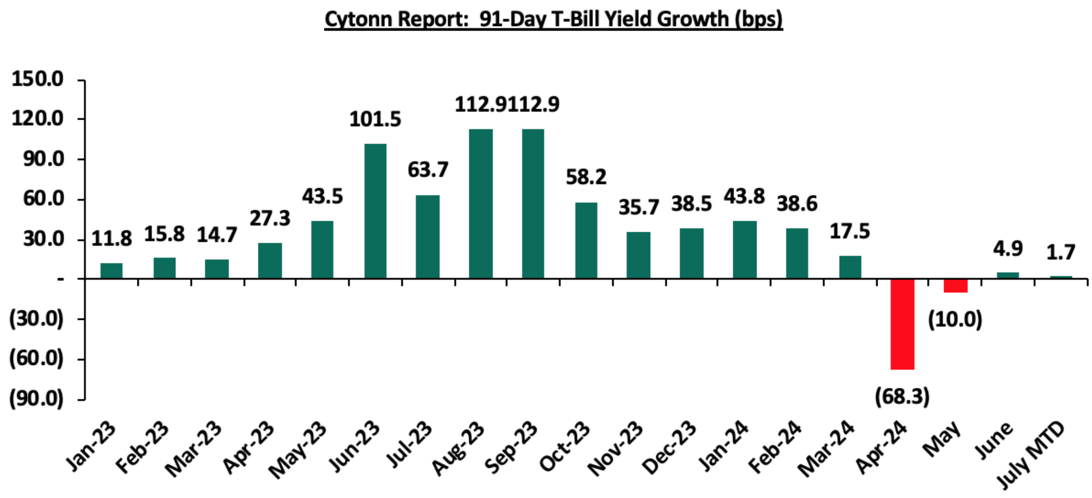
# Special Interest Group Funds in Kenya, & Cytonn Weekly #28/2024

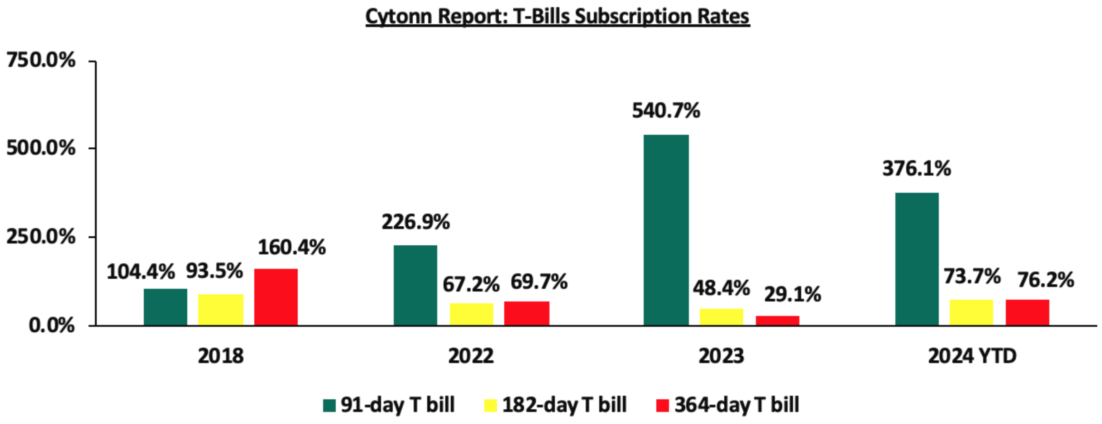
## Fixed Income

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

During the week, T-bills were oversubscribed for the second consecutive week, with the overall oversubscription rate coming in at 137.3%, higher than the oversubscription rate of 124.4% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 14.6 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 364.7%, albeit lower than the oversubscription rate of 370.1% recorded the previous week. The subscription rates for the 182-day and 364-day papers increased to 100.6% and 83.0% respectively from the 94.2% and 56.3% respectively, recorded the previous week. The government accepted a total of Kshs 30.2 bn worth of bids out of Kshs 32.9 bn bids received, translating to an acceptance rate of 91.8%. 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 5.0 bps, 2.7 bps, and 0.9 bps to 16.88%, 16.82%, and 16.00% respectively from 16.83%, 16.80% and 15.99% respectively recorded the previous week. The chart below shows the yield growth rate for the 91-day paper over the period:

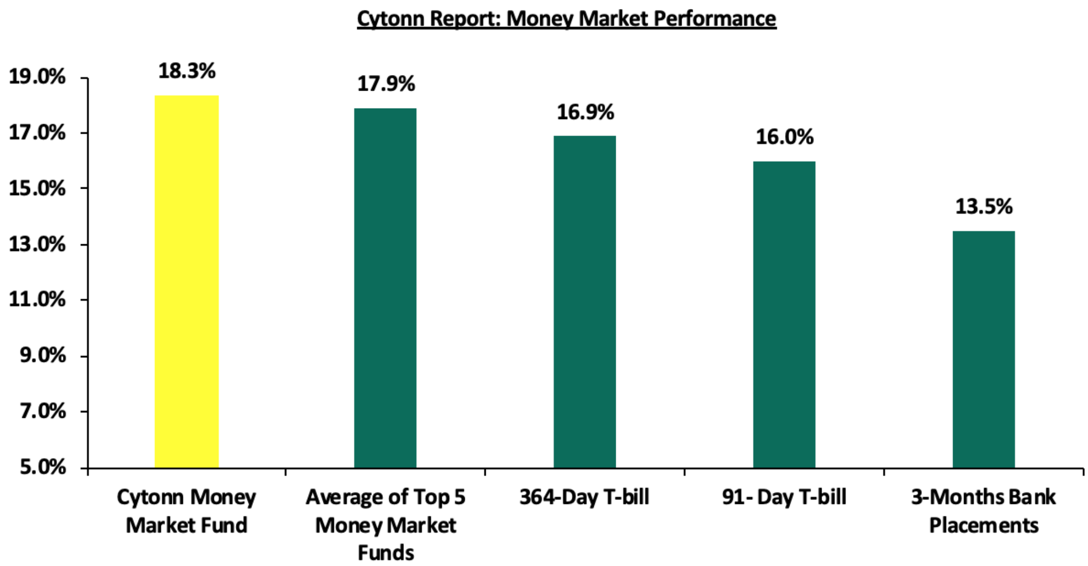



The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 Year-to-date (YTD):




**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 government papers were on an upward trajectory, with the yields on the 364-day and 91-day papers increasing by 5.0 bps and 0.9 bps to 16.88% and 16.00% respectively from 16.83% and 15.99% respectively recorded the previous week. The yields on the Cytonn Money Market Fund decreased marginally by 1.0 bps to close the week at 18.3% remaining relatively unchanged from last week, while the average yields on the Top 5 Money Market Funds increased by 2.8 bps to remain relatively unchanged at 17.9% recorded the previous week.




The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 12th July 2024:

**Cytonn Report: Money Market Fund Yield for Fund Managers as published on 12th July 2024**

| Rank | Fund Manager | Effective Annual Rate |
|---|---|---|
| 1 | Etica Money Market Fund | 18.5% |
| 2 | Cytonn Money Market Fund *(Dial *809# or download the Cytonn App)* | 18.3% |
| 3 | Lofty-Corban Money Market Fund | 18.3% |
| 4 | Kuza Money Market fund | 17.2% |
| 5 | Arvocap Money Market Fund | 17.1% |
| 6 | GenAfrica Money Market Fund | 16.6% |

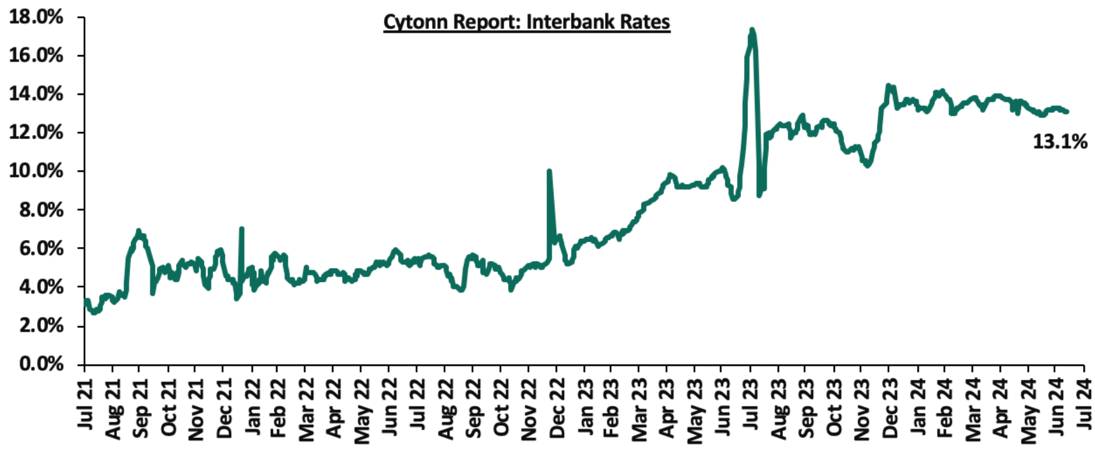
**Cytonn Report: Money Market Fund Yield for Fund Managers as published on 12th July 2024**

| Rank | Fund Manager | Effective Annual Rate |
|---|---|---|
| 7 | Nabo Africa Money Market Fund | 16.5% |
| 8 | GenCap Hela Imara Money Market Fund | 16.0% |
| 9 | Enwealth Money Market Fund | 15.9% |
| 10 | KCB Money Market Fund | 15.7% |
| 11 | Apollo Money Market Fund | 15.6% |
| 12 | Jubilee Money Market Fund | 15.6% |
| 13 | Mayfair Money Market Fund | 15.4% |
| 14 | Co-op Money Market Fund | 15.4% |
| 15 | Madison Money Market Fund | 15.2% |
| 16 | Mali Money Market Fund | 15.2% |
| 17 | Sanlam Money Market Fund | 15.1% |
| 18 | Absa Shilling Money Market Fund | 14.9% |
| 19 | Orient Kasha Money Market Fund | 14.8% |
| 20 | Dry Associates Money Market Fund | 14.0% |
| 21 | Equity Money Market Fund | 14.0% |
| 22 | AA Kenya Shillings Fund | 13.8% |
| 23 | Old Mutual Money Market Fund | 13.6% |
| 24 | CIC Money Market Fund | 13.5% |
| 25 | British-American Money Market Fund | 13.5% |
| 26 | ICEA Lion Money Market Fund | 12.4% |

*Source: Business Daily*

**Liquidity:**

During the week, liquidity in the money markets marginally eased, with the average interbank rate decreasing by 13.2 bps, to 13.2% from 13.3% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded increased significantly by 92.5% to Kshs 38.4 bn from Kshs 20.0 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 yields on the 7-year Eurobond issued in 2024 decreasing the most by 43.3 bps to 10.5% from 10.9% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 11th July 2024;

**Cytonn Report: Kenya Eurobonds Performance**

| | **2018** | | **2019** | | **2021** | **2024** |
|---|---|---|---|---|---|---|
| **Tenor** | **10-year issue** | **30-year issue** | **7-year issue** | **12-year issue** | **13-year issue** | **7-year issue** |
| **Amount Issued (USD)** | **1.0 bn** | **1.0 bn** | **0.9 bn** | **1.2 bn** | **1.0 bn** | **1.5 bn** |
| **Years to Maturity** | **3.7** | **23.7** | **2.9** | **7.9** | **10.0** | **6.7** |
| **Yields at Issue** | **7.3%** | **8.3%** | **7.0%** | **7.9%** | **6.2%** | **10.4%** |
| 1-Jan-24 | 9.8% | 10.2% | 10.1% | 9.9% | 9.5% | |
| 1-Jul-24 | 10.6% | 11.1% | 10.3% | 11.0% | 11.0% | 11.1% |
| 04-Jul-24 | 10.4% | 10.9% | 10.0% | 10.9% | 10.9% | 10.9% |
| 05-Jul-24 | 10.1% | 10.8% | 10.0% | 10.7% | 10.7% | 10.7% |
| 08-Jul-24 | 9.9% | 10.7% | 9.6% | 10.5% | 10.5% | 10.5% |
| 09-Jul-24 | 10.1% | 10.8% | 10.0% | 10.7% | 10.6% | 10.7% |
| 10-Jul-24 | 10.0% | 10.7% | 9.8% | 10.6% | 10.6% | 10.6% |
| 11-Jul-24 | 9.9% | 10.7% | 9.7% | 10.5% | 10.5% | 10.5% |
| **Weekly Change** | **(0.4%)** | **(0.2%)** | **(0.4%)** | **(0.4%)** | **(0.4%)** | **(0.4%)** |
| **MTD Change** | **(0.6%)** | **(0.4%)** | **(0.7%)** | **(0.5%)** | **(0.5%)** | **(0.6%)** |
| **YTD Change** | **0.1%** | **0.5%** | **(0.4%)** | **0.6%** | **1.0%** | **-** |

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

**Kenya Shilling:**

During the week, the Kenya Shilling depreciated against the US Dollar by 0.6%, to close at Kshs 129.3, from Kshs 128.5 recorded the previous week. On a year-to-date basis, the shilling has appreciated by 17.7% against the dollar, a contrast to the 26.8% depreciation recorded in 2023.

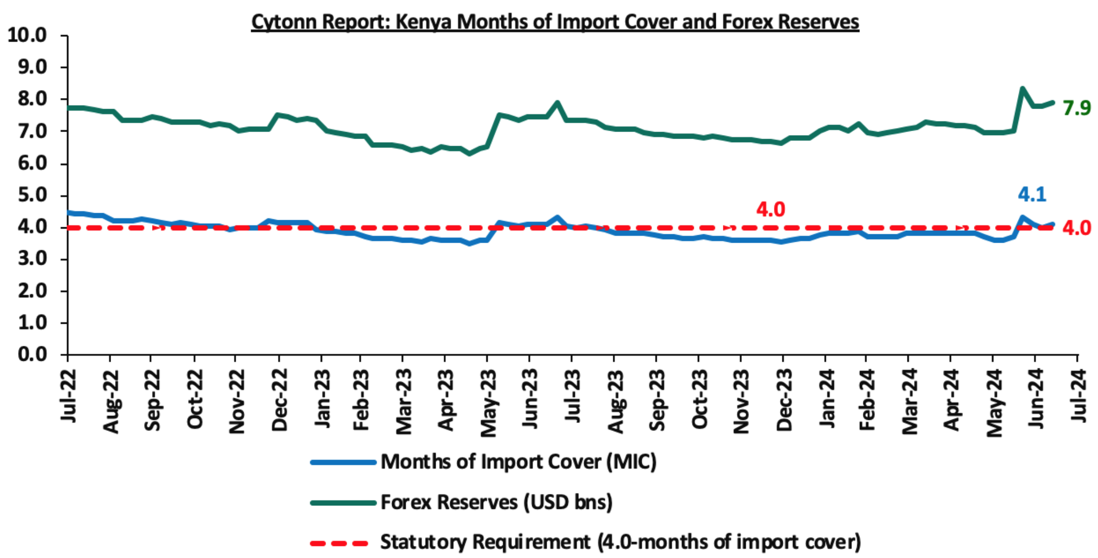
We expect the shilling to be supported by:

i. Diaspora remittances standing at a cumulative USD 4,509.8 mn in the 12 months to May 2024, 12.8% higher than the USD 3,997.3 mn recorded over the same period in 2023, which has continued to cushion the shilling against further depreciation. In the May 2024 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 56.0% in the period,
ii. The tourism inflow receipts which came in at USD 352.5 bn in 2023, a 31.5% increase from USD 268.1 bn inflow receipts recorded in 2022, and owing to tourist arrivals that improved by 27.2% to 2.1 mn in the 12 months to March 2024, from 1.6 mn recorded during a similar period in 2023, and,
iii. High Forex reserves currently at USD 7.9 bn (equivalent to 4.1-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, albeit lower than EAC region's convergence criteria of 4.5-months of import cover.

The shilling is however expected to remain under pressure in 2024 as a result of:

i. An ever-present current account deficit which came at 3.2% of GDP in Q1'2024 from 3.0% recorded in Q1'2023, and,
ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.3% of Kenya's external debt is US Dollar-denominated as of December 2023.

Key to note, Kenya's forex reserves increased by 1.6% during the week to USD 7.9 bn, from the USD 7.8 bn recorded the previous week, equivalent to 4.1 months of import cover, an increase from the 4.0 months recorded the previous week, and above 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. **Moody's Downgrades Kenya's Credit Rating and Maintains Negative Outlook**

On July 8th 2024, the global rating agency, Moody's announced its revision of Kenya's credit rating, downgrading it to Caa1 from a credit rating of B3 while maintaining a negative outlook, on the back of the government's decision to forgo proposed tax increases through the Finance Bill 2024 and rely on expenditure cuts, significantly impacting Kenya's fiscal trajectory and financing needs. The downgrade of Kenya's rating indicates a greatly reduced ability to implement fiscal consolidation measures focused on revenue, which are necessary to improve debt affordability and reduce overall debt.

In response to recent protests, the government withdrew the planned tax increases that were part of the 2024 Finance Bill. These tax measures were originally expected to generate Kshs 346.0 bn, or 1.9% of GDP. Given the current social climate, it is now unlikely that the government can implement these revenue-raising measures. Consequently, the government intends to cut spending by Kshs 177.0 bn, while increasing borrowing and expanding the fiscal deficit to 4.6% of GDP, which is 1.3% points higher than the initially projected 3.3% for fiscal 2025.

The negative outlook highlights potential risks to government liquidity. The revised forecasts still anticipate a reduction in the fiscal deficit through spending cuts, though at a slower pace than previously expected. Increased financing needs or higher borrowing costs could exacerbate liquidity risks. Specifically, slower fiscal consolidation might further limit external funding options, including reduced support from multilateral creditors, who have been the main source of external financing since 2020. Additionally, greater financing needs could decrease domestic interest in government securities, complicating the government's ability to service domestic debt.

In addition, Kenya's local currency (LC) ceiling was downgraded from Ba3 to B1, maintaining a three-notch gap with the sovereign rating. This change reflects the country's relatively weak institutions, unpredictable policies, and moderate political risks, counterbalanced by the government's small economic footprint and limited external imbalances. The foreign currency (FC) ceiling was also lowered, from B1 to B2, one notch below the LC ceiling. This adjustment takes into account Kenya's relatively low external debt and moderately open capital account, which, while not completely eliminating, do reduce the need for transfer and convertibility restrictions during periods of financial stress.

This move positions Kenya alongside emerging economies like Nigeria and Egypt. The downgrade comes after Fitch affirmed the Sovereign's Long-Term Issuer Default Rating (IDR) to B with a negative outlook on 16th February 2024. Additionally, the downgrade follows the S&P Global affirming Kenya's IDR at B with a negative outlook on 7th February 2024 following the partial buyback of its USD 2.0 bn Eurobond that matured in June 2024.

To note, Kenya tapped into the international capital markets, having successfully issued a USD 1.5 bn Eurobond with a tenor of 6 years at a coupon rate of 9.75%. This followed Ivory Coast, which successfully issued two bonds with respective maturities of 8.5 years and 12.5 years and coupon rates of 7.65% and 8.25% respectively, maturing on 30th January 2033 and 30th January 2037 respectively, and Benin issuing their debut dollar bond with a tenor of 14 years at a coupon rate of 8.375% on February 6th 2024.

Below is a table comparing Kenya, Ivory Coast, and Benin's Moody's credit rating and a summary of the Eurobond issues:

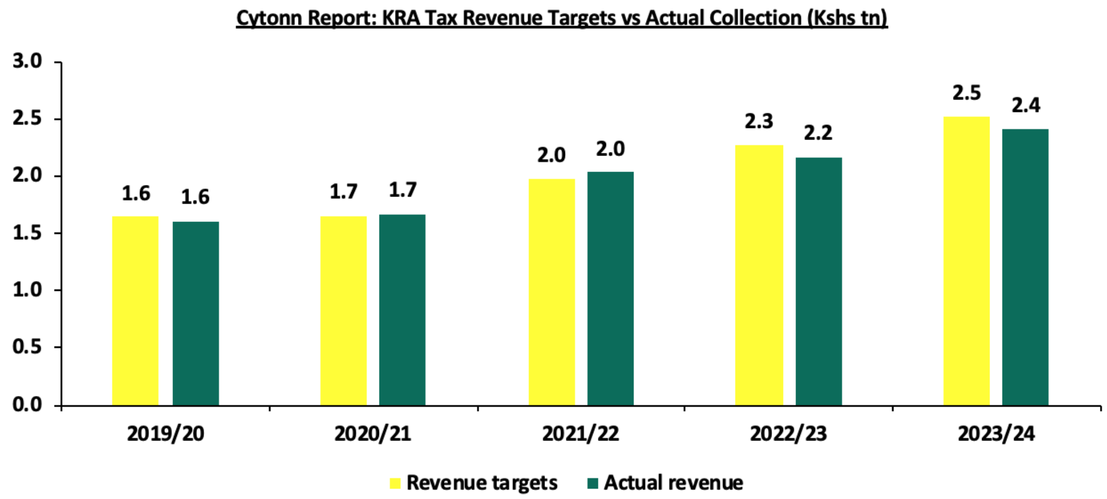
**Cytonn Report: Moody's Rating's Long-Term Foreign-Currency Issuer Default Rating (IDR)**

| Moody's Rating's Long-Term Foreign-Currency Issuer Default Rating (IDR) | | | | 2024 Eurobond Issues | | |
|---|---|---|---|---|---|---|
| **Country** | **IDR Credit Rating** | **IDR Credit Outlook** | **Date** | **Value (USD mn)** | **Tenor (Years)** | **Coupon Rate** |
| Ivory Coast | Ba2 | Stable | Mar- 2024 | 1,100.0 | 8.5 | 7.650% |
| | | | | 1,500.0 | 12.5 | 8.250% |
| Benin | B1 | Stable | Sep-2023 | 750.0 | 14.0 | 8.375% |
| Kenya | Caa1 | Negative | July- 2024 | 1,500.0 | 6.0 | 9.750% |

Going forward, Kenya's government faces the challenge of managing a fiscal strategy that relies on expenditure cuts rather than revenue-driven through the planned tax increases. This approach, coupled with ongoing social tensions, is likely to prolong fiscal deficits, weaken debt affordability, and increase liquidity risks. Limited external financing options further complicate the government's ability to meet substantial borrowing needs. Clear fiscal management and policy coherence will be crucial to maintaining investor confidence and achieving sustainable economic growth.

