



Currency Risk Webinar

African FX focus

Introduction to Barclays Africa Group

Barclays Africa Group Overview

Through our 'One Africa' strategy, our clients can expect a broad range of products across Africa

Fully Local, Fully Global Bank in Africa

| Leading Branch Network in Africa ¹ | | | | Product Capability Across Barclays Africa Group ² | | | | | | | | |
|---|---------------|--------------------|-----------|--|----------------|---------|-----------------------|----------|-----------|-------|----------------|--|
| Barclays | Standard Bank | Standard Chartered | Citi Bank | Country | Presence since | Lending | Receivables Financing | Deposits | Cash Mgt. | Trade | Risk Solutions | Investment Banking |
| 1,601 | 947 | 121 | 19 | 1. Botswana | 1950 | ✓ | | ✓ | ✓ | ✓ | ✓ | Sector and Product Coverage across the Continent |
| | | | | 2. Egypt | 1864 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | | | | 3. Ghana | 1917 | ✓ | | ✓ | ✓ | ✓ | ✓ | |
| | | | | 4. Kenya | 1925 | ✓ | | ✓ | ✓ | ✓ | ✓ | |
| | | | | 5. Mauritius | 1919 | ✓ | | ✓ | ✓ | ✓ | ✓ | |
| | | | | 6. Mozambique | 2002 | ✓ | | ✓ | ✓ | ✓ | ✓ | |
| | | | | 7. Seychelles | 1959 | ✓ | | ✓ | ✓ | ✓ | ✓ | |
| | | | | 8. South Africa | 1986 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | | | | 9. Tanzania | 1925 | ✓ | | ✓ | ✓ | ✓ | ✓ | |
| | | | | 10. Uganda | 1927 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | | | | 11. Zambia | 1918 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| | | | | 12. Zimbabwe | 1912 | ✓ | | ✓ | ✓ | ✓ | ✓ | |

■ Barclays Africa Group
■ Partner Bank location

A Genuine Domestic Platform in Africa

Barclays Africa Group
JSE Listing
USD12bn
Market Cap³

Barclays Kenya
NSE Listing

Barclays Zimbabwe
ZSE Listing

Barclays Botswana
BSE Listing

Source:
 1. Respective company websites September 2014. Markets included: Botswana, Egypt, Ghana, Kenya, Mauritius, Mozambique, South Africa, Seychelles, Tanzania, Uganda, Zambia, Zimbabwe.
 2. This is not an exhaustive list of local capabilities.
 3. As at October 2015.

Considerations in managing risk across SSA

Common Themes in African FX Markets

Rotation out of risky assets resulting in commodity and currency weakness, forcing regulators to defend local markets

| Theme | Summary | Result |
|---|---|---|
| <i>Impact of US interest rate normalisation</i> | A recovery in the US economy and rising inflation may see the Fed raise interest rates in September, reducing the carry between the USD and other assets | Foreign investors have been selling local currency denominated assets in favour of USD, resulting in local currency weakness and lower net foreign exchange flows |
| <i>Sustained low commodity prices</i> | A protracted slowdown in Chinese growth has contributed to lower demand for commodities, resulting in lower prices- especially in the base metal space. The weaker global growth outlook following the Brexit referendum may further delay a recovery in commodity prices | Lower prices and reduced demand for commodities have led to significantly lower FX and tax revenues for commodity producing countries, putting pressure on FX, particularly in Nigeria, Angola and Mozambique. Nigeria and Mozambique's currencies continue to depreciate due to USD scarcity |
| <i>Significantly reduced FX liquidity in most markets</i> | Based on both of the themes above, we've seen lower FX inflows and higher outflows | Most large commodity producing markets have seen reduced FX liquidity and panic buying/ hoarding of FX. East Africa appears an exception. |
| <i>Central Bank intervention with policy rates, changes in FX regulations and capital controls in 2015 and 2016</i> | Markets such as Nigeria, Angola and Mozambique have tightened monetary policy aggressively, while protecting low international reserves through the introduction of FX regulations. | FX restrictions and tighter monetary have resulted in overvalued FX rates in countries such as Mozambique and Nigeria. Though inflation has risen sharply, it may have been worse without these interventions. |
| <i>Low economic growth rate</i> | Large SSA markets such as South Africa, Nigeria and Angola are struggling with stagflation (low growth and high inflation) | This creates a policy dilemma for the CB, though these markets continue to tighten policy to fight inflation and protect the currencies. |

