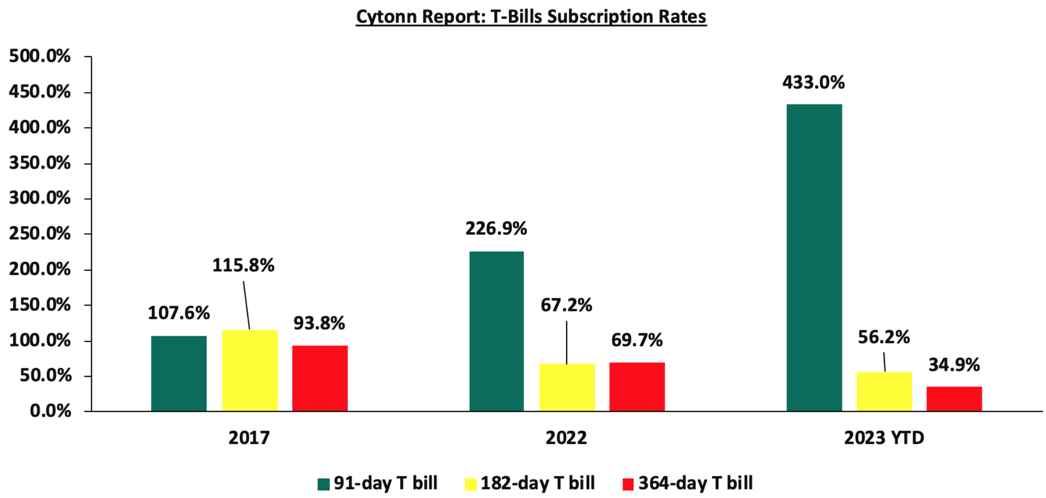
Cytonn H1’2023 Markets Review

Fixed Income

Money Markets, T-Bills Primary Auction:

During H1’2023, T-bills were oversubscribed, with the overall subscription rate coming in at 121.7%, up from 89.3% in H1’2022. Investors’ preference for the 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 481.8 bn against the offered Kshs 100.0 bn, translating to an oversubscription rate of 481.8%, higher than the oversubscription rate of 109.0% recorded in H1’2022. Overall subscription rates for the 364-day and 182-day papers came in at 37.9% and 61.3%, lower than the 101.7% and 69.0%, respectively, recorded in H1’2022. The average yields on the 364-day, 182-day, and 91-day papers increased by 1.2% points, 2.1% points and 2.7% points to 11.0%, 10.5%, and 10.2% in H1’2023, respectively, from 9.7%, 8.4%, and 7.5%, respectively, in H1’2022. The upward trajectory in yields is mainly on the back of investors attaching higher risks amid high inflation, currency depreciation, and tight liquidity positions, hence the need to demand higher returns to cushion against the possible loss. The acceptance rate during the period came in at 91.6%, albeit lower than the 92.7% recorded in H1’2022, with the government accepting a total of Kshs 668.3 bn out of the Kshs 730.0 bn worth of bids received;

During the week, T-bills remained undersubscribed for the third consecutive week, with the overall subscription rate coming in at 39.5 %, a decrease from the under-subscription rate of 63.9% recorded the previous week. Investors’ preference for the shorter 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 5.8 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 144.5%, albeit lower than the 275.3% recorded the previous week. The subscription rate for the 364-day paper declined to 15.1%, from 23.4% recorded the previous week, while the subscription rate for the 182-day paper increased to 22.0%, from 19.9% recorded the previous week. The government rejected expensive bids, accepting a total of Kshs 5.5 bn worth of bids out of Kshs 9.5 bn bids received, translating to an acceptance rate of 58.2%. The yields on the government papers continued to rise, with the yields on the 364-day, 182-day and 91-day papers increasing by 22.3 bps, 8.4 bps, and 11.9 bps to 12.2%, 11.9%, and 11.9%, 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 H1'2023

During H1'2023, the Government issued four new bonds, reopened five, and issued nine bonds on tap-sale, seeking to raise Kshs 375.0 bn. The bonds were generally oversubscribed, receiving total bids worth Kshs 477.7 bn translating to an overall subscription rate of 127.4%. The government rejected expensive bids and only accepted bids worth Kshs 442.0, translating to an acceptance rate of 92.5%. The table below provides more details on the bonds issued during the period:

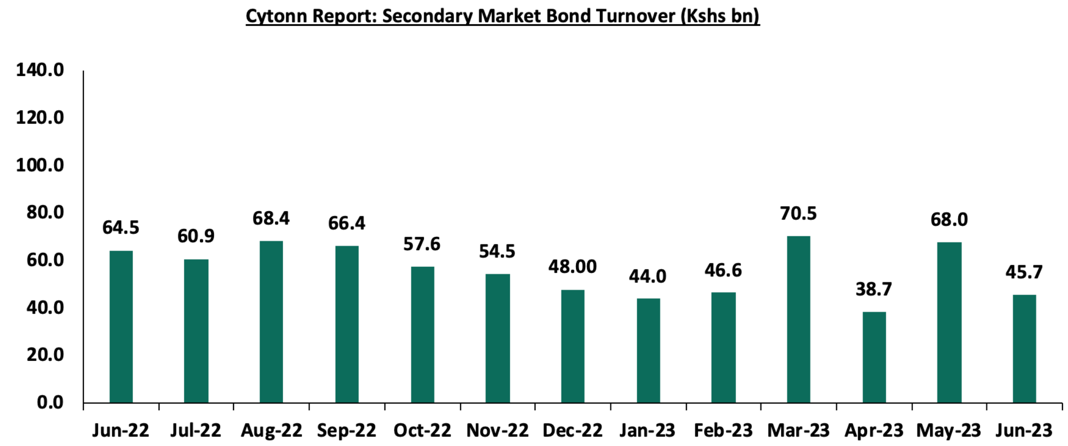
Cytonn Report: Bonds Issued in H1'2023

Issue Date	Bond Auctioned	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
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	12.9%	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	16.7	19.5	13.9%	38.9%	86.1%
	FXD1/2023/10	10.0	14.2%				14.2%		
20/02/2023	FXD1/2017/10 - Tapsale	4.4	13.0%	10	12.2	12.5	13.9%	124.6%	97.9%
	FXD1/2023/10 - Tapsale	10.0	14.2%				14.2%		
03/08/2023	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%
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%
15/05/2023	FXD1/2023/003	3.0	14.2%	20.0	20.3	20.7	14.2%	103.7%	97.8%
22/05/2023	FXD1/2023/003-Tapsale	3.0	14.2%	10.0	10.6	10.6	14.2%	106.0%	100.0%
29/05/2023	FXD1/2023/03 - Tapsale	3.0	14.2%	20.0	27.2	27.2	14.2%	136.0%	100.0%
19/06/2023	IFB1/2023/07	7.0	15.8%	60.0	213.4	220.5	15.8%	367.5%	96.8%
26/06/2023	FXD1/2023/03 - Tapsale	2.9	14.2%	15.0	18.6	18.6	14.2%	123.7%	100.0%
H1'2023 Total				**375.0**	**442.0**	**477.7**			
H1'2022 Total				**456.5**	**406.2**	**487.6**			
H1'2023 Average		**8.1**	**13.8%**				**14.2%**	**127.4%**	**92.5%**
H1'2022 Average		**12.1**	**12.9%**				**13.3%**	**106.8%**	**86.9%**

Secondary Bond Market Activity:

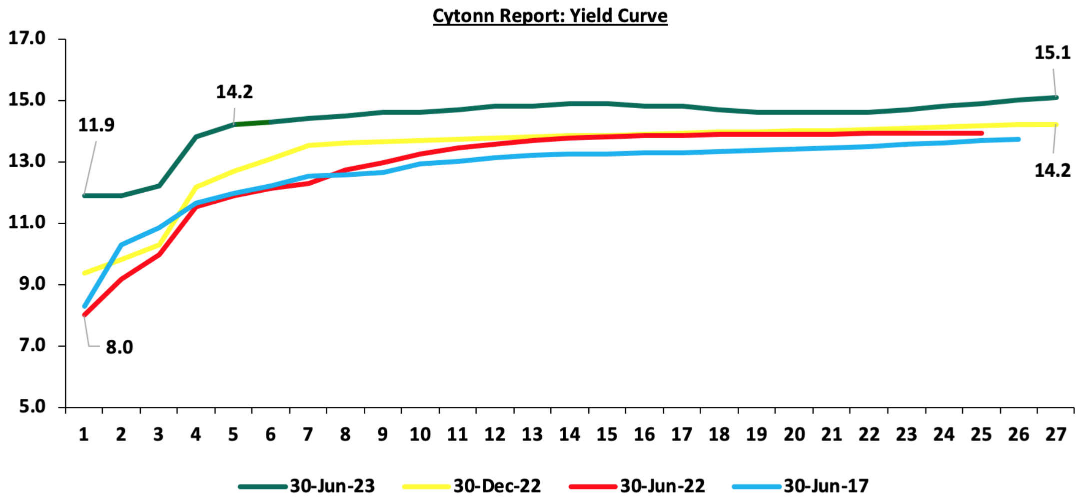
I. Bond Turnover:

The secondary bond market recorded decreased activity, with the turnover decreasing by 17.7% to Kshs 313.6 bn from Kshs 381.1 bn in H1'2022, pointing towards decreased activities by commercial banks in the secondary bond market. The chart below shows the bond turnover over the past 12 months;



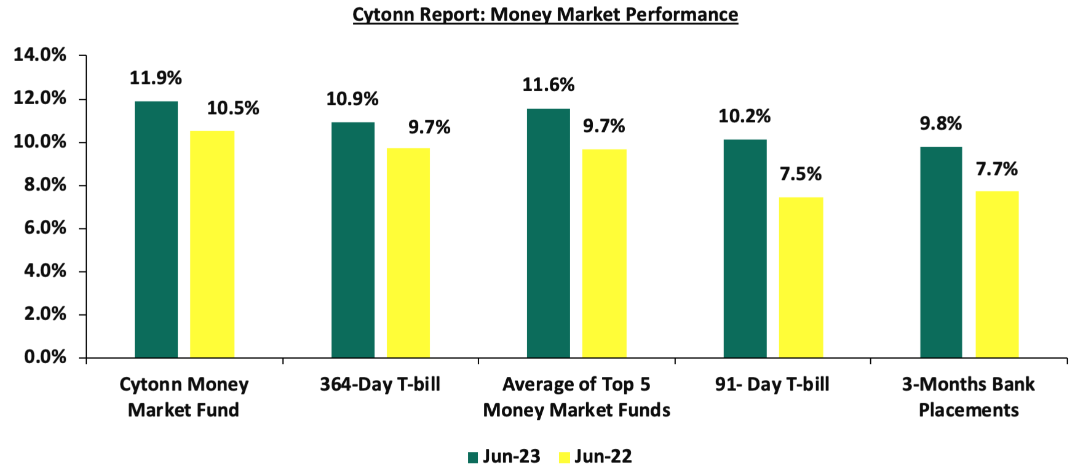
II. **Yield Curve:**

During H1’2023, the yields on government securities were on an upward trajectory as a result of the elevated inflationary pressures, leading to investors attaching higher risk premiums. Additionally, Short-term rates have climbed mainly on the back of rising interest rates. The chart below shows the yield curve movement during the period:

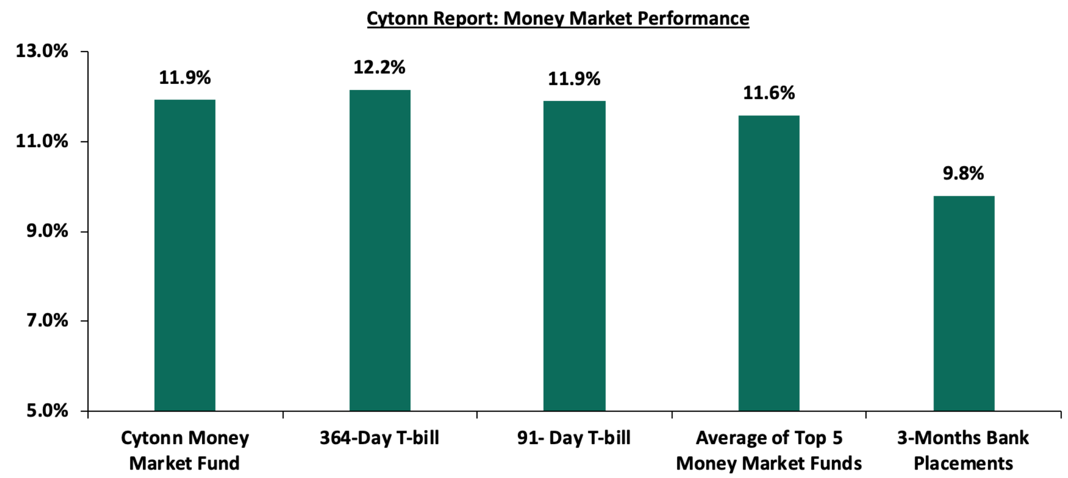


Money Market Performance

The 3-month bank placements recorded 9.8% at the end of H1’2023, 2.1% points higher than the 7.7% recorded at the end of H1’2022 (based on what we have been offered by various banks). The average 91-day T-bill rate increased by 2.7% points to 10.2% in H1’2023 from 7.5% in H1’2022, and the average Top 5 Money Market Funds increased by 1.9% points to 11.6%, from 9.7% in H1’2022. The yield on the Cytonn Money Market (CMMF) increased by 1.4% points to 11.9% in H1’2023, from 10.5% recorded at the end of H1’2022.



During the week, 3-month bank placements ended the week at 9.8% (based on what we have been offered by various banks), and the yields on the 364-day and 91-day T-bill increased by 22.3 bps and 11.9 bps to 12.2% and 11.9%, respectively. The yields of the Cytonn Money Market Fund increased by 14.0 bps to 11.9% from 11.8% recorded the previous week, and the average yields on the Top 5 Money Market Funds increased by 3.8 bps to remain relatively unchanged at 11.6% from what was recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 30th June 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 30th June 2023

Rank	Fund Manager	Effective Annual Rate
1	Etica Money Market Fund	12.0%
2	Enwealth Money Market Fund	11.9%
3	Cytonn Money Market Fund (dial *809# or download the Cytonn app)	11.9%
4	Jubilee Money Market Fund	11.1%
5	GenAfrica Money Market Fund	11.0%
6	Dry Associates Money Market Fund	10.9%
7	Kuza Money Market fund	10.8%
8	Apollo Money Market Fund	10.7%
9	GenCap Hela Imara Money Market Fund	10.7%

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 30th June 2023

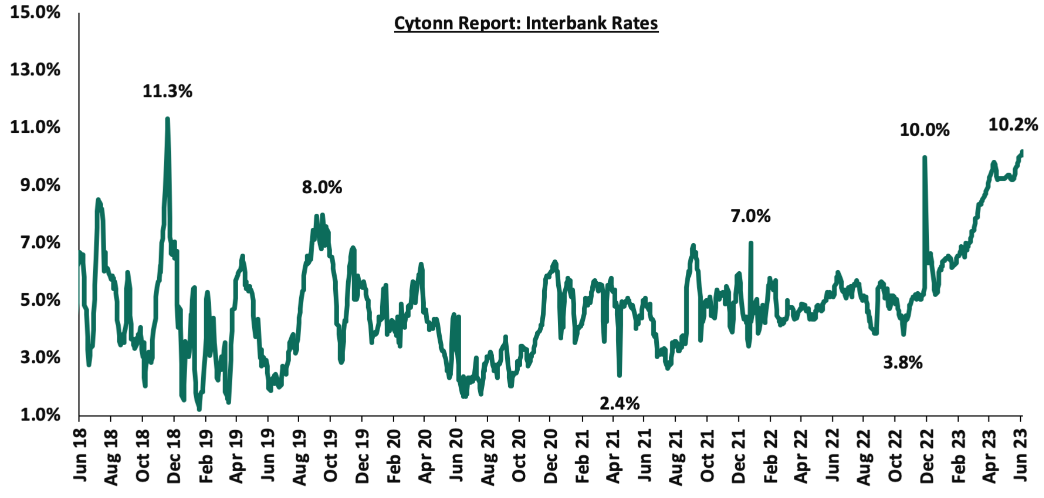
Rank	Fund Manager	Effective Annual Rate
10	AA Kenya Shillings Fund	10.6%
11	Co-op Money Market Fund	10.5%
12	KCB Money Market Fund	10.5%
13	Old Mutual Money Market Fund	10.3%
14	Sanlam Money Market Fund	10.3%
15	NCBA Money Market Fund	10.2%
16	Nabo Africa Money Market Fund	10.1%
17	ICEA Lion Money Market Fund	10.1%
18	Zimele Money Market Fund	9.9%
19	Madison Money Market Fund	9.9%
20	CIC Money Market Fund	9.6%
21	British-American Money Market Fund	9.6%
22	Absa Shilling Money Market Fund	9.5%
23	Orient Kasha Money Market Fund	9.2%
24	Mali Money Market Fund	8.8%
25	Equity Money Market Fund	8.2%

Source: Business Daily

Liquidity:

In H1’2023, liquidity in the money markets tightened, as evidenced by the increase in the interbank rate to 7.8%, from 4.7% H1’2022, partly attributable to tax remittances that offset government payments. Additionally, the average volumes traded in the interbank market increased by 34.3% to Kshs 21.1 bn, from Kshs 15.7 bn recorded in H1’2022.

Similarly, during the week, liquidity in the money markets tightened, with the average interbank rate rising to 10.1% from 9.8% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded increased by 34.4% to Kshs 17.1 bn from Kshs 12.7 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Kenya Eurobonds:

During H1'2023, the yields on Eurobonds recorded mixed performance, with the yield on the 10-Year Eurobond issued in 2014 declining by 0.3% points to 12.6% from 12.9% recorded at the beginning of the year, while the yields on the 10-year Eurobond issued in 2018 gained the most by 0.6% points to 11.1% from 10.5% recorded at the beginning of the year. On a year on Year basis, the yields on all Eurobonds were on a downward trajectory, with the yield of the 7-year Eurobond issued in 2019 declining the most having declined by 4.7% points to 11.4% from 16.1% recorded at the end of H1'2022. The downward trajectory of the yields is mainly on the back of improved investors' confidence in the international bond market, amid the government commitment to strong austerity measures and assurance to investors of its capacity to meet its obligations.

Similarly, during the week, the yields on Eurobonds recorded mixed performance, with the yield on the 10-Year Eurobond issued in 2014 declining by 0.1% points to 12.6% from 12.7% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 29 June 2023;

Cytonn Report: Kenya Eurobond 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	**1.1**	**4.8**	**24.8**	**4.0**	**9.0**	**11.1**
Yields at Issue	**6.6%**	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**
30-Jun-22	17.0%	14.7%	13.7%	16.1%	13.8%	12.7%
02-Jan-23	12.9%	10.5%	10.9%	10.9%	10.8%	9.9%
22-Jun-23	12.7%	11.1%	11.0%	11.3%	11.0%	10.3%
23-Jun-23	12.5%	11.1%	11.0%	11.4%	11.1%	10.3%
26-Jun-23	12.5%	11.1%	11.1%	11.4%	11.1%	10.4%
27-Jun-23	12.6%	11.1%	11.1%	11.3%	11.1%	10.3%
28-Jun-23	12.6%	11.1%	11.1%	11.3%	11.1%	10.3%
29-Jun-23	12.6%	11.1%	11.1%	11.4%	11.1%	10.3%
Weekly Change	**(0.1%)**	**0.0%**	**0.1%**	**0.1%**	**0.1%**	**0.0%**
Y/Y change	**(4.4%)**	**(3.6%)**	**(2.6%)**	**(4.7%)**	**(2.7%)**	**(2.4%)**
YTD change	**(0.3%)**	**(0.6%)**	**(0.2%)**	**(0.5%)**	**(0.3%)**	**(0.4%)**

Source: Central Bank of Kenya (CBK)

Rates in the Fixed Income market have been on an upward trend given the continued government demand for cash and the highly tightened liquidity in the money market. The government closed FY'2022/2023 34.3% above of its domestic net borrowing target of Kshs 428.3 bn, having a net borrowing position of Kshs 568.7 bn. Revenue collections are lagging behind, with total revenue as of May 2023 coming in at Kshs 1.8 tn in FY'2022/2023, equivalent to 82.7% of its revised target of Kshs 2.2 tn and 90.2% of the prorated target of Kshs 2.0 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. Due to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk.