Madison Investment Managers
July 2022 Economic Highlights
Issue 07-22

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Economic Update

MPC retains benchmark rate at 7.5%

The Monetary Policy Committee (MPC) met on 27th July and noted that its action of tightening the monetary policy in May 2022 was timely in anticipating emerging inflationary pressures, and its impact was still transmitting through the economy. This action was subsequently complemented by an additional package of fiscal measures by the government to moderate the prices of specific items such as fuel and maize flour. Additionally, the Committee noted that international commodity prices - particularly oil, wheat and edible oils - had begun to moderate. These developments were expected to ease domestic inflationary pressures in the near term and thus the MPC decided to maintain the Central Bank Rate (CBR) at 7.50%.

Economic growth is expected to remain strong. Leading economic indicators such as import demand and the Purchasing Mangers' Index point to a slowdown of economic growth beginning in April 2022.

We also saw other African countries such as Ghana retain their main interest rates on economic growth concerns. Conversely, Uganda and Nigeria raised their rates by 100bps to 8.5% and 14%, respectively, amidst surging inflation.

Inflation

Inflation hits 8.3% on soaring food and fuel prices

Inflation has been increasing every month for the last six months, moving further above the central bank's target band of 2.5% to 7.5%.

Driven by surging consumer prices, headline inflation for the month of July rose to 8.3% compared to 7.9% recorded in June 2022. The annual food inflation index spiked by 15.3% from 13.8% the previous month, while the transport index rose 7.0%.

On a month-to-month basis, Food and Non-Alcoholic Beverages Index jumped by 1.1% as prices of carrots maize and white rice increased by 13.0%, 9.7% and 4.2%, respectively; outweighing price decreases in other food items.

Over the review period, the Alcoholic Beverages, Tobacco and Narcotics Index also increased by 1.3% due to an increase in prices of beer.

Likewise, the Housing Household Equipment and Routine Household Maintenance Index went up by 1.1% as prices of laundry soap rose by 3.5%. On the other hand, the price of LPG cooking gas dropped 3.7%.

Countries such as Zambia and Uganda also reported an increase in inflation during the month of July.

The Currency

The Shilling has weakened by 4.8% against the USD so far in 2022

In the month of July, pressure continued to pile on the KES which weakened by 0.8% against the USD to close at KES 118.80, from KES 117.83 at the start of the month. The depreciation was largely attributable to the strengthening of the US Dollar owing to a heightened global demand. Locally, demand for imports has exerted weakening pressure on the Shilling.

As at 28th July 2022, the Central Bank of Kenya (CBK) held an adequate forex reserves position of USD 7.7bn equivalent to 4.5 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	Jul-22	Jun-22	YTD
USD	(0.82%)	(0.94%)	(5.00%)
Sterling Pound	0.47%	2.09%	5.50%
Chinese Yuan	(0.12%)	(0.53%)	0.73%
Japanese Yen	(2.55%)	4.67%	9.08%
Uganda Shilling	(2.23%)	1.19%	(4.26%)

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

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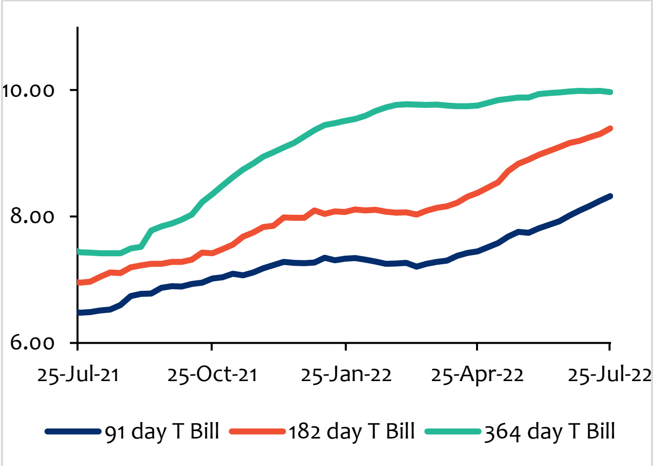
Fixed Income Performance

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 30bps, 22bps and 2bps to close at 8.21%, 9.29% and 9.98%, respectively. Overall subscription rose to 97.4% on average from 79.2% observed in June 2022.



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

In July, the Central Bank re-opened FXD2/2013/15 and FXD2/2018/15, seeking to raise a total of KES 40bn for budgetary support. The auction was under-subscribed at 26.4%. The CBK received bids worth KES 10.57bn and accepted KES 9.31bn - an acceptance rate of 88%.

The weighted average rate of accepted bids for the bonds came in at 13.214% and 13.888%, respectively, while the coupon rates were 12.00% and 12.75%, respectively. The two bonds are subject to a withholding tax rate of 10.00%.

Additionally, the government issued a tap sale for IFB1/2022/18 seeking to raise KES 20Bn at 13.742%. The tap sale was undersubscribed, attracting bids worth KES 6.4bn.

Secondary bond turnover declined by 5.6% in July to KES 60.9bn from KES 64.5bn in June 2022.

Equities Market Performance

NSE benchmark indices closed July in a positive stretch

In the month of July, the indices were on an upward trend. The NASI, NSE 25 and NSE 20 gained by 13.3%, 10.9% and 5.5%, respectively. This was attributable to price upticks across large cap counters such as Safaricom, EABL and Equity of 20.0%, 13.1% and 11.6%, respectively.

Foreign investors maintained their net selling position in the month, with net outflows coming to KES 3.0bn relative to outflows of KES 5.0bn recorded in June. Equities turnover in the month fell by 13.4% to KES 8.0bn from KES 9.2bn in recorded last month.

As at 31st July 2022, the Nigeria All Share Index went down by 2.82% as investors divested to the fixed income market following an increase in the monetary policy rate.

Global Markets

IMF slashes global GDP forecast & raises inflation projections

According to the latest IMF's World Economic Outlook update (July 2022); the global economy is now expected to grow 3.2% in 2022 before slowing to a 2.9% GDP rate in 2023 – marking a downgrade of 40bps and 70bps, respectively, from their projections reported in April.

IMF attributes this to a gloomy and more uncertain global outlook due to the anticipated slowdown in China – amid COVID 19 outbreaks and lockdowns; higher-than-expected inflation especially in the US & major European economies and negative spillovers from the war in Ukraine.

Additionally, IMF revised upwards their forecast on global inflationary numbers to 6.6% in advanced economies and 9.5% in emerging and developing economies. They further encouraged that taming elevated inflation should be the first priority to policymakers around the world. In the month of July, the US Fed hiked the benchmark rate by 75bps for the 2nd consecutive time. Similarly, the European Central Bank (ECB) raised key policy rates by 50bps. This was the first rate hike by ECB since 2011.

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Contact us:

Madison Investment Managers Limited
Madison House, Second Floor
P.O BOX 20092-00100, Nairobi
Tel: +254 20 2721340
Tel: +254 741 135660

www.madison.co.ke/investmentmanagers

For Inquiries: madisoninvestmentmanagers@madison.co.ke