NatBank
Trustee and Investment Services LTD

National Bank
A Subsidiary of KCB Group PLC

MONTHLY MARKET REPORT

MARCH 2023

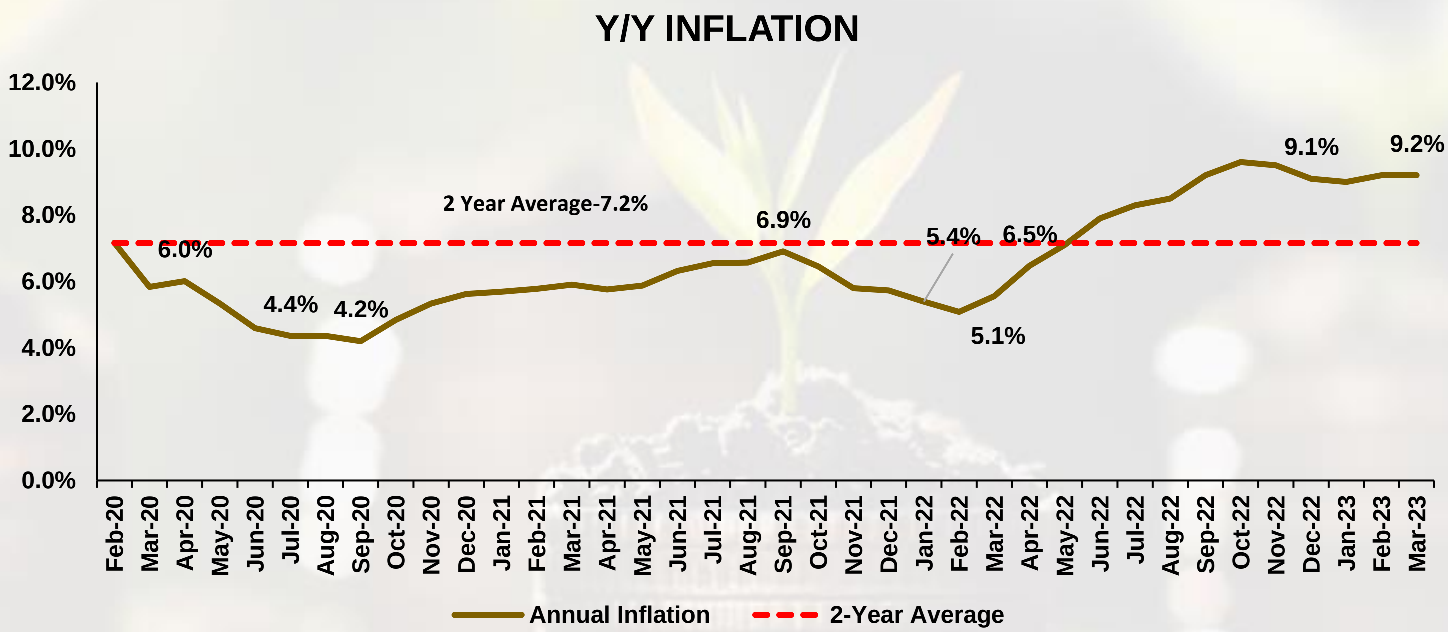
MACROECONOMIC HIGHLIGHTS

INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 9.2%, in March 2023, unchanged from February 2023, on account of high food and energy prices. This was largely due to an increase in prices of commodities under food and nonalcoholic beverages (13.4%); and housing, water, electricity, gas and other fuels (7.5%); and transport (12.6%) between March 2022 and March 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 7.5% over the period.

Month-to Month CPI on the other hand increased by 0.8% from an index of 130.13 in February 2023 to 131.18 in March 2023 The month-to-month Food and Non-Alcoholic Beverages Index increased by 1.6% between February 2023 and March 2023.

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



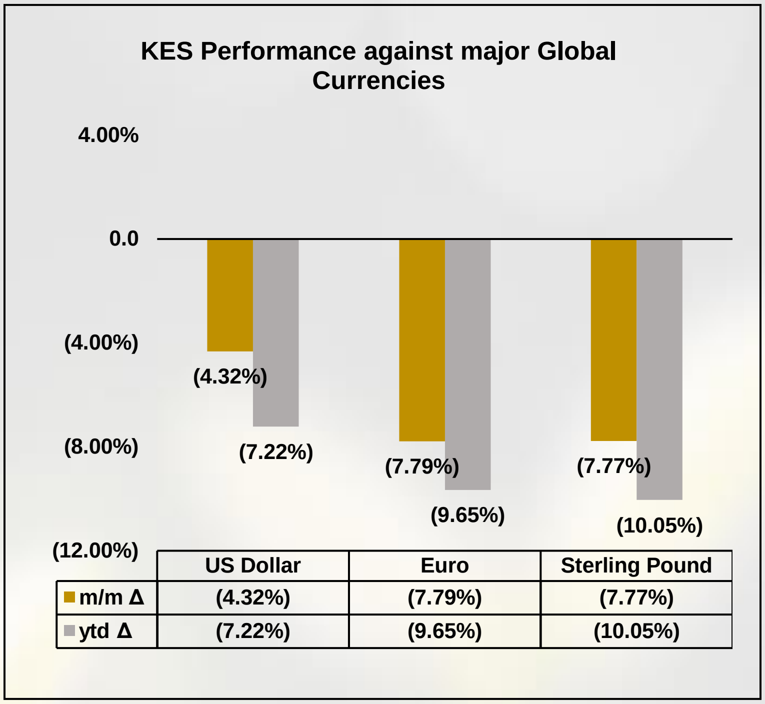
***Inflation Outlook**: Inflation in April 2023 is projected to decline but remain above the Central bank target and range 8.0% - 8.5% mainly driven by the base effects of last year's increase due to the Russia-Ukraine conflict. Inflation is also expected to be mitigated by the onset of the long rains will support increased production of some food items especially vegetables. 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.*

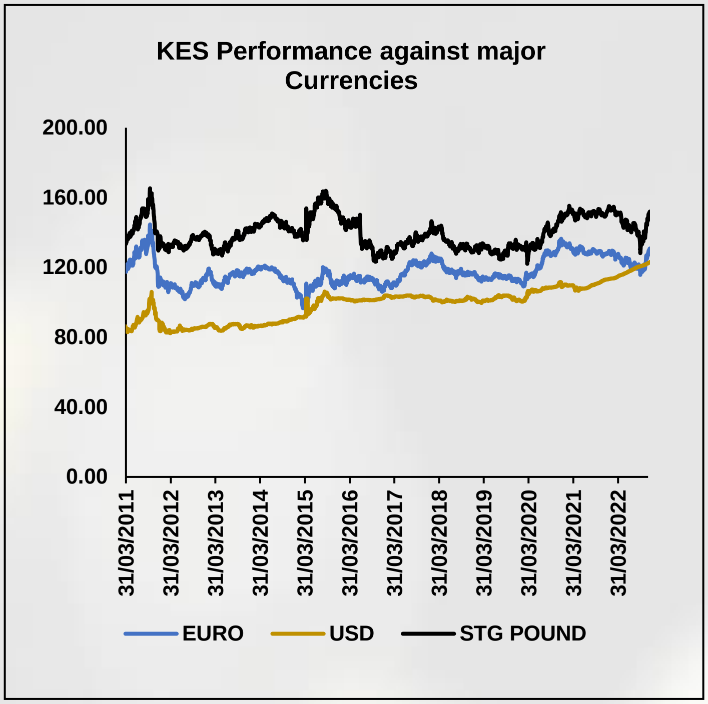
CURRENCY PERFORMANCE:

The Kenya Shilling depreciated by 4.32% against the US Dollar to close at Kshs 132.33 in March 2023 from Kshs 126.85 at the end of February. The Shilling had a sharper monthly depreciation of 7.79% and 7.77% against the Euro and Pound Sterling, respectively. On a year to date basis, the shilling has depreciated by 7.22%, 9.65%, and 10.05% against the US Dollar, Euro and Pound Sterling, respectively.

Kenya's foreign-exchange reserves on the other hand dropped to 3.59 months of import cover as at March 30th 2023 from 3.84 months as at February 23rd 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 year:





Currency Outlook: *Pressure on the shilling has largely attributable to the strengthening of the US dollar, coupled with a high oil imports bill on account of high international oil prices. 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 (3.59 months of import cover) as at March 30th 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:

The yields on the 91-day, 182-day and 364-day treasury bills averaged 9.79%, 10.28% and 10.76% respectively in March 2023 compared 9.62%, 10.06% and 10.62% respectively in February 2023. The yields for all tenors continued to increase with notable under subscriptions for 182-day and 364-day bills.

