

Macro-economic & Capital Markets Review 2022

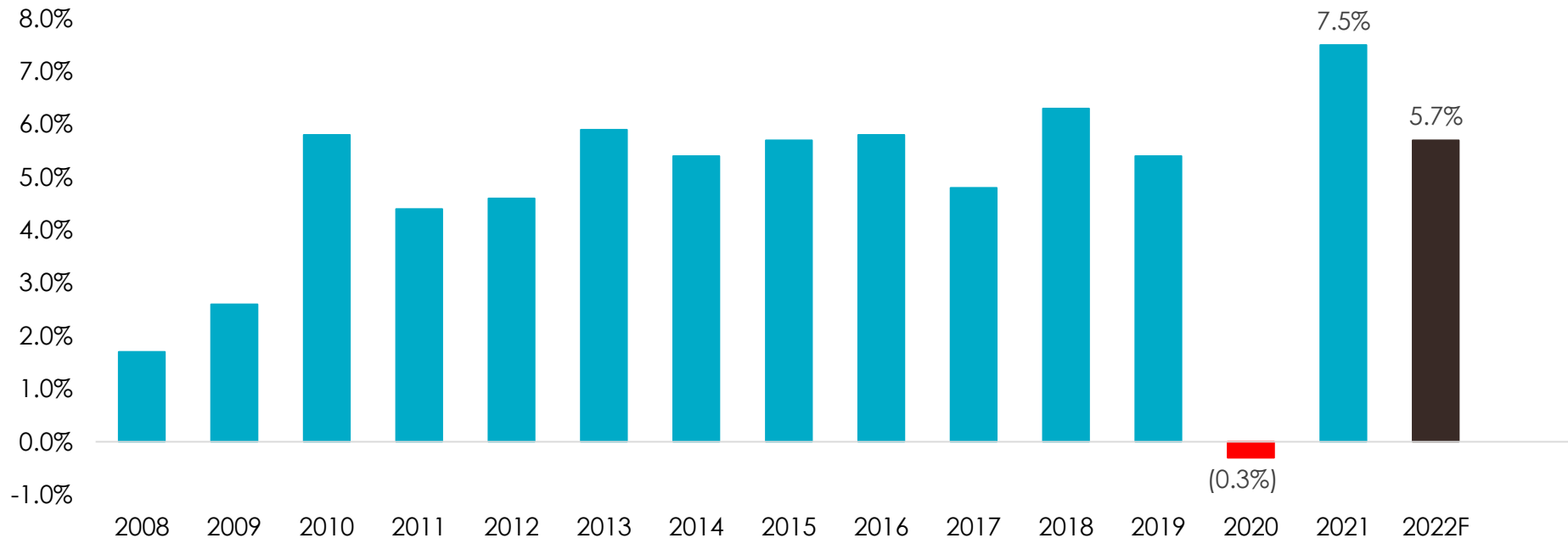


Current Operating Environment - Macro Economic Environment

Economic Growth

- Official GDP statistics show that the Kenyan economy recorded a 4.7% growth in Q3'2022, down from the 5.2% growth recorded in Q2'2022, pointing towards slowing growth.
- The Kenyan economy has remained resilient in spite of the challenging global environment and is projected to grow 5.7% in 2022.
- The economy has performed well amid slowing global growth, tighter financing conditions and volatile commodity prices, while the continuing drought in some regions has increased food insecurity, and climate-related risks pose ongoing challenges.

GDP

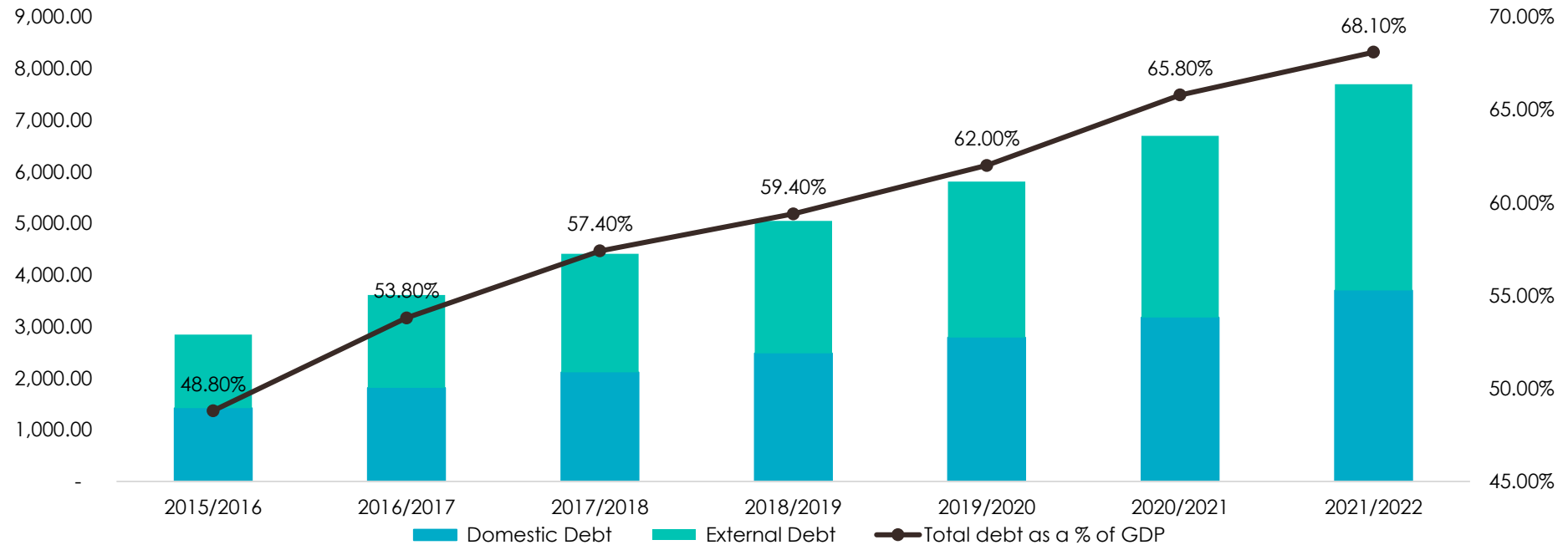


Current Operating Environment - Macro Economic Environment

Sovereign Debt

- Sustained government appetite for local debt as external credit conditions tighten.
- The 2022/23 budget is projected at KES 3.3 trillion, revenue target of KES 2.14 trillion, and a revised local borrowing target of KES 578.6Bn & KES 280.7Bn external borrowing with the remainder being plugged in by Appropriation-in Aid and grants.
- In the current fiscal year, the government has only achieved 27% of its KES 578.6Bn domestic borrowing target.

Sovereign Debt

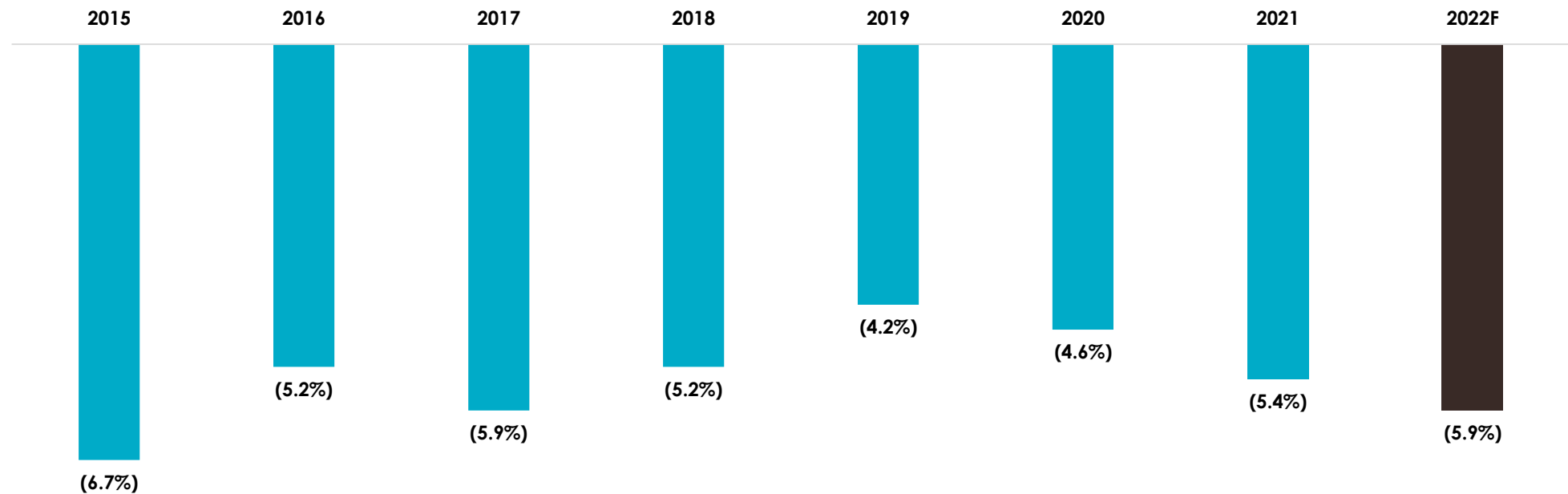


Current Operating Environment - Macro Economic Environment

Current Account

- We expect the current account deficit to widen in 2022 on higher global oil prices and import costs of industrial inputs.
- Provisional data on balance of payments shows that the current account deficit was estimated at 5.5 percent of GDP in the 12 months to October 2022, from 5.2 percent in a similar period in October 2021.
- The wider deficit reflects a higher import bill, particularly for oil, which more than offset increased receipts from tea and services exports, and remittances.

Current Account

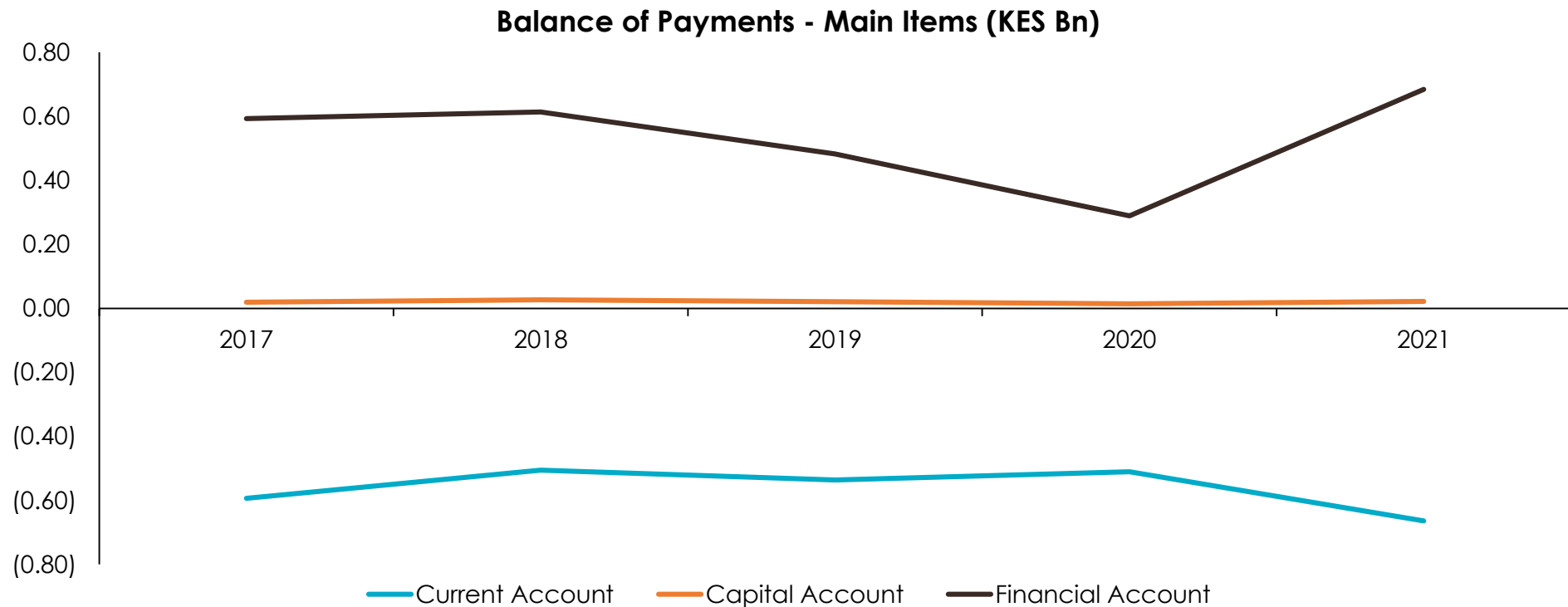


Current Operating Environment - Macro Economic Environment

Balance of Payment

- We expect the BOP deficit to worsen in 2022 on account of the widening current account deficit and narrowing of the capital account due to lower FDIs and forex reserves.
- Lower projected path of FX reserves reflects financing shortfalls and planned cuts in foreign-financed projects during FY2022/23.

Balance of Payment

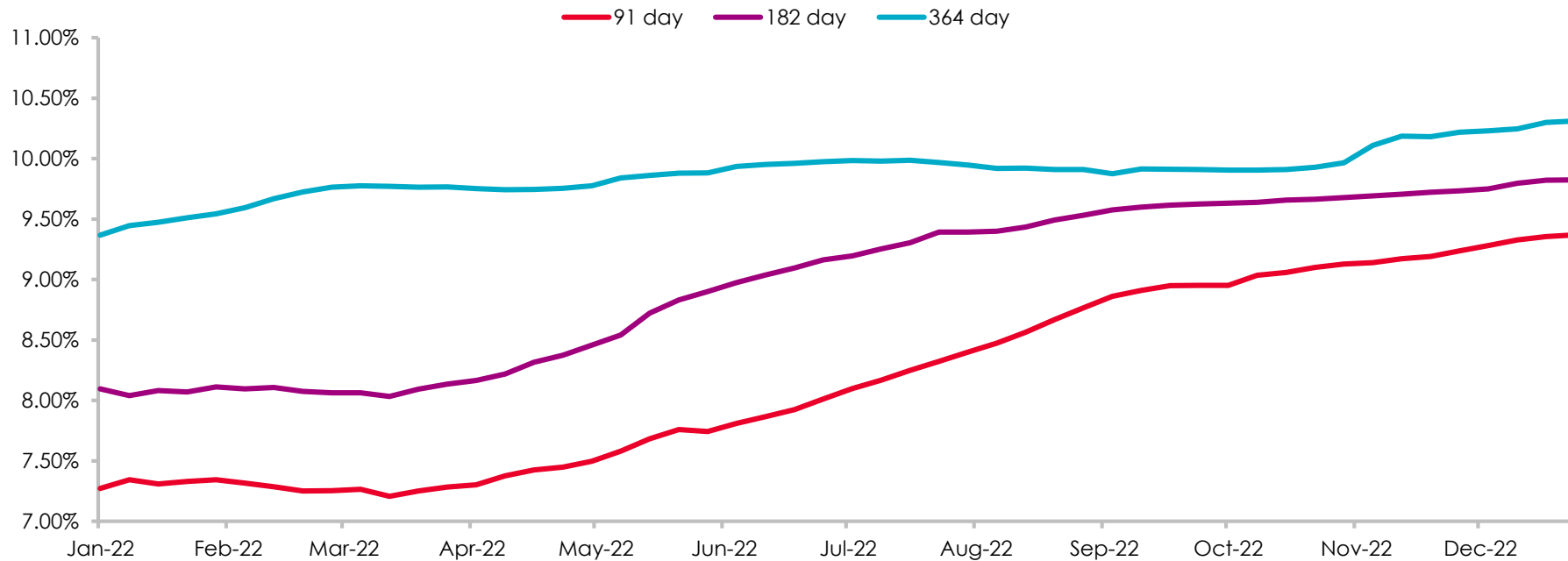


Current Operating Environment - Macro Economic Environment

Interest Rates

- The Central Bank rate is currently at 8.75% following the 50bps hike in November 2022.
- Interest rates maintained an upward adjustment in line with inflation expectations, tighter monetary policy, and elevated sovereign appetite for domestic borrowing.
- T-bills have risen by 209 bps, 173 bps, and 94 bps year-to-date to 9.37%, 9.83%, and 10.31% for the 91, 182, and 364 day papers, respectively.

