STERLING CAPITAL
Inspired Financial Solutions

Fixed Income Note

August 2022

"The National Treasury's missed targets"

Thursday, 11 August 2022

Analysts:

Renaldo D'Souza
Renaldo.DSouza@sterlingib.com

Davis Gathinji
Davis.Gathinji@sterlingib.com

Isabel Chakairu
Isabel.Chakairu@sterlingib.com

Email: research@sterlingib.com

Bond Dealing: +254 (20) 2213914/0723 153 219

Email: invest@sterlingib.com

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

Website www.sterlingib.com

Bloomberg Code: SCLK <GO>

Table of Contents

Executive Summary

- Our August 2022 fixed income report is titled **"The National Treasury's missed targets"** in reference to the Central Bank of Kenya's (CBK) re-opening three-year, ten-year and twenty-year fixed coupon treasury bonds.
- The apex bank seeks to raise KES.50Bn through three re-opened bond issues, **FXD1/2022/03, FXD2/2019/10** and **FXD1/2021/20.**
- Our view is that the three bonds are likely to be undersubscribed with investor interest largely skewed toward the three-year issuance whose short-term nature is favourable in a rising interest rate environment.
- Our weighted average bid predictions are as follows:

  FXD1/2022/03: 12.15% - 12.25%
  FXD2/2019/10: 13.90% - 14.00%
  FXD1/2021/20: 14.20% - 14.35%

- The report covers primary auction outcomes, secondary market trading trends, short-term domestic debt interest rates and market liquidity.
- Domestic maturities have a huge impact on CBK's borrowing strategy and this debt service is analysed in the report.
- Also covered in the report is the country's current fiscal position including Government revenue, expenditure and fiscal deficit as well as its borrowing needs.
- We also include an analysis of the yield curve over selected periods showing trends in yields of different tenors.
- Our report concludes with our inflation expectations and a summary of the Monetary Policy Committee (MPC) decision in July.

CBK re-opens three bonds to raise KES.50Bn in August 2022

- The Central Bank of Kenya (CBK) invites bids for three re-opened Treasury Bonds (T-Bonds); **FXD1/2022/03**, **FXD2/2019/10** and **FXD1/2021/20** to raise KES.50Bn (Table.1).
- While we do expect the three bonds to be undersubscribed, we expect investors to bid aggressively on the three debt issues to test the resolve of the CBK to try to keep interest rates low.
- The CBK is intent on keeping rates at below 14% as observed in recent medium and long-term debt auctions where it rejected investor bids above this rate.
- This situation has meant that the yield curve from the 10-year tenor has largely remained flat.
- If CBK insists on suppressing interest rates, the yield curve may begin to invert.
- To subvert the foregoing, the apex bank is likely to accept increasingly aggressive investor bids in this and subsequent auctions.

Table.1: Primary Bond issues' summary

Issue Number	**FXD1/2022/03**	**FXD2/2019/10**	**FXD1/2021/20**
Total Amount Offered	KES.50Bn		
Tenor	2.7 Years	6.7 Years	19.1 Years
Coupon Rate (%)	11.766%	12.300%	13.444%
Price Quote	Discounted/Premium/Par		
Period of Sale	29th July 2022 - 16th August 2022		
Auction Date	17th August 2022		
Value Date	22nd August 2022		
Yield Curve (%) (Weighted average tenor - 31st July 2022)	**11.9409%**	**13.6660%**	**14.0495%**

Source: Central Bank of Kenya & Sterling Capital Research

Our market weighted average bid predictions

- We arrived at our market weighted average bid predictions by analysing implied yields of securities of similar tenors on the Nairobi Securities Exchange (NSE) as at 31st July 2022 and discussions with several fixed income traders (Table.2).

Table.2: Auction bid predictions

Rate	**FXD1/2022/03**	**FXD2/2019/10**	**FXD1/2021/20**
Weighted Average bid predictions (%)	12.15 - 12.25	13.90 - 14.00	14.20 - 14.35

Source: Sterling Capital Research

Our predicted rates are guided by historical debt issues

- We used implied yields of bonds of similar tenors to maturity on the NSE as at 31st July 2022 as a guide for possible investor auction bid levels (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
FXD1/2022/03	11th April 2022	11.766	7th April 2025	981	11.8201	11.7325
FXD2/2019/10	15th April 2019	12.300	2nd April 2029	2,437	13.5564	12.1278
FXD1/2021/20	16th Aug 2021	13.444	22nd July 2041	6,931	14.0386	13.3688

Source: Central Bank of Kenya

- Historical auction results of 10 and 20-year debt issues since 2018 shows that both tenors are largely undersubscribed in primary auctions as investors shy away from longer dated debt issues due to perceived higher duration risk.
- Also noted is the undersubscription of the 3-year issue, which we attribute to tight market liquidity at the point of issuance.
- The above supports our view that these re-opened issues are likely to be undersubscribed.
- We expect higher subscription for the three-year issue compared to the other two issues (Table.4).

Table.4: Historical primary market auction performance

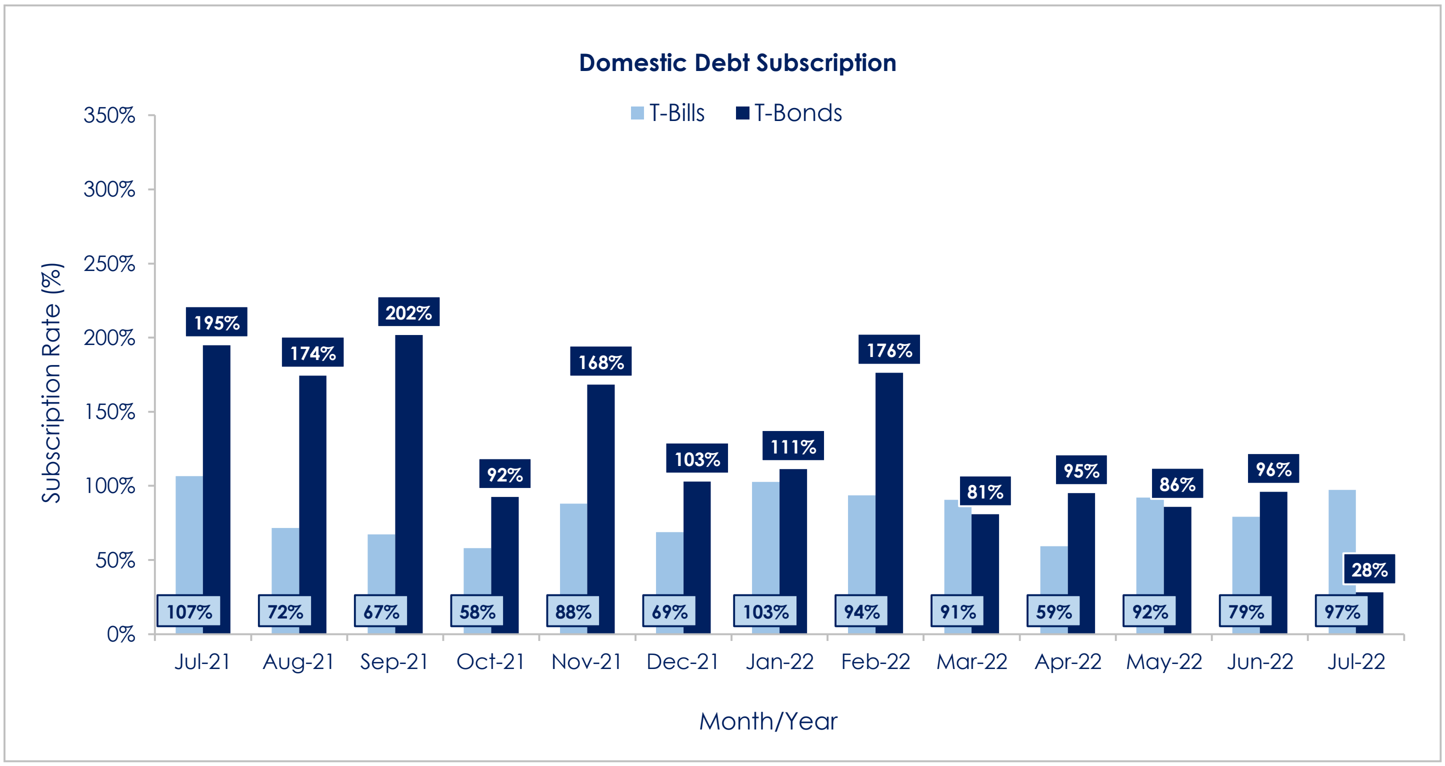
Issue	Issue Date	Offered (KES.Bn)	Bids Received (KES.Bn)	Amount Accepted (KES.Bn)	Performance Rate (%)	Coupon Rate (%)	Implied Yield (%)
3-Year							
FXD1/2022/03	11th April 2022	40	34.0	33.1	85.1	11.766	11.8201
10-Year							
FXD1/2018/10	27th Aug 2018	40	29.8	19.4	74.6	12.686	12.2473
FXD2/2018/10	17th Dec 2018	40	28.9	26.2	72.2	12.502	13.5412
FXD1/2019/10	25th Feb 2019	50	36.3	32.8	72.7	12.44	13.5503
FXD2/2019/10	15th April 2019	50	70.9	51.3	141.9	12.30	13.5564
FXD3/2019/10	19th Aug 2019	50	52.8	45.0	105.5	11.52	13.5709
FXD4/2019/10	25th Nov 2019	50	38.4	28.4	76.8	12.28	13.5813
FXD1/2022/10	16th May 2022	60	32.9	28.7	54.8	13.49	13.6500
20-Year							
FXD1/2018/20	26th Mar 2018	50	19.8	8.3	39.6	13.29	13.9538
FXD2/2018/20	30th July 2018	40	13.9	10.5	34.7	13.20	13.9664
FXD1/2019/20	15th April 2019	50	14.7	9.0	29.4	12.873	13.9856
FXD1/2021/20	16th Aug 2021	60	43.5	39.5	72.5	13.444	14.0386

Source: Central Bank of Kenya

T-Bond subscription steep decline as T-Bill uptake increases in July 2022

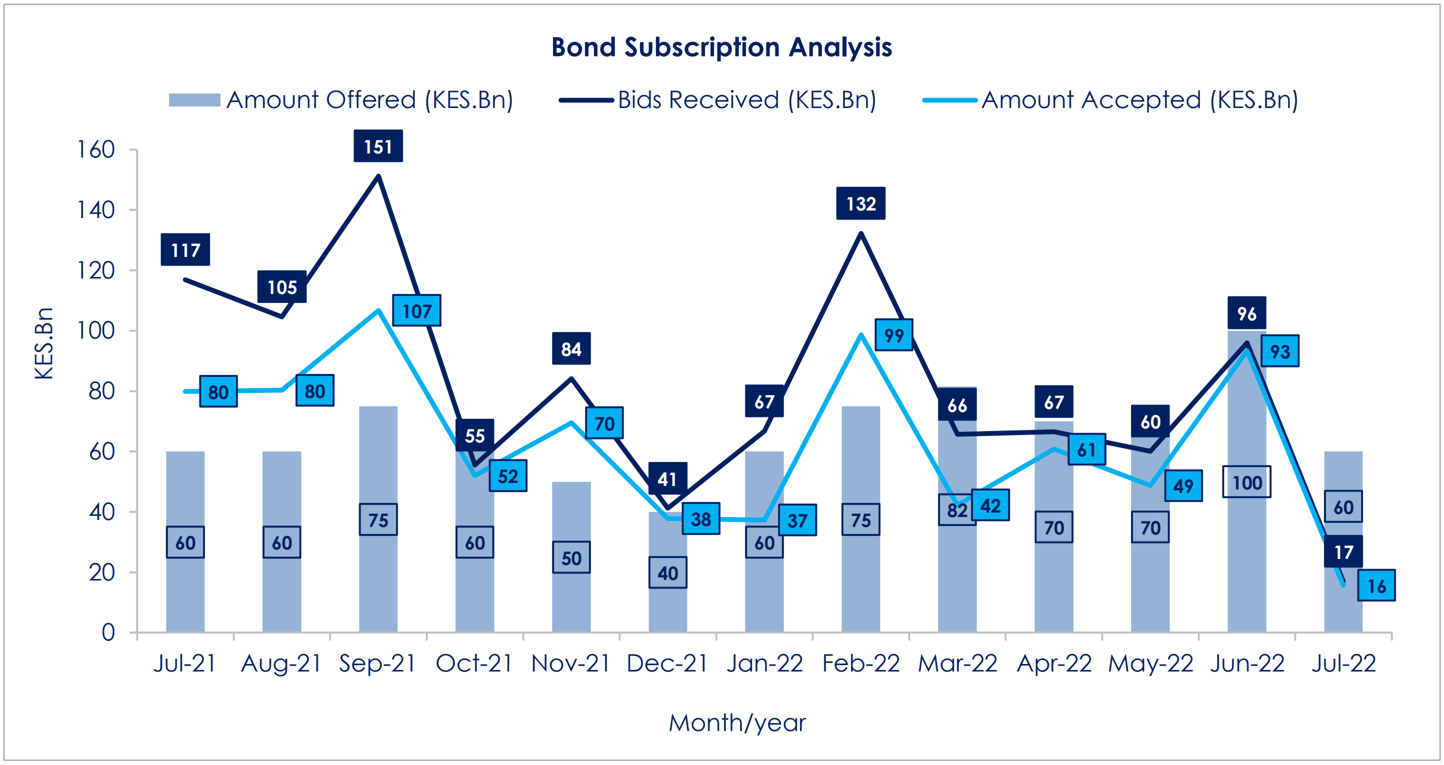
- Aggregate T-Bills subscription rose in July 2022 with KES.93.5Bn bids received against KES.96Bn offered equivalent to a 97.4% subscription rate which was higher than 79.2% previous month (Figure. 1).
- 91-Day T-Bills recorded a 278.1% subscription rate compared to 142.3% in June 2022, while the 182-Day T-Bills and 364-Day T-Bills reported 74.8% and 47.6% compared to 58.6% and 74.4% in June respectively.
- The reason for the longer dated T-Bill undersubscription is investors' unwillingness to lock in their capital for a longer period in an environment of rising interest rates and this explains high subscription for the 91 Day T-Bill.
- During the month, the CBK re-opened two fifteen year fixed coupon bonds - **FXD2/2013/15** and **FXD2/2018/15** and issued a tap sale for **IFB1/2022/18** all of which raised KES.17Bn against a target amount of KES.60Bn.
- This represented subscription rates of 13.6%, 12.8% and 32% for the three debt issues respectively (Figure. 2).
- We attribute the above largely to investors' lowering duration risk in an environment of rising interest rates; further aggravated by a decline in foreign investor participation resulting from the Federal Reserve rate (Fed Rate) hike.
- In addition, **FXD2/2013/15** and **FXD2/2018/15** were trading at significant discounts in the secondary market which dissuaded investors from investing in the re-opened issues.

Figure.1: Lowest T-Bond subscription in July 2022 since July 2018



Source: Central Bank of Kenya

Figure.2: Bond subscriptions steep decline July 2022

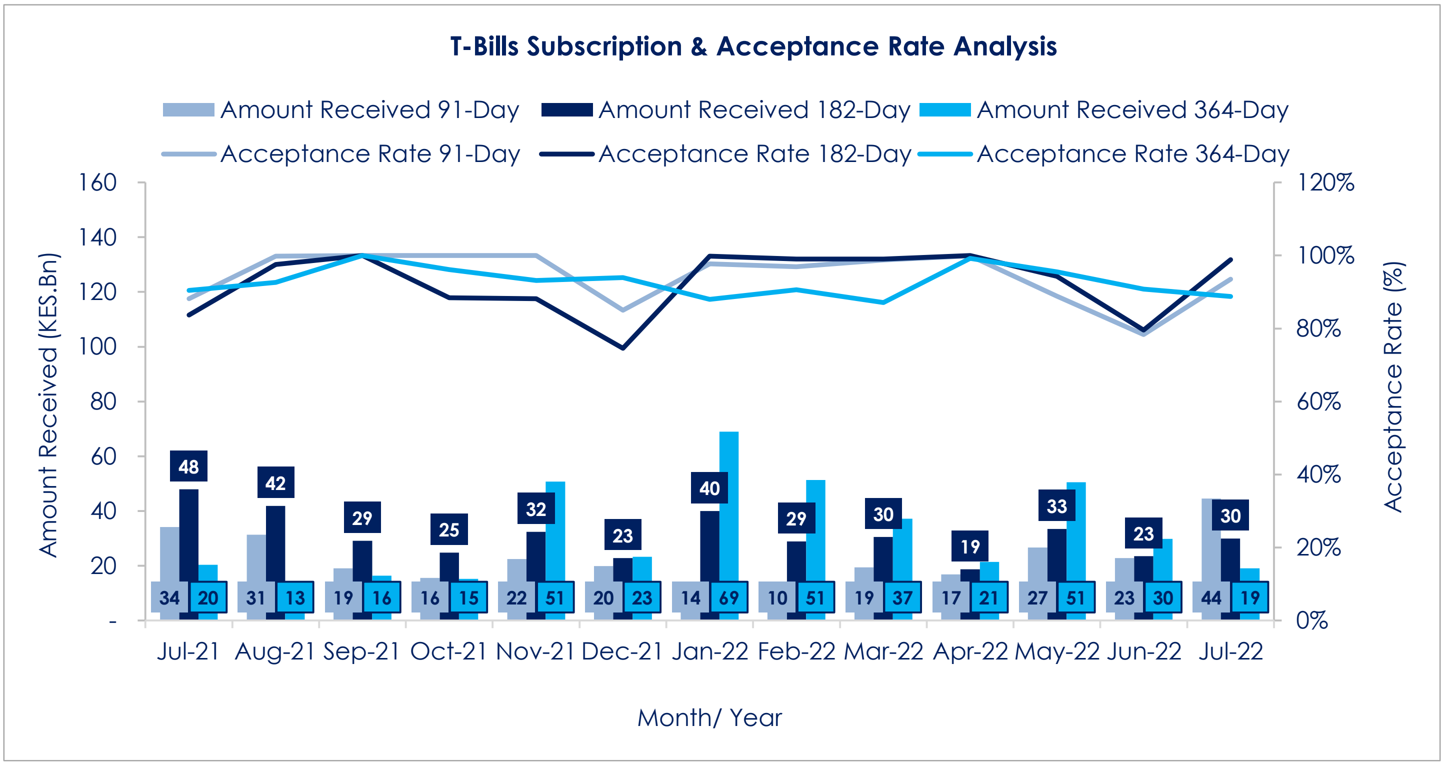


Source: Central Bank of Kenya

91 and 182-Day T-Bill acceptance rate close to 100%

- CBK's acceptance rate for the 91 and 182-Day T-Bills increased to 93.5% and 98.9% in July 2022 compared to 78.4% and 79.6% in June given increased uptake and historical low bond subscriptions during the month (Figure.3).
- However, the 364-Day T-Bill acceptance rates declined slightly to 88.8% from 90.8% given low subscription and CBK rejecting aggressive investor bids.

Figure.3: High 91 and 182-Day T-Bill acceptance rate in July 2022

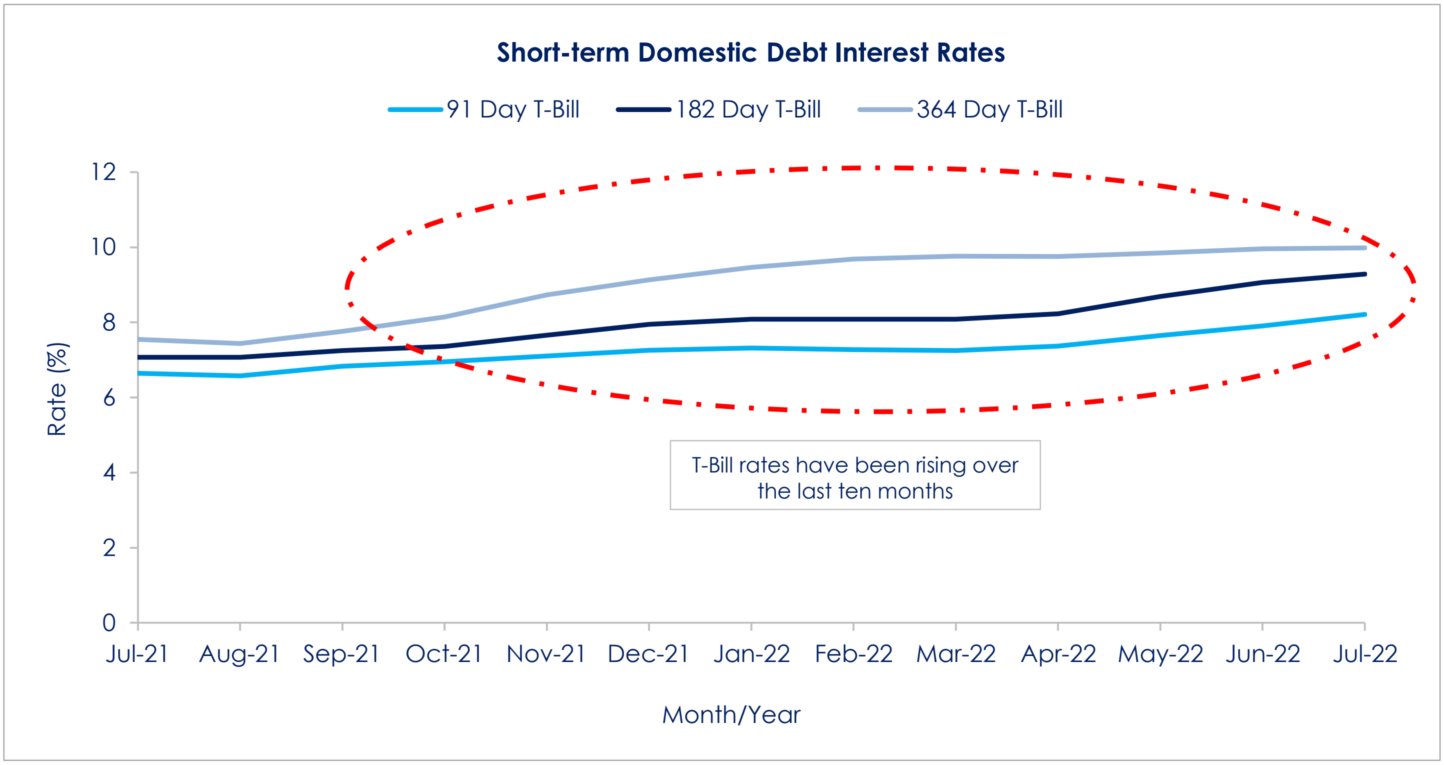


Source: Central Bank of Kenya

Short-term interest rates further rise in July 2022

- Average 91, 182 and 364-day T-Bill rates rose to 8.2%, 9.3% and 9.98% in July 2022 up from 7.9%, 9.1% and 9.96% in June 2022 respectively (Figure.4).
- We attribute the above to rising inflation and investor expectations of a general rise in the level of interest rates following the upward adjustment of the Central Bank Rate to 7.5% from 7% in May 2022.
- The CBK is intent in keeping the T-Bill rates low and particularly the 364 Day below what would be a psychological mark at 10%.
- Given shortfalls in revenue collection and pressure to meet expenditures, we see this barrier being broken in the next few months.

Figure.4: Short-term debt securities interest rates upward trajectory continues

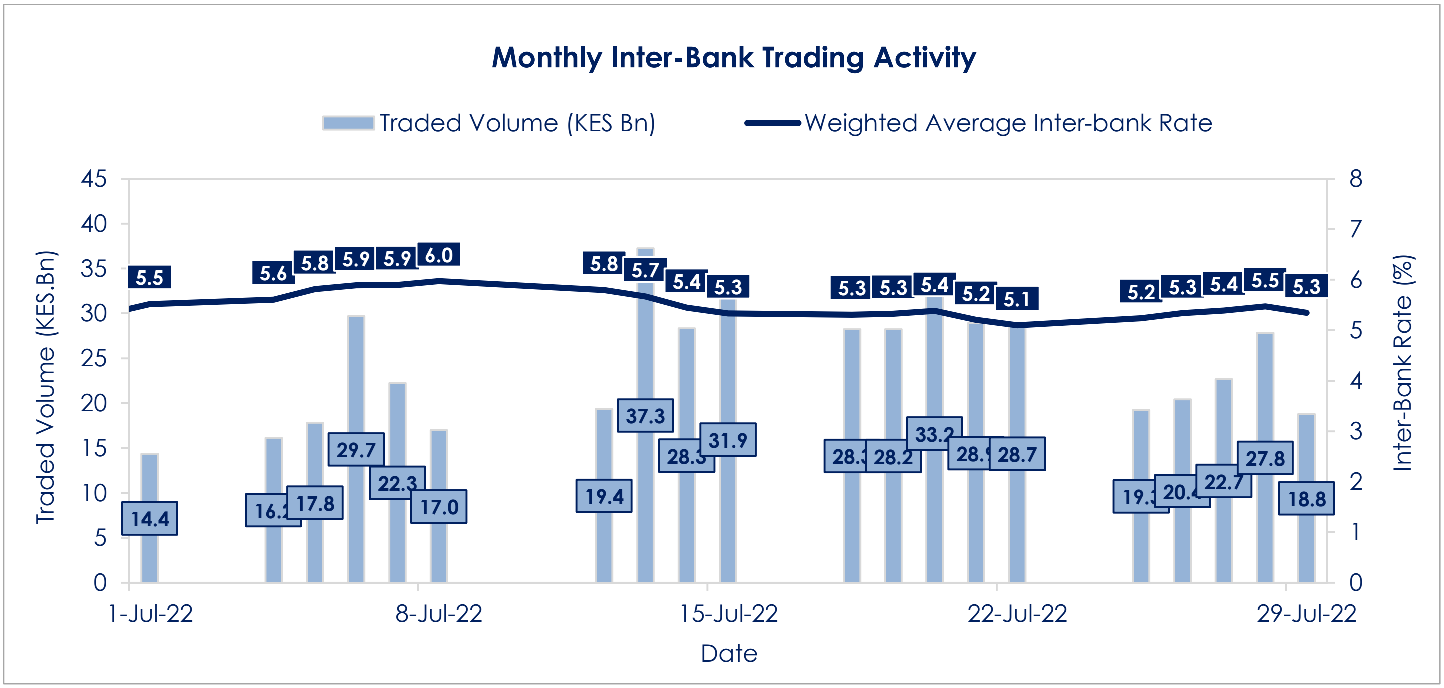


Source: Central Bank of Kenya

Average inter-bank lending rates rise in July 2022

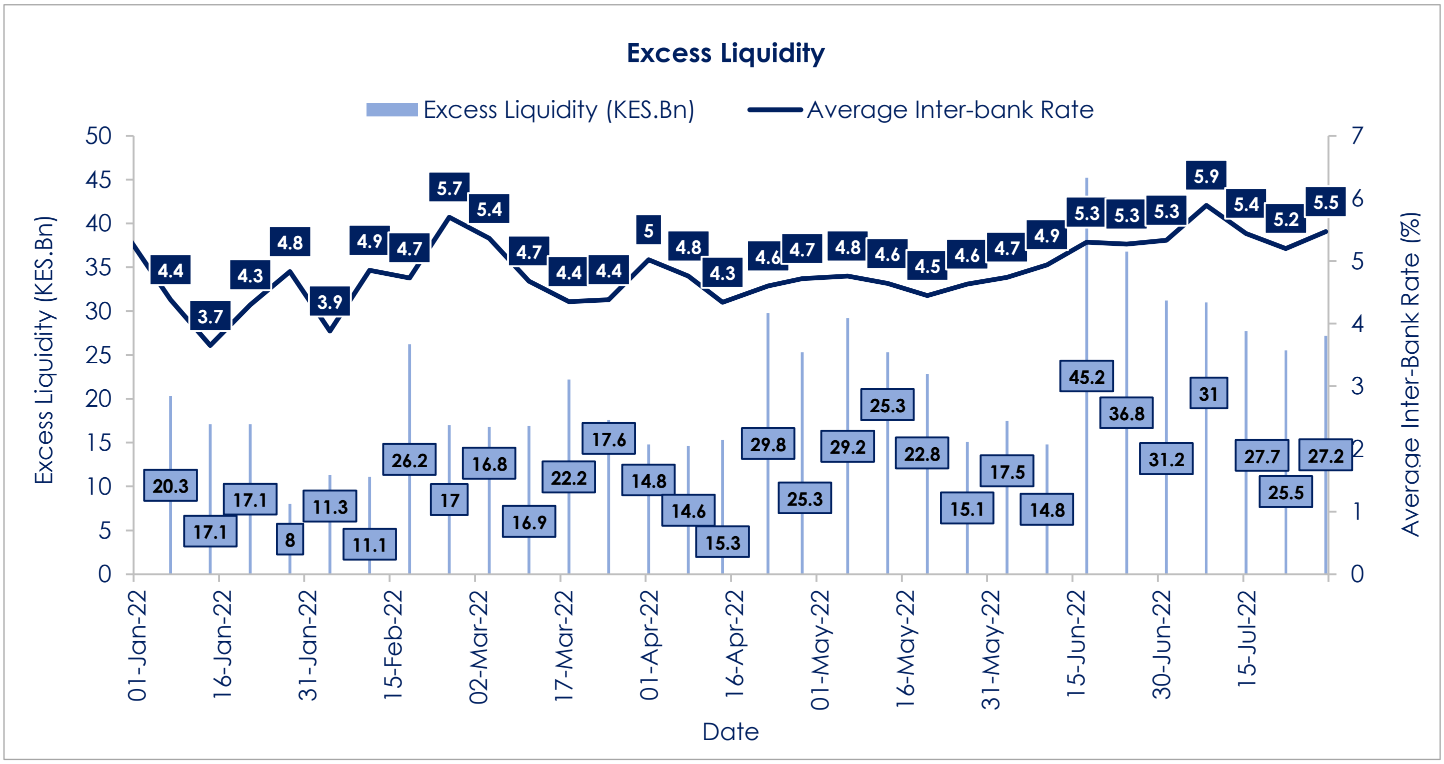
- Average inter-bank rates rose marginally to 5.5% in July 2022 compared to 5.1% in June 2022 while total inter-bank trading volumes over the same period slightly increased 23.4% to KES.490.5Bn from KES.397.5Bn the previous month. (Figure. 5).
- However, over the same period, excess reserves which is the additional liquidity above the minimum 4.25% Cash Reserve Ratio (CRR)) rose 24.8% to KES.142.6Bn, compared to KES.114.3Bn in June (Figure.6).
- We do expect moderate market liquidity levels in August and forecast average inter-bank rates at 5% - 6%.

Figure.5: Inter-bank lending rates to range between 5% and 6% in August 2022



Source: Central Bank of Kenya

Figure.6: Excess commercial bank reserves rise 25% in July 2022

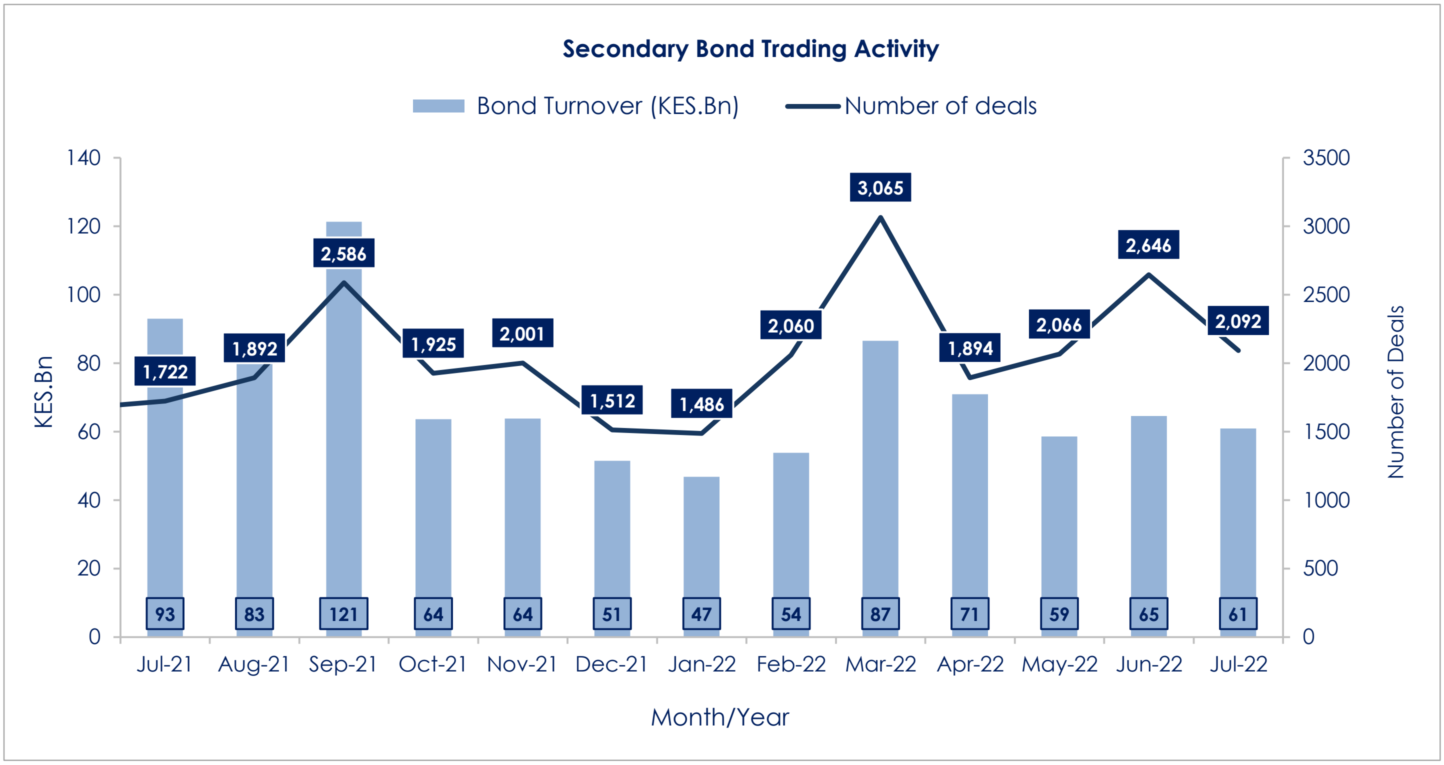


Source: Central Bank of Kenya

Secondary market bonds dips 20.9% in July 2022

- Secondary market trading activity declined 20.9% in July 2022 to KES.60.9Bn from KES.64.5Bn in June 2022 with the number of deals over the same period decreasing 20.9% to 2,092 from 2,646 (Figure.7).
- This can be explained by elevated interest in Kenya Eurobonds that are offering attractive yields in US$ terms.
- In addition, there has been a significant interest in 91 and 182-Day T-Bills as investors hedge against duration risk given rising interest rates.
- We expect moderate activity in August pending the General elections.

Figure.7: Secondary trading activity decline in July 2022

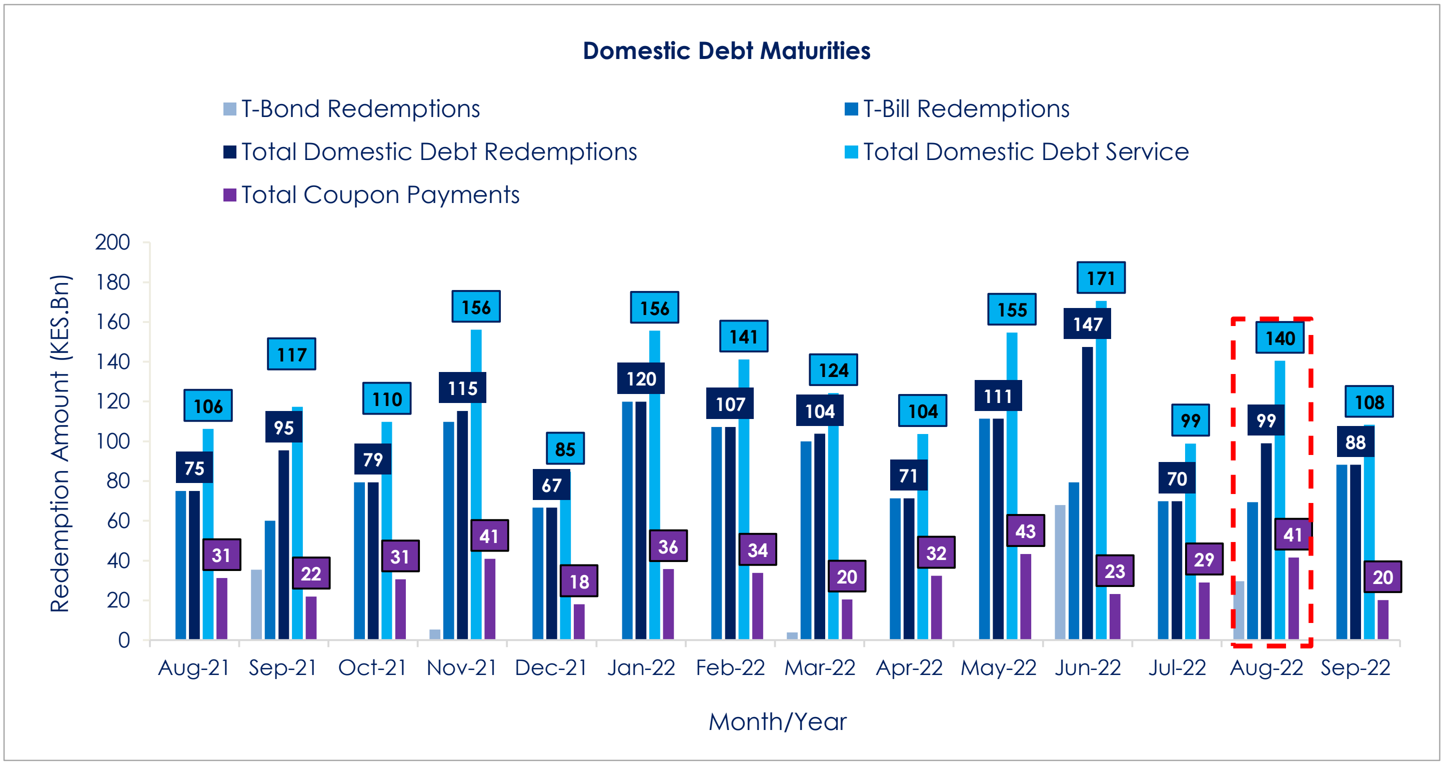


Source: Central Bank of Kenya

KES.140Bn in total domestic debt service for August 2022

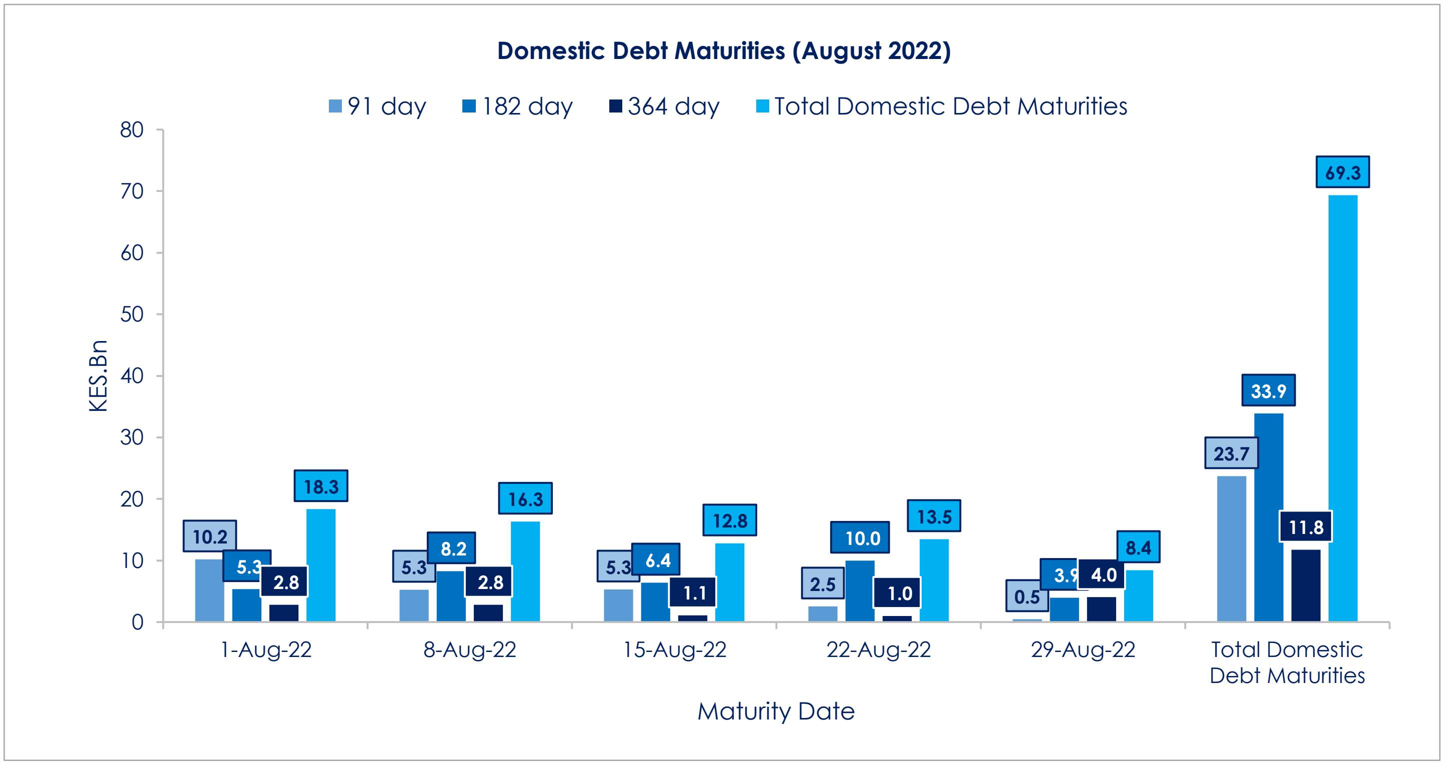
- Total domestic debt service for August is KES.140.4Bn, 42% higher than July's KES.98.9Bn (Figure.8).
- This comprises of redemptions of **FXD1/2017/5** (KES.29.6Bn), T-Bills (KES.69.3Bn) and T-bond coupon payments (KES.41.5B).
- Redemptions for the 91, 182 and 364-day T-Bills during the month are KES.23.7Bn, KES.33.9Bn and KES.11.8Bn respectively with the first week of the month having the highest redemptions at KES.18.3Bn (Figure.9).

