Cytonn Monthly – January 2024

Fixed Income

Money Markets, T-Bills Primary Auction:

During the month of January 2024, T-bills were oversubscribed, with the overall average subscription rate coming in at 133.7%, higher than the oversubscription rate of 104.1% recorded in December 2023. The overall average subscription rates for the government papers increased with the 364-day, 182-day, and 91-day papers increasing to 24.9%, 53.1%, and 607.6%, from 13.3%, 33.3%, and 507.9% respectively, which were recorded in December 2023. The average yields on the government papers were on an upward trajectory in the month, with the 364-day, 182-day, and 91-day papers yields increasing by 54.3 bps, 38.6 bps, and 43.8 bps to 16.4%, 16.2%, and 16.1% respectively from 15.8%, 15.8% and 15.7 recorded the previous month. For the month of January, the government accepted a total of Kshs 142.2 bn of the Kshs 160.5 bn worth of bids received, translating to an acceptance rate of 88.6%. Notably, the growth in the government papers yields was faster in January compared to December, with the yields on the 91-day paper growing by 43.8 bps, compared to 38.5 bps growth that was recorded in December, as investors continue to attach a higher risk premium to the country. The chart below shows the yields growth rate for the 91-day paper during the year:

This week, T-bills were oversubscribed for the fifth consecutive week, with the overall oversubscription rate coming in at 107.5%, albeit higher than the oversubscription rate of 102.0% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 20.6 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 515.7%, higher than the oversubscription rate of 414.0% recorded the previous week. The subscription rate for the 182-day paper decreased to 16.6%, from 52.4% recorded the previous week, while the subscription rate for the 364-day paper increased to 35.1%, from 26.7%, recorded the previous week. The government accepted a total of Kshs 24.7 bn worth of bids out of Kshs 25.8 bn of bids received, translating to an acceptance rate of 95.9 The yields on the government papers continued to rise with the yields on the 364-day, 182-day and 91-day papers increasing by 15.8 bps, 13.0 bps and 8.4 bps to 16.7%, 16.5% and 16.4%, respectively.

So far in the current FY'2023/24, government securities totalling Kshs 1,099.0 bn have been advertised. The government has accepted bids worth Kshs 1,183.2 bn, of which Kshs 875.5 bn and Kshs 307.7 bn were treasury bills and bonds, respectively. Total redemptions so far in FY'2023/24 equal to Kshs 1,015.5 bn, with treasury bills accounting for Kshs 979.6 bn and bonds accounting for Kshs 35.9 bn. As a result, the government has a domestic borrowing surplus of Kshs 167.7 bn in FY'2023/24.

The chart below compares the overall average T- bills subscription rates obtained in 2018, 2022, 2023 and 2024 Year to Date (YTD):

Additionally, January 2024 bonds were undersubscribed, with the overall undersubscription rate coming in at 90.6%, albeit lower than the oversubscription rate of 189.0% recorded in December 2023. The reopened bond FXD1/2023/005 and the newly issued FXD1/2024/003 received bids worth

Kshs 37.2 bn against the offered Kshs 35.0 bn, translating to an oversubscription rate of 106.1%, with the government accepting bids worth Kshs 25.0 bn translating to an acceptance rate of 67.3%. The subsequent tap sales for the bonds FXD1/2023/005 and FXD1/2024/003 received bids worth Kshs 11.9 bn against the offered Kshs 15.0 bn, translating to an undersubscription rate of 79.1%, with the government accepting bids worth Kshs 11.8 bn, translating to an acceptance rate of 99.1%. The table below provides more details on the bonds issued during the month of January 2024:

