

# Cytonn H1'2021 Markets Review

## Fixed Income

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

During the first half of 2021, T-bills were oversubscribed, with the overall subscription rate coming in at 104.7%, down from 152.8% in H1'2020. The oversubscription was partly attributable to the continued preference for shorter-dated papers by investors looking to avoid duration risk especially during this period of uncertainty. Overall subscriptions for the 91-day, 182-day, and 364-day papers came in at 81.8%, 55.3% and 161.4% in H1'2021, from 133.4%, 80.1% and 228.1% in H1'2020, respectively, with investors' participation remaining skewed towards the 364-day paper. The average yields on the 364-day and 182-day papers declined to 7.7% and 7.3% in H1'2021 from 8.2% and 7.4%, respectively, recorded in H1'2020, as the Central Bank of Kenya continued to reject expensive bids, with the yields on the 91-day T-bill increasing to 6.9% in H1'2021, from 6.7% recorded in H1'2020. The acceptance rate in H1'2021 increased to 79.7%, from 60.1% in H1'2020, with the government accepting a total of Kshs 516.5 bn of the Kshs 680.8 bn worth of bids received in H1'2021.

During the week, T-bills remained oversubscribed, with the overall subscription rate coming in at 130.6%, an increase from the 105.6% recorded the previous week. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 10.0 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 252.0%, a decline from the 267.7% recorded the previous week. The oversubscription of the 91-day paper is partly attributable to the higher risk adjusted return offered by the paper given the decline in the rates of the other papers. The subscription rate for the 364-day paper declined to 73.2%, from 90.4% recorded the previous week, receiving bids worth Kshs 7.3 bn against the offered amounts of Kshs 10.0 bn, while the subscription rate for the 182-day paper increased to 139.5%, from 56.0% recorded the previous week, receiving bids worth Kshs 13.9 bn against the offered amounts of Kshs 10.0 bn. The yields on all the three papers declined; with the 91-day, 182-day and 364-day paper declining by 13.2 bps, 8.9 bps and 6.8 bps, to 6.7%, 7.2% and 7.7%, respectively. The government continued to reject expensive bids, accepting Kshs 25.4 bn out of the Kshs 31.4 bn worth of bids received, translating to an acceptance rate of 81.2%.

### Primary T-Bond Auctions in H1'2021

During H1'2021, the Government issued eleven Treasury bonds seeking to raise Kshs 333.0 bn and they were generally oversubscribed receiving bids totaling Kshs 505.5 bn. The government was keen to maintain low rates only accepting Kshs 370.9 bn. The table below provides more details on the bonds issued during the period:

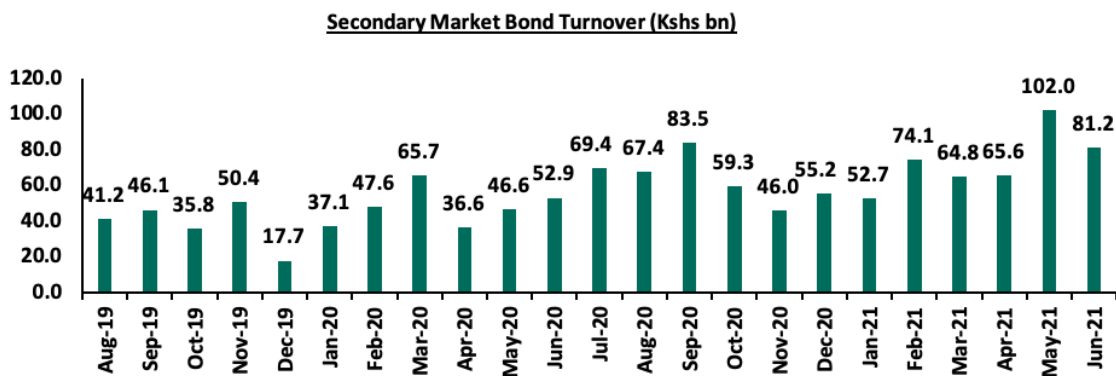
Issue Date	Bond Auctioned	Effective Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Actual Amount Raised (Kshs bn)	Total bids received	Average Accepted Yield	Subscription Rate	Acceptance Rate
11/01/2021	FXD1/2021/002	2.0	9.5%	25.00	55.9	61.2	9.5%	244.6%	91.3%
25/01/2021	IFB1/2021/016	16.0	12.3%	50.0	81.1	125.5	12.3%	250.9%	64.6%

