



**i&M** Burbidge Capital



**MARKET  
UPDATE BULLETIN**

**23<sup>rd</sup> APRIL 2020**



# Foreword & Insight

## Foreword

Facing an unprecedented public health crisis with the novel coronavirus (COVID – 19) outbreak, I&M Burbidge Capital has created a resource that gives insight to the impact of the pandemic across the regional markets and economies. We present a selection of the top stories making headlines in the private capital markets as well as market data and corporate developments.

## Quote of the day

*"Good governance is not fire-fighting or crisis-management. Instead of opting for ad-hoc solutions the need of the hour is to tackle the root cause of the problems."*

- Narendra Modi

# PART I : DEALS & CORPORATE DEVELOPMENTS

21<sup>st</sup> April 2020

Kenya

## Markets

### **Banks cut deposit rates to 3-year low**

Banks slashed interest on customer savings to a 40-month sub-inflation low in December, reflecting the impact of removal of controls amid growing profits. Central Bank of Kenya (CBK) data shows the average savings interest fell to 4.02%, the lowest since September 2016 when it was at 3.79%. The rate recovered slightly to 4.2% in February, coinciding with the month in which banks also slashed interest rate charged on loans to a 15-year low of 12.19%. The Central Bank has over the last 3 months slashed 125 basis points from its benchmark rate.

Source: *Business Daily*

## Corporate

### **Jubilee Holdings donates KES 30 Million for Covid-19 fight**

Jubilee Holdings has contributed KES 30 million to the private sector-led Covid-19 Emergency Response Fund that President Uhuru Kenyatta set up to raise funds for fighting the spread and impact of the virus. The insurance firm said Wednesday in a statement that the donation would be used to purchase of health supplies and equipment, which includes 100,000 reusable masks, 10,000 nasal swabs and 2,500 virus test sets.

Source: *Business Daily*

### **Twiga Foods signs deal with Jumia to distribute fresh produce**

E-commerce platform Jumia Kenya and Twiga Foods have signed a partnership agreement that will enable shoppers on the platform to buy fresh produce as well as processed foods distributed by the farm produce aggregator. Through the deal, shoppers can now buy pre-packed bundles whose cost will range between KES 1,230 and KES 3,180 depending on the goods.

Source: *Business Daily*

## Economy

### **Reprieve for SMEs after Treasury waives court fees**

Small businesses have won major reprieve after the National Treasury waived court fees on low-value commercial disputes for the next two years in efforts to boost liquidity position of the firms.

In a legal notice published on Monday, Treasury Cabinet Secretary Ukur Yatani said the waiver applies to commercial disputes valued up to Sh1 million.

Source: *Business Daily*

### **Workers win big with less tax, cheaper food**

The cost of bread, milk, medical products and agricultural pest control products will not increase after Parliament overturned Treasury's proposals that would have seen some prices of basic commodities attract taxes. Importers of helicopters and their spare parts have also been spared additional taxes after MPs on Wednesday passed the Tax (Amendment) Bill proposed by President Uhuru Kenyatta. The bill is awaiting his signature.

Source: *Daily Nation*

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# PART II: TREASURY UPDATE

## 22<sup>nd</sup> April 2020

### LOCAL MARKET

The Kenyan Shilling was steady against the Dollar on Wednesday to close at 107.15/107.65. The NSE 20 share index dropped 9.10 points to close at 1985.76 while in the secondary market, bonds worth 2.26 billion were transacted.

### INTERNATIONAL MARKET OVERVIEW

The U.S Dollar gained ground against a basket of major currencies, as markets were relatively stable on Wednesday and oil prices began to make slight gains from Tuesday's crash. The Euro traded at \$1.0810 ahead of the European Union meeting scheduled later today where members are expected to discuss measures to increase financial aid to assist the region cope with the coronavirus outbreak. The Dollar last traded at 107.83 against the Yen. The Sterling Pound got some support during the day following the release of a report that showed Britain's inflation rate dropped in March, to trade at \$1.2336. The consumer price index was 1.5 percent higher as predicted, lower than February's 1.7 percent rise.

In the US stock market; the Dow Jones Industrial average rose 450.7 points higher to close at 23,469.58; the S&P 500 gained 62.14 points to close at 2,798.7 while the Nasdaq Composite added 232.15 points to close at 8,495.38.

Source: I&M Bank Limited

### PREVAILING TREASURY BILLS YIELD & INFLATION

Country				
91 Day T-Bill	7.201	9.570	4.043	6.200
182 Day T-Bill	8.089	11.983	4.776	6.492
364 Day T-Bill	9.091	12.999	5.951	7.538
Inflation Data	6.06	3.00	3.40	8.50

### KES INDICATIVE EXCHANGE RATES AT MARKET OPEN

Currency	Country	Bank Buy	Bank Sell
USD		106.15	107.65
GBP		131.50	133.80
EUR		115.05	117.25
CHF		108.00	111.40
JPY		0.9750	1.0050
ZAR		4.70	6.70
INR		-	1.4280
CNH		-	16.60
RWF		5.00	12.00

### INDICATIVE DEPOSIT RATES

Fixed period	1M	3M	6M	1Yr
KES (50,000< 5 Million)	6.25	6.50	7.00	7.25
KES (Above 100 Million)	6.75	7.50	8.00	8.50
USD (Above 500,000)	1.75	3.00	3.25	3.50
EUR (Above 500,000)	1.50	2.25	2.25	2.25
GBP (Above 500,000)	0.50	0.75	1.00	1.00

### COMMODITY PRICES

	Unit	Close
Aluminum	USD/MT	1,522.00
Murban Crude Oil	USD/barrel	17.88
Coffee	US Cents/lb.	112.58
Wheat	US Cents/Bushel	541.75
Corn	US Cents/Bushel	319.25

# PART III: EQUITIES AND BOND TRADING

22<sup>nd</sup> April 2020

## WEEKLY MARKET COMMENTARY

In Wednesday's trading session, the NSE All Share Index declined by 0.85% to close the day at 137.05 basis points. The NSE 20 and the NSE25 share indices shed 0.46% and 0.44% to close at 1,985.76 and 3,194.41 points respectively. Equities turnover took a nosedive to close at KES 579 million against Tuesday's turnover of KES 1.1 billion. This was attributed to a sharp decline in foreign buying on the Exchange, also reflecting a decline in activities on major global markets in the past two days. Total foreign investor activity on the exchange stood at 61.2% with foreigners accounting for 83.8% of the day's sales and just 38.5% of the day's purchases. Foreigners were net sellers on major blue-chip counters that emerged as the day's movers. The bond market was fairly unmoved with bonds worth KES 2.19 billion transacted in 81 deals, up from Tuesday's 72 deals worth KES 2.06 billion.

## INDEX MOVEMENTS

Index	Closing	% Change	% YTD
NASI	137.07	-0.85	-17.63
NSE20	1,985.76	-0.46	-25.19
NSE25	3,194.41	-0.44	-22.10
FTSE NSE25	181.62	0.30	-20.86

## MARKET DATA

Market Data	Today	Previous
Market Cap (KES, billions)	2,095.0	2,113.1
Turnover (KES, millions)	579.4	1,116.8
Volume (millions)	18.20	47.70
Foreign Buys (%)	38.46	51.40
Foreign Sales (%)	83.83	83.79

## GOVERNMENT BONDS

GOK Bonds	Rates	Traded Yield	Value Traded (million)
FXD3/2016/5	13.1120	10.0000	300.00
FXD1/2018/25	13.4000	13.6250	200.00
IFB1/2013/12	11.0000	10.7000	400.00

## MOVERS

Movers	Volume (million)	Turnover (million)	VWAP
Safaricom Plc	11.0	306.40	27.95
Equity Group Holdings Plc	3.0	108.65	35.75
East African Breweries Plc	0.7	100.77	148.00

Source: Faida Investment Bank



# PART IV: BUSINESS INSIGHTS

## IMPACT OF GLOBAL OIL PRICE MOVEMENTS IN KENYA

On 20th April 2020, oil prices in the United States for the first time in history touched sub – zero levels amid a collapse in demand due to the coronavirus pandemic. In today's business insight, we present an analysis of the oil market and what this historic market crash means for the Kenyan economy.

### Global Oil Trading Mechanism

Crude oil is a naturally occurring, non-renewable, unrefined petroleum product. It remains an important commodity in the world as it is the primary source of energy production. Crude oil is mainly classified in two categories which also serve as pricing benchmarks – West Texas Intermediate (WTI) and Brent Crude. WTI crude is oil extracted from US oil fields whilst Brent Crude is oil that is extracted from the North Sea. Brent crude price is the international benchmark price used by the Organisation of Petroleum Exporting Countries (OPEC), while WTI crude price is a benchmark for US oil prices. Oil is traditionally traded in commodities exchanges through the use of futures contracts and other derivative instruments. Futures contracts are listed derivatives that lock in the price of an underlying asset to be delivered by the seller of the Futures contract at a future date. An oil futures contract, therefore, is an agreement to buy or sell a certain number of barrels of oil at a predetermined price on a predetermined date, usually set on a monthly frequency. When futures are purchased, a contract is signed between buyer and seller and secured with a margin payment that covers a percentage of the total value of the contract.

### 2020 Oil Price Drop

2020 began the year with a dispute on oil production between Saudi Arabia and Russia, two of the largest oil producers on the planet. Saudi Arabia is also the main power in the OPEC cartel. The two nations rapidly increased oil production by the two countries in an attempt to drive down prices to hurt the other in a Mexican Standoff styled spiral that produced a glut in the global oil market. This as the coronavirus pandemic was just taking root and threatening the global economy at unprecedented levels. The resulting slump in demand as major economies shut down contributed to creating a significant glut and placed downward pressure on oil prices.

Typically, buyers of oil futures contracts are traders that look to make a bet on a locked in price and therefore, for the most part do not actually take delivery of the oil. In case they are oil marketers then delivery is typically taken at centralised exchange depots – in the case of the US in Cushing, Oklahoma. With the slump in demand, however, the storage facilities in the US are nearly full and traders have been left holding contracts on oil they cannot take delivery of or sell to marketers as even petroleum refineries are cutting down on operations due to reduced demand. This, we believe, is what led to movement of WTI prices into negative territory, the deepest plummet in history, to almost USD -40 per barrel. Essentially, holders of futures contracts suddenly found themselves in the strange predicament where they preferred to pay buyers to take delivery of the oil and cut their losses rather than double down and incur steep storage prices.

However, in other regions where Brent crude is the main benchmark, oil prices are still above zero but seeing significant declines – 18% on Tuesday alone to c. USD 20 a barrel. The slower decline in Brent crude prices we believe is attributable to:

1. Decline in production – OPEC thrashed out a deal to ensure 'historic' output cuts in an effort to arrest plummeting oil prices as a result of the COVID-19 pandemic. The deal further included Russia, a non-OPEC member but the 2nd largest oil producer in the world. The producers agreed to cut production by 10 million barrels per day, though this is still far outmatched by the slump in demand.
2. Larger storage capacity globally. This too could be filling up fast.

### Impact of the Price Drop in Kenya – Part I

Kenya purchases petroleum products under the Brent benchmark since the closure of in-country oil refineries. As a result, whilst there may be some drops in petroleum product prices in Kenya, this will likely not be proportionate global oil price declines. Additionally, taxes and levies form a significant amount of prices in Kenya – c. 43% currently. As such, margins for oil marketers that import the processed products and taxes could deny local consumers the benefit of a huge drop in Brent crude oil prices.

The Energy and Petroleum Regulatory Authority (EPRA) has previously expressed that for a significant drop in local retail prices to take place, a drop in crude oil prices needs to be sustained. Currently, the drop in oil prices is a reflection of sustained low demand expected in May with concerns June may also see low demand. The scale of declines in retail prices in Kenya and globally will likely be largely determined by how soon the global economy opens up and demand once again balances out the world's supply of oil, and whether economies globally open up before or after global storage capacity is filled.

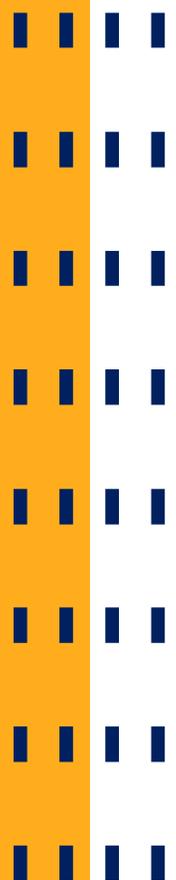
In the next part of this two-part series, we will analyse in more detail, the impact that global oil sector development are likely to have on the local markets.



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Originating and structuring Equity and Debt capital raising, IPOs, M&A transactions, Strategic Options advisory, PE advisory, Tax Advisory and other Corporate Finance Services.

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