Madison Investment Managers
April 2022 Economic Highlights
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Economic Update

Global shocks present challenges to local and regional economic rebound

On 25th April 2022, the International Monetary Fund (IMF) staff and the National Treasury announced that they had reached a staff-level agreement on economic policies to conclude the third review of the ongoing 38-month IMF program in the country. The agreement, subject to the approval of IMF management and the Executive Board, is expected to unlock financial support of USD 244mn.

According to the press release (PR), Kenya's economy has been posting a notable recovery from the effects of the Covid-19 pandemic. However, spillovers from the Ukraine war are expected to cause a transitory rise in inflation as local retail fuel prices gradually rise to global levels. Additionally, the PR updated that Kenya is on track to meet its fiscal objectives and reduce debt-related pressures, supported by a strong tax revenue performance, a more robust economic recovery and changes in tax policy measures.

In the Sub-Saharan Africa region, the IMF expects economic activity to slow down due to shocks emanating from global commodity markets. In view of rising global oil prices, 8 of the region's oil exporters are expected to generate a windfall gain while the other 37 countries will likely suffer trade imbalances and increased cost of living.

Inflation

Inflation spikes sharply to a 7-month high of 6.5%

Due to rising commodity prices, headline inflation rose to 6.5% in April 2022 compared to 5.6% recorded in the month of March 2022. The annual food inflation index spiked to 12.2% from 9.9% in March.

On a month-to-month basis, Food and Non-Alcoholic Beverages Index increased by 3.0% as prices of potatoes, packed cow milk and white wheat flour increased by 10.2%, 6.3% and 6.1%, respectively; outweighing price decreases in other food items.

Over the review period, the Housing, Water, Electricity, Gas and Other Fuel's Index increased by 0.7% due to a rise in the prices of kerosene and house rent by 9.5% and 0.2%, respectively.

The Transport Index increased by 2.8% as the prices of petrol and diesel leaped by 7.3% and 8.5%, respectively.

The Currency

The Shilling has weakened by 2.2% against the USD so far in 2022

In the month of April, pressure continued to pile on the KES which weakened by 0.6% against the USD to close at KES 115.65, from KES 114.95 in March 2022. The depreciation is largely attributable to the strengthening of the greenback owing to a heightened global demand. Locally, demand from the energy and manufacturing sectors exerted weakening pressure on the Shilling.

As at 27th April 2022, the Central Bank of Kenya (CBK) held an adequate forex reserves position of USD 8.4 bn equivalent to 5.0 months of import cover. Although the Shilling has weakened against the USD, it strengthened against some major global and local currencies during the month.

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 resulting in capital outflows from emerging and frontier markets.
v. Effects of the Russian-Ukraine crisis on global trade

Kenya Shilling Performance	Apr-22	Mar-22	YTD
USD	(0.61%)	(0.98%)	(2.22%)
Sterling Pound	3.33%	1.02%	3.92%
Chinese Yuan	3.20%	(0.42%)	1.28%
Japanese Yen	5.51%	4.23%	9.33%
Uganda Shilling	1.40%	(0.23%)	1.64%

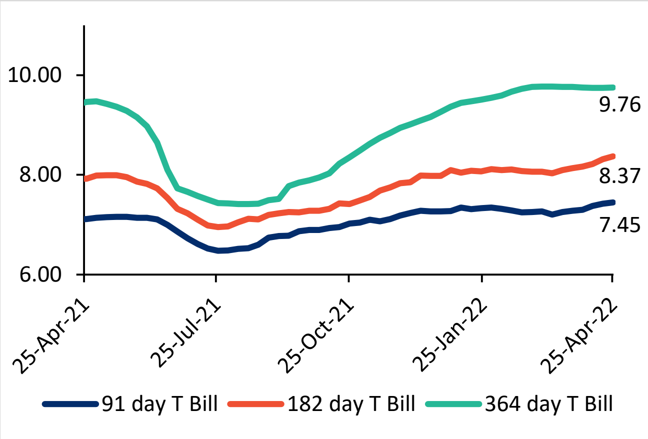
**CBK, Madison Investment Managers Limited (MIML) Research)*

In April, the South African Rand depreciated by 8.1% against the USD as a result of severe power cuts and devastating floods in the country which have left investor confidence dampened.

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 rose by 14 bps and 19 bps to close at 7.39% and 8.27%, respectively. The 364-day paper yield, on the other hand, declined by 2 bps to close at 9.75%. Overall subscription declined to 59.4% on average from 90.7% observed in March 2022.



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

In April, the Central Bank issued two bonds; FXD1/2022/3 and FXD1/2022/15, seeking to raise a total of KES 70bn for budgetary support. The respective auctions subscription rates came in at 85.11% and 108.49%. In the 3-year auction, the Central Bank received bids worth KES 34.05bn and accepted KES 33.14bn. In the 15-year auction, the Central Bank received bids worth KES 32.55bn and accepted KES 27.64bn.

The weighted average rate of accepted bids for the two bonds came in at 11.77% and 13.94%, respectively, while the coupon rates were 11.77% and 13.94%, respectively. The FXD1/2022/3 and FXD1/2022/15 are subject to a withholding tax rate of 15.0% and 10.0%, respectively.

Secondary bond turnover decreased by 18.1% in April to KES 70.9bn from KES 86.5bn in March 2022.

In other markets, Angola raised $1.75bn in a 10-yr Eurobond issue priced at 8.75%. South Africa also raised $3.0bn in a 10-yr and 30-yr Eurobond issue that priced the papers at 5.88% and 7.30%, respectively.

Equities Market Performance

NSE benchmark indices closed April down

In the month of April, the indices were on a downward trend. The NASI, NSE 25 and NSE 20 shed by 3.6%, 5.1% and 2.5%, respectively. This was attributable to losses recorded by large caps banks such as Absa Bank, KCB and Standard Chartered of 19.8%, 15.0% and 10.6%, respectively, all of which had their dividend book closures within the month.

Foreign investors maintained their net selling position in the month, with net outflows of KES 1.7 bn relative to outflows of KES 1.5bn recorded in March 2022. Equities turnover in the month also decreased by 38.8% to KES 5.8bn from KES 9.5bn in March 2022.

Global Markets

IMF says global economic prospects have deteriorated due to Russia's invasion of Ukraine

During the month, the IMF issued an update to the World Economic Outlook it previously issued in January projecting that the global economy will expand by 3.6% in 2022. This is a downward revision from its previous forecast of a 4.4% growth, due to the direct impact of war in Ukraine and sanctions on Russia, and global spillovers.

Notably, since the invasion, first-hand shocks have already been felt via rising commodity prices, supply chain disruptions, significant rise in inflation and monetary policy tightening. Inflation, in particular, is expected to remain elevated driven by the rise in commodity prices as well as broad-based price pressures.

China's economic growth is expected to slow down this year because of renewed Covid-19 infections which have led to the re-introduction of restrictions and lockdowns. Key manufacturing and trading hubs such as Shanghai and Shenzhen were affected in recent lockdowns and will likely compound supply disruptions in other parts of the world.

Regionally, Sub-Saharan Africa is expected to grow by 3.8% weighed down by higher food prices coupled with social and political turmoil, most notably in West Africa.

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