Kenya's Macro-Economic Update
Q4-2024

KINGDOM SECURITIES

A subsidiary of the
Co-operative Bank of Kenya Limited

Shadrack Manoti
smanyinsa@co-opbank.co.ke
Research Department

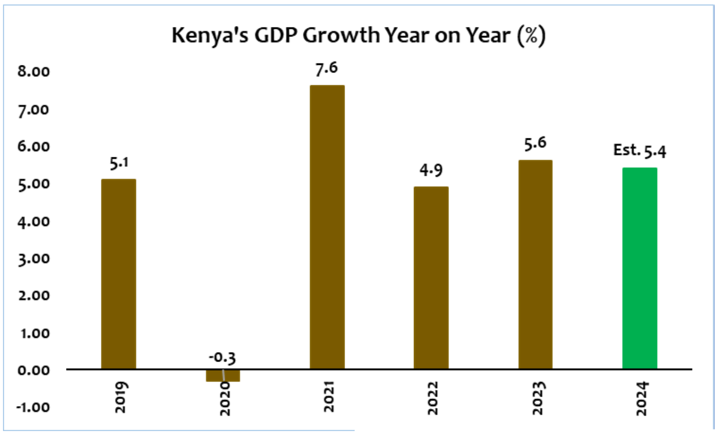
Kenya Economic Update

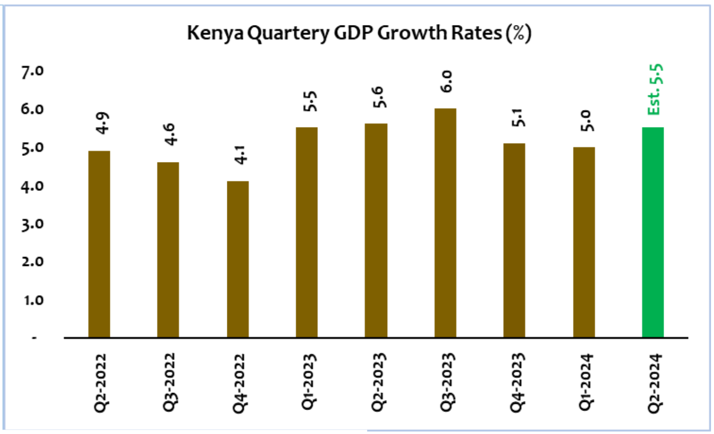
Kenya's economic growth remains steady with full year 2024 (FY-2024) growth projections pointing to a 5.4% rise in gross domestic product (GDP), slightly lower compared to 5.6% in FY-2023.

Economic growth for Q1-2024 stood at 5.0% strongly supported by agriculture, real estate, financial sector information communication & technology and the hospitality sectors which grew by 6.6%, 7.0%, 7.8% and 28.0% respectively. The growth was however lower compared to a 5.5% rise in Q1-2023.

According to Kenya's Central Bank August 2024 forecast, Q2-2024 GDP is expected to grow 5.5%, a marginal decline from a 5.6% rise in Q2-2023. The growth will be driven by increased agricultural production and improvements in the service sectors.

We remain confident of an above 5.0% GDP growth in FY-2024, supported by rise in economic activities in the second half of 2024 (H2-2024) especially after calling off the anti-government protests in late July 2024. The local currency stability, low inflation levels and the ongoing interest rate cuts will further rally this economic growth.





Source: KBS

On its last monetary policy committee meeting on 6th August 2024, the Central Bank of Kenya effected its first rate cut at 25.0bps from 13.0% to 12.75%. The cut was majorly supported by low inflation and stability in the forex market. In the next MPC review due on 10th October, we expect a further rate cut of below 50.0bps before the year ends.

