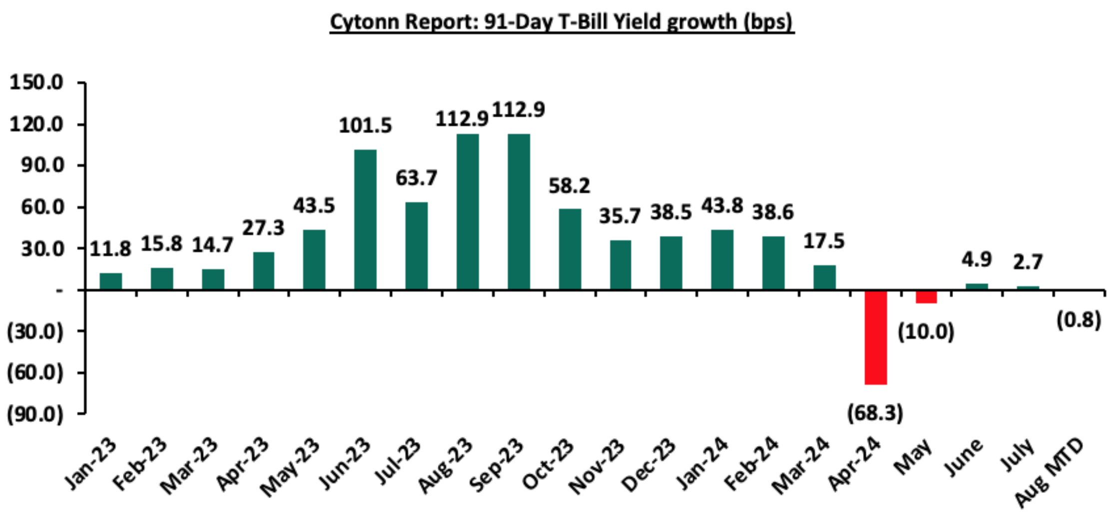
Cytonn Monthly – July 2024

Fixed Income

Money Markets, T-Bills Primary Auction:

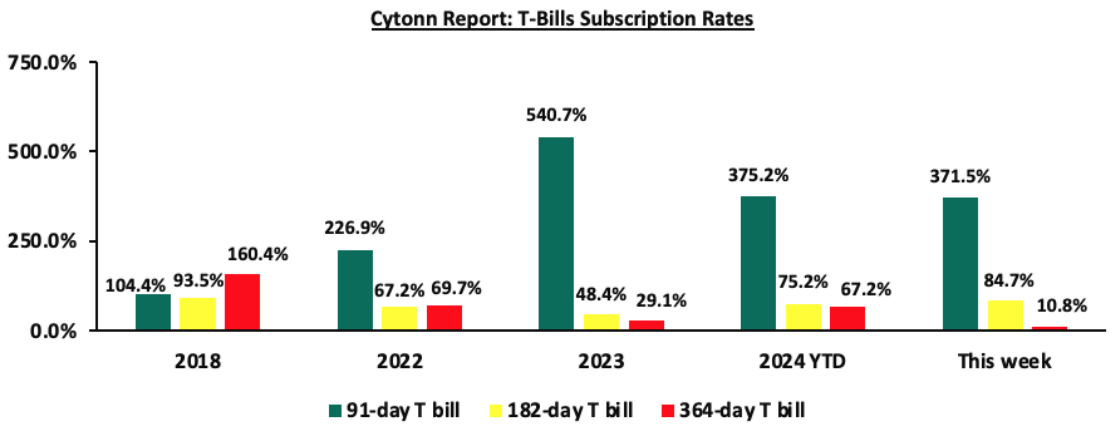
During the month of July 2024, T-bills were oversubscribed, with the overall average oversubscription rate coming in at 102.6%, higher than the oversubscription rate of 101.9% recorded in June 2024. The overall average subscription rate for the 91-day paper increased to 352.2% from 343.9%, while the overall average subscription rates for the 182-day and 364-day paper decreased to 64.8% and 40.6% respectively, from 66.1% and 40.8% respectively, which was recorded in June 2024. The average yields on the government papers increased during the month, with the 364-day, 182-day, and 91-day papers yields decreasing by 11.7 bps, 12.4 bps, and 2.7 bps to 16.9%, 16.8%, and 16.0% respectively from 16.8%, 16.7%, and 16.0% recorded the previous month. For the month of July, the government accepted a total of Kshs 105.9 bn of the Kshs 123.1 bn worth of bids received, translating to an acceptance rate of 86.0% compared to acceptance rate of 93.8% in the month of June. The chart below shows the yield growth rate for the 91-day paper during the year:



This week, T-bills were oversubscribed for the second consecutive week, with the overall oversubscription rate coming in at 101.7%, albeit lower than the oversubscription rate of 131.9% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 14.9 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 371.5%, albeit lower than the oversubscription rate of 645.3% recorded the previous week. The subscription rate for the 182-day increased to 84.7% from the 41.5% recorded the previous week while the subscription rate for the 364-day paper decreased to 10.8% from the 16.9% recorded the previous week. The government accepted a total of Kshs 23.0 bn worth of bids out of Kshs 24.4 bn bids received, translating to an acceptance rate of 94.3%. The yields on the government papers were on a downward trajectory, with the yields on the 91-day paper decreasing the most by 1.2 bps to 15.99% from the 16.00% recorded the previous week, while the yields on the 364-day and 182-day papers decreased marginally by 0.1 bps and 0.04 bps to remain relatively unchanged from the 16.92% and 16.85% respectively recorded the previous week.

