Macro-Economic Highlights

June 2024

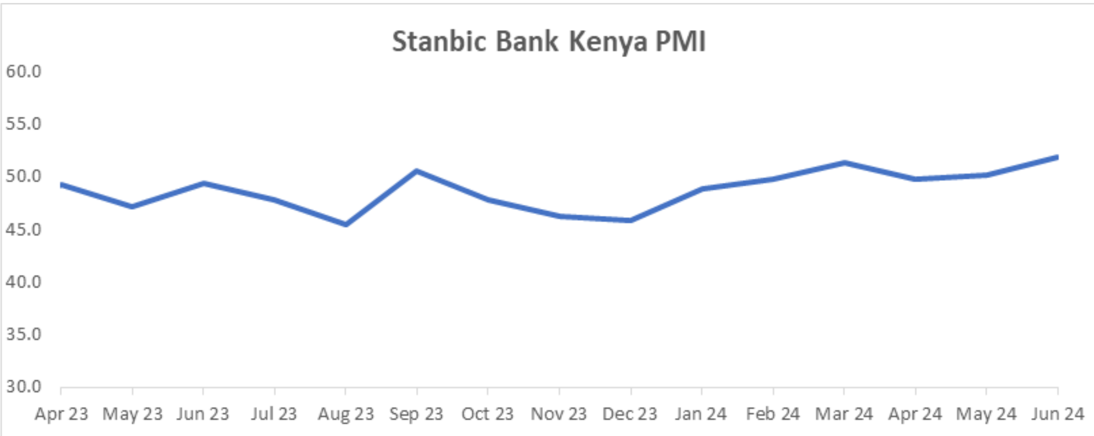
For a Better Tomorrow

Purchasing Managers' Index

The Stanbic Bank Kenya PMI fell to 47.2 in June 2024, down from a sixteen-month high of 51.8 in the previous month. This marked the sharpest decline since November 2023, indicating a significant deterioration in the Kenyan private sector.

Business activity sharply dropped amid widespread economic challenges, with protests and policy uncertainty negatively impacted sales. Moreover, purchasing activity fell for the first time in three months, reducing input inventories modestly, with employment growth slowing to its weakest this year. On the price front, input prices rose for the first time in three months, due to higher product taxes, despite lower fuel costs and favorable exchange rates affecting imports. With mild cost pressures, firms saw only a slight increase in their output prices in June.

Lastly, businesses retained confidence in future activity, albeit slightly lower than April's 13-month high, with growth plans including branch expansions, vehicle purchases, and increased marketing spending.



Monetary Policy Committee Meeting

The Monetary Policy Committee (MPC) met on June 5, 2024, against a backdrop of an improved global outlook for growth, continued stickiness in inflation in advanced economies, and persistent geopolitical tensions. The MPC reviewed the outcomes of its previous decisions and measures implemented to anchor inflationary expectations and contain exchange rate pressures.

The MPC noted:

- Global growth continues to recover, supported by stronger than expected growth in the United States, and resilient growth in some large emerging market economies, particularly India. The main risks to the global growth outlook relate to further escalation of geopolitical tensions and interest rates remaining higher for longer. Global inflation has moderated, but some stickiness has persisted in the advanced economies. Food inflation has continued to decline with improved supply of key food items, particularly sugar and cereals. International oil prices have moderated, due to reduced risk premium from the Middle East conflict and improved supply by non-OPEC+ oil producers. However, freight costs have remained high on account of longer transits by shippers to avoid possible attacks on vessels in the Red Sea

- Kenya's overall inflation remained broadly unchanged at 5.1% in May 2024, compared to 5.0% in April, which is the mid-point of the target range. Food inflation stood at 6.2% in May compared to 5.6% in April. Prices of key non-vegetable food items, particularly maize, sugar, and wheat flour declined following improved supply. Fuel inflation declined to 7.8% in May from 8.3% in April, partly reflecting a downward adjustment in pump prices and lower electricity prices. Non-food non-fuel (NFNF) inflation eased to 3.4% in May from 3.6% in April, reflecting the impact of monetary policy measures.

- Inflation is expected to remain stable around the mid-point of the target range in the near term, supported by the stable exchange rate, improved food supply attributed to favourable weather conditions, stable fuel prices, and the impact of monetary policy actions which continue to filter through the economy.

- The recently released Economic Survey 2024 shows that the Kenyan economy recorded strong growth in 2023, supported by robust performance of the agriculture and service sectors. Real GDP grew by 5.6% from a revised growth of 4.9% in 2022, largely driven by the rebound in agriculture, and robust performance of the services sector, particularly transport and storage, financial and insurance, information and communication, accommodation and food services, and real estate. Leading indicators point to continued strong economic performance in the first quarter of 2024. Despite the recent flooding in some parts of the country, the economy is expected to remain strong in 2024, supported by the resilient services sector, robust performance of agriculture sector, and continued implementation of Government measures to boost economic activity across priority sectors.

- The May 2024 Agriculture Sector Survey shows that majority of respondents expect inflation to either remain unchanged or decrease in the next three months, on account of expected increase in food supply following favourable weather conditions, stability of the exchange rate, and easing fuel prices.

- The CEOs Survey and Market Perceptions Survey which were conducted ahead of the MPC meeting revealed sustained optimism about business activity and economic growth prospects for the next 12 months. The optimism was attributed to expected continued good performance of agriculture, resilient services sectors, and a stable macroeconomic environment. Nonetheless, respondents expressed concerns about fiscal policy measures, high interest rates, and potential impact of geopolitical risks on the economy.

- The current account deficit is estimated at 4.1% of GDP in the 12 months to April 2024, down from 4.8% of GDP in a similar period of 2023, and is projected at 4.0% of GDP in 2024. Goods exports increased by 2.9% in the 12 months to April 2024 compared to a similar period in 2023, reflecting increased exports of agricultural commodities and re-exports. Notably, exports were 15.2% higher in the first four months of 2024 compared to a similar period in 2023.

- The CBK foreign exchange reserves, which currently stand at USD 6,979 million (3.63 months of import cover), continue to provide adequate cover and a buffer against any short-term shocks in the foreign exchange market.

- The banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to gross loans stood at 16.1% in April 2024 compared to 15.5% in February. Increases in NPLs were noted in the agriculture, real estate, tourism, restaurant and hotels, trade and building and construction sectors. Banks have continued to make adequate provisions for the NPLs.

- Growth in commercial bank lending to the private sector stood at 6.6% in April 2024 compared to 7.9% in March, partly reflecting exchange rate valuation effects on foreign currency denominated loans following the appreciation of the Shilling. Growth in local currency denominated loans stood at 14.3% in April, with foreign currency denominated loans which account for about 26% of total loans, contracting by 14.2%.

- The MPC noted that the new monetary policy implementation framework adopted on August 9, 2023, has resulted in improved functioning of the interbank market, narrower interest rate spreads with reduced market segmentation, and improved monetary policy transmission. To enhance the effectiveness of the monetary policy implementation framework, the MPC considered and approved a recommendation to review the width of the interest rate corridor around the Central Bank Rate (CBR) from the current ±250 basis points to ±150 basis points. In line with this review, the Committee also approved a recommendation to adjust the applicable interest rate on the Discount Window from the current 400 basis points above CBR, to 300 basis points. C2: CBK - Official

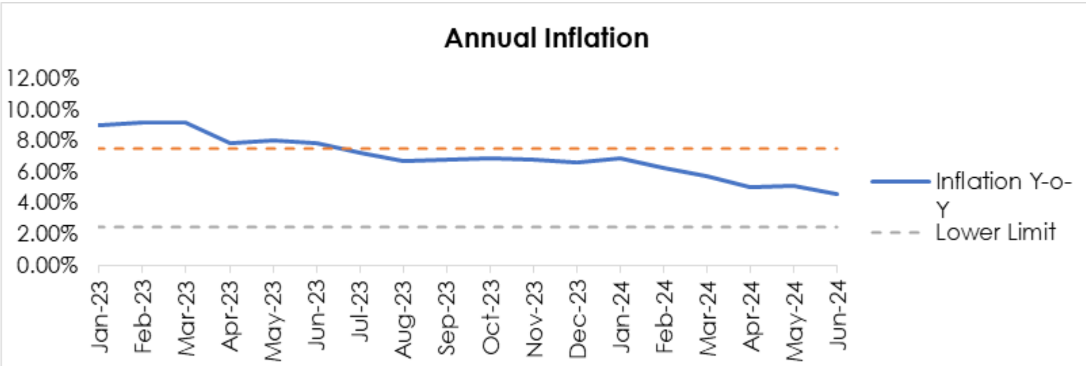
- The MPC noted that its previous measures have lowered overall inflation to the mid-point of the target range, stabilized the exchange rate, and anchored inflationary expectations. The Committee further noted that the NFNF inflation has remained sticky in the recent months, and that interest rates in the major economies are expected to remain higher-for-longer due to the stickiness of inflation. The MPC concluded that the current monetary policy stance will ensure that overall inflation remains stable around the mid-point of the target range in the near term, while ensuring continued stability in the exchange rate. Therefore, the Committee decided to retain the Central Bank Rate (CBR) at 13.00%.

