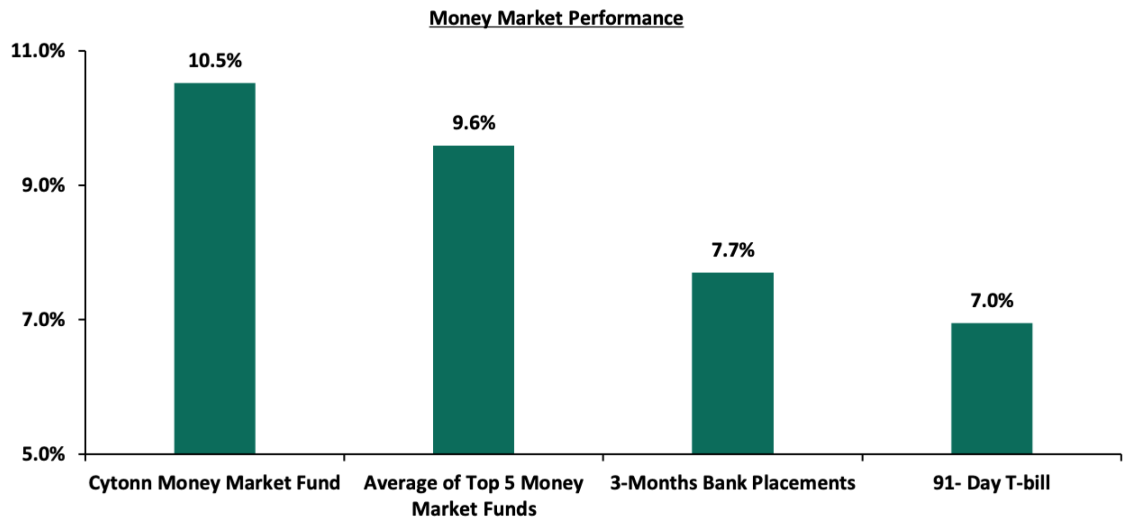
Unit Trust Funds Performance, Q1'2021, & Cytonn Weekly #41/2021

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills remained undersubscribed, with the overall subscription rate coming in at 74.3%, an increase from 40.9% recorded the previous week. The 182-day paper recorded the highest subscription rate, receiving bids worth Kshs 9.0 bn against the offered Kshs 10.0 bn, translating to a subscription rate of 90.1%, a significant increase from 39.6% recorded the previous week. This is attributable to investors' preference for the higher returns on a risk-adjusted basis offered by the paper. The subscription rate for the 91-day paper decreased to 75.4%, from 85.6% recorded the previous week, while the subscription rate for the 364-day paper increased to 58.2%, from 24.4% recorded the previous week. The yields on the 91-day, 182-day and 364-day papers increased by 1.7 bps, 11.2 bps and 19.7 bps to 7.0%, 7.4%, and 8.2%, respectively. The government continued to reject expensive bids, accepting Kshs 16.9 bn out of the 17.8 bn bids received, translating to an acceptance rate of 94.6%.



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 1.7 bps to 7.0%. The average yield of the Top 5 Money Market Funds declined by 0.1% points to 9.6%, from 9.7%, recorded the previous week. The yield on the Cytonn Money Market Fund marginally declined by 0.1% points to 10.5%, from 10.6% recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 15th October:

Money Market Fund Yield for Fund Managers as published on 15th October 2021

Rank	Fund Manager	Daily Yield	Effective Annual Rate
1	Cytonn Money Market Fund	10.00%	10.52%
2	Zimele Money Market Fund	9.56%	9.91%
3	Sanlam Money Market Fund	8.86%	9.27%
4	Nabo Africa Money Market Fund	8.83%	9.23%
5	CIC Money Market Fund	8.71%	9.02%
6	Madison Money Market Fund	8.62%	9.00%
7	Apollo Money Market Fund	9.10%	8.95%
8	Dry Associates Money Market Fund	8.33%	8.65%
9	Co-op Money Market Fund	8.30%	8.65%
10	GenCapHela Imara Money Market Fund	8.19%	8.53%
11	British-American Money Market Fund	8.16%	8.47%
12	ICEA Lion Money Market Fund	8.01%	8.34%
13	NCBA Money Market Fund	8.02%	8.33%
14	Orient Kasha Money Market Fund	7.84%	8.16%
15	Old Mutual Money Market Fund	7.02%	7.25%
16	AA Kenya Shillings Fund	6.51%	6.71%

Source: Business Daily

Liquidity:

During the week, liquidity in the money market eased, with the average interbank rate declining to 4.9% from 6.3% recorded the previous week, attributable to government payments coupled with Term Auction Deposits (TADs) maturities of Kshs 28.2 bn which offset tax remittances and settlement of government securities. Additionally, there was a 13.1% increase in the average volumes traded in the interbank market to Kshs 12.4 bn, from Kshs 11.0 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 2014 and the 10-year bond issued in 2018 increasing by 0.1% points to 3.5% and 5.8% from 3.4% and 5.7% recorded the previous week, respectively, while the 30-year bond issued in 2018 increased by 0.2% points to 8.0%, from 7.8% recorded the previous week. The 7-year bond issued in 2019, 12-year bond issued in 2019 and the 12-year bond issued in 2021 remained unchanged at 5.4%, 6.8% and 6.7%, 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%	-

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
30-Sep-21	3.2%	5.4%	7.5%	5.0%	6.5%	6.5%
8-Oct-21	3.4%	5.7%	7.8%	5.4%	6.8%	6.7%
11-Oct-21	3.5%	5.8%	7.9%	5.4%	6.8%	6.7%
12-Oct-21	3.6%	5.8%	7.9%	5.5%	6.9%	6.7%
13-Oct-21	3.6%	5.8%	8.0%	5.5%	6.9%	6.8%
14-Oct-21	3.5%	5.8%	8.0%	5.4%	6.8%	6.7%
Weekly Change	0.1%	0.1%	0.2%	0.0%	0.0%	0.0%
MTD Change	0.3%	0.4%	0.4%	0.4%	0.3%	0.2%
YTD Change	(0.4%)	0.6%	0.9%	0.6%	0.9%	-

Kenya Shilling:

During the week, the Kenyan shilling depreciated marginally by 0.2% against the US dollar to close the week at Kshs 110.9, from Kshs 110.7 recorded the previous week, mainly attributable to increased dollar demand from the energy sector importers. On a YTD basis, the shilling has depreciated by 1.6% 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. Increased demand from merchandise traders as they beef up their hard currency positions in anticipation for more trading partners reopening their economies globally, and,
c. Rising global crude oil prices on the back of supply constraints at a time when demand is picking up with the easing of COVID-19 restrictions and as economies reopen.

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. In addition, the reserves were boosted by the USD 1.0 bn proceeds from the Eurobond issued in July 2021 coupled with the USD 407.0 mn IMF disbursement and the USD 130.0 mn World Bank loan financing received in June, 2021, 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 Retail Petroleum Prices effective 15th October 2021 to 14th November 2021. Below are the key take-outs from the statement:

- Super Petrol prices decreased by 3.7% to Kshs 129.7 per litre, from Kshs 134.7 per litre, while diesel prices decreased by 4.3% to Kshs 110.6 per litre, from Kshs 115.6 per litre. Kerosene prices also declined by 6.6% to Kshs 103.5 per litre, from Kshs 110.8 per litre, and,
- The changes in fuel prices is attributable to the reinstatement of fuel subsidies of Kshs 6.9 on Super Petrol, Kshs 6.1 on Diesel and Kshs 4.6 on Kerosene, and the decrease in the average landed cost for Kerosene by 4.1%, to USD 477.8 per cubic meter in September 2021, from Kshs 498.2 in August 2021.

However the gains were muted due to the increase in the Free on Board (FOB) price of Murban crude oil in September 2021 by 1.6% to USD 73.5 per barrel, from USD 72.34 per barrel in August 2021 and the 0.7% depreciation of the shilling against the dollar to close at Kshs 110.2 in September 2021, from Kshs 109.5 in August 2021.

Global fuel prices have increased by 7.1% in the first two weeks of September 2021, and by 62.9% to USD 81.8 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.

Going forward, we expect the upward pressure on the inflation basket to be eased given the decline in fuel prices within this cycle. The reinstatement of the subsidy is attributable to the Government's bid to lower the cost of fuel and transport which has had a significant weighting in the country's inflation. The Treasury is expected to use Kshs 18.1 bn which had initially been diverted to support the Standard Gauge Railway (SGR) operations to reinstate the fuel subsidy that had been removed in September this year. In the past, the subsidy policy had been very effective in lowering fuel inflation as prices remained relatively unchanged for five months from April to August this year despite the global fuel prices fluctuations. Following the reinstatement of the subsidy, we expect the treasury to seek an additional Kshs 37.6 mn to meet the budget deficit as a result of reduction of fuel and cooking gas levies and taxes.

II. Kenya Q1'2021 Balance of Payments

The Kenya National Bureau of Statistics released the Q1'2021 Balance of Payments report highlighting that Kenya's balance of payments deteriorated in Q1'2021, coming in at a deficit of Kshs 59.4 bn from a deficit of Kshs 47.4 bn in Q1'2020. The decline was mainly attributable to a 47.1% increase in the Financial Account Deficit to a surplus of Kshs 73.6 bn, from a surplus of Kshs 50.1 bn in Q1'2021, coupled with 16.6% expansion of Current Account Balance to Kshs 142.0 bn, from Kshs 121.7 bn in Q1'2020. The table below shows the breakdown of the various balance of payments components, comparing Q1'2021 and Q1'2020:

Q1'2021 Balance of Payments

Item	Q1'2020	Q1'2021	% Change
Current Account Balance	(121.7)	(142.0)	(16.6%)
Capital Account Balance	2.5	8.0	222.3%
Financial Account Balance	50.1	73.6	47.1%
Net Errors and Omissions	21.8	1.0	(95.5%)
Balance of Payments	(47.4)	(59.4)	(25.3%)

All values in Kshs bns

Key take-outs from the table include;

i. The current account deficit (value of goods and services imported exceeds the value of those exported) expanded by 16.6% to Kshs 142.0 bn, from Kshs 121.7 bn in Q1'2020, mainly attributable to widening of the Merchandise Trade Deficit by 26.9% to Kshs 287.3 bn from Kshs 226.4 bn recorded in Q1’2020,

ii. The financial account deficit (a situation where domestic buyers are purchasing more foreign assets than foreign buyers are purchasing of domestic assets) increased by 47.1% to a surplus of Kshs 73.6 bn, from a surplus of Kshs 50.1 bn in Q1’2021, while the stock of gross official reserves declined by 6.2% to stand at Kshs 847.8 bn, from 903.8 bn in Q1’2020, and,
iii. Consequently, the Balance of Payments (BoP) position deteriorated to a deficit of Kshs 59.4 bn from a deficit of Kshs 47.4 bn in Q1’2020, mainly due to the 47.1% decrease in the financial account deficit, coupled with 16.6% expansion of current account balance to Kshs 142.0 bn, from Kshs 121.7 bn in Q1’2020.

During the period of review, the Kenya shilling remained under pressure, deteriorating by 4.6% y/y to close the quarter at Kshs 109.5 from Kshs 104.7 at the end of Q1’2020. The forex reserves held by the Central Bank of Kenya declined in the same period to close the quarter at USD 7.3 bn, from USD 8.0 bn recorded at the end of Q1’2020. We expect relative stability in the business environment in the coming quarter given the easing of the lockdown measures by Kenya’s trading partners, COVID-19 vaccine rollout, and continued support from the tea, coffee and horticulture exports due to the normalized demand in Kenya’s export markets as well as earnings from the tourism sector. However, risks remain firmly on the downside given the recent increase in fuel prices that has led to increase in fuel importation cost, supply shortages and logistical bottlenecks, and worse, emergence of new COVID-19 variants which could lead to further restriction measures. For a more in-depth analysis, see our Q1’2021 BOP Note.

Rates in the fixed income market have remained relatively stable due to the tightened but sufficient levels of liquidity in the money markets. The government is 45.8% ahead of its prorated borrowing target of Kshs 202.6 bn having borrowed Kshs 295.4 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 KRAs collection of Kshs 476.6 bn in revenues during the first quarter of the current fiscal year, which is equivalent to 103.2% 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.
