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STERLING CAPITAL LIMITED

Analysts:

Renaldo D'Souza
+254 (20) 2222651
Renaldo.DSouza@sterlingib.com

Elizabeth Njenga, CFA
+254 (20) 2222651
Elizabeth.Njenga@sterlingib.com

Davis Gathinji
+254 (20) 2222651
Davis.Gathinji@sterlingib.com

Fixed Income Note

December 2021

"2021 draws to a close with a KES.40Bn Debt issue"

Email: research@sterlingib.com

Bond Dealing: +254 (20) 2213914, 3315414; 2244077
+254 723153219, +254 734219146

Email: invest@sterlingib.com

Office Address: Delta Corner Annex, 5th Floor, Ring Road Westlands.

Website www.sterlingib.com

Bloomberg Code: SCLK <GO>

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Table of Contents

Executive Summary

- Our fixed income report for the month of December 2021 is titled **"2021 draws to a close with a KES.40Bn debt issue"**.
- The Central Bank of Kenya (CBK) intends to raise KES.40Bn through two re-opened bonds; **FXD4/2019/10 (8 years)** and **FXD1/2018/20 (16.4 years)**.
- Our weighted average bid predictions are as follows:

  Weighted Average Rate (WAR) of investor bids
  FXD4/2019/10: 12.70 - 12.80
  FXD1/2018/20: 13.30 - 13.40

  WAR of accepted bids
  FXD4/2019/10: 12.55 - 12.65
  FXD1/2018/20: 13.15 - 13.25

- The report summarizes the details of the bonds issued, examines historic primary auction data and gives our subscription predictions.
- Also analyzed in the report is T-Bill and T-Bond subscription patterns, T-Bill and inter-bank rates and secondary bond trading activity.
- Investment recommendations are highlighted in the trading ideas section.
- Under national accounts we analyze Government revenue and expenditure as well as debt service costs.
- The report also includes an analysis of Eurobond yields and the performance of selected African sovereign debt indices.
- The yield curve section is an analysis of the trends in domestic debt interest rates over selected periods.
- The report concludes with an analysis of both inflation and the outcome of the Monetary Policy Committee (MPC) meeting at the end of the month.

CBK's December debt issues target KES.40Bn

- The Central Bank of Kenya (CBK) invites bids for two re-opened treasury bonds; **FXD4/2019/10** and **FXD1/2018/20** in a bid to raise KES.40Bn for budgetary support (Table.1).
- The two bonds have remaining terms to maturity of 8 and 16.4 years respectively.
- FXD4/2019/10 and FXD1/2018/20 have coupon rates of 12.280% and 13.200% respectively.
- We expect a subscription rate in the range of 80% to 90% given the relatively low target amount with investors having a preference for FXD4/2019/10 due to its shorter tenure and comparatively high return on a risk-return basis.
- In line with this, it's worth noting that since it is December, the onset of the festive season when market demand is historically low and the fact that a large amount of these issues are already outstanding within the market (KES.69.2Bn for FXD4/2019/10 and KES.59.1Bn for FXD1/2018/20), oversubscription is unlikely.

Table.1: Primary Bond issue summary

Issue Number	FXD4/2019/10	FXD1/2018/20
Total Amount Offered	KES.40Bn	
Tenor	10 Years	20 Years
Term to Maturity	8 Years	16.4 Years
Coupon Rate (%)	12.280	13.200
Price Quote	Discounted/Premium/Par	
Period of Sale	22nd November 2021 to 7th December 2021	
Auction Date	8th December 2021	
Value Date	13th December 2021	
Yield Curve (%) (Weighted average tenor - 26th November 2021)	**12.3758**	**13.3466**

Source: Central Bank of Kenya

Weighted and accepted bids average estimates

- Our analysis of yields of bonds of similar tenors on the Nairobi Securities Exchange (NSE) as at 26th November as well as discussions with fixed income traders resulted in the following bid predictions for the treasury bonds (Table.2).

Table.2: Auction bid predictions

Rate	FXD4/2019/10	FXD1/2018/20
Market Weighted Average Rate (%)	12.70 - 12.80	13.30 - 13.40
Weighted Average Rate of Accepted Bids (%)	12.55 - 12.65	13.15 - 13.25

Source: Sterling Capital Research

Historical debt issues provide guidance

- We used implied yields of bonds of almost similar tenors to maturity on the Nairobi Securities Exchange (NSE) as at 26th November 2021 to estimate possible investor bids (Table.3).

Table.3: Benchmark issues to guide investor bids

Treasury Bond	Issue Date	Coupon Rate (%)	Maturity Date	Term to Maturity Years (Days)	Implied Yield to maturity (%)	Yield Curve at time of issue
10-Year						
FXD4/2019/10	25th Nov 2019	12.28	12th Nov 2029	8.0 (2,908)	12.3416	12.1668
FXD3/2019/10	19th Aug 2019	11.52	6th Aug 2029	7.7 (2,810)	12.3360	11.4875
20-Year						
FXD1/2018/20	26th Mar 2018	13.20	1st Mar 2038	16.4 (5,939)	13.0036	13.3102
FXD2/2018/20	30th Jul 2018	13.20	5th Jul 2038	16.6 (6,065)	13.0523	13.3000

Source: Central Bank of Kenya

10-Year debt issue to receive the bulk of demand

- A historical comparison of primary auction results for 10 and 20 year debt issues shows investors' (including retail investors and banks) preference for the bond with a shorter dated tenor (Table.4).
- FXD1/2018/20 will have comparatively low demand due to the comparatively low return on a risk return basis and the current oversupply of long-tenor bonds in the secondary market.

Table.4: Historical primary market auction performance

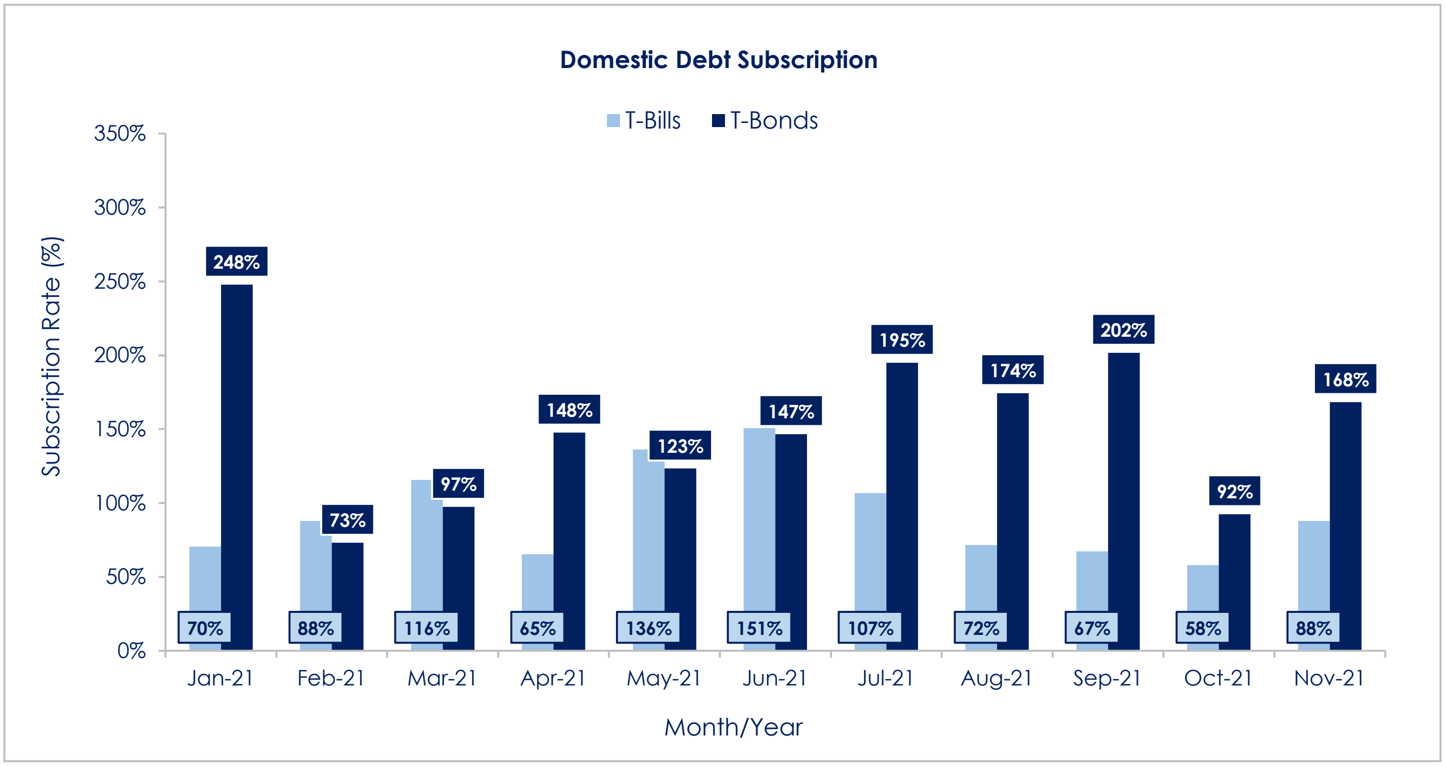
Issue	Offered (KES.Bn)	Bids Received (KES.Bn)	Amount Accepted (KES.Bn)	Performance Rate (%)	Coupon Rate (%)	Implied Yields (%)
10-Year						
FXD1/2016/10	25	26.3	18.3	105.2	15.0	11.1250
FXD1/2017/10 (Re-opened)	30	11.8	5.4	39.3	12.9	11.6266
FXD1/2018/10	40	29.8	19.4	74.6	12.69	12.1453
FXD1/2018/10 (Re-opened)	40	22.1	21.2	55.3	12.7	12.1453
FXD2/2018/10	40	28.9	26.2	72.15	12.5	12.2500
FXD1/2019/10 (Re-opened)	50	25.4	19.3	50.9	12.4	12.3250
FXD1/2019/10 (Re-opened)	50	15.9	15.5	31.8	12.4	12.3250
FXD2/2019/10	50	70.9	51.3	141.9	12.3	12.3282
FXD3/2019/10	50	52.8	45.0	105.5	11.5	12.3360
FXD4/2019/10	50	38.4	28.4	76.8	12.3	12.3416
FDX4/2019/10 (Re-opened)	40	44.2	32.8	110.6	12.3	12.3416
20-Year						
FXD1/2018/20	40	13.7	8.5	128.5	13.200	13.1250
FXD2/2018/20	40	13.9	10.5	34.7	13.200	13.1438
FXD1/2021/20	60	43.5	39.5	72.5	13.444	13.3500