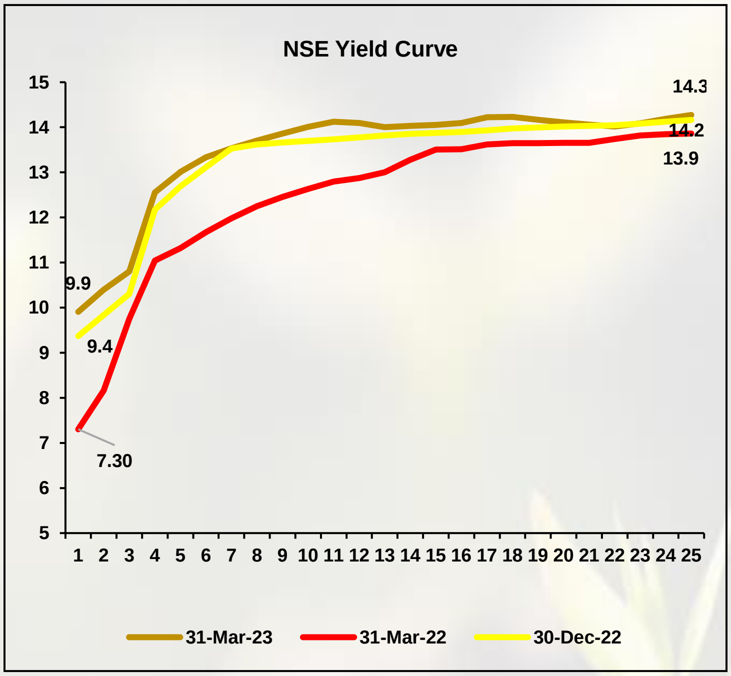
In the primary bond market, T- bonds were oversubscribed, with the overall subscription rate coming in at 103.55%, up from 53.35%, recorded in February 2023. The 17- year Infrastructure bond auction (IFB1/2023/017) with a value date set at 13th March received bids totaling Kshs 59.77 bn against an advertised amount of Kshs 50.00 bn, representing a performance rate of 119.5%. The subsequent tap sale received bids worth Kshs 12.71 bn against the offered Kshs 20.00 bn, translating to an undersubscription rate of 63.56%.

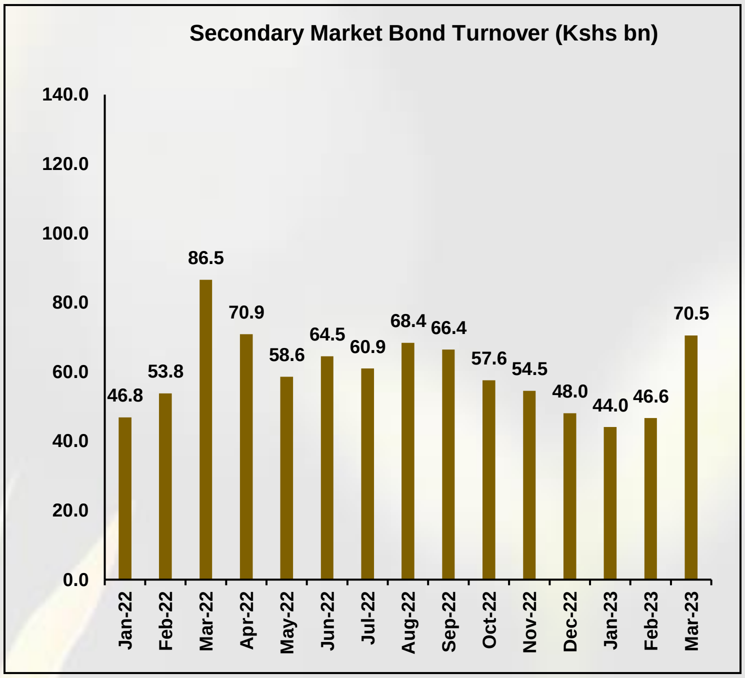
See below a comparison of the performance:

Issue Date	Bond Auctioned	Effective Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Actual Amount Raised (Kshs bn)	Total bids received	Average Accepted Yield	Subscription Rate	Acceptance Rate
13/03/2023	IFB1/2023/017	17.08	14.40%	50.00	50.88	59.77	14.40%	119.54%	85.12%
20/03/2023	IFB1/2023/017 Tap-Sale	17.08	14.40%	20.00	12.71	12.71	14.40%	63.56%	99.99%
March 2023 Total				**70.00**	**63.59**	**72.48**	**14.40%**	**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% during the month. Secondary bond market turnover rose by 51.26% to Kshs 70.51 bn, from Kshs 46.61 bn recorded in February 2022. The turnover however remained lower compared to a similar period of review in 2022 (Kshs 86.52 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.





