CAPITAL
MARKETS AUTHORITY
Promoting the Integrity and Growth of the Capital Markets

The Capital Markets Soundness Report (CMSR)

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"THE ROAD TOWARDS ESTABLISHING CARBON MARKETS IN KENYA"

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SPECIAL MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Esteemed Reader,

Welcome to the **27th edition of the Capital Markets Soundness Report** that covers developments and emerging trends in the second quarter of the year 2023. This report analyses the soundness of Kenya's capital market as influenced by diverse global, regional and domestic developments.

The prospects for global economic recovery remain modest. The speedy resolution of the recent global banking sector challenges, declining inflation in most developing countries amid lower commodity prices, reduced global supply constraints and the slowing pace of Central Banks' rate hikes, continue to offer glimmers of hope for global economic recovery mid-way into 2023.

The Organization for Economic Cooperation and Development (OECD Economic Outlook, June 2023) projections of global GDP growth remain moderate at 2.7% in 2023 compared to 3.3% in 2022. A modest improvement to 2.9% is foreseen for 2024.Sub-Saharan Africa continues to feel the heat from the deteriorating global economic conditions with the International Monetary Fund (IMF) in its Regional Outlook published in April 2023 report noting that growth in Sub-Saharan Africa will decline to 3.6 percent in 2023.The fears of debt restructuring are reverberating across Africa as witnessed in the Zambia and Ghana scenarios.

CMA Kenya stands ready to support the ongoing national discussion on the appropriate and facilitative regulatory framework for the fair and efficient trading of carbon credits. We have already initiated discussions with industry stakeholders, development partners and related government ministries to steer this conversation forward. This is in line with His Excellency Dr. William Samoei Ruto, C.G.H pronouncement on working with initiatives such as ACMI in expanding carbon markets and carbon credit opportunities in our country.

The ongoing reforms in the coffee-subsector are reflective of the commitment by the Authority to support the National Government efforts to raise the livelihoods of coffee farmers, stimulate further agro-processing activities in the coffee value chain to enhance its rightful contribution to GDP. During the quarter the Authority reviewed the Komex rule book in support of the reforms needed to operationalize the Kenya National Multi Commodities Exchange. The government is banking on KOMEX to ease market inefficiencies and information asymmetry affecting Kenya's commodities markets.

The continued implementation of the Bottom-Up Economic Model (BETA) will be key in turning around the Kenya economy. The capital markets remain a key supportive partner in supporting the off-government balance sheet financing of key National projects under BETA and Vision 2030.

Finally, as you peruse through this report, we would request you to feel free to share your thoughts on the report's, key lessons learned, opportunities, risks, and potential mitigations to help us improve our capital markets policy and regulatory framework to make Kenya the investment destination of choice in Africa.

Enjoy the read!

FCPA, Wyckliffe Shamiah
CHIEF EXECUTIVE OFFICER

EDITORIAL

Greetings!

The **27th edition** of the Capital Markets Soundness Report (CMSR) themed **"The Road Towards Establishing Carbon Markets in Kenya"** highlights the role of the regulator in fostering sound and well-functioning voluntary and compliance carbon markets as part of Kenya's climate change response initiatives.

Global capital markets continued to register subdued recovery on the back of slow global economic growth, tight monetary policies and the prevailing geopolitical crises that have slackened the global IPO pipeline. The timely resolution of the recent bank failures and the easing of interest rate hikes seems to have infused the equity markets with optimism, culminating into positive returns with the MSCI World Index and Emerging Market Index improving by 7.0 % and 1.04% respectively in US Dollar terms, on a quarter-to-date basis as of 30 June 2023, sustaining the increase registered in the two indices in the previous quarter.

A review of select African countries on the MSCI Emerging Frontier Markets Africa index shows that positive returns, even as Kenya, Nigeria, Senegal and Zimbabwe registered negative returns. Foreign investors continued to take a cautious approach given the debt distress issues facing a number African markets dampening interest in their equities markets.

The International Organization of Securities Commissions (IOSCO) finally proposed a number of policy recommendations in a move to enhance the global standards for regulating crypto assets. The Securities Commission Malaysia (SC) underscored the need of investment-based crowdfunding to provide alternative financing to meet the needs of micro, small, and medium-sized enterprises (MSMEs) in the agriculture sector.

On the regional front, Ethiopia fast-tracked the setting up its securities exchange with a fund-raising roadshow, even as Egypt commenced engagements to enable trading in gold and other on commodities on the Egyptian Commodity Exchange (Egycomex).

The domestic capital markets registered stability against the tough operating economic context. Foreign investors participation slightly increased to 44.95% this quarter compared to 41.24% last quarter on the back of booking profits during the dividend season. The month of June recorded the first net foreign equity portfolio inflow of Kshs 113 million, last witnessed in February 2022.

The volatility of the three market indices, namely NSE 20, NSE 25, and NASI, increased from 0.40%, 0.47%, and 0.64% registered in the first quarter of 2023 to 0.43%, 0.59%, and 0.80% in the second quarter of 2023, respectively, but remained below 1%.

The ongoing joint capital markets industry awareness initiatives were sustained in the quarter with Chairpersons and Chief Executives of the CMA, NSE, CDSC and KASIB engaging the leadership of potential issuers, aimed at re-energizing the recovery of the domestic capital markets through new listings. Other objectives included enhancing retail investor participation in the equities market through technology with focus on *boda boda* riders. We conclude with a detailed capital markets stability analysis of trends in market volatility, liquidity, concentration, and foreign portfolios flow.

Enjoy your read!

Mr. Luke E. Ombara

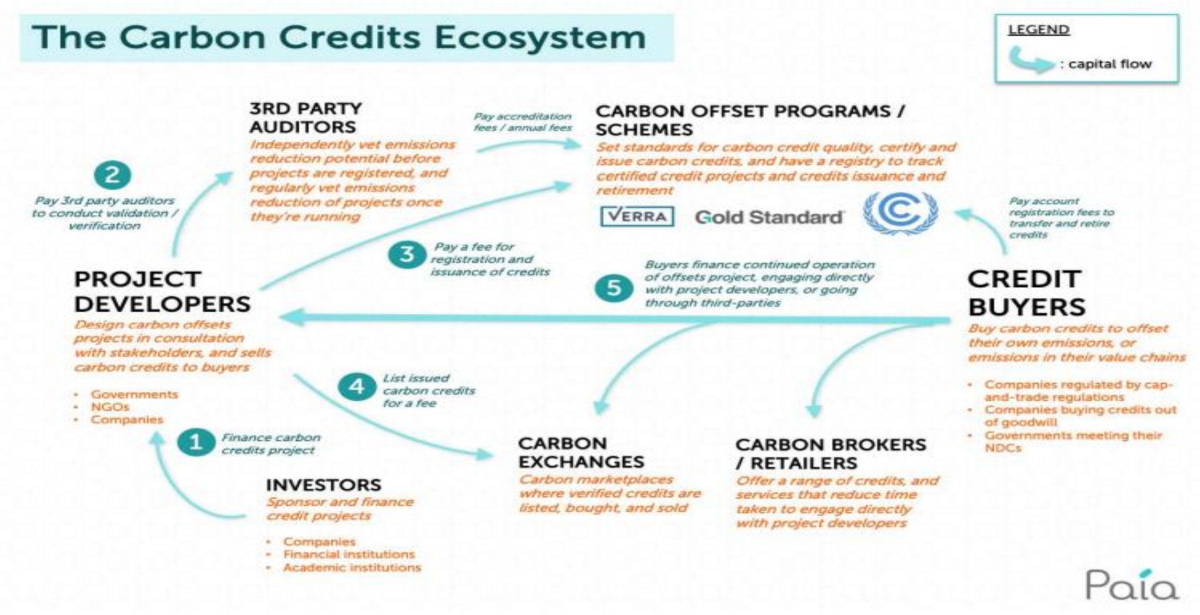
DIRECTOR, POLICY AND MARKET DEVELOPMENT

SPECIAL FEATURE: THE ROAD TOWARDS ESTABLISHING CARBON MARKETS IN KENYA

Carbon markets are trading systems in which carbon credits are bought and sold. Companies or individuals can use carbon markets to compensate for their greenhouse gas emissions by purchasing carbon credits/offsets from entities that remove or reduce greenhouse gas emissions. One tradable carbon credit equal one tonne of carbon dioxide or the equivalent amount of a different greenhouse gas reduced, sequestered, or avoided.

A carbon credit or offset represents a reduction in or removal of greenhouse gas (GHG) emissions that compensates for CO_2 emitted somewhere else. The two unique attributes the two instruments have is that a carbon credit or offset equals one tonne of carbon emissions and that if a carbon credit or offset is purchased and the CO_2 is emitted, that credit is "retired" and cannot be sold or used again.

Figure 1 Carbon Credits Ecosystem



Source: Paia Consulting

Carbon offsets are generated through projects or activities that help to either avoid or reduce greenhouse gas emissions, or actively remove carbon dioxide from the atmosphere. These projects include activities like reforestation and afforestation, renewable energy projects, methane capture from landfills, or energy efficiency initiatives.

Figure 2Carbon Offsets

Source: Carboncredits.com

When an individual, business, or organization wants to compensate for their own carbon footprint that cannot be eliminated through direct emissions reductions, they can purchase carbon offsets. By purchasing these offsets, they are effectively investing in projects that are reducing or offsetting an equivalent amount of emissions elsewhere, thus neutralizing or balancing their own carbon emissions.

Compliance vs Voluntary Carbon Markets

Global carbon markets exist as either voluntary carbon markets and or compliance carbon markets ("Cap-and-Trade" or "Emission Trading Schemes). Mandatory(compliance) carbon markets are established and regulated by national, regional, or international carbon reduction regulatory regimes. Voluntary markets function outside of compliance markets and enable companies and individuals to purchase carbon offsets on a voluntary basis with no intended use for compliance purposes. The market participants in voluntary markets are those who opt in to cut emissions or purchase credits while those in in compliance markets are mandated to decrease emissions or purchase credits by law.

Figure 3 Compliance vs Voluntary Carbon Markets

Source: The Context Network

The Paris Agreement noted that carbon markets are critical to complement the efforts being undertaken globally to tackle climate change. The Paris Climate Accord provides for a robust and ambitious basis for the use of carbon markets as articulated under Article 6 of the agreement allowing parties to use international trading of emission allowances to help achieve emissions reduction targets. The Paris Agreement denotes the need for financing mitigation and adaptation measures, given the costs of undertaking investments to reduce emissions in a timely fashion.

International Carbon Markets are fast becoming a reality buoyed by investments in digital infrastructure to support carbon credits trading. The World Bank[1] notes increasingly a number of jurisdictions such as Jordan, Chile, Ghana, and Singapore are already building end-to-end, state-of-the-art digital infrastructure to support their participation in international carbon markets.

Carbon Markets

In 2021, the voluntary carbon market grew at a record pace, reaching $2 billion—four times its value in 2020—and the pace of purchases is still accelerating into 2023. The voluntary carbon-offset market was expected to grow from US$2 billion in 2020 to around US$250 billion by 2050. The voluntary carbon market (VCM)[2] emerged, led by non-state actors who sought a credible way to certify

[1] https://www.worldbank.org/en/news/feature/2022/05/24/countries-on-the-cusp-of-carbon-markets

[2] https://www.ieta.org/resources/Resources/Reports/The%20Evolving%20Voluntary%20Carbon%20Market_web.pdf

greenhouse gas (GHG) emission reductions and removals outside of United Nations (UN) compliance schemes.

