# MONTHLY ECONOMIC REPORT

## June 2023

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## MONTHLY ECONOMIC REPORT, JUNE 2023

MADISON Investment Managers


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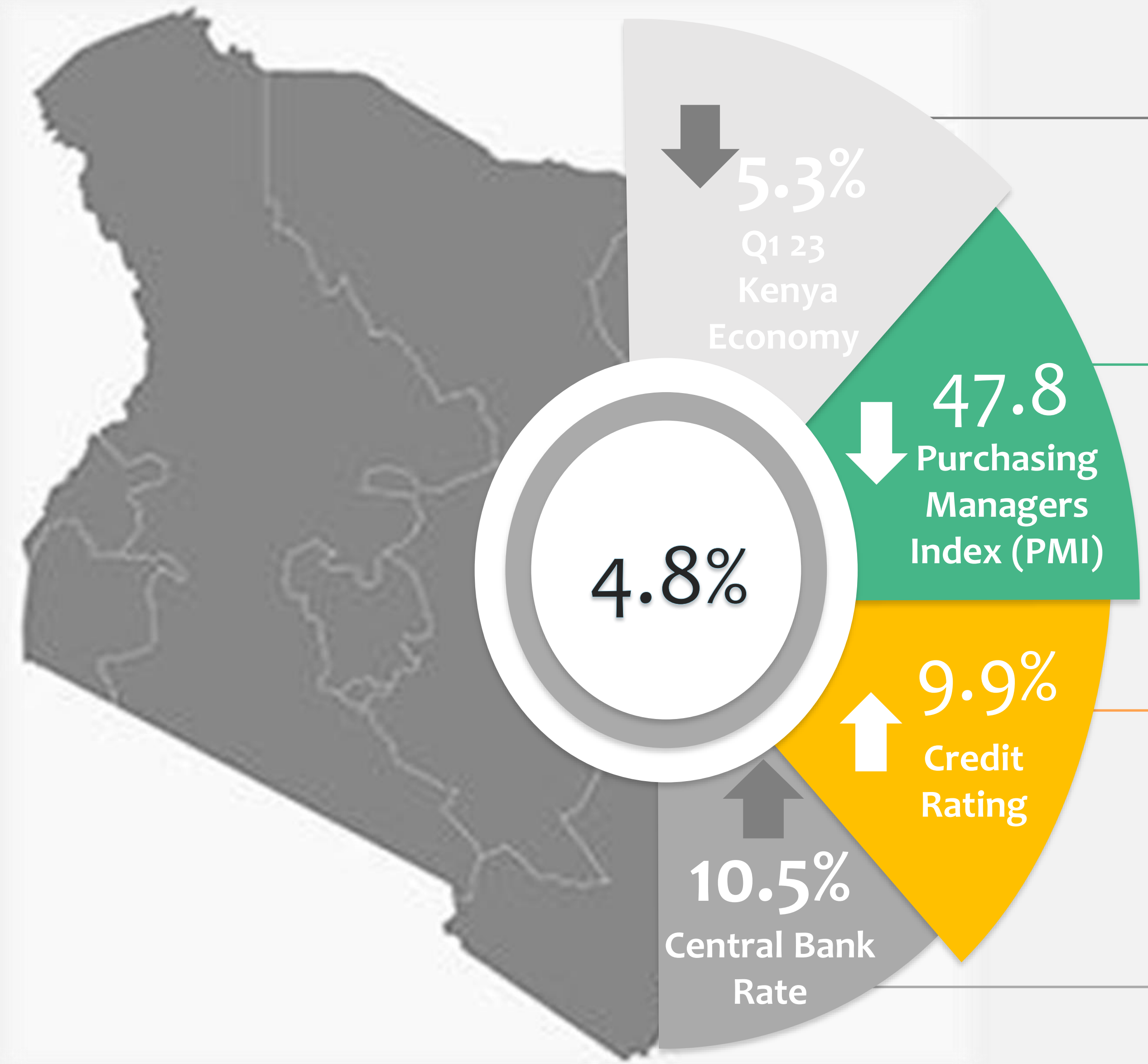
# Economic Performance




## The Economy

GDP expanded by 5.30% in the first quarter of 2023. This was mainly supported by the significant recovery in the Agriculture activities which grew by 5.80% during this period. However, the GDP growth was slightly lower than the 6.20% recorded in the same period 2022.

## Purchasing Managers Index (PMI)

The Stanbic Bank Kenya Purchasing Managers Index in month of June 2023 recorded a further decline to 47.8 from 49.4 registered in May 2023. This drop signifies a deteriorating business environment amidst high inflation rate. Key to note ; Firms have reported a lack of purchasing power among customers due to cash shortages, resulting to a continued downtrend of new businesses.

## Credit Rating

Moody's Credit Rating agency downgraded Government of Kenya's long-term foreign currency and local-currency issuer ratings and senior unsecured debt ratings to B3 from B2 with a negative outlook.

## Central Bank Reference rate

The monetary policy committee held a meeting on Monday, June 26 2023 and hiked the CBR by 100 basis points(1.0%) to 10.5%. This is the highest level the benchmark rate touched since July 2016

*Kenya National Bureau of Statistics & Madison Investment Managers Limited Research*

# Inflation

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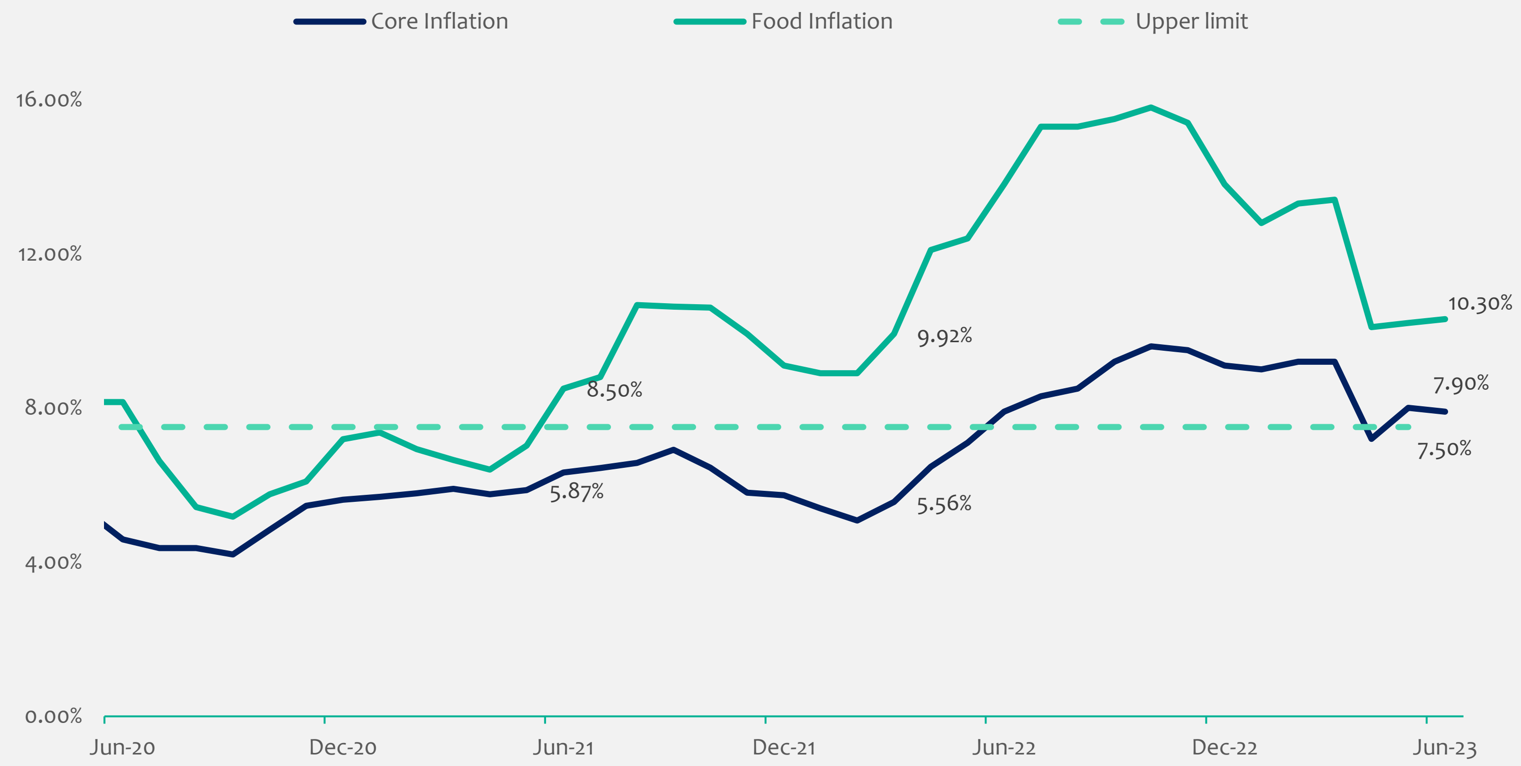
## Annual headline inflation declined marginally to 7.9% in June from 8.0% recorded in May 2023.




| | FY 2018 | FY 2019 | FY 2020 | FY 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | FY 2022 | YTD 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Ave. Inflation Rate (Y/Y) | 4.70% | 5.20% | 5.40% | 6.10% | 5.40% | 7.20% | 8.70% | 9.40% | 7.64% | 8.42% |

*Kenya National Bureau of Statistics & Madison Investment Managers Limited Research*

Annual inflation declined marginally to 7.9% from 8.0% recorded in May 2023. This was mainly driven by ease in fuel prices hence reduction in the transportation index to 9.4% from 10.1% registered in May.

### Food Prices

Food and non-alcoholic beverages index saw a month to month increase of 1.3% . Notably, prices of carrots, onions, tomatoes and loose maize grain rose by 9.0%, 7.3%, 6.4% and 5.5% respectively in the month of June.

### Fuel Prices

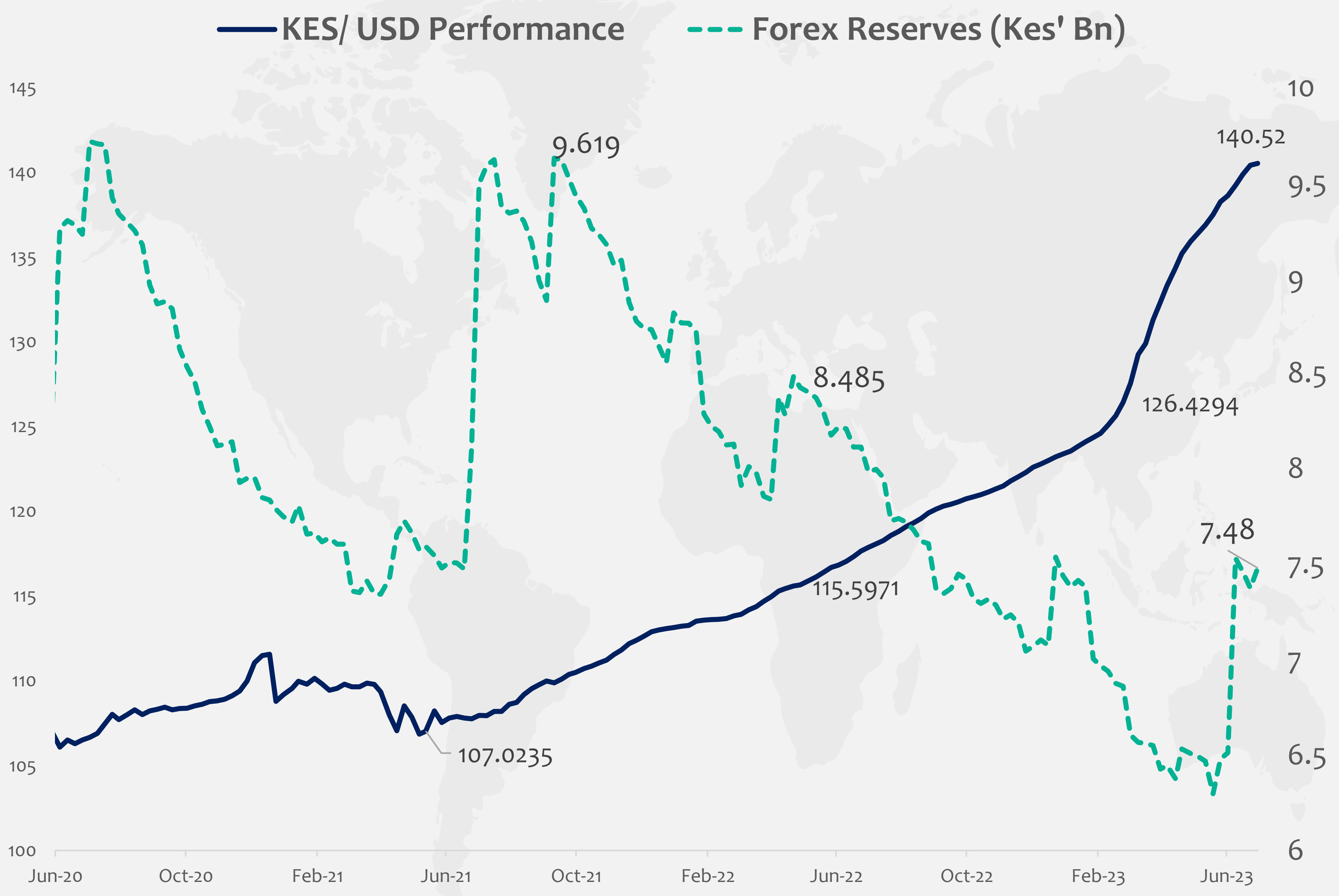
Fuel prices eased, with diesel and petrol prices dropping by 0.7% and 0.4% respectively between May and June 2023.

### Housing and Electricity

The Housing, Water, Electricity, Gas and other Fuel's index rose by 0.6% between the month of May 2023 and June 2023 which was mainly attributable to increase in prices of electricity 200KW by 4.2% between May 2023 and June 2023.

# Currency

## The KES maintained a bearish run against the US dollar




### Performance

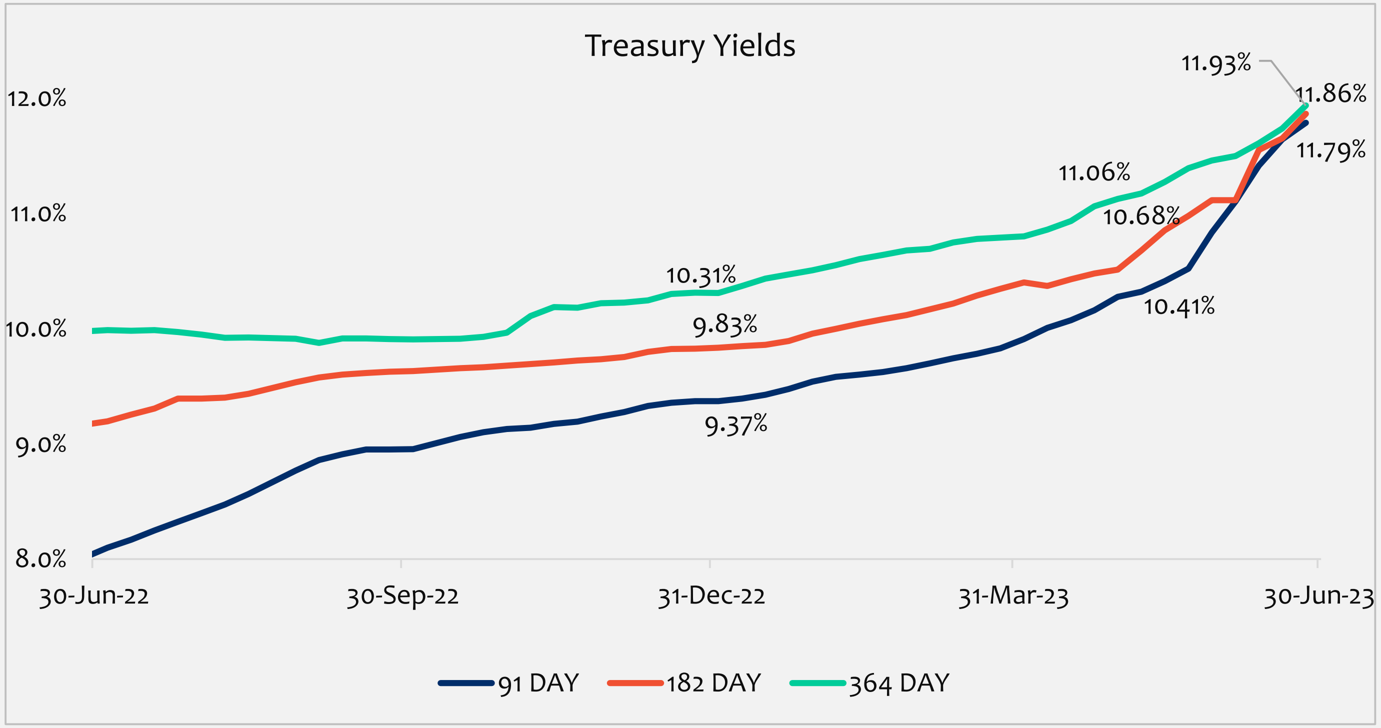
- The KES experienced a depreciation of 1.5% against the US dollar in the month of June 2023. However, this was lower compared to a 1.90% decline in May 2023.
- YTD, the KES has lost by 13.90%.
- The local currency is still expected to be under pressure in 2023 due to;
  - I. External debt obligations have played a great part in dollar outflows. As of March 2023, 63.7% of Kenya's external debt was denominated in US dollars, this in turn has created pressure on the forex reserves when debt obligations have come due.
  - II. The persistent current account deficit balance which narrowed by 39.0% from KES 139.3 Bn in Q1'22 to KES 84.9 Bn in Q1'23. This figure shows an ongoing imbalance between the country's exports and imports.

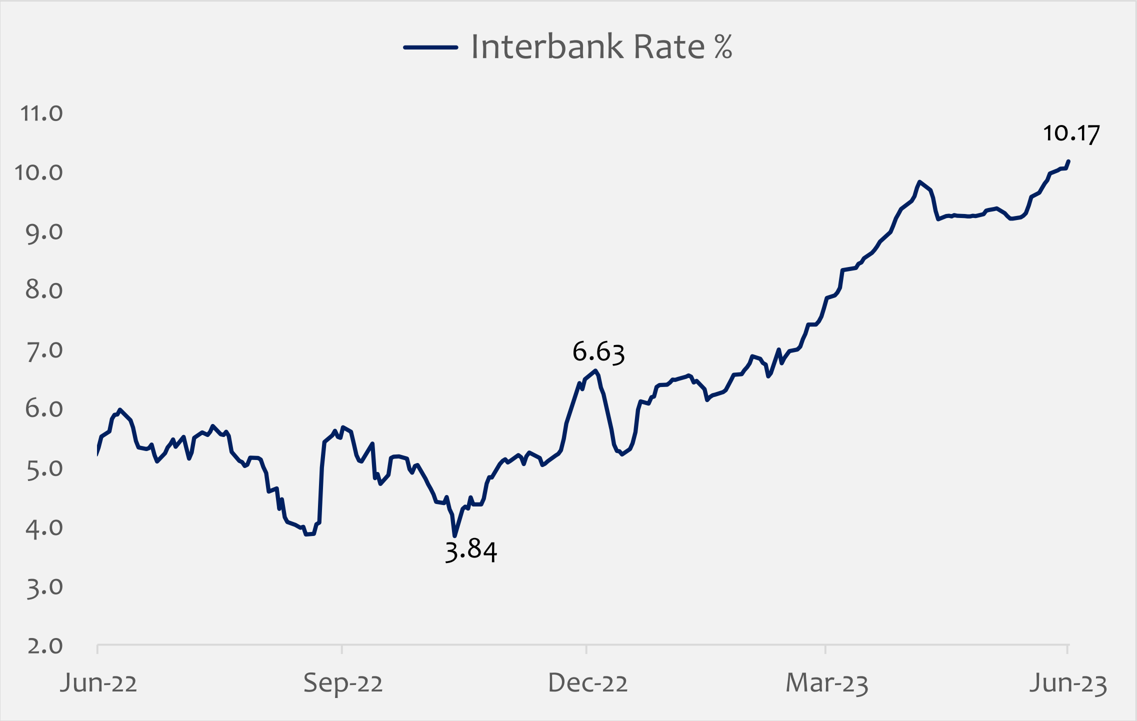
- However, a boost of USD 1.0 Bn from a World Bank loan in June saw the reserves spike. We still expect inflows from IMF( USD 410 Mn) and a USD 500 Mn commercial loan secured from a group of syndicate global banks.

*Central bank of Kenya & Madison Investment Managers Limited Research*

# Money Markets

## Yields on money market instruments maintained an upward momentum




### Rates raging higher month on month

- During the month, short-term interest rates were on the rise: On average the 91-day, 182-day and 364-day treasury bills rose by 1.01%, 0.72% and 0.41% respectively to close the month at 11.79%, 11.86% and 11.93% respectively.

### Rate movement drivers

- Elevated government's cash demands and a constrained money market saw investors interest grow in short term government securities hence upward movement of rates.
- A 100 bps increase in the central bank rates from 8.5% to 9.5% pushed interest rates higher.

### Liquidity

- Tight liquidity conditions continue to prevail in the market due to heavy settlements of government securities and reverse repos. This is evidenced by the interbank rate which closed the month in a double-digit territory(10.17%).

*Central bank of Kenya & Madison Investment Managers Limited Research*

# Fixed Income – Longer Tenors

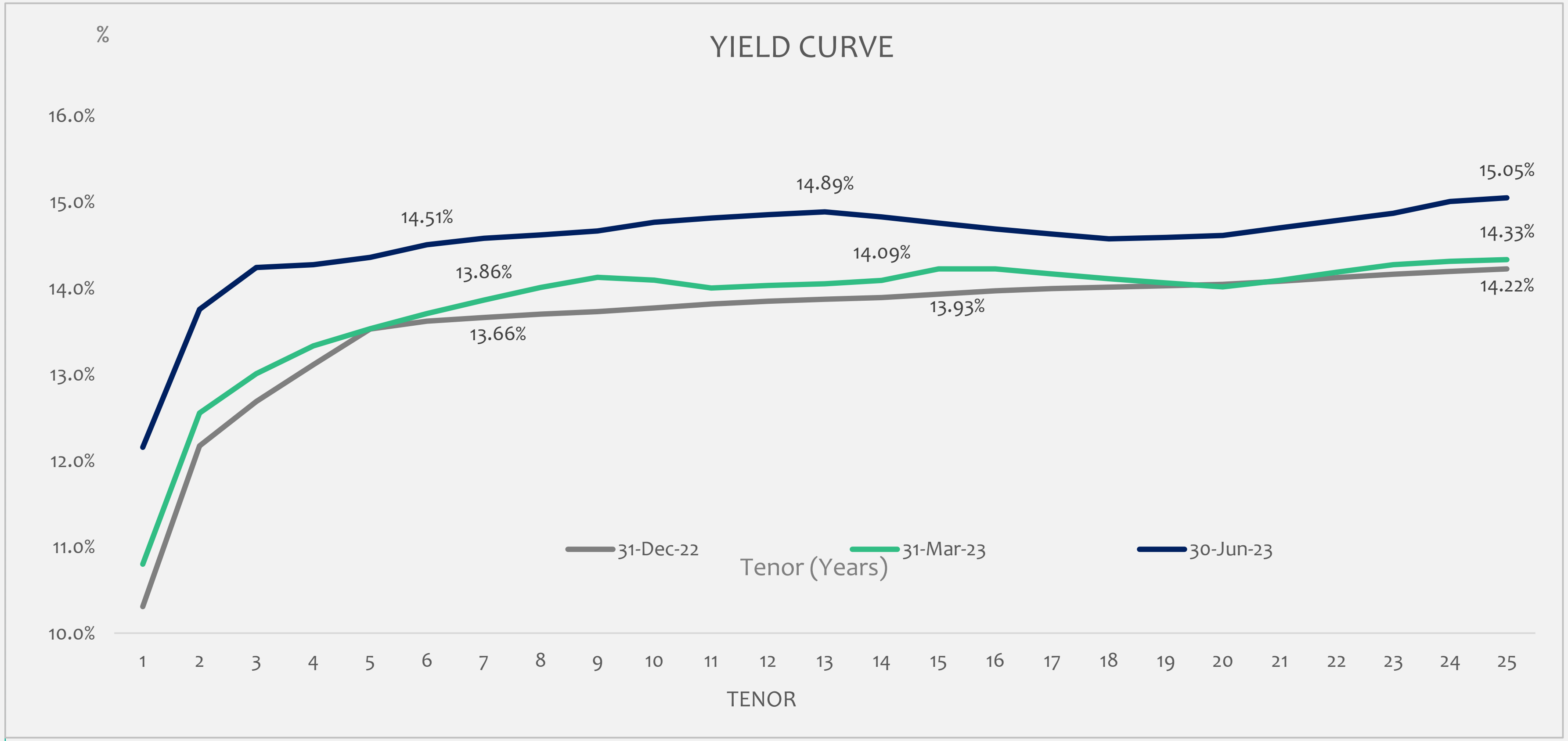
## Yields on treasury bonds were on an upward trajectory in June 2023

The yield curve registered an upward shift across all the tenors in the month. It shifted by 20bps, 2bps, 3bps and 13bps in the 1-5yr, 6-10yr, 11-15yr and 15-25yr segments respectively. Overall, the yield curve went up by 10bps in June 2023.

Inflation, tight liquidity and increased appetite on government borrowing have seen yields rise through out the yield curve with more emphasis on the short - medium(1-15 Year) tenors.

In the primary market, the government received bids worth KES 220.5 Bn from the issuance of a new bond (IFB1/2023/007) and accepted bids worth KES 213.9 Bn translating to a performance rate of 367%. It further issued a tap-sale of FXD1/2023/003 and received bids worth KES 18.56 Bn. The sovereign accepted bids worth KES 18.55Bn bringing the total sum raised to 232Bn in the month .

In the secondary market, bond market turnover declined by 32.63% m/m to KES 45.84Bn in June from KES 68.05Bn recorded in May 2023.

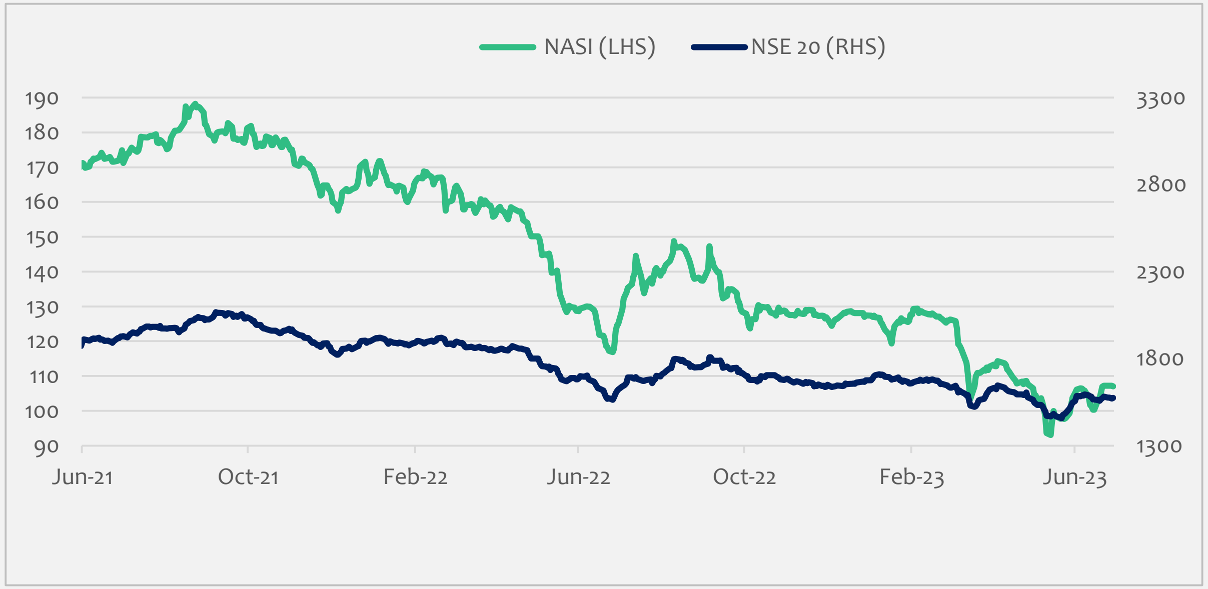


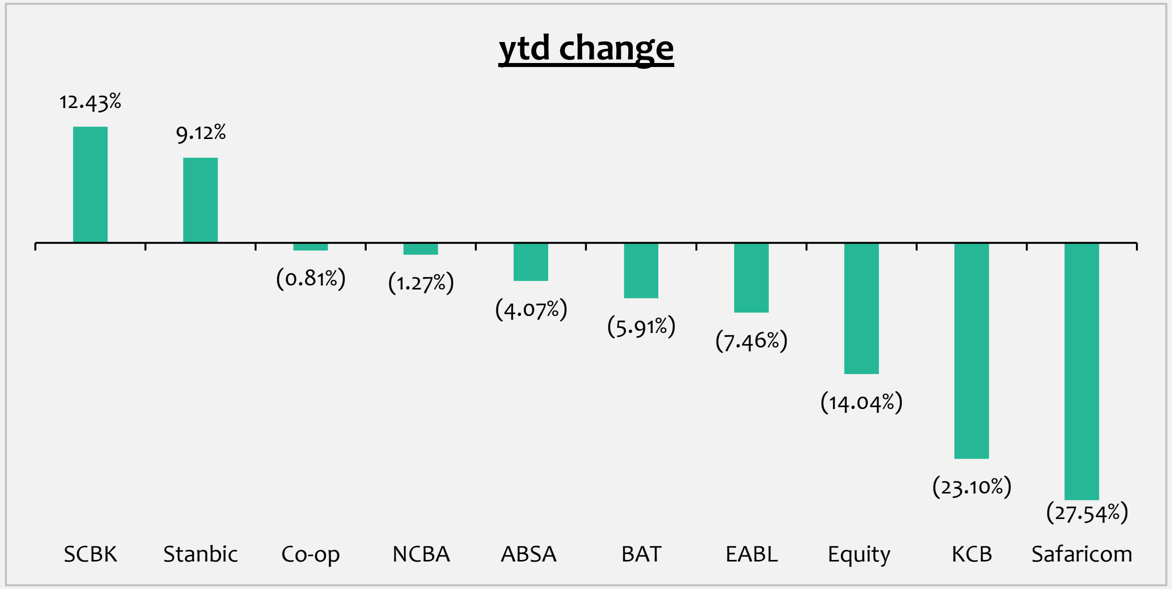

| | 1-5Yr | 6-10Yr | 11-15Yr | 15-25Yr |
|---|---|---|---|---|
| June 2023 change(bps) | 20.0 | 2.0 | 3.0 | 13.0 |

*Central Bank of Kenya and Madison Investment Managers Limited Research*

# Equities Market Performance

## NSE benchmark indices close the second quarter in negative territory



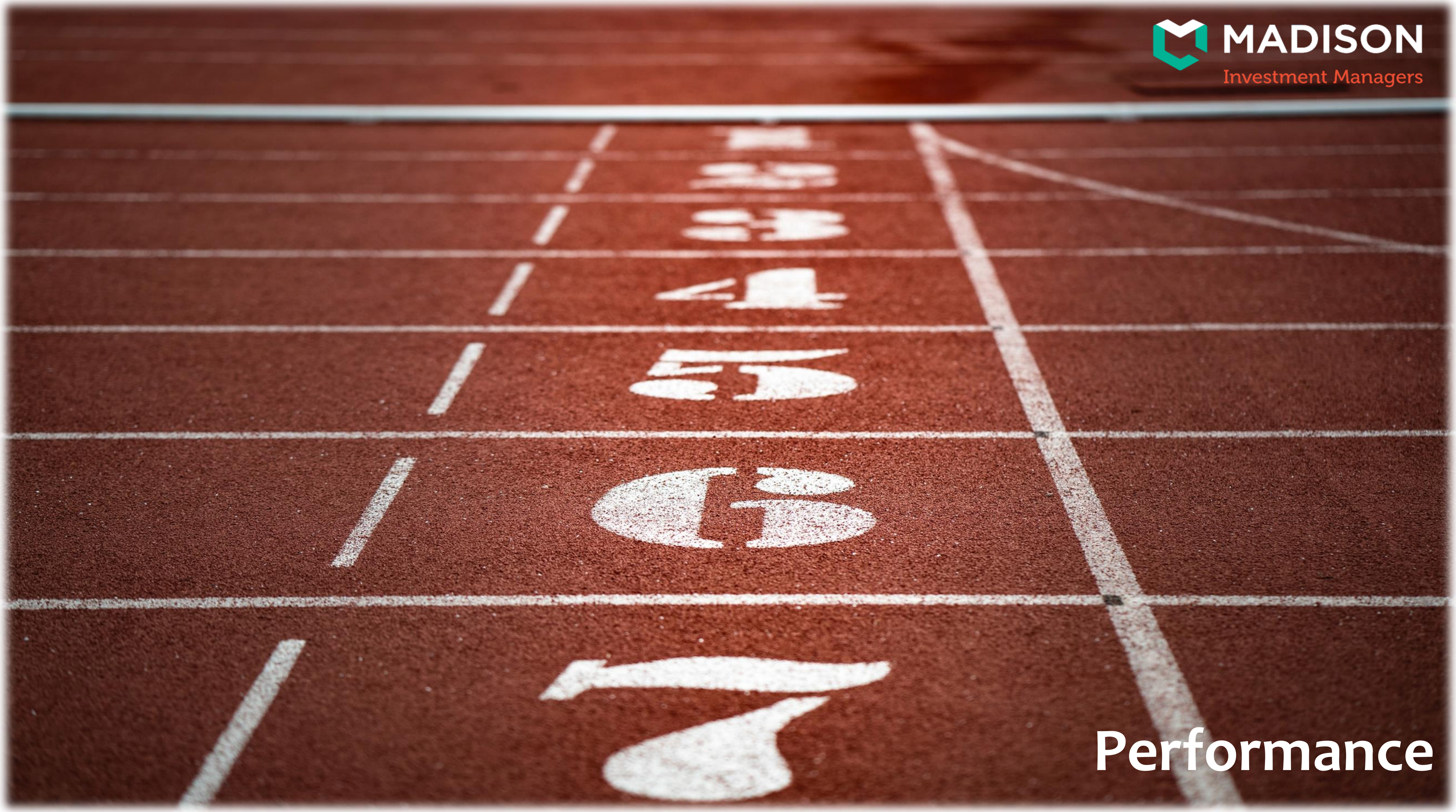

During the month, the equities market showed some slight improvement with the NASI inching up 3.19%. The NSE 20 and NSE 25 also rose by 1.82% and 2.40% respectively in the same period. However, on a QTD basis, the NASI declined by 5.1%, NSE 20 followed by shedding 2.9% and NSE 25 lost by 8.0%. This decline was mainly driven by losses in large-cap stocks such as KCB Group and Equity Group which shed 17.5% and 15.9% respectively. On a YTD basis, NASI closed the month at (15.97%) , NSE 20 and NSE 25 closed the month at (6.0%) and (12.90%), respectively.

In the month of June 2023, the equity turnover declined by 33.0% to close the month at KES 4.08Bn from 6.08 Bn recorded in May 2023. Foreign investors' selloffs decreased to 1.02Bn net sales in June from KES 4.1Bn in May and accounted for 54.10% of the total equity turnover.

During the month of June most large cap stocks such as Equity Group, NCBA, SCOM, KCB and ABSA closed in the red territory due to continued outflow of foreign investors who eyed safe havens in developed countries such as the US, thereby causing panic sells from retail investors.

However, some counters such as SCBK and Stanbic registered gains of 12.43% and 9.12% respectively.

On a year-to-date basis, Safaricom lost 27.54% to close the month at Kshs.17.50 per share on continued foreign selling.



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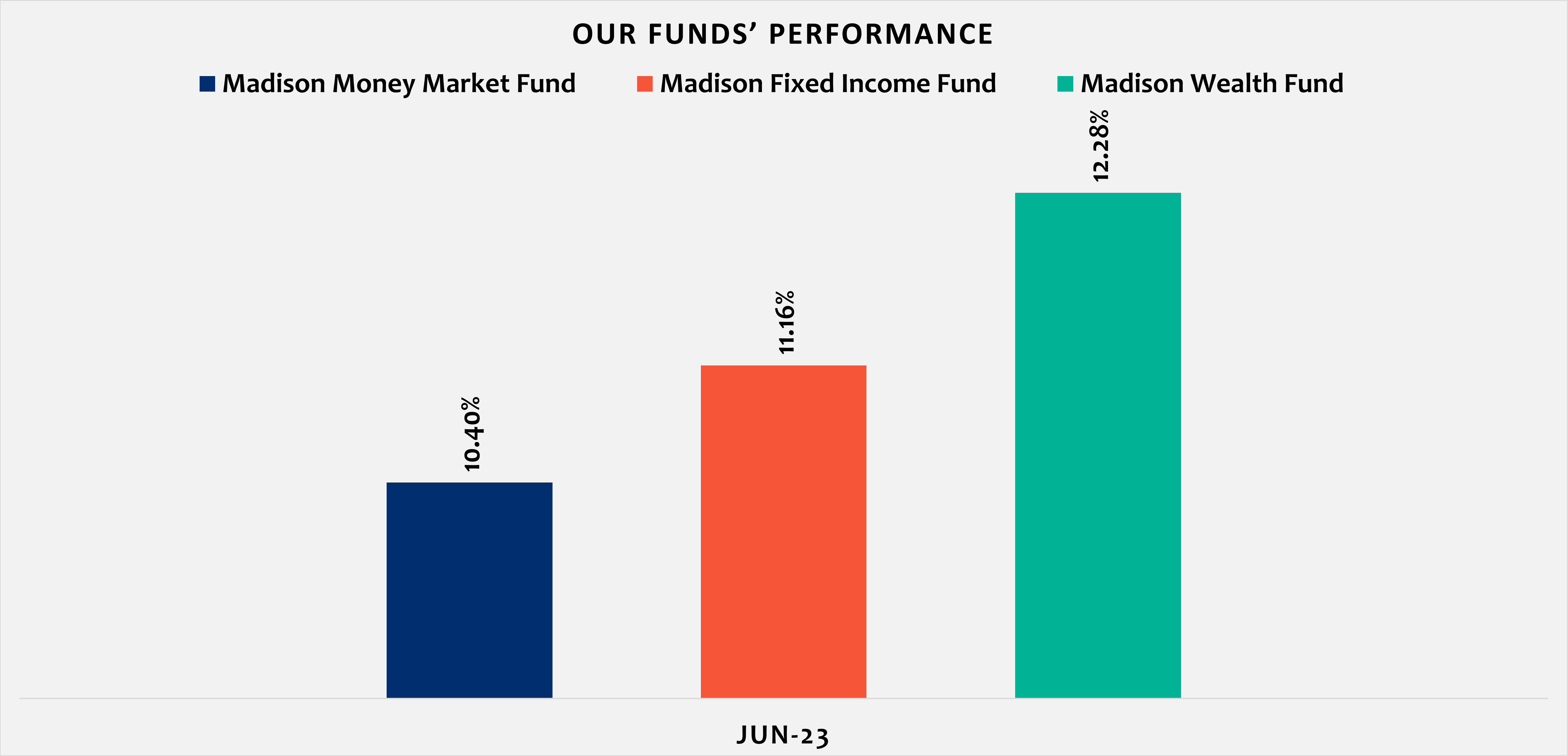
# Performance

# Fund Performance: MADISON FUNDS




These are the daily average yields for the month of June 2023

# Market Analysis: Money Market Funds

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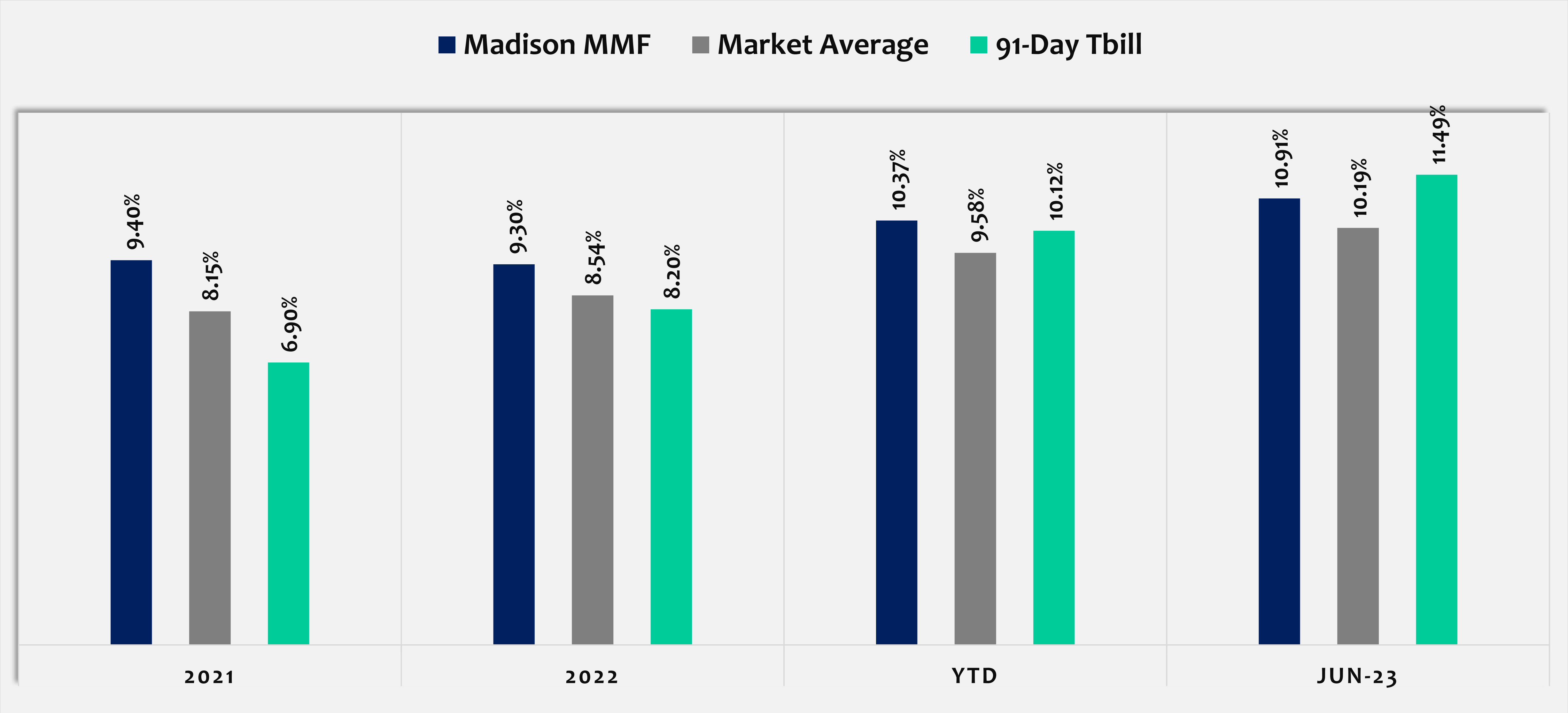


These are the effective annual yields for the month of June 2023
T-bill is an average yield of period under review

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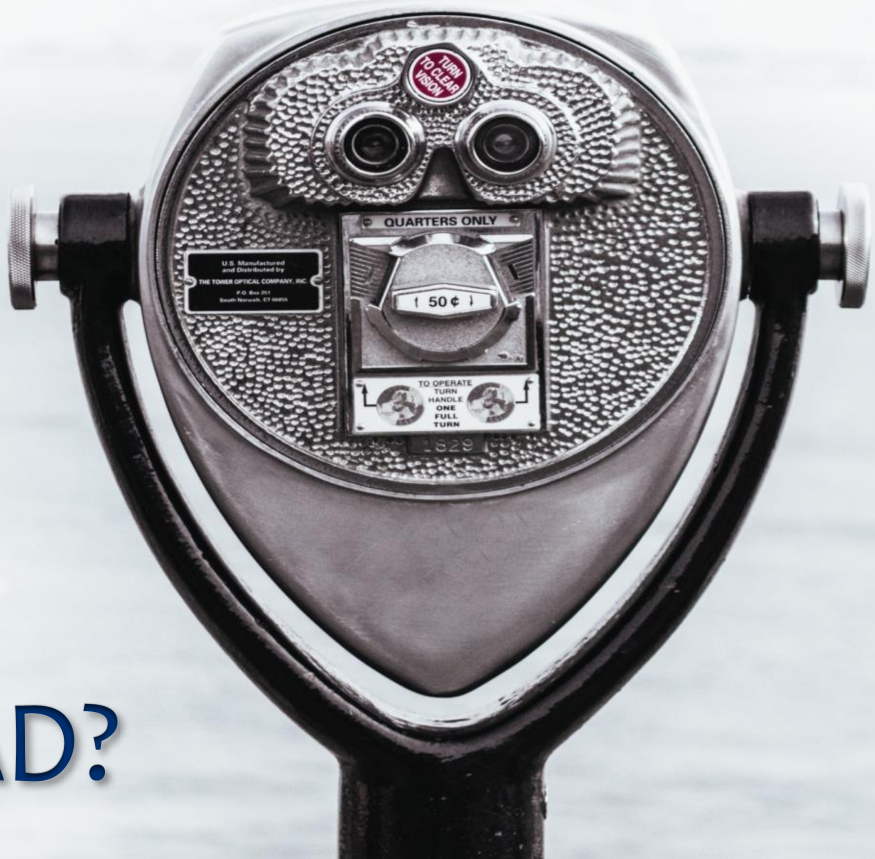


# LOOKING AHEAD?

# Investment Strategy:

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## Fixed Income

- Heightened inflation, depreciating KES, global increase in interest rates, tightening liquidity (as demonstrated by the high interbank rates), rising private sector growth and budgetary deficit - all point to a rising interest rate environment.
- Investing in short term tenor assets of not more than 3 months for deposits might prove to be beneficial to investors. This will shield portfolios from interest rate risk and duration risk. Bank deposits of rates of 12% and above remain attractive.
- On a long-term basis, Infrastructure Bonds (IFBs) are likely to provide value for investors in the bonds space more than Fixed Coupon Bonds (FXDs) due to their tax-free nature.

## Equities

- Increased global volatility driven by weak macro economic conditions continue to see foreign investors pull out from the Kenyan market in search of safe havens. Currency depreciation and dollar scarcity has compounded the foreign out flows.
- Although the market is cheap on a price to earnings perspective and attractive on a dividend perspective. We feel that global volatility still continues to further weigh on the equities market.
- We maintain a cautious exposure in the asset class for long term investors

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# Fit your size...

# Our tailored solutions:

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## 1
### MADISON MONEY MARKET FUND

INDICATIVE RATE:

10.5% pa

Features :

- Initial minimum investment - **Kes 5,000**
- Minimum top-up - **Kes 1,000**
- No restriction on tenor
- Monthly distribution of interest
- Withdrawal – 2 working days

## 2
### MADISON FIXED INCOME FUND

INDICATIVE RATE:

11.3% pa

Features :

- Initial min investment - **Kes 5,000**
- Minimum top-up - **Kes. 1,000**
- Tenor – 6 months
- Withdrawals - 4 working days
- Semi-annual distribution of interest.

## 3
### MADISON WEALTH FUND

INDICATIVE RATE:

12% pa

Features :

- Initial min investment - **Kes 1 Million**
- Minimum top-up - **Kes. 500,000**
- Tenor – 6 months
- Withdrawals - 6 working days
- Semi-annual distribution of interest.

## 4
### MADISON SEGREGATED SCHEME

INDICATIVE RATE:

9%-15% pa

Features :

- Minimum investment - **Kes 30 Million**
- Portfolio is constructed as per particular client desire
- Access markets locally and globally
- Allows for flexibility in investments.

## 5
### MADISON TRAINING & ADVISORY SERVICES

Financial training for organizations and individuals

Features :

- Financial and Investment Planning for Individuals
- Pre and Post Retirement Planning for individuals
- Workforce Upskilling for salaried employees
- Formulation of Investment Policy Statements (IPS) .

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