Kenya Retail Report 2024, & Cytonn Weekly #29/2024

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills were undersubscribed for the first time in three weeks, with the overall undersubscription rate coming in at 87.4%, a reversal from the oversubscription rate of 137.3% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 10.9 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 272.1%, albeit lower than the oversubscription rate of 364.7% recorded the previous week. The subscription rates for the 182-day and 364-day papers decreased to 72.6% and 28.4% respectively from the 100.6% and 83.0% respectively, recorded the previous week. The government accepted a total of Kshs 18.7 bn worth of bids out of Kshs 21.0 bn bids received, translating to an acceptance rate of 89.3%. 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 1.8 bps, 3.0 bps, and 2.6 bps to 16.90%, 16.85%, and 16.02% respectively from 16.88%, 16.82% and 16.00% 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 1.8 bps and 2.6 bps to remain relatively unchanged at the 16.9% and 16.0% respectively recorded the previous week. The yields on the Cytonn Money Market Fund decreased marginally by 3.0 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 2.4 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 19th July 2024:

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

Rank	Fund Manager	Effective Annual Rate
1	Etica Money Market Fund	18.3%

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

Rank	Fund Manager	Effective Annual Rate
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	17.5%
5	Arvocap Money Market Fund	17.1%
6	GenAfrica Money Market Fund	16.6%
7	GenCap Hela Imara Money Market Fund	16.4%
8	Nabo Africa Money Market Fund	16.2%
9	Enwealth Money Market Fund	15.9%
10	Jubilee Money Market Fund	15.7%
11	KCB Money Market Fund	15.7%
12	Mayfair Money Market Fund	15.6%
13	Apollo Money Market Fund	15.6%
14	Co-op Money Market Fund	15.5%
15	Madison Money Market Fund	15.4%
16	Sanlam Money Market Fund	15.3%
17	Mali Money Market Fund	15.2%
18	AA Kenya Shillings Fund	15.1%
19	Absa Shilling Money Market Fund	15.0%
20	Orient Kasha Money Market Fund	14.7%
21	Dry Associates Money Market Fund	14.0%
22	Equity Money Market Fund	13.8%
23	Old Mutual Money Market Fund	13.6%
24	British-American Money Market Fund	13.5%
25	CIC 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 0.4 bps, to 13.1% from the 13.2% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded decreased by 29.9% to Kshs 26.9 bn from Kshs 38.4 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 mixed performances, with the yields on the 10-

year Eurobond issued in 2018 increasing the most by 48.3 bps to 10.2% from 9.7% recorded the previous week, while the 30-year Eurobond issued in 2016 decreased by 14.1 bps to 10.5% from the 10.6% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 19th 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%
11-Jul-24	9.7%	10.6%	8.5%	10.1%	10.2%	10.3%
12-Jul-24	9.8%	10.3%	8.6%	10.2%	10.3%	10.4%
15-Jul-24	9.8%	10.3%	8.6%	10.2%	10.3%	10.4%
16-Jul-24	9.9%	10.3%	8.7%	10.3%	10.3%	10.4%
17-Jul-24	10.1%	10.4%	8.8%	10.3%	10.4%	10.5%
18-Jul-24	10.2%	10.5%	8.9%	10.4%	10.5%	10.6%
Weekly Change	**0.5%**	**(0.1%)**	**0.4%**	**0.3%**	**0.3%**	**0.3%**
MTD Change	**(0.4%)**	**(0.6%)**	**(1.4%)**	**(0.6%)**	**(0.5%)**	**(0.5%)**
YTD Change	**0.4%**	**0.3%**	**(1.2%)**	**0.5%**	**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 0.9%, to close at Kshs 130.5, from Kshs 129.3 recorded the previous week. On a year-to-date basis, the shilling has appreciated by 16.9% 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 4,535.0 mn in the 12 months to June 2024, 12.9% higher than the USD 4,017.0 mn recorded over the same period in 2023, which has continued to cushion the shilling against further depreciation. In the June 2024 diaspora remittances figures, the US remained the largest source of remittances to Kenya accounting for 54.0% 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. Forex reserves currently at USD 7.4 bn (equivalent to 3.9-months of import cover), which is below the statutory requirement of maintaining at least 4.0-months of import cover, and also 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 decreased by 6.2% during the week to USD 7.4 bn, from the USD 7.9 bn recorded the previous week, equivalent to 3.9 months of import cover, a decrease from the 4.0 months recorded the previous week, and 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. **Central Bank of Kenya Annual Bank Supervision Report**

During the week, the Central Bank of Kenya (CBK) released the annual bank supervision report for FY’2023, highlighting that the banking sector registered a decrease in profitability during the year, with profit before tax (PAT) decreasing by 8.8% to Kshs 219.2 bn in 2023 from the Kshs 240.4 bn recorded in 2022. The sector’s capital and reserves increased by 6.8% to Kshs 980.2 bn in 2023, from Kshs 917.6 bn in 2022. The report also reviewed the various developments in the banking sector, including regulatory changes in the banking sector, macroeconomic conditions, and sector performance.

Here are some key take-outs from the report:

i. As of December 2023, the Kenyan banking sector comprised 38 commercial banks, 1 Mortgage Refinance Company, 10 Representative Offices of foreign banks, 14 Microfinance Banks (MFBs), 3 Credit Reference Bureaus (CRBs), 23 Money Remittance Providers (MRPs), 8 non-operating bank holding companies, 32 Digital Credit Providers (DCPs) and 74 foreign exchange (forex) bureaus. The number of bank branches increased by 2.4% to 1,511 branches in 2023 from 1,475 branches in 2022,
ii. The banking sector’s capital and reserves increased by 6.8% to Kshs 980.2 bn in 2023, from Kshs 917.6 bn in 2022, attributable to additional capital injections by commercial banks as well as retained earnings from the profits realized during the year. The sector registered a decrease in profitability with Profit Before Tax (PAT) decreasing by 8.8% to Kshs 219.2 bn in 2023 from the Kshs 240.4 bn recorded in 2022,
iii. The total net assets in the banking sector recorded a 16.7% growth to Kshs 7.7 tn in 2023, compared to Kshs 6.6 tn in 2022. There were 20 operating local private commercial banks and 2 operating local public commercial banks, which accounted for 69.2% and 0.4% of total net assets respectively. A total of 17 operating commercial banks were foreign owned and accounted for 30.3% of the sector’s assets. There were 9 large banks with a combined market share of 76.6%, 8 medium banks with a combined market share of 15.0% and 22 small banks with a combined market share of 8.4%, this classification was done based on an index that combined net assets, total deposits, capital and reserves, number of deposit accounts and number of loan accounts,
iv. The number of Automated Teller Machines (ATMs) decreased by 0.8% to 2,282 in December 2023, from 2,301 in December 2022. This decline was attributable to increased adoption of agency, mobile, and digital banking in the banking industry,
v. The microfinance sector registered an 8.8% decline in total assets to Kshs 64.2 bn in 2023 from the Kshs 70.4 bn reported in 2022. Net advances decreased by 4.7% to Kshs 37.5 bn in 2023 from Kshs 39.3 bn in 2022. The decline in loans was attributed to continued competition from commercial banks and other credit providers. Total deposits decreased by 5.7% to Kshs 43.9 bn in

2023 from Kshs 46.5 bn in 2022. The decline in deposits was attributed to the transfer of funds to alternative attractive investments due to the overall increase in interest rates. Customer deposits and borrowings were the main sources of funding, accounting for 68.0% and 14.0% of the microfinance banks' total funding sources. The chart below shows the current deposits for various saving channels and capital markets products, indicating that banks still tower these other channels;

vi. The total count of active mobile subscriptions rose by 1.7% to 66.8 mn in 2023 from 65.7 mn in 2022. This growth represents an increase of 1.1 mn new mobile subscribers. The number of active mobile money agents marginally increased by 2.7% to 327,162 from 318,607 in 2022. Consequently, this resulted in a 13.8% increase in the value of transactions to a record Kshs 788.4 bn in 2023 from Kshs 708.1 bn in 2022,

vii. The subsidiaries of Kenyan banks recorded a 43.2% increase in total assets to Kshs 2,315.0 bn in 2023 from Kshs 1,617.0 bn in 2022. A significant contributor to the asset base was Equity Group Plc's subsidiary in DRC, Banque Commerciale Du Congo-BCDC with total assets of Kshs 622.0 bn, and KCB Groups Plc's subsidiary in DRC, Trust Merchant Bank with a total asset base of Kshs 288.0 bn. The combined gross loans for the subsidiaries in the host countries increased by 52.2% to Kshss1,105.0 bn in 2023 from Kshs 725.8 bn in 2022. The Kenyan banks subsidiaries operating in DRC recorded the highest level of gross loans at Kshs402.0 bn accounting for 36.4% of gross loans in all the subsidiaries outside Kenya,

viii. The regional subsidiaries profit before tax recorded a 103.4% increase to Kshs 66.1 bn in 2023 from Kshs 32.5 bn in 2022. DRC contributed to the highest earning capacity recording Kshs 30.0 bn in profit, translating to 45.5% of the total profits. Subsidiaries operating in Rwanda and Uganda contributed 20.9% and 13.5% of the total profits respectively while subsidiaries in in Tanzania contributed 8.5% of the total profits, and,

ix. On regulatory changes, the Central bank announced plans to strengthen banking sector liquidity by issuance of an Internal Liquidity Assessment Process (ILAAP) Guidance Note. In the plan, the regulator intends to review the capital adequacy requirements from the current Kshs 1.0 bn to Kshs 10 bn over the next three years. Additionally, to strengthen its Anti-Money Laundering and Combating the Financing of Terrorism and Proliferation Financing (AML/CFT/PF) framework, the CBK in 2023 brought amendments to the AML/CFT/PF legal framework, enhancing the risk-based AML/CFT/PF supervisory framework and building capacity including of regulated institutions. The regulator also announced its intention to develop a green finance taxonomy as part of its second-generation reforms on climate-related risk management which will support the identification of eligible green finance initiatives.

Going forward, we expect the banking sector to remain resilient, majorly on the back of recovering e local, regional, and global economies, following tough periods in the past years. We expect the sector to be supported by regulatory changes and support around sustainable reforms in the banking sector, the new liquidity assessment process, and strengthened anti-money laundering regulations. Additionally, given the announcement by the Central Bank to raise the minimum capital requirement for banks from the current Kshs 1.0 bn to Kshs 10.0 bn over the next three years, we expect several mergers and capital injections into the sector, with only 14 out of the 39 banks as of December 2023 having the required Kshs 10.0 bn.

II. **June 2024 Exchequer Release**

The National Treasury gazetted the revenue and net expenditures for the twelfth and final month of FY'2023/2024, ending 30th June 2024. Below is a summary of the performance:

FY'2023/2024 Budget Outturn - As at 30th June 2024

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates	Revised Estimates I	Revised Estimates II	Actual Receipts/Release	Percentage Achieved of the Revised Estimates	Prorated	% achieved of the Prorated
Opening Balance				2.6			
Tax Revenue	2,495.8	2,495.83	2,251.9	2,161.1	96.0%	2,251.9	96.0%
Non-Tax Revenue	75.3	80.9	209.1	129.3	61.8%	209.1	61.8%
Total Revenue	**2,571.2**	**2,576.8**	**2,461.0**	**2,293.0**	**93.2%**	**2,461.0**	**93.2%**
External Loans & Grants	870.2	849.8	747.6	705.7	94.4%	747.6	94.4%
Domestic Borrowings	688.2	851.9	1,052.1	795.0	75.6%	1,052.1	75.6%
Other Domestic Financing	3.2	3.2	3.3	3.5	108.5%	3.3	108.5%
Total Financing	**1,561.6**	**1,704.9**	**1,802.9**	**1,504.3**	**83.4%**	**1,802.9**	**83.4%**
Recurrent Exchequer issues	1,302.8	1,360.1	1,435.0	1,360.1	94.8%	1,435.0	94.8%
CFS Exchequer Issues	1,963.7	2,078.8	1,991.5	1,766.4	88.7%	1,991.5	88.7%
Development Expenditure & Net Lending	480.8	457.2	452.1	315.1	69.7%	452.1	69.7%
County Governments + Contingencies	385.4	385.4	385.4	354.6	92.0%	385.4	92.0%
Total Expenditure	**4,132.7**	**4,281.6**	**4,263.9**	**3,796.1**	**89.0%**	**4,263.9**	**89.0%**
Fiscal Deficit excluding Grants	**1,561.6**	**1,704.9**	**1,802.9**	**1,503.1**	**83.4%**	1,802.9	83.4%
Total Borrowing	**1,558.4**	**1,701.7**	**1,799.7**	**1,500.7**	**83.4%**	1,799.7	83.4%

Amounts in Kshs bns unless stated otherwise

The Key take-outs from the release include;

a. Total revenue collected as at the end of June 2024 amounted to Kshs 2,293.0 bn, equivalent to 93.2% of the revised estimates of Kshs 2,461.0 bn for FY’2023/2024,
b. Total financing amounted to Kshs 1,504.3 bn, equivalent to 83.4% of the revised estimates of Kshs 1,802.9 bn. Additionally, domestic borrowing amounted to Kshs 795.0 bn, equivalent to 75.6% of the revised estimates of Kshs 1,052.1 bn,
c. The total expenditure amounted to Kshs 3,796.1 bn, equivalent to 89.0% of the revised estimates of Kshs 4,263.9 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 1,360.1 bn, equivalent to 94.8% of the revised estimates of Kshs 1,435.0,
d. Consolidated Fund Services (CFS) Exchequer issues came in at Kshs 1,766.4 bn, equivalent to 88.7% of the revised estimates of Kshs 1,991.5 bn. The cumulative public debt servicing cost amounted to Kshs 1,596.6 bn which is 89.6% of the revised estimates of Kshs 1,866.0 bn. Additionally, the Kshs 1,596.6 bn debt servicing cost is equivalent to 69.6% of the actual revenues collected as at the end of June 2024. The chart below shows the debt serving to revenue ratio;

e. Total Borrowings as at the end of June 2024 amounted to Kshs 1,500.7 bn, equivalent to 83.4% of the revised estimates of Kshs 1,799.7 bn for FY’2023/2024. The cumulative domestic borrowing of Kshs 1,052.1 bn comprises of Net Domestic Borrowing Kshs 662.4 bn and Internal Debt Redemptions (Rollovers) Kshs 389.7 bn.

The government has been unable to meet its prorated revenue targets for the twelve months of the FY’2023/2024, attaining 93.2% of the revenue targets in June 2024, mainly on the back of the tough economic situation exacerbated by the inflationary pressures which decreased by 0.5% points in May to 4.6% from the 5.1% recorded in May, cost of living remains elevated in the country, which continues to impede revenue collection given the deterioration in business environment with the PMI coming in at 47.2, below the 50.0 neutral, down from 51.8 in May 2024,. In light of this, the government is yet to fully benefit from the strategies put in place to improve revenue collection such as expanding the revenue base and sealing tax leakages, and suspension of tax relief payments. The coming months' revenue collection performance will largely depend on how quickly the country's business climate stabilizes. This stabilization is expected to be aided by the ongoing appreciation of the Shilling, which gained by 0.7% against the dollar in the month of June, and a further ease in inflationary pressures in the country.

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 88.2% ahead of its prorated net domestic borrowing target of Kshs 15.2 bn, having a net borrowing position of Kshs 28.6 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.