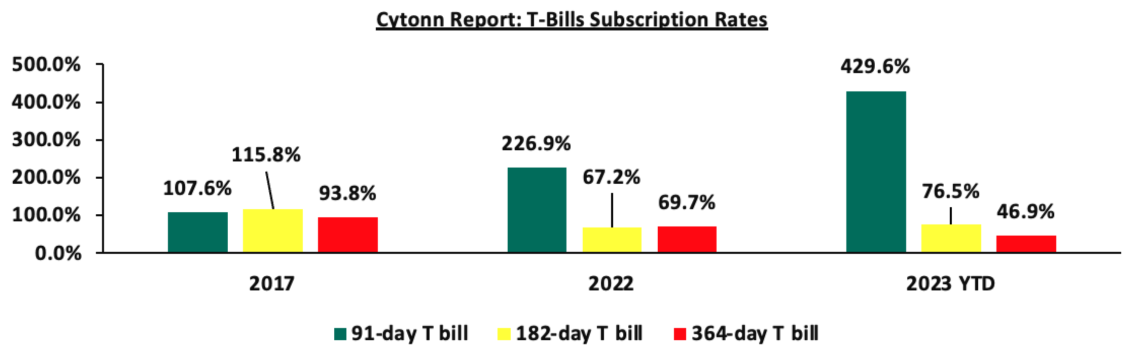
Kenya Retirement Benefits Scheme FY'2022 Review, & Cytonn Weekly #14/2023

Fixed Income

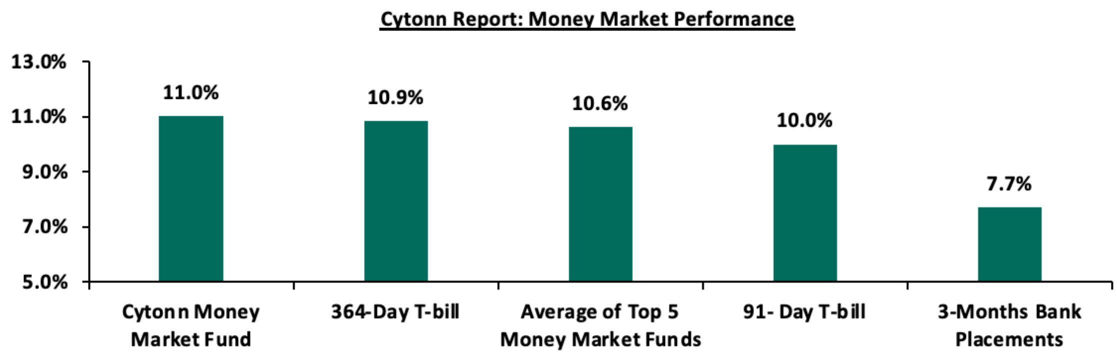
Money Markets, T-Bills Primary Auction:

During the week, T-bills were oversubscribed for the first time in two weeks, with the overall subscription rate coming in at 134.8%, up from an undersubscription of 34.4% 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 25.7 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 643.3%, significantly higher than the 72.6% recorded the previous week. Notably, the 182-day and 364-day papers recorded continued undersubscriptions of 5.8% and 60.3% from undersubscription rates of 35.5% and 18.1%, respectively, recorded the previous week. The government accepted bids worth Kshs 32.2 bn out of the total Kshs 32.3 bn bids received, translating to an acceptance rate of 99.8%. The yields on the government papers recorded mixed performances, with the yields on the 364-day paper and 91-day papers increasing by 5.7 bps and 9.7 bps to 10.9% and 10.0%, respectively while the yield of the 182-day paper declined by 3.1 bps to 10.4%. 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 bond auction results for the re-opened treasury bond FXD2/2018/10 with effective tenor to maturity of 5.7 years. In line with our expectations, the bond was undersubscribed, receiving bid worth Kshs 3.6 bn, against the offered Kshs 20.0 bn, translating to an undersubscription rate of 17.9%, on the back of tightened liquidity in the money market, with the average interbank rate increasing by 50.0 bps to 8.1%, from 7.6% recorded the previous week. The government continued to reject expensive bids, accepting bids worth Kshs 3.4 bn out of the Kshs 3.6 bn of total bids received, translating to an acceptance rate of 94.1%. The accepted weighted average yield for the bond came in at 14.4%, while the coupon rate was 12.5%.

Money Market Performance:



In the money market, the 3-month bank placements recorded 7.7%, similar to what was recorded the previous week (based on what we have been offered by various banks). The average yield on the 91-day T-bill and the 364-day T-bill increased by 0.1% points each to 10.0% and 10.9%, from 9.9% and 10.8%, respectively, recorded the previous week. On the other hand, yields of the average Top 5 Money Market Funds and Cytonn Money Market Fund (CMMF) declined by 0.2% points and 0.1% points to 10.6% and 11.0%, from 10.8% and 11.1%, respectively, recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 6th April 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 6th April 2023

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund (dial *809# or download the Cytonn App)	11.0%
2	Dry Associates Money Market Fund	10.6%
3	Apollo Money Market Fund	10.6%
4	Jubilee Money Market Fund	10.5%
5	Madison Money Market Fund	10.5%
6	Etica Money Market Fund	10.3%
7	NCBA Money Market Fund	10.1%
8	Nabo Africa Money Market Fund	10.1%
9	Kuza Money Market fund	10.0%
10	Old Mutual Money Market Fund	10.0%
11	Zimele Money Market Fund	9.9%
12	KCB Money Market Fund	9.9%
13	Enwealth Money Market Fund	9.9%
14	Co-op Money Market Fund	9.8%
15	Sanlam Money Market Fund	9.8%
16	AA Kenya Shillings Fund	9.8%
17	GenCap Hela Imara Money Market Fund	9.5%
18	CIC Money Market Fund	9.4%
19	British-American Money Market Fund	9.3%
20	GenAfrica Money Market Fund	9.2%

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 6th April 2023

Rank	Fund Manager	Effective Annual Rate
21	ICEA Lion Money Market Fund	9.0%
22	Orient Kasha Money Market Fund	8.9%
23	Absa Shilling Money Market Fund	8.8%
24	Mali Money Market Fund	8.2%
25	Equity Money Market Fund	6.7%

Source: Daily Nation, M-pesa app

Liquidity:

During the week, liquidity in the money markets continued to tighten, with the average interbank rate increasing to 8.1%, from 7.6% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volume traded, however, increased by 35.0% to Kshs 29.6 bn, from Kshs 22.0 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds were on a downward trajectory with the yields on the 10-year Eurobond and 30-year Eurobond both issued in 2018, declining the most, having declined by 0.2% points each to 12.2% and 11.4%, from 12.4% and 11.6% recorded the previous week. The decline followed an announcement by the Permanent Secretary (PS) of the National Treasury that the government is keen on prioritizing the payment of debt obligations and had settled all debt due in March amounting to Kshs 150.0 bn. The table below shows the summary of the performance of the Kenyan Eurobonds as of 5 April 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%**
02-Jan-23	12.9%	10.5%	10.9%	10.9%	10.8%	9.9%
30-Mar-23	13.7%	12.4%	11.6%	13.3%	11.8%	11.2%
31-Mar-23	14.2%	12.3%	11.6%	13.4%	11.7%	11.3%
03-Apr-23	13.7%	12.2%	11.4%	13.2%	11.6%	11.2%
04-Apr-23	13.4%	12.0%	11.4%	13.1%	11.6%	11.1%
05-Apr-23	13.6%	12.2%	11.4%	13.2%	11.7%	11.2%
Weekly Change	**(0.1%)**	**(0.2%)**	**(0.2%)**	**(0.1%)**	**(0.1%)**	**(0.0%)**
MTD change	**(0.1%)**	**0.1%**	**0.0%**	**0.0%**	**0.1%**	**0.0%**
YTD Change	**0.7%**	**1.7%**	**0.6%**	**2.3%**	**0.9%**	**1.3%**

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

Kenya Shilling:

During the week, the Kenya Shilling depreciated by 0.7% against the US dollar to close the week at Kshs 133.3, from Kshs 132.3 recorded the previous week, partly attributable to increased dollar demand from manufacturers and importers, especially oil and energy sectors against a slower supply of hard currency. On a year to date basis, the shilling has depreciated by 8.0% 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 constraints coupled with high demand. The high crude oil prices have inflated Kenya's import bill and as a result, petroleum products imports have continued to weigh heavily on the country's import bill, and accounted for 27.6% of the total import bill in Q3'2022, up from 25.6% in Q2'2022 and much higher than 15.2% recorded in Q3'2021,
ii. An ever-present current account deficit estimated at 4.9% of GDP in the 12 months to January 2023, from 5.6% recorded in a similar period last year,
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 December 2022, and,
iv. A continued interest rate hikes in the USA and the Euro Area with the Fed and European Central Bank increasing their benchmark rates to 4.75%-5.00% and 3.50% respectively in March 2023, which has strengthened the dollar and sterling pound against other currencies following capital outflows from other global emerging markets.

The shilling is however expected to be supported by:

i. Diaspora remittances standing at a cumulative USD 658.6 mn in 2023 as of February 2023, albeit 0.3% lower than the USD 660.3 mn recorded over the same period in 2022, and,
ii. The tourism inflow receipts that came in at USD 268.1 bn in 2022, a significant 82.9% increase from USD 146.5 bn inflow receipts recorded in 2021.

Key to note, Kenya's forex reserves remained relatively unchanged at USD 6.4 bn as at 5 April 2023, similar to what was recorded the previous week. As such, the country's months of import cover also remained unchanged at 3.6 months, similar to what was recorded the previous week, and below the statutory requirement of maintaining at least 4.0-months of import cover. The chart below summarizes the evolution of Kenya months of import cover over the last 10 years:

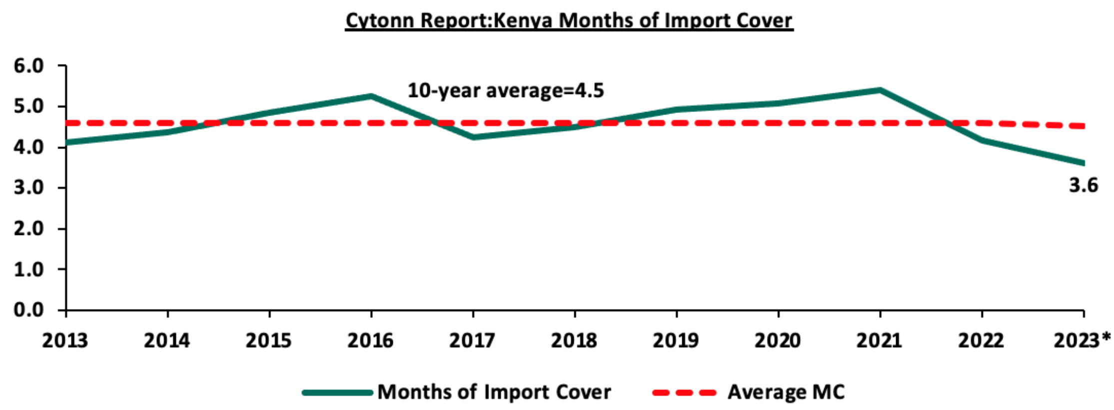
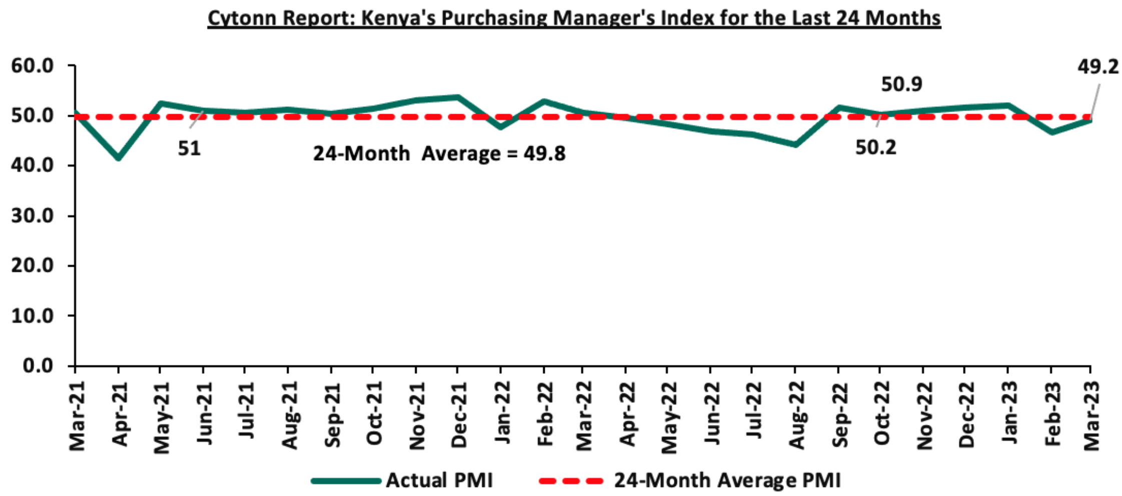


**Figure as of 5 April 2023*

Weekly Highlight:

Stanbic Bank's March 2023 Purchasing Manger's Index (PMI)

During the week, Stanbic bank released its monthly Purchasing Manager's Index (PMI), highlighting that the index for the month of March 2023 came in at 49.2, from 46.6 in February 2023, pointing towards continued deterioration in the country's business environment for the second consecutive month in 2023. The subdued business activity in the country is attributable to decline in new orders, driven by elevated prices of both inputs and commodity prices, low cash flow circulation evidenced by the tightened liquidity with the average interbank rate at 7.0% in March, up from average interbank rate of 6.4%, recorded in February 2023. Additionally, the interest hikes by both the Fed and the European Central Bank (ECB) against aggressive currency depreciation further increased the cost of petroleum products importation impeding production. However, the March PMI was an improvement from the 46.6 PMI recorded in February 2023, signalling lesser declines in business activities supported by marginal uplifts in employment and purchasing. On sectoral performances, there were variances, with sectors such as wholesale and retail recording decline in sales growth while construction, manufacturing, agriculture and services recorded slight increases in sales growth. The chart below summarizes the evolution of PMI over the last 24 months;



Despite the slowdown in business deterioration, we maintain a cautious outlook in the short-term owing to the elevated inflationary pressures with March 2023 inflation rate remaining unchanged at 9.2%, similar to what was recorded in February 2023. The high inflation rate, coupled with the aggressive depreciation of the Kenyan shilling continue drive high cost of production. Additionally, consumer demand is also of a major concern as the soaring prices of commodities continue to stifle consumer spending. Key to note, the improvement in the general business environment in the country is largely pegged on the stability in the global economy.

Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. The government is 14.4% ahead of its prorated borrowing target of Kshs 330.2n having borrowed Kshs 378.1 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.