So far in the current FY'2024/25, government securities totalling Kshs 194.0 bn have been advertised. The government has accepted bids worth Kshs 139.1 bn, of which Kshs 128.9 bn and Kshs 10.3 bn were treasury bills and bonds, respectively. Total redemptions so far in FY'2024/25 equal to Kshs 88.3 bn, with treasury bills accounting for Kshs 88.3 bn. As a result, the government has a domestic borrowing surplus of Kshs 50.8 bn in FY'2024/25.

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



Additionally, July 2024 bonds were undersubscribed, with the overall undersubscription rate coming in at 17.1%, lower than the oversubscription rate of 46.9% recorded in June 2024. The reopened bonds FXD1/2024/010 and FXD1/2008/020, with fixed coupon rates of 16.0% and 13.8% respectively, received bids worth Kshs 14.7 bn against the offered Kshs 30.0 bn translating to an undersubscription rate of 48.9%, with the government accepting bids worth Kshs 9.8 bn, translating to an acceptance rate of 66.5%, with the average accepted yields coming at 16.6% and 18.3% respectively. Moreover, the tap sale issue for the FXD1/2023/002 received bids worth Kshs 0.5 bn against the offered Kshs 20.0 bn, translating to an undersubscription rate of 2.4%, with the government accepting bids worth Kshs 0.5 bn, translating to an acceptance rate of 99.8%, and a yield of 17.1%. The table below provides more details on the bonds issued in May, June, and July 2024:

Cytonn Report: Bond Issuances in May, June and July 2024

Issue Date	Bond Auctioned	Effective Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Actual Amount Raised (Kshs bn)	Total bids received	Average Accepted Yield	Subscription Rate	Acceptance Rate
06/05/2024	FXD1/2024/010-Re-opened	9.9	16.0%	25.0	11.0	15.0	16.2%	59.9%	73.4%
13/05/2024	FXD1/2024/010-Tapsale	9.9	16.0%	15.0	7.0	7.1	16.2%	47.4%	98.8%
10/06/2024	FXD1/2023/002 - Re-opened	1.2	17.0%	30.0	7.1	8.4	17.1%	28.2%	83.8%
	FXD1/2024/003 – Re-opened	2.6	18.4%		23.8	24.8	17.6%	82.7%	96.0%
17/06/2024	FXD1/2023/010 – Re-opened	8.7	14.2%	30.0	7.6	9.6	16.4%	32.1%	78.9%
	FXD1/2023/005 – Re-opened	4.1	16.8%		22.6	31.9	18.2%	106.5%	70.7%
24/06/2024	FXD1/2023/010 – Tapsale	8.7	14.2%	20.0	7.9	8.8	16.4%	44.2%	89.8%
	FXD1/2023/005 – Tapsale	4.1	16.8%		10.8	11.2	18.2%	56.1%	96.3%
	FXD1/2024/003 – Tapsale	2.6	18.4%		3.3	3.3	17.6%	16.3%	101.6%
	FXD1/2023/002 – Tapsale	1.2	17.0%		1.8	1.8	17.1%	9.0%	99.8%
08/07/2024	FXD1/2023/002 -Tapsale	1.2	17.0%	20.0	0.5	0.5	17.1%	2.4%	99.8%

