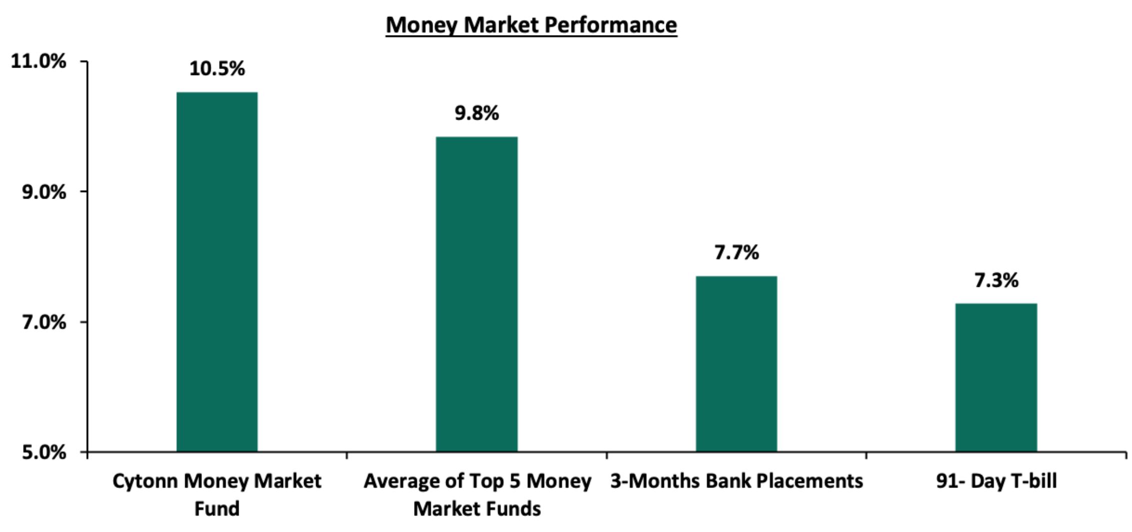
Kenya Listed Banks Q3’2021 Report, & Cytonn Weekly #49/2021

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills remained undersubscribed, with the overall subscription rate coming in at 65.7%, down from 95.2% recorded the previous week, partly attributable to investors shifting their focus to the December bond issue, which was oversubscribed by 102.9%. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 5.1 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 126.8%, a decline from the 217.3% recorded the previous week. The subscription rate for the 364-day paper declined as well to 51.7%, from 89.0% recorded the previous week, while the subscription rate for the 182-day paper increased to 55.2%, from 52.5% recorded the previous week. The yields on the 91-day, 182-day and 364-day papers increased by 4.8 bps, 13.0 bps and 7.5 bps, to 7.3%, 8.0% and 9.1%, respectively. The government continued to reject expensive bids, accepting Kshs 11.9 bn of the Kshs 15.8 bn worth of bids received, translating to an acceptance rate of 75.6%.

In the Primary Bond Market, the government re-opened two bonds namely; FXD4/2019/10 and FXD1/2018/20 for the month of December, which recorded an oversubscription of 102.9%, driven by the ample liquidity in the money market coupled with the bonds’ attractive yields of 12.6% and 13.4%, respectively. The government sought to raise Kshs 40.0 bn for budgetary support, received bids worth Kshs 41.2 bn and accepted bids worth Kshs 37.8 bn, translating to a 91.9% acceptance rate. Investors subscribed to the bonds in relatively equal measure, with the longer-tenure issue, i.e. FXD1/2018/20, receiving bids worth Kshs 20.9 bn, representing 50.8% of the total bids received while FXD4/2019/10 received bids worth 20.3 bn, representing 49.2% of the total bids received. The coupons for the two bonds were 12.3% and 13.2%.



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 yields on the 91-day T-bill increased by 4.8 bps to 7.3%. 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 decreased 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 10th December 2021:

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

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.53%
2	Zimele Money Market Fund	9.91%
3	Nabo Africa Money Market Fund	9.70%
4	Madison Money Market Fund	9.54%
5	Sanlam Money Market Fund	9.53%
6	CIC Money Market Fund	9.24%
7	Apollo Money Market Fund	8.95%
8	GenCapHela Imara Money Market Fund	8.95%
9	Co-op Money Market Fund	8.74%
10	Dry Associates Money Market Fund	8.64%
11	British-American Money Market Fund	8.48%
12	Orient Kasha Money Market Fund	8.37%
13	NCBA Money Market Fund	8.34%
14	ICEA Lion Money Market Fund	8.30%
15	Old Mutual Money Market Fund	7.41%
16	AA Kenya Shillings Fund	7.17%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate declining to 4.8% from the 5.2% recorded the previous week, partly attributable to government payments, including Term Auction Deposits (TADs) maturities of Kshs 26.0 bn, which offset tax remittances and settlements of government securities. The average interbank volumes traded declined by 2.9% to Kshs 6.5 bn, from Kshs 6.7 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on all Eurobonds declined, with yields on the 10-year bond issued in 2014, 10-year bond issued in 2018, 30-year bond issued in 2018, the 7-year bond issued in 2019 and 12-year bond issued in 2019, all declining by 0.1% points to 4.3%, 5.9%, 8.1%, 5.7% and 6.8%, respectively, while the yields on the 12-year bond issued in 2021 declined by 0.2% to 6.6%. 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%	-
30-Nov-21	4.4%	6.2%	8.4%	6.0%	7.1%	7.0%
3-Dec-21	4.4%	6.0%	8.2%	5.8%	6.9%	6.8%
6-Dec-21	4.3%	5.9%	8.2%	5.8%	6.9%	6.8%
7-Dec-21	4.3%	5.9%	8.1%	5.7%	6.8%	6.7%
8-Dec-21	4.3%	5.9%	8.1%	5.7%	6.8%	6.7%
9-Dec-21	4.3%	5.9%	8.1%	5.7%	6.8%	6.6%
Weekly Change	**(0.1%)**	**(0.1%)**	**(0.1%)**	**(0.1%)**	**(0.1%)**	**(0.2%)**
M/m Change	**(0.1%)**	**(0.3%)**	**(0.2%)**	**(0.3%)**	**(0.4%)**	**(0.3%)**
YTD Change	**0.4%**	**0.7%**	**1.1%**	**0.8%**	**0.9%**	**-**

Source: CBK

Kenya Shilling:

During the week, the Kenyan shilling depreciated marginally by 0.2% against the US dollar to close the week at Kshs 112.9, from Kshs 112.6 recorded the previous week, mainly attributable to increased dollar demand from general importers. Key to note, this is the lowest the Kenyan shilling has ever depreciated against the dollar. On a YTD basis, the shilling has depreciated by 3.4% 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,
c. Widening current account deficit which stood at 5.4% of GDP in the 12-months to October 2021 compared to the 4.8% of GDP in the 12 months to October 2020 attributable to a higher import bill which offset increased receipts from agricultural and services exports and remittances, and,
d. 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. Key to note, risks abound this global recovery following the emergence of the new COVID-19 Omicron variant. We are of the view that should the variant continue to spread; most nations will respond swiftly by adopting stringent containment measures to curb the spread.

The shilling is however expected to be supported by:

i. The Forex reserves, currently at USD 8.7 bn (equivalent to 5.3-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. Key to note, the forex reserves have been steadily declining and are currently at a 3-month low. 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,

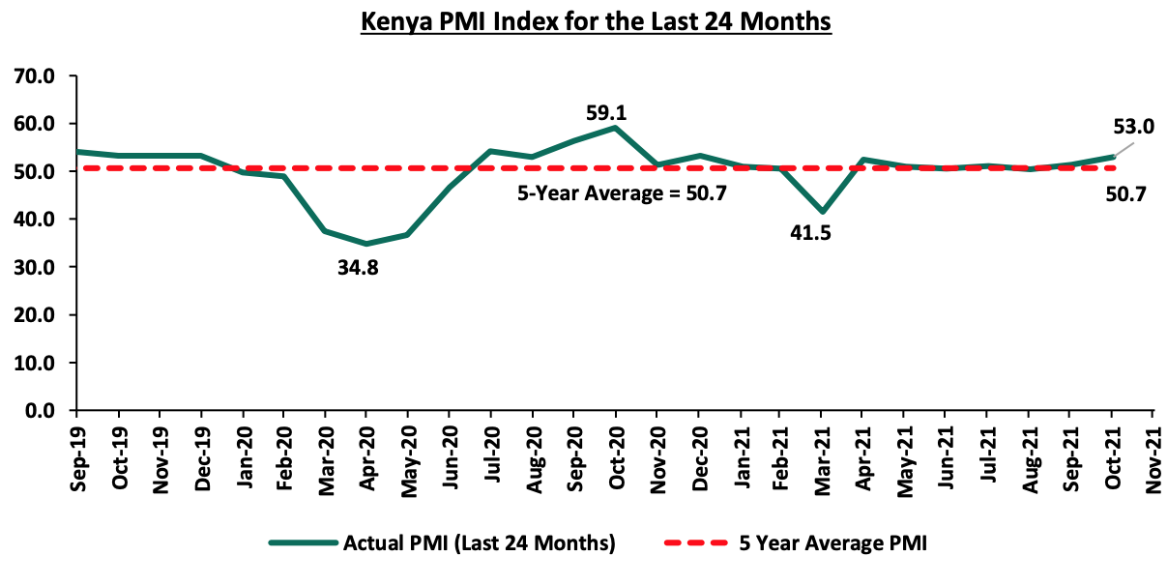
ii. Improving diaspora remittances evidenced by a 24.2% y/y increase to USD 320.1 mn in November 2021, from USD 257.7 mn recorded over the same period in 2020, which has continued to cushion the shilling against further depreciation.

We shall have an in-depth analysis of the shilling's performance in the coming week.

Weekly Highlights:

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 November increased to 53.0 from 51.4 recorded in October 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 ten months leading to November 2021. There was an increase in output levels and new orders largely driven by the construction, services and wholesale and retail sectors. However, demand fell in sectors such as agriculture and manufacturing. The rate of employment increased, following the increased work backlogs that necessitated an increase of staff levels. As a result, the firms were able to reduce their backlogs for the first time since May. An increase in input purchasing was also recorded during the month of November as businesses aimed to stock up goods due to expectations of an increase 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*

Despite the increase of the PMI index reading for the month of November 2021, we maintain a cautious outlook in the short-term owing to the increasing cost pressures, high cost of living and concerns of an uptick in COVID-19 infections from the new Omicron variant. We expect the October 2021 lifting of the dusk to dawn curfew that had been in place since March 2020 to continue boosting the economic recovery as local businesses use this opportunity to maximize production and boost sales volumes as they recover from the negative effects of the pandemic. The existence and emergence of new COVID-19 variants, such as the Omicron variant, still pose economic uncertainty as it may lead to another wave of infections and consequently tighter restrictions that will negatively affect the general business environment.

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 25.2% ahead of its prorated borrowing target of Kshs 303.9 bn having borrowed Kshs 380.4 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 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 support from the IMF and World Bank will mean that the interest rate environment will remain stable since the government is not desperate for cash.
