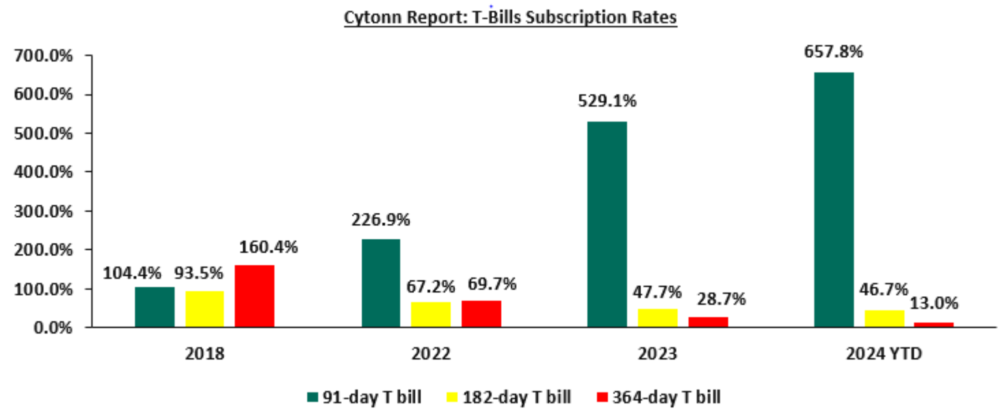
Currency and Interest Rates Review & Cytonn Weekly #01.2024

Fixed Income

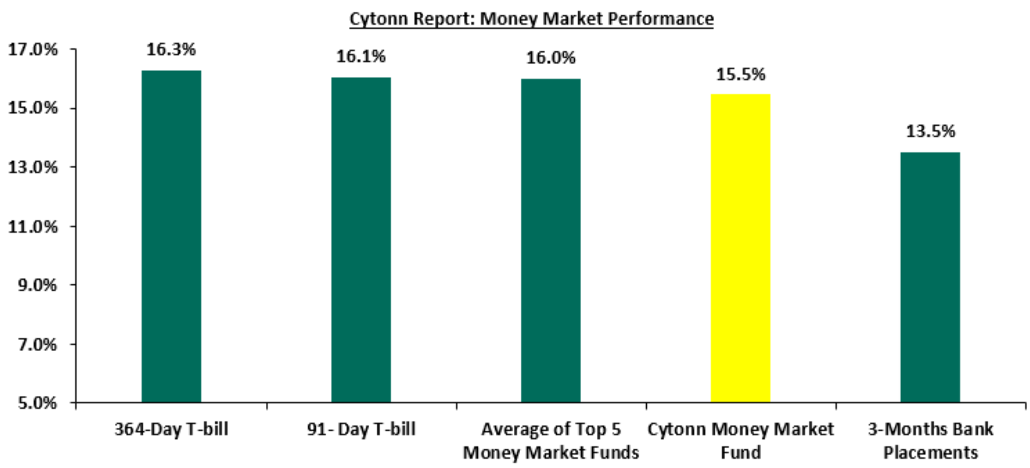
Money Markets, T-Bills Primary Auction:

During the week, T-bills were oversubscribed for the first time in four weeks, with the overall oversubscription rate coming in at 134.5%, a reversal from the undersubscription rate of 43.8% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 26.3 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 657.8%, higher than the oversubscription rate of 212.9% recorded the previous week. The subscription rate for the 182-day paper increased steeply to 46.7%, from 3.2% recorded the previous week. On the other hand, the subscription rate for the 364-day paper declined to 13.0%, from 16.6% recorded the previous week. The government accepted a total of Kshs 31.2 bn worth of bids out of Kshs 32.3 bn of bids received, translating to an acceptance rate of 96.6%. 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 17.9 bps, 12.5 bps, and 7.6 bps to 16.3%, 16.1%, and 16.1%, respectively. The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 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 paper increased by 17.9 bps to 16.3% and 91-day T-bill yield increased by 10.0 bps to 16.1%. The yields of the Cytonn Money Market Fund increased slightly by 2.0 bps to 15.5% from 15.5% recorded the previous week, and the average yields on the Top 5 Money Market Funds increased by 24.0 bps to 16.0%, from 15.8% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 5th January 2024:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 5th January 2024

Rank	Fund Manager	Effective Annual
1	GenAfrica Money Market Fund	16.3%
2	Lofty-Corban Money Market Fund	16.2%
3	Etica Money Market Fund	16.2%
4	Nabo Africa Money Market Fund	15.9%
5	Cytonn Money Market Fund *(Dial *809# or download Cytonn App)*	15.5%
6	Apollo Money Market Fund	15.1%
7	Enwealth Money Market Fund	15.0%
8	Kuza Money Market fund	14.4%
9	Madison Money Market Fund	14.2%
10	Absa Shilling Money Market Fund	14.1%
11	Sanlam Money Market Fund	14.0%
12	Co-op Money Market Fund	14.0%
13	Orient Kasha Money Market Fund	13.8%
14	Jubilee Money Market Fund	13.7%
15	GenCap Hela Imara Money Market Fund	13.3%
16	Mayfair Money Market Fund	13.1%
17	Old Mutual Money Market Fund	13.0%
18	AA Kenya Shillings Fund	12.5%
19	Dry Associates Money Market Fund	12.3%
20	KCB Money Market Fund	12.2%
21	CIC Money Market Fund	12.0%
22	ICEA Lion Money Market Fund	11.6%

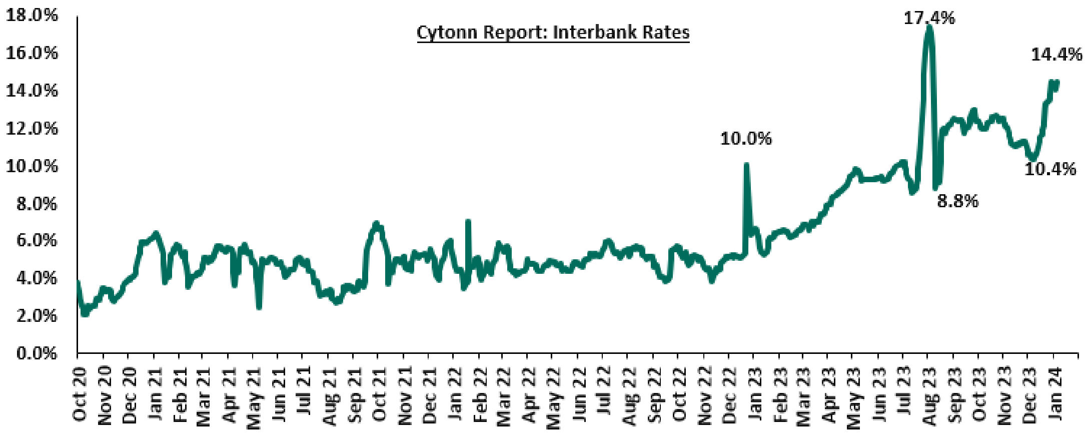
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 5th January 2024

Rank	Fund Manager	Effective Annual
23	Mali Money Market Fund	11.5%
24	Equity Money Market Fund	11.5%
25	British-American Money Market Fund	9.1%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets tightened for the fourth consecutive week, with the average interbank rate increasing to 14.3% from 13.9% recorded the previous week, partly attributable to the tax remittances that offset government payments. The average interbank volumes traded increased by 6.6% to Kshs 21.7 bn from Kshs 20.3 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 were on an upward trajectory, with the yields on the 10-year Eurobond issued in 2014 increasing the most by 2.0% points, to 15.5% from 13.5% recorded the previous week, while the yields on the 30-year Eurobond issued in 2018 increased the least by 0.3% points to 10.5% from 10.2% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 5th January 2024;

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	**0.5**	**4.2**	**24.2**	**3.4**	**8.4**	**10.5**
Yields at Issue	**6.6%**	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**
01-Jan-24	13.6%	9.8%	10.2%	10.1%	9.9%	9.5%
01-Jan-24	13.6%	9.8%	10.2%	10.1%	9.9%	9.5%

