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NEWS LETTER

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INCREASE IN IMPORT BILL FOR MAY 2018

Kenya is under pressure as a result of an unstable current account deficit mainly because of Chinese shipments. Latest data from Kenya Bureau of Statistics (KNBS) showed that, the country imported goods worth KShs.151 billion in the month of April as compared to May, reporting an increase of 13.47%, resulting to imports worth KShs.171 billion.

FOREX INFLOWS UP BY 51% IN 5 MONTHS ENDED MAY 2018

Bolstered by record flows in May of this year, cash sent home by Kenyans from Foreign Countries has for the first time jumped up to 51.80%.

Diaspora remittances surged to KShs.112.21 billion in the January-May period from KShs.73.92 billion in the same period in 2017. The inflows may hit a new monthly record of KShs.25.60 billion, a 27.11% rise over a year earlier possibly helped by the initial 30th June tax amnesty.

FOREX DEPOSIT HITS ALL-TIME HIGH MARK TOWARDS THE END OF JULY

Forex currency deposits in the local banks in Kenya had risen for the first time as a result of the government tax amnesty program, which offers Kenyans tax pardon to encourage them to bring home their undeclared assets that are overseas before June 2019. Many Kenyans are taking advantage of this program and as a result the foreign currency holdings has risen by 17% which is equivalent to KShs.73 billion and its projected to increase in the coming months before the set deadline.

GROWTH RISES AS CURRENT ACCOUNT DEFICIT FALLS

The current account deficit fell in the second quarter of the year. In the first quarter of the year, the deficit narrowed from KShs.129.83 billion to KShs.107.88 billion, which was identical to the 16.95% fall in the first two quarters.

"Merchandise exports grew by 7.10% to KShs.162.9 billion in the first quarter, while merchandise imports grew by 6.50% to KShs.423.1 billion, in the same quarter," the Kenya National Bureau of Statistics.

KENYA LOSES UK MARKET SHARES TO ITS NEIGHBORING COUNTRIES

Kenya's top three exports to the United Kingdom including Tea, cut roses and beans have declined over the years moving from KShs.50.3 billion in 2009 to KShs.37.6 billion in 2017. This is tipped to fall furthershould the country fail to address challenges of infrastructure, diversity and standards towards increasing competition.

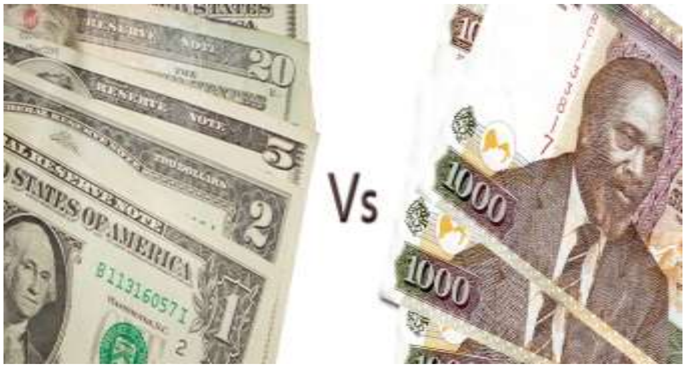
The study showed that Kenya's share in UK imports fell from 16% in 2011 to 7% by 2014 as vegetables and flowers lost competitiveness to neighboring countries due to improved wages, marketing systems, diversity and standard compliance. Lack of diversification had reduced Kenya's competitiveness and given rise to significant competition from other African countries such as Rwanda, Ethiopia, Tanzania and Ivory Coast, all gradually eating into Kenya's market share in the UK.

US-CHINA TARIFF WAR TO IMPACT AFRICA INTERNATIONAL TRADE

The trade tension between the two largest economies in the world will have greater implications not only for china and United States but also Africa and other countries. The trade war on the high tax imposition between US and China will make the two countries to diversify their export markets away from each other and since Africa is one of the fastest growing markets, this will force the two to push deeper into the African market. The Chinese government will now be forced to diversify away from export to consumption-driven growth.

