GenAfrica
ASSET MANAGERS

# *Economic and Financial Markets Review*

## *Quarter 3 2024*

# Political and Economic Review

## Mixed fortunes for Kenyan investors in 3Q24

The third quarter of 2024 saw mixed performance across Kenya's financial markets amid rising macroeconomic concerns. The PMI averaged 47.8, down from 49.7 in 2Q24, reflecting disruptions caused by protests against the 2024 finance bill which was rescinded. The protests were largely against the punitive tax proposals in the bill. Inflation averaged 4.1%, while the Kenyan Shilling showed relative stability, appreciating 0.3% against the USD but weakening against other major currencies. The stock market was buoyed by resilient bank earnings but offset by foreign outflows as all indices rose apart from the ***Nairobi All Share Index (NASI)*** which declined 2.2% q/q. Interest rates continued to rise as domestic borrowing increased.

## 2025/26 expenditure estimates revised upwards by 7.1%...

The National Treasury published the draft 2024 ***Budget Review and Outlook Paper (BROP)*** indicating a 7.1% (KES 277.0bn) upward revision in expenditure to KES 4.2trn (20.8% of GDP), compared to KES 3.9trn (21.5% of GDP) in the first supplementary budget. Of this, recurrent expenditure shall account for 74.0% of total spending (KES3.1trn), while development spending shall account for 16.0% (KES 685.0bn). Additionally, county transfers revised downward by 2.7%, from KES 411.0bn to KES 400.0bn.

## …revenue growth projected at 11.6% …

Revenue is expected to increase by 11.6% (KES 355.0bn) to KES 3.4trn (17.1% of GDP) from KES 3.1trn (16.9% of GDP) in the current supplementary budget. This increase in revenue is expected to be supported by ongoing reforms in both policy and revenue administration. Ordinary revenue is expected to grow by 12.5% to KES 2.96trn, while appropriations-in-aid is projected to rise by 5.8% to KES 454.0bn.

## …fiscal deficit narrows

As a result, the deficit is expected to narrow by 10.3% to KES 689.0bn from KES786.6bn in the first supplementary budget. This deficit will be financed through domestic borrowing of KES 522.7bn (76.0%) and foreign debt of KES 166.7bn (24.0%). For emphasis, the domestic borrowing target has been raised by 26.5%, up from KES413.1bn in the supplementary budget while the foreign financing target has been reduced by 53.0%, dropping from KES355.0bn.

## PMI declines in 3Q24

In the third quarter of 2024, the Stanbic Bank Kenya ***Purchasing Managers' Index (PMI)*** dropped to an average of 47.8 from 49.7 in the second quarter. The decline was primarily due to economic disruptions which hindered business activities in July. Nonetheless, the PMI rebounded towards the end of the quarter as the impact of the protests faded, enabling firms to resume normal operations. Additionally, new orders saw a marginal increase, further supporting the recovery in overall business activity.

## Slower economic growth in 2Q24

GDP grew by 4.6% in 2Q24, down from 5.6% in 2Q23. The slowdown was driven by contractions in mining and quarrying (-2.7% y/y, compared to -8.3% in 2Q23) and construction (-2.9% y/y, compared to 2.7% growth in 2Q23).However, several key sectors contributed positively, including Agriculture, forestry & fishing (4.8%y/y), Real estate (6.0%y/y), Financial & insurance activities (5.1%y/y), and Wholesale & retail (4.4%y/y). Strong performances were also seen in Accommodation & food services (26.6%y/y), Information & communication (7.2%y/y), and Professional, administrative & support services (6.8%y/y).

## IMF deal still pending

The ***International Monetary Fund (IMF)*** has delayed disbursement of approximately USD 600.0m, which is crucial for deficit financing after the withdrawal of the 2024 Finance Bill. As a result, the country has been forced to explore alternative financing options. Despite the delay, the IMF remains supportive of Kenya's economic and governance reforms, as reaffirmed during a recent visit by IMF officials in September. The IMF continues to work with Kenyan authorities to identify policies that will facilitate the completion of program reviews and support sustainable, inclusive growth for the country.

## Kenya seeks USD1.5bn UAE-backed bond

Kenya is in the final stages of securing a USD 1.5bn (KES 193.8bn) bond backed by the ***United Arab Emirates (UAE)*** to address its financing shortfall, following delays in receiving expected funding from the IMF. The bond is expected to carry an interest rate that is below 8.2% and could draw interest from Middle Eastern investors. The bond is expected to provide an alternative cost-effective option for government to refinance debt.

## Kenya's credit rating slips amid rising debt

Leading credit rating agencies, Moody's, Fitch Ratings, and S&P Global Ratings downgraded Kenya's credit rating due to concerns over its rising debt and fiscal challenges. Moody's lowered the rating from B3 to Caa1 with a negative outlook, while Fitch and S&P both downgraded it from 'B' to 'B-' with a stable outlook. All three agencies cited the widening budget deficit, high debt levels, and economic vulnerability as key factors. The downgrades reflect a consensus on Kenya's macro-economic risks, likely resulting in higher borrowing costs and reduced investor confidence.

## Economic outlook

The economy is projected to grow at 5.3% in 2024 supported by the continued recovery in the agricultural sector, a positive growth in the services sectors and the expected recovery in the global economy. Geopolitical conflicts and local fiscal challenges could pose a downside risk.

## *Kenya shilling exhibits mixed results in 3Q24*

***The Kenya Shilling (KES)*** showed relative stability against the USD, appreciating by 0.3% q/q to close the quarter at KES 129.2. This stability can be attributed to increased coffee and tea export receipts, tourism, improved remittance inflows, and the central bank's tight monetary policy stance.

| | 30-Sep-23 | 31-Dec-23 | 28-Jun-24 | 30-Sep-24 | Q-on-Q | YTD | Y-on-Y |
|---|---|---|---|---|---|---|---|
| USD/KES | 148.1 | 156.5 | 129.5 | 129.2 | 0.3% | 17.4% | 12.8% |
| GBP/KES | 180.6 | 199.8 | 163.9 | 173.0 | -5.6% | 13.4% | 4.2% |
| EUR/KES | 156.0 | 173.3 | 138.9 | 144.2 | -3.9% | 16.7% | 7.5% |
| ZAR/KES | 7.8 | 8.4 | 7.1 | 7.6 | -7.2% | 10.4% | 3.2% |
| KES/UGX | 25.4 | 24.2 | 28.6 | 28.6 | -0.2% | 18.1% | 12.7% |
| KES/TZS | 16.9 | 16.1 | 20.3 | 21.1 | 4.3% | 31.5% | 24.9% |

***Source: Central Bank of Kenya***

However, the KES experienced notable declines against other major currencies, losing 5.6% q/q against the Sterling Pound (GBP), 3.9% q/q against the Euro, and 7.2% q/q against the South African Rand (ZAR). In contrast, the KES remained stable against regional currencies, losing 0.2% q/q against the Ugandan Shilling and gaining 4.3% q/q against the Tanzanian Shilling.

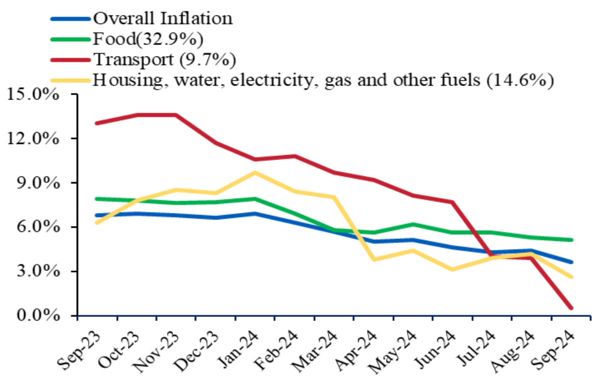
As at 26th September, 2024, usable foreign exchange reserves stood at USD 8.0bn (4.1 months of imports), compared to USD 7.8bn (4.1 months of imports) at end of June 2024.

## *Currency Outlook*

The Kenyan Shilling is expected to depreciate gradually due to potential build up in seasonal import demand and rising debt service. However, the currency may be supported by concessional debt inflows, lower interest rates in the United State and growth in remittances and tourism.

## *Inflation eases in 3Q24*

In the third quarter of 2024, annual headline inflation averaged 4.1%, down from 4.9% in the previous quarter. This decline was primarily driven by a sharp drop in the transport index (5.5% q/q to 2.8%), reflecting lower prices for petrol and diesel.




***Source: KNBS***

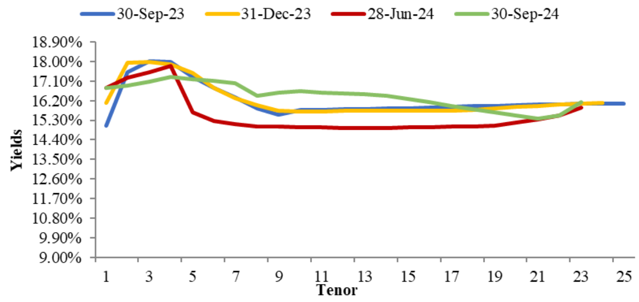
The housing, water, electricity, gas, and other fuels index also saw a slight decline of 0.2% q/q, to average 3.6%, due to reduced electricity costs. Additionally, the food index decreased by 0.5% q/q to 5.3%, comparatively higher than other indices.

## *Inflation Outlook*

Inflation is expected to remain within CBK's target range (2.5%-7.5%). The lower rates will be supported by the high base effects, reduced fuel and electricity prices, lower food prices and the relative stability of the Kenyan currency. However, key risks are unpredictable weather patterns and potential increase in international oil prices driven by geo-political risks in the middle east region.

## *Yield curve shifts up*

The yield curve edged slightly upwards by 0.89%, with yields across all tenures rising due to anticipated higher government domestic borrowing. The most significant increase was in the mid-range of the curve (tenures between 5 and 12 years), which rose by 1.67%. The long end of the curve (bonds with maturities over 12 years) increased by 0.84%, while the short end (bonds with maturities under 5 years) remained relatively stable, gaining only 0.05%.




***Source: NSE***

On average, treasury bill rates remained relatively stable, with the 182-day and 364-day papers gaining 0.09% and 0.21%, respectively. In contrast, the 91-day T-bill lost 0.11%, closing the quarter at 15.72% ,16.59%, 16.80% for the 91-day, 182-day, and 364-day bills, respectively.

| Treasury Bill Quarterly Average Rates | 3Q23 | 4Q23 | 2Q24 | 3Q24 | Q/Q | YTD | Y/Y |
|---|---|---|---|---|---|---|---|
| 91 Day | 13.39% | 15.39% | 15.97% | 15.86% | -0.11% | 0.47% | 2.47% |
| 182 Day | 13.43% | 15.46% | 16.63% | 16.72% | 0.09% | 1.26% | 3.29% |
| 364 Day | 13.69% | 15.61% | 16.65% | 16.86% | 0.21% | 1.25% | 3.17% |

***Source: Averages computed from actual CBK weekly data***

In July, the Central Bank of Kenya's ***Monetary Policy Committee (MPC)*** lowered its policy rate by 25 basis points (bps) from 13.00% to 12.75%. This decision was attributed to declining inflation and support for economic growth. Additionally, the MPC signaled gradual interest rate reduction while ensuring exchange rate stability.

## *Interest rate outlook*

High interest rates are expected to persist in the short term, driven by the government's elevated current budget financing demand. Lower inflation, easing in global rates and a stable KES could see a moderation and potential decline of interest rates in the medium term.

## Equity Market Review

### Equity market mixed performance

The Nairobi bourse saw mixed performance in the third quarter of 2024 with the ***NSE 20, NSE 25, and NSE 10 Share (N10) indices*** gaining ***7.2% q/q, 1.3% q/q,*** and ***0.7% q/q*** respectively**.** In contrast, the ***Nairobi All Share Index (NASI)*** retreated by ***-2.2% q/q.***

The positive performance was attributable to the impressive half-year bank earnings and interim dividends that triggered demand. However, Safaricom weighed down the indices due to its large market capitalization and notable price declines in the quarter due to foreign outflows.

| | 30-Sep-23 | 31-Dec-23 | 30-Jun-24 | 30-Sep-24 | Q-on-Q | YTD | Y-on-Y |
|---|---|---|---|---|---|---|---|
| NASI | 95.2 | 92.1 | 109.5 | 107.1 | -2.2% | 16.3% | 12.5% |
| NSE 20 | 1,508.8 | 1,501.2 | 1,656.5 | 1,775.7 | 7.2% | 18.3% | 17.7% |
| NSE 25 | 2,473.7 | 2,380.2 | 2,861.0 | 2,899.2 | 1.3% | 21.8% | 17.2% |
| N10 | | 907.5 | 1,117.4 | 1,124.7 | 0.7% | 23.9% | |

***Source: NSE***

Quarter-on-quarter, the top performers were ***KCB (+11.0% q/q), EABL (+5.5% q/q),*** and ***Equity Bank (+3.8% q/q).*** However, the worst performer was ***Safaricom***, which lost ***-13.3% q/q***.

### Resilient bank earnings, asset quality deteriorates

Listed banks reported remarkable half-year earnings despite operating in a high-interest regime that has raised the cost of funds and led to deterioration in asset quality.

| Bank's 2Q24 Performance | ROE | Earnings growth (y/y) | Loan growth (y/y) | Deposit growth (y/y) | NPL Ratio |
|---|---|---|---|---|---|
| Stanchart Bank | 33.9% | 49.4% | 2.7% | -2.6% | 8.5% |
| ABSA Bank | 31.3% | 28.8% | -0.5% | 6.2% | 11.5% |
| Equity Group | 28.7% | 12.0% | -3.2% | 10.6% | 13.9% |
| KCB Bank | 25.8% | 86.9% | 7.0% | 1.3% | 18.1% |
| Stanbic Bank | 25.2% | 5.1% | -2.4% | 30.3% | 9.5% |
| Co-operative Bank | 22.1% | 6.3% | 2.8% | 9.4% | 16.7% |
| NCBA Bank | 20.7% | 5.0% | 5.9% | 2.4% | 12.2% |
| I&M Holdings | 15.4% | 17.3% | 5.3% | 17.5% | 11.4% |
| Diamond Trust Bank | 11.3% | 8.5% | -4.7% | 3.3% | 13.5% |

***Source: Company filings***

***Stanchart, ABSA*** and ***Equity Bank*** recorded the highest Return on Equity ***(ROE)*** of ***33.9%***, ***31.3%*** and ***28.7%*** respectively while ***DTB*** recorded the lowest return of ***11.3%. KCB*** recorded the highest earnings growth of ***86.9% year on year (y/y)*** while ***NCBA*** recorded the lowest earnings growth of ***5.0% y/y***.

On the balance sheet, banks continued to attract deposits with ***Stanbic Bank*** recording the highest deposit growth of ***30.3% y/y*** while ***Stanchart Bank*** recorded a negative deposit growth of ***-2.6% y/y***. The loan book expanded with ***KCB*** registering the highest growth of ***7.0% y/y,*** while ***DTB*** registered a decline of ***4.7% y/y.***

The industry faced further deterioration in ***Non-Performing Loans (NPL)***, reaching an 18-year high of 16.3% in June 2024 compared to 16.1% in April. NPL ratios rose, with ***KCB*** reporting the highest ratio at ***18.1%***, while ***Stanbic*** recorded the lowest at ***9.5%***.

### Birr devaluation hits Safaricom Ethiopia

On July 29th, 2024, the Ethiopian central bank, floated the Birr currency as part of economic reforms required by the International Monetary Fund. Consequently, the Ethiopian Birr significantly depreciated against the KES and USD further adding to hyperinflationary pressures. Management guided that 50% of Ethiopia's OPEX and 85% CAPEX that is USD-denominated, when restated for devaluation will impact its subsidiary's income statement performance and future cashflows performance. The company expects the devaluation impact to be stronger in 1H25. The management extended the EBITDA break-even target to FY27, a year later than the original FY26 projection.

### Safaricom suffers Starlink competition

Safaricom reduced its fixed data prices, offered attractive internet speeds and data packages to its customers in response to price competition from Starlink. Starlink is a global satellite internet service provider owned by Elon Musk that made an entry in Kenya in 2023. However, Starlink technology requires clear skies, longer latency, limited capacity and does not support mobility. It thus affects fixed data which is only 4.0% of the total revenue of Safaricom Kenya.

### EABL maintains resilient revenues, drawback from costs

***East Africa Breweries Limited (EABL)*** reported its full-year results for the period ending 30th June 2024, showing an 11.8% year-on-year (y/y) decline in profit after tax, primarily driven by costs rising faster than sales. Net sales grew 13.2% y/y to KES 124.1bn from KES109.6bn while group cost rose 18.1% y/y to KES 107.4bn. Direct costs grew 13.0%y/y to KES 70.3bn with indirect expenses up 29.1%y/y to KES 37.0bn. Foreign exchange losses surged to KES 3.9bn, reflecting an 84.3% y/y increase. The board recommended a final dividend of KES 6.0 bringing the total payout to KES 7.0, (+27.35 y/y).

### Bamburi takeover

Amson Group, a Tanzanian conglomerate in the manufacturing and energy sectors, has, through its Kenyan subsidiary Amson Industries Kenya Limited, announced its intention to takeover Bamburi. Amson Group is offering a cash consideration of KES 65.0 per share. Savannah Clinker Limited (SCL), a local building and construction company, submitted a counteroffer of KES 70 per share for the entire company with success contingent on acquiring 60.0% of the shares. The SCL offer expires on 28th February 2025 compared to Amson’s expiry date of 28th November 2025.

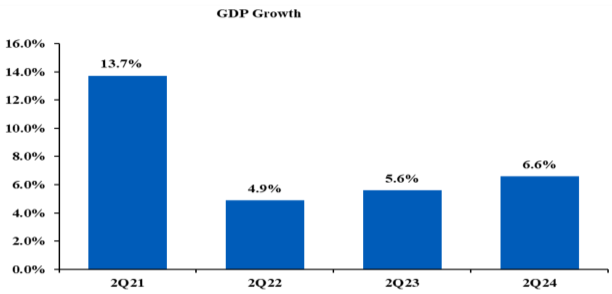
### Stock market outlook

We expect the stock market to remain range bound in 4Q24 supported by attractive valuations, corporate earnings and foreign inflows on monetary policy easing. However, geopolitical risks and high interest rates may counter the positives.

## Political and Economic Review

### Uganda's 2Q24 GDP grew by 6.6% y/y

GDP in the second quarter of 2024 expanded by 6.6% year-on-year (y/y), higher than the 5.6% y/y growth reported in 2Q23 boosted by all economic sectors. Agriculture grew by 11.1% y/y in 2Q24 compared to a decline of 3.1% y/y in 2Q23 mainly on food crops growing activities which registered a growth of 12.6% y/y in 2Q24. Services grew by 7.9% y/y in the quarter (+ 8.8% y/y in 2Q23) owing to trade and repairs that grew by 13.1% y/y and transport and storage (+16.8% y/y). Industry expanded by 1.5% y/y (+6.4% y/y in 2Q23), mainly on manufacturing activities (+11.6%y/y) and construction (+10.8%y/y) which more than offset a 74.0 y/y% plunge in mining & quarrying.




***Source: Uganda Bureau of Statistics (UBOS)***

### Business conditions further improve in 3Q24

The Stanbic Bank Uganda Purchasing Managers' Index (PMI) showed that the private sector business environment for 3Q24 improved recording an average PMI of 54.7 from 52.9 in 2Q23 supported by strong client demand that drove new orders, increased production and hiring.

### Economic outlook

GDP is expected to grow at 6-6.5% in FY2024/25 driven by stronger private sector investment, government spending and global economic growth recovery. Downside risks relate to geopolitical challenges that could lead to weaker global and domestic economic growth.

### UGX appreciated against USD in 3Q24

During the quarter, the UGX appreciated against the USD by 0.4% owing to tight domestic monetary policy and inflows from robust coffee exports on favorable international coffee prices. In addition, the UGX benefited from improved foreign direct investments and tourism receipts. Year to date (YTD), the UGX was up 2.4% against the USD. However, UGX depreciated against the Euro and the GBP but appreciated against the KES and the TZS trading in the quarter.

The foreign exchange reserves stood at USD 3.4bn in August 2024 representing 3.1 months of imports cover. This is an improvement from USD 3.3bn (3.0 months of imports cover) in May 2024 reflecting Bank of Uganda foreign exchange purchases accompanied with Swaps.

### Currency outlook

The UGX is expected to remain stable with a potential to depreciate in 4Q24 due to slower foreign direct investments inflows, rebuilding of foreign exchange reserves, low loan disbursements, external debt services and potential escalation in geopolitical conflicts. The UGX may get support from tourism flows, remittances, exports flow especially coffee, and tight domestic monetary policy.

### Headline inflation eases further

Headline inflation averaged 3.5% in 3Q24, a decrease from an average of 3.6% y/y in 2Q24. The decrease in the headline inflation was largely due to energy prices of liquid fuels that fell mainly on international crude oil prices and decreased threat on disrupted Red Sea oil route. Additionally, food prices also declined. The core items' prices moved by an average of 3.9% in 3Q24 compared to 3.7% in 2Q24 while food and energy prices moved by an average of -0.9% y/y and 5.2% y/y respectively compared to -1.1% and 9.2% y/y respectively for the same periods.

