Orient Asset Managers Limited

Quarterly Macroeconomic Summary – Q1-2024

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INVESTING IN DREAMS

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Contents

1. Global Economic Performance

Switzerland became the first nation to cut key central bank rate with the Swiss National Bank (SNB) cutting the key rate by 50bps from 1.75% to 1.50%. On the other hand, the Bank of Japan (BoJ) increased its key rate from -0.1% to a range of 0.0% - 0.1% with wages increasing after rise in consumer prices. Other developed economies retained their key rates as inflation remained above targets with analyst maintaining a probable first cut in June 2024.

The USA Q4-2023 GDP grew by 3.4% supported by consumer spending, state and local government spending, exports, nonresidential fixed investment, federal government spending, and residential fixed investment that were partly offset by a dip in private inventory investment.

UK GDP shrunk by 0.3% in Q4 while the annual GDP thinned by 0.2% affected by a decline in volume of net trade, household spending and government consumption.

The EU posted an annual GDP growth of 0.5% after a 0.2% growth in Q4-2023 as the largest economy in the zone, Germany, contracting by 0.3% q-q.

In 2023, China's economy expanded by 5.2%. The Chinese economy was boosted by the economies reopening following the Covid-19 pandemic at the start of the year, which saw strong performance in industry, manufacturing, services, and consumption. Foreign trade and private sector investment are expected to improve by the end of 2023, despite their weaknesses.

Global economic growth projections remains strong with IMF projecting a 3.1% annual growth for 2024. The challenge remains on the international shipping business with Bloomberg reporting that the Houthis guaranteeing passage to Russia and Chinese vessels in the Red Sea and near Gulf of Aden in exchange to use of their US Security seat to support their war venture. Other shipping companies have opted to avoid the Red Sea opting for the longer Cape of Good Hope. This can lead to higher cost of shipping that can translate to higher cost of goods fueling inflation.

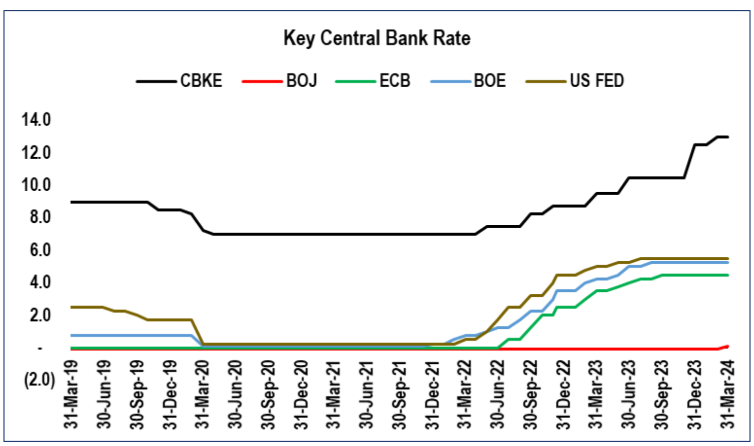

Figure 1: Key Central Bank Rates Source: OAML, CBK, KNBS

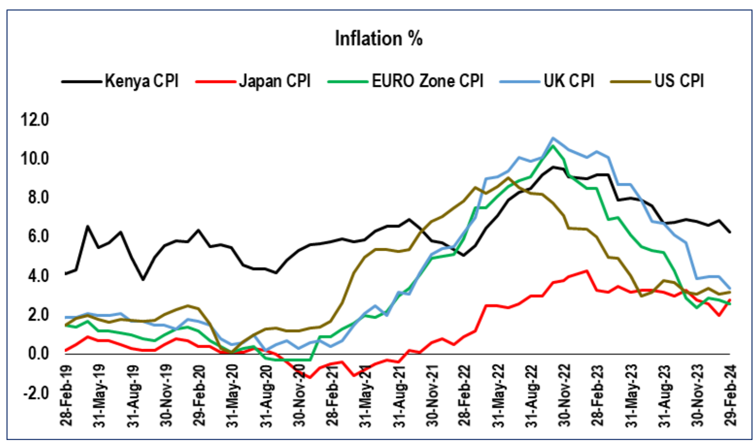

Figure 2: Global Inflation Rates Source: OAML, KNBS, Bloomberg,

We continues to see improved production across the globe based on Purchasing Managers' Index (PMI) in key economies edging above 50.0 and declining inflation levels across the globe. Visible risk remain on the geopolitical tensions particularly the Israel-Palestinian and Russia-Ukraine conflicts.

2. Kenya Economic Performance

The Kenyan economy is forecasted to have expanded by 5.5% in 2023 with a forecast of 5.7% growth in 2024. To drive grown the government has initiated fiscal consolidating with the Treasury Cabinet Secretaries instructing Sector Working Groups and Ministries, Departments, and Agencies (MDA) to revise their annual budget and cut non-essential expense. The government entities are required to prepare their figures in line with the five core priority areas namely:

i) Agricultural Transformation and Inclusive Growth;
ii) Micro, Small and Medium Enterprise (MSME) Economy;
iii) Housing and Settlement;
iv) Healthcare; and
v) Digital Superhighway and Creative Industry

Struggling revenue lines have forced the government to review its expenditure, with February exchequer items indicating a tax revenue collection of KES 1,374.03Bn, 55.1% of the total target of KES 2,495.83Bn, and 82.6% of the 8-month target of KES 1,663.88.Bn. This left the government with the option of accelerating borrowing, particularly from external sources, which accounted for 55.7% of the annual budget in February 2024. The strengthening shilling (16.0% year to end of March) will allow the country to borrow more dollars.

3. Central Bank of Kenya - Central Bank Rate (CBR) Retained at 13.0%

The Central Bank governor stated that previous monetary policy measures aimed at taming inflation and depreciating the currency were successful, with inflation expected to decline further due to lower commodity and fuel prices. The committee decided to retain the Central Bank Rate, CBR, at 13.0% in their April meeting.

The foreign currency reserves remained upbeat with 3.8 months of import cover as at end of March while the shilling strengthened by 8.8% month on month while up 16.0% y-to- close quarter.