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8/02/2021	FXD1/2013/15	7.1	11.3%	50.0	9.4	13.6	11.8%	83.7%	76.7%
	FXD1/2012/20	11.8	12.0%		22.7	28.3	12.6%		
22/02/2021	FXD1/2013/15 (Tap Sale)	7.1	11.8%	18.0	7.0	7.2	11.8%	62.4%	97.1%
	FXD1/2012/20 (Tap Sale)	11.8	12.6%		3.9	4.1	12.6%		
15/03/2021	FXD1/2019/10	8.0	12.4%	50.0	15.5	15.9	12.4%	97.4%	99.2%
	FXD2/2018/20	17.4	13.2%		32.8	32.8	13.4%		
12/04/2021	IFB1/2021/018	18.0	12.7%	60.0	81.9	88.6	12.7%	147.6%	92.5%
10/05/2021	FXD2/2019/15	13.0	12.7%	30.0	6.0	11.6	13.0%	142.0%	47.6%
	FXD1/2021/25	25.0	13.9%		14.2	31.0	13.9%		
24/05/2021	FXD2/2019/15 (Tap Sale)	13.0	12.7%	20.0	15.7	15.9	13.0%	104.7%	98.9%
	FXD1/2021/25 (Tap Sale)	25.0	13.9%		5.0	5.0	13.9%		
21/06/2021	FXD1/2019/20	17.9	12.9%	30.0	13.4	41.0	13.3%	216.4%	30.3%
	FXD1/2012/20	11.4	12.0%		6.3	23.9	12.5%		

## Secondary Bond Market Activity:

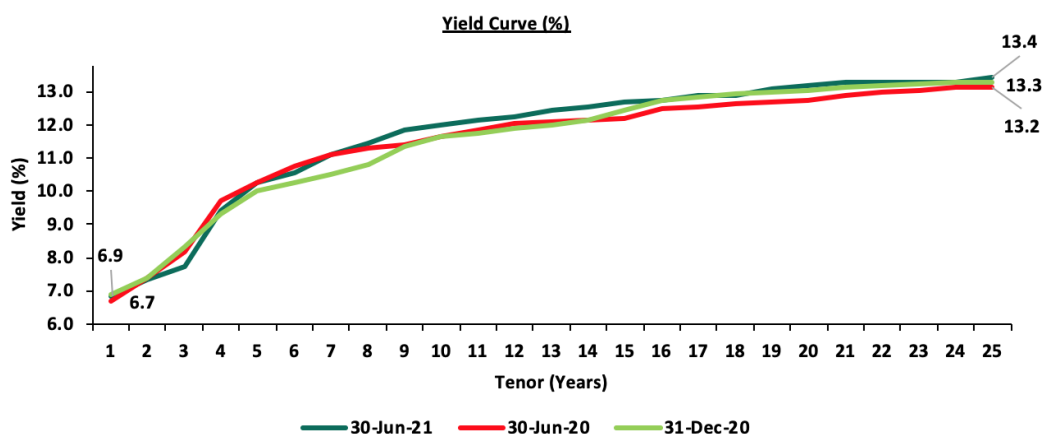
### A. Bond Turnover

The secondary bond market recorded increased activity, with the turnover increasing by 53.8% to Kshs 440.5 bn, from Kshs 286.5 bn in H1'2020, partially attributable to local institutional investors increasing their allocation to treasury bonds due to increased liquidity in the market as banks were still slow in lending.

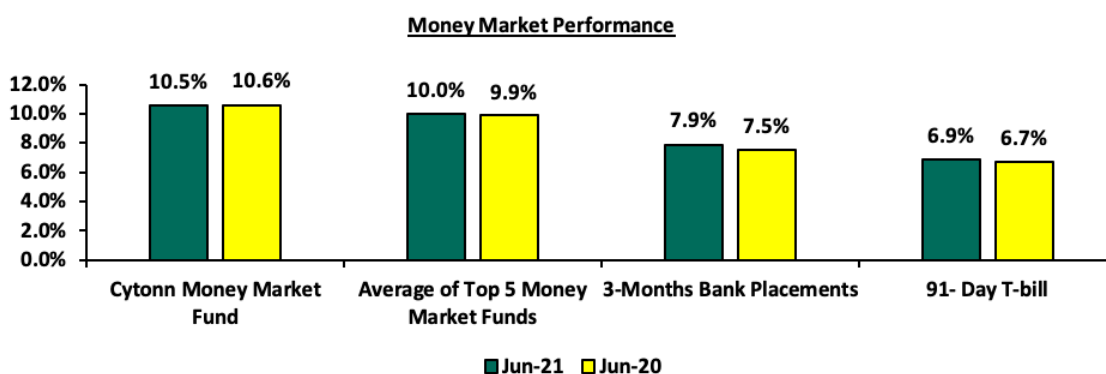


### B. Yield Curve

The yield curve remained relatively stable with a slight decline in the yields on the short end and increase in the medium to long end leading to a 1.2% decline in the FTSE bond index. The chart below shows the yield curve movement during H1'2021:



### C. Money Market Performance



The 3-month bank placements recorded 7.9% as at the end of H1'2021 higher than 7.5% recorded at the end of H1'2020 (based on what we have been offered by various banks), the average 91-day T-bill rate also increased to 6.9% in H1'2021 from 6.7% in H1'2020, while the average of Top 5 Money Market Funds increased to 10.0% from 9.9% in H1'2020. The yield on the Cytonn Money Market (CMMF) declined by 0.1% points to 10.5% in H1'2021, from 10.6% recorded in H1'2020.

During the week, 3-month bank placements ended at 7.9% (based on what we have been offered by various banks), while the 91-day T-bill declined by 13.2 bps to 6.7% from 6.9%, recorded the previous week. The average yield of the Top 5 Money Market Funds declined to 9.8% from 10.0% recorded last week while the yield on the Cytonn Money Market (CMMF) declined by 0.5% points to 10.1%, from 10.6% recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 2<sup>nd</sup> July 2021:

#### Money Market Fund Yield for Fund Managers as published on 2<sup>nd</sup> July 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
1	Cytonn Money Market Fund	9.66%	10.14%
2	Nabo Africa Money Market Fund	9.52%	9.95%
3	Zimele Money Market Fund	9.56%	9.91%
4	Madison Money Market Fund	9.13%	9.56%
5	Orient Kasha Money Market Fund	9.06%	9.45%
6	Sanlam Money Market Fund	9.02%	9.44%
7	CIC Money Market Fund	9.07%	9.42%

## Money Market Fund Yield for Fund Managers as published on 2<sup>nd</sup> July 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
8	Co-op Money Market Fund	8.60%	8.98%
9	Dry Associates Money Market Fund	8.37%	8.70%
10	GenCap Hela Imara Money Market Fund	8.34%	8.70%
11	Apollo Money Market Fund	8.51%	8.57%
12	British-American Money Market Fund	8.20%	8.52%
13	ICEA Lion Money Market Fund	8.01%	8.34%
14	NCBA Money Market Fund	8.02%	8.32%
15	Old Mutual Money Market Fund	7.51%	7.77%
16	AA Kenya Shillings Fund	6.76%	6.97%

### Liquidity:

The liquidity in the money market tightened, as evidenced by the increase in the interbank rate to 4.9%, from 4.3% during H1'2020. Additionally, the average volumes traded in the interbank market increased by 4.8% to Kshs 10.9 bn, from Kshs 10.4 bn recorded in H1'2020. The tightened liquidity in the market was partly attributable to tax remittances and bond outflows which offset government payments, coupled with reduced foreign investor activities as investors remained cautious amidst the COVID-19 environment.

During the week, liquidity in the money market tightened, with the average interbank rate increasing to 4.9% from 4.7% recorded the previous week, partly attributable to settlements of government securities coupled with a build-up of bank balances ahead of quarter end reporting as well as anticipatory quarterly tax remittances. The average interbank volumes traded declined by 40.9% to Kshs 7.5 bn, from Kshs 12.7 bn recorded the previous week.

### Kenya Eurobonds:

During H1'2021, yields on the Kenyan Eurobonds recorded mixed performance, with the yields in the dual-tranche Eurobond issued in 2018 and the 12-year Eurobond issued in 2019 rising while the 10-year Eurobond issued in 2014 and the 7-year Eurobond issued in 2019 declined. The mixed performance points to the fact that investors are still seeking direction as they try to assess Kenya's economic expectations amidst the uncertainty brought about by the ongoing pandemic, monetary support by the International Monetary Fund (IMF) and the Credit Ratings downgrades earlier in the year.

During the week, the yields on Eurobonds remained relatively unchanged, with the yields on the 10-year bond issued in 2014, 10-year bond issued in 2018, 30-year bond issued in 2018, 12-year bond issued in 2019 and 12-year bond issued in 2021 remaining unchanged at 3.3%, 5.4%, 7.4%, 6.3%, and 6.3% respectively. On the other hand, the yield on the 7-year bond issued in 2019 increased marginally to 4.8%, from 4.7% recorded the previous week. Below is a summary of the performance:

Date	Kenya Eurobond Performance					
	2014	2018		2019		2021
	10-year issue	10-year issue	30-year issue	7-year issue	12-year issue	12-year issue
31-Dec-2020	3.9%	5.2%	7.0%	4.9%	5.9%	-

## Kenya Eurobond Performance

Date	2014	2018		2019		2021
	10-year issue	10-year issue	30-year issue	7-year issue	12-year issue	12-year issue
31-May-2021	3.1%	5.3%	7.3%	4.7%	6.2%	-
25-June-21	3.3%	5.3%	7.4%	4.7%	6.3%	6.3%
28- June-21	3.3%	5.4%	7.4%	4.7%	6.3%	6.3%
29- June-21	3.3%	5.4%	7.4%	4.8%	6.3%	6.3%
30- June-21	3.3%	5.4%	7.4%	4.8%	6.3%	6.3%
01-July-21	3.3%	5.4%	7.4%	4.8%	6.3%	6.3%
<b>Weekly Change</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>MTD Change</b>	<b>0.2%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>-</b>
<b>H1'2021 Change</b>	<b>(0.6%)</b>	<b>0.2%</b>	<b>0.3%</b>	<b>(0.1%)</b>	<b>0.4%</b>	<b>-</b>

*Rates in the fixed income market have remained relatively stable due to the tightened but sufficient levels of liquidity in the money markets, coupled with the discipline by the Central Bank to reject expensive bids. The government is 9.8% behind its prorated borrowing target of Kshs 561.7 bn having borrowed Kshs 506.7 bn in FY'2020/2021. 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 having collected Kshs 1,313.1 bn in the first 11 months to May 2021, compared to Kshs 1,469.7 bn prorated target collection for FY'2020/2021, thus leading to a budget deficit of 10.6%, larger than the projected 7.5% of GDP. Despite the deficit and the lower credit rating from S&P Global to 'B' from 'B+', the monetary support from the IMF and World Bank will mean that the interest rate environment may stabilize since the government will not be desperate for cash.*