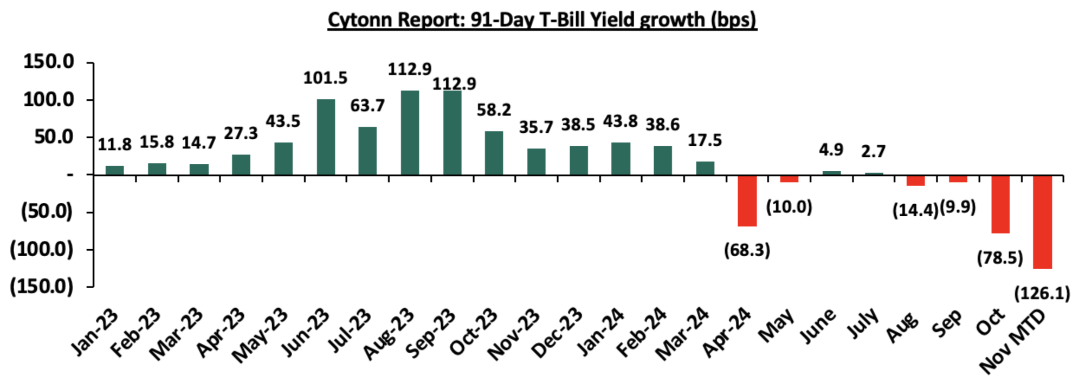
Nairobi Metropolitan Area (NMA) Mixed-Use Developments Report 2024, & Cytonn Weekly #45/2024

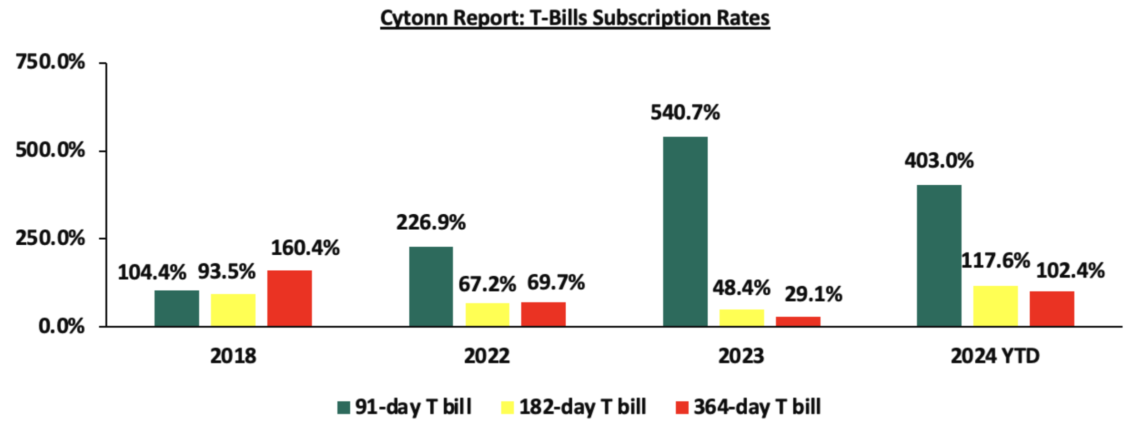
Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills were oversubscribed for the sixth consecutive week, with the overall oversubscription rate coming in at 409.9%, higher than the oversubscription rate of 259.0% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 27.4 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 686.1%, significantly higher than the oversubscription rate of 375.2% recorded the previous week. The subscription rates for the 182-day and 364-day papers increased significantly to 427.8% and 281.5% respectively from the 232.4% and 239.2% respectively recorded the previous week. The government accepted a total of Kshs 53.7 bn worth of bids out of Kshs 98.4 bn bids received, translating to an acceptance rate of 54.6%. 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 52.1 bps, 68.3 bps, and 51.6 bps to 14.4%, 13.8%, and 13.4% respectively from 15.0%, 14.5% and 14.0% respectively recorded the previous week. The chart below shows the yield growth rate for the 91-day paper over the period:



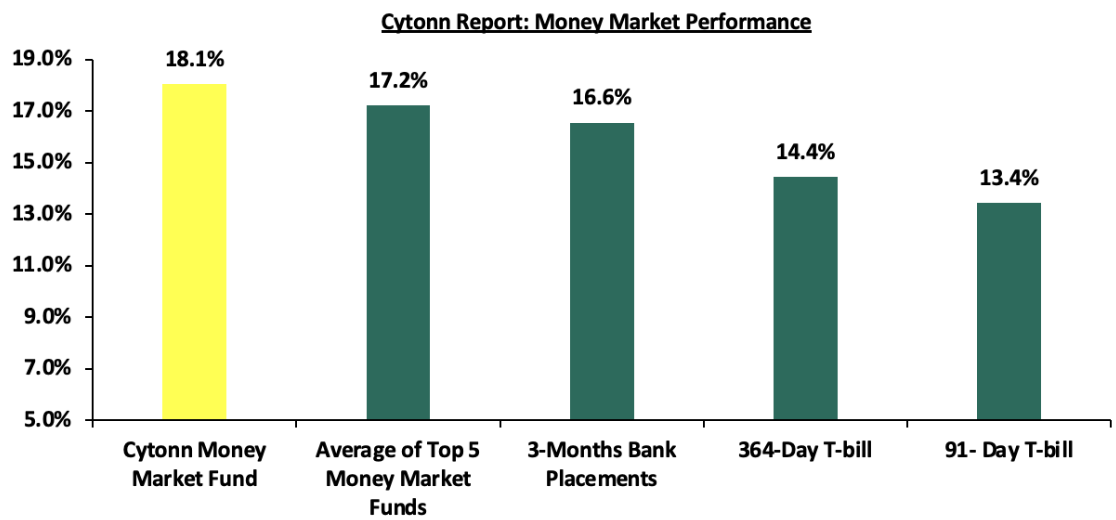
The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 Year-to-date (YTD):



Also, during the week, the Central Bank of Kenya released the auction results for the re-opened bonds, FXD1/2023/010 with a tenor to maturity of 8.2 years, and a fixed coupon rate of 14.2% and FXD1/2022/015 with a tenor to maturity of 12.4 years, and a fixed coupon rate of 13.9%. The bonds were oversubscribed with the overall subscription rate coming in at 132.2%, receiving bids worth Kshs 33.0 bn against the offered Kshs 25.0 bn. The government accepted bids worth Kshs 25.7 bn, translating to an acceptance rate of 77.7%. The weighted average yields of accepted bids for the FXD1/2023/010 and the FXD1/2022/015 came in at 16.0% and 16.3% respectively, which were below our expectation of within a bidding range of 16.25%-16.55% for the FXD1/2023/010 and 16.45%-16.55% for the FXD1/2022/015. Notably, the 16.0% yield on the FXD1/2023/010 was lower than the 16.4% rate recorded on the last sale in June 2024, while the 16.3% yield on the FXD1/2022/015 was higher than the 14.2% recorded the last time it was offered in January 2023. With the Inflation rate at 2.7% as of October 2024, the real return of the FXD1/2023/010 and the FXD1/2022/015 is 13.3% and 13.6% respectively.

Money Market Performance:

In the money markets, 3-month bank placements ended the week at 16.6% (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 52.1 bps and 51.6 bps to 14.4% and 13.4% respectively from 15.0% and 14.0% respectively recorded the previous week. The yields on the Cytonn Money Market Fund closed the week at 18.1%, remaining unchanged from the previous week, while the average yields on the Top 5 Money Market Funds decreased by 15.8 bps to close the week at 17.2%, from 17.4% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 8th November 2024:

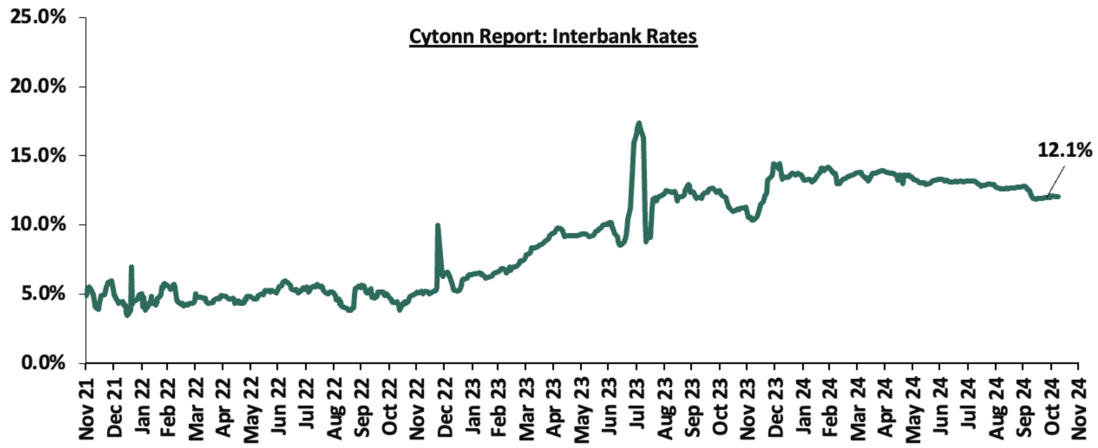
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 8th November 2024

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund (Dial *809# or Download the Cytonn App)	18.1%
2	Lofty-Corban Money Market Fund	17.8%
3	Etica Money Market Fund	17.2%
4	Arvocap Money Market Fund	16.6%
5	Kuza Money Market fund	16.5%
6	Jubilee Money Market Fund	15.5%
7	Ndovu Money Market Fund	15.5%
8	Nabo Africa Money Market Fund	15.4%
9	Mali Money Market Fund	15.2%
10	Genghis Money Market Fund	15.2%
11	GenAfrica Money Market Fund	15.2%
12	KCB Money Market Fund	15.2%
13	Faulu Money Market Fund	15.2%
14	Mayfair Money Market Fund	14.9%
15	Sanlam Money Market Fund	14.9%
16	Apollo Money Market Fund	14.9%
17	Madison Money Market Fund	14.9%
18	Enwealth Money Market Fund	14.6%
19	Co-op Money Market Fund	14.4%
20	Absa Shilling Money Market Fund	14.3%
21	Orient Kasha Money Market Fund	14.3%
22	Old Mutual Money Market Fund	13.9%
23	Dry Associates Money Market Fund	13.9%
24	CIC Money Market Fund	13.5%
25	ICEA Lion Money Market Fund	13.4%
26	AA Kenya Shillings Fund	13.7%
27	British-American Money Market Fund	13.5%
28	Stanbic Money Market Fund	13.3%
29	Equity Money Market Fund	13.2%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets marginally tightened, with the average interbank rate increasing by 7.2 bps, to 12.1% from the 12.0% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded increased significantly by 75.3% to Kshs 55.2 bn from Kshs 31.5 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 2024 increasing the most by 7.0 bps to 9.9% from 9.8% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 7th November 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	**3.3**	**23.3**	**2.5**	**7.5**	**9.6**	**6.3**
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%	
01-Oct-24	8.6%	9.9%	8.3%	9.6%	9.4%	9.5%
31-Oct-24	8.9%	10.1%	8.2%	9.9%	9.7%	9.8%
01-Nov-24	9.1%	10.2%	8.3%	9.9%	9.8%	9.9%
04-Nov-24	9.1%	10.2%	8.3%	9.9%	9.8%	9.9%
05-Nov-24	9.2%	10.2%	8.5%	10.0%	9.9%	10.0%
06-Nov-24	9.2%	10.3%	8.5%	10.0%	9.9%	10.0%
07-Nov-24	9.0%	10.2%	8.3%	9.9%	9.8%	9.9%
Weekly Change	**0.1%**	**0.0%**	**0.1%**	**0.0%**	**0.0%**	**0.1%**
MTD Change	**0.4%**	**0.2%**	**(0.1%)**	**0.3%**	**0.3%**	**0.3%**
YTD Change	**(0.8%)**	**0.0%**	**(1.8%)**	**(0.0%)**	**0.3%**	**-**

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

Kenya Shilling:

During the week, the Kenya Shilling depreciated marginally against the US Dollar by 0.4 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.

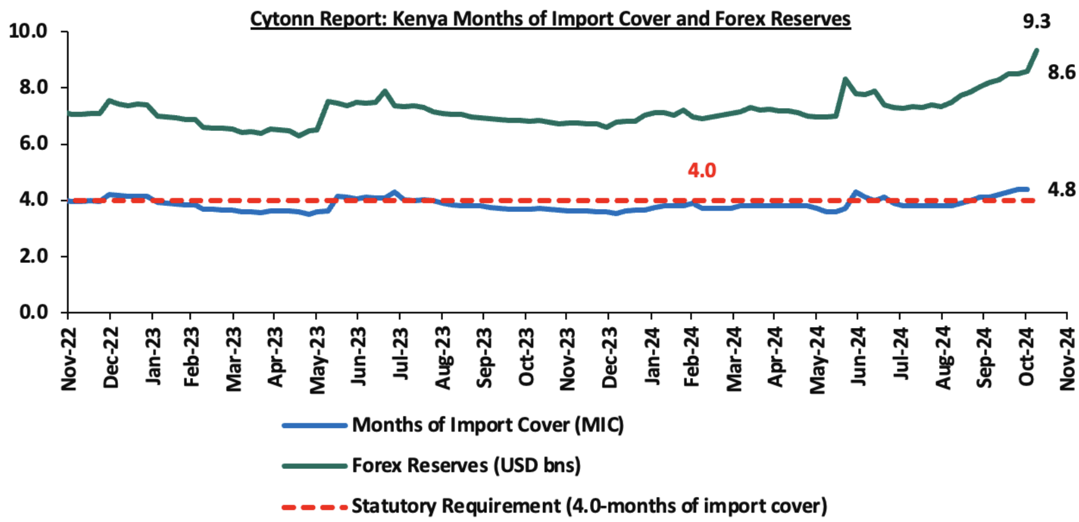
We expect the shilling to be supported by:

i. Diaspora remittances standing at a cumulative USD 4,723.0 mn in the 12 months to September 2024, 14.0% higher than the USD 4,142.0 mn recorded over the same period in 2023, which has continued to cushion the shilling against further depreciation. In the September 2024 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 55.4% 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 21.0% in the 12 months to August 2024, compared to a similar period in 2023, and,
iii. Improved forex reserves currently at USD 9.3 bn (equivalent to 4.8-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover and 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 3.8% of GDP in Q2'2024 from 3.7% recorded in Q2'2023, and,
ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.2% of Kenya's external debt is US Dollar-denominated as of June 2024.

Key to note, Kenya's forex reserves rose by 8.6% during the week, reaching USD 9.3 bn, equivalent to 4.8 months of import cover from 4.4 months recorded the previous week, and above to the statutory requirement of maintaining at least 4.0-months of import cover. This increase in forex reserves is primarily attributed to the recent disbursement from the International Monetary Fund (IMF). On October 30, 2024, the IMF approved a combined disbursement of around USD 606.1 mn following the successful completion of Kenya's seventh and eighth reviews under the Extended Fund Facility (EFF), Extended Credit Facility (ECF), and Resilience and Sustainability Facility (RSF) arrangements. The chart below summarizes the evolution of Kenya's months of import cover over the years:



Weekly Highlights:

i. **Stanbic Bank's October 2024 Purchasing Manager's Index (PMI)**

During the week, Stanbic Bank released its monthly Purchasing Manager's Index (PMI) highlighting that the index for the month of October 2024 improved, coming in at 50.4, up from 49.7 in

September 2024, signaling a mild recovery in business conditions. This is majorly attributable to a reduction in fuel prices and borrowing costs, which resulted in increased employment for the first time in three months, accelerated purchasing efforts, and mild input cost pressures, prompting a slower increase in the average price charged.

In October, Kenyan businesses raised their output levels for the third time in three months although only slightly overall. This is attributable to the rise in activity of a third of firms surveyed, however, weighed down by declining activities of 29.0% of firms surveyed. Agriculture, construction and wholesale & retail sectors recorded an expansion but were however weighed down by a decrease in the manufacturing and services sectors.

The businesses surveyed saw an increase in their activity in October attributed to the rising sales and client interests. However, the rise in sales was minimal as many firms continue to struggle with cash flow constraints, tough economic conditions, rising costs, and political uncertainty.

Employment levels improved slightly in October, attributable to the slight rise in output. This marked the first increase since July, which allowed for a fresh depletion of backlogs of work.

