

# RESEARCH REPORT

FIXED INCOME

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Attijari  
Global Research

Calculated by

S&P Dow Jones  
Indices

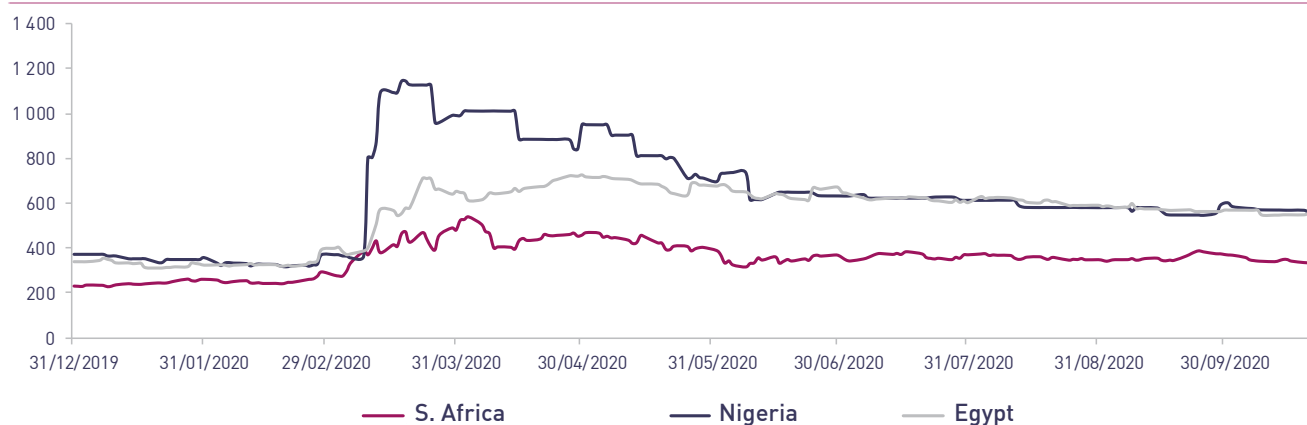
### FOCUS ON EUROBOND YIELDS IN AFRICA DURING 2020

At the beginning of the COVID-19 health crisis, Eurobonds' secondary market yields issued by African countries recorded significant increases. This performance is mainly attributed to investors orientation towards more liquid and better quality assets. Indeed, in a context where risk aversion has reached its peak, investors have preferred to perceive a low or even zero return rather than hold a high-yield asset but carrying a significant risk. As indicated by the positive evolution of precious metals, which benefit from their status of "safe haven". In this context, Gold prices have evolved this year through an upward trend hitting a high of \$ 2,063/Oz in early August before returning to \$ 1,919/Oz currently. In the same way, Silver prices has undergone an evolution broadly similar to that of Gold. In fact, the Grey metal has posted a significant increase of 40% since the beginning of the year to settle at \$ 25/Oz.

Several events succeeded during Q2-20, and led to a reduction in risk apprehension and consequently to curb the surge in risk premiums recorded since the end of March 2020 following the outbreak of the pandemic. The first is the announcement of 'Paris Club' membership to establish a Debt Service Suspension Initiative, or DSSI, for the poorest countries which will apply for it. If they comply with several conditions, the volunteers selected by the Paris Club will then see the repayment of their bilateral external debt (including principal and interest) due in May-December 2020 be deferred and added to the repayments due between 2022 and 2024. Second, the unprecedented measures taken by the major international Central Banks in order to limit the negative effects of Covid-19. In fact, in addition to monetary policy decisions which consist in keeping key rates at low levels, financial institutions have taken unprecedented actions to extend credit and support the economy during the pandemic. In this context, Fed injected nearly \$ 7,000 Bn into economy, much more than it did during the 2008-2009 financial crisis. For its part, the European Central Bank has launched a Pandemic Emergency Purchase Programme (PEPP) with a total amount of €1,350 Bn by June 2021. An abundant global liquidity hangs over the world economy inspired new confidence in the secondary Eurobond markets.