Interest Rates

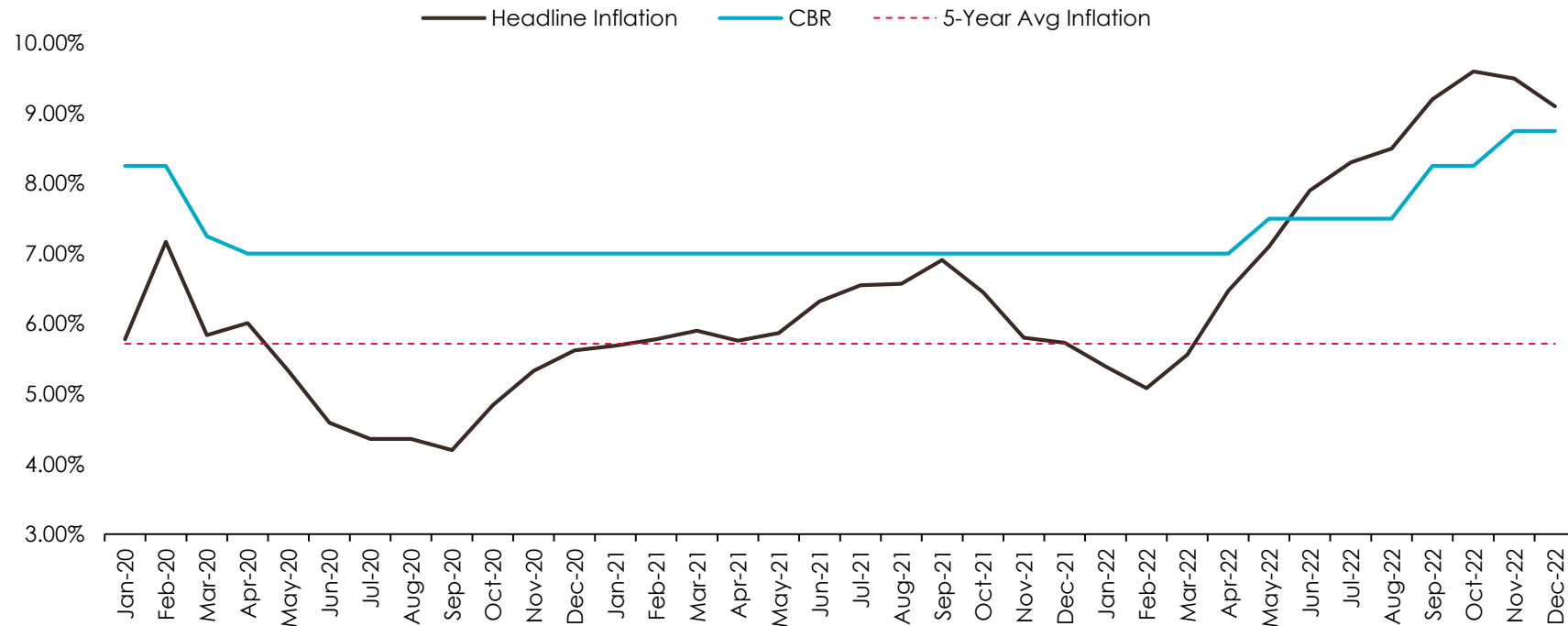


Current Operating Environment - Macro Economic Environment

Inflation

- Inflation eased its upward momentum declining by 40bps to 9.1% in December 2022 from 9.5% in November 2022 and above CBK's target range of 2.5%-7.5%.
- Overall, consumer price pressures have broadened and continued geo-political risk arising from the conflict in Ukraine coupled with lingering effects of the COVID-19 pandemic will keep commodity prices elevated.

Inflation

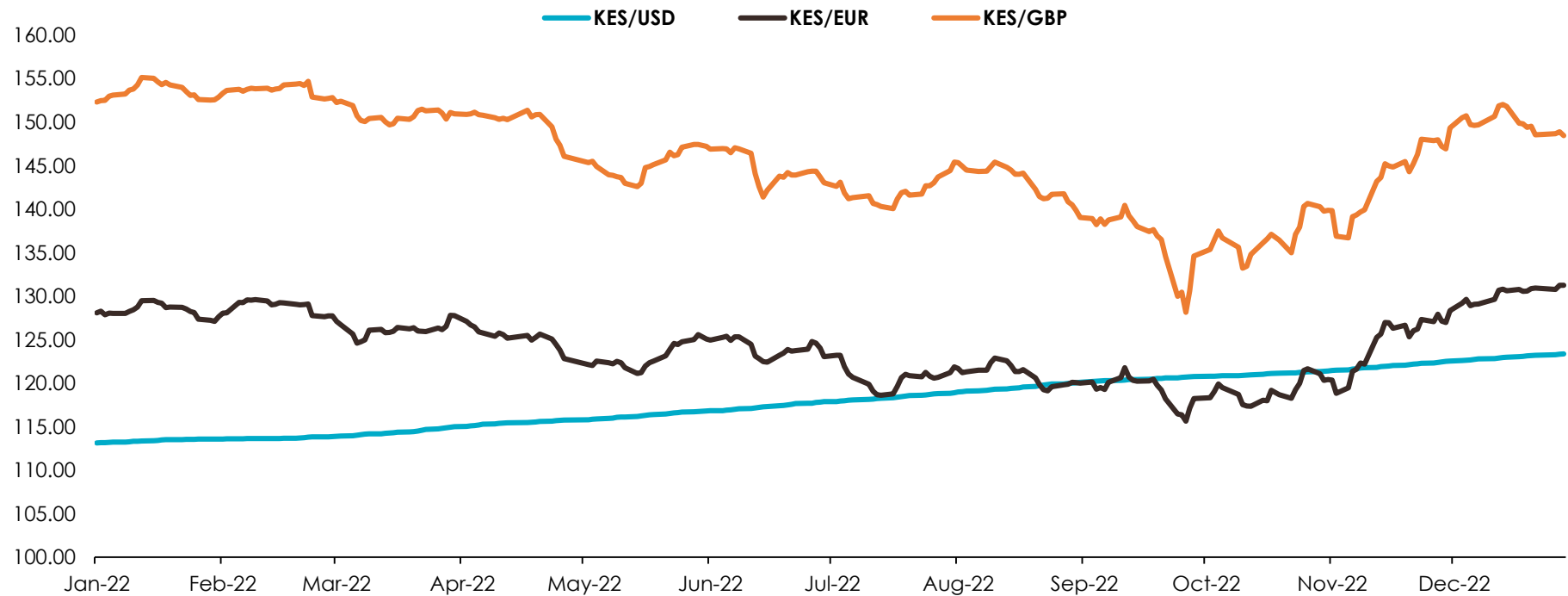


Current Operating Environment - Macro Economic Environment

Exchange Rates

- The Kenya Shilling has maintained a gradual depreciation against the US dollar. This is attributed to increased demand for USD from importers, especially crude oil and merchandise traders.
- YTD performance against the USD, EUR and GBP is **(9.0)%**, **(2.5)%**, and **2.5%** respectively.

