Madison Investment Managers
June 2021 Economic Highlights
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MADISON
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Economic Update

Kenya on a foreign funding spree

The Kenyan government was under immense pressure to secure foreign funding in order to meet the wide budget requirements before the fiscal year of 2020/21 closed.

On 10th June 2021, Kenya received a USD 750mn loan from the World Bank to support the nation's economic recovery from the coronavirus pandemic. The concessional loan comes at an interest rate of 3.1% p.a. with a 30-year repayment term and a five-year grace period.

Further, on 18th June 2021, the National Treasury raised USD 1bn through a 12-year Eurobond at an interest rate of 6.3%, payable semi-annually. The sale was over-subscribed at 5.4x.

Lastly, on 24th June 2021, the IMF announced that it completed the first review of the 38-month Extended Fund Facility (EFF) and Extended Credit Facility (ECF) and had allowed immediate disbursement of USD 407mn to Kenya. The latest loan came on the last week of June when the World Bank board approved an additional USD 130mn to enable Kenya procure more vaccines.

Access to International Monetary Fund (IMF) and World Bank loans has helped Kenya reduce its exposure to commercial debt, easing repayment pressure at a time when Covid-19 has hit the country's coffers and exposed debt vulnerabilities.

Inflation

Inflation hits 16-month high of 6.32% on costly food & fuel

Headline inflation rose to 6.32% in June 2021 compared to 5.87% recorded in the month of May 2021. The Food and Non-Alcoholic Drinks index rose by 0.06% in the review period compared to the 0.32% increase recorded in the previous month. This was contributed by increase in prices of kales, melons and spinach by 3.42%, 3.40% and 2.52%, respectively.

Over the review period, the Housing, Water, Electricity, Gas, and Other Fuels' Index increased by 0.18%. This was mainly attributed to increase in prices of electricity, which went up by 5.61% and 3.95% for 50 Kilowatts and 200 Kilowatts, respectively.

The Transport Index increased by 0.28% mainly due to increase in pump prices of petrol by 0.61% between May 2021 and June 2021.

The Currency

The Shilling has strengthened by 1.21% against the USD year to date

In the month of June, the Kenya Shilling depreciated marginally by 0.24% against the US dollar to close the month at KES 107.85 from KES 107.59 in May 2021. This was due to increased dollar demand from importers.

During the month, the Central Bank of Kenya held forex reserves of USD 8.114 mn equivalent to 4.96 months of import cover as at 24th June 2021.

The Shilling has strengthened year to date by 1.21% against the USD as well as against some major global currencies and some local currencies. Going forward, we view key risks to the KES to be:

i. The ongoing Covid-19 pandemic
ii. Reduced portfolio inflows
iii. Upcoming foreign debt interest payment
iv. Economic recovery stemming from expansionary monetary and fiscal policies being undertaken by Central Banks in developed markets.

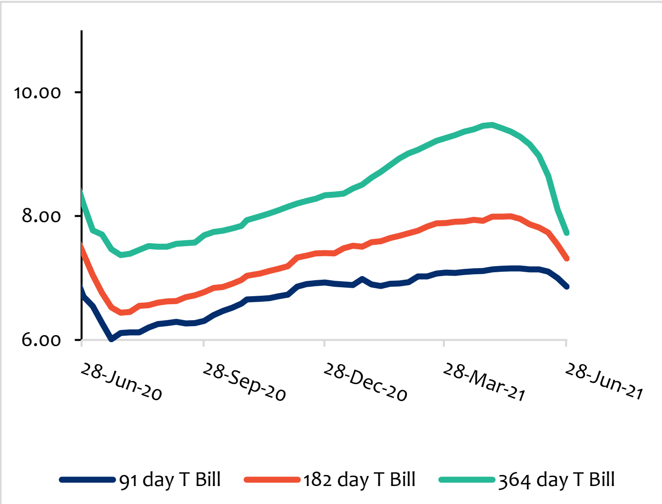
Kenya Shilling Performance	Jun-21	May-21	YTD
USD	-0.24%	0.23%	1.21%
Sterling Pound	2.05%	-1.37%	-0.57%
Chinese Yuan	1.19%	-1.25%	0.34%
Japanese Yen	0.30%	1.19%	8.00%
Uganda Shilling	-0.04%	0.74%	1.25%

**Central Bank of Kenya, Madison Investment Managers Limited (MIML) Research)*

Fixed Income Performance

T-bill rates fell for the 6th consecutive week

During the month under review, average yields on the 91-day paper and 182-day papers and the 364- day paper declined by 12, 36 and 98 basis points, respectively, to close at 6.86%, 7.32% and 7.73%, respectively. Overall subscription, on the other hand, increased to 150.68% on average from 136.23% observed in May 2021 due to improved market liquidity.



(Central Bank of Kenya, Madison Investment Managers Limited (MIML) Research)

In June, the Central Bank re-opened bonds: FXD1/2019/20 and FXD1/2012/20, seeking to raise KES 30bn for budgetary support. The auction was oversubscribed at 216.42%. The Central Bank received bids worth KES 64.93bn and accepted KES 19.70bn resulting in an acceptance ratio of 30.33%.

The weighted average rate of accepted bids for the bonds came in at 13.261% and 12.498%, respectively, while the coupon rates were 12.873% and 12%, respectively. The bonds are subject to a withholding tax rate of 10%.

Secondary bond turnover declined by 9.97% in June to KES 91.79 bn from KES 101.96 bn in May.

Equities Market Performance

NSE Benchmark indices were on an upward trajectory

In the month of June, the NASI, NSE 20 and NSE-25 gained by 2.09%, 2.99% and 2.80%, respectively. This was attributable to price gains recorded by stocks such as Nairobi Business Venture, Nation Media Group, and Jubilee of 92.45%, 33.69% and 25.5%, respectively.

Foreign investors remained net sellers with a net selling position of KES 1.19 billion compared to the net selling position of KES 0.78 billion recorded in May 2021. Equities turnover in the month decreased by 1.47% to KES 13.95 bn from KES 14.16 bn.

The Ghana Stock Exchange was Africa's best performing stock market in June, recording a staggering 36.13% return in dollar term for investors. On the other hand, the Nigeria All Share Index underperformed with a YTD yield of -6.49%.

Global Markets

Global economy recovering at uneven pace

During the month, the Federal Reserve (the US Reserve Bank) rocked the boat simply by projecting possible interest rate hikes around 2023. This caused a big dip in most global markets in the middle of the month, but the US markets quickly bucked the trend to forge ahead towards the end of the month.

On June 11, the FTSE 100 in the UK closed at its highest level since February 2020, but it all came crashing down with the update from the Fed. Unlike the US, it didn't enjoy the strong recovery, with some Brexit concerns still impeding trade with the EU, its biggest trade partner.

China's factory activity expanded at a softer pace in June, with output growth slumping to the lowest level in 15 months. The Caixin/Markit Manufacturing PMI fell to 51.3 in June from May's 52.

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