Ubiquity Consulting Ltd

NEWS LETTER

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TAXMAN SETS MONTH-END DEADLINE FOR RELEASE OF KSHS.2 BILLION REFUNDS

Manufacturers could soon enjoy better cash flow after the government pledged to release KShs.2 billion VAT refunds by month-end. This follows a Kenya Private sector Alliance (KEPSA) and Kenya Revenue Authority (KRA) boards meeting that in a joint statement called for a review of the VAT refunds process to facilitate faster disbursements. The team also resolved that customs Management Systems (ICMS) and I-Tax systems be integrated to enable filing of VAT refund claims online where the KRA systems process and send a confirmation report to the manufacturers. The manufacturers are owed about KShs.20 billion denying them opportunities to expand, pay suppliers, transporters, and workers on time.

REPRIEVE FOR WORKERS AS HOUSE LEVY FROZEN

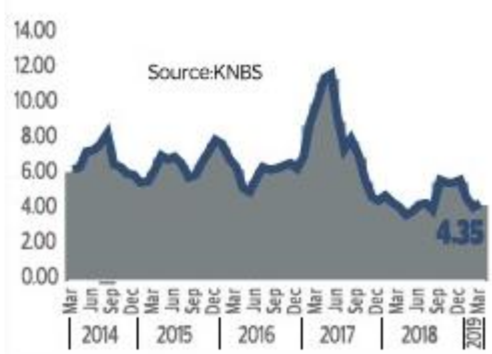
Workers have been spared a 1.5% pay cut for home development levy after the Labour Court stopped the deduction that was set to start next month. Justice Maureen Onyango said the freeze will remain in place pending conclusion of the court case and urged for the suit to be merged with the one by Central Organization of Trade Unions (COTU)—which in December successfully got an order stopping the deduction. The government Tuesday informed employers to effect the home levy on this month's pay slips, drawing protests from the Federation of Kenya Employers (FKE).

INFLATION FEARS AS SHILLING WEAKENS TO 3-MONTH LOW

The shilling hit a three-month low Wednesday, triggering fears of fresh rises in consumer inflation. Persistent weakness of the currency now poses the risk of pushing up inflation while subjecting households, especially the low-income ones, to deeper misery of more expensive import items such as oil and food. The country's inflation rate is already under watch, having climbed to 4.35 percent in March from 4.14 percent in the previous month — mainly on the account of a sharp rise in the cost of food. Millers and traders have reported maize shortages, which have seen prices of the commodity rise by up to 40 percent in just two weeks.

Inflation rate

INFLATION RATE CLIMBED TO 4.35 IN MARCH FROM 4.14 IN FEB.IN APRIL,INFLATION IS EXPECTED TO BE HIGHER AS FOOD AND FUEL PRICES RISES DUE TO THE PROLONGED DROUGHT



Average retail prices for selected commodities (Sh)

	Mar-19	Apr-19
2kg Maize flour -Sifted	86	119
1kg Sukuma wiki	53	80
1Kg Tomatoes	70	100
1Litre milk	100	110
1Kg Sugar	117	125
1 litre Kerosene	100.31	102.22
1 litre Petrol	102.13	106.6

SOURCE:BD RESEACH

TAXMAN COLLECTS KSHS.1TRN IN Q3 AS FIRMS REPORT LOSSES

Tax collections in the nine months ended March 2019 rose by a modest 8.62 percent compared to a year earlier, leaving the taxman with a KShs.585.27 billion gap to bridge in three months to meet full-year target. According to Data released by Treasury secretary Henry Rotich last Thursday shows tax receipts between July 2018 and March 2019 stood at KShs.1.02 trillion compared with nearly KShs.939.37 billion in the same period the year before. The Kenya Revenue Authority (KRA) had raked in an equivalent of 63.55 percent of the nearly KShs.1.61 trillion target set by the Treasury in the current year ending in June during the review period.

