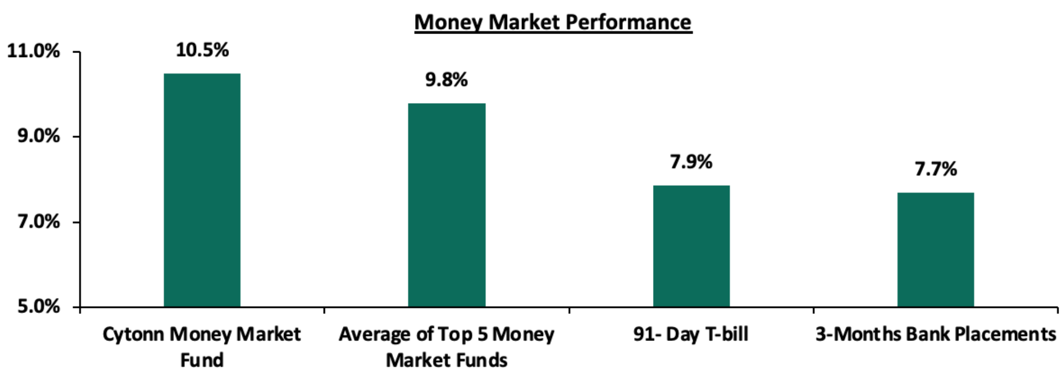
Nairobi Metropolitan Area (NMA) Residential Report 2022, & Cytonn weekly #23/2022

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills remained undersubscribed with the overall subscription rate coming in at 61.3%, down from 86.3% recorded the previous week partly attributable to the concurrent bond issue which recorded an oversubscription of 101.8%. The highest subscription rate was in the 91-day paper which decreased to 81.1%, from 210.1% recorded the previous week. The subscription rate for the 182-day paper also decreased to 40.0%, from 72.7%, while that of the 364-day paper increased to 74.6% from 50.3% recorded the previous week. The yields on the 364-day, 182-day and 91-day papers increased by 1.7 bps, 6.3 bps and 5.5 bps to 10.0%, 9.0% and 7.9%, respectively. The government accepted a total of Kshs 14.0 bn worth of bids out of Kshs 14.7 bn received, translating to an acceptance rate of 95.4%.

In the primary bond market, the government released the auction results for the newly issued infrastructure bond, IFB1/2022/18, for the month of June. The bond recorded an oversubscription of 101.8%, partly attributable to the relatively ample liquidity in the money market during the period of issue coupled with the attractive tax-free nature of the bond and the high coupon rate of 13.7%. The government sought to raise Kshs 75.0 bn for funding infrastructural projects, received bids worth Kshs 76.4 bn and accepted bids worth Kshs 73.8 bn, translating to a 96.6% acceptance rate. The bond had a coupon rate and a market weighted average rate of 13.7% and 13.8%, 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 5.5 bps to 7.9%. 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 10th June 2022:

Money Market Fund Yield for Fund Managers as published on 10th 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	Sanlam Money Market Fund	9.4%
5	Madison Money Market Fund	9.4%
6	Apollo Money Market Fund	9.2%
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	8.7%
12	Orient Kasha Money Market Fund	8.6%
13	NCBA Money Market Fund	8.4%
14	Old Mutual Money Market Fund	8.0%
15	AA Kenya Shillings Fund	7.8%
16	British-American Money Market Fund	7.3%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets remained stable, with the average interbank rate remaining relatively unchanged at 4.8%, as recorded the previous week. The average interbank volumes traded increased by 38.1% to Kshs 27.9 bn from Kshs 20.2 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on 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 yields on the 10-year Eurobond issued in 2014 and the 7-year Eurobond issued in 2019 both recorded the highest increase having increased by 2.6% points to 13.5% and 13.3%, from 10.9% and 10.7%, respectively recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 9th June 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
3-Jan-22	4.4%	8.1%	8.1%	5.6%	6.7%	6.6%
31-May-22	10.4%	10.1%	10.7%	10.6%	10.3%	9.8%

Kenya Eurobond Performance

Date	2014	2018		2019		2021
	10-year issue	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**	**12-year issue**
3-Jun-22	10.9%	10.3%	11.0%	10.7%	10.5%	9.9%
6-Jun-22	10.9%	10.3%	10.9%	10.7%	10.5%	9.9%
7-Jun-22	11.2%	10.6%	11.0%	11.7%	10.6%	10.3%
8-Jun-22	12.5%	11.4%	11.5%	12.5%	11.1%	10.7%
9-Jun-22	13.5%	12.2%	12.0%	13.3%	12.0%	11.1%
Weekly Change	**2.6%**	**1.9%**	**1.0%**	**2.6%**	**1.5%**	**1.2%**
MTD Change	**3.1%**	**2.1%**	**1.3%**	**2.7%**	**1.7%**	**1.3%**
YTD Change	**9.1%**	**4.1%**	**3.9%**	**7.7%**	**5.3%**	**4.5%**

Source: Central Bank of Kenya (CBK)

Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.2% against the US dollar to close the week at Kshs 117.0, from Kshs 116.8 recorded the previous week, partly attributable to increased dollar demand from the oil and energy sectors as well as the manufacturing sector. 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 3.5% 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 5.1% 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,
d. The aggressively growing government debt, with Kenya's public debt having increased at a 10-year CAGR of 18.3% to Kshs 8.4 tn in March 2022, from Kshs 1.6 tn in March 2012 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 5.0%, an indicator that the increase in debt is not translating into GDP growth.

The shilling is however expected to be supported by:

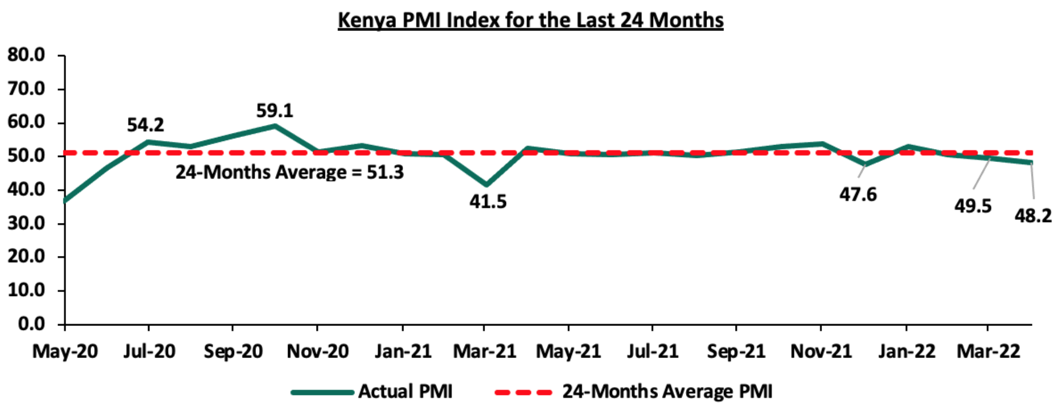
i. High Forex reserves currently at USD 8.2 bn (equivalent to 4.9-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, and the EAC region's convergence criteria of 4.5-months of import cover. In addition, the reserves were boosted by the 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 2021 which 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. **Stanbic Bank's May 2022 Purchasing Manager's Index (PMI)**

During the week, Stanbic Bank released its monthly Purchasing Manager's Index (PMI) highlighting that the index for May 2022 declined for the second consecutive month to 48.2, from 49.5 recorded in April 2022 signaling a further deterioration in the business environment in the Kenyan private sector. The decline was largely attributable to the prevailing inflationary pressures with the inflation rate for the month of May coming in at 7.1%, the highest rate since March 2020. Additionally, there was a rise in input costs, occasioned by the increasing fuel prices, supply constraints as well as weakening currency. Selling prices increased in tandem leading to a decline in new order volumes as consumers reduced their spending. Key to note, purchasing activity by businesses remained at the same levels as in April despite the continued rise in prices as businesses sought to restock goods amid concerns that supply would worsen or prices would rise. The chart below summarizes the evolution of the PMI over the last 24 months:



***** *Key to note, a reading above 50.0 signals an improvement in business conditions, while readings below 50.0 indicate a deterioration.*

Kenya's general business environment has continued to deteriorate amid increased supply chain uncertainties, rising inflation as well as persistent geopolitical pressures that have worsened supply constraints, all of which have led to reduced consumer spending. Going forward, we maintain a cautious outlook owing to the continued rise in cost of fuel and production materials which has resulted to an increase in input costs. With fuel being a major input cost to most sectors, we expect the increasing global fuel prices to contribute to the deterioration of business conditions in the country. Further, the continued depreciation of the Kenyan shilling, is expected to weigh on the business environment given that imports continue to get more expensive raising the production costs even more. As such, the recovery of the private sector business environment in Kenya is largely pegged on how quickly the global economy stabilizes with a key concern on the rising fuel prices as well as the upcoming August general elections.

II. **World Bank June 2022 Global Economic Prospects**

Recently, the World Bank released the Global Economic Prospects - June 2022 report, highlighting that the global economy is projected to grow by 2.9% in 2022, 1.2% points lower than the January

2022 projections of a 4.1% growth. The reduced growth projections are largely weighed down by the Russian-Ukraine crisis, resurgence and the emergence of new COVID-19 variants, reduced fiscal support as well as persistent supply bottlenecks. The compounded effect has seen inflation rates continue to rise world over on the back of rising food and fuel prices. Other key take-outs from the report include:

i. Emerging Markets and Developing Economies (EMDEs) are expected to grow at a slower 3.4% in 2022, 1.2% points lower than the 4.6% projections at the beginning of the year and 3.2% points lower than the 6.6% growth recorded in 2021. The decline is mainly attributable to the negative spillovers from the Russian – Ukraine crisis which outweigh the short-term benefits from higher energy prices for some commodity exporters,
ii. Growth in the Sub-Saharan Africa is expected to come in at 3.7%, 0.4% points lower than the 4.1% growth estimate recorded in 2021. Key to note, growth in the Sub-Saharan region is expected to come in lower in comparison to other EMDEs save for the regions in close proximity to Russia and Ukraine such as the Euro Zone and Central Asia. This is mainly attributable to the narrowed fiscal space, increasing inflation rates and persistent supply constraints given that most countries in the Sub Saharan Africa are net importers,
iii. Kenya's economy is expected to grow by 5.5% in 2022, 0.8% points higher than the 4.7% projected growth at the beginning of the year mainly because of the strong recovery witnessed in 2021 which is expected to carry on into the 2022 annual growth. The projected growth is however 2.0% points lower than the 7.5% growth rate recorded in 2021 with the outlook being clouded by the rising inflation rates, erratic weather conditions, emergence of new COVID-19 variants, global economic headwinds and the uncertainties surrounding the August 2022 general elections which are expected to disrupt the economic environment, and,
iv. Kenya's current account deficit is expected to widen to 6.0% in 2022, from 5.1% in 2021 partly due to commodity price volatility caused by the Russia - Ukraine war which is expected to have an immediate and direct impact on the trade balance. While Imports are expected to pick up partly due to recovering domestic demand, the rising commodity prices are expected to have a negative effect on the import bill. On the other hand, growth in Kenya's key exports are expected to slow down as the outlook for Kenya's major export markets weaken.

Following the relaxation of almost all COVID-19-related measures in most countries, the global economy is estimated to have grown by 5.7% in 2021, up from a 3.3% contraction in 2020. However, following an initial recovery from a global recession, the global economy was set to experience its sharpest slowdown in economic growth in 2022. With the Russian-Ukraine crisis in the picture, the risks to the global economic outlook are firmly to the downside, with much uncertainty stemming from the persistent geopolitical pressures. Further disruptions in global supplies of essential commodities are expected to exacerbate the import bill, particularly for African countries that are primarily net importers.

Rates in the Fixed Income market have remained stable due to the relatively ample liquidity in the money market. The government is 0.6% ahead of its prorated borrowing target of Kshs 638.5 bn having borrowed Kshs 642.2 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.