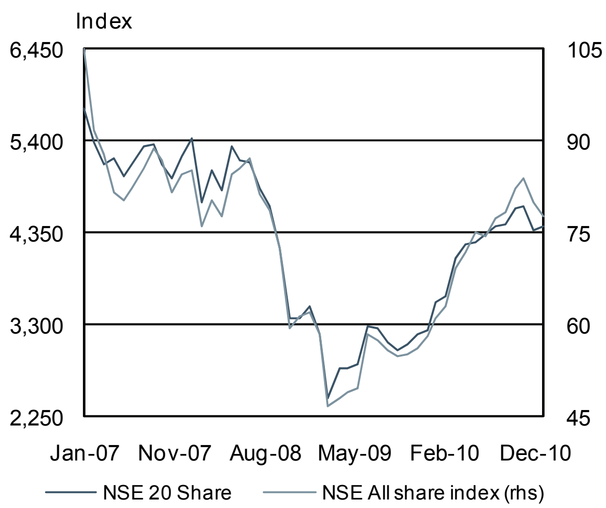


Source: Reuters, Standard Bank Research

Equity market: outperforming

The NSE was one of the best-performing African exchanges in 2010, with the All Share Index gaining 33.7% (25.5% in USD terms). The equity market continued to rally at the onset of 2011 on the back of growing foreign interest. This momentum is likely to be maintained as the improved growth outlook offers support to prospective corporate earnings. Kenyan companies are furthermore likely to benefit from a strong performance by the regional economy. An increasing number of Kenyan firms have opened businesses in neighbouring countries, including Southern Sudan, which could show rapid growth if it manages to remain politically stable after the referendum (Jan 11). The amendment of the Capital Markets act will likely allow the process of demutualisation of the exchange to be effected in Q1:11. The amendment will furthermore expand access to the trading floor beyond stockbrokers.

Nairobi Stock Exchange



Source: Reuters

Kenya

Kenya: annual indicators

	2006	2007	2008	2009	2010e	2011f	2012f
Output							
Population (million)	35.60	36.60	37.6	38.6	40.5	41.4	42.2
Nominal GDP (KESbn)	1,623	1,829	2,077	2,274	2,561	2,868	3,190
Nominal GDP (USDbn)	22.5	27.2	30.0	29.4	32.3	36.4	42.5
GDP / capita (USD)	633	742	798	763	798.7	878	1008
Real GDP growth (%)	6.3	7.0	1.6	2.6	5.3	5.8	6.2
Coffee production ('000 tons)	50.5	52.2	38.7	49.5	33.0	46.7	49.4
Tea production ('000 kgs)	310.0	369.0	345.8	304.2	425.9	432.1	439.8
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-2.7	-5.2	-4.8	-8.5	-8.4	-7.9	-6.7
Budget balance (incl. Grants) / GDP (%)	-1.8	-3.9	-4.0	-7.2	-6.9	-6.5	-5.7
Domestic debt / GDP (%)	23.2	23.6	21.2	21.7	28.7	30.2	28.1
External debt / GDP (%)	27.9	23.1	21.6	22.4	23.1	22.1	19.7
Balance Of Payments							
Exports (USDbn)	3.5	4.1	5.0	4.5	5.3	5.9	6.3
Imports (USDbn)	6.8	8.4	10.7	9.5	11.2	12.1	13.2
Trade balance (USDbn)	-3.3	-4.3	-5.6	-5.0	-5.9	-6.1	-6.9
Current account (USDbn)	-0.5	-1.0	-2.0	-1.7	-1.6	-1.0	-1.1
- % of GDP	-2.2	-3.6	-7.5	-5.5	-5.0	-3.0	-2.7
Financial account (USDbn)	0.7	1.9	1.1	2.7	2.1	2.2	1.9
- FDI (USDbn)	0.05	0.73	0.10	0.14	0.74	0.76	0.8
Basic balance / GDP (%)	-2.0	-1.1	-7.1	-5.1	-2.7	-0.8	-0.8
FX reserves (USDbn) pe	2.4	3.4	2.9	3.8	4.1	4.9	5.1
- Import cover (mths) pe	4.3	4.8	3.2	4.9	4.4	4.9	4.6
Sovereign Credit Rating							
S&P	B+	B+	B	B	B+	B+	B+
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	nr	B+	B+	B+	B+	B+	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	na	4.3	16.2	9.4	5.1	7.2	6.3
Consumer inflation (%) pe	7.3	5.6	17.8	5.3	4.5	7.8	5.4
M3 money supply (% y/y) pa	15.6	16.4	20.0	12.9	23.1	22.7	21.2
M3 money supply (% y/y) pe	17.9	19.1	15.9	16.0	22.6	24.2	19.7
Policy interest rate (%) pa	9.8	9.2	8.9	7.9	6.4	6.1	6.5
Policy interest rate (%) pe	10.0	8.8	8.5	7.0	6.0	6.5	6.6
3-m rate (%) pe	5.7	6.9	8.6	6.8	2.4	5.4	5.7
1-y rate (%) pe	8.7	8.5	8.8	8.0	3.1	6.2	6.5
2-y rate (%) pe	10.2	9.2	9.8	8.5	3.8	7.8	8.2
5-y rate (%) pe	11.2	9.9	10.5	9.9	6.8	9.5	9.9
USD/KES pa	72.1	67.3	69.2	77.2	79.2	78.9	74.9
USD/KES pe	69.6	63.8	78.2	75.8	80.7	76.3	73.9
REER pa	108.1	124.8	145.4	149.8	141.7	146.2	151.2
NEER pa	107.3	117.0	116.1	104.3	101.2	101.5	105.4

Notes: pe — period end; pa — period average, nr — not rated; na — not available

Source: Central Bank of Kenya, Kenya National Bureau of Statistics, Standard Bank Research

Malawi: tobacco sector in turmoil

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10f	Q4:10f	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	8.6	7.1	7.8	6.9	8.1	6.6	7.3	6.4	5.8	6.3	6.8	11.9
CPI (% y/y) pa	8.8	8.9	7.8	7.4	8.1	7.8	7.2	6.7	7.0	7.3	7.6	7.9
M2 (% y/y) pa	28.5	20.9	15.5	18.9	17.2	16.0	8.9	9.0	15.0	16.7	20.0	20.0
CA/GDP (%) pe	0.9	-0.6	0.1	-0.8	0.9	-0.6	0.1	-0.1	-17.7	-18.3	-18.0	-0.1
FX reserves (USD bn) pe	0.077	0.133	0.205	0.200	0.200	0.200	0.200	0.200	0.180	0.180	0.180	0.180
Import cover (months) pe	0.6	1.0	1.5	1.5	1.5	1.5	1.5	1.5	1.9	1.9	1.9	1.9
3-m rate (%) pa	13.5	11.0	9.1	7.1	7.4	7.2	7.5	6.8	6.7	6.7	6.7	7.7
USD/MWK pe	141.0	140.6	141.2	142.5	147.5	150.8	151.3	150.0	150.71	170.0	170.0	170.0
REER pe	138.1	107.0	103.5	108.3	113.7	105.7	104.1	103.8	92.2	92.6	93.0	93.6
NEER pe	114.4	98.3	94.7	93.0	91.3	94.9	93.1	92.3	82.1	82.4	82.9	83.5
USD/MWK vol (20 day)	0.0%	0.0%	0.0%	3.8%	0.0%	0.0%	1.4%	2.2%	2.0%	2.0%	2.0%	2.0%

Notes: pe — period end; pa — period average; na — not available

Source: Reserve Bank of Malawi, National Statistical Office, Standard Bank Research

Political risk: DPP consolidates its power

We expect that the political landscape to remain tense. The ruling Democratic Progressive Party (DPP) continues to consolidate its hold on power after the poor showing of the opposition parties in the 2009 election, thus diminishing the influence of the United Democratic Front (UDF) and the Malawi Congress Party (MCP). Although Malawi is close to being classified as a flawed democracy in terms of global rankings, the DPP's increase in power will enable it to push though policy reforms. The country's political leadership was heavily criticised by Catholic Church bishops, not least because president Bingu wa Mutharika led a successful campaign to change the country's flag. The church was also critical of the president's handling of the privately-owned media, which is generally critical of the government. In turn, the public-owned media were criticised for biased reporting.

Election results (2009)

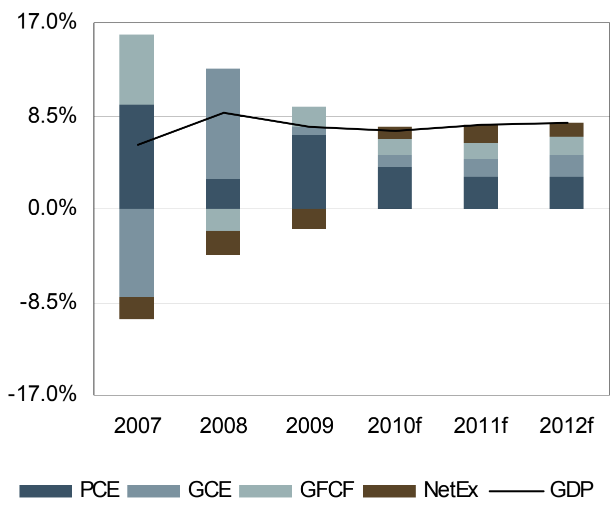
Presidential election	Party	% of votes
Bingu wa Mutharika	UDF	66.0
John Tembo	MCP	30.7
Walter Chibambo	PETRA	0.8
Stanley Masauli	RP	0.8
Parliamentary election		**Seats**
Democratic Progressive Party (DPP)		114
Malawi Congress Party (MCP)		26
United Democratic Front (UDF)		17
Others - mainly independents (32)		37
Total		193

Source: Malawi Electoral Commission

GDP growth: robust growth forecast

Elevated global food prices and the impending global ban on the blending of flavourings with burley tobacco in making cigarettes are likely to encourage farmers to diversify their crops away from tobacco. We expect 7.7% y/y growth in 2011 and 7.8% y/y in 2012, higher than the 7.1% estimate for 2010. Of course, government support through its agricultural input subsidy programme is likely to be maintained, boosting agricultural production. Nevertheless, the largely rain-fed agricultural sector is susceptible to weather patterns. Net exports will rise moderately, but will be reduced by more costly crude oil imports. Low inflation readings are likely to support private consumption spending, which is estimated at 86% of GDP. Fixed investment, which has risen steadily over the past few years, is likely to continue to support growth.

Composition of GDP



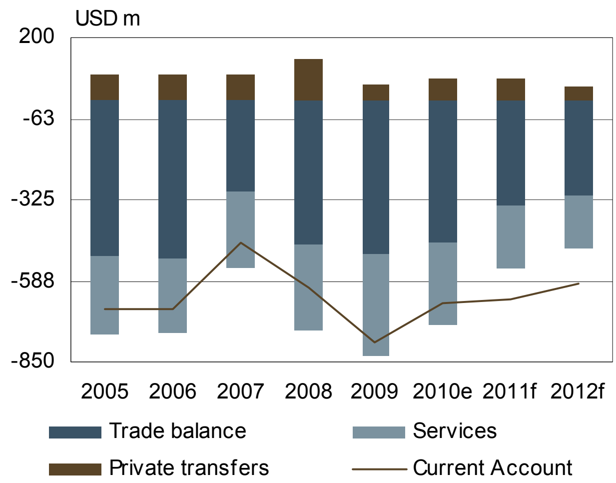
Source: National Statistics Office, IMF, Standard Bank Research

Malawi

Balance of payments: tobacco exports to wane

The main threat to the balance of payment is the WHO's Framework Convention on Tobacco Control, which will most likely reduce tobacco export earnings over the medium term. It is not clear whether the ban is already having an impact on production and exports. Tobacco sales on auction floors dropped by 12.4% y/y, to 198.m kg during the first nine months of 2010, mainly attributable to a dry spell in some areas. We expect fertilizer prices to rise in tandem with crude oil prices, raising import costs. Exports of other agricultural products will not in the near term compensate for the likely drop in tobacco exports. Uranium production at the new Kayerekera mine will support the C/A as uranium prices have surged since mid-2010. The new niobium mining project could further boost the C/A from 2012. Low FX reserves, and import cover of about 1.9, could rise marginally over 6-m.

Current account developments



Source: IMF, RBM, Standard Bank Research

Fiscal policy: donor austerity threatens grants

The over-dependence of the fiscus on concessional grants is evident from the fact that in the FY2010/11 budget, grants of MWK85bn (USD566m) from donors represented 30% of total revenue. However, the funding of the government's ambitious spending plans is under severe pressure as EU donor countries now face severe fiscal austerity measures. The FY2010/11 budget provided for fertilizer imports of 160,000 MT to be distributed at subsidised prices to 1.6m smallholder maize farmers. The government is likely to continue with this input subsidy programme (representing 11% of the budget), as it transformed Malawi into a surplus grain producer and exporter from a recipient of food aid. Other projects could face lower allocations should the concessional grants be reduced. Royalties and tax revenue from uranium mining will increasingly support the fiscus.

Central government budget

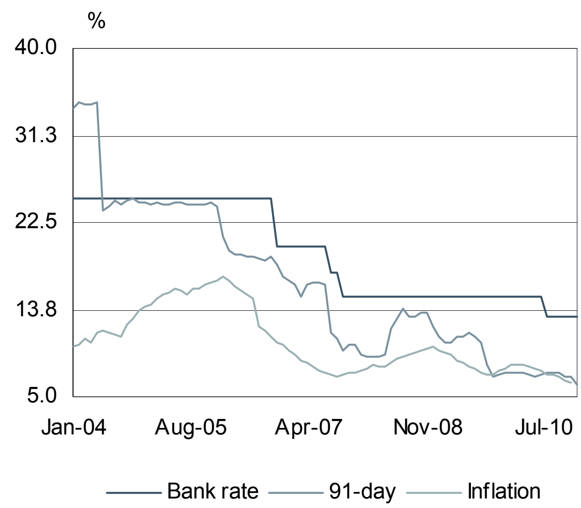
% of GDP	2009/2010	2010/2011
Total revenue	25.2	26.0
Total expenditure	36.9	38.1
- wages	5.6	5.6
- interest	2.8	2.9
- development	9.6	10.1
Overall balance (- grants)	-13.5	-12.2
Overall balance (+ grants)	-1.8	-1.0
Net external borrowing	2.7	1.4
Net domestic borrowing	-0.9	-0.4
Donor support (**grants)**	11.7	11.1

Source: IMF, Ministry of Finance

Monetary policy: accommodating bias to end

The relatively low and stable inflation in Q2:10 prompted the RBM to cut the bank rate by 200 bps, to 13%, at the beginning of Aug. Although inflation was subdued last year to Oct, which has averaged 7.6% y/y, the RBM may have to revise its monetary easing policy in the months ahead, as inflation is likely to rise. Food prices have risen alarmingly, particularly over the past 6-m, with the FAO's food indexes currently at levels seen just prior to the 2008 food crisis. With the food group's weight of 58.1% in the headline CPI basket, food prices will probably rise in 2011. Moreover, crude oil prices are likely to increase to near the USD100/bbl mark in 2011. We expect the combined effect of a higher oil prices and an increase in food inflation to drive headline inflation to over 7% y/y over the next 6-m period.

Inflation and interest rates



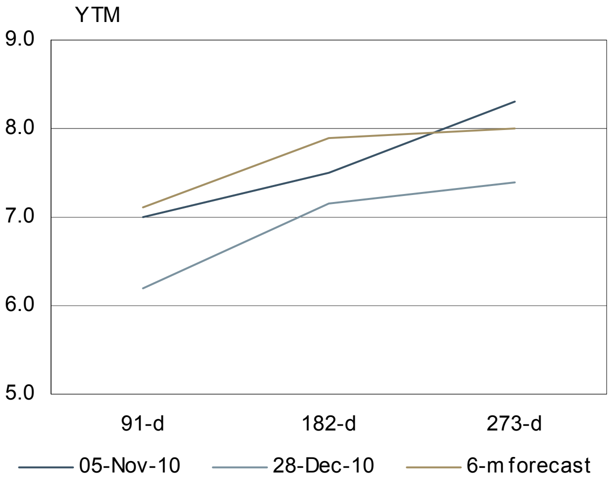
Source: National Statistical Office, RBM

Malawi

Bond curve outlook: policy stance to be revised

We expect that the higher inflation outlook to prompt the RBM to revise its easing monetary policy stance and adopt a marginally tighter policy bias. At the last auction held on 28 Dec 10, the 91-d T-bill yield dropped by 80 bps, to 6.2%, the 182-d T-bill yield by 35bps, to 7.15%, and the 273-d T-bill yield by 91bps, to 7.39%. These downward adjustments in yields were in line with the expectation at the time of stable and subdued inflation over the next 6-m. However, we believe that T-bill rates will gradually rise over the coming 6-m, underpinned by higher expected inflation and a less accommodating monetary policy stance by the RBM. The bank rate currently at 13% could start to rise in H2:11 to reach 14% by end-2011. The 91-d T-bill yield could rise to 7.1%, the 182-d and the 273-d yields to 7.9% and 8.0% respectively over the next 6-m.

Changes in yield curve

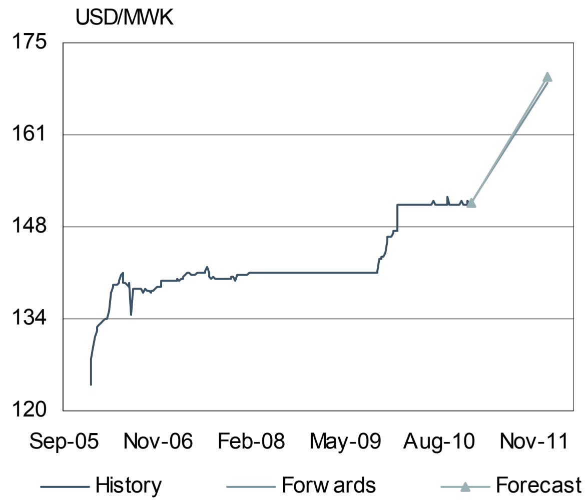


Source: RBM, Standard Bank Research

FX outlook: upward adjustment possible

The MWK is evidently overvalued, and it seems inevitable that it will be devalued, although the extent of the devaluation is uncertain. We expect the peg to be adjusted to about 170 by end-2011. It is unlikely the MWK will be free-floating, but a managed float may be possible in the longer run. It is most likely that a currency peg arrangement will remain in place, but there is much doubt over the sustainability of the current level of about 150 to the USD. At these levels, FX shortages will persist. The authorities are, however, concerned about the inflationary impact of a weaker MWK, not least because it will increase the costs of its successful fertilizer subsidy programme and also push other imported costs higher. The peg remains in place despite its violation of the IMF's ECP. The fixed peg is costly to the economy and has amplified the external shocks to the economy.

USD/MWK: forwards versus forecasts

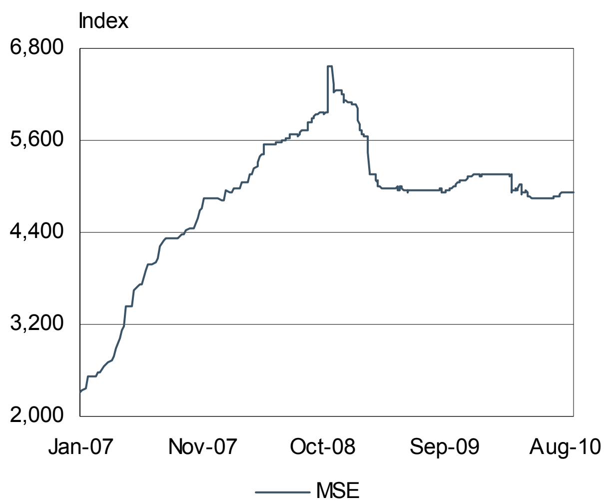


Source: Reuters, Standard Bank Research

Equity market: no fireworks

The Malawi All Share Index (MASI) has generally trended sideways since 2009. In 2010 the MASI fell by 3.9% y/y. Both sub-indices, the Domestic Share Index (DSI) and the Foreign Share Index (FSI), disappointed. We expect that the performance of the MSE's 15 counters will be lacklustre over the next 6-m. The exchange is weighed down by a lack of liquidity, shallow financial markets and foreign exchange controls. As foreign buyers are largely absent, the market is mainly driven by local investors. However, with the dividend yield at about 4.2%, the market is relatively attractive to local investors, as commercial bank's saving deposit rates vary between 0.75% and 2.5%. With a market capitalisation of MWK1,185.8bn (Q3:10) and GDP of MWK765bn (2010), the market cap/GDP ratio is about 155%.

Malawi Stock Exchange



Source: Malawi Stock Exchange, Standard Bank Research

Malawi

Malawi: annual indicators

	2006	2007	2008	2009	2010f	2011f	2012f
Output							
Population (million)	12.8	13.2	13.6	13.9	14.4	14.8	14.9
Nominal GDP (MWKbn)	396	484	572	664	765	873	1006
Nominal GDP (USDbn)	2.9	3.5	4.1	4.7	5.1	5.1	5.0
GDP / capita (USD)	228	262	299	338	352	347	337
Real GDP growth (%)	6.9	5.8	8.6	7.6	7.1	7.7	7.8
Tobacco production ('000 tons)	155.1	110.7	194.7	232.0	200.0	200.0	200.0
Tea production (million kgs)	38.9	48.1	41.7	52.6	55.0	55.0	55.0
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-14.3	-15.3	-17.5	12.9	-10.0	-10.0	-9.6
Budget balance (incl. Grants) / GDP (%)	-1.8	-1.7	-5.8	-1.6	-2.3	-1.5	-1.5
Domestic debt / GDP (%)	14.9	10.4	19.0	20.3	14.0	11.0	7.1
External debt / GDP (%)	49.0	31.2	16.0	19.1	21.8	23.3	24.7
Balance Of Payments							
Exports (USDbn)	0.543	0.796	0.833	0.916	0.862	0.776	0.665
Imports (USDbn)	1.055	1.096	1.302	1.419	1.326	1.118	0.975
Trade balance (USDbn)	-0.512	-0.301	-0.470	-0.503	-0.464	-0.341	-0.31
Current account (USDbn)	-0.677	-0.467	-0.612	-0.784	-0.663	-0.647	-0.6
- % of GDP	-23.2	-13.5	-15.0	-16.7	-13.1	-12.6	-11,9
Capital account (USDbn)	0.285	0.461	0.955	0.777	0.398	0.471	0.45
FDI (USDm)	29.7	92	170	60	50	55	60
Basic balance/ GDP (%)	-22.2	-10.9	-10.9	-15.4	-12.1	-11.5	-10.7
FX reserves (USDbn) pe	0.13	0.12	0.24	0.17	0.20	0.18	0.16
- Import cover (months) pe	3.0	2.1	2.2	1.6	2.1	2.2	2.3
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	CCC+	B-	B-	B-	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	14.0	7.9	8.7	8.4	7.4	7.5	7.8
Consumer inflation (%) pe	10.1	7.5	9.9	7.6	6.7	8.0	7.8
M2 money supply (% y/y) pa	19.5	25.6	76.5	21.3	12.8	17.9	22
M2 money supply (% y/y) pe	16.4	32.6	67.2	24.4	9.0	20.0	22
Policy interest rate (%) pa	24.2	18.5	15.0	15.0	14.7	13.3	14.5
Policy interest rate (%) pe	20.0	15.0	15.0	15.0	13.0	14.0	15.0
3-m rate (%) pe	17.14	10.16	13.42	7.07	6.20	7.70	8.7
USD/MWK pa	136.0	140.0	140.5	141.5	150.9	166.9	200
USD/MWK pe	138.7	138.7	140.6	142.5	150.0	170.0	200
REER pa	100.3	127.5	138.1	107.0	103.5	108.3	113.7
NEER pa	94.6	112.0	114.4	98.3	94.7	93.0	91.3

Notes: pe — period end; pa — period average, nr — not rated; na — not available

Source: IMF, National Statistical Office, RBM, Standard Bank Research

Mauritius: rebalancing will have benefits as well as costs

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10e	Q2:10f	Q3:10f	Q4:10f	Q1:11e	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	2.6	2.9	3.1	3.8	4.0	4.2	4.3	4.4	4.1	4.2	4.3	4.4
CPI (% y/y) pa	4.9	3.3	1.3	0.7	2.4	2.5	2.4	4.2	5.5	5.7	5.7	5.8
M2 (% y/y) pe	15.0	12.5	8.3	8.1	6.9	6.8	6.8	8.0	9.0	10.0	12.0	12.0
CA/GDP (%) pe	-2.7	-12.9	-8.7	-9.1	-7.7	-7.2	-6.9	-7.8	-7.2	-7.6	-7.3	-6.9
FX reserves (USD bn) pe	1.75	1.94	2.12	2.18	2.09	2.06	2.32	2.35	2.35	2.35	2.40	2.40
Import cover (months) pe	5.4	6.0	6.6	6.7	6.1	6.0	6.7	6.8	6.3	6.3	6.4	6.4
3-m rate (%) pe	6.3	4.6	4.5	4.7	4.2	3.2	3.2	3.0	3.2	3.9	4.5	6.0
5-y rate (%) pe	10.0	8.8	8.7	8.5	8.7	7.1	7.1	6.8	6.9	7.1	7.9	8.9
USD/MUR pe	33.00	32.00	30.50	30.35	29.60	32.00	31.20	30.50	30.10	29.10	31.85	31.50
REER pe	88.9	86.9	88.9	93.2	93.4	91.6	95.2	98.0	102.0	104.0	106.0	108.0
NEER pe	99.1	96.5	98.5	101.7	102.5	99.7	102.8	105.0	108.0	110.0	112.0	115.0
USD/MUR vol (20 day)	28.9%	12.9%	9.3%	39.1%	23.2%	14.9%	14.1%	23.5%	15.0%	15.0%	15.0%	15.0%

Notes: pe — period end; pa — period average

Source: Bank of Mauritius, Mauritius Central Statistics Office, Standard Bank Research, Bloomberg

Political risk: surprise appointment

The appointment of the country's first-ever female vice-president in Nov, which was proposed by the prime minister and seconded by the opposition, suggests that coalition politics rather than conflict will characterise the political landscape in the coming year. However, the closeness of the election results in terms of votes may put some pressure on the coalitions. Nevertheless, the coalitions do not differ greatly in their social and economic policies, which will lend support for the government's new growth-rebalancing model, the Economic Restructuring and Competitiveness Programme (ERCP). Since the 2010 election, Parliament's main focus has been on the economy, which is facing weak external demand. The moderately expansionary budget, read in Nov 10, will help to stabilise and grow the economy. Hence, we see relatively low political risk in 2011.

