Madison Investment Managers
February 2022 Economic Highlights
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Economic Update

Kenya faces an economic downturn amid election concerns

Kenya's growth outlook for 2022 remains strong but has seen marginal downward revisions from major global economists as investors pull back following concerns of political risks linked to the elections set to be held in August. Further, the growing external debt service costs are causing some concern among investors.

A compounded view from fourteen global banks and consultancies informed that Kenya's growth outlook might decline from the previously projected 5.4% to 5.3% in the year 2022. They further anticipate that the state's economy will grow at a slightly slower rate of 5.2% in the coming year as the shift in government takes place after the elections.

The Economist Intelligence Unit (EIU) noted that political uncertainty surrounding proposed constitutional reforms and the next elections in 2022 could also dent confidence. The downgrade is notably on the weight of US-owned Moody's Analytics whose economists axed down Kenya's growth outlook to 6.2% this month from 8.6% earlier.

Additionally, Fitch - a provider of credit ratings - warned that at least ten African countries faced the risk of credit rating downgrades due to the rising government debt levels. Some of the countries on this list were Ghana, Rwanda, Uganda and Kenya amongst others.

Inflation

Inflation dips for the 5th consecutive month

Headline inflation declined to 5.1% in February 2022 compared to 5.4% recorded in the month of January 2022 due to eased food prices. The annual food inflation index declined to 8.7% from 9.1% in January.

On a month-to-month basis, Food and Non-Alcoholic Beverages Index increased by 0.8% as prices of cooking fat, capsicums, potatoes (Irish) and maize flour-sifted increased by 5.2%, 3.7%, 2.6% and 2.3%, respectively, outweighing price decreases in other food items.

Over the review period, the Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 0.12% with the average monthly house rent for a single room surging upwards by 0.2%.

Similarly, the Transport Index increased marginally by 0.1% as fuel prices remained unchanged.

The Currency

The Shilling has weakened by 0.61% against the USD so far in 2022

In the month of February, pressure continued to pile on the KES which weakened by 0.23% against the USD to close at KES 113.84, from KES 113.57 in January 2022. The depreciation is largely attributable to the strengthening of the US Dollar due to global demand for safe haven due to the rise in geopolitical risks between Russia and Ukraine which also weighed on other Sub-Saharan Africa currencies.

As at 25th February 2022, the Central Bank of Kenya (CBK) held an adequate forex reserves position of USD 8.13 bn equivalent to 4.97 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.
vi. Growing geo-political risks from the Russian-Ukraine crisis.

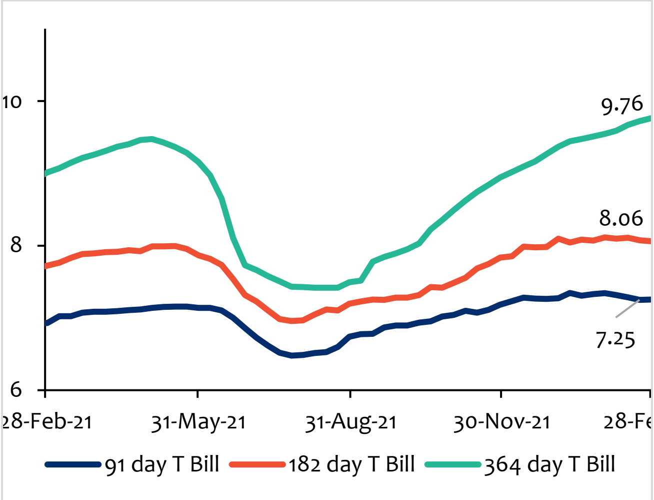
Kenya Shilling Performance	Feb-22	Jan-22	YTD
USD	(0.23%)	(0.38%)	(0.61%)
Sterling Pound	(0.08%)	(0.33%)	(0.41%)
Chinese Yuan	(0.96%)	(0.59%)	(1.55%)
Japanese Yen	(0.10%)	(0.10%)	(0.20%)
Uganda Shilling	(0.85%)	1.31%	0.47%

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

Fixed Income Performance

T-bill yields recorded mixed movements in the month

During the month under review, average yields on the 91-day paper fell by 4 bps to close at 7.25% while the 182-day paper and the 364- day paper rose by 1 bps and 22 bps to close at 8.06% and 9.76%, respectively. Overall subscription declined to 93.63% on average from 102.60% observed in January 2022.



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

In February, the CBK issued an infrastructure bond, IFB1/2022/19. The purpose was to raise to KES 75 bn for funding infrastructure projects in the FY 2021/22 budget estimates. The auction was oversubscribed at 176.34%. The CBK received bids worth KES 132.26bn and accepted KES 98.64bn, an acceptance rate of 74.58%

The weighted average rate of accepted bids for the bond came in at 12.965%, while the coupon rate was 12.965%. The bond is not subject to a withholding tax rate.

Secondary bond turnover increased by 14.91% in February to KES 53.79bn from KES 46.81bn in January 2022.

Eurobond yields of Africa sovereign debt jumped towards the end of the month as Russia invaded Ukraine, causing investors to flee to safe-haven bonds in developed markets. Due to market conditions, Nigeria suspended its planned Eurobond issue.

Equities Market Performance

NSE benchmark indices closed February in red

In the month of February, the indices were on a downward trend. The NASI, NSE25 and NSE 20 shed by 1.86%, 1.60% and 0.14%, respectively. This was attributable to losses recorded by large caps such as Safaricom, EABL and Equity of 2.57%, 3.64% and 0.99%, respectively. KCB closed the month flat.

Foreign investors tuned net buyers in the month, with net inflows of KES 186.87 mn from a net selling position of KES 422.51 mn recorded in January 2022. Equities turnover in the month also increased by 20.92% to KES 9.97bn from KES 8.24bn in January 2022.

Some Frontier Africa markets ended the month in positive territory led by Zimbabwe's Industrials (+19.0%), Zambia (+9.6%) and West Africa (BVRM, +7.4%).

Global Markets

The Invasion of Ukraine by Russia

The long-standing conflict between Russia and Ukraine over two Ukraine's but Russian-backed separatist regions, Donetsk and Luhansk, came to a bust last week. On 24th February, Russia launched an attack against Ukraine, a war that has so far seen the death of 352 civilians and children.

In response, the West pushed Russia into political and economic isolation through a number of sanctions such as the exclusion of certain Russian banks from SWIFT (a global payment network), banning Russian aircrafts from airspaces and barring Russian financial institutions from making transactions in US Dollar.

These harsh sanctions sent the Russian Rouble plummeting nearly 30.0% and crude oil per barrel to USD 110.0. In an attempt to steady the financial markets and support the currency, Russia's central bank doubled the benchmark rate to 20.0%, citing that external conditions for the Russian Economy had drastically changed.

The fallout from the conflict has caused volatility in financial markets.

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