Orient Asset Managers Limited

Monthly Macroeconomic Summary – August - 2024

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MANAGERS LIMITED
INVESTING IN DREAMS

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PAST PERFORMANCE IS NOT NECESSARILY A GUIDE TO FUTURE INVESTMENT PERFORMANCE

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1. The Economy

The fiscal year started with a demonstration tune that is seen to have affected revenue collection across the economy. The Statement of Actual Revenues and Net Exchequer issued as at 31st July, 2024 showed that revenues performance was KES 187.53Bn which was 53.5% of the monthly target. The performance was 34.7% lower year-on-year compared to July 2023 and 33.8% lower month-on-month compared to June 2024. Tax revenues increased by 2.9% year-on-year, reaching KES 159.51Bn.

A total of KES 181.51Bn was expended representing a 35.1% decline y-y lower. Heavy payment of KES 52.99Bn and 96.67Bn were made towards recurrent expenditure and debt respectively. Debt to revenues stood at 51.5% while debt as a portion of tax revenue was 60.6% for the month of July, a higher debt to revenue payout compared to 42.1% in June 2024.

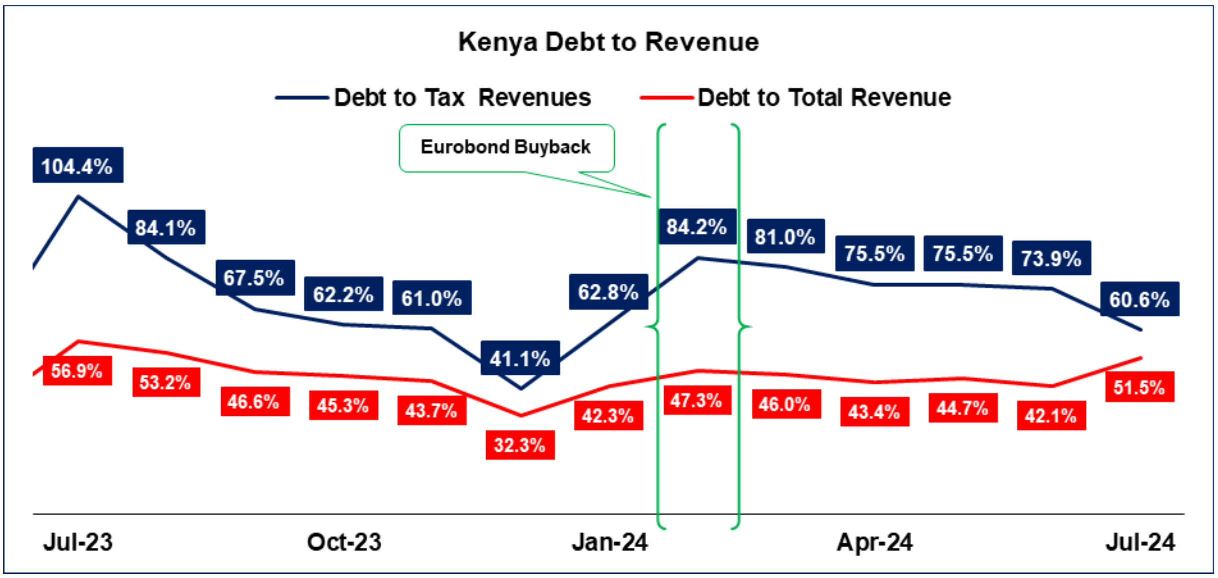

Figure 1: Kenyan Debt to Revenues

Source: OAML, Treasury

We expect revenue collection to pick, especially on the borrowing basket, with reopening of the infrastructure bonds IFB1/2023/006.5 and IFB1/2023/017 bonds which netted KES 120.72Bn against a target of KES 65.00Bn.

The country faced negative reviews after its credit rating was downgraded following nationwide protests in June and July. Moody's cut the rating from "B3" to "Caal" with a negative outlook, Fitch downgraded from "B to B- with a stable outlook while S&P downgraded rating from "B" to "B-" with a stable outlook The downgrade followed the withdrawal of the Finance Bill 2024 following the nation-wide demonstrations and the Court of Appeal declaring the Finance Bill 2023 (later reinstated by the Supreme Court) as unconstitutional worsening the matters as the credit companies anticipate a slowdown on fiscal consolidation and a struggle revenue drive.

The firms highlighted heightened.

- Socio-Political Risk due to the protests,
- Wider Fiscal Deficit on rejection of the Finance Bill 2024,
- Fiscal Slippage Continues on shortfall of tax revenue targets with 2023/24 tax revenue collection at 95.5%
- Rising Interest Payments on both domestic and external borrowing creating debt servicing risk,
- High debt servicing to total revenues
- High Debt at 72.0% at end of 2023,
- External Financing Challenges due to the high cost of new borrowing,
- Public Finance Management Shortfalls as outstanding public sector arrears were KES 487Bn or 3.1% of GDP at end-March 2024,
- Weak forex reserves- 3.8 months of import cover against CBK target of 4.0 months of import cover.

Rating Company	Previous Rating	Current Rating	Outlook
Moody's	B	Caal	Negative
Fitch	B	B-	Stable
S&P	B	B-	Stable

Table 1: Kenya Sovereign Ratings Source: OAML, Various

2. Central Bank of Kenya,

In our report title, **Review of the Central Bank of Kenya Monetary Policy Committee Meeting - August 2024**, we highlighted that the Central Bank of Kenya (CBK) Monetary Policy Committee (MPC) cut on the Central Bank Rate (CBR) to by 25bps to 12.75% from 13.0%. The government bank based the cut on reduced inflation, stabilized the exchange rate, and anchored inflationary expectations. The regulator also took a cue from the global market with European Central Bank and Bank of England cutting the key rate by 25bps to 4.25% and 5.0% respectively.

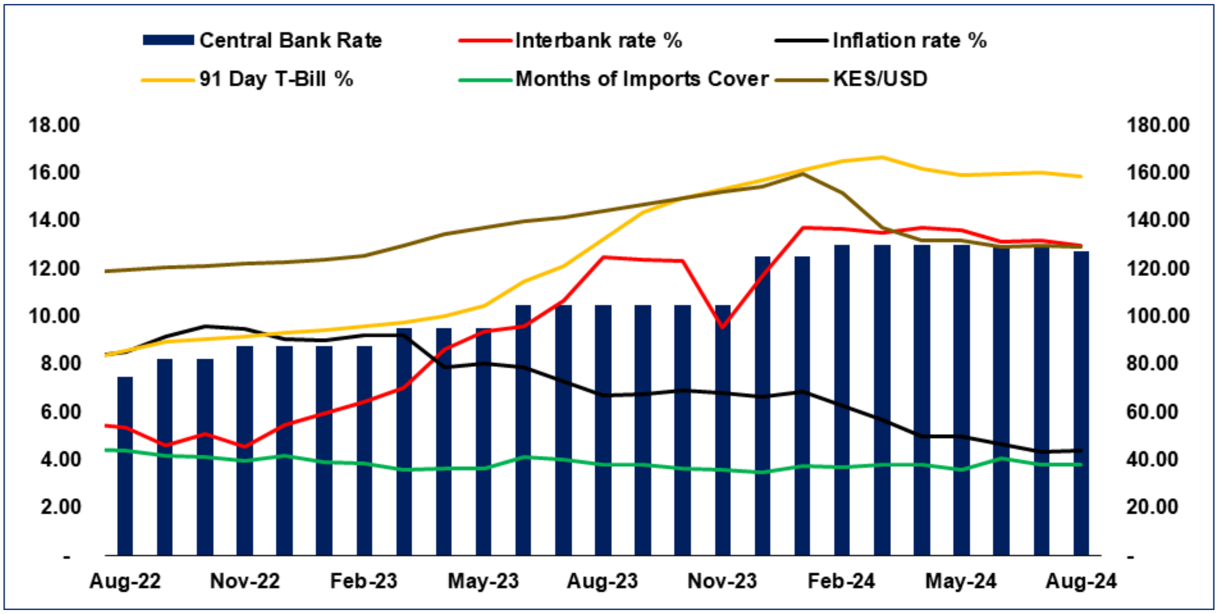

Figure 2: Kenyan Debt to Revenues Source: OAML, Treasury

The market expects a further 25 basis points rate cut during the October MPC meeting, driven by several factors: Inflation remaining below government target of 5.0%, stable currency levels with a the shilling gaining 0.6% m-m on the US dollar, adequate forex reserves of 3.8 months of import cover, a 6-month average, further disbursement from concessionary borrowing partners to aid with budgetary support and expected rate cut by the major economies as inflation continue to edge downwards based on economic recovery.

The rate cut had an impact on the short-term papers and is expected to trickle down to the economy via cut in private sector cost of financing. However, the revised domestic borrowing in the Supplementary I Estimates of 2024, pushed the target to KES 978.3Bn up KES 149.92Bn (net borrowing of KES 408.41Bn) form KES 828.38Bn, saw investors remain adamant leading to the yield curve shifting up by average of 122.05bps from an average of 15.5145% in July 2024 to 16.7398% in August.

Revenue Exchequer Issues (KES Bn)	Original Estimates (KES Bn)	Revised Estimates I (KES Bn)	Proportionate Estimate (KES Bn)	Actual Receipts (KES Bn)	Receipts to Original Estimates	Receipts to Proportional Estimates
Opening Balance	-	-	-	1.17	0.0%	0.0%
Tax Revenue	2,745.22	2,475.06	206.26	159.51	6.4%	77.3%
Non-Tax Revenue	171.98	156.35	13.03	13.71	8.8%	105.2%
Domestic Borrowing	828.38	978.30	81.52	10.42	1.1%	12.8%
External Loans and Grants	571.22	593.50	49.46	-	0.0%	0.0%
Other Domestic Financing	4.69	4.69	0.39	2.73	58.2%	698.5%
Total Revenue	**4,321.49**	**4,207.91**	**350.66**	**187.53**	**4.5%**	**53.5%**
Expenditure Exchequer Issues (KES Bn)	**Original Estimates (KES Bn)**	**Revised Estimates I (KES Bn)**	**Proportionate Estimate (KES Bn)**	**Actual Expenditure (KES Bn)**	**Cash Released to Original Estimates**	**Cash Released to Proportional Estimates**
Recurrent Exchequer Issues	1,348.45	1,307.94	109.00	52.99	3.9%	48.6%
Public Debt	1,910.48	1,910.48	159.21	96.67	5.1%	60.7%
FCS Exchequer Issues	2,114.06	2,137.84	178.15	96.67	4.6%	54.3%
Development Exchequer Issues	458.87	351.29	29.27	1.01	0.2%	3.5%
Total Issues to National Government	**3,921.37**	**3,797.07**	**316.42**	**150.68**	**3.8%**	**47.6%**
Total Issues to County Government	400.12	410.83	34.24	30.83	7.7%	90.1%
Total Exchequer Issue	**4,321.49**	**4,207.91**	**350.66**	**181.51**	**4.2%**	**51.8%**

Table 2: Kenya Exchequer Revenues and Expenditure — Source: OAML, Treasury

3. Current Account Deficit

The current account deficit was estimated at 3.7% of GDP in the 12 months to June 2024, down from 4.2% of GDP in a similar period of 2023, and is projected at 4.0% of GDP in 2024.

Exports were high in the first half of the year increasing by 11.8% y-y supported heavily by tea export due to higher production on favorable weather conditions. On the contrary, the heavy rains had a negative impact on coffee which saw export dip by 0.5% in Q1-2024.

The impact of rain on coffee affects the flowering phase, leads to flower drop, and disrupts the seeding phase, increasing the likelihood of bean defects. Additionally, high temperatures accelerate berry ripening, further contributing to these issues. The Foreign Agricultural Services (FAS) in their 2024 Coffee Annual Report forecast production to decline by 6.3% decrease from 2023, due to stagnation of harvested area and yield decline.

Purchasing Managers Index (PMI) - The August Stanbic Purchasing Managers Index hinted a glimpse of hope. The economy recovered from the Gen-Z led demonstration with PMI crossing to 50.6 in August compared to 47.2 and 43.1 in June and July 2024. This saw a cut on employment which will have an in pact on taxes and consumer income.

The activities rose for the first time since May 2024 on new orders that remained marginal and increase in purchase of inputs.

Market retains a weak spending power with cost pressures across the private sector intensified in August due to rises in import fees and tax burdens that manufactures passed to customers.

Figure 3: Stanbic PMI Kenya Source: OAML, Stanbic Bank

4. Interbank Rate

The low private sector credit growth has seen banks liquidity expand which has aided the decline in interbank rate. The interbank rate closed the month at 12.7369%, 44.7bps lower compared to 13.1844% in July, the rate averaged 12.97%, down 20.9bps from an average of 13.18% the previous month. Average demand dipped 58.6% to KES 11.85Bn in August from an average of KES 28.16Bn in July.

Interbank Rate - Monthly					
Period/Narration	Aug-23	Jul-24	Aug-24	%Y-Y	%M-M
Closed Week at	12.40%	13.18%	12.74%	33.9	-44.7
Average Rate	12.48%	13.18%	12.97%	49.6	-20.9
Closing Demand (KES BN)	31.91	41.22	9.83	-69.2%	-76.2%
Average Demand (KES BN)	25.30	28.61	11.85	-53.2%	-58.6%
Bank Excess Liquidity (KES BN)	4.90	26.80	20.30	314.3%	-24.3%

Table 3: Interbank Rate and Commercial Bank Reserves Source: OAML, CBK

Commercial bank excess reserves closed at KES 20.30Bn, a 24.3% dip from KES 26.80Bn at close of July with reserves affected by payment of the reopened IFB1/2023/006.5Yr and IFB1/2023/017 which had a total acceptance of KES 120.72Bn which was partially cushioned by a government receipts of KES 73.92Bn.

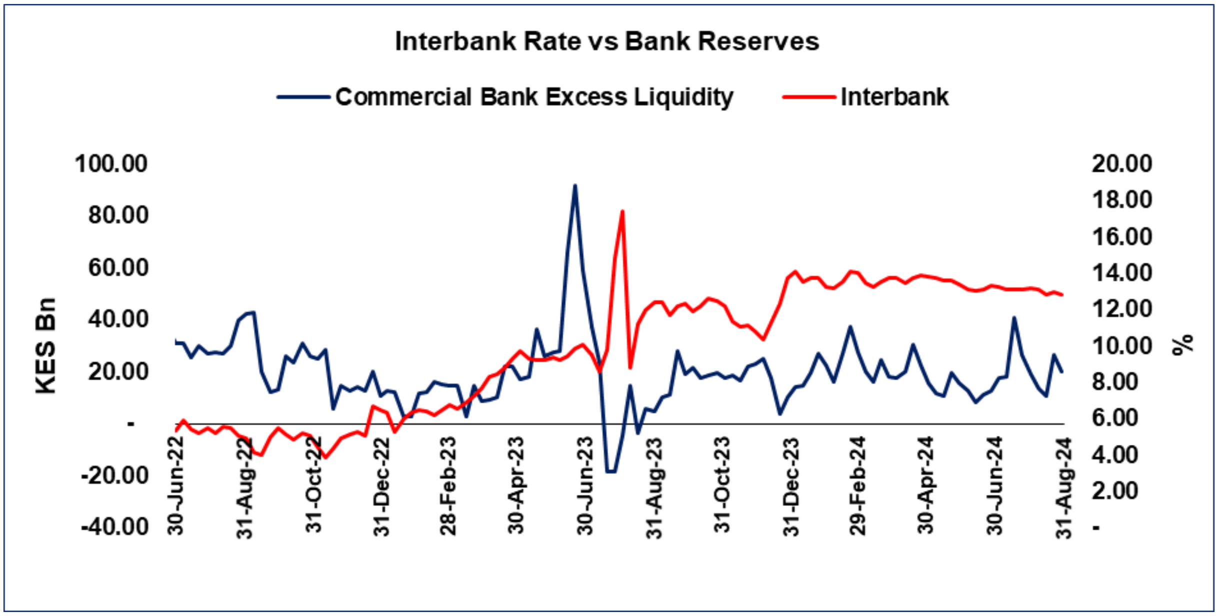

Figure 4: Interbank Rate and Commercial Bank Reserves Source: OAML, CBK

We expect the interbank rate to stay subdued and fair liquidity levels the remainder of the month with government payment being able to be matched by receipts.

5. Currency

The shilling gained 1.1% on the US dollar while shedding 1.3%, 1.2% and 4.9% against the British Pound, EURO and Japanese yen respectively. Against the US dollar, the shilling oscillated between KES 128.9765/USD to KES 130.1570/USD. The market continues to witness stability on CBK intervention and inflows from concessionary borrowing by the government. Commercial banks traded the currency at an average of 2.2% above CBK mean.

On the local front, the shilling gained against its neighbor's strengthening by 2.8%, 1.7%, 0.8% and 0.4% on the South African rand, Rwandese franc, Tanzanian shilling and Ugandan shilling respectively. The recovery followed end of protest and resumption of regional trade post demonstrations.

Currency Performance					
Currency	**31-Aug-23**	**31-Jul-24**	**31-Aug-24**	**ΔY-Y**	**ΔM-M**
KES/USD	145.4059	129.9225	129.1747	11.2%	0.6%
KES/GBP	184.6371	166.8400	169.9358	8.0%	1.9%
KES/EUR	158.6924	140.4202	143.0416	9.9%	1.9%
KES/JPY	99.7810	84.1440	88.9112	10.9%	5.7%
KES/SAZ	7.8483	7.0700	7.2648	7.4%	2.8%
KES/UGX	25.5492	28.6402	28.7595	12.6%	0.4%
KES/TZS	17.2277	20.8201	20.9793	21.8%	0.8%
KES/RWF	8.1816	10.1222	10.2904	25.8%	1.7%

Table 4: Currency Movement Source: OAML, CBK

Forex reserves reverted to the 6-month average of 3.8 months of import cover ending at USD 7,349Mn, 0.5% better than USD 7,311Mn in July. It touched a high of USD 7,404Mn in mid-August with the dip following payment of USD 150.63Mn in coupons for Eurobonds 2028, 2031 and 2048.

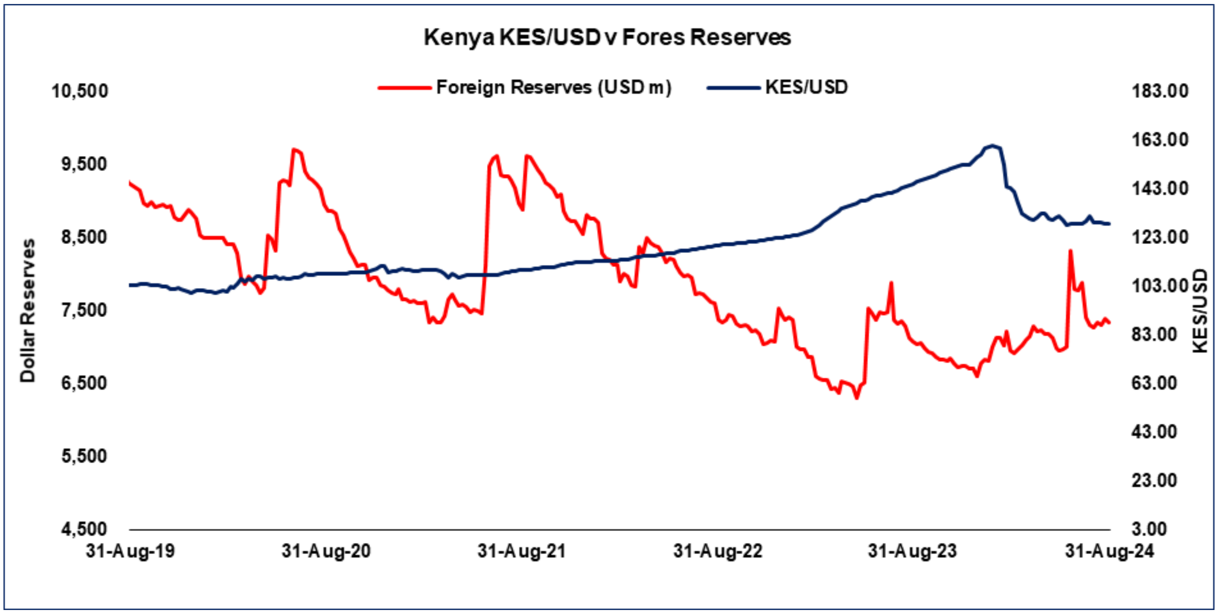

Figure 5: KES/USD and Forex reserves Source: OAML, CBK

The Kenyan economy expects USD 4.4Bn and USD 12Bn from commitments by IMF and World Bank respectively from 2024 to 2026 which will go a long way in managing forex reserves. The inflows will pay an important role in currency stabilization as we anticipate heavy payouts in November, and December on bi-annual debt and coupon payment c.USD 111.00Mn.

International Currency Scene

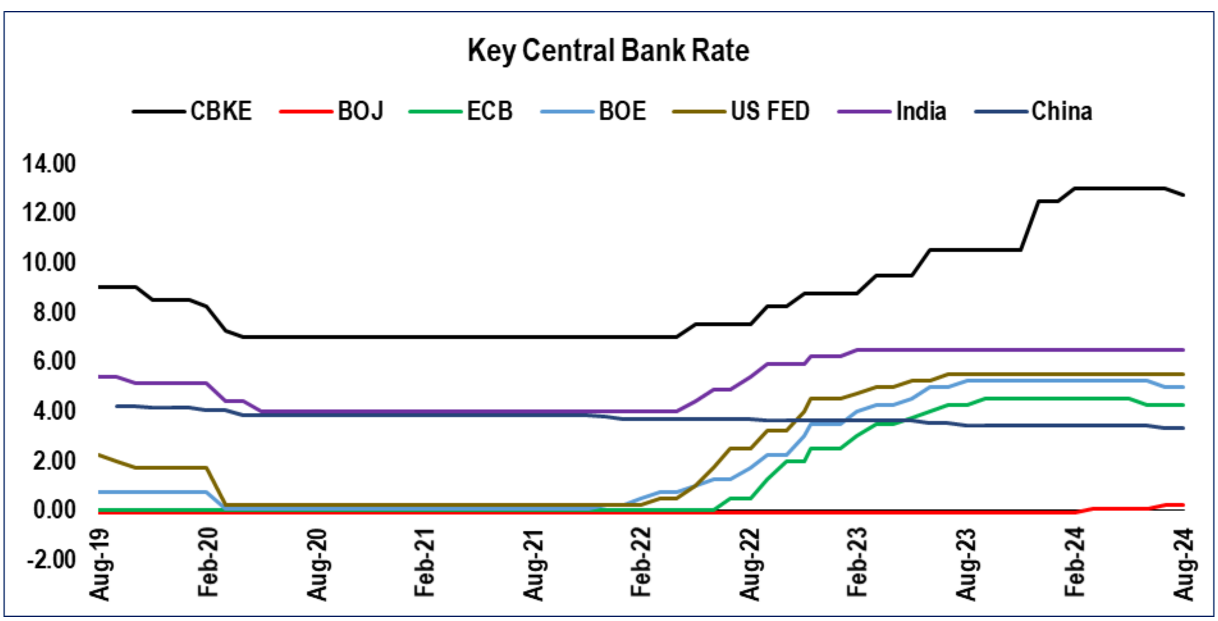

Figure 6: Key Central Bank Rates Source: OAML, Central Bank Various Countries

On the international front, the dollar closed the month on a recovery mode with the dollar index having shed 2.6% m-m against a basket six currencies. The recover was based on strong end of month data. With the US November 5th election fast approaching, the current Vice President and Democratic Presidential Candidate Kamala Harris has closed the gap on presidential polls after taking over as the Democratic candidate. Analysts project a limited impact on the dollar in case of a democrat win while the market expects an erratic movement with a Republican win with an expected improvement in the trade balance as result of the trade policies/trade tariffs

On regulatory front, the market reviews a rate cut by the European Central Bank (ECB) and US Fed Reserves with analyst polled indicating a 25bps cut during the September 12th – ECB meeting and September 17th – 18th Federal Reserve meet. Despite market recovery, the inflation figures indicate a small cut with July inflation at 2.9% above the 2.0% target with core inflation 3.2%.

6. Inflation Rate

Inflation levels edged up to 4.36% in August 2024 form 4.32% in July and 6.72% in August 2023. The level. Transport Index increased by 3.9% due to long distance bus fare while petrol and diesel prices remained the unchanged, Housing, Water, Electricity, Gas and Other Fuels Index increased by 4.2% on rising electricity prices and Food and Non-Alcoholic Beverages Index increased by 5.3% in the last 12-months.

