NatBank
Trustee and Investment Services LTD

National Bank
A Subsidiary of KCB Group PLC

# MONTHLY ECONOMIC REPORT

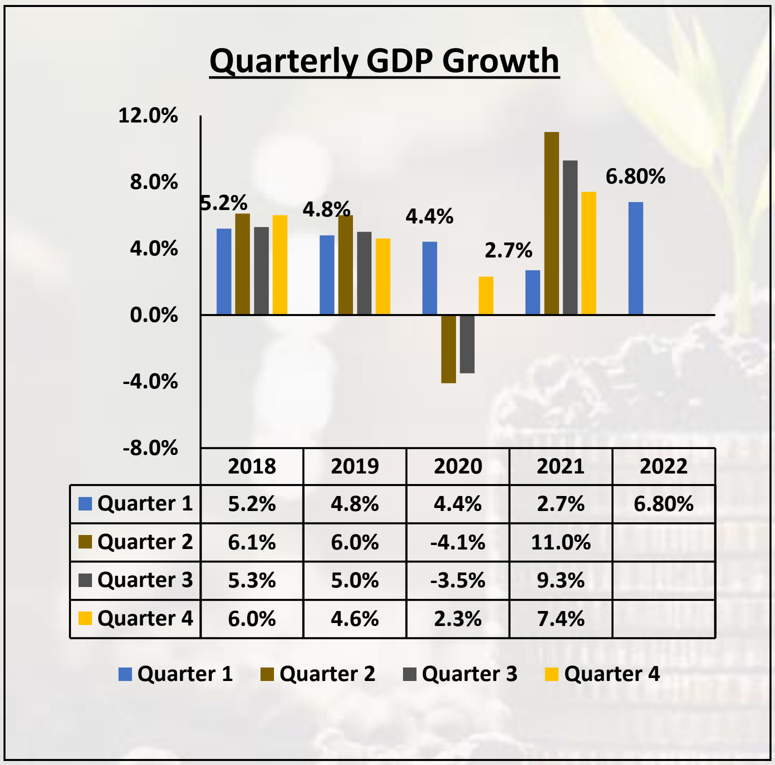
# JUNE 2022

# MACROECONOMIC HIGHLIGHTS

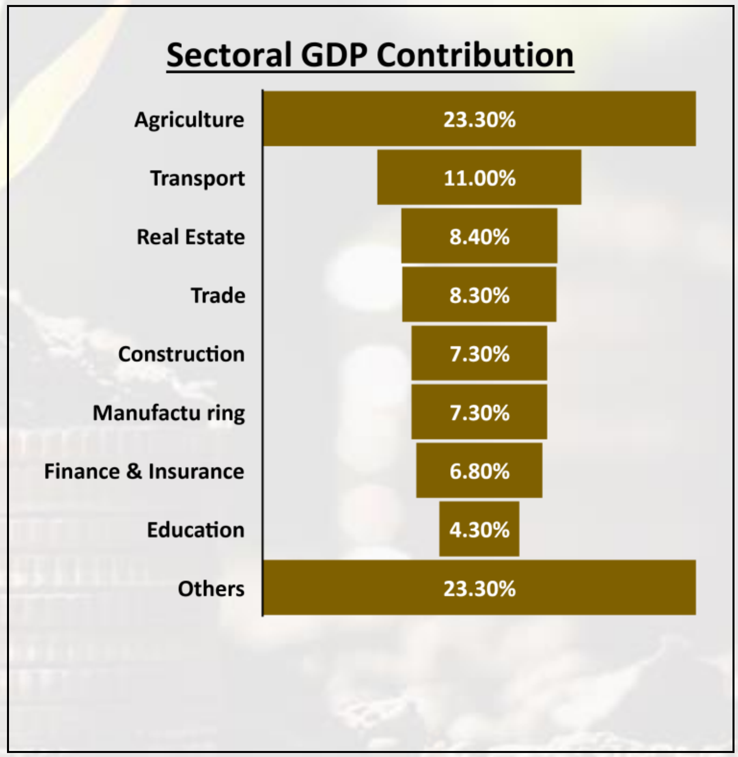
## ECONOMIC GROWTH:

The Kenyan economy expanded by 6.8% in Q1’2022 higher than 2.7% in the first quarter of 2021. The performance was supported by rebounds in most economic activities that had contracted significantly in the first quarter of 2021 due to measures instituted to curb the spread of COVID-19. Some of the sectors that recorded significant recovery included Transportation and Storage (8.1%), Accommodation and Food Serving activities (56.2%), Professional, Administrative and Support Services (14.9%) and Other Service activities (11.1%).

The growth was also supported by accelerated growths in Manufacturing, Wholesale and Retail Activities and Financial and Insurance activities coupled with sustained growth in Construction, Real Estate and Information and Communication activities. The growth was however constrained by contraction in Agricultural activities mainly owing to insufficient rainfall during the preceding quarter as well as delayed long rains during the period under review. The charts below provide details on GDP growth and sectoral contribution:




| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Quarter 1 | 5.2% | 4.8% | 4.4% | 2.7% | 6.80% |
| Quarter 2 | 6.1% | 6.0% | -4.1% | 11.0% | |
| Quarter 3 | 5.3% | 5.0% | -3.5% | 9.3% | |
| Quarter 4 | 6.0% | 4.6% | 2.3% | 7.4% | |



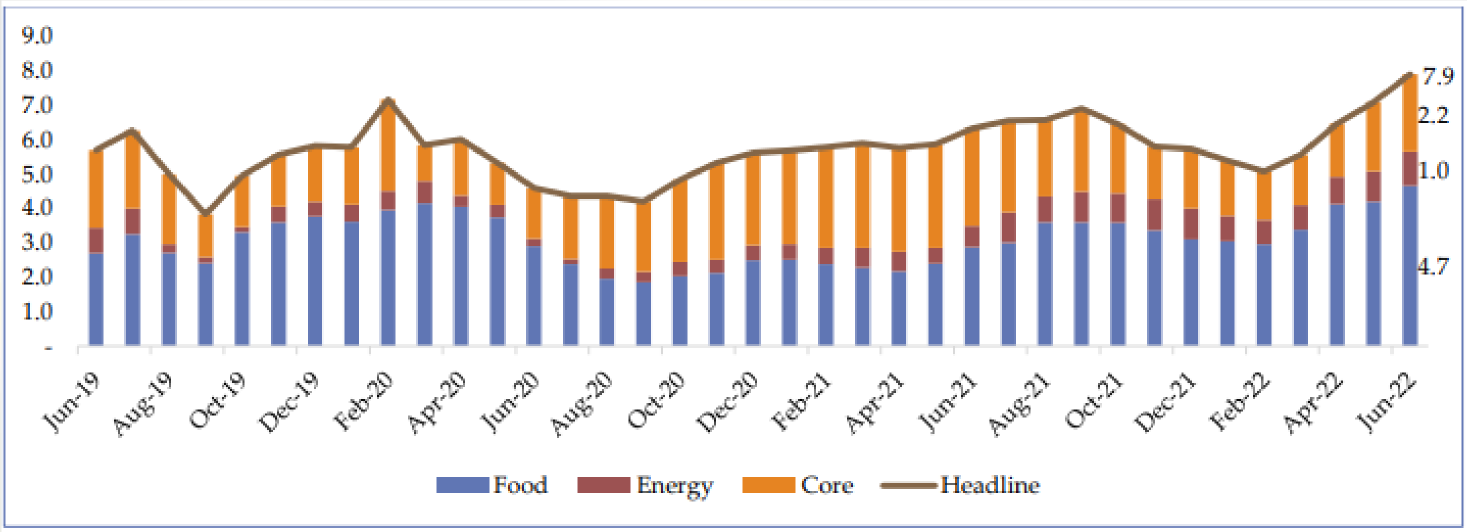

***GDP outlook:*** *The economy is expected to remain stable in 2022, supported by continued strong performance of the services sector, recovery in agriculture, and an improvement in global demand. we however maintain cautious optimism taking into consideration the forthcoming general elections in August 2022.*

## INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) came in at 7.9%, above the National Treasury’s target range of 2.5%-7.5%, in June 2022. The rise in inflation was mainly driven by increases in prices of commodities under; food and non-alcoholic beverages (13.8%); furnishings, household equipment and routine household maintenance (9.2%); transport (7.1%) and housing, water, electricity, gas and other fuels (6.8%) between June 2021 and June 2022.

Month on month, the CPI increased by 0.9% from an index of 123.12 in May 2022 to 124.22 in June 2022. The month-to-month Food and Non-Alcoholic Beverages Index increased by 1.2% between May 2022 and June 2022.

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

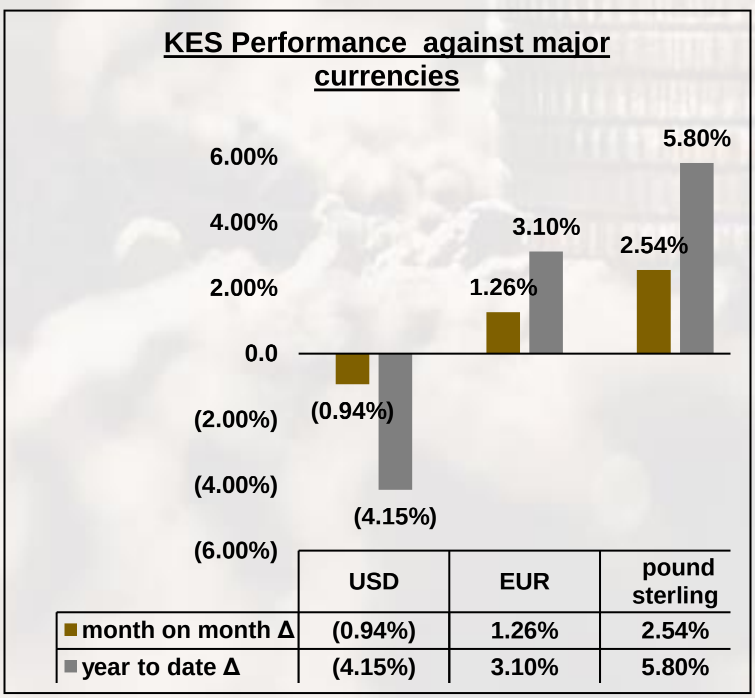


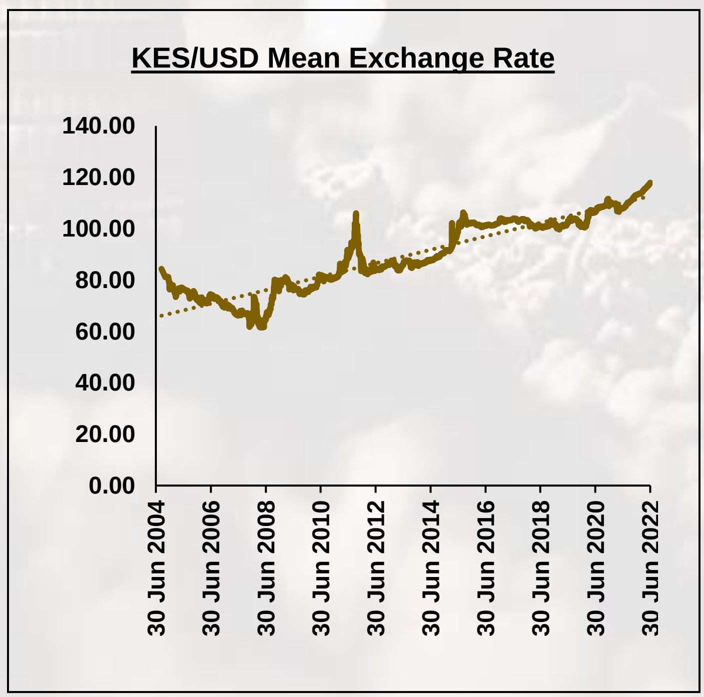

***Inflation Outlook****: Risks to the outlook remain tilted to the upside in the short term driven by the ongoing global geopolitical issues, coupled with supply chain concerns which have exposed Kenya's soft underbelly as a net importer of essential raw materials required for the manufacture of basic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

**CURRENCY PERFORMANCE:**

The Kenya Shilling depreciated by 0.94% against the US Dollar, to close the month at KES 117.83, from KES 116.74 recorded at the end of May 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 4.15% against the US dollar but has gained by 3.10% and 5.80% 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 5.1% of GDP in the 12 months to April 2022, compared to 4.8% 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 7,982 million (4.74 months of import cover as of June 30), are expected to continue providing a buffer against any short-term shocks in the foreign exchange market.*

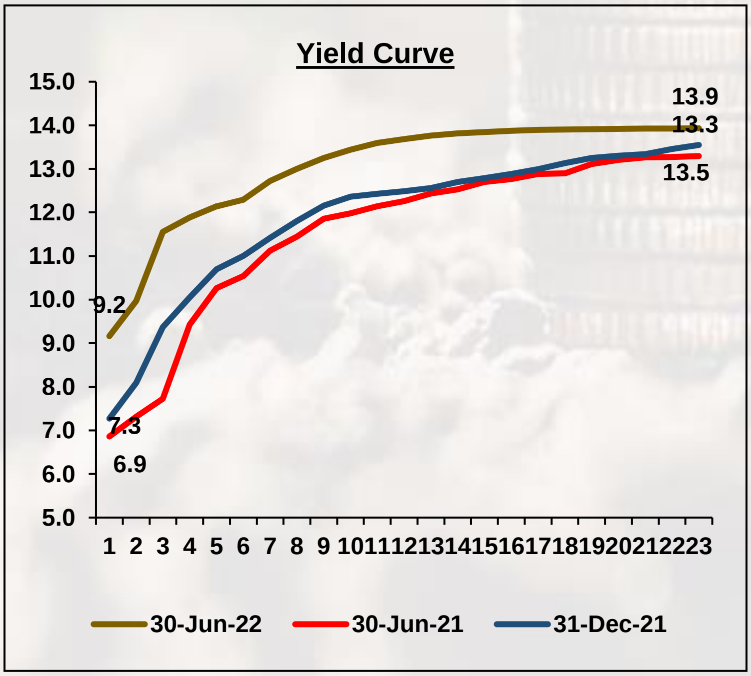
## FIXED INCOME HIGHLIGHTS

The yields on the 91-day, 182-day and 364-day treasury bills rose in the month of June averaging 7.94%, 9.09% and 9.96%, respectively compared to 7.69%, 8.75% and 9.87% respectively in May 2022.

In the Primary Bond Market, the government issued one bond (IFB1/2022/018) and had a tap sale for two bonds (FXD1/2022/03) and (FXD1/2022/15). The issues recorded a total undersubscription of 95.98%. The government accepted KES 93.37 bn of the KES 95.98 bn worth of bids received, translating to an acceptance rate of 97.28% on aggregate. The table below provides more details on the bond issued during the month:

| Bond Auctioned | Value 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 | 13/06/2022 | 18.0 | 13.74% | 75.00 | 76.37 | 73.77 | 13.74% | 101.83% | 96.60% |
| FXD1/2022/03 (Tap Sale) | 27/06/2022 | 2.8 | 11.77% | 25.00 | 19.61 | 19.60 | 11.77% | 78.43% | 99.95% |
| FXD1/2022/15 (Tap Sale) | 27/06/2022 | 14.8 | 13.94% | | | | 13.94% | | |
| **Total** | | | | **100.00** | **95.98** | **93.37** | | **95.98%** | **97.28%** |

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. This saw the FTSE NSE bond index shed 0.1% to close the month at KES 94.7 from KES 94.8 in May, bringing the YTD performance to a loss of 1.4%. The secondary bonds turnover rose by 10.14% to KES 64.51 bn, from KES 58.57 bn recorded in May 2022.




| Tenor | 03-Jan-22 | 31-May-22 | 30-Jun-22 | Variance YTD | Variance M-O-M |
|---|---|---|---|---|---|
| 91-day | 7.27% | 7.74% | 8.01% | 0.74% | 0.27% |
| 1yr | 9.37% | 9.88% | 9.97% | 0.61% | 0.09% |
| 2Yr | 10.05% | 11.28% | 11.56% | 1.50% | 0.27% |
| 5Yr | 11.42% | 12.24% | 12.29% | 0.88% | 0.05% |
| 10Yr | 12.49% | 13.53% | 13.59% | 1.11% | 0.06% |
| 15Yr | 13.00% | 13.90% | 13.88% | 0.88% | (0.02%) |
| 20Yr | 13.46% | 13.92% | 13.92% | 0.47% | 0.01% |
| 23Yr | 13.62% | 13.98% | 13.94% | 0.31% | (0.04%) |

***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%.*

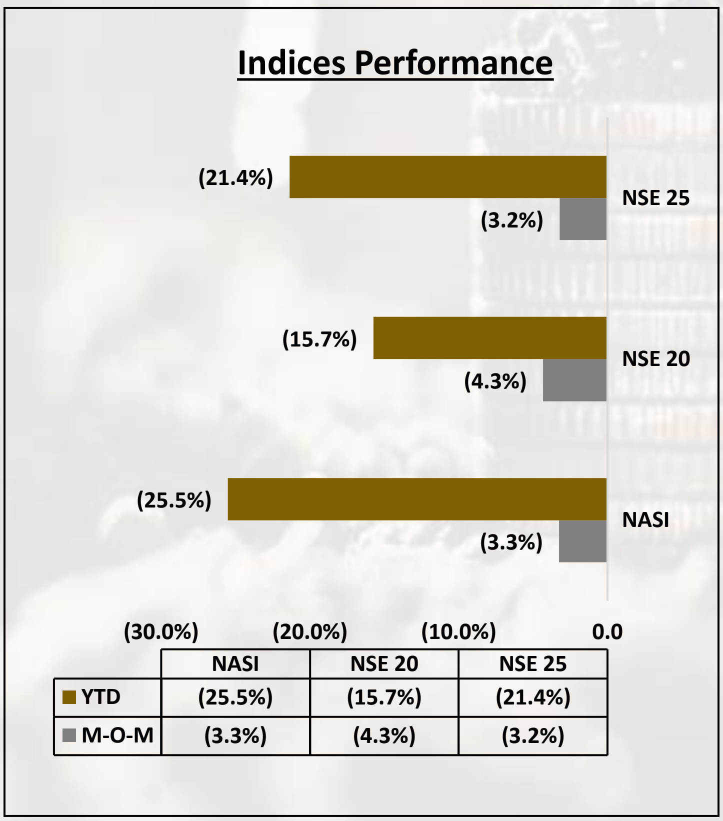
*Signs of a shift in sentiment is also ripe in the Eurobond market which has seen Kenya's Eurobond yields rising (The Eurobond maturing in 2024 for instance closed the month at a yield of 17.0%, up from 4.4% in January). To this end, prospects of raising funds in external credit markets have dimmed, 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****.*

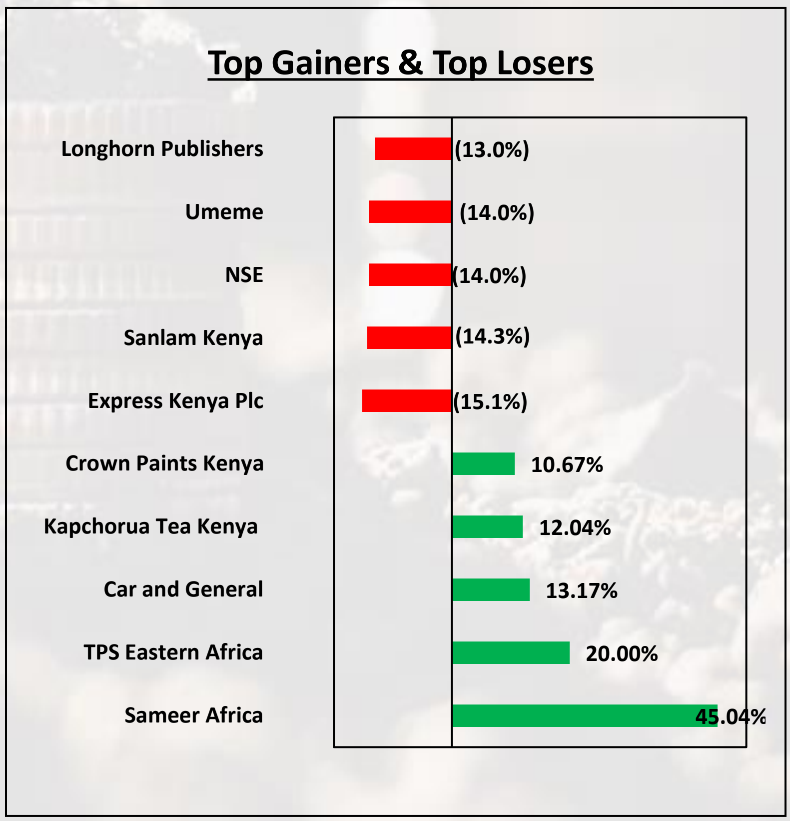
## EQUITIES MARKET PERFORMANCE

The equities market was on a downward trajectory in June, as depicted by the key indices, which saw NASI, NSE 20 and NSE 25 shed 3.32%, 4.10% and 3.35%, respectively. The performance was driven by losses recorded by large cap stocks such as Safaricom (4.04%), Equity Group (5.49%), NCBA 7.63%, and E.A Breweries (2.66%). The losses were however mitigated by gains recorded by counters such as KCB and ABSA of 1.44% and 1.95%, respectively.

Equity turnover declined by 14.30% in June 2022 to KES 9.24 bn from KES 10.78 bn in May. overall foreign activity closed with a net outflow of KES 5.04 bn a rise from KES 4.21 bn in May. The bourse saw Safaricom record a turnover of KES 5.77 bn, representing 59.18% of the month's total turnover.  Sameer Africa Plc was the month's top gainer having appreciated by 45.04% to close at KES 3.80 while Express Kenya Plc was the month's top loser, declining by 15.14% in value to end the month at KES 3.25.

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) 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*

*6.8x which presents a discount in comparison to the historical average of 12.8x, and a dividend yield of 6.6%, 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.*

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