MONTHLY MARKET REPORT

SEPTEMBER 2022

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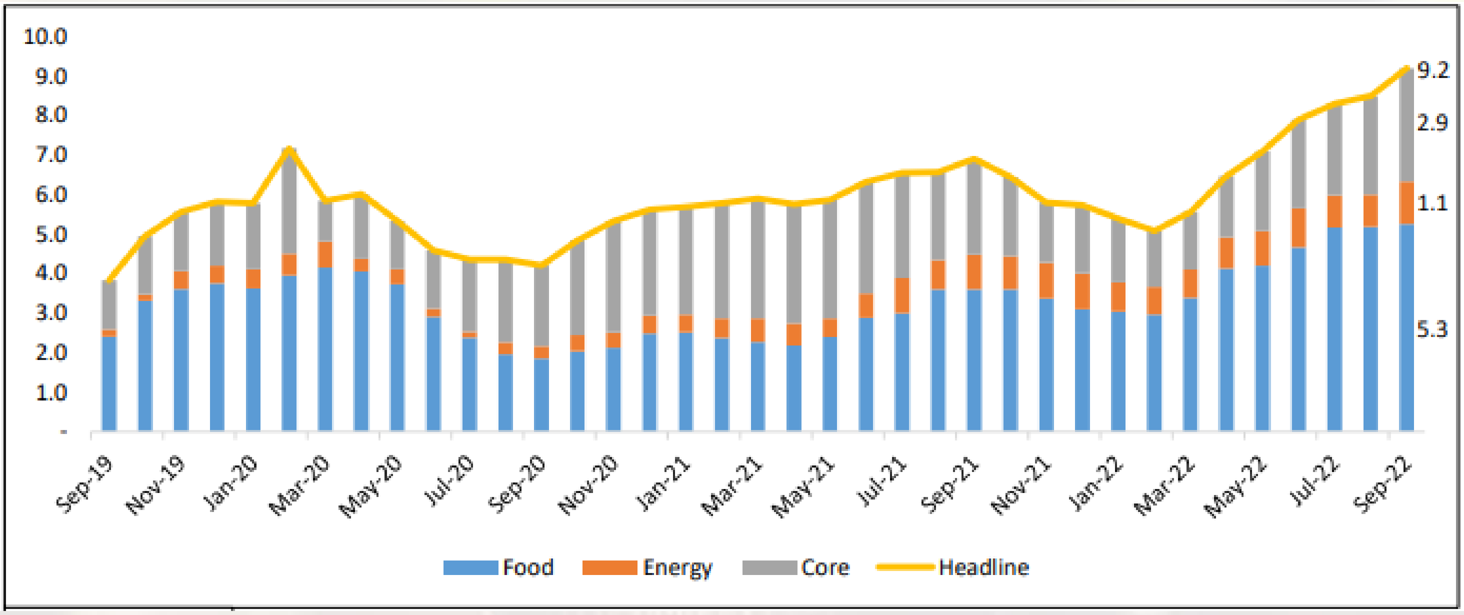
MACROECONOMIC HIGHLIGHTS

INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 9.2%, in September 2022. The rise in inflation was largely due to increases in prices of commodities under food and non-alcoholic beverages (15.5%); transport (10.2%) and housing, water, electricity, gas and other fuels (7.3%) between September 2021 and September 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 10.7% increase during the review period.

Month on month, The CPI increased by 0.9% from an index of 125.58 in August 2022 to 126.73 in September 2022. The month-to-month inflation was mainly driven by the Housing, Water, Electricity, Gas and Other Fuels index which came in at 2.5%. Food and Non-Alcoholic Beverages Index on the other hand increased by 0.3%.

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



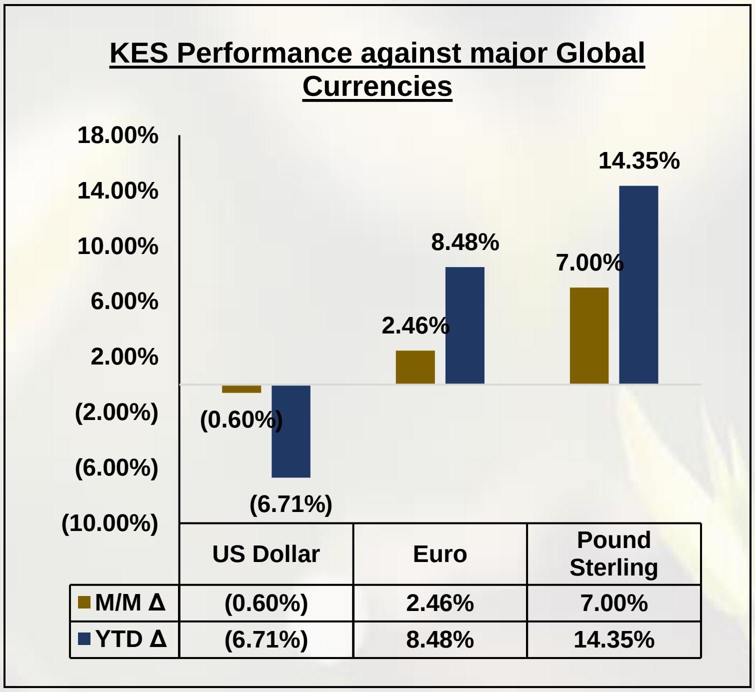
Inflation Outlook*: Risks to the outlook remain tilted to the upside in the short term driven by the high food and energy prices driven by high global fuel prices, removal of the subsidy on petrol, poor rains and higher input costs.*

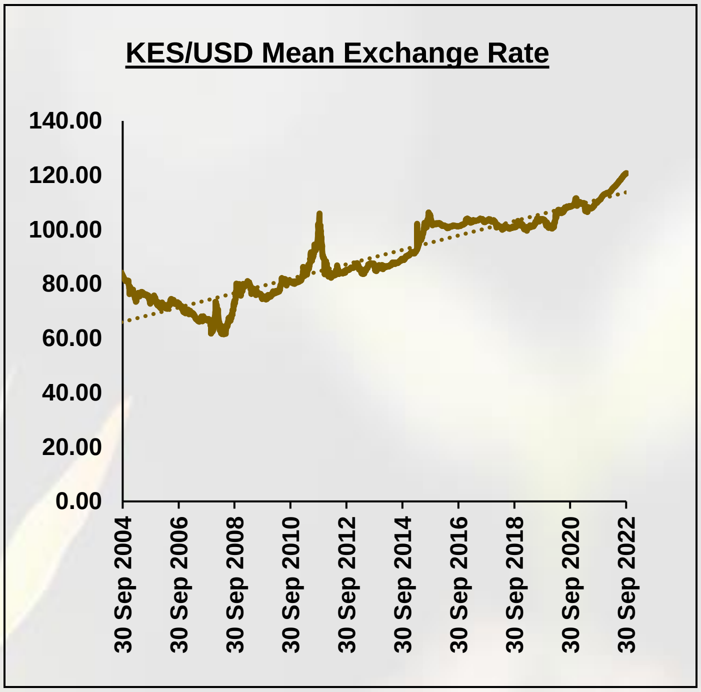
CURRENCY PERFORMANCE:

The Kenya Shilling depreciated by 0.6% against the US Dollar, to close the month at KES 120.73, from KES 120.01 recorded at the end of August 2022. The performance was on the back of a stronger greenback, partly driven by the FED ramping up interest rates. Consequently, 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. The ongoing geopolitical issues have also seen investors ditch riskier investments and seek shelter in assets that they perceive as more secure.

