Orient Asset Managers Limited

MONTHLY MARKET REPORT – JANUARY 2025

ORIENT ASSET MANAGERS LIMITED
INVESTING IN DREAMS

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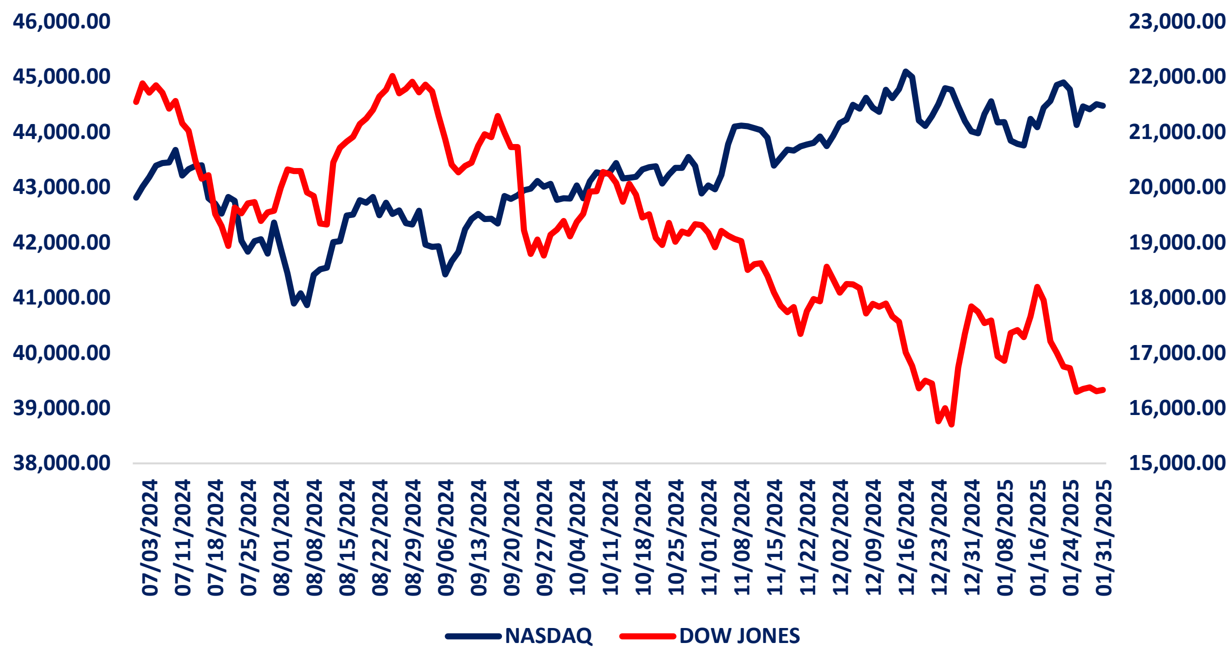
1. Global Markets – A Focus on United States

Donald's trump second term at the Oval office significantly influenced market sentiment in 2024, with most investors positioning themselves based on anticipated policy shifts rather than tangible economic changes. Much of the market movement leading up to the end of 2024 was driven by speculation, with sectors reacting to projected regulatory changes and trade policy expectations.

With the official inauguration on January 20, 2025, and the initial wave of executive orders and policy implementations, a clearer framework has arose for the economic trajectory. As key decisions on tariffs, taxation, monetary policy, and deregulation take shape and become quantifiable, their cascading effects on economic growth, inflation, labor markets, and overall market stability are becoming more evident.

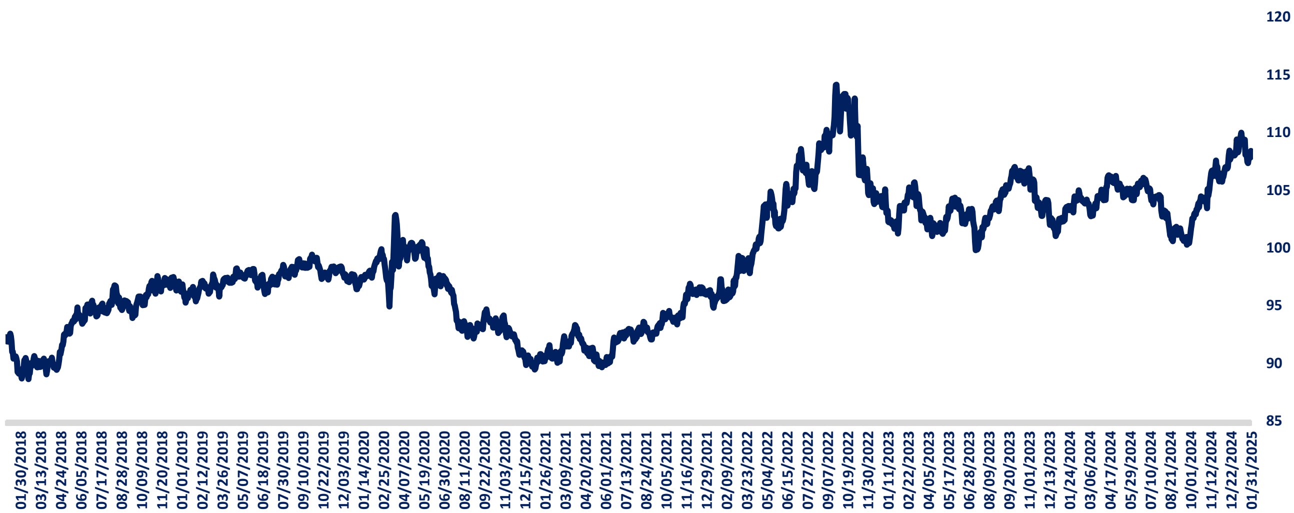


Sector Composition of Dow Jones and Tech-Heavy Nasdaq will see a divergence in 2025. The Fed potential rate cuts in 2025 and the Rate Cuts that were seen in 2025 has led to the rallies as tech gets into cheaper capital and we shall see investor shifting into the tech heavy shifting from Dow Jones that is weighted on financials, industrials, and consumer staples.

We do expect that the making America great slogan through introduction of policies will drive sector rotation within the equities market as seen in Jan 2025 with Dow Jones and Nasdaq increasing by 2.22% and 4.70% respectively to 45,544 points, 21,478 in January from 42,544, 21,012 points respectively in December 2024.

We witnessed market disruptions towards the end of January as the U.S. tech sector believed it had successfully monopolized AI, only for China to challenge that assumption, revealing a new reality that shook the markets with chips companies in the US and Europe plunging by an average of 16%

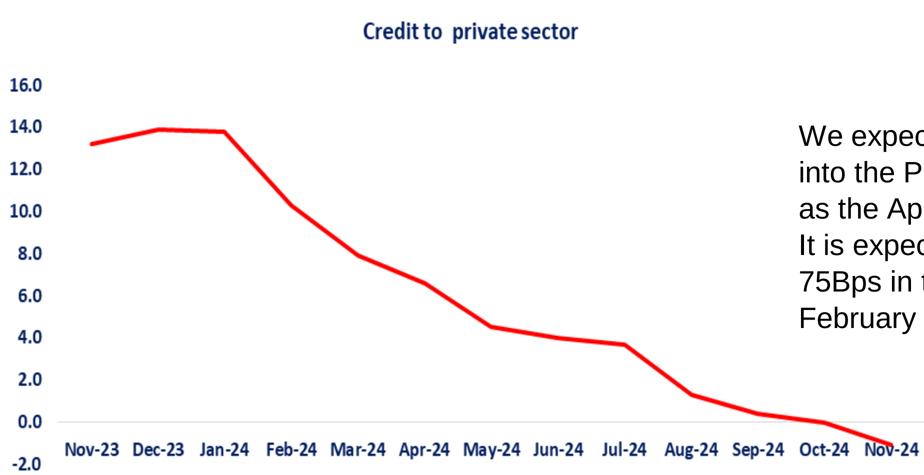
2. Dollar Index



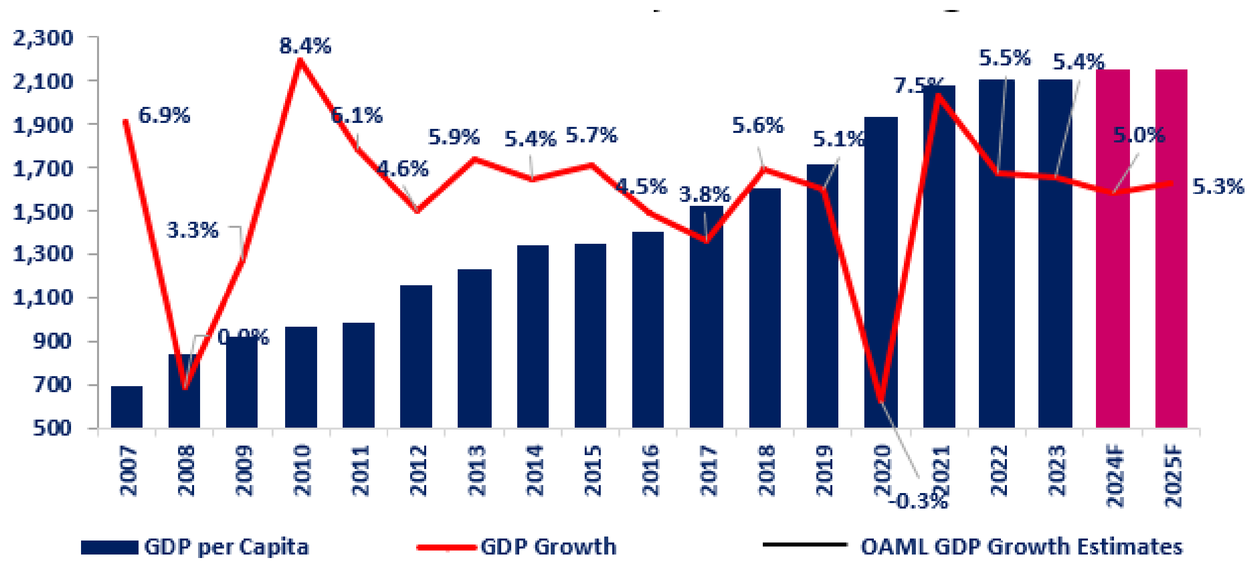
The Index has oscillated around the 107-108 levels as it averaged at 108.64 in January 2025 from 107.27 in December 2024. This was attributable to the expected impact on the imposed 25% tariffs on imports from Canada and Mexico, and 10% on Chinese goods. The Global raise uncertainty and trade policy will eventually lead to the index taking its shape towards the end of the quarter as the immigration policy starts taking shape. We expect the GDP to decline as the immigrants tend to be the Backbone the United States economy. Many industries would struggle with severe labor shortages without immigrant workers. The agriculture industry heavily relies on immigrant labor, with over 70% of U.S. farmworkers being foreign-born.

3. Kenya Economic Performance

Economic growth is estimated to have slowed to 4.6% in 2024, down from 5.6% in 2023, reflecting a deceleration in economic activity during the first three quarters of the year. This slowdown was further compounded by a decline in private sector credit growth, particularly in key sectors of the economy.



We expect to see the banking sector tapping into the Private sector lending to spur growth as the Apex banker continues to control rates. It is expected the rate to be cut further by 50-75Bps in the next MPC meeting to be held in February 2025 to 10.25-10.50 ranges



The government projects economic growth to accelerate to 5.3% in 2025, maintaining this momentum over the medium term, driven by enhanced agricultural productivity, a resilient services sector, and the implementation of key priorities under its BETA ***Bottom-Up Economic Transformation Agenda*** framework.

Our estimates are more conservative, forecasting growth at -5.3% in 2025, factoring in the need for fiscal consolidation and anticipated policy measures aimed at reducing inefficiencies and leakages. A critical consideration remains the accountability of growth-inducing projects, particularly those linked to quantifiable production and the necessary support for MSMEs, which play a pivotal role in sustaining economic resilience.

The Kenyan government's fiscal projections for FY 2025/26 reflected a bold optimism

Total Revenue: This is expected to rise to KES 3,516.6Bn (18.2% of GDP) from KES 3,060.0Bn (16.9% of GDP) in FY 2024/25. We expect the Tax to push harder for this.

Finance Bill 2025: Aiming to generate KES 325Bn in additional revenue. We expect this to come from introduction of new taxes.

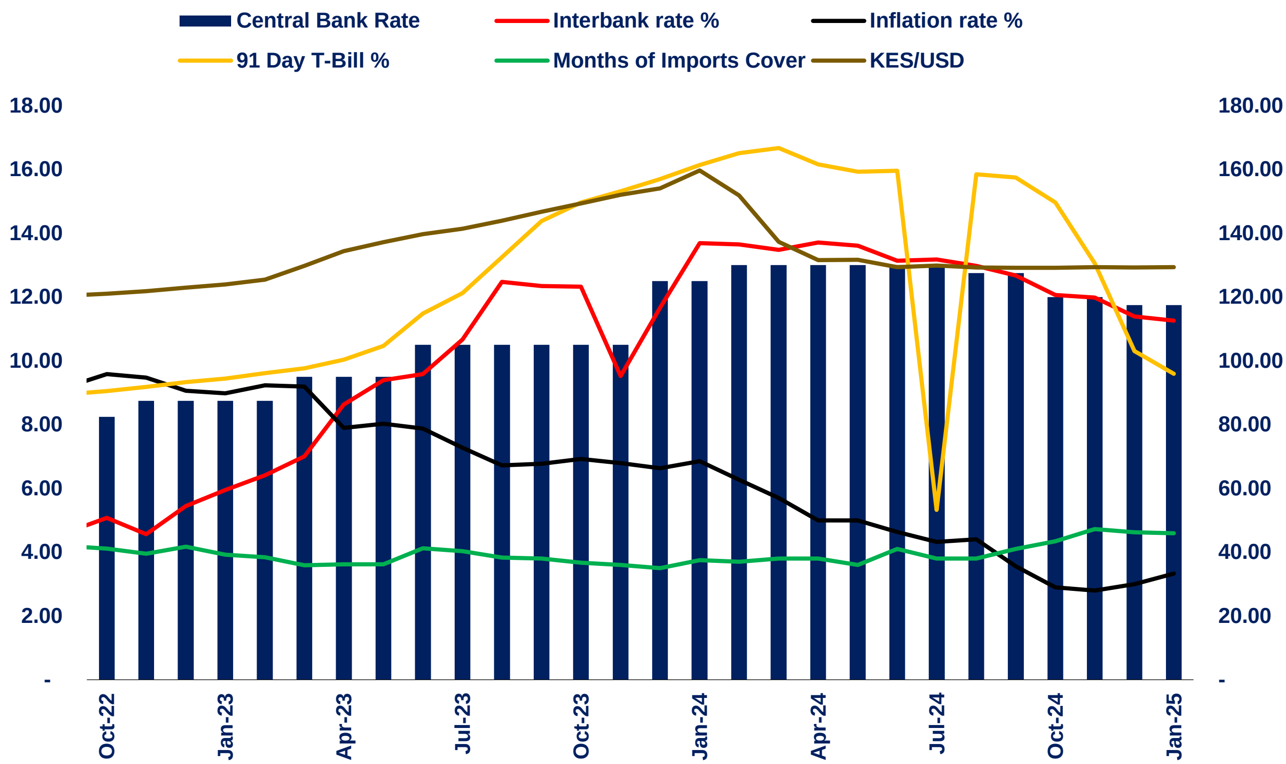
Expenditures & Net Lending: Projected to surge to KES 4,329.3Bn (22.5% of GDP), up from KES 3,880.8 billion (21.5% of GDP) in FY 2024/25. A growing budget demands deeper fiscal pockets.

