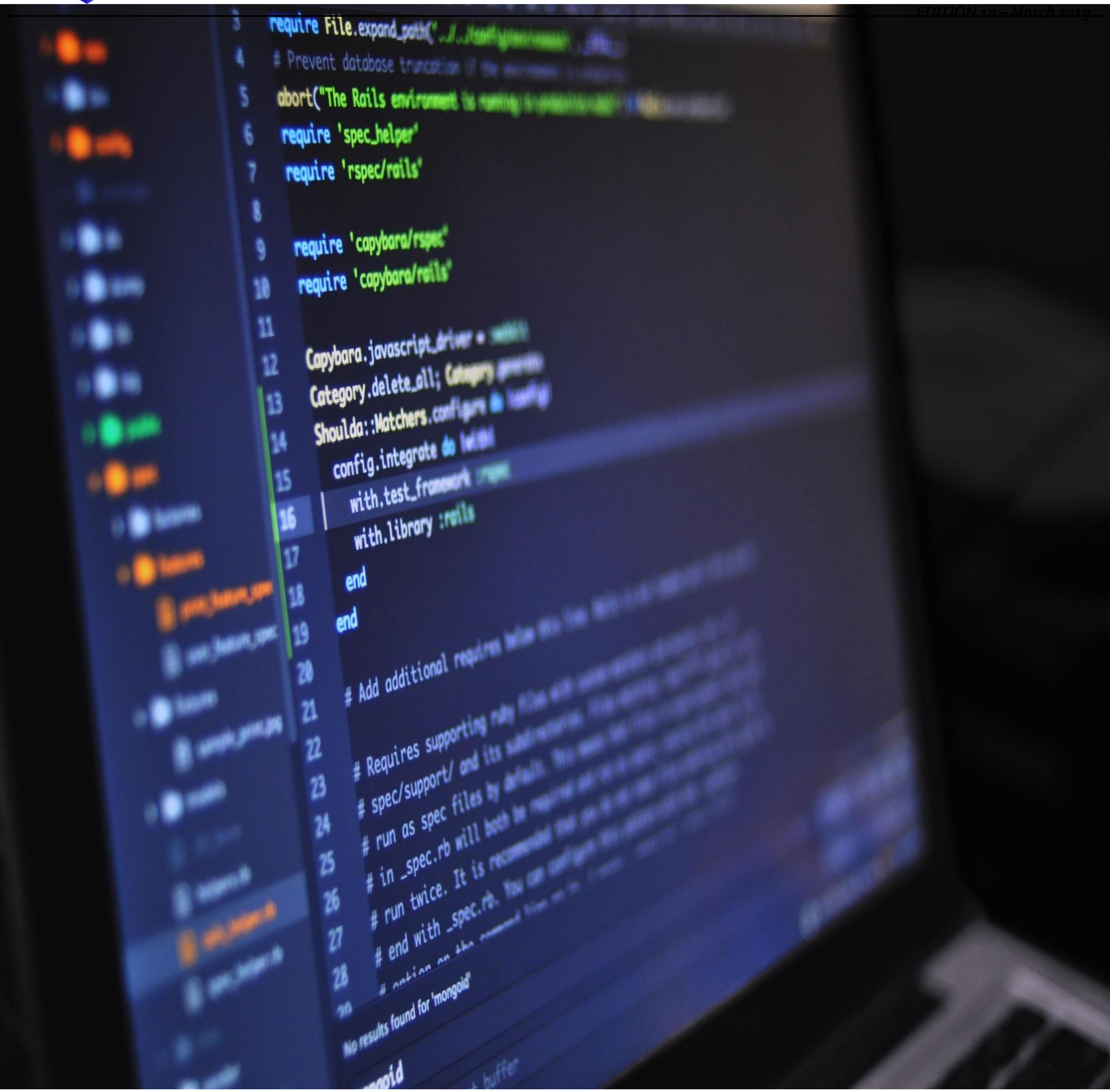
Ubiquity Consulting Ltd

# NEWS LETTER

*EDITION 10 – March 2019*



## NSSF PAY DEDUCTION SET FOR RISE TO KSHS.1080 PER MONTH

The National Social Security Fund (NSSF) says it is in out-of-court talks with workers unions, aiming to unlock a dispute that could see retirement deductions rise to KShs.1080 from KShs.200 and increase every year for the next 5years. The stalled 2013 Act that introduced the changes also sought to raise monthly contributions from employers to match each employee's deductions. NSSF Board of Trustees chairman Julius Karangi said the discussions with the Central Organization of Trade Unions (COTU) and the federation of Kenya Employers (FKE) will see it raise the deductions in the course of the year.