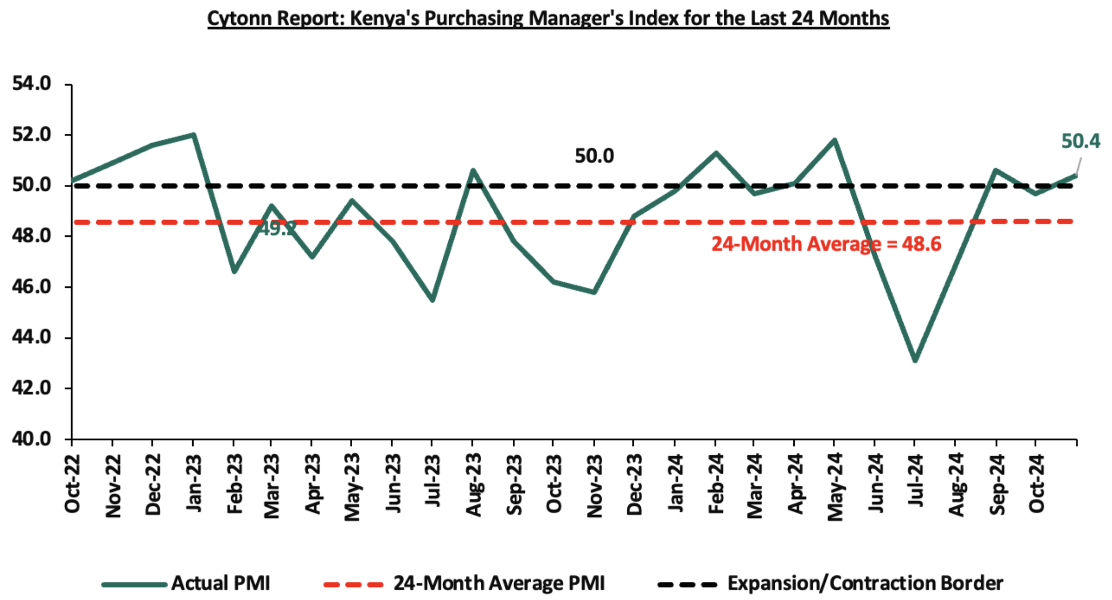
In October, capacity-building efforts also involved purchases, with the volume of inputs acquired increasing for the third consecutive month. In anticipation of new customers, businesses increased their input stocks. Inventories grew at a moderate pace, marking the quickest rise seen in over a year.

Increased spending by firms partly mirrored an improvement in output expectations at the beginning of the fourth quarter. Confidence in activity for the upcoming year reached a four-month peak, with factors such as new outlets, revamped marketing strategies, and greater investments frequently cited as expected growth drivers. However, sentiment remained relatively low compared to historical trends.

Despite increased hiring and purchasing activity, Kenyan firms experienced a modest rate of input cost inflation. The y/y inflation in October 2024 declined by 0.9% points to 2.7%, from the 3.6% recorded in September 2024. Although taxes and rising material prices pushed up expenses for several firms, this was somewhat offset by lower fuel prices. The prices for maximum retail fuel prices in Kenya for Super Petrol, Diesel, and Kerosene decreased by Kshs 8.2, Kshs 3.5, and Kshs 6.9 per litre respectively. Consequently, Super Petrol, Diesel, and Kerosene will retail at Kshs 180.7, Kshs 168.1, and Kshs 151.4 per litre respectively, from Kshs 188.8, Kshs 171.6, and Kshs 158.4 per litre respectively the last month. Overall, cost pressures were mild compared to those observed last year.

As a result, average prices charged saw only a slight increase. Notably, a moderate rise in August and a decline in April represented the only occasions in nearly four years where inflationary pressures on selling prices have eased.

The chart below summarizes the evolution of PMI over the last 24 months:



Going forward, we anticipate that the business environment will improve in the short to medium term as a result of the improving economic environment driven by lower interest rates following the easing monetary policy, the stability of the Kenyan Shilling against the USD, and the easing inflation, which is currently at its lowest in years and reduced fuel prices. However, we expect businesses to be weighed down by the high cost of living coupled with the high taxation, which is set to increase input costs.

Rates in the Fixed Income market have been on a downward trend given the continued low demand for cash by the government and the improved liquidity in the money market. The government is 141.2% ahead of its prorated net domestic borrowing target of Kshs 149.2 bn, having a net borrowing position of Kshs 360.0 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-term, and hence investors are expected to shift towards the long-term papers to lock in the high returns.