- The MPC will closely monitor the impact of the policy measures as well as developments in the global and domestic economy and stands ready to take further action as necessary in line with its mandate. The Committee will meet again in August 2024.

Inflation

- Inflation dropped to 4.6% in June from 5.1% in May 2024. June's inflation rate represents the weakest inflation rate since September 2020. The slowdown was broad-based, with moderating price pressures for food and non-alcoholic beverages, housing and transportation.

- Accordingly, the trend pointed down, with annual average inflation coming in at 6.2% in June as compared to 6.5% in May. Lastly, consumer prices rose 0.42% in June over the previous month, below the 0.90% rise seen in May. Looking ahead, the annual inflation rate is expected to remain stable and within the midpoint of CBK's target range supported by stability in food prices and aided by declining fuel prices globally.

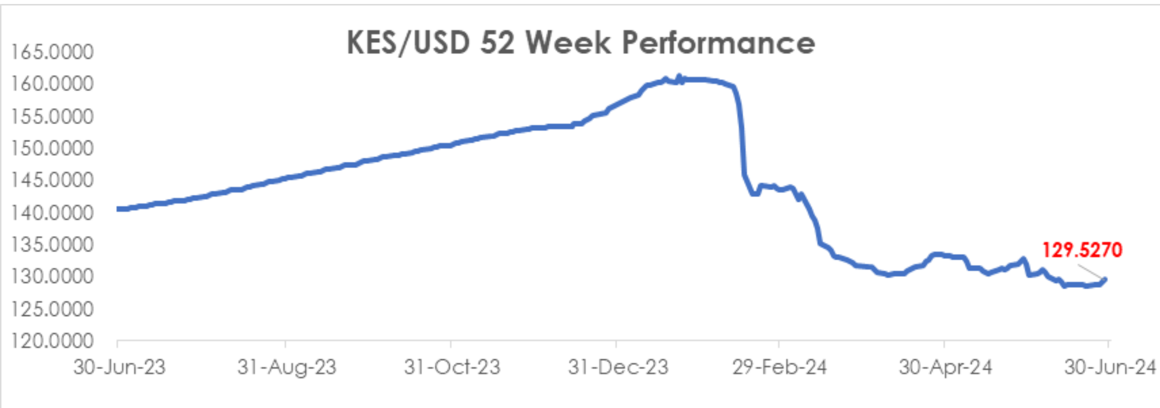


(Source: KNBS, OMIG Research)

Foreign Exchange Market

In the month of June, the Kenya Shilling appreciated by 0.54% against the US Dollar, closing the month at KES 129.5270 from KES 130.2333 recorded at the end of May. Year to date, the Kenya Shilling has shown significant strength having gained by 17.21 YTD as of end of June, while compared to the full year 2023 in which we saw the shilling depreciate by -9.04% closing at KES 156.46.

The trend of the KSH over the past couple of months signifies favourable development, suggestive of potential stability. This stability is expected to be supported by continued intervention by CBK through Open Market Operations, diaspora remittances, inflows from tourism and multilateral lenders.



