Kenya FY’2021 Listed Insurance Report, & Cytonn Monthly – May 2022

Fixed Income

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

During the month of May, T-bills remained undersubscribed, with the overall subscription rate coming in at 92.2%, up from the 59.4% recorded in April 2022. The increase in the subscription rate was partly attributable to the increasing yields and partly due to the eased liquidity in the money market with the average interbank rate declining to 4.6%, from 4.7% recorded in April 2022. The overall subscription rates for the 91-day, 182-day and 364-day papers increased to 133.4%, 66.9% and 101.0%, from 105.5%, 46.7% and 53.6%, respectively, recorded in April 2022. The average yields on the 364-day, 182-day and 91-day papers increased by 10.3 bps, 42.3 bps and 26.5 bps to 9.9%, 8.7% and 7.7%, respectively. For the month of May, the government accepted a total of Kshs 103.5 bn out of the Kshs 110.6 bn worth of bids received, translating to a 93.5% acceptance rate.

During the week, T-bills remained undersubscribed with the overall subscription rate coming in at 86.3%, up from the 54.4% recorded the previous week. The undersubscription was partly attributable to the tightened liquidity in the money market with the average interbank rates increasing to 4.8%, from the 4.6% recorded the previous week. The highest subscription rate was in the 91-day paper which came in at 210.1%, up from the 12.4% recorded the previous week, partly attributable to the high returns on a risk adjusted basis. The subscription rate for the 182-day paper also increased to 72.7%, from 28.5%, while that of the 364-day paper declined to 50.3% from 97.2% 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 91-day papers increasing by 5.4 bps, 7.3 bps and 6.7 bps to 9.9%, 9.0% and 7.8%, respectively.

In the primary bond market, the government released the auction results for the two bonds, FXD1/2022/10 and FXD1/2021/25, that were issued for the month of May highlighting that the bonds recorded an undersubscription of 71.9%. As such, the government issued the bonds on tap - sale 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 average tenor for the May bonds came in at 14.7 years while that of April, stood at 9.0 years. The weighted average rate of accepted bids for the May bonds was 13.7%, 0.8% points higher than the 12.9% average rate for the April bonds. The table below provides more details on the bonds issued during the month:

Issue Date	Bond Auctioned	Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Actual Amount Raised (Kshs bn)	Total bids received (Kshs bn)	Average Accepted Yield	Subscription Rate	Acceptance Rate
16-May-22	FXD1/2022/10	10.0	13.5%	60.0	31.7	43.1	13.5%	71.9%	73.6%
	FXD1/2021/25	24.1	13.9%				14.0%		

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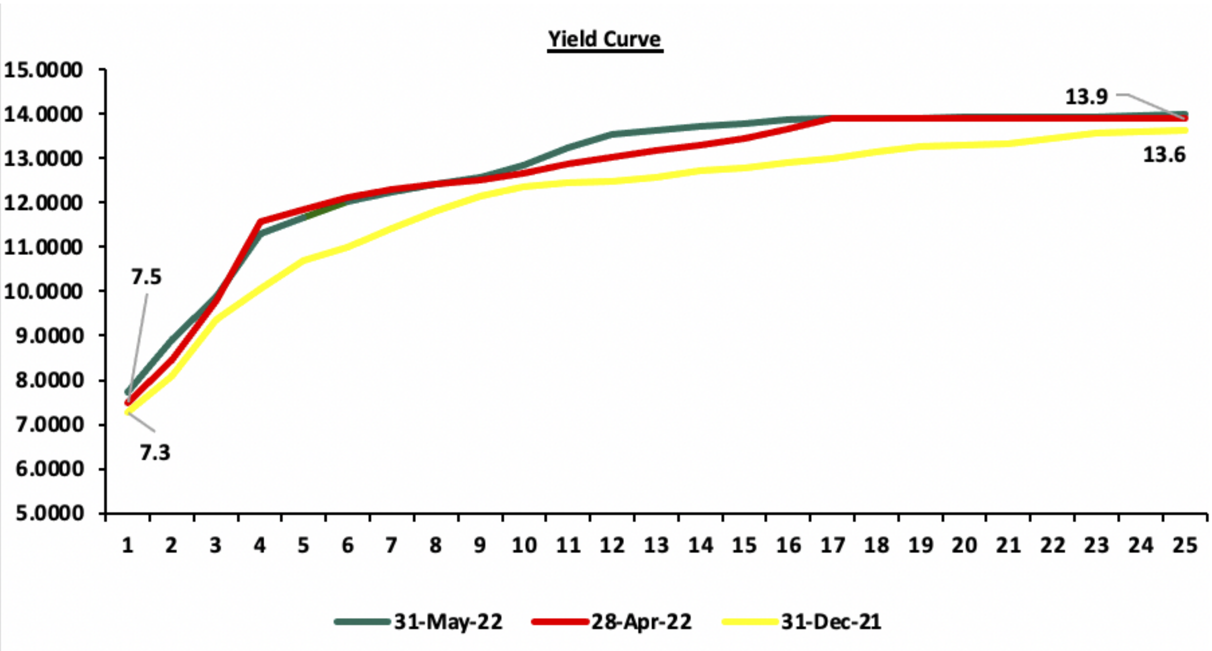
23-May-22	FXD1/2022/10 – Tap-sale	10.0	13.5%	10.0	17.0	17.0	13.5%	170.0%	100.1%
	FXD1/2021/25 –Tap-sale	24.1	13.9%				13.9%		
May 2022 Average		**14.7**	**13.6%**	**35.0**	**24.4**	**30.1**	**13.7%**	**120.9%**	**86.8%**
April 2022 Average		**9.0**	**12.9%**	**35.0**	**30.4**	**33.3**	**12.9%**	**96.8%**	**91.1%**

For the month of June 2022, the government issued a new 18-year infrastructure bond, IFB1/2022/18 with a tenor of 18 years in a bid to raise Kshs 75.0 bn for funding Infrastructure projects. The period of sale runs from 23rd May 2022 to 7th June 2022. Key to note, the bond's coupon rate will be market-determined. We anticipate an oversubscription and a higher acceptance rate given the relatively ample liquidity in the money market coupled with the attractive tax-free nature of the bond and expected high coupon rate. Our recommended bidding range for the bond is 12.9%-13.3% within which bonds of a similar tenor are trading.

Secondary Bond Market:

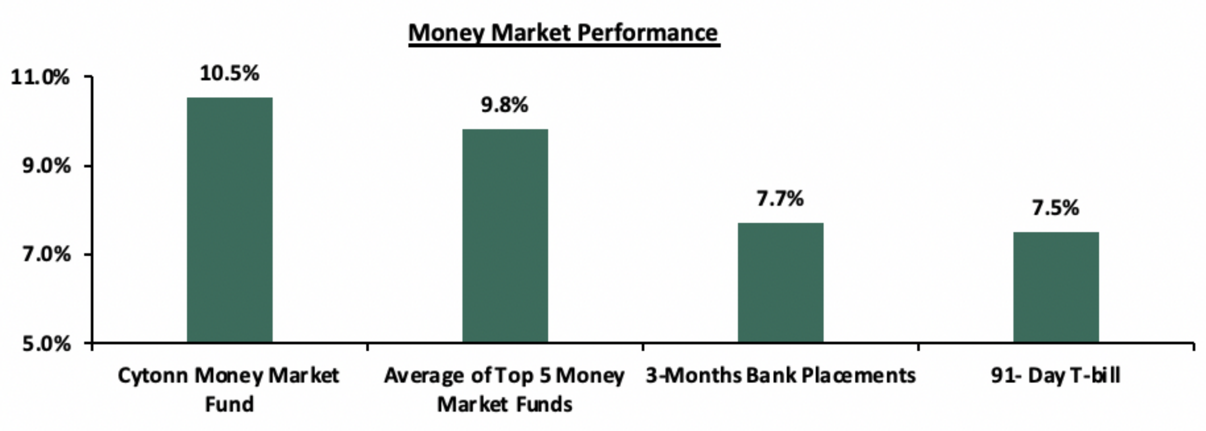
In the month of May 2022, the yields on government securities in the secondary market remained relatively stable, with the FTSE NSE bond index remaining relatively unchanged at Kshs 94.8, as recorded in April 2022, bringing the YTD performance to a decline of 1.3%. The chart below shows the yield curve movement during the period:



The secondary bond turnover declined by 17.4% to Kshs 58.6 bn, from Kshs 70.9 bn recorded in April 2022, pointing towards decreased activity by commercial banks in the secondary bonds market. On a year on year basis, the bonds turnover increased by 18.4% to Kshs 876.5 bn, from Kshs 740.1 bn worth of treasury bonds transacted over a similar period last year.

Money Market Performance

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 10.3 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 03rd June 2022:

Money Market Fund Yield for Fund Managers as published on 3rd June 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	Madison Money Market Fund	9.4%
5	Apollo Money Market Fund	9.4%
6	Sanlam Money Market Fund	9.4%
7	CIC Money Market Fund	9.0%
8	Dry Associates Money Market Fund	8.9%
9	Co-op Money Market Fund	8.9%
10	ICEA Lion Money Market Fund	8.8%
11	GenCap Hela Imara Money Market Fund	8.6%
12	Orient Kasha Money Market Fund	8.6%
13	NCBA Money Market Fund	8.4%
14	AA Kenya Shillings Fund	7.9%
15	British-American Money Market Fund	7.4%
16	Old Mutual Money Market Fund	7.0%

Source: Business Daily

Liquidity:

Liquidity in the money markets eased in the month of May 2022, with the average interbank rate declining to 4.6%, from 4.7%, recorded in April 2022. However, during the week, liquidity in the money markets tightened, with the average interbank rate increasing to 4.8%, from 4.6%, as recorded the previous week, partly attributable to tax remittances, which offset government payments. The average interbank volumes traded increased by 40.5% to Kshs 20.2 bn from Kshs 14.4 bn recorded the previous week.

Kenya Eurobonds:

During the month, the yields on the Eurobonds were on an upward trajectory partly attributable to investors attaching higher risk premium on the country due to perceived higher risks arising from increasing inflationary pressures and local currency depreciation. The yield on the 10-year Eurobond issued in 2014 was the largest gainer increasing by 1.7% points to 10.4% from 8.7%, recorded in April 2022 while the yield on the 30-year Eurobond issued in 2018 was the largest decliner decreasing by 0.3% points to 10.7%, from 11.0%, recorded in April 2022.

During the week, the yields on Eurobonds were on an upward trajectory with the yield on the 10-year Eurobond issued in 2014 increasing the most by 0.7% points to 11.0%, from10.3%, recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 2nd May 2022;

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**
03-Jan-22	4.4%	8.1%	8.1%	5.6%	6.7%	6.6%
29-Apr-22	8.7%	10.0%	11.0%	10.5%	10.4%	10.0%
27-May-22	10.3%	10.0%	10.8%	10.4%	10.0%	9.6%
30-May-22	10.3%	10.0%	10.8%	10.4%	10.0%	9.6%
31-May-22	10.4%	10.1%	10.7%	10.6%	10.3%	9.8%
01-Jun-22	10.8%	10.3%	10.9%	10.6%	10.4%	9.8%
02-Jun-22	11.0%	10.3%	11.0%	10.8%	10.5%	9.9%
Weekly Change	**0.7%**	**0.3%**	**0.2%**	**0.4%**	**0.5%**	**0.3%**
m/m	**1.7%**	**0.1%**	**(0.3%)**	**0.1%**	**(0.2%)**	**(0.2%)**
YTD Change	**6.6%**	**2.2%**	**2.9%**	**5.2%**	**3.8%**	**3.3%**

Source: Central Bank of Kenya (CBK)

Kenya Shilling:

During the month, the Kenya Shilling depreciated by 0.8% against the US Dollar, to close the month at Kshs 116.7, from Kshs 115.8 recorded at the end of April 2022, driven by the increased dollar demand from oil and merchandise importers on the back of increased global oil prices against slower recovery in exports and in the tourism sector.

During the week, the Kenyan shilling depreciated marginally by 0.1% against the US dollar to close the week at Kshs 116.8, from Kshs 116.7 recorded the previous week, partly attributable to increased dollar demand from the oil and energy sectors as well as the manufacturing 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 3.3% 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:

i. 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,
ii. Increased demand from merchandise traders as they beef up their hard currency positions in anticipation for more trading partners reopening their economies globally,

iii. 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 5.1% of GDP in the 12 months to April 2022 compared to the 4.8% 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,
iv. 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:

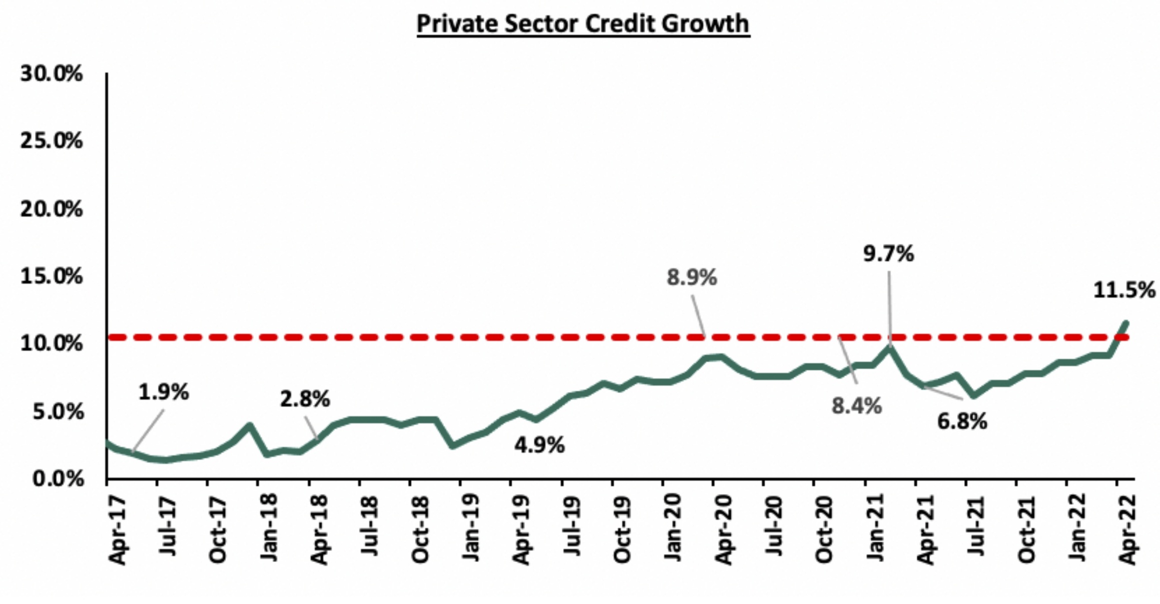
i. High Forex reserves currently at USD 8.2 bn (equivalent to 4.9-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, and the EAC region's convergence criteria of 4.5-months of import cover. In addition, the reserves were boosted by the 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 an 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 2021which has continued to cushion the shilling against further depreciation. In the recently released April 2022 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 61.7% in the period, followed by Europe at 17.2% while the rest of the world accounted for 21.1% of the total.

Weekly Highlights:

I. May 2022 MPC Meeting

The Monetary Policy Committee (MPC) met on May 30th, 2022 to review the outcome of its previous policy decisions and recent economic developments, and to decide on the direction of the Central Bank Rate (CBR). For the first time since April 2020, the MPC increased the Central Bank Rate by 50.0 bps to 7.5% from 7.0% against our expectations. We expected the MPC to maintain a cautious wait-and-see approach during the May sitting as it continues to monitor the country's economic recovery, with a focus on the need to stimulate economic growth rather than curtail post-pandemic recovery, given that Kenya's economy recorded an impressive growth of 7.5% in 2021. Below are some of the key highlights from the meeting:

i. Risks lie on the downside on the inflation outlook mainly due to increased global commodity prices and supply chain disruptions. The overall inflation increased to 6.5% in April 2022, from 5.6% in March 2022, mainly attributable to the increase in the food and fuel prices which increased by 12.1% and 8.5%, respectively,
ii. Private sector credit growth continues to recover, having grown by 11.5% in April 2022 as compared to 6.8% over the same period in 2021. The key sectors that have experienced increased lending include transport and communication, 28.9%, manufacturing, 12.0% and trade, 10.7%. the chart below shows the movement of the private sector credit growth over the last five years:



iii. The recently released GDP data by Kenya National Bureau of Statistics (KNBS) on the Economic Survey 2022, indicate that the Kenyan economy recorded a 7.5% growth in FY'2021, up from the 0.3% contraction recorded in FY'2020. The growth was mainly driven by the resumption of most economic activities following the lifting of COVID-19 containment measures put in place in 2020 to curb the spread of the virus, which led to the recovery of most sectors of the economy,

iv. The current account deficit to GDP is estimated at 5.1% in the 12 months to April 2022, a 1.0% point lower than the 5.2% that was recorded in a similar period in 2020. Exports of goods remained strong, growing by 11.1% in the 12 months to April 2022 but was slower than the 12.1% growth recorded in the twelve months to February 2022. Receipts from exports of manufactured and tea goods increased by 25.2% and 1.3%, respectively, while horticulture exports declined by 2.2% in the period of review, and,

v. The Committee noted the steady implementation of the FY2021/22 Government Budget, particularly the strong revenue performance in April 2022 with the total revenues collected amounting to Kshs 1.5 tn, having out-performed the target by 2.0%, reflect enhanced tax collection efforts and increased economic activity. The Economic Stimulus Programme in the FY2022/23 Government Budget is expected to continue to enhance revenue collection and hence reduce the over-reliance on debt.

The MPC concluded that there was a scope for tightening of the monetary policy given the high rate of inflation which is expected to continue increasing on the back of rising global fuel and commodity prices. The MPC therefore decided to increase the Central Bank Rate (CBR) by 50.0 bps to 7.5%, from the previous 7.0%. In our view, the move by the MPC to increase the Central Bank Rate will not only anchor inflation expectations, but will also help prop the shilling given the current depreciation. The Committee will meet again in July 2022, but remains ready to re-convene earlier if necessary.

II. May 2022 inflation

The y/y inflation for the month of May 2022 increased to 7.1%, from the 6.5% recorded in April 2022, in line with our expectations. The increase was mainly attributable to the increase in the y/y Food and non-alcoholic beverages, household equipment, transport as well as housing, water, electricity, gas and other fuels, which increased by 12.4%, 7.9%, 6.4% and 6.0%, respectively. Food and non-alcoholic beverages index has had the greatest increase month on month increasing by 1.3%, mainly due to the supply constraints of production materials. The table below shows a summary of both the year on year and month on month commodity groups' performance:

Major Inflation Changes – May 2022

Broad Commodity Group	Price change m/m (May-22/April -22)	Price change y/y (May-22/ May-21)	Reason
Food & Non-Alcoholic Beverages	1.3%	12.4%	The m/m increase was mainly contributed by increase in prices of fortified maize flour, cooking fat, cooking oil (salad) and fresh packeted cow milk. The increase was however mitigated by a decline in prices of kales, spinach and cabbages
Housing, Water, Electricity, Gas and other Fuel	0.6%	6.0%	The m/m increase was as a result of increase in prices of laundry/ bar soap and detergents, among other items
Transport Cost	0.8%	6.4%	The m/m increase was as a result of increase in prices of petrol and diesel by 3.8% and 4.4% to Kshs 150.1 per litre and Kshs 131.0 per litre, from Kshs 144.6 per litre and Kshs 125.5 per litre, respectively
Overall Inflation	**0.8%**	**7.1%**	**The m/m increase was driven by a 1.3% increase in food & non-alcoholic beverages coupled with a 0.8% increase in transport costs**

Source: KNBS

Going forward, we expect the inflation pressures to remain elevated but within the government's set range of 2.5% - 7.5% supported by the current fiscal stance by the Monetary Policy Committee, having increased the Central Bank Rate to 7.5% from 7.0%. However, concerns remain high on the rising food and fuel prices which are expected to put pressure on inflation, given that these are a major contributor to the inflation basket. Additionally, we believe that the fuel subsidy program by the National Treasury stands at risk of being depleted and is unsustainable, as evidenced by the increased compensation amounts which further increase the possibility of depletion. As such, fuel prices are likely to keep rising in tandem with the global fuel prices. Key to note, the cost of fuel has risen by 15.7%, 18.4% and 14.6% this year to Kshs 150.1 per litre, Kshs 131.1 per litre and Kshs 118.6 per litre in May 2022, from Kshs 129.7 per litre, Kshs 110.6 per litre and Kshs 103.5 per litre, in December 2021 for Super petrol, diesel and kerosene, respectively.

Monthly Highlights:

i. Stanbic Bank released its monthly Purchasing Manager's Index (PMI) highlighting that the index for the month of April 2022 declined to 49.5 from 50.5 recorded in March 2022 pointing towards a deterioration of the business environment in the Kenyan private sector. The decline was largely on the back of the high cost of living occasioned by the rising fuel prices and production costs. For more information, see our Cytonn Weekly #18/2022,

ii. The Kenya National Bureau of Statistics (KNBS) released the Economic Survey 2022, highlighting that the economy expanded by 7.5% in 2021 from the 0.3% contraction recorded in 2020. The growth was mainly driven by the resumption of most economic activities following the lifting of COVID-19 containment measures put in place in 2020 to curb the spread of the virus, which led to the recovery of most sectors of the economy. For more information, see our Cytonn Weekly #18/2022,

iii. The National Treasury gazetted the revenue and net expenditures for the first ten months of FY'2021/2022, ending 28th April 2022. Total revenue collected as at the end of April 2022 amounted to Kshs 1,536.8 bn, equivalent to 85.0% of the revised estimates of Kshs 1,808.3 bn and is 102.0% of the prorated estimates of Kshs 1,506.9 bn. For more information, see our Cytonn Weekly #19/2022, and,

iv. The Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum fuel price in Kenya effective 15th May 2022 to 14th June 2022. Notably, super petrol, diesel and kerosene prices increased by 3.8%, 4.4% and 4.9% to Kshs 150.1 per litre, Kshs 131.0 per litre and Kshs 118.9 per litre, from Kshs 144.6 per litre, Kshs 125.5 per litre and Kshs 113.4, respectively. For more information, see our Cytonn Weekly #19/2022.

Rates in the Fixed Income market have remained stable due to the relatively ample liquidity in the money market. The government is 3.5% behind its prorated borrowing target of Kshs 625.7 bn having borrowed Kshs 603.7 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.