Macroeconomic and Market Outlook

Quarter 3, 2017

Sustaining momentum amid uncertainties

Highlights

- The global economic recovery is proceeding as expected.
- The global economy is projected to expand by 3.5% in 2017, supported by improving activity in advanced economies, especially the US, and improving momentum in developing and emerging market economies. The recovery pattern is quite variegated.
- The rebalancing of the Chinese economy is on course, but concerns about the unwinding of the housing market remains.
- Sub-Saharan Africa is gradually regaining momentum, supported by improving external demand, moderate recovery in oil and other commodity prices, and policy support.
- Oil prices are expected to average $53 per barrel in 2017 and $56 per barrel in 2018, up from an average of $44 per barrel in 2016. OPEC members have agreed to extend the oil production cuts by 9 months to March 2018. Other commodity prices are expected to stabilize as global demand and supply find a balance.
- Financial conditions have remained benign thus far in 2017, with sentiment is holding up and volatility remaining low.
- Monetary policies in advanced economies are expected to remain largely accommodative, despite continued normalization in the US and the hawkish tone by other major central banks.
- Global trade is firming, despite rising trade policy uncertainties.
- The outlook is favourable, but subject to downside risks stemming from the rise of protectionism in the US, the pace of US interest rate hikes, unwinding of the Chinese housing market, Brexit process uncertainties, cyber security risks, political and security risks and drought in some countries.
Global Economic Outlook

Global activity is firming up, as expected, and contributing to improvement in confidence. Industrial activity and trade are picking up, and confidence is holding up. Purchasing managers indices (PMIs) point to expansion of global growth, led by high income countries (Figure 1). The IMF projects global growth to strengthen to 3.5% in 2017 and inch further to 3.6% in 2018 lifted up by activity pick-up in both developed and developing and emerging market economies\(^2\). The World Bank is more bearish, seeing global growth at 2.7% in 2017, and 2.9% in 2018\(^3\). Developed economies growth is supported by continued accommodative monetary policy in some countries and renewed fiscal stimulus in others, which will provide some boost to industrial activity. Investment growth in advanced economies is firming, while private consumption is moderating. Growth in emerging market and developing economies (EMDEs) is predicted to recover to 4.5% in 2017, as headwinds experienced by some commodity exporting countries in 2016 subside, while activity in commodity importers remain robust. The easing of slowdowns and recessions in commodity exporters has been helped by improving commodity prices and external environment (Figure 2). Financial conditions have generally been benign, with low market volatility. Brent oil prices are projected to average $53/b in 2017 and edge up to $56/b in 2018.

Figure 1: Composite PMI for the Global economy, Developed Markets and Emerging markets

Source: Bloomberg

\(^2\) IMF, World Economic Outlook, April 2017

\(^3\) World Bank Global Economic Prospects, June 2017
While global economic indicators point to improved economic activity, in our perspective, the global economy will grow at a rate between 2.5-3% in 2017, given a number of risks especially in high-income countries. The biggest risks relate to rising protectionism and tight immigration policies in the US, elevated policy uncertainties in Europe with respect to Brexit negotiations and faster than expected normalization of monetary policies. Escalating trade restrictions could derail a fragile recovery in trade and undo gains from past liberalization efforts, dampen confidence and investments and counteract positive fiscal stimulus. Changes in monetary policy expectations, especially the faster-than-expected normalization of monetary policy in the U.S could trigger a sudden increase in borrowing costs. In developing and emerging market economies, the main risks emanate from the possible disorderly unwinding of China’s housing and heavy industrial sector which could trigger some financial market disruptions and further complicate the rebalancing process. Less than expected increase in commodity prices and oil production cuts in some OPEC countries could slow recovery momentum in commodity exporting countries. Cyber security risks is another recent challenge saddling economic activity.

Figure 2: Global economic growth and projections.

Source: IMF and World Bank

Inflation has generally picked up in a number of advanced countries, further raising prospects reduced monetary policy accommodation. Inflation in these countries is expected to increase to 2% in 2017 from about 0.8% in 2016, lifted by an upturn in energy prices and import prices. In the United States, inflation increased to 2.7% in February and marginally slowed to 1.9% (closer to the target of 2%) in May, justifying
continued policy normalization. In EMDE, inflation has eased with rates in commodity exporting and importing countries showing signs of convergence. Easing inflation in commodity exporting countries has allowed central banks to cut interest rates to support economic activity, for example in Russia, Brazil, Colombia, and Kazakhstan and Saudi Arabia), despite the interest rate hikes in the United States. However, increasing exchange rate pressures in some commodity importers such as Mexico, Argentina and Turkey are stoking inflationary pressures, prompting central banks to raise interest rates. On balance, inflation surveys suggest that, while inflation expectations have moved up, they remain feeble.

Global trade is picking up after two years of marked slowdown, largely reflecting improvement in commodity prices and a bottoming out of import intensive global investment. Global trade is expected to rebound to 4% in 2017, a faster pace than previously envisaged, supported by strengthening import demand from major advanced economies and increased trade flows to and from China. The key stumbling blocks to recovery of global trade include rising prospects of protection in large economies and elevated policy uncertainty.

**Outlook for Advanced Economies**

Growth in major advanced economies is showing signs of strengthening, despite some elevated policy uncertainties. Output gaps appear to be narrowing as economic slack gradually diminish in some countries, while investment and export growth are picking up. Private consumption moderated somewhat, despite improvements in the labour markets. Advanced economies are projected to grow at an accelerated pace of 2% over 2017-2018, led by the US, Japan and Canada. However, rising protectionism and geo-political risks are likely to scuttle growth momentum in the short term, while weak productivity growth and mounting demographic challenges will constrain growth in the long-run.

The U.S economy is projected to expand by 2.1% in 2017, and pick up marginally to 2.2% in 2018, which is marginally less optimistic than previously envisioned. US growth will be stimulated by an expected fiscal stimulus including personal and corporate tax cuts, increased infrastructure spending (about US$1 trillion) and anticipated increase in defense spending. Infrastructure investments could also lead to stronger-than-expected growth in the short-term, and increase potential output over the medium term. At the start of 2017, activity was temporarily held back by a deceleration in consumer spending, despite improvements in labor market conditions. Unemployment inched down to a 16-year low of 4.3% in May (Figure 3), helping to shore up households’ disposable income at a time of meager wage growth and tightening financial conditions. The Fed hiked its policy interest rate for the second time this year from a range of

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4 World Bank Global Economic Prospects, June 2017

5 ibid
between 0.75% and 1% to between 1% and 1.25%, reflecting good macro data and favorable inflation outlook. We expect another rate hike before the end of the year.