Source: Central Bank of Kenya

Higher domestic debt subscription recorded in November 2021

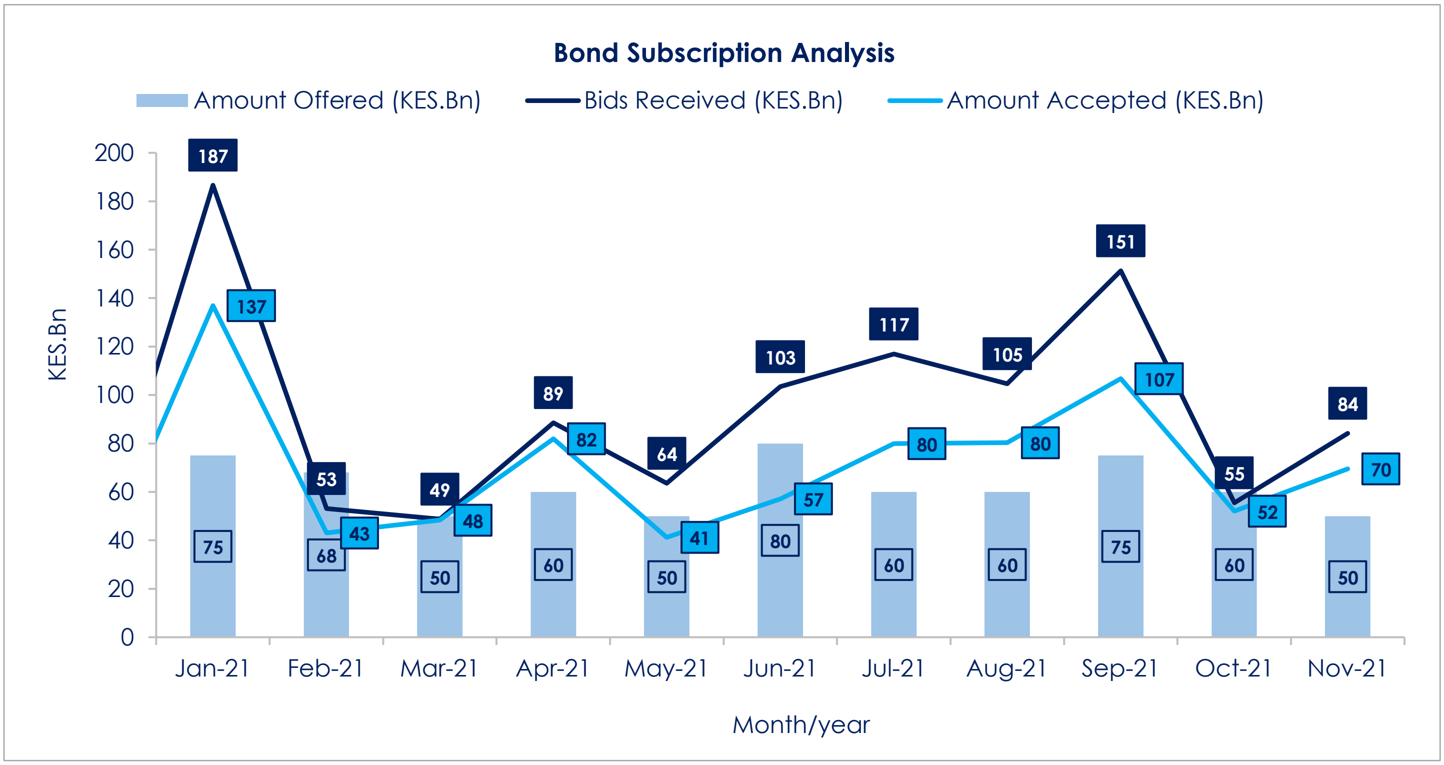
- Treasury Bill (T-bills) demand increased in November with the CBK receiving bids worth KES.105.5Bn against an offer amount of KES.120Bn to an 87.9% subscription rate higher than 57.9% in October 2021. (Figure.1).
- Subscription rates for the 91, 182 and 364 day T-Bills stood at 112%, 64.8% and 101.4% respectively.
- The re-opened T-Bond FXD1/2019/20 and new issue FXD1/2021/5 received aggregate bids worth KES.84.2Bn against KES.50Bn offered, equivalent to a 168.4% subscription rate (Figure.2).
- The high subscription was largely attributable to the 5 year issue which appealed to a larger segment of investors and had a performance rate of 133.2%.

Figure.1: Both T-Bill and T-bond subscriptions increase in November 2021



Source: Central Bank of Kenya

Figure.2: Bond subscriptions fell in November 2021

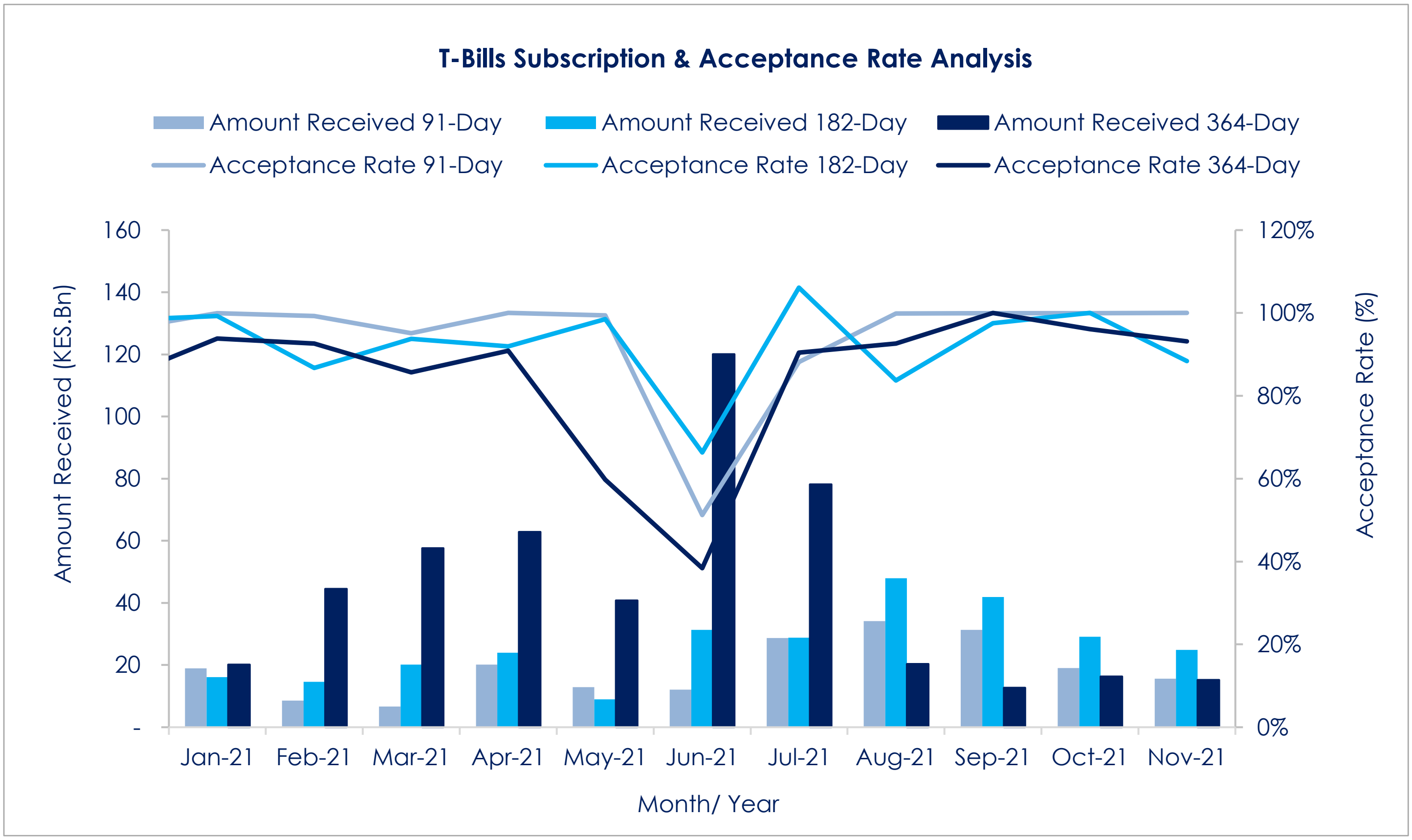


Source: Central Bank of Kenya

T-Bill acceptance rates remain almost unchanged in November 2021

- CBK's acceptance rates for 91, 182 and 364-Day T-bills were 100%, 88.1% and 93.1% respectively almost unchanged from October's 99.9%, 88.4% and 96.1% (Figure.3)
- Acceptance rates remain relatively high due to the high deficit financing pressure faced by the Government.

Figure.3: T-Bill acceptance rates remain high in November

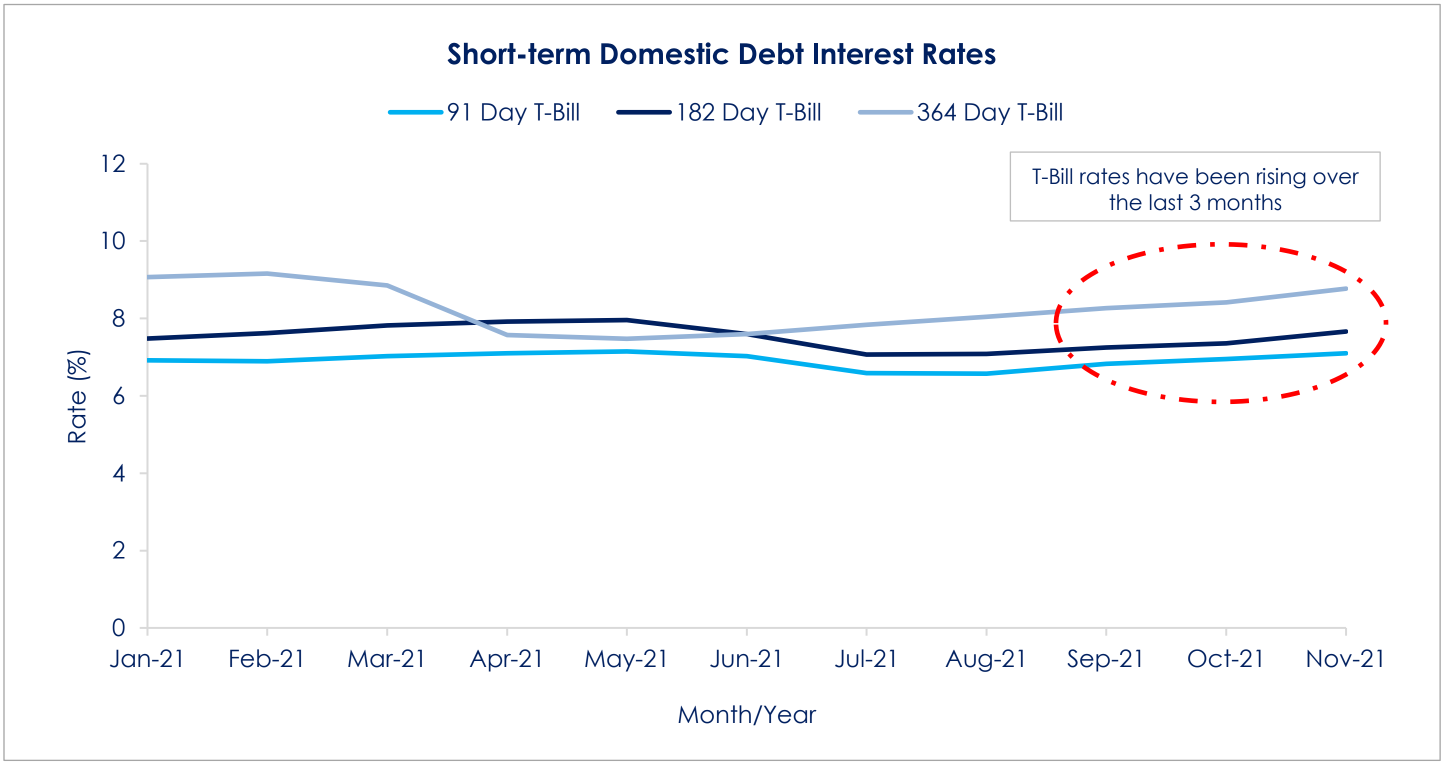


Source: Central Bank of Kenya

T-Bill rates up and up with 364 Day inching towards 9%

- T-Bill rates continue on an upward trajectory with average rates for the 91, 182 and 364-day debt issues at 7.1%, 7.7% and 8.7% in November 2021 from 7%, 7.4% and 8.1% in September 2021 respectively (Figure.4).
- The biggest rise was 60 bps reported on the 364 day T-Bill a trend with this attributable to the CBK being more accommodative of higher investor bids to encourage subscription.
- We expect a sustained increase in short-term debt rates as the pressure on the CBK to finance the fiscal deficit persists.

