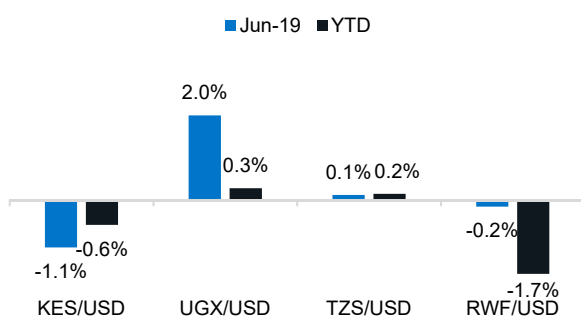


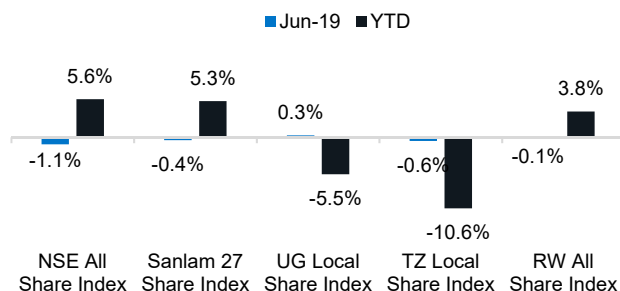
**Regional Inflation & Key Interest Rates**

	Kenya	Uganda	Tanzania	Rwanda
Inflation (latest)	5.7%	3.4%	3.5%	(0.4%)
Central Bank Rate	9.0%	10.0%	12.0%	5.0%
91 Day T-Bill	6.7%	9.5%	4.4%	5.2%
2 Year Bond Yield	9.6%	12.9%	12.0%	n/a

Source: Kenya and Tanzania National Bureau of Statistics & Bloomberg

**Regional Currency Performance**


Source: Central Bank of Kenya, Bank of Uganda, National Bank of Rwanda & Bank of Tanzania

**Regional Stock Market Performance**


Source: Nairobi Securities Exchange & Bloomberg

**Global Markets Dashboard**

	Jun-19	Q2 2019	YTD	12 MONTHS
MSCI World	5.9%	2.8%	15.0%	0.6%
MSCI Emerging Markets	5.7%	-0.3%	9.2%	-3.0%
BRENT Crude Oil	7.3%	-0.6%	21.2%	-8.8%
Gold	7.8%	8.9%	9.7%	14.9%

Source: Bloomberg

**Monthly Market Commentary**

**Fiscal Budget Review:** Kenya, Uganda, Tanzania and Rwanda unveiled their budget plans for Fiscal Year 2019/20 in June. Kenya's fiscal deficit for this period is estimated at Kshs. 607.8 billion, approximately 5.6% of GDP. Kenya's government aims to finance its infrastructure spending partly by raising capital gains tax to 12.5% from 5%. Uganda is also expected to increase its spending on infrastructure projects in FY 2019/20. Uganda plans to start crude oil production in 2022 and is preparing to build roads and an airport in its oil-rich region. Uganda's government forecast this will take the deficit to 8.7% of GDP in the incoming fiscal year. Rwanda's budget deficit is targeted to be 3.0% of the economy's GDP. Tanzania expenditure budget showed a modest growth of all the region's budgets and grew by 2% compared to its FY2018/19 fiscal budget. The economy's fiscal deficit is estimated to be 2.3% of GDP for the fiscal year FY2019/20.

Same as last year, the Finance CS proposed a repeal of the interest rate cap in Kenya's Finance Bill. This follows a recent High Court ruling indicating the interest rate cap law as unconstitutional. A successful repeal of the interest rate cap would be positive for credit growth and investor sentiment. The Bill also contains a proposed amendment of the Income Tax Act to include the exemption of REIT investee companies from income tax. This would offer an incentive for prospective REITS issuers looking to capitalize on this tax break. Currently, the issuance of REITS has been scarce with only one fund; Fahari Income REIT trading at the NSE.

**Futures Trading:** In Kenya, the Capital Markets Authority (CMA) has given the green light for the NSE to launch a futures exchange. The inaugural commencement date is expected to be in July 2019. Initial trading will be limited to the NSE 25 Index and specific stocks; Safaricom, EABL, KCB, Equity, BAT and Kengen. This would potentially present an opportunity for institutional investors to protect their equity position and de-risk against short term volatility. Moreover, this will be possible at a fraction of the cost paid on a standard equity transaction.

**Economic Update:** According to Uganda's East African Community Ministry, Kampala has lost more than \$664 million's worth of exports to Rwanda while Kigali has lost \$104 million during the three months the Gatuna border has been closed. This broadly reflects the critical impact of free movement restriction owing to the cross-border feud.

Inflation in Kenya went up marginally to 5.7% in the month of June compared to 5.5% in May 2019. Food inflation declined owing to favorable weather that resulted to lower food prices. Alcoholic beverages, tobacco and narcotics prices came in higher in June relating to the increase in excise duty on these products. Further, rise in fuel prices continues to contribute to the increase in the annual inflation level given the gradual hike in global oil prices in 2019. Headline inflation in Tanzania was slightly higher at 3.5% in May 2019 compared to 3.2% in April. Food inflation was the larger proponent to this jump. Rwanda's annual inflation decreased by 0.4% in May. With exception to transport prices, food and electricity & fuel prices continued to ease off. On the other hand, inflation in Uganda picked up slightly to 3.4% (previously 3.3% in May) largely on account of a rise in core inflation during the month.

**Interest Rates:** Liquidity in the money markets remained significantly high in Kenya and Uganda evidenced by the oversubscription of government securities. Investors' appetite was notably higher for the 364-day T-Bill in Kenya notwithstanding the steady decline of Treasury Bills yields auctioned during the month. In Kenya, the Central Bank continued to reject expensive bids while extending its maturity profile on domestic debt. Attractive yields offered on the Treasury securities in Uganda, Rwanda and Tanzania spurred investor appetite. The region's Central Banks further remained accommodative attributable to a low inflation environment while encouraging private sector lending.



**Currencies:** The Kenyan Shilling depreciated by 1.1% against the dollar in June 2019. The interest payment on the 5- year Eurobond and stronger dollar demand from energy and manufacturing sectors saw the Shilling weaken during this period. Nonetheless, diaspora remittances continue to support the Shilling. According to the Central Bank of Kenya, the 12-month cumulative inflows up to April 2019 grew by 23% compared to a similar period in April 2018. The Uganda and Tanzania Shilling held steady and gained 2.0% and 0.1% respectively against the dollar underpinned by lower dollar demand during the month.

**Equities:** East Africa equity markets performance were flat in June as investors kept to the sidelines in anticipation of the unveiling of incoming fiscal year budgets across the region. The Kenyan NASI, Tanzanian Local Share Index and Rwandan RSEASI lost 1.1% ,0.6% and 0.1% respectively while Ugandan LSE gained 0.3% during the month

**Global Markets:** The US Federal Reserve meeting in June conveyed a dovish stance. The US Fed rate was maintained at current levels with indication of holding off any further interest rate hikes in 2019. This was largely triggered by the slowed economic growth despite the low unemployment level and the inflation rate target achievement. The mounting trade restrictions between US and China and the protracted uncertainty regarding the Brexit outcome after the former's Prime Minister Theresa May's exit are undoubtedly impediments for global economic growth outlook.

**Outlook:** Accommodative policies adopted by the region's Central Banks and high liquidity levels should continue to support stable interest rate levels. Positive macroeconomic indicators, improving corporate earnings and attractive valuations should drive investor appetite for the local equity investments. Nonetheless, the US -China trade tensions and Brexit uncertainty continue to pose an inherent risk to the global growth output and investor confidence.

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**Disclosure Statement**

Sanlam Investments East Africa Limited ("the manager") is regulated by Capital Markets Authority in Kenya and Uganda to provide investment advisory and management services. The firm has been operational in Kenya since 1998 and in Uganda since 2004 and is a leading fund manager in the region with a strong record of accomplishment in service delivery and performance

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