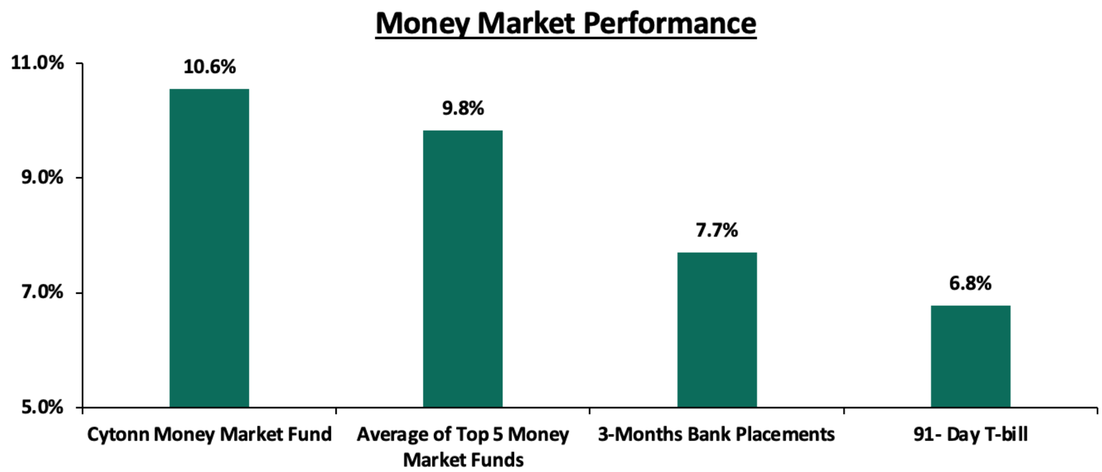
Kenya Listed Banks H1'2021 Report, & Cytonn Weekly #36/2021

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 72.6%, down from the 99.5% recorded the previous week. The continued undersubscription of T-bills can be attributed to the fact that investors are shifting to the bond market in search for higher yields. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 6.9 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 172.5%, an increase from the 100.8% recorded the previous week. The subscription rate for the 182-day and the 364-day papers declined to 77.0% and 28.3%, from 99.5% and 98.9% recorded the previous week, respectively. The yields on the 91-day, 182-day and 364-day papers increased by 0.7 bps, 2.7 bps and 26.0 bps to 6.8%, 7.3% and 7.8%, respectively. The government accepted all the Kshs 17.4 bn worth of bids received, translating to an acceptance rate of 100.0%.

In the Primary Bond Market, the 21-year infrastructure bond, IFB1/2021/021, recorded an oversubscription of 201.7%. The government sought to raise Kshs 75.0 bn for funding of infrastructure projects in the FY'2021/22 budget estimates, received bids worth Kshs 151.3 bn and accepted bids worth Kshs 106.8 bn, translating to an acceptance rate of 70.6%. The high subscription rate is mainly attributable to the tax free incentive for infrastructure bonds which translates to a higher return. The coupon for the bond was market weighted which is to be the weighted average yield rate of the issue and it came in at 12.7%.



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 0.7 bps to 6.8%. The average yield of the Top 5 Money Market Funds declined by 0.1% points to 9.8%, from the 9.9% recorded the previous week. The yield on the Cytonn Money Market Fund also 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

10th September 2021:

Money Market Fund Yield for Fund Managers as published on 10th September 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
1	Cytonn Money Market Fund	10.03%	10.55%
2	Nabo Africa Money Market Fund	9.70%	10.18%
3	Zimele Money Market Fund	9.56%	9.91%
4	Sanlam Money Market Fund	8.98%	9.39%
5	Madison Money Market Fund	8.76%	9.16%
6	CIC Money Market Fund	8.70%	9.00%
7	Apollo Money Market Fund	9.10%	8.95%
8	Dry Associates Money Market Fund	8.43%	8.76%
9	Orient Kasha Money Market Fund	8.35%	8.71%
10	Co-op Money Market Fund	8.33%	8.69%
11	GenCapHela Imara Money Market Fund	8.26%	8.61%
12	British-American Money Market Fund	8.20%	8.51%
13	ICEA Lion Money Market Fund	8.02%	8.35%
14	NCBA Money Market Fund	8.02%	8.33%
15	Old Mutual Money Market Fund	7.38%	7.14%
16	AA Kenya Shillings Fund	6.53%	6.72%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets tightened, with the average interbank rate increasing by 0.3% points to 3.6% from 3.3% recorded the previous week, attributable to tax remittances which offset government payments made during the week. The average interbank volumes increased by 21.8% to Kshs 13.7 bn, from Kshs 11.2 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on all Eurobonds increased, with the yields on the 30-year bond issued in 2018, the 10-year bond issued in 2018, the 7-year bond issued in 2019, and the 12-year bond issued in 2019 all increasing by 10.0 bps to close the week at 7.2%, 5.0%, 4.7%, and 6.1% respectively. The 12-year bond issued in 2021 and the 10-year bond issued in 2014 both increased by 20.0 bps to close the week at 6.1% and 3.3%, 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%	-
31-Aug-21	3.1%	5.0%	7.1%	4.6%	6.0%	5.9%

