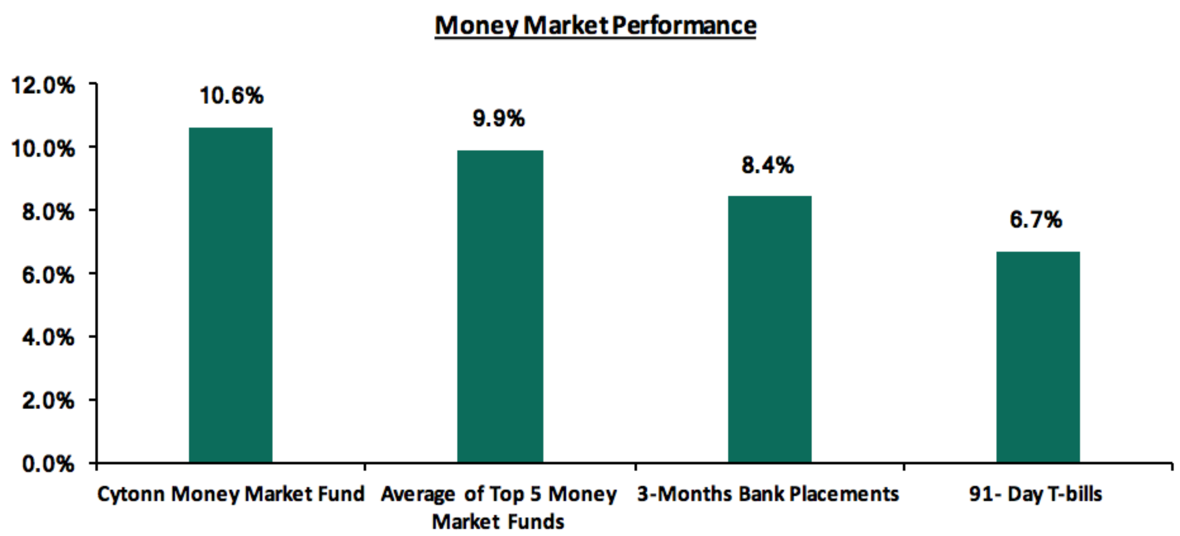
Kenya Listed Insurance H1’2019 Report, & Cytonn Weekly #46/2019

Fixed Income

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

During the week, T-bills were undersubscribed, with the subscription rate coming in at 57.7%, down from 132.6% the previous week. The yield on the 91-day papers increased by 0.3% points to 6.7%, from 6.4% while the 182-day paper increased by 0.5% points to 7.8%, from 7.3% the previous week. The increase in yields on the 91-day and 182-day papers can be attributed to expected increase in interest rates due to the recent interest rate cap repeal. The 364-day paper however remained unchanged at 9.8%. The acceptance rate increased to 99.9% from 83.5%, recorded the previous week, with the government accepting Kshs 13.8 bn of the Kshs 13.9 bn bids received.

Last week, the National Treasury announced that it will issue a 10-year Kshs 50.0 bn bond (FXD 4/2019/10) with market-determined coupon rates for Budgetary Support purposes. The period of sale is from 6th November 2019 to 19th November 2019. As per the historical trend, we expect the market to maintain a bias towards the 10-year bond mainly driven by the perception that risks may not be adequately priced on the longer end of the yield curve, which is relatively flat due to saturation of long-term bonds. Our recommended bidding range is 11.7% - 11.9%, given that bonds with the same tenor are currently trading at 11.7%.



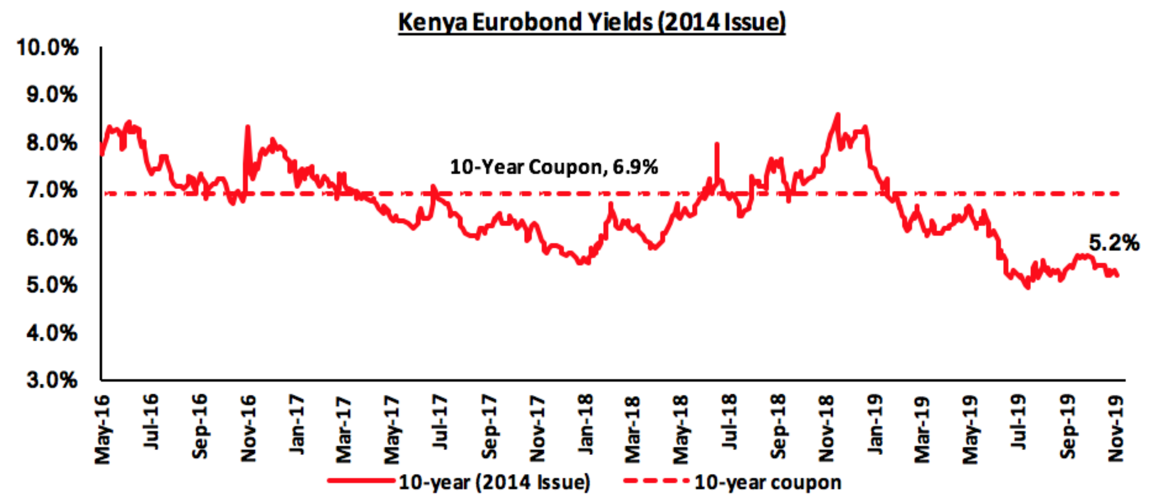
In the money markets, 3-month bank placements ended the week at 8.4%, from 8.5% recorded in the previous week, (based on what we have been offered by various banks), the 91-day T-bill came in at 6.7% from 6.4% recorded the previous week, while the average of Top 5 Money Market Funds came in at 9.9%, from 10.0% recorded in the previous week. The Cytonn Money Market Fund closed the week at 10.6%, from 10.9% recorded the previous week.

