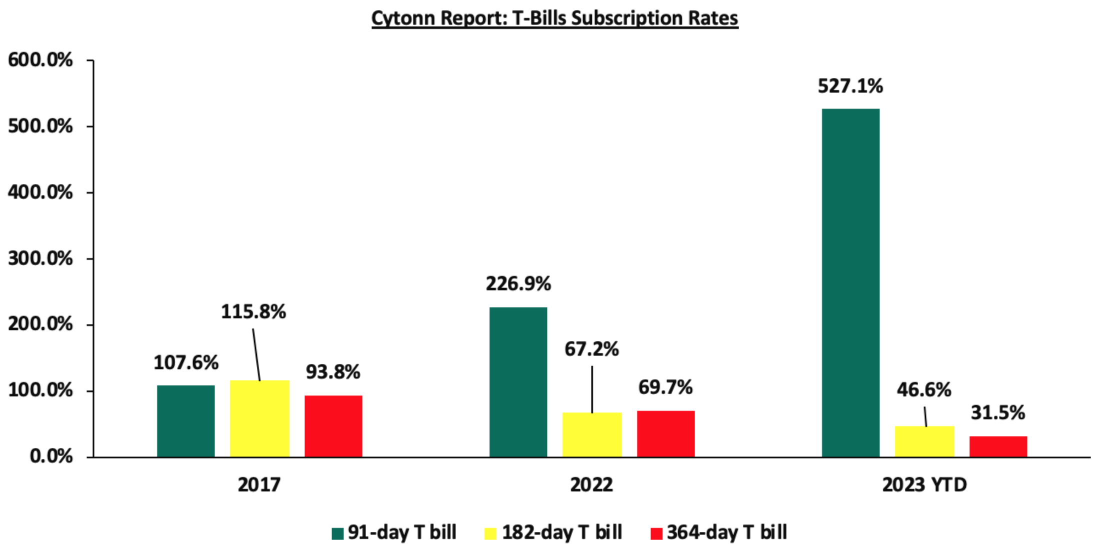
Cytonn Q3'2023 Markets Review

Fixed Income

Money Markets, T-Bills Primary Auction:

In Q3’2023, T-bills were oversubscribed, with the overall subscription rate coming in at 110.0%, up from 108.6% in Q2’2023. Investors’ preference for the 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 369.5 bn against the offered Kshs 56.0 bn, translating to an oversubscription rate of 549.6%, higher than the oversubscription rate of 508.0% recorded in the previous quarter. Overall subscription rates for the 364-day and 182-day papers came in at 18.4% and 25.7%, lower than the 27.3% and 30.1%, respectively, recorded in Q2’2023. The average yields on the 364-day, 182-day, and 91-day papers increased by 2.3% points, 2.4% points and 2.6% points to 13.6%, 13.3%, and 13.3% in Q3’2023, respectively, from 11.3%, 10.9%, and 10.6%, respectively, in the previous quarter. 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 88.5%, albeit lower than the 92.8% recorded in Q2’2023, with the government accepting a total of Kshs 344.4 bn out of the Kshs 369.5 bn worth of bids received;

During the week, T-bills were oversubscribed for the first time in four weeks, with the overall subscription rate coming in at 138.1%, higher than the undersubscription rate of 56.9% recorded the previous week. Investors’ preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 28.6 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 714.5%, higher than the oversubscription rate of 275.2% recorded the previous week. The subscription rate for the 364-day and 182- day papers increased to 31.6% and 14.1% respectively, from 18.4% and 8.1% recorded the previous week. The government rejected expensive bids, accepting a total of Kshs 27.2 bn worth of bids out of Kshs 33.1 bn bids received, translating to an acceptance rate of 82.2%. The yields on the government papers continued to rise, with the yields on the 364-day, 182-day and 91-day papers increasing by 13.2 bps, 2.8 bps, and 5.3 bps to 15.2%, 15.0%, and 14.9%, 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 Q3’2023

In Q3’2023, the Government issued two new bonds, reopened four, and issued four bonds on tap-sale, seeking to raise Kshs 176.0 bn. The bonds were generally oversubscribed, receiving total bids worth Kshs 206.8 bn translating to an average subscription rate of 138.7% during the quarter. The government rejected expensive bids and only accepted bids worth Kshs 146.3, translating to an average acceptance rate of 74.3% during the quarter. The table below provides more details on the bonds issued during the period:

Cytonn Report: Bonds Issued in Q3'2023

Eff [illegible]

Cytonn Report: Bonds Issued in Q3'2023

FXD1/2016/10

FXD1/2023/05

Cytonn Report: Bonds Issued in Q3'2023

FXD1/2016/10-tap

FXD1/2023/05-t

Cytonn Report: Bonds Issued in Q3'2023

Eff

FXD1/2023/02

12.0%

FXD1/2023/05-Re-opened

Cytonn Report: Bonds Issued in Q3'2023

FXD1/2023/02-tap

FXD1/2023/05-t

Cytonn Report: Bonds Issued in Q3' 2023

FXD1/2023/02-Reopened

FXD1/2016/10

Cytonn Report: Bonds Issued in Q3'2023

[illegible]

Q3'2023 Total	[illegible]
Q2'2023 Total	[illegible]