KENYA SHILLING STRENGTHENS AGAINST THE US DOLLAR

The Kenya shilling is among only a few leading and emerging currencies to appreciate against the US dollar in the first part of this year. As other currencies either depreciated or remained the same, the Kenya shilling appreciated by 2%. The appreciation comes hand in hand with



improvements in the current account deficit and the overall balance of payments position. Analysts have credited these positive variances to the remittances and crediting of KShs.200 billion to the governments account following the conclusion of a new Eurobond.

EXTENSION OF TAX FILING DEADLINE DISMISSED BY KRA

The Kenya Revenue authority stated that it will not extend the deadline of 30th June to file tax returns, with those failing to do so risk paying a fine of KShs.20,000. Around 3.2 million have filed the tax returns on time, while taxman will start sending out notices for the Sh20, 000 fines.

Judith Njagi, Chief Manager Taxpayer said, "All taxpayers are still encouraged to file. The penalty for a late filing of the annual returns is 5% of tax due or KShs.20,000, whichever is higher." She said that only those that sought an extension for late filing will be exempted from theKShs.20,000 fine. But they must have sought the nod at least 30 days before the June 30 deadline.

INFLATION TO RISE AS FUEL PRICES INCREASE

The imposition of the 16% VAT on petroleum products starting September and weakened local currencies will lead to Kenya and Uganda to face a higher cost of living in the remaining part of this year. The rise in fuel prices and taxation are responsible for this. The respective central banks have reported higher import bills, even though inflation remained below 5% between November 2017 and June 2018. Goods and services will experience higher prices, eroding incomes as inflation is set to rise in the short term.

SUDDEN INCREASE IN POWER COST DUE TO INCREASE IN FOREX CHARGES

Regardless of last month's pledge by the government to reduce the cost of power, consumer power bills have intensified in July for the first time in 4 months. This is due to inflation charges and high foreign exchange expenses. The Energy Regulatory Commission (ERC) pointed out that the Forex charge in July 2018 rose from KShs.1.11 per kilowatt hour (kWh) last month to KShs.1.22 kWh. The charge includes inflation charge which has increased from KShs.0.42 to KShs.0.52 and loans that power producers have in their books which is tied to foreign exchange.

WATER AND BEER PRICES TO INCREASE BY 5%

Effective August 2018, excise duty has been increased by KRA by 5% on goods like beer, juice and water, which will further escalate retail prices. 1 liter of water for example will rise from KShs.10.00 to KShs. 10.50. Manufacturers of beer paid KShs.100but now they are paying KShs.105.20. Duty on motorcycles is now fixed atKShs.10,520from theKShs.10,000.

PARLIAMENT HALTS KSHS.4BN NON-ALCOHOLIC DRINKS TAX

The parliament has stopped the Kenya revenue authority from implementing the e-tax stamp system, effectively slamming KRA efforts to collect KShs.3.6bn on cosmetics, bottled water and other non-alcoholic drinks. National assembly speaker ruled that affecting the new system without regulations being tabled and approved by the house is null and void. He further went on to say that no person, body or authority has power to impose something that has force of law without passing through the parliament.

HIGH COURT SUSPENDS ROBIN HOOD TAX ON BANK TRANSFERS

The High court suspended the implementation of the 5% Robin Hood Tax imposed by Treasury Cabinet secretary on bank transfers for amounts above KShs.500,000. Kenya Bankers Association (KBA) moved to court to challenge the imposed tax on claims that there is inadequate information provided for its implementation.

ERC SCRAPS KSHS.150 FIXED CHARGE ON ELECTRICITY

Kenyans to enjoy cheaper electricity starting August thanks to a tariff review that has cut costs by up to 82%.

ERC announced the simpler billing system earlier in July, during a public hearing on the harmonization of retail tariffs.The Domestic Consumer Lifeline Tariff, which is meant to cushion low income households whose consumption does not exceed 10 units per billing period, will reduce by between 36 to 82%.

With the new tariff, the overall cost of power reduces from KShs.17.87/KWh to KShs.16.64.

Consumers using 15Kwh paid a fixed charge of KShs.150 in addition to KShs.37.50 where a unit of power costs KShs.2.50. Under the new system, they will pay KShs.180 where a unit of power costs KShs.12. This is in addition to the additional tax imposed.

Under the Domestic Ordinary tariff, a consumer using 50 units per month will be charged KShs.16.50 per unit as compared to the previous tariff cost of KShs.2.50 per unit plus the KShs.150.

BANKS AND TELCO'S LEFT WITH BILLIONS OF TAX MONEY.

Commercial banks, mobile phone operators and oil marketers are holding billions of shillings they collected as excise tax in the first 19 days of July before the high court halted the levies pending parliament passing of the Finance Bill 2018. The companies are yet to be given directive on how the tax collected should be treated.

STATE HOUSING SCHEME MEMBERS TO GET 15% TAX RELIEF

President Uhuru Kenyatta signed an amendment to the income tax which allows home buyers under the proposed affordable housing scheme to receive a 15% tax relief on their gross monthly earnings. The housing relief section will enable home owners servicing a mortgage under the proposed state-sponsored scheme to get the additional tax relief. First time home buyers will also be exempted from stamp duty which is equivalent to 4% of the value of the property.

FAILURE TO PAY PENSIONS BY EMPLOYERS TO ATRRACT 5% PENALTY

Following amendments to the Retirement Benefits Act, employers will now face penalties for failure to remit pension deductions and contributions to pension schemes from October 2018 onwards. They will face a penalty of KShs. 20,000 or 5% of unremitted contributions, whichever is higher.

Regulators will charge KShs.100,000 to CEO's of pension schemes who delay remitting audited reports to the regulator 3 months after the close of a fiscal year and KShs. 1,000 for each day of delay.Currently,bosses are not subject to a penalty, but late submissions attracts a daily fine of KShs.5,000 for the schemes until the day financials are submitted.

T-BILL HITS 2 YEAR LOW

Short term government securities fall to lowest level in the last 2 years as the Government's appetite for money is outweighed by the demand, which points towards lower earnings for banks, pension funds and unit trust holders.

The Central bank data as at the beginning of July 2018, showed a 7.73% yield on the 91 day Treasury bill, the lowest since 2016. The rate on the 182 day paper is was at 9.60%, having being this low in July 2016.

TENDERS TO BE RELEASED TO PUBLIC EVERY MID-MONTH

A fresh bid to fight corruption will require Public offices to publicize details of awarded tenders by the 15th of every month.

The public entities must disclose in the reporting template, details of directors and number of contracts awarded since registration. Other details are email addresses, telephone numbers, contact information, prevailing market prices for tendered items, date of award, contract duration, commencement and expiry as well as payment status.

SUGAR PRICES SHOOT UP DUE TO SHORTAGE

Retailers are complaining about distributors not supplying enough stocks and this is affecting the consumers, as prices are rising again. A two kilo packet of Nutra-Meal at Naivas retailing for

KShs.240, was recorded selling at KShs.275 during the week ended 7th July 2018. The shortage follows a recent crackdown of illegal sugar in the country, where 500,000 tonnes of illegal sweetener was confiscated in the past few weeks.

SUGAR EXPORTS RISE BY 273%

Exports grew to 1,034 tonnes from 277 tonnes in the comparable period last year representing a rise of 273%, indicated by data from the Sugar Directorate. When government started confiscating contraband sweeteners in May 2018, Exports growth was recorded at 1,003 tonnes.

Kenya is a deficit producer and most of the production is targeted at local consumers. Kenya sugar is expensive and therefore not attractive for export.

LONG RUNNING DISPUTE BETWEEN NAIROBI-DAR ENDS

A bilateral meeting between the two states in Dar-Es-Salaam saw the end of the long running trade disputes with Tanzania. This will allow Kenyan exports such as textiles to get to Tanzania with much more ease. Tanzania is one of Kenya's largest markets, second only to Uganda, providing a market for several exports. Kenya's exports to Tanzania had dropped in this period of dispute by 34% in the first 5 months of this year.

TECH INVESTMENTS IN AFRICA LED BY KENYA

Tech start up investments have already reached its highest levels with over 100 startups that raised $168.6 million already which is more than the total raised in the year of 2017; $167.7 million. Kenyan startups spear headed these investments as the pack raised a total of $86 million, as per the report by Wee Tracker. Kenya ranked only second to Nigeria as the top investment destination in terms of deals completed, Although Kenya accounted for the most funding raised as it was 3 times the total received by Nigerian startups.

