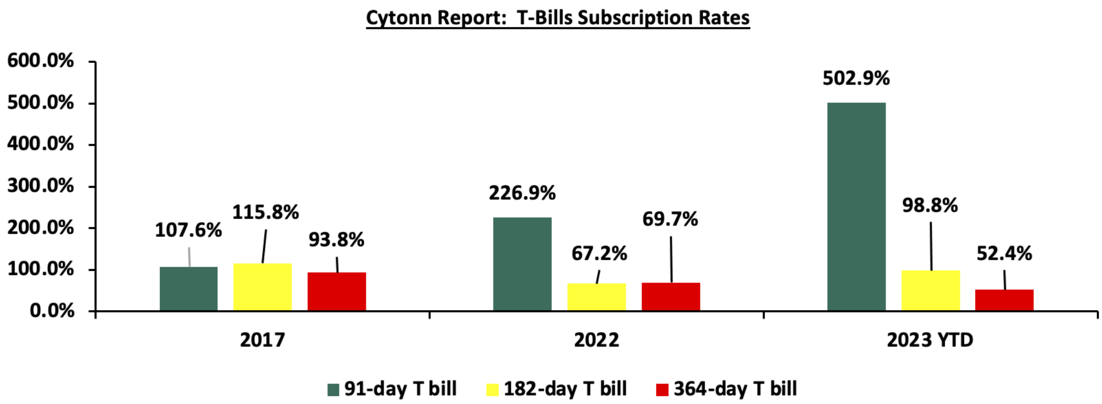
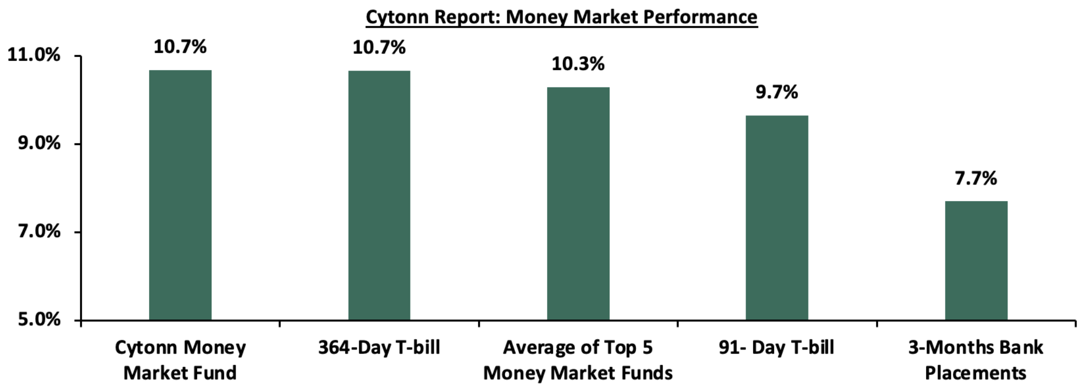
Real Estate Developers Regulatory Framework, & Cytonn Weekly #08/2023

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills were undersubscribed, with the overall subscription rate coming in at 81.0%, down from 191.3%, recorded the previous week, partly attributable to the continued tight liquidity in the money market with the average interbank rate increasing to 6.4% from 6.2% recorded the previous week. Key to note, this is the first time in seven weeks that T-bills were undersubscribed. Investor's preference for the shorter 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 11.4 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 284.1%, lower than the 552.2% recorded the previous week. The subscription rates for the 364-day and 182-day papers also declined to 36.7% and 44.0% from 63.0% and 175.3%, respectively, recorded the previous week. The yields on the government papers were on an upward trajectory, with the yields on the 364-day and 182-day papers both increasing by 3.8 bps to 10.7% and 10.1%, respectively, while yields on the 91-day paper increased by 3.2 bps to 9.7%. The Government accepted Kshs 18.5 bn worth of bids out of the Kshs 19.4 bn worth of bids received, translating to an acceptance rate of 97.0%. The graph below compares the overall T- bills subscription rates obtained in 2017, 2022 and 2023 Year to Date (YTD):





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 364-day T-bill and 91-day T-bill increased by 3.8 bps and 3.2 bps to 10.7% and 9.7%, respectively. The average yield on the Top 5 Money Market Funds remained relatively unchanged at 10.3%, similar to what was recorded the previous week, while that of Cytonn Money Market Fund declined slightly by 10.0 bps to 10.7% from 10.8% recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 24th February 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 24th February 2023

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund (dial *809# or download Cytonn App)	10.7%
2	Madison Money Market Fund	10.3%
3	Dry Associates Money Market Fund	10.3%
4	GenCap Hela Imara Money Market Fund	10.1%
5	Apollo Money Market Fund	10.1%
6	NCBA Money Market Fund	10.0%
7	Zimele Money Market Fund	9.9%
8	Old Mutual Money Market Fund	9.9%
9	AA Kenya Shillings Fund	9.8%
10	Nabo Africa Money Market Fund	9.8%
11	Kuza Money Market fund	9.8%
12	Co-op Money Market Fund	9.7%
13	Sanlam Money Market Fund	9.6%
14	British-American Money Market Fund	9.3%
15	CIC Money Market Fund	9.2%
16	ICEA Lion Money Market Fund	8.9%
17	Orient Kasha Money Market Fund	8.9%
18	Absa Shilling Money Market Fund	8.1%
19	Equity Money Market Fund	6.0%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets tightened, with the average interbank rate increasing to 6.4% from 6.2% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded increased by 13.8% to Kshs 24.5 bn from Kshs 21.5 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds were on upward trajectory partly attributable to increased perceived risks in the economy amid the country's dwindling forex reserves raising concerns on the country's ability to service its public debt obligations. The yields on the 10-year Eurobond issued in 2014, 10-year and 30-year Eurobonds issued in 2018, and 12-year Eurobond issued in 2019 recorded the largest gains, having gained by 0.2% points each to 11.9%, 10.7%, 11.0% and 10.8% from 11.7%, 10.5%, 10.8% and 10.6%, respectively, recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 23rd February 2023;

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**
Amount Issued (USD bn)	**2.0**	**1.0**	**1.0**	**2.1***		**1.0**
Years to Maturity	**1.3**	**5.0**	**25.0**	**4.2**	**9.2**	**11.3**
Yields at Issue	**6.6%**	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**
2-Jan-23	12.9%	10.5%	10.9%	10.9%	10.8%	9.9%
1-Feb-23	11.2%	10.2%	10.6%	10.5%	10.3%	9.8%
16-Feb-23	11.7%	10.5%	10.8%	10.8%	10.6%	10.1%
17-Feb-23	11.9%	10.6%	10.9%	11.0%	10.7%	10.2%
20-Feb-23	11.9%	10.6%	10.9%	11.0%	10.7%	10.2%
21-Feb-23	12.0%	10.7%	11.0%	11.0%	10.8%	10.3%
22-Feb-23	12.1%	10.9%	11.1%	11.1%	11.0%	10.4%
23-Feb-23	11.9%	10.7%	11.0%	10.9%	10.8%	10.2%
Weekly Change	**0.2%**	**0.2%**	**0.2%**	**0.1%**	**0.2%**	**0.1%**
MTD Change	**0.6%**	**0.5%**	**0.4%**	**0.4%**	**0.5%**	**0.5%**
YTD Change	**(1.0%)**	**0.2%**	**0.1%**	**(0.0%)**	**0.1%**	**0.4%**

**2019 aggregate amount issued for the two issues was USD 2.1 bn*

Source: Central Bank of Kenya (CBK)

Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.6% against the US dollar to close the week at Kshs 126.4, from Kshs 125.6 recorded the previous week, partly attributable to sustained high 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 2.4% against the dollar, adding to the 9.0% depreciation recorded in 2022. We expect the shilling to remain under pressure in 2023 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 4.9% of GDP in 2022, despite improving by 0.3% points from 5.2% recorded in 2021, and,
iii. The need for Government debt servicing which continues to put pressure on forex reserves given that 69.3% of Kenya's External debt was US Dollar denominated as of October 2022.

The shilling is however expected to be supported by:

i. Improving diaspora remittances standing at USD 349.4 mn as at January 2023, representing a 3.2% y/y increase from USD 338.7 mn recorded in a similar period in 2022.

Key to note, Kenya's forex reserves declined marginally by 0.2% to remain relatively unchanged at USD 6.9 bn as of 23rd February 2023. As such, the country's months of import cover remained unchanged at 3.8 months similar to what was recorded the previous week, remaining marginally below the statutory requirement of maintaining at least 4.0-months of import. The chart below summarizes the evolution of Kenya months of import cover over the last 10 years;

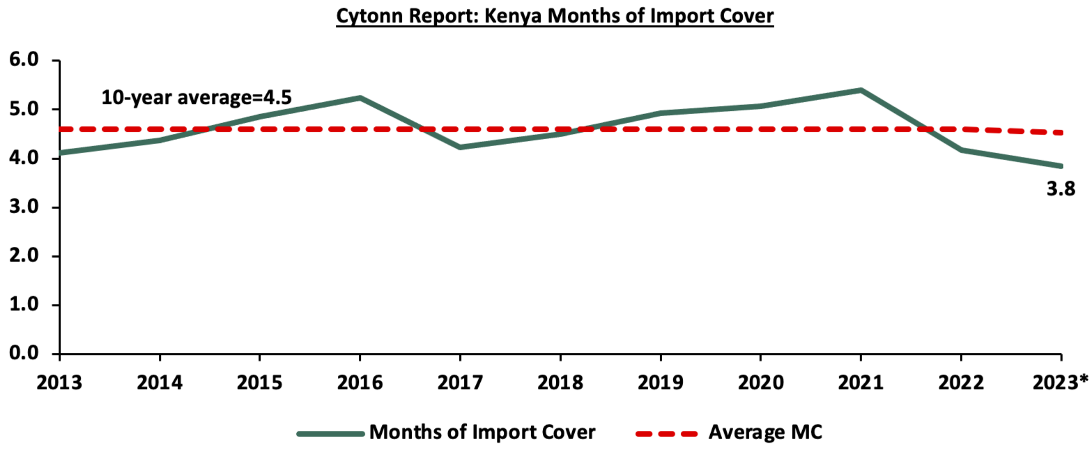


**Figure as of 24th February 2023*

Weekly Highlight: February 2023 inflation Projection

We are projecting the y/y inflation rate for February 2023 to ease to a range of 8.6%-9.0% mainly on the back of:

i. **Transmission of the Impact of the Tightened Monetary Policy -** The Monetary Policy Committee has maintained a tightened monetary policy, maintaining the MPC rate at 8.75% in January 2023, which followed the 50.0 bps to 8.75% in November 2022, from 8.25% in September 2022. Key to note, the impact the tightened Monetary Policy Committee Central Bank rate is still transmitting in the economy, evidenced by the slight reduction in inflation to 9.0% in January 2023 from 9.1% in December 2022 and is expected to continue anchoring the inflation rate towards the CBK's target range of 2.5%-7.5%,, and,
ii. **Maintained Fuel Prices-** For the third consecutive time, The Energy and Petroleum Regulatory Authority (EPRA) maintained the fuel prices for the period between 15th February 2023 to 14th March 2023, at Kshs 177.3, Kshs 162.0 and Kshs 145.9 per litres of Super Petrol, Diesel and Kerosene, respectively.

Kenya's inflation has been easing over the last four months coming in at 9.0% in January 2023 from a peak of 9.6% in October 2022 pointing towards a gradual easing, in tandem with the cooling down of the global inflation. Further, the easing is attributable to the impact of the tightened monetary policy with the MPC increasing the rate to 8.75% in November 2022 and maintaining the same in January 2023. As such, the impact of the further tightening in November 2022 is still transmitting in the economy and will continue to anchor the elevated inflation towards the Central Bank's target range of 2.5%-7.5%. Going forward, we expect the inflation to remain elevated in the short term but to continue easing at a gradual rate because of the high fuel and food prices. Notably, the government's plan to do away with the subsidies as part of austerity measures, the erratic weather conditions in the country and high electricity prices will continue to increase the cost of living consequently slowing down the rate of inflation easing.

Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. The government is 5.6% behind its prorated borrowing target of Kshs 385.1 bn having borrowed Kshs 363.4 bn of the Kshs 581.7 bn

borrowing target for the FY'2022/2023. 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. Further, revenue collections are lagging behind, with total revenue as at January 2023 coming in at Kshs 1.1 tn in the FY'2022/2023, equivalent to 53.3% of its target of Kshs 2.1 tn and 91.4% of the prorated target of Kshs 1.2 tn. Therefore, we expect a continued upward readjustment of the yield curve in the short and medium term, with the government looking to bridge the fiscal deficit through the domestic market. Owing to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk.