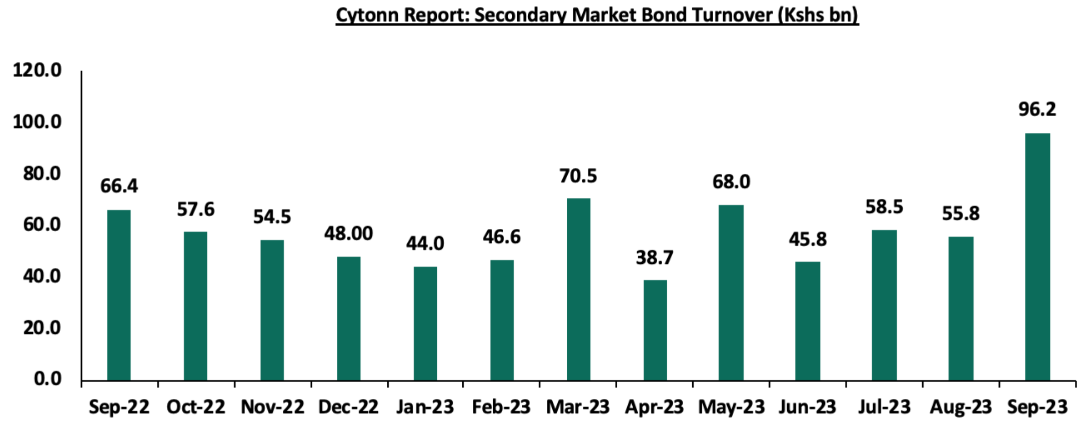
Cytonn Report: Bonds Issued in Q3'2023

[illegible]	Q3'2023 Average	Q2'2023 Average
[illegible]	[illegible]	[illegible]

Secondary Bond Market Activity:

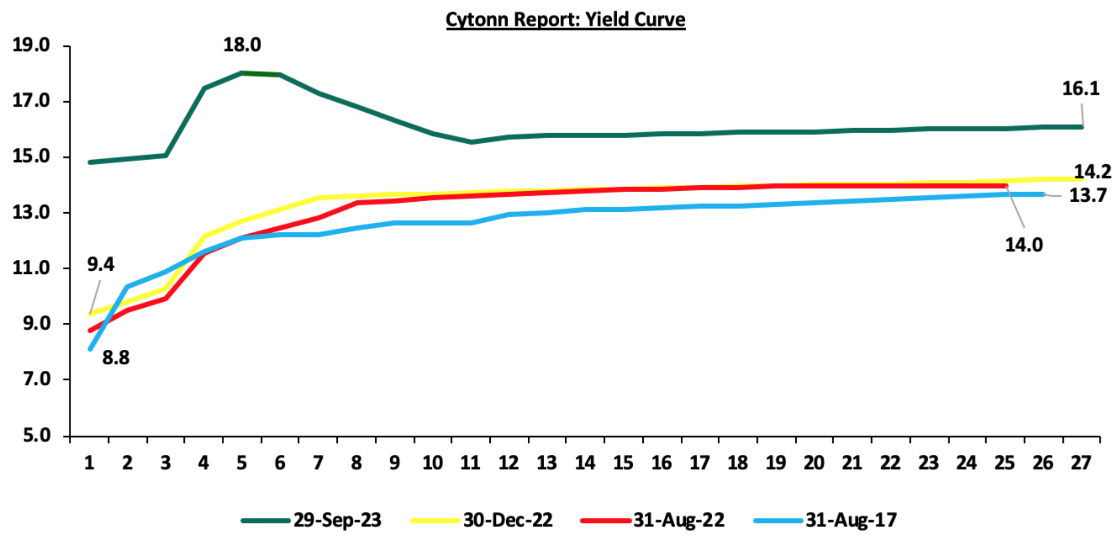
I. **Bond Turnover:**

The secondary bond market recorded increased activity, with the turnover increasing by 7.6% to Kshs 210.5 bn from Kshs 195.7 bn in Q3'2022, pointing towards increased activities by commercial banks in the secondary bond market. The chart below shows the bond turnover over the past 12 months;



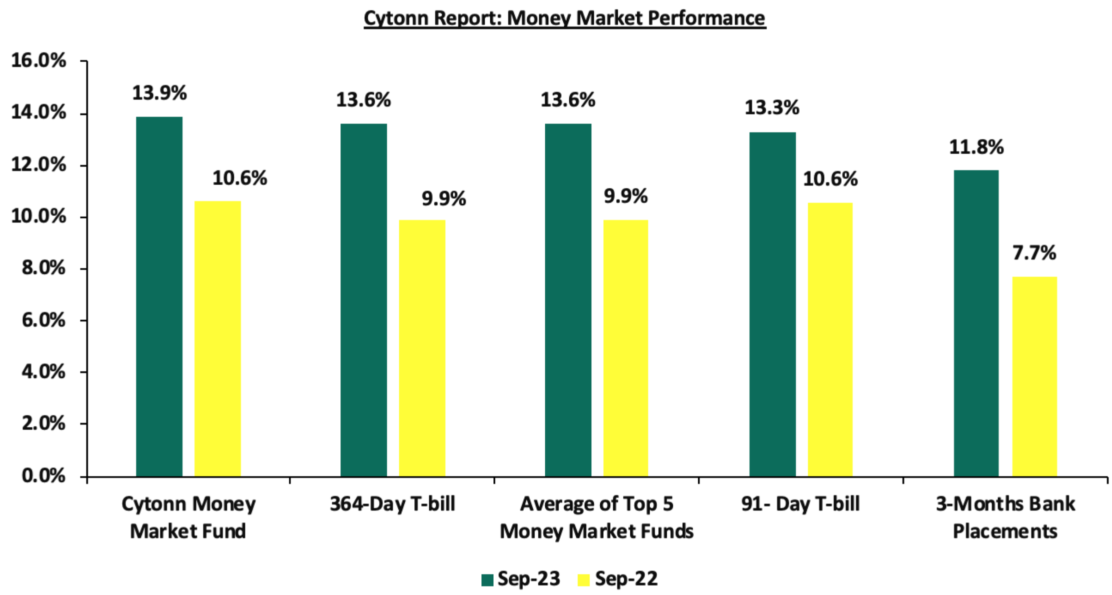
II. **Yield Curve:**

During Q3'2023, 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:

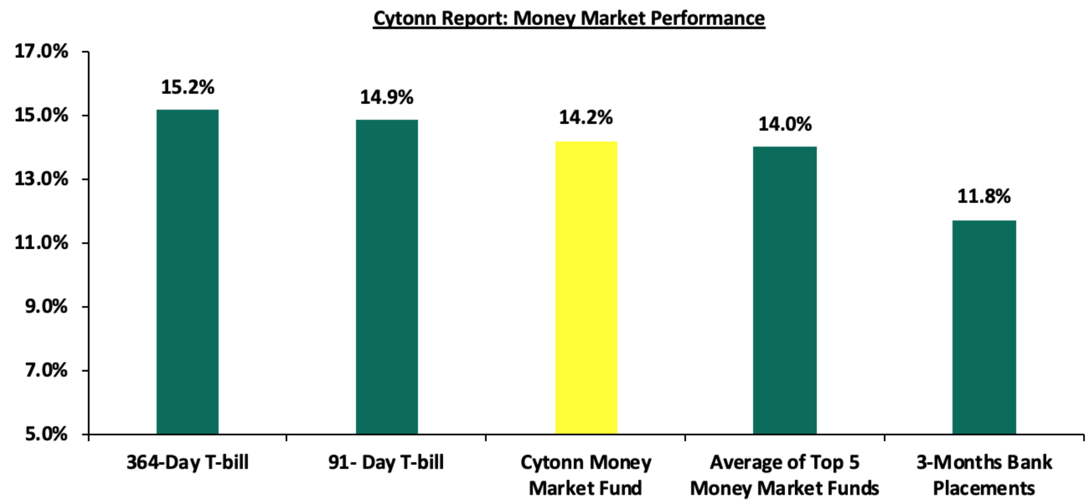


Money Market Performance

The 3-month bank placements recorded 11.8% at the end of Q3'2023, 2.0% points higher than the 9.8% recorded at the end of Q2'2023 (based on what we have been offered by various banks). The average 91-day T-bill rate increased by 4.7% points to 13.3% in Q3'2023 from 8.6% in Q3'2022, and the average Top 5 Money Market Funds increased by 3.7% points to 13.6%, from 9.9% in Q3'2022. The yield on the Cytonn Money Market (CMMF) increased by 3.3% points to 13.9% in Q3'2023, from 10.6% recorded at the end of Q3'2022.



During the week, 3-month bank placements ended the week at 11.8% (based on what we have been offered by various banks), and the yields on the 364-day and 91-day T-bill increased by 13.2 bps and 5.3 bps to 15.2% and 14.9%, respectively. The yields of the Cytonn Money Market Fund increased by 44.0 bps to 14.2% from 13.8% recorded the previous week, and the average yields on the Top 5 Money Market Funds increased by 42.6 bps to 14.0%, from 13.6%.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 6th October 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 6th October 2023

Rank	Fund Manager	Effective Annual Rate
1	GenAfrica Money Market Fund	14.4%
2	Etica Money Market Fund	14.4%
3	Cytonn Money Market Fund	14.2%
4	Enwealth Money Market Fund	13.9%
5	Lofty-Corban Money Market Fund	13.3%
6	Jubilee Money Market Fund	13.1%

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 6th October 2023

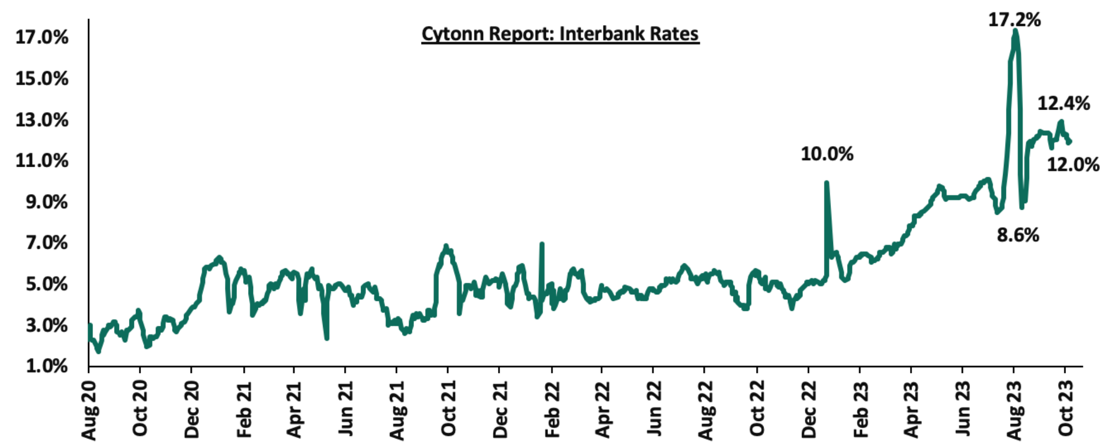
Rank	Fund Manager	Effective Annual Rate
7	Nabo Africa Money Market Fund	13.1%
8	Madison Money Market Fund	13.0%
9	Co-op Money Market Fund	12.9%
10	Absa Shilling Money Market Fund	12.7%
11	Kuza Money Market fund	12.7%
12	AA Kenya Shillings Fund	12.5%
13	GenCap Hela Imara Money Market Fund	12.3%
14	Sanlam Money Market Fund	12.3%
15	Apollo Money Market Fund	12.2%
16	Old Mutual Money Market Fund	12.2%
17	KCB Money Market Fund	11.5%
18	Equity Money Market Fund	11.5%
19	ICEA Lion Money Market Fund	11.5%
20	Dry Associates Money Market Fund	11.3%
21	Orient Kasha Money Market Fund	11.1%
22	CIC Money Market Fund	11.0%
23	Mali Money Market Fund	10.3%
24	British-American Money Market Fund	9.5%

Source: Business Daily

Liquidity:

In Q3’2023, liquidity in the money markets tightened, as evidenced by the increase in the average interbank rate to 11.9%, from 9.2% in Q2’2023, partly attributable to tax remittances that offset government payments. Additionally, the average volumes traded in the interbank market increased by 6.8% to Kshs 22.6 bn, from Kshs 21.1 bn recorded in Q2’2023.

Similarly, during the week, liquidity in the money markets eased, with the average interbank rate decreasing to 12.1% from 12.7% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded increased by 15.3% to Kshs 26.6 bn from Kshs 23.1 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Kenya Eurobonds:

In Q3'2023, the yields on Eurobonds were on an upward trajectory, with the 10-Year Eurobond issued in 2014 being the largest gainer, increasing by 5.8% points to 18.3% from 12.5% recorded at the end of Q2'2023. On a year to date basis, the yields on all Eurobonds were on an upward trajectory, with the yield of the 10-year Eurobond issued in 2014 increasing the most by 6.4% points to 19.3% from 12.9% recorded at the start of the year.

Similarly, during the week, the yields on Eurobonds were on an upward trajectory, with the yield on the 7-Year Eurobond issued in 2019 increasing the most by 0.9% points to 15.4% from 14.6% 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	**0.8**	**4.5**	**24.5**	**3.7**	**8.7**	**10.8**
Yields at Issue	**6.6%**	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**
30-Jun-23	12.5%	11.0%	11.1%	11.3%	11.1%	10.3%
2-Jan-23	12.9%	10.5%	10.9%	10.9%	10.8%	9.9%
28-Sep-23	18.7%	13.5%	12.6%	14.6%	12.9%	12.5%
29-Sep-23	18.3%	13.3%	12.5%	14.3%	12.7%	12.3%
2-Oct-23	19.0%	13.5%	12.6%	14.6%	12.9%	12.5%
3-Oct-23	20.3%	14.2%	13.0%	15.5%	13.5%	13.0%
4-Oct-23	19.9%	14.5%	13.1%	15.6%	13.7%	13.1%
5-Oct-23	19.3%	14.3%	13.0%	15.4%	13.5%	13.0%
Weekly Change	**0.6%**	**0.8%**	**0.4%**	**0.9%**	**0.7%**	**0.5%**
q/q Change	**5.8%**	**2.2%**	**1.4%**	**3.0%**	**1.6%**	**2.0%**
YTD Change	**6.4%**	**3.8%**	**2.1%**	**4.5%**	**2.8%**	**3.1%**

Source: Central Bank of Kenya (CBK)

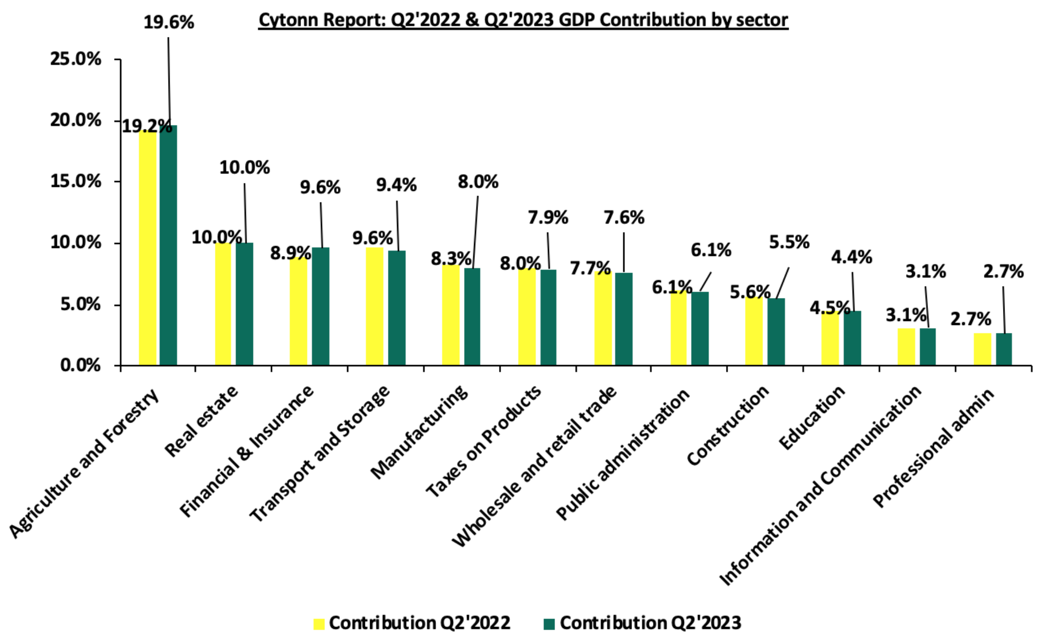
Weekly Highlights:

I. **Q2’2023 Quarterly Gross Domestic Product Release**

During the week, the Kenya National Bureau of Statistics (KNBS) released the Q2'2023 Quarterly Gross Domestic Product Report, highlighting that the Kenyan economy recorded a 5.4% growth in Q2’2023, marginally faster than the 5.2% growth recorded in Q2’2022. The main contributor to Kenyan GDP remains to be the Agriculture, fishing and forestry sector which grew by 7.7% in Q2’2023 compared to a contraction of 2.4% in Q2’2022. All sectors in Q2’2023 recorded positive growths, with varying magnitudes across activities. However, most sectors recorded subdued growth compared to Q2’2022 with Accommodation and Food Services, Mining and Quarrying, and Professional Administration sectors recording the highest growth declines of 31.8% points, 11.3% points, and 5.4% points, respectively. However, the expansion recorded in other sectors like Agriculture, led to the overall expansion in GDP. Other sectors that recorded expansion in growth rate, from what was recorded in Q2’2022 were Real Estate, Health, Education, and Wholesale and Retail Trade sectors, of 0.8%, 0.6%, 0.1% and 0.1% points, respectively,

The key take-outs from the report include;

i. **Sectoral Contribution to Growth - The biggest gainer in terms of sectoral contribution to GDP was the financial and Insurance sector, increasing by 0.7% points to 9.6% in Q2’2023 from 8.9% in Q2’2022, while the Manufacturing sector was the biggest loser, declining by 0.3% points to 8.0% in Q2’2023, from 8.3% in Q2’2022. Real Estate was the second largest contributor to GDP at 10.0% in Q2’2023, remaining relatively unchanged from Q2’2022, indicating sustained growth. The Financial and Insurance sector recorded the highest growth rate in Q2’2023 growing by 13.5%, albeit slower than the 16.1% growth recorded in Q2’2022. The chart below shows the top contributors to GDP by sector in Q2’2023:**



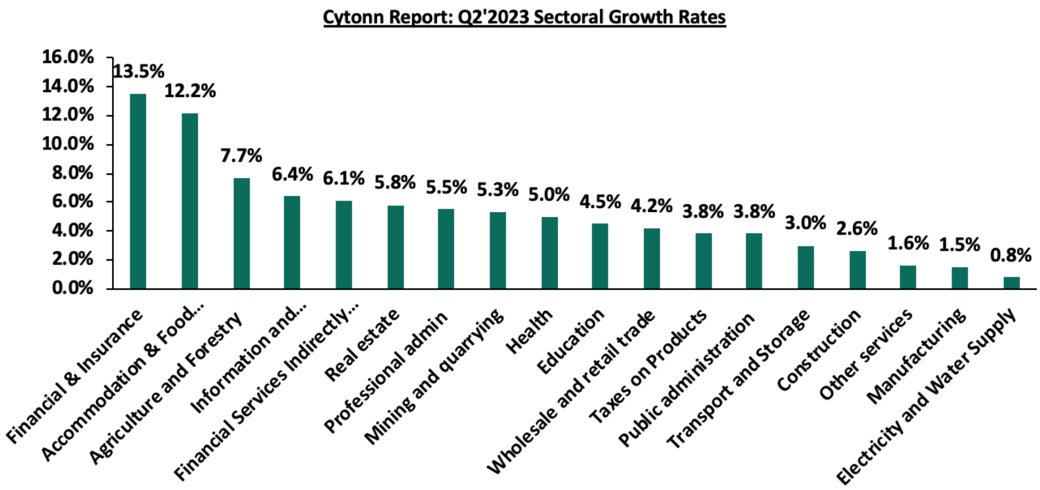
ii. **Rebound in the Agricultural Sector**– Agriculture, Forestry and Fishing activities recorded a growth of 7.7% compared to a contraction of 2.4% points in Q2’2022. The performance was an increase of 1.9% points, from the growth of 5.8% recorded in Q1’2023. The positive growth recorded during the quarter was mainly attributable to sufficient rainfall experienced in the quarter under review resulting to increased agricultural production. Notably, during the quarter, production of key food crops and cash crops increased with a significant increase in the production of tea, coffee, milk, vegetables and fruit during the quarter under review,

iii. **Slower growth in the manufacturing sector** - The manufacturing sector recorded a slower growth of 1.5% in Q2’2023 compared to a 3.6% growth in a similar period of review in 2022.

Similarly, the sectoral contribution to GDP decreased by 0.3% points, to 8.0% in Q2’2023 from 8.3% in Q2’2022,

iv. **Significant growth in the Financial and Insurance sector growth**: Financial and Insurance sector recorded the highest growth rate among all the sectors in Q2’2023, having expanded by 13.5%, albeit lower than the 16.1% recorded in Q2’2022. Additionally, the contribution to GDP increased by 0.7% points, to 9.6% in Q2’2023, compared to 8.9% recorded in Q2’2022,

v. **Sustained resilience in the Accommodation and Food services sector: The sector recorded 12.2% growth in Q2’2023, albeit lower than the 44.0% growth recorded in Q2’2022. This comes after the sector recorded significantly subdued performance in 2020 and part of 2021 as a consequence of the COVID-19 pandemic. The activity in the sector remained resilient during the quarter, with the number of visitor arrivals through Jomo Kenyatta International Airport and Moi International Airport increasing by 13.3% to 317,196 in Q2’2023 up from 279,981 recorded in Q2’2022. Additionally, the sectoral contribution to GDP increased by 0.1% points, to 1.0% in Q2’2023 from 0.9% recorded in Q2’2022. The chart below shows the different sectoral GDP growth rates for Q2’202**



Source: KNBS Q2’2023 GDP Report

In the near-term, we expect the economy to grow at a slower pace given the subdued general business environment in the country, mainly as a result of elevated inflationary pressures occasioned by high fuel and food prices. Additionally, the Central Bank of Kenya’s Monetary Policy Committee’s (MPC) decision on 3rd October 2023 to maintain the Central Bank Rate (CBR) at 10.5% in a bid to curb inflation and maintain price stability is expected to curtail economic growth. The high CBR is set to maintain the cost of credit issued by lenders high, hence discouraging borrowing, which will in turn lead to reduced investment spending in the economy by both individuals and businesses. Additionally, the inflation in the country remains high, although within the Central Bank’s range, and risks going high in the short term with the fuel prices recently spiking up. Thus, the consumer purchasing power remains low, resulting in reduced demand for goods and services and consequentially slowed economic growth. However, we expect the agricultural sector to continue backing economic growth in the country, as the country expects sufficient rain in the year. The sector remains Kenya’s largest contributor to GDP, as well as food prices being a major contributor to headline inflation.

II. **Monetary Policy Committee (MPC) October Meeting**

The monetary policy committee met on October 3, 2023 to review the outcome of its previous policy decisions amidst a backdrop of continued global uncertainties, high inflationary pressures, a weak global growth outlook as well as measures taken by other economies around the world in response to these developments. The MPC retained the CBR rate at 10.50%, which was in line with our expectations of the MPC to maintain the CBR rate at the current rate of 10.50%. Below are some of the key highlights from the meeting:

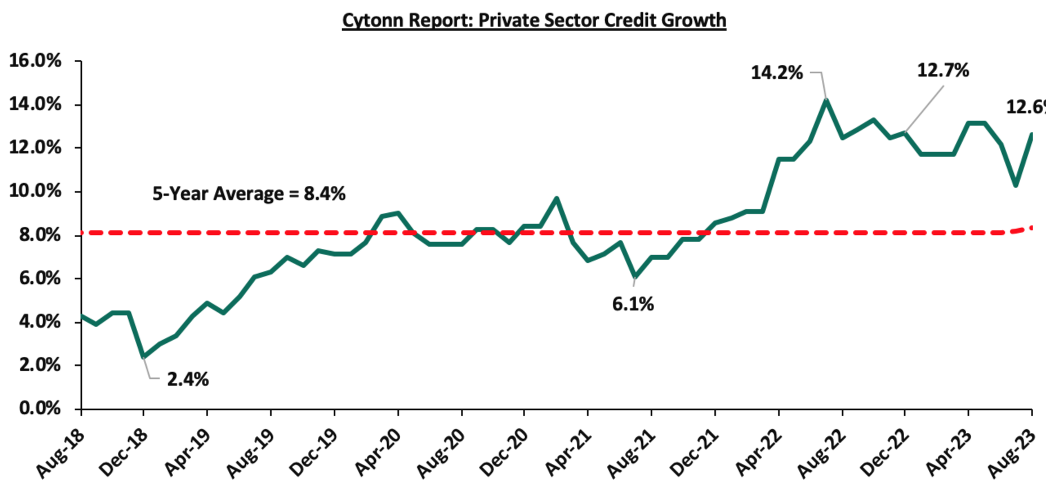
i. The overall inflation marginally tightened to 6.8% in September 2023, from 6.7% in August driven by increased food and non-food non-fuel (NFNF) inflation. The food inflation increased to 7.9% in September 2023 from 7.5% in August 2023, attributable to increased prices of vegetables such as onions, cabbages and spinach. The increase was weighed down by decrease in prices of key non-vegetable food items like maize and wheat flour, attributable to improved harvests and governments measures to zero-rate key food imports. Fuel inflation remained elevated at 13.1% in September from 14.5% in July 2023, largely attributable to increased international prices on fuel. We expect the overall inflation to tighten further in short-term, due to the increased fuel and food prices,

ii. Goods exports have remained resilient, growing by 0.5% in the 12 months to August 2023 compared to 11.0% in a similar period in 2022. Receipts from tea and manufactured exports increased by 4.5% and 23.2%, respectively, attributable to increased demand from traditional markets. Additionally, Imports declined by 11.9% in the 12 months to August 2023 compared to a growth of 16.0% in a similar period in 2022, partly attributable to drop of imports of infrastructure related equipment. Remittances totaled USD 4,120.0 mn in the 12 months to August 2023, 3.2% higher than USD 3,992.2 mn recorded in the same period in 2022. The current account deficit is estimated at 3.7% of the GDP in the 12 months to August 2023 and is projected to improve to 4.1% of GDP in 2023 from the 5.1% of GDP in 2022,

iii. The CBK foreign exchange reserves, which currently stand at USD 6,901.0 mn representing a 3.7 months of import cover, continues to provide adequate cover and a buffer against any short-term shocks in the foreign exchange market,

iv. The banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios. The ratio of gross non-performing loans (NPLs) to gross loans stood at 15.0% in August 2023 compared to 14.2% in August 2022. Increases in NPLs were noted in the manufacturing, mining and quarrying, real estate, and building and construction sectors. However, banks have continued to make adequate provisions for the NPLs,

v. Growth in private sector credit increased to 12.6% in August 2023 from 10.3% in July 2023, attributed to strong credit growth in sectors such as; transport and communication, manufacturing, consumer durables and trade, of 24.9%, 19.6%, 12.7% and 9.4%, respectively. Additionally, the number of loan applications and approvals remained strong, reflecting resilience in economic activities. The chart below shows the movement of the private sector credit growth of the last five years:



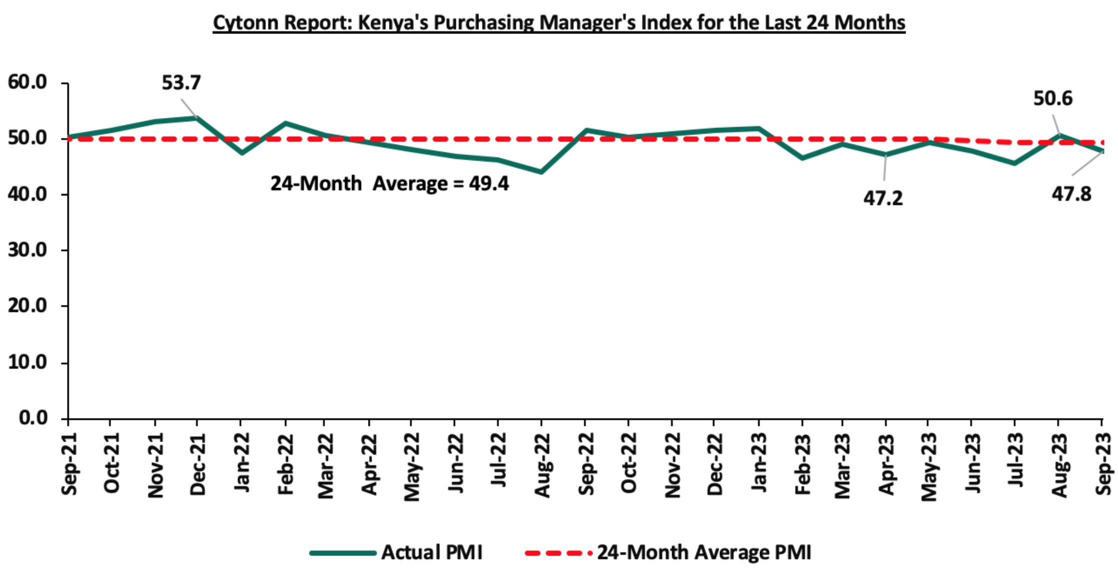
vi. The Committee assessed the progress in the implementation of the new monetary policy framework, which is based on an interest rate corridor of ±250 basis points around the Central Bank Rate (CBR). The MPC noted that interbank market activity has increased while volatility in interbank interest rates had reduced. Additionally, spreads in the interbank interest rates have narrowed with improved liquidity distribution, The committee noted that the impact of its move to tighten the monetary policy in June 2023 to anchor inflationary expectations was still transmitting in the economy and therefore it concluded that the current stance on monetary policy was appropriate and decided to retain the central Bank Rate at 10.50%. Additionally, the committee noted that inflation was already within the target range and was expected to remain within the target range as food inflation is expected to come down, on expected improved supply. Additionally, the committee assessed that the Non-food Non-fuel (NFNF) was expected to decline, indicative of easing underlying inflationary pressures. The Committee will closely monitor the impact of the policy measures, as well as developments in the global and domestic economy, and stands ready to take further action as necessary. The Committee will meet again in December 2023.

III. **Stanbic Bank's September 2023 Purchasing Manager's Index (PMI)**

During the week, Stanbic Bank released its monthy Purchasing Manager's Index (PMI), highlighting that the index for the month of September 2023 slid back into the negatives, coming in at 47.8, down from 50.6 in August 2023, signaling a stronger downturn of the business environment at the end of Q3'2023. On a year to year basis, the index recorded a 7.5% deterioration from the 51.7 recorded in September 2022. The strong downturn of the general business environment is mainly attributable to the elevated inflationary pressure experienced in the country, albeit within the Central Bank of Kenya (CBK) target range of 2.5%–7.5% with the inflation rate in September 2023 slightly tightening to 6.8%, from 6.7% recorded in August 2023, coupled with the rising fuel prices, mostly resulting from the aggressive depreciation of the Kenyan shilling. Additionally, the elevated fuel prices, having increased by an average of Kshs 23.8 per litre in September, dampened sales, as prices spiked up. Notably, input costs remained historically elevated, on the back of deterioration of the Shilling against the dollar, which led to price pressures.

As such, the manufacturing output declined during the month, with the services, wholesale and retail sectors registering significant declines in activity attributable to the rapid price increases, leading to reduced customer demand. However, the declines were mitigated by the agricultural sector which recorded an increase in output and new orders in September.

Notably, exports rose for the seventh consecutive month, attributable to the weak shilling, which made Kenyan exports more affordable in the global market, even as firms quoted change of focus to the foreign markets, as domestic demand dipped. However, the pace of growth slowed down compared to August. Key to note, a PMI reading of above 50.0 indicates an improvement in the business conditions, while readings below 50.0 indicate a deterioration. The chart below summarizes the evolution of PMI over the last 24 months:



Going forward, we project that the business environment will be restrained in the short to medium term on the back of higher food and fuel prices, as well as the sustained depreciation of the Kenyan shilling, which continues to raise the cost of production and importation, consequently raising the inflation rate. Further, the increased taxation, with likelihood of more upward tax revisions is set to continue restraining the business environment in the country. As a result, the volume of new businesses is expected to remain stifled as consumers cut back on spending owing to a lack of purchasing power. Notably, the general improvement in business conditions is largely dependent on the stability of the Kenya shilling, given that the country's high cost of production is mostly attributable to the high import cost of goods owing to the poor performance of the shilling.

Q3’2023 Highlights:

1. The Kenya National Bureau of Statistics (KNBS) released the year-on-year inflation highlighting that the inflation rate in the month of September 2023 increased marginally to 6.8%, from the 6.7% inflation rate recorded in the month of August 2023. Please read our Cytonn Weekly #39/2023,
2. The Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya, effective 15 September 2023 to 14 October 2023. Notably, fuel prices for super petrol, Diesel and Kerosene increased Please read our Cytonn Weekly #37/2023,
3. National Treasury gazetted the revenue and net expenditures for the second month of FY’2023/2024, ending 31st August 2023 highlighting that total revenue collected as at the end of August 2023 amounted to Kshs 323.4 bn, equivalent to 12.6% of the original estimates of Kshs 2,571.2 bn for FY’2023/2024 and is 75.5% of the prorated estimates of Kshs 428.5 bn. Please read our Cytonn Weekly #37/2023,
4. Stanbic Bank released its monthly Purchasing Manager’s Index (PMI), highlighting that the index for the month of August 2023 came in at 50.6, up from 45.5 in July 2023, signalling an expansion in business conditions for the first time since January. The expansion was attributable to the greater political stability, improved food supply and increased marketing of products. Please read our Cytonn Weekly #36/2023,
5. The Kenya National Bureau of Statistics (KNBS) released the year-on-year inflation highlighting that the inflation rate in the month of July 2023 eased to 7.3%, from the 7.9% inflation rate recorded in the month of June 2023, marking the first time in 14 months that the inflation has fallen within the CBK target range of 2.5%-7.5%. Please read our Cytonn Monthly – July 2023,
6. Stanbic Bank released its monthly Purchasing Manager's Index (PMI), highlighting that the index for the month of July 2023 came in at 45.5, down from 47.8 in June 2023, signalling a stronger downturn of the business environment at the start of Q3’2023. The strong downturn is mainly attributable to the high cost of living amid rising fuel prices and the sustained depreciation of the Kenya shilling. Please read our Cytonn Monthly – July 2023,
7. The monetary policy committee met on August 9, 2023 to review the outcome of its previous policy decisions amidst a backdrop of continued global uncertainties, high inflationary pressures, a weak global growth outlook as well as measures taken by other economies around the world in response to these developments. The MPC retained the CBR rate at 10.50%, which was in line with our expectations of the MPC to maintain the CBR rate at the current rate. Please see our Cytonn Weekly #32/2023,
8. The National Treasury gazetted the revenue and net expenditures for the first month of FY’2022/2023, ending 31st July 2022, indicating that the total revenue collected as at the end of July 2023 amounted to Kshs 159.6 bn, equivalent to 6.2% of the original estimates of Kshs 2,571.2 bn for FY’2023/2024 and is 74.5% of the prorated estimates of Kshs 214.3 bn. Please see our Cytonn Weekly #33/2023,
9. The Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya effective 15 August 2023 to 14 September 2023. Notably, fuel

prices remained unchanged at Kshs 194.7 per litre for Super Petrol, Kshs 179.7 per litre for Diesel and Kshs 169.5 per litre for Kerosene respectively. Please see our Cytonn Weekly #33/2023,

10. The Kenya National Bureau of Statistics (KNBS) recently released the Q1'2023 Quarterly Gross Domestic Product (GDP) Report, highlighting that the Kenyan economy recorded a 5.3% growth in Q1'2023, albeit slower than the 6.2% growth recorded in Q1'2022. For more information, please see our Cytonn Weekly #27/2023,
11. The Kenya National Bureau of Statistics released the Q1'2023 Quarterly Balance of Payment Report, highlighting that Kenya's balance of payments position recorded a 6.0% deterioration, with the deficit widening to Kshs 127.8 bn in Q1'2023, from a deficit of Kshs 120.6 bn recorded in Q1'2022 and a significant deterioration from the Kshs 29.1 bn deficit recorded in Q4'2022. For more information, please see our Cytonn Weekly #27/2023,
12. Stanbic Bank released its monthly Purchasing Manager's Index (PMI), highlighting that the index for the month of June 2023 came in at 47.8, down from 49.4 in May 2023, signaling a stronger downturn of the business environment in the fifth month running in June 2023. For more information, please see our Cytonn Weekly #27/2023,
13. United Nations Conference on Trade and Development (UNCTD) released the 2023 World Investment Report, highlighting that Kenya recorded an enormous growth in Foreign Direct Investment (FDI), having grown by 63.9% to USD 759.1 mn in 2022 from USD 463.0 mn in 2021 after a five-year dip leading to 2021. The significant increase is mainly attributable to a range of policy interventions to mobilize resources and investments within the renewable energy sector. For more information, please see our Cytonn Weekly #28/2023,
14. The Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya, effective 15 July 2023 to 14 August 2023. Notably, prices for Super Petrol and Kerosene declined 0.4% and 2.3% to Kshs 194.7 and Kshs 169.5, respectively, from Kshs 195.5 and 173.4 per litre. However, the price of diesel remained unchanged at Kshs 179.7 per litre. For more information, please see our Cytonn Weekly #28/2023,
15. Kenya Revenue Authority (KRA) released the annual revenue performance for FY'2022/2023 highlighting that the total revenue collection amounted to Kshs 2.2 tn against the target of Kshs 2.3 tn, translating to a target achievement of 95.3%. For more information, please see our Cytonn Weekly #28/2023,
16. International Monetary Fund (IMF) announced that it had completed the fifth review of the 38-month Extended Fund Facility (EFF) and Extended Credit Facility (ECF) financing for Kenya allowing for an immediate disbursement of USD 415.4 mn (Kshs 58.9 bn), inclusive of USD 110.3 mn (Kshs 15.6 bn) from an augmentation of access. The board also approved Kenya's request for a 20-month arrangement under the Resilience and Sustainability Facility (RSF), amounting to USD 551.4 mn (Kshs 78.1 bn) in a bid to build resilience against the impacts of climate change and attract additional private investment towards climate-related initiatives. For more information, please see our Cytonn Weekly #29/2023, and,
17. Fitch Ratings, a global credit rating agency, revised the outlook on Kenya's Long-Term Foreign-Currency Issuer Default Rating (IDR) to negative from stable and affirmed the IDR at 'B', mainly due to external financing constraints amid high funding requirements, including a USD 2.0 bn Eurobond maturity in 2024, weakening forex reserves, rising financing costs, and uncertainty regarding the fiscal trajectory. For more information, please see our Cytonn Weekly #29/2023.

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.

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