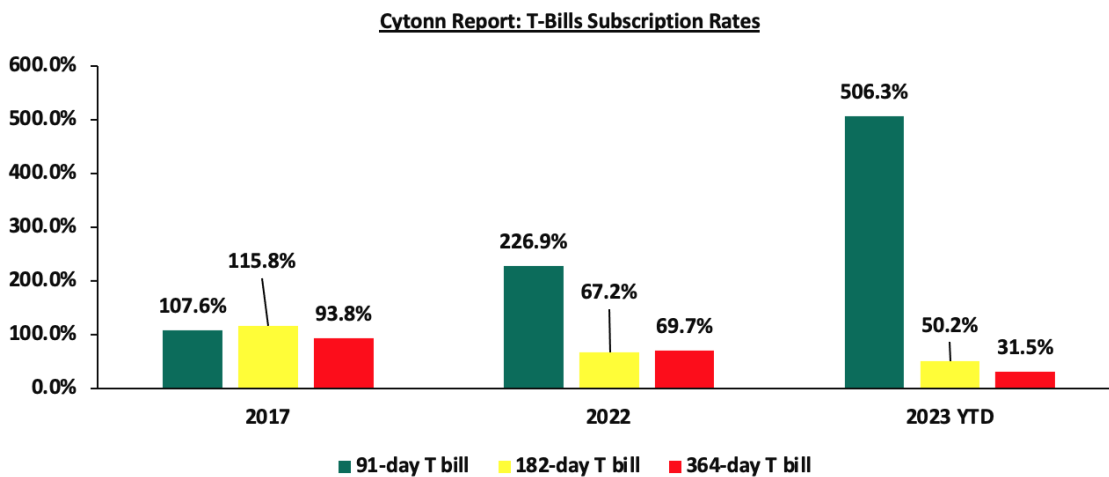


# Q2'2023 Unit Trust Funds Performance, & Cytonn Weekly #39/2023

## Fixed Income

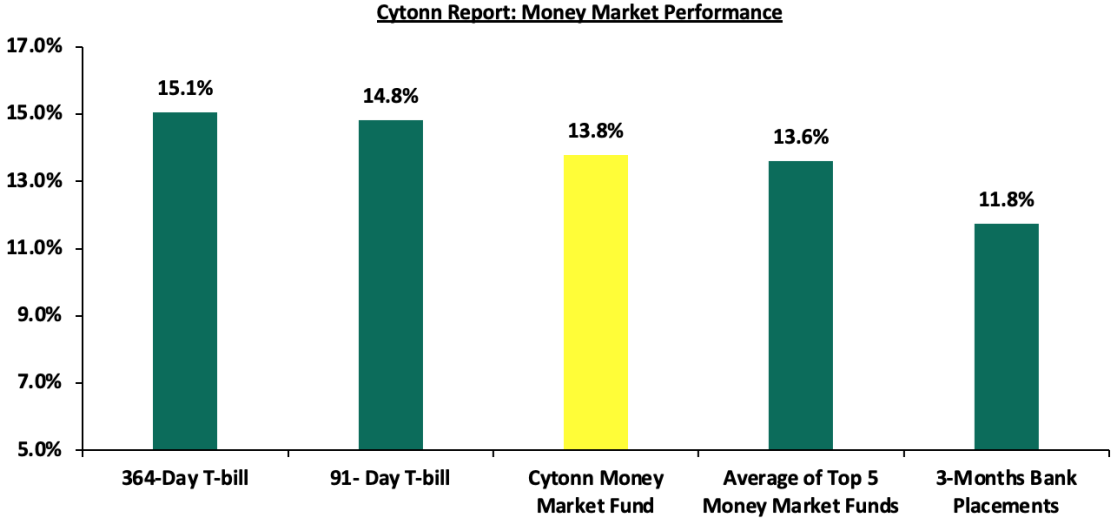
During the week, T-bills were undersubscribed for the third consecutive week, with the overall subscription rate coming in at 56.9%, albeit lower than the undersubscription rate of 84.1% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 11.0 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 275.2%, albeit lower than the oversubscription rate of 401.7% recorded the previous week. The subscription rate for the 364-day paper decreased to 18.4%, from 25.3% recorded the previous week while that of 182-day paper decreased to 8.1%, from 15.8% recorded the previous week. The government accepted a total of Kshs 4.5 bn worth of bids out of Kshs 13.7 bn of bids received, translating to an acceptance rate of 33.1%. The yields on the government papers recorded mixed performance, with the yields on the 182-day and 91-day papers increasing by 1.0 bps and 3.4 bps to 14.9% and 14.8%, respectively while the yield on the 364-day paper decreased by 16.7 bps to 15.1%. 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 auction results for the tap sale of the re-opened bond FXD1/2016/10 with a 2.9-year tenor to maturity and the re-opened bond FXD1/2023/02 with a tenor to maturity of 1.9 years. The tap sale was undersubscribed, receiving bids worth Kshs 3.45 bn against the offered Kshs 15.0 bn, translating to a 23.0% undersubscription rate. The government accepted bids worth Kshs 3.39 bn, translating to an acceptance rate of 98.5%. For FXD1/2023/002, the allocated average yield of accepted bids came in at 17.5%, 9.6 bps higher than the yield to maturity of 17.4% offered in the secondary market. The allocated average yield for FXD1/2016/10 came in at 17.9%, 4.9 bps lower than current yield to maturity of 18.0% in the secondary market. The coupon rate for the FXD1/2023/002 was set at 17.0% and FXD1/2016/10 was set at 15.0%, respectively.

