Madison Investment Managers
November 2022 Economic Highlights
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MADISON Investment Managers

Economic Update

The MPC hikes the CBR from 8.25% to 8.75%

The Monetary Policy Committee (MPC) met on 23rd November 2022 against a backdrop of continued 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 pressures in the recent months had remained elevated due to increases in the prices of food, mainly maize and milk, due to the impact of international supply chains disruptions. Fuel inflation also rose driven by the scale-down of the fuel subsidy, increases in electricity prices due to higher tariffs, and increases in transport costs. Despite this, the committee noted that private sector credit growth had increased to 13.3% in October from 12.5% in August 2022, mainly to the manufacturing, trade and business services sector. Supported by robust activity in these sectors, particularly the service sector, the CBK expects the economy to remain resilient in the remainder of 2022, with a projected annual growth rate of 5.6%.

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 8.25% to 8.75%.

Inflation

Inflation declined to 9.5% on lower food prices

Annual inflation dropped for the first time since February to 9.5% from 9.6% recorded in October. The decline was supported by a moderation in the prices of food.

On a month-to-month basis, the food and non-alcoholic index rose by 0.6%, slower than the 1.4% jump recorded last month due to favourable weather conditions. The prices of basic food such as cooking oil, tomatoes and maize flour decreased by 6.0%, 2.2% and 1.0%, respectively, outweighing price increases in other food items such as cabbages which rose by 8.4%.

Also contributing to the cool-off in inflation was a drop in the cost of electricity: the 50 & 200 Kilowatts units, LPG and kerosene by 4.7%, 3.6%, 2.6% and 0.7%, respectively. The transport index decreased slightly by 0.1% due to a drop in the prices of diesel and petrol by 0.6%. However, the prices of diesel and petrol in November 2022 were higher by 46.1% and 36.4%, respectively, compared to November 2021 prices.

The Currency

YTD, the Shilling has weakened by 8.2% against the USD

In the month of November, pressure continued to pile on the KES which weakened by 0.9% against the USD to close at KES 122.45, from KES 121.33 at the start of the month. The depreciation was largely attributable to capital flight triggered by rising interest rates in developed market, coupled with dollar demand from local importers against a muted supply of hard currency.

At end of the month, CBK's forex reserves dropped to USD 7.05bn (equivalent to 3.95 months of import cover), lower compared to USD 7.29bn (4.11 months of import cover) recorded in October. Globally, other major currencies strengthened against the Shilling during the month as depicted in the chart below. Meanwhile, the Dollar Index slipped by 5.0% in the period.

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. Effects of the Russian-Ukraine crisis on global trade

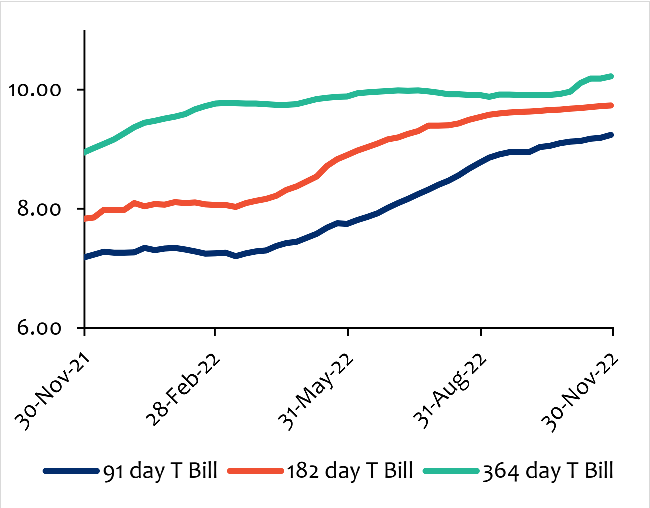
Kenya Shilling Performance	Nov-22	Oct-22	YTD
USD	(0.92%)	(0.50%)	(8.23%)
Sterling Pound	(4.93%)	7.00%	3.19%
Chinese Yuan	(2.41%)	2.65%	3.43%
Euro	(4.98%)	2.46%	0.68%
Uganda Shilling	2.60%	(0.58%)	2.43%

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

Fixed Income Performance

T-bill yields maintained an upward momentum in November

In the month under review, average yields on the 91-day, 182-day and the 364-day papers rose by 13bps, 6bps and 25bps to 9.19%, 9.71% and 10.17%, respectively. Overall subscription also rose to 167.66% on average from 91.85% observed in October 2022.



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

In November, the Central Bank issued an infrastructure bond, IFB1/2022/14, seeking to raise KES 60Bn to fund infrastructure projects. Overall, the auction was over-subscribed at 153.1%. CBK received bids worth KES 91.8bn and accepted KES 75.6bn - an acceptance rate of 82.4%. The weighted average rate of accepted bids and the coupon rate for the bond came in at 13.94%.

Later in the month, the government announced a tap sale on the same bond to raise KES 5Bn. Overall, the auction was over-subscribed by 3.8x. CBK received bids worth KES 19.1bn and accepted 99.9% of the bids. The bond is not subject to a withholding tax.

Secondary bond market turnover declined by 5.29% in November to KES 54.5bn from KES 57.6bn in October 2022.

Equities Market Performance

NSE benchmark indices closed the month in negative territory

In November, the equities market was on a downward trend. The NASI, NSE 25 and NSE 20 shed 1.8%, 1.1% and 2.4%, respectively. The performance was attributable to losses recorded by large cap counters such as KPLC, Safaricom and Equity Group of 19.7%, 3.0% and 2.3%, respectively.

Equities turnover in the month rose by 9.1% to KES 6.4bn from KES 5.9bn recorded in the prior month. Foreign investors maintained a net selling position in the month, with net outflows of KES 0.9bn, lower compared to net outflows of KES 2.3bn recorded in October.

Global Markets

Global economic slowdown is increasingly evident

According to the IMF, the global economy is confronting a number of headwinds including the persistent Russia-Ukraine conflict, interest rates increases to contain inflation as well as lingering pandemic effects and real estate troubles in China.

Readings from manufacturing Purchasing Manager's Indices (PMI) around the globe point to a decrease in factory activity in the month of November. In the US, manufacturing activity contracted for the first time in two and a half years as higher borrowing costs weighed on demand for goods. Britain's PMI fell for the fourth consecutive month as businesses faced a decline in overseas demand, leading to job cuts and reduced confidence.

Due to weak global demand, export-reliant countries such as Japan experienced a decline in manufacturing activity. In the third quarter of 2022, Japan's GDP contracted by 1.2% on account of high energy prices, a wave of Covid-19 infections in August and negative impact from trade.

This evidence points to a number of downside risks that weigh on the global growth outlook, in line with IMF's projection that global economic growth will slow down to 3.2% this year, and to 2.7% in 2023.

Disclaimer

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