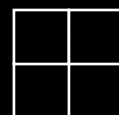




STANLIB KENYA LIMITED.

Kenya Markets' & Economic
Update.

February 2017.

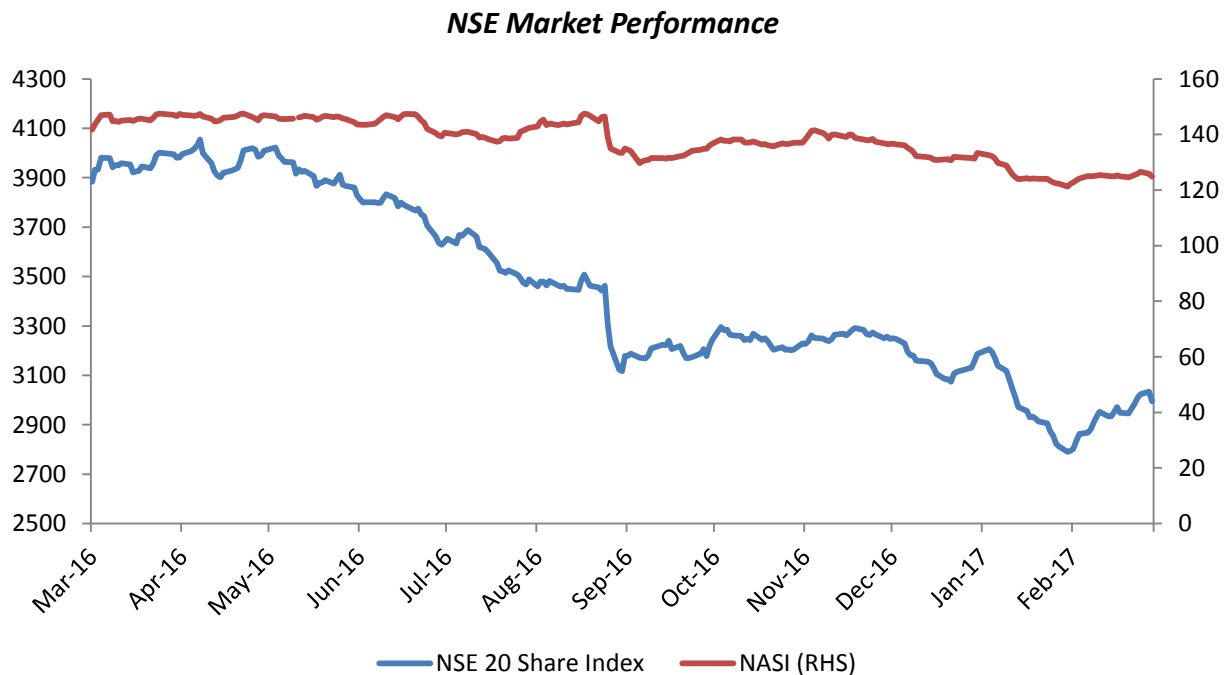


Financial markets

Equity market

After recording a sharp decline in January, the market rebounded in February. The NSE 20 and NASI indices gained 7.2% and 2.2% respectively. Notable gainers include NIC Bank and Sanlam Plc which gained 45% and 42% respectively during the month. Market turnover also recorded a 5% increase to USD 121mn. Despite the recovery, investor sentiment remains weak due to concerns over economic growth and August poll influences on the economy.

Global equity markets continue to gain strongly on expectations of an expansionary fiscal policy and favorable corporate tax regime under the Trump administration. The S&P 500 gained 4% to close the month at 2363.



Outlook:

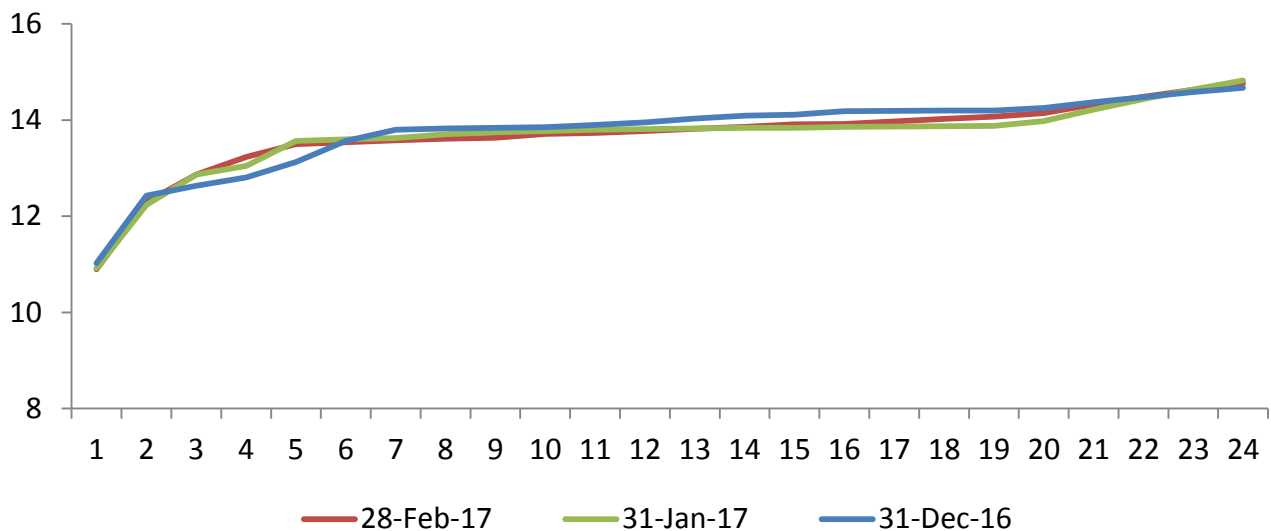
The equity market is likely to remain weak in the near term as investors opt for higher yielding fixed income instruments.

Bond market

The NSE yield curve barely moved during the month of February. Central Bank of Kenya offered KES 30 Billion of a 12 year infrastructure bond. Total bids received were KES 35.04 Billion. The bank accepted bids amounting to KES 6 Billion at a weighted average rate of 13.555%.

Secondary bond market activity has been subdued by expectations of a rise in interest rates, with most of the activity limited to the shorter end of the yield curve. We expect volatility on the short end of the yield curve to persist. The long end is likely to hold at current levels.

NSE Yield Curve (%)



Outlook:

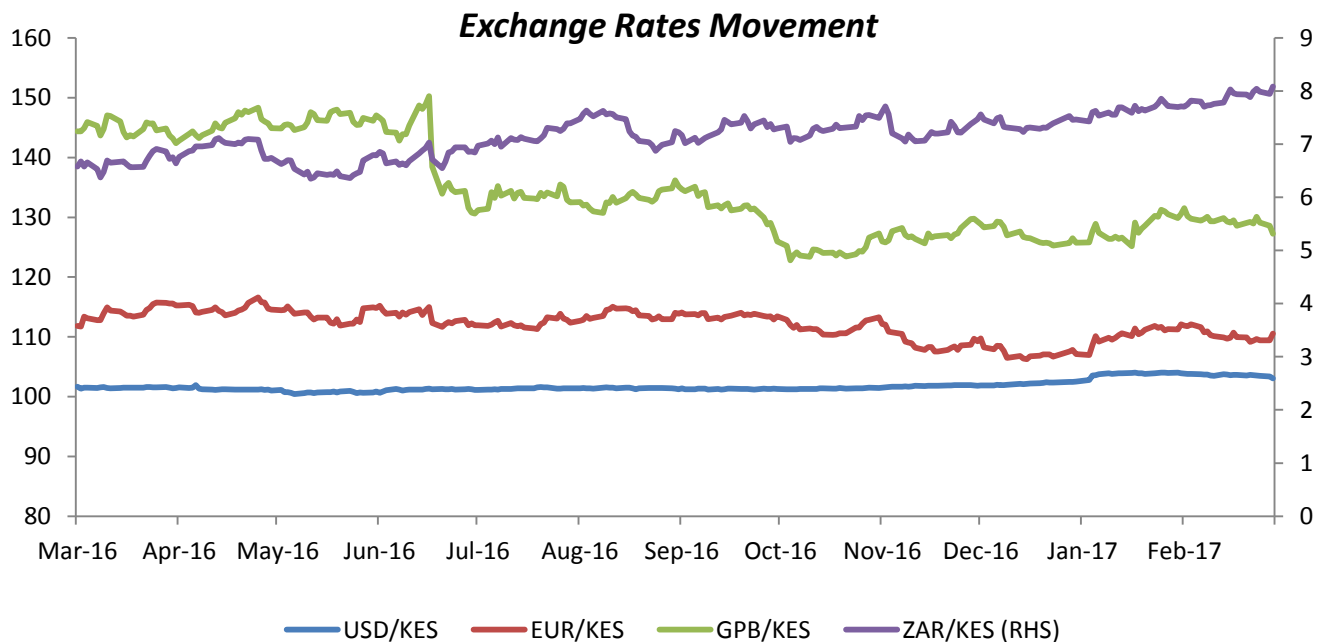
Mild volatility is likely to persist at the short end of the yield curve while the long end is likely to hold at current levels.

Macro-economic variables

Exchange rate

During the month, the Kenya shilling gained by 1.0%, 2.9% and 2.4% against the USD, the Euro, the Sterling Pound respectively. It depreciated by 1.7% against the Rand. Regionally the local currency gained by 1.0%, 0.9% and 0.8% against the Uganda shilling, Tanzanian shilling and Rwandese franc respectively.

Forex reserves increased to USD 6,994 equivalent to 4.62 months of import cover as the CBK. The local unit will be supported by continued Central Bank support through use of reserves and active liquidity management.

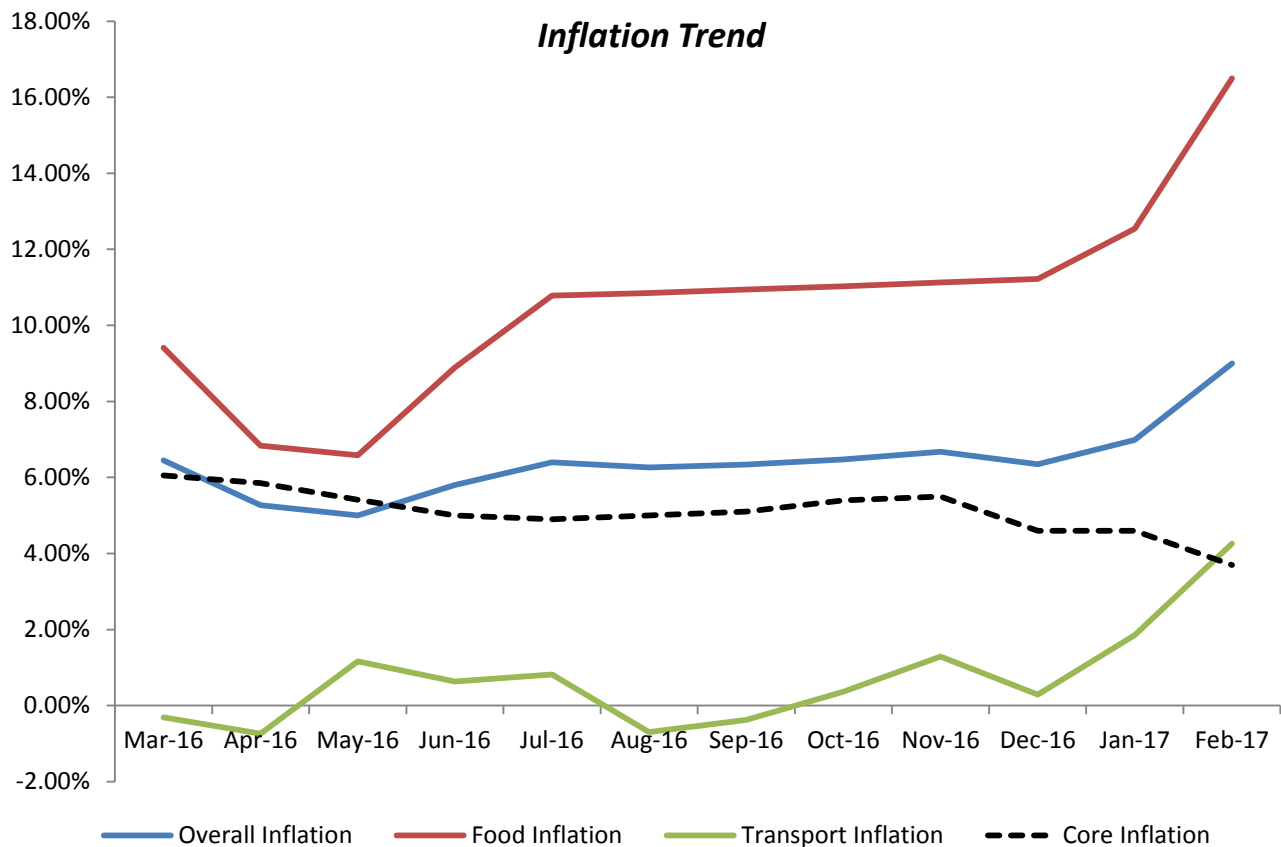


Outlook:

The Kenyan Shilling is expected to trade range bound with a bias towards marginal weakness.

Inflation

Inflation spiked to a four and a half year high of 9.04% in February from 6.99% a month earlier. This magnitude of price increases was last witnessed in March-April 2011. Price increases were noted across most items, primarily on food as the impact of the prevailing drought became more apparent. Annual food inflation surged from 12.54% in January to 16.50%. Month-on-month, food inflation doubled to 3.28%. Similarly, the Transport index more than doubled to 4.26% from 1.85%. Core inflation declined to 3.7% in February 2017 from 4.5% in January 2017.



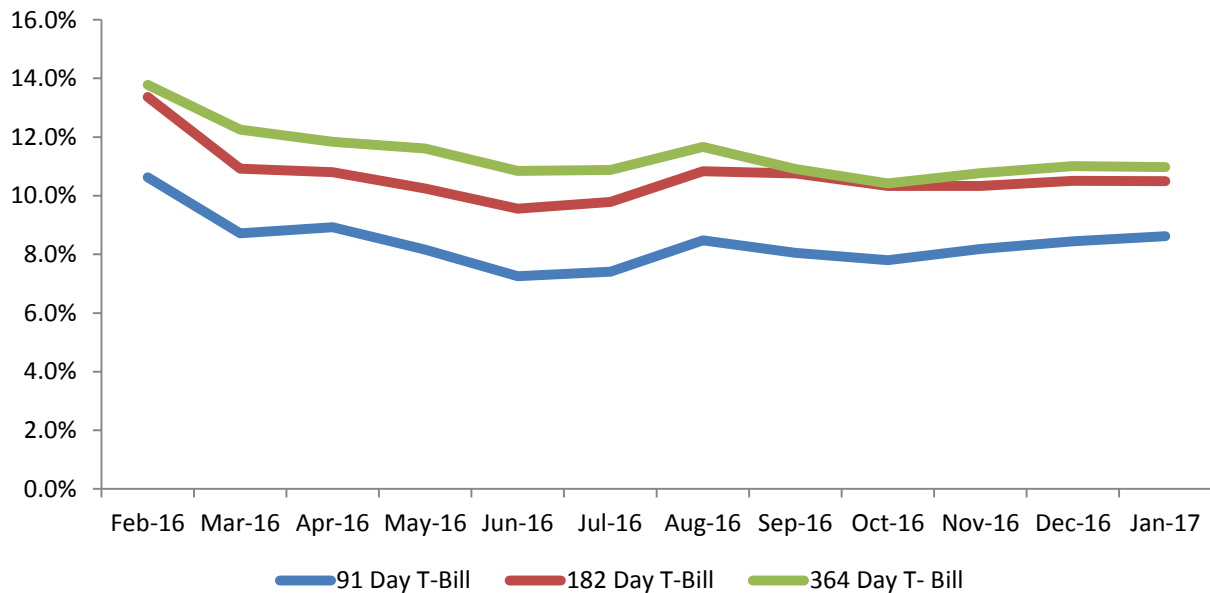
Outlook:

Inflation is expected to remain above Central Bank's upper target of 7.5% on account of higher food prices.

Interest rates

Short-term interest rates remained stable in February. The 91 day and 182 day Treasury bill rates averaged 8.6% and 10.5% respectively, same as January 2017. The 364 day Treasury bill rate declined marginally to average 10.9% compared to 11.0% previously. Prior, to non-auction of the 182 day Tenor, the market preferred it over the 364 day. The interest rate differential favoured the former.

Monthly average interest rates trend (%)



Outlook:

Short term interest rates are likely to increase given the current fiscal and monetary policy outlook.

Offshore

USA

The US unemployment rate fell to 4.7% in February from 4.8% recorded in the previous month. Its labour market added 235,000 jobs against 190,000 expected. This sets the stage for Fed interest rates hike. The new figures suggest that the American economy was holding up well despite a slowdown in China, growing risks in emerging markets and turmoil in the stock market. US Economy grew at an annual rate of 1.6% in 2016 reflecting yet another year of slow recovery.

Outlook

The US economy is expected to maintain its strong growth momentum allowing the Fed to gradually raise rates over the course of the year.

China

The Chinese economy ended 2016 on a firm note, after a tumultuous start to the year. According to the IMF, the economy is expected to grow by 6.5% in 2017 on the back of continued government stimulus through credit provided by state banks.

Outlook:

Real growth levels expected to be much weaker than official data suggest. These may reinforce expectations that the Government will have to roll out more support measures in the year.

Euro zone

The ECB's monetary policy stance remains ultra-accommodative despite a recent rise in price pressures in the common-currency block. Inflation rose to 2.0% in February—rising above the ECB's target of just under 2.0% for the first time since January 2013. While acknowledging that activity in the Euro zone was slowly firming up, ECB voted to keep its bond buying program in place, a move likely to support growth into 2017.

Outlook:

Going forward, growth is likely to be supported by private consumption and a moderate rise in investments.

Appendix A: African markets performance February 2017

Country/Index name	Index level	YTD% chg (USD)
EGYPT CASE 30 INDEX	11 938	11.0%
Malawi/ALSI INDEX	13 636	2.6%
Ghana/GSE ALSI	1 855	0.5%
Rwanda/RSE Index	124	3.4%
Kenya/NASI	125	-6.0%
Zimbabwe /ZSEIND ALSI	135	-6.4%
Nigeria /NIGERIA SE	25 329	-5.8%
Zambia/ALSI INDEX	4 229	5.7%
BRVM/COMP INDEX	289	-0.1%
Tanzania/ DSE SHARE	2 304	2.7%
South Africa/JSE ALSI	51 146	6.5%
USE ALSI INDEX	1 412	-4.2%

Source: STANLIB Research

**Sources:**

STANLIB Research Team
Central Bank of Kenya
Kenya National Bureau of Statistics
Reuters
NSE
Economic Intelligence Unit
IMF and ECB
Specific company report
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