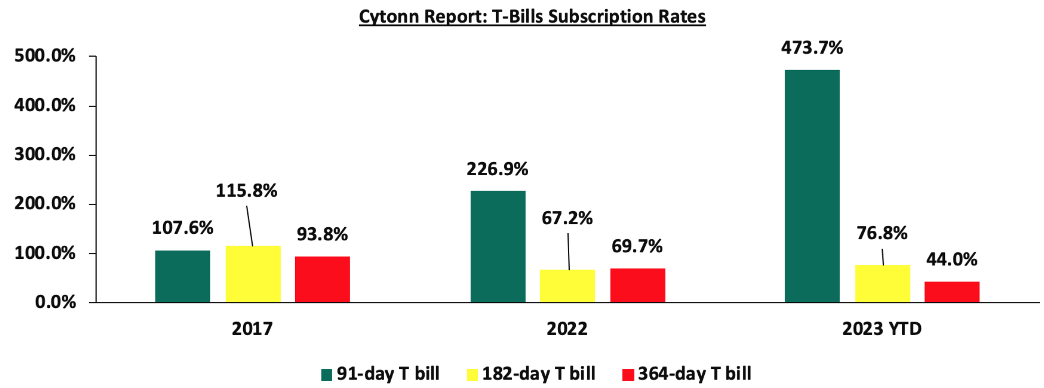
Kenya's Listed Banks FY'2022 Report, & Cytonn Weekly #16/2023

Fixed Income

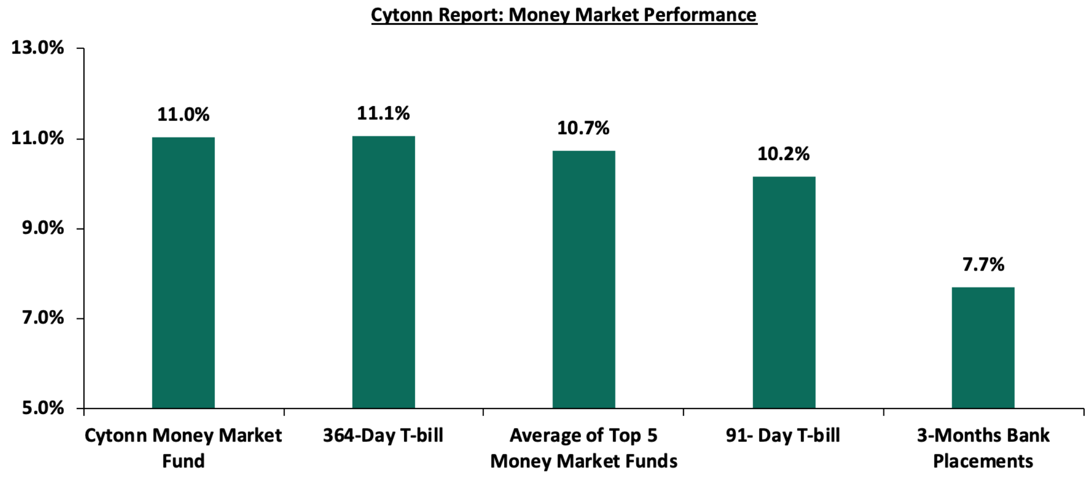
Money Markets, T-Bills Primary Auction:

During the week, T-bills were oversubscribed for the third consecutive week, with the overall subscription rate coming in at 146.5%, up from an oversubscription rate of 122.6% 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 32.0 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 799.6%, higher than the 621.9% recorded the previous week. Notably, the 182-day and 364-day papers recorded continued undersubscriptions of 21.5% and 10.2%, from undersubscription rates of 24.7% and 20.7%, respectively, recorded the previous week. The government accepted bids worth Kshs 33.2 bn and rejected Kshs 2.0 bn out of the total Kshs 35.2 bn bids received, translating to an acceptance rate of 94.7%. The yields on the government papers were on upward trajectory, with the yields on the 364-day, 182-day and 91-day papers increasing by 12.7 bps, 4.9 bps and 8.7 bps to 11.1%, 10.5% and 10.2%, 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 bond auction results for the re-opened treasury bond FXD1/2022/03 with effective tenor to maturity of 2.1 years. In line with our expectations, the bond was undersubscribed, receiving bids worth Kshs 1.8 bn, against the offered Kshs 30.0 bn, translating to an undersubscription rate of 24.4%, on the back of tightened liquidity in the money market, with the average interbank rate increasing by 0.3% points to 8.7%, from 8.4% recorded the previous week. The government continued to reject expensive bids, accepting bids worth Kshs 1.8 bn out of the Kshs 7.4 bn of total bids received, translating to an acceptance rate of 24.0%. The accepted weighted average yield for the bond came in at 13.9%, while the coupon rate was 11.8%. Key to note, the government cancelled the auction results for the FXD1/2019/15 with tenor to maturity of 10.9 years as investors continued to prefer shorter dated papers evidenced by the 799.6% oversubscription for the 91-day T-bill.

Money Market Performance:



In the money market, the 3-month bank placements closed the week at 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 and 364-day T-bills increased by 0.1% points and 0.2% points to 10.2% and 11.1%, from 10.1% and 10.9%, respectively, recorded the previous week. On the other hand, yields on the average Top 5 Money Market Funds and Cytonn Money Market Fund remained relatively unchanged at 10.7% and 11.0%, respectively, from what was recorded last week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 21 April 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 21 April 2023

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund (dial *809# or download Cytonn App)	11.0%
2	Madison Money Market Fund	10.8%
3	Etica Money Market Fund	10.8%
4	Apollo Money Market Fund	10.6%
5	Dry Associates Money Market Fund	10.5%
6	Jubilee Money Market Fund	10.3%
7	Enwealth Money Market Fund	10.1%
8	Kuza Money Market fund	10.0%
9	AA Kenya Shillings Fund	10.0%
10	NCBA Money Market Fund	9.9%
11	Zimele Money Market Fund	9.9%
12	Old Mutual Money Market Fund	9.9%
13	Sanlam Money Market Fund	9.8%
14	Nabo Africa Money Market Fund	9.8%
15	GenAfrica Money Market Fund	9.6%
16	GenCap Hela Imara Money Market Fund	9.6%
17	CIC Money Market Fund	9.4%
18	KCB Money Market Fund	9.4%

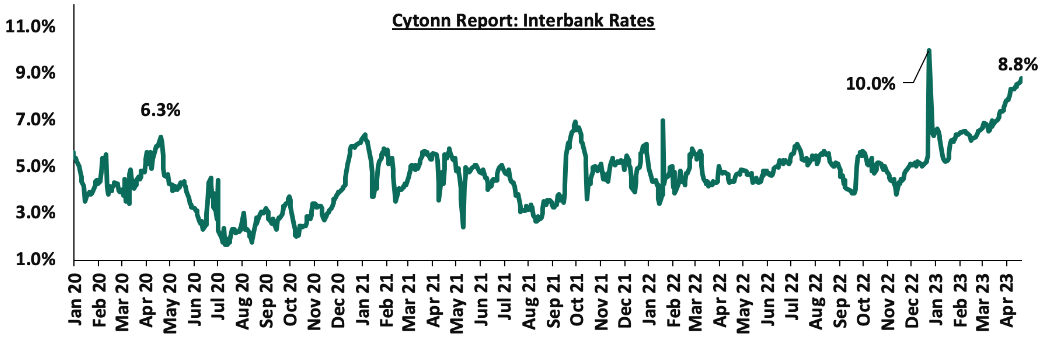
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 21 April 2023

Rank	Fund Manager	Effective Annual Rate
19	Co-op Money Market Fund	9.4%
20	British-American Money Market Fund	9.4%
21	Orient Kasha Money Market Fund	9.4%
22	ICEA Lion Money Market Fund	9.1%
23	Absa Shilling Money Market Fund	8.6%
24	Mali Money Market Fund	8.2%
25	Equity Money Market Fund	6.7%

Source: Business Daily, M-PESA App

Liquidity:

During the week, liquidity in the money markets continued to tighten, with the average interbank rate increasing to 8.7%, from 8.4% recorded the previous week, partly attributable to tax remittances that offset government payments. However, the average interbank volume traded increased by 13.3% to Kshs 27.2 bn, from Kshs 24.0 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Source: CBK

Kenya Eurobonds:

During the week, the yields on Eurobonds were on an upward trajectory with the yield on the 10-year Eurobond issued in 2014, increasing the most, having increased by 0.8% points to 15.5%, from 14.7% recorded the previous week. The rise in the country's Eurobond yields is mainly on the back of increased concerns about the continued depreciation of the Kenyan shilling, United States dollar shortages currently experienced in the economy and increased debt servicing concerns with debt service to revenue coming in at 56.4% as of March 2023, compared to 54.2% recorded in February 2023. The table below shows the summary of the performance of the Kenyan Eurobonds as of 19 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	**1.2**	**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	**1.2**	**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%
03-Apr-23	13.7%	12.2%	11.4%	13.2%	11.6%	11.2%
13-Apr-23	14.7%	12.7%	11.7%	13.6%	12.1%	11.6%
14-Apr-23	14.8%	12.7%	11.7%	13.6%	12.1%	11.5%
17-Apr-23	14.8%	12.8%	11.8%	13.6%	12.2%	11.6%
18-Apr-23	15.0%	12.8%	11.9%	13.6%	12.2%	11.6%
19-Apr-23	15.5%	13.0%	12.0%	13.9%	12.4%	11.8%
Weekly Change	**0.8%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.2%**
MTD change	**1.8%**	**0.8%**	**0.6%**	**0.7%**	**0.8%**	**0.7%**
YTD Change	**2.6%**	**2.5%**	**1.2%**	**3.0%**	**1.7%**	**2.0%**

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

Kenya Shilling:

During the week, the Kenya Shilling depreciated by 0.6% against the US dollar to close the week at Kshs 135.2, from Kshs 134.4 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 9.5% 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 1,015.5 mn in 2023 as of March 2023, albeit 0.8% lower than the USD 1,023.8 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 increased to USD 6.5 bn as at 19 April 2023, slightly higher than USD 6.4 bn 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:

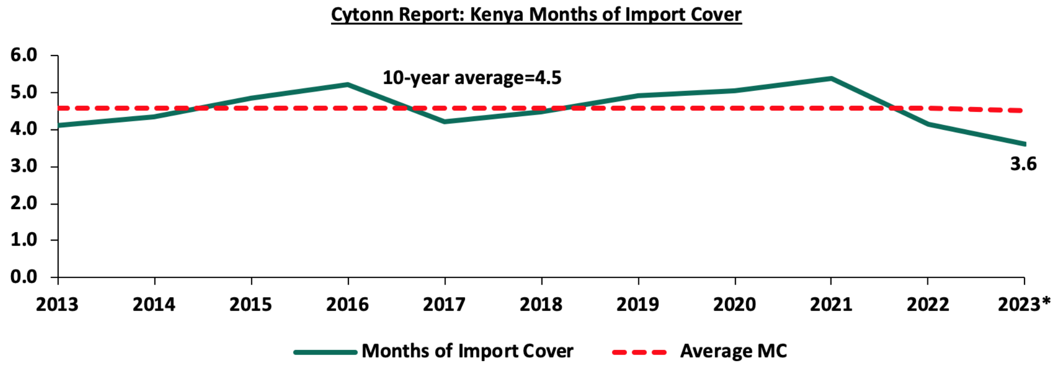


**Figure as of 19 April 2023*

Weekly Highlight:

i. **March 2023 Inflation Projection**

We are projecting the y/y inflation rate for April 2023 to decline to a range of 8.7%-9.1% mainly on the back of:

i. **Expected Stabilization of Food Prices**- Food prices are expected to stabilize as a result of the ongoing rains in different parts of the country as well as the government's initiative to subsidize farm inputs such as fertilizers. As such, food supply in the country is expected to improve in short term to medium term and consequently lead to price stabilization and easing food inflation, the main contributor to the headline inflation. Additionally, we expect the government strategies such as importation of duty-free maize and rice to further bridge the food supply deficit, and,
ii. **Maintained fuel prices**- From the EPRA's fuel prices release for the period 15 April to 14 May, fuel prices remained unchanged for the month at Kshs 179.3, Kshs 162.0 and Kshs 145.9 per liter of Super Petrol, Diesel and Kerosene, respectively. This comes after a Kshs 2.0 hike in the price of Super Petrol in the previous fuel price release, however, the prices of Kerosene and Diesel have remained unchanged for the fifth consecutive month. While Kenya's fuel prices remain elevated above the historic levels, the constant fuel prices indicate price stability in the medium term.

Going forward, we expect the inflationary pressures to remain elevated and above the Government's target range of 2.5%-7.5%, but to ease gradually in the medium to long term. Notably, we expect the ongoing government strategies such as fertilizer subsidization and importation of duty-free maize and rice to lower the cost of agricultural production and stabilizes prices of key commodities, respectively. Additionally, the currently ongoing rains in various parts of the country is expected to increase maize production. Consequently, the improved maize production coupled with additional maize importation is expected to ease food inflation with maize flour being a major inflationary factor. Notably, the government's plan to do away with the fuel subsidies as part of its austerity measures may keep fuel prices elevated in the medium term. However, the full anchoring of the domestic inflationary pressures is largely pegged on how soon the global supply chain is restored.

Rates in the Fixed Income market have been on upward trend given the continued government's demand for cash and the relatively tightened liquidity in the money market. The government is 11.0% ahead of its prorated borrowing target of Kshs 346.9 bn having borrowed Kshs 385.1 bn of the revised domestic borrowing target of Kshs 425.1 bn as per the March 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 March 2023 coming in at Kshs 1.4 tn in the FY'2022/2023, equivalent to 65.9% of its revised target of Kshs 2.2 tn and 87.9% of the prorated target of Kshs 1.6 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.