

MONTHLY ECONOMIC REPORT

JANUARY 2022



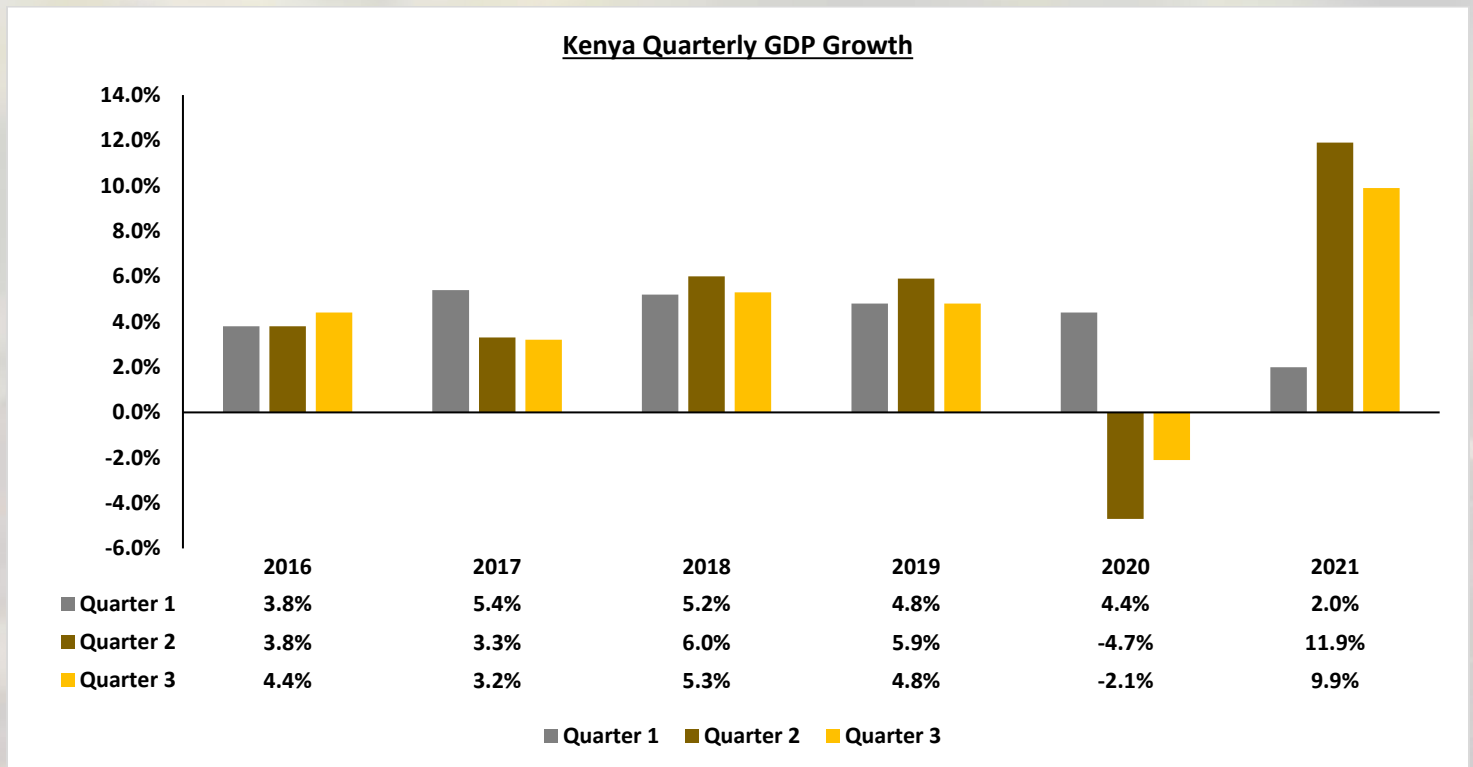
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MACROECONOMIC HIGHLIGHTS

ECONOMIC GROWTH:

According to Kenya National Bureau of Statistics (KNBS) Quarterly Gross Domestic Product Report, the Kenyan economy recorded a 9.9% growth in Q3'2021, up from the 2.1% contraction recorded in a similar period in 2020 pointing towards continued economic recovery as a result of the gradual easing of containment measures instituted to curb the spread of the disease.

