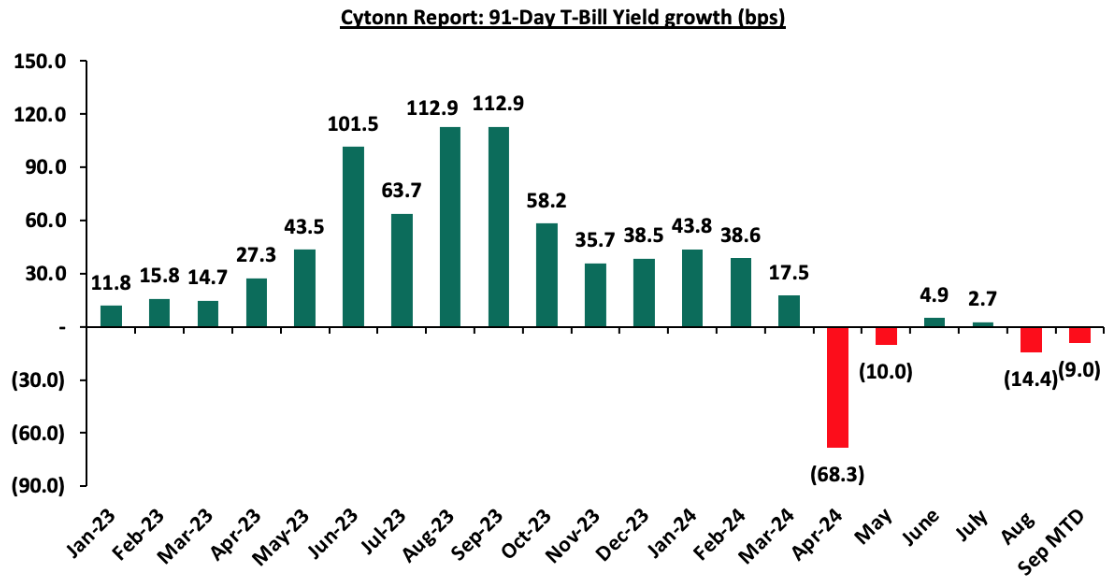
# The Kenyan National Social Security Fund (NSSF), & Cytonn Weekly #38/2024

