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Macro-Economic Highlights

October 2024

For a Better Tomorrow

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)

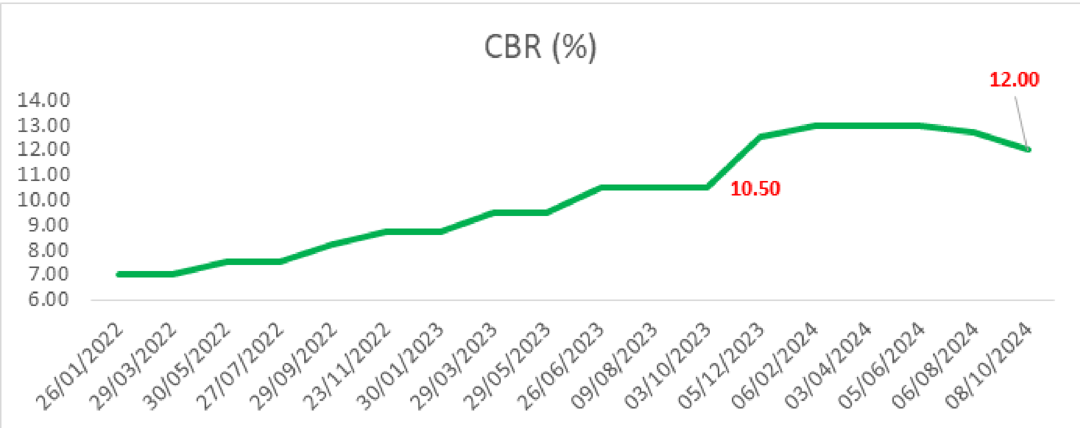
The Committee met on October 8th, 2024; it noted that:

- Global economic recovery supported by strong performance in key economies such as the U.S., India, and improved prospects in the U.K. However, geopolitical tensions, particularly in the Middle East, pose significant risks.
- Global inflation is easing, prompting major central banks, including the U.S. Federal Reserve, to lower interest rates. While international oil prices have moderated, risks remain elevated due to regional conflicts. Food inflation has slightly increased, mainly due to higher edible oil prices.
- Kenya's GDP growth slowed to 4.6% in Q2 2024, down from 5.6% in Q2 2023, due to a broad deceleration across sectors, consequently, the 2024 growth projection was revised down to 5.1% from 5.4%. Growth remains supported by resilient service sectors, strong agricultural performance, and improved exports, but faces a critical risk from potential geopolitical events.
- Kenya's banking sector remains stable and resilient, with strong liquidity and capital adequacy. Non-performing loans (NPLs) rose slightly to 16.7% in August 2024 from 16.3% in June, with increases observed in transport, personal, trade, real estate, and manufacturing sectors. Global inflation has declined, and Central Banks have begun easing interest rates.
- Kenya's inflation dropped to 3.6% in September 2024 from 4.4% in August. Food inflation eased to 5.1% due to lower vegetable prices, while fuel inflation fell to 1.1%, driven by reduced electricity and pump prices. Non-food, non-fuel (NFNF) inflation also

decreased slightly to 3.4%, reflecting earlier monetary policy tightening. Inflation is expected to remain low in the near term, supported by improved food supplies, a stable exchange rate, and steady fuel prices. The MPC observed a continued decline in inflation, expected to stay below the target midpoint due to improved food supply, a stable exchange rate, and lower fuel costs. Non-food, non-fuel (NFNF) inflation has also moderated, while global central banks are lowering interest rates in response to easing inflation.

- Recognizing a slowdown in private sector credit growth and Q2 2024 economic performance, the MPC opted to reduce the Central Bank Rate (CBR) to 12.00% from 12.75%. In order to stimulate economic activity while maintaining exchange rate stability.

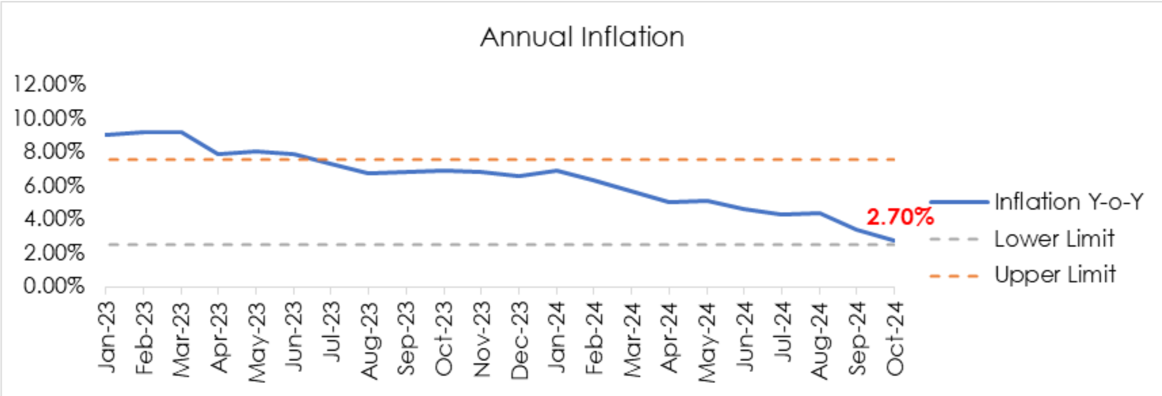
The Committee will monitor policy impacts and economic developments. It shall reconvene in December 2024.



(Source: Central Bank of Kenya)

Inflation

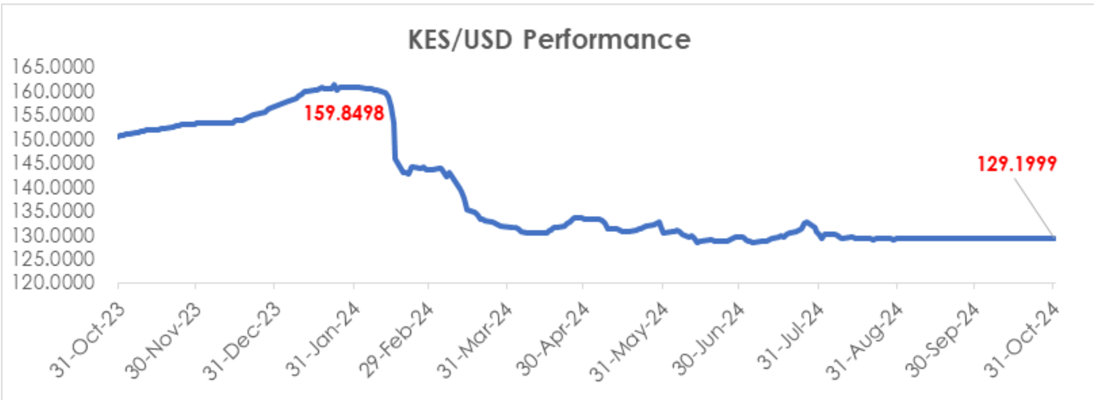
Kenya's annual inflation fell further in October to 2.7% from 3.6% in August, the lowest rate in 5 years. On a month-on-month basis, the food index, which constitutes approximately a third of the basket, increased by 4.3% compared to October last year. Housing, Water, Electricity, Gas and Other Fuels increased by 0.4% while Transport costs declined by 1.3%. Inflation is expected to remain within the CBK target band of 2.5% - 7.5%.



(Source: KNBS, OMIG Research)

Foreign Exchange Market

The Shilling remained relatively flat against the US Dollar in October, closing the month at KES 129.20 from KES 129.20 recorded at the end of September. Year to date, the Kenya Shilling has gained 17.4% on the US dollar. The shilling has shown 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 Government having secured the USD 1.5B facility from the UAE to facilitate the upcoming interest foreign debt service requirements.



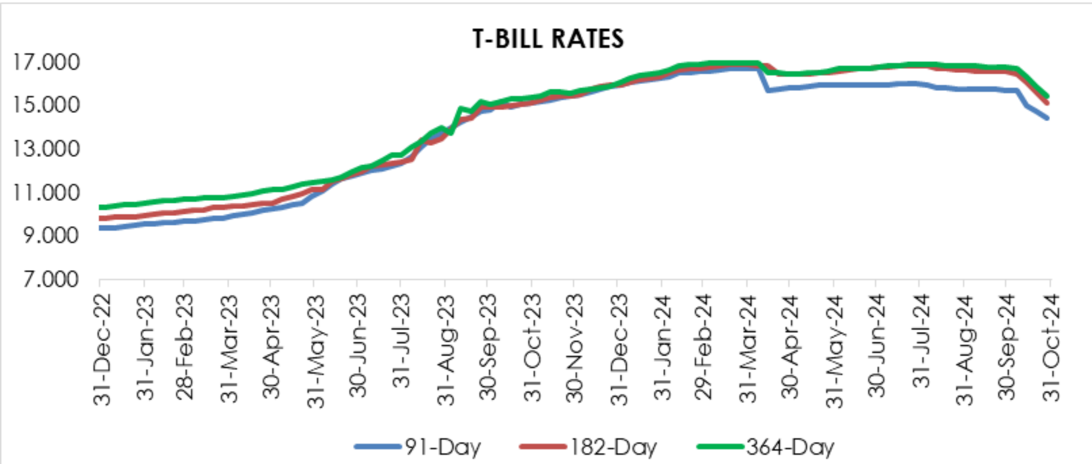
(Source: CBK, OMIG Research)

Yields and Yield Curve

Treasury Bills

In October, T-bills remained oversubscribed. The market's concentration remains geared toward the short-term papers, though there has been growing allocation towards the 364-day paper in anticipation of a decline in interest rates.

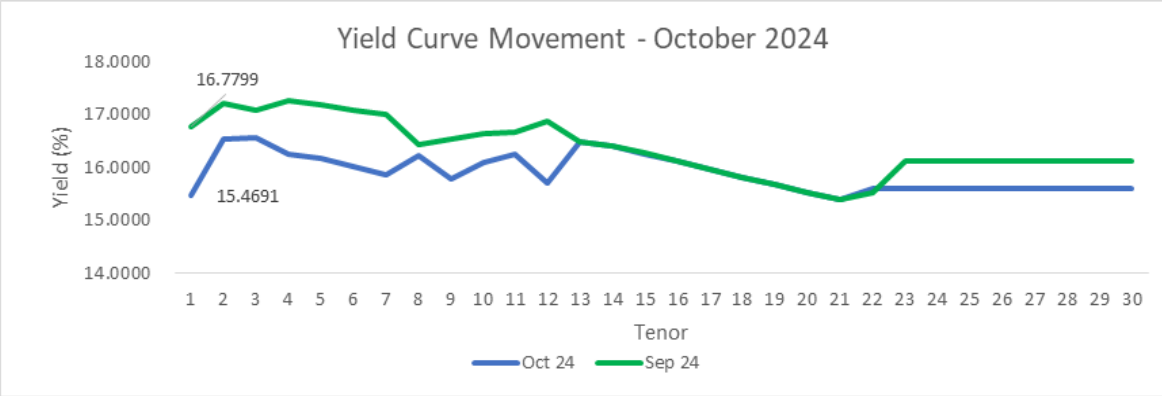
The 91-day T-bill closed the month of October at 14.43%, the 182-day T-bill at 15.15% and the 364-day T-bill at 15.47%.



(Source: CBK, OMIG Research)

Treasury Bonds

The yield curve registered a general downward shift with the short- and longer-term bands experiencing the most significant drops. The Government has received funds from the IMF and is likely to continue rejecting aggressive bids in primary bond auctions on a better short term liquidity position. However, we expect rates to remain at double digit levels in the short term.

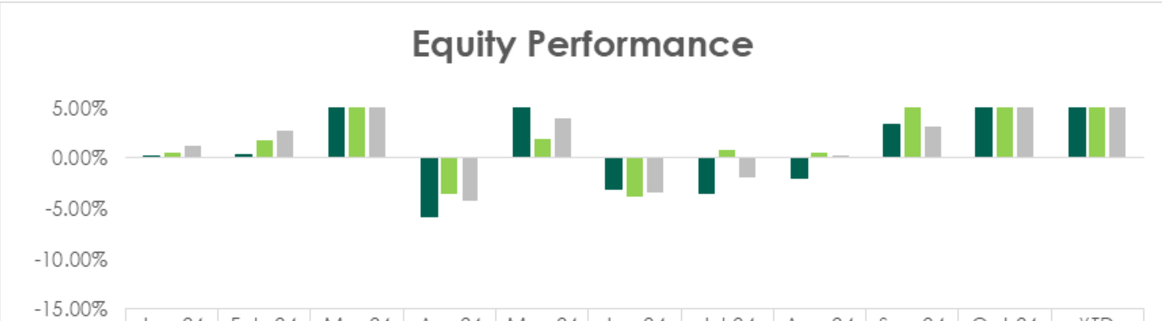


(Source: NSE, OMIG Research)

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.



	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	YTD
NASI	0.08%	0.34%	22.27%	-5.79%	6.04%	-3.09%	-3.43%	-1.95%	3.29%	9.83%	27.68%
NSE -20	0.51%	1.79%	14.10%	-3.51%	1.86%	-3.83%	0.80%	0.51%	5.81%	7.31%	26.94%
NSE-25	1.22%	2.73%	20.22%	-4.18%	3.88%	-3.40%	-1.91%	0.22%	3.07%	10.06%	34.05%

(Source: NSE, OMIG Research)

Top & Bottom 5 equity stocks performance

Top 5 Stock	Oct Performance
Kenya Orchards Ltd Ord 5.00 AIM	205.01%
Liberty Kenya Holdings Ltd Ord.1.00	39.93%
Kenya Power & Lighting Co Plc Ord 2.50	30.29%
KenGen Co. Plc Ord. 2.50	27.33%
I&M Group Plc Ord 1.00	19.57%

Bottom 5 Stock	Oct Performance
Sameer Africa Plc Ord 5.00	-15.83%
Kenya Re Insurance Corporation Ltd Ord 2.50	-14.73%
Trans-Century Plc Ord 0.50AIMS	-11.90%
TPS Eastern Africa Ltd Ord 1.00	-9.93%
Car & General (K) Ltd Ord 5.00	-9.80%

Top 10 (by market weight) returns

Stock	Market Weight	August Performance
Safaricom Plc Ord 0.05	36.45%	11.67%
Equity Group Holdings Plc Ord 0.50	9.70%	7.87%
East African Breweries Plc Ord 2.00	7.86%	18.26%
KCB Group Plc Ord 1.00	6.72%	10.95%
Standard Chartered Bank Kenya Ltd Ord 5.00	4.76%	10.48%
ABSA Bank Kenya Plc Ord 0.50	4.51%	8.90%
The Co-operative Bank of Kenya Ltd Ord 1.00	4.49%	5.62%
NCBA Group Plc Ord 5.00	3.94%	3.16%
Stanbic Holdings Plc ord.5.00	2.77%	10.02%
I&M Group Plc Ord 1.00	2.52%	19.57%

(Source: NSE, OMIG Research)

Source: Old Mutual Research

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