

Nairobi Metropolitan Area (NMA) Infrastructure Report 2023, & Cytonn Weekly #45/2023

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills were oversubscribed for the second consecutive week, with the overall subscription rate coming in at 255.6%, higher than the oversubscription rate of 102.8% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 37.3 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 931.4%, higher than the oversubscription rate of 562.0% recorded the previous week. The subscription rates for the 182-day and 364-day papers increased significantly to 185.9% and 55.1%, from 12.8% and 9.1% respectively, recorded the previous week. The government accepted a total of Kshs 61.2 bn worth of bids out of Kshs 61.4 bn of bids received, translating to an acceptance rate of 99.7%. The yields on the government papers continued to rise, with the yields on the 364-day, 182-day and 91-day papers increasing by 17.6 bps, 13.4 bps and 10.0 bps to 15.6%, 15.4% and 15.3%, 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 auction results for the newly issued infrastructure bond IFB1/2023/6.5 with a tenor to maturity of 6.5 years. The bond was oversubscribed with the overall subscription rate coming in at 177.8%, receiving bids worth Kshs 88.9 bn against the offered Kshs 50.0 bn. The government accepted bids worth Kshs 67.1 bn, translating to an acceptance rate of 75.4%. The market average yield of the accepted bids came in at 17.9% which is comparable to a yield of 21.1% on a tax effected basis, while the coupon rate for the IFB1/2023/6.5 was set at 17.9%.

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 17.6 bps and 10.0 bps to 15.6% and 15.3%, respectively. The yields of the Cytonn Money Market Fund increased by 9.0 bps to 14.6% from 14.5% recorded the previous week, and the average yields on the Top 5 Money Market Funds increased by 17.6 bps to 14.5%, from 14.3% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 10th November 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 10th November 2023

Rank	Fund Manager	Effective Annual
1	GenAfrica Money Market Fund	15.0%
2	Cytonn Money Market Fund	14.6%
3	Enwealth Money Market Fund	14.5%
4	Lofty-Corban Money Market Fund	14.5%
5	Apollo Money Market Fund	14.1%
6	Etica Money Market Fund	14.1%
7	Madison Money Market Fund	14.0%
8	Nabo Africa Money Market Fund	14.0%
9	GenCap Hela Imara Money Market Fund	13.5%
10	Jubilee Money Market Fund	13.4%
11	Co-op Money Market Fund	13.1%
12	Kuza Money Market fund	13.0%
13	Sanlam Money Market Fund	12.9%
14	Old Mutual Money Market Fund	12.5%
15	Absa Shilling Money Market Fund	12.4%
16	KCB Money Market Fund	12.1%
17	Dry Associates Money Market Fund	11.6%
18	CIC Money Market Fund	11.6%
19	Equity Money Market Fund	11.5%
20	ICEA Lion Money Market Fund	11.4%
21	Orient Kasha Money Market Fund	11.0%
22	AA Kenya Shillings Fund	11.0%
23	Mali Money Market Fund	10.5%

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 10th November 2023

Rank	Fund Manager	Effective Annual
24	British-American Money Market Fund	9.5%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate decreasing to 11.7% from 12.3% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded decreased by 7.2% to Kshs 13.3 bn from Kshs 14.3 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 2014 increasing the most by 1.4% points to 15.5%, from 14.1% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 9th November 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	0.6	4.3	24.3	3.5	8.5	10.6
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%
01-Nov-23	14.6%	13.1%	12.0%	13.5%	12.5%	11.8%
02-Nov-23	14.1%	12.8%	11.7%	13.1%	12.1%	11.5%
03-Nov-23	13.9%	12.5%	11.6%	12.6%	11.9%	11.2%
06-Nov-23	14.1%	12.5%	11.6%	12.6%	11.9%	11.2%
07-Nov-23	14.9%	12.5%	11.5%	12.7%	11.9%	11.2%

Cytonn Report: Kenya Eurobonds Performance

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Yields at Issue	6.6%	7.3%	8.3%	7.0%	7.9%	6.2%
08-Nov-23	14.9%	12.5%	11.6%	12.8%	11.8%	11.2%
09-Nov-23	15.5%	12.7%	11.7%	13.1%	12.0%	11.3%
Weekly Change	1.4%	(0.2%)	(0.1%)	0.0%	(0.1%)	(0.2%)
MTD Change	0.8%	(0.4%)	(0.3%)	(0.4%)	(0.5%)	(0.5%)
YTD Change	2.5%	2.2%	0.8%	2.2%	1.2%	1.4%

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 151.7, from Kshs 151.1 recorded the previous week. On a year to date basis, the shilling has depreciated by 22.9% 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, which has continued to cushion the shilling against further depreciation. 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:



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 14.8% ahead of its prorated net domestic borrowing target of Kshs 117.2 bn, having a net borrowing position of Kshs 134.6 bn out of the domestic net borrowing target of Kshs 316.0 bn for the FY2023/2024. 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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