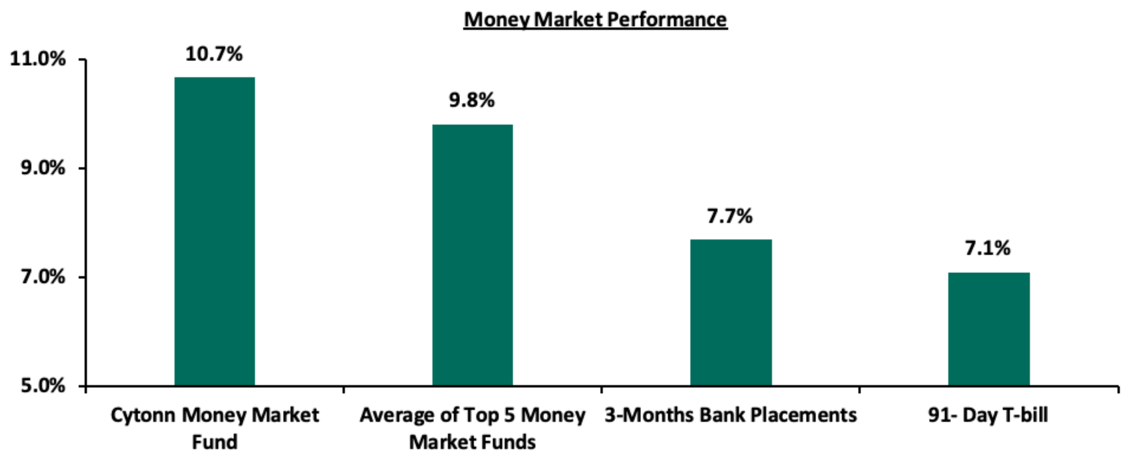
Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2021, & Cytonn Weekly #44/2021

Fixed Income

During the week, T-bills recorded an oversubscription, with the overall subscription rate coming in at 131.1%, an increase from the 66.0% recorded the previous week. The 364-day paper recorded the highest subscription rate, receiving bids worth Kshs 19.2 bn against the offered Kshs 10.0 bn, translating to a subscription rate of 192.4%, an increase from the 57.9% recorded the previous week. The increased interest in the 364-day paper is partly attributable to investors' preference for holding onto the longer-dated paper since it now offers a better risk adjusted return. The subscription rate for the 182-day and 91-day papers increased to 87.9% and 85.9%, from 74.2% and 66.0%, respectively, recorded the previous week. The yields on the 91-day, 182-day and 364-day papers increased by 5.7 bps, 6.8 bps and 13.5 bps, to 7.1%, 7.6% and 8.6%, respectively. The government accepted all the Kshs 31.5 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 5.7 bps to 7.1%. The average yield of the Top 5 Money Market Funds remained relatively unchanged at 9.8% while the yield on the Cytonn Money Market Fund increased by 0.1% points to 10.7%, from 10.6% recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 5th November:

Money Market Fund Yield for Fund Managers as published on 5th November 2021

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.66%

Money Market Fund Yield for Fund Managers as published on 5th November 2021

Rank	Fund Manager	Effective Annual Rate
2	Zimele Money Market Fund	9.91%
3	Nabo Africa Money Market Fund	9.70%
4	Sanlam Money Market Fund	9.36%
5	Madison Money Market Fund	9.25%
6	CIC Money Market Fund	9.05%
7	Apollo Money Market Fund	8.95%
8	Co-op Money Market Fund	8.75%
9	GenCapHela Imara Money Market Fund	8.75%
10	Dry Associates Money Market Fund	8.61%
11	British-American Money Market Fund	8.47%
12	Orient Kasha Money Market Fund	8.38%
13	NCBA Money Market Fund	8.34%
14	ICEA Lion Money Market Fund	8.33%
15	Old Mutual Money Market Fund	7.42%
16	AA Kenya Shillings Fund	6.33%

Source: Business Daily

Liquidity:

During the week, liquidity in the money market eased, with the average interbank rate decreasing to 4.7%, from 4.9% recorded the previous week, partly attributable to government payments which offset tax remittances. The average interbank volumes traded declined by 49.1% to Kshs 5.2 bn, from Kshs 10.2 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded mixed performance, with the 10-year bond issued in 2014 and the 30-year bond issued in 2018 increasing by 0.2% points and 0.1% points to 3.8% and 7.9%, respectively. On the other hand, the yields on the 10-year bond issued in 2018, the 7-year issued in 2019 and 12-year bonds issued in 2019 and 2021 remained relatively unchanged at 5.8%, 5.4%, 6.8% and 6.6%, 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%	-
29-Oct-21	3.7%	5.7%	7.9%	5.5%	6.7%	6.5%
28-Oct-21	3.7%	5.7%	7.9%	5.5%	6.8%	6.6%
1-Nov-21	3.8%	5.8%	7.9%	5.5%	6.8%	6.7%
2-Nov-21	3.8%	5.8%	7.9%	5.5%	6.7%	6.6%
3-Nov-21	3.9%	5.8%	7.9%	5.5%	6.8%	6.6%

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**
4-Nov-21	3.8%	5.8%	7.9%	5.4%	6.8%	6.6%
Weekly Change	**0.2%**	**0.0%**	**0.1%**	**0.0%**	**0.0%**	**0.0%**
M/m Change	**0.1%**	**0.0%**	**0.1%**	**-0.1%**	**0.0%**	**0.1%**
YTD Change	**(0.1%)**	**0.6%**	**0.9%**	**0.5%**	**0.9%**	**-**

Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.3% against the US dollar to close the week at Kshs 111.5, from Kshs 111.2 recorded the previous week, mainly attributable to increased dollar demand from commodity and energy sector importers outweighing the supply of dollars from exporters. On a YTD basis, the shilling has depreciated by 2.2% 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.

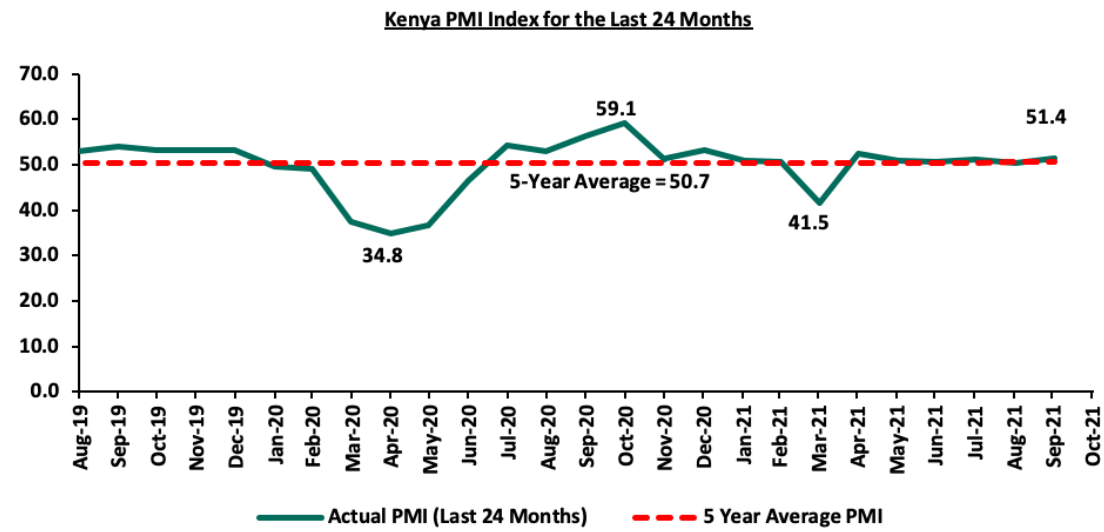
The shilling is however expected to be supported by:

i. The Forex reserves, currently at USD 9.1 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. 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 an 18.8% y/y increase to USD 309.8 mn in September 2021, from USD 260.7 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)**

During the week, Stanbic Bank released its monthly Purchasing Manager's Index (PMI) highlighting that the index for the month of October increased to 51.4 from 50.4 recorded in September 2021, an indication that business activities in the country strengthened and new business continued to grow. Notably, this is the highest PMI recorded in the five months leading to October 2021, attributable to a moderate improvement in business conditions and a significant increase in new business volumes on the back of increased customer spending. There was an increase in output levels and new orders but demand fell in sectors such as agriculture and construction, with the manufacturing sector remaining unchanged. Additionally, the rate of employment also increased, following the increased work backlogs that necessitated an increase of staff levels. 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*

Despite the increase of the PMI index reading for the month of October 2021, we maintain a cautious outlook in the short-term owing to the increasing cost pressures, high cost of living and the rising political pressures. However, we continue to monitor the economic impact of the recent easing of lockdown restrictions which had adversely affected the business environment. We expect the lifting of the dusk to dawn curfew that has been in place since March 2020 to boost economic recovery since local businesses will use this opportunity to maximize production as well as boost sales volumes as they recover from the negative effects of the pandemic. The existence and emergence of new COVID-19 variants, especially the Delta variant, which is more easily transmissible, still poses economic uncertainty as it may lead to another wave of infections and consequently tighter restrictions that will negatively affect the general business environment.

II. **IMF Review on Kenya's Extended Fund Facility and Extended Credit Facility**

During the week, the International Monetary Fund (IMF) and the Kenyan authorities reached a staff level agreement on the second review of the 38-month Extended Fund Facility (EFF) and Extended Credit Facility (ECF) - funded program. IMF noted that subject to the completion of the review by the IMF Board, Kenya would access approximately USD 264.0 mn (Kshs 29.5 bn), bringing the total support from IMF to Kenya to USD 984.0 mn (Kshs 109.8 bn) in 2021. The agreement comes on the back of the Kenya's continuing economic recovery from the COVID-19 pandemic coupled with the improving revenue performance. We believe that the program will continue supporting Kenya's COVID-19 response as well as support the government's fiscal consolidation efforts that were clouded following the pandemic. Additionally, we believe that the switch from expensive commercial debts to concessional loans will help save on the cost of borrowing since such loans have more favourable terms and conditions than those offered by the commercial finance markets including the lower interest rate and deferred or income-contingent repayments.

III. **October Revenue Performance**

During the week, the Kenya Revenue Authority (KRA) released the Revenue Performance as of October 2021, highlighting that the cumulative Total Revenue collected for the current fiscal year was Kshs 631.1 bn, against the target of Kshs 603.9 bn, representing an out-performance rate of 104.5%. For the month of October 2021, KRA collected Kshs 154.4 bn, against the target of Kshs 142.3 bn, recording an outperformance rate of 108.5%. The outperformance is mainly attributable to;

i. Enhanced compliance enforcement efforts and the implementation of new tax measures, focused on ensuring that that non-compliant taxpayers pay their due taxes,
ii. Improved business environment due to relaxation of COVID-19 containment measures. On 20th October 2021, the government lifted the nationwide night curfew that had been in place since March 2020, allowing businesses to extend working hours and resume night operations, and,
iii. Improving Macro-Economic environment with Gross Domestic Product expected to grow by 5.3% in FY'2021/2022 compared to a contraction of 0.3% in 2020.

The outperformance witnessed in October 2021 continues the positive trend in revenue collection seen in the first four months of FY'2021/2022, with the monthly average revenue collection at Kshs 157.8 bn. We expect a continued revenue outperformance in the medium term, partly attributable to the expanded tax base coupled with the expected economic recovery. However, we note that historically, KRA has always fallen short of its revenue collection target save for FY'2020/2021 whereby it recorded a 101.0% outperformance as highlighted in our Cytonn Weekly #27/2021. Given the recent easing of lockdown restrictions in the country, we expect KRA to collect more as the economy bounces back to its pre-pandemic levels. However, the ongoing pandemic still remains a threat and creates an air of uncertainty, that is, if infections were to spike and lockdown measures reinstated, the government would likely struggle to sustain the current revenue performance.

Rates in the fixed income market have remained relatively stable due to the sufficient levels of liquidity in the money markets despite the huge debt appetite by the government. The government is 16.4% ahead of its prorated borrowing target of Kshs 240.6 bn having borrowed Kshs 280.1 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 631.1 bn in revenues during the first four months of the current fiscal year, which is equivalent to 104.5% 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.