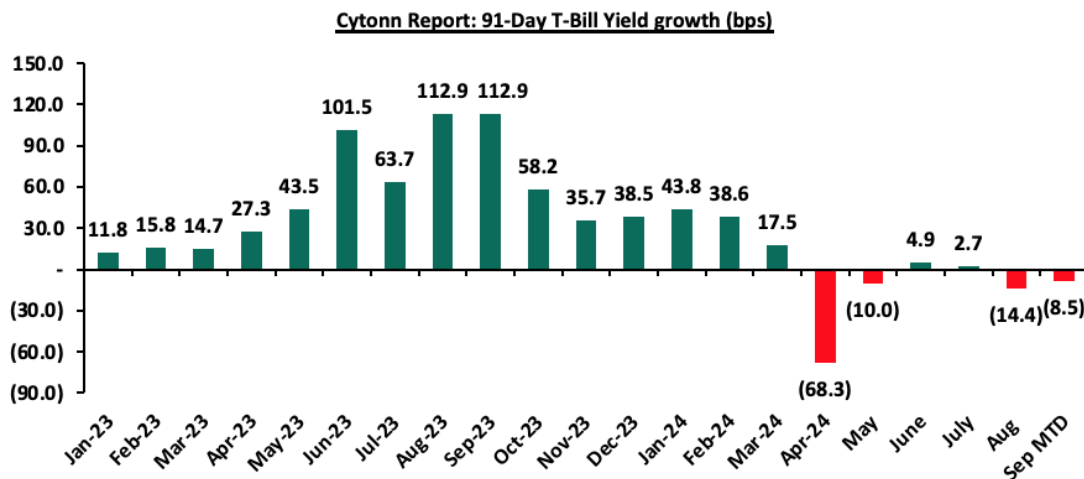


Kenya's Listed Banks H1'2024 Report, and Cytonn Weekly #37/2024

Fixed Income

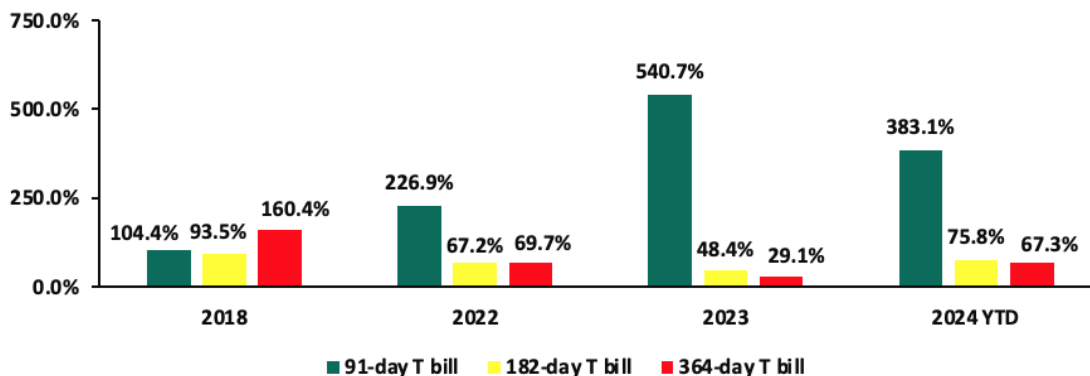
Money Markets, T-Bills Primary Auction:

During the week, T-bills were undersubscribed for the first time in three weeks with the overall undersubscription rate coming in at 89.1%, a reversal from the oversubscription rate of 162.3% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 14.2 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 354.7%, albeit lower than the oversubscription rate of 580.2% recorded the previous week. The subscription rates for the 182-day and 364-day papers decreased significantly to 32.7% and 39.2% respectively from the 101.7% and 55.7% respectively recorded the previous week. The government accepted a total of Kshs 19.9 bn worth of bids out of Kshs 21.4 bn bids received, translating to an acceptance rate of 93.3%. The yields on the government papers were on a downward trajectory, with the yields on the 364-day, 182-day and 91-day papers decreasing by 0.6 bps, 0.1 bps and 1.8 bps to 16.82%, 16.62% and 15.75% respectively from 16.82%, 16.63% and 15.77% respectively recorded the previous week. The chart below shows the yield growth rate for the 91-day paper over the period:



