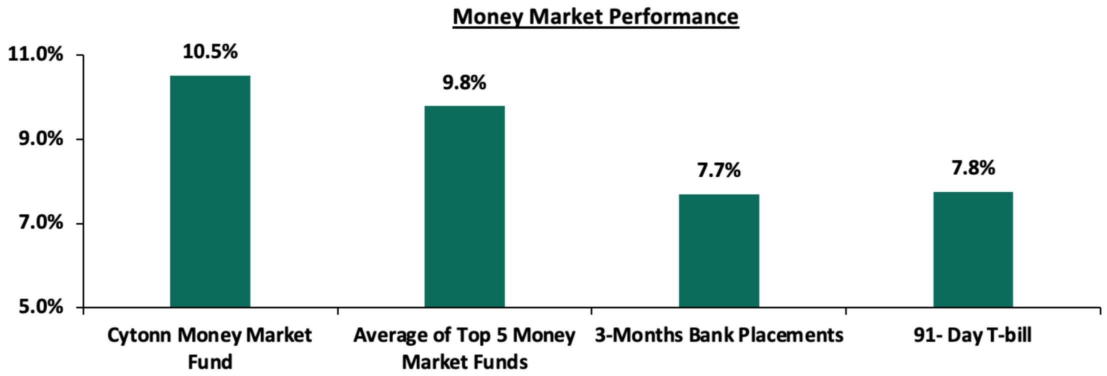
Public-Private Partnerships (PPPs) in Kenya, & Cytonn Weekly #20/2022

Fixed Income

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

During the week, T-bills remained oversubscribed, with the overall subscription rate coming in at 116.3%, up from 102.3% recorded the previous week, on the back of increasing yields and eased liquidity in the money market with the average interbank rates declining to 4.4%, from the 4.6% recorded the previous week. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 5.3 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 136.9%, a marginal increase from the 132.0% recorded the previous week. The continued investor preference for the 91-day paper is partly attributable to the higher return on a risk-adjusted basis. The subscription rate for the 364-day and 182-day papers increased to 121.8% and 102.5%, from 113.4% and 79.3%, respectively, recorded the previous week. The yields on the government papers were on an upward trajectory, with the yields on the 364-day, 182-day and the 91-day papers increasing by 1.9 bps, 11.0 bps and 7.5 bps to 9.9%, 8.8% and 7.8%, respectively. The government rejected expensive bids accepting only Kshs 22.9 bn worth of bids out of Kshs 27.9 bn received, translating to an acceptance rate of 81.9%.

The government released the auction results for the tap-sale of the two bonds, FXD1/2022/10 and FXD1/2021/25, seeking to raise Kshs 10.0 bn. The bonds were oversubscribed, receiving bids worth Kshs 17.0 bn against the offered Kshs 10.0 bn, translating to a subscription rate of 170.1%. The oversubscription can be attributed to the eased liquidity in the money market during the period of issue and the relatively high coupon rates of 13.5% and 13.9%, for FXD1/2022/10 and FXD1/2021/25, respectively. The government accepted all Kshs 17.0 bn of the Kshs 17.0 bn worth of bids received, translating to an acceptance rate of 100.0%. The weighted average rate of accepted bids for FXD1/2022/10 and FXD1/2021/25 was 13.5% and 14.0%, 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 increased by 7.5 bps to 7.8%. The average yield of the Top 5 Money Market Funds and the yield on the Cytonn Money Market Fund remained relatively unchanged at 9.8% and 10.5%, respectively as recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 20th May 2022:

Money Market Fund Yield for Fund Managers as published on 20th May 2022

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	9.8%
4	Apollo Money Market Fund	9.5%
5	Sanlam Money Market Fund	9.3%
6	CIC Money Market Fund	9.1%
7	Dry Associates Money Market Fund	9.0%
8	Co-op Money Market Fund	8.8%
9	Madison Money Market Fund	8.8%
10	GenCap Hela Imara Money Market Fund	8.7%
11	ICEA Lion Money Market Fund	8.7%
12	Orient Kasha Money Market Fund	8.5%
13	NCBA Money Market Fund	8.4%
14	Old Mutual Money Market Fund	7.9%
15	AA Kenya Shillings Fund	7.8%
16	British-American Money Market Fund	7.1%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate declining to 4.4% from 4.6% recorded the previous week, partly attributable to government payments which offset tax remittances. The average interbank volumes traded increased by 45.9% to Kshs 18.2 bn from Kshs 12.5 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded mixed performance, with the yields on the 10-year Eurobonds issued in 2014 and 2018 increasing by 0.6% and 0.2% points to 12.3% and 11.6%, from 11.7% and 11.4%, respectively, recorded the previous week. Similarly, the 7-year and 12-year Eurobonds issued in 2019 increased by 0.4% points and 0.1% points to 12.4% and 11.7%, from 12.0% and 11.6%, respectively. The 30-year Eurobond issued in 2018, and the 12-year Eurobond issued in 2021 both remained unchanged at 12.0% and 11.1%, respectively.

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%	8.1%	8.1%	5.6%	6.7%	6.6%

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**
2-May-22	8.8%	10.0%	11.1%	10.5%	10.8%	10.3%
13-May-22	11.7%	11.4%	12.0%	12.0%	11.6%	11.1%
16-May-22	11.7%	11.3%	12.0%	12.1%	11.5%	10.8%
17-May-22	11.7%	11.2%	11.9%	12.2%	11.5%	10.8%
18-May-22	11.7%	11.3%	11.9%	12.2%	11.5%	10.8%
19-May-22	12.3%	11.6%	12.0%	12.4%	11.7%	11.1%
Weekly Change	**0.6%**	**0.2%**	**0.0%**	**0.4%**	**0.1%**	**0.0%**
MTD Change	**3.5%**	**1.5%**	**0.9%**	**1.9%**	**0.9%**	**0.8%**
YTD Change	**7.9%**	**3.5%**	**3.9%**	**6.8%**	**5.0%**	**4.5%**

Source: CBK

Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.2% against the US dollar to close the week at Kshs 116.4, from Kshs 116.1 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 year to date basis, the shilling has depreciated by 2.9% 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 5.3% of GDP in the 12 months to March 2022 compared to the 4.7% for a similar period in 2021. The wider deficit reflects a higher import bill, particularly for oil, which more than offset increased receipts from agricultural and services exports, and remittances, and,
d. The aggressively growing government debt, with Kenya’s public debt having increased at a 10-year CAGR of 18.6% to Kshs 8.2 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. It is worth noting that the average GDP growth over the same period has been 3.9%, an indicator that the increase in debt is not translating into GDP growth.

The shilling is however expected to be supported by:

i. High Forex reserves currently at USD 8.3 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 750.0 mn World Bank loan facility received in March 2022 and are expected to be boosted further by the expected USD 244.0 mn from the International Monetary Fund (IMF), and,

ii. Improving diaspora remittances evidenced by a 18.6% y/y increase to USD 355.0 mn as of April 2022, from USD 299.3 mn recorded over the same period in 2021, the highest figure ever 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 4.6% ahead of its prorated borrowing target of Kshs 600.2 bn having borrowed Kshs 627.9 bn of the Kshs 664.0 bn borrowing target for the FY'2021/2022. We expect a gradual economic recovery as evidenced by the revenue collections of Kshs 1.5 tn during the first ten months of the current fiscal year, which was equivalent to 102.0% of the prorated revenue collection target. However, despite the projected high budget deficit of 8.1% and the affirmation of the `B+' rating with negative outlook by Fitch Ratings, 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.