

# MONTHLY ECONOMIC REPORT

## FEBRUARY 2022



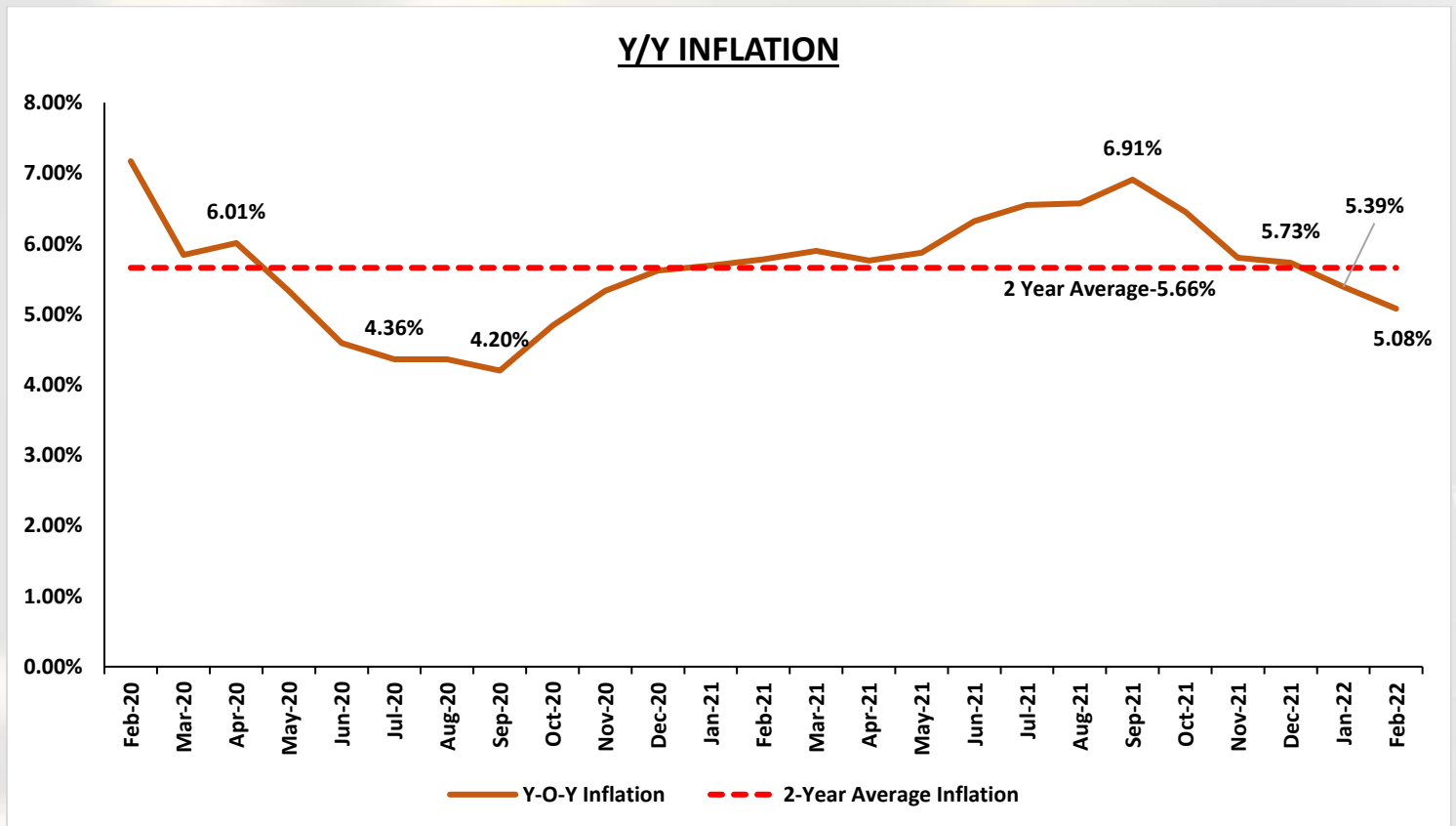
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## MACROECONOMIC HIGHLIGHTS

### INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 5.08%, in February 2022 lower than 5.39% recorded in January. This was mainly attributable to an increase in prices of commodities under; food and non-alcoholic beverages (8.69%); furnishings, household equipment and routine household maintenance (5.41%); housing, water, electricity, gas and other fuels (4.79%); and transport (4.54%) between February 2021 and February 2022.