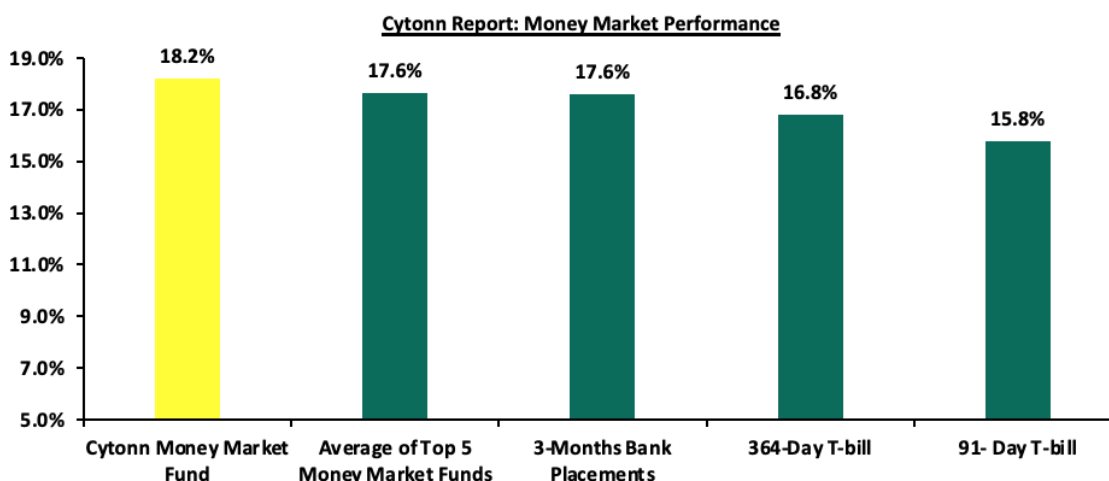
The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 Year-to-date (YTD):

Cytonn Report: T-Bills Subscription Rates



Money Market Performance:

In the money markets, 3-month bank placements ended the week at 17.6% (based on what we have been offered by various banks), and the yields on the government papers were on a downward trajectory, with the yields on the 364-day and 91-day papers decreasing by 0.6 bps and 1.8 bps to remain relatively unchanged at 16.8% and 15.8% respectively recorded the previous week. The yields on the Cytonn Money Market Fund decreased marginally by 2.0 bps to close the week at 18.2% relatively unchanged from the previous week, while the average yields on the Top 5 Money Market Funds increased by 11.0 bps to 17.7% from the 17.6% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 13th September 2024:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 13th September 2024

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund (<i>Dial *809# or download the Cytonn App</i>)	18.2%
2	Lofty-Corban Money Market Fund	18.2%
3	Arvocap Money Market Fund	17.7%
4	Etica Money Market Fund	17.6%
5	Kuza Money Market fund	17.1%
6	GenAfrica Money Market Fund	16.8%
7	Jubilee Money Market Fund	16.1%
8	Enwealth Money Market Fund	16.0%

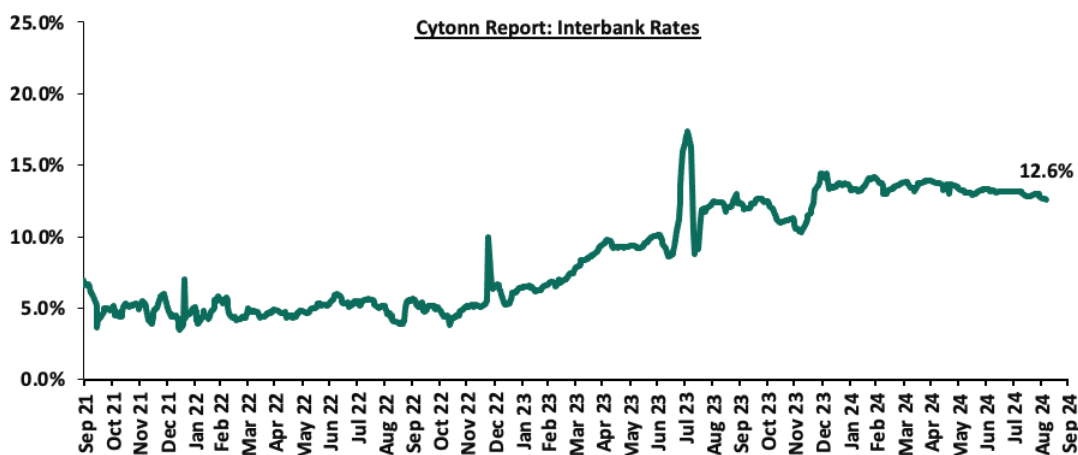
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 13th September 2024