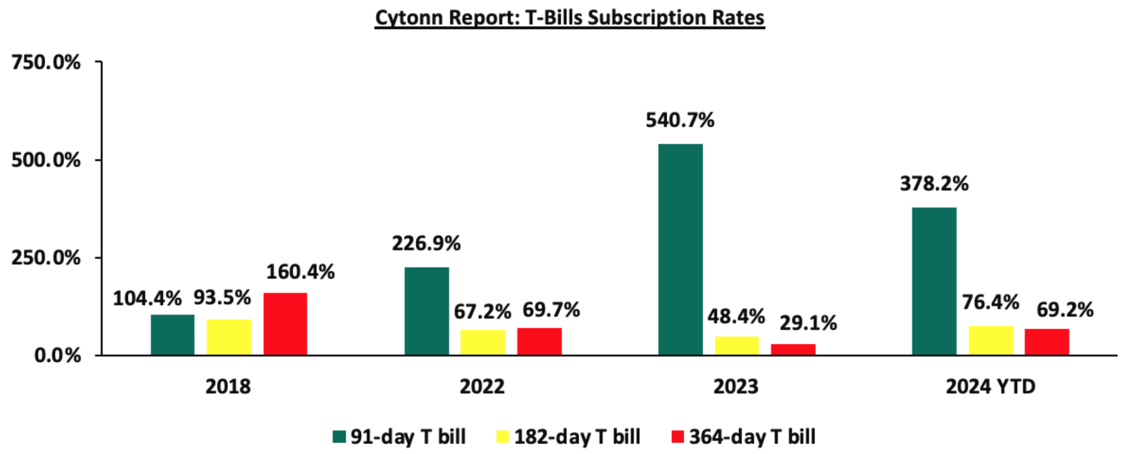
## Fixed Income

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

During the week, T-bills were oversubscribed, with the overall oversubscription rate coming in at 126.4%, a reversal from the undersubscription rate of 89.1% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 11.4 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 283.9%, albeit lower than the oversubscription rate of 354.7% recorded the previous week. The subscription rates for the 182-day and 364-day papers increased significantly to 84.1% and 105.8% respectively from the 32.7% and 39.2% respectively recorded the previous week. The government accepted a total of Kshs 25.6 bn worth of bids out of Kshs 30.3 bn bids received, translating to an acceptance rate of 84.3%. 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 0.4 bps, 0.9 bps, and 0.4 bps to remain relatively unchanged from the 16.8%, 16.6% and 15.8% respectively recorded the previous week. The chart below shows the yield growth rate for the 91-day paper over the period:



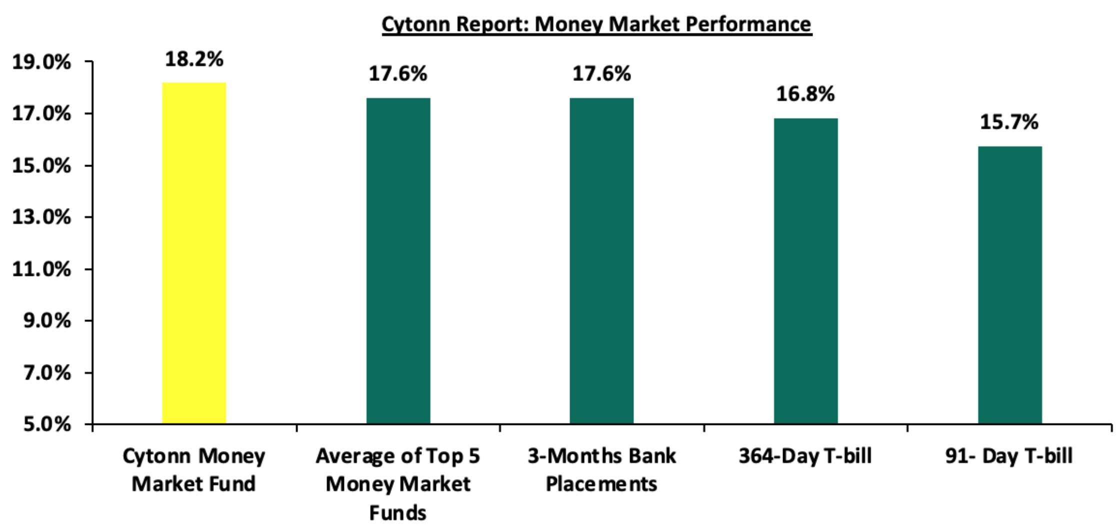

The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 Year-to-date (YTD):




During the week, the Central Bank of Kenya released the auction results for the re-opened bonds, FXD1/2024/010 with a tenor to maturity of 9.5 years, and a fixed coupon rate of 16.0% and FXD1/2016/020 with a tenor to maturity of 11.9 years, and a fixed coupon rate of 14.0%. The bonds were undersubscribed with the overall subscription rate coming in at 75.5%, receiving bids worth Kshs 22.6 bn against the offered Kshs 30.0 bn. The government accepted bids worth Kshs 19.3 bn, translating to an acceptance rate of 85.1%. The weighted average yield of accepted bids for the FXD1/2024/010 and the FXD1/2016/020 came in at 16.9% and 17.3% respectively, which were slightly above our expectation of within a bidding range of 16.3% - 16.7% for the FXD1/2024/010 and 16.6% - 17.2% for the FXD1/2016/020. Notably, the FXD1/2024/010 registered a yield increase of 0.3% points from the 16.6% registered in July 2024 when it was last re-opened. With the Inflation rate at 4.4% as of August 2024, the real return of the FXD1/2024/010 and the FXD11/2016/020 is 12.5% and 12.9% respectively.

