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STERLING CAPITAL LIMITED

Fixed Income Note

November 2022

"CBK issues 2022/23's first IFB"

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Executive Summary

- Our fixed income report for the month of November 2022 titled **"CBK issues 2022/23's first IFB"** is an analysis of the Central Bank of Kenya's (CBK's) first infrastructure bond **(IFB1/2022/14)** in the 2022/23 fiscal year.
- This is also the third of the calendar year and comes at a time that the Government remains way short of its deficit financing targets.
- The IFB with a weighted average term to maturity tenor of 11 years seeks to raise KES.60Bn for the purpose of funding infrastructure projects in the FY2022/2023 budget.
- We expect oversubscription with our weighted average rate of investor bids prediction as follows:

  Weighted Average Rate (WAR) of investor bids: 13.80% - 13.94%

- 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.
- This month's fixed income report also covers the country's fiscal position including Government revenue, expenditure and fiscal deficit as well as its borrowing needs.
- The report includes an analysis of the yield curve over selected periods showing trends in yields of different tenors.
- We give our inflation expectations towards the end of the report, which concludes, with our view on the Monetary Policy Committee (MPC) decision in the short term.

CBK issues first IFB in the 2022/23 fiscal year

- The Central Bank of Kenya (CBK) invites bids for a 14-year amortized Infrastructure Bond **(IFB1/2022/14)**, with a market-determined coupon to raise KES.60Bn (Table.1).
- This is the first IFB issue in the 2022/23 fiscal year and third issue in 2022 with the first and second issued in February and June 2022 respectively.
- Redemption will be in two tranches, with the first tranche of 50% redeemed in November 2030 and the remaining 50% at expiry in October 2036.
- We expect oversubscription because of its tax-free status as well as capital appreciation potential.

Table.1: Infrastructure Bond issue summary

Issue Number	**IFB1/2022/14**
Total Amount Offered	KES.60Bn
Tenor (Years)	14 Years
Effective Tenor	11 Years
Coupon Rate (%)	Market Determined
Issue Price	Discounted/Premium/Par
Period of Sale	26th October 2022 to 8th November 2022
Auction Date	9th November 2022
Value Date	14th November 2022
Yield Curve (%) (Weighted Average tenor - 11 years) 31st October 2022	**13.7859**

Source: Central Bank of Kenya & Sterling Capital Research

IFB1/2022/14 amortized redemption structure

- **IFB1/2022/14** amortized redemption structure make its effective tenor 11 years (Table.2).

Table.2: Effective debt tenor is 11 years

Redemption Period	**% of principal**	**Tenor Calculation**	**Weighted Tenor**
8 Years (November 2022 - November 2030)	50%	50%*8 years	4 years
14 Years (November 2022 - October 2036)	50%	50%*14 years	7 years
Effective tenor			4 + 7 = 11 years

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 October 2022 and discussions with several fixed income traders (Table.3).

Table.3: Auction bid predictions

Rate	IFB1/2022/14
Market Weighted Average bid prediction (%)	13.80 -13.94

Source: Sterling Capital Research

Historical debt issues guide our predicted rates

- We used implied yields of bonds of almost similar tenors to maturity on the NSE as at 31st October 2022 as a guide for possible investor auction bid levels (Table.4).
- The best benchmark in relation to active trading is **IFB1/2022/18**, the most traded infrastructure bond in the secondary market since June 2022, report here.
- However, benchmarks in relation to **IFB1/2022/14**'s 14-year tenor and 11-year effective tenor are **IFB1/2021/16** and **IFB1/2018/15** respectively both of which have had low activity in the secondary market hence to some degree mis-priced.

Table.4: Benchmark issues to guide investor bids

Bond Issue	Issue Date	Coupon Rate (%)	Maturity Date	Term to Maturity Years (Days)	Implied Yield to maturity (%)	Yield Curve at time of issue
IFB1/2022/18	13th Jun 2022	13.742	21st May 2040	(17.6) 6,412	13.4549	13.8970
IFB1/2021/16	25th Jan 2021	12.257	5th Jan 2037	(14.2) 5,180	13.6859	12.8486
IFB1/2018/15	29th Jan 2018	12.500	10th Jan 2033	(10.2) 3,724	13.1672	13.2032

Source: Central Bank of Kenya

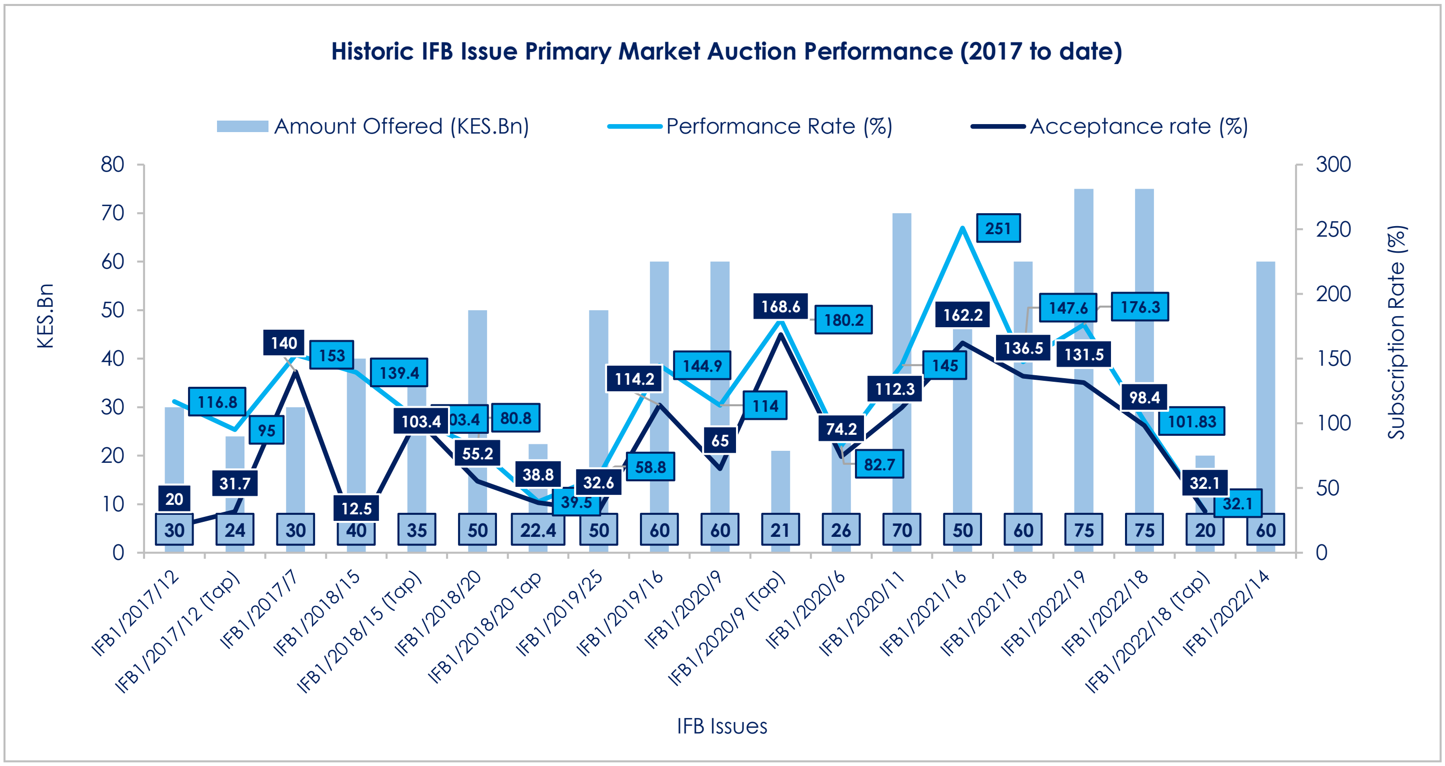
- IFBs are attractive to investors because of their tax-free status, relatively high liquidity and high potential for capital gains.
- We note high subscription rates for previous IFB issues with only seven of the last twenty-five (since 2014) undersubscribed (Table.5 & Figure.1).
- The most recent IFB issues **IFB1/2022/19** and **IFB1/2022/18** recorded 176.3% and 101.8% subscription rates.
- However, the tap sale for **IFB1/2022/18** was undersubscribed (32.1%) because of low market liquidity.
- We believe that the CBK is likely to accept investor bids in excess of KES.60Bn especially given a series of undersubscriptions on FXD issues in the last three months.

Table.5: Historical IFB primary market auction performance

Issue	Issue Date	Offered (KES.Bn)	Bids Received (KES.Bn)	Amount Accepted (KES.Bn)	Performance Rate (%)	Coupon Rate (%)	Implied Yield (%)
IFB1/2014/12	Oct-2014	15	38.8	15.8	258.7%	11.00	12.3750
IFB1/2015/12	Mar-2015	25	51.7	25.7	206.8%	11.00	12.6103
IFB1/2015/12 (Tap)	Apr-2015	25	51.7	24	206.8%	11.00	12.6103
IFB1/2015/9	Dec-2015	30	16.6	14	55.3%	11.00	11.9232
IFB1/2016/9	May-2016	30	39.4	34.9	131.3%	12.50	12.1501
IFB1/2016/15	Oct-2016	30	35.1	30.6	117%	12.00	13.0612
IFB1/2017/12	Feb-2017	30	35.0	6	116.7%	12.50	12.6500
IFB1/2017/12 (Tap)	Mar-2017	24	8	7.6	33.3%	12.50	12.6500
IFB1/2017/7	Nov-2017	30	45.9	42.0	153.0%	12.50	11.8300
IFB1/2018/15	Jan-2018	40	55.8	5	139.5%	12.51	13.1672
IFB1/2018/15 (Tap)	Feb-2018	35	36.2	36.2	103.4%	12.51	13.1672
IFB1/2018/20	Nov-2018	50	40.4	27.6	80.8%	11.95	13.4332
IFB1/2018/20 Tap	Nov-2018	22.4	8.8	8.7	39.3%	11.95	13.4332
IFB1/2019/25	Mar-2019	50	29.4	16.3	58.8%	12.20	13.7177
IFB1/2019/16	Oct-2019	60	86.9	68.5	144.8%	11.75	13.3725
IFB1/2020/9	Apr-2020	60	68.4	39	114.0%	10.85	12.6325
IFB1/2020/9 (Tap)	Apr-2020	21	37.8	35.4	180.0%	10.85	12.6325
IFB1/2020/6	Jun-2020	26	21.2	19.3	81.5%	10.20	12.5436
IFB1/2020/11	Aug-2020	70	101.5	78.6	145.0%	10.90	13.2129
IFB1/2021/16	Jan-2021	50	125.5	81.1	251.0%	12.26	13.6859
IFB1/2021/18	Apr-2021	60	88.6	81.9	147.7%	12.67	13.5868
IFB1/2021/21	Sep-2021	75	151.3	106.8	201.7%	12.74	13.5000
IFB1/2022/19	Feb-2022	75	132.3	98.6	176.3%	12.97	13.2285
IFB1/2022/18	Jun-2022	75	76.4	73.8	101.8%	13.74	13.4549
IFB1/2022/18 (Tap)	Jul-2022	20	6.4	6.4	32.1%	13.74	13.4549

