Kingdom Securities Limited Macroeconomic Outlook - 2022

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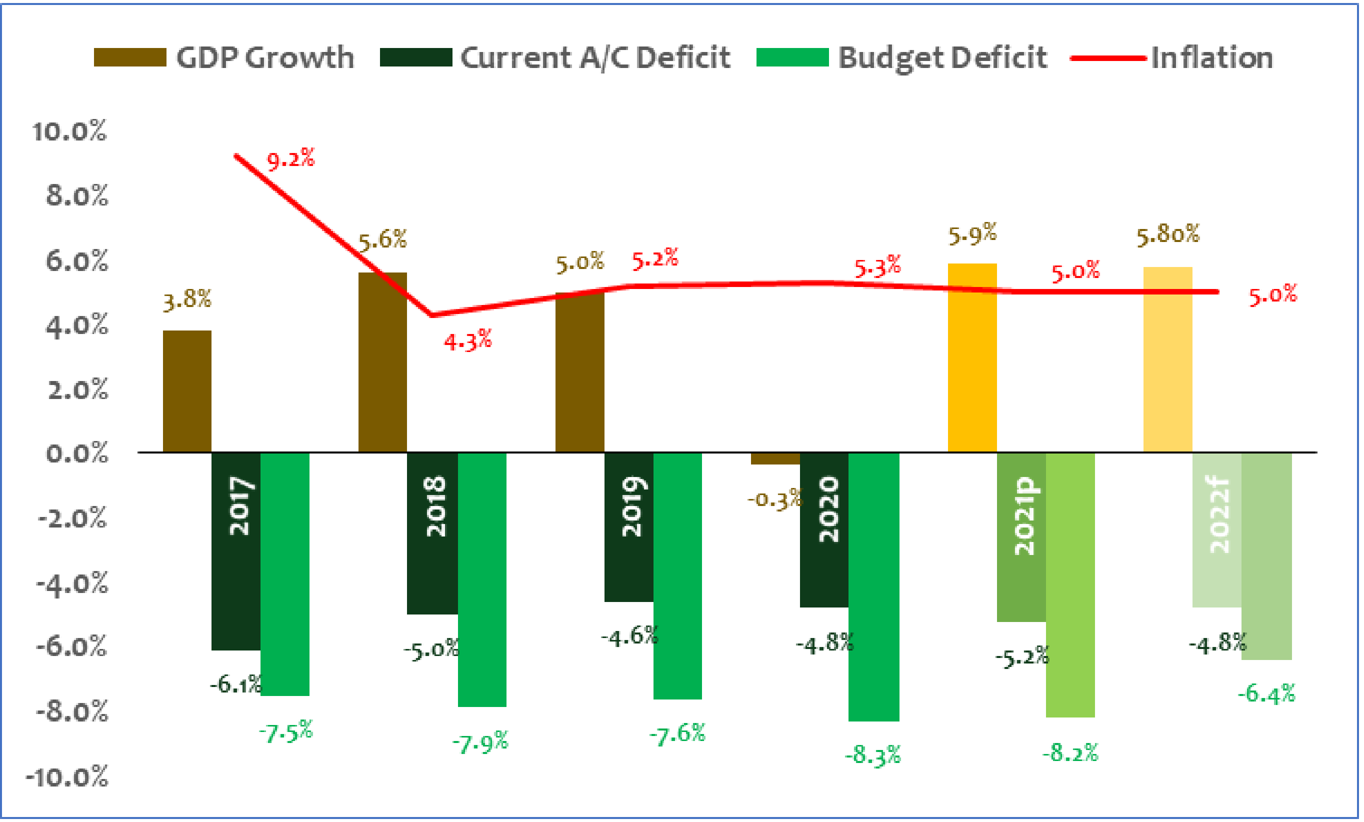
GDP - World Bank GDP Growth Forecast 5.8% in 2022



