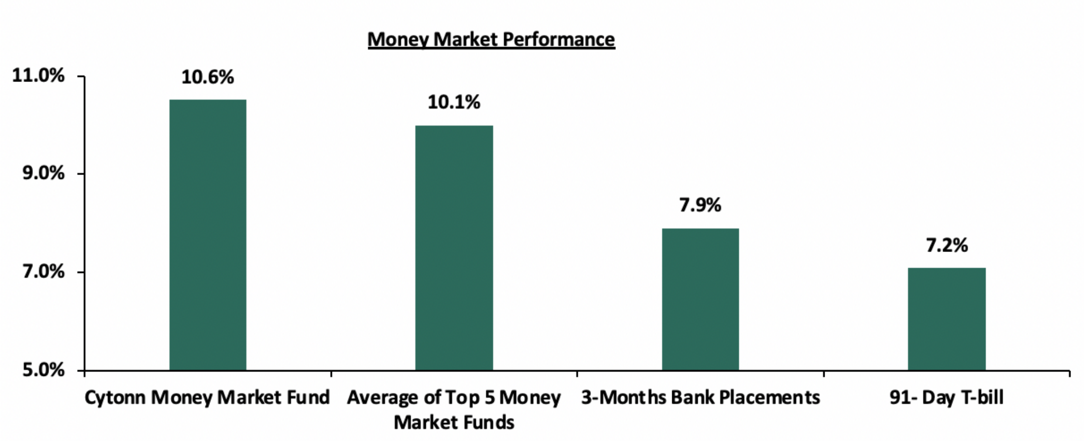
Public-Private Partnerships (PPPs) in the Real Estate Industry in Kenya, & Cytonn Weekly #19/2021

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 110.7%, down from 131.0% recorded the previous week. The demand for the 364-day paper remained high, as it recorded the highest bids worth Kshs 22.3 bn against the Kshs 10.0 bn offered, translating to a subscription rate of 222.6%, a decline from the 253.2% recorded the previous week. Investors' continued interest in the 364-day paper is mainly attributable to the expectations of continued progress in the containment of COVID-19 through the vaccine inoculation, as well as the papers attractive rate of 9.4% which is higher than the rate for most bank placements. The subscription rate for the 182-day paper declined to 28.9%, from 42.6% recorded the previous week, receiving bids worth Kshs 2.9 bn against the Kshs 10.0 bn offered. The subscription rate for the 91-day paper also declined to 35.7%, from 46.5% recorded the previous week, with the paper receiving bids worth Kshs 1.4 bn against the offered amounts of Kshs 4.0 bn. The yields on the 91-day and 182-day papers increased by 4.0 bps and 5.0 bps to 7.2% and 8.0%, respectively, while the yields on the 364-day paper declined by 5.9 bps to 9.4%. The government continued to reject expensive bids, accepting Kshs 20.5 bn out of the Kshs 26.6 bn worth of bids received, translating to an acceptance rate of 77.0%.

In the Primary Bond Market, the government opened a tap sale on the two bonds issued in the month of May, FXD2/2019/15 and FXD1/2021/25. The tap sale issuance recorded an overall subscription rate of 104.7% with investors preferring the shorter paper, FXD2/2019/15, which received bids worth Kshs 15.9 bn, of the Kshs 20.0 bn offered, translating to a subscription rate of 79.5%. On the other hand, FXD1/2021/25 received bids worth Kshs 5.0 bn against the Kshs 20.0 bn offered, translating to a subscription rate of 25.2%. The average yields on the two bonds were 13.0% and 13.9% for FXD2/2019/15 and FXD1/2021/25, respectively. The government accepted Kshs 20.7 bn of the Kshs 20.9 bn worth of bids received, translating to an acceptance rate of 98.9%.



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 by 0.4 bps to 7.2%. The average yield of the Top 5 Money Market Funds increased to 10.1% from the 10.0% recorded the previous week. Similarly, the yield on the Cytonn Money Market Fund increased to 10.6% from the 10.5% recorded the previous week. The table below shows the Money Market Fund Yields for Kenyan fund managers as published on 14th May 2021:

Money Market Fund Yield for Fund Managers as published on 14th May 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
1	Cytonn Money Market Fund	10.05%	10.58%
2	Nabo Africa Money Market Fund	10.00%	10.47%
3	Zimele Money Market Fund	9.56%	9.91%
4	GenCapHela Imara Money Market Fund	9.23%	9.67%
5	Alphafrica Kaisha Money Market Fund	9.22%	9.62%
6	Madison Money Market Fund	8.94%	9.35%
7	CIC Money Market Fund	8.98%	9.30%
8	Sanlam Money Market Fund	8.80%	9.21%
9	Dry Associates Money Market Fund	8.62%	8.97%
10	Co-op Money Market Fund	8.38%	8.74%
11	British-American Money Market Fund	8.23%	8.55%
12	Apollo Money Market Fund	8.43%	8.50%
13	NCBA Money Market Fund	8.02%	8.34%
14	Old Mutual Money Market Fund	7.74%	8.02%
15	ICEA Lion Money Market Fund	7.13%	7.39%
16	AA Kenya Shillings Fund	6.11%	6.29%