- Globally, major economies have already affected their first or second-interest rate cuts. The Federal reserve is the latest to reverse its first rate cut of 50.0bps from between 5.25% and 5.50% to between 4.75% and 5.00% on 18th September, on what it said to be greater confidence of inflation moving towards 2.0%, its target point. This was after the US inflation dropped from 2.9% in July to 2.5% in August.
- The European Central Bank reduced its benchmark rate for the second time in three months on September 12, 2024, from 3.75% to 3.50% as its inflation rate neared the government range, from 2.6% in July to 2.2% in August 2024 against a 2.0% target.
- The Bank of England dropped its lending rate by 25bps in late July from 5.25% to 5.0% in August 2024.

We expect businesses to continue improving in Q4-2024 on stable political temperature, predictable forex rate and cost of production through low inflations. According to Stanbic Bank Kenya's Purchasing Managers' Index (PMI), August PMI index jumped from 43.1 in July 2024 to 50.6 points in August 2024 on renewed production and purchases upon end of anti-government unrests.

Declining global oil prices are further anticipated to boost the economy reaping off from the weak oil demand from the world's largest oil importer, China. Amid China's economic slowdown and rise in adoption of cleaner energy market share, global oil demand is estimated to drop from 1.2Mn in 2023 to 0.95Mn barrels per day in 2024 according to the International Energy Agency report of mid-September 2024.

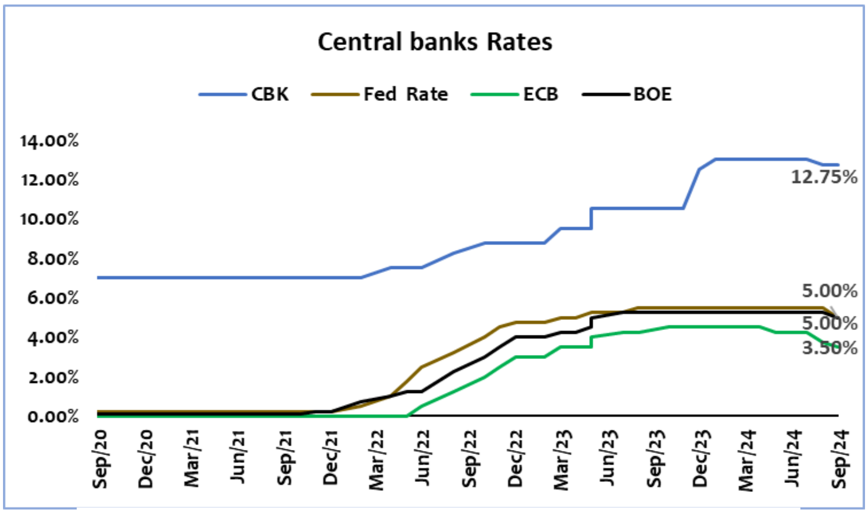
Local Market Interest Rate Movement

After recording a twelve year high of 13.0%, the Central bank rate (CBR) has already entered a downward trend with the first rate cut of 25.0bp on 6th August 2024. Before the interest rate hike, the policy rate stabilized below 10% where we anticipate seeing the rate stabilize in the long run.

The monetary policy rate of 13.0% saw government securities return hit highs of 17.9327% and 18.4607% for the infrastructure papers, IFB1/2024/8.5-year and IFB1/2023/6.5-year amortized papers respectively. Currently these are the most sought papers in the market because of their returns.

The first 25.0bps rate cut has however, had an impact on both the return on investment in new papers and even in the interbank market, which we expect to remain the case till the year ends.

In our view, we anticipate a another 25.0bpps rate cuts in the next two monetary policy reviews before year end.