Source: Central Bank of Kenya

Figure.1: IFBs have historically received high subscription



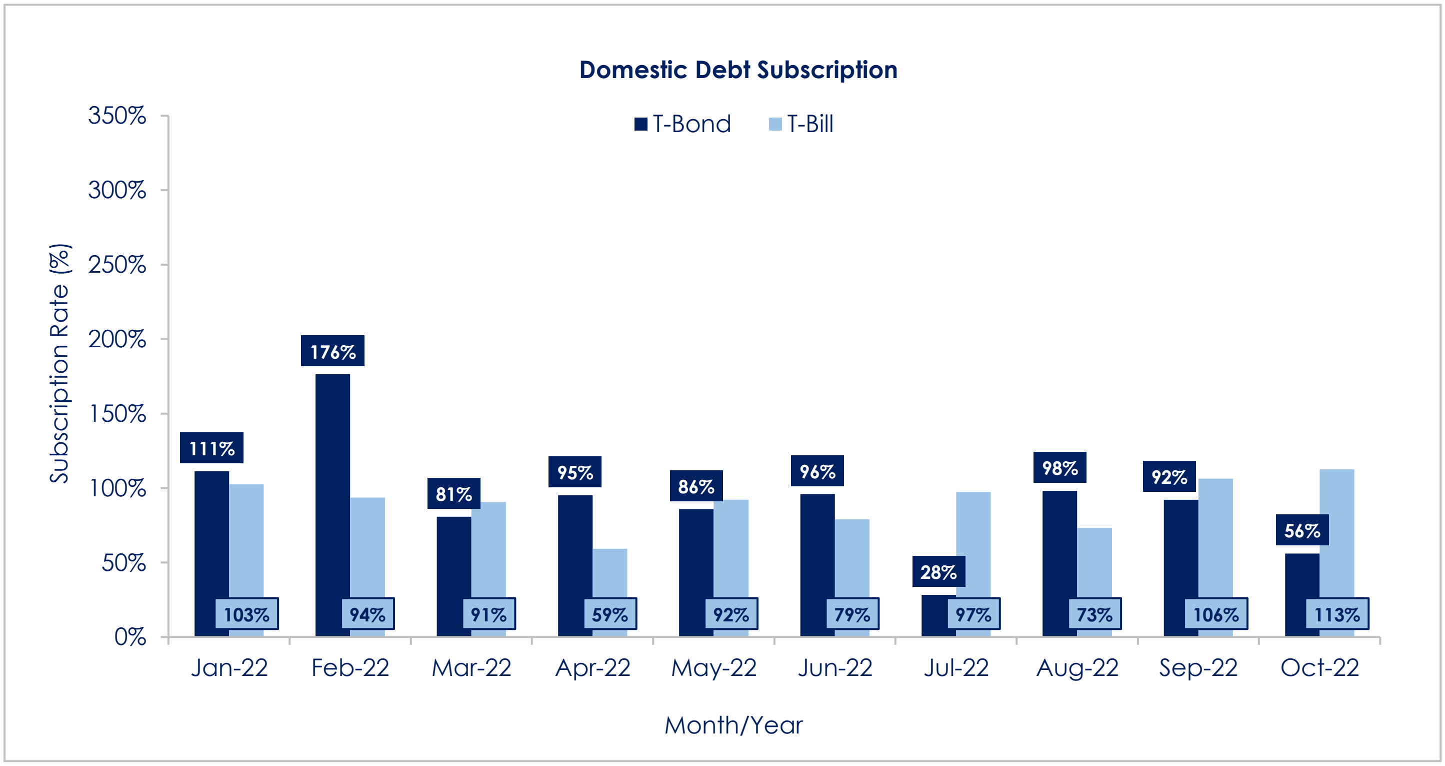
Source: Central Bank of Kenya

91-Day T-Bill oversubscribed in October 2022

- Aggregate Treasury Bills (T-Bills) subscription rose in October 2022 with KES.135.2Bn in bids received against KES.120Bn offered equivalent to a 112.7% subscription rate, higher than 106.3% in September (Figure.2).
- The 91-Day T-Bill recorded a 324.4% subscription rate slightly lower than 362% in September 2022, while the 182-Day T-Bills and 364-Day T-Bills reported subscription rates of 61.7% and 78.9% compared to 85.7% and 24.7% in September respectively.
- This shows that investors expect a sustained rise in interest rates in the near future and therefore do not want to lock-in their capital for longer periods in an environment of rising interest rates.
- The CBK issued a new **FXD1/2022/25** and re-opened two bonds - **FXD1/2017/10** and **FXD1/2020/15** in September all of which raised KES.33.7Bn against a target amount of KES.60Bn representing a subscription rate of 56.2% (Figure.3).
- We attribute the undersubscription to increased investor interest in short-term Government paper especially the 91-day T-bill.
- Trading investors also wish to avoid bond revaluation losses (mark to market losses) which are price declines below their purchase cost or original value resulting from rising interest rates.
- Notably, short-tenured securities are less sensitive to interest rate risk than longer tenured bonds in such an environment.

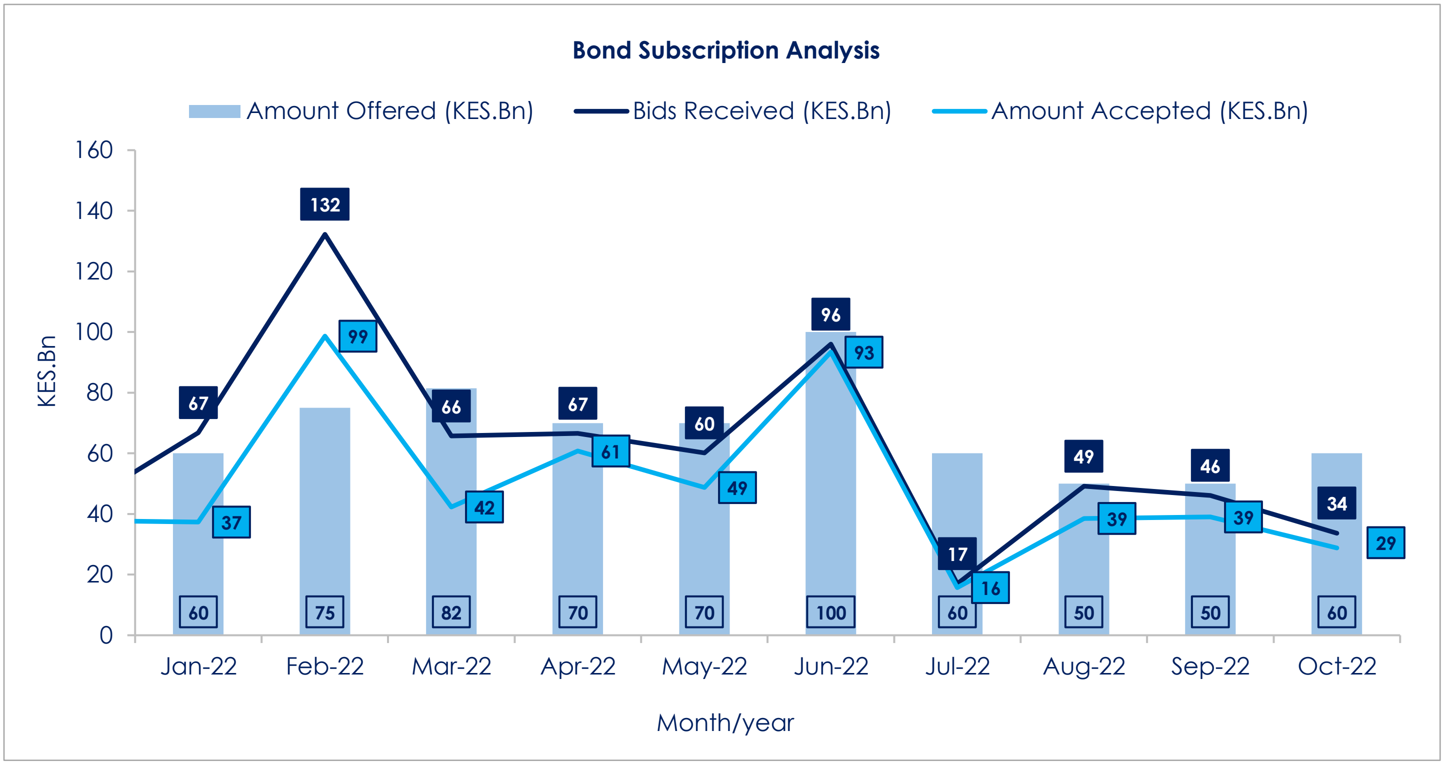
- This undersubscription has prompted the issuance of **IFB1/2022/14**.
- The CBK breached the 14% psychological mark in September 2022 by accepting Weighted Average Rate of 14.188% on the **FXD1/2022/25** issue, a trend we expect to continue in subsequent long-term bond auctions.
- Implied yields as at 31st October 2022 indicate a required return of 14% and above for bonds with a maturity of 20+ years, however the yield curve remains flat on the long end.

Figure.2: T-Bill subscriptions sustained growth in October 2022



Source: Central Bank of Kenya

Figure.3: Bonds undersubscription persists in October 2022

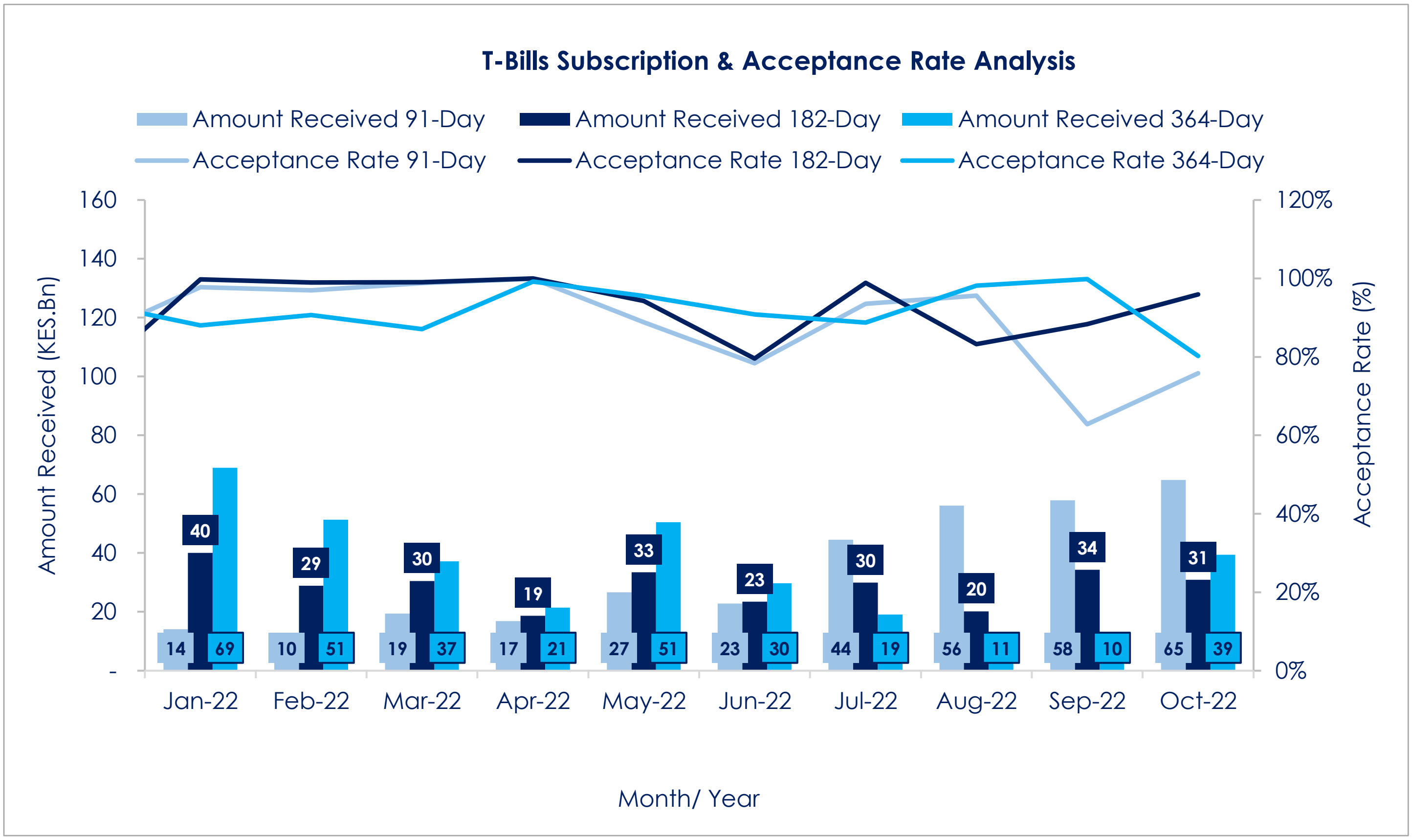


Source: Central Bank of Kenya

364-Day T-Bill acceptance rates decline to manage borrowing costs

- CBK acceptance rates for the 91, 182 and 364-Day T-bills in October 2022 at 75.9%, 96% and 80.2% respectively compared to 62.8%, 88.4% and 99.8% respectively in September. (Figure.4).
- The decline in 364-Day acceptance can be attributed to CBK efforts to manage its borrowing costs.
- We expect the 10% psychological mark to be breached in the near-term given rising interest rates, inflation and the revision of CBR to 8.25% on 29th September 2022.

Figure.4: Aggressive 91-Day bids with consequently high acceptance rates in October 2022

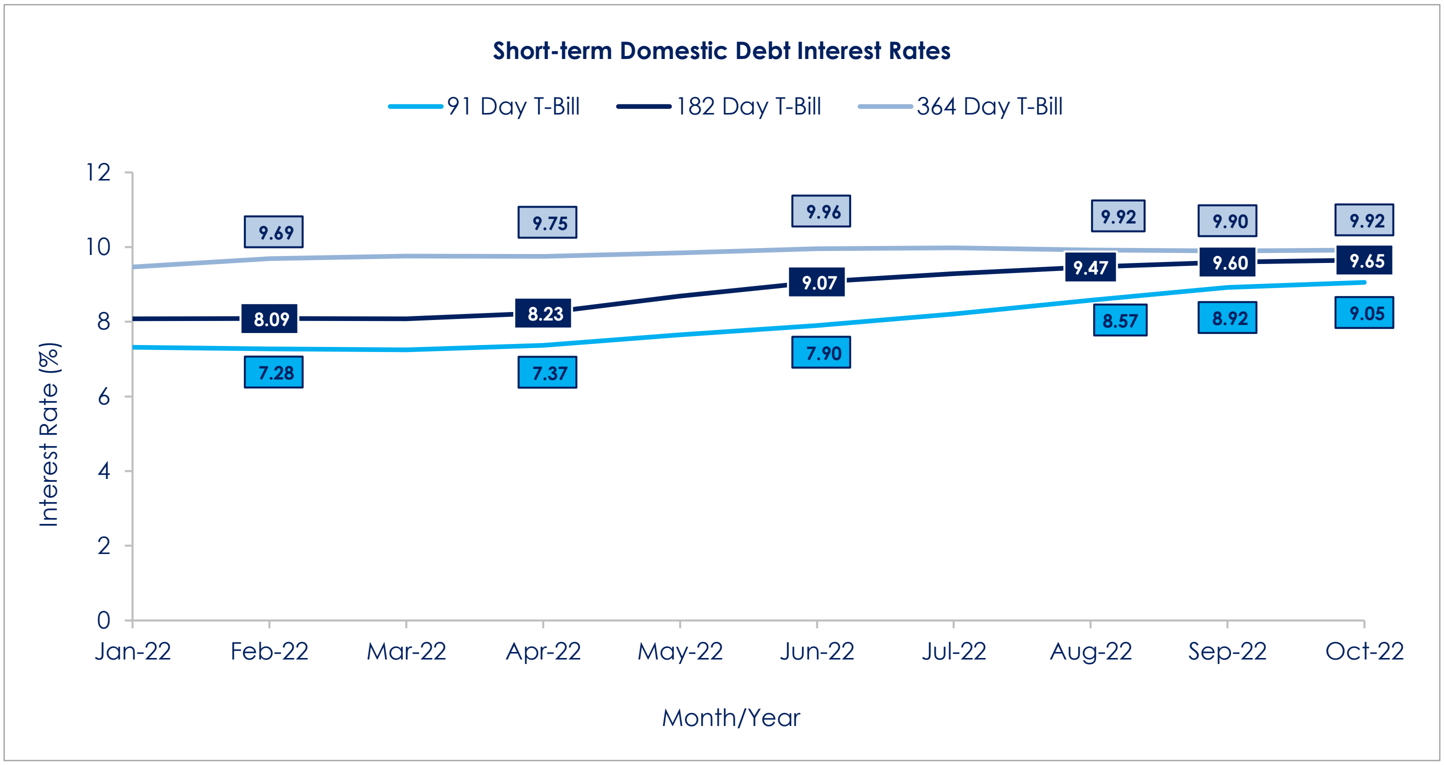


Source: Central Bank of Kenya

Short-term interest rates maintain upward trend in October 2022

- Average short-term interest rates maintained the upward trajectory with 91, 182 and 364-day T-Bills rates rising to 9.1%, 9.7% and 9.92% in October 2022 from 8.9%, 9.6% and 9.9% in September 2022 respectively (Figure.5).
- We continue to attribute the rising interest rates to budget deficit financing pressure, inflation and CBR revision to 8.25% and expect this trend to continue in the short-term.

Figure.5: Short-term debt securities interest rates rise in October 2022

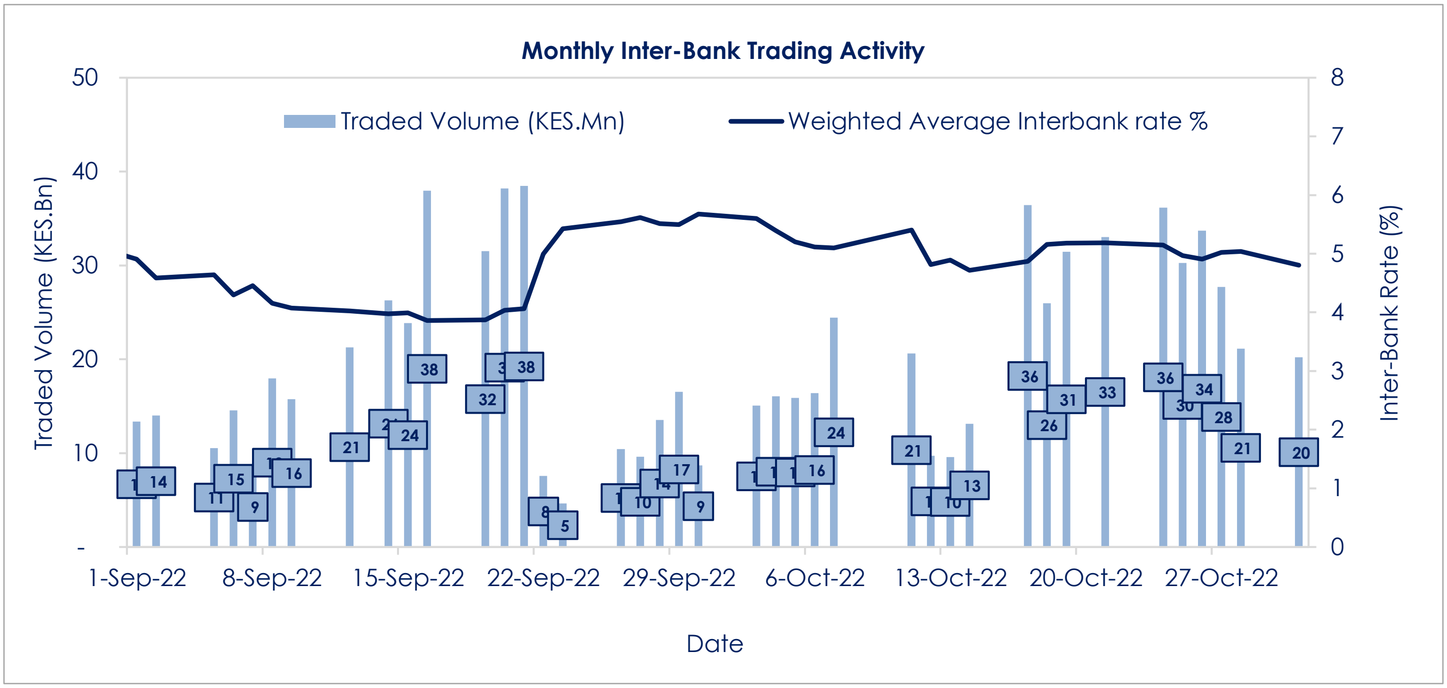


Source: Central Bank of Kenya

Average inter-bank lending rates rise in October 2022

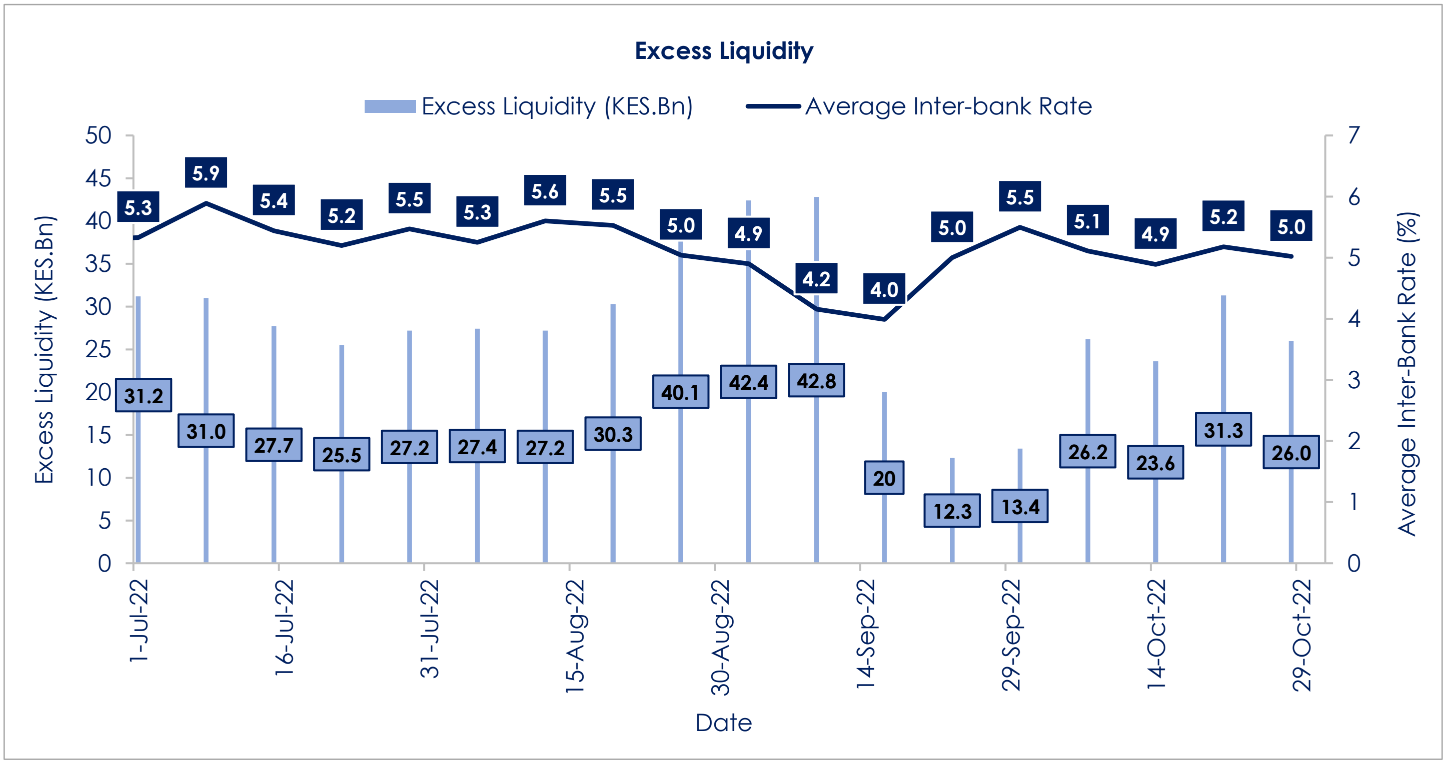
- Average inter-bank rates and trading volumes rose to 5.1% and KES.23Bn in October 2022 compared to 4.6% and KES.18.2Bn in September 2022 respectively (Figure.6).
- This speaks to low liquidity during the period further explaining the undersubscription of the September bonds.
- The CBK has been adamant in issuing Reverse-Repos especially after the **FXD1/2022/25** results (19th October 2022) in a bid to inject liquidity into the market, action we see in support of **IFB1/2022/14** subscription.
- Notably, between 21st - 28th October 2022, the CBK accepted approximately KES.33.3Bn at an average rate of 9.8%.
- Over the same period, excess reserves (additional liquidity above the minimum 4.25% Cash Reserve Ratio (CRR)) declined 18.2% to KES.107.1Bn, compared to KES.130.9Bn in September 2022 (Figure.7).
- Our forecasted average inter-bank rate for November 2022 is between 4.7% - 5.7% with the expectation of lower liquidity post the **IFB1/2022/14** issue.

Figure.6: Inter-bank lending rates to range between 4.7% and 5.7% in November 2022



Source: Central Bank of Kenya

Figure.7: Excess commercial bank reserves decrease in October 2022

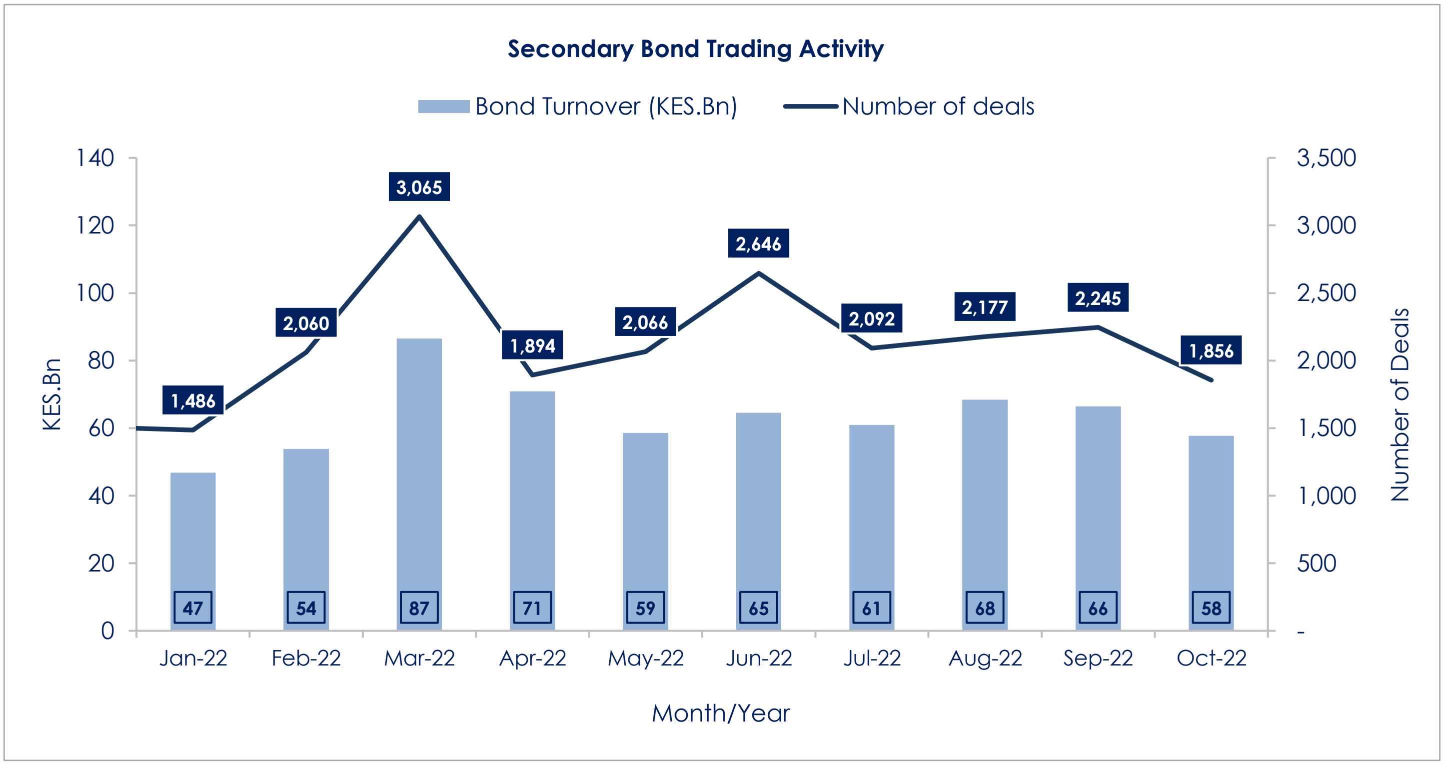


Source: Central Bank of Kenya

Secondary market bond turnover further declines in October 2022

- Secondary market trading activity and number of deals declined 13.1% and 17.3% in October 2022 to KES.57.7Bn and 1,856 (KES.66.4Bn and 2,245 in September 2022) respectively (Figure.8).
- This decline is explained by low market liquidity levels, undersubscription in September bonds primary issues and general preference for the 91-Day T-Bill by investors given environment of rising interest rates to hedge against duration risk.
- However, we expect secondary market activity to pick up in November 2022 following the timely **IFB1/2022/14** issue that will appease the market and ease pressure on the interest rates given its high traction.

Figure.8: Secondary trading activity decline in October 2022

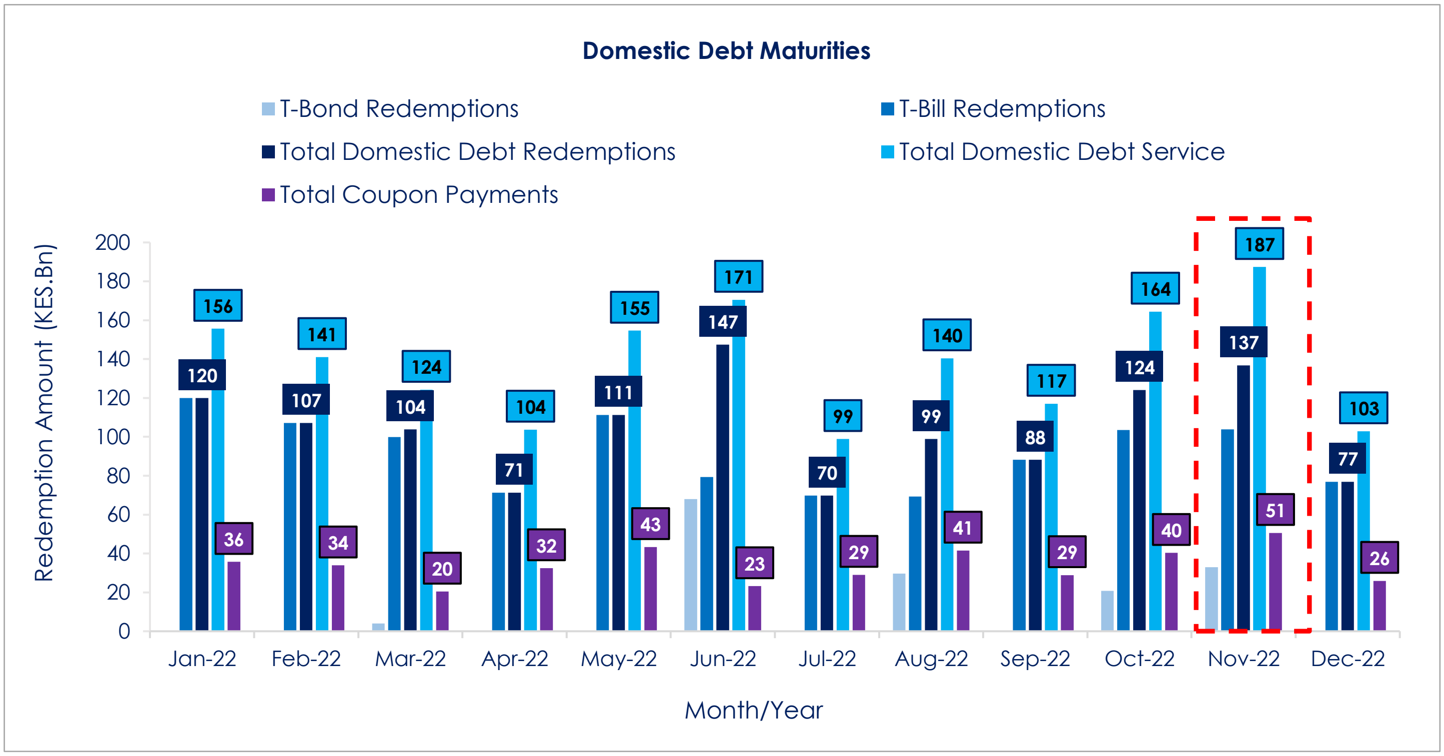


Source: Central Bank of Kenya

Domestic debt service for November 2022 at KES.187Bn

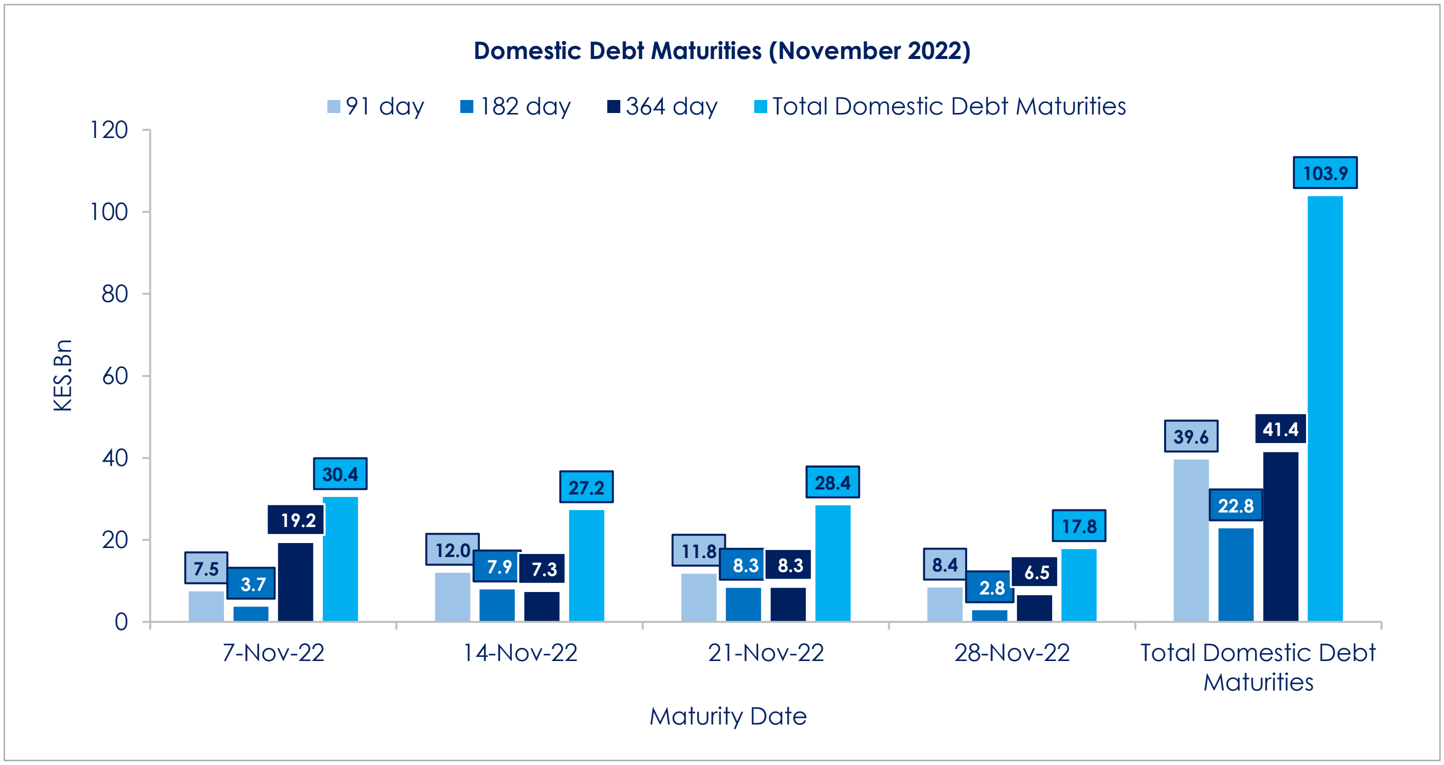
- Total domestic debt service for November at KES.187.4Bn, 14% higher than the KES.164.4Bn in September 2022.
- This comprises of KES.103.9Bn and KES.50.6Bn in T-Bill and coupon payments respectively as well as the redemption of **FXD3/2007/15** amounting to KES.33Bn (Figure.9).
- Expected redemptions for the 91,182 and 364-day T-Bills during the month are KES.39.6Bn, KES.22.8Bn, and KES.41.4Bn respectively with the first week of the month having the highest redemptions at KES.30.4Bn (Figure.10).
- Some of these redemptions (KES.33Bn - **FXD3/2007/15** redemption, KES.30.4Bn - T-Bill first week redemptions and KES.27.2Bn - T-Bill second week redemptions) coupled with Reverse-Repos being issued by the CBK could be channeled towards the **IFB1/2022/14** by investors leading to an oversubscription.

Figure.9: November debt service KES.187.4Bn



Source: Central Bank of Kenya

Figure.10: Weekly debt maturities November 2022

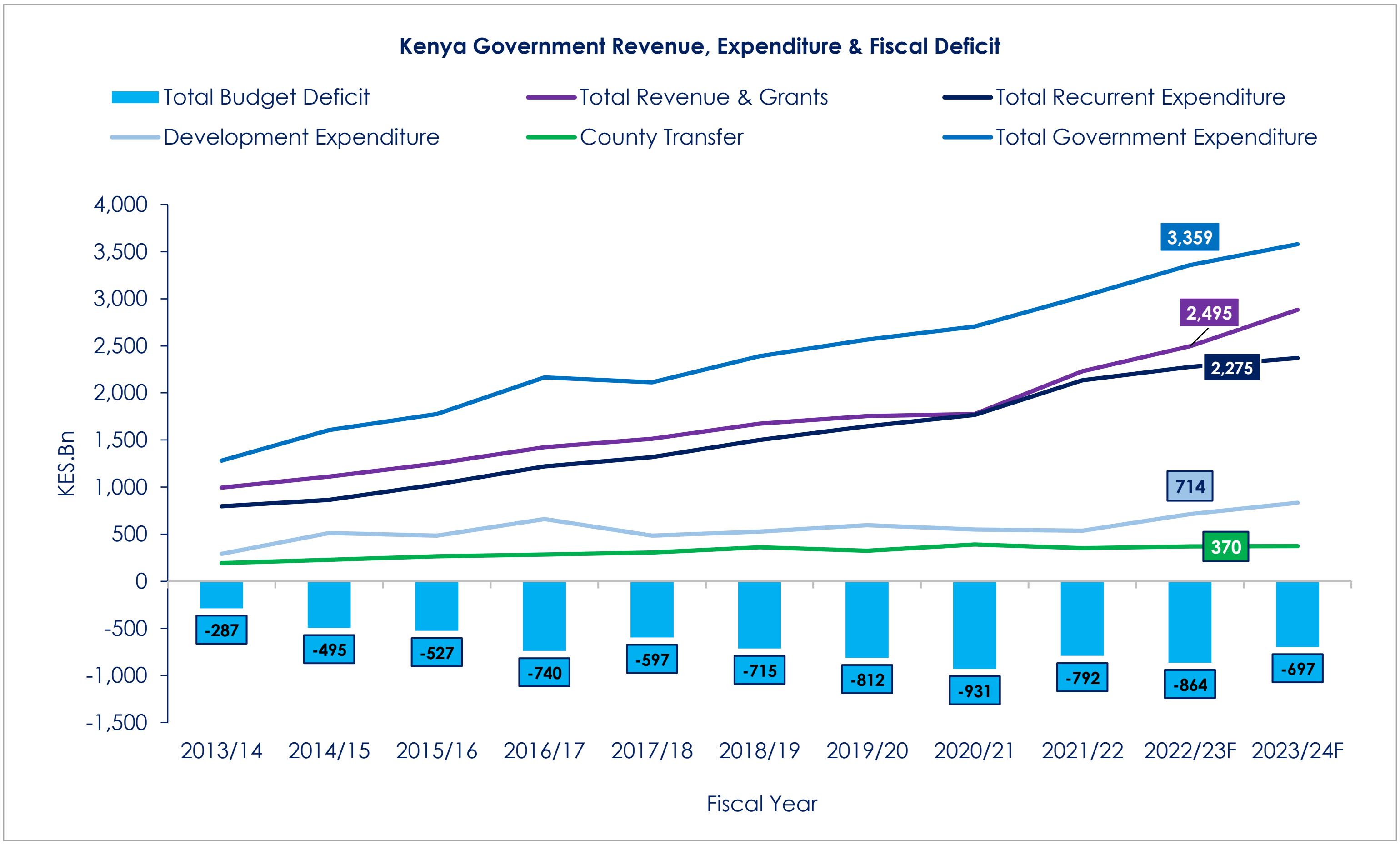


Source: Central Bank of Kenya

Government forecasts cut in fiscal deficit despite subdued revenue collection

- The National Treasury in its draft 2022 Budget Review and Outlook paper forecasts a decline in the fiscal deficit to KES.864Bn which is equivalent to a year on year decline of 9% (Figure.11).
- This is largely a result of a 11.8% increase in the revenue forecast.
- We see this as quite optimistic considering that the Government is running well below the revenue collection for the 2021/22 after the first quarter of the fiscal year ending September.
- We also note that there is a high possibility of an increase in expenditure directed towards drought relief and increases in salaries in the education and public sectors.
- Economic activity is yet to reach its peak and therefore revenue collection looks increasingly likely to fall below the previous year's record.
- The above means a high possibility of an upward adjustment in both domestic and possibly external borrowing targets in the next supplementary budget.

Figure.11: National Treasury Forecasts decline in fiscal deficit



Source: The National Treasury

National Treasury receipts remains below linear run rate target

- Data from the National Treasury at the end of September 2022 (Q1 2022/23) shows most Government receipts with the exception of external loans and grants fall below our linear target run-rate of 25% (Table.6 and Figure.12).
- This could explain the timing of this IFB issue which is meant to attract investor capital at a time tax revenues are underperforming relative to set targets.

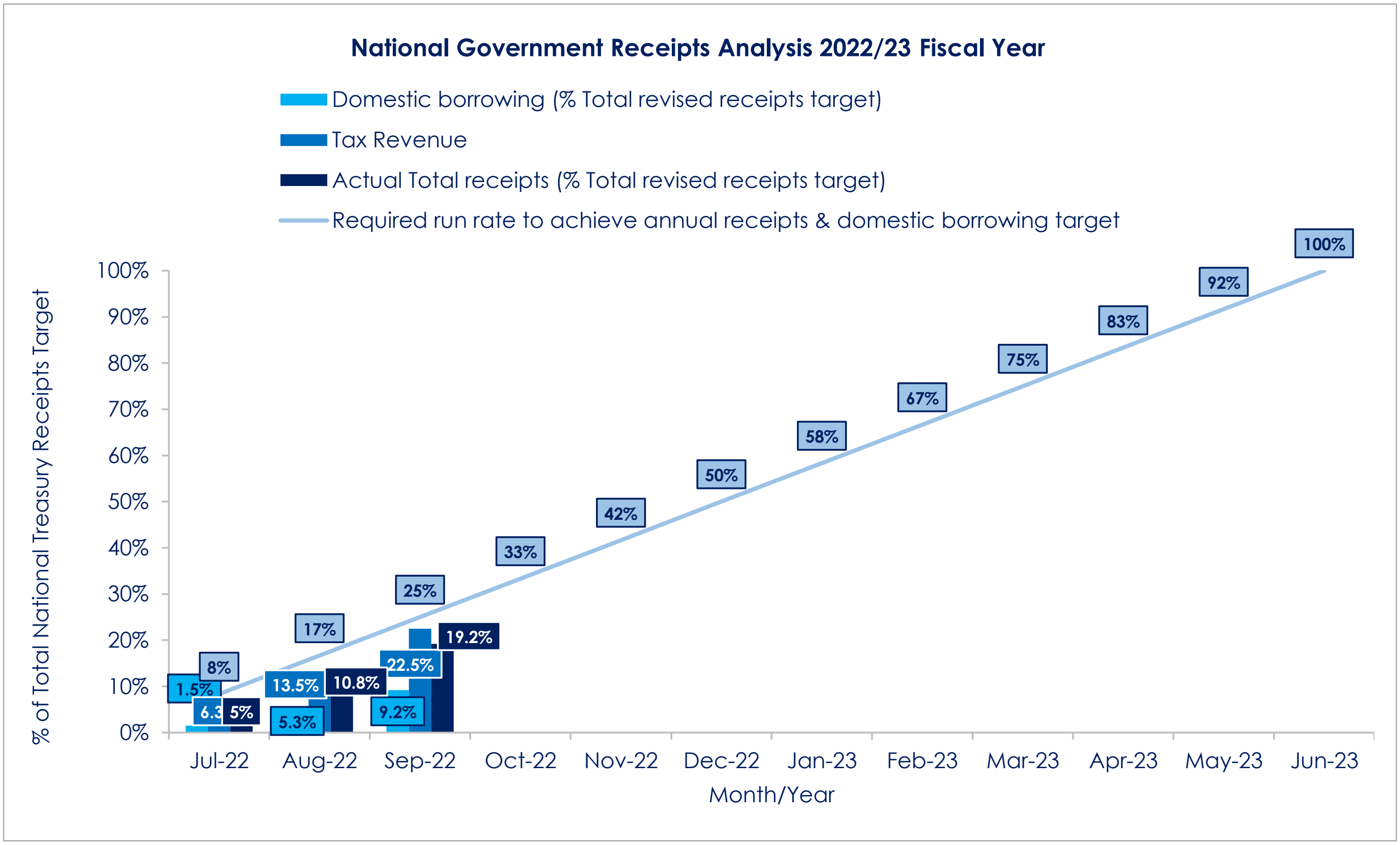
Table.6: Q1 2022/23 receipts below linear target run-rate

