Madison Investment Managers
October 2021 Economic Highlights
Issue 10-21

MADISON
Investment Managers

Economic Update

IMF downgrades Kenya's economic growth forecast

The International Monetary Fund apprised that it expects Kenya's economy to grow at a much slower pace than previously projected and thus downgraded Kenya's 2021 growth outlook to 5.6% from 7.6%. IMF attributes this downgrade to the latest rebasing exercise which it says lowered the capacity for the economy to realize the previously projected growth.

Domestically, the National Treasury projected Kenya's economic growth to 2.9% in FY 2020/21 and a rebound to 5.3% in FY 2021/22. The recovery in the current fiscal year, reflects the lower base effect of 2020 when most service sectors were adversely affected by the closure of the economy.

The recovery will be reinforced by the prevailing stable macroeconomic environment and the ongoing implementation of the strategic priorities of the Government under the "Big Four" Agenda and Economic Recovery Strategy. Weather conditions are expected to support agricultural output while export of goods and services are expected to expand as global demand normalizes.

A report by African Development Bank (E.A) highlights that East Africa's GDP growth is projected to recover to an average of 4.1% in 2021 from 0.4% in 2020, supported by the global economic recovery. However, the slow rollout of Covid-19 vaccines and risks of spikes in infections could dampen that outlook.

Inflation

Dip in fuel prices eases cost of living

Headline inflation fell to 6.45% in October 2021 compared to 6.91% recorded in the month of September 2021. Month on month, the dip was driven by a 0.35% decrease in the transport index. This was attributable to a drop in the price of petrol and diesel, which went down by 3.69% and 4.29%, respectively.

The food and non- alcoholic drinks' index increased by 1.11%. This was mainly due to prices of tomatoes, oranges and sugar rising by 3.53%, 3.12% and 2.50%, respectively, outweighing the price decreases in other foods.

The Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 0.67% due to increase in prices of house rent, electricity and gas/LPG. During the same period, prices of kerosene/paraffin decreased by 6.51%.

The Currency

The Shilling has weakened by 1.87% against the USD year to date

In the month of October, pressure continued to pile on the KES which weakened by 0.66% against the USD for the fourth consecutive month to close at KES 111.21, from KES 110.45 in September. 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 an adequate forex reserves position of USD 9.175 bn equivalent to 5.61 months of import cover as at 28th October 2021.

The Shilling has weakened year to date by 1.87% 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)*

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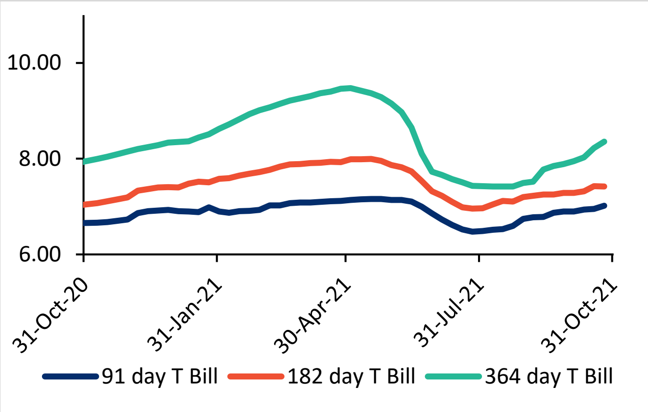
Fixed Income Performance

T-bill yields rose in the month of October

During the month under review, average yields on the 91-day paper, the 182-day paper and the 364- day paper rose by 12 bps, 11 bps and 38 bps to close at 6.95%, 7.36% and 8.14%, respectively. Overall subscription, on the other hand, decreased to 57.93% on average from 67.26% observed in September 2021.



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

In October, the Central Bank reopened three bonds: FXD1/2013/15, FXD3/2019/15 and FXD1/2021/25; seeking to raise KES 60 bn for budgetary support. The auction was under-subscribed at 92.46%. The Central Bank received bids worth KES 55.48 bn and accepted KES 52.05 bn resulting in an acceptance ratio of 93.82%.

The weighted average rate of accepted bids for the bonds came in at 11.882%, 12.845% and 13.823%, respectively, while the coupon rates were 11.25%, 12.34% and 13.924%, respectively. The bonds are subject to a withholding tax rate of 10%.

Secondary bond turnover fell by 44.54% in October to KES 63.64 bn from KES 114.74 bn in September.

In Tanzania, fixed income yields continued to fall as the government remained diligent on maintaining an expansionary policy. This saw secondary bond turnover decline by 38% to TZS 157 bn from TZS 256 bn recorded in the previous month.

Equities Market Performance

NSE benchmark indices closed in red

In the month of October, the indices were on a downward trend. NASI, NSE25 and NSE 20 lost by 0.2%, 1.61% and 3.44%, respectively. This was attributable to price downturns recorded by large caps such as KCB Group and Equity Bank of 5.99% and 2.07%, respectively.

Foreign investors remained net sellers, with net outflows of KES 1.02 bn from a net selling position of KES 0.94 bn recorded in September.

Equities turnover in the month increased by 1.28% to KES 10.27 bn from KES 10.14 bn.

In Egypt, the EGX 30 Index rallied following the E-finance company's initial public offering. The firm raised more than USD 370 mn in the public offering, which was 61.4 times oversubscribed. This is the biggest IPO on the local stock exchange since 2015.

Global Markets

Recovery during a pandemic

According to the IMF's October 2021 economic outlook, the global economic recovery is continuing, even as the pandemic resurges.

The global economy is projected to grow 5.9% in 2021 and 4.9% in 2022, 0.1 percentage point lower for 2021 than in the July forecast. The downward revision for 2021 reflects a downgrade for advanced economies - in part due to supply disruptions - and for low income developing countries, largely due to worsening pandemic dynamics. Rapid spread of Delta and the threat of new variants have increased uncertainty about how quickly the pandemic can be overcome.

Meanwhile, inflation has increased markedly in the United States and some emerging market economies. As restrictions are relaxed, demand has accelerated, but supply has been slower to respond. Although price pressures are expected to subside in most countries in 2022, inflation prospects are highly uncertain.

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