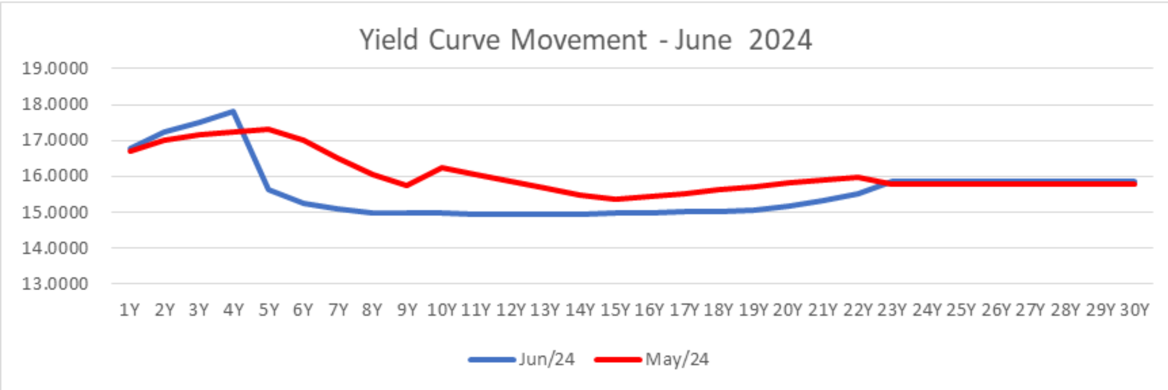
(Source: KNBS, OMIG Research)

Yields and Yield Curve

T-Bonds

The yield curve had notable shifts across the tenor on account of primary issues in the month.

The S&P Kenya Sovereign Bond Index registered a positive performance in June of 1.63%. The YTD performance in 2024 as at end of June was 9.86%. The 2023 performance for the index was 1.54% while the full year performance in 2022 was 7.77%.



(Source: NSE, OMIG Research)

See below the yields of bonds across the various years.

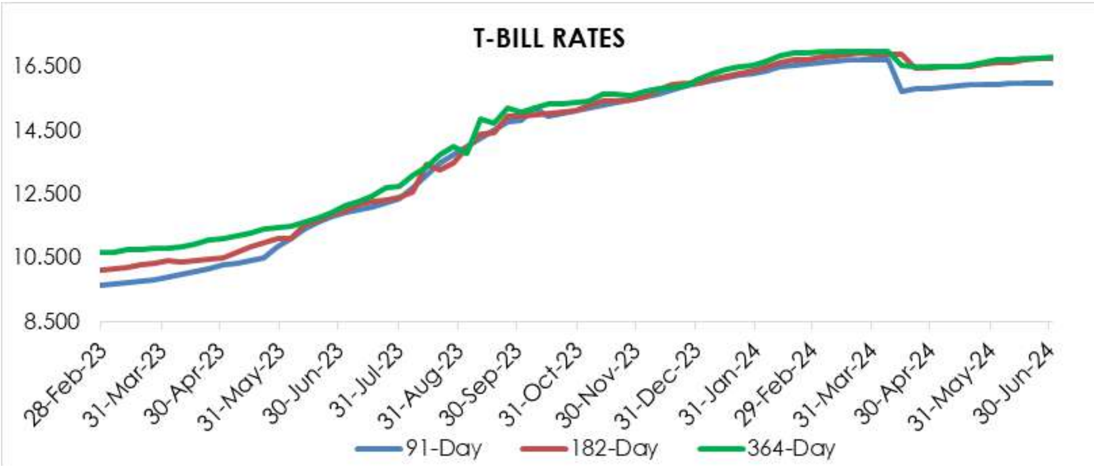
Tenor	June 24	June 23	June 22	June 21
1Y	16.7911	12.157	9.974	7.729
2Y	17.2423	13.7576	11.5572	9.426
3Y	17.4892	14.244	11.8846	10.263
5Y	15.6512	14.3588	12.2933	11.0934
7Y	15.1092	14.581	12.9981	11.904
10Y	14.9767	14.7681	13.5941	12.3369
15Y	14.9702	14.7582	13.8762	12.8828
20Y	15.1852	14.6129	13.9231	13.3015
25Y	15.8795	15.05	13.93	13.5316

(Source: NSE, OMIG Research)

T-Bills

The overall subscription rates for the 91-day,182-day and 364-day papers were at 278.82%, 106.95% and 94.02% as compared to 236.01%, 72.77% and 105.71% recorded in May 2024.

The average yields on the 91-day, 182-day and 364-day government papers at closed the Month of June at 15.97%, 16.74% and 16.75% respectively. Yields on treasury bills remained elevated in the month of June with the largest rise being in the 182-day paper with a 15.60bps M/M change compared 2.20bps for the 91 Day and 8.50bps for the 365 Day this being driven by increased demand. High subscription rates were recorded underpinning demand for short term papers as investors looked to mitigate duration risk.