Receipts	Original Estimates 2022/21 (KES.Mn)	Original Estimates 2022/23 (KES.Mn)	Variation 2022/23 vs 2021/22	Actual Receipts (KES.Mn) 30th September 2022	Proportion of Total Receipts 30th September 2022
Opening Balance (1st July 2022)	21.3			616.5	
Tax Revenue	**1,784.4**	**2,071.9**	**16.1%**	**465.2**	**22.5%**
Non-Tax Income	67.1	69.7	3.9%	20.2	29%
Domestic Borrowing*	**1,022**	**1,040.5**	**1.8%**	**95.7**	**9.2%**
External Loans & Grants	421.2	349.3	-17.1%	86.2	24.7%
Other Domestic Financing	40.1	13.2	-67.1%	13.4	101.5%
Total Revenue	**3,334.8**	**3,544.6**	**6.3%**	**680.7**	**19.2%**
Linear Run Rate target (3 months of fiscal year) - Q1 2022/23					**25%**

* Note 1: Domestic Borrowing of KES. 1,040.5Bn = Net Domestic borrowing KES.579.1Bn & Internal Debt Redemptions (Roll-overs) KES.461.4

Source: The Kenya Gazette Vol. CXXIV - No.211 14th October 2022

Figure.12: Domestic borrowing at 9.2% in Q1 2022/23

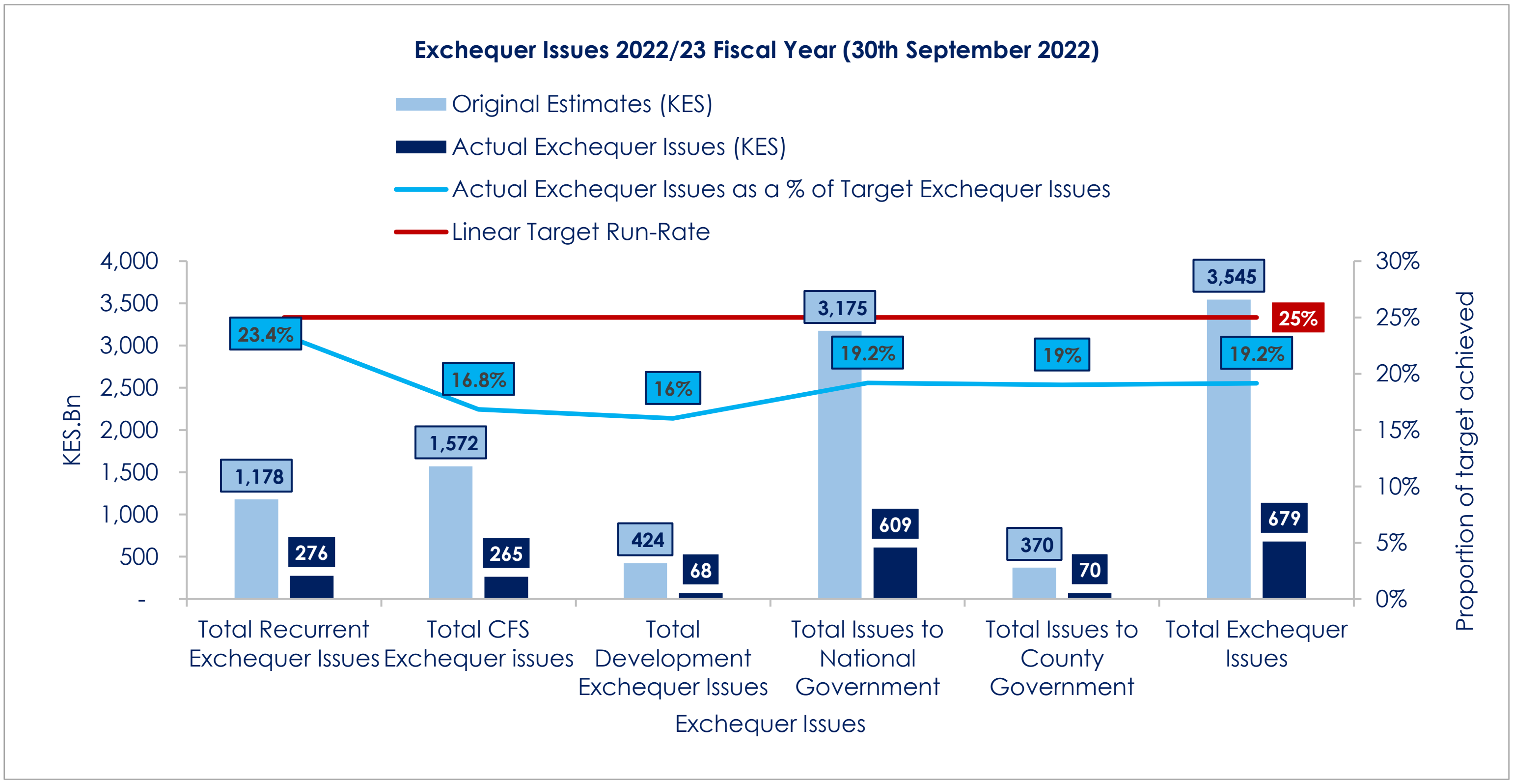


Source: The Kenya Gazette Vol. CXXIV - No.211 14th October 2022

Government expenditure remains below 2022/22 fiscal year expenditure run-rate targets

- Q1 2022/23 Government expenditure targets remain well below the linear target run rate of 25% with recurrent expenditure the best performing expenditure item during the period under review at 23.4% (Figure.13).
- This scenario could be explained by constrained revenues as mentioned earlier in the report with the Government managing its expenditure.

Figure.13: Government expenditure falls below Q1 2022/23 target run rate



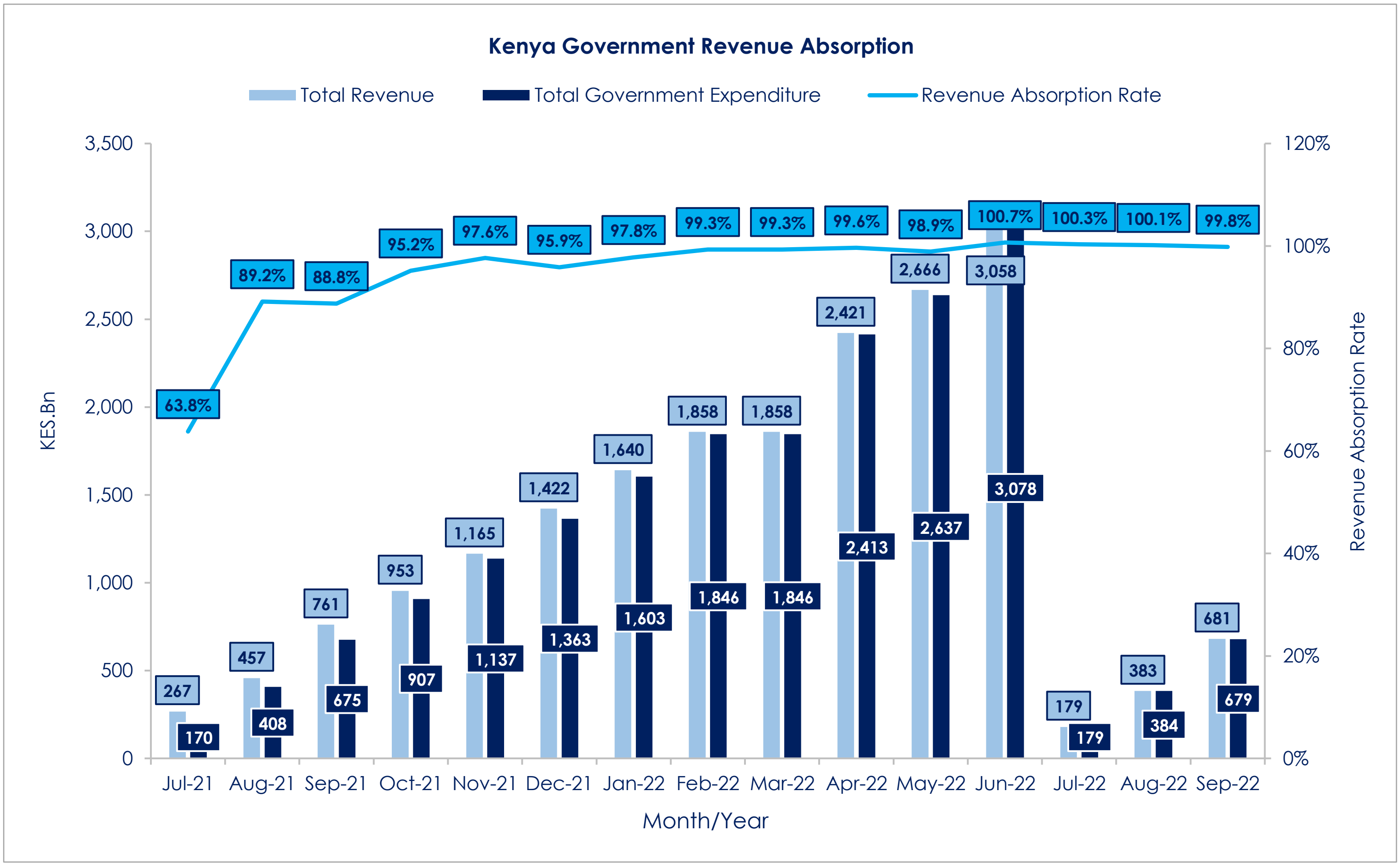
Source: The Kenya Gazette Vol. CXXIV - No.211 14th October 2022

Slight blip in Government Revenue Absorption in September 2022

- The proportion of Government receipts used to finance expenditure also known as the Revenue Absorption Rate (RAA) declined in September compared to the previous month but higher than the same month in 2021 (Figure.14).
- This however means that a high proportion of Government receipts are being used to settle its expenses further emphasizing the challenges faced in revenue generation.
- We also compared performance of revenues and expenditures in the month of September since 2019 (Figure.15).

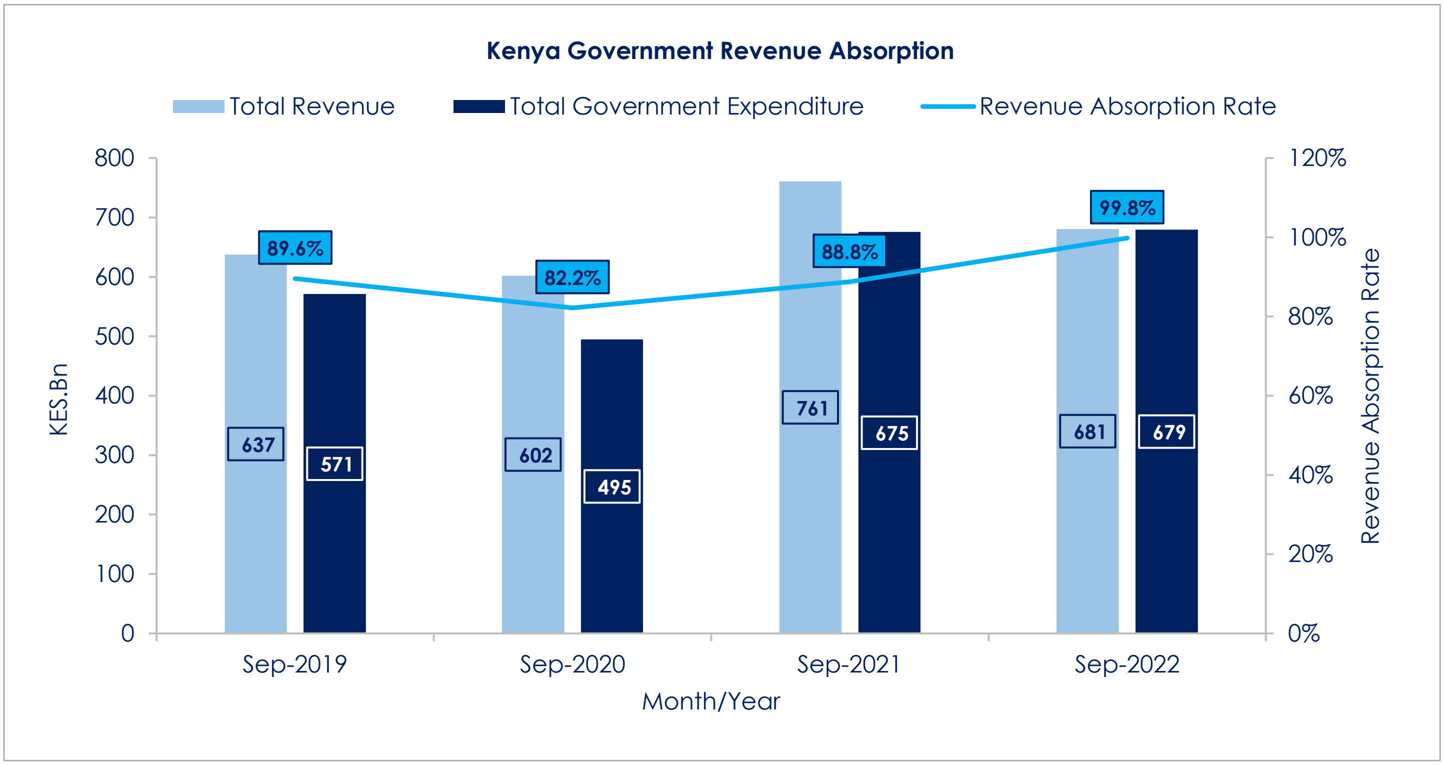
- Here we observe that Government revenues declined 10.5% in September 2022 to KES.681Bn compared to the same period in 2021 (KES761Bn) while expenses have grown by a paltry 0.6% to KES.679Bn from KES.675Bn.
- Revenue absorption in September 2022 has therefore been the highest compared to the other three years at 99.8%.

Figure.14: Revenue absorption is high showing close to full utilization



Source: The Kenya Gazette Vol. CXXIV - No.211 14th October 2022

Figure.15: 10.5% decline in year on year revenue collection in September 2022

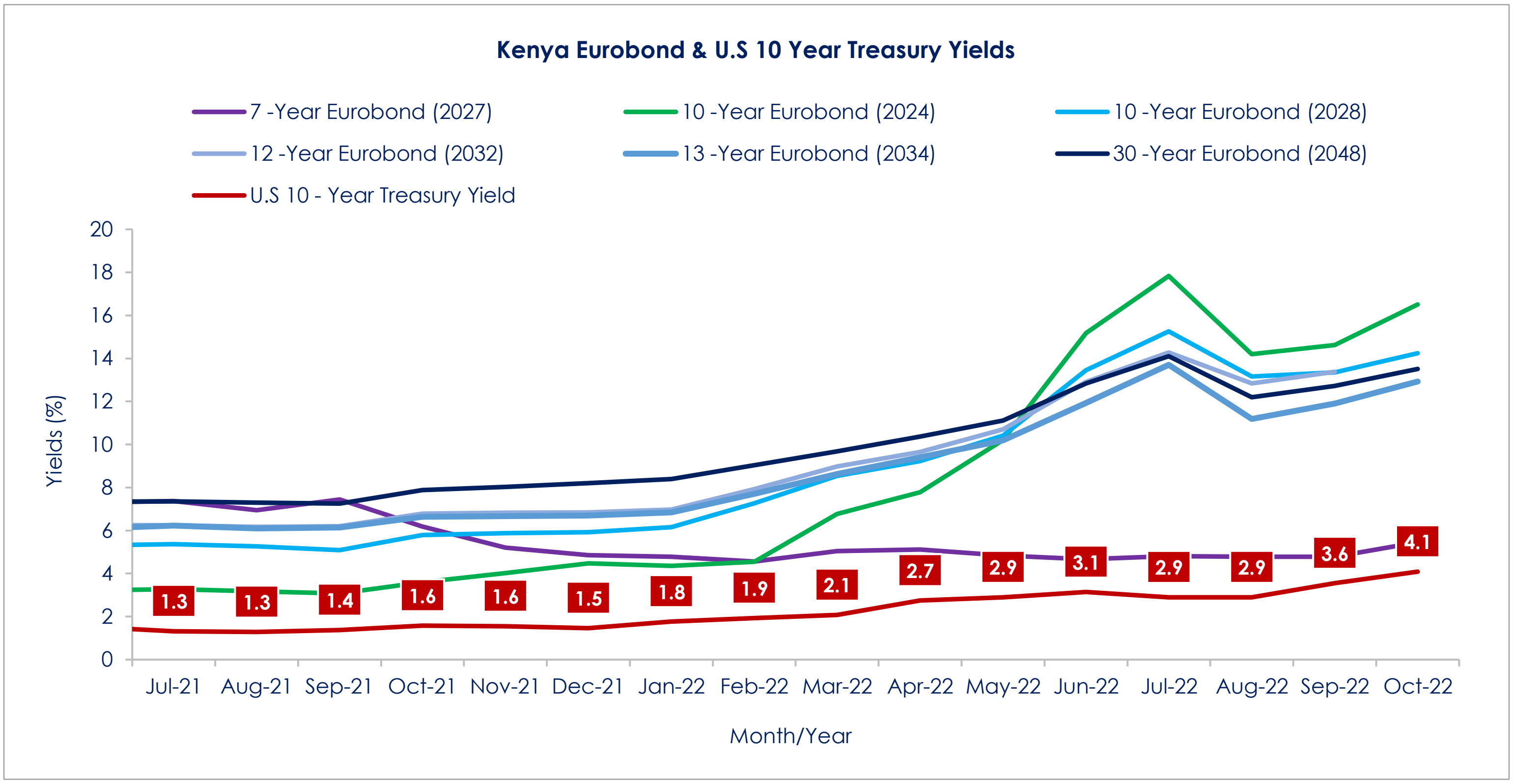


Source: The Kenya Gazette Vol. CXXIV - No.211 14th October

Kenya Eurobond yields and US treasury yields rise in October 2022

- Average Kenya Eurobond yields rose by an average of 109 bps in October 2022 compared to the previous month (Figure.16).
- Over the same period, the U.S 10-year treasury rate reached its highest levels (4.1%) since April 2008 this being the aftermath of the 0.75% Federal Reserve rate hike on 21st September (Fed Rate) as well as investor fears over soaring inflation.
- Economic data raised investor expectations that the benchmark yields will rise above 5% in the first and second quarters of 2023.
- This means that the flow of investors capital towards US$ denominated assets will continue resulting in a further appreciation of the US$ and the poor performance of African sovereign bonds.
- Kenya Eurobond yields will remain elevated in the near term which presents an attractive investment opportunity for investors with a relatively higher risk tolerance and capital to buy the bonds at a discount.

Figure.16: Kenya Eurobond yields remain elevated

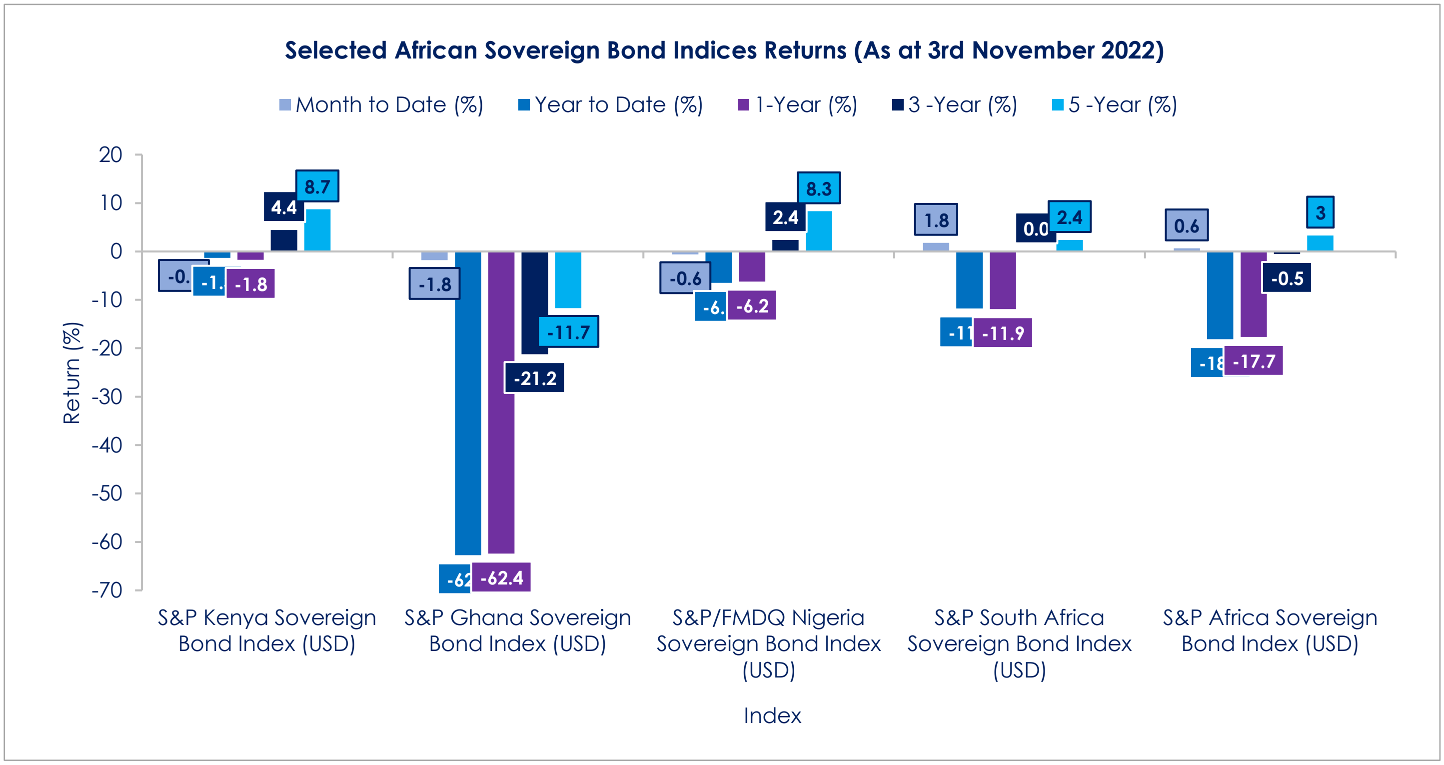


Source: Central Bank of Kenya

Currency depreciation adversely affects African sovereign bond indices

- The Kenya sovereign bond index was the top performing index amongst our comparable indices over the last one, three and five years (Figure.17).
- This compares favourably with the month of October where the S&P/FMDQ Nigeria Sovereign Bond Index was the top performing index.
- We note however that the indices have performed poorly in periods of a year or less on account of currency depreciation against the US$ which is the base currency metric of total return.
- Over the last one year, the US$ has appreciated 126.4%, 20.8%, 9.1% and 6.9% against the Ghanaian Cedi, South African Rand, Kenya Shilling and the Nigerian Naira respectively.
- With the US$ forecasted to appreciate over the world currencies in the next few months, we expect the bond indices to continue generating losses.

