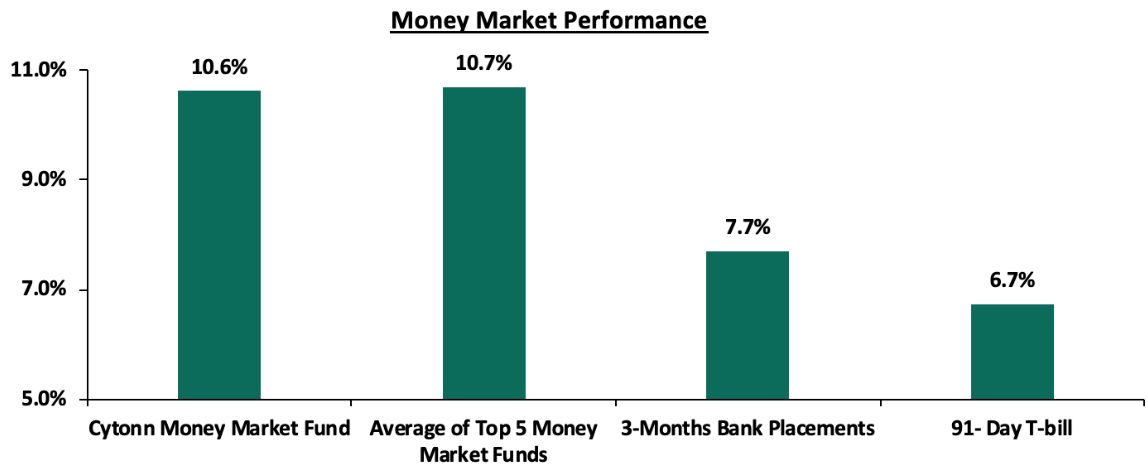
Regulatory response to Real Estate Funds in Kenya during COVID-19, & Cytonn Weekly #34/2021

Fixed Income

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

During the week, T-bills were undersubscribed, with the overall subscription rate coming in at 36.5%, a decline from the 118.2% recorded the previous week attributable to the tightened liquidity in the market as evidenced by the interbank rate increasing by 0.6% points to 3.5% from 2.9% recorded the previous week. The 364-day paper recorded the highest subscription rate, receiving bids worth Kshs 5.0 bn against the offered Kshs 10.0 bn, translating to a subscription rate of 49.6%, an increase from the 10.0% recorded the previous week. The renewed interest in the 364-day paper is mainly attributable to investors' hunt for higher yields. The subscription rate for the 182-day and the 91-day papers declined to 20.2% and 44.2%, from 152.3% and 118.2% recorded the previous week, respectively. The yields on the 91-day, 182-day and 364-day papers increased by 14.2 bps, 9.1 bps and 7.2 bps to 6.7%, 7.2% and 7.6%, respectively. The government continued to reject expensive bids by accepting Kshs 7.8 bn out of the Kshs 8.8 bn of bids received, translating to an acceptance of 89.4%.



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 14.2 bps to 6.7%. The average yield of the Top 5 Money Market Funds increased by 0.9% points to 10.7% from 9.8% recorded the previous week. The yield on the Cytonn Money Market Fund declined by 0.1% points to 10.6%, from 10.7% recorded last week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 27th August 2021:

Money Market Fund Yield for Fund Managers as published on 27 August 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
1	Cytonn Money Market Fund	10.10%	10.63%
2	Nabo Africa Money Market Fund	9.52%	9.95%
3	Zimele Money Market Fund	9.56%	9.91%
4	Madison Money Market Fund	8.92%	9.33%
5	Sanlam Money Market Fund	8.74%	9.14%
6	CIC Money Market Fund	8.69%	8.99%
7	Apollo Money Market Fund	9.10%	8.95%
8	Dry Associates Money Market Fund	8.36%	8.69%
9	GenCapHela Imara Money Market Fund	8.32%	8.68%
10	Co-op Money Market Fund	8.19%	8.54%
11	Orient Kasha Money Market Fund	8.18%	8.50%
12	British-American Money Market Fund	8.14%	8.48%
13	ICEA Lion Money Market Fund	8.01%	8.36%
14	NCBA Money Market Fund	8.02%	8.33%
15	Old Mutual Money Market Fund	6.97%	7.20%
16	AA Kenya Shillings Fund	6.58%	6.78%

