KINGDOM SECURITIES

Macroeconomic Roadshow Presentation

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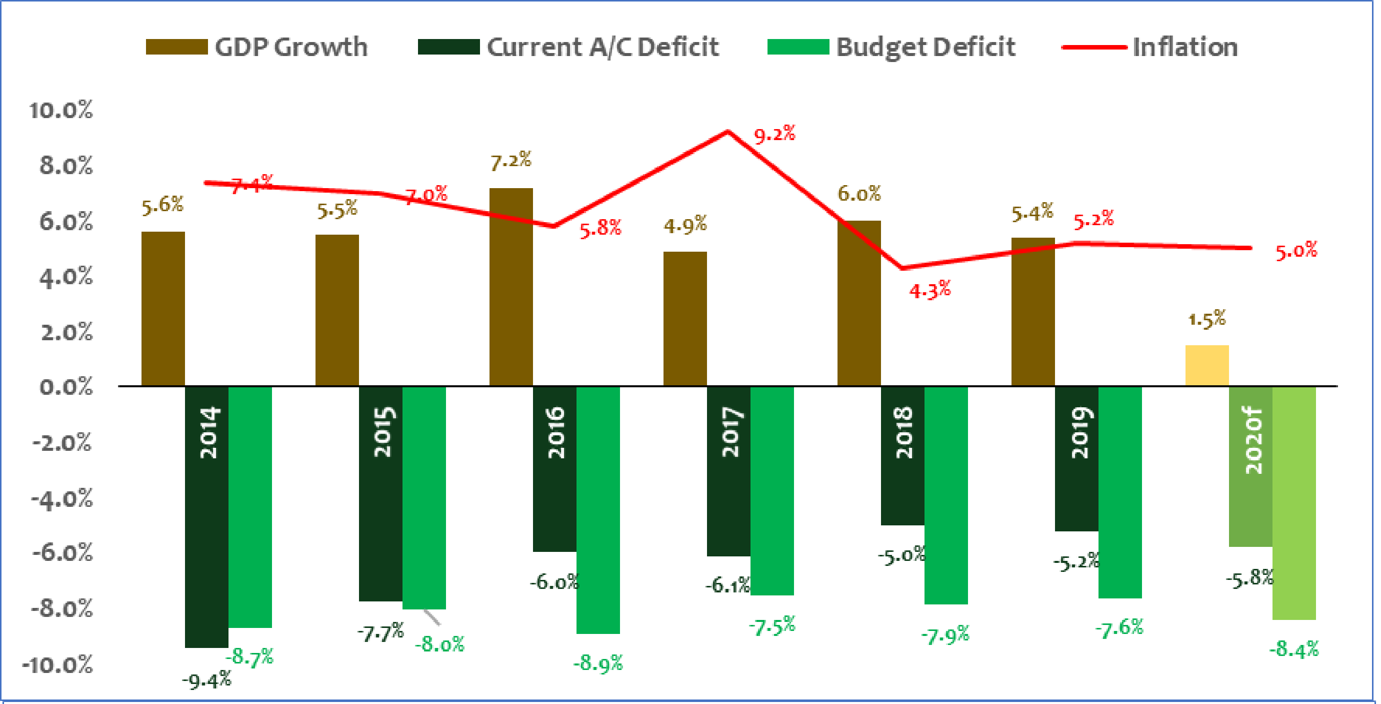
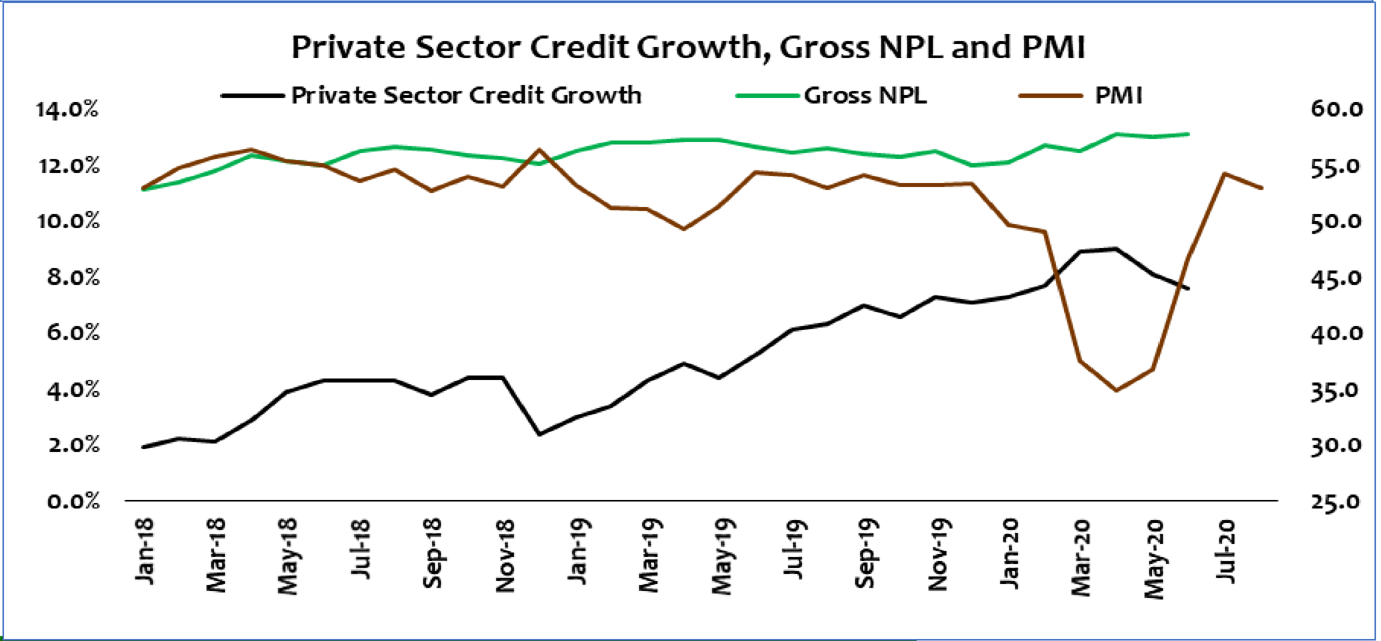
