DYER & BLAIR INVESTMENT BANK MACROECONOMIC OUTLOOK 2024

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR INVESTMENT BANK

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KENYA: 2H24 MACROECONOMIC OUTLOOK

- **Global growth is projected to remain unchanged in 2024 to stand at an estimated 3.2%** (2023 estimate - 3.2%). In 1H24, the global macroeconomic landscape has been characterized by geo-political tensions, monetary policy easing and declining inflation levels steered by easing of supply chain disruptions and lower energy prices.
- **Our projections for Kenya's GDP growth in 2024 range between 5.5% and 6.5%** supported in part by increased robust growth of private sector lending, better performance of the agriculture sector on account of adequate rainfall and a decline in global commodity prices; and growing diaspora remittances. Currency strengthening against the US Dollar is further expected to boost the country's output levels.
- **We expect average inflation to range between 5.5% and 6.5% in 2024** from an average of 7.6% in 2023 owing to adequate rainfall, lower electricity prices and lower global crude oil prices.
- **We expect some pressure on private sector lending in light of deteriorating asset quality.** Average industry NPL ratio stood at 12.7% in 2023 compared to 11.9% in 2022. This however compared favorably with the June 2022 NPL ratio of 14.7%.
- The European Central Bank has given indications of a likelihood to lower rates in the course on 2H24 while the Federal Reserve is likely to keep rates unchanged. **This dovish stance is expected on the back of declining inflation levels** supported by declining prices of commodities. We expect this to result in a further strengthening of the Kenya Shilling/US Dollar exchange rate in 2H24.
- **We expect the USD/KES to remain in the range of KES 125-140 over 2H24**, with strengthening expected on the back of a dovish outlook on interest rates and moderating inflation.
- **We opine a slow-down in interest rates increase**. We expect a widening of yield spreads on the 91-day, 182-day and 364-day, implying a **correction of the short-end of the yield curve in the medium term**. We expect increased subscription levels on the 364-day compared to the 91-day as the spreads widen.

KEY RATES & INDICATORS (%, END OF YEAR)

	2019	2020	2021	2022	2023
CBR	8.5	7	7	8.8	12.5
Inflation	5.2	5.6	5.7	9.1	6.6
Interbank	5.5	6.2	5	6.5	14.4
91-Yield	7.2	6.9	7.3	9.4	16.0
182-Yield	8.2	7.4	8.1	9.8	16.0
364-Yield	9.8	8.3	9.4	10.3	16.1
5YR-Yield	11.5	10.5	11.4	13.5	17.5
10YR-Yield	12.1	11.9	12.5	13.8	15.7
15YR-Yield	12.6	12.8	13	13.9	15.7

Source: CBK, KNBS, NSE

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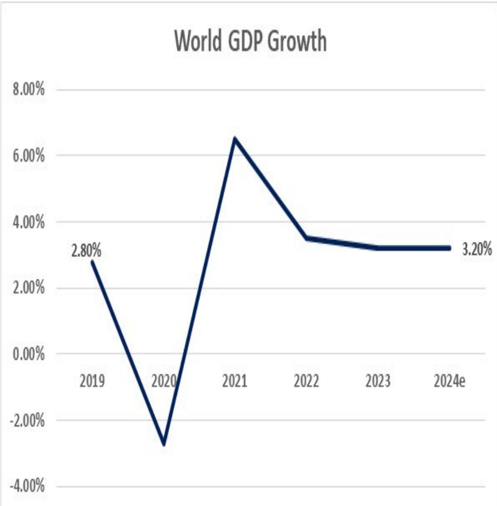
Global Economic Environment

Global Output



Source: IMF WEO April 2024

According to the IMF's April 2024 World Economic Outlook (WEO) report, global growth is projected to remain constant at 3.2% in 2024 and 2025 (2023: 3.2%). This will be steered by growth expectation in advanced economies (2024: 1.8%, 2023: 1.7%) but offset by a slowdown in emerging markets and developing economies (2024: 4.2%, 2023: 4.3%). Global growth numbers bottomed-out in 2022 at 2.3% following supply-chain disruptions post-COVID, Russia-Ukraine war that triggered a global energy and food crisis, and a surge in inflation (global inflation hit a high of 9.4% in 2022) that led to monetary policy tightening across the world.

IMF WEO growth projections	2023e	2024e	2025e
World economy	3.2%	3.2%	3.2%
Advanced economies	1.6%	1.7%	1.8%
Emerging market and developing economies	4.3%	4.2%	4.2%

Source: IMF WEO

In advanced economies, growth is projected to rise consistently over 2024-2025 primarily owing to an expectation of the easing of monetary policies in 2024 due to easing inflation levels, carryover effects from a stronger-than-expected growth outcome in the fourth quarter of 2023 (US) and stronger household consumption, as the effects of the shock to energy prices subside and a fall in inflation supports growth in real income (Euro area).

In emerging markets and developing economies, growth is forecast to decline marginally, largely impacted by declining growth levels in emerging and developing Asia (2024: 5.2%, 2023: 5.6%). This decline is expected to be on account of China's growth projections: growth in China is projected to decline from 5.2% in 2023 to 4.6% in 2024 as the positive effects of one-off factors – including the post-pandemic boost to consumption and fiscal stimulus – ease and weakness in the property sector persists.

