NatBank
Trustee and Investment Services LTD

National Bank
A Subsidiary of KCB Group PLC

MONTHLY ECONOMIC REPORT

MARCH 2022

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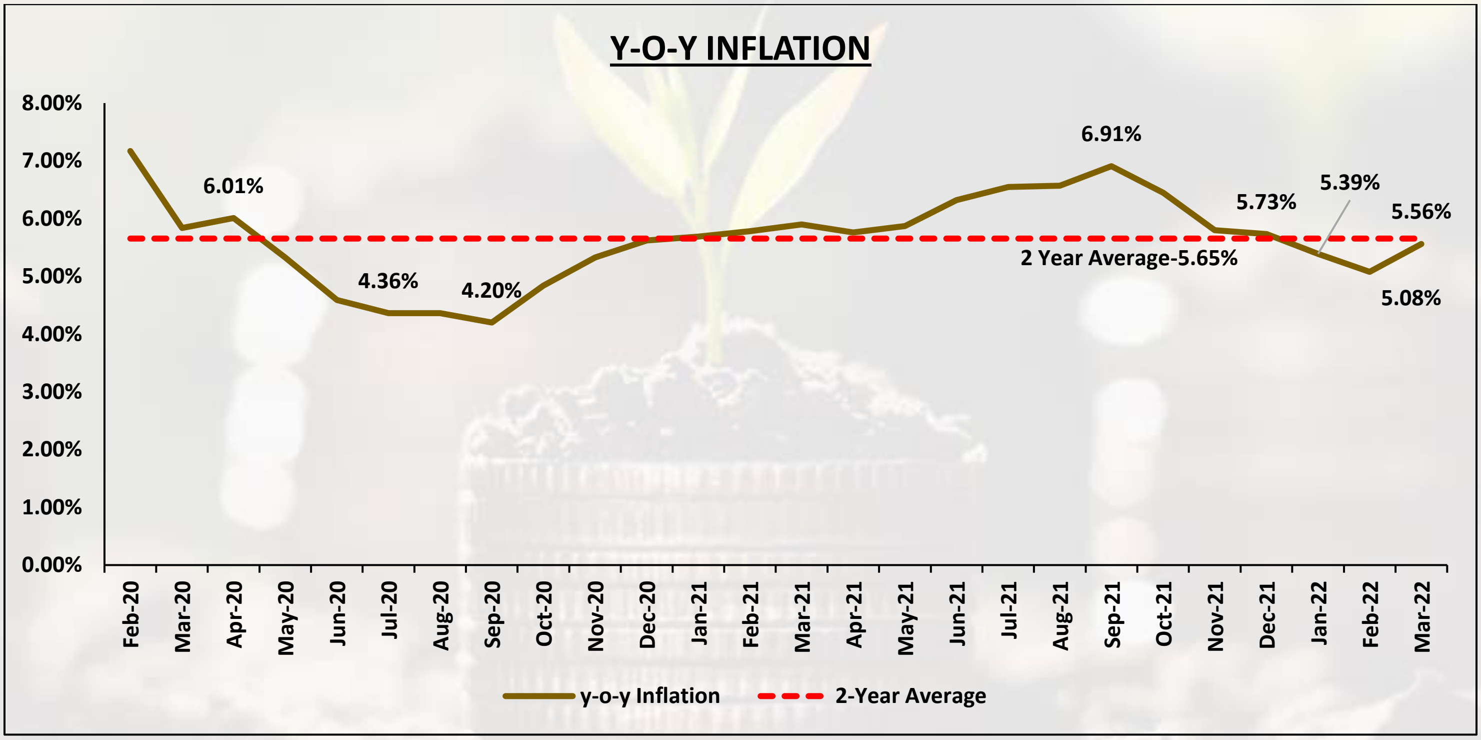
MACROECONOMIC HIGHLIGHTS

INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) came in at 5.56%, in March 2022, effectively reversing the three-month downward trend. The rise in inflation was mainly due to an increase in prices of commodities under; food and non-alcoholic beverages (9.92%); furnishings, household equipment and routine household maintenance (6.44%); housing, water, electricity, gas and other fuels (4.91%); and transport (3.66%) between March 2021 and March 2022.

