Madison Investment Managers
January 2022 Economic Highlights
Issue 01-22

MADISON Investment Managers

Economic Update

The MPC retains the Central Bank Rate (CBR) at 7.0%

The Monetary Policy Committee (MPC) met on 26th January 2022 for the first time this year to review the outcome of its previous decisions, including measures implemented to mitigate the adverse economic effects and financial disruptions from the pandemic.

The MPC noted that as per the most recent GDP data, the economy had rebounded by 9.9% in the third quarter, confirming that recovery in 2021 was strong. Growth in 2022 is expected to remain strong supported by robust performance in the services sector, recovery in agriculture and an improvement in global demand. Inflation is expected to remain within the target range in the near term, with muted demand pressures and the impact of Government measures to lower electricity tariffs and stabilize fuel prices.

The MPC reported that the banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios. Lending to the private sector also improved with credit growth rising to 8.6% in December 2021 from 7.8% in October. Thus, on the backdrop of the observations noted above, the MPC decided to retain the Central Bank Rate at 7.0%. Elsewhere in Africa, Central Banks in economies such as Ghana and Tanzania held rates, while South Africa and Zimbabwe hiked rates given that both economies are facing upward pressures to inflation.

Inflation

Inflation dips for the 4th consecutive month

Headline inflation declined to 5.39% in January 2022 compared to 5.73% recorded in the month of December 2021, following a decline in the cost of electricity after the Ministry of Energy effected a partial 15.0% reduction in power tariffs, partly fulfilling the commitment made by the President. The next 15.0% will be effected in this quarter and will be valid till December 2022.

The food inflation index rose by 1.07% between December 2021 and January 2022 due to seasonal factors. The prices of maize flour, *sukuma wiki* and Spinach rose by 6.41%, 5.69% and 5.66%, respectively, outweighing price decreases in other food items.

Over the review period, the Housing, Water, Electricity, Gas and Other Fuels' Index, decreased by 0.75% on reduced cost of electricity. During the same period, the Transport Index decreased by 0.11% as fuel prices remained unchanged.

The Currency

The Shilling has weakened by 0.38% against the USD so far in 2022

In the month of January, pressure continued to pile on the KES which weakened by 0.38% against the USD to close at KES 113.57, from KES 113.13 in December 2021. The depreciation is attributable to strong dollar demand from importers in the energy and manufacturing sectors amid with weak capital inflows.

As at 27th January 2022, the Central Bank of Kenya (CBK) held an adequate forex reserves position of USD 8.29 bn equivalent to 5.07 months of import cover. Although the Shilling has weakened against the USD and major global currencies, it has strengthened against some regional currencies.

Going forward, we view key risks to the KES to be:

i. High import bill outweighing export revenue
ii. Surge in new Covid-19 variants
iii. Reduced portfolio inflows
iv. Upcoming foreign debt interest payment
v. Anticipated interest rate hikes in developed markets which may lead to capital outflows from emerging and frontier markets.

The South African Rand emerged as the best performing currency in Africa, gaining 3.45% against the US Dollar in the month.

Kenya Shilling Performance	Jan-22	Dec-21	YTD
USD	(0.38%)	(0.58%)	(0.38%)
Sterling Pound	(0.33%)	(1.30%)	(0.33%)
Chinese Yuan	(0.59%)	(0.73%)	(0.59%)
Japanese Yen	(0.10%)	0.84%	(0.10%)
Uganda Shilling	1.31%	1.22%	1.31%

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

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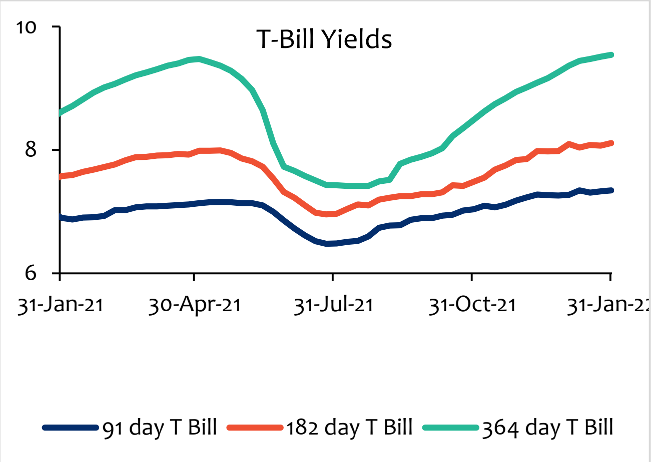
Fixed Income Performance

T-bill yields sustained upward momentum in January

During the month under review, average yields on the 91-day paper, the 182-day paper and the 364- day paper rose by 6 bps, 13 bps and 33 bps to close at 7.34%, 8.11% and 9.54%, respectively. Overall subscription also improved to 102.60% on average from 68.71% observed in December 2021.



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

In January, CBK had two auctions; a re-open of FXD1/2020/5 on 5th and a re-open of FXD2/2018/10 & FXD1/2021/20 on the 19th of January. The purpose was to raise to KES 30 bn per auction for budgetary support. The respective auctions were oversubscribed at 94.64% and 128.04%. In the 1st auction, the CBK received bids worth KES 28.39bn and accepted KES 27.43bn (96.61% acceptance rate), and as for the 2nd auction, the CBK received bids worth KES 38.41bn and accepted KES 34.90bn (90.86% acceptance rate).

The weighted average rate of accepted bids for the three bonds came in at 11.234%, 12.561% and 13.792%, respectively, while the coupon rates were 11.667%, 12.502% and 13.444%, respectively. The FXD1/2020/5 is subject to a withholding tax rate of 15% while 10% applies to the remaining two.

Secondary bond turnover decreased by 9.00% in January 2022 to KES 46.81bn from KES 51.44bn in December 2021.

Equities Market Performance

NSE benchmark indices closed January in red

In the month of January, the indices were on a downward trend. The NASI, NSE25 and NSE 20 shed by 1.90%, 1.70% and 0.70%, respectively. This was attributable to losses recorded by large caps such as Safaricom, Equity and KCB of 2.77%, 4.27% and 0.99%, respectively. EABL closed the month flat on the back of strong earnings.

Foreign investors remained net sellers, with net outflows of KES 0.42 bn from a net selling position of KES 2.87 bn recorded in December 2021.

Equities turnover in the month also decreased by 21.12% to KES 8.24bn from KES 10.45bn in December 2021.

In the rest of Africa, Nigerian equities had a good run in the month, with the All Share Index gaining 8.14% in USD terms.

Global Markets

Lower growth expectations for the global economy

In the month, the International Monetary Fund (IMF) issued an update to its previous World Economic Outlook issued in October 2021. According to the new outlook, the global economy is entering 2022 in a weaker position than initially projected.

Rising energy prices and supply chain disruptions have resulted in higher and more broad-based inflation than anticipated, notably in the U.S and many emerging economies. Global growth is estimated to moderate to 4.4% in 2022, half a percentage point lower than the previous estimates.

The revision comes as central banks withdraw monetary accommodation early in attempts to arrest inflation which is being fuelled by volatile energy prices and localized wage pressures. The continued spread of the Omicron Covid-19 variant has led to the re-imposition of travel restrictions in most countries.

The IMF expects the US Fed Reserve to cease asset purchases in March 2022 and follow with three rate increases in 2022 and 2023. These policy changes could result in tighter financial market conditions.

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