Liquidity:

During the week, liquidity in the money markets tightened, with the average interbank rate increasing by 0.6% points to 3.5% from 2.9% recorded the previous week, partly attributable to tax remittances and bond outflows which offset government payments. The average interbank volumes declined by 21.9% to Kshs 7.5 bn, from Kshs 9.6 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 2014, 30-year bond issued in 2018, the 7-year bond issued in 2019, the 12-year bond issued in 2019, and, the 12-year bond issued in 2021 remaining unchanged at 3.1%, 7.3%, 4.8%, 6.2%, and 6.1%, respectively. On the other hand, the yield on the 10-year bond issued in 2018, declined by 0.1% points to 5.2% from 5.3% recorded the previous week. 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-Jul-21	3.3%	5.2%	7.3%	4.6%	6.2%	6.2%
20-Aug-21	3.1%	5.3%	7.3%	4.8%	6.2%	6.1%
23-Aug-21	3.2%	5.3%	7.3%	4.8%	6.2%	6.1%

Kenya Eurobond Performance

	2014	2018		2019		2021
24-Aug-21	3.1%	5.2%	7.0%	4.8%	6.2%	6.1%
25-Aug-21	3.1%	5.2%	7.3%	4.8%	6.2%	6.1%
26-Aug-21	3.1%	5.2%	7.3%	4.8%	6.2%	6.1%
27-Aug-21	3.1%	5.2%	7.3%	4.8%	6.2%	6.1%
Weekly Change	**0.0%**	**(0.1%)**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
MTD Change	**(0.2%)**	**(0.2%)**	**(0.1%)**	**0.0%**	**0.0%**	**(0.1%)**
YTD Change	**(3.6%)**	**0.0%**	**0.3%**	**0.0%**	**0.3%**	**-**

Source: Reuters

Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.2% against the US dollar to close the week at Kshs 109.8, from Kshs 109.5 recorded the previous week, mainly attributable to increased dollar demand from commodity and the energy sector importers which outweighed the supply of dollars from exporters. On a YTD basis, the shilling has depreciated by 0.6% against the dollar, in comparison to the 7.7% depreciation recorded in 2020. 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.

The shilling is however expected to be supported by:

i. The Forex reserves, currently at USD 9.0 bn (equivalent to 5.5 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 14.7% y/y increase to USD 372.6 mn in July 2021, from USD 317.8 mn recorded over the same period in 2020, which has continued to cushion the shilling against further depreciation.

Weekly Highlight

I. August Inflation Projection

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

i. The stable fuel prices in the period mid-August to mid-September 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 fuel cost charge (FCC) for electricity bills in August to Kshs 3.8 per Kilowatt hour (KWh) from Kshs 3.3 per Kilowatt hour (KWh) in July. The readjustment will increase the cost of electricity consumption for households, and,

iv. Upward readjustment of the domestic use water tariffs to Kshs 5.0 per cubic meter from Kshs 0.5 per cubic meter to Kshs 5.0 per cubic meter. The readjustment will increase the cost of water bills for households.

Going forward, we expect the inflation rate to remain within the government set range of 2.5% - 7.5%, even though there remains concerns on the impact of the recent increase in tariffs and taxes. Additionally, we expect the government will employ measures to manage the cost of items so as to be within the terms of the IMF Credit facility agreement entered into in February 2021, which gave conditions for a target inflation. There is also a risk of high inflation from the recently issued communication by KRA on inflation adjustment on Specific Rates of Excise Duty effective 1st October 2021. The new rates are expected to cause an upward pressure on the inflation rate in the coming months, as the burden will be passed to the consumers.

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 40.8% ahead its prorated borrowing target of Kshs 114.0 bn having borrowed Kshs 160.5 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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