Madison Investment Managers
May 2021 Economic Highlights
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MADISON Investment Managers

Economic Update

The MPC retains the CBR at 7.00%

On 27th May 2021, the Monetary Policy Committee (MPC) reconvened against a backdrop of the continuing global COVID-19 (coronavirus) pandemic, continued rollout of vaccination programmes, and other measures taken by authorities around the world to contain its spread and impact.

So far, the banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios while growth in private sector credit decelerated to 6.8% in the 12 months to April 2021. Strong credit growth was observed in sectors such as consumer durables (19.3%) and transport and communication (13.3%).

Thus, the MPC concluded that the current accommodative monetary policy stance remains appropriate, and therefore, decided to retain the Central Bank Rate (CBR) at 7.00%. Across Sub-Saharan Africa, Ghana cut its benchmark rate by 100 basis points to 13.50% in May whilst other markets such as South Africa and Nigeria are expected to maintain the key rate steady.

Inflation

Headline inflation rose to 5.87% in May 2021

Headline inflation rose to 5.87% in May 2021 compared to 5.76% recorded in the month of April 2021. The Food and Non-Alcoholic Drinks index rose by 0.32% in the review period compared to the 1.73% increase recorded in the previous month. This was contributed by increase in prices of onion- leeks, kale and cabbages by 5.03%, 3.41% and 3.19%, respectively.

Over the review period, the Housing, Water, Electricity, Gas, and Other Fuels' Index decreased by 0.15%. This was mainly due to decreases in the prices of charcoal and electricity.

The Transport Index increased by 0.69 per cent mainly due to increase in pump prices of petrol by 2.87% between April 2021 and May 2021.

In the region, Uganda's inflation rate declined to 1.9% in May from 2.1% largely due to a decline in the prices of food.

The Currency

The Shilling has strengthened by 1.45% against the USD year to date

In the month of May, the Kenya Shilling strengthened by 0.23% against the US dollar to close the month at KES 107.59 from KES 107.84 in April 2021.

The stability of the Shilling was supported by:

i. Receipt of KES 33.7 billion disbursement from the IMF
ii. Dollar inflows from remittances and tea, coffee and horticultural exports
iii. Muted dollar demand from importers

In 2021, World Bank projects remittance flows to Sub-Saharan Africa to rise by 2.6% supported by improving prospects for growth in high-income countries.

During the month, the Central Bank of Kenya held forex reserves of USD 7,480 million equivalent to 4.57 months of import cover as at 27th May 2021.

The Shilling has strengthened year to date by 1.45% 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

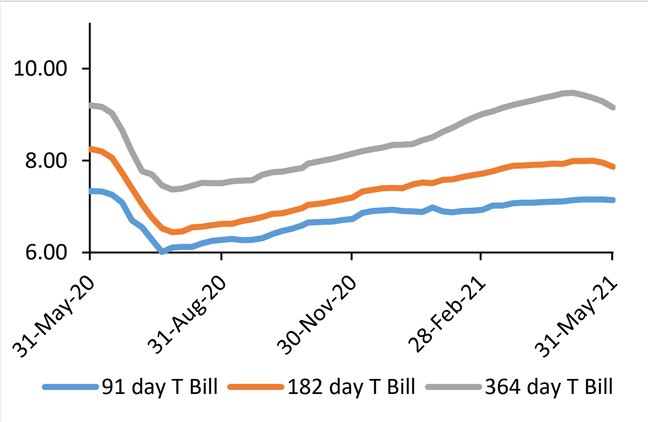
Kenya Shilling Performance	May-21	Apr-21	YTD
USD	0.23%	1.52%	1.45%
Sterling Pound	(1.37%)	0.27%	(2.67%)
Chinese Yuan	(1.25%)	0.00%	-0.86%
Japanese Yen	1.19%	0.30%	7.72%
Uganda Shilling	0.74%	0.81%	1.30%

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

Fixed Income Performance

Rise in yields on the money market instruments slumped in the month

During the month under review, average yields on the 91-day paper and 182-day papers increased by 5 and 4 basis points, respectively, to close at 7.14% and 7.87%, respectively. However, the average yield on the 364-day paper declined by 4 basis points to close at 9.16%. Overall subscription, on the other hand, increased to 136.23% on average from 65.36% observed in April 2021 due to improved market liquidity.



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

In May, the Central Bank re-opened a bond, FXD2/2019/15 and also issued a new bond, FXD1/2021/25, seeking to raise to KES 30bn for budgetary support. The auction was oversubscribed at 141.95%. The Central Bank received bids worth KES 42.59 bn and accepted KES 20.29bn resulting in an acceptance ratio of 47.64%.

The weighted average rate of accepted bids for the bonds came in at 12.975% and 13.924%, respectively, while the coupon rates were 12.734% and 13.924%, respectively. The bonds are subject to a withholding tax rate of 10%.

Secondary bond turnover rose by 55.31% in May to KES 101.96 bn from KES 65.65 bn in April.

Equities Market Performance

The equities market recorded mixed performances in May

In the month of May, the equities market recorded mixed performances. The NASI and NSE 20 gained by 0.48% and 0.27%, respectively, while the NSE 25 declined by 0.14%. This is attributable price gains recorded by large cap stocks such as EABL, Equity Group, and KCB of 9.13%, 7.79% and 5.09%, respectively. However, price declines in counters such as Bamburi of 10.49% weighed down the performance.

Foreign investors remained net sellers with a net selling position of KES 0.78 billion compared to the net selling position of KES 0.03 billion recorded in April 2021. Equities turnover in the month increased by 43.44% to KES 14.16 bn from KES 9.87 bn.

Global Markets

Global activity varied across major economies

In the month of May, the pace of manufacturing activity in the U.S quickened, buoyed by stronger recovery of new orders. This is despite labour constraints and supply shortages. The Manufacturing Index rose to 61.2 from 60.7 a month earlier.

China, on the other hand, reported a slow-down in its services sector weighed down by weaker foreign demand and a rise in costs, exerting stress on businesses. Inflationary pressures propelled the rise in input costs. Its Services Purchasing Manager's Index (PMI) fell to 55.1 in May, from 56.3 in April, but still remains well in the expansionary zone.

Due to the continued severity of Covid-19 in India, services activity in the country shrank as strict lockdowns were imposed to contain the spread of the virus. As overall demand dampened, firms cut jobs at the fastest pace and the Services PMI fell to a 9-month low of 46.4 in May, from 54.0 in April.

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