During Q3-20, we witnessed a further rise in Eurobond yields from African countries, reflecting the increased risk perceived by investors in particular due to their expectation of weak growth in Africa. According to the latest report released by the IMF, "World Economic Outlook, October 2020," Africa's economic activity is expected to decline by -3.0% in 2020, leading the region into its first recession in 25 years. This sharp drop will be particularly felt in countries which export metals and oil, such as South Africa and Nigeria, with an estimated decline in GDP by -8.0% and -4.3% respectively.

### EVOLUTION OF 10-YEAR CDS OF THE 3 MAIN ISSUERS OF THE AGR - AFRICA BOND INDEX



Sources : FMI, Bloomberg, AGR Computations

## RESULTS' SUMMARY

In this 7<sup>th</sup> edition, we have tracked the AGR Africa Bond Index evolution during Q3-2020. During this period, the index has experienced a “boom and bust” evolution which led to a stagnation in terms of value and outstanding:

- After starting the third quarter in a bullish territory, the AGR Africa Bond Index has shifted towards a marked downtrend going below the threshold of 100 points, i.e. a level similar to that of July 2020. In this context, the index value reaches 97.3 pts against 97.5 pts in the previous edition ;
- At the same time, the deposit outstanding followed the same trend. After reaching a peak of \$ 86 Bn, the plummet in the index valuation coincides with the fall in its value. In this context, the deposit outstanding remains at a level close to the previous quarter, i.e. \$ 82 Bn. Note that the change in the scope following the withdrawal of one Eurobond line which represents 0.98% in the AGR Africa Bond Index, did not have any significant impact on the index evolution ;
- The AGR Africa Bond Index is still represented by 6 African countries like the previous edition. Indeed, the latter is composed by Egypt, South Africa and Nigeria which are largely representative in this benchmark. These 3 countries dominate nearly 60% of the capitalization while Ghana, Kenya and Morocco share the remaining 40% ;
- The observation of the current index breakdown by S&P rating agency shows the strong contribution of bonds B rated which monopolize 39% of AGR ABI. Furthermore, this latter is composed for 80% of residual maturities superior to 5 years.

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Sources : Bloomberg, AGR Computations

## RESULTS' DETAIL

The third quarter was marked by a hesitant evolution with a quasi stagnation of the AGR Africa Bond Index at the end of this period. In this context, the index's value comes out at 97.3 pts against 97.5 pts on July 1<sup>st</sup>, 2020. Similarly, the deposit outstanding remains unchanged at a level of \$ 82 Bn.

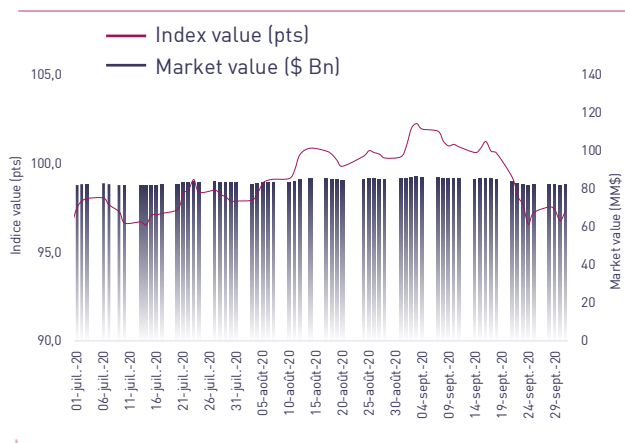
- **A “boom and bust” evolution of the AGR ABI**

The AGR Africa Bond Index started Q3-20 with a positive performance, propelling it to a higher level since March 2020 before the health crisis, i.e. 102.3 points. This positive evolution was part of the dynamics experienced by the index at the end of Q2-20 both in terms of value and outstanding amounts. Since September 2020, the index recorded distinctly downward trend which led in a stagnation of AGR ABI at 97.3 points.

