NatBank
Trustee and Investment Services LTD

National Bank
A Subsidiary of KCB Group PLC

MONTHLY MARKET REPORT

NOVEMBER 2022

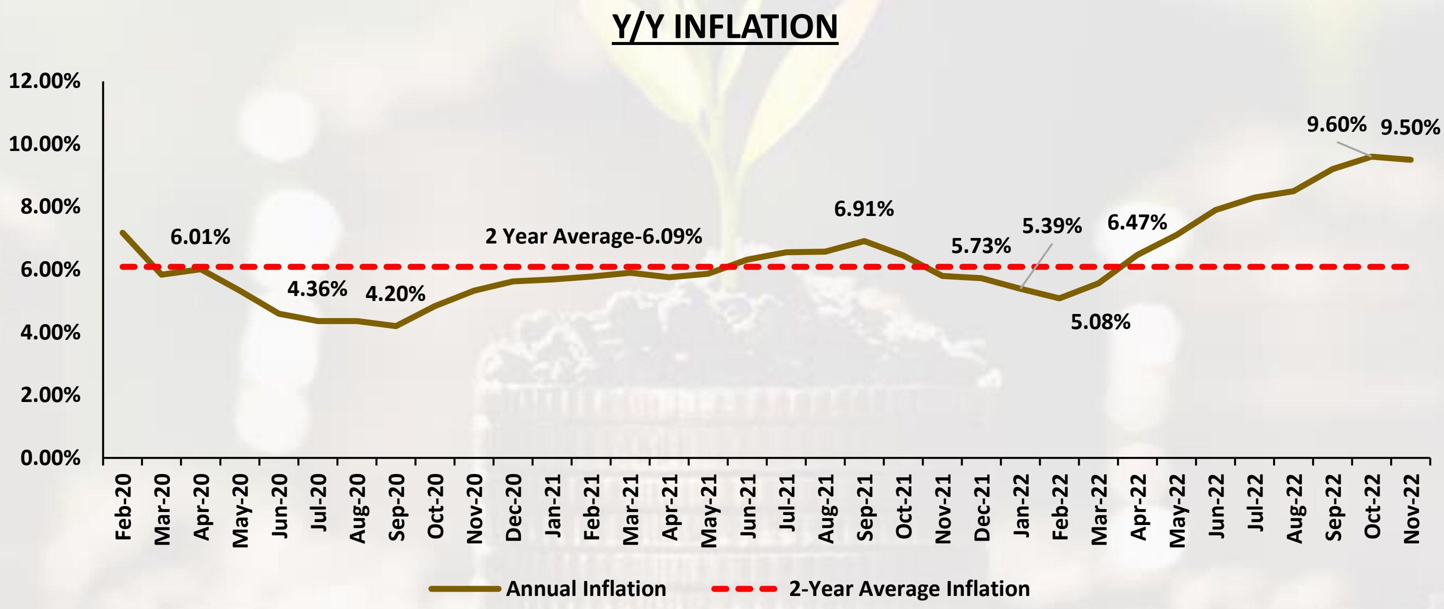
MACROECONOMIC HIGHLIGHTS

INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 9.5%, in November 2022 a decline from 9.6% in October. This was largely due to increases in prices of commodities under food and non-alcoholic beverages (15.4%); transport (11.7%) and housing, water, electricity, gas and other fuels (6.1%) between November 2021 and November 2022. 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 a 10.6% increase over the period.

The CPI increased by 0.3% month on month, from an index of 127.86 in October 2022 to 128.31 in November 2022. The month-to-month Food and Non-Alcoholic Beverages Index increased by 0.6% between October 2022 and November 2022. Relative to October 2022, prices of cabbages, potatoes (Irish), kales-sukuma wiki and beans increased by 8.4%, 6.9%, 3.0% and 1.8%, respectively in November 2022. During the same period, prices of cooking oil (salad), tomatoes and fortified maize flour dropped by 6.0%, 2.2%, and 1.0%, respectively.

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



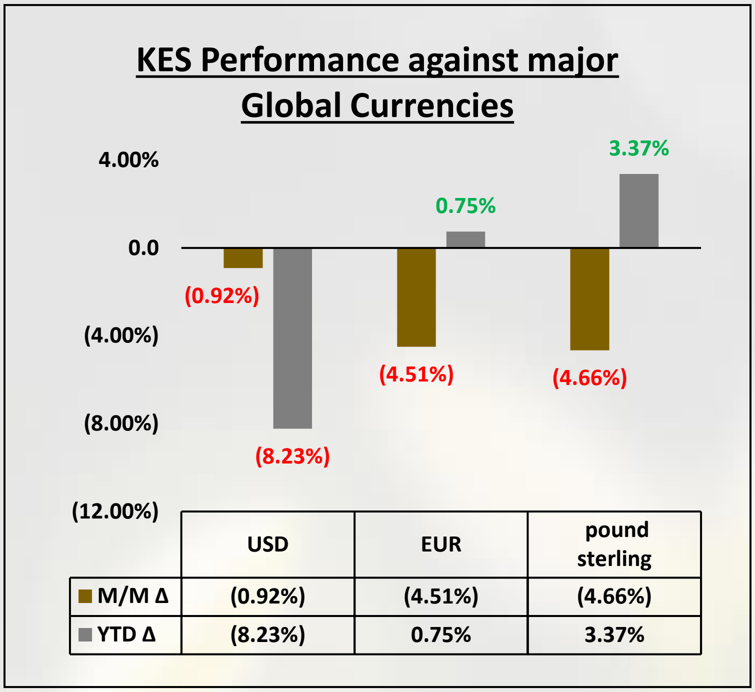
***Inflation Outlook**: Risks to the outlook remain tilted to the upside in the short term driven by high food attributable to poor rains and higher input costs. Inflationary pressures are also expected to emanate from energy prices due to high global fuel prices, coupled with the subsidy removal.*

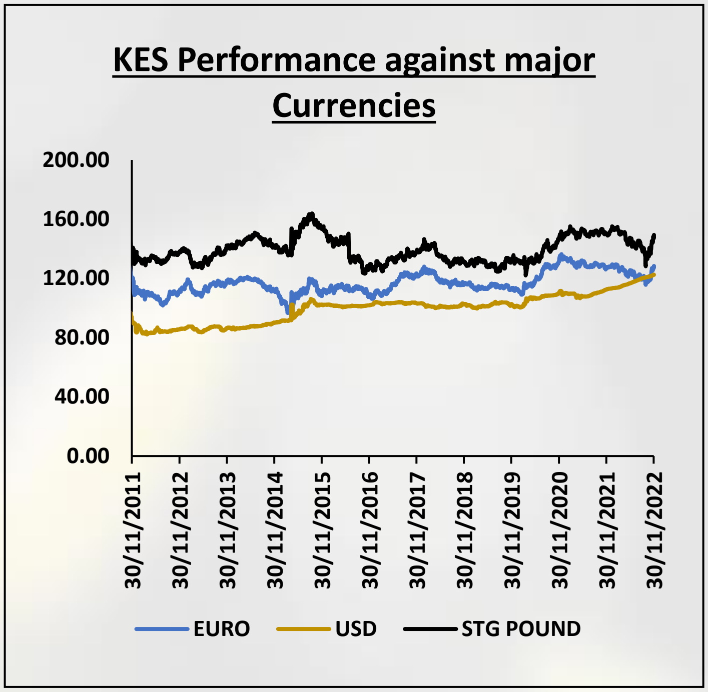
CURRENCY PERFORMANCE:

The Kenya Shilling depreciated by 0.9% against the US Dollar, to close the month at KES 122.45, from KES 121.33 recorded at the end of October 2022. The shilling recorded steeper depreciation against the Euro (-4.51%) and Pound Sterling (-4.66%). November saw the U.S. dollar reverse gains made against major currencies during the year. This was after the Federal Reserve's November meeting indicated that the central bank would downshift and raise rates in smaller steps from its December meeting. The dollar index (which measures the greenback against six major peers) slide 5.2% in November, putting it on track for its worst monthly performance in 12 years.

