MONTHLY MARKET REPORT

APRIL 2023

Disclaimer: Whilst all considerable care has been taken by NatBank Trustee and Investment Services Ltd in preparation of this Market Bulletin, NTISL does not assume liability for any losses arising from errors, omissions, Opinions, forecasts or information given by NTISL, its affiliates, or employees and whether such losses be direct, indirect or consequential.

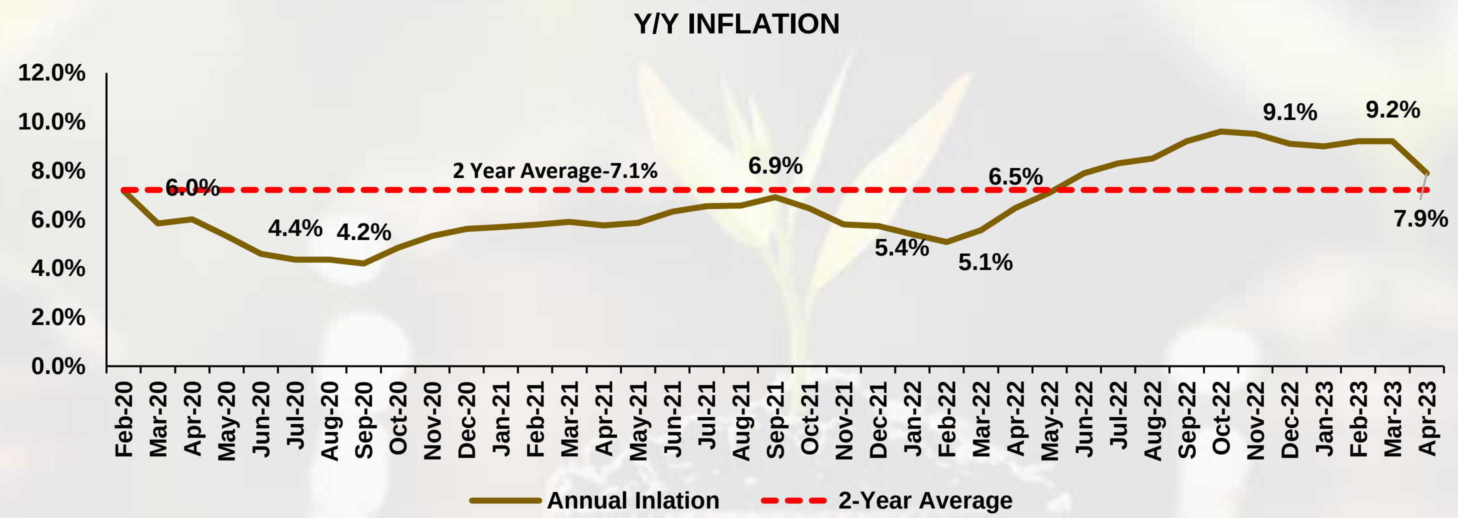
MACROECONOMIC HIGHLIGHTS

INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 7.9%, in April 2023 down from 9.2% in March, partly attributable to base effects of last year's increase. The y-o-y inflation was largely due to increase in prices of commodities under Food and Non-alcoholic Beverages (10.1%); and Housing, Water, Electricity, Gas and other fuels (9.6%); and Transport (9.8%) between April 2022 and April 2023. These three divisions account for over 57% of the weights of the 13 broad categories. Prices of commodities under furnishings, household equipment and routine household maintenance recorded an increase of 6.7% over the period.

Month-to Month CPI on the other hand increased by 0.5% from an index of 131.18 in March 2023 to 131.83 in April 2023, which was largely attributable to increase in prices of electricity.

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



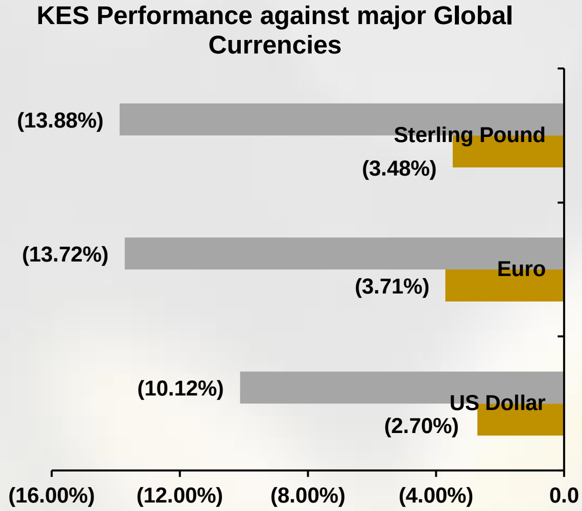
***Inflation Outlook**: Inflation is expected to be mitigated by the ongoing long rains which will support food production. Inflationary pressures are however expected to emanate from energy prices due to high global fuel prices, coupled with scaling down of subsidy in fuel as well as electricity prices coming into 2023.*

