Madison Investment Managers
September 2022 Economic Highlights
Issue 09-22

MADISON Investment Managers

Economic Update

The MPC hikes the CBR from 7.50% to 8.25%

The Monetary Policy Committee (MPC) met on 29th September 2022 against a backdrop of significant global uncertainties, volatile financial markets, a weaker growth outlook, persistent inflationary pressures, geopolitical tensions, lingering effects of the Covid-19 pandemic, and measures taken by authorities around the world in response to these developments.

The committee noted that overall inflation surged due to increases in the prices of food largely maize grain and flour, edible oils and wheat products due to the impact of supply chain disruptions, and fuel on account of higher international prices. Going forward, the committee expects inflation to remain elevated in the near term due to the removal of government subsidies, resulting in increases in fuel and electricity prices, coupled with global inflationary pressures. Nevertheless, the economy is expected to remain resilient in the remainder of 2022 supported by the services sector which has continued to record robust activity.

The committee noted the sustained inflationary pressures, elevated global risks and their potential impact on the domestic economy and concluded that there was scope for a tightening of the monetary policy in order to further anchor inflation expectations. Therefore, the MPC decided to raise the Central Bank Rate (CBR) from 7.50% to 8.25%.

Inflation

Inflation spiked to 9.2% on surging food and fuel prices

Annual inflation in the month of September continued to surge, rising to 9.2% from 8.5% recorded in August. This was largely due to an increase in the prices of commodities in the Food and Non-Alcoholic Beverages which rose by 15.5% year-on-year.

On a month-to-month basis, the index jumped by 0.3% as prices of basic food such as maize flour, beans and rice increased by 8.4%, 3.5% and 2.9%, respectively, outweighing price decreases in other food items

Also contributing to the uptick in inflation was the rise in the cost of electricity (50 & 100 Kilowatts) which was mainly driven by a 46.7% increase in fuel energy costs.

Lastly, the transport index increased by 3.6% and this was mainly attributed to increase in prices of diesel and petrol which rose by 17.7% and 12.6%, respectively.

The Currency

The Shilling has weakened by 6.7% against the USD so far in 2022

In the month of September, pressure continued to pile on the KES which weakened by 0.6% against the USD to close at KES 120.73, from KES 120.01 at the start of the month. The depreciation was largely attributable to the strengthening of the US Dollar owing to a heightened global demand and rising interest rates. Locally, currency demand from importers has exerted downward pressure on the Shilling.

As at 29th September 2022, the Central Bank of Kenya (CBK) held an adequate forex reserves position of USD 7.4bn equivalent to 4.2 months of import cover. We noted the Shilling exhibited weakness against the USD but 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. 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	Sep-22	Aug-22	YTD
USD	(0.60%)	(1.02%)	(6.71%)
Sterling Pound	7.00%	2.22%	14.07%
Chinese Yuan	2.65%	1.37%	4.68%
Japanese Yen	3.53%	3.18%	15.08%
Uganda Shilling	(0.58%)	2.61%	(2.13%)

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

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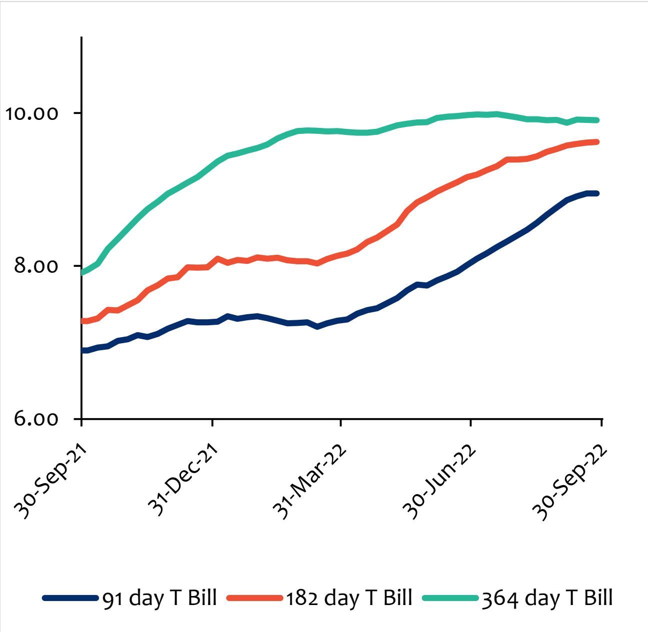
Fixed Income Performance

T-bill yields had mixed movements in the month

In the month under review, average yields on the 91-day and 182-day papers rose by 34bps and 15bps to 8.92% and 9.60%, respectively. Average yields on the 364-day paper, on the other hand, dropped by 2bps to 9.90%. Overall subscription also rose to 106.3% on average from 73.2% observed in August 2022.



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

In September, the Central Bank re-opened two bonds, FXD1/2022/10 and FXD1/2022/15, seeking to raise a total of KES 50.0bn for budgetary support. The auction was under-subscribed at 92.3%. The CBK received bids worth KES 46.1bn and accepted KES 39.0bn - an acceptance rate of 84.6%.

The weighted average rate of accepted bids for the bonds came in at 13.95% and 13.98%, respectively, while the coupon rates were 13.49% and 13.94%, respectively. The bonds are subject to a withholding tax rate of 10.00%.

Secondary bond market turnover declined marginally by 3.0% in September to KES 66.4bn from KES 68.4bn in August 2022.

Equities Market Performance

NSE benchmark indices were on a downtrend in September

In September, the equities indices recorded losses on account of increased selling by foreign investors. The NASI, NSE 25 and NSE 20 declined by 6.6%, 4.7% and 1.9%, respectively. The performance was attributable to losses recorded by large cap counters such as Safaricom, EABL and Co-op Bank which declined by 10.7%, 6.0% and 4.4%, respectively.

Foreign investors maintained a net selling position in the month, with net outflows of KES 2.3bn relative to outflows of KES 1.7bn recorded in August. Equities turnover in the month rose by 76.1% to KES 9.4bn from KES 5.3bn recorded during the General Elections month.

Global Markets

World Bank warns of rising risk of global recession in 2023

In September, the World Bank published a study highlighting rising risks of the world edging toward a global recession in 2023, and a string of financial crises in emerging markets and developing economies, as central banks around the world simultaneously hike interest rates in response to inflation.

In the report, the World Bank noted that policymakers faced a difficult balancing act between tightening monetary policy and maintaining a positive economic momentum. Many countries have had significant interest rates hikes whilst withdrawing fiscal support. While these policy measures are necessary to contain inflationary pressures, the World Bank reckoned that if the degree of tightening increased further, this could significantly increase financial stress and trigger a global recession in 2023.

To avoid this, it was noted that central banks should communicate policy decisions clearly, fiscal authorities should carefully withdraw fiscal support measures and global coordination will be needed to alleviate macro-constraints.

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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