

2009 Review

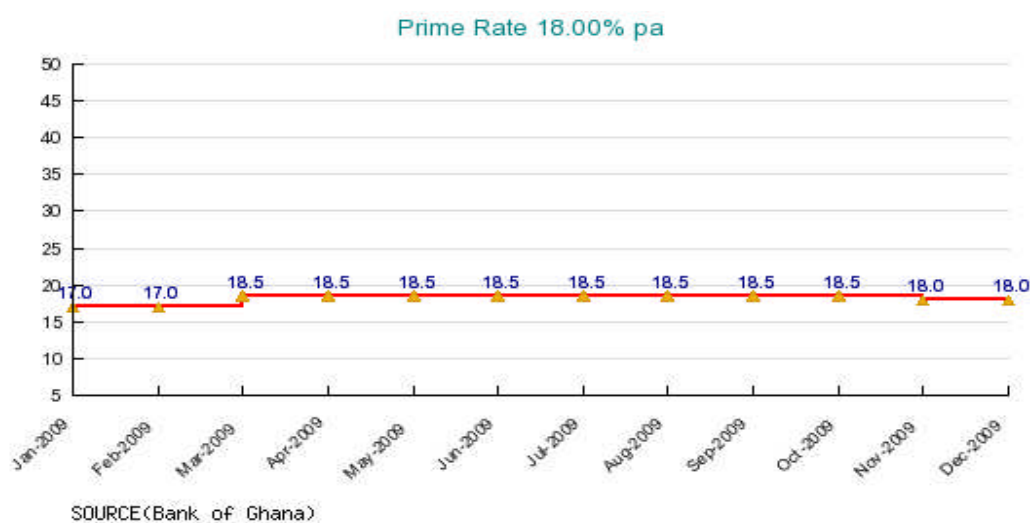
For the first time since the end of the Second World War, global output and per capita income declined. An output contraction of 1% was experienced year-on-year, compared to an average yearly increase of 3.5% prior to 2009. Global trade also plummeted nearly 25% from the previous year's level. While most developed economies suffered GDP losses, a number of emerging economies, led by China and India, recorded positive growth(+8.4% and +6.1% respectively).

In the heat of the global recession resulting from widespread uncertainties in the global financial markets, collapsed banks, tighter credit and collapsing asset prices, many economies pursued expansionary monetary and fiscal policies. Signs of recovery began to appear in the second Quarter of the year.

The year was characterized by a number of shifts in the macro economy. As the full effects of the global financial crises were brought to bear on the Ghanaian economy, Government implemented stabilization measures. In time, inflation began to dip as the local currency steadied against major trading currencies.

Demand for credit to finance working capital requirements and for other short-term needs was greater than for capital-intensive investments such as plant and equipment purchases, as is reported in the Bank of Ghana's Financial Stability Report of November 2009. This was reflected in the high demand for money market instruments and the attendant high rates on these instruments.

Prices of the country's major export commodities were generally high, with cocoa and gold reaching highs in November before dipping at the end of the year to \$2,217 per ton and \$1,178 per ounce respectively. The country's currency continued to depreciate against major trading currencies as the Central Bank's net foreign assets dwindled from \$1.93 billion to \$1.47 billion at mid-year, before stabilizing as net foreign assets increased. The Bank of Ghana's Prime Rate was reviewed upwards in March to 18.5% from 17.0% to harness inflation, but lowered in November to end the year at 18.0%.



Stock Market

Despite strong fundamentals in a number of listed equities, activity was low for a better part of the year. With the then prevailing credit crunch and significantly high yields offered on the money market, investors either tried to cash in their investments as and when possible, or migrate their funds to the less volatile and high yielding money market.

The Ghana Stock Exchange All Share Index experienced considerable declines to less than 50% of its beginning of the year value in August, before stabilizing to end the year at 5572.34 basis points. This represented a year-to-date loss of 46.58%.