Source: CBK, Investing.com

Inflation

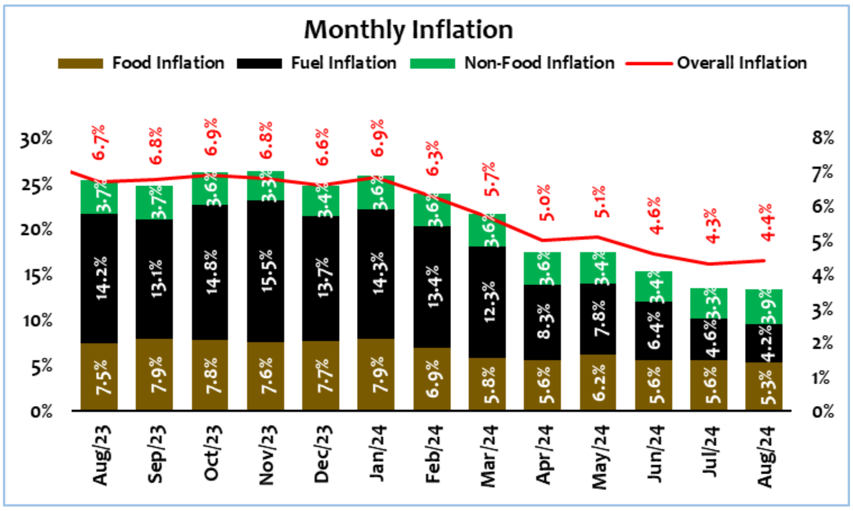
Average inflation for the last three months stands below the government target range of 5.0% at 4.4% heavily supported by eased food and fuel inflation.

Increased food production saw June, July and August record the lowest inflation of 4.6%, 4.3% and 4.4% since covid-19, in 2020.

Food inflation has consistently declined from 15.3% in August 2022 to 7.5% in August 2023 and now at 5.3% by end of August on increased food production supported by subsidized production in terms of fertilizer and seeds.

Import inflation drastically reduced supported by the strengthening of shilling thus pulling fuel inflation from 14.2% August 2023 to 4.2% as of August 2024.

We remain confident of inflation remaining within the government range at 5.0% ± 2.5% in the remaining months till the end of year.



Source: KNBS

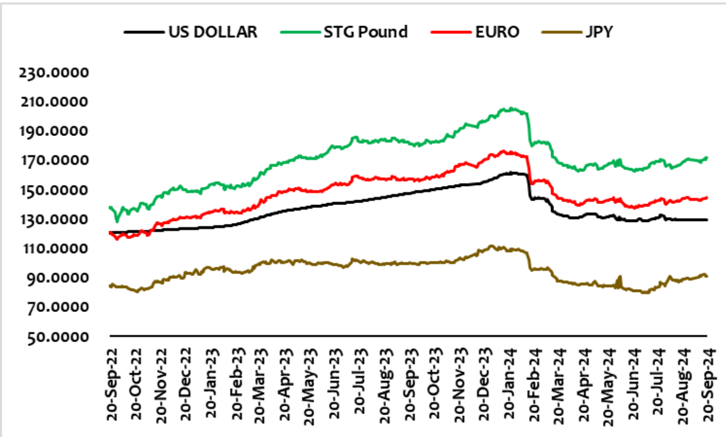
Currency

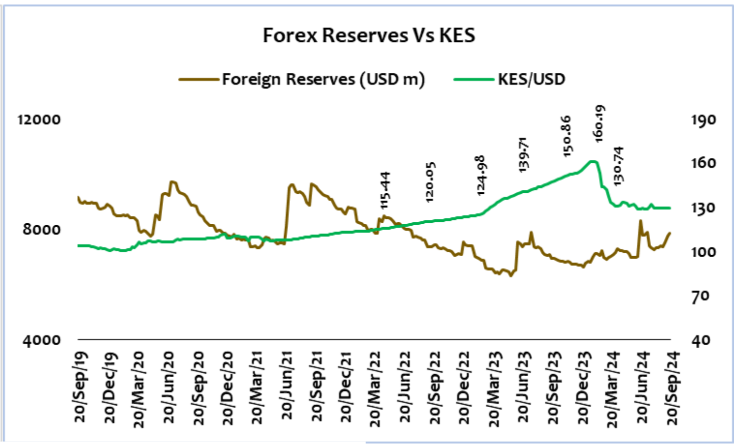
The Kenyan shilling has gained 17.7% year to date and 12.2% year on year strongly supported by payment of USD 2.0 billion Eurobond in June 2024.

