The Week in Review | Week 30

IMF July 2023 World Economic Outlook Update:

- **Global recovery is slowing**

The International Monetary Fund (IMF) upgraded its forecast for global growth in a new report published on Tuesday, raising its 2023 prediction from the 2.8% assessed in April to 3%.

The IMF attributed the slight uptick in growth to a resilient service sector and strong labor markets in the first quarter. The IMF also said inflationary pressures and stress on the banking sector are subsiding.

However, the latest outlook predicts global gross domestic product (GDP) growth will remain flat, hovering around 3% into 2024, as risks to the global economy persist. The numbers for 2023 and 2024 remain sluggish compared with overall economic growth of 6.3% in 2021, and 3.5% last year.

- **Lower Inflation**

The IMF forecast that global headline inflation would fall to 6.8% in 2023 from 8.7% in 2022, dropping to 5.2% in 2024, but core inflation would decline more gradually, reaching 6.0% in 2023 from 6.5% in 2022 and easing to 4.7% in 2024.

The IMF says it could take until the end of 2024 or early 2025 until inflation came down to central bankers' targets and the current cycle of monetary tightening would end.

The IMF warned that inflation could rise if the war in Ukraine intensified, citing concern about Russia's withdrawal from the Black Sea grain initiative, or if more extreme temperature increases caused by the El Nino weather pattern pushed up commodity prices. That in turn could trigger further rate hikes.

The IMF said world trade growth is declining and will reach just 2.0% in 2023 before rising to 3.7% in 2024, but both growth rates are well below the 5.2% clocked in 2022.

- **Interest Rates Still Rising**

The rise in central bank policy rates to fight inflation continues to weigh on economic activity, with the most recent being the U.S. Federal Reserve and the Bank of England, before cutting rates next year.

Central banks should remain focused on fighting inflation, strengthening financial supervision and risk monitoring. If further strains appeared, countries should provide liquidity quickly.

The IMF advised countries to build fiscal buffers to gird for further shocks and ensure support for the most vulnerable.

- **Emerging economies take the lead**

The IMF projected that a large share of growth in 2023 will come from emerging market and developing economies, with broadly stable growth of 4 to 4.1% in 2023 and 2024 respectively. This is mainly being driven by China and India.

However, the report warned credit availability remains tight for emerging economies, and there is the risk of debt distress spreading to more economies.

On other hand, growth in more advanced economies is projected to expand considerably slower by only 1.5% and 1.4% in 2023 and 2024. For the US, the IMF predicts 2023 growth of 1.8%, which is expected in 2024 to slide towards 1%.

- **German growth expected to contract**

The IMF report also said that Germany will be the only G7 economy expected to contract this year, with a contraction of 0.3% projected in 2023. That is a more pessimistic forecast than the -0.1% projected in April's WEO. Euro zone countries are expected to grow 0.9% in 2023 and 1.5% in 2024, both up 0.1 percentage point from April.

Fitch Rating

Fitch Rating Agency downgraded the Outlook on Kenya's **Long-Term Foreign Currency Issuer Default Rating (IDR)** to **Negative** from **Stable**. The downward rating reflects heightened external financing constraints with high funding requirements especially with the USD 2.0Bn bond maturing in 2024, weakening international reserves and rising financing costs.

Additionally, the ongoing uncertainty in fiscal trajectory with a court injunction on the implementation of new tax hikes amidst social unrests has contributed to the revised outlook.

The rating balances Kenya's high government debt and external indebtedness and narrow revenue base against commitments to fiscal consolidation measures supported by the IMF.

IMF approves a 10-months extension of the EFF/ECF arrangement

The International Monetary Fund (IMF) executive board completed Kenya's fifth review of the 38-month Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangement (now 48-months), allowing for an immediate disbursement of USD 415.4 Mn (KES 58.9 Bn). The disbursement brings the total IMF financial support under these arrangements to USD 2.1 Bn.

The Board also approved a 10-month extension of the EFF/ECF arrangements (up to April 1, 2025), as well as an augmentation of access equal to 75 percent of quota (SDR 407.1 Mn) to make up for the extension. The extension is expected to allow sufficient time to implement the authorities' reform agenda and realize the program's key objective of addressing debt vulnerabilities, global shocks, and to enhance governance and broader economic reforms.