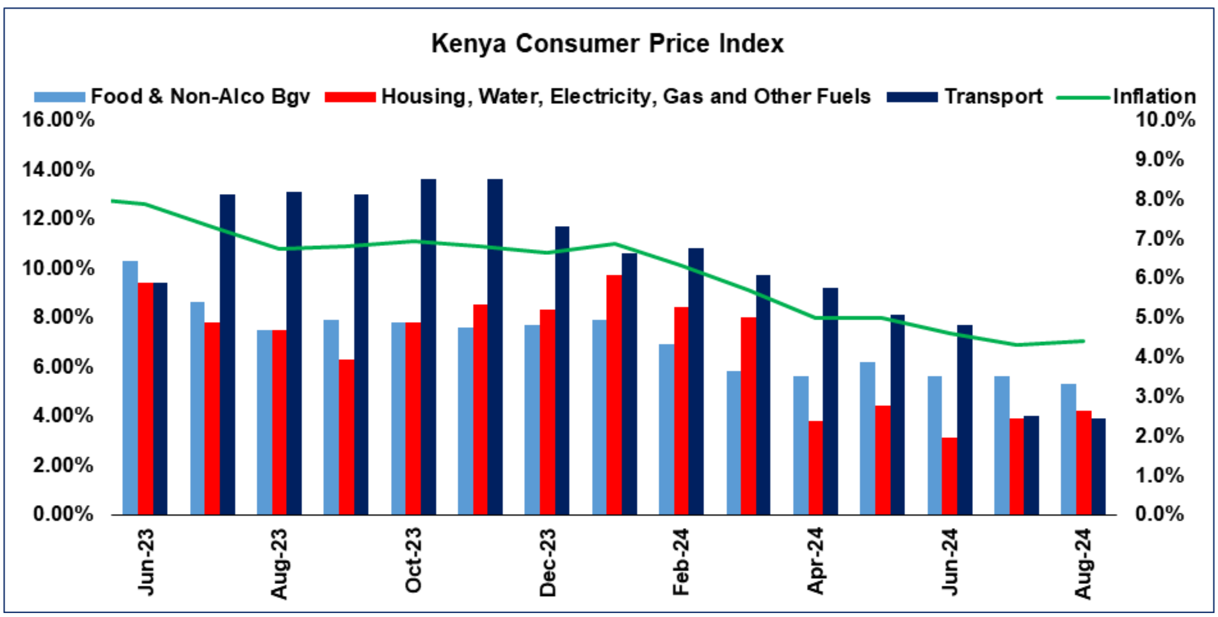

Figure 7: Kenya Inflation Rate Source: OAML, KNBS

The 8-month inflation was at 5.3% compared to 8.2% same period in 2023. The low inflation was supported by low food prices, low fuel and electricity prices.

Kenyan Petroleum prices remained flat despite a 38.8% increase in Road Maintenance Levey from a fixed amount of KES 18.00 to KES 25.00. The decline in pump prices, which will be praised by Kenya's, was due to a dip landing prices by 7.3%, 4.4% and 0.4% on Petrol, Diesel and Paraffin respectively.

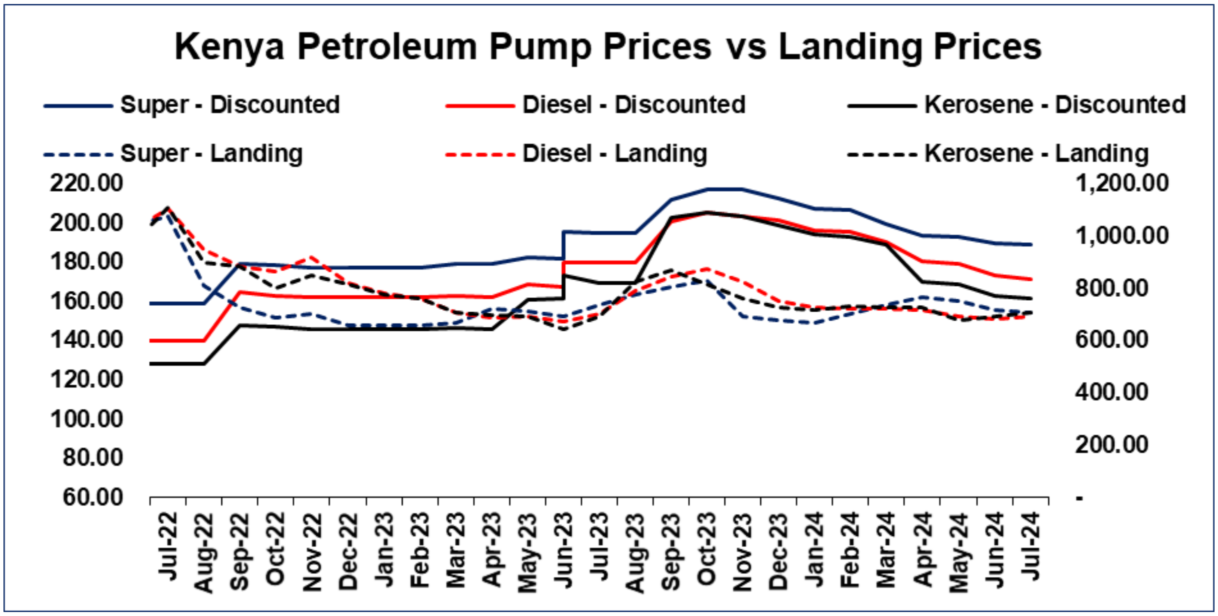

Figure 8: Kenya Petroleum Pump Prices Source: OAML, EPRA

International petroleum prices increased by 0.4% and 1.8% on month on month and 4.0% and 8.0% year to date on the Brent Oil and Crude Oil WTI respectively. The prices which are highly affected by OPEC+ restrain on output to contain prices and the Middle East geopolitical conflict continue to put an upwards pressure on prices while a drop in global demands in American and Chinese economies and the apparent resolution to a Libyan supply crisis have countered price movement for a net decline in prices.

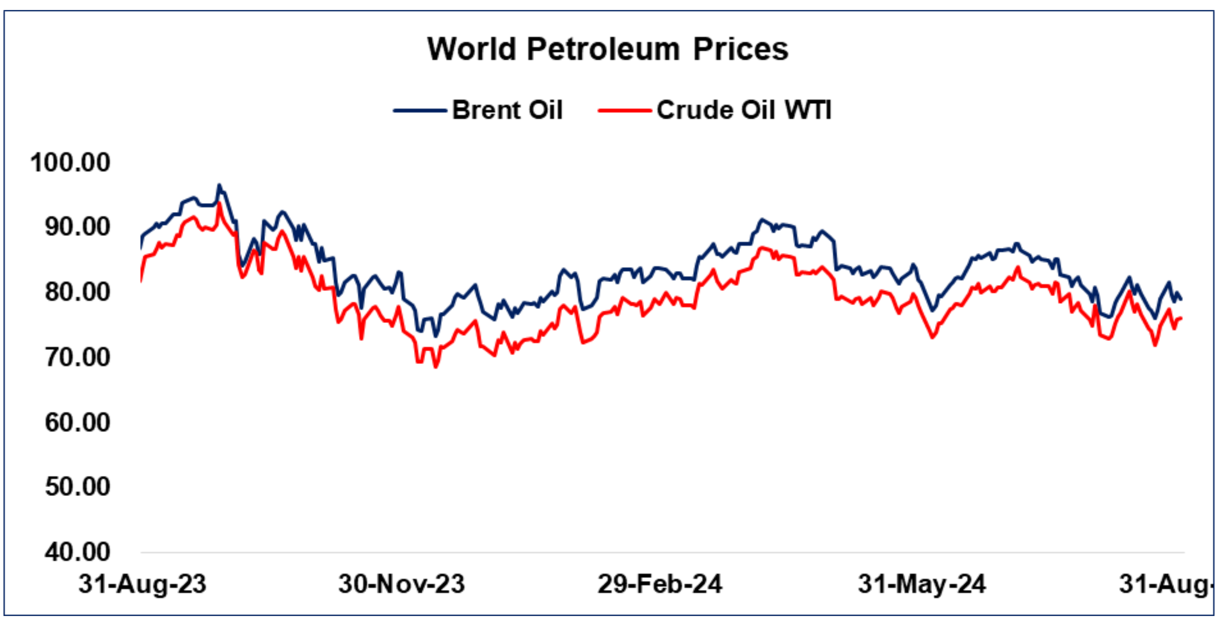

Figure 9: International Petroleum Prices Source: OAML, Investing.com

Developed markets inflation have edged downwards but remain above government target of 2.0%. This has led to markets cutting key central banks rates by an average 25bps. The core inflation have remained sticky with all the major economies reporting core inflation of 3.0% and above.

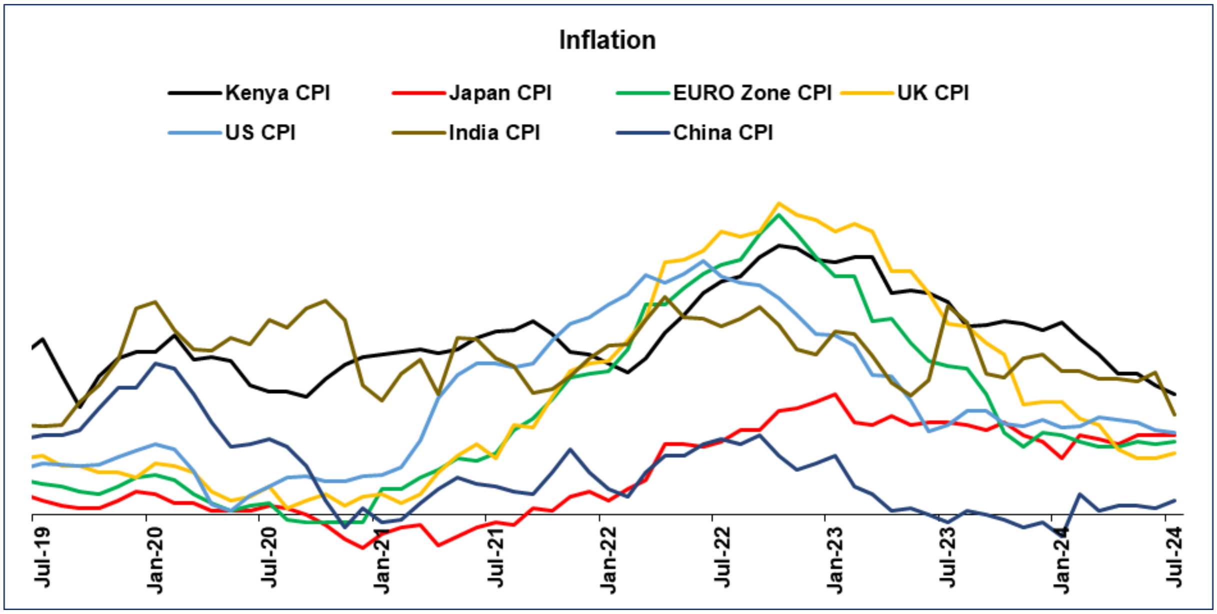

Figure 10: Inflation Rate for Various Countries Source: OAML, Various Countries

Pressure on inflation - Food production is expected to slow-down on poor rainfall distribution in most parts of the country. This will be driven by weak La Nina conditions which are likely to develop during September to November season and persist into early 2025.

On the other end of the spectrum, the drop in international petroleum prices and stable shilling against the dollar will continue to keep pump prices low which will be reflected in the inflation rate. Overall, we expect the inflation levels to remain below the government target of 5.0% for the remaining part of the year.

7. Treasury Bills

On the average, Treasury bill rates declined in line with the CBR rate cut of 25bps at the beginning of August 2024. Total subscription was 108.61Bn against a demand of KES 96.00Bn or 113.1%. CBK accepted KES 100.08% or 92.1%.

The 91-day paper remained on demand with a performance of 252.7% with yields edging 20.6bps lower to as investor continue to position liquidity on the short end and indication on a lag on the effect of the rate cut on the economy. Acceptance was at 88.2% and indication that the government expects the rate to go lower further.

August-24									
Tenure KES Bn	**Offer**	**Subscription**	**Acceptance**	**Subscription**	**Acceptance**	**Performance**	**WAR % July 24**	**WAR % Aug 24**	**Δbps M-M**
364-Day	**40.00**	**18.19**	**17.49**	45.5%	96.1%	43.7%	16.921%	16.859%	(6.2)
182-Day	**40.00**	**44.58**	**42.16**	111.5%	94.6%	105.4%	16.851%	16.669%	(18.2)
91-Day	**16.00**	**45.84**	**40.43**	286.5%	88.2%	252.7%	16.000%	15.794%	(20.6)
Total	**96.00**	**108.61**	**100.08**	113.1%	92.1%	104.2%		16.349%	

Table 4: T-Bill Performance Source: OAML, CBK

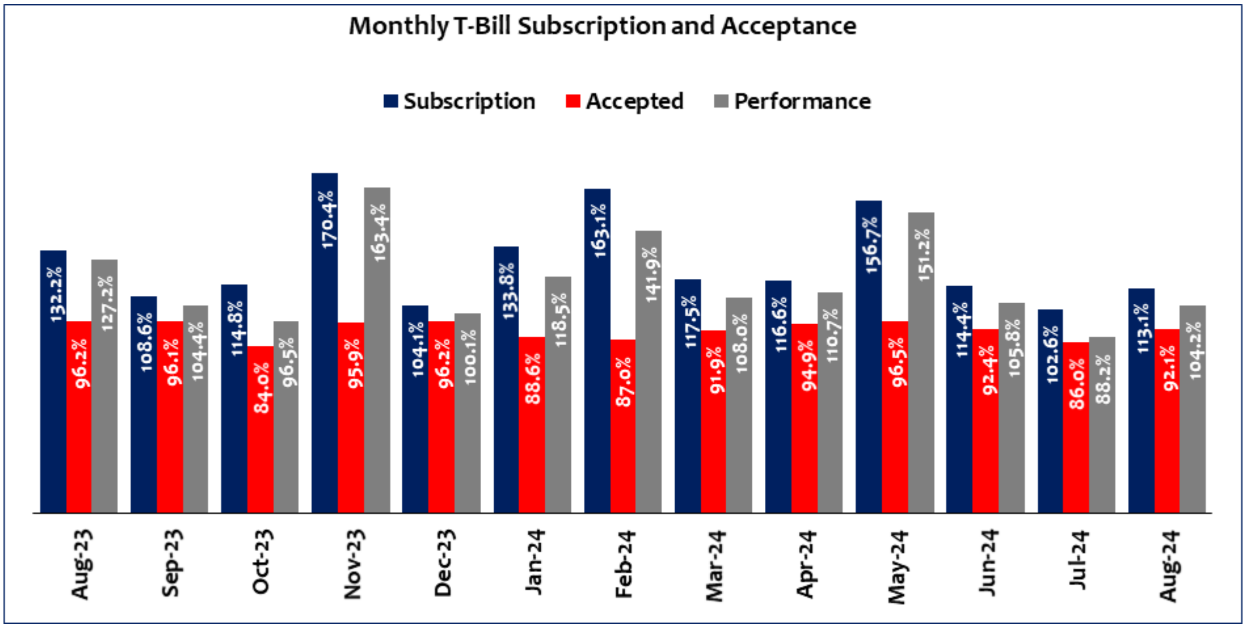

Figure 11: T-Bill Performance Source: OAML, CBK

The 182-day paper saw a second month of oversubscription in the year with KES 4458Bn received and KES 42.165Bn accepted. The rate declined to 16.669%, down 18.2bps from 16.851%.

Low demand on the 364-day paper saw the issue yields decline by 6.2bps to close at 16.859%. Total acceptance was KES 17.49Bn form KE S18.19Bn received.