Cytonn Report: Bond Issuances in May, June and July 2024

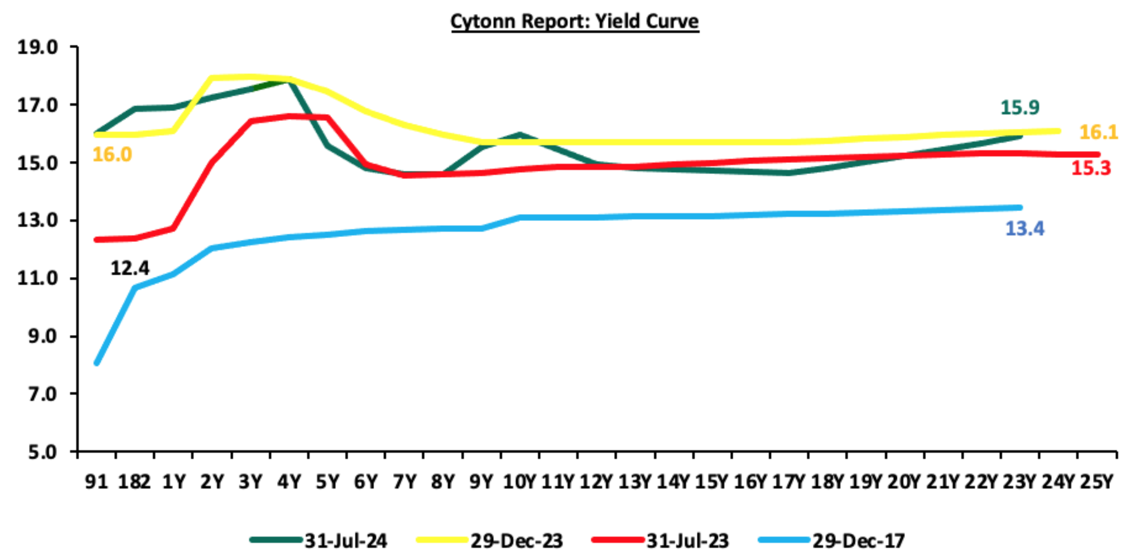
Issue Date	Bond Auctioned	Effective Tenor to Maturity (Years)	Coupon	Amount offered (Kshs bn)	Actual Amount Raised (Kshs bn)	Total bids received	Average Accepted Yield	Subscription Rate	Acceptance Rate
22/07/2024	FXD1/2024/010 – Re-opened	9.7	16.0%	30.0	9.8	14.7	16.6%	48.9%	66.5%
	FXD1/2008/020 – Re-opened	3.9	13.8%				18.3%		
July 2024 Average		**4.9**	**15.6%**	**25.0**	**5.1**	**7.6**	**17.3%**	**25.7%**	**83.2%**
June 2024 Average		**4.2**	**16.6%**	**26.7**	**10.6**	**12.5**	**17.3%**	**46.9%**	**89.6%**
2023 Average		**6.1**	**14.8%**	**740.3**	**735.2**	**872.4**	**15.5%**	**117.8%**	**82.0%**

Source: Central Bank of Kenya (CBK)

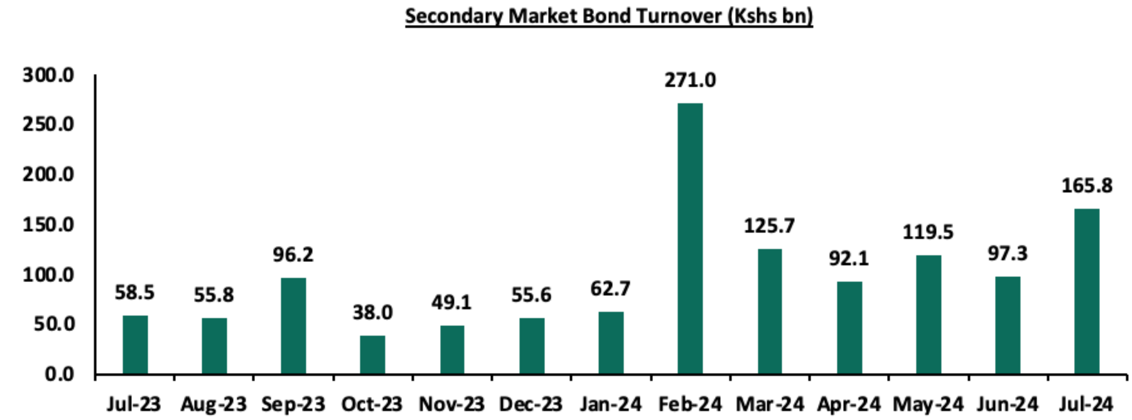
In the primary bond market, the government is looking to raise Kshs 50.0 bn through the reopened infrastructure bonds IFB1/2023/6.5 with a tenor to maturity of 5.8 years and IFB1/2023/17 with a tenor to maturity of 15.7 years. The bonds will be offered at fixed coupon rates of 17.9% and 14.4% for the IFB1/2023/6.5 and IFB1/2023/17 respectively. Given the current market conditions and the recent bond issues, we expect the average rate of accepted bids for the two bonds to come in at a range of 17.85%-17.95% for the IFB1/2023/6.5 and 14.45%-14.85% for the IFB1/2023/17.

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 2 to 5-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 2 to 5-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 the government's debt sustainability concerns. The chart below shows the yield curve movement during the period:

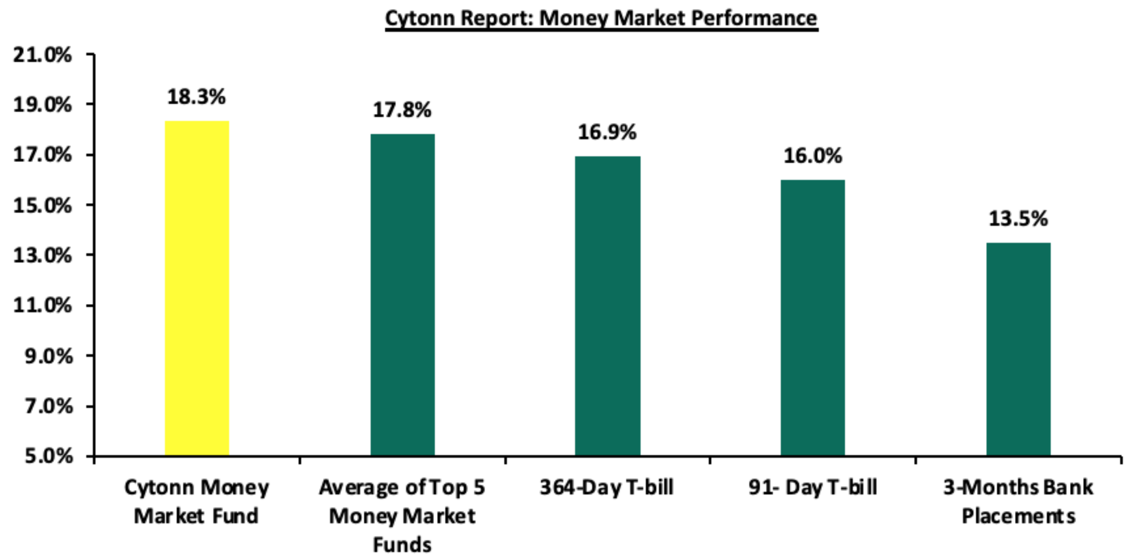


The secondary bond turnover increased by 70.5% to Kshs 165.8 bn, from Kshs 97.3 bn recorded in June 2024, pointing towards increased activities by commercial banks in the secondary bonds market for the month of July. Similarly, on a year-on-year basis, the bond turnover increased significantly by 183.7% from Kshs 58.5 bn worth of treasury bonds transacted over a similar period last year. The chart below shows the bond turnover over the past 12 months;



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), while the yield on the 364-day and 91-day papers decreased marginally by 0.1 bps and 1.2 bps to remain relatively unchanged at 16.9% and 16.0% respectively, recorded the previous week. The yield of Cytonn Money Market Fund remained unchanged to close the week at 18.3% recorded the previous week, and the average yields on the Top 5 Money Market Funds decreased by 15.0 bps to 17.8% from 18.0% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 02nd August 2024:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 02nd August 2024

Rank	Fund Manager	Effective Annual
1	Cytonn Money Market Fund *(Dial *809# or download the Cytonn app)*	18.3%
2	Lofty-Corban Money Market Fund	18.3%
3	Etica Money Market Fund	18.3%
4	Kuza Money Market fund	17.2%
5	Arvocap Money Market Fund	17.2%
6	GenAfrica Money Market Fund	16.9%

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 02nd August 2024

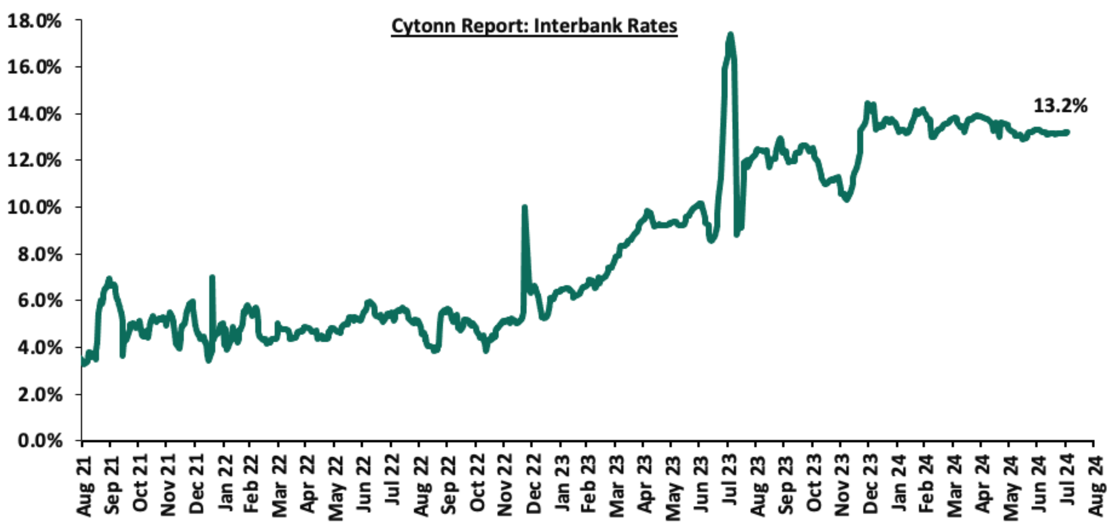
Rank	Fund Manager	Effective Annual
7	Nabo Africa Money Market Fund	16.6%
8	GenCap Hela Imara Money Market Fund	16.2%
9	Jubilee Money Market Fund	16.1%
10	Enwealth Money Market Fund	16.0%
11	Co-op Money Market Fund	15.7%
12	Apollo Money Market Fund	15.6%
13	Absa Shilling Money Market Fund	15.5%
14	Mayfair Money Market Fund	15.5%
15	KCB Money Market Fund	15.4%
16	Sanlam Money Market Fund	15.3%
17	Madison Money Market Fund	15.3%
18	AA Kenya Shillings Fund	15.3%
19	Mali Money Market Fund	15.1%
20	Orient Kasha Money Market Fund	14.7%
21	Dry Associates Money Market Fund	14.0%
22	ICEA Lion Money Market Fund	13.9%
23	CIC Money Market Fund	13.7%
24	Old Mutual Money Market Fund	13.6%
25	Equity Money Market Fund	13.6%

Source: Business Daily

Liquidity:

Liquidity in the money markets tightened in the month of July 2024, with the average interbank rate increasing by 4.3 bps to 13.2% from 13.1% recorded the previous month. During the month of July, the average interbank volumes traded increased by 18.7% to Kshs 28.6 bn, from Kshs 24.1 bn recorded in June.

Also, during the week, liquidity in the money markets tightened, with the average interbank rate increasing by 3.5 bps to remain relatively unchanged from 13.2% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded increased by 40.0% to Kshs 34.0 bn, from Kshs 24.3 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 46.3 bps to 10.6% from 10.1%, recorded at the end of June 2024. Also, during the week, the yields on Eurobonds were on an upward trajectory, with the yields on the 30-year Eurobond issued in 2018 increasing the most by 26.1 bps to 11.1% from 10.8% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 01st August 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	**3.6**	**23.6**	**2.8**	**7.8**	**9.9**	**6.5**
Yields at Issue	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**	**10.4%**
01-Jan-24	9.8%	10.2%	10.1%	9.9%	9.5%	
28-Jun-24	10.4%	11.0%	10.1%	10.8%	10.8%	10.8%
25-Jul-24	10.5%	10.8%	10.4%	10.8%	10.8%	10.9%
29-Jul-24	10.5%	11.0%	10.4%	10.8%	10.8%	10.9%
30-Jul-24	10.5%	11.0%	10.4%	10.9%	10.8%	10.9%
31-Jul-24	10.6%	11.0%	10.6%	10.9%	10.8%	11.0%
01-Aug-24	10.7%	11.1%	10.6%	11.0%	10.9%	11.1%
Weekly Change	**0.2%**	**0.3%**	**0.2%**	**0.2%**	**0.1%**	**0.2%**
MTM Change	**0.2%**	**0.0%**	**0.5%**	**0.1%**	**0.0%**	**0.1%**
YTD Change	**0.9%**	**0.9%**	**0.5%**	**1.1%**	**1.4%**	**11.1%**

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

Kenya Shilling:

During the month, the Kenya Shilling depreciated by 0.3% against the US Dollar, to close the month at Kshs 129.9, from Kshs 129.5 recorded at the end of June 2024. Also, during the week, the Kenya Shilling gained by 2.0% against the US Dollar to close at Kshs 129.9 from the Kshs 132.6 recorded the previous week. On a year-to-date basis, the shilling has appreciated by 17.2% against the US Dollar, a sharp contrast to the 26.8% depreciation recorded in 2023.

We expect the shilling to be supported by:

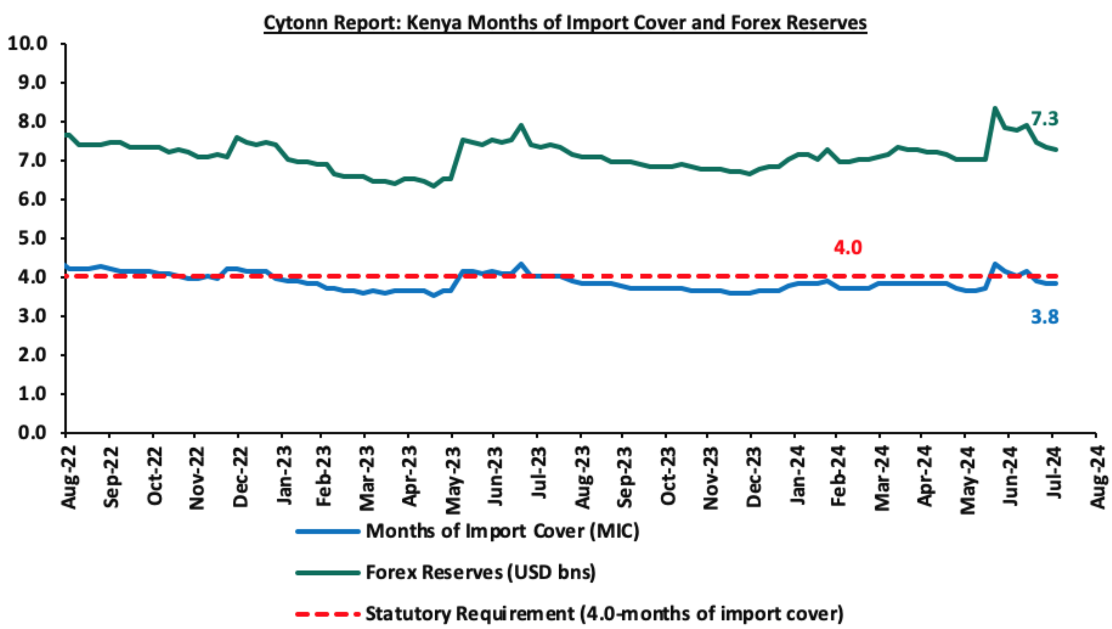
i. Diaspora remittances standing at a cumulative USD 4,535.0 mn in the 12 months to June 2024, 12.9% higher than the USD 4,017.0 mn recorded over the same period in 2023, which has continued to cushion the shilling against further depreciation. In the June 2024 diaspora remittances figures, the US remained 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.

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,
ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.9% of Kenya’s external debt is US Dollar-denominated as of March 2024, and,
iii. Dwindling forex reserves currently at USD 7.3 bn (equivalent to 3.8-months of import cover), which is below the statutory requirement of maintaining at least 4.0-months of import cover, and also lower than the EAC region’s convergence criteria of 4.5-months of import cover.

Key to note, during the month of July 2024, Kenya’s forex reserves decreased by 6.3% to USD 7.3 bn, from USD 7.8 bn, while the months of import cover decreased to 3.8 months of import cover, from 4.1 months of import cover, recorded at the end of June 2024. Also, Kenya’s forex reserves decreased marginally by 0.5% during the week to remain relatively unchanged at USD 7.3 bn recorded the previous week, equivalent to 3.8 months of import cover, unchanged from 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. **July 2024 Inflation Highlight**

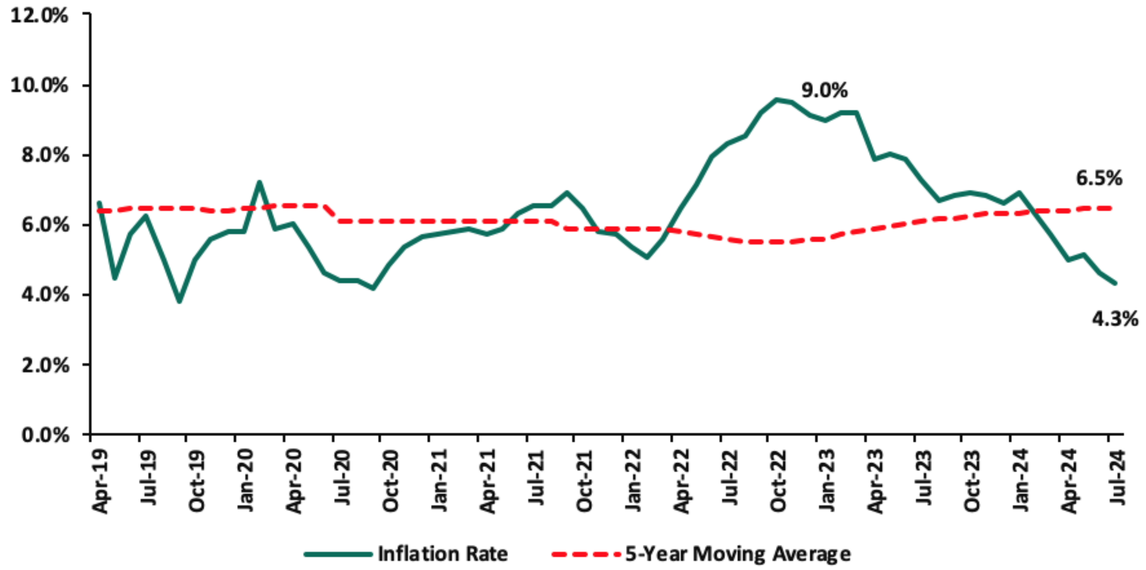
The y/y inflation in July 2024 decreased by 0.3% points to 4.3%, from the 4.6% recorded in June 2024. This was contrary to our expectation of an increase, as it came below our projected range of 4.7% to 5.0% mainly on the back of the weakening of the Kenya Shilling against the US Dollar having recorded a 2.4% month-to-date decline to Kshs 132.6 as of 26th July 2024 from the Kshs 129.5 recorded at the beginning of the month, a contrast to the 0.5% gain recorded last month and the 15.6% year-to-date gain from the Kshs 157.0 recorded at the beginning of the year. The headline inflation in July 2024 was majorly driven by increase in prices of commodities in the following categories; Food & Non-Alcoholic Beverages, Transport and Housing, Water, Electricity, Gas & other fuels by 5.6%, 4.0% and 3.9% 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 – July 2024

Broad Commodity Group	Price change m/m (July-2024/June -2024)	Price change y/y (July-2024/July-2023)	Reason
Food and non-alcoholic beverages	(0.5%)	5.6%	The m/m decrease was mainly driven by the decrease in prices of commodities such as tomatoes, wheat flour - brown, and onions by 5.5%, 4.2%, and 4.1%, respectively. However, the decrease was weighed down by an increase in prices of cabbages, carrots, and mangoes by 8.1%, 1.8%, and 1.7%, respectively.
Transport	(0.1%)	4.0%	The m/m decrease recorded in the transport Index was mainly attributable to the decline in the prices of diesel and petrol by 0.9% and 0.5% per litre respectively.
Housing, water, electricity, gas and other fuels	(0.4%)	3.9%	The m/m performance was mainly driven by the decrease in prices of Electricity of 200kWh and 50kWh and kerosene by 9.4%, 4.4%, and 0.8% respectively. However, the price of gas/LPG increased by 0.2%.
Overall Inflation	**(0.2%)**	**4.3%**	**The m/m decrease was mainly attributable to the 0.5% decrease in Food and non-alcoholic beverages.**

Notably, July's overall headline inflation was on the decline for the second consecutive month. Furthermore, it has remained within the Central Bank of Kenya (CBK) target range of 2.5% to 7.5% for the thirteenth consecutive month. The decrease in headline inflation in July 2024 comes amid the decline in the prices for Super Petrol, Diesel and Kerosene by Kshs 1.0, Kshs 1.5, and Kshs 1.3 each respectively, and will retail at Kshs 188.9, Kshs 171.6, and Kshs 161.8 per litre respectively from the June 2024 prices of Kshs 189.8, Kshs 173.1, and Kshs 163.1 respectively, for the period between 15th July 2024 to 14th August 2024. The chart below shows the inflation rates for the past 5 years:

Cytonn Report: 5-Year Inflation Rates (y/y)



Going forward, we expect inflation to remain within the CBK's preferred range of 2.5%-7.5%, mainly on the back of a strengthened currency, tight monetary policy, and reducing fuel prices. The risk, however, lies in the fuel prices which despite their decline over the last months, still remain elevated compared to historical levels. Key to note is that the Monetary Policy Committee maintained the Central Bank Rate at 13.0% in its June 2024 meeting, with the aim of anchoring the inflation rates further, and will meet again on 6th August 2024 and we expect the MPC to cut the Central Bank Rate (CBR) to the range of 12.00%-12.50%. In our view, the rate will be pegged on whether the shilling will sustain its appreciation against the dollar, resulting in a decline in the import bill and costs passed to consumers through hiked consumer prices. Additionally, favourable weather conditions may also contribute to stabilizing food prices, further supporting lower inflation rates.

II. **August 2024 MPC Note Highlight**

The Monetary Policy Committee (MPC) is set to meet on Tuesday, 6th August 2024, to review the outcome of its previous policy decisions and recent economic developments, and to decide on the direction of the Central Bank Rate (CBR). **We expect the MPC to cut the Central Bank Rate (CBR) to the range of 12.00%-12.50%** with their decision mainly being supported by:

i. The decrease in y/y inflation in July 2024 to 4.3%, from 4.6% recorded in June 2024, marking the thirteenth consecutive month that inflation has fallen within the CBK target range of 2.5%-7.5%. Despite the risk posed by reduced but still elevated fuel prices, mainly due to high taxes, the overall inflation trend supports a rate cut to stimulate economic growth,
ii. The recent appreciation of the Shilling and the need to stabilize it from volatility, as other Central Banks maintain high rates. Since the last meeting, the Kenyan Shilling has appreciated by 0.8% against the US Dollar to Kshs 129.9 as of 31st July 2024, from Kshs 130.5 recorded on 5th June 2024. This appreciation is mainly attributable to the eliminated credit risk from the Eurobond buyback and increased dollar supply in the market. A moderate cut in the CBR rate is expected to support this stability without reversing the Shilling's gains,
iii. The need to support the economy by adopting an accommodative policy that will ease financing activities. The Purchasing Managers Index (PMI) has come in below the 50.0 threshold, with the June 2024 PMI at 47.2, indicating that the business environment is in the contraction zone. A rate cut would help stimulate economic growth by making borrowing cheaper and encouraging investment and spending,
iv. The global monetary policy environment. Many central banks worldwide including the Bank of England have either paused or reduced their rates to support their economies. Aligning Kenya's monetary policy with global trends could help maintain the country's competitiveness, attract foreign investment, and ensure that local economic conditions remain favourable in a global

context.

For more information, see our Cytonn Note on the 6th August 2024 Monetary Policy Committee (MPC) Meeting here.

III. **Fitch Ratings Downgrades Kenya's Credit Rating and Revises Outlook to Stable from Negative**

On August 2nd 2024, the global ratings agency, Fitch Ratings announced its revision of Kenya's credit score, downgrading it to B- from a credit rating of B while also revising the outlook to stable, from a negative outlook affirmed on 16th February 2024. Their decision comes 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 reflects heightened risks to Kenya's public finances and external financing.

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 stable outlook reflects Fitch's expectation that continued strong official creditor support will help alleviate near-term external liquidity pressures, although the sovereign's funding needs will remain large and are expected to rise. The tightening of monetary policy will help to keep inflation anchored, providing support for the currency. Additionally, the government's plan to continue with its fiscal consolidation agenda, although the path to achieving fiscal targets has become increasingly challenging, in Fitch's view.

This move positions Kenya alongside emerging economies like Angola, Nigeria, and Egypt. The downgrade follows Moody's downgrading Kenya's IDR to Caa1 from a credit rating of B3 while maintaining a negative outlook on July 8th 2024. Additionally, S&P announced that it would decide, on August 23rd 2024, on whether to cut Kenya's B credit score by a notch to B- or retain it and keep it on a downgrade warning by maintaining a negative outlook.

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 issue follows issues by four other SSA countries earlier in the year. Ivory Coast tapped into the international capital markets on 24th January 2024, successfully issuing 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. In addition, Benin issued their debut dollar bond with a tenor of 14 years at a coupon rate of 8.375% on February 6th 2024. On June 6th 2024, Senegal followed suit by issuing a USD 750.0 mn Eurobond with a maturity of 7 years and a coupon rate of 7.75%. Also, on 23rd July 2024, Cameroon announced the issuance of a USD 550.0 mn Eurobond with a tenor of 7 years at a coupon rate of 9.5% and a yield of 10.75%.

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

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

Fitch's Rating's Long-Term Foreign-Currency Issuer Default Rating (IDR)				2024 Eurobond Issues				
Country	**IDR Credit Rating**	**IDR Credit Outlook**	**Rating Date**	**Value (USD mn)**	**Tenor (Years)**	**Coupon Rate**	**Yield at issuance**	**Issuance Date**
Ivory Coast	BB-	Stable	Feb-2024	1,100.0	8.5	7.650%	7.875%	Jan-24
				1,500.0	12.5	8.250%	8.50%	
Benin	B+	Stable	Mar-2024	750.0	14.0	8.375%	8.40%	Feb-24
Kenya	B-	Stable	Aug-2024	1,500.0	6.0	9.750%	10.375%	Feb-24
Senegal	B	Stable	Feb-2024	750.0	7.0	7.75%	7.75%	Jun-24
Cameroon	B	Negative	May-24	550.0	7.0	9.5%	10.75	Jul-24

Below is a summary of the credit rating on Kenya by various rating agencies;

Cytonn Report: Kenya's Credit Ratings

Rating Agency	Previous Rating	Previous Outlook	Current Rating	Current Outlook	Meaning	Date Released
Moody's Rating	B3	Negative	**Caa1**	Negative	Substantial credit risks	8th July, 2024
Fitch Ratings	B	Negative	**B-**	Stable	Highly Speculative	2nd August 2024
S&P Global	B	Negative	**B**	Negative	Highly Speculative	9th February 2024 *(Expected release on 23rd August 2024)**

Source: Fitch Ratings, S&P Global

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.

Monthly Highlights:

1. During the month, the Kenya National Bureau of Statistics (KNBS) released the Q1'2024 Quarterly Gross Domestic Product Report, highlighting that the Kenyan economy recorded a 5.0% growth in Q1'2024, slower than the 5.5% growth recorded in Q1'2023. The main contributor to Kenyan GDP remains to be the Agriculture, Fishing, and Forestry sector which grew by 6.1% in Q1'2024, lower than the 6.4% expansion recorded in Q1'2023. All sectors in Q1'2024, except Mining and Quarrying, recorded positive growths, with varying magnitudes across activities. Most sectors recorded a decline compared to Q1'2023 with Accommodation and Food Services, Mining & Quarrying, and Construction Sectors recording the highest declines of 19.1%, 3.8%, and 2.9% points, respectively. Other sectors that recorded a contraction in growth rate, from what was recorded in Q1'2023 were the Transport and Storage, Other Services, and Public Administration sectors of 2.8%, 2.1%, and 1.8% points respectively. Please see our Cytonn Weekly 27/2024,

2. During the month, the Kenya National Bureau of Statistics released the Q1'2024 Quarterly Balance of Payment & International Trade Report highlighting that Kenya's balance of payments position improved by by 126.4% in Q1'2024, coming in at a surplus of Kshs 33.8 bn, from a deficit of Kshs 127.8 bn in Q1'2024, and a significant improvement from the Kshs 134.8 bn deficit recorded in FY'2023. Please see our Cytonn Weekly 27/2024,
3. During the month, Stanbic Bank released its monthly Purchasing Manager's Index (PMI) highlighting that the index for the month of June 2024 sharply deteriorated, coming in at 47.2, below the 50.0 neutral, down from 51.8 in May 2024, signaling a deterioration in the operating conditions across Kenya. Please see our Cytonn Weekly 27/2024,
4. During the month, the global ratings agency, Moody's announced its revision of Kenya's credit score, downgrading it by one scale 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. Please see our Cytonn Weekly 28/2024,
5. During the month, the Kenya Revenue Authority (KRA) released the annual revenue 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. Please see our Cytonn Weekly 28/2024,
6. During the month, 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 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. Please see our Cytonn Weekly 29/2024,
7. During the week, Cameroon announced the issuance of a USD 550.0 mn Eurobond with a tenor of 7 years at a coupon rate of 9.5% and a yield of 10.75%, becoming the fifth country in the Sub-Saharan Africa (SSA) region, following Ivory Coast, Benin, Senegal, and Kenya to tap into the international capital markets in 2024. The bond was undersubscribed, with the undersubscription rate coming in at 98.9%, receiving USD 550.0 mn (332.2 bn CFA Francs) of the CFA 336.0 bn offered The issuance was conducted through a private placement, with Citigroup Global Markets Ltd serving as the sole placement agent and arranger alongside Cygnum Capital Middle East. Please see our Cytonn Weekly 30/2024, and,
8. During the month, the National Treasury presented the Supplementary Estimates I for the Fiscal Year 2024/25 to the National Assembly. This presentation outlined plans to adjust the FY 2024/25 Budget Estimates to align with the Revised Fiscal Framework and implement expenditure cuts. Please see our Supplementary Budget Estimates I FY'2024/25 Note.

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 23.2% ahead of its prorated net domestic borrowing target of Kshs 41.2 bn, having a net borrowing position of Kshs 50.8 bn. However, we expect a downward readjustment of the yield curve in the medium and long 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.