**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 0.4 bps each to remain relatively unchanged from the 16.8% and 15.8% 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 decreased by 14.0 bps to 17.6% from the 17.7% recorded the previous week.




The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 20th September 2024:

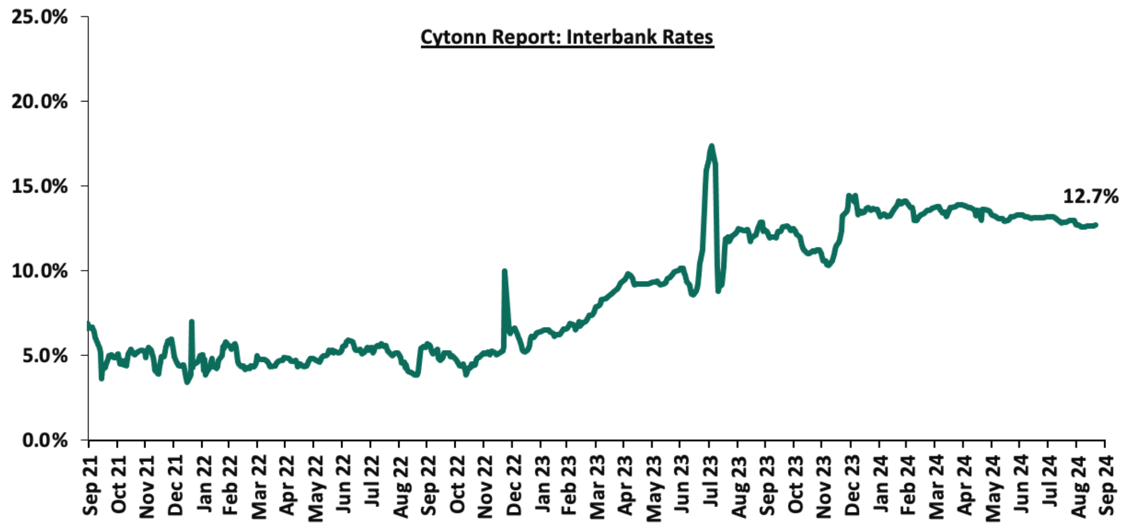
**Cytonn Report: Money Market Fund Yield for Fund Managers as published on 20th September 2024**

| Rank | Fund Manager | Effective Annual Rate |
|---|---|---|
| 1 | Cytonn Money Market Fund *(Dial *809# or download the Cytonn App)* | 18.2% |
| 2 | Lofty-Corban Money Market Fund | 18.1% |
| 3 | Etica Money Market Fund | 17.5% |
| 4 | Arvocap Money Market Fund | 17.2% |
| 5 | Kuza Money Market fund | 17.0% |
| 6 | GenAfrica Money Market Fund | 16.5% |
| 7 | Absa Shilling Money Market Fund | 16.0% |
| 8 | Jubilee Money Market Fund | 16.0% |
| 9 | Nabo Africa Money Market Fund | 16.0% |
| 10 | Enwealth Money Market Fund | 16.0% |
| 11 | Madison Money Market Fund | 15.8% |
| 12 | Co-op Money Market Fund | 15.3% |
| 13 | KCB Money Market Fund | 15.3% |
| 14 | Mali Money Market Fund | 15.2% |
| 15 | Genghis Money Market Fund | 15.2% |
| 16 | Apollo Money Market Fund | 15.1% |
| 17 | Sanlam Money Market Fund | 15.1% |
| 18 | Orient Kasha Money Market Fund | 15.0% |
| 19 | Mayfair Money Market Fund | 15.0% |
| 20 | AA Kenya Shillings Fund | 14.9% |
| 21 | Stanbic Money Market Fund | 14.7% |
| 22 | Dry Associates Money Market Fund | 14.0% |
| 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 tightened, with the average interbank rate increasing marginally by 5.2 bps, to 12.7% from the 12.6% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded decreased by 29.3% to Kshs 24.8 bn from Kshs 35.1 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 2019 decreasing the most by 1.4% points to 9.1% from 10.5% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 19th 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** | **3.4** | **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% | |
| 02-Sep-24 | 10.2% | 10.7% | 9.9% | 10.4% | 10.3% | 10.5% |
| 12-Sep-24 | 10.8% | 10.9% | 10.5% | 10.8% | 10.6% | 10.5% |
| 13-Sep-24 | 10.6% | 10.8% | 10.2% | 10.5% | 10.5% | 10.1% |
| 16-Sep-24 | 10.5% | 10.6% | 9.7% | 10.3% | 10.2% | 9.8% |
| 17-Sep-24 | 10.5% | 10.5% | 9.3% | 10.1% | 10.0% | 9.4% |
| 18-Sep-24 | 10.2% | 10.5% | 9.4% | 10.2% | 10.0% | 9.5% |
| 19-Sep-24 | 10.1% | 10.4% | 9.1% | 10.0% | 9.9% | 9.3% |
| **Weekly Change** | **(0.8%)** | **(0.5%)** | **(1.4%)** | **(0.8%)** | **(0.8%)** | **(1.2%)** |
| **MTD Change** | **(0.2%)** | **(0.4%)** | **(0.8%)** | **(0.4%)** | **(0.4%)** | **(1.2%)** |
| **YTD Change** | **0.2%** | **0.2%** | **(1.0%)** | **0.1%** | **0.4%** | **-** |

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

**Kenya Shilling:**

During the week, the Kenya Shilling appreciated marginally against the US Dollar by 1.4 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.

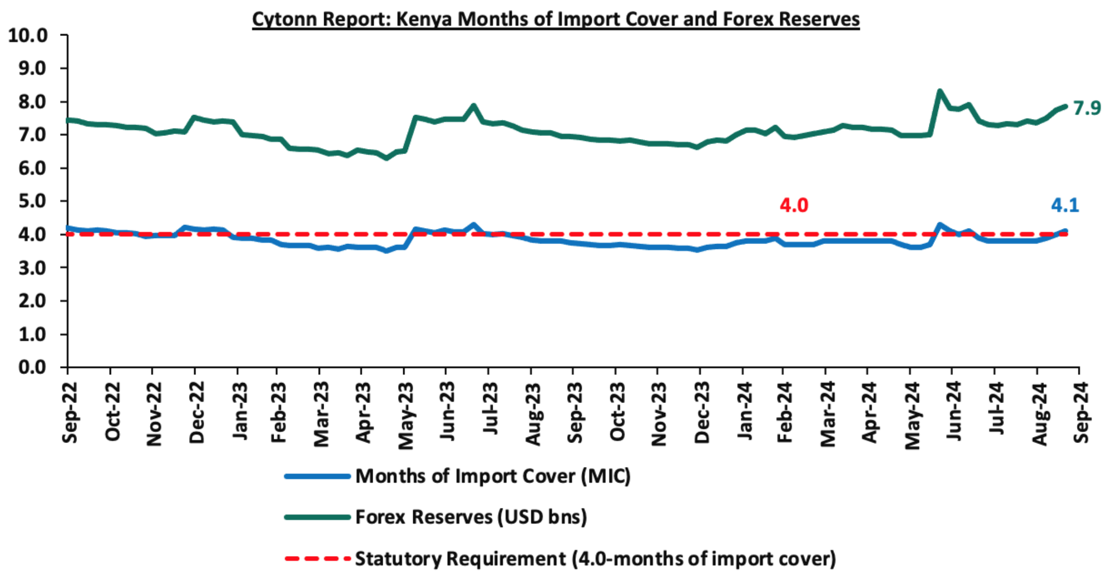
We expect the shilling to be supported by:

i. Diaspora remittances standing at a cumulative USD 4,645.0 mn in the 12 months to August 2024, 12.7% higher than the USD 4,120.0 mn recorded over the same period in 2023, which has continued to cushion the shilling against further depreciation. In the August 2024 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 56.0% in the period, and,
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% in the 12 months to June 2024, from the arrivals recorded during a similar period in 2023.
iii. Improved 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, but lower than the 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 67.9% of Kenya's external debt is US Dollar-denominated as of March 2024.

