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BUSINESS INSIGHTS

BY JANTA

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Welcome to the latest edition of Janta Kenya's newsletter, where we delve into Kenya Shilling Gains Ground Against the USD Amid Forex Market Frenzy. We are dedicated to providing you with the insights and guidance you need to navigate these hurdles effectively.



KENYA SHILLING GAINS GROUND AGAINST THE USD AMID FOREX MARKET FRENZY

Amidst the recent surge in activity within the forex markets, the Kenya Shilling has demonstrated remarkable strength against the US Dollar, prompting local investors to reevaluate their currency holdings.

As the trading day concluded, the Central Bank of Kenya (CBK) reported an exchange rate of KSh 153.2039, marking a significant uptick from the previously stagnant range of KSh 160.0000. Commercial banks echoed this sentiment, quoting rates below KSh153.75, indicating a collective bullish sentiment towards the local currency.

Thursday witnessed an extraordinary appreciation of the Kenya Shilling against the US Dollar, reaching its highest level since November 2023 and effectively erasing all exchange losses incurred in 2024.

This notable upswing, considered the most substantial single-day gain in 16 years, prompted the CBK to intervene in order to curb currency volatility. Charlie Robertson, Head of Micro Strategy at FIM Partners, remarked on the surprising turn of events, noting, "An interesting degree of panic is what's happening in the FX market as speculators get shocked by Kenyan shilling strength."

The CBK's recent stance on the exchange rate, highlighting an overshooting of the Kenya Shilling's fair value, has paved the way for regulatory intervention aimed at stabilization. Analysts attribute the strengthening trend to an increase in the supply of USD, which has tilted the demand and supply dynamics in favor of a Kenya Shilling upswing.

Despite the prevailing optimism, National Treasury PS Dr. Chris Kiptoo has cautioned forex dealers against speculative attacks on the local unit to prevent distortions in the market.

Impact on Businesses and Business Protection Advice:

- 1. Currency Risk Management:** Businesses engaged in international trade or those with significant foreign currency exposure should remain vigilant amid fluctuating exchange rates. Implementing robust currency risk management strategies, such as hedging or forward contracts, can help mitigate potential losses stemming from currency fluctuations.
- 2. Supply Chain Disruptions:** A strengthening Kenya Shilling may impact businesses reliant on imports by potentially reducing the cost of imported goods. However, sudden currency fluctuations can also disrupt supply chains and affect pricing strategies. Businesses should maintain flexibility in procurement and pricing to adapt to changing market conditions.



3. Export Opportunities: A stronger Kenya Shilling may present favorable conditions for exporters, as their products become more competitive in international markets. Businesses should capitalize on export opportunities and explore new markets to leverage the currency advantage.

4. Financial Planning: Businesses should reassess their financial plans in light of shifting exchange rates to ensure liquidity and financial stability. Regular monitoring of currency trends and prudent cash flow management can safeguard against adverse effects on profitability.

5. Diversification: Diversifying revenue streams and customer bases can provide a buffer against currency volatility. By expanding into domestic and international markets, businesses can mitigate risks associated with currency fluctuations and capitalize on emerging opportunities.

In conclusion, the recent surge in the Kenya Shilling's strength against the US Dollar reflects a dynamic shift in the forex market landscape, with significant implications for businesses operating within and beyond Kenya's borders. While this upswing presents opportunities for cost savings, improved competitiveness in export markets, and enhanced purchasing power for imports, it also underscores the importance of proactive risk management and strategic planning. Businesses must remain vigilant and adaptable, continuously reassessing their currency exposure, supply chain resilience, and market positioning to capitalize on emerging opportunities while mitigating potential risks.

Moreover, amidst the ongoing volatility in currency markets, businesses should prioritize robust risk mitigation strategies to safeguard against adverse effects on profitability and financial stability. This entails implementing hedging mechanisms, diversifying revenue streams, and maintaining prudent cash flow management practices. By adopting a proactive approach to currency risk management, businesses can navigate the fluctuations in exchange rates with greater resilience and confidence, ensuring continuity and sustainability in their operations.

Looking ahead, the trajectory of the Kenya Shilling and its impact on businesses will continue to evolve in response to global economic trends, geopolitical developments, and domestic policy decisions. As such, it is imperative for businesses to remain agile, adaptable, and forward-thinking in their strategies. By staying abreast of market dynamics, leveraging opportunities for growth, and mitigating risks effectively, businesses can position themselves for success in an increasingly interconnected and dynamic business environment.



BUSINESS NEWS HEADLINES

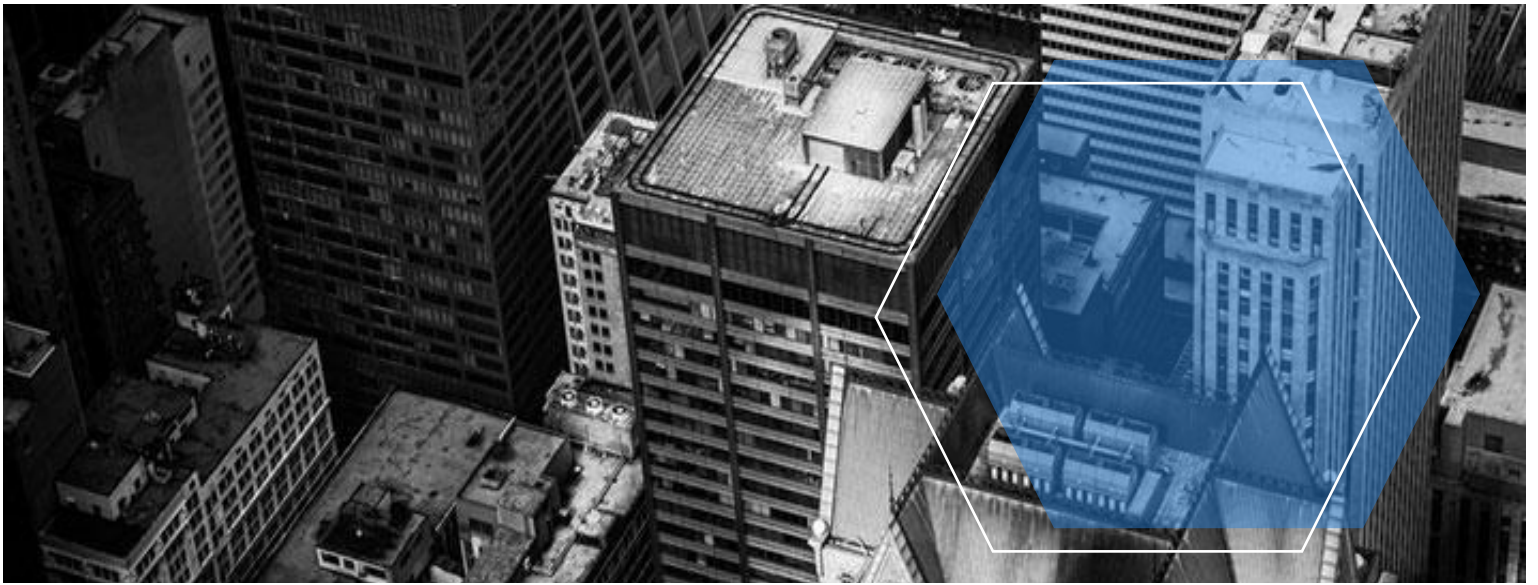
The Central Bank of Kenya introduced a KSh 70 billion, 8.5-year infrastructure bond to fund projects for the 2023/24 fiscal year. Available for purchase from January 24th to February 14th, 2024, with payments due on February 19th, 2024, the bond aims to refinance upcoming maturities, with an oversubscribed auction expected on February 14th, 2024. Investors are advised to bid between 18.95% and 19.15%, with secondary trading commencing on February 19th, 2024.

As Africa progresses towards removing visa requirements to foster intra-continental trade, various economic and social implications arise. This liberalization echoes principles of a free market and open borders, mirroring successful models like the EU. While boosting market expansion, tourism, and cultural exchange, challenges such as security threats, public service burdens, and regional inequalities must be addressed. Effectively balancing optimism with pragmatism is crucial, requiring coordinated efforts and strategic planning to navigate this transformative journey towards African unity and prosperity.

Landlords in Nairobi's prime office and retail spaces are increasingly opting for rent payments in US dollars to hedge against exchange rate risks. This trend stems from the substantial costs involved in constructing prime properties, often financed with USD-denominated loans due to currency depreciation concerns. Given the persistent decline in the Kenyan shilling's purchasing power against the USD, landlords mitigate losses by collecting rent in dollars. Knight Frank's H2 2023 Market Update highlights shifts in Nairobi's retail sector, with supermarket chains expanding into residential areas. However, market expansions and new entrants have decreased as developers adopt a more conservative approach, evidenced by fewer speculative developments. Despite economic challenges, notable retail developments include Quickmart's new outlet and expansions by Carrefour and Naivas, reflecting evolving consumer preferences and market dynamics.

The Kenyan government has decreased the likelihood of defaulting on a \$2 billion debt due mid-year by successfully issuing a new \$1.5 billion Eurobond. The Eurobond, priced at 10.375 percent and due in 2031, will be repaid in three installments, with a weighted average life of six years. Despite higher pricing compared to similar issuances by Benin and Ivory Coast, Kenya received strong demand, exceeding \$6 billion. The proceeds will fund an offer to buy back existing \$2 billion Eurobonds due in 2024, with results expected on February 15, 2024. This move aims to manage debt liabilities and maintain a low weighted average interest rate in the debt portfolio. However, analysts caution against the short-term pressure and emphasize the need for careful management to mitigate medium-term risks.

The cabinet has approved the sale of the Development Bank of Kenya (DBK) along with five other non-strategic commercial state-owned enterprises, including Kenya Safari Lodges and Hotels, Golf Hotel, Sunset Hotel, Mt. Elgon Lodge, and Kabarnet Hotel. The decision aims to stimulate the expansion of the hospitality industry and promote growth through private sector investment. DBK, established in 1963, transitioned into a fully-fledged deposit-taking commercial bank regulated by the central bank of Kenya. The move aligns with efforts to rebound the tourism sector, driven by policies such as visa-free entry, promising increased employment and business opportunities. Despite the government's argument that privatization will unlock working and investment capital for these entities, the process faces legal hurdles, with the High Court suspending the privatization following opposition party objections.



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In conclusion, the recent strengthening of the Kenya Shilling against the US Dollar marks a notable transformation in the forex market, carrying profound implications for both local and international businesses. While this surge offers potential benefits such as cost efficiencies, heightened competitiveness in export sectors, and increased buying capacity for imports, it accentuates the need for proactive risk mitigation and strategic foresight. Businesses must maintain a vigilant stance, constantly evaluating their currency exposure, fortifying supply chain resilience, and refining market strategies to leverage newfound opportunities while navigating potential pitfalls. Flexibility and adaptability will be key as companies strive to optimize their positions in response to evolving market dynamics, ensuring sustainable growth and resilience in the face of currency fluctuations.

Thank you for staying updated with our newsletter, and we look forward to bringing you more essential business insights in future.



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