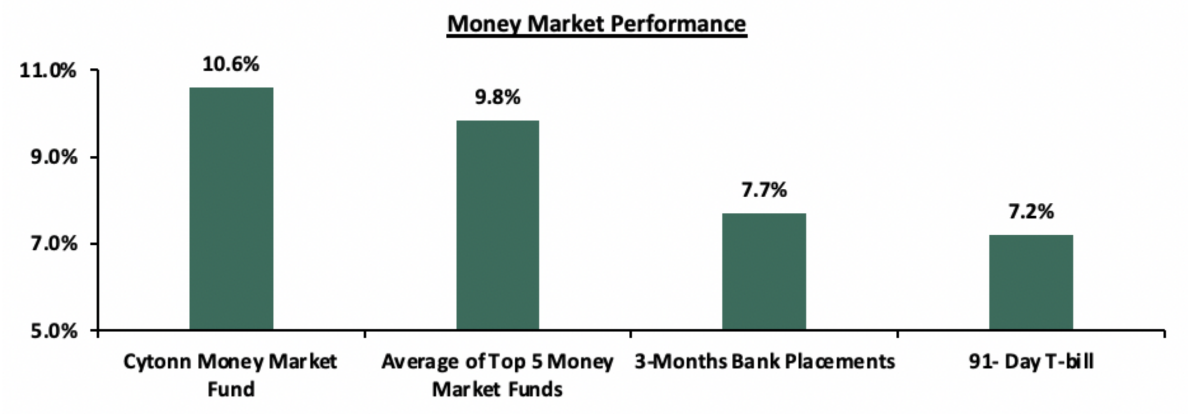
Kenya Retirement Benefits Schemes FY'2021 Performance, & Cytonn Weekly #10/2022

Fixed Income

Money Markets, T-Bills & T-Bonds Primary Auction:

During the week, T-bills remained oversubscribed, albeit at a lower level than the previous week, with the overall subscription rate coming in at 102.1%, down from the 122.1% recorded the previous week. The oversubscription is partly attributable to the eased liquidity in the money market, with the average interbank rate coming in at 5.3%, from 5.5% recorded the previous week. The 364-day paper recorded the highest subscription rate, receiving bids worth Kshs 13.4 bn against the offered Kshs 10.0 bn, translating to a subscription rate of 133.9%, an increase from the 68.7% recorded the previous week. The performance is partly attributable to investors' preference for the longer-dated paper, which offers a higher yield of 9.8% compared to the 8.0% and 7.2% yields offered by the 182-day and 91-day papers, respectively. The subscription rate for the 182-day paper and 91-day paper declined to 58.1% and 132.4%, from 126.0% and 246.0%, respectively. The yields on the government papers were on a downward trajectory, with the yields on the 364-day, 182-day and the 91-day papers declining by 0.3 bps, 3.1 bps and 5.9 bps to 9.8%, 8.0% and 7.2%, respectively. The government continued rejecting expensive bids, accepting bids worth Kshs 23.1 bn out of the Kshs 24.5 bn worth of bids received, translating to an acceptance rate of 94.3%.

In the Primary Bond Market, the government released the auction results for the recently re-opened bonds namely; FXD1/2021/05, FXD1/2020/15 and FXD1/2021/25. The three bonds recorded an undersubscription, with the subscription rate coming in at 81.9%, partly attributable to the tightened liquidity in the money markets during the bonds' sale period, with the interbank rate averaging 5.6%, in comparison to an average rate of 4.7% in February 2022. The government sought to raise Kshs 50.0 bn for budgetary support, received bids worth Kshs 40.9 bn and accepted bids worth Kshs 18.5 bn, translating to a 45.1% acceptance rate. The low acceptance rate for the bonds can be attributed to investors demanding a higher premium to compensate for duration risks and expected inflationary pressures following the continued rise in global fuel prices. Investors preferred the longer-tenure issue; FXD1/2021/25 which received bids worth Kshs 22.6 bn, representing 55.2% of the total bids received due to its higher returns of 14.0% compared to the 13.7% and 12.0% returns offered by FXD1/2020/15 and FXD1/2021/25, respectively. The coupons for the three bonds were 11.3%, 12.8% and 13.9%, and the weighted average yield for the issues were 12.0%, 13.7%, and 14.0%, for FXD1/2021/05, FXD1/2020/15 and FXD1/2021/25, respectively.



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 5.9 bps to 7.2%. The average yield of the Top 5 Money Market Funds declined marginally by 0.1% points to 9.8%, from 9.9% recorded the previous week. Similarly, the yield on the Cytonn Money Market Fund declined marginally by 0.1% points to 10.6%, from 10.7% recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 11th March 2022:

Money Market Fund Yield for Fund Managers as published on 11th March 2022

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.6%
2	Zimele Money Market Fund	9.9%
3	Nabo Africa Money Market Fund	9.7%
4	Sanlam Money Market Fund	9.6%
5	GenCap Hela Imara Money Market Fund	9.5%
6	Madison Money Market Fund	9.4%
7	Apollo Money Market Fund	9.4%
8	Dry Associates Money Market Fund	9.0%
9	CIC Money Market Fund	8.9%
10	Orient Kasha Money Market Fund	8.7%
11	Co-op Money Market Fund	8.6%
12	ICEA Lion Money Market Fund	8.3%
13	NCBA Money Market Fund	8.3%
14	British-American Money Market Fund	8.3%
15	AA Kenya Shillings Fund	8.2%
16	Old Mutual Money Market Fund	7.1%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate declining by 0.2% points to 5.3%, from 5.5%, as recorded the previous week, partly attributable to government payments which offset tax remittances. The average interbank volumes traded increased by 2.1% to Kshs 12.3 bn, from Kshs 12.0 bn recorded the previous week.

Kenya Eurobonds:

During the week, Kenyan Eurobonds recorded an improved performance with five out the six Kenyan Eurobonds recording declines in the yields, attributable to foreign investors attaching slightly lower risk premiums from emerging markets' Eurobonds as a result of increased conflict resolution talks between Russia and Ukraine. The geopolitical tensions between the two countries had caused massive selloffs during the previous week in emerging markets Eurobonds with foreign investors preferring relatively safer havens. Yields on the 10-year bond and 30-year bond issued in 2018 declined by 0.6% and 0.5% points to 9.2% and 10.0%, respectively. Similarly, yields on the 7-year and 12-year Eurobonds issued in 2021 declined by 1.0% points to 9.2% and 9.0%, respectively. The 12-year Eurobond issued in 2019 declined by 0.8% points to 9.5%, whereas yields on the 10-year bond issued in 2014 increased by 0.2% points to 6.7%. 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%	5.8%	8.1%	5.6%	6.7%	6.6%
1-Mar-22	5.3%	8.2%	9.7%	8.2%	8.2%	8.5%
4-Mar-22	6.5%	9.8%	10.5%	10.2%	10.3%	10.0%
7-Mar-22	6.9%	10.3%	10.8%	9.6%	10.6%	9.8%
8-Mar-22	6.7%	10.0%	10.6%	9.2%	10.2%	9.3%
9-Mar-22	6.7%	9.2%	10.0%	9.2%	9.5%	9.0%
10-Mar-22	6.7%	9.2%	10.0%	9.2%	9.5%	9.0%
Weekly Change	**0.2%**	**(0.6%)**	**(0.5%)**	**(1.0%)**	**(0.8%)**	**(1.0%)**
MTD Change	**1.4%**	**1.0%**	**0.3%**	**1.0%**	**1.3%**	**0.5%**
YTD Change	**2.3%**	**3.4%**	**1.9%**	**3.6%**	**2.8%**	**2.4%**

Source: CBK

Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.2% against the US dollar, to close the week at Kshs 114.2, from Kshs 113.9 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. In the coming week, we shall be holding a discussion on our Twitter platform on the Performance of the Kenyan Shilling, the factors that have led to its current trend and most importantly what can be done to stem the continued depreciation. On a year to date basis, the shilling has depreciated by 0.9% 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. Rising global crude oil prices on the back of supply constraints and geopolitical pressures at a time when demand is picking up with the easing of COVID-19 restrictions and as economies reopen. Key to note, risks abound the recovery following the emergence of the new COVID-19 variants,
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. An ever present current account deficit due to an imbalance between imports and exports, with Kenya’s current account deficit estimated to come in at 5.4% of GDP in 2021, having expanded by 44.6% to Kshs 127.6 bn in November 2021, from Kshs 88.3 bn recorded in November 2020, attributable to a robust increase in commercial imports by 1% to Kshs 185.9 bn in November 2021, from Kshs 88.3 bn in November 2020, and,
d. The aggressively growing government debt, with Kenya’s public debt having increased at a 10-year CAGR of 18.4% to Kshs 8.0 tn in December 2021, from Kshs 1.5 tn in December 2011 thus putting pressure on forex reserves to service some of the public debt.

The shilling is however expected to be supported by:

i. High Forex reserves currently at USD 8.0 bn (equivalent to 4.9-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 21.7% y/y increase to USD 338.7 mn in January 2022, from USD 278.3 mn recorded over the same period in 2021, which has continued to cushion the shilling against further depreciation.

Rates in the Fixed Income market have remained stable due to the relatively ample liquidity in the money market. The government is 11.6% ahead of its prorated borrowing target of Kshs 468.5 bn having borrowed Kshs 523.1 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 1.1 tn during the first seven months of the current fiscal year, which was equivalent to 103.8% 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. Owing to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com