On a YTD basis, the shilling has depreciated by 6.71% against the US dollar but has gained by 8.48% and 14.35% 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. Exports of goods have remained strong, growing by 11.0% in the 12 months to August 2022 compared to a similar period in 2021. Strong remittances inflows also continue to support the current account and the stability of the exchange rate. The US remains the largest source of remittances into Kenya, accounting for 58% in August 2022. The usable foreign exchange reserves remained adequate at USD 7,424 million (4.19 months of import cover) as at September 29. 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.*

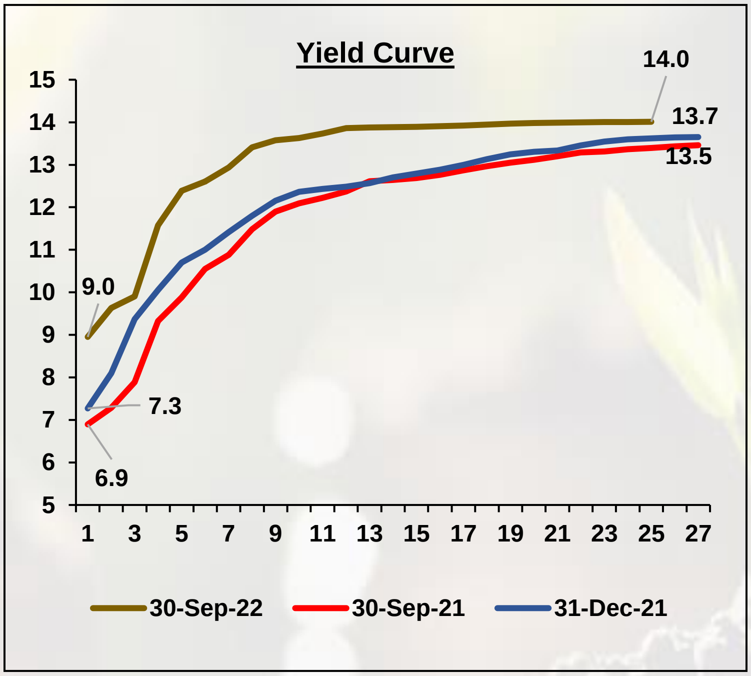
FIXED INCOME HIGHLIGHTS

The yields on the 91-day, 182-day and 364-day treasury bills averaged 8.92%, 9.61% and 9.90% respectively in September 2022 compared to 8.57%, 9.45% and 9.92% respectively in August 2022. The yields for 91-day and 182-day 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) reopened two bonds (FXD1/2022/10 & FXD1/2022/15) with an aim of raising KES 50.0 BN. The issues recorded a total undersubscription of 92.27%. The government accepted KES 39.03 bn of the KES 46.13 bn worth of bids received, translating to an acceptance rate of 84.59% 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
FXD1/2022/10	19/09/2022	03/05/2032	9.7	13.49%	**50.00**	**46.13**	39.03	13.95%	92.27%	84.59%
FXD1/2022/15	19/09/2022	06/04/2037	14.6	13.94%				13.98%		

Yields remained elevated in line with market expectations driven by the persistence of high inflation, tightening monetary policy action and subsequent risk aversion precipitated by the electioneering period. Secondary bonds turnover declined by 2.95% to KES 66.38 bn, from KES 68.39 bn recorded in August 2022.



Tenor	Jan-22	Aug-22	Sep-22	Δ YTD	Δ M-O-M
91-day	7.27%	8.77%	8.95%	1.68%	0.19%
1yr	9.37%	9.91%	9.91%	0.54%	(0.01%)
2Yr	10.05%	11.53%	11.58%	1.52%	0.04%
5Yr	11.42%	12.83%	12.94%	1.52%	0.11%
10Yr	12.49%	13.64%	13.86%	1.38%	0.22%
15Yr	13.00%	13.91%	13.92%	0.92%	0.01%
20Yr	13.46%	13.98%	14.00%	0.54%	0.02%
23Yr	13.62%	13.99%	14.01%	0.39%	0.02%