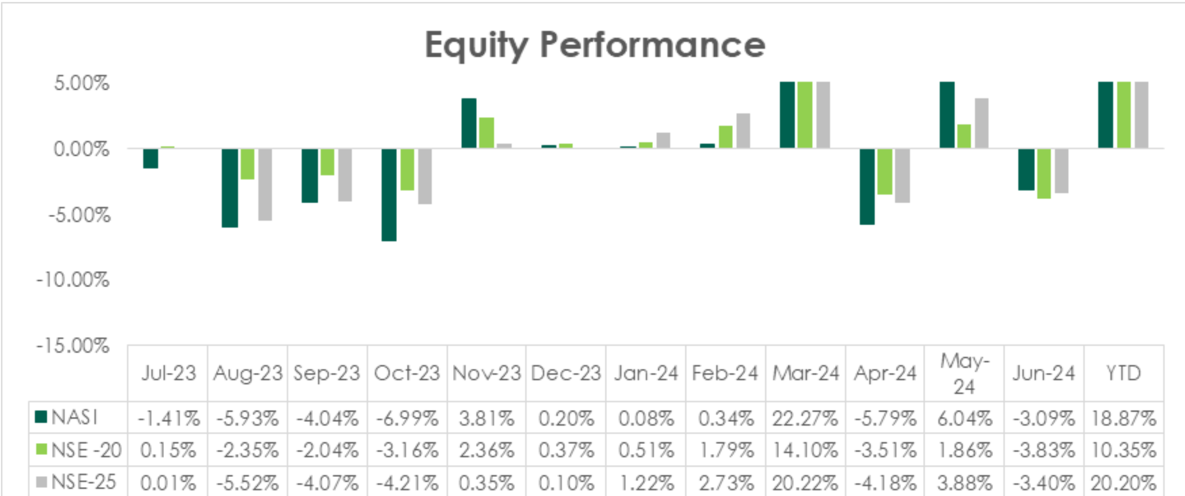


(Source: NSE, OMIG Research)

Equities Market Performance

During the month of June, the stock market recorded reduced market activity, with the All-share Index down by 3.09% to close at 109.49 while NSE-20 and NSE-25 went down by 3.83% and 3.44% respectively down from the previous 1.86% and 3.88% that was recorded in May 2024. Foreign investors accounted for 43% of the market participation and recorded net buys of KES 419Mn from net sales of KES 1.5Bn in May.

The top gainers in June included BK Group, B.O.C Kenya Plc, Willaimson Tea, I&M Bank recording gains of 13.56%, 8.18% and 6.42% respectively. On the other hand, the top decliners in June were Kenya Re, EA Portland and Trans-century PLC recording losses of 40.59%, 29.72% and 21.15% respectively.



(Source: NSE, OMIG Research)

Stock	Market Weight	May Performance
Safaricom Plc Ord 0.05	40.52%	-3.35%
Equity Group Holdings Plc Ord 0.50	9.32%	-2.87%
East African Breweries Plc Ord 2.00	6.78%	-7.12%
KCB Group Plc Ord 1.00	5.87%	-12.10%
ABSA Bank Kenya Plc Ord 0.50	4.45%	1.82%
The Co-operative Bank of Kenya Ltd Ord 1.00	4.36%	-5.93%
Standard Chartered Bank Kenya Ltd Ord 5.00	4.29%	4.02%
NCBA Group Plc Ord 5.00	3.96%	-2.14%
Stanbic Holdings Plc ord.5.00	2.64%	3.63%
I&M Group Plc Ord 1.00	2.08%	6.42%

(Source: NSE, OMIG Research)

The table below shows the price performance of top gainers and losers.

June 2024 top Gainers vs Loser

Top 5	June Performance
Express Kenya Plc Ord 5.00AIMS	13.78%
BK Group Plc Ord 0.80	13.56%
Williamson Tea Kenya Ltd Ord 5.00 AIM	8.18%
I&M Group Plc Ord 1.00	6.42%
Britam Holdings Plc Ord 0.10	5.59%

Bottom 5	June Performance
Kenya Re Insurance Corporation Ltd Ord 2.50	-40.59%
E.A. Portland Cement Co. Ltd Ord 5.00	-29.72%
Trans-Century Plc Ord 0.50AIMS	-21.15%
Uchumi Supermarket Plc Ord 5.00	-18.18%
Nation Media Group Plc Ord. 2.50	-15.50%

(Source: NSE, OMIG Research)

Enwealth

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