Nairobi Metropolitan Area (NMA) Residential Report 2018/2019, & Cytonn Weekly #28/2019

Fixed Income

Money Markets, T-Bills & T-Bonds Primary Auction:

T-bills remained oversubscribed during the week with the overall subscription rate increasing to 183.8% from 133.3% recorded the previous week. The continued oversubscription is attributable to favourable liquidity in the market supported by government payments. The yields on the 91-day paper rose by 0.1% points to 6.6% from 6.7% recorded the previous week, while that of the 182-day paper rose by 0.1% points to 7.5% from 7.4% the previous week, respectively. The 364-day paper, however, remained unchanged at 8.6%. The acceptance rate for all treasury bills bid increased to 100% from 94.2% recorded the previous week, with the government accepting all the Kshs 44.1 bn worth of bids received, higher than the weekly quantum of Kshs 24.0 bn. Investors' participation remained skewed towards the longer-dated paper, with the continued demand being attributable to the scarcity of newer short-term bonds in the primary market. The 91-day, 182-day and 364-day papers registered improved subscription to 81.1%, 111.1% and 297.7% from 53.8%, 48.2% and 250.2% recorded the previous week, respectively.

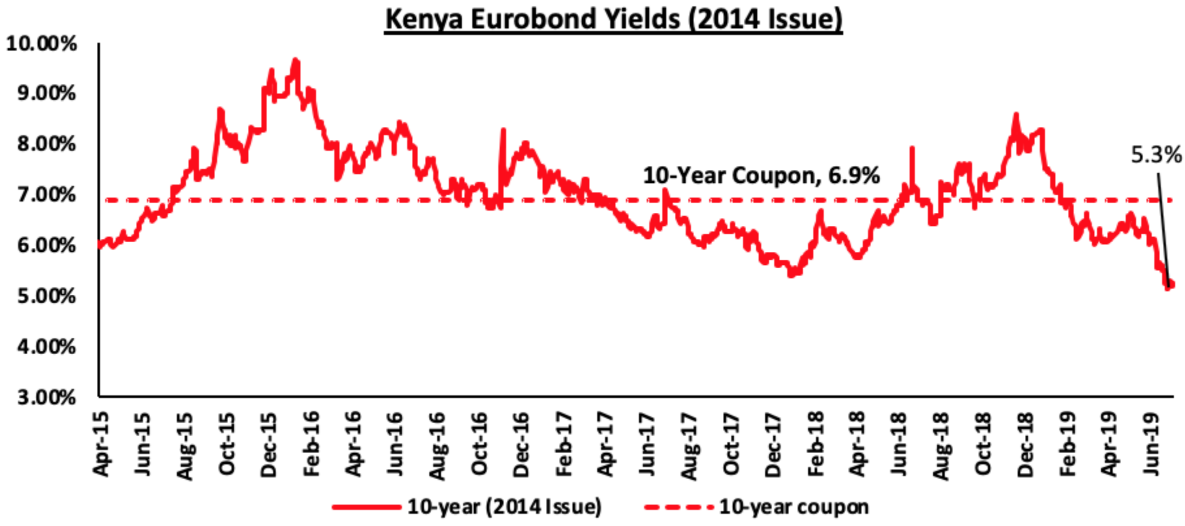
In the money markets, 3-month bank placements ended the week at 8.8% (based on what we have been offered by various banks), 91-day T-bill at 6.6%, average of Top 5 Money Market Funds at 10.1%, with the Cytonn Money Market Fund closing the week at 11.0%.

Liquidity:

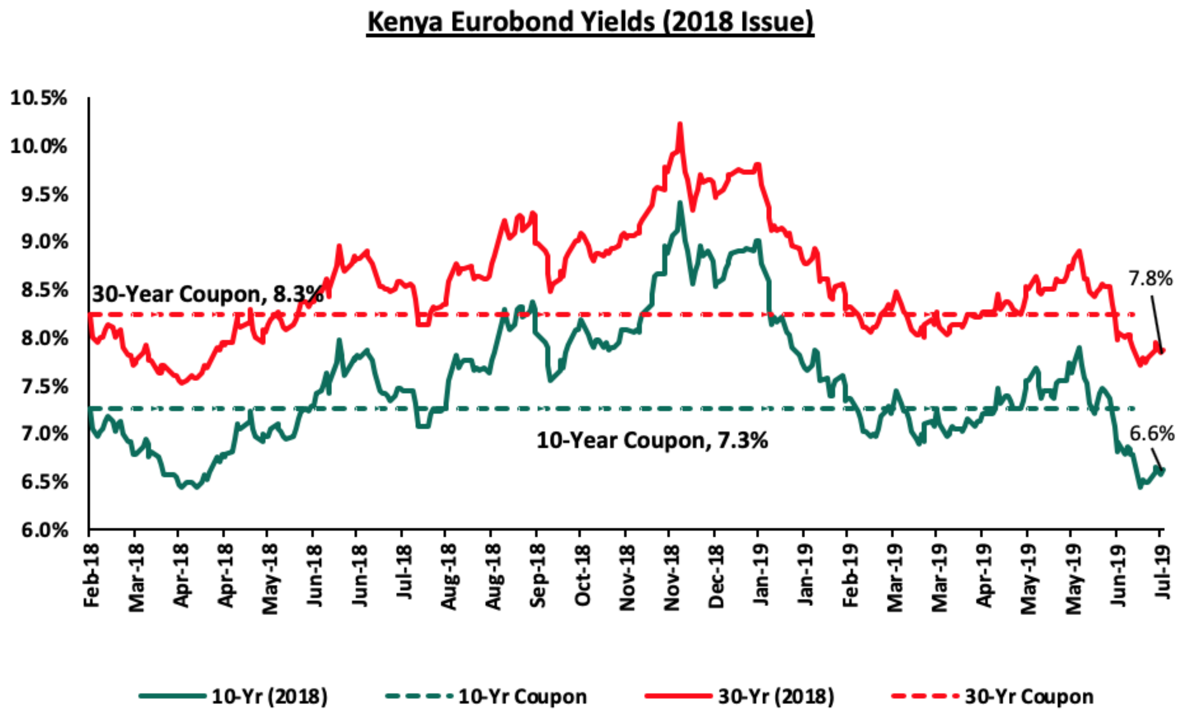
Liquidity in the market remained favourable during the week, with the average interbank rate still at low levels despite rising slightly to 2.3% from 2.0%, recorded the previous week. This saw commercial banks' excess reserves coming in at Kshs 14.8 bn in relation to the 5.25% cash reserves requirement (CRR). The average volumes traded in the interbank market however declined by 2.0% to Kshs 7.6 bn, from Kshs 7.8 bn the previous week.

Kenya Eurobonds:

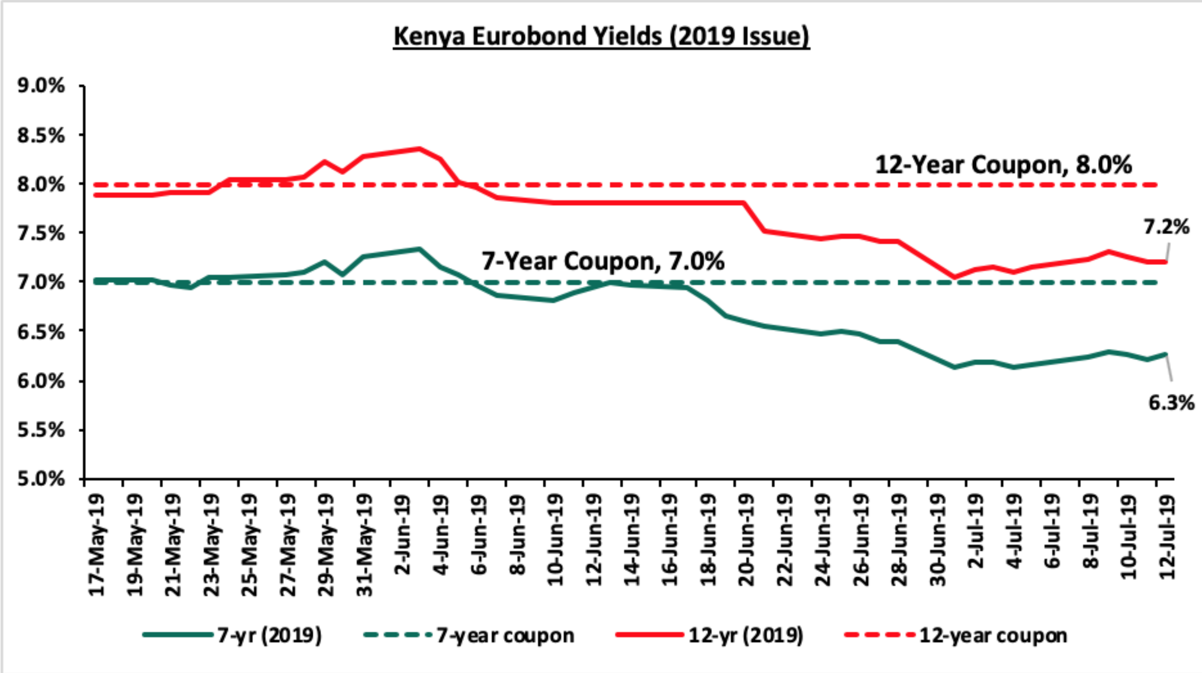
The yield on the 10-year Eurobond issued in 2014 rose by 0.1% points to 5.3%, from 5.2% recorded the previous week.



For the February 2018 Eurobond issue, yields on both the 10-year and 30-year Eurobonds remained unchanged at 6.6% and 7.8%, respectively.



For the newly issued dual-tranche Eurobond with 7-years and 12-years tenor, priced at 7.0% for the 7-year tenor and 8.0% for the 12-year tenor, respectively, the yields on the 7-year bond rose by 0.1% point to 6.3% from 6.2%, while the 12-year bond yields remained unchanged at 7.2%.



The Kenya Shilling:

During the week, the Kenya Shilling depreciated by 0.3% against the US Dollar to close at Kshs 102.9, from Kshs 102.6 the previous week, this was due to increased dollar demand from oil and merchandise importers during the week. The Kenya Shilling has appreciated by 0.5% year to date in addition to the 1.3% appreciation in 2018, and in our view, the shilling should remain relatively stable to the dollar in the short term, supported by:

i. The narrowing of the current account deficit with preliminary data indicating that the current account deficit narrowed to 4.2% percent of GDP in the 12 months to May 2019 from 5.8% recorded in May 2018. The decline has been attributed to the resilient performance of exports particularly horticulture and coffee, strong diaspora remittances, and higher receipts from tourism and transport services. Growth of imports also slowed mainly due to lower imports of food,
ii. Improving diaspora remittances, which have increased by 3.8% in May 2019 to USD 1.2 bn, from USD 1.1 bn recorded in a similar period of review in 2018. The rise is due to:
    a. Increased uptake of financial products by the diaspora due to financial services firms, particularly banks, targeting the diaspora, and,
    b. New partnerships between international money remittance providers and local commercial banks making the process more convenient,
iii. CBK's supportive activities in the money market, such as repurchase agreements and selling of dollars, and,
iv. High levels of forex reserves, currently at USD 9.8 bn (equivalent to 6.2-months of import cover), above the statutory requirement of maintaining at least 4-months of import cover, and the EAC region's convergence criteria of 4.5-months of import cover.

Rates in the fixed income market have remained relatively stable as the government rejects expensive bids. A budget deficit is likely to result from depressed revenue collection with the revenue target for FY'2019/2020 at Kshs 2.1 tn, creating uncertainty in the interest rate environment as additional borrowing from the domestic market goes to plug the deficit. Despite this, we do not expect upward pressure on interest rates due to increased demand for government securities, driven by improved liquidity in the market owing to the relatively high debt maturities. Our view is that investors should be biased towards medium-term fixed income instruments to reduce duration risk associated with long-term debt, coupled with the relatively flat yield curve on the long-end due to saturation of long-term bonds.

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