Figure.4: Sustained rise in short-term debt securities interest rates

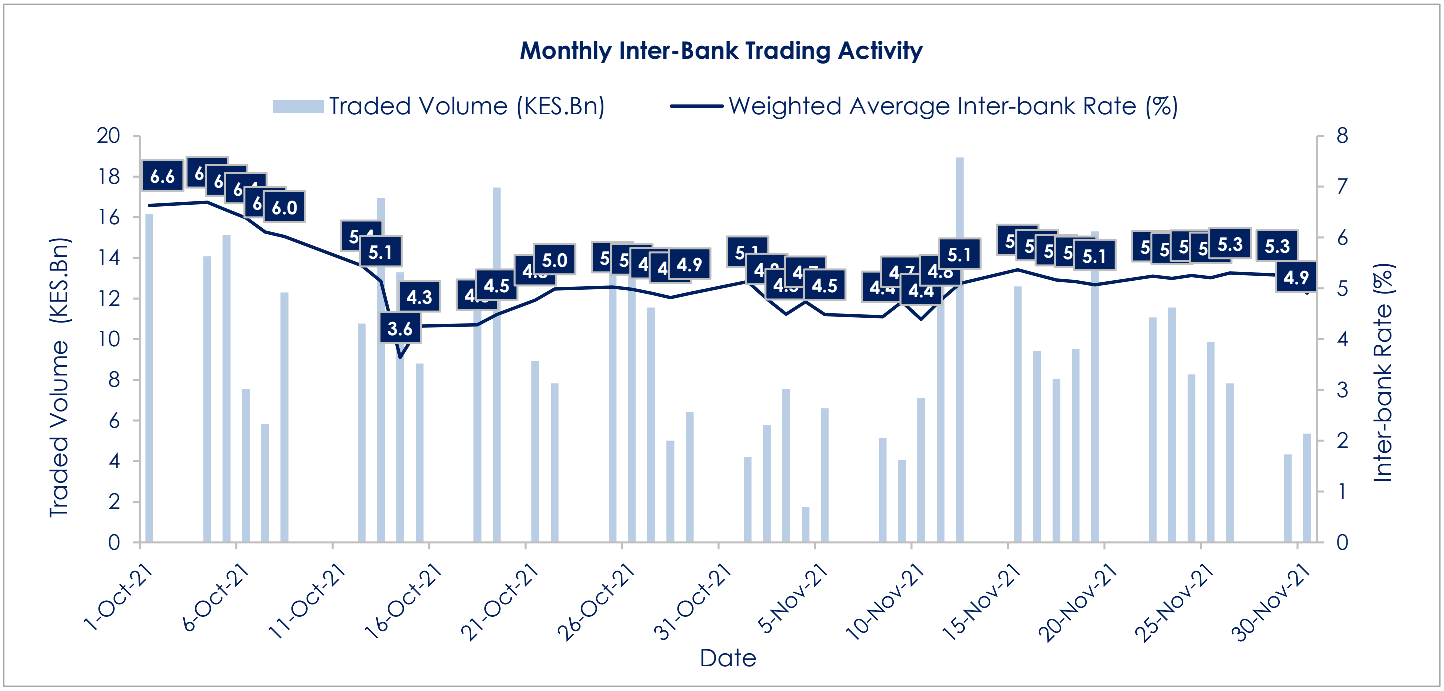


Source: Central Bank of Kenya

Average inter-bank rates dip in November 2021

- Average inter-bank rate for November 2021 fell to 5% compared to 5.3% in October while total inter-bank trading volumes over the same period declined to KES.188.3Bn from KES.218.1Bn. (Figure.5).
- Our forecasted average inter-bank rate range for December 2021 is 4% - 5%.

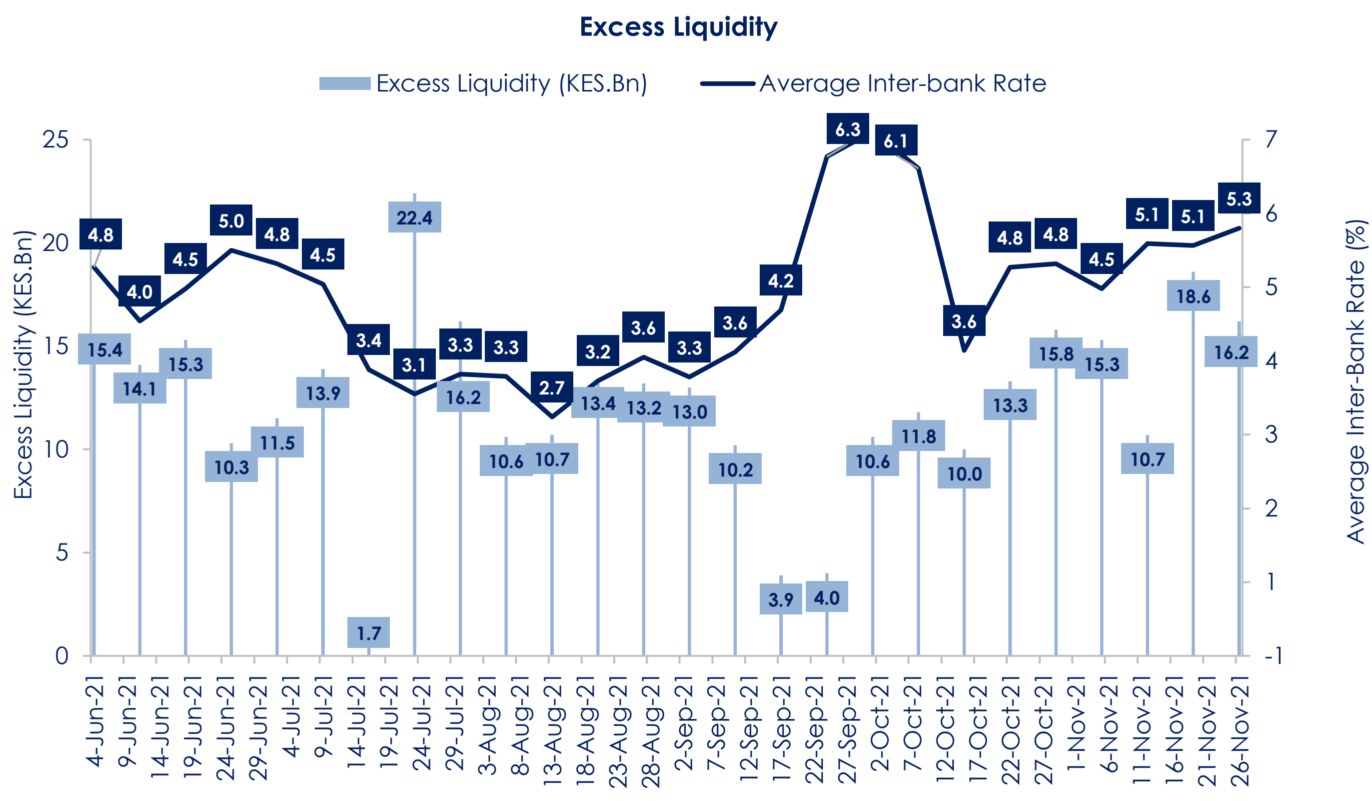
Figure.5: Inter-bank lending rates to range between 4% and 5% in December 2021



Source: Central Bank of Kenya

- Excess reserves (additional liquidity above the minimum 4.25% Cash Reserve Ratio (CRR)) over the same period dropped to KES.60.8Bn, compared to KES.61.5Bn in the previous month (Figure.6).

Figure.6: Excess commercial bank reserves decrease in November 2021

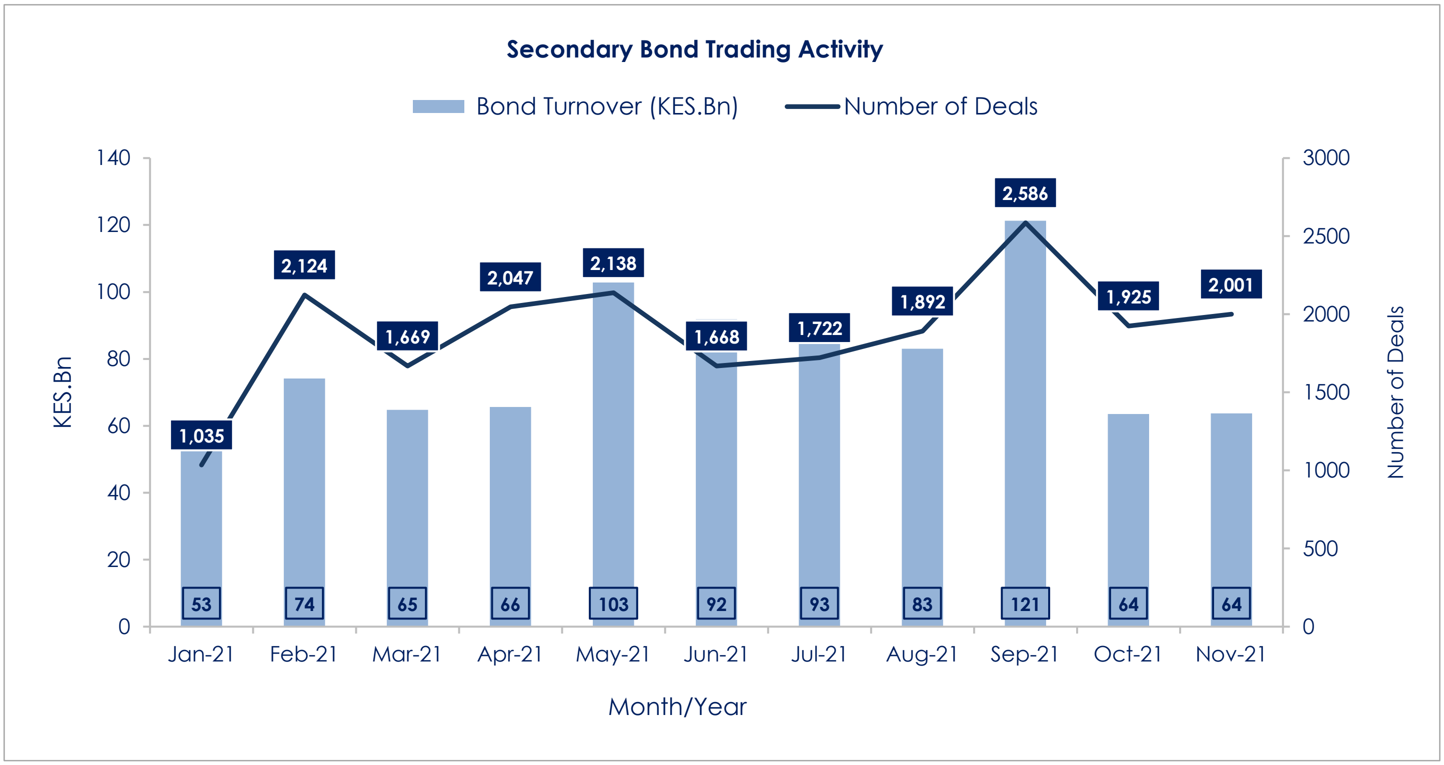


Source: Central Bank of Kenya

Secondary market bond turnover to decline in December 2021

- Secondary market trading activity stood at KES.63.7Bn at the end of November 2021 up from KES.63.6Bn in October with the number of deals over the same period increasing 3.9% to 2,001 (Figure.7).
- The high turnover in November was linked to heightened trading of FXD1/2021/5 that was issued during the month.
- Trading turnover in December is expected to decline with the onset of the festive season with fewer trading days with market liquidity also being a determinant.

Figure.7: Secondary trading activity slightly increases in November 2021



Source: Central Bank of Kenya

Trading ideas - Investors buy IFB's and high yielding FXD

- We identify infrastructure bonds **IFB1/2021/21** as well as the short-tenor T-bond **FXD1/2021/5** as suitable investment options for fixed income investors (Table.5).
- Infrastructure Bonds (IFBs) have attractive yields (due to withholding tax exemption), favorable capital appreciation, and high liquidity and are tax exempt.
- The 5 year issue is attractive largely because of its relatively short tenor and has been trading heavily since its issuance in October 2021.

Table.5: Trading ideas

Bond	Tenor (Years)	Coupon (%)	Modified Duration* (%)	Sterling Capital Yield to Maturity (%)	Current Yield** (%)
FXD1/2021/5	4.9	11.28	3.69	11.30	11.22
IFB1/2021/21	20.7	12.74	7.57	12.60	12.14

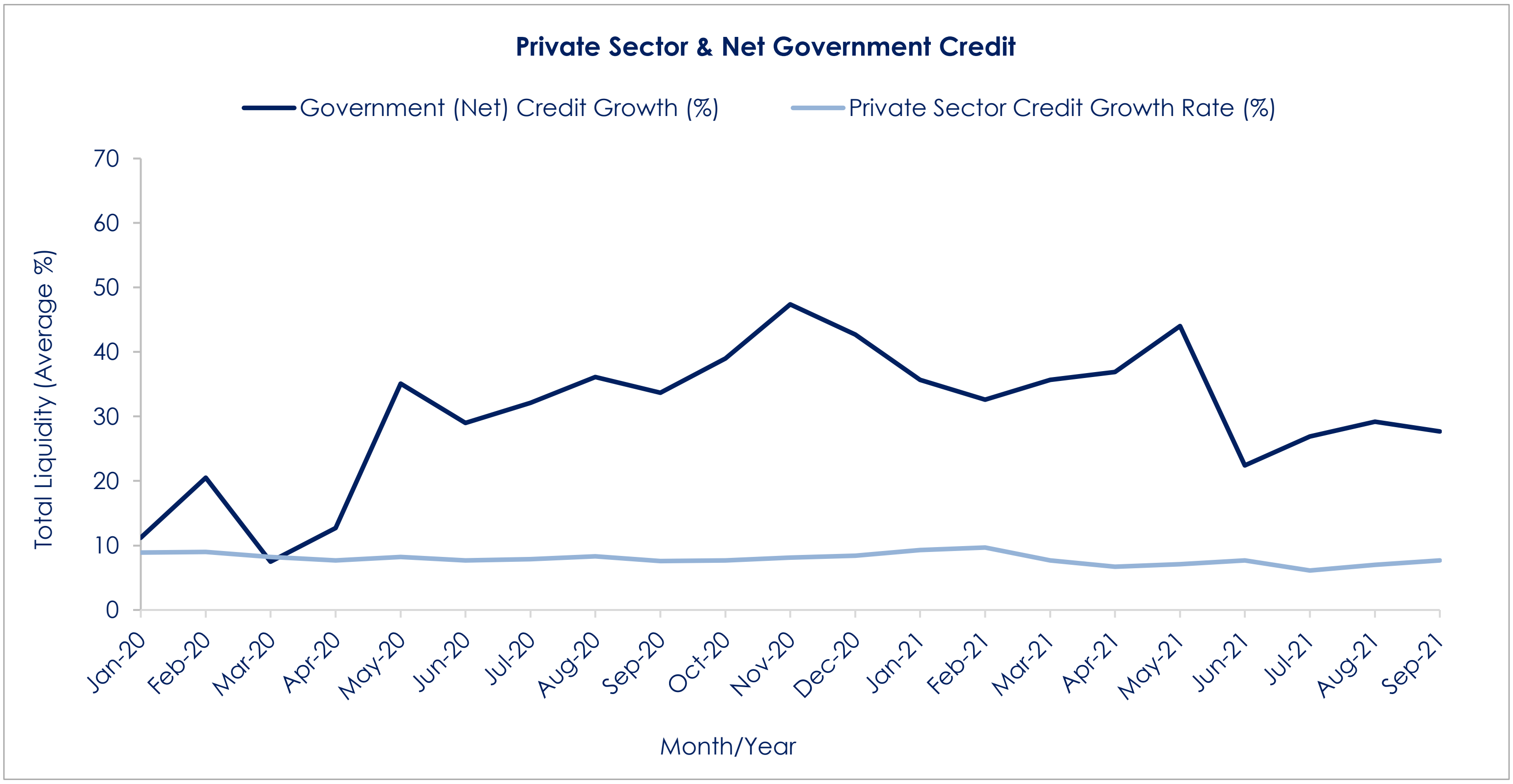
*Modified duration - Expresses the measurable change in the value of a security in response to a change in interest rates (for every 1% movement in interest rates, the bond would inversely move in price by the modified duration)
** Current Yield - Return on investment, for an investor holding a specific bond for 1 year

Source: Central Bank of Kenya

Private sector credit remains subdued as net credit to Government soars

- Average private sector credit growth in the nine months to September 2021 stood at 7.7% lower than 8.2% over the same period in 2020 (Figure.8).
- On the other hand, growth in net credit to Government, which defined as the sum of net credit to government from the CBK and commercial banks has remained comparatively high at an average of 32.3% year to date compared to 24.2% over the same period in 2020.
- This trend shows the preference of banks for Government rather than private sector lending which we attribute to high credit risk (average credit risk for the same period stood at 14.1% compared to 13% in 2020).
- Banks hold the position that current credit risk exposure levels are not commensurate with yields on loans to justify preference for Government debt.