TRADING AT NAIROBI BOURSE IS DOMINATED BY FOREIGN INVESTORS

Since the beginning of June, foreign traders have accounted for a weekly turnover of about 65% increasing to 74% by the end of the week ending June 29. The Kenyan shilling has strengthened and foreign investors are taking advantage of that as they get an exchange gain.

DAILY NSE TRADING TURNOVER RISES BY 31%

As compared to a similar period in 2017, the average daily traded turnover for the first half of year 2018 at the NSE increased to KShs.868 million by 31% building up agents and stock broker's commission earnings. NSE data reveals that the average daily trade hit its peak in March 2018 to KShs.1.1billion.

DOCK WORKERS' PAY INCREASED BY 14%

A collective Bargaining Agreement between Kenya Ports Authority and dock workers union will see a 14% increase in dock workers' salarieseffective January 1st 2018.The highest paid dock worker will now earn KShs.97,000 whereas the lowest paid will earn KShs.40,700, up from KShs.88,650 and KShs.37,710 respectively.

AIRTEL GAINING AT THE COST OF TELCOM AND SAFARICOM

Airtel mobile subscriptions grew by 18.2% from 7.3 million to 8.7 million gaining 2.5% points and pushing the market share to 19.7%. Although Safaricom retained its market leader tag, their market share contracted by 2.1% points to 67% from 69.1% recorded in the previous quarter as per Communications Authority of Kenya (CA) data.

SAFARICOM, KCB TO EXPAND THEIR TERRITORY INTO ETHIOPIAN MARKET

Safaricom and KCB are looking forward to expand their market territory into Ethiopia after its economy was opened up to foreign investors. The country has recorded an average of 10% growth in the past 5 years. Ethiopia's population is the second largest in Africa after Nigeria. Statistics also show that less than 15% of its 100 million populations have access to a bank account. This offers great opportunities to businesses and investors.

COMMERCIAL BANK OF AFRICA (CBA) INCREASED ITS LOAN LIMIT

Commercial Bank of Africa launched a digital banking platform that can allow its customers to borrow loans of up to KShs.3 million making it the highest mobile phone lender. The payment period for the maximum loan lent is capped at 3 years.

KENYAN TRADERS OPPOSE CHINESE BUSINESSMEN

Kenya's small scale traders and importers have launched a protest against the flood of the Chinese businessmen in Nairobi's retail market section. Kenyans, have been unable to compete with them because of their ability to ship in cheap products from their country's manufacturers instead of dealing with local wholesale importers.

TURKANA OIL STAND-OFF COST HIT KSHS. 1BN

The cost of Turkana Oil stand-off has risen to nearly KShs.1bn and could escalate further if the disagreement between the locals and the national government is not resolved in time. The losses are being incurred in compensation payable to companies involved in the mining of the oil and its movement by trucks to the port of Mombasa. Petroleum ministry officials said they expect to reach a return-to-work agreement with the investors by the 1st week of August 2018.

Kenya's early oil export plan, which involves movement of small-scale crude by road to

Mombasa, has had a rocky start that caused delays since June 2017. It finally took off early last month only to be met with a groundswell of opposition from locals three weeks later.

SHOPRITE REPLACES FORMER NAKUMATT SPACES

Nakumatt spaces have been getting replaced by several competitor supermarkets. Shoprite has taken over three former Nakumatt stores. Nakumatt in Kampala was the next to be replaced by the South African retailing juggernaut. Shoprite has had its own liquidity issues. Thus Shoprite have been cautious with only two stores running in the Ugandan market since 2000. Boasting stores in 15 countries, Shoprite is Africa's biggest food retailer.

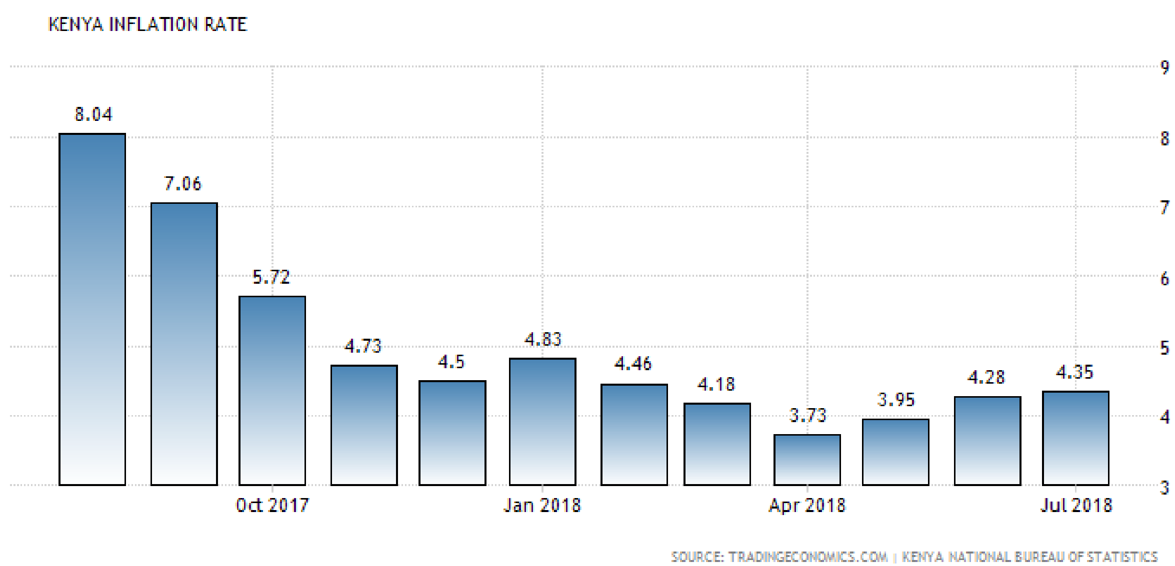
BANK LENDING RATE DROPS TO 13%

Kenyans will now borrow at a lower interest rate after the Central Bank of Kenya Monetary Policy Committee cut the determining bank rate to 9% from 9.50%.

The move will see Kenyans borrowing at an interest of 13% from 13.50% in line with the interest rate capping rule that limits lending rates to 4% points above the CBR.

This comes four months after the Monetary Policy Committee (MPC) changed its rates from 10% to 9.50%.

"The MPC noted that inflation expectations were well anchored within the target range and that economic growth prospects were improving. Furthermore, economic output was below its potential level, while noting the risk of perverse outcomes, the Committee decided to lower the Central Bank Rate," CBK Governor Patrick Njoroge said



KENYAN ECONOMIC OUTLOOK

Data for the first quarter of 2018 showed a strong pickup of the economy, with real GDP growth of 5.7% compared to 4.8% in the first quarter of 2017.

This outcome was driven by a strong recovery in agricultural activity due to improved weather conditions, a recovery of the manufacturing sector and resilient performance of the services sector particularly wholesale and retail trade, real estate and tourism.

Growth in 2018 is expected to be strong, supported by continued recovery in agriculture, a resilient services sector, alignment of government spending to the Big 4 priority sectors and the stable macroeconomic environment.

THE US ECONOMY REMAINS STRONG

The U.S. is currently outperforming. Early estimates of gross domestic product (GDP) growth for the second quarter are very strong: the first half is likely to show annualized real growth of 3% or better.

Several factors are likely to bring about a long-delayed round of inflation. Little slack remains in the labor market, and wage pressures will rise. Energy prices have already risen; though domestic oil production is also increasing, the loss of oil exports from Iran and Venezuela will only keep the heat on this market. Lastly, tariffs will inflate the costs of intermediate and finished goods.

EUROZONE GROWTH TO REMAIN MODEST

After a soft first quarter driven by an outright decline in exports (the first of its kind in 6 years), expectations called for the Eurozone economy to rebound in the second quarter.

Eurozone consumption has been solid despite deterioration in the trade environment. This is expected to continue, thanks to falling joblessness and the restoration of income among the newly employed.

CHINESE GROWTH SET TO LOSE STEAM

The Chinese economy is facing headwinds due to financial reforms, while its exports are facing U.S. tariffs. Both US and China are hardening their attitudes and engaging in tit-for-tat measures. This would result in significant economic costs not only for China (exports to the U.S. are an important share of GDP) but also for the U.S. and some Asian economies.

China is staring at a gradual slowdown amid slowing investments and industrial activity. Leadership is focused on cutting overcapacity, particularly in heavy industries. Chinese consumption will be required to become a bigger driver of progress.

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