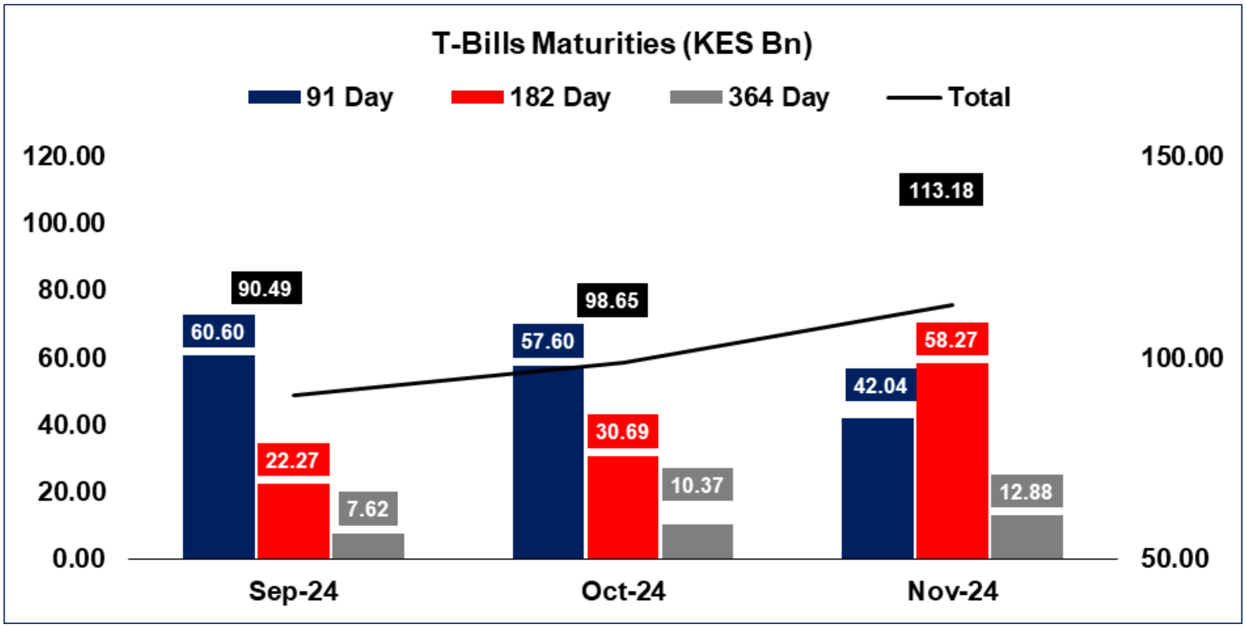

Figure 12: T-Bill Expected Payouts Source: OAML, CBK

The September issue stand a KES 96.00Bn which is expected to be matched by the month's payment of KES 90.49Bn. The 91-day paper will continue to lead demand as investors still pack cash with an expectation of private credit expansion on further CBR cuts.

8. Domestic Government Debt

The government domestic debt stood at KES 5,555.67Bn, a 13.7% y-y jump driven by 18.3% and 14.9% y-y growth in T-Bills and T-Bonds borrowing respectively. The market continues to witness reopens with September issue being FXD1/2024/010 (ten years) and FXD1/2016/020 (12 years) bonds seeking KES 30.00Bn.

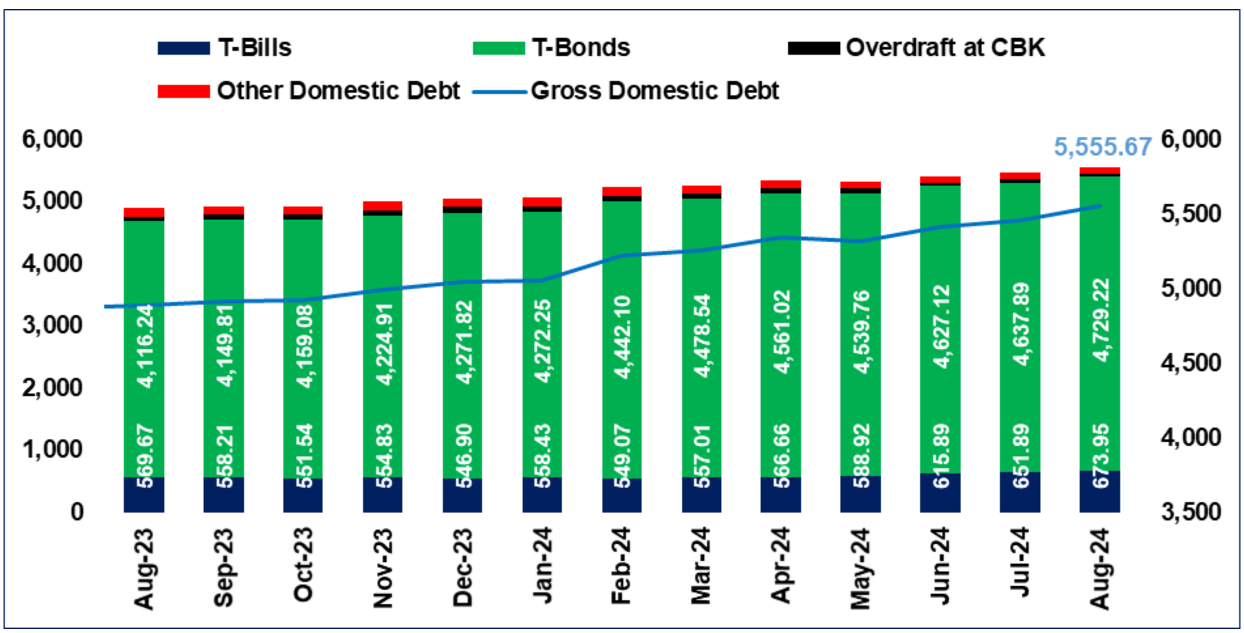

Figure 13: Kenya Domestic Debt Source: OAML, CBK

T-Bond Primary Issue - September – We anticipate lower performance on the bond due to its duration and yields, as the government continues to provide guidance to investors on yield expectations.FXD1/2024/010 which has a coupon on 16.00% was opened in March 2024 and has been reopened and tapped 4 times for a total issue of KES 34.54Bn while FXD1/2016/020 issue in September 2016 has a coupon of 14.00% and total issue of KES 12.76Bn.

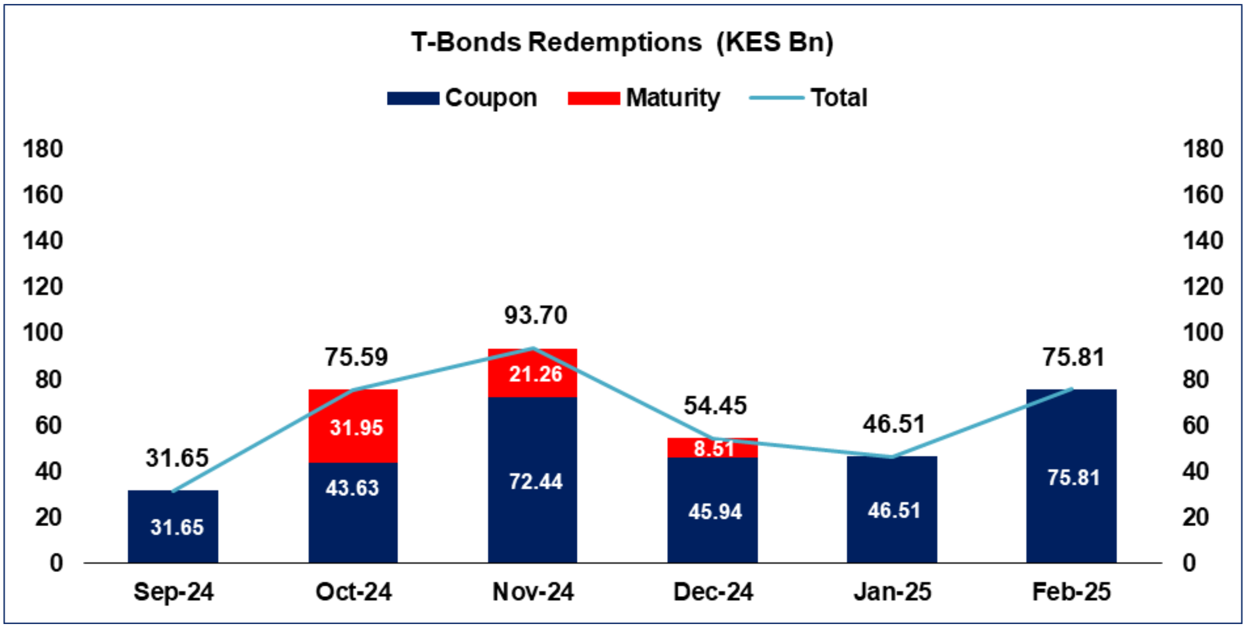

Figure 14: T-Bill Expected Payouts

Source: OAML, CBK

September payments stands at c.KES 31.65Bn in coupons, we forecast a low subscription and a tap. The market expects heavy payments in October, total KES 75.59Bn, coupons KES 43.63Bn, maturity of KES 31.95Bn. In November a total of KES 93.70Bn, coupons KES 72.44Bn and maturity KES 21.26Bn.