Election results (2010)

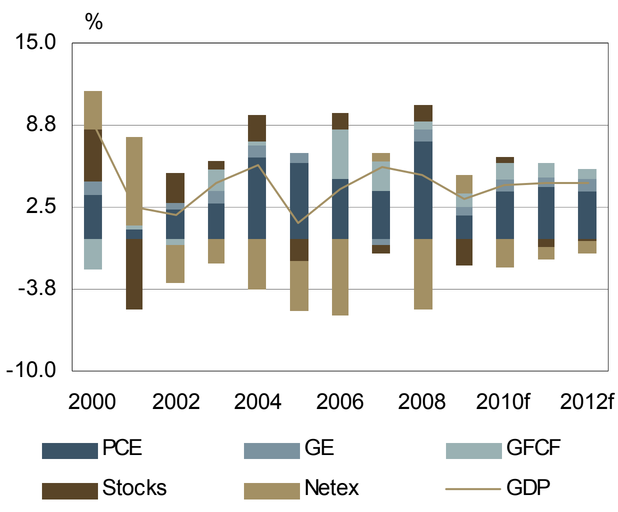
Legislative election	Seats	% of votes
Alliance de L'avenir (PTR-PMSD-MSM)	45	49.7
Alliance du Coeur (MMM-UN-MMSD)	20	42.0
Rodrigues Movement (MR)	2	1.0
Others	3	-
Total	70	100

Source: Mauritius Electoral Commission

GDP growth: rebalancing growth

We expect the economy to grow by 4.3% y/y in 2011, from 4.2% in 2010. The contribution from net exports will most likely disappoint as the export sector is facing weak external demand from its traditional markets in the euro area and oil import costs are rising. However, tourism arrivals, which grew by 6.2% y/y in the first nine months of 2010, bode well for the tourism industry in 2011. The shift in focus to Asia as an export destination will pay off only in the medium term. The development of the financial services sectors as well as the information and communications technology sector will proceed gradually. We expect higher FDI into the tourism and textiles sectors to help boost the economy. We expect PCE to respond to robust economic activity as well as an accommodative monetary policy stance.

Composition of GDP



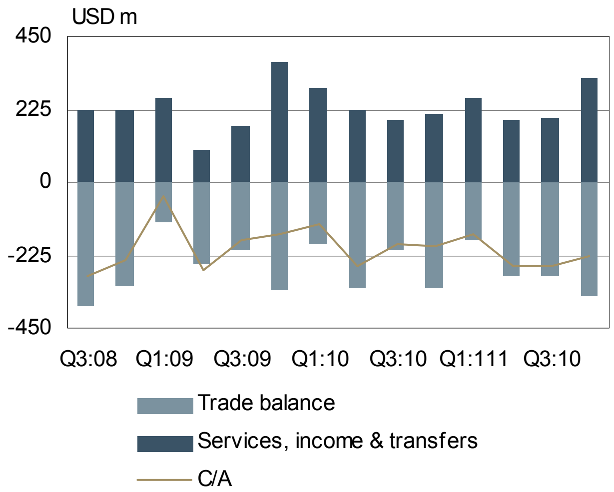
Source: Bank of Mauritius, Standard Bank Research

Mauritius

Balance of payments: pressures rising

We expect the C/A to come under pressure in 2011 and to print a deficit of about 8.7% of GDP. We expect exports to rise marginally, with higher tourism earnings making the main contribution. With tourist arrivals growing by 6.2% y/y in the first nine months of 2010, we expect this trend to continue into 2011. Generally exports will be hampered as traditional export markets in the EU are facing a sovereign debt crisis and fiscal austerity. Imports should rise on the back of higher crude oil prices as well as higher global food prices. Government spending and investment will further boost imports as the growth rebalancing programme gains traction. We expect FDI inflows to remain robust in 2011. In Oct 10 FX reserves stood at USD2.3bn (6.7 months of imports). We expect FX reserves to remain at current levels over the next 6-m period.

Current account developments



Source: Bank of Mauritius, Standard Bank Research

Fiscal policy: rebalancing economic growth

The Economic restructuring and Competitiveness Programme (ERCP) will have an impact on government revenue and expenditure patterns as well as economic activity. Global structural shifts, such as the emergence of Asia as the global growth driver, necessitated a rebalancing of the economy's growth trajectory. The impact of the 2011 budget on domestic financial markets is likely to be moderate. Although domestic borrowing is projected to increase by 19.2% y/y over FY2010's revised estimates, the budget deficit projected at a modest 4.3% of GDP in FY2011. The minister projected an average deficit of 4.1% of GDP for the 3-y period to FY2013. In the longer term, government is looking increasingly to foreign markets to finance public expenditure, reducing the domestic component. This should help to ease pressure on domestic yields over the medium term.

Central government budget

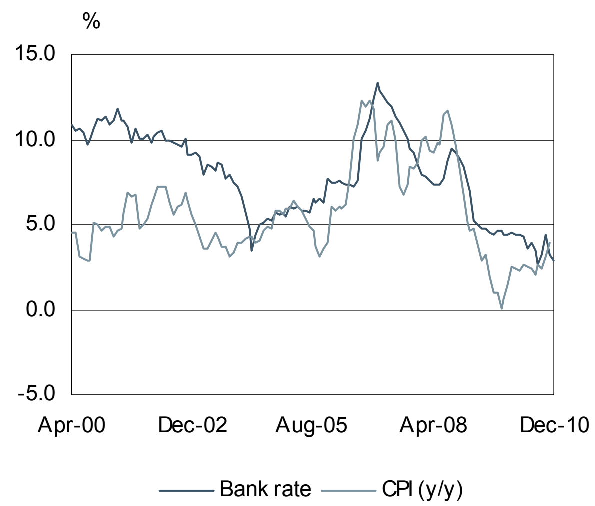
% of GDP	FY:10	FY:11
Total revenue	20.6	21.8
Total expenditure	25.0	26.1
- Interest	3.3	3.5
- Wages	5.8	6.0
- Capital expenditure	2.8	3.5
Overall balance (- grants)	-4.9	-5.2
Overall balance (+ grants)	-4.4	-4.3
Net external borrowing	1.9	2.2
Net domestic borrowing	2.8	3.1
Donor support (grants)	0.5	0.9

Source: Mauritius Ministry of Finance, Standard Bank Research

Monetary policy: accommodation continues

The BOM left the policy rate unchanged at 4.75% at the MPC meeting on 6 Dec 10. The MPC expressed concern that inflation might rise faster than anticipated. The MPC also said that low economic growth in the euro area was a source of uncertainty. Rising inflation could be a major concern for the BOM in 2011, as the crude oil price has risen in recent weeks and could push transport costs higher. Also, global food prices, corroborated by the FAO's food price indexes, have risen sharply over the previous 6-m. These increases will drive domestic food and transport inflation higher over the next 6-m. We expect overall inflation to jump to 5.8% y/y by Dec 11, from 3.9% y/y in Nov 10, taking the average to 5.7% in 2011 (2.9% in 2010). An exchange rate policy favouring a weaker MUR will add to price pressures.

Inflation and interest rates



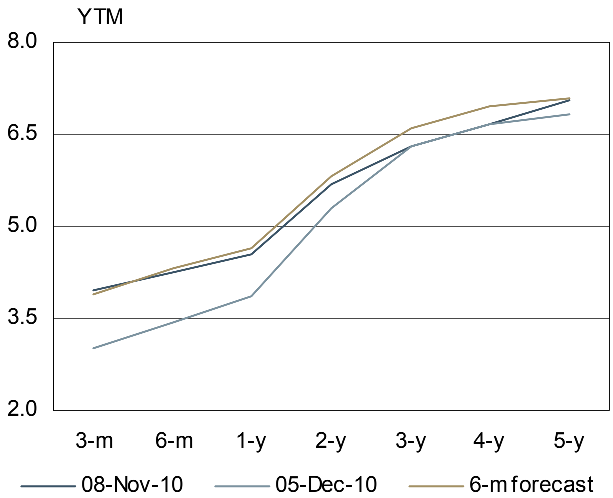
Source: Bank of Mauritius, Standard Bank Research

Mauritius

Bond curve outlook: bear flattening

Yields continued to decline, with the 91-d yield falling to 3.0% on 5 Dec 10, from 3.97% on 8 Nov 10. The 5-y yield fell to 6.81%, from 7.05% over the same period. However, as we believe that the outlook for inflation has deteriorated, we expect a bear flattening over the next 6-m. Hence, we expect the 3-m yield to rise to 3.9% and the 5-y yield to rise to 7.1% over the forecast period. The higher interest rate environment may take some time to assert itself, as markets may be ambivalent and expect lower yields supportive of the nascent economic recovery, but higher yields to ward off inflation. We believe the BOM will adopt a tighter policy stance. Indeed, in Dec 10 the central bank governor warned of a higher repo rate if the inflation rate rose. Generally, we expect interest rate volatility, particularly in short-term rates, more so than in long-term rates.

Changes in yield curve

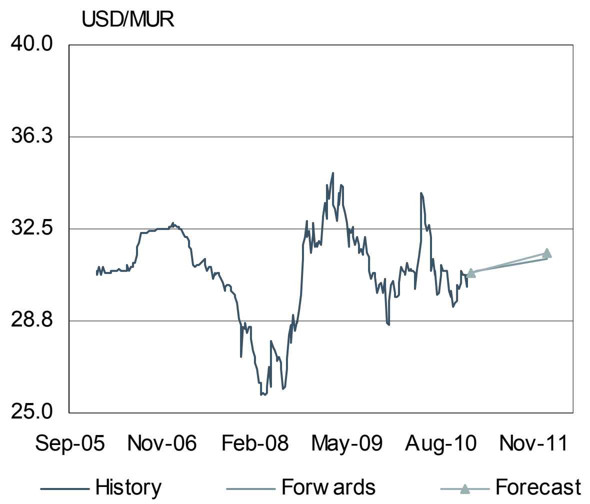


Source: Reuters, Standard Bank Research

FX outlook: USD/MUR upside likely

We expect the MUR to depreciate marginally over 12-m, not least because of BOM interventions, but also because improved economic news out of the US may start to support the USD going forward. The depreciation of the USD on international markets tended to strengthen the MUR, against the BOM's wishes. Although the MUR largely reflects international currency trends, the BOM attempts to engineer a weaker MUR. The BOM has intervened frequently since Jul 10, ostensibly acting as an agent for a large local importer. Technically, the frequent interventions by the BOM classify the MUR's exchange arrangement as a managed (not a free) float. In the last week of Dec 10, the BOM purchased USD28.15m and EUR0.25m. The USD/MUR closed at 30.5 in Dec 10.

USD/MUR: forwards versus forecasts

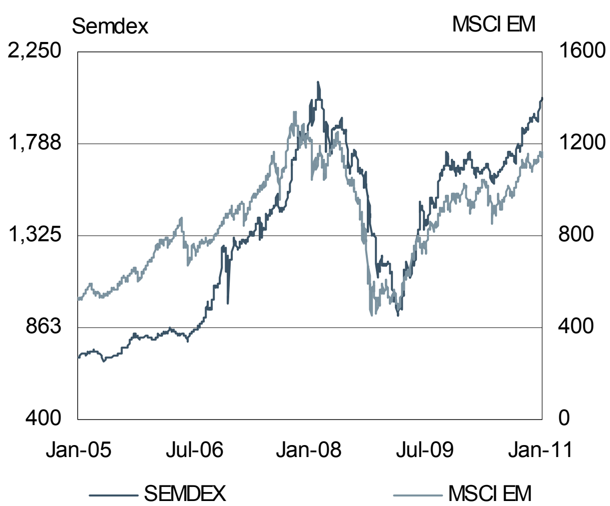


Source: Bank of Mauritius, Standard Bank Research

Equity market: to track emerging markets

The SEMDEX index rose by 18.5%, from Dec 09 to Dec 10, closing at 1967.45. This is a strong result, as the broader MSCI EM index rose by 16.4% over the same period. Although economic growth was stymied by lower economic growth in Europe, growth is nevertheless projected at 4.2% y/y in 2010 (3.1% y/y in 2009). The government's programme to reduce the island's euro-centric trade links may take some time to realize fully and will put strain on firms to adjust to the new markets and customers. Profits may suffer as a result as there are bound to be mistakes made. We expect that the SEMDEX will largely track emerging markets trends upwards over the next 6-m. Higher inflation is, however, problematic for stock market returns, but improved tourist arrivals, if sustained, will help to buoy investor sentiment.

Mauritius Stock Exchange



Source: Bloomberg

Mauritius

Mauritius: annual indicators

	2006	2007	2008	2009f	2010f	2011f	2012f
Output							
Population (million)	1.25	1.26	1.27	1.27	1.28	1.29	1.30
Nominal GDP (MURbn)	206.3	235.5	264.7	274.4	291.2	320.1	352.7
Nominal GDP (USDbn)	6.6	7.6	9.5	8.9	9.5	10.3	11.0
GDP / capita (USD)	5,237	6,035	7,443	7,005	7,385	8,003	8,478
Real GDP growth (%)	5	5.4	5.4	3.1	4.2	4.3	4.4
Sugar production ('000 Tonnes)	512	471	452	467	500	510	415
Tourist arrivals ('000)	772	907	930	871	897	890	910
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5.6	-4.5	-3.5	-4.1	-4.9	-5.2	-5.1
Budget balance (incl. Grants) / GDP (%)	-5.3	-4.3	-3.3	-3.0	-4.4	-4.3	-4.1
Domestic debt / GDP (%)	50.8	46.1	41.5	42.7	43.4	40.6	38.3
External debt / GDP (%)	4.1	5.7	4.7	6.4	5.7	5.3	5.4
Balance Of Payments							
Exports of goods and services (USDbn)	1.45	2.35	2.40	2.10	2.08	2.24	2.34
Imports of goods and services (USDbn)	3.52	3.80	4.63	3.88	4.13	4.51	4.80
Trade balance (USDbn)	-2.07	-1.45	-2.23	-1.77	-2.04	-2.27	-2.46
Current account (USDbn)	-0.62	-0.56	-0.79	-0.78	-0.73	-0.71	-0.72
- % of GDP	-9.38	-7.39	-8.40	-9.05	-7.76	-6.87	-6.52
Capital & Financial account (USDbn)	0.55	0.06	0.75	0.37	0.39	0.40	0.47
- FDI (USDbn)	0.10	0.37	0.40	0.28	0.27	0.29	0.31
Basic balance / GDP (%)	-0.01	-0.03	-0.04	-0.06	-0.05	-0.04	-0.04
FX reserves (USDbn) pe	1.30	1.82	1.80	2.18	2.35	2.40	2.45
- Import cover (months) pe	4.44	5.28	4.80	6.75	6.83	6.39	6.12
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	Baa1	Baa1	Baa1-	Baa1-	Baa2	Baa2	Baa2
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	8.93	8.84	9.73	2.55	2.88	5.68	5.80
Consumer inflation (%) pe	11.90	8.67	8.20	1.46	5.50	5.80	5.80
M2 money supply (% y/y) pa	12.70	10.36	15.80	11.65	6.47	10.33	13.50
M2 money supply (% y/y) pe	10.00	15.32	14.62	8.08	8.00	12.00	14.00
BOM policy rate (%) pa[1]	12.10	8.90	8.20	5.90	5.30	5.60	6.00
BOM policy rate (%) pe[1]	13.00	9.25	6.75	5.75	4.75	6.00	6.00
3-m rate (%) pe	11.68	9.11	8.90	4.70	3.00	6.00	6.50
1-y rate (%) pe	12.37	10.20	9.20	5.50	3.87	6.80	6.90
2-y rate (%) pe	12.38	10.30	9.80	6.20	5.28	8.10	8.30
5-y rate (%) pe	13.21	10.60	11.00	8.50	6.81	8.9	8.90
USD/MUR pa	31.45	31.09	28.46	31.92	30.80	31.00	32.00
USD/MUR pe	32.78	29.25	31.75	30.35	30.50	31.50	31.50
REER pa	100.2	91.5	95.9	89.5	93.4	105.0	110.0
NEER pa	100.1	95.9	104.9	98.9	101.5	111.2	115.0

Notes: pe — period end; pa — period average; nr— not rated

1) The Lombard rate was replaced by a new policy reference rate (repo rate) in Dec 06

Source: Bank of Mauritius, Mauritius Central Statistical Service, Standard Bank Research, Bloomberg

Standard Bank

Mozambique: mining output underpins positive GDP outlook

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10f	Q4:10f	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	6.3	6.3	6.3	6.3	6.5	6.5	6.5	6.5	7.0	7.0	7.0	7.0
CPI (% y/y) pa	5.3	3.4	1.6	2.7	6.3	12.1	16.7	15.7	14.4	10.4	7.0	7.1
M3 (% y/y) pe	24.0	26.0	28.0	32.6	28.0	25.0	23.5	25.0	23.7	22.5	21.9	19.0
CA/GDP (%) pe	-11.8	-11.8	-11.8	-11.8	-13.2	-13.2	-13.2	-13.2	-12.1	-12.1	-12.1	-12.1
FX reserves (USD bn) pe	1.47	1.61	1.87	1.85	1.70	1.76	1.70	1.75	1.80	1.85	1.89	1.94
Import cover (months) pe	5.2	5.6	6.6	6.5	5.3	5.5	5.3	5.5	5.4	5.6	5.7	5.9
3-m rate (%) pe	10.9	10.9	9.6	9.5	9.5	13.0	13.2	14.7	13.9	13.1	12.3	11.5
1-y rate (%) pe	12.1	12.2	11.0	11.0	11.0	14.1	14.3	15.3	14.6	13.9	13.2	12.5
USD/MZN pe	28.1	26.8	29.0	30.2	34.6	34.3	36.3	32.4	34	36	36	36.0
REER pe	93.8	92.4	84.0	88.8	87.3	86.9	86.4	86.1	86.1	86.1	86.1	86.1
NEER pe	49.1	49.3	44.5	45.5	45.3	44.9	44.5	44.0	44.0	44.0	44.0	44.0
USD/MZN vol (20 day)	42.3%	6.9%	24.9%	28.4%	32.7%	4.7%	3.4%	8.4%	12.0%	8.0%	8.0%	6.0%

Notes: pe — period end; pa — period average
Source: Bank of Mozambique, Mozambique Ministry of Finance, Standard Bank Research, Bloomberg

Political risk: Renamo issues new threats

Tension between ruling Frelimo and opposition Renamo continues following the disputed Oct 09 elections. In early Nov 10, Renamo repeated an earlier threat of mass demonstrations, aimed at destabilising the country, should the government not give in to their demand for the formation of a transitional government while preparations are made for new elections. Renamo gave the government a 45-day deadline to meet its demands. Government is unlikely to entertain this, given their overwhelming two-thirds majority in the Oct 09 elections. Renamo's threats are not new and, given that the 45 days have passed, and no significant demonstrations from Renamo yet, we doubt that there is a real danger for Renamo to destabilise Mozambique. Frelimo also boycotted the passing of the 2011 Budget through a walk-out. The party maintains that government spending favours Frelimo supporters.

Election results (2009)

Presidential election	Party	% of votes
Armando Guebuza	Frelimo	75.01
Afonso Dhlakama	Renamo	16.41
Daviz Simango	MDM	8.59

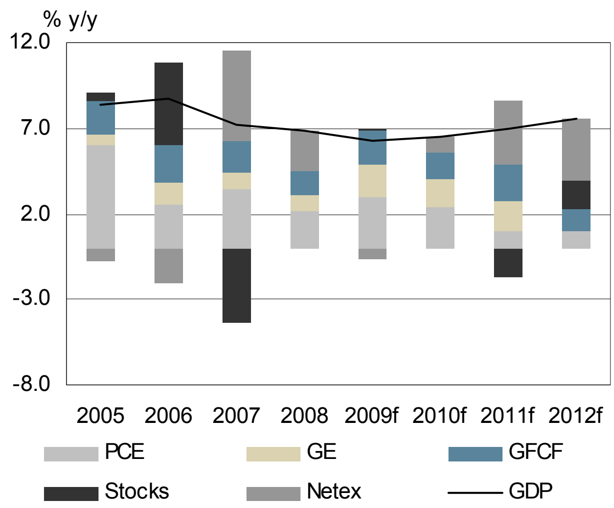
Legislative election	% of votes	Seats
Frente de Libertação de Moçambique (Frelimo)	74.66	191
Resistência Nacional Moçambicana (Renamo)	17.68	51
Movimento Democrático de Moçambique (MDM)	3.93	8
Others	3.73	0

Source: National Elections Commission

GDP growth: coal output to boost GDP growth

We upped our 2010 GDP growth estimate to 7.0% y/y (6.5% y/y earlier), accelerating to 7.6% y/y in 2011. Growth could even be higher in 2010, given the 7.4% y/y recorded in Q3:10. Key to the realisation of these constructive forecasts is a recovery in global demand for commodities. Mining sector output is expected to expand sharply in 2011 as some mega-projects reach production stage. Coal production for instance is expected to expand from the 150k tonnes produced in 2011 to 2m tonnes in 2011. From the demand side, a rebuilding of stocks, increased GFCF and an improvement in Netex (on account of stronger mining sector exports) are expected to support growth in 2011. A drag, however, will be governments further withdrawal from countercyclical policies in 2011. A key risk to GDP growth in 2011 is threats of severe flooding should above-normal rainfall continue.

Composition of GDP



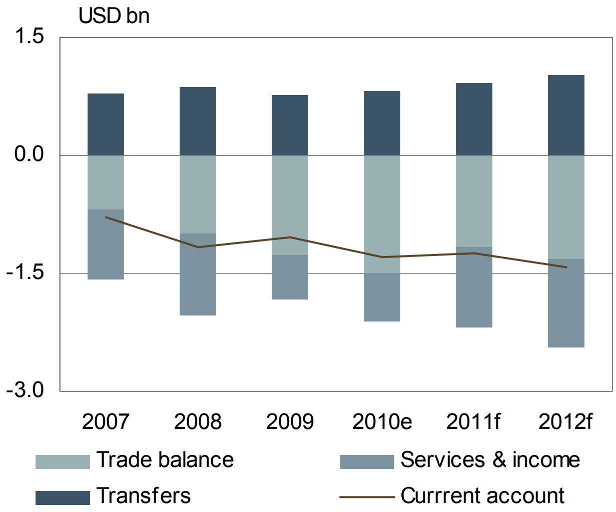
Source: Bank of Mozambique, Standard Bank Research

Mozambique

Balance of payments: promising outlook

A key focus for the BOP in 2011 will be the jump expected in mega-project exports (especially coal). Mega-project exports are expected to accelerate to USD2.1bn in 2011, from USD1.6bn estimated in 2010. In addition to coal, aluminium exports are also looking promising, given the continued recovery in aluminium prices. This improved outlook for exports should more than compensate for the increase expected in imports. However, the uncertain oil price outlook does pose a threat. Consequently, the narrowing trade deficit is expected to translate into the C/A deficit, narrowing to 12.07% of GDP in 2011, from 13.18% estimated in 2010. Also supportive of the narrower C/A deficit is the expected increase in grants. FX reserves, depleted due to BOM FX stabilisation efforts, are expected to increase to USD1.94bn at end-Dec 11, from USD1.75bn at end-Dec 10.

Current account developments



Source: Bank of Mozambique, Standard Bank Research

Fiscal policy: rising infrastructure spend

Government finances were shaky in early 2010 as donors initially withheld support. Also, there was no official budget until Apr 10 due to the Oct 09 elections. However, things improved, and all budgetary donor support has been received, while tax collection exceeded estimates. Expenditure had to be curtailed to finance subsidies announced following the Sep protests against price increases. The 2011 Budget was passed in Dec 2010, allowing for increased expenditure, with particular focus on infrastructural development. Domestic revenue will cover 55% of expenditure, while the remaining 45% will be covered by grants and loans. The significant increase in expenditure is expected to cause the deficit (+grants) to widen to 6.5% of GDP in 2011, from 4.5% in 2010. The deficit is expected to narrow from 2012 onwards as revenue rises and expenditure stabilises.

Central government budget

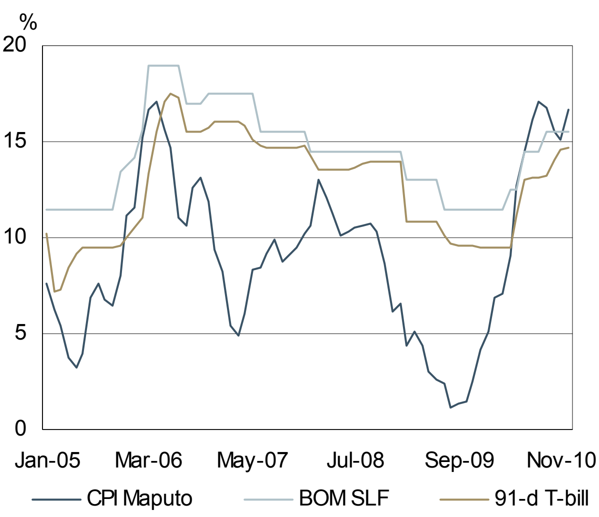
% of GDP	2009	2010e	2011f
Total revenue (+ grants)	26.7	25.9	26.1
Total expenditure	32.2	30.5	32.6
- wages	8.8	8.6	8.3
- interest	0.5	0.5	0.5
- development	12.8	13.3	13.2
Overall balance (- grants)	-14.8	-12.9	-15.2
Overall balance (+ grants)	-5.4	-4.5	-6.5
Net external borrowing	5.0	4.1	5.9
Net domestic borrowing	0.3	0.3	0.9
Grants	9.4	8.4	8.7

Source: Mozambique Ministry of Finance, Standard Bank Research

Monetary policy: disinflation expected in 2011

Mozambique's consumer inflation ended 2010 much higher than expected at 16.62% y/y, and also above government's single-digit target. In Dec, the 12-m moving average inflation rate (of particular importance for monetary policy) accelerated to 12.7% y/y, from 11.7% y/y in Nov. Upward pressure on inflation mainly emanated from rising food and energy prices, the effect of which was amplified by MZN depreciation. To arrest accelerating inflation, government has hiked interest rates and also implemented some direct price control measures, including: lowering import tariffs, fixing the prices of certain foodstuff, and subsidizing some prices. We believe that these measures and the stronger MZN exchange rate (especially against the ZAR) will result in gradual disinflation into single digits in 2011, allowing room for monetary easing, particularly in the latter portion of H2:11.

Inflation and interest rates



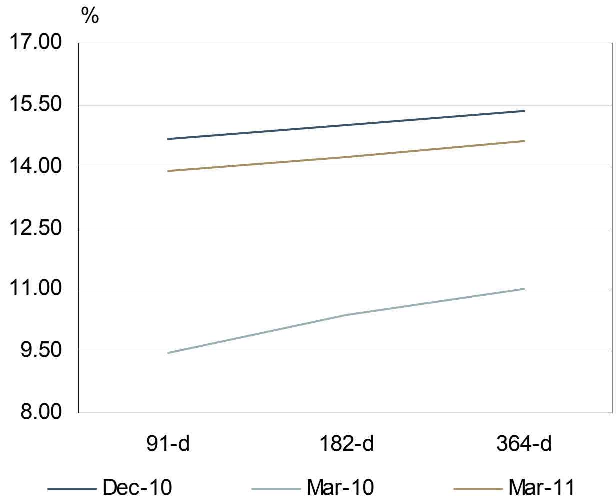
Source: Bank of Mozambique

Mozambique

Bond curve outlook: yields to compress

Interest rates have increased throughout 2010 in response to accelerating inflation which was countered by monetary tightening. The BOM SLF rate was hiked by 400 bps at various stages in 2010. Consequently, yields across the curve have adjusted upwards. Our view is that monetary policy will remain restrictive in order to address potential second-round effects associated with the current high inflation levels. If our expectation for disinflation into single digits pans out, there might be an opportunity for the BOM to become more accommodative in its policy stance by lowering interest rates, only expected later in 2011. Against this backdrop, yields along the curve is expected to decline. We therefore remain constructive on duration in MZN.

Changes in yield curve



Source: Reuters, Standard Bank Research

FX outlook: MZN finds support

We remain constructive on MZN in 2011. Of significant support to MZN is government's policy bias for a stable (to stronger) MZN exchange rate to combat inflation through lower import costs. Government succeeded in arresting USD/MZN upside by mid-Aug 10. USD/MZN peaked at levels above 38, after which gradual downside followed until end-Nov. Dec witnessed more aggressive USD/MZN downside. This could potentially be explained by lower market activity during the holidays, the unwinding of long dollar positions by locals and the onset of the inflow of donor commitments for 2011. We expect governments FX policy to be maintained in 2011 which, together with the improved outlook for exports and investment inflows, should continue to be supportive of the MZN. We therefore expect greater stability in USD/MZN in 2011 with a gradual upward drift to 36.0 by year-end.

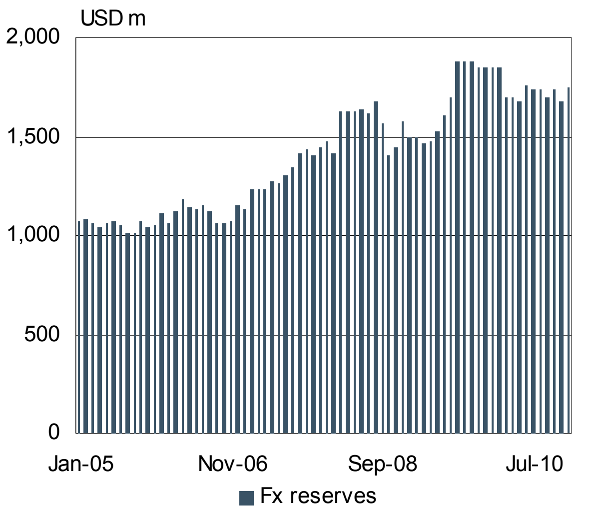
USD/MZN: forwards versus forecast

Source: Bank of Mozambique, Standard Bank Research

Equity market: remains underdeveloped

The predominant securities listed on the Bolsa de Valores de Moçambique are still bonds rather than equities. The exchange, which began operations in 1999, has not prospered, with most companies looking to raise finance through the exchange by issuing bonds rather than shares. Government privatisation of state-owned entities remains the only viable avenue for increased equity issuance.

FX reserves: expected to increase in 2011



Source: Bloomberg, Standard Bank Research

Mozambique: annual indicators

	2006	2007	2008	2009	2010f	2011f	2012f
Output							
Population (million)	21	21.4	22	22.6	23.1	23.6	24.1
Nominal GDP (MZNbn)	181.9	209.9	245.9	269.4	321.2	374.9	431.7
Nominal GDP (USDbn)	9.8	8.8	9.7	8.9	9.9	10.4	10.8
GDP / capita (USD)	464.3	412.4	442.7	394.8	429.2	441.1	447.3
Real GDP growth (%)	8	7.2	6.8	6.3	6.5	7.0	7.6
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-12.1	-16.7	-11.5	-14.8	-12.9	-15.2	-15.0
Budget balance (incl. Grants) / GDP (%)	-1.6	-4.7	-2.3	-5.4	-4.5	-6.5	-6.3
Domestic debt / GDP (%)	8.1	7.0	7.0	8.0	7.5	7.0	7.2
External debt / GDP (%)	43.9	19.9	22.2	30.1	34.4	36.2	36.0
Balance Of Payments							
Exports of goods and services (USDbn)	2.38	2.41	2.65	2.15	2.33	2.80	2.99
Imports of goods and services (USDbn)	2.91	3.09	3.64	3.42	3.82	3.97	4.32
Trade balance (USDbn)	-0.53	-0.68	-0.99	-1.27	-1.49	-1.17	-1.33
Current account (USDbn)	1.45	-0.79	-1.18	-1.05	-1.31	-1.26	-1.43
- % of GDP	14.82	-8.91	-12.11	-11.81	-13.18	-12.07	-13.26
Capital & Financial account (USDbn)	-1.42	0.86	1.19	1.44	1.15	1.48	1.86
- FDI (USDbn)	0.15	0.43	0.59	0.88	0.81	0.92	1.02
Basic balance / GDP (%)	16.40	-4.06	-6.08	-1.97	-5.03	-3.21	-3.85
FX reserves (USDbn) pe	1.16	1.44	1.58	1.85	1.75	1.94	2.51
- Import cover (months) pe	4.76	5.60	5.20	6.49	5.50	5.86	6.97
Sovereign Credit Rating							
S&P	B	B+	B+	B+	B+	B+	B+
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	B	B	B	B	B	B	B
Monetary & Financial Indicators							
Consumer inflation (%) pa	13.3	8.2	10.4	3.3	12.7	9.7	7.5
Consumer inflation (%) pe	9.4	10.3	6.2	4.2	16.6	6.1	9.1
M3 money supply (% y/y) pa	25.2	24.3	22.7	26.3	28.8	22.0	19.5
M3 money supply (% y/y) pe	23.3	25.3	20.0	32.6	25.0	19.0	20
BOM discount rate (%) pa	17.6	16.5	15.0	13.0	13.5	14.8	14.3
BOM discount rate (%) pe	17.5	15.5	14.5	11.5	15.5	14.0	14.5
3-m rate (%) pe	16.0	14.8	14.0	9.5	14.7	11.5	12.0
1-y rate (%) pe	16.5	15.0	14.2	11.0	15.3	12.5	12.9
USD/MZN pa	21.0	21.2	24.5	27.7	31.3	34.2	38.0
USD/MZN pe	18.66	23.78	25.3	30.2	32.4	36.0	40.0
REER pa	91.8	91.2	92.3	91.0	86.8	87.20	88.4
NEER pa	54.9	51.9	50.1	46.1	44.6	45.10	45.9

Notes: pe — period end; pa — period average; na — not available; nr — not rated

Source: Bank of Mozambique, Mozambique Ministry of Finance, Standard Bank Research, Bloomberg

Namibia: held hostage by global commodity cycle

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10f	Q4:10f	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	-0.8	-0.8	-0.8	-0.8	3.8	3.8	3.8	3.8	4.5	4.5	4.5	4.5
CPI (% y/y) pa	11.5	9.6	7.4	6.9	6.1	4.7	4.0	3.3	3.8	3.9	4.5	4.7
M2 (% y/y) pa	11.2	8.0	1.3	6.3	10.1	4.3	12.8	13.0	13.3	14.6	14.8	15.0
CA/GDP (%) pa	-1.6	-1.6	-1.6	-1.6	-2.0	-2.0	-2.0	-2.0	-5.0	-5.0	-5.0	-5.0
FX reserves (USD bn) pa	1.44	1.64	1.96	1.85	1.73	0.00	1.70	1.50	1.46	1.41	1.37	1.32
Import cover (months) pe	4.0	4.6	5.5	5.2	4.2	0.0	4.2	3.7	3.4	3.3	3.2	3.0
3-m rate (%) pe	9.7	7.6	7.3	7.4	7.2	6.92	6.43	5.5	5.5	5.5	5.5	5.5
5-y rate (%) pe	8.8	8.9	8.7	8.8	8.70	8.53	7.4	7.3	7.0	7.0	7.0	7.8
USD/NAD pa	9.5	7.7	7.5	7.4	7.3	7.7	7.0	6.6	6.9	7.2	7.1	7.1
REER pa	87.5	90.2	91.7	92.0	94.2	93.9	93.6	93.3	93.0	92.7	92.4	92.1
NEER pa	90.1	92.7	94.4	94.5	96.6	96.5	95.9	95.3	94.7	94.1	93.5	92.9
USD/NAD vol (20 day)	26.0%	17.9%	14.6%	15.7%	9.0%	13.6%	8.8%	6.7%	10.5%	12.0%	13.0%	13.5%

Notes: pe — period end; pa — period average; na — not available
Source: Central Bank of Nigeria, National Bureau of Statistics, Budget Office of the Federation, NNPC, IMF, Standard Bank Research

Political risk: SWAPO on top in Nov 10 elections

Regional and local authority elections took place towards end-Nov 10. As expected, the ruling SWAPO party dominated results. What was not expected was the low voter turnout. Only 38% of registered voters made the effort to cast their votes, the lowest voter turnout since the 40% recorded in 1998. While not a serious threat to SWAPO (for now), opposition parties did have some success in eroding the ruling part's dominance in historical strongholds. With the elections over, it is largely business as usual for SWAPO. However, the court ruling concerning the disputed Nov 09 national elections remains outstanding. This will continue to cloud Namibia's political landscape until the issue has been resolved. However, we do not believe that the ruling, when it comes, will materially change the status quo, given SWAPO's historical overwhelming majority.

Election results (2009)

Presidential election	Party	% of votes
Hifikepunye Lucas Pohamba	SWAPO	75.25
Hidipo Hamutenya	RDP	10.91
Katuutire Kaura	DTA	2.98
Kuaima Riruako	NUDO	2.92
Justus Garoëb	UDF	2.37

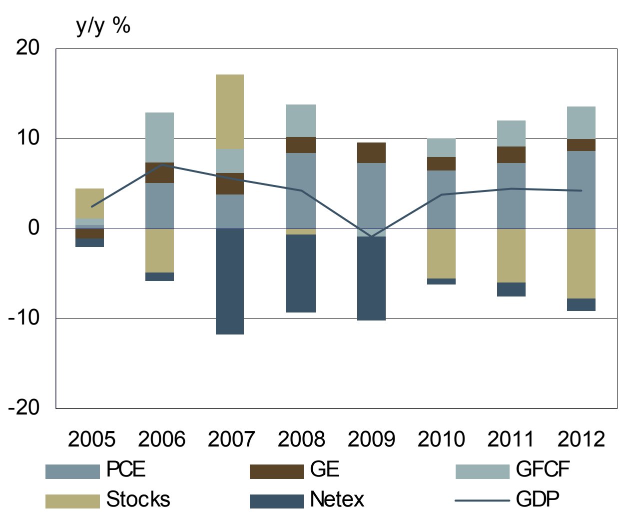
Legislative election	Seats	% of votes
South West African People's Organization (SWAPO)	54	74.29
Rally for Democracy and Progress (RDP)	8	11.16
Democratic Turnhalle Alliance of Namibia (DTA)	2	3.13
National Unity Democratic Organization (NUDO)	2	3.01
United Democratic Front (UDF)	2	2.40
All People's Party (APP)	1	1.33
Republican Party (RP)	1	0.81
Congress of Democrats (COD)	1	0.66
South West Africa National Union (SWANU)	1	0.62
Appointed members	6	
Total	78	

Source: INEC

GDP growth: recovery in commodity prices key

Namibia's economy is highly dependent on the global commodity cycle. If our expectation for further recovery in the global economy (albeit pedestrian) pans out, the Namibian economy should benefit accordingly. Already indications are that the recovery in primary industries, recorded in H1:10, continued in H2:10 (despite the operational issues that hampered mining production in Q3:10). Real GDP growth is therefore expected to have recovered to 3.8% y/y in 2010, following the contraction of 0.8% y/y in 2009. For 2011, we expect growth to accelerate to 4.5% y/y as the global economic recovery gains traction. Domestically, demand should continue to recover against the backdrop of accommodative monetary and fiscal policies. PCE is expected to support GDP growth, while FDI inflows into the mining sector should result in a further expansion in GFCF.

Composition of GDP

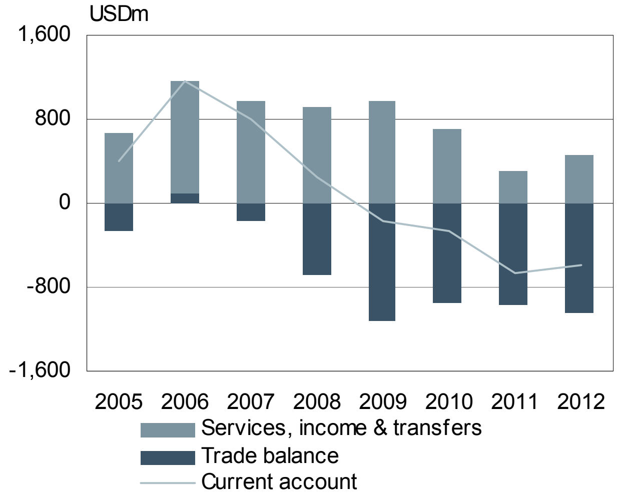


Source: Bank of Namibia, IMF, Standard Bank Research

Balance of payments: under pressure

A major concern for Namibia's BOP is the significant decline expected in SACU receipts due to the global economic slowdown. Namibia depends on these transfers to finance its BOP. Namibia's share of the pool fell to about USD850m in 2010, from USD1bn in 2009, and is expected to fall further to a mere USD430m in 2011. Consequently, the C/A deficit is expected to widen to 5.3% of GDP in 2011, from an estimated 2.0% in 2010. While an expected widening surplus on the Capital and Financial account (partly due to higher anticipated FDI inflows) should compensate for the deterioration in the C/A, reserves are expected to come under further pressure in 2011. FX reserves are estimated to have fallen to USD1.5bn at end-2010, from around USD1.9bn at beginning 2010, and are expected to decline further — to around USD1.3bn by end-2011.

Current account developments



Source: Bank of Namibia, Standard Bank Research

Fiscal policy: larger deficit on the cards

Government finances are expected to remain under pressure for some time due to falling revenues (including those from SACU) and government's countercyclical spending. Consequently, the deficit is expected to continue widening to 7.2% of GDP in 2010/11 and 8.2% of GDP in 2011/12 following a deficit of 1.4% of GDP in 2009/10. The deficit will mainly be financed through domestic borrowing. This will result in an increase in domestic debt stock, from 16.1% of GDP in 2009/10, to 25.2% and 36.0% in 2010/11 and 2011/12 respectively. While still manageable, the trend in domestic debt is of concern. The government has indicated that they are seeking to consolidate its finances by gradually withdrawing its countercyclical policies. However, it might struggle to do so against the backdrop of falling SACU receipts.

Government budget

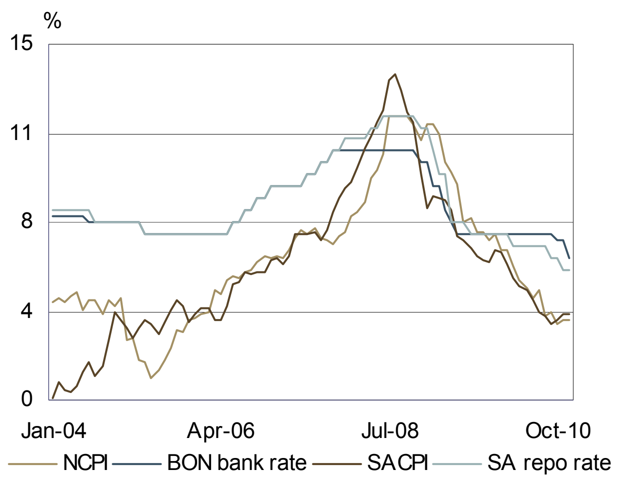
% of GDP	2010/11	2011/12
Total revenue (+ grants)	25.4	21.2
Total expenditure	32.6	29.5
- operational	25.2	22.9
- capital	5.9	4.7
- interest	1.5	1.9
Overall balance (- grants)	-7.5	-8.5
Overall balance (+ grants)	-7.2	-8.2
Net external borrowing	1.8	1.1
Net domestic borrowing	5.1	7.5
Donor support (grants)	0.3	0.2

Source: Namibia Ministry of Finance, Standard Bank Research

Monetary policy: remaining accommodative

Consumer inflation remains subdued and has come in below our expectations. Inflation for Nov 10 came in at 3.4% y/y, against our earlier expectations for inflation to accelerate to 4.5% y/y by year-end. We have therefore adjusted our inflation forecasts lower, and now expect inflation to come in at 4.7% y/y by end-2011, accelerating to 5.8% y/y by end-2012. Given the subdued inflation environment, the BON continued with its monetary easing (in line with SARB) by cutting interest rates by 75 bps in Dec 2010. However, rates remains 50 bps higher in Namibia than in South Africa. Rates in the latter are expected to have bottomed. This allows the BON room to cut rates by a further 50 bps in coming months (this could be as soon as Feb 11) should it deem it necessary. With no real immediate threat for inflation to accelerate aggressively, there is no real need for interest rates to move higher from current levels over the next 12-m.

Inflation and interest rates



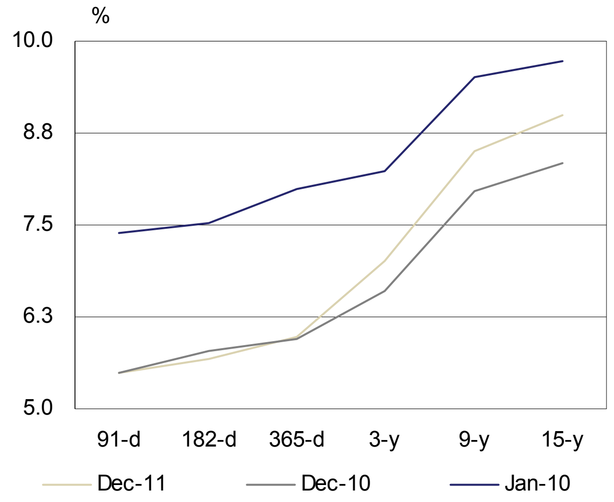
Source: NBS, Reuters, Standard Bank Research

Namibia

Bond curve: modest value still to be unlocked

NAD bonds, whose yields take direction from ZAR yields but with a spread, reached their highest price levels in at least five years in Oct 2010. The year-end subsequently saw a fair amount of profit-taking, including from foreign investors, who have been the mainstay of support for SAGB's over the past 18 months or so. Indeed, the outlook for underlying demand for EM local currency debt remains the pivotal determinant of the overall direction of the SA bond market. Domestic institutions' valuation and allocation biases appear slanted against fixed income at present, and are unlikely to adequately fill any gap left by retreating foreign investors. At prevailing levels, Standard Bank is very modestly optimistic over short-term horizons across the FI universe. However, beyond the next three quarters or so, and the total return outlook becomes far less compelling for the asset class.

Changes in yield curve

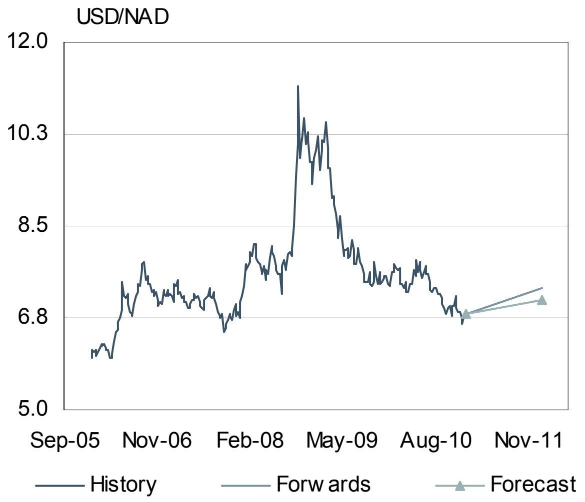


Source: Reuters, Standard Bank Research

FX outlook: NAD unlikely to strengthen further

The Namibian dollar (NAD) is pegged to the SA rand (ZAR) on a 1:1 basis under the CMA agreement; this is unlikely to change in the foreseeable future. We expect the ZAR (and by implication the NAD) to surrender some of its recent strength over the coming quarter. A recovery in the USD, coupled with softer commodity prices and a moderation in portfolio capital inflows, is the main reason why we expect ZAR weakness. The fact that SA authorities have increased their reserve accumulation and relaxed exchange controls could also prompt ZAR bulls to lock in profits over the coming months. We suspect that market positioning remains short ZAR, and implied volatility currently exceeds actual volatility, which collectively implies scope, as well as an expectation that there is a growing risk, that ZAR could be headed for a correction.

USD/NAD forwards versus forecast

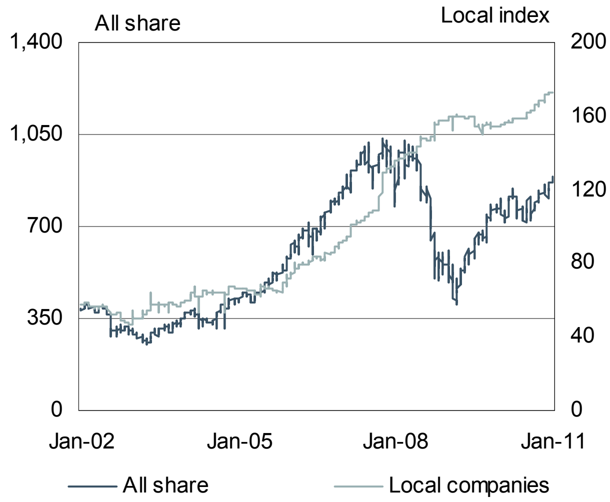


Source: Bloomberg, Standard Bank Research

Equity market: aligned to the FTSE/JSE

The Namibian Stock Exchange (NSX) comprises mostly dual-listed (FTSE or FTSE/JSE) shares, with Anglo American representing 50% of market cap. Its 7 listed local companies constitutes <1% of total market cap. The NSX All Share Index is closely correlated with the FTSE/JSE. The LCI, which is less exposed to global market influences, has benefited from regulation forcing local asset managers to hold 35% of their portfolios in domestic companies. However, the LCI will come under pressure if changes are made to the domestic investment requirement (DIR) as advocated by the IMF who is concerned about the resulting risk-taking by domestic institutions. It remains to be seen whether the Namibian monetary authorities, who have in the past played down the IMF's concerns, will make any changes to the DIR.

Namibia Stock Exchange



Source: Ecowin, Standard Bank Research

Namibia

Namibia: annual indicators

	2006	2007	2008	2009	2010f	2011f	2012f
Output							
Population (million)	2.0	2.0	2.1	2.1	2.1	2.2	2.2
Nominal GDP (NADbn)	54.0	62.1	74.0	80.0	86.6	94.2	103.2
Nominal GDP (USDbn)	7.7	9.0	7.5	10.7	13.1	13.3	13.2
GDP / capita (USD)	3,879	4,432	3,612	5,077	6,098	6,070	5,937
Real GDP growth (%)	7.1	5.5	4.2	-0.8	3.8	4.5	4.3
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-0.3	4.2	5.2	1.6	-1.7	-7.0	-8.5
Budget balance (incl. Grants) / GDP (%)	-0.2	4.3	5.4	1.7	-1.4	-6.7	-8.3
Domestic debt / GDP (%)	24.0	20.0	14.2	11.0	9.2	14.1	21.6
External debt / GDP (%)	4.0	5.0	5.1	4.1	3.5	4.9	5.5
Balance Of Payments							
Exports (USDbn)	2.6	2.9	3.2	3.1	4.0	4.2	4.3
Imports (USDbn)	2.5	3.1	3.9	4.3	4.9	5.2	5.4
Trade balance (USDbn)	0.1	-0.2	-0.7	-1.1	-1.0	-1.0	-1.0
Current account (USDbn)	1.2	0.8	0.2	-0.2	-0.3	-0.7	-0.6
- % of GDP	15.0	8.9	3.2	-1.6	-2.0	-5.0	-4.5
Financial account (USDbn)	-1.0	-0.7	-0.1	0.2	0.4	0.5	0.5
- FDI (USDbn)	0.4	0.7	0.7	0.5	0.6	0.7	0.7
Basic balance / GDP (%)	20.0	17.0	12.8	3.5	2.8	0.0	1.2
FX reserves (USDbn) pe	0.4	0.9	1.3	1.8	1.5	1.3	1.3
- Import cover (months) pe	2.2	3.5	4.0	5.2	3.7	3.0	2.9
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	5.0	6.7	10.3	8.8	4.5	4.2	5.3
Consumer inflation (%) pe	6.0	7.1	10.9	7.0	3.4	4.7	5.8
M2 money supply (% y/y) pa	20.1	19.4	18.5	11.8	9.7	14.0	14.9
M2 money supply (% y/y) pe	31.9	10.2	17.4	6.3	13.0	15.0	14.8
BON bank rate (%) pa	7.7	9.6	10.3	8.5	6.5	5.8	6.5
BON bank rate (%) pe	9.0	10.5	10.0	7.0	6.0	5.5	7.5
3-m rate (%) pe	8.0	9.8	11.3	7.4	5.5	5.5	7.5
5-y rate (%) pe	9.2	9.9	7.3	8.8	7.3	7.8	7.4
USD/NAD pa	6.8	7.1	8.3	8.3	7.3	7.1	7.4
USD/NAD pe	7.0	6.9	9.9	7.5	6.6	7.1	7.8
REER pa	92.6	89.8	86.1	90.4	93.8	92.5	92.9
NEER pa	95.2	92.7	89.6	92.9	96.1	93.8	92.0

Source: Central Bank of Nigeria, NBS, Budget Office of the Federation, NNPC, IMF, Standard Bank Research

Notes: pe — period end; pa — period average; na — not available; nr — not rated

Nigeria: post-electoral fiscal consolidation

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10	Q4:10e	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	5.01	7.45	7.3	7.67	7.36	7.69	7.72	8.2	6.9	6.8	6.7	7.1
CPI (% y/y) pa	14.3	12.6	10.8	12.6	14.9	14	13.4	12.7	11.5	12.9	13.3	11.4
M2 (% y/y) pa	28.1	15	9.8	19.5	17.7	21.5	21.1	8.3	11.2	17.5	24.4	30.7
CA/GDP (%) pa	2.5	12.5	18.5	22.5	23.3	19.8	18.5	18.4	16.8	17.3	18.1	18.2
FX reserves (USD bn) pe	47.0	43.3	40.9	42.4	40.3	37.4	34.5	32.3	31.5	33.6	36.5	39.8
Import cover (months) pe	17.6	17.1	16.5	17.3	16.6	15.4	14.2	13.3	11.2	11.9	12.9	14.1
3-m rate (%) pe	3.5	3.6	3.6	3.5	1.2	2.7	5.7	7.5	8.3	8.8	8.6	8.5
5-y rate (%) pe	10.5	9.0	8.5	8.3	4.3	7.0	9.3	11.9	11.7	11.4	11.2	11.0
USD/NGN pe	148	148	150	150	150	150	155	152	152	151	150	150
REER (Q1:04=100) pa	123	126	128	128	130	133	134	136	136	136	136	135
NEER (Q1:04=100) pa	102	108	110	108	110	110	111	112	111	112	112	111
USD/NGN vol (20 day)	0.5%	3.2%	7.4%	9.5%	2.6%	2.2%	3.8%	7.5%	5.0%	5.0%	5.0%	5.0%

Notes: pe — period end; pa — period average; na — not available

Source: Central Bank of Nigeria, National Bureau of Statistics, Budget Office of the Federation, NNPC, IMF, Standard Bank Research

Political risk: general elections in April

Nigeria's presidential poll will be held on 9 April, a week after the parliamentary elections and a week prior to governorship and state assembly elections. President Goodluck Jonathan formally launched his campaign in Oct. He secured the nomination of the ruling Peoples' Democratic Party in Jan 11, beating off a challenge from Atiku Abubakar who was selected by a forum of northern leaders. Overall, the presidential poll will probably be more competitive than in 2007 if one factors in the controversy over "zoning", but it remains to be seen whether INEC will be able to organise a free and fair election which outcome would be recognised by all parties. A series of bomb blasts in Jos in late Dec, coupled with ethnic and religious clashes in the area, as well as bomb blasts in Abuja and renewed tensions in the Niger Delta region, could weigh on Jonathan's national security credentials.

Election results (2007)

Presidential election	Party	% of votes
Umaru Musa Yar'dua	PDP	70.0
Muhammadu Buhari	ANPP	18.6
Atiku Abubakar	AC	7.2
Patrick Utomi	CPP	1.2

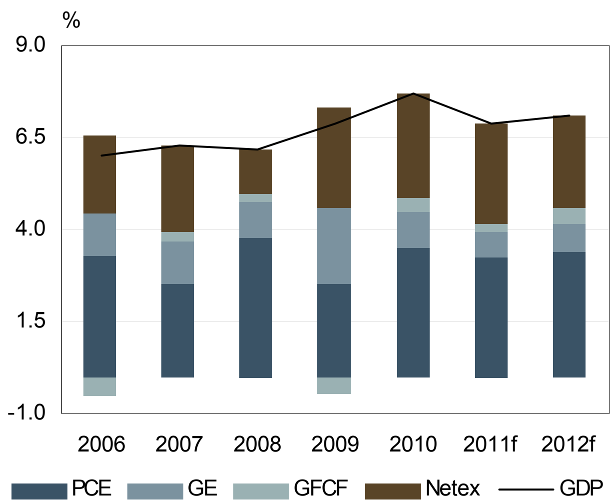
Legislative election	House of Reps.	Senate
PDP	263	87
ANPP	63	14
AC	30	6
Other	4	2
Total	360	109

Source: INEC

GDP growth: solid performance on official data

Official figures put Q3:10 GDP growth at 7.72%, from 7.69% in Q2:10 and 7.36% in Q1:10. Besides, the CBN projects growth at 8.19% in Q4:10, which would result in an average of 7.7% for 2010, and 7% in 2011. While the consistency of these figures remains problematic, growth in agriculture is likely to remain robust assuming there is no exogenous shock (5.6% in Q1-Q3:10); oil growth will most likely be in positive territory in 2010, given the rebound in output (2.05mn bpd in Jan-Nov 10) and prices. We expect strong public sector recurrent spending ahead of the next general elections, although the level of execution of capital spending has been below target which would negatively affect investment. The outlook for private consumption could, however, suffer from tighter monetary policy, limited lending and some fiscal restraint in H2:11.

Composition of GDP



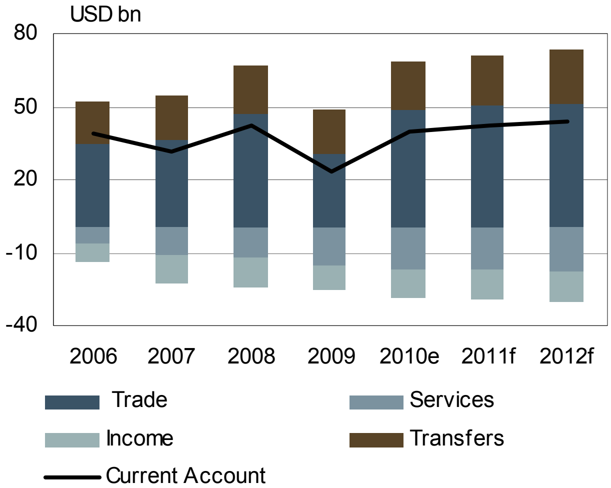
Source: Central Bank of Nigeria, IMF, Standard Bank Research

Nigeria

Balance of payments: sizeable C/A surplus

The rebound in oil prices (USD81.2/bbl) and output (2.06mn bpd) in 2010 have translated into a sizeable trade surplus (oil accounts for c95% of exports). Yet the income balance and balance of services has remained negative, even as current transfers have consistently been positive. The C/A surplus hit 21.5%/GDP in H1:10 (USD19.7bn) and could average ca. 20%/GDP for 2010, with the possibility of similar or better metrics in 2011. The scale of errors and omissions mitigates the relevance of the F/A, but we suspect FDI and portfolio inflows have picked up. FX reserves ebbed to USD32.3bn in Dec, from USD42.4bn in Jan, given the depletion of the excess crude account and episodic spikes in demand amid weak NGN confidence. An expected more conservative fiscal stance in 2011 and the ongoing monetary tightening should support an upward trend in reserves.

Current account developments



Source: Central Bank of Nigeria, Standard Bank Research

Fiscal policy: some consolidation in sight

The 2011 budget speech suggests last year's loose fiscal stance could be gradually reversed as the electoral cycle comes to an end. This is positive news since the current fiscal path would have been unsustainable in the long-run, but we note the stickiness in recurrent expenditure (NGN2.48tr) associated with the wage bill and other government operating expenses. Capex will be nominally downsized to about NGN1.01tr (from ca. NGN1.8tr in 2010), although the level of execution in this area has consistently been below target in recent years. As such, the overall fiscal tightening could actually be more modest than that implied by the budget deficit-to-GDP ratios (3.6%/GDP from 6.1%/GDP [including the 2010 supplementary budget]). The key issue is whether the oil fiscal rule effectively resumes on the revenue side and subsequently translates into an increase in oil-related savings.

Government budget

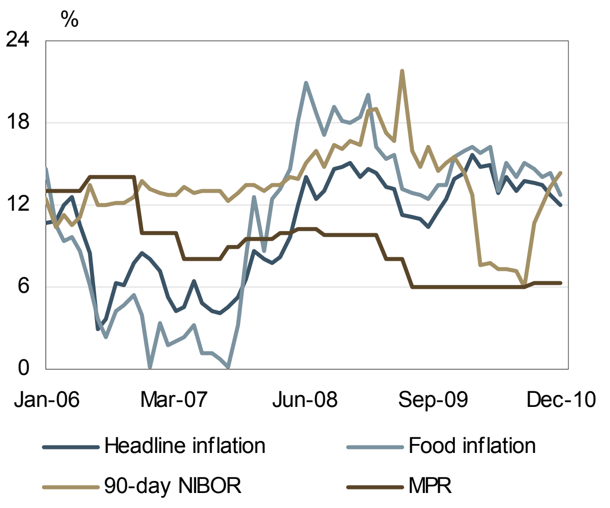
% of GDP	2009	2010	2011
Expenditure	10.6	14.7	11.8
Recurrent expenditure	6.6	7.2	6.9
Capital expenditure	2.3	5.2	2.8
Statutory transfers	0.6	0.6	0.5
Service debt	1.1	1.7	1.5
Supplementary budget	*1.4*	*1.5*	*1.4*
Total expenditure	12.0	16.2	13.2
Oil price assumption (US$/bbl)	45	60	65
Oil production assumption (m bbl)	2.29	2.20	2.30
Exchange rate assumption	125	150	150
Budgeted FG Revenue	13.6	20.8	15.4
Domestic debt	12.6	15.6	13.5
Fiscal deficit	-3.0	-6.1	-3.6

Source: Budget Office, IMF, Standard Bank Research

Monetary policy: tighter liquidity conditions

Loose fiscal policy in 2010 and liquidity-driven pressures on NGN led the CBN to tighten monetary conditions in Sep-Nov, with the possibility of further interest rate hikes. The CBN raised the Standing Deposit Facility by 100 bps to 4.25% on 22 Nov and 225 bps on 21 Sep, and increased the MPR by 25 bps, to 6.25% on 21 Sep, signalling an end to the era of cheap money. 90-day NIBOR has oscillated within a 12-15% range in Q4:11 (ca. 6% in early Sep), pointing to a structural shift in liquidity. ST yields have also become attractive, with the latest 364-day T-bill being issued at 11.4%. Inflation has eased in recent months (12.8% in Nov); along with contained food prices, the modest fall in core inflation suggests fiscal expansion has been offset by a weak money multiplier and poor credit metrics. We see consumer prices ebbing to 12.3% in 2011, from an actual 13.9% in Jan-Nov 2010.

Inflation and interest rates



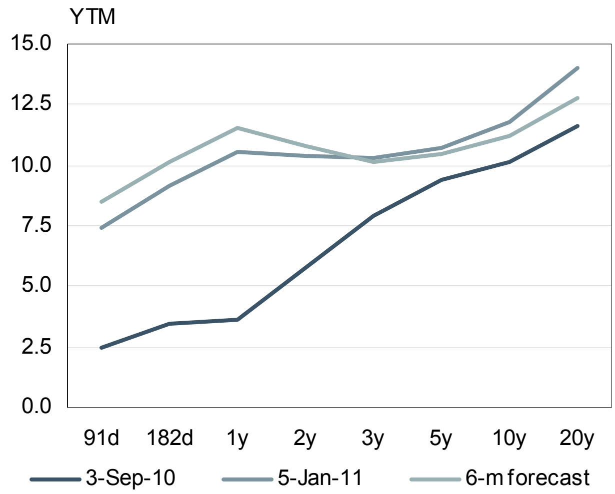
Source: NBS, Reuters, Standard Bank Research

Nigeria

Bond curve: carry and duration trades

According to Finance Minister Olusegun Aganga, the authorities plan to borrow NGN865bn in 2011, from an actual NGN1.18tr in 2010 (-27% y/y), as some fiscal restraint begins to emerge. This, coupled with a positive to neutral CPI outlook, should support a rally in long-dated bonds (the 20-year bond peaked at 14.5% in the primary market). Yet T-bill rates could edge up further as the CBN steps in to mop up liquidity and preserve NGN stability, with the latest 364-day instrument being sold at a yield of 11.4%. The sharp increase in T-bill rates also reflects the tightening in liquidity as the CBN hiked the SDF by 325 bps since late Sep. Meanwhile, we think Nigeria's debut 10-year USD500mn eurobond will be oversubscribed, given abundant global liquidity and increasing appetite for risky assets as well as still robust FX reserves and marginal external debt (2.4%/GDP).

Changes in yield curve

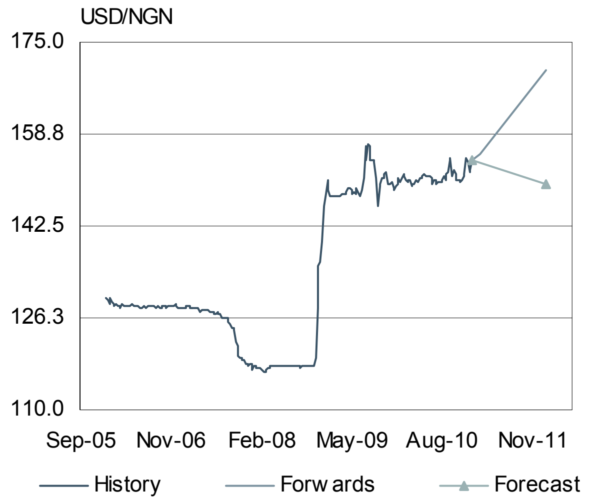


Source: Reuters, Standard Bank Research

FX outlook: CBN to preserve USD/NGN stability

The central bank is keen to preserve exchange rate stability in the medium term at +3% around the USD/NGN150 level. The CBN sees USD/NGN as the nominal monetary policy anchor and has highlighted that FX volatility would be detrimental to other macroeconomic control variables. The possibility of further monetary policy tightening by the CBN in the coming months, coupled with the rebound in money-market and T-Bill rates, should be supportive of NGN. Besides, FX sales have stabilised at the WDAS window, at USD1.9bn in Dec (demand was USD2.0bn), from a high of USD3.2bn (USD4.1bn) in Sep. Although foreign reserves have remained under pressure, they still represent 13.3 months of import cover, which is the second highest ratio in SSA. The likely fiscal restraint after the 2011 general elections is also an upside for USD/NGN stability.

USD/NGN: forwards versus forecast

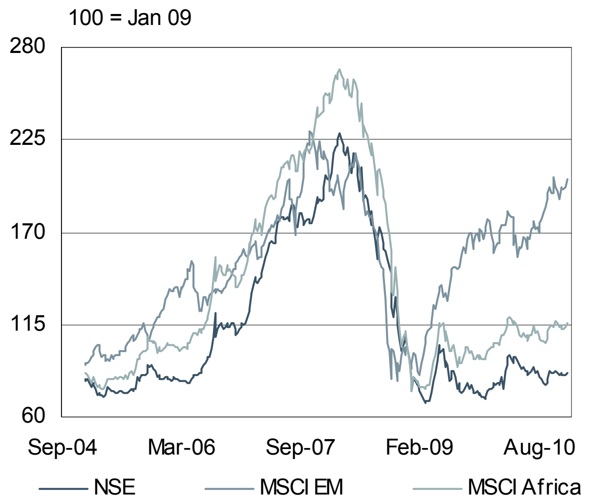


Source: Bloomberg, Standard Bank Research

Equity market: aligned to the FTSE/JSE

The NSE performed well in 2010, with the index rallying 18.9% to 24770. Yet this annual rebound was supported by a low-base effect, even as the intra-year performance has been more mixed. That said, we see significant upside potential for the bourse as Nigeria is the emerging market and African laggard in terms of the equity market returning to pre-crisis highs. Also, Nigeria, like the rest of SSA ex-South Africa, remains relatively undiscovered with an underweight holding by Global Emerging Market funds. Besides, valuations and profitability are attractive. The market is trading at a Dec 2011 P/E of 9.85x and a dividend yield of 8.6%. The launch of AMCON and an improvement in systemic risk in the financial system are also positive inputs. Yet the tighter monetary environment and likely banks' losses on bond positions in H2:10 are downside risks to this outlook.

Nigerian Stock Exchange



Source: Central Bank of Nigeria, Standard Bank Research

Nigeria

Nigeria: annual indicators

	2006	2007	2008	2009	2010	2011f	2012f
Output							
Population (million)	144.7	148.1	151.5	155.0	158.0	161.2	164.4
Nominal GDP (NGNbn)	18,565	20,678	23,842	24,794	30,125	35,909	42,732
Nominal GDP (USDbn)	144.3	164.4	201.1	165.5	199.5	238.6	285.8
GDP / capita (USD)	997	1110	1328	1068	1263	1480	1738
Real GDP growth (%)	6.1	6.3	6.0	7.0	7.7	6.9	7.1
Real Non-oil GDP growth (%)	9.4	9.8	9.0	8.3	8.2	7.4	7.3
Oil production (mbpd)	2.36	2.15	2.35	1.83	2.06	2.15	2.25
Bonny Light reference price (USD pb)	65.3	74.6	89.0	65.1	81.2	92.0	94.8
Central Government Operations							
Budget balance / GDP (%)	-2.4	-1.2	-2.3	-3.0	-6.1	-3.6	-3.0
Domestic debt / GDP (%)	9.4	11.1	9.7	12.6	15.6	13.5	12.9
External debt / GDP (%)	2.4	2.2	2.1	2.4	2.4	2.5	2.2
Excess Crude Account (USDbn)	13.2	14.2	18.3	13.6	0.0	4.5	9.4
Balance Of Payments							
Exports (USDbn)	57.4	66.6	84.1	60.0	78.1	84.5	87.5
Imports (USDbn)	22.6	30.4	36.9	29.4	29.2	33.9	36.2
Trade balance (USDbn)	31.6	23.7	47.2	30.6	48.9	50.6	51.3
Current account (USDbn)	38.6	31.2	42.3	23.2	40.0	41.9	43.5
- % of GDP	26.7	19.0	21.0	14.0	20.0	17.6	15.2
Financial account (USDbn)	-3.7	-20.3	-10.7	-19.2	7.7	2.1	-6.2
- FDI (USDbn)	4.9	5.6	3.6	5.8	6.2	7.5	8.9
Basic balance / GDP (%)	24.2	6.6	15.7	2.4	23.9	18.4	13.0
FX reserves (USDbn) pe	42.3	51.5	53	42.4	32.3	39.8	49.7
- Import cover (months) pe	22.5	20.3	17.2	17.3	13.3	14.1	16.5
Sovereign Credit Rating							
S&P	BB-	BB-	BB-	BB-	B+	B+	BB-
Moody's	NR	NR	NR	NR	NR	NR	NR
Fitch	BB-	BB-	BB-	BB-	BB-	BB-	BB-
Monetary & Financial Indicators							
Consumer inflation (%) pa	8.4	5.4	11.5	12.6	13.8	12.3	11.9
Core inflation (%) pa	12.8	9.3	5.1	9.2	12.4	11.4	10.9
Food inflation (%) pa	6.9	2.3	16.0	14.9	14.8	13.1	12.8
M2 money supply (% y/y) pa	27.4	23.1	78.3	18.1	17.2	21.0	27.1
M2 money supply (%y/y) pe	39.9	30.6	58.2	17.5	3.0	30.7	28.6
Policy interest rate (%) pa	13.6	8.8	9.9	7.4	6.1	7.0	8.0
Policy interest rate (%) pe	10.0	9.5	9.8	6.0	6.3	7.5	8.5
3-m rate (%) pe	15	7.2	8.5	3.5	7.5	8.5	8.2
1-y rate (%) pe	10.2	9	9.4	5.6	10.5	10.9	10.6
2-y rate (%) pe	14	8.6	8.6	6.7	11.3	11.0	10.7
5-y rate (%) pe		9.6	11.5	8.3	11.9	11.0	10.8
USD/NGN pa	129	126	119	150	151	151	150
USD/NGN pe	128	118	133	150	152	150	150
REER pe	127	128	132	128	136	135	133
NEER pe	105	102	97	122	123	123	122

Notes: pe — period end; pa — period average; na — not available; nr — not rated

Source: Central Bank of Nigeria, NBS, Budget Office of the Federation, NNPC, IMF, Standard Bank Research

Republic of the Congo: strong macroeconomic fundamentals

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10	Q4:10e	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	12.2	4.8	5.5	7.5	10.9	9.2	9.4	9.8	8.0	8.3	8.2	9.1
CPI (% y/y) pa	13.1	4.0	1.7	2.1	2.9	8.0	7.0	3.8	4.9	4.4	3.9	3.2
M2 (% y/y) pa	34.0	15.4	11.6	5.1	10.0	12.4	14.1	16.4	16.1	16.3	17.2	18.1
Trade balance GDP (%) pa	29.8	35.4	42.7	45.9	46.7	42.4	49.4	53.1	51.1	48.2	47.5	46.5
FX reserves (USDm) pe	3,730	3,711	3,726	3,806	3,794	3,609	4,021	4,085	4,095	4,110	4,215	4,225
Import cover (months) pe	20.3	20.2	20.3	20.8	18.2	17.3	19.3	19.6	17.6	17.6	18.1	18.1
BEAC financing rate (%) pa	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00
USD/XAF pe	494	467	448	457	482	537	483	491	547	570	570	525

Notes: pe — period end; pa — period average; na — not available

Source: BEAC, IMF, Standard Bank Research

Political risk: PCT dominates political landscape

President Denis Sassou NGuesso has remained firmly in charge since his re-election in 2009, and we expect a broadly stable political situation this year, although some tensions may emerge ahead the 2012 legislative elections. In the absence of UPADS' historical leader Pascal Lissouba (in exile), the opposition appears marginalised and is unlikely to threaten the PCT's grip on power. In his New Year's eve speech, Sassou Nguesso reiterated that the key policy priorities would be to boost basic infrastructure development, notably in the electricity sector, improve the education and health systems and reduce unemployment. Meanwhile, Sassou's international public image has come under pressure, after the French Court of Cassation authorised a probe into his assets as well as those of Gabon's late leader Omar Bongo and President Teodoro Obiang of Equatorial Guinea.

Election results

Presidential election (2009)	% of votes
Denis Sassou-Nguesso (PCT)	78.6
Joseph Kignoumbi Kia Mboungou (Ind)	7.5
Nicephore Fylla de Saint-Eudes (PRL)	7.0
Mathias Dzon (ARD)	2.3
Joseph Hondjouila Miokono (Ind)	2.0

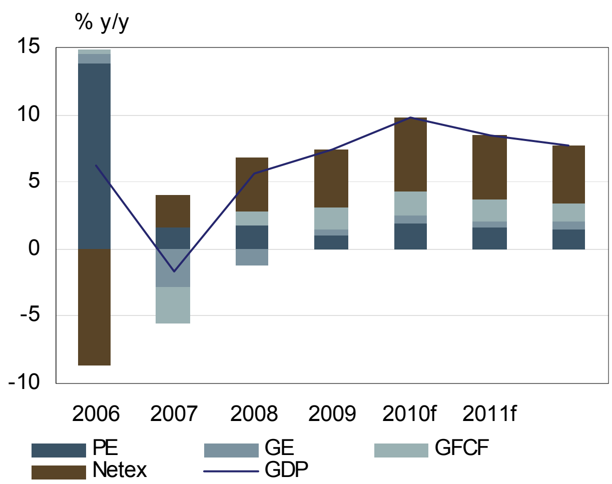
Legislative election (2007)	Seats
Congolese Labour Party (PCT) + allies	88
Pan-African Union for Social Democracy (UPADS)	11
Union for Democracy and the Republic (UDR)	1
Independents	37
Total	137

Source: Republic of Congo Electoral Commission

GDP growth: robust GDP metrics

We see economic growth remaining in high single-digits, at 8.4% in 2011, from 9.8% in 2010, on the back of positive oil metrics. Indeed, the oil sector will benefit from increased production (355k bpd) and higher prices, although it is likely output will peak this year. Besides, we also expect investment to perform well, given the ongoing oil field developments and as incremental resources are channelled into public expenditure following the HIPC completion point. Private and government consumption will be resilient and supported by higher recurrent expenditure in the 2011 budget. The non-oil economy will continue to expand at a slower pace, highlighting the lack of economic diversification in the Congo. As in most SSA oil-exporting economies, GDP per capita is high (USD2786 forecast for 2011), but this elevated figure hides a significant level of income inequality.

Composition of GDP



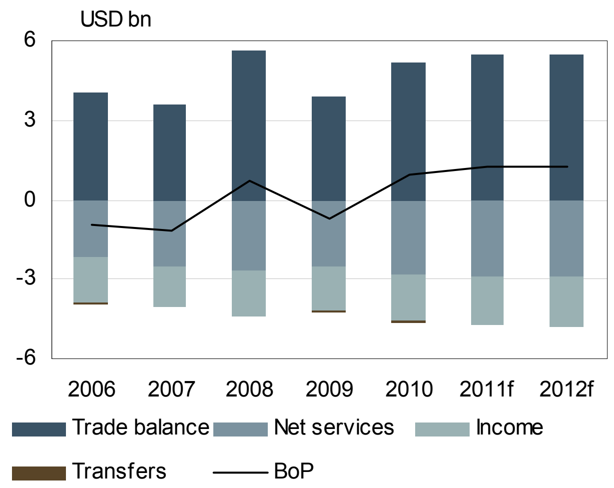
Source: IMF, Standard Bank Research

Republic of Congo

Balance of payments: impressive fundamentals

Current and expected robust oil prices, coupled with a slight rebound in oil output, to 355,000bpd in 2011, will ensure that the sizeable trade surplus recorded in recent years is sustained. This is despite the likelihood of higher imports driven by the oil sector and a weaker XAF this year. Overall, the trade surplus will be offset by services and income outflows which are consistent with the C/A metrics in most SSA oil-producing economies. Accordingly, we forecast the current account surplus to hit 6.4% of GDP in 2011, from 5.5% in 2010. Meanwhile, ongoing oil field development implies that FDI inflows are likely to remain elevated, but portfolio inflows are likely to remain marginal given the lack of investable assets. We expect FX reserves to rise to USD4.22bn in 2011, the equivalent of a more than impressive 18.1 months of import cover ratio.

BOP developments



Source: IMF, Standard Bank Research

Fiscal policy: boost in capital expenditure

The 2011 budget (adopted by parliament in Oct 10) amounts to XAF3,004bn and is up 6.1% y/y. In proportional terms, most of the increase is on the back of higher capital expenditure which is targeted at XAF1,013bn in 2011, from XAF674bn in 2010 (up 50.3%). This reflects the government's desire to develop basic and community infrastructure as well as support economic diversification. Meanwhile, recurrent spending will stand at XOF1,751bn, from XOF1,457bn, which mirrors the employment of 5,000 new civil servants, the lifting of the wage freeze and a new salary scale in the public sector. In a recent external note, the IMF suggested that some incremental spending could be justified as the fiscal space widens in the aftermath of the HIPC completion point, but it underlined the need for further reforms in terms of expenditure efficiency, oil wealth management and tax collection.

Central government budget

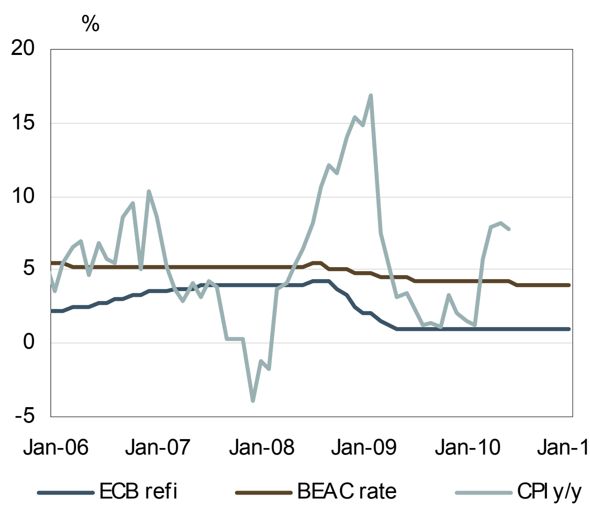
% of GDP	2008	2009	2010
Total central govt. revenue	31.9	50.1	52.8
Total central govt. expenditure	26.5	52.5	49.6
- Recurrent	12.5	27.0	28.9
- Interest	1.3	1.0	1.1
Central govt. balance (inc. grants)	3.7	2.8	2.4
Central govt. balance (exc. grants)	5.4	-2.4	3.2
Net domestic borrowing (saving)	4.9	-3.0	2.5
Net external borrowing (saving)	-5.0	2.0	-2.7
Grants	-0.4	0.4	-0.5
Changes in arrears	0.5	0.6	0.7

Source: Ministre des Finances , IMF, Standard Bank Research

Monetary policy: neutral interest rate path

Inflation rebounded sharply in Q2:10 (7.8% y/y in June), but should retreat as Q4:10 data are released, with some further downside in 2011. We expect consumer prices to average 4.1% in 2011, from 5.2% in 2010, vs. projected rates of 2.1% and 1.8% for the sub-region (based on the BEAC latest estimates). We think the BEAC is unlikely to adjust its benchmark rate from the current 4% in the short- to medium term, which would be consistent with the relatively stable long-run interest rate path in CEMAC. The 10 Dec MPC suggested the need for prudent monetary and fiscal policies in this zone, even as a hike in interest rates would undermine the BEAC's growth objectives. While private sector credit rose 30.1% y/y in Jul 10, this may not mean much given the significant underdevelopment of the lending market in the country (the ratio of public to private sector lending stood at 4.1).

Interest rates



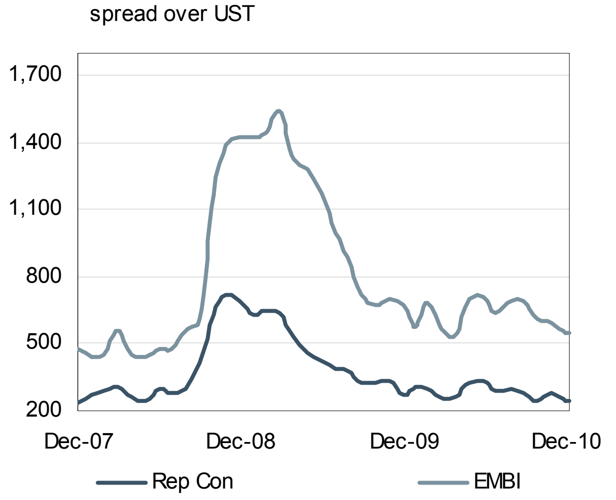
Source: BEAC, IMF, Standard Bank Research

Republic of Congo

Eurobond: still attractive, but illiquid

The yield on RepCongo2029 has remained stable since mid-Oct 10, at around 8.7%-8.8%; that said, the spread to US treasuries has rebounded marginally since mid-Dec, reaching 549 bps on 13 Jan, from a low of 528 bps on 16 Dec. Meanwhile, the EMBI+ spread reached 235 bps from 244 bps in the same timeframe. Although RepCongo2029 still theoretically offers some relative yield pick-up and price appreciation potential, the bond has lagged the rally in other SSA Eurobonds in 2009 and 2010. Several reasons probably explain this situation: first, the instrument is illiquid and generates few trades; second, international risk-appetite has been curtailed by the size of RepCongo2029 (US$477.8m) and its non-inclusion the EMBI index; third, the marginal step-up coupon (currently 3%) is unattractive; fourth, the Congo is not (and has never been) rated by global credit agencies.

Eurobond yield

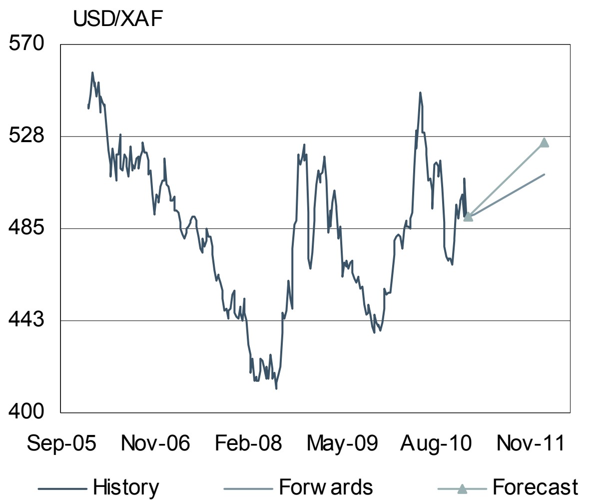


Source: Bloomberg, Standard Bank Research

FX outlook: XAF to shadow EUR/USD weakness

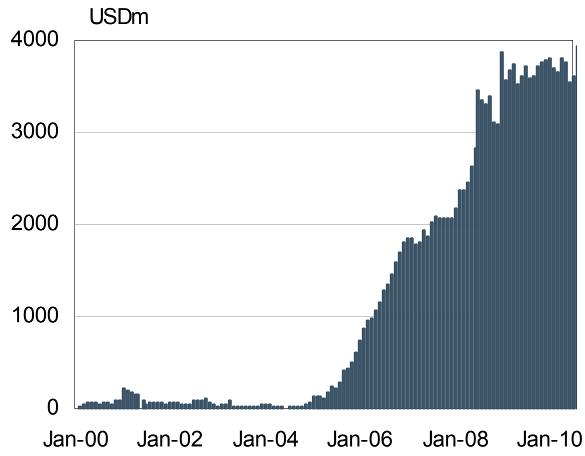
USD/XAF continues to shadow EUR/USD via the CFA peg which is backed by the French Treasury. We expect the USD/XAF rate to depreciate towards 570 or so during the next 6-m (from 505 on 6 Jan), tracking expected EUR weakness. Besides, we do not foresee any change in EUR/XAF (655.9), which has only been adjusted once in 1994 due to sizeable structural imbalances at the time. This view reflects the robust 300 bps interest differential between the Euro and CEMAC zones, but the current account metrics are somewhat mixed among CEMAC countries (Gabon and the Congo will post surpluses). As the Congo is an oil exporting economy, EUR weakness will mitigate the trade surplus via higher imports. FX reserves are likely to increase to USD4,225m in 2011, from USD4,085m in 2010, assuming that the accumulation in net external assets continues to improve gradually.

USD/XAF: forwards versus forecast



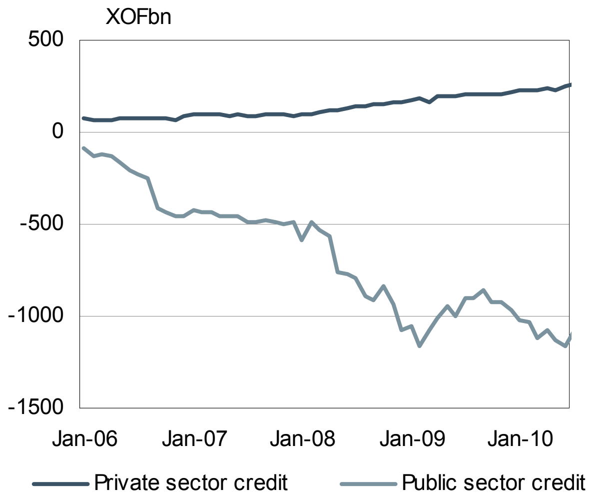
Source: Reuters, Standard Bank Research

FX reserves: modestly tilted to the upside



Source: BEAC, IFS, Standard Bank Research

Credit market: marginal private sector lending



Source: BEAC, IFS, Standard Bank Research

Republic of Congo

Republic of Congo: annual indicators

	2006	2007	2008	2009	2010	2011f	2012f
Output							
Population (million)	3.5	3.6	3.7	3.8	3.9	4.0	4.1
Nominal GDP (XAFbn)	3,655	3,696	4,151	4,678	5,389	6,062	6,820
Nominal GDP (USDbn)	7.0	7.7	9.3	10.1	10.9	11.0	14.5
GDP / capita (USD)	2,001	2,143	2,504	2,664	2,786	2,741	3,545
Real GDP growth (%)	6.2	-1.6	5.6	7.5	9.8	8.4	7.7
Oil production (k bbls/day)	270	224	249	304	340	355	345
Central Government Operations							
Budget balance / GDP (%)	2.5	3.3	-4.4	5.4	-2.4	3.2	6.8
Domestic debt / GDP (%)	na	na	na	na	na	na	na
External debt / GDP (%)	81.7	71.8	69.8	47.4	48.3	50.5	45.5
Balance of Payments							
Goods exports (USDbn)	6.1	5.9	8.4	6.1	7.7	8.1	8.2
Goods imports (USDbn)	2.0	2.3	2.8	2.2	2.5	2.8	2.7
Trade balance (USDbn)	4.1	3.6	5.6	3.9	5.2	5.3	5.5
- % of GDP	58.1	46.7	60.4	38.5	47.9	48.3	37.8
Current account (USDbn)	0.1	-0.4	1.2	-0.4	0.6	0.7	0.7
- % of GDP	1.4	-5.2	13.0	-4.0	5.5	6.4	4.8
Financial account (USDbn)	-1.0	-0.7	-0.5	-0.3	0.3	0.6	0.6
Basic balance	-0.9	-1.1	0.7	-0.7	0.9	1.3	1.3
- % of GDP	-13.0	-14.7	7.6	-7.3	8.5	11.5	8.8
FX reserves (USDbn) pe	1,842	2,175	3,871	3,806	4,085	4,225	4350
- Import cover (months) pe	11.0	11.3	16.6	20.8	19.6	18.1	19.3
Sovereign Credit Rating							
S&P	N/R	N/R	N/R	N/R	N/R	N/R	nr
Moody's	N/R	N/R	N/R	N/R	N/R	N/R	nr
Fitch	N/R	N/R	N/R	N/R	N/R	N/R	nr
Monetary & Financial Indicators							
Headline inflation pa	6.5	2.7	6.7	5.2	5.4	4.1	4.8
M2 money supply (% y/y) pa	64.3	6.0	25.5	16.5	13.2	16.9	19.1
Policy interest rate (%) pa	5.5	5.5	5.1	4.4	4.2	4.0	4.0
Policy interest rate (%) pe	5.50	5.50	4.75	4.25	4.00	4.00	4.00
1-m rate (%) pa	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2-y rate (%) pa	N/A	N/A	N/A	N/A	N/A	N/A	N/A
USD/XAF pa	522	479	448	462	496	553	469
USD/XAF pe	497	447	467	457	491	525	452

Notes: pe — period end; pa — period average; na — not available; nr — not rated

Source: Ministre des Finances, BEAC, IMF, Standard Bank Research

Senegal: increasing recourse to non-concessional borrowing

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10e	Q3:10f	Q4:10f	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	1.8	2.0	2.1	2.3	3.2	3.8	4.1	4.3	4.4	4.1	4.0	4.2
CPI (% y/y) pa	2.3	-0.2	-3.1	-2.9	-0.7	0.0	2.5	2.9	3.0	2.6	1.8	1.5
M2 (% y/y) pa	5.1	4.7	8.4	9.5	8.6	12.2	8.7	9.5	10.2	11.9	13.9	12.8
CA/GDP (%) pa	-9.1	-7.4	-6.8	-7.5	-7.9	-8.1	-8.1	-8.3	-8.4	-8.6	-9.0	-9.3
FX reserves (USD bn) pe	1.4	1.9	1.9	2.1	2.0	1.9	2.0	2.0	1.9	2.3	2.3	2.2
Import cover (mths) pe	3.8	5.1	5.2	5.7	5.5	5.2	5.5	5.5	5.3	6.4	6.4	6.1
BCEAO Lending Rate (%) pe	4.75	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.75	4.75	4.75
USD/XOF pe	494	467	448	457	482	537	483	491	547	570	570	525
REER pe	99	101	102	98	95	96	97	98	99	96	95	98
NEER pe	103	103	104	104	102	99	101	100	99	96	96	99
USD/XOF vol (20 day)	15.7%	16.2%	16.3%	16.5%	15.1%	13.3%	13.8%	13.2%	15.5%	13.4%	10.9%	11.9%

Notes: pe — period end; pa — period average

Source: IMF, Ministere de l'economie et des finances, Institut National de la Statistiques, Standard Bank Research, Bloomberg

Political risk: Wade to run for a third term

Abdoulaye Wade's bid for a third term in the 2012 presidential contest has raised controversy because of its legal implications. Wade was elected in 2000 and subsequently in 2007 for a five-year term after a constitutional change limited presidential mandates to two. Yet his camp argues that he has only served one term under the amended constitutional framework. Interestingly, the appointment of Karim Wade as Energy Minister, in addition to previous portfolios, still suggests Abdoulaye Wade is preparing his political succession. Overall, the PDS has faced increasing internal dissensions and splits in recent years (although former Prime Minister Idrissa Seck rejoined the party) and could suffer in next year's polls from increased social unrest and rampant power shortages. Yet it remains to be seen whether the fragmented opposition can challenge the ruling party's grip on power.

Election results (2007)

Presidential election (25 Feb 07)	Party	% of votes
Abdoulaye Wade	PDS	55.9
Idrissa Seck	RP	14.9
Ousemane Tanor Dieng	PS	13.5
Moustapha Niasse	AFP	5.9
Parliamentary election (3 Jun 07)	**Seats**	**% of votes**
Parti Democratique Senegalais (PDS)	131	69.2
Parti Socialiste (PS)	0	0
Rewmi Party (RP)	0	0
Alliance des forces de progress (AFP)	0	0
Total	150	100

Source: Senegalese Electoral Commission

GDP growth: improved output metrics

After averaging 2.1% in 2009, real GDP growth is estimated to have picked up to around 3.9% during 2010, primarily driven by the secondary sector and the government sector. Yet the improvement in sectoral growth metrics was mixed. For example, the index of industrial output declined sharply in Q3:10 (vs. H1:10), phosphate output ebbed, and cement production also contracted as the real estate industry faced a downturn. The number of tourists fell marginally y/y in Aug 10, probably reflecting the sluggish economic environment in the EU. Overall, this GDP performance remains below the average trend in SSA (as in most WAEMU countries). Senegal's potential is constrained by infrastructure under-development, a vulnerable energy sector, a narrow export base and the financing constraints that limit the fiscal room for manoeuvre. Also, growth remains sensitive to global demand.

Contribution to GDP (%)

	2008	2009	2010e	2011f
Agriculture	1.3	0.8	1.1	1.0
Livestock and hunting	0.1	-0.2	0.2	0.1
Forestry	0.1	0.0	0.0	0.0
Fishing	0.1	-0.1	0.0	0.0
Mining	0.0	0.2	0.4	0.5
Fat and oil products	-0.1	0.0	0.0	0.0
Utilities	0.2	-0.1	-0.1	0.1
Construction	0.1	-0.1	-0.2	0.2
Manufacturing	-0.7	-0.5	0.6	0.6
Commerce	0.7	-0.8	0.2	0.1
Transport & comm	0.9	0.2	0.4	0.4
Education	0.2	0.2	0.1	0.1
Health	0.2	0.3	0.2	0.1
Other services	-0.1	1.7	0.5	0.4
Public Administration	0.2	0.5	0.5	0.6
GDP	3.2	2.1	3.9	4.2

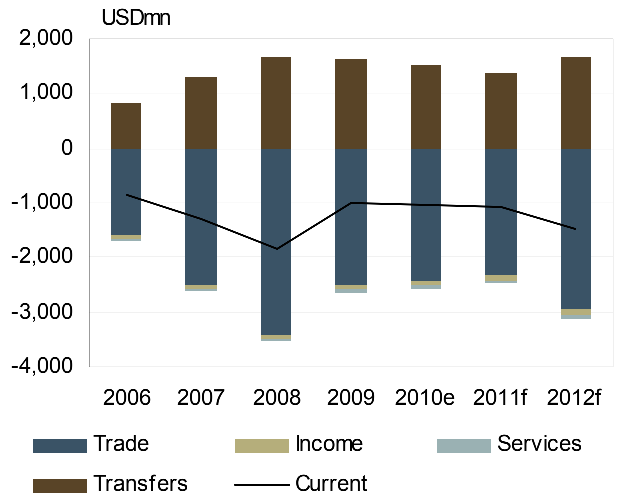
Source: Senegalese authorities, Standard Bank Research

Senegal

Balance of payments: significant C/A deficit

The C/A deficit continues to exceed the SSA median and could reach around 8.8% of GDP in 2011. Such a projection compares to a WAEMU convergence criteria of 5.8% (excl. grants). This would mirror the narrow export base, and a significant trade deficit further fuelled by imports of infrastructure goods, despite a somewhat balanced services position and positive current transfers. Interestingly, it appears that remittances have remained resilient amid the global downturn in 2008-09. The C/A shortfall will be financed via concessional funding, but also increasingly by foreign private capital. FDI is expected to rise marginally to around USD124m this year, although the lack of investable equity and fixed income assets is a constrain on the outlook for portfolio inflows. At USD2.2bn, foreign reserves would represent a relatively favourable import cover ratio of 6.1 months in 2011.

Current account developments



Source: IMF, Standard Bank Research

Fiscal policy: persistence of large deficits

Senegal has repeatedly failed to meet WAEMU convergence criteria, with a fiscal deficit estimated at 4.9% and 4.8% of GDP for 2009 and 2010 (including grants). The budget shortfall is expected to remain significant in 2011-12 on the back of increased infrastructure spending, but should decline afterwards. Besides, it remains to be seen whether some fiscal consolidation would have been successful ahead of the 2012 presidential contest. The new PSI signed with the IMF will focus on improving public sector expenditure management and establishing a fully operational debt unit that would manage both domestic and external liabilities. This means that Senegal will have increasing recourse to non-concessional borrowing (1% of GDP annually in 2014-30) and tap WAEMU's debt market more regularly. The country initiated the sale of a 5-y XOF75bn 6.75% bond in Oct 10.

Central government budget

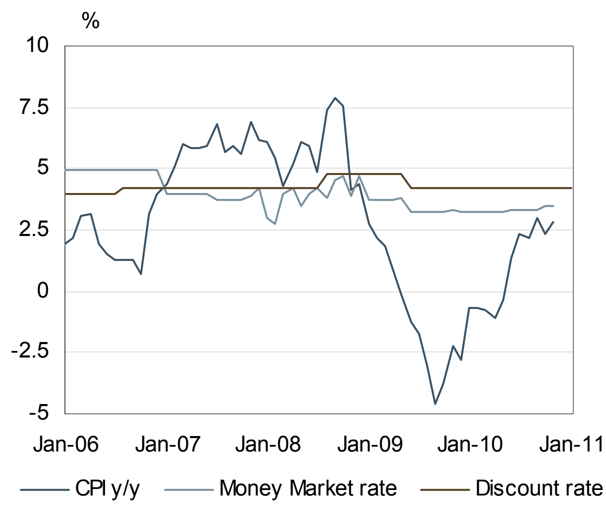
% of GDP	2009	2010	2011
Total revenue	21.6	22.1	22.2
Total expenditure	26.7	26.9	28.0
- wages	6.0	6.2	6.2
- interest	0.8	1.0	1.2
- subsidies + transfers	4.7	3.9	3.5
Overall balance (- grants)	-7.9	-7.1	-8.1
Overall balance (+ grants)	-4.9	-4.8	-5.8
Net external borrowing	3.7	2.7	4.1
Net domestic borrowing	2.6	2.3	1.8
Delays settlement	-1.6	-0.2	-0.1
Donor support (grants)	3.0	2.4	2.3

Source: Senegalese authorities, Standard Bank Research

Monetary policy: possible tightening in rates

Inflation rebounded in H2:10 due to a low base effect, but has remained contained. Indeed, inflation has fluctuated between 2.2% y/y and 3.0% y/y over this period (2.8% y/y in Nov), and should average 2.2% y/y in 2011, from 1.2% y/y in 2010. Yet the likely spike in consumer prices in Côte d'Ivoire next year will push WAEMU inflation higher, leading the BCEAO to hike interest rates. We think that the central bank will probably raise the discount rate by a modest 50 bps, to 4.75%, in line with previous policy responses in similar situations (as in 2008). Indeed, the BCEAO is unlikely to jeopardise credit growth in the sub-region, and will take into account the exogenous nature of the spike in aggregate CPI. Meanwhile, credit to private sector in Senegal hit a 2010 high of 8.1% y/y in Sep, although it remained well below trend.

Inflation and interest rates



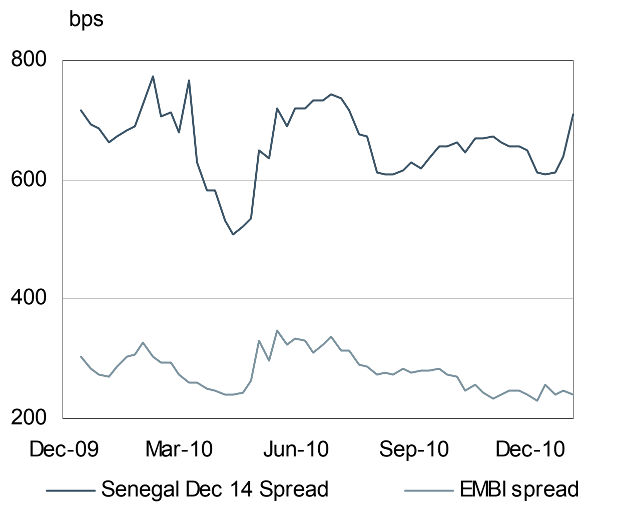
Source: Institut National de la Statistiques, Standard Bank Research

Senegal

Eurobond outlook: new Eurobond in sight

The Finance Ministry confirmed in Nov 10 the launch of a new USD500m Eurobond next year. In practical terms, the USD200m bond placed in Dec 09 (B+; 8.75%; due 2014) will be bought back (probably at a premium to market rates) and combined with the issuance of an extra USD300m. We believe that the new instrument will be oversubscribed given the substantial risk appetite for high -yielding EM and frontier-market assets. Also, a USD500mn bond would be part of the EMBI+ index, positively impacting its secondary market liquidity. Senegal'14's yield has remained in the 7.5%-8.4% range since early Aug 10 (8.1% on 7 Jan); the spread to US treasuries widened to 710 bps on 7 Jan, from a low of 588 bps on 8 Aug. While the bond offers value, it has lagged the significant rally in frontier-market peers, mainly because of its size and non-inclusion in the EMBI+.

USD Senegal 8.75% 22 Dec 2014 bond

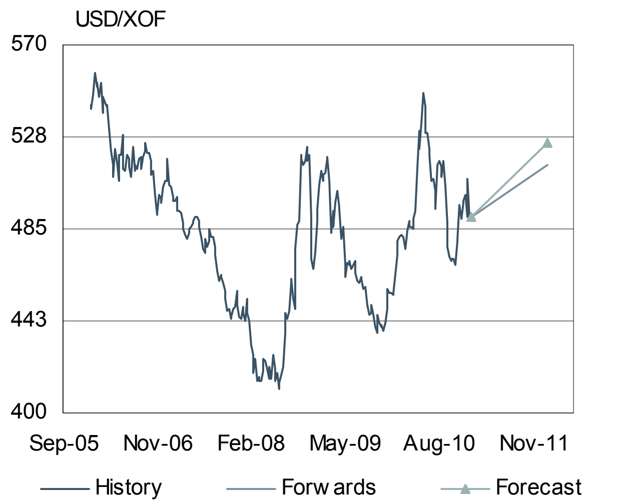


Source: Bloomberg, Standard Bank Research

FX outlook: EUR weakness to push USD/XOF up

USD/XOF continues to track EUR/USD via the CFA peg which is backed by the French Treasury. We expect the USD/XOF rate to depreciate towards 570 or so during the next 6-m (from 505 on 6 Jan), tracking expected EUR weakness. Besides, we do not foresee any change in EUR/XOF (655.9), which has only been adjusted once (in 1994) at a time when CFA countries faced significant structural imbalances. This also reflects the robust 325 bps interest differential between the Euro and WAEMU zones, although these metrics are likely to deteriorate in CPI-adjusted terms in 2011 due to the likely inflationary shock in Côte d'Ivoire. EUR weakness in the short-to-medium term should boost Senegal's external competitiveness. We see FX reserves edging up modestly to USD2.2bn in 2011, but the BCEAO is obliged to deposit 50% of its net external assets at the Banque de France.

USD/XOF: forwards versus forecast

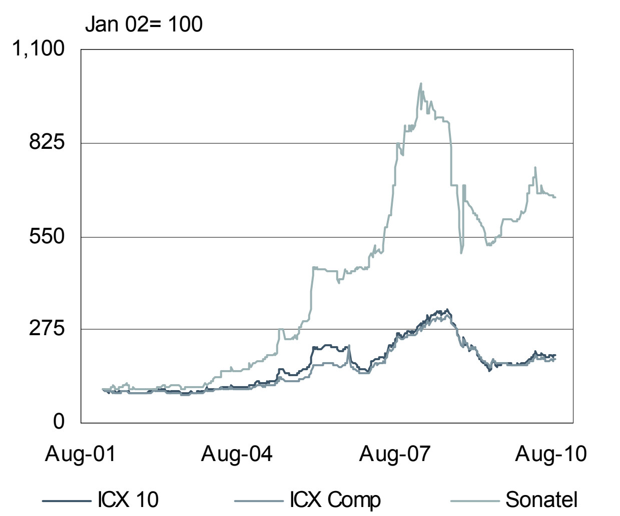


Source: Reuters, Standard Bank Research

Equity market: BRVM outperforms MSCI

Our expectation of a recovery in the BRVM last year proved appropriate, especially as the bourse had lagged the global rebound in equities seen during 2009. Both main indices (ICX 10 and ICX Composite) were up 26.3% and 24.4% in 2010. Meanwhile, Sonatel (Senegal's major telecom provider), which accounts for USD3.4bn of the total market cap of USD7.3bn, was up 23.2% (in XOF terms). This compares to MSCI Frontier and MSCI EM which rallied 20.2% and 16.0%, and the MSCI Global which was up 8.2%. It also outperformed MSCI Africa which rose 17.8% (with Nigeria up 18.4%). Downside risks stem from the likely weakness in XOF and the subsequent deterioration in dollar-adjusted returns potentially leading to some foreign sell-off. Côte d'Ivoire's security situation is unlikely to impact SONTAEL's stock.

Bourse Regionale Valuers Mobiliers



Source: Bloomberg, Standard Bank Research

Senegal

Senegal: annual indicators

	2006	2007	2008	2009	2010	2011f	2012f
Output							
Population (million)	11.6	11.9	12.2	12.5	12.8	13.2	13.5
Nominal GDP (XOFbn)	4846	5344	5935	5999	6308	6717	7195
Nominal GDP (USDbn)	9.3	11.2	13.2	13.0	12.7	12.1	15.3
GDP / capita (USD)	801	938	1086	1037	990	922	1135
Real GDP growth (%)	2.3	5.0	3.2	2.1	3.9	4.2	4.5
Phosphoric acid ('000 tons)	180	234	180	249	287	340	360
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-6.9	-6.2	-6.9	-7.9	-7.1	-8.1	-7.6
Budget balance (incl. Grants) / GDP (%)	-5.7	-3.7	-4.6	-4.9	-4.8	-5.8	-5.3
Domestic debt / GDP (%)	5.6	6.7	5.3	7.6	8.5	10.4	11.0
External debt / GDP (%)	17.7	17.9	19.8	27.0	31.6	33.1	34.9
Balance of Payments							
Exports of goods and services (USDbn)	1.6	1.7	2.2	1.9	2.0	2.0	2.6
Imports of goods and services (USDbn)	-3.2	-4.2	-5.6	-4.4	-4.4	-4.3	-5.5
Trade balance (USDbn)	-1.6	-2.5	-3.4	-2.5	-2.4	-2.3	-2.9
Current account (USDbn)	-0.9	-1.3	-1.8	-1.0	-1.0	-1.1	-1.5
- % of GDP	-9.3	-11.7	-13.9	-7.7	-8.1	-8.8	-9.5
Capital & Financial account (USDbn)	0.9	1.4	1.7	1.5	1.0	1.2	1.6
- FDI (USDbn)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Basic balance / GDP (%)	0.0	1.2	-1.4	4.2	-0.2	1.1	1.1
FX reserves (USDbn) pe	1.3	1.7	1.6	2.1	2.0	2.2	2.3
- Import cover (months) pe	5.0	4.8	3.4	5.7	5.5	6.1	5.0
Sovereign Credit Rating							
S&P	B+	B+	B+	B+	B+	B+	B+
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	nr	nr	nr	nr	nr	nr	nr
Monetary & Financial Indicators							
Consumer inflation (%) pa	2.1	5.8	5.8	-1.0	1.2	2.2	2.5
Consumer inflation (%) pe	4.0	6.1	4.3	-2.8	3.5	2.0	2.7
M2 money supply (% y/y) pa	7.2	14.2	5.2	6.9	9.8	12.2	13.3
M2 money supply (% y/y) pe	12.5	13.1	1.8	9.1	10.0	12.5	13.6
BCEAO lending rate (%) pa	4.25	4.75	4.75	4.25	4.25	4.75	4.75
USD/XOF pa	522	479	448	462	496	553	469
USD/XOF pe	497	447	467	457	491	525	452
REER pa	95	99	102	100	98	97	98
NEER pa	100	103	105	104	100	97	99

Notes: pe — period end; pa — period average; na — not available; nr — not rated

Source: Institut National de la Statistique, Ministere de l'economie et des finances, IMF, Standard Bank Research, Bloomberg

South Africa: rand to edge weaker

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10	Q4:10e	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	-1.4	-2.6	-2.1	-0.6	1.7	3.1	2.6	4.1	3.7	4.0	4.2	3.0
CPI (% y/y) pa	8.4	7.8	6.4	6.0	5.7	4.5	3.5	3.5	3.7	3.8	4.6	4.8
M3 (% y/y) pe	12.4	7.5	5.1	1.7	0.9	1.8	4.4	6.8	7.0	7.3	7.4	7.7
CA/GDP (%) pe	-6.7	-3.5	-3.1	-2.9	-4.6	-2.5	-3.0	-4.5	-4.9	-4.2	-4.7	-4.8
FX reserves (USD bn) pe	30.4	32.0	35.1	32.5	34.8	34.6	36.0	35.4	36.2	36.5	36.8	37.0
Import cover (months) pe	5.8	6.5	6.3	5.8	5.0	5.3	5.2	4.7	5.0	5.0	5.1	5.1
3-m rate (%) pe	8.8	7.6	7.0	7.2	6.7	6.6	6.1	5.6	5.5	5.5	5.5	5.5
5-y rate (%) pe	8.3	8.6	8.7	8.5	7.9	7.7	6.8	6.7	6.6	6.8	6.9	7.5
USD/ZAR pe	9.5	7.7	7.5	7.4	7.3	7.7	7.0	6.6	6.9	7.2	7.1	7.1
REER pe	90.6	104.1	109.1	108.0	111.3	115.6	117.6	116.4	115.0	113.5	111.0	110.0
NEER pe	59.5	69.9	71.7	72.5	75.4	74.8	77.1	81.3	78.0	75.0	72.0	70.0
USD/ZAR vol (20 day %)	29.1	23.0	19.8	19.4	16.2	16.3	14.3	9.5	10.5	12.0	13.0	13.5

Notes: pe — period end; pa — period average

Source: South African Reserve Bank, Bloomberg, Standard Bank Research

Political risk: no major policy shifts

In April 2009, the ANC won its fourth consecutive general election and although President Zuma recently reshuffled some of his Cabinet positions, there were no major policy shifts and the status quo is expected to remain as is until the next elections in 2014. The next major event will be the Q2:11 municipal elections. During these elections, which take place every five years, the debate surrounding service delivery for basic services such as health, education, employment and housing is expected to be hotly contested. Although the ANC remains the country's dominant party, it has traditionally fared poorly during these elections, implying that the DA's influence at the municipal level could increase and tensions between the ANC and its tripartite alliance partners Cosatu and the SACP could intensify.

Election results (2009)

Presidential election	Party	% of votes
Jacob Zuma	ANC	65.9
Helen Zille	DA	16.7
Mvume Dandala	Cope	7.4
Mangosuthu Buthelezi	IFP	4.5

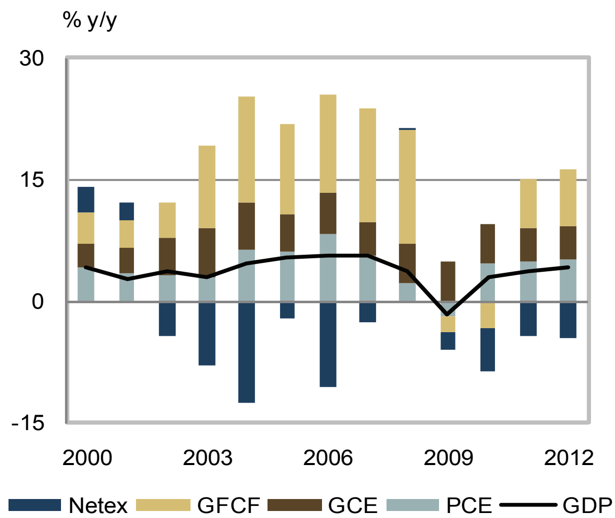
National election	Parliamentary seats	% of votes
African National Congress (ANC)	264	65.9
Democratic Alliance (DA)	67	16.7
Congress of the People (Cope)	30	7.4
Inkatha Freedom Party (IFP)	18	4.5
Other	21	5.5
Total	400	100

Source: Electoral Commission of South Africa

GDP growth: buoyant household expenditure

GDP growth eased to 2.6% q/q (saar) in Q3:10, from a downwardly revised 2.8% q/q (saar) in Q2:10. From the supply side, mining production provided a boost to GDP growth in Q3:10, after contracting sharply in Q2:10, while growth in manufacturing production swung wildly from positive to negative over this period. The marked volatility in these sectors' output was due to widespread industrial action. Growth prospects in both sectors seem uninspiring in the face of persistent rand strength and potential power shortages in 2011. From the demand side, household expenditure has been particularly resilient in the first three quarters of 2010. The cumulative 100 bps interest rate cuts in H2:10 should support spending in 2011 despite relative household indebtedness. But with private investment remaining lacklustre, SA's economic growth is expected to remain below potential in 2011.

Composition of GDP



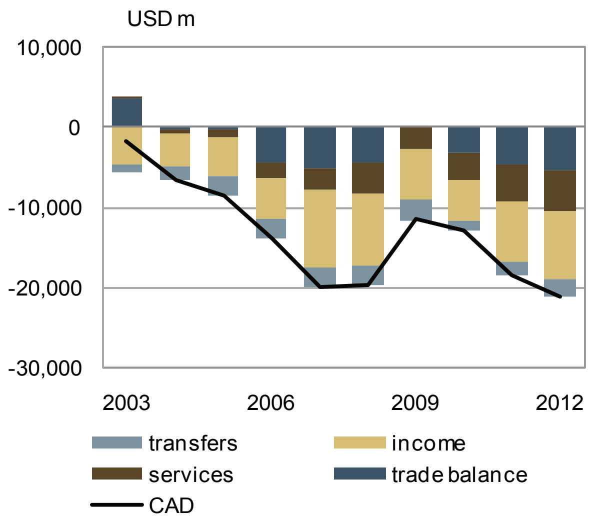
Source: South Africa Reserve Bank, Standard Bank Research

South Africa

Balance of payments: modest C/A deficit

SA's current account deficit/GDP ratio narrowed the most in six years in Q2:10 (2.5%), and only edged to 3.0% in Q3:10. Although SA's trade surplus widened markedly in Q3:10, the drop-off in foreign travel receipts after the World Cup contributed to a widening in the service, income and current transfer payments deficit. The shortfall was, however, still comfortably financed by buoyant foreign capital inflows, particularly into SA's bond market. The relative buoyancy of household expenditure, combined with rand strength, could lead to a deterioration in the trade balance. But this deterioration is expected to be protracted as private investment remains lacklustre. Still, increased foreign ownership of SA securities implies higher potential payments to non-residents. We therefore expect the current account deficit to approach 5% over the next two years, from a projected 3.8% in 2010.

BOP developments



Source: South African Reserve Bank, Standard Bank Research

Fiscal policy: FX-influenced policies a priority

The mid-year update (Oct 10) to government's fiscal policies and finances significantly showed no material changes to the domestic borrowing requirement over the medium-term planning framework, compared to the Feb 10 numbers. Improvements to SA's fiscal metrics (current and projected) are thus mainly a result of unexpected higher nominal growth than any deliberate policy adjustments. The updated revenue and expenditure projections appear realistic, although there is clearly less of a buffer built into these official estimates than previously. The Oct update also revealed further exchange control relaxation, particularly for institutional investors. Additional regulatory amendments with respect to pension funds are likely to be announced at the Budget 11 on 23 Feb 11.

Central government budget

% of GDP	2008/09	2009/10	2010/11f
Total revenue	29.8	27.3	28.4
Total expenditure	30.8	35.0	34.6
-wages	10.1	11.3	11.2
-interest	2.5	2.6	2.9
-development	11.6	12.6	14.1
Overall balance	-1.0	-7.6	-6.2
Net external borrowing	-0.2	0.5	0.5
Net domestic borrowing	1.5	6.9	5.7

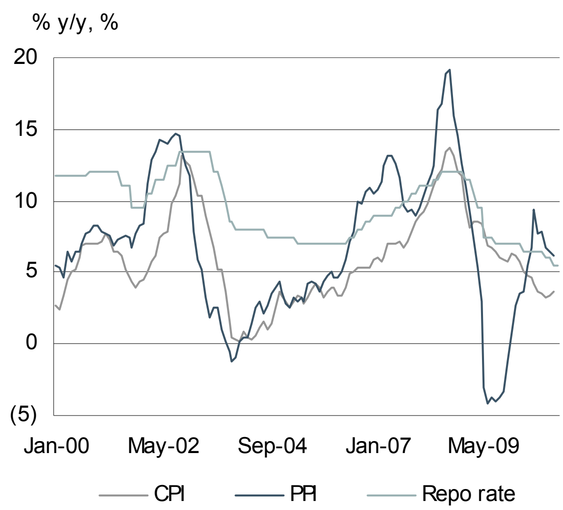
Source: South Africa National Treasury, Standard Bank Research

Note: "Development" spending includes health, education & housing and community amenities.

Monetary policy: small risk of another cut

The MPC has lowered the repo rate by 50 bps at each of the last two meetings. The Sep cut was widely anticipated, but the Nov one less so. The accompanying statement to the latter was almost entirely dovish in every sense, except for its closing remark: "The scope for further downward movement, however, is seen to be limited, given the signs of recovery in household consumption expenditure and credit extension." Indeed, another potential restraint on further easing is the ability of the SARB to continue adjusting their long-term CPI forecasts downwards. Further rand strength may prove enough to motivate one more final cut, but not if food and energy costs continue their upward trajectory. Standard Bank's base case view is for the repo rate to be on hold at 5.50% — until a first hike in Q1:12.

Inflation and interest rates



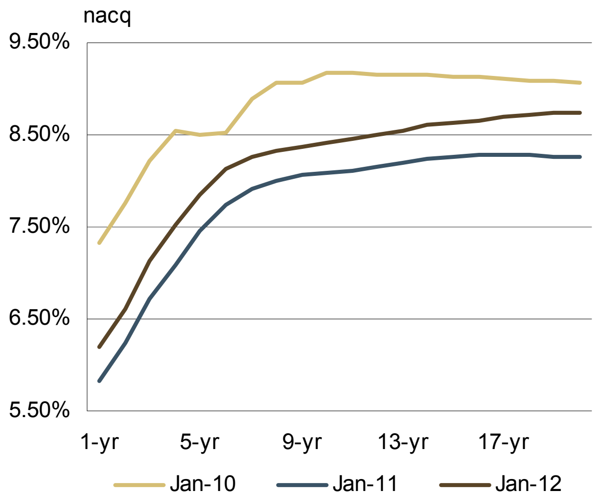
Source: South African Reserve Bank, StatsSA

South Africa

Bond curve: modest value still to be unlocked

Bond prices briefly achieved their best levels in at least five years in Oct 10. The year-end subsequently saw a fair amount of profit-taking, including from foreign investors, who have been the mainstay of support for SAGB's (SA govt bonds) over the past 18 months or so. Indeed, the outlook for underlying demand for EM local currency debt remains the pivotal determinant of the overall direction of the SA bond market. Domestic institutions' valuation and allocation biases appear slanted against fixed income at present and are unlikely to adequately fill any gap left by retreating foreign investors. At prevailing levels, Standard Bank is very modestly optimistic over short-term horizons across the FI universe. However, beyond the next three quarters or so, the total return outlook becomes far less compelling for the asset class.

Changes in yield curve

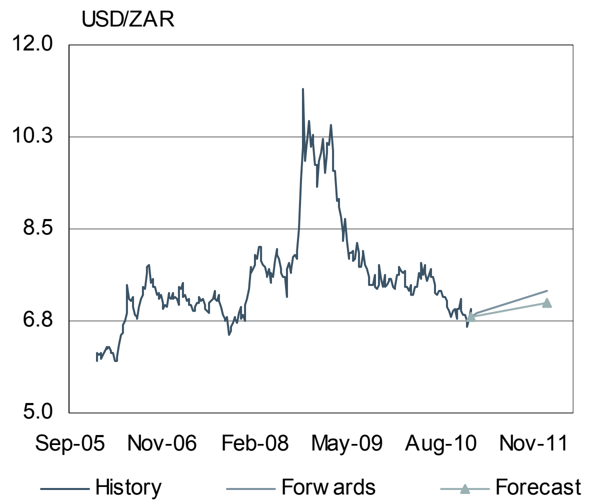


Source: Bloomberg, Standard Bank Research

FX outlook: ZAR likely to retreat

We expect the ZAR to surrender some of its recent strength in Q1:11. A recovery in the USD, coupled with softer commodity prices and a moderation in portfolio capital inflows, is the main reason why we expect ZAR weakness. The fact that SA authorities have increased their reserve accumulation and relaxed exchange controls could also prompt ZAR bulls to lock in profits over the coming months. We suspect that market positioning remains short ZAR, and implied volatility currently exceeds actual volatility, which collectively suggests that there is scope, as well as an expectation that there is a growing risk, that ZAR could be headed for a correction.

USD/ZAR: forwards versus forecasts

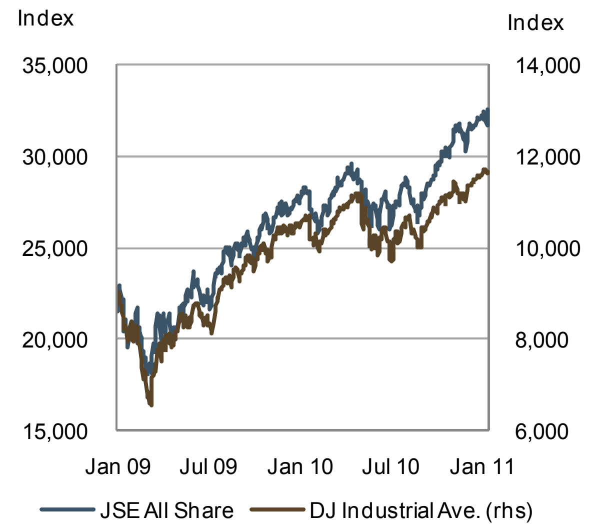


Source: Bloomberg, Standard Bank Research

Equity market: JSE rallied into year-end

The JSE rallied throughout 2010, in keeping with last year's stellar performance of global equity markets. The enhanced growth prospects associated with the low international interest environment has been supportive of stocks the world over, but the resource-laden JSE has the added windfall of high commodity prices. Therefore, there has been a strong influx of foreign interest into the JSE, which has resulted in a stronger rand and enhanced the return for these foreign investors even further. Although we don't expect further rate cuts from the SARB, we remain constructive on the JSE because, until central banks tighten their respective monetary stances, and while commodity prices remain near record highs, the JSE is unlikely to lose significant ground. At worst, bouts of periodic profit-taking might occur, because valuations in certain sectors are said to be relatively high already.

Johannesburg Stock Exchange vs. Dow Jones



Source: Bloomberg, Standard Bank Research

South Africa

South Africa: annual indicators

	2006	2007	2008	2009	2010	2011f	2012f
Output							
Population	47.9	48.5	48.8	49.1	49.1	49.0	49.0
Nominal GDP (ZAR bn)	1,767	2,016	2,274	2,396	2,575	2,795	3,074
Nominal GDP (USD bn)	261.1	285.9	275.2	284.5	351.7	394.9	413.3
GDP/capita (USD bn)	5,444	5,888	5,603	5,732	7,164	8,059	8,435
Real GDP growth (%)	5.6	5.5	3.7	-1.7	2.9	3.7	4.0
Central Government Operations							
Budget balance/GDP (%)	-0.3	1.7	-1.2	-6.7	-5.3	-4.6	-3.9
Domestic debt/GDP (%)	26.1	23.4	21.1	22.1	27.3	32.0	35.3
External debt/GDP (%)	3.8	4.1	4.2	4.1	3.7	3.8	4.2
Balance of Payments							
Exports of goods and services (USD bn)	78.36	89.99	97.97	78.03	97.81	114.31	121.82
Imports of goods and services (USD bn)	84.75	97.81	106.33	80.53	105.46	127.73	133.65
Trade balance (USD bn)	-6.39	-7.82	-8.36	-2.51	-7.65	-13.42	-11.83
Current account (USD bn)	-13.86	-19.93	-19.59	-11.52	-13.01	-18.56	-21.08
C/A % of GDP	-5.3	-7.0	-7.1	-4.1	-3.7	-4.7	-5.1
Financial account (USD bn)	15.77	21.77	11.63	13.44	19.22	17.76	16.90
Net FDI (USD bn)	-6.59	2.73	12.14	4.24	0.55	1.42	2.02
Basic balance/GDP (%)	-7.83	-6.02	-2.71	-2.56	-3.54	-4.34	-4.61
FX reserves (USD bn) pe	23.08	29.63	30.62	32.48	35.43	37.00	37.60
Import cover (months) pe	4.5	4.6	6.1	5.8	4.7	5.1	5.2
Sovereign Credit Rating							
S & P	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
Moody's	Baa1	Baa1	Baa1	A3	A3	A3	A3
Fitch	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
Monetary & financial indicators							
Consumer inflation (%) pa	4.7	7.1	11.5	7.1	4.3	4.2	5.4
Consumer inflation (%) pe	5.9	8.9	9.5	6.3	3.6	4.8	6.0
M3 money supply (% y/y) pa	23.1	23.2	19.0	6.7	3.2	7.4	8.1
M3 money supply (% y/y) pe	22.5	23.6	14.8	1.8	6.8	7.7	8.2
SARB policy rate (%) pa	7.7	9.7	11.6	8.2	6.3	5.5	6.5
SARB policy rate (%) pe	9.0	11.0	11.5	7.0	5.5	5.5	7.5
3-m rate (%) pe	9.2	11.3	11.4	7.2	5.6	5.5	7.5
1-year rate (%) pe	9.2	11.2	9.0	7.1	5.5	6.1	7.7
2-year rate (%) pe	8.9	10.8	8.2	7.6	5.9	6.7	7.8
5-year rate (%) pe	8.5	9.7	7.9	8.5	6.7	7.5	7.4
USD/ZAR pa	6.8	7.1	8.3	8.4	7.3	7.1	7.4
USD/ZAR pe	7.0	6.9	9.4	7.4	6.6	7.1	7.8
REER pa	108.9	105.0	94.1	101.4	115.2	112.4	109.8
NEER pa	85.8	78.3	65.2	66.8	75.4	73.8	71.6

Notes: pe — period end; pa — period average; na — not available; nr — not rated

Source: South African Reserve Bank, South Africa National Treasury, Standard Bank Research, Bloomberg

Tanzania: focus to return to policy implementation

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10	Q4:10	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	5.3	3.4	5.7	10.0	7.0	7.1	7.7	6.8	7.2	7.5	7.3	7.4
CPI (% y/y) pa	13.1	11.3	11.7	12.5	9.8	8.2	5.8	5.4	6.8	5.6	5.4	6.1
M3 (% y/y) pe	16.8	15.9	19.8	15.7	19.4	23.5	24.4	25.2	24.2	22.9	22.4	21.4
CA/GDP (%) pe	-11.1	-10.2	-9.2	-8.3	-8.8	-9.2	-9.6	-10.0	-9.6	-10.0	-10.5	-10.9
FX reserves (USD bn) pe	2.7	2.9	3.6	3.6	3.5	3.5	3.6	3.7	3.7	3.8	3.8	3.9
Import cover (months) pe	4.5	4.9	5.7	5.7	5.4	5.5	5.1	5.2	5.2	5.1	5.1	5.0
3-m rate (%) pe	12.4	5.6	3.0	6.1	3.3	2.9	3.9	5.5	7.2	8.8	9.4	9.7
5-y rate (%) pe	15.0	16.6	13.5	13.5	13.8	9.5	9.7	11.6	12.2	13.7	14.1	14.9
USD/TZS pe	1,338	1,313	1,313	1,340	1,355	1,470	1,493	1,484	1,507	1,536	1,561	1,577
REER pe	116.3	109.3	110.3	107.0	106.8	98.9	92.7	94.1	95.2	96.4	97.8	98.7
NEER pe	90.7	87.0	85.8	83.4	80.7	75.2	71.0	72.6	71.9	70.8	69.1	68.7
USD/TZS vol (20 day)	16.6%	9.2%	5.9%	5.4%	2.8%	8.6%	3.8%	11.2%	8.0%	8.0%	8.0%	8.0%

Notes: pe — period end; pa — period average
Source: Bank of Tanzania, Tanzania National Bureau of Statistics, Bloomberg, Standard Bank Research

Political risk: elections bring policy continuity

The president, Jakaya Kikwete, and the ruling party, CCM, secured re-election at the Oct 10 elections, paving the way for continuation of current economic policies. However, support for the incumbent declined notably at these elections, with a large share of the electorate choosing to vote with their feet. The voter turnout reached a record low of 43%, from 72% in 2005. Furthermore, opposition parties and their presidential candidates received a significantly higher share of votes. CHADEMA emerged as the strongest opposition, increasing its number of directly elected seats in parliament to 24 from 5. With support from a comfortable majority in parliament (75.2% of all parliamentary seats, from 81.5%), Kikwete is likely to step up his reform agenda in his final term. The political situation is likely to remain stable, supported by the CCM-CUF power-sharing agreement in Zanzibar.

Election results (2010)

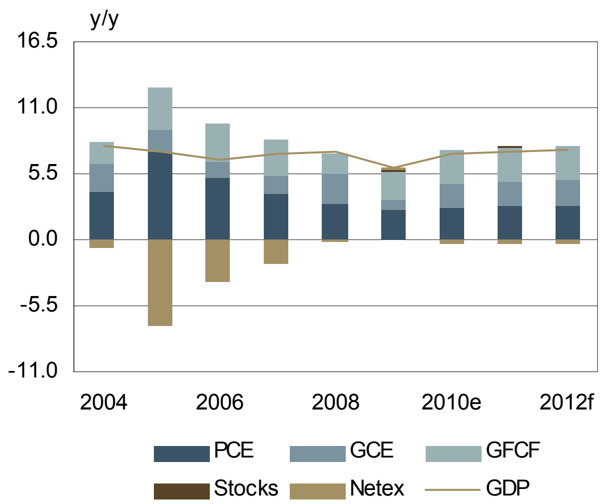
Presidential election	Party	% of votes
Jakaya Kikwete	CCM	61.16
Willibrod Peter Slaa	CHADEMA	26.34
Ibrahim Haruma Lipumba	CUF	8.08
Legislative election	**Direct seats**	**% of votes**
Chama Cha Mapinduzi (CCM)	186	72.14
Chama cha Demokrasia na Maendeleo (CHADEMA)	24	28.14
Civic United Front (CUF)	23	13.08
Total	239	100

Source: National Electoral Commission of Tanzania

GDP growth: strong performance

The economic recovery has continued to exceed our expectations, with Q2:10 growth reaching 7.1% y/y, from 7.0% y/y in Q1:10 and 3.4% y/y a year earlier. Growth is likely to remain strong in 2011, underpinned by a continuation of the fiscal expansion programme as well as strong private sector investment. Public capital expenditure will focus on transport and energy infrastructure projects, providing a solid boost to GFCF. While exports are likely to benefit from continued growth in gold exports as well as tourism earnings, strong import demand will probably leave net exports a detractor from growth. We expect the contribution of the mining sector to expand steadily as investment flows are bolstered by new discoveries of oil and gas. Continued low inflation in Q1:11 is likely to be supportive of PCE, as will enhanced credit extension.

Composition of GDP



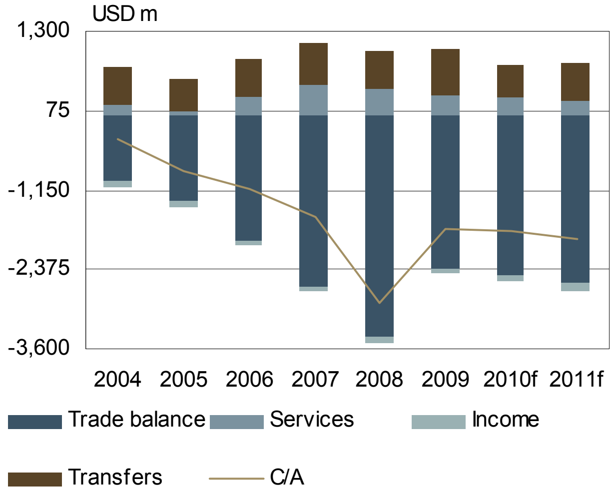
Source: Bank of Tanzania, Standard Bank Research

Tanzania

Balance of payments: strong growth in imports

The trade account is expected to continue to weigh heavily on the C/A as export growth struggles to keep up with the acceleration in imports. Growth in exports is likely to particularly stem from the continued growth of gold and tourism earnings. In the year to Sep 10, the value of gold exports increased to USD1.5bn, from USD0.9bn a year earlier. However, the government's capital expenditure programme will probably boost imports of capital goods, while rising oil prices continue to drive the oil import bill higher in 2011, leaving the trade balance in deficit. A further decline in current transfers is likely to exacerbate the C/A deficit. We expect foreign direct investment to remain robust as a result of Tanzania's mineral potential, with flows likely to reach USD1bn in the medium term. Gross official reserves could reach USD3.9bn (roughly 5 months of import cover) by year-end.

Current account developments



Source: Bank of Tanzania, Standard Bank Research

Fiscal policy: increased commercial financing

The budget deficit in FY2010/11 is set to increase to 7.4%, from 6.5% in the previous year. This as the government seeks to increase significantly the allocation of funds to infrastructure development, while continuing its interventions in the agriculture sector under the Kilimo Kwanza initiative. Simultaneously, support from development partners is likely to remain below the estimated TZS2.0tr as disbursements of aid is either delayed or rescinded. Underperformance of revenue collections could increase the deficit further (Jul-Sep 10 revenue was 9% below budget). Foreign financing of the budget is likely to almost double this year, to almost TZS2.0tr, with the government seeking to utilise commercial sources of financing to compliment concessional borrowing. The government will need to tighten fiscal policy in coming years to limit public debt levels.

Central government budget

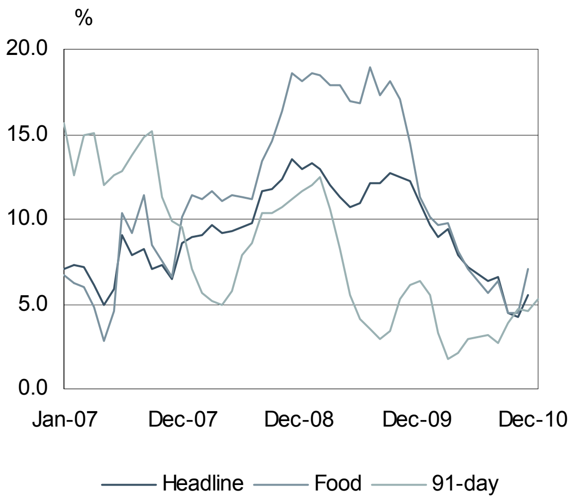
% of GDP	2009/10	2010/11
Total revenue	17.0	17.6
Total expenditure	31.8	33.9
- Wages	5.9	6.2
- Interest	1.4	1.1
- Development	9.4	11.2
Overall balance (- grants)	-14.7	-16.4
Net domestic borrowing	4.1	3.9
Donor support (grants and loans)	10.6	9.6

Sources: Tanzania Ministry of Finance, Standard Bank Research

Monetary policy: accelerating food inflation

Underperforming rains are likely to contribute to increasing food prices in Q1:11, exerting upward pressure on headline inflation. Headline inflation increased to 5.5% y/y in Nov 10 from 4.2% y/y in Oct 10. We expect inflation to reach on average 7.8% y/y in Q1:11, from 5.4% y/y in Q4:10. However, overall we expect inflation to be structurally lower and more stable following the introduction of the new CPI measure in Nov 10. The BOT is likely to cautiously maintain its accommodative monetary policy stance. Nonetheless, the risk of a return to a neutral stance has increased as a result of the probable near-term increase in inflation. Aggregate monetary growth (M3), which expanded by 22.6% y/y in Sep 10, from 19.0% y/y a year earlier, could therefore be reined in.

Inflation and interest rates



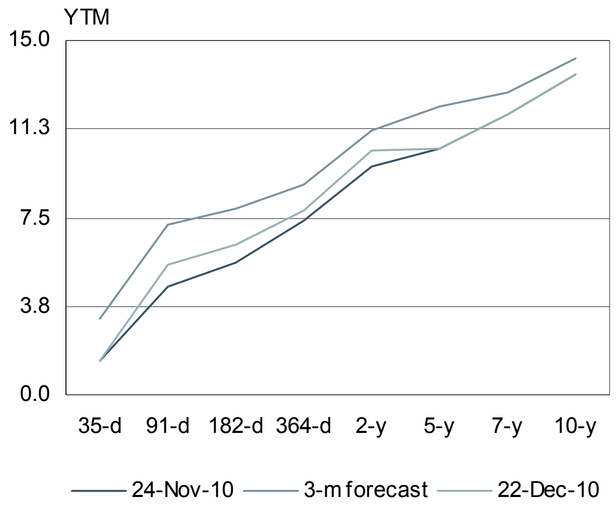
Source: Bank of Tanzania, Tanzania National Bureau of Statistics

Tanzania

Bond curve outlook: bear flattening

Rates are likely to continue to rise over the next 6-m, yielding further bear flattening of the curve. In Q4:10, the yield on 91-day T-bills increased by 103 bps, to 5.48%, whereas the yield on 10-y bonds rose by roughly 60 bps in the same period. While short-term yields are expected to face continued strong upward pressure, the upward bias on long-dated securities will probably be more muted. This as donors are likely to resume disbursements to the public sector following the conclusion of the elections, in turn reducing the government's immediate financing needs. Furthermore, strong demand for long-dated securities is likely to limit the rise in yields. Even though food inflation will most probably rise in in Q1:11, inflation expectations are likely to remain anchored as the new CPI measure gains credibility with the market.

Changes in yield curve

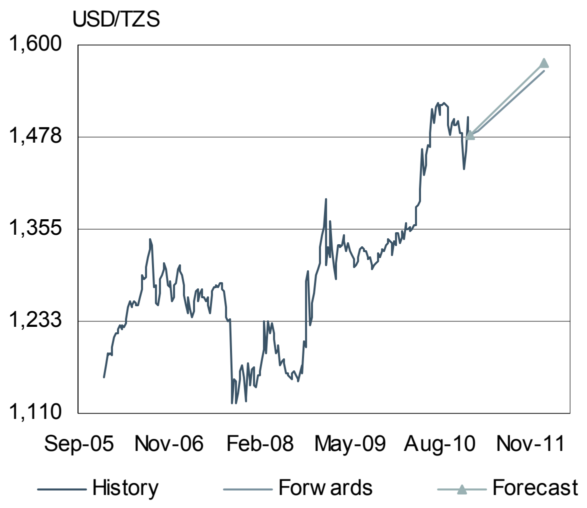


Source: Bank of Tanzania, Standard Bank Research

FX outlook: policy bias for competitive TZS

The BOT is likely to engineer a weaker trade-weighted exchange rate in order to support the external sector. Exports are currently highly concentrated in gold (49% in the year to Sep 10), largely due to the rising gold price and production growth. However, the authorities would probably like to encourage diversification of the export base by supporting agricultural and manufacturing exports as well. As such, we expect USD/TZS to veer towards 1,500 in Q1:11. This follows appreciation of the TZS in Nov and Dec 10, supported by year-end inflows and the unwinding of long USD positions following the elections. The potential increase in inflation could dissuade the BOT from seeking USD/TZS upside in a bid to contain the cost of imported goods. Otherwise, the cost of cereals, which may need to be imported as a result of the poor rains, could raise inflationary risks.

USD/TZS: forwards versus forecasts

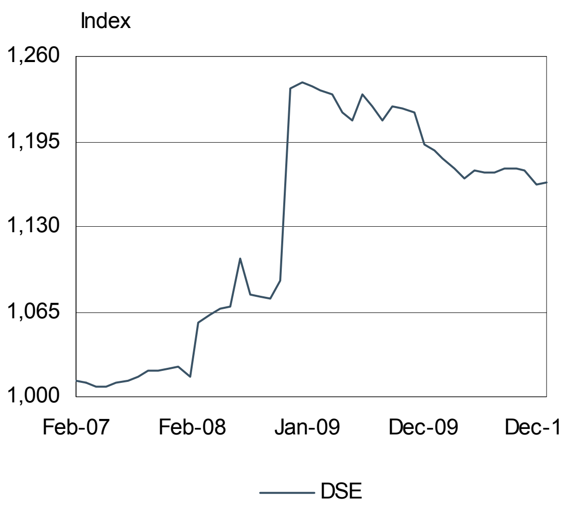


Source: Reuters, Standard Bank Research

Equity market: new corporate bonds

The DSE was one of the worst-performing African stock exchanges in 2010, with the All Share Index declining by 2.4% in this period (11.9% in USD terms). The exchange is dominated by Kenyan equities that are also cross-listed on both the Ugandan and Nairobi stock exchanges. The number of listed companies could rise in 2011 shares because further cross-listings are likely. Additionally, an increased number of SMMEs are likely to list in the coming year as part of the Enterprise Growth Market segment programmes which are set to start in Jan 11. Further progress is also likely to be made in the demutualisation of the DSE. In the corporate bond market, Tanzania Breweries, Standard Chartered and a microfinance institution (PRIDE) are likely to list in 2011. We expect these to draw strong domestic, and potentially regional, investor interest.

Dar es Salaam Stock Exchange



Source: Reuters

Tanzania

Tanzania: annual indicators

	2006	2007	2008	2009	2010e	2011f	2012f
Output							
Population (million)	37.1	38.3	39.5	40.7	42.0	43.2	44.5
Nominal GDP (TZSbn)	17,942	20,948	24,754	28,213	31,109	36,140	42,645
Nominal GDP (USDbn)	14.2	18.2	18.8	21.1	21.0	22.9	26.2
GDP / capita (USD)	370	459	461	502	485	515	572
Real GDP growth (%)	6.7	7.1	7.4	6.0	7.2	7.4	7.5
Gold production ('000 Kg)	39.7	40.2	36.4	32.3	41.3	46.4	48.7
Tobacco production ('000 MT)	50.6	50.8	55.4	50.8	61.2	63.8	64,3
Coffee production ('000 MT)	45.5	33.7	58.1	43.1	38.7	45,9	48,6
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-8.9	-7.4	-9.2	-11.5	-13.2	-10.2	-8.9
Budget balance (incl. Grants) / GDP (%)	-4.0	-2.4	-4.8	-6.5	-7.4	-6.6	-5.5
Domestic debt / GDP (%)	11.9	11.2	9.5	8.6	9.5	10.1	9.8
External debt / GDP (%)	69.4	33.8	28.8	35.3	36.8	37.9	38.2
Balance Of Payments							
Exports of goods and services (USDbn)	1.9	2.2	3.0	3.1	3.6	4	4.5
Imports of goods and services (USDbn)	3.9	4.9	6.5	5.8	6.6	7.2	7.8
Trade balance (USDbn)	-1.9	-2.6	-3.4	-2.7	-3.0	-3.3	-3.4
Current account (USDbn)	-1.1	-1.6	-2.5	-1.7	-2.1	-2.5	-2.7
- % of GDP	-8.1	-8.7	-13.5	-8.3	-10.0	-10.9	-10.2
Financial account (USDbn)	-4.0	-.9	1.7	1.6	1.8	2.1	2.3
- FDI (USDbn)	0.6	0.6	0.7	0.6	0.7	0.9	1.0
Basic balance / GDP (%)	-3.8	-5.1	-9.9	-5.2	-6.9	-7.2	-6.6
FX reserves (USDbn) pe	2.1	2.7	2.9	2.9	3.6	3.8	4.2
- Import cover (months) pe	6.6	6.7	5.3	7.4	6.7	6.5	6.5
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	nr	nr	nr	nr	nr	B-	B-
Monetary & Financial Indicators							
Consumer inflation (%) pa	11.2	7.0	10.3	12.1	7.3	6.0	5.4
Consumer inflation (%) pe	6.7	6.4	13.5	12.2	6.6	6.1	5.2
M3 money supply (% y/y) pa	29.1	20.2	20.6	17.1	23.1	22.7	22.1
M3 money supply (% y/y) pe	21.5	20.5	19.8	17.7	25.9	22.4	21.7
BOT discount rate (%) pa	16.8	19.9	14.1	10.1	7.6	8.7	9.1
BOT discount rate (%) pe	20.1	16.4	16.0	3.7	7.6	8.1	8.7
3-m rate (%) pe	16.8	10.2	11.3	6.1	5.5	9.7	7.1
1-y rate (%) pe	16.9	14.3	13.0	8.9	7.8	10.2	8.1
2-y rate (%) pe	18.5	15.0	14.4	10.9	10.4	12.9	11.1
5-y rate (%) pe	15.2	17.8	16.4	13.5	11.6	14.9	12.3
USD/TZS pa	1,251	1,241	1,199	1,326	1,441	1,536	1,592
USD/TZS pe	1,265	1,154	1,318	1,340	1,484	1,577	1,627
REER pa	95.4	101.5	112.2	109.9	106.2	98.1	89.7
NEER pa	91.9	92.8	98.1	87.1	76.7	70.4	64.5

Notes: pe — period end; pa — period average, nr — not rated

Source: Bank of Tanzania, Tanzania National Bureau of Statistics, Bloomberg, Standard Bank Research

Uganda: yet to reap the benefits of oil

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10	Q4:10	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	5.2	5.2	5.2	5.2	6.6	6.6	6.6	6.6	7.4	7.4	7.4	7.4
CPI (% y/y) pa	14.6	12.8	13.0	12.0	8.1	4.8	1.7	1.6	4.2	6.2	7.4	7.6
M3 (% y/y) pa	23.2	24.6	24.5	16.7	19.9	27.9	33.8	40.5	39.3	28.6	23.0	21.7
CA/GDP (%) pe	-4.1	-3.5	-2.8	-2.4	-4.8	-7.8	-8.1	-8.8	-8.0	-6.8	-7.5	-8.1
FX reserves (USD bn) pe	2.4	2.4	2.8	2.8	2.7	2.5	2.7	2.9	3.0	3.1	3.2	3.2
Import cover (months) pe	5.1	5.1	5.6	5.5	5.2	4.9	4.7	5.4	5.3	5.2	5.2	5.1
3-m rate (%) pe	12.8	6.3	6.8	5.5	4.0	4.4	5.2	8.5	9.8	10.8	11.3	11.8
5-y rate (%) pe	14.0	14.1	14.1	14.1	8.8	8.9	9.4	11.9	13.0	14.2	14.8	15.3
USD/UGX pe	2,105	2,055	1,922	1,900	2,080	2,280	2,243	2,310	2,366	2,413	2,429	2,432
REER pa	98.1	99.7	114.8	116.7	99.5	86.3	89.7	87.5	84.9	83.2	81.9	80.4
NEER pa	85.9	85.9	95.1	98.3	84.7	74.0	76.9	75.3	74.4	73.5	71.1	69.9
USD/UGX vol (20 day)	16.2%	17.1%	9.3%	7.9%	10.3%	11.0%	4.1%	4.9%	7.5%	6.0%	5.0%	5.0%

Notes: pe — period end; pa — period average

Source: Bank of Uganda, Uganda Central Statistics Office, Standard Bank Research, Bloomberg

Political risk: calm before the storm?

Tensions are expected to rise ahead of the 18 Feb presidential and parliamentary elections. Various polls imply that President Museveni will receive significant support at the upcoming polls. He faces 7 opposing candidates, including Dr Kizza Besigye who is on the ticket of the Inter-party Co-operation (IPC) coalition and is likely to represent the largest threat to Museveni's dominance. He has, however, failed to beat the current president at the past two elections. Dissatisfaction around the lack of reform to the electoral commission is likely to lead to increased tension between opposition parties and the ruling National Resistance Movement (NRM). The results will most likely be disputed, with both independent candidates as well as those of opposition parties likely to contest the result should Museveni and his party win.

Election results (2006)

Presidential election	Party	% of votes
Yoweri Kaguta Museveni	NRM	59.3
Kizza Kifeefe Besigye	FDC	37.4
John Ssebaana Kizito	DP	1.6
Abed Bwanika	Independent	1.0
Miria Kalule Obote	UPC	-

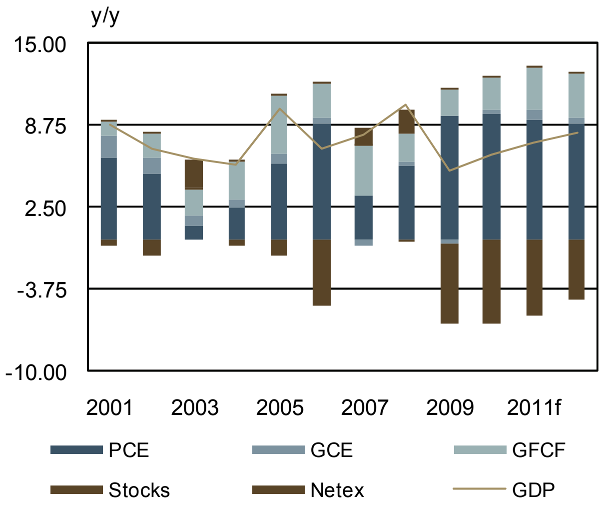
Legislative election	Seats
National Resistance Movement (NRM)	205
Forum for Democratic Change (FDC)	37
Uganda People's Congress (UPC)	9
Democratic Party (DP)	8
Other	60
Total	319

Source: The Electoral Commission of Uganda

GDP growth: Netex weighs heavily on growth

Following two years of sub-par growth, economic activity is likely to pick up in 2011. We have reduced our estimates of GDP growth for 2010 to 6.6%, from 7.0%, following faltering export performance as well as significant under-execution of the development budget. We expect growth to accelerate to 7.4% this year. Government consumption spending, already supported by an expansionary budget, is likely to rise further in the run-up to the elections, while the relatively benign inflationary environment will continue to support PCE. Development expenditure is furthermore likely to drive public fixed capital formation as key infrastructure projects get underway. The oil sector is likely to see further developments, as a resolution to the tax dispute between Heritage Oil and the government is likely to be found. As a result, we expect private GFCF to accelerate in 2011.

Composition of GDP



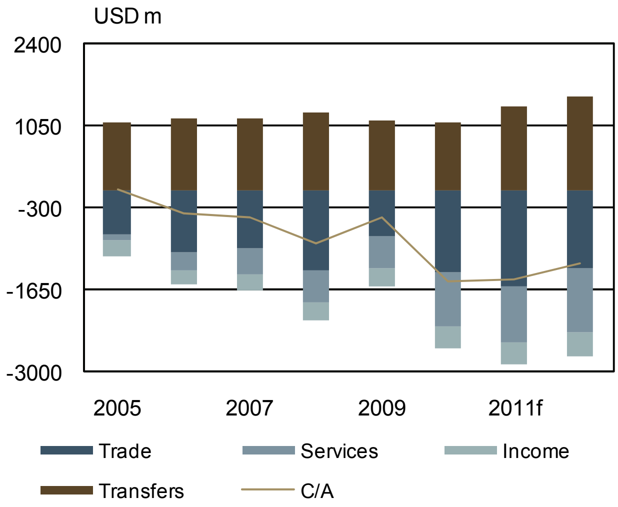
Source: Bank of Uganda, Standard Bank Research

Uganda

Balance of payments: risks to C/A

We expect only a marginal recovery from the sharp deterioration of the C/A deficit in 2010, with exports growth likely to remain subdued this year as the growth of the advanced world fails to impress. Meanwhile, stronger growth in the region is likely to support increased cross-border trade. We expect imports to accelerate further in 2011, in line with the infrastructure investment drive as well as rising oil prices. Growing deficits on the services and income accounts, associated with increasing regional trade in financial services as well as repatriation of earnings by foreign investors, are likely to persist in 2011. However, FDI could remain robust in light of the prospects of commercial oil production. The positive contribution thereof to export earnings will not emerge before 2012. We expect reserves, currently equal to USD2.9bn (or 5.4 months of imports) to reach USD3.2bn this year.

Current account developments



Source: Bank of Uganda, Standard Bank Research

Fiscal policy: elections to dominate spending

Recurrent expenditure associated with the Feb 11 elections could dominate the fiscal expansion programme of Q1:11. Non-wage recurrent spending should increase to 3.9% of GDP in this fiscal year, from 3.3% in FY2009/10. Development expenditure is set to focus on the consolidation of existing projects following severe under spending in the previous fiscal year (particularly in the road sector). Revenue collections have performed well, marginally exceeding the target for the first 4-m of this FY. This, as well as further under-spending of the development budget, could cause a larger-than-expected budget deficit. The deficit of 3.5% of GDP will mainly be financed with project loans (UGX911.5bn) and domestic loans (UGX454bn). Donor support should be maintained in the current year, but will decline sharply over the medium term.

Central government budget

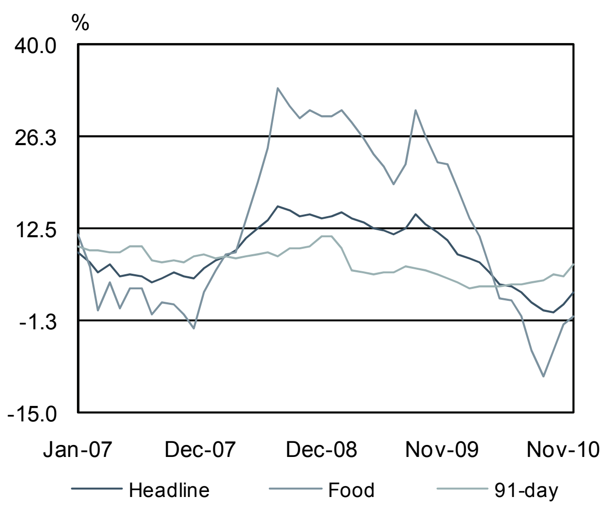
% of GDP	2009/10	2010/11
Total revenue (+ grants)	12.7	13.4
Total expenditure	18.8	18.1
- wages	2.6	2.4
- interest	0.7	0.6
- development	5.0	5.4
Overall balance (- grants)	-5.7	-6.1
Overall balance (+ grants)	-3.0	-3.5
Net external borrowing	1.8	2.0
Net domestic borrowing	1.3	1.2
Donor support (grants and loans)	5.0	5.0

Source: Ministry of Finance, Standard Bank Research

Monetary policy: post-election tightening

The sharp disinflationary trend came to an end in Oct 10, with food inflation likely to exert further upward pressure on headline inflation in 2011. A surge in election-related government spending could add to the upward bias. We nevertheless expect the inflationary environment to remain relatively benign. Headline inflation is likely to remain below 5% in Q1:11, before accelerating in Q2 on the back of rising food prices. Base effects as well as the depletion of second season harvests (which are likely to be completed this month) are likely to be the cause. As such, we expect the BOU to tighten monetary policy in the months following the elections. Private sector credit extension growth rates are likely to continue to accelerate, further bolstering the case for tightening. PSCE growth probably reached 39.6% y/y in Q4:10, from 33.8% y/y in Q3:10 and 16.7% y/y a year earlier.

Inflation and interest rates



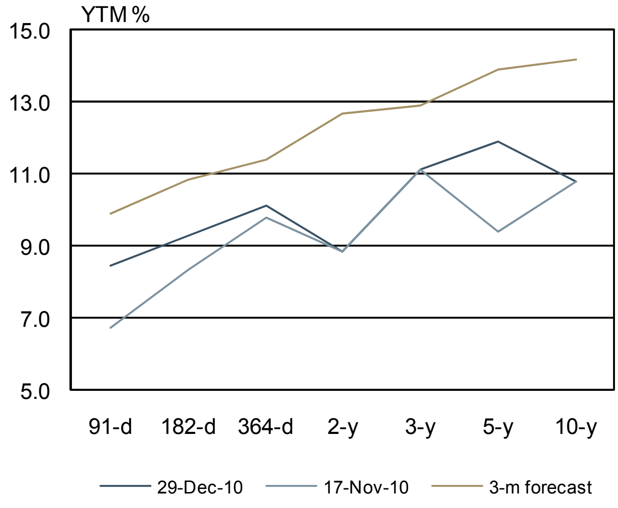
Source: Bank of Uganda, Uganda Bureau of Statistics

Uganda

Bond curve outlook: bear flattening

We expect yields to continue to drift higher despite the current expansionary bias of monetary policy. In the past, 4-m rates on 91-day T-bills increased by 351 bps, to 8.49%, while those on 5-y bonds rose by 253 bps, to 11.94%. The rise in rates is likely to emanate from significant fiscal financing needs in the run-up to the elections. Liquidity conditions in the inter-bank market remain tight (overnight inter-bank rates increased to 4.0% in Dec 10, from 1.85% a year earlier), which contributes to lower demand for government securities. The subdued disbursement of foreign aid in Q1:11 is likely to contribute to a lack of liquidity in this period. The increased likelihood of elevated food prices in 2011 is likely to lead to higher inflation expectations, which in turn could underpin a rise in T-bond rates.

Changes in yield curve

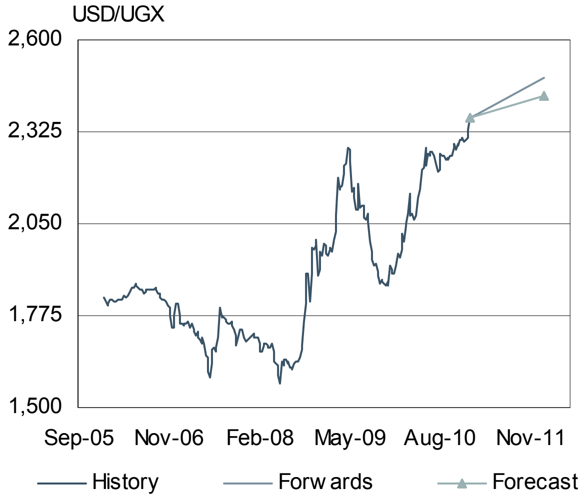


Source: BOU, Standard Bank Research

FX outlook: weak exchange rate policy bias

We expect the USD/UGX to continue to push higher in 2011 as the BOU aims to enhance external competitiveness. This is likely to be enabled by the relatively benign inflationary outlook in Q1:11, which should preclude tightening of monetary policy. The central bank is therefore likely to continue to use the exchange rate to support the external sector. The central bank allowed the UGX to surge towards 2,360 at the onset of 2011 before intervening. The central bank currently holds USD3.9bn (5.4 months of imports) in FX reserves, which provides the BOU with the means to limit the speed of depreciation to some extent. However, there is a risk that market players opt to increase their long USD positions, presenting further upside risks. Weakness is likely to be further induced by subdued donor inflows in the run-up to the elections in combination with higher corporate demand for USD.

USD/UGX: forwards versus forecasts

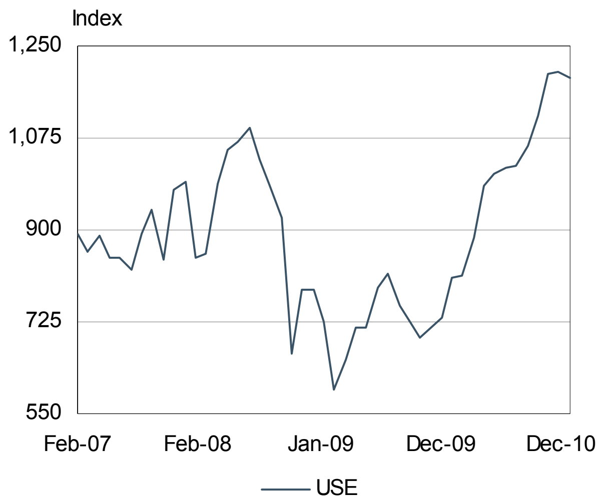


Source: Bank of Uganda, Standard Bank Research

Equity market: regional listings provide boost

The return on the USE amounted to 62.2% in 2010 (33.7% in USD terms), outpacing the performance of other African exchanges. Integration under the EAC could spur increased cross listing of companies on the four bourses in the region. There are currently 6 companies cross-listed on the NSE and USE; this will probably expand to at least 8 in 2011. The plans to cross list Tullow Oil on the USE will probably be effected, significantly changing the size and growth potential of the exchange. The USE has confirmed its intension to create a domestic index to track the performance of local companies. New listings are also likely to drive the market in 2011, with a high probability of Umeme (the privatised electricity distribution company) joining the ranks of listed companies.

Uganda Stock Exchange



Source: Reuters

Uganda

Uganda: annual indicators

	2006	2007	2008	2009	2010e	2011f	2012f
Output							
Population (million)	27.36	28.25	29.59	30.70	31.80	32.94	34.40
Nominal GDP (UGXbn)	20,166	23,351	28,176	34,166	39,018	44,090	49,513
Nominal GDP (USDbn)	11.6	13.8	14.5	18.0	16.9	18.1	20.1
GDP / capita (USD)	423	487	490	586	531	550	585
Real GDP growth (%)	7.0	8.1	10.4	5.2	6.6	7.4	8.2
Coffee production ('000 Tonnes)	15.8	26.4	29.0	28.0	24.7	26.4	27.8
Gold production (Kgs)	34.3	44.9	45.7	48.7	55.5	56.3	55.4
Tea production ('000 Tonnes)	133.1	175.3	218.8	195.9	180.2	190.4	207.2
Central Government Operations							
Budget balance (excl. Grants) / GDP (%)	-5.1	-4.6	-4.6	-5.7	-6.1	-4.3	-3.5
Budget balance (incl. Grants) / GDP (%)	0.0	-1.9	-1.7	-3.0	-3.5	-2.5	-2.2
Domestic debt / GDP (%)	20.0	16.0	17.5	17.1	17.7	18.3	18.6
External debt / GDP (%)	30.9	14.6	14.6	14.8	15.3	16.1	17.3
Balance Of Payments							
Exports of goods and services (USDbn)	1.19	2.00	2.70	3.09	2.99	3.25	4.06
Imports of goods and services (USDbn)	2.22	2.96	4.04	3.84	4.23	4.82	5.36
Trade balance (USDbn)	-1.03	-0.96	-1.34	-0.75	-1.24	-1.57	-1.30
Current account (USDbn)	-0.38	-0.46	-0.87	-0.44	-1.49	-1.47	-1.19
- % of GDP	-3.3	-3.4	-6.0	-2.4	-8.8	-8.1	-5.9
Financial account (USDbn)	-2.67	1.39	1.26	1.53	1.38	1.88	1.73
- FDI (USDbn)	0.69	0.78	0.74	0.65	0.75	1.14	1.28
Basic balance / GDP (%)	2.7	2.3	-0.9	1.2	-4.4	-1.8	-0.9
FX reserves (USDbn) pe	1.80	2.56	2.30	2.77	2.92	3.21	3.54
- Import cover (months) pe	5.8	6.2	5.0	5.5	5.4	5.1	5.2
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	B+	B+	B+
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	nr	nr	nr	nr	B	B	B+
Monetary & Financial Indicators							
Consumer inflation (%) pa	7.4	6.1	12.0	13.1	4.0	6.4	6.7
Consumer inflation (%) pe	10.9	5.2	14.3	11.0	3.1	7.0	6.2
M3 money supply (% y/y) pa	20.8	26.9	22.3	26.0	30.3	28.7	21.8
M3 money supply (% y/y) pe	16.9	22.0	31.0	17.3	40.5	20.8	17.2
BOU policy rate (%) pa	13.8	14.8	15.3	11.3	7.8	11.2	9.7
BOU policy rate (%) pe	15.3	14.1	18.4	8.7	11.0	10.9	8.5
3-m rate (%) pe	9.46	8.45	12.50	5.47	8.49	11.80	12.60
1-y rate (%) pe	10.94	13.40	18.45	9.05	10.12	12.70	13.40
2-y rate (%) pe	14.20	12.50	14.78	12.26	10.35	14.10	15.54
5-y rate (%) pe	13.82	14.07	14.07	14.13	11.94	15.34	16.79
USD/UGX pa	1,831	1,724	1,718	2,030	2,177	2,401	2,448
USD/UGX pe	1,741	1,698	1,945	1,900	2,310	2,432	2,462
REER pa	100.2	113.8	122.4	105.7	95.4	83.11	75.7
NEER pa	97.5	110.2	115.9	89.7	82.7	72.6	64.7

Notes: pe — period end; pa — period average; nr — not rated

Source: Bank of Uganda, Uganda Central Statistical Service, Standard Bank Research, Bloomberg

Zambia: robust investment-led growth sustainable

Quarterly indicators

	Q1:09	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10e	Q4:10f	Q1:11f	Q2:11f	Q3:11f	Q4:11f
GDP (% y/y) pa	4.3	6.4	7.6	6.8	7.1	6.9	7.1	7.3	7.1	6.8	6.5	6.0
CPI (% y/y) pa	14.4	14.4	13.7	11.2	9.8	8.7	8.1	7.4	8.2	9.1	9.6	10.4
M3 (% y/y) pa	25.7	21.1	19.2	8.1	8.9	22.8	30.1	33.9	34.5	32.4	30.2	31.1
CA/GDP (%) pe	-7.9	-6.5	-7.5	-7.3	-5.1	-4.4	-4.2	-3.8	-4.2	-4.4	-4.0	-3.7
FX reserves (USD bn) pe	0.95	1.15	1.76	1.89	1.79	1.76	2.12	2.21	2.34	2.38	2.42	2.58
Import cover (months) pe	2.2	2.7	4.1	4.5	3.4	3.3	4.0	4.2	3.6	3.7	3.7	4.0
3-m rate (%) pe	13.9	13.7	15.2	5.0	2.0	4.8	5.7	7.5	7.4	7.9	8.7	9.8
5-y rate (%) pe	19.5	19.0	20.0	17.1	12.3	9.5	13.1	13.0	13.0	12.8	13.1	12.3
USD/ZMK pe	5,580	5,150	4,720	4,662	4,682	5,123	4,851	4,832	4,786	5,331	5,423	5,051
REER pe	119.8	115.6	121.0	122.5	124.5	117.3	116.5	117.9	119.0	118.8	118.2	118.3
NEER pe	96.0	91.3	95.0	94.2	94.0	88.7	88.2	87.5	87.9	86.7	85.1	86.3
USD/ZMK vol (20 day)	18.1%	14.3%	6.7%	8.5%	10.3%	11.3%	12.0%	9.2%	10.0%	10.0%	15.0%	12.0%

Notes: pe — period end; pa — period average
Source: Bank of Zambia, CSO, IMF, Standard Bank Research

Political risk: getting into campaign mode

It is likely that the political noise will ratchet up in the period leading to the general elections, probably to be held in Sep. The PF could use the shooting of workers at a coal mine in Oct 10 by Chinese managers to whip up voter sentiment against the government, just like in 2006. In all likelihood, the election will be fought between the Movement for Multiparty Democracy (MMD) and Patriotic Front (PF). The PF's electoral pact with the UPND seems to be falling apart, with the parties failing to agree on a common slate of candidates in recent parliamentary and local government by-elections. Meanwhile, President Banda has been solidifying his position as *de facto* head of the MMD. It looks like he will be nominated unopposed for the party's presidency at the party's elective convention, allowing him to become the party's candidate for president in the general election.

Election results

Presidential election 2008	Party	% of votes
Rupiah Banda	MMD	40.1
Michael Sata	Patriotic Front	38.1
Hakainde Hichilema	UPND	19.7
Godfrey Miyanda	Heritage Front	0.8

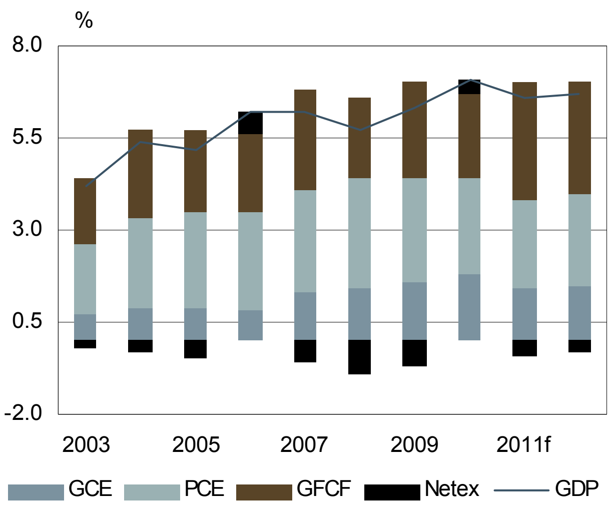
Parliamentary election 2006	Seats	% of votes
Movement For Multiparty Democracy	74	46.5
Patriotic Front	44	27.7
United Democratic Alliance	27	17.0
United Liberal Party	2	1.3
Total	159	100

Source: Electoral Commission of Zambia

GDP growth: robust

We expect GDP growth to average 6.7% y/y over the next 2-y. Investment spending is likely to provide a strong underpin to GDP growth. Both private and public sector investment spending is likely to accelerate. Exploration activity remains strong in the mining sector, even as most of the expansion projects started over the past 2-y have either been completed or are near completion. With the copper price elevated, copper production is likely to expand, perhaps reaching annual production of 936k tonnes in 2012. Strong VAT collections by the government indicate that private consumption spending is strong. We expect PCE growth to contribute solidly to GDP growth over the coming years. While inflation is likely to rise, nominal income is likely to grow sufficiently to support consumption spending.

Composition of GDP



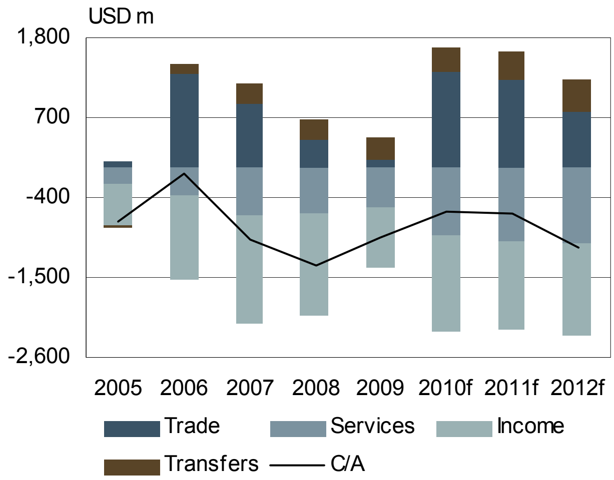
Source: Ministry of Finance, Standard Bank Research

Zambia

Balance of payments: likely to remain in surplus

Over the next 2-y, the trade balance is likely to decline somewhat. During H2:09 and 2010, the trade balance benefited from an asynchronous recovery in exports and imports. While imports grew at an average 49.4% y/y in the first 10-m of 2010, exports grew by 90.5% y/y on average. The consequence has been an expanding trade surplus that we estimate at USD1.34bn in 2010 and expect to decline in 2011 and 2012. But we expect machinery and equipment imports as well as oil imports to rise significantly over the next 2-y years, dampening the trade surplus. Similarly, the high copper price and robust production have encouraged high dividend outflows, leaving the C/A balance in deficit. However, FDI inflows have been sufficiently strong to leave the overall BOP in surplus. We expect FX reserves to reach USD2.58bn (4.0 months of imports) in Dec 11.

Current account developments



Source: IMF, Standard Bank Research

Fiscal policy: offshore funding for infrastructure

The government is likely to increasingly rely on external funding to finance infrastructural spending. Inadequate infrastructure, particularly energy and transport, is a major constraint on growth. The FY2011 budget shows that the government intends to raise external borrowing to 2.3% of GDP while limiting net domestic borrowing to 1.4% of GDP. While it is possible that most of the external borrowing will be on concessional terms, non-concessional borrowing will probably also play a role. In its recent Memorandum of Economic and Financial Policies to the IMF the government noted that it would like to shift away from non-concessional borrowing that is tied to specific projects, perhaps indicating that even issuing a Eurobond is a possibility.

Central government budget

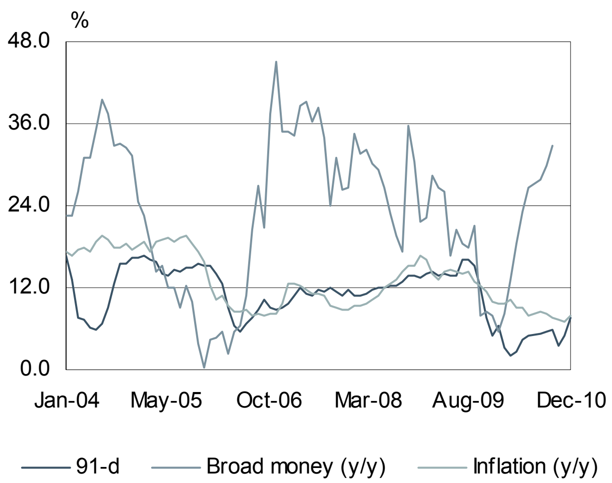
% of GDP	FY10	FY11
Total revenue	18.2	18.3
Total expenditure	24.0	23.8
- Interest	2.1	1.9
Overall balance (- grants)	-5.8	-5.5
Overall balance (+ grants)	-2.8	-3.7
Net external borrowing	0.9	2.3
Net domestic borrowing	1.9	1.4
Donor support (grants)	3.0	1.8

Source: IMF, Zambia Ministry of Finance

Monetary policy: tightening bias

The BOZ will probably adopt a tightening bias over the coming 6-m. Inflation rose to 7.9% y/y in Dec, from 7.1% y/y in Nov, mainly due to an increase in food inflation. Food inflation has been below 5.0% y/y since May 10, but is likely to push higher over the next 6-m. Despite a good maize harvest that depressed food inflation over the past 2-y, seasonal influences are likely to predominate. Local maize prices typically rise between Oct and Feb, putting upside pressures on food inflation. Evidently, even market players have started to expect a rising inflation trend. The 91-d T-bill rate shot up to 7.66% on 30 Dec, from 3.46% on 4 Nov, even as the bid-cover ratio averaged 1.04 in that period. We expect headline inflation to move into double digits in Q4:11, ending the year at 10.1% y/y and higher than the 7.0% target for Dec 11.

Inflation and interest rates



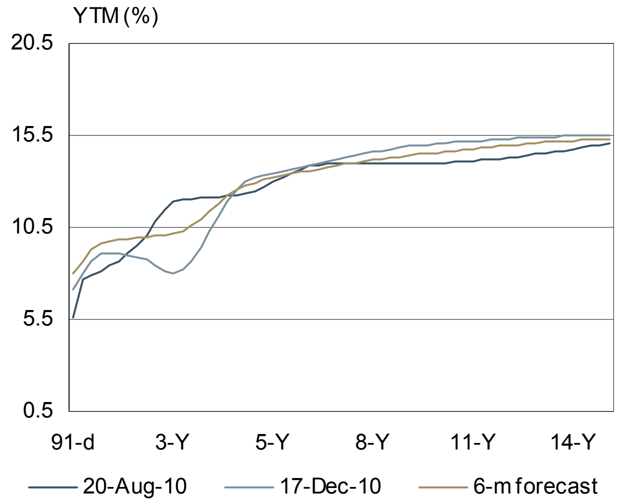
Source: CSO, Bank of Zambia, Standard Bank Research

Zambia

Bond curve outlook: bear flattening

The yield curve is likely to bear flatten over the next 6-m, with T-bill rates rising by between 60 and 85 bps. Demand for long-term T-bonds, with 7-y maturity and longer, has shrunk appreciably over the last 6-m. It appears that investors are turning towards the worsening inflation outlook, and adjusting their bids for paper accordingly. Of course, foreign investor demand has probably diminished somewhat since the flurry of activity in Oct and early Nov, reducing the competition for paper at the auctions. However, demand for paper has been consistently high since Sep 10, with an average bid-cover ratio of 1.16 for T-bonds and 2.0 for T-bills. Yet there has been upward pressure on yields. Even the BOZ has failed to depress yields for long, although it has rejected some of the bids for paper.

Changes in yield curve



Source: Bank of Zambia, Standard Bank Research

FX outlook: near-term upside risks

Some upward pressure on USD/ZMK may become evident in the coming 3m-6m. To be sure, copper price and production developments still suggest that USD/ZMK should be heading lower. Furthermore, yields have risen yet again, and they could be close to levels that could start attracting investors interested in the carry trade. Yet, the probable de-listing of Celtel Zambia could result in sizeable portfolio outflows from the equity market. We doubt that the BOZ will have a strong preference for ZMK weakness on a trade weighted basis. The USD/ZMK rate has lagged the copper price and the currencies of other copper exporting countries. In addition, inflation seems to have bottomed out, and is likely to head higher over the coming 12-m. It is unlikely that the BOZ, with a 7.0% y/y inflation target for Dec 11, would exacerbate that rising inflation trend through a weaker ZMK.

USD/ZMK: forwards versus forecasts

Source: Reuters, Standard Bank Research

Equity market: continued underperformance

The LSE is likely to continue underperforming other equity markets in Africa over the coming 6-m, using the Standard Bank Africa Index as a proxy, with foreign investor interest in the LSE most likely waning. Bharti Airtel's proposed delisting of its Zambian unit, Celtel Zambia, will, when implemented, remove the most liquid company listed on the LSE. Bharti Airtel made a mandatory offer to buy out minority shareholders in Nov 10, raising its shareholding to more than 97%, after which it applied to de-list Celtel Zambia. During 2010, the All Share Index rose 18.2% (14.5% in USD terms), 5.9% (7.2%) of which came in Q4:10. By comparison, the Standard Bank Africa Index rose by 41.4% in 2010 and 18.3% in Q4:10. That said, the LSE's performance was comparable with the MSCI EM index that rose 16.4% in 2010.

Lusaka Stock Exchange

Source: Reuters, Standard Bank Research

Zambia

Zambia: annual indicators

	2006	2007	2008	2009e	2010f	2011f	2012f
Output							
Population (million)	11.80	12.16	12.53	12.90	13.20	13.60	13.87
Nominal GDP (ZMKbn)	38,464	46,195	55,079	64,326	74,369	86,206	102,650
Nominal GDP (USDbn)	10.86	11.65	14.76	12.78	15.51	16.86	20.98
GDP / capita (USD)	921	958	1178	991	1,175	1,240	1,513
Real GDP growth (%)	6.2	6.2	5.7	6.3	7.1	6.6	6.7
Copper production ('000 tons)	497	522	612	698	812	869	936
Cobalt production (tons)	4,659	4,885	4,616	5,878	8,740	10,518	11,238
Central Government Operations							
Budget balance / GDP (%)	18.5	-1.2	-2.5	-3.7	-2.8	-3.7	-4.0
Domestic debt / GDP (%)	20.2	19.2	17.2	16.4	15.8	16.5	16.5
External debt / GDP (%)	8.9	9.6	7.9	9.5	11.5	13.5	12.2
Balance Of Payments							
Exports (USDbn)	3.93	4.51	4.96	4.34	6.40	7.68	8.37
Imports (USDbn)	2.64	3.61	4.56	4.21	5.06	6.45	7.57
Trade balance (USDbn)	1.29	0.90	0.40	0.12	1.34	1.23	0.79
Current account (USDbn)	-0.08	-0.97	-1.34	-0.94	-0.60	-0.62	-1.08
- % of GDP	-0.7	-8.3	-9.0	-7.3	-3.8	-3.7	-5.2
Financial account (USDbn)	0.24	1.32	1.35	1.74	0.92	0.98	1.25
- FDI (USDbn)	-1.59	0.84	0.79	0.83	0.85	0.95	1.10
Basic balance / GDP (%)	-15.4	-1.1	-3.7	-0.9	1.6	2.0	0.1
FX reserves (USDbn) pe	0.72	1.07	1.09	1.89	2.21	2.58	2.75
- Import cover (months) pe	2.7	2.8	2.4	4.5	4.2	4.0	3.7
Sovereign Credit Rating							
S&P	nr	nr	nr	nr	nr	nr	nr
Moody's	nr	nr	nr	nr	nr	nr	nr
Fitch	nr	nr	nr	nr	nr	B-	B-
Monetary & Financial Indicators							
Consumer inflation (%) pa	9.1	10.7	12.4	13.5	8.5	9.3	12.4
Consumer inflation (%) pe	8.2	8.9	16.6	9.9	7.9	10.1	11.8
M3 money supply (% y/y) pa	15.9	33.5	27.7	18.5	23.9	32.1	27.8
M3 money supply (% y/y) pe	45.0	26.6	21.8	20.6	30.1	32.8	26.5
Policy interest rate (%) pa	11.36	13.11	15.20	15.10	8.62	10.32	11.97
Policy interest rate (%) pe	11.12	13.41	15.58	7.05	9.66	11.80	12.10
3-m rate (%) pe	9.12	11.41	13.58	5.05	7.66	9.80	10.10
1-y rate (%) pe	11.14	13.89	18.53	11.83	9.81	11.49	11.15
2-y rate (%) pe	10.55	14.40	16.58	14.40	8.91	11.94	11.33
5-y rate (%) pe	13.58	15.70	18.99	17.07	13.01	12.30	11.75
USD/ZMK pa	3,541	3,966	3,731	5,032	4,795	5,113	4,892
USD/ZMK pe	4,390	3,830	4,785	4,662	4,832	5,051	4,799
REER pa	133.8	126.3	147.3	119.8	120.9	118.4	121.9
NEER pa	126.6	112.9	126.8	94.6	90.8	86.3	89.3

Notes: pe — period end; pa — period average; nr — not rated; na — not available

Source: Bank of Zambia, CSO, IMF, Ministry of Finance, Standard Bank Research

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