## EDIBLE OIL MAKERS DEMAND 2% LATE TAX REFUNDS FINE

Edible oil manufacturers want the Treasury slapped with a 2% monthly penalty for delayed refund of overpaid taxes starting from the end of the first 30 days. In a petition sent to parliament the manufacturers said outstanding refunds should continue attracting the penalty until full payment is made. The stakeholders also called on parliament to immediately intervene and reduce the 6% withholding VAT to 2% saying manufacturers suffer stunted growth owing to lack of money to fund expansions, meeting loan obligations as well as funding other operational expenses.

## PETROL PRICE UP TO KSHS.101 AFTER 3MONTH DROP

The energy sector regulator has increased prices of super petrol, diesel and kerosene reversing three months of consecutive fuel price cuts. In a price review effective from today, the Energy Regulatory Commission raised the price of a litre of super petrol by KShs.1.26, that of diesel by KShs.0.65 and that of Kerosene by KShs.2.96. a litre of petrol will cost KShs.101.35 in Nairobi while diesel will be priced at KShs.96.61. kerosene will retail at a maximum of KShs.99.46 per litre. This changes can be attributed to the average landed cost of imported super petrol increasing by 3.71 to $568.55 per tonne in February, diesel increasing by 2.79 to $561.64 per tonne and kerosene by 9.16% to $650.29 per tonne.

## OVERSTAYED GOODS AT PORT SET FOR SALE

The Kenya Revenue Authority is set to auction goods worth millions of shillings belonging to top tier businesses in two weeks' time for overstaying at the port. A gazette notice published on March 8 called on owners of the goods stuck at the customs office to collect them in 30 days failure to which they will be auctioned off. Flame tree Africa, the owners make-up brand Suzie Beauty, British Oil Exploration company Tullow Oil, Fuel marketer

Hashi Energy and Kingsway tyres ltd are some of the over 100 affected businesses. KRA auctions goods that have overstayed at the port or when owners fail to claim their items within stipulated period. This latest action by the taxman comes in the wake of increased efforts to seal revenue loopholes by the revenue collector.

## CHEAPER FOOD EASES INFLATION TO 6-MONTH LOW

A fall in the price of maize (Kenya's staple food) helped to ease the cost of living to a six-month low as per inflation data released by the Kenya National Bureau of Statistics (KNBS). The February inflation rate of 4.14% was lowest in half a year, as maize prices dropped 41% to KShs.35.63 per kg in February 2019 compared to KShs.60.37 in February last year as per KNBS data. The influx of grain in the market due to good weather has subdued buying price of a 90-kg bag from high of KShs.2100 in January to KShs.18000 in February. Food and non-alcoholic drinks index carriers the largest weight (36.04%) in determining the direction of inflation and is therefore closely monitored by policy makers. Housing, water, electricity, gas and other fuels follows with a weight of 18.3%.

## REMITTANCES WEAK COVER FOR SHILLING

Kenya's reliance on Diaspora dollar inflows to keep the shilling stable faces risks in the future according to the parliamentary economic and fiscal advisory team. The shilling has largely remained stable in the recent past against major international currencies such as the US dollar, sterling pound and the euro, partly helped by strong Diaspora remittances. The rising remittance inflows from Kenyans working and living abroad which last year rose 38.55% to $2.7 billion have helped build Kenya's stock of foreign exchange reserves in recent years offering a buffer to the shilling when it comes under pressure.