Twelve equities ended the year with prices unchanged. There were twenty-four laggards for the year and only one price gainer, FML, buoyed by its 4th Quarter impressive rally. However, during the last Quarter of the year, FML as well as UTF, GGBL and SCB gained value. The biggest losers for the year, CAL, ETI and SG-SSB, each lost 66.67% of their value during the year. In the 4th Quarter also, CFAO, CPC and ETI each made losses of 25%.

Many stocks with good fundamentals are priced low currently. It is therefore expected that, with receding interest rates, investor interest in the Ghanaian bourse will be revived in 2010. We believe by mid-year 2010, the 'bulls' would have begun to return to the GSE.

Figure 1: Performance of Equities

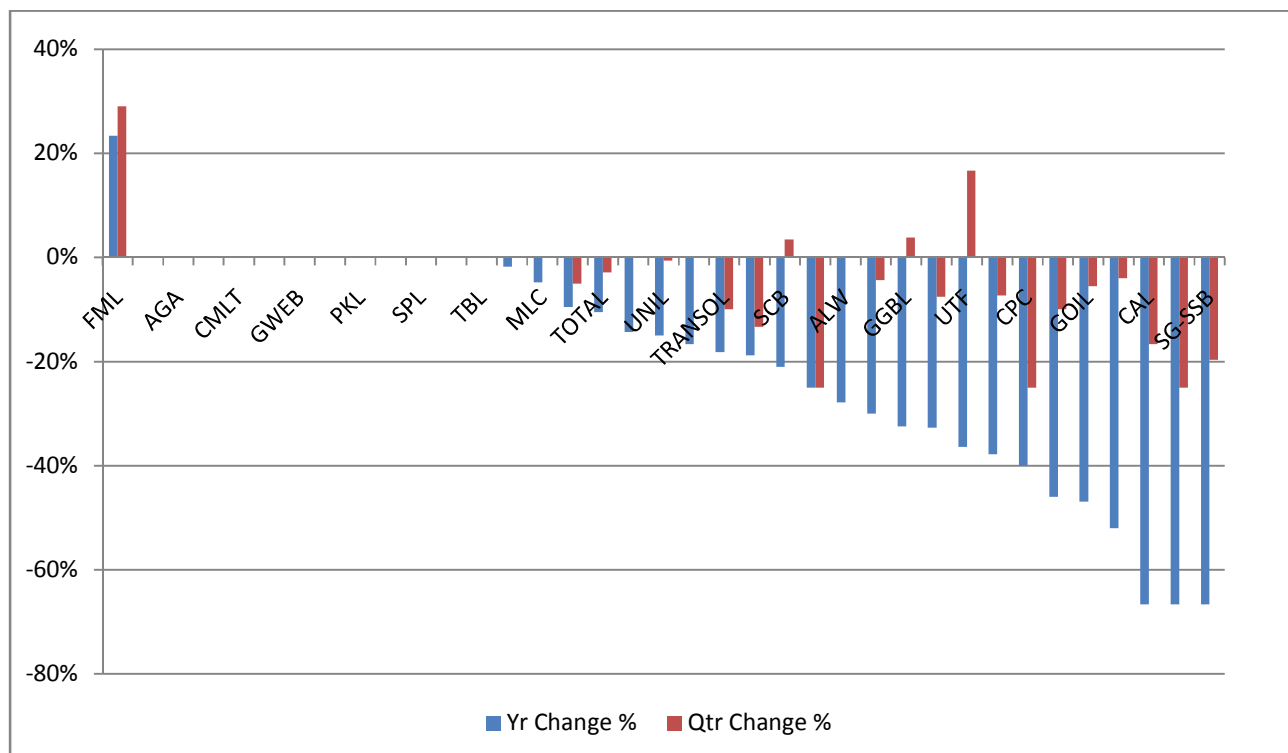


Figure 2: 2009 Performance of the GSE All Share Index

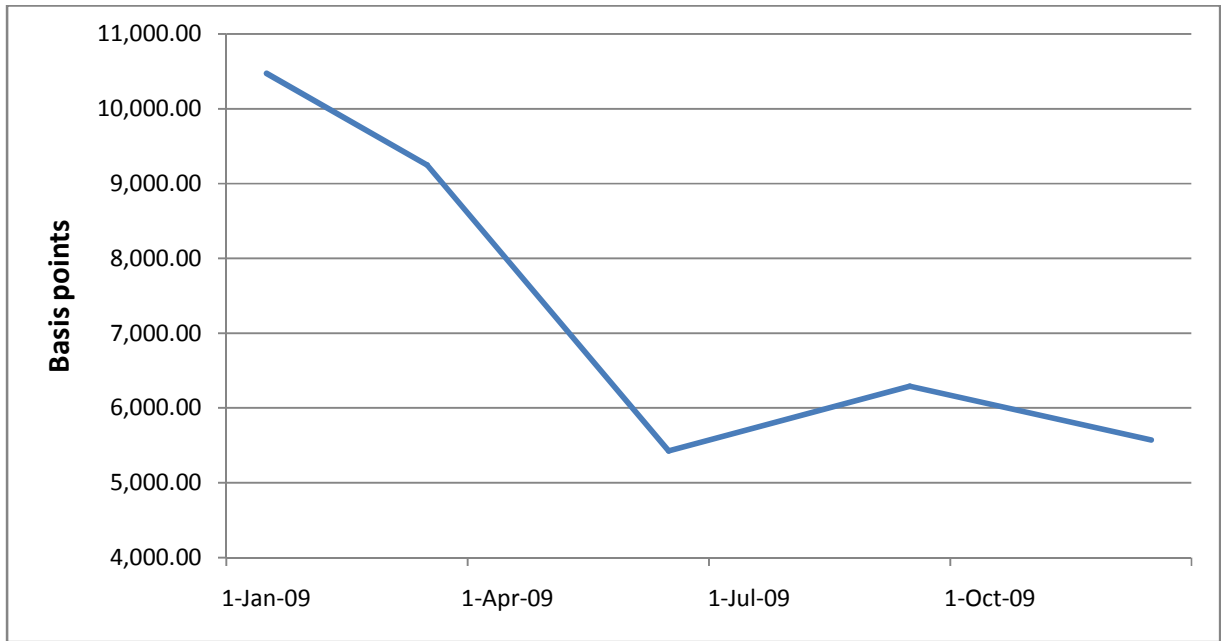
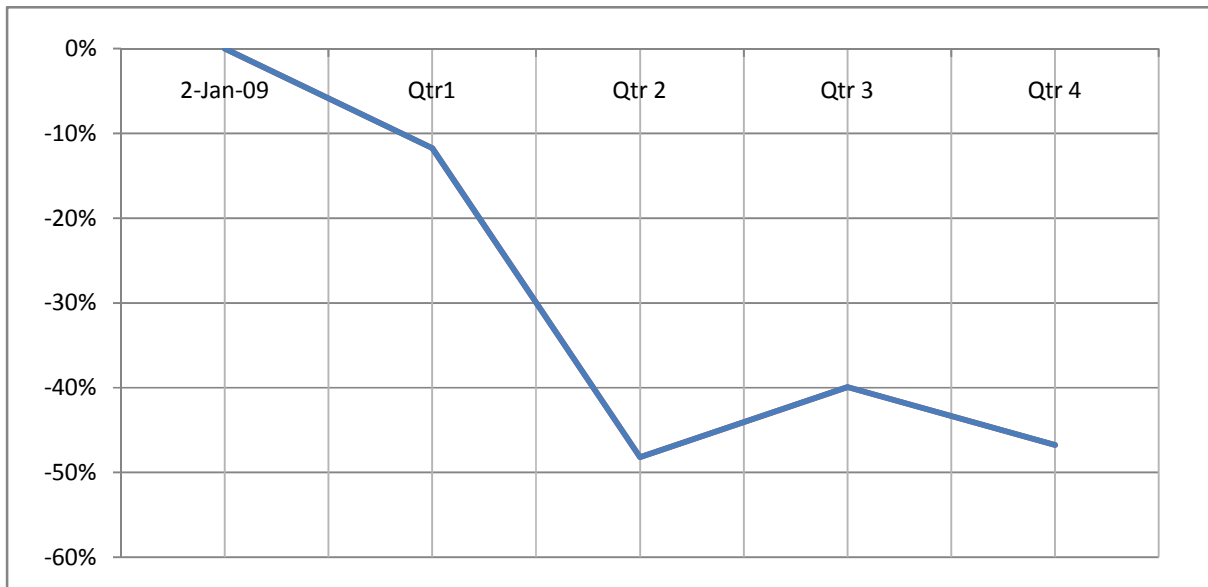


Figure 3: 2009 Year-to-date Changes in All Share Index



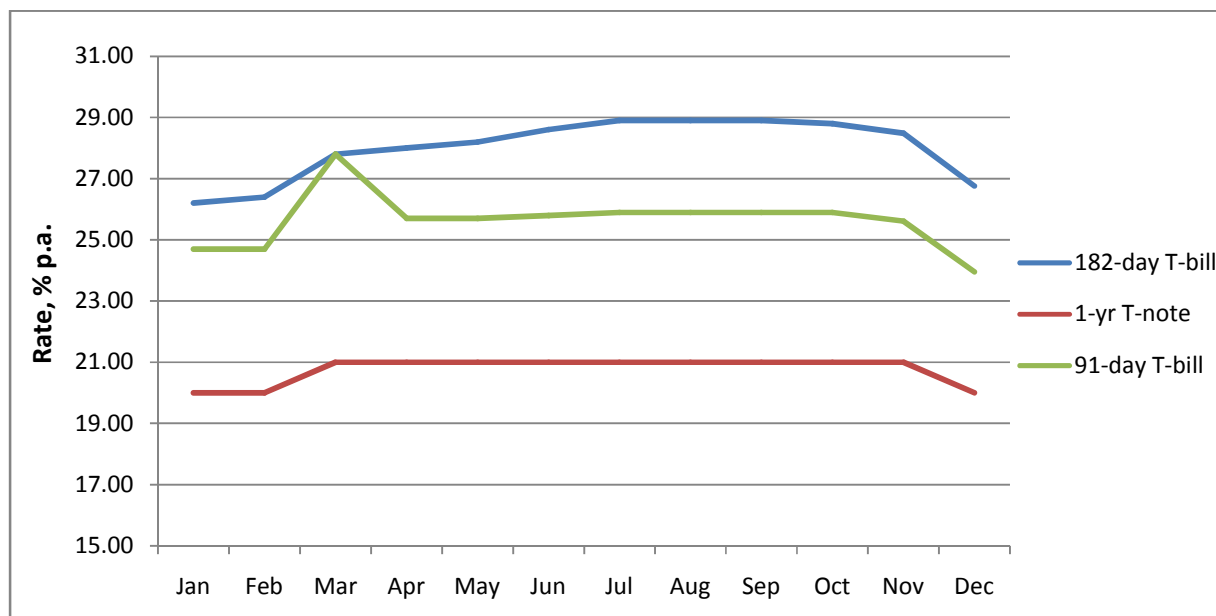
Money Market

The year was particularly interesting for fixed income securities. Interest rates were considerably high for most of the year till late in the year when steady drops occurred in response to the Government's economic stabilization efforts and the easing of inflationary pressures. The year started with the prime rate of the Central Bank's Monetary Policy Committee at 17.0%, peaking at 18.5% from March to October, before being revised downwards in the face of lowering inflation, to 18.0%. The benchmark 91-day Treasury bill was at 24.67% p.a. at the beginning of the year, rising to a peak of 27% p.a. before falling to 23.95% p.a. at the end of the year. Fixed income securities were therefore attractive instruments for investor funds during the year.

The fourth Quarter of 2009 particularly experienced declining rates for all fixed income securities. During November and December, rates fell even faster. The 1-year note, which had since March 2009 been maintained at 21%, was revised downwards to 20% in December.

As Government continues to push for an even lower interest rate regime (average inflation target: 10.5%, end of year inflation target: 9.2%) to encourage business borrowing for growth and expansion, it is expected that the money market will lose some of its lustre and investments in fixed income instruments will be less attractive for the majority of investors. We therefore expect a shift in investor interest from the money market to the capital market, thereby increasing activity on the GSE significantly in 2010.

Figure 4: 2009 Government Short Term Treasury Rates

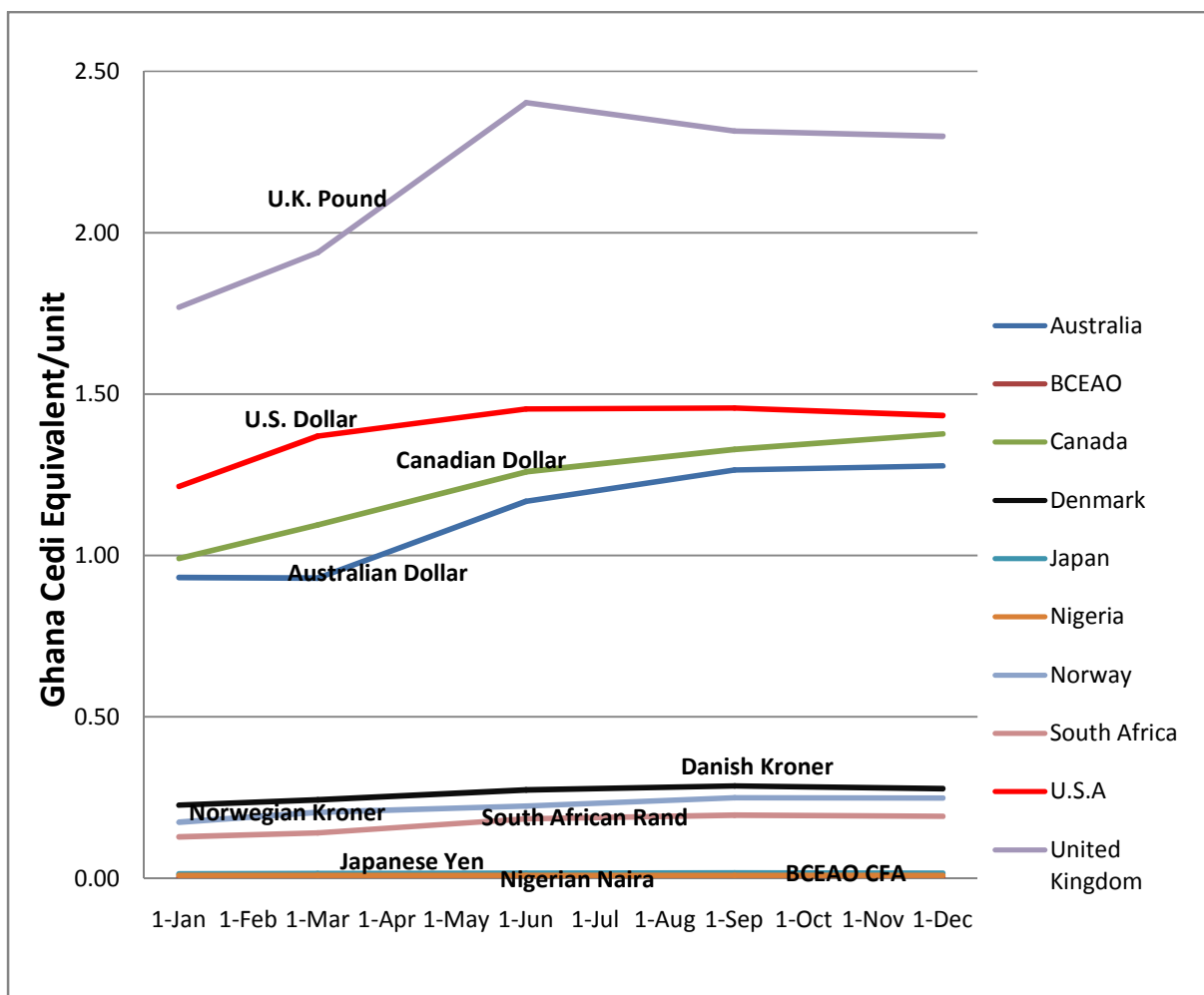


Foreign Exchange Market

Generally, the Ghanaian Cedi showed instability during the first half of the year. It strengthened against most major trading currencies, however, in the second half of the year and showed stability, buoyed by improving foreign exchange reserves and stabilizing crude oil prices.

