KENYA ASSOCIATION OF MANUFACTURERS

Driving Global Competitiveness

October - 2017

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1.0 THE ECONOMY AT A GLANCE

- **Inflation**: Inflation rate for the month of October 2017 stood at 5.72%, relative to 7.06% in September, 2017

- **Foreign Exchange rate**: The Kenya Shilling depreciated by sh. 0.52 to the USD during the month of October 2017 to close at Ksh 103.77, from Ksh 103.25 in September 2017.

- **Interest Rate**: The Monetary Policy Committee (MPC) meeting held on 18th September 2017 retained the Central Bank's Rate (CBR) at 10.00% because the current monetary policy stance had reduced the threat of money driven inflation. The next meeting of the MPC) will be held on 23rd November 2017.

- **Cost of Power (cents) per kilowatt**: The average charge for power usage for manufacturing sector recorded an increase of 2.54% in the month of October compared to September 2017.

- **Purchasing Managers' Index (PMI):** Kenya PMI dropped sharply to 34.4 in October of 2017 from 40.9 in September.

- **Ease of doing business:** Kenya has moved up 12 spots in this year's global rankings in doing business according to World Bank's Doing Business 2018 report and this is attributed to several reforms in the Kenyan business environment. This is Kenya's best performance in 15 years having been ranked position 80 out of 190 countries globally, compared to position 92 in 2016.

2.0 OUTLOOK OF KENYA'S ECONOMIC PERFORMANCE

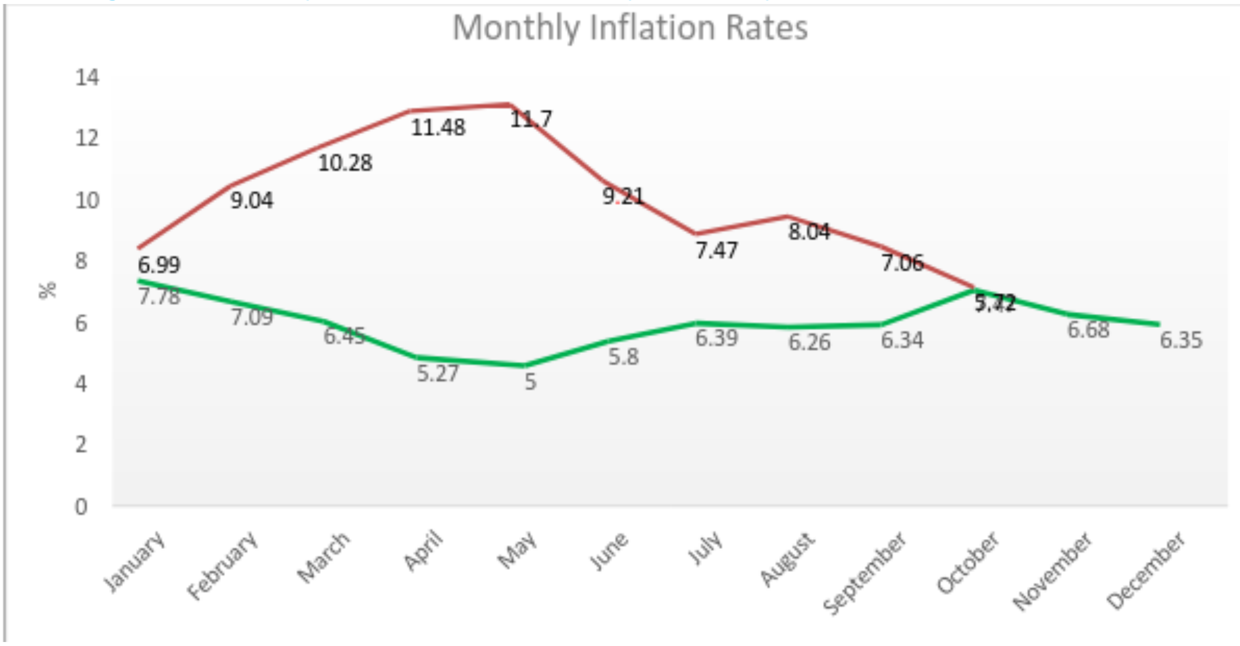
The following are some indicators on the country's economic performance:

2.1 Purchasing Managers' Index (PMI)

The Stanbic Bank Kenya PMI dropped sharply to 34.4 in October 2017 from 40.9 in September. The reading pointed to a record contraction in private sector activity amid in political instability. Output fell further for sixth straight months due to political instability and poor economic conditions. In addition, new orders and employment declined. On prices front, the firms raised their selling prices, after declining in prices in five months

2.2 Inflation

Figure 1: Monthly inflation rates for Kenya: January-October 2017



Data source: KNBS statistical releases October 2017

Average inflation rate for October 2017 was 5.72%, a decrease of 1.34% compared to September 2017. Food and Non-Alcoholic Drinks' Index decreased by 1.78% between September and October 2017 because of the drop in the costs of several food items. Favorable weather conditions attributed to the drop in prices of the food items. As a result, the year on year food inflation dropped to 8.47 per cent in October.

The Transport Index recorded an increase of 0.86% in October 2017, mainly on account of increase in pump prices of petrol and diesel.

Table 1: One Month and Twelve Months' Changes in the Price Indices

Broad Commodity Group	Weight	% Change on last month (October 2017/ September 2017)	% Change on same month of previous year (October 2017/ October 2016)
Housing, Water, Electricity, Gas and other Fuels	18.3	0.47	3.58
Transport	8.66	0.86	3.78

Data source: KNBS statistical releases October 2017

There was an increase in the cost of house rents, electricity and other cooking fuels resulting to an increase by 0.47% in Housing, Water, Electricity, Gas and Other Fuels' Index. The higher cost of electricity was attributed to the increase in the foreign exchange adjustment charges despite the fuel cost and other charges, remaining constant.

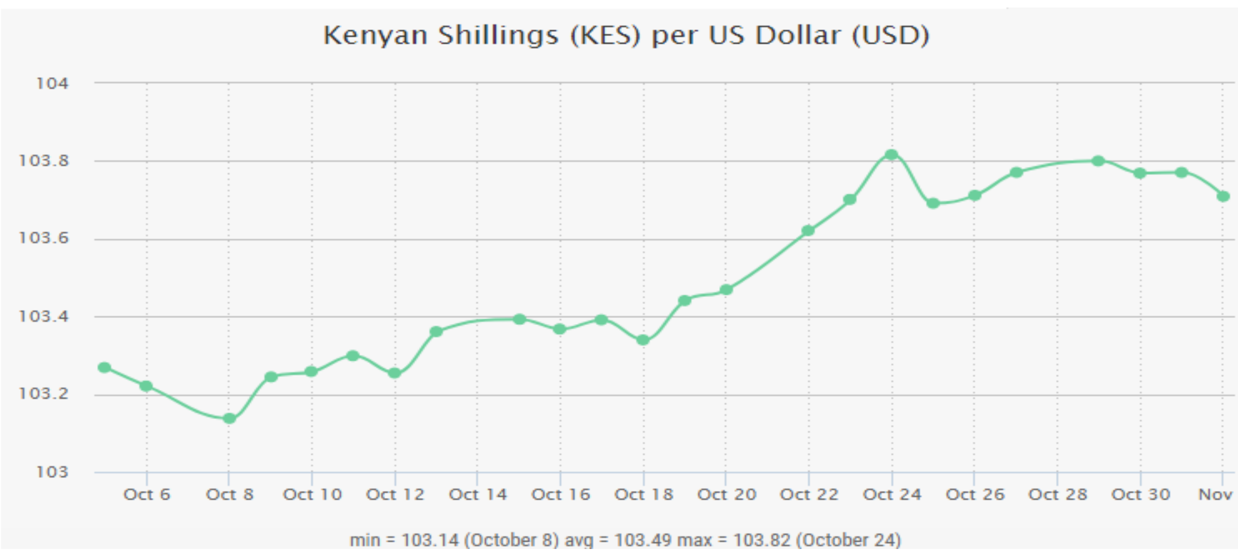
Table 2: National Average Retail Prices of Selected Commodities

Commodity Name	Unit of Measures	Average price September '17	Average Price October '17	% change on last Month
Electricity	50Kwh	581.79	603.25	4.06
Electricity	200Kwh	3665.54	3,751.38	2.54
Petrol	1 litre	87.84	89.68	2.22
Diesel	1 litre	99.20	102.55	3.63

Data source: KNBS statistical releases October 2017

2.3 Exchange rate

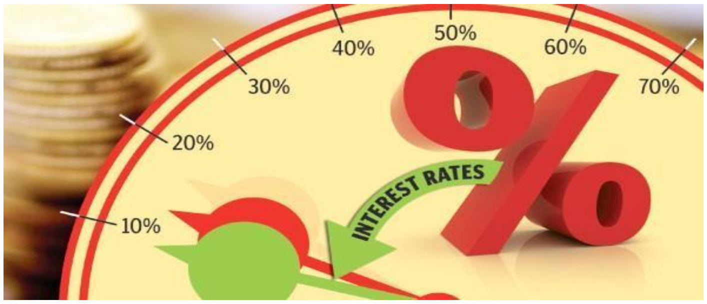
Figure 2: Exchange rate between the Kenyan Shilling and the USD



Data source: https://www.exchange-rates.org/history/KES/USD/G/28

The Kenya Shilling depreciated by Ksh. 0.52 to the USD during the month of October to close at Ksh 103.77, from Ksh 103.25 in September.

2.4 Interest rates



The MPC retained the Central Bank's Rate (CBR) at 10.0% at its 18th September 2017 meeting because the current monetary policy stance had reduced the threat of money driven inflation. The next meeting of the MPC will be held on 23rd November 2017. The retention of the benchmark lending rate means banks will continue lending at maximum of 14 per cent.

2.5 Securities market updates

According to Cytonn Investments October Report, the equities market was on a downward trend with NSE All-Share Index (NASI), Nairobi Securities Exchange (NSE) 20 and Nairobi Securities Exchange (NSE) 25 losing 0.1%, 0.6% and 1.6%, respectively, taking the YTD performance as at the end of October to 21.5%, 19.0% and 17.1% for NASI, NSE 25 and NSE 20, respectively. The equities market performance during the month was attributable to losses in large caps, led by KCB Group, Coop Bank and DTBK, which lost 7.3%, 6.5% and 3.2%, respectively.

Equities turnover declined by 36.0% during the month to USD 90.7 Mn from USD 141.7 Mn in September 2017, taking the YTD turnover to USD 1,399.2 million. Foreign investors turned net buyers for the month with net inflows of USD 7.2 million, compared to net outflows of USD 50.9 million witnessed in September 2017. Year to date, foreign investors are net sellers with net outflows of USD 104.1 million. The market is expected to record subdued activity over the coming few weeks as market players remain cautious of the political uncertainty in the country. Despite this, the market is also expected to remain supported by improved investor sentiment once fear and uncertainty dissipates, as investors take advantage of the attractive stock valuations.

The market is currently trading at a price to earnings ratio (P/E) of 12.5x, versus a historical average of 13.4x, and a dividend yield of 4.0%, compared to a historical average of 3.7%. Despite the valuations nearing the historical average, there still exist pockets of value in the market, with the current P/E valuation being 26.3% below the most recent peak in February 2015. The current P/E valuation of 12.5x is 28.7% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 50.2% above the previous trough valuation of 8.3x experienced in December 2011.

3.0 KENYA GLOBAL DOING BUSINESS RANKINGS

Kenya has moved up 12 spots in this year's global rankings in Doing Business according to World Bank's Doing Business 2018 Report. This is Kenya's best performance in 15 years having been ranked position 80 out of 190 countries globally, compared to position 92 in 2016. For the period 2015-2018, Kenya has moved up 56 spots. In Sub-Saharan Africa, Kenya has risen to third spot behind Rwanda and Mauritius. Such improvements should increase the level of efficiency for businesses and increase the level of Local and FDI, which has a positive impact on job creation.

Subsequently, Kenya recorded $2 billion FDI levels in 2016, which is a rise $390 million in 2013. As a result of this, Kenya was ranked as the 2nd most attractive investment destination on the African continent in 2016. The reforms measure reduction in regulatory compliance burden by looking at the number of processes, time taken for a service and the cost of the service. Reforms made include ease of starting a business by merging requisite formal procedures; reducing cost of construction permits through elimination of clearance fees from the National Environment Management Authority (NEMA) and the National Construction Authority (NCA); enhancing electricity reliability through investment in distribution infrastructure and establishment of power restoration squads in case of outages; improving access to credit information through distribution of data from utilities; easier payment of taxes online through the iTax platform; and reduction of the time for import documentary compliance through implementation of a single window system.

4.0 CORPORATE UPDATES

4.1 Potential investors for Imperial bank limited shortlisted.

Following the September 8, 2017 announcement inviting investors to present an initial Expression of Interest (EOI) to take an interest in Imperial Bank Limited (In Receivership) (IBLR), the deadline for submission of EOIs expired on 29th September 2017. During this period, the Central Bank of Kenya received a total of three responses to the EOI. The evaluation of the EOIs has now been completed and a shortlist of qualifying investors (Shortlisted Investors) has been identified. Shortlisted Investors and other respondents have been informed of the outcome of this process.

4.2 Non-moratorium depositors in Chase Bank Limited to continue having full-unrestricted access to their funds

Central Bank of Kenya and Kenya Deposit Insurance Corporation (KDIC) have received a non-binding offer from SBM Holdings Limited (SBM) with respect to Chase Bank (Kenya) Limited (In Receivership) (CBLR), as part of the EOI process announced on 30th March, 2017. The non-binding offer includes the acquisition of certain assets and matched liabilities from CBLR. Non-moratorium depositors will continue to have full-unrestricted access to their funds.

5.0 GLOBAL ECONOMIC UPDATES

The global upswing in economic activity is strengthening, with global growth projected to rise to 3.6% in 2017 and 3.7% 2018. Broad-based upward revisions in the Euro area, Japan, emerging Asia, emerging Europe, and Russia, more than offset downward revisions for the United States and the United Kingdom.

5.1 Oil situation

The OPEC is likely to keep its 1.2 million barrels per day of production reductions in place through the end of 2018, according to bloc sources from the Gulf who spoke to Reuters.

Another 600,000 barrels per day of output has been cut by Russia and nine other nations to boost the effects of the OPEC agreement. The group of non-OPEC nations has agreed to extend their cuts through March 2018.

OPEC will meet at its Vienna headquarters on 30th November 2017, marking the one-year anniversary of the industry cartel's agreement to orchestrate a solution to the global oil supply glut. The deal went into effect on 1st January 2017.

Production in Venezuela and Iraq has been falling in recent weeks due to escalating domestic strife. The U.S. sanctions and infrastructural issues put Venezuela on track to lose 240,000 bpd of production next year. The Kurdish independence referendum in Iraq has caused northern oil output to topple as the government grapples for control of the Kirkuk oilfields from the KRG. Reuter's sources added that other OPEC members are unlikely to increase production to offset these under-producers.

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