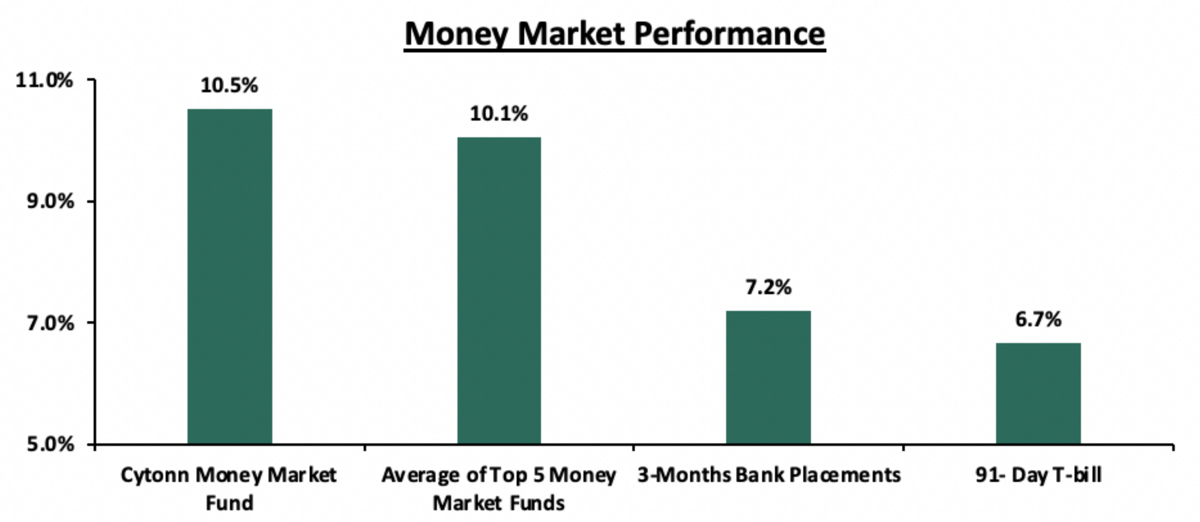
# Unit Trust Funds Performance, Q2’2020, & Cytonn Weekly #46/2020

## Fixed Income

Money Markets, T-Bills & T-Bonds Primary Auction:

During the week, T-bills were oversubscribed, with the overall subscription rate coming in at 126.6%, up from 115.9% the previous week, mainly driven by the high liquidity in the money markets as evidenced by the 7.9% increase in interbank volumes to Kshs 8.2 bn during the week, from Kshs 7.6 bn recorded the previous week. The highest subscription rate was in the 91-day paper, which came in at 220.3%, up from 56.9% recorded the previous week. The subscription rate for the 364-day paper dropped to 135.4% from 210.0%, while that of the 182-day paper increased to 80.3% from 45.5% recorded the previous week. The yields on all the three papers, 91-day, 182-day and 364-day increased marginally by 1.0 bps, 4.0 bps and 5.0 bps to 6.7%, 7.1% and 8.0%, respectively. The acceptance rate declined to 97.7%, from 99.2% recorded the previous week, with the government accepting bids worth Kshs 29.7 bn out of the Kshs 30.4 bn worth of bids received.

Additionally, there was low demand for this month’s tap sale for the 25-year bond, FXD1/2018/25, with the overall subscription rate coming in at 39.8%. Investors seemed to prefer shorter dated papers as evidenced by the high subscription rate of this week’s treasury bills of 126.6%.  The government accepted Kshs 7.9 bn out of the Kshs 8.0 bn worth of bids received, representing an acceptance rate of 99.3%, which can be attributed to the undersubscription. The allocated average rate for accepted bids was 13.5% while the coupon rate for the bond is 13.4%.



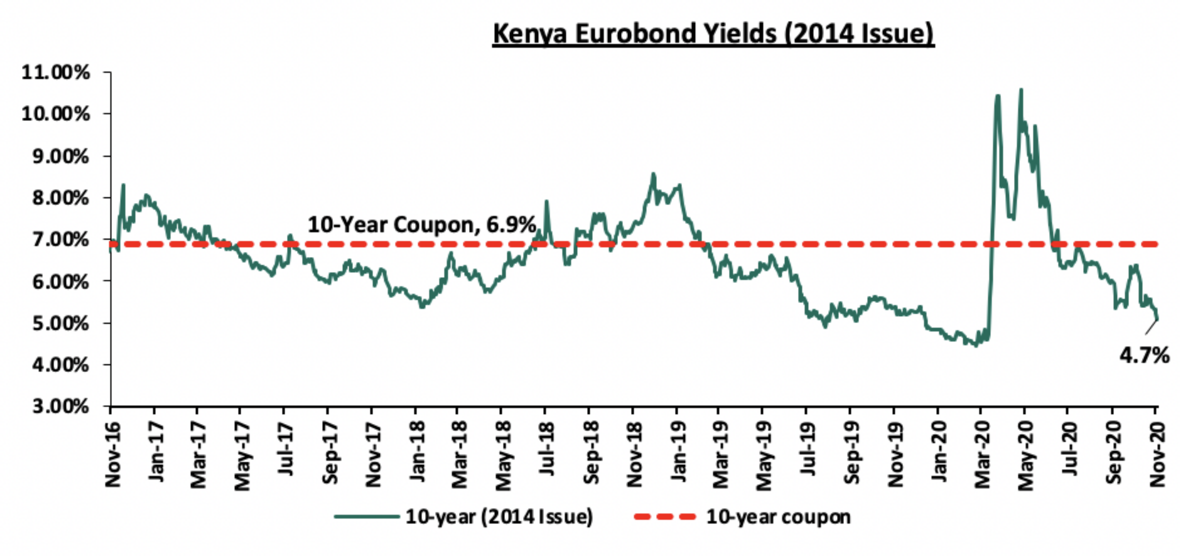

In the money markets, 3-month bank placements ended the week at 7.2% (based on what we have been offered by various banks), while the yield on the 91-day increased marginally by 0.01% points to close at 6.7%. The average yield of the Top 5 Money Market Funds increased by 0.1% points to 10.1% from 10.0% recorded the previous week. The yield on the Cytonn Money Market Fund remained unchanged at 10.5%, similar to what was recorded the previous week.

Liquidity:

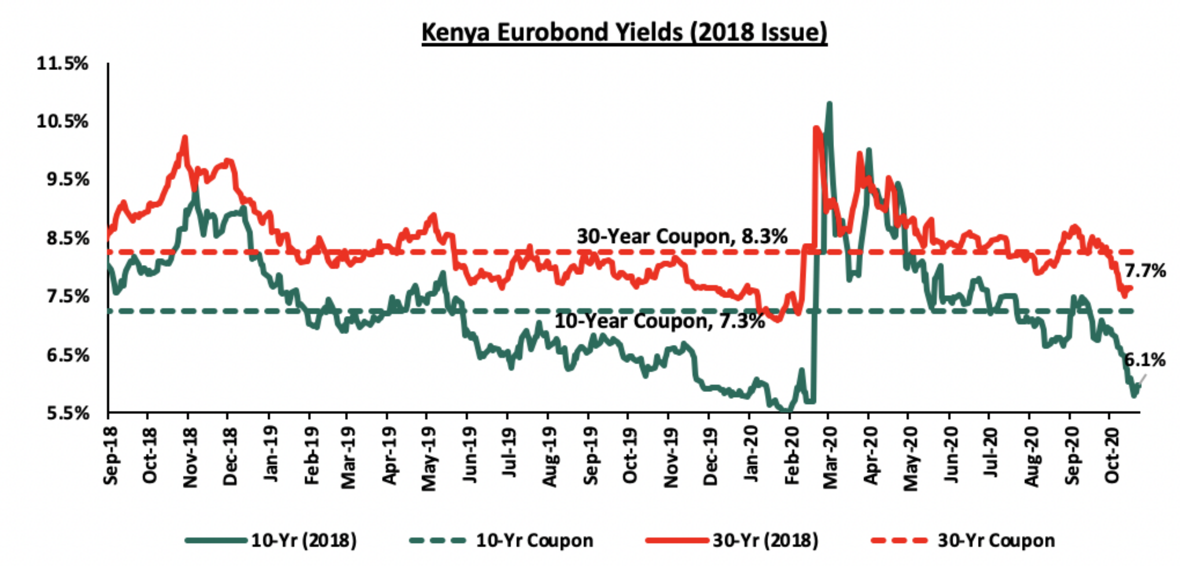
Liquidity in the money markets increased during the week, with the average interbank rate declining by 0.5% points to 2.9%, from the 3.3% recorded the previous week. This was supported by government payments, which partly offset tax receipts. The average interbank volumes increased by 7.9% to Kshs 8.2 bn from Kshs 7.6 bn, as recorded the previous week. According to the Central Bank of Kenya's weekly bulletin released on 13th November 2020, commercial banks' excess reserves came in at Kshs 9.8 bn in relation to the 4.25% Cash Reserve Ratio.

Kenya Eurobonds:

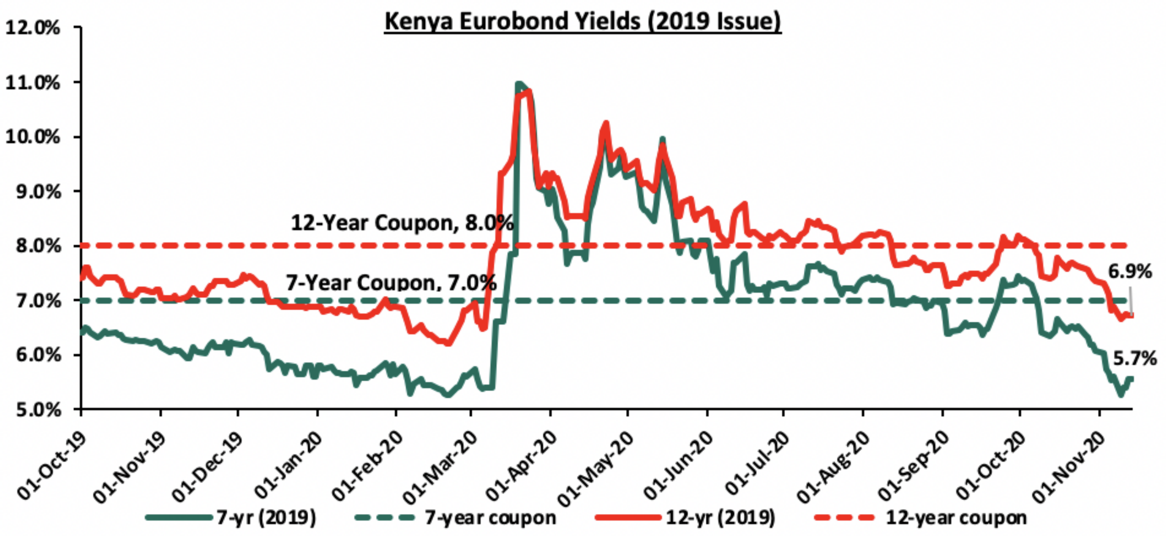
During the week, the yields on all Eurobonds remained unchanged with only the 7-year bond issued in 2019 increasing by 0.1% points. According to Reuters, the yield on the 10-year Eurobond issued in June 2014 remained unchanged closing the week at 4.7%, as was recorded the previous week.




During the week, the yields on the 10-year and 30-year Eurobonds, issued in 2018, remained unchanged during the week closing at 6.1% and 7.7%, as was recorded the previous week.




During the week, the yields on the 2019 dual-tranche Eurobonds remained relatively stable, with the 7-year Eurobond increasing marginally by 0.1% points to 5.7%, from 5.6% recorded last week, while the 12-year Eurobond remained unchanged closing at 6.9%, as was recorded the previous week.




Kenya Shilling:

During the week, the Kenyan shilling marginally depreciated against the US dollar by 0.2% to Kshs 109.1 from Kshs 108.9, mainly attributable to the persistent dollar importer demand. On an YTD basis, the shilling has depreciated by 7.7% against the dollar, in comparison to the 0.5% appreciation in 2019. Some of the challenges facing the currency include:

1. Demand from merchandise and energy sector importers as they beef up their hard currency positions amid a slowdown in foreign dollar currency inflows, and,
2. Continued uncertainty globally making people prefer holding dollars and other hard currencies.

However, in the short term, the shilling is expected to be supported by:

i. The Forex reserves which are currently at USD 8.1 bn (equivalent to 4.9-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, and the EAC region's convergence criteria of 4.5-months of import cover, and,
ii. The improving current account position which has seen a 39.9% decline during Q2'2020, coming in at Kshs 82.2 bn, from Kshs 136.9 bn in Q2'2019, equivalent to 7.0% of GDP from the 10.9% of GDP recorded in Q2'2019.

*Rates in the fixed income market have remained relatively stable due to the high liquidity in the money markets, coupled with the discipline by the Central Bank as they reject expensive bids. The government is 76.8% ahead of its prorated borrowing target of Kshs 130.9 bn having borrowed Kshs 231.5 bn. In our view, due to the current subdued economic performance brought about by the effects of the COVID-19 pandemic, the government will record a shortfall in revenue collection with the target having been set at Kshs 1.9 tn for FY'2020/2021 thus leading to a larger budget deficit than the projected 7.5% of GDP, ultimately creating uncertainty in the interest rate environment as additional borrowing from the domestic market may be required to plug the deficit. Owing to this uncertain environment, our view is that investors should be biased towards short-term to medium-term fixed income securities to reduce duration risk.*