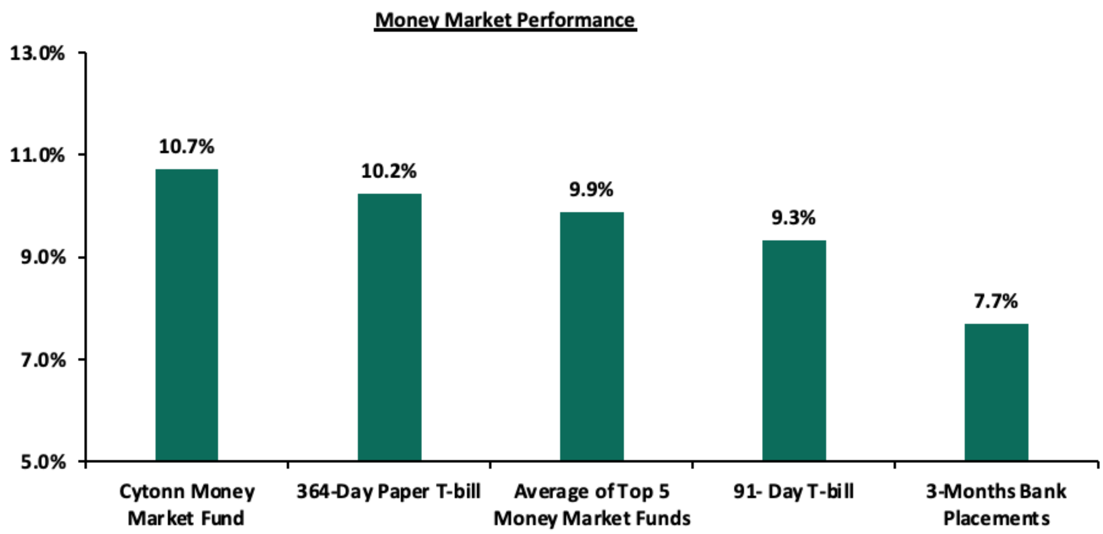
Kenya's Listed Banks Q3'2022 Report & Cytonn Weekly #49/2022

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills were undersubscribed for the second successive week, with the overall subscription rate coming in at to 97.1%, up from the 82.4% recorded the previous week. The continued low subscription is partly attributable to tightened liquidity in the money market with the average interbank rate increasing to 5.2% from 5.1% recorded the previous week. Investor's preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 16.7 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 416.3%, up from 330.7% recorded the previous week. The subscription rate for the 364-day declined to 21.5% from 26.4% recorded the previous week, while the subscription rate for the 182-day paper increased to 44.9% from 39.2% 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 2.0 bps, 4.4 bps and 5.2 bps to 10.2%, 9.8% and 9.3%, respectively.

In the Primary Bond Market, the Central Bank of Kenya released results for the recently re-opened bonds; FXD1/2018/25 and FXD1/2022/25 with effective tenors to maturity of 5.6 years and 24.9 years, respectively. The bonds recorded an undersubscription of 76.4%, partly attributable to investors' preference for the shorter dated papers as they sought to avoid duration risk, coupled with the tightened liquidity in the money market as the interbank rate increased to 5.2% from 5.1% recorded the previous week. The government issued the bonds seeking to raise Kshs 40.0 bn for budgetary support, received bids worth Kshs 30.6 bn and accepted bids worth Kshs 24.3 bn, translating to a 79.6% acceptance rate. The weighted average yield for the bonds came in at 13.8% and 14.5% for FXD1/2008/20 and FXD1/2022/25, respectively, while the coupon rates came in at 13.8% and 14.2% for FXD1/2008/20 and FXD1/2022/25, 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 5.2 bps to 9.3%. The average yield of the Top 5 Money Market Funds declined by 0.2% points to 9.9% from 10.1% recorded the previous week, while the 364-day T-bill and the Cytonn Money Market Fund remained unchanged at 10.2% and 10.7%, respectively.

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

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 9th December 2022

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.7%
2	Zimele Money Market Fund	9.9%
3	NCBA Money Market Fund	9.8%
4	Apollo Money Market Fund	9.5%
5	Dry Associates Money Market Fund	9.5%
6	Sanlam Money Market Fund	9.5%
7	Nabo Africa Money Market Fund	9.4%
8	GenCap Hela Imara Money Market Fund	9.4%
9	Madison Money Market Fund	9.4%
10	Co-op Money Market Fund	9.2%
11	Old Mutual 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	8.9%
15	ICEA Lion Money Market Fund	8.7%
16	Orient Kasha Money Market Fund	8.6%
17	Absa Shilling Money Market Fund	7.9%
18	Equity Money Market Fund	5.4%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets tightened, with the average interbank rate increasing to 5.2% from 5.1% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded decreased by 17.0% to Kshs 18.0 bn from Kshs 21.7 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded mixed performance with the yield on the 10-year Eurobond issued in 2014 recording the largest increase having gained by 0.7% points to 12.3% from 11.6%, recorded the previous week. The table below shows the summary of the performance of the

Kenyan Eurobonds as of 8th December 2022;

Cytonn Report: Kenya Eurobonds 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-Nov-22	12.0%	10.1%	10.8%	10.7%	10.4%	9.6%
1-Dec-22	11.6%	9.9%	10.6%	10.3%	10.2%	9.3%
2-Dec-22	11.6%	9.8%	10.5%	10.3%	10.1%	9.3%
5-Dec-22	11.8%	9.8%	10.5%	10.2%	10.1%	9.3%
6-Dec-22	12.0%	9.8%	10.6%	10.3%	10.2%	9.3%
7-Dec-22	12.2%	9.9%	10.6%	10.6%	10.2%	9.5%
8-Dec-22	12.3%	9.9%	10.6%	10.3%	10.2%	9.4%
Weekly Change	**0.7%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.1%**
MTD Change	**0.3%**	**(0.2%)**	**(0.2%)**	**(0.4%)**	**(0.2%)**	**(0.2%)**
YTD Change	**7.9%**	**1.8%**	**2.5%**	**4.7%**	**3.5%**	**2.8%**

Source: Central Bank of Kenya (CBK)

Kenya Shilling:

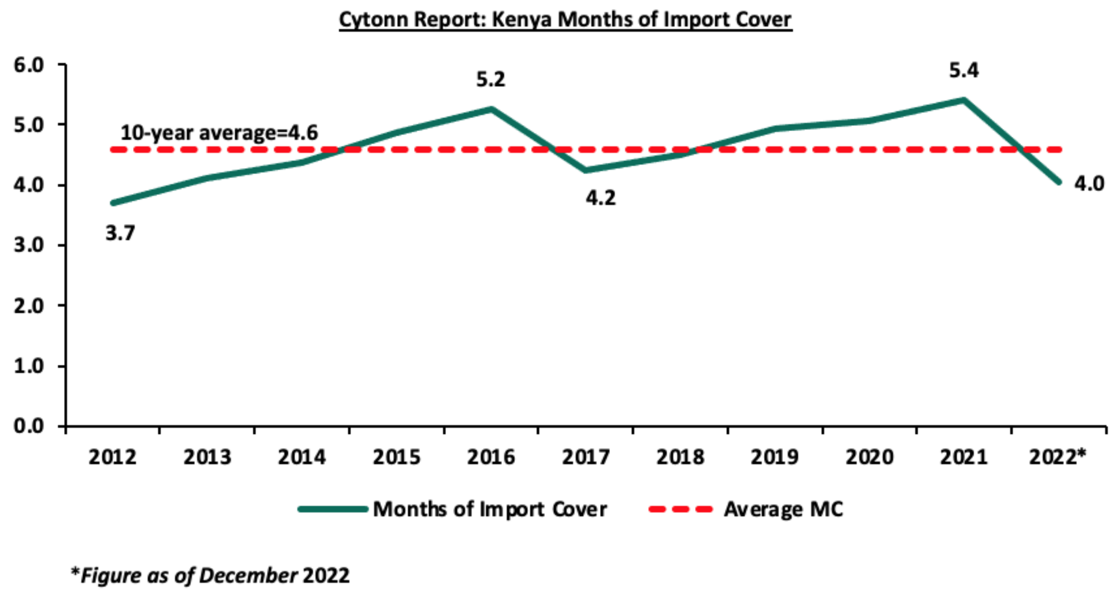
During the week, the Kenyan shilling depreciated by 0.2% against the US dollar to close the week at Kshs 122.8, from Kshs 122.5 recorded the previous week, partly attributable to increased dollar demand from importers, especially oil and energy sectors against a slower supply of hard currency. On a year to date basis, the shilling has depreciated by 8.5% 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 5.5% of GDP in the 12 months to October 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 69.7% of Kenya's External debt was US Dollar denominated as of September 2022, and,
iv. A continued hike in the USA Fed interest rates in 2022 to a range of 3.75%-4.00% in November 2022 has strengthened the dollar against other currencies by causing capital outflows from other global emerging markets.

The shilling is however expected to be supported by:

a. Improved diaspora remittances standing at a cumulative USD 4.0 bn as of November 2022, representing a 9.7% y/y increase from USD 3.7 bn recorded over the same period in 2021, and,
b. Sufficient Forex reserves currently at USD 7.1 bn (equivalent to 4.0 months of import cover), which is at par with 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 19.8% YTD from USD 8.8 bn. The chart below summarizes the evolution of Kenya months of import cover over the last 10

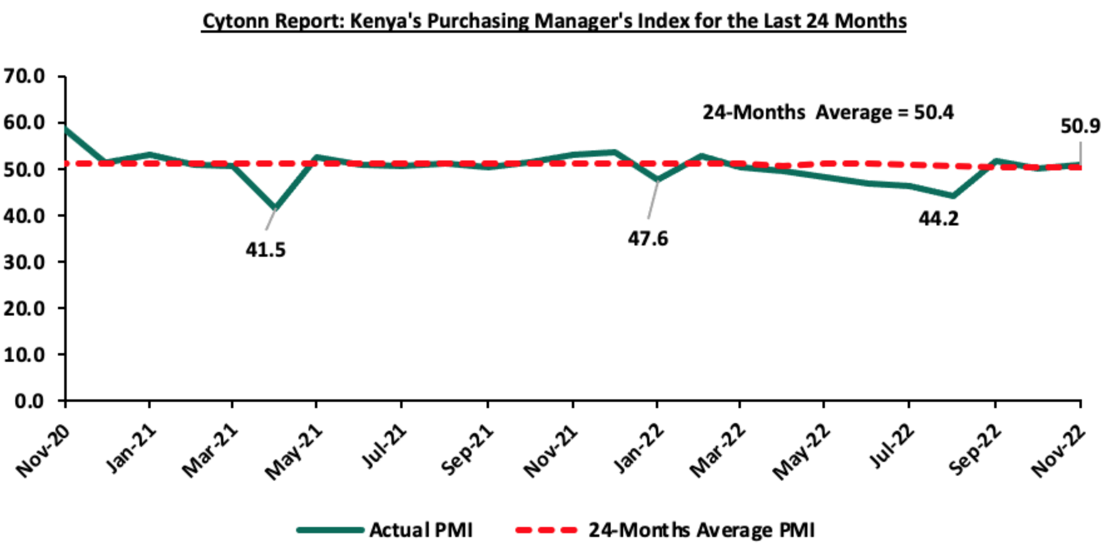
years;



Weekly Highlight:

Stanbic Bank's November 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 November increased marginally to 50.9 from 50.2 recorded in October 2022 pointing towards an improvement in the business environment for the third consecutive month. The increase was partly attributable to improvement of new order inflows, on the back of moderate uptick in demand, slight decline in inflationary pressures, and favorable weather patterns which consequently led to expansion in sales and increased output in production. The chart below summarizes the evolution of PMI over the last 24 months.



*** *Key to note, a reading above 50.0 signals an improvement in business conditions, while readings below 50.0 indicate a deterioration.*

Despite the slight reduction in inflation to 9.5% in November 2022, from 9.6% in October 2022, we expect the general business environment to remain subdued given the high cost of living as inflationary pressures still remain elevated driven by the high fuel and food prices. With fuel as a vital input in the majority of the sectors, we expect the high fuel prices globally to hike production costs and consequently stifle consumers demand in the short term.

Rates in the Fixed Income market have remained relatively stable due to the relatively

ample liquidity in the money market. The government is 16.6% ahead of its prorated borrowing target of Kshs 257.3 bn having borrowed Kshs 300.1 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 636.4 bn in the FY'2022/2023 as at the end of October, equivalent to a 29.7% of its target of 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.
