Nairobi Metropolitan Area (NMA) Mixed Use Developments Report 2021, & Cytonn Weekly #46/2021

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills recorded an oversubscription, with the overall subscription rate coming in at 108.6%, up from the 69.3% recorded the previous week. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 8.4 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 209.9%, an increase from the 99.8% recorded the previous week. The increased interest in the 91-day paper is partly attributable to the paper's higher return on a risk adjusted basis. The subscription rate for the 364-day and 182-day papers increased to 92.0% and 84.8%, from 74.3% and 52.0%, respectively, recorded the previous week. The yields on the 91-day, 182-day and 364-day papers increased by 4.4 bps, 6.4 bps and 9.2 bps, to 7.1%, 7.8% and 8.9%, respectively. The government accepted Kshs 23.2 bn of the Kshs 26.1 bn worth of bids received, translating to an acceptance rate of 89.2%.

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 4.4 bps to 7.1%. The average yield of the Top 5 Money Market Funds declined by 0.1% points to 9.7%, from 9.8% recorded last week, while the yield on the Cytonn Money Market Fund remained relatively unchanged at 10.6%.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 19th November:

Money Market Fund Yield for Fund Managers as published on 19th November 2021

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.57%
2	Zimele Money Market Fund	9.91%
3	Nabo Africa Money Market Fund	9.70%
4	Sanlam Money Market Fund	9.36%
5	CIC Money Market Fund	9.14%
6	Co-op Money Market Fund	8.96%
7	Apollo Money Market Fund	8.95%
8	GenCapHela Imara Money Market Fund	8.92%

Money Market Fund Yield for Fund Managers as published on 19th November 2021

Rank	Fund Manager	Effective Annual Rate
9	Madison Money Market Fund	8.88%
10	Dry Associates Money Market Fund	8.61%
11	British-American Money Market Fund	8.50%
12	Orient Kasha Money Market Fund	8.40%
13	NCBA Money Market Fund	8.35%
14	ICEA Lion Money Market Fund	8.34%
15	Old Mutual Money Market Fund	7.39%
16	AA Kenya Shillings Fund	6.59%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets tightened, with the average interbank rate increasing by 0.5% points to 5.2% from 4.7% recorded the previous week, partly attributable to tax remittances which offset Government payments. The average interbank volumes traded increased by 11.3% to Kshs 11.0 bn, from Kshs 9.9 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded mixed performance, with the 30-year bond issued in 2018 increasing by 0.1% points to 7.9%, from 7.8% recorded the previous week, while yields on the 12-year bond issued in 2021 declined by 0.1% to 6.4%, from 6.5% recorded the previous week. Yields on the 10-year bond issued in 2014, 10-year bond issued in 2018, 7-year bond issued in 2019 and 12-year bond issued in 2019 remained unchanged at 3.8%, 5.6%, 5.4% 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%
12-Nov-21	3.8%	5.6%	7.8%	5.4%	6.6%	6.5%
15-Nov-21	3.8%	5.6%	7.8%	5.4%	6.6%	6.4%
16-Nov-21	3.8%	5.6%	7.8%	5.4%	6.6%	6.4%
17-Nov-21	3.8%	5.6%	7.8%	5.4%	6.6%	6.4%
18-Nov-21	3.8%	5.6%	7.9%	5.4%	6.6%	6.4%
Weekly Change	**0.0%**	**0.0%**	**0.1%**	**0.0%**	**0.0%**	**(0.1%)**
MTD Change	**0.1%**	**(0.1%)**	**0.0%**	**(0.1%)**	**(0.1%)**	**(0.1%)**

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**
YTD Change	**(0.1%)**	**0.4%**	**0.8%**	**0.5%**	**0.7%**	**-**

Kenya Shilling:

During the week, the Kenyan shilling depreciated marginally by 0.3% against the US dollar to close the week at Kshs 112.2, from Kshs 111.8 recorded the previous week, mainly attributable to increased dollar demand from commodity and energy sector importers outweighing the supply of dollars from exporters. Key to note, these are the lowest lows that the Kenyan shilling has ever depreciated to against the dollar. On a YTD basis, the shilling has depreciated by 2.8% 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. 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 8.9 bn (equivalent to 5.4-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 28.2% y/y increase to USD 337.4 mn in October 2021, from USD 263.1 mn recorded over the same period in 2020, which has continued to cushion the shilling against further depreciation.

Weekly Highlights:

I. **Fuel Prices**

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail prices in Kenya effective 15th November 2021 to 14th December 2021. Notably, fuel prices remained unchanged at Kshs 129.7 per litre for Super Petrol, Kshs 110.6 per litre for Diesel and Kshs 103.5 per litre for Kerosene. Below are the key take-outs from the statement:

- The performance in fuel prices was attributable to:

  i. The fuel subsidy program under the Petroleum Development Fund which resulted in subsidies of Kshs 13.8 on Super Petrol, Kshs 15.7 on Diesel and Kshs 11.6 on Kerosene,

  ii. Removal of suppliers margins of Kshs 6.3 on Super Petrol, Kshs 5.5 on Diesel and Kshs 7.7 on Kerosene, and,

  iii. The decline in the Free on Board (FOB) price of Murban crude oil in October 2021 by 5.1% to

USD 69.7 per barrel, from USD 73.5 per barrel in September 2021.

- The retention of fuel prices was despite:

i. An increase in the average landed costs of Super Petrol by 8.7% to USD 606.1 per cubic meter in October 2021, from USD 557.7 per cubic meter in September 2021,

ii. Increase in the average landed costs of diesel by 11.2% to USD 561.1 per cubic meter in October 2021, from USD 504.7 per cubic meter in September 2021,

iii. Increase in the average landed costs of Kerosene by 9.3% to USD 522.1 per cubic meter in October 2021 from USD 477.8 per cubic meter in September 2021, and,

iv. Depreciation of the Kenyan shilling by 0.8% to Kshs 111.1 in October 2021, from Kshs 110.2 in September 2021.

Global fuel prices have declined by 1.9% in the first two weeks of November 2021, but have increased by 61.4% on a YTD basis, to USD 80.8 from USD 50.2 at the end of 2020. The decline in global prices in November 2021 is attributable to reduced oil demand in Europe as a result of a spike in COVID-19 cases which has necessitated imposition of restrictions in some countries.

Going forward, we expect muted pressure on the inflation basket as fuel prices which are among the major contributors to Kenya’s headline inflation remain constant following the Fuel Subsidy program. However, we believe the stabilization under the fuel subsidy program by the National Treasury will be unsustainable should the average landed costs of fuel keep rising. The National Treasury will also have to compensate the Oil Marketing companies and suppliers whose edges were decreased by 100.0% in the most recent review putting further strain on the program's viability.

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

The National Treasury gazetted the revenue and net expenditures for the first four months of FY’2021/2022, ending 31st October 2021. Below is a summary of the performance:

FY'2021/2022 Budget Outturn - As at 31st October 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	548.4	32.1%	569.1	96.4%
Non-Tax Revenue	68.2	28.9	42.3%	22.7	127.0%
Total Revenue	**1,775.6**	**598.5**	**33.7%**	**591.9**	**101.1%**
External Loans & Grants	379.7	10.8	2.9%	126.6	8.6%
Domestic Borrowings	1,008.4	360.8	35.8%	336.1	107.3%

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

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates	Actual Receipts/Release	Percentage Achieved	Prorated Estimates	% achieved of prorated
Other Domestic Financing	29.3	4.2	14.2%	9.8	42.5%
Total Financing	**1,417.4**	**375.7**	**26.5%**	**472.5**	**79.5%**
Recurrent Exchequer issues	1,106.6	343.2	31.0%	368.9	93.0%
CFS Exchequer Issues	1,327.2	369.8	27.9%	442.4	83.6%
Development Expenditure & Net Lending	389.2	101.4	26.0%	129.7	78.1%
County Governments + Contingencies	370.0	92.5	25.0%	123.3	75.0%
Total Expenditure	**3,193.0**	**906.9**	**28.4%**	**1,064.3**	**85.2%**
Fiscal Deficit excluding Grants	**(1,417.4)**	**(308.3)**	**21.8%**	**(472.5)**	**65.3%**
Fiscal Deficit as a % of GDP	**8.2%***	**2.5%**			
Total Borrowing	**1,388.1**	**371.6**	**26.8%**	**462.7**	**80.3%**

***Projected Fiscal Deficit as a % of GDP**

The key take-outs from the report include:

a. Total revenue collected as at the end of October 2021 amounted to Kshs 598.5 bn, equivalent to 33.7% of the original estimates of Kshs 1.8 tn and is 101.1% of the prorated estimates of Kshs 591.9 bn. Cumulatively, Tax revenues amounted to Kshs 548.4 bn, equivalent to 32.1% of the target of Kshs 1,707.4 bn and are 96.4% of the prorated estimates of Kshs 569.1 bn,
b. Total financing amounted to Kshs 375.7 bn, equivalent to 26.5% of the original estimates of Kshs 1,417.4 tn and is 79.5% of the prorated estimates of Kshs 472.5 bn. Additionally, domestic borrowing amounted to Kshs 360.8 bn, equivalent to 35.8% of the original estimates of Kshs 1.0 tn and is 107.3% of the prorated estimates of Kshs 336.1 bn,
c. The total expenditure amounted to Kshs 906.9 bn, equivalent to 28.4% of the original estimates of Kshs 3,193.0 bn, and is 85.2% of the prorated expenditure estimates of Kshs 1.1 tn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 343.2 bn, equivalent to 31.0% of the original estimates and 93.0% of the prorated estimates of Kshs 368.9 bn, and development expenditure amounted to Kshs 101.4 bn, equivalent to 26.0% of the original

estimates of Kshs 389.2 bn and is 78.1% of the prorated estimates of Kshs 129.7 bn,

d. Consolidated Fund Services (CFS) Exchequer issues lagged behind their target of Kshs 1,327.2 bn after amounting to Kshs 369.8 bn, equivalent to 27.9% of the target, and are 83.6% of the prorated amount of Kshs 442.4 bn. The cumulative public debt servicing cost amounted to Kshs 323.2 bn which is 27.6% of the original estimates of Kshs 1,169.2 bn, and is 82.9% of the prorated estimates of Kshs 389.7 bn, and,
e. Total Borrowings as at the end of October 2021 amounted to Kshs 371.6 bn, equivalent to 26.8% of the Kshs 1,388.1 bn target and are 80.3% of the prorated estimates of Kshs 462.7 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 four months of the current fiscal year is commendable and can be attributed to economic recovery from the continuous ease of COVID-19 containment measures coupled with 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.

III. **Draft 2022 Budget Policy Statement**

During the week, the National Treasury released the Draft 2022 Budget Policy Statement, projecting a 7.7% increase in the target Excise Duty for FY’2021/2022 to Kshs 259.6 bn, from Kshs 241.0 bn as highlighted in the original budget estimates. The increase in the Excise duty revenue collection target follows the publishing of the Legal Notice 217 of 2021, which allowed the Kenya Revenue Authority, (KRA) to adjust the specific rates of excise duty upwards by 5.0% in line with average annual inflation rate for the FY’2020/2021. The products set to be affected by the increase are consumer goods such as Alcoholic and non-alcoholic drinks including beer and spirits, tobacco products, chocolates and motorcycles that are not locally assembled. Key to note, Petroleum products were not affected by the adjustment due to a petition lodged at the High Court in September 2021 which is still pending determination. Other key take-outs from the report include;

i. Ordinary revenue to be collected by the KRA at the end of FY’2021/2022 is projected to increase by 1.4% to Kshs 1.80 tn, from Kshs 1.77 in the original estimates, following increase in taxes such as excise duty. In FY’2022’2023, the National Treasury projects to collect Kshs 2.1 tn in ordinary revenue, boosted by a projected growth in income tax of 22.0% to Kshs 1.0 tn from Kshs 0.8 tn,
ii. Value Added Tax (VAT) projected estimates for FY’2021’2022 are projected to grow slightly by 0.9% to Kshs 477.1 bn, from Kshs 472.9 bn in the original estimates. However, in FY’2022’2023, VAT revenue is expected to increase by 22.6% to Kshs 584.7 bn from Kshs 477.1 bn,
iii. Total expenditure estimates for FY’2021/2022 increased by 4.1% to Kshs 3.2 tn from Kshs 3.0 tn, mainly attributable to an 8.0% increase in interest payments on domestic and external loans projections to Kshs 605.3 bn, from Kshs 560.3 bn. In FY’2022/2023, total expenditure is projected to grow by 1.4% to Kshs 3.20 tn from Kshs 3.15 tn in FY’2021/2022, and,
iv. Fiscal deficit for FY’2021/2022 was projected to increase by 10.0% to a deficit of Kshs 1.1 tn from Kshs 1.0 tn in the previous estimates, attributable to the faster 4.1% growth in expenditures projections growth than Total revenue growth of 1.4%. In FY’2021’2022, the fiscal deficit is projected to decline significantly by 24.9% to Kshs 0.8 tn from Kshs 1.1 tn in FY’2021/20212 estimates.

The increased revenue collection target to Kshs 2.4 tn for FY’2022/2023, from this fiscal year’s target of Kshs 2.1 tn was expected given expansion of the tax base following the implementation of the Finance Act 2021. The upwards adjustment for specific rates of excise duty is also expected to increase KRAs revenue collections. However, despite KRA's efforts to expand the tax base, we believe that the fiscal deficit will remain to be ever present due to the historical mismatch between revenue and expenditure.

Rates in the fixed income market have remained relatively stable due to the sufficient levels of liquidity in the money markets. The government is 26.7% ahead of its prorated borrowing target of Kshs 265.9 bn having borrowed Kshs 337.6 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 598.5 bn in revenues during the first four months of the current fiscal year, which is equivalent to 101.1% 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.
