

IMPACT OF COVID-19 ON KENYA'S FINANCIAL MARKETS

May 14th, 2020

CONTENTS



INTRODUCTION

- Timeline of Covid-19 Events 4

MACRO ECONOMY

- Real GDP Forecast Pre And Post Covid-19 6
- Kenya's Purchasing Managers Index 7
- CBR, Cash Reserve Ratio And Money Supply 8
- Inflation 9

STOCK MARKETS

- Nairobi All Share Index vs. Global Key Indices 11
- NASI Market Capitalization And Concentration 12
- NASI Ownership and Trading 13

BOND MARKETS

- Kenyan Treasury Bills And Bonds 15
- Global Treasury Bills And Bonds 16
- Public Debt To GDP And Sovereign Ratings 17
- Global Sovereign Credit Ratings 18

CURRENCY AND OIL MARKETS

- KES vs. Global Currencies 20
- Oil Markets 21

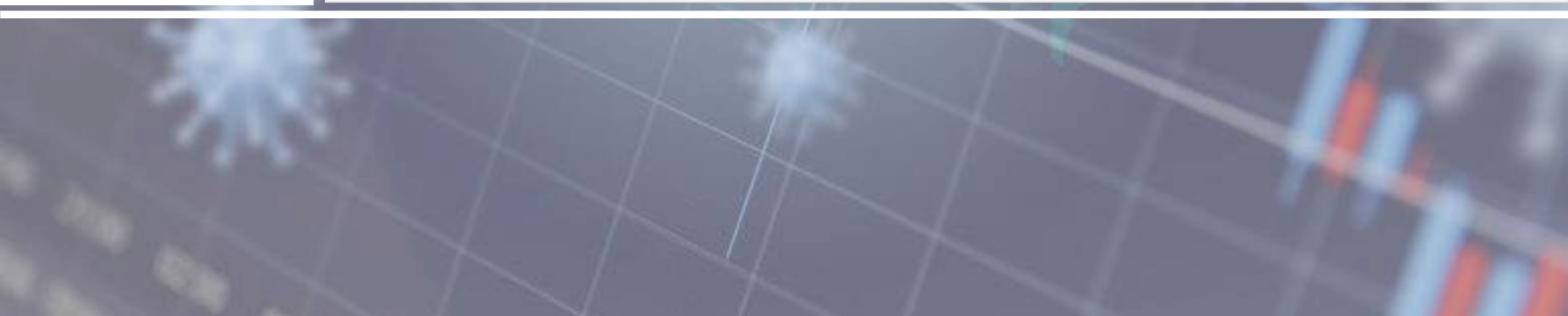
CONCLUSION

- Findings 23
- Recommendations 25

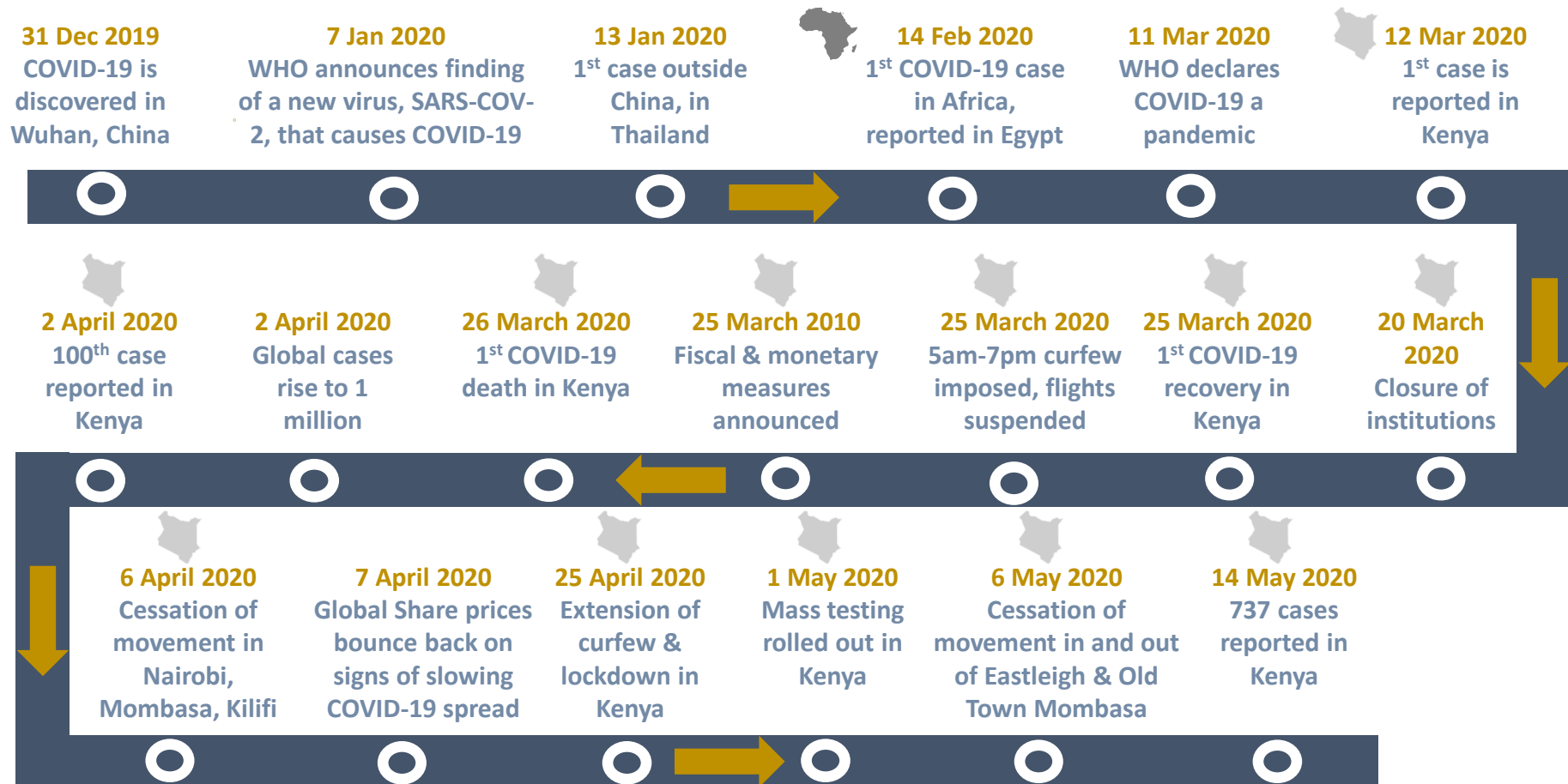


MAITRI
INVESTMENT | ADVISORY | AFRICA

INTRODUCTION



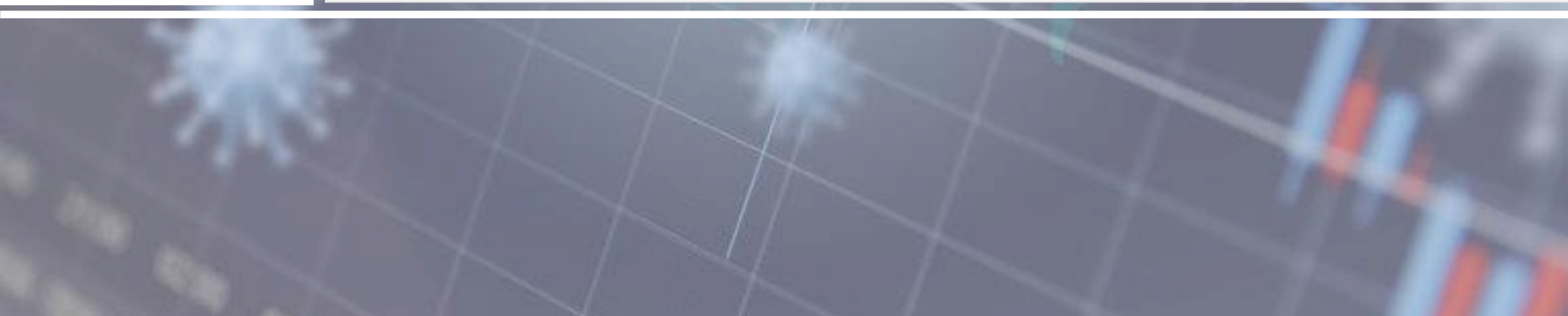
TIMELINE OF COVID-19 EVENTS





MAITRI
INVESTMENT | ADVISORY | AFRICA

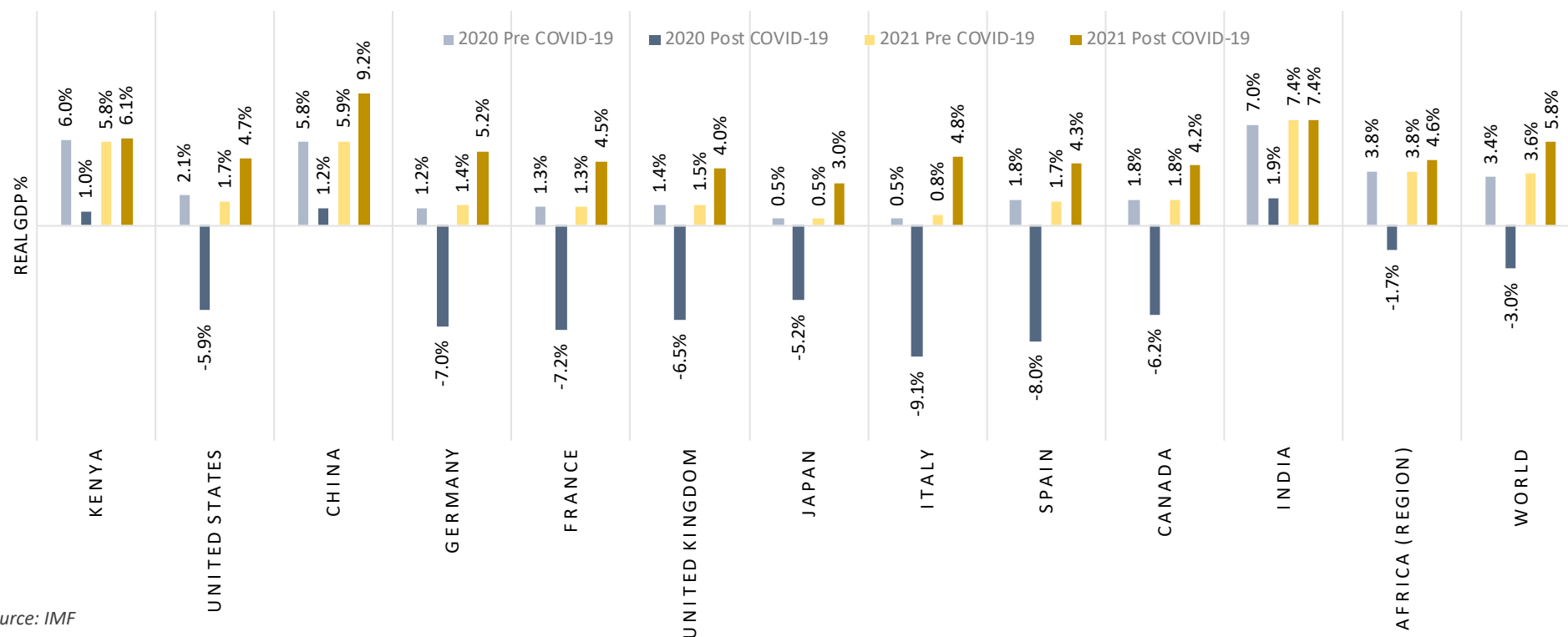
MACRO ECONOMY



REAL GDP FORECAST PRE AND POST COVID-19



Pre COVID-19, Kenya and the World was on a positive GDP growth path for 2020. Post COVID-19, most countries in the world have **negative** GDP growth forecasts for 2020. **Kenya, along with China and India, are some of the few countries that beat this trend, with a positive GDP growth forecast for 2020.** Kenya's 2020 GDP forecast has been lowered to a range of 1% (IMF) – 2.8% (National Treasury), its slowest pace in the last 12 years, since the 2007 General Elections

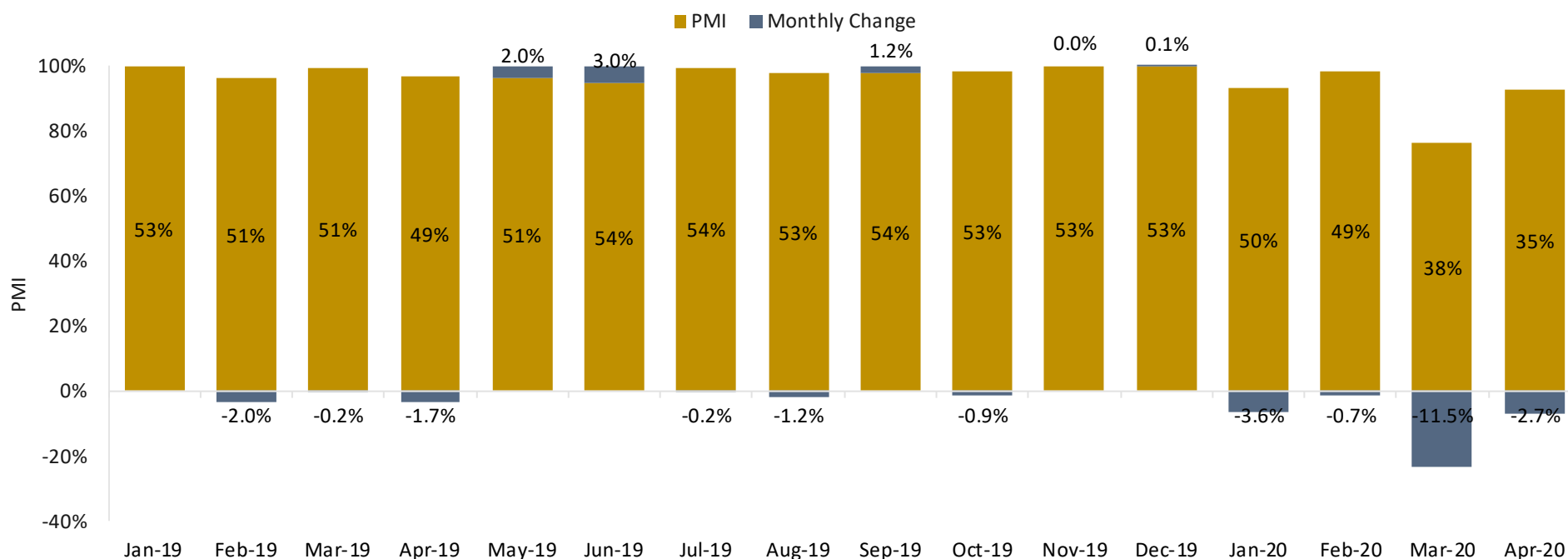


Source: IMF

KENYA'S PURCHASING MANAGERS INDEX



Stanbic Bank Kenya PMI was steady at an average of 53% in 2019 indicating an expansion during the period. 2020 saw a fall in all 4 months, and sharp decline to 34.8% in April 2020. This is the largest contraction in private sector activity since October 2017, attributed to COVID-19, as firms were hindered by falling demand, fewer employees and reduced wages, input shortages and lock-down restrictions



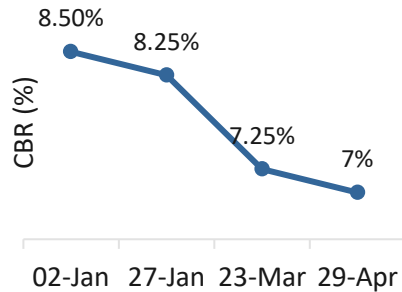
Source: Stanbic Bank Kenya PMI

CBR, CASH RESERVE RATIO AND MONEY SUPPLY



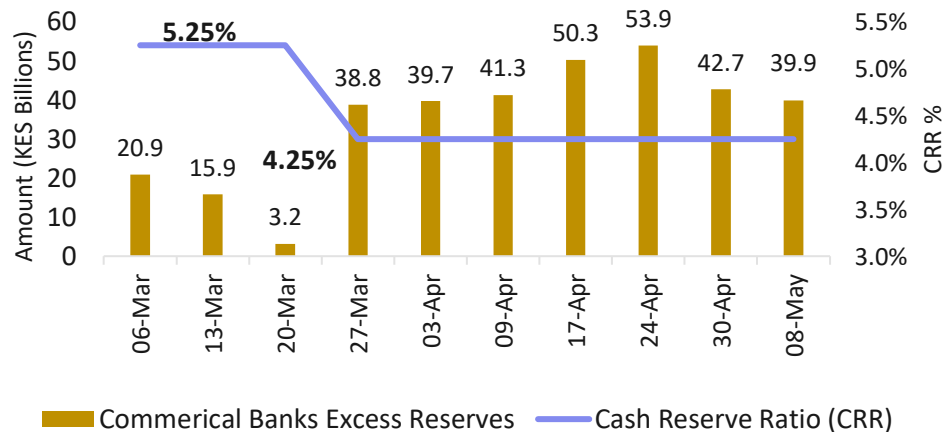
The MPC has lowered the Central Bank Rate (CBR) to 7.0% from 8.50% since January 2020. It has reduced the Cash Reserve Ratio (CRR) to 4.25% to spur increased bank lending and provide additional liquidity to the market

CENTRAL BANK RATE



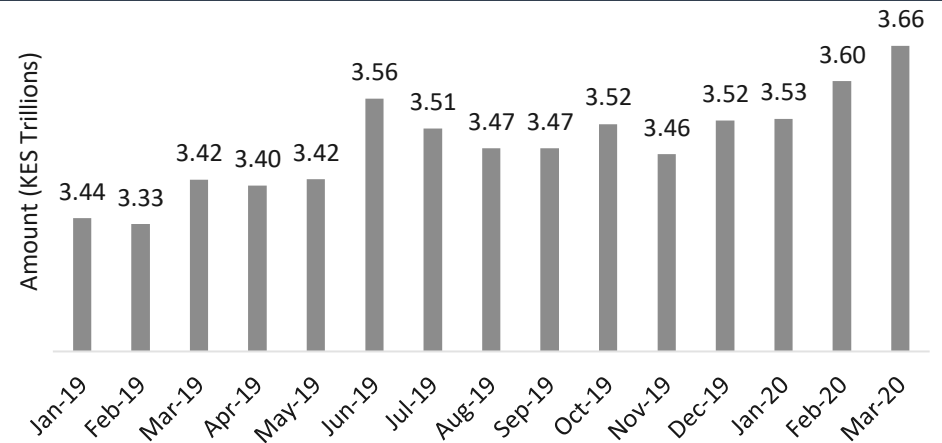
- Despite the Central Bank measures, bank lending remaining tight in April as they adjusted to additional business risks due to COVID-19, and led to an all time high of KES 54bn in banks' cash reserves on 24th April 2020
- Strong push by the Central Bank for banks to lend has seen an increase in bank lending in the last 3 weeks
- Money supply (M3) has been steadily increasing since December 2019 as the Govt. made payments to public sector suppliers, coupled with increased bank lending

COMMERCIAL BANKS EXCESS CASH RESERVES



Source: CBK

M3 SUPPLY



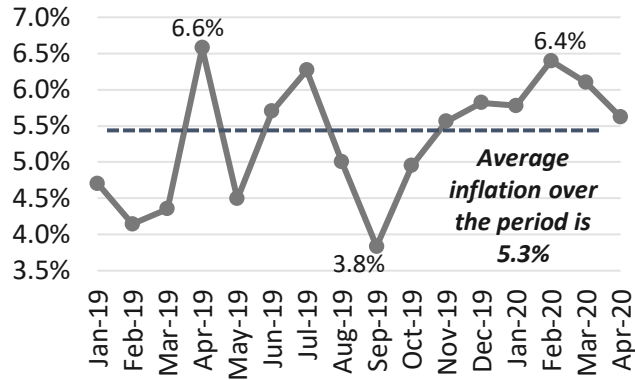
Source: World Economic Forum, IEA, IMF, OPEC

INFLATION

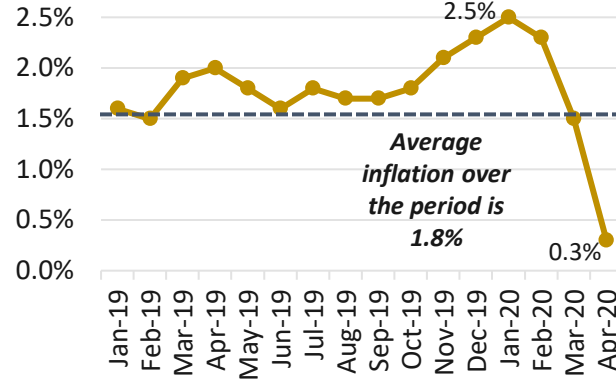


At present inflationary pressure in Kenya remains stable with low oil prices and low demand offsetting price pressures from import distortions. This is expected to remain so in the short term. Major world economies have seen a sharp decline in inflation since the beginning of the year as a result of the collapse of the oil price. Deflationary pressure remains strong with expectations of a recession and fears of lingering deflationary pressures

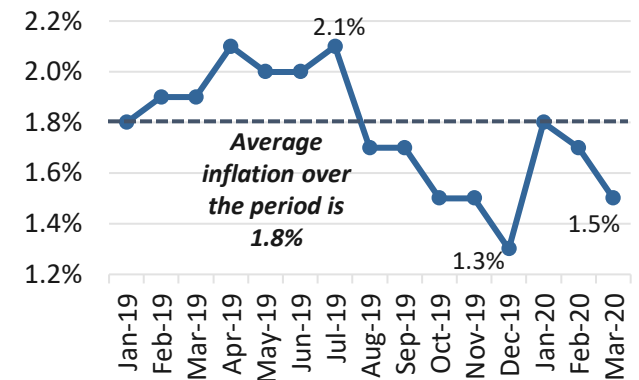
KENYA INFLATION



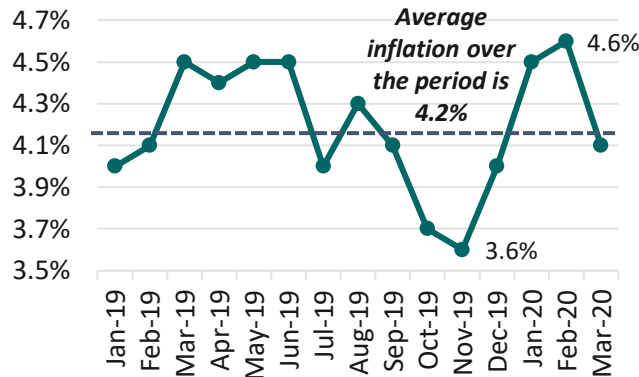
US INFLATION



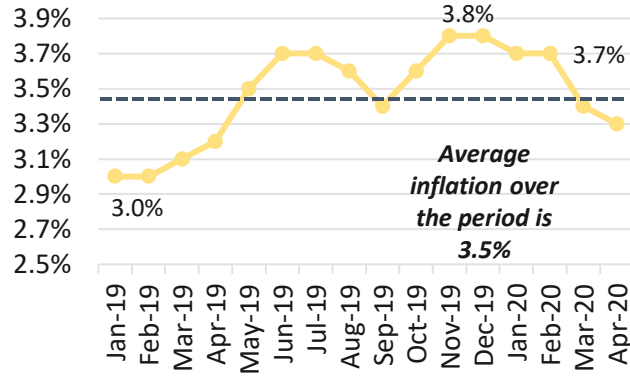
UK INFLATION



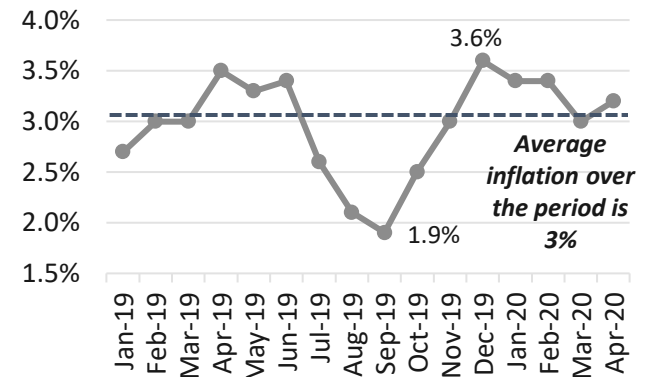
SOUTH AFRICA INFLATION



TANZANIA INFLATION



UGANDA INFLATION

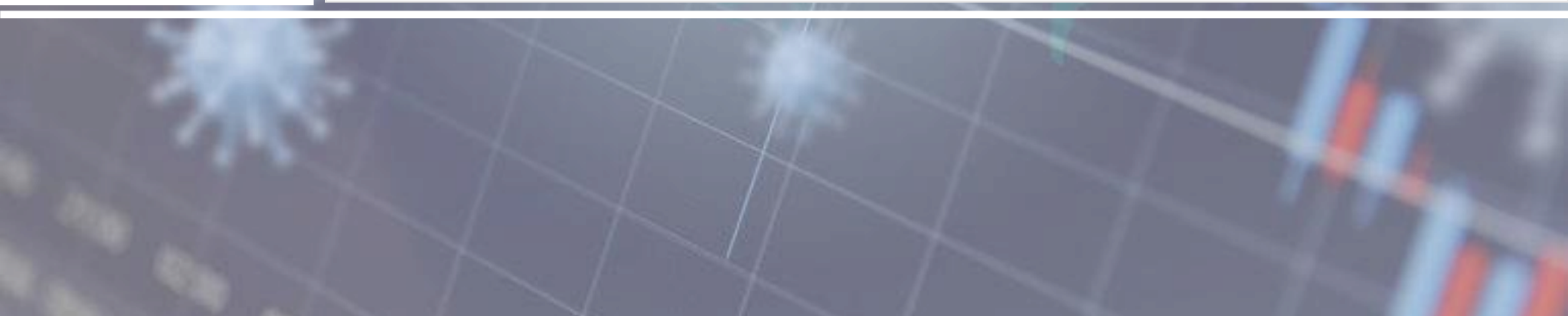


Source: Trading Economics, KNBS, IMF



MAITRI
INVESTMENT | ADVISORY | AFRICA

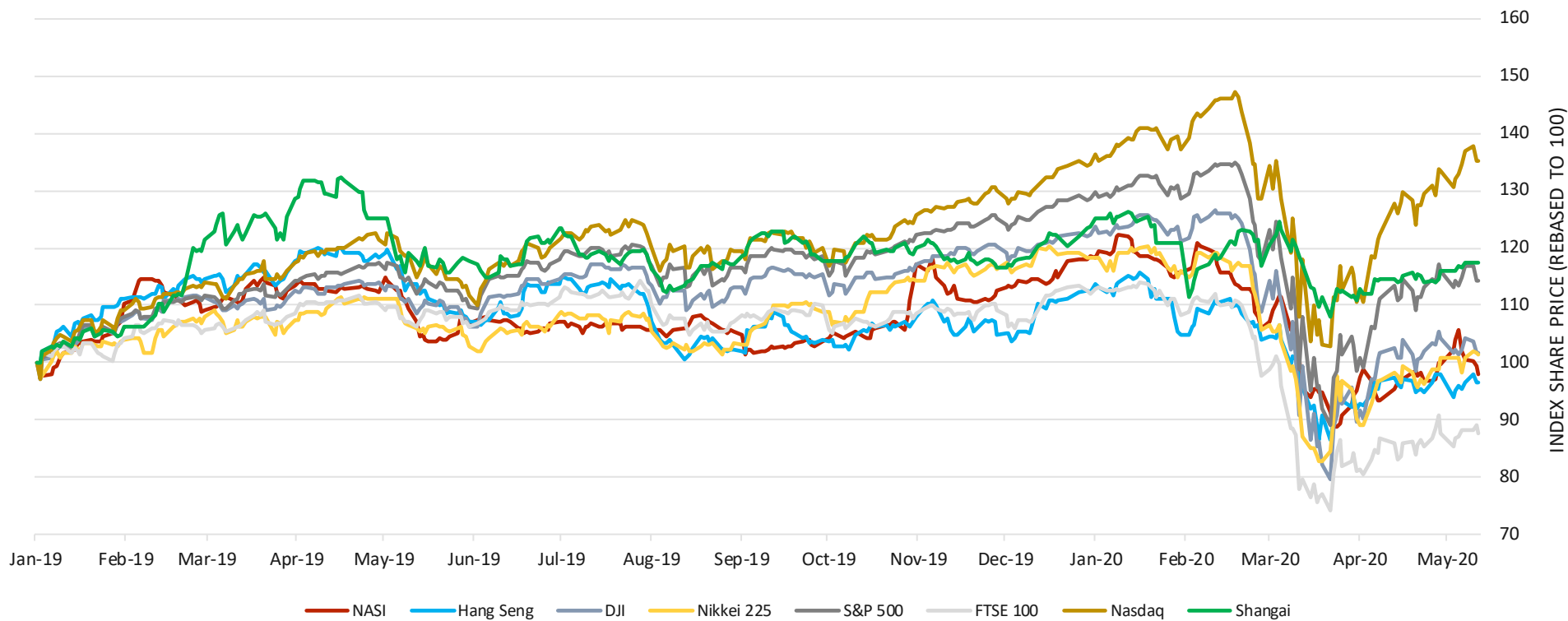
STOCK MARKETS



NAIROBI ALL SHARE INDEX VS. GLOBAL KEY INDICES



*The Nairobi All Share Index (NASI) has followed the trends in the major global stock markets pre COVID-19, **peaking on 10th Jan 2020 at KES 171.36, 22% above its levels in January 2019.** It fell sharply to its lowest point in 2 years on 25th March (KES 124.3), **12% below January 2019 levels.** It has since then made a recovery rising to KES 148.22 on 6th May (6% above January 2019 levels), but pared back some gains in the last week on the back of concerns of a second COVID-19 wave, to be on par with January 2019 levels. FTSE 100 and Hang Seng are the two major indices that have not yet recovered to January 2019 levels*

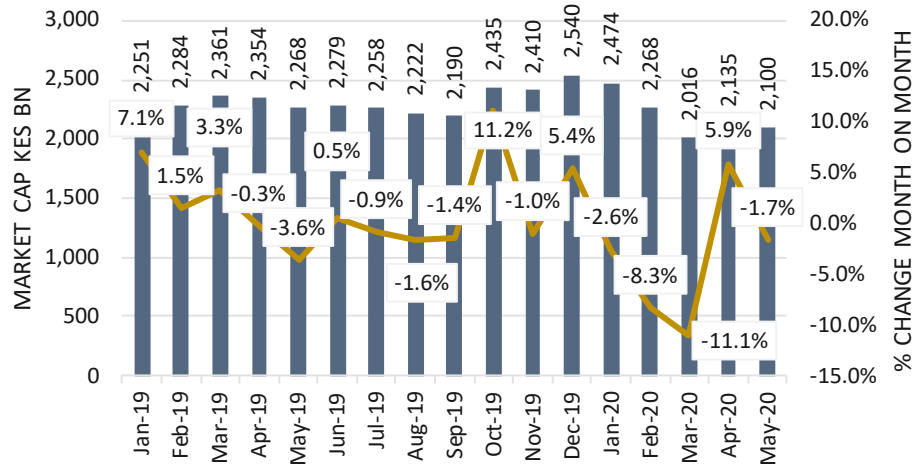


Data as at 13th May 2020

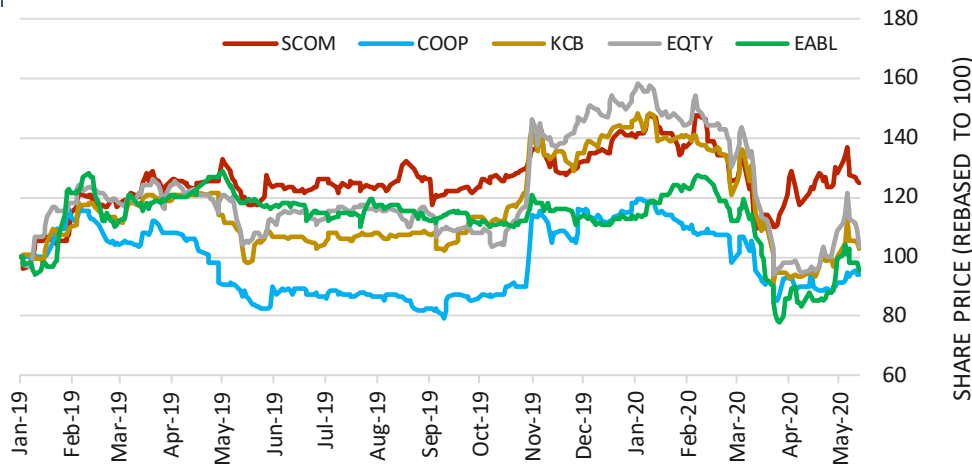
MARKET CAPITALISATION AND CONCENTRATION



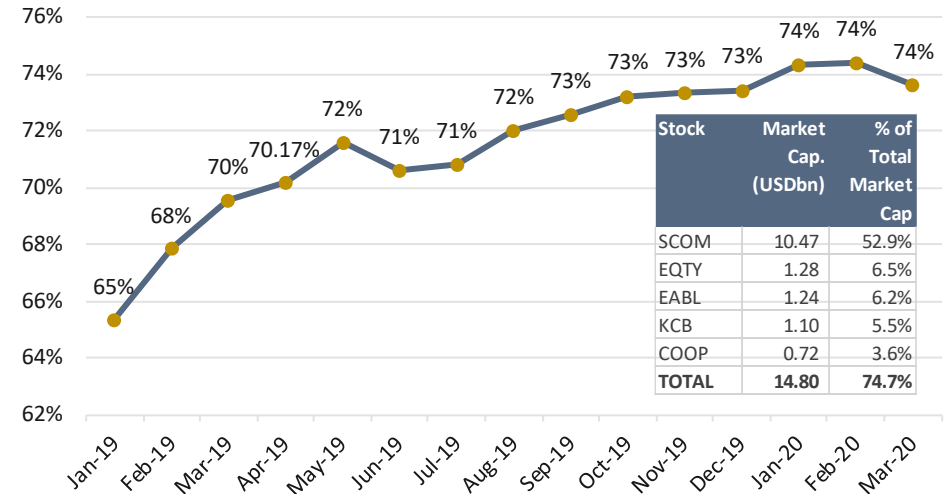
MARKET CAPITALISATION (KES BN)



MOVEMENT OF TOP 5 SHARES SINCE JAN 2019



MARKET CONCENTRATION BY TOP 5 SHARES



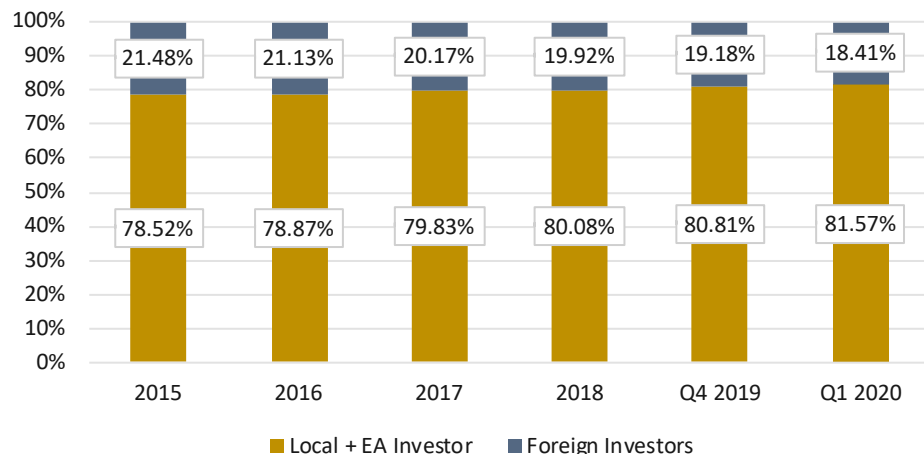
- Current market capitalization of NSE is KES 2.1T (USD 20bn). The market fell in first 9 months of 2019 until Oct 19 when it rose 11%, and had a further 5% rise in Dec 19
- Q1-20 showed a sharp decline every month, with the biggest fall of 11% in March 2020 after Kenya declared its first COVID-19 case
- Safaricom makes up just over half of the total market, and the top 5 shares account for over ¾ of the entire market. Market concentration risk has been increasing since 2019

Source: Capital Markets Authority, Kenya; Data as at 13th May 2020

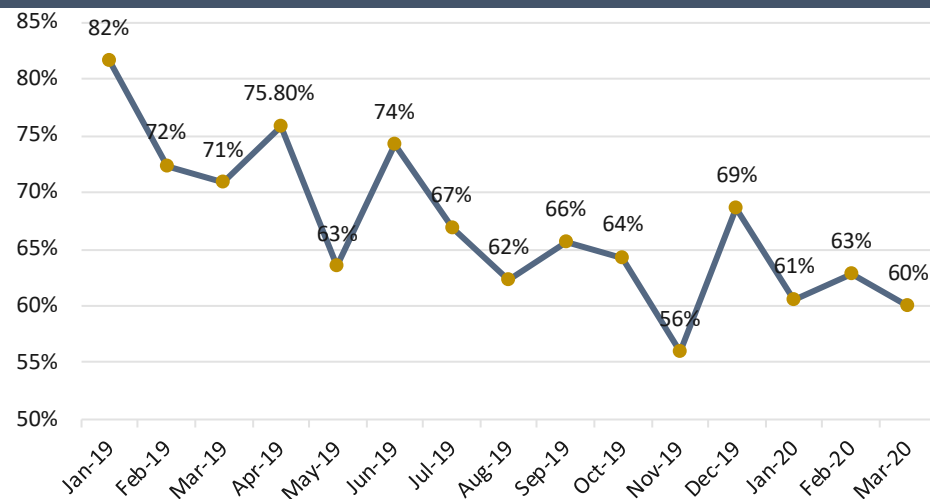
FOREIGN INVESTORS PRE AND POST COVID-19



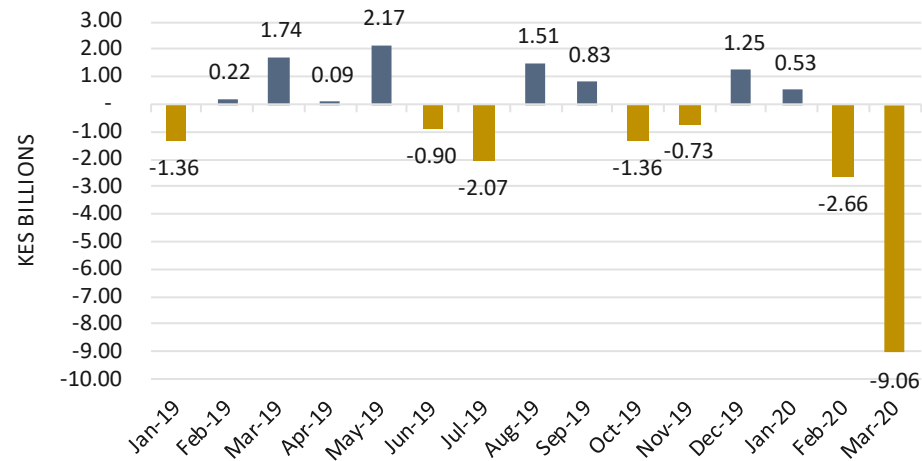
NAIROBI STOCK MARKET OWNERSHIP



FOREIGN INVESTOR TURNOVER AS % OF TOTAL TURNOVER



NET FOREIGN PORTFOLIO FLOWS



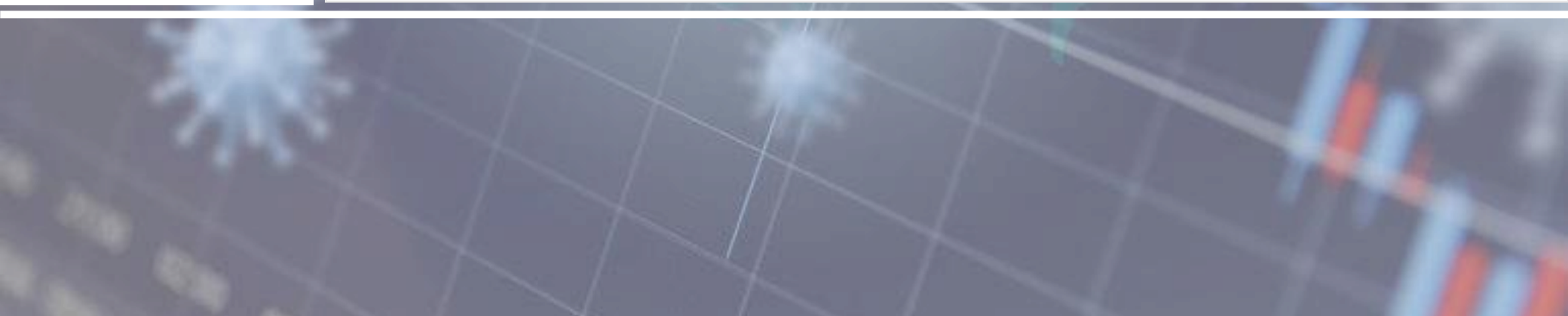
- Foreign ownership of the Nairobi Stock Market has been decreasing gradually since 2015 to stand at 18.4%, being replaced by local Kenyan and East African investors.
- February and March 2020 saw a massive outflow of foreign investor capital totaling KES 11.7bn (USD 110m) due to COVID-19
- Foreign investors trading on NASI has also been steadily declining to reach 60% of monthly turnover by March 2020, from highs of 82% in Jan 2019

Source: Capital Markets Authority, Kenya; Data as at 31st March 2020



MAITRI
INVESTMENT | ADVISORY | AFRICA

BOND MARKETS

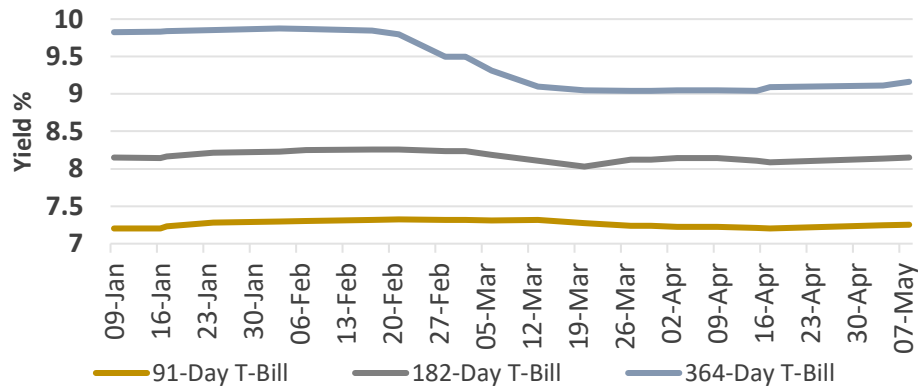


KENYAN TREASURY BILLS AND BONDS

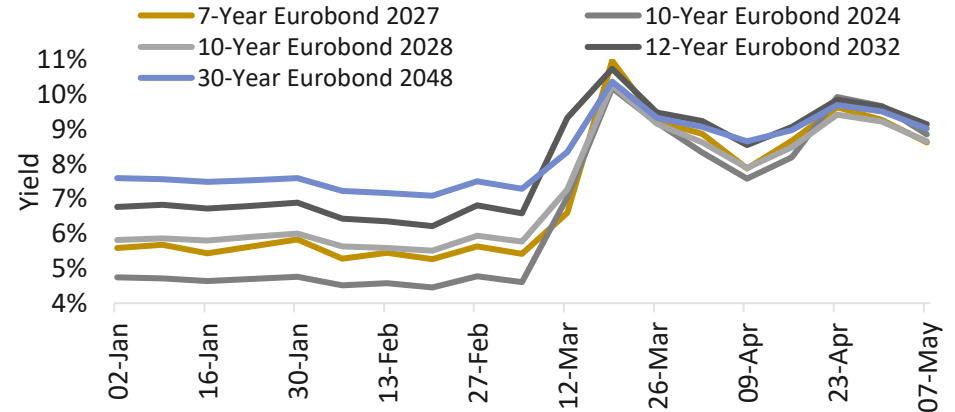


Kenya's fiscal deficit had expanded to 7.7% GDP in the 2018/2019 financial year from 7.4 per cent in 2017/2018 while public debt had increased to 61% in December 2019. In the current financial year, the Government's target was to reduce the deficit by 1.4% to 6.3% of GDP. World Bank now expects this to be at 8% for 2020

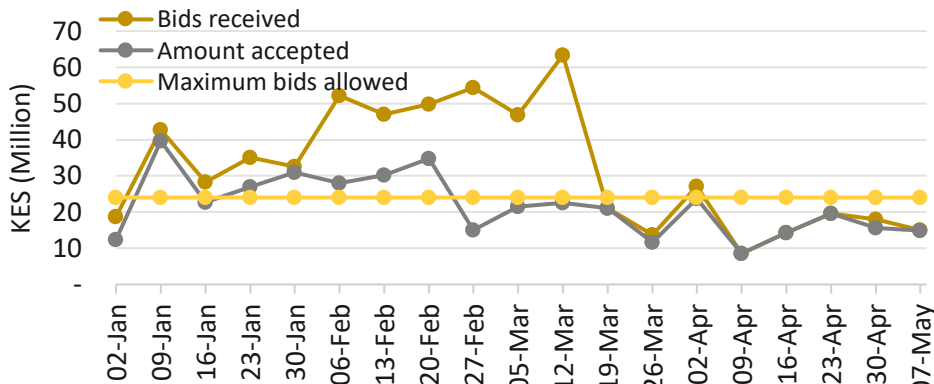
KENYAN T BILLS



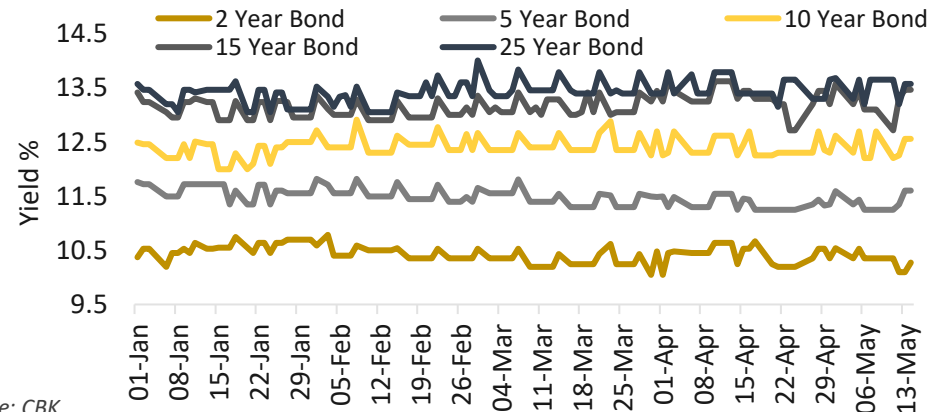
KENYAN EUROBONDS



KENYAN BILLS VOLUME TRADING



KENYAN BONDS



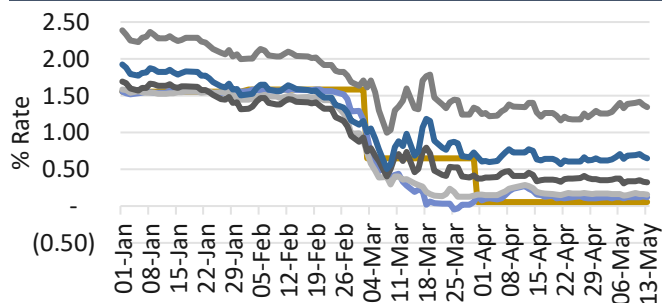
Source: CBK

GLOBAL TREASURY BILLS AND BONDS



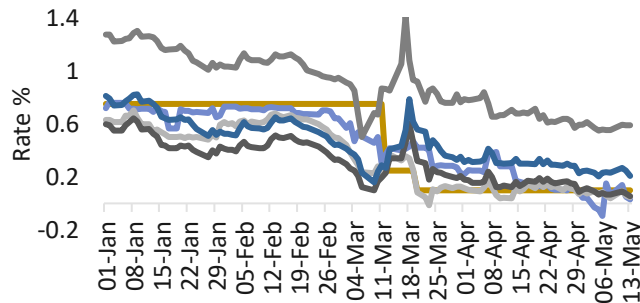
US FED intervention in March 2020 included: offering unlimited amount of cash for repo lending, purchase of US\$1.45 trillion in Treasury securities, US\$575 billion in agency mortgage-backed securities, relaxation of the leverage ratio rule, and allowing largest banks to exclude cash and Treasury securities from calculating their total assets

US TREASURIES



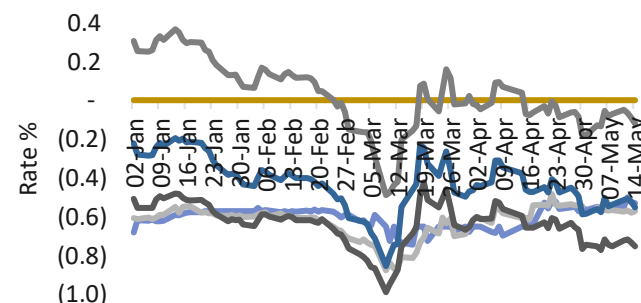
Fed Rate
 1 Year T-Bill
 10 Year Bond
 3 Month T-Bill
 5 Year Bond
 30 Year Bond

UK TREASURIES



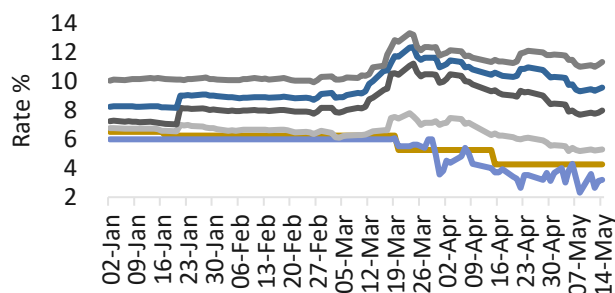
BoE Base Rate
 1 Year T-Bill
 10 Year Bond
 3 Month T-Bill
 5 Year Bond
 30 Year Bond

GERMAN TREASURIES



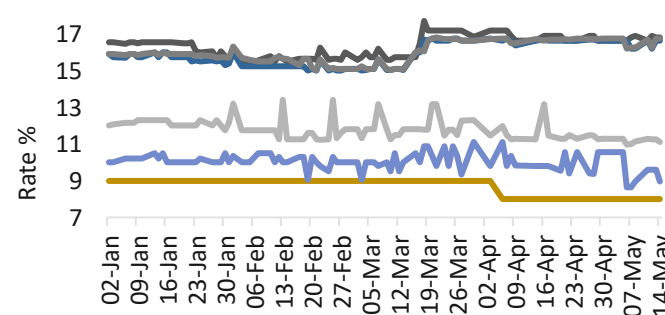
ECB MRO
 1 Year T-Bill
 10 Year Bond
 3 Month T-Bill
 5 Year Bond
 30 Year Bond

SA TREASURIES



Repo Rate
 2 Year T-Bill
 10 Year Bond
 3 Month T-Bill
 5 Year Bond
 30 Year Bond

UGANDA TREASURIES



CBR
 1 Year T-Bill
 10 Year Bond
 3 Month T-Bill
 5 Year Bond
 15 Year Bond

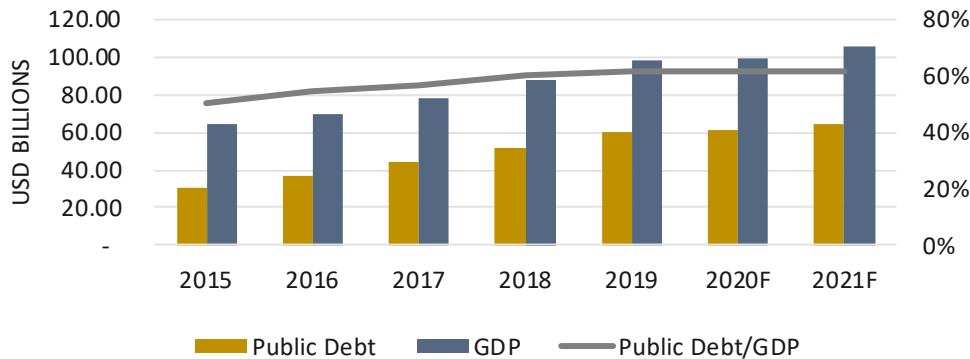
Source: Countries' Central Banks

PUBLIC DEBT TO GDP AND SOVEREIGN RATINGS

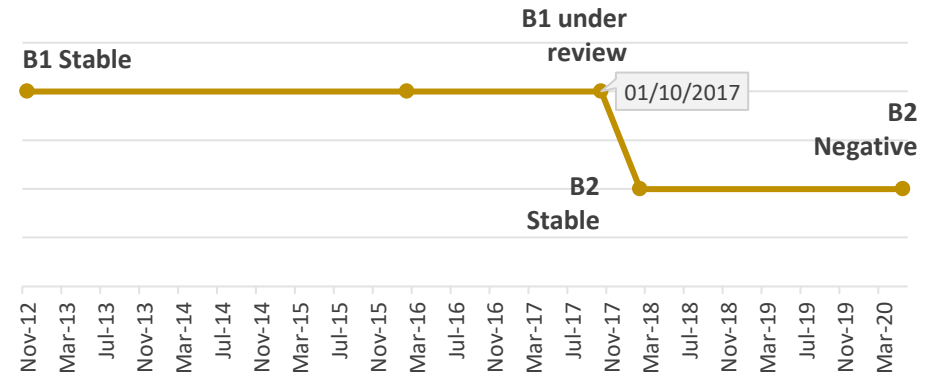


Kenya's public debt / GDP ratio has been increasing from 50% in 2015 to reach **61% at the end of 2019**. Moody's recently **downgraded Kenya's B2 rating from stable to negative** on the back of rising concerns of Kenya's ability to meet its debt obligations due to reduced earnings resulting from COVID-19.

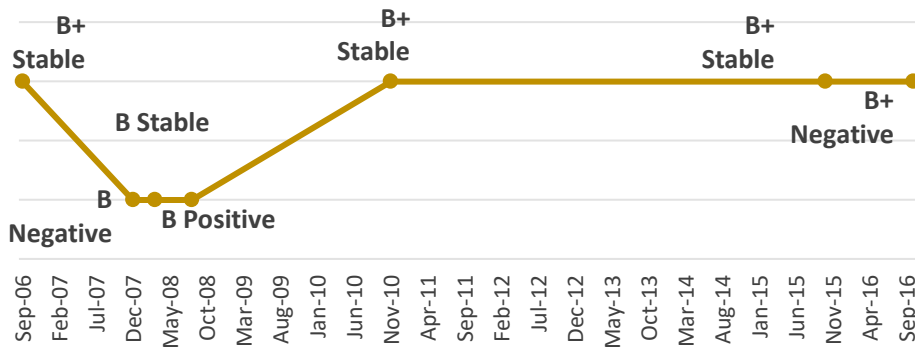
PUBLIC DEBT, AND DEBT TO GDP %



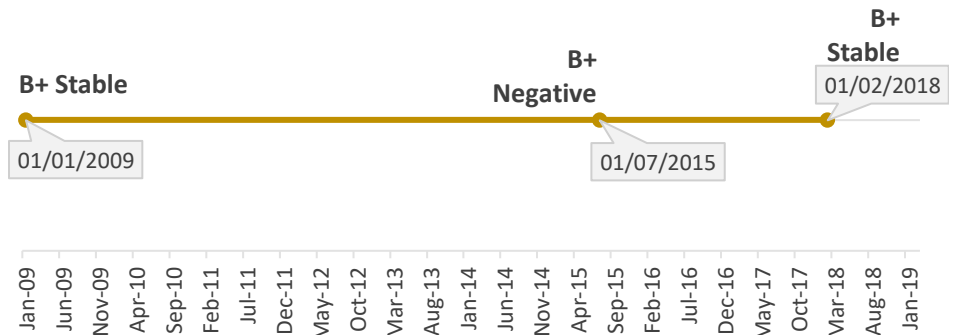
MOODY'S RATING



S&P RATING















FITCH RATING



Source: Trading Economics, KNBS, IMF

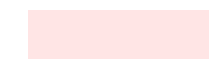
SOVEREIGN CREDIT RATINGS



COUNTRY/RATING		S&P	MODDY'S	FITCH	OUTLOOK
Kenya		B+	B2	B+	Negative
United States		AA+	Aaa	AAA	Stable
United Kingdom		AA	Aa2	AA-	Negative
South Korea		AA	Aa2	AA-	Stable
Italy		BBB	Baa3	BBB-	Negative
Japan		A+	A1	A	Stable
France		Aa	Aa2	AA	Stable
Germany		AAA	Aaa	AAA	Stable
Australia		AAA	Aaa	AAA	Negative
India		BBB-	Baa2	BBB-	Negative
China		A+	A1	A+	Stable
South Africa		BB-	Ba1	BB	Negative

Source: S&P, Moody's, Fitch

INVESTMENT GRADE RATINGS



Minimal Risk



Very Low Risk



Low Risk



Baa/BBB
Moderate Risk



Substantial Risk



High Risk



Caa/CCC
Very High Risk

Kenya's credit rating are in the High Risk category

Other emerging market economies to have moderate to substantial risk are India and South Africa

South Africa was recently downgraded to 'negative' outlook by Fitch and Moody's



MAITRI
INVESTMENT | ADVISORY | AFRICA

CURRENCY AND OIL MARKETS

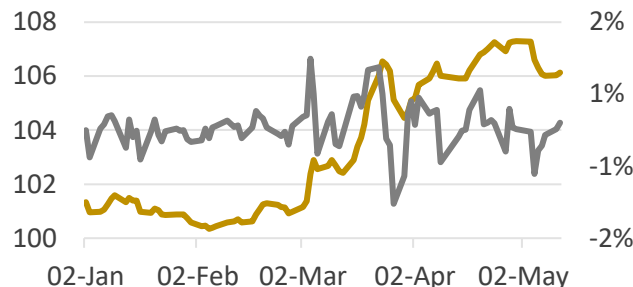


KES LOSES GROUND AGAINST ALL CURRENCIES



Foreign exchange reserves stood at USD 8 billion (4.4 months of 2021 import cover) as at 27 March 2020 (IMF). CBK remains committed to using the exchange rate as a shock absorber with limited intervention to smoothen volatility. The KES exchange rate will continue to be under pressure with the increase in debt to GDP ratio, affecting import costs and therefore inflation

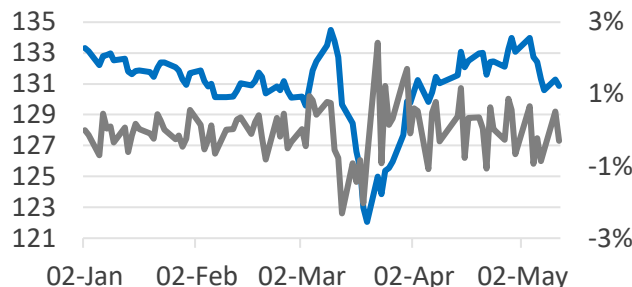
KES / 1 USD



Exchange Rate Daily % Change (RHS)

YTD Depreciation against the USD is 4.73%

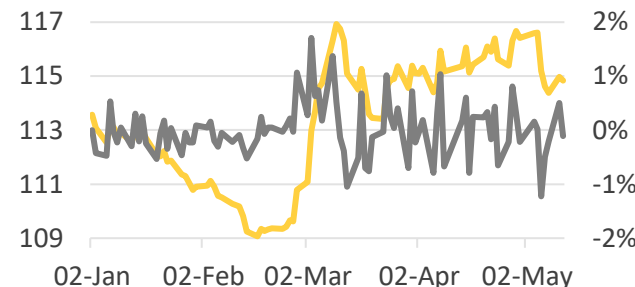
KES / 1 GBP



Exchange Rate Daily % Change (RHS)

YTD Appreciation against the GBP is 1.83%

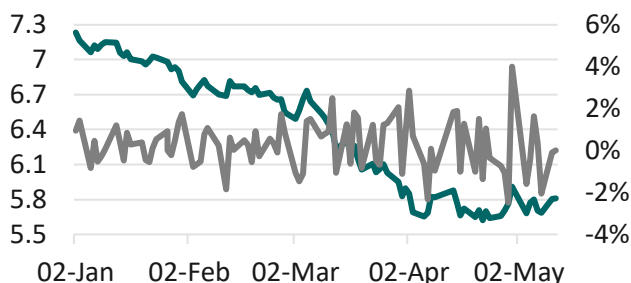
KES / 1 EUR



Exchange Rate Daily % Change (RHS)

YTD Depreciation against the EUR is 1.12%

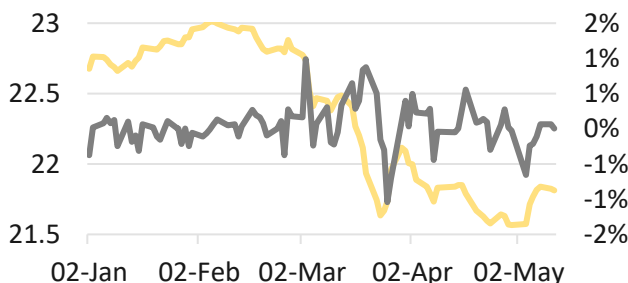
KES / 1 SA RAND



Exchange Rate Daily % Change (RHS)

YTD Appreciation against the SA RAND is 19.66%

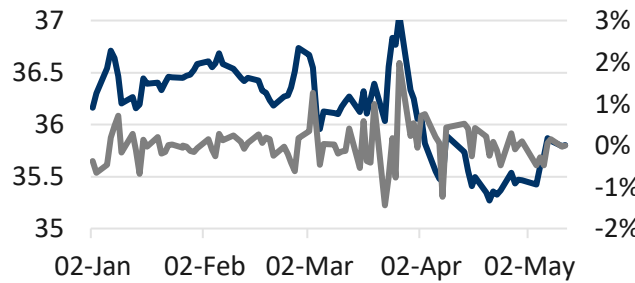
TSHS / 1 KES



Exchange Rate Daily % Change (RHS)

YTD Appreciation against the TSHS is 3.81%

UGX / 1 KES



Exchange Rate Daily % Change (RHS)

YTD Appreciation against the UGX is 1.01%

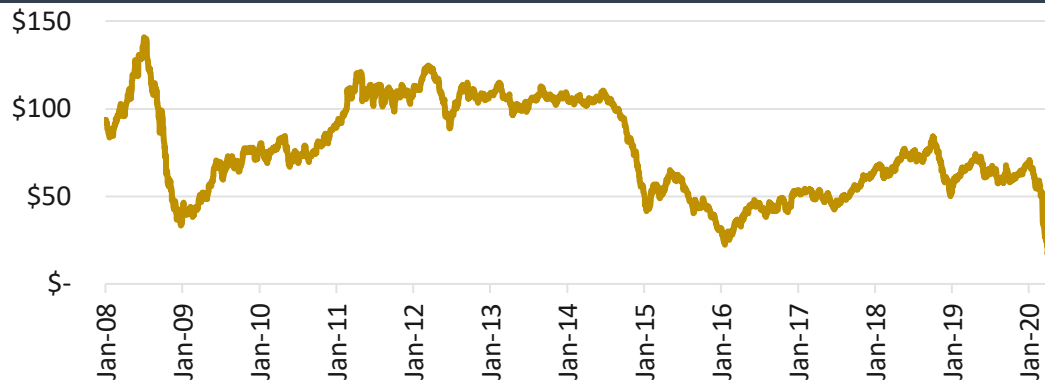
Source: CBK Mean Rate

OIL PRICES HAVE REACHED AN 18 YEAR LOW



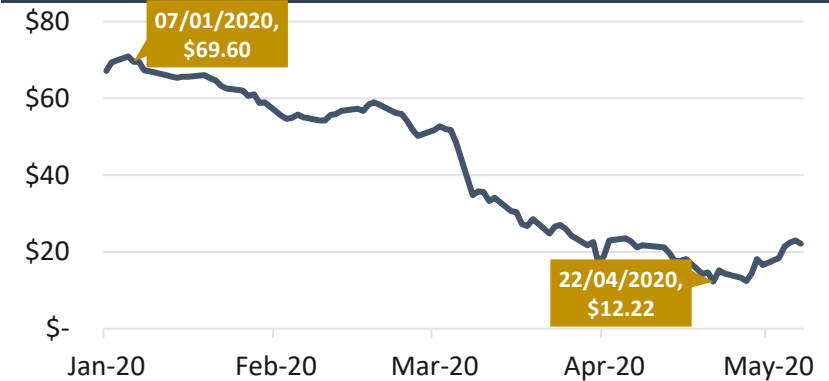
Sharp decrease in global oil prices experienced between 7th January 2020 and 22nd April 2020, when oil closed at its lowest price at \$12.22/bbl, falling by \$57.38/bbl in less than four months. Kenya's oil imports as percentage of GDP was estimated at 3.2% of GDP (Feb 2020 – pre-COVID-19), which is now expected to fall to 1.8% of GDP (as of April 2020), largely due to the reduced energy prices (IMF)

OPEC (ORB) CRUDE OIL PRICES / BBL – 12 YR ANALYSIS



Source: World Economic Forum, IEA, IMF, OPEC

OPEC (ORB) CRUDE OIL PRICES / BBL – 2020



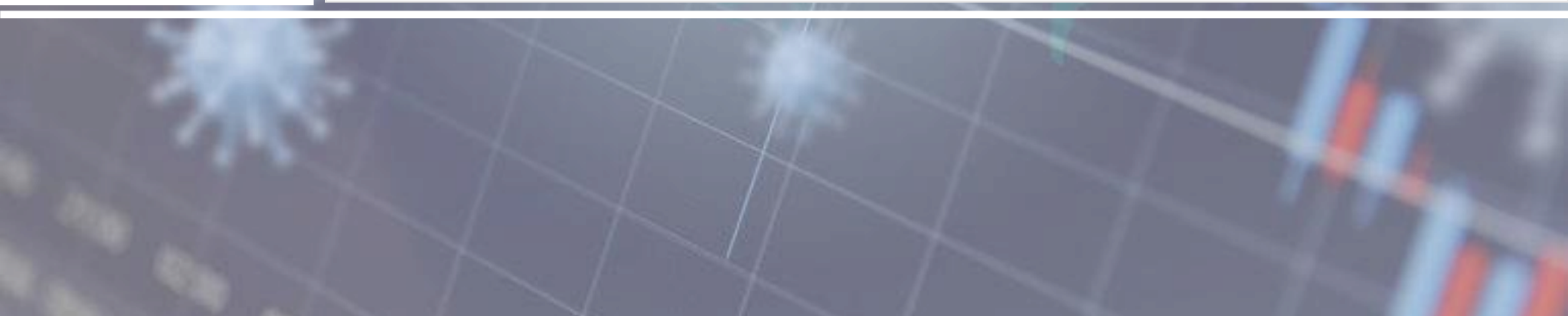
Source: World Economic Forum, IEA, IMF, OPEC

- Oil markets are experiencing a physical stress arising from **extraordinary low demand and limited storage capacity**
- **The International Energy Agency (IEA) forecasts that the drop in global demand in May will be as much as 21.5 million barrels/day. The world has returned to oil demand levels last seen in the 1990s.** According to IEA, even assuming that travel restrictions are eased in the second half of the year, we expect that global oil demand in 2020 will fall by 8.6 million barrels a day (mb/d) versus 2019, erasing almost a decade of growth
- Oil producers in the OPEC+ group agreed to cut output by an initial 9.7 mb/d versus their agreed baseline, effective 1 May. This will provide some immediate relief from the supply surplus in the second half of 2020, lowering the peak of the build-up of stocks as demand outstrips supply



MAITRI
INVESTMENT | ADVISORY | AFRICA

CONCLUSION



- The 1st case of COVID-19 was declared in Kenya on 12th March 2020, one day after WHO declared it a pandemic
- Kenya's real GDP growth projections for 2020 have been revised downwards from 6% to a range of 1% - 3%. This is still a positive growth, compared to a large number of countries in Africa, and globally, that have negative growth projections
- Kenya's real GDP growth is expected to bounce back to 6% levels in 2021
- Stanbic Bank Kenya PMI, which gives an overview of economic activity saw a sharp decline to 34.8% in April. This is the largest contraction in private sector activity since October 2017 (double-election in Kenya)
- To stimulate the economy, encourage more lending and cushion borrowers, on 23rd March, CBK lowered its lending rate to 7% and lowered the banks' cash reserve rate to 4.25%. Despite this, bank lending remaining tight in April as banks adjusted to additional business risks due to COVID-19. This led to an all time high of KES 54bn (USD 0.5bn) in banks' cash reserves on 24th April. Lending has since increased following much needed pressure from National Treasury to lend
- The Nairobi All Share Index (NASI) saw large two day consecutive falls of more than 5% on 12th March and 13th March, following the first COVID-19 case being declared. NSE had to halt trading to allow markets to absorb the news. It's lowest point was on 25th March, and has subsequently regained strength to 2019 levels
- February and March 2020 saw a massive outflow of foreign investor capital totaling KES 11.7bn (USD 110m) from NASI. However, foreign investor trading on NASI has also been steadily declining to reach 60% of monthly turnover by March 2020, from highs of 82% in Jan 2019
- Kenya's public debt / GDP ratio has been increasing from 50% in 2015 to reach 61% at the end of 2019. Moody's recently downgraded Kenya's B2 rating from stable to negative on the back of rising concerns of Kenya's ability to meet its debt obligations due to reduced earnings resulting from COVID-19
- In the current financial year, the Government's target was to reduce the fiscal deficit by 1.4% to 6.3% of GDP (from highs of 7.7% in 2018/19. World Bank now expects this to be at 8% of GDP for 2020

FINDINGS (CONT.)



- 91 day and 182 day Treasury Bills did not seem to be affected by COVID-19, however the 365 days Treasury Bill saw a decline in yields post 20th February, after the 1st African case was declared in Egypt. Trading volume also spiked on 12th March, when Kenya's first case was declared
- Yields on Kenyan Eurobonds rose sharply around 12th March by 4% - 5% and converged to a high between 10 – 11% on 19th March. Yields have subsequently fallen to 8 – 9% in May, however the spread between the different tenors is tighter than pre COVID-19 levels
- Foreign exchange reserves stood at USD 8 billion (4.4 months of import cover) as at 27 March (IMF). The exchange rate will continue to be under pressure with the increase in debt to GDP ratio, affecting import costs and therefore inflation
- KES has depreciated by 4.7% against the USD, and 1.1% against the EUR. It has slightly appreciated against the GBP. Volatility in the currency markets spiked in early March, and continue to have higher volatility then pre COVID-19
- KES has appreciated sharply against the South African Rand, the Ugandan Shilling and Tanzanian shilling post March 2020 This is showing Kenya's resilience as an economy despite COVID-19
- Oil prices closed at its lowest point in 18 years on 22nd April at \$12.22/bbl on the back of a sharp fall in demand and rising oil inventories. Kenya is set to benefit from the low oil prices. Kenya's oil imports as percentage of GDP was estimated at 3.2% of GDP (Feb 2020, pre COVID-19), which is now expected to fall to 1.8% of GDP (as of April 2020). This will also help keep inflationary pressures low

RECOMMENDATIONS TO MAINTAIN STABLE FINACIAL MARKETS



1. Increase **issuances of corporate bonds on the NSE with clear rating scales provided, enhanced corporate governance and transparency structures**. Companies that have good rating and strong fundamentals should be able to raise funds easily from the capital markets at cheaper rates than banks
2. NSE to **encourage more listing of private firms on the equity market** via tax incentives, reduced listing fees, more education on the benefits of listing, working with accredited advisors; whilst also improve trading transparency and reducing insider trading through punitive penalties and disbarments
3. NSE to encourage **institutional share buybacks** by listed equity firms to maintain liquidity in the market
4. Encourage **use of local institutional capital from pension funds and insurance companies** to play a larger role in providing debt and equity capital to large and medium sized businesses - a role that is currently being played by private equity, venture capital firms and DFIs
5. Central Bank to set up a **defined and targeted bond and bills repurchase program** to increase liquidity in the market
6. Central Bank to **increase FX reserves** to maintain the KES strength (especially against the USD), and prevent sharp depreciation and also maintain inflationary pressures
7. The **Public Debt Service Commission to restructure its offshore debt and commercial bank debt** to relieve pressure on repayments and on the treasuries
8. The **formation of a COVID-19 Stimulus Fund**, capitalized by Treasury and development partners e.g. DFIs that can be provided at a low cost to commercial banks (under strict monitored conditions) or directly to businesses. This provides the ability to cap interest rates charged and reduce requirement for collateral, whilst maintaining liquidity for businesses
9. Usage of **digitization and mobile options, at no or low cost, to increase access of information on financial markets and products**, to the wider public in order to enable them to make informed decisions and have the **ability to trade online**
10. Work with **KRA, regulators and credit rating agencies** regularly updating of any change within the sector or credit standing

ABOUT US



Maitri Capital is an Independent Investment and Advisory firm focused on Africa. We provide:

- i. Corporate Finance and Transaction Advisory
 - *M&A, Capital Raising, Valuation, Due Diligence, Strategic Reviews and Investor Readiness*
- ii. Financial & Management Consultancy
 - *CFO Advisory (including part-time CFO), Business Plans, Feasibility Studies, Financial Models and Forecasts*
- iii. Research & Data Insights
 - *Market Research, Market Entry Strategy, Business Analytics and Insights*

We work with Companies, Investors, Entrepreneurs and Organisations operating in, or with an interest, in Africa.

CONTACTS



Neha Shah

Co-Founder, Managing Director

- MA Economics, University of Cambridge, ACA (ICAEW), MBA INSEAD
- 17+ years of experience in finance and investments
- KPMG, Dresdner Kleinwort, Lexicon Partners, Norfund, Actis



Poonam Vora

Co-Founder, Managing Director

- BSc. Actuarial Science, City University, CFA Level II
- 17+ year of experience in finance and investments
- Alexander Forbes (Zamara), Bradford & Bingley, Dyer & Blair, Stratlink

Nairobi Office:

**5th Floor, Mitsumi Business Park
Muthithi Road
P.O. Box 43975 - 00100
Nairobi, Kenya**