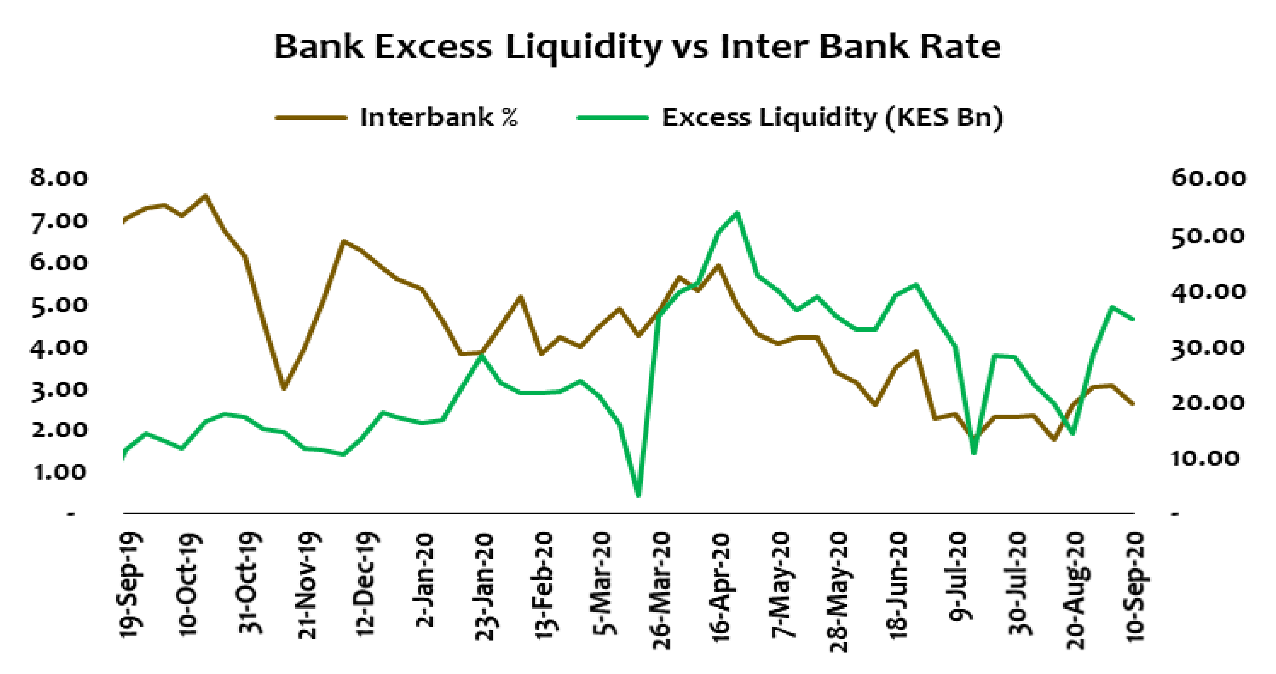
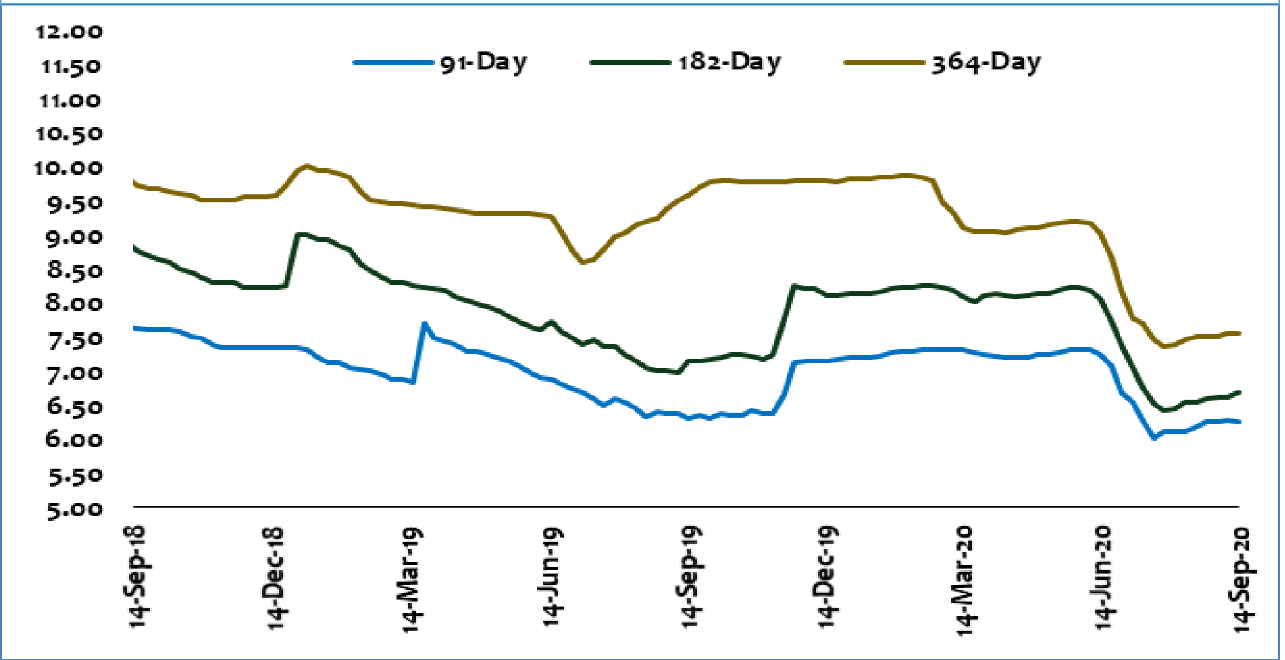




Economic Performance

- Our prediction in GDP Growth of **1.5%**. Government projects **2.6%**.
- BROP total revenues ↓**5.9%**, ordinary revenues ↓**6.7%** as taxes revenues ↓**6.0%**. Expenditure flat. Fiscal Deficit ↑**8.4%**
- Kenyan economy is expenditure driven. Tight lid on new projects.
- Key agriculture exports have eased down, tourism down.
- Current account deficit to be supported by low import bill with international petroleum remaining at **USD 40± USD 5** (H1-2020 **4.7%**).
- Inflation to remain on the lower government target of **5%±2.5%.** Lower food prices on favorable weather and stable international oil prices.
- Manufacturing recovery was replacing he stock out. PMI to remain above **50** with reopening of the economy and growing global economy to aid with export and raw material imports





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Liquidity Levels and Interbank Rate

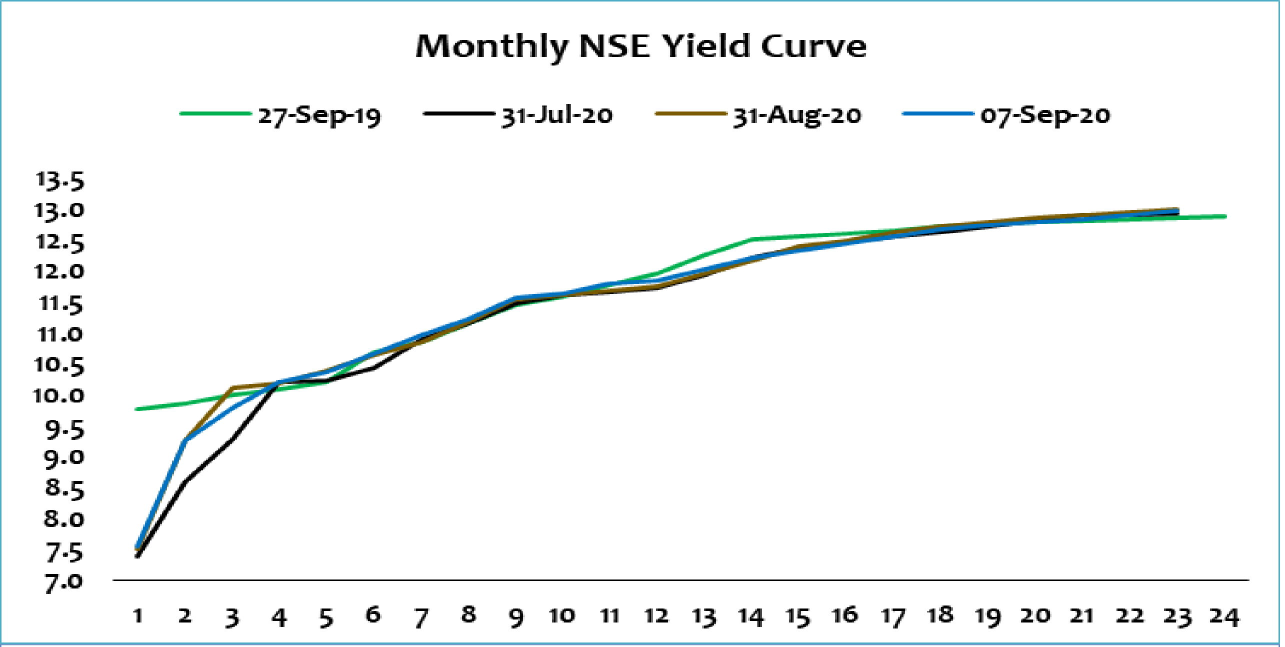
- Liquidity improved in the market after CBK lowered CRR from 5.25% to 4.25%.
- Commercial banks opting to grow investment in government securities to mitigating credit risk by growing loan book at a slower rate.

