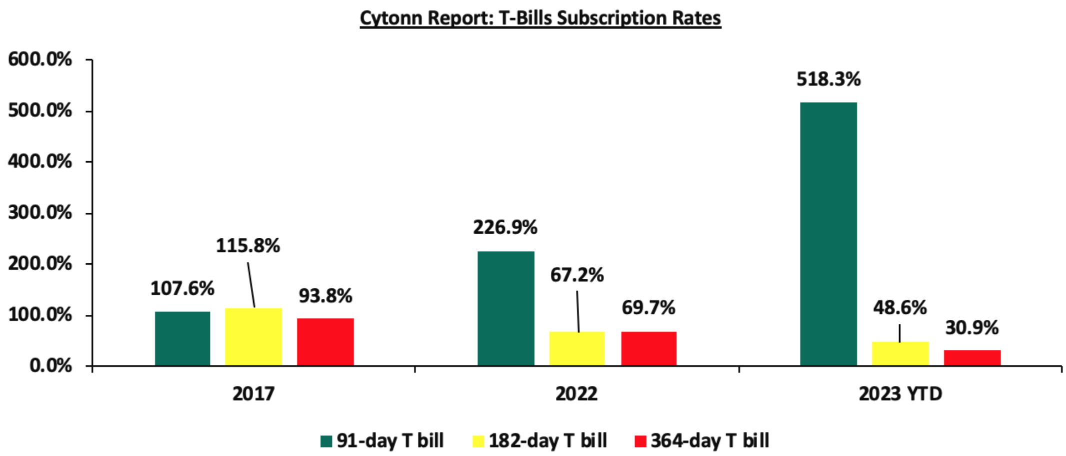
Kenya's Listed Insurance Report H1'2023, & Cytonn Weekly #43/2023

Fixed Income

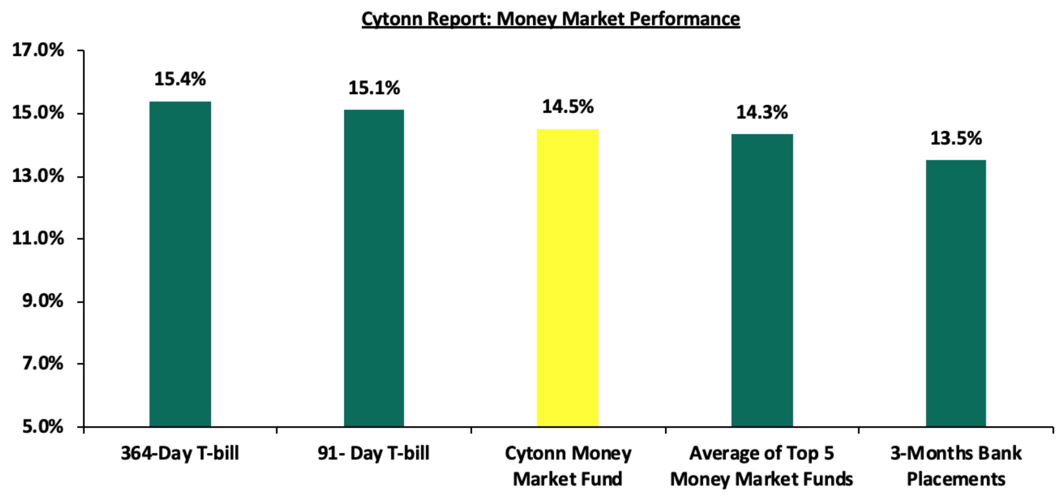
Money Markets, T-Bills Primary Auction:

During the week, T-bills were undersubscribed for the first time in four weeks, with the overall subscription rate coming in at 75.6%, albeit lower than the oversubscription rate of 123.4% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 10.6 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 266.0%, albeit lower than the oversubscription rate of 588.9% recorded the previous week. The subscription rate for the 182-day paper increased to 56.7%, from 37.9% recorded the previous week. While, the subscription rate of the 364-day paper decreased to 18.4%, from 22.7% recorded the previous week. The government accepted a total of Kshs 15.7 bn worth of bids out of Kshs 18.2 bn of bids received, translating to an acceptance rate of 86.2%. The yields on the government papers were on an upward trajectory, with the yields on the 364-day, 182-day and 91-day papers increasing by 4.6 bps, 5.3 bps and 6.5 bps to 15.4%, 15.1% and 15.1%, respectively; The chart below compares the overall average T- bills subscription rates obtained in 2017, 2022 and 2023 Year to Date (YTD):



Money Market Performance:

In the money markets, 3-month bank placements ended the week at 13.5% (based on what we have been offered by various banks), and the yields on the 364-day and 91-day T-bill increased by 4.6 bps and 6.5 bps to 15.4% and 15.1%, respectively. The yields of the Cytonn Money Market Fund decreased by 4.0 bps to 14.5% from 14.6% recorded the previous week, and the average yields on the Top 5 Money Market Funds increased by 20.6 bps to 14.3%, from 14.1% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 27th October 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 27th October 2023

Rank	Fund Manager	Effective Annual
1	GenAfrica Money Market Fund	14.9%
2	Cytonn Money Market Fund	14.5%
3	Enwealth Money Market Fund	14.4%
4	Apollo Money Market Fund	14.2%
5	Lofty-Corban Money Market Fund	13.7%
6	Madison Money Market Fund	13.7%
7	Etica Money Market Fund	13.6%
8	AA Kenya Shillings Fund	13.2%
9	Jubilee Money Market Fund	13.1%
10	Co-op Money Market Fund	13.1%
11	Sanlam Money Market Fund	12.8%
12	GenCap Hela Imara Money Market Fund	12.8%
13	Kuza Money Market fund	12.8%
14	Old Mutual Money Market Fund	12.5%

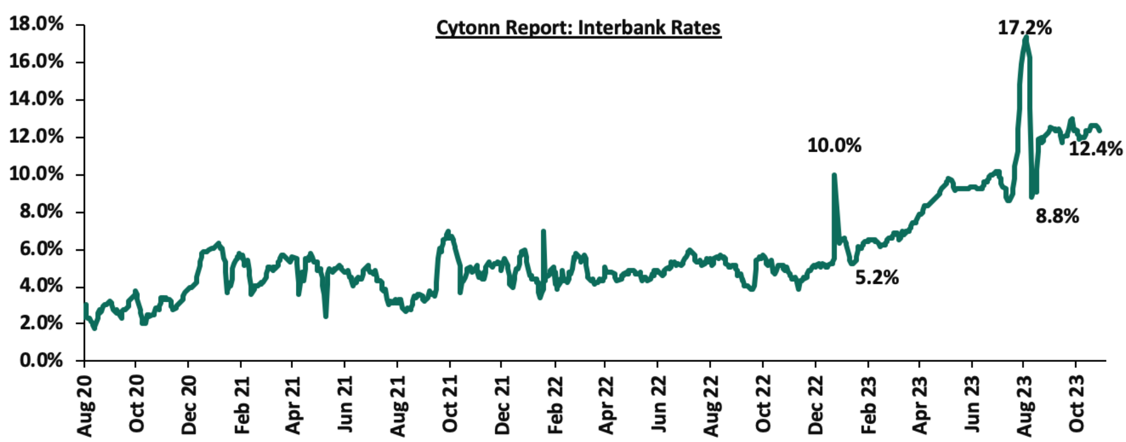
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 27th October 2023

Rank	Fund Manager	Effective Annual
15	Nabo Africa Money Market Fund	12.4%
16	Absa Shilling Money Market Fund	12.2%
17	KCB Money Market Fund	12.0%
18	ICEA Lion Money Market Fund	11.6%
19	Equity Money Market Fund	11.5%
20	CIC Money Market Fund	11.4%
21	Dry Associates Money Market Fund	11.3%
22	Orient Kasha Money Market Fund	11.1%
23	Mali 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 marginally tightened, with the average interbank rate remaining relatively unchanged at 12.5%, partly attributable to tax remittances that offset government payments. The average interbank volumes traded decreased by 22.3% to Kshs 14.1 bn from Kshs 18.1 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 recorded mixed performance, with the yield on the 10-year Eurobond issued in 2018 increasing the most by 0.4% points to 13.6%, from 13.1% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 26th October 2023;

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**
Amount Issued (USD)	**2.0 bn**	**1.0 bn**	**1.0 bn**	**0.9 bn**	**1.2 bn**	**1.0 bn**
Years to Maturity	**0.7**	**4.4**	**24.4**	**3.6**	**8.6**	**10.7**
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%
02-Oct-23	19.0%	13.5%	12.6%	14.6%	12.9%	12.5%
18-Oct-23	16.5%	13.1%	12.8%	15.0%	13.3%	12.9%
19-Oct-23	16.7%	14.3%	12.8%	15.1%	13.4%	13.0%
23-Oct-23	16.1%	14.0%	12.7%	14.7%	13.2%	12.7%
24-Oct-23	14.8%	13.6%	12.4%	14.1%	12.9%	12.4%
25-Oct-23	14.9%	13.6%	12.4%	14.0%	12.8%	12.4%
Weekly Change	**(1.7%)**	**0.4%**	**(0.4%)**	**(1.0%)**	**(0.5%)**	**(0.5%)**
MTD Change	**(4.1%)**	**0.1%**	**(0.2%)**	**(0.6%)**	**(0.0%)**	**(0.1%)**
YTD Change	**2.0%**	**3.1%**	**1.5%**	**3.1%**	**2.1%**	**2.6%**

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

Kenya Shilling:

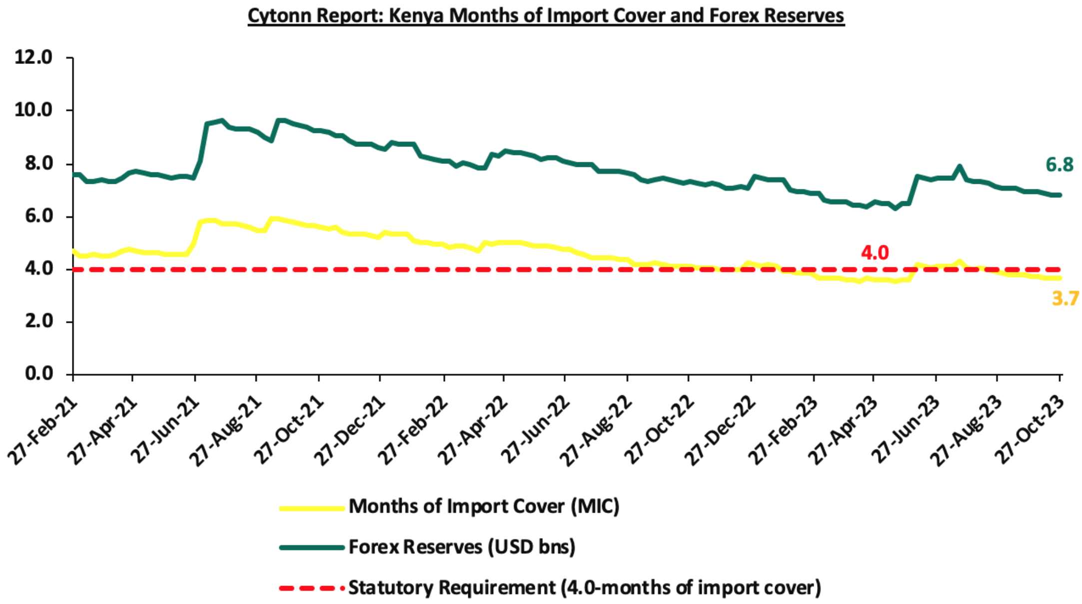
During the week, the Kenya Shilling depreciated against the US Dollar by 0.4% to close at Kshs 150.4, from Kshs 149.8 recorded the previous week. On a year to date basis, the shilling has depreciated by 21.8% against the dollar, adding to the 9.0% depreciation recorded in 2022. We expect the shilling to remain under pressure in 2023 as a result of:

i. An ever-present current account deficit which came at 3.7% of GDP in Q2'2023 from 6.0% recorded in a similar period last year,
ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.1% of Kenya's external debt was US Dollar denominated as of June 2023, and,
iii. Dwindling forex reserves currently at USD 6.8 bn (equivalent to 3.7-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 3,106.7 mn in 2023 as of September 2023, 3.8% higher than the USD 2,992.5 mn recorded over the same period in 2022. In the September 2023 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 57.0% in the period, and,
ii. The tourism inflow receipts which came in at USD 268.1 bn in 2022, a significant 82.9% increase from USD 146.5 bn inflow receipts recorded in 2021.

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



Weekly Highlights:

I. **October 2023 Inflation Projection**

We are projecting the y/y inflation rate for October 2023 to come in at the range of 6.8%-7.0% mainly on the back of:

i. **Increased Fuel Prices** – The Energy and Petroleum Regulatory Authority (EPRA) announced a rise in the maximum retail fuel prices in Kenya, effective 15th October 2023 to 14th November 2023. Consequently, the fuel prices for super petrol, Diesel and Kerosene increased by 2.7%, 2.2% and 1.2% to Kshs 217.4, Kshs 205.5 and Kshs 205.1, respectively, up from Kshs 211.6, Kshs 201.0 and Kshs 202.6 recorded in the previous period. The Fuel prices in the country remain elevated with the average landing costs per cubic meter for super petrol and diesel increasing by 3.9% and 7.1% to USD 805.1 and USD 845.7 in September 2023, from USD 774.7 and USD 789.9, respectively, in August 2023. However, the average landing costs of kerosene decreased by 5.0% to USD 868.7 in September 2023, from USD 827.3 in August 2023. Notably, global oil prices eased up in October 2023, having decreased by 4.3% to USD 92.0 as of 27th October 2023, from USD 96.1 recorded on 29th September 2023, and,

ii. **Increased food and commodity prices –** Anticipated rises in fuel costs are predicted to drive up food prices, leading to transfer-inflation affecting both food and non-food items.

As a result, we foresee a surge in the inflation rate for October, primarily due to the escalating fuel costs, considering its crucial role in the country's production. It's worth noting that the ongoing depreciation of the Kenya Shilling has led to an increase in commodity prices nationwide. This depreciation has inflated the import bill, causing manufacturers to transfer the cost burden to consumers by raising commodity prices.

In the near future, we anticipate that inflationary pressures will continue, but they are expected to moderate in the medium term to the Central Bank of Kenya's target range of 2.5% to 7.5%. This is due to the expected decrease in global oil prices and a reduction in local food prices, thanks to favorable weather conditions that will boost agricultural production and subsequently lower food prices. Additionally, we foresee that government initiatives to subsidize key agricultural inputs like fertilizers will reduce farming costs and contribute to long-term inflation relief.

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 19.4% behind of its prorated net domestic borrowing target of

Kshs 91.2 bn, having a net borrowing position of Kshs 73.5 bn of the domestic net borrowing target of Kshs 316.0 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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