Fiscal Deficit: Expected to shrink slightly to KES 759.4Bn (3.9% of GDP) from KES 768.6Bn (4.3% of GDP) in the previous fiscal year.

4. Central Bank of Kenya Developments

The last MPC was held in December 5th, looking ahead, the next MPC meeting is scheduled for February, where we anticipate a 50-75bps rate cut, with the possibility of a more aggressive 150bps reduction if necessary. This expectation is driven by the need for monetary policy to play a pivotal role in stimulating economic growth.

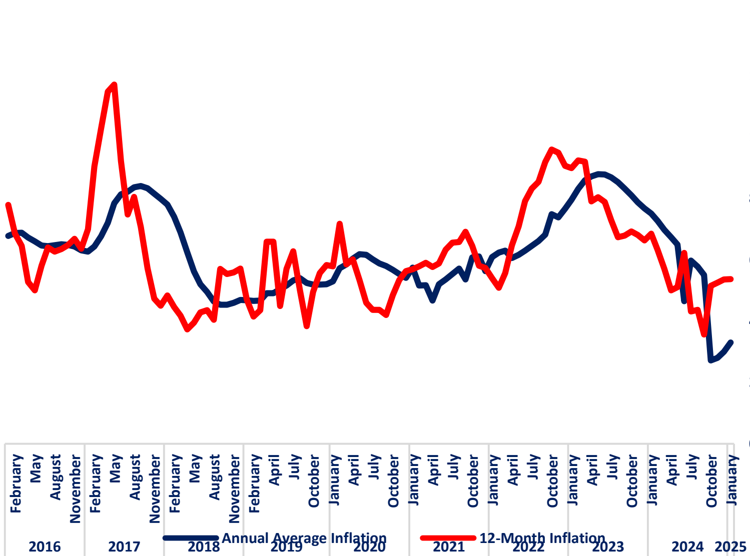
The Shilling strengthened by 4.9Bps as at end of Jan 2025 while the reserves closed at 4.5 import cover at 8,877 USD Mn

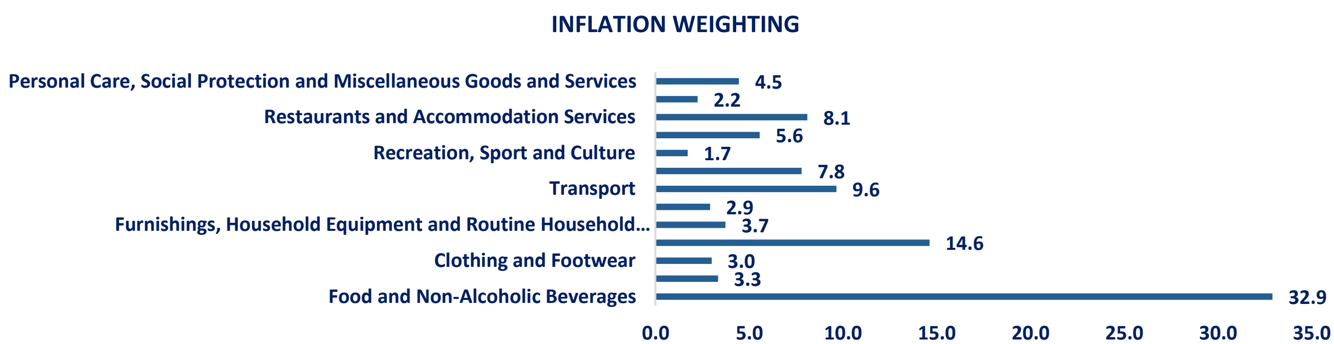


The anticipated rate cut in February will further have an impact on the short term rates which are expected to shift downwards towards the 8% levels for the 91 day tenor. The rate cut will provide relief to banking sector borrowers from the current high cost of borrowing and will aid in the reduction of banks' gross NPLs.

Kenya Inflation – January 2025

In January 2025, inflation increased to 3.3% compared to January 2024, on account of increases in the Food and Non-Alcoholic Beverages category (+6.1%) and the Transport category (+0.7%) over the same period. We saw prices in Housing, Water, Electricity, Gas, and Other Fuels declined by -1.6%. With the change having a weight of 57% of the total weight within the major expenditure divisions.(***Refer to Inflation Weighting***)

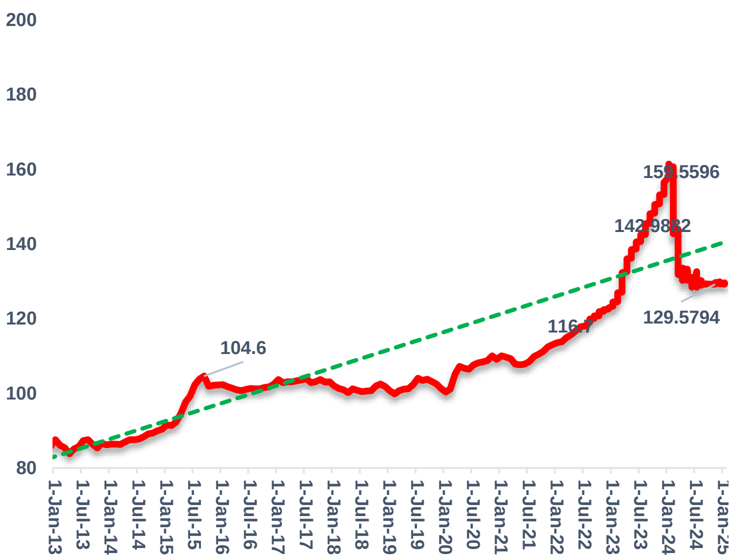


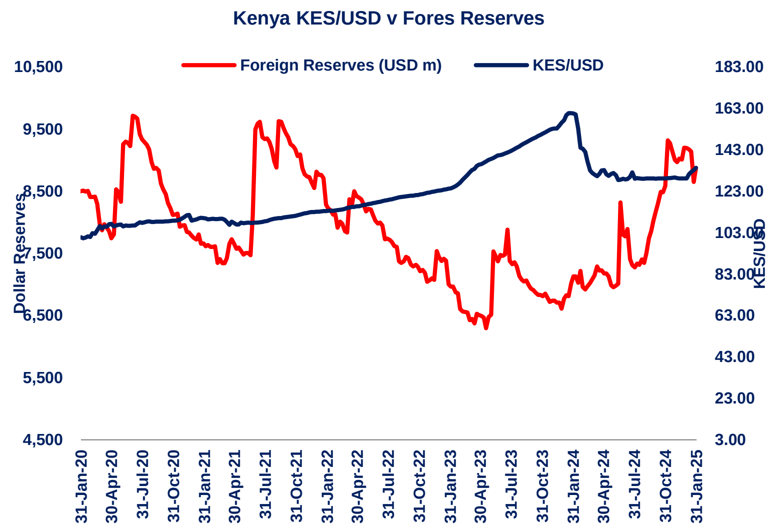


We expect Inflation to remain within the lower mid-point of target range driven by average low crude oil prices and the shilling stability as we expect Capital inflows spilling into the 2nd Quarter of 2025. With the expected rise of Supply by OPEC+ and Non – Opec(*1.5 million barrels per day*) producers we expect the prices to average at $75 per barrel in 2025 from an average of $80 per barrel in 2024. However, U.S. sanctions on Russian and Iranian oil might disrupt global supply, exerting upward pressure on prices to $80-$82 per barrel levels.

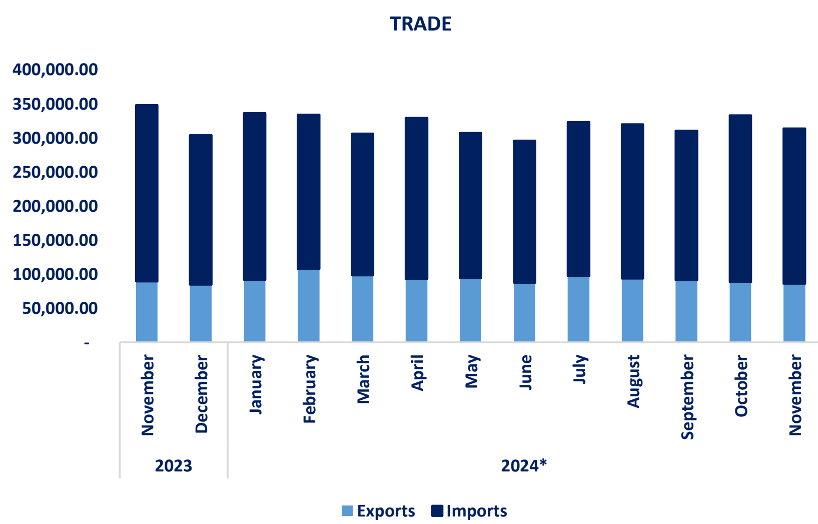
5. Kenya Shilling & FX Reserves

The KES appreciated against the greenback by 4.9Bps to 129.22 from 129.30. The Kenya shilling continues to hold its ground following the buy back in 2024 following the expected default of the Eurobond. However, in 2025 we expect the shilling to be supported by the Capital inflows from IMF and UAE $835Mn and $1.5Bn that is expected after the final review and half year respectively.





Given our net import position and government debt that is in USD. We expect the depreciation to be slower in 2025 as the Central Bank continues to tame the markets.



Imports remain high, averaging $220B - $244B, increasing pressure on forex reserves and the exchange rate.

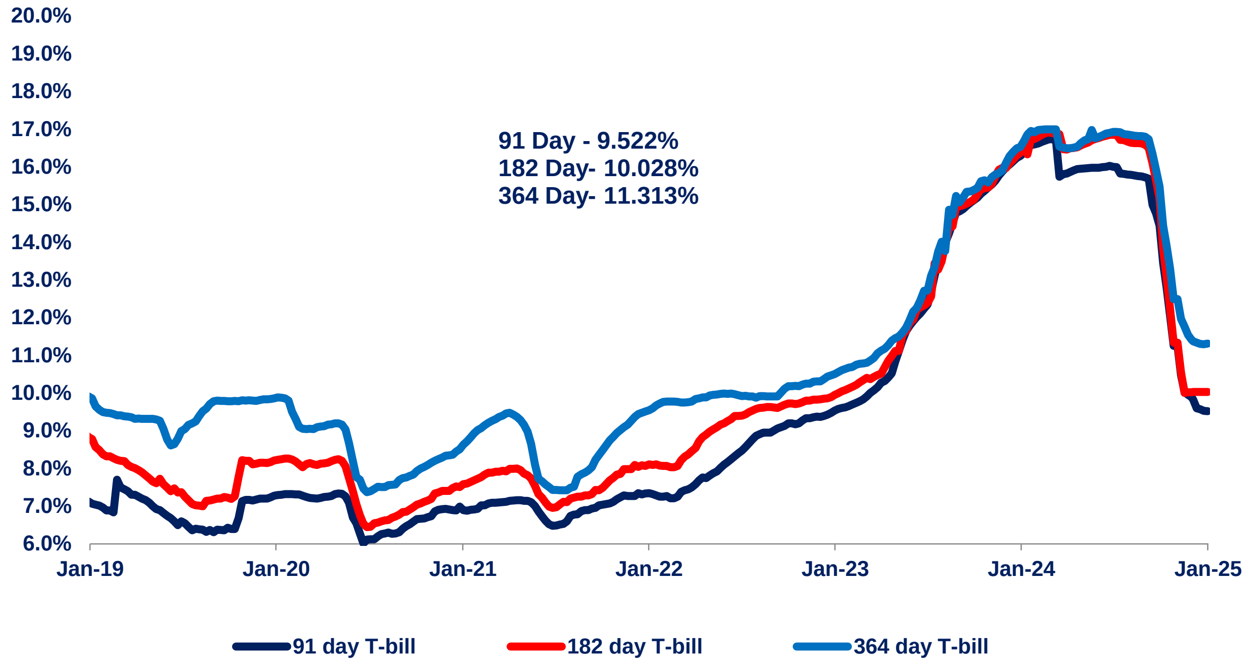
There is need to explore new trade agreements in Africa (AfCFTA), Europe, and Asia to increase export destinations as US policies take into effect.

6. Treasury Bills

In January 2025, Treasury Bills (T-bills) experienced oversubscription, with the overall average subscription rate reaching 104.7%. However, this marked a slight decline compared to the 106.3% recorded in December 2024.

The 91-day T-bill recorded an average subscription rate of 259.3%, down marginally from 260.8% in December 2024. Similarly, the 364-day T-bill saw a more pronounced decline in demand, with its subscription rate falling to 84.9%, compared to 103.3% in the previous month.

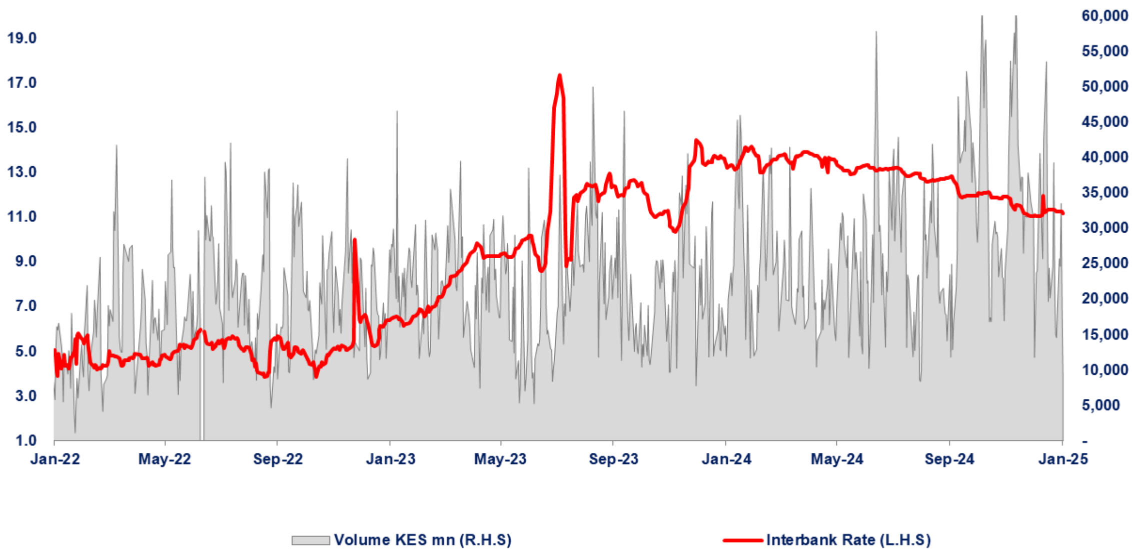
The above trends is in line with the shifting of investor preferences influenced by our liquidity conditions and the monetary policy disruptions that is impacting short-term fixed-income instruments.



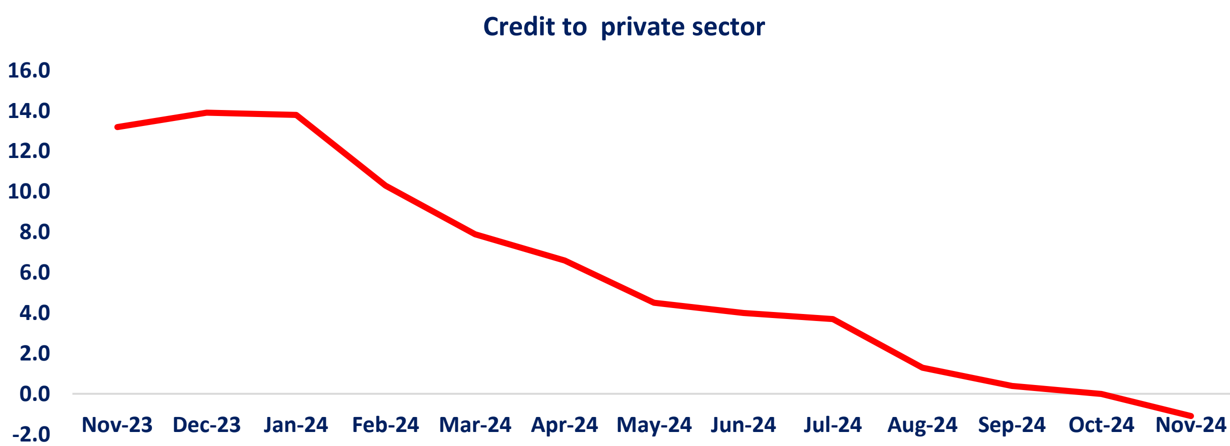
With the anticipated February rate cut announcement by the Central Bank of Kenya (CBK), acceptance rates are expected to deepen further, as investors realign expectations in response to the evolving interest rate landscape. This shift may influence bidding patterns and overall market liquidity in the short-term fixed-income segment.

7. Interbank Rates

Market Liquidity improved in January 2025, as the average interbank rate declined by 19.8 basis points, settling at 11.26%, down from 11.39% in the previous month.



We anticipate that improved liquidity and lower borrowing costs will positively impact credit expansion to businesses, ultimately stimulating economic activity. However, the extent of this effect will depend on the banking sector's evaluation framework. The tangible results are expected to materialize after a quarter



On the flip side, the government is looking to raise KES 70.0 Bn through two twin reopened infrastructure bonds; IFB1/2022/14 and IFB1/2023/17 that is expected to mop up liquidity in the market.

8. Equities Market

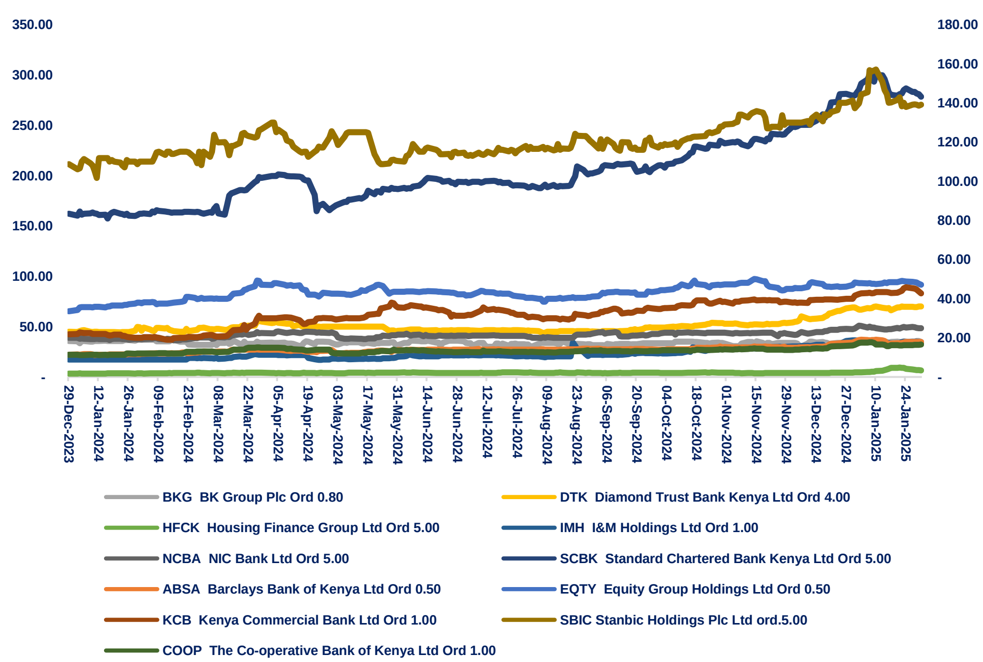
The equities market experienced an upward trend, with the NSE 20 leading the gains at 7.56%, while NASI and NSE 25 recorded increases of 3.89%, 0.98%.

Indicator	31-Dec-2024	31-Jan-2025	% ∆
NASI	123.48	128.28	3.89%
NSE-20	2,010.65	2,162.58	7.56%
NSE-25	3,402.80	3,436.04	0.98%
Mkt cap, KES Bn	1,939.741	1,983.703	2.27%
Shares traded	823,407,942	631,544,500	-23.30%
Equities TO, KES	28,947,510,677	9,570,109,631	-66.94%
Foreign buy, KES	2,730,722,641	3,897,165,507	42.72%
Foreign sell, KES	4,014,495,709	4,943,046,786	23.13%
Net flows, KES	(1,283,773,068)	(1,045,881,279)	-18.53%
Bonds TO, KES	120,157,984,000	157,299,960,152	30.91%

During the month, Trans Century emerged as the top gainer, surging by 246%, from KES 0.39 to KES 1.35. Meanwhile, Africa Mega Agricorp PLC (AMAC) was the biggest loser, declining by 18.93%, from KES 70.00 to KES 56.75.

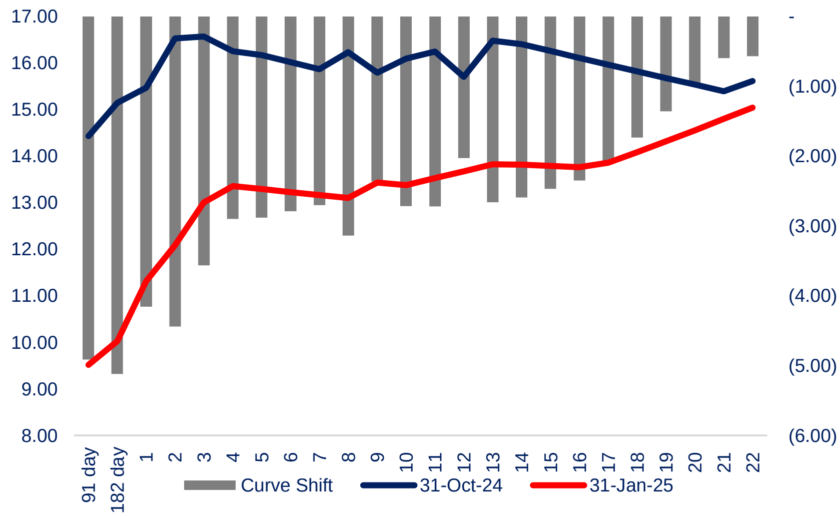
The surge in TCL was mainly driven by investor optimism after it returned to profitability in the 6 months to June 2024 to record a KES 375Mn net profit from a loss after tax of KES 1.7Bn in 2023.

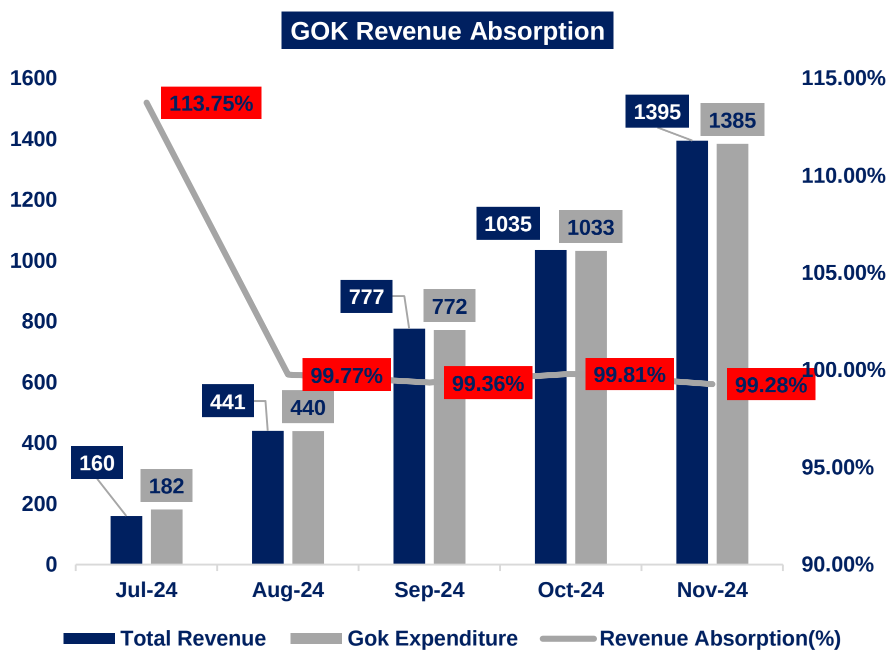
Africa Mega decline was majorly attributable to investor concerns about integration risks and uncertainty over future profitability following the Kenya Orchard's buyout despite posting a 259.0% return in 2024.



We anticipate a shift in foreign inflows as funds are redirected to the U.S. equities market. Consequently, increased domestic participation is expected, particularly in the resilient banking sector counters, as the market approaches the earnings reporting season.

9. Fixed Income – Yield Curve Developments





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Compared to October 2024, the yield curve has shifted downward by 200 basis points, driven by monetary policy easing and expectations of further rate cuts.

Yields on short-term instruments have declined significantly more than longer tenors, as the central bank continues to reject aggressive bidding. With this trend, we anticipate that liquidity will be redirected into broader economic sectors, driving investment and supporting overall economic growth.

During the month Gok re-opened two bond issues, FXD1/2018/15 and FXD1/2022/25 looking to raise KES.30Bn receiving bids worth KES 58.9Bn only accepting KES 48.41Bn

The government has been fully utilizing the collected revenues to fund its expenditure. Notably decreasing by 13.98% in August.

We expect the state to prioritize development expenditures over recurrent expenditures to boost productivity and spur economic growth. However this to be curtailed by the debt obligation locally and externally standing at KES 10,780Bn(Sept 2024**)

As per the Budget Policy Statement 2025 the Fiscal Deficit is expected to shrink slightly to KES 759.4Bn (3.9% of GDP) from KES 768.6Bn (4.3% of GDP) in the previous fiscal year.

With interest rates trending downward, investors are favoring longer-maturity instruments, as these bonds are expected to attract a premium in the secondary market as rates continue to decline. However, many investors are currently allocating funds to call deposits, strategically waiting for a favorable primary auction that aligns with their specific fund strategies.

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OAML Investments

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