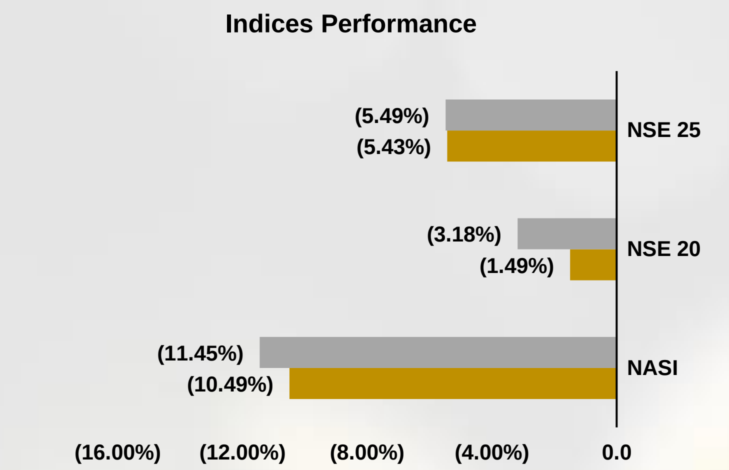
Fixed Income Outlook: *Despite the continued improvement in revenue collections, rising expenditure, coupled with debt service requirements could sustain wide deficits. This could see Interest rates remain elevated in the short to medium-term due to the fiscal needs. The current levels of inflation also 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 medium term papers to mitigate the "duration risk" whilst maintaining adequate real return given the rising inflation****.*

EQUITIES MARKET PERFORMANCE

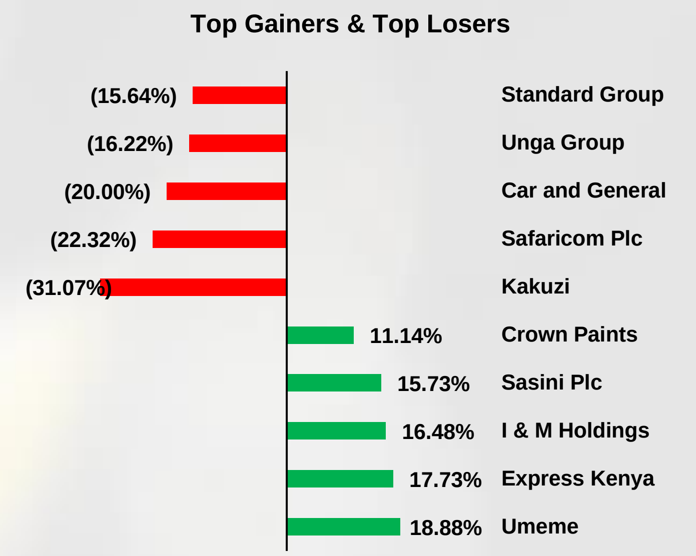
The equities market was on a downward trajectory in March 2023, as depicted by the key indices, which saw NASI, NSE 20 and NSE 25 shed 10.49%, 1.49% and 5.43%, respectively. This took the year-to-date performance of NASI, NSE 20 and NSE 25 to losses of 11.45%, 3.18%, and 5.49%, respectively. The performance in March was mainly driven by losses recorded in some of the large cap counters such as Safaricom (22.32%) and KCB (7.19%).

Equities turnover rose significantly by 603.86% to Kshs 32.39 bn, from Kshs 4.60 bn bn in February 2023. Foreign investors remained net sellers, with a net outflow of Kshs 1.87 bn, compared to net outflows of Kshs 382.07 mn recorded in February 2023.

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



	NASI	NSE 20	NSE 25
YTD Δ	(11.45%)	(3.18%)	(5.49%)
m/m Δ	(10.49%)	(1.49%)	(5.43%)



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 5.8x which presents a discount in comparison to the historical average of 12.5x. 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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This is the time to grow
We know how to make your money grow and yield better returns.
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• Advisory Services
• Retirement Benefit Schemes
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