Cytonn Report: Treasury Bonds Issued in January 2024

Issue Date	Bond Auctioned	Effective Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Actual Amount Raised/Accepted (Kshs bn)	Total bids received (Kshs bn)	Average Accepted Yield	Subscription Rate	Acceptance Rate
15/01/2024	FXD1/2023/005 - Re-opened	**4.5**	16.8%	35.0	25.0	37.2	18.8%	106.1%	67.3%
	FXD1/2024/003	**2.9**	18.4%				18.4%		
22/01/2024	FXD1/2023/005 – Tap Sale	**4.5**	16.8%	15.0	11.8	11.9	18.8%	79.1%	99.1%
	FXD1/2024/003 – Tap Sale	**2.9**	18.4%				18.4%		
Jan 2024 Average		**5.3**	**16.0%**	**100.0**	**68.3**	**90.6**	**16.9%**	**90.6%**	**75.3%**
Dec 2023 Average		**6.5**	**17.9%**	**25.0**	**47.9**	**47.2**	**17.9%**	**189.0%**	**101.3%**

Source: Central Bank of Kenya (CBK)

In the primary bond market, the government is seeking to raise an additional Kshs 70.0 bn for funding of infrastructure projects in the current financial year by issuing an infrastructure bond IFB1/2024/8.5 with a tenor to maturity of 8.5 years. The bidding process opened on Wednesday 24th January 2024 and will close on 14th February 2024, with a market determined coupon rate. The bond's value date will be 19th February 2024, with a maturity date of 9th August 2032, and will be tax-free as is the case for infrastructure bonds as provided for under the Income Tax Act. Notably, the last infrastructure bond to be issued was the 6.5-year IFB1/2023/07 in November 2023 which sought to raise Kshs 50.0 bn. The bond registered an oversubscription rate of 177.8%, at a yield of 17.9%. Based on trading of bonds of similar nature, we expect the IFB1/2024/8.5 to price at 18.4%-19.0%.

Secondary Bond Market:

The yields on the government securities were on an upward trajectory during the month compared to the same period in 2023. We observe a humped yield curve for the medium-term bonds in the 3 to 10-year maturity range, an indication of the prevailing uncertainty in the market regarding both medium-term interest rates and inflation. Investors, apprehensive about the economic outlook in the near to medium term, are demanding higher yields for bonds in the 3 to 10-year maturity range to compensate for the perceived risks as they anticipate potential fluctuations in economic conditions in the Kenyan market on the back of government's debt sustainability concerns. The chart below shows the yield curve movement during the period:

The secondary bond turnover increased by 12.7% to Kshs 62.7 bn, from Kshs 55.6 bn recorded in December 2023, pointing towards increased activities by commercial banks in the secondary bonds market. On a year-on-year basis, the bonds turnover increased by 42.3% from Kshs 44.0 bn worth of treasury bonds transacted over a similar period last year.

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), The yield on the 364-day paper increased by 15.8 bps to 16.7%, while that of 91-day paper increased by 8.4 bps to 16.4%. The yield of Cytonn Money Market Fund increased by 12.0 bps to close the week at 15.8% and the average yields on the Top 5 Money Market Funds increased by 5.0 bps, remaining relatively unchanged at 16.3% recorded the previous week

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 2nd February 2024:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on February 2024

Rank	Fund Manager	Effective Annual
1	Etica Money Market Fund	17.2%
2	Lofty-Corban Money Market Fund	16.6%
3	Nabo Africa Money Market Fund	16.0%
4	GenAfrica Money Market Fund	16.0%
5	Cytonn Money Market Fund (*Dial *809# of download the Cytonn app)*	15.8%
6	Madison Money Market Fund	15.2%
7	Enwealth Money Market Fund	14.9%
8	Apollo Money Market Fund	14.9%
9	Kuza Money Market fund	14.9%
10	Co-op Money Market Fund	14.6%
11	GenCap Hela Imara Money Market Fund	14.3%
12	Absa Shilling Money Market Fund	14.3%
13	AA Kenya Shillings Fund	14.2%
14	Sanlam Money Market Fund	14.2%
15	Jubilee Money Market Fund	14.1%
16	Mayfair Money Market Fund	13.8%
17	KCB Money Market Fund	13.6%
18	Mali Money Market Fund	13.4%
19	Old Mutual Money Market Fund	13.2%
20	Orient Kasha Money Market Fund	12.9%
21	Dry Associates Money Market Fund	12.8%
22	CIC Money Market Fund	12.2%
23	ICEA Lion Money Market Fund	12.0%
24	Equity Money Market Fund	11.5%
25	British-American Money Market Fund	10.2%

Source: Business Daily

Liquidity:

Liquidity in the money markets tightened in the month of January 2024, with the average interbank rate increasing by 2.0% points to 13.7% from 11.7% recorded the previous month. During the month of January, the average interbank volumes traded decreased by 26.5% to Kshs 19.2 bn, from Kshs 26.2 bn recorded in December. Also, during the week, liquidity in the money markets eased, with the average interbank rate decreasing to 13.3%, from 13.6% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded decreased by 2.2% to Kshs 15.5 bn, from Kshs 15.8 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:

Kenya Eurobonds:

During the month, the yields on the Eurobonds were on an upward trajectory, with the yield on the 7-year Eurobond issued in 2019 increasing the most by 1.1% points to 11.2% from 10.1% recorded at the end of December 2023. Also, during the week, the yields on Eurobonds were on an upward trajectory, with the yield on the 10-year Eurobond issued in 2014 recording the largest increase of 0.3% points to 14.6%, from 14.3%, recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 30th 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**	**3.6**	**8.6**	**10.6**
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-Feb-24	14.6%	10.6%	10.6%	11.3%	10.5%	10.1%
25-Jan-24	14.3%	10.4%	10.6%	11.2%	10.4%	9.9%
26-Jan-24	14.4%	10.4%	10.5%	11.1%	10.3%	9.9%
29-Jan-24	14.0%	10.3%	10.4%	11.1%	10.3%	9.8%
30-Jan-24	14.1%	10.3%	10.4%	11.1%	10.3%	9.8%
31-Jan-24	14.5%	10.5%	10.6%	11.2%	10.5%	10.0%
01-Feb-24	14.6%	10.6%	10.6%	11.3%	10.5%	10.1%
Weekly Change	**0.3%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**
MoM Change	**0.9%**	**0.7%**	**0.4%**	**1.1%**	**0.6%**	**0.5%**
YTD Change	**1.1%**	**0.7%**	**0.4%**	**1.2%**	**0.6%**	**0.5%**

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

Kenya Shilling:

During the month, the Kenya Shilling depreciated by 2.7% against the US Dollar, to close the month at Kshs 160.8, from Kshs 156.5 recorded at the end of December 2023, partly attributable to the increased US Dollar demand from importers, especially in the oil and energy sectors.

Also, during the week, the Kenya Shilling slightly gained by 0.03% against the US Dollar to close at a relatively unchanged price of Kshs 160.6. from the previous week. On a year-to-date basis, the shilling has depreciated by 2.3% against the US 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 67.5% of Kenya's external debt was US Dollar denominated as of September 2023, and,
iii. Dwindling forex reserves, currently at USD 7.0 mn (equivalent to 3.8 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 4,189.9 mn as of December 2023, 4.0% higher than the USD 4,027.9 mn recorded over the same period in 2022, which has continued to cushion the shilling against further depreciation. In the December 2023 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 59.6% 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 increased by 1.7% during the week to USD 7.1, from USD 7.0 bn recorded the previous week, equivalent to 3.8 months of import cover, 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. **Inflation:**

The y/y inflation in January 2024 increased by 0.3% points to 6.9%, from the 6.6% recorded in December 2023. This was above our projections to within a range of 6.3% to 6.6%. The headline inflation in January 2024 was majorly driven by increase in prices of commodities in the following categories, transport; housing, water, electricity, gas and other fuels, and food and non-alcoholic beverages by 10.6%, 9.7% and 7.9%, respectively. The table below shows a summary of both the year on year and month on month commodity indices performance:

Cytonn Report: Major Inflation Changes – 2024

Broad Commodity Group	Price change m/m (January-2024/December-2023)	Price change y/y (January-2024/January-2023)	Reason
Food and Non-Alcoholic Beverages	0.4%	7.9%	The m/m increase was mainly driven by the increase in prices of commodities such as cabbages, carrots and oranges by 10.0%, 7.4%, and 3.1%, respectively. However, the increase was weighed down by decrease in prices of mangoes, tomatoes and sugar by 3.8%, 3.6%, and 2.2%, respectively.
Housing, Water, Electricity, Gas and Other Fuel	1.6%	9.7%	The m/m performance was mainly driven by the increase in prices of Electricity of 50kWh and 200kWh by 13.7% and 11.4% respectively. However, there was a decrease in the price of a litre of kerosene by 2.4%.
Transport cost	(0.9%)	10.6%	The m/m decrease in transport Index was mainly due to the decline in the prices of a litre of petrol and diesel by 2.3% and 2.5%, respectively.

Cytonn Report: Major Inflation Changes – 2024

Broad Commodity Group	Price change m/m (January-2024/December-2023)	Price change y/y (January-2024/January-2023)	Reason
Overall Inflation	0.4%	6.9%	The m/m increase was mainly supported by the 1.6% increase in housing, water, electricity, gas and other fuels.

Notably, the overall headline inflation has increased for the first time in three months, however, it has remained within the Central Bank of Kenya (CBK) target range of 2.5% to 7.5% for the seventh consecutive month. The increase in headline inflation in January 2024 comes despite the decline in the Petrol, Diesel and Kerosene prices which decreased by 2.3%, 2.5% and 2.4% to Kshs 208.0, Kshs 197.2 and Kshs 195.0 per litre respectively, for the period between 15th January 2024 to 14th February 2024. The chart below shows the inflation rates for the past 5 years:

We expect the inflationary pressures to remain elevated in the short term, mainly on the back of high fuel prices which despite their decline in January 2024, the prices still remain elevated. With fuel being a major input in most businesses, we expect the high fuel prices to continue contributing to the elevated cost of production consequently elevating prices of commodities. Key to note is that the Monetary Policy Committee raised the Central Bank Rate to 12.50% in December 2023, from the previous 10.50% with the aim of anchoring the inflation rate. Despite the monetary stance, we still believe that the inflationary pressures are mainly due to external shocks and a decline is largely pegged on how soon global supply chains stabilize

Monthly Highlights:

1. During the month, 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. Please see our Cytonn Weekly 01/2024,
2. The Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya, effective from 15th January 2024 to 14th February 2024. Notably, the maximum allowed price for Super Petrol, Diesel and Kerosene decreased by Kshs. 5.0, Kshs. 5.0 and Kshs. 4.8 respectively and will retail at Kshs 207.4, Kshs. 196.5 and Kshs. 194.2 per litre respectively from the December 2023 prices of Kshs. 212.4, Kshs. 201.5 and Kshs. 199.1 respectively. Please see our Cytonn Weekly 02/2024,
3. During the month, 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. Please see our Cytonn Weekly 03/2024,
4. The National Treasury gazetted the revenue and net expenditures for the sixth month of FY'2023/2024, ending 29th December 202 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. 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. Please see our Cytonn

Weekly 03/2024, and,

5. During the week, Ivory Coast (Côte d'Ivoire) became the first Sub-Saharan Africa (SSA) country to tap into the international capital markets, issuing two bonds with respective maturities of 8.5 years and 12.5 years, maturing on 30th January 2033 and 30th January 2037 respectively. This was the first issue in the SSA region since 2022, when rising global interest rates and geopolitical tensions made foreign currency debt prohibitively expensive for most African borrowers. Notably, the sovereign raised a total of USD 2.6 bn from the two tranches, with the two issues recording an oversubscription of over USD 8.0 bn. The coupon rates for the 8.5-year (maturity 2033) and the 12.5-year (maturity 2037) were fixed at 7.625% and 8.250% respectively, with the coupons being payable semi-annually in arrears. Please see our Cytonn Weekly #04/2024.

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 40.9% behind of its prorated net domestic borrowing target of Kshs 283.6. bn, having a net borrowing position of Kshs 167.7 bn 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 reclaim a 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.