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**
3-Sep-21	3.1%	4.9%	7.1%	4.6%	6.0%	5.9%
6-Sep-21	3.1%	4.9%	7.1%	4.6%	6.0%	5.9%
7-Sep-21	3.1%	4.9%	7.1%	4.7%	6.1%	6.0%
8-Sep-21	3.1%	5.0%	7.1%	4.7%	6.1%	6.0%
9-Sep-21	3.1%	5.0%	7.2%	4.7%	6.1%	6.1%
10-Sep-21	3.3%	5.0%	7.2%	4.7%	6.1%	6.1%
Weekly Change	**0.2%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.2%**
MTD Change	**0.0%**	**0.0%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**
YTD Change	**(0.9%)**	**(0.2%)**	**0.2%**	**(0.1%)**	**0.2%**	**-**

Source: Reuters

Kenya Shilling:

During the week, the Kenyan shilling appreciated marginally by 0.1% against the US dollar to close the week at Kshs 109.9, from Kshs 110.0 recorded the previous week, mainly attributable to the lacklustre dollar demand from general importers. 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 0.5% points to 5.4% of GDP in the 12 months to August 2021 from 4.9% 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 elevated global oil prices.

The shilling is however expected to be supported by:

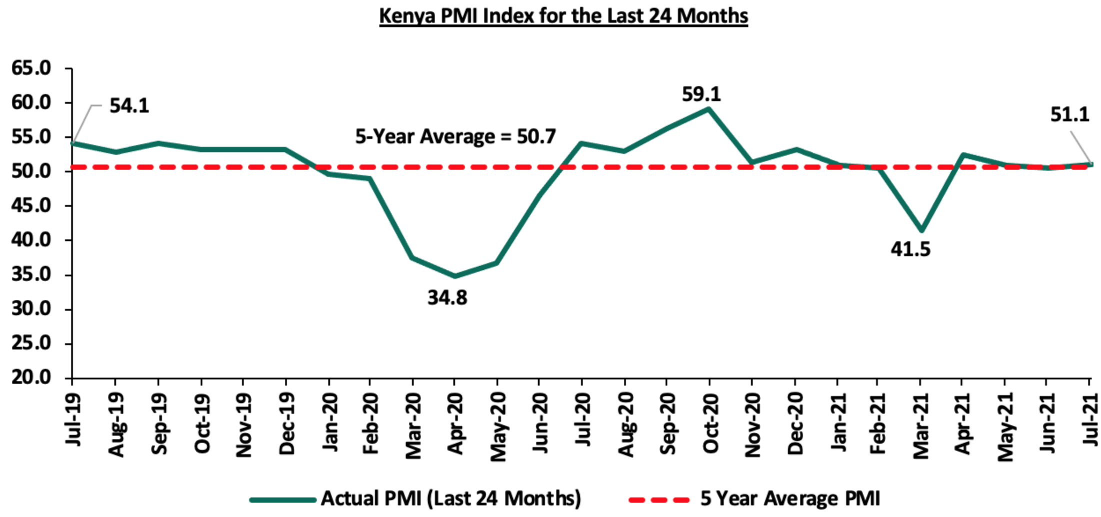
i. The Forex reserves, currently at USD 9.6 bn (equivalent to 5.9 months of import cover), which is above the statutory requirement of maintaining at least 4.0 months of import cover, and the EAC region's convergence criteria of 4.5-months of import cover, and,
ii. Improving diaspora remittances evidenced by a 21.6% y/y increase to USD 336.7 mn in July 2021, from USD 277.0 mn recorded over the same period in 2020, which has continued to cushion the shilling against further depreciation.

Weekly Highlight

I. **Stanbic Bank's Monthly Purchasing Manager's Index (PMI)**

The headline Purchasing Manager's Index (PMI) for the month of August increased to 51.1 from 50.6 recorded in the month of July 2021, indicating that the business conditions in the Kenyan private sector recorded an expansion. Output levels continued to expand, but at a slower pace compared to

July, an indication that some businesses lacked the capacity to keep up with the growth in demand. The chart below summarizes 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 increase of the PMI index reading for the month of August 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.

II. **KNBS Economic Survey 2021**

During the week, the Kenya National Bureau of Statistics (KNBS) released the Economic Survey 2021, indicating that the economy contracted by 0.3% in 2020, from the restated 5.0% growth recorded in 2019. The contraction is mainly attributable to the slowdown in economic activities due to emergence of the COVID-19 pandemic which resulted in sharp declines in demand and supply of goods and services. The contraction was spread across all sectors of the economy but the sectors that were hard hit included the accommodation and food serving activities, education, and professional and administrative services. Some of the key observations made were;

i. The agriculture, forestry and fishing activities grew at a faster rate of 4.6% compared to the 2.3% growth recorded in 2019. This was despite a contraction in global demand in 2020 due to the prevailing economic situation brought about by the pandemic,
ii. Growth in the manufacturing sector was slower in 2020, recording a 0.2% growth, down from the 2.8% growth recorded in 2019. The lower growth is attributed to declines in some sub-sectors such as; manufacture of leather and leather related products, beverages, motor vehicle, trailers and semi-trailers, and dairy products. These declines were however mitigated by increased production in sugar, tea, cement, chemical and chemical products, and pharmaceutical products,
iii. Tourism earnings declined by 43.9% to Kshs 91.7 bn in 2020, from Kshs 163.6 bn in 2019 as hotel bed-night occupancy contracted by 58.0% to 3.8 mn from 9.2 mn in 2019. The number of international visitor arrivals declined drastically by 71.5% to 0.6 mn from 2.0 mn in 2019, and,
iv. The Central Bank of Kenya (CBK) reviewed the Central Bank Rate (CBR) downwards during the year by 1.3% points to 7.0% April from 8.3% in December 2019. The downward revision was to help cushion the banking system from adverse effects of the COVID-19 pandemic. During the review period, there was a general decline in the interest rates as the lending rate for commercial banks' loans and advances reduced to 12.0% in December 2020, from 12.2% in December 2019 while the average deposit rate reduced to 6.3% in 2020 from 7.1% in 2019.

Some other key highlights from the report include:

i. **Public Debt**: Total stock of public debt rose by 14.3% to Kshs 6,057.8 bn in 2020 from 5,301.6 bn in 2019, with public external debt accounting for 55.3% of the total debt. In 2020/21 a total of Kshs 713.3 bn is expected to be spent on servicing public debt,
ii. **Employment**: During the year, total employment outside small-scale agriculture and pastoral activities stood at 17.4 mn, down from 18.1 mn recorded in 2019. During the review period, informal sector employment is estimated to have contracted to 14.5 mn jobs,
iii. **Money Supply**: Broad money supply increased to Kshs 3,990.9 bn in December 2020 from Kshs 3,524.0 in December 2019. Total domestic credit grew by 50.9% to Kshs 1,358.4 bn compared to a growth of 4.8% seen in 2019,
iv. **Liquidity**: Quasi money, money supply (M2), broad money supply (M3), and overall liquidity grew by 10.9%, 11.9%, 13.2%, and 16.6% respectively in the review period,
v. **Imports & Exports**: Total exports increased by 7.9% to Kshs 643.7 bn in 2020, from Kshs 596.7 bn in 2019, mainly on account of increased value of domestic exports. As a result, the balance of trade narrowed by 17.3% to a deficit of Kshs 999.9 bn in 2020, from 1,209.7 bn in 2019. The total value of trade transactions declined to Kshs 2,287.3 bn, from Kshs 2,403.0 bn in 2019, and,
vi. **Balance of Payments**: The overall Balance of Payment position deteriorated to a deficit of Kshs 152.5 bn, from a surplus of Kshs 111.4 bn in 2019, this was partly attributable to the depreciation of the Kenyan Shilling against major currencies in 2020, and,
vii. **Current Account**: The current account balance improved to a deficit of Kshs 491.7 bn in 2020, from a deficit of Kshs 539.2 bn in 2019. The current account deficit as a percentage of GDP came in at 4.6% in 2020.

The tourism and hospitality sector recorded reduced activities following the containment measures leading to a 47.7% decline in food and accommodation services in 2020. We expect Kenya’s economy to rebound in 2021, with a projected growth rate of 4.0%-4.5%, driven by the upturn in economic activities following the reopening of the services sectors including education, the recovery in manufacturing, and stronger global demand. Given the uneven vaccine distribution, we believe there are risks abound this economic rebound as more strains of the virus continue to be discovered. The other key challenge shall be the performance of the Agriculture sector given the adverse weather being witnessed currently. It is worth noting that the KNBS has revised and rebased the national accounts with the base year changing to 2016 from 2009. The rebased nominal GDP for 2020 now stands at Kshs 10.8 tn, from Kshs 10.3 tn in 2019.

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 21.6% ahead of its prorated borrowing target of Kshs 139.3 bn having borrowed Kshs 169.4 bn of the Kshs 658.5 bn borrowing target for the FY’2021/2022. We expect a gradual economic recovery going into FY’2021/2022 as evidenced by the KRA July collections of Kshs 267.1 bn compared to the monthly prorated amount of Kshs 266.0 bn. 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.