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%.*

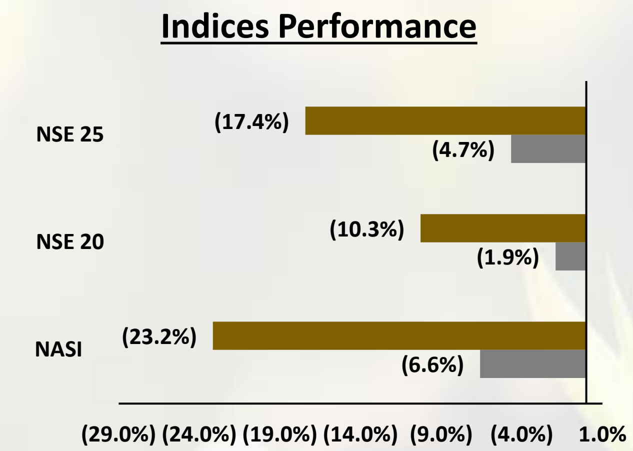
Yields on Eurobonds from emerging markets have elevated following tightened monetary policy in advanced economies to counter inflation thus dimming Prospects of raising funds from the external credit markets. To combat the fiscal deficit and funding issue the new Government has targeted to cut the approved FY'2022/2023 budget by KES 300 bn which might stabilize local debt rates due to lower debt appetite. ***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

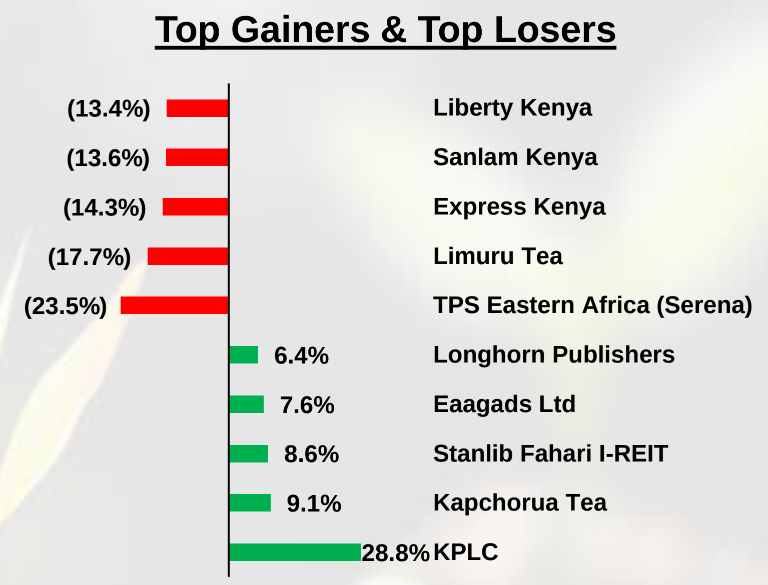
The equities market was on a downward trajectory in September, as depicted by the key indices, which saw NASI, NSE 20 and NSE 25 shed 6.58%, 1.91% and 4.67%, respectively. The performance was driven by losses recorded in large cap counters such as Safaricom (-10.73%), Equity Group Holdings (-3.23%), Co-operative Bank (4.44%) and East African Breweries (-5.96%). The losses were mitigated by gains in other counters such as NCBA (4.12%), and KCB Group (1.47%).

Equities turnover rose by 76.09% to KES 9.39 bn from KES 5.33 bn in August. Overall foreign activity closed with a net outflow of KES 2.34 bn a rise from KES 1.66 bn in August. The bourse saw Safaricom record a turnover of KES 3.85 bn, representing 43.32% of the month's total turnover, a decline from 54.61% in August. KPLC was the month's top gainer having appreciated by 28.77% to close at KES 1.88, while TPS Eastern Africa (Serena) was the month's top loser, shedding 23.53% to end the month at KES 13.00.

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



	NASI	NSE 20	NSE 25
YTD	(23.2%)	(10.3%)	(17.4%)
M-O-M	(6.6%)	(1.9%)	(4.7%)



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 12.7x. 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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