
Source: Reuters
Date: 14th May 2007
Title: Africa rides wave of global investor optimism

SHANGHAI (Reuters) - The bulls are running in Shanghai, and it's not only tearaway Chinese stocks that they're chasing.

As bankers and officials gather here for the annual meeting of the African Development Bank, confidence is high that the past four years of above-trend economic growth are the fruit of deep-seated change and not just a cyclical flash in the pan driven mainly by Chinese demand for Africa's oil and minerals.

All development bank meetings are an opportunity for true believers to reinforce their faith in their region. So the optimism over Africa is hardly a surprise. But portfolio investors are putting their money where their mouths are.

"We don't have to invest in Africa, and we wouldn't have invested in certain African local-currency markets without an improvement in policies over the past few years," said William Ledward, who manages a \$3 billion emerging-market fixed-income fund for Franklin Templeton Investments.

London-based Ledward's fund holds up a mirror to the global interest that has driven yield spreads -- the key measure of risk -- on developing country bonds to record lows. Two years ago, he had just \$150 million under management.

Ledward acknowledges that his fund has benefited from a global tide of cheap money -- a third of his funds come from Japanese savers searching for higher yields -- but he says he is investing for the medium-to-long term in the expectation that some African currencies will rise substantially.

"Africa is very interesting for us because after many years of underperformance we're beginning to see signs of a turnaround in some countries," he told a forum organised by Exotix, a London-based broker in emerging market securities.

Nkosana Moyo, who is partner for Africa at Actis, a British private equity firm that invests in emerging markets, said he plans to raise a new \$500 million fund for Africa in the next year.

Moyo said Actis, as an investor with a 10-year horizon, was excited by Africa's opportunities because the continent's new generation of leaders was more at ease with open global markets; the continent, moreover, was home to 10 percent of the world's proven reserves of oil and gas.

"We believe the current conditions that are attracting investment are sustainable," Moyo said.

WALL OF MONEY

Arnold Ekpe, chief executive of the Ecobank Group, said the wall of money coming into Africa reflected both genuine reforms and a global hunt for higher yields.

"Frankly, some of the numbers we're looking at, I haven't seen that in 30 years of banking in Africa," Ekpe said.

Those numbers need to be kept in context. Africa barely flickers on the global investment radar compared with Asia.

Alex Garrard, a UBS managing director responsible for the bank's proprietary and customer trading in exotic fixed-income securities, said he had witnessed a sea change in the last 6 to 9 months in the willingness to invest for the long term in Africa.

But he said foreign involvement was far from reaching critical mass even in Nigeria, by far the biggest market outside South Africa.

Stuart Culverhouse, chief economist at Exotix, said foreign direct investment accounted for virtually all the \$12 billion in private capital flows into sub-Saharan Africa, excluding South Africa, in 2005.

Net portfolio equity inflows into the same region were just \$149 million. Still, interest was building rapidly, especially in local-currency debt markets, Culverhouse said.

Participants in the forum ran through a long list of obstacles to the development of what are still puny markets, including complicated tax systems and poor settlement and custody arrangements. Some markets, moreover, are closed to foreigners.

Konrad Reuss, head of Standard and Poor's office in Johannesburg, also said the potential for credit rating upgrades was limited in the foreseeable future. Most African governments rated by S&P are in the B range, well below investment grade.

"Nigeria could be the exception if it weren't for the political risk. But the messy elections didn't help," he said. S&P rates Nigeria BB- with a stable outlook.

On the economic front, too, domestic demand would be too weak to take up the slack in case a global downturn drove commodity prices lower, Reuss said.

"We're in a benign environment. This is a good opportunity for Africa. We're seeing a good deal of investment, but the jury is still out for me whether beyond the short and medium term we'll see strong sustained growth," Reuss said.

By Alan Wheatley, China Economics Editor