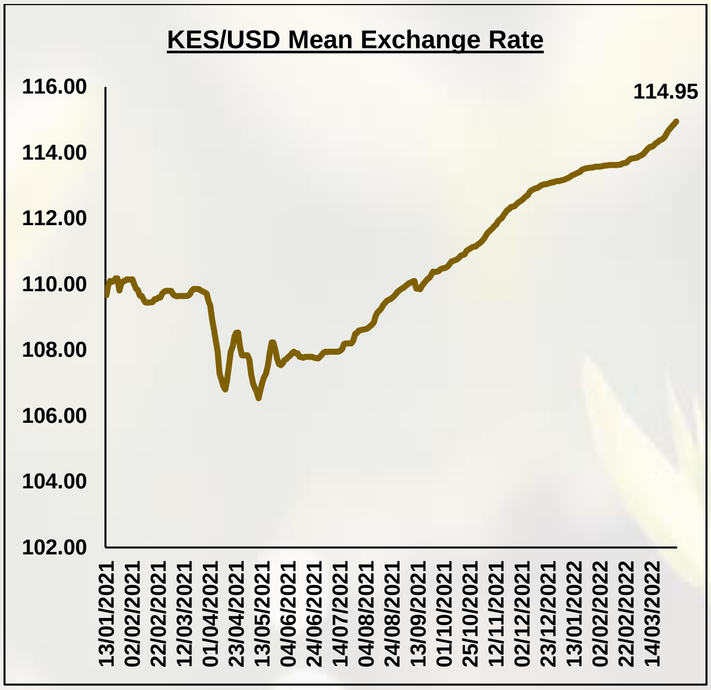
The CPI increased by 0.85% from an index of 119.13 in February 2022 to 120.14 in March 2022. Month-on month inflation was mainly on account of the Food and Non-Alcoholic Beverages Index which increased by 1.49% between February 2022 and March 2022. This was mainly attributed to increase in prices of most of the food items, which outweighed the decrease in prices of others. Furnishings, Household Equipment and Routine Household Equipment Index, also increased by 1.36% due to an increase in prices of laundry/bar soap and detergents, among other items. The chart below indicates Y-O-Y inflation trend over the past 2 years:

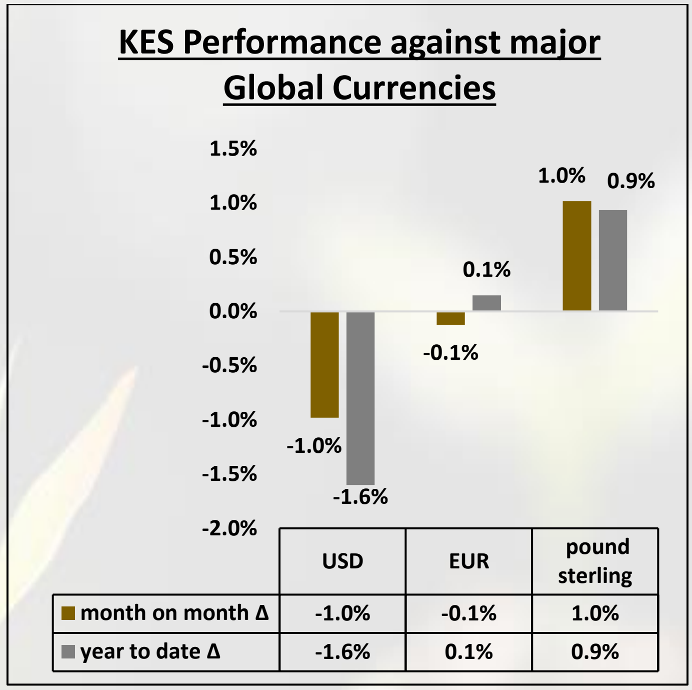


***Inflation Outlook**: We expect inflation to continue elevating in Q2'2022 driven by the recent global geopolitical issues, coupled with supply chain concerns which have exposed Kenya's soft underbelly as a net importer of essential raw materials required for the manufacture of basic household items. 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 0.98% against the US Dollar, to close at KES 114.95 in March 2022, from KES 113.84 recorded at the end of February 2022. The performance has been on the back of a stronger greenback, coupled with the increased demand. Accelerating inflation in the U.S. over the past few months has also seen the FED rate being raised earlier than anticipated resulting in a notable drop in interest in emerging market currencies, prolonging the shilling's freefall. Notably, increased local dollar demand was also partly driven by local companies disbursing dividends to foreign investors with Safaricom Plc, Kenya's largest company, declaring an interim dividend of 25.6 billion shillings (USD 222.5 mn) that was due for payment by the end of March. On a YTD basis, the shilling has depreciated by 1.6% against the US dollar but has gained by 0.9% and 0.1% 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.*