Key to note, Kenya's forex reserves increased by 1.5% during the week to close the week at USD 7.9 bn from the USD 7.7 bn recorded the previous week, equivalent to 4.1 months of import cover, up from the 4.0 months recorded last week, and above 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. **August 2024 Exchequer Release**

The National Treasury gazetted the revenue and net expenditures for the second month of FY'2024/2025, ending 30th August 2024. Below is a summary of the performance:

**Cytonn Report: FY'2024/2025 Budget Outturn - As at 30th August 2024**

**Amounts in Kshs billions unless stated otherwise**

| Item | 12-months Original Estimates | Revised Estimates | Actual Receipts/Release | Percentage Achieved of the Revised Estimates | Prorated | % achieved of the Prorated |
|---|---|---|---|---|---|---|
| Opening Balance | | | 1.2 | | | |
| Tax Revenue | 2,745.2 | 2,475.06 | 312.8 | 12.6% | 412.5 | 75.8% |
| Non-Tax Revenue | 172.0 | 156.4 | 17.6 | 11.3% | 26.1 | 67.6% |
| **Total Revenue** | **2,917.2** | **2,631.4** | **331.6** | **12.6%** | **438.6** | **75.6%** |
| External Loans & Grants | 571.2 | 593.5 | 3.1 | 0.5% | 98.9 | 3.1% |
| Domestic Borrowings | 828.4 | 978.3 | 102.2 | 10.4% | 163.0 | 62.7% |
| Other Domestic Financing | 4.7 | 4.7 | 4.3 | 91.3% | 0.8 | 548.0% |
| **Total Financing** | **1,404.3** | **1,576.5** | **109.5** | **6.9%** | **262.7** | **41.7%** |
| Recurrent Exchequer issues | 1,348.4 | 1,307.9 | 162.4 | 12.4% | 218.0 | 74.5% |
| CFS Exchequer Issues | 2,114.1 | 2,137.8 | 228.5 | 10.7% | 356.3 | 64.1% |
| Development Expenditure & Net Lending | 458.9 | 351.3 | 18.3 | 5.2% | 58.5 | 31.2% |
| County Governments + Contingencies | 400.1 | 410.8 | 30.8 | 7.5% | 68.5 | 45.0% |
| **Total Expenditure** | **4,321.5** | **4,207.9** | **439.9** | **10.5%** | **701.3** | **62.7%** |
| **Fiscal Deficit excluding Grants** | **1,404.3** | **1,576.5** | **108.3** | **6.9%** | 262.7 | 41.2% |
| **Total Borrowing** | **1,399.6** | **1,571.8** | **105.3** | **6.7%** | 262.0 | **40.2%** |

*Amounts in Kshs bns unless stated otherwise*

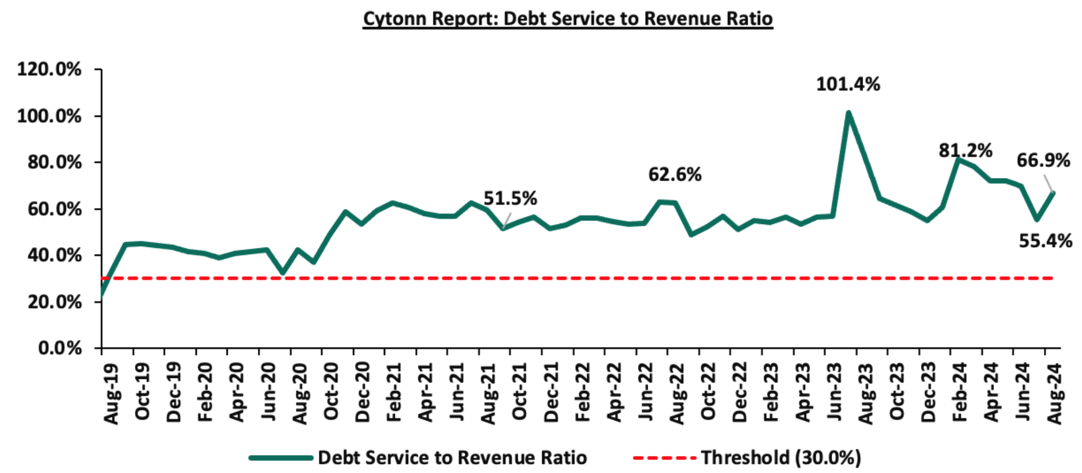
The Key take-outs from the release include;

a. Total revenue collected as at the end of August 2024 amounted to Kshs 331.6 bn, equivalent to 12.6% of the revised estimates of Kshs 2,631.4 bn for FY'2024/2025, and is 75.6% of the prorated estimates of Kshs 438.6 bn. Cumulatively, tax revenues amounted to Kshs 312.8 bn, equivalent to 12.6% of the revised estimates of Kshs 2,475.1 bn and 75.8% of the prorated estimates of Kshs 412.5 bn,

b. Total financing amounted to Kshs 109.5 bn, equivalent to 6.9% of the revised estimates of Kshs 1,576.5 bn and is equivalent to 41.7% of the prorated estimates of Kshs 262.7 bn. Additionally, domestic borrowing amounted to Kshs 102.2 bn, equivalent to 10.4% of the revised estimates of Kshs 978.3 bn and is 62.7% of the prorated estimates of Kshs 163.0 bn,

c. The total expenditure amounted to Kshs 439.9 bn, equivalent to 10.5% of the revised estimates of Kshs 4,207.9 bn, and is 62.7% of the prorated target expenditure estimates of Kshs 701.3 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 162.4 bn, equivalent to 12.4% of the revised estimates of Kshs 1,307.9 and 74.5% of the prorated estimates of Kshs 218.0 bn,

d. Consolidated Fund Services (CFS) Exchequer issues came in at Kshs 228.5 bn, equivalent to 10.7% of the revised estimates of Kshs 2,137.8 bn, and are 64.1% of the prorated amount of Kshs 356.3 bn. The cumulative public debt servicing cost amounted to Kshs 221.8 bn which is 11.6% of the revised estimates of Kshs 1,910.5 bn, and is 69.7% of the prorated estimates of Kshs 318.4 bn. Additionally, the Kshs 221.8bn debt servicing cost is equivalent to 66.9% of the actual cumulative revenues collected as at the end of August 2024. The chart below shows the debt serving to revenue ratio;




e. Total Borrowings as at the end of August 2024 amounted to Kshs 105.3 bn, equivalent to 6.9% of the revised estimates of Kshs 1,571.8 bn for FY'2024/2025 and are 40.2% of the prorated estimates of Kshs 262.0 bn. The cumulative domestic borrowing of Kshs 978.3 bn comprises of Net Domestic Borrowing Kshs 408.4 bn and Internal Debt Redemptions (Rollovers) Kshs 569.9 bn.

The government was unable to meet its prorated revenue targets for the second consecutive month of the FY'2024/2025, attaining 75.6% of the revenue targets in August 2024, mainly on the back of the tough economic situation exacerbated by the elevated high credit cost in the country that, with the commercial banks weighted average lending rates for the month of July 2024 coming in at 16.8% remaining relatively unchanged from the figure recorded in June. The cost of living remains elevated in the country, which continues to impede revenue collection despite an improvement in business environment with the PMI coming in at 50.6 in August 2024 from the 43.1 recorded in July 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 0.6% against the dollar in the month of August, easing inflationary pressures, and, an ease in the monetary policy in the country, with the Monetary Policy Committee (MPC) announcing a downward revision of the Central Bank Rate (CBR) by 25 bps to 12.75% from 13.00% following their last meeting on 6th August 2024.