Liquidity:

During the week, liquidity in the money market improved, with the average interbank rate declining to 3.7%, from 4.6% recorded the previous week, partly attributable to Kshs 44.5 bn of government securities maturities. The average interbank volumes increased by 22.8% to Kshs 9.8 bn, from Kshs 8.0 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded mixed performance, with the yields on the 10-year Eurobond issued in June 2014, 10-year bond issued in 2018, 30-year bond issued in 2018 and 7-year bond issued in 2019 increasing to 3.6%, 6.0%, 7.1% and 5.1%, from 3.1%, 5.7%, 7.6% and 5.0%, respectively. The increase was partly attributable to dwindling investor confidence, following reports of a possibility of delayed vaccination and rising COVID-19 infections in the Sub-Saharan Region. On the other hand, the yields on the 12-year bond issued in 2019 remained unchanged at 6.6%.

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%
30-April-2021	3.2%	5.7%	7.7%	5.0%	6.7%
07-May-2021	3.1%	5.7%	7.6%	5.0%	6.6%
10-May-2021	3.1%	5.7%	7.6%	5.0%	6.6%
11-May-2021	3.1%	5.7%	7.5%	5.0%	6.6%
12-May-2021	3.1%	5.7%	7.5%	5.0%	6.6%
13-May-2021	3.6%	6.0%	7.7%	5.1%	6.6%
Weekly Change	**0.5%**	**0.3%**	**0.1%**	**0.1%**	**0.0%**
MTD Change	**0.4%**	**0.3%**	**0.0%**	**0.1%**	**0.1%**
YTD Change	**(0.3%)**	**0.8%**	**0.7%**	**0.2%**	**0.7%**

Source: Reuters

Kenya Shilling:

During the week, the Kenyan shilling depreciated against the US dollar by 0.2% to Kshs 107.0, from Kshs 106.9 recorded the previous week, attributable to increased dollar demand from energy and general merchant importers. On a YTD basis, the shilling has appreciated by 2.0% against the dollar, in comparison to the 7.7% depreciation recorded in 2020. We expect the shilling to remain under pressure in 2021 as a result of:

a. Rising uncertainties in the global market due to the Coronavirus pandemic, which has seen investors continue to prefer holding their investments in dollars and other hard currencies and commodities, and,
b. Demand from merchandise traders as they beef up their hard currency positions in anticipation for more trading partners reopening their economies globally,

The shilling is however expected to be supported by:

i. The Forex reserves, currently at USD 7.6 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 43.8% y/y increase to USD 299.3 mn in April 2021, from USD 208.2 mn recorded over the same period in 2020, has cushioned the shilling

against further depreciation.

Weekly Highlights:

May 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 May 2021 to 14th June 2021. Below are the key take-outs from the statement:

- Super Petrol prices increased by 2.9% to Kshs 126.4 per litre from Kshs 122.8 per litre recorded in April, while the prices of diesel and kerosene remained unchanged at Kshs 107.7 and 97.9 per litre, respectively. Notably, this is the second consecutive month that the diesel and kerosene prices have remained unchanged.
- The mixed performance in fuel prices was attributable to:
  i. The average landed cost of imported super petrol declined by 0.6% to USD 488.7 per cubic meter in April 2021, from USD 491.5 per cubic meter in March 2021,
  ii. The average landed costs for diesel declined by 1.0% to USD 439.6 per cubic meter in April 2021, from USD 444.2 per cubic meter in March 2021,
  iii. The average landed cost for kerosene increased by 2.0% to USD 430.4 per cubic meter in April 2021, from USD 421.9 per cubic meter in March 2021,
  iv. The Free on Board (FOB) price of Murban crude oil lifted in April 2021 declined by 1.9% to USD 63.9 per barrel, from USD 65.2 per barrel in March 2021, and,
  v. The Kenyan shilling appreciated by 1.6% against the dollar to close at Kshs 107.8 in April 2021, from Kshs 109.6 in March 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 petrol prices. However, the increase may not be felt in other components of the inflation index like food as the kerosene prices have remained unchanged.

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 1.6% ahead of its prorated borrowing target of Kshs 484.6 bn having borrowed Kshs 492.1 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 having collected Kshs. 1,337.4 bn as at 10 months to April 2021, compared to Kshs 1,383.7 bn prorated target collection 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 from S&P Global to 'B' from 'B+' 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 fixed income securities to reduce duration risk.