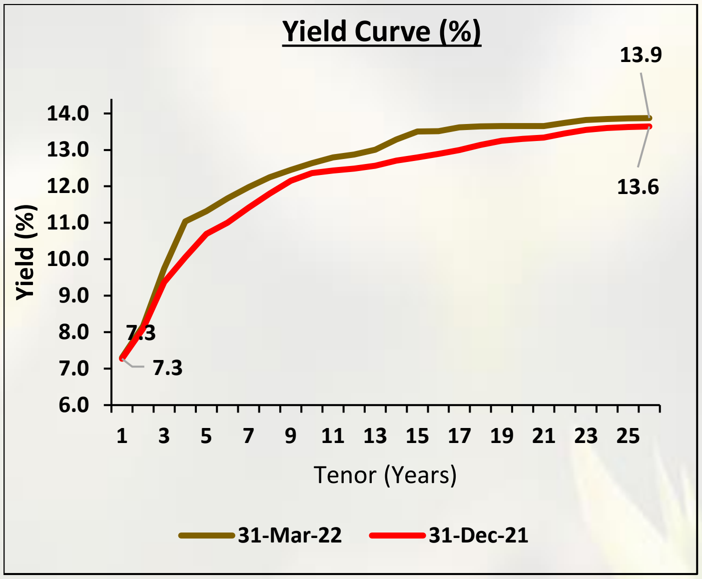
FIXED INCOME HIGHLIGHTS

T-bills were undersubscribed in March, with the overall performance rate coming in at 90.7%, a decline from the 93.6% recorded in February 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 re-opened 3 bonds FXD1-2021-005 (4.7 year), FXD1-2020-015 (12.9 year) and FXD1-2021-025 (24.2 year) and subsequently a tap sale of the same bonds. In the initial issue had an 81.90% performance rate, whereas the tap sale recorded a 79.02% performance rate. The table below provides more details on the bond issued during the month:

Bond Auctioned	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
FXD1-2021-005	4.7 years	11.277%		9.21	8.29	11.997%		
FXD1-2020-015	12.9 years	12.756%	50.00	9.14	6.22	13.732%	81.90%	45.06%
FXD1-2021-025	24.2 years	13.924%		22.60	3.94	13.973%		
FXD1-2021-005 (Tap Sale)	4.7 years	11.277%		3.93	3.83	11.997%		
FXD1-2020-015 (Tap Sale)	12.9 years	12.756%	31.50	15.56	14.65	13.732%	79.02%	95.85%
FXD1-2021-025 (Tap Sale)	24.2 years	13.924%		5.39	5.37	13.973%		
Total			**81.50**	**65.84**	**42.31**		**80.79%**	**64.27%**

In the secondary market, there was an uptick on the yields on government securities, which saw the FTSE NSE bond index shed 1.6% to close the month at KES 95.0, from KES 96.5 recorded in February 2022, bringing the YTD performance to a loss of 1.1%. The secondary bonds turnover increased by 54.3% from KES 54.9 Bn to KES 84.7 Bn. The chart below shows the yield curve movement during the period:



Tenor	03-Jan-22	28-Feb-22	31-Mar-22	Variance YTD	Variance M-O-M
91-day	7.3%	7.3%	7.3%	0.0%	0.0%
1yr	9.4%	9.8%	9.8%	0.4%	(0.0%)
2Yr	10.1%	10.5%	11.0%	1.0%	0.6%
5Yr	11.4%	11.7%	12.0%	0.6%	0.3%
10Yr	12.5%	12.7%	12.9%	0.4%	0.2%
15Yr	13.0%	13.3%	13.6%	0.6%	0.3%
20Yr	13.5%	13.7%	13.7%	0.3%	0.0%
23Yr	13.6%	13.7%	13.9%	0.2%	0.2%
25Yr	13.6%	13.7%	13.9%	0.2%	0.2%

