NatBank
Trustee and Investment Services LTD

National Bank

A Subsidiary of KCB Group PLC

MONTHLY ECONOMIC REPORT

JULY 2022

Disclaimer: Whilst all considerable care has been taken by NatBank Trustee and Investment Services Ltd in preparation of this Market Bulletin, NTISL does not assume liability for any losses arising from errors, omissions, Opinions, forecasts or information given by NTISL, its affiliates, or employees and whether such losses be direct, indirect or consequential.

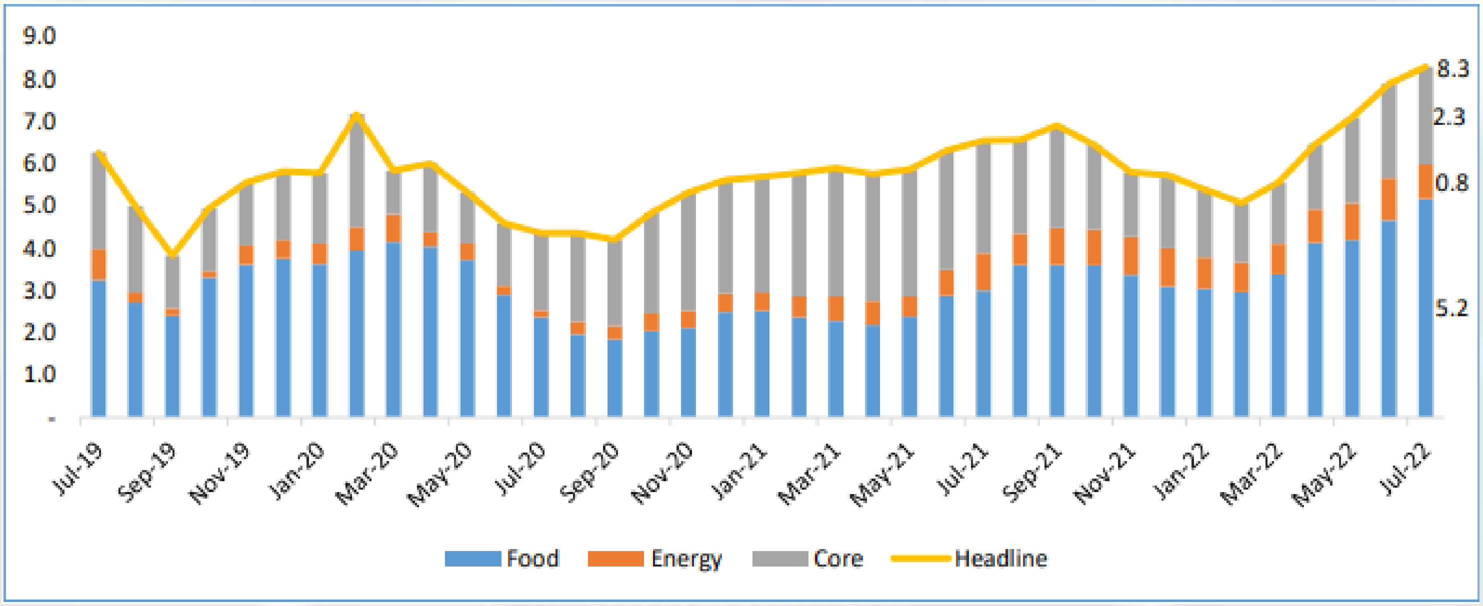
MACROECONOMIC HIGHLIGHTS

INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 8.3%, in July 2022, higher than 7.9% recorded in June 2022. The rise was attributable to increase in prices of commodities under food and non-alcoholic beverages (15.3%); transport (7.0%) and housing, water, electricity, gas and other fuels (5.6%) between July 2021 and July 2022. These three divisions account for over 57% of the weights of the 13 broad categories. The prices of commodities under furnishings, household equipment and routine household maintenance recorded a 9.8% increase during the review period.

Month on month, the CPI increased by 0.7% from an index of 124.2 in June 2022 to 125.1 in July 2022. The month-on-month Food and Non-Alcoholic Beverages Index increased by 1.1% between June 2022 and July 2022.

The charts below provide details on Inflation Evolution (%):



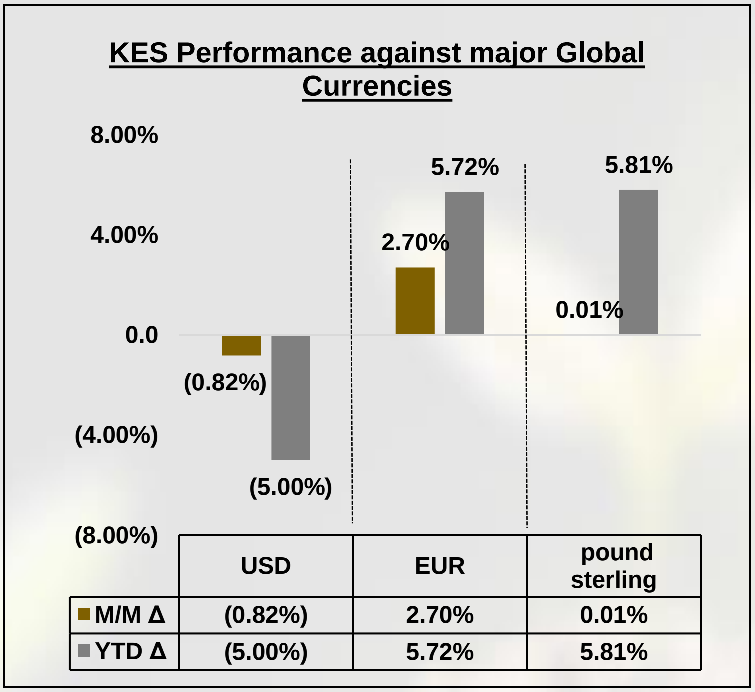
Inflation Outlook*: Risks to the outlook remain tilted to the upside in the short term driven by the ongoing global geopolitical issues, coupled with supply chain concerns which have exposed Kenya's soft underbelly as a net importer of essential raw materials required for the manufacture of basic household items.*

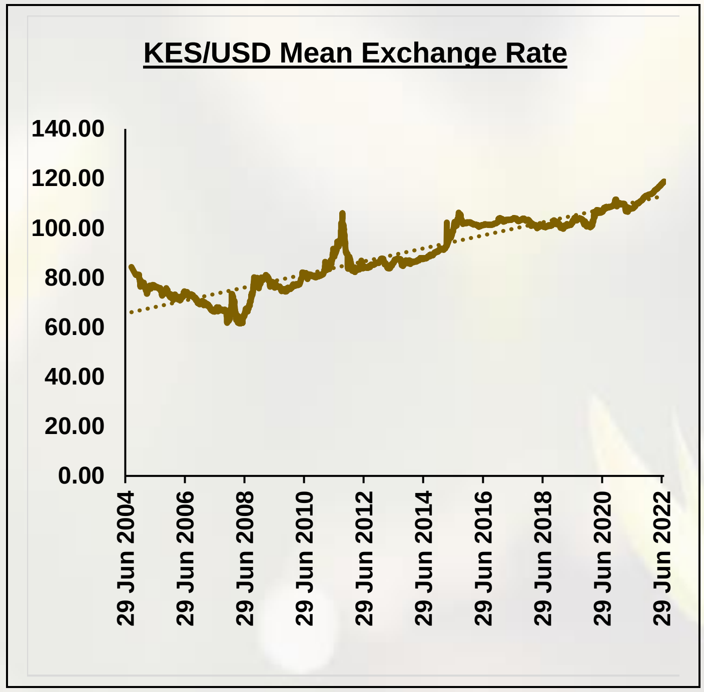
CURRENCY PERFORMANCE:

The Kenya Shilling depreciated by 0.82% against the US Dollar, to close the month at KES 118.80, from KES 117.83 recorded at the end of June 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.

On a YTD basis, the shilling has depreciated by 5.00% against the US dollar but has gained by 5.81% and 5.72% 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 5.3% of GDP in the 12 months to June 2022, compared to 5.1% of GDP in the 12 months to April and is projected at 5.9% of GDP in 2022. Pressure on the shilling 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. The depreciating trend is expected to continue, amplified by election-related uncertainty, which typically saps confidence. The CBK foreign exchange reserves, which currently stand at USD 7,744 million (4.47 months of import cover), are expected to continue providing a buffer against any short-term shocks in the foreign exchange market.*

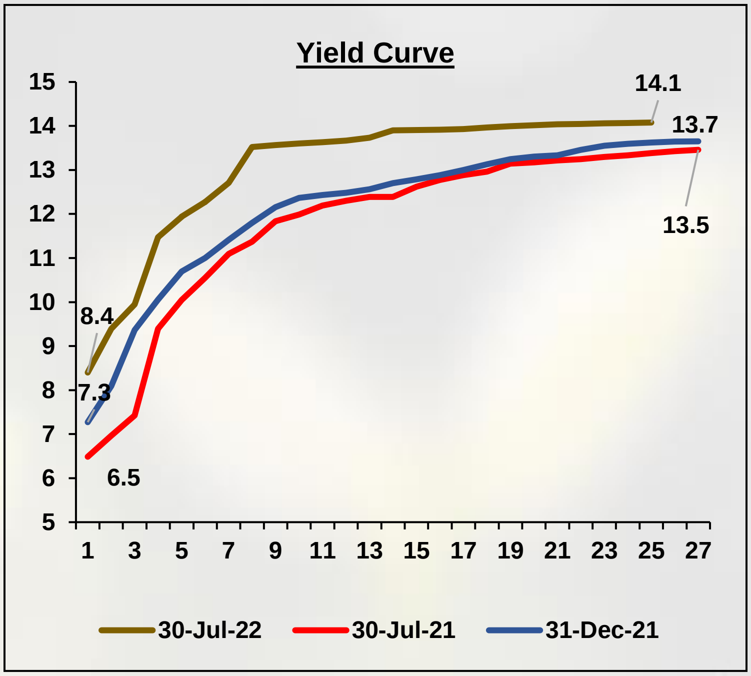
FIXED INCOME HIGHLIGHTS

The yields on the 91-day, 182-day and 364-day treasury bills averaged 8.28%, 9.34% and 9.97% respectively in July 2022 compared to 7.94%, 9.09% and 9.96% respectively in June 2022. The yields for all tenors continued to increase with notable under subscriptions for 182-day and 364-day bills.

In the Primary Bond Market, the government reopened two bonds (FXD2/2013/15), (FXD2/2018/15) and had a tap sale for one bond (IFB1/2022/018). The issues recorded a total undersubscription of 28.32%. The government accepted KES 15.72 bn of the KES 16.99 bn worth of bids received, translating to an acceptance rate of 92.54% 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 (Kshs bn)	Total bids received	Actual Amount Raised (Kshs bn)	Average Accepted Yield	Subscription Rate	Acceptance Rate
IFB1/2022/018 (Tap Sale)	11/07/2022	21/05/2040	17.9	13.74%	20.00	6.42	6.42	13.74%	32.09%	99.97%
FXD2/2013/15 FXD2/2018/15	25/07/2022 25/07/2022	10/04/2028 03/10/2033	5.7 11.2	12.00% 12.75%	40.00	10.57	9.31	13.21% 13.89%	26.43%	88.03%
Total					**60.00**	**16.99**	**15.72**		**28.32%**	**92.54%**

There was a general upward readjustment on the yield curve in line with market expectations driven by the persistence of high inflation, tightening monetary policy action and subsequent risk aversion. Secondary bonds turnover declined by 5.55% to KES 60.93 bn, from KES 64.51 bn recorded in June 2022.



Tenor	Jan-22	June-22	July-22	Δ YTD	Δ M-O-M
91-day	7.3%	8.0%	8.4%	1.1%	0.4%
1yr	9.4%	10.0%	9.9%	0.6%	(0.0%)
2Yr	10.1%	11.6%	11.5%	1.4%	(0.1%)
5Yr	11.4%	12.3%	12.7%	1.3%	0.4%
10Yr	12.5%	13.6%	13.7%	1.2%	0.1%
15Yr	13.0%	13.9%	13.9%	0.9%	0.1%
20Yr	13.5%	13.9%	14.0%	0.6%	0.1%
23Yr	13.6%	13.9%	14.1%	0.5%	0.1%

Fixed Income Outlook: *Despite the continued improvement in revenue collections, 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, coupled with recent raising of the Central Bank Rate (CBR) from 7.00% to 7.50%.*

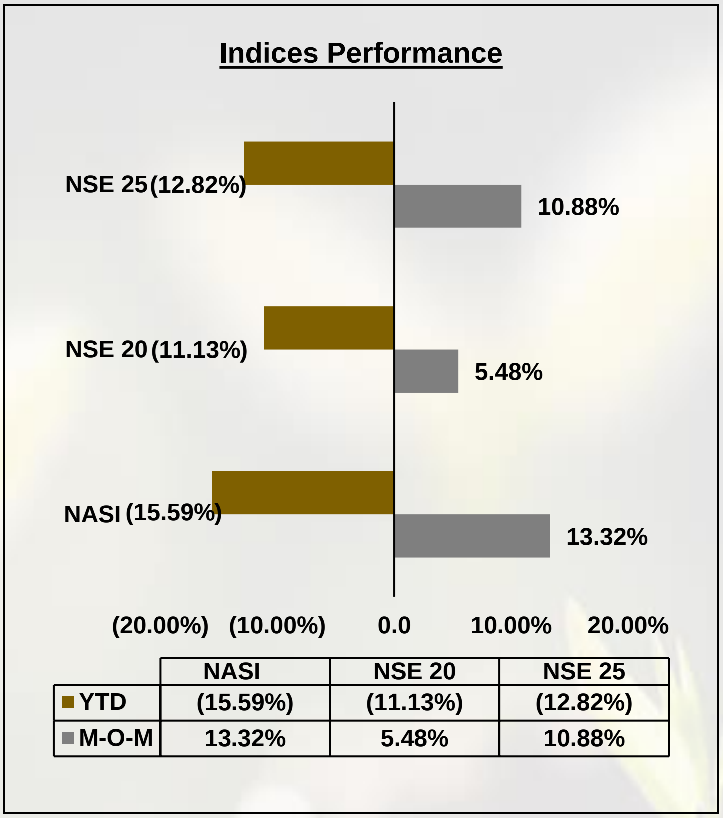
Signs of a shift in sentiment is also ripe in the Eurobond market which has seen Kenya's Eurobond yields rising (The Eurobond maturing in 2024 for instance closed the month at a yield of 16.9%, up from 4.4% in January). To this end, prospects of raising funds in external credit markets have dimmed, further anchoring appetite for local deficit financing. Even then, the ability for local borrowing to plug revenue deficits amid the current levels of inflation suggests that any borrowing will attract a hefty premium. ***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****.*

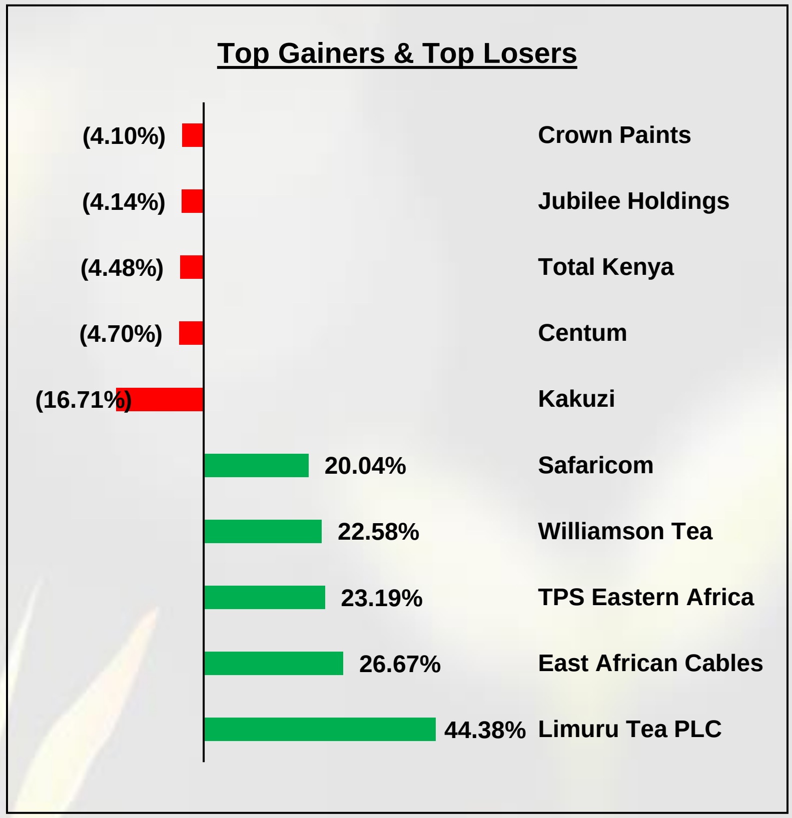
EQUITIES MARKET PERFORMANCE

The equities market was on an upward trajectory in July, as depicted by the key indices, which saw NASI, NSE 20 and NSE 25 gain by 13.32%, 5.48% and 10.88%, respectively. The performance was driven by losses recorded by large cap stocks such as Safaricom (20.04%), Equity Group (11.63%), Co-operative Bank of Kenya (9.17%), and E.A Breweries (13.11%), respectively.

Equity turnover declined by 13.41% in July 2022 to KES 8.00 bn from KES 9.24 bn in June. overall foreign activity closed with a net outflow of KES 2.97 bn a decline from KES 5.04 bn in June. The bourse saw Safaricom record a turnover of KES 3.62 bn, representing 43.02% of the month's total turnover, a decline from 59.18% in June. Limuru Tea Plc was the month's top gainer having appreciated by 44.38% to close at KES 462.00 while Kakuzi Plc was the month's top loser, declining by 16.71% in value to end the month at KES 367.50.

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





Equities Outlook: *We remain cognizant of the risks in the medium term, on account of (i) US interest rates hikes and (ii) effects of the electioneering period 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 7.4x which presents a discount in comparison to the historical average of 12.8x, and a dividend yield of 5.8%, above the historical average of 4.0%. 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 telecommunication and banking sectors which we believe will be well-positioned to rebound in a higher interest rate environment, which is bound to shore up its revenues.*


NatBank
Trustee and Investment Services LTD
National Bank
A Subsidiary of KCB Group PLC
This is the time to grow
We know how to make your money grow and yield better returns.
Talk to us today on the investment opportunities available for you.
• Wealth Management Solutions
• Fund Management Services
• Advisory Services
• Retirement Benefit Schemes
Call: 0703 088 692 / 252 / 356 / 357 / 398
(020) 282 8900
Email: NTISLstaff@nationalbank.co.ke
Regulated by the Retirement Benefits Authority