Monthly Market Report

IMARA
Asset Management

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Market snapshot

October was a tough month for global equity markets with most DM, EM and FM markets being down. Since the Fed rate hike in April, EM and FM equities have been under pressure from rising yields, weakening currencies and global trade uncertainty. In our universe, Egypt led the decliners, down 9.8%, followed by Morocco, down 4.8% and Kenya down 4.7%. The MSCI world index was down 7.3%, MSCI EM down 8.7%, MSCI FM was down 3.5%.

Economic and political overview

Nigeria – External reserves declined to USD43.5bn from a peak of USD47.8bn in June this year. Nigeria's September inflation of 11.3% y/y shows a pick-up in food prices of 13.3% y/y. This is in line with expectations at the recent MPC meeting and something to be monitored. 3Q18 results have been good, and in general, matched our expectations. In the banks sector, stock selection has been important, as we see the better banks such as our holdings in GTB and Stanbic IBTC, reduce provisions or even do writebacks, while the poorer quality banks such as First Bank Nigeria and Diamond Bank, still struggle with elevated CoR and NPL ratios of 15-20%.

On the consumer side, an area of concern is that disposable incomes are yet to recover. This is most evident in the brewery sector where the beer price war persists and companies have absorbed the excise duty increase, which reduces the sector profit pool. Consumer headwinds are key election issues. There has been a push to double the legislated minimum wage for public workers from N18,000 (USD50) per month, but State governors have delayed the passage to law arguing there is no capacity to pay this. It has been at this level since 2011.

The election news flow is in full swing, with Obasanjo endorsing Alhaji Atiku Abubakar as his candidate in the 2019 presidential election. Following the mass defections earlier in the year from Buhari's party as well as this endorsement from Obasanjo, we believe that the elections will be much closer than most people imagined at the start of 2018. What we find encouraging in the early stages of campaigning is that the focus is on job creation and employment, talking to a theme we mention regularly which is the politics of the stomach prevailing over anything else.

Egypt – Headline inflation in Egypt rose to 14.8% y/y. Similar to Nigeria, the rise in inflation comes as no surprise, it was flagged at the last MPC and as a result we expect to see policy rates unchanged for the rest of the year. 2Q18 GDP growth came in at 5.4%, the same growth rate as 1Q18. This reading is encouraging and reinforces the recovery growth theme that we are seeing across our Egypt universe. Disposable incomes continue to recover from the devaluation and we expect credit led demand to pick up once inflation moderates and the MPC continues its loosening policy.

Kenya – The IMF published its long awaited article IV document, important given the expiration of the stand-by IMF program. In the document, the IMF commends Kenya for its growth in recent years and improved resilience to external shocks. It further adds that the medium term growth prospects are favorable, supported by infrastructure investment and an improving business environment. It notes implementation of reforms and weak credit growth as key risks. Its debt sustainability analysis shows the risk of debt distress increasing from low to moderate, mainly due to the Eurobond maturing in 2019. We are not too concerned about the expiration of the stand-by IMF program or Eurobond repayment, but the structural twin deficit remains a point of concern and potential weakness if growth disappoints. Our bottom up opportunities reflect this, focusing on businesses that can absorb any KES shocks as well as banks that can return ROE's above the cost of capital, despite the interest rate caps being maintained.

Morocco – Finance Minister Mohamed Benchaaboun stated that he expects to reach an agreement with the IMF for a precautionary and liquidity line (PLL) by the end of 2018. He did not specify the amount but said at a news conference that the Ministry has already requested the IMF's PLL. He also confirmed a Central Bank announcement that Morocco was also due to issue an international bond in 1Q19. The size and interest rate has not been decided yet.

Mauritius – October inflation came in at 2.8% y/y, we believe that the MPC will most likely leave rates unchanged at their next meeting in November.

Zimbabwe – We plan to visit Zimbabwe in November to get some bottom up colour and we recently published a standalone Zimbabwe note last month, click here if you wish to access it. We noted the suspension of senior Reserve Bank officials pending investigations for alleged impropriety. The executives were fired on the 22nd October and we await the outcome of these investigations, we have been waiting for signs that President Mnangagwa is indeed serious about clamping down on corruption, but we are yet to see any arrests of key individuals.

We have been tracking closely national payments activity to see the impact of the transaction tax on velocity of money. After a sharp dip following the announcement, activity seems to have bottomed in the last week of October, with the week of 19 October to 26 October being the first week that volumes have picked up again, up 2.4% by volume and 5.8% by value week on week. We have pasted the 3 tables showing monthly activity in October below

Week 1 in October

Table 3: National Payment Systems Activity

PAYMENT STREAM	WEEK ENDING 28th SEPTEMBER 2018	WEEK ENDING 5th OCTOBER 2018	% CHANGE FROM LAST WEEK	PERCENTAGE OF TOTAL
	VALUES IN US$ (millions)			
RTGS	2,117.58	1,608.82	-24.0%	57.12%
CHEQUE	0.94	0.95	0.4%	0.03%
POS	282.89	315.92	11.7%	11.22%
ATM	3.25	4.05	24.4%	0.14%
MOBILE	798.20	886.59	11.1%	31.48%
TOTAL	**3,202.87**	**2,816.32**	**-12.1%**	**100%**
	VOLUMES			
RTGS	150,645	148,844	-1.2%	0.32%
CHEQUE	4,652	4,840	4.0%	0.01%
POS	6,917,209	7,740,315	11.9%	16.57%
ATM	70,852	85,124	20.1%	0.18%
MOBILE	36,526,432	38,732,999	6.0%	82.92%
TOTAL	**43,669,790**	**46,712,122**	**7.0%**	**100%**

Source: Reserve Bank of Zimbabwe, 2018

Week 2 in October

Table 3: National Payment Systems Activity

PAYMENT STREAM	WEEK ENDING 5th OCTOBER 2018	WEEK ENDING 12th OCTOBER 2018	% CHANGE FROM LAST WEEK	PERCENTAGE OF TOTAL
	VALUES IN US$ (millions)			
RTGS	1,608.82	2,317.48	44.0%	68.39%
CHEQUE	0.95	1.02	7.8%	0.03%
POS	315.92	321.28	1.7%	9.48%
ATM	4.05	3.66	-9.6%	0.11%
MOBILE	886.57	745.39	-15.9%	22.00%
TOTAL	**2,816.30**	**3,388.83**	**20.3%**	**100%**
	VOLUMES			
RTGS	148,844	129,419	-13.1%	0.31%
CHEQUE	4,840	5,050	4.3%	0.01%
POS	7,740,315	7,069,725	-8.7%	17.04%
ATM	85,124	73,469	-13.7%	0.18%
MOBILE	38,728,405	34,222,030	-11.6%	82.46%
TOTAL	**46,707,528**	**41,499,693**	**-11.1%**	**100%**

Source: Reserve Bank of Zimbabwe, 2018

Week 3 in October

Table 3: National Payment Systems Activity

PAYMENT STREAM	WEEK ENDING 12th OCTOBER 2018	WEEK ENDING 19th OCTOBER 2018	% CHANGE FROM LAST WEEK	PERCENTAGE OF TOTAL
	VALUES IN US$ (millions)			
RTGS	2,317.48	1,635.84	-29.4%	65.57%
CHEQUE	1.02	0.96	-6.2%	0.04%
POS	321.28	262.75	-18.2%	10.53%
ATM	3.66	3.26	-11.0%	0.13%
MOBILE	745.39	591.85	-20.6%	23.72%
TOTAL	**3,388.83**	**2,494.65**	**-26.4%**	**100%**
	VOLUMES			
RTGS	129,419	98,644	-23.8%	0.27%
CHEQUE	5,050	4,485	-11.2%	0.01%
POS	7,069,725	5,439,158	-23.1%	15.02%
ATM	73,469	61,976	-15.6%	0.17%
MOBILE	34,222,030	30,607,330	-10.6%	84.52%
TOTAL	**41,499,693**	**36,211,593**	**-12.7%**	**100%**

Source: Reserve Bank of Zimbabwe, 2018

Week 4 in October (Bottoming out?)

Table 3: National Payment Systems Activity

PAYMENT STREAM	WEEK ENDING 19th OCTOBER 2018	WEEK ENDING 26th OCTOBER 2018	% CHANGE FROM LAST WEEK	PERCENTAGE OF TOTAL
	VALUES IN US$ (millions)			
RTGS	1,635.84	1,750.11	7.0%	66.30%
CHEQUE	0.96	0.83	-13.0%	0.03%
POS	262.75	229.92	-12.5%	8.71%
ATM	3.26	4.26	30.9%	0.16%
MOBILE	591.85	654.75	10.6%	24.80%
TOTAL	**2,494.65**	**2,639.87**	**5.8%**	**100%**
	VOLUMES			
RTGS	98,644	115,744	17.3%	0.31%
CHEQUE	4,485	3,820	-14.8%	0.01%
POS	5,439,158	5,416,120	-0.4%	14.60%
ATM	61,976	77,696	25.4%	0.21%
MOBILE	30,607,330	31,480,297	2.9%	84.87%
TOTAL	**36,211,593**	**37,093,677**	**2.4%**	**100%**

Source: Reserve Bank of Zimbabwe, 2018

Market outlook

Nigeria – The results season confirms a slow recovery and clear path to normalisation of the economy. For the most part, consumer companies are able to shift volume and we expect pricing to improve, especially later in 2018. We maintain a large allocation to banks and the top consumer names in the food and beverages sector, valuations continue to look attractive. Our preferred banks are well positioned to make money from fees. Overall, banks will make less profit from yields as the curve drops in 2018, but higher NGN liquidity, strong growth in trade facilities (LCs) and mobile bank fees will still mean good growth in earnings. Consumer names we hold have traded through tough consumer conditions to gain market share, the announcement of an expansionary budget points to increased liquidity pre-elections, which could be a nice kicker to 2H18. In the same breath, pre-election instability remains the biggest risk factor to a strong recovery. **Egypt –** The economic recovery is continuing as expected and most management teams are positive and expect conditions to improve further. We are seeing volumes recover as wages catch-up to inflation and this is further supported by corporates restocking as demand picks up. Upside risk to inflation from subsidy removal and rising oil prices, but there is enough positive momentum to maintain the growth trajectory. **Kenya –** The political decision not to remove interest rate caps removes the opportunity for an asymmetric trade on the banking shares and reduces economic momentum. Despite, a less optimistic outlook, we remain invested on the payments and fintech theme which we play through telco and banking. **Mauritius –** The country continues its moderate recovery and we are happy to see the BoM continuing to mop up excess liquidity, which is pushing up money market yields, the latest inflation numbers are encouraging and supportive of the BoM monetary policy. **Morocco –** Our outlook remains unchanged, we continue to search for attractively priced growth investment opportunities with our existing investments showing moderate growth and attractive dividend yields**. Zimbabwe –** We have always taken a long term view to Zimbabwe, preferring to look through the political noise and focusing on identifying corporate champions that can generate shareholder wealth no matter the environment. OMIR allows us to get both liquidity and a reasonable valuation as we wait. Bottom up, the 1H18 corporate results are very strong and the companies in our portfolio have survived hyperinflation before and they have highly capable management teams. Key to Zimbabwe's economic recovery is a fresh capital injection and debt forgiveness/restructuring, we believe that announcements signaling progress in this regard will be catalytic for our investments in the country.