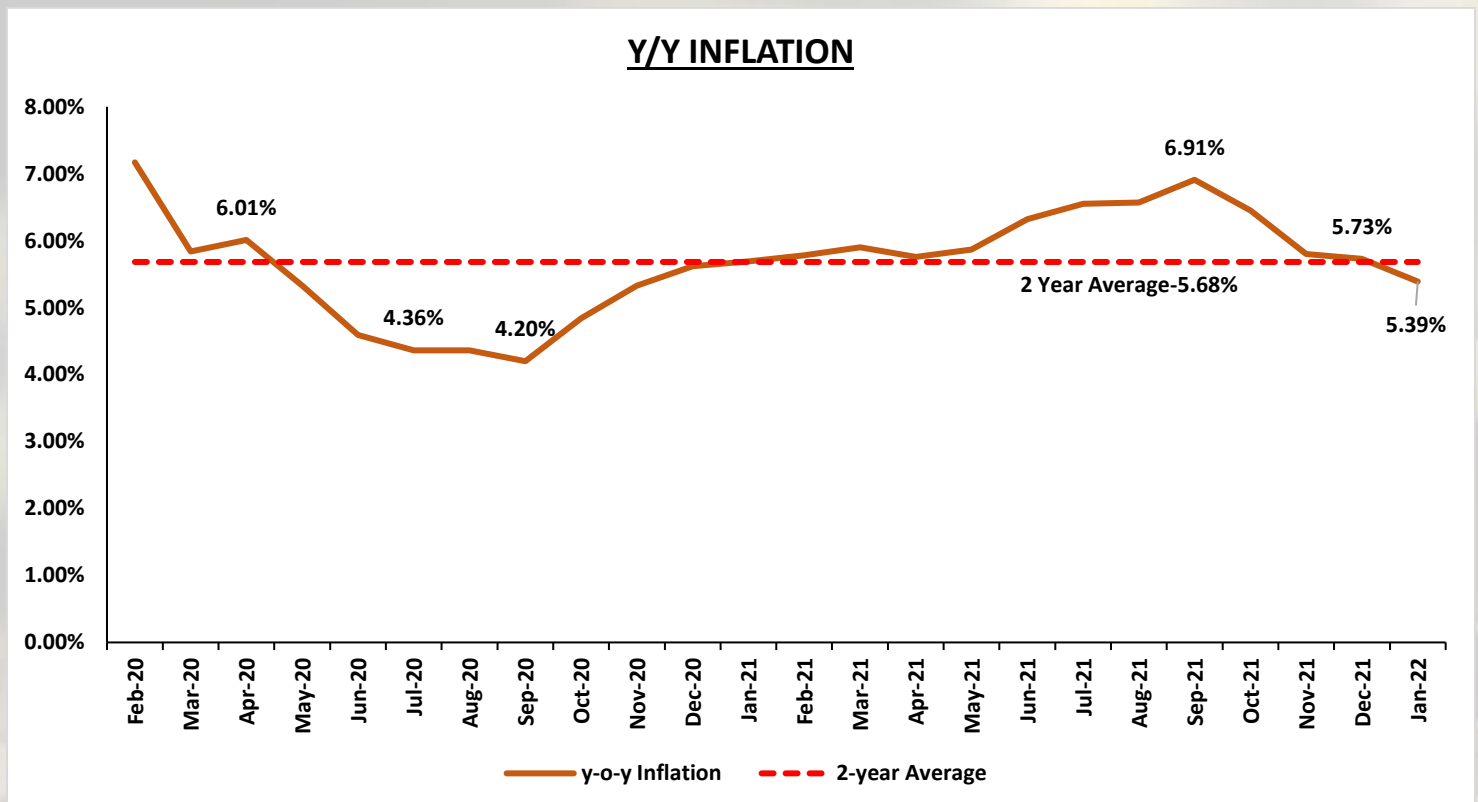
Some of the sectors that supported overall growth included Manufacturing (9.5%), Education (64.7%), Transportation and Storage (13.0%), Accommodation and Food Serving Activities (24.8%) and, Financial and Insurance Activities (6.7%). However, agricultural production was constrained due to drought conditions that characterized the quarter under review in most parts of the country. The Agriculture, Forestry and Fishing sector contracted by 1.8% in the period of review compared to 4.2% growth in the same quarter of 2020



Economic Growth Outlook: The government's efforts to accelerate its vaccination program and the relaxation of lockdown measures compared to the preceding year is expected to further boost private sector performance providing support to the economy. We maintain cautious optimism that growth in 2022 will be sustained at similar levels as 2021 taking into consideration the still prevailing COVID-19 pandemic and the forthcoming general elections in August 2022.