Figure 4International Emissions Trading Association (IETA) Report 2023

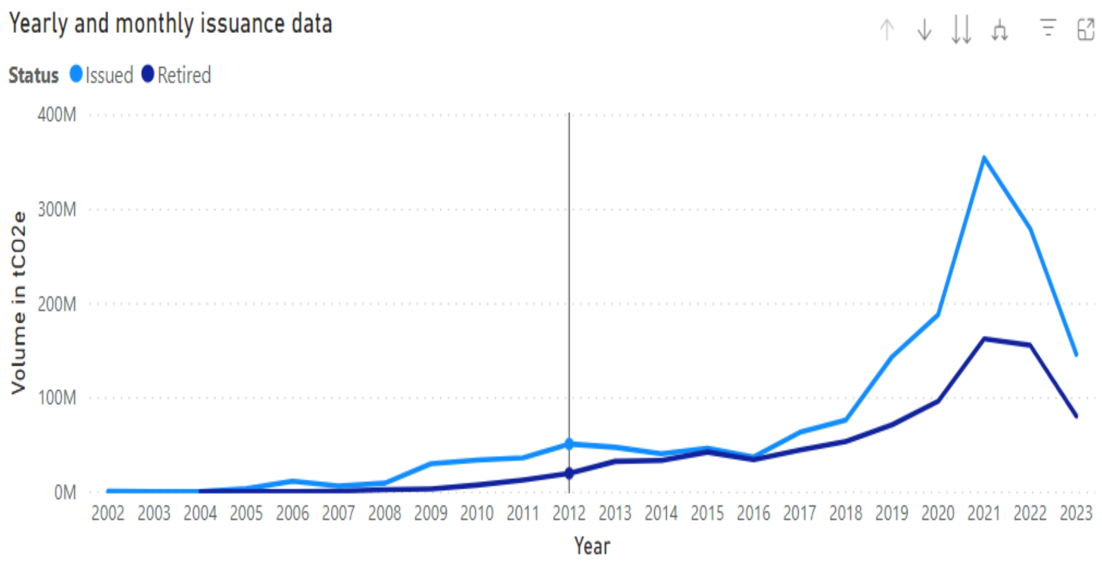
Source: International Emissions Trading Association (IETA)

Voluntary Carbon Markets have grown exponentially since the year 2000 as they effectively provide a robust mechanism for corporates/entities to reduce or remove emissions beyond their value chains and take responsible action as part of their National climate change mitigation strategies; provide finance to where it is most needed including Low and Lower-Middle Income Countries (LLMIC) to invest in offsetting projects and most importantly pave the way to development of compliance markets in jurisdictions where they remain nascent.

The uncertainty on key macro-economic variables led to a decline in issuance of carbon credits in voluntary carbon markets, with carbon credits issuance dropping by 21%[3] in 2022 to 279 Metric tonnes (Mt), compared to 2021.Amidst the drop in issuances projects in energy efficiency, industrial gases and coal mine methane projects were up 30%, 267%, and 212% respectively.

[3] https://climatefocus.com/publications/2022-overview-voluntary-carbon-market-dashboard/#:~:text=Highlights%20from%202022%20include%3A,leading%20category%20of%20credit%20issuances.

Figure 5Issuance of Carbon Credits-Voluntary Carbon Markets



Source: Climate Focus

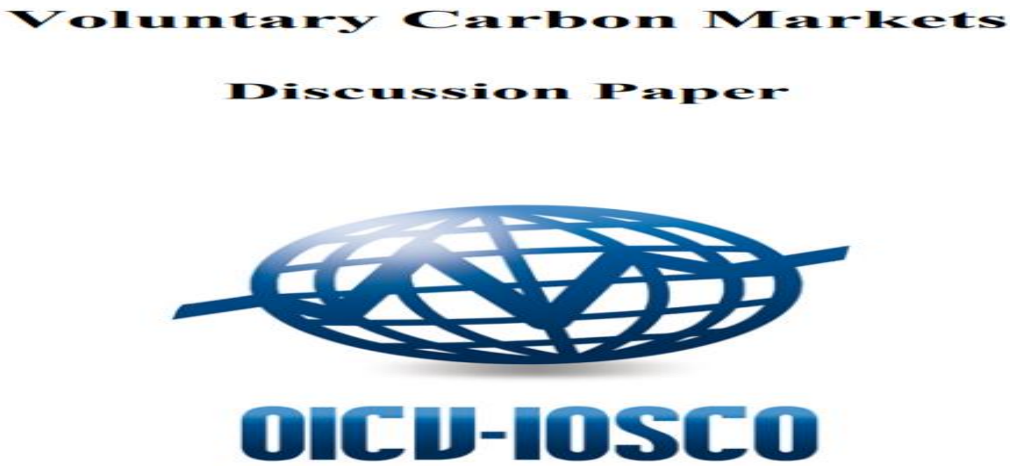
Supportive Digital Infrastructure

Innovative digital solutions are fast evolving to support the international carbon markets. The digital solutions used in carbon markets enhances transparency in the global carbon markets. The infrastructure constitutes monitoring, reporting and verification (MRV) systems with related data on emissions linked to national and or international carbon markets data repositories. The application of emerging technologies such as blockchain is seen also a game changer in enhancing visibility, traceability and transparency in the carbon markets. This is with the aim of ensuring that carbon markets are fair and efficient.

IOSCO on Voluntary Carbon Markets

In November 2022, the International Organization of Securities Commissions (IOSCO) published a discussion paper on voluntary carbon markets (VCMs), inviting feedback on the approach that regulatory authorities and market participants could take to foster sound and well-functioning voluntary carbon markets.

Figure 6Voluntary Carbon Markets IOSCO PAPER



Source: IOSCO

IOSCO noted that securities regulators have a key role to play in facilitating the development of an environment in which VCMs function well and deliver positive impacts. This will in turn lead to greater integrity in the issuance of carbon credits and the claims that buyers make about their climate impact.

The report denotes that entities should appropriately disclose their use of carbon credits, including key attributes like the volume of credits used, their year of issuance, type, provenance and serial numbers for identification in registries. IOSCO noted that securities markets regulators should set rules supporting sufficient and transparent disclosures. VCMs, as with any other traded asset market, should be fair and functional, providing appropriate consumer protections, economic soundness as to pricing and information flow, and structural resilience.

IOSCO notes that presently several jurisdictions do not have regulatory oversight frameworks for voluntary carbon markets. The few that have regulatory frameworks subject VCM's to financial services regulation (some as part of their derivatives regulations). IOSCO notes that there may be merit in considering whether similar or analogous considerations, principles, and standards applicable to financial markets should be applicable to these markets.

IOSCO on Compliance Carbon Markets

Cap-and-trade and baseline-and-credit are both types of carbon markets designed to reduce greenhouse gas emissions. There are two types of compliance carbon markets. The first type is the so-called “Cap-and-Trade” or “Emission Trading Schemes (ETS)” markets, as they are set by “Cap-and-Trade” regulations at regional state and international levels. In these markets, carbon emission allowances for domestic firms and sectors are issued by regional, national, and international governmental organisations.

The second type is what is called a “baseline-and credit system” whereby there is no fixed limit on emissions but polluters that reduce their emissions more than they would otherwise be obliged to can earn credits that they can sell to others who need them. Currently, there are three major Emissions Trading Systems around the world. They are the European Union’s Emissions Trading System (EU), the California Global Warming Solutions Act (USA) and the Chinese National Emission Trading System (China). Thus far, 29 [4]compliance markets have been implemented globally with many states across a number of developed countries establishing different types of compliance markets.

Primary market issuance in compliance markets operates differently than in most other securities, as the primary market issuer is typically the state or an authority thereof. Whilst in the secondary markets this is typically done on-exchange or over-the-counter (OTC). In the EU, trading takes place on three venues: EEX (DE), ICE Endex (NL) and Nasdaq Oslo (NO). In the UK, ICE Futures Europe hosts secondary trading on its market in both UK emission allowance (UKA) futures and UKA daily futures. In the US, several exchanges, including ICE Futures, CME, and Nodal Exchange, offer futures and options contracts on California carbon allowances (CCAs), California offsets, and Regional Greenhouse Gas Initiative (RGGI) allowances.

Compliance carbon markets operate similarly to other commodities markets regulated by securities regulators hence the same comprehensive oversight that promotes transparency and integrity in those markets could do so for compliance carbon markets as well. OSCO has therefore proposed the following recommendations.

[4] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD719.pdf

Figure 7 IOSCOs Recommendation on Oversight Over Compliance Carbon Markets

	IOSCOs Recommendations
1.	Relevant authorities should increase predictability and transparency in primary market decisions.
2.	To foster fair, stable and competitive markets, relevant authorities in charge of primary market issuance should place greater reliance on auctions over free allocation
3.	Relevant authorities should consider setting frequent auctions
4.	When relevant authorities establish market stability mechanisms, any market intervention should be rule-based to allow for better predictability.
5.	Relevant authorities should consider allowing the participation of non-compliance firms in primary markets.
6.	Relevant authorities should define the legal nature of allowances in their jurisdiction.
7.	Relevant authorities should encourage the scrutiny of auction performances.
8.	Relevant authorities should consider establishing clear and robust frameworks for conducting market surveillance, overseeing of entities' behaviour in spot and derivatives carbon markets and ensuring appropriate enforcement.
9.	Relevant authorities should ensure that the relevant market infrastructures (e.g., trading venues, auction platforms, central counterparties, registries) are robust and properly regulated.
10.	Relevant authorities should encourage the development of standardized derivatives contracts.
11.	Relevant authorities should consider public disclosures about aggregate positions, as well as periodic public reporting derived from regulatory data.
12.	Relevant authorities should set clear lines of responsibilities and cooperation between authorities in charge of compliance markets at primary and secondary market level, including both environmental and financial agencies as appropriate and promoting regulatory coordination between these entities.

Source: IOSCO

Highlights of Voluntary Carbon Markets Globally

Japan

The Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange, Inc. (TSE) Japan commissioned a Technical Demonstration Project for Carbon Credit Market in 2022 as a precursor to the establishment of a Carbon Credit Market. TSE will start to accept applications for registration as a Carbon Credit Market Participant from July 2023. After TSE conducts a network connectivity test it plans to open the carbon credit market and begin trading around October 2023. The J-Credit Scheme is designed to certify the amount of greenhouse gas emissions reduced and removed within Japan, according to the International Energy Agency.

Malaysia

Bursa Malaysia intends to offer standardised carbon credit products for trading via a rule based VCM exchange. Bursa Carbon Exchange, which is Malaysia's voluntary carbon market (VCM) exchange established in 2022, is part of the nation's commitment towards achieving net zero greenhouse gas (GHG) emissions as early as 2050. Bursa Malaysia is the first exchange in the world to receive a Shariah Pronouncement for its Carbon Exchange and the standardised carbon products that the Exchange will offer.

The BCX is a spot exchange that facilitates the trading of high-quality carbon credits via standardised carbon contracts. Corporates may purchase these credits to offset their carbon footprint while the sale of carbon credits, in return, will help to finance and drive the development of domestic GHG emission reduction and removal solutions and projects.

Figure 8Bursa Carbon Exchange

BURSA MALAYSIA LAUNCHES A VOLUNTARY CARBON MARKET EXCHANGE

09 Dec 2022

First Shariah Compliant Carbon Exchange

Source: Bursa Malaysia Website

Kenya's Carbon Markets Context

Draft Climate Change (Amendment) Bill, 2023

The Ministry of Environment, Climate Change and Forestry during the quarter developed the Draft Climate Change (Amendment) Bill, 2023 (the Bill), which is intended to incorporate carbon markets in the current Climate Change Act, 2016 (the Act). If enacted, the Bill intends to enhance Kenya's participation in the international carbon markets as part of Kenya's National Climate Change Action Plan (NCCAP).

The Bill notes that the Cabinet Secretary will be mandated to provide guidance and policy direction on carbon markets to stakeholders on pertinent issues on carbon projects and prescribe;carbon removal or sequestration credits;carbon reduction credits aimed at reducing carbon emissions through projects and emission credits not taken into account, including previously used emissions, emission reductions achieved in violation of human rights, emission reductions that have had significant negative social and environmental impacts and emission reductions achieved and/or registered before 1st January 2013.

Trade in carbon credits as anticipated under the Bill is required to result from any of the following arrangements: a bilateral or multilateral trading agreement; trading with a private entity; or in a voluntary carbon market.

Kenya's COP 27 Commitments

In his remarks at the launch of the Africa Carbon Markets Initiative at COP 27, President William Ruto described carbon credits as Kenya's "next significant export". The President noted that Kenya is already a leader in the generation of carbon credits in Africa, accounting for over 20 per cent of the continent's volume over the past five years. President Ruto noted that Kenya was committed to working with initiatives such as ACMI in expanding carbon markets and carbon credit opportunities in our country.

Figure 9 President William Ruto at COP 27

Source:President.go.ke

Kenya has emerged as a prominent destination for carbon credits, as evidenced by recent advancements in carbon trading. A notable milestone was achieved on June 14, 2023, when Kenya successfully auctioned over 2.2 million tonnes of Carbon Credits in Nairobi, with Saudi Arabian firms being the purchasers. This transaction stands out as one of the largest of its kind globally.

