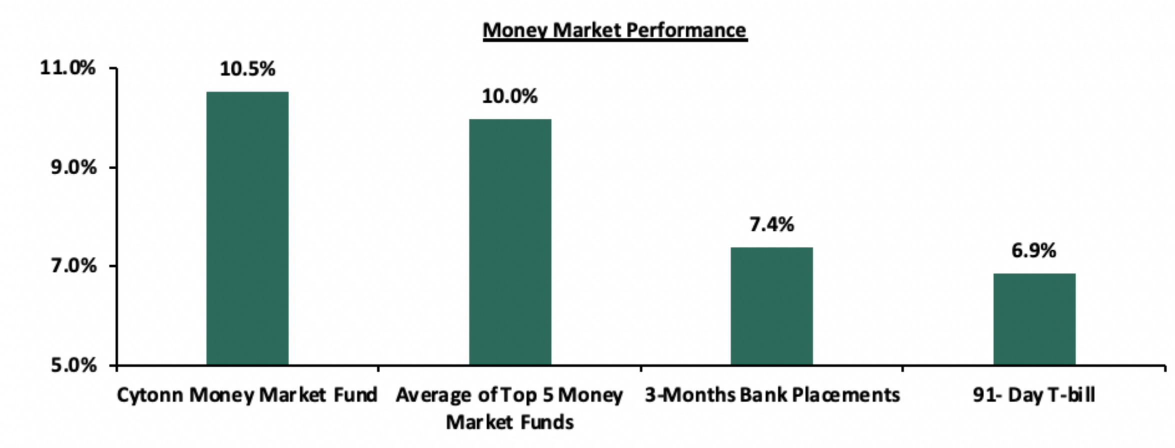
# Nairobi Metropolitan Area Mixed-Use Developments (MUDs) Report-2020 & Cytonn Weekly #51/2020

## Fixed Income

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

Subscription rates for the Treasury bills Improved to 90.4% from 41.1% the previous week. Despite the tight liquidity in the money market. The investors shifted their preference to the 91-day paper, which had the highest subscription rate increasing to 215.7% from 38.8% recorded the previous week. The subscription for the 182-day paper increased to 78.6% from 30.2%, while that of the 364-day paper, declined to 52.1% from 52.8% recorded the previous week. The yields on the 91-day, 182-day and 364-day increased by 2.0 bps, 3.0 bps and 4.0 bps to 6.9%, 7.4% and 8.3%, respectively. The government continued to reject expensive bids with the acceptance rate declining marginally to 98.4%, from 98.7% recorded the previous week, accepting bids worth Kshs 21.3 bn out of the Kshs 21.7 bn worth of bids received.

The Treasury has offered a tap sale for two 15-year bonds, FXD1/2012/15 and FXD2/2019/15, with effective tenors of 7 years and 14 years, respectively and are seeking to raise Kshs 22.0 bn. The bonds have fixed coupon rates of 11.0% and 12.7%, respectively. The period of sale runs from 15th Dec 2020 to 23rd Dec 2020 or upon attainment of the amount offered.



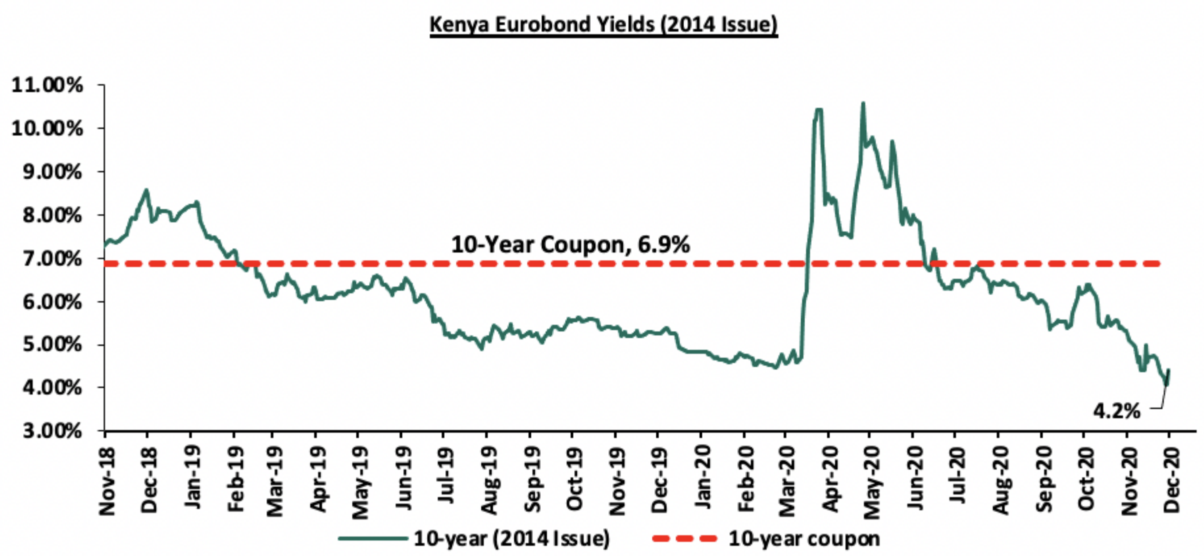

In the money markets, 3-month bank placements ended the week at 7.4% (based on what we have been offered by various banks), while the yield on the 91-day T-bill increased by 2.0 bps to 6.9%. The average yield of Top 5 Money Market Funds remained unchanged at 10.0%, as recorded the previous week. The yield on the Cytonn Money Market also remained unchanged at 10.5%, recorded the previous week.

**Liquidity:**

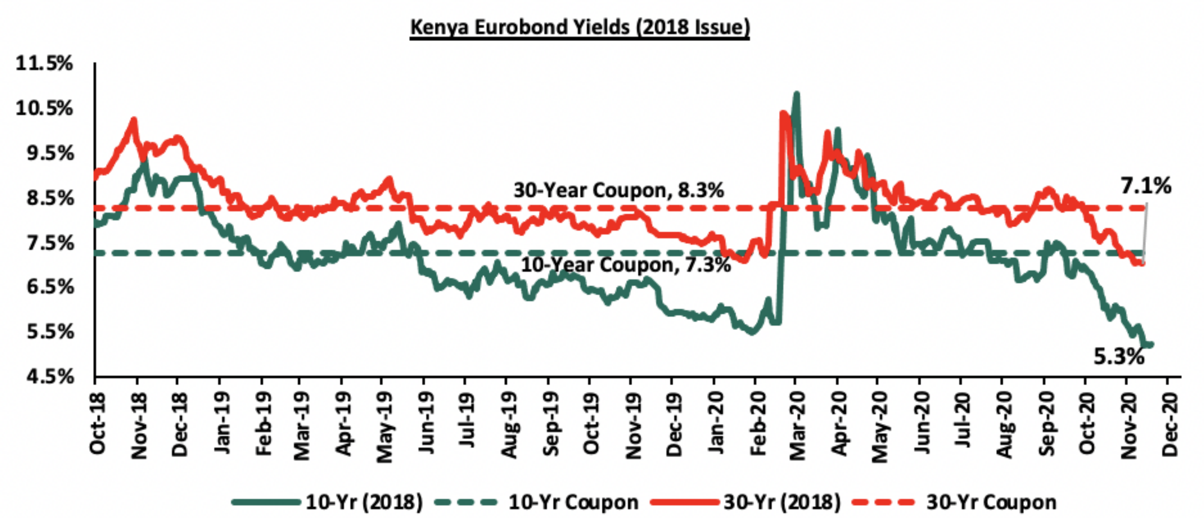
During the week, liquidity in the market continued to tighten with the average interbank rate increasing by 1.0% points, to 5.1% from 4.1% recorded the previous week, attributable to the end of the monthly Cash Reserve Requirement (CRR) cycle for the month of December which ended on the 14th. The average interbank volumes increased by 46.9% to Kshs 15.6 bn, from Kshs 10.6 bn recorded the previous week. According to the Central Bank of Kenya's weekly bulletin, released on 18th December 2020, commercial banks' excess reserves came in at Kshs 26.2 bn in relation to the 4.25% Cash Reserve Ratio.

**Kenya Eurobonds:**

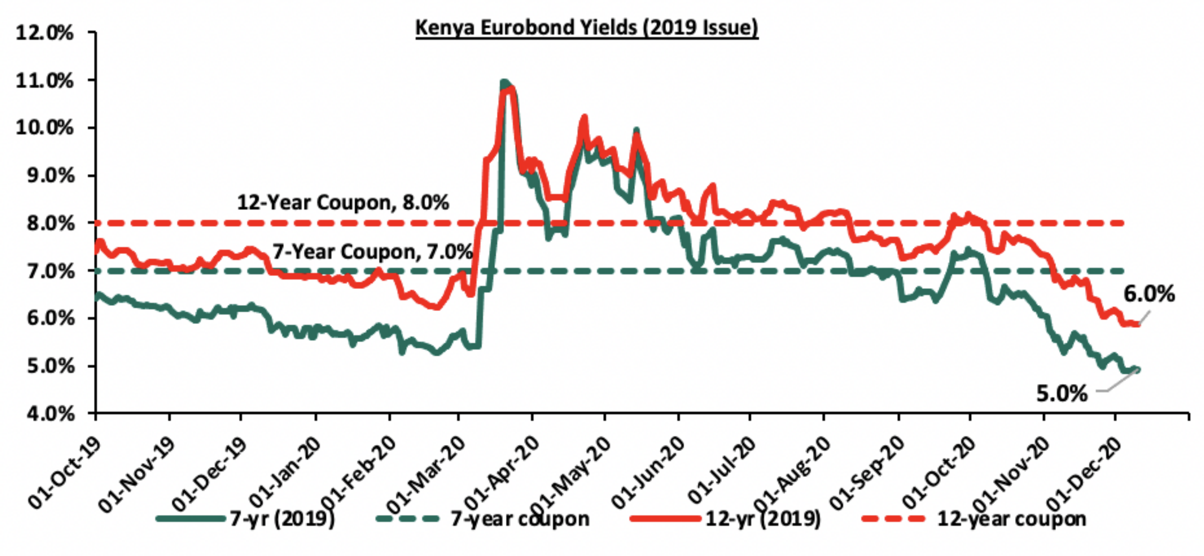
During the week, the yields on all Eurobonds recorded an increase. According to Reuters, the yield on the 10-year Eurobond issued in June 2014 increased by 0.1% points to 4.2% from 4.1%, as was recorded the previous week.




During the week, the yields on the 10-year and 30-year Eurobonds issued in 2018 both increased by 0.1% points with the 10-year issue increasing to 5.3% from 5.2%, and the 30-year issue increasing to 7.1% from 7.0%, recorded last week.




During the week, the yields on the 2019 dual-tranche Eurobonds both increased by 0.1% with the 7-year Eurobond increasing to 5.0% from 4.9%, and, the 12-year Eurobond increasing to 6.0% from the 5.9%, recorded last week.




**Kenya Shilling:**

During the week, the Kenyan shilling depreciated against the US dollar by 0.1% to an all-time low of Kshs 111.6 from Kshs 111.4 recorded last week. This is partly attributable to demand for hard currency remaining subdued amid slow activity as companies closed down for the festive season. On a YTD basis, the shilling has depreciated by 10.1% against the dollar, in comparison to the 0.5% appreciation in 2019. We expect continued pressure on the Kenyan shilling due to:

i. Demand from merchandise traders as they beef up their hard currency positions ahead of the festive season, amid a slowdown in foreign dollar currency inflows, and,
ii. 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 7.8 bn (equivalent to 4.8-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. Improving diaspora remittances evidenced by a 17.3% y/y increase to USD 263.1 mn in October 2020, from USD 224.3 mn recorded over the same period in 2019, has cushioned the shilling against further depreciation,

**Weekly Highlight:**

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the Maximum wholesale and retail prices in Kenya effective from 15th December 2020 to 14th January 2021. Below are the key take-outs from the statement:

- Petrol prices have increased by 0.9% to Kshs 106.9 per litre from Kshs 105.9 per litre previously, while diesel prices increased by 1.2% to Kshs 91.8 per litre from Kshs 90.7per litre. Kerosene prices also rose by 2.3% to Kshs 83.5 per litre from Kshs 81.6 per litre.
- The changes in prices have been attributed to:

  i. An increase in the average landed cost of imported super petrol by 0.7% to USD 318.7 per cubic from USD 316.6 per cubic meter in October 2020,
  ii. Average landed costs for diesel increased by 1.8% to USD 293.9 Per cubic meter from USD 288.8 per cubic meter in October 2020,
  iii. Landed costs for kerosene also increased by 6.2% to USD 277.3 per cubic meter from USD 261.2 Per cubic meter in October 2020,
  iv. A 7.2% increase in Free on Board (FOB) price of Murban crude oil lifted in November 2020 to USD 43.0 per barrel, from USD 40.2 per barrel in October 2020, and,

v. The Kenyan shilling depreciation by 1.1% against the dollar to close at Kshs 110.4 in November 2020, from Kshs 109.1 in October 2020.

We expect an increase in the transport and fuel index which carries a weighting of 8.7% in the total consumer price index (CPI) as a result of the increase in petrol and diesel at 0.9% and 1.2%, respectively which will consequently result to an increase in the prices of other commodity baskets like food prices due to higher transport costs.

***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 26.6% ahead of its prorated borrowing target of Kshs 224.4 bn having borrowed Kshs 284.2 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***

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