Exchange Rates

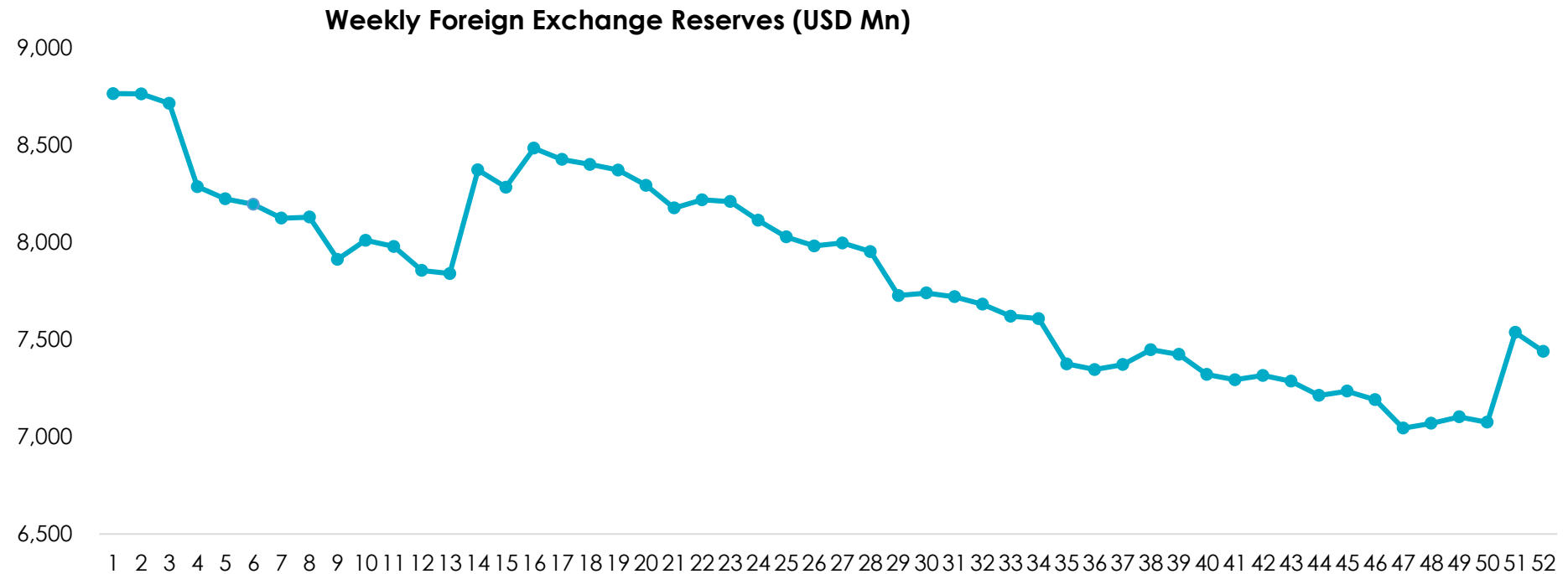


Current Operating Environment - Macro Economic Environment

Forex Reserves

- FX reserves have fallen from USD 8.77Bn in January to USD 7.44Bn, currently equivalent to 4.17 months of import cover.
- The CBK reserves fell below the East African Community's convergence criteria of 4.5 months of import cover but still meets the CBK's statutory requirement to endeavor to maintain at least 4 months of import cover.
- Weak dollar inflows against the elevated demand and declining diaspora remittances recorded a 5.1% decrease to USD 319.4 Mn compared with the previous month.

Forex Reserves

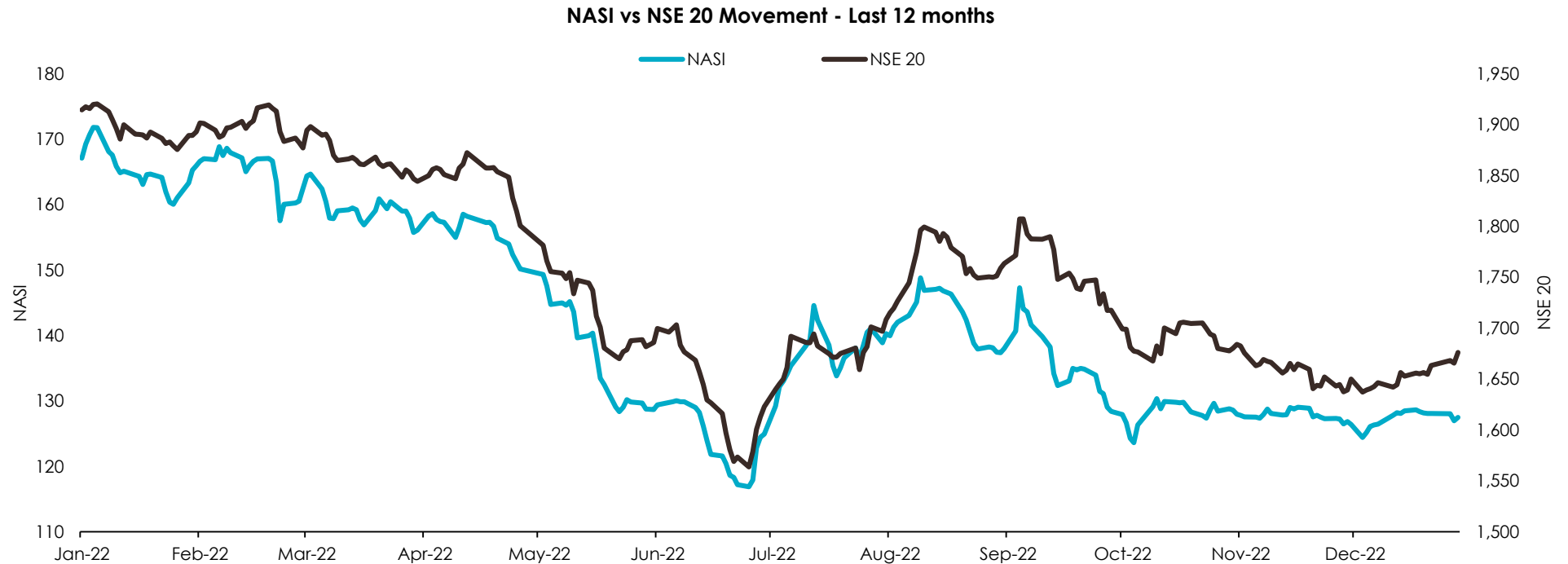


Current Operating Environment – Equities Market

Equities Market

- The equities market is still trading at YTD losses with the NASI and NSE-20 declining by 23.4% and 11.9% year-to-date respectively.
- The market has however remained clouded by negative risk sentiment which has seen a sustained sell-off by foreigners.

