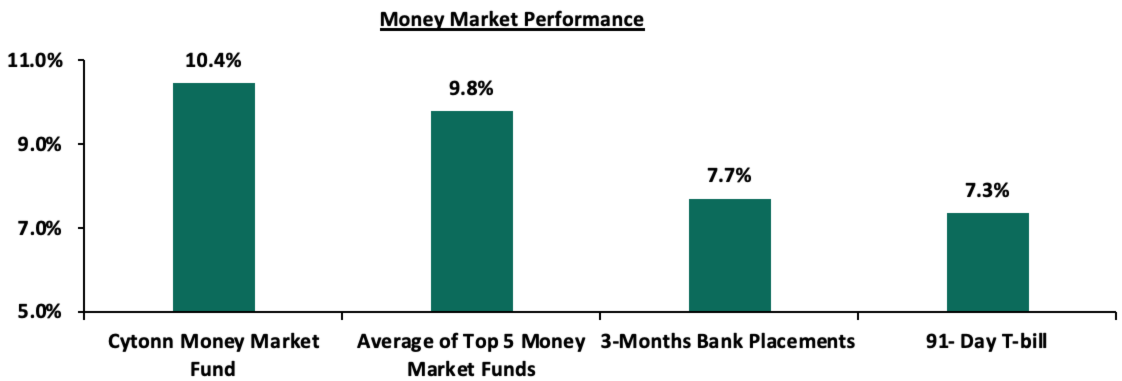
Off Plan Real Estate Investing, & Cytonn Weekly #02/2022

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills were oversubscribed, with the overall subscription rate coming in at 156.4%, up from the 96.6% recorded the previous week, partly attributable to the eased liquidity in the money market. The 364-day paper recorded the highest subscription rate, receiving bids worth Kshs 19.4 bn against the offered Kshs 10.0 bn, translating to a subscription rate of 194.0%, an increase from the 112.0% recorded the previous week. The subscription rate for the 182-day paper increased as well to 137.2% from 63.3% while that of the 91-day paper declined to 110.1%, from 141.3% recorded the previous week. The yields on the government papers recorded mixed performance, with the yields on the 182-day and 364-day papers increasing by 4.0 bps and 3.0 bps to 8.1% and 9.5%, respectively, while the yield on the 91-day paper declined by 3.6 bps to 7.3%. The government continued to reject expensive bids, accepting Kshs 31.1 bn bids out of the Kshs 37.5 bn worth of bids received, translating to an acceptance rate of 82.8%.



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 declined by 3.6 bps to 7.3%. The average yield of the Top 5 Money Market Funds remained relatively unchanged at 9.8% as was recorded the previous week while the yield on the Cytonn Money Market Fund declined marginally by 0.1% point to 10.4% from 10.5%, recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 14th January 2022:

Money Market Fund Yield for Fund Managers as published on 14th January 2022

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.4%
2	Zimele Money Market Fund	9.9%
3	Nabo Africa Money Market Fund	9.7%
4	Sanlam Money Market Fund	9.5%
5	Madison Money Market Fund	9.4%
6	CIC Money Market Fund	9.3%
7	Apollo Money Market Fund	9.0%
8	GenCapHela Imara Money Market Fund	8.8%
9	Dry Associates Money Market Fund	8.7%
10	British-American Money Market Fund	8.5%
11	Co-op Money Market Fund	8.5%
12	Orient Kasha Money Market Fund	8.4%
13	NCBA Money Market Fund	8.4%
14	ICEA Lion Money Market Fund	8.3%
15	AA Kenya Shillings Fund	7.5%
16	Old Mutual Money Market Fund	7.5%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate declining to 4.0% from the 4.5% recorded the previous week, partly attributable to government payments inclusive of Term Auction Deposits (TADs) worth Kshs 38.8 bn, which partly offset tax remittances. The average interbank volumes traded increased by 12.6% to Kshs 15.8 bn, from Kshs 13.9 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded mixed performance, with yields on the 10-year bond issued in 2014 remaining unchanged at 4.4% as was recorded the previous week. Yields on the 10-year and 30-year bonds issued in 2018, the 7-year and 12-year bonds issued in 2019 and the yield on the 12-year bond issued in 2021 all increased by 0.1% points to 6.1%, 8.3%, 5.8%, 6.9% and 6.8%, from 6.0%, 8.2%, 5.7%, 6.8%, and, 6.7%, respectively, recorded the previous week. 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**
3-Jan-22	4.4%	5.7%	8.1%	5.6%	6.7%	6.6%
7-Jan-22	4.4%	6.0%	8.2%	5.7%	6.8%	6.7%
10-Jan-22	4.4%	6.0%	8.3%	5.8%	6.8%	6.7%
11-Jan-22	4.5%	6.1%	8.3%	5.8%	6.9%	6.8%
12-Jan-22	4.4%	6.1%	8.3%	5.9%	6.9%	6.8%
13-Jan-22	4.4%	6.1%	8.3%	5.8%	6.9%	6.8%
Weekly Change	**0.0%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**
MTD Change	**0.0%**	**0.4%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**
YTD Change	**0.0%**	**0.4%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**

Source: Central Bank of Kenya

Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.1% against the US dollar to close the week at Kshs 113.4, from Kshs 113.2 recorded the previous week, partly attributable to increased dollar demand from the oil and energy sectors. 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 0.2% against the dollar, in comparison to the 3.6% depreciation recorded in 2021. We expect the shilling to remain under pressure in 2022 as a result of:

a. Increased demand from merchandise traders as they beef up their hard currency positions in anticipation for more trading partners reopening their economies globally,
b. Ever present current account deficit due to an imbalance between imports and exports with Kenya's current account deficit having expanded by 27.4% in Q3'2021 to Kshs 184.6 bn, from Kshs 145.0 bn recorded in Q3'2020. This was attributed to a robust increase in merchandise imports by 39.6% to Kshs 321.8 bn in Q3'2021, from Kshs 230.5 bn in Q3'2020,
c. The aggressively growing government debt, with Kenya's public debt having increased at a 10-year CAGR of 17.7% to Kshs 7.8 tn in July 2021, from Kshs 1.5 tn in July 2011 thus putting pressure on forex reserves to repay some of the public debt, 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 8.8 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 972.6 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 17.0% y/y increase to USD 350.6 mn in December 2021, from USD 299.6 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 January 2022 to 14th February 2022. 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 14.8 on Super Petrol, Kshs 17.8 on Diesel and Kshs 20.2 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,
iii. The decline in the Free on Board (FOB) price of Murban crude oil in December 2021 by 12.7% to USD 82.7 per barrel, from USD 73.4 per barrel in November 2021,
iv. A decrease in the average landed costs of Super Petrol by 4.1% to USD 602.0 per cubic meter in December 2021, from USD 627.8 per cubic meter in November 2021,
v. A decrease in the average landed costs of diesel by 5.7% to USD 565.9 per cubic meter in December 2021, from USD 600.2 per cubic meter in November 2021, and,
vi. A decrease in the average landed costs of Kerosene by 4.9% to USD 574.9 per cubic meter in December 2021, from USD 604.4 per cubic meter in November 2021. However, the Kenyan shilling depreciated during the period by 0.7% to Kshs 113.3 in December 2021, from Kshs 112.3 in November 2021.

Global fuel prices increased by 8.6% in the first two weeks of January 2022 to USD 84.7, from USD 78.0 recorded at the end of 2021 largely attributable to increased demand coupled with supply constraints amidst economic uncertainty on the back of emerging COVID-19 variants. Notably this is the highest it has been since October, 2018 when the price stood at USD 84.1 and as such, we expect the cost of production for net importers to rise in tandem. 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. Despite the decrease in landed costs of fuel, we believe the stabilization under the fuel subsidy program by the National Treasury will be unsustainable given that the National Treasury will have to compensate the Oil Marketing companies and suppliers whose margins have been cut to zero from Kshs 6.3 per litre for super petrol, Kshs 5.5 per litre for diesel and Kshs 1.7 per litre for kerosene since November 2021 putting further strain on the program's viability. Key to note the total subsidy for the past four months starting October 2021 is Kshs 53.5 per litre for super petrol, Kshs 65.2 per litre for diesel and Kshs 60.3 per litre for kerosene.

II. **Revenue and Net Exchequer for FY'2021/2022**

The National Treasury gazetted the revenue and net expenditures for the first six months of

FY'2021/2022, ending 31st December 2021. Below is a summary of the performance:

FY'2021/2022 Budget Outturn - As at 31st December 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	868.8	50.9%	853.7	101.8%
Non-Tax Revenue	68.2	36.2	53.0%	34.1	106.1%
Total Revenue	**1,775.6**	**926.3**	**52.2%**	**887.8**	**104.3%**
External Loans & Grants	379.7	44.3	11.7%	189.8	23.4%
Domestic Borrowings	1,008.4	468.5	46.5%	504.2	92.9%
Other Domestic Financing	29.3	4.2	14.2%	14.6	28.4%
Total Financing	**1,417.4**	**517.0**	**36.5%**	**708.7**	**72.9%**
Recurrent Exchequer issues	1,106.6	528.0	47.7%	553.3	95.4%
CFS Exchequer Issues	1,327.2	546.3	41.2%	663.6	82.3%
Development Expenditure & Net Lending	389.2	144.0	37.0%	194.6	74.0%
County Governments + Contingencies	370.0	145.0	39.2%	185.0	78.4%
Total Expenditure	**3,193.0**	**1,363.3**	**42.7%**	**1,596.5**	**85.4%**
Fiscal Deficit excluding Grants	**(1,417.4)**	**(437.0)**	**30.8%**	**(708.7)**	**61.7%**
Fiscal Deficit as a % of GDP	**11.4%***	**3.5%**			
Total Borrowing	**1,388.1**	**512.8**	**36.9%**	**694.0**	**73.9%**

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

The key take-outs from the report include:

a. Total revenue collected as at the end of December 2021 amounted to Kshs 926.3 bn, equivalent to 52.2% of the original estimates of Kshs 1.8 tn and is 104.3% of the prorated estimates of Kshs 887.8 bn. Cumulatively, Tax revenues amounted to Kshs 868.8 bn, equivalent to 50.9% of the target of Kshs 1,707.4 bn and are 101.8% of the prorated estimates of Kshs 853.7 bn,
b. Total financing amounted to Kshs 517.0 bn, equivalent to 36.5% of the original estimates of Kshs 1,417.4 bn and is equivalent to 72.9% of the prorated estimates of Kshs 708.7 bn. Additionally, domestic borrowing amounted to Kshs 468.5 bn, equivalent to 46.5% of the original estimates of Kshs 1.0 tn and is 92.9% of the prorated estimates of Kshs 504.2 bn,
c. The total expenditure amounted to Kshs 1.4 tn, equivalent to 42.7% of the original estimates of Kshs 3.2 tn, and is 85.4% of the prorated expenditure estimates of Kshs 1.6 tn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 528.0 bn, equivalent to 47.7% of the original estimates and 95.4% of the prorated estimates of Kshs 553.3 bn, and development expenditure amounted to Kshs 144.0 bn, equivalent to 37.0% of the original estimates of Kshs 389.2 bn and is 74.0% of the prorated estimates of Kshs 194.6 bn,
d. Consolidated Fund Services (CFS) Exchequer issues lagged behind their target of Kshs 1,327.2 bn

after amounting to Kshs 546.3 bn, equivalent to 41.2% of the target, and are 82.3% of the prorated amount of Kshs 663.6 bn. The cumulative public debt servicing cost amounted to Kshs 475.6 bn which is 40.7% of the original estimates of Kshs 1,169.2 bn, and is 81.4% of the prorated estimates of Kshs 584.6 bn, and,

e. Total Borrowings as at the end of December 2021 amounted to Kshs 512.8 bn, equivalent to 36.9% of the Kshs 1,388.1 bn target and are 73.9% of the prorated estimates of Kshs 694.0 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 revenue performance in the first six months of the current fiscal year point towards continued economic recovery following the ease of COVID-19 containment measures and the effectiveness of the KRA in revenue collection. Additionally, we believe that the current measures such as the implementation of the Finance Act 2021 which led to the upward readjustment of the Excise Duty Tax, Income Tax as well as the Value Added Tax will continue playing a big role in expanding the tax base and consequently enhance revenue collection. However, risks abound the outlook owing to the emergence of the Corona Virus Omicron variant which is expected to disrupt economic activities and increase supply bottlenecks and consequently lead to a slowdown in economic recovery. On the upside, we have not seen any major domestic disruptions and as such, we do not expect adverse effects from the variant.

III. World Bank Global Economic Prospects

During the week, the World Bank released the Global Economic Prospects and the Sub–Saharan Africa outlook highlighting that the Kenyan economy is expected to grow by 5.0% in 2021 and 4.7% in 2022. Below are the key take-outs from the report:

i. **Global Economic Growth –** The global economy is expected to grow by 4.1% in 2022 following an estimated 5.5% growth in 2021. The growth estimates are lower than the earlier projections estimated at 5.6% and 4.3% growth for 2021 and 2022, respectively. The slower growth is mainly attributable to the emergence of new COVID-19 variants, less budgetary support, existing supply bottlenecks and higher prices of food and energy,

ii. **Regional Economic Growth** - The Sub-Saharan Africa's economic growth is projected to expand by 3.1% in 2021 and 3.6% in 2022 supported by rising commodity prices as the region's economic trading partners continue to reopen. Growth in the three largest economies in the region; Angola, Nigeria and South Africa is estimated to stand at 3.1% supported by higher oil prices, a gradual relaxing of OPEC's output curbs, and, domestic regulatory improvements. The Kenyan economy is expected to grow by 5.0% in 2021 and 4.7% in 2022, supported by improving exports and the positive vaccine rollout. However, the erratic weather conditions in the country is expected to weigh down the economic growth as Agriculture is the largest contributor to Kenya's GDP growth at 20.5% in Q3'2021, and,

iii. **Commodity Prices** - Commodity prices increased in 2021, largely as a result of a significant recovery in aggregate global demand, favorable monetary policies, and fiscal expansions in advanced nations, following sharp reductions in 2020. Consequently, the high commodity prices, coupled with pandemic related supply bottlenecks, led to a surge in headline inflation rates in most economies. Inflationary pressures are expected to persist in the medium term in the emerging markets on the back of elevated food prices, delayed effects of higher oil prices, and higher import prices resulting from currency depreciations reflecting further the susceptibility of developing economies to large fluctuations in commodity prices.

In 2021, the Kenyan economy is projected to grow at an average of 5.9% and 5.1% in 2022 as the economy opens up but the largest challenge remains how fast the vaccination rollout shall be done and how fast business shall take to recover. Additionally, concerns remain elevated given the rising political temperatures ahead of the upcoming August 2022 elections which may cause economic disruption. The table below shows the projections by various organizations:

No.	Organization	2021e	2022f
1.	International Monetary Fund	7.6%	6.0%
2.	National Treasury	6.0%	5.8%
3.	World Bank	5.0%	4.7%
4.	Cytonn Investments Management PLC	6.3%	4.5%
5.	S&P Global	4.5%	4.3%
Average		**5.9%**	**5.1%**

Despite the political environment, we do not expect to see much disruptions in the economy given that the Kenyan economy has already felt full effects from the COVID-19 pandemic. As such, we expect continued recovery on the back of a positive vaccine rollout and as the economy continues to reopen.

Rates in the fixed income market have remained relatively stable due to the high liquidity in the money market. The government is 5.7% ahead of its prorated borrowing target of Kshs 367.2 bn having borrowed Kshs 388.3 bn of the Kshs 658.5 bn borrowing target for the FY'2021/2022. We expect a gradual economic recovery as evidenced by the revenue collections of Kshs 926.3 bn in revenues during the first six months of the current fiscal year, which is equivalent to 104.3% of the prorated revenue collection target. However, despite the projected high budget deficit of 11.4% 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.