MONTHLY MARKET REPORT

OCTOBER 2022

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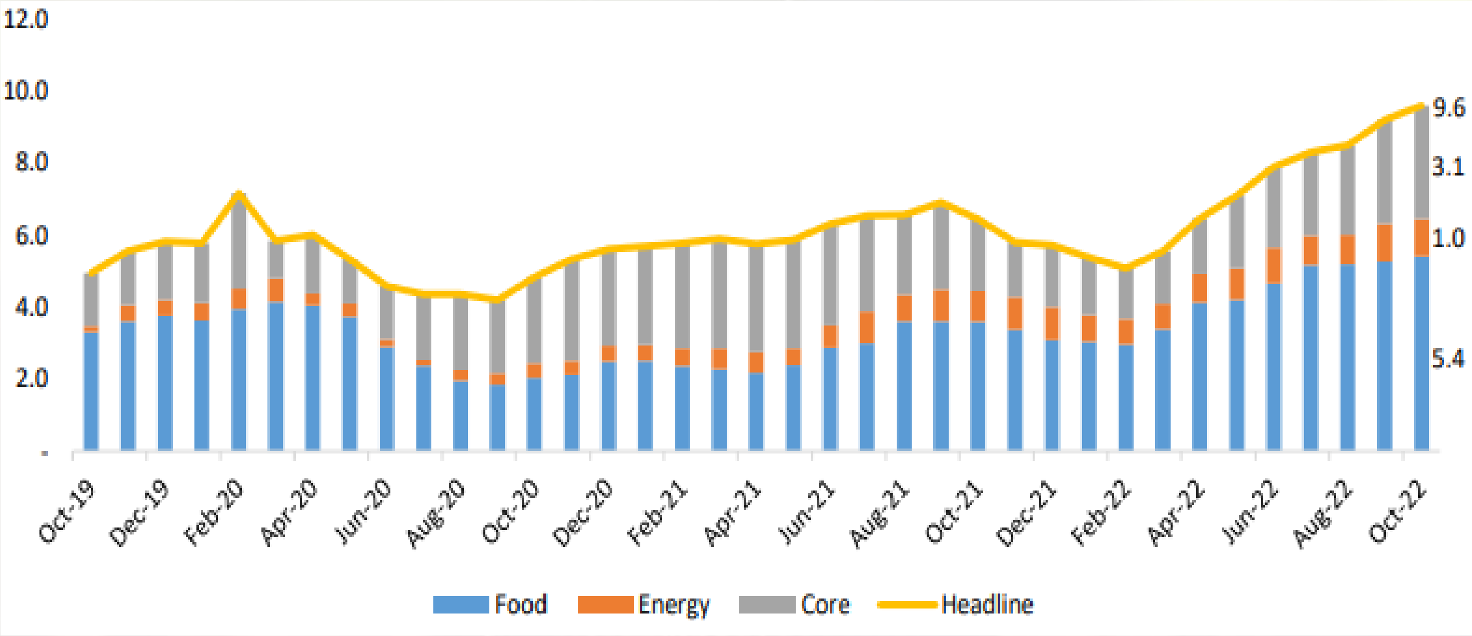
MACROECONOMIC HIGHLIGHTS

INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) came in at 9.6%, in October 2022. The rise in inflation was largely due to increase in prices of commodities under food and non-alcoholic beverages (15.8%); transport (11.6%) and housing, water, electricity, gas and other fuels (7.1%) between October 2021 and October 2022. Prices of commodities under furnishings, household equipment and routine household maintenance recorded a 10.9% increase over the period.

Month on month, the CPI increased by 0.9% from an index of 126.73 in September 2022 to 127.86 in October 2022. This was mainly driven by Food and Non-Alcoholic Beverages Index which increased by 1.4% between September 2022 and October 2022. Some of the food items which recorded the highest rise include, Irish potatoes (12.5%), sugar (12.0%), beans (7.5%) while declines were recorded in cooking oil (-3.5%) and maize flour-sifted (-1.7%).

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

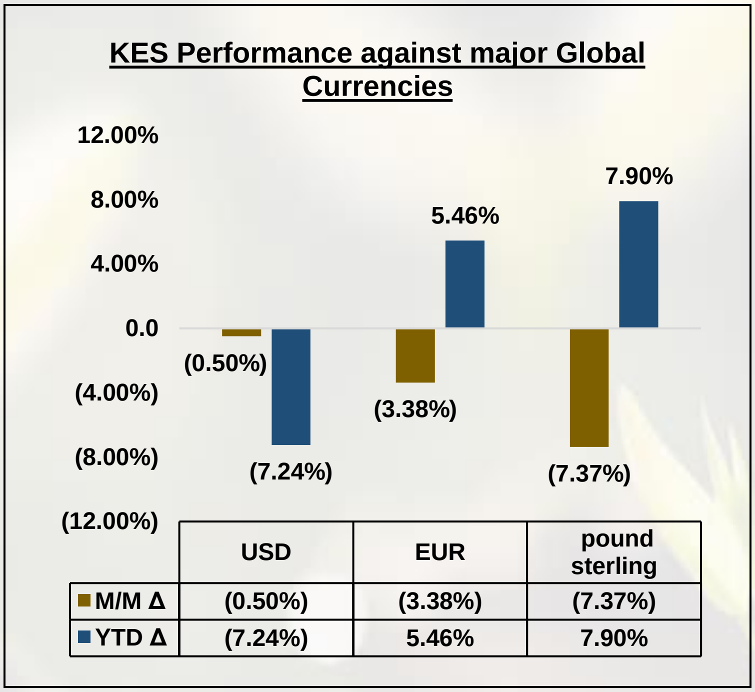


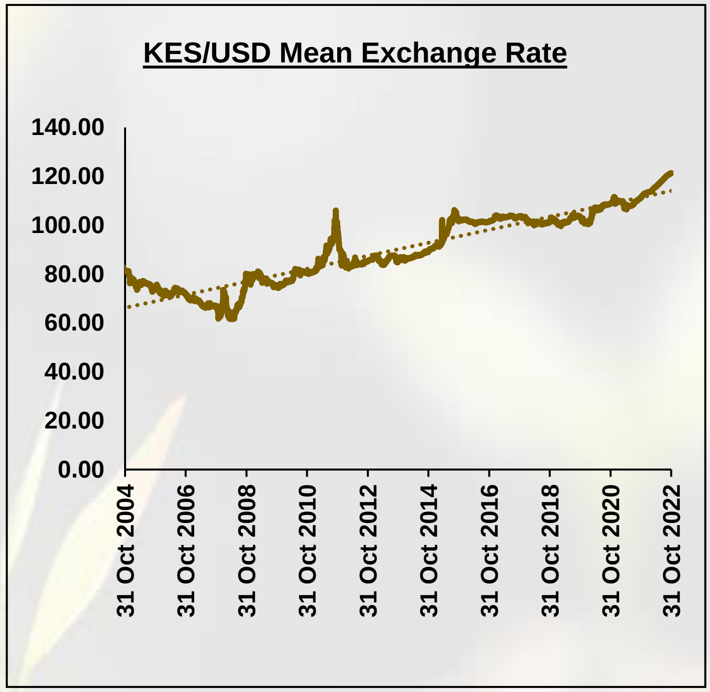
***Inflation Outlook**: Risks to the outlook remain tilted to the upside in the short term driven by high food attributable to poor rains and higher input costs. Inflationary pressures are also expected to emanate from energy prices due to high global fuel prices, coupled with the subsidy removal.*

CURRENCY PERFORMANCE:

The Kenya Shilling depreciated by 0.5% against the US Dollar, to close the month at KES 121.33, from KES 120.73 recorded at the end of Septmeber 2022. The performance was on the back of a stronger greenback, partly driven by the US FED ramping up interest rates to combat inflation, coupled with the ongoing geopolitical issues. This has made investments in the U.S. more attractive on a risk-return basis as rates rise, thus enhancing capital flight from emerging markets due to the narrowing spreads of hard-currency debt over safe-haven U.S. Treasuries.
On a YTD basis, the shilling has depreciated by 7.24% against the US dollar but has gained by 5.46% and 7.90% against the Euro and Pound Sterling, respectively.

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





Currency Outlook: *Pressure on the shilling is expected to sustain largely attributable to the strengthening of the US dollar, coupled with a high oil imports bill on account of high international oil prices. Cumulative inflows for the 12 months to September 2022 totaled USD 4,001 million compared to USD 3,530 million in the same period in 2021, an increase of 13.3%. The strong remittance inflows continue to support the current account and the foreign exchange market. The US remains the largest source of remittances into Kenya, accounting for 59% in September 2022. The usable foreign exchange reserves remained adequate at USD 7,286 million (4.11 months of import cover) as of October 27. This meets the CBK's statutory requirement to endeavor to maintain at least 4 months of import cover. This is expected to continue providing a buffer against any short-term shocks in the foreign exchange market.*

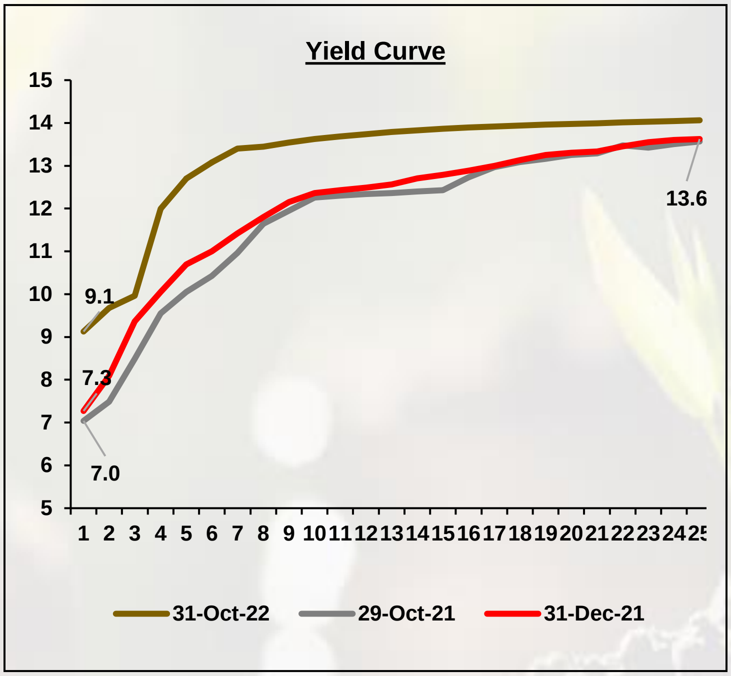
FIXED INCOME HIGHLIGHTS

The yields on the 91-day, 182-day and 364-day treasury bills averaged 9.08%, 9.66% and 9.93% respectively in October 2022 compared to 8.92%, 9.61% and 9.90% respectively in September 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 Central Bank of Kenya (CBK) issued a new bond (FXD1/2022/025) and reopened two bonds (FXD1/2017/10 & FXD1/2020/15) with an aim of raising a total of KES 60.0 BN. The issues recorded an overall undersubscription of 56.16%. The government accepted a total of KES 28.78 bn of the KES 33.69 bn worth of bids received, translating to an acceptance rate of 85.42% 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
FXD1/2017/10 FXD1/2020/15	10/10/2022 10/10/2022	19/07/2027 05/02/2035	4.8 12.4	12.97% 12.76%	40.00	18.80	15.12	13.37% 13.97%	47.00%	80.40%
FXD1/2022/025	24/10/2022	23/09/2047	25.0	14.19%	20.00	14.89	13.67	13.96%	74.47%	91.75%
Total					**60.00**	**33.69**	**28.78**		**56.16%**	**85.42%**

Yields remained elevated in the secondary market line with expectations driven by high inflation, tightening monetary policy action and subsequent risk aversion. Secondary bonds turnover declined by 13.28% to KES 57.56 bn, from KES 66.38 bn recorded in September 2022.



Tenor	03-Jan-22	30-Sep-22	31-Oct-22	Δ YTD % Points	Δ M/M % Points
91-day	7.3%	9.0%	9.1%	1.9%	0.2%
1yr	9.4%	9.9%	10.0%	0.6%	0.1%
2Yr	10.1%	11.6%	12.0%	1.9%	0.4%
5Yr	11.4%	12.9%	13.4%	2.0%	0.5%
10Yr	12.5%	13.9%	13.7%	1.3%	(0.1%)
15Yr	13.0%	13.9%	13.9%	0.9%	(0.0%)
20Yr	13.5%	14.0%	14.0%	0.6%	0.0%
23Yr	13.6%	14.0%	14.1%	0.4%	0.1%

Fixed Income Outlook: *Despite the continued improvement in revenue collections, rising expenditure, coupled with debt service requirements could sustain wide deficits. This could see Interest rates to continue picking up as debt pressure builds due to the fiscal needs in the medium-term. The current levels of inflation also point to higher rates as local borrowing might attract a premium to cover for the real rate of return, coupled with recent raising of the Central Bank Rate (CBR) from 7.50% to 8.25%.*

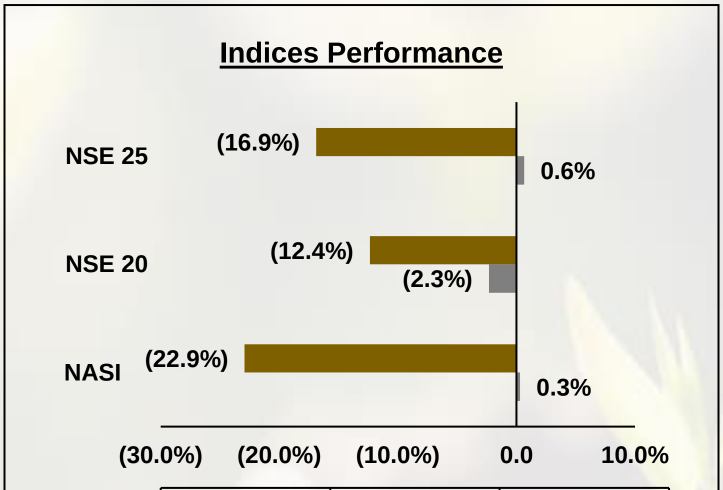
On the international front, yields on Eurobonds from emerging markets have elevated following tightened monetary policy in advanced economies to counter inflation thus dimming prospects of raising funds from the external credit markets. ***Based on the current backdrop of the current fixed income market 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

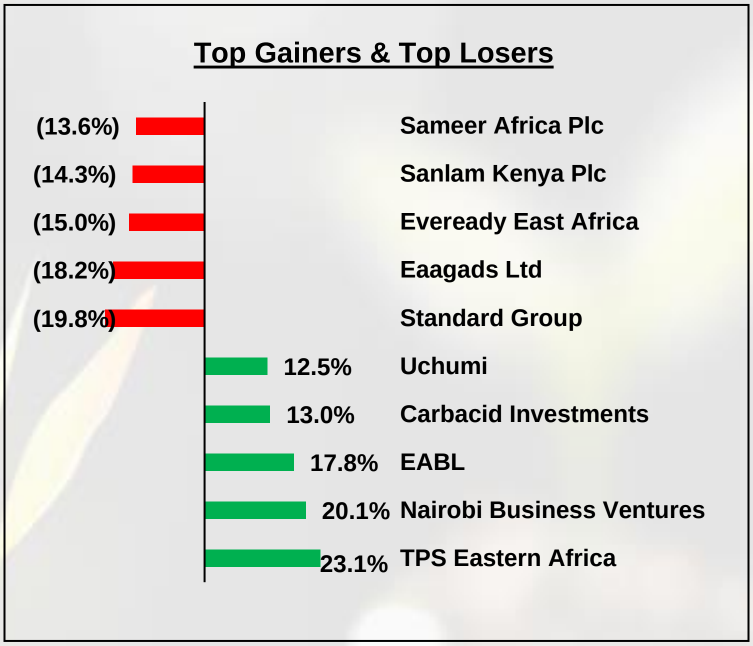
The equities market recorded mixed performance in October, as depicted by the key indices, which saw NASI and NSE 25 gaining 0.30% and 0.65%, respectively. NSE 20 on the other hand shed 2.32%. This took the year-to-date performance of NASI, NSE 20 and NSE 25 to losses of 22.92%, 12.36% and 16.88%, respectively. The performance was driven by gains recorded in large cap counters such as EABL (17.78%), NCBA (3.96%), Safaricom (0.60%) and Equity Group Holdings. The gains were however weighed down by losses in other counters such as KCB Group (-9.17%).

Equities turnover declined by 37.24% to KES 5.89 bn from KES 9.39 bn in September. Overall foreign activity closed with a net outflow of KES 2.32 bn a 0.76% decline from KES 2.34 bn in September. The bourse saw Safaricom record a turnover of KES 3.25 bn, representing 53.15% of the month's total turnover. TPS Eastern Africa (Serena) was the month's top gainer having appreciated by 23.08% to close at KES 16.00, while Standard Group Plc was the month's top loser, shedding 19.84% to end the month at KES 10.10.

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



	NASI	NSE 20	NSE 25
YTD	(22.9%)	(12.4%)	(16.9%)
M-O-M	0.3%	(2.3%)	0.6%



Equities Outlook: *We expect to see a rebound in the short term as the market corrects from the negative investment sentiment that was precipitated by the elections. We however remain cognizant of the risks in the medium term, on account of US interest rates hikes that have seen capital outflows in emerging markets.*

Pockets of value 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 12.6x. This presents a suitable opportunity to buy 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.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