

Cytonn Q3'2022 Markets Review

Fixed Income

During Q3'2022, T-bills remained undersubscribed with the overall subscription rate coming in at 90.8% up from 78.1% in Q2'2022, partly attributable to the tightened market liquidity, which saw the average interbank rate increase to 5.2% from 4.8% in Q2'2022. The Overall subscription for the 91-day and 182-day increased to 304.9% and 64.9% from 127.6% and 58.1% in Q2'2022, respectively, while the 364-day declined to 31.1% from 78.3% recorded in Q2'2022. The acceptance rate for the quarter declined to 87.0% from 91.9% in Q2'2022, with the government accepting a total of Kshs 246.4 bn of the Kshs 283.3 bn worth of bids received during the quarter. The yields on the government papers were on an upward trajectory during the quarter, with the yields on the 364-day, 182-day and 91-day papers increasing by 8.2 bps, 77.0 bps and 91.9 bps to 9.9%, 9.4% and 8.6%, respectively;

During the week, T-bills remained undersubscribed, with the overall subscription rate coming in at 38.8%, a decline from the 46.6% recorded the previous week. The undersubscription was partly attributable to the tightened liquidity in the money market, with the average interbank rate increasing to 5.6% from 4.5% recorded in the previous week. Investor's preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 5.1 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 128.2% up from 117.8% recorded in the previous week. The subscription rate for the 364-day papers also increased to 11.3% from 10.4% while that of the 182-day declined to 30.5% from 54.3%, recorded the previous week. The yields on the government papers recorded mixed performance, with the yields on the 182-day and 91-day papers increasing by 0.6 bps and 0.1 bps to 9.6% and 9.0%, respectively, while the yields on the 364-day paper declined by 0.4 bps to 9.9%. We however believe that the 91-day paper rates are not sustainable and this will likely lead to a reversal in the rates in the short term. The government continued to reject expensive bids, accepting a total of Kshs 6.7 bn worth of bids out of the Kshs 9.3 bn worth of bids received, translating to an acceptance rate of 71.4%.

Primary T-bond Auctions in Q3'2022

In Q3'2022, the government reopened seven bonds and issued one infrastructure bond on tap sale, seeking to raise Kshs 160.0 bn. The bonds were undersubscribed, receiving bids worth Kshs 112.2 bn against the offered Kshs 160.0 bn, translating to a subscription rate of 62.3%. The government was keen to maintain low rates, only accepting Kshs 93.3 bn, translating to an acceptance rate of 87.8%. The table provides more details on the bonds issued during the quarter;

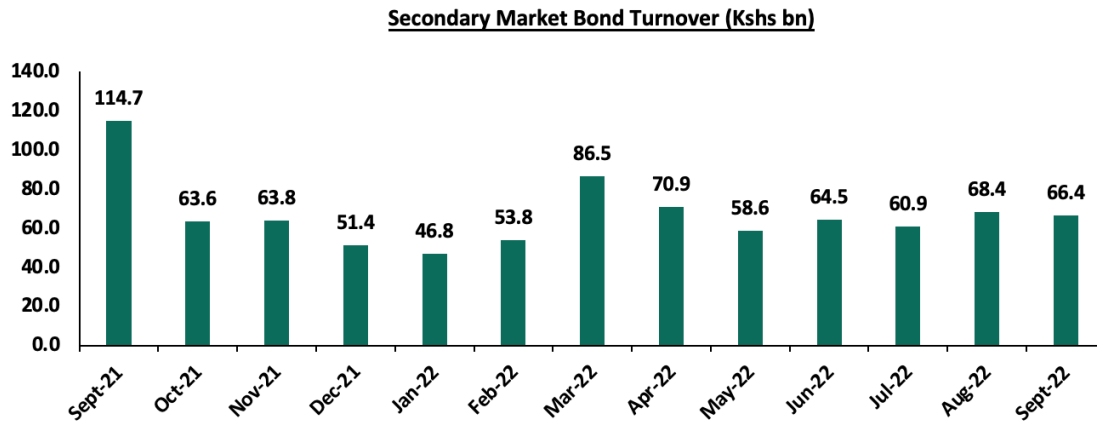
Issue Date	Bond Auctioned	Effective Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Actual Amount Raised (Kshs bn)	Total bids received	Average Accepted Yield	Subscription Rate	Acceptance Rate
7/11/2022	IFB1/2022/018 - Tap Sale	18.0	13.7%	20.00	6.4	6.4	13.7%	32.1%	100.0%
7/25/2022	FXD2/2013/15-Reopened	15.0	12.0%	40.0	9.3	10.6	13.2%	26.4%	88.0%
	FXD2/2018/15-Reopened	15.0	12.8%				13.9%		

