

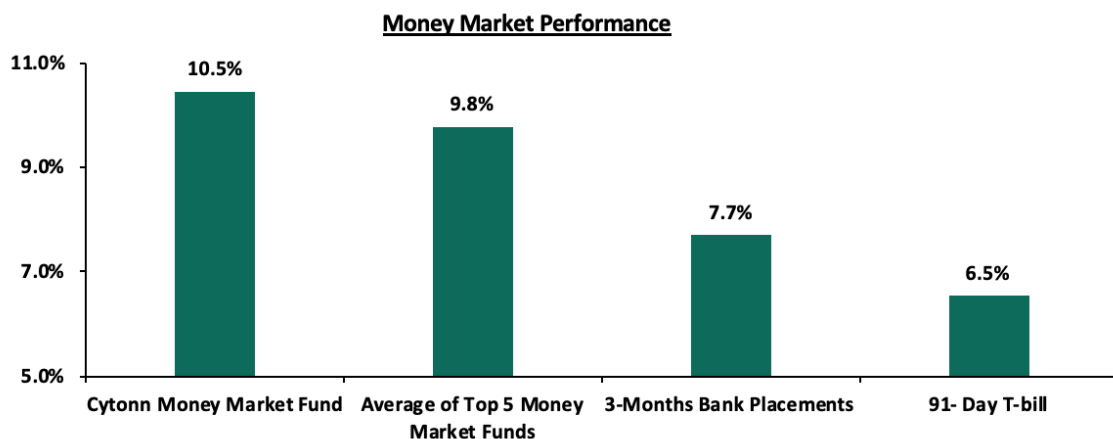
# Proposed Crowdfunding Regulations in Kenya, & Cytonn Weekly #32/2021

## 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 29.3%, a decrease from the 99.8% recorded the previous week attributable to the concurrent primary bonds issue. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 2.8 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 70.3%, a decline from the 152.3% 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 declined to 31.3%, from 150.2% recorded the previous week, while the subscription rate for the 364-day paper also declined to 10.9%, from 28.3% recorded the previous week. The yields on the 91-day and 182-day papers increased by 1.4 bps and 7.1 bps to 6.5% and 7.1%, respectively, while the yield on the 364-day paper remained unchanged at 7.4%. The government continued to take advantage of the low yields and the high liquidity in the market by accepting Kshs 7.01 bn out of the Kshs 7.04 bn worth of bids received, translating to an acceptance rate of 99.6%.

In the Primary Bond Market, the three bonds offered by the government for the month of August recorded an oversubscription of 174.4% attributable to the high liquidity in the market and the demand by investors for higher yields which are only in the longer dated bonds. The government sought to raise Kshs 60.0 bn and accepted Kshs 80.3 bn out of the Kshs 104.6 bn worth of bids received, translating to an acceptance rate of 76.7%. Investors preferred the longer dated paper, FXD1/2021/20 which received bids worth Kshs 43.5 bn, FXD3/2019/10 received bids worth Kshs 38.3 bn while FXD1/2018/20 received bids worth Kshs 22.8 bn. The coupons for the bonds were 11.5%, 13.2% and 13.4%, and the weighted average yield rates during the issues were 12.3%, 13.3% and 13.5% for FXD3/2019/10, FXD1/2018/20 and FXD1/2021/20, respectively.



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 1.4 bps to 6.5%. The average yield of the Top 5 Money Market Funds declined marginally by 0.1% points to 9.8%, from the 9.9% recorded the previous week. The yield on the Cytonn Money Market Fund declined by 0.2% points to 10.5%, from 10.7% recorded last week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 13<sup>th</sup> August 2021:

**Money Market Fund Yield for Fund Managers as published on 13<sup>th</sup> August 2021**

<b>Rank</b>	<b>Fund Manager</b>	<b>Daily Yield</b>	<b>Effective Annual Rate</b>
1	Cytonn Money Market Fund	9.94%	10.45%
2	Nabo Africa Money Market Fund	9.52%	9.95%
3	Zimele Money Market Fund	9.56%	9.91%
4	Madison Money Market Fund	8.96%	9.38%
5	CIC Money Market Fund	8.80%	9.20%
6	Sanlam Money Market Fund	8.73%	9.04%
7	Co-op Money Market Fund	8.34%	8.70%
8	GenCap Hela Imara Money Market Fund	8.33%	8.65%
9	Dry Associates Money Market Fund	8.26%	8.61%
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	8.02%	8.32%
13	NCBA Money Market Fund	7.99%	8.31%
14	Apollo Money Market Fund	8.40%	8.27%
15	Old Mutual Money Market Fund	6.99%	7.22%
16	AA Kenya Shillings Fund	6.57%	6.77%

**Liquidity:**

During the week, liquidity in the money markets eased further, with the average interbank rate declining by 0.5% points to 2.8% from 3.2% recorded the previous week, partly attributable to government payments, including term auction deposits maturities of Kshs 74.5 bn which offset the settlements of government securities and tax remittances. The average interbank volumes increased by 31.7% to Kshs 13.1 bn, from Kshs 9.9 bn recorded the previous week.

**Kenya Eurobonds:**

During the week, the yields on Eurobonds remained relatively unchanged, with the yields on the 10-year bond issued in 2018, 30-year bond issued in 2018, 7-year bond issued in 2019, and, 12-year bond issued in 2019 remaining unchanged at 5.3%, 7.3%, 4.8%, and 6.2%, respectively, similar to what was recorded the previous week. On the other hand, the yields on the 10-year bond issued in 2014 and 12-year bond issued in 2021 both declined by 0.1% points to 3.1% and 6.1%, respectively. Below is a summary of the performance:

## 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-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%
6-Aug-21	3.2%	5.3%	7.3%	4.8%	6.2%	6.1%
9-Aug-21	3.2%	5.3%	7.3%	4.8%	6.2%	6.1%
10-Aug-21	3.1%	5.3%	7.3%	4.8%	6.2%	6.2%
11-Aug-21	3.1%	5.3%	7.3%	4.8%	6.2%	6.1%
12-Aug-21	3.1%	5.3%	7.3%	4.8%	6.2%	6.1%
13-Aug-21	3.1%	5.3%	7.3%	4.8%	6.2%	6.1%
<b>Weekly Change</b>	<b>(0.1%)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>(0.1%)</b>
<b>MTD Change</b>	<b>(0.1%)</b>	<b>(0.1%)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>(0.1%)</b>
<b>YTD Change</b>	<b>(0.8%)</b>	<b>0.1%</b>	<b>0.3%</b>	<b>(0.1%)</b>	<b>0.3%</b>	<b>-</b>

Source: Reuters

### Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.4% against the US dollar to close the week at Kshs 109.2, from Kshs 108.7 recorded the previous week, mainly due to increased dollar demand especially from the energy sector outweighing the supply of dollars from exporters. On a YTD basis, the shilling has remained unchanged similar to the Kshs 109.2 recorded at the start of the year, in comparison to the 7.7% depreciation recorded in 2020. Despite the appreciation against the US Dollar for the better part of the year, we expect the shilling to remain under pressure for the remainder of 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 energy importers as they beef up their hard currency positions in the prevailing rise in global oil prices.

The shilling is however expected to be supported by:

- i. The Forex reserves, currently at USD 9.3 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

#### I. Monthly 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 15<sup>th</sup> August 2021 to 14<sup>th</sup> September 2021. Below are the key take-outs from the statement:

- The price of Super Petrol, Diesel and Kerosene remained unchanged at Kshs 127.1 per litre, Kshs 107.7 per litre, and Kshs 97.9 per litre, respectively, despite increased landed cost of imported crude. Notably, this is the fifth consecutive month that the Diesel and Kerosene prices have remained unchanged,
- Below is the summary of the performance of the imported petroleum during the month;
  - i. The average landed costs for Super Petrol increased by 6.2% to USD 552.4 per cubic meter in July 2021, from USD 520.0 per cubic meter in June 2021,
  - ii. The average landed costs for Diesel increased by 7.4% to USD 514.3 per cubic meter in July 2021, from USD 479.0 per cubic meter in June 2021,
  - iii. The average landed costs for Kerosene increased by 9.8% to USD 493.5 per cubic meter in July 2021, from USD 449.4 per cubic meter in June 2021,
  - iv. The Free on Board (FOB) price of Murban crude oil increased by 5.3% in July 2021 to USD 66.7 per barrel, from USD 63.4 per barrel in June 2021, and,
  - v. The Kenyan shilling depreciated by 0.4% against the dollar to close at Kshs 108.3 in July 2021, from Kshs 107.8 in June 2021.

We expect the upward pressure on the inflation basket going forward to remain muted given the stabilizing global oil prices – the prices have declined by 4.7% in the first half of the month of August 2021, compared to a 46.5% increase in H1'2021. Further, the global oil prices are expected to remain stable due to (i) increased supply from non-OPEC oil producing countries, and, (ii) slowdown in global economy recovery and (iii) a slower demand growth due to the new COVID-19 variants and related restrictions.

***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 79.1% ahead its prorated borrowing target of Kshs 88.6 bn having borrowed Kshs 158.8 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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