While the labour market could solidify further and provide some support on consumption, a healthy housing market and the turnaround in business investment growth and the expected fiscal stimulus will support growth, we believe that the economy will expand at a less robust pace than initially envisaged. Protectionist and tight immigration policies could upset trade and slow growth momentum. While the hope of Trump’s planned $1 trillion infrastructure spending programme held potential for growth impetus, a number of setbacks on Trumps policy agenda have raised skepticism about the administration’s ability to roll out its policies. The administration has thus been susceptible to over promising and under delivering. Also, considering time needed for planning procedures, we may not expect any tangible impact of the infrastructure programme before 2019. Leading economic indicators point to some slowdown in activity: Manufacturing PMI slowed down to 52.7 in May from 57.2 points in March, reflecting sluggish expansion (Figure 3). Industrial production stalled in May, after some expansion in April.

Figure 3: US PMI, Inflation and Unemployment

Economic activity in the Euro Area, remain broadly modest, reflecting some resilience and defying market expectations of a slowdown. Earlier concerns were based on
the impact of Brexit and the political risks in large economies amid rising populist sentiments. Economic sentiment is improving, while financial conditions remain extremely accommodative. Manufacturing activity and goods exports are picking up, lifted by strengthening global trade and investment. Recent data shows that the Euro Area expanded by 0.6% in Q1, while the PMI remained flat at 56.8 points in May, after a 0.7 % increase in April. The labour market continue to mend, with unemployment rate falling to 9.5% in Q1, which is 2.5 percentage points below its peak in 2013, providing a boost to private consumption.

Political risks and the tide of populism have subsided after elections in Netherlands and France, and expected to be less severe in Germany. However, in Netherlands, a government is yet to be formed after elections in March. The decisive win by Macron in France in both presidential and parliamentary elections has renewed strength for Europe’s integration and bodes well for his ambitious economic reform agenda for France. In Germany, Chancellor Angela Merkel’s CDU and CSU coalition presents strong chances of winning in the upcoming polls in September. Going forward, accommodative monetary policy and improving labour market will continue to sustain domestic demand. Euro area growth is projected to remain modest at 1.7% in 2017, possibly moderating to 1.6% in 2018, as the ECB gradually unwinds exceptional policy measures. However, the outlook remain overshadowed by trade policy uncertainties in the US, the direction of Brexit negotiations, and some structural bottlenecks such as financial sector fragilities emanating from the legacy of high levels of non-performing bank loans in some economies.

UK’s growth slowed down to 0.2% in Q1, after some resilient performance last year after the Brexit vote (0.7% in Q4, 2016). The slowdown has been driven by rising inflation dampening private consumption, meagre wage growth and slump in exports, despite weaker pound. Inflation increased to 2.9% in May from 2.7% in April, largely driven by weakening of the pound. The Bank of England sees inflation reaching 2.8% in Q4 2017. On the upside, the labor market remains solid, with unemployment declining further to 4.6% in April. Industrial production picked by 0.2% in April, while the composite PMI slid by 3.2% to 54.4 points in May, but remains above the 50 point threshold that separates contraction from expansion. Political panorama has however added a layer of uncertainty to the Brexit process after Theresa May’s Conservative Party lost its absolute parliamentary majority and forced to lean on the Democratic Unionist Party (DUP) in order to govern. The political bickering continues, with the Labour Party advocating for a “jobs first” Brexit (the one which establishes trade links with the EU). The result of the vote however has increased the chances of a slightly softer Brexit amid a number of sticky issues including the immigration, access to single market, citizen’s rights and financial settlement. The
likely long Brexit negotiations could deter investment in the UK and slow down trade. The Bank of England’s (BoE) loose monetary policy stance could also soften the slowdown somewhat. The Bank of England expects the economy to expand 2% in 2017 and 1.6% in 2018.

Japan’s GDP growth remains flat at 0.3% (quarter on quarter) in Q1, 2017, similar to Q4, 2016. Growth is supported by recovery in external demand, boosting exports especially in high tech and capital goods. However, the trade balance swung to a deficit of about JPY 204 billion (1.8 $billion) in May as imports which grew by 18% surpassed exports which expanded by 15%. Growth in industrial production hit a nearly six-year high in April, helping to support employment gains. Despite this strengthening, consumption remained on a subdued trend amid weak wage growth. Continued accommodative monetary and fiscal policies are expected to provide a fillip to growth, which is projected to edge up to 1.5% in 2017, which is an upgrade from previous forecasts. The BoJ maintained its Quantitative and Qualitative Monetary Easing with Yield Curve Control program, which has so far helped to stabilize long-term interest rates around zero. The policy interest rate remains at -0.1%, while 10-year bond yields were capped at around 0%, with the pace of asset purchases remaining at JPY 80 trillion (USD 727 billion) annually. Looking ahead, Japan’s export-led recovery may be affected by the appreciation of the yen and China’s economic slowdown. High frequency indicators point to less vigorous recovery: The manufacturing PMI fell to 52 in June from 53.1 in May, while industrial production inched down by 3% in June.

Outlook for Emerging Market and Developing Economies

Emerging and developing countries (EMDE) are projected by the IMF to strengthen from a post crisis low of 3.5 % in 2016 to 4.5% in 2017, picking up to 4.8% in 2018. The World Bank see growth of these countries at 4.1 % and 4.5% in 2017 and 2018 respectively. Growth will be lifted by the group’s largest EMDEs (Brazil, China, India, Indonesia, and Russia). Firming commodity prices and recovering industrial activity, stabilizing investment, policy support and improving confidence are leading the upturn in these countries in 2017. Some large commodity exporters Argentina, Brazil, Nigeria, Russia are beginning to emerge from recession, while commodity importers remain fairly strong. However, oil production cuts and protracted fiscal consolidation has weighed on growth of some Gulf countries and other oil exporters (e.g. Algeria, Iraq, Qatar, Saudi Arabia, and United Arab Emirates).

China’s rebalancing process is continuing at a measured pace. GDP expanded by 6.7% in 2016, but picked up to 6.9% in Q1, 2017, on the back of previous policy support,

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7 IMF, World Economic Outlook, April 2017
exceeding market expectations. We believe that growth will cool down in coming quarters, to keep average growth for 2017 at 6.5%, consistent with our earlier expectations, as government stimulus measures fade. Import, export and consumption growth have accelerated in May, reflecting robust domestic demand and firming external demand. Growth in industrial production and retail sales was steady in May, while property investment growth slowed after having expanded consistently at the end of 2016. The manufacturing PMI slid in May, indicating continued weakness in the manufacturing sector. The housing market continues to cool off with visible declines in both prices and sales, while property investment continues to slow down in May, partly reflecting the authorities’ efforts to deleverage the financial sector. Growth is expected to moderate to 6.3 % in 2018-19, as stimulative policies are slowly withdrawn.

Figure 4: China’s housing market price index, economic activity and PMI.

The key downside risks to the Chinese outlook stem from financial sector vulnerabilities and increased protectionist policies in advanced economies. Rising debt levels in the context of slowing growth has prompted Moody’s to downgrade China’s credit rating one notch from Aa3 to A1. Nonetheless, the probability of a hard landing is low, given that the Chinese authorities still have the levers to manage the rebalancing process and avoid a steep fallout. Foreign exchange reserves remain high at $3 trillion, sustained by some tightening of capital controls and continued measures to encourage FDI.

Brazil’s economic activity is gradually improving, with the resumption of industrial
output growth, a pickup in exports and improvement in confidence. The economy leaped out of recession, with growth of 1% in Q1 (quarter on quarter seasonally adjusted)\(^8\) for the first time in two years, thanks to a record harvest of soybeans and export growth. Manufacturing PMI and industrial production rose by 3.8% to 52 points and 2.9% in May respectively, underlining expansion of the sector. The current account posted a solid $2.9 billion surplus in May, supported by higher prices for key exports and a bumper harvest of soybeans and corn. Inflation continues to decelerate, falling to a decade low of 3.6% in May, providing room for further monetary policy easing to support economic recovery. However, the country continues to struggle with rising unemployment and sizable fiscal adjustment needs. On the governance front, a testimony on a corruption scandal has directly implicated President Temer in May and he is under investigation for obstructing justice\(^9\). This is endangering the government’s reform agenda and fragile economic recovery and casting doubts on whether he will complete his term.

Russia’s economy has returned to positive growth, posting a second consecutive positive growth rate of 0.5% in Q1\(^10\), supported by firming oil prices, improving consumer demand and positive contribution from exports. Leading economic indicators point to continued strengthening of momentum: industrial production rose in by 5.6%, while and the manufacturing PMI picked up by 3.1% to reach 52.4 points in May\(^11\). At the same time, retail sales data has improved, while unemployment rate has fallen to 5.2% in May, boosting private consumption. The recovery of private consumption and higher oil prices are set to sustain positive growth in 2017. The stabilization in the ruble will reduce inflationary pressures (4.4% in June) and allow for continued easing of monetary policy.

In other EMDE, robust growth well above 6.8% will continue in South Asia in 2017, led by Bangladesh, Cambodia, India, Philippines, Vietnam and sustained by solid domestic demand, strong infrastructure spending and FDI-led investments. India and Bangladesh will be the region’s fastest-growing economies in 2017 with expansions of 7.2% and 6.8% respectively. India is recovering from the temporary adverse effects of the withdrawal of large-denomination currency notes at the end of 2016, which affected household consumption. Activity pick up in the services sector, improving external sector and a health monsoon will provide some impetus to India’s growth prospects in the coming quarters. The Indian economy is projected to expand at 7.2% in 2017, picking up to 7.5% in 2018. In Eastern Europe and central Asia, countries such as Bulgaria, Romania, and Serbia are benefiting from

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\(^8\) Central Bank of Brazil, Economic Indicators
\(^9\) https://www.ft.com/content/53f16be0-5b4d-11e7-9bc8-8055f264aa8b
\(^10\) Russia Federal Service for State Statistics (Rosstat)
\(^11\) Bloomberg, June 2017
robust domestic demand and demand for exports to the Euro Area. However, the lingering effects from the failed coup in 2016, currency depreciation and high inflation are dampening confidence in Turkey. Latin America and the Caribbean is stabilizing after two years of contraction on the back of strengthening private consumption and an easing contraction in investment. However, uncertainty about U.S. trade policy are discouraging investment some countries such as Mexico. Activity in Middle East and North Africa will slow down to 2.1% in 2017 from 3.2% in 2016 due to 2017 OPEC-led oil production cuts and their subsequent extension by 9 months.

**Macroeconomic outlook for Africa**

Sub-Saharan Africa (SSA)’s recovery is on course, despite some stumbling blocks on the way. Growth is projected to recover to 2.6% in 2017\(^{12}\), after bottoming out at 1.5% in 2016, reflecting a modest rise in commodity prices, strengthening external demand, and subsiding headwinds experienced last year, which are helping to improve domestic conditions. The rebound in Angola and Nigeria—the largest oil exporters is helping to lift the region’s growth fortunes. However, the momentum is more moderate than initially envisaged in January, partly reflecting the longer-than-expected adjustment and imbalances in some large commodity exporters to low commodity prices, heightened political uncertainty, and low confidence in South Africa and drought in East Africa. Economic activity is expected to remain strong in non-resource intensive economies, such as Cote D’Ivoire, Kenya, Ghana, Senegal and Tanzania in 2017, boosted by increased infrastructure investment, resilient services sectors, and recovery of agricultural production (Figure 5).

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\(^{12}\) World Bank, Global economic prospects, June 2017. This is a revision from the initial forecast of 2.9% in January, 2017.
Figure 5: Growth estimates and forecasts for selected African countries, 2016 and 2017

Table 1: Selected Macroeconomic Indicators for Sub-Saharan Africa

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<td>Inflation (% yoy ave.)</td>
<td>8.2</td>
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<td>Fiscal Balance</td>
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<td>-3.1</td>
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<td>-5.4</td>
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<td>CA Balance</td>
<td>-0.9</td>
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<td>Broad Money Supply</td>
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<td>12.6</td>
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<td>Private sector credit</td>
<td>29.2</td>
<td>27.9</td>
<td>28.0</td>
<td>27.7</td>
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<td>28.8</td>
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<td>(% of GDP)</td>
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Sources: IMF, World Bank

The outlook for 2018 is favorable. Growth is projected to firm up to 3.5%, as commodity prices continue to stabilize and policy responses to macroeconomic imbalances bear fruits. Growth prospects will remain divergent across the economies, with frontier economies (e.g. Cote d’Ivoire, Senegal, Ghana, Kenya) and low income countries (Ethiopia, Tanzania, Rwanda) seen leading the pack with robust growth rates, well above 6.5%. On the flip side, the region’s largest economies (Nigeria, South Africa and Angola) will grow at rates between 1.1-2% in 2018. However,
downside risks including weaker-than-expected improvements in commodity prices, stronger-than-expected tightening of global financing conditions, the threat of protectionism and political uncertainties in some countries and drought affecting East African countries will limit the recovery momentum.

The region’s inflation continue to moderate, and expected to stabilize around 10% in 2017, largely reflecting the stabilization of currencies, and lower food prices in countries which had good weather conditions (e.g., South Africa, Zambia, Ghana, Malawi) and dissipation of some past inflation impulses. Although still in double digit ranges, inflation in Angola, Ghana and Nigeria is decelerating (Figure 6). Inflationary pressures have remained low in the CFA franc zone countries in West and Central Africa, thanks to the stable peg to the Euro. Moderating inflation will help to boost consumption, and allow central banks to loosen monetary policies. However, inflationary pressures have increased especially in East Africa (e.g. Kenya, Ethiopia, Tanzania) due to surge in food prices amid drought affecting the Horn of Africa (e.g Kenya, Ethiopia, Somalia, Sudan and South Sudan) and in some metal exporters (e.g DRC, Sierra Leone) due to continued currency depreciations.

Figure 6: Inflation rates of selected African countries (%)

Improvement in commodity prices are helping to improve fiscal and current account balances. Fiscal deficit for the region projected to remain stable at about 4.5% of GDP in 2017. Oil and metals exporters are still running sizable fiscal
deficits, reflecting slow adjustment to lower commodity prices and declining fiscal buffers (Figure 7). Fiscal deficits have widened somewhat in some non-resource-intensive countries, due to continued expansion in public infrastructure. Public debt ratios remain elevated in the region. More than 70% of Sub-Saharan African countries expected to retain debt levels above 40% of GDP in 2017, raising concerns about debt sustainability. A number of countries have undertaken fiscal adjustments and consolidations, but the adjustments have been slow\(^{13}\). A number of countries are likely to turn to the IMF and World Bank for support. The current account deficit for the SSA region is expected to narrow to 3.8% in 2017 from above 4% of GDP in 2016, led by oil metal producers, which are supported by the pick-up in commodity prices. However, current account deficits will remain high (above 10% of GDP) in some oil importing countries (e.g. Mozambique, Sierra Leone, Rwanda and Guinea).

A number of currencies have stabilized, helped by improvements in external positions and gradual stabilization of foreign exchange markets. Notably, the pace of depreciation of the Nigerian naira and Angolan kwanza have slowed, and the exchange rate gap between the official and parallel markets continue to narrow as central banks injected more foreign exchange in the markets (Figure 8). The

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\(^{13}\) World Bank Global Economic Prospects, June 2017
Naira depreciated by 3.7% between January and June, while Angolan kwanza remained stable. The Mozambican metical made a huge upturn and appreciated by 16% between January-June 2017. The Congo Republic Franc, Senegal Franc and Zambian Kwacha and South African Rand overall appreciated between January–June 2017. Despite the overall appreciation of the Rand, the currency has experienced marked volatility in the first half of 2017 due to political squabbling and the subsequent credit rating downgrades by S&P and Fitch in March and April and Moody’s in June. However, the Congolesse (DRC) franc and the Sierra Leone Leone remains under pressure, depreciating by 38% and 35% respectively. The Congolese Franc is affected by the political instability, slump in FDI and sharp decline in foreign exchange reserves, while the Leone is weakened by the decline in exports and lasting economic impact from the 2014-2015 Ebola crisis.

Figure 8: Changes of selected African currencies against the US$ (January 2017- June 2017)

Source: Bloomberg

Outlook for individual African countries

The outlook for individual countries is mixed. In Nigeria, difficult conditions are easing somewhat. The economy contracted by 0.5% in Q1, 2017, which was an improvement from the 1.7% GDP drop in Q4, 2016, suggesting that the recession has bottomed out and the economy is on the recovery path to positive growth. The oil sector shrank by 11.6% in Q1, dragged down by lower oil production. The 0.7% growth of the non-oil sector was not big enough to offset the large drag of the oil sector. The PMI rose to 54.4
points in May from 51.9 in January- the highest reading in 17 months, pointing to continued strengthening of the economy. Oil production surged to 1.7 mb/d in June as militant attacks on oil facilities was stopped after some truce with the government. Nigeria also benefited from exclusion from oil production cuts by OPEC. The recent extension of the production cuts by another 9 months bodes well for the oil sector, but threat of attacks of oil facilities by a new militant group continues to hang over the sector.

The 2017 budget was finally signed into law in June after some delay due to wrangling between the Executive and the National Assembly. The budget aims to ramp up infrastructure spending (about $30 billion) to buttress economic activity. The budget will be financed from domestic and foreign borrowing, but there are concerns about rising debt levels. Inflation continues to decline, to 16.3% in May from 17.2% in April, but remains above the central bank target range of 6-9%. We expect the inflation rate to drop further and stabilize around 15% in 2017. The economy is expected to recover to 0.8% this year, and edge up to 1.9% in 2018, thanks to a recovering oil sector, strong growth in agriculture and infrastructure investments and gradual rebalancing of the foreign exchange market. The recently announced Economic Recovery and Growth Plan focusing on non-oil sectors is expected to stimulate industrialization and help further diversify the economy. The introduction of the Exporters and Investors FX window in April is boosting liquidity in the forex market and reducing constraints on the non-oil sector somewhat.

The **South African** economy slipped into a technical recession in Q1, 2017, with -0.7% (seasonally-adjusted annualized rate) growth, as the external sector failed to contribute to growth, despite improving global environment. Government spending was largely muted due to fiscal constraints, while business confidence fell to a multi-year low in the second quarter, after an abrupt cabinet reshuffle heightened political uncertainty which prompted credit rating downgrade by S & P, Fitch and Moody’s. S&P and Fitch downgraded the credit rating to junk investment status (BB+), while Moody’s downgraded the rating to a notch (Baa3 from Baa2), which is slightly above investment grade. The investment outlook by Moody’s remains negative, suggesting that another credit downgrade may be on the table. The Purchasing Managers’ Index (PMI) inched down to 50.2 in May from 50.3 in April, remaining barely above the 50-mark, signaling the weakest expansion in South Africa’s business activity. 2017 GDP growth has been slightly revised downwards by the World Bank from 0.8% to 0.6%, amid continued political and institutional uncertainties, weak labour market and low business confidence. The external sector remains constrained by still-low prices of key commodities such as platinum, while the recent credit rating downgrades will raise borrowing costs. Growth could pick up to 1.1% in 2018 as rebound in exports lift South
Africa’s fortunes and offsetting the weak private consumption and investment.

The outlook for Angola is improving after sluggish growth in 2016. Improvements in oil prices towards the end of 2016 provided some relief to the oil dependent economy. Oil production however declined by 3.5% to 1.6 mb/d in May, from April, in line with OPEC production cuts. The National Institute of Statistics (INE)’s economic climate indicator rose by 9 points from -33 points in Q4, 2016 to -24 points in Q1, 2017, reflecting improvements in manufacturing, trade, transport, tourism, mining and communications sectors. However, business sentiment remain subdued. The economy is anticipated to expand at 1.3% in 2017, edging up to 1.5% in 2018, supported by moderate pick up in oil prices, ramped up public investment, and improving terms of trade. However, the non-oil sector continue to be constrained by limited access to foreign exchange and high inflation.

Inflation however continues to decelerate, falling to 34.1% in May from 36.3% in April, marking the fifth consecutive monthly decline, reflecting the dissipation of the lagged effects of inflation drivers in 2016: fuel subsidies removal, depreciation of the kwanza and a loose monetary policy. Inflation is expected to average 27% in 2017, still elevated enough to dampen consumer spending. The Central Bank left the main interest rate unchanged at 16% in May. The intervention of the central bank into the foreign exchange market to stabilize the kwanza has helped to narrow the gap between the official and parallel market rates somewhat. However it has resulted in a 11.4% decline in net foreign exchange reserves to US$18.03 billion between January and May 2017. The main risks to the outlook relates to elections in August, still disequilibrium in the foreign exchange market and still elevated inflation. Due to slow fiscal adjustments, declining fiscal space and increased public investment spending, the fiscal deficit is expected to widen to 5.8% in 2017.

Zambia’s economic outlook is strengthening. GDP growth is expected to accelerate to 4% in 2017, following a modest 3% growth in 2015-2016. Economic reforms, recent rise in copper prices, good rainfall and improving electricity supplies are providing some support to growth. Rising copper exports helped to halve the current account deficit in Q1. The fiscal deficit is expected to narrow to 8% in 2017 from 8.9% in 2016. The USD1.2 billion loan expected from the IMF in 2017, will help to stabilize the budget and shore up the economy. The government has also signed a US$ 2.3 billion contract to build a railway line linking the country to Malawi. The expected issuance of Eurobonds in 2017 will help to close the financing gap for capital projects. The continued deceleration of inflation (6.8% in June) has allowed the Bank of Zambia to lower its policy interest rates by

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14 IMF, World Economic Outlook, April, 2017

15 Bloomberg, July 2017
150 basis points to 14% in May\textsuperscript{16} to support the economy. However, credit constraints and recent rise of political tensions remain risks to the economic outlook.

The outlook for some frontier economies (Cote d’Ivoire, Ghana, Senegal and Kenya,) remain strong in 2017. Cote d’Ivoire’s economy is expected to expand at 7% in 2017, supported by the increase in infrastructure spending, robust domestic demand and extensive international financial support. However, the decline in cocoa prices by a third will significantly weigh on growth and fiscal revenues. This has forced the government to slash its 2017 budget in May. The government could face additional fiscal pressures, following the agreement to pay bonuses to the army after a short mutiny in May and some concessions to civil servants who led a strike earlier this year. The budget deficit is thus expected to widen to about 5% of GDP this year, compared with 4% in 2016. To close the yawning budget shortfall, the government issued two Eurobonds, with a combined value of USD 1.8 billion. The issues were oversubscribed by a factor of four, reflecting investors’ confidence in the country’s long term fundamentals.

Ghana’s economy is expected to expand at 5.8 % in 2017, stimulated by a gradual increase in commodity prices, increased oil production from the new Tweneboa-Enyenra-Ntomme (TEN) oil fields boosting oil production by 50%, increased oil production in the Jubilee fields as repairs are completed and improving terms of trade and expected increase in private sector lending. The government is in discussion with the IMF for a possible extension to the $918 million facility due to expire in April 2018 to ease the current fiscal adjustment process. In addition, the government’s deficit reduction plan, coupled with IMF support, should improve the fiscal situation and anchor business confidence. Ghana’s credit rating outlook was recently upgraded to stable by Fitch. Inflation continues to decelerate, recording 12.6% in May and drifting towards the Central Bank’s target of 6.0%–10.0%. This has allowed the Bank of Ghana to cut the policy interest rate by 100 basis points to 22.5% in May.

The outlook for Kenya remains fairly stable. Growth is expected to moderate to 5.3% in 2017. The composite PMI fell to 49.9 points in May, down from 50.3 in April, indicating contraction in business activity. Kenya is currently grappling with drought, which is inducing food inflationary pressures. Fueled by rising food and energy prices, inflation increased to 11.7% in May, from 6.3% in December 2016. The government is planning to present a supplementary budget to introduce food subsidies and cushion the effects of drought. 2017 GDP growth is also affected by the interest caps introduced last September year, which saw credit to private sector declining by 4% in 2016. In addition,

\footnote{16 Bank of Zambia, Monetary Policy Committee statement, May 2017}
political uncertainty around the August presidential election is also dampening business sentiment and delaying investment decisions. The elections campaigns are intensifying with opposition parties uniting behind a single candidate, Raila Odinga, who is facing the incumbent, Uhuru Kenyata.

**Senegal** is expected to maintain a solid GDP growth rate of 6.8% in 2017, inching up to 7% in 2018, sustained by robust growth in agriculture, a dynamic private sector and policy reforms (e.g. the Plan for an Emerging Senegal). The agriculture sector is benefiting from a good rainfall season and government support programmes. Rapidly growing exports will help to reduce the current account deficit from nearly 9% in 2014 to 7.8% in 2017. Higher revenues and fiscal consolidation will help fiscal authorities to progressively reduce fiscal deficit to 4% of GDP and stabilize the debt to 60% of GDP in 2017.

Some low-income countries (Rwanda, Tanzania and Ethiopia) will maintain their strong growth paces in 2017, supported by infrastructure development, mining expansion and dynamic private sector consumption. **Rwanda’s** economy is anticipated to expand at rates above 6% over 2016-2017, on the back of strong policy reforms, improving business regulatory environment and infrastructure investment. **Tanzania’s** economy is expected to expand at a healthy pace of 6.8% in 2017, inching up to 6.9% in 2018, supported by large infrastructure programme (natural gas terminal, oil pipeline, railway line, port in Bagamoyo and power projects), robust household consumption and improved power supply. However, the financing of the large infrastructure programme could result is a fiscal squeeze, widening fiscal deficit to above 5% of GDP and raising public debt to above 40% of GDP.

**Ethiopia’s** agriculture dependent economy remains resilient, amid drought, with growth projected at 7.5% in 2017, sustained by government’s infrastructure programme under the Growth and Transformation Plan II (GTP II). Ethiopia continues to outperform most of its peers and is among the fastest-growing economies in the region. Recent data from the IMF\(^\text{17}\) indicates that Ethiopia could overtake Kenya as East Africa’s largest economy in 2017. The country is expected to grow at a strong pace over the next few years backed by strong public spending and robust FDI inflows. Ethiopia has managed to secure development finance from its close partners such as China and international lenders. It recently secured about $108 million from the World Bank, in addition to other loans secured from China and other development partners recently.

Activity is improving in some **Southern and East African countries**, such as Zambia, Malawi, Zimbabwe in 2017, supported by a good rainfall season combined with government support programmes, which is boosting agriculture and power generation.

\(^{17}\) IMF, World Economic Outlook, April 2017.
However, some of the countries will need additional funding to rehabilitate infrastructure destroyed by La Nina driven floods. Activity is also picking up in Mozambique, with growth expected at 4.5% in 2017, thanks to better performance of the mining sector. However, the fiscal and external situations remain challenging, and inflation remain elevated above 20%. International support remain low, amid the still debt distress situation. The World Bank recently announced a funding package of up to US$1.7 billion over the next several years, but requires improved fiscal management and a sounder macroeconomic framework before funding resumes. The government defaulted on two loan repayments and is working on plans to restructure the debt. A public debt audit requested by the IMF is expected to be released in the coming weeks. Drought in the Horn of Africa, affecting Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda is expected to dampen agricultural production in 2017 and cause food shortages to some 17 million people.

Financial Markets

Global financing conditions have been benign, benefiting from improving market expectations about growth prospects in 2017. Financial market volatility has been low despite elevated policy uncertainty. Monetary policies of major central banks are turning hawkish. The US Fed raised its interest rate by 25 basis points to 1%-1.25% range, in June following another hike in March, reflecting positive economic performance and favorable inflation outlook. We expect another rate hike before the end of 2017. The Fed also announced the decision to taper balance sheet later this year. The Bank of England, the ECB and BoJ have kept their monetary policy stances, but recent statements suggest more hawkish stances in the coming quarters. The ECB is likely to raise its interest rates and start to taper its bond buying programme in 2017, given the rise in Euro Area inflation above the ‘danger zone’ level of 1% (1.4% in May) and upbeat prospects.

Elsewhere in emerging markets, the easing of conditions have allowed some central banks to loosen their monetary policies in order to stimulate economic activity. For instance Brazil, Belarus, Chile, Colombia, Russia and Saudi Arabia have cut their policy interest rates by between 25-100 basis points in the first half of 2017. However, Argentina, Kuwait, Mexico, Jordan and United Arab Emirates have all hiked their interest rates by 25 basis points so far in 2017 to support their currencies and tame inflationary pressures. In Africa, Ghana, Mozambique, Rwanda, Uganda and Zambia have cut their interest rates, while other central banks have kept their interest rates unchanged, despite easing of constraints.

Global equities remains resilient, registering modest gains in the first half, as global
earnings continuing to rise. Positive macroeconomic data and dissipation of political risks in some large economies has helped to lift market sentiment. Market volatility has remained low, despite high policy uncertainties. The MSCI global index gained 9% in the first half of the year, while MSCI emerging market index edged up strongly by 16%. The S&P-500 went up by 7.3%, while the Eurostoxx50 gained 11% between, reflecting improved confidence. The Shanghai Stock Exchange inched up by 2%, while the Nigerian stock index strongly surged by 25%, reflecting return of confidence as domestic conditions improve and the foreign exchange market balances. The Johannesburg Stock Exchange recorded little gains, although it has been volatile during the period due to political turmoil. The global stock/bond (S/B) ratio is still overbought compared to stocks (Figure 8), which suggests that a correction/consolidation phase may be coming soon.

Figure 9: Global stocks to bond ratios

![Global Stock/Bond Ratio](image)

Source: MRB Partners

U.S. long-term yields have continued to move sideways between January and May 2017, despite the continued hiking of the interest rates by the Fed. Euro Area bond yields have remained low at the beginning of the year, due to continued monetary policy accommodation by the ECB and condensed political risks in the region (Netherlands, France, and Germany). However, bond yields in developed markets have started to pick up again towards the end of June, reflecting monetary tightening or some hawkish tones by major central banks (US Fed, ECB, BoE) about improving inflation expectations, and upbeat economic prospects (Figure 10). 10-year US Treasuries increased by 13 basis
points between 26 June and 30 June 2017, while 10 year German Bunds edged up by 22 basis points and UK 10 year bonds gained 16 basis points. Japanese bonds barely moved, while French bond yields rose by 21 basis points.\textsuperscript{18}

Figure 10: Bond yields (10 Year Bonds) of selected high income countries

Source: Bloomberg

Appetite for risk assets has returned in emerging and developing countries, contributing to the increase in capital flows and narrowing of bond spreads (Figure 10). According to the World Bank, EMDE bond issuance has increased at a record pace, especially in the Middle East and North Africa region (Arab Republic of Egypt, Oman, and Kuwait),\textsuperscript{19} which has accounted for about half of total EMDE sovereign bond issuances since the start of 2017. Corporate bond issuances have been particularly buoyant in Latin America\textsuperscript{20}. Bond spreads have narrowed especially in commodity exporting countries, while their currencies have generally regained ground. The few credit rating downgrades so far in 2017, have also helped to support capital inflows to EMDEs. Capital flows are expected to remain steady in 2017, but the gradual tightening of international financing conditions and rising fears of protectionism may curtail capital flows to EMDEs.

Bond spreads have continued to narrow in 2017. African and emerging market bond

\textsuperscript{18}Bloomberg, March 2017

\textsuperscript{19}Bond issuances have increased in the MENA region in order to close fiscal financing gaps.

\textsuperscript{20}World Bank, Global Economics Prospects, June 2017. Bond issuances have increased in the MENA region in order to close fiscal financing gaps.
spreads have fallen by approximately 32 and 22 basis points respectively since the beginning of the year, reflecting some improvement in sentiment and declining risk perception (Figure 11). However, African bond spreads notably in Angola, Ghana and Zambia have remained high, with 295, 228 and 223 basis points respectively, above the emerging markets spreads at the end of the Q2.

Figure 11: Bond Spreads of selected African Countries

There have been a few changes in credit ratings in African countries so far in the year. The outlooks for Ghana and Senegal has been upgraded to stable by Fitch and Moody's respectively. South Africa’s credit rating was downgraded by S&P and Fitch to BB+ (junk investment status) in March and April, and by Moody’s to Baa3 because of rising political risks which is threatening growth outlook. Mozambique’s credit rating remains in selective default (SD) and restrictive default (RD) by S&P and Fitch amid continued debt distress and negative external position. Table 2 shows credit ratings of selected African countries as at 30 June 2017.
### Table 2: Credit Ratings of Selected African Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>S &amp; P Credit Rating</th>
<th>Moody's Credit Rating</th>
<th>Fitch Credit Rating</th>
<th>Outlook</th>
<th>Moody's Outlook</th>
<th>Fitch Outlook</th>
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<tr>
<td>Angola</td>
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<td>B1</td>
<td>Negative</td>
<td>B</td>
<td>Negative</td>
<td>Negative</td>
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<tr>
<td>CoteD’ Ivoire</td>
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<td>Ba3</td>
<td>Stable</td>
<td>B+</td>
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<td>Stable</td>
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<tr>
<td>Congo Republic</td>
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<td>B3</td>
<td>Negative</td>
<td>CCC</td>
<td>Not Rated</td>
<td>Not Rated</td>
</tr>
<tr>
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<td>B3</td>
<td>Stable</td>
<td>B+</td>
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<td>Not Rated</td>
</tr>
<tr>
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</tr>
<tr>
<td>Ghana</td>
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<td>Stable</td>
</tr>
<tr>
<td>Kenya</td>
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<td>B1</td>
<td>Stable</td>
<td>B+</td>
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<td>Negative</td>
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<tr>
<td>Mozambique</td>
<td>SD</td>
<td>CAA3</td>
<td>Negative</td>
<td>Restrictive Default</td>
<td>Not Rated</td>
<td>Not Rated</td>
</tr>
<tr>
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<td>Not Rated</td>
<td>Baa3</td>
<td>Negative</td>
<td>BBB-</td>
<td>Negative</td>
</tr>
<tr>
<td>Nigeria</td>
<td>B</td>
<td>B1</td>
<td>Stable</td>
<td>B+</td>
<td>Negative</td>
<td>Negative</td>
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<tr>
<td>Rwanda</td>
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<td>Stable</td>
<td>B+</td>
<td>Stable</td>
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<tr>
<td>Senegal</td>
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<td>Ba3</td>
<td>Positive</td>
<td>Not Rated</td>
<td>Not Rated</td>
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<tr>
<td>South Africa</td>
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<td>Baa2</td>
<td>Negative</td>
<td>BB+</td>
<td>Stable</td>
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<tr>
<td>Zambia</td>
<td>B</td>
<td>B3</td>
<td>Negative</td>
<td>B</td>
<td>Negative</td>
<td>Negative</td>
</tr>
</tbody>
</table>

*Source*: Bloomberg.

The outlook for financial markets is shaped by monetary policy developments, developments on the trade policy front, the pace of the slowdown in China and global economic developments. While political risks in Europe have subsided, the Brexit process will also continue raise anxiety in the markets.

**Commodity Markets**

Commodity prices softened slightly in the first half of 2017. The IMF’s All Commodities Price Index inched down by an average 2.4% between March and May and down to 1.1% between January and June. Energy prices fell by 2% in Q2, and have dipped 6.1% since December. Thus far in 2017, energy prices have been 17% higher than last year’s average. The non-energy price index fell by 2.9% in April and May, reversing the gains it had made in the first quarter on the back of supply and demand factors and some weakening of the dollar. Base metal prices are 23% higher than 12 months ago, despite the recent tumble, while agricultural raw materials have firmed by 6.4% (Figure 12).
Figure 12: Commodity Price Indices

Oil prices remained relatively steady in Q2, with Brent crude averaging $52/barrel in April and $50/b in May. They have retreated below $50/barrel in June on the back of high OECD stocks (especially in the US) and rising production in Libya and Nigeria, which were exempted from the OPEC oil production cuts. Other OPEC producers have largely complied with the output cuts. Global demand growth in 2017Q1 was 0.9 mb/d (year-on-year), and is projected by the US Energy Information Administration (EIA) to grow by 1.54 mb/d in 2017, supported by stronger global economic growth. According to the IEA, global oil supplies rose by 585 kb/d in May to reach 96.69 mb/d, which is 1.25 mb/d above a year ago, largely driven by increase in production by non OPEC members especially the US. OPEC members announced an extension of their output cuts to March 2018, with supply target remaining at 32.5 mb/d. Among the non-OPEC countries that that participated in the initial production cut, only Russia has agreed to the extension. The EIA anticipates a relatively balanced oil market in 2017 and 2018, with stock withdrawals averaging 0.2 mb/d in 2017 and accumulations averaging 0.1 mb/d in 2018. Brent crude is forecast by the EIA to average $53/b in 2017 (1%age point revision from the March forecast), edging up to $56/b in 2018. The outlook for oil prices largely depends on the supply response of the US shale producers to production cuts, Trump’s economic and trade policies, the pace of interest rate hikes in the US, value of the dollar and global economic growth in particular the pace of growth in China and India. A rise in US oil production will put a lid on oil prices, while further interest rate hikes could strengthen the dollar and put downward pressure on oil prices.
Precious metal prices have not moved much in Q2. Gold and platinum were relatively steady, while silver dropped from $18.54 in April to $16.66 by late June. By end of June, the price of gold returned back to exactly the same level as it was at the end of March ($1249/ounce), after slightly dipping in May (Figure 14). Platinum prices averaged about $935/ounce in Q2. On the outlook, gold could find some support from investors worried about the geopolitical conflict in the Middle East (Qatar, Syria and Iraq). The prospects of further interest rate hikes by the US Federal Reserve later this year, could prompt investors to shift funds into the US and appreciate the dollar.

**Figure 14: Precious metal prices**

*Source: Bloomberg*
Non-precious metal prices fell by about 10% in Q2, led by double-digit declines in iron ore, nickel and uranium. Iron ore tumbled by an estimated 26% in Q2, shedding all its gains from Q1, while uranium and nickel prices declined by 10%. The drop in metal prices is attributed to action taken by the Chinese monetary authorities to curb excessive lending by the shadow banking sector which has been financing the metals sector, thus stifling demand for metals. The medium-term outlook for most base metal prices over the coming year is for little change, with the exception of iron ore, which is likely to continue on the slide as supply increases.

The prices of grains have shown mixed results in the second quarter, with modest gains for rice and wheat and steady in maize. The price of wheat was up 5.8% in May, and has increased 19% since December. A snowstorm in the US gave the wheat price a brief fillip, and the price may firm somewhat further. The price of maize has held steady since March, while rice has climbed 9%. The prices of all grains are likely to strengthen moderately in the next few quarters. Wheat, maize and rice prices are all expected to strengthen on the back of robust demand in the face of short-term supply constraints. Weather conditions and other growing conditions in major producing regions will be an important for grain prices in the short to medium term, while changing dietary patterns are an important long-run driver of grain demand.

Agricultural raw material prices (including timber, cotton, wool, hides and rubber) shed 4% in Q2, reversing earlier gains. The price of rubber has fallen 8.1% since March, after more than a year of gains. The outlook for wool prices is stable, while cotton could see some losses in Q3 and Q4. Rubber is likely to fall further in the coming half year. Beverages declined by 3.7% in Q2 and have fallen by 5.5% since December. Both Arabica and robusta coffee prices dipped in Q2, while tea was flat following three quarters of double digit growth. Until recently, coffee prices had generally been supported by demand growth in Asia and other developing countries, and somewhat stronger demand in the EU and Japan. Cocoa prices have continued to plunge, falling 8% in Q2, following a 16% fall in the first quarter on the back of large supply glut as key producers in West Africa increased production. This will affect a number of West African countries such as Cote D’Ivoire and Ghana. Cocoa prices are expected to pick up slightly in the next quarters. Timber prices rose modestly in Q2. Most timber types are expected to hold firm in the next 2 quarters, while sawn softwood prices are expected to soften further. In general, timber prices tend to change slowly, reflecting the long-term nature of this commodity group.

In our view, most commodity prices are likely to remain relatively steady in the second half of 2017 as global demand is expected to strengthen somewhat on the back of faster economic growth. However, downside risks including uncertainties about President Trump’s trade policies, tense
geopolitics in the Middle East and elsewhere could hold back the momentum for commodity prices somewhat. Detailed report on the commodity markets is available at: QGRL Commodities Outlook, 3rd Quarter, 2017).