Among the sixteen Saudi firms that participated in the auction were Aramco, Saudi Airlines, Saudi Electricity Company, and the International Islamic Trade Finance Corporation, the Islamic Development Bank (IsDB) trade finance arm. Aramco and Saudi Electricity Company acquired carbon credits at 23.50 Saudi riyals ($6.27) per metric tonne.

Most carbon credits, accounting for seventy-five percent that were sold during the auction were derived from eighteen (18) distinct projects focused on CO_2 emissions avoidance and removal. These projects spanned across the Middle East and Africa, encompassing countries such as Kenya, Uganda, Burundi, Rwanda, Morocco, Egypt, and South Africa.

Figure 10 Saudi Arabian Firms at the Recent Carbon Credits Auction in Kenya

Source: Kenyan Wallstreet

Regional Voluntary Carbon Market Company (RVCMC), an institution established by the Saudi Public Investment Fund and managed by the Saudi Tawadul Group, asserts that the carbon credits obtained from Kenya originate from projects employing sustainable technologies or carbon sequestration methods to mitigate emissions. The decision to select Nairobi as the destination for these credits was influenced by the increasing significance of climate change issues in Africa.

Authority's Action Plan

The establishment of a facilitative and innovation friendly oversight framework for Kenya's carbon markets with the aim of positioning Kenya as a global carbon credits trading hub in Africa is long overdue. CMA will in the 2023/2024 financial year engage the various player in this market in undertaking a detailed carbon market assessment- a deep dive into carbon markets in Kenya to assess the complete carbon market ecosystem, stakeholder mapping, demand, supply, and trajectory for growth. This will subsequently inform the policy framework for providing oversight over sound and well-functioning voluntary and compliance carbon markets that will scale up these markets to achieve their environmental objectives.

The Nairobi Securities Exchange (NSE) is seeking to establish a carbon credits exchange. The NSE in 2022 signed a memorandum of understanding with the AirCarbon Exchange Group as part of spearheading processes to create the marketplace during the unveiling of the Nairobi International Finance Centre (NIFC).

1. INTERNATIONAL DEVELOPMENTS

1.1 The Global Economic and Capital Market Performance Outlook

Midway through 2023, the global economic growth is projected to stagnate into 2024 on the back of weak growth prospects across the globe. With the US and wider Europe projected to weather economic recession fears, emerging markets are projected to steady their recovery especially around Asia. Notably, news that China's reopening and recovery could nearly double its GDP growth to 5.7% in 2023.This growth story is expected to be replicated in Japan and India buoyed by a resumption in corporate spending, private consumption going into 2024.

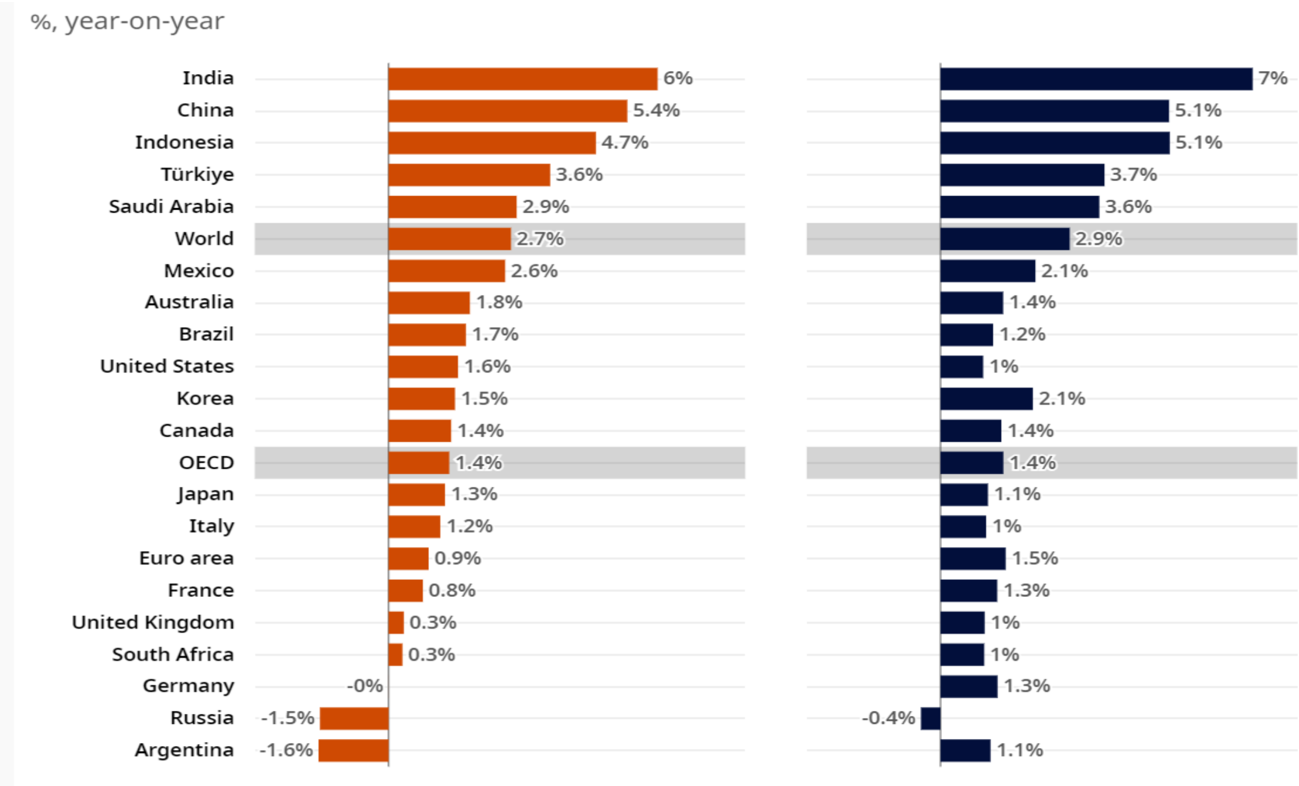
The World Bank in its June 2023 World Economic Situation and Prospects[5] briefing noted that the world economy is facing severe headwinds amid weak growth prospects, elevated inflation and heightened uncertainties. The consequential effects of the COVID-19 pandemic, persistent food inflation, the Russian-Ukraine crisis, the aggravating effects of climate change especially impacting the developing world, the impact of the worsening debt crises across the world and deterioration in the global macro-economic conditions are weighing heavy on the global economic outlook.

The Organisation for Economic Co-operation and Development[6] in its June 2023 report noted whilst the global economy has begun to improve, the recovery will be weak as we cross the 2023 half year mark. The OECD economic outlook projects a moderation of global GDP growth from 3.3% in 2022 to 2.7% in 2023. A modest improvement to 2.9% is foreseen for 2024. Global economic growth has from the beginning of the year been slowing down in the face of elevated inflation, higher interest rates, reduced investment, and disruptions caused by Russia's invasion of Ukraine.

5

6 https://www.oecd.org/newsroom/global-economic-outlook-improving-albeit-to-a-low-growth-recovery.htm#:~:text=The%20global%20economy%20has%20begun,up%20to%202.9%25%20in%202024.

Figure 11 Real GDP Growth Figures 2023 and 2024



Source: OECD Economic Outlook Report June 2023

Global Capital Markets

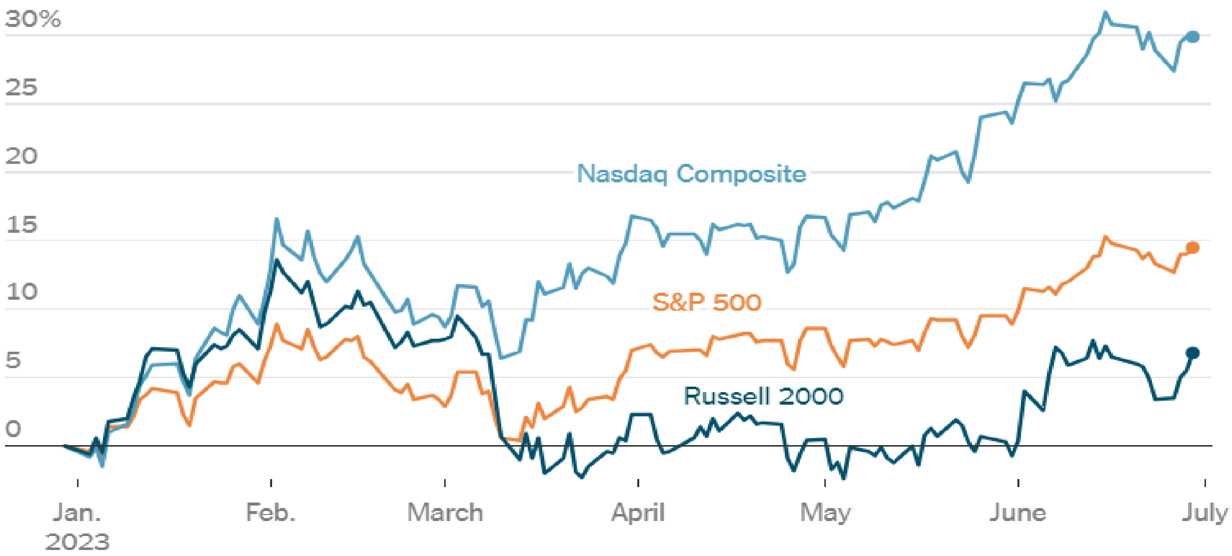
The first half of 2023 recorded a pullback in global Initial Public Offerings (IPO) activity since the peak records set in 2021. These results are reflective of sluggish global economic growth, tight monetary policies and the persistent geopolitical crises that have subdued the global IPO pipeline. Whilst the market sentiments seem to have improved post the banking crisis reported last quarter it seems issuers are still uncertain given the dimming prospects of economic recovery. The EY Global IPO Trends Q2 2023 report notes that 615[7] IPOs with US$60.9 bn capital raised, a 5% and 36% decrease year-over-year (YOY) respectively.

The global equities market registered notable recovery during the quarter amidst diverse economic shocks. Market sentiments seems to have improved after the First Republic, Signature and Silicon Valley Bank failures last quarter. Three major US indices, Nasdaq Composite, S&P 500 (SPY) and the

[7] https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/ipo/ey-global-ipo-trends-2023-q2-v1.pdf

Dow Jones Industrial Average (DJIA) rallied in Q2 2023 on the back of hopes that the US Federal Reserve Bank would ease interest rate hikes as we head into 2024.

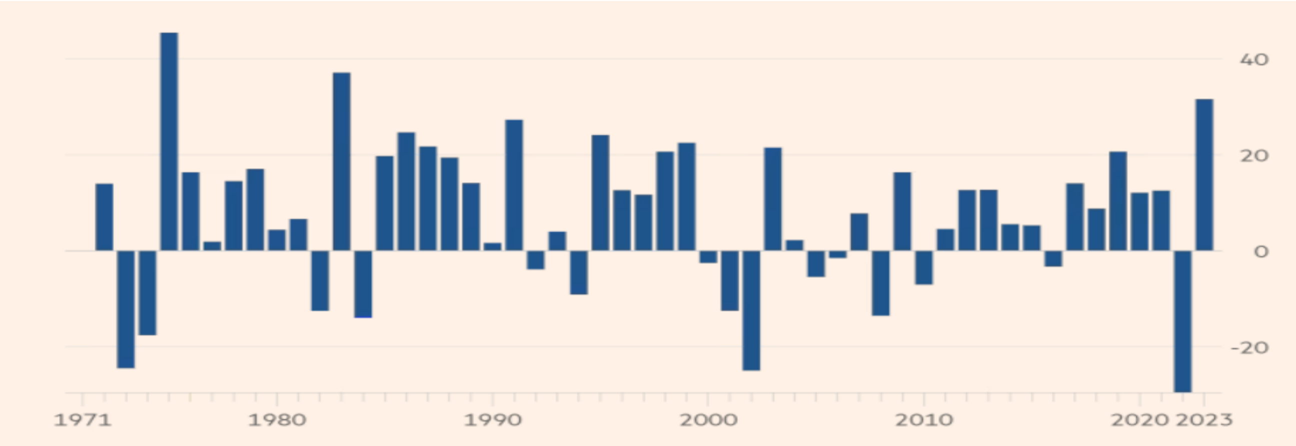
Figure 12Stock Index Performance 2023



Source: Factset (New York Times)

With the US, Europe Union and China showing signs of recovery, inflationary pressures gradually easing, corporate profits having surpassed expectations, optimism seems to have infused the global equity markets. The rally in tech mega caps gained further traction supported by increased investment in the technology sector with banking stocks shaking off the fears of last quarter's banking crisis to declare higher dividends. The biggest contributors to the market rally being the likes of Alphabet, Meta, Tesla, Apple, Amazon, Microsoft and Nvidia with Apple hitting a new record high, valuing the company at more than US$3tn, while chipmaker Nvidia has almost tripled in price since the start of the year. The large technology companies' impressive performance has led to the Nasdaq rising twice as much as the 16 per cent rise in the broader S&P 500 index since the start of the year.

