

ACTIVITY REPORT

MARKET PERFORMANCE

EQUITIES

Trading in the second quarter registered a tremendous increase with a turnover of UGX5.9 bn compared to UGX 3.4bn registered in the first quarter 2021.

Turnover in the three months from April to June 2021 represents a 74% increment, compared to a combined total of UGX3.4 bn that was traded between April & June 2020.

Quarterly turnover performance per counter

Turnover was realized on eight counters, which are summarized as follows; the UMEME counter took the first position, posting UGX 3.4 billion, accounting for 57.73% of the total turnover. Stanbic in second position accounted for 17.37% while Bank of Baroda Uganda, Uganda Clays Limited, CIPLA, and DFCU scooped 15.79%, 8.08%, 0.99% and 0.02%, respectively. The rest of the counters represented by National Insurance Corporation and New Vision Limited had a combined turnover of UGX 1.1mn.

Volume traded per counter

During the quarter Uganda Clays Limited dominated activity, with the counter having 85.4 million shares traded taking 56.79% of the volume, Stanbic Uganda recorded 25.35% of the volume with 38.1 million shares, while UMEME, Bank of Baroda, CIPLA and National Insurance Corporation, posted 16.05 million shares, 10.02 million shares, 677,251 shares and 104,438 shares accounting for 10.67 per cent, 6.66 per cent, 0.45 per cent and 0.07 per cent of the total volume respectively. DFCU, and New Vision Limited recorded marginal positions.

Key Equity Market Indicators – Annual Comparisons (Year on Year)

Market Indicator	Apr 2020 - Jun 2020	Apr 2021 - Jun 2021	% Change
USE All Share Index	1,369.84	1,498.22	9.4
USE Local Index	339.17	344.76	1.64
Market Capitalization (UGX. bn)	19,089.50	20,844.74	9.19
Volume Traded	21,241,269	150,436,379	608.2
Turnover (UGX. bn)	3.4	5.9	73.52
Number of Deals	411	736	79.07
Trading Days	61	58	

Source USE Product Markets Department

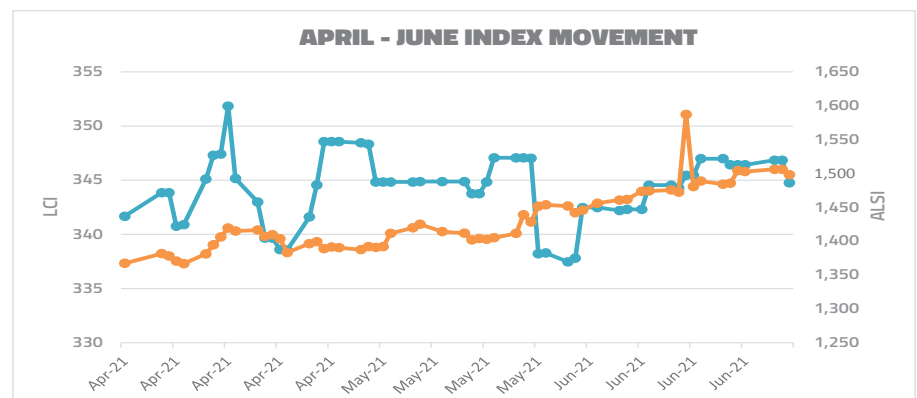
Trading Volumes and Activity on a Quarterly Basis:

	April 2021	May 2021	June 2021
Volume Traded	31,467,308	81,465,433	37,503,638
Turnover (Ushs)	1,533,122,603	960,292,685	3,488,312,747
Number of Deals	243	264	229
Trading Days	20	19	19
Daily Average Turnover (Ushs)	76,656,130	50,541,720	183,595,408
Daily Average number of trades	12	14	12
Market Capitalization (Ushs. bn)	19,353.06	20,193.76	20,844.74
USE All Share Index	1,390.42	1,451.93	1,498.22
LCI	348.56	337.47	344.76

Source USE Product Markets Department

USE Index Performance

The All-Share index opened at 1,355.12 increasing steadily to 1,451.93 in May and rising further to close the quarter at 1,498.22. This trend was due to changes in price increments on most of the blue-chip cross listed counters including EABL, KCB and Equity Group. The local share Index decreased greatly from 348.56 to a low of 337.47 in May but recovered in June to close the quarter to close at 344.76. Below is the graph depicting the ALSI/LCI movements.



Source: USE Product Markets Department

BOND LISTINGS:

There were 6 treasury bonds re-opened in the quarter with a value of UGX 1350bn which were listed. Secondary market trading is over the counter (OTC) through primary dealers. The current total value of the Government Bonds listed on the bourse stands at UGX 18.16 Trillion.

Government Bond Schedule as at 30th June 2021

INSTRUMENT CODE	IS IN	ISSUED SHARES	ISSUE DATE	RATE	MATURITY
FXD/09/2016/5YR	UG12H2109215	100BN	2016/09/27	16.50	2021/09/21
FXD/11/2016/5YR	UG12H2810218	200BN	2016/11/03	16.75	2021/10/28
FXD/12/2016/5YR	UG12H0312217	100BN	2016/12/09	17.00	2021/12/03
FXD/05/2017/5YR	UG12H1305228	156.3BN	2017/05/19	15.38	2022/05/13
FXD/7/2012/10YR	UG0000001079	1.615TN	2013/08/14	11.00	2022/06/09
FXD/07/2017/5YR	UG12H0707226	300BN	2017/07/13	14.13	2022/07/07
FXD/12/2017/5YR	UG12H2811224	156.3BN	2017/12/04	12.50	2022/11/28
FXD/6/2013/10YR	UG0000001244	1.862TN	2013/04/24	11.00	2023/04/13
FXD/1/2014/10YR	UG12J1801248	1.290TN	2014/01/30	14.00	2024/01/18
FXD/05/2019/5YR	UG12H1005240	153.7BN	2019/05/17	14.88	2024/05/10
FXD/8/2014/10YR	UG0000001467	1.070TN	2014/08/13	14.00	2024/08/01
FXD/10/2019/5YR	UG12H2509240	250BN	2019/10/02	14.88	2024/09/25
FXD/1/2015/10YR	UG0000001517	100BN	2015/01/28	11.00	2025/01/16
FXD/12/2015/10YR	UG12J1812252	120BN	2015/12/30	19.50	2025/12/18
FXD/08/2016/10YR	UG12J2708269	1.220TN	2016/09/08	16.63	2026/08/27
FXD/5/2017/10YR	UG12J0605277	360BN	2017/05/18	16.00	2027/05/06
FXD/1/2018/10YR	UG12J1301280	220BN	2018/01/25	14.13	2028/01/13
FXD/12/2013/15YR	UG0000001376	220BN	2013/12/04	15.25	2028/11/16
FXD/2/2015/15YR	UG0000001533	1.865TN	2015/02/25	14.25	2029/08/23
FXD/5/2015/15YR	UG12K0205308	120BN	2015/05/21	17.50	2030/05/02
FXD/11/2020/10YR	UG12J1411303	187BN	2020/11/27	16.00	2030/11/14
FXD/4/2016/15YR	UG12K0304317	1.630TN	2016/04/20	17.00	2031/04/03
FXD/3/2017/15YR	UG12K0403325	320BN	2017/03/23	16.38	2032/03/04
FXD/2/2018/15YR	UG12K0302337	750BN	2018/02/22	14.38	2033/02/03
FXD/7/2019/15YR	UG12K2206346	2.259TN	2019/07/11	14.25	2034/06/22
FXD/11/2020/15YR	UG12K0811352	496.7BN	2020/11/27	16.25	2035/11/08
FXD/11/2020/20YR	UG12L0111405	1.039TN	2020/11/27	17.50	2040/11/01

Corporate Bond Secondary Market Activity

The Corporate Bonds segment remained inactive throughout the period. Investors in this segment have continued to hold onto their investments and receive interest that is paid out semi-annually. Below are the corporate bonds currently listed on the USE;

1. African Development Bank Bond maturing on 01.02.2022
2. Kakira Sugar Limited Bond maturing on 07.12.2023

Alternative trading of Government securities April – June 2021

No.	Month	Security	Amount	
			Auction	Secondary
01	April -21	TBILLS	425,600,000	
02		TBOND	18,000,000	685,000,000
03	May -21	TBILLS	67,000,000	
04		TBOND	15,800,000	197,400,000
05	June -21	TBILL	237,400,000	
06		TBOND	9,400,000	
	Total		773,200,000	882,400,000

ECONOMIC & FINANCIAL DEVELOPMENTS: Apr - Jun 2021

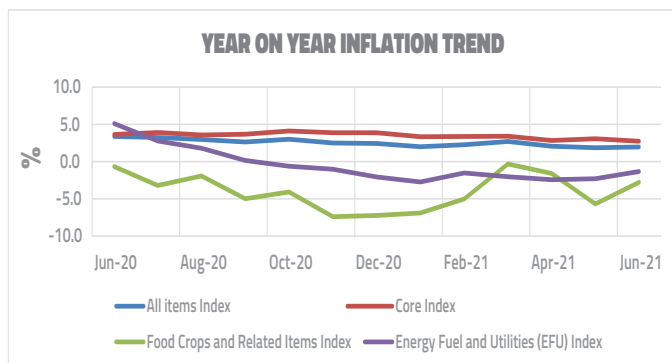
INFLATION – OUTLOOK AND RISKS

Year on year headline inflation edged lower in the three months to June 2021 averaging 2% compared to 2.3% averaged in the three months between January and March 2021. This was largely driven by lower Annual Core Inflation which averaged 2.9% in Q2 2021 compared to 3.4% in Q1 2021. The lower Core inflation was driven by lower prices of services such as transport prices which came off year on year. Uganda Bureau of Statistics rebased and re-weighted the Consumer Price Index basket from 2010/11 to 2016/17 during the quarter which resulted in inflation being lower compared to previous outputs.

Annual Food crops and related items inflation posted a deflation of 3.3% in the second quarter of 2021 compared to a deflation of 4.1% in the first quarter of the year signifying a slight increase in food prices during the period. Annual Electricity, Fuel and other Utilities inflation was higher by the end of the second quarter of 2021 at a deflation of 1.3% compared to a deflation of 2.4% in April 2021 due to higher prices of petrol.

Monthly headline inflation was lower during the three months ended June 2021 with increments averaging 0.3% driven by lower food prices especially as the harvest season for most fruits and vegetables commenced in May.

Inflation is expected to remain subdued to slowdown in economic activity due to the current Covid-19 measures which include a lockdown.



Source: UBOS UGANDA CONSUMER PRICE INDEX: 2016/17=100 JUNE 2021

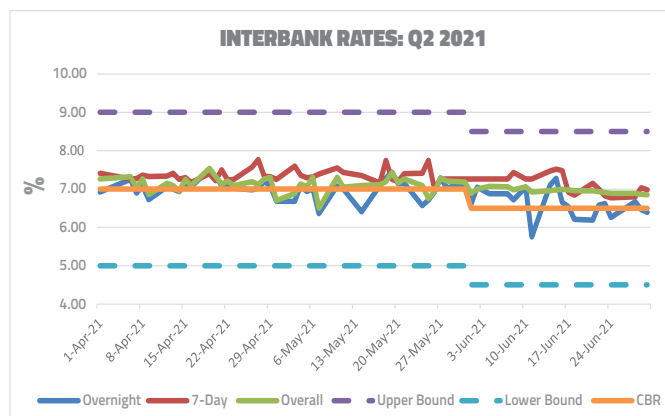
INTEREST AND LENDING RATES

Interbank Money Market Rates

Liquidity in the money markets was slightly tighter in Q2 2021 with overall rates averaging 7.1% compared to 7% in Q1 2021. The overnight and 7-day rates averaged 6.9% and 7.4% in the three months to June 2021 from 6.9% and 7.3% in the three months to March 2021.

Notably money market rates came off in the last month of the second quarter in line with the revision of the Central Bank Rate to a record low of 6.5% by the Monetary Policy Committee meeting held in June 2021. This expansionary monetary policy stance is aimed at supporting economic recovery following imposition of a second lockdown as Covid-19 cases were on the rise.

On the overall money market rates continued to trend in line with the bounds set by the Monetary Policy Committee as shown in the graph below.



Source: Bank of Uganda

Yields on Government securities

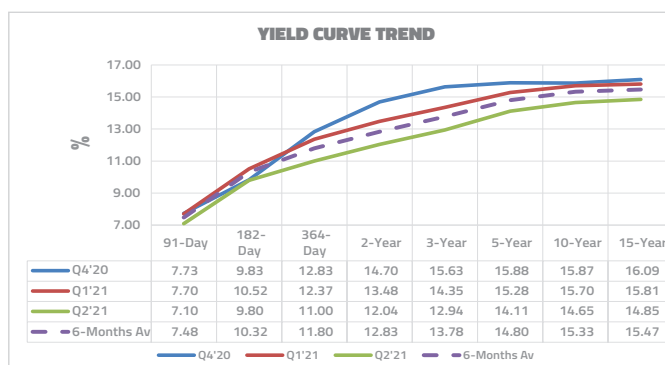
The yield curve dropped further in the second quarter of the year with the largest reductions registered on the 1-year and 2-year government papers which averaged 11% and 12% in Q2 2021 compared to an average of 12.4% and 13.5% in Q1 2021.

There was sustained for both the short term and medium-term government securities during the period. The 91-Day and 182-Day averaged 7.1% and 9.8% respectively during the three months to June 2021.

Yields on the 3-year and 5-year government bonds were also lower at an average of 12.9% and 14.1% respectively. The longer end of the yield curve also declined with rates on the 10-year and 15-year averaging 14.7% and 14.9% respectively in the second quarter of 2021.

The lower interest rates on government securities were attributed to sustained demand for government papers across the yield curve, a stable local currency and the reduction in the Central Bank Rate in June 2021.

Interest Rates are expected to remain within current ranges due to slow recovery in Private Sector Credit which translates into high liquidity in the markets coupled with a stable Uganda Shilling.



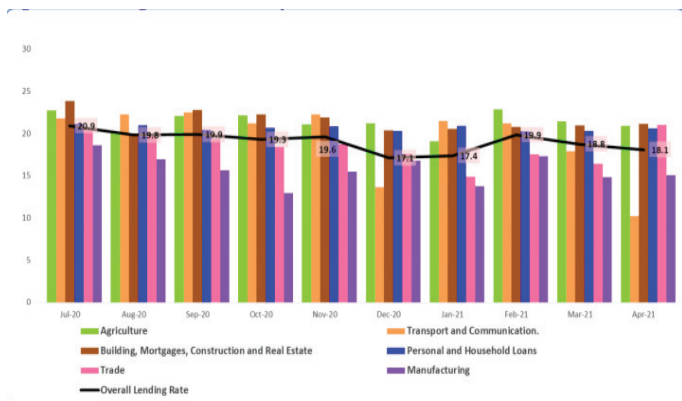
Source: Bank of Uganda

Lending rates

Lending rates on shilling denominated loans increased to 19.8% in May 2021 showing a higher risk environment compared to the start of this year characterized by slow economic recovery amidst a second wave of the Covid-19 pandemic. The lending rate as of May 2021 is higher compared to 18.8% in May 2020 and 17.4% recorded in January 2021.

Foreign currency denominated lending rates also rose to 6.8% in May 2021 from 6.5% in April 2021.

According to the June 2021 Monetary Policy Report, in the three months to April 2021, there was a notable increase in lending rates in shilling denominated loans for Community, Social and Other Services sub-sector, Agriculture and Trade sectors.



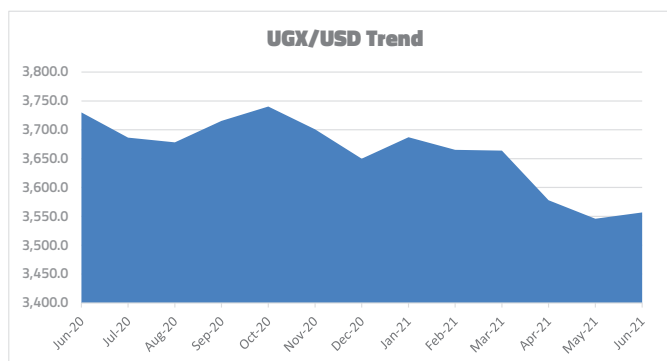
Source: Bank of Uganda

FOREIGN EXCHANGE RATE DEVELOPMENT

The Uganda Shilling gained 3% against the USD in the second quarter of 2021 to close June 2021 at 3,557 from 3,664 at the end of March 2021. This was attributed to the low demand for foreign currency from importers and corporate companies because of the slow recovery in economic activity.

Furthermore, the UGX was supported by a weakening US Dollar and increased inflows from coffee receipts and portfolio inflows. The local currency has strengthened by 2.6% in the first half of 2021.

The Uganda Shilling is expected to remain range bound due to low economic activity with the implementation of a second lockdown driven by increased infections of Covid-19 cases in Uganda in recent weeks.



Source: Bank of Uganda

EDUCATIONAL COLUMN

What Is a Derivative?

A derivative is a financial security with a value that is reliant upon, or derived from, an underlying asset or group of assets



Stocks



Bonds



Commodities



Currencies



Interest Rates



Market Indices

Investopedia

What Is A Derivative?

A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Common underlying instruments include bonds, commodities, currencies, interest rates, market indexes, and stocks.

Derivatives are also known as secondary securities whose value is solely based on the value of the primary security that they are linked to—called the underlying. Typically, derivatives are considered advanced investing.

Classes of derivative products:

Lock products (e.g. swaps, futures, or forwards) bind the respective parties from the outset to the agreed-upon terms over the life of the contract. Option products (e.g. stock options), on the other hand, offer the holder the right, but not the obligation, to buy or sell the underlying asset or security at a specific price on or before the option's expiration date. While a derivative's value is based on an asset, ownership of a derivative does not mean ownership of the asset. Futures contracts, forward contracts, options, swaps, and warrants are commonly used derivatives.

Futures Contracts

A futures contract is a derivative because its value is affected by the performance of the underlying asset. A futures contract is a contract to buy or sell a commodity or security at a predetermined price and at a pre-set date in the future. Futures contracts are standardized by specific quantity sizes and expiration dates. Futures contracts can be used with commodities, such as oil and wheat, and precious metals such as gold and silver.

Equity Options

An equity or stock option is a type of derivative because its value is "derived" from that of the underlying stock. Options come in forms calls and puts. A call option gives the holder the right to buy the underlying stock at a pre-set price (called the strike price) and by a predetermined date outlined in the contract (called the expiration date). A put option gives the holder the right to sell the stock at the pre-set price and date outlined in the contract. There is an upfront cost to an option called the option premium.

The risk-reward equation is often thought to be the basis for investment philosophy and derivatives can be used to either mitigate risk (hedging), or they can be used for speculation where the level of risk versus reward would be considered. For example, a trader may attempt to profit from an anticipated drop in an index's price, such as the USE Local Companies Index, by selling (or going "short") the related futures contract. Derivatives used as a hedge allow the risks associated with the underlying asset's price to be transferred between the parties involved in the contract.

Derivative Exchanges and Regulations

Some derivatives are traded on national securities exchanges and other derivatives are traded over-the-counter (OTC), which involve individually negotiated agreements between parties.

Most derivatives are traded on exchanges. Commodity futures, for example, trade on a futures exchange, which is a marketplace in which various commodities are bought and sold. Brokers and commercial traders are members of the exchange and need to be registered.

The futures markets are regulated, and the oversight can include preventing fraud, abusive trading practices, and regulating brokerage firms.

OTC Transactions

It is important to note that regulations can vary somewhat, depending on the product and its exchange. In the currency market, for example, the trades are done via over-the-counter (OTC), which is between brokers and banks versus a formal exchange. Two parties, such as a corporation and a bank, might agree to exchange a currency for another at a specific rate in the future. Banks and brokers are regulated. However, investors need to be aware of the risks with OTC markets since the transactions do not have a central marketplace nor the same level of regulatory oversight as those transactions done via national exchanges.

Two-Party Derivatives

A commodity futures contract is a contract to buy or sell a predetermined amount of a commodity at a pre-set price on a date in the future. Commodity futures are often used to hedge or protect investors and businesses from adverse movements in the price of the commodity.

For example, commodity derivatives are used by farmers and millers to provide a degree of "insurance." The farmer enters the contract to lock in an acceptable price for the commodity, and the miller enters the contract to lock in a guaranteed supply of the commodity. Although both the farmer and the miller have reduced risk by hedging, both remain exposed to the risks that prices will change.