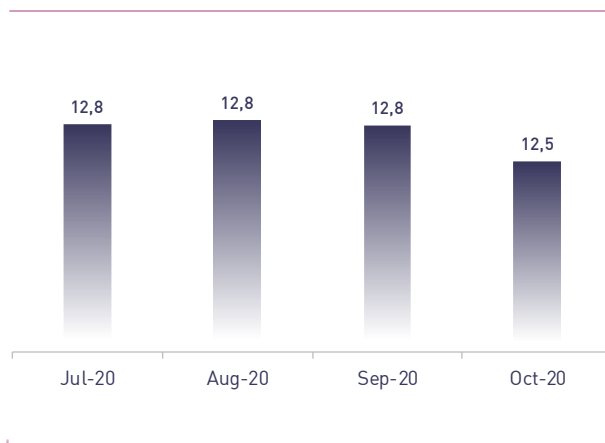
- **A decrease in residual maturity**

The weighted residual maturity of the AGR Africa Bond Index stood at 12.5 years after the last rebalancing. This is slightly down from the level observed at the end of Q2-20, i.e. 12.8 years. At that date, the AGR ABI index consisted of 27.3% of Eurobonds with a residual maturity of over 15 years, compared to 26.9% currently.

AGR ABI EVOLUTION (PTS) VS. OUTSTANDING AMOUNTS (\$ BN)



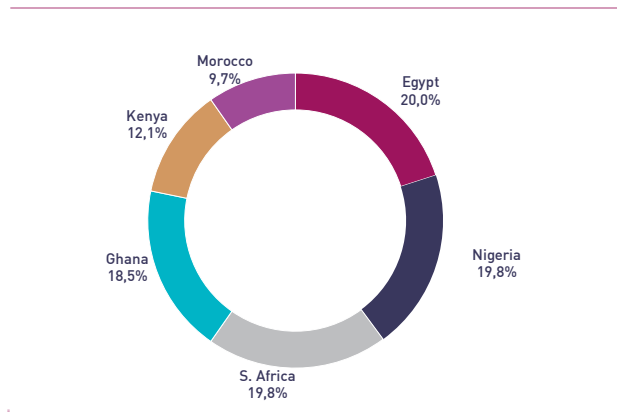
EVOLUTION OF THE RESIDUAL MATURITY (YEARS)



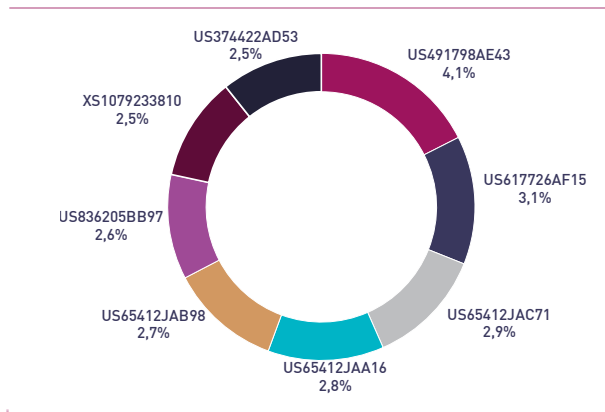
The AGR Africa Bond Index is dominated by Egypt, South Africa and Nigeria which preserved a high representativeness in this benchmark. Indeed, these 3 countries represent nearly 60% of the capitalization while Ghana, Kenya and Morocco share the remaining 40%.

In terms of issuances' number, among the current 67 constituents of the AGR ABI, the former three countries together account for 47 bond issuances, i.e. nearly 70% of our index.