Source: Barclay's Research, Bloomberg

Summary of Hedging Strategies

Depending on the underlying requirement, there are 3 broad product types available to manage risk

| Product | Advantages | Considerations | Application and accounting | Available in (Presence countries only) |
|-----------------------------------|---|--|---|---|
| <i>Forwards and Swaps</i> | <ul style="list-style-type: none"> • Zero upfront cost | <ul style="list-style-type: none"> • Potentially large unwind cost if underlying exposure falls away • No participation • Credit required | <ul style="list-style-type: none"> • Only recommended where certainty of flows is high • Can hedge account | <ul style="list-style-type: none"> • BWP, GHS, EGP, KES, NGN, MUR, MZN, TZS, SCR, UGX, ZAR and ZMW vs. USD |
| <i>Purchased protection</i> | <ul style="list-style-type: none"> • Full benefit of favourable move • Protection against adverse movement • No credit requirement | <ul style="list-style-type: none"> • Payment of premium although this can be deferred | <ul style="list-style-type: none"> • Recommended where there is degree of uncertainty of the underlying transaction • Intrinsic value can be hedge accounted | <ul style="list-style-type: none"> • BWP, KES, MUR, NGN, TZS, UGX, ZAR and ZMW vs. USD |
| <i>Reduced premium strategies</i> | <ul style="list-style-type: none"> • Can provide full hedge • Potential to benefit from favourable move • Zero or reduced cost basis | <ul style="list-style-type: none"> • Contains a liability leg, so there are potential unwind costs if deal goes against the client • Credit required | <ul style="list-style-type: none"> • To be considered when information surrounding the transaction improves • Economic hedges less likely to achieve hedge accounting | <ul style="list-style-type: none"> • BWP, KES, MUR, NGN, TZS, UGX, ZAR and ZMW vs. USD |



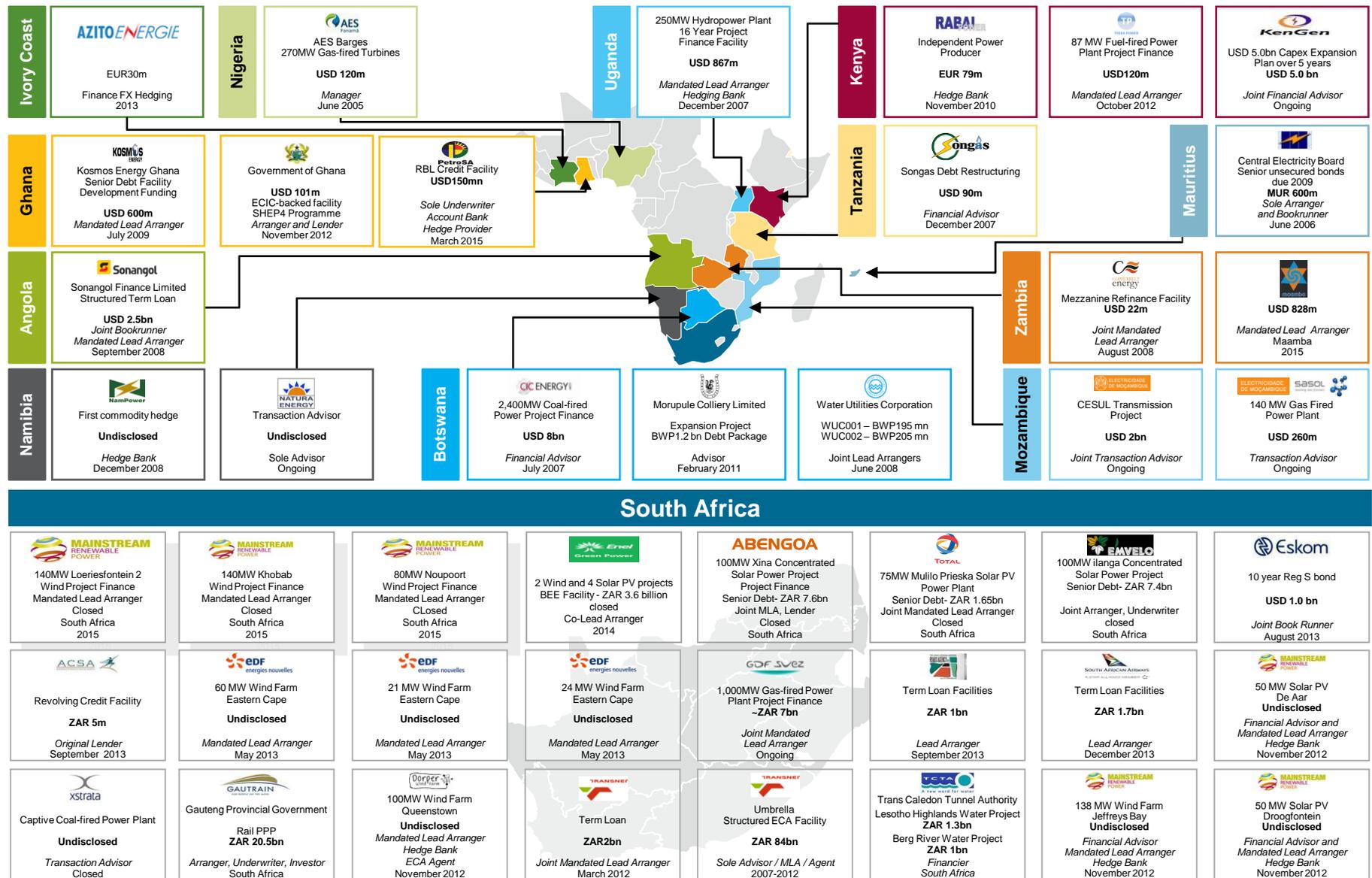
Execution Considerations

The following are the main considerations when executing a hedge in SSA

| Consideration | Summary | Solution |
|----------------------------------|---|---|
| <i>Liquidity</i> | <ul style="list-style-type: none"> FX liquidity varies across the individual markets in the region Some, e.g. BWP and ZAR are highly liquid, vs. others e.g. NGN and AOA are not | <ul style="list-style-type: none"> Using offsetting natural hedges where possible Opportunistic spot purchased during periods of good flow Using FECs to avoid tying up working capital |
| <i>Volatility</i> | <ul style="list-style-type: none"> Poor liquidity tends to lead to high volatility e.g. ZMW, MZN Increasingly large deals and global risk appetite can weigh on more volatile markets | <ul style="list-style-type: none"> Develop clearly defined hedging policy Using FEC contracts to minimize FX risk Using option strategies |
| <i>Regulation</i> | <ul style="list-style-type: none"> Each country has varied levels of regulations, mostly designed to prevent speculation Regulation can often be opaque in many countries with different interpretations | <ul style="list-style-type: none"> Work with a banking partner with strong on-shore presence and good relationship with regulators in each country |
| <i>Strategy for large trades</i> | <ul style="list-style-type: none"> In order to minimize market execution costs it is imperative to achieve a sound execution strategy which takes market liquidity and transaction size into account. Maintaining anonymity throughout the market execution phase is essential to achieving desired execution levels: | <ul style="list-style-type: none"> Using more than one bank increases the risk of information leakage – this can lead to unnecessary market disruption, resulting in poor execution. The use of one counterparty also minimises the risk of operational error and simplifies settlement. It is therefore important to choose the bank with the best access to liquidity. |

PUI deals across Africa

Strength in Sub-Saharan Africa PUI



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