Madison Investment Managers
October 2022 Economic Highlights
Issue 10-22

MADISON
Investment Managers

Economic Update

Kenya's Q2'22 GDP growth slows down to 5.2%

Kenya's economic growth contracted for the fourth consecutive quarter on the back of below-average rainfall, high inflationary pressures and pre-election jitters.

According to a report released by the Kenya National Bureau of Statistics (KNBS), the gross domestic product (GDP) expanded 5.2% in the second quarter, a softer pace than 11% in a similar period last year. The growth in the GDP was also slower than 6.8% in the first quarter of this year, 7.4% (fourth quarter of 2021) and 9.3% (third quarter of 2021).

The report highlighted that prolonged dry weather conditions had hurt agricultural production - the country's mainstay economic activity. In addition to this, higher inflation eroded consumers' purchasing power and reduced demand for goods and services. The expansion in economic activity was further dragged down by a contraction in growth of the manufacturing sector. This was on the back of unrelenting global supply chain disruptions and difficulties in accessing adequate dollars to pay suppliers abroad. Consequently, the sector slowed down to 3.6% from 11.3% reported in the same quarter last year.

Looking ahead, the World Bank and National Treasury estimate that Kenya's 2022 GDP will grow by 5.5% in 2022 while IMF predicts a 5.3% growth, essentially expecting the 2H22 growth to slow to about 4.6% on average.

Inflation

Inflation spiked to 9.6% on surging food and fuel prices

Annual inflation in the month of October continued to surge, rising to 9.6% from 9.2% recorded in September. This was largely due to an increase in the prices of commodities in the Food and Non-Alcoholic Beverages which rose by 15.8% year-on-year.

On a month-to-month basis, the index jumped by 1.4% as prices of basic food such as potatoes, sugar and beans increased by 12.5%, 12.0% and 7.5%, respectively, outweighing price decreases in other food items.

Also contributing to the uptick in inflation was the rise in the cost of electricity: the 50 & 200 Kilowatts units increased by 2.4% and 1.8%, respectively.

The transport index increased slightly by 1.0% and this was mainly due to an increase in PSV fares, taxi fares among others.

The Currency

The Shilling weakens by 7.2% against the USD YTD

In the month of October, pressure continued to pile on the KES which weakened by 0.5% against the USD to close at KES 121.33, from KES 120.73 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, dollar demand from importers has exerted downward pressure on the Shilling.

As at 27 October 2022, the Central Bank of Kenya (CBK) held an adequate forex reserves position of USD 7.3bn equivalent to 4.1 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 payments
iv. New Covid-19 variants
v. Effects of the Russian-Ukraine crisis on global trade

Kenya Shilling Performance	Oct-22	Sep-22	YTD
USD	(0.50%)	(0.60%)	(7.24%)
Sterling Pound	(7.37%)	7.00%	7.73%
Chinese Yuan	1.08%	2.65%	5.71%
Japanese Yen	1.47%	3.53%	16.33%
Uganda Shilling	1.91%	(0.58%)	(0.17%)

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

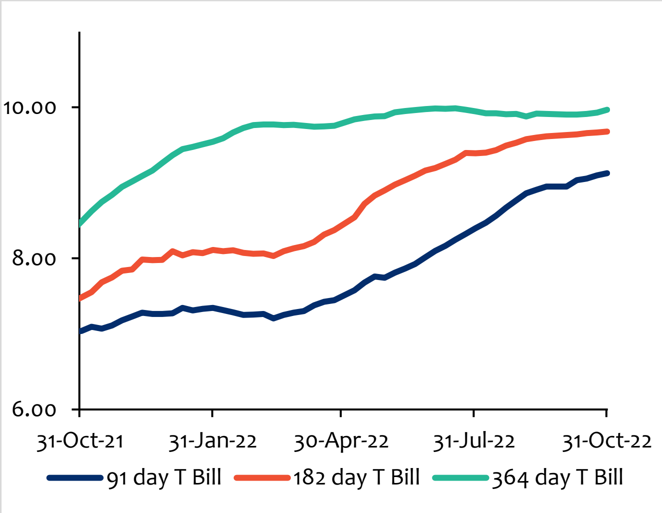
Madison Investment Managers
October 2022 Economic Highlights
Issue 10-22

MADISON Investment Managers

Fixed Income Performance

T-bill yields were on an upward trajectory in October

In the month under review, average yields on the 91-, 182- and the 364- day papers rose by 14bps, 5bps and 2bps to 9.05%, 9.65% and 9.92%, respectively. Overall subscription, on the other hand, dropped to 91.9% on average from 106.3% observed in September 2022.



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

In October, the Central Bank re-opened two bonds, FXD1/2017/10, FXD1/2020/15 and issued a new FXD1/2022/25 seeking to raise KES 40Bn and KES 20Bn for budgetary support respectively. Overall, the auctions were under-subscribed at 56.2%. The CBK received bids worth KES 33.7bn and accepted KES 28.8bn - an acceptance rate of 85.4%.

The weighted average rate of accepted bids for the bonds came in at 13.37%, 13.97% and 14.19%, respectively, while the coupon rates were 12.97%, 12.76% and 14.19%, respectively. The bonds are subject to a withholding tax rate of 10.00%.

Secondary bond market turnover declined by 13.3% in October to KES 57.6bn from KES 66.4bn in September 2022.

Equities Market Performance

NSE benchmark indices had mixed movements in the month

In October, the equities indices reported mixed performances. The NASI and NSE 25 edged higher by 0.3% and 0.7%, respectively. Conversely, the NSE 20 declined by 2.3%. The performance was attributable to price gains recorded by large cap counters such as EABL and Safaricom of 17.8% and 0.6%, respectively, while stocks such as KCB contracted by 9.2%.

Foreign investors maintained a net selling position in the month, with net outflows of KES 2.32bn relative to net outflows of KES 2.34bn recorded in September. Equities turnover in the month fell by 37.2% to KES 5.9bn from KES 9.4bn recorded in the previous month.

Global Markets

IMF forecast a deceleration in global economic growth

In October, the International Monetary Fund (IMF) released the ‘World Economic Outlook’, which projected that global economic growth would slow down to 3.2% this year and a further 2.7% in 2023.

This forecast is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. It reflects the significant slowdowns for the world’s largest economies seen in the course of the year. These include: the US GDP contraction in the first half of 2022, a euro area contraction in the second half of 2022, and prolonged COVID-19 outbreaks and lockdowns in China with a growing property sector crisis.

IMF further projected that global inflation would rise from 4.7% in 2021 to 8.8% in 2022 but decline to 6.5% in 2023 and to 4.1% by 2024. However, they noted that more energy and food price shocks might cause inflation to persist for longer, while global tightening in financing conditions could trigger widespread emerging market debt distress.

Disclaimer

The views expressed in this publication, are those of the writers where particulars are not warranted. This publication is meant for general information only and not as definitive recommendation. The publishers and authors accept no liability whatsoever for any damage that may be incurred in connection with this publication should you consider concluding transactions on the basis of information supplied in this report.

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