

# Monthly Report

December 2021

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## Table of Contents

<b>Executive Summary .....</b>	<b>3</b>
<b>PRIMARY BOND ISSUE .....</b>	<b>4</b>
Primary Bond Issue: CBK seeks to raise KES.40Bn in December bond sale .....	4
Recommended investor bids .....	5
<b>MACROECONOMICS .....</b>	<b>6</b>
Inflation Rate: Falls to a 7-month low of 5.8% .....	6
Currency Performance: Shilling hits all-time low to the US Dollar.....	7
Interbank Market: Average inter-bank rate falls in November 2021 .....	9
Central Bank Rate: MPC leaves the benchmark rate unchanged at 7% .....	10
<b>FIXED INCOME MARKET.....</b>	<b>11</b>
Government Debt Subscription: Up in November 2021 .....	11
Treasury Bills Rates: Upward pressure on T-Bill yields continues .....	14
Domestic Debt Service: At KES.91Bn in December 2021 .....	14
Secondary Bond Market: Trading volumes flat in November 2021 .....	16
Yield Curve: Shifts upwards as yields rises.....	16
Kenya Eurobonds: Yields on an upward trend due to higher risk sentiment .....	18
Public Debt: Hits KES.8Tn.....	18
2021/22 Budget Targets: Treasury ahead of its Domestic borrowing target .....	20
<b>EQUITY MARKET .....</b>	<b>21</b>
NSE Trading activity: Turnover and volumes up in November.....	21
Top price gainers and losers: Nairobi Business Ventures the top gainer in November .....	22
Foreign Investor Activity: Foreign investors pull KES.4.2Bn from NSE .....	23
NSE Sector Performance: Banking sector the best performing in November .....	24
Disclaimer: .....	25

## Executive Summary

- The Central Bank of Kenya (CBK) has invited bids for the re-opened **FXD4/2019/10** and **FXD1/2018/20** seeking to raise KES.40Bn as the Government tries to find a balance in bridging its funding deficit through issues of short and medium securities while hoping to extend the maturity of public debt.
- Our **December 2021 Monthly Report** provides an investment analysis for these bonds giving our expectations on subscription levels and recommended bidding range guided by the current liquidity levels, investor preferences and recent acceptance levels by CBK as below;

✚ FXD4/2019/10: **Conservative Bids; 12.55% - 12.65%**  
**Aggressive Bids; 12.65% - 12.75%**

✚ FXD1/2018/20: **Conservative Bids; 13.10% - 13.20%**  
**Aggressive Bids; 13.20% - 13.35%**

- In terms of subscription levels, we expect a higher subscription rate for the re-opened 10-year bond (Time to Maturity-8.0 years) compared to the 20-year security as it is more appealing to the investor market due to its comparatively shorter tenor.
- On macroeconomic variables, the easing of inflation rate in November means that real returns are likely to increase going forward on different asset classes.
- Kenya Shilling came under pressure in November weakening against the US Dollar on increasing import demand and this is expected to continue in the short-term.
- The average interbank rate declined in November, a signal of improved market liquidity and is expected to remain stable in December.
- The report includes an analysis of domestic debt auction activity in terms of subscription levels, interest rates and secondary bond market trading activity.
- Public debt and Government's debt service obligations (redemptions and coupon payments) for December 2021, January 2022 and February 2022 are also analysed in the report.
- We have done an analysis of the NSE yield curve over selected periods in the last one year where we observe an upward shift on rising yields.
- In the international bonds market, Kenya Eurobonds yields have been rising as investors concerns remain on increased political activity and the risks presented by the worldwide spread of Omicron Covid-19 variant.
- Kenya Gazette (12<sup>th</sup> November 2021) shows Government is ahead of its domestic borrowing target having achieved 35.8% of its FY2021/22 target in the first four months of the fiscal year making a slowdown on domestic borrowing in the remainder of the fiscal year a real possibility.
- The report concludes with highlights of the NSE equity market, investors' trading activity, sector performance and our expectations in the short term.
- The market capitalization and all the major NSE indices declined in November 2021 as global markets remain volatile amid Omicron variant fears.
- The NSE presents a value opportunity and favourable valuations make Safaricom, banks and EABL attractive opportunities for investors.

## PRIMARY BOND ISSUE

### Primary Bond Issue: CBK seeks to raise KES.40Bn in December bond sale

- The Central Bank of Kenya (CBK) is seeking to raise KES.40Bn in December bond issue for the re-opened **FXD4/2019/10 (8.0 years)** and **FXD1/2018/20 (16.4 years)** (Table.1).
- