Madison Investment Managers
September 2021 Economic Highlights
Issue 09-21

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Economic Update

Kenya's Covid-19 vax program picks up pace

The Monetary Policy Committee (MPC) met on September 28, 2021, 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.

Inflation was noted to have elevated due to increases in the fuel and food prices, the former attributable to dry weather conditions and supply constraints. Going forward, the committee expected inflation to remain elevated in the medium term, anchored within the target range of 2.5% - 7.5%.

2020's economic data was also released by the Kenya Bureau of Statistics (KNBS) in the month, showing that the GDP contracted by 0.3% in 2020 reflecting the adverse effects of the Covid-19 pandemic. Recovery is, however, expected to strengthen in 2021 supported by robust performance of construction, manufacturing and education sectors coupled with the ongoing vaccination campaign.

On that note, the Committee concluded that the current accommodative stance remains appropriate, and retained the Central Bank Rate at 7.00%. Similarly, African central banks in Ghana, Nigeria and Zambia held rates to support recovery.

Inflation

A sustained rise in inflation closing September at 6.91%

Headline inflation rose to 6.91% in September 2021 compared to 6.54% recorded in the month of August 2021. Month on month, the rise was driven by a 0.11% rise in the food and non-alcoholic beverages index. This was attributable to prices of carrots, oranges and cabbage rising by 3.25%, 2.43% and 2.10%, respectively, outweighing the price decreases in other foods.

The Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 0.91% due to increase in prices of kerosene/paraffin, electricity and gas/LPG.

The Transport Index also increased by 1.17%, mainly due to a rise in the prices of petrol and diesel that went up by 5.91% and 7.30%, respectively. As a result, bus fares of public service vehicles (PSVs) recorded an increase of 0.64%.

The Currency

The Shilling has weakened by 1.20% against the USD year to date

In the month of September, pressure continued to pile on the KES which weakened by 0.56% against the USD for the third consecutive month to close at KES 110.45, from KES 109.87 in August. The depreciation is attributable to strong dollar demand from importers across sectors coupled with weak inflows.

During the month, the Central Bank of Kenya held a strong forex reserves position of USD 9,437 bn equivalent to 5.77 months of import cover as at 30th September 2021.

The Shilling has weakened year to date by 1.20% against the USD as well as against some major global currencies but strengthened against some regional currencies. Going forward, we view key risks to the KES to be:

i. Surge in new Covid-19 variants
ii. Reduced portfolio inflows
iii. Upcoming foreign debt interest payment
iv. Hawkish central bank policy in developed markets which may spark capital outflows from emerging markets.

Kenya Shilling Performance	Sep-21	Aug-21	YTD
USD	(0.56%)	(1.16%)	(1.20%)
Sterling Pound	0.99%	0.04%	(0.87%)
Chinese Yuan	(0.57%)	(1.05%)	(2.12%)
Japanese Yen	0.84%	(1.11%)	6.39%
Uganda Shilling	0.56%	1.57%	4.15%

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

In the month, the Ugandan Shilling strengthened against the USD by 0.30%, buoyed by hard currency inflows from exports of commodities such as coffee, tea and cocoa.

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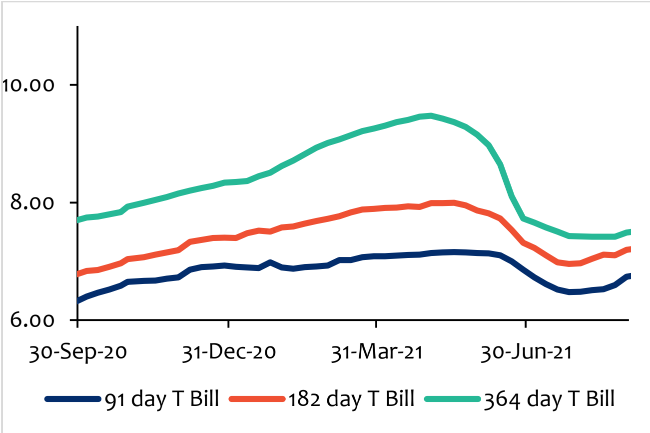
Fixed Income Performance

T-bill yields rose in the month of September

During the month under review, average yields on the 91-day paper, the 182-day papers and the 364- day paper rose by 26 bps, 17 bps and 32 bps to close at 6.83%, 7.25% and 7.89%, respectively. Overall subscription, on the other hand, decreased to 67.26% on average from 71.59% observed in August 2021.



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

In September, the Central Bank issued an infrastructure bond, IFB1/2021/21, seeking to raise KES 75bn for funding infrastructure projects for fiscal year 2021/22. The auction was oversubscribed at 201.67%. The Central Bank received bids worth KES 151.26bn and accepted KES 106.75 bn resulting in an acceptance ratio of 70.57%.

The weighted average rate of accepted bids for the bond came in at 12.737%, while the coupon rate which was market determined, was 12.737%. The bond is tax exempt.

Secondary bond turnover rose by 38.15% in September to KES 114.74 bn from KES 83.06 bn in August, due to increased trading of IFB1/2021/21.

In the month, Nigeria raised USD 4 bn in a multi-tranche Eurobond issue which was 4x oversubscribed, as investors offered USD 12.2 bn for the 7-year and 30-year notes issued. The 7-year and 3-year loans were priced at 6.125% and 8.250%, respectively.

Equities Market Performance

NSE benchmark indices recorded mixed performances in the month

In the month of September, the NASI and NSE 25 declined by 2.20% and 2.59%, respectively, while the NSE 20 gained by 0.51%. This was attributable to price downturns recorded by large caps such as Safaricom, KCB Group and Equity Bank of 1.17%, 3.61% and 4.69%, respectively. However, price gains in counters such as ScanGroup and KPLC of 46.11% and 22.86% sustained NSE 20's performance.

Foreign investors turned net sellers, with net outflows of KES 0.94 bn from a net buying position of KES 1.72 bn recorded in August on profit-taking. Equities turnover in the month fell by 14.37% to KES 10.14 bn from KES 11.84 bn.

Global Markets

Fears of rising inflation rates, slowing economic growth amid a rise in energy prices

The month of September was marked by a surge in global commodity and energy prices, sparking fears that the already high inflation rates around global economies may remain elevated in the near-term. To curb a rise in inflation, central banks around the globe are preparing to withdraw policy support measures which were put in place to bolster recovery.

The U.S Federal Reserve met last week and confirmed that it would soon begin to cut back its bond purchases. Similar sentiments were echoed by the European Central Bank. The withdrawal of policy support amid the spread of the Delta variant of Covid-19, will slow down of the recovery of economies which are already feared to be stagnant.

Adding to global concerns is the rise in energy prices which has sent major economies such as China and Europe into crisis. Due to supply disruptions, Murban Crude rose 7.74% in the month while coal prices hiked by 42.21%. China is the world's largest consumer of coal and the current crisis it is facing puts global economic recovery at risk.

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