# Review of the Affordable Housing Bill 2023, & Cytonn Weekly #03/2024

## Fixed Income

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

During the week, T-bills were oversubscribed for the third consecutive week, with the overall oversubscription rate coming in at 147.0%, down from the oversubscription rate of 241.5% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 25.6 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 639.0%, significantly lower than the oversubscription rate of 1114.4% recorded the previous week. The subscription rate for the 182-day paper decreased to 61.9%, from 101.0% recorded the previous week, while the subscription rate for the 364-day paper increased to 35.3%, from 32.9%, recorded the previous week. The government accepted a total of Kshs 34.1 bn worth of bids out of Kshs 35.3 bn of bids received, translating to an acceptance rate of 96.8%. The yields on the government papers continued to rise, with the yields on the 364-day, 182-day, and 91-day papers increasing by 10.0 bps, 11.3 bps, and 8.9 bps to 16.5%, 16.3%, and 16.2%, respectively. The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 Year-to-date (YTD:

In the primary bond market, the Central Bank of Kenya released the auction results for the tap sale of the newly issued bond FXD1/2024/003 with a tenor to maturity of 3.0 years and the re-opened bond FXD1/2023/005 with a 4.5-year tenor to maturity. The tap sale was undersubscribed with the overall subscription rate coming in at 79.1%, receiving bids worth Kshs 11.9 bn against the offered Kshs 15.0 bn. The government accepted bids worth Kshs 11.8 bn, translating to an acceptance rate of 99.1%. The weighted average yield of accepted bids came in at 18.4% and 18.8% for the FXD1/2024/003 and FXD1/2023/005, respectively. The coupon rates for the FXD1/2024/003 and FXD1/2023/005 were set at 18.4% and 16.8%, respectively. With the Inflation rate at 6.6% as of December 2023, the real return of the bonds is 11.8% and 12.2% for the FXD1/2024/003 and FXD1/2023/005, respectively.

**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 10.0 bps to 16.5% and 91-day T-bill yield increased by 8.9 bps to 16.2%. The yields of the Cytonn Money Market Fund increased by 22.0 bps to 15.7% from 15.5% recorded the previous week, and the average yields on the Top 5 Money Market Funds increased by 15.6 bps to 16.2%, from 16.1% recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 19th January 2024:

**Cytonn Report: Money Market Fund Yield for Fund Managers as published on 19th January 2024**

| Rank | Fund Manager | Effective Annual Rate |
|---|---|---|
| 1 | Etica Money Market Fund | 17.3% |
| 2 | Lofty-Corban Money Market Fund | 16.4% |
| 3 | Nabo Africa Money Market Fund | 16.2% |
| 4 | Cytonn Money Market Fund (*Dial *809# of download the Cytonn app)* | 15.7% |
| 5 | GenAfrica Money Market Fund | 15.7% |
| 6 | Apollo Money Market Fund | 15.2% |
| 7 | Kuza Money Market fund | 14.8% |
| 8 | Enwealth Money Market Fund | 14.8% |
| 9 | Madison Money Market Fund | 14.5% |
| 10 | GenCap Hela Imara Money Market Fund | 14.5% |
| 11 | Co-op Money Market Fund | 14.4% |
| 12 | Sanlam Money Market Fund | 14.0% |
| 13 | Absa Shilling Money Market Fund | 13.7% |
| 14 | Mayfair Money Market Fund | 13.6% |
| 15 | AA Kenya Shillings Fund | 13.1% |
| 16 | Orient Kasha Money Market Fund | 12.8% |
| 17 | Old Mutual Money Market Fund | 12.8% |
| 18 | Dry Associates Money Market Fund | 12.7% |
| 19 | Jubilee Money Market Fund | 12.7% |
| 20 | KCB Money Market Fund | 12.5% |
| 21 | CIC Money Market Fund | 12.0% |
| 22 | ICEA Lion Money Market Fund | 11.7% |
| 23 | Mali Money Market Fund | 11.6% |
| 24 | Equity Money Market Fund | 11.5% |
| 25 | British-American Money Market Fund | 10.3% |

*Source: Business Daily*

**Money Market Performance (USD):**

The yields of the Cytonn Money Market Fund (USD) closed the week with a yield of 6.3%, remaining unchanged from the previous week. The table Below shows the Money Market Funds (USD) performance:

**USD Money Market Fund Yield for Fund Managers as published on 19th January 2024**

| Rank | Fund Manager | Effective Annual Rate |
|---|---|---|
| 1 | Cytonn Money Market Fund USD | 6.31% |
| 2 | Lofty-Corban Money Market Fund USD | 6.29% |

**USD Money Market Fund Yield for Fund Managers as published on 19th January 2024**

| Rank | Fund Manager | Effective Annual Rate |
|---|---|---|
| 3 | Old Mutual Dollar Money Market Fund | 6.19% |
| 4 | Absa Money Market Fund USD | 5.91% |
| 5 | Dry Associates Money Market Fund USD | 5.77% |
| 6 | Sanlam Dollar Fund | 5.68% |
| 7 | Kuza Money Market Fund USD | 5.48% |
| 8 | CIC Dollar Fund | 5.43% |
| 9 | KCB Money Market Fund USD | 5.08% |
| 10 | Nabo Africa Money Market Fund USD | 4.72% |

**Liquidity:**

During the week, liquidity in the money markets tightened, a reversal from the previous week, with the average interbank rate increasing to 13.7% from 13.4 recorded the previous week, partly attributable to the tax remittances that offset government payments. The average interbank volumes traded decreased by 3.4% to Kshs 21.0 bn from Kshs 21.7 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 a mixed performance, with the yields on the 10-year Eurobond issued in 2014 decreasing the most by 0.4% points, to 14.3% from 14.7% recorded the previous week. On the other hand, the yields on the 30-year Eurobond issued in 2018, the 7-year and 12-year Eurobonds issued in 2019, and the 12-year Eurobond issued in 2021 remained relatively unchanged from the yields recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 19th 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** | **0.4** | **4.1** | **24.1** | **3.4** | **8.4** | **10.4** |
| **Yields at Issue** | **6.6%** | **7.3%** | **8.3%** | **7.0%** | **7.9%** | **6.2%** |
| 1-Jan-24 | 13.6% | 9.8% | 10.2% | 10.1% | 9.9% | 9.5% |
| 2-Jan-24 | 14.2% | 10.0% | 10.3% | 10.3% | 10.0% | 9.6% |
| 11-Jan-24 | 14.7% | 10.2% | 10.4% | 10.7% | 10.1% | 9.8% |
| 12-Jan-24 | 14.1% | 10.0% | 10.3% | 10.5% | 10.0% | 9.6% |
| 15-Jan-24 | 14.2% | 10.2% | 10.4% | 10.7% | 10.1% | 9.7% |
| 16-Jan-24 | 14.2% | 10.2% | 10.4% | 10.7% | 10.1% | 9.7% |
| 17-Jan-24 | 14.8% | 10.4% | 10.5% | 10.9% | 10.2% | 9.9% |
| 18-Jan-24 | 14.3% | 10.2% | 10.4% | 10.7% | 10.1% | 9.7% |

**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** | **0.4** | **4.1** | **24.1** | **3.4** | **8.4** | **10.4** |
| **Yields at Issue** | **6.6%** | **7.3%** | **8.3%** | **7.0%** | **7.9%** | **6.2%** |
| **Weekly Change** | **(0.4%)** | **(0.1%)** | **0.0%** | **0.0%** | **0.0%** | **0.0%** |
| **MTD Change** | **0.8%** | **0.4%** | **0.2%** | **0.6%** | **0.2%** | **0.2%** |
| **YTD Change** | **0.8%** | **0.4%** | **0.2%** | **0.6%** | **0.2%** | **0.2%** |

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

**Kenya Shilling:**

During the week, the Kenya Shilling depreciated against the US Dollar by 0.3% to close at Kshs 160.3, from Kshs 159.9 recorded the previous week. On a year-to-date basis, the shilling has depreciated by 2.1% 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 standing at a cumulative 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, which has continued to cushion the shilling against further depreciation. 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 333.9 mn in 2023, a 24.6% increase from USD 268.1 mn inflow receipts recorded 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 decreased marginally by 0.2% during the week to USD 6.81, from USD 6.83 bn recorded the previous week, equivalent to 3.6 months of import cover lower than 3.7 months of import cover recorded the previous week, and 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. **International Monetary Fund (IMF) Loan facility**

During the week, The Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultation with Kenya together with the sixth reviews and augmentations of access of

USD 941.2 mn (Kshs 151.3 bn) under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) arrangements, and the first review under the 20-month Resilience and Sustainability Facility (RSF) arrangement, approved in July 2023.

This follows discussions held in November 2023 where the IMF Executive Board reached staff-level agreements 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). Notably, the discussions considered Kenya's request for an augmentation under the EFF/ECF arrangement and the RSF, leading to a potential total commitment of more than USD 4.4 bn (Kshs. 707.1 bn) over the program's duration.

The Board's decision allows for the immediate disbursement of USD 624.5 mn (Kshs 100.4 bn) under the EFF/ECF arrangements - which includes an augmentation of access of USD 310.6 mn (Kshs 50.0 bn) - and brings total disbursements under the EFF/ECF arrangements to USD 2.7 bn (Kshs 431.1 bn). The approval also allows for an immediate disbursement of USD 60.2 mn (Kshs 9.7 bn) under the RSF arrangement, taking the total disbursement under this program to USD 60.2 mn (Kshs 9.7 bn).

In conducting reviews, the Executive Board approved changes to program conditions. The Board granted waivers to the country for not meeting the continuous performance criterion on avoiding new external arrears by End-June 2023 and End-December 2023 tax revenue targets. These waivers were given based on corrective actions taken by the authorities. Additionally, a waiver of applicability was approved for all other End-December 2023 performance criteria.

While concluding the review, the IMF commended Kenya's Monetary Policy stating that it has demonstrated its ability to react to inflation shocks and anchor expectations. The IMF added that the strengthening of the monetary policy framework would support price stability and external sustainability and that the exchange rate should be allowed to respond flexibly to market conditions. However, the IMF noted that emerging vulnerabilities in the banking system need close monitoring.

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

| Date | Amount Received (USD mn) | Amount Received (Kshs bn, 1 USD = Kshs 160.8) |
|---|---|---|
| Apr-21 | 307.5 | 49.4 |
| Jun-21 | 407.0 | 65.4 |
| Dec-21 | 258.1 | 41.5 |
| Jul-22 | 235.6 | 37.9 |
| Nov-22 | 433.0 | 69.6 |
| Jul-23 | 415.4 | 66.8 |
| Jan-24 | 624.5 | 100.4 |
| **Total Amount Received** | **2,681.1** | **431.1** |
| **Amount Pending** | **1,198.9** | **192.8** |
| *Expected funds upon IMF management and executive board disbursement | | |

The disbursements will  come as a reprieve as Kenya is grappling with acute liquidity challenges amid uncertainty over its ability to access funding from financial markets before a USD 2.0 bn (Kshs 321.4 bn) Eurobond matures in June. The government has stated that the funds expected from the World Bank and regional banks like the African Export-Import Bank and Trade & Development Bank, coupled with the IMF funds will help Kenya to pay the looming foreign debt maturity without running down its hard currency reserves. Kenya's balance of payments and financial positions have also been strained by the legacy of the COVID-19 pandemic and frequent climate change-induced droughts, according to the IMF, while its shilling currency has weakened. Additionally, the loan disbursement will support the country's Medium Term Debt Strategy, which aims to optimize the use of concessional loans and reduce the use of the costly commercial loans, and the new administration's plans to cut public expenditure to reduce the budget deficit.

## II. **Revenue and Net Expenditures for FY'2023/2024**

The National Treasury gazetted the revenue and net expenditures for the sixth month of FY'2023/2024, ending 29th December 2023. Below is a summary of the performance:

**Cytonn Report: FY'2023/2024 Budget Outturn - As at 29th December 2023**

**Amounts in Kshs bns unless stated otherwise**

| Item | 12-months Original Estimates | Revised Estimates | Actual Receipts/Release | Percentage Achieved of the Revised Estimates | Prorated | % achieved of the Prorated |
|---|---|---|---|---|---|---|
| Opening Balance | | | 2.6 | | | |
| Tax Revenue | 2,495.8 | 2,495.8 | 1,050.8 | 42.1% | 1,247.9 | 84.2% |
| Non-Tax Revenue | 75.3 | 80.9 | 38.7 | 47.8% | 40.5 | 95.6% |
| **Total Revenue** | **2,571.2** | **2,576.8** | **1,092.1** | **42.4%** | 1,288.4 | 84.8% |
| External Loans & Grants | 870.2 | 849.8 | 78.5 | 9.2% | 424.9 | 18.5% |
| Domestic Borrowings | 688.2 | 851.9 | 269.7 | 31.7% | 425.9 | 63.3% |
| Other Domestic Financing | 3.2 | 3.2 | 3.5 | 111.1% | 1.6 | 222.2% |
| **Total Financing** | **1,561.6** | **1,704.9** | **351.8** | **20.6%** | 852.4 | 41.3% |
| Recurrent Exchequer issues | 1,302.8 | 1,360.1 | 561.0 | 41.2% | 680.1 | 82.5% |
| CFS Exchequer Issues | 1,963.7 | 2,078.8 | 667.9 | 32.1% | 1,039.4 | 64.3% |
| Development Expenditure & Net Lending | 480.8 | 457.2 | 70.4 | 15.4% | 228.6 | 30.8% |
| County Governments + Contingencies | 385.4 | 385.4 | 142.5 | 37.0% | 192.7 | 73.9% |
| **Total Expenditure** | **4,132.7** | **4,281.6** | **1,441.8** | **33.7%** | 2,140.8 | 67.3% |
| **Fiscal Deficit excluding Grants** | **1,561.6** | **1,704.9** | **349.7** | **20.5%** | 852.4 | 41.0% |
| **Total Borrowing** | **1,558.4** | **1,701.7** | **348.2** | **20.5%** | 850.8 | 40.9% |

*Amounts in Kshs bns unless stated otherwise*The Key take-outs from the release include;

a. Total revenue collected as at the end of December 2023 amounted to Kshs 1,092.1 bn, equivalent to 42.4% of the revised estimates of Kshs 2,576.8 bn for FY'2023/2024 and is 84.8% of the prorated estimates of Kshs 1,288.4 bn. Cumulatively, tax revenues amounted to Kshs 1,050.8 bn, equivalent to 42.1% of the revised estimates of Kshs 2,495.8 bn and 84.2% of the prorated estimates of Kshs 1,247.9 bn,
b. Total financing amounted to Kshs 351.8 bn, equivalent to 20.6% of the revised estimates of Kshs 1,704.9 bn and is equivalent to 41.3% of the prorated estimates of Kshs 852.4 bn. Additionally, domestic borrowing amounted to Kshs 269.7 bn, equivalent to 31.7% of the revised estimates of Kshs 851.9 bn and is 63.3% of the prorated estimates of Kshs 425.9 bn,
c. The total expenditure amounted to Kshs 1,441.8 bn, equivalent to 33.7% of the revised estimates

of Kshs 4,281.6 bn, and is 67.3% of the prorated target expenditure estimates of Kshs 2,140.8 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 561.0 bn, equivalent to 41.2% of the revised estimates of Kshs 1,360.1 and 82.5% of the prorated estimates of Kshs 680.1 bn,

d. Consolidated Fund Services (CFS) Exchequer issues came in at Kshs 667.9 bn, equivalent to 32.1% of the revised estimates of Kshs 2,078.8 bn, and are 64.3% of the prorated amount of Kshs 1.039.4 bn. The cumulative public debt servicing cost amounted to Kshs 600.7 bn which is 32.2% of the revised estimates of Kshs 1,866.0 bn, and is 64.4% of the prorated estimates of Kshs 933.0 bn. Additionally, the Kshs 600.7 bn debt servicing cost is equivalent to 55.0% of the actual revenues collected as at the end of December 2023. The chart below shows the debt serving to revenue ratio;

e. Total Borrowings as at the end of December 2023 amounted to Kshs 348.2 bn, equivalent to 20.5% of the revised estimates of Kshs 1,701.7 bn for FY’2023/2024 and are 40.9% of the prorated estimates of Kshs 850.8 bn. The cumulative domestic borrowing of Kshs 851.9 bn comprises of Net Domestic Borrowing Kshs 471.4 bn and Internal Debt Redemptions (Rollovers) Kshs 380.5 bn.

December’s 84.8% attainment of the revenue target is a 2.6%-points improvement from the performance in November where the government achieved 82.2% of the revenue targets. This improvement can be attributed to the improved business environment evidenced by the increase in the Purchasing Manager’s Index which came in at 48.8, up from 45.8 in November 2023. However, the government's continued failure to achieve its prorated revenue targets for the sixth consecutive month in FY’2023/2024 reflects the challenges posed by the tough economic situation. The revenue collection continues to be impeded by the sustained depreciation of the Kenya shilling as well as the business environment which remains difficult despite showing signs of improvement. We believe that the performance of revenue collection in the coming months will be largely determined by how soon the country’s business environment stabilizes. Notably, the government continues to implement strategies to enhance revenue collection, such as expanding the revenue base and addressing tax leakages, as well as suspending tax relief payments.

***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 34.1% behind of its prorated net domestic borrowing target of Kshs 265.5 bn, having a net borrowing position of Kshs 175.1 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.***