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	**0.5**	**4.2**	**24.2**	**3.4**	**8.4**	**10.5**
Yields at Issue	**6.6%**	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**
28-Dec-23	13.5%	9.8%	10.2%	9.8%	9.9%	9.6%
29-Dec-23	13.6%	9.8%	10.2%	10.1%	9.9%	9.5%
01-Jan-24	13.6%	9.8%	10.2%	10.1%	9.9%	9.5%
02-Jan-24	14.2%	10.0%	10.3%	10.3%	10.0%	9.6%
03-Jan-24	15.1%	10.4%	10.4%	10.9%	10.2%	9.9%
04-Jan-24	15.5%	10.5%	10.5%	11.1%	10.3%	9.9%
Weekly Change	**2.0%**	**0.7%**	**0.3%**	**1.3%**	**0.5%**	**0.4%**
MTD Change	**2.0%**	**0.7%**	**0.3%**	**1.0%**	**0.5%**	**0.4%**
YTD Change	**2.0%**	**0.7%**	**0.3%**	**1.0%**	**0.5%**	**0.4%**

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

Kenya Shilling:

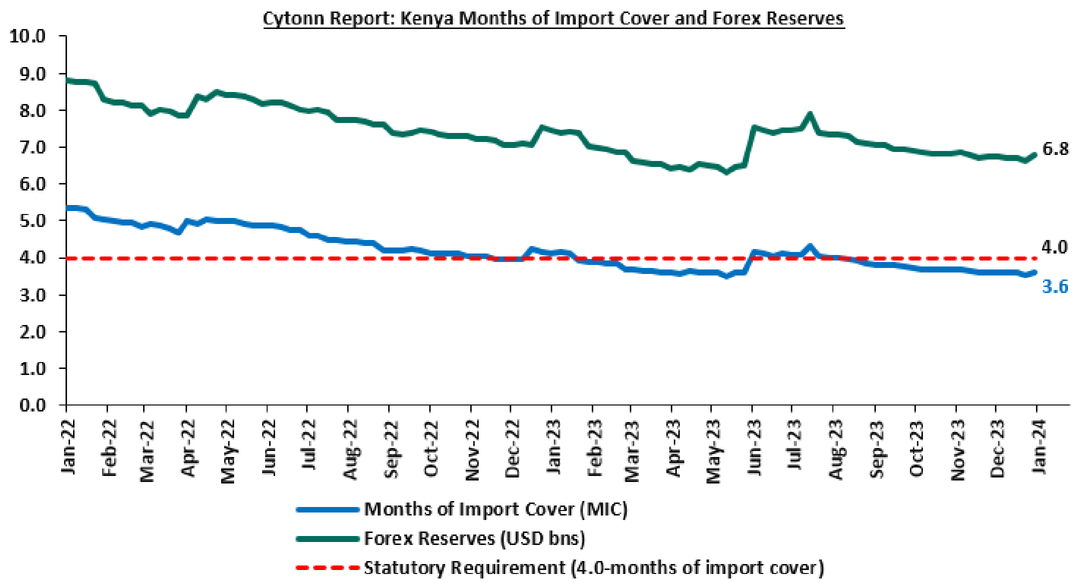
During the week, the Kenya Shilling depreciated against the US Dollar by 0.9% to close at Kshs 157.9, from Kshs 156.5 recorded the previous week. On a year-to-date basis, the shilling has depreciated by 0.6% against the dollar, adding to the 26.8% depreciation recorded in 2023. We expect the shilling to remain under pressure in 2024 as a result of:

i. An ever-present current account deficit which came at 3.5% of GDP in Q3'2023 from 6.4% recorded in a similar period in 2022,
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 mn (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 which stood at USD 3,817.4 mn as of November 2023, 4.0% higher than the USD 3,670.6 mn recorded over the same period in 2022. In the November 2023 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 57.2% in the period, and,
ii. The tourism inflow receipts which came in at USD 1.06 bn in the first half of 2023, a 31.3% increase from USD 0.81 bn inflow receipts recorded over a similar period in 2022, and tourist arrivals improved by 34.1% in the 12 months to October 2023, compared to a similar period in 2022.