The Consumer Price Index (CPI) increased by 0.40% to 119.13 in February 2022, from an index of 118.64 in January 2022 mainly driven by Food and Non-Alcoholic Beverages Index which increased by 0.83% between January 2022 and February 2022. This was mainly attributed to increase in prices of some food items, which outweighed the decrease in prices of others.

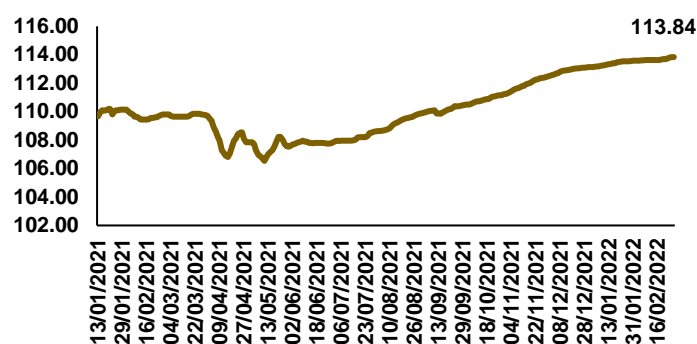


**Inflation Outlook:** Inflation is expected to remain at the current levels in the short term on account of increased global fuel prices, higher food prices domestically due to depressed short rains, coupled with increased demand for both goods & services as activities elevate following the full re-opening of the economy.

### CURRENCY PERFORMANCE:

The Kenya Shilling depreciated by 0.2% against the US Dollar, to close at Kshs 113.8 in February 2022, from Kshs 113.6 recorded at the end of January 2022, driven by the increased dollar demand from oil and merchandise importers on the back of increased global oil prices against slower recovery in the exports and tourism sector. On a YTD basis, the shilling has depreciated by 0.61% and 0.41% against the US dollar and Pound Sterling, respectively. It has however appreciated by 0.27% against the Euro.

### KES/USD Mean Exchange Rate



Currencies	31 Jan 2022	28 Feb 2022	m/m Δ	YTD Δ
USD	113.57	113.84	(0.23%)	(0.61%)
EUR	127.22	127.65	(0.33%)	0.27%
GBP	152.55	152.68	(0.08%)	(0.41%)

**Currency Outlook:** The current account deficit is 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.

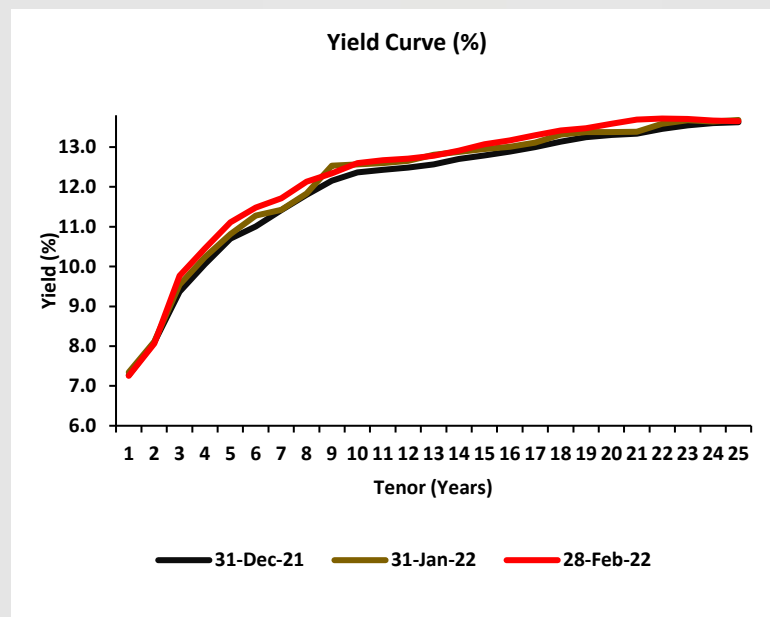
### FIXED INCOME HIGHLIGHTS

T-bills were undersubscribed in February, with the overall performance rate coming in at 93.6%, a decline from the 120.1% recorded in January 2022. The decline in the subscription rate is partly attributable to the tightening liquidity in the money markets, coupled with the concurrent government and corporate bond issuances during the month, which recorded oversubscriptions, as investors preferred the higher yields on offer.