Liquidity:

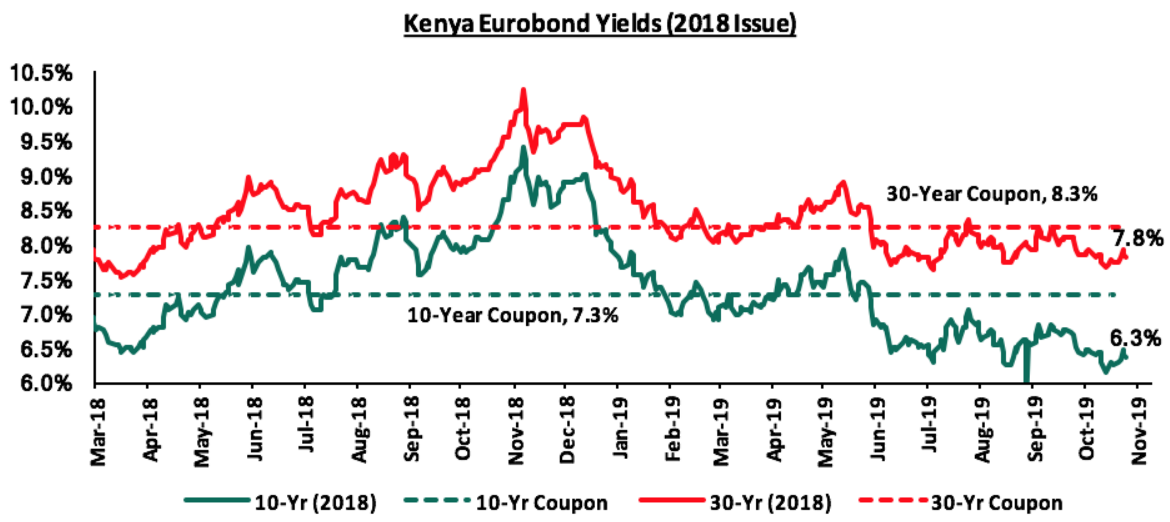
During the week, the average interbank rate dropped to 3.6%, from 4.9% recorded the previous week, pointing to increasing liquidity in the money markets, largely supported by government payments. This saw commercial banks excess reserves come in at Kshs 14.5 bn in relation to the 5.25% cash reserves requirement (CRR). The average interbank volumes increased by 30.3% to Kshs 12.7 bn, from Kshs 9.7 bn recorded the previous week.

Kenya Eurobonds:

According to Reuters, the yield on the 10-year Eurobond issued in June 2014 remained unchanged at 5.2%. We attribute the stabilization across all the Kenya Eurobonds to easing risk concerns over the economy by investors following the news of the interest rate cap repeal, which is seen as likely to stimulate credit growth and economic growth.

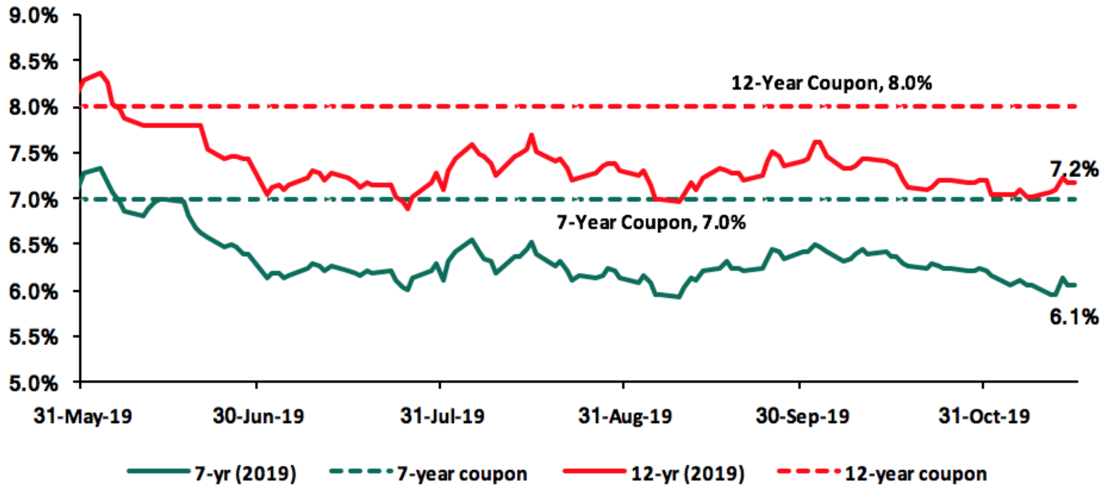


During the week, the yield on the 10-year and 30-year Eurobond remained unchanged at 6.3% and 7.8% respectively.



During the week, the yields on the 7-year Eurobond remained unchanged at 6.1% while yields on the 12-year Eurobond increased by 0.2% points to 7.2% from 7.0% the previous week.

Kenya Eurobond Yields (2019 Issue)



Kenya Shilling:

During the week, the Kenya Shilling appreciated by 0.7% against the US Dollar to close at Kshs 102.1, from Kshs 102.8 recorded in the previous week. The appreciation was attributed to inflows from offshore investors buying banking stocks after parliament removed a cap on commercial lending rate. On an YTD basis, the shilling has depreciated by 0.2% against the dollar, in comparison to the 1.3% appreciation in 2018. In our view, the shilling should remain relatively stable against the dollar in the short term, supported by:

?. The narrowing of the current account deficit, with preliminary data indicating that Kenya's current account deficit improved by 11.8% during Q2'2019, coming in at a deficit of Kshs 107.6 bn, from Kshs 122.0 bn in Q2'2018, equivalent to 6.2% of GDP, from 7.6% recorded in Q2'2018. This was mainly driven by the narrowing of the country's merchandise trade deficit by 1.7% and a rise in secondary income (transfers) balance by 5.1%,
i. Improving diaspora remittances, which have increased cumulatively by 8.0% in the 12-months to September 2019 to USD 2.8 bn, from USD 2.6 bn recorded in a similar period of review in 2018,
ii. CBK's supportive activities in the money market, such as repurchase agreements and selling of dollars, and,
iii. High levels of forex reserves, currently at USD 8.9 bn (equivalent to 5.6-months of import cover), 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.

Weekly Highlight:

The Energy & Petroleum Regulatory Authority released their monthly statement on the maximum retail fuel prices in Kenya effective from 15th November 2019 to 14th December 2019. Below are the key take-outs from the statement;

?. Petrol prices have increased by 2.4% to Kshs 110.6 per litre, from Kshs 108.1 per litre previously,
i. Diesel prices have increased by 2.6% to Kshs 104.6 per litre, from Kshs 102.0 per litre, previously, and,
ii. Kerosene prices have increased by 2.9% to Kshs 104.1 per litre, from Kshs 101.1 per litre previously.

The changes in prices are attributable to:

?. An increase in the average landing costs of imported diesel by 2.1% to USD 502.2 per cubic metre in October 2019, from 491.9 per cubic metre in September 2019, and Kerosene increasing by 2.7% to USD 499.9 in October from USD 486.6 per cubic metre in September 2019, and,

i. An increase in the average landing cost of imported super petrol by 0.9% to USD 463.2 in October, from USD 459.3 per cubic metre in September 2019. The increase was however offset by the 0.2% appreciation of the mean monthly US Dollar to Kenya Shilling exchange rate to Kshs 103.5 in October from Kshs 103.8 in September.

We expect a rise in the transport index, which carries a weighting of 8.7% in the total consumer price index (CPI), due to the increase in petrol and diesel pump prices. We shall publish our inflation projections in next week's report.

Rates in the fixed income market have remained relatively stable as the government rejects expensive bids. The government is 30.8% behind its domestic borrowing target, having borrowed Kshs 83.9 bn against a pro-rated target of Kshs 121.3 bn. We expect an improvement in private sector credit growth considering the repeal of the interest rate cap. This will result in increased competition for bank funds from both the private and public sectors, resulting in upward pressure on interest rates. Owing to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk.