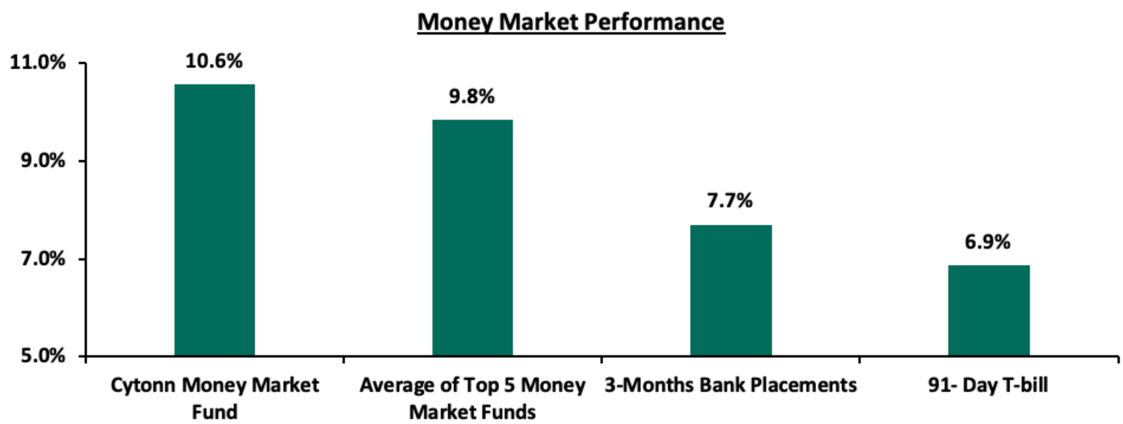
The Draft CMA Investments Regulations 2021, & Cytonn Weekly #37/2021

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills remained undersubscribed, with the overall subscription rate coming in at 54.6%, down from the 72.6% recorded the previous week. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 3.3 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 83.8%, a decrease from the 172.5% recorded the previous week. The subscription rate for the 182-day paper declined to 68.0%, from 77.0%, while that of the 364-day paper increased slightly to 29.5%, from the 28.3% recorded the previous week. The yields on the 91-day and 364-day papers increased by 8.9 bps and 6.8 bps to 6.9% and 7.8%, respectively, while the yields on the 182-day paper declined by 0.3 bps to 7.3%. The government accepted all the Kshs 13.1 bn worth of bids received, translating to an acceptance rate of 100.0%.



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 8.9 bps to 6.9%. The average yield of the Top 5 Money Market Funds remained at 9.8%, as was recorded the previous week. The yield on the Cytonn Money Market Fund also remained unchanged at 10.6% as was recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 17th September 2021:

Money Market Fund Yield for Fund Managers as published on 17th September 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
1	Cytonn Money Market Fund	10.05%	10.57%
2	Nabo Africa Money Market Fund	9.70%	10.18%

Money Market Fund Yield for Fund Managers as published on 17th September 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
3	Zimele Money Market Fund	9.56%	9.91%
4	Sanlam Money Market Fund	9.09%	9.51%
5	Madison Money Market Fund	8.61%	9.06%
6	CIC Money Market Fund	8.69%	8.99%
7	Apollo Money Market Fund	9.10%	8.95%
8	GenCapHela Imara Money Market Fund	8.45%	8.82%
9	Orient Kasha Money Market Fund	8.37%	8.73%
10	Co-op Money Market Fund	8.32%	8.68%
11	Dry Associates Money Market Fund	8.31%	8.64%
12	British-American Money Market Fund	8.18%	8.49%
13	ICEA Lion Money Market Fund	8.02%	8.35%
14	NCBA Money Market Fund	8.02%	8.32%
15	Old Mutual Money Market Fund	7.80%	8.09%
16	AA Kenya Shillings Fund	6.56%	6.76%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets tightened, with the average interbank rate increasing by 0.5% points to 4.1%, from 3.6% recorded the previous week, partly attributable to the banks trading cautiously in the interbank market in order to meet their CRR requirements for the cycle ending 14th September. The average interbank volumes increased by 21.6% to Kshs 17.2 bn, from Kshs 13.7 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded mixed performance, with the yields on the 7-year bond issued in 2019 increasing by 0.1% points to 4.8%. Yields on the 10-year bond issued in 2018, 30-year bond issued in 2018, 12-year bond issued in 2019 and 12-year bond issued in 2021 remained unchanged at 5.0%, 7.2%, 6.2% and 6.1%, respectively. On the other hand, the yields on the 10-year bond issued in 2014 declined by 0.1% points to 3.0%. 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%
10-Sep-21	3.1%	5.0%	7.2%	4.7%	6.2%	6.1%
13-Sep-21	3.1%	5.1%	7.2%	4.7%	6.2%	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**
14-Sep-21	3.0%	5.1%	7.2%	4.7%	6.2%	6.0%
15-Sep-21	3.1%	5.1%	7.2%	4.7%	6.2%	6.0%
16-Sep-21	3.0%	5.0%	7.2%	4.8%	6.2%	6.1%
Weekly Change	**(0.1%)**	**0.0%**	**0.0%**	**0.1%**	**0.0%**	**0.0%**
MTD Change	**(0.1%)**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**
YTD Change	**(0.9%)**	**(0.2%)**	**0.2%**	**(0.1%)**	**0.3%**	**-**

Source: CBK Weekly Bulletin

Kenya Shilling:

During the week, the Kenyan shilling depreciated marginally by 0.2% against the US dollar to close the week at Kshs 110.1, from Kshs 109.9 recorded the previous week, mainly attributable to increased dollar demand from the energy sector. On a YTD basis, the shilling has depreciated by 0.8% 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 14.2% y/y increase to USD 312.9 mn in August 2021, from USD 274.1 mn recorded over the same period in 2020, which has continued to cushion the shilling against further depreciation.

Weekly Highlight

I. **Fuel Prices**

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the Maximum wholesale and retail petroleum prices in Kenya effective 15th September 2021 to 14th October 2021. Notably, this was the first time in six months that Diesel and Kerosene prices had increased. Below are the key take-outs from the statement:

- Super Petrol prices increased by 6.0% to Kshs 134.7 per litre, from Kshs 127.1 per litre, while diesel prices increased by 7.4% to Kshs 115.6 per litre, from Kshs 107.7 per litre. Kerosene prices also increased by 13.2% to Kshs 110.8 per litre, from Kshs 97.9 per litre. These are the highest pump prices ever witnessed in the country,

- The performance in fuel prices was attributable to:
    i. Removal of fuel subsidies of Kshs 7.1 on Super Petrol, Kshs 9.9 on Diesel and Kshs 11.4 on Kerosene,
    ii. The increase in the average landed cost for Kerosene by 1.0%, to USD 498.2 per cubic meter in August 2021, from Kshs 493.5 in July 2021,
    iii. The increase in the Free on Board (FOB) price of Murban crude oil in August 2021 by 8.5% to USD 72.3 per barrel, from USD 66.7 per barrel in July 2021, and,
    iv. The Kenyan shilling depreciated by 1.2% against the dollar to close at Kshs 109.9 in August 2021, from Kshs 108.6 in July 2021.

Global fuel prices have also increased by 2.5% in the first two weeks of September 2021, and by 45.9% to USD 73.3 on a YTD basis, from USD 50.2 at the end of 2020. The rise in global prices is attributable to the rise in demand for oil in tandem with the reopening of global economies.

We expect pressure on the inflation basket going forward given the increased fuel prices following the removal of the fuel subsidy under the Petroleum Development levy. The subsidy policy had been very effective in the past couple of months in lowering fuel inflation as prices remained relatively unchanged despite the global fuel prices fluctuations. However, we believe that the stabilization was unsustainable given that the treasury had to compensate the Oil Marketing Companies, a certain amount of what was lost following the subsidy. EPRA has not yet explained the rationale behind the subsidy removal but Parliament has summoned the Cabinet Secretaries (CSs) for Petroleum and Energy on Tuesday on the same. Given the alarming rise in the fuel prices, we believe that this will play a role in the Monetary Policy Committee's (MPC) decision as they meet on 28th September to review the benchmark rate. The main role of the MPC is to maintain price stability. We believe that given the spike in the fuel prices, inflation is likely to edge up in the coming months. We shall be giving a comprehensive view on the monetary policy expectations in the coming week.

II. Revenue and Net Exchequer for FY'2021/2022

During the week, the National Treasury gazetted the revenue and net expenditures for the first two months of FY'2021/2022, ending 31st August 2021. Below is a summary of the performance:

FY'2021/2022 Budget Outturn - As at 31st August 2021

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates	Actual Receipts/Release	Percentage Achieved	Prorated Estimates	% achieved of prorated
Opening Balance		21.3			
Tax Revenue	1,707.4	247.2	14.5%	284.6	86.9%
Non-Tax Revenue	68.2	3.9	5.7%	11.4	34.2%
Total Revenue	**1,775.6**	**272.4**	**15.3%**	**295.9**	**92.0%**
External Loans & Grants	379.7	1.7	0.5%	63.3	2.7%
Domestic Borrowings	1,008.4	200.3	19.9%	168.1	119.2%
Other Domestic Financing	29.3	4.0	13.6%	4.9	81.5%
Total Financing	**1,417.4**	**206.0**	**14.5%**	**236.2**	**87.2%**
Recurrent Exchequer issues	1,106.6	159.0	14.4%	184.4	86.2%

FY'2021/2022 Budget Outturn - As at 31st August 2021

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates	Actual Receipts/Release	Percentage Achieved	Prorated Estimates	% achieved of prorated
CFS Exchequer Issues	1,327.2	186.1	14.0%	221.2	84.1%
Development Expenditure & Net Lending	389.2	32.8	8.4%	64.9	50.5%
County Governments + Contingencies	370.0	29.6	8.0%	61.7	48.0%
Total Expenditure	**3,193.0**	**407.5**	**12.8%**	**532.2**	**76.6%**
Fiscal Deficit excluding Grants	**(379.7)**	**69.2**	**(18.2%)**	**(63.3)**	**(109.3%)**
Total Borrowing	**1,388.1**	**202.0**	**14.6%**	**231.3**	**87.3%**

The key take-outs from the report include:

a. Total revenue collected as at the end of August 2021 amounted to Kshs 272.4 bn, equivalent to 15.3% of the original estimates of Kshs 1,775.6 bn and is 92.0% of the prorated estimates of Kshs 295.9 bn. Cumulatively, Tax revenues amounted to Kshs 247.2 bn, equivalent to 14.5% of the target of Kshs 1,707.4 bn and are 86.9% of the prorated estimates of Kshs 284.6 bn,
b. Total financing amounted to Kshs 206.0 bn, equivalent to 14.5% of the original estimates of Kshs 1,417.4 tn and is 87.2% of the prorated estimates of Kshs 236.2 bn. Additionally, domestic borrowing amounted to Kshs 200.3 bn, equivalent to 19.9% of the original estimates of Kshs 1.0 tn and is 19.2% ahead of the prorated estimates of Kshs 168.1 bn,
c. The total expenditure amounted to Kshs 407.5 bn, equivalent to 12.8% of the original estimates of Kshs 3,193.0 bn, and is 76.6% of the prorated expenditure estimates of Kshs 532.2 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 159.0 bn, equivalent to 14.4% of the original estimates and 86.2% of the prorated estimates of Kshs 184.4 bn, and development expenditure amounted to Kshs 32.8 bn, equivalent to 8.4% of the original estimates of Kshs 389.2 bn and is 50.5% of the prorated estimates of Kshs 64.9 bn,
d. Consolidated Fund Services (CFS) Exchequer issues lagged behind their target of Kshs 1,327.2 bn after amounting to Kshs 186.1 bn, equivalent to 14.0% of the target, and are at 84.1% of the prorated amount of Kshs 221.2 bn. The cumulative public debt servicing cost amounted to Kshs 162.4 bn which is 13.9% of the original estimates of Kshs 1,169.2 bn, and is 83.2% of the prorated estimates of Kshs 194.9 bn,
e. Total Borrowings as at the end of August 2021 amounted to Kshs 202.0 bn, equivalent to 14.6% of the Kshs 1,388.1 bn target and are 87.3% of the prorated estimates of Kshs 231.3 bn. The cumulative domestic borrowing target of Kshs 1.0 tn comprises of adjusted Net domestic borrowings of Kshs 661.6 bn and Internal Debt Redemptions (Roll-overs) of Kshs 346.8 bn.

The strong revenue performance in the first two months of the current fiscal year is commendable and can be attributed to both the economic recovery as the Covid-19 measures are relaxed and the effectiveness of the KRA in tax collection. Additionally, the implementation of the Finance Act 2021 which brought changes to the Excise Duty Tax, Income Tax as well as the Value Added Tax is set to expand the tax base and consequently enhance revenue collection.

Rates in the fixed income market have remained relatively stable due the sufficient levels of liquidity in the money market. The government is 76.9% ahead of its prorated borrowing target of Kshs 152.0 bn having borrowed Kshs 268.9 bn of the Kshs 658.5 bn borrowing for the FY'2021/2022. We expect a gradual economic recovery going into FY'2021/2022 as

evidenced by KRAs collection of Kshs 247.2 bn in revenues during the first two months of the current fiscal year, which is equivalent to 86.9% of the prorated revenue collection target. 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.