NASI Vs. NSE 20



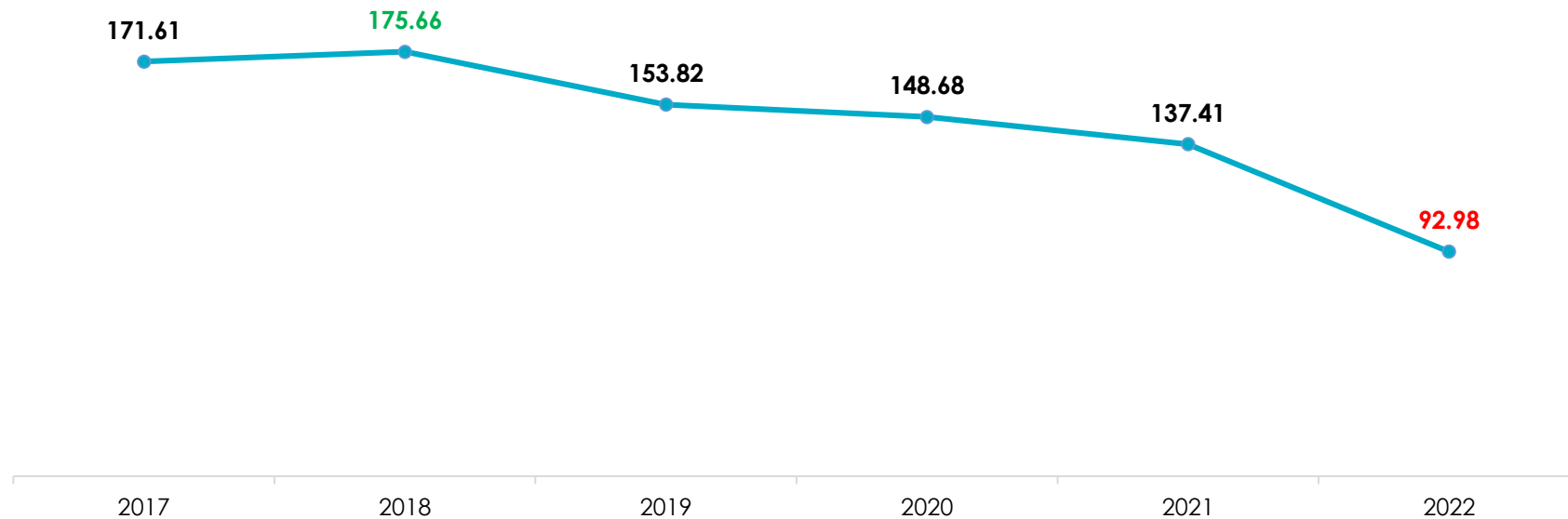
Current Operating Environment – Equities Market

Equities Market

- Equities turnover declined by 32% in 2022 to KES 93.0Bn.
- Consequently, NSE issued a profit warning for an expected decline of more than 25% in the net profit attributable to shareholders of the Company for the financial year ended 31st December 2022.
- The company's performance was impacted on by reduced trading in the equities market occasioned by continued economic challenges and no new listings.

NASI

Historical Equity turnover (KES Bn)



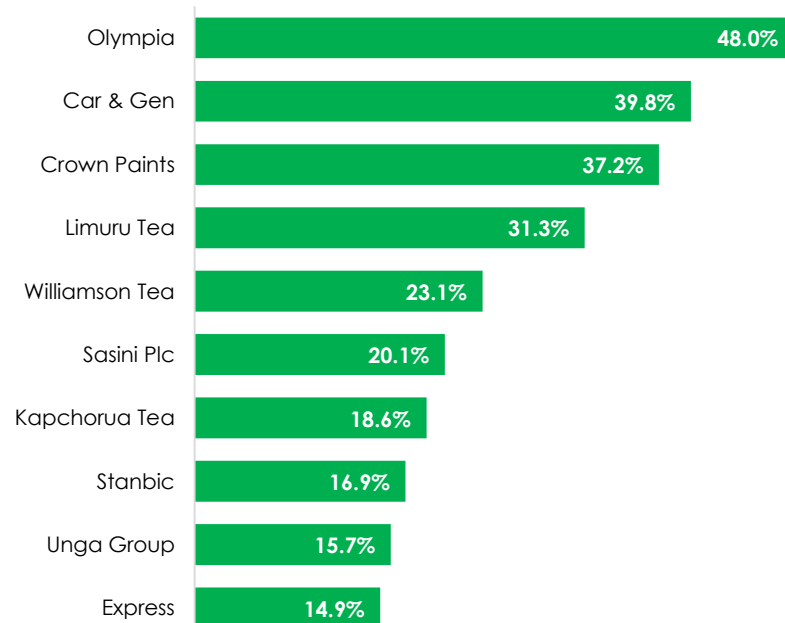
Current Operating Environment – Equities Market

Equities Market

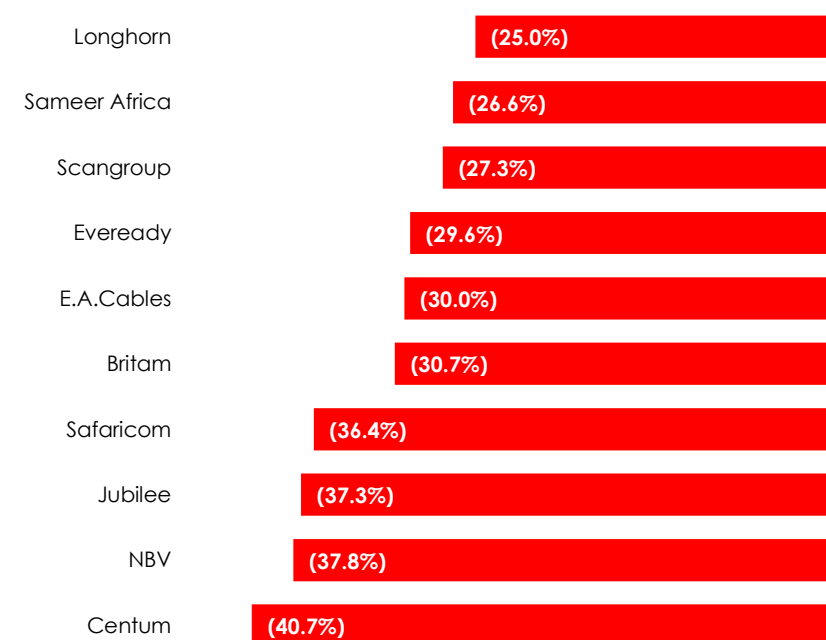
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Market performers