### Inflation outlook

Headline Inflation is expected to remain unchanged on account of stable demand conditions, lower imported inflation, and exchange rate stability. Upside risks relate to fuel price increase on higher shipping costs and potential escalation in geopolitical challenges.

### CBR reduced to 10.0% in 3Q24 while yields rise

Bank of Uganda (BOU) reduced the Central Bank Rate (CBR) by 25basis points to 10.00% in its August 2024 monetary policy committee meeting mainly to anchor inflation around its target in the medium term as domestic inflation moderated creating room to support economic activity.

During the third quarter of 2024, the yield curve rose 0.49% on average. All tenors' yields rose except for 10 and 15-year bonds. Yields on short-end (3 years below), mid-end (4-10 years) and long-end (bonds above 10 years) rose 0.78%, 0.22% and 0.00% q/q respectively. The rise in yields was on account of increased government demand for funding the budget and refinancings.

### Interest rate outlook

The yields are expected to rise in the 4Q24 owing to the high government domestic borrowing and refinancings as indicated in the FY2024/25 budget.

### Uganda's stock market rallies in 3Q24

The ***Local Share Index (LSI***) rose by ***8.3%*** in 3Q24 on account of positive performance of ***Stanbic Uganda Holdings Limited (20.8%)***, ***MTN Uganda (16.0%) and Bank of Baroda Uganda (5.0%)***. Year-to-date (YTD), the ***LSI*** index was up by ***2.4%***. The worst performing stocks in 3Q24***, Uganda clays (-24.2%) Umeme (-6.5%)*** and ***Airtel Uganda (-2.9%).***

The ***All-Share Index (ALSI)*** rose ***6.4%*** during the quarter on rise in prices of cross-listed stocks and local stocks. The largest rise was on ***KCB (10.5%), Equity Bank Limited (6.5%)*** and ***Centum Limited (4.0%).*** YTD, the ***ALSI*** was up 25.4%**.**

### Stock market outlook

The local stocks' performance is expected to remain resilient in 4Q24 driven by strong economic data and corporate earnings. Heightening geopolitical challenges pose a risk.

## Rwanda

### *Rwanda's economy expands by 9.8% in 2Q24*
Rwanda's economy grew by 9.8% year on year (y/y) in 2Q24 compared to 9.7% y/y in 1Q24. This growth was supported by the Industry sector (+15.0% y/y), Services sector (+10.0% y/y) and Agricultural sector (+7.0% y/y). National Bank of Rwanda (NBR) projects the economy to grow at an annual rate of 6.6% in 2024.

### *President Kagame wins fourth term*
President Kagame won his fourth term with of 99.2% of the vote. Kagame promised to continue driving development and security in Rwanda, focusing on self-sufficiency and reducing reliance on foreign aid.

### *Qatar Airways to acquire stake in RwandAir*
Qatar Airways is set to finalize its acquisition of a 49% stake in RwandAir after five years of negotiations. The stake in RwandAir will enable Qatar Airways to expand its operations in East and Central Africa. Qatar Airways' investment aligns with its broader strategy, including a 60% stake in the USD 1.3bn Bugesera International Airport project in Kigali, expected to be completed by 2028.

### *Inflation stable and CBR cut by 0.5%*
The annual urban inflation rate edged up to 5.0% in August 2024 from 4.9% in July 2024. National Bank of Rwanda (NBR) cut its policy rate from 7.0% to 6.5% in the August 2024 meeting. The committee considered the rate appropriate to maintain inflation within the target range.

### *RWF depreciates against the USD*
The Rwandan Franc (RWF) depreciated against the USD by 2.7% q/q in 3Q24. This was due to widening current account deficit to USD 2.2bn (15.0% of GDP) owing to higher imports and lower receipts from traditional exports.

### *Inflation, interest rates and currency outlook*
NBR expects inflation to remain within the medium-term target of 5.0% in the fourth quarter. NBR considers the current policy rate appropriate to maintain price stability and is ready to adjust should any risks to price stability emerge. The RWF is expected to depreciate further as rates in developed markets remain elevated and the current account deficit widens further.

### *RSE gains in 3Q24*
The Rwanda Stock Exchange (RSE) ***Local Share Index*** gained by ***1.3% q/q*** while, ***the All-Share Index*** gained ***0.3% q/q***. ***Bralwira*** was the top performer +***17.1% y/y*** while ***I&M Bank*** was the top loser ***-4.4% y/y.***

### *Stock market outlook*
The bourse's activity is expected to remain unchanged. Despite strong domestic economic growth supporting strong earnings and dividends, ongoing geopolitical risks are likely to offset stock market gains.

## Tanzania

### *Economic performance in line with the target*
Tanzania recorded an economic growth of 5.6% in the first quarter of 2024 compared to 5.0% in 1Q23. This growth was backed by construction (+16.2% y/y), the agricultural sector (+14.4% y/y), and financial and insurance activities (+11.5% y/y). This is in line with the central bank GDP growth projection of 5.4% for 2024.

### *President Suluhu Launches SGR*
President Samia Suluhu launched the Standard Gauge Railway (SGR) project on 1st August 2024. The country had invested close to USD 10bn, which was in its final 6th phase following different stages of implementation, a significant milestone in the country's infrastructural and economic development.

### *Tanzania's value of investment projects up 60% y/y*
The Tanzania Investment Centre (TIC), the government's primary investment agency, reported that the value of investment projects increased over 60.0% in the quarter that ended June 2024 to USD1.6bn up from 1.0bn in a similar quarter last year. USD938.3m of this value is foreign direct investments.

### *Bank Of Tanzania maintains Policy Rate, inflation up*
The annual headline inflation marginally increased to 3.1% y/y in August from 3.0% y/y in July. Annual core inflation on the other hand decreased slightly to 3.2% y/y in August from 3.3% y/y in July. The Bank of Tanzania maintained its key lending rate at 6.0% citing easing inflationary pressures and a positive economic outlook domestically and globally.

### *Further weakening of the TZS in 3Q24*
The Tanzanian Shilling (TZS) depreciated against the USD by 3.5% q/q in 3Q24 on the back of dollar liquidity shortages amidst heightened demand. In a bid to bolster its reserves, the country's mining regulator issued a directive requiring gold dealers to set aside 20% of their output for purchase by the Central Bank. This measure aims to combat the depreciation of the TZS. Foreign exchange reserves stood at USD 5.3bn by the end of July 2024 representing 4.3 months of import cover.

### *DSE maintains a bullish stance*
Dar-es-Salaam Stock Exchange (DSE) ***Local Share Index*** and the ***All-Share Index*** gained by ***2.9% q/q*** and ***4.8% q/q*** respectively in 3Q24. The top performers in the quarter were ***Dar es Salaam Community Bank (DCB) +45.5% q/q*** and ***Cooperative and Rural Development Bank (CRDB) +23.1% q/q*** while the worst performers were ***Jubilee Holdings -7.4% q/q*** and ***TOL Glasses -7.1% q/q***.

### *Stock market outlook*
The market is expected to maintain its recovery into 4Q24 driven by robust economic growth and improved investor confidence. However, risks to the outlook include the weakening shilling and ongoing geopolitical tensions.

### Optimism fuels market rally

Offshore markets delivered strong performance, driven by bullish investor sentiment on monetary policy easing and global economic recovery, despite looming geopolitical tensions. The Shanghai Composite Index was the top performer in the quarter at 12.4% while the S&P 500 index had the lowest performance of 5.5%.

| Index | 30-Sep-23 | 31-Dec-23 | 30-Jun-24 | 30-Sep-24 | Q-on-Q | YTD | Y-O-Y |
|---|---|---|---|---|---|---|---|
| S&P 500 | 4,288.1 | 4,769.8 | 5,460.5 | 5,762.5 | 5.5% | 20.8% | 34.4% |
| MSCI World | 2,853.2 | 3,169.2 | 3,511.8 | 3,723.0 | 6.0% | 17.5% | 30.5% |
| MSCI World ex USA | 2,049.0 | 2,256.8 | 2,328.9 | 2,495.3 | 7.1% | 10.6% | 21.8% |
| MSCI Euro | 1,234.3 | 1,389.8 | 1,436.1 | 1,533.4 | 6.8% | 10.3% | 24.2% |
| MSCI Emerging Markets | 952.8 | 1,023.7 | 1,086.3 | 1,170.9 | 7.8% | 14.4% | 22.9% |
| Shanghai Composite Index | 3,110.5 | 2,974.9 | 2,967.4 | 3,336.5 | 12.4% | 12.2% | 7.3% |

*Source: MSCI, S&P 500, Shanghai Composite*

### US inflation wanes slightly

The US annualized headline inflation rate declined marginally to 2.5% in August 2024, compared to 2.9% in July driven by a decline in costs of energy, food and transport. The Personal Consumption Expenditures (PCE) price index slightly decreased to 2.2% in August 2024, compared to 2.5% in July 2024. The core (excluding food and energy) PCE index increased slightly to 2.7% for August 2024 from 2.6% of the previous month, and still above the Fed's 2.0% target.

### Fed finally begins rate cuts

The Federal Reserve Committee lowered the Fed funds rate by 50 basis points (0.5%) to 4.75%-5.0% in the September meeting. This was on the back of slower job gains and declining inflation. Despite inflation remaining elevated above the 2.0% target, the committee projects Fed funds rate at 4.4% by 2024-year-end, signaling further rate cuts. The Core PCE inflation projection was revised downward to 2.6% from 2.8% respectively for the 2024-year end.

### US economy expands, Fed adjusts forecast

The US economy demonstrated strength, expanding at an annualized rate of 3.0% in 2Q24, higher than the 1.6% growth rate in 1Q24. This acceleration was due to an increase in private inventory investment and capital expenditures. However, this was partly offset by a downturn in residential fixed investments. The Federal Reserve lowered the economy's projections from 2.1% to 2.0% in 2024 in the September 2024 meeting.

### Israel-Palestine conflict intensifies amid broader involvement

The Israel-Palestine conflict has escalated from ceasefire talks in the previous quarter to widespread retaliatory actions across multiple fronts. Initially the conflict was between Israel and Hamas, but it has now involved other groups like Houthis in Yemen and Syria, Hezbollah in Lebanon, Iraq and Iran. This intensification may significantly impact global oil prices and the shipping routes, leading to further broader spillover effects.

### Bank of England maintains policy rate

The central bank of England upheld the bank rate at 5.0% in the September 2024 meeting after its 0.25% rate cut in August 2024. Annual core inflation ticked up to 3.6% in August 2024 from 3.3% in July 2024, although the August 2024 annual headline inflation remained unchanged at 2.2%. Policymakers highlighted elevated inflation levels in the services sector which accounts for most of the British economy, therefore necessitating a restrictive monetary policy until inflation risks are within the 2.0% target.

### Oil prices slump as OPEC cuts demand growth outlook

Crude oil prices dipped sharply with Brent crude declining by 13.2% in 3Q24 to USD 71.8 per barrel. Slower economic growth in major economies such as China and Europe, coupled with expectations of a weaker demand, are pushing prices down despite geopolitical uncertainty. As oil prices continued to plunge, OPEC cut its global oil demand growth forecast from 2.3m barrels of oil per day (bpd) to 2.0m bpd and 1.7m bpd for 2024 and 2025 respectively.

### China's growth softer than market forecast

China's economy grew by 4.7% in 2Q24, falling short of the 5.1% market forecast and the 5.3% in 1Q24. Growth was driven by a 5.8% increase in fixed asset investments, particularly in the Electric Vehicle (EV) sector and high-tech manufacturing. However, risks from the property sector and weak consumption may hamper achieving this year's economic growth projection of 5%.

### …prompting stimulus packages

In response, the People's Bank of China introduced a monetary and fiscal stimulus package with an estimate of USD 284.4bn, aimed at stabilizing capital markets, addressing the property crisis and boosting domestic consumption to meet the 5% growth target. The monetary stimulus entails lowering the reserve requirement ratio by 0.5%, seven-day reverse repurchase rate by 0.2% and lowering interest rates on existing mortgages. The fiscal measures involve issuing additional special sovereign bonds worth Yuan 2.0trn (USD 284.4bn) and increased government spending.

### ECB moves towards less restrictive monetary policy

The European Central Bank (ECB) slashed its policy rate by 25 basis points (0.25%) to 3.5% in their September 2024 meeting. The rate cut was supported by annual core inflation dropping to 2.7% in September 2024 from 2.8% in August 2024 and economic growth faltering in the Eurozone. The Euro annual core inflation projection has been slightly revised upwards to average 2.9% from 2.8% in 2024 as services inflation has been higher than expected.

### Stock market Outlook

The stock market is anticipated to remain resilient in 4Q24, fueled by optimistic investor sentiment, more rate cuts, and a robust economic environment. However, caution of potential headwinds such as weak Chinese economic activity and escalating geopolitical tensions in the Middle East and Eastern Europe may impact the market performance.