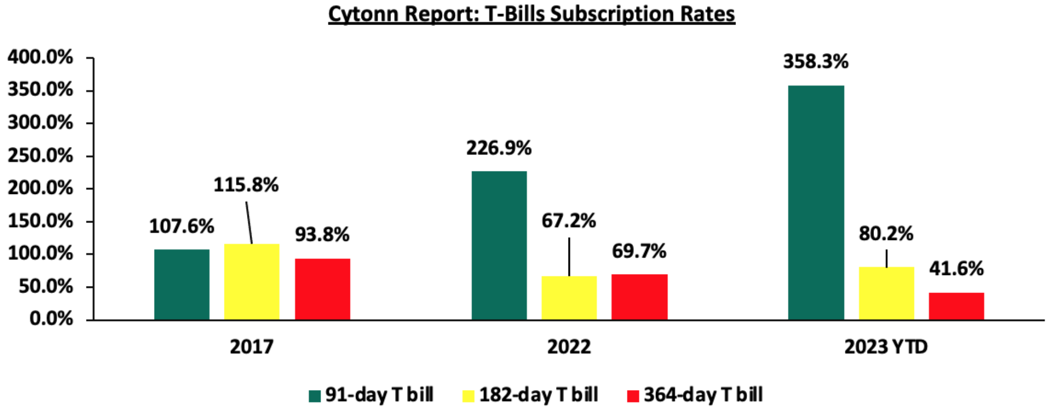
Cytonn Q1'2023 Markets Review

Fixed Income

During Q1'2023, T-bills were oversubscribed, with the overall subscription rate coming in at 135.8%, up from 108.5% in Q4'2022. Investor's preference for the shorter 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 217.8 bn against the offered of Kshs 48.0 bn, translating to an oversubscription rate of 453.5%, higher than 364.9% recorded the previous quarter. Overall subscriptions for the 182-day and 364-day papers increased to 95.1% and 49.5% from 65.9% and 48.5% in Q4'2022, respectively. The yields on all the papers were on an upward trajectory with the average yields on the 364-day, 182-day and the 91-day papers increasing by 48.3 bps, 34.2 bps and 41.8 bps to 10.6%, 10.1% and 9.6%, from 10.1%, 9.7% and 9.2%, respectively, recorded in Q4'2022. The upward trajectory in the yields is mainly on the back of investors attaching higher risks with high inflation, currency depreciation and tight liquidity position hence the need to demand higher returns to cushion against the possible loss. The acceptance rate for the quarter increased to 91.8% from 81.3% in Q4'2022, with the government accepting a total of Kshs 351.9 bn of the Kshs 391.2 bn worth of bids received during the quarter.

During the week, T-bills were undersubscribed, with the overall subscription rate coming in at 34.4%, a continued decline from the 49.2% recorded the previous week, attributable to persistent tightened liquidity in the money market evidenced by the average interbank rate increasing to 7.6% from 7.2% 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 2.9 bn against the offered Kshs 4.0 bn, translating to an undersubscription rate of 72.6%, significantly lower than the 179.4% recorded the previous week. Notably, the 182-day and 364-day papers recorded undersubscriptions of 35.5% and 18.1% from an undersubscription rate of 87.7% and 43.7%, respectively, recorded the previous week. The government accepted bids worth Kshs 8.0 bn and rejected Kshs 0.3 bn out of the total Kshs 8.3 bn bids received, translating to an acceptance rate of 97.2%. 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 1.3 bps, 5.5 bps and 7.8 bps to 10.8%, 10.4% and 9.9%, respectively. The chart below compares the overall average T- bills subscription rates obtained in 2017, 2022 and 2023 Year to Date (YTD):



Primary T-bond auctions in Q1'2023:

In Q1’2023, the government issued one new Treasury bond and one infrastructure bond, re-opened three and offered five of them on tap sale, seeking to raise Kshs 190.0 bn. The bonds were generally undersubscribed, receiving bids worth Kshs 164.1 bn against the offered Kshs 190.0 bn, translating to a subscription rate of 86.4%. The government was keen on rejecting expensive bids and thus accepted only Kshs 141.7 bn of the Kshs 164.1 bn worth of bids received, translating to an acceptance rate of 86.4%. The table below provides more details on the bonds issued during the quarter:

Cytonn Report: Q1’2023 T-bonds auction results

Issue Date	Bond Auctioned	Effective Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Actual Amount Raised (Kshs bn)	Total bids received	Average Accepted Yield	Subscription Rate	Acceptance Rate
16/01/2023	FXD1/2020/005 (re-opened)	2.4	11.7%	50.0	31.5	41.6	12.9%	83.3%	75.7%
	FXD1/2022/015 (re-opened)	14.3	13.9%				14.3%		
20/01/2023	FXD1/2020/005 - Tapsale	2.4	11.7%	10.0	17.6	18.0	13.9%	180.2%	97.8%
	FXD1/2022/015 - Tapsale	14.3	13.9%				14.2%		
13/02/2023	FXD1/2017/10 (re-opened)	4.4	13.0%	50.0	16.7	19.5	13.9%	38.9%	86.1%
	FXD1/2023/10	10.0	14.2%				14.2%		
20/02/2023	FXD1/2020/005 - Tapsale	4.4	13.0%	10.0	12.2	12.5	13.9%	124.6%	97.9%
	FXD1/2022/015 - Tapsale	10.0	14.2%				14.2%		
8/3/2023	IFB1/2023/017	17.0	14.4%	50.0	50.9	59.8	14.4%	119.5%	85.1%
	IFB1/2023/017-Tapsale	17.0	14.4%	20.0	12.7	12.7	14.4%	63.6%	100.0%
Q1'2023 Total				**190.0**	**141.7**	**164.1**			
Q1'2023 Average		**9.6**	**13.4%**	**31.7**	**23.6**	**27.3**	**14.0%**	**101.7%**	**90.4%**
Q4'2022 Average		**12.9**	**13.6%**	**37.8**	**26.9**	**31.2**	**13.8%**	**110.8%**	**87.3%**

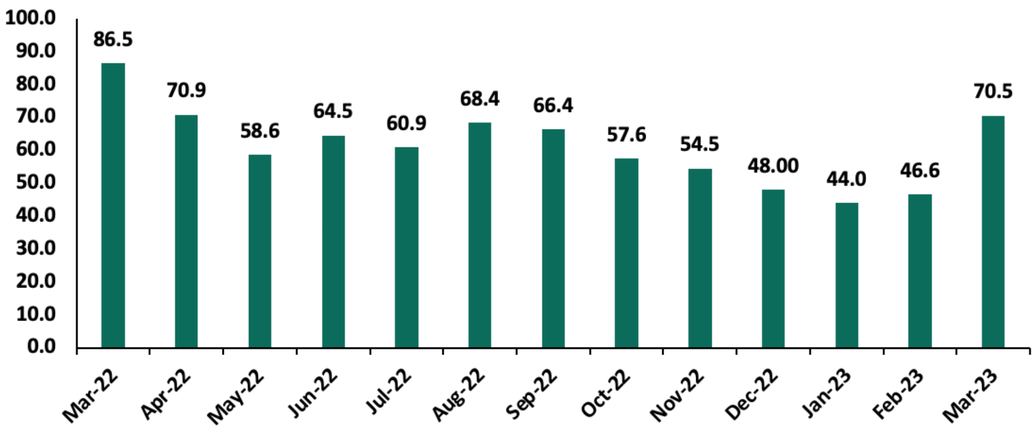
Source: CBK

Secondary Bond Market Activity:

I. **Bond Turnover**

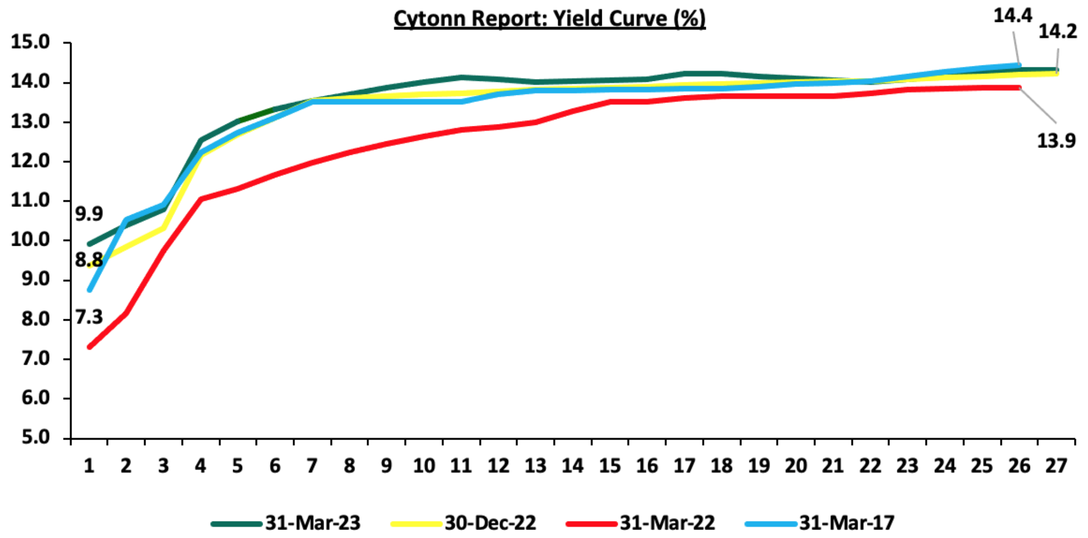
In the secondary bond market, activity increased slightly, with the turnover increasing by 0.7% to Kshs 161.1 bn, from Kshs 160.1 bn in Q4’2022, partially attributable to the increased allocation to treasury bonds by local institutional investors as they sought for higher yield in the market. The chart below shows the bond turnover over the last one year:

Cytonn Report: Secondary Market Bond Turnover (Kshs bn)

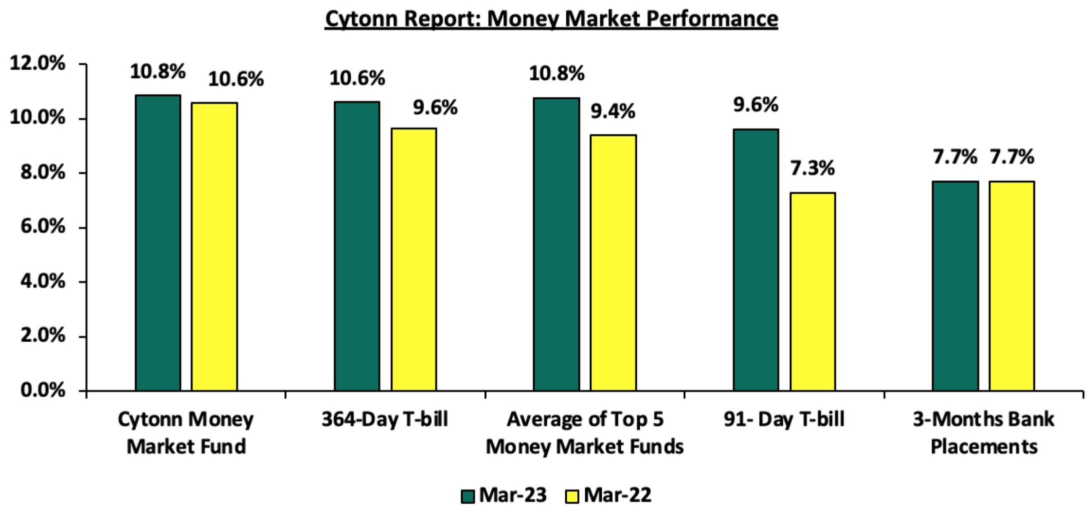


II. **Yield Curve**

The yield curve was on an upward trajectory in Q1'2023 with a notable increase in the yields on all bonds, however the shorter end of the yield curve increased more than the longer end, signaling a flatter curve, hence reflecting short-term risk sentiments. The chart below shows the yield curve movement during the quarter;

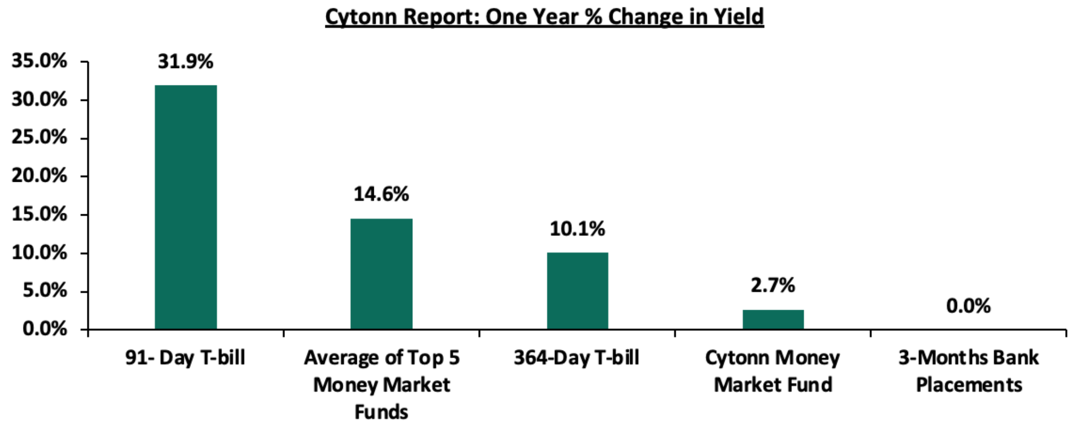


Money Market Performance



The 3-month bank placements recorded 7.7% as at the end of Q1'2023, similar to what was recorded at the end of Q1'2022 (based on what we have been offered by various banks). The average yield on the 91-day T-bill and the average Top 5 Money Market Funds increased by 2.3% points and 1.4% points to 9.6% and 10.8% in Q1'2023 from 7.3% and 9.4% in Q1'2022, respectively. The average yield on the Cytonn Money Market (CMMF) increased by 0.2% points to 10.8% in Q1'2023 from 10.6% in Q1'2022.

Notably, in the past one year, the yield on 91-day T-bill increased the most, recording an increase of 31.9% followed by average of Top 5 Money Market Funds which recorded a 14.6% change. However, the 3-months bank placement remained constant recording no percentage change during the period. The chart below shows the one year percentage change in yields of various asset classes:



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 31st March 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 31st March 2023

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund (dial *809# or download Cytonn App)	11.10%
2	Madison Money Market Fund	10.84%
3	Jubilee Money Market Fund	10.73%
4	Apollo Money Market Fund	10.59%
5	Dry Associates Money Market Fund	10.52%
6	Old Mutual Money Market Fund	10.18%
7	NCBA Money Market Fund	10.16%
8	Nabo Africa Money Market Fund	10.11%
9	Kuza Money Market fund	10.10%
10	Zimele Money Market Fund	9.91%
11	AA Kenya Shillings Fund	9.88%
12	Sanlam Money Market Fund	9.80%
13	KCB Money Market Fund	9.79%
14	Co-op Money Market Fund	9.78%
15	GenCap Hela Imara Money Market Fund	9.65%
16	GenAfrica Money Market Fund	9.44%
17	CIC Money Market Fund	9.33%
18	British-American Money Market Fund	9.18%
19	ICEA Lion Money Market Fund	8.93%
20	Orient Kasha Money Market Fund	8.93%
21	Mali Money Market Fund	8.67%
22	Absa Shilling Money Market Fund	8.64%

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 31st March 2023

Rank	Fund Manager	Effective Annual Rate
23	Equity Money Market Fund	6.73%

Liquidity:

In Q1'2023, liquidity in the money market tightened, evidenced by the 1.4% points increase in the average interbank rate to 6.5%, from 5.1% the previous quarter, partly attributable to tax remittances that outweighed government payments, consequently leading to reduced liquidity in the money market as more money were paid to the government compared to maturities payments. As such, the interbank rate rose due to high demand with low liquidity in the market. The tightened liquidity is also attributable to the tightened monetary policy, with the MPC rate being hiked by 75.0 bps to 9.50 in March 2023 from 8.75% in January 2023. The average volumes traded in the interbank market increased by 6.3% to Kshs 226.7 bn, from Kshs 213.2 bn recorded in Q4'2022.

During the week, liquidity in the money markets continued to tighten, with the average interbank rate increasing to 7.6% from 7.2% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded declined by 12.6% to Kshs 22.0 bn from Kshs 25.1 bn recorded the previous week.

Kenya Eurobonds:

During Q1'2023, the yields on Eurobonds were on an upward trajectory, with the 7-year Eurobond issued in 2019 increasing the most, having increased by 2.4% points to 13.3% from 10.9% recorded in Q4'2022. The increase in yields is partly attributable to increased perceived risks in the economy amid the country's dwindling forex reserves raising concerns on the country's ability to meet its debt obligations. The continued currency depreciation and the elevated inflationary pressures are affecting investors' sentiments hence the need to cushion against possible losses.

During the week, the yields on Eurobonds were on a downward trajectory with the yields on the 10-year Eurobond issued in 2018, 12-year Eurobond issued in 2019 and 12-year Eurobond issued in 2021 declining the most, having declined by 0.5% points each to 13.7%, 11.8% and 11.2% from 14.2%, 12.3% and 11.7% recorded the previous week. The decline followed an announcement by the Permanent Secretary to the National Treasury that the government is keen on prioritizing the payment of debt obligations and had settled all debt due in March 2023 amounting to Kshs 150.0 bn. The table below shows the summary of the performance of the Kenyan Eurobonds as of 30th March 2023;

Cytonn Report: Kenya Eurobonds Performance

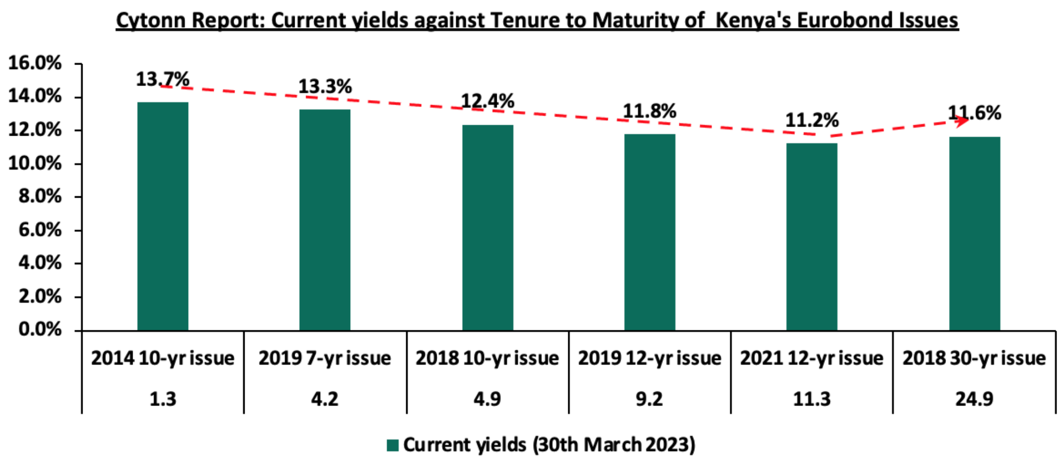
	2014	2018		2019		2021
Date	**10-year issue**	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**	**12-year issue**
Amount Issued (USD bn)	**2.0**	**1.0**	**1.0**	**0.9**	**1.2**	**1.0**
Years to Maturity	**1.3**	**5.0**	**25.0**	**4.2**	**9.2**	**11.3**
Yields at Issue	**6.6%**	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**

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%
30-Dec-22	12.9%	10.5%	10.9%	10.9%	10.8%	9.8%
23-Mar-23	14.2%	12.8%	12.0%	13.7%	12.3%	11.7%
24-Mar-23	14.7%	13.1%	12.1%	14.1%	12.6%	11.8%
27-Mar-23	14.4%	13.1%	12.1%	14.0%	12.6%	11.7%
28-Mar-23	14.5%	13.2%	12.2%	14.4%	12.6%	11.8%
29-Mar-23	14.3%	12.9%	12.1%	14.3%	12.5%	11.6%
30-Mar-23	13.7%	12.4%	11.6%	13.3%	11.8%	11.2%
Weekly Change	**(0.5%)**	**(0.4%)**	**(0.4%)**	**(0.4%)**	**(0.5%)**	**(0.5%)**
Q/Q Change	**0.8%**	**1.9%**	**0.7%**	**2.4%**	**1.0%**	**1.4%**
YTD Change	**0.8%**	**1.9%**	**0.8%**	**2.3%**	**1.0%**	**1.4%**

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

The chart below compares the current yields to the tenure to maturity of the various Eurobond issuances by Kenya, highlighting that the shorter-tenure issuances have higher yields as compared to the long-tenure Eurobonds, attributable to servicing concerns;



Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. The government is 17.3% ahead of its prorated borrowing target of Kshs 322.3 bn having borrowed Kshs 378.2 bn of the new domestic borrowing target of Kshs 425.1 bn as per the February 2023 revised domestic borrowing

***target** for FY'2022/23. 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 February 2023 coming in at Kshs 1.3 tn in the FY'2022/2023, equivalent to 59.8% of its target of Kshs 2.1 tn and 89.7% of the prorated target of Kshs 1.4 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.*
