Genghis Capital

Roadmap to Price Discovery...

Eyes on the Horizon

Genghis Q4 2023 Outlook

Contents

List of Abbreviations and Acronyms.

Bn	Billion(s)
Bps	Basis points (1 bps is equal to 0.01%)
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CPI	Consumer Price Index
DPO	Development Policy Operation
EAC	East African Community
ECB	European Central Bank
EM	Emerging Markets
EMDE	Emerging Market and Developing Economies
FOMC	Federal Open Market Committee
FYxx	Fiscal Year
GDP	Gross Domestic Product
IDR	Issuer Default Rating
IMF	International Monetary Fund
KES	Kenya Shilling
KNBS	Kenya National Bureau of Statistics
m/m	Month-on-month
MDAs	Ministries, Departments, and Agencies
Mn	Million(s)
MPC	Monetary Policy Committee
MSCI	Morgan Stanley Capital International
NASI	Nairobi Securities Exchange All Share Index
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers Index
PPI	Producer Price Index
PSCG	Private Sector Credit Growth
q/q	Quarter-on-quarter
SSA	Sub-Saharan Africa
Tn	Trillion(s)
WB	World Bank
xHxxxx	First or second half of the xx year
xQxxxx	First, second, third, or fourth quarter of the xx year
y/y	Year-on-year
YCC	Yield Curve Control
YTM	Yield to Maturity

Global Markets Outlook

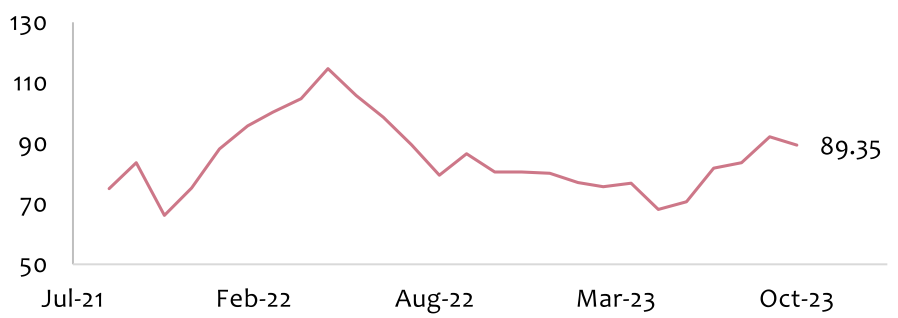
Turbulence on approach

Over the past few weeks, the hot topic on the economic scene was the soft-landing vs recession debate coming out of the September 2023 US Federal Open Market Committee (FOMC) meeting that saw the Fed Chairman Jerome Powell hinting at keeping interest rates higher-for-longer due to the stronger-than-expected economic growth exhibited by the US economy.

This case of US exceptionalism has seen labor market remain tight with unemployment remaining below 4% and overall Q2 earnings of US firms exceeding market expectations. The US Fed believes that the US economy will be able to forgo a recession despite the elevated interest rate environment – signaling the so called "soft landing". Similar actions have been witnessed by other central banks such as the ECB that also expects rates to remain higher-for-longer without plunging economies into recession.

Unfortunately, this rosy outlook for the remaining quarter has met an unforeseen setback with the onset of the Israeli – Palestinian conflict coupled with the OPEC+ oil supply cuts that resulted in a surge in global oil prices. We expect these shocks to keep global inflationary pressure elevated, affecting overall business and consumer spending – forcing economies into recession.

Chart 1.1: Brent Crude Oil Prices

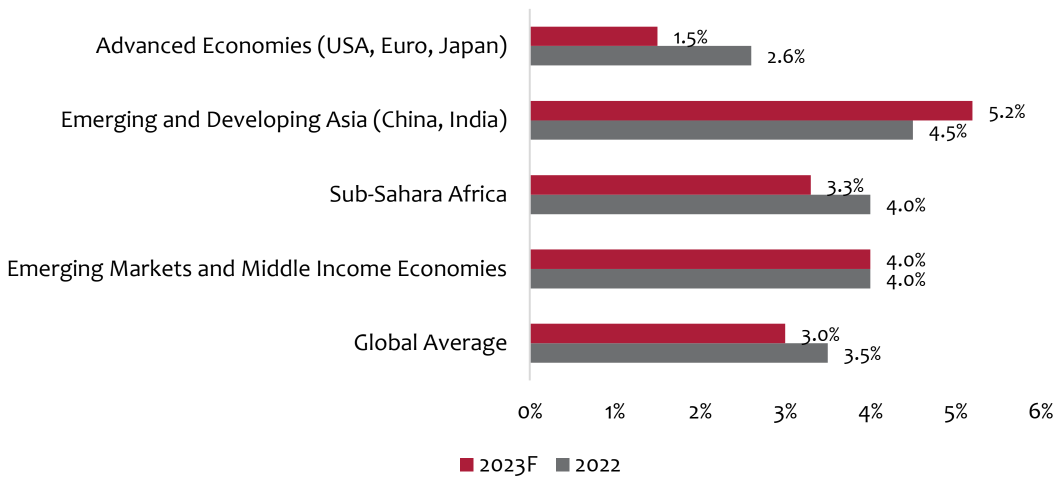


Source: investing.com

This increase in oil prices comes at a time where the US Dollar is at one of its highest points in history with the DXY index – which measures the relative strength of the dollar to a basket of major currencies – appreciating to $105.985 as of October 20th, 2023. With the dollar being at this level, developing economies especially the Sub-Saharan Africa region will likely experience a resurgence of inflationary pressure. We think this will affect their projected post-pandemic recovery and as well as reduce both business and consumer spending power.

Growth in the Euro area has also been lackluster with both the service and manufacturing sector activities witnessing a downturn as per latest business confidence indicators. This was exacerbated by the rapid monetary policy tightening and the after-effects of last year's energy price shock owing to the escalating geopolitical tensions – with ongoing conflicts presenting new hurdles to inflation-curbing efforts.

Chart 1.2: 2023 Regional GDP Projections



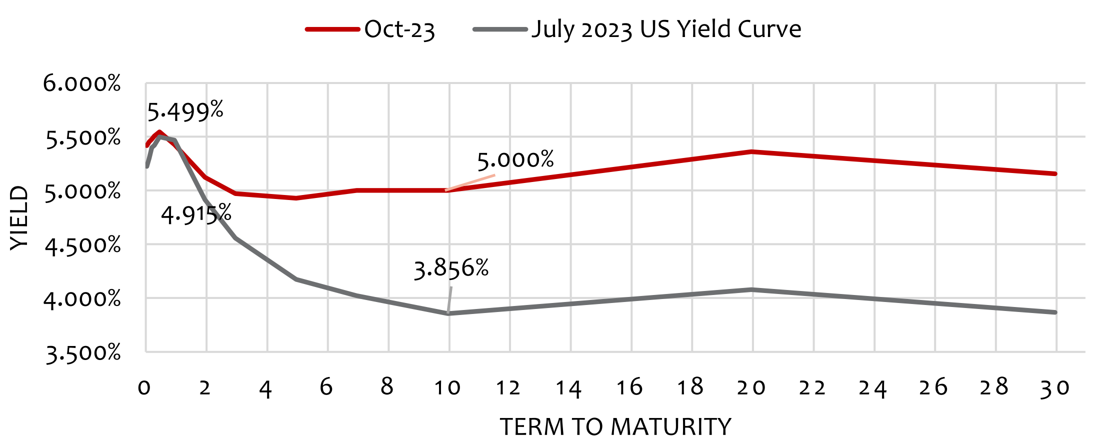
Source: October 2023 World Economic Outlook, Genghis Research

Trading Places: *Bonds stealing the spotlight from Equities*

Investments in bonds are expected to be very attractive in the coming quarter with higher yield to be expected in both the developed and developing markets' domestic bonds. In the US, Fed committee members reiterated their expectation for another 25bps hike for the remainder of the year and the rate cut expectation in 2024 being lowered from 100bps to 50bps. This change reinforces the Fed's hawkish outlook lifting long-term yields higher. Bond yields are also expected to benefit from the credit rating downgrade on US Treasuries by *Fitch* that saw the rating move from AAA to AA+.

The graph below shows the after-effects of these changes as long-term bond yields pierced through the 5% mark – a level last observed during the 2007 global financial crisis. Bonds in the Euro area are also expected to see a similar move as the ECB is also likely to keep rates higher-for-longer with inflation rates lingering above the desired 2% level.

Chart 1.3: US Yield Curve



Source: World Government Bonds, 2023

Emerging markets local currency bonds are becoming increasingly attractive as local central banks pace up yields in order to keep their bonds competitive in tandem with developed market yields. Unfortunately, due to the Fed's current hawkish stance the dollar is expected to remain at elevated levels for the remainder of the year, raising credit quality concerns for the bonds as both borrowing costs and refinancing conditions become increasingly difficult for developing countries.

In Asia both corporate and government bonds are expected to have a depressed outlook – with China which represents the bulk of the market hardly expected to roll-out any stimulus packages to bolster its economy. Japan is the only exception as the BOJ adopts a tighter policy that will see yields rise beyond 0.5% mark following one of the country's largest minimum wage hike. The rising rates will help bolster the banking sector revenues while the Japanese equities market is expected to be relatively unscathed by the rate hikes due to improved corporate governance as suggested from analysts' consensus.

Table 1.1: Global Equities Performance

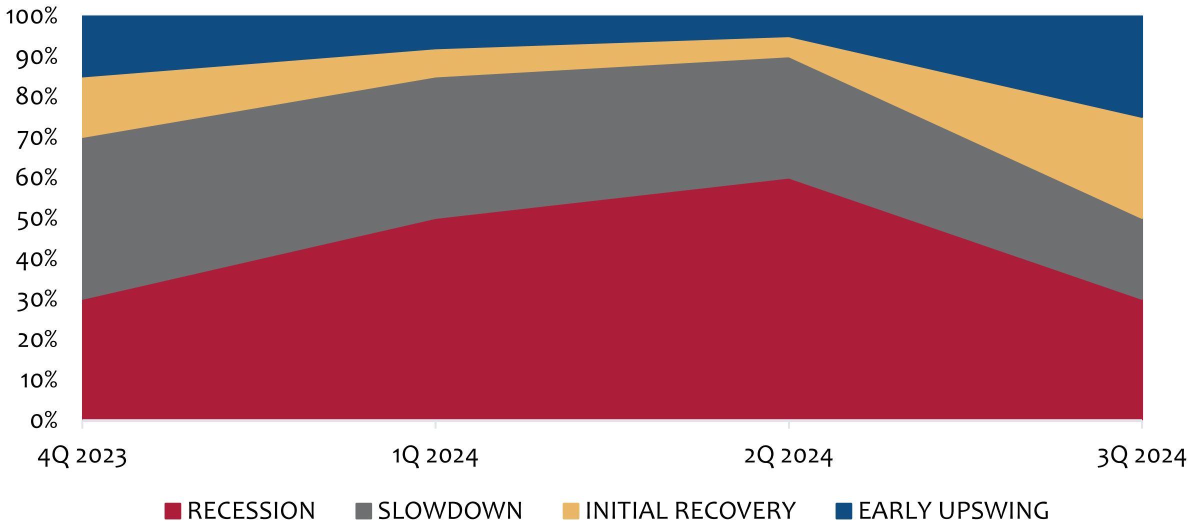
Indices	Close	%W/W	%YTD
S&P 500	4,217.04	▼ (0.2%)	▲ 9.3%
EU Stoxx50	4,050.45	▲ 0.6%	▲ 6.5%
FTSE 100	7,370.01	▼ (0.4%)	▼ (1.1%)
Nikkei 225	31,099.5	▼ (0.5%)	▲ 20.4%
JSE	70,198.01	▼ (3.7%)	▼ (4.0%)

Source: investing.com, 2023

The American equities market benefited from the surprise Q2 earnings that exceeded expectations and with summer coming to an end, earnings momentum is expected to remain upbeat. US equities are also expected to outperform those in the Euro area as US firms were able to weather the high interest rate environment. This is because majority of US firms frontloaded borrowing during the low interest period cushioning them from current elevated rates. However, the higher-for-longer narrative as well as soaring oil prices are expected to prove as headwinds to growth for the remainder of the year.

The sector to keep an eye on this quarter is the technology sector that is benefiting from an increase in AI applications and stable valuations in both the US and European markets. In the Chinese market, sectors such as the communication and entertainment sectors are expected to benefit from the government's incentives to increase local consumer spending. This has been a challenge owing to the hitherto high gross saving rate in China – which stands at 45.9% of GDP compared to 20% in developed economies. The real estate sector is expected to continue underperforming as rising rates increase mortgage costs, thus dampening overall housing demand. Emerging market equities will continue to underperform as the gains realized are erased by the ever-strengthening dollar.

Chart 1.4: Advanced Economic Phaser (Probabilities of Business Cycle Regimes)



EARLY UPSWING	INITIAL RECOVERY	SLOWDOWN	RECESSION
○ Low inflation rates. ○ Expansionary fiscal and monetary policies. ○ Robust output growth. ○ High consumer and business confidence. ○ Falling unemployment. ○ Stable bond yields. ○ Bullish stock markets.	○ Disinflation occurs. ○ Expansionary fiscal and monetary policies. ○ Rising output growth. ○ Rising confidence among businesses and consumers. ○ Narrowing output gap. ○ Bond yield decline. ○ Stock markets rally.	○ Persistent inflation. ○ Restrictive fiscal and monetary policies. ○ Slowing output growth. ○ Wavering business and consumer confidence. ○ Rising unemployment. ○ Rising bond yields. ○ Declining stock prices.	○ Inflation declines. ○ Cautious easing of restrictive policies. ○ Production declines. ○ Weak business and consumer confidence. ○ High unemployment. ○ Declining bond yields. ○ Bearish stock markets.

Source: Genghis Research Estimates.[1]

Dollar Dominance: *The unyielding grip of the greenback.*

The US Dollar's meteoric rise has been driven primarily through US exceptionalism as the US economy expanded faster than its peers. This has also been bolstered by the hawkish sentiments of the Fed to keep rates higher for longer. We however believe the dollar has overshot its fundamentals and as such, we expect a gradual decline in its fair value in the coming months. But this projection faces emerging challenges such as the Israel-Palestine war – which might lead investors to increase investments in safe heaven assets and further bolster dollar demand.

In the Euro area the ECB is also expected to keep rates higher for longer as inflation remains elevated and wage growth remains sticky. This will likely benefit the Euro's outlook. The Swiss National Bank's dovish outlook is expected to keep the USD/CHF range bound. In the case of the UK where persistent inflation of c. 6% coupled with higher energy prices might force the BOE to raise its policy rate leading the UK to have the highest benchmark rate in the G7. This might help the GBP outperform its peer currencies in the next quarter.

Table 1.2: Select Cross-Currency Performance

Currencies	Close	%W/W	%YTD
EURUSD	1.064	▲ 0.5%	▼ (0.5%)
GBPUSD	1.225	▲ 0.7%	▲ 1.2%
USDJPY	149.63	▼ (14.0%)	▲ 14.1%
USDZAR	19.05	▲ 0.3%	▲ 12.0%
XAUUSD	1981.04	▲ 2.6%	▲ 8.6%

Source: Investing.com

The JPY might also benefit from the BOJ taking a hawkish position but with the USD/JPY closing in on the 150-mark, intervention by the BOJ to prop up the currency is also on the table in the medium term. The CAD could benefit from the increase in oil prices coupled with the aggressive stance taken by the BOC against inflation. In Australia, the RBA has taken a less aggressive stance in regards to rate hikes. As such, the Australian economy is expected to demonstrate resilient growth unlike other developed economies and this will likely help its currency appreciate. Emerging market currencies will also appreciate in the medium term as US yields peak but any significant change in their value will likely occur around mid-2024. Our outlook on gold remains positive this quarter as the Israel- Palestine war has led investors to increase their positions in the precious metal with the XAU/USD pair gaining 2.55% in the week prior to publication.

China's Economic Jigsaw: *Piecing together the challenges*

In the increasingly volatile economic landscape currently plaguing financial markets China, the economic juggernaut, currently faces an array of formidable challenges. This year alone has seen the MSCI China index record a 54% drop from its peak in February 2021, majorly due to its property sector woos that has seen property development titan *Evergrande* having filed for bankruptcy and the largest home builder *Country Garden* appearing to be on the verge of default according to consensus estimates.

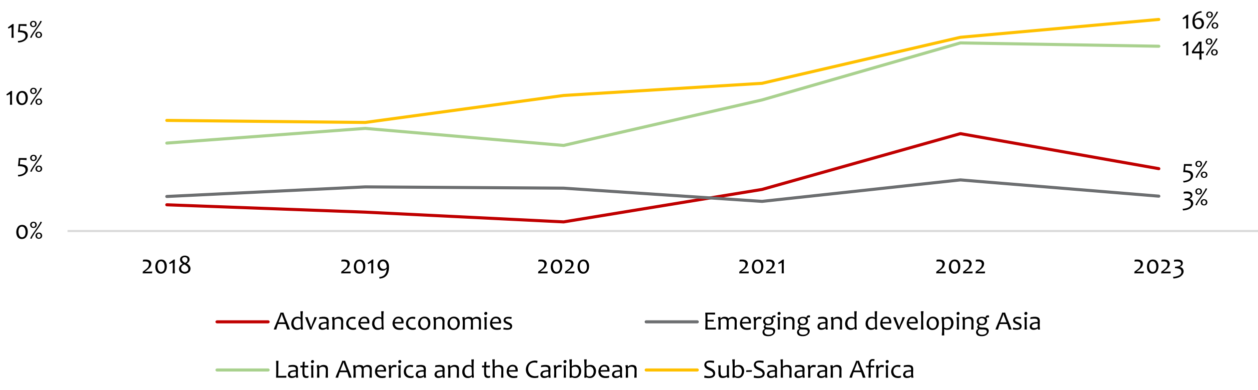
This situation is attributable to the saturation in the property sector and efforts by authorities to curb excessive lending that has seen property demand decline. This demand drop has seen house prices drop affecting wealth levels of Chinese families, leading them to increase their savings and thereby reducing overall consumer spending. However, the likelihood of a full-blown crisis is unlikely as many Chinese home owners are required to pay a significant portion of property values as down payment before purchase of a property, meaning the possibility of wide spread mortgage defaults is quite unlikely. The situation was also exacerbated by the lingering effects of the stringent Covid-19 restrictions that affected the service sector and the ongoing effects of the US-China trade tiff that has seen the decoupling of US firms to different regions.

Sub-Saharan Africa Outlook

Economies in Sub-Saharan Africa region begun to feel some reprieve as global supply chains begun recovering from their pandemic slump and inflation rates begun to cool thanks in part, to measures taken by various central banks in developed economies. However, the recent spike in oil prices and the hawkish stance taken by many central banks have piled pressure on SSA economies. Furthermore, emerging risks such as geoeconomic fragmentation makes the reprieve seem short-lived.

The continued strength of the dollar does provide a silver lining for returns earned on exports by countries within the region but these gains may be limited as demand for Africa's exports wanes on account of a protracted economic slowdown in developed economies. Rising costs of goods and services will weigh heavily on consumption demand in the region as the populace continues tightening belts to adjust to the ever-rising cost of living.

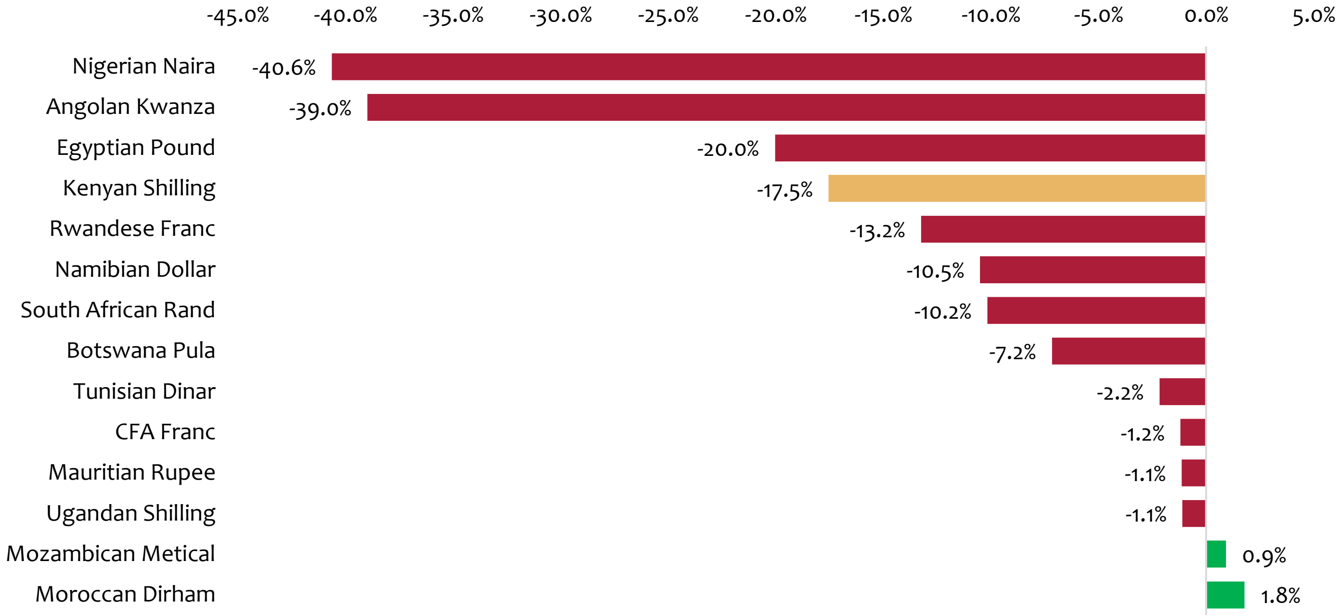
Chart 1.5: Regional Inflation Rates



Source: October 2023 World Economic Outlook, (IMF, 2023)[2]

The IMF projects Sub-Saharan Africa's real GDP growth slowing to 3.3% in 2023, down from 4.0% in 2022 – before a recovery to 4.0% in 2024. Decade-high yields, especially in developed markets, are expected to keep foreigns investors away from emerging and frontier markets' domestic bonds and equities – leading to lower trading volumes and participation rates in African exchanges and local bond auctions over the medium term. Risks of debt-distress in the region remain elevated as growing uncertainty fuels investor-demand for greater risk premiums, burdening SSA governments with higher debt repayments.

Chart 1.6: Select African Currencies Performance vs USD (YTD)



Source: Central Banks official data, Genghis Research

Kenya Macroeconomic Outlook

Gross Domestic Product:

Growth remained resilient over the second quarter of 2023, improving 80bps to 5.4%, up from 4.6% recorded in Q2 2022. The acceleration in growth comes largely on the back of a rebound in the agriculture sector, coupled with resilient growth in the industry and services sectors.

Favorable weather conditions over the first half of the year supported renewed harvests, replenishing food supplies. The industry sector – with the exception of the mining sector – posted a general decline, reflecting the waning business confidence and the impact of protracted inflationary pressures on discretionary consumer spending. The services sector however displayed resilient growth, supported predominantly by a recovery in financial services, real estate and health sectors.

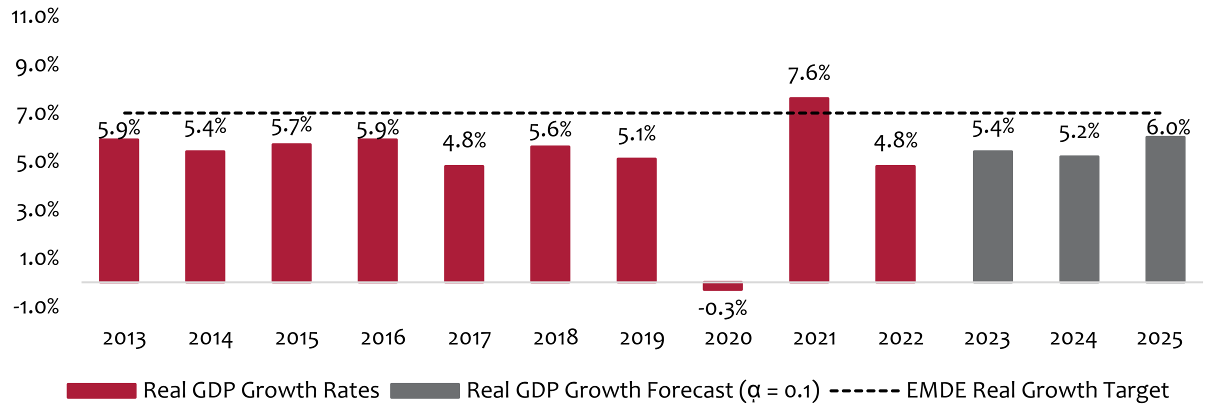
Table 2.1: Sectoral Growth Rates

SECTORAL GROWTH RATES	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	H2 2023 Forecast
Agriculture	**-3.6%**	**-2.6%**	**2.0%**	**5.8%**	**7.7%**	7.0%
Non-Agriculture	**7.1%**	**5.3%**	**4.6%**	**5.3%**	**4.9%**	5.4%
Industry	**5.0%**	**2.6%**	**2.4%**	**2.5%**	**2.0%**	2.1%
Mining and Quarrying	16.3%	-4.8%	2.3%	3.3%	5.3%	4.5%
Manufacturing	3.7%	2.3%	2.9%	2.0%	1.5%	1.8%
Electricity	6.0%	6.7%	6.0%	2.3%	0.8%	0.5%
Construction	5.6%	3.5%	1.5%	3.1%	2.6%	2.0%
Services	**7.7%**	**7.0%**	**6.4%**	**6.7%**	**6.0%**	6.3%
Wholesale & Retail Trade	5.0%	3.8%	1.5%	5.7%	4.2%	4.0%
Accommodation & restaurant	20.5%	19.5%	20.1%	21.5%	12.2%	15.9%
Transport & Storage	6.9%	5.1%	2.9%	6.2%	3.0%	2.5%
Information & Communication	6.6%	8.5%	7.9%	8.7%	6.4%	7.2%
Financial & Insurance	12.5%	8.2%	10.6%	5.8%	13.5%	14.0%
Public administration	4.2%	4.0%	5.2%	6.6%	3.8%	3.5%
Professional Services	12.3%	10.8%	7.4%	7.3%	5.5%	6.0%
Real estate	4.6%	4.0%	3.8%	5.2%	5.8%	6.8%
Education	6.1%	5.4%	6.5%	3.6%	4.5%	5.0%
Health	7.1%	6.5%	7.6%	5.4%	5.0%	5.4%
Other services	4.2%	5.5%	4.0%	3.2%	1.6%	2.5%
FISIM	1.9%	2.2%	-0.1%	0.6%	6.1%	6.0%
Taxes on products	**6.5%**	**7.3%**	**4.6%**	**4.4%**	3.8%	4.6%
REAL GDP GROWTH	**4.6%**	**4.2%**	**4.6%**	**5.3%**	**5.4%**	5.3%

Source: Kenya National Bureau of Statistics, Genghis Research

We foresee relatively benign real growth over the remainder of the year clocking at about 5.3%, largely on account of moderate agriculture sector output growth, complemented by a stronger services sector. We expect tangible outperformance in the financial services, and hospitality sectors. We also anticipate that the easing inflationary regime will support an uplift in real incomes, leading to a mild recovery of the industry sector.

Chart 2.1: Annual Real GDP Growth Rates (2013-2022) and Forecast (2023-2025)



Source: KNBS Database, Genghis Research.[3]

We revise our forecast of Kenya's real growth rate for the year 2023 upwards to 5.4%, before a mild slowdown to 5.2% in 2024. We maintain that the double contraction on the fiscal and monetary policy fronts remain a tangible headwind to growth, despite the oncoming disinflationary regime amenable to a stabilizing consumer demand.

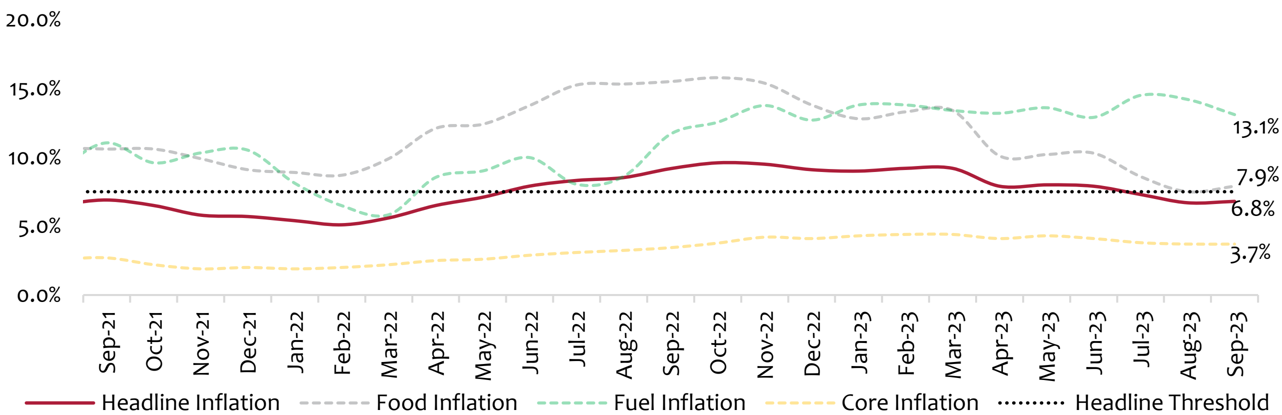
Price Levels: *A new regime*

Consumer Price Index (CPI)

Headline inflation eased over the third quarter of the year, closing September 2023 at 6.8% – a 110bps decline from the close of Q2 2023. The disinflation trend came largely on the back of easing food prices following improved weather conditions that replenished food supplies over the first half of the year. However, rising fuel inflation rates towards the tail end of Q3 2023, led to a surge in transportation costs, lifting food inflation rates marginally to 7.9% in September 2023.

Core inflation on the other hand, (Non-Food & Non-Fuel) eased marginally by 40bps over the quarter to stand at 3.7% in September 2023. In our view, we transitioned from the hyper-inflationary regime of 2022 to a more benign inflationary season – however the new regime teeters on the edge of looming commodity price shocks and an uncertain exchange rate regime.

Chart 2.2: CPI Inflation Rates (Sep 2021 - Sep 2023)



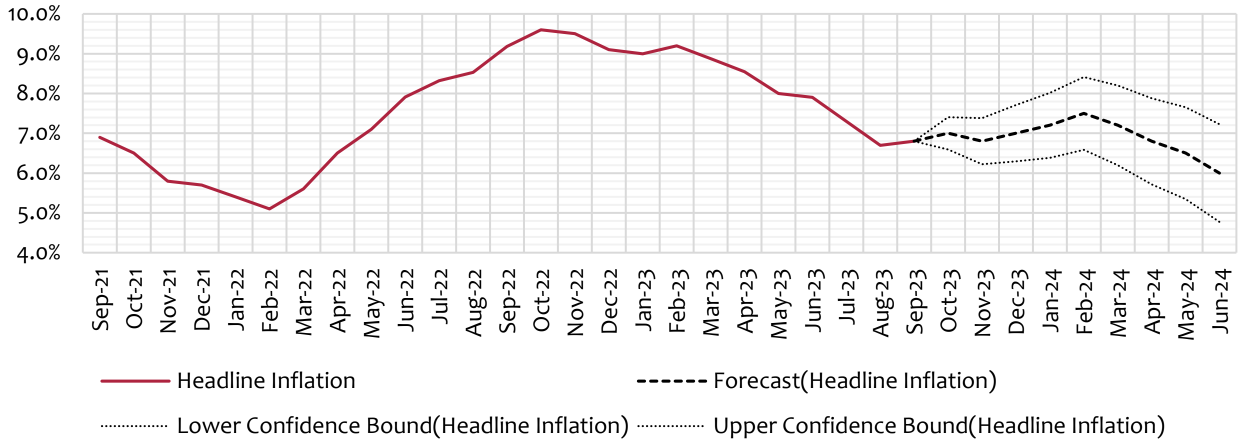
Source: KNBS, Genghis Research

[3] We expect a diminishing output gap with the United Nation's long-run growth target for emerging and developing economies (EMDEs). We forecast an improvement in real growth to 5.4% in 2023, before a mild slowdown to 5.2% in 2024. (Level of significance at 10%, Confidence interval at 2.9%)

We view the persistent core inflation as deriving largely from amplifications of fuel prices into other sectors coupled with the broader impact of the weakening Kenya shilling. We think higher-for-longer interest rate environment coupled with the stabilizing consumer demand, will support moderate inflationary trends over the medium term.

Headline inflation now trails below the National Treasury's upper bound threshold of 7.5%. We anticipate easing food inflation prints to help tow down headline inflation. A downside risk to this projection, however, remains hinged on possible fuel price shocks from supply chain disruptions due to escalating geopolitical tensions. As such, our baseline view on headline inflation remains precarious, yet likely to trail below the National Treasury's upper bound threshold of 7.5% over the medium term.

Chart 2.3: CPI Inflation Rates Forecast to June 2024.

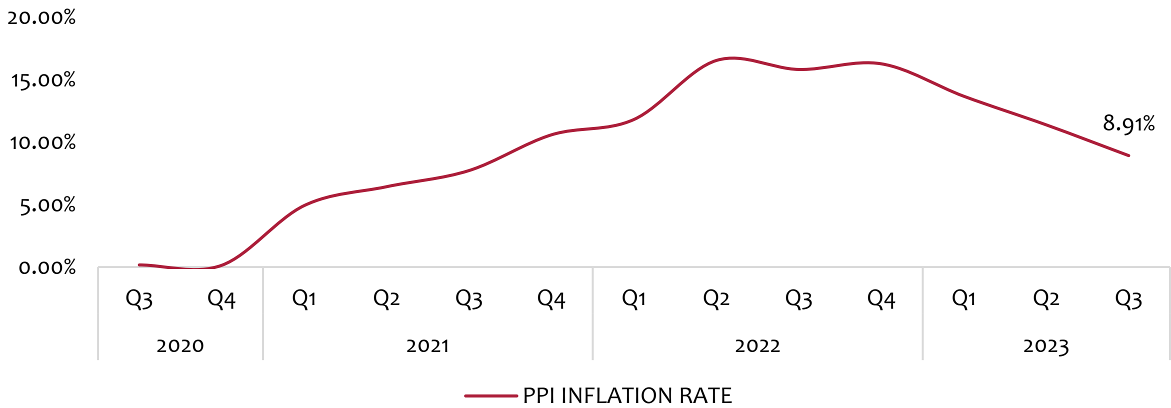


Source: KNBS, Genghis Research Forecast.

Producer Price Index

Fortunes changed as businesses recorded moderate declines in input costs, over the third quarter of 2023. Producer price inflation rates eased to 8.9% as of Q3 2023, compared to 15.8% at the close of Q3 2022 (-680bps y/y). Lower price quotations by producers in industries such as mining, manufacturing, and water supply were contrasted against a sharp rise in electricity and gas supply prices. The notable deceleration of the PPI largely explains the declining headline inflation in the real economy. As a leading economic indicator rather than a lagging measure, the current PPI disinflation is highly predictive of a benign inflation regime in the consumer economy. However, rising trade and geopolitical tensions pose input-sourcing risks – which is likely to upset this projection.

Chart 2.4: Quarterly Producer Price Index and PPI Inflation Rates (2020-2023)



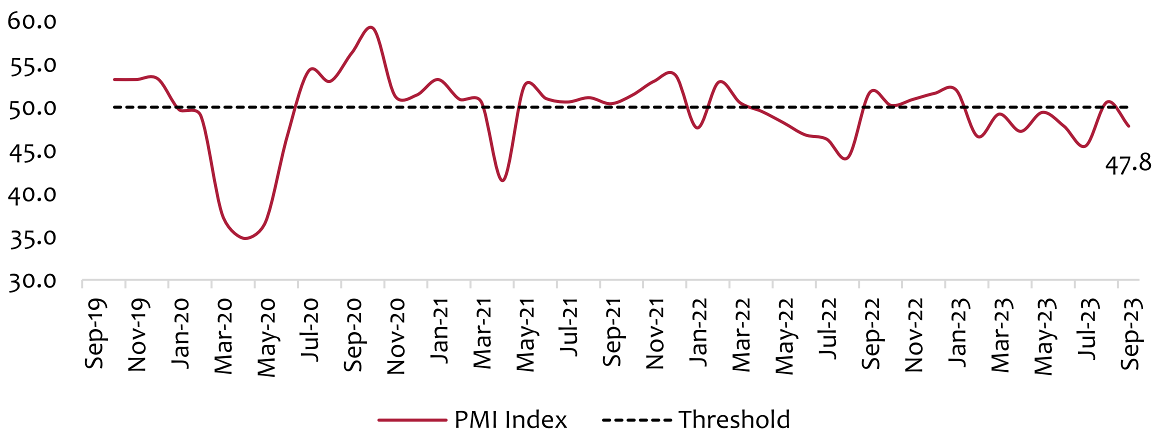
Source: KNBS, Genghis Research

Purchasing Managers Index

Stanbic Bank Kenya's Purchasing Managers Index (PMI) displayed mixed sentiment for the better part of Q3 2023 – closing September 2023 at 47.8. The index rose momentarily above 50.0 level in August 2023, before sliding back to the contraction territory a month later. PMI readings above 50.0 signal an improvement in business activity, while readings below 50.0 signal a deterioration in the private sector economy. Latest survey results indicate that purchasing managers recorded declines in new orders as well as a surge in input costs largely on account of soaring energy prices.

In response, businesses cut down on employment and inventories for the first time in seven months. Firms compensated for declining volumes by raising prices sharply – also in a bid to shift rising costs onto consumers. Going forward, we anticipate stabilizing consumption demand to gradually stimulate confidence well into the first quarter of 2024.

Chart 2.5: Stanbic Bank Kenya Purchasing Managers Index (Sep 2019 - Sep 2023)



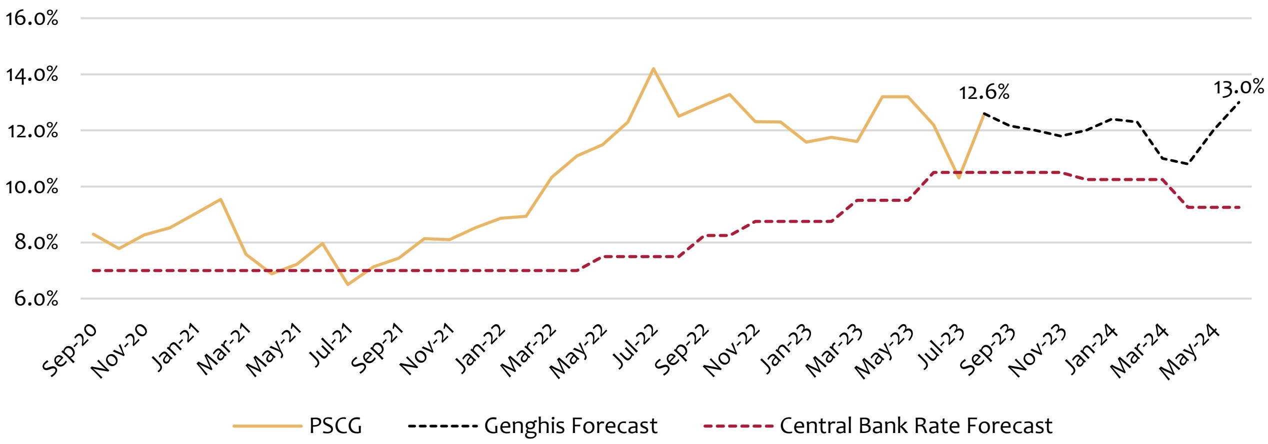
Source: S&P Global, Genghis Research

Private Sector Credit Growth

Private Sector Credit Growth (PSCG) remained resilient over Q3 2023, slowing under the weight of the protracted monetary policy tightening over the past year. The PSCG growth rate closed August 2023 at 12.6%. Lending activity in the transport and manufacturing sectors grew by 24.9% and 19.6% respectively in the twelve months to August 2023, while lending in the trade and consumer durables sectors slowed to 9.4% and 12.7% respectively over the same period. Going forward, we anticipate the MPC to moderate hawkish sentiments to support robust PSCG conducive to output growth.

According to the *June 2023 Credit Officer Survey* (CBK, 2023), surveyed lenders perceived an unchanged demand for credit in nine economic sectors and increased demand in the trade and personal household sectors. They also maintained credit standards unchanged across all economic sectors – thus supporting a healthy PSCG momentum. At the same time, respondents noted a widespread increase in non-performing loans (NPL), with the industry NPL ratio climbing 500bps q/q to 14.5% as of June 2023.

Chart 2.6: PSCG and CBK Policy Rate



Source: CBK, Genghis Research

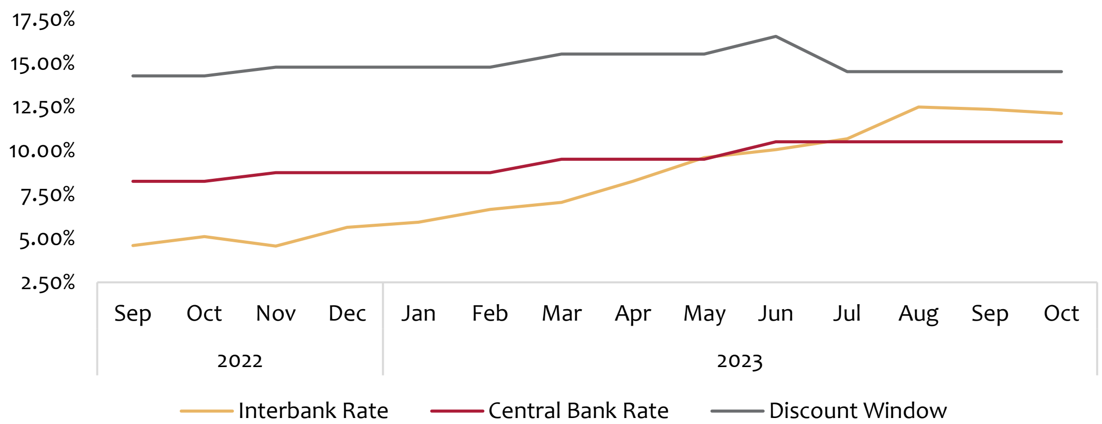
Monetary Environment: *Tighter for Longer?*

Systemic Interest Rates

The Central Bank of Kenya remained steadfast in its quest to quell inflationary pressures and maintain systemic stability. The change of regime became more manifest, following a raft of reforms to improve banking sector liquidity, and enhance monetary policy transmission. The Central Bank Rate (CBR) remained pivoted at 10.5% since the 100bps benchmark rate hike at the June 2023 sitting.

The Monetary Policy Committee (MPC) introduced several reforms to the inter-bank market such as the introduction of a symmetric corridor of ±250bps about the CBR to improve inter-bank market liquidity – which experienced a palpable strain heading into the August 2023 MPC meeting. They also lowered the discount window spread from 600bps to 400bps above the benchmark rate to improve accessibility. The quarter was eventful as it also witnessed the launch of the *DhowCSD* – a centralized investment platform for the purchase and exchange of government securities.

Chart 2.7: CBK Policy Rate, CBK Discount Window, and Average Interbank Lending Rates



Source: CBK, Genghis Research

While the above changes have streamlined monetary policy transmission via the demand and supply-side channels, exogenous shocks risk upsetting this balance. Firstly, there is the looming risk of supply-chain disruption and consequent inflationary pressures if the current trade and geopolitical tensions escalate. Secondly, there is the risk of shifting interest rate differentials which are likely to accelerate capital outflows – thereby piling stress on the Kenya shilling. Thirdly, growth prospects remain subdued on the back of waning consumer and business confidence.

At the moment, we believe internal price stability risks are largely contained, we think the focus needs to shift to external price stability – particularly the exchange rate channel. Rising policy and yield curve rates in developed economies have loosened respective interest rate differentials that stoked capital outflows – rendering stress on the Kenya shilling's shock absorption capacity.

Real Interest Rates: *Fischer Effect on Pause*

Real interest rates remained in the positive territory reflecting the elevated nominal rate amid a benign inflationary regime. We expect real positive rates to depress investment spending and consumer spending, slowing real output growth over the medium term. Yet elevated real rates will support improved financial flows to beef up our balance of payments account. We think the equilibrium is skewed towards maintaining lower real rates to avoid systemic credit crunch while supporting a stable Kenya shilling.

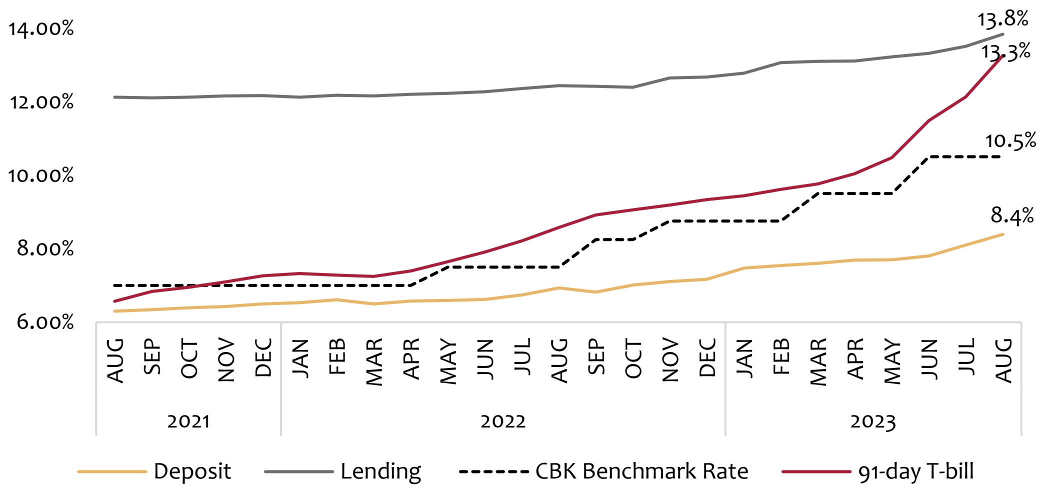
Chart 2.8: Real Interest Rates

Source: Genghis Research.[4]

Average commercial bank rates soared over the year reflecting heightened uncertainty and policy tightening. Following the over 350bps tightening since April 2022, average lending rates, deposit rates and 91-day T-bill rates paced in tandem. The rise in average lending rates was propelled by the roll-out of the risk-based lending methodology – which allows for differentiated risk pricing. Notably, average deposit rates also paced up as banks sought to attract long-term deposits. The spread between the benchmark rate and the 91-day spot rate widened in the quarter, reflecting heightened market and fiscal risks over the period.

[4] Real Interest rates have been derived using the Fisher Equation.

Chart 2.9: Commercial Bank Rates, CBR and 91-Day T-Bill Rate

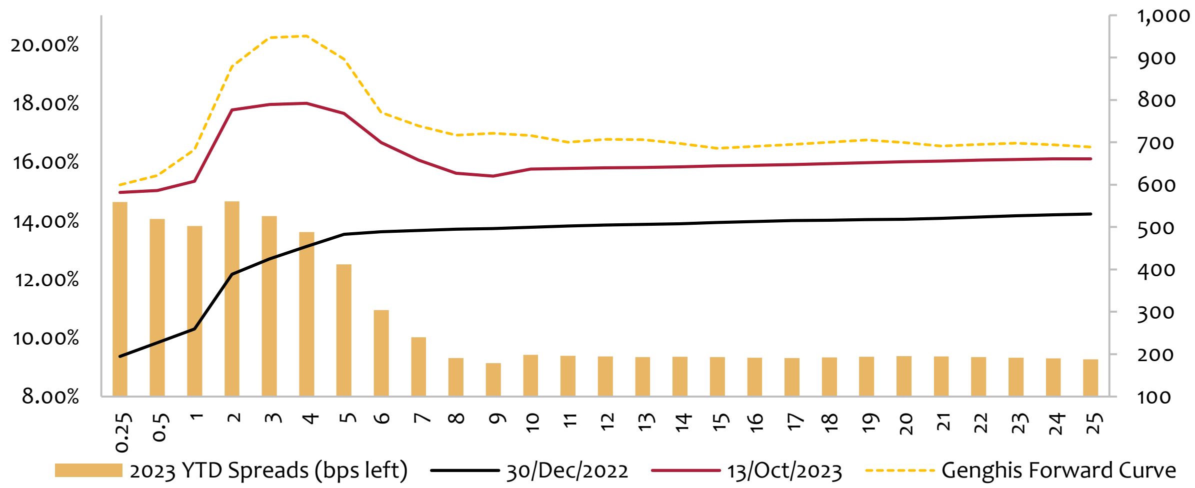


Source: Central Bank of Kenya

Yield Curve Control (YCC)

Policy agents yielded to higher payouts on Treasuries, most notably on the short to medium sections of the term structure. Demonstrably, a hump in the yield curve emerged over the period, reflecting heightened market and sovereign risks. Investors stoked up premiums placed on exchange rate weakness, inflation risks and duration risks. Cumulatively, yields on 91-day Treasury bill rates have soared by 559bps YTD. Yields on 2-year bonds have climbed by 560bps, and the 2y-10y spread widened to 203 bps as of October 19th 2023. Our 3-month forward rate curve remains a pronounced hump-and-twist around the medium term, as short-term rates outstrip long-term yields.

