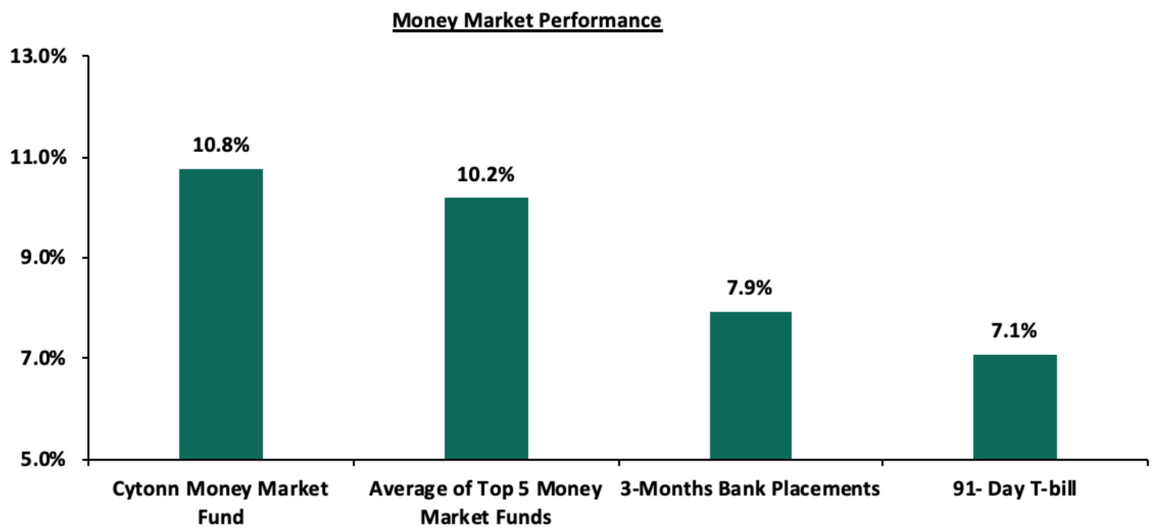
Real Estate Investment Trusts (REITs) in Kenya, & Cytonn Weekly #11/2021

Fixed Income

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

During the week, T-bills recorded an oversubscription, with the overall subscription rate coming in at 115.0%, an increase from the undersubscription of 94.3% recorded last week as a result of improved liquidity in the money markets due to government payments. The interbank rate however increased during the week to 5.4%, from 5.0% last week. The highest subscription rate was in the 364-day paper of 150.8%, an increase from 121.9% recorded the previous week. The subscription rate for the 91-day and 182-day papers also increased to 135.6% and 71.0%, from 108.8% and 60.8% respectively from the previous week. The yields on all three papers rose; with the 364-day, 182-day and 91-day papers increasing by 6.9 bps, 5.2 bps and 4.7 bps to 9.2%, 7.9% and 7.1%, respectively. The government continued to reject expensive bids by accepting only Kshs 23.3 bn of the Kshs 27.6 bn offered, translating to an acceptance rate of 84.4%.



In the money markets, 3-month bank placements ended the week at 7.9% (based on what we have been offered by various banks), while the yield on the 91-day T-bill increased marginally to 7.1%, from 7.0% recorded last week. The average yield of the Top 5 Money Market Funds increased by 0.3% points to come in at 10.2%, from 9.9% recorded last week. The yield on the Cytonn Money Market increased marginally during the week by 0.3% points to come in at 10.8%, from 10.5% recorded the previous week.

Liquidity:

During the week, liquidity in the money market remained stable but the average interbank rate increased to 5.4%, from the 5.0% recorded the previous week, attributable to the payments made towards the settlements of the recently issued bonds coupled with tax receipts which were partly offset by government payments. The average interbank volumes decreased by 1.1% to Kshs 12.9 bn, from Kshs 13.0 bn recorded the previous week. According to the Central Bank of Kenya's weekly bulletin released on 19th March 2021, commercial banks' excess reserves came in at Kshs 21.6 bn in relation to the 4.25% Cash Reserve Ratio.

Eurobonds performance:

During the week, the yields on Eurobonds were on an upward trajectory. According to the Central Bank bulletin, the yields on the 10-year Eurobond issued in June 2014, and the 10-year and 30-year Eurobonds issued in 2018 all increased to 3.3%, 5.7% and 7.6%, respectively, from 3.3%, 5.6% and 7.5%. The yields on the 7-year and 12-year Eurobonds issued in 2019 both increased by 1.7 bps to 4.9% and 6.5%, respectively.

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%
26-Feb-2021	3.3%	5.4%	7.4%	4.7%	6.4%
12-Mar-21	3.3%	5.6%	7.5%	4.9%	6.6%
15-Mar-21	3.3%	5.6%	7.6%	4.9%	6.6%
16-Mar-21	3.3%	5.6%	7.5%	4.8%	6.5%
17-Mar-21	3.3%	5.7%	7.5%	5.0%	6.6%
18-Mar-21	3.3%	5.7%	7.6%	4.9%	6.5%
Weekly Change	0.0%	0.1%	0.1%	0.0%	(0.1%)
Monthly Change	(0.3%)	0.2%	0.2%	0.0%	0.3%
YTD Change	(0.6%)	0.4%	0.5%	0.0%	0.6%

Source: CBK Bulletin

Kenya Shilling:

During the week, the Kenyan shilling depreciated marginally by 0.2% against the US dollar to close at Kshs 109.9, from Kshs 109.6 recorded the previous week. This was mainly attributable to strong dollar demand from general merchandise manufacturers and energy importers, which outweighed dollar inflows from offshore investors and commodity exports. On a 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. A slowdown in foreign dollar currency inflows due to reduced dollar inflows from sectors such as tourism and horticulture, 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, currently at USD 7.4 bn (equivalent to 4.6-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 7.3% y/y increase to USD 278.3 mn in January 2021, from USD 259.4 mn recorded over the same period in 2020, has cushioned the shilling against further depreciation.

Weekly Highlights:

Maximum Wholesale and Retail Fuel Prices

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

- Petrol prices increased by 6.6% to Kshs 122.8 per litre, from Kshs 115.2 per litre previously, while diesel prices increased by 5.6% to Kshs 107.7 per litre, from Kshs 101.9 per litre. Kerosene prices also increased by 5.9% to Kshs 97.9 per litre, from Kshs 92.4 per litre.
- The changes in prices have been attributed to:

i. An increase in the average landed cost of imported super petrol by 15.0% to USD 449.8 per cubic meter in February 2021, from USD 391.2 per cubic meter in January 2021,

ii. A 12.3% increase in average landed costs for diesel to USD 424.0 per cubic meter in February 2021, from USD 377.6 per cubic meter in January 2021,

iii. A 13.3% increase in landed costs for kerosene to USD 393.2 per cubic meter in February 2021, from USD 347.2 per cubic meter in January 2021,

iv. An 11.5% increase in Free on Board (FOB) price of Murban crude oil lifted in February 2021 to USD 61.6 per barrel, from USD 55.3 per barrel in January 2021, and,

v. The Kenyan shilling appreciation of 0.2% against the dollar to close at Kshs 109.7 in February 2021, from Kshs 109.9 in January 2021.

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 fuel prices. The increase will have a ripple effect on other components of the inflation index like food.

Additionally, we expect the fuel prices in Kenya to increase in the next months as the global fuel prices are expected to continue increasing, having increased by 32.9% to USD 66.8 per barrel this week, from USD 50.2 recorded in December 2020 (OPEC Basket Price). The increase in the global prices is attributable to the expected rebound in economic growth and the continued reduction of supply by Organization of the Petroleum Exporting Countries (OPEC).

Rates in the fixed income market have remained relatively stable but we have seen an upward trend in the short-term papers' yields. The government is 9.6% behind its prorated borrowing target of Kshs 396.5 bn having borrowed Kshs 358.5 bn for the financial year 2021/2021. 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. The high deficit and the lower credit rating will mean that the government might be forced to borrow more from the domestic market which will ultimately create uncertainty in the interest rate environment. In our view investors should be biased towards short-term to medium-term fixed income securities to reduce duration risk.