Example of Commodity Derivative

For example, while the farmer is assured of a specified price for the commodity, prices could rise (due to, for instance, a shortage because of weather-related events) and the farmer

will end up losing any additional income that could have been earned. Likewise, prices for the commodity could drop, and the miller will have to pay more for the commodity than he otherwise would have.

Benefits of Derivatives

Let us use the story of a fictional farm to explore the mechanics of several varieties of derivatives. Gail, the owner of Healthy Hen Farms, is worried about the recent fluctuations in chicken prices or volatility within the chicken market due to reports of bird flu. Gail wants to protect her business against another spell of bad news. So she meets with an investor who enters into a futures contract with her.

The investor agrees to pay \$30 per bird when the birds are ready for slaughter in six months' time, regardless of the market price. If at that time, the price is above \$30, the investor will get the benefit as they will be able to buy the birds for less than the market cost and sell them on the market at a higher price for a profit. If the price falls below \$30, Gail will get the benefit because she will be able to sell her birds for more than the current market price, or more than what she would get for the birds in the open market.

Derivatives and Hedging

By entering into a futures contract, Gail is protected from price changes in the market, as she has locked in a price of \$30 per bird. She may lose out if the price flies up to \$50 per bird on a mad cow scare, but she will be protected if the price falls to \$10 on news of a bird flu outbreak. By hedging with a futures contract, Gail can focus on her business and limit her worry about price fluctuations.

It is important to remember that when companies hedge, they are not speculating on the price of the commodity. Instead, the hedge is merely a way for each party to manage risk. Each party has their profit or margin built into their price, and the hedge helps to protect those profits from being eliminated by market moves in the price of the commodity. Whether the price of the commodity moves higher or lower than the futures contract price by expiry, both parties hedged their profits on the transaction by entering the contract with each other.

Derivative Swap

Derivatives can also be used with interest-rate products. Interest rate derivatives are most often used to hedge against interest rate risk. Interest rate risk can occur when a change in interest rates causes the value of the underlying asset's price to change.

Loans, for example, can be issued as fixed-rate loans, (same interest rate through the life of the loan), while others might be issued as variable-rate loans, meaning the rate fluctuates based on interest rates in the market. Some companies might want their loans switched from a variable rate to a fixed rate.

For example, if a company has a low rate, they might want to lock it in to protect them in case rates rise in the future. Other companies might have debt with a high fixed-rate versus the

current market and want to switch or swap that fixed-rate for the current, lower variable rate in the market. The exchange can be done via an interest-rate swap in which the two parties exchange their payments so that one party receives the floating rate and the other party the fixed rate.

Example of Interest Rate Swap

Continuing our example of Healthy Hen Farms, let us say that Gail has decided that it is time to take Healthy Hen Farms to the next level. She has already acquired all the smaller farms near her and wants to open her own processing plant. She tries to get more financing, but the lender, Lenny, rejects her.

Lenny's reason for denying financing is that Gail financed her takeovers of the other farms through a massive variable-rate loan, and Lenny is worried that if interest rates rise, she won't be able to pay her debts. He tells Gail that he will only lend to her if she can convert the loan to a fixed-rate loan. Unfortunately, her other lenders refuse to change her current loan terms because they are hoping interest rates will increase, too.

Gail gets a lucky break when she meets Sam, the owner of a chain of restaurants. Sam has a fixed-rate loan about the same size as Gail's, and he wants to convert it to a variable-rate loan because he hopes interest rates will decline in the future.

For similar reasons, Sam's lenders will not change the terms of the loan. Gail and Sam decide to swap loans. They work out a deal in which Gail's payments go toward Sam's loan, and his payments go toward Gail's loan. Although the names on the loans have not changed, their contract allows them both to get the type of loan they want.

The transaction is a bit risky for both of them because if one of them defaults or goes bankrupt, the other will be snapped back into their old loan, which may require payment for which either Gail or Sam may be unprepared. However, it allows them to modify their loans to meet their individual needs.

Credit Derivative

A credit derivative is a contract between two parties and allows a creditor or lender to transfer the risk of default to a third party. The contract transfers the credit risk that the borrower might not pay back the loan. However, the loan remains on the lender's books, but the risk is transferred to another party. Lenders, such as banks, use credit derivatives to remove or reduce the risk of loan defaults from their overall loan portfolio and in exchange, pay an upfront fee, called a premium.

Example of Credit Derivative

Lenny, Gail's banker, ponies up the additional capital at a favorable interest rate and Gail goes away happy. Lenny is pleased as well because his money is out there getting a return, but he is also a little worried that Sam or Gail may fail in their businesses.

To make matters worse, Lenny's friend Dale comes to him asking for money to start his own film company. Lenny knows Dale has a lot of collateral and that the loan would be at a higher interest rate because of the more volatile nature of the movie industry, so he's kicking himself for loaning all of his capital to Gail.

Fortunately for Lenny, derivatives offer another solution. Lenny spins Gail's loan into a credit derivative and sells it to a speculator at a discount to the true value. Although Lenny does not see the full return on the loan, he gets his capital back and can issue it out again to his friend Dale. Lenny likes this system so much that he continues to spin out his loans as credit derivatives, taking modest returns in exchange for less risk of default and more liquidity.

Options Contracts

Years later, Healthy Hen Farms is a publicly-traded corporation (HEN) and is America's largest poultry producer. Gail and Sam are both looking forward to retirement.

Over the years, Sam bought quite a few shares of HEN. In fact, he has more than \$100,000 invested in the company. Sam is getting nervous because he is worried that another shock, perhaps another outbreak of bird flu, might wipe out a huge chunk of his retirement money. Sam starts looking for someone to take the risk off his shoulders. Lenny is now a financier extraordinaire and active writer or seller of options, agrees to give him a hand.

Lenny outlines a deal—called a put option—in which Sam pays Lenny a fee—or premium—for the right (but not the obligation) to sell Lenny the HEN shares in a year's time at their current price of \$25 per share. If the share prices plummet, Lenny protects Sam from the loss of his retirement savings.

Healthy Hen Farms remains stable until Sam and Gail have both pulled their money out for retirement. Lenny profits from the fees and his booming trade as a financier. Lenny is OK because he has been collecting the fees and can handle the risk.

KEY TAKEAWAYS

- A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset, index, or security.
- Futures contracts, forward contracts, options, swaps, and warrants are commonly used derivatives.
- Derivatives can be used to either mitigate risk (hedging) or assume risk with the expectation of commensurate reward (speculation).

SOURCE;

<https://www.investopedia.com/ask/answers/12/derivative.asp>

Appendix I: USE Member Firms

The following USE Member Firms are licensed to act as both broker/dealers and Market Advisors:

Market Advisor	Contact Person:
BARODA CAPITAL MARKETS (U) LTD. P. O. Box: 7197 Kampala Tel: +256 414 232 783 Fax: +256 414 230 781 Email: bcm.ug@bankofbaroda.com Website: www.barodacapital.webs.com	Mr. Mohan Prashantam
DYER & BLAIR (UGANDA) LTD Rwenzori House Ground Floor P.O.Box: 36620 Kampala Tel: +256-414-233050 Fax: +256 -414 231813 Email: Uganda@dyerandblair.com	Ms. Esther Kakiza
EQUITY STOCK BROKERS (U) LTD. Orient Plaza Plot 6/6A Kampala Road P. O. Box: 3072 Kampala Tel: +256-414 7719133/44 Email: equity@orient-bank.com	Ms. Nkundizana Christine
CRESTED STOCKS AND SECURITIES LIMITED Head Office - Impala House 6th Floor Plot 13-15, Kimathi Avenue P. O. Box 31736, Kampala, Uganda Tel: +256 312 230900/ +256 414 230 900 Email: info@crestedcapital.com Website: www.crestedcapital.com	Mr. Robert H. Baldwin
UAP OLD MUTUAL FINANCIAL SERVICES LTD 2 nd floor, Block A, Nakawa business park P. O. Box 20079, Kampala Tel: +256 414 332 825 Email: brokerageufs@uap-group.com	Mr. Mwebaze Simon
SBG SECURITIES LIMITED 4 th Floor Crested Towers (Short Towers) P. O. Box 7131, Kampala Tel: +256 0312 224 600 Email: sbgs_uganda@stanbic.com	Mr. Ongura Joram



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