II. **US Federal Reserve Cuts Federal Funds Rates by 50 bps to a Range of 4.75%-5.00%**

On September 18th 2024, the US Federal Reserve announced their decision to cut its benchmark interest rate by 50 bps, to a range of 4.75%-5.00% from a range of 5.25%-5.50%. The decision came after the Federal Open Market Committee (FOMC) voted 11 to 1 to lower the federal funds rates after holding it for more than a year at its highest level in two decades. Notably, it was the Fed's first rate cut in more than four years.

The Fed's decision to lower rates was driven by the need to support a soft landing for the economy, as inflation showed signs of easing but remained above the 2.0% target. As of August 2024, the y/y inflation rate stood at 2.5%, down from 2.9% in July 2024**.** The FOMC noted that while inflation has made progress toward its objective, it remains somewhat elevated, and economic growth continues at a solid pace. Despite a slowdown in job gains and a slight rise in the unemployment rate, labor market conditions are still considered strong. The rate cut is seen as a proactive measure to ensure that the economy remains on a stable path toward achieving the dual mandate of maximum employment and stable prices.

In addition to the rate cut, the Fed reaffirmed its commitment to reducing its balance sheet through the continued drawdown of its Treasury securities, agency debt, and mortgage-backed securities holdings. The Committee also indicated that future rate adjustments will depend on the assessment of incoming economic data, reflecting a data-dependent approach to policy decisions.

This move comes after peer central banks in developed economies including the Eurozone cut their rates. Notably, on 12th September 2024, the European Central Bank (ECB) lowered their base rates by 25 bps to 3.5% to ease monetary policy restrictions, reflecting an updated inflation outlook and better transmission of policy. Similarly, in August 2024, the Bank of England announced its decision to cut their base rates by 25 bps to 5.0% from 5.25%, citing persistent inflationary pressures, with the y/y inflation remaining steady at 2.2%, the same as in July 2024 and the need to ensure that inflation expectations remain well anchored.

The Fed’s decision will have a notable impact on the Kenyan economy. One of the most immediate effects could be on the exchange rate between the Kenyan Shilling and the U.S. Dollar. Typically, a Fed rate cut weakens the dollar, which could result in a stronger Shilling, having already appreciated by 17.7% on a YTD basis. Additionally, the lower U.S. rates might reduce the cost of servicing Kenya’s external debt, much of which is denominated in dollars. Moreover, the rate cut could improve Kenya’s external borrowing conditions, especially in terms of its Eurobonds. A lower U.S. rate environment may reduce yield spreads on emerging market debt, making Kenyan Eurobonds more attractive to investors. This increased demand could result in lower borrowing costs for Kenya on future issuances, which may encourage additional external borrowing to finance key development projects. For investors, lower U.S. rates may drive capital out of dollar-denominated assets, increasing the attractiveness of investments in Kenyan markets like the Nairobi Securities Exchange (NSE), which could provide a boost to local businesses.

Going forward, the Federal Reserve indicates the prospects of further cuts in the coming reviews. This could also be pointing towards further cuts in the base lending rate by the Monetary Policy Committee (MPC) in their next meeting on 8th October 2024. Notably, the MPC met in August and lowered the benchmark Central Bank Rate (CBR) to 12.75% from the decade-high of 13.0%. The cut was a 25-basis points slash, and the first one in four years, as the previous slash was last witnessed in March 2020, similar to the trend with the Fed Rate.

***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 131.8% ahead of its prorated net domestic borrowing target of Kshs 94.2 bn, having a net borrowing position of Kshs 218.5 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.***