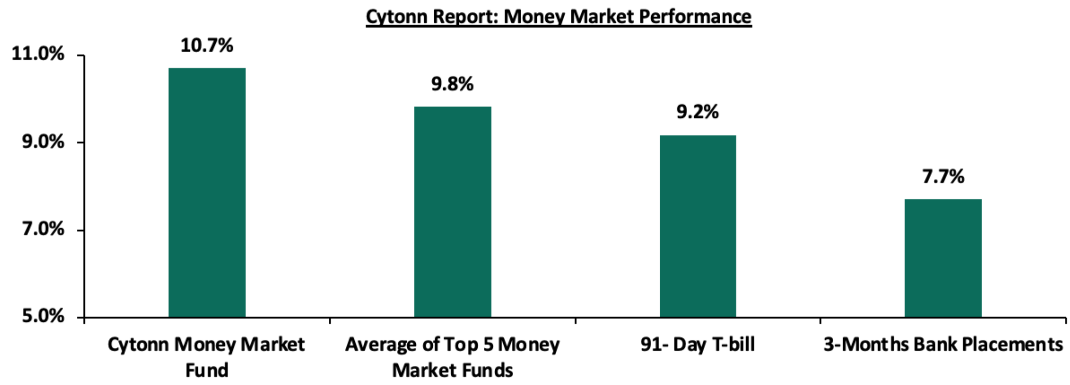
Kenya's Private Sector Credit Growth, & Cytonn Weekly #45/2022

Fixed Income

During the week, T-bills remained oversubscribed, with the overall subscription rate coming in at 204.5%, an increase from the 181.9% recorded the previous week. The oversubscription was partly attributable to investor's preference for the shorter dated papers as they sought to avoid duration risk coupled with the ample liquidity in the money market with the average interbank rate easing to 4.2% from 4.6% recorded the previous week. Investor's preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 26.5 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 662.8%, up from 463.8% recorded the previous week. The subscription rates for the 182-day also increased to 138.9% from 83.4%, while the subscription rate of the 364-day paper declined to 86.8% from 167.6%, 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 91-day papers increasing by 7.7 bps, 1.5 bps and 3.4 bps to 10.2%, 9.7% and 9.2%, respectively.

In the Primary Bond Market, the Central Bank of Kenya released the auction results for the newly issued infrastructure bond; IFB1/2022/14 with an effective tenor to maturity of 14 years. As per our expectations, the bond recorded an oversubscription of 153.1%, partly attributable to the ample liquidity in the market and the attractive tax-free nature of the infrastructure bond. The government issued the bond seeking to raise Kshs 60.0 bn for funding of infrastructure projects in the FY'2022/2023, received bids worth Kshs 91.8 bn and accepted bids worth Kshs 75.6 bn, translating to an 82.3% acceptance rate. The coupon rate and the weighted average yield for the bond both came in at 13.9%.



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 3.4 bps to 9.2%. The average yields of the Top 5 Money Market Funds and the Cytonn Money Market Fund remained unchanged at 9.8% and 10.7%, respectively.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 11th November 2022:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 11th November 2022

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.7%
2	Zimele Money Market Fund	9.9%
3	Sanlam Money Market Fund	9.6%
4	GenCap Hela Imara Money Market Fund	9.5%
5	Nabo Africa Money Market Fund	9.4%
6	NCBA Money Market Fund	9.4%
7	Madison Money Market Fund	9.4%
8	Dry Associates Money Market Fund	9.3%
9	Old Mutual 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	British-American Money Market Fund	9.0%
14	AA Kenya Shillings Fund	8.8%
15	ICEA Lion Money Market Fund	8.6%
16	Orient Kasha Money Market Fund	8.5%
17	Absa Shilling Money Market Fund	7.7%
18	Equity Money Market Fund	5.4%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate declining to 4.2% from 4.6% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded declined by 42.3% to Kshs 11.6 bn from Kshs 20.2 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds were on a downward trajectory, an indication of declining risk concerns over the economy. The yield on the 7-year Eurobond issued in 2019 declined the most by 3.1% points to 11.3% from 14.4% recorded in the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 10th November 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
03-Jan-22	4.4%	8.1%	8.1%	5.6%	6.7%	6.6%

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**
31-Oct-22	15.6%	13.9%	13.2%	14.7%	14.1%	12.7%
03-Nov-22	15.7%	13.6%	13.2%	14.4%	13.9%	12.5%
04-Nov-22	15.4%	13.4%	12.9%	13.7%	13.8%	12.1%
07-Nov-22	14.8%	13.1%	12.8%	13.7%	13.5%	11.5%
08-Nov-22	13.1%	12.5%	12.0%	12.1%	12.3%	11.2%
09-Nov-22	13.0%	11.8%	11.8%	11.9%	11.9%	10.8%
10-Nov-22	12.8%	11.5%	11.6%	11.3%	11.6%	10.1%
Weekly Change	**(2.9%)**	**(2.1%)**	**(1.6%)**	**(3.1%)**	**(2.3%)**	**(2.4%)**
MTD Change	**(2.8%)**	**(2.3%)**	**(1.6%)**	**(3.4%)**	**(2.5%)**	**(2.5%)**
YTD Change	**8.4%**	**3.5%**	**3.5%**	**5.7%**	**4.9%**	**3.5%**

Source: Central Bank of Kenya (CBK)

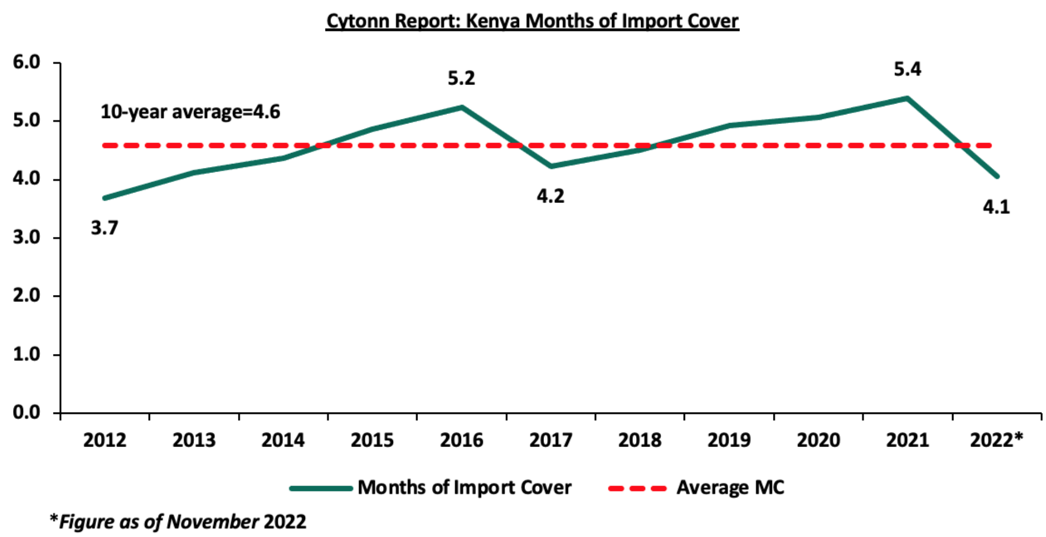
Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.2% against the US dollar to close the week at Kshs 121.8, from Kshs 121.5 recorded the previous week, partly attributable to increased dollar demand from importers, especially oil and energy sectors against a slower supply of hard currency. On a year to date basis, the shilling has depreciated by 7.6% 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,
ii. An ever-present current account deficit estimated at 5.3% of GDP in the 12 months to September 2022, same as what was recorded in a similar period in 2021,
iii. The need for Government debt servicing which continues to put pressure on forex reserves given that 68.1% of Kenya's External debt was US Dollar denominated as of July 2022, and,
iv. A continued hike in the United States of America Federal interest rates in 2022 to a range of 3.75%-4.00% in November 2022 has strengthened the dollar against other currencies and has caused capital outflows from the Kenyan market.

The shilling is however expected to be supported by:

a. Improved diaspora remittances standing at a cumulative USD 4.0 bn as of September 2022, representing a 13.3% y/y increase from USD 3.5 bn recorded over the same period in 2021, and,
b. Sufficient Forex reserves currently at USD 7.2 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 17.5% YTD from USD 8.8 bn. The chart below summarizes the evolution of Kenya months of import cover over the last 10 years;



Weekly Highlight:

Kenya's International Monetary Fund (IMF) Loan facility

During the week, the International Monetary Fund (IMF) announced that it had reached a staff level agreement with Kenyan authorities on the fourth review of the 38-months Extended Fund Facility (EFF) and Extended Credit Facility (ECF) financing for Kenya. Upon completion of the formal approval by IMF management, Kenya will access the fifth tranche of USD 433.0 mn (Kshs 52.7 bn) of the approved loan facility totaling to USD 2.3 bn (Kshs 284.8 bn) that was announced in April 2021, and this will bring the amount received from the facility to a total of USD 1.6 bn (Kshs 199.7 bn). Notably, this would be the biggest tranche Kenya has received so far from the loan facility, and is aimed to continue supporting the recovery of the economy, while also covering the financing needs arising from the impact of ravaging drought in the country, as well as the challenging conditions to access external debt. The IMF commended Kenya's economic resilience despite the challenging economic environment supported by better debt management policies, strong tax revenue, which as a percentage of Gross Domestic Product (GDP) increased to 13.7% in the year ended June 2022 from 12.6% achieved in the previous year, and the measures taken by the new administration to reduce fiscal deficit such as removal of fuel and electricity subsidies. The table below shows the funding the government has received so far out of the original amount:

Cytonn Report: International Monetary Fund (IMF) EFF and ECF Financing Programme

Date	Amount Received (USD mn)	Amount Received (Kshs bn, 1 USD= Kshs 121.7)
Apr-21	307.5	37.4
Jun-21	407.0	49.5
Dec-21	258.1	31.4
Jul-22	235.6	28.7
Nov-22	*433.0	52.7
Total Amount Received	**1641.2**	**199.7**
Amount Pending	**698.8**	**85.1**
*Expected funds upon IMF management and executive board approval		

The financing support comes at a time when the country aims to optimize the use of concessional loans and reduce the use of the costly commercial loans through its Medium Term Debt Strategy, and the new administration's plans to cut on public expenditure to reduce the fiscal deficit, which is projected to be 6.2% of the country’s Gross Domestic Product (GDP) in FY2022/2023, with a view of further reducing it to 4.3% of GDP in the FY 2023/2024. According to the National Treasury, the total public debt stood at Kshs 8.6 tn as of July 2022, with IMF’s total financing to Kenya coming in at Kshs 234.2 bn as of July 2022, representing 12.0% of the total multilateral debt. The receipt of the USD 433.0 bn funds is also expected to increase the country’s foreign exchange reserves which have dropped by 17.5% year to date to USD 7.2 bn from USD 8.8 bn recorded in the beginning of the year and consequently help support the Kenyan shilling from further depreciation, having depreciated by 7.6% year to date. Furthermore, the financing is also expected to boost the country’s import cover, which has declined to 4.1 months of import cover, currently slightly above the statutory requirements of 4 months, as of 11th November 2022 from 5.4 months in 2021. Going forward, IMF noted that there is need to continue with structural and governance reforms, which includes openness and transparency in government contracts, and reforms in the financially troubled enterprises such as the Kenya Airways and the Kenya Power and Lighting Company (KPLC), which have continued to accumulate high levels of debt, necessitating financial assistance from the government.

Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. The government is 14.6% ahead of its prorated borrowing target of Kshs 214.1 bn having borrowed Kshs 245.4 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 Kshs 2.1 tn. 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.
