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NEWSLETTER

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BEER, FUEL, BODA BODA PRICES TO RISE IN NEW TAX

Cigarettes, beer, fuel and motorcycles bills are set to rise as the Kenya Revenue Authority (KRA) moves to execute a 5.17% annual inflation tax adjustment on excise duty charged on the products. Going by the maximum 5.17% adjustment for this year, excise on super petrol will go up from KShs.19, 895 per 1,000 liters to KShs.20, 923.57, interpreting a KShs.1.02 per liter increase at gas stations. Excise on diesel and kerosene shall go up from KShs.10,305 per 1,000 liters to KShs.10,837.77, translating to a KShs.0.53 increase per liter.

The tax increase means more pain for consumers who are already suffering from of higher cost of basic commodities following the failure of the long rains season. Implementation of the inflation tax adjustment, which was first implemented last year after being held in suspension for three years, is set to start any time with the KRA having already sent a gazette notice to the Government Printer for publication.

NEW WATER AND OTHER BEVERAGES TAX

The Kenya Revenue Authority (KRA) is preparing to bust drinking water and other beverages from September in an effort to raise an additional KShs.3.6 billion from excise tax following introduction of additional excise stamps. The Excisable Goods Management System (EGMS) will see manufacturers from September 1 affix the new generation excise stamps on bottled water, juices, soda, energy drinks, non-alcoholic beverages, food supplements and cosmetics.

The move comes to seal revenue leaks against the backdrop of ever higher collection targets set by the Treasury, as the taxman who has repeatedly missed tax targets. Past attempts by the KRA to roll out the system have failed after its implementation was opposed in court. KRA will carry out sector based and general public participation forum on EGMS that will target licensed manufacturers, importers, distributors and retailers of bottled water, juices, soda and other non-alcoholic beverages and cosmetics.

PETROL PRICES RISE

Petrol prices increased for the fifth month in a row in a review that saw diesel and kerosene costs drop as new inflation tax wiped benefits perceived of lower costs. The cost of petrol, mostly consumed by private cars, went up by KShs.0.29 a liter to KShs.115.39 in Nairobi.

Energy and Petroleum Regulatory Authority (EPRA) linked the rise to a 5.17% annual inflation tax adjustment, which affected certain goods that attract excise duty like fuel, alcohol, cigarettes and motorcycles.

The inflation, which is reviewed annually in July, denied motorists the full benefits of a weak shilling against the dollar and lower crude costs, which dropped from $72.35 per barrel in May to $64.80 per barrel in June. Kerosene prices decreased the most by KShs.2.31 to KShs.101.97 in the city, according to the new monthly prices set by the energy regulator. The regulator said the latest review came on the background of a drop in global oil prices but also a 5.17% annual inflation tax adjustment on excise duty charged on fuel products.

FINES FOR LATE RETURNS FILING TO DROP UNDER NEW TAX RULES

Penalty for filing annual tax returns past June 30 deadline is set to drop under proposed changes to the law, boosting savings for homes and businesses which pay taxes on time. The fine will now be based on amount which has not been paid to the Kenya Revenue Authority (KRA) if the amendment of Tax Procedures Act 2015 is approved by legislators and subsequently assented to by President Uhuru Kenyatta. This is opposed to the current law where the penalty for late filing of returns is based on the total tax that was due in the preceding year. “The amount of tax payable or due under the return shall be reduced by the amounts already paid and withholding tax credits,” says the proposed amendment to Section 83 of the Tax Procedures Act through the Finance Bill 2019.

Individual taxpayers such as employees are currently fined KShs. 2,000 or 5% of the annual tax payable for the preceding year, whichever is higher. Companies, on the other hand, face a penalty of KShs. 20,000 or 5% of the tax payable in the year the return is meant to capture, or whichever is higher.

KRA TO DEDUCT SALARIES IN NON-TAX RETURN PENALTIES

Kenya Revenue Authority (KRA) has issued notice to About 400,000 people who could have their Personal Identification Numbers (PIN) deactivated and their pay deducted after they failed to file their tax returns by June 30.Kenya Revenue Authority (KRA) demanded those who defaulted to pay penalties within 15 days or July 30 and warned of enforcement actions should they fail. The taxman went ahead to say 3.6 million Kenyans filed their tax returns against a target of 4 million, up from 3.2 million who met the deadline last year.

Individuals who failed to meet the deadline face a KShs.2,000 fine or 5% of the tax payable in the year under review, or whichever is higher. According to official data, 2.9 million Kenyans worked in the formal sector last year compared to 14.8 million in the informal sector. Companies face a penalty of KShs.20,000 or 5% of the tax payable in the year the return is meant to capture, or whichever is higher.

KRA-NEW HI-TECH SYSTEM TO TRACK TRADERS’ DAILY SALES

Kenya Revenue Authority (KRA) is set to install new electronic tax registers at business premises giving it real time access to invoices issued by traders around the country in a new, high-tech war against tax cheats.Under the proposed system, the KRA will require traders, manufacturers and suppliers to deploy new Internet-enabled electronic tax registers (ETRs) that allow the taxman to track how businesses conduct their invoicing at every turn of a transaction to assess the tax dues on a real time basis.

In a notice, the KRA state that the new ETRs will be connected through the Internet to KRA’s systems allowing it to monitor all transactions in the traders' Point of Sale and invoicing systems. "TIMS is an information technology integration system that will integrate trader systems (Electronic Tax Registers, Point of Sale, and ERP-Billing/Invoicing system) with ITax to monitor the generation of electronic tax invoices and their transmission through the internet to it. All businesses that have an annual turnover of at least KShs.5 million are by law required to have electronic tax registers. Under the system, the taxman will receive sales data from all registered companies and traders on a daily basis. Traders will also be required to seek the taxman's permission to perform any other business the next day of business under the system, meaning incorrect or incomplete data logged in the previous day could lock them out.

KRA'S FULL-YEAR TAX COLLECTION HITS KSHS.1.4 TRILLION

Total tax collections for the financial year ended June-19 increased by KShs.100.1 billion to KShs.1.44 trillion, but fell well short of the Treasury-set target by KShs.72.7 billion. Kenya Revenue Authority (KRA) report shows the tax agency recorded a 7.47% growth over KShs.1.34 trillion collected in the year ended June 2018.The tax receipts, however, missed the fresh goal of KShs.1.5 trillion set by suspended Treasury secretary Henry Rotich last month, from the previous KShs.1.61 trillion set last December.

The Budget Policy Statement 2018 originally set a tax goal of KShs.1.69 trillion, but the Treasury has been revising the target to align with economic growth projections, parliamentary amendments and court rulings that affect tax collections.

TREASURY RAISES PAY FOR TREASURY BILLS ON NEW MATURITIES

Interest rates on the 6-month and 1-year Treasury bills rose as the government sought to raise its collection from the bids to roll over huge maturities. The Treasury was in the market for KShs.24 billion in the weekly auction but faces maturities of KShs.46.16 billion in the short-term debt. Yields on the papers have lately generally fallen to a 6-year low.

As a result of the heavy maturities, Central Bank of Kenya (CBK) took up all the KShs.44.13 billion that investors bid at the auction.

On the 182-day paper, the CBK took up Sh11.1 billion, with the interest rate going up to 17.47% from 7.39% the previous week. The 364-day paper, which has been the most popular among investors in recent weeks, raised KShs.29.8 billion, with the interest rate ticking up to 8.65% from 8.61%.

PRESSURE ON TREASURY AS BANK LOANS RISE TO KSHS.1.5TRILLION

Commercial banks have in the past 3 years cumulatedKShs.1.509 trillion worth of Treasury bills and bonds, equivalent to 54.1% of the government's total domestic debt, which stood at KShs.2.789 trillion at the end of last week. Sharp increase in the Treasury's borrowing from local banks has exposed the economy to shocks in the financial sector according to analysts at global ratings agency Moody.

Currently, Government debt accounts for 32.8% of commercial bank assets worthKShs.4.59 trillion, compared with 26.4%(of bank assets of KShs.3.69 trillion) at the onset of the rate cap in 2016.The rapid build-up of short-term debt in form of Treasury bills has seen high volumes of quick-maturing debt pose a refinancing risk for the government at a time when tax revenue is struggling to hit target.

THE TREASURY KICKS OFF ANNUAL DEBT UPTAKE WITH KSHS.40BILLION BOND

The Treasury has kicked off its domestic borrowing plan for this year by offering investors KShs.40 billion bond with a 15-year tenor. The Central Bank of Kenya (CBK) announced the sale of the bond will be open until July 23. Proceeds on the bond will go into supporting governments cash needs, will be market-determined.

According to CBK, Investors asked for an average yield of 11.666% on the 15-year bond, which matures in 2027, last month when the CBK re-opened it, and 12.591% for the one due for payment in 2033. The CBK rejected nearly KShs.46.68 billion expensive bids when it re-opened the two bonds for sale, attracting KShs.85.62 billion bids from investors against KShs.40 billion offered. Investors in the secondary market were bidding around 12.40% for the 15-year listed paper, marginally lower than Friday's close of 12.42%.

TREASURY SNUBS KSHS.36BILLION IN 15-YEAR BOND AUCTION

Average interest on 15-year government debt issue continued to drop this month with cash-rich investors offering more than double what the Treasury is looking for. The Central Bank of Kenya (CBK) said it received bids amounting to slightly more than KShs.86.67 billion for the Treasury bond which was on sale between July 2 and July 23 which was KShs.46.67 billion equivalent to 116.69% more than the KShs.40 billion the fiscal agent offered in the first bond sale of financial year ending June 2020.

The CBK snapped up close to KShs.50.59 billion of the bids tabled by investors largely banks, fund managers and insurance companies, snubbing bids worth KShs.36.10 billion for reasons including high interest rate demands.

Average yield on accepted bids was 12.34%, the lowest return compared with similar issues offered in January, February, May and June this year. The reduced return was in line with expectations by investment analysts at Kingdom Securities, AIB Capital, Genghis and Sterling Capital who had separately predicted yields ranging from 12.25% to 12.55%.

3-MONTH T-BILL UPTAKE DOUBLES AS YIELDS SLIDE TO 7-YEAR LOWS

Central Bank of Kenya (CBK), the State's fiscal agent, bids for the 91-day Treasury bills amounted to KShs.7.502 billion against the weekly quantum of KShs.4 billion despite continued slide in returns. This represents an oversubscription of 87.56% for the benchmark debt securities which mature in three months, the first in several months. The CBK snapped up all the bids for the 91-day paper.

Average interest on the three-month T-bills dropped by a further 10.2 basis points to 6.49% during sale last Thursday compared with 6.60% a week earlier. The yields on the 91-day T-bills have been falling marginally but steadily since the auction on April 4 when they averaged 7.44%.The scramble for government securities, largely by commercial banks, point to a worrying trend where the government continues to be the largest beneficiary of the September 2016 legal ceilings on loan charges at the expense of SMEs. Cash-rich firms use T-bills auctions as cash management instruments besides generating returns.

KSHS.35BILLION MOPS UP BY CBK TO DEFEND THE SHILLING

The Central Bank of Kenya (CBK) has mopped up KShs.35 billion from the money market as high liquidity saw the shilling weaken to a four-year-low of 104.20 units to the dollar. CBK swept the cash through repurchase agreements (repos), where lenders flush with shillings offered KShs.43.35 billion out of which the regulator took its target of KShs.35 billion. Forex traders pointed at excess liquidity as a major cause of the shilling's weakness, further fuelled by the normal end-of-month spike in dollar demand by importers.

The shilling had opened trading Tuesday at an average of 104.07 units to the greenback, but continued to come under pressure weakening to the 104.20 level that was last recorded in October 2015 when a government cash crunch caused a spike in interest rates and a swing in the exchange rate. Forex bureaus were selling dollars for as much as 105 shillings on Monday, CBK data showed.

SHILLING TOUCHES 103 AGAINST THE US DOLLAR

The shilling touched an eight-month low of 103 units to the dollar on the back of high dollar demand partly driven by the high liquidity. The shilling had closed trading session at an average of 103.00 on 2nd July but regained some ground the following day trading at 102.60 units as Central Bank of Kenya (CBK) liquidity withdrawal efforts started to take effect.

The liquidity is underlined by the fall in interbank rate to a three-month low of 1.86% according to data from CBK. The plunge now raises the specter of a rise in cost of living, given that Kenya is a net importer of goods. The biggest knock-on effect is from the rise in fuel prices whenever the shilling weakens, which in turn filters through to the cost of other goods due to the transport factor.

CBK REMAINS SILENT AS BANKS STRUGGLE WITH SHORTAGE OF NEW NOTES

A number of bank officials expressed their concerns when they started experiencing shortages of the new currency notes from the second week after configuring their automated teller machines (ATMs). This has forced them to go back to the old currency notes that they have been mopping from the market. The Central Bank of Kenya (CBK) concerning the matter has remained silent on the reasons for the shortage of the new currency, which has left banks confused. Kenya Bankers Association (KBA) has acknowledged that some lenders were experiencing temporary shortages and other operational challenges, but added that they should be fixed as soon as the CBK supplies them with the new currency.

DIGITAL PAYMENTS PLATFORM TO ENABLETRADERS TO USE KENYAN SHILLING

African Export-Import Bank (Afrexim Bank) launched a digital payments platform using which Kenyan traders can now sell goods and services across Africa using the local currency. Afrexim Bank President Benedict Oramah told the 12th Extraordinary Summit of African Union (AU) Heads of State in Niamey, Niger that the Pan-African Payment and Settlement System (PAPSS) will see each African country use its own currency in any transaction, doing away with the traditional reliance on the US dollar as the sole currency for cross-border trade payment.

Trade Principal Secretary Chris Kiptoo said free intra-Africa trade would increase intra-Africa trade from the current 17%compared to intra-Europe trade 60%, USA 40% and Asia at 30%. Kenya's trade with East Africa Community states last year declined from KShs.131.6 billion in 2017 to KShs.129 billion while trade with Somalia fell by 23.3% and exports to DRC Congo by 19.6%.

MONEY LAUNDERING RISK POSED BY MOBILE-BASED LENDERS

Central Bank of Kenya governor Patrick Njoroge said Mobile-based online lending firms should be regulated to avoid their usage as channels for introducing illegally-obtained cash into the financial system. In a presentation to parliamentarians on 3rd July, Dr Njoroge singled out Tala, Branch and Okash (three highly-popular digital money lenders) as credit-only mobile lending institutions that could be easily used to launder illicit cash.

Money laundering, which involves transferring and disguising illegally obtained cash to make it look legitimate, is mostly used by criminals and the corrupt to clean their wealth. The CBK boss went ahead to say the key concern for regulators was the source of funds that the institutions are lending to the public and that there is a huge lacuna in their operation because there is no specific law that is targeted at them.

THE WORLD BANK HAS OFFERED KSHS.1.5 BILLION IN GRANTS

750 businesses that will win in the 10-week online competition, MbeleNaBiz will be offered KShs.1.5 billion in grants by The World Bank. Country director Carlos Felipe said the nationwide competition targets businesses that show potential to scale, generate profits for founders as well as new jobs for Kenyan youth. Out of the 850,000 jobs created last year, 83% came from the small and medium enterprises (SMEs) segment in Kenya. That means helping SMEs access credit could facilitate expansion, hence more jobs created as it happened in Nigeria where a similar program saw nine jobs created in every SME that they funded.

Trade and Industry Secretary Peter Munya said thorough scrutiny will be done for SMEs that apply to participate in the competition with a view to selecting genuine start-ups that have for long missed growth targets due to lack of credit. Mr.Munya said collaboration between government and the private sector was key to the program's success, adding that the competition will favor small enterprises whose activities are aligned to the Big Four agenda.

COUNTY COUNCIL OF NAIROBI ISSUES ANOTHER PAINTING ORDER

The county government of Nairobi has issued another painting order to Property owners within Nairobi Central Business District (CBD) to repaint and redecorate their premises or face legal action. The Acting County Secretary Leboo Morintat said after the expiry of the 14 days, unspecified legal measures will be instituted to ensure the notice is fully complied with. The order makes the third time this year that a similar order has been issued, probably showing the poor success rate.

Mr. Morintat said the notice is anchored in law, including county by-laws and the Public Health Cap 242 on maintaining healthy and quality standards of general public health. He went further to state that the county has not given any specific color that the building owners should adopt. The moves to clean, repaint or redecorate the CBD is aimed at improving beauty of the capital city and hence enhance the appeal of the city which has been globally recognized among the most dynamic, innovative resilient cities and is also a strategic economic and commercial hub of East and Central Africa.

CITY HALL DIGITAL HUB TO BE USED TO PAY CLAMPDOWN FINES

Nairobi Motorists will from next month start paying clamping charges electronically after City Hall put in place a digital platform. According to County director of parking Mr. Tom Tinega, City Hall is currently piloting the new system ahead of equipping all the parking attendants with Smartphone for receiving the payments by end of the month.

He went further to explain that once a vehicle has been clamped, if one dials the short code*235#, it will show that it has been clamped as well as the penalty one is supposed to pay. Currently when a car is clamped, an individual has to make the payment and still confirm physically to the attendants that the payment has been done to be unclamped but under the new system, a message will be generated confirming the payment of the KShs.2,000 clamping penalty and sent to a parking attendant's phone directly.

SALES OF NEW VEHICLES FALL IN FIRST HALF OF 2019

Sales of new motor vehicles fell 2.5% in the first half ended June, with Isuzu East Africa being the only major dealer to buck the downward sales trend. The decline in orders reverses the rebound in sales in the same period last year as dealers then benefited from pent-up demand in the wake of the conclusion of the 2017 general election.

Data from the Kenya Motor Industry Association (KMI) shows that total unit sales of the dealers including Toyota Kenya, Simba Corporation and Isuzu East Africa stood at 6,294 in the half year ended June. This is down 2.5% compared to their sales of 6,456 units the year before. Motor vehicle dealers are among the businesses registering subdued demand in the economy, a trend that has been blamed on tighter credit markets, among other headwinds. Most new vehicle purchases are financed by banks whose lending appetite has been dulled by lower margins in the wake of interest rate controls.

NEW LUXURY CAR SALES FALL BY 50%

New luxury car sales fell by 50% in the first half of 2019, on the backdrop of franchise and supply chain disruptions. Data from the Kenya Motor Industry Association (KMI) shows that sales of all the high-end brands, including BMW, Mercedes and Land Rover declined to 69 units in the review period against 137 the year before. The slump was much deeper than the 2.5% sales drop in the overall new vehicle market to 6,294 units in the same period. The fall has been linked to stock outs of several luxury car models following global manufacturers' production decisions and changes in the ownership of franchises.

Delays in sourcing the 2019 models of Porsches and Bentleys, for instance, meant that local dealers had a shortage of the units for four months until May. Unit sales of Porsche dropped to 10 in the review period from 30 a year earlier while those of Bentley remained flat at 3.The new model of the fastest-selling Porsche model (Cayenne) was recently introduced at a price of about KShs.12 million inclusive of taxes.

MOTORISTS TO PAY KSHS.7,000 TOLL ON NAKURU HIGHWAY

Motorists will are booked to pay between KShs.1,458 and KShs.7,290 to use the Nairobi-Nakuru-Mau Summit road in toll charges that could make Kenya's highways among the most expensive to ride on in the world. The Kenya National Highways Authority (KeNHA) has recommended that high-capacity vehicles like transit lorries pay KShs.30 per kilometer to use the toll road, while low-capacity vehicles like saloon cars will pay KShs.6 per kilometer on the 243km stretch translating to one-way charges of more than KShs.7,000 for the heavy vehicles, significantly raising the cost of doing business and putting inflationary pressure on the prices of goods and services.

In an interview, KeNHA director-general Peter Mundinia said motorists will pay the same charges to use the Jomo Kenyatta International Airport (JKIA) to Westlands expressway that starts at Mlolongo and terminates in Westlands, measuring 18.586kilometers. That will cost users between KShs.111 and KShs.557 between Mlolongo and Westlands. The JKIA-Westlands expressway will have about 10 interchanges based on the project design, implying that it may have a similar number of toll stations. Toll fees that will start upon completion of the two highways will add to the KShs.18 per kilometer fuel levy currently charged for maintaining Kenya's roads.

AIRTEL LOSSES PILE UP TO KSHS.68BILLION

Airtel Kenya's auditors have raised the red flag on the company's financial health after the telecommunications firm posted a KShs2.89 billion loss last year, raising its cumulative losses to KShs.68.09 billion. Airtel, which is in merger negotiations with the government-owned Telkom Kenya, is now insolvent to the tune of KShs.8.14 billion after the gap between its liabilities and assets widened further from the KShs2.86 billion recorded in 2017.The firm halved its annual loss from KShs.5.8 billion in 2017, but losses accumulated over the years and an increasing debt load pushed the company into a precarious financial position.

The company's weak financial position is in sharp contrast to market leader Safaricom, which posted a record KShs.63.4 billion after-tax profit in the last financial year ended March 31.Airtel is awaiting regulatory approvals to merge with Telkom Kenya, the country's third-largest telecommunications firm. The firm's losses deepened on the back of increased operating, finance, administrative and distribution costs, gobbling close to KShs.22 billion of the Telco's revenue. Its distribution costs jumped to KShs.250.6 million from KShs.55.6 million in 2017, partly driven by arbitration talks it had entered into with some of its distributors in 2015 after they filed a lawsuit challenging its commission rates.

EMIRATES FLIGHT LICENCE TO BE DELAYED UNTIL KQ RECOVERY

Kenya is delaying a decision on whether to grant Emirates Airlines a third daily flight into Nairobi until the nationalization plan for the troubled Kenya Airways is completed. Foreign Affairs Principal Secretary (PS) Macharia Kamau said the move was meant to ensure future air agreements with other countries also take into consideration the position of the national carrier.

The Permanent Secretary spoke after meeting a delegation from the United Arab Emirates, in the country to sign various bilateral agreements under an arrangement known as the Joint Commission on Cooperation (JCC).Mr.Kamau did not elaborate whether other bilateral air arrangements on air cooperation will be affected, but hinted there will be a general freeze on decisions until it is clear how Kenya Airways will be run.

KENYAN ECONOMIC OUTLOOK

CURRENT ACCOUNT DEFICIT DOWN TO 4.2% OF GDP

Kenya's current account deficit reduced to 4.2% of GDP in the 12 months to May from 5.8% in the corresponding period in 2018 buoyed by higher horticulture and tourism inflows. The current account measures the balance between hard currency inflows and outflows and affects the strength of the shilling. By the end of last year, the deficit stood at 5%, but has been progressively narrowing this year.

In the 12 months to April the deficit stood at 4.5%, meaning the country's position improved in May. In the last Monetary Policy Committee briefing held end of May, CBK had attributed the growth in horticulture export earnings to increased acreage under cultivation, better internal surveillance, improved market access for crops such as avocado and access to new markets such as China. In the 12-months to April, horticulture earnings stood at KShs.107.6 billion ($1.046 billion), up by KShs.11.2 billion ($109 million) equivalent to 11.6% compared to the 12-month period to April 2018.

FOREX DEPOSITS AT KSHS.578 BILLION

Foreign currency deposits fell slightly to KShs.577.9 billion in May compared to KShs.578.9 billion in April, which was close to the same level in March according to data produced by Central Bank of Kenya (CBK).The changes in the three-month period indicated the deposits had stabilized after hitting an all-time high of KShs.586.6 billion in January. Between April and May, the decline was marginal at 0.2%.

Most of the deposits are related to the rising remittances but there are also deposits tied to the amnesty on stashed funds that was last year extended to June this year. Remittances stood at KShs.243.2 billion as at the end of May, the same month as that for the data on foreign currency deposits. However, remittances stood at KShs.295.3 billion as at the end of June, but the CBK is yet to publish the June data on the deposits.

GROWTH OUTLOOK DOWN TO 5.6% ON THE BACK OF PROLONGED DROUGHT

World's leading banks, consultancies and think-tanks have marginally downgraded Kenya's growth prospects for 2019, largely citing the dampening impact of prolonged drought in the first quarter of the year. A consensus growth outlook for August from 14 global firms projects that the country's economy is likely to expand by 5.6%, 0.2 percentage points lower than last month's forecast.

Gross domestic product (GDP) in the January-March period slowed to 5.6% from 6.5% a year earlier, according to report tabled early this month for the previous month by Kenya National Bureau of Statistics (KNBS).The statistics agency largely blamed the reduced expansion in economic activity, the lowest since the third quarter of 2017 when the country was embroiled in a bitterly-contested presidential election, on a slowdown in agro-processing. JPMorgan has cut Kenya's growth outlook by 0.4 percentage points to 5.6% followed by Washington-headquartered Ducker Frontier which has trimmed Kenya's 2019 GDP forecast by 0.3 percentage points to 5.9%.

KENYA SHILLING WEAKENS TO NEAR 5-YEAR LOW

The Kenyan shilling weakened against the dollar to a near five-year low due to importer demand and excess liquidity in the money markets. Commercial banks quoted the shilling at KShs.104.25/35 per dollar, compared with KShs.104.05/15 the previous day's close. The last time the shilling traded at these levels was on October 2, 2015, when it touched 104.40/50. Central Bank Governor Patrick Njoroge attributed the fall in the currency to seasonal demand for dollars and to excess liquidity in the money markets.

SHILLING UNDER PRESSURE AS FOREX RESERVES DROP KSHS.18BILLION

The Central Bank of Kenya (CBK) official Forex Reserves shrunk by KShs.18.6 billion ($179 million) last week, pointing to possible intervention by the regulator to strip off exchange rate volatility as the shilling touched a 2-year low of 104 to the dollar. The CBK's latest weekly bulletin shows the reserves stood at $9.568 billion (KShs.993.2 billion) equivalent to 6.2 months of import cover on Thursday, compared to $9.747 billion (KShs.1.01 trillion/6.01 weeks of cover) a week before. The shilling was exchanging at an average of 104.03 on Wednesday as dollar demand in the market went up, having depreciated by more than 1% or 1.08 units to the greenback in the space of a week.

Central Bank was willing to intervene in the foreign exchange market to ensure stability. The CBK does not disclose its participation in the money market either in selling or buying dollars, making it hard to ascertain the level of intervention (if any) whenever the shilling comes under pressure.

INFLATION HITS THREE-MONTH HIGH ON COSTLY FOOD, DRINKS

Kenya's year-on-year inflation rose to a three-month high of 6.27% in July, driven mainly by jump in the prices of food, drinks and transport costs.

The cost of living measure, which is higher than 4.35% recorded in July last year, ranks second highest this year since 6.58% was recorded in April. Inflation was 5.7% in June.

The Kenya National Bureau of Statistics (KNBS) said the food and alcoholic segment, which accounts for 36.04 per cent of the consumer price index (CPI) weight, decreased by 1.04% on cheaper July potatoes and vegetables compared to the previous month.

GLOBAL ECONOMIC OUTLOOK

US GROWTH FALLS, BUT STRONG DOMESTIC DEMAND

US economy grew at a moderate pace in Q2 2019, with real GDP expanding at an annualized rate of 2.1 percent.1 this is roughly the average rate of growth that the economy has witnessed in the past decade. As such, the rate is not disappointing, although it is a sharp deceleration from the 3.1 percent growth the economy witnessed in the first quarter of this year. However, if transitory factors are excluded, the US economy actually grew closer to 2 percent in the first quarter as well.

GDP report for Q2 2019, it indicates that the economy derived strength from consumer and government spending, but that business investment and exports were unusually weak. Specifically, consumer spending rose at an annual rate of 4.3 percent, including a 12.9 percent rise in spending on durable goods. Roughly 50 percent of the increase in spending on durables was due to purchases of automobiles and parts. Spending on nondurable goods rose at a rapid rate of 6.0 percent, which included a sharp rise in spending on apparel and footwear.

EUROZONE WEAKENS, BOND YIELDS FALL, AND DRAGHI PROMISES ACTION

The manufacturing sector of the Eurozone, and especially that of Germany, is declining rapidly, according to the latest purchasing managers' indices (PMIs). Global information provider IHS Markit released its latest PMIs and they paint a bleak picture of Europe's manufacturing sector. The manufacturing PMI for the 19-member Eurozone fell from 47.6 in June to 46.4 in July, the lowest level in 79 months.8 PMIs are forward-looking indicators meant to signal the direction of activity in both manufacturing and services. They are based on a variety of sub-indices such as output, new orders, export orders, employment, pricing, pipelines, and sentiment. A reading above 50 indicates increasing activity. The higher the number, the faster the growth and vice-versa. The Eurozone's PMI level of 47.6 indicates a sharp decline in activity in the industry.

CHINA'S ECONOMY GROWS AT SLOWEST PACE SINCE 1992

China's real GDP was up 6.2 percent in the second quarter versus a year earlier. This was down from a growth of 6.4 percent in the first quarter and 6.6 percent for all of 2018. Data clearly reflects the negative impact of China's trade tensions with the United States. It was reported last week that China's exports in June had declined from a year earlier, led by a sharp decline in exports to the United States.

China's leaders are keen on stimulating the weakening economy but are reluctant to allow the country's central bank to cut interest rates lest it leads to a sharp depreciation in the Renminbi. The move would help boost export competitiveness, but would likely intensify tensions with the United States, which has complained of a weak Renminbi. Thus, Chinese leaders are apt to be pleased that the US Federal Reserve is expected to cut interest rates soon. If the Fed does that, it will provide an opening for China's central bank to follow suit without necessarily causing a sharp depreciation in the Renminbi.

FEDERAL RESERVE CUTS INTEREST RATES BY 0.25% – IT'S FIRST IN A DECADE

The US Federal Reserve has cut interest rates for the first time in more than a decade and signaled its readiness to provide more support as growth slows in the world's largest economy.

The US central bank cut its key benchmark interest rate by a quarter of a percentage point, to a range of 2%-2.25%, in the first reduction in borrowing costs since immediately after the financial crisis a decade ago.

Stocks fell on Wall Street straight after the decision as investors warned the 0.25% cut might not be enough to deliver greater stimulus for US growth. The Dow Jones Industrial Average closed down 1.23% at 26,864.

OUTLOOK FOR LATIN AMERICA AND THE CARIBBEAN

Economic activity in Latin America and the Caribbean remains sluggish. Real GDP is expected to grow by 0.6 percent in 2019—the slowest rate since 2016—before rising to 2.3 percent in 2020.

The weak momentum reflects negative surprises in the first half of 2019, elevated domestic policy uncertainty in some large economies, heightened US-China trade tensions, and somewhat lower global growth.

OIL AND COMMODITY REPORT

Oil prices rose on Wednesday following a larger-than-expected drop in U.S. inventories and after the Federal Reserve cut U.S. interest rates for the first time in more than a decade.

Gold prices firmed on Tuesday ahead of a U.S. Federal Reserve meeting, at which the Fed is widely expected to lower interest rates by 25 basis points. If implemented, it would be the central bank's first rate cut in a decade. Gold in July surpassed $1450 for the first time in 6-years and silver rose to 1-year highs on anticipation of a deeper rate cut.

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