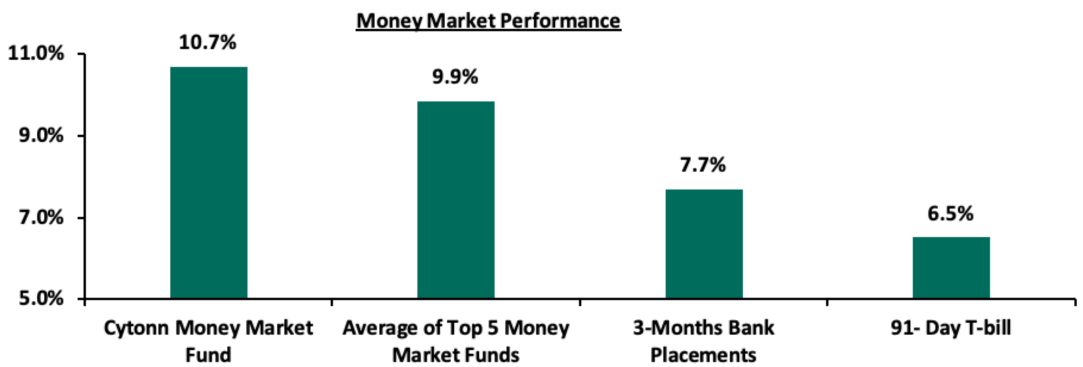
Role of Trustees in the Capital Markets in Kenya, & Cytonn Weekly #31/2021

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 99.8%, an increase from the 69.6% recorded the previous week. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 6.1 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 152.3%, a decline from the 252.1% recorded the previous week. Investors' continued interest in the 91-day paper during the week is mainly attributable to the paper's higher return on a risk adjusted basis. The subscription rate for the 182-day paper increased to 150.2%, from 32.1% recorded the previous week, receiving bids worth Kshs 15.0 bn against the offered amounts of Kshs 10.0 bn, while the subscription rate for the 364-day paper declined to 28.3%, from 34.0% recorded the previous week, receiving bids worth Kshs 5.6 bn against the offered amount of Kshs 10.0 bn. The yields on the 91-day and 182-day papers increased by 2.7 bps and 8.0 bps to 6.5% and 7.0%, respectively, while the yields on the 364-day paper declined by 2.7 bps to 7.4%. The government continued to take advantage of the low yields and the high liquidity in the market by accepting Kshs 22.9 bn out of the Kshs 23.9 bn worth of bids received, translating to an acceptance rate of 95.8%.



In the money markets, 3-month bank placements ended the week at 7.7% (based on what we have been offered by various banks), while the yield on the 91-day T-bill increased by 2.7 bps to 6.5%. The average yield of the Top 5 Money Market Funds increased marginally by 0.1% points to 9.9%, from the 9.8% recorded the previous week. The yield on the Cytonn Money Market Fund increased marginally by 0.1% points to 10.7%, from 10.6% recorded last week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 6th August 2021:

Money Market Fund Yield for Fund Managers as published on 6th August 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
1	Cytonn Money Market Fund	10.16%	10.70%
2	Nabo Africa Money Market Fund	9.52%	9.95%
3	Zimele Money Market Fund	9.56%	9.91%
4	Madison Money Market Fund	8.98%	9.40%
5	CIC Money Market Fund	8.99%	9.31%
6	Sanlam Money Market Fund	8.85%	9.25%
7	Co-op Money Market Fund	8.35%	8.71%
8	GenCap Hela Imara Money Market Fund	8.35%	8.71%
9	Dry Associates Money Market Fund	8.34%	8.66%
10	Orient Kasha Money Market Fund	8.28%	8.60%
11	British-American Money Market Fund	8.20%	8.51%
12	ICEA Lion Money Market Fund	8.01%	8.34%
13	NCBA Money Market Fund	8.02%	8.32%
14	Apollo Money Market Fund	8.40%	8.27%
15	Old Mutual Money Market Fund	7.11%	7.35%
16	AA Kenya Shillings Fund	6.58%	6.79%

Liquidity:

The money markets remained liquid during the week, with the average interbank rate coming in at 3.2%, similar to what was recorded the previous week, partly attributable to tax remittances which offset government payments. The average interbank volumes increased by 142.5% to Kshs 9.9 bn, from Kshs 4.1 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded mixed performance, with the yields on the 10-year bond issued in 2018 and 7-year bond issued in 2019 increasing to 5.3%, and 4.8% respectively, from 5.2% and 4.6% recorded the previous week, while the yield on the 30-year bond issued in 2018 and the 12-year bond issued in 2019 remained unchanged at 7.3% and 6.2%, respectively. On the other hand, the yields on the 10-year bond issued in 2014 and 12-year bond issued in 2021 declined to 3.2% and 6.1% from 3.3% 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-2020	3.9%	5.2%	7.0%	4.9%	5.9%	-
30-Jul-21	3.3%	5.2%	7.3%	4.6%	6.2%	6.2%
2-Aug-21	3.3%	5.3%	7.3%	4.8%	6.2%	6.2%
3-Aug-21	3.3%	5.4%	7.3%	4.8%	6.1%	6.1%

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**
4-Aug-21	3.2%	5.3%	7.3%	4.8%	6.1%	6.1%
5-Aug-21	3.2%	5.3%	7.3%	4.8%	6.2%	6.1%
6-Aug-21	3.2%	5.3%	7.3%	4.8%	6.2%	6.1%
Weekly Change	**(0.1%)**	**0.1%**	**0.0%**	**0.2%**	**0.0%**	**(0.1%)**
MTD Change	**(0.1%)**	**0.1%**	**0.0%**	**0.2%**	**0.0%**	**(0.1%)**
YTD Change	**(0.7%)**	**0.1%**	**0.3%**	**(0.1%)**	**0.3%**	**-**

Source: Reuters

Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.1% against the US dollar to close the week at Kshs 108.7, from Kshs 108.6 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 0.4% 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 0.2% points to 5.4% of GDP in the 12 months to June 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.

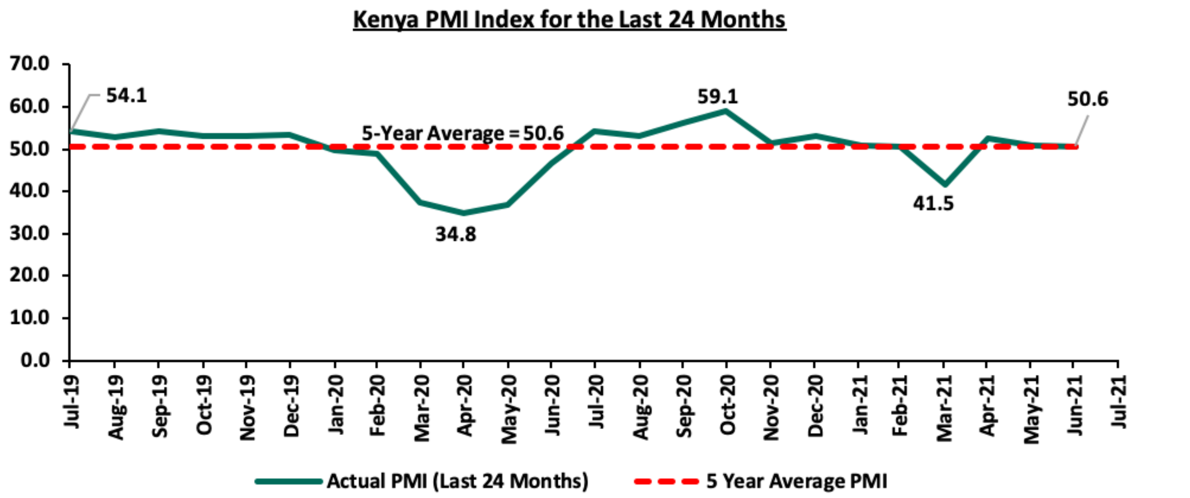
The shilling is however expected to be supported by:

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 Highlight:

Stanbic PMI Index July 2021

The headline Purchasing Managers' Index (PMI) for the month of July 2021 decreased to 50.6 from the 51.0 recorded in June 2021, which was a second decline in a row, indicating that the business conditions in the Kenyan private sector recorded an expansion but at a slower rate than that seen in June 2021. The expansion in the business conditions is attributable to an improvement observed in sectors such as construction, agriculture and services which recorded growth in new orders and output. However, there was an increase in input and output cost which was attributable to the increase in oil prices and the introduction of new taxes in the month of July. 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*

In line with the decline of the PMI index reading for the month of July 2021, we maintain a cautious outlook in the short-term owing to the increasing cost pressures, slowing sales growth and more worryingly, concerns of an uptick in Covid-19 infections. The discovery of new variants, especially the Delta variant, which is more easily transmissible might lead to another wave of infections and more restrictions that will affect the business environment.

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 government as they reject expensive bids. The government is 9.1% ahead its prorated borrowing target of Kshs 76.0 bn having borrowed Kshs 82.9 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.