CURRENCY PERFORMANCE:

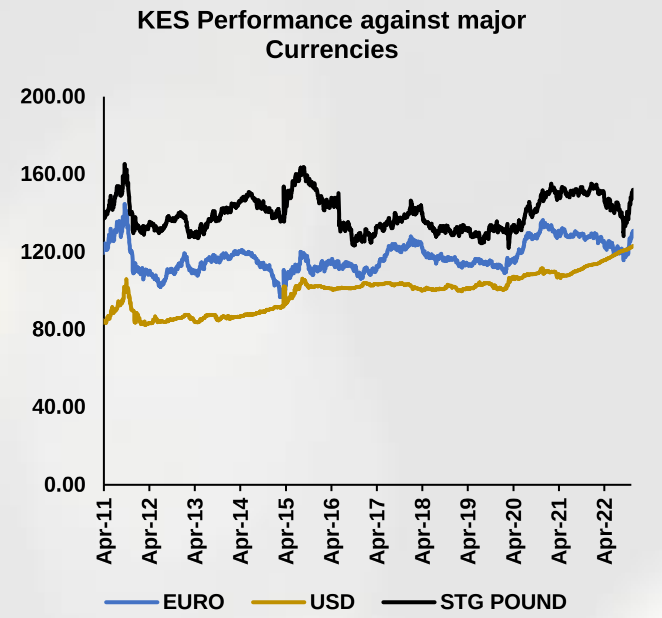
The Kenya Shilling depreciated by 2.70% against the US Dollar to close at a mean rate of Kshs 135.91 in April 2023 from Kshs 132.33 at the end of March. The Shilling also depreciated of 3.71% and 3.48% against the Euro and Pound Sterling, respectively. On a year to date basis, the shilling has depreciated by 10.12%, 13.72%, and 13.88% against the US Dollar, Euro and Pound Sterling, respectively.

Kenya's foreign-exchange reserves rose to 3.62 months of import cover as at April 27th 2023 from 3.59 months of import cover as at March 30th 2023. This is lower than the CBK's statutory requirement to endeavor to maintain at least 4 months of import cover.

The charts below provide details on currency performance during the period of review:



	US Dollar	Euro	Sterling Pound
YTD Δ	(10.12%)	(13.72%)	(13.88%)
M-O-M Δ	(2.70%)	(3.71%)	(3.48%)



Currency Outlook: *Pressure on the shilling has largely been attributable to the strengthening of the US dollar. Dollar demand pressure is however expected to be ease in the short-term following the signing of a deal by the Kenyan government and its Saudi counterpart that will facilitate fuel importation on credit. The usable foreign exchange reserves have continued to face pressure at (3.62 months of import cover) as of April 27th, 2023, lower than the CBK's statutory requirement to endeavor to maintain at least 4 months of import cover, and the EAC consensus of 4.5 months of import cover.*

FIXED INCOME & INTEREST RATES HIGHLIGHTS

PRIMARY MARKET:

Yields on the 91-day, 182-day and 364-day treasury bills averaged 10.13%, 10.45% and 10.99% respectively in April 2023 compared to 9.79%, 10.28% and 10.76% respectively in March 2023. The yields for all tenors continued to increase with notable under subscriptions for 182-day and 364-day bills.

In the primary bond market, T- bonds were undersubscribed, with the overall subscription rate coming in at 26.70% down from 103.55%, recorded in March 2023. The re-opened bond **FXD2/2018/10** received bids worth Kshs 3.57 bn against the offered Kshs 20.00 bn, translating to an undersubscription rate of 17.85%. The **IFB1/2023/017** tap sale received bids worth Kshs 5.12 bn against the offered Kshs 10.00 bn, translating to an undersubscription rate of 51.19%. The re-opened bond ***FXD1/2022/03*** received bids worth Kshs 7.33 bn against the offered 30.00 bn translating to an undersubscription rate of 24.43%

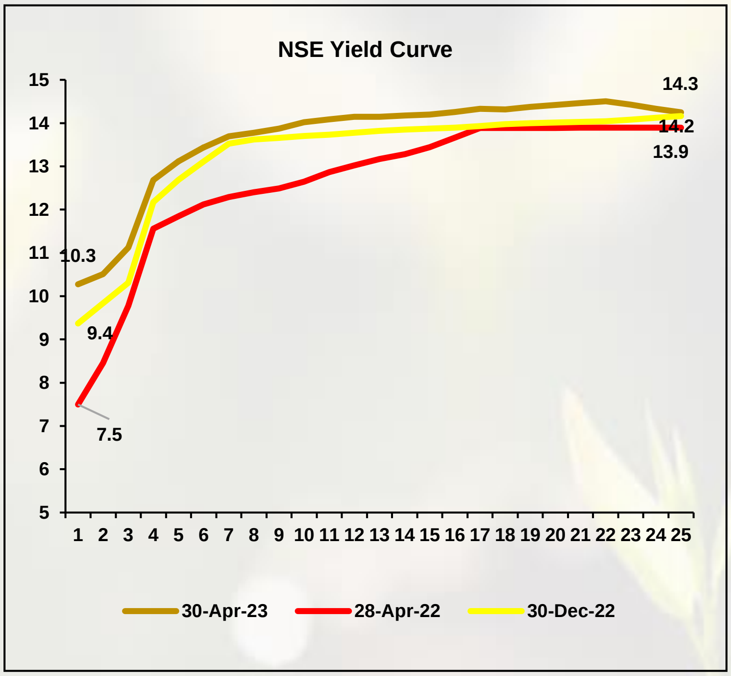
See below a comparison of the performance during the period of review:

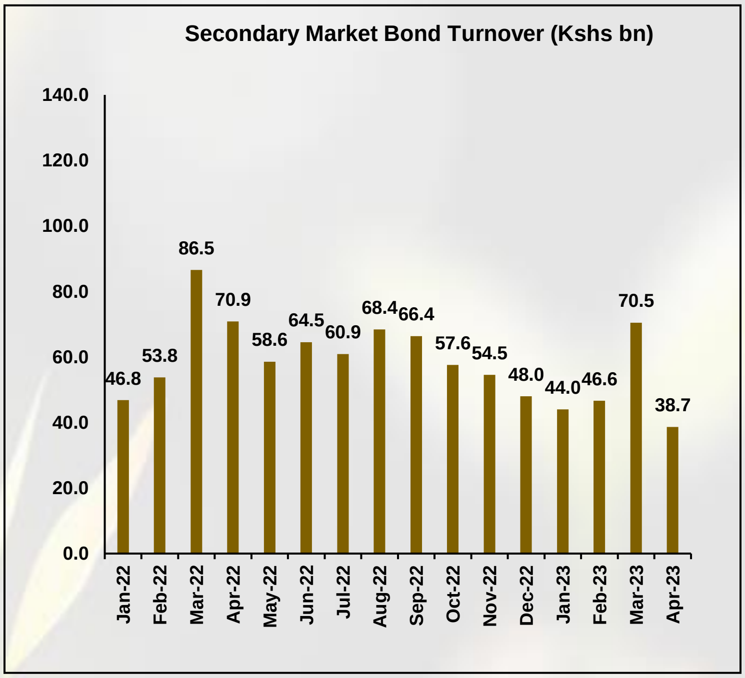
Bond Auctioned	Value Date	Effective Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Total bids received	Actual Amount Raised (Kshs bn)	Average Accepted Yield	Subscription Rate	Acceptance Rate
FXD2/2018/10- Re-Open	10/04/2023	5.66	12.50%	20.00	3.57	3.36	14.37%	17.85%	94.11%
IFB1/2023/17- Tap Sale	17/04/2023	16.86	14.40%	10.00	5.12	5.12	14.40%	51.19%	99.96%
FXD1/2022/03 - Re-Open	24/04/2023	1.96	11.77%	30.00	7.33	1.76	13.47%	24.43%	23.97%
April 2023 Total				**60.00**	**16.02**	**10.23**		**26.70%**	**63.89%**
March 2023 Total				**70.00**	**72.48**	**63.59**		**103.55%**	**87.73**

SECONDARY MARKET:

Yields remained elevated in the secondary market, in line with consensus expectations, driven by high inflation, subsequent risk aversion and tightening monetary policy action which saw the Monetary Policy Committee raise the Central Bank Rate (CBR) from 8.75% to 9.50% in March 2023. Secondary bond market turnover declined by 45.13% in April to Kshs 38.69 bn, from Kshs 70.51 bn recorded in March. The turnover also remained lower compared to a similar period of review in 2022 (Kshs 70.88 bn), partly attributable to the relatively tightened liquidity and increased allocation to short term government papers as investors sought to avoid duration risk brought on by long term instruments.

The charts below provide details on the secondary bond market performance during the period of review:





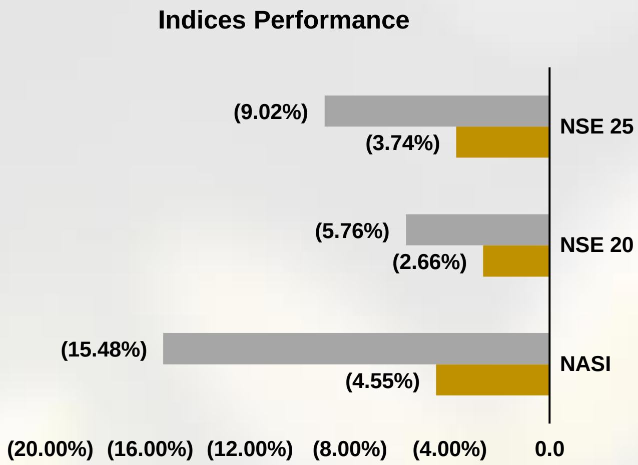
Fixed Income Outlook: *Rising expenditure, partly attributable to debt service requirements and lagging revenue collections (Total revenue as of March 2023 was Kshs 1.4 tn, equivalent to 65.9% of the FY'2022/23 revised target of Kshs 2.2 tn) could see sustained wide fiscal deficits. This could see Interest rates remain elevated in the short to medium-term due to the fiscal needs. 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.* ***We therefore maintain our preference for short to medium term papers to mitigate the "duration risk" whilst maintaining adequate real return given the rising inflation****.*

EQUITIES MARKET PERFORMANCE

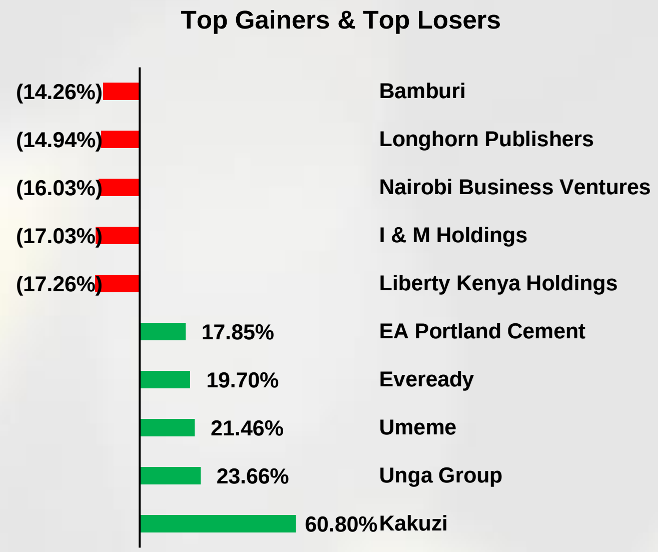
The equities market was on a downward trajectory in April 2023, as depicted by the key indices, which saw NASI, NSE 20 and NSE 25 shed 4.55%, 2.66% and 3.74%, respectively. This took the year-to-date performance of NASI, NSE 20 and NSE 25 to losses of 15.48%, 5.76%, and 9.02%, respectively. The performance in April was mainly driven by losses recorded in some of the large cap counters such as Bamburi (14.26%), Standard Chartered Bank of Kenya (12.35%), Safaricom (8.84%), KCB Group (7.46%) and EABL (6.62%).

Equities turnover declined by 86.99% in April to Kshs 4.21 bn, from Kshs 32.39 bn bn recorded in March. Foreign investors remained net sellers, with a net outflow of Kshs 282.57 mn, a decline compared to net outflows of Kshs 1.87 bn recorded in March 2023.

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



	NASI	NSE 20	NSE 25
YTD Δ	(15.48%)	(5.76%)	(9.02%)
m/m Δ	(4.55%)	(2.66%)	(3.74%)



Equities Outlook: *The divergence between corporate earnings growth and stock prices enhances attractiveness of the asset class significantly. While we expect volatility in the short term, we believe the outlook is favorable given present valuations. Policy and economic consequences of high inflation both locally and abroad present downside risk to this outlook.*

Pockets of value exist as the market is currently trading at a Price to Earnings (P/E) multiple of 5.3x which presents a discount in comparison to the historical average of 12.4x. 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.


NatBank
Trustee and Investment Services LTD
National Bank
A Subsidiary of KCB Group PLC
This is the time to grow
We know how to make your money grow and yield better returns.
Talk to us today on the investment opportunities available for you.
• Wealth Management Solutions
• Fund Management Services
• Advisory Services
• Retirement Benefit Schemes
• Unit Trust
Call: 0703 088 692 / 252 / 356 / 357 / 398
(020) 282 8900
Email: NTISLstaff@nationalbank.co.ke
Regulated by the Retirement Benefits Authority