



Cytonn 2021 Markets Outlook

Fixed Income Outlook

The government is currently 5.0% ahead of its prorated domestic borrowing target, having borrowed Kshs 274.9 bn domestically, against the pro-rated target of Kshs 261.8 bn, going by the government domestic borrowing target of Kshs 486.2 bn as per the Budget Review and Outlook Paper (BROP) 2020. Given the high financing needs to support government initiatives, we foresee a likely upward revision of the domestic borrowing target before the end of the current fiscal year.

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. 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 FY2020/2021 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.

OUR VIEW IS THAT INVESTORS SHOULD BE BIASED TOWARDS SHORT-TERM FIXED-INCOME SECURITIES TO REDUCE DURATION RISK.