INFLATION:

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 5.39%, in January 2022 down from 5.73% in December 2021. The y-o-y Inflation was mainly driven by an increase in prices of commodities under; food and non-alcoholic beverages (8.89%); transport (6.84%); and housing, water, electricity, gas and other fuels (5.11%) between January 2021 and January 2022. The CPI increased by 0.31% month to Month from an index of 118.27 in December 2021 to 118.64 in January 2022, mainly driven by Food and Non-Alcoholic Beverages Index which increased by 1.07% between December 2021 and January 2022. The rise was mainly attributed to increase in prices of some food items, which outweighed the decrease in prices of others.

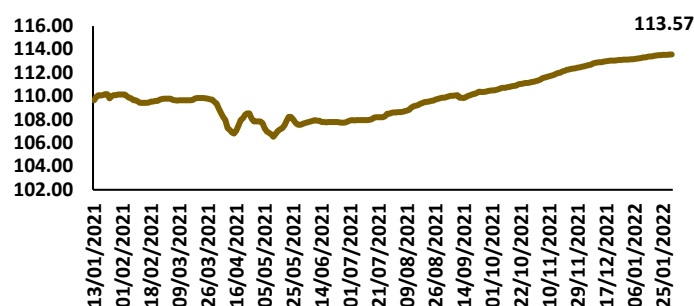


Inflation Outlook: Inflation is expected to remain at the current levels in the short term on account of increased global fuel prices, higher food prices domestically due to depressed short rains, coupled with increased demand for both goods & services as activities elevate following the full re-opening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

CURRENCY PERFORMANCE:

The Kenya Shilling depreciated by 0.38% against the US Dollar in January to close the month at Kshs 113.57, from Kshs 113.14 recorded at the end of December 2021 driven by the strengthening of the dollar on increased demand as inflation data revived bets of tighter monetary policy. On a YTD basis, the shilling has depreciated by 0.38% and 0.33% against the US dollar and Pound Sterling, respectively. It has however appreciated by 0.60% against the Euro.

KES/USD Mean Exchange Rate



| Currencies | 31 Dec 2021 | 31 Jan 2022 | m/m Δ |
|------------|-------------|-------------|---------|
| USD | 113.14 | 113.57 | (0.38%) |
| EUR | 127.99 | 127.22 | 0.60% |
| GBP | 152.05 | 152.55 | (0.33%) |

Currency Outlook: The current account deficit is estimated at 5.4 percent of GDP in 2021 and is projected to remain stable at 5.2 percent 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 percent 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.

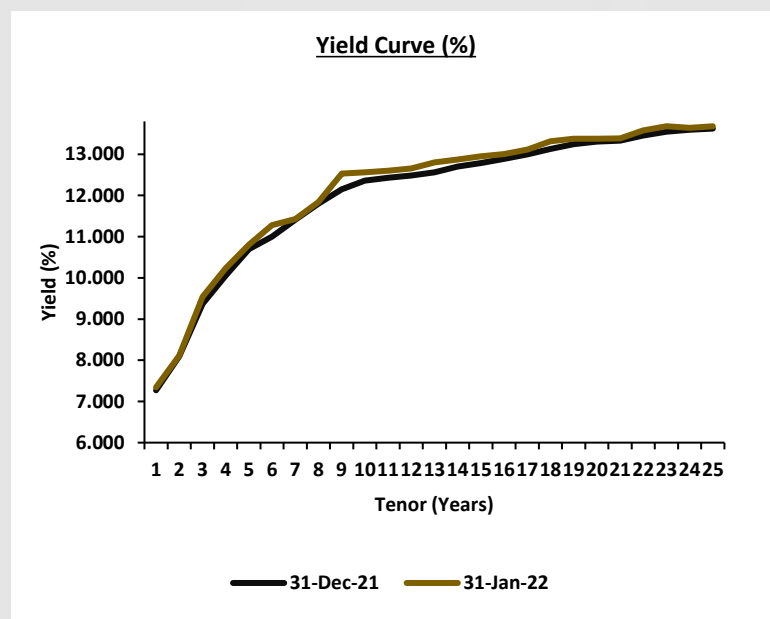
FIXED INCOME HIGHLIGHTS

During the month of January, T-bills were oversubscribed, with the overall subscription rate coming in at 102.60%. The 91-day, 182-day and 364-day T-bills closed the month at yields of 7.34%, 8.11% and 9.55% up from 7.26%, 7.98% and 9.27%, recorded in December, respectively.

In the Primary Bond Market, the government re-opened three bonds FXD1/2020/05, FXD2/2018/10 and FXD1/2021/20. The government had sought to raise Kshs 30.0 bn per auction for budgetary support. The Government received bids worth Kshs 66.8 bn (translating to a 111.3% subscription) and accepted bids worth Kshs 62.3 bn (translating to an acceptance rate of 93.3%). The short-tenor issue i.e. FXD1/2020/05, received more interest from the market, with total bids coming in at Kshs 28.4 bn, equivalent to 42.5% of the total bids received from the entire issue. Below is a summary of the January auctions:

| Bond Auctioned | Value Date | Due Date | Effective Tenor (Years) | Coupon | Amount offered (Kshs bn) | Total bids S\$received | Actual Amount Raised (Kshs bn) | Average Accepted Yield | Subscription Rate | Acceptance Rate |
|----------------|------------|------------|-------------------------|--------|--------------------------|------------------------|--------------------------------|------------------------|-------------------|-----------------|
| FXD1/2020/005 | 10/01/2022 | 05/05/2025 | 3.3 | 11.7% | 30.0 | 28.4 | 27.4 | 11.2% | 94.6% | 96.6% |
| FXD2/2018/10 | 24/01/2022 | 04/12/2028 | 6.9 | 12.5% | 30.0 | 10.4 | 7.3 | 12.6% | 128.0% | 90.9% |
| FXD1/2021/20 | 25/01/2022 | 22/07/2041 | 19.6 | 13.4% | | 28.0 | 27.6 | 13.8% | | |
| Total | | | | | 60.0 | 66.8 | 62.3 | | 111.3% | 93.3% |

The yield curve on the other hand recorded an upward readjustment in all the tenors, during the month of January which saw the FTSE NSE bond index shed 0.8%. The secondary bond turnover edged down by 9.00% to Kshs 46.81 bn, from Kshs 51.44 bn recorded in December.



| Tenor | 31-Dec-21 | 31-Jan-22 | M-O-M Δ (% Points) |
|--------|-----------|-----------|--------------------|
| 91-day | 7.3% | 7.3% | 0.1% |
| 1yr | 9.4% | 9.5% | 0.2% |
| 2Yr | 10.1% | 10.2% | 0.2% |
| 5Yr | 11.4% | 11.4% | 0.0% |
| 10Yr | 12.5% | 12.7% | 0.2% |
| 15Yr | 13.0% | 13.1% | 0.1% |
| 20Yr | 13.5% | 13.6% | 0.1% |
| 23Yr | 13.6% | 13.7% | 0.1% |
| 25Yr | 13.7% | 13.7% | 0.1% |

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 pressures consistent with the government’s efforts to stimulate growth, 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. 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 January, which saw the NASI, NSE 20 and NSE 25 shed 1.90%, 0.70% and 1.70%, respectively. The equities market performance was mainly driven by declines recorded in some large cap counters such as Safaricom (-2.77%) and banking counters such as Equity Group Holdings (-4.27%) Diamond Trust Bank of Kenya (-2.10%), KCB Group Limited (-0.99%).

Equities turnover declined by 21.12% in January 2022 to Kshs 8.24 bn, from Kshs 10.45 bn recorded in December 2021. Foreign investors remained net sellers with a net selling position of Kshs 422.51 mn from a net selling position of Kshs 2.87 bn in December 2021.

| Indicator | 31-Dec -2021 | 31-January -2022 | % Δ M-O-M |
|-----------|--------------|------------------|-----------|
| NASI | 166.46 | 163.29 | (1.90%) |
| NSE-20 | 1,902.57 | 1,889.33 | (0.70%) |
| NSE-25 | 3,743.90 | 3,680.19 | (1.70%) |

| Top Gainers | | |
|-------------------------|-------------|-----------|
| Security | 31 Jan 2022 | % Δ M-O-M |
| Car and General (K) Ltd | 59.25 | 74.52% |
| Crown Paints Kenya Plc | 36.25 | 18.85% |
| Standard Group Plc | 15.30 | 12.92% |
| Sasini Plc | 21.00 | 12.30% |
| Trans-Century Plc | 1.30 | 11.11% |

| Top Losers | | |
|---------------------------|-------------|-----------|
| Security | 31 Jan 2022 | % Δ M-O-M |
| Nairobi Business Ventures | 4.95 | (18.32%) |
| Sanlam Kenya Plc | 9.74 | (15.67%) |
| HF Group Ltd | 3.43 | (12.05%) |
| Umeme Ltd | 5.94 | (11.87%) |
| Standard Group Plc | 15.30 | (10.29%) |

Equities Outlook: We expect the broad-based declines in stock prices recorded in the tail end of the year linked to profit-taking to slow down in the short term, mainly supported by expectations of continued 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, as we approach the election year, which might have a negative impact on investor sentiments. 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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