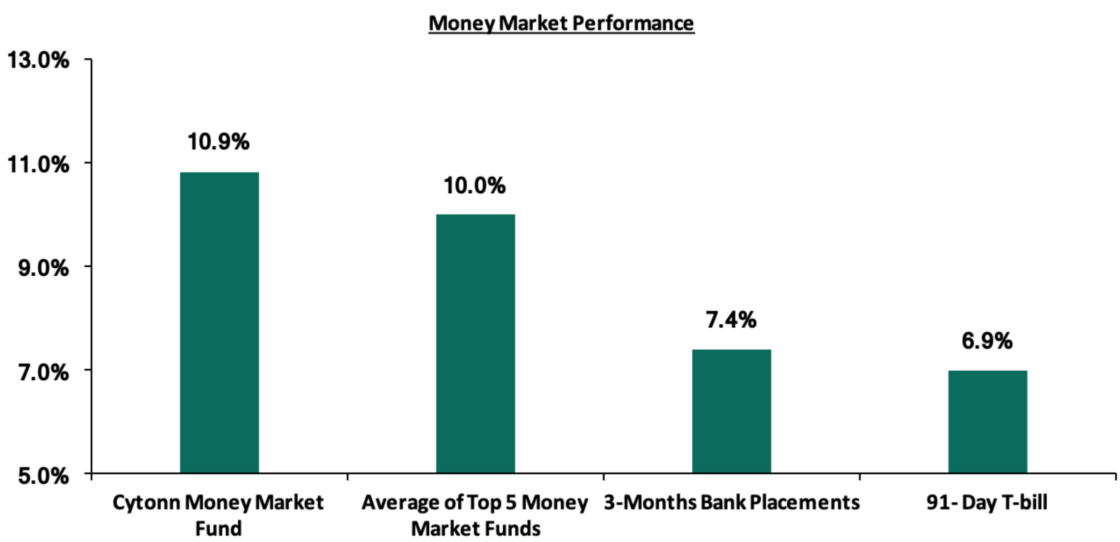
# Mobile Payments, & Cytonn Weekly #05/2021

## Fixed Income

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

During the week, T-bills remained undersubscribed but the overall subscription rate increased to 70.0%, from 66.2% recorded the previous week. This is attributable to the concurrent primary bond offer and the continued tightening of liquidity in the money markets. The investors continued their preference on the 364-day paper which had the highest subscription rate increasing to 142.1%, from 134.2% recorded the previous week. This is mainly attributable to investor preference on medium term papers (1-2 years) as they now believe that the pandemic has been contained but are still worried about possible effects of the current rising political temperatures preceding the elections in August 2022. The subscription for the 182-day paper also increased to 20.9%, from 19.7% recorded the previous week, while the 91-day paper declined marginally to 12.6%, from 12.7% recorded the previous week. The yields on 364-day and 182-day papers rose by 9.3 bps and 1.6 bps, to 8.7% and 7.6%, respectively, while the 91-day paper declined by 2.4 bps to 6.9%. The government received bids worth Kshs 16.8 bn, accepting only Kshs 14.9 bn, translating to an acceptance rate of 88.6%.

In the primary bond auction, the Central Bank of Kenya re-opened two bonds, FXD1/2013/15 and FXD1/2012/20, with effective tenors of 7.1 years and 11.8 years, and coupons of 11.3% and 12.0%, respectively. The issue recorded an overall subscription rate of 83.7%, mainly attributable to the short bidding period and tightened liquidity in the market. The government received bids worth Kshs 41.9 bn, lower than the Kshs 50.0 bn offered and accepted only Kshs 32.1 bn, translating to an acceptance rate of 76.7%. The weighted average rate of accepted bids was 11.9% and 12.7%, for the FXD1/2013/15 and FXD1/2012/20, respectively.




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 declined by 2.4 bps to 6.9%. The average yield of the Top 5 Money Market Funds remained unchanged at 10.0% from last week. The yield on the Cytonn Money Market increased marginally by 10.0 bps to 10.9%, from the 10.8%, recorded the previous week.

Liquidity:

During the week, liquidity in the money market tightened, with the average interbank rate increasing marginally to 5.5% from the 5.4% recorded the previous week, as the government payments were offset by tax remittances. The average interbank volumes increased by 24.7% to Kshs 12.2 bn, from Kshs 9.7 bn recorded the previous week. According to the Central Bank of Kenya's weekly bulletin released on 05$^{th}$ February 2021, commercial banks' excess reserves came in at Kshs 13.0 bn in relation to the 4.25% Cash Reserve Ratio.

Eurobonds performance:

During the week, the yields on all Eurobonds recorded a decline, pointing to improved investor sentiments. According to Reuters, the yields on the 10-year Eurobond issued in June 2014 declined by 0.1% points to 3.5%, from 3.6% recorded the previous week. The yields on the 10-year and 30-year Eurobonds issued in 2018 declined by 0.3% points and 0.2% points to 5.0% and 7.0%, respectively. On the other hand, the yields on the 2019 dual-tranche Eurobonds declined, with the 7-year Eurobond and 12-year Eurobond declining by 0.4% points and 0.3% points, respectively. The 7-year Eurobond declined by 0.4% points to 4.4%, from 4.8% recorded last week, while the 12-year Eurobond declined by 0.3% points to 5.8%, from the 6.1% recorded last week.

Kenya Eurobond Performance

| | 2014 | 2018 | | 2019 | |
|---|---|---|---|---|---|
| Date | 10-year issue | 10-year issue | 30-year issue | 7-year issue | 12-year issue |
| 31-Dec-2020 | 3.9% | 5.2% | 7.0% | 4.9% | 5.9% |
| 29-Jan-2021 | 3.6% | 5.3% | 7.2% | 4.8% | 6.1% |
| 01-Feb-2021 | 3.6% | 5.2% | 7.1% | 4.7% | 6.0% |
| 02-Feb-2021 | 3.5% | 5.1% | 7.1% | 4.6% | 5.9% |
| 03-Feb-2021 | 3.5% | 5.0% | 7.0% | 4.4% | 5.8% |
| 04-Feb-2021 | 3.5% | 5.0% | 7.0% | 4.5% | 5.8% |
| 05-Feb-2021 | 3.5% | 5.0% | 7.0% | 4.4% | 5.8% |
| Weekly Change | (0.1%) | (0.3%) | (0.2%) | (0.4%) | (0.3%) |
| YTD Change | (0.4%) | (0.2%) | 0.0% | (0.5%) | (0.1%) |

*Source: Reuters*

Kenya Shilling:

During the week, the Kenyan shilling appreciated by 0.3% against the US dollar to Kshs 109.8, from Kshs 110.1 recorded the previous week. This was mainly attributable to increased dollar inflows from exports in the agricultural sector including tea, coffee and horticultural produce. On an YTD basis, the shilling has depreciated by 0.6% against the dollar, in comparison to the 7.7% depreciation recorded in 2020. We expect continued pressure on the Kenyan shilling due to:

i. Demand from merchandise traders as they beef up their hard currency positions,
ii. A slowdown in foreign dollar currency inflows due to reduced dollar inflows from sectors such as tourism and horticulture, and,
iii. Continued uncertainty globally making people to 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 7.6 bn (equivalent to 4.7-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,
ii. The improving current account position which narrowed to 4.8% of GDP in the 12 months to December 2020 compared to 5.8% of GDP during a similar period in 2019, and,
iii. Improving diaspora remittances evidenced by a 19.7% y/y increase to USD 299.6 mn in December 2020, from USD 250.3 mn recorded over the same period in 2019, has cushioned the shilling against further depreciation.

Weekly Highlights:

During the week, Stanbic Bank released the Monthly Purchasing Managers' Index (PMI) for January 2021, which came in at 53.2, an increase from the 51.4 recorded in December 2020. The reading was the highest in three months and a seventh consecutive month of growth since the COVID-19 outbreak, pointing to a solid improvement in the private sector. The reopening of businesses and improved cash flow in the economy aided in driving higher customer spending, resulting in the quickest growth in output and new orders since October 2020. A number of businesses hired additional staff members as rising levels of new work orders led to an increased backlog in January. Inflationary pressure accelerated, mainly due to the reversal of the VAT rate to 16.0% that led many suppliers to increase their prices. Raw material shortages and rising demand for inputs also contributed to an increase in purchase costs, which rose at the quickest rate since September 2018, as firms passed on higher costs to the consumers. The overall delivery times shortened in January, due to expansions in supplier capacity and stronger competition among vendors. A solid increase in inventories, albeit the softest recorded in seven months, was supported by the rising purchasing activity. Despite an improvement in some of the leading economic indicators, we still maintain a cautious outlook in the short term owing to the increase in COVID-19 infections, the speed in distribution and inoculation of the vaccines in some of trading partners will affect the amount of imports being produced.

*Rates in the fixed income market have remained relatively stable due to the discipline by the Central Bank as they reject expensive bids. The government is 1.2% ahead of its prorated borrowing target of Kshs 330.4 bn having borrowed Kshs 334.2 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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