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****.*

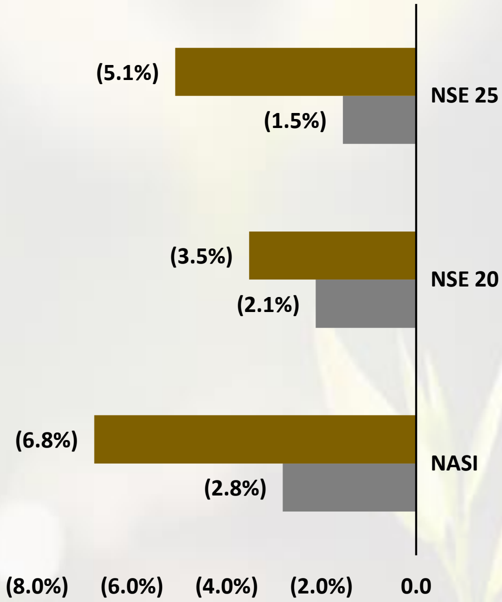
EQUITIES MARKET PERFORMANCE

The equities market was on a downward trajectory which saw NASI, NSE 20 and NSE 25 shed 2.8%, 2.1% and 1.5%, respectively. The performance was driven by losses recorded by large cap stocks such as Safaricom (-2.8%), and EABL (-5.7%). The losses were however mitigated by gains recorded by stocks such as NCBA (8.4%) and Stanbic Holdings (8.4%).

Equity turnover declined by 3.3% in March 2022 from KES 9.97 Bn to KES 9.64 Bn. Umeme led the pack with a gain of 16% M-O-M and Kenya Power with the highest loss of (22.9%). In terms of sectoral performance, Automobiles and Accessories sector recorded the highest gain at 7.8%, followed by the Banking sector which recorded a gain of 2.8%, supported by the positive FY'2021 performance released during the month and resumption of dividend payments by a number of listed Banks. The Insurance sector recorded the highest loss of 6.0% followed by the Commercial & services sector (-5.6%) and Telecommunication sector (-5.0%).

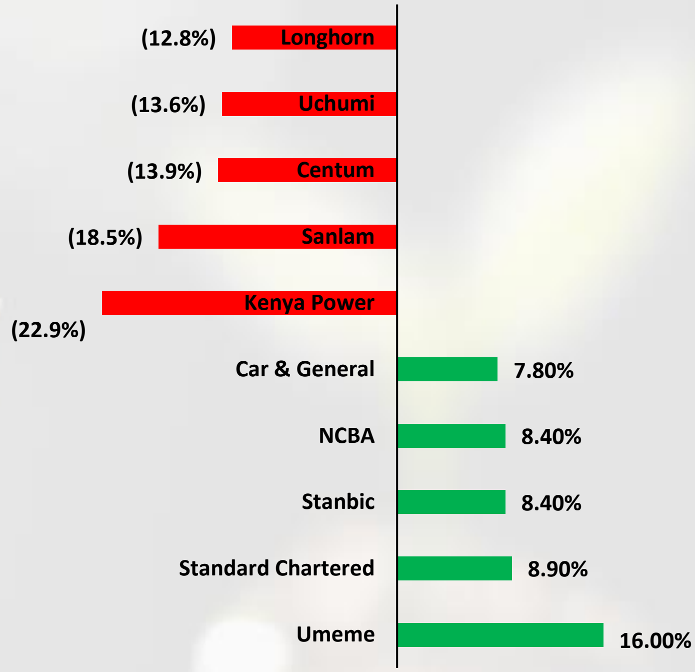
The charts below show the equities market performance during the period of review:

Indices Performance



	NASI	NSE 20	NSE 25
YTD	(6.8%)	(3.5%)	(5.1%)
M-O-M	(2.8%)	(2.1%)	(1.5%)

Top Gainers & Top Losers



Equities Outlook: *We expect increased activity and Inflows in the short term, mainly supported by expectations of impressive financial performance by the Banking and Telecommunication counters, as well as investors taking positions for the dividend play. We are however 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 in several counters currently trading at discounts to their intrinsic value and median sector multiples despite exhibiting strong earnings growth. Given the underlying risks in 2022 we have a bias towards telecommunications and financial services counters which have continued to exhibit resilience.*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