AGR ABI : BREAKDOWN BY COUNTRY



AGR ABI : ISIN OF THE 8 MAIN ISSUANCES <sup>(1)</sup>



(1) Representing 23.2% of AGR ABI

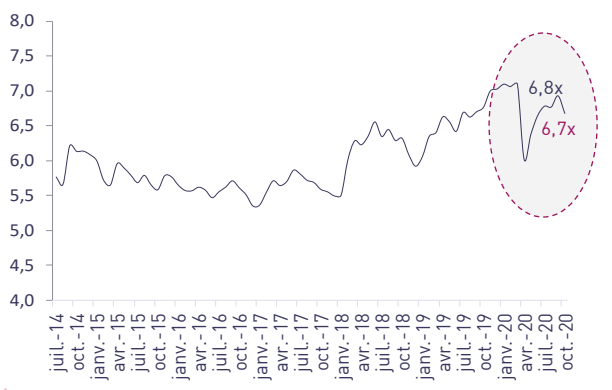
Sources : S&P Dow Jones Indices, AGR Computations

## RESULTS' DETAIL

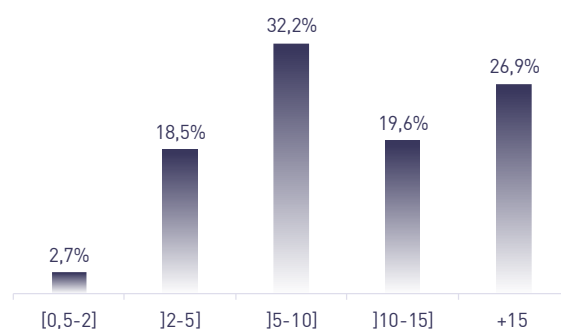
The modified duration<sup>(1)</sup> of the AGR ABI is characterised by continuity. The change in scope slightly impacted its level. It currently has a multiple of 6.7x against 6.8x a quarter before.

The bond securities eligible for this index can be divided into five categories associated with five intervals of residual maturities (0.5-2 years, 2-5 years, 5-10 years, 10-15 years and more than 15 years). In this edition, we note that the AGR ABI index is composed for 78.7% of residual maturities superior to 5 years, slightly up compared with a weight of 80.3% during Q2-20.

### AGR ABI : EVOLUTION OF THE MODIFIED DURATION



### AGR ABI : BREAKDOWN BY MATURITIES<sup>(2)</sup> (YEARS)



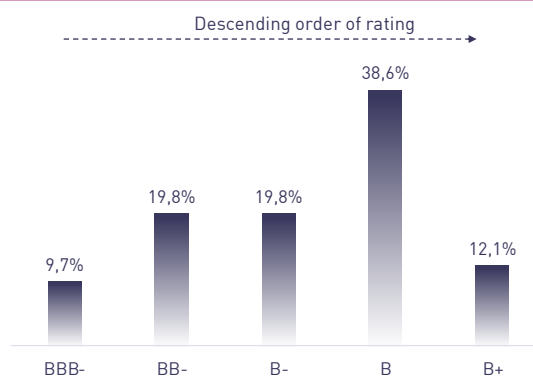
The number of the AGR Africa Bond Index constituents decreased from 67 lines in July 2020 to 66 currently. During the monthly rebalancing of the AGR Africa Bond Index operated during Q3-20, we note:

- On the one hand, the withdrawal of a line belonging to Nigeria whose residual maturity has become strictly inferior than 6 months. Nigeria now has 4 Eurobond outstanding lines ;
- On the other hand, the observation of the current index breakdown by S&P's rating shows the strong contribution of bonds B<sup>+</sup>, B and B<sup>-</sup> rated which concentrate 70.5% of the AGR ABI index. Secondly, we find that the sovereign bonds BB<sup>-</sup> rated represent 19.8% of the index. Note that Investment Grade issuances (at least BBB-) weigh now 9.7% of the index against 9.2% in the previous edition.

### ENTRIES AND/OR EXITS OF LINES IN THE AGR ABI

Pays	Code ISIN	Description	Poids dans l'indice
Exit			
Nigeria	US65412AAA07	NGGV 6.750 01/28/21	0,98%

### INDEX BREAKDOWN BY S&P'S RATING



(1) Modified duration : expressed in multiple (x), represents the change in the price of a bond following a 1% change in the discount rate. This notion takes into account the lines' weight with respect to their market value.