### Money Market Performance:

In the money markets, 3-month bank placements ended the week at 11.8% (based on what we have been offered by various banks), the yield on the 364-day paper decreased by 16.7 bps to 15.1%, while that of 91-day paper increased by 1.0 bps to 14.9%. The yield of Cytonn Money Market Fund increased by 12.0 bps, to 13.8%, from 13.7% and the average yields on the Top 5 Money Market Funds increased by 24.2 bps to 13.6% from 13.4% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 29<sup>th</sup> Sep 2023:

**Cytonn Report: Money Market Fund Yield for Fund Managers as published on 29th September 2023**

| Rank | Fund Manager                        | Effective Annual |
|------|-------------------------------------|------------------|
| 1    | GenAfrica Money Market Fund         | 14.2%            |
| 2    | Enwealth Money Market Fund          | 13.9%            |
| 3    | Cytonn Money Market Fund            | 13.8%            |
| 4    | Lofty-Corban Money Market Fund      | 13.2%            |
| 5    | Etica Money Market Fund             | 13.0%            |
| 6    | Co-op Money Market Fund             | 12.9%            |
| 7    | AA Kenya Shillings Fund             | 12.8%            |
| 8    | Jubilee Money Market Fund           | 12.7%            |
| 9    | Apollo Money Market Fund            | 12.6%            |
| 10   | Nabo Africa Money Market Fund       | 12.6%            |
| 11   | Kuza Money Market fund              | 12.5%            |
| 12   | GenCap Hela Imara Money Market Fund | 12.4%            |
| 13   | Madison Money Market Fund           | 12.4%            |
| 14   | Sanlam Money Market Fund            | 12.2%            |
| 15   | Old Mutual Money Market Fund        | 12.2%            |
| 16   | Absa Shilling Money Market Fund     | 12.0%            |
| 17   | ICEA Lion Money Market Fund         | 11.6%            |
| 18   | KCB Money Market Fund               | 11.5%            |

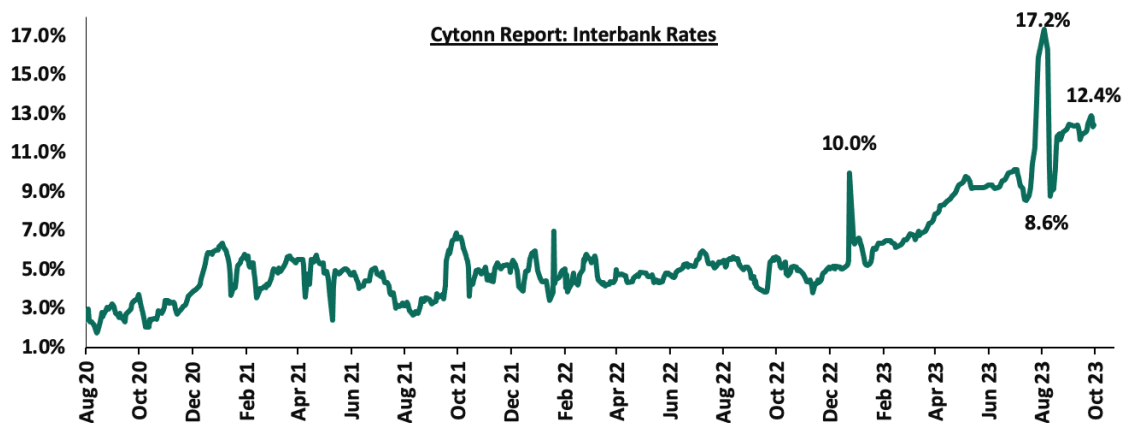
**Cytonn Report: Money Market Fund Yield for Fund Managers as published on 29th September 2023**

| Rank | Fund Manager                       | Effective Annual |
|------|------------------------------------|------------------|
| 19   | Mali Money Market Fund             | 11.3%            |
| 20   | Dry Associates Money Market Fund   | 11.3%            |
| 21   | Orient Kasha Money Market Fund     | 11.0%            |
| 22   | Equity Money Market Fund           | 10.7%            |
| 23   | CIC Money Market Fund              | 10.3%            |
| 24   | British-American Money Market Fund | 9.5%             |

Source: Business Daily

**Liquidity:**

During the week, liquidity in the money markets tightened, with the average interbank rate increasing to 12.7%, from 12.2% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded increased by 5.8% to Kshs 23.1 bn, from Kshs 21.8 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



**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 by 1.9% points to 18.7%, from 16.8%, recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 28th Sep 2023;

| <b>Cytonn Report: Kenya Eurobonds Performance</b> |                      |                      |                      |                     |                      |                      |
|---|----------------------|----------------------|----------------------|---------------------|----------------------|----------------------|
|   | <b>2014</b>          | <b>2018</b>          |                      | <b>2019</b>         |                      | <b>2021</b>          |
| <b>Tenor</b>                                      | <b>10-year issue</b> | <b>10-year issue</b> | <b>30-year issue</b> | <b>7-year issue</b> | <b>12-year issue</b> | <b>12-year issue</b> |
| <b>Amount Issued (USD)</b>                        | <b>2.0 bn</b>        | <b>1.0 bn</b>        | <b>1.0 bn</b>        | <b>0.9 bn</b>       | <b>1.2 bn</b>        | <b>1.0 bn</b>        |
| <b>Years to Maturity</b>                          | <b>0.8</b>           | <b>4.5</b>           | <b>24.5</b>          | <b>3.7</b>          | <b>8.7</b>           | <b>10.8</b>          |
| <b>Yields at Issue</b>                            | <b>6.6%</b>          | <b>7.3%</b>          | <b>8.3%</b>          | <b>7.0%</b>         | <b>7.9%</b>          | <b>6.2%</b>          |
| 02-Jan-23   | 12.9%                | 10.5%                | 10.9%                | 10.9%               | 10.8%                | 9.9%                 |
| 01-Sep-23   | 13.8%                | 11.7%                | 11.4%                | 12.0%               | 11.5%                | 11.0%                |

### Cytonn Report: Kenya Eurobonds Performance

|                            | 2014          | 2018          |               | 2019          |               | 2021          |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Tenor                      | 10-year issue | 10-year issue | 30-year issue | 7-year issue  | 12-year issue | 12-year issue |
| <b>Amount Issued (USD)</b> | <b>2.0 bn</b> | <b>1.0 bn</b> | <b>1.0 bn</b> | <b>0.9 bn</b> | <b>1.2 bn</b> | <b>1.0 bn</b> |
| <b>Years to Maturity</b>   | <b>0.8</b>    | <b>4.5</b>    | <b>24.5</b>   | <b>3.7</b>    | <b>8.7</b>    | <b>10.8</b>   |
| <b>Yields at Issue</b>     | <b>6.6%</b>   | <b>7.3%</b>   | <b>8.3%</b>   | <b>7.0%</b>   | <b>7.9%</b>   | <b>6.2%</b>   |
| 21-Sep-23                  | 16.8%         | 13.0%         | 12.1%         | 14.0%         | 12.3%         | 11.9%         |
| 22-Sep-23                  | 18.4%         | 13.4%         | 10.4%         | 14.6%         | 12.6%         | 12.2%         |
| 25-Sep-23                  | 18.7%         | 13.5%         | 10.4%         | 14.6%         | 12.7%         | 12.3%         |
| 26-Sep-23                  | 18.7%         | 13.4%         | 10.5%         | 14.5%         | 12.7%         | 12.3%         |
| 27-Sep-23                  | 18.6%         | 13.4%         | 10.6%         | 14.5%         | 12.8%         | 12.4%         |
| 28-Sep-23                  | 18.7%         | 13.5%         | 10.8%         | 14.6%         | 12.9%         | 12.5%         |
| <b>Weekly Change</b>       | <b>1.9%</b>   | <b>0.5%</b>   | <b>(1.3%)</b> | <b>0.5%</b>   | <b>0.6%</b>   | <b>0.6%</b>   |
| <b>MTD Change</b>          | <b>4.9%</b>   | <b>1.8%</b>   | <b>(0.5%)</b> | <b>2.5%</b>   | <b>1.4%</b>   | <b>1.5%</b>   |
| <b>YTD Change</b>          | <b>5.8%</b>   | <b>3.0%</b>   | <b>0.1%</b>   |               | <b>2.1%</b>   | <b>2.6%</b>   |

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 148.1, from Kshs 147.4 recorded the previous week. On a year to date basis, the shilling has depreciated by 20.0% 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:

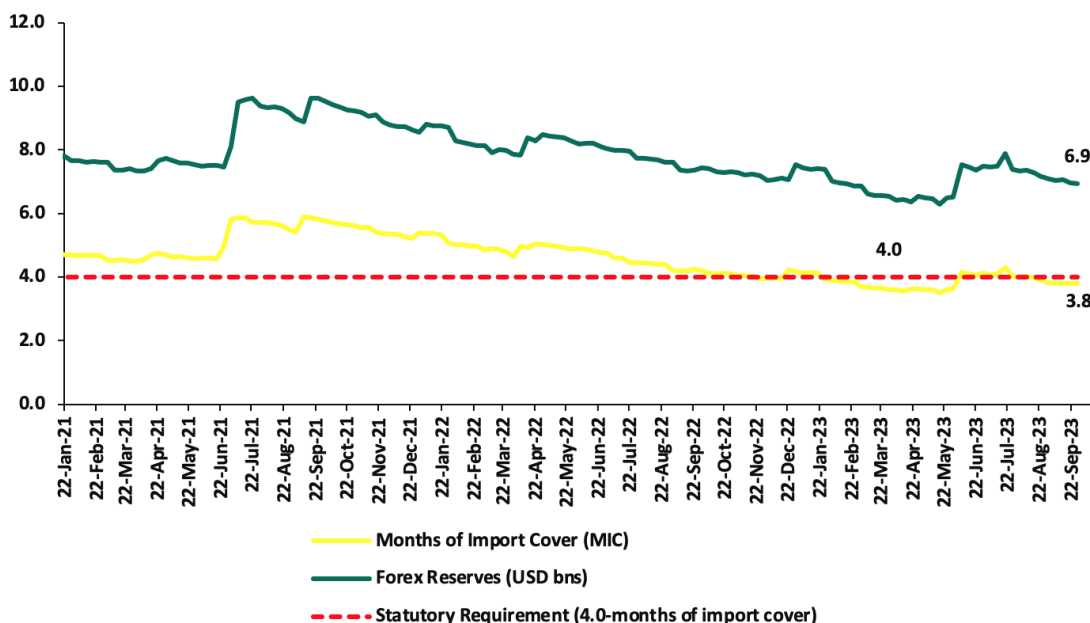
- i. An ever-present current account deficit, which came at 2.3% of GDP in Q1'2023 from 4.2% recorded in a similar period last year, and,
- ii. The need for government debt servicing, continues to put pressure on forex reserves given that 66.8% of Kenya's external debt is US Dollar denominated as of April 2023, and,
- iii. Dwindling forex reserves currently at USD 6.9 bn (equivalent to 3.8-months of import cover), which is below the statutory requirement of maintaining at least 4.0-months of import cover.

The shilling is however expected to be supported by:

- i. Diaspora remittances standing at a cumulative USD 2,766.3 mn in 2023 as of August 2023, 3.4% higher than the USD 2,674.5 mn recorded over the same period in 2022, and,
- ii. The tourism inflow receipts which came in at Kshs 268.1 bn in 2022, a significant 82.9% increase from Kshs 146.5 bn inflow receipts recorded in 2021.