That is slightly lower than 65.23 percent performance rate of the KShs.1.44 trillion target for the previous year ended June 2018.shortfalls in revenue collection targets widens the country's budget deficit which is bridged through increased borrowing to meet cash demands for public service delivery and development projects. Chief taxman has linked this to sluggish recovery from 2017 election jitters which hurt investment sentiment in that period with growth in economic output — gross domestic product — slowing to a five-year low of 4.9 percent.

COURT HALTS 20% TAX ON BETTING, LOTTERY WINNERS

The court has temporarily stopped gambling and lottery firms from deducting 20% on winnings pending the hearing of a civil case filed by a betting enthusiast. Senior resident magistrate Dennis Kivuti yesterday declined to lift his April 11 orders that barred SportPesa from deducting tax on winnings by petitioner Benson Irungu and other winners. The Kenya Revenue Authority (KRA) had asked the court to stop the order, arguing it will freeze collections of about KShs.2.7 billion monthly from winners, the tax which is deducted and withheld by betting and lottery firms.

INTERBANK RATE TRIPPLES ON TAX, T-BILL PAYMENTS

The bank-to-bank lending rate nearly tripled on tighter liquidity due to tax remittance deadline and payments for government securities. Central Bank of Kenya (CBK) data for last week quoted the inter-bank rate at 4.69 %, a steep rise from 1.62 % the previous week. The rise was further fuelled by a drop in the lenders' Central Bank reserves. During the week, the average number of interbank deals increased to 22 from 14 while the value traded more than doubled to KShs.16.2 billion from KShs.5.9 billion recorded in the previous week. Interbank activity report for last Thursday showed that some banks borrowed at as high as 5%.Tight liquidity was also manifested in the performance of Treasury bills auction. Against an advertised amount of KShs.24 billion, KShs.21.3 billion worth of bids were received.

MILK PRICE RISES BY KSHS.5 A PACKET

Milk processors have increased consumer price of long-life milk by KShs.5 for a 500ml packet, citing shortage of the commodity in the market. Consumers will pay KShs.5 more for the half-litre packet which is currently retailing at KShs.55 from KShs.50.This is the first time that the price of the commodity has hit KShs.55 in the last two years. The country has been affected by a prolonged dry spell, which had not been anticipated as rains were expected to start in mid-March.

MILLERS RECOMMEND HIGHER FLOUR PRICE

Millers have adjusted the Recommended Retail Price (RRP) for a two-kilo packet of flour by up to 10 percent in one week as maize shortage continues to bite. Unga Ltd, the makers of popular Jogoo brand, has adjusted its RRP to KShs.117 this week from KShs.109 last week while Capwell, which owns Soko, has adjusted its price to KShs.120 for a two-kilo packet. This has forced retailers to adjust only marginally, with others selling below the recommended price.

FALLING EXPAT NUMBERS SLASH UP MARKET RENTS

The departure of expatriates, including diplomats and Non-Governmental Organizations (NGOs) employees from Nairobi is dampening house prices and rents in the capital's high-end market according to statement released by Hass Consult realtors. Kenya property developers have for decades skewed their developments towards the high-end property segment where the returns have been elevated. The market has been sweetened by new moneyed classes of entrepreneurs and State operatives who have been snapping up the properties.

MOBILE MONEY TRANSACTIONS GROW A RECORD 14.2% IN JANUARY

Telco's set a new record on facilitating money transactions where users transferred KShs.368 billion mainly for payment of school fees, retail purchases and sending money across the country last January. Statistics released by the CBK show this was 14.2% higher than the KShs.322 billion recorded in January, 2018when Kenya was returning to normalcy after a prolonged 2017 electioneering period. The growth was also powered by a seven-percent rise in paypoint agents from 188,029 registered in January, 2018 to 201336 paypoint agents under the franchising models which are strewn across the country.

T-BILLS MAINTAIN HIGH SUBSCRIPTION INTO FIFTH WEEK

Treasury bills were oversubscribed by nearly half last Thursday as investors continued to offer the government more cash than it was seeking for the fifth straight week due to high liquidity. Central Bank of Kenya (CBK), the government's fiscal agent, received bids worth KShs.35.55 billion, 48.13 percent more than the KShs.24 billion on offers for three-, six- and 12-month debt securities. The high appetite for government debt points to high liquidity levels in the market and inadequate supply of short-term debt securities.