Figure 13Nasdaq Composite Enjoys best first half in 40 years (% change over the past 6 months)



Source: Bloomberg Data

This quarter had mixed fortunes for the global bond markets. A few bond markets registered positive returns will inflations fears waning amidst signaling from most central banks that they are closer to the end of their cycle of rate rises. United Kingdom gilts registered negative returns in the first half of this year, as fixed income investors projected that the Bank of England would have to increase interest rates to the highest level in a quarter of a century to tame high inflation. The ICE Bank of America index of UK government bonds fell by 3.7 per cent in the first half of 2023. The Bank of England is expected to raise its main rate near to 6.25%, much more than the 5.5% previously expected.

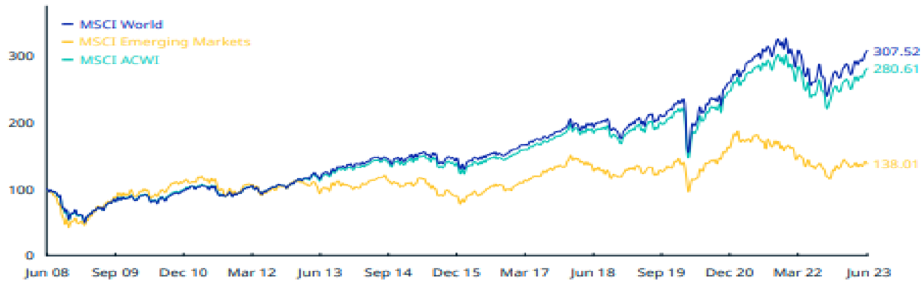
Figure 14Performance Across Global Bond Markets

Source: Bloomberg

Global capital markets registered positive returns with the MSCI World Index and Emerging Market Index improving by 15.43 % and 5.10 % respectively in United States Dollar terms, on a year-to-date basis as of 30 June 2023.

Figure 15 MSCI World Index (USD)

CUMULATIVE INDEX PERFORMANCE — GROSS RETURNS (USD) (JUN 2008 – JUN 2023)



ANNUAL PERFORMANCE (%)

Year	MSCI World	MSCI Emerging Markets	MSCI ACWI
2022	-17.73	-19.74	-17.96
2021	22.35	-2.22	19.04
2020	16.50	18.69	16.82
2019	28.40	18.88	27.30
2018	-8.20	-14.24	-8.93
2017	23.07	37.75	24.62
2016	8.15	11.60	8.48
2015	-0.32	-14.60	-1.84
2014	5.50	-1.82	4.71
2013	27.37	-2.27	23.44
2012	16.54	18.63	16.80
2011	-5.02	-18.17	-6.86
2010	12.34	19.20	13.21
2009	30.79	79.02	35.41

INDEX PERFORMANCE — GROSS RETURNS (%) (JUN 30, 2023)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987
MSCI World	6.09	7.00	19.13	15.43	12.71	9.63	10.09	8.17
MSCI Emerging Markets	3.89	1.04	2.22	5.10	2.72	1.32	3.33	9.51
MSCI ACWI	5.85	6.35	17.13	14.26	11.51	8.64	9.31	8.00

FUNDAMENTALS (JUN 30, 2023)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World	2.00	20.28	17.03	3.00
MSCI Emerging Markets	3.26	13.58	12.08	1.63
MSCI ACWI	2.13	19.27	16.33	2.75

INDEX RISK AND RETURN CHARACTERISTICS (JUN 30, 2023)

		ANNUALIZED STD DEV (%) ²			SHARPE RATIO ² ³				MAXIMUM DRAWDOWN	
	Turnover (%) ¹	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987	(%)	Period YYYY-MM-DD
MSCI World	2.15	17.86	18.28	14.68	0.69	0.51	0.66	0.38	57.46	2007-10-31—2009-03-09
MSCI Emerging Markets	5.04	17.90	18.87	16.91	0.16	0.08	0.21	0.38	65.14	2007-10-29—2008-10-27
MSCI ACWI	2.37	17.27	17.90	14.50	0.64	0.47	0.61	0.37	58.06	2007-10-31—2009-03-09

¹ Last 12 months ² Based on monthly gross returns data ³ Based on NY FED Overnight SOFR from Sep 1 2021 & on ICE LIBOR 1M prior that date

Source: MSCI

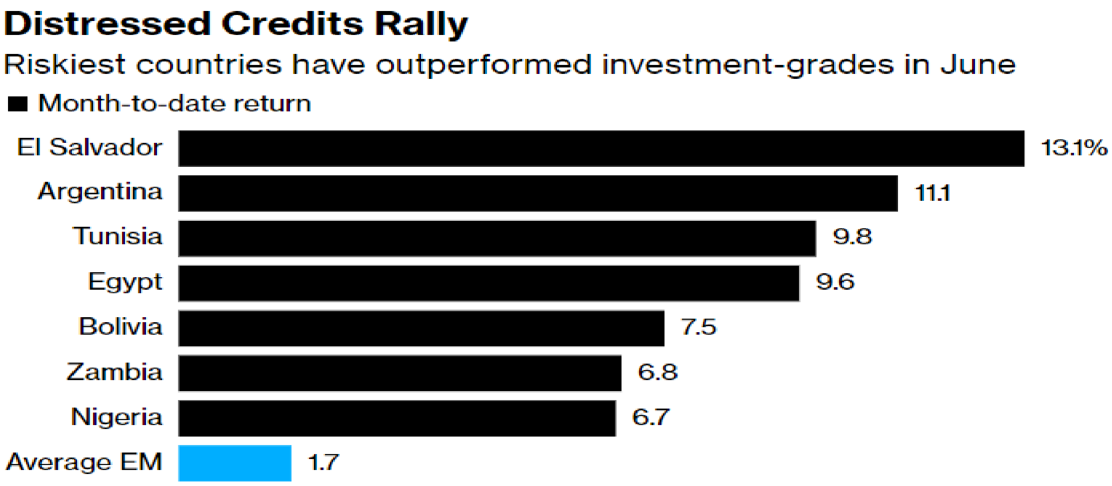
Africa's Capital Markets

African economies have taken a hit from climate change-induced natural disasters combined with surging interest rates significantly pushing a number of African countries into the debt distress category. This has been exacerbated by the prevailing COVID-19 pandemic effects, challenging global financial conditions, fuel, and food price shocks noted across Africa. Persistent global inflation and tighter monetary policies[8] have led to higher borrowing costs for sub-Saharan African countries and have placed greater pressure on exchange rates with no country having issued a

[8] https://www.imf.org/en/Publications/REO/SSA/Issues/2023/04/14/regional-economic-outlook-for-sub-saharan-africa-april-2023

Eurobond since 2022 to date. The IMF notes that Growth in sub-Saharan Africa will decline to 3.6 percent in 2023.The fears of debt restructuring are reverberating across Africa learning from the Zambia and Ghana scenarios. Whilst interest in high yield African debt across, Tunisia, Egypt, Zambia and Nigeria surges as global investors search for higher yield any adverse market movements (tightening of global liquidity) may pose a refinancing risk for other African countries.

Figure 16Frontier and Emerging Markets Debt Performance



Source: Bloomberg

Performance Across Select African Markets

Select equity markets across Africa posted positive returns whilst others such as Kenya, Nigeria, Senegal and Zimbabwe registering negative returns. Foreign investors took a cautious approach given the debt distress issues facing a number of African markets dampening interest in the equities markets. Nonetheless there were pockets of attractive counters buoyed by strong performance especially in the banking, commodities and manufacturing sectors.

TABLE 1:PERFORMANCE ACROSS SELECT AFRICAN MARKETS -MSCI

Country	Last	Day	MTD	3MTD	YTD
KENYA	763.209	-0.6%	2.1%	-13.4%	-30.9%
MOROCCO	253.673	-0.1%	8.9%	16.9%	14.8%
NIGERIA	127.173	-0.9%	-33.0%	-28.1%	-24.3%
SENEGAL	659.934	0.9%	5.1%	-2.1%	3.6%
TUNISIA	791.162	1.0%	4.4%	3.8%	4.9%
ZIMBAMBWE*	756.209	11.3%	-57.3%	-43.8%	-20.7%

***Zimbabwe is currently a stand-alone country index**

Source: MSCI

Top Global Risks and Opportunities During the Quarter

The Q2 2023 Capital Markets Soundness assessment notes the following key risks and opportunities arising from the developments on the global, regional, and domestic front.

Key Risks Identified

- *Climate change induced financial distress has affected many countries globally but has had a significant impact on Kenya economic recovery post-covid. The financing and investments into climate mitigation finance remain an urgent intervention area by both the private and public sector.*
- *The sustained increase in interest returns from Government securities continues to shift investments away from the domestic equities market. It further makes corporate debt market too expensive for potential corporate debt issuers as pricing is usually benchmarked on Government bond yield. Further the persistent rise in interest rates will continue to impair the mark-to-market value of debt instruments held by commercial banks and pension schemes as investment.*

Key Opportunities

- *CMA will strategically position itself at the core of the agenda of Coffee market reforms given the spotlight the National Government on this commodity.*
- *The capital markets industry to leverage on supporting the Governments agenda on housing by positioning REITs as an appropriate investment vehicle of choice by the private*

and public sector.

- ***Well-regulated carbon markets could be a huge export earner for Kenya. The capital markets industry to support the national climate change initiatives by supporting the development of Kenya's carbon credits markets.***

Capital Markets Stability Implication

Kenya's capital markets remain resilient amidst diverse economic headwinds. Amidst the tough economic environment, the equities markets remain attractive with a number of blue-chip counters posting impressive dividend payouts. The industry remains committed to supporting the product uptake strategies being undertaken across the capital markets with the aim of bolstering the domestic capital markets recovery.

1.2 IOSCO Sets the Standard for Global Crypto Regulation

IOSCO has undertaken a fundamental analysis of the crypto markets in a move to enhance the global standards of regulation of crypto assets. IOSCO has delineated the investor protection requirements that should be met to protect crypto investors and how crypto assets service providers (CASPs) should meet the higher regulatory standards applying to the securities markets.

The case for regulatory oversight is growing given the speculative nature driving the demand for many crypto-assets, the lack of intrinsic value in the vast majority of crypto-assets, and the potential for retail investors to suffer significant harm at the hands of market participants, retail access, and investor protection, measures are crucial.

The Recommendations cover six key areas, consistent with the IOSCO Objectives and Principles for Securities Regulation and relevant supporting IOSCO standards, recommendations, and good practices: 1) Conflicts of interest arising from vertical integration of activities and functions, 2) Market manipulation, insider trading and fraud, 3) Cross-border risks and regulatory cooperation; 4) Custody and client asset protection, 5) Operational and technological risk, and 6) Retail access, suitability, and distribution.

Table 2 Highlights of IOSCO Recommendations

Recommendation	Highlights	Related IOSCO Principles
Common Standards of Regulatory Outcomes	Regulators should use existing frameworks or New Frameworks to regulate and oversee crypto-asset trading, other crypto-asset services.	1 – 7
Governance and Disclosure of Conflicts	Regulators should require a CASP to have effective governance and organizational arrangements.	8, 23, 31, 33, 34
Disclosure of Role, Capacity and Trading conflicts	Regulators should require a CASP to have accurately disclosed each role and capacity in which it is acting at all times.	31, 34, 35 and 37
Order Handling and Trade Disclosures	Regulators should require a CASP, when acting as an agent, to handle all client orders fairly and equitably.	29, 31

Market Operation Requirements	Regulators should require a CASP that operates a market or acts as an intermediary (directly or indirectly on behalf of a client) to provide pre- and post-trade disclosures.	33, 34, 35
Admission to Trading	Regulators should require a CASP to establish, maintain and appropriately disclose to the public their standards—including systems, policies and procedures— for listing /admitting crypto assets to trading on its market, as well as those for removing cryptoassets from trading.	16, 17
Management of Primary Markets Conflicts	Regulators should require a CASP to manage and mitigate conflicts of interest surrounding the issuance, trading and listing of crypto assets.	29, 31, 33, 34
Fraud and Market Abuse	Regulators should bring enforcement actions against offences involving fraud and market abuse in crypto-asset markets, taking into consideration the extent to which they are not already covered by existing regulatory frameworks.	31, 33, 34, 35, 36
Market Surveillance	Regulators should have market surveillance requirements applying to each CASP, so that market abuse risks are effectively mitigated.	31, 33, 34, 36
Management of Material Non-Public Information	Regulators should require a CASP to put in place systems, policies and procedures around the management of material non-public information.	31, 34, 36
Recommendation On Cross-Border Cooperation	Regulators should have the ability to share information and cooperate with regulators and relevant authorities in other jurisdictions with respect to such activities.	13, 14, 15
Custody of Client Monies and Assets	Regulators should apply the IOSCO Recommendations Regarding the Protection of Client Assets when considering the application of existing frameworks, or New Frameworks, covering CASPs that hold or safeguard Client Assets.	
Segregation and Handling of Client Monies and Assets	Regulators should require a CASP to place Client Assets in trust, or to otherwise segregate them from the CASP's proprietary assets.	31, 32, 38
Disclosure of Custody and Safekeeping Arrangements	Regulators should require a CASP to disclose, as relevant, in clear, concise and non-technical language to clients: i. How Client Assets are held, and the arrangements for safeguarding these assets and/or their private keys. ii. the use (if any) of an independent custodian, sub-custodian or related party custodian.	31, 32, 38

Client Asset Reconciliation and Independent Assurance	Regulators should require a CASP to have systems, policies, and procedures to conduct regular and frequent reconciliations of Client Assets subject to appropriate independent assurance.	31, 32, 38
Securing client money and assets	Regulators should require a CASP to adopt appropriate systems, policies and procedures to mitigate the risk of loss, theft or inaccessibility of Client Assets	31, 32, 38
Management and disclosure of Operational and Technological Risks	Regulators should require a CASP to comply with requirements pertaining to operational and technology risk and resilience in accordance with IOSCO's Recommendations and Standards.	31, 32, 33, 34, 38
Retail Client Appropriateness and Disclosure	Regulators should require a CASP, to operate in a manner consistent with IOSCO's Standards regarding interactions and dealings with retail clients.	16, 17, 23

Lessons Learnt

Crypto assets regulatory oversight remains a key area of public interest, given the growing fraud and AML/CFT risks prevalent in the industry. Kenya ranks 19th worldwide on the crypt adoption index and fifth globally in terms of peer to peer (P2P) exchange trade volume, according to the 2022 Chainalysis report. The Joint Financial Sector Regulators' Technical Working Group of Financial Sector Regulators on Crypto Assets will, alongside engaging stakeholders, reference the recommendations by IOSCO and the Financial Stability Board (FSB) on international best practice on the design of a fit for purpose regulatory oversight framework.

1.3 SC Malaysia Aims to support Agriculture Sector Through Alternative Financing

The Securities Commission Malaysia (SC) is encouraging wider adoption of financial technology (fintech) in agriculture to help in achieving the country's food security agenda.SC Chairman Dato' Seri Dr. Awang Adek Hussin said access to finance is critical to agriculture's future. This is especially important for smallholders and agritech-preneurs seeking to modernize agriculture and strengthen research and development, he said in his opening address at the SCxSC Grow Fintech Conference held in May 2023.

Figure 17 SCxSC GROW

Source: https://www.scxsc.my/

SCxSC GROW, is a new collaborative programme, under the SC's fintech flagship initiative "Synergistic Collaboration by the SC" (SCxSC). The SCxSC GROW embodies a collaborative effort with partners in the fintech ecosystem to harness the potential of alternative financing digital platforms to meet the needs of micro, small, and medium-sized enterprises (MSMEs) in strategic sectors.

To achieve this goal, the SC has been working closely with ecosystem players to develop innovative solutions that cater to the unique financing needs of farmers and agribusinesses. This is in tandem with the national agenda to support the agriculture sector's transition into a dynamic and progressive sector.

The Chairman noted that the capital market can be an enabler and accelerator to help Malaysia achieve its food security agenda. "Alternative financing avenues such as equity crowdfunding (ECF) and peer-to-peer (P2P) financing allow investors with the right risk appetite to mobilize capital directly for agri-preneurs," he said.

This provides more options for younger and high-growth companies to access capital relevant to their business risk profiles," he added. Over 7,000 MSMEs have benefited from SC-registered ECF and P2P financing since their introduction in 2015, raising more than RM4.4 billion (US$ 968 Million), with only 600 agri-related MSMEs across the entire value chain raising close to RM300 million (US$ 66 million)4. This presents a significant opportunity for agricultural growth and investment.

New cutting-edge solutions were showcased at the conference, highlighting the latest advancements in these fields. The conference also featured local fintech players in the agriculture sector. These fintech solutions have the potential to revolutionize the way farmers access financing and manage their operations, enabling them to make better use of resources and increase yields.

Lessons Learnt

CMA Kenya will be undertaking country-wide sensitization programs on the various FinTech solutions to support financing of innovations in the various sectors of the economy such Agriculture in its new strategic plan 2023/2028. This will include the already gazetted Capital Markets Investment Based Crowdfunding Regulations 2022 and new regulations and guidelines issued following successful regulatory sandbox exits.

1.4 Securities and Exchange Board of India (SEBI) puts in place guidelines for Investor Protection Fund and Investor Services Fund

The SEBI on 30 May 2023 released comprehensive guidelines for the Investor Protection Fund and Investor Services Fund. The guidelines mandate that all depositors and exchanges must set up an Investor Protection Fund and Investor Services Fund which shall be administered by a Trust.

Supervision of utilization of IPF and interest or income from IPF will rest with the IPF Trust duly constituted by five trustees; three Public Interest Director, a chief regulatory officer or compliance officer, one representative from the investor associations and the maximum tenure of a Trustee (excluding the chief regulatory officer or compliance officer) would be five years.

	Contribution to IPF of Stock Exchanges
1	1% of the listing fees received, on a quarterly basis
2	100% of the interest earned on the 1% security deposit kept by the issuer companies
3	Various penalties charged to Trading members for deficiencies and defaults
4	Penalties charged to issuers for non-compliance to listing regulations
5	Contribution towards the IPF based on the transaction charges collected from the members of the exchange
6	At least 70% of interest or income received out of any investments made from the IPF

	Contribution to IPF of Depositories
1	5% of their profits from depository operations every year
2	All fines and penalties recovered from Depository Participants (DPs)
3	Interest or income received out of any investments made from the IP
4	Any other contribution as may be specified by SEBI from time to time

Investor Services Fund

The guidelines mandate the setting of the Investor Services Fund by stock exchanges, which shall set aside at least 20% of the listing fees received for providing services to the investing public. Stock exchanges should use the fund to address investment claims from clients of defaulting trading members and provide interim relief to affected investors. Depositories, on the other hand, should use the fund to promote investor education, meet legitimate claims of beneficial owners, support initiatives of depository participants, and fulfil other purposes permitted by Sebi.

The guidelines further detail that the expenditure mentioned above shall be spent in Tier 2 and three cities (According to the Indian government, cities with a population in the range of 50,000 to 100,000 are classified as tier 2 cities, while those with a population of 20,000 to 50,000 are classified as tier 3 cities).

Lessons Learnt

The Kenyan capital markets already has in place an Investor Compensation Fund to address the risk of losses of investor funds due to failure by market intermediaries. Already proposals have been submitted to the Government for enhancement of the maximum pay out to clients from the current Kshs 50,000 (US$350) to Kshs 200,000 (US$ 1,400). However, the cost is still borne by investors and there is need to widen the scope of contributors to include other market intermediaries. Further, with the growth of categories and numbers of capital markets players as well as complex products, there is need for CMA to enhance its resources to enhance market oversight and investor education. The Authority is currently engaging with a section of the market players to support in this area including the modalities for establishing a capital markets SME Fund.

2. REGIONAL DEVELOPMENTS

2.1 Ethiopia Begins Fundraising for First-Ever Securities Exchange

Ethiopia has taken a big step in the financial sphere through its Ministry of Finance, Ethiopian Investment Holdings, and FSD Africa by signing an agreement to establish the Ethiopian Securities Exchange (ESX).

The ESX will be the 30th exchange in Africa and aims to provide a platform for fundraising by small and medium-sized enterprises and facilitate the privatization of state-owned enterprises. Ethiopia's Government aims to establish a stock exchange within two years, inviting private investors to hold 75 percent of ESX shares. Ethiopian Investment Holdings, which is state-run, will hold 25 percent of the shares. The launch of the exchange is expected to attract new investment from around 50 companies which will play a role in unlocking funding opportunities and connecting Ethiopia to international capital markets and help finance the Government's budget deficits through issuing long-term bonds in local currency also as part of Prime Minister Abiy Ahmed's efforts to modernize the country's largest economy.

Figure 18Ethiopia Securities Exchange

Source: African markets

FSD Africa will provide funding for technical support and legal advice to operationalize the exchange. Additionally, the African Securities Exchanges Association (ASEA) is working on linking African capital markets to enable cross-border trading and free movement of investments, with 30 broker firms already onboarded for this purpose.

The ESX will attract foreign investments, facilitate state-owned enterprise privatization, and raise capital for small and medium-sized businesses.

This move will diversify funding sources, reduce reliance on external debt, and provide investors with confidence and clarity. The ESX signifies a significant step for Ethiopia's economic growth and stability. Notably, Ethiopia was one of Africa's nations and the world's fastest-growing economy before it was disrupted by civil war and the Covid -19 Pandemic. It is now mapped alongside other African economies such as Kenya, South Africa, and Nigeria.

Lessons Learnt

The inauguration of the Ethiopian Securities Exchange (ESX) is projected to not only attract foreign investments but also establish a connection between Ethiopia and the international capital markets. This is also an opportunity for market intermediaries and transaction advisors to not only support new issuances and listings on the ESX but to drive for cross listings on the Nairobi Securities Exchange. This notable development is poised to create enhanced investment prospects for both Kenyan and Ethiopian investors, thus fostering mutual economic growth and prosperity.

2.2 Egyptian Commodity Exchange Looking to Offer Gold on Its Platform

The Deputy Minister of Supply and Internal Trade and Chairman of the Internal Trade Development Authority Dr. Ibrahim Ashmawy said that they are looking forward to permitting trading in gold and other commodities on Egyptian Commodity Exchange (Egycomex). Engagements are ongoing regarding trading formats on the Egycomex.

Figure 19EGYCOMEX

Source: Egycomex Kenya

Additionally, starting from April 13, 2023, the General Authority for Supply Commodities (GASC), Egypt's state grains buyer, introduced the trading of yellow corn on the Egyptian Mercantile Exchange. This initiative aims to address a feed crisis that has adversely affected small producers, leading some farmers to cull chicks. The yellow corn will be made available to local producers through the exchange, with the intention of assisting small producers impacted by the crisis.,.

Lessons Learnt

Kenya is making progress on operationalization of the Kenya National Multi Commodities Exchange (Komex) to effectively compete in the African region. CMA will work with Kenyan stakeholders towards picking key lessons from other African countries on their journey so far to ensure that Kenya has a competitive institutional and facilitative regulatory regime to position Kenya as Africa's premier commodities trading hub.

3.0 LOCAL DEVELOPMENTS

3.1 Kenya Credit Enhancement Facility (KCEF)

The Financial Sector Deepening FSD Africa, in conjunction with Cardano Development, is setting up the Kenya Credit Enhancement Facility (KCEF). Cardano Development, a non-banking financial institution (Fund manager), will facilitate issuing irrevocable and unconditional credit guarantees for long-term local currency debt backed by infrastructure-related projects.

Figure 20Kenya Credit Enhancement Facility (KCEF).

Source: FSD Website

The credit guarantee company, scheduled to commence operations by the end of 2023, aims to provide a comprehensive guarantee of up to 100 percent. Cardano has also been established in Nigeria and Pakistan, targeting broad sectors, including public and private infrastructure, financials such as saccos, and corporates, mostly in the form of commercial paper. Aside from Kenya, the guaranteed company will cover Uganda, Tanzania, Rwanda, and Zambia, aiming to reach a guaranteed portfolio of KSh 50 billion (US$ 350 Million) within five years.

