Madison Investment Managers
July 2021 Economic Highlights
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Economic Update

The MPC retains the CBR at 7.00%

On 28th July 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. The ratio of gross non-performing loans (NPLs) to gross loans stood at 14% in June compared to 14.2% in April; while growth in private sector credit increased to 7.7% in the 12 months to June 2021. Strong credit growth was observed in sectors such as consumer durables (23.4%), transport and communication (11.8%).

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, South Africa kept the benchmark rate unchanged at 3.50% whilst other markets such as Ghana and Nigeria are expected to maintain the rate.

Inflation

Inflation kept on an upward shift since the start of Q2-2021 closing July at 6.44%

Headline inflation rose to 6.44% in June 2021 compared to 6.32% recorded in the month of June 2021.

The Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 1.34% between June 2021 and July 2021. This was mainly attributed to increase in prices of cooking gas, which went up by 15.43%. In addition, electricity prices went up by 0.76% and 1.06% for 200 Kilowatts and 50 Kilowatts, respectively.

Over the review period, the Food and Non-Alcoholic Drinks index decreased by 0.46%. This was mainly attributed to decreases in prices of some food items such as tomatoes, white bread and oranges which shrunk by 4.12%, 2.79% and 1.81% respectively; thus, outweighing the increase in prices of other food items.

The Information and Communication Index increased by 1.81%, mainly as a result of an increase in price of mobile phone airtime, which went up by 2.40%.

The Currency

The Shilling has strengthened by 0.52% against the USD year to date

In the month of July, the Kenya Shilling came under pressure depreciating marginally by 0.70% against the US dollar to close the month at KES 108.61 from KES 107.85 in June 2021. This was due to increased dollar demand from importers.

During the month, the Central Bank of Kenya held a strong forex reserves position of USD 9.341 bn equivalent to 5.71 months of import cover as at 29th July 2021.

The Shilling has strengthened year to date by 0.52% 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 in developed markets stemming from expansionary monetary and fiscal policies being undertaken by Central Banks.

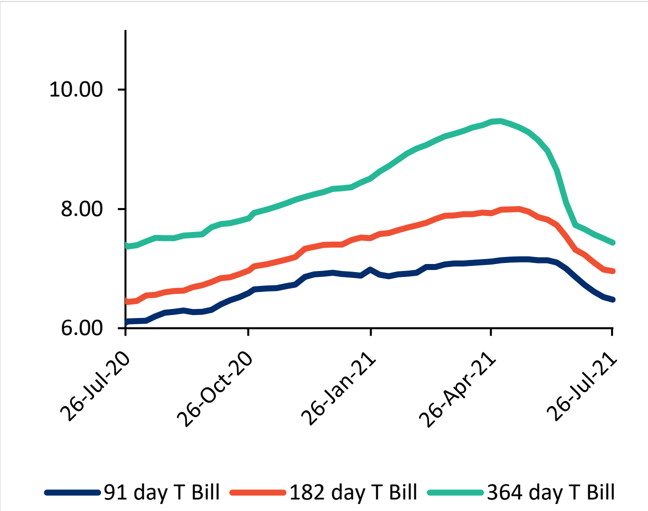
Kenya Shilling Performance	Jul-21	Jun-21	YTD
USD	(0.70%)	(0.24%)	0.52%
Sterling Pound	(1.34%)	2.05%	(1.92%)
Chinese Yuan	(0.83%)	1.19%	(0.48%)
Japanese Yen	(1.47%)	0.30%	6.64%
Uganda Shilling	0.84%	(0.04%)	2.08%

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

Fixed Income Performance

T-bill rates have declined for two consecutive months

During the month under review, average yields on the 91-day paper and 182-day papers and the 364- day paper declined by 44, 53 and 82 basis points, respectively, to close at 6.48%, 6.96% and 7.43%, respectively. Overall subscription, on the other hand, decreased to 104.38% on average from 150.68% observed in June 2021.



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

In July, the Central Bank re-opened three bonds: FXD1/2012/15, FXD1/2018/15 and FXD1/2021/25, seeking to raise KES 60bn for budgetary support. The auction was oversubscribed at 194.87%. The Central Bank received bids worth KES 116.92bn and accepted KES 79.94 bn resulting in an acceptance ratio of 68.37%.

The weighted average rate of accepted bids for the bonds came in at 11.474%, 12.607% and 13.681%, respectively, while the coupon rates were 11.000%, 12.650% and 13.924%, respectively. The bonds are subject to a withholding tax rate of 10%.

Secondary bond turnover declined by 0.45% in July to KES 91.38 bn from KES 91.79 bn in June.

The Nigerian sovereign bonds underperformed peers in the Sub-Saharan region as the S & P/FMDQ Nigeria Sovereign Bond index lost by 19.85% year-to-date.

Equities Market Performance

NSE Benchmark indices were on an upward trajectory

In the month of July, the NASI, NSE 20 and NSE-25 gained by 2.30%, 2.43% and 3.13%, respectively. This was attributable to price gains recorded by stocks such as Equity Bank and KCB of 9.27% and 7.15%, respectively.

Foreign investors turned net buyers with a net buying position of KES 0.16 bn from a net selling position of KES 1.19 bn in June. Equities turnover in the month decreased by 33.53% to KES 9.27 bn from KES 13.95 bn.

Global Markets

Global economy recovering at uneven pace

By end of July 2021, the US economy is estimated to have expanded to 6.5% with output levels back above pre-pandemic levels for the first time since Covid-19 struck. The growth was accelerated by fiscal stimulus and high vaccination rates which fuelled consumer spending on service- related activities such as travel. Economic recovery is expected to remain strong for the rest of the year with key risks to the forecast being the Delta variant of the Coronavirus.

China's economy, on the other hand, lost a bit of momentum compared to first quarter of 2021. Gross Domestic Debt (GDP) expanded by 7.9%, slowing down from 18.3% growth recorded in the January – March period. The performance was weighed down by a cooling off housing market coupled with slow growth in retail sales and industrial output as motor vehicle production fell sharply. China eased its reserve requirement ratio and may continue to ease other policies, while continuing to tighten its grip on key economic sectors.

In Uganda, the covid measures put in on July 18 have pushed businesses to the edge. The country has recorded a slump in the general economic activity following the suspension of mass public and private transport, suspension of weekly food and non-food markets and a longer curfew.

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