

Uganda Shilling under attack as markets tumble

Contributed by ICEA Investment Services
Friday, 24 October 2008

There was significant under subscription for the 182 and 364 day T-Bills leading to a fall in the performance of the market from 144.8 % (October 8, 2008 Auction) to 78% (October 22, 2008 Auction).

This trend amplifies the fact that investors are retreating to very short tenor instruments (91-days)-a sign of lack of confidence in the future highlighted by the looming credit masticate effects that await frontier markets. Interest Rates

T/Bill(rate)	Last week's Auction	This week's Auction	Change(basis points)	91-Day	182-Day
(rate)	8.604%	9.739%	113.5	(Yield) 9.087%	10.361%
(rate)	12.236%	13.367%	113.1	(Yield) 13.456%	14.835%
rate)	3.632%	3.628%	Performance	144.7665%	78.13%

The Treasury bill rates significantly edged up across all the tenors in this week's auction with the 91-day and the 182-day instruments upping by 113.5(bps) and 113.1(bps) respectively. The next Calendar Treasury bill auction is slated for 5th November 08. Exchange Rates

	Last week	This week	Change (%)	Average rate
Dollar \$	1774.845	2045	1/415.2	Pound Sterling 3057.88 3312 1/4 8.3
Euro	2379.18	2634.1	1/410.7	Kenya Sh 23.48 25.6 1/49.0 TSh 1.482

The shilling was disemboweled to its lowest ever in history by dissipating a whopping 15.2% (270/=) in only seven days closing at 2045(Average rate Friday 24th) for the dollar compared to 1775 last Friday which makes me believe that the local unit is in a free fall. Ideally the dollar is appreciating against most of the other international currencies apart from the Yen where it lost by 1.2% by Thursday. No single explanation is enough for the current attack on the shilling but according to the Governor BOU, this can be attributed to the global credit crunch, increase in demand for the greenback from offshore investors and local importers and the general strengthening of the dollar against the other currencies. All sentiments are for a shrinking shilling as there seems to be no respite for it in the near days. The unit should continue trading within a wide range of 1980 bid and 2300 offer next week. USE Performance

Performance	Ug sh	US\$	USE Index	1017.06	815.06	853.11	829.11	YTD©
1/420%	1/433%	Weekly	1/42%	1/415%	This was the worst week for trading at the local bourse			

in the month of October. Weekly total turnover fell from last week's 850.4Millions to 237.2 Million shillings this week ending 24th October. As expected, the all share index plummeted by 2 % (weekly) and 20 % (YTD) while the number of shares that exchanged hands amounted to 1.146million compared to 5.1Million last week ending 17th October. The Stanbic Bank Uganda Ltd (SBU) counter remained upbeat as it was the case last week, accounting for 48.1% of the week's total turnover. This was followed by Uganda Clays Ltd (UCL) accounting for 32.1 percent, Development Finance Company Uganda (DFCU) at 16.2%, and Bank of Baroda Uganda (BOBU) at 2.4%. New Vision Ltd counter and British American Tobacco Uganda (BATU) recorded the lowest activity while the other counters—East African Breweries Ltd (EABL), Kenya Airways (KA), and Jubilee Holdings Limited (JHL) remained inactive. The market closed the week in the red with all counters shedding in pricing, save for BATU that did not trade on Thursday 23rd. It all seems to be a buyers' market, with all the panic selling that is going on. Inflation

Inflation	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sept 08
Headline	15.2%	7.8%	8.1%	9.3%	11.2%	12.5%	13.8%	15.8%
Core Inflation	13.6%	13.5%	7.9%	8.5%	10.4%	11.8%	12.1%	12.9%

As we wait for the October Inflation figures, the country continues to experience high inflation as seen from the September figures of 15.2% (Headline inflation) and 13.5% core inflation. Despite it being still high on the country's scale, it remains one of the lowest in the whole of the great lakes region currently. This has mainly been attributed to a combination of surging food prices (partly due to the continued high regional demand for food items especially in Southern Sudan) and increasing petroleum product prices which have in turn led to higher transport and fuel cost; and the general cost of production. Market sentiments are for a slow down in inflation given the expected harvest season later this year coupled with the slightly easing world Crude oil prices. However, given the fact that the pump prices in Uganda have not moved in tandem with the decreasing trends in world crude oil prices, the situation may not be as optimistic as we wish it to be. ICEA INVESTMENT SERVICES is a financial services firm based in Kampala, Uganda.

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