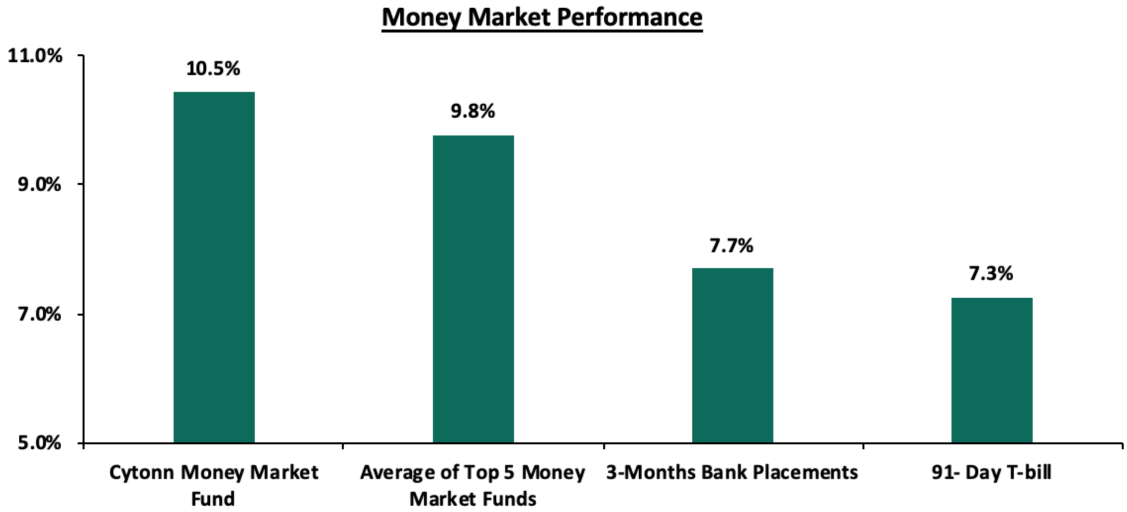
Nairobi Metropolitan Area (NMA) Infrastructure Report 2021, & Cytonn Weekly #51/2021

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills remained undersubscribed, with the overall subscription rate coming in at 26.6%, down from 87.4% recorded the previous week, partly attributable to the tightened liquidity in the money market due to tax remittances, with the average interbank rate increasing to 5.5%, from 4.5% recorded the previous week. The 364-day paper recorded the highest subscription rate, receiving bids worth Kshs 3.9 bn against the offered Kshs 10.0 bn, translating to a subscription rate of 40.0%, a decline from the 52.3% recorded the previous week. The subscription rate for the 91-day and 182-day papers decreased to 39.8% and 8.0%, from 113.3% and 112.2%, respectively. The yields on the 182-day and 364-day papers increased by 0.5 bps and 10.1 bps to 8.0% and 9.3%, respectively, while the yield on the 91-day paper declined marginally by 0.1 bps to 7.3%. The government accepted all the Kshs 6.4 bn worth of bids received, translating to an acceptance rate of 100.0%.

In the Primary Bond Market, the government reopened three bonds, FXD1/2020/5, FXD2/2018/10 and FXD1/2021/20, with effective tenors of 3.4 years, 7.0 years and 19.7 years, respectively, in a bid to raise Kshs 30.0 bn for budgetary support. The period of sale for the issue runs from 20th December 2021 to 4th January 2022 for FXD1/2020/5, while the period of sale for FXD2/2018/10 and FXD1/2021/20 runs from 20th December 2021 to 18th January 2022. The coupon rates are 11.7%, 12.5% and 13.4% for FXD1/2020/5, FXD2/2018/10 and FXD1/2021/20, respectively. We expect investors to prefer the longer dated paper, FXD1/2021/20, as they search for higher yields. The bonds are currently trading in the secondary market at yields of 10.8%, 12.2% and 13.3%, for FXD1/2020/5, FXD2/2018/10 and FXD1/2021/20, respectively, and as such, our recommended bidding range for the three bonds is: 10.6%-11.0% for FXD1/2020/5, 12.0%-12.4% for FXD2/2018/10 and 13.1%-13.5% for FXD1/2021/20 within which bonds of a similar tenor are trading at.



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 decreased by 0.1 bps to 7.3%. The average yield of the Top 5 Money Market Funds remained unchanged at 9.8%, while the yield on the Cytonn Money Market Fund increased by 0.1% points to 10.5%, from 10.4% recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 24th December:

Money Market Fund Yield for Fund Managers as published on 24th December 2021

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.5%
2	Zimele Money Market Fund	9.9%
3	Nabo Africa Money Market Fund	9.7%
4	Sanlam Money Market Fund	9.5%
5	CIC Money Market Fund	9.3%
6	Madison Money Market Fund	9.1%
7	Apollo Money Market Fund	9.0%
8	GenCapHela Imara Money Market Fund	8.9%
9	Co-op Money Market Fund	8.7%
10	Dry Associates Money Market Fund	8.6%
11	British-American Money Market Fund	8.5%
12	Orient Kasha Money Market Fund	8.4%
13	NCBA Money Market Fund	8.3%
14	ICEA Lion Money Market Fund	8.3%
15	AA Kenya Shillings Fund	7.4%
16	Old Mutual Money Market Fund	7.3%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets tightened, with the average interbank rate increasing by 1.0% point to 5.5% from the 4.5% recorded the previous week, partly attributable to banks trading cautiously in the interbank market as they try to meet their end of month obligations especially during this festive period and the tax remittances. The average interbank volumes traded declined by 39.9% to Kshs 11.5 bn, from Kshs 19.2 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on the Eurobonds recorded mixed performance, with yields on the 10-year bond issued in 2014 increasing by 0.2% points to 4.6%, from 4.4% recorded the previous week, while the 7-year bond issued in 2019 decreased by 0.1% points to 5.7%, from 5.8% recorded the previous week. The yields on the 10-year bond issued in 2018, 30-year bond issued in 2018, 12-year bond issued in 2019 and the 12-year bond issued in 2021, all remained unchanged at 5.9%, 8.2%, 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%	-
30-Nov-21	4.4%	6.2%	8.4%	6.0%	7.1%	7.0%
17-Dec-21	4.4%	5.9%	8.2%	5.8%	6.8%	6.7%
20-Dec-21	4.4%	6.0%	8.2%	5.9%	6.8%	6.7%
21-Dec-21	4.6%	6.0%	8.2%	5.8%	6.9%	6.7%
22-Dec-21	4.6%	6.0%	8.2%	5.8%	6.8%	6.7%
23-Dec-21	4.6%	5.9%	8.2%	5.7%	6.8%	6.7%
Weekly Change	**0.2%**	**0.0%**	**0.0%**	**(0.1%)**	**0.0%**	**0.0%**
MTD Change	**0.2%**	**(0.2%)**	**(0.1%)**	**(0.2%)**	**(0.3%)**	**(0.2%)**
YTD Change	**0.7%**	**0.7%**	**1.2%**	**0.8%**	**0.9%**	**-**

Kenya Shilling:

During the week, the Kenyan shilling depreciated marginally by 0.1% against the US dollar to close the week at Kshs 113.1, from Kshs 113.0 recorded the previous week, mainly attributable to increased dollar demand from the general merchandise 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 3.6% 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,
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. High Forex reserves, currently at USD 8.6 bn (equivalent to 5.2-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.

Weekly Highlight:

I. **December Inflation projections**

We are projecting the y/y inflation rate for December 2021 to fall within the range of 5.7% - 6.1%. The key drivers include:

- Fuel prices for the period 15th December 2021 to 14th January 2022 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. With fuel being a major contributor to Kenya's headline inflation, maintaining constant fuel prices is expected to have a muted impact on the inflation basket,
- Food prices have remained relatively stable during the month attributable to improved agricultural output due to the ongoing rains in some parts of the country, and,
- The foreign exchange fluctuation tariff for electricity usage remained relatively unchanged at Kshs 73.1 cents per Kilowatt hour (KWh) in December, from Kshs 73.0 cents per Kilowatt hour (KWh) in November 2021. However, the fuel cost charge on electricity bills increased by 10.0% to Kshs 4.6 per Kilowatt hour (KWh) in December, from Kshs 4.2 per Kilowatt hour (KWh) in November.

Going forward, we expect the inflation rate to remain within the government’s set range of 2.5% - 7.5%. However, concerns remain high on the widening trade deficit as global fuel prices continue to rise due to supply bottlenecks.

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 14.1% ahead of its prorated borrowing target of Kshs 329.3 bn having borrowed Kshs 375.7 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 740.0 bn in revenues during the first five months of the current fiscal year, which is equivalent to 100.0% 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.
