

**The KENYA INSTITUTE for PUBLIC
POLICY RESEARCH and ANALYSIS**

Thinking Policy Together

QUARTERLY MARKET ANALYSIS REPORT

JULY – OCTOBER 2020

SUMMARY

Performance in the Real Sector

The COVID-19 pandemic remains a major downside risk to global economic activity. Advanced economies are projected to contract by 8 per cent and emerging markets and developing economies by 3 per cent growth in 2020. Kenya's economy contracted by 5.7 per cent in the second quarter of 2020, resulting in an average -0.4 per cent half year growth rate.

The overall inflation in Kenya declined from a high of 7.7 per cent in January to 4.8 per cent in October 2020. A general decline in prices was experienced in food and non-alcoholic beverages, housing and utilities, health, clothing and footwear while fuel inflation took a gradual increase occasioned by rise in crude oil and subsequent increase in local pump prices. The short rains in the next quarter are expected to maintain food prices stable.

International Market

Production, exports and prices of tea and coffee continued to follow the seasonal patterns depicted in previous years. Between beginning of July 2020 and end of October 2020, the Kenya shilling (Ksh) depreciated by 2.1 per cent, 7.6 per cent and 6.4 per cent against the US Dollar, Sterling Pound and the Euro, respectively. A similar trend in exchange rate to the US Dollar is depicted for other markets in the region. Kenya maintains an average of 5.4 months of import cover.

Monetary and Financial Sector

The Central Bank of Kenya maintained an eased monetary policy stance, with the policy rate at 7 per cent, to support economic activity. Similarly, most Central Banks in the region maintained eased monetary policy stance to stimulate economic activity. The 91-day, 182-day and 364-day Treasury bills interest rates decreased from 6.7 per cent, 7.4 per cent and 8.1 per cent at the beginning of July 2020 to 6.6 per cent, 6.9 per cent and 7.8 per cent, respectively, while the interbank market rate increased from 1.9 per cent to 6.1 per cent between beginning of July and end of October 2020.

While mobile money subscriptions remained almost unchanged, the market witnessed a steep rise in both number and value of transactions since the Central Bank instituted various measures for cashless transactions. Non-performing loans took an upwards trend as expected with the slowed economic activity while growth in private sector credit slowed.

Fiscal Performance

The cumulative actual national revenue receipts as of 30th June 2020 totaled Ksh 1,753.0 billion, an increase of 4.7 per cent compared to June 2019. In the first quarter of 2020/21, the Government revenue collected was lower by 15.7 per cent compared to a similar quarter in 2019. The exchequer allocation to the Ministry of Health as a percentage of

total issues to Ministries, Departments and Agencies (MDAs) was higher in the April to September 2020 period (5.0%) compared to a similar period in 2019 (3.8%), as the Government stepped up support to the health sector in the counties in preparation to combat the COVID-19 pandemic.

The total public debt as at June 2020 was Ksh 6,693.7 billion, an increase of 33.4 per cent from June 2019. Government domestic debt is mainly held in treasury bonds and treasury bills. In the first quarter of 2020/21, the proportion of domestic debt held in treasury bonds rose to 70.5 per cent from 63.5 percent in similar quarter last year, while debt held in treasury bills declined to 28.3 per cent in 2020 from 33.6 per cent in the previous year.

Capital Markets

With confirmed COVID-19 cases, stock markets world-wide registered a sharp drop in the first quarter of 2020 as investors adopted a wait-and-see stance, evaluating the possible negative impact of the pandemic. A global recovery phase was experienced in April-August as countries adopted new ways of trading. However, the market jitters with resurgence of a second wave of COVID-19 pandemic are witnessing a slowing market activity.

The stock market in Kenya has also taken a declining trend since January 2020, occasioned by declined foreign investor participation. The 10-year Kenya Eurobond (2024) saw a declining yield after a sharp increase in March-April 2020 occasioned by volatility and uncertainty in the international markets in the light of COVID-19 pandemic escalation.

Risk-related Factors

The Purchasing Managers' Index (PMI) for Kenya moved further above the 50-threshold, increasing to 59.1 in October, marking the fourth consecutive month of improved business conditions since the outbreak of the COVID-19 pandemic. This signals a notable improvement in the private sector and health of the economy, with growth in new orders mainly from Europe and the Middle East as customer demand expanded following further easing of restrictions.

The country recorded an average rainfall of 491.7mm and 277.5mm in March-May and June-August 2020, respectively, which was higher than that recorded in the previous year. Coupled with favourable mean monthly temperatures, this has contributed to good performance in the agricultural sector and stable food prices.

In terms of credit rating for Kenya, the June 2020 fitch rating indicates a negative outlook for long term issuer default rating and local currency long-term issuer default rating. While the infection rate remained fairly low since the first confirmed case in the country in March 2020, a surge in infection rate in the fourth quarter depicts a possible 'second wave' of the COVID-19 pandemic.

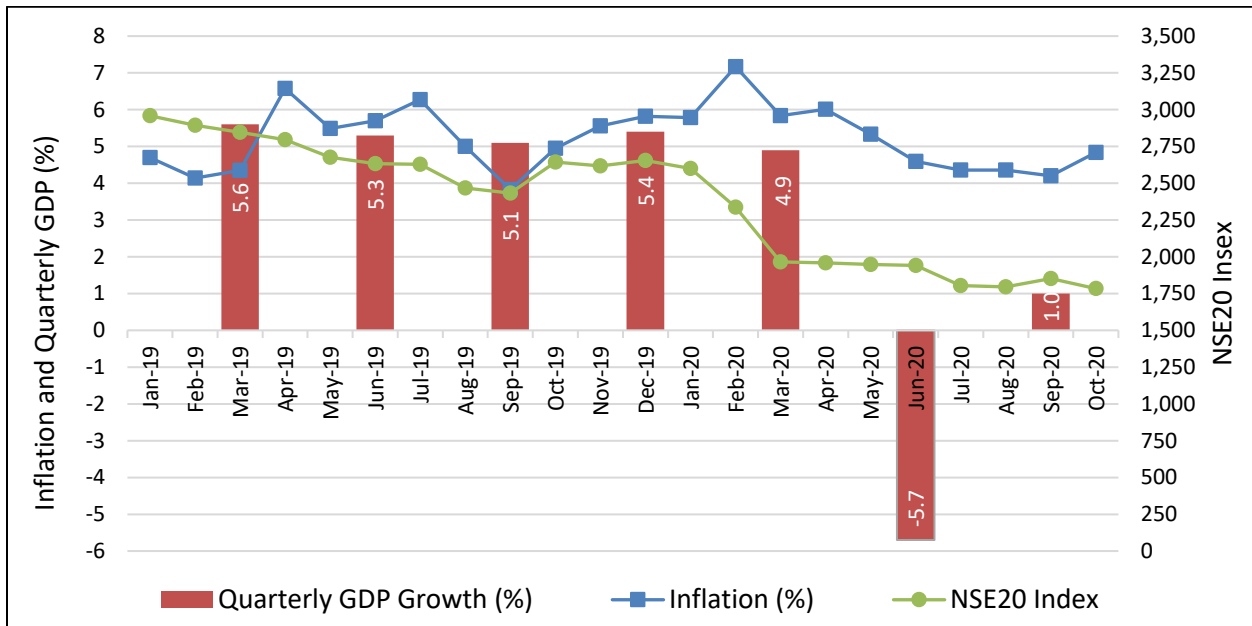
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1. Performance in the Real Sector

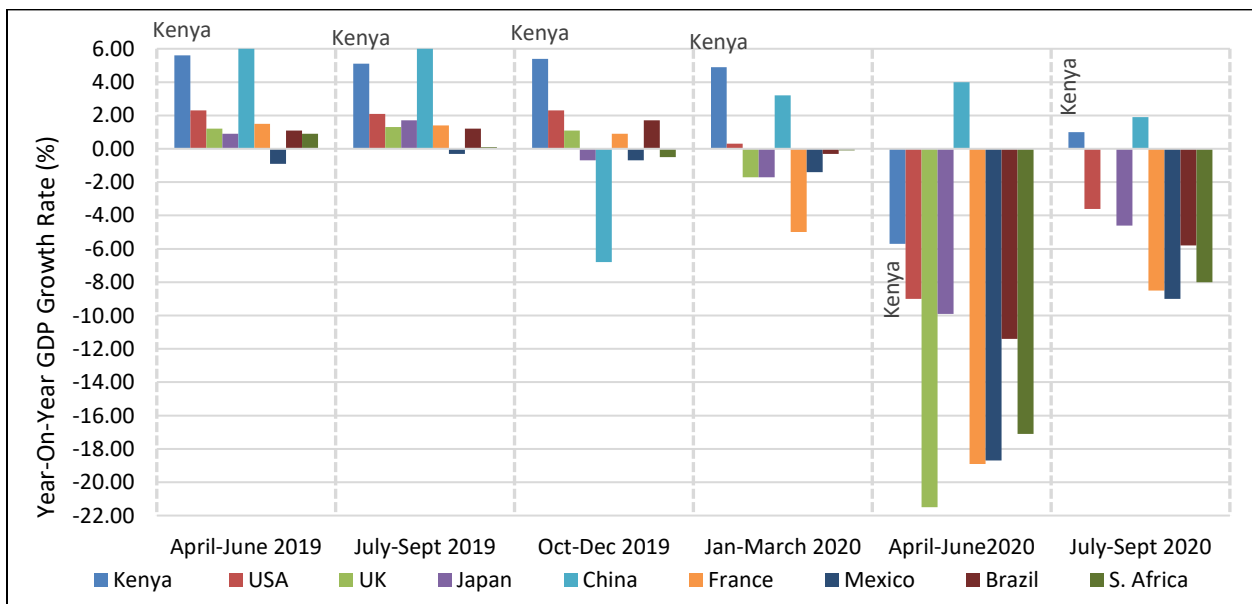
a) GDP performance

Figure 1: GDP growth, inflation and stock market performance



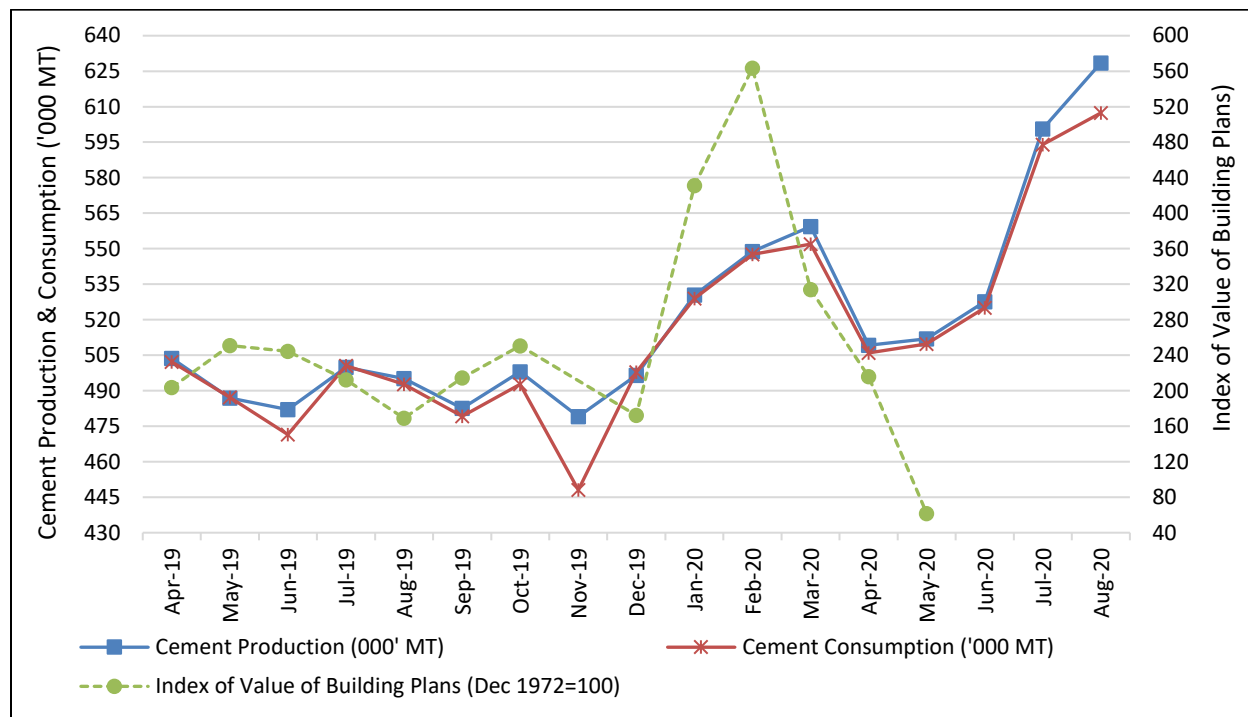
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics; GDP growth rate for September 2020 from the World Economic Outlook, October 2020

Figure 2: Economic performance of selected advanced and emerging markets



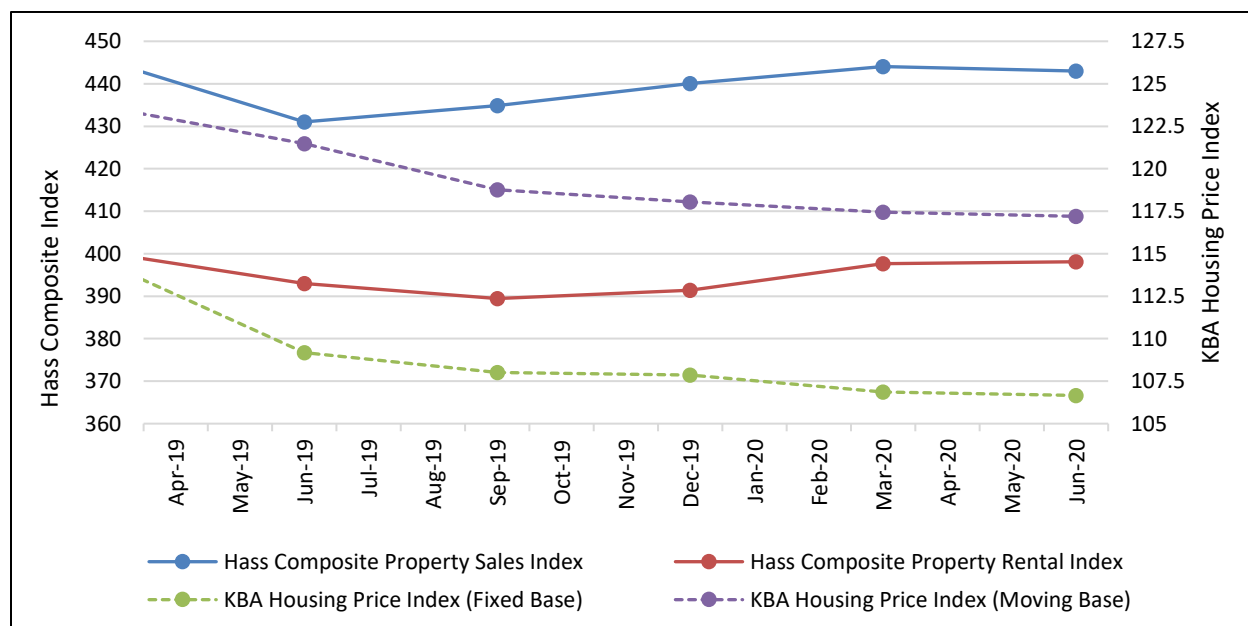
Data source: Country statistical offices; <https://tradingeconomics.com/>; GDP growth rate for September 2020 from the World Economic Outlook, October 2020

Figure 3: Cement production and consumption ('000 MT) and index of value of building plans



Data source: Kenya National Bureau of Statistics

Figure 4: Kenya Housing and Property Indices

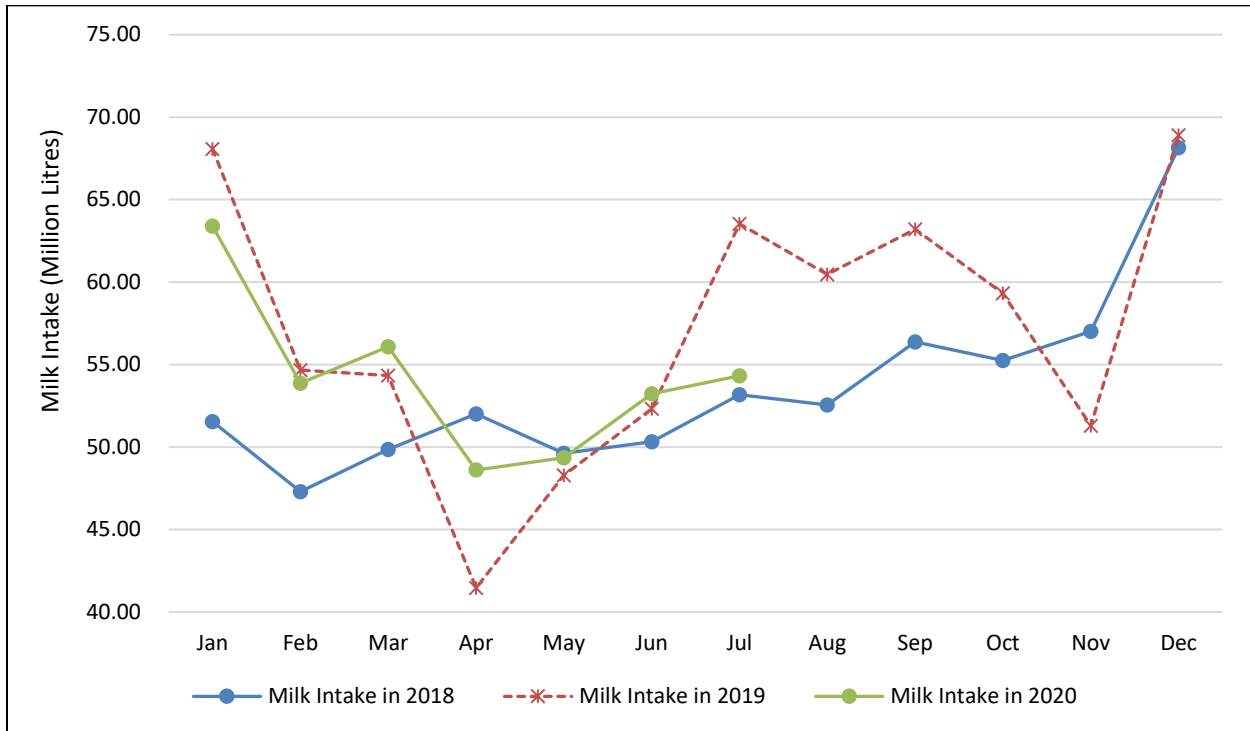


Hass Composite Property Sales Index: Year 2000 = 100; KBA Housing Price Index (fixed base): Q1 – 2013 = 100.

Data Source: Hass Property Index (<http://hassconsult.co.ke/real-estate/hass-index/>)

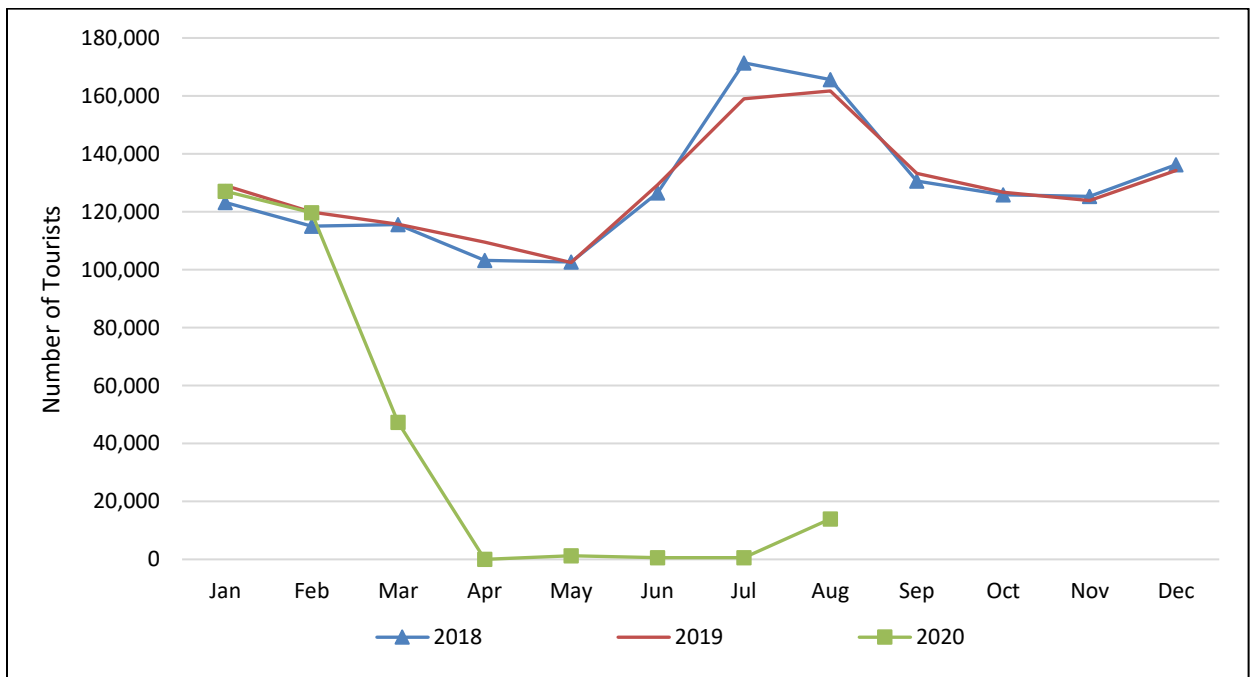
Kenya Bankers Association (https://www.kba.co.ke/house_price.php)

Figure 5: Intake of processed milk in the formal sector (million litres)



Data source: Kenya National Bureau of Statistics

Figure 6: Monthly tourist arrivals* (number)

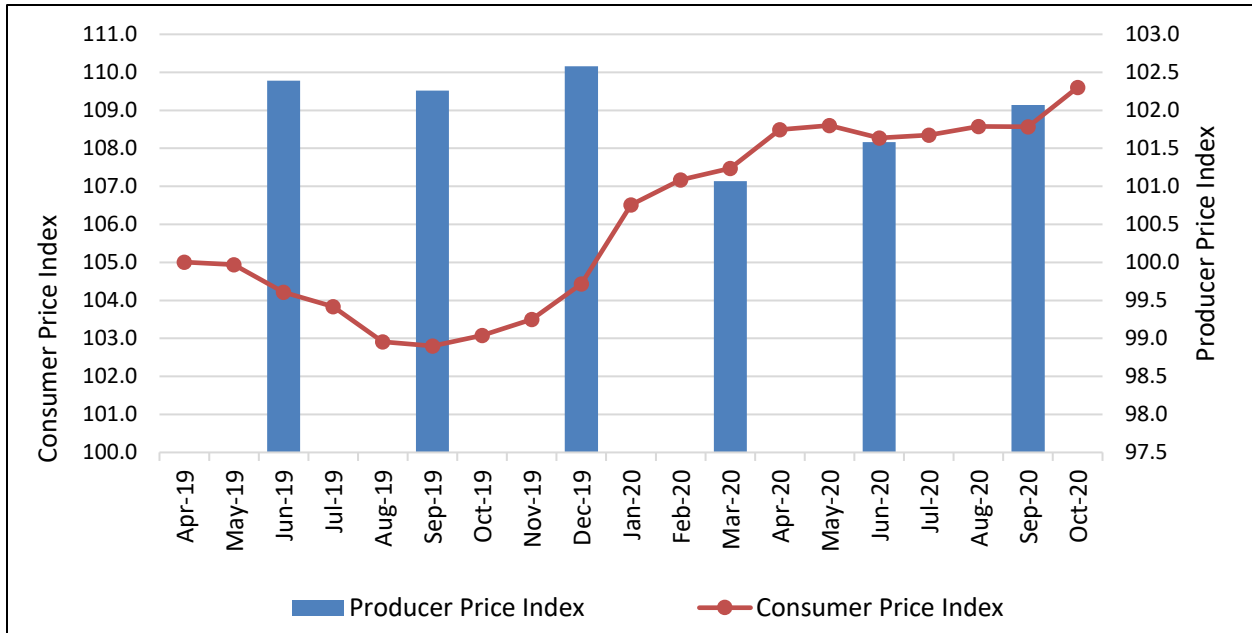


Data source: Kenya National Bureau of Statistics

*Total tourist arrivals by Air

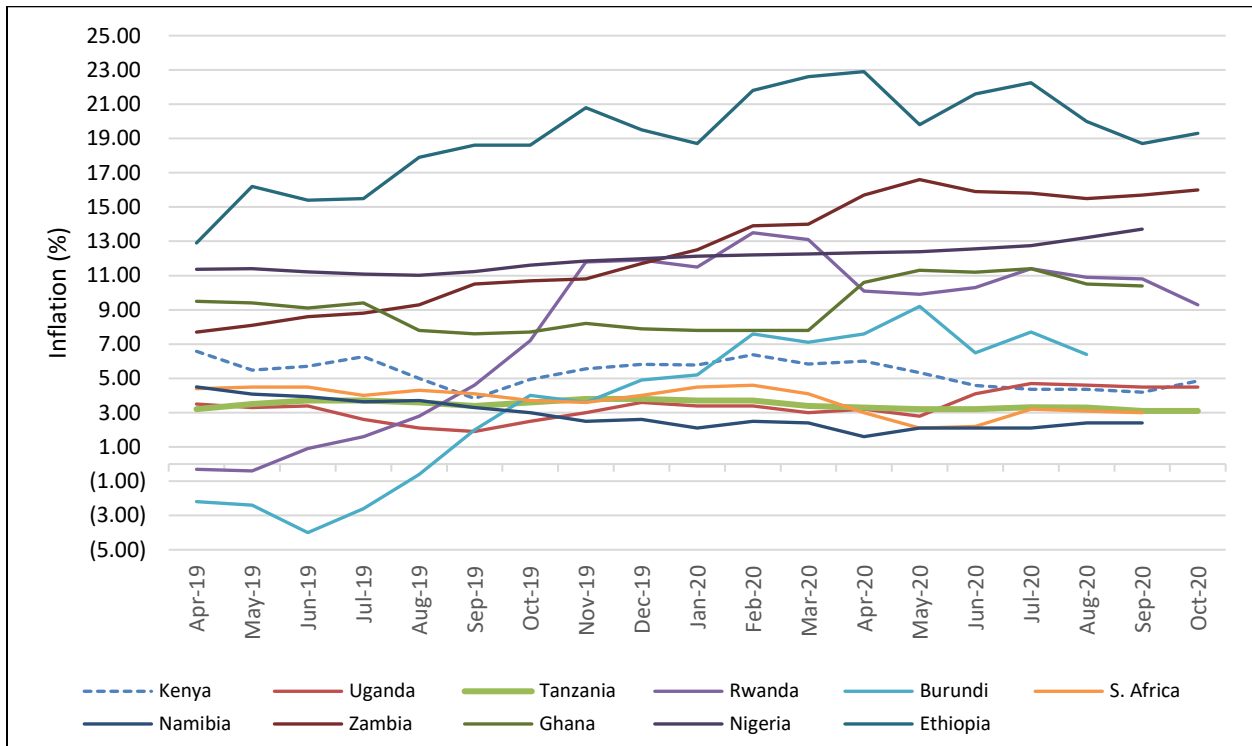
b) Price movement

Figure 7: Consumer Price Index and Producer Price Index



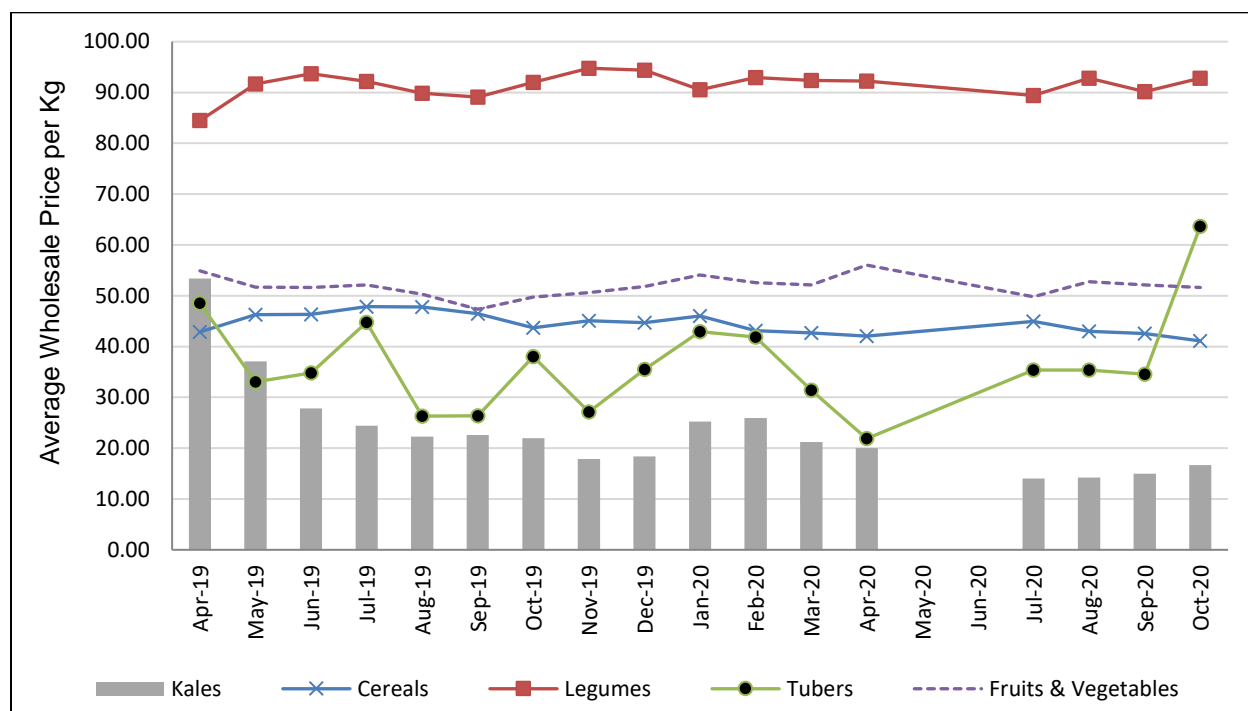
Data source: Kenya National Bureau of Statistics
 CPI base year: February 2019 = 100; PPI base year: March 2019 = 100

Figure 8: Comparative inflation for selected countries in Africa



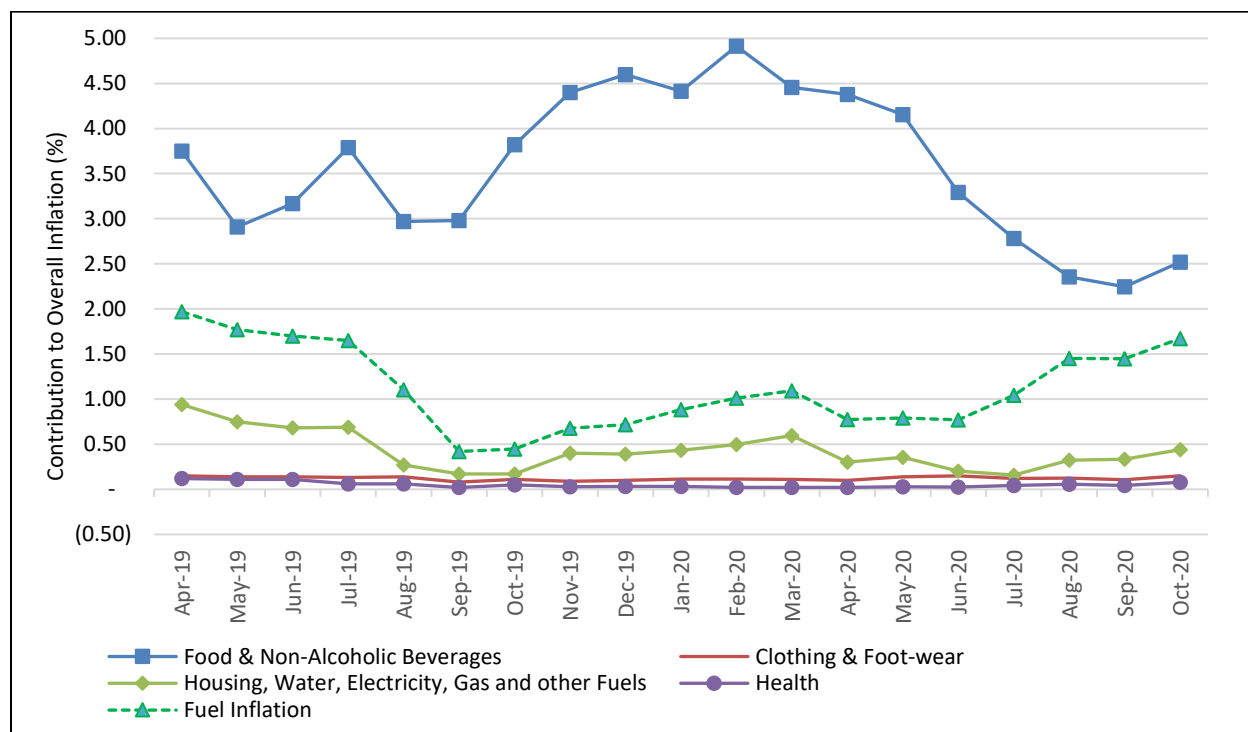
Data Source: Country statistical offices

Figure 9: Domestic wholesale agriculture commodity prices (Ksh/Kg)



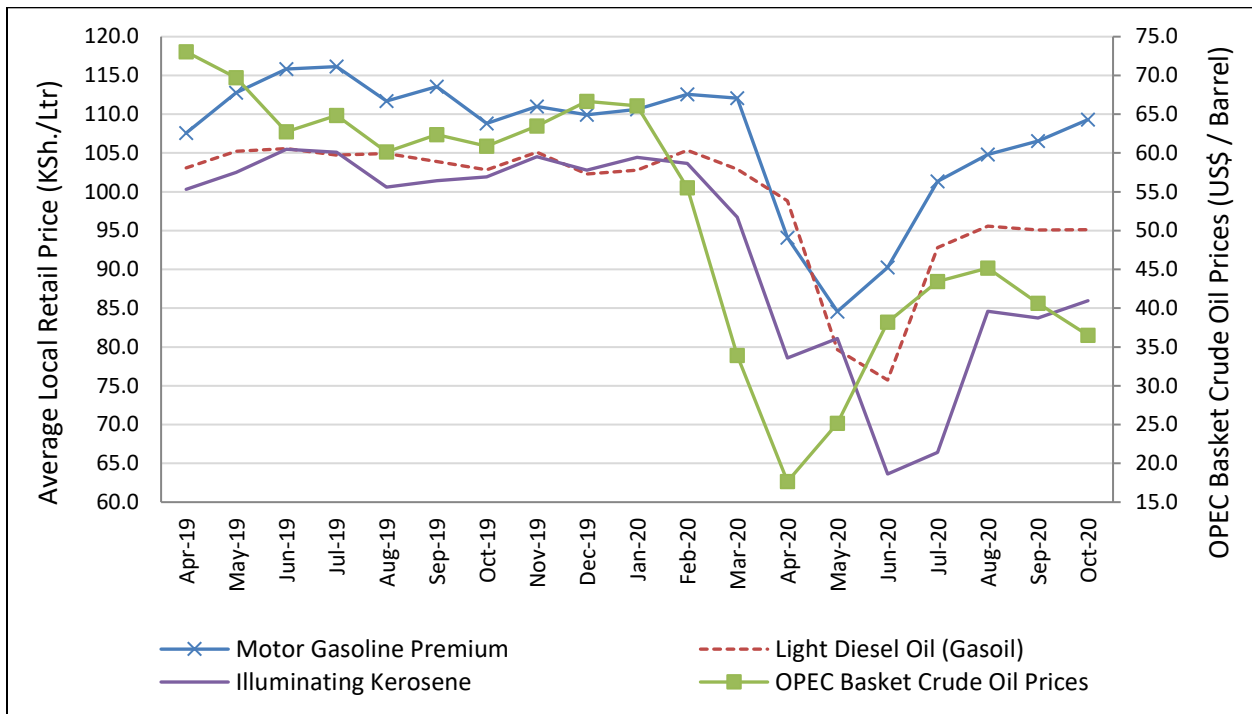
Data source: Calculated by KIPPRRA using data from Ministry of Agriculture

Figure 10: Contribution of selected CPI baskets to overall Inflation (%)



Data Source: Kenya National Bureau of Statistics, and Central Bank of Kenya

Figure 11: Average domestic pump prices and global crude oil prices

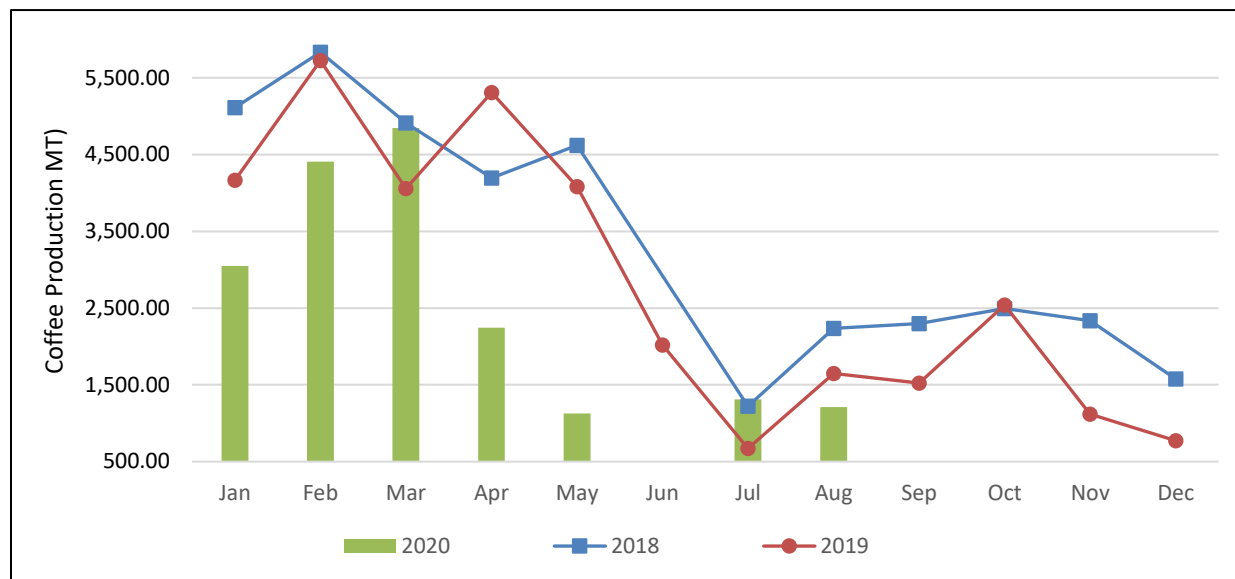


Data Source: Kenya National Bureau of Statistics; Energy and Petroleum Regulatory Authority; <https://oilprice.com/oil-price-charts/block/50>

2. International Markets

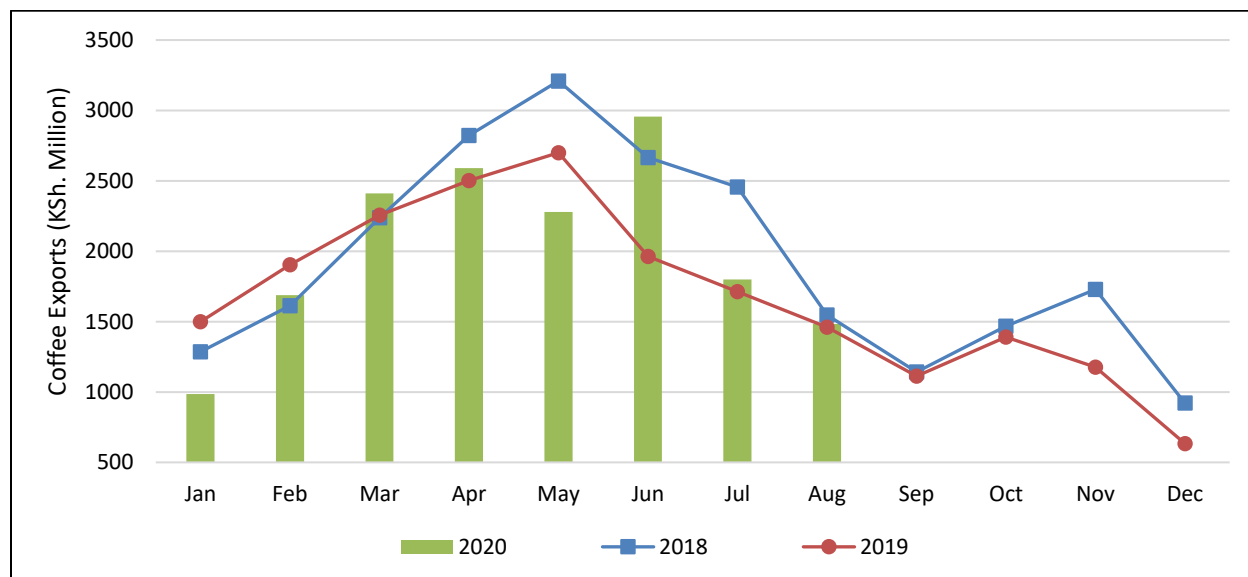
Figure 12: Trends in coffee and tea production (MT), exports (Ksh millions) and auction prices (Ksh/Kg)

Figure 12(a): Monthly coffee production (MT)



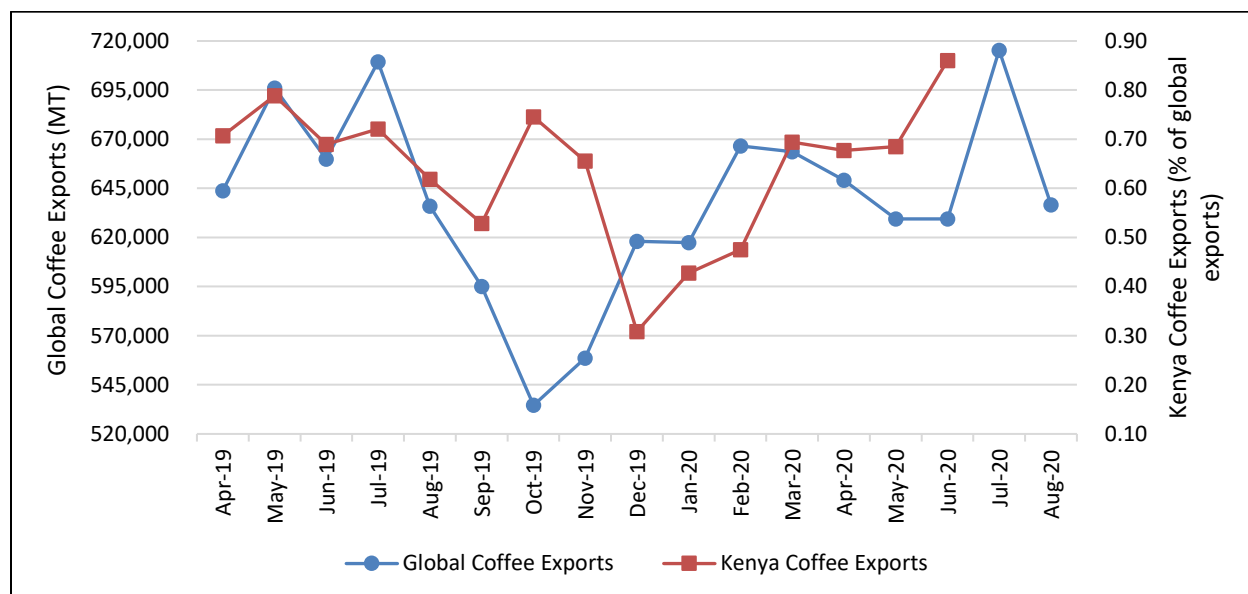
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeeexchange.co.ke/>);

Figure 12(b): Monthly coffee exports (Ksh million)



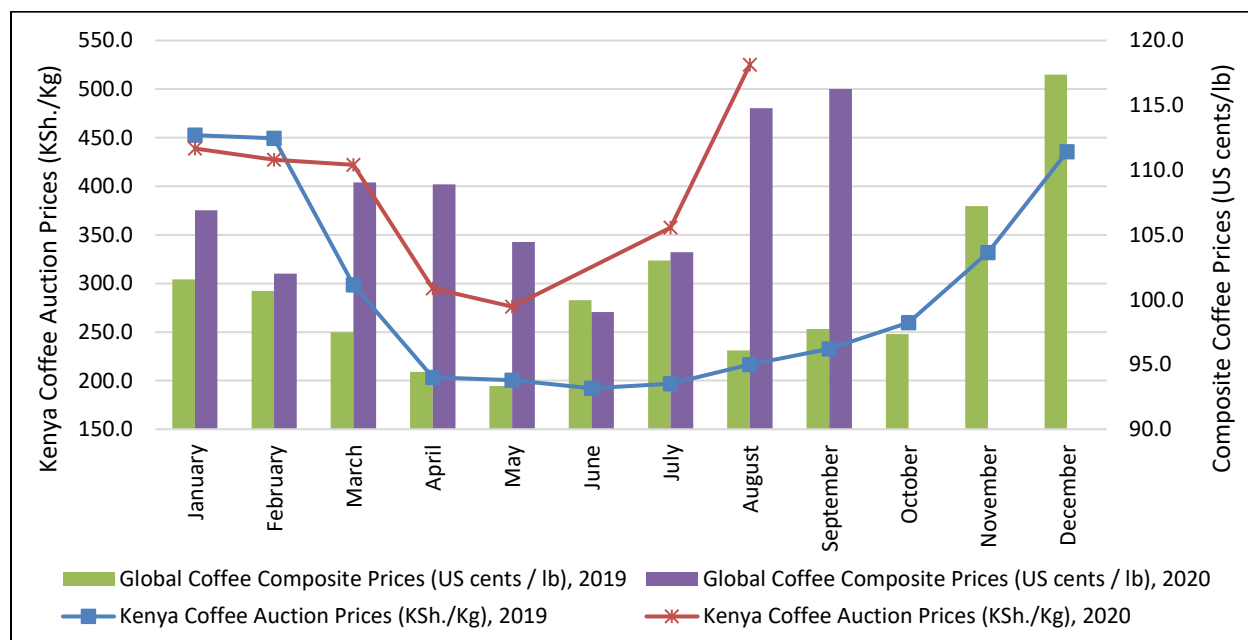
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeeexchange.co.ke/>); Figures for January and February 2020 are provisional.

Figure 12(c): Comparison between global coffee exports (MT) and Kenya coffee exports (% of global total exports)



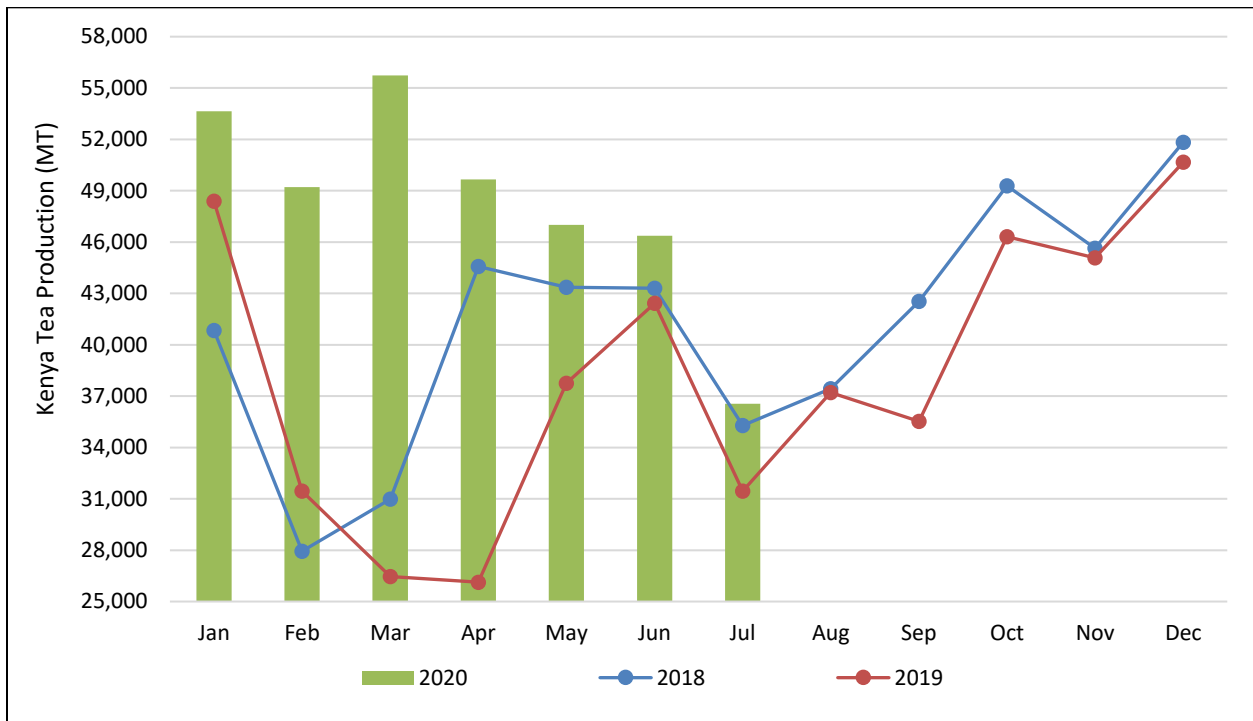
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>); International Coffee Organization (http://www.ico.org/coffee_prices.asp)

Figure 12(d): Monthly Kenya coffee auction prices (Ksh./Kg) and global composite prices (US cents/lb)



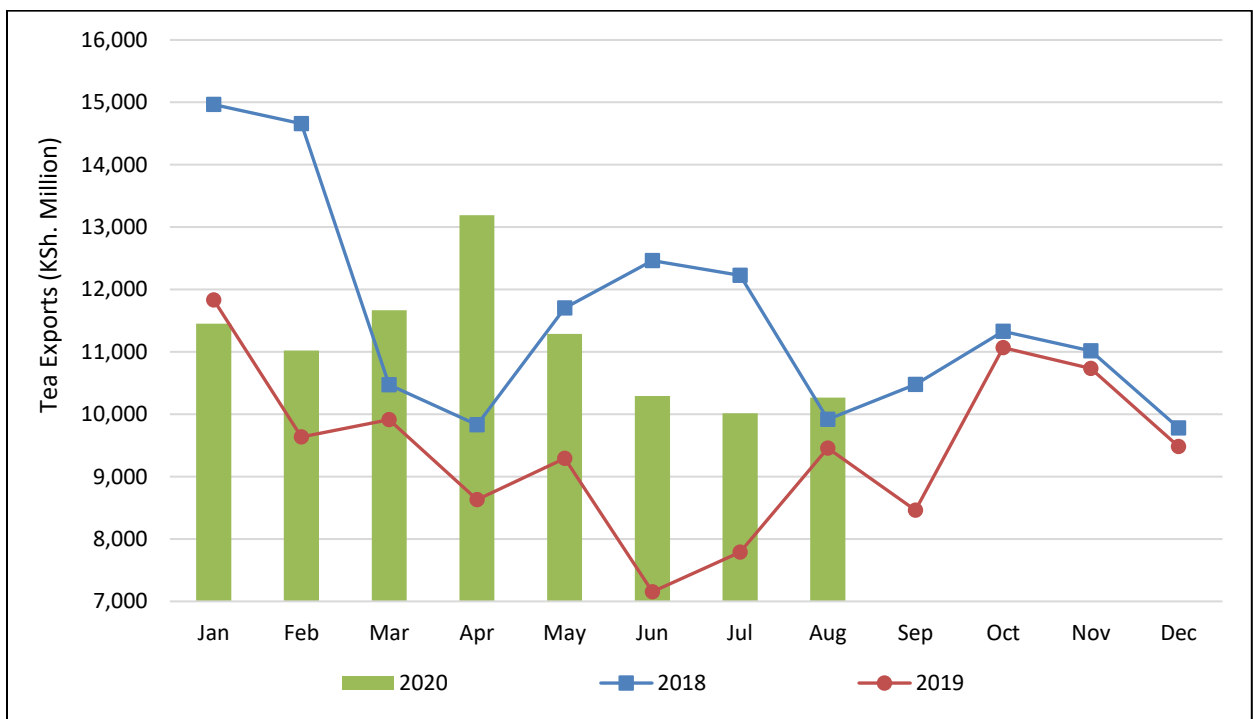
Data source: Kenya National Bureau of Statistics; Nairobi Coffee Exchange (<http://nairobicoffeexchange.co.ke/>); International Coffee Organization (http://www.ico.org/coffee_prices.asp)

Figure 12(e): Monthly tea production (MT)



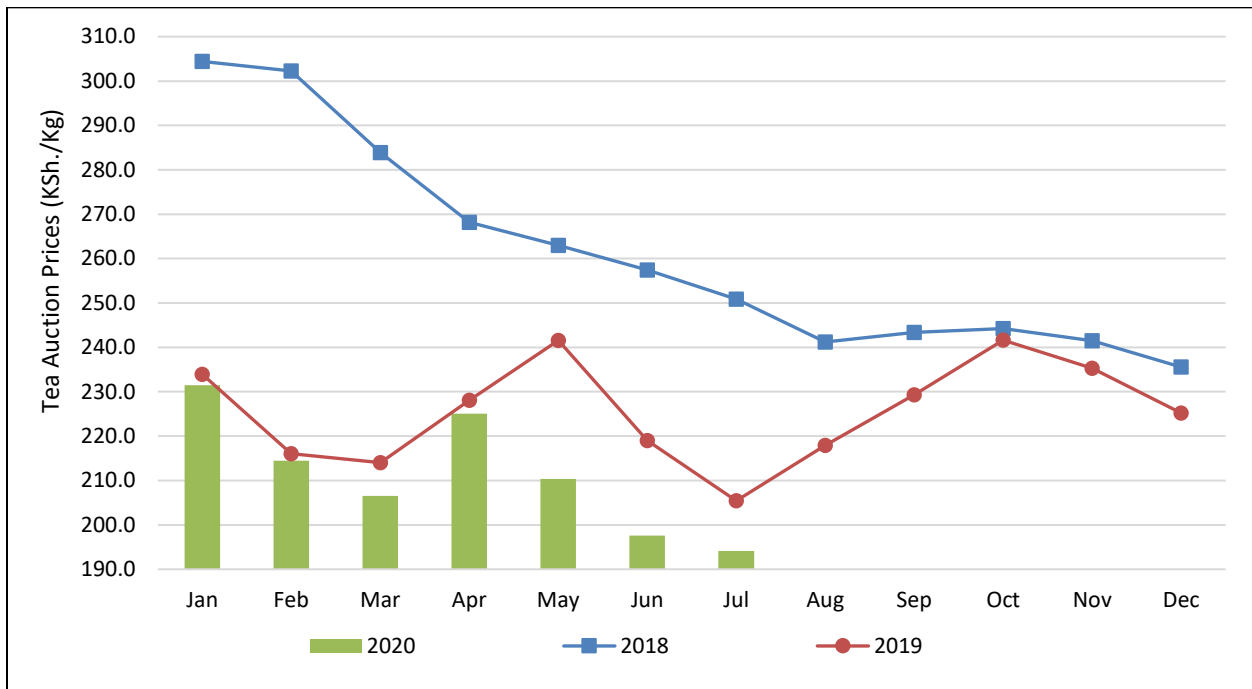
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

Figure 12(f): Monthly tea exports (Ksh million)



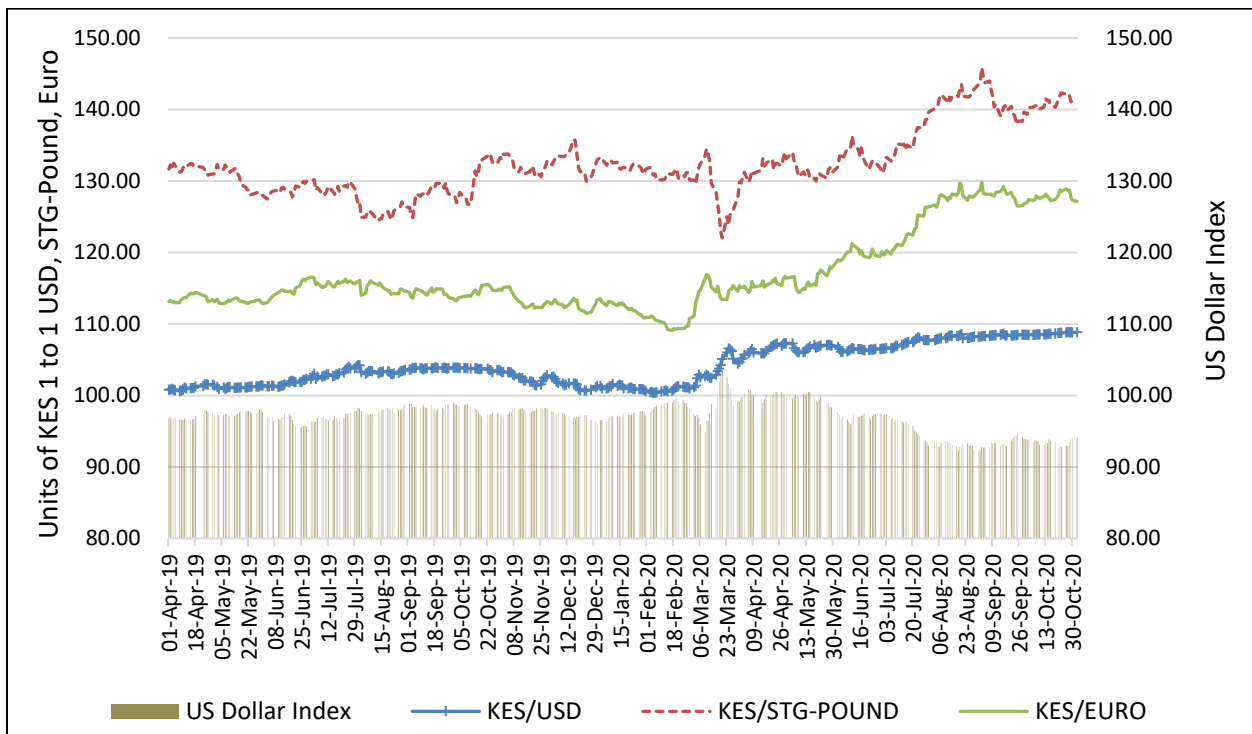
Data source: Kenya National Bureau of Statistics; East African Tea Trade Association

Figure 12(g): Monthly Kenya tea auction prices (Ksh/Kg)



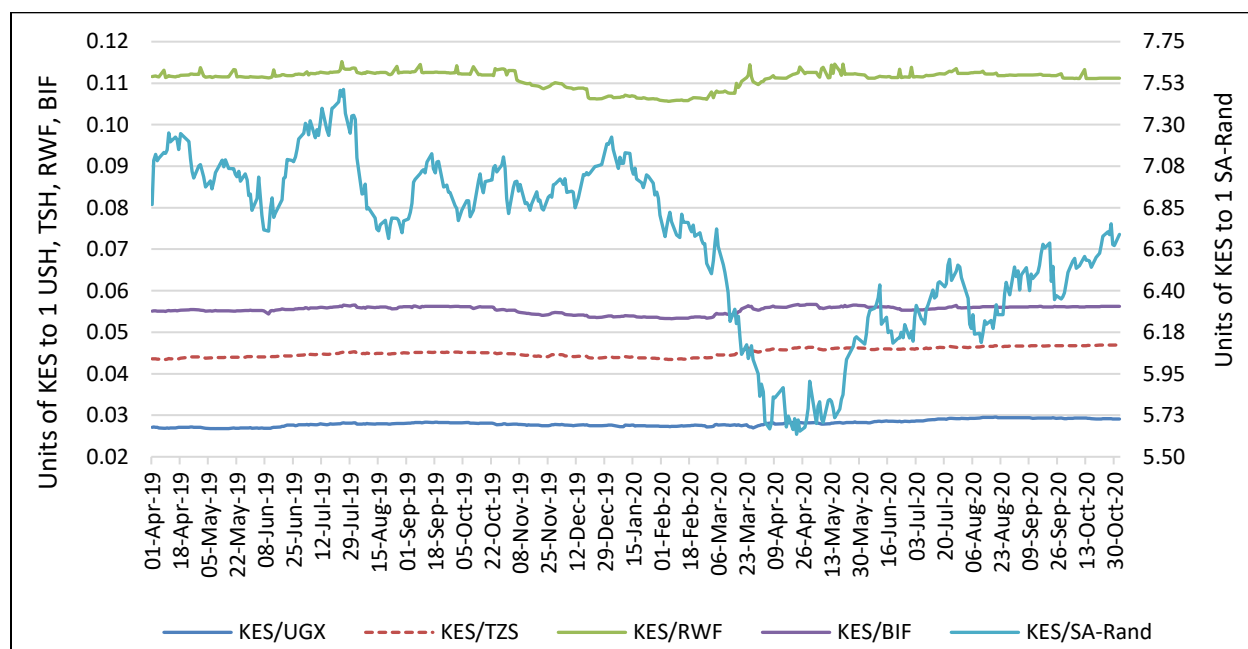
Data Source: KNBS; East Africa Tea Trade Association; Mombasa Tea Auction

Figure 13: The exchange rate of Kenya shilling to global currencies



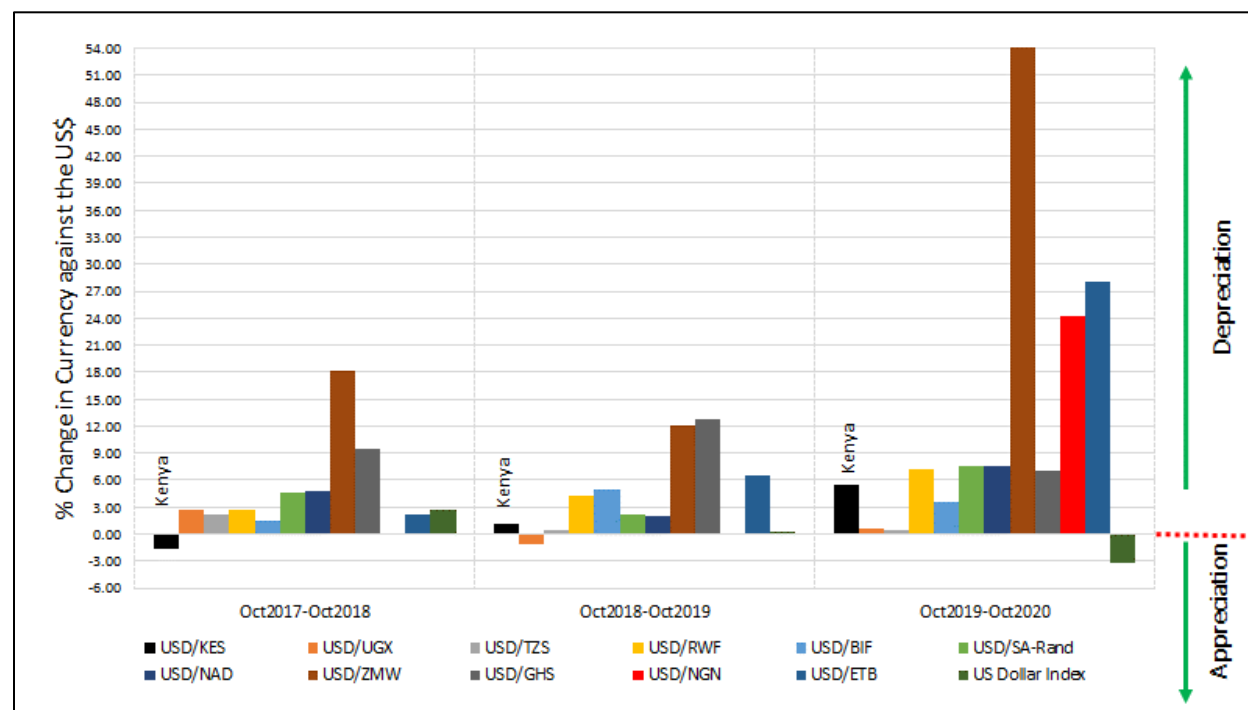
Data source: Central Bank of Kenya; Kenya National Bureau of Statistics; <https://www.investing.com/quotes/us-dollar-index-historical-data>

Figure 14: The exchange rate of Kenya shilling to regional currencies



Data source: Central Bank of Kenya

Figure 15: Performance of select currencies against the US Dollar

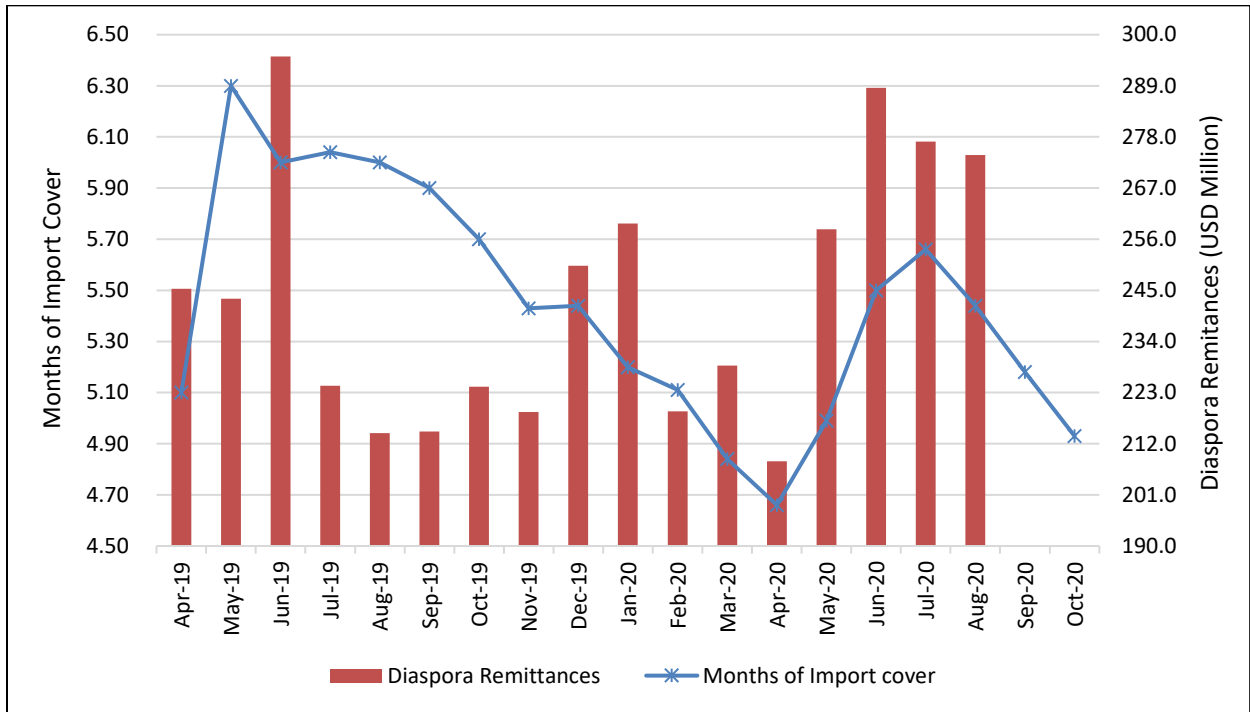


Data source: Country Statistics Offices; <https://www.investing.com>

Percentage change in currencies against the US Dollar measured as end of period changes.

USD-US Dollar; KES - Kenyan Shilling; UGX-Ugandan Shilling; TZS-Tanzanian Shilling; RWF-Rwandan Franc; BIF-Burundian Franc; SA-South Africa; NAD-Namibian Dollar; ZMW-Zambian Kwacha; GHS-Ghanaian Cedi; NGN-Nigerian Naira; ETB-Ethiopian Birr.

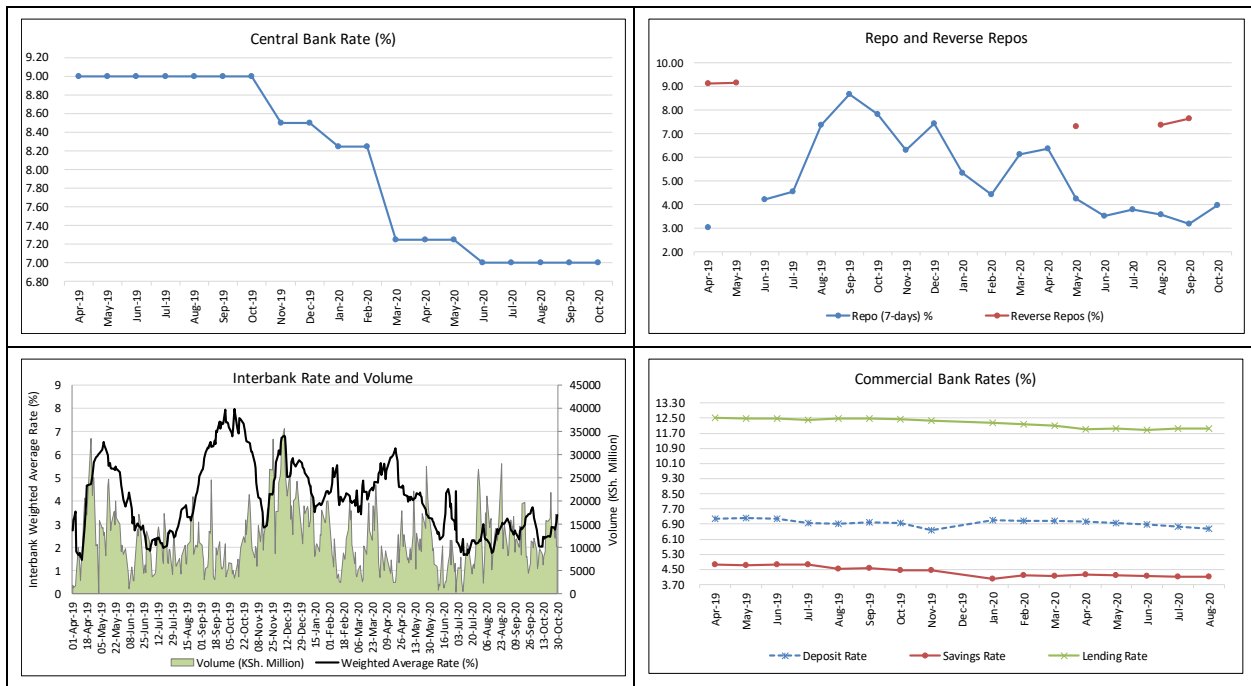
Figure 16: Months of import cover and diaspora remittances



Data Source: Central Bank of Kenya

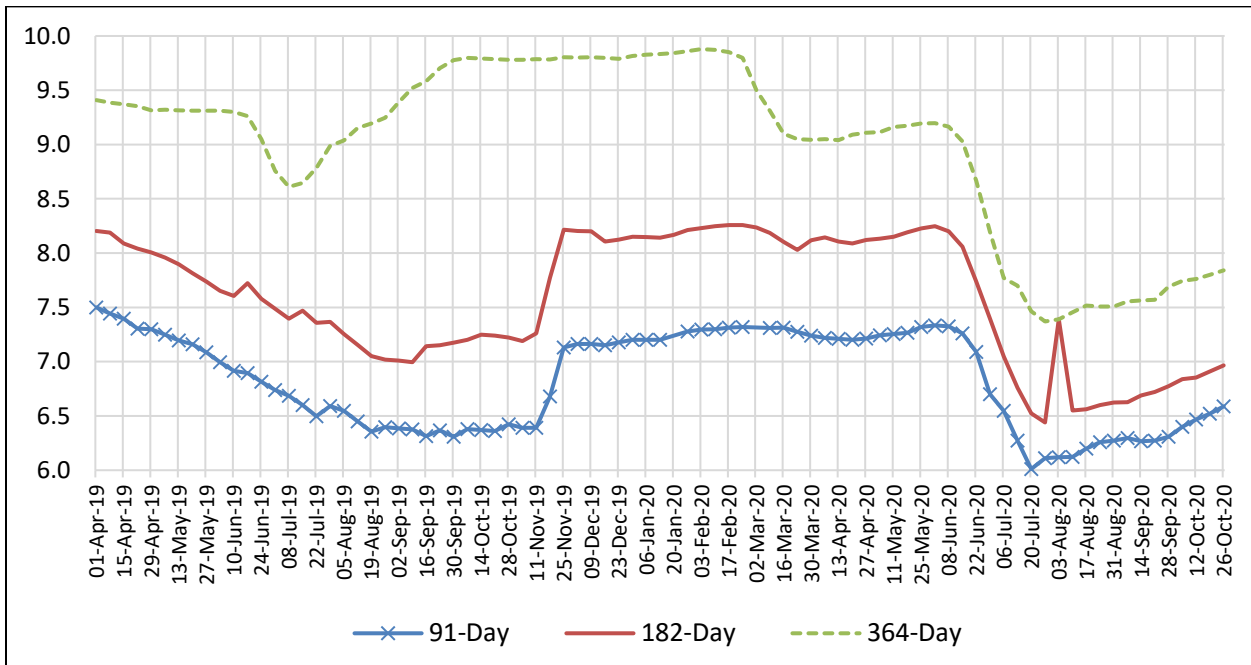
3. Monetary and Financial Sector

Figure 17: Interbank rate and volume, Repo and interest rates



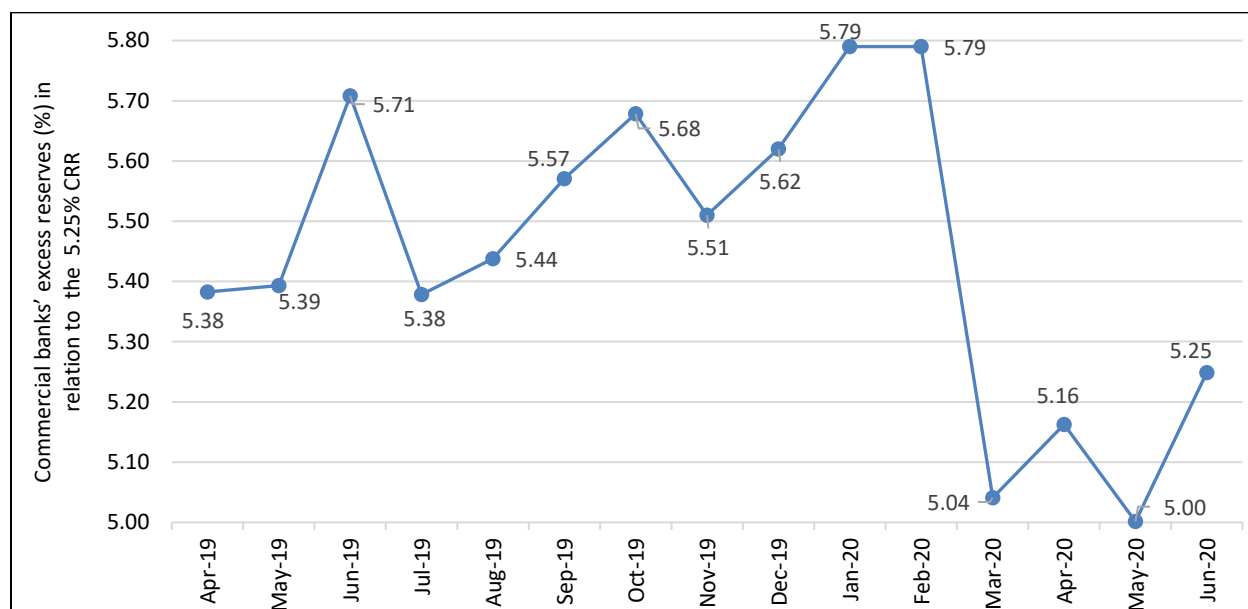
Data source: Central Bank of Kenya

Figure 18: Treasury bill weighted average rate (%)



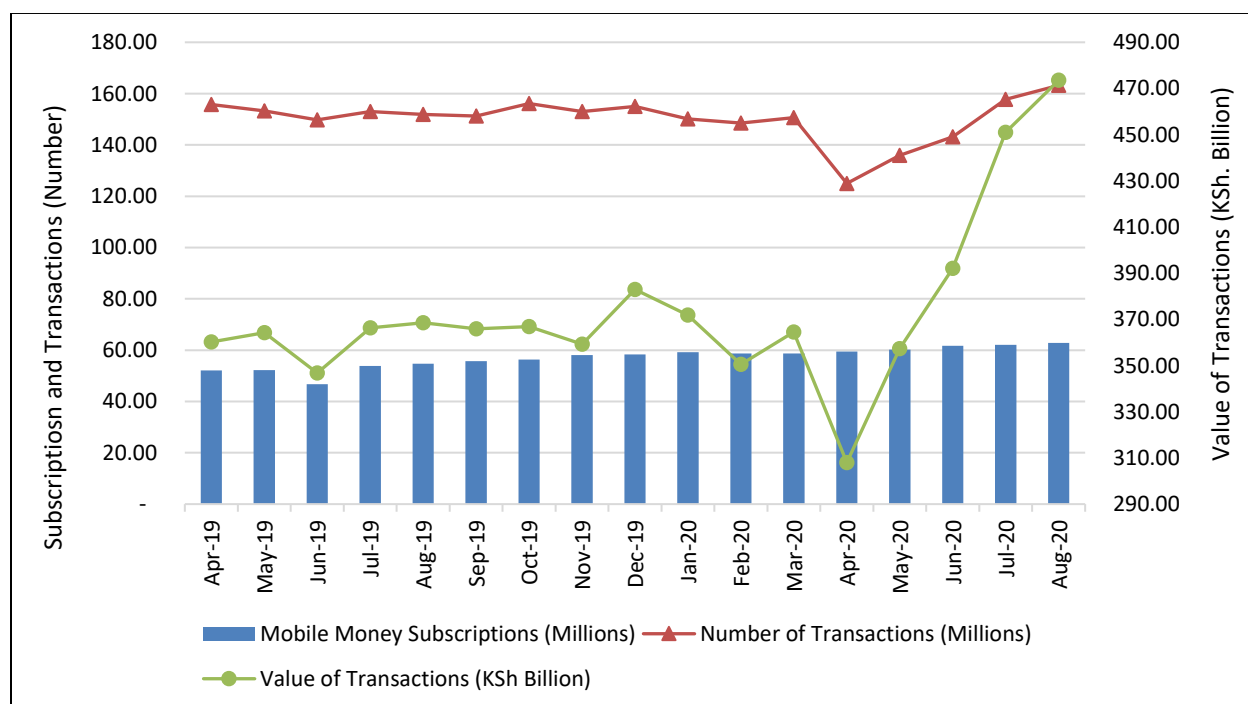
Data source: Central Bank of Kenya

Figure 19: Commercial banks' excess reserves (%) in relation to the CRR



Data source: Central Bank of Kenya;
CRR = Cash Reserves Requirement

Figure 20: Mobile money transactions

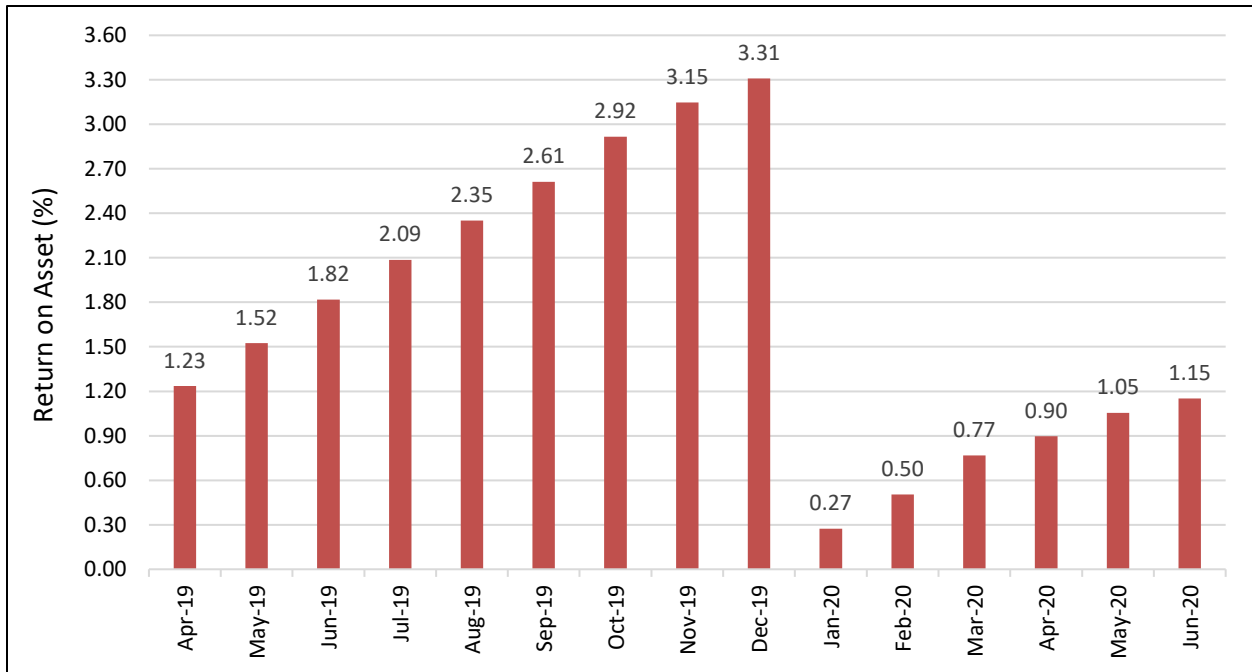


Data source: Kenya National Bureau of Statistics;

Note: The mobile money subscriptions exceed total adult population since this is based on registered SIM Cards in transacting electronic gadgets (Individual mobile phones and Point of Sale gadgets). In addition, 30% of mobile users in Kenya own more than 1 SIM Card (<https://www.ca.go.ke>).

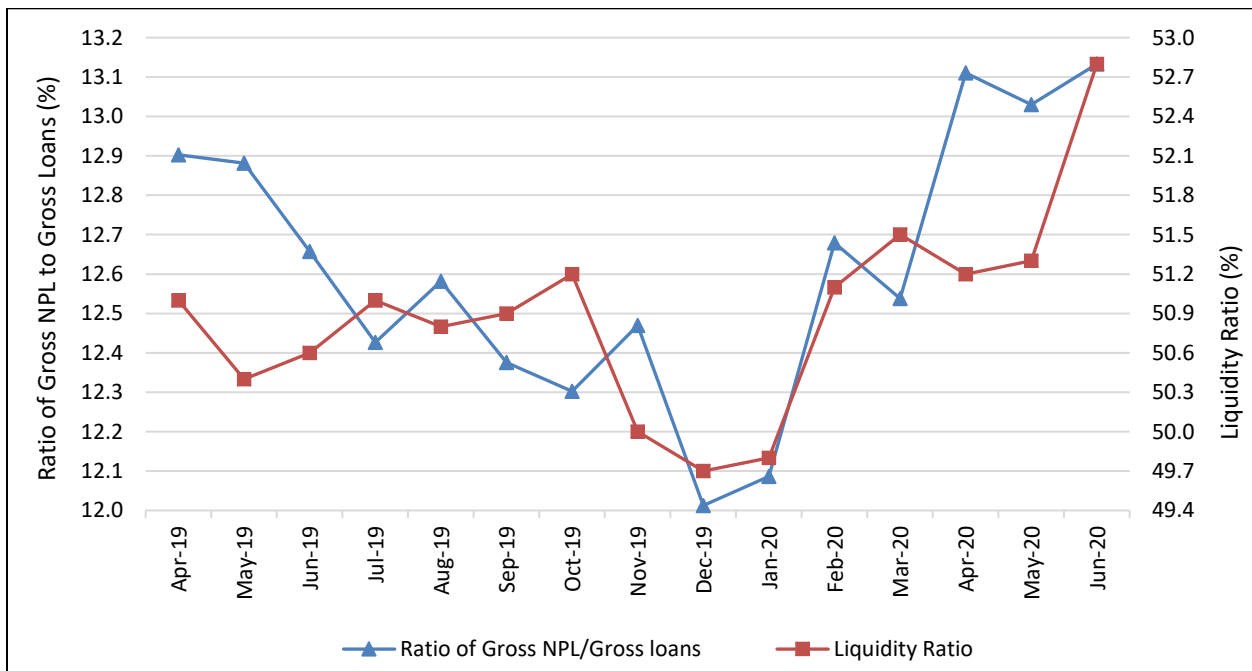
Figure 21: Kenyan banking sector performance

Figure 21(a): Return on asset (%)



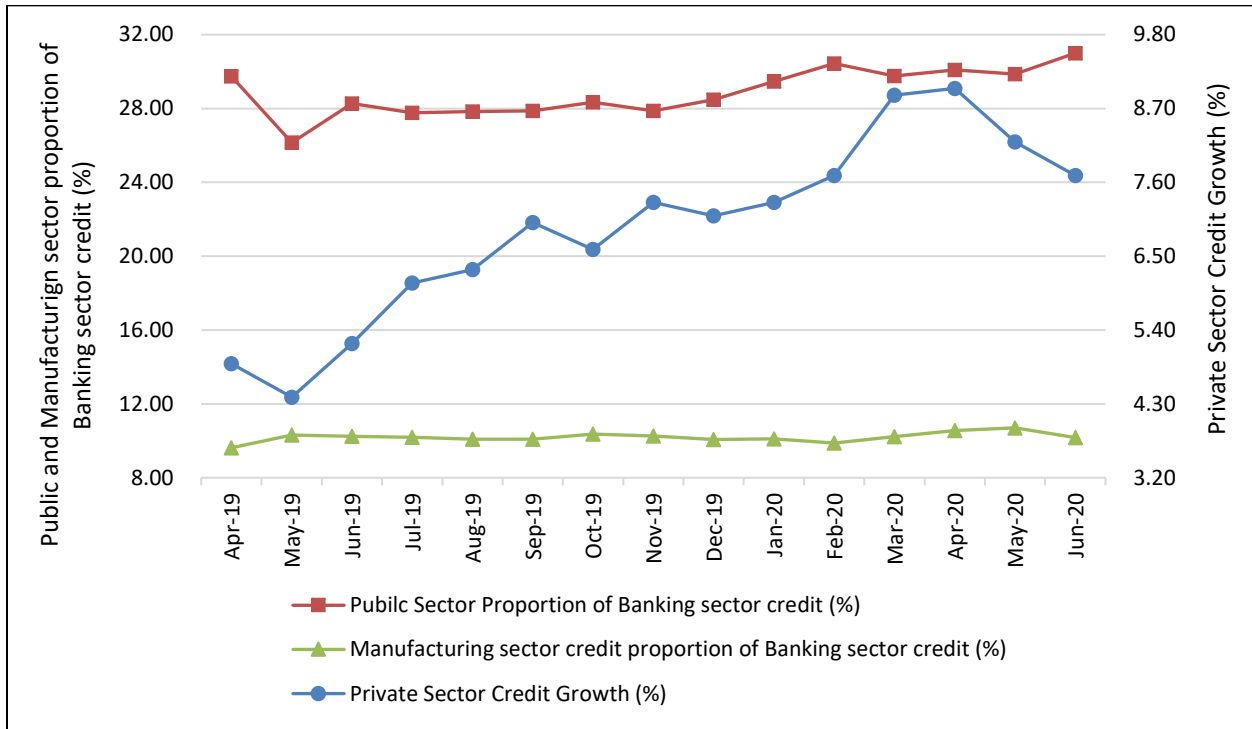
Data Source: Calculated using data from Central Bank of Kenya

Figure 21(b): Liquidity ratio and ratio of gross NPL to gross loans, (%)



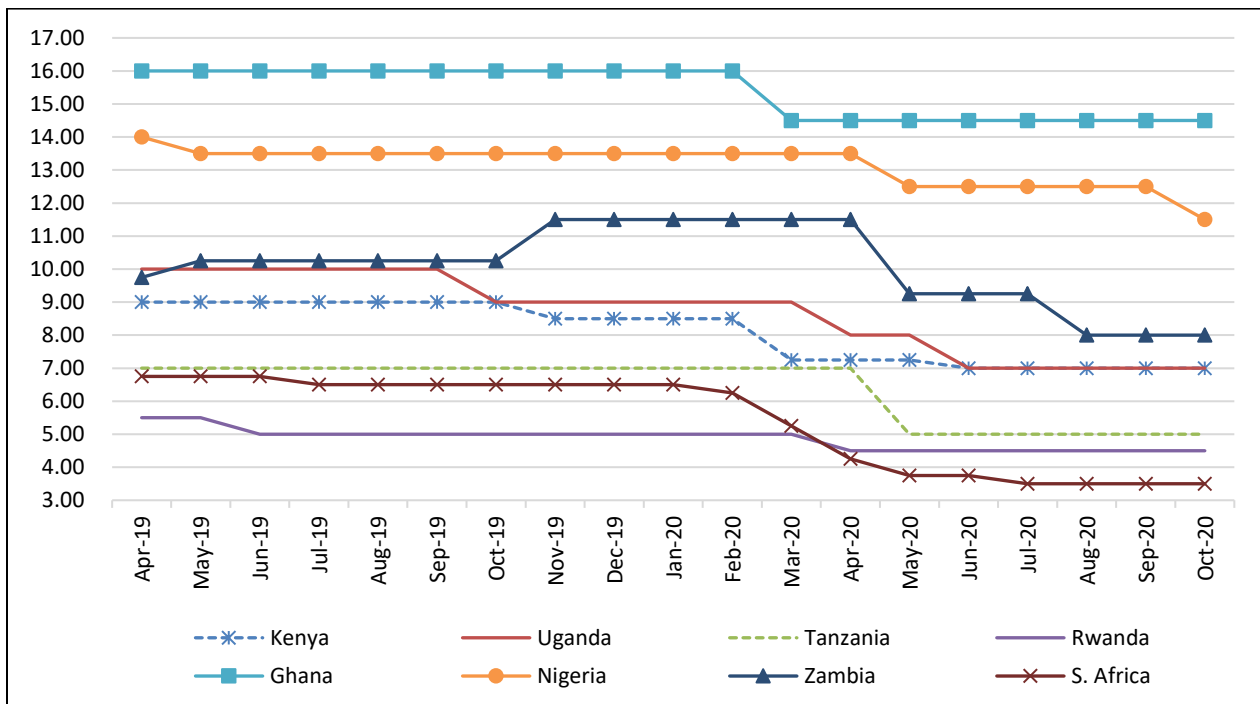
Data Source: Calculated using data from Central Bank of Kenya

Figure 22: Banking sector credit



Data Source: Central Bank of Kenya

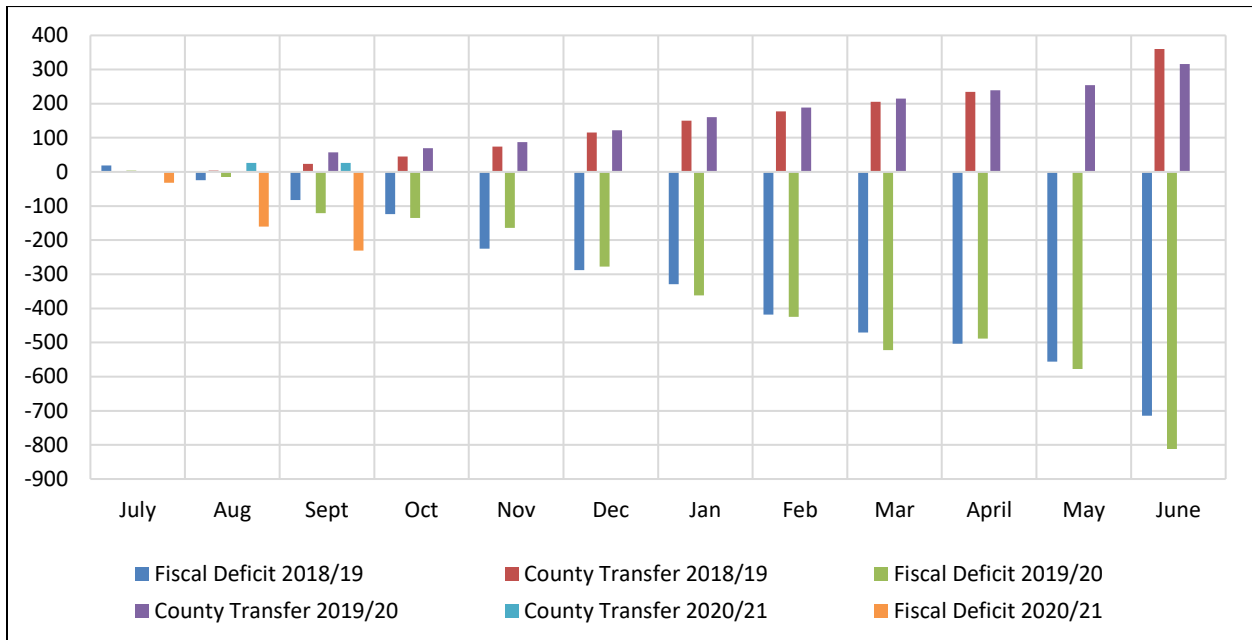
Figure 23: Monetary policy stance for selected countries in Africa



Source: Country Central Banks

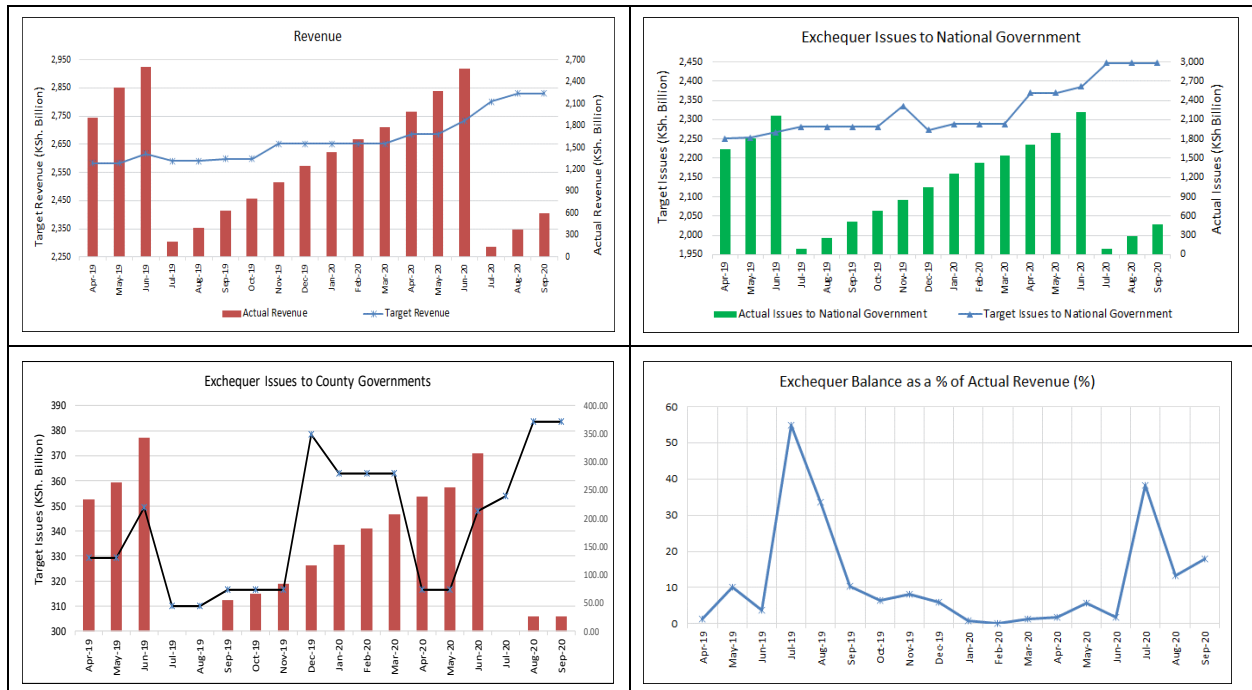
4. Fiscal Performance

Figure 24: Fiscal deficit and county transfers (Ksh billion)



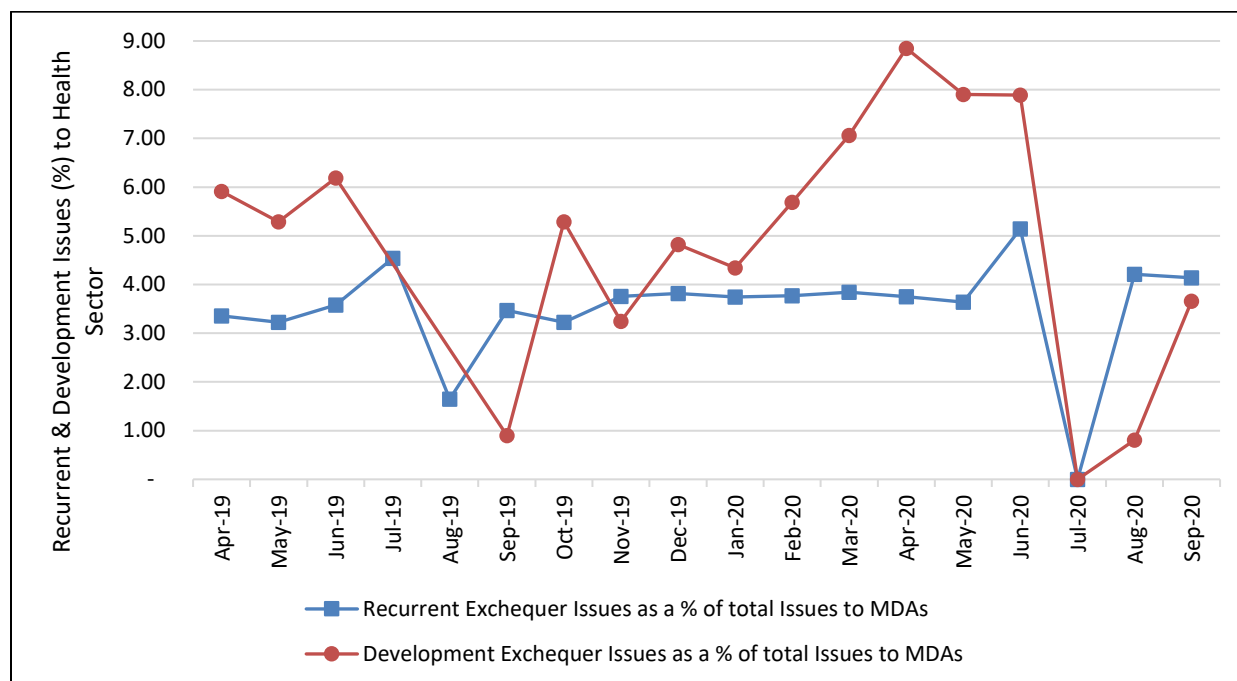
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notices.

Figure 25: Monthly utilization of revenue against target



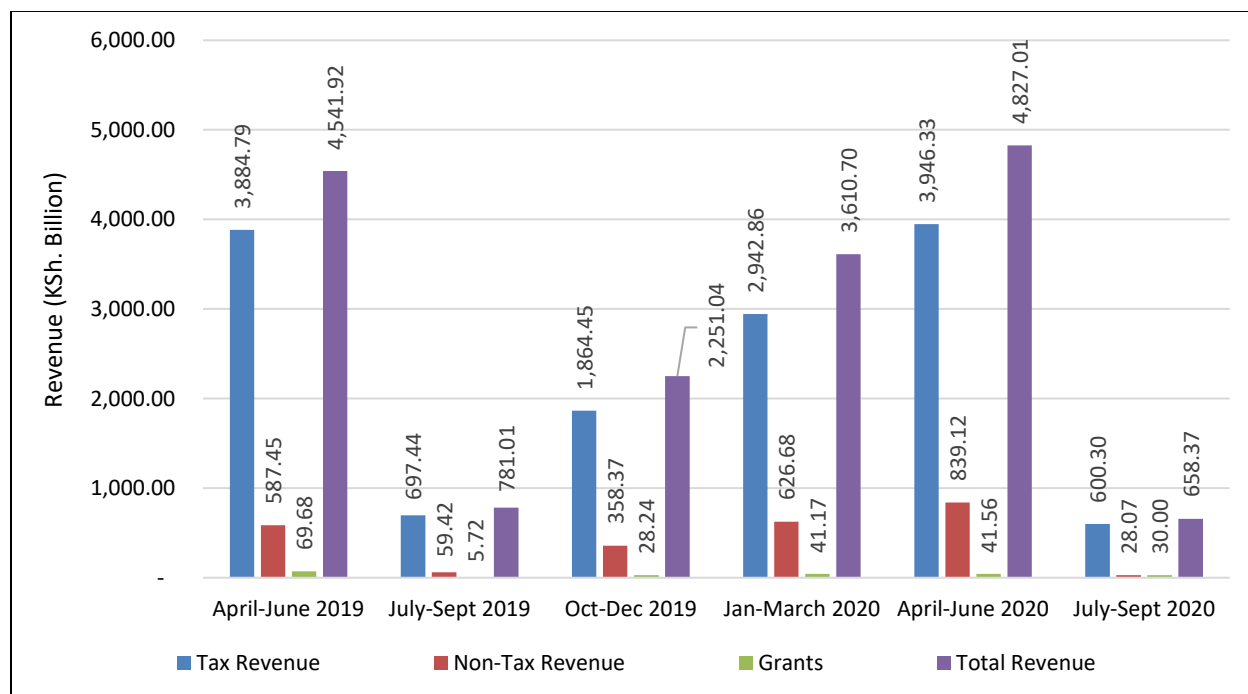
Data Source: Monthly Gazette Notices, The National Treasury and Planning

Figure 26: Exchequer allocation to Ministry of Health as a % of total issues to Ministries, Agencies and Departments



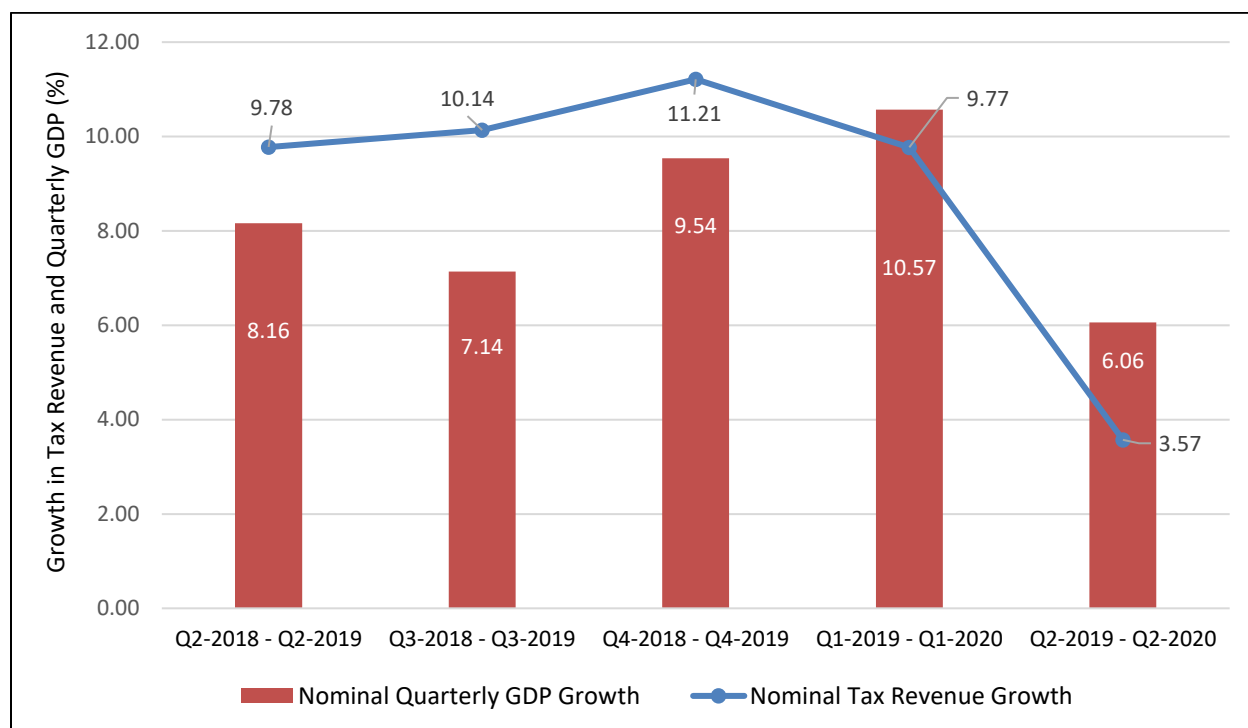
Data Source: Monthly Gazette Notices, The National Treasury and Planning

Figure 27: Composition of government revenue (Ksh billion)



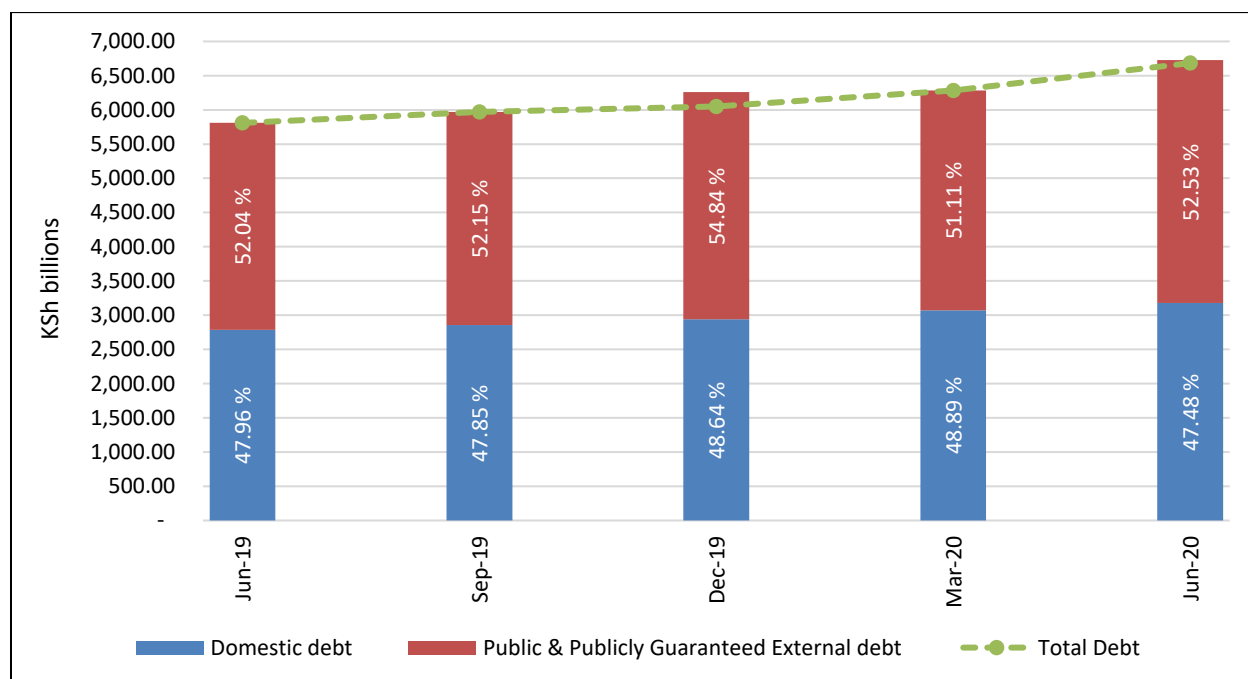
Data Source: Calculated using data from Central Bank of Kenya and The National Treasury data published on monthly Kenya Gazette Notices; June-September data 2020 is provisional

Figure 28: Growth in tax revenue (%) and quarterly GDP growth (%)



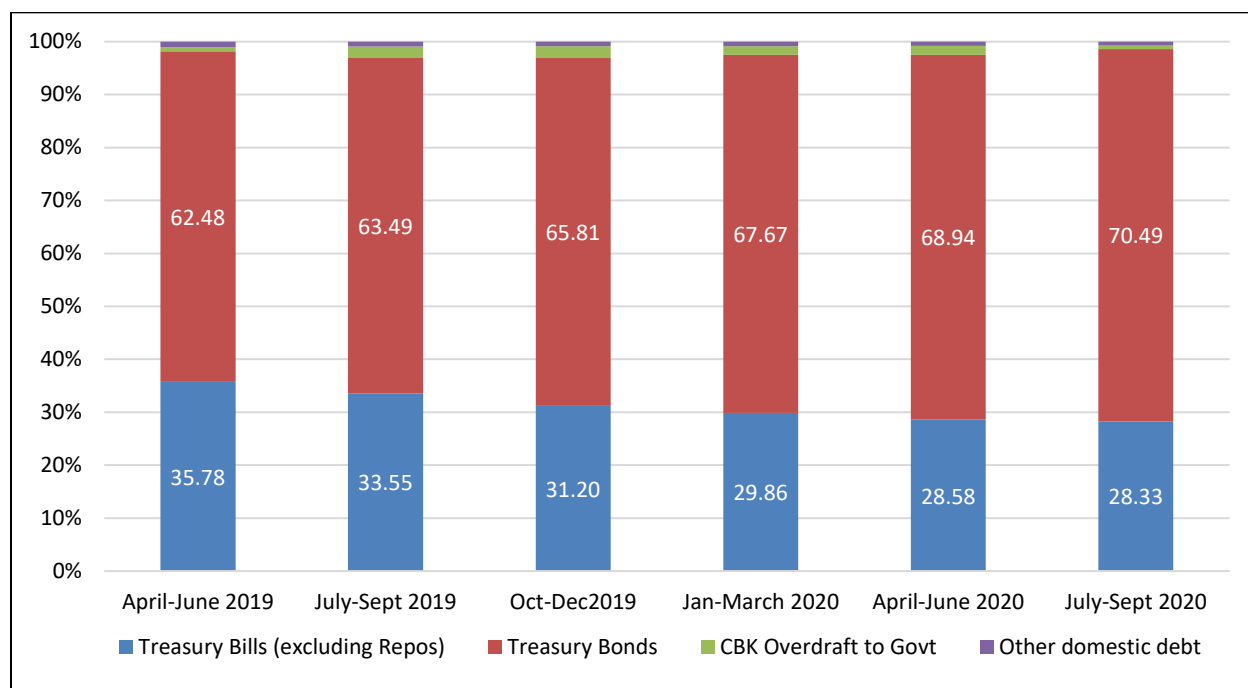
Data Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Figure 29: Total debt (Ksh billion) and proportionate shares of domestic and foreign debt



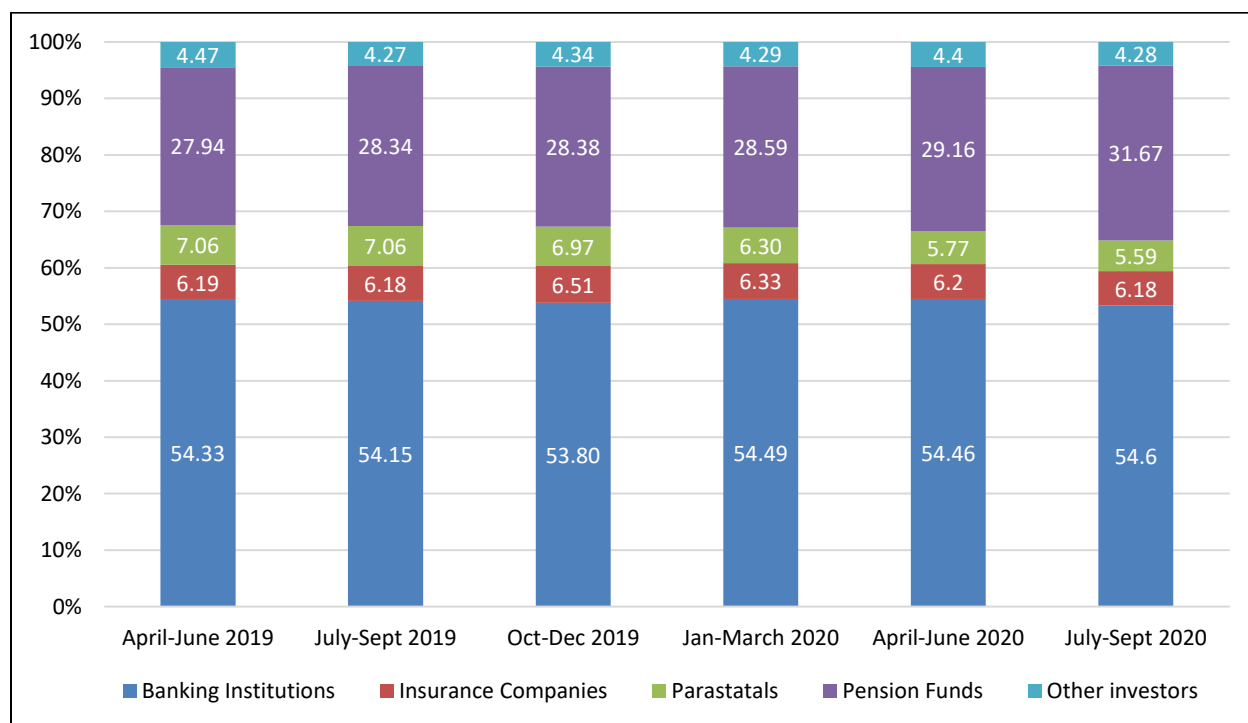
Data Source: Calculated using data from Central Bank of Kenya

Figure 30: Composition of government domestic debt by instrument (%)



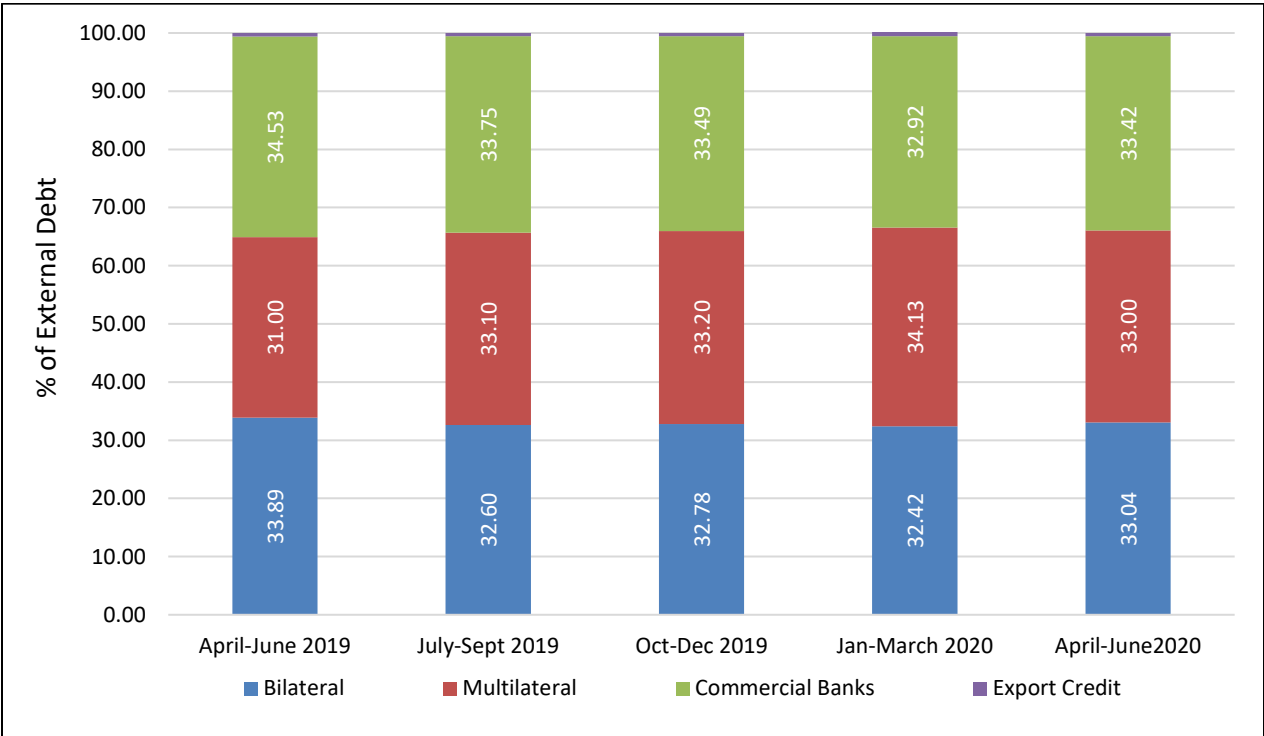
Data Source: Calculated using data from Central Bank of Kenya

Figure 31: Composition of government domestic debt by holder (%)



Data Source: Calculated using data from Central Bank of Kenya

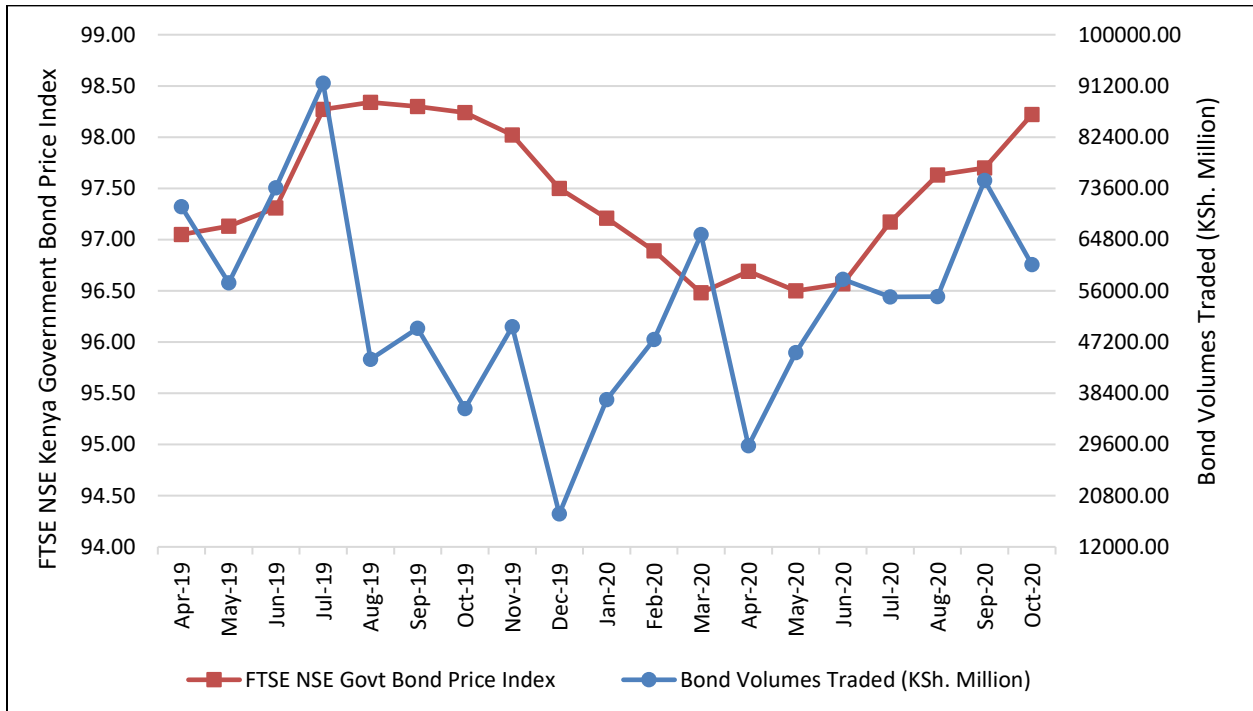
Figure 32: Composition of external debt: Proportionate shares of bilateral, multilateral, commercial bank and export credit



Data Source: Calculated using data from Central bank of Kenya

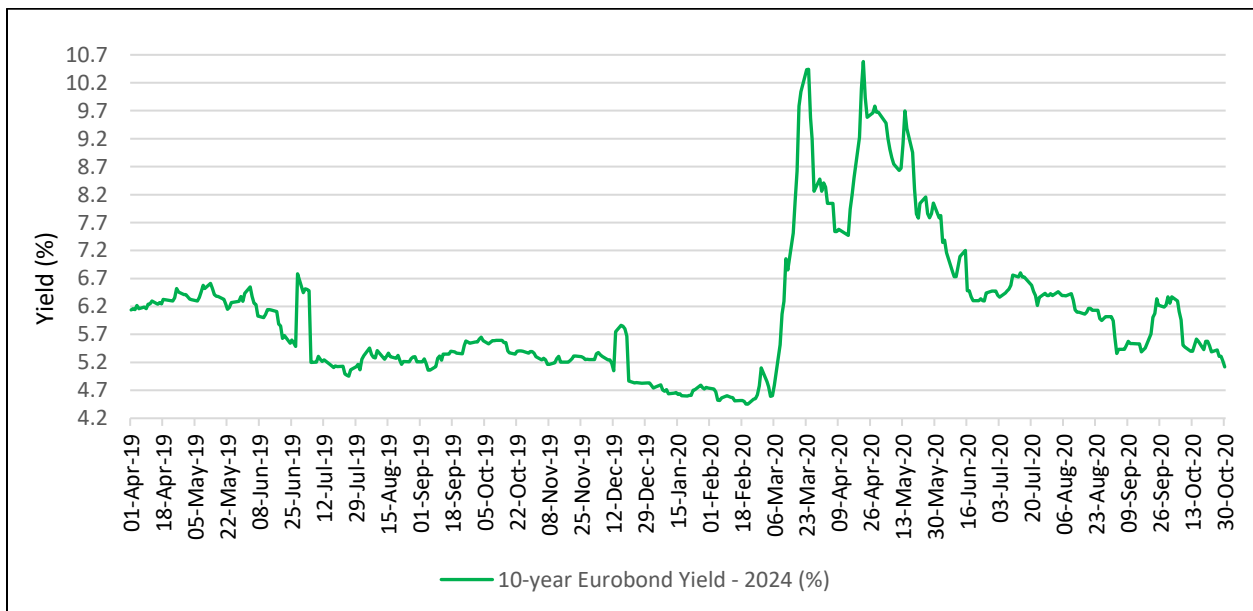
5. Capital Markets

Figure 33: Bond volumes traded (Ksh million) and FTSE NSE Kenya government bond price Index



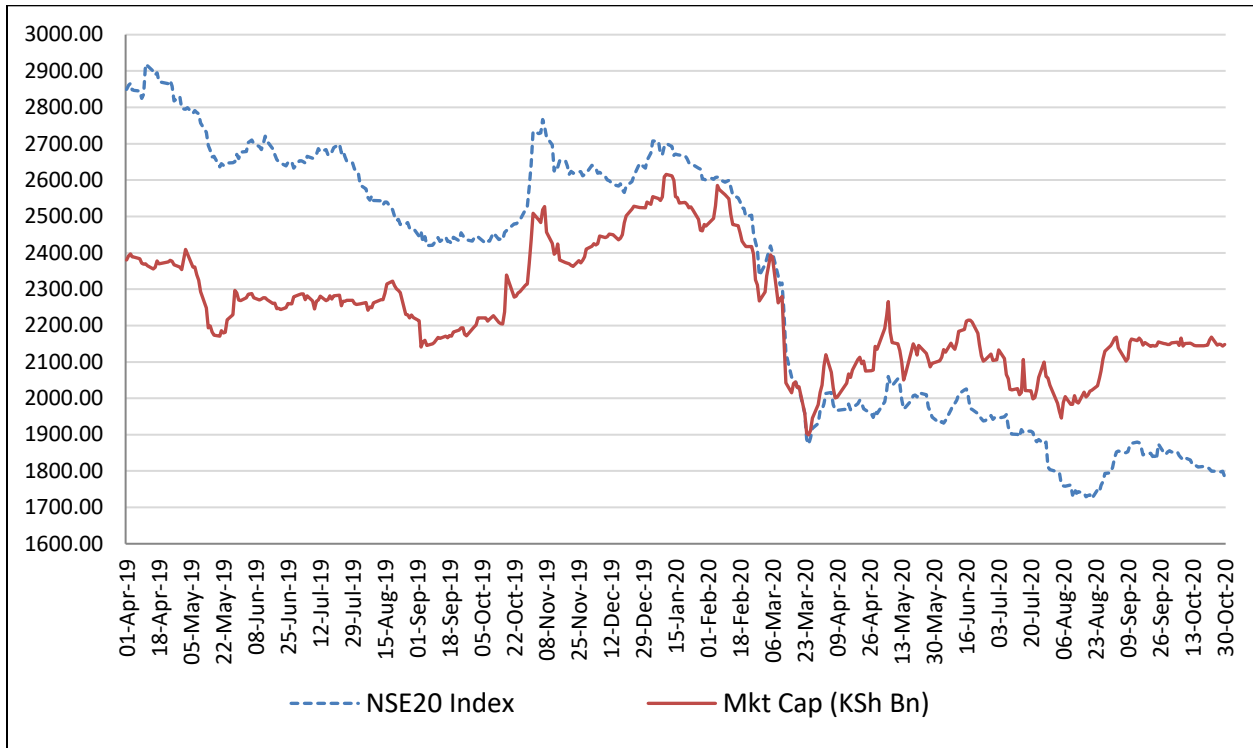
Data Source: Nairobi Securities Exchange; Central Bank of Kenya

Figure 34: The 10-year Kenya Eurobond (2024) yield (%)



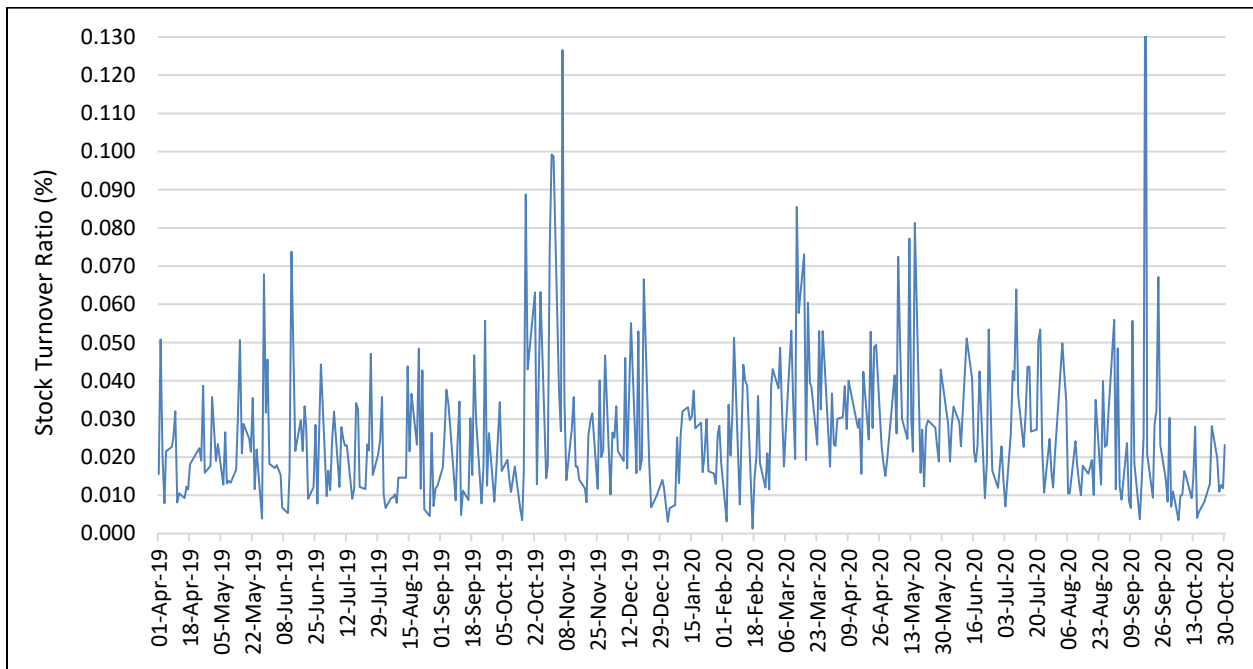
Data Source: Central Bank of Kenya

Figure 35: Stock market performance



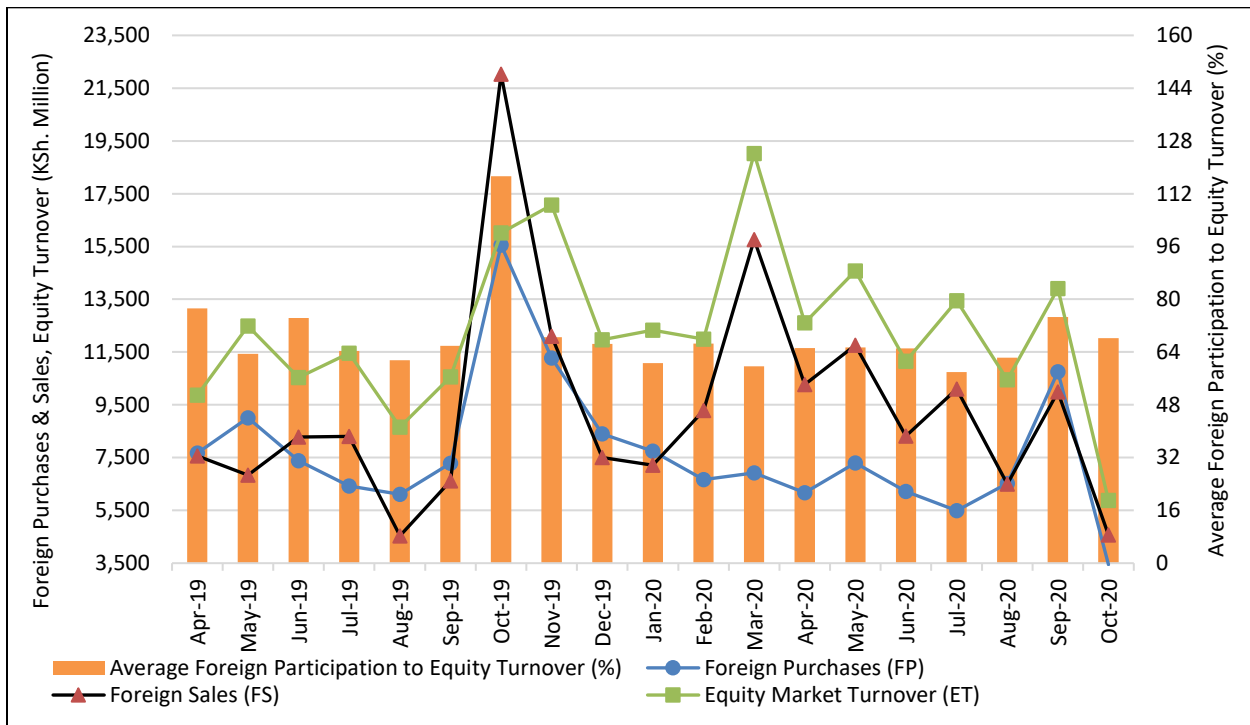
Data Source: Nairobi Securities Exchange

Figure 36: Stock value turnover ratio (%)



Data Source: Nairobi Securities Exchange; Calculated as equity turnover value (Ksh million)/ Market capitalization (Ksh million)

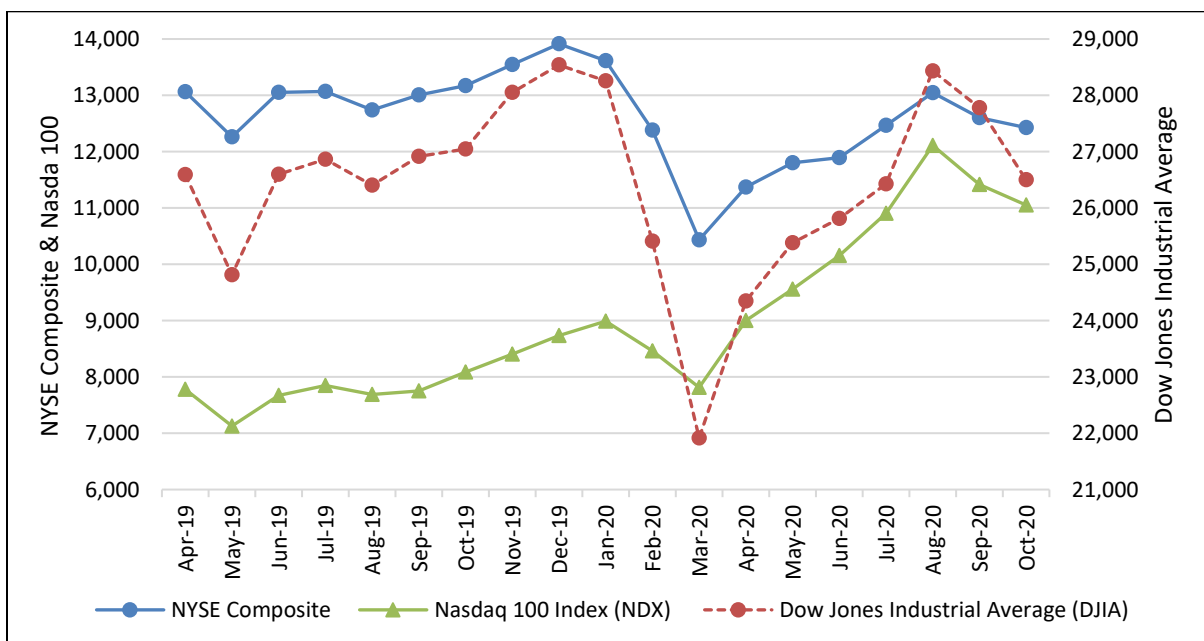
Figure 37: Foreign trading in the stock market



Data Source: Central Bank of Kenya; Sterling Capital Ltd (<https://www.sterlingib.com>).

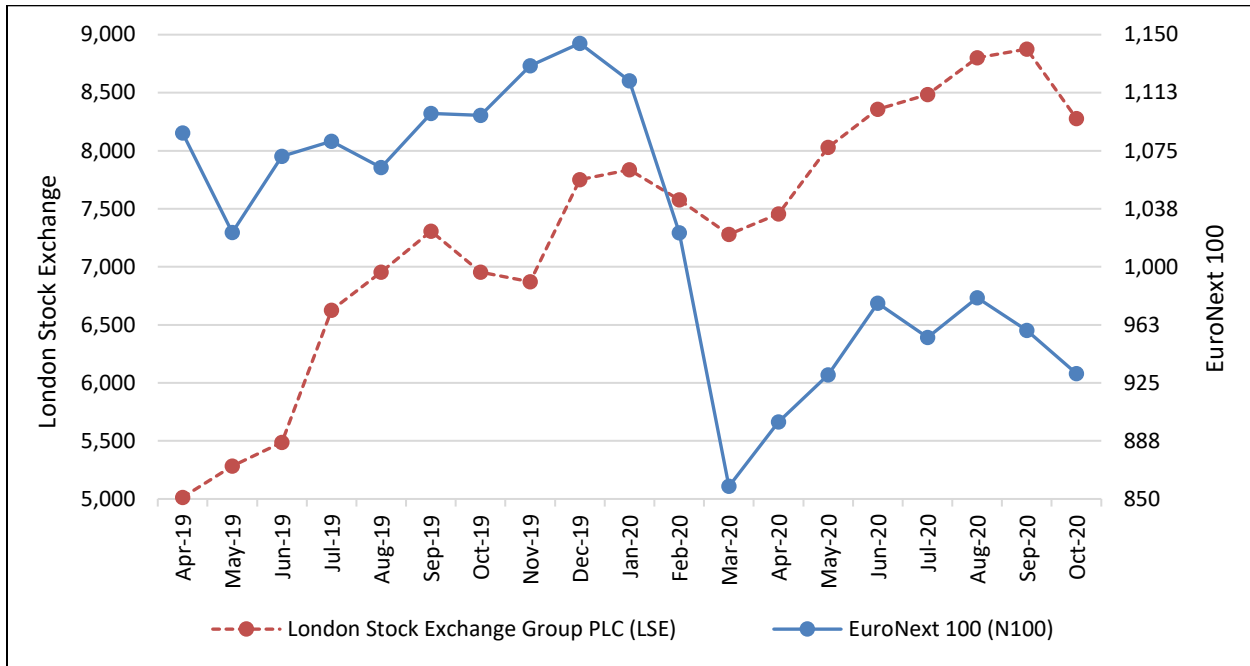
Figure 38: Stock market performance of selected advanced and emerging markets

Figure 38(a): USA stock markets



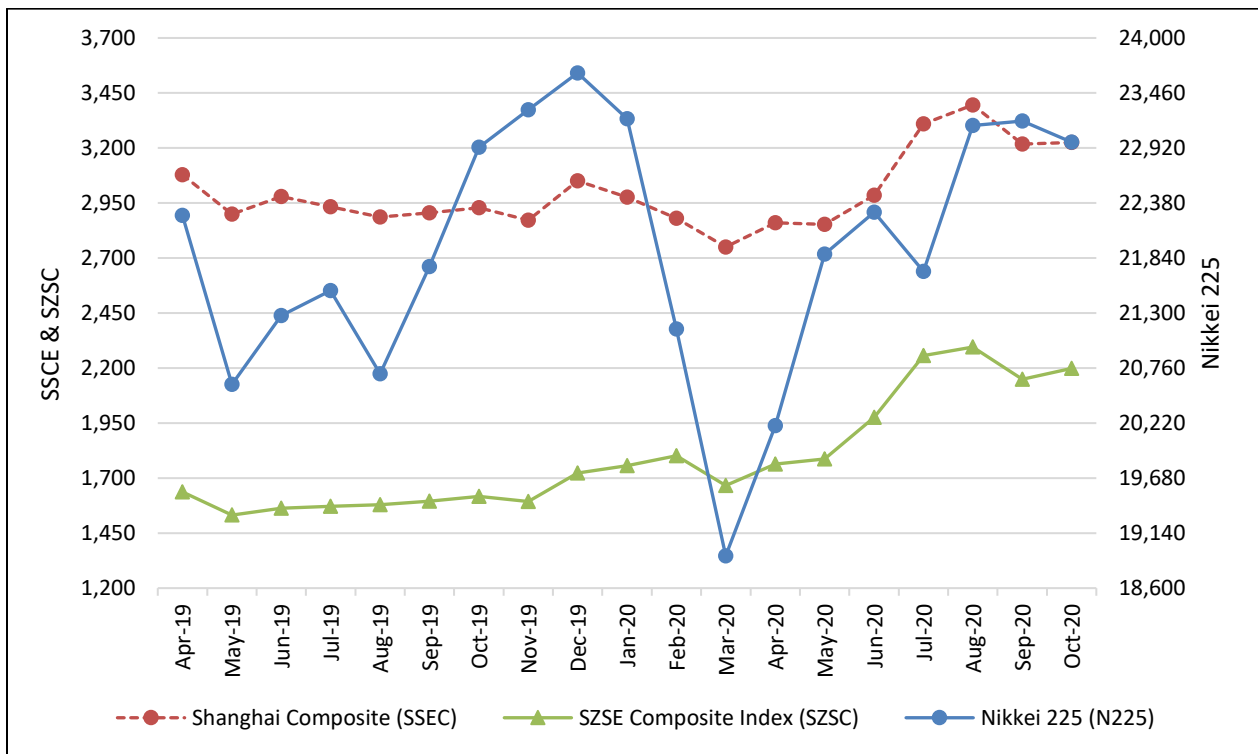
Data source: Country Stock Exchanges; <http://www.investing.com>

Figure 38(b): European stock markets



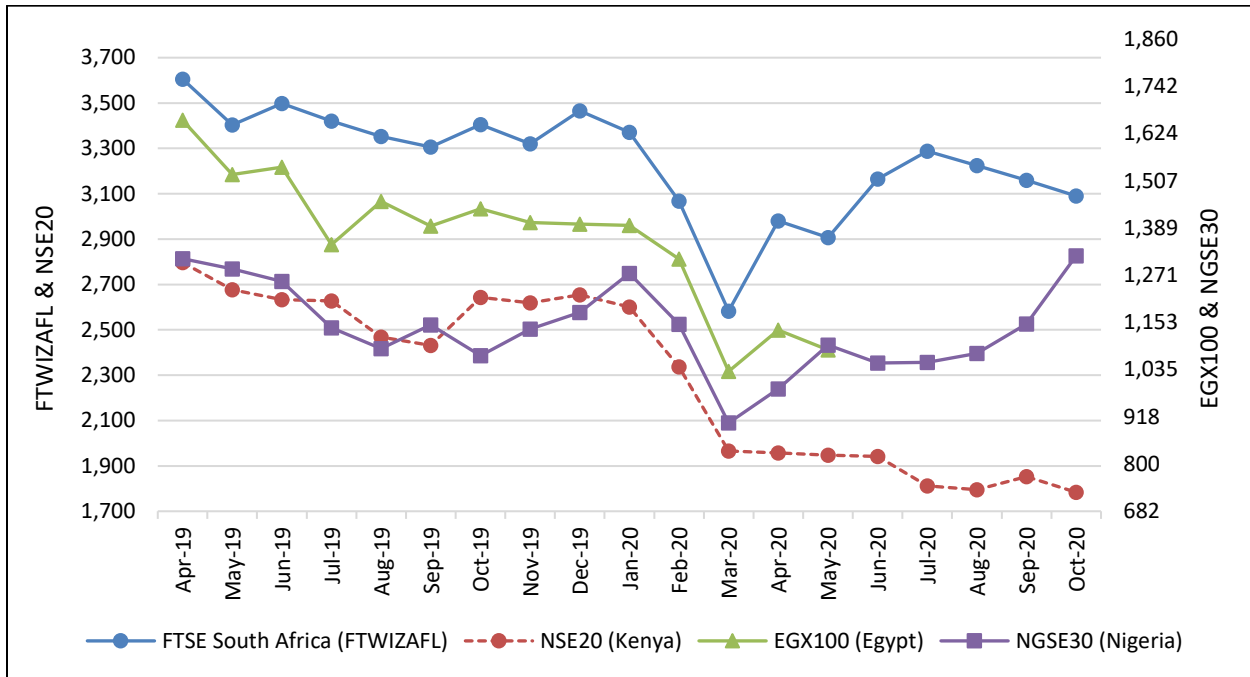
Data source: Country Stock Exchanges; <http://www.investing.com>

Figure 38(c): Asian stock markets



Data source: Country Stock Exchanges; <http://www.investing.com>

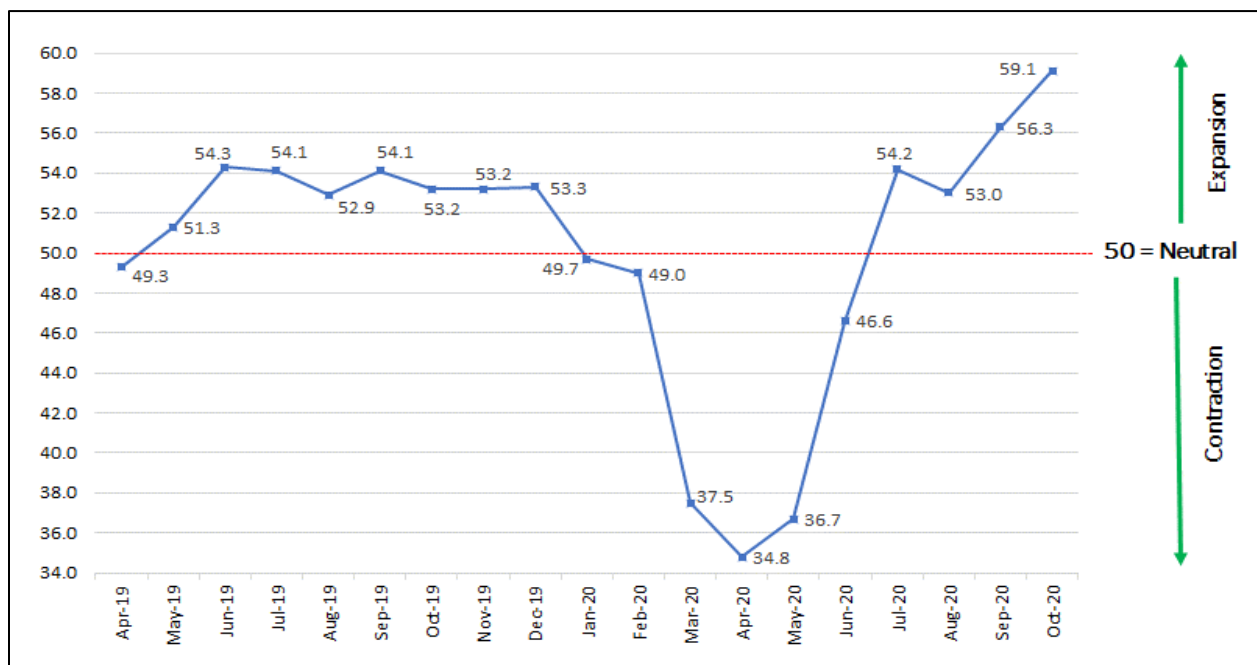
Figure 38(d): African stock markets



Data source: Country Stock Exchanges; <http://www.investing.com>

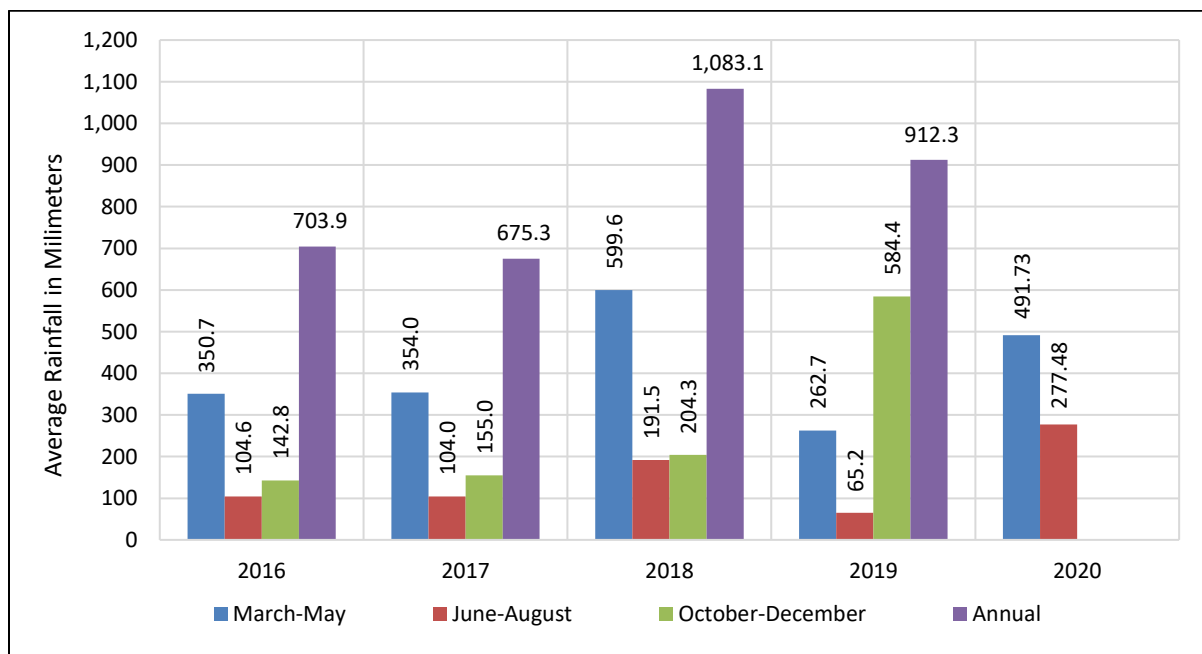
6. Risk-related Factors

Figure 39: Kenya purchasing managers' index



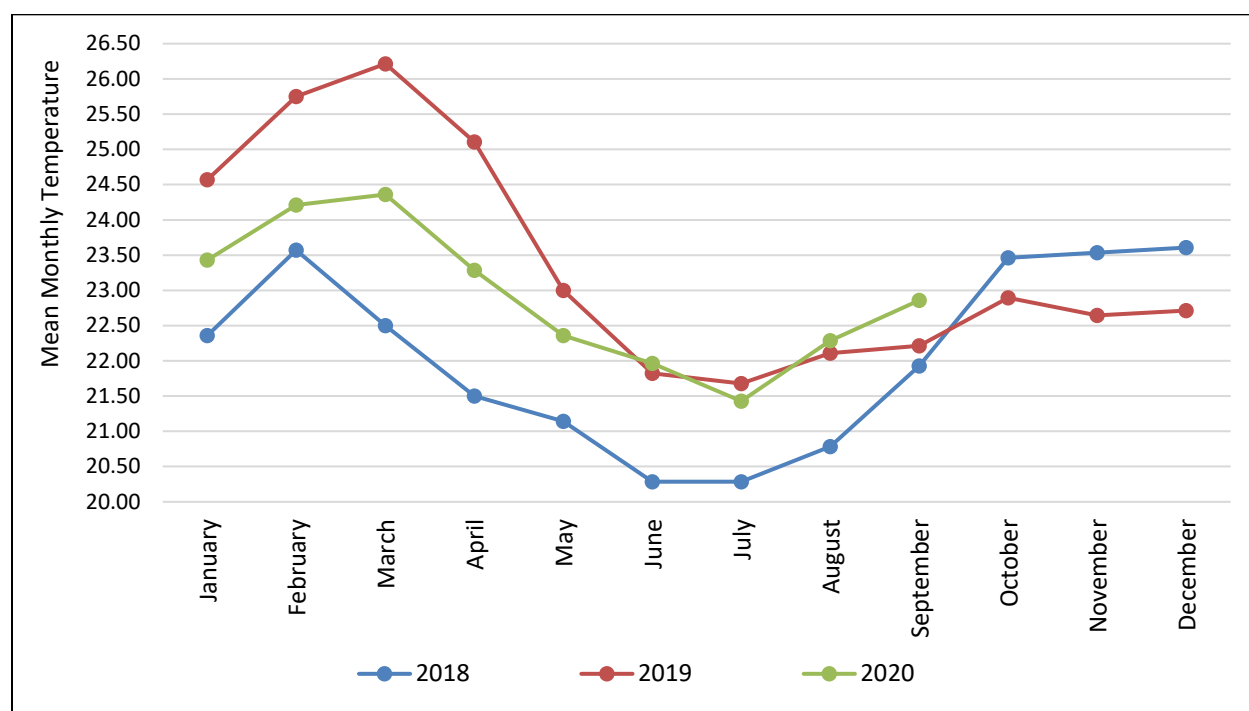
Data Source: Stanbic Bank (<https://www.stanbicbank.co.ke>); IHS-Markit (<https://ihsmarkit.com>)
 Key: 50.0 = Neutral; Above 50.0 = Expansion; Below 50.0 = Contraction

Figure 40: Mean annual and seasonal rainfall (millimeters)



Data Source: Kenya National Bureau of Statistics; Kenya Meteorological Department; <https://www.worldweatheronline.com/>

Figure 41: Mean monthly temperature (degrees celsius)



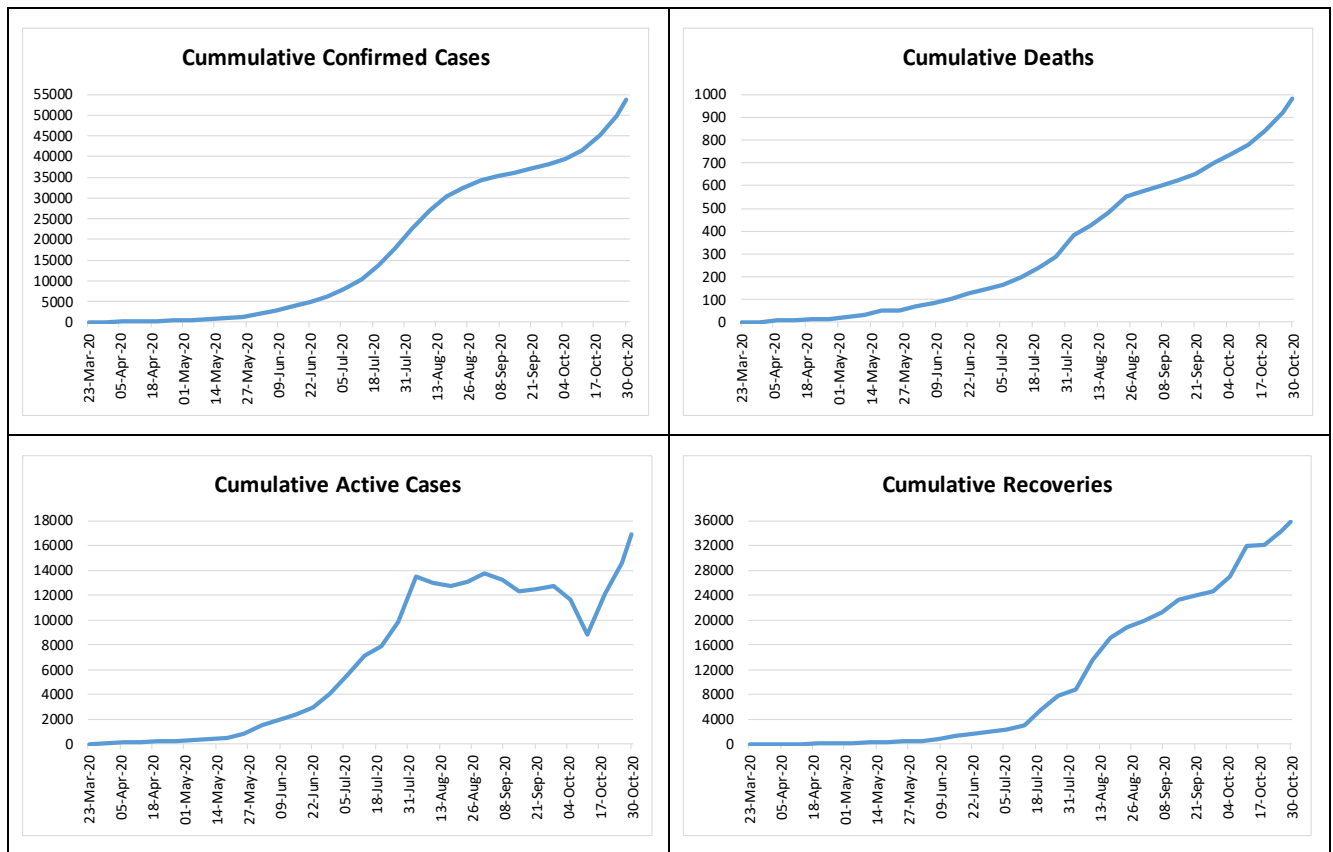
Data Source: Kenya Meteorological Department; <https://www.worldweatheronline.com/>

Table 1: Fitch rating for Kenya

Type	Current Rating (as at 19 June 2020)			Prior Rating (as at 10 December 2019)		
	Rating	Outlook	Action	Rating	Outlook	Action
LTR (Long term Issuer default rating)	B+	Negative	Affirmed	B+	Evolving	Affirmed
STR (Short-term Issuer default rating)	B		Affirmed	B		Affirmed
Local Currency Short Term Issuer Default Rating	B		Affirmed	B		Affirmed
Country Ceiling	B+		Downgrade	BB-		Affirmed
Local Currency Long Term Issuer Default Rating	B+	Negative	Affirmed	B+	Evolving	Affirmed

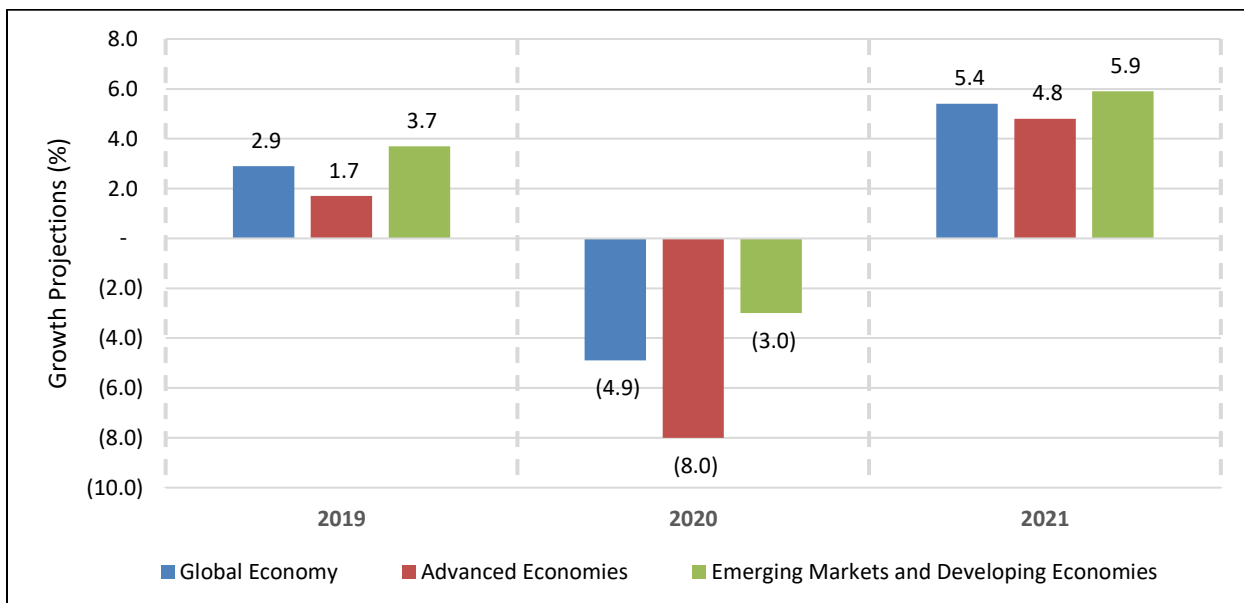
Data source: <https://www.fitchratings.com/entity/kenya-86485911#ratings>

Figure 42: Covid-19 statistics for Kenya, March-October 2020



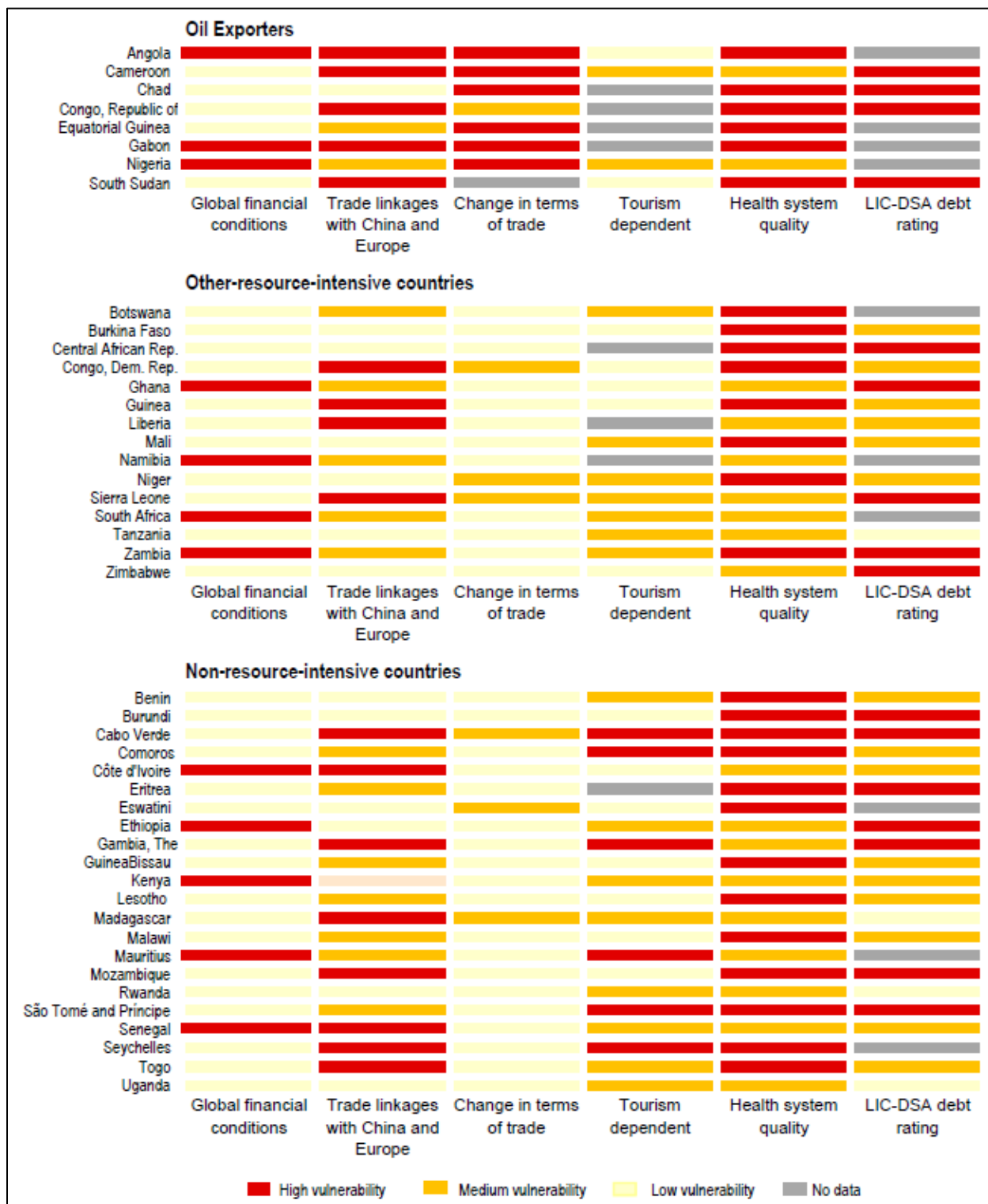
Data source: Ministry of Health, Kenya; World Health Organization

Figure 43: Growth projections in time of COVID-19 pandemic crisis



Source: International Monetary Fund, World Economic Outlook, June 2020

Figure 44: Vulnerability of Sub-Saharan Africa countries to COVID-19 shock in 2020



Source: International Monetary Fund, World Economic Outlook, April 2020

About the KIPPRA Quarterly Market Analysis Report

The KIPPRA quarterly market analysis report is one of the Institute's policy intelligence publications that focuses on reviewing trends in performance in the real sector (gross domestic product, price movements, production, consumption); international markets (commodity markets, exchange rates, remittances); money market (interbank, treasury securities, banking sector performance, monetary policy); fiscal performance; capital markets; and risk related factors in Kenya's economy and selected global markets in each quarter, with a view to identifying policy-related dimensions.

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