Rank	Fund Manager	Effective Annual Rate
9	Nabo Africa Money Market Fund	16.0%
10	Genghis Money Market Fund	16.0%
11	Co-op Money Market Fund	15.8%
12	Absa Shilling Money Market Fund	15.6%
13	KCB Money Market Fund	15.6%
14	Madison Money Market Fund	15.5%
15	Mali Money Market Fund	15.4%
16	Stanbic Money Market Fund	15.2%
17	Apollo Money Market Fund	15.2%
18	Mayfair Money Market Fund	15.1%
19	Sanlam Money Market Fund	15.1%
20	Orient Kasha Money Market Fund	14.9%
21	AA Kenya Shillings Fund	14.9%
22	Dry Associates Money Market Fund	14.2%
23	Old Mutual Money Market Fund	14.1%
24	ICEA Lion Money Market Fund	13.9%
25	CIC Money Market Fund	13.7%
26	British-American Money Market Fund	13.2%
27	Equity Money Market Fund	12.7%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate decreasing marginally by 0.3 bps, to remain relatively unchanged at 12.6% recorded the previous week, partly attributable to government payments that offset tax remittances. The average interbank volumes traded increased by 22.4% to Kshs 35.1 bn from Kshs 28.7 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 were on an upward trajectory, with the yields on the 7-year Eurobond issued in 2019 increasing the most by 47.4 bps to 10.5% from 10.1% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 12th September 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	3.5	23.5	2.7	7.7	9.8	6.4
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%	
05-Sep-24	10.3%	10.8%	10.1%	10.5%	10.4%	10.6%
06-Sep-24	10.3%	10.8%	10.1%	10.5%	10.4%	10.7%
09-Sep-24	10.4%	10.8%	10.2%	10.6%	10.5%	10.7%
10-Sep-24	10.5%	10.9%	10.4%	10.7%	10.6%	10.9%
11-Sep-24	10.6%	11.0%	10.7%	10.9%	10.8%	11.0%
12-Sep-24	10.5%	10.9%	10.5%	10.8%	10.6%	10.8%
Weekly Change	0.2%	0.1%	0.5%	0.3%	0.2%	0.2%
MTD Change	0.1%	0.1%	0.4%	0.2%	0.2%	0.1%
YTD Change	0.6%	0.7%	0.4%	0.9%	1.1%	-

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

Kenya Shilling:

During the week, the Kenya Shilling depreciated marginally against the US Dollar by 0.6 bps, to remain relatively unchanged at the Kshs 129.2 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:

- Diaspora remittances standing at a cumulative USD 4,571.7 mn in the 12 months to July 2024, 12.2% higher than the USD 4,075.7 mn recorded over the same period in 2023, which has continued to cushion the shilling against further depreciation. In the July 2024 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 54.9% in the period, and,
- 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% in the 12 months to June 2024, from the arrivals recorded during a similar period in 2023.

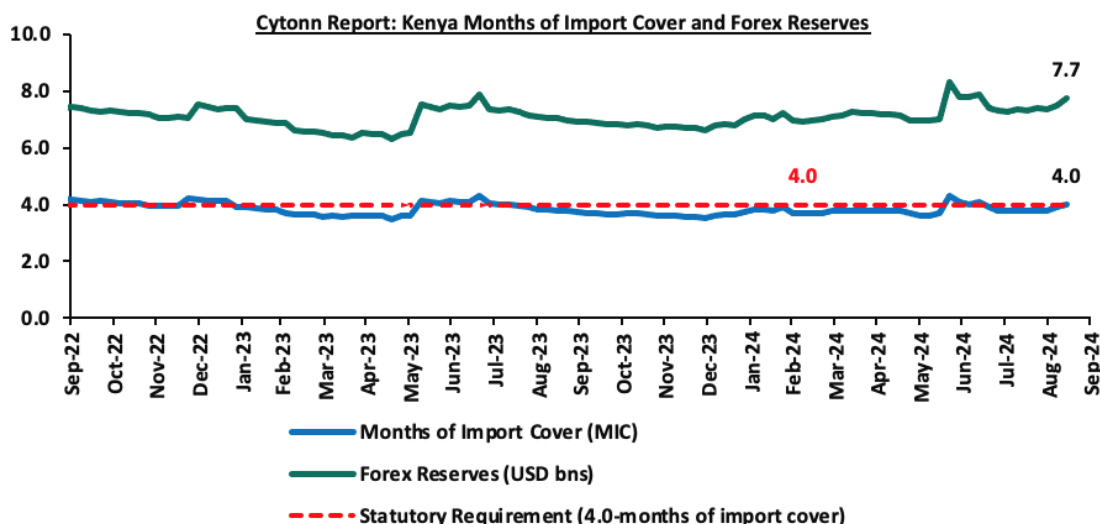
The shilling is however expected to remain under pressure in 2024 as a result of:

- 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 7.7 bn (equivalent to 4.0-months of import cover), which is equal to the statutory requirement of maintaining at least 4.0-months of import cover, but lower than the EAC region's convergence criteria of 4.5-months of import cover.

Key to note, Kenya's forex reserves increased by 3.2% during the week to close the week at USD 7.7 bn from the USD 7.5 bn recorded the previous week, equivalent to 4.0 months of import cover, up from the 3.9 months recorded last week, and equal to 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. Fuel Prices effective 15th September 2024 to 14th October 2024

During the week, During the week, The Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya, effective from 15th September 2024 to 14th October 2024. Notably, the maximum allowed price for Super Petrol and Diesel remained unchanged from the prices announced for the previous period, while the maximum price allowed for Kerosene decreased by Kshs 3.4 per litre. Consequently, Super Petrol and Diesel will continue to retail at Kshs 188.8 and Kshs. 171.6 per litre respectively, while Kerosene will retail at Kshs. 158.4 per litre from Kshs 161.8 the previous month.

Other key take-outs from the performance include;

- i. The average landing costs per cubic meter for Super Petrol, Diesel and Kerosene decreased by 1.5%, 3.0% and 5.3% each respectively to USD 697.6, USD 673.4 and USD 668.3 respectively in August 2024 from USD 708.5, USD 693.8 and USD 705.7 respectively recorded in July 2024,
- ii. The Kenyan shilling depreciated marginally against the US Dollar by 1.1% to Kshs. 129.4 in August 2024, compared to the mean monthly exchange rate of Kshs 130.8 recorded in July 2024.

We note that fuel prices in the country have decreased in recent months largely due to the government's efforts to stabilize pump prices through the **petroleum pump price stabilization mechanism** which expended Kshs 9.9 bn in the FY2023/24 to cushion the increases applied to the petroleum pump prices, coupled with the ongoing appreciation of the Kenyan Shilling against the dollar and other major currencies, as well as a decrease in international fuel prices. Nevertheless, fuel prices in the country still remain under pressure from the high taxation of petroleum products as

provided in the Finance Act 2023. We expect that fuel prices will drop in the coming months as a result of the government's efforts to mitigate the cost of petroleum through the pump price stabilization mechanism and strengthening of the Kenyan Shilling against the United States Dollar, having gained by 17.7% against the dollar on a year-to-date basis. As such, we expect the business environment in the country to improve as fuel is a major input cost, as well as further ease in inflationary pressures, with the inflation rate expected to remain within the CBK's preferred target range of 2.5%-7.5%.

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 113.1% ahead of its prorated net domestic borrowing target of Kshs 86.4 bn, having a net borrowing position of Kshs 184.1 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.

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