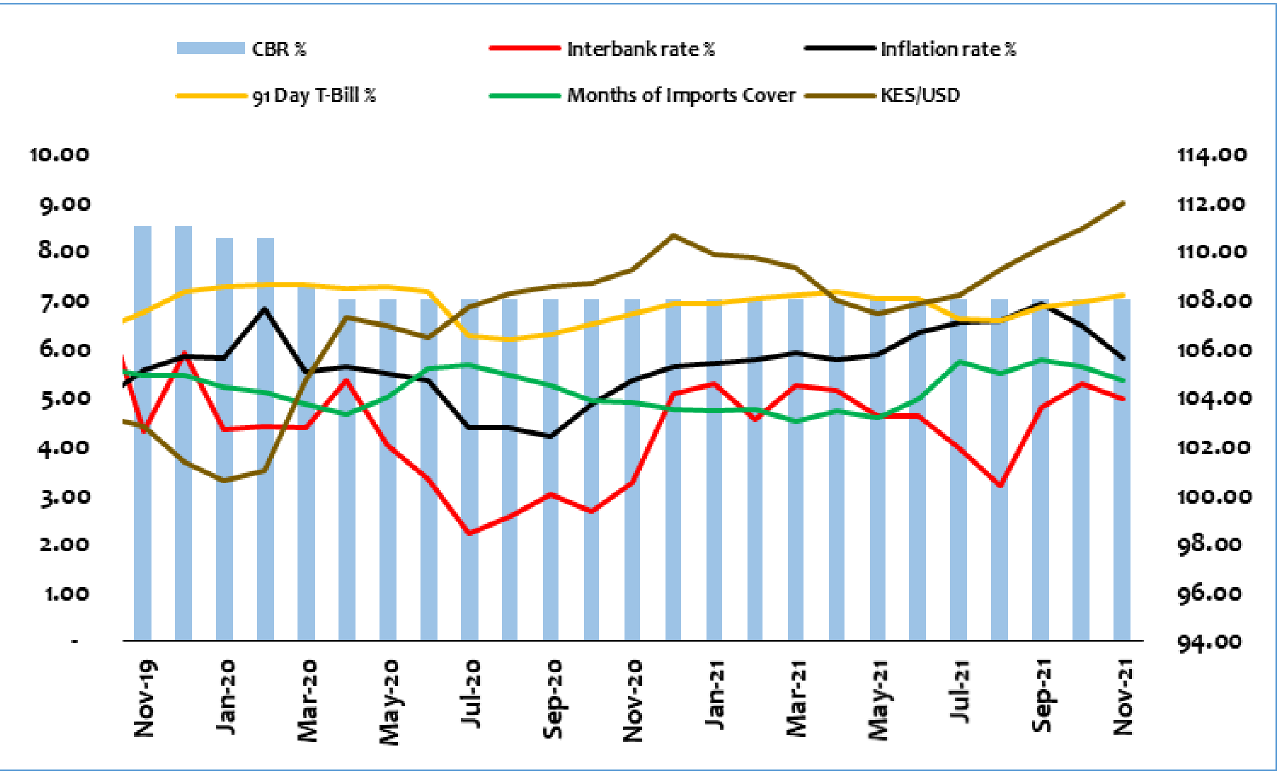
Pro Drivers

- Agriculture performance – forecast indicate adequate rainfall during the long rain periods. Though this is negative for tea and coffee farming as quality declines.
- Manufacturing to maintain positive momentum.
- Recover of the tourism and hospitality sector.
- Positive service sector growth performance.
- Infrastructure project driven economy. Legacy Projects.

Cons

- Covid-19 Pandemic – reopening of the local and global economy (supply chain disruption).
- Political risk – lead to slowdown in economic activity
- Interest rate risk – payments on borrowings
- Exchange rate risk – currency movement expected
- Demand for imports to increase especially raw materials and instability of international petroleum prices.
- Stability of international petroleum prices
- Government Borrowing vs Private Sector. Debt projected at 64.2% of GDP in 2022.

CBK



- The market has faced tight liquidity with interbank averaging 4.68% Jan-Nov 21 compared to 3.58% in Jan-Nov 20 and 4.14% Jan-Nov 2019.
- CBK was continuously in the market containing liquidity in order to manage KES.
- Dollar reserves have been supported by concessionary borrowing at low rates. Concessional borrowing has led external interest payments as a share of GDP at 1%.

CBK

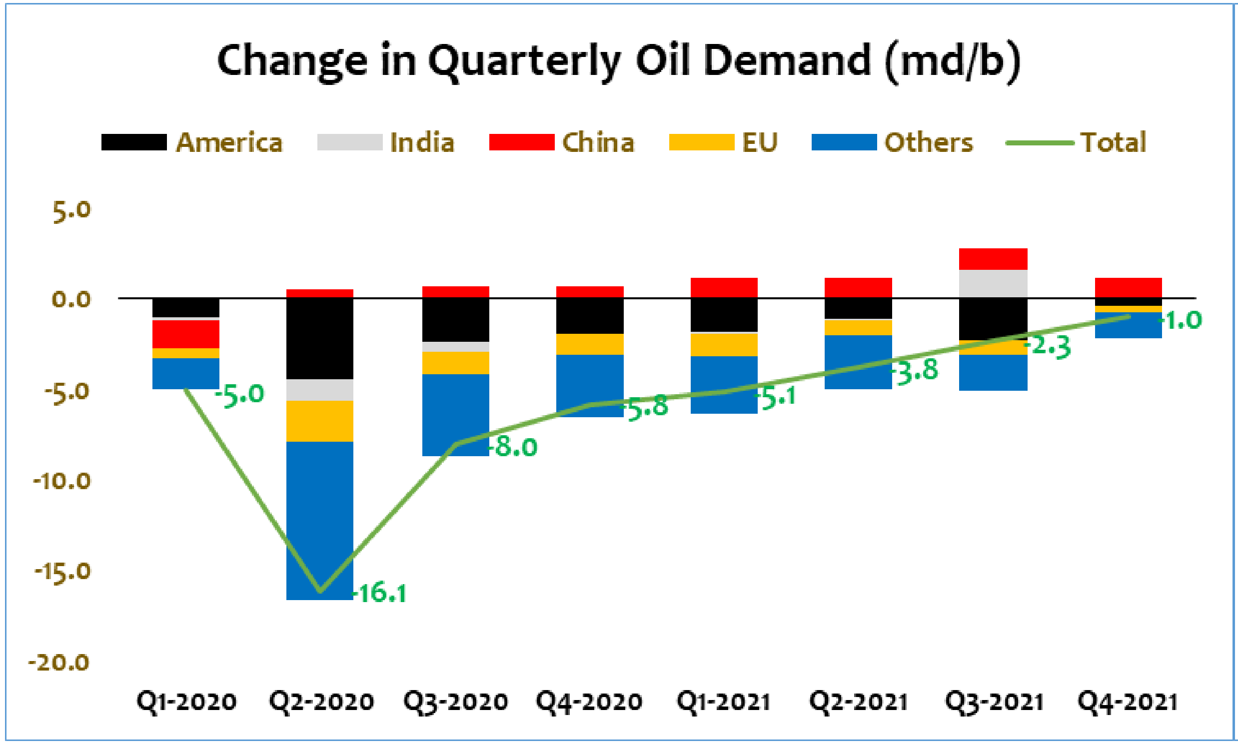
Our View

- CBR and CRR to be retained at **7.0%** and **4.25%** for the rest of the fiscal year. Banking industry liquidity to remain **>55%.**
- Inflation to be contained within the government range of **5.0%±2.5%.**
- Commercial bank lending rates to be contained at **12.0%±15bps.**
- Adequate reserve levels above **4.0 months of import cover**. Need for dollar to make payments.
- Stabilize withing **4.75% - 5.25%.** Food CPI will be contained by adequate rain supported agriculture while petrol pump prices to stabilize on global prices.
- Interest rates to be affected by liquidity wave. The rates to range as follows
  - **91-Day** **6.35% - 7.25%**
  - **182-Day** **7.00% - 8.25%**
  - **364-Day** **7.90% - 9.50%**
- Currency – Remain under pressure. Strengthen with improved liquidity in mid year but payments will put pressure. Minimum **110.50 – 113.00/USD.**
- Private credit to remain on **7.0%±100bps.** NPLs to remain **13.5%±100bps.**
- New bonds compared to reopening. Need to issue longer bonds. reopening. Reopening will be on 2021 bonds

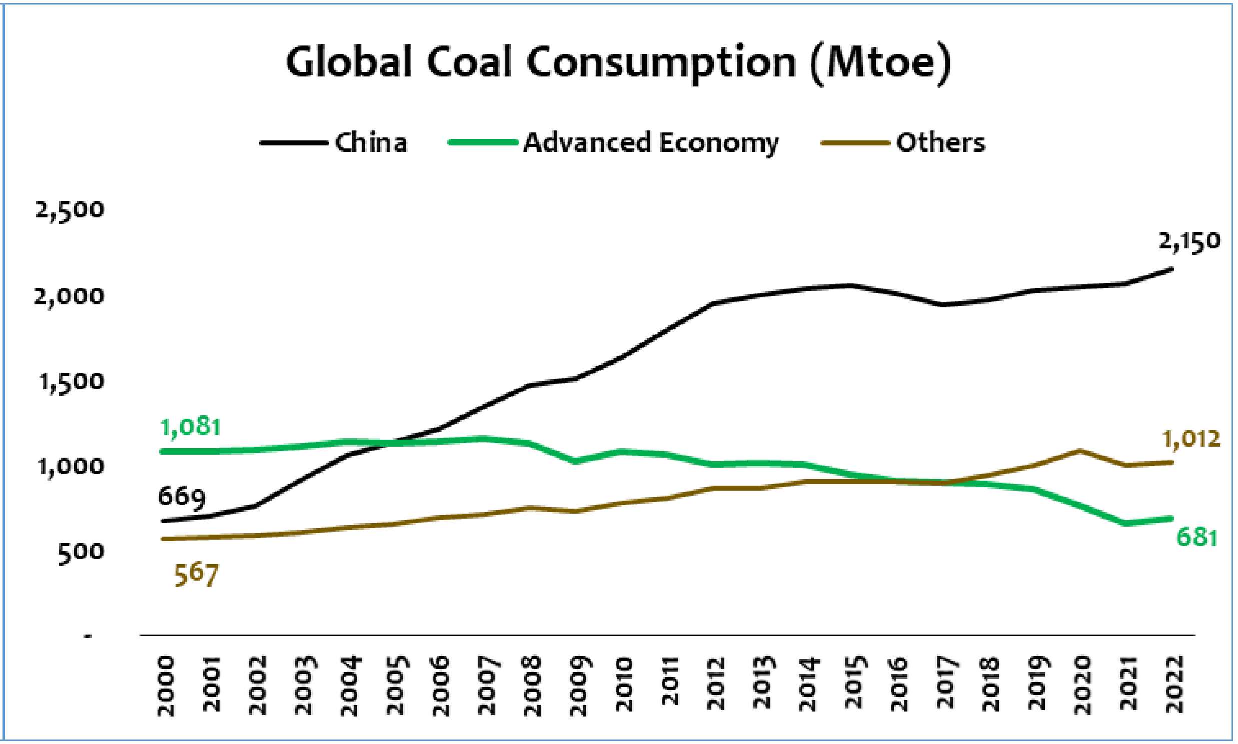
Global Factor

- Covid-19 Variant – this will continue to cause disruption on supply chain
- Rates Hike - central banks need to look at containing inflation mostly driven by consumption. Demand push due to high cost of raw materials and supply chain disruptions caused by shipping which has led to increase in shipping cost which is passed down to consumers
- International petroleum prices 75.0dpb – 85.0dpb
- Trade agreement between America and China
- UK vs Euro Trade Agreement on Brexit

Global Energy Consumption



Source: International Energy Agency, KSL

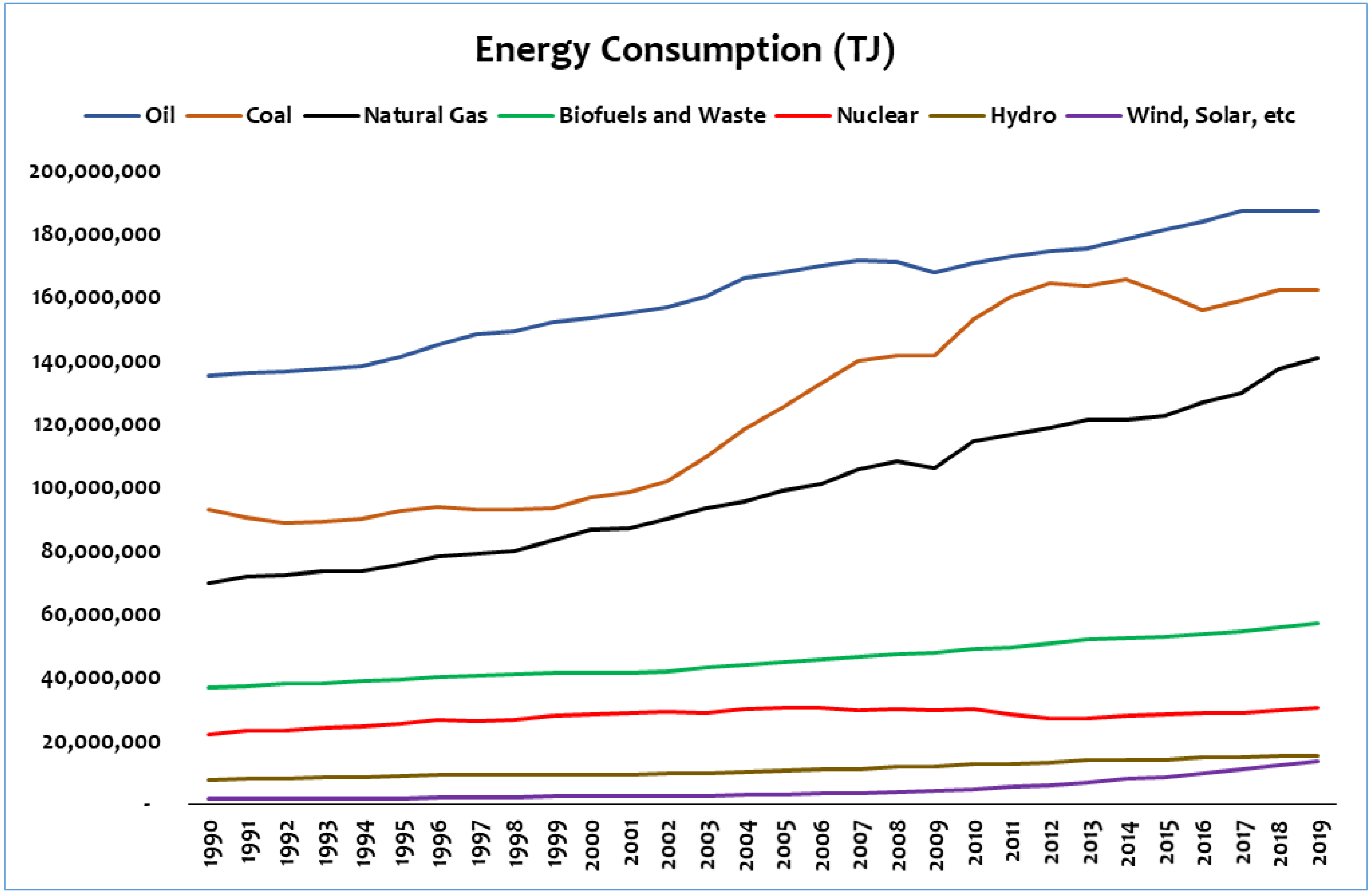


Source: International Energy Agency, KSL

Coal supplies over one-third of global electricity generation and plays a crucial role in industries such as iron and steel.

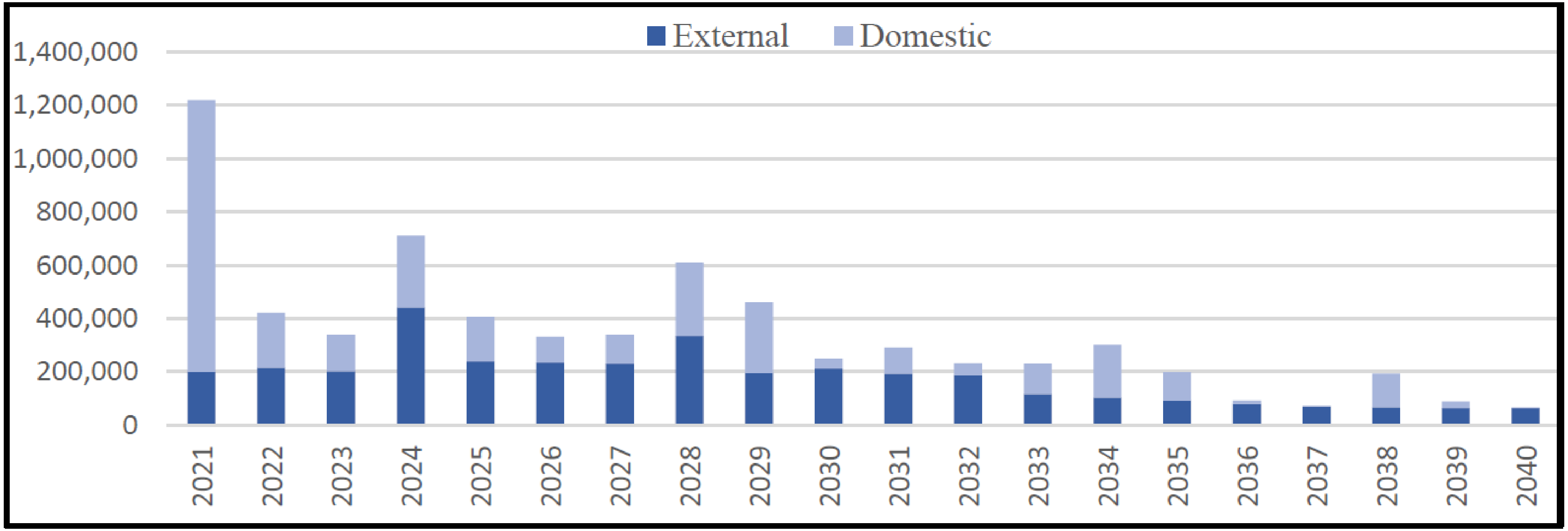
- **Global Coal Use Growth 20 years – CAGR**
- **China 6.0%, Advanced Economies -2.3%**
- **Others 2.9%**

Global Energy Consumption



Source: International Energy Agency, KSL

Public Debt Maturity Structure



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