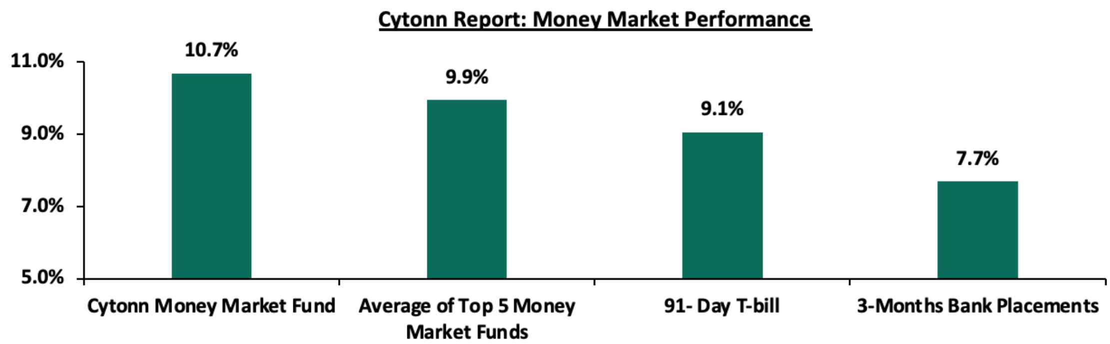
Kenya H1’2022 Listed Insurance Report, & Cytonn Weekly #41/2022

Fixed Income

During the week, T-bills were oversubscribed, with the overall subscription rate coming in at 116.7%, from the 110.0% recorded the previous week. The oversubscription was partly attributable to the eased liquidity in the money market, with the average interbank rate decreasing to 5.0% from 5.3% recorded in the previous week. Investor’s preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 10.2 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 253.8% from 452.2% recorded the previous week. The subscription rate for the 364-day and 182-day papers also increased to 39.2% and 139.5% from 14.3% and 68.8% respectively, recorded the previous week. The yields on the government papers were on upward trajectory, with the yields on the 364-day, 182-day and 91-day papers increasing by 0.5 bps, 1.7 bps and 2.2 bps to 9.9%, 9.7% and 9.1%, 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 2.2 bps to 9.1%. The average yield of the Top 5 Money Market Funds and yield of the Cytonn Money Market Fund increased by 0.1 bps and 0.4 bps to 9.9% and 10.7%, respectively.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 14th October 2022:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 14th October 2022

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.7%
2	GenCap Hela Imara Money Market Fund	10.0%
3	Zimele Money Market Fund	9.9%
4	NCBA Money Market Fund	9.7%

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 14th October 2022

Rank	Fund Manager	Effective Annual Rate
5	Dry Associates Money Market Fund	9.5%
6	Sanlam Money Market Fund	9.5%
7	Old Mutual Money Market Fund	9.4%
8	Madison Money Market Fund	9.3%
9	Nabo Africa Money Market Fund	9.3%
10	Apollo Money Market Fund	9.2%
11	Co-op Money Market Fund	9.2%
12	CIC Money Market Fund	9.1%
13	Orient Kasha Money Market Fund	8.8%
14	ICEA Lion Money Market Fund	8.5%
15	AA Kenya Shillings Fund	8.0%
16	British-American Money Market Fund	7.7%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate declining to 5.0% from 5.3% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded declined by 24.4% to Kshs 13.3 bn from Kshs 17.6 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds were on an upward trajectory, an indication of rising risk concerns over the economy by investors on the back of persistent inflationary pressures. The yield on the 12-year Eurobond issued in 2021 increased the most by 0.7% points to 13.2% from 12.5% recorded in the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 13th October 2022;

Cytonn Report: 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%
30-Sep-22	17.6%	14.7%	14.0%	15.6%	14.7%	13.2%
7-Oct-22	16.0%	13.9%	13.2%	14.8%	14.0%	12.5%
10-Oct-22	16.0%	13.9%	13.2%	14.8%	14.0%	12.5%
11-Oct-22	15.9%	13.9%	13.2%	14.8%	13.9%	12.5%
12-Oct-22	16.0%	13.9%	13.2%	15.0%	14.0%	12.5%

Cytonn Report: 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**
13-Oct-22	16.1%	14.0%	13.3%	15.2%	14.1%	13.2%
Weekly Change	**0.1%**	**0.1%**	**0.1%**	**0.4%**	**0.1%**	**0.7%**
MTD Change	**(1.5%)**	**(0.7%)**	**(0.7%)**	**(0.4%)**	**(0.6%)**	**0.1%**
YTD Change	**11.7%**	**5.9%**	**5.2%**	**9.6%**	**7.4%**	**6.6%**

Source: Central Bank of Kenya (CBK)

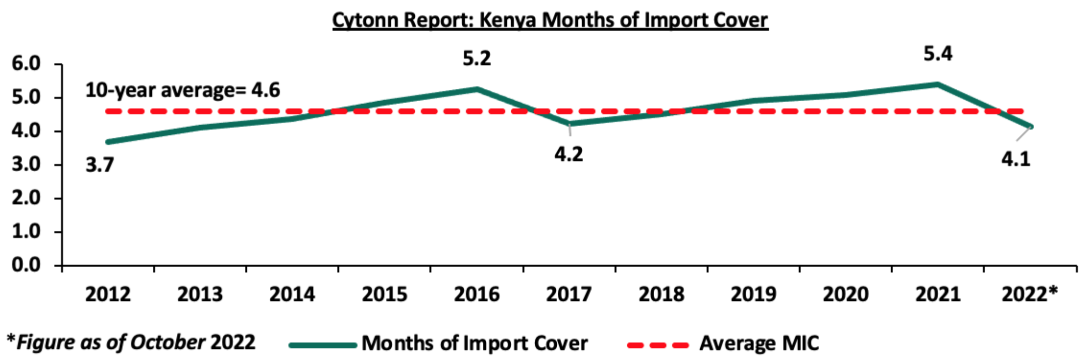
Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.1% against the US dollar to close the week at Kshs 121.0, from Kshs 120.9 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 6.9% 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:

i. High global crude oil prices on the back of persistent supply chain bottlenecks coupled with high demand as most economies gradually recover,
ii. An ever-present current account deficit estimated at 5.2% of GDP in the 12 months to August 2022, same as that was recorded in a similar period in 2021, and,
iii. The aggressively growing government debt which continues to put pressure on forex reserves given that 68.1% of Kenya's debt was US Dollar denominated as of July 2022.

The shilling is however expected to be supported by:

a. Sufficient Forex reserves currently at USD 7.3 bn (equivalent to 4.1 months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, however it's important to note that Forex reserves have dropped by 17.0% on YTD from USD 8.8 bn to the current USD 7.3 bn. The chart below summarizes the evolution of Kenya months of import cover over the last 10 years.



b. Significant diaspora remittances standing at a cumulative USD 4.0 bn as of September 2022, representing a 14.3% y/y increase from USD 3.5 bn recorded over the same period in 2021.

Weekly Highlights:

I. **Fuel Prices**

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya effective 15th October 2022 to 14th November 2022. Super Petrol, Diesel and Kerosene prices declined by 0.6%, 1.2% and 0.7% to Kshs 178.3 per litre, Kshs 163.0 per litre and Kshs 146.9 per litre from Kshs 179.3 per litre, Kshs 165.0 per litre and Kshs 147.9 per litre, respectively. Key to note, this is the first time since the October 2021 that fuel prices have declined. The decline in the fuel prices was attributable to:

i. Fuel subsidies of Kshs 18.2 and Kshs 27.5 per litres of diesel and kerosene respectively, retained after the partial subsidy removal in the month of September 2022,
ii. The 9.8% decrease in the Free On Board(FOB) price of Murban crude oil to USD 106.0 per barrel from USD 117.5 per barrel in the month of August 2022, and,
iii. A decline in the average landed costs of 10.6%, 6.9% and 1.8% to USD 726.8, USD 884.5 and USD 883.2 in September 2022 from USD 812.9, USD 949.7, USD 899.6 per cubic metres of Super Petrol, Diesel and Kerosene in August 2022, respectively.

However, the Kenyan shilling continued to depreciate against the US dollar, having declined by 2.7% to Kshs 123.9 in September 2022 from Kshs 120.6 in August, raising the cost of importing fuel, weighing down the country's foreign reserves.

Following a decline in the average landed costs of imported fuel, fuel prices in Kenya have declined for the first time since October 2021, despite the partial removal of the fuel subsidies in September 2022 by the new administration after noting that the subsidies were unsustainable. We have maintained that the subsidy program is unsustainable and is a burden to the country's expenditure. Going forward, we expect the current administration to completely do away with the fuel subsidy program and adjust the domestic fuel prices to ease pressure on expenditure and consequently reduce the need for excessive borrowing. However, we expect the cost of fuel to increase in the short-term, following the Organization of the Petroleum Exporting Countries (OPEC) decision to reduce their crude oil production by 2.0 million barrels per day effective November 2022, in a move that will stifle global oil supply. Consequently, we expect the cost of living to remain elevated given that fuel is a major contributor to Kenya's inflation. Additionally, the business environment is expected to remain unfavorable because of the decline in consumer spending.

II. Revenue and Net Exchequer for FY'2022/2023

The National Treasury gazetted the revenue and net expenditures for the first quarter of FY'2022/2023, ending 30th September 2022. Below is a summary of the performance:

Cyton Report: FY'2022/2023 Budget Outturn - As at 30th September 2022

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates	Actual Receipts/Release	Percentage Achieved	Prorated	% achieved of prorated
Opening Balance		0.6			
Tax Revenue	2,071.9	465.2	22.5%	518.0	89.8%
Non-Tax Revenue	69.7	20.2	29.0%	17.4	116.0%
Total Revenue	**2,141.6**	**486.0**	**22.7%**	**535.4**	**90.8%**
External Loans & Grants	349.3	86.2	24.7%	87.3	98.7%
Domestic Borrowings	1,040.5	95.7	9.2%	260.1	36.8%
Other Domestic Financing	13.2	13.4	101.5%	3.3	405.9%
Total Financing	**1,403.0**	**195.3**	**13.9%**	**350.8**	**55.7%**

Cyton Report: FY'2022/2023 Budget Outturn - As at 30th September 2022

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates	Actual Receipts/Release	Percentage Achieved	Prorated	% achieved of prorated
Recurrent Exchequer issues	1,178.4	276.1	23.4%	294.6	93.7%
CFS Exchequer Issues	1,571.8	264.8	16.8%	393.0	67.4%
Development Expenditure & Net Lending	424.4	68.1	16.0%	106.1	64.1%
County Governments + Contingencies	370.0	70.3	19.0%	92.5	76.0%
Total Expenditure	**3,544.6**	**679.3**	**19.2%**	**886.2**	**76.7%**
Fiscal Deficit excluding Grants	**1,403.0**	**193.3**	**13.8%**	**350.8**	**55.1%**
Total Borrowing	**1,389.8**	**181.9**	**13.1%**	**347.4**	**52.3%**

The Key take-outs from the release include;

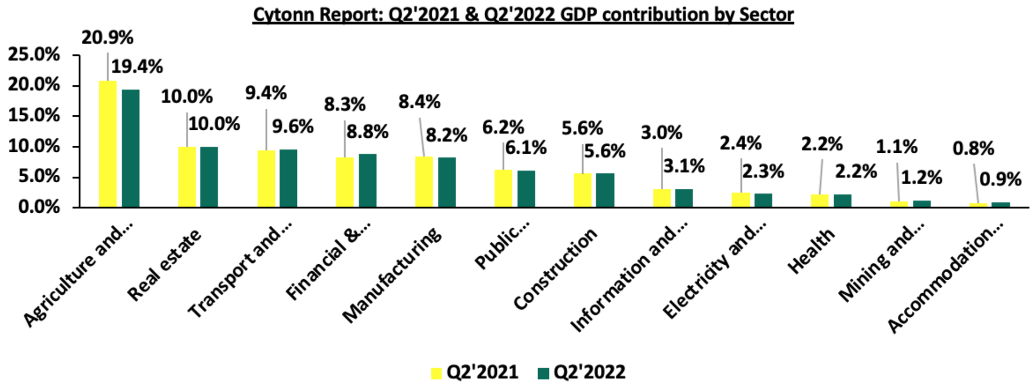
a. Total revenue collected as at the end of September 2022 amounted to Kshs 486.0 bn, equivalent to 22.7% of the original estimates of Kshs 2,141.6 bn for FY’2022/2023 and is 90.8% of the prorated estimates of Kshs 535.4 bn. We note that the government has not been able to meet its prorated revenue targets three months into the FY’2022/2023 partly attributable to the deterioration of the business environment following the elevated inflationary pressures that have seen consumers continue to cut on spending. Cumulatively, tax revenues amounted to Kshs 465.2 bn, equivalent to 22.5% of the original estimates of Kshs 2,071.9 bn and 89.8% of the prorated estimates of Kshs 518.0 bn,
b. Total financing amounted to Kshs 195.3 bn, equivalent to 13.9% of the original estimates of Kshs 1,403.0 bn and is equivalent to 55.7% of the prorated estimates of Kshs 350.8 bn. Additionally, domestic borrowing amounted to Kshs 95.7 bn, equivalent to 9.2% of the original estimates of Kshs 1,040.5 bn and is 36.8% of the prorated estimates of Kshs 260.1 bn,
c. The total expenditure amounted to Kshs 679.3 bn, equivalent to 19.2% of the original estimates of Kshs 3,544.6 bn, and is 76.7% of the prorated target expenditure estimates of Kshs 886.2 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 276.1 bn, equivalent to 23.4% of the original estimates of Kshs 1178.4 bn and 93.7% of the prorated estimates of Kshs 294.6 bn,
d. Consolidated Fund Services (CFS) Exchequer issues came in at Kshs 264.8 bn, equivalent to 16.8% of the original estimates of Kshs 1,571.8 bn, and are 67.4% of the prorated amount of Kshs 393.0 bn. The cumulative public debt servicing cost amounted to Kshs 237.0 bn which is 17.0% of the original estimates of Kshs 1,393.1 bn, and is 68.0% of the prorated estimates of Kshs 348.3 bn. Additionally, the Kshs 237.0 bn debt servicing cost is equivalent to 48.8% of the actual revenues collected as at the end of September 2022, further emphasizing on how much public debt weighs on the country’s expenditure, and,
e. Total Borrowings as at the end of September 2022 amounted to Kshs 181.9 bn, equivalent to 13.1% of the original estimates of Kshs 1,389.8 bn for FY’2022/2023 and are 52.3% of the prorated estimates of Kshs 374.4 bn. The cumulative domestic borrowing target of Kshs 1,040.5 bn comprises of adjusted Net domestic borrowings of Kshs 579.1 bn and Internal Debt Redemptions (Roll-overs) of Kshs 461.4 bn.

As expected, the revenue performance for the third month of the FY’2022/2023 reflects the economic uncertainties that emanated from the elevated inflationary pressures. The slow-down in economic environment is expected to persist in the short term as consumers continue to cut on spending. As such, we believe that the performance of revenue collection in the coming months will be largely determined by how soon the country's business environment stabilizes and how fast the new regime implements its economic growth related initiatives. However, risks lie on the downside given the high global commodity prices coupled with the persistent supply bottlenecks which continue to weigh on the economy.

III. **Kenya Q2'2022 GDP growth**

The Kenya National Bureau of Statistics (KNBS) released the Q2'2022 Quarterly Gross Domestic Product Report, highlighting that the Kenyan economy recorded a 5.2% growth in Q2'2022, lower than the 11.0% growth recorded in Q2'2021, pointing towards sustained economic recovery. The performance was largely supported by significant growth recorded in sectors like Mining and Quarrying (22.6%), Accommodation and Food Services activities (22.0%), Financial and Insurance (11.6%) and transportation and storage (7.1%), among others. The key take-outs from the report include;

I. **Sectoral Contribution to Growth** - The biggest gainer in terms of sectoral contribution to GDP was Financial and Insurance sector, increasing by 0.5% points to 8.8% from 8.3% in Q2'2021, while Agriculture and Forestry was the biggest loser, declining by 1.5% points to 19.4% in Q2'2022, from 20.9% in Q2'2021. Mining and Quarrying sector recorded the highest growth rate in Q2'2022 growing by 22.6% compared to the 10.9% growth recorded in Q2'2021. The chart below shows the top contributors to GDP by sector in Q2'2022:

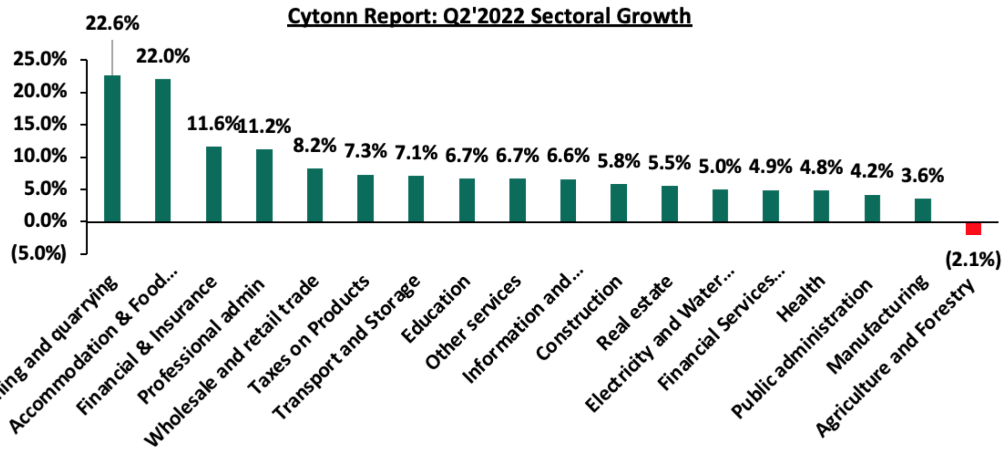


Source: KNBS Q2'2022 and Q2'2021 GDP Report

II. **Continued subdued Growth in the Agricultural Sector – Agriculture, Forestry and Fishing activities recorded a decline of 2.1% in Q2'2022 compared to a contraction of 0.5% in Q2'2021. The continued contraction was primarily attributable to unfavorable weather conditions experienced during the period. The sector's poor performance was reflected by declines recorded in horticultural exports, tea, coffee and milk production,**

III. **Slower growth in the manufacturing sector** - The manufacturing sector reported a growth of 3.6% in Q2'2022 compared to a 11.3% growth in a similar period of review in 2021. Similarly, the sectoral contribution declined by 0.2% points to 8.2%, from 8.4% in Q2'2021, and,

IV. **Recovery in the Accommodation and Food services sector** - The sector recorded 22.0% growth in Q2'2022 compared to a 6.2% growth recorded in Q2'2021. The growth witnessed in Q2'2022 is mainly attributable to the relaxation of most of the Covid -19 restrictions globally, which saw the number of visitor's arrival through Jomo Kenyatta international Airport and Moi international Airport increasing by 147.1% to 279,981 up from 113,307 recorded in Q2'2021. Additionally, the sectoral contribution increased to 0.9% from 0.5% recorded in Q2'2021. The chart below shows the different sectoral GDP growth rates for Q2'2022:



Source: KNBS Q2’2022 GDP Report

In the near-term, we expect the economy to grow at a slower pace on the back of elevated inflationary pressures with September 2022 inflation coming in at 9.2%, well above the Central Bank of Kenya target range of 2.5% - 7.5%. Further, the hiking of the Central Bank Rate (CBR) by the CBK Monetary Policy Committee in a bid to curb inflation and maintain price stability is expected to slow economic growth. However, we expect that recent fiscal policies such as subsidizing costs of crucial farm inputs such as fertilizers will support growth in the Agricultural sector, which remains as Kenya’s largest contributor to GDP as well as food prices being a major contributor to headline inflation.

IV. **Kenya Q2’2022 Balance of Payments**

The Kenya National Bureau of Statistics released the Quarterly Balance of Payments report for Q2’2022 report highlighting that Kenya’s balance of payments position recorded a surplus of Kshs 10.9 bn, a significant decline of 93.9% from a surplus of Kshs 179.8 bn recorded in Q2’2021, however, it was a 109.0% increase from a deficit of Kshs 120.6 bn in Q1’2022. The performance was mainly attributable to widening of the current account deficit by 9.8% to Kshs 174.4 bn from Kshs 158.9 bn recorded in Q2’2021. The deterioration was however mitigated by a 10.4% contraction of the financial account deficit to Kshs 253.0 bn, from Kshs 282.6 bn in Q2’2021. The table below shows the breakdown of the various balance of payments components, comparing Q2’2022 and Q2’2021:

Cytonn Report: Quarterly Balance of Payments

Item	Q1’2021	Q1'2022	Q2’2021	Q2'2022	y/y % Change
Current Account Balance	(157.5)	(95.0)	(158.9)	(174.4)	(9.8%)
Capital Account Balance	7.8	7.4	7.4	4.9	(33.8%)
Financial Account Balance	(107.3)	(92.2)	(282.6)	(253.0)	(10.4%)
Net Errors and Omissions	17.0	(125.2)	48.7	(72.7)	(249.1%)
Balance of Payments	**(25.3)**	**(120.6)**	**179.8**	**10.9**	**(93.9%)**

All values in Kshs bns

Key take-outs from the table include;

i. The current account deficit (value of goods and services imported exceeds the value of those exported) expanded by 9.8% to Kshs 174.4 bn, from Kshs 158.9 bn in Q2’2021, mainly attributable to 34.6% increase in the merchandise trade balance deficit to Kshs 365.6 bn, from Kshs 271.6 bn recorded in Q2’2021,

ii. The financial account balance deficit (the difference between the foreign assets purchased by domestic buyers and the domestic assets purchased by the foreign buyers) contracted by 10.4% to Kshs 253.0 bn, from a deficit of Kshs 282.6 bn in Q2'2021. Also, the stock of gross official reserves declined by 6.8% to stand at Kshs 1,001.0 bn, from 1,069.1 bn in Q2'2021, and,
iii. Consequently, the Balance of Payments (BoP) position declined to a surplus of Kshs 10.9 bn from a surplus of Kshs 179.8 bn in Q2'2022, mainly due to the 9.8% in the widening in current account deficit and 33.8% decline in capital account balance.

Current Account Balance

Kenya's current account deficit increased by 9.8% to Kshs 174.4 bn in Q2'2022, from Kshs 158.9 bn recorded in Q2'2021 and an 83.6% increase from a deficit of Kshs 95.0 bn in Q1'2022, driven by:

i. The widening of the merchandise trade (a scenario where imports are greater than exports of goods resulting to a negative net foreign investment) by 34.6% to Kshs 365.6 bn in Q2'2022, from Kshs 271.6 bn in Q2'2021,
ii. A 366.9% increase in the services trade balance (the difference between imports and exports of services) to Kshs 59.3 bn, from Kshs 12.7 bn in Q2'2021, and,
iii. A 12.9% increase in the secondary income balance (the transactions recorded in the secondary income account pertain to those current transfers between residents and non-residents that directly affect the level of gross national disposable income and thus influence the economy's ability to consume goods and services), to Kshs 183.5 bn, from Kshs 162.6 bn in Q2'2021.

The table below shows the breakdown of the various current account components, comparing Q2'2021 and Q2'2022:

Cytonn Report: Quarterly Current Account Balance

Item	Q1'2021	Q1'2022	Q2'2021	Q2'2022	% Change
Merchandise Trade Balance	(281.4)	(333.4)	(271.6)	(365.6)	34.6%
Service Trade Balance	11.2	98.9	12.7	59.3	366.9%
Primary Income Balance	(41.7)	(44.6)	(62.5)	(51.6)	(17.4%)
Secondary Income (Transfers) Balance	154.5	184.1	162.6	183.5	12.9%
Current Account Balance	**(157.5)**	**(95.0)**	**(158.9)**	**(174.4)**	**9.8%**

All values in Kshs bns

During the period of review, the Kenya shilling remained under pressure, depreciating by 9.2% y/y to close the quarter at Kshs 117.8, from Kshs 107.9 at the end of Q2'2021. However, the shilling was supported by the sufficient forex reserves held by the Central Bank of Kenya which stood at Kshs 8.0 bn at the end of Q2'2022. Going forward we expect relative stability in the business environment in fourth quarter in 2022, following the culmination of the election period. However, for the country to sufficiently improve the Balance of Payments, there needs to be emphasis on reducing imports, especially agricultural imports by being self-sufficient, as well as adopting policies that encourage more exports.

V. **IMF World Economic Outlook October 2022**

According to the International Monetary Fund(IMF)'s World Economic Outlook October 2022, global economic growth for 2022 is projected at 3.2%, unchanged from the July 2022 forecasts, but 0.4% lower than the projections in the World Economic Outlook April 2022. Additionally, the growth is significantly lower than the 6.0% growth recorded in 2021, with the main drivers behind the slower growth stemming from the elevated inflationary pressures around the globe and the subsequent reactionary tightening of monetary policies by Central Banks around the globe. Further, the pre-existing supply chain constraints arising from the COVID-19 pandemic have not only persisted but have been worsened by effects of Russia's invasion of Ukraine and frequent lockdowns in China to curb the spread of COVID-19.

Growth in the advanced economies is projected to come in at 1.1% in 2022, lower than the 2.4% growth recorded in 2021 and 0.9% points lower than the projected growth of 2.0% in April 2022. The slowdown is majorly attributed to downward revision in US and European economies mainly due to a decline in real disposable income and high interest rates, both which have resulted in decrease in consumer demand. China economic growth is projected to decline to 3.2% in 2022, the lowest growth it ever recorded in more than four decades excluding the COVID-19 crisis in 2020. The downward revision comes on the back of persistent lockdowns aimed at curbing the spread of COVID-19, as well as a slump in the property market.

In the Sub-Saharan Africa, the economy is projected to expand by 3.6% in 2022, from 4.7% recorded in 2021 and 0.2% points decline from July projections. The weaker outlook is majorly attributable to decreased trade partners, tighter financial and monetary conditions and impending debt crisis. Closer to home, the Kenyan economy is projected to grow at 5.3%, 0.4% points lower than the projected 5.7% in April 2022 and lower than the growth of 5.0% in 2021. The table below shows the updated projections according to various organizations:

Cytonn Report: Kenya Economy Growth Projections 2022

No	Organisation	2022 GDP projections
1.	International Monetary Fund	5.3%
2.	National Treasury	6.0%
3.	World Bank	5.5%
4.	S&P Global	4.5%
5.	Cytonn Investments Management PLC	4.0%
Average		**5.1%**

Source: Cytonn Research

Going forward, the stability in the global economy is largely pegged on how quickly the supply chain is restored, as well as how quickly the persistent and broadening inflationary pressures are brought under control.

Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. The government is 7.3% behind its prorated borrowing target of Kshs 169.4 bn having borrowed Kshs 157.0 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 486.0 bn in the FY'2022/2023, equivalent to a 22.7% of its target of 2.1 tn. Despite the performance, we believe that the projected budget deficit of 5.7% 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.