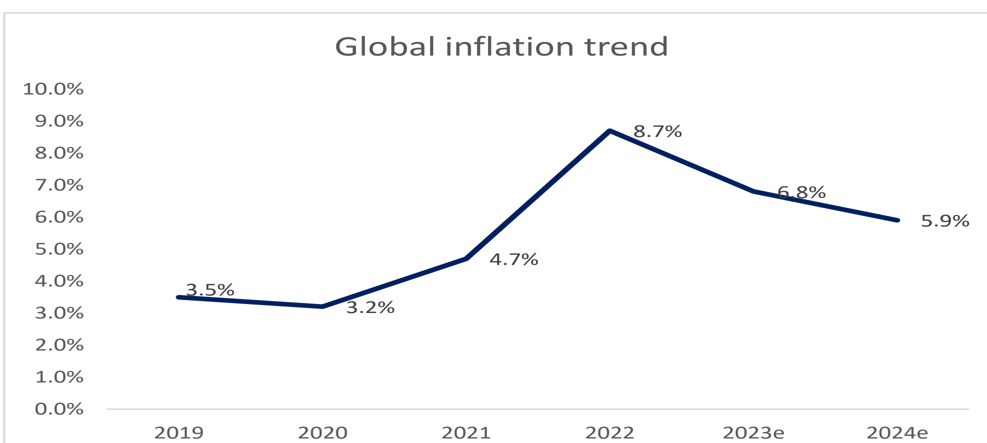
Emerging markets & developing economies	2023e	2024e	2025e
Emerging and developing Asia	5.6%	5.2%	4.9%
Emerging and developing Europe	3.2%	3.1%	2.8%
Latin America and the Caribbean	2.3%	2.0%	2.5%
Middle East and Central Asia	2.0%	2.8%	4.2%
Sub-Saharan Africa	**3.4%**	**3.8%**	**4.0%**

A moderate growth of 3.8% is projected for sub-Saharan Africa in 2024 (up from 3.4% in 2023) predicated on easing supply chain constraints and the subsiding of negative effects of weather shocks.

Source: IMF WEO April 2024

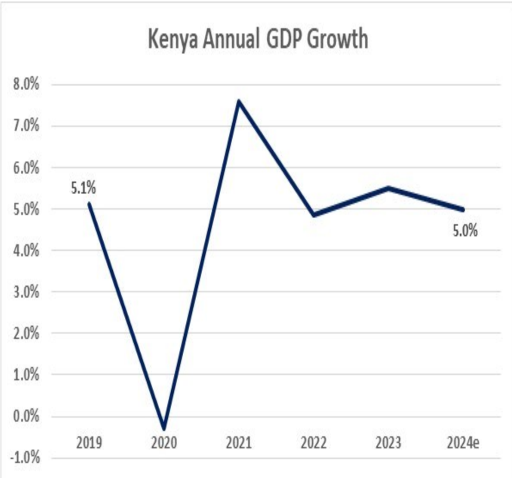
Global Inflation

The IMF's April 2024 World Economic Outlook (WEO) report projects global inflation to ease from 6.8% in 2023 to 5.9% in 2024. Despite this expectation of global disinflation, inflation is still forecast to remain higher than pre-pandemic levels of 3.5% (2017 to 2019). Advanced economies are expected to return sooner to rates near their pre-pandemic (2017–19) average, with inflation averaging 2.0% in 2025, about a year before emerging market and developing economies are expected to return to their pre-pandemic average of 5.0%. The receding inflation level is expected to be driven by the lower energy prices, easing of supply chain disruptions and positive effects of monetary policy actions taken by governments and improved monetary policy frameworks.



Source: IMF WEO April 2024

Risks to Global Economic Outlook



Source: IMF WEO April 2024

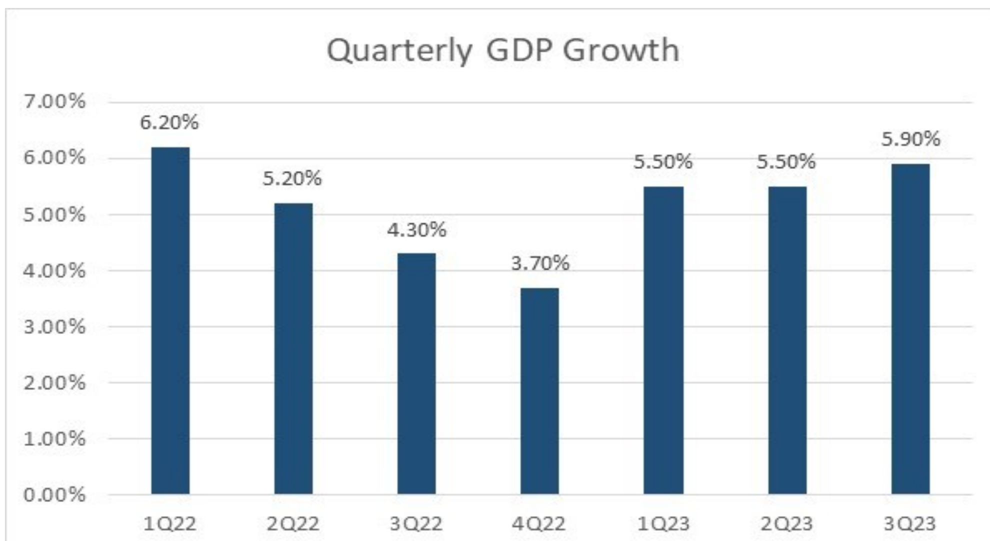
- **Geo-political tensions**: This encompasses the Russia-Ukraine conflict and Iran-Israel conflict and has the potential to worsen supply chain constraints thereby leading to new price spikes.