Figure.17: Sharp currency depreciation weighs down Ghana sovereign bond index



Source: S&P Global

Yield curve continues to shift upwards

- A comparison of average yields on the NSE on 22nd January 2021 (issuance of **IFB1/2021/16** which is the Infrastructure Bond with similar maturity to **IFB1/2022/14** currently in issue), 31st October 2021 and 31st October 2022 shows an uptick across all tenors of the yield curve. (Table.7 and Figure.18).
- This scenario can be attributed to an increase in the fiscal deficit, rising inflationary pressure and the upward adjustment of the CBR.
- As a result, investors have not been shying away from aggressive bids, a situation that forced CBK to breach the 14% psychological mark by accepting rates at 14.188% on the **FXD1/2022/25** issued in October.
- Despite this, the yield curve remains flat on the long end.
- We forecast a normalization of the yield curve with rates for longer tenors rising gradually in the next few months as the CBK continues to bow to investor pressure.
- Notably, in November and over the last two months, T-Bill redemptions have superseded T-Bond redemptions, contributing 63% of debt service vise vie 37%, a possible risk to debt sustainability in the short term.
- With the above in mind, we expect the average yields on the short-end (91 days - 2 years) to increase by 80 -100 Basis Points (Bps), medium-end (3 - 9 years) to increase by 100 - 150 Basis Points (Bps) and long-end (10+ years) increasing by 60 - 80 Bps in 2022.

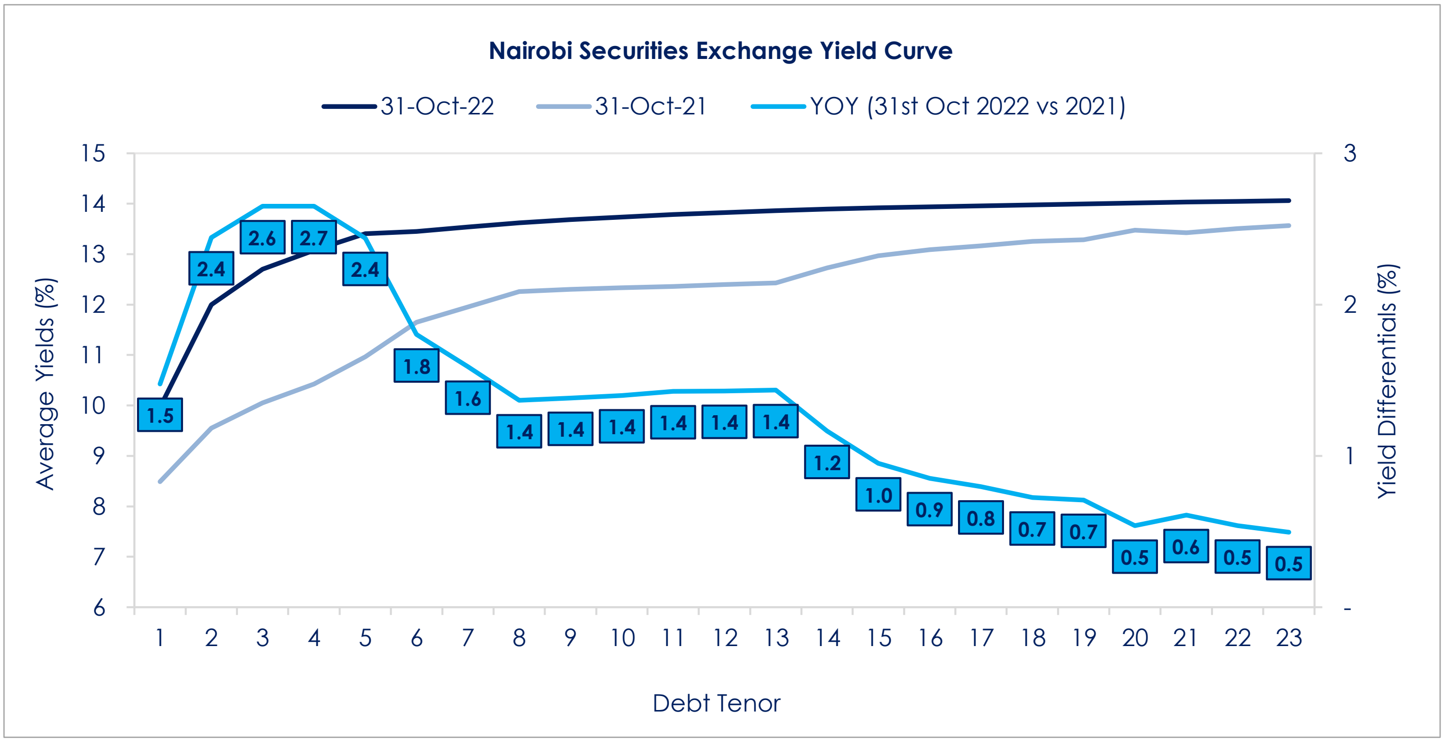
- Investors with a high-risk tolerance should consider buying the US.$ denominated Kenya Eurobonds to take advantage of current attractive yields with an option of holding until maturity or disposing when trading opportunities arise (Table.8).
- We maintain a **BUY** recommendation on medium and long-term papers for interest income play given prevailing rates.
- IFBs are generally attractive due to their tax-free component.

Table.7: Yield curve has significantly shifted upwards across all tenors

Tenor	Yields (22nd Jan 2021)	Yields (31st Oct 2021)	Yields (31st Oct 2022)	Δ 31st Oct 2022 vs 22nd Jan 2021) (Bps)	YoY Δ 31st Oct 2022 vs 2021 (Bps)	Sterling Capital Yield Curve (Nov 2022)
1	8.5080	8.4890	9.9650	↑145.7	↑147.6	10.00
2	9.3167	9.5527	11.9969	↑268.0	↑244.4	12.00
5	10.6000	10.9645	13.4045	↑280.5	↑244.0	13.45
10	11.8223	12.3372	13.7372	↑191.5	↑140.0	13.70
15	12.7091	12.9668	13.9171	↑120.8	↑95.0	13.95
20	13.1529	13.4751	14.0137	↑86.1	↑53.9	14.05

Source: Nairobi Securities Exchange

Figure.17: Widening year on year yield differentials across short and medium-term tenors



Source: Nairobi Securities Exchange

Table.8: Trading ideas - Consider Kenya Eurobonds

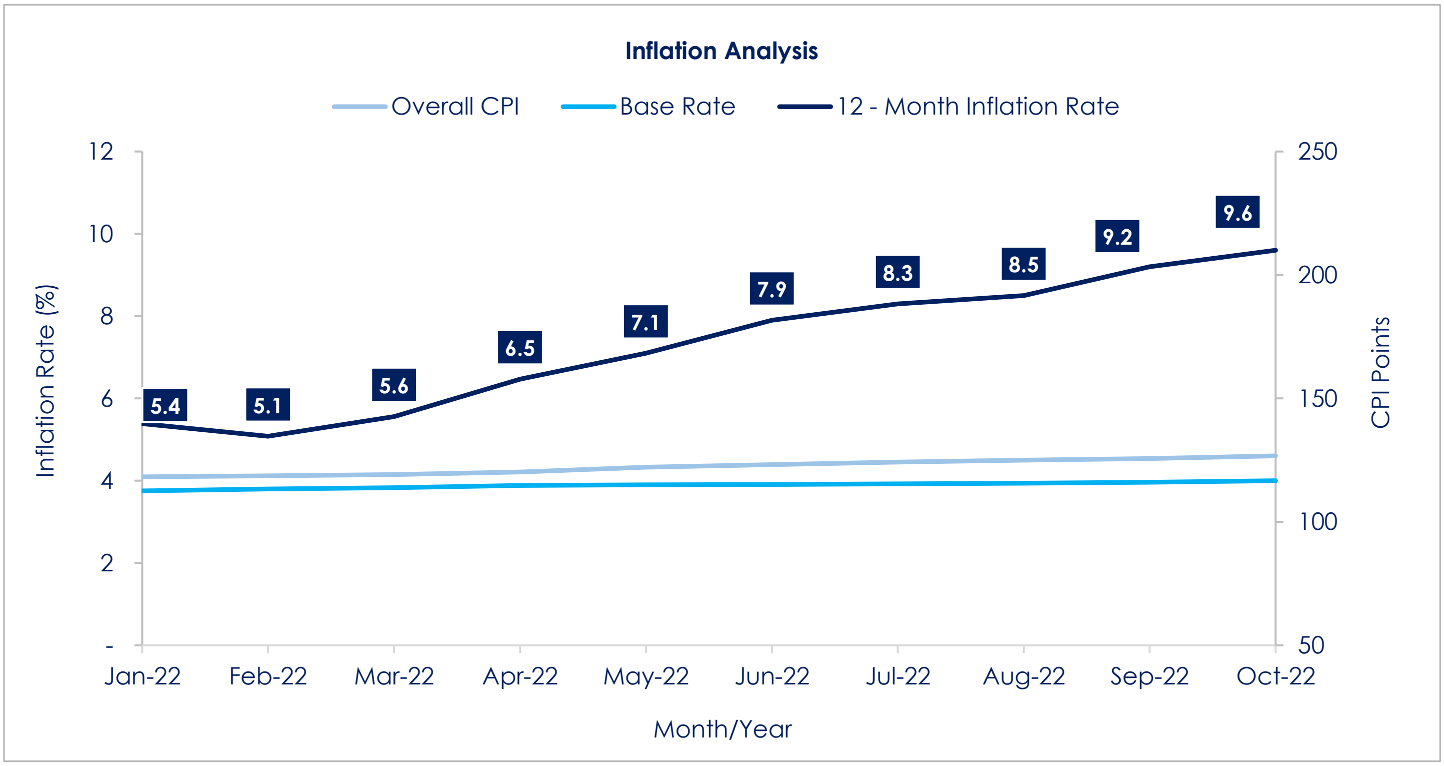
ISIN Code	Issue date	Tenor (Years)	Maturity	Outstanding amount (US.$ Bn)	Coupon	Yield to maturity (27th October 2022)
XS102895240	Jun-14	10	Jun-24	2	6.875%	16.24
XS184343584	May-19	7	May-27	0.9	7%	15.05
XS178171054	Feb-18	10	Feb-28	1	7.25%	14.07

Source: Bloomberg

Inflation hits 60 month high in October 2022

- October inflation rose to 9.6% from 9.2% in September largely due to increases in prices of food and non-alcoholic beverages (15.8%), transport (11.6%), housing, water, electricity, gas and other fuels (7.1%).
- 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 November inflation forecast is 9.5% - 10.5% on account of high food and fuel prices.
- Further, an increase in Kenya's imports amid a depreciating Shilling will keep inflation elevated throughout 2022.

Figure.18: November inflation forecast 9.5% - 10.5%



Source: Kenya National Bureau of Statistics

MPC's attempts to manage inflation and KES depreciation

- The Monetary Policy Committee (MPC) will meet in November 2022 to review the impact of previous monetary policy measures on the economy.
- In its last meeting in September 2022, the MPC revised the Central Bank Rate (CBR) by 75 Basis Points (Bps) from 7.5% to 8.25%.
- We see a low to moderate chance of another 50 Bps revision to 8.75% on account of the following:

    1) October inflation at 9.6% exceeding its upper band medium term range of 7.5%.

    2) Depreciation of Kenya Shilling (KES) with the local currency trading at KES.121.33 against the US.$ (as at 31st October 2022), representing a 7.2% depreciation since the beginning of the year.

- Other points of discussion during the meeting will include the impact of the Russia-Ukraine conflict on global commodity prices, Private Sector Credit (PSC), banking sector liquidity and asset quality, foreign currency reserves and the country's international trade data.
- Our view is that an upward revision in the CBR will have a minimal impact in managing inflation and currency depreciation, as the current inflationary pressure is a direct effect of supply side and not demand effects that can be controlled by a revision of the policy rate.
- The currency depreciation on the other hand is a direct result of the appreciation of the US$ against most currencies following a series of Fed rate hikes that has resulted in a flow of investor capital towards US$ denominated assets.
- A quick analysis of inflation and currency performance since the first revision of the CBR in Mya 2022 (7% to 7.5%) shows that inflation has risen from 7.1% in May to 9.6% while the KES has depreciated 4.7% against the US$ over the same period.
- During this period the CBR was further revised in September to 8.25%.

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