Risks to Monitor

A number of external and domestic risks continue to shape the outlook. On the external front key risks include: policy uncertainties in the US, Brexit negotiations, the pace of slowdown in China, cyber security and the pace of US interest rate hikes. On the domestic front, key risks include: political and security concerns in some countries, drought in some countries. Faster normalization of US interest rates could heighten tensions in the financial markets, raise the cost of financing and reduce bond issuances in emerging and frontier economies. US interest rate hikes could also appreciate the dollar, contributing to rollover and currency risks for corporates with unhedged foreign exchange exposures, relative currency depreciations and raise the cost of external debt servicing. Rate hikes could also trigger capital outflows from emerging markets, hampering finance and trade opportunities.

There are concerns about increased trade uncertainty with respect to trade measures in the US under the Trump administration. This could affect the effectiveness and viability of the multilateral rule-based trading system and agreements (such as TPP and NAFTA) and global trading chains, and threaten economic integration. Increased trade restrictions may also trigger retaliation, leading to substantial increases in tariffs, thus damaging activity in both the United States and its trading partners. Increased trade uncertainty can affect trade and investment, as firms invest less and delay entry into foreign markets. For SSA, the biggest risk relates to uncertainties on the Africa Growth and Opportunity Act (AGOA) trade agreement and other bilateral trade agreements, the Power Africa initiative and development assistance. The 30% cut of development assistance by the US is a source of concern for some smaller and fragile African economies which been relying on foreign aid.

China’s housing market is beginning to cool down, amid the rebalancing of the economy. This is raising hard landing fears. The disorderly unwinding of the housing market could spill over and ignite volatility in global financial markets, complicate the rebalancing process, and thwart recovery momentum of commodity prices (51% of global commodity demand comes from

China). Emerging market risks assets would be most affected.

Firming oil prices at the end of 2016 provided some relief to most oil exporters, and the agreed extension of the agreement by another 9 months bodes well for these countries. However compliance challenges and the possible increased production by non OPEC members, especially the US could result in weaker-than-expected rise in oil prices, thus dampening prospects of oil exporters.

Geopolitical risks have also steadily increased, and fragile security conditions could set back activity in a number countries in the Middle East (Iraq, Syria, Yemen and Qatar. A flare-up of geopolitical risks in the Middle East could lead to disruptions in global oil supplies, threaten global trade, lead to resurgence of refugee flows and undermine economic activity.

Another recent global challenge is cyber security risk, which is coming as the world becomes so interconnected, digitalized, automated with the explosion of applications, services and devices. Estimates suggest that the number of connected devices will almost triple by 2020 to 38.5 billion, from the current 13.4 billion, while the proportion of products sold via e-commerce is expected to more than double from 6% in 2014 to 12.8% by 2019\(^2\). In recent months, the number of reported cyberattacks involving data breaches, theft, and alteration of critical data has increased significantly, with demands for ransom payments paid through Bitcoin currency. This is causing widespread disruption of essential services and operations, payment systems, damage to data integrity and even physical assets, disrupts markets, trade and economic activities. Financial services (SWIFT, RTGS), health systems (medical records, diagnostic systems) transport systems (communication nodes and control systems) and power systems have been most vulnerable. Recent cyber-attacks including UK’s National Health Services (NHS), Ukraine’s power company, National Bank and Airport, Russia’s power producer Rosneft, Denmark’s shipping company Maersk among others\(^3\) have caused widespread disruptions to economic activities.

Political and security risks in some African countries need to be monitored closely. A number of important countries are holding elections in the second half of 2017. These include: Kenya (August, 8\(^{th}\)), Angola (August, 1\(^{st}\)), Rwanda (August 4\(^{th}\)), Sierra Leone and Liberia (October, 10\(^{th}\))\(^4\), DRC (dates not confirmed). Elections in Kenya, Liberia and Sierra Leone could possibly delay plans to consolidate fiscal positions and the needed economic adjustment and slow economic activity. In DRC, the political environment remain polarized, with protests in some parts of the country. A power sharing

\(^{22}\) World Economic Forum, Understanding Systemic Cyber Risk, October, 2016.

\(^{24}\) National Democratic Institute: [https://www.ndi.org/electionscalendar](https://www.ndi.org/electionscalendar)
agreement, signed on December 31, 2016 which provides for a transition to the next elections initially expected late 2017 remains contentious after Kabila appointed a prime minister. In South Africa, political tensions continue to rise, with calls for President Zuma to resign amidst corruption scandals. This has significantly weakened business confidence, increased volatility of the rand, and prompted credit rating downgrades.

Weather-related risks (drought) are elevated in East Africa, affecting Djibouti, Eritrea, Kenya, southern Ethiopia, Somalia South Sudan, Sudan and Uganda. Worsening drought conditions will severely affect agricultural production, push up food inflation and increase food insecurity to some 17 million people.

**Conclusion**

Global activity is gradually picking up as expected, contributing to improvement in confidence. Global growth is projected to expand by 3.5% in 2017, supported by continued recovery in high-income countries, especially US, Canada and Japan and improving conditions in developing and emerging economies. High income countries are projected to grow at 2%, while emerging and developing economies will grow at 4.5% in 2017. Growth in high income countries is helped by continued accommodative monetary policy and expansionary policies boosting industrial activity. Emerging and developing economies are supported by improving commodity prices and easing of slowdowns or recessions in large economies such as Brazil and Russia. The rebalancing of the Chinese economy is proceeding as expected, but concerns about the housing market continue to raise hard landing fears in 2017. Growth in Sub-Saharan Africa is expected to recover moderately in 2017, helped by improving external demand, expected moderate recovery commodity prices and policy support.

Financial conditions have largely remained benign so far, with sentiment holding up and market volatility remaining low. Monetary conditions will remain broadly accommodative, despite normalization in the US and indication of hawkish stances. The rally in equity markets which started towards the end of 2016 is likely to fade soon, with correction phase for risk assets likely to prevail in the near term.

Commodity prices have softened slightly in the first half of 2017, but remain above averages for 2016. Oil prices averaged $52.6/b in the first half of 2017 and are projected to average $53 per barrel in 2017 and rising to $56/b in 2018. Other commodity prices are expected to strengthen moderately, as global demand improve and markets find balance. Global trade is expected to gain strength in 2017, but the risk of rising protectionism remain a
stumbling block. Global inflation is gradually picking up, lifted by the upturn of commodity prices and upturn in import prices. The outlook is subject to some downside risks emanating from policy uncertainties related to the rise of protectionism in the US, the pace of interest rate hikes in the US, uncertainties surrounding the Brexit process, possible disorderly unwinding of China’s housing market, cyber security risks, political and security concerns in Africa and drought affecting some East African countries. Despite these risks and uncertainties, the economic outlook especially in Sub-Saharan Africa continue to gain momentum, which needs to be sustained.