Figure.8: Private sector credit remains subdued on high credit risk

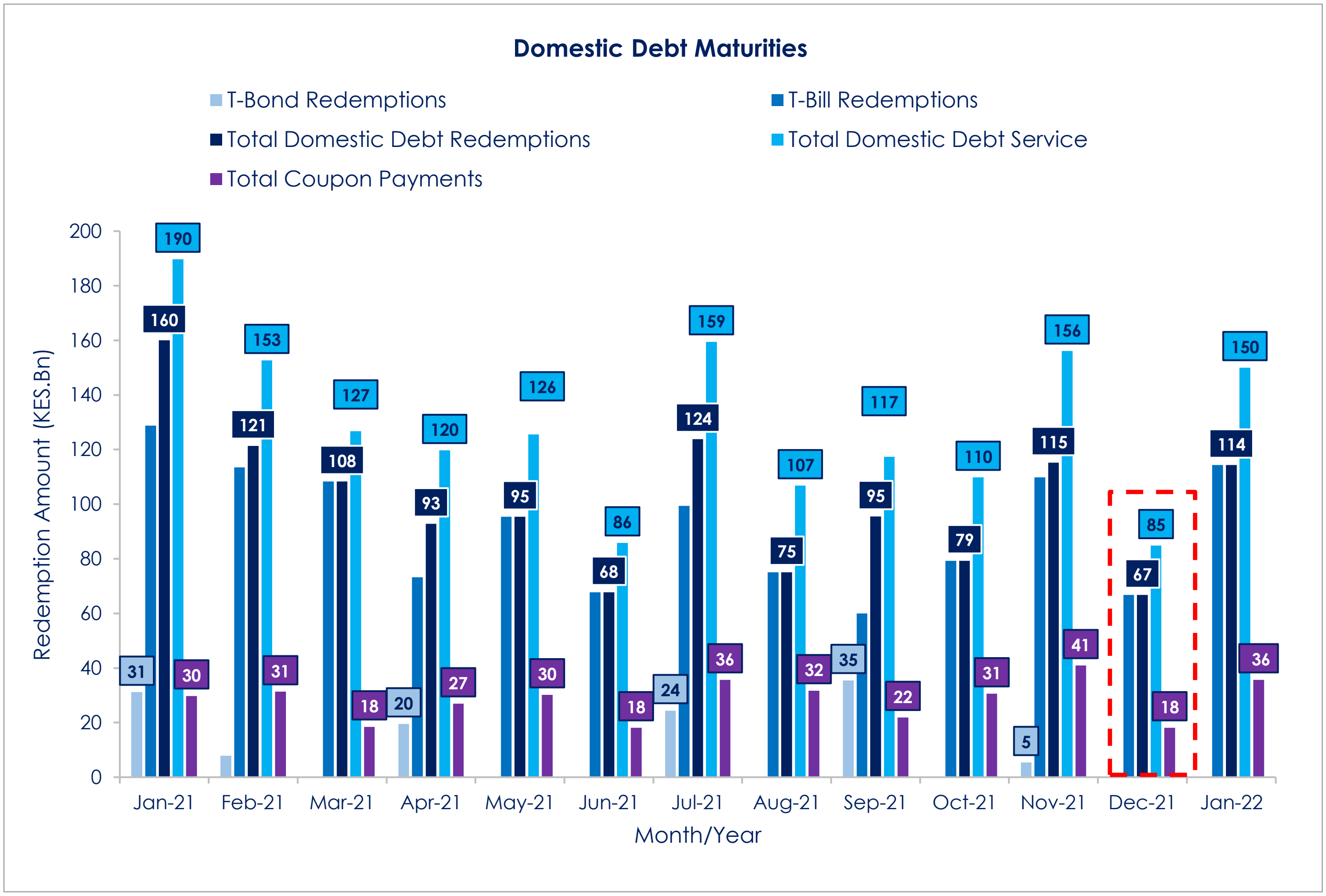


Source: Kenya National Treasury

Total domestic debt service for December is KES.84.8Bn

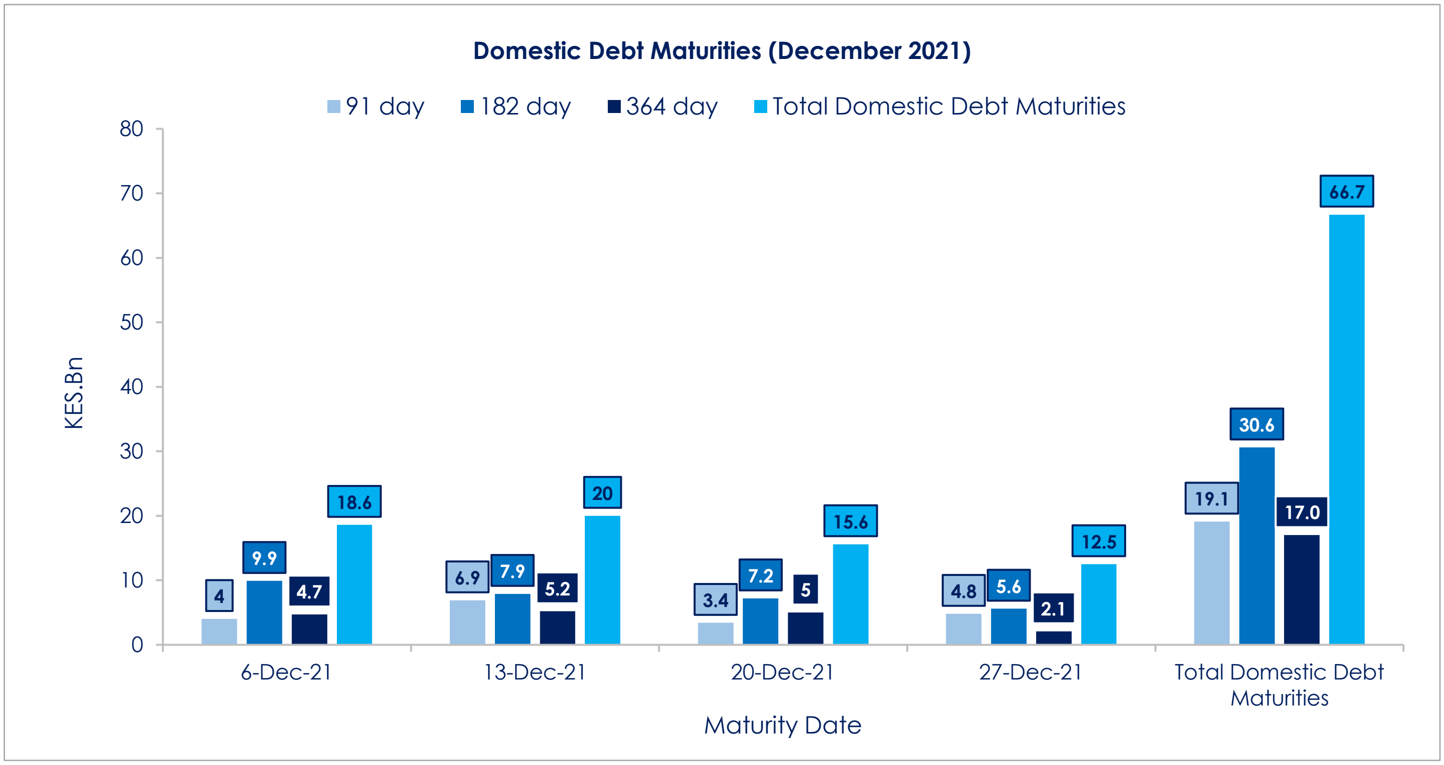
- Total domestic debt service for the month of December 2021 is KES.84.8Bn comprising of KES.66.7Bn and KES.18.1Bn in T-Bills and coupon payments respectively (Figure.9).
- Redemptions for the 91, 182 and 364-day T-Bills during the month are KES.19.8Bn, KES.30.6Bn and KES.17Bn respectively with the second week of the month having the highest redemptions at KES.20Bn. (Figure.10).
- Total debt service will rise to KES.150.0Bn in January 2022 made up of KES.114.3Bn in T-Bill redemptions and KES.35.7Bn in coupon payments.

Figure.9: December 2021 domestic debt service dips to KES.84.8Bn



Source: Central Bank of Kenya

Figure.10: Weekly debt maturities December 2021



Source: Central Bank of Kenya

National treasury consistently above 2021/22 fiscal year domestic borrowing target

- The National Treasury remains behind our linear target run rate (33.3%) for tax (32.1%) and total revenue (30.5%) at the end of October 2021 (Table.6 and Figure.11).
- Note however that our linear target run rate assumes a flat monthly growth rate and therefore differs from that of the Kenya Revenue Authority (KRA) which fluctuates based on historical patterns and forecasts.
- The KRA has reported severally that it is ahead of its revenue targets due to the improvement in economic activity and collections.
- In contrast, we see the National Treasury remains ahead of our domestic borrowing run rate, a trend we have observed consistently this fiscal year.
- This could suggest a decline in domestic borrowing in the second half of the fiscal year or could also mean an upward revision of the domestic borrowing target.

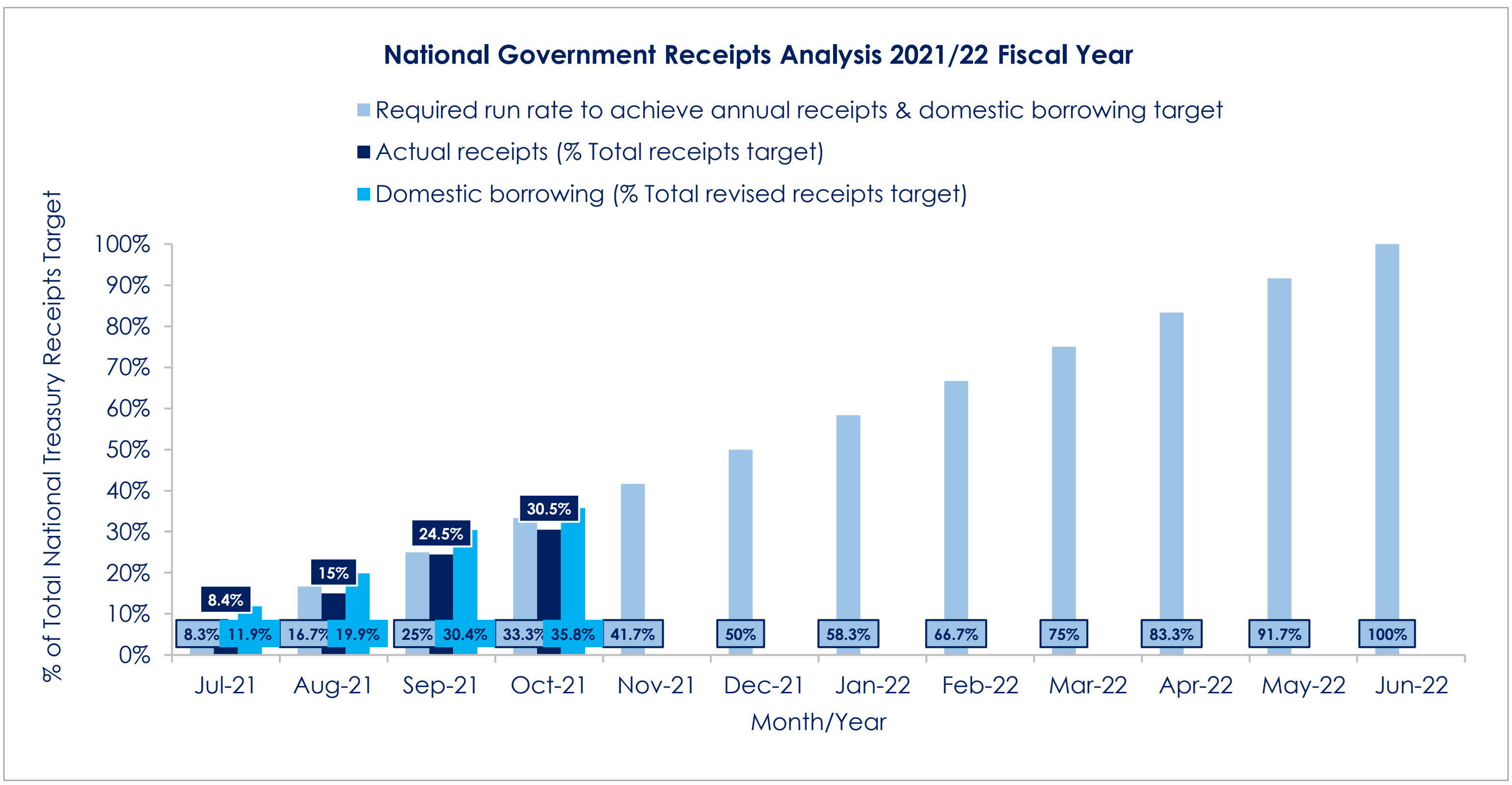
Table.6: 2020/21 fiscal year domestic borrowing above target run-rate

Receipts	Original Estimates (KES) July 2021 (KES.Bn)	Actual Receipts (KES) 30th Sep 2021 (KES.Bn)	Actual Receipts (KES) 31st Oct 2021 (KES.Bn)	Proportion of Receipts 31st Oct 2021 (%)
Opening Balance (1st July 2021)		21.3	21.3	-
Tax Revenue	**1,707.4**	**416.8**	**548.4**	**32.1**
Non-Tax Income	68.2	25.4	28.9	42.3
Domestic Borrowing	**1,008.4**	**306.8**	**360.8**	**35.8**
External Loans & Grants	379.7	7.7	10.8	2.9
Other Domestic Financing	29.3	4.2	4.2	14.2
Total Revenue	**3,193**	**782.2**	**974.3**	**30.5**
Linear Run Rate target (4 months of fiscal year)**				**33.3**

* Note 1: Domestic Borrowing of KES.1, 008.4Bn = Net Domestic borrowing KES.661.6Bn & Internal Debt Redemptions (Roll-overs) KES.346.8

Source: The Kenya Gazette Vol. CXXIII - No.230 12th November 2021

Figure.11: Government ahead of its 2021/22 fiscal year domestic borrowing target

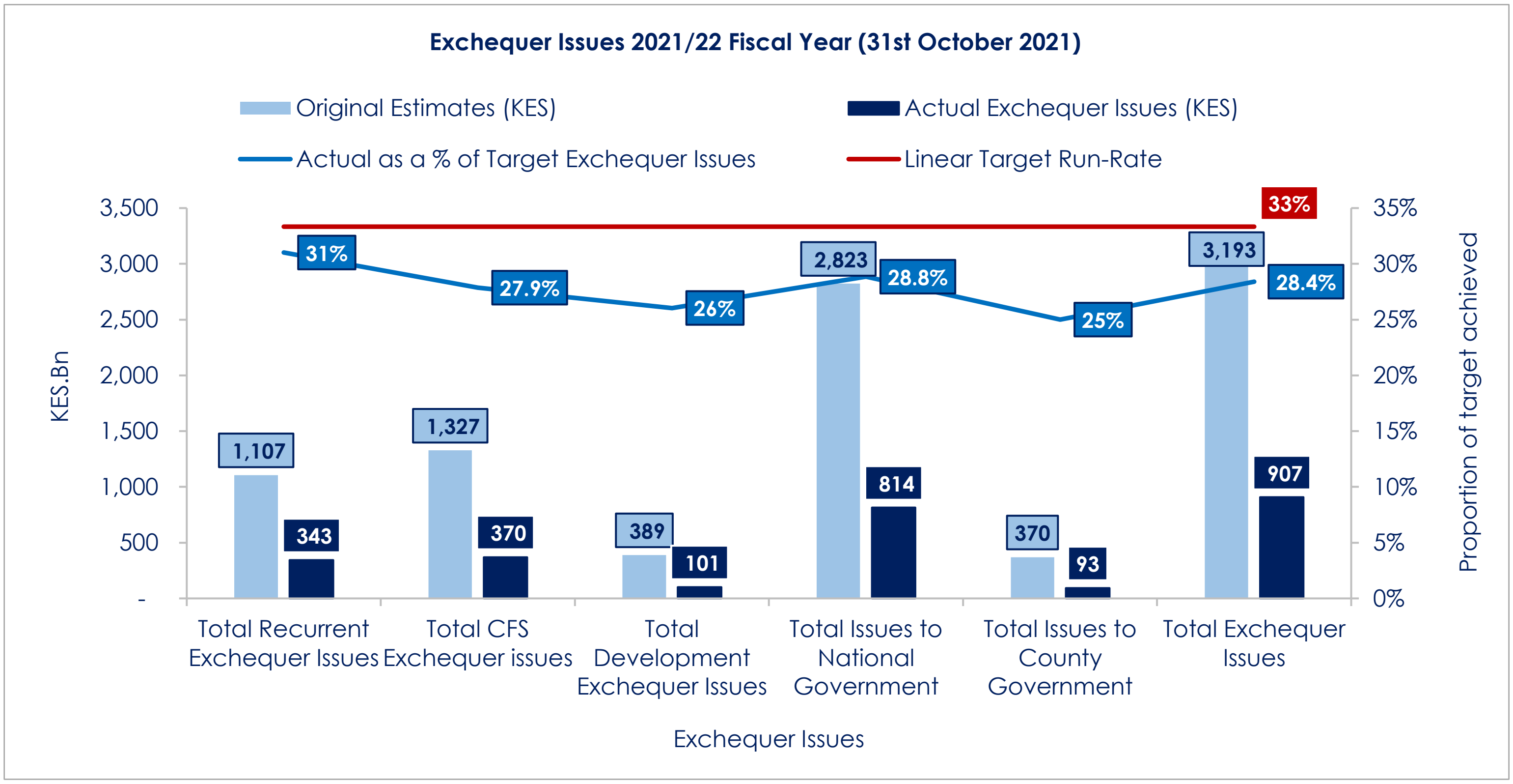


Source: The Kenya Gazette Vol. CXXIII - No.230 12th November 2021

Government expenditure remains below 2021/22 fiscal year expenditure run-rate targets

- Actual Total Government expenditure (exchequer issues) after the four months of the 2021/22 fiscal year at KES.906.9Bn (28.4%) remains below our linear target run-rate of 33.3% (Figure.12).
- We take note of total development exchequer issues that have fallen fast behind our linear target run rate at KES.101.4Bn equivalent to 26% compared to KES.81.9Bn or 21% of the 25% run rate at the end of September 2021.
- The above scenarios points to low revenue absorption rates and possible liquidity constraints or preservation by Government.

Figure.12: Government expenditure remains below target run-rate estimates

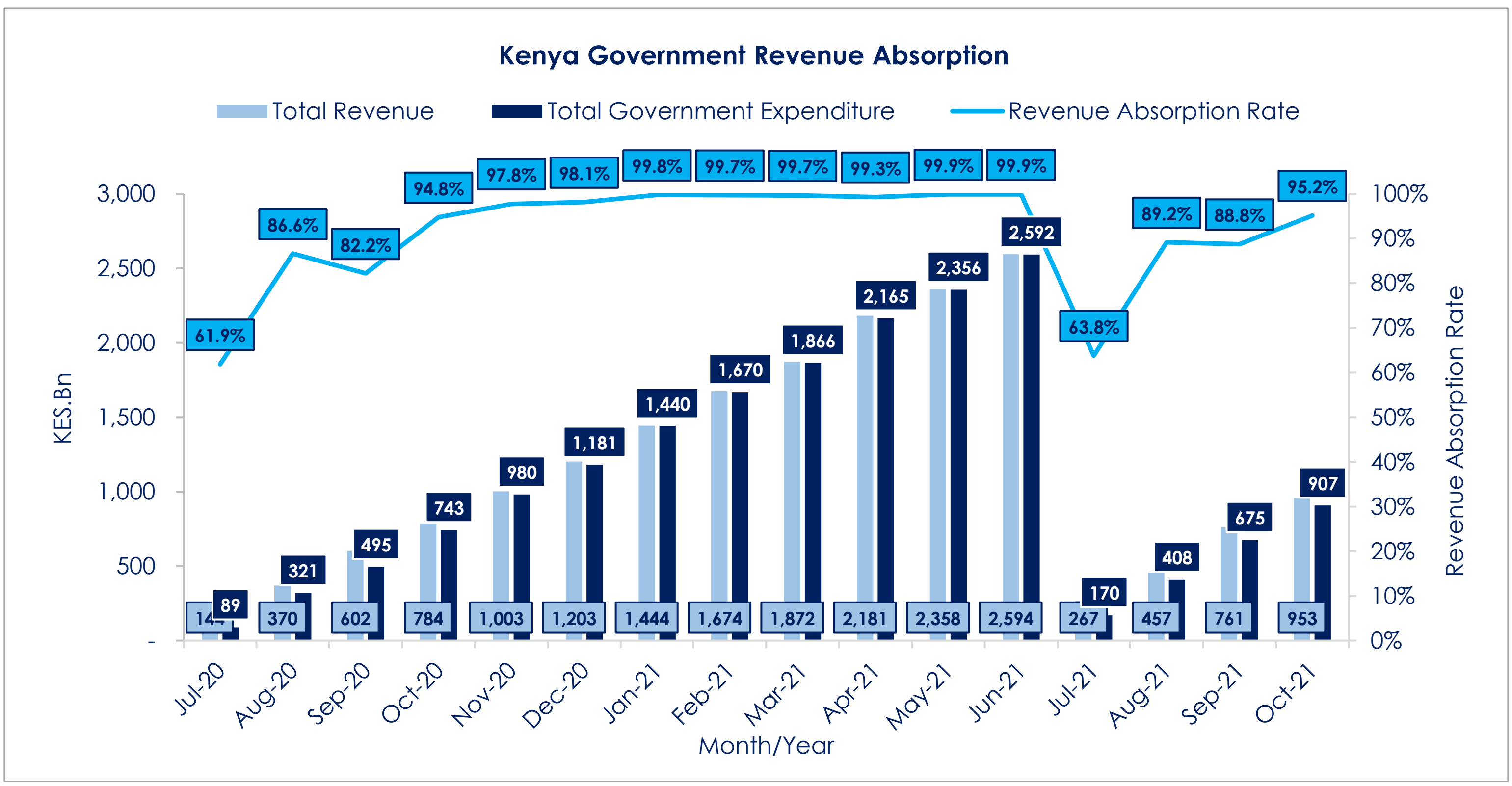


Source: The Kenya Gazette Vol. CXXIII – No.230 12th November 2021

Government Revenue Absorption rate rises to 95.2% in October 2021

- The Revenue Absorption Rate (RAA) is the proportion of Government receipts used to finance expenditure and this stood at 95.2% in October 2021 an increase from 88.8% in September and 94.8% in October 2020 (Figure.13).
- While we do not see a significant increase on a year on year basis, the increase in October over September shows an increase in the Government's utilization of its revenue.
- Like mentioned in our last report, we expect RAA to increase towards full utilization in the second half of the 2021/22 fiscal year in line with historic patterns.
- Increased utilization of revenues will also have an impact on Government borrowing with higher acceptance rates for investor bids expected particularly in primary bond issues.
- This is also consistent with our view on domestic debt interest rates which we expect to increase.

Figure.13: Kenya ordinary estimate declines to 2018/19 level

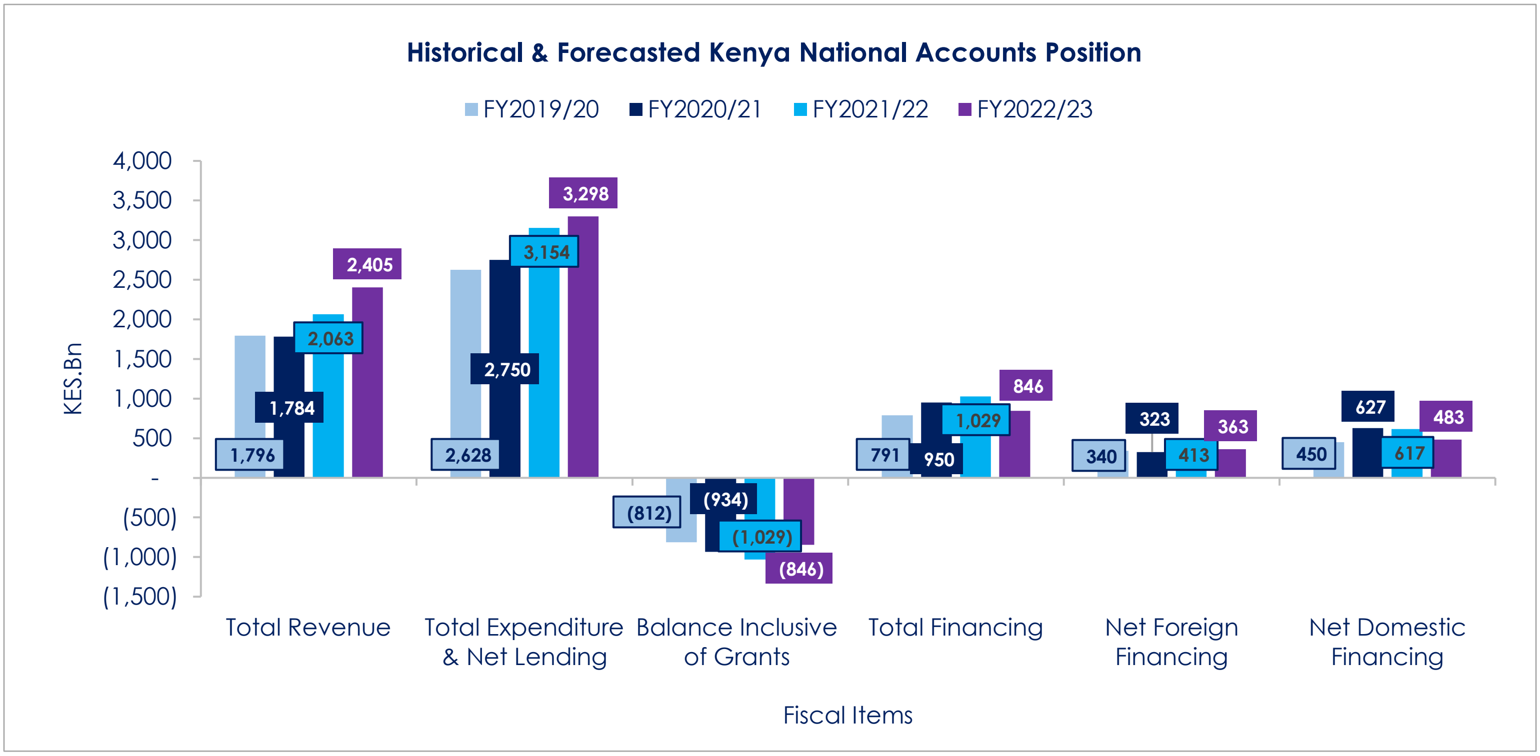


Source: The Kenya Gazette Vol. CXXIII – No.230 12th November 2021

National Treasury expects lower fiscal deficit and borrowing target FY2022/23

- The National Treasury forecasts a 16.6% and 19% increase in total and ordinary revenue to KES.2.4Tn and KES.2.1Tn FY2022/23 compared to estimates FY2021/22 (Figure.14).
- This increase together with a comparatively modest 4.6% increase in total expenditure and net lending to KES.3.3Tn is estimated to translate to a 17.8% decline in total deficit inclusive of grants to KES.846Mn (FY2021/22 estimate = KES.1.03Tn).
- This also marks a return of the fiscal deficit to below KES.1Tn which will be bridged for the first time in history this fiscal year.
- It is estimated that net foreign and domestic financing will account for KES.363Bn and KES.483.1Bn equivalent to 42.9% and 57.1% of total deficit financing (KES.412.5Bn and KES.616.8Bn FY2021/22 estimate).
- If this comes to fruition, there will be a decline in domestic debt appetite FY2022/23 a situation that could result in a decline or some stability in interest rates on domestic debt in contrast to the steady rise we have observed over the last few months.
- While we do not disregard the efforts of the national Treasury to reduce the fiscal deficit the fiscal deficit which includes a 21.7% decline in net domestic financing in the 2022/23 fiscal year as highly optimistic.
- In the same breath we expect several revisions in revenue, expenditure and deficit financing targets for the current fiscal year in at least one or two supplementary budgets in the current fiscal year.
- Our opinion on the estimates above is that they are not only ambitious but also do not reflect the realities of the current or even near term state of the economy.
- The economy continues to operate well below its full capacity and revenue generation is unlikely to match the estimates above.
- In addition, we feel that a 4.6% growth estimate in expenditure is highly unlikely in an election year also considering that the new regime is likely to pursue some populist measures translating to higher expenditure and a larger than estimated budget.
- In our own estimation, the fiscal deficit is likely to remain above KES.1Tn in the 2022/23 fiscal year translating to KES.400Bn+ and KES.600+ in external and domestic financing.

Figure.14. Kenya National Treasury forecasts lower fiscal deficit FY2022/23



Source: The National Treasury & Planning

BPS 2022 unveils issuance of sovereign bond in current fiscal year and refinancing of syndicated loans

- Our attention is drawn to several fiscal items listed on the Budget Policy Statement 2022 (Table.7)

    1) An increase in domestic interest by 23.3% in 2021/22 (KES.479.2Bn) and 15.5% in 2022/23 (KES.553.4Bn) in spite of projected 1.6% and 21.7% decline in domestic financing to KES.626.9Bn and KES.616.8Bn for the respective years.

       This suggests that there is an expectation of an increase in domestic debt interest rates during the forecasted period which will increase debt service.

    2) Sovereign bond (KES.124Bn equivalent to US$1.1Bn) and external debt operations refinancing (KES.351Bn).

       This suggests issuance of several Eurobonds during the current fiscal year including a few specifically meant for refinancing expensive syndicated loans.

The CBK in a presentation to the senate committee on finance in the budget indicated its intention to "Refinance operations; refinancing expensive debt with debt on more favorable terms" as one of its strategies to reduce the debt burden.

While the above will have a significant impact on the size of external debt, increased domestic financing is estimated to reduce the external/domestic debt financing mix to 49.8%/50.2% from 52.1%/47.9% in the 2020/21 fiscal year.

3) Gross debt stock estimated at KES.8.6Tn and KES.9.4Tn in the 2021/22 and 2022/23 fiscal year further explaining reason behind the abandoning of the KES.9Tn debt ceiling set in 2019 with preference for a debt ceiling pegged on the country's GDP.

Table.7: Government fiscal operations 2020/21 - 2022/23

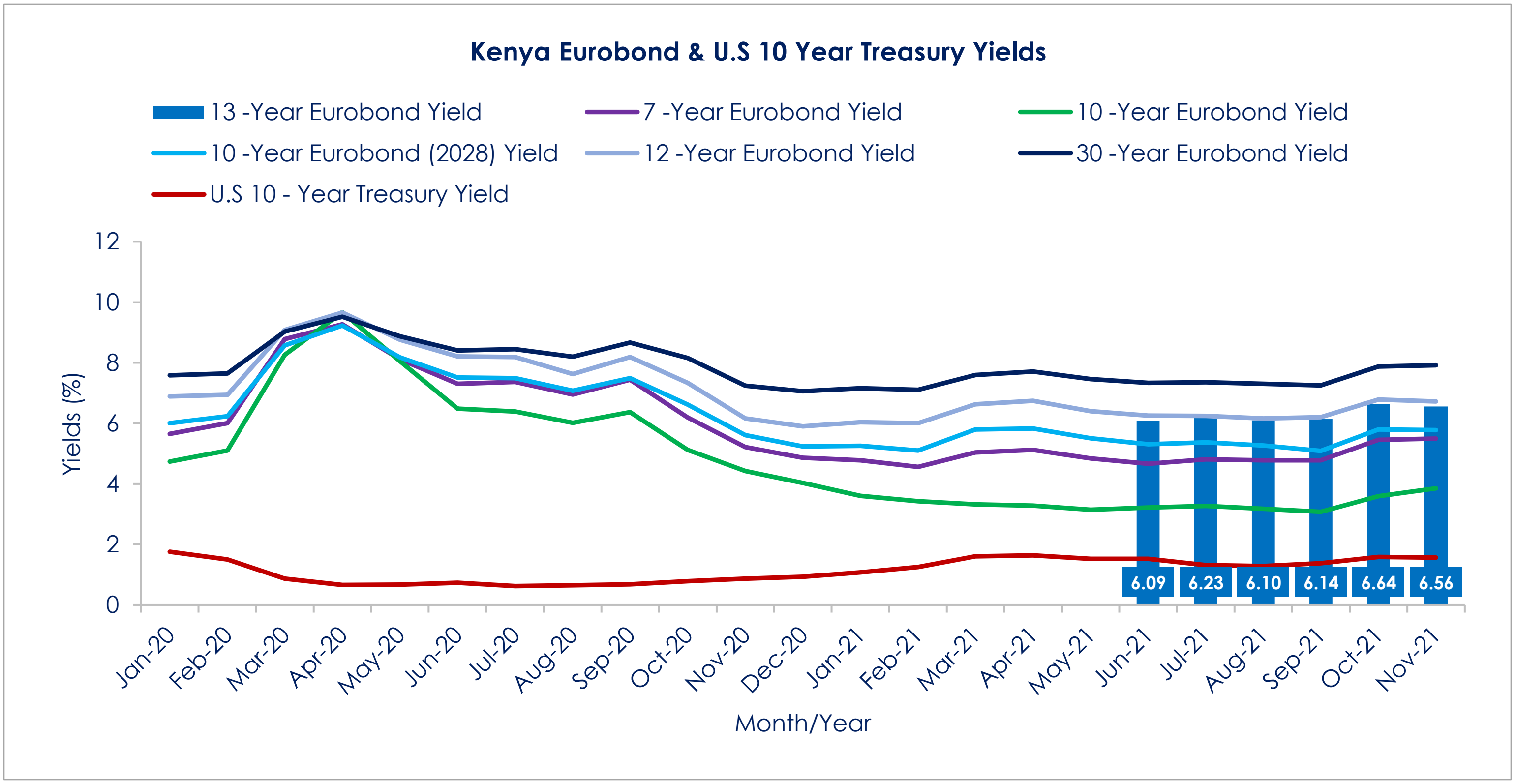
Fiscal Budgetary Item	2021/22 Pre Actual (KES)	2021/22 Projected (KES)	2022/23 (Budget Policy Statement) KES
Total Revenue	**1,784**	**2,063**	**2,405**
Ordinary Revenue	1,562	1,800	2,142
Expenditure & Net Lending	2,750	3,154	3,298
Recurrent expenditure	**1,797**	**2,072**	**2,175**
Interest payments	495	605	688
Domestic interest	389	479	553
Foreign Interest	106	126	135
Development and Net lending	554	668	712
Domestically financed (Gross)	387	359	392
Foreign financed	167	302	313
Fiscal Balance (commitment basis excl. grants)	**-934**	**-1,029**	**-846**
Net Foreign Financing	323	413	363
Commercial Financing	114	475	106
Sovereign Bond	108	124	106
External Debt Operations - Refinancing	0	351	0
Net Domestic Financing	627	617	483
Gross Debt (Stock)	**7,713**	**8,601**	**9,447**
External Debt	4,015	4,286	4,649
Domestic Debt (Gross)	3,698	4,315	4,798
Domestic Debt (Net)	3,135	3,751	4,234
Nominal GDP	**11,304**	**12,628**	**14,002**
External Debt/Gross Debt	52.1%	49.8%	49.2%
Domestic Debt/Gross Debt	47.9%	50.2%	50.8%
Gross Debt as a % of GDP	68.2%	68.1%	67.5%

Source: The National Treasury & Planning

Kenya Eurobond yields remain unchanged in November 2021

- Average Government of Kenya Eurobond yields for November remained almost unchanged over October 2021 with the rise in the last two weeks of the month making up for the average decline in the first two weeks (Figure.15).
- Average yields on the U.S 10-Year Treasury declined in November largely attributable to the 18bps decline on 26th November on concerns over the emergence of a new Covid-19 variant omicron which is a threat to economic recovery.
- We expect Eurobond yields to remain relatively flat in the short-term while U.S treasury yields should recover and start rising.

Figure.15: Kenya Eurobond yields flat in November 2021

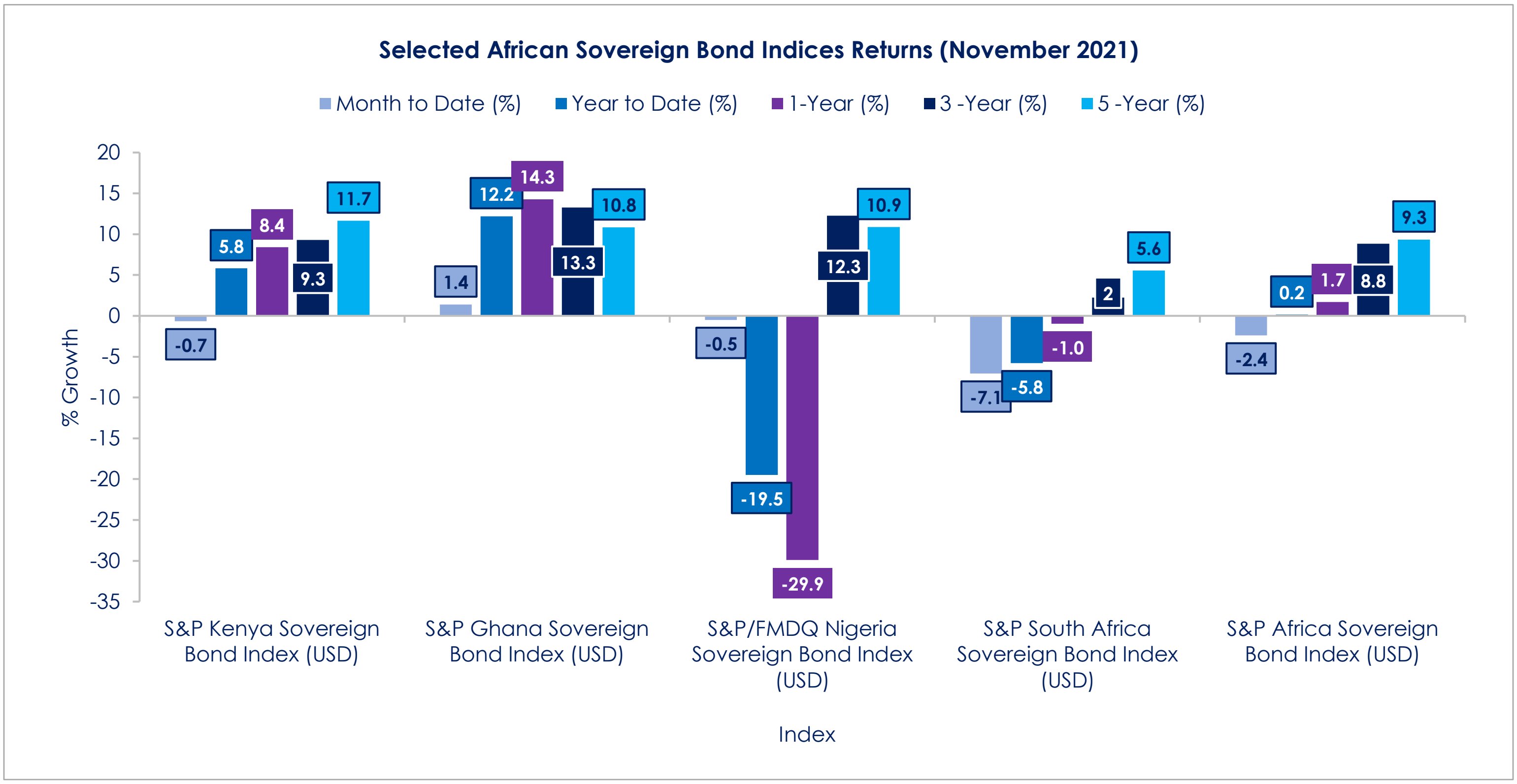


Source: Central Bank of Kenya

Ghana sovereign bond index top performing over the last one year

- The S&P Kenya Sovereign Bond index performed poorly in the month of November 2021 posting a negative return (- 0.7%) compared to October's 1% growth (Figure.16).
- The S&P Ghana Sovereign Bond Index (+14.3%) remains the top performing sovereign bond index with a year to date return of +12.2% and over the last one year +14.3%.
- Over the same periods the Kenya sovereign Bond Index has returned +8.4% and 9.3% respectively.
- It has been gloom for the S&P Nigeria Bond Index over the last one year with a negative U.S$ return (-29.9%) this largely attributable to the 9% depreciation of the Naira over the period under review and rising credit risks.
- All the indices continue to generate positive returns over the last 5 years led by Kenya (+11.7%) and Nigeria (+10.9%) AND Ghana (+10.8%).

Figure.16: S&P Ghana sovereign bond outperforms our comparable sovereign bond indices



Source: S&P Global

NSE yield curve has shifted upwards over the last one year

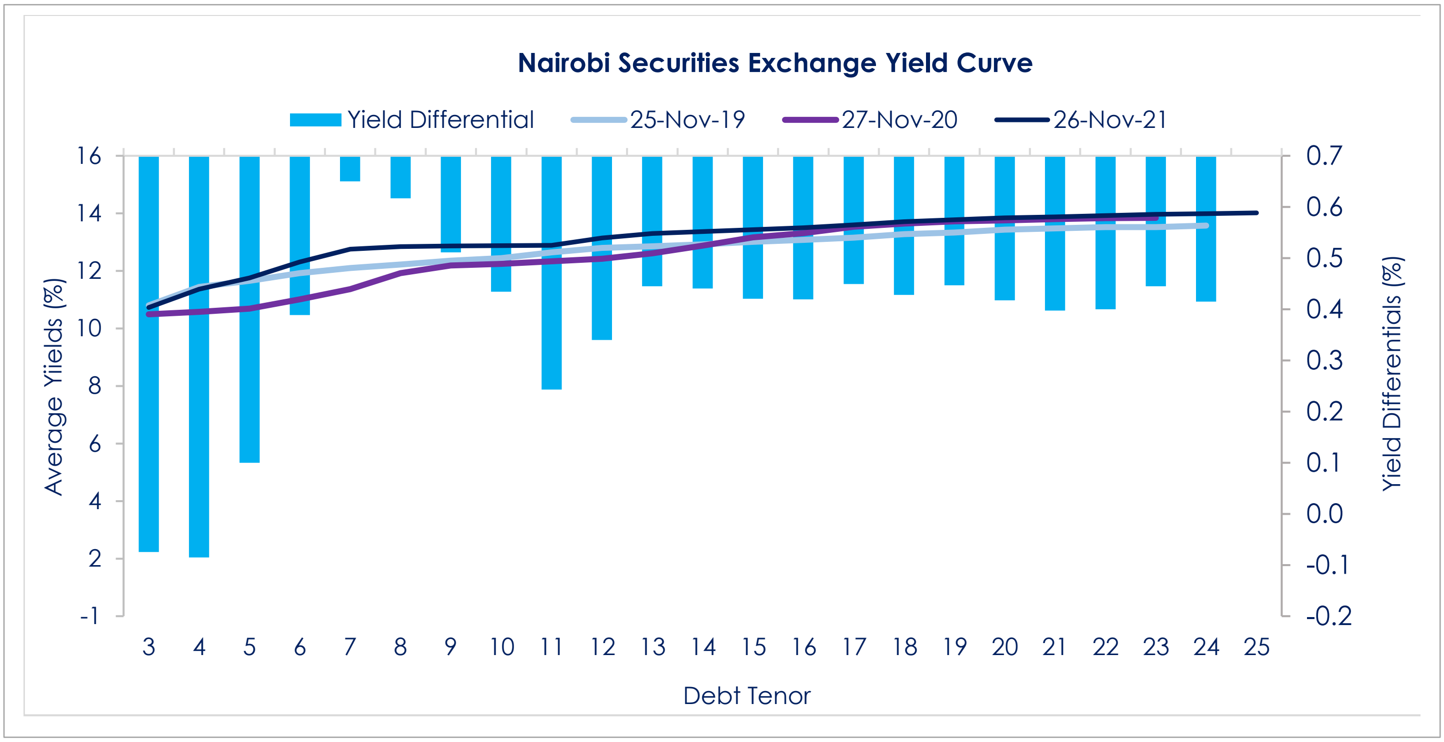
- A comparison of average bond yields in the NSE on 25th November 2019 (issuance FXD4/2019/10) and 26th November 2021 shows a decline in yields on short-term debt tenors while those on medium and long-term debt tenors rose (Table.8 and Figure.17).
- However, a comparison of average yields in November 2021 compared to the same month in 2020 shows an increase in yields on all debt tenors.
- The upward shift in the yield curve over the last one year is a direct result of the CBK being accommodative of more aggressive investor bids to encourage subscription for Government debt.
- We predict further gradual increases in yields over the next few months due to the persistent fiscal budget deficit financing.
- Due to the prospect of rising interest rates, we expect see higher demand or short-term debt with some investors preferring to invest in T-Bills particular the 91 and 182 Day T-Bills.

Table.8: Yields on the short, medium and long-end of the yield curve have increased over the last one year

Tenor	Yields (25th November 2019)	Yields (27th November 2020)	Yields (26th November 2021)	YoY ∆ 26th Nov 2021 vs 27th Nov 2020 (Bps)	∆ 26th Nov 2021 vs 25th Nov 2019 (Bps)	Sterling Capital yield Curve (December 2021)
1	9.8040	8.1510	8.9440	79.3	-86.0	9.00
2	10.1044	9.1500	9.7223	57.2	-38.2	9.85
5	11.1500	10.1850	11.2500	106.5	10.0	11.30
10	11.9417	11.7391	12.3758	63.7	43.4	12.50
15	12.5100	12.6626	12.9307	26.8	42.1	12.85
20	12.9292	13.2500	13.3466	9.7	41.7	13.40

Source: Nairobi Securities Exchange & Sterling Capital Research

Figure.17: The yield curve has shifted upwards over the last one year

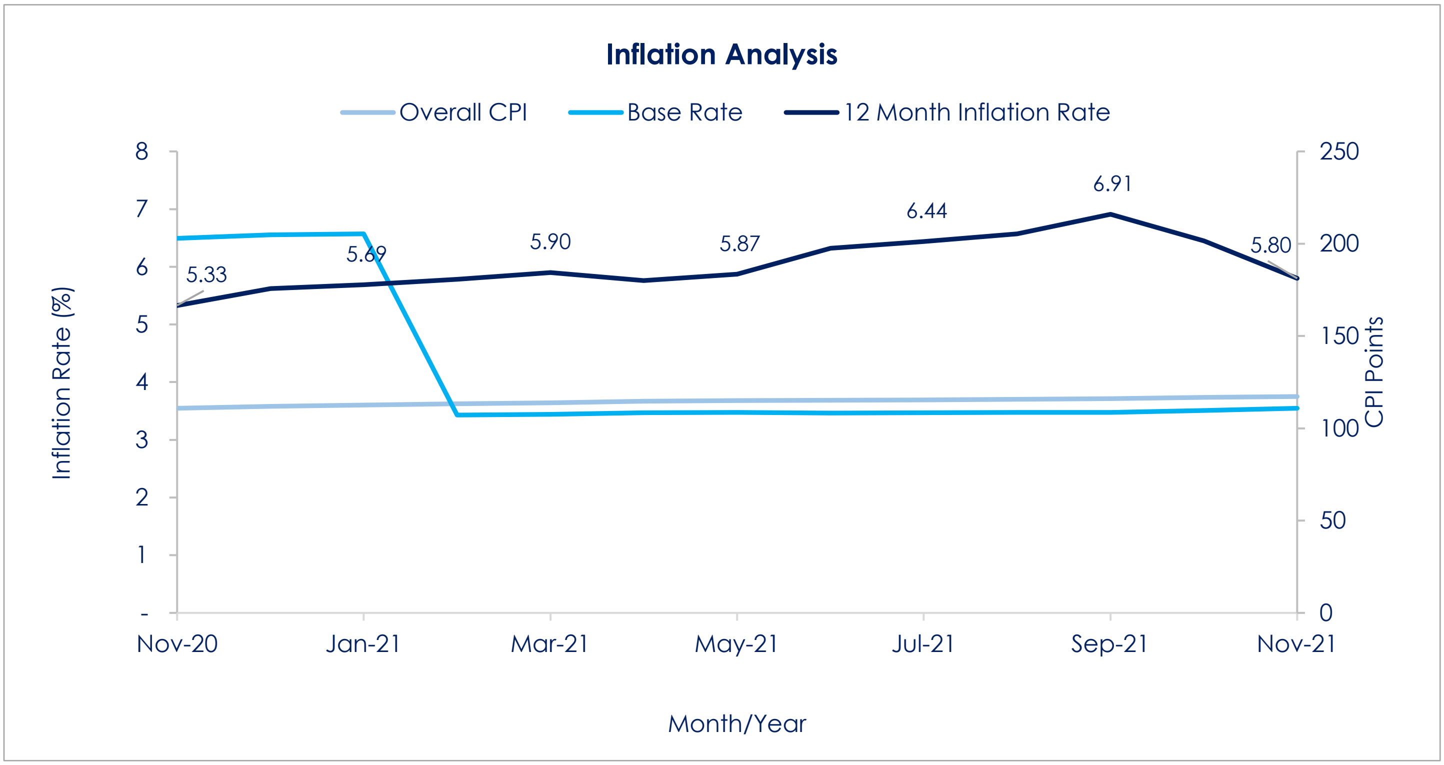


Source: Nairobi Securities Exchange

November 2021 inflation falls on lower fuel and food prices

- Inflation for the month of November 2021 declined to 5.8% from 6.5% in October 2021 (Figure.18).
- This was however significantly higher than the inflation rate for November 2020 (5.3%) but the lowest inflation rate since June 2021.
- The year on year increase was mainly attributable to an increase in prices of commodities under; food, and non-alcoholic beverages (9.9%), transport (8.1%) and housing, water, electricity, gas and other fuels (6.2%).
- Rise in food and transport would be a stern test to the rate of inflation which could edge above 6%.

Figure.18: November 2021 inflation lowest since April 2021



Source: Kenya National Bureau of Statistics

No change to monetary policy in November 2021 meeting

- The MPC met on the 29th of November to review the impact of previous policy measures and as expected retained the Central Bank Rate (CBR) and Cash Reserve Ratio (CRR) at 7% and 4.35% respectively.
- The main points of discussion were as follows:

  1) Notable decline in fuel inflation on a monthly basis due to Government measures to stabilize fuel prices.

  2) Elevated inflation levels on food prices, however, inflation is expected to remain within the target range in the near term.

  3) Strong recovery of the economy largely supported by improved performance of the service sector particularly in transport and storage, education, information and communication, wholesale and retail trade, construction as well as manufacturing sectors.

  4) Foreign exchange reserves, which currently stand at US$8.7Bn (5.36 months of import cover) continue to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.

MPC maintained the CBR and CRR at 7% and 4.25% respectively in November meeting.

5) The position of private sector credit which stood at 7.8% in October compared to 7% in August. The increase was due to strong credit growth in manufacturing, transport and communication, business services and consumer durables.

6) Gross Banking sector Non-Performing Loans (NPLs) stood at 13.6% of in October 2021 with noted repayments and recoveries in trade, manufacturing, personal and financial services sectors.

7) Exports growth of 10.8% between January and October 2021 mainly driven by exports of horticulture and manufactured goods with a decline however noted in both the price and volume of tea.

   Imports increased 23.6% over the same period, reflective of the increase in imports of oil and other intermediate goods. The current account deficit is estimated at 5.4% of GDP in the 12 months to October and is projected at 5.2% of GDP in 2021.

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