Political and Economic Review

Moderate recovery amidst headwinds

The national accounts were rebased to the calendar year 2016 from 2009 and this was reflected in the third quarter of 2021. Local financial markets continued their first half gains to close September in a strong position. The Nairobi All Share Index (NASI) gained 2.8% during the quarter (17.2% year-to-date) buoyed by improving corporate earnings. Inflation edged up slightly to an average of 6.7% in 3Q21 but remained within the Central Bank limit. Rising oil and volatile food prices coupled with an increase in import activity put the Kenya Shilling under pressure during the quarter. On the fixed income front, the yield curve shifted up marginally due to increased investor appetite as the government front loaded its domestic borrowing activity.

COVID-19 vaccination campaign progress

The National accelerated COVID-19 vaccination campaign dubbed, *''Kuwa shujaa pata chanjo tufungue nchi''* underpins a more positive economic outlook. As of 30th September 2021, Kenya had administered a total of 3.8m vaccines across the country indicating that 3.4% adults were fully vaccinated. The government targets to have 10m vaccinations in the next three months, with a mid-term target of 5.8m vaccinations by 20th October 2021. Concerns about the pandemic are likely to ease with the continued rollout of vaccines.

Kenya's 2019 nominal GDP restated upwards by 5.3%...

The Kenya National Bureau of Statistics (KNBS) published revised historical GDP numbers following the recent rebasing from 2009 to 2016. Therefore, the country's 2019 nominal GDP increased by 5.3% to KES 10.3trn. Rebasing entails replacing an old base year with a more recent base year, aiming at ensuring that key macroeconomic statistics present the most accurate estimate of size and structure of the economy.

…sector contribution to GDP shifts

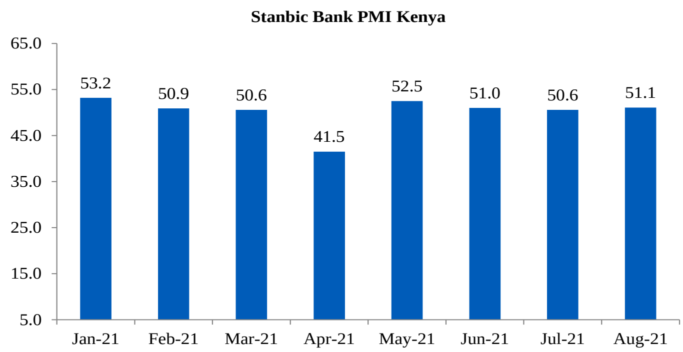
Following the rebasing, the share of various sector contribution to GDP changed. The most notable change was the agriculture sector which dropped from a 5-year average of 32.9% of GDP to 20.4% of GDP. On the other hand, the transport sector share of GDP moved up from 8.0% to 10.8%. Other sectors that saw a notable change were the real estate which moved up from 7.2% to 9.3% of GDP and the wholesale & retail trade which increased from 7.4% to 8.3% of GDP.

Economy contracted by 0.3% in 2020…

The Kenyan economy contracted by 0.3% in 2020 compared to 5% in 2019. The contraction in 2020 was due to the emergence of COVID-19 which significantly constrained economic activity. The service sector was largely affected on the back of a decline in transport (-7.8%), education (-10.8%) and tourism (-47.7%). However, agriculture (+4.8%), construction (+11.8%), financial services (+5.6%) and real estate (+4.1%) recorded growth in 2020.

…PMI signals improved business conditions in 3Q21

Stanbic Kenya's Purchasing Managers Index (PMI) continued to signal a moderate improvement in business conditions. The PMI rose to 51.1 in August 2021 from 51.0 in June 2021. The improved performance was attributed to favourable economic conditions, and an increase in new orders.



Source: Stanbic Bank

Private sector credit growth remained resilient

The private sector saw credit growth of 7.0% in the twelve months to August 2021 from 6.1% in July 2021. The credit growth was mainly driven by transport and communication (+11.8%), manufacturing (+9.3%), finance and insurance (+7.7%), trade (+5.8%) and consumer durables (+20.1%). This portrays improved economic activity driven by consistency in the monetary policy stance.

Current account deficit widened on higher import bill

Kenya's current account deficit widened in the 12 months to August 2021 to 5.5% of GDP compared to 5.0% in a similar period last year. The growth in diaspora remittances and exports did not offset the high import bill. The current account deficit may widen further as we get to end of year due to increased imports as a result of increased domestic consumption and production inputs.

Higher tax collections

The National treasury gazetted revenue collections for the first two months of FY2021/22 indicating that tax collections increased by 31.4% compared to a similar period in FY2020/21. The tax collected was equivalent to 14.5% (KES 1.7trn) of the full year target compared to 12.0% in a similar period in FY2020/21. The performance reflects the improving economic activities, driven by the improved overall business and consumer demand.

Economic outlook

Economic growth is expected to gradually recover largely supported by the primary sectors mainly agriculture, the low base effects in the service sector, near normalization in activities in some sectors, vaccination rollout and infrastructural spend. Fiscal pressure, global oil prices, drought and COVID-19 remain key risks to economic recovery.

GenAfrica ASSET MANAGERS

Currency, Inflation and Fixed Income Markets Review

Kenya Shilling depreciates against major currencies

The Kenya Shilling depreciated by 2.4% against the US Dollar quarter-on-quarter and 1.2% year-to-date to close at KES 110.5. This was on account of increased import activity notwithstanding the weaker USD, higher forex reserves as well as resilient remittances. The inclusion of the Eurobond proceeds shored up foreign exchange reserves to USD 9.5bn (5.8 months of import cover) from USD 8.1bn as at the end of the second quarter of 2021 further strengthening the external position.
The Special Drawing Rights (SDRs) from the International Monetary Fund (IMF) amounting to USD 737.6m (approved during the quarter) will boost the country's external position.

	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21	30-Sep-21	Q-on-Q	YTD
USD/KES	108.50	109.17	109.51	107.85	110.49	-2.4%	-1.2%
GBP/KES	139.51	148.36	150.69	149.20	149.64	-0.3%	-0.9%
EUR/KES	126.89	133.90	128.60	128.23	129.01	-0.6%	3.6%
ZAR/KES	6.39	7.46	7.31	7.51	7.33	2.5%	1.8%
KES/UGX	34.29	33.38	33.47	32.96	32.00	-2.9%	-4.2%
KES/TZS	21.38	21.24	21.18	21.50	20.91	-2.8%	-1.6%

Source: Central Bank of Kenya

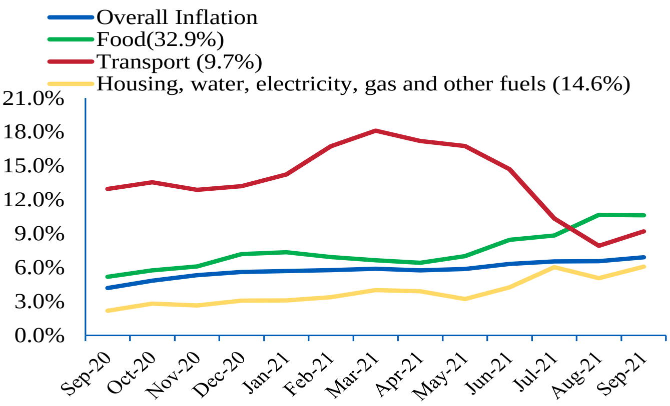
The KES strengthened marginally against the South African Rand, gaining 2.5%. The shilling lost against the Euro and Sterling Pound by 0.6% and 0.3%, respectively.
On the regional front, the KES depreciated by 2.9% and 2.8% against the Uganda and Tanzania Shillings respectively.

Currency outlook

The shilling is expected to gradually weaken owing to an increase in corporate demand as well as the widening of the current account deficit on the back of a higher import bill. The stable foreign exchange reserves, export receipts, diaspora remittances and the debt relief program may mitigate volatility on the KES. Additionally, CBK is likely to support the currency in cases of extreme volatility as well as manage the liquidity through open market operations.

Higher inflation due to fuel and food prices

Inflation for 3Q21 averaged 6.7% up from 6.0% in 2Q21 but remained within the Central Bank range (2.5% -7.5%).



Source: KNBS

The food inflation trended upward to an average of 10.0% in the third quarter of 2021 compared to an average of 7.3% in 2Q21. The housing, water, electricity, gas and other fuels index reported a higher average inflation of 5.7% compared to 3.8% in 2Q21 as the price of kerosene, cooking gas and electricity increased.

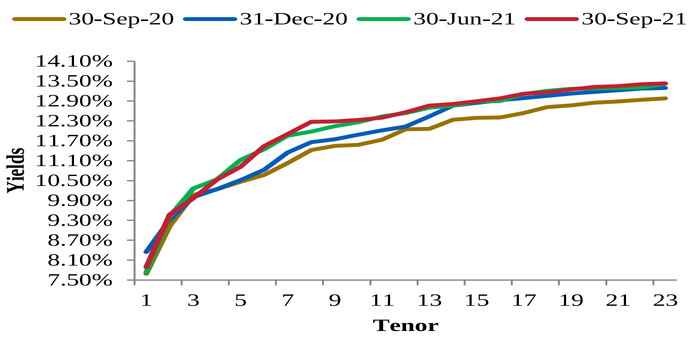
Despite the increases in prices of petrol and diesel, the transport index recorded an average inflation of 9.2% in 3Q21 from 16.2% in 2Q21 due to decreases in bus fares.

Inflation outlook

Overall inflation is expected to increase in the short term as a result of rising food prices, low base effects, weaker currency, inflationary tax adjustments and higher global oil prices.

Yield curve inches up slightly

The yield curve shifted up marginally during the quarter. Bond market activity was concentrated on the medium end of the curve (tenor of up between 5 years to 12 years), inching slightly by 5 basis points. The long end saw a 3 basis points increase in the yields while the short end of the yield curve (bonds below 5 years) experienced a slight downward shift. The marginal shift in the yield curve was driven by an increase in domestic borrowing. As at 27th September, the net domestic borrowing was KES 251.4bn against the annual target of KES 661.6bn, implying 37.9% of the target.



Source: NSE

Short term average rates trended downwards in 3Q21. Quarterly averages for the 91-day T-Bill, 182-day T-Bill and the 364-day T-Bill were 6.7%, 7.1% and 7.6% in 3Q21 from 7.1%, 7.8% and 9.1%, respectively.
The 91-day T-Bill closed the quarter at 6.9%, the 182-day T-Bill closed at 7.3% while the 364-day T-Bill closed at 7.9%.

Treasury Bill Quarterly Average Rates	3Q20	4Q20	1Q21	2Q21	3Q21	Q/Q	Y/Y
91 Day	6.24%	6.69%	6.95%	7.10%	6.66%	-0.44%	0.42%
182 Day	6.64%	7.13%	7.65%	7.84%	7.13%	-0.71%	0.49%
364 Day	7.54%	8.03%	8.80%	9.05%	7.57%	-1.49%	0.02%

Source: Averages computed from actual CBK weekly data

Meanwhile, the Monetary Policy Committee held the CBR rate steady at 7.0% at their September meeting. The interbank remained relatively liquid with the average interbank rate declining marginally to 4.0% from 4.8% in the previous quarter.

Interest rate outlook

The government is expected to front load its borrowing requirements for fiscal year FY2021/22 in the coming months. However, the high levels of liquidity in the market will limit any significant increase in interest rates. Therefore, overall interest rates are expected to remain stable in the short term with marginal increases off primary auctions. CBK is expected to maintain the current policy rate of 7.0% in a bid to spur economic growth despite potential short-term inflationary pressures.

Equity Market Review

Better corporate earnings buoys market

All indices were up for the third quarter. The ***Nairobi All Share Index (NASI)*** gained ***2.8%*** during the quarter (***17.2%*** year-to-date) while the ***NSE 20 Index*** gained ***5.4%*** in 3Q21 ***(8.7%*** year-to-date). The performance was supported by the improving economic condition and the gradual recovery in corporate earnings. Foreign investors recorded net inflows totalling USD 8.5m in 3Q21 compared to net outflows amounting to USD 18.6m in 2Q21.

	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21	30-Sep-21	Q-on-Q	YTD
NSE 20	1,852.3	1,868.4	1,846.4	1,927.5	2,031.2	5.4%	8.7%
NASI	139.9	152.1	158.6	173.5	178.3	2.8%	17.2%
NSE 25	3,258.8	3,415.2	3,531.6	3,772.2	3,914.5	3.8%	14.6%
FTSE NSE 15	176.0	178.2	184.8	204.1	215.1	5.4%	20.7%
FTSE NSE 25	186.9	197.6	207.0	228.9	237.4	3.7%	20.2%

Source: NSE

Safaricom was the most traded counter, accounting for 49.0% of total turnover, trailed by ***Equity Group*** at 13.2%, ***EABL*** at 12.2%. and ***KCB Group*** at 8.8%. Quarter-on-quarter, the top movers gained; ***Safaricom*** (+1.6%), ***Equity Group*** (+13.4%), and ***KCB Group*** (+9.6%) while ***EABL*** shed 5.5% on account of foreign outflows.

Robust performance for banks in 1H21

The banking sector half year financial results bounced back in 1H21 driven by stronger income, lower loan loss provisions, deposit growth, loan book growth as well as improved efficiency. Across the banks, there was mixed performance on earnings growth as shown in the table below. ***ABSA*** reported the highest earnings growth of ***846.0%*** while ***Co-operative Bank*** reported the weakest at ***2.3%***.

Bank's 1H21 Performance	ROE	Earnings growth	Loan growth	Deposit growth	NPL Ratio
Equity Group	22.6%	97.7%	28.9%	50.7%	11.2%
Stanbic Bank	15.5%	35.6%	-11.7%	-9.4%	11.1%
Co-operative Bank	15.9%	2.3%	10.7%	6.0%	14.4%
Stanchart Bank	18.9%	50.9%	-3.0%	8.5%	14.9%
KCB Bank	20.0%	101.9%	8.4%	3.7%	13.8%
I&M Holdings	11.5%	33.2%	10.8%	9.6%	10.1%
ABSA Bank	21.4%	846.0%	8.4%	6.1%	7.7%
Diamond Trust Bank	9.0%	20.1%	1.4%	11.9%	10.0%
NCBA Bank	13.6%	76.9%	-3.5%	12.0%	15.8%

Source: Company filings

Credit growth was resilient in the second quarter. ***Equity Group*** reported the highest loan growth of ***28.9%*** followed by ***I&M Holdings*** at ***+10.8%*** while ***Stanbic (-11.7%), NCBA Bank (-3.5%)*** and ***Standard Chartered Bank (- 3.0%)*** had their loan books contract. ***Equity Group (+50.7%)*** and ***NCBA Bank (+12%)*** reported the highest deposit growth in the first half of 2021.

Safaricom's progress on Ethiopia's entry

Safaricom-led Ethiopian consortium was granted the full-service telecommunication license by the Ethiopian Communications Authority (ECA) following successful execution of all license agreements. The awarded licence will be effective for a period of 15 years from 9th July 2021 and is renewable for an additional 15 years subject to fulfilment of all license obligations.

The telco embarked on nationwide staff recruitment drive, picking an Executive Committee (ExCo) who will steer the telco's operations in Ethiopia. The ExCo team comprises of 11 staff members who will report to the telco's MD, Anwar Soussa.

EABL full year earnings drop marginally by 0.8%

EABL reported a 0.8% year-on-year (y/y) drop in earnings to KES 7.0bn in FY21. The performance was attributed to cost inflation, adverse foreign exchange and higher tax charges. Net sales grew by 14.6% y/y boosted mainly by improved performance of the Ugandan business which recorded a 33.0% y/y growth in net sales followed by Tanzania at 15% y/y and Kenya at 10.0% y/y. On the other hand, a 15.9% y/y rise in cost of sales and an 18.7% y/y increase in other expenses dampened earnings.

Bamburi Cement first half earnings after tax up 7.6%

Bamburi Cement reported a 420.7% year-on-year (y/y) spike in profit before tax. Revenues increased by 21.0% y/y on account of volume growth both in the domestic and export markets as well as better average selling prices. Operating costs increased by 15.6% y/y to KES 18.4bn while finance costs declined by 47.4% y/y. A tax expense charged in 1H21 against a tax credit that was booked in 1H20 resulted in a 7.6% y/y increase in profit after tax.

Nation Media Group (NMG) returns to profitability in 1H21

NMG's profitability bounced back despite a challenging business environment, recording a profit of KES 285.2m in 1H21 from a loss of KES 375.3m in 1H20. The media company's revenue recovered from all business segments. Cost containment and optimization measures rolled out at the onset of the pandemic boosted profitability.

In other news, ***NMG*** announced the results of the share buyback, noting an 82.5% success rate. This rate translates to repurchase of 17.1m shares thereby reducing the firm's ordinary shares to 190.3m shares from 207.4m.

Centum posts a net loss of KES 606m

Centum announced FY21 results posting an improvement from a loss of KES 3.4bn (FY20) to a loss of KES 606m. The performance improved as finance costs declined by 66.8% y/y due to debt payment redemption of KES 6.6bn. Additionally, the impairment provision on the investment portfolio decreased. However, the company's operating profit dropped by 75.1% y/y to KES 245m given that in FY20, the company had recorded a gain on disposal of bottlers of KES 2.2bn. ***Centum*** intends to reduce its stake in Two Rivers Development Company (TRDC) from the current 58% controlling stake. The Board of Directors recommended a final dividend of KES 0.33 per share.

BAT earnings up 0.7% in 1H21

BAT Kenya reported a 0.7% year-on-year (y/y) increase in profit after tax as strong revenue growth of 19.0% y/y was offset by higher taxes and a 27.2% y/y increase in operating expenditure. The growth in revenue was as a result of the recovery of domestic volumes, export sales and excise-led price increases. An interim dividend per share of KES 3.5 was declared unchanged from the previous year.

Stock market outlook

With an improving macroeconomic environment, ongoing vaccination drive and improving corporate earnings, prices are likely to be sustained at current levels with upward shifts on select counters. However, inflationary pressures, currency weakness and COVID-19 uncertainty remain risks to our outlook.

UGANDA

Political and Economic Review

42 Day lockdown effects linger on

The COVID-19 vaccination drive made headway in the third quarter of 2021 following provision of more vaccines. However, the country is a long way from attaining the target of 4.8m vaccinations that will allow further easing of restrictions. The Bank of Uganda maintained an expansionary monetary policy stance to support economic activity. The currency, inflation and equities market were largely stable reflecting low domestic demand and economic activity following the 42-day lockdown. Yields on government paper continued the downward spiral.

Vaccination: the key to economic reopening

The 42-day lockdown that was instituted on 18th June 2021 was partially lifted at the end of July 2021. Since then, more restrictions have been lifted with the latest in September 2021 allowing funerals, weddings, and religious gatherings up to a maximum of 200 people from 20. However, schools remain closed except for tertiary institutions and universities. Curfew hours are maintained between 7:00 pm and 5:30 am. Concerts and bars will remain closed until a vaccination target of 4.8m people has been attained. As of 30th September, the number of vaccinated people had clocked 1.9m following receipt of various vaccines including Sinovac, Astrazeneca, Moderna and Pfizer donated by China, Norway, the United Kingdom, Ireland and the USA.

IMF approves USD 1bn ECF

The International Monetary Fund (IMF) approved a USD 1bn Extended Credit Facility (ECF) programme for Uganda to be dispersed over a three- year period. The package is intended to support the short-term response to the COVID-19 crisis and sustain a post-crisis inclusive recovery. The first disbursement of USD 258m was received in June 2021.

Economic outlook

The COVID-19 vaccination exercise has gathered momentum given increased provision of vaccines in the past few months from various donors. However, the risk posed by the pandemic and any subsequent containment measures is still imminent. Moreover, the expiry of the credit relief measures may restrict private sector credit growth and increase non-performing loans. The Bank of Uganda projects growth of 3.5%-4.0% for FY2021/22.

Shilling relatively stable in 3Q21

For the quarter ended September 2021, the Uganda Shilling was stable against the US Dollar (USD) gaining a marginal 0.7% quarter-on-quarter. The shilling was supported by donor inflows, diaspora remittances, transfers from NGOs, portfolio inflows and increased export earnings amidst subdued private sector demand.

Currency outlook

The UGX is likely to remain stable against the USD due to low domestic demand and increased foreign portfolio inflows. The disbursements from the IMF programmes is likely to further support this stability. Rising global oil prices present risk to the outlook.

Inflation stable in 3Q21

Headline inflation remained muted in 3Q21 averaging 2.1% compared to 2.0% in 2Q21. A rise in food and non-alcoholic beverages, furnishings, personal equipment and routine household was offset by a decline in transport costs, as well as recreation sport and culture. Core inflation declined to an average of 2.3% in 3Q21 from 2.9% in 2Q21 due to annual services inflation.

Inflation outlook

Inflation is likely to gradually increase off the back of rise in global oil prices, further reopening of the economy and potential increase in food prices. However, it is expected to remain below 5.0%.

Yields fall further, CBR maintained at 6.5%

During the quarter ended September 2021, the Bank of Uganda (BoU) maintained the Central Bank Rate (CBR) at 6.5% to support economic recovery despite the potential rise in inflation.
On a quarterly basis, yields on government paper continued a downward trajectory due to high liquidity and increased demand from offshore investors. The largest decline was seen on the 5-year paper (-148 basis points) while the lowest was seen on the 91-day paper (-7 basis points).

Interest rates outlook

The Central Bank is likely to maintain an accommodative monetary policy stance to support economic recovery following the 42-day lockdown and ongoing COVID-19 restrictions. The expiry of the credit relief measures is likely to heighten commercial banks prudence in disbursing loans. We anticipate continued demand from financial institutions and foreign investors for Government paper which is likely to weigh down yields.

Local equities marginally decline in third quarter of 2021

The ***Local Share Index (LSI)*** lost ***0.9%*** on a quarterly basis attributed to ***NIC (-15.0%), Cipla (-5.0%), New Vision (-4.2%) Umeme (-4.1%), Stanbic (-0.5%), Bank of Baroda (-2.5%)*** and ***DFCU (-1.4%). Uganda Clays*** gained ***4.5%***. However, on a quarterly basis, the ***All Share Index (ALSI)*** gained ***0.9%*** supported by cross-listed stocks ***Equity Bank (+6.4%)*** and ***KCB (+4.1%).***

Stock market outlook

We anticipate a pick-up in activity on the exchange, as the economy gradually recovers from the lockdown imposed last quarter. A new listing from MTN Uganda is a key factor, as the company intends to float 20% of its existing ordinary shares in the fourth quarter of 2021. The Uganda Securities Exchange's partnership with MTN Mobile Money to digitalize SCD account opening, is also expected to increase participation on the Ugandan stock market.

Rwanda

Economic growth improves in 2Q21

In the second quarter of 2021, Rwanda's economy recorded growth of 20.6% year-on-year compared to -12.4% year-on-year in a similar period in 2020 due to unwinding base effects. Agriculture grew by 7.0% compared -2.0% in 2020 supported by production of food crops. The Industrial sector grew by 30.0% compared to -19.0% supported by construction activities, manufacturing and mining and quarrying. The Services sector grew by 24.0% compared to -16.0% in a similar period in 2020 supported by wholesale and retail, transport, education, information and communication and financial services. The International Monetary Fund (IMF) projects growth to rebound to 5.1% in 2021 from a 3.4% contraction in 2020.

Rwanda hits COVID-19 vaccination milestone

Rwanda has fully vaccinated 10.0% of its population against COVID-19, reaching the September global target set by the World Health Organization (WHO). Rwanda has so far received around 3.4 million doses of COVID-19 vaccines through donations and bilateral agreements. The milestone was hit following the easing of a strict lockdown that was imposed in July 2021 up until the beginning of August 2021. Strict guidelines to contain COVID-19 infections however remain in place. These include prohibition of social gatherings and a 6pm to 4am curfew.

Inflation declines, CBR maintained at 4.5%

Annual inflation was recorded at -0.6% in August 2021 compared to -0.4% in July 2021 due to reduction in prices of food and non-alcoholic beverages as well as transport. The National Bank of Rwanda maintained the Central Bank Rate at 4.5% to continue supporting economic recovery efforts amidst a benign inflationary outlook.

RWF depreciates marginally against the USD

The Rwandan Franc (RWF) depreciated by 1.0% against the USD in 3Q21 underpinned by a widening trade deficit.

Inflation, interest rates and currency outlook

Inflation is expected to remain muted due to subdued domestic demand. However, rising global oil prices and potential rise in food prices on the back of lower-than-expected rainfall pose risk. The Central Bank is likely to maintain an accommodative monetary policy stance to continue supporting economic recovery. The RWF is likely to be stable supported by forex receipts from the IMF's SDR allocation (USD 200m) and foreign aid.

MTNR drags down RSE in 3Q21

The ***Rwanda Stock Exchange (RSE)*** declined by ***3.2%*** quarter-on-quarter on the ***Local Share Index*** and ***-0.8%*** quarter-on-quarter on the ***All-Share Index.*** This was mainly due to ***MTN Rwandacell PLC (MTNR)*** which lost 13.0% in its first full quarter of trading. On the other hand, ***Bank of Kigali (+4.2%)*** and ***Bralirwa (+5.4%)*** gained while the rest of the stocks traded flat.

Stock Market outlook

The gradual economic recovery is likely to support activity on the exchange.

Tanzania

Economic growth recorded at 4.9% in 1Q21

Tanzania's economy advanced by 4.9% year-on-year in the first quarter of 2021 compared to 5.9% year-on-year in a corresponding period in 2020. Mining and quarrying recorded the highest growth of 10.2%, followed by Information and Communication (+9.1%); Transport and Storage (+9.0%); Water Supply (+9.0%), professional Scientific and Technical services (+7.8%); Administrative Support Services (+7.4%) and Electricity (7.2%). According to the National Bureau of Statistics, annual economic growth is projected at 5.7% in 2021 owing to ongoing public investment and normalization of the global economy which will increase private sector investment and trade.

Tanzania begins nationwide COVID-19 vaccination rollout

Tanzania begun a COVID-19 nationwide vaccination rollout under the leadership of President Samia Suluhu. The country, which faced its third wave of the pandemic in August 2021, received a million doses of the single-jab Johnson and Johnson vaccine from the United States of America under the COVID-19 Vaccines Global Access Facility (COVAX) scheme. The country has also placed another order for the vaccine through the African Union as part of its plan to inoculate more than 60% of the population.

Inflation stable

Annual headline inflation rate for the month of August 2021 was recorded at 3.8% similar to that of July 2021. The stability can be attributed to adequate domestic food supply.

TZS stable in 3Q21

The Tanzania Shilling (TZS) was stable gaining a marginal 0.1% quarter-on-quarter against the USD in 3Q21 supported by gold exports and adequate foreign exchange reserves (USD 5.5bn equivalent to 6 months of imports.

Inflation, interest rates and currency outlook

Inflation is likely to remain below the Central Bank target of 5.0%. The Monetary Policy Committee is expected to retain the policy rate at the historically low level of 5.0% to boost a recovery in private sector credit growth. The TZS is anticipated to remain stable supported by inflows from exports particularly cashew nuts, and receipt of USD 1.1bn expected from the International Monetary Fund.

DSE records a decline

The ***Dar-es-Salaam Stock Exchange (DSE)*** lost ***1.8%*** quarter-on-quarter on the ***Local Index*** while the ***All-Share Index*** lost ***1.9%*** in 3Q21. ***CRDB (-18.6%), DCB Commercial Bank (-8.3%), NMB (-4.3%)*** and ***DSE (-7.7%)*** were the top decliners. ***Tanga Cement (+32.1%), Tanzania Portland Cement Company (+5.6%), TOL Gases Ltd (+6.0%)*** and ***National Investments Company (+11.1%)*** were the top gainers.

Stock market outlook

As the economy recovers, activity on the equity market is anticipated to increase.

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Global markets end with losses, S&P 500 gains

Global indices closed 3Q21 in the red, save for the S&P 500 that gained a marginal 0.2% quarter-on-quarter. The S&P 500 rose to all time highs during the quarter, until the last few weeks of September when positive policy factors that supported stocks began to fade. The emerging markets also dropped on concerns of rising COVID-19 cases derailing the global recovery and on Chinese growth worries that stemmed from the Evergrande debt issues. The MSCI World Index lost 0.4% quarter-on-quarter, the MSCI Euro lost 0.8%, the MSCI Emerging Markets index dropped 8.8% as the Shanghai Composite Index lost 0.6%.

Index	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21	30-Sep-21	Q-on-Q	YTD
S&P 500	3,363.0	3,756.1	3,972.9	4,297.5	4,307.5	0.2%	14.7%
MSCI World	2,367.3	2,690.0	2,811.7	3,017.2	3,006.6	-0.4%	11.8%
MSCI World ex USA	1,853.1	2,140.7	2,213.4	2,321.3	2,292.8	-1.2%	7.1%
MSCI Euro	1,065.0	1,246.5	1,314.0	1,386.4	1,375.7	-0.8%	10.4%
MSCI Emerging Markets	1,082.0	1,291.3	1,316.4	1,374.6	1,253.1	-8.8%	-3.0%
Shanghai Composite Index	3,218.1	3,473.1	3,441.9	3,591.2	3,568.2	-0.6%	2.7%

Source: MSCI, S&P 500, Shanghai Composite

The Evergrande debt crisis

In preceding years, Evergrande, one of China's largest real estate developers, accummulated a signficant amount of debt (over USD 300bn) to finance various business pursuits. During the quarter, the company's mounting debt obligations forced it to seek out buyers for its electric vehicle and property services businesses, to no success. The conglomerate warned investors of cash flow issues and possible default on bond interest payments. These events spooked investors, resulting in Evergrande's share price on the Hong Kong Stock Exchange shedding 85% year-to-date. Moody's and Fitch also downgraded the company's credit ratings, citing its liquidity issues.

The Fed signals a shift to reduce stimulus

The Federal Reserve sent a clear signal that they are preparing to unwind part of the monetary stimulus by slowing the large-scale purchase of government backed bonds as soon as November 2021. They also indicated a possible rise in interest rates in 2022. The expectation for interest-rate increases coupled with higher inflation, reflected in rising oil and commodities prices, has led some investors to sell government bonds, whose yields have been near historically low levels.

US economy expands in 2Q21

The United States economy expanded by 6.7% quarter-on-quarter revised up from the previous 6.6% estimate. A key factor in the upgraded growth estimate was a slightly higher level of consumer spending, which accounts for roughly 70% of economic activity. The growth in GDP reflected an increase in personal consumption expenditure and exports that were partly offset by decreases in private inventory investment, residential fixed investment, and federal government spending.

… as unemployment rate dropped

The US unemployment rate dropped to 5.2% in August 2021, the lowest level since March 2020 and in line with market expectations. The labor market continued a steady recovery following reopening of businesses despite reports of labor supply shortages and concerns over the lingering threat of the COVID-19 resurgence. The unemployment rate remains well above pre-crisis levels of 3.5% but may decline further in the months to follow, supported by strong economic activity.

Crude rally persists

Prices of crude oil continued on an upward trajectory in 3Q21, with Brent Crude up by 4.5% quarter on quarter and 51.6% year-to-date, closing at USD 78.5 per barrel. Oil prices have been on the rise due to a persistent supply deficit that has led to a tighter oil market. Supply constraints are partly attributed to under investment in the sector over the years.

Eurozone GDP up 2.2% in 2Q21

The Eurozone economy grew by 2.2% quarter-on-quarter (revised from 2.0%) and 14.3% year-on-year (revised from 13.6%) ending a five-quarter period of contraction. This was the fastest pace of expansion on record, due to low base effects triggered by the pandemic and an increase in household consumption following the reopening of the economy.

China's GDP grows 7.9% in 2Q21

China's economy expanded by 7.9% in 2Q21 down from 18.3% recorded in 1Q21 which reflected low base effects caused by the COVID-19-related disruption in 2020. Retail sales growth slowed from 33.9% in 1Q21 to 13.9% in 2Q21. Industrial production growth declined from 24.5% in the first quarter to 8.9% in the second quarter. China is on track to achieve the target growth of 6.0% in 2021.

Outlook

Growth is likely to be led by developed markets, given their access to COVID-19 vaccines. Downside risks include rising inflation, the gradual withdrawal of monetary and fiscal stimulus, and variants that may be resistant to available vaccines. The World Bank projects global economy to expand by 5.6% in 2021.

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