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8/22/2022	FXD1/2022/03-Re-opened	2.7	11.8%				12.4%		
	FXD2/2019/10-Re-opened	6.7	12.3%	50.0	38.5	49.1	13.9%	98.3%	78.4%
	FXD1/2021/20-Re-opened	19.1	13.4%				14.0%		
9/19/2022	FXD1/2022/10-Re-opened	10.0	13.5%	50.0	39.0	46.1	13.9%	92.3%	84.6%
	FXD1/2022/15-Re-opened	15.0	13.9%				14.0%		
Q3'2022 Average		12.7	12.9%	40.0	23.3	28.1	13.6%	62.3%	87.8%
Q2'2022 Average		13.6	13.3%	40.0	33.8	37.1	13.3%	102.6%	92.1%

Secondary Bond Market Activity:

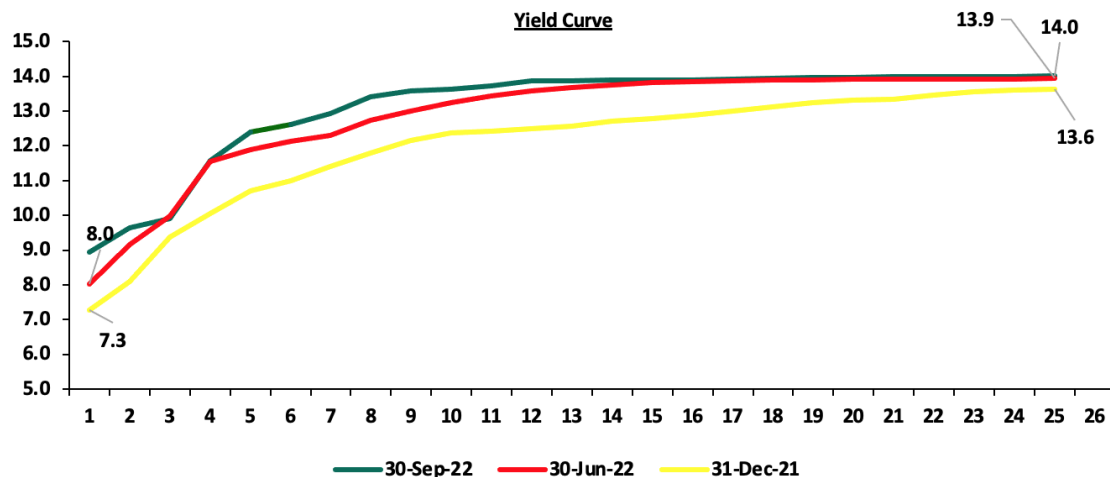
i. Bond Turnover

In Q3'2022, the secondary bond market recorded increased activity with the turnover increasing by 0.9% to Kshs 195.7 bn from Kshs 194.0 bn recorded in Q2'2022, partially attributable to the relative ample liquidity and increased allocation to treasury bonds by local institutional investors as they sought for higher yield in the market. The chart below shows the bonds turnover over the last one year

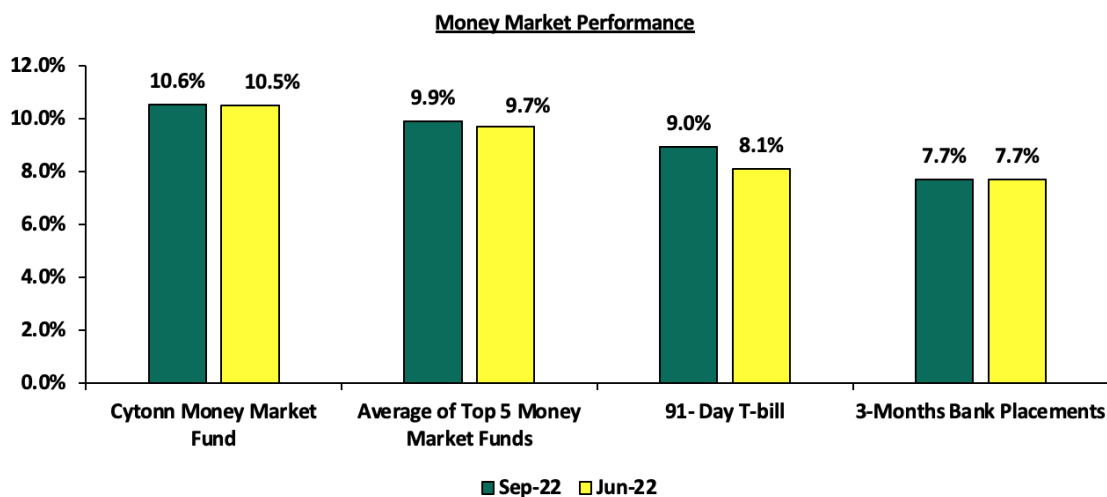


ii. Yield Curve:

The yield curve was on an upward trajectory in Q3'2022 with a notable increase in the yields on all the bonds. The chart below shows the yield curve movement during the quarter;



Money Market Performance:



During Q3'2022, the 3-month bank placements remained unchanged at 7.7% at the end of Q3'2022, same as that was recorded at the end of Q2'2022 (based on what we have been offered by various banks). The average 91-day T-bill rate increased by 0.9% points to 9.0% in Q3'2022 from 8.1% in Q2'2022, while the average of Top 5 Money Market Funds increased by 0.2% to 9.9% from 9.7% in Q2'2022. The yield on the Cytonn Money Market Fund (CMMF) remained increased by 0.1% points to 10.6% in Q3'2022, from 10.5% recorded in Q2'2022.

During the week, the 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 0.1 bps to 9.0%. The average yield of the Top 5 Money Market Funds increased by 8.0 bps to 9.9% while the Cytonn Money Market Fund remained relatively unchanged at 10.6%, as was recorded last week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 30th September 2022;

Money Market Fund Yield for Fund Managers as published on 30th September 2022

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.6%
2	Zimele Money Market Fund	9.9%
3	GenCap Hela Imara Money Market Fund	9.9%
4	NCBA Money Market Fund	9.7%
5	Dry Associates Money Market Fund	9.6%
6	Sanlam Money Market Fund	9.4%
7	Nabo Africa Money Market Fund	9.4%
8	Madison Money Market Fund	9.3%
9	Old Mutual Money Market Fund	9.3%
10	Apollo Money Market Fund	9.3%
11	Co-op Money Market Fund	9.2%
12	CIC Money Market Fund	9.1%
13	Orient Kasha Money Market Fund	8.8%
14	AA Kenya Shillings Fund	8.7%
15	ICEA Lion Money Market Fund	8.6%
16	British-American Money Market Fund	7.9%

Liquidity:

In Q3'2022, liquidity in the money market tightened, as evidenced by the increase in the interbank rate to 5.2% from 4.8% in Q2'2022, partly attributable to government payments, which offset tax remittances. Additionally, the average interbank volumes increased by 13.5% to Kshs 21.7 bn from Kshs 19.1 bn in Q2'2022.

During the week, liquidity in the money markets tightened, with the average interbank rate increasing to 5.6% from 4.5% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded declined by 51.2% to Kshs 11.6 bn from Kshs 24.1 bn recorded the previous week.

Kenya Eurobonds:

During Q3'2022, the yields on Eurobonds recorded a mixed performance, with 12-year Eurobond issued in 2021 being the highest gainer, increasing 0.7% points to 13.4% from 12.7% recorded in Q2'2022. The yield on the 7-year Eurobond issued in 2019 recorded the highest decline having declined 0.4% to 15.7% from 16.1% recorded in the previous quarter.

During the week, the yields on Eurobonds were on an upward trajectory with the yield on the 10-year Eurobond issued in 2014 recording the highest increase having increased by 3.8% to 17.1% from 13.3% recorded in the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 29th 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	10.9%	5.7%	8.1%	5.6%	6.7%	6.6%
30-Jun-22	17.0%	14.7%	13.7%	16.1%	13.8%	12.7%
23-Sep-22	13.3%	12.8%	12.2%	13.2%	12.9%	11.4%
26-Sep-22	14.0%	13.2%	12.6%	13.8%	13.3%	12.1%
27-Sep-22	15.2%	13.6%	12.8%	14.3%	13.6%	12.4%
28-Sep-22	16.3%	14.2%	13.2%	15.8%	14.6%	12.8%
29-Sep-22	17.1%	14.7%	14.1%	15.7%	14.7%	13.4%
Weekly Change	3.8%	1.9%	1.9%	2.4%	1.8%	2.0%
q/q Change	0.1%	0.0%	0.3%	(0.4%)	0.9%	0.7%
YTD Change	6.2%	9.0%	5.9%	10.1%	8.0%	6.8%

Source: Central Bank of Kenya (CBK)

Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. The government is 7.5% behind its prorated borrowing target of Kshs 147.0 bn having borrowed Kshs 136.0 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.

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