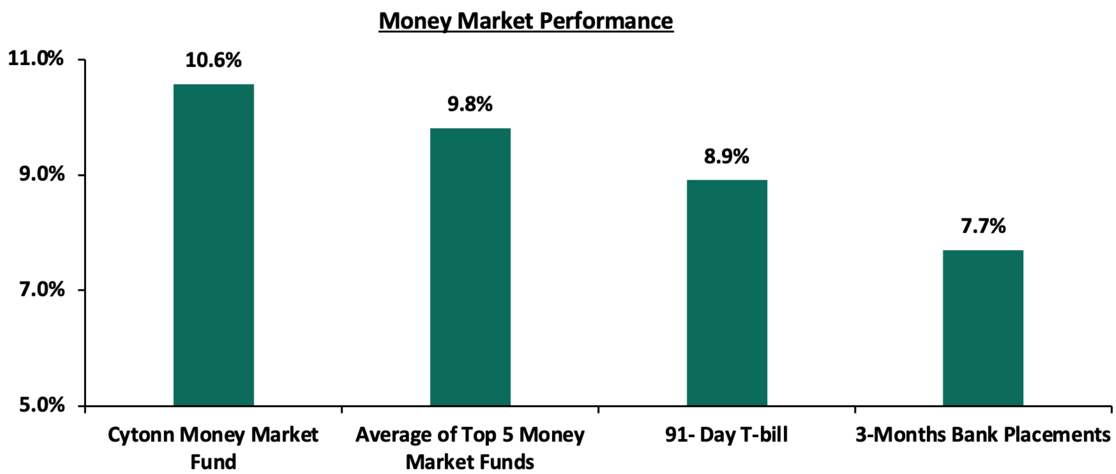
Kenya Listed Banks H1'2022 Report, & Cytonn Weekly #36/2022

Fixed Income

During the week, T-bills remained oversubscribed, with the overall subscription rate coming in at 153.0%, an increase from the 128.8% recorded the previous week. The increase in the subscription rate was partly attributable to the eased liquidity in the money market and partly due to increased investor confidence following the verification of the August 2022 elections results. Investor's preference for the shorter 91-day paper persisted for the eleventh consecutive week, with the paper receiving bids worth Kshs 27.0 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 675.4%, up from the 406.6% recorded the previous week. The subscription rate for the 364-day paper also increased to 34.8% from 34.1% while that of the 182-day paper declined to 62.3%, from 112.3% 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 3.9 bps, 2.3 bps, and 5.0 bps to 9.9%, 9.6%, and 8.9%, respectively. The government continued to reject expensive bids, accepting a total of Kshs 28.0 bn worth of bids out of the Kshs 36.7 bn worth of bids received, translating to an acceptance rate of 76.1%.



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 5.0 bps to 8.9%. The average yield of the Top 5 Money Market Funds and Cytonn Money Market Fund remained relatively unchanged at 9.8% and 10.6%, respectively, as was recorded last week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 9th September 2022:

Money Market Fund Yield for Fund Managers as published on 9th September 2022

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.6%

Money Market Fund Yield for Fund Managers as published on 9th September 2022

Rank	Fund Manager	Effective Annual Rate
2	Zimele Money Market Fund	9.9%
3	Sanlam Money Market Fund	9.6%
4	Dry Associates Money Market Fund	9.5%
5	NCBA Money Market Fund	9.5%
6	Nabo Africa Money Market Fund	9.5%
7	Apollo Money Market Fund	9.4%
8	Madison Money Market Fund	9.3%
9	Old Mutual Money Market Fund	9.3%
10	Co-op Money Market Fund	9.2%
11	CIC Money Market Fund	9.0%
12	ICEA Lion Money Market Fund	8.8%
13	GenCap Hela Imara Money Market Fund	8.6%
14	Orient Kasha Money Market Fund	8.6%
15	AA Kenya Shillings Fund	8.4%
16	British-American Money Market Fund	7.6%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate decreasing to 4.3% from 5.0% recorded the previous week, partly attributable to government payments that offset tax remittances. However, the average interbank volumes traded declined by 10.3% to Kshs 13.5 bn from Kshs 15.0 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds were on a downward trajectory partly attributable to reduced uncertainty following the verification of the August general election results. The yield on the 10-year Eurobond issued in 2014 recorded the highest decrease having declined by 2.2% points to 13.2%, from 15.2%, recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 8th September 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-Aug-22	15.3%	13.2%	12.4%	14.5%	13.1%	11.5%
2-Sep-22	15.4%	13.3%	12.5%	14.5%	13.2%	11.6%
5-Sep-22	14.6%	13.0%	12.3%	14.0%	13.1%	11.4%
6-Sep-22	13.0%	12.7%	11.9%	13.1%	12.5%	11.0%
7-Sep-22	13.5%	12.6%	11.9%	13.4%	12.6%	11.0%

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**
8-Sep-22	13.2%	12.5%	11.8%	13.3%	12.5%	11.0%
Weekly Change	**(2.2%)**	**(0.8%)**	**(0.7%)**	**(1.2%)**	**(0.7%)**	**(0.6%)**
MTD Change	**(2.1%)**	**(0.7%)**	**(0.6%)**	**(1.2%)**	**(0.6%)**	**(0.5%)**
YTD Change	**8.8%**	**4.4%**	**3.7%**	**7.7%**	**5.8%**	**4.4%**

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 120.3, from Kshs 120.1 recorded the previous week, partly attributable to increased dollar demand from the oil and energy sectors against a slower supply of hard currency. On a year to date basis, the shilling has depreciated by 6.3% against the dollar, higher than the 3.6% depreciation recorded in 2021. We expect the shilling to remain under pressure in 2022 as a result of:

a. High global crude oil prices on the back of persistent supply chain bottlenecks coupled with high demand as most economies gradually recover,
b. An ever-present current account deficit due to an imbalance between imports and exports, with Kenya's current account deficit estimated at 5.1% of GDP in the 12 months to July 2022 compared to the 5.2% within a similar period in 2021, and,
c. The aggressively growing government debt, with Kenya's public debt having increased at a 10-year CAGR of 18.2% to Kshs 8.6 tn in May 2022, from Kshs 1.6 tn in May 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 3.9%, indicating that the increase in debt is not translating into GDP growth.

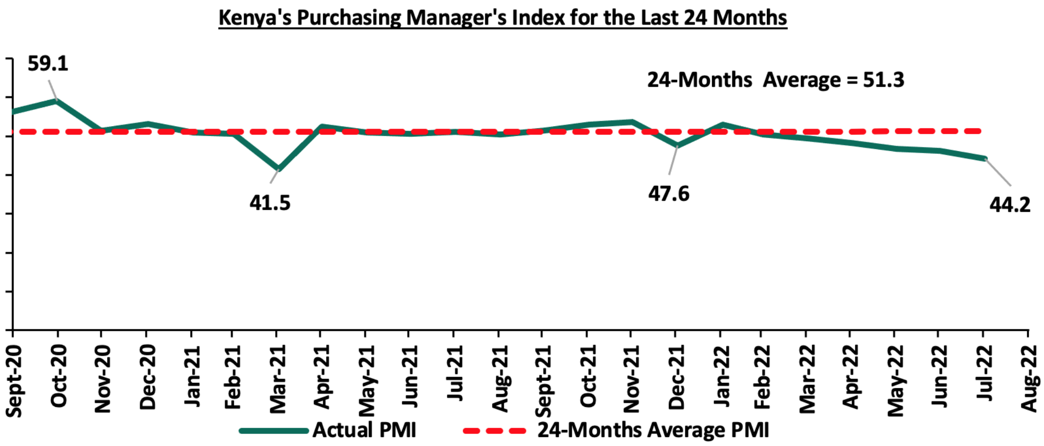
The shilling is however expected to be supported by:

i. Sufficient Forex reserves currently at USD 7.3 bn (equivalent to 4.2-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, and,
ii. Sufficient diaspora remittances evidenced by a 6.6% increase to USD 3,995.0 mn cumulative remittances as of July 2022, compared to USD 3,442.0 mn recorded over the same period in 2021, which has continued to cushion the shilling against a faster depreciation.

Weekly Highlight:

Stanbic Bank's August 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 August 2022 declined for the fifth consecutive time to 44.2, from 46.3 recorded in July 2022 pointing towards 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 economic disruptions occasioned by uncertainties that surrounded the August general elections as well as the prevailing inflationary pressures. Consequently, there was a decline in new order volumes due to a reduction in consumer spending which led to a decline in purchasing activity by businesses on the back of deteriorating sales. The chart below summarizes the evolution of the PMI in the last two years;



**** 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 continues to be weighed down by the elevated inflationary pressures emanating from supply chain constraints and a depreciating local currency. Going forward, we expect the business environment to remain subdued given the persistent supply chain bottlenecks that have seen the cost of inputs continue to rise. As such, we maintain our view that the recovery of the private sector business environment in Kenya is largely pegged on how quickly the global economy stabilizes and how soon the inflationary pressures ease.

Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. As it is still early in the financial year, the government is 12.1% behind its prorated borrowing target of Kshs 113.5 bn having borrowed Kshs 99.8 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 in the FY'2021/2022, equivalent to a 2.8% outperformance. Despite the performance, we believe that the projected budget deficit of 6.2% is relatively ambitious given the downside risks and deteriorating business environment occasioned by high inflationary pressures. We however expect the support from the IMF and World Bank to finance some of the government projects and thus help maintain a stable interest rate environment 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.