- **Divergence in disinflation speeds**: Faster inflation decline in advanced economies compared to emerging market and developing economies could cause currency movements that put financial sectors under pressure.

- **China's troubled property sector**: China's growth projection is expected to slow down significantly owing to the prevailing challenges in the country's property sector. The persistence of this will continue to impact trading partners, hence impacting global growth expectations.

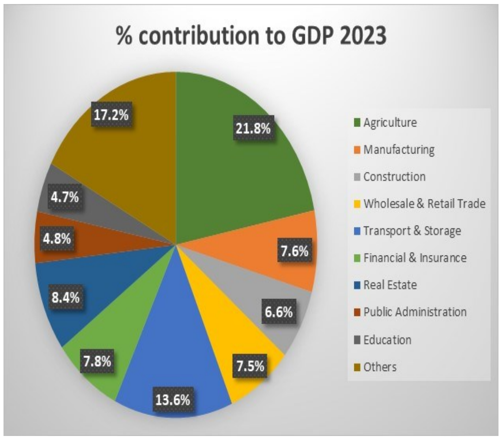
- **US elections:** Economic policy uncertainty could impact financial markets globally.

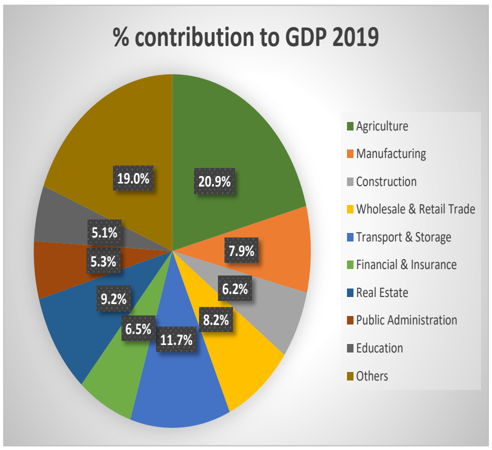
Kenya Economic Growth



Source: KNBS, CBK & DBIB Analysis

According to the Kenya National Bureau of Statistics 2024 Economic Survey published in May 2024, Kenya's GDP growth stood at 5.6% in 2023 compared to 4.9% in 2022. This was largely driven by growth across most of the economic sectors. The Agriculture, Forestry and Fishing sector grew by 6.5% supported by improved rainfall conditions, the Transport and Storage sector grew by 6.2% and the Real Estate sector grew by 7.3%. The recovery in these sectors was driven by favorable weather conditions (coming after a prolonged drought), lower energy prices and lower input costs on account of easing supply chain constraints.





Kenya - Growth by sector:

2023	**% change**	**% Contribution to GDP**
Agriculture	6.5	21.8
Transport & Storage	6.2	13.6
Real Estate	7.3	8.4
Financial & Insurance	10.1	7.8
Manufacturing	2.0	7.6
Wholesale & Retail Trade	2.7	7.5
Construction	3.0	6.6
Public Administration	4.6	4.8
Education	3.1	4.7
Information & Communication	9.3	2.2
Electricity and Water Supply	2.9	1.9
Health	4.9	1.7
Accommodation & Restaurant	33.6	1.3
Mining & Quarrying	-6.5	0.7
Others		9.4

Source: KNBS 2024 Economic Survey

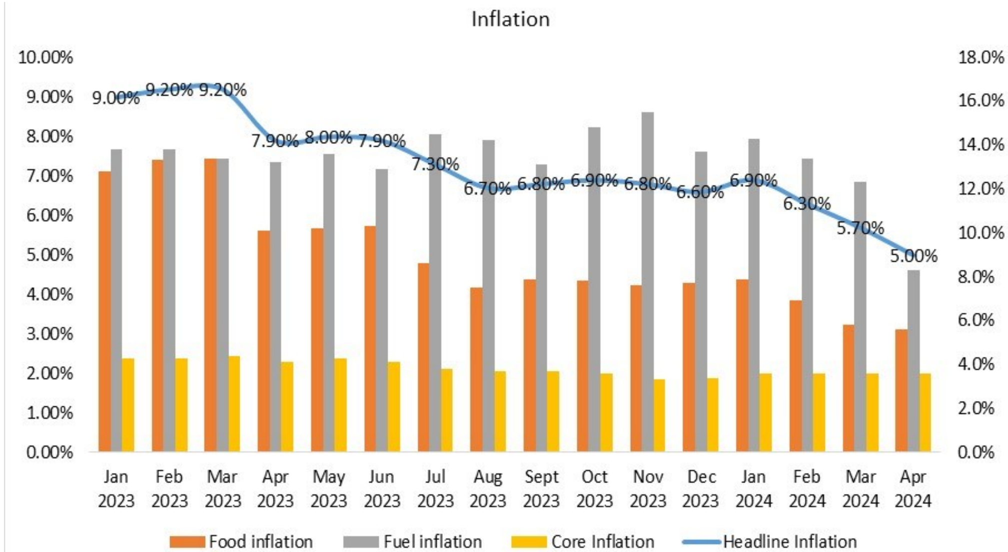
In 2024, we expect Kenya's GDP growth to moderate, supported by the Agriculture, Transport, Real Estate and Financial Services sectors. Our projections for GDP growth in 2024 range between 5.5% and 6.5% supported by the strengthening of the KES, robust growth of private sector lending, above-average rainfall levels and growing diaspora remittances.

The Agriculture sector is expected to benefit from the improved rainfall conditions, bearing a contrast against the previous five consecutive seasons of below-normal rainfall levels (spanning 2020-2023). The Kenya Meteorological Department in its February 2024 issue states that it expects above-average rainfall across most of the country's climatic regions, in turn driving the production of agricultural food items. The Government's subsidy on fertilizer and seeds has also seen increased activity in the sector.

The Transport sector has seen reduced fuel prices amidst a global decline in energy prices and the KES strengthening against the US Dollar, in turn boosting the sector's performance. The Energy and Petroleum Regulatory Authority has reviewed fuel prices downwards over the past five consecutive monthly reviews.

The Financial Services sector is expected to benefit from the growth in credit to the private sector, which has been on an upward trajectory since September 2023. Private sector credit growth stood at 13.8% in January 2024 compared to 11.5% in January 2023, highlighting the increasing channeling of funds to SMEs. Banks' lending has especially seen a boost following most banks' approval of risk-based pricing models.

Inflation



Source: KNBS, CBK & DBIB Analysis

We expect continued inflation easing into 2024 as has been the case in Jan-Apr 2024. This is expected to be driven by:

- above-average rainfall levels: the March-April-May rainfall levels have been above-average, thus expected to boost agricultural production, in turn driving prices of food items down.

- Fertilizer and seed subsidy programme: this is expected to lead to increased agricultural activity. Fertilizer imports notably increased by 62.9% in 2023. Budget allocation to this end stands at KES 5.0 BN. Subsidized fertilizer costs farmers KES 3,500 per 50kg bag compared to the retail price of KES 6,500.

- lower electricity prices (due to improved rainfall and currency appreciation). KenGen in February reported increased generation of hydropower following increased rainfall, expected to lead to reduced prices of electricity. Notably, Kenya Power announced a 13.7% month-on-month reduction in the cost of power in April 2024 for domestic users.

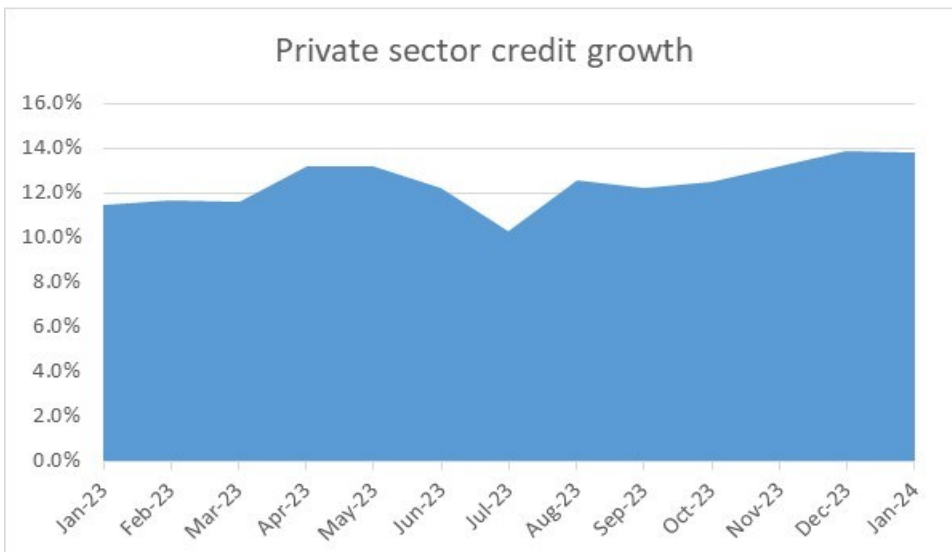
We expect average inflation to remain within the CBK's target range of 2.5%-7.5%. Volatility of crude oil prices remains a key risk to inflation levels. Oil prices notably increased in April 2024 due to a decline in inventories and geo-political tensions, but took a downward turn in May 2024 due to demand concerns.

Private Sector Credit Growth

With private sector credit growth at an 18-month high as at January 2024, we see this growth being influenced by banks' preference for lending to the private sector as opposed to the government on account of the high interest rate environment. This further highlights the impact of the approvals for risk-based lending by the CBK.

