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Unit Trust Funds (UTFs) Performance, FY'2022, & Cytonn Monthly – April 2023

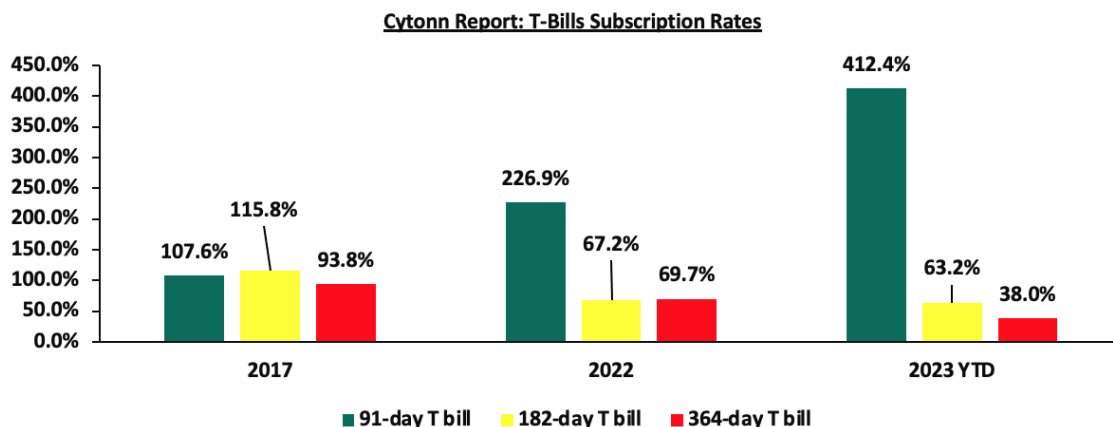
Fixed Income

Money Markets, T-Bills Primary Auction:

During the month of April 2023, T-bills were oversubscribed, with the overall average subscription rate coming in at 109.6%, albeit lower than 113.9% recorded in the month of March 2023. The average subscription rate for the 91-day paper increased to 534.4% from 354.6% recorded in March 2023, while subscription rates for the 364-day and 182-day papers decreased to 27.3% and 21.9%, from 43.7% and 87.7%, respectively, recorded in March 2023. The average yields on the government papers were on an upward trajectory, with the average yields on the 364-day, 182-day and 91-day papers increasing by 16.2 bps, 16.5 bps and 27.3 bps to 10.9%, 10.4% and 10.0%, from 10.8%, 10.3% and 9.8%, respectively, recorded in March 2023. For the month of April, the government accepted a total of Kshs 101.0 bn of the Kshs 105.2 bn worth of bids received, translating to an acceptance rate of 96.0%.

During the week, T-bills were undersubscribed for the first time in four weeks, with the overall subscription rate coming in at 37.5%, down from the 146.5% 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 6.7 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 167.2%, albeit lower than 799.6% recorded the previous week. The subscription rate for the 364-day paper increased to 14.4% from 10.2% recorded the previous week, while the subscription rate for 182-day paper decreased to 8.7%, from 21.5% recorded the previous week. The government accepted bids worth Kshs 8.9 bn out of the Kshs 9.0 bn total bids received, translating to an acceptance rate of 99.4%. 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 6.5 bps, 3.4 bps and 11.6 bps to 11.1%, 10.5% and 10.3%, respectively. The chart below compares the overall average T- bills subscription rates obtained in 2017, 2022 and 2023 Year to Date (YTD):

Cytonn Report: T-Bills Subscription Rates



Year	91-day T bill	182-day T bill	364-day T bill
2017	107.6%	115.8%	93.8%
2022	226.9%	67.2%	69.7%
2023 YTD	412.4%	63.2%	38.0%

The April 2023 bonds were undersubscribed, with the overall subscription rate coming in at 26.7%

down from 103.5%, recorded in March 2023. The re-opened bond FXD2/2018/10 received bids worth Kshs 3.6 bn against the offered Kshs 20.0 bn, translating to an undersubscription rate of 17.9% with the government accepting bids worth Kshs 3.4 bn, translating to an acceptance rate of 94.1%. The tap sale of IFB1/2023/017 received bids worth Kshs 5.1 bn against the offered Kshs 10.0 bn, translating to an undersubscription rate of 51.2%, with the government accepting bids worth Kshs 5.1 bn translating to an acceptance rate of 100.0%. The re-opened bond FXD1/2022/03 received bids worth Kshs 7.3 bn against the offered 30.0 bn translating to an undersubscription rate of 24.4%, with the government accepting bids worth Kshs 1.8 bn translating to an acceptance rate of 24.0%. The table below provides more details on the bonds issued during the month of April 2023:

Cytonn Report: Treasury Bonds Issued in April 2023

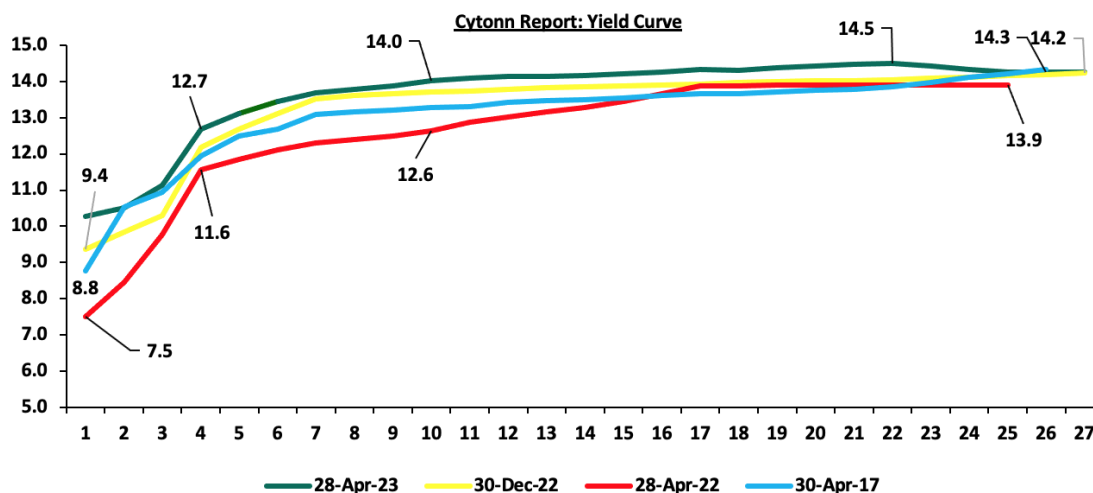
Issue Date	Bond Auctioned	Effective Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Actual Amount Raised/Accepted (Kshs bn)	Total bids received (Subscription)	Average Accepted Yield	Subscription Rate	Acceptance Rate
05/04/2023	FXD2/2018/10 (Re-opened)	5.7	12.5%	20.0	3.4	3.6	14.4%	17.9%	94.1%
17/04/2023	IFB1/2023/017-Tapsale	17.0	14.4%	10.0	5.1	5.1	14.4%	51.2%	100.0%
24/04/2023	FXD1/2022/03-Re-opened	2.1	11.8%	30.0	1.8	7.3	14.4%	24.4%	24.0%
April 2023 Average		8.3	12.9%	60.0	10.2	16.0	14.4%	26.7%	63.9%
March 2023 Average		17.0	14.4%	70.0	63.6	72.5	14.4%	103.5%	87.7%

Source: Central Bank of Kenya (CBK)

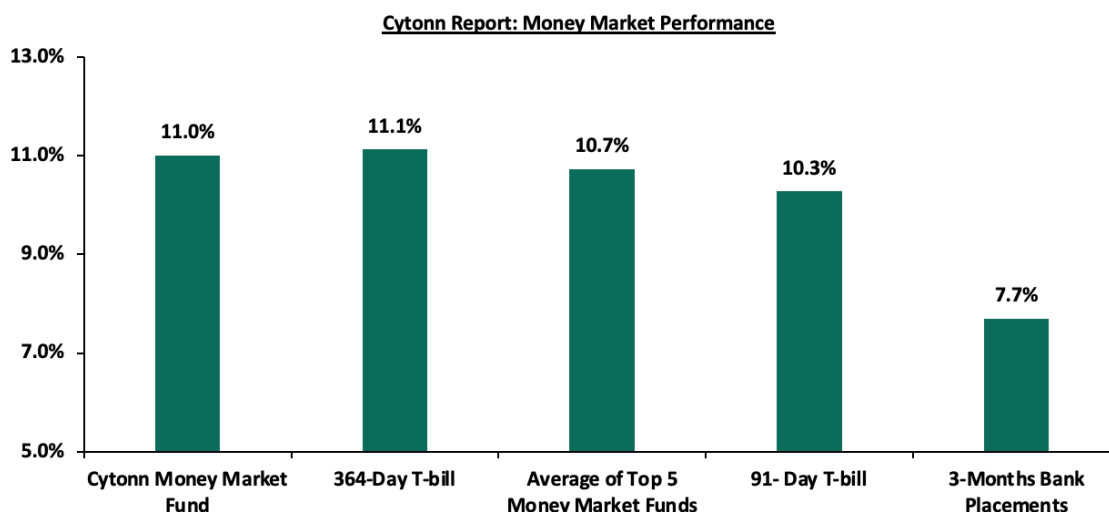
In the primary bond market, the government is seeking to raise additional Kshs 20.0 bn for budgetary support by issuing a new 3-year bond FXD1/2023/003. The minimum bidding amount is Kshs 50,000.0 while the discount/interest will be subjected to a 15.0% withholding tax. The coupon rate will be market determined and the period of sale runs from 26 April 2023 to 9 May 2023. We anticipate the bond to be oversubscribed given its short-term duration, however we expect investors to bid at higher rates given the country’s debt sustainability concerns. Our recommended bidding range for the bond is 13.2%-13.7% based on bonds of similar tenor trading range.

Secondary Bond Market:

The yields on the government securities were on an upward trajectory during the month compared to the same period in 2022 as a result of the elevated inflationary pressures leading to investors attaching higher risk premiums. The chart below shows the yield curve movement during the period:



The secondary bond turnover decreased by 45.1% to Kshs 38.7 bn, from Kshs 70.5 bn recorded in March 2023, pointing towards decreased activities by commercial banks in the secondary bonds market. On a year on year basis, the bonds turnover declined by 45.4% from Kshs 70.9 bn worth of treasury bonds transacted over a similar period last year.



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 6.5 bps and 11.6 bps to 11.1% and 10.3%, respectively. The yields of Cytonn Money Market Fund decreased by 2.0 bps to remain relatively at 11.0%, while the average yields on the Top 5 Money Market Funds remained unchanged at 10.7% from what was recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 28 April 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 28 April 2023

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund (dial *809# or download Cytonn App)	11.0%
2	Etica Money Market Fund	10.8%
3	Madison Money Market Fund	10.7%
4	Apollo Money Market Fund	10.7%

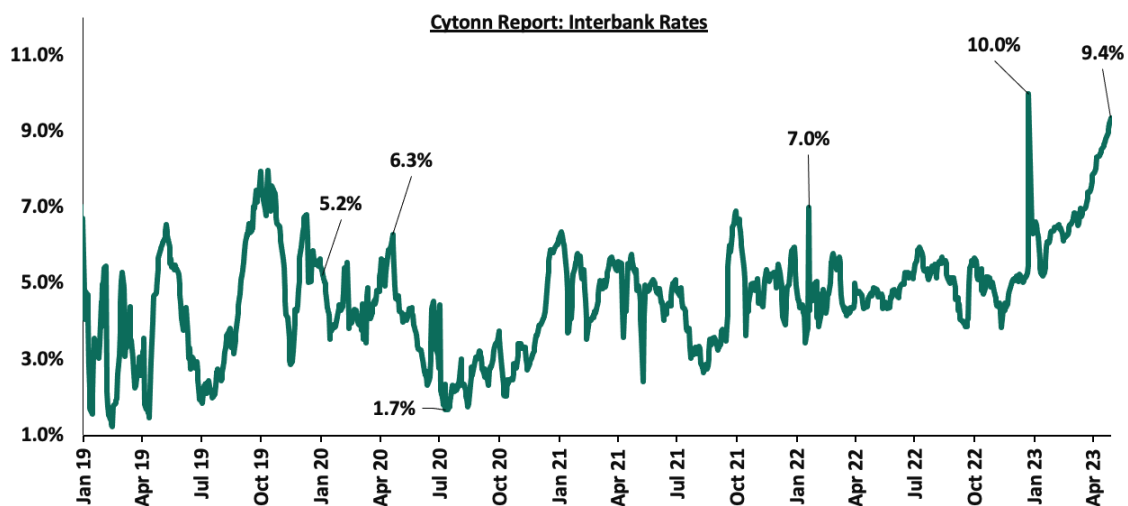
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 28 April 2023

Rank	Fund Manager	Effective Annual Rate
5	Dry Associates Money Market Fund	10.6%
6	Jubilee Money Market Fund	10.5%
7	Kuza Money Market fund	10.4%
8	AA Kenya Shillings Fund	10.0%
9	GenAfrica Money Market Fund	10.0%
10	NCBA Money Market Fund	9.9%
11	Zimele Money Market Fund	9.9%
12	Nabo Africa Money Market Fund	9.9%
13	Enwealth Money Market Fund	9.9%
14	Old Mutual Money Market Fund	9.8%
15	Sanlam Money Market Fund	9.8%
16	Co-op Money Market Fund	9.7%
17	KCB Money Market Fund	9.6%
18	CIC Money Market Fund	9.5%
19	GenCap Hela Imara 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	8.3%
24	Mali Money Market Fund	8.2%
25	Equity Money Market Fund	6.8%

Source: Business Daily

Liquidity:

Liquidity in the money markets tightened in the month of April 2023, with the average interbank rate increasing to 8.6%, from 7.0%, recorded in March 2023. Also, during the week, liquidity in the money markets tightened, with the average interbank rate increasing to 9.2%, from 8.7% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded declined by 37.2% to Kshs 17.1 bn, from Kshs 27.2 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Kenya Eurobonds:

During the month, the yields on the Eurobonds were on an upward trajectory with the yield on the 10-year Eurobond issued in 2014 recording the largest gain, having gained by 5.8 percentage points to 20.0% from 14.2%, recorded in March 2023, 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. Additionally, 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 also on an upward trajectory with the yield on the 10-year Eurobond issued in 2014 recorded the largest gain having gained by 4.5 percentage points to 20.0% from 15.5%, recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 27 April 2023;

Cytonn Report: Kenya Eurobonds Performance

Date	2014	2018		2019		2021
	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	1.2	4.8	24.9	4.1	9.1	11.2
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%
31-Mar-23	14.2%	12.3%	11.6%	13.4%	11.7%	11.3%
19-Apr-23	15.5%	13.0%	12.0%	13.9%	12.4%	11.8%
20-Apr-23	16.9%	13.6%	12.4%	14.6%	12.8%	12.3%
21-Apr-23	18.0%	14.0%	12.7%	15.3%	13.3%	13.0%
24-Apr-23	20.3%	14.8%	13.1%	16.2%	13.6%	13.0%
25-Apr-23	19.8%	14.5%	12.9%	15.8%	13.4%	12.7%
26-Apr-23	19.9%	14.1%	12.7%	15.4%	13.2%	12.4%

Cyttonn 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	1.2	4.8	24.9	4.1	9.1	11.2
Yields at Issue	6.6%	7.3%	8.3%	7.0%	7.9%	6.2%
27-Apr-23	20.0%	14.1%	12.7%	15.4%	13.2%	12.4%
Weekly Change	4.5%	1.1%	0.7%	1.5%	0.8%	0.6%
MTM change	5.8%	1.8%	1.1%	2.0%	1.5%	1.1%
YTD Change	7.1%	3.6%	1.8%	4.5%	2.4%	2.5%

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

Source: Central Bank of Kenya (CBK)

Kenya Shilling:

During the month, the Kenya Shilling depreciated by 2.7% against the US Dollar, to close the month at Kshs 135.9, from Kshs 132.3 recorded at the end of March 2023, partly attributable to the increased dollar demand from importers, especially oil and energy sectors against a slower supply of hard currency.

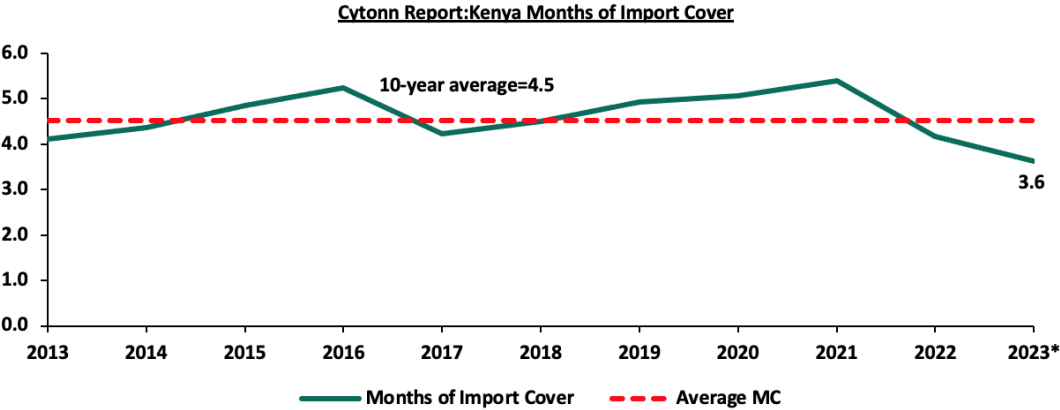
Also, during the week, the Kenya Shilling depreciated by 0.5% against the US dollar to close the week at Kshs 135.9, from Kshs 135.2 recorded the previous week, partly attributable to increased dollar demand from importers, especially oil and energy sectors against a slower supply of hard currency. On a year to date basis, the shilling has depreciated by 10.1% 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 twelve 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 declined by 0.3% during the week to remain relatively unchanged at USD 6.5 bn as at 27 April 2023. 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 remained 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 at 27 April 2023

Weekly Highlights:

I. April 2023 Inflation

The y/y inflation in April 2023 eased significantly to 7.9%, a ten-month low, from the 9.2% recorded in March 2023. This was in line but below our expectations, of an ease within a range of 8.7%-9.1%. The headline inflation in April 2023 was majorly driven by an increase in prices of commodities in the following categories, food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; and transport. The table below shows a summary of both the year on year and month on month commodity indices performance:

Cyttonn Report: Major Inflation Changes - April 2023

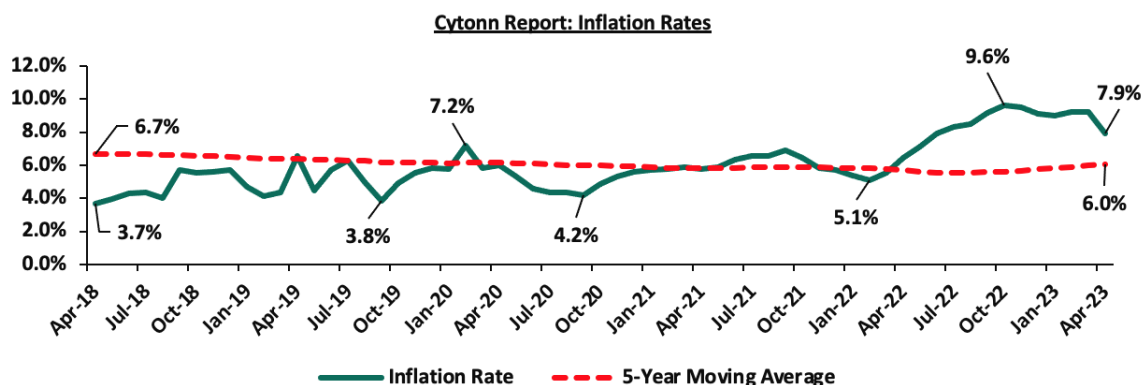
Broad Commodity Group	Price change m/m (March-2023/April-2023)	Price change y/y (April-2022/April-2023)	Reason
Food and Non-Alcoholic Beverages	0.1%	10.1%	The m/m increase was mainly driven by increase in price commodities such as potatoes, beans, Mangoes, onions, sugar, maize grain and beef. The increase was, however, mitigated by drop in prices of commodities such as spinach, kales, tomatoes, cabbages, cooking fat

Cytonn Report: Major Inflation Changes - April 2023

Broad Commodity Group	Price change m/m (March-2023/April-2023)	Price change y/y (April-2022/April-2023)	Reason
Housing, Water, Electricity, Gas and Other Fuel	2.7%	9.6%	The m/m change was mainly due to increase in price of 50 kilowatts and 200 kilowatts of electricity and 2-bedroom monthly house rent
Transport cost	0.2%	9.8%	The m/m change was driven by increase in prices of petrol in the period between March 15 and April 14 2023, while prices of diesel and kerosene remained unchanged in during the period
Overall Inflation	0.5%	7.9%	The m/m was mainly driven by 2.7% increase in prices of food and non-alcoholic Beverages

Source: Kenya National Bureau of Statistics (KNBS)

The overall easing of the headline inflation in April comes on the back of the rainy season that has eased food prices and the monetary policy committee raising the Central Bank Rate by 75.0 bps to 9.5% in March 2023 from 8.75% in January 2023, a move aimed to anchor inflation which has now remained above the Central Bank of Kenya upper bound of 7.5% in the past 11 months. The chart below shows the inflation rates for the past 5 years:



Inflationary pressures in the country are expected to slow further in the near term, aided by continued rain and duty-free imports of staples such as maize, rice, cooking oil and sugar. Furthermore, the recent announcement by the government that it intends to exempt cooking gas from the 8.0% value added tax through the Finance Bill 2023, which will be tabled in Parliament before June 2023, is expected to cushion consumer against high prices of cooking gas, as cooking gas is a major input under the Housing, Water, Electricity, Gas and Other Fuel index. Notably, the high commodity prices in the country are also attributed to the high cost of production and importation due to the depreciation of the Kenya shilling, which has made imports expensive. As a

result, manufactures pass on the cost to consumers through hikes in commodity prices. However, given that fuel and electricity are major input in most businesses, we are adamant that the country's elevated fuel prices, as well as increased electricity tariffs, are expected to impede the eventual ease of the inflation rate within the CBK's target range.

Monthly Highlights:

1. 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 recorded in February 2023, pointing towards more information, please see our **Cytonn weekly #14/2023**,
2. The National Treasury **gazetted** the revenue and net expenditures for the first nine months of FY'2022/2023, ending 31 March 2023. Total revenue collected as at the end of March 2023 amounted to Kshs 1,444.7 bn, equivalent to 65.9% of the revised estimates of Kshs 2,192.0 bn for FY'2022/2023 and is 87.9% of the prorated estimates of Kshs 1,644.0 bn. For more information, please see our **Cytonn weekly #15/2023**, and,
3. The Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya effective 15 April 2023 to 14 May 2023. Notably, 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. For more information, please see our **Cytonn weekly #15/2023**,

Rates in the Fixed Income market have been on upward trend given the continued government's demand for cash and the highly tightened liquidity in the money market. The government is 2.9% ahead of its prorated borrowing target of Kshs 355.0 bn having borrowed Kshs 365.3 bn of the revised domestic borrowing target of Kshs 425.1 bn 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 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.