Madison Investment Managers
November 2021 Economic Highlights
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Economic Update

The MPC retains the CBR at 7.00%

The Monetary Policy Committee (MPC) met on November 29, 2021, against a backdrop of the global COVID-19 (coronavirus) pandemic, continued rollout of vaccination programmes, other measures taken by authorities around the world to contain its spread and impact.

The recently released GDP data indicates that the Kenyan economy rebounded strongly in the 1st half of 2021, mainly reflecting the recovery in economic activity following the easing of COVID-19 restrictions. In particular, real GDP grew by 10.1% in Q2, 2021 compared to a contraction of 4.7% in Q2, 2020. This reflects the strong recovery of the services sector particularly in transport and storage, education, information and communication, wholesale and retail trade, and the improved performance of the construction and manufacturing sectors. Leading economic indicators point to a continuing recovery in the 2nd half of 2021 also boosted by the full reopening of the economy.

On that note, the Committee concluded that the current accommodative stance remains appropriate, and retained the Central Bank Rate at 7.00%. Looking at regional MPCs, Rwanda and Nigeria held their rates constant while South Africa, Zambia and Ghana increased their benchmark rates in their November meetings.

Inflation

Inflation dips for the 2nd consecutive month

Headline inflation fell to 5.80% in November 2021 compared to 6.45% recorded in the month of October 2021. The Food and Non-Alcoholic Drinks index rose by 0.91% in November compared to the 1.11% increase recorded in October.

This was contributed by increase in prices of sugar, cooking oil and Irish potatoes by 11.94 %, 5.74% and 3.34%, respectively, which outweighed the decreases in the prices of others.

Over the review period, the Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 0.49%. This was mainly attributed to the increase in prices of cooking gas (LPG) and house rent for single rooms that went up by 3.88% and 0.53 %, respectively.

During the same period, prices of electricity (50 kilowatts) and electricity (200 kilowatts) decreased by 0.39% and 0.29%, respectively. There was also a notable decrease in bus fares of country public service vehicles.

The Currency

The Shilling has weakened by 3.04% against the USD year to date

In the month of November, pressure continued to pile on the KES which weakened by 1.15% against the USD for the 5th consecutive month to close at KES 112.49, from KES 111.21 in October. 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 8.773 bn equivalent to 5.36 months of import cover as at 25th November 2021.

The Shilling has weakened year to date by 3.04% 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.

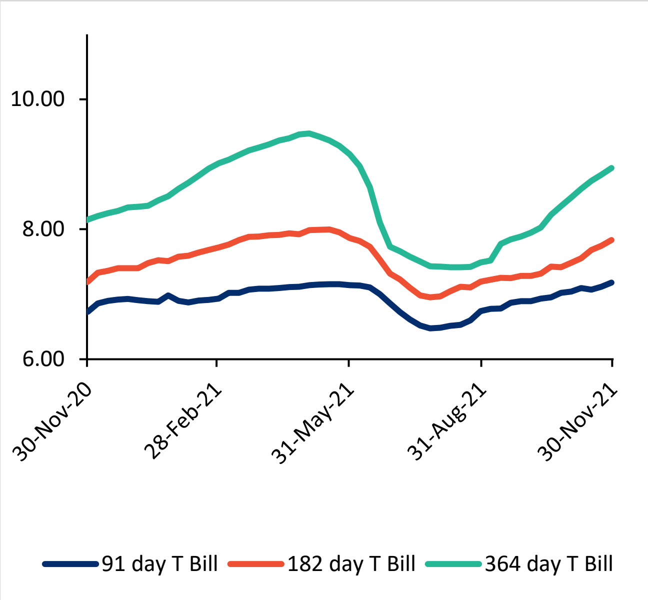
Kenya Shilling Performance	Nov-21	Oct-21	YTD
USD	(1.15%)	(0.66%)	(3.04%)
Sterling Pound	1.87%	(2.22%)	(1.18%)
Chinese Yuan	(1.37%)	(1.75%)	(5.33%)
Japanese Yen	(1.19%)	1.20%	6.41%
Uganda Shilling	0.81%	0.14%	5.06%

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

Fixed Income Performance

T-bill yields rose in the month of November

During the month under review, average yields on the 91-day paper, the 182-day paper and the 364- day paper rose by 15 bps, 30 bps and 59 bps to close at 7.18%, 7.84% and 8.94%, respectively. Overall subscription also went up to 87.92% on average from 57.93% observed in October 2021.



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

In November, the Central Bank issued a new bond FXD1/2021/5 and reopened FXD1/2019/20 seeking to raise KES 50 bn for budgetary support. The auction was oversubscribed at 168.34%. The Central Bank received bids worth KES 84.17 bn and accepted KES 69.51 bn resulting in an acceptance ratio of 82.57%.

The weighted average rate of accepted bids for the bonds came in at 11.277% and 13.408%, respectively, while the coupon rates were 11.277% and 12.873%, respectively. The bonds are subject to a withholding tax rate of 10%.

Secondary bond turnover marginally increased by 0.25% in November to KES 63.80Bn from KES 63.64 bn in October.

Elsewhere in the continent, Egypt remains the country with the highest T-bill yields with the 91 Day paper yielding 12.2%.

Equities Market Performance

NSE benchmark indices closed in red

In the month of November, the indices were on a downward trend. NASI, NSE25 and NSE 20 lost by 7.90%, 5.67% and 4.59%, respectively. This was attributable to price downturns recorded by large caps such as Safaricom and EABL of 11.33% and 7.83%, respectively.

Foreign investors remained net sellers, with net outflows of KES 4.29 bn from a net selling position of KES 1.02 bn recorded in October.

Despite this, equities turnover in the month increased by 51.60% to KES 15.57bn from KES 10.27 bn.

The identification of a new Covid-19 variant (Omicron) in South Africa led to weakness in stocks across the globe. The S&P 500 declined by 2.9% from its peak on 8th November. The MSCI Emerging Markets Index declined by 5.2% from its peak on 12th November.

Global Markets

Markets pull back on the uncertainty of the new Covid19 variant

Uncertainty over the new Omicron variant caused global equities indices to pull back on fears that the Omicron strain could weigh on the global economic growth and contribute to supply chain disruptions.

This, coupled with the Fed's commentary on a possible quicker tapering of assets due to inflationary concerns punctured risk sentiment in the fixed income market. Bond investors de-risked during the month with the junk papers seeing heavy sell-offs. Additionally, the treasury yields curve flattened as government yields fell and the US dollar rallied.

Meanwhile, oil prices fell in November but are still trading near multi-year highs after topping out at nearly $85 a barrel. In parallel effort with other major energy-consuming nations, President Biden announced the release of 50 million barrels from the U.S. Strategic Reserve to "lower prices for Americans and address the mismatch between demand exiting the pandemic and supply." Crude was down 20% in November but still up 38% for the year.

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