9. Yield Curve

Yield curve shifted up with the average yield for August at 16.7398%, 122.5bps higher to 15.5145% in July. The effect was due to shift on the August Primary reopening of IFB1/2023/06.5 and IFB1/2023/017 that netted KES 120.72Bn.

The short end was affected by the revised domestic borrowing in the Supplementary I Estimates of 2024 that pushed the target to KES 978.3Bn, up KES 149.92Bn, form KES 828.38Bn in the original estimates. The market expects short issues to match the borrowing.

Yield Key Rates %	31-Aug-23	31-Dec-22	31-Jul-24	31-Aug-24	Y-Y bps Δ	Y-T-D bps Δ	M-M bps Δ
2-Yr	16.9935	12.1736	17.2410	17.9711	97.8	579.8	73.0
5-Yr	17.5789	13.5287	15.5838	18.6369	105.8	510.8	305.3
10-Yr	15.4545	13.7746	15.9594	16.3586	90.4	258.4	39.9
15-Yr	15.7329	13.9316	14.7361	16.3707	63.8	243.9	163.5
20-Yr	15.7640	14.0459	15.2391	16.0172	25.3	197.1	77.8
23-Yr	15.7913	14.1627	15.9177	16.1434	35.2	198.1	22.6

Table 5: Key Yield Rates Source: OAML, NSE

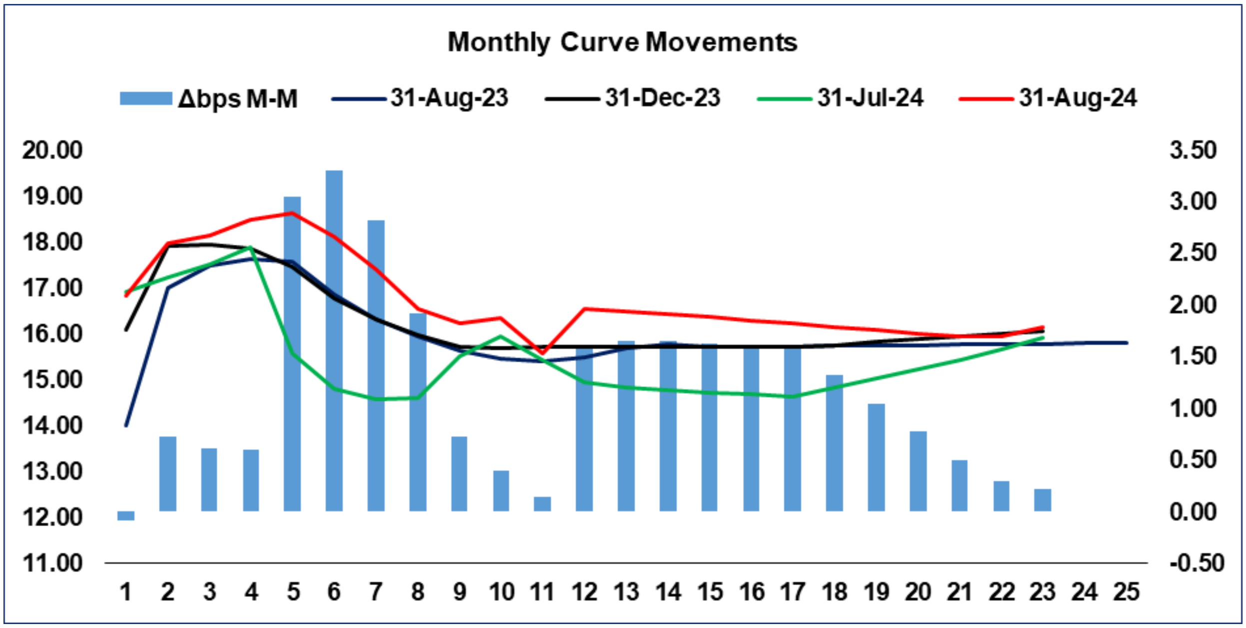

Figure 15: NSE Monthly Yield Curve Source: OAML, NSE

Daily yield curve indicates a rising yield on the short (2-Year) and mid (10-Year) of the curve has shifted upwards. Long end of the curve remains stable. This is the effect of short term issues and reopening as the government continues to manage cost of financing. The September issue will render a further upward shift on the mid curve with the 10-year and 12-year reopens.

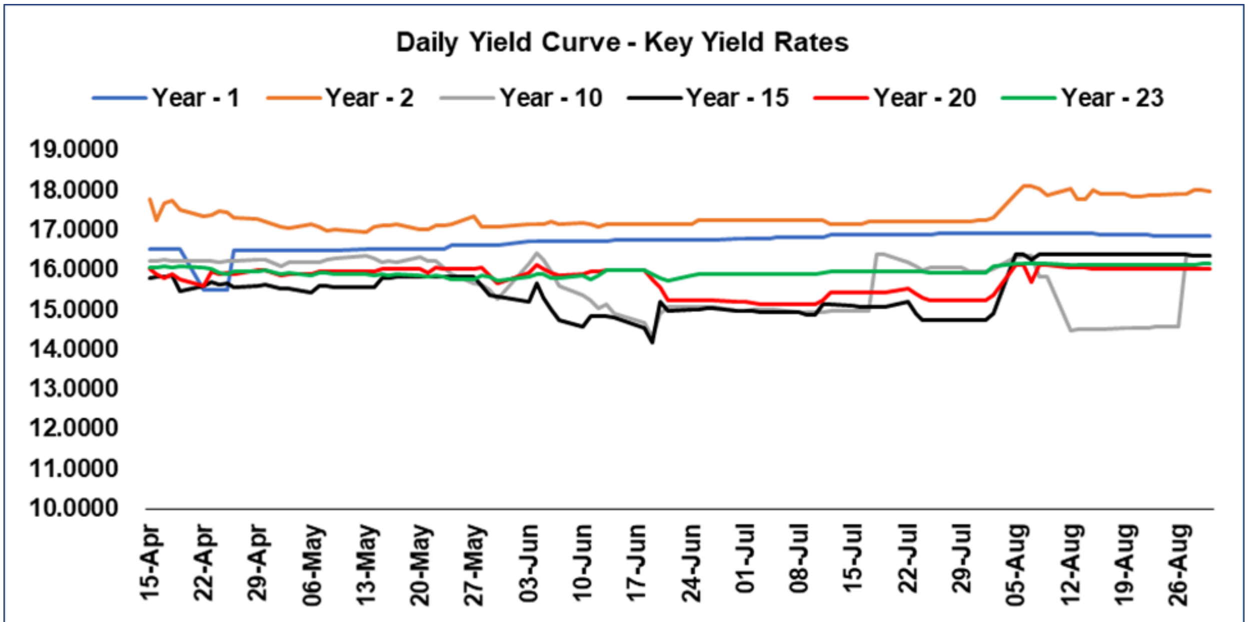

Figure 16: NSE Daily Yield Curve – Key Rates   Source: OAML, NSE

10. Eurobonds

Eurobond yields have had a downward movement with the 2027 bond moving 52.5bps lower to 8.649% while the 10 year yields on 2034 bond declining by 67.1bps.