Figure.8: August debt service KES.140Bn



Source: Central Bank of Kenya

Figure.9: Weekly debt maturities August 2022

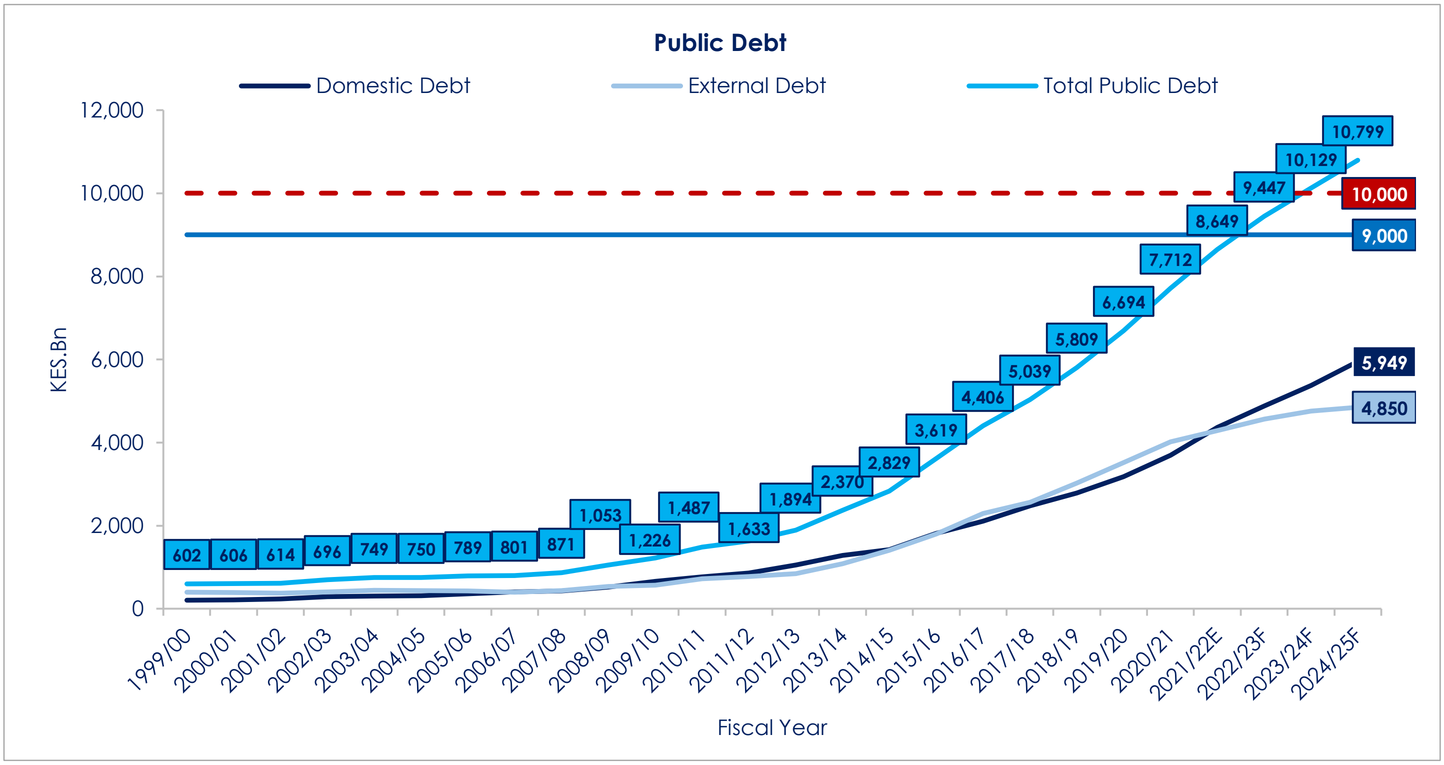


Source: Central Bank of Kenya

Kenya's spiralling public debt is a grave concern

- Data from the National Treasury shows Kenya's public debt at the end of May 2022 at KES.8.56Bn equivalent to 69.1% of the country's Gross Domestic Product (GDP) (Figure.10).
- This debt comprised of KES.4.27Tn and KES.4.295Tn is domestic and external debt thus a domestic/external debt ratio of 49.8%/50.2%.
- The pace of growth is also explained by the huge disparity between Government revenue and expenditure which has exposed a wider fiscal deficit that can only be bridged through both domestic and external financing.
- As mentioned in our Public Debt Sustainability report titled "Are we in the red?", it is the pace of this growth that is a great concern as it has a major impact on the country's debt service.
- Total debt service is also estimated to account for 53.2% and 63.7% of total recurrent expenditure and ordinary (tax) revenue respectively.
- The Kenyan parliament raised the country's debt ceiling from KES.9Tn to KES.10Tn in June 2022 given that the existing ceiling would not allow for deficit financing of the 2022/23 fiscal budget.
- At the current pace of growth, we see this new ceiling being bridged in the 2023/24 fiscal year.

Figure.10: Kenya's public debt has grown at a rapid pace over the last 10 years



Source: Central Bank of Kenya

2021/22 tax and non-tax revenue targets exceeded but borrowing targets missed

- Data from the National Treasury at the end of the 2021/22 fiscal year (30th June 2022) shows KES.3.06Tn in total revenue this being equivalent of 91.7% of its total target (Table.5 and Figure.11).
- Most notably was that it realized KES.1.84Tn in tax revenue against a revised target of KES.1.78Tn, this being 103.1% of the target.
- We also note an outperformance in Non-tax revenue at 116.8% of the revised target.
- Of great concern however is that the Treasury failed to meet both its domestic and external borrowing targets at KES.877Bn (85.8%) and KES.239.6Bn (56.9%) in spite of a 11.9% and 39.1% increase respectively in the last month of the fiscal year.
- The shortfall in external borrowing were expected after the Treasury shelved its proposed US$1Bn (KES.118Bn) Eurobond over the concerns around cost under the current high interest environment and depreciation of the Kenya Shilling (KES).
- We however expected an increase in domestic borrowing to offset a portion of this shortfall which did not materialize meaning that the Treasury was obliged to cut down on its expenditure.

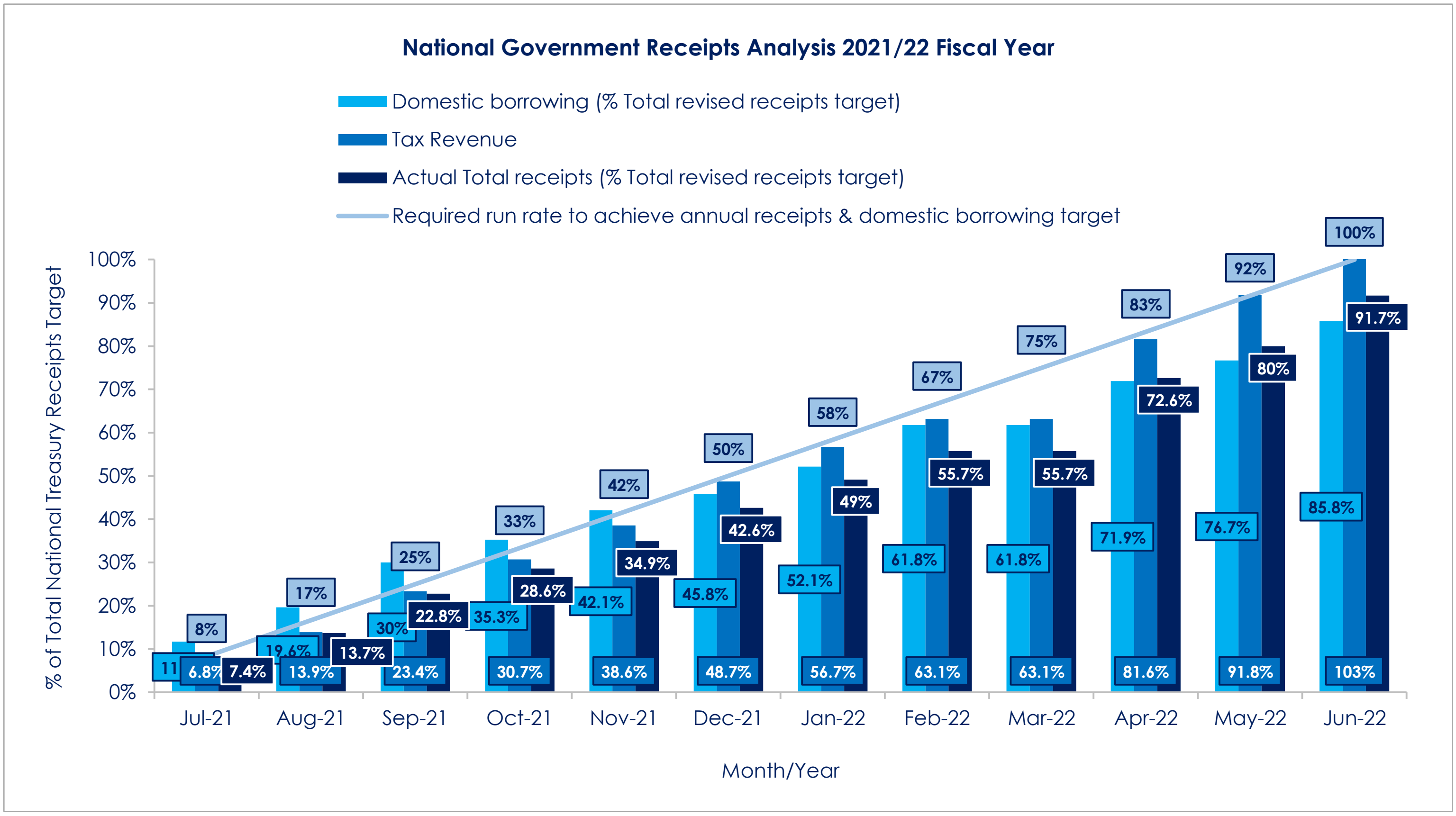
Table.5: 2021/22 Tax & Non-Tax receipts exceed 2021/22 fiscal year targets

Receipts	Original Estimates July 2021 (KES.Bn)	Revised Estimates Jun 2022 (KES.Bn)	Actual Receipts 31st May 2022 (KES.Bn)	Actual Receipts 30th Jun 2022 (KES.Bn)	Proportion of Total Receipts 30th Jun 2022
Opening Balance (1st July 2021)		21.3	21.3	21.3	
Tax Revenue	**1,707.4**	**1,784.4**	**1,637.9**	**1,839.5**	**103.1%**
Non-Tax Income	68.2	67.1	59.6	78.4	116.8%
Domestic Borrowing*	**1,008.4**	**1,022**	**783.5**	**877**	**85.8%**
External Loans & Grants	379.7	421.2	172.2	239.6	56.9%
Other Domestic Financing	29.3	40.1	13.2	23.2	57.9%
Total Revenue	**3,193**	**3,334.8**	**2,666.3**	**3,057.7**	**91.7%**
Linear Run Rate target (12 months of fiscal year)					**100%**

* Note 1: Domestic Borrowing of KES.1,022Bn = Net Domestic borrowing KES.678.1Bn & Internal Debt Redemptions (Roll-overs) KES.343.9