The introduction of the Kenya Credit Enhancement Facility (KCEF) represents a significant and positive development that is poised to stimulate the issuance of corporate bonds, which has experienced a decline in recent years. This credit enhancement initiative is expected to catalyze attracting investors by expanding the range of available fixed-income investment products.

Furthermore, the emphasis on environmentally friendly projects aligns with sustainable development goals, positioning the domestic capital market as an appealing investment hub for local and international investors. This strategic focus on sustainability enhances the market's attractiveness and contributes to the broader objective of promoting environmentally responsible initiatives.

Lessons Learnt

KCEF is anticipated to rejuvenate corporate bond issuance, increase the participation of institutional investors, and position the domestic capital market as an appealing destination for sustainable investment opportunities.

3.2 Kenya floats Sh17.5bn (US$ 122.5 Million) bond to pay oil marketers

The National Treasury during the quarter announced plans of issuing a bond to oil marketers to settle the over Kshs.48 billion debt (US$ 328 million). Oil marketers owed include Vivo Energy, which is owed Kshs 13.4 billion (US$ 93.8 Million), Total Kshs 8 billion (US$ 56 Million), Rubis Kshs 4 billion (US$ 28 Million) and Oryx Energy Kshs Sh3.5 billion (US$ 24.5 Million). This is widely seen as a win-win deal that will enable the oil marketers address their cashflow challenges.

At a time when it seems investors prefer short, dated paper on the back of investors' concerns over the current fiscal distress. With a constrained resource envelope, the issuance of a short, dated paper will be critical in attracting investors.

Lessons Learnt

The issuance of a bond is a testament of the National Government's plan to utilize the capital markets to raise off government balance sheet financing. This follows the pronouncement in the Kenya Kwanza manifesto to explore securitization as one of the measures to pay off pending bills amidst the fiscal challenges concerning the national purse.

3.3 Proposal for Issuance of a Devolution Bond

County Governments financing has in the recent past become an issue of increasing concern due to delays in receipt of funds from the exchequer. This comes on the heels of the National Treasury and Economic Planning facing fiscal pressures exerted mainly by debt repayments and pending bills. County governments have been forced to rely on expensive commercial bank loan arrangements to pay for recurrent expenditures.

Figure 21Devolution Bond

Source: Business Daily

The overdraft facilities come with hefty fines and interest charges. In a joint communiqué between the Senate and the Council of Governors [CoG], which was read by the Senate Speaker Amason Kingi in Naivasha, the two entities said they would engage the National Treasury to introduce the devolution bond to enable it to meet funding requests as they fall due.

The devolution bond would be issued by the National Government at the onset in tranches i.e Kshs 100 billion and later can be graduated to a single issuance covering their annual budgetary allocation. The monies raised would be received into the consolidated fund and payments made to counties as they fall due, with the fees and levies receipts being used to pay the bonds principal and interest payments. Thus, Counties will have access to timely finance in a predictable fashion to ensure the smooth running of their operations. Further this would ease the governments balance sheet pressures.

Lessons Learnt

Capital markets remain an alternative route for market-based financing to support the Government in sourcing for off-balance sheet financing. The issuance of Project bonds, Green Bonds and Islamic bonds will serve as alternative financing vehicles for specific government projects.

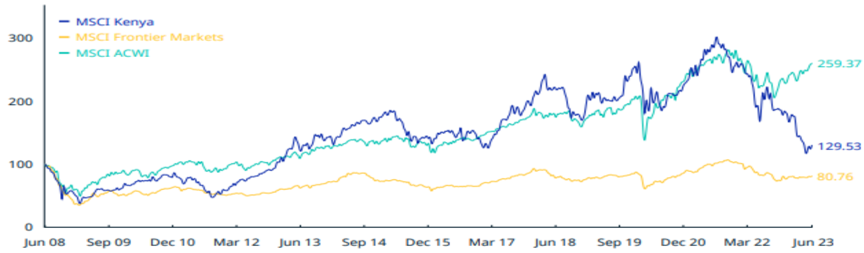
4. PERFORMANCE OF THE DOMESTIC CAPITAL MARKETS

Performance of the Domestic Equity & Debt Markets

During the quarter under review the domestic capital markets registered negative returns with the MSCI Kenya Index declining by 27.67% on a year-to-date basis in United States Dollar terms this quarter. This represents an over 47.7 % decline compared to Q1 2023.The prevailing tough local and global economic conditions continue to depress the equity market performance.

Figure 22 MSCI Kenya Index

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD) (JUN 2008 – JUN 2023)



ANNUAL PERFORMANCE (%)

Year	MSCI Kenya	MSCI Frontier Markets	MSCI ACWI
2022	-30.97	-26.34	-18.36
2021	13.84	19.73	18.54
2020	-9.50	1.43	16.25
2019	48.73	17.99	26.60
2018	-12.51	-16.41	-9.41
2017	35.97	31.86	23.97
2016	1.11	2.66	7.86
2015	-18.34	-14.46	-2.36
2014	23.39	6.84	4.16
2013	47.74	25.89	22.80
2012	61.90	8.85	16.13
2011	-27.22	-18.73	-7.35
2010	30.29	23.75	12.67
2009	6.44	11.61	34.63

INDEX PERFORMANCE — NET RETURNS (%) (JUN 30, 2023)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since May 31, 2002
MSCI Kenya	2.10	-11.00	-28.61	-27.67	-13.46	-9.78	0.62	13.93
MSCI Frontier Markets	2.26	2.13	-2.34	5.29	3.79	0.83	2.67	6.18
MSCI ACWI	5.81	6.18	16.53	13.93	10.99	8.10	8.75	7.30

FUNDAMENTALS (JUN 30, 2023)

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI Kenya	8.33	6.34	na	2.01
MSCI Frontier Markets	4.49	10.77	na	1.57
MSCI ACWI	2.13	19.27	16.33	2.75

INDEX RISK AND RETURN CHARACTERISTICS (JUN 30, 2023)

		ANNUALIZED STD DEV (%) 2			SHARPE RATIO 2, 3				MAXIMUM DRAWDOWN	
	Turnover (%) 1	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since May 31, 2002	(%)	Period YYYY-MM-DD
MSCI Kenya	0.00	22.45	22.68	21.23	-0.58	-0.41	0.08	0.57	65.34	2008-06-05—2009-03-09
MSCI Frontier Markets	9.43	13.25	15.95	14.00	0.25	0.04	0.18	0.35	67.47	2008-01-15—2009-03-03
MSCI ACWI	2.37	17.27	17.90	14.50	0.61	0.44	0.58	0.43	58.38	2007-10-31—2009-03-09

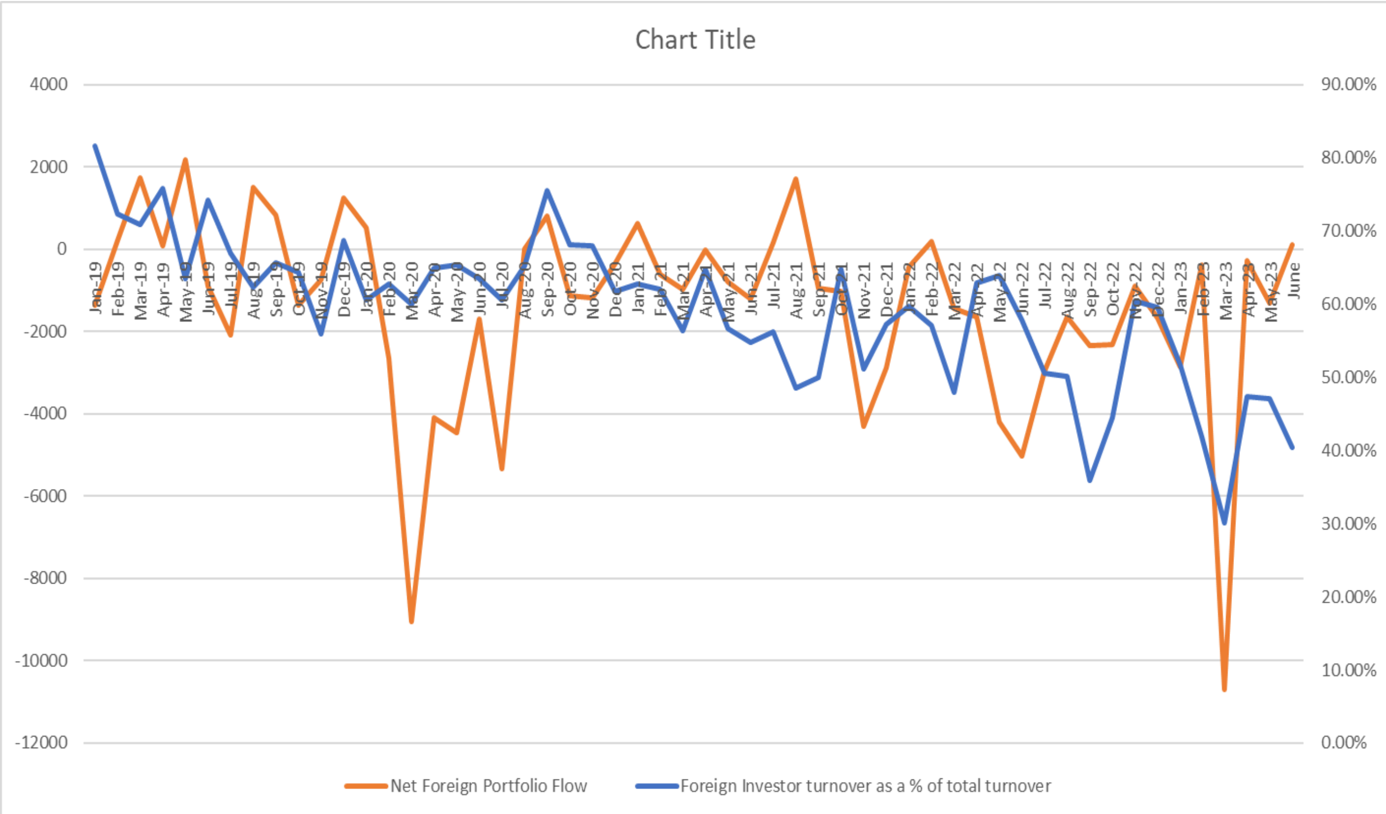
1 Last 12 months 2 Based on monthly net returns data 3 Based on NY FED Overnight SOFR from Sep 1 2021 & on ICE LIBOR 1M prior that date

Source: MSCI

As of the conclusion of the second quarter in 2023, the NSE 20, NSE 25, and NASI stock market indices closed at **1,574.92, 2,728.89**, and **107.00** basis points, respectively, reflecting a further decline from their previous values of 1,622.05, 2,965.91, and 112.76 basis points in the first quarter of 2023, and 1,676.10, 3,133.64, and 127.47 basis points in the fourth quarter of 2022. The volatility of the three market indices, namely NSE 20, NSE 25, and NASI, increased from 0.40%, 0.47%, and 0.64% in the first quarter of 2023 to 0.43%, 0.59%, and 0.80% in the second quarter of 2023, respectively, but remained below 1%.

Compared to the first quarter of 2023, the net foreign equity portfolio flow experienced a reduced outflow of 1.482 billion during the second quarter of 2023. Notably, June marked the first instance since February 2022 where the market observed a capital inflow of Ksh 113,000,000. The inflow indicates that foreign investors' confidence in the market is growing despite heightened capital outflow over the past year.

TREND OF FOREIGN INVESTOR TURNOVER AND NET FOREIGN PORTFOLIO FLOWS (Jan 2019 – June 2023)



Source: CMA Statistics

Summary of Equity Performance

Safaricom Plc, Equity Group Holdings Plc, East African Breweries Ltd, KCB Group Plc and the Co-operative Bank of Kenya Ltd continued to dominate trading at the market. These Five (5) companies accounted for an average market turnover of 67.72%, which marked a decrease compared to the 71.97% recorded in the first quarter of 2023.

Year	Month	Share Volume (Kshs Mn)	Equity Turnover (Kshs Bn)	NSE 20 Share Index (Average	NASI Index (Average)	NSE 25 Share (Average)	Market Cap (Kshs Bn)
Q2.2023	April	198	4.21	1611.64	110.57	2918.64	1,676.09
	May	355	6.08	1502.05	99.90	2617.42	1,614.55
	June	210	4.08	1,575.98	104.93	2,705.01	1,666.29
	Total	763	14.37				
Q1.2023	Jan	332	7.79	1687.00	124.88	3,123.24	1,961.63
	Feb	169	4.60	1,667.37	127.60	3,167.38	1,962.73
	March	583	32.37	1,590.10	114.92	2,93	1,756.76
	Total	1084	44.76				

Source: CMA/ NSE Statistics

Treasury Bond Market

Date	Bond	Amount Issued (Kshs Bn)	Amount Received (Kshs Bn	Amount Accepted (Kshs Bn)	% AA/AI	% AR/AI
April	FXD2/2018/10	20.00	3.57	3.36	16.80	17.85

	Tap sale (IFB1/2023/17)	10.00	5.119	5.117	51.17	51.19
	FXD1/2022/03	30.00	7.33	1.76	5.86	24.43
	FXD1/2019/15		Cancelled			
May	FXD1/2023/003	20.00	20.74	20.29	101.47	103.72
	Tap Sale	10.00	10.60	10.60	106.02	106.03
	Tap Sale	20.00	27.21	27.20	136.01	136.03
June	IFB1/2023/007	60.00	220.52	213.40	355.67	367.53
	Tap Sale (FXD1/2023/003)	15.00	18.56	18.55	123.68	123.73
SUM		185.00	313.649	300.277		
Jan-23	FXD1/2020/005	50.00	27.62	24.35	48.71	55.24
	FXD1/2022/015		14.01	7.16	14.32	28.02
	Tap Sale		18.02	17.63	176.27	180.22
Feb-23	FXD1/2017/010	50.00	8.03	7.47	14.94	16.06
	FXD1/2023/010		11.51	9.28	18.56	23.03
	Tap Sale		12.46	12.20	122.01	124.63
Mar- 23	IFB1/2023/17	50.00	59.77	50.88	101.76	119.54
	Tap Sale	20.00	12.71	12.71	63.56	63.56
SUM		180.00	164.13	141.68		

Source: CMA/ NSE Statistics

In the second quarter of 2023, the Government of Kenya issued nine (9) treasury bonds intending to collect Ksh 185 billion. Out of this, bids valued at Ksh 313.649 billion were received, of which the Government only accepted Ksh 300.277 billion. Of the nine issuances, four (4) were tap sales, one was an infrastructure bond, and four (4) were fixed coupon treasury bonds. Notably, the Government surpassed its target by Ksh 115.277 billion, primarily due to the infrastructure bond issuance in June. The tax exemption associated with infrastructure bonds continues to attract investors, thus contributing to the increasing investor appetite.

Corporate Bonds Market

The corporate bond turnover experienced a significant improvement from the recorded turnover of Ksh 7,550,000.00 in Q1 2023, reaching a value of Ksh 11,830,672.80. Kenya has been facing a prolonged period of reduced corporate bond activity recently.

5. CAPITAL MARKETS STABILITY SOUNDNESS INDICATORS FOR THE PERIOD APRIL- JUNE 2023

CAPITAL MARKETS STABILITY INDICATORS (APRIL- JUNE 2023)

Stability Indicator	Quarter/Year	Market Statistics				Assessment of Risk Level	Performance Brief for the Quarter	Ongoing Intervention Measures
1.0 Equity Market Depth								
NSE 20 Index Volatility Base Year = 2010	**Q2.2023**	**Apr**	**May**	**Jun**	**Q. Avg**	**Low** (Indicative – Low < 1%; Medium; 1%; High >10%)	The volatility for the three market indices, NSE 20, NSE 25, and NASI was **0.43%, 0.59%,** and **0.80%,** respectively. .	The analysis of the market indices, namely NSE 20, NSE25, and NASI showed that market volatility remained below 1%. This increased volatility can be attributed to a notable reduction in capital outflow during the quarter under review. Market volatility below the 1% threshold indicates a
		0.43%	**0.41%**	**0.44%**	**0.43%**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.39%	**0.34%**	**0.46%**	**0.40%**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.27%	**0.44%**	**0.41%**	**0.37%**			
	Q3.2022	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.48%	**0.37%**	**0.61%**	**0.49%**			
NSE 25	**Q2.2023**	**Apr**	**May**	**Jun**	**Q. Avg**			

Index Volatility Base Year = 2015		**0.42%**	**0.87%**	**0.49%**	**0.59%**			relatively stable market environment. The recorded market volatility presents an opportunity for investors to engage in day trading ,stimulating market activity and enhancing liquidity. In line with this, the Authority intends to focus on developing margin trading regulations during the fiscal year 2023/24.
	Q1. 2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.36%	**0.39%**	**0.66%**	**0.47%**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.64%	**0.36%**	**0.38%**	**0.46%**			
	Q3.2022	**July**	**Aug**	**Sep**	**Q. Avg**			
		0.70%	**0.39%**	**0.70%**	**0.60%**			
NASI Volatility Base Year = 2010	**Q2.2023**	**Apr**	**May**	**Jun**	**Q. Avg**	**Low** (Indicative – Low < 1% Medium: >1% high; >10%)		Additionally, the Authority has been undertaking initiatives to encourage domestic investor participation,
		0.63%	**1.17%**	**0.59%**	**0.80%**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		0.54%	**0.47%**	**0.93%**	**0.64%**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		0.70%	**0.33%**	**0.41%**	**0.48%**			
	Q3.2023	**July**	**Aug**	**Sep**	**Q. Avg**			

		1.03%	**0.66%**	**0.99%**	**0.89%**			recognizing its significance in promoting the long-term sustainability and resilience of the equities market.
Turnover Ratio	**Q2.2023**	**Apr**	**May**	**Jun**	**Q. Total**	**Low** (Indicative – annual: <8%- Low; >15% High)	The recorded turnover for Q2. 2023 was 0.88% a reduction from 2.47% recorded in Q1.2023. .	Equities turnover on the Nairobi Securities Exchange (NSE) drastically reduced from 2.47% to 0.88% during the quarter. The double-digit interest rates on fixed income instruments and the prevailing tough economic operating context continues to weigh down the performance of the domestic equity markets.
		0.25%	**0.38%**	**0.25%**	**0.88%**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Total**			
		0.40%	**0.23%**	**1.84%**	**2.47%**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Total**			
		0.29%	**0.33%**	**0.22%**	**0.84%**			
	Q3.2022	**Jul**	**Aug**	**Sept**	**Q. Total**			
		0.36%	**0.25%**	**0.46%**	**1.07%**			
2.0	**Foreign Exposure Risk**							

Foreign Investor turnover as a % of total turnover	**Q2.2023**	**Apr**	**May**	**Jun**	**Q. Avg**	**Low (Indicative – annual: <40%- Low; >90% High)**	Foreign investor participation at end of the Q2, 2023, averaged at 44.95%.	In Q2, foreign Investor turnover averaged 44.95% an increase from 41.24% registered in Q1.2023. The net foreign equity portfolio outflow decreased from (13,929)millions in Q1.2023 to (1,482) millions in Q2 2023.
		47.30%	**47.11%**	**40.45%**	**44.95%**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		51.71%	**41.92%**	**30.01%**	**41.24%**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		44.52%	**60.46%**	**59.54%**	**54.84%**			
	Q3.2022	**July**	**Aug**	**Sep**	**Q. Avg**			
		50.55%	**50.18%**	**35.92%**	**50.55%**			
Net Foreign Portfolio Flow	**Q2. 2023**	**Apr**	**May**	**Jun**	**Q. Sum**	High (indicative – annual: <Kshs (50million) - High (outflow. >Kshs. 50 million High	In the quarter under review, the market recorded a net outflow of (1482) million compared to an outflow of (13 929) million	June marked the first instance since February 2022 where the market observed a capital inflow of Ksh 113,000,000. The inflow indicates that foreign investors anticipate participation in the
		(283)	**(1,312)**	**113**	**(1,482)**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Sum**			
		(2,855)	**(382)**	**(10,692)**	**(13,929)**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Sum**			

		(2,319)	**(887)**	**(1,664)**	**(4870)**		between January and March.	dividend declaration season. Persistent capital outflow poses an ongoing risk to our market, highlighting the necessity for targeted initiatives aimed at bolstering trading activities at the Nairobi Securities Exchange. Such initiatives include the implementation of day trading strategies and the reduction of investment barriers for foreign investors. These measures are intended to stimulate market liquidity and attract foreign investment, thereby fostering a
	Q3.2022	**Jul**	**Aug**	**Sept**	**Q. Sum**			
		(2,972)	**(1,656)**	**(2,337)**	**(6,965)**			

								more vibrant and resilient marketplace.
3.0 Market Concentration Risk								
Market Concentration (Top 5 companies by market cap)	**Q2.2023**	**Apr**	**May**	**Jun**	**Q. Avg**	**High (Indicative – annual: >50% High Concentration)**	Market concentration for the top 5 companies for the quarter ended June 2023 averaged at 67.80% of the 66 listed companies	Over the past year, there has been a continuous reduction in market concentration by five listed entities, indicating a growing openness among investors to explore opportunities beyond these select entities. Despite this positive trend, market concentration remains a significant risk. To mitigate this risk, the Authority is
		67.83%	**67.87%**	**67.72%**	**67.80%**			
	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**			
		73.29%	**73.37%**	**69.25%**	**71.97%**			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		74.89%	**74.64%**	**73.56%**	**74.36%**			
	Q3.2022	**Jul**	**Aug**	**Sept**	**Q. Avg**			
		77.54%	**75.83%**	**74.47%**	**75.95%**			

								committed to adopting strategic initiatives such as reviewing the Public Offers Listing and Disclosure Regulations. This review aims to establish more favorable listing requirements that attract a broader range of companies to list on the market, thereby providing investors with a wider variety of investment choices. Furthermore, the Authority is actively engaged in investor education efforts, emphasizing the importance of diversification and promoting long-

								term investing strategies. By empowering investors with knowledge and information to make informed investment decisions, the aim is to reduce the inclination to concentrate investments in a limited number of dominant companies. Through these measures, the Authority seeks to foster a more diverse and dynamic market environment, ensuring investors have access to a broader range of investment

<table>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>opportunities and reducing the risks associated with excessive market concentration.</td></tr>
<tr><td colspan="9">4.0 Derivatives Trading Statistics</td></tr>
<tr><td>Total Volume (No. of contracts)</td><td colspan="5">No of Contracts
<table>
<tr><th></th><th>Apr-23</th><th>May-23</th><th>Jun-23</th><th>Q2. Sum</th><th>%Change Q2.23 Vs Q1 23</th></tr>
<tr><td>ABSA</td><td>2</td><td>2</td><td>4</td><td>8</td><td>-87%</td></tr>
<tr><td>BATK</td><td>3</td><td>16</td><td>6</td><td>25</td><td>-36%</td></tr>
<tr><td>EABL</td><td>-</td><td>-</td><td>-</td><td>0</td><td>-100%</td></tr>
<tr><td>EQTY</td><td>-</td><td>49</td><td>48</td><td>97</td><td>33%</td></tr>
<tr><td>KCBG</td><td>-</td><td>17</td><td>89</td><td>106</td><td>7%</td></tr>
<tr><td>N25I</td><td>-</td><td>-</td><td>-</td><td>0</td><td>0%</td></tr>
<tr><td>SCOM</td><td>31</td><td>104</td><td>278</td><td>413</td><td>4%</td></tr>
<tr><td>COOP</td><td>1</td><td>5</td><td>7</td><td>13</td><td>-48%</td></tr>
<tr><td>NCBA</td><td>15</td><td>7</td><td>3</td><td>25</td><td>-24%</td></tr>
<tr><td>IHMP</td><td>-</td><td>-</td><td>1</td><td>1</td><td>-83%</td></tr>
<tr><td>SCBK</td><td>-</td><td>-</td><td>-</td><td>0</td><td>-100%</td></tr>
<tr><td>25MN</td><td>-</td><td>4</td><td>2</td><td>6</td><td>200%</td></tr>
<tr><td>Total</td><td>52</td><td>204</td><td>438</td><td>694</td><td>-15%</td></tr>
</table>
</td><td>Low</td><td>The volume of contracts traded in Q2.2023 was 694 translating to a 14.85% decrease from 815 contracts recorded in Q1.2023.</td><td>ABSA, BATK, EABL, COOP, NCBA, IHMP, and SCBK recorded a decrease in activity in comparison to Q1 2023 whereas EQTY, KCBG, N25I SCOM, and 25MN recorded a decrease in activity.</td></tr>
</table>

<table>
<tr>
<td>Gross Notional Exposure (GNE)</td>
<td>Amount in Kshs
<table>
<tr><th></th><th>Q1. Sum</th><th>Apr-23</th><th>May-23</th><th>Jun-23</th><th>Q2. Sum</th><th>%Change (Q2/23 Vs Q1/23)</th></tr>
<tr><td>ABSA</td><td>963,670</td><td>24,840.00</td><td>21,100.00</td><td>47,100.00</td><td>93,040.00</td><td>90.35%</td></tr>
<tr><td>BATK</td><td>2,996,760</td><td>135,000.00</td><td>695,500.00</td><td>252,625.00</td><td>1,083,125.00</td><td>63.86%</td></tr>
<tr><td>EABL</td><td>1,343,190</td><td>-</td><td>-</td><td>-</td><td>-</td><td>100.00%</td></tr>
<tr><td>EQTY</td><td>2,389,130</td><td>-</td><td>1,813,720.00</td><td>1,792,660.00</td><td>3,606,380.00</td><td>50.95%</td></tr>
<tr><td>KCBG</td><td>5,668,140</td><td>-</td><td>507,500.00</td><td>2,626,900.00</td><td>3,134,400.00</td><td>44.70%</td></tr>
<tr><td>N25I</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>SCOM</td><td>6,326,240</td><td>560,400.00</td><td>1,569,590.00</td><td>4,224,000.00</td><td>6,353,990.00</td><td>0.44%</td></tr>
<tr><td>COOP</td><td>241,350</td><td>12,700.00</td><td>61,000.00</td><td>85,700.00</td><td>159,400.00</td><td>33.95%</td></tr>
<tr><td>NCBA</td><td>924,960</td><td>571,950.00</td><td>234,500.00</td><td>119,240.00</td><td>925,690.00</td><td>0.08%</td></tr>
<tr><td>IHMP</td><td>551,820</td><td>-</td><td>-</td><td>16,850.00</td><td>16,850.00</td><td>96.95%</td></tr>
<tr><td>SCBK</td><td>82,880</td><td>-</td><td>-</td><td>-</td><td>-</td><td>100.00%</td></tr>
<tr><td>25MN</td><td>58,710</td><td>-</td><td>109,740.00</td><td>53,090.00</td><td>162,830.00</td><td>177.35%</td></tr>
<tr><td>Total</td><td>21,546,850</td><td>1,304,890.00</td><td>5,012,650.00</td><td>9,218,165.00</td><td>15,535,705.00</td><td>27.90%</td></tr>
</table>
</td>
<td>High (indicative – annual: >50% High concentration)</td>
<td></td>
<td>The total value (Gross Exposure) of contracts traded during the quarter summed up to Kshs 15,535,705.00; a 27.90% decrease from Q1.2023.</td>
</tr>
</table>

<table>
<tr>
<td>Total Open Interest (No. of Contracts)</td>
<td>No of Contracts
<table>
<tr><th></th><th>Q1. Average</th><th>Apr-23</th><th>May-23</th><th>Jun-23</th><th>Q2. Average</th><th>% Change Q2.23 Vs Q1 23</th></tr>
<tr><td>ABSA</td><td>28</td><td>2</td><td>2</td><td>-</td><td>4</td><td>85.71%</td></tr>
<tr><td>BATK</td><td>9</td><td>6</td><td>6</td><td>-</td><td>12</td><td>33.33%</td></tr>
<tr><td>EABL</td><td>33</td><td>-</td><td>-</td><td>-</td><td>0</td><td>100.00%</td></tr>
<tr><td>EQTY</td><td>21</td><td>9</td><td>10</td><td>19</td><td>38</td><td>80.95%</td></tr>
<tr><td>KCBG</td><td>34</td><td>8</td><td>10</td><td>13</td><td>31</td><td>8.82%</td></tr>
<tr><td>N25I</td><td>-</td><td>-</td><td>-</td><td>-</td><td>0</td><td>-</td></tr>
<tr><td>SCOM</td><td>150</td><td>142</td><td>132</td><td>5</td><td>279</td><td>86.00%</td></tr>
<tr><td>COOP</td><td>5</td><td>1</td><td>6</td><td>-</td><td>7</td><td>40.00%</td></tr>
<tr><td>SCBK</td><td>2</td><td>-</td><td>-</td><td>-</td><td>0</td><td>100.00%</td></tr>
<tr><td>IMHP</td><td>2</td><td>1</td><td>1</td><td>-</td><td>2</td><td>0.00%</td></tr>
<tr><td>NCBA</td><td>11</td><td>7</td><td>2</td><td>1</td><td>10</td><td>9.09%</td></tr>
<tr><td>25MN</td><td>-</td><td>-</td><td>3</td><td>3</td><td>6</td><td>-</td></tr>
<tr><td>Total</td><td>269</td><td>176</td><td>172</td><td>41</td><td>389</td><td>44.61%</td></tr>
</table>
</td>
<td>Medium (Indicative – annual: >50% High concentrati on)</td>
<td>Overall, the total average number of open interest contracts recorded in Q3 2023 were 389, a 44.61% increase from Q1.2023 value of 269</td>
<td>As for hedging instruments, the place of derivatives markets in the face of economic uncertainty remains important in risk management.

With the increasing profile of risks in the macro- economy, the profile of derivative instruments may grow as investors target diversification as a key investment strategy. Currency derivatives are needed by market participants and the Authority is working with the CBK to roll-out the same.</td>
</tr>
</table>

<table>
<tr>
<td>Settlement Guarantee Fund (SGF) Coverage for Derivatives</td>
<td>
<table>
<tr><th></th><th>Apr-23</th><th>May-23</th><th>Jun-23</th></tr>
<tr><td>SGF</td><td>126,481,214</td><td>127,426,192</td><td>128,340,686</td></tr>
<tr><td>Average Market Value</td><td>107,200.00</td><td>318,056.00</td><td>514,052.63</td></tr>
<tr><td>SGF Coverage</td><td>1,180 times</td><td>401 times</td><td>250 times</td></tr>
</table>
</td>
<td>High (Indicative – annua l: >50% High concentrate ion</td>
<td>The SGF coverage ratio for the derivatives market in Q2.2023 progressively decreased to stand at 250 times.</td>
<td>To maximize value from the SGF fund balances, there is deliberate effort by NSE to encourage increased activity by market intermediaries in this market for increased volumes of trade.</td>
</tr>
<tr><td colspan="5">5.0 Government Bond Market Exposure</td></tr>
<tr>
<td>Treasury Bond market turnover Concentration</td>
<td>
<table>
<tr><td>Q2.2023</td><td>Apr</td><td>May</td><td>Jun</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q.1.2023</td><td>Jan</td><td>Feb</td><td>Mar</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q4.2022</td><td>Oct</td><td>Nov</td><td>Dec</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td><td>100%</td></tr>
<tr><td>Q3. 2022</td><td>Jul</td><td>Aug</td><td>Sept</td><td>Q. Avg</td></tr>
<tr><td></td><td>100%</td><td>99.99%</td><td>100%</td><td>100%</td></tr>
</table>
</td>
<td>High (Indicative –annual: >50%High)</td>
<td>In Q2.2023, Treasury Bond market turnover was 100%</td>
<td>Government activity in the bonds markets continues to dominate as the Government targets domestic market savings to fund various Government activities.</td>
</tr>
</table>

<table>
<tr>
<td>Corporate Bond Market ownership</td>
<td>
<table>
<tr><th></th><th>No of Investors</th><th>Share Outstanding</th><th>% By Share Quantity</th></tr>
<tr><td>LI</td><td>4</td><td>9000000</td><td>36%</td></tr>
<tr><td>FI</td><td>2</td><td>16200000</td><td>64%</td></tr>
<tr><td>Sum</td><td>6</td><td>25200000</td><td>100.00%</td></tr>
</table>
Data as of 30 June 2023
Note: For every EAC, LI, and FI, the total calculated is a sum of both corporate and individual investors
</td>
<td>High (Indicative – annual: >50% High concentration</td>
<td>Q2. 2023 data shows that foreign investors were the leading investors in corporate bonds at 64% whereas local investors accounted for 36%.</td>
<td>Kenya has been facing a period of reduced corporate bond activity in the last one year. The Authority, through its investor education and market deepening functions has profiled retail investors to increase their participation within the domestic corporate bond market.</td>
</tr>
<tr>
<td colspan="5">6.0 Investor Profiles - Equity Market</td>
</tr>
<tr>
<td>Equity Market</td>
<td>
<table>
<tr><th>Type of Investor</th><th>No of Trades</th><th>Share Quantity (Millions)</th></tr>
<tr><td>Local Investors</td><td>130,784</td><td>904, 476, 452</td></tr>
<tr><td>EA Investors</td><td>1,876</td><td>25,186,269</td></tr>
<tr><td>Foreign Investors</td><td>17,985</td><td>614,478,283</td></tr>
<tr><td>JR</td><td>53</td><td>81,000</td></tr>
<tr><td>Sum</td><td>150,698</td><td>1,544,222,004</td></tr>
</table>
</td>
<td>High (Indicative – annual: >50% High concentration</td>
<td>In the quarter under review, share quantity for local investors was 904 (millions) an increase from 79,358(millions)</td>
<td>In the last three quarters local investment in the equity market has witnessed an increase whereas foreign investment has decreased.</td>
</tr>
</table>

	Data computed as of 30 June 2023						recorded in the last quarter with foreign Investor share quantity increasing from 16 million to 25 million .	While the proportion of local investors is higher than foreign investors, the share quantity held by each investor on a per capita basis remains low. The industry investor awareness and education strategy will be targeted at increasing retail investor participation through more roadshows, caravans and county engagements
7.0 Settlement Compensation Coverage								
Settlement Guarantee Fund	**Q2.2023**	**Apr**	**May**	**Jun**	**Q. Avg**	(Indicative–	The average settlement	Through Risk-based supervision, the Authority has been
		5.15	4.65	6.35	5.38			

	Q1.2023	**Jan**	**Feb**	**Mar**	**Q. Avg**	annual: > 1 times, implies full coverage	Guarantee Fund (SGF) ratio between April to June 2023 was **5.38**	monitoring the SGF figures. The fund remains adequate to guarantee settlement failure.
		3.39	5.52	0.91	3.27			
	Q4.2022	**Oct**	**Nov**	**Dec**	**Q. Avg**			
		4.01	4.28	4.9	4.26			
	Q3.2022	**Jul**	**Aug**	**Sept**	**Q. Avg**			
		3.05	5.07	2.84	3.65			

8.0 Asset Base of Fund Managers, Stockbrokers, Investment Banks

<table>
<tr>
<td>Working Capital (Amount in Kshs Millions)[9]</td>
<td>
<table>
<tr><th colspan="6">Amount in Kshs Millions(Mn)</th></tr>
<tr><th></th><th>Total Assets</th><th>Total Liabilities</th><th>Net Assets May 2023</th><th>Net Asse March 2023</th><th>% Change</th></tr>
<tr><td>Fund Managers</td><td>7,868</td><td>1,851</td><td>3,368</td><td>7,264</td><td>53.63%</td></tr>
<tr><td>Investment Adviser</td><td>460</td><td>117</td><td>240</td><td>331</td><td>27.49%</td></tr>
<tr><td>Investment Banks</td><td>10,490</td><td>3,649</td><td>2,329</td><td>6,856</td><td>66.03%</td></tr>
<tr><td>Online Forex Brokers</td><td>3,120</td><td>1,904</td><td>1,394</td><td>1,071</td><td>30.16%</td></tr>
</table>
</td>
<td>Medium (Indicative –the higher the figure, the more stable is the market</td>
<td>The net assets base of Fund Managers, Investment Advisor, Investment Banks, Online Forex, and Stockbrokers, as of May 2023 was 6017Mn, 343Mn,</td>
<td>Capital markets licensees net assets decreased slightly between March and May 2023.</td>
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<tr><td>Stockbrokers</td><td>2,119</td><td>1,016</td><td>1,019</td><td>1,092</td><td>6.68%</td></tr>
<tr><td colspan="6">Data Computed as of 31 May 2023</td></tr>
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<td>6841Mn, 1216Mn, and 1103 Mn respectively.</td>
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