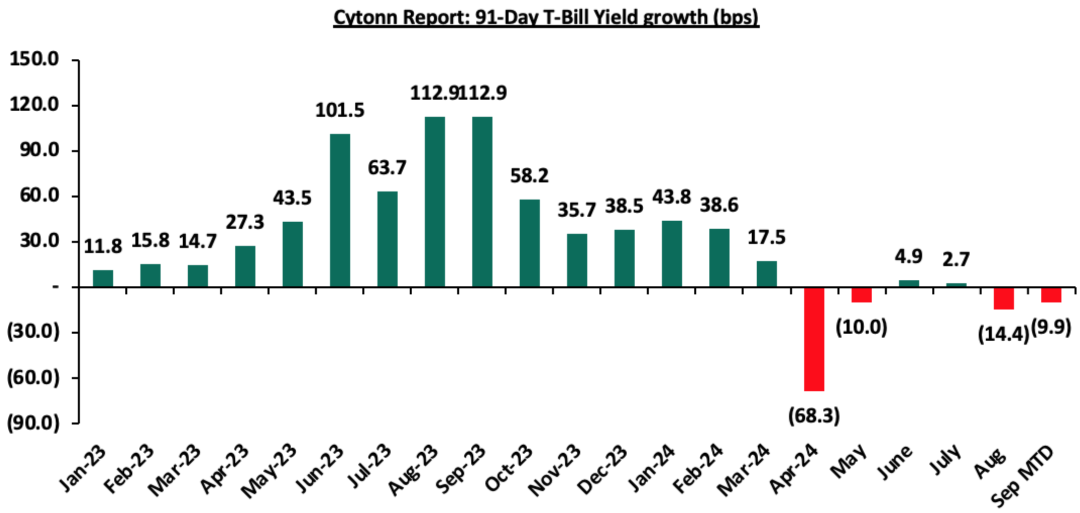
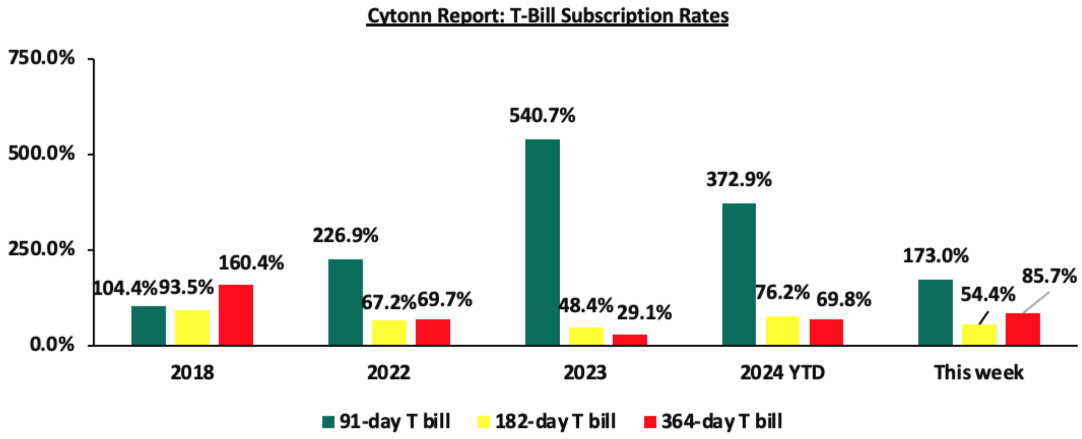
The State of Credit Availability in Kenya’s Private Sector, & Cytonn Weekly #39/2024

Fixed Income

During the week, T-bills were undersubscribed, with the overall undersubscription rate coming in at 87.2%, a reversal from the oversubscription rate of 126.4% recorded the previous week. Investors’ preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 6.9 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 173.0%, albeit lower than the oversubscription rate of 283.9% recorded the previous week. The subscription rates for the 182-day and 364-day papers decreased to 54.4% and 85.7% respectively from the 84.1% and 105.8% respectively recorded the previous week. The government accepted a total of Kshs 12.5 bn worth of bids out of Kshs 20.9 bn bids received, translating to an acceptance rate of 59.6%. 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 1.3 bps, 2.7 bps and 2.8 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:

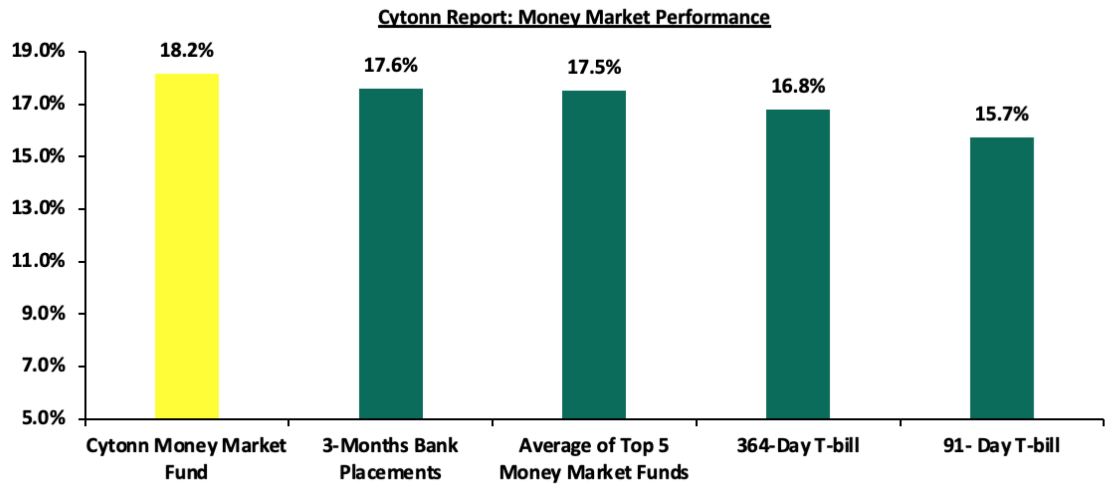


The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 Year-to-date (YTD):



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 1.3 bps and 2.8 bps respectively, 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 3.0 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 7.0 bps to 17.5% from the 17.6% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 27th September 2024:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 27th 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	17.4%
4	Arvocap Money Market Fund	17.1%
5	Kuza Money Market fund	16.9%
6	GenAfrica Money Market Fund	16.5%
7	Nabo Africa Money Market Fund	16.1%
8	Jubilee Money Market Fund	16.0%

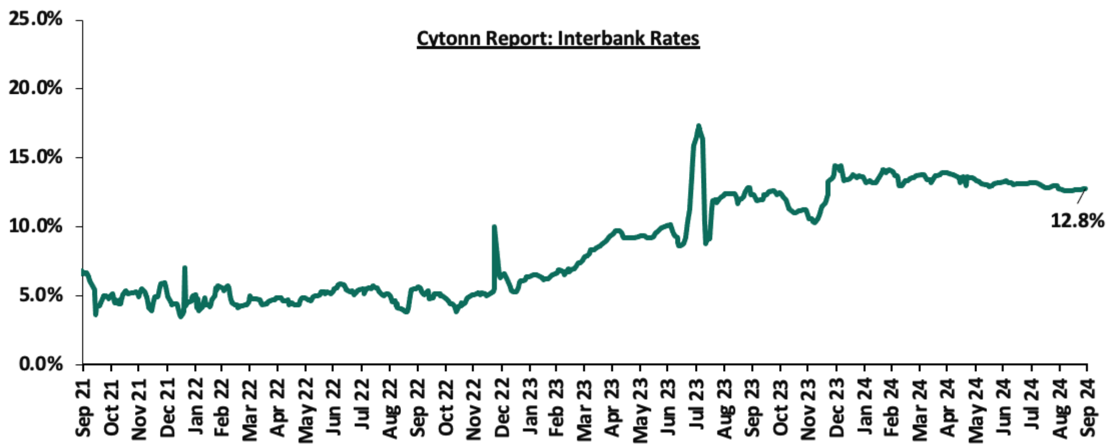
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 27th September 2024

Rank	Fund Manager	Effective Annual Rate
9	Enwealth Money Market Fund	16.0%
10	Madison Money Market Fund	15.7%
11	KCB Money Market Fund	15.3%
12	Co-op Money Market Fund	15.3%
13	Mali Money Market Fund	15.2%
14	Genghis Money Market Fund	15.2%
15	Sanlam Money Market Fund	15.1%
16	Apollo Money Market Fund	15.1%
17	Absa Shilling Money Market Fund	15.0%
18	Orient Kasha Money Market Fund	15.0%
19	AA Kenya Shillings Fund	14.7%
20	Stanbic Money Market Fund	14.5%
21	Mayfair Money Market Fund	14.3%
22	Old Mutual Money Market Fund	14.0%
23	Dry Associates Money Market Fund	13.9%
24	ICEA Lion Money Market Fund	13.8%
25	CIC Money Market Fund	13.7%
26	British-American Money Market Fund	13.2%
27	Equity Money Market Fund	12.6%

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 remain relatively unchanged from the 12.7% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded decreased by 27.0% to Kshs 18.1 bn from Kshs 24.8 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 2018 decreasing the most by 83.7 bps to 8.3% from 9.1% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 26th 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**	**23.4**	**2.6**	**7.7**	**9.7**	**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%
19-Sep-24	9.3%	10.4%	9.1%	10.0%	9.9%	10.1%
20-Sep-24	9.4%	10.4%	9.4%	10.1%	10.0%	10.1%
23-Sep-24	9.4%	10.4%	9.4%	10.1%	10.0%	10.2%
24-Sep-24	9.1%	10.2%	9.1%	9.9%	9.7%	9.9%
25-Sep-24	8.7%	10.0%	8.6%	9.6%	9.4%	9.6%
26-Sep-24	8.5%	9.9%	8.3%	9.4%	9.4%	9.4%
Weekly Change	**(0.7%)**	**(0.5%)**	**(0.8%)**	**(0.5%)**	**(0.5%)**	**(0.6%)**
MTD Change	**(1.7%)**	**(0.9%)**	**(1.6%)**	**(1.0%)**	**(1.0%)**	**(1.1%)**
YTD Change	**(1.3%)**	**(0.3%)**	**(1.9%)**	**(0.5%)**	**(0.1%)**	**-**

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

Kenya Shilling:

During the week, the Kenya Shilling depreciated marginally against the US Dollar by 1.2 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.

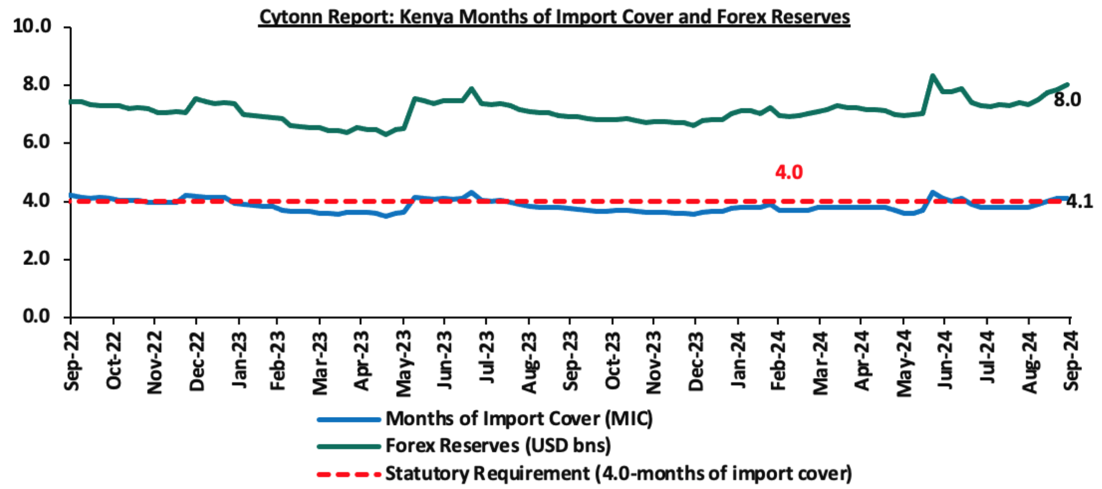
We expect the shilling to be supported by:

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 8.0bn (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 2.1% during the week to close the week at USD 8.0 bn from the USD 7.9 bn recorded the previous week, equivalent to 4.1 months of import cover unchanged from the 4.1 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. **September Inflation projection**

We are projecting the y/y inflation rate for September 2024 to come in at the range of **4.1% - 4.4%** mainly on the back of:

i. **Reduction in electricity prices –** In September 2024, electricity costs per kWh decreased to Kshs 28.6 from Kshs 28.8 last month, on the back of decreased fuel cost charge (FCC) and Foreign Exchange Rate Fluctuation Adjustment (FERFA). With electricity being one of the major inputs of inflation, this increase is expected to increase production costs for businesses as well as increase electricity costs for households and thus tightening inflation, and,
ii. **Stable Fuel Prices in September** – In their last fuel release, EPRA announced that the maximum allowed price for Super Petrol and Diesel remained unchanged from the prices announced for the month of August, while the maximum price allowed for Kerosene decreased by Kshs 3.4 per litre. Consequently, Super Petrol and Diesel continued to retail at Kshs 188.8 and Kshs 171.6 per litre respectively, while Kerosene retailed at Kshs 158.4 per litre from Kshs 161.8 in August. This followed the government's efforts to stabilize pump prices through the petroleum pump price stabilization mechanism which expended Kshs 9.9 bn in the FY'2023/24 to cushion the increases applied to the petroleum pump prices. This stability in fuel prices is likely to provide a stabilizing effect on consumer purchasing power as well as business operational costs, since fuel is a major input cost for businesses.

We, however, expect that the effect on inflation will be weighed down by:

iii. **The decrease in the Central Bank Rate (CBR) by 25.0 bps to 12.75% from 13.00%** – Earlier this year, the monetary policy committee noted that, there was need to tighten the monetary policy following the sustained depreciation of the Kenyan shilling as well as the heightened inflationary pressures which came in at 6.9% in the month of January, 0.3% points increase from the 6.6% in December and remaining within the upper bound of the inflation target range of 2.5% to 7.5%. In line with this, the committee increased the CBR by 50 bps to 13.00% from 12.50% in February. Additionally, the monetary policy committee decided to maintain the CBR at 13.00% in the April and June meetings to give the new rate time to take further effect in the economy. On 6th August 2024, the MPC lowered the CBR by 25.0 bps to 12.75% from 13.00% rate noting that its previous measures have successfully reduced overall inflation to below the mid-point of the target range of 2.5% - 7.5%, stabilized the exchange rate, and anchored inflationary expectations. This reduction in the CBR is likely to increase the money supply and lower borrowing costs, which may cause a slight rise in inflation rates as the effects of the CBR gradually take hold in the broader economy, and,

iv. **Slight depreciation of the Kenya Shilling against the US Dollar** – The Kenya Shilling has recorded a marginal 1.7 bps month-to-date decline as of 28th August 2024 to remain relatively unchanged at Kshs 129.2, and a 17.7% year-to-date gain from the Kshs 157.0 recorded at the beginning of the year. This depreciation in the exchange rate, though slight, could increase inflationary pressures.

Going forward, we expect inflationary pressures to remain anchored in the short term, remaining in the CBK's target range of 2.5%-7.5% aided by the stable fuel prices, decreased energy costs and stability in the exchange rate. However, risks remain, particularly from the potential for increased demand-driven inflation due to accommodative monetary policy. The decision to lower the CBR to 12.75% during the latest MPC meeting will likely increase money supply, in turn possibly increasing inflation, especially with further cuts expected in the coming meetings. The CBK's ability to balance growth and inflation through close monitoring of both inflation and exchange rate stability will be key to maintaining inflation within the target range.

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 121.2% ahead of its prorated net domestic borrowing target of Kshs 102.1bn, having a net borrowing position of Kshs 225.9 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.