



STERLING CAPITAL LIMITED

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Shilling stabilises on easing dollar demand

- The shilling gained against the dollar as the pressure that had seen it hit a record low of KES.108.13 units to the greenback eased.
- The shilling closed yesterday averaging KES.107.72 against the dollar, extending the gains that followed the record low seen on July 23.
- Currency traders said the end-month dollar demands from merchandise and oil importers had cooled off after two weeks of raising their hard currency stock levels to match demand after the government started phased reopening of the economy.
- The current exchange level is however still 6.3% in the negative in the year-to-date, given that the shilling opened the year averaging 101.34 units to the dollar.
- The shilling had come under pressure especially after Kenya reported its first case of Covid-19 on March 13, leading to disruptions in the economy.
- The fall was more pronounced since July 6 when President Uhuru Kenyatta opened up Nairobi, Mombasa and Mandera counties and announced resumption of air transport.

Our View:

- **We expect the KES to trade between 107 and 110 against the dollar and to remain volatile for the remainder of the year due to reduced foreign direct investments.**
- CBK will continue to use the forex reserves, currently at 5.72 months of import cover (USD. 9,421Mn/KES. 1,014Bn) in a bid to support the shilling.
- Kenya is a net importer and a weak local currency to the dollar will have a significant impact on the import bill for commodities such as oil and industrial inputs.
- This will increase the cost of living, worsening the impact of job losses on households brought about by the pandemic.

Source: Business Daily and Sterling Research