Madison Investment Managers
May 2022 Economic Highlights
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MADISON
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Economic Update

The MPC hikes the CBR by 50 bps to 7.50%

The Monetary Policy Committee (MPC) met on 30th May, against a backdrop of a changed global outlook, with elevated global inflationary pressures, heightened geopolitical tensions, rising commodity prices, the COVID-19 pandemic and measures taken by governments around the world in response to these developments.

The Committee noted that the global economic outlook had become more uncertain, reflecting the impact of the Russian-Ukraine conflict, uncertainty about the required policy responses in the advanced economies, effects of China's Covid-Zero policy, and persistent supply chain disruptions. The Committee noted that the ongoing Russian-Ukraine war as well as other global disruptions had an adverse impact on the Kenyan economy through increases in commodity prices, particularly fuel, wheat, edible oils and fertiliser.

In light of elevated risks to the inflation outlook, the Committee concluded that there was scope for a tightening of the monetary policy in order to anchor inflation expectations. Therefore, the MPC decided to raise the Central Bank Rate (CBR) by 50 basis points (bps) from 7.00% to 7.50%

Due to rising inflation risks, we also saw other African countries hike rates in the month; Ghana (+200 bps) to 19.00%, Egypt (+150 bps) to 11.25%, Nigeria (+150 bps) to 13.00% and South Africa (+50 bps) to 8.25%.

Inflation

Inflation spikes sharply to a 27-month high of 7.1%

Driven by surging consumer prices, headline inflation rose sharply to 7.1% in May 2022 compared to 6.5% recorded in the month of April 2022. The annual food inflation index spiked to 12.4% from 12.2% the previous month.

On a month-to-month basis, Food and Non-Alcoholic Beverages Index increased by 1.3% as prices of maize flour, cooking fat and cooking oil (salad) increased by 6.9%, 6.1% and 5.3%, respectively; outweighing price decreases in other food items.

Over the review period, the Housing, Water, Electricity, Gas and Other Fuel's Index increased by 0.6% due to a rise in the price of kerosene by 4.8%.

The Transport Index also increased by 0.8% as the prices of diesel and petrol jumped by 4.4% and 3.8%, respectively.

The Currency

The Shilling has weakened by 3.2% against the USD so far in 2022

In the month of May, pressure continued to pile on the KES which weakened by 0.9% against the USD to close at KES 116.74, from KES 115.65 at the start of the month. The depreciation was largely attributable to the strengthening of the US Dollar owing to a heightened global demand. The greenback has gained 6.4% this year. Locally, demand for imports has exerted weakening pressure on the Shilling.

As at 26th May 2022, the Central Bank of Kenya (CBK) held an adequate forex reserves position of USD 8.2bn equivalent to 4.9 months of import cover. We noted the Shilling exhibited weakness against the USD as well as 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. Interest rate hikes in developed markets resulting in capital outflows from emerging and frontier markets
iii. Upcoming foreign debt interest payment
iv. New Covid-19 variants
v. Effects of the Russian-Ukraine crisis on global trade

Kenya Shilling Performance vs:	May-22	Apr-22	YTD
USD	(0.94%)	(0.61%)	(3.18%)
Sterling Pound	(0.93%)	3.33%	3.03%
Chinese Yuan	0.09%	3.20%	1.37%
Japanese Yen	(2.57%)	5.51%	6.99%
Uganda Shilling	(4.93%)	1.40%	(3.21%)

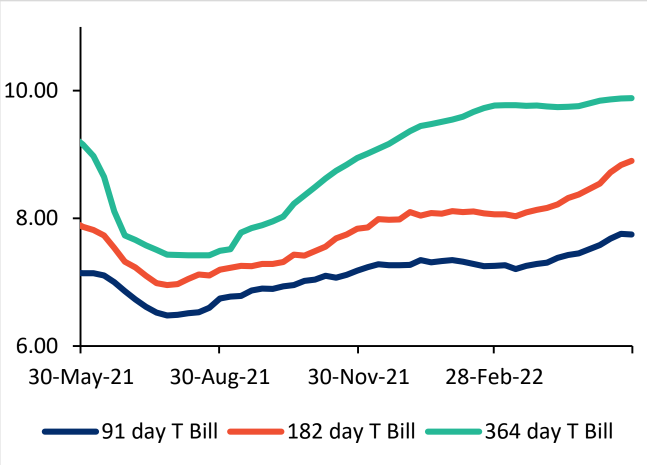
**CBK, Madison Investment Managers Limited (MIML) Research)*

According to World Bank, remittance inflows to Sub-Saharan Africa are expected to grow by 7.1% in 2022 from USD 49bn in 2021. Remittances are one of the major sources of foreign exchange in the region.

Fixed Income Performance

T-bill yields were on an upward trend in the month

During the month under review, average yields on the 91-day, 182-day and 364-day papers rose by 30 bps, 48 bps and 12 bps to close at 7.69%, 8.75% and 9.87%, respectively. Overall subscription improved to 85.8% on average from 59.4% observed in April 2022.



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

In May, the Central Bank issued FXD1/2022/10 and re-opened FXD1/2021/25, seeking to raise a total of KES 60bn for budgetary support. The auction was undersubscribed at 71.86%. The CBK received bids worth KES 43.12bn and accepted KES 31.74bn, an acceptance rate of 73.61%

The weighted average rate of accepted bids for the bonds came in at 13.490% and 13.976%, respectively, while the coupon rates were 13.490% and 13.924%, respectively. The two bonds are subject to a withholding tax rate of 10.00%.

Secondary bond turnover decreased by 17.4% in May to KES 58.6bn from KES 70.9bn in April 2022.

Due to rising costs of borrowing in the international debt markets, Ivory Coast announced the postponement of plans to sell a Eurobond. Alternatively, the nation is planning to tap the regional debt market, targeting interest rates of no more than 6.0%.

Equities Market Performance

NSE benchmark indices closed in negative territory in May

In the month of May, the indices suffered heavy losses and closed in negative territory. The NASI, NSE 25 and NSE 20 shed by 14.3%, 9.7% and 6.6%, respectively. The performance was weighed down by heavy foreign net selling on large cap counters, especially on Safaricom which shed 22.9% in the month.

Foreign investors maintained their net selling position in the month, with net outflows rising to KES 4.2bn relative to outflows of KES 1.7bn recorded in April. Equities turnover in the month rose by 84.4% to KES 10.8bn from KES 5.8bn in recorded last month, reflecting an increase in selling activity.

Global Markets

Rate hike cycle picks up pace in developed markets

On account of accelerating inflation around the globe, major central banks have stepped up efforts in tightening monetary policy measures to curtail price growth. According to Bloomberg, more than 40 central banks around the world have raised rates by at least 50 basis points so far this year.

On May 4th, the US Federal Reserve Bank raised its benchmark interest rates by 50 bps, the second increase since March 2022, and is expected to further hike its rates by 0.5% in both June and July. Similarly, the European Central Bank is expected to begin raising rates in July as inflation in the Euro-area soared by 8.1% in the month of May.

Besides worries surrounding inflation, there are concerns of a slowdown in global economic activity. The Russian-Ukraine conflict is expected to weigh heavily on the recovery of consumer and business confidence. With the European Union considering a ban on Russian oil and petroleum products, the prospect of a further disruption to energy supply is looming. Additionally, China's Covid-19 crisis and lockdown measures have weighed on its economic performance this year, and spill over effects are likely to affect its trading partners.

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