On a YTD basis, the shilling has depreciated by 8.23% against the US dollar but has gained by 0.75% and 3.37% 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. The usable foreign exchange reserves remain adequate at USD 7,045 million (3.95 months of import cover) as of November 24th, but currently below the CBK's statutory requirement of 4.0 months of import cover and EAC consensus of 4.5 months of import cover. This is expected to continue providing a buffer against any short-term shocks in the foreign exchange market.*

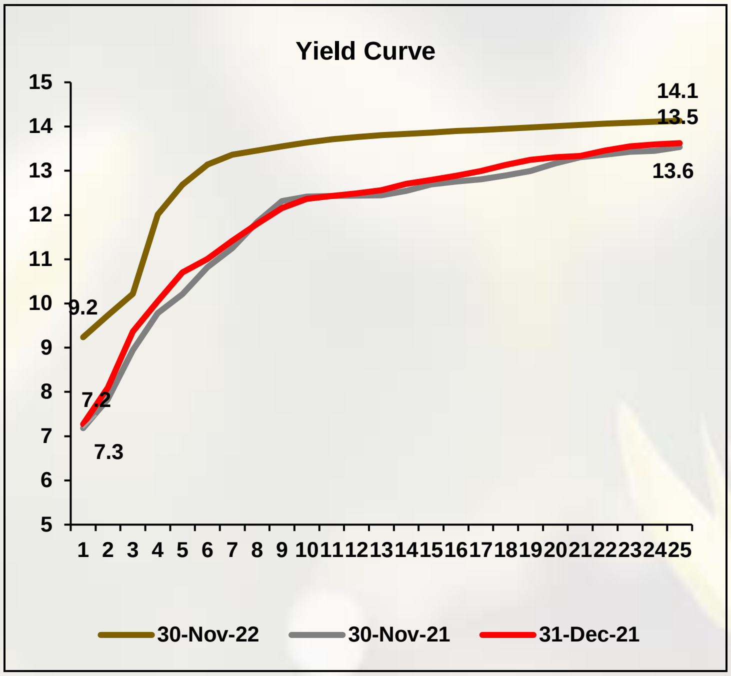
FIXED INCOME HIGHLIGHTS

The yields on the 91-day, 182-day and 364-day treasury bills averaged 9.19%, 9.71% and 10.17% respectively in November 2022 compared to 9.08%, 9.66% and 9.93% respectively in October 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 (IFB1/2022/014) and subsequently had a tap sale with an aim of raising a total of KES 65.0 BN. The issues recorded an overall oversubscription of 170.75%. The government accepted a total of KES 94.70 bn of the KES 110.99 bn worth of bids received, translating to an acceptance rate of 85.33% 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 (KES bn)	Total bids received	Actual Amount Raised (KES bn)	Average Accepted Yield	Subscription Rate	Acceptance Rate
IFB1/2022/014	14/11/2022	27/10/2036	14.0	13.94%	60.00	91.85	75.57	13.94%	153.08%	82.28%
IFB1/2022/014	28/11/2022	27/10/2036	14.0	13.94%	5.00	19.14	19.13	13.94%	382.72%	99.98%
Total					**65.00**	**110.99**	**94.70**		**170.75%**	**85.33%**

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 5.3% to KES 54.5 bn, from KES 57.6 bn recorded in October 2022.



Tenor	03-Jan-22	31-Oct-22	30-Nov-22	Δ YTD % Points	Δ M/M % Points
91-day	7.3%	9.1%	9.2%	**1.97%**	**0.11%**
1yr	9.4%	10.0%	10.2%	**0.85%**	**0.25%**
2Yr	10.1%	12.0%	12.0%	**1.96%**	**0.01%**
5Yr	11.4%	13.4%	13.4%	**1.95%**	**(0.04%)**
10Yr	12.5%	13.7%	13.8%	**1.28%**	**0.03%**
15Yr	13.0%	13.9%	13.9%	**0.93%**	**0.01%**
20Yr	13.5%	14.0%	14.1%	**0.61%**	**0.05%**
23Yr	13.6%	14.1%	14.1%	**0.50%**	**0.07%**

Fixed Income Outlook: *Despite the continued improvement in revenue collections, rising expenditure, coupled with debt service requirements could sustain wide deficits. To put this into perspective, The Government currently has domestic maturities worth KES 691.0 bn for the FY'2022/23 (KES 160.7 bn T-bonds and KES 530.3 bn T-bills). 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.*

