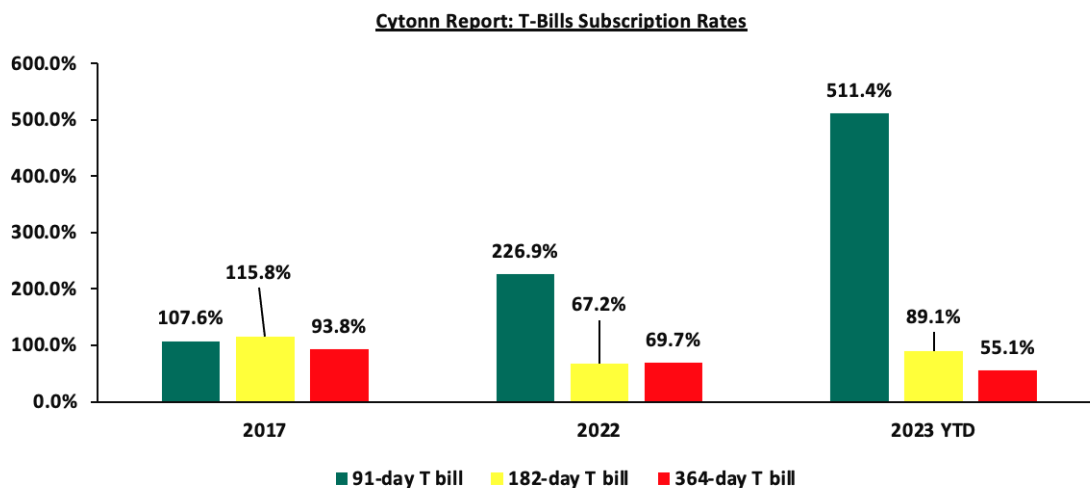


Kenya Economic Update: 2023, & Cytonn Weekly #10/2023

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills remained oversubscribed, with the overall subscription rate coming in at 148.5%, up from the 136.2% recorded the previous week. Investor's preference for the shorter 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 20.0 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 501.0%, lower than the 555.7% recorded the previous week. The subscription rates for the 364-day and 182-day papers increased to 76.8% and 79.1%, from 44.5% and 60.2%, respectively, recorded the previous week. Key to note, the government continued to reject expensive bids, accepting bids worth Kshs 32.2 bn out of the Kshs 35.6 bn total bids received, translating to an acceptance rate of 90.3%. The yields on the government papers were on an upward trajectory, with the yields on the 364-day paper, 182-day and 91-day papers increasing by 5.7 bps, 5.1 bps and 4.4 bps to 10.7%, 10.2% and 9.7%, respectively. The chart below compares the overall average T- bills subscription rates obtained in 2017, 2022 and 2023 Year to Date (YTD):

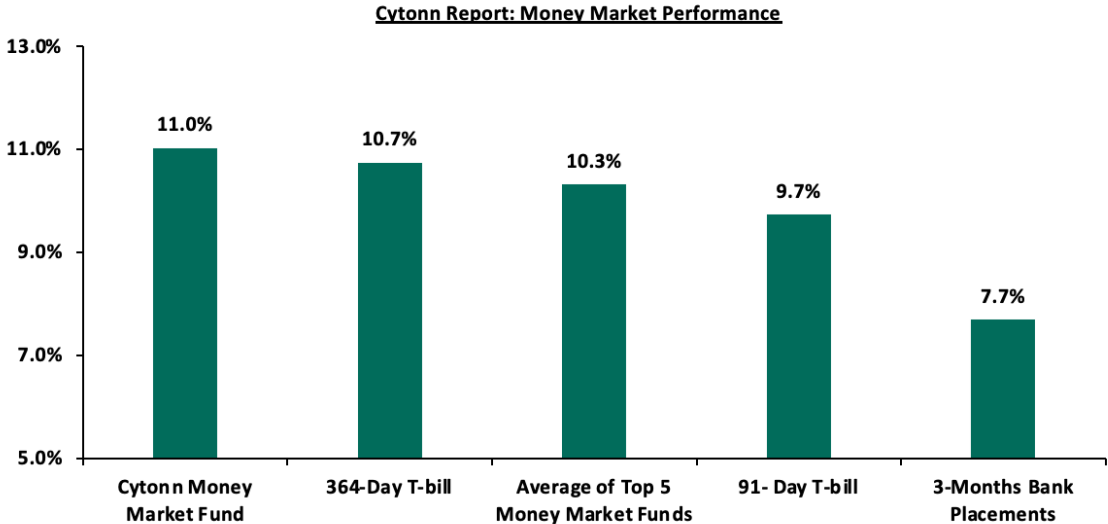


In the primary market the Central Bank of Kenya released the auction results for the infrastructure bond IFB1/2023/017 with effective tenor to maturity of 17.0 years. In line with our expectations, the bond was oversubscribed, receiving bid worth Kshs 59.8 bn, against the offered Kshs 50.0 bn, translating to an oversubscription of 119.5%. However, the government continued to reject expensive bids, accepting bids worth Kshs 50.9 bn out of the Kshs 59.8 bn of total bids received, translating to an acceptance rate of 85.1%. The accepted weighted average yield for the bond came in at 14.4%, similar to the coupon rate.

Our view: Given the weighted average yield for the 17-year infrastructure bond is at 14.4%, a corporate bond will have to offer a higher yield of 17.0% to compete with the bond. Further, Corporate bonds are subject to 15.0% tax rate and assuming a 3.0% risk premium, this brings the

total rate to 20.0%. As such, the Kenya’s private sector credit growth is going to be further undermined by the government’s need for borrowing to plug in the fiscal deficit, effectively crowding out the private sector.

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 and 91-day T-bill increased by 5.7 bps and 4.4 bps to 10.7% and 9.7%, respectively. Similarly, the yield on Cytonn Money Market Fund increased by 20.0 bps to 11.0%, from 10.8% recorded the previous week. However, the average yields of the Top 5 Money Market Funds declined by 8.2 bps to close the week at 10.3%, from 10.4% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 10th March 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 10th March 2023

| Rank | Fund Manager | Effective Annual Rate |
|------|--|-----------------------|
| 1 | Cytonn Money Market Fund (dial *809# or download Cytonn App) | 11.0% |
| 2 | Dry Associates Money Market Fund | 10.5% |
| 3 | Apollo Money Market Fund | 10.2% |
| 4 | NCBA Money Market Fund | 10.0% |
| 5 | Kuza Money Market fund | 10.0% |
| 6 | Sanlam Money Market Fund | 9.9% |
| 7 | Zimele Money Market Fund | 9.9% |
| 8 | Nabo Africa Money Market Fund | 9.9% |
| 9 | Madison Money Market Fund | 9.9% |
| 10 | Old Mutual Money Market Fund | 9.8% |
| 11 | GenCap Hela Imara Money Market Fund | 9.8% |
| 12 | KCB Money Market Fund | 9.8% |
| 13 | AA Kenya Shillings Fund | 9.6% |
| 14 | Co-op Money Market Fund | 9.6% |
| 15 | Jubilee Money Market Fund | 9.5% |

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 10th March 2023

| Rank | Fund Manager | Effective Annual Rate |
|-------------|------------------------------------|------------------------------|
| 16 | GenAfrica Money Market Fund | 9.3% |
| 17 | CIC Money Market Fund | 9.2% |
| 18 | British-American Money Market Fund | 9.2% |
| 19 | ICEA Lion Money Market Fund | 8.8% |
| 20 | Orient Kasha Money Market Fund | 8.3% |
| 21 | Absa Shilling Money Market Fund | 8.2% |
| 22 | Mali Money Market Fund | 7.7% |
| 23 | Equity Money Market Fund | 6.6% |

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets remained tight, with the average interbank rate remaining relatively unchanged at 6.7%, as was recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded increased by 1.1% to Kshs 21.3 bn from Kshs 21.0 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded a mixed performance with the yield on the 12-year Eurobond issued in 2019 recording the largest gain, having increased by 0.3% points to 11.3% from 11.0% recorded the previous week. The 10-year Eurobond issued in 2014 recorded the largest decline, having declined by 0.6% points to 11.8% from 12.4%, recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 9th March 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 | 0.9 | 1.2 | 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-Mar-23 | 12.1% | 10.7% | 11.0% | 10.9% | 10.8% | 10.2% |
| 2-Mar-23 | 12.4% | 11.0% | 11.1% | 11.3% | 11.0% | 10.4% |
| 3-Mar-23 | 11.8% | 10.9% | 10.9% | 11.2% | 10.8% | 10.2% |
| 6-Mar-23 | 11.4% | 10.6% | 10.7% | 10.7% | 10.6% | 10.0% |
| 7-Mar-23 | 11.5% | 10.7% | 10.8% | 10.8% | 10.7% | 10.1% |
| 8-Mar-23 | 11.7% | 11.0% | 11.0% | 11.1% | 10.9% | 10.3% |
| 9-Mar-23 | 11.8% | 11.2% | 11.3% | 11.1% | 11.3% | 10.5% |
| Weekly Change | (0.6%) | 0.2% | 0.2% | (0.2%) | 0.3% | 0.1% |

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 | 0.9 | 1.2 | 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% |
| MTD Change | (0.2%) | 0.5% | 0.3% | 0.1% | 0.5% | 0.3% |
| YTD Change | (1.1%) | 0.7% | 0.4% | 0.1% | 0.5% | 0.7% |

Source: Central Bank of Kenya (CBK) and National Treasury

Kenya Shilling:

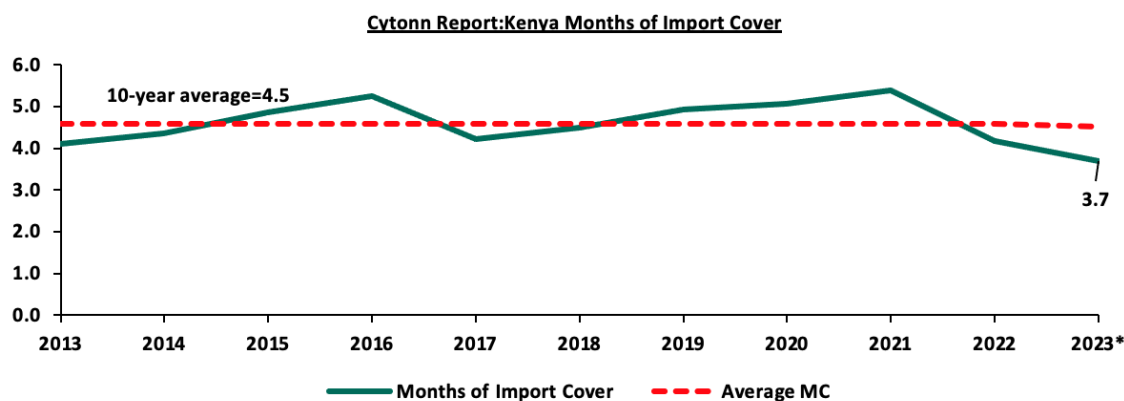
During the week, the Kenya Shilling depreciated by 1.1% against the US dollar to close the week at Kshs 128.9, from Kshs 127.5 recorded the previous week, partly attributable to increased dollar demand from importers, especially oil and energy sectors against a slower supply of hard currency. On a year to date basis, the shilling has depreciated by 4.4% 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,
- 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, and,

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 by 0.6% remaining relatively unchanged at USD 6.6 bn as at 9th March 2023, similar to what was recorded the previous week. As such, the country's months of import cover also remained unchanged at 3.7 months, similar to what was recorded the previous week, and are 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 at 9th March 2023

Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. The government is 7.0% behind its prorated borrowing target of Kshs 407.5 bn having borrowed Kshs 379.1 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.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com
Generated By Cytonn Report

A product of Cytonn Technologies