

Macro-Economic Highlights

November 2024



Kenya Economic update

World Bank: Kenya's economy is forecast to grow at an average rate of 5.2% between 2024 and 2026, primarily fuelled by a revitalized private sector as business confidence improves and the public sector activity scales back. Growth is also anticipated to benefit from the recent implementation of trade agreements under the European Union Economic Partnership Agreement and the African Continental Free Trade Area (AFCTA). Despite the positive outlook, significant uncertainties remain. Failure to meet fiscal consolidation targets could heighten Kenya's debt vulnerabilities, especially given the significant debt servicing obligations. Additionally, climate-related risks could reignite inflationary pressures and worsen food insecurity, potentially hampering growth. Slower-than-expected economic performance in developed countries could undermine Kenya's recovery in tourism and exports.

Monetary Policy Committee Meeting (MPC)

The Committee met on December 5th 2024, and noted that:

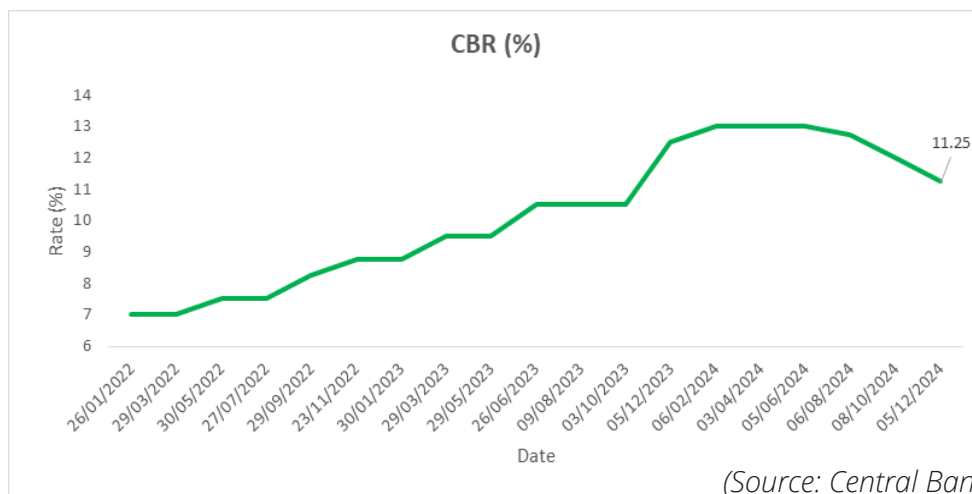
- Global economic growth is recovering, with projections of 3.2% for 2024 and 2025, driven by strong performance in the U.S, India, and improved expectations in the U.K. However, the forecast faces risks from escalating

geopolitical conflicts, particularly in the Middle East and the Russia-Ukraine war. While global inflation is declining, major central banks are expected to continue gradually lowering interest rates. International oil prices have stabilized, but volatility may increase due to geopolitical tensions, and food inflation is rising, mainly due to higher edible oil prices.

- Kenya's inflation rate remained stable at 2.8% in November 2024, up slightly from 2.7% in October, and remains within the target range of 2.5% - 7.5%. Food inflation rose slightly to 4.5% from 4.3%, driven by higher prices for certain non-vegetable items like cooking oil. Fuel inflation improved slightly to -1.6% from -1.7%, owing to lower electricity and fuel pump prices. Non-food non-fuel inflation decreased to 3.2% from 3.3%, reflecting subdued demand. Overall, inflation is expected to stay below the target midpoint, supported by lower food prices from good harvests, decreased fuel costs, and a stable exchange rate.
- In the first half of 2024, Kenya's economy slowed, with real GDP growth averaging 4.8%, down from 5.5% in the same period of 2023. This decline was mainly due to reduced growth in various sectors. The projected growth rates are 5.1% for 2024 and 5.5% for 2025, supported by strong service

sectors, agriculture, and increased exports. However, the outlook is still at risk from domestic and external factors.

- The foreign exchange reserves held by the Central Bank of Kenya (CBK), currently amounting to USD 8,966 million, equivalent to 4.57 months of import coverage, remain sufficient to offer protection and serve as a safeguard against potential short-term fluctuations in the foreign exchange market.
- The banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios. As of October 2024, the gross non-performing loans (NPL) ratio was 16.5%, down from 16.7% in August, with notable reductions in the manufacturing, energy, financial services, and agriculture sectors. Banks also have adequate provisions for NPLs.
- In October 2024, commercial banks' lending to the private sector showed little change from the previous year, partly due to the Shilling's appreciation affecting foreign currency loans. A decline in loan demand was also linked to high interest rates. Local currency loans grew by 4.0%, while foreign currency loans, making up about 26% of the total portfolio, contracted by 11.8%.
- The Monetary Policy Committee (MPC) expects inflation to stay below the target midpoint in the short term, supported by low fuel prices, stable food costs, and a steady exchange rate. NFNF inflation has decreased and is projected to remain stable. Major central banks are also lowering interest rates, with further reductions anticipated. The MPC noted a slowdown in economic growth in early 2024, indicating room for monetary policy easing to boost activity while maintaining exchange rate stability. As a result, the Committee decided to lower the Central Bank Rate (CBR) from 12.00% to 11.25%.



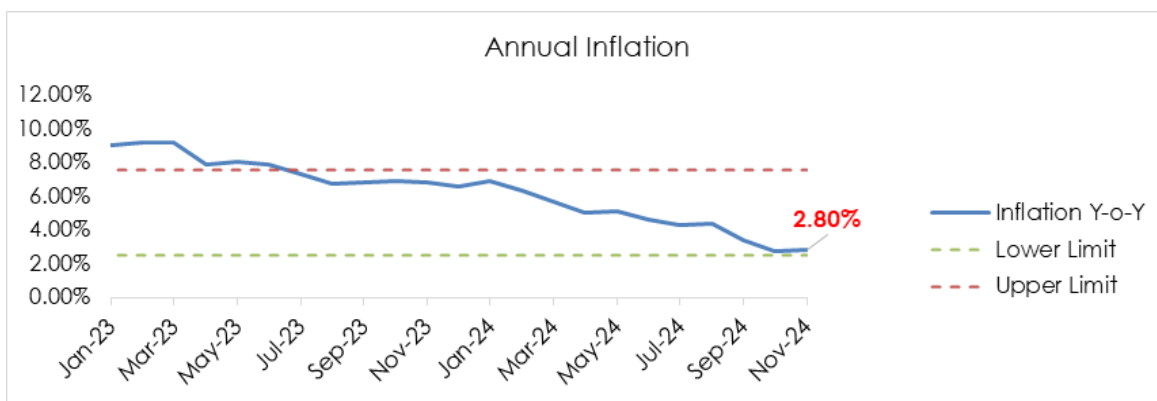
(Source: Central Bank of Kenya)

- Additionally, the Committee observed a significant drop in short-term government security rates, in line with the CBR. The Monetary Policy Committee (MPC) urges banks to lower their lending rates to improve credit availability for the private sector and boost economic activity.

The Committee will monitor policy impacts and economic developments. It shall reconvene in December 2024.

Inflation

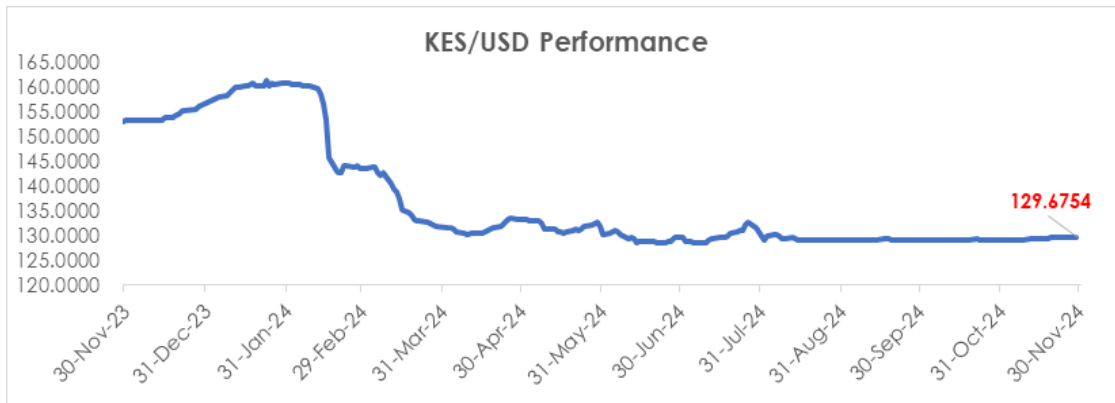
Kenya’s annual increased marginally in November to 2.8% from 2.7% in October. On a month-on-month basis, the food index, which constitutes roughly a third of the basket, increased by 4.5% compared to November last year. Housing, Water, Electricity, Gas and Other Fuels increased by 0.1% while Transport costs declined by 1.1%. Inflation is expected to remain within the CBK target band of 7.5% - 2.5%.



(Source: KNBS, OMIG Research)

Foreign Exchange Market

The Shilling weakened slightly against the US Dollar in November, closing the month at KES 129.77 from KES 129.20 recorded at the end of October. Year to date, the Kenya Shilling has gained 17.1% on the US dollar. The shilling has shown considerable yet unexpected stability in the previous months despite the civil and economic turbulence experienced. We expect the shilling to maintain its stability in the coming months with the IMF expected to disburse KES 78.2Bn to Kenya. This will facilitate the upcoming foreign interest payments.



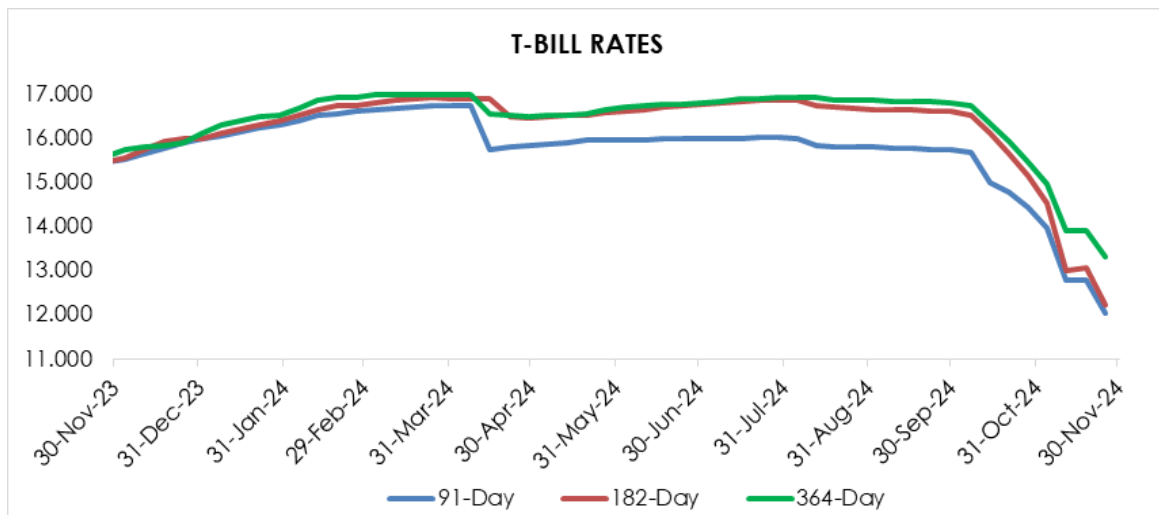
(Source: CBK, OMIG Research)

Yields and Yield Curve

Treasury Bills

In November, T-bills remained oversubscribed with increased allocation towards the 364-day paper in response to a decline on the interest rates.

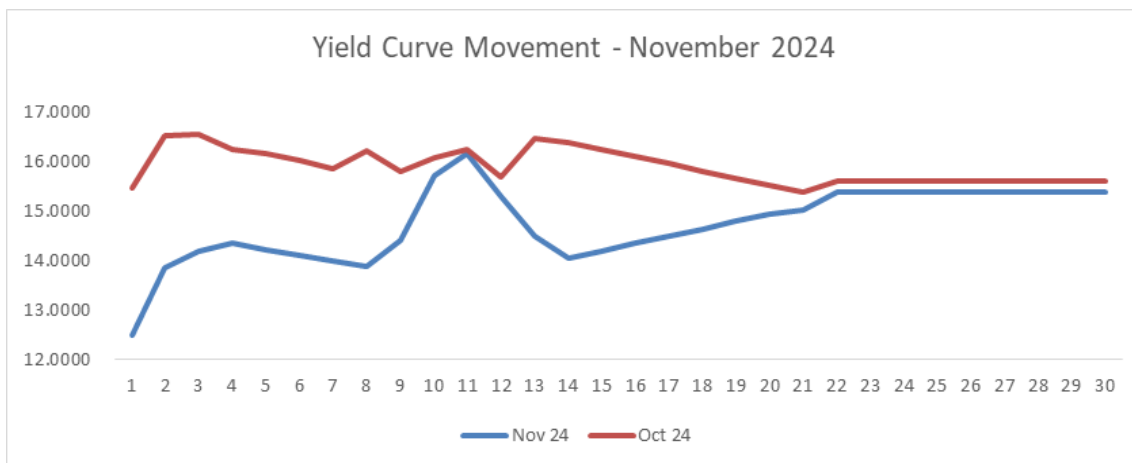
The 91-day T-bill closed the month of November at 12.03%, the 182-day T-bill at 12.21% and the 364-day T-bill at 13.29%.



(Source: CBK, OMIG Research)

Treasury Bonds

The yield curve registered a general downward shift with the short- and medium-term bands experiencing the most significant drops. The government is likely to continue rejecting aggressive bids in primary bond auctions, as it seeks to manage interest rate costs, while lengthening the average domestic debt maturity. We expect rates to however, remain in double digits in the short term.

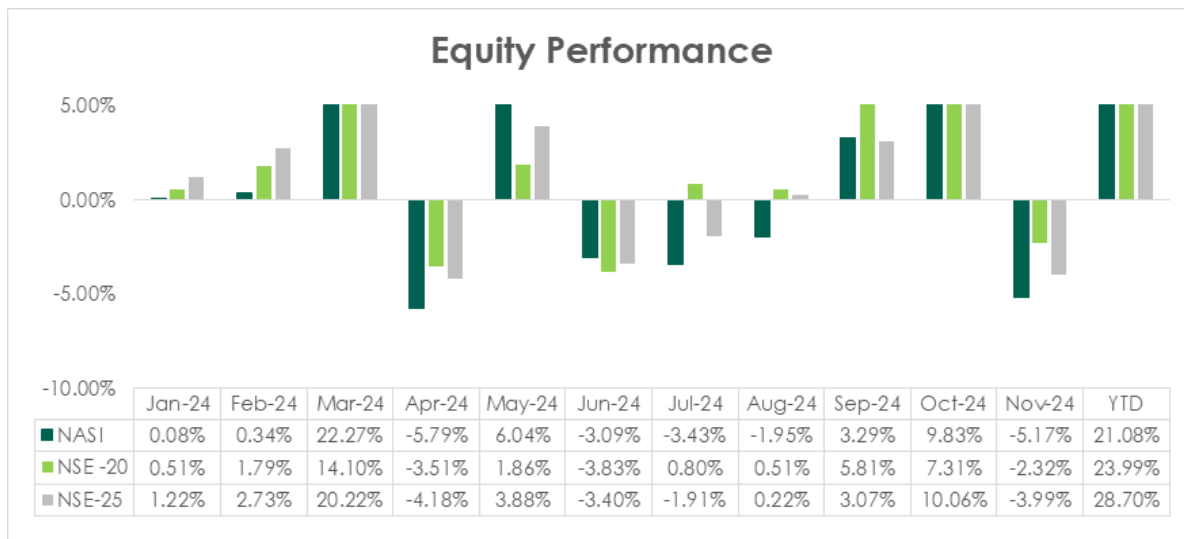


(Source: NSE, OMIG Research)

Equities Market Performance

The indices registered significant positive performance with NASI recording a performance of 9.8% driven by gains in the large cap stocks such as Safaricom (11.7%), Equity (7.9%), EABL (18.3%), KCB (10.9%) & Standard Chartered (10.5%).

The banking sector has in general recorded significant gains on a YTD basis, with a significant size outperforming the NASI index.



(Source: NSE, OMIG Research)

Top & Bottom 5 equity stocks performance

Top 5 Stock	Nov Performance
Uchumi Supermarket Plc Ord 5.00	16.67%
TPS Eastern Africa Ltd Ord 1.00	11.81%
B.O.C Kenya Plc Ord 5.00	11.25%
Sameer Africa Plc Ord 5.00	11.01%
Trans-Century Plc Ord 0.50AIMS	8.11%

Bottom 5 Stock	Nov Performance
Sanlam Kenya Plc Ord 5.00	-23.65%
WPP Scangroup Plc Ord 1.00	-19.52%
Carbacid Investments Ltd Ord 1.00	-17.51%
Nation Media Group Plc Ord. 2.50	-15.25%
Standard Group Plc Ord 5.00	-14.55%

Top 10 (by market weight) returns

Stock	Market Weight	August Performance
Safaricom Plc Ord 0.05	34.42%	-10.45%
Equity Group Holdings Plc Ord 0.50	9.73%	-4.86%
East African Breweries Plc Ord 2.00	7.51%	-9.43%
KCB Group Plc Ord 1.00	7.07%	-0.26%
Standard Chartered Bank Kenya Ltd Ord 5.00	5.26%	4.85%

Stock	Market Weight	August Performance
ABSA Bank Kenya Plc Ord 0.50	4.65%	-2.29%
The Co-operative Bank of Kenya Ltd Ord 1.00	4.64%	-2.13%
NCBA Group Plc Ord 5.00	4.07%	-2.04%
Stanbic Holdings Plc ord.5.00	2.94%	0.78%
I&M Group Plc Ord 1.00	2.85%	7.12%

(Source: NSE, OMIG Research)

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Source: Old Mutual Research



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