Key CBK monthly rates edged downwards except 91-day T-Bill which was up 16.7bps while the Central Bank Rate (CBR) remained flat at 13.0%. Current account deficit was at 4.3% of GDP in as end of February 2024, down from 4.7% similar period of 2023. The deficit was held down due to a 1.7% drop on exports Goods exports declined by 1.7% and 8.5% in imports at the end of February 2024.

Banking sector gross non-performing loans stood at 15.5% in February 2024 from 14.0% in February while private sector credit was up 10.0%, slower to 13.8% in January 2024. This slowdown had a ripple effect with March purchasing managers index (PMI) easing to 49.7 from 50.1 in February 2024.

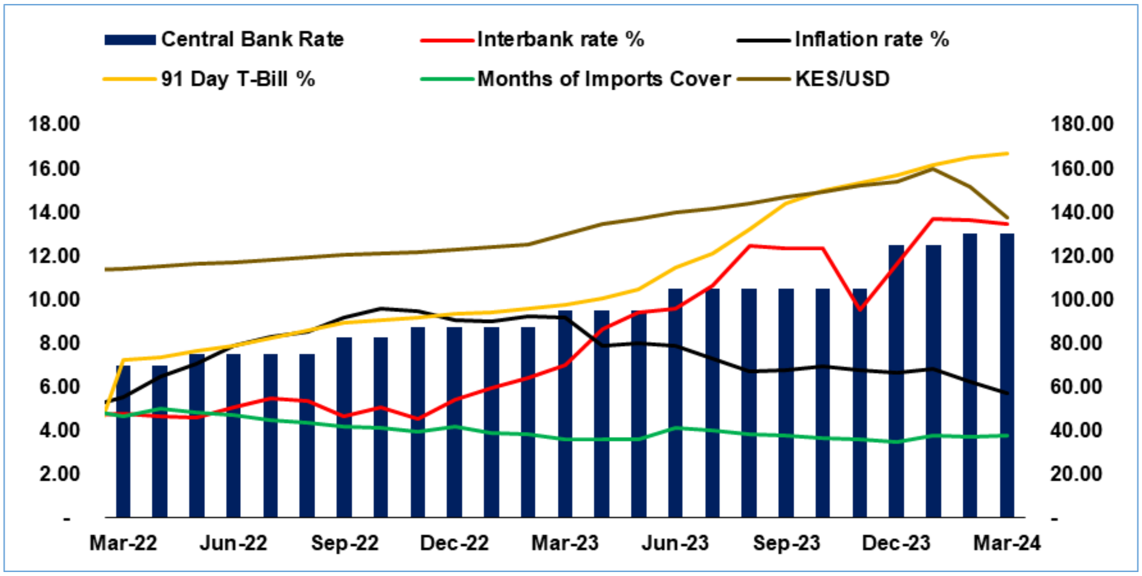

Figure 3: Key CBK Rates Source: OAML, CBK, KNBS,

The market still anticipates a rate cut end of during the next MPC meeting in June or beginning of Q3-2024 which will have an impact on short term rates which are expected to shift downwards. The rate cut will provide relief to banking sector borrowers from the current high cost of borrowing and will aid in the reduction of banks' gross NPLs by Q4 2024. Imports will remain subdued due to low demand for raw materials, but a strengthening currency, expected rate cuts, and low inflation levels will provide manufacturers with cost relief, pushing the PMI index higher.

4. Kenya Inflation - March 2024

The quarter saw declining inflation levels, with march inflation standing at 5.7%, bringing Q1-2024 inflation down to 6.3% from 6.8% in Q4-2023 and 9.1% in Q1-2023. Inflation levels eased on above average rainfall in the quarter which that supported good agriculture harvest, drop in price of maize products and sugar, declining petroleum pump prices as petrol, diesel and paraffin prices closed the month down 6.2%, 5.5% and 5.2% respectively compared to end of Q4-2023 and lower electricity prices due to higher use of hydropower and strengthening shilling.

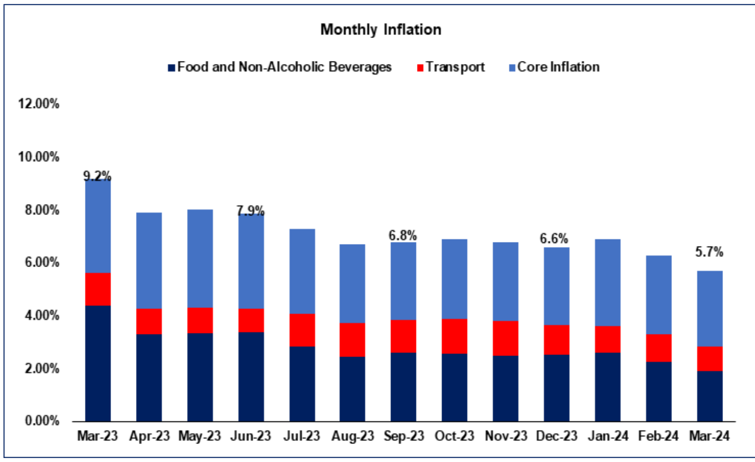

Figure 4: Kenya Inflation Rate Source: OAML, KNBS

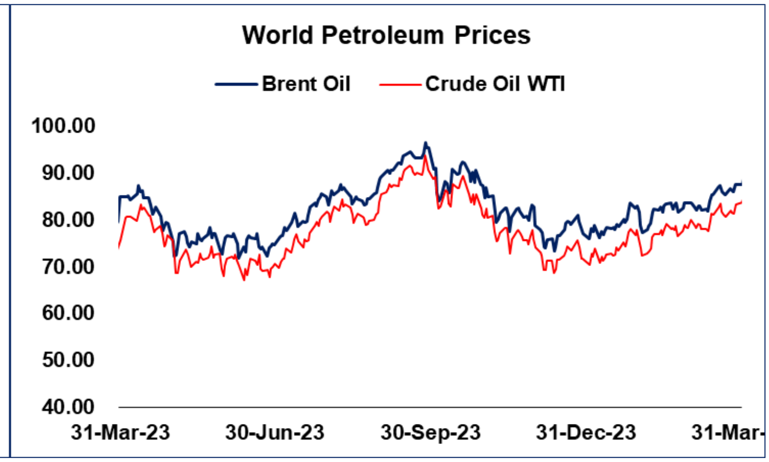

Figure 5: International Petroleum Price Source: OAML, Investing.com

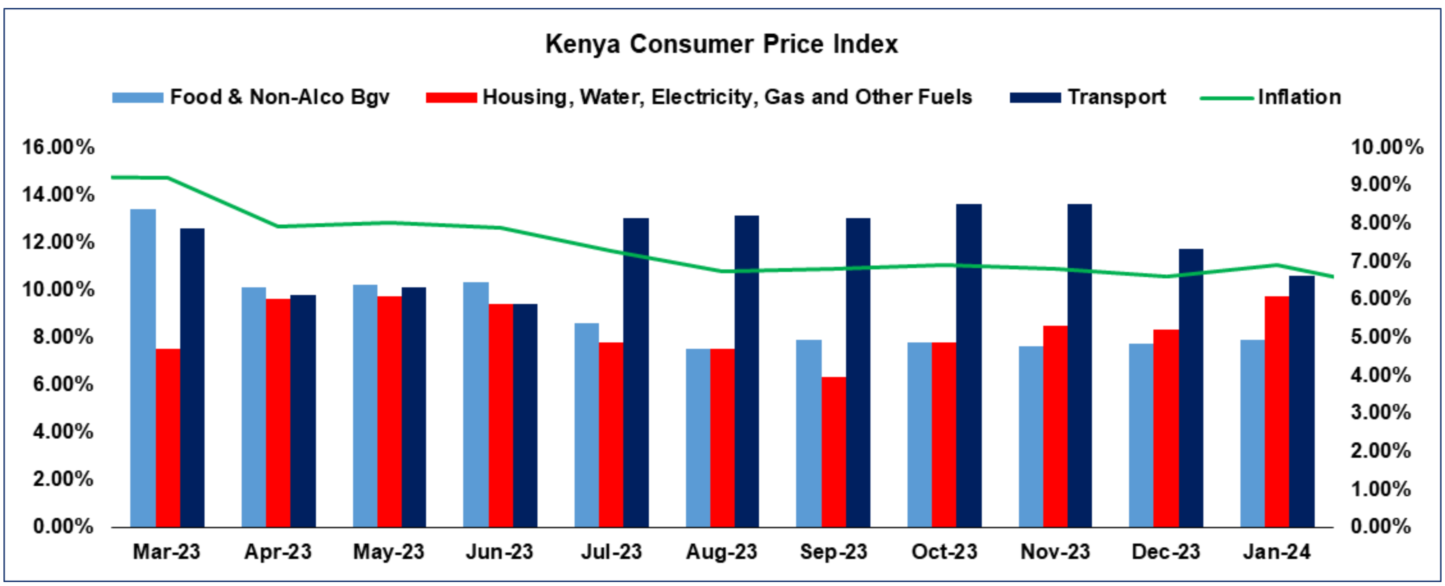

Figure 6: Key Inflation Indices Source: OAML, CBK, KNBS,

Our inflation forecast remains positive with a forecast range of 5.4% - 5.7% for the month of April supported by lower food prices as rainfall forecast remains above adequate. The shilling continues to strengthen against the dollar creating a favorable landing price for the product. Pressure will emanate from a rise in international petroleum prices with prices having edged up 4.5%% and 5.9% m-m on the Brent Oil and Crude Oil WTI due to disruption on main freight lines production cuts by OPEC+.

5. Interbank rate

The interbank rate closed the quarter at 13.75%, 68.9bps lower compared to 14.44% at the close of Q4-2023. The rate remained high on average levels at 13.61% against 11.78% during the period having touched a high of 14.42% and a low of 12.99% due to tighter liquidity and an upward adjustment of central bank rate (CBR) from 12.5% to 13.0% which is the main base used to peg interbank rate.

Interbank Rate - Q1-2024			
Narration	**Q4-2023**	**Q1-2023**	**%q-q**
Closed Week at	14.44%	13.75%	**-68.9**
Average Rate	11.78%	13.61%	**182.7**
Closing Demand (KES BN)	7.75	15.48	**99.7%**
Average Demand (KES BN)	21.68	23.84	**10.0%**
Bank Excess Liquidity (KES BN)	10.10	18.30	**81.2%**

Table 1: Interbank Rate Source: OAML, CBK

Demand closed up by 99.7% during the two points and the periodic average increasing by 10.0% with demand aligning itself with government tax receipt calendars.

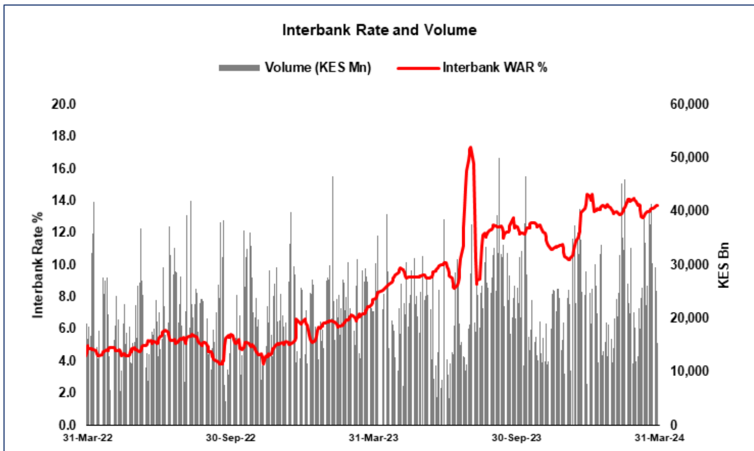

Figure 7: Interbank Rate and Demand Source: OAML, CBK

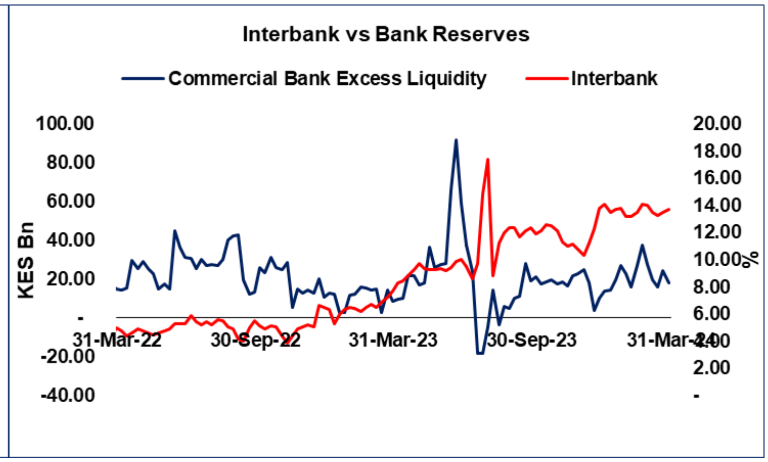

Figure 8: Interbank Rate and Commercial Bank Reserves Source: OAML, CBK

Commercial Bank excess reserves closed the quarter at KES 18.30Bn up from KES 10.10Bn in December. The excess liquidity was lower to KES 27.40Bn at the close of February as company's remitted corporate tax in March and government receipts outdid payments limiting liquidity.

With the CBK retaining the CBR at 13.0% and April government payment expected at KES 182.04Bn (T-Bills Maturity KES 138.42Bn and T-Bond Coupon Payment of KES 43.62) against a demand of KES 120.00Bn and KES 65.00Bn in T-Bills and T-Bonds respectively, we forecast the rate to remain at the 13.5% average levels in April.

6. Currency

The shilling gained 15.8% y-t-Q1 against the US Dollar, a gain that started end of January 2024. The local currency has been gaining by 0.2% per day gaining 8.2% m-m as at end of March 2024.

Commercial banks retained an average of 2.0% on the CBK average rate, a margin that was even when the local currency was depreciating.

The local currency gained against all majors on y-t-d basis strengthening by 16.5%, 17.8% and 21.5% on the British Pound, EURO and Japanese Yen respectively.

On the local scene, the shilling strengthened against its neighbors gaining 17.5%, 21.8%, 20.5% and 21.2% against South African Rand, Ugandan Shilling, Tanzanian Shilling and Rwandese Franc respectively.

The shilling performance was supported by the success in the Eurobond 2024 buyback where the government received offers worth USD 1,48Bn and accepted USD 1.44Bn, issuance of a new USD 1.5Bn – 9.75% on 2031 Eurobond, receipt of funding from IMF, USD 624.5Mn and re-entry of foreign investors targeting the February infrastructure bond IFB1/2024/008.5.

Currency Performance			
Currency	**Q4-2023**	**Q1-2024**	**ΔQ-Q**
KES/USD	156.4618	131.8005	**15.8%**
KES/GBP	199.8047	166.5497	**16.6%**
KES/EUR	173.7797	142.6740	**17.9%**
KES/JPY	111.0013	87.1149	**21.5%**
KES/SAZ	8.4402	6.9630	**17.5%**
KES/UGX	24.1915	29.4764	**21.8%**
KES/TZS	16.0744	19.3626	**20.5%**
KES/RWF	8.0466	9.7559	**21.2%**

Table 2: Currency Exchange Source: OAML, CBK

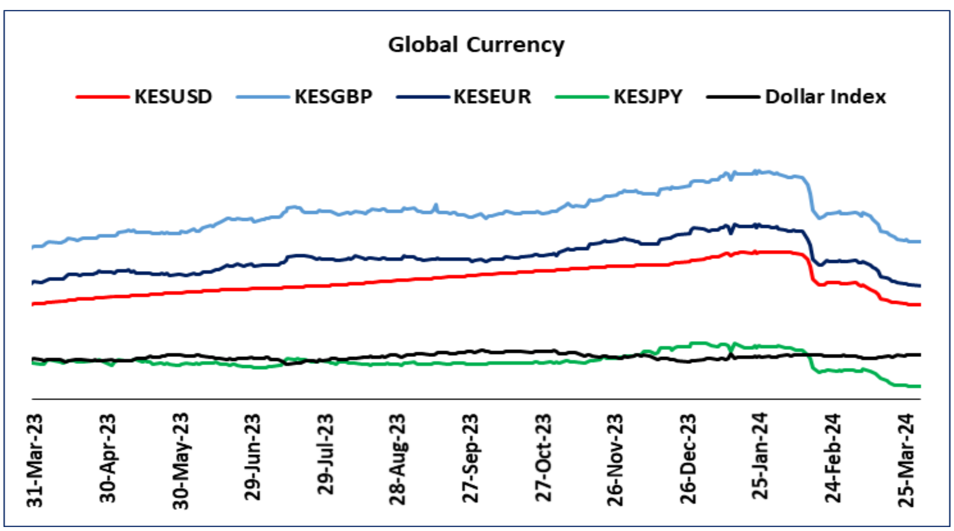

Figure 9: Currency Performance Source: OAML, CBK

Forex reserves close the quarter 7.8% higher at USD 7,088Mn or 3.8 months of import cover. The levels have been elevated by inflows from IMF, World Bank and an inflow from foreign investors whose seem to be interested in local investments after the government resolved the 2024 Eurobond maturity and issued a new bond. The strengthening of the shilling has aided in propping up the reserves as per the final week of March the shilling strengthened by 1.0% while the reserves were up 0.9%.

On the international front, delay in rate cuts and demand for the US dollar has seen the green buck appreciate by 2.3% y-t-d. The USD gain has not had a much impact on the local currency gains against the green buck. The US continues to report strong figures while the economy continues to monitor the US elections that are scheduled for Tuesday, 5 November 2024.

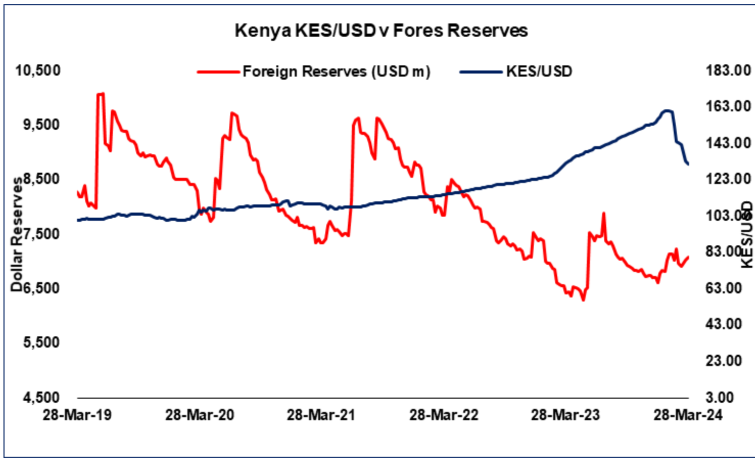

Figure 10: Currency Performance and Forex Reserves Source: OAML, CBK

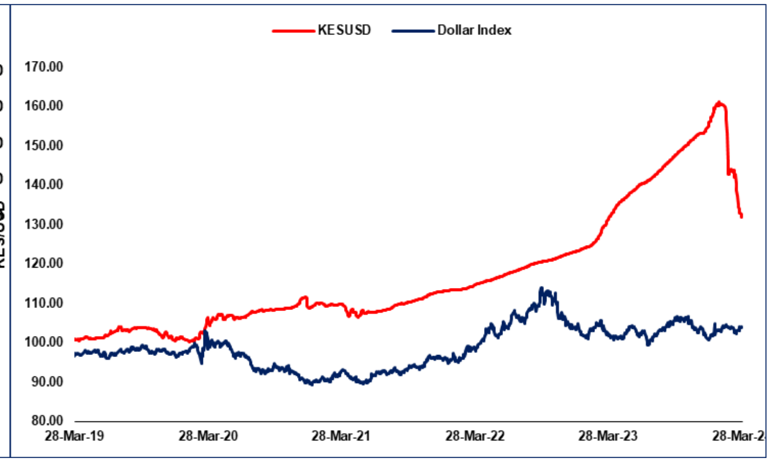

Figure 11: Currency Performance and Dollar Index Source: OAML, CBK

We review the shilling will continue to gain against the world major currencies. Reserves will continue to be backed by foreign inflows with government expected to borrow further from IMF and World Bank for budgetary support.

7. Treasury Bills – Upward Stagnation

The March 2024 auctions saw a subscription of KES 429.89Bn against a target of KES 312.00Bn for a 137.8% subscription rate. Central Bank accepted KES 382.10Bn for an 88.9% acceptance level and a performance of 12.5%. The performance matched payout of KES 309.21Bn in Q1-2024 thus no having a lot of effect on auction liquidity.

Q1-2024									
Tenure	Offer (KES Bn)	Subscription	Acceptance	Subscription	Acceptance	Performance	WAR % Q4-2023	WAR % Q1-2024	Δbps Q-Q
364-Day	**130.00**	**82.28**	**66.22**	63.3%	80.5%	50.9%	15.901%	16.990%	**108.9**
182-Day	**130.00**	**76.08**	**70.93**	58.5%	93.2%	54.6%	15.972%	16.888%	**91.6**
91-Day	**52.00**	**271.52**	**244.95**	522.2%	90.2%	471.1%	15.883%	16.729%	**84.6**
Total	**312.00**	**429.89**	**382.10**	137.8%	88.9%	122.5%			

Table 3: T-Bills Performance Source: OAML, CBK

Investors focused on the 91-day paper, which had a subscription of 522.2%, an acceptance of 90.2%, and a performance of 471.1%. The yield on the tenure increased by 84.6 Bps to 16.729%. The rate increase is slower than the 109.7bps growth seen in Q4-2023.

There has been a change in the wind as investors are seen to shift towards the 364-day paper as the CBK has continued to give hints on upcoming rate cuts. The 364-day paper has a subscription of 63.3%, acceptance of 80.5% and a performance of 50.9% which was a much improved action performance compared to a subscription of 21.9%, acceptance of 91.2% and a performance of

20.0% om Q4-2023. The rate closed at 16.990%, a 108.9bps jump compared to a 68.0bps rise in Q4-2023.

There was also improved interest in the 182-day paper which has a subscription of 58.5%, acceptance of 93.2% and a performance of 54.6% with yields edging up by 91.6% q-q.

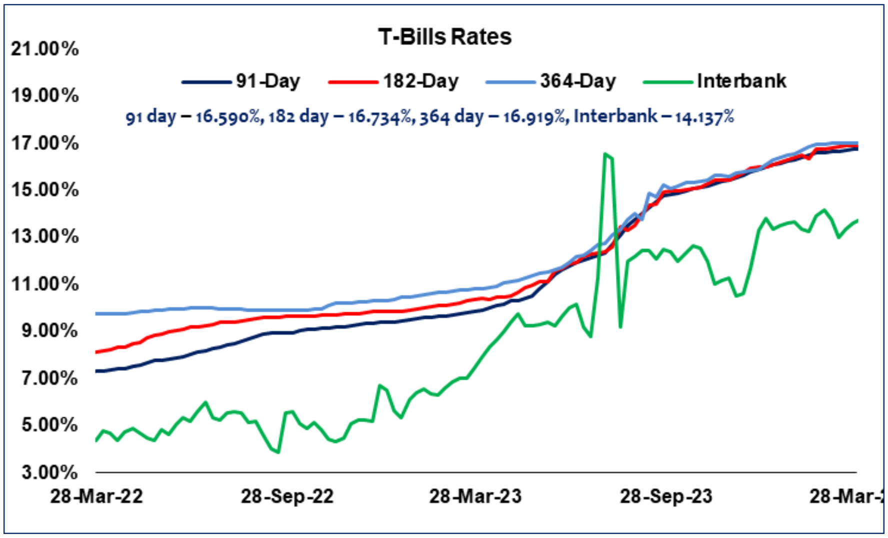

Figure 12: T-Bill Rates Performance Source: OAML, CBK

We expect a maturity of KES 138.42Bn in April which will be able to create adequate liquidity to cover the demand of KES 120.00Bn. For the quarter, maturities stand at KES 357.30Bn against a target to KES 312.00Bn.

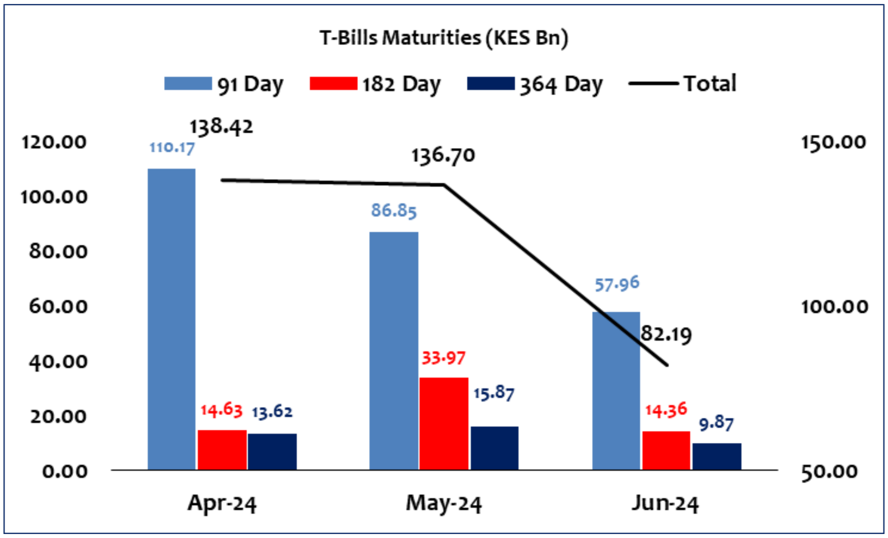

Figure 13: T-Bill Rates Payments Source: OAML, CBK

Central Bank has resisted to get the T-Bill rates to 17.0% while at the same time giving changing tact on T-Bond offers from having market determined coupons and giving indicative coupon rate while controlling yields through primary bond re-opening and taps. We forecast CBK retain the resistance on the 17.0% rates thus advising our clients to shift to the 364-day paper as we expect the rates to start edging downwards the moment there is a cut on the CBR.

8. Treasury Bonds – Have we reached the peak yet?

In March, the Central Bank of Kenya entered the market seeking for KES 40Bn. With the reopening of the FXD1/2024/003 and FXD1/2023/005, the CBK maintained its yield management strategy. They also change tact by issuing a new 10-year paper on FXD1/2024/010 with a coupon of 16.0%.The auction saw a subscription of KES 99.81Bn on a 249.5% subscription levels. They accepted KES 56.88Bn for a 57.0% acceptance and 142.2% performance.

The quarter saw a total of KES 434.94Bn received on a demand of KES 160.0Bn. Key to note is the need for CBK to manage yield while testing the market with a longer tenure, 10-year bond. The Treasury Cabinet Secretary and CBK governor have stated that the rates have reached peak and should start shifting downwards. The average yields edged upwards by 28.6bps q-q with movement concentrated on the short end.

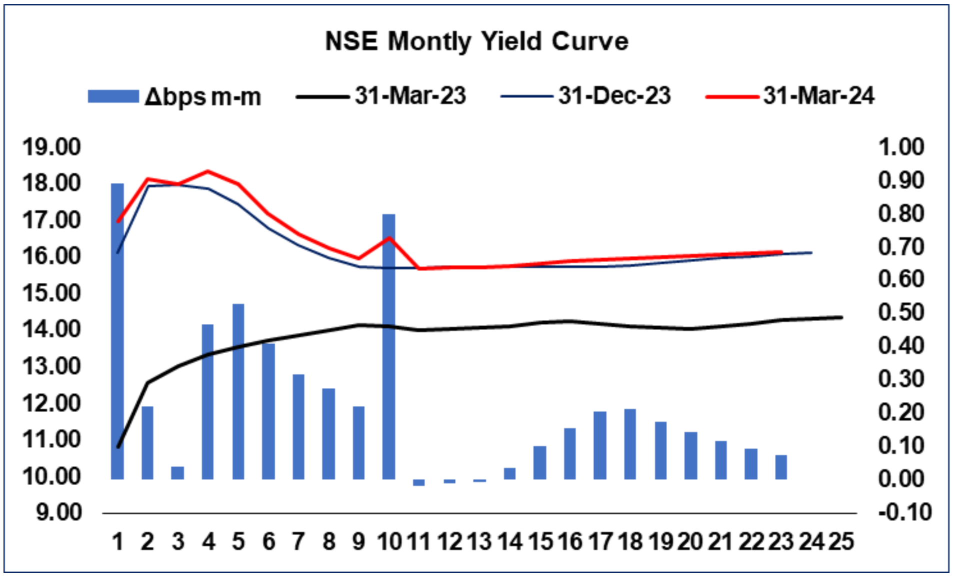

Figure 14: Yield Curve Source: OAML, CBK

The quarter saw a payout of KES 215.48Bn with KES 114.27Bn coupon and KES 101.21Bn maturity.

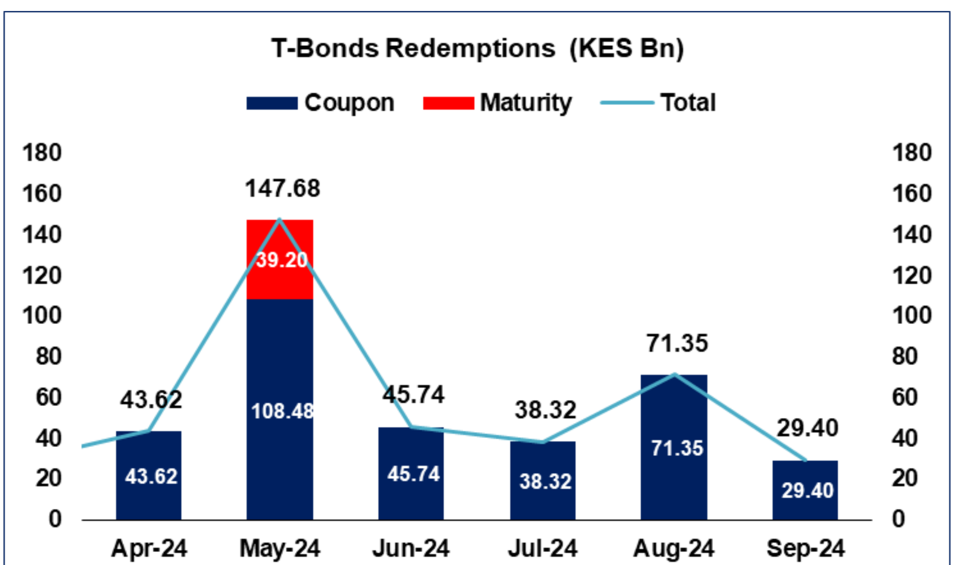

Figure 15: T-Bond Maturities and Coupon Payment Source: OAML, NSE

We expect the rates to remain stagnant thought elevated as Q2-2024 payout stands at KES 237.04Bn divided as KES 197.84Bn in coupons and a maturity of KES 39.20Bn in May. The CBK will continue to trap liquidity by managing the yield upside with re-opening and taps.

9. Government Debt

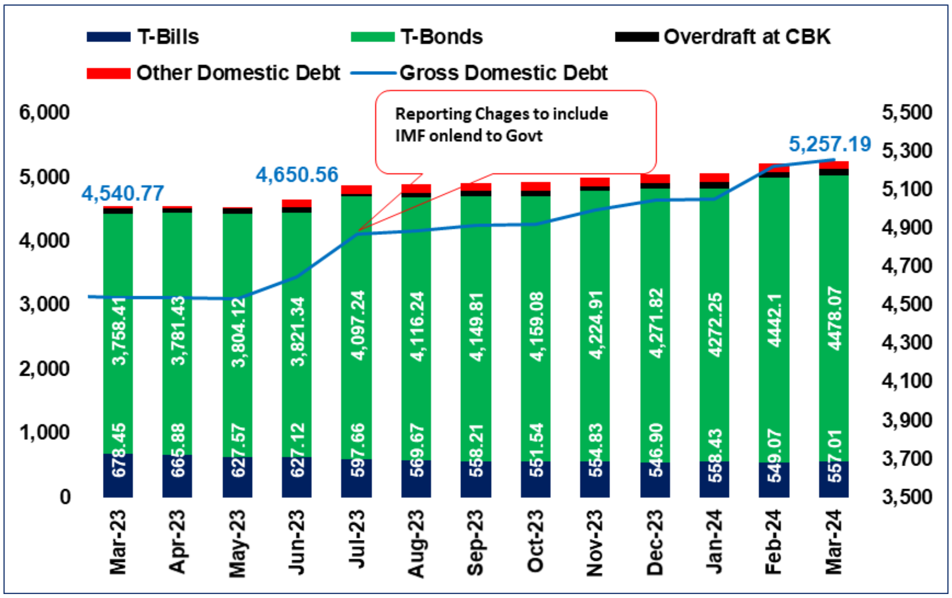

Figure 16: Government Domestic Debt Source: OAML, CBK

Net government domestic government debt stood at KES 5,257.19Bn with T-Bonds contributing 85.2% and T-Bills at 10.6%. The debt levels increased by 13.0% from KES 4,650.56Bn at the close of fiscal year that ended June 2023. The figures were elevated by a 17.2% rise in T-Bonds holdings with T-Bills whittling down by 11.2% during the period.

According to Treasury figures, As of February 2024, domestic borrowing for the fiscal year stood at 64.0% of annual target and 96.1% of the 8-moth target.

External borrowing stood at 55.6% of annual target and 83.7%. This is bound to rise on receipt of funding by World Bank and IMF with the CBK Governor stating that the country expects c.USD 1.2Bn in funding from the World Bank for the fiscal year ending June 2024.

To be able to achieve 100%, the government need to borrow a net of KES 76.56Bn form the domestic market and KES 93.90Bn from the external market per month for the last 4-months. This will call for aggressive domestic borrowing in May 2024 due to a heavy payout of KES 147.68Bn (coupon KES 108.48Bn, maturity KES 39.20Bn). The funding from the World Bank will be adequate to cover the external borrowing deficit for the fiscal year.

10. Eurobond

Investor confidence in Kenya and the strengthening of the shilling against the dollar has seen the Eurobond yields move downwards with 2024 Eurobond down 640.7bps between the beginning of the year and close of the quarter.

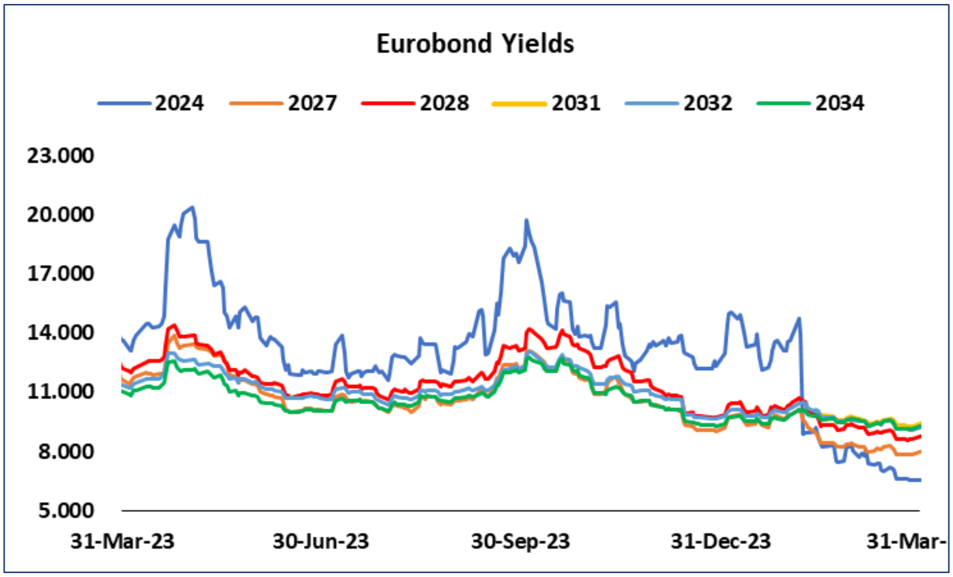

Figure 15: Eurobond

Source: OAML, Bloomberg

With developed economies continue to beat the same tune of potential rate cuts in June and the CBK Governor indicating likely rate cut in the local market, we expect the yields to continue edging downwards. This is further supported by the inflow of foreign investment into the country and strengthening shilling against the dollar.

11. Nairobi Securities Exchange

11.1. Secondary Bonds Market

The issue of the February infrastructure bond IFB1/2024/008.5 pushed the market to trade KES 459.97Bn, a 222.1% jump compared to KES 142.82Bn traded in Q4-2023 and 185.4% higher compared to KES 161.16Bn in Q1-2023. This was driven by foreign investors targeting the tax friendly investment while local investors reviewed their strategy to mid-term holdings with the treat of rate cuts.

NSE Bonds Quarterly Performance Q1 - 2024								
Indicator	Q1-2023	Q4-2023	Q1-2024	(Y-Y) %	(Q-Q) %	Feb-24	Mar-24	(M-M) %
Deals	5,115	6,196	8,420	64.6%	35.9%	3,204	3,084	-3.7%
Value (KES Bn)	161.16	142.82	459.97	185.4%	222.1%	270.98	125.47	-53.7%

Table 4: Secondary Bonds Market Source: OAML, NSE

We expect a slowdown in bonds trade in Q2-2024 as the government uptake remains low as we approach the end of the fiscal year 2023-2024. Secondary market will remained focused on the infrastructure bond while we are bound to see activities in the mid-to long end as the government is seen to adjust tenures while managing yields.

11.2. Equities Performance

The securities market was upbeat driven by market anticipation on rate cut, both in the local market and the international market, strong economic outlook, inflow of foreign investors, positive performance listed firms with the banking sector seeing all tier one bank declare dividends apart from KCB Group.

The NSE 20 Share index was up 16.7% in Q1-2024 to close at 1,752.43 points compared to 1,501.16 points at clos of December. Year on year, the index has regained 8.0% from 1,622.05 seen in Q1-2023. The Nairobi All Share Index, NASI, captured 22.8% Q-Q to close at 113.09. The market was supported by large cap with Equity Group, KCB Group and Safaricom PLC gaining 46.1%, 42.7% and 38.8% to close at KES 49.15, KES 31.25 and KES 19.30 respectively during the quarter.

Volumes traded increased by 37.1% Q-Q while value traded was up 65.5% Q-Q boosted by improved volumes and increase in overall share price for large cap stocks. The Quarter's foreign activity stood at 59.4% with a net outflow of KES 2.27Bn against an activity of 58.7% and an outflow of 2.34Bn. Safaricom, Equity Group and KCB Group dominated 70.1% of volume traded and 80.2% of value transacted. Dollar return was at 17.7% on NASI gain and the strengthening shilling against the dollar.

We forecast an upbeat stock market as on improved foreign activities as developed markets and the CBK continue to hint on rate cut which will edge government securities yields downwards. This coupled with the NSE classification upgrade from restricted to pass by the FTSE Russell Index Governance Board in March 2024 which will increase its status among international fund managers investing in emerging and frontier markets due to the ease of Investment of Capital or the Repatriation of Capital and Income.

NSE Performance - Quarterly								
Indicator	**Q1-2023**	**Q4-2023**	**Q1-2024**	**(Y-Y) %**	**(Q-Q) %**	**Feb-24**	**Mar-24**	**(M-M) %**
NSE 20	1,622.05	1,501.16	1,752.43	8.0%	16.7%	1,535.89	1,752.43	14.1%
NSE 25	2,965.91	2,380.23	2,975.42	0.3%	25.0%	2,475.03	2,975.42	20.2%
NSE 10		907.51	1,155.41	0.0%	27.3%	948.78	1,155.41	21.8%
NASI	112.76	92.11	113.09	0.3%	22.8%	92.49	113.09	22.3%
NSE Mkt CAP (KES Bn)	1,756.26	1,439.02	1,766.95	0.6%	22.8%	1,445.06	1,766.95	22.3%
NSE Mkt CAP (USD Mn)	13.88	9.48	11.78	-15.1%	24.2%	9.52	12.86	35.2%
VOLUMES (Bn)	1,085.01	780.22	1,069.44	-1.4%	37.1%	0.36	0.21	-40.7%
NSE Turnover (KES Bn)	44,833.47	11,184.99	18,508.63	-58.7%	65.5%	6.09	4.08	-33.0%
NSE Turnover (USD Mn)	354.43	73.70	123.40	-65.2%	67.4%	0.04	0.03	-25.9%
Foreign Buys (KES Bn)	8.76	5.76	10.18	16.2%	76.9%	2.30	6.24	171.1%
Foreign Sales (KES Bn)	13.87	8.09	12.41	-10.5%	53.3%	3.22	7.45	131.2%
Foreign Net ∆ (KES Bn)	- 5.11	- 2.34	-2.23	-56.4%	-4.6%	-0.92	-1.20	-31.0%
Dollar Return (NASI)	-5.1%	2.2%	17.7%			-5.5%	1.7%	

Table 5: NSE Equities Performance

Source: OAML, NSE

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