WORLD BANK PUSHES FOR E-TRADE PLATFORM

The World Bank wants Kenya to set up an electronic trading platform for issuance of government securities in order to strengthen debt management and ensure prompt settlement of transactions. WB country Director for Kenya Felipe Jaramillo says in the latest country economic update that this could also help in improving liquidity in the market. Adopting an electronic platform could improve the primary auction of government securities. This could promote transparency and enhance efficiency in the management of government debt.

WORLD BANK SAYING PILING PENDING BILLS HOBBLING ECONOMY

The World Bank has warned a persistent rise in public pending bills is strangling the economy by limiting liquidity flow and profitability of the firms doing business with the state in findings contained in the latest country economic update report, WB cautions the unchecked rise, especially at the county government level, will ultimately weaken aggregate demand and economic growth. The Washington-headquarter institution wants the government to take a decisive policy action such as a phased-out approach to clear pending bills to restore liquidity, stimulate private sector activity and create jobs.

PENSION ASSETS UP 10% TO KSHS 1.2 TRILLION IN NINE MONTHS

Pension industry assets grew by 9.8% in the last nine months to September 2018 to hit 1.86 trillion. However, the growth rate is likely to be below that of 2017 due to underperforming equities and real estate. The Retirement benefit authority (RBA) third quarter 2018 report shows that among the major investment classes, fixed income had the best growth rate in the period at 28% to stand at KShs.505.3 billion. Assets in the form of quoted equities went up by 11% to KShs.232.9 billion while guaranteed funds rose by 19% to KShs.169.8 billion. Immovable property assets on the other hand contracted by a third to KShs.153 billion.

SLUMP IN BANKS, KENOL TRADING CUTS EQUITIES TURNOVER

Traded turnover at the NSE fell by quarter of the year compared to a similar period in 2018 as investors reduced their activities on large bank stocks. Market data compiled by standard investment bank shows that turnover stood at KShs.45.3 billion in the first three months of the year compared to KShs.61 billion in similar period of 2018. Among the often traded blue- chip firms that dominate activity at the bourse, the most pronounced decline in turnover was on large banks and the suspended kenolkobil stock. In the first quarter of last year, the oil marketer's shareholders had traded KShs.9.5 billion worth of shares, which in that period was only second to Safaricom's KShs.17.4 billion.

FOREX DEPOSIT RISE BY 22%

Foreign currency deposits in Kenyan banking institutions rose by 21.6% last year with Diaspora remittances being among the major drives of the growth. Monthly data from the CBK showed the deposits stood at KShs.581.9 billion at the end of December 2018 compared to KShs.478.8 billion at the end of the previous year. In November 2018 the deposits stood at KShs.569.6 billion showing they rose by KShs.12.3 billion equivalent to 2.2% in a month to close the year at KShs.581.9 billion. In an earlier statement in March and January, CBK's monetary policy Committee (MPC) had reported that Diaspora and other inflows were strong in 2018 as well as in the few months of this year.

KENYAS ECONOMY TO LOSE KSHS.2 BILLION IN NO-DEAL BREXIT

Kenya will shed KShs.2 billion in exports value to Great Britain if the latter leaves the European Union without an exit deal, a UN trade agency have warned. A study commissioned by the United Nations Conference on Trade and Development found that a no-Brexit deal for UK would see Kenyan Exports drop by an initial $20.6 million making it one of the worst hit.

KENYAS'S DIASPORA INFLOWS RISE KSHS.75 BILLION IN A YEAR

Remittances have risen to the equivalent of over three percent of Kenya's GDP according to a new report from the World Bank. The 2019 migration and development report says remittances have risen from $1.962 billion in 2017 to $2.720 billion last year an increase of over $750 million. In Uganda remittances were also up from $1.166 billion to $1.245 billion making up 4.5% of the country's GDP. Tanzania remittances remain much smaller at $430 million, an increase of $25 million on the previous year and now making up 0.8% of its GDP.

TREASURY GETS KSHS.125BN LOANS TO REFINANCE DEBT

The Treasury took new $1.25 billion (KShs.125billion) medium-term syndicated loans between January and March to retire maturing short-term foreign loans, officials said, in a move aimed at easing debt repayment pressures on the exchequer. The two loans were contracted as part of debt management strategy geared at lengthening the maturity of the country's foreign commercial loans. This involves taking loans which will mature in at least seven years and using the proceeds to refinance short-term ones which are falling due.

EUROBOND YIELDS DROP ON FED RATE REMAINING STEADY

Yields on all Kenyan Eurobonds have fallen with most of the change taking place in the past few weeks according to data from CBK. The biggest change since the beginning of the year is on the 10-year paper due in 2024 that declined by 2.2% points to stand at 6.19% as at April 4. The other 10-paper due in 2028 has seen its yield slump by 1.963% points to stand at 7.121% the 5-year Eurobond issued last year has gone downwards by 0.752% points to 5.118% while the yield on the 30-year paper is at 8.187% representing a 1.672 percentage points fall. Analysts have pointed to the demand for emerging market fixed-income securities in the wake of the pause by the US Fed in raising interest rates.

KENYA AIRWAYS POSTS KSHS.7.55BN LOSS

Kenya Airways has posted a KShs.7.55 billion net loss for year ended December 2018 as higher costs offset a jump in revenue. The carrier's full-year results do not have a comparable period because KQ, as the airline is known by its international code, in 2017 changed its reporting period from ending in March 31 to end in December 31. However, KQ had made a net loss of KShs.6.41 billion in the 9-month period between April 1 and Dec 31 2017. The company's revenue in 2018 hit KShs.114.18 billion, largely driven by passenger bookings. Its revenue in the previous 9-month period stood at KShs.80.7 billion. Its total operating costs stood at KShs.114.87 billion in the period under review.

KENYA FACES WORST DROUGHT IN 38 YEARS

The dry weather witnessed in the long rains season from March to May will be the worst in 38 years, worsening food shortages, water scarcity and piling pressure on electricity bills. Intergovernmental Authority on Development (IGAD) says the rains have already failed and even if it rains now, farmers will not make any meaningful return from their farms because the planting season is already over. The agency has warned that about 541,309 children under five in Kenya are at risk of malnutrition at the moment with the food shortage expected to get worse in the coming weeks.

KENYAN ECONOMIC OUTLOOK

LOW CURRENT ACCOUNT DEFICIT PROPS UP SHILLING

Kenya's current account deficit has stabilized at 4.7% in the first two months of the year offering crucial support to the shilling against the dollar at a time when other African currencies have struggled against the greenback. The Central Bank of Kenya (CBK) says the deficit stood at 4.7% by the end of February-little changed from 4.6% in January-supported by higher horticulture exports, Diaspora remittance and a narrowing import bill. The narrowing of the gap between dollar inflows and outflows has played a big part in helping the shilling remain in positive territory against the greenback this year- A 1% appreciation in the year to date.

FOREX RESERVES PILE DOWN BY KSHS.20 BILLION

Official foreign exchange reserves fell by KShs.20.16 billion or $200 million in three weeks as the shilling depreciated by 60 cents to the dollar during the same period. The central bank of Kenya said in its weekly bulletin that the reserves stood at $8.192 billion or KShs.825.75 billion on April 4 compared to $8.392 billion equivalent to KShs.845.91 billion on March 4. The CBK did not explain what had caused the erosion of the reserves, sticking to its long-standing policy of leaving the market guessing despite recent pressure from international lenders to disclose its Forex market operations.

DOMESTIC DEBT RAISES KSHS.179BN IN THREE MONTHS

The new total cumulative domestic debt now stands at KShs.2.706 trillion, about the same level with external debt that was last recorded at KShs.2.707 trillion at the end of February. External debt has been consistently higher than the domestic variety since 2017 thanks largely to the huge amount incurred by the standard gauge railway, but the gap is closing fast. Genghis Capital research analyst said that domestic debt would have been even larger had the Treasury been able to borrow the entire targeted amount by the end of March.

KENYA EXPORTS UNDER AGOA DEAL GROW 25PC

Exports of duty-free goods to the US under the African Growth and Opportunity Act (AGOA) grew by 25 percent last year, marking one of the biggest leaps in nine years, according to the latest figures by the Kenya National Bureau of Statistics (KNBS). The goods, mainly textile products, increased from KShs.33 billion in 2018 to KShs.41.5 billion last year. Capital investment increased to 96.3 billion in 2018 from KShs.95.3 billion in 2017 while direct employment in the sub-sector increased by 5.1 per cent to 46,248 persons in 2018.

AGOA allows Kenya to export selected goods at preferential terms to the US, exempting them from paying tax. The initiative, which was expected to end in 2015 after an initial deadline of September 2012, was extended by US lawmakers for 10 years. It allows Kenya to export more than 6,000 product lines but has been dominated by export of textile and apparel.

GLOBAL ECONOMIC OUTLOOK

JAPAN BOND BUYING LOW AS EASING HITS LIMITS

The bank of Japan's buying of government bonds hit the lowest level under Governor Haruhiko kuroda this month indicating not so much a sign of policy tightening by stealth, but a lack of tools for a central bank that has pursed aggressive monetary easing for years. The BOJ bought 5.95 trillion Yen ($53.76 billion) of Japanese Government Bonds (JGBs) in March; nearly half of its peak of 11.15 trillion Yen in November 2014 when the bank's easing policy was in full swing.

FLOOD OF DOLLARS LEAVES CURRENCY MARKET IN A FLAP

An excess of dollars jolted India's currency market on the last working day of the financial year. The interest rate in the inter-bank, dollar-rupee, near maturity swap market where banks exchange the greenback against the local currency surged to more than 73% from 22% levels at the start of the day before receding after likely central bank intervention. In the cash-tom market, a currency platform on which deliveries take place, the rate hit a record 73.12% according to Clearing Corporation of India (CCIL) data. This means an institution pays 73.12% to swap dollars on the next working day. The gauge opened at 22.48% on Friday and ended below that level.

GOLD HAS BETTER DAYS COMING

Global demand for gold in 2019 will rise to the highest in four years as higher consumption by jewelers offsets a fall in purchases by central banks. The world will consume 4,370 tonnes of gold this year, the most since 2015 and up slightly from 4,364 tonnes in 2018 consultancy metals focus said. Its gold focus 2019 report also predicted gold process would average $1, 310 an ounce this year, up from $1, 268 in 2018 and the highest since 2013. Gold currently trades around $1, 300 an ounce. Gold consumption for jewelry will rise 3% this year to 2, 351 tonnes, driven by increases of 7% in India and 3% in China-the two largest markets which will counter lower demand in the middle East.

GLOBAL SHARES SURGE ON CHINA FACTORY REBOUND

Global stocks surged higher yesterday extending gains from their best quarter in nearly 10 years as strong Chinese factory activity data and signs of progress in U.S china trade negations gave investors reason to cheer. European stock posted their best daily gains since mid- February with the pan-European STOXX 600 index up 0.8% in early deals. Germany's trade-sensitive DAX outperformed with a 1% rise helped by gains in auto maker stocks. MSCI's All-Country world index, which tracks shares in 47 countries, was up 0.4% on the day. It had just posted its best quarter since 2010.

SAUDI ARAMCO GETS FIRST CREDIT RATING

Saudi Aramco, the world's top oil producer, has been rated A+ by Fitch and A1 by Moody's in its first-ever credit ratings, ahead of the state oil giant's first global bond sale and following 2018 earnings that dwarfed those of international oil majors. Aramco will start meeting international bond investors this week for its debut in the international capital markets, opening its books to investor scrutiny for the first time. Given Aramco is fully state owned, its ratings are in line with the credit rating of Saudi Arabia. Aramco generated earnings before, tax and depreciation (EBITDA) of $224 billion in 2018 surpassing EXXONMOBIL, the largest listed oil firm.

UK MINIMUM WAGE RISES BUT BILLS GO UP

Two million UK workers on minimum wages are now receiving a pay rise- but a string of household bills have also increased. Workers aged 25 and over on the national living wage will receive £8.21 an hour from Monday, up from £7.83- a 4.9% rise. Pay rises also take effect for younger workers on minimum wages. However, the pay rise comes as bills ranging from council tax to the TV licence fee become more expensive. Women represent an estimated 60% of those who are benefitting from the rise in minimum wage rates. Workers in the hospitality and retail sectors are the most likely to be on the lowest pay and nearly 200,000 of them will receive the pay rise.

OIL CLIMBS TO 5-MONTH HIGH ON OPEC CUTS AND US SANCTIONS

Oil prices rose to their highest level since November 2018 driven by OPEC supply cuts, US sanctions against Iran and Venezuela and fighting in Libya as well as strong US jobs data. International benchmark Brent futures were at $70.66 per barrel at 1000 GMT yesterday up 32 cents equivalent to 0.5% from their last close. US west Texas Intermediate (WTI) crude futures were up 30 cents equivalent to 0.5% at $63.38 per barrel. Brent and WTI both hit their highest since November at $70.83 and $63.53 a barrel respectively early on Monday.

US JOB GROWTH SEEN ACCELERATING

US employment growth likely rebounded from a 17-month low in March as milder weather boosted activity in sectors like construction, which could further allay fears of a sharp slowdown in economic growth in the first quarter. Worsening worker shortages and lingering effects of tighter financial market conditions at the turn of the year, however, suggest the job gains probably remained below

2018's brisk pace. Nonfarm payrolls probably increased by 180,000 jobs last month, according to Reuter's survey of economists. Investors will also be watching to see if February's paltry 20,000 job count.

ONLINE LENDERS REDUCE RISK OVER RECESSION FEARS

U.S.online lenders such as Lending Club Corp, Kabbage Inc and Avant LLCare scrutinizing loan quality, securing long-term financing and cutting costs, as executives prepare for what they fear could be the sector's first economic downturn. A recession could bring escalating credit losses, liquidity crunch and higher funding costs, testing business models in a relatively nascent industry.

Peer-to-peer and other digital lenders sprouted up largely after the Great Recession of 2008. Unlike banks, which tend to have lower-cost and more stable deposits, online lenders rely on market funding that can be harder to come by in times of stress. Economists polled by Reuters in March saw a 25 percent chance of U.S. recession over the next 12 months. More recently, some executives said, a Federal Reserve decision to halt interest rate hikes reinforced those fears.

US WATERS DOWN DEMAND BEIJING CURB SUBSIDIES IN PUSH FOR DEAL

U.S. negotiators have tempered demands that China curb industrial subsidies as a condition for a trade deal after strong resistance from Beijing, according to two sources briefed on discussions, marking a retreat on a core U.S. objective for the trade talks. The world's two biggest economies are nine months into a trade war that has cost billions of dollars, roiled financial markets and upended supply chains.

U.S. President Donald Trump's administration has slapped tariffs on $250 billion worth of imports of Chinese goods to press demands for an end to policies - including industrial subsidies - that Washington says hurt U.S. companies competing with Chinese firms. China responded with its own tit-for-tat tariffs on U.S. goods.

RETAIL STOCKS DRIVE EUROPE SHARES FOR THE FIFTH DAY

European shares gained for the fifth day on Tuesday, encouraged by bank and retails stocks while data out of China added to hopes of stabilization in the world's second-largest economy. The pan-European STOXX 600 index gained 0.2%by 0928 GMT led by Germany's DAX 0.6% rise while Spanish and Italian bourses were flat to modestly lower. Also encouraging investors was a ZEW survey showing the mood among German investors improved in April, as the growth outlook for Europe's largest economy brightened amid a resilient global economy and a delay to Britain's departure from the EU.

Zalando jumped more than 10%, making it the top performer on the STOXX and pushing the retail sector 0.7 % higher after the e-commerce company said it expected to post an operating profit for the first quarter. Another major boost to STOXX 600 were banks, the best performing sector this month after auto stocks.

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