Chart 2.10: Term Structure Evolution



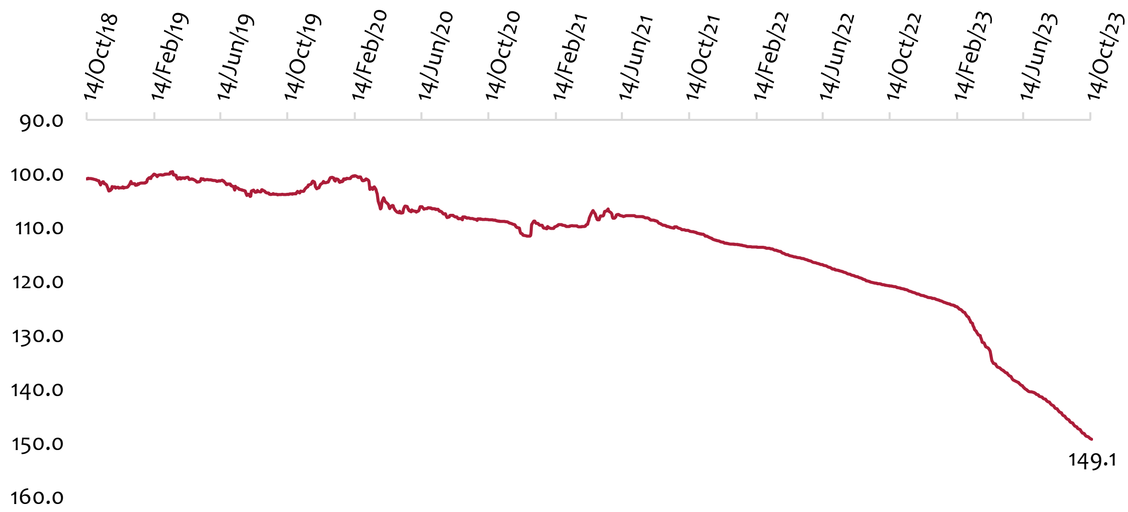
Source: Nairobi Securities Exchange, Genghis Research

Exchange Rates

The Kenya shilling demonstrated slightly lower volatility over Q3 2023 compared to the previous quarter. Nevertheless, the exchange rate depreciation trend persisted to close the quarter at KES 147.50 against the US dollar. This follows the 8.2% depreciation recorded throughout the year 2022. Stable interest rates differentials with advanced economies have helped decelerate currency depreciation – albeit marginally. Persisting dollar demand coupled with structural challenges in the balance of payments account continue to pile pressure on the exchange rate.

In our view, further exchange rate stability will be supported by aggressive export promotion as well as a stronger rebound in diaspora remittances and tourism inflows. However, the downside risk remains anchored on geopolitical fragmentation.

Chart 2.11: KES-USD CBK Average Exchange Rates 2018-2023



Source: CBK, Genghis Research

Table 2.2: Last Nine Months 2023 Kenya Shilling Exchange Rates

KES Exchange Rates	31/Dec/2022	06/Oct/2023	YTD % change
STERLING POUND	148.5	180.5	▼ (17.7%)
US DOLLAR	123.1	148.7	▼ (17.2%)
EURO	131.3	156.4	▼ (16.1%)
CHINESE YUAN	17.7	20.4	▼ (13.0%)
JPY (100)	92.3	99.9	▼ (7.6%)
IND RUPEE	1.5	1.8	▼ (16.6%)
SOUTH AFRICA RAND	7.2	7.6	▼ (5.1%)
KES/USHS	30.1	25.2	▼ (16.4%)
KES/TSHS	18.9	16.9	▼ (10.8%)
KES/RWF	8.7	8.2	▼ (5.6%)

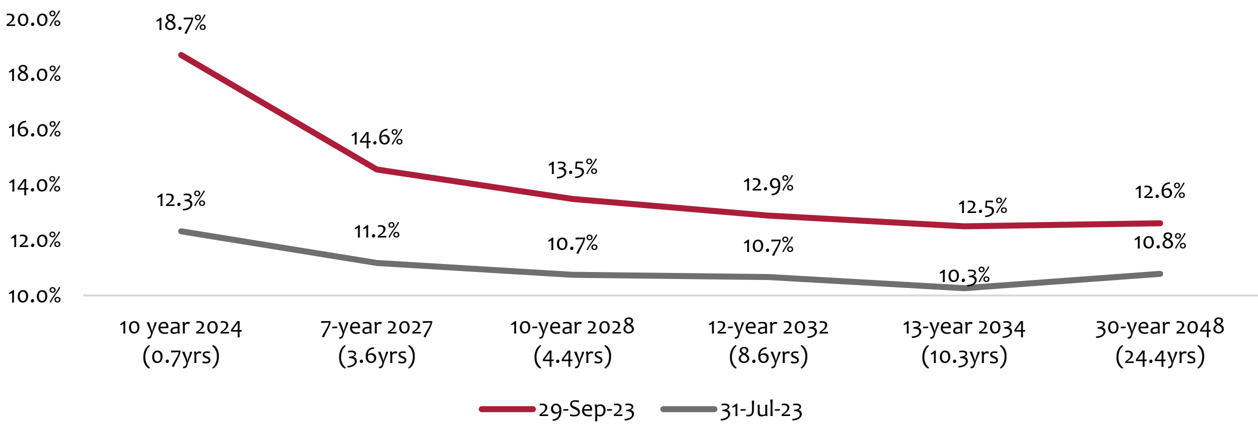
Source: CBK, Genghis Research

Eurobond Market

Kenya's Eurobond market demonstrated increased volatility, with yield curve inversion steepening further at the close of Q3 2023. Investors displayed higher sensitivity to the slightest foment around the upcoming USD 2Bn maturity of the KENINT/2024/010 paper – now less than 9 months away.

We remain confident on Kenya's policy coherence prioritizing fiscal consolidation. However, fiscal challenges such as the rising interest-expense-to-revenue ratio poses risks to debt sustainability. We think the focus of external debt financing – or refinancing – will shift to long-established bilateral and multilateral finance partners. From our vantage point, Eurobond yields will remain highly volatile over the medium term as the maturity of the KENINT/2024/010 Eurobond paper approaches.

Chart 2.12: The Eurobond Yield Curve[5]



Source: CBK, Genghis Research.

Table 2.3: Kenya Sovereign Credit Ratings

Credit Rating Agency	Date	Previous Rating	Current Rating
Moody's Investor Service	28th July 2023	B3 (under review)	▼ B3 –
Fitch Ratings	20th July 2023	B (stable)	▼ B – (Long Term IDR)
S&P Ratings	27th Feb 2023	B (stable)	▼ B –

Source: Moody's Analytics, Fitch Ratings & S&P Rating

Fiscal Environment

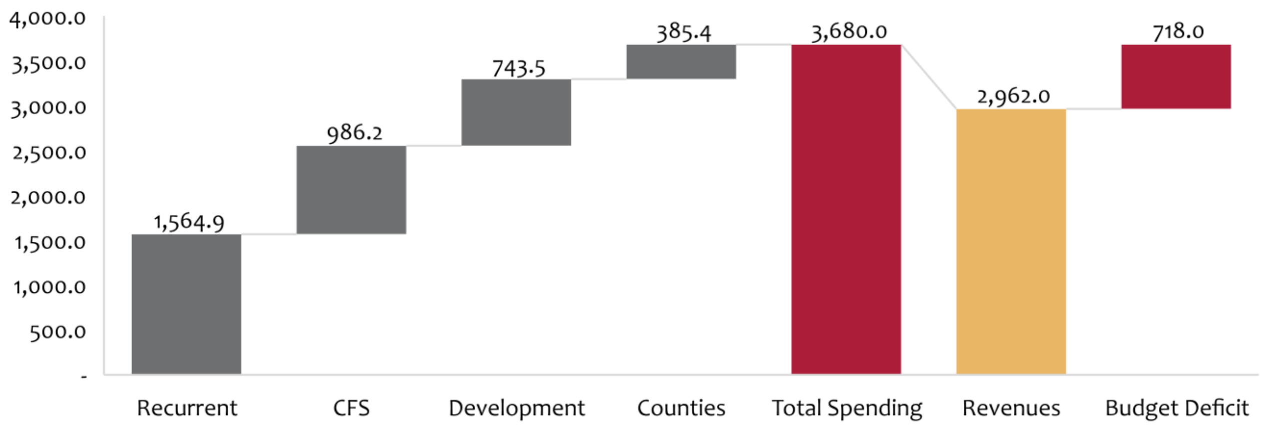
Fiscal Consolidation:

The *FY2023/2024 Budget Highlights* (National Treasury, 2023) envisions economic recovery through a growth-friendly fiscal consolidation plan aimed at slowing public debt accumulation. On 15th June 2023, the National Treasury tabled the Budget Statement for the fiscal year 2023/2024. The theme of this year's budget is **"Bottom-up Economic Transformation Agenda (BETA) and Climate Change Adaptation for Improved Livelihoods of Kenyans."** The budget places focus on interventions to bolster food security, address the cost of living, enhance job creation, expand the tax base, and restore foreign exchange earnings.

[5] Papers are arranged in ascending time to maturity.

The FY23/24 expenditure budget stands at KES 3.68Tn – translating to 22.6% of GDP. Of this, Recurrent Ministerial spending accounts for 42.5% of the total budget while Consolidated Fund Services (CFS), accounts for 26.8% of the total budget. Development Spending, on the other hand, accounts for 20.2%, and the Equitable share to County Governments comprises 10.5% of the total budget. On the funding side, the National Treasury projects to collect up to KES 2.96Tn in total revenues, appropriations-in-aid, and grants. This leaves the total budget deficit at KES 718Bn.

Chart 2.13: FY2023/2024 Budget Waterfall Distribution (KES Bn)



Source: National Treasury and Planning, Genghis Research

While total revenues are projected to stand at 18.2% of GDP in the fiscal year 2024, the contribution of total expenditure is expected to decline – albeit marginally to 22.6% of GDP. Effectively, the National Treasury projects a reduction of the budget deficit from 5.7% of GDP in FY22/23 to 4.4% of GDP in FY23/24.

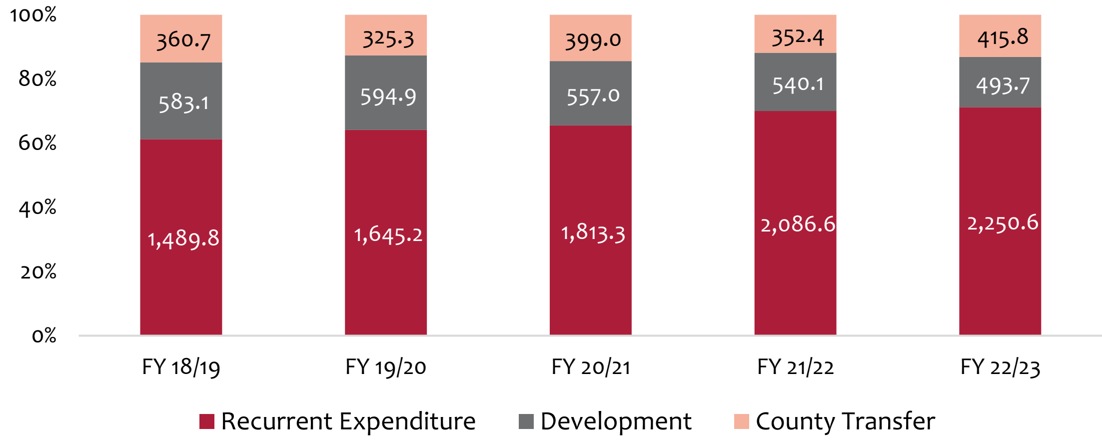
Table 2.4: Receipts into the Consolidated Funds for the Fiscal Year ended 30 June 2023 (FY2022/23)

Receipts Category	Revenue Budget Estimates (KES Bn)	Receipts as of 30 Jun 2023 (KES Bn)	Performance against 100% target	Contribution (%)
Opening Bal. 01.07.2022		**0.6**	-	0.0%
Tax Revenue	2,079.8	1,962.0	94.3%	60.5%
Non-Tax Revenue	65.6	82.0	125.1%	2.5%
Domestic Borrowing	948.1	696.4	73.5%	21.5%
External Loans and Grants	513.4	488.3	95.1%	15.0%
Other Domestic Financing	13.2	16.1	121.7%	0.5%
Total	**3,620.2**	**3,245.4**	**89.6%**	**100.0%**

Source: Office of Controller Budget Report, Genghis Research

The table above indicates the performance of receipts into the Consolidated Fund for the fiscal year 2023. The underperformance rate of 89.6% came largely on account of low proceeds at domestic borrowing auctions. The revenue performance rate broadly improved to 94.3%, following enhanced collection measures. However, the general revenue underperformance continues to delay absorption of government spending – undermining effective service delivery and real growth. This has led to protracted liquidity challenges such as delayed disbursements to MDAs and civil servants as well as accumulated pending bills.

Chart 2.14: Distribution of Government Spending



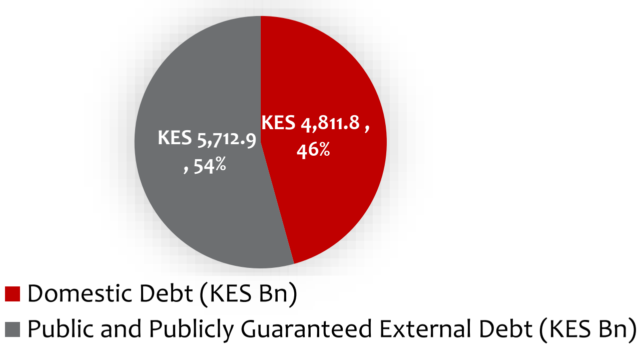
Source: Budget Review and Outlook Paper 2023, Genghis Research

We note that the recurrent expenditure rose 7.9% y/y to KES 2.25Tn, while development spending decreased 8.6% y/y to KES 493.7Bn. Transfers to County governments increased by 18% to KES 415.8Bn – signalling the deepening of devolution. We remain concerned on the dwindling budget allocations to development expenditure, which now take up only 15.6% of total spending – while recurrent spending takes up 71% of total spending. This limits the economy's capacity to set up new infrastructure, let alone maintaining the existing fixed capital. Also, it threatens the provision of crucial services such as quality healthcare and education.

Public Debt Sustainability: *The funding puzzle*

The National Treasury and Planning in its Medium-Term Debt Management Strategy (2023)[6], proposed far-reaching reforms aimed at lengthening the debt maturity profile and lowering refinancing risk. Reforms included measures to anchor the public debt ceiling at a new threshold of 55% of GDP – alongside fiscal consolidation measures to narrow the budget deficit. As of October 2023, Kenya's level of public and publicly guaranteed debt stood at KES 10.5Tn – representing 70.0% of GDP. Domestic debt accounts for 46% of total debt whereas external debt accounts for 54%.

Chart 2.15: Kenya Public Debt by Source as of Oct 2023

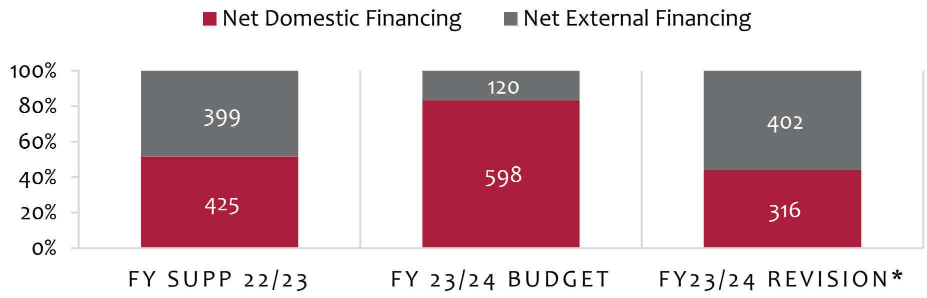


Source: CBK, Genghis Research

[6] The National Treasury's **Medium-Term Debt Management Strategy 2023** recommended stepping up reforms in domestic debt markets to ensure it performs an elevated role in meeting the financing needs of the government, while leveraging concessional and semi-concessional external debt.

The National Treasury and the Central Bank announced the sourcing of inexpensive external financing, effectively reducing domestic borrowing requirements from KES 598Bn in the FY 23/24 budget estimates to KES 316Bn. We think this move is much welcome since the previous surge in domestic yields posed debt sustainability risks. We think this will abate yield pressures and the extensive 'crowding out' of private sector investments.

Chart 2.16: FY2023/24 Deficit Financing Mix

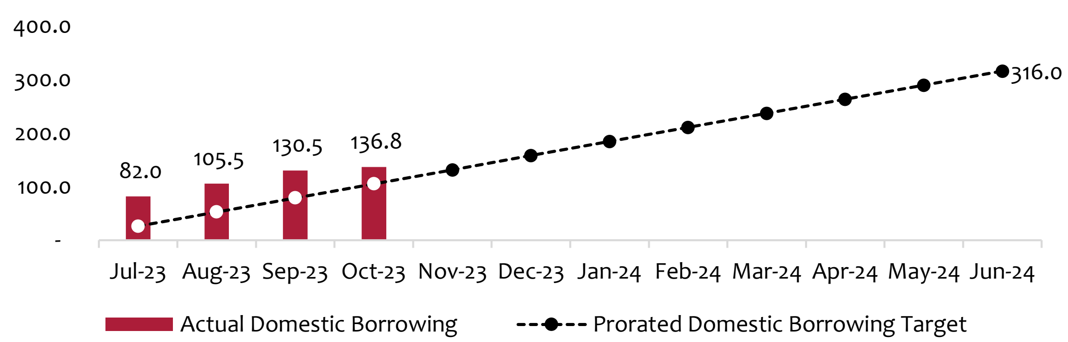


*Source: National Treasury and Planning, Genghis Research (*CBK Announcement 10th August 2023)*

The regime is tilting its debt mix toward external borrowing when mounting debt-service costs imperil debt sustainability. For instance, the ratio of interest expense to tax revenue increased 500bps from 28% in FY 2021/2022 to 33% in FY 2022/2023. Since interest rates remain elevated at both the domestic and external fronts, inexpensive concessional financing sourced from bilateral lenders are becoming the only sustainable recourse.

On the domestic borrowing front, the government remains ahead of its borrowing targets for the fiscal year 2024, having borrowed upto KES 136.8Bn – excluding Repos and Treasury bills. The government revised its domestic borrowing target From KES 598Bn to KES 316Bn in the current fiscal year.

Chart 2.17: Pro-rated Domestic Borrowing Trend FY 2023/2024

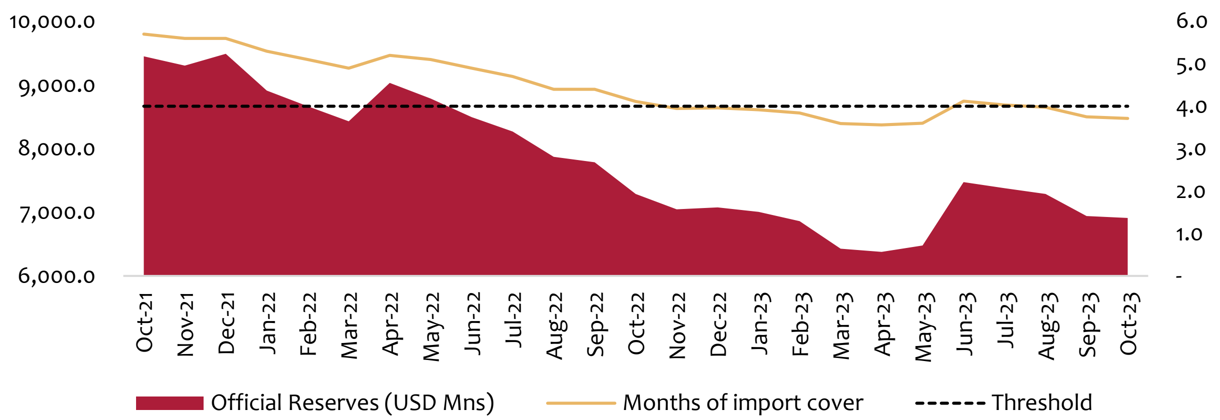


Source: Central Bank of Kenya

Foreign Exchange Reserves

Gross official reserves plunged back below the National Treasury's recommended threshold of 4 months of import cover and the EAC's threshold of 4.5 months of import cover. This occurred despite the USD 1Bn liquidity support from World Bank's Development Policy Operation (DPO) in May 2023 and the IMF's USD 653Mn support tranche in July 2023. Kenya's ballooning import bill, rising external debt service requirements and shifting global interest rate differentials pile pressure on the official reserves account. Further, shifting consumer and business sentiment has led to growing dollar demand as a cushion against exchange rate risk.

Chart 2.18: Foreign Exchange Reserves (USD Mn) and Months of Import Cover.

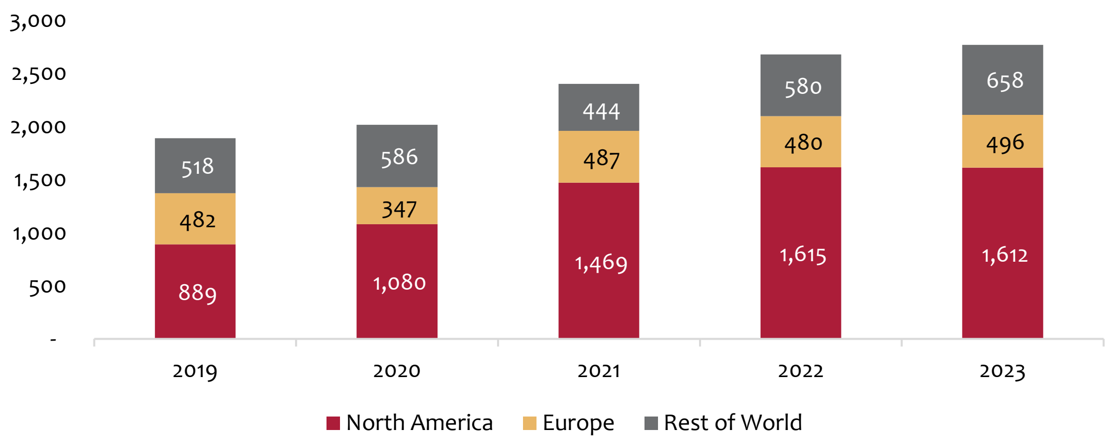


Source: CBK, Genghis Research

Diaspora Remittances

Growth in diaspora remittances for the eight months ending August 2023 slowed 800bps to 3.4%, down from 11.4% a year earlier. Remittance inflows grew marginally to USD 2.77Bn (KES 415Bn) as of August 2023, compared to USD 2.68Bn (KES 401Bn) in August 2022. Remittances from the United States dropped to 58% from 60% of total remittances – highlighting cost of living pressures in offshore economies. Inflows from nationals domiciled in Europe remained at 17.9%, while those from other nations rose to comprise 24.1% of total remittances.

Chart 2.19: Diaspora Remittances by Region (USD Mn).



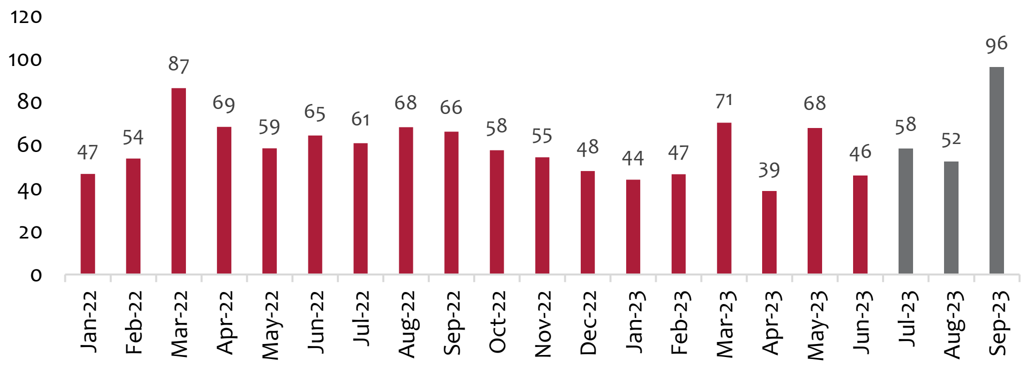
Source: CBK, Genghis Research

Fixed Income Market Outlook: *Buy at the Belly*

The rising yield environment piled undue pressure on bond valuations even as investors rushed to make the most of the humped yield curve. Higher short-term yields enticed investors to shift preferences – to take advantage of lucrative reinvestment returns. Primary bond auctions by the Exchequer over the quarter were fixated on short duration papers (i.e. below five years) as the Exchequer sought to contain pricing of risk-premia to the short end on the term structure.

Trading turnovers in secondary bond markets increased in Q3 2023 to KES 207Bn (35.7% q/q and 5.76% y/y). Trading activity significantly soared in September 2023 with turnover clocking KES 96.2Bn. By and large, investors sought to substitute long term bonds with higher-yielding short-term papers. Trading activity largely shifted to the short and intermediate range of the term structure as sell offs of longer-dated bonds implied outsized fair value losses. Secondary market turnover in the quarter was skewed towards the intermediate FXD bonds (FXD) segment. From our vantage point, secondary market activity in 2023 will remain skewed towards intermediate bonds.

Chart 3.1: Secondary Bond Market Turnover (KES, Bn)

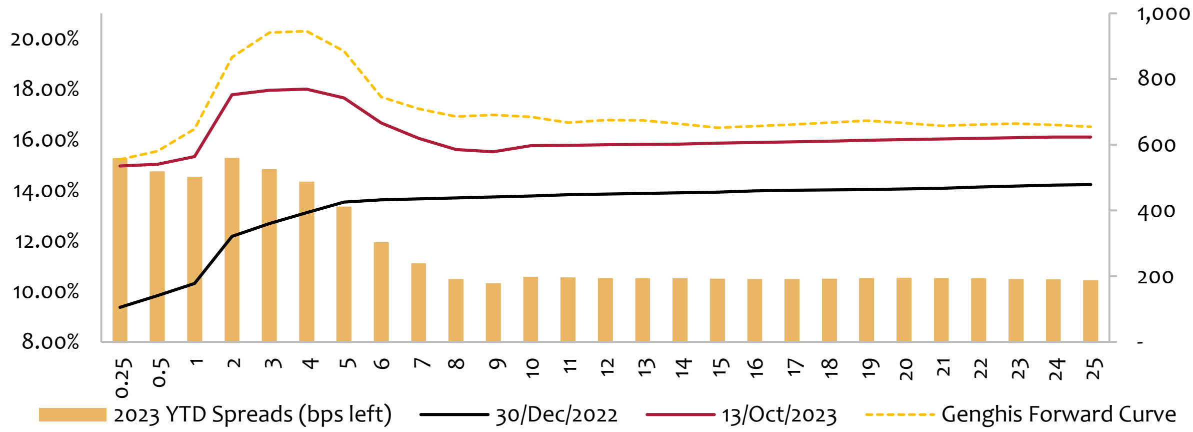


Source: NSE, Genghis Research

The domestic yield curve edged upwards – with yields rising by an average of 278bps over the first nine months of 2023. As we forecasted in our H2 2023 outlook note, the yield curve phased-off the positive butterfly[7] effect exhibited in Q1 2023 into a pronounced hump – as the market repriced medium-term papers to the evolving macroeconomic risks. Discount securities rose by c. 510bps from the beginning of the year, with papers at the belly of the yield curve edging upwards by c. 215bps. The tail end of the curve held relatively steady printing a 190bps rise to the close of Q3 2023.

[7] **A positive butterfly** is a scenario where the spreads in the yield curve are rising faster in the short-term and long-term segments compared to the medium-term segment.

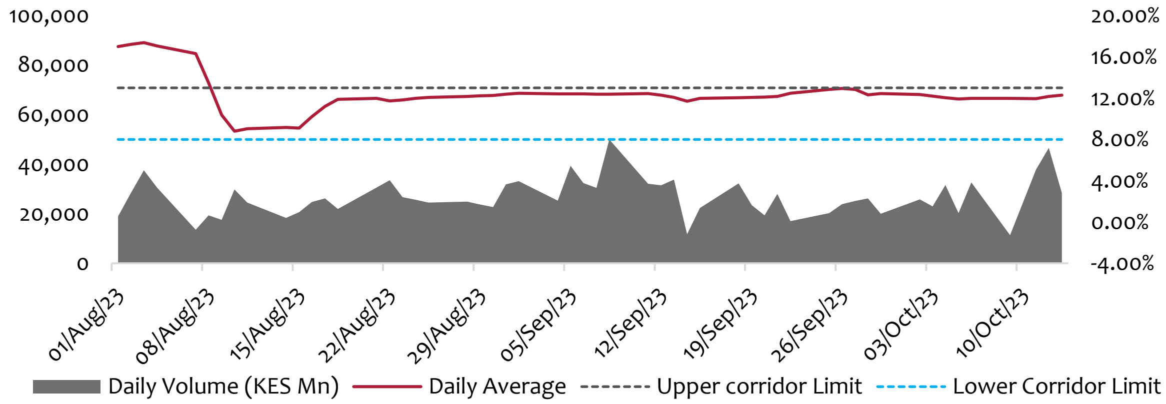
Chart 3.2: Evolution of the Yield Curve



Source: NSE, Genghis Research

We project the yield curve to remain highly sensitive to evolving macroeconomic risks across different tenures. Indeed, during Q3 2023, investors demanded sizable premiums above prevailing market yields in the market – with the highest being c. 248bps in July 2023. However, risk pricing tapered towards the close of the quarter with average premia cooling to 45bps above prevailing yields. Interbank lending rates, on the other hand, have remained within the symmetric corridor, with slightly higher volumes – signaling an easing of interbank market liquidity.

Chart 3.3: Interbank Lending Rates and Volumes



Source: NSE, Genghis Research

In the first half of 2023, the National Treasury (Table 3.1 below) offered c. KES 535.00Bn worth of treasury bonds, out of which it received bids worth c. KES 688Bn and accepted c. KES 591Bn – signaling an overall overperformance. Needless to say, investors remained aggressive in their bidding as indicated by the premiums demanded above prevailing yields. In line with our 2023 primary bond market outlook, the papers on offer were inclined toward short and medium-term tenures We believe the government is leveraging on the large investor base interested in short-term papers that serve as a hedge to duration risks.

Table 3.1: 2023 Primary Market Review

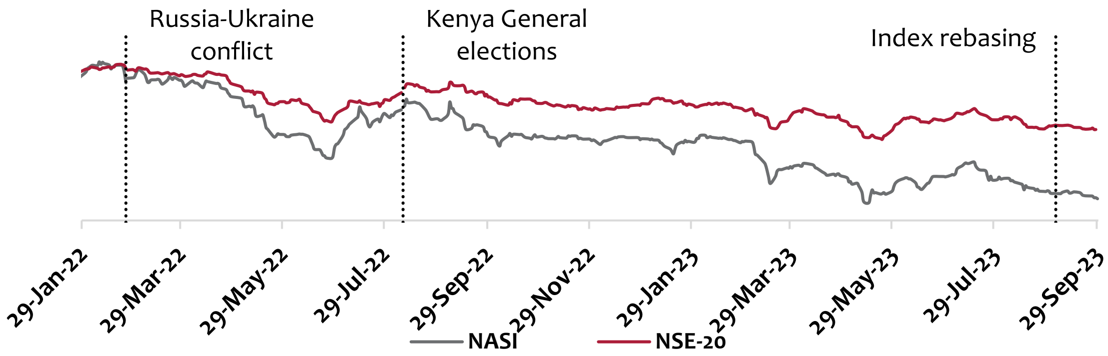
	Offered Amount (KES, Mn)	Paper(s)	Duration at Issuance (yrs)	Total Bids Received (KES Mn)	Total Bids Accepted (KES Mn)	Performance Rate	Market Average Rate	Average Rate of Accepted Bids	Premium accepted above the Yield Curve	Coupon Rate (%)
Jan-23	50,000	FXD1/2020/005 - Reopening	2.4	27,620	24,353		12.917%	12.879%	0.159%	11.667%
		FXD1/2022/015 - Reopening	14.3	14,012	7,160		14.337%	14.186%	0.291%	13.942%
				41,632	**31,513**	**83.3%**				
	10,000	FXD1/2020/005 - Tapsale	2.4	13,903	13,571			12.879%		11.667%
		FXD1/2022/015 - Tapsale	14.3	4,119	4,056			14.186%		13.942%
				18,022	**17,627**	**180.2%**				
Feb-23	50,000	FXD1/2017/010 - Reopening	4.5	8,030	7,470		13.897%	13.875%	0.345%	12.966%
		FXD1/2023/010 - New Issuance	10.0	11,515	9,279		14.217%	14.151%	0.358%	14.151%
				19,545	**16,749**	**39.1%**				
	10,000	FXD1/2017/010 - Tapsale	4.5	8,856	8,594					12.966%
		FXD1/2023/010 - Tapsale	10.0	3,608	3,607					14.151%
				12,463	**12,201**	**124.6%**				
Mar-23	50,000	IFB1/2023/017 - New Issuance	17.0	59,772	50,877		14.469%	14.399%	0.212%	14.399%
				59,772	**50,877**	**119.5%**				
	20,000	IFB1/2023/017 - Tapsale	17.0	12,712	12,711					14.399%
				12,712	**12,711**	**63.6%**				
1Q2023	**190,000**			**164,147**	**141,678**	**101.7%**				
Apr-23	20,000	FXD2/2018/010 - Reopening	5.8	3,571	3,360		14.393%	14.366%	0.641%	12.502%
				3,571	**3,360**	**17.9%**				
	10,000	IFB1/2023/017 - Tapsale	17.0	5,119	5,117	**51.2%**				14.399%
	30,000	FXD1/2022/003 - Reopening	2.1	7,329	1,757	**24.0%**	13.839%	13.471%	0.662%	11.766%
		FXD1/2019/015 - Reopening	10.9	CANCELED			-	-	-	12.857%
				7,329	**1,757**	**31.0%**	**13.839%**	**13.471%**		
May-23	20,000	FXD1/2023/003 - New Issuance	3.0	20,744	20,294		14.259%	14.228%	0.892%	14.228%
				20,744	**20,294**	**103.7%**				
	10,000	FXD1/2023/003 - Tapsale	3.0	10,603	10,602	**106.0%**				14.228%
	20,000	FXD1/2023/003 - Tapsale	3.0	27,206	27,202	**136.0%**				14.228%
Jun-23	60,000	IFB1/2023/007 - New Issuance	7.0	220,519	213,399		15.857%	15.837%	1.476%	15.857%
				220,519	**213,399**	**367.5%**				
	15,000	FXD1/2023/003 - Tapsale	3.0	**18,560**	**18,552**	**123.7%**				14.228%
					231,951					
2Q2023	**175,000**			**313,651**	**300,284**	**144.7%**				
1H2023	**365,000**		7.3	**477,798**	**441,962**	**123.2%**				
Jul-23	40,000	FXD1/2016/010 - Re-opening	3.2	22,664	15,740		16.582%	16.3280%	2.083%	16.328%
		FXD1/2023/005	5	**29,100**	**22,833**		17.026%	16.8440%	2.482%	16.844%
				51,764	38,573	**129.4%**				
	20,000	FXD1/2016/010 - Tapsale	3.2	**32,217**	**31,230**					16.328%
		FXD1/2023/005 - Tapsale	5	12,212	12,211					16.844%
				44,429	43,441	**222.1%**				
Total				**96,193**	**82,014**					
Aug-23	40,000	FXD1/2023/002	2	38,302	11,660		17.555%	16.9723%	0.640%	16.972%
		FXD1/2023/005 (Re-opening)	4.9	**14,704**	**7,456**		18.165%	17.9538%	1.732%	16.844%
				53,006	19,116	**132.5%**				
	20,000	FXD1/2023/002 - Tapsale	1.9	**17,376**	**17,374**					16.972%
		FXD1/2023/005 - Tapsale	4.9	6,225	6,123					16.844%
				23,601	**23,497**	**118.0%**				
Sep-23	35,000	FXD1/2023/002	1.9	18,015	15,013		17.583%	17.4537%	0.453%	16.972%
		FXD1/2016/010 (re-opening)	2.9	15,994	6,616		18.487%	17.9266%	0.554%	15.039%
				34,009	**21,629**	**97.2%**				
	15,000	FXD1/2023/002 - Tapsale	1.9	2,631	2,610					16.972%
		FXD1/2016/010 - Tapsale	2.9	815	763					15.039%
				3,446	**3,373**	**23.0%**				
				37,455	**25,002**					
9 MONTHS TOTAL	**535,000**			**688,053**	**591,591**					

Source: CBK, Genghis Research

Equities Market Outlook: *Journey to price discovery*

Persistent value erosion spilled over into Q3 2023 with the Nairobi All-Share Index shedding 25.8% y/y and 11.0% q/q. This is attributable, in part, to the value-agnostic capital outflows by foreigners from emerging and frontier markets, coupled with the protracted earnings recession by most corporates. Foreigners were seen to prefer fixed income and risk asset investments in top tier developed markets. The dynamics of demand and supply in our characteristically foreign-dominated market, were imbalanced – thereby adversely affecting equity market valuations.

Chart 4.1: NASI and NSE-20 Indices Performance



Source: Nairobi Securities Exchange

The bourse's market capitalization as seen in the table 4.1 below declined by 25.6% q/q and 10.7% y/y to close Q3 2023 at KES 1.48Tn vis-à-vis KES 1.67Tn in the close of Q2 2023. We noticed an acceleration in foreign outflows which amounted to KES 3.54Bn over Q3 2023 compared to KES 1.46Bn printed in Q2 2023. This is partly attributable to rapid monetary policy tightening that triggered capital flights to fixed income assets. The situation was exacerbated by the political unrest experienced over the first half of the year that stoked a decline in foreign participation in blue-chip stocks.

However, the degree of bearish foreigner sentiment in the market eased marginally in the first 9 months of 2023 as signified by the decline in the average number of net bearish trading days from 4 days in Q2 2023 to 2 days in Q3 2023. We therefore anticipate positive net flows around mid-2024, or until interest rates in global markets begin to decline – whichever is sooner.

Table 4.1: Equities Market Statistics

	KES Mn	% of total Foreign activity
Foreign buys	6,324.0	39.07%
Foreign sales	9,864.1	60.93%
Net foreign entry (exit)	(3,540.2)	▼ (21.9%)

Equity Market Stats	Q3 2022	Q1 2023	Q2 2023	Q3 2023	% Change (Y/Y)	% Change (Q/Q)
NASI	128.4	112.8	107.0	95.2	▼ (25.8%)	▼ (11.0%)
NSE-20	1,717.7	1,622.1	1,574.9	1,508.8	▼ (12.2%)	▼ (4.2%)
Market Cap (KES Bn)	2,001	1,756	1,666	1,488	▼ (25.6%)	▼ (10.7%)
Equity Turnover (KES, Mn)	22,479	44,765	15,226	17,194	▼ (23.5%)	▲ 12.9%
Net foreign flows (KES, Mn)	(6,963.9)	(5,111.8)	(1,462.2)	(3,540.2)	▼ (49.2%)	▲ 142.1%
Foreign participation (%)	44.88%	25.27%	42.74%	47.07%	▲ 2.2%	▲ 4.3%
Local participation (%)	55.12%	74.73%	57.26%	52.93%	▼ (2.2%)	▼ (4.3%)

Source: Nairobi Securities Exchange, Genghis Research

In the top gainers segment, Eveready East Africa Plc topped the chart. Its share price has gained 89% from KES 0.72 per share at the start of the year to KES 1.36 by close of Q3 2023 since the announcement of a new strategic investor in April 2023. We believe that Eveready will continue on an upward trend as networks and strategies are adopted to fuel its future growth consequently boosting shareholders' confidence. Trans-Century was the worst performer having shed 49.5% of its share price.

Table 4.2: Top Gainers and Losers 2023 YTD

Top Gainers	%Change	Top Losers	%Change
Eveready	▲ 88.9%	Trans-Century	▼ (49.5%)
Kenya Orchards	▲ 87.5%	Car & General	▼ (47.7%)
Umeme	▲ 74.5%	KCB Group	▼ (45.6%)
Kapchorua Tea	▲ 72.8%	Unga Group	▼ (45.3%)
HF Group	▲ 38.4%	Safaricom	▼ (39.3%)
Carbacid	▲ 33.9%	Sanlam	▼ (31.6%)
Eaagads	▲ 33.3%	Standard Group	▼ (31.5%)
Williamson Tea	▲ 28.1%	KenGen	▼ (28.6%)
Nation Media Group	▲ 26.6%	Liberty Holdings	▼ (28.6%)
B.O.C	▲ 20.1%	Longhorn Publishers	▼ (27.0%)

Source: Nairobi Securities Exchange, Genghis Research

Purchasing activity by foreigners remained concentrated in the banking, manufacturing and insurance sectors. Foreign purchased shares worth KES 2.12Bn over the nine months to Sep 2023 with Equity Group taking the larger pie share worth KES 1.05Bn. Bearish activity was majorly skewed towards Safaricom with net sales exceeding KES 10Bn over the nine months to Sep 2023.

Table 4.3: Top Foreign Net purchases and Net sales

Top Foreigners Net Purchases	Amounts		Top Foreigners Net Sales	Amounts	
Equity Group	KES	1,051,456,180	Safaricom	KES	(10,623,617,935)
Absa Group	KES	406,512,300	BAT Group	KES	(1,145,204,250)
Stanbic Holdings	KES	321,494,575	Co-op Group	KES	(118,247,235)
EABL	KES	102,448,250	ILAM Fahari I-REIT	KES	(82,614,440)
Standard Chartered Bank	KES	59,028,250	Bamburi Cement	KES	(71,941,305)
KCB Group	KES	49,248,970	Centum	KES	(36,902,282)
Jubilee Holdings	KES	44,410,500	Nation Media Group	KES	(35,751,765)
Kenya Re Insurance	KES	21,793,637	DTB Group	KES	(34,039,270)
BK Group	KES	21,266,345	KenGen	KES	(26,619,201)
Standard Group	KES	13,463,930	TPS (Serena)	KES	(17,174,125)

Source: Nairobi Securities Exchange, Genghis Research

Table 4.4: Top Market Movers by Turnover in KES (2023 YTD)

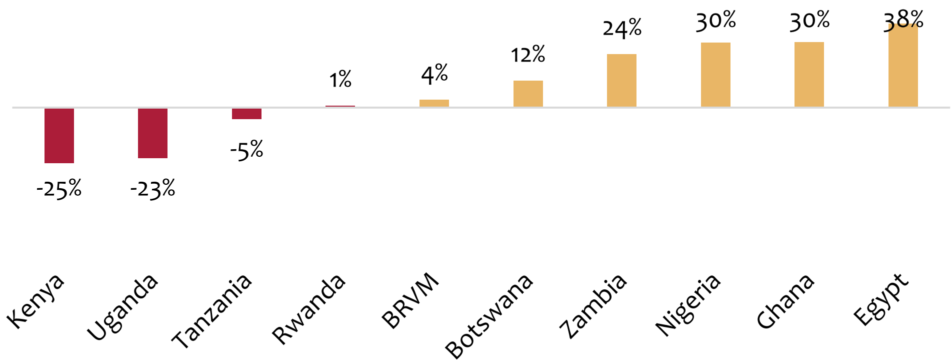
Top Movers YTD	Value Traded	
Safaricom	KES	27,870,965,530
EABL Group	KES	22,286,087,090
Equity Group	KES	8,108,774,135
KCB Group	KES	3,604,755,086
BAT Group	KES	1,989,427,925
Absa Group	KES	1,500,578,629
Co-op Group	KES	1,316,358,112
Standard Chartered Bank	KES	1,089,186,784
NCBA Group	KES	979,207,298
Britam Holdings	KES	962,707,575

Source: Nairobi Securities Exchange, Genghis Research

As seen, Safaricom topped the top movers list at KES 27.87Bn which represented 38% of the market. The banking sector is seen to take up the majority of the top-movers list. We expect trading activity to be skewed towards the telecommunication and banking industries as technological adoption boosts overall profitability. This is coupled with shareholders' hunt for dividends.

From a peer perspective, the select SSA markets closed Q3 2023 on a net bullish trajectory with a local median return of 3.63% - higher than 3.1% printed in Q2 2023. In local currency terms, Egypt was the top gainer posting a 38% return while Kenya and Uganda shed 25% and 23% respectively, to close the quarter as the top laggards. We note that the BRVM (West Africa) market improved from the Q2 2023 loss of 1.6% print in returns terms to a positive 4% print on Q3 2023. BRVM, Botswana, Zambia Nigeria, Ghana and Egypt are seen to have outperformed relative to the market median of 3.63% while Rwanda, Tanzania, Uganda and Kenya recorded returns of 1%, -5%, -23% and -25% respectively therefore underperforming relative to the market median

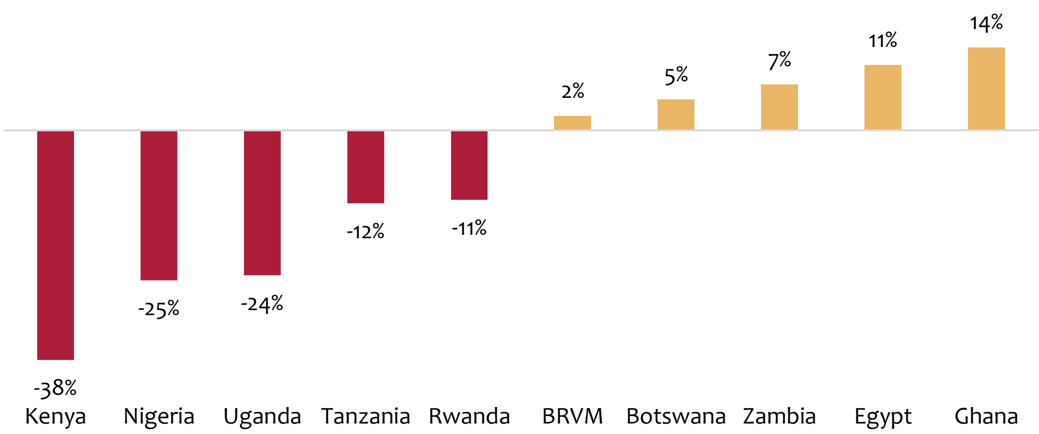
Chart 4.2: Select SSA Equities Performance YTD (Local Currency)



Source: African-markets.com

However, the gears shift when we consider the dollarized return equivalents which printed a median loss of 5% on the back of local currency value erosion against the dollar. This was higher than the -7.9% printed in Q2 2023 signifying that the African currencies at a median level strengthened against the dollar. In dollar terms, Ghana was the top gainer with 14% returns while Kenya shed 38% to close the period as the top loser.

Chart 4.3: Select SSA Equities Performance YTD (USD Equivalent)



Source: African-markets.com

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