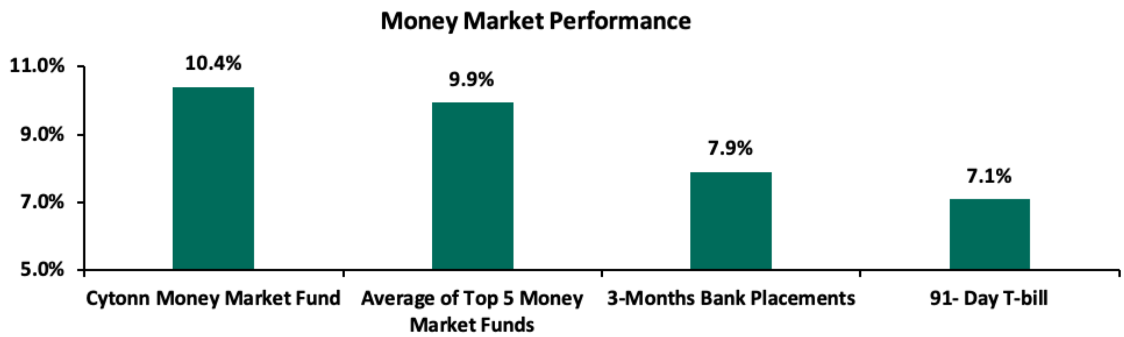
Kenya Listed Banks Q1'2021 Report, & Cytonn Weekly #23/2021

Fixed Income

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

During the week, T-bills remained oversubscribed, with the overall subscription rate coming in at 181.8%, an increase from the 162.5% recorded the previous week. The demand for the 364-day paper persisted, as it recorded the highest bids worth Kshs 24.3 bn against the offered Kshs 10.0 bn, translating to a subscription rate of 243.0%, a decline from the 276.3% recorded the previous week. The continued interest in the 364-day paper is mainly attributable to investors rushing to lock in the paper’s attractive return of 8.6% given that the rates have been declining over the past few weeks. The subscription rate for the 182-day paper increased to 109.3%, from 100.0% recorded the previous week, receiving bids worth Kshs 10.9 bn against the offered amounts of Kshs 10.0 bn. The subscription rate for the 91-day paper increased to 209.7%, from 34.3% recorded the previous week, with the paper receiving bids worth Kshs 8.4 bn against the offered amounts of Kshs 4.0 bn. The yields on all the three papers declined; with the 91-day, 182-day and 364-day paper declining by 3.3 bps, 8.7 bps and 32.5 bps, to 7.1%, 7.7% and 8.6%, respectively. The government continued to reject expensive bids, accepting Kshs 18.5 bn out of the Kshs 43.6 bn worth of bids received, translating to an acceptance rate of 42.4%.



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 declined by 3.3 bps to 7.1%. The average yield of the Top 5 Money Market Funds declined to 9.9% from the 10.0% recorded the previous week. The yield on the Cytonn Money Market Fund remained unchanged at 10.4% during the week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 11th June 2021:

Money Market Fund Yield for Fund Managers as published on 11th June 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate

Money Market Fund Yield for Fund Managers as published on 11th June 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
1	Cytonn Money Market Fund	9.89%	10.40%
2	Nabo Africa Money Market Fund	9.52%	9.95%
3	Zimele Money Market Fund	9.56%	9.91%
4	GenCapHela Imara Money Market Fund	9.36%	9.81%
5	Alphafrica Kaisha Money Market Fund	9.22%	9.62%
6	CIC Money Market Fund	9.08%	9.41%
7	Sanlam Money Market Fund	8.82%	9.22%
8	Co-op Money Market Fund	8.50%	8.87%
9	Madison Money Market Fund	8.31%	8.66%
10	Dry Associates Money Market Fund	8.30%	8.63%
11	Apollo Money Market Fund	8.51%	8.57%
12	NCBA Money Market Fund	8.00%	8.31%
13	British-American Money Market Fund	7.98%	8.28%
14	ICEA Lion Money Market Fund	7.95%	8.28%
15	Old Mutual Money Market Fund	7.50%	7.76%
16	AA Kenya Shillings Fund	6.13%	6.31%

Liquidity:

During the week, liquidity in the money market eased, with the average interbank rate declining to 4.5% from 4.8% recorded the previous week, partly attributable to government securities maturities and redemptions worth Kshs 40.8 bn. The average interbank volumes declined by 24.7% to Kshs 10.2 bn, from Kshs 13.6 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded mixed performance. The yields on the 10-year bond issued in 2018, 30-year bond issued in 2018, 7-year bond issued in 2019 and the 12-year bond issued in 2019 declined to 5.1%, 7.2%, 4.5% and 6.1%, respectively, from 5.2%, 7.3%, 4.6% and 6.2% recorded the previous week. On the other hand, the yields on the 10-year Eurobond issued in June 2014 remained unchanged at 3.0%. Below is a summary of the performance:

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%
31-May-21	3.1%	5.3%	7.3%	4.7%	6.2%
03-June-21	3.0%	5.2%	7.3%	4.6%	6.2%
04-June-21	3.0%	5.3%	7.3%	4.6%	6.2%
07-June-21	3.0%	5.2%	7.3%	4.6%	6.2%

Kenya Eurobond Performance

	2014	2018		2019	
Date	**10-year issue**	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**
08-June-21	3.0%	5.2%	7.2%	4.6%	6.1%
09-June-21	3.0%	5.1%	7.2%	4.5%	6.1%
10-June-21	3.0%	5.1%	7.2%	4.5%	6.1%
Weekly Change	**0.0%**	**(0.2%)**	**(0.1%)**	**(0.1%)**	**(0.1%)**
MTD Change	**(0.1%)**	**(0.2%)**	**(0.1%)**	**(0.2%)**	**(0.1%)**
YTD Change	**(0.9%)**	**(0.1%)**	**0.2%**	**(0.4%)**	**0.2%**

Source: Reuters

Kenya Shilling:

During the week, the Kenyan shilling depreciated against the US dollar by 0.2% to close the week at Kshs 107.9, from Kshs 107.7 recorded the previous week, mainly due to dollar demand from commodity importers outweighing the supply of dollars from exporters. On a YTD basis, the shilling has appreciated by 1.2% against the dollar, in comparison to the 7.7% depreciation recorded in 2020. Despite the recent appreciation, 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.

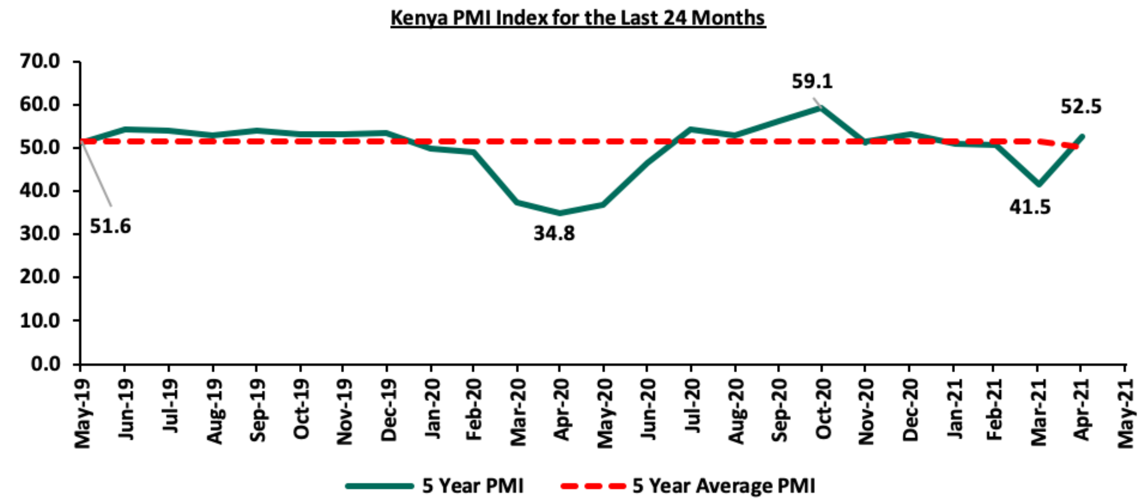
The shilling is however expected to be supported by:

i. The Forex reserves, currently at USD 7.5 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 stable current account position which is estimated to remain at a deficit of 5.2% of GDP in 2021, 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, which have cushioned the shilling against further depreciation.

Weekly Highlights:

I. **Stanbic PMI Index May 2021**

The headline Purchasing Managers’ Index (PMI) for the month of May 2021 increased to 52.5 from the 41.5 recorded in April 2021, attributable to the lifting of the partial restrictions that had been imposed in March 2021. There was a reported improvement in the new order demand, output and stock purchases, which consequently led to an increase in the number of new jobs created. See below a chart summarizing the evolution of the PMI over the last 24 months:



**** Key to note, a reading above 50.0 signals an improvement in business conditions, while readings below 50.0 indicate a deterioration*

Despite the 11.0 points improvement in last month's reading, we still maintain a cautious outlook in the short term owing to the lag in procurement and slowdown in the inoculation of more COVID-19 vaccines. The discovery of new variants that are more easily transmissible might lead to another wave of infections and more restrictions that will affect the business environment.

II. **FY'2021/2022 Budget Statement**

During the week the Cabinet Secretary for National Secretary presented the FY'2021/2022 Budget Statement before parliament. Some of the highlights from the budget included;

i. The total FY'2021/22 budget is estimated at Kshs 3.6 tn, a 12.5% increase from the Kshs 3.2 tn final FY'2020/21 budget. Additionally, the government projects that total revenue will increase by 10.5% to Kshs 2.1 tn from the Kshs 1.9 tn in FY'2020/2021. The increase is mainly due to a 12.5% increase in ordinary revenue to Kshs 1.8 tn from the Kshs 1.6 tn collected in FY'2020/21,
ii. Total expenditure is set to increase by 4.8% to Kshs 3.0 tn (equivalent to 24.5% of GDP), from Kshs 2.9 tn (equivalent to 25.8% of GDP) in the FY'2020/21 Budget. The Treasury indicated that it had set aside an additional Kshs 23.1 bn for the continuation of the post-COVID-19 Economic Stimulus Package, and,
iii. Public debt is expected to continue growing in FY'2021/22, as the approximate Kshs 929.7 bn fiscal deficit will be financed through both domestic and foreign debts.
iv. The fiscal deficit (excluding grants) as a share of GDP, is expected to come in at 7.5% in FY'2021/2022, from 8.7% in FY 2020/2021.

The FY'2021/2022 budget points to an expansionary budget which is meant to steer the economy towards a gradual recovery. However, with the fiscal deficit estimated to reduce to 7.5% of GDP mainly as a result of an expected decline in recurrent expenditure and an improvement in revenues, debt sustainability remains a key concern, with the country's public debt–to-GDP ratio having increased considerably over the past five years to 69.6% as at December 2020, from 44.3% as at the end of 2013 with half of the debt being external. In our view, there are still concerns on how the government will be able to meet its revenue collection targets given that the country is still facing risks of additional waves of the pandemic. We shall be focusing on this fiscal year's budget in the coming week.

III. **World Bank Loan Facility**

During the week, the World Bank approved a USD 750.0 mn (Kshs 80.0 bn) loan facility to the Kenyan Government, with the funds being intended for use in budgetary support and assistance in the economic recovery from the negative effects of the COVID-19 pandemic. The facility will attract an annual interest rate of 3.1% which is line with the government's intention to move away from expensive commercial loans to cheaper multi-lateral borrowing. Below is a summary of the loan facilities acquired by the Kenyan government in 2021;

Facility provider	Date of Issue	Amounts in Kshs bn	Purpose of the facility
International Monetary Fund (IMF)	April, 2021	255.9	Assisting Kenya to stabilize its economy and create a sustainable growth path
The World Bank	June, 2021	81.0	Budgetary support and assistance in economic recovery from the effects of the COVID-19 pandemic
Total		**336.9**	

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 6.9% behind its prorated borrowing target of Kshs 528.6 bn having borrowed Kshs 492.2 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 having collected Kshs. 1,190.6 bn in the first 10 months to April 2021, compared to Kshs 1,224.8 bn prorated target collection for FY'2020/2021, thus leading to a budget deficit of 8.7% larger 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 might create uncertainty in the interest rate environment. In our view, investors should be biased towards short-term fixed income securities to reduce duration risk.