Eurobond BPSΔ						
Bond Tenure	**2027**	**2028**	**2031**	**2032**	**2034**	**2048**
30-Aug-24	**8.649%**	**10.039%**	**10.366%**	**10.073%**	**10.055%**	**10.660%**
W-W	**18.1**	**12.1**	**9.5**	**14.9**	**18.0**	**14.3**
M-T-D	**52.5**	**57.2**	**51.3**	**61.4**	**67.1**	**41.9**
M-M	**49.1**	**33.1**	**34.1**	**41.9**	**49.0**	**27.9**
Y-T-D	**54.9**	**16.6**		**29.3**	**62.9**	**44.8**
Y-Y	**185.4**	**141.6**		**90.1**	**56.4**	**55.0**

Table 6: Kenya Eurobond Yield   Source: OAML, Bloomberg

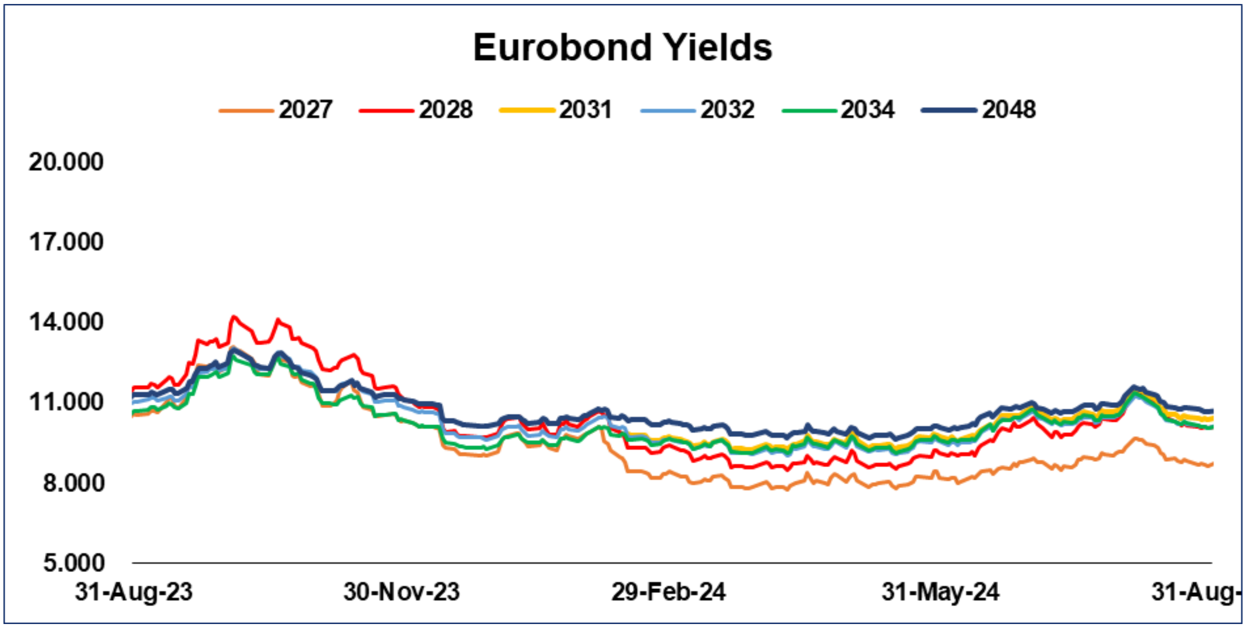

Figure 17: Kenya Eurobond Yields Source: OAML, Bloomberg

The economic indicators continue to post a positive growth trajectory with stable currency, end of countrywide demonstration, news on the supplementary budget and reentry of foreign investors into African issued Eurobonds has chaperoned the rates downwards in the short run.

11. Nairobi Securities Exchange

11.1. Equities Market

The market was marginally up with NSE 20 Share Index posting 1,678.21 points, up 0.5%. The NSE 25 Share Index gained 0.2% m-m while posting a gain 0f 9.1% y-y. The banking sector performance was able to counter the loss in the telecommunication and manufacturing sectors. The All Share Index lost 1.9% driven by loses in Telecommunication, insurance and Manufacturing sectors.

Total volumes traded during the month totaled 381.94Mn, an increase of 29.8% compared to 294.35Mn in July. The volume increase was enough to counter price dip as value traded was KES 6.30Bn, 7.5% higher compared to KES 5.86Bn the previous month.

Safaricom Plc was the top mover with 48.5% of total volumes. The telecom price decline by 8.8% m-m with investors taking note of the entry on Starlink into the Kenyan and Ethiopia data market with data constituting 19.3% of total revenues as per the FY-2024.

NSE Equities Monthly Performance					
Indicator	**Aug-23**	**Jul-24**	**Aug-24**	**y-y**	**m-m**
NSE 20	1,540.16	1,669.79	1,678.21	**9.0%**	**0.5%**
NSE 25	2,578.57	2,806.48	2,812.75	**9.1%**	**0.2%**
NSE 10	-	1,093.91	1,088.19	**0.0%**	**-0.5%**
NASI	99.23	105.73	103.67	**4.5%**	**-1.9%**
NSE Mkt CAP (KES Bn)	1,544.94	1,651.83	1,619.78	**4.8%**	**-1.9%**
NSE Mkt CAP (USD Mn)	10.73	12.72	12.53	**16.7%**	**-1.5%**
VOLUMES (Mn)	223.58	294.35	381.94	**70.8%**	**29.8%**
NSE Turnover (KES Bn)	4.22	5.86	6.30	**49.2%**	**7.5%**
NSE Turnover (USD Mn)	2.93	5.57	4.87	**66.0%**	**-12.6%**
Dollar Return (NASI)	-7.9%	-4.5%	-0.6%		

Table 7: NSE Equities Market Source: OAML, NSE

11.2. NSE Secondary Market

The bonds market traded KES 88.35Bn from 2,642 deals, a drop from KES 165.85Bn on 2,773 deals in July. Demand was dominated by IFB1/2023/006.5Yr and IFB1/2024/008.5Yr which controlled 43.9% of the month's value.

The 8-months value traded stands at KES 1,024.22Bn, a 244.7% increase compared to KES 418.61Bn traded same period in 2023.

NSE Bonds Monthly Performance					
Indicator	**Aug-23**	**Jul-24**	**Aug-24**	**y-y**	**m-m**
Deals	2,255.00	2,773.00	2,642.00	**17.2%**	**-4.7%**
Value (KES Bn)	53.87	165.85	88.35	**64.0%**	**-46.7%**

Table 8: NSE Secondary Bonds Market Source: OAML, NSE

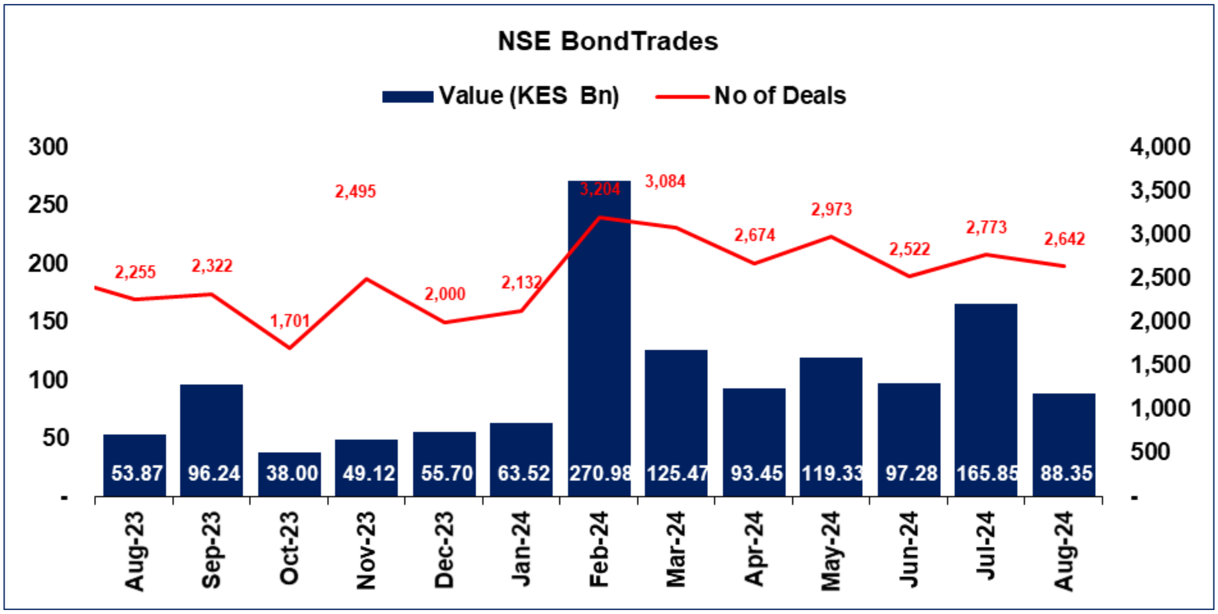

Figure 18: NSE Secondary Bonds Market Source: OAML, NSE

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