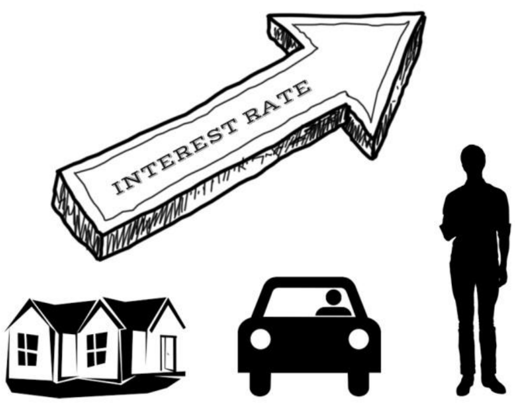
## CHEAP IMPORTS AS SHILLING HITS THREE AND A HALF HIGH TO DOLLAR

The shilling gained further grounds on the dollar to hit a three-and-a-half year high, setting the stage for cheaper imports of goods like cars, clothes, petrol and machinery. The shilling traded at an average of KShs.99.70 per dollar a level it last traded at in July 2015, from KShs.100.03 the previous day on increased hard currency inflows and a drop in demand for imports.

The local unit has been threatening to breach the KShs.100 mark for the past 2 months and has gained KShs.2.50 to the dollar since the start of the year. Exporters of goods like flowers, tea, and coffee will feel the pinch of reduced earnings once they convert their dollar sales to Kenya Shilling.

## END OF RATE CAP SIGNALS RETURN TO EXPENSIVE LOANS

The high court has declared unconstitutional the section of the Banking Act that introduced controls on cost of loans leaving borrowers at the mercy of Members of Parliament who have 12 months to amend the irregular clauses. Justices Francis Tuiyot, Jacqueline Kamau and Rachael Ngetich ruled that section 33 (B) (1) and (2) of the banking Act is vague, imprecise, ambiguous and indefinite and therefore unconstitutional. This effectively nullified the law that has seen consumers enjoy relatively low cost of loans for two years capped at a maximum of four percentage points above the Central Bank Rate.




## BANK STOCKS GAIN KSHS.13.6 BILLION AFTER FREEZE OF RATE CAP LAW

Kenyan banks' share prices rose further on the Nairobi Securities Exchange on resumption of trade yesterday three days after a court declared the lending rate cap null and gave parliament 12months to review it. The listed 11 banking stocks made a net total gain of KShs13.6 billion in the period with NIC Bank emerging as the biggest gainer. NIC's share went up 3.24% to KSh38.25 while KCB group saw its share go up by 1.47% to KShs44.95. co-operative bank of Kenya stock was up 0.33% to KShs15 while Barclays bank of Kenya saw its shares jump 0.42% to KShs11.90.

## CENTRAL BANK REJECTS OVER KSHS.13 BILLION IN BIDS FOR 25-YEAR BOND

The treasury has only raised a third of the targeted KShs50 billion in this month's infrastructure bond after sub-par bidding and rejection of expensive funds by the Central bank of Kenya (CBK) in the auction. Investors bid KShs29.4 billion for the 25-year bond with the CBK accepting just KShs16.3 billion out of it at an average rate of 12.65%. Investors had bid an average of 12.83% which analysts had said was on the aggressive side and was likely to be rebuffed by the CBK.

## TREASURY RAISES KSHS.34 BILLION IN AUCTION AS ONE YEAR PAPER MOST SOUGHT

Treasury bills were oversubscribed last week boosted by the uptake of the six-month and one-year tenor. The CBK, the Treasury's fiscal agent, had advertised a total of KShs.24 billion for the 91, 182 and 364-day tenors but received nearly double this amount. A total of KShs.34.97 billion was accepted from investors who had offered KShs.47.72 billion. The 182- and 364-day papers saw a subscription rate of an average of 90.58% and 359.33% respectively while that of 91-day was at 68.39%. The lower yield on the three month paper is mainly attributed to a low-interest rate environment being experienced since the passing of the law capping interest rate.

## TREASURY OPENS KSHS.50 BILLION TAX-FREE INFRASTRUCTURE BOND

Central Bank of Kenya has opened sale of a 25-year-amortized bond to raise up to KShs.50 billion with proceeds expected to fund infrastructure projects. The tax free-bond with a coupon of 12.2% started selling on Friday with auction set to close on March 19, according to prospectus the CK released. The redemption date is February 2044 but half of the out-standing principal amount will be paid out in March 2034. Investors are allowed to lock in between KShs.100,000 and KShs.20 million. The proceeds of the bond according to CBK will be used for infrastructure projects in transport, water and energy sectors.

## STATE CUTS OVERDRAFT AS TREASURY BILL RATES FALL

The Treasury has cut its overdraft at Central Bank of Kenya to a four-month low at KShs.15 billion on the back of increased borrowing from cheaper Treasury bills. Latest CBK data on domestic debt dated February 2 shows the Treasury has been paying down the overdraft progressively since hitting a peak of KShs.63 billion at the beginning of January. Given that the Treasury pays an interest rate of equivalent to the prevailing Central Bank Rate which currently stands at 9%, the facility is now more expensive than short term T-bills at prevailing rates. In Last week's auction, the 91-day T-bill came in at 6.89%, while the 182-day had a rate of 8.32%. Only the 364 T-bill is offering more than the overdraft at 9.48%. The government normally turns to the CBK for the short-term facility when it faces cash shortage, easing urgent payment requirements such as salaries and other recurrent expenditures like debt repayments.

## TREASURY BACK IN THE MARKET WITH KSHS.50 BILLION BOND

The Treasury has returned to the market with a new KShs.50 billion bond issue, hot on the heels of an undersubscribed infrastructure bond whose sale closed last week. The bond prospectus posted by the Central Bank of Kenya say that the coupon rates on the two tranches of 10 and 20 years will be market-determined although the regulator is likely to keep with its policy of rejecting most bids falling north of the yield curve.

The last 10-year bond which was issued in February had an accepted average rate of 12.44% while the 20-year bond sold in September 2018 had a rate of 12.93%. Last week the Treasury concluded the sale of a KShs.50 billion 25-year infrastructure bond. The New bond which will be on sale until April 9, offers the Government a chance to quickly mop up the rejected funds and maturities coming through with the shorter tenor of the 10-year tranche likely to attract high interest going by past trends.

## FOREIGN NET INFLOWS BACK AT NSE AFTER 16 MONTHS

Foreign investors at the Nairobi Security Exchange (NSE) in February recorded a net buying position for the first time in 16 months taking positions on a number of blue chips with an eye on dividend and capital gain. Market data compiled by standard investment bank shows foreign investors had net inflows of KShs.219 million with the bulk of the buys coming through Safaricom and East Africa breweries Ltd. In January they had sold a net of KShs.1.34 billion. The NSE 20-share index also declined by 23.7% to close at 2833.84 points compared to a gain of 16.5% the previous year.

## CITI URGES 10-YEAR EUROBOND HOLDERS TO TAKE UP PROFIT

Investment bankers at Citi Global markets have advised clients to take profit in the Kenyan 10-year Eurobond which has witnessed an increase in secondary market prices in recent months. In a note Citi said that a total return of 6.25 had been on the bond between January 7 and March 6 a period of two month. The increase in price has come about as a result of the fall in yields since the two move in opposite directions. Between the beginning of the year and now, the yield on the paper is down by nearly 2 percentage points, pushing up the prices. The bond is set to be redeemed in 2024. It was floated in 2014 when the

Treasury was seeking to shore up its finance as well as encourage private investors to borrow offshore.

## BANKS EARN KSHS.152.3 BILLION RECORD PROFIT IN 2018


Kenyan banks' total pre-tax profits hit a record high of KShs.152.3 billion last year surpassing the previous earnings peak reported before the introduction of interest rate controls slightly more than two years ago. A new Central Bank of Kenya (CBK) report shows that the lenders' earning increased by 12.3% over the KShs.135.5 billion profit they made for the year ended December 2017. Last year, CBK twice lowered the maximum interest on loans chargeable on borrowers, indicating that banks have devised ways of beating the interest rate caps.

## AIB CAPITAL LAUNCHES ONLINE STOCK TRADING PLATFORM

Investors can now open CDS accounts, buy and sell shares all by themselves online following the launch of a new technology meant to remove stock purchase bureaucracies. AIB Capital Limited launched the DigiTrader yesterday aiming to remove hurdles associated with convectional stock buying through brokers and prompt more Kenyans to invest in stocks. It joins a growing list of brokers with online trading platform locally. The stockbrokerage firm that came up with the solution said the interventions hopes to attract the youth who are familiar with convenience and speed into investing in the Kenyan capital markets as well as target far-flung target markets such as traders in remote areas in Kenya and traders in the Diaspora.