In the Primary Bond Market, the government issued a 19-year infrastructure bond IFB1/2022/19. The issue recorded an oversubscription of 176.34% mainly attributable to the tax-free nature of the bond coupled with the relatively high yield of 12.97% on offer. The government was keen on maintaining low rates and thus accepted only Kshs 98.64 bn of the Kshs 132.26 bn worth of bids received, translating to an acceptance rate of 74.58%. The table below provides more details on the bond issued during the month:

Bond Auctioned	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
IFB1/2022/019	19.00	12.97%	75.00	132.26	98.64	12.97%	176.34%	74.58%
<b>Total</b>			<b>75.00</b>	<b>132.26</b>	<b>98.64</b>		<b>176.34%</b>	<b>74.58%</b>

In the secondary market, yields on government securities in the secondary market remained relatively stable, with the FTSE NSE bond index gaining marginally by 0.2% to close the month at Kshs 96.5, from Kshs 96.4 recorded in January 2022, bringing the YTD performance to a gain of 0.5%. The chart below shows the yield curve movement during the period. The secondary bond turnover edged up by 14.91% to Kshs 53.79 bn, from Kshs 46.81 bn recorded in January.



Tenor	31-Jan-22	28-Feb-22	M-O-M Δ (% Points)	YTD Δ (% Points)
91-day	7.3%	7.3%	(0.1%)	(0.0%)
1yr	9.5%	9.8%	0.2%	0.4%
2Yr	10.2%	10.5%	0.2%	0.4%
5Yr	11.4%	11.7%	0.3%	0.3%
10Yr	12.7%	12.7%	0.1%	0.2%
15Yr	13.1%	13.3%	0.2%	0.3%
20Yr	13.6%	13.7%	0.1%	0.3%
23Yr	13.7%	13.7%	0.0%	0.0%
25Yr	13.7%	-	-	-

**Fixed Income Outlook:** There has been a notable Improvement in revenue collections in the current financial year. Revenue collections overshoot the government’s prorated estimates in the first four months of the FY 2021/2022, by 1.1% to close at Kshs 591.9 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 downwards trajectory which saw NASI, NSE 20 and NSE 25 shed 1.9%, 0.1% and 1.6%, respectively. The performance was driven by losses recorded by large cap stocks such as NCBA, Bamburi, EABL and Safaricom of 6.8%, 4.8%, 3.6% and 2.6%, respectively. The losses were however mitigated by gains recorded by stocks such as Stanbic Holdings and BAT of 5.6% and 4.6%, respectively.

Equities turnover increased by 20.92% during the month to Kshs 9.97 bn, from Kshs 8.24 bn recorded in January 2022. Foreign investors turned net buyers with a net buying position of Kshs 186.87 mn, from a net selling position of Kshs 422.51 mn in January 2022.

Indicator	31-January -2022	28-February-2022	% Δ M-O-M	% Δ YTD
NASI	163.29	160.25	(1.86%)	(4.10%)
NSE-20	1,889.33	1,886.75	(0.14%)	(1.44%)
NSE-25	3,680.19	3,621.15	(1.60%)	(3.60%)

#### Top Gainers

Security	28 Feb 2022	% Δ M-O-M
Sanlam Kenya Plc	13.50	38.60%
BOC Kenya Limited	85.00	20.57%
Nation Media Group Plc	20.20	8.89%
Unga Group Limited	30.00	8.70%
Home Afrika Ltd	0.39	8.33%

#### Top Losers


Security	28 Feb 2022	% Δ M-O-M
TPS Eastern Africa (Serena)	12.50	(10.71%)
Trans-Century Plc	1.18	(9.23%)
Jubilee Holdings Ltd	279.00	(8.07%)
NCBA Group Plc	23.85	(6.84%)
East Africa Portland Cement	6.88	(5.75%)

**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 during the COVID-19 pandemic.

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