

# Orient Asset Managers Limited

Monthly Macroeconomic Summary – February 2024



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## February Economic Performance and Key Rates Review

The February business environment saw a hive of activities driven by the Eurobond 2024 buyback and issuance of a new USD 1.5Bn – 9.75% coupon Eurobond maturing in February 16th 2031. The buyback offer at par purchase of USD 1.40Bn with the government receiving USD 1,48Bn and accepted to purchase bonds worth USD 1.44Bn of the principle.

The month also saw the approval of USD 941.2Mn by the IMF towards debt sustainability, supporting macroeconomic stability, and building buffers against shocks especially currency shocks. The country was able to immediately access USD 624.5Mn. The financing came after the IMF board approval after the 6<sup>th</sup> review report. The review was done in November 2023.

The beginning of February saw CBK raise the central bank rate (CBR) by 50bps to 13.0% from 12.5%. The essence was to aid taming the core inflation that had risen from 3.4% in December to 3.6% in January albeit reduced pressure on the exchange rate that necessitated price stabilization.

The inflow activities aided with containing the currency loss of the shilling against world majors with the KES gaining 10.6% month on month on the USD after losing 2.7% m-m in January 2024. The gain on the shilling against the USD was in line with the Kenya’s president’s announcement on buy back on the 30th of January.

Overall rates remained on an upward trajectory, however, we expect a stagnating yields with the CBK signal on the March New FXD1/2024/010 bond which was priced at 16.0%.

Global markets remains focused on the upcoming rate cut with majority expecting a start in June. Inflation in majority of the developed countries continue to ease but regulators continue to keep an eye on the core inflation which has remained sticky in these markets.

Locally, the CBK Governor stated in the February Monetary Policy Committee media briefing (MPC) that the government expects GDP to grow by 5.6% in 2023, with a forecast of 5.7% in 2024. Agriculture was projected to grow by 4.9%, followed by services at 6.5%. Manufacturing is expected to expand by 2.9% in 2024

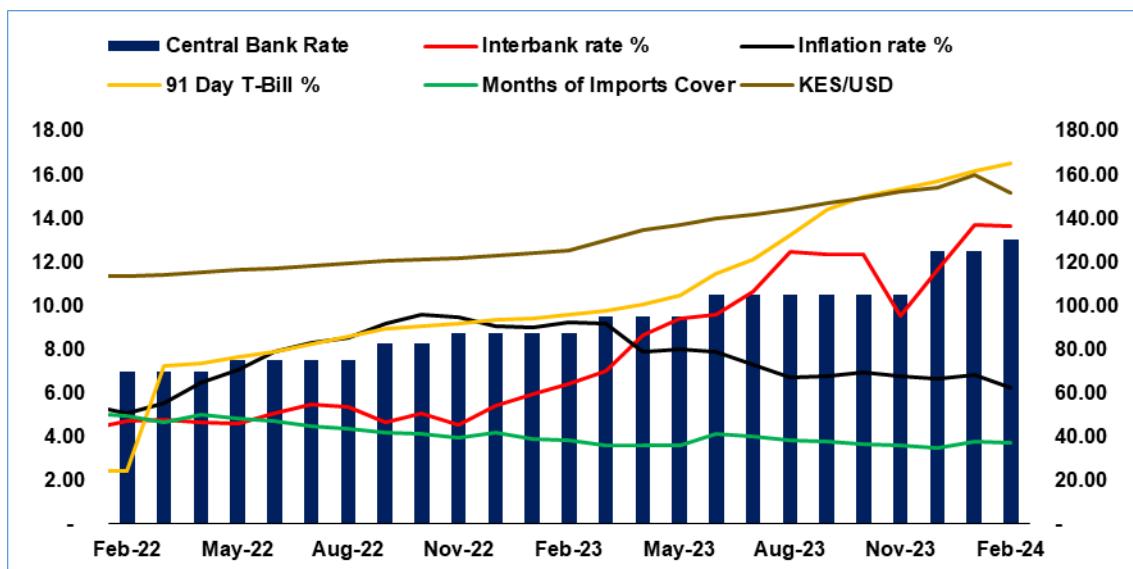


Figure 1: Key CBK Rates

Source: OAML, CBK, KNBS,

## Inflation

February inflation declined by 60bps to 6.27% from 6.85% driven by low food prices which saw the food and non-alcoholic beverages decline to 6.9% from 7.9% while the Housing, Water, Electricity, Gas and Other Fuels' Index decreased by 0.8% m-m due to a decline in cost of electricity.

The weather was favorable to the agriculture sector which favored short term crops while a cut in pump prices on petroleum products and a recovering shilling favored the electricity and transportation sectors.

**We forecast the March inflation to break below the 6.0% mark but remain above the government target of 5.5%. We expect the rate to range 5.73% - 5.95%.**

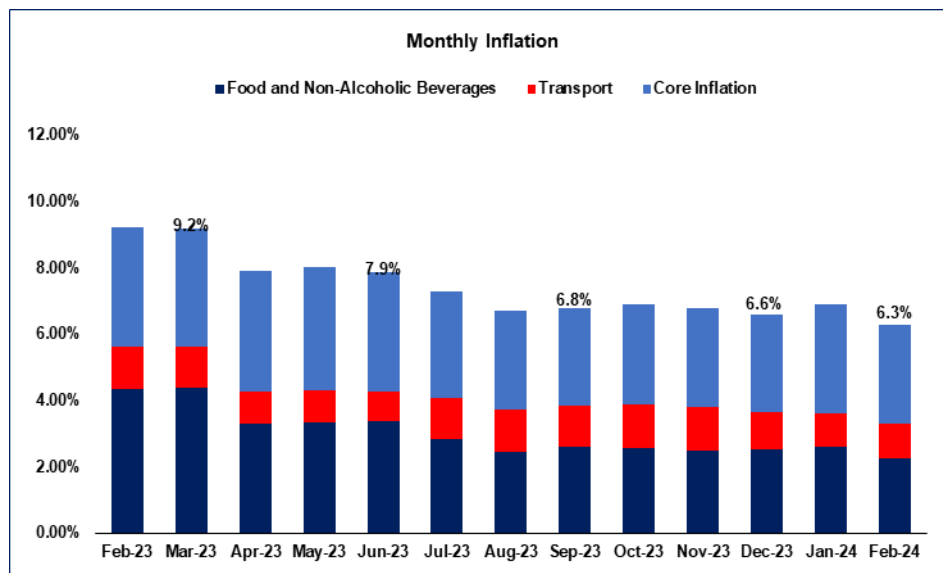


Figure 2: Monthly Inflation Rates

Source: OAML, KNBS,

## Interbank Rate

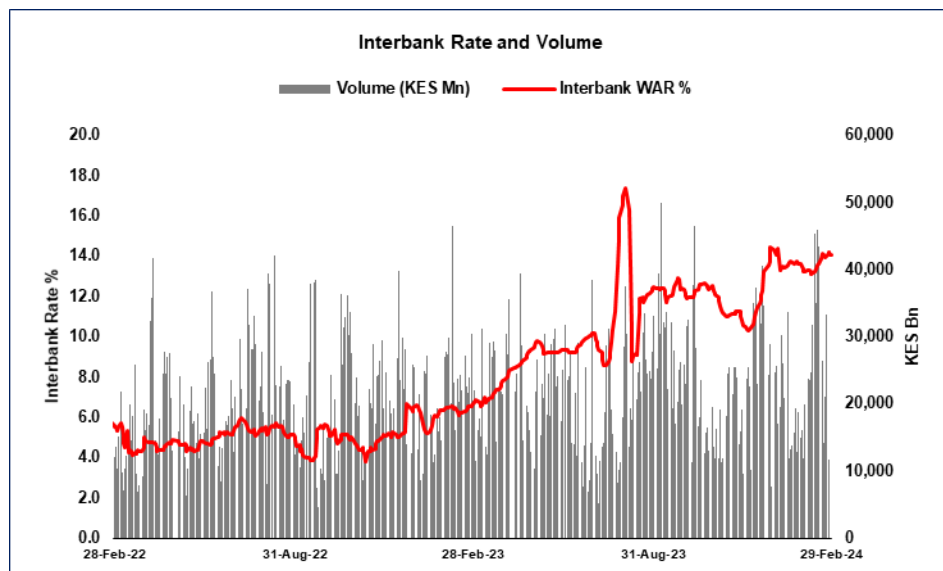


Figure 3: Interbank Rate and Volumes

Source: OAML, CBK

The interbank rate closed the month at 14.0594%, 68.1bps lower compared to a close of 13.3786% in January driven by tight liquidity towards the end of February. As per figure 4, the tight liquidity in response to payment on the February infrastructure bond that saw a subscription of 412.4% with KES 218.01Bn accepted.

<b>Interbank Rate – Monthly</b>			
<b>Period/Narration</b>	<b>Jan-24</b>	<b>Feb-24</b>	<b>%m-m</b>
Closed Week at	13.38%	14.06%	<b>68.1</b>
Average Rate	13.69%	13.65%	<b>-4.6</b>
Closing Demand (KES Bn)	11.87	15.04	<b>26.7%</b>
Average Demand (KES Bn)	19.22	26.00	<b>35.2%</b>
Bank Excess Liquidity (KES Bn)	26.90	27.40	<b>1.9%</b>

Table 1: Interbank Rate and Volumes

Source: OAML, CBK

Monthly average rate was at 13.65% from 13.69% supported by the first half of the month. Monthly average was up 26.7% on improved liquidity in the first half of February.

Commercial bank excess reserves closed the month at KES 27.40Bn, a 1.9% improvement from KES 26.90Bn in January. The reserves has remained high as focus on short-term investment remains key.

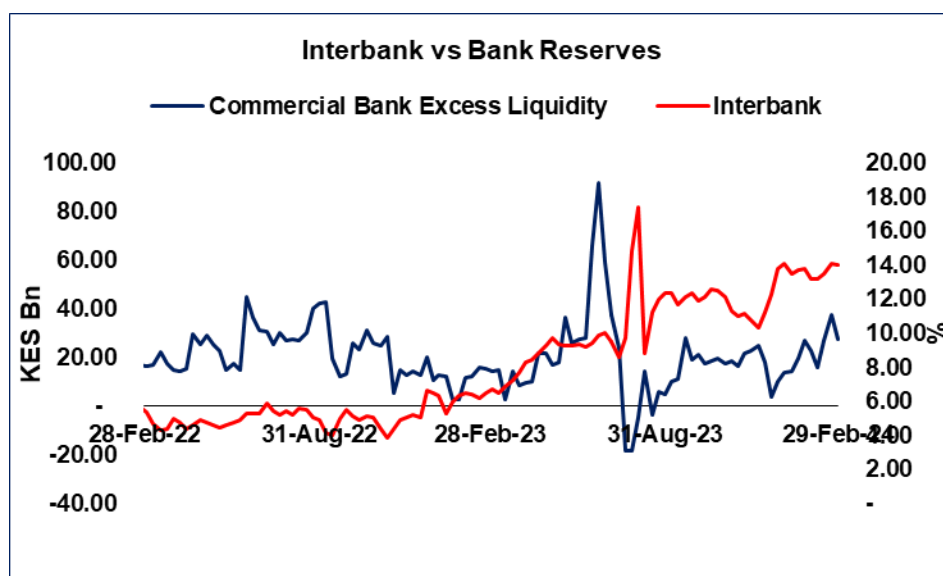


Figure 4: Interbank Rate and Commercial Bank Excess Reserves

Source: OAML, CBK

March T-Bonds coupon payment stands at KES 29.05Bn against a target of KES 40.00Bn. T-Bills has a payout of KES 104.50Bn against a target of KES 96.00Bn.

**We foresee a tight liquidity environment in March with a mismatch on the government payments and receipts as on low T-Bond payouts while T-Bills will witness an over subscriptions that will match receipts while companies brace to pay corporate taxes by end of the month.**

## Currency

During the month, the Kenyan shilling gained against all the world majors after advancing 10.6%, 11.1%, 10.9% and 11.8% on the US Dollar, British Pound, Euro and Japanese yen respectively. The local currency benefited from the USD 624.5Mn from IMF, Eurobond Buyback offer, confidence from the international investors of issue of the new Eurobond and the February infrastructure bond. The gain was a break from a 2.7% loss in January and a 26.8% depreciation in 2023.

KES	KES/USD	KES/GBP	KES/EUR	KES/JPY	Dollar Index
<b>29-Feb-24</b>	<b>143.5891</b>	<b>181.8771</b>	<b>155.5931</b>	<b>95.7803</b>	<b>104.0980</b>
<b>W/W</b>	<b>0.4%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.2%</b>
<b>M-t-D</b>	<b>10.6%</b>	<b>10.9%</b>	<b>10.8%</b>	<b>12.1%</b>	<b>1.2%</b>
<b>M/M</b>	<b>10.6%</b>	<b>11.1%</b>	<b>10.9%</b>	<b>11.8%</b>	<b>0.7%</b>
<b>Y-t-D</b>	<b>8.5%</b>	<b>8.9%</b>	<b>10.4%</b>	<b>13.7%</b>	<b>2.2%</b>
<b>Y/Y</b>	<b>13.2%</b>	<b>19.8%</b>	<b>16.2%</b>	<b>2.9%</b>	<b>0.7%</b>

Table 2: Currency Movement

Source: OAML, CBK

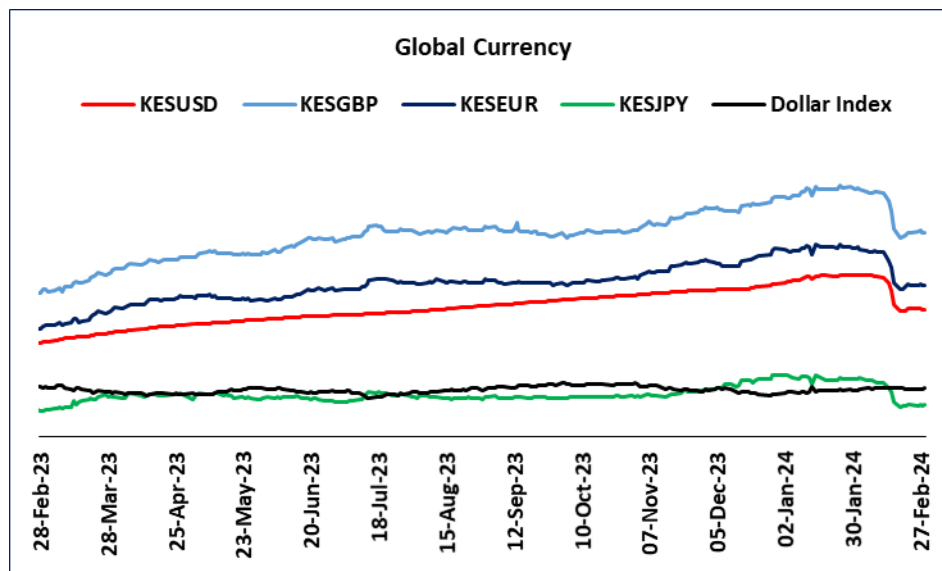


Figure 5: Global Currency Movement

Source: OAML, CBK

Forex reserves declined by 0.8% to close at USD 6,962Mn or 3.7 months of import cover compared to USD 7017Mn or 3.75 months of import cover at end of January 2024. The receipt of the IMF's USD 624.5Mn aided to push the reserves up to USD 7,221Mn or 3.9 months of import cover but debt repayment and Eurobond buyback cut the reserves to current levels.

In the international scene, the dollar closed 0.7% stronger against a basket of currency as per the dollar index. Strong economic data keep giving an indication of rate cut in June with the Fed retaining need to bring inflation down to 2.0%.

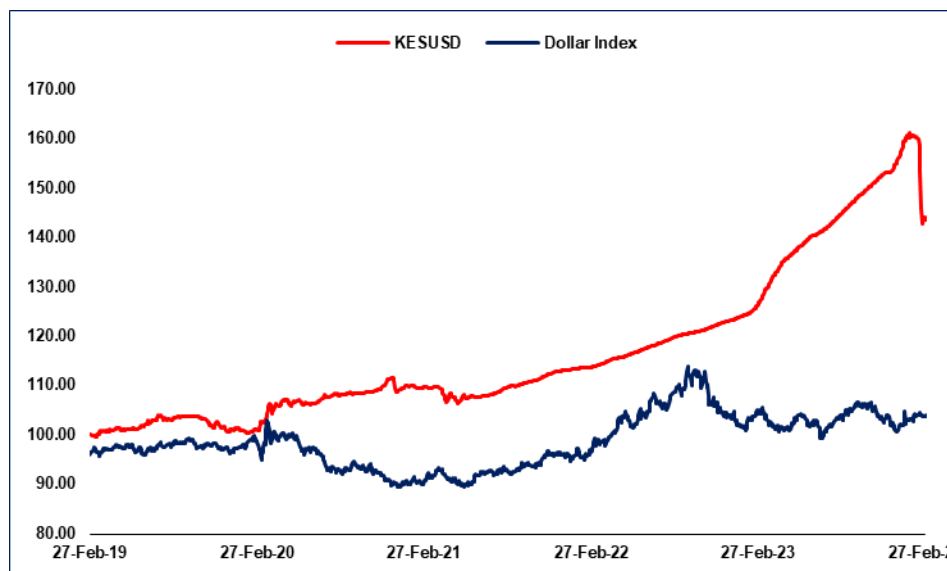


Figure 6: KES /USD and Forex Reserves

Source: OAML, CBK

We do now anticipate the shilling again against the majors to be sustainable as the reserves continue to remain below the government target of 4 months of import cover, weak export levels while there remains debt obligations that need to be settled in dollars.

## Treasury Bills

February saw a subscription of KES 156.56Bn against a target of KES 96.00Bn representing 163.1% subscription rate. KES 136.23Bn was accepted for an 87.0% acceptance rate and a performance rate of 141.9%.

February-24									
Tenure	Offer (KES Bn)	Subscription (KES Bn)	Acceptance (KES Bn)	Subscription	Acceptance	Performance	WAR % Jan 24	WAR % Feb 24	Δbps M-M
364-Day	40.00	35.41	25.13	88.5%	71.0%	62.8%	16.290%	16.590%	30.0
182-Day	40.00	29.76	27.69	74.4%	93.0%	69.2%	16.367%	16.734%	36.7
91-Day	16.00	91.40	83.41	571.2%	91.3%	521.3%	16.523%	16.919%	39.6
<b>Total</b>	<b>96.00</b>	<b>156.56</b>	<b>136.23</b>	<b>163.1%</b>	<b>87.0%</b>	<b>141.9%</b>			

Table 3: T-Bills Performance

Source: OAML, CBK

There was an improved subscription on the 364-day paper with 88.5% subscription levels compared to a past 5-months average of 22.7% subscription, an indication of a reversing investor behavior. The rate on the paper improved by 397bps (January increase 62.1bps) to close the month at 16.919%.

The 182-day paper subscription improved to 74.4% from 66.3% in January with 29.76Bn. The yields improved by 35.9bps (January 40.4bps) to close the month at 16.734%.

The 91-day paper retained demand albeit lower with a subscription of 571.2% compared to 607.7% in January. The yields edged up by the lowest levels at 29.9bps (January 40.7bps).

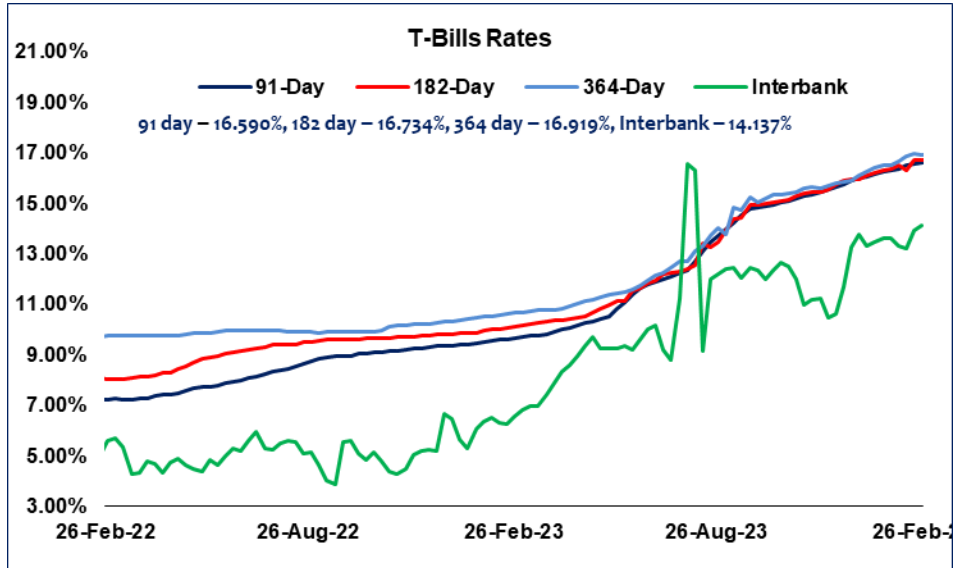


Figure 7: T-Bill Yields and Interbank Rate

Source: OAML, CBK

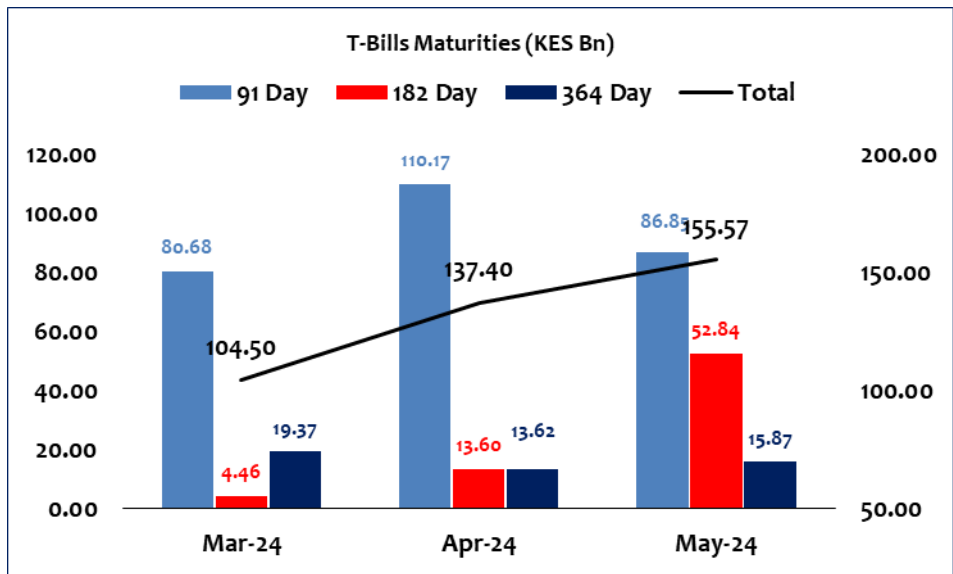


Figure 8: T-Bill Expected Payout

Source: OAML, CBK

We anticipate a mild shift to the 364-day paper. However, the 91-day paper will remain oversubscribed as we expect KES 104.5Bn on March payout with KES 80.68Bn on the 91-day paper.

### Treasury Bond

Central Bank issued the first infrastructure bond of the year with an offer of KES 70.00Bn. The market responded with KES 288.66Bn, a 412.4% subscription. A total of KES 240.96Bn was accepted on 83.5% acceptance rate and 344.2% performance at a weighted average rate (WAR) of 18.4607% against a market average of 18.6218%.



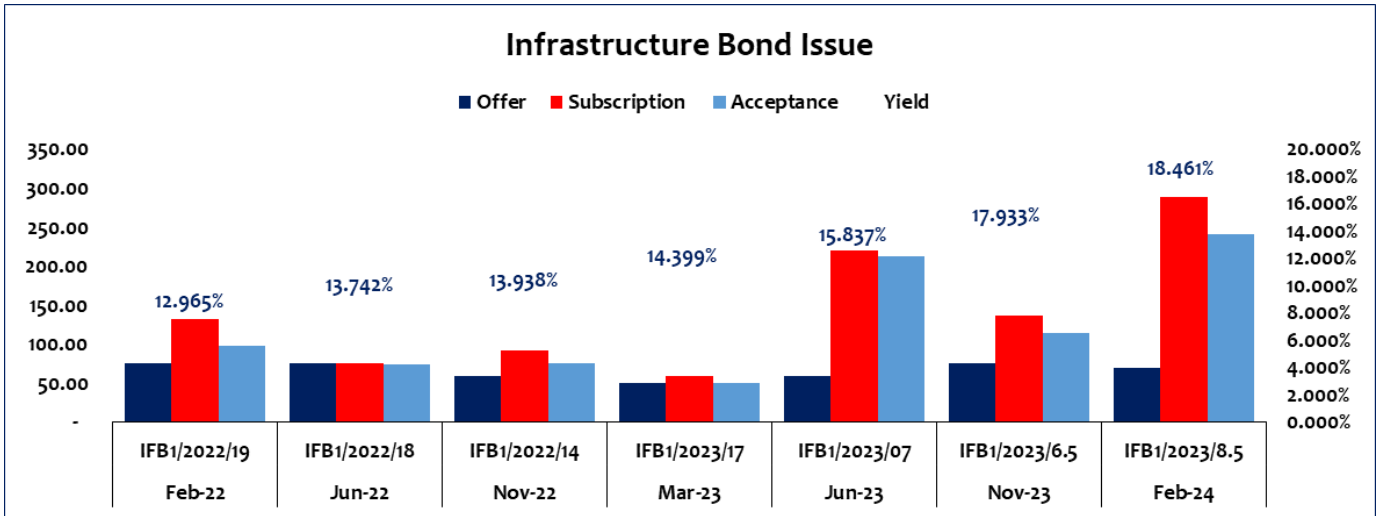


Figure 9: Infrastructure Bond Performance

Source: OAML, CBK

The market benefited for the return of foreign investors interested in the high yields and zero tax element on the bond which aided in containing the paper’s WAR.

March primary issues targets KES 40.00Bn with reopening of the FXD1/2024/003 and FXD1/2023/005 and a new issue FXD1/2024/010 which is priced at 16.00%. The introduction of pre-determined pricing on new issues, especially for mid-term bonds gives a signal that the government intends to contain the rate. The previous new issue was the FXD1/2024/003 which was priced at 18.3854% which is 238.54bps higher to the 16.00% pricing on the new 10-year paper. The FXD1/2024/010 will create a new base for future re-openings.

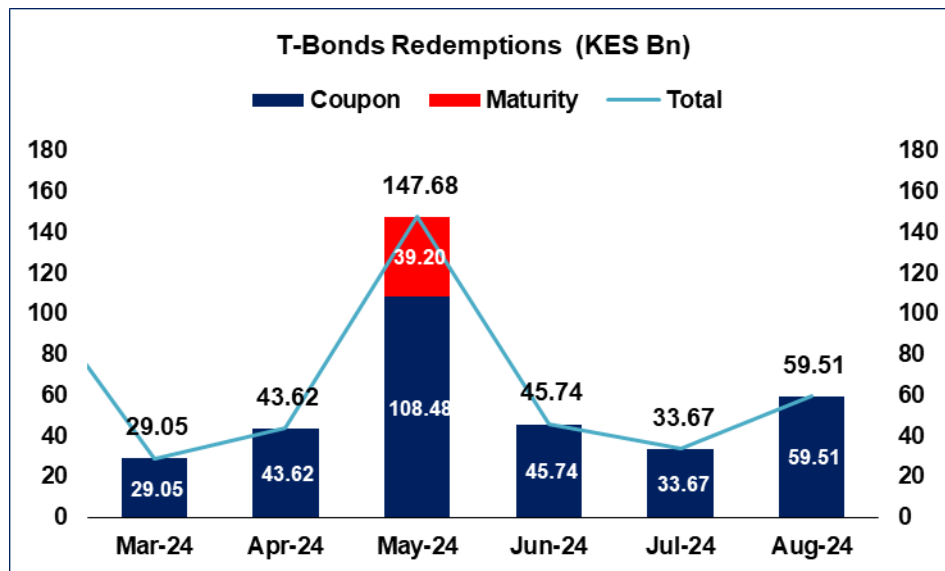


Figure 10: T-Bond Maturities and Coupon Payment

Source: OAML, NSE

We expect a low subscription on the March paper with focus remaining on the 3-year paper. The months expects a coupon payment of KES 29.01Bn which is below the KES 40.00Bn issue. Bids on the issue will remain aggressive as the government appetite remains high after managing 61.4% on domestic borrowing as of January 2024

## NSE Secondary Bonds Market

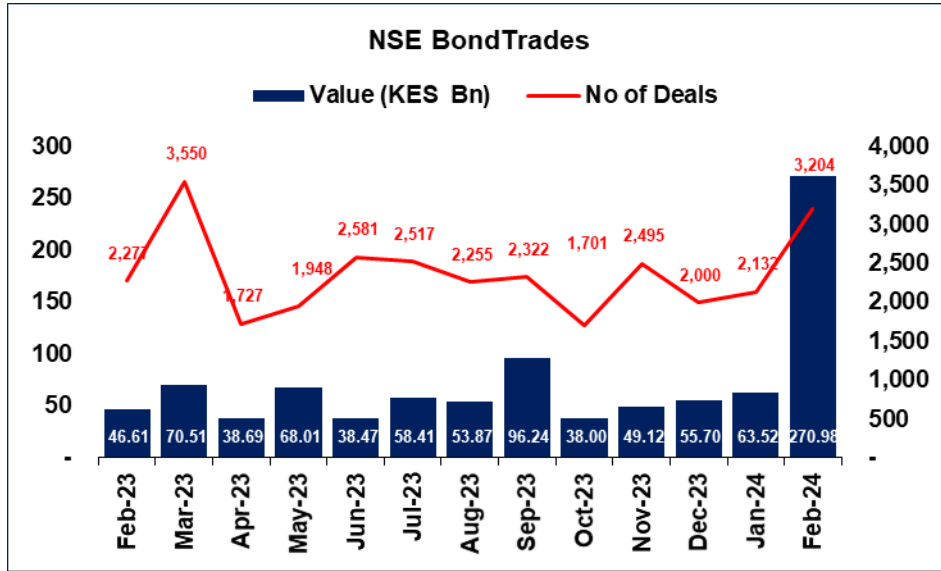


Figure 11: NSE Secondary Market Bond

Source: OAML, NSE

Secondary market saw an improved value transaction with KES 270.98Bn, a 326.6% surge from KES 63.52Bn in January, this was matched by a 50.3% increase in number of deals. The surge was supported by trades in the February infrastructure bond IFB1/2024/008.5 which moved KES 190.32Bn representing 70.4% of the months trades.

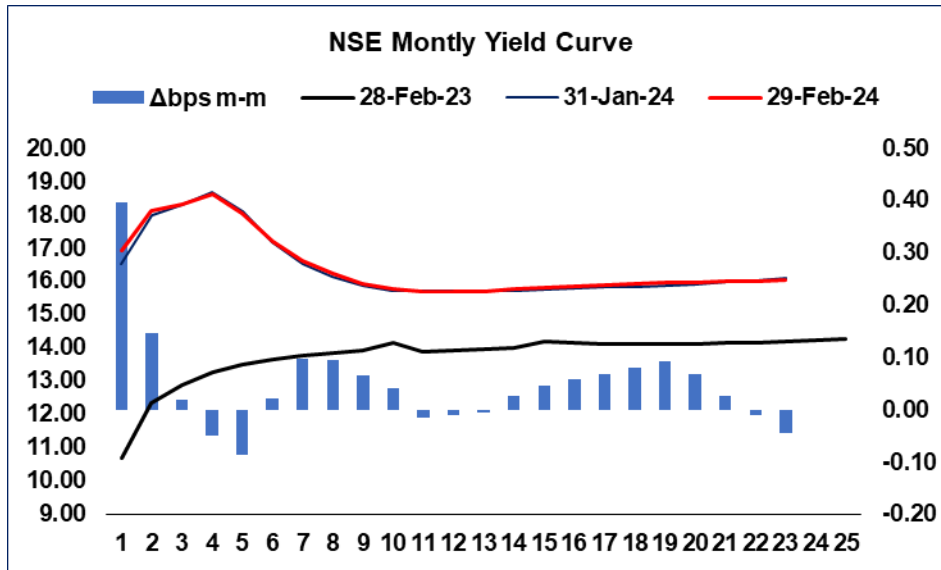


Figure 12: NSE Monthly Bond Yields

Source: OAML, NSE

Yields edged upwards on the short end while long end was nearly flat. Introduction of FXD1/2024/010 had an impact of the 10-year key rate and it is supposed to aid in managing rate hike. This however leaves the 10-year key rate to levels lower than the short term papers who averaged 16.72% in the last auction (see figure

Yield Key Rates %	28-Feb-23	31-Jan-24	29-Feb-24	y-y bps Δ	m-m bps Δ
2-Yr	12.3365	17.9854	18.1318	579.5	14.6
5-Yr	13.4962	18.1153	18.0291	453.3	8.6
10-Yr	14.1332	15.7149	15.7560	162.3	4.1
15-Yr	14.2030	15.7533	15.7985	159.6	4.5
20-Yr	14.1241	15.9050	15.9729	184.9	6.8
23-Yr	14.1740	16.0787	16.0335	186.0	4.5

Table 4: Key Yield Rates

Source: OAML, NSE

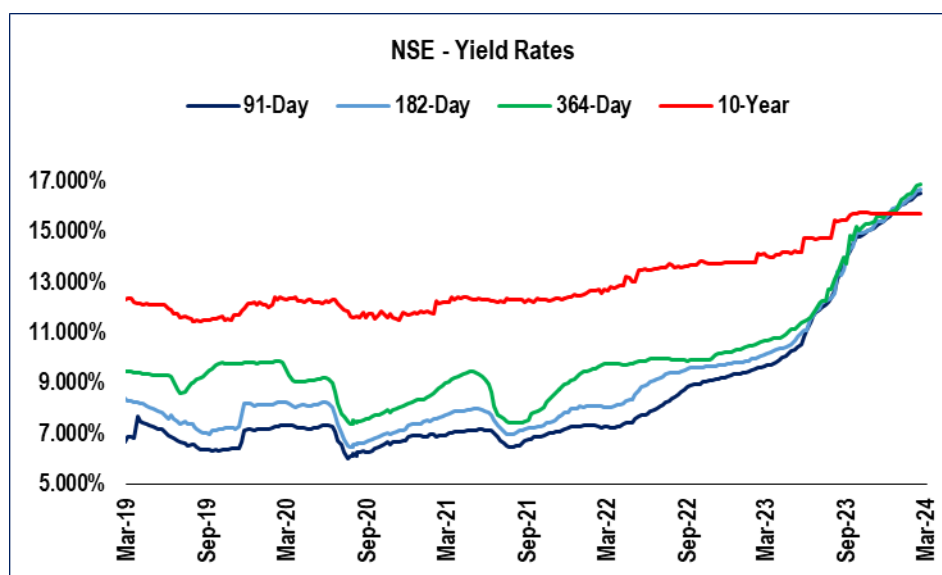


Figure 13: Short Term and Mid Term Rate

Source: OAML, CBK

## Eurobond

The market has witnessed a reversal of rates post Eurobond 2024 buyback with an acceptance of USD 1.44Bn and the Eurobond 2031 issue of USD 1.50Bn at a rate of 9.75% on February 15<sup>th</sup>, 2024. The yields have edged up by an average of 19.4bps across all tenures with the 2024 bond seeing an upward movement of 78.3bps.

Bond Tenure	Eurobond BPSΔ						
	2024	2027	2028	2031	2032	2034	2048
29-Feb-24	8.304%	8.432%	9.417%	9.742%	9.666%	9.676%	10.313%
W-W	78.3	10.0	18.6	8.4	4.7	12.5	3.1
M-T-D	528.7	144.2	98.1		51.9	17.3	23.4
M-M	478.2	123.5	70.7		31.5	8.9	5.6
Y-T-D	465.9	76.6	45.6		11.4	25.0	10.1
Y-Y	331.2	148.0	116.4		79.1	29.5	56.5

Table 5: Eurobond Yields Movement

Source: OAML

All the yields were shifted downwards m-m with an exception of the 10-year space with the 2034 yields rising by 8.9bps

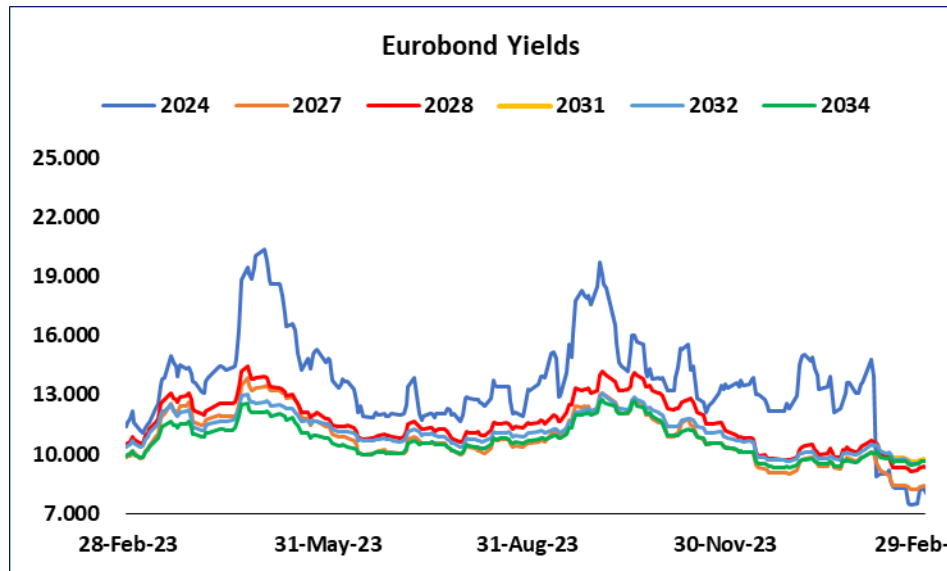


Figure 14: Eurobond Yields

Source: OAML, Bloomberg

## NSE Equities Market

The NSE equities market announced a change of guard with the long serving CEO, Mr. Geoffrey Odundo exiting after nine years of service. He will be replaced by Mr. Frank Mwiti. On his last month of service, the market indices closed all green month on month with the NSE 20 Share index gaining 1.8% while the NSE 25 and NASI were up 2.7% and 0.3% respectively. The newly launched NSE 10 was up 3.5% m-m.

The market volumes were up 82.3% m-m to close at 276.01Mn share which aided to push up turnover by 71.5% to KES 4.60Bn from KES 2.68Bn in January. Trades were dominated by Safaricom Plc with a 49.2% on volumes and 39.6% of value.

Foreign activity closed with an outflow of KES 0.95Bn with activities standing at 60.3%. Safaricom moved a net outflow of KES 659.65Mn on a 71.1% activity level. The telecommunication company announce and interim dividend of KES 0.55 per share with a book closure of March 15<sup>th</sup> and paid by March 31<sup>st</sup> 2024. The dividend information and new on positive progress in Safaricom Ethiopia was not able to support the stock value as it closed at KES 13.25, 2.6% m-m lower.

The month of March is expected to see improved activities with banks announcing their full year result with an expectation of dividend declaration from the financial sector.

The market closed on a positive dollar return of 5.9% boosted by a strengthening shilling against the dollar and up movement of the NASI.

<b>NSE Equities Monthly Performance</b>					
<b>Indicator</b>	<b>Feb-23</b>	<b>Jan-24</b>	<b>Feb-24</b>	<b>y-y</b>	<b>m-m</b>
<b>NSE 20</b>	1,646.56	1,508.86	1,535.89	<b>-6.7%</b>	<b>1.8%</b>
<b>NSE 25</b>	3,136.26	2,409.30	2,475.03	<b>-21.1%</b>	<b>2.7%</b>
<b>NSE 10</b>		917.11	948.78	<b>100.0%</b>	<b>3.5%</b>
<b>NASI</b>	125.98	92.18	92.49	<b>-26.6%</b>	<b>0.3%</b>
<b>NSE Mkt CAP (KES Bn)</b>	1,962.73	1,440.14	1,445.06	<b>-26.4%</b>	<b>0.3%</b>
<b>NSE Mkt CAP (USD Mn)</b>	15.65	9.02	9.52	<b>-39.2%</b>	<b>5.5%</b>
<b>VOLUMES (Mn)</b>	169.62	151.39	276.01	<b>62.7%</b>	<b>82.3%</b>
<b>NSE Turnover (KES Bn)</b>	4.60	2.68	4.60	<b>0.0%</b>	<b>71.5%</b>
<b>NSE Turnover (USD Mn)</b>	3.67	1.68	3.03	<b>-17.4%</b>	<b>80.3%</b>
<b>Foreign Buys (KES Bn)</b>	1.74	2.30	2.38	<b>36.8%</b>	<b>3.4%</b>
<b>Foreign Sales (KES Bn)</b>	2.12	3.22	2.95	<b>39.1%</b>	<b>-8.4%</b>
<b>Foreign Net Δ (KES Bn)</b>	- 0.38	- 0.92	- 0.57	<b>-49.5%</b>	<b>37.8%</b>
<b>Foreign Net Activity</b>	41.9%	62.9%	60.0%		
<b>Dollar Return (NASI)</b>	-1.9%	-2.7%	5.9%		

Table 6: NSE Stock Key Performance

Source: OAML, NSE

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