Madison Investment Managers
December 2021 Economic Highlights
Issue 12-21

MADISON Investment Managers

Economic Update

Kenya's Economy is Showing Resilience as Output Rises to Pre-Pandemic Levels

According to the World Bank, Kenya's economy has demonstrated resilience to the Covid-19 shock supported by a recovery of output in the first half of 2021, above pre-pandemic levels. The rebound was supported by growth in the industry, and more pronounced in the services sector (particularly education). Agricultural output, however, fell by 0.5% partly due to below-average rains in the year.

Demand-side recovery has been supported by a revival in private consumption, against a backdrop of improving employment conditions and household incomes. Forecasts on Kenya's 2021 GDP growth feature the country as one of the faster recoveries among Sub-Saharan African countries; with the World Bank and the International Monetary Fund (IMF) having growth expectations of 5% and 5.9%, respectively. Vaccine distribution has also continued to pick up and as of 5th December 2021, Kenya had a received a total of 16.2 million vaccines with about 10% of adults fully vaccinated while another 16% had received their first doses.

Going forward into 2022, growth is expected to be broad-based predicated on the continued adaptation of economic activities to the pandemic, vaccine rollout, sufficient rains and recovery of global activity. Private consumption is expected to support aggregate demand while fiscal consolidation measures are expected to reduce debt vulnerabilities and support investor confidence and private sector credit growth. Elsewhere; Angola, Nigeria, and South Africa, are expected to grow by 0.4%, 2.4%, 4.6%, respectively. The rest of Sub-Saharan Africa region is expected to rebound at a growth rate of 3.6% in 2021.

Inflation

Inflation dips for the 3rd consecutive month

Headline inflation fell to 5.73% in December 2021 compared to 5.80% recorded in the month of November 2021 due to eased food prices. The food inflation index declined to 9.1% from 9.9% in November. This is attributed to a decline in prices of tomatoes, kales (sukuma wiki) and carrots by 4.00%, 1.00% and 0.97%, respectively, which outweighed the increase in the prices of others.

Over the review period, the Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 0.60%. This was mainly attributed to the increase in prices of electricity (50 kilowatts) and electricity (200 kilowatts) that went up by 2.62% and 1.90%, respectively. During the same period, the Transport Index increased by 1.11% mainly due to increase in bus fares of country public service vehicles.

The Currency

The Shilling weakened by 3.6% against the USD year in 2021

In the month of December, pressure continued to pile on the KES which weakened (by 0.58%) against the USD for the 6th consecutive month to close at KES 113.14, from KES 112.49 in November. 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 8.82 bn equivalent to 5.4 months of import cover as at 30th December 2021.

The Shilling has weakened year to date by 3.64% 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. Demand for imports.
ii. Surge in new Covid-19 variants
iii. Reduced portfolio inflows
iv. Upcoming foreign debt interest payment
v. Hawkish central bank policy in developed markets which may spark capital outflows from emerging markets.

Kenya Shilling Performance	Dec-21	Nov-21	YTD
USD	(0.58%)	(1.15%)	(3.64%)
Sterling Pound	(1.30%)	1.87%	(2.49%)
Chinese Yuan	(0.73%)	(1.37%)	(6.09%)
Japanese Yen	0.84%	(1.19%)	7.20%
Uganda Shilling	1.22%	0.81%	6.22%

**CBK, Madison Investment Managers Limited (MIML) Research)*

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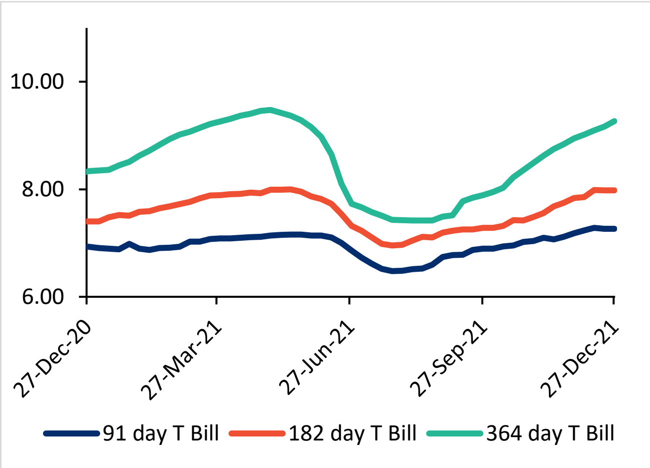
Fixed Income Performance

T-bill yields sustained upward momentum in December

During the month under review, average yields on the 91-day paper, the 182-day paper and the 364- day paper rose by 16 bps, 29 bps and 41 bps to close at 7.26%, 7.95% and 9.13%, respectively. Overall subscription, however, declined to 68.71% on average from 87.92% observed in November 2021.



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

In December, the Central Bank reopened two bonds; FXD4/2019/10 and FXD1/2018/20 seeking to raise KES 40 bn for budgetary support. The auction was oversubscribed at 102.94%. The Central Bank received bids worth KES 41.18 bn and accepted KES 37.83 bn resulting in an acceptance ratio of 91.87%.

The weighted average rate of accepted bids for the bonds came in at 12.642% and 13.366%, respectively, while the coupon rates were 12.280% and 13.200%, respectively. The bonds are subject to a withholding tax rate of 10%.

Secondary bond turnover decreased by 19.37% in December to KES 51.44Bn from KES 63.80Bn in November.

Looking at the Emerging Market bonds, South Africa's bonds delivered the best performance in 2021 with a total USD return of 8.7%. This is despite the nation being the first to identify the omicron variant in November.

Equities Market Performance

NSE benchmark indices closed in green

In the month of December, the indices were on an upward trend. NASI, NSE25 and NSE 20 gained by 1.56%, 3.04% and 1.67%, respectively. This was attributable to price upturns recorded by large caps such as EABL, Equity and KCB of 7.84%, 7.65% and 4.72%, respectively.

Foreign investors remained net sellers, with net outflows of KES 2.87 bn from a net selling position of KES 4.29 bn recorded in November.

Equities turnover in the month decreased by 32.87% to KES 10.45bn from KES 15.57bn.

As at December 2021, the Nigerian (NGX) All-Share Index went up by 6.07% to close the year at 42,716.44 points, thus surpassing the nation's Gross Domestic Product (GDP) by 2.04%.

Global Markets

Hawkish Tones Continue to Strengthen

Following the persistent rise in inflation in key economies over the past few months, Central Banks have adopted hawkish tones as they move in/prepare to tame price growth.

The US Federal Reserve has signalled that it may begin to hike rates as soon as the bond-buying program ends in March 2022. This comes after last month's inflation soared to 5.7%, the sharpest rise since 1982. The European Central Bank on the other hand, will likely hike rates in 2023 as the current spike in prices is viewed to be temporary.

The Bank of England (BoE) became the first G7 economy to hike interest rates since the onset of the pandemic. During the month, the BoE raised borrowing costs by 15 basis points to 0.25% as inflationary pressures proved to be more persistent than transitory. Similarly, Russia's central bank raised the benchmark rate by 100 basis points as it strives to restrain inflation which is double its 4% target.

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