## II. Kenya Revenue Authority (KRA) FY’2023/24 Revenue Performance

During the week, the Kenya Revenue Authority (KRA) released the annual performance for FY’2023/24, highlighting that revenue mobilization for the period grew by a notable 11.1% up from 6.4 % growth in the previous financial year, after KRA collected Kshs 2.4 tn compared to Kshs 2.2 tn in the previous financial year. This translates to a performance rate of 95.5% against the target. The chart below shows the revenue collected against the targets in the last five years




Some of the key take-outs from the release include;

i. The Exchequer revenue (revenue collected for the National Treasury) grew by 9.5% after KRA collected Kshs 2.2 tn compared to Kshs 2.0 tn collected in the previous financial year,
ii. Agency revenue (collected for government agencies) recorded a 34.9% growth with a collection of Kshs 184.0 bn compared to 136.4 bn collected in FY’2022/23,
iii. Customs Revenue recorded growth of 4.9% with a collection of Kshs 791.3 bn compared to the 754.1 bn collected in FY’2022/23, and,
iv. Domestic Taxes registered a revenue growth of 14.4% after collecting Kshs 1.6 tn, from the Kshs 1.4 tn collected in the previous financial year.

The table below summarizes the performance of some of the key tax heads;

**Cytonn Report: Performance of Key Tax Heads (Kshs Bn)**

| Tax head | Collection FY'2022/2023 | Collection FY'2023/24 | y/y growth |
|---|---|---|---|
| Excise on betting | 19.2 | 24.3 | 26.2% |
| Domestic VAT | 272.5 | 314.2 | 15.3% |
| Corporation tax | 263.8 | 278.2 | 5.4% |
| PAYE | 495.0 | 543.2 | 9.7% |
| Domestic excise | 68.1 | 73.6 | 8.1% |

The improved tax revenue collections were mainly attributable to the following key revenue drivers;

i. **Tax Amnesty:** Through the tax amnesty programme, KRA collected Kshs 43.9 bn. This is after over 2.6 mn taxpayers were granted amnesty during the period,

ii. **Tax Base Expansion (TBE):** The program enabled KRA to collect Kshs 24.6 bn in revenue. Some initiatives under the TBE include recruitment of landlords under Monthly Rental Income (MRI) obligation and Block Management System (BMS) to map out potential taxpayers. Through the period, KRA recruited over 1.2 mn additional active taxpayers for the period under review,
iii. **Debt Collection Initiatives:** KRA enhanced collection from debt programmes on non-compliant taxpayers, collecting a total of Kshs 103.4 bn during the period. This performance is attributable to follow-ups on demand notices and the debt installment plans agreed upon with taxpayers,
iv. **Betting and Gaming Tax:** The integration of betting and gaming companies into the tax system has given KRA real-time access to companies in the sector. During the period under review, KRA collected Kshs 24.3 bn in excise duty and withholding tax from 111 onboarded companies, and,
v. **Anti-Corruption Measures:** The public and staff reported 883 cases involving tax malpractices. This was done through the iWhistle system and led to the recovery of Kshs 4.2 bn.

We note that the government has been missing its revenue targets despite increased taxes due to a small tax base, widespread tax evasion, ineffective revenue collection strategies, economic challenges, and administrative inefficiencies within the KRA. Going forward, we expect the Kenya Revenue Authority (KRA) to significantly enhance its revenue mobilization and operational efficiency through the implementation of the 9th Corporate Plan, spanning five years instead of the previous three-year cycles. This plan will focus on simplifying tax and Customs compliance processes, expanding the tax base, scaling up infrastructure to meet growing business demands, and optimizing human resource capacity and capability. Additionally, KRA will implement the National Tax Policy and the Medium-Term Revenue Strategy (MTRS) for FY 2024/25 - 2026/27, aiming to boost tax compliance and streamline revenue collection. Despite the current challenging economic environment, the resilience shown by taxpayers is encouraging, with a notable increase in tax returns filed. However, we expect the withdrawal of the Finance Bill 2024, following nationwide protests to create a revenue shortfall from the FY'2024/25 target of Kshs 2.95 tn.

***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 47.2% ahead of its prorated net domestic borrowing target of Kshs 10.1 bn, having a net borrowing position of Kshs 14.9 bn. However, we expect a downward readjustment of the yield curve in the short and medium term, with the government looking to increase its external borrowing to maintain the fiscal surplus, hence alleviating pressure in the domestic market. As such, we expect the yield curve to normalize in the medium to long-term and hence investors are expected to shift towards the long-term papers to lock in the high returns.***