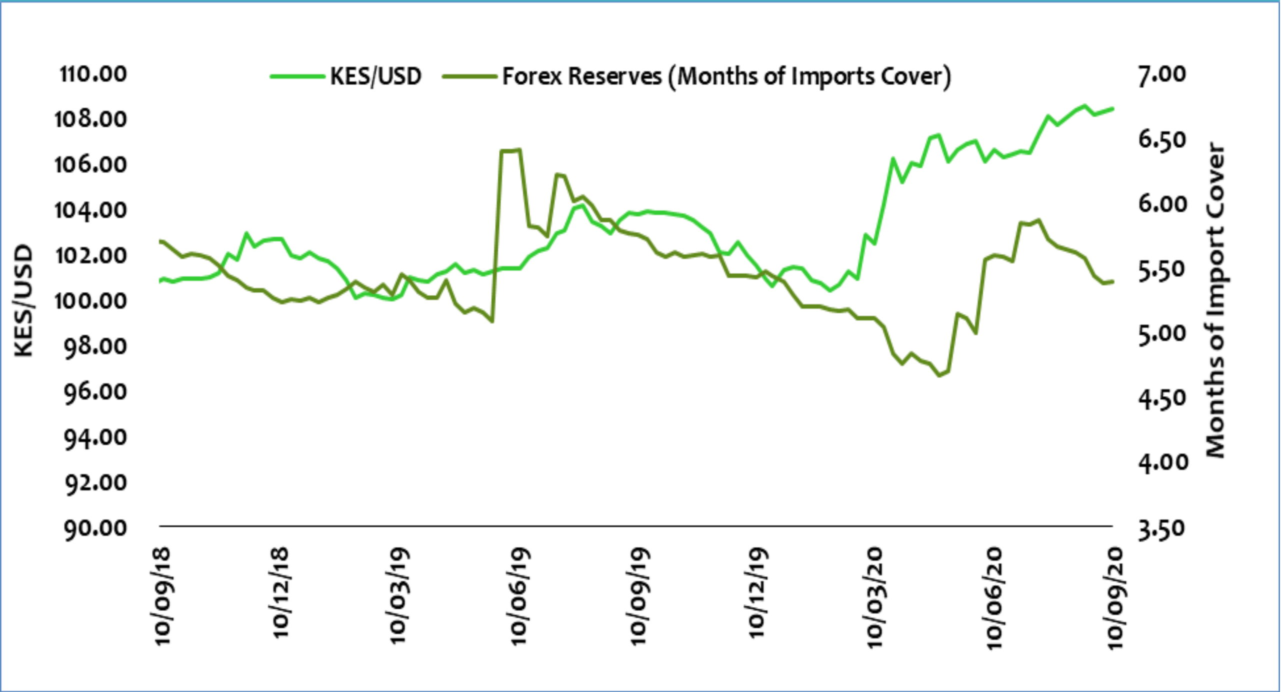
Private Credit

- Private credit averaged 8.1% in the first 6 months of the year compared to 4.2% same period in 2019.
- The stimulus has headed to the financial market through government securities and not the real economy through private credit as intended by the CBK. Lag time 2-3 months.
- Focus on manufacturing and consumer durables mostly through loan restructuring.

T-Bills

- T bill Rates 91 day – 5.0%-5.25%, 364 day- 6.25-6.5%. - August tight liquidity helped push T-Bill rates up - T bill Rates 91 day-6.25-6.5% and 364-day 7.5% - 7.75%.
- Subscription will remain concentrated on the 91-day paper with investors opting to roll over funds while matching with new investment. Expectation of reversion to 5.25% from 4.25% CRR, positioning for credit growth on economic upside.



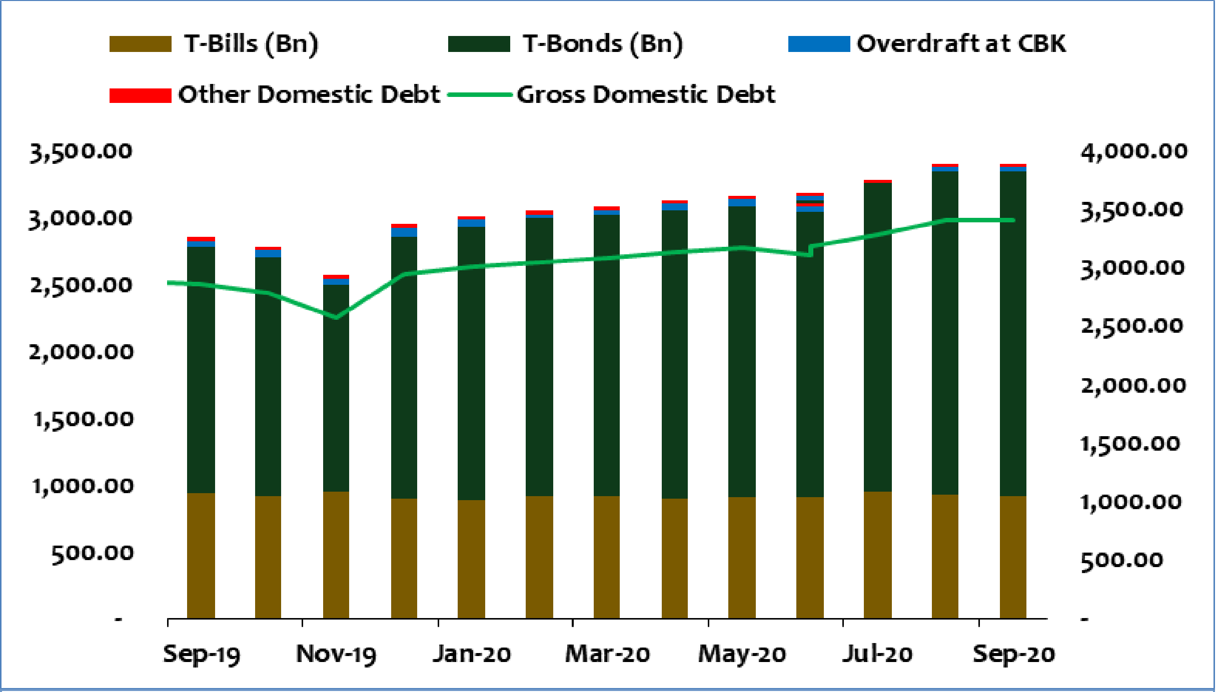


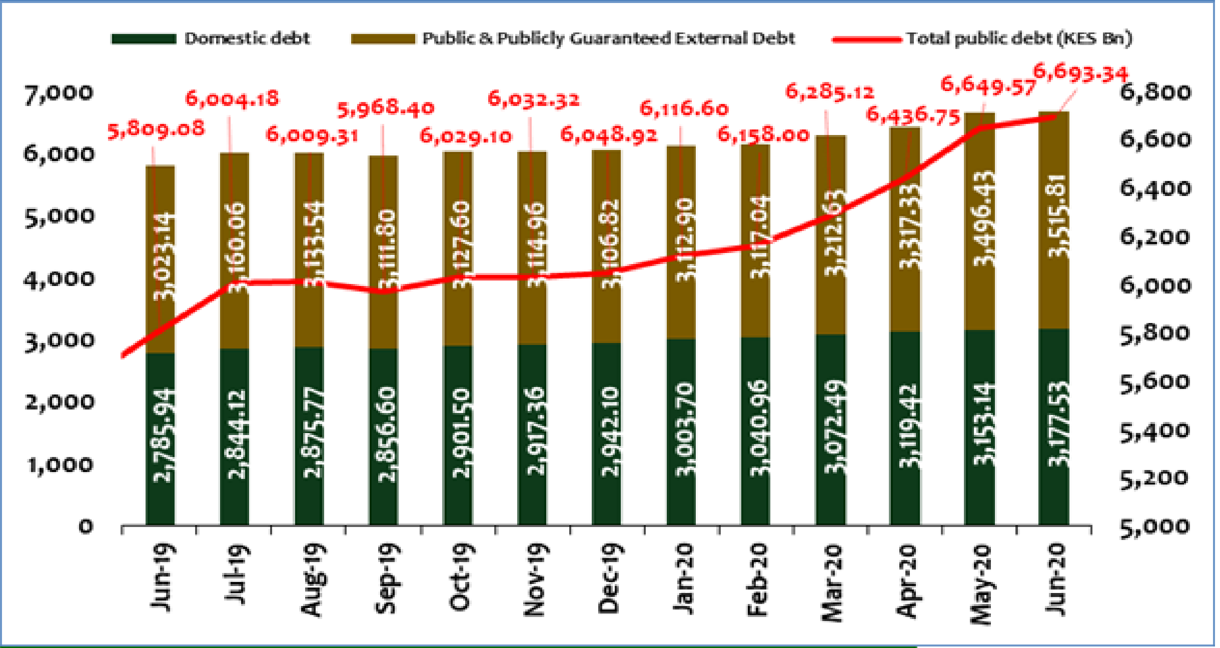
Yield Curve

- Downward shift has happened on the short end due to the liquidity levels and the unknown long term.
- Government to maintain reopening mostly of long-term papers. This will aid lengthen term, maintain yield levels and pay lower coupons.

Expectation on the Shilling

- Monetary and Fiscal policy implemented to aid economic recovery will remain until the end of the year. External Borrowing will remain a key fiscal policy to boost the economy.
- We had predicted the shilling at 106.00/106.50/USD. We shift our forecast to 108.75-109.25/USD.
- December increase in demand and Payment of c.USD 136.64Mn on Eurobond Interest.
- Tea, horticulture and coffee payments will not be adequate to offset demand.
- July 2020, remittance ↓4.0% m-m, ↑3.9% y-y. Annual change explained by KES depreciated by 3.4%
- Currency reserves to depend heavily on concessionary loans from IMF and World Bank to help fight the pandemic effects.
- CBK will remain vigilant on the money levels and currency continue to monitor development in the money and foreign exchange market and take appropriate measures in the event of adverse shocks.