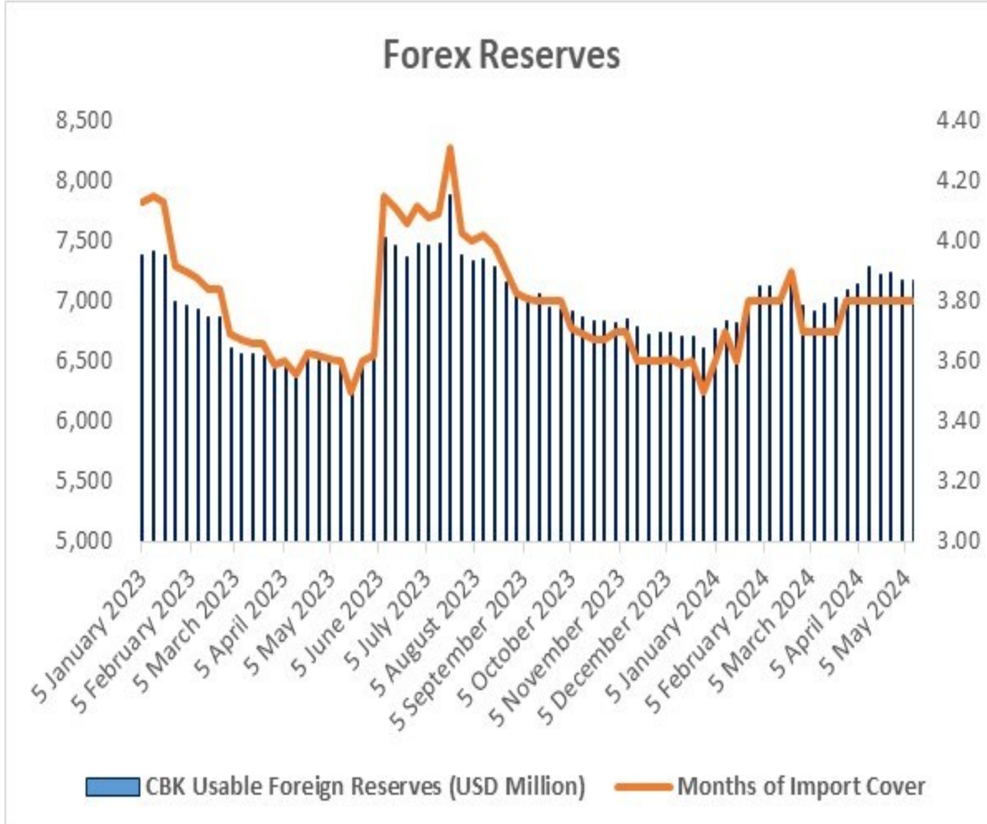
The sectors that recorded the highest lending were manufacturing (23.0%), trade (16.1%) and finance and insurance (14.9%). Private sector lending has remained undeterred by Central Bank Rate adjustments - stood at 12.5% as at December 2023 compared to 8.75% as at December 2022 - necessitated by inflationary pressures occasioned by the depreciation of the KES and high input costs.

We expect some pressure on private sector lending in light of deteriorating asset quality. Industry NPL ratio stood at 12.7% in 2023 compared to 11.9% in 2022. This however compared favorably to the June 2022 NPL ratio of 14.7%.



Source: CBK & DBIB Analysis

Forex Reserves

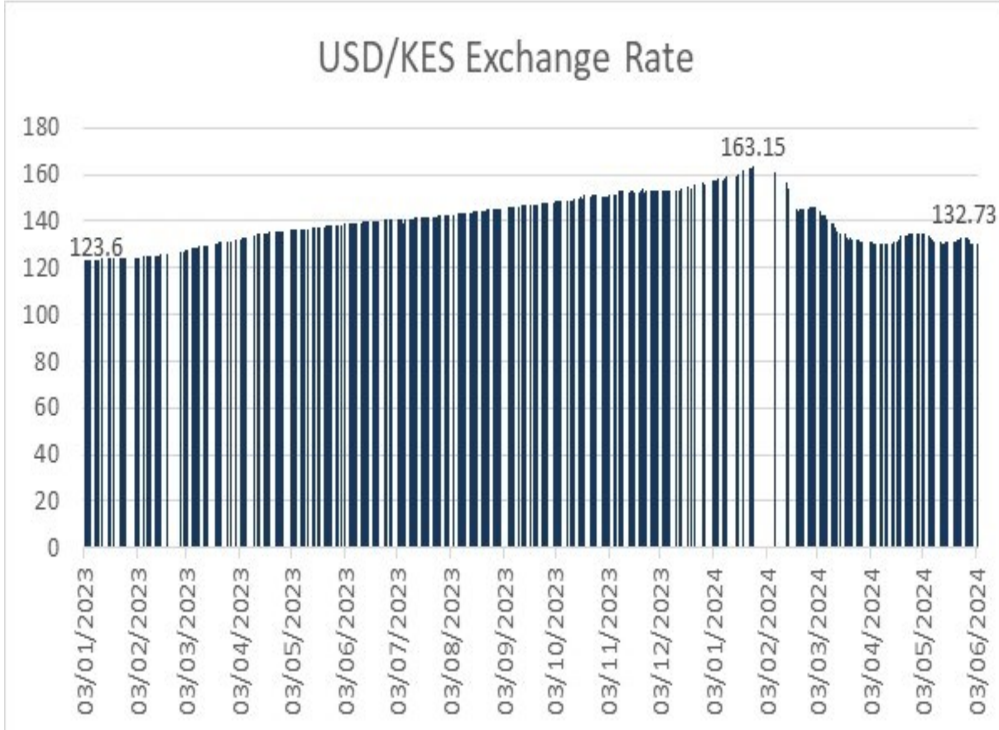


Source: CBK

Forex reserves have recorded a fairly consistent increase since March 2024 to stand at USD 7.2 BN (as at 9th May 2024) compared to USD 6.9 BN (as at 7th March 2024) and USD 6.6 BN as at December 2023. In January 2024, the IMF's disbursement of USD 682.3 MN and the Trade and Development Bank's disbursement of USD 210.0 MN boosted forex levels, following which the CBK utilized part of the forex reserves to mitigate currency weakening, causing a reversal in forex accumulation.

We expect the IMF's disbursement of c. USD 1.0 BN slated for June 2024 to further boost the forex reserves level. This is part of the country's Special Drawing Rights under the Extended Fund Facility/ Extended Credit Facility. We expect this disbursement to push the forex reserves level to the CBK's target of 4.0 months of import cover, up from the current 3.8 months. We expect the subsequent disbursement scheduled for October 2024 to further sustain the reserves level.

Exchange Rate

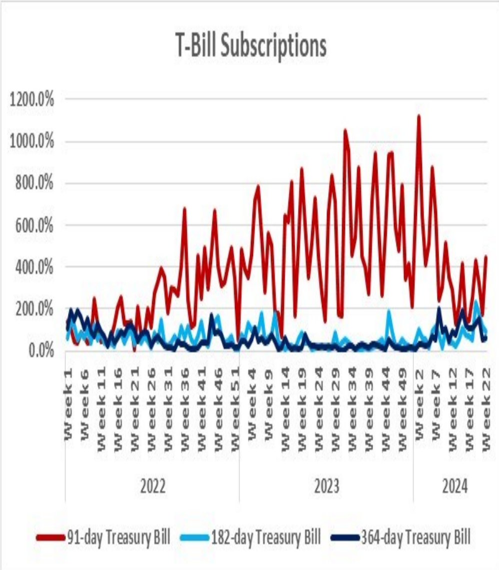


Source: CBK

Indications of a possibility of interest rate cuts by the European Central Bank are expected to stir emerging markets and result in relative strengthening of the KES. The Federal Reserve is however seen as unlikely to cut rates in 2024 on account of inflation remaining elevated, partly stifling the KES strengthening. The ECB's dovish stance is expected to reverberate across developed economies.

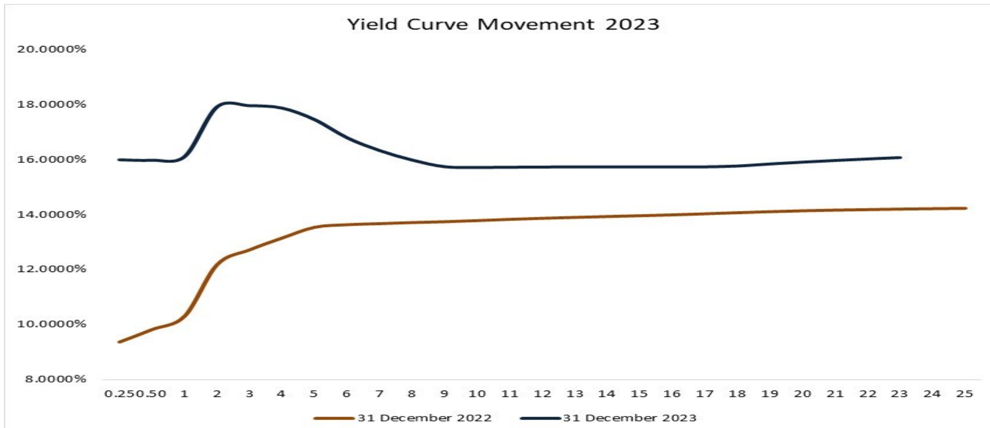
We expect the USD/KES to remain in the range of KES 125-140 over 2H24, with strengthening expected on the back of a dovish outlook on interest rates and moderating inflation. The inter-bank rate has been on a steady decline to stand at 13.33% as at June 2024 compared to 14.01% in January 2024. Easing liquidity constraints have seen reduced pressure on the KES, further supported by the tapering of interest rates locally.

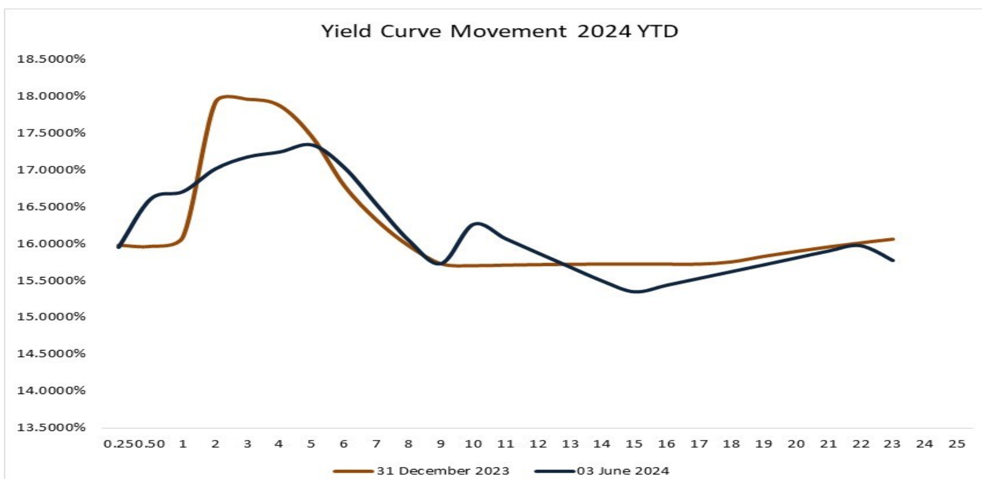
Interest Rates and Fixed Income Securities



We expect interest rates tapering in 2H24, moderating on account of easing liquidity constrains and indications of a global dovish stance that is expected to be echoed locally on account of easing inflation levels.

By the end of May 2024, the yield curve had declined by 6 bps on average across all maturities on a year-to-date basis. In 2023 however, the yield curve rose by 293 bps on average across all maturities. The 2024 YTD change indicates a tapering of interest rates, with the short-to-medium end recording a significant decline in yields as below.





Source: CBK

We see less likelihood of an upward Central Bank Rate adjustment by the Central Bank of Kenya on account of a downward trajectory of inflation levels, currency strengthening and easing liquidity constraints as indicated by a tapering interbank rate and growing forex reserves.

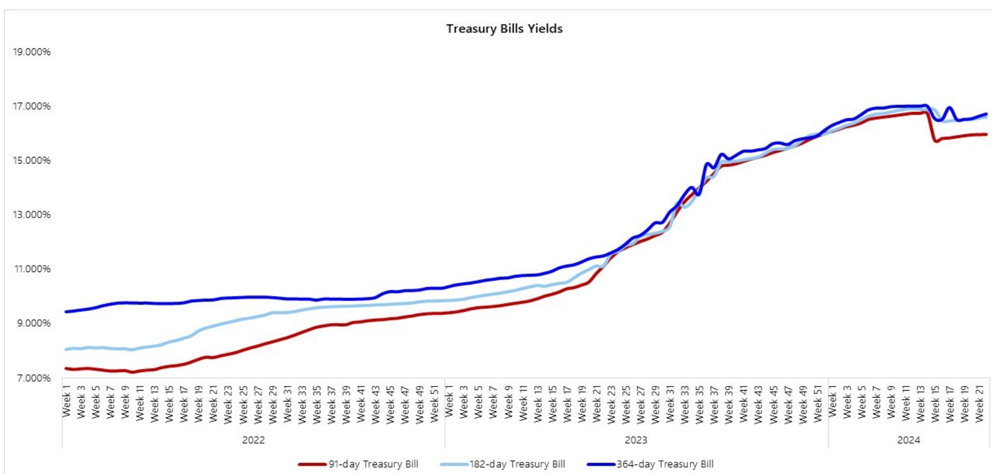
Budget Operations

According to the Draft Budget Policy Statement for 2024, the government plans to reduce total debt financing in FY24/25 by 10.3% to KES 703.9 BN from the current fiscal year's projected borrowing of KES 785.0 BN. This reduction is projected to be equally spread across foreign and domestic funding, with domestic funding anticipated to shrink by 10.6% to KES 422.7 BN and foreign funding expected to shrink by 10.0% to KES 362.2 BN. The projected debt-to-GDP ratio is expected to decline to 61.9% in 2024 and to further decline to 60.2% in 2025 compared to 64.4% in 2023. Notably, in FY23/24 the government successfully carried out the redemption of the inaugural Eurobond, impacting the numbers below.

	FY23/24	FY24/25	Change
	KES BN	KES BN	(%)
Total Financing	785.0	703.9	(10.3)
Net Foreign Financing	362.2	326.1	(10.0)
Net Domestic Financing	422.7	377.7	(10.6)

Source: Budget Policy Statement 2024

In Jan-May 2024, there has been a significant decline in the 91-day T-Bills subscription. Notably, the 91-day T-bill yields have declined, leading to a divergence from the 182-day and 364-day yields, in turn driving subscription levels down. In 2023, T-Bill yields maintained an upward trajectory, noting the convergence across the 91-day, 182-day and 364-day yields as depicted in the chart below on account of the narrowing of yield spreads between the papers.



In 2024 YTD, the 91-day yield has recorded 3 bps decrease, the 182-day has recorded 64 bps increase while the 364-day has recorded 61 bps increase. We highlight the decline in the 91-day yield, signaling the commencement of a "correction" across the tenures. We expect this to lead to the divergence of the T-Bill yields plots in the short to medium term, and expect this to in turn be reflected in the entire yield curve over time, thus eroding the humped shape of the yield curve.

Going forward, we opine a slow-down in interest rates increase as indicated in the latest bond auctions (the IFB1/2024/8.5 is currently trading at 16.9848%). We expect a widening of yield spreads on the 91-day, 182-day and 364-day, implying a correction of the short-end of the yield curve in the medium term. We expect increased subscription levels on the 364-day compared to the 91-day as the spreads widen.

Equities

The NSE has shown improved performance year-to-date with the NSE 20 and NASI indices recording a 14.95% and a 22.89% gain to 1,725.60 and 113.19 respectively. The resilience and growth in Jan-May 2024 is attributed to the strengthening Kenya Shilling (KES) against other major currencies, positive investor sentiment following the Government's successful refinancing of the 2024 Eurobond and positive investor sentiment following the FY23 and 1Q24 financial results releases by a number of companies.

2024 year-to-date has been characterized by:

- A reversal in the KES/USD performance, with the KES strengthening by 16.61% year-to-date on increased dollar inflows.
- CBK rate hikes (50 bps in February 2024 following a massive 200 bps increase in December 2023). The Central Bank Rate now stands at 13.00%, the highest level in c.12 years.
- Safaricom announced an interim dividend of KES 0.55 per share and a final dividend of KES 0.65 per share for the year ended 31st March 2024. Safaricom shares have gained 28.8% on a year-to-date basis.
- Bamburi Cement announced the completion of the sale of its entire stake in Hima Cement, which was owned by Himcem Holdings Limited (a subsidiary of Bamburi Cement) to Sarrai Group and Rwimi Holdings Limited. The company paid a dividend of KES 5.47 per share for FY23.
- East African Cables announced that it has entered into a share purchase agreement with Msufini Limited (Tanzania) for the sale of its 51.0% (16,218,000 shares) stake in East African Cables (Tanzania) Limited. The sale is subject to shareholders' approval and regulatory approvals.

We maintain a positive outlook on the market, noting increased activity by both local and foreign investors that has led to recent price discovery. The FY22/23 downward rally presented an attractive entry opportunity for investors, and as the market performance curve registers a change, we posit that investors continue to have an attractive entry opportunity on select counters.

COMPANY	DECLARED	AMOUNT	PRICE*	DIV YIELD(%)	CLOSURE	PAYMENT
East African Breweries	Interim Dividend	1.00	1.00	0.63	16-Feb-24	26-Apr-24
Sasini	Final Dividend	0.50	19.00	7.92	22-Feb-24	22-Mar-24
Safaricom	Interim Dividend	0.55	18.00	6.70	15-Mar-24	31-Mar-24
Limuru Tea	Final Dividend	2.55	380.00	0.3	13-Apr-24	30-Jun-24
I&M Group	First & Final Dividend	2.55	20.40	12.59	18-Apr-24	24-May-24
Standard Chartered Kenya	Final Dividend	23.00	187.75	15.55	19-Apr-24	30-May-24
Co-operative Bank	First & Final Dividend	1.50	13.65	11.11	29-Apr-24	10-Jun-24
ABSA Bank	Final Dividend	1.35	13.70	11.27	30-Apr-24	23-May-24
NCBA	Final Dividend	3.00	42.00	11.31	30-Apr-24	29-May-24
Stanbic Kenya	Final Dividend	14.20	110.00	13.92	17-May-24	06-Jun-24
Bamburi Cement	First & Final Dividend	5.47	43.30	13.29	24-May-24	25-Jul-24
BAT Kenya	Final Dividend	45.00	369.25	13.56	24-May-24	26-Jun-24
DTB Kenya	First & Final Dividend	6.00	46.15	13.07	24-May-24	28-Jun-24
Equity Group	First & Final Dividend	4.00	43.55	9.20	24-May-24	28-Jun-24
NSE	First & Final Dividend	0.16	6.00	2.56	30-May-24	31-Jul-24
BOC Kenya	First & Final Dividend	6.05	86.00	6.67	31-May-24	21-Jul-24
Kakuzi	First & Final Dividend	24.00	420.00	5.71	31-May-24	15-Jun-24
CIC Insurance	First & Final Dividend	0.13	2.28	5.80	07-Jun-24	10-Jul-24
Laptrust Imara I-REIT	First & Final Dividend	0.13	20.00	2.9	08-Jun-24	11-Jul-24
BK Group	Final Dividend	FRW 24.18	34.00	11.13	14-Jun-24	01-Jul-24
Liberty Kenya	First & Final Dividend	0.37	5.78	6.43	14-Jun-24	24-Aug-24
Jubilee Holdings	First & Final Dividend	10.00	182.75	7.57	25-Jun-24	25-Jul-24
Jubilee Holdings	Special Dividend	2.30	182.75	7.57	25-Jun-24	25-Jul-24
Total Kenya	First & Final Dividend	1.92	23.50	8.71	27-Jun-24	31-Jul-24
Umeme	Final Dividend	UGX 54.20	15.75	16.79	28-Jun-24	19-Jul-24
Safaricom	Final Dividend	0.65	18.00	6.70	31-Jul-24	31-Aug-24

*Source: NSE, Company & DBIB Analysis. * as at 31st May 2024*

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