Madison Investment Managers
March 2022 Economic Highlights
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Economic Update

The MPC retains the Central Bank Rate at 7.0%

The Monetary Policy Committee (MPC) met on 29th March, against a backdrop of a changed global outlook with compounding geopolitical tensions, rising commodity prices, the COVID-19 pandemic and measures taken by governments around the world in response to these developments.

Three surveys conducted prior to the MPC meeting — CEOs Survey, Private Sector Market Perceptions Survey and the Survey of Hotels — portrayed continued positivity about employment, commercial activity and economic growth prospects for 2022. The optimism is attributed to decreasing COVID-19 infections and measures, anticipated favourable weather conditions and increased infrastructure spending.

Further, the Committee noted that inflation expectations remain well anchored and that leading economic indicators show improved performance. Following this, the MPC concluded that the current accommodative monetary policy stance remains appropriate, and therefore decided to retain the Central Bank Rate (CBR) at 7.00 percent.

Rate hikes were however seen is some African countries, as they sought to curb inflation; Ghana (+250 bps) to 17%, Egypt (+100 bps) to 9.75% and Zimbabwe (+2000 bps) to 80%.

Inflation

Inflation accelerates to a 3-month high of 5.6%

Due to high food prices, headline inflation rose to 5.6% in March 2022 compared to 5.1% recorded in the month of February 2022. The annual food inflation index escalated to 9.9% from 8.7% in February.

On a month-to-month basis, Food and Non-Alcoholic Beverages Index increased by 1.5% as prices of cooking oil, wheat flour (white) and tomatoes increased by 6.5%, 4.5% and 4.2%, respectively; outweighing price decreases in other food items.

Over the review period, the Furnishings, Household Equipment and Routine Household Equipment Index, rose by 1.4%. This was due to an increase in prices of laundry/bar soap and detergents. Similarly, the Transport Index increased by 0.6% as the prices of petrol and diesel leaped by 3.8% and 4.5%, respectively.

The Currency

The Shilling has weakened by 1.6% against the USD so far in 2022

In the month of March, pressure continued to pile on the KES which weakened by 1.0% against the USD to close at KES 114.95, from KES 113.84 in February 2022. The depreciation is largely attributable to the strengthening of the greenback owing to a heightened global demand for the safe haven due to the rise in geopolitical risks between Russia and Ukraine.

As at 31st March 2022, the Central Bank of Kenya (CBK) held an adequate forex reserves position of USD 7.8 bn equivalent to 4.7 months of import cover. Although the Shilling has weakened against the USD and major global currencies, it has strengthened against some currencies.

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

i. High import bill, outweighing export revenue
ii. New Covid-19 variants
iii. Upcoming foreign debt interest payment
iv. Interest rate hikes in developed markets which have been leading to capital outflows from emerging and frontier markets.
v. Effects of the Russian-Ukraine crisis on global trade

Kenya Shilling Performance	Mar-22	Feb-22	YTD
USD	(0.98%)	(0.23%)	(1.60%)
Sterling Pound	1.02%	(0.08%)	0.61%
Chinese Yuan	(0.42%)	(0.96%)	(1.98%)
Japanese Yen	4.23%	(0.10%)	4.04%
Uganda Shilling	(0.23%)	(0.85%)	0.24%

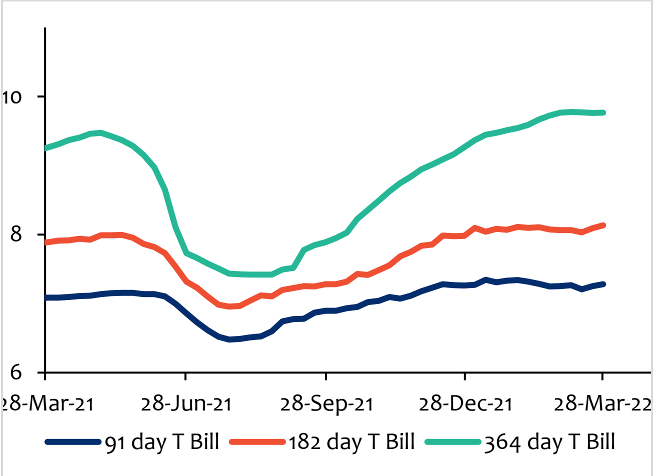
**CBK, Madison Investment Managers Limited (MIML) Research)*

So far in 2022, the Ghanian Cedi has depreciated by 18% against USD; this has made it the worst performing African currency in the 1st quarter of the year.

Fixed Income Performance

T-bill yields recorded mixed movements in the month

During the month under review, average yields on the 91-day and 182-day papers fell by 3 bps and 1 bp to close at 7.25% and 8.08%, respectively. Meanwhile, the 364-day paper rose by 8 bps to close at 9.77%. Overall subscription declined to 90.7% on average from 93.6% observed in February 2022.



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

In March, the Central Bank reopened three bonds; FXD1/2021/5, FXD1/2020/15 and FXD1/2021/25 seeking to raise KES 50 bn for budgetary support. The bonds are subject to a withholding tax rate of 15%, 10% and 10%, respectively. The auction was undersubscribed at 81.9%. The Central Bank received bids worth KES 40.9 bn and accepted KES 18.5 bn resulting in an acceptance ratio of 45.1%.

The weighted average rate of accepted bids for the bonds came in at 11.997%, 13.732% and 13.973%, respectively, while the coupon rates were 11.277%, 12.756% and 13.924%, respectively.

Secondary bond turnover increased by 14.9% in February to KES 53.8bn from KES 46.8bn in January 2022.

In other markets, Nigeria raised $1.25 Bn through the issuance of a 7-yr Eurobond. The issue was oversubscribed at 2x and was priced at a yield of 8.38% p.a. in USD.

Equities Market Performance

NSE benchmark indices closed March in red

In the month of March, the indices were on a downward trend. The NASI, NSE25 and NSE 20 shed by 2.8%, 1.6% and 2.1%, respectively. This was attributable to losses recorded by large caps such as Safaricom, EABL and Equity of 5.7%, 5.0% and 2.1%, respectively.

Foreign investors tuned net sellers in the month, with net outflows of KES 1.45 bn from a net buying position of KES 186.9 mn recorded in February 2022. Equities turnover in the month also decreased by 13.7% to KES 8.6bn from KES 10.0bn in February 2022.

Global Markets

Factory activities plummet as war angst intensifies

Global factory activity slowed in March as Russia's invasion of Ukraine tightened supply chain bottlenecks, reduced investors' confidence and dampened demand. The fallout from the invasion also triggered spikes in energy costs, which drove a broader surge in commodity prices.

Uncertainty caused by the invasion, combined with an ongoing inflation crisis, suggests that the euro zone's manufacturing industry could slide into a recession. The S&P Global final manufacturing Purchasing Managers' Index (PMI) for the euro zone fell to a 14-month low of 56.5 in March from February's 58.2. This was below an initial estimate of 57.0 but still above the 50-mark that separates growth from contraction.

Additionally, China's manufacturing purchasing managers' index (PMI) contracted in March, as clusters of COVID-19 outbreaks hit many places across the country and global geopolitical instability also affected demand. The National Bureau of Statistics (NBS) informed that the PMI had retreated to 49.5, down 0.7 points from the previous month.

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