

MONTHLY ECONOMIC REPORT - October 2021



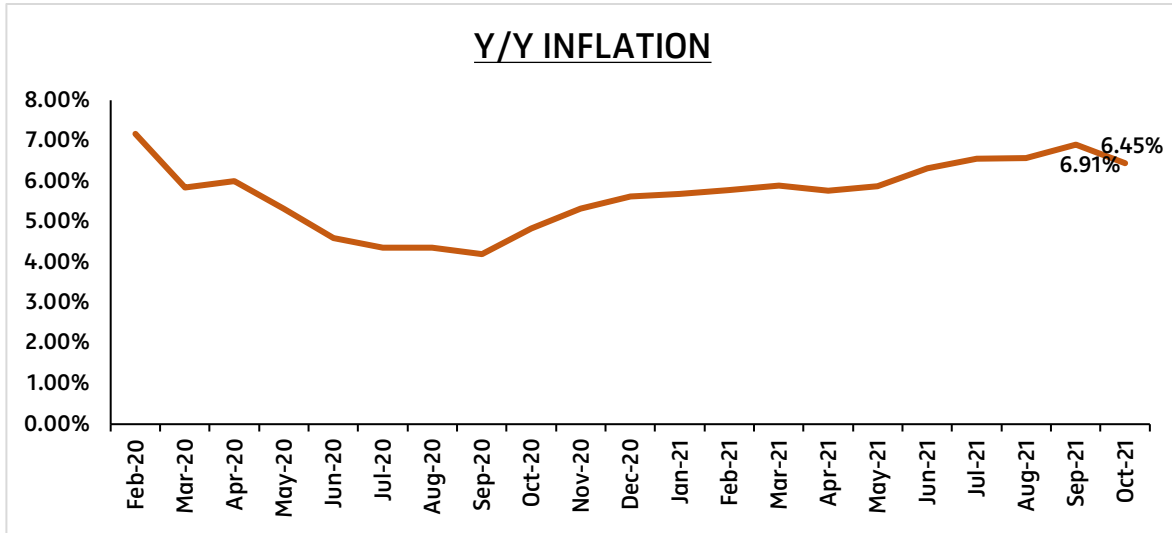
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MACROECONOMIC HIGHLIGHTS

Inflation:

Annual inflation for the month of October declined to 6.45%, from 6.91% recorded in September, being the first decline since April 2021. This was mainly driven by increases in prices of commodities under: food and non-alcoholic beverages (10.60%); transport (8.15%); and housing, water, electricity, gas and other fuels (5.80%) between October 2020 and October 2021.

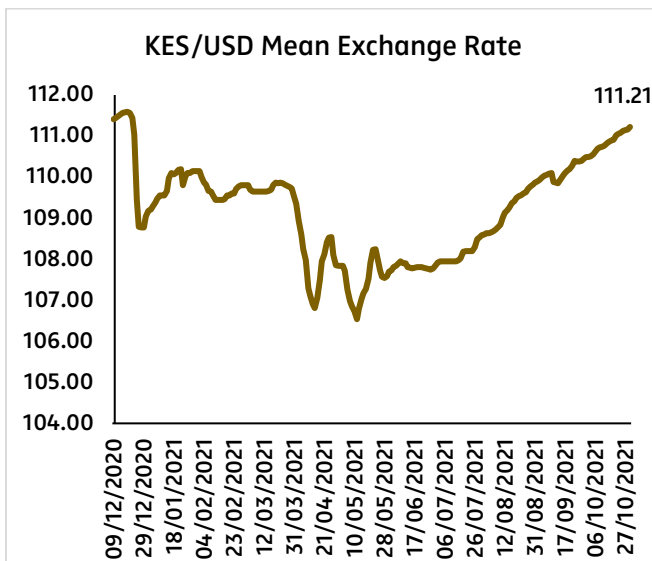
Month on month inflation came in at 0.51%, driven by a 1.11% increase in food & non-alcoholic beverages, coupled with a 0.67% increase in housing, water, electricity, gas and other fuels. Notably, the transport index was the only decliner month on month, declining by 0.35%, attributable to a drop in the price of petrol and diesel, which went down by 3.69% and 4.29%, respectively between September and October 2021.