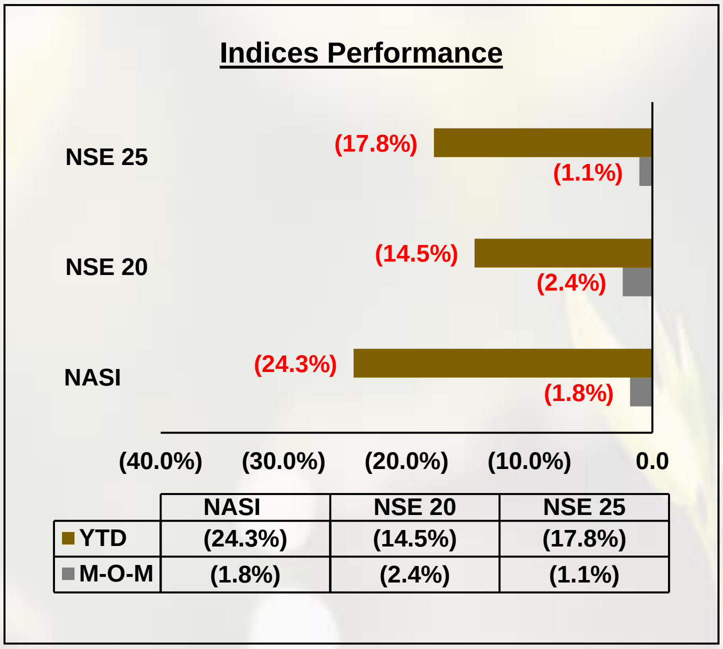
We maintain our preference for medium term papers to mitigate the "duration risk" whilst maintaining adequate real return given the rising inflation.

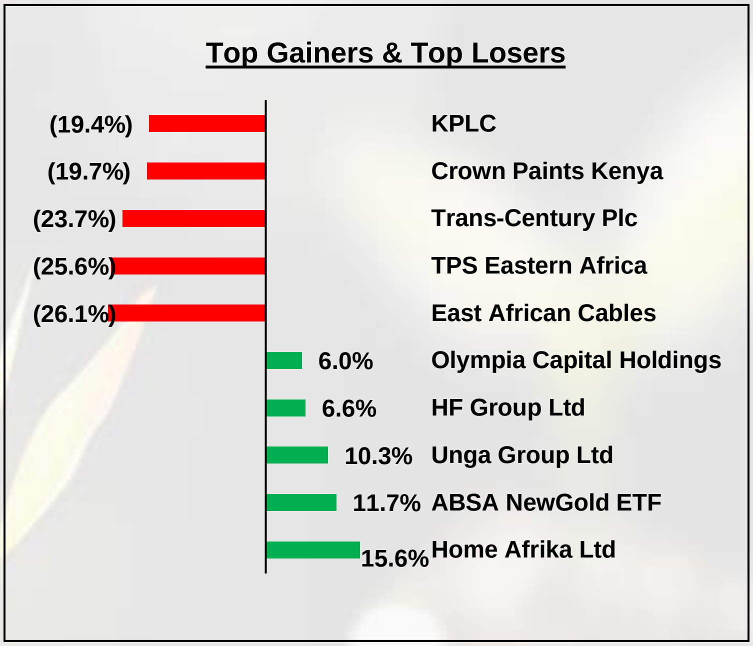
EQUITIES MARKET PERFORMANCE

The equities market was on a downward trajectory in November, as depicted by the key indices, which saw NASI, NSE 20 and NSE 25 shed 1.80%, 2.40% and 1.06%, respectively. This took the year-to-date performance of NASI, NSE 20 and NSE 25 to losses of 24.31%, 14.46% and 17.76%, respectively. The performance was mainly driven by losses recorded in large cap counters such as Safaricom (2.99%) and Equity Group Holdings (-2.25%).

Equities turnover rose by 9.10% to KES 6.43 bn from KES 5.89 bn in October. Overall foreign activity closed with a net outflow of KES 887.03 mn a 61.74% decline from KES 2.32 bn in October. The bourse saw Safaricom record a turnover of KES 2.73 bn, representing 42.64% of the month's total turnover. Home Afrika Ltd was the month's top gainer having appreciated by 15.63% to close at KES 0.37, while East African Cables Ltd was the month's top loser, shedding 26.13% to end the month at KES 0.82.

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





Equities Outlook: *Pockets of value exist as the market is currently trading at a Price to Earnings (P/E) multiple of 6.6x 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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