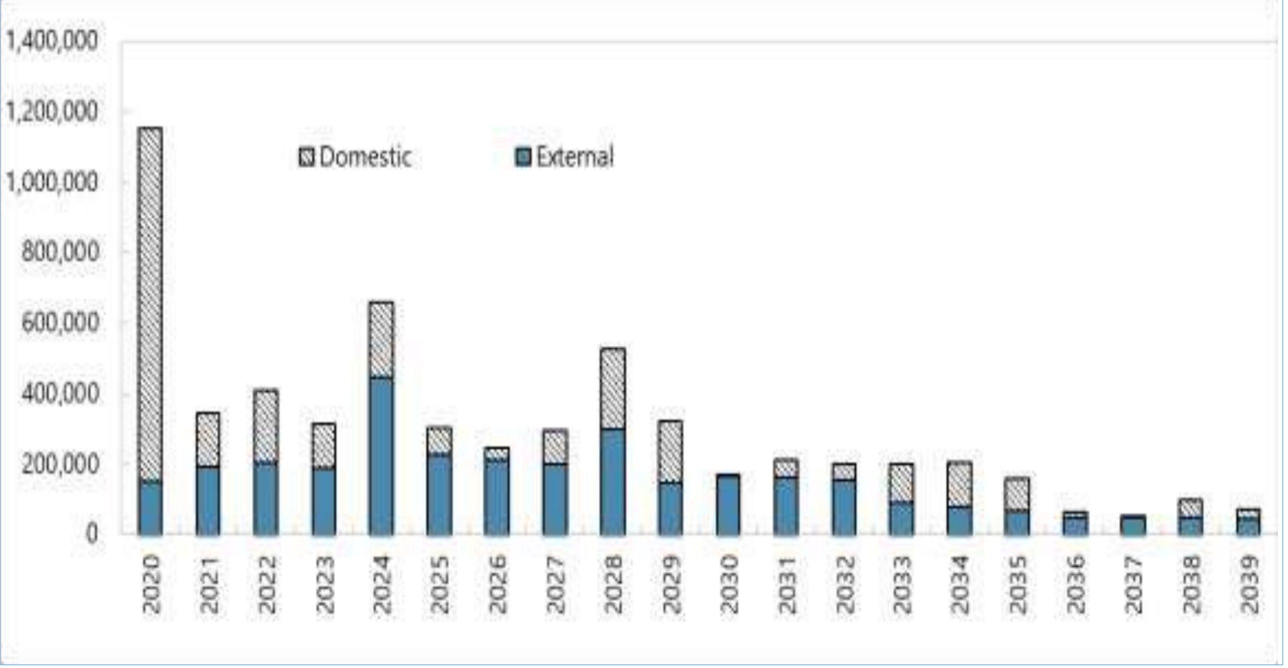


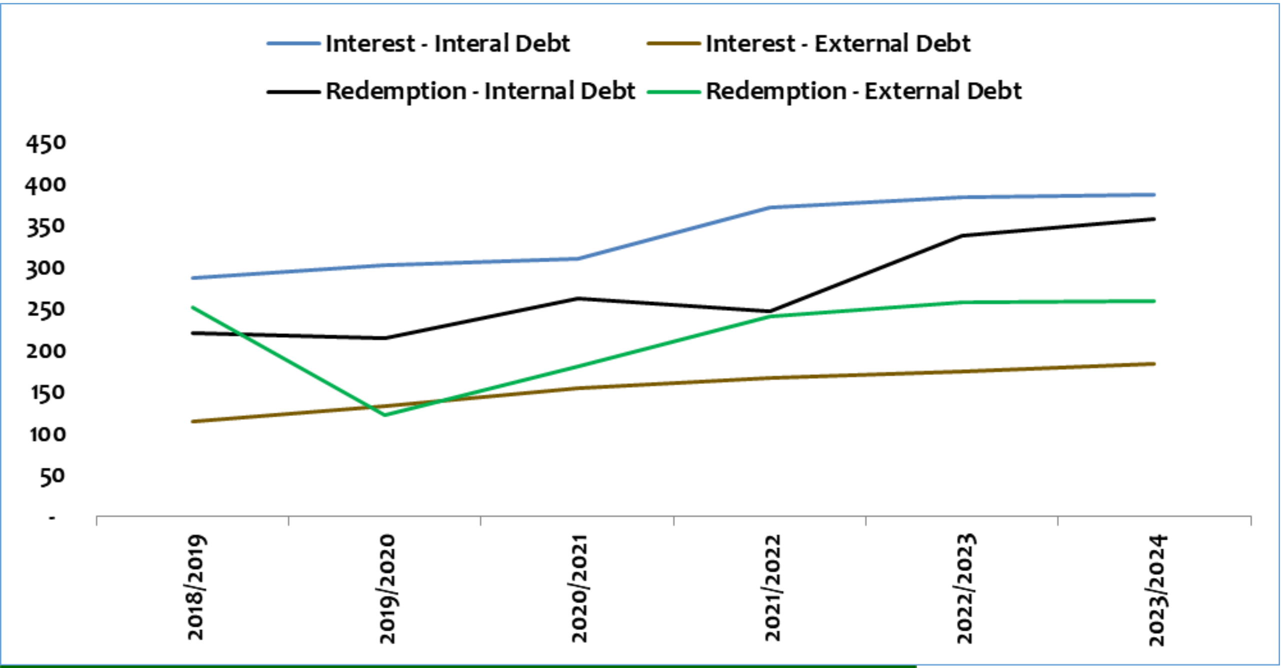


BROP

- Fiscal deficit was increased from 7.5% to 8.4%
- External borrowing target were increased 14.4% to KES 397Bn from KES 347Bn.
- Domestic target raised by 12.2% to KES 555Bn from KES 494Bn.
- Government debt at projected at 63.4% of GDP from 60.7% in 2019-2020.
- As of current, 47% of it budgeted domestic borrowing in 2½ months of the fiscal year 2020-21.

There is still a challenge on absorption of debt and especially external debt. Treasury continues to accrue high commitment fees on late or non-dispersed external loans





Debt Management

- Redemptions KS KES 150.62Bn 2020/21 vs 109.05Bn in 2019/20.
- Interest KES 72.46Bn 2020/21 vs KES 66.02Bn 2019/20
- Domestic Debt YTM – Current 5.7 years from 4.5 years
- Bond YTM – Current 8.0 years from 6.9 years
- External Debt – 11 years from 10.1 years
- Total – 8.7 years from 7.4 years

Our Take - Debt

- The BROP has underestimated the borrowing levels. With the reduced revenues, they did not cut expenditure.
- There will be no devaluation of currency – Exchange Rate Risk
- Target to reduce T-Bills and increase on long term bonds.
- Continued to issue long term papers 15 years and more.
- More use of cheaper concessionary and bilateral loans
- Probability of issuing a Eurobond in 2024 – Payment.

Global News

- Tanzania election on Wednesday October 28th, 2020. Incumbent to win. Key to the Kenyan economy as we export average 5.5% and import average 1.5%
- American election Tuesday November 3rd,2020. As of September 14th, Biden was leading by 50.5% to Trumps 42.9%. Average exports 8.7% imports 3.5%
- No Brexit deal fears continue as the EU continues as Britain trade deal continues to be a major factor on Brexit success. Britain Exports average 6.7%, EU exports 16.1%. Britain Imports 2.0%, EU 11.4%.
- US-China trade wars. China export 2.5% import 20.7%

2021

- Inflation pressure – Erratic weather remains a major factor on food security.
- Interest rates to push upwards on recovery of the economy - 91-day 7.5% -8%.
- Recovery of the economy, government projection of 5.3%, will be a big boost to the stock market.
- Bonds market to remain active as government borrowing will be maintained.
- Political risk. BBI and General Election campaigns. This will put pressure on the economy, Stock market and Eurobond yields.
- CBK to remain a major player in the currency market due to the interest and redemption payments.
- High chances of reverting back to old Monetary and Fiscal policy. This is Q4-2020/21 or Q1-2021/22.
- Not much change on petroleum prices unless OPEC+ maintain the supply cuts.