Inflation Outlook: Inflation is expected to remain elevated in the short term on account of increased food prices due to the erratic weather conditions and increased global fuel prices.

Currency Performance:

The Kenya Shilling depreciated by 0.66% against the US Dollar in October to close the month at Kshs 111.21, from Kshs 110.49 recorded at the end of September 2021, mainly attributable to increased dollar demand from energy and merchandise importers. On a YTD basis, the shilling has depreciated by 1.87% and 3.07% against the US dollar and Pound Sterling, respectively. It has however appreciated by 3.60% against the Euro.



Performance against major global currencies					
Currencies	Dec 2020 (vs KES)	30 Sep 2021	29 Oct 2021	m/m Δ	YTD Δ
USD	109.17	110.49	111.21	(0.66%)	(1.87%)
EUR	133.90	129.01	129.08	(0.06%)	3.60%
GBP	148.40	149.64	152.96	(2.22%)	(3.07%)

Currency Outlook: Kenya's current account has proven resilient notwithstanding the COVID 19 shock, improving to a deficit of Kshs.491.7 bn in 2020 from a deficit of Kshs.539.2 bn recorded in 2019. Exports of goods have remained strong, growing by 11.5% in the period January to August 2021 compared to a similar period in 2020. Receipts from tourism and transport services have also improved due to easing of travel restrictions, while remittances have remained robust rising by 18.8% y/y to USD 309.8 mn in September 2021. Pressure on the currency is however expected to remain, attributable to the high oil imports bill following the continued rise in global crude oil prices on the back of supply constraints at a time when demand is picking up due to easing of COVID-19 restrictions and as economies continue to reopen.

FIXED INCOME HIGHLIGHTS

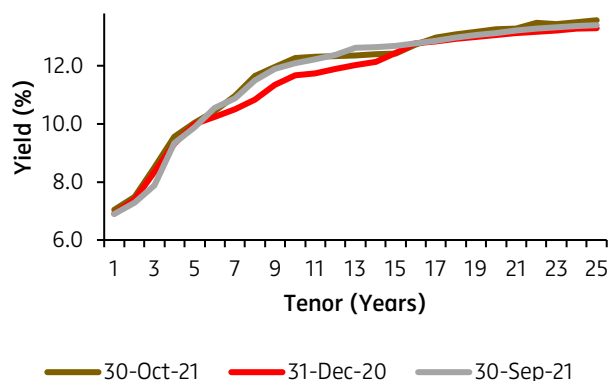
During the month of October, T-bills recorded an undersubscription, with the overall subscription rate coming in at 57.9%, down from 67.3% recorded in September 2021, mainly attributable to the tightened liquidity in the money market. The 91-day, 182-day and 364-day T-bills closed the month at yields of 7.0%, 7.4% and 8.1%, respectively.

In the Primary Bond Market, the government re-opened three bonds namely; FXD1/2013/15, FXD1/2019/15 and FXD1/2021/25, which recorded an overall a subscription rate of 92.5%. The government sought to raise Kshs 60.0 bn for budgetary support, received bids worth Kshs 55.5 bn and accepted bids worth Kshs 52.0 bn, translating to an acceptance rate of 93.8%. The longer-tenure issue i.e. FXD1/2021/25, received more interest from the market, with total bids coming in at Kshs 28.7 bn, representing 51.7% of the total bids received from the entire issue.

The coupons for the three bonds were; **11.3%, 12.3% and 13.9%**, and the weighted average yield rates during the issue were; **11.9%, 12.8% and 13.8%**, for FXD1/2013/15, FXD1/2019/15 and FXD1/2021/25, respectively.

The yield curve on the other hand recorded an upward readjustment in the short and tail end, during the month of October which saw the FTSE NSE bond index declining by 0.1%, to close the month at Kshs 96.7, bringing the YTD performance to a decline of 1.3%. The secondary bond turnover edged down by 44.5% to Kshs 63.6 bn, from Kshs 114.7 bn recorded in September.

Yield Curve (%)



Tenor	31-Dec-20	31-Aug-21	30-Sep-21	YTD Δ (% Points)	m/m Δ (% Points)
91-day	6.9%	6.9%	7.0%	0.1%	0.1%
1yr	8.3%	7.9%	8.5%	0.1%	0.6%
2Yr	9.3%	9.5%	9.6%	0.2%	0.1%
5Yr	10.5%	10.9%	11.0%	0.5%	0.1%
10Yr	11.9%	12.3%	12.3%	0.5%	0.0%
15Yr	12.8%	12.9%	13.0%	0.1%	0.1%
20Yr	13.2%	13.3%	13.5%	0.3%	0.2%
23Yr	13.3%	13.4%	13.6%	0.3%	0.1%
25Yr	-	13.5%	13.7%	-	0.2%

Fixed Income Outlook: There has been a notable Improvement in revenue collections in the current financial year. Revenue collections overshot the government's prorated estimates in the first three months of the FY 2021/2022, by 4.04% to close at Kshs 463.50 bn. Despite this, rising expenditure pressures consistent with the government's efforts to stimulate growth, coupled with debt service requirements could sustain wide deficits and as such we expect Interest rates to continue picking up as debt pressure builds following increased fiscal needs in the medium-term.

EQUITIES MARKET PERFORMANCE

The equities market was on a downward trajectory in October, which saw the NSE 20, NSE 25, and NASI declining by 3.44%, 1.61% and 0.20%, respectively. The equities market performance was driven by declines recorded by banking counters such as NCBA, Co-operative Bank, KCB and Diamond Trust Bank of 7.31%, 6.37%, 5.99% and 5.62%, respectively.

Equities turnover rose by 1.29% in October to Kshs 10.27 bn, from Kshs 10.14 bn recorded in September 2021. Foreign investors remained net sellers with a net selling position of Kshs 1.0 bn from a net selling position of Kshs 1.3 bn in September.

Indicator	30-Sep -2021	29-Oct-2021	% Δ
NASI	178.31	177.96	(0.20%)
NSE-20	2,031.17	1,961.33	(3.44%)
NSE-25	3,914.52	3,851.67	(1.61%)
Mkt cap, KES Bn	2,778.647	2,777.066	(0.06%)
Shares traded	312,968,600	263,857,600	(15.69%)
Equities TO, KES	10,140,352,872	10,271,431,616	1.29%

Security	Top Gainers		
	30-Sep -2021	29-Oct-2021	% Δ
Crown Paints Kenya Plc	27.15	32.00	17.86%
Limuru Tea Plc	300.00	330.00	10.00%
Olympia Capital Holdings	1.88	2.00	6.38%
Car and General	34.00	36.00	5.88%
TPS Eastern Africa (Serena)	15.35	16.00	4.23%

Security	Top Losers		
	30-Sep -2021	29-Oct-2021	% Δ
Nairobi Business Ventures	6.84	5.04	(26.32%)
East African Cables	1.53	1.28	(16.34%)
CIC Insurance Group Ltd	2.98	2.56	(14.09%)
Eveready East Africa	1.16	1.00	(13.79%)
Nation Media Group Plc	23.05	20.70	(11.35%)

Equities Outlook: We expect the broad-based improvement in stock prices during the year to slow in the near to medium term as we approach the election year linked to profit-taking. Nevertheless, the government's vaccination program and the continued relaxation of lockdown measures could further boost private sector performance as well as investor sentiment providing support to the market. Pockets of value however exist in several counters currently trading at discounts to their intrinsic value and median sector multiples despite exhibiting strong earnings growth.



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Natbank Trustee and Investment Services Ltd (A wholly owned subsidiary of the National Bank of Kenya). 13th Floor, National Bank Building, Harambee Avenue, Nairobi. P.O. Box 72866-00200 Email: ntislstaff@nationalbank.co.ke; Tel: 020 - 2828356; 8357;8252, 8692, Esther Kariuki -0723565743; David Gitau- 0727808484