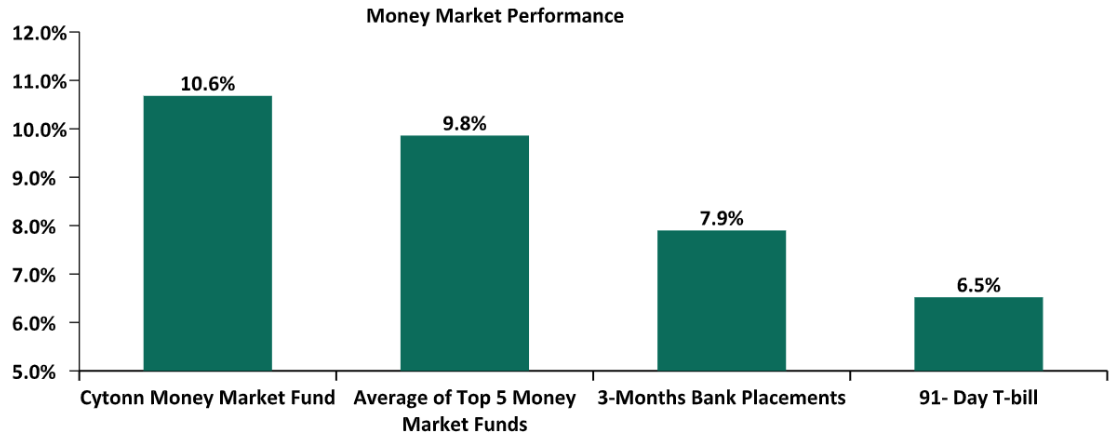
Nairobi Metropolitan Area (NMA) Land Report 2021, & Cytonn Weekly #29/2021

Fixed Income

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

During the week, T-bills remained undersubscribed, with the overall subscription rate coming in at 69.6%, a decline from the 80.3% recorded the previous week due to investors' anticipation of a Tap sale in the primary bond market in the coming week. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 10.1 bn against the offered amount of Kshs 4.0 bn, translating to a subscription rate of 252.1%, an increase from the 113.3% recorded the previous week. The investors' interest in the shorter dated 91-day paper is mainly attributable to a higher return on a risk adjusted basis. The subscription rate for the 364-day and 182-day papers declined to 34.0% and 32.1%, from 52.7% and 113.3% recorded the previous week, respectively. The yields on all the three papers declined; with the 91-day, 182-day and 364-day paper declining by 4.3 bps, 2.9 bps and 7.4 bps, to 6.5%, 7.0% and 7.4%, respectively. The government accepted all the bids received which were worth Kshs 16.7 bn, translating to an acceptance rate of 100.0% which was attributable to the government taking advantage of the low yields and the high liquidity in the market.



In the money markets, 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 4.3 bps to 6.5%. The average yield of the Top 5 Money Market Funds declined marginally by 0.1% points to 9.8% from 9.9%, recorded the previous week, while the yield on the Cytonn Money Market (CMMF) declined marginally by 0.1% points to 10.6% from 10.7%, recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 23rd July 2021:

Money Market Fund Yield for Fund Managers as published on 23rd July 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
1	Cytonn Money Market Fund	10.06%	10.58%
2	Nabo Africa Money Market Fund	9.52%	9.95%
3	Zimele Money Market Fund	9.56%	9.91%
4	Madison Money Market Fund	8.97%	9.39%
5	CIC Money Market Fund	9.03%	9.36%
6	Sanlam Money Market Fund	8.91%	9.34%
7	Orient Kasha Money Market Fund	8.70%	9.06%
8	Co-op Money Market Fund	8.55%	8.92%
9	GenCap Hela Imara Money Market Fund	8.48%	8.85%
10	Dry Associates Money Market Fund	8.31%	8.64%
11	ICEA Lion Money Market Fund	8.18%	8.53%
12	British-American Money Market Fund	8.16%	8.47%
13	NCBA Money Market Fund	8.01%	8.31%
14	Apollo Money Market Fund	8.40%	8.27%
15	Old Mutual Money Market Fund	7.16%	7.40%
16	AA Kenya Shillings Fund	6.73%	6.94%

Source: Business Daily

Liquidity:

During the week, liquidity in the money market eased, with the average interbank rate declining to 3.6% from 4.2% recorded the previous week, due to increased liquidity from government payments, Term Auction Deposits (TADs) maturities of Kshs 104.6 bn which offset the settlements of government securities and tax remittances. The average interbank volumes traded declined by 4.6% to Kshs 4.4 bn, from Kshs 4.6 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on the Eurobonds recorded mixed performance. The yields on the 10-year bond issued in 2018 increased by 0.1% points to 5.4% from 5.3%, while the yields on 10-year bond issued in 2014 declined by 0.1% points to 3.2% from 3.3%, recorded the previous week. On the other hand, the yields on the 30-year bond issued in 2018, 7- year bond issued in 2019, 12- year bond issued in 2019 and the 12- year bond issued in 2021 remained unchanged at 7.3%, 4.8%, 6.2% and 6.2%, respectively. Below is a summary of the performance:

Kenya Eurobond Performance

	2014	2018		2019		2021
Date	10-year issue	10-year issue	30-year issue	7-year issue	12-year issue	12-year issue
31-Dec-20	3.9%	5.2%	7.0%	4.9%	5.9%	-
30-Jun-21	3.3%	5.4%	7.4%	4.8%	6.3%	6.3%

Kenya Eurobond Performance

	2014	2018		2019		2021
Date	**10-year issue**	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**	**12-year issue**
16-Jul-21	3.3%	5.3%	7.3%	4.8%	6.2%	6.2%
19-Jul-21	3.3%	5.3%	7.3%	4.8%	6.2%	6.2%
20-Jul-21	3.3%	5.4%	7.4%	4.8%	6.3%	6.2%
21-Jul-21	3.3%	5.4%	7.4%	4.9%	6.3%	6.2%
22-Jul-21	3.2%	5.4%	7.3%	4.9%	6.2%	6.2%
23-Jul-21	3.2%	5.4%	7.3%	4.8%	6.2%	6.2%
Weekly Change	**(0.1%)**	**0.1%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
MTD Change	**(0.1%)**	**0.0%**	**(0.1%)**	**0.0%**	**0.0%**	**(0.1%)**
YTD Change	**(0.7%)**	**0.2%**	**0.3%**	**(0.1%)**	**0.3%**	**-**

Source: Reuters

Kenya Shilling:

During the week, the Kenyan shilling remained stable against the US dollar closing at Kshs 108.2 as was recorded the previous week. On a YTD basis, the shilling has appreciated by 0.9% against the dollar, in comparison to the 7.7% depreciation recorded in 2020. Despite the recent appreciation of the shilling, 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,
b. The widened current account position which increased by 0.3% points to 5.5% of GDP in the 12 months to May 2021 from 5.2% of GDP for a similar period in 2020, and,
c. 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 9.4 bn (equivalent to 5.7 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, and,
ii. Improving diaspora remittances evidenced by a 6.0% y/y increase to USD 305.9 mn in June 2021, from USD 288.5 mn recorded over the same period in 2020, which has continued to cushion the shilling against further depreciation.

Weekly Highlights:

I. **July MPC Meeting**

The Monetary Policy Committee (MPC) is set to meet on Wednesday, 28th July 2021 to review the outcome of its previous policy decisions and recent economic developments, and to decide on the direction of the Central Bank Rate (CBR) and any other policy measure like the Cash Reserve Ratio. In their previous meeting held on 26th May 2021, the committee maintained the CBR at 7.00%, in line with our expectations, citing that the accommodative policy stance adopted in March 2020, and all the other sittings since, which saw a cumulative 125 bps cut, was having the intended effects on the economy. We expect the MPC to maintain the Central Bank Rate (CBR) at 7.00%, with their decision mainly being supported by:

i. Stable inflation which is projected to remain within the 2.5%-7.5% target range despite the recent increases in fuel prices. Key to note, June's inflation rate of 6.3% was a 16 month high and is above the midpoint of the government's target range. We note that the IMF recently raised a concern on the country's rising inflation rates noting that should the country's three-month average inflation rate breach the CBK's target range, IMF would pause the USD 2.3 bn (Kshs 248.9 bn) three-year financing package under the EFF/ECF program. We believe that the MPC might come under pressure in the short term to maintain price stability should the inflation rates continue rising, and,
ii. The need to support the economy by maintaining an accommodative monetary policy stance to strengthen the ongoing recovery. The current macro and business environment fundamentals might constrain the transmission of further easing, despite the need to stimulate economic growth. Therefore, we believe that any additional rate cuts will not lead to a rise in private sector credit growth as elevated credit risks persist in the current environment. However, the speed of vaccine inoculation will determine how fast normalcy will return in key sectors such as tourism and wholesale/retail trade.

For a more detailed analysis, please see our MPC Note here.

II. **July Inflation Projections**

We are projecting the y/y inflation rate for July 2021 to remain within the range of 6.2% - 6.6%. The key drivers include:

i. Fuel prices remained unchanged for the period mid-July to mid-August 2021,
ii. Food prices have remained relatively stable during the month given the favorable weather and an improvement in agricultural output,
iii. Upward readjustment of the foreign exchange fluctuation tariff for electricity usage to 116.1 cents per Kilowatt hour (KWh) in July from 77.0 cents per Kilowatt hour (KWh) in June. The readjustment will increase the cost of electricity consumption for households, and,
iv. Introduction of the 16.0% VAT on Liquefied Petroleum Gas and 20.0% excise duty on telecommunication and banking products which was effected on 1st July, 2021. The taxes imposed are expected to have a negative effect on the overall inflation.

Going forward, we expect the inflation rate to remain within the government set range of 2.5% - 7.5%. However, our concern on the impact of the increase in tariffs and taxes persists, as we foresee a concurrent contribution to the increase in the headline inflation, despite the government interventions through tariff reliefs. Similarly, the IMF, in its Credit facility agreement with the government in February 2021, gave conditions for a target inflation which should be maintained so as to continue accessing the loan facility. Given that the next IMF evaluation test date is in December 2021, the government has a sufficient period to readjust in the event of the spike in the inflation rate in the months in between.

Rates in the fixed income market have remained relatively stable due the sufficient levels of liquidity in the money market, coupled with the discipline by the Central Bank to reject expensive bids. The government is 23.7% behind its prorated borrowing target of Kshs 50.7 bn having borrowed Kshs 38.6 bn in FY'2021/2022. We expect a gradual economic recovery going into FY'2021/2022 as evidenced by KRA collecting Kshs 1.7 tn in FY'2020/2021, a 3.9% increase from Kshs 1.6 tn collected in the prior fiscal year. However, despite the projected high budget deficit of 7.5% and the lower credit rating from S&P Global to 'B'

from 'B+', we believe that 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.

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