The shilling has stabilized at an average of KES 129.47 per US dollar since the start of June 2024, with a high of KES 132.57 and a low of KES 128.46 in the period. We project the shilling to remain stable within a range of KES 129.00 ± 3.00 for the remaining period of the year.

Foreign exchange reserves continue rising supported by increased foreign direct investments and funds from development partners including the IMF and the World Bank. At the close of the third week of September 2024, forex reserves rose to USD 7,856Mn, enough for 4.1% months of import cover against a government target of 4.0-months of import cover.

Currency	02-Jan-24	20-Aug-24	20-Sep-24	%Δ y-t-d	%D w-w
Dollar	156.99	129.09	129.18	17.7%	-0.1%
STG Pound	199.85	167.55	171.68	14.1%	-2.5%
Euro	173.65	142.98	144.20	17.0%	-0.9%
JPY	110.98	87.69	90.76	18.2%	-3.5%
US Dollar Index	102.20	101.39	100.72	-1.4%	-0.7%



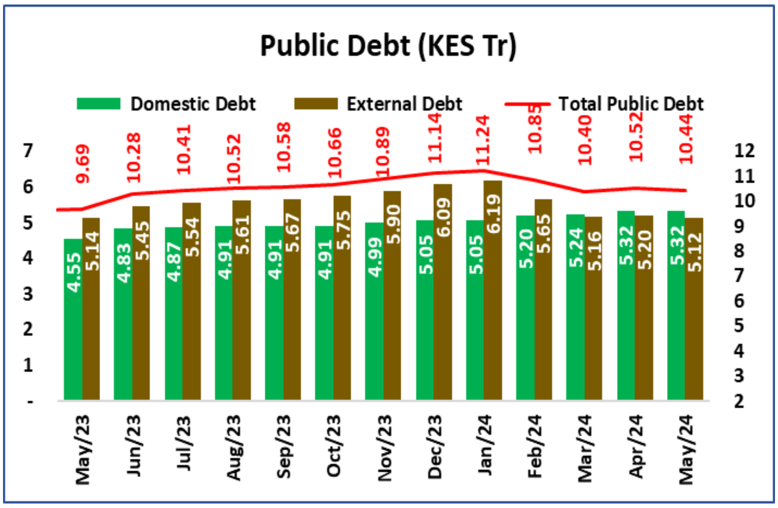


Source: CBK

Public Debt

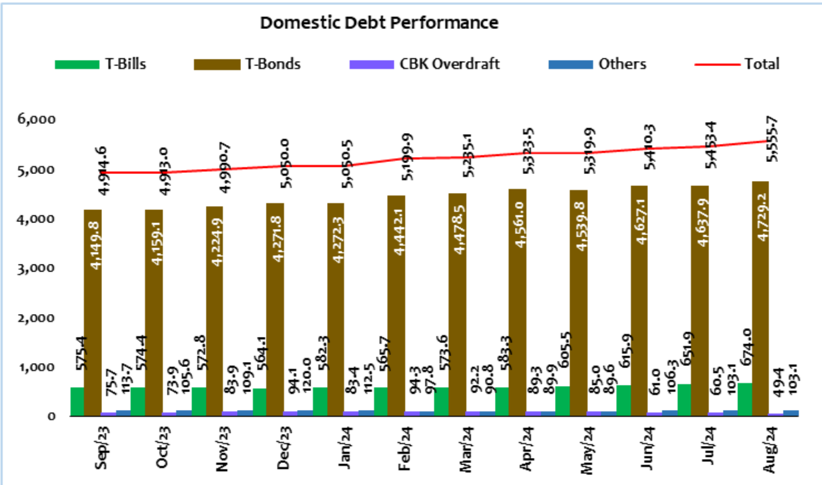
Public debt as of end of May 2024 stood at KES 10.44 trillion, domestic debt accounting 51.0% and external debt 49%. The external debt contribution declined from 49.4% in April to 49.0% by end of May 2024.

External debt declined 17.3% y-t-d from KES 6,190.00Bn to KES 5,118.30Bn brought down by the strengthening of the Kenyan shilling which gained 17.1% in the same period.



Source: CBK

Domestic debt jumped 13.2% y-y up from KES 4,914.6Bn to KES 5,555.7Bn according to the Central Bank statistics. Treasury bond papers contribution to total domestic debt remains the highest at the most at 85.1% of the total domestic debt, followed by Treasury bills at 12.1% or KES 674.0Bn.



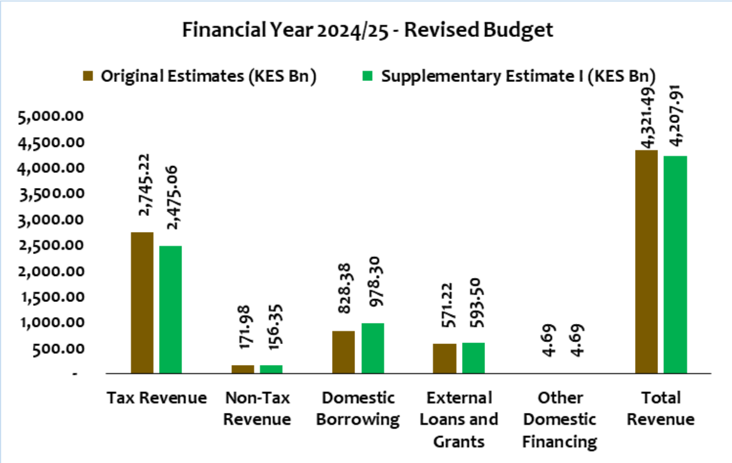
Source: CBK

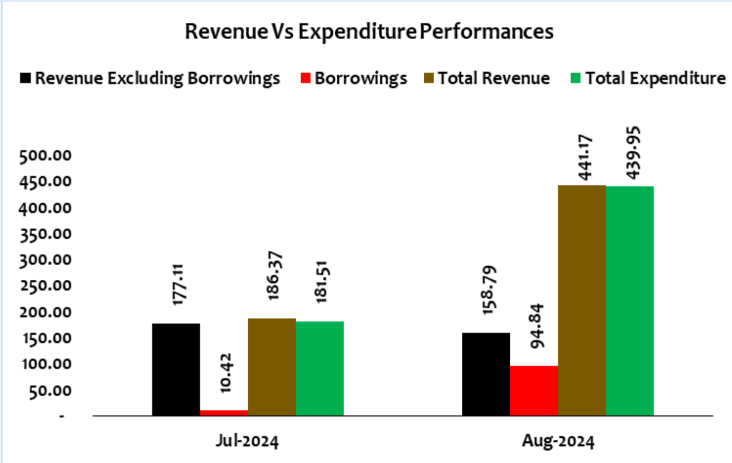
Exchequer Performance

Total government revenues underperformed in the first two months of the financial year 2024/25 collecting KES 441.17Bn or 62.9% against a revised proportionate target of KES 704.32Bn for the period. This represents a 12.2% decline from a total of KES 502.38Bn reported in the same period in FY-2023/24.

Tax revenue for the first two months of the financial year 2024/25 stood at KES 312.84Bn compared to KES 317.58Bn of similar period last year.

Domestic borrowings for July and August shrunk 18.7% year on year to KES 102.19Bn compared to KES 125.70Bn same time last year.





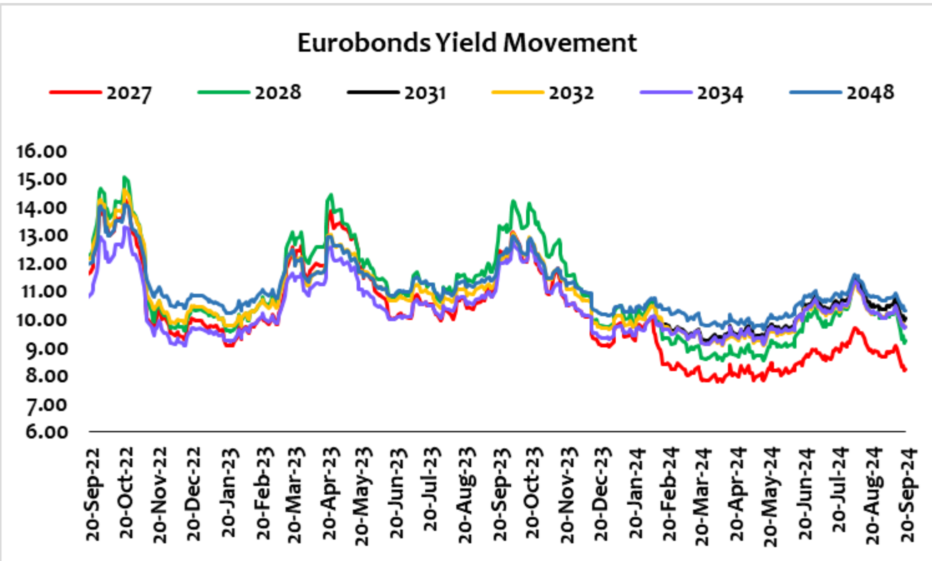
Eurobond

As a reflective of a strong local macro-economic outlook, yields rates on Kenya's international paper have consistently edged down since end of July 2024 when the anti-government protests were called off.

In the last one month, the February 2028 paper's value has improved by 100.8bps from 10.248% to 9.240% followed by the May 2027 paper at 71.4bps -m-m from 8.938% to 8.224%.

Below are the yield movements on the Eurobond papers:

Euro-bond Paper	02-Jan-24	20-Aug-24	20-Sep-24	Δ bps yt-d	Δ bps w-w
May-2027	9.198	8.938	8.224	97.40	71.40
Feb-2028	9.873	10.248	9.240	63.30	100.80
Feb-2031		10.473	10.052		42.10
May-2032	9.780	10.220	9.745	3.50	47.50
Jan-2034	9.426	10.259	9.735	-30.90	52.40
Feb-2048	10.212	10.792	10.324	-11.20	46.80



Source: Bloomberg

End

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 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.

Terms of Use – Disclaimer:

This research report has been prepared by Kingdom Securities Limited and is for information purposes only. This research report should not be construed as an offer or solicitation to sell or buy any investment or product. Any opinions expressed herein reflect the analyst's judgment at the date of publication and neither Kingdom Securities Limited, nor any of its affiliates or employees accepts any responsibility in respect of the information or recommendations contained herein. Unless otherwise stated, the opinions contained in this material are as of the date indicated and are subject to change at any time without prior notice. Past performance is not a guarantee or indication of future results.

The information and opinions contained in this Material have been derived from sources believed to be reliable and in good faith or constitute Kingdom Securities' judgement as at the date of this research, but no warranty is made as to their accuracy and any opinions are subject to change and may be superseded without notice. In no circumstances will Kingdom Securities or its employees be liable to you for any errors or omissions in this report or for any losses you may incur in following any recommendations in the report. Kingdom Securities is a Subsidiary of Co-operative Bank of Kenya.

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited.

Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049540/0711049956

Email: info@kingdomsecurities.co.ke

Research Department

Shadrack Manyinsa	**+254 711 049 956**

Sales Team

Edgar Martim	**+254 711 049 534**
Asena Moffat	**+254 711 049 663**
Ashley Odundo	**+254 711 049 195**
Gloria Ohito	**+254 711 049 993**

Client Service and Operations

Joab Kiprono	**+254 711 049 888**
Purity Malombe	**+254 711 049 729**