Source: The Kenya Gazette Vol. CXXIV - No.141 22nd July 2022

Figure.11: National Treasury surpasses 2022/22 fiscal year tax revenue target

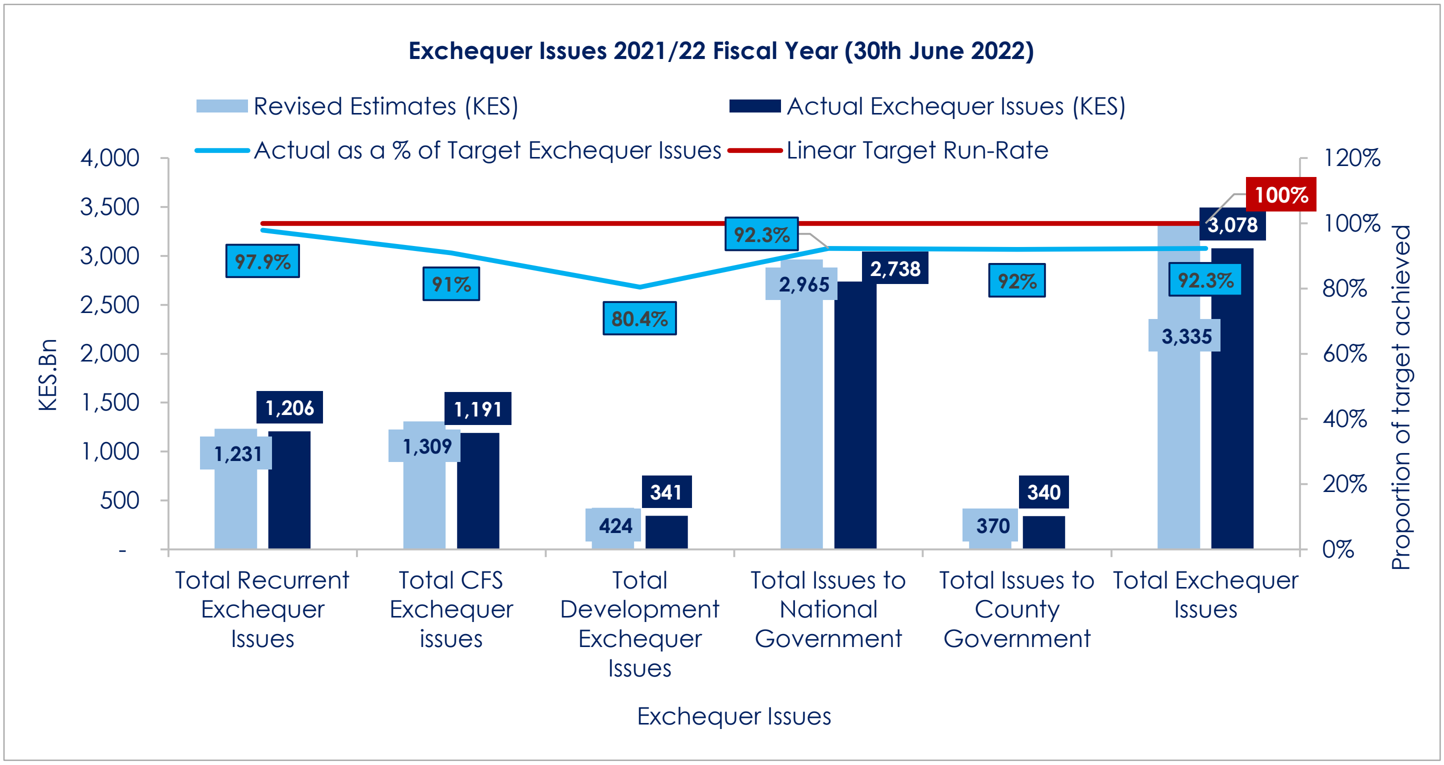


Source: The Kenya Gazette Vol. CXXIV - No.141 22nd July 2022

Government fails to meet 2021/22 fiscal year expenditure targets

- Actual total Government expenditure stood at KES.3.08Tn equivalent to 92.3% of the revised total fiscal year target of KES.3.33Tn (Figure.12).
- We believe that this underperformance was driven by shortfalls in Government receipts with Government achieving 91.7% of its total revenue target and both domestic and external borrowing falling short of targets.
- Total recurrent expenditure at 97.9% was the closest to meet the fiscal year target.
- As is often the case in periods of revenue shortfalls, Government cuts down on development funding reflected in the 80.4% of the fiscal year target.
- We also note a significant increase (KES.53.9Bn or 18.8%) in transfer to counties between May and June 2022 to KES.340.4Bn against a target of KES.370Bn.
- We therefore expect heightened tax revenue collection and borrowing in 2022/23 to meet both the deficits of the last and current fiscal years and this will most certainly call for a readjustment of the fiscal financing target from KES.862.5Bn as stated in the 2022/23 fiscal budget to over KES.1Tn.

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

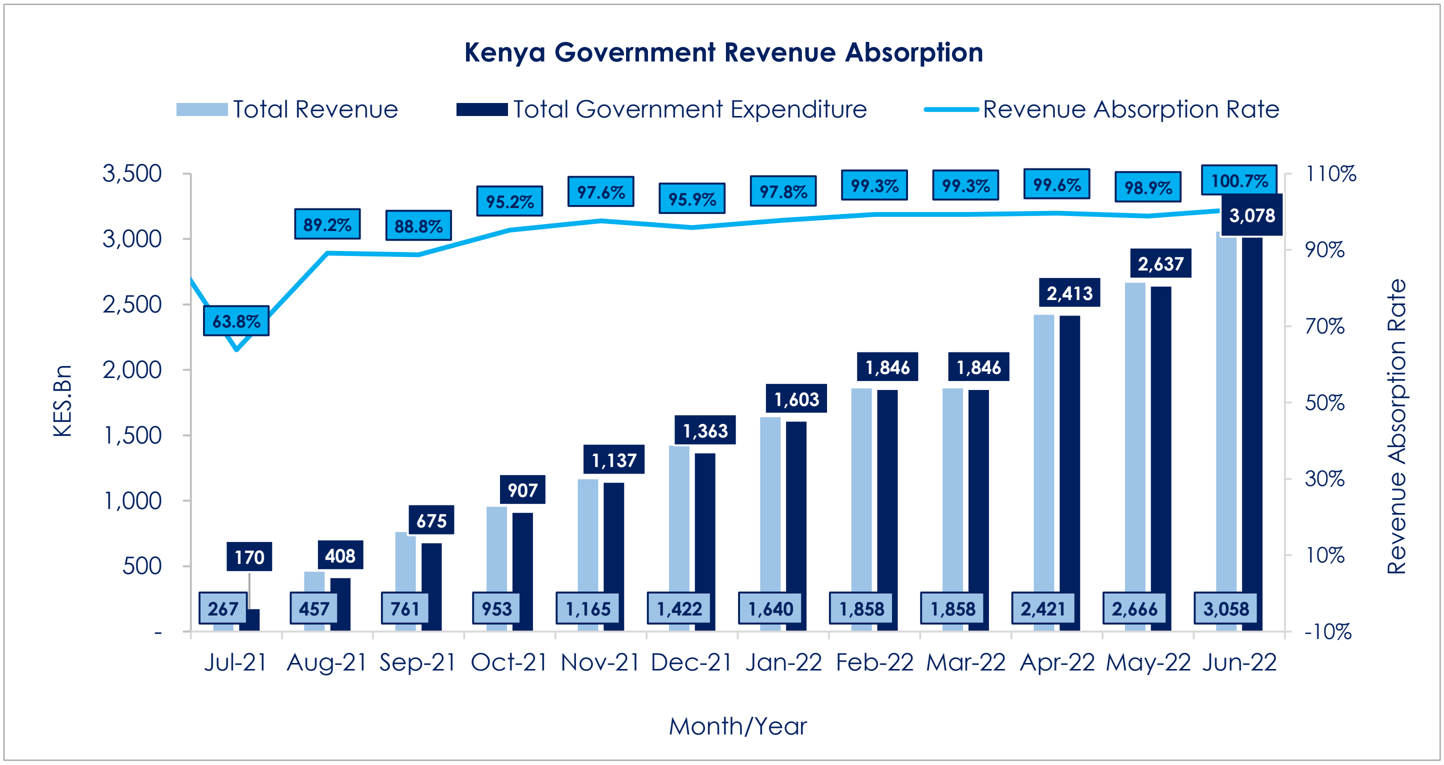


Source: The Kenya Gazette Vol. CXXIV - No.141 22nd July 2022

National Treasury reports full revenue absorption in June 2022

- RAA is the proportion of Government receipts used to finance expenditure.
- The National Treasury reported at 100%+ Revenue Absorption Rate (RAA) in June 2022 (Figure.13) meaning that the Government spent more than it raised in revenue.
- This is a clear indication of revenue constraints against high expenditure needs.

Figure.13: Revenue absorption is high showing close to full utilization

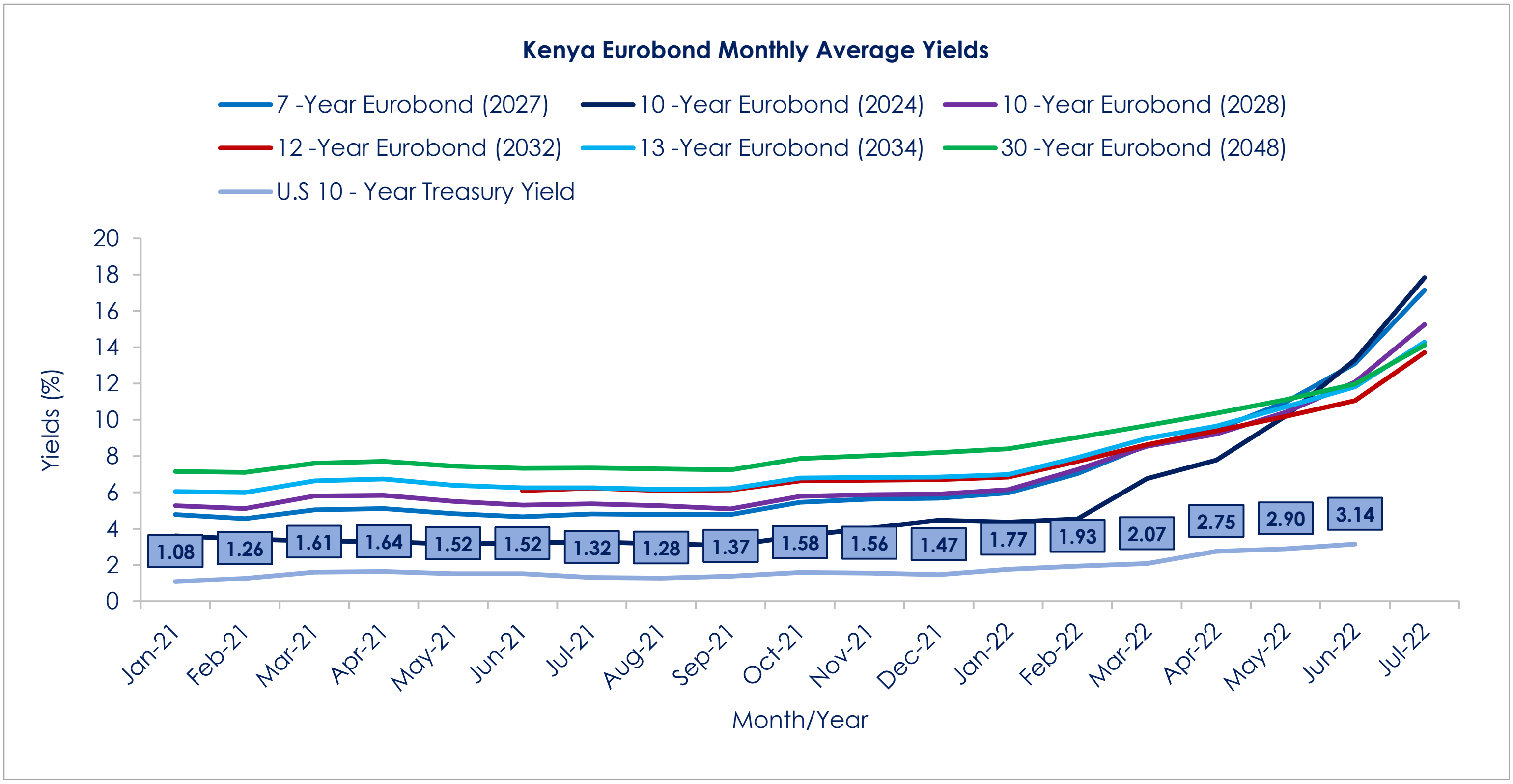


Source: The Kenya Gazette Vol. CXXIV - No.141 22nd July 2022

Spike in Kenya Eurobond yields as global economic uncertainty and interest rates rise

- Average Kenya Eurobond yields rose 316 bps in July compared to June 2022 and 908 bps year to date (Figure.14).
- This is attributed to a combination of the impact of the Russia-Ukraine crisis on inflationary pressure and in turn global benchmark interest rates and more specifically the Federal Reserve rate (Fed Rate).
- Average yields on the U.S 10-Year Treasury have increased 143 bps year to date in spite of a decline of 25 bps between June and July 2022.
- We expect Kenya Eurobond yields to remain elevated in the near term, a trend that presents a huge investment opportunity for investors with a high-risk tolerance.

Figure.14: Kenya Eurobond yields remain elevated

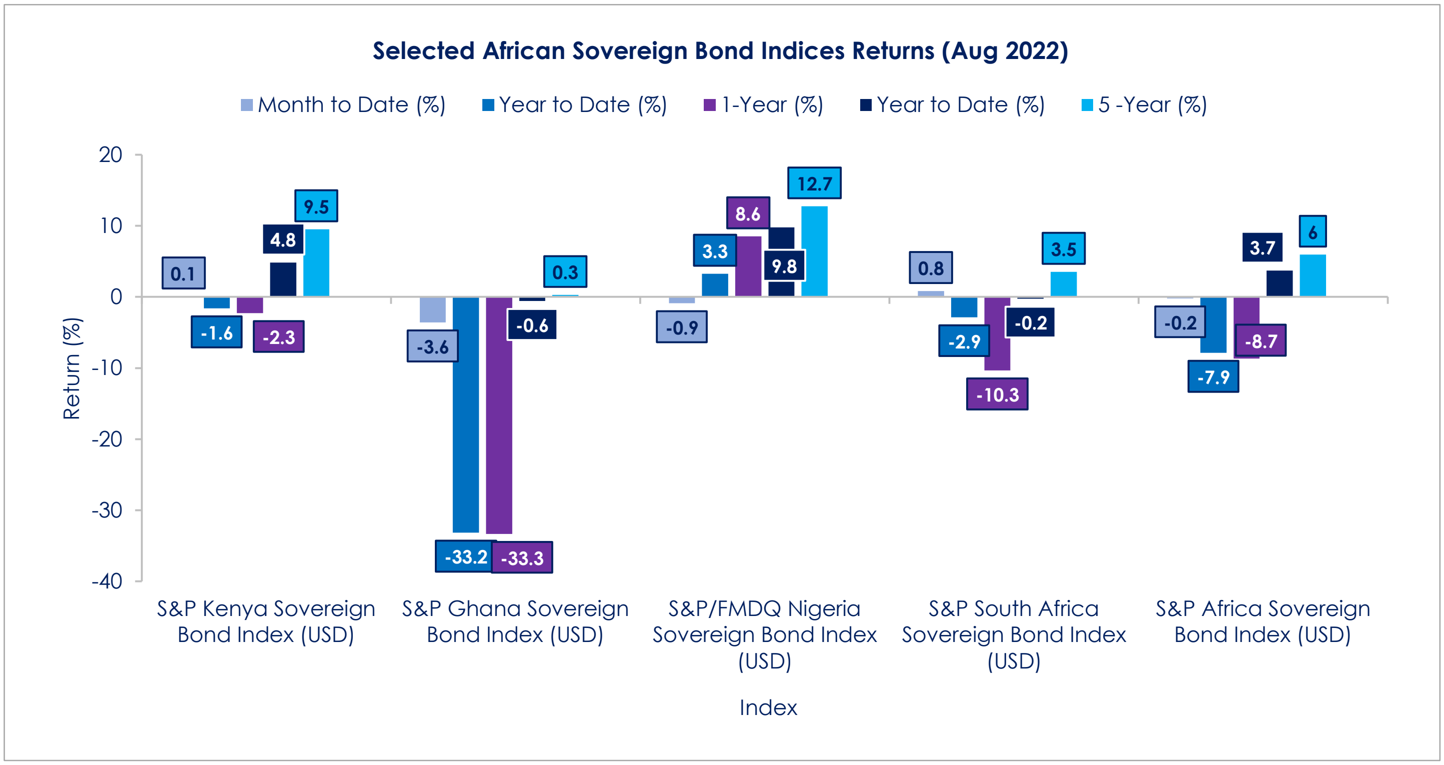


Source: Central Bank of Kenya

Nigeria sovereign bond index tops year to date performance

- The S&P/FMDQ Nigeria Sovereign Bond Index remains the best performing sovereign bond index amongst our comparables year to date, over the one year and five years' period with returns of 3.3% and 8.6% and 12.7% respectively (Figure.15).
- The index has performed fairly well compared to the other indices in focus because of a comparatively better currency performance.
- The Nigerian Naira has depreciated 1.5% over the United States Dollar (US$) compared to 42.1%, 14.8% and 9.7% for the Ghanaian Cedi, South African Rand and the KES.
- The Kenya Eurobond index has recovered marginally to report a positive performance month to date and over the three and five years' periods respectively.
- The poor performance of the African sovereign bonds can be attributed to rising global interest rates, uncertainty over the fiscal positions of the African sovereign debt issuers and currency depreciation.
- The poor performance of the sovereign bond indices is expected in the short-term.

Figure.15: S&P Nigeria bond index outperforms our comparable sovereign bond indices in the one-year period



Source: S&P Global

Yield curve shifts further upwards

- A comparison of average yields on the NSE on 18th April 2019 (issuance of **FXD2/2019/10** and 20th August 2021 (issuance of **FXD1/2021/20**) to the most recent 31st July 2022 shows an increase in yields across the curve. (Table.6 and Figure.16).
- This is also the case when we compare current yields with those at the same time last year.
- The foregoing trend is in light of investors continuously taking advantage of the Government's fiscal situation and rising inflationary pressure by bidding aggressively in domestic debt auctions.
- On its part, the CBK has been intent to keep interest rates below 14% as observed in recent debt auctions, a situation that has resulted in flattening of the yield curve in tenors of 10 years and beyond.
- In fact, the difference between the 23-year tenor and the 10-year tenor is a mere 41.2 bps.
- Despite these attempts, however, we are of the opinion that the fiscal deficit and upward revision of the Central Bank Rate (CBR) to 7.5% from 7% in May 2022 signals further upward pressure in domestic interest rates.
- We forecast a normalization of the yield curve with rates for longer tenors rising gradually in the next few months as the CBK yields to investor pressure.

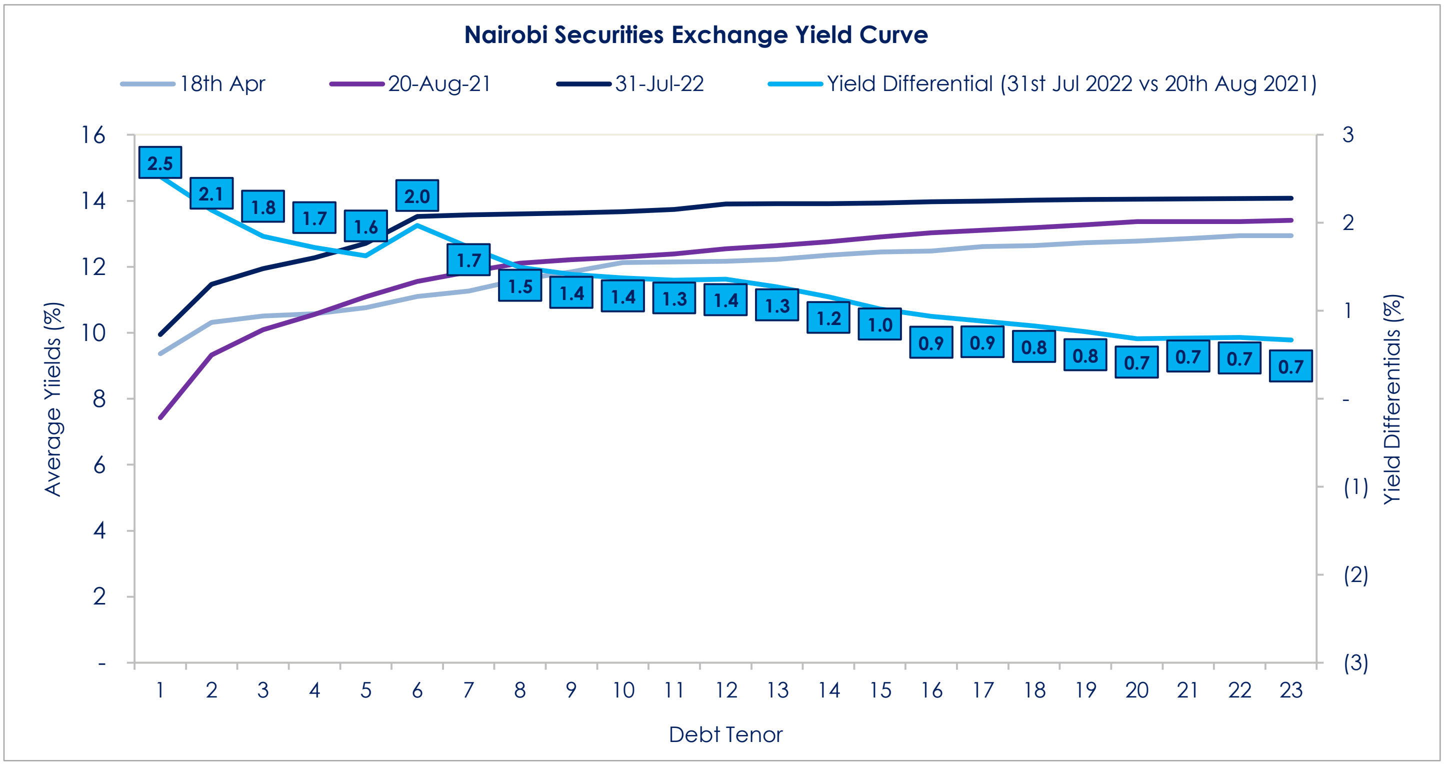
- With the above in mind, we expect the average yields on the short-end (91 days - 3 years) to increase by 80 -100 Basis Points (Bps) with both medium (4 - 9 years) and long-end (10+ years) increasing by 100 - 150 Bps in 2022.
- Investors with a high risk tolerance should consider buying the US$ denominated Kenya Eurobonds to take advantage of current attractive yields with an option of holding till maturity or disposing when trading opportunities arise (Table.7).
- This however is suitable to high net-worth investors (considering the high minimum amount) with US$ holdings or those willing to incur the cost of currency conversion.
- The attractive coupon rates compare favorably to returns available locally for US$ denominated investment assets.
- We maintain a **BUY** recommendation on medium and long-term papers for interest income play given prevailing rates.
- IFBs are generally attractive due to their tax-free component.

Table.6: Yield curve has shifted upwards over the last three years across all tenors

Tenor	Yields (18th Apr 2019)	Yields (20th Aug 2021)	Yields (30th Jul 2021)	Yields (31st Jul 2022)	∆ 31st Jul 2022 vs 18th Apr 2019 (Bps)	∆ 31st Jul 2022 vs 20th Aug 2021 (Bps)	YoY ∆ 31st Jul 2022 vs 30th Jul 2021 (Bps)	Sterling Capital Yield Curve (Aug 2022)
1	9.3649	7.4200	7.4260	9.9460	↑ 58.1	↑ 252.6	↑ 252	10.00
2	10.3152	9.3254	9.3916	11.4711	↑ 115.6	↑ 214.6	↑ 208	11.50
5	10.7583	11.0880	11.0934	12.7109	↑ 195.3	↑ 162.3	↑ 161.8	12.75
10	12.1278	12.2928	12.2981	13.6660	↑ 153.8	↑ 137.3	↑ 136.2	13.65
15	12.4500	12.9069	12.8824	13.9289	↑ 147.9	↑ 102.2	↑ 104.7	13.90
20	12.7781	13.3688	13.2450	14.0495	↑ 127.1	↑ 68.1	↑ 80.5	13.95

Source: Nairobi Securities Exchange

Figure.16: 2022 yields higher on all tenors



Source: Nairobi Securities Exchange

Table.7: Trading ideas - Consider Kenya Eurobonds

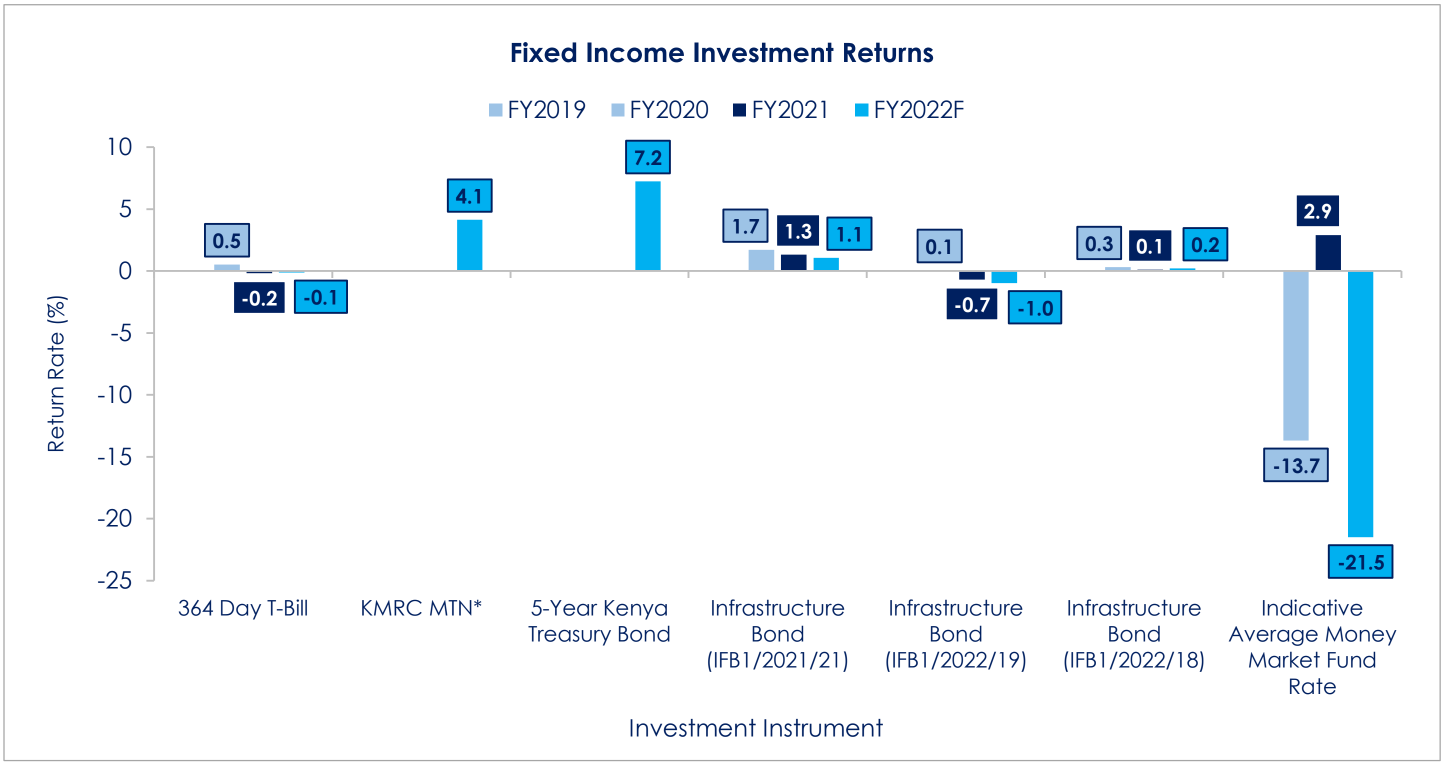
ISIN Code	Issue date	Tenor (Years)	Outstanding amount (US.$ Bn)	Coupon	Yield to maturity (29th July 2022)	Maturity
XS102895240	Jun-14	10	2	6.875%	16.908	Jun-24
XS184343584	May-19	7	0.9	7%	16.954	May-27
XS178171054	Feb-18	10	1	7.25%	15.256	Feb-28

Source: Bloomberg

Kenya debt securities still present attractive investment opportunities

- We analyzed historic and forecasted (2019 – 2022) returns for selected KES denominated investment assets and compared these returns against annual inflation (real return) to determine the highest yielding investment opportunities for investors (Figure.17).
- IFBs on account of comparatively high coupons (interest) and the tax-free element are the most appealing local currency investment instrument.
- Note that these returns are on the basis of interest earned and disregard any potential capital gains.

Figure.17: IFBs remain the most attractive investment instrument

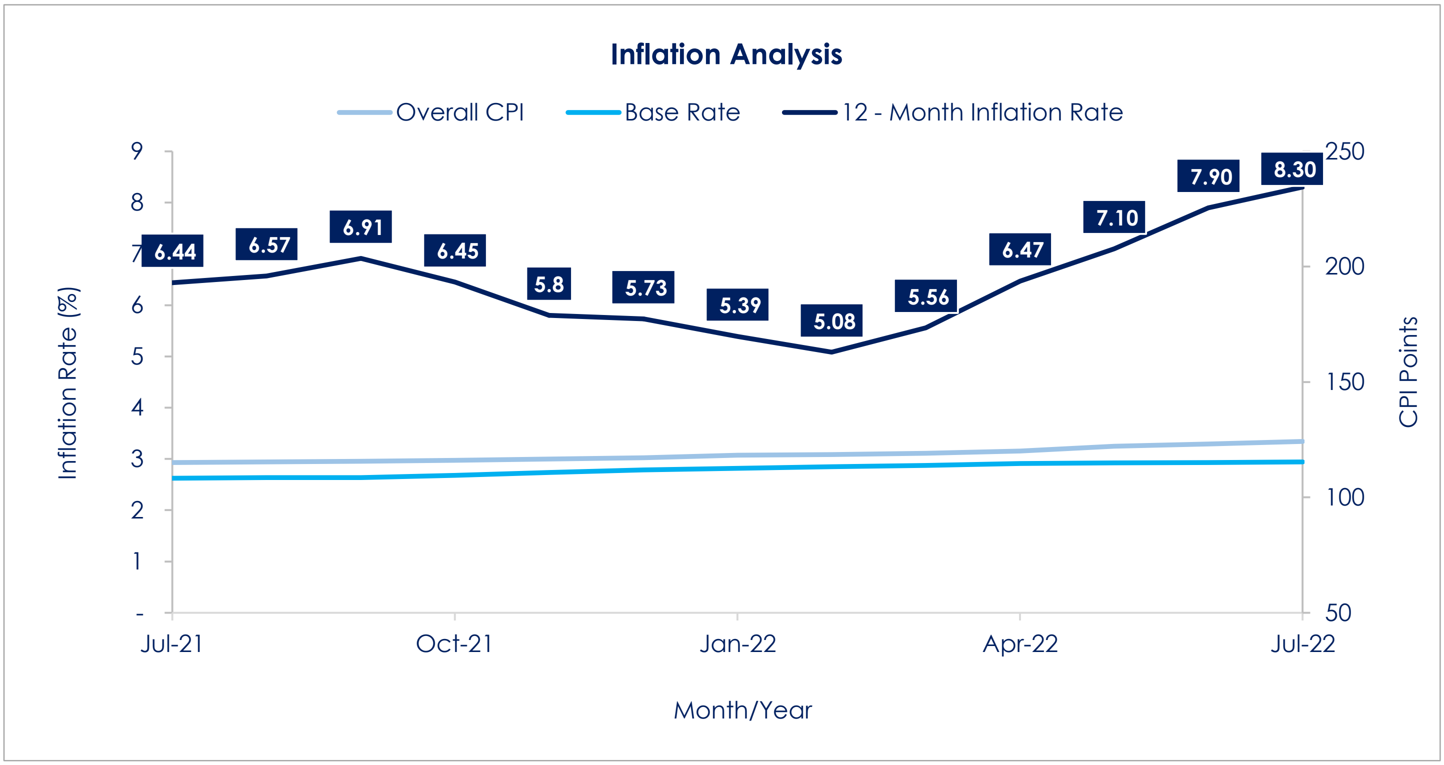


Source: Nairobi Securities Exchange

August 2022 inflation to remain elevated on supply-side pressures

- Inflation for the month of July 2022 rose to 8.3% from 7.9% a month earlier this being the second month that the inflation rate has been above the CBK's medium term upper band range of 7.5% since the Covid-19 pandemic begun (Figure.18).
- The marked increase in the prices was a result of an increase in food and non-alcoholic beverages (15.3%), transport (7%) and housing, water, electricity, gas and other fuels (5.6%) between June 2021 and June 2022.
- These three weights account for over 57% of the weights of the thirteen broad categories Kenya National Bureau of Statistics (KNBS) measures to assess inflation.
- Our August inflation forecast is 8% - 9% on account of continued supply-side pressures such as elevated global fuel and food import prices, supply-chain constraints.
- The depreciation of the Kenya shilling keep inflation elevated throughout 2022.
- To this effect, we see inflation above 7% throughout the rest of 2022.

Figure.18: Short-term inflation forecast 8% - 9%



Source: Kenya National Bureau of Statistics

MPC keeps CBR unchanged at 7.5%

- Contrary to the expectations in our July Fixed Income report, "2022/23 begins with a KES.40Bn cash call" the Monetary Policy Committee (MPC) held the Central Bank Rate (CBR) at 7.5% as shown in their report here.
- This was on the premise that the CBR revision from 7% to 7.5% in May was timely and adequate in anticipating emerging inflationary pressures.
- Other points of discussion during the meeting included;

1) The status of the Russia-Ukraine conflict and its impact on the global commodity prices.

The Q1'2022 GDP growth of 6.8% reflects recovery of several economic sectors with strong growth reported in transport and storage, wholesale and retail, construction, information and communication as well as accommodation and food services.

2) Supply chain challenges that have been increasing supply-side inflation.

3) Increased volatility in financial markets amid tightening of monetary policy in advanced economies.

4) Private Sector Credit (PSC) growth - 11.5% in April to 12.3% in June 2022 indicative of growth in transport and communication, manufacturing, trade and consumer durables.

5) Banking sector liquidity and asset quality - While liquidity remains strong, banking asset quality continues to deteriorate, driving up the Non-Perfuming Loan (NPL) ratio from 14.1% in April to 14.7% in June.

6) Foreign currency reserves and the country's current account deficit - Which stood at US$.7.7Bn (4.47 months of import cover) and an estimated 5.3% of GDP respectively.

- The MPC is set to meet again at the end of September 2022.

Disclosures

Ownership and material conflicts of interest:

The authors or a member of their household, of this report do not hold a financial interest in the securities of this company. The authors or a member of their household, of this report do not know of the existence of any conflicts of interest that might bias the content or publication of this report.

Position as an officer or director: The authors or a member of their household, do not serve as an officer, director or advisory board member of the subject company.

Research analyst certification:

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all of the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

Additional Disclosures:

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither SCL nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research reports preparation or publication, or any losses or damages which may arise from the use of this research report.

Disclaimer: