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ECONOMIC AND POLITICAL OVERVIEW

NIGERIA

FTSE Russell downgraded Nigeria's Stock Exchange from 'frontier' to 'unclassified' status which inevitably had a negative impact on the market. Primarily, this is due to capital controls that have prevented funds from repatriation out of equities.

President Tinubu continued to push reform, as he proposed Olayemi Cardoso as Governor of the Central Bank of Nigeria (CBN). He is a Harvard alumna and Citibank executive with a solid reputation. Nigeria's Senate approved the nomination, and there are reports circulating that CBN policy reforms are in process and will be announced imminently.

Also this month, the CBN announced that banks ought to set aside FX revaluation gains as macroeconomic buffers, instead of bolstering operating costs and dividends. This comes as a damper on the sector, given the positive results; this month saw many net long USD positioned banks such as Zenith and GTB publish triple digit net revenue growth as a result of FX gains. We are assessing the impact of this decision on our holdings, as specific details are still to be released.

The National Economic Council has affirmed that USD 3bn emergency loan will be disbursed to stabilise the naira. Further, the country is expecting USD 8.25bn from the World Bank yet to be deployed.

Macro releases included (August stats):

- Inflation inched up to 25.8% y/y (Jul: 24.1%).
- FX reserves remained steady at USD 34.0bn.
- PMI slipped to 50.2 (Jul: 51.7).
- M3 growth was 32.7% (Jul: 35.6%).
- Private sector credit grew 36.2% (Jul: 35.9%).
- Crude oil production improved to 1.4mbpd (Jul: 1.3mbpd) including condensates.
- Trace account surplus in 2q23 widened to NGN 1.3trn (USD 1.7bn) from 1q23's NGN 927bn (USD 1.2bn).
- The broadband penetration rate was 47% in July.

25.8% y/y	US$ 34.0bn	50.32	32.7% y/y
Inflation Rate	FX Reserves	PMI	M3 Growth

EGYPT

Presidential elections will take place on 1-3 December this year, with final results expected after 18 December. Initial candidate lists will be available by 16 October, and final lists by 9 November.

The IMF and government have decided to merge the first and second reviews of the USD 3bn loan, anticipated before year-end. The loan tenure is 46months, with 8 installments disbursed following semi-annual reviews. Egypt is committed to meeting the requirements, and is accelerating implementation of various reforms.

Macro releases (August stats):

- Inflation accelerated to 37.4% y/y (Jul: 36.5%).
- FX reserves were USD 34.9bn (Jul: USD 34.9bn).
- PMI was flat at 49.2.
- M2 growth was flat at 24.4% y/y.
- Tourist numbers increased +40% y/y from Jan-Jul, continuing the positive momentum.
- The Central Bank of Egypt (CBE) kept rates steady this month, the lending rate at 20.25%.
- The government forecasts an improvement in GDP for FY23/24 to +4.4% (Prev: +4.1%) and higher to +5.0% for FY24/25.

37.4% y/y	US$ 34.9bn	49.2	+24.4% y/y
Inflation Rate	FX Reserves	PMI	M2 Growth

KENYA

Despite positive strides made in terms of reforms, Kenya faces a myriad of challenges: weather patterns affecting agriculture, weak demand for the Kenyan shilling and ongoing inflation. Consumers are under serious financial pressure, as surging inflation has adversely impacted households despite last year's +12% increase in minimum wage. The Kenya Institute for Public Policy Research and Analysis cites a minimum basket increase of +22% over the same period, thereby eliminating any benefits of the wage increase.

An IMF review is anticipated in October/November with a disbursement of USD 55-60m expected under the Resilience and Sustainability Facility (RSF). The next ECF/EFF programme should see a futher USD 250-300m which should help to support the economy.

The National Treasury (NT) has cited that the Kenyan Shilling's fall is a policy adjustment due to historical policy errors, which is anticipated to settle in the near term. The NT also released its first review of the FY23/24 budget highlighting a wider deficit and larger shortfalls in revenue collection within these first 2m. Real GDP growth is expected to reach +5.5% in 2023. The NT is also in consultation regarding the Eurobond for June 2024 maturity, given recent mixed messages about a possible U-turn on the planned Eurobond buyback.

Macro releases included (August stats):

- Inflation slowed to 6.7% y/y (Jul: 7.3%).
- FX reserves slipped to USD 7.1bn (Jul: USD 7.4bn), covering 3.8m of imports.
- PMI improved to 50.6 (Jul: 45.5).
- Remittances grew 14.2% y/y to USD 354.4m (Jul: 18.4% to USD 378.1m).

6.7% y/y	US$ 7.1bn	50.6	+14.2% y/y
Inflation Rate	FX Reserves	PMI	Remittances

MAURITIUS

2q23 GDP grew a strong +6% y/y, continuing the positive trajectory (1q23: +5.8%). Hospitality grew +31.6% y/y (1q23: +60.2%), transport&storage +13.9% y/y (1q23: +6.5%), construction +14.2% y/y (1q23: +4.7%) and administration services +10.4% (1q23: +0.8%). Growth was constricted in health & public administration. Tourism rebounded and this trend has continued, which inevitably benefits other sectors. As a result, the Bank of Mauritius (BoM) expects 2023 GDP growth to be between 6.5%- 7.5% this year.

Macro releases (August stats):

- Inflation growth was flat at 5.9% y/y.
- FX reserves increased to USD 6.8bn (Jul: USD 6.7bn).

5.9% y/y	US$ 6.8bn
Inflation Rate	FX Reserves

MOROCCO

The country suffered the devastating impacts of an earthquake this month, reaching 7.2 on the Richter scale. Support has been pledged by various countries around the globe to assist with rebuilding. The major cities were not heavily affected, but some more rural centres were impacted, mainly on the outskirts of Marrakech. Ports, airports and the economic hub Casablanca was unaffected. The death toll reached over 2900. The government pledged to rebuild over 30 000 houses, 500 schools, hospitals and other vital infrastructure looking at a spend of USD 11.7bn over the next 5 years targeting the 4.2m people affected.

Separately, a USD 1.3bn loan has been approved by the IMF under a Resilience and Sustainability Facility (RSF), to assist in strengthening and buffering the country for climate change. Despite the earthquake, the IMF and World Bank are proceeding with scheduled talks with the government in October.

Macro releases included (July stats):

- Inflation increased slightly to 5.0% y/y (Jul: 4.9%).
- FX reserves reached USD 35.3bn (Jul: USD 35.1bn).
- The trade deficit narrowed to 6.8% in 1H23, and further to 6.5% as at end-July.
- Bank Al-Maghrib kept the interest rate unchanged at 3.0%.
- The European Bank for Reconstruction and Development (EBRD) forecasts GDP at 3.1% for 2023.

5.0% y/y	US$ 35.3bn	+6.8%
Inflation Rate	FX Reserves	Trade Deficit

COMPANY UPDATES

KEY TO BRACKETS: (COUNTRY, INDUSTRY)

Zenith (Nigeria, Financials) 1H23 Results: Net revenues grew a phenomenal +133% y/y, bolstered mainly by NFI growth of +246.1% y/y due to Zenith's net long USD position. FX revaluation gains grew 25x, expanding to 15% of NFI. Notably, net fees and commissions fell -31.8% y/y due to declines in guarantees and other fees. NII grew +41.7% y/y, as the yield curve shifted upwards with interest income up +71.9% y/y. Funding costs rose significantly, offsetting topline gains resulting in a muted NIM expansion of 20bps to 4.7%. Zenith booked significant impairments given the uncertain macroenvironment, up 8x from 1H22. Even with that, PBT grew +169.5% y/y and PAT +161.8% y/y. The balance sheet remained strong. Loans grew +44.4% y/y and +25.9% q/q, while deposits grew +62.5% y/y and +29.5% q/q. There are some ambiguities to these otherwise great results, as the CBN has announced today that banks are unable to use FX revaluation gains for operating costs and dividend payments. Instead, they are required to be set aside as an exchange-rate buffer. The exact terms and details are yet uncertain.

Attijariwafa (Morocco, Financials) 1H23 Results: Net revenue grew +11.7% y/y , driven by NFI +17.5% y/y and supported by NII +8.6% y/y. NFI was driven by net fees (58% of NFI), up +15.5% y/y and gains on financial instruments (29% of NFI) grew +19% y/y. Yields shifted upwards, and interest income grew +12.8% y/y. Funding costs increased, and interest expenses grew +24.4% y/y. NIMs expanded by 35bps to 3.3%. Opex was flat y/y, while impairments grew +37% y/y. PBT grew +16.1% y/y and PAT +19.1% y/y. Solid balance sheet; loans grew +5% y/y but down -1% q/q, while deposits grew +8% y/y and +3.2% q/q.

MARKET OUTLOOK

Africa is expected to outperform the rest of the world with an improved outlook in 2023. We continue to allocate to high quality businesses; those that score highly on our internally developed, Likert Q-scoring system, both currently and over time. We have two additional quantitative overlays, valuation and growth. We also have two qualitative overlays being management and ESG. What is particularly exciting is that we have a number of businesses across Africa that fit these criteria. The key transformational trends of financial inclusion, urbanisation and economic formalisation underpin a robust African consumer story that is taking shape regardless of global volatility. We allocate to the best companies in the sectors that tap into this transformation. At the moment, we have a bias towards financial inclusion and fintech themes as they do particularly well on our growth metrics.

Nigeria – The new President is taking reforms seriously, collapsing all rates to a single I&E window; a hugely positive signal to the markets. This, as new bills have been signed into law coupled with other positive moves, including the removal of fuel subsidies. The road to full recovery will take committed policy change and will be bumpy. The communications, fintech and banking sectors are growing strongly, yet high quality companies exploiting these, are at all time low valuation multiples.

Egypt –The tourism outlook has improved, wheat prices have halved, and strong remittance growth continues. With the bulk of household consumption in cash, the investment opportunity for us in fintech is immense in this 100m population country and it will also drive economic formalisation and increased government revenue through widening of the tax net.

Morocco – Morocco's key economic drivers are mining, agriculture and tourism. Agricultural production is promising, with good rains since November supportive of growth. Tourism is rebounding with positive indicators for 2023. In terms of outlook, it remains a stable, mid-growth country with excellent opportunities in retail, manufacturing and fintech.

Mauritius – Tourism rebounded and growth prospects are positive.

Kenya – Peaceful elections and a new, business-friendly President bode well for the country in the foreseeable future. Continued recovery in tourism, lower soft commodity import prices and a rebound in food exports should provide tailwinds. Corporate expansion into neighbouring countries such as the DRC and Ethiopia, provide significant opportunities for Kenya. Safaricom and Equity Group are the two main drivers. IMF and World Bank support will also allow the country to maintain a strong growth trajectory.