(2) Residual maturity

Sources : S&P Dow Jones Indices, AGR Computations

# AGR AFRICA BOND INDEX PRESENTATION

As a part of its mission to represent a high profile Research Center based in Africa and dedicated to African markets, Attijari Global Research has launched in March 2019 a new index called **AGR Africa Bond Index** « Code Bloomberg AGRAFBDT ».

Being the intellectual owner of the index, AGR joins forces with S&P Dow Jones Indices, world leader in indices computations and conception.

AGR Africa Bond Index represents a Total Return Index denominated in USD. Its starting universe is sovereign Eurobonds in Africa. In order to get closer to the economic reality across the continent, a series of eligibility criteria have been selected for the filters, particularly in terms of size, liquidity and rating.

This index aims to follow the outstanding amount of sovereign debts issued by African countries and denominated in foreign currencies. It thus allows to:

Analyze debt behavior in the Continent ;

Track a profitable funding vehicle in full expansion in Africa ;

Present an investment benchmark which could be replicated in respect of investment, size and diversification standards.

Through this new publication, AGR is gradually strengthening its coverage of African markets in a particular context where African economies express a more pronounced appetite for debt issuances, particularly Eurobonds (Cf. «Africa: Eurobonds, an acclaimed tool for an expanding debt » published on March 15th, 2019).

The role of S&P Dow Jones Indices revolves around the index calculation according to international standards and in accordance with criteria defined by AGR. Computed on a daily basis, this index is released on the Bloomberg platform. AGR ensures the edition and the publication of this document on a quarterly basis. This release provides a detailed analysis of the index evolution and its main characteristics.

# AGR ABI TECHNICAL SPECIFICATIONS

## CHARACTERISTICS

### Characteristics :

- **Return type** : Total Return
- **Base date** : 30 juin 2014
- **Index Currency** : US Dollars
- **Base Value** : 100 pts

## METHODOLOGY

- **Starting Universe** : All African countries to which we apply selection criteria of S&P AFRICA HARD CURRENCY SOVEREIGN BOND INDEX which leads to 13 countries, including : Botswana • Kenya • Namibia • Tanzania • Zambia • Egypt • Mauritius • Nigeria • Tunisia • Ghana • Morocco • South Africa • Uganda.
- **Weighting** : 20% per country of risk.
- **Selection criteria** :
  - ⇒ Residual maturity is 6 months meaning that a bond is only added into the index only if its residual maturity is strictly inferior to 6 months and is from the index if its residual maturity is superior or equal to 6 months ;
  - ⇒ Only include EUR and USD dominated bonds ;
  - ⇒ Minimum outstanding amount will be set for \$ 500 Mn for USD bonds and € 500 Mn for EUR bonds ;
  - ⇒ Only include fixed coupons bonds ;
  - ⇒ Only include bullet/at maturity type ;
  - ⇒ Only include bond rating superior or equal to B3/B- per S&P rating ;
  - ⇒ Only include 144A\* ISIN issues.

- **Custom Index Calculation** :

Follows « S&P Fixed Income Index Mathematics Methodology » and all S&P standardized calculation approaches, precisely interest payments and principle prepayments are kept in cash until next rebalance date and Bids are used as pricing input for the calculation.

- **Rebalance** : The Custom Index is rebalanced on a Monthly basis after the close of the last business day of the month.
- **Rebalance Proforma schedule** : T-3 to T, T being the previous trading day of rebalance effective date.
- **Selection** : S&P will perform the constituent selection and weighting at each rebalance.
- **Calculation frequency** : End of The Day (EOD).
- **Calculation date** : Monday to Friday.
- **History** : since June 30<sup>th</sup> 2014.

\* Reg 144A : regulatory framework of the Securities and Exchange Commission dealing with access conditions of foreign issuers to US financial markets.

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