# Sub-Saharan Africa Eurobond Performance 2022, & Cytonn Weekly #27/2022

## Fixed Income

**Money Markets, T-Bills Primary Auction:**

During the week, T-bills were oversubscribed, with the overall subscription rate coming in at 102.5%, up from 37.1% recorded the previous week, partly attributable to investors' preference for the shorter dated papers as they avoid duration risk. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 11.0 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 276.0%, an increase from the 118.2% recorded the previous week. The subscription rate for the 364-day and 182- day papers also increased to 51.2% and 84.3%, from 24.4% and 17.5%, respectively, recorded the previous week. The yields on the government papers recorded mixed performance, with the yields on the 182-day and the 91-day papers increasing by 5.7 bps and 7.0 bps to 9.3% and 8.2%, respectively while the yield on the 364-day paper declined by 0.5 bps to 10.0%. The government continued to reject expensive bids, accepting a total of Kshs 24.2 bn worth of bids out of the Kshs 24.6 bn received, translating to an acceptance rate of 98.4%.

In the primary bond market, the government released the auction results for the tap sale of the infrastructure bond, IFB1/2022/18, for the month of July highlighting that the bond recorded an undersubscription of 32.1%, partly attributable to the relatively tight liquidity in the money market during the period of issue. The government sought to raise Kshs 20.0 bn for funding infrastructural projects and received all the bids worth Kshs 6.4 bn, translating to a 100.0% acceptance rate. The bond had a coupon rate and a market weighted average rate of 13.7%.

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 7.0 bps to 8.2%. The average yield of the Top 5 Money Market Funds and the Cytonn Money Market Fund remained relatively unchanged at 9.7% and 10.5% respectively, as was recorded last week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 8th July 2022:

**Money Market Fund Yield for Fund Managers as published on 8th July 2022**

| Rank | Fund Manager | Effective Annual Rate |
|---|---|---|
| 1 | Cytonn Money Market Fund | 10.5% |
| 2 | Zimele Money Market Fund | 9.9% |
| 3 | Sanlam Money Market Fund | 9.6% |
| 4 | Madison Money Market Fund | 9.4% |

**Money Market Fund Yield for Fund Managers as published on 8th July 2022**

| Rank | Fund Manager | Effective Annual Rate |
|---|---|---|
| 5 | Apollo Money Market Fund | 9.3% |
| 6 | NCBA Money Market Fund | 9.2% |
| 7 | Nabo Africa Money Market Fund | 9.2% |
| 8 | Dry Associates Money Market Fund | 9.1% |
| 9 | Old Mutual Money Market Fund | 9.0% |
| 10 | CIC Money Market Fund | 8.9% |
| 11 | Co-op Money Market Fund | 8.9% |
| 12 | GenCap Hela Imara Money Market Fund | 8.8% |
| 13 | ICEA Lion Money Market Fund | 8.6% |
| 14 | Orient Kasha Money Market Fund | 8.3% |
| 15 | AA Kenya Shillings Fund | 7.9% |
| 16 | British-American Money Market Fund | 7.6% |

*Source: Business Daily*

**Liquidity:**

During the week, liquidity in the money markets tightened, with the average interbank rate rising to 5.8% from 5.3% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded increased by 12.7% to Kshs 20.6 bn from Kshs 18.3 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 0.5% points to 17.4% and 16.6%, from 16.9% and 16.1%, respectively recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 8$^{th}$ July 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% |
| 30-Jun-22 | 17.0% | 14.7% | 13.7% | 16.1% | 13.8% | 12.7% |
| 01-Jul-22 | 16.9% | 14.6% | 13.8% | 16.1% | 13.8% | 13.0% |
| 04-Jul-22 | 16.8% | 14.6% | 13.8% | 16.1% | 13.7% | 13.0% |
| 05-Jul-22 | 16.6% | 14.6% | 13.7% | 16.1% | 13.7% | 13.0% |
| 06-Jul-22 | 17.2% | 14.8% | 13.9% | 16.3% | 13.8% | 13.1% |
| 07-Jul-22 | 17.4% | 15.0% | 14.0% | 16.6% | 14.0% | 13.2% |

**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 |
| **Weekly Change** | 0.5% | 0.4% | 0.2% | 0.5% | 0.2% | 0.2% |
| **MTD Change** | 0.4% | 0.3% | 0.3% | 0.5% | 0.2% | 0.5% |
| **YTD Change** | 13.0% | 7.0% | 5.9% | 11.0% | 7.3% | 6.6% |

*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 118.1, from Kshs 117.9 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. On a year to date basis, the shilling has depreciated by 4.4% 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. Continued rise in global crude oil prices on the back of persistent supply chain bottlenecks further exacerbated by the Russian-Ukrainian 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 resurgence of COVID-19 infections in the country,
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 May 2022 compared to the 5.0% 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 19.8% to Kshs 8.5 tn in April 2022, from Kshs 1.4 tn in April 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 8.0 bn (equivalent to 4.6-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 7.6% y/y increase to USD 339.7 mn as of May 2022, from USD 315.8 mn recorded over the same period in 2021 which has continued to cushion the shilling against further depreciation. In the recently released May 2022 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 59.9% in the period, followed by Europe at 17.8% while the rest of the world accounted for 22.3% of the total.

**Weekly Highlights:**

## I. Stanbic Bank's June 2022 Purchasing Manager's Index (PMI)

During the week, Stanbic Bank released its monthly Purchasing Manager's Index (PMI) highlighting that the index for the month of June 2022 declined for the third consecutive time to 46.8, from 48.2 recorded in May 2022 signaling a further deterioration in the business environment in the Kenyan private sector. Notably, this was the lowest reading since April 2021, when the index came in at 41.5. The decline was largely attributable to the prevailing inflationary pressures with the inflation rate for the month of June coming in at 7.9%, from the 7.1% recorded in May 2022. Additionally, there was a rise in input costs, occasioned by the increasing fuel prices, supply constraints as well as a 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 fell compared to May, although inventories continued to rise due to stockpiling efforts amid concerns that supply would worsen or prices would rise. The chart below summarizes the evolution of the PMI;

*** *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 cost of living occasioned by constrained supply chains exacerbated by persistent geopolitical pressures, 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. Additionally, the continued depreciation of the Kenyan shilling is expected to further increase the production cost given that Kenya is a net importer. 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 2022 general elections.

## II. FY'2021/2022 Revenue Performance

During the week, the Kenya Revenue Authority (KRA) released the annual revenue performance for the FY'2021/2022 highlighting that the total revenue collected came in at Kshs 2.03 tn, against the revised target of Kshs 1.98 tn, representing an out-performance rate of 102.8%. Notably, this was the second time, the KRA surpassed its revenue collection target in eight years albeit the challenges posed by the COVID-19 pandemic on the business environment. Overall, revenues grew by 21.7% in FY'2021/2022 to Kshs 2.0 tn from Kshs 1.7 tn in FY'2020/2021. The performance is mainly attributable to (i) enhanced compliance enforcement efforts and the implementation of new tax measures, focused on ensuring that that non-compliant taxpayers pay their due taxes, (ii) introduction of new taxes such as digital services tax, minimum tax and voluntary tax disclosure as KRA bid to expand sources of revenue, and, (iii) employment of technological strategies to assist seal revenue loopholes. The graph below shows a summary of Kenya's revenue performance over the last 5 years, as per data by the Kenya Revenue Authority (KRA):

The revenue performance for the FY'2021/2022 is commendable given that the economy was still recovering from the adverse effects of the COVID-19 pandemic. With the revenue collection target having increased by 20.0% to Kshs 2.4 tn from the Kshs 2.0 tn in FY'2021/2022, we expect the government in collaboration with the Kenya Revenue Authority to put more initiatives so as to meet the target. Additionally, we expect the continued economic recovery coupled with the new tax policies which will see an increase in excise duty, income tax as well as Value Added Tax to support the growth in revenues. However, risks lie on the downside given the increasing inflationary pressures, resurgence of COVID-19 infections and the upcoming elections which could have a negative effect on the economic environment. In our view, the performance of the FY'2022/2023 revenue collection will be largely determined by the stability of the international markets, how well the government contains the spread of COVID-19 infections and the August 2022 elections.

***Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. The government is 18.0% ahead of its prorated borrowing target of Kshs 12.8 bn having borrowed Kshs 15.1 bn of the Kshs 581.7 bn borrowing target for the FY'2022/2023. We expect sustained gradual economic recovery as evidenced by the revenue collections of Kshs 2.0 tn during the FY'2021/2022, which was equivalent to 102.8% of the prorated revenue collection target. Additionally, 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.***

---