NatBank
Trustee and Investment Services LTD

National Bank
A Subsidiary of KCB Group PLC

MONTHLY ECONOMIC REPORT

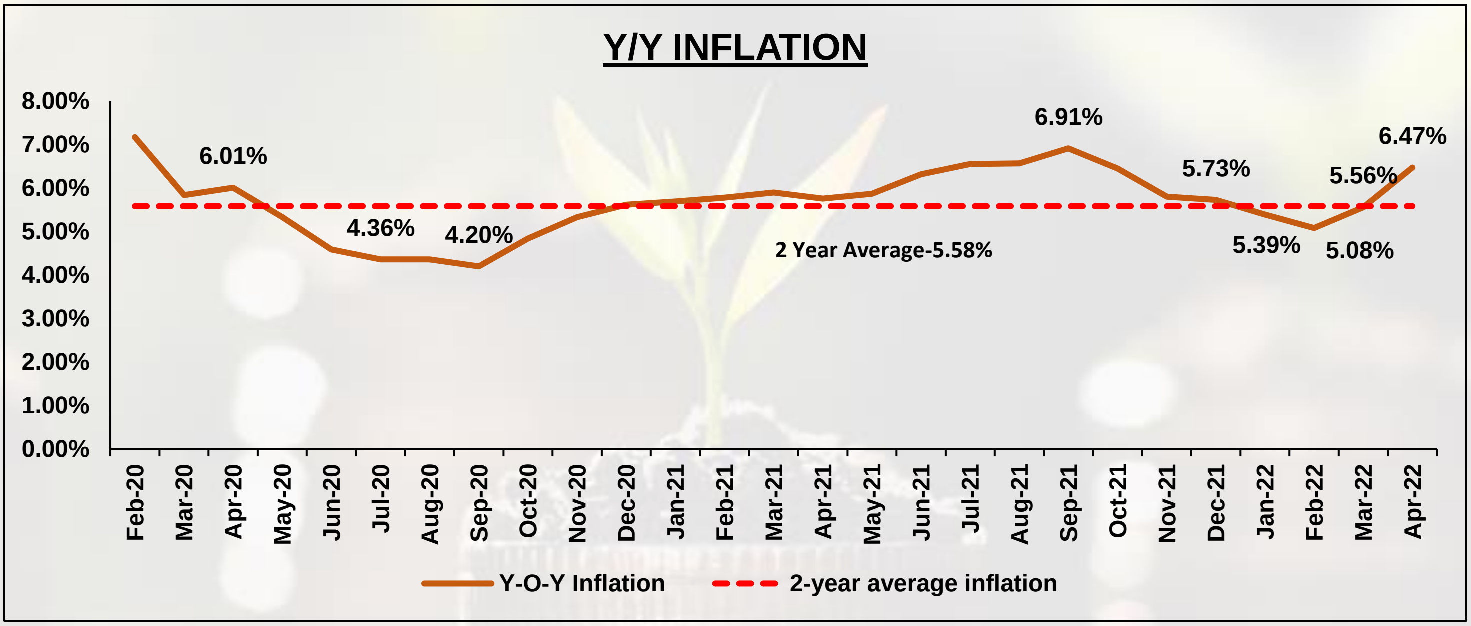
APRIL 2022

MACROECONOMIC HIGHLIGHTS

INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) came in at 6.47% in April 2022, higher than 5.56% in March. The rise in inflation was mainly due to an increase in prices of commodities under; food and non-alcoholic beverages (12.15%); furnishings, household equipment and routine household maintenance (7.15%); transport (6.88%) and housing, water, electricity, gas and other fuels (5.47%) between April 2021 and April 2022.

Month on month, the CPI increased by 1.69% from an index of 120.14 in March 2022 to 122.17 in April 2022. The month-on-month Food and Non-Alcoholic Beverages Index increased by 3.03%. This is attributed to increase in prices of most of the food items. Consequently, the index of services for Restaurants and Accommodation increased by 1.03% over the same period. The chart below indicates Y-O-Y inflation trend over the past 2 years:

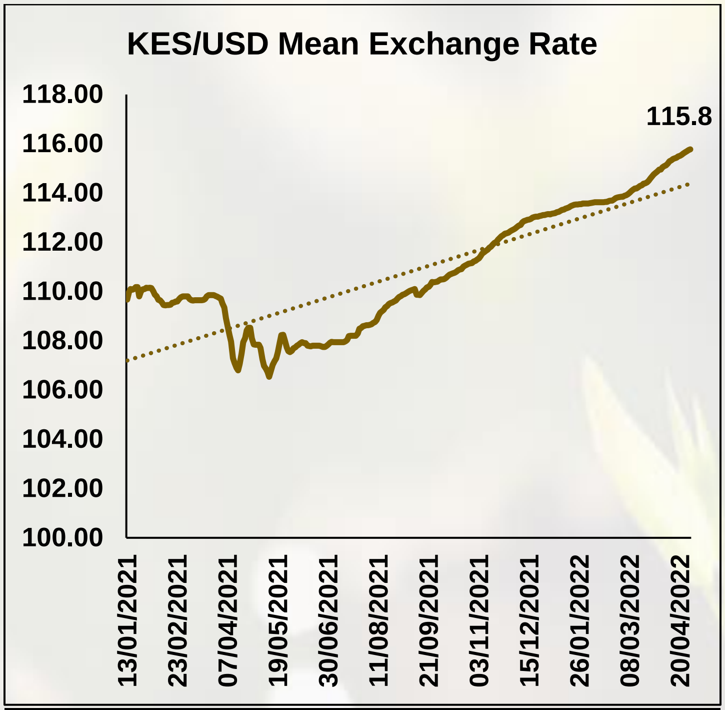


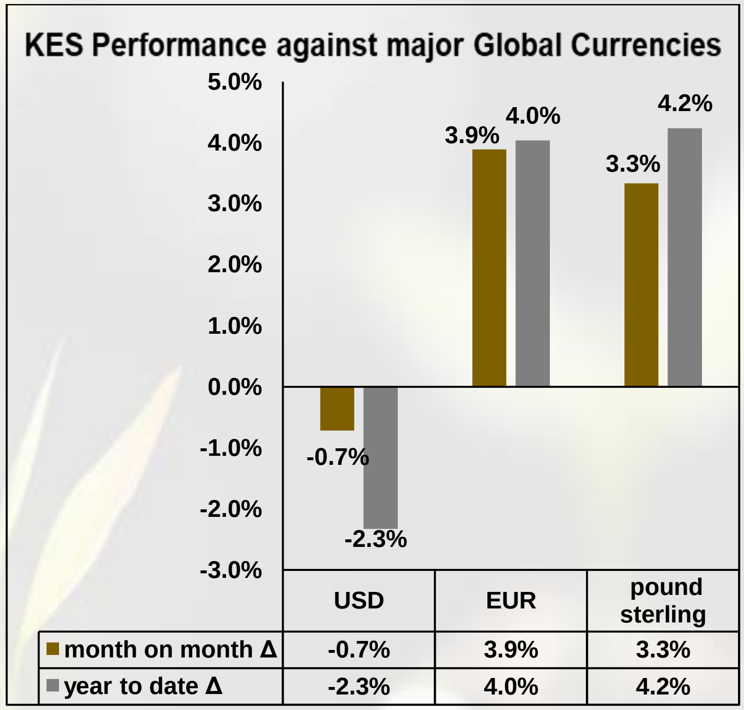
***Inflation Outlook**: We expect inflation to continue elevating in Q2'2022 driven by the recent global geopolitical issues, coupled with supply chain concerns which have exposed Kenya's soft underbelly as a net importer of essential raw materials required for the manufacture of basic household items. However, cyclical increases in supply of some food items will provide some relief, keeping inflation within the central bank rate.*

CURRENCY PERFORMANCE:

The Kenya Shilling depreciated by 0.7% against the US Dollar, to close the month at KES 115.8, from KES 115.0 recorded at the end of March 2022. The performance was on the back of a stronger greenback, coupled with increased local demand. The US dollar has been one of the few beneficiaries this year of a market battered by geopolitical fears which saw investors ditch riskier investments and seek shelter in assets that they perceive as more secure. The strenthening of the dollar has also been partly attributable to the FED ramping up to battle inflation by raising interest rates. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, has risen by 7.1% in 2022, outpacing other asset classes. On a YTD basis, the shilling has depreciated by 2.3% against the US dollar but has gained by 4.0% and 4.2% against the Pound Sterling and Euro, respectively.

The charts below provide details on currency performance during the month:





Currency Outlook: *The current account deficit was estimated at 5.4% of GDP in 2021 and is projected to remain stable at 5.2% of GDP in 2022. Tourism and transportation receipts have increased as international travel continues to improve. Remittances were at an all-time record of USD 3,718 million in 2021 and were 20.2% higher compared to 2020. The above notwithstanding, pressure on the currency is expected to sustain largely attributable to the strengthening of the US dollar, coupled with a high oil imports bill following the continued rise in global crude oil prices as supply remains constrained whilst demand is accelerating. The depreciating trend is also expected to continue in 2022, amplified by election-related uncertainty, which typically saps confidence.*

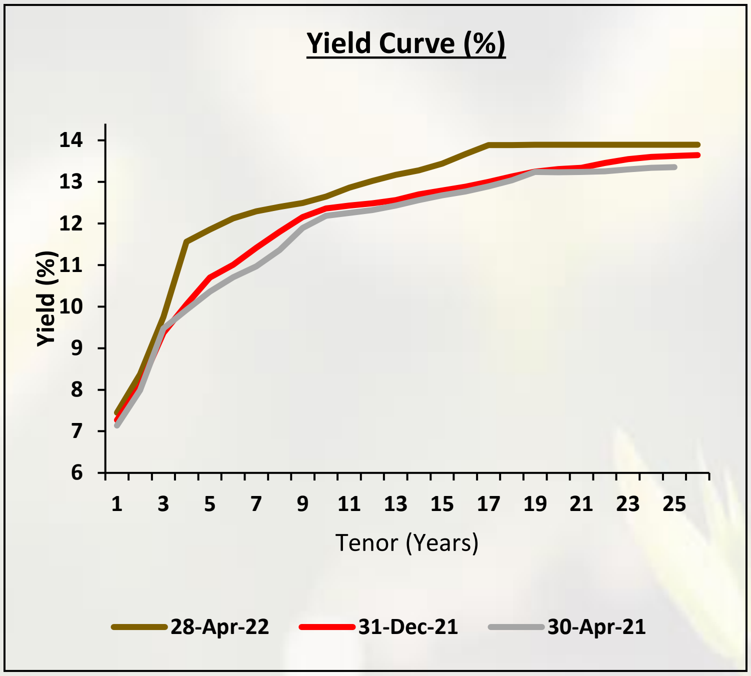
FIXED INCOME HIGHLIGHTS

T-bills were undersubscribed in April, with the overall performance rate coming in at 59.4%, a decline from the 90.7% recorded in March 2022. The decline in the subscription rate was partly attributable to tightened liquidity in the money markets, coupled with competition from concurrent government bond issuances during the month providing higher yields.

In the Primary Bond Market, the government issued 2 bonds FXD1/2022/03 and FXD1/2022/15, which recorded a total undersubscription of 95.1%. Investors preferred the longer dated bond, FXD1/2022/15, which recorded an oversubscription of 108.5%. The government accepted KES 60.8 bn of the KES 66.6 bn worth of bids received, translating to an acceptance rate of 91.3% on aggregate. The table below provides more details on the bond issued during the month:

Bond Auctioned	Value Date	Due Date	Effective Tenor to Maturity (Years)	Coupon	Amount offered (KES bn)	Total bids received	Actual Amount Raised (KES bn)	Average Accepted Yield	Subscription Rate	Acceptance Rate
FXD1/2022/03	11/04/2021	07/04/2025	3.0 years	11.766%	40.00	34.05	33.14	11.766%	85.11%	97.33%
FXD1/2022/015	25/04/2022	06/04/2037	15.0 Years	13.942%	30.00	32.55	27.64	13.942%	108.49%	84.92%
Total					**70.00**	**66.59**	**60.77**		**95.13%**	**91.27%**

In the secondary market, there was a marginal uptick on the yields on government securities, which saw the FTSE NSE bond index shed 0.2% to close the month at KES 94.8, from KES 95.0 recorded in March 2022, bringing the YTD performance to a loss of 1.3%. The secondary bonds turnover declined by 18.1% to KES 70.9 bn, from KES 86.5 bn recorded in March 2022. On a year on year basis, the bonds turnover increased by 24.7% to KES 919.8 bn, from KES 737.6 bn



Tenor	03-Jan-22	31-Mar-22	28-Apr-22	Variance YTD	Variance M-O-M
91-day	7.3%	7.3%	7.4%	0.2%	0.1%
1yr	9.4%	9.8%	9.8%	0.4%	0.0%
2Yr	10.1%	11.0%	11.6%	1.5%	0.5%
5Yr	11.4%	12.0%	12.3%	0.9%	0.3%
10Yr	12.5%	12.9%	13.0%	0.5%	0.1%
15Yr	13.0%	13.6%	13.9%	0.9%	0.3%
20Yr	13.5%	13.7%	13.9%	0.4%	0.2%
23Yr	13.6%	13.9%	13.9%	0.3%	0.0%
25Yr	13.6%	13.9%	13.9%	0.3%	0.0%

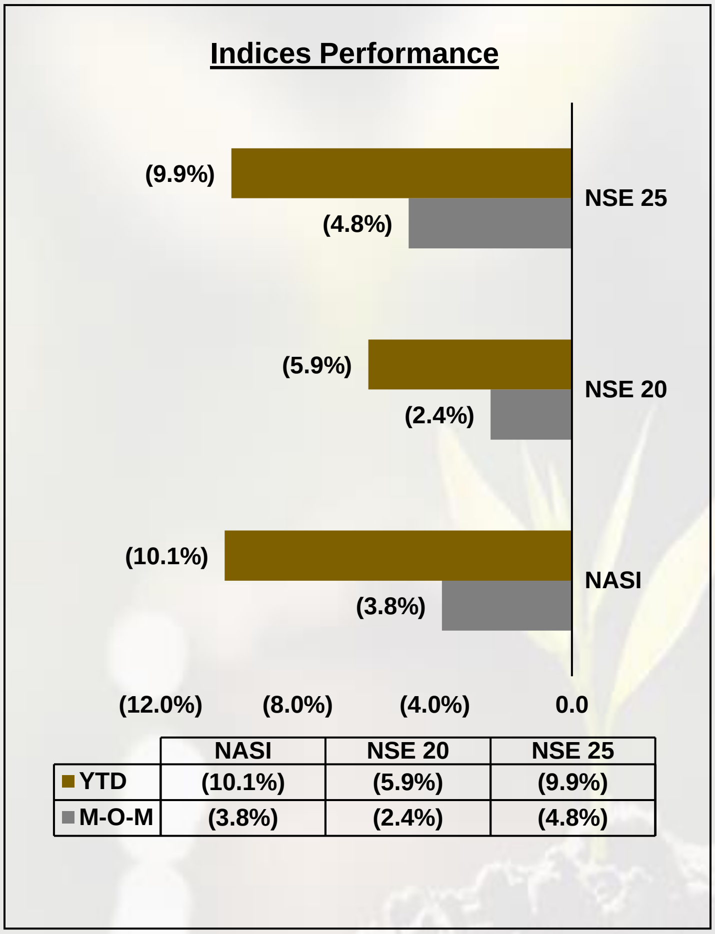
Fixed Income Outlook: *There has been a notable Improvement in revenue collections in the current financial year. Revenue collections overshot the government's prorated estimates in the first eight months of the FY 2021/2022, by 0.8% to close at KES 1.2 bn. Despite this, rising expenditure, coupled with debt service requirements could sustain wide deficits and as such we expect Interest rates to continue picking up as debt pressure builds following increased fiscal needs in the medium-term. Foreign investors are additionally expected to quote higher yields to cover for any foreign exchange risk as the shilling continues facing pressure from a strengthening dollar.* ***Based on the backdrop of the current fixed income market outlook we maintain our preference for medium term papers to mitigate the duration risk whilst maintaining adequate real return given the rising inflation****.*

EQUITIES MARKET PERFORMANCE

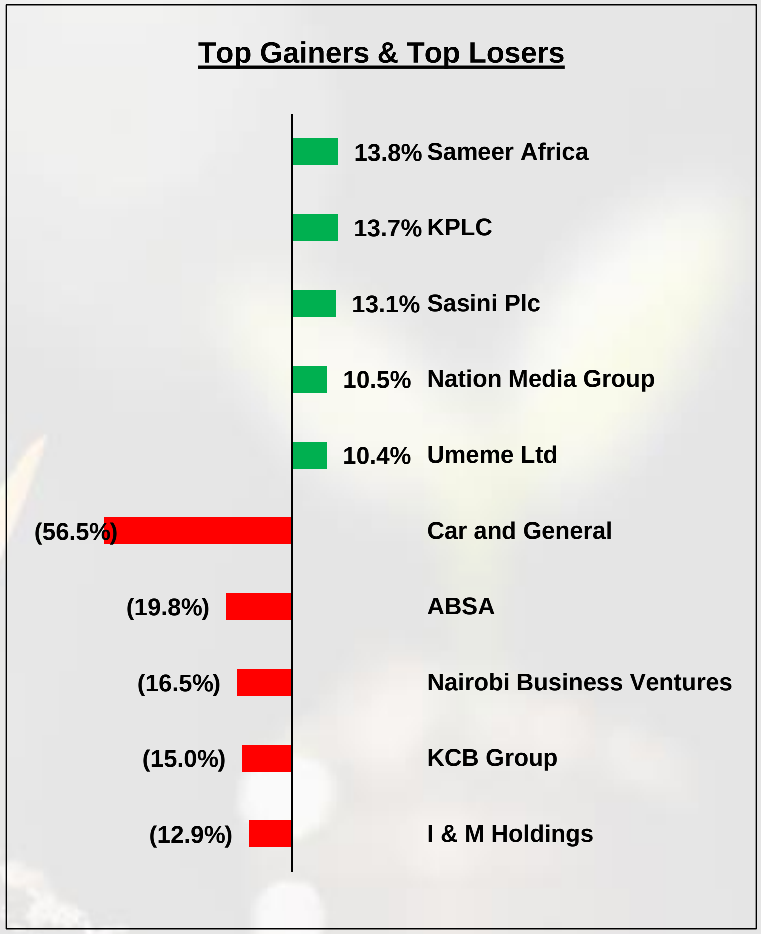
The equities market was on a downward trajectory which saw NASI, NSE 20 and NSE 25 shed 3.6%, 2.5% and 5.1%, respectively. The performance was driven by losses recorded by large cap stocks such as KCB (-15.0%), ABSA (19.8%) and I & M Holdings Plc (-12.92%). The losses were however mitigated by gains recorded by stocks such as Bamburi and NCBA Group of 3.6% and 0.6%, respectively. Ten of the 20 stocks on the NSE-20 index fell with the banking sector recording substantial losses as the counters adjust ex-dividend.

Equity turnover declined by 38.0% in April 2022 from KES 9.5 bn to KES 5.8 bn. Sameer Africa Plc led the pack with a gain of 13.8% M-O-M while Car and General (K) Ltd recorded the highest loss of (56.5%). Foreign investors accounted for 54.9% of total turnover and were net sellers withdrawing KES 1.7 bn last month.

The charts below show the equities market performance during the period of review:



	NASI	NSE 20	NSE 25
YTD	(10.1%)	(5.9%)	(9.9%)
M-O-M	(3.8%)	(2.4%)	(4.8%)



Equities Outlook: *Domestic equity markets witnessed a brutal selloff in Q1'2022 as the global rise in interest rates led by higher US bond yields stock fear of fresh foreign investment outflows from domestic stocks. We remain cognizant of the risks in the medium term, on account of (i) US interest rates hikes and (Ii) upcoming general elections as investors take a wait and watch approach which is consistent with most election since the 2007 general elections. Pockets of value however exist as the market is currently trading at a Price to Earnings (P/E) multiple of 10.7x which presents a discount in comparison to the historical average of 13.0x. This presents a suitable opportunity to buy the dip for future capital appreciation. We believe investors should take up positions in value stocks trading at discounts to their intrinsic value with a bias towards the banking sector which we believe will be well-positioned to rebound in a higher interest rate environment, which is bound to shore up its revenues.*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