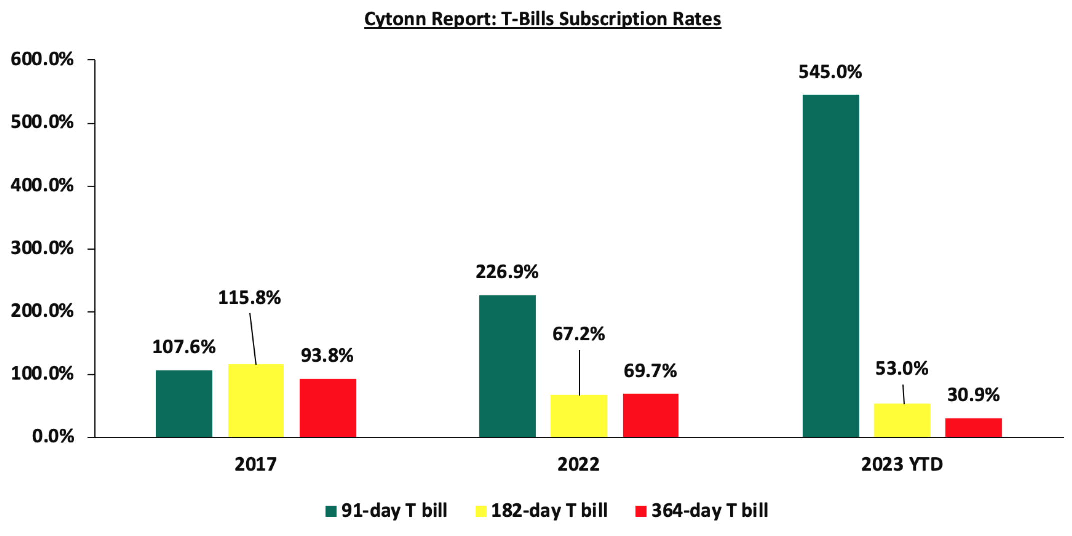
# The Private Sector Credit Growth, & Cytonn Weekly #46/2023

## Fixed Income

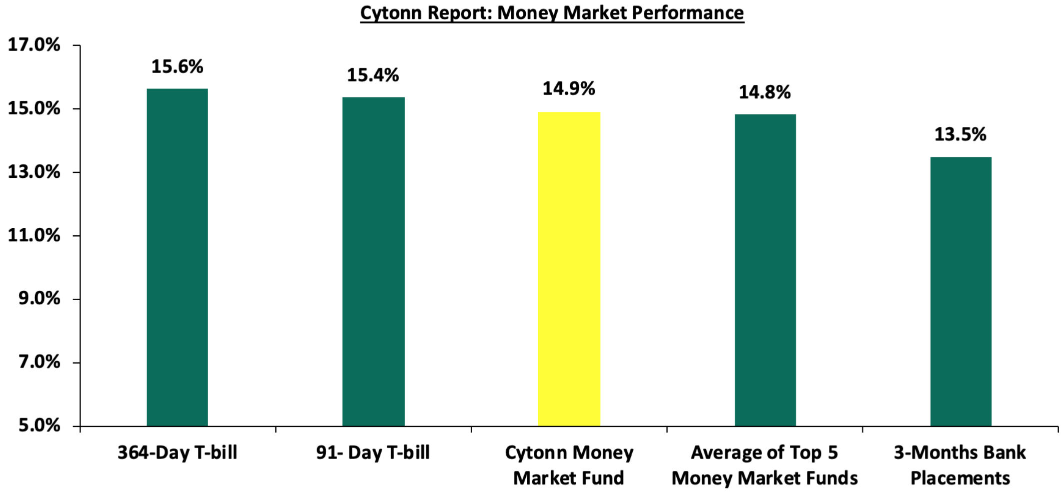
**Money Markets, T-Bills Primary Auction:**

During the week, T-bills were oversubscribed for the third consecutive week, with the overall subscription rate coming in at 208.3%, albeit lower than the oversubscription rate of 255.6% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 37.7 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 942.7%, higher than the oversubscription rate of 931.4% recorded the previous week. The subscription rates for the 182-day and 364-day papers decreased to 94.0% and 28.9%, from 185.9% and 55.1% respectively, recorded the previous week. The government accepted a total of Kshs 45.3 bn worth of bids out of Kshs 50.0 bn of bids received, translating to an acceptance rate of 90.7%. 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 2.3 bps, 2.2 bps and 7.6 bps to 15.6%, 15.4% and 15.4%, 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 2.3 bps and 7.6 bps to 15.6% and 15.4%, respectively. The yields of the Cytonn Money Market Fund increased by 34.0 bps to 14.9% from 14.6% recorded the previous week, and the average yields on the Top 5 Money Market Funds increased by 28.8 bps to 14.8%, from 14.5% recorded the previous week.




The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 17th November 2023:

**Cytonn Report: Money Market Fund Yield for Fund Managers as published on 17th November 2023**

| Rank | Fund Manager | Effective Annual |
|---|---|---|
| 1 | Lofty-Corban Money Market Fund | 15.0% |
| 2 | Cytonn Money Market Fund *(Dial *809# or download Cytonn App)* | 14.9% |
| 3 | GenAfrica Money Market Fund | 14.9% |
| 4 | Etica Money Market Fund | 14.9% |
| 5 | Enwealth Money Market Fund | 14.5% |
| 6 | AA Kenya Shillings Fund | 13.8% |
| 7 | Madison Money Market Fund | 13.7% |
| 8 | Nabo Africa Money Market Fund | 13.6% |
| 9 | Jubilee Money Market Fund | 13.5% |
| 10 | Kuza Money Market fund | 13.1% |
| 11 | Co-op Money Market Fund | 13.1% |
| 12 | Apollo Money Market Fund | 13.0% |
| 13 | Sanlam Money Market Fund | 13.0% |
| 14 | GenCap Hela Imara Money Market Fund | 12.8% |
| 15 | Old Mutual Money Market Fund | 12.7% |
| 16 | Absa Shilling Money Market Fund | 12.4% |
| 17 | KCB Money Market Fund | 12.1% |
| 18 | Dry Associates Money Market Fund | 11.7% |
| 19 | CIC Money Market Fund | 11.6% |
| 20 | Equity Money Market Fund | 11.5% |
| 21 | ICEA Lion Money Market Fund | 11.4% |
| 22 | Orient Kasha Money Market Fund | 11.0% |
| 23 | Mali Money Market Fund | 10.4% |

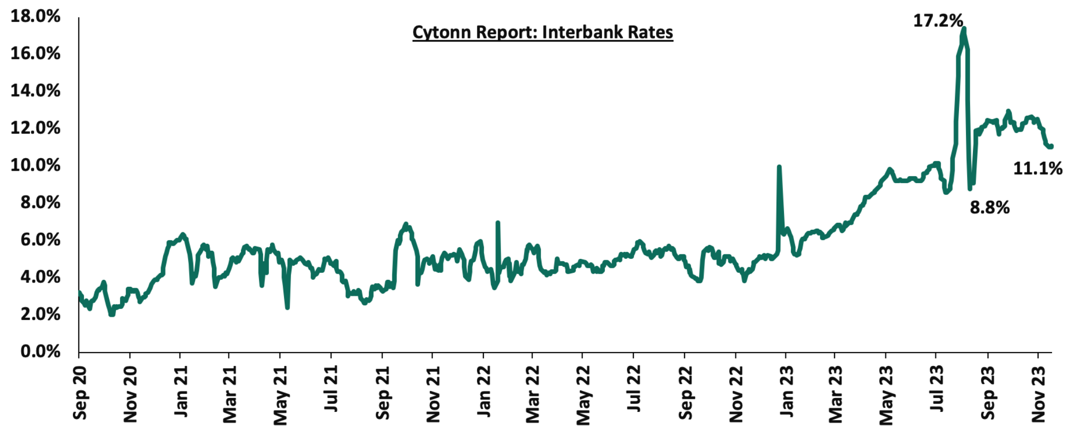
**Cytonn Report: Money Market Fund Yield for Fund Managers as published on 17th November 2023**

| Rank | Fund Manager | Effective Annual |
|---|---|---|
| 24 | British-American Money Market Fund | 9.6% |

*Source: Business Daily*

**Liquidity:**

During the week, liquidity in the money markets eased, with the average interbank rate decreasing to 11.0% from 11.6% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded increased by 79.3% to Kshs 23.4 bn from Kshs 13.0 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 a downward trajectory, with the yield on the 10-year Eurobond issued in 2014 decreasing the most by 1.4% points to 14.1%, from 15.5% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 16th 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% |
| 9-Nov-23 | 15.5% | 12.7% | 11.7% | 13.1% | 12.0% | 11.3% |
| 10-Nov-23 | 15.7% | 12.9% | 11.8% | 13.5% | 12.2% | 11.5% |
| 13-Nov-23 | 16.0% | 13.0% | 11.9% | 13.7% | 12.3% | 11.6% |
| 14-Nov-23 | 15.6% | 12.8% | 11.8% | 13.5% | 12.2% | 11.4% |
| 15-Nov-23 | 15.6% | 12.8% | 11.8% | 13.3% | 12.2% | 11.5% |

**Cytonn Report: Kenya Eurobonds Performance**

| | 2014 | 2018 | | 2019 | | 2021 |
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| **Amount Issued (USD)** | **2.0 bn** | **1.0 bn** | **1.0 bn** | **0.9 bn** | **1.2 bn** | **1.0 bn** |
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| **Yields at Issue** | **6.6%** | **7.3%** | **8.3%** | **7.0%** | **7.9%** | **6.2%** |
| 16-Nov-23 | 14.1% | 12.5% | 11.6% | 12.9% | 12.0% | 11.3% |
| **Weekly Change** | **(1.4%)** | **(0.2%)** | **(0.0%)** | **(0.2%)** | **0.0%** | **(0.0%)** |
| **MTD Change** | **(0.6%)** | **(0.6%)** | **(0.4%)** | **(0.6%)** | **(0.5%)** | **(0.6%)** |
| **YTD Change** | **(1.2%)** | **(2.0%)** | **(0.8%)** | **(2.0%)** | **(1.2%)** | **(1.4%)** |

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

**Kenya Shilling:**

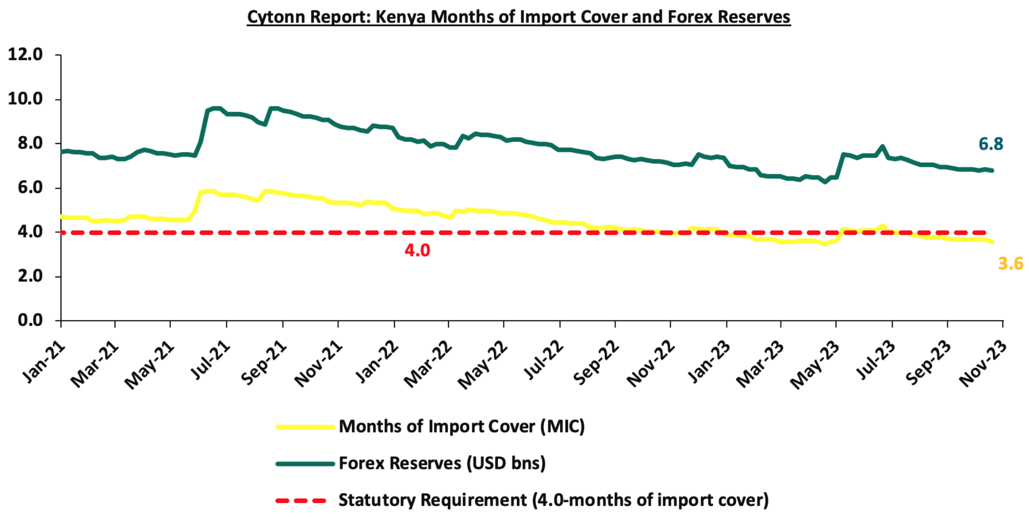
During the week, the Kenya Shilling depreciated against the US Dollar by 0.4% to close at Kshs 152.2, from Kshs 151.7 recorded the previous week. On a year-to-date basis, the shilling has depreciated by 23.3% against the dollar, adding to the 9.0% depreciation recorded in 2022. We expect the shilling 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 3.6-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 3,462.4 mn as of October 2023, 4.1%% higher than the USD 3,325.1 mn recorded over the same period in 2022, which has continued to cushion the shilling against further depreciation. In the October 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. **Fuel Prices effective 15th November 2023 to 14th December 2023**

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya, effective from 15th November 2023 to 14th December 2023. Notably, the price for super petrol remained unchanged from the October price and will retail at Kshs 217.4 per litre. However, fuel prices for Diesel and Kerosene decreased by 1.9% and 1.0% to Kshs 203.5 and Kshs 203.1 respectively, from Kshs 205.5 and Kshs 205.1 per litre for Diesel and Kerosene respectively.

Other key take-outs from the performance include;

i. The average landing costs per cubic meter for Diesel and super petrol increased by 3.3% and 2.8% to USD 873.4 and USD 827.8 in October 2023, from USD 845.7 and USD 805.1 respectively in September 2023. The average landing costs per cubic meter for Kerosene decreased by 6.3% to USD 813.9 in October 2023, from USD 868.7 in September 2023, and,
ii. The Kenyan shilling depreciated against the US Dollar by 1.5% to Kshs 155.6 in October 2023, compared to the mean monthly exchange rate of Kshs 153.3 recorded in September 2023.

We note that fuel prices in the country have decreased slightly due to the government's efforts to stabilize pump prices by cushioning consumers from the spike in pump prices due to increased landed costs. The government also on September 2023 made efforts to stabilize fuel prices by extending the existing oil supply deal with the three Gulf-based companies namely; Emirates National Oil Corporation, Abu Dhabi National Oil Corporation and Saudi Aramco until December 2024.  The high fuel prices in the country are mainly due to the high cost of fuel imports as a result of the sustained depreciation of the shilling against the US dollar, as well as the high taxation of petroleum products as provided in the Finance Act 2023. We project that fuel prices will drop in the coming months as a result of the continued decline in the global prices of fuel coupled with the government's plans to mitigate the cost of diesel by Kshs 19.8 per litre and Kshs 12.0 per litre for super petrol using the pump price stabilization mechanism as evidenced in the increased budgetary allocation to the State Department for Petroleum in the supplementary budget for stabilization of oil market prices.

II. **International Monetary Fund (IMF) Loan facility**

The International Monetary Fund (IMF), visited Nairobi for the period running from October 30 – November 15, 2023, and held discussions with the Kenyan authorities for the sixth reviews of Kenya’s economic program supported by the IMF’s Extended Fund Facility (EFF) and Extended Credit Facility (ECF), and the first Review under the Resilience Sustainability Facility (RSF).

This follows the fifth reviews completed on 17th July 2023,  where the EFF/ECF arrangements were extended by 10 months. The reviews proved fruitful for Kenya, with the country getting approval for USD 551.4 mn (Kshs 78.1 bn) under the RSF programme to support Kenya's ambitious efforts to build resilience to climate change. Additionally, the Executive Board approved an immediate disbursement of USD 415.4 mn (Kshs 58.9 bn), amount inclusive of USD 110.3 mn (Kshs 15.6 bn) from an augmentation of access.

Under the sixth reviews, the IMF and the Kenyan officials reached a staff-level agreement for an augmentation of USD 938.0 mn (Kshs 142.9 bn) under the EFF/ECF arrangement. If approved by the Executive Board of IMF, the EFF/ECF arrangements, including augmentations, would provide access to a total amount of USD 3.9 bn (Kshs 594.0 bn). Under the EFF/ECF augmentations and the RSF support, the total IMF commitment under these arrangements over the duration of the program would be about USD 4.4 bn (Kshs 670.1 bn).

Upon completion of the sixth reviews by the IMF Executive Board, Kenya would have immediate access to USD 682.3 mn (Kshs 103.9 bn), including USD 619.4 mn (Kshs 94.3 bn) from the augmentation of access under the EFF/ECF arrangements and USD 59.7 mn (Kshs 9.1 bn) from the first review of RSF. This would bring total IMF financial support disbursement under the EFF/ECF to USD 2.7 bn (Kshs 416.6 bn).

While concluding the review, the IMF commended the Central Bank of Kenya's (CBK's) steps to modernize the monetary policy framework and improve the functioning of the fixed income market. In particular, the recent introduction of an interest rate corridor centered around the policy rate and initiatives like the DhowCSD are expected to stimulate interbank repos, potentially minimizing market fragmentation.

**Cytonn Report: International Monetary Fund (IMF) EFF and ECF Financing Programme**

| Date | Amount Received (USD mn) | Amount Received (Kshs bn, 1 USD= Kshs 152.1) |
|---|---|---|
| Apr-21 | 307.5 | 46.8 |
| Jun-21 | 407.0 | 61.9 |
| Dec-21 | 258.1 | 39.3 |
| Jul-22 | 235.6 | 35.8 |
| Nov-22 | 433.0 | 65.9 |
| Jul-23 | 415.4 | 63.2 |
| Nov-23* | 682.3 | 103.8 |
| **Total Amount Received** | **2,738.9** | **416.6** |
| **Amount Pending** | **1,141.1** | **173.6** |

***Expected funds upon IMF management and executive board disbursement**

This comes as a reprieve as Kenya faces the task of repaying the 10-year Eurobond amidst a backdrop of surging yields that have effectively limited access to the market for many frontier economies. In his state of the nation address, President William Ruto committed to an early buy back of a portion of the nation's USD 2.0 bn (Kshs 304.6 bn) Eurobond, by making a payment of USD 300.0 mn (Kshs 45.7 bn) next month. However, Fitch Ratings warned the country that it may downgrade the nation's credit rating depending on the portion of foreign reserves it uses to settle payments. In its statement, the credit agency stated that deploying reserves to redeem the Eurobond would reduce import cover which could still contribute to a downgrade of Kenya's rating. Consequently, the receipt of the Kshs 103.9 bn funds from the IMF would allow Kenya to pay maturing foreign debt without running down its hard currency reserves.

***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 12.8% ahead of its prorated net domestic borrowing target of Kshs 117.2 bn, having a net borrowing position of Kshs 132.2 bn out 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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