It is expected the cedi will be largely stable, probably appreciating against some major currencies in 2010 on the back of a strong foreign reserve position, favorable crude oil, gold and cocoa prices and expected inflows from proceeds from commercial offshore drilling of crude oil later in the year.

Figure 5: 2009 Foreign Exchange Rate Changes

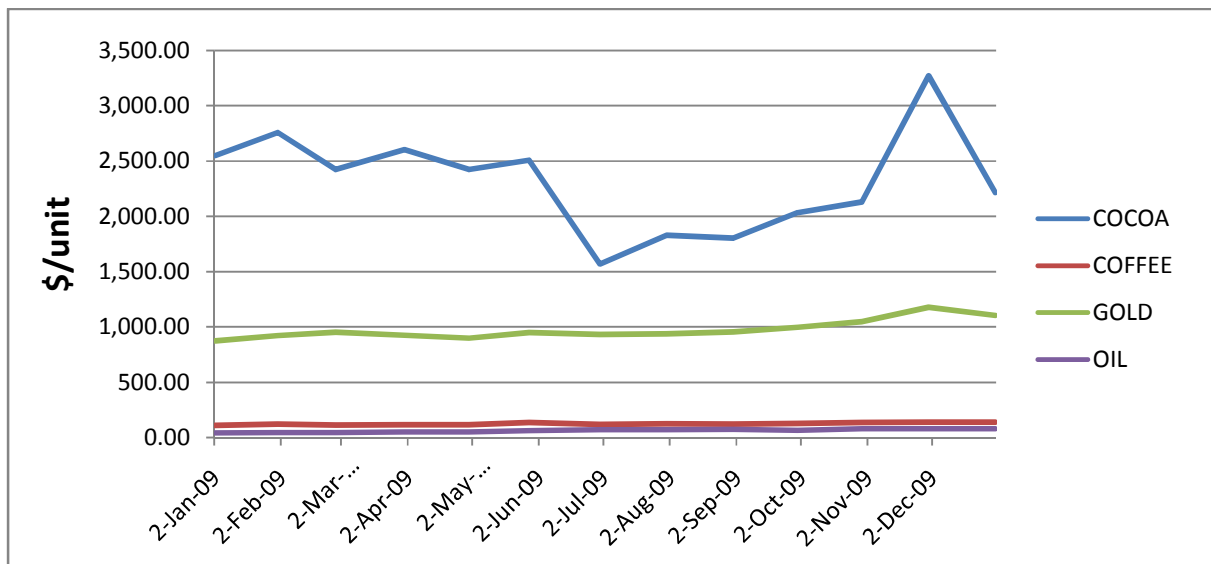


Commodities Market

Aside of cocoa, prices of the country's major commodities of concern were fairly stable. Though cocoa prices experienced a rally late in the year, they declined sharply between November and December. For the year, cocoa fell 13.09% while coffee, gold and oil rose by 25.24%, 26.64% and 86.64% respectively.

The fortunes of cocoa for Ghana may be largely determined by Government's producer price for the crop and the spate of smuggling. Crude oil is expected to maintain its price stability, hovering between \$70 and \$80 per barrel for most of 2010.

Figure 6: 2009 Commodity Price Changes



In the light of the above, we expect 2010 to be a better year for growth in the economy, with GDP growth rate expected to increase to between 5.7% and 6.2%. Interest rates on Government Treasury securities are expected to fall considerably to between 9.85% and 13.0%. It is anticipated that the GSE will improve on its fortunes with estimated returns of between 15% and 25% for the year.