## PORSCHE, BMW FAIL TO MAKE SALES FOR 2 MONTHS IN LUXURY CAR SLOWDOWN

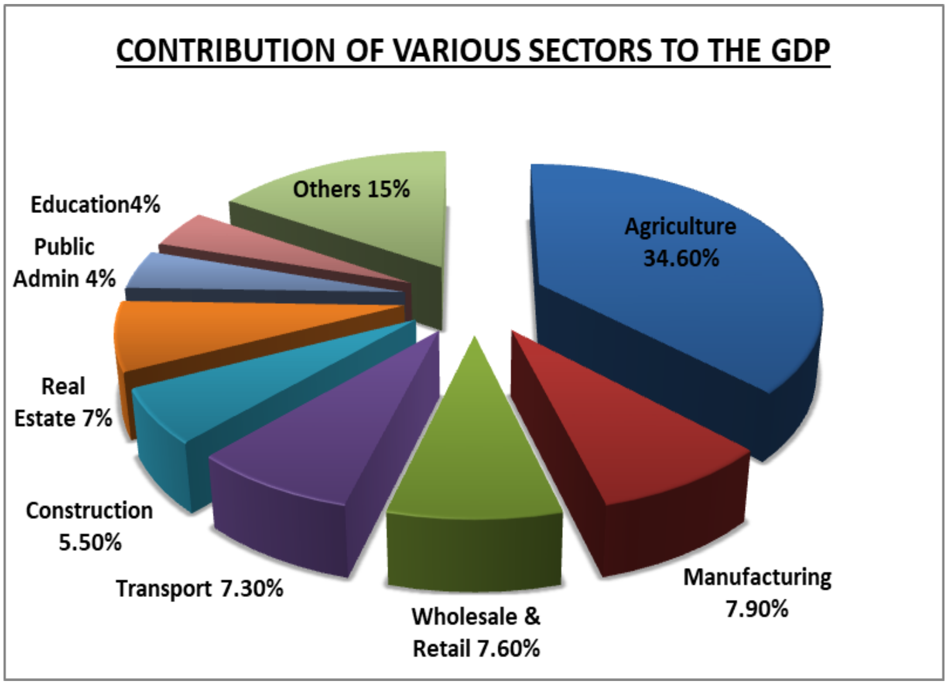
Luxury car market was hit by a slowdown in the first two months of the year that saw top brands Porsche and BMW fail to make a single sale. According to data released by Kenya Motor industry Association shows sales of land rover that also include Range Rover dropped to 8 from 14 reported in the first two months of last year. Dealers in new luxury cars have witnessed flat growth in sales for the last three years in what industry analyst have linked to increased government scrutiny on individuals lifestyle in the war on corruption and tax cheats. Jaguar, which is under UK-controlled luxury car dealer Inchcape Plc together with Land rover and BMW, sold one unit in the two months.

## ELECTRONIC PAYMENTS FIRM PESAPAL ADDS OPTIONS TO APP

Electronic payment firm Pesapal has added payment option in its integrated mobile money processing platform for shoppers and those making utility payments. The company said its users will be able to leverage on its newapp-dubbed Pesapal mobile to buy airtime, pay bills, book flights and holidays, purchase event tickets and pay school fees. Available on both Android's Google play store and apple's App store. The App is geared towards consumers looking to simplify how they manage day-to-day payments all on one free platform.

## COMESA AGENCY ORDERS COCA-COLA TO STOP SETTING PRICE FOR DISTRIBUTORS

Coca-Cola beverage Africa (CCBA) ltd will suspend the clause that allows it to set price for distributors of its non-alcoholic drinks following a probe by Comesa competition commission (CCC). The competition commission says stipulation of price by CCBA, a subsidiary of the Atlanta based Coca-Cola company has a tendency of subjecting consumers to higher prices. The move follows investigation by the competition body against the beverage maker, which started in January last year.



# KENYAN ECONOMIC OUTLOOK

## CONSUMERS GAIN, EXPORTERS PAIN AS SHILLING HITS 99

The shilling has strengthened to below 100 units to the dollar for the first time in 10 months yielding gains for consumers who are set to feel an ease in the cost of goods and services but loading pain on exporters who will get less earnings from their sales. The Kenyan currency breached the psychological 100 units to the US dollar trading buoyed by continued heavy foreign exchange inflows that are out-weighing demand. Banks were bidding for the shilling at an average of 99.85 units at close of trading against an average asking price.


## CITI TIPS SHILLING TO HOLD GROUND AGAINST DOLLAR

The shilling is unlikely to weaken significantly against the greenback this year due to support from regional investment inflows and proactive CBK stance in ironing out volatility. The domestic currency has so far bucked he depreciation trend of African currencies against the dollar strengthening to a 10-month high of 100.03 to the greenback. Citi chief economist for Africa said analysts have consistently overestimated the shilling's depreciation against the dollar based on the twin deficits, current and fiscal. In the process they have failed to account for other unique capital inflows into the country that prop up the currency, courtesy of Kenya's position as an economic safe haven in an unstable region.

## INFLATION SEEN MUTED IN THE COMING MONTHS

The rise in cost of living is expected to moderate further in coming months due to continued fall in food prices that should cancel out any inflationary effects of higher fuel prices according to analyst. In February, Kenya's inflation dropped to a six-month low of 4.1% mainly due to lower prices of food items such as maize grain and flour, green vegetables and sugar on a year-on-year basis. Analysts at Commercial Bank of Africa (CBA) say the combination of the lower food prices and muted demand side pressure should however, be enough to iron out rise in fuel costs, hence keep inflation edging downwards.

## BUDGET DEFICIT TIPPED TO FALL BELOW 6.3%

The fiscal deficit is likely to come below the Treasury estimate of 6.3% by the end of the financial year if the poor absorption of expenditure continues. Genghis Capital Analyst said in a note on public debt that with the absorption of both recurrent and development expenditure below 50% at the halfway mark of the fiscal year, the effect of subpar revenue performance will likely be muted. In the six month period the government used 44.6% of the budgeted funds for recurrent items, while development spending was lower at 30.6%, partly attributed by the analyst to the presidential directive to compete old projects before starting new ones.

## FOREX RESERVES RISE KSHS.25 BILLION ON STRONG SHILLING

Kenya's official foreign exchange reserves have risen to a five month high after sharp gain of KShs.24.5 billion ($244 million) last week. Official data from Central Bank of Kenya shows that the reserves now stand at KShs.841.7 billion which is equivalent to 5.45 months of import cover. In the week ending March 8, they stood at KShs.817.2 billion representing 5.29 months of import cover. Leading up to last week, the shilling had strengthened to a three and a half year high of 99.65 units to the dollar, before ceding some ground towards the end of the week to settle at 100.29 due to increased dollar demand by corporate buyers.

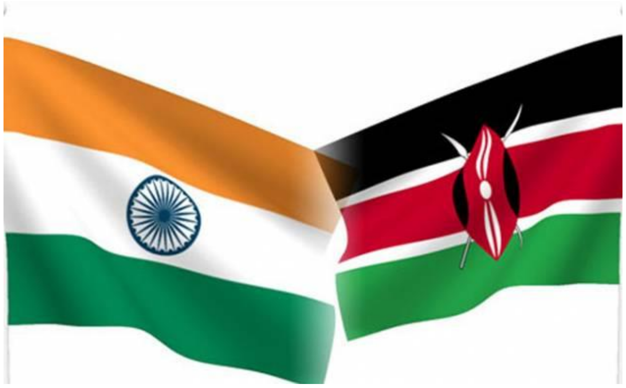
## INTEREST RATES ON SHORT-TERM PAPER FACE FURTHER FALL

Interest rates on short-term government debt are likely to fall further despite last week's moderate rise in yields on the 91-day Treasury bill, with high liquidity in the market likely to continue weighing on the returns on the papers. Analysts at Commercial Bank of Africa said in their weekly fixed income report that investors are likely to become bolder in their demand for higher interest after seeing the 91-day yield rise by 86 basis points to 7.69% in last week's auction.

## INDIA IMPORTS HIT 7-YEAR HIGH AS CHINA FIRMS ORDERS DROP

Imports of goods from India hit a 7-year high in 2018 as the Asian country played catch-up with rival China, whose orders declined by 5.35% in the period. Trade data released by Central Bank shows consignments worth nearly KShs.185.15 billion were bought from India a growth of 8.65% over KShs.170.41 billion in 2017. India's exports to Kenya are largely pharmaceuticals, steel, machinery and automobiles.

Kenya National Bureau of Statistics (KNBS) data shows goods worth KShs.346.61 billion were ordered from China in 11months through November 2018, being KShs.19.6 billion lower than the KShs.366.21 billion purchased in the same period in 2017. CBK data shows the value of



imports from India have been dipping since 2015 prior to last year, coinciding with slowdown in the manufacturing sector. Orders from India the data shows, slipped from KShs.264.54 billion in 2014 to KShs.252.82 billion in 2015, KShs.205.50 billion (2016) and KShs.170.41 billion in 2017- the lowest value since KShs.148.77 billion in 2011.

# GLOBAL ECONOMIC OUTLOOK

## GERMAN 10-YEAR BOND YIELDS DIVE BELOW ZERO AMID GROWTH FEARS

German 10-year bond yields crashed briefly below zero while European shares and the Euro fell last Friday after another set of disappointing German economic data added to fears of a global slowdown prompted by this week's dovish turn by the US fed. Yields in Germany's 10-year government bond turned negative for the first time since October 2016 after data showed German manufacturing contracted for a third straight month in March, compounding worries that unresolved trade disputes are exe=acerbating a slowdown in Europe's biggest economy.

## GLOBAL SHARES UP AS POUND RIDES FRESH BREXIT TWISTS

World shares inched toward their longest winning streak of the year yesterday ahead of a Federal Reserve meeting while the pound kept calm after another dramatic twist in the Brexit plot bolstered bets on a lengthy delay to the process. With traders expecting soothing sounds from the Fed's meeting yesterday, Europe's early 0.2-0.5% gains lifted MSCI's 47-country world index for a seventh straight day and to its highest since October.

## GLOBAL STOCKS RISE ON RENEWED TRADE HOPES

Global stocks rose last Friday after a report that US-China trade talks were making progress and a vote by UK lawmakers to delay the British exit from the European Union. European stock markets opened higher with the pan-European STOXX 600 indexes reaching its highest since October S&P 500 futures also gained indicating stocks would open higher on Wall Street. In Asia, MSCI's broadest Index of Asia-pacific shares outside of Japan gained over half a percent. MSCI's All-country world index, which tracks shares in 47 countries, was up one percent on the day and was set for its best week since early January. The Shanghai composite index added one percent and Japan's Nikkei climbed 0.8%.

## OIL DROPS BY 1% AS US SUPPLY SURGES

Oil prices dropped by more than 1% on Friday as clouds gathered over the global economy after the European Central Bank warned of continued weakness and fresh data showed Chinese exports and imports slumped last month. With surging U.S supply also unsettling markets, international benchmark Brent crude futures were at $65.42 per barrel at 0803 GMT, down 88 cents equivalent to 1.3% from their last close. U.S West Texas Intermediate (WTI) crude futures were at $56.03 per barrel, down 63 cents equivalent to 1.1%.

## CHINA TO SLASH TAXES, BOOST LENDING

China is expected to shore up its slowing economy through billions of dollars in planned tax cuts and infrastructure spending with economic growth at its weakest in almost 30 years due to weaker domestic demand and a trade war with the United States. The government is targeting economic growth of 6.0-6.5% in 2019 less than the 6.6% gross domestic product growth reported last year. China's GDP last year expanded at its slowest pace since 1990 due to the trade war and Beijing's crackdown on financial risks, which raised corporate borrowing costs and hurt investment.

## SOUTH AFRICA'S PRIVATE-SECTOR ACTIVITY EXPANDS IN FEBRUARY

Activity in South Africa's private sector expanded for the first time in 8 months in February as output stabilized and new orders fell at a slower pace. HIS Markit's purchasing managers' index (PMI) rose to 50.2 in February from 49.6 in January breaching the 50 mark that separates expansion from contraction for the first time since June 2018.South Africa suffered its worst power cuts in several years in February due to plant-related problems at power utility Eskom, diesel shortages and planned maintenance.

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