ECONOMICS AND RESEARCH MONTHLY ECONOMIC REPORT

April 2024

HIGHLIGHTS

- Global economic activity seems to have had a good start into 2024. However, this optimism remains measured with divergent growth across key economies and high financing costs impacting businesses and households.
- Central banks seem to face two key risks. Notably, inflation may prove stickier than expected, while, holding policy too tight for too long may stifle economic growth.
- China seems out of the driving seat in the commodities market, with price movements likely to emerge from other factors.
- In the US, a policy rate cut by the FOMC could ignite risk appetite for other asset classes, hence softening of the US dollar. However, yield differential remains the key driver.
- Reading from the uneven trends in growth as well as the softening of inflation, the European Central Bank's (ECB's) monetary policy committee indicated that it intends to start its policy shift in June.
- Lower inflation since fourth quarter last year seems to put UK's inflation curve back in line with that of Europe and the US.
- In Kenya, leading economic indicators including corporate and sectoral activity point toward ongoing recovery. Although the outlook remains upbeat, weak global trade demand and low government spending could slow the momentum.
- Uganda's economic outlook has softened reflecting lagged effect of heightened inflation impacting real incomes, lower-than-expected tax revenue collections, and a slow rebound in external demand.
- Rwanda's economic growth continues to outstrip other countries in the EAC region. The National Institute of Statistics revealed a GDP growth rate of 8.2% in 2023.
- Tanzania's sound macroeconomic policies, characterized by a sustainable debt level and relatively stable inflation rates, have reinforced its economic stability. Reflecting this, the rating agency- Moody's, upgraded Tanzania's long-term rating from B2 to B1 and changed the outlook to stable from positive.

GLOBAL GROWTH

Global economic activity seems to have had a good start into 2024. Most recent data by S&P Global shows that the global composite PMI touched a nine-month high of 52.3 in March. Interestingly, the manufacturing PMI that has somewhat struggled to touch the neutral mark now appears firmly in the expansionary territory for three consecutive months- touching 50.6 in March.

Resilient economic activity was noted in the United States, Russia, Japan, and India- with manufacturing PMI at a 193-months high. Similarly, Italy and Russia saw both sentiment and activity levels high in the first quarter of the year.

However, this optimism remains measured. Growth is divergent across key economies, with China and the Euro Area still recording below market expectations. Moreover, high financing costs globally continue to compress business margins as well as household disposable incomes.

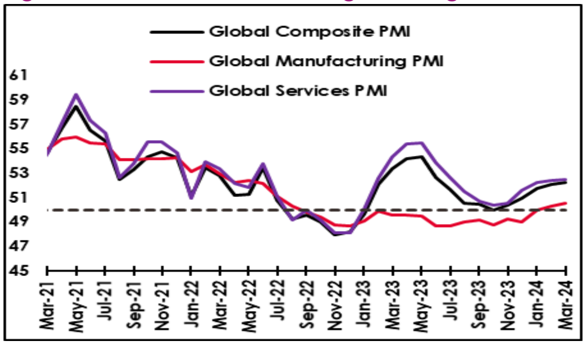
Further, a keen look at the services PMI prints in most economies illustrate a waning momentum, while fiscal stimulus seems unforthcoming in the expected economies, for example China.

Global headline and core inflation have both fallen significantly over the last quarter. However, the decline in core inflation appears slower, with tight labour markets offering little support.

Resultantly, central banks seem to face two key risks. Notably, inflation may prove stickier than expected, while, holding policy too tight for too long, may see a sharp decline in economic growth. We thus see major central banks easing with caution in the second half of the year.

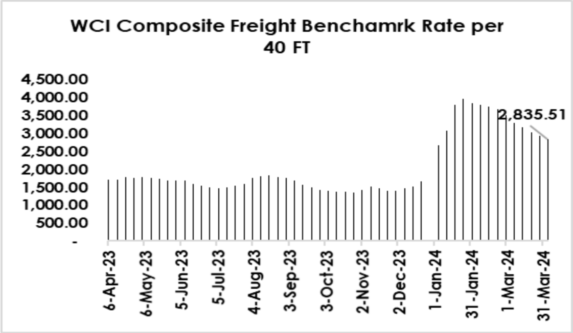
Meanwhile, China seems out of the driving seat in the commodities market, with price movements likely to emerge from other factors. Soft commodities are likely to depend more on weather patterns- with cocoa prices already at an all-time high following El Niño weather in West Africa, while Robusta coffee touched USD 3.66 amid supply shortfall in Brazil. Concerningly, OPEC+ now appears faithful to its production quotas, sending oil price up- at USD 89 in end March.

Figure 1: Global Purchasing Managers Index



Source: S&P Global, NCBA Research

Figure 2: WCI Composite Container Freight Benchmark Rate per 40FT



Source: Bloomberg, NCBA Research

UNITED STATES

The US market continues to record resilience in economic activity. The composite PMI- by S&P Global remained strong at 52.1 in March having stayed above 52 since January. The Manufacturing PMI has been in expansionary territory over the last three months. This suggests upside risk to real GDP data for the quarter.

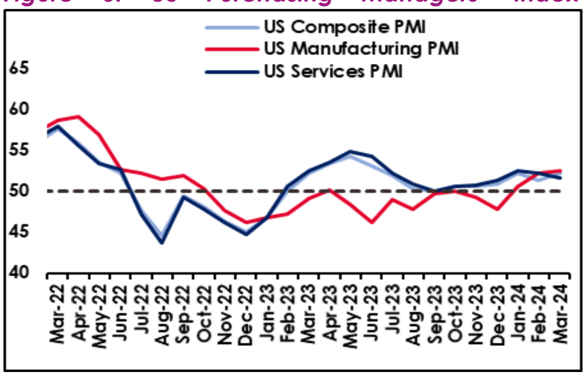
Guidance from the Federal Open Market Committee (FOMC) in March points toward sticky core inflation- projected to average 2.6% in the year, with the headline personal consumption expenditure (PCE) price index averaging at 2.4%. Little progress on the core inflation is due to slower goods disinflation as supply chains have normalized while energy prices have somewhat declined.

So far, monthly job growth numbers continue to point toward a broadly robust labour market, but with signs of cooling. The downward revisions to employment numbers in February and an unemployment rate of 3.8% illustrates this.

Resultantly, with the Fed seemingly not fixated on inflation hitting the 2% target before pivoting the policy rate, we see the FOMC making its first cut in June. Similarly, most developed economies central banks could make their monetary policy shifts around this time.

Overall, a policy rate cut by the FOMC could ignite risk appetite for other asset classes, hence softening of the US dollar. However, yield differential remains the key driver.

Figure 3: US Purchasing Managers' Index



Source: S&P Global, NCBA Research

EUROPE

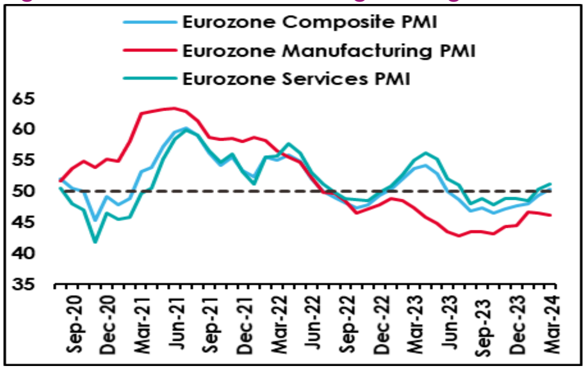
The Euro Area remains uneven in economic activity levels- with European Area periphery showing a faster growth momentum. Notably, the March composite PMI data has Italy printing 53.5 and Spain 55.3, relative to Germany's 47.7 and the 49.9 overall for the Euro Area.

In March, headline inflation continued to ease- touching 2.4%, primarily due to declining energy prices. We continue to see easing core inflation ahead as spare capacity emerges, following reduced demand from China.

Reading from the trend in growth as well as the softening of inflation, in its most recent meeting- in March, the European Central Bank's (ECB's) monetary policy committee indicated that it intends to start its policy shift in June. With this, we expect that growth will improve following higher disposable incomes at household level as well as reduced cost of financing for business enterprises.

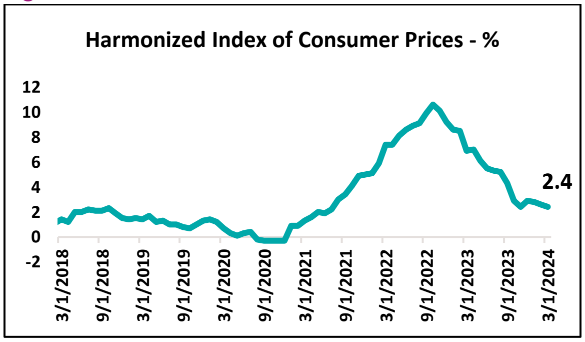
In this context, we could see the 6th June ECB meeting putting the Euro under some pressure. However, this is likely to be limited given that even with the ECB going ahead of the other major central banks, this does not indicate a divergent policy path.

Figure 4: Euro Area Purchasing Managers' Index



Source: S&P Global, NCBA Research

Figure 5: Harmonized Index of Consumer Prices-%



Source: Bloomberg, NCBA Research

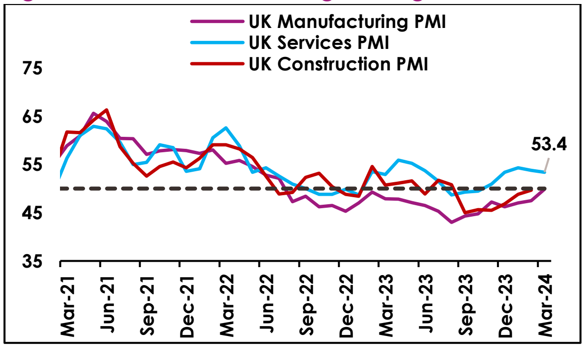
UNITED KINGDOM

In the United Kingdom (UK), growth remains flat-lined- with the composite PMI stagnant around 52 since January. Although the manufacturing PMI touched the expansionary territory for the first time since mid-2022, one would need one or two more data points to make a conclusion. On the services front, there seems to be some loss of momentum- with the March services PMI printing 53.4 relative to 54.3 in January.

On a positive note lower inflation since fourth quarter last year seem to put UK's inflation curve back in line with Europe and the US. As of February, headline inflation touched 3.4% compared to 10.4% a year ago.

With the outlook on growth remaining uncertain, we see the Bank of England cutting rates around mid-year too.

Figure 6: UK Area Purchasing Managers' Index

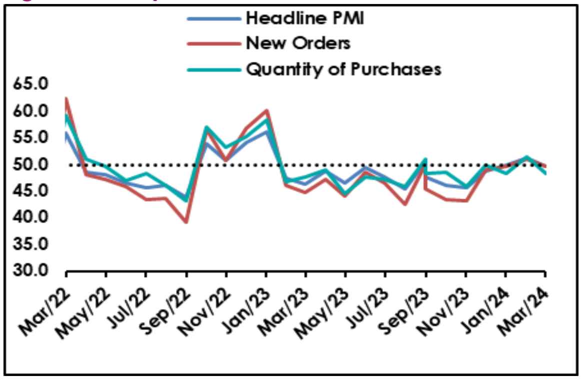


Source: Global S&P, NCBA Research

KENYA

Leading economic indicators including corporate and sectoral activity point toward ongoing recovery. The performance is anchored by increased agricultural activity as well as service sector resilience. Indicatively, the Global S&P headline PMI averaged 50.3 in the first quarter, relative to 46.9 in the fourth quarter last year. On the external sector, tourist arrivals rose by 28% in the 12-months to January 2024.

Figure 7: Kenya's PMI



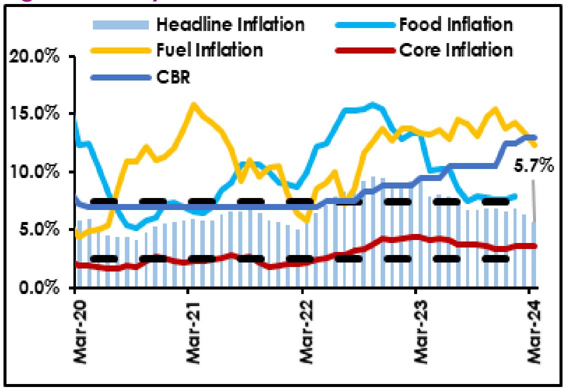
Source: Global S&P, NCBA Research

Into the 2Q-2024, we foresee increased agricultural production and a pickup in consumption and investments as key growth drivers. Supporting this, inflationary pressures cooled faster than anticipated in March, predominantly on the back of softer food and fuel prices. For the first time in 2-years, headline CPI touched 5.7% from 6.30% in February. Favourable weather outturn supported the release of grain stocks to the market and the recent strong gains in the shilling pushed fuel prices lower.

We expect inflation to sustain this downtrend in the near-term. Though the pace of this slowdown may be undermined by the recent uptick in global oil prices.

Expectedly, the strides toward achieving price stability thus far combined with fairly decent economic growth prospects prompted the Monetary Policy Committee (MPC) to retain the Central Bank Rate (CBR) at 13.0% in the April meeting. In the likely scenario that the US Federal Reserve embarks on its rate-cutting cycle in June 2024, the transmission of declining US yields and a weakening US dollar through the exchange rate channel could open the door for the MPC to cut the Central Bank Rate (CBR) in its August meeting.

Figure 8: Kenya's Inflation

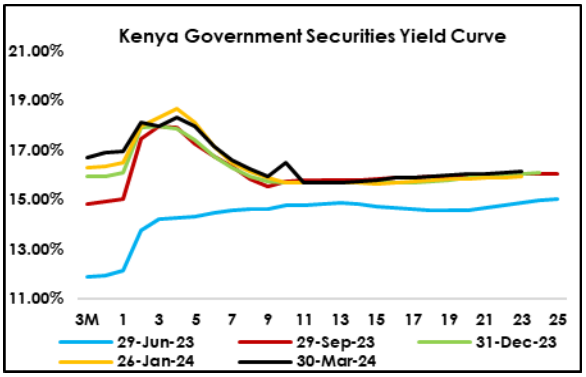


Source: KNBS, NCBA Research

Although the outlook remains upbeat, weak global trade demand and low government spending could slow the momentum. On the fiscal side, government spending vis-a-vi budget has been low particularly as most revenue is directed toward recurrent expenditure and public debt service.

In the interest rate market, the landscape is now shifting with the sovereign's domestic borrowing on schedule and a healthy external financing pipeline. This puts the cycle at an inflection point. In a recent auction, after mirroring a 'table-mountain', the direction on the three and six-month T-bill turned downwards though marginally week-on-week at -0.16bps and -2.60bps, respectively. At the same time, investor's preference is seemingly turning to longer-dated issues as they seek to lock in high returns.

Figure 9: Kenya Government Securities Yield Curve

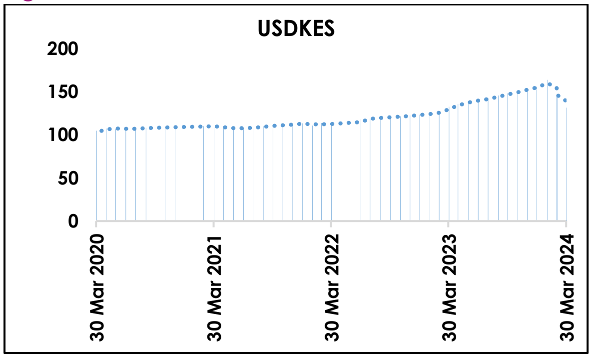


Source: NSE, NCBA Research

On the currency front, the shilling has gained 18% year-to-date supported by lower dollar demand amid amplified portfolio flows and positive market sentiment driving supply in the market. Additionally, easing current account pressure is supporting the local unit. In the year to February, the deficit narrowed to 4.3% of GDP in comparison to 4.7% in the corresponding period of 2023. However, these gains are linked to shrinking import demand for goods- by 8.5% and declining good exports by 1.7% in the 12-months to February.

Looking ahead, import demand in the first half of 2024 is expected to resemble that of 2023, remaining low and consequently exerting less pressure on the USD/KES exchange rate. Meanwhile, anticipated food imports for the first half of 2024 are also projected to be low, with grain stocks deemed sufficient until May. Concerningly, while the shilling has benefitted from portfolio flows, historical trends indicate that these flows have been prone to instability. A sudden reversal could potentially alter market dynamics rapidly. For now, before full resumption by the importers, we could see the USD/KES gaining further.

Figure 10: USDKES RATES



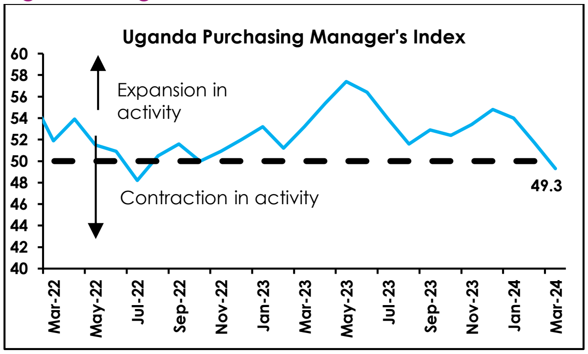
Source: Bloomberg, NCBA Research

UGANDA

The Bank of Uganda revised its GDP forecast to 5.5%-6.5% in FY 2023/24 - down from 6.5%-7.0% previously. This adjustment reflects persistent downside risks, including lagged effect of heightened inflation impacting real incomes, lower-than-expected tax revenue collections, and a slow rebound in external demand.

This softer outlook seems to reflect in the latest PMI numbers- by Global S&P, which put the composite PMI at 49.3- a 20-month low.

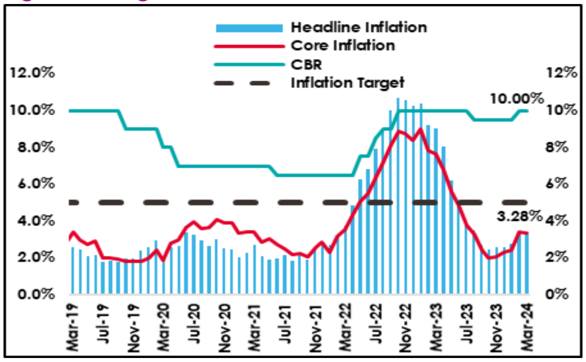
Figure 11: Uganda's PMI



Source: S&P Global, NCBA Research

Uganda's inflation landscape has certainly improved. From a peak of 10.7% at the end 2022, headline inflation decelerated to 3.3% in March 2024. Fuel and food prices declined by 40bps and 90bps on lower global oil prices and increased food supply in the market, respectively. Meanwhile, core inflation remained stagnant at 3.4%. Looking ahead, core inflation could rise above 5% in the third quarter. Given the 50-basis point policy rate hike in February and 25-basis point hike in early April, it's clear that the Bank of Uganda stands ready to act to contain these pressures.

Figure 12: Uganda's Inflation



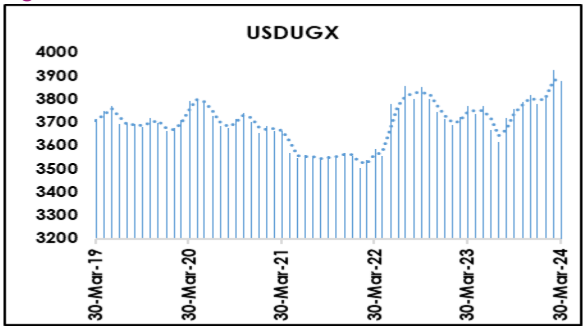
Source: Bank of Uganda, NCBA Research

In the FX market, the UGX exhibited volatility throughout the month. Year to date, the shilling has depreciated by 3% against the US dollar though the local unit regained some ground in March – up 1.0%. Waning inflows from export proceeds as well as intensified dollar demand ahead of the dividend season contributed to the pressure.

To no surprise, the Bank of Uganda refrained from FX market intervention owing to further deterioration in its FX reserve position- at US $ 3,582.4 million (3.4 months of import cover). Into the end of the year, with external debt service payments likely to hit US $ 667 million, this could push the FX reserves further down.

All said, we see the economy regaining momentum at some point in the medium term on the back of within-target inflation, high agriculture output, and ongoing projects in the oil sector and prudence in the fiscal and monetary policy.

Figure 13: USDUGX



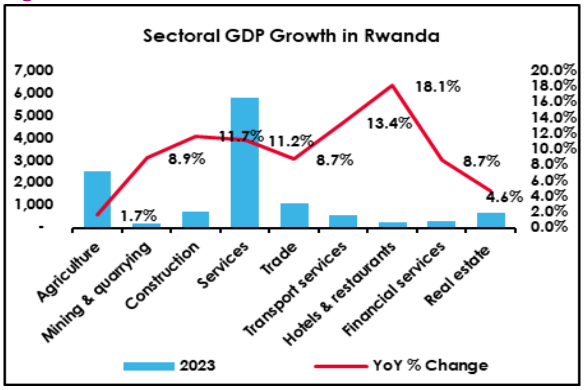
Source: Bloomberg, NCBA Research

RWANDA

Rwanda's economic growth continues to outstrip countries in the EAC region. The National Institute of Statistics revealed a GDP growth rate of 8.2% in 2023. Growth was propped up by a strong recovery in the construction sector at 11.6% from a contraction of 5.8% in 2022 underpinned by on-going infrastructure projects.

Meanwhile, the hotel and restaurants sector reverted to pre-pandemic levels- expanding at 18%. In contrast, expansion in the agriculture sector was marginal at 1.7%, constrained by adverse weather conditions that hampered the production of both food and export crops particularly in the first half of 2023.

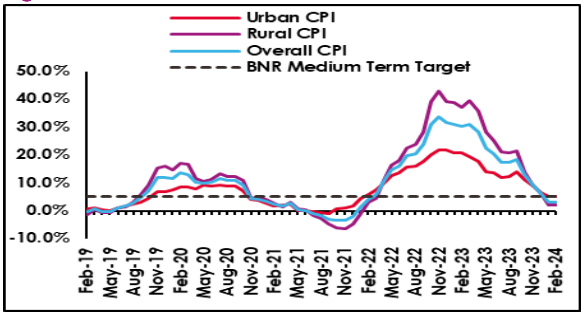
Figure 14: Rwanda's GDP



Source: NISR, NCBA Research

Positively, food production has since staged a recovery- driving food prices lower with an overall moderation in pressures at the headline level. Indicatively, Urban CPI registered lower at 4.9% - 10bps lower month-on-month. Meanwhile, core inflation recorded a steeper decline to 8.1% from 8.8% previously. Conditional on the direction of inflation holding southward in March and April, the MPC is likely cut the CBR rate in their meeting in May. This could support the outlook for private consumption and a recovery in demand levels for the remainder of 2024.

Figure 15: Rwanda's Inflation



Source: NISR, NCBA Research

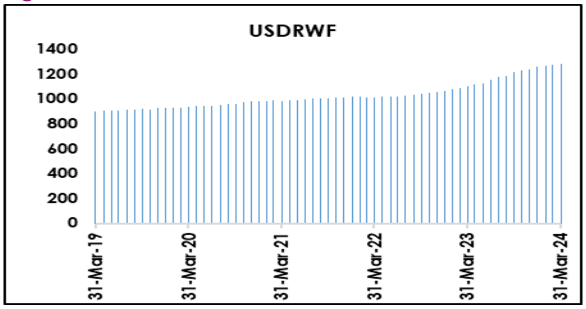
Indeed, the economy's outturn is broadly commendable as noted by the IMF following the staff-level assessment in mid-March within the context of the third review of Rwanda's Policy Coordination Instrument (PCI) and Resilience and Sustainability Facility (RSF), and the first review of the Stand-by Credit Facility (SCF) arrangement. The IMF stated that all reform programs were progressing well. As a result, upon approval by the Executive Board in May, Rwanda could have access to US $ 76.6 million under RSF and US $88.9 million under the SCF.

This funding will not only boost the economy's FX reserves (4.4 months of import cover) but also act as a catalyst for Foreign Direct Investments (FDI). In 2023, FDI inflows amounted to US $ 459Mn – up from US $ 305Mn in 2022. "The Manufacture and Build to Recover Program (MBRP)", and continued investments in the energy sector remain key to spurring portfolio and capital inflows.

With regards to the currency, the Rwanda Franc remains on the back foot. In 2024 thus far, the local currency has depreciated by 2.1% against the dollar. We expect the trend of moderate depreciation to continue into 2Q-2024 even with central bank support. More notably, the regulator is in the process of enhancing FX market sanctions and penalties to tighten controls to combat FX market malpractice.

Overall, Rwanda has staged a remarkable rebound since the pandemic amidst external and domestic headwinds. Given these base effects, we project the economy to expand at a slower pace of about 7.0% in 2024. The outlook still reflects broad vibrancy around the economy's fixed investment growth, household consumption and increased government spending largely owed to the upcoming general elections.

Figure 16: USDRWF Rates



Source: Bloomberg, NCBA Research

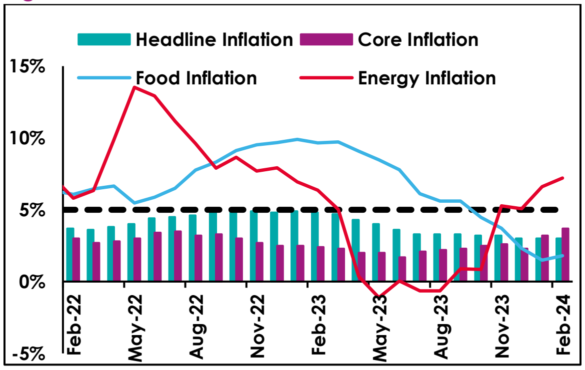
TANZANIA

Tanzania's sound macroeconomic policies, characterized by a sustainable debt level and relatively stable inflation rates, have reinforced its economic stability. The economy is estimated to have expanded by 5.1% in 2023 from 4.7% in 2022. This performance reflects public infrastructure investments and private sector-led growth boosted by a stronger business climate and foreign direct investments into the economy.

Additionally, resilient strength in the services sector bolstered by healthy tourism activity has consistently offset the impact of weak agricultural output since the post-pandemic recovery.

The inflation outlook remains stable. Hence, the Bank of Tanzania's policy rate hike taking the CBR to 6.0% from 5.5% came as a surprise. The central bank's decision was guided by the need to contain lingering inflationary pressures emanating from global economic developments. Nevertheless, we anticipate inflation to remain below the target in the medium-term.

Figure 17: Tanzania's Inflation



Source: TNBS, NCBA Research

On the fiscal front, Tanzania's tax collection exceeded TZS 2.0 Trillion each month for the first three months of the year. Specifically, Tanzania Revenue Authority (TRA) collected TZS 2.48 trillion in March 2024, a 53% increase from TZS 1.62 Trillion collected in the same month in 2021.The growth reflects diversified revenue sources and technical assistance from the IMF which has contributed to the increased digitization and automation of tax refunds, which encourages compliance.

The rating agency, Moody's, upgraded Tanzania's long-term rating from B2 to B1 and changed the outlook to stable from positive. The rationale for the B1 rating mainly reflect economic resilience and fiscal discipline by the government that has maintained sustainable debt levels even with increasing spending and infrastructure needs. Technical assistance from the IMF seemed to have influenced the upgrade given that Tanzania's structural reforms have made reasonable progress under the program.

However, Moody's did note various factors that constrain the economy' creditworthiness. Including, weak administrative capacity for enactment of these reforms, external imbalance and low per capita income that could increase susceptibility to future external shocks.

Overall, the sovereign rating upgrade is positive for the country. Tanzania will likely deepen its warm relations with multilateral and bilateral lenders given this outlook.

Figure 18: Tanzania's Credit Rating

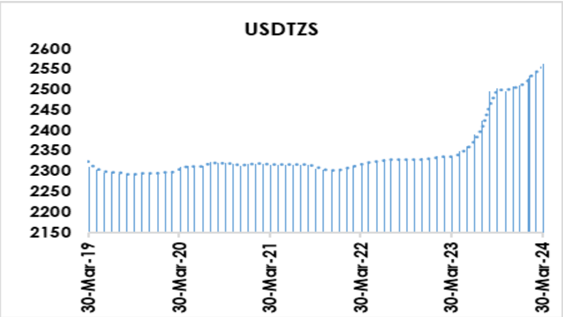
Date	Rating Agency	Rating	Outlook
22-Mar-24	Moody's	B1	Positive
15-Dec-24	Fitch	B+	Stable

Source: Moody's, Fitch, NCBA Research

In the FX market, the shilling maintained modest depreciation against the greenback. While fickle dollar inflows have failed to match underlying demand in the market, the central bank has continued to partially fund the gap using the FX reserves.

However, limited price discovery due to the hawk-eyed vigilance by the central bank risks feeding a parallel market for the hard currency. That said, relative stability is expected to continue into April given the Bank of Tanzania's healthy reserve position at US $ 5.30Bn - equivalent to 4.4 months of projected imports.

Figure 19: USDTZS Rates



Source: Bloomberg, NCBA Research

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