Key to note, Kenya's forex reserves increased during the week to USD 6.8 from USD 6.6 bn recorded the previous week, equivalent to 3.6 months of import cover higher than 3.5 months of import cover recorded the previous week, but remained below the statutory requirement of maintaining at least 4.0 months of import cover. The chart below summarizes the evolution of Kenya's months of import cover over the years:

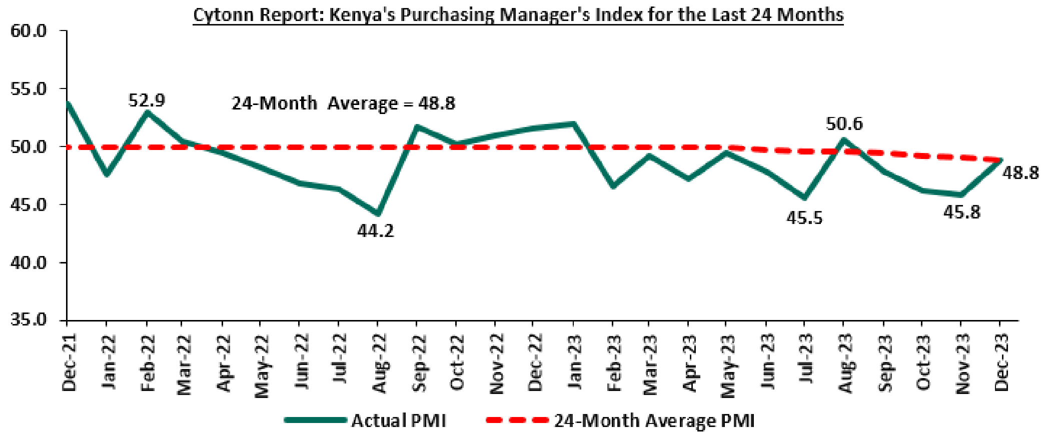


Weekly Highlights:

I. **Stanbic Purchasing Manager's Index December 2023 release;**

During the week, Stanbic Bank released its monthly Purchasing Manager's Index (PMI) highlighting that the index for the month of December 2023 improved slightly, coming in at 48.8, up from 45.8 in November 2023, signalling a modest improvement in operating conditions across Kenya. The services sector registered stronger growth while the Manufacturing and construction sectors are still facing low demand due to the high cost of living. Private sector conditions have now deteriorated for four months running, although the latest decline was the weakest in this sequence. On a year-to-year basis, the index recorded a 5.4% deterioration from the 51.6 recorded in December 2022. The modest and softer downturn of the general business environment is mainly attributable to easing inflation and the service sector experiencing improved business conditions. In December inflation was 6.6% and it is within the upper bound of the Central Bank of Kenya (CBK) target range of 2.5%–7.5%. The decline in inflation is due to a decline in food prices and fuel prices. Notably, in December the prices for super petrol, Diesel, and Kerosene decreased by 2.3%, 1.0% and 2.0% from the November prices and to retail at Kshs 212.4, Kshs 201.5, and Kshs 199.1 per litre. Consequently, demand in the manufacturing and construction sectors worsened as heightened prices resulted to erosion of spending power, leading to a decline in new businesses.

Notably, exports continued to perform strongly, helping to compensate for the weak domestic output, as demand from Asia and Europe still remained greater. 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 anticipate that the business environment will be constrained in the short to medium term as a result of the tough economic environment led by the depreciation of the Kenyan Shilling, the high cost of living and the high interest rates.

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 31.1% behind its prorated net domestic borrowing target of Kshs 247.3 bn, having a net borrowing position of Kshs 170.5 bn out of the domestic net borrowing target of Kshs 471.4 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 maintain the fiscal surplus 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.