2022 Top Performers



2022 Worst Performers



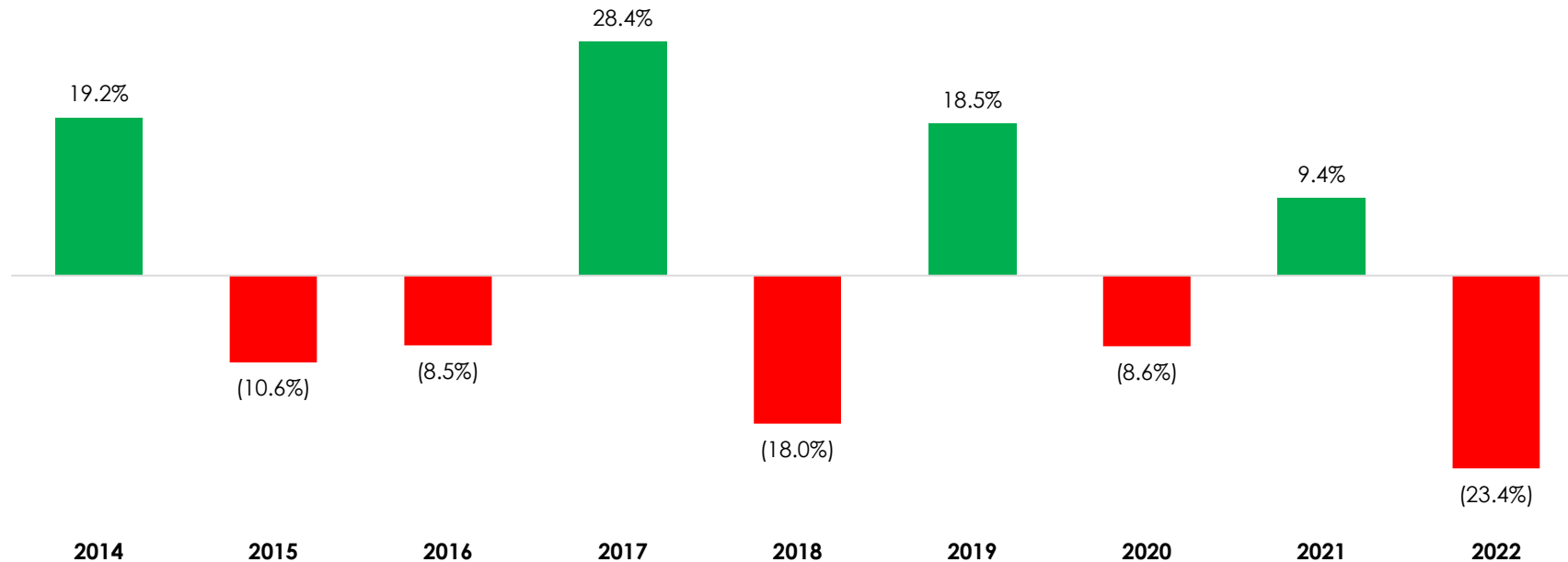
Current Operating Environment – Equities Market

Equities Market

- The equities market is still trading in bear territory with the NASI and NSE-20 declining by 23.4% and 11.9% year-to-date respectively.
- NASI displayed the worst performance in a decade.
- The market has remained clouded by negative risk sentiment which has seen a sustained sell-off by foreigners.

NASI

Historical performance

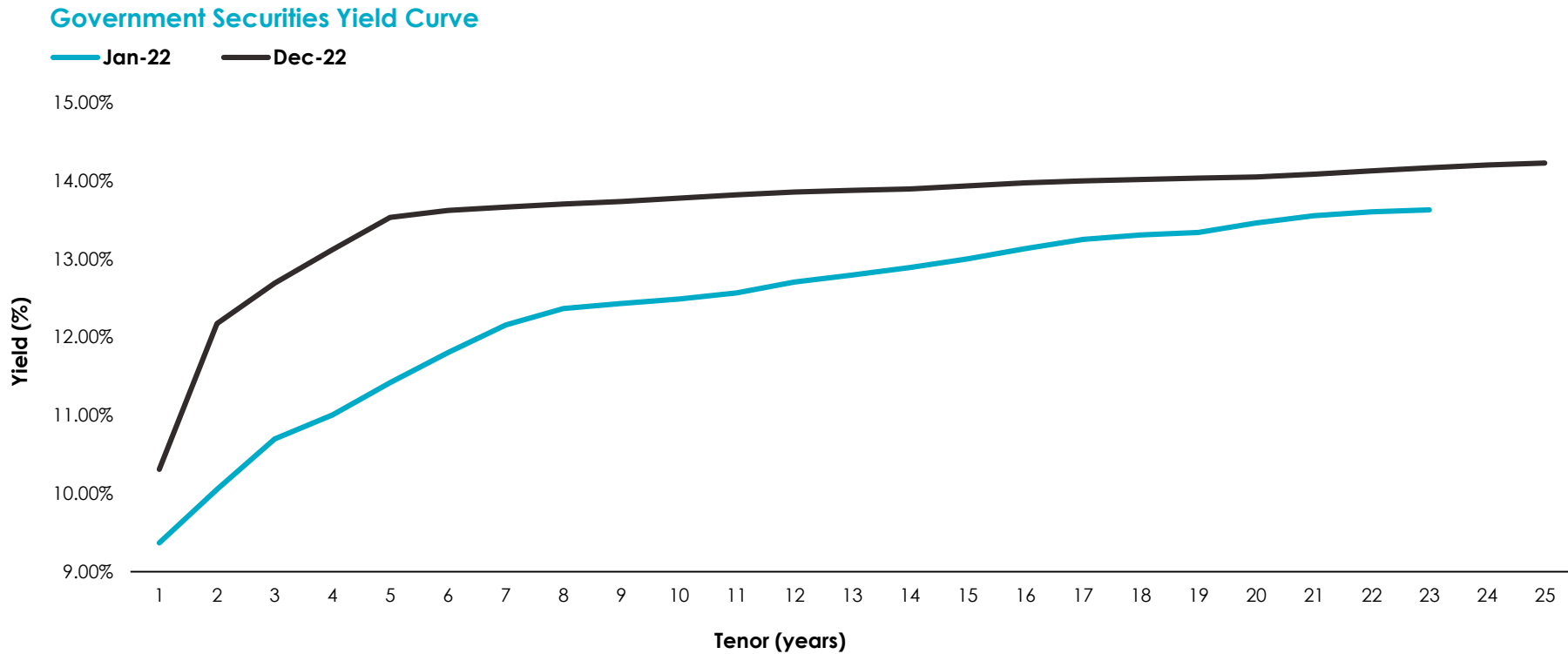


Current Operating Environment – Capital Markets

Fixed Income Market

- Yields across all tenors have been on an upward trend with mid-tenor bonds posting the biggest yield uptick, owing to the deteriorated macros, monetary policy hikes by the Central Bank of Kenya as it sought to tame the rising inflation.
- Higher interest rate expectations will continue to drive the performance of yields in the primary and secondary bonds markets.

Bond Yields

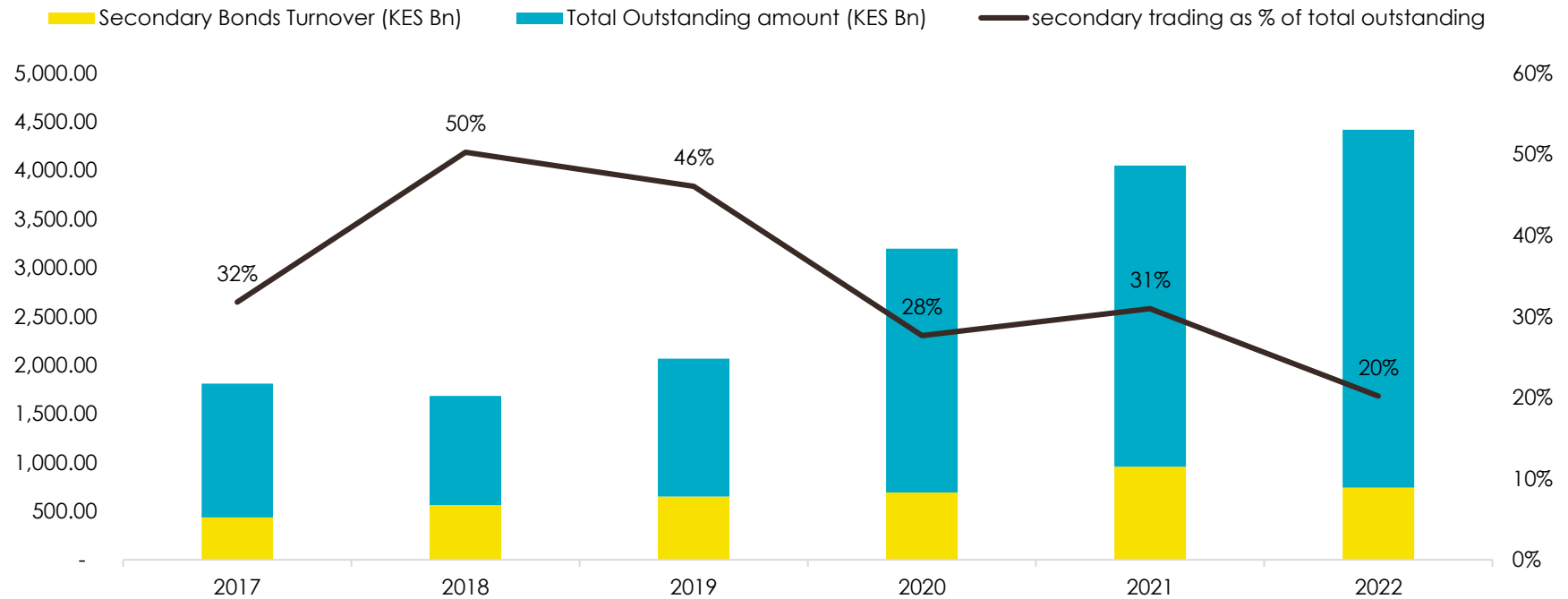


Current Operating Environment – Capital Markets

Fixed Income Market

- In the secondary bonds market, total bond turnover traded declined by 22.48% to close at KES 741.85Bn from KES 956.97Bn traded in 2021.
- On the other hand, total outstanding amount increased by 20% to KES 3.7Trn from KES 3.1Trn outstanding in 2021.
- Trading was concentrated on infrastructure bonds driven by foreign sell-offs.

Bond Turnover



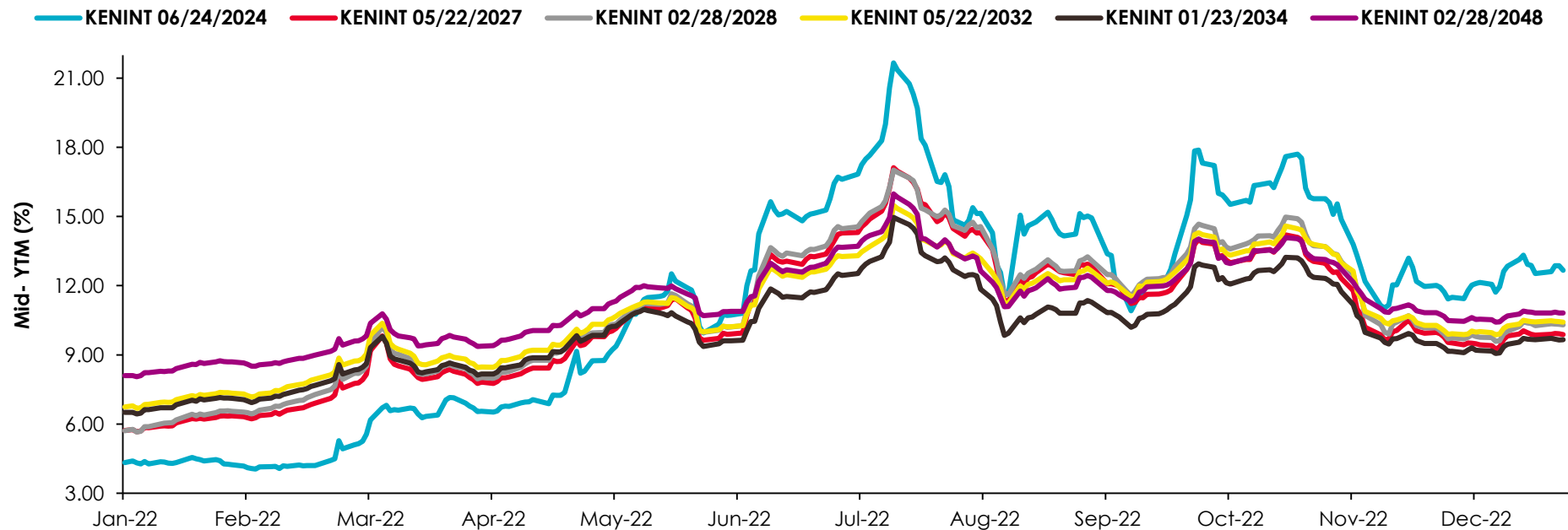
Current Operating Environment – Capital Markets

Fixed Income Market

- In 2022, Kenyan Eurobond yields deteriorated following interest rate hikes indicating the aggressive stance in monetary policy tightening.
- Despite a modest recovery by year-end, Eurobond yields remain elevated above historical levels given the prevailing global macro-economic and geo-political conditions.

International debt Yields

Kenya Eurobond Yields





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THANK YOU