The chart below summarizes the evolution of Kenya months of import cover over the years:

**Cytonn Report: Kenya months of import cover and Forex reserves**



**Weekly Highlight**

**I. September Inflation 2023**

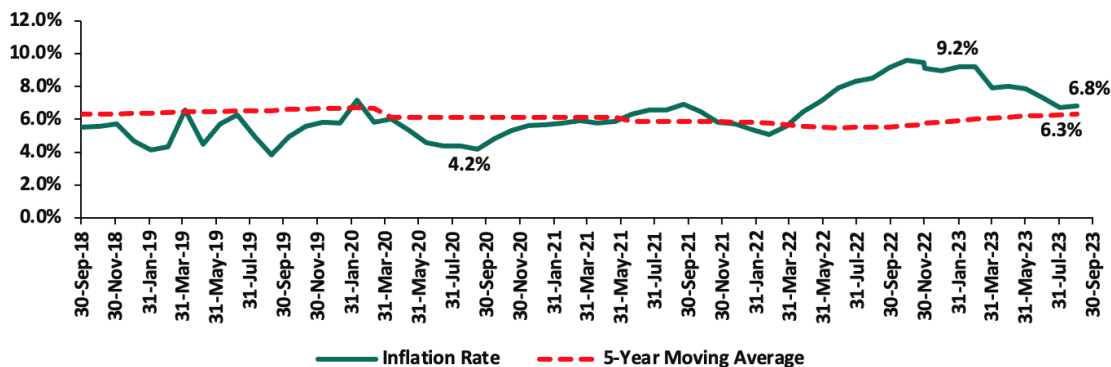
The y/y inflation in September 2023 increased marginally by 0.1% points to 6.8%, from the 6.7% recorded in August 2023. This was in line, but below our projections of an increase to within a range of 7.2% to 7.6%. The headline inflation in September 2023 was majorly driven by increase in prices of commodities 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:

**Cytonn Report: Major Inflation Changes - 2023**

| Broad Commodity Group                           | Price change m/m (September-2023/August-2023) | Price change y/y (September-2022/September-2023) | Reason   |
|---|---|--|--|
| Food and Non-Alcoholic Beverages                | 0.7%  | 7.9%   | The m/m increase was mainly driven by the increase in prices of commodities such as potatoes, cabbages and Kales (Sukuma-Wiki) of 18.4%, 7.4% and 4.2%, respectively. However, the increase was weighed down by decrease in prices of Maize flour-loose, maize flour-sifted, maize grain-loose, and wheat flour-white by 6.7%, 6.0%, 5.4%, and 3.6%, respectively. |
| Housing, Water, Electricity, Gas and Other Fuel | 1.4%  | 6.3%   | The m/m performance was mainly driven by the increase in prices of 13.0kg gas/LPG by 3.2%. However, there was a decrease in prices of Electricity of 200kWh and 50kWh by 2.1% and 2.5% respectively.   |
| Transport cost                                  | 3.5%  | 13.0%  | The m/m increase in transport Index was mainly due to increase in prices of nationwide bus fares on the back of the rise in the prices of petrol and diesel by 8.7% and 11.8%, respectively.   |
| <b>Overall Inflation</b>                        | <b>1.0%</b>                                   | <b>6.8%</b>                                      | <b>The m/m increase was mainly driven by 3.5% increase in transport costs.</b>   |

Notably, the overall headline inflation remained within the Central Bank of Kenya (CBK) target range of 2.5% to 7.5% for the third consecutive month. The increase in headline inflation in September 2023 comes amid the recent rise in fuel prices which increased by 8.7%, 11.8% and 19.4% to Kshs 211.6, Kshs 200.6 and Kshs 202.6, per litre of Super Petrol, Diesel and Kerosene, respectively, for the period between 15th September 2023 to 14th October 2023. The chart below shows the inflation rates for the past 5 years:

### Cytonn Report: 5-Year Inflation Rates



Key to note, the high commodity prices in the country is also attributed to the sustained depreciation of the Kenya Shilling having depreciated by 20.0% against the US dollar on Year-To-Date (YTD) basis resulting to inflated import bills. As a result, manufacturers pass on the cost to consumers through hike in consumer prices. Going forward, we expect inflationary pressures to persist in the short term mainly on the back of the high fuel prices, with fuel being a major input in most businesses, the cost of production is expected to remain elevated. However, we expect the measures taken by the government to subsidize major inputs of agricultural production such as fertilizers to lower the cost of farm inputs and the continuous efforts by the government to stabilize fuel prices will support the easing of inflation in both the short and long term.

***Rates in the Fixed Income market have been on an upward trend given the continued high demand for cash by the government and the occasional liquidity tightness in the money market. The government is 2.7% ahead of its prorated net domestic borrowing target of Kshs 68.1 bn, having a net borrowing position of Kshs 69.9 bn of the domestic net borrowing target of Kshs 313.6 bn for the FY'2023/2024. 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.***