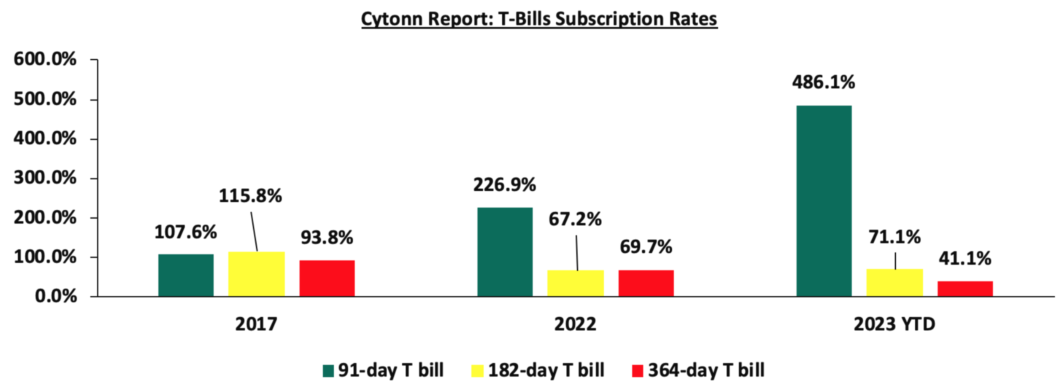
Financial Planning Amidst Challenging Economic Environment, & Cytonn Weekly #20/2023

Fixed Income

Money Markets, T-Bills Primary Auction:

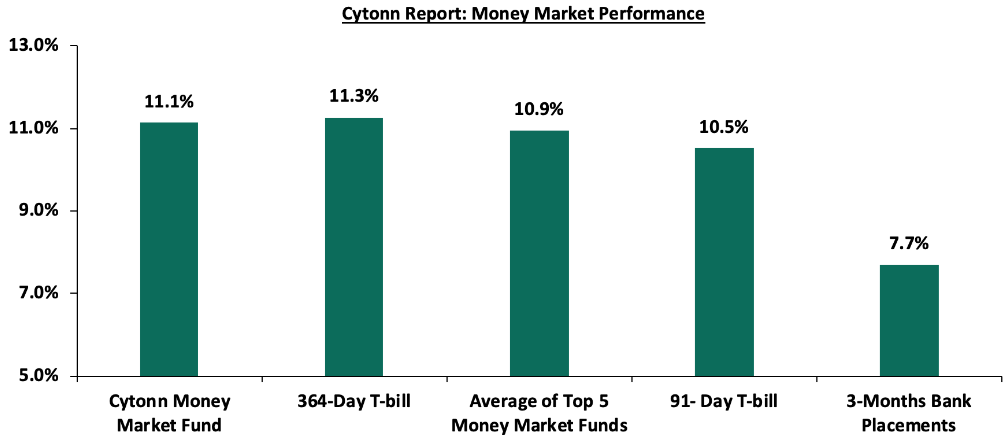
During the week, T-bills were oversubscribed, with the overall subscription rate coming in at 150.1%, down from the 188.9%, recorded the previous week. Investor's preference for the shorter 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 24.0 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 602.3%, lower than the 865.8% recorded the previous week. The subscription rate for the 182-day paper declined to 42.2%, down from the 88.4% recorded the previous week, while the subscription rate for the 364-day paper increased to 77.1%, up from 18.6%, recorded the previous week. The government accepted bids worth Kshs 36.0 bn of the total bids received, translating to an acceptance rate of 99.9%. 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 12.0 bps, 12.5 bps and 10.8 bps to 11.4%, 11.0% and 10.5%, 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 bond market, the Central Bank of Kenya released the tap sale results for the Treasury bond FXD1/2023/003 with tenor to maturity of 3 years. In line with our expectations, the bond recorded an oversubscription rate of 106.0%, partly attributable to investors' preference for shorter dated bonds as they seek to avoid duration risk. The government issued the bond seeking to raise Kshs 10.0 bn for budgetary support. The tap sale of the bond received bids worth Kshs 10.6 bn, with government accepting bids worth Kshs 10.6 bn, translating to an acceptance rate of 100.0%. Key to note, both the weighted average yield of accepted bids and the coupon rate came at 14.2%.

Money Market Performance:

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 yields on the 364-day and 91-day paper increased by 12.0 bps and 10.8 bps to 11.4% and 10.5% respectively. The yield of Cytonn Money Market Fund remained relatively unchanged at 11.1%, similar to what was recorded in the previous week, while the average yields of Top 5 Money Market Funds increased by 18.2 bps to 11.0%, up from 10.8%, recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 19 May 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 19 May 2023

Rank	Fund Manager	Effective Annual Rate
1	Etica Money Market Fund	11.2%
2	Cytonn Money Market Fund (dial *809# or download the Cytonn app)	11.1%
3	Madison Money Market Fund	10.9%
4	Apollo Money Market Fund	10.9%
5	Dry Associates Money Market Fund	10.6%
6	AA Kenya Shillings Fund	10.3%
7	Enwealth Money Market Fund	10.3%
8	GenAfrica Money Market Fund	10.2%
9	Co-op Money Market Fund	10.1%
10	Sanlam Money Market Fund	10.1%
11	Old Mutual Money Market Fund	10.1%
12	NCBA Money Market Fund	10.1%
13	Kuza Money Market fund	10.0%
14	Jubilee Money Market Fund	10.0%
15	Zimele Money Market Fund	9.9%
16	Nabo Africa Money Market Fund	9.8%
17	KCB Money Market Fund	9.8%
18	GenCap Hela Imara Money Market Fund	9.7%
19	British-American Money Market Fund	9.6%
20	CIC Money Market Fund	9.5%

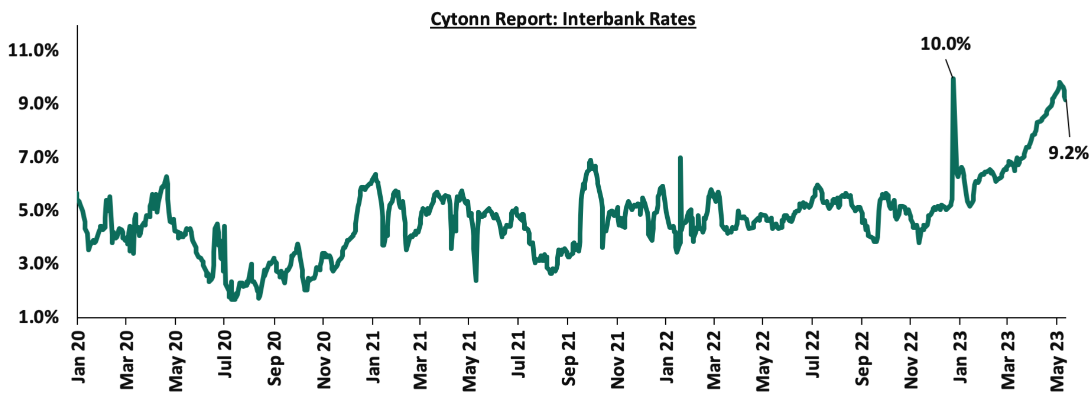
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 19 May 2023

Rank	Fund Manager	Effective Annual Rate
21	ICEA Lion Money Market Fund	9.5%
22	Orient Kasha Money Market Fund	9.4%
23	Absa Shilling Money Market Fund	9.0%
24	Mali Money Market Fund	8.3%
25	Equity Money Market Fund	7.5%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate decreasing to 9.2%, from 9.5% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded increased by 16.4% to Kshs 22.6 bn, from Kshs 19.4 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 a downward trajectory with the yield on the 10-year Eurobond issued in 2014 recording the largest decline having declined by 2.2% points to 15.4%, from 17.6%, recorded the previous week. The downward trajectory of the Eurobond yields is partly attributable to the recent announcement by the International Monetary Fund (IMF) Managing Director Kristalina Georgieva dubbing Kenya as debt sustainable. The IMF Chief also reassured investors that the government is moving swiftly to improve its fiscal position. The table below shows the summary of the performance of the Kenyan Eurobonds as of 18 May 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)	**2.0 bn**	**1.0 bn**	**1.0 bn**	**0.9 bn**	**1.2 bn**	**1.0 bn**
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%

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)	**2.0 bn**	**1.0 bn**	**1.0 bn**	**0.9 bn**	**1.2 bn**	**1.0 bn**
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%**
1-May-23	20.6%	14.1%	12.7%	15.5%	13.2%	12.4%
11-May-23	17.6%	13.3%	12.3%	15.1%	12.8%	12.1%
12-May-23	16.9%	13.2%	12.2%	14.8%	12.8%	12.0%
15-May-23	17.2%	13.2%	12.3%	15.0%	12.8%	12.1%
16-May-23	16.9%	13.0%	12.1%	14.8%	12.7%	11.9%
17-May-23	15.6%	12.7%	12.0%	14.4%	12.5%	11.8%
18-May-23	15.4%	12.6%	12.0%	14.3%	12.4%	11.7%
Weekly Change	**(2.2%)**	**(0.7%)**	**(0.4%)**	**(0.8%)**	**(0.4%)**	**(0.5%)**
MTD change	**(5.2%)**	**(1.5%)**	**(0.7%)**	**(1.2%)**	**(0.8%)**	**(0.7%)**
YTD Change	**2.5%**	**2.1%**	**1.1%**	**3.3%**	**1.6%**	**1.8%**

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

Kenya Shilling:

During the week, the Kenya Shilling depreciated by 0.4% against the US dollar to close the week at Kshs 137.5, from Kshs 136.9 recorded the previous week, partly attributable to the persistent 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 11.4% 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 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 63.0% of Kenya's External debt was US Dollar denominated as of December 2022, and,

The shilling is however expected to be supported by:

i. Diaspora remittances standing at a cumulative USD 1,335.9 mn in 2023 as of April 2023, albeit 3.1% lower than the USD 1,378.9 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 0.4% during the week to remain relatively unchanged at USD 6.3 bn as at 18 May 2023, equivalent to 3.5 months of import cover, but a notable 2.6% decline from the 3.6 months of import cover 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:

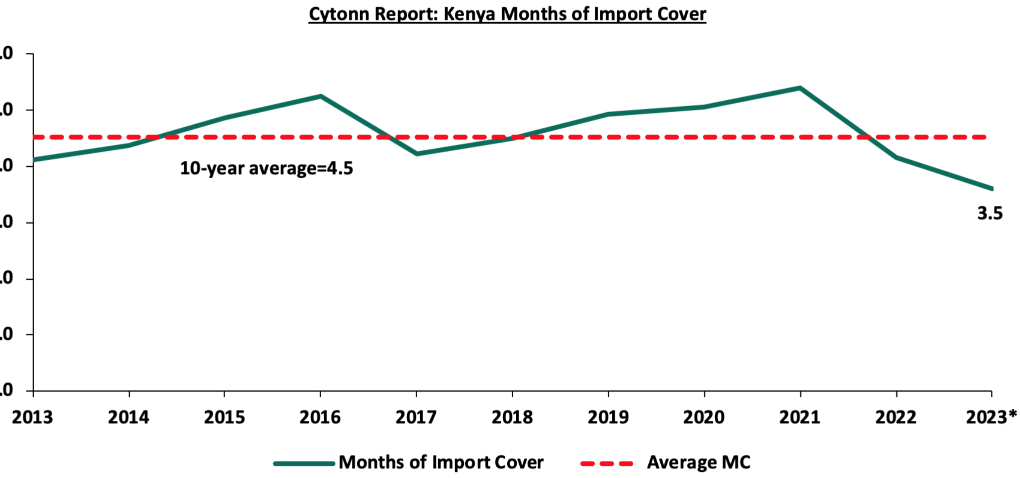


Figure as at 18 May 2023

Weekly Highlights:

I. **Fuel Prices**

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya effective 15 May 2023 to 14 June 2023. Notably, fuel prices increased by 1.9%, 4.0% and 10.4% to Kshs 182.7, Kshs 168.4 and Kshs 161.1, up from Kshs 179.3, Kshs 162.0 and Kshs 145.9 per litre of Super Petrol, Diesel and Kerosene, respectively. This comes after the government completely removed the fuel subsidy which was aimed at cushioning the citizens from high fuel prices.

Other key take-outs from the performance include;

i. The average landed costs for diesel and kerosene decreased by 2.5% and 1.1% to USD 688.1 per cubic metre and USD 699.5 per cubic metre in April 2023, from USD 705.8 per cubic metre and USD 707.5 per cubic metre in March 2023, respectively. However, the landed cost for Super Petrol increased by 8.3% to USD 724.0 per cubic metre in April 2023 from USD 666.1 per cubic metre in February,
ii. The Free On Board (FOB) price of Murban crude oil increased by 0.9% to USD 83.4 per barrel in April 2023 from USD 82.6 per barrel recorded in March 2023,
iii. The subsidies on Diesel and Kerosene have been removed, a commendable move since the fuel subsidy weighed heavily on government expenditure, necessitating the need for excessive borrowing.

The performance was despite;

i. The Kenya shilling performing better at the crude oil pump, with the mean monthly exchange rate trading at Kshs 139.0 in April 2023, compared to the mean monthly exchange rate of Kshs 139.6 recorded in March 2023, representing a 0.4% appreciation against the US dollar. The ease in fuel prices can be attributed to the ongoing government to government deal easing dollar demand by importers in the oil and energy sector.

Key to note, EPRA increased the price of Super Petrol, Diesel and Kerosene by Kshs 3.4, Kshs 6.4, and Kshs 15.2 per litre on the back of the government's decision to completely remove fuel subsidy program. While the increase in Kerosene will weigh down on the low income households in Kenya, who form the majority of the Kenyan population, the move will help suppliers with financing as the fuel subsidy reduced most suppliers financing margins. Additionally, the removal of fuel subsidy is informed by the current government-government dealing involving firms such as the Saudi Aramco (ARAMCO), Abu Dhabi National Oil Company (ADNOC) and Emirates National Oil Company (ENOC) to supply Kenya with diesel and super petrol for the next six months on credit. The first batch of fuel importation was received in April 2023 and the latest batch will be received in May 2023.

We commend the government's move to eliminate the fuel subsidies to ease the expenditure and ensure fiscal consolidation. However, we maintain the view that the government needs to implement long term strategies to buffer foreign reserves and resuscitate the currently weakened interbank forex market, with the Kenyan shilling having recorded an 11.4% depreciation on year to data basis.

Rates in the Fixed Income market have been on upward trend given the continued government's demand for cash as well as tight liquidity in the money market. The government is 3.7% behind its prorated borrowing target of Kshs 379.6 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 April 2023 coming in at Kshs 1.6 tn in the FY'2022/2023, equivalent to 74.8% of its revised target of Kshs 2.2 tn and 89.8% of the prorated target of Kshs 1.8 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.