Finally, the IMF stated that while the medium-term outlook is encouraging, near-term global headwinds continue to weigh on economic growth as inflationary pressures remain high. The uncertainty is particularly acute for government income as a result of rapid changes in the macroeconomic climate, including the future repercussions of the Ukraine war and social unrest, Opposition to change may result in lower tax receipts.

EQUITIES

Local Market Performance

The market was down 4.84% week on week, with all share index (NASI) closing the week at **105.29**, a **17.32%** decline year to date.

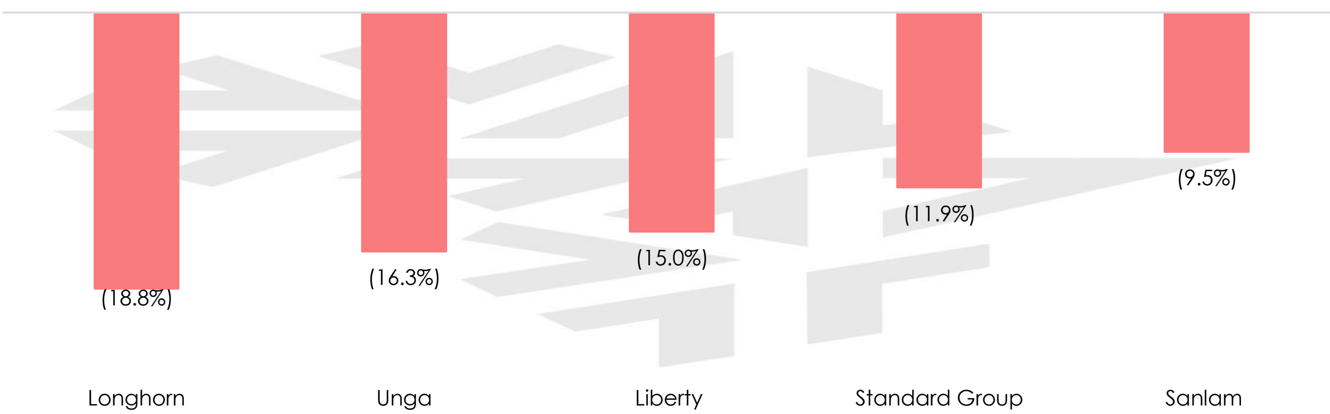
The NSE-20 and NSE-25 indices closed the week at **1,577.75**, a **5.83%** decline year to date and **2,739.20,** an **12.72%** decline year to date, respectively.

Trading activity was concentrated on Safaricom, Equity, Stanbic, KCB, and BAT accounting for **95.22%** of the total turnover.

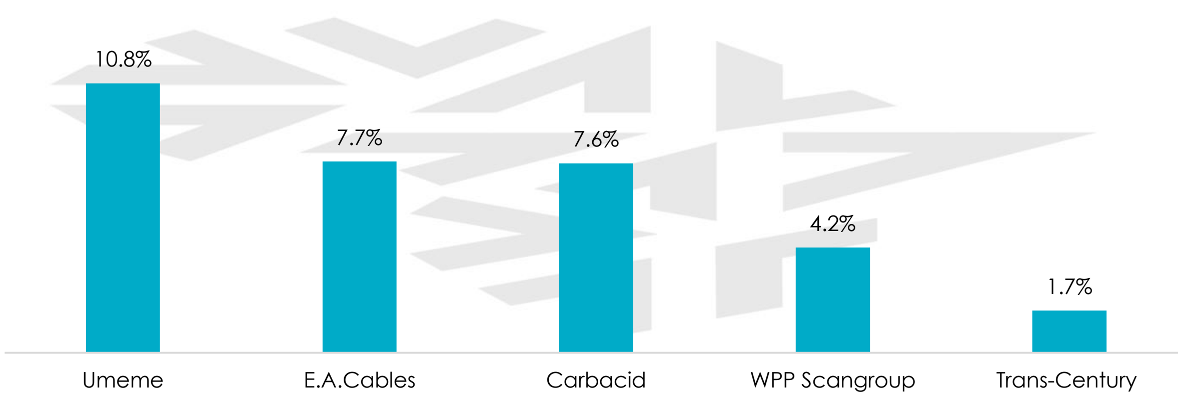
Foreign investors accounted for **49.26%** of the total turnover and they were net sellers with net foreign outflows of KES 3.33Bn last week. Foreign investors were mostly active on Equity, Safaricom, BAT, Jubilee and Standard Chartered in that order.

Market turnover plummeted to **KES 4.33Bn** from KES 0.80Bn traded the previous week.

Top Decliners of the Week



Top Gainers of the week



Source: NSE, NCBA IB Research

Key Corporate Announcements

- **EABL FY2023 financial results:** Performance improved slightly in a period deeply impacted by persistent high inflation as well excise tax increases in Kenya. The company reported KES.12.3Bn in Profit After Tax (PAT) for FY23 equivalent to a 20.9% decline from KES.15.6Bn FY22. Earnings Per Share (EPS) declined to KES.12.47 from KES.15.00.

- Centum issued a profit warning announcement for the year ended March 2023. Profit warnings are issued when firms anticipate at least a 25% decline in their profits. The board attributes the decline to impairment provisions relating to business operations of its majority owned subsidiary, Two Rivers Development Limited.

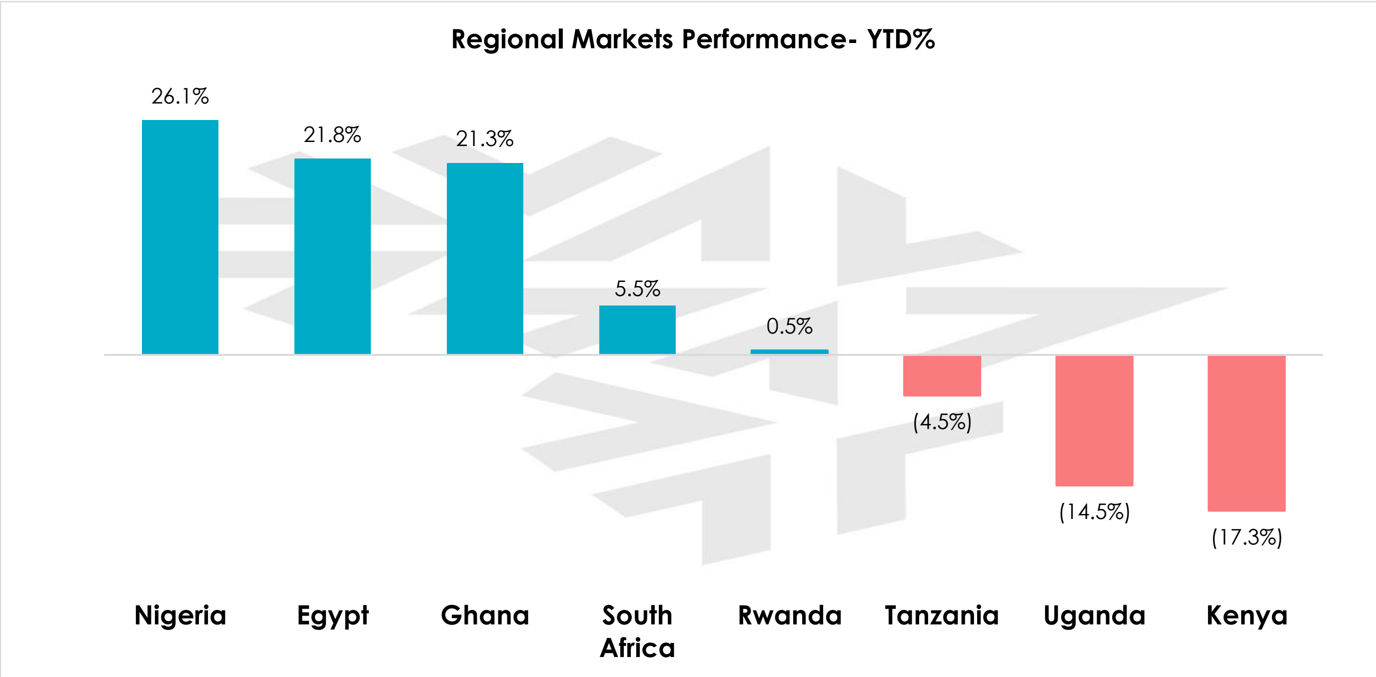
Upcoming Dividend payments

Counter	Dividend	Current price	Book Closure	Payment
KAPCHORUA TEA FARM	25.0	210.00	23-Aug-23	04-Sep-23
Williamson Tea	30.00	237.75	23-Aug-23	04-Sep-23
BAT KENYA	5.00	418.50	18-Aug-23	22-Sep-23
CENTUM	0.60	9.00	Subject to Approval	Subject to Approval
eabl	1.75	153.50	15-Sep-23	27-Oct-23

Source: Company Financials, NSE, NCBA IB Research

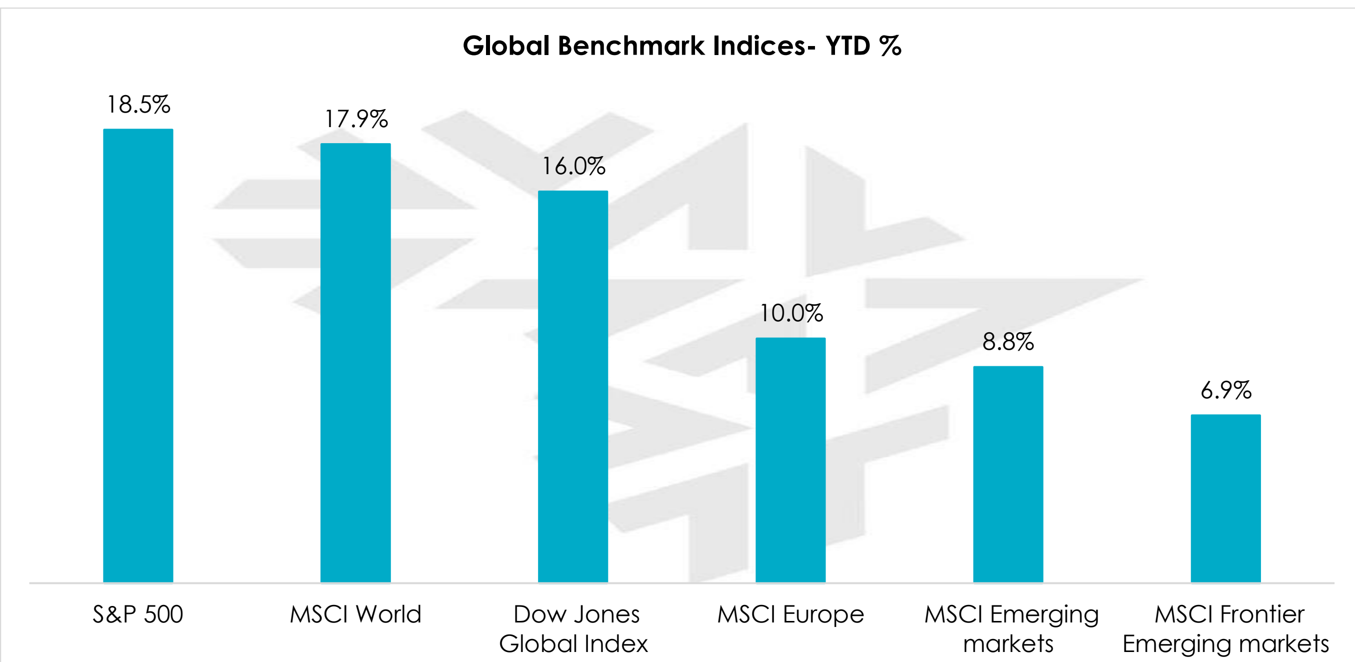
Regional Markets YTD% Performance

NSE recorded the worst performance compared to benchmark markets in Sub-Saharan Africa which is largely attributable to exits by foreign investors.



Source; Bloomberg, NCBA IB Research

Global Benchmark Indices YTD % performance



Source; Bloomberg, NCBA IB Research

FIXED INCOME

Primary Market

Treasury bills were undersubscribed, with a subscription rate of **38.10%** (down from 164.50% the previous week) and an acceptance rate of 46.8%. The undersubscription attributed by tight liquidity in the market however, Majority of the bids geared towards the 91-day paper, accounting for performance rate of 176.8% as investors look to mitigate for duration risk.

KES 9.14Bn was accepted at 12.352% (up 11.90bps), 12.392% (up 7.00bps) and 12.728% (up 2.00bps) for the 91, 182 and 364-day papers, respectively.

Subscription	Amount offered KES Bn	Bids received week 30	Bids received week 29
91 day	4.00	7.07	28.46
182 day	10.00	1.36	8.64
364 day	10.00	0.71	2.38
Total	**24.00**	**9.14**	**39.48**

Prevailing rates	Week 30	Week 29	W/W change (bps)
91 Day	12.352%	12.233%	11.90
182 Day	12.392%	12.322%	7.00
364 Day	12.728%	12.708%	2.00

Source: CBK, NCBA IB Research

Secondary Market

In the secondary bonds market, **total turnover** increased to **KES 18.74Bn** from KES 14.67Bn traded in the previous week.

The S&P Sovereign Bond index declined to close at **98.70** from 100.38 in the previous week.

The S&P Kenya Sovereign Bond Index tracks the performance of local currency denominated public government debt and has an inverse relationship to yield curve.

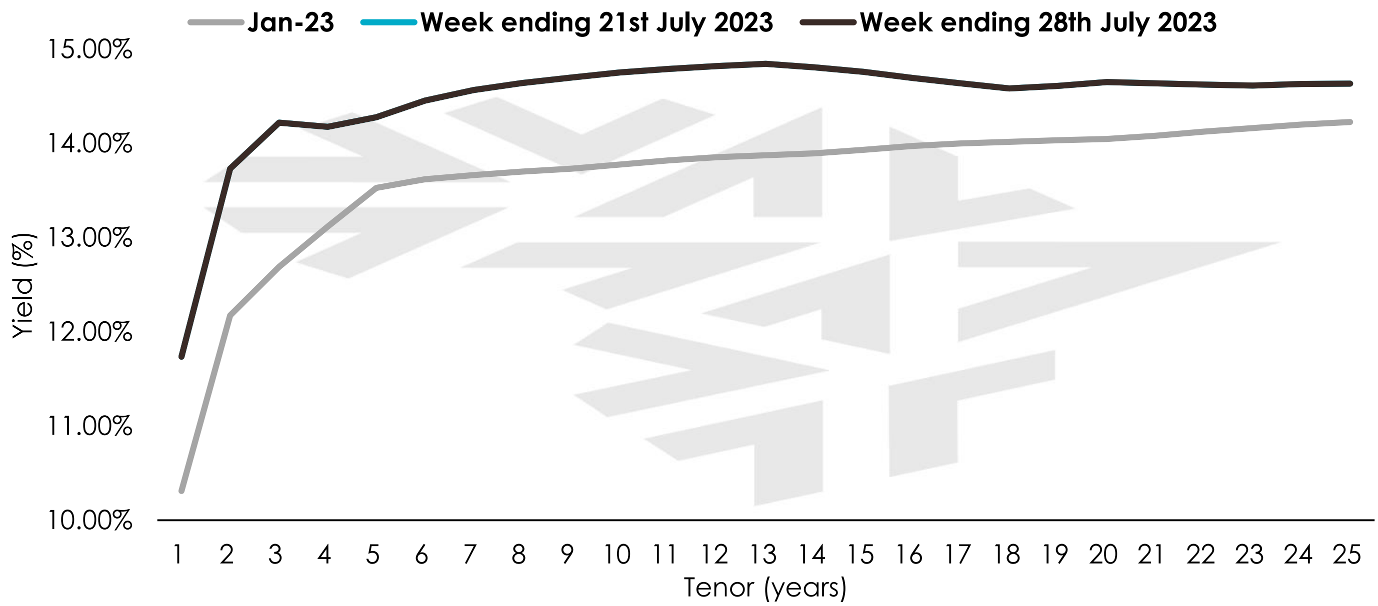
See the top moving bonds below:

Bond Identifier	Years to Maturity	Coupon	Average Yield	Total Value (KES Mn)	Number of Trades
IFB1/2023/7Yr	6.89	15.84%	**14.83%**	**4,778.45**	184
IFB1/2021/21Yr	19.12	12.74%	**15.56%**	**3,632.80**	16
FXD 1/2023/3Yr	2.80	14.23%	**16.32%**	**2,992.85**	21
FXD1/2016/10Yr	3.07	15.04%	**16.93%**	**1,795.80**	14
IFB1/2023/17Yr	16.62	14.40%	**15.38%**	**1,093.15**	46

Source: NSE, NCBAIB Research

Government Securities Yield Curve:

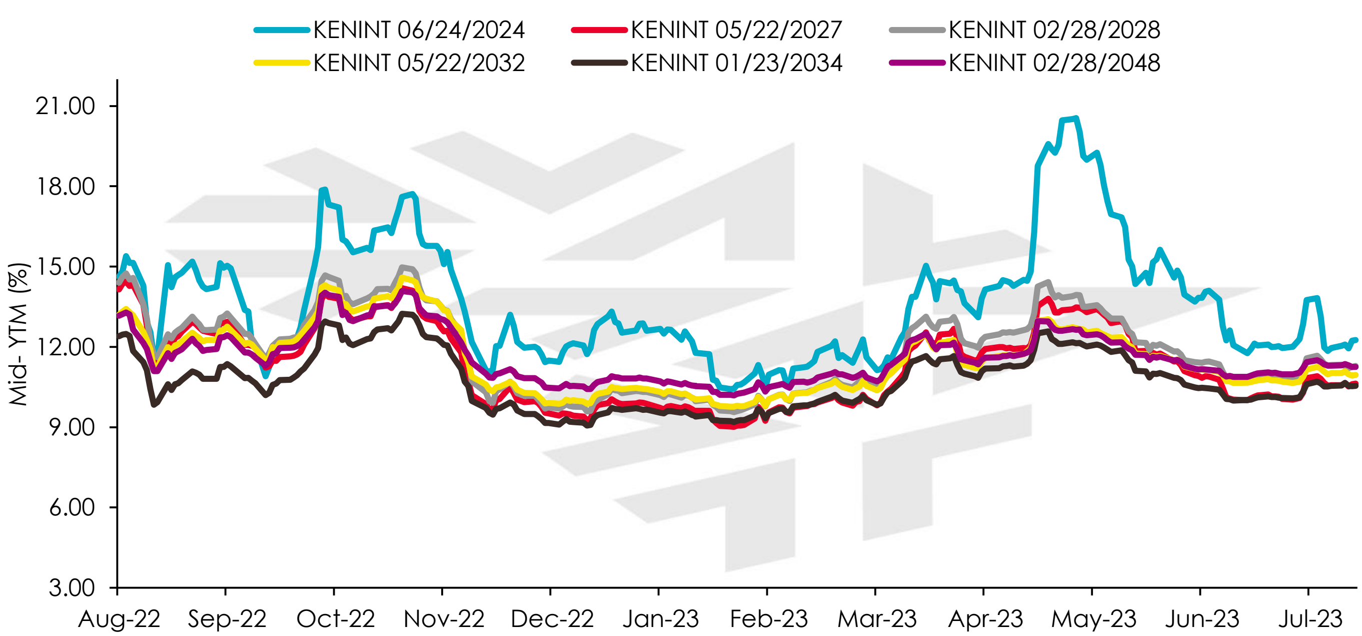
The yield on government securities has been on an **upward trajectory** with investors demanding higher returns to cushion against duration and interest risks. The government has also increased appetite for the domestic debt necessary to meet the net domestic debt target for FY 23/24.



Source: NSE, NCBA IB Research

Kenya International Debt Yield Curves:

Kenyan Eurobonds' yields recorded mixed trends in the international debt market.
KENINT 2024, whose principal amounts to **USD 2.0Bn** matures in **June 2024** and is currently trading at **12.26%,** up from 11.96% in the previous week.



Source: Bloomberg, NCBA IB Research

Macroeconomic Developments:

Liquidity conditions in the interbank space tightened. Money market liquidity tightened during the week with the average interbank rate partly attributable to tax remittances that offset government Indicatively, the overnight **interbank rate** closed at **14.84%.** The average daily traded volumes decreased to **KES 12.00Bn** from KES 24.42Bn observed in the previous week.

Statistic	Current	Previous	change (bps)
CBR	10.50%	9.50%	100.0
Inflation	7.90%	8.00%	(10.0)
Average Interbank Rate	12.48%	10.40%	208.0

Fiscal Tracker-June 2023

The total revenue collected as reported by the National treasury stood at **KES 3,244.79Bn** which represents **89.63%** achievement of the revised estimates. Net domestic borrowing stood at **KES 696.4Bn** against a revised target of **KES 948.11Bn** in the FY 22/23 budget.

The total expenditure increased by **KES 164.40Bn** to **KES 3,242.79Bn** compared to **KES 3,078.39Bn** in 2022 same period. This is largely attributable to the increase in recurrent expenditure by **KES 15.66Bn** to KES **1,221.57Bn** and county government expenditure by **KES 59.20Bn** to **KES 399.6Bn**.

The increase in the recurrent expenditure continue to hamper government's efforts of achieving fiscal deficit to GDP of 4.4% projection for FY'23/2024.

	22/23 FY Revised Budget	Jun-22	Jun-23	Variance (YoY)	Variance FY Budget	Variance FY Budget
INCOME(KES Bn)						
Total Tax Income	2,079.84	1,839.47	1,961.97	122.50	(117.86)	(5.67%)
Total Non-Tax Income	65.56	78.44	82.00	3.56	16.44	25.07%
Net Domestic Borrowing	948.11	877.04	696.40	(180.64)	(251.70)	(26.55%)
External Loans and Grants	513.42	239.61	488.31	248.70	(25.11)	(4.89%)
Other Domestic Financing	13.23	23.16	16.10	(7.06)	2.88	21.75%
Total Revenue	**3,620.15**	**3,057.72**	**3,244.79**	**187.07**	**(375.36)**	**(10.37%)**
EXPENDITURE(KES Bn)						
Recurrent	1,268.81	1,205.91	1,221.57	15.66	(47.24)	(3.72%)
CFS	1,577.74	1,191.07	1,313.59	122.52	(264.15)	(16.74%)
Development	374.00	341.01	308.03	(32.97)	(65.97)	(17.64%)
County Government	399.60	340.40	399.60	59.20	-	0.00%
Total Expenditure	**3,620.15**	**3,078.39**	**3,242.79**	**164.40**	**(377.36)**	**(10.42%)**
Balances at end month		**0.62**	**2.62**	**2.00**		

Source: National Treasury, NCBA IB Research

Currency

On the FX front, the shilling ceded **7.76 cents** to the greenback, closing at **142.19/142.39** on Friday. With the average estimated **daily loss** now at **13.33 cents**, we anticipate the shilling will break the 150 –mark by end of year.

Year to date, the Kenya shilling has depreciated by **12.94% Y/Y** against the dollar. Continued intervention by the central bank through activity in the interbank foreign exchange market and expected foreign currency inflows from the IMF will alleviate the downward pressure on the shilling.

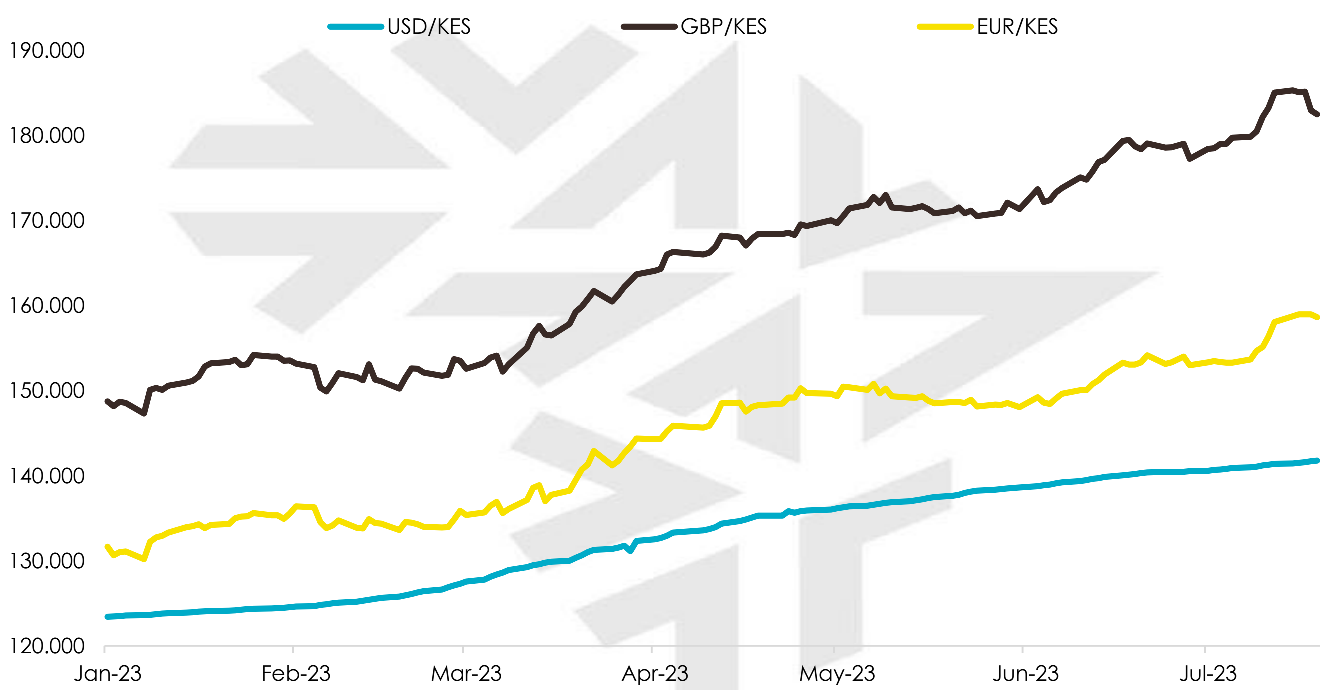
Foreign exchange reserves increased by **6.9%** week on week to close at **US $7,377.0Mn.** Following an inflow from IMF under the development policy operation and the **US $500.0Mn** syndicated loan, the reserves represent **4.03 months** of import cover which meets CBK's statutory requirement of at least 4 months of import cover.

The **DXY** increased to close at **101.30** from 101.08 in the previous week.

The U.S. Dollar Index (DXY) indicates the general international value of the USD. The DXY does this by averaging the exchange rates between the US Dollar and major world currencies.

Currency	Week 29	Week 30	w/w change (%)
US Dollar	141.77	142.30	0.4%
STG Pound	182.51	182.87	0.2%
EURO	158.99	156.80	(1.4%)
Forex reserves (USD Mn)	7,885.00	7,377.00	6.9%

Negative () = Depreciation, Positive = Appreciation ***Source: CBK, NCBA IB Research***



Source: CBK, NCBA IB Research

Kenya Government Debt Maturities Schedule – August 2023:

The government has total domestic debt maturities of **KES 183.46Bn** in the month of August 2023 compared to **KES 180.96Bn** in July 2023.

We expect robust government activity in the local market attributable to elevated debt obligations which will consequently lead to an upsurge in yields.

Coupon payments						
Issue No.	Coupon Payment Date	Tenor to Maturity	Outstanding Amount KES 'Mn	Fixed Coupon Rate	Coupon payment (KES 'Mn)	Implied Yield To Maturity
FXD1/2013/015	Aug 14, 2023	**4.55**	82,473.25	11.25%	4,639.12	16.5591%
FXD3/2019/010	Aug 14, 2023	**6.05**	68,743.45	11.52%	3,958.59	14.8847%
FXD1/2023/010	Aug 14, 2023	**9.55**	12,886.51	14.15%	911.79	14.7290%
SDB1/2011/030	Aug 14, 2023	**17.55**	28,144.70	12.00%	1,688.68	14.5957%
FXD1/2021/020	Aug 14, 2023	**18.05**	75,984.00	13.44%	5,107.64	14.5700%
FXD1/2019/005	Aug 21, 2023	**0.57**	65,359.50	11.30%	3,694.12	10.4384%
FXD1/2016/010	Aug 21, 2023	**3.07**	34,046.92	15.04%	2,560.16	16.3280%
FXD1/2018/010	Aug 21, 2023	**5.07**	40,584.60	12.69%	2,574.28	16.2619%
FXD1/2019/010	Aug 21, 2023	**5.57**	67,524.85	12.44%	4,199.37	15.5657%
FXD1/2020/015	Aug 21, 2023	**11.57**	73,156.30	12.76%	4,665.91	14.8505%
IFB1/2017/012	Aug 21, 2023	**5.57**	11,402.85	12.50%	712.68	12.8525%
IFB1/2020/011	Aug 21, 2023	**8.07**	80,249.60	10.90%	4,373.60	14.5250%
IFB1/2022/019	Aug 21, 2023	**17.57**	98,377.55	12.97%	6,377.32	14.1953%
Total					**45,463.27**	

Treasury Bills	
Payment Date	**Amount KES 'Mn**
August 7, 2023	27,789.73
August 14, 2023	45,203.13
August 21, 2023	42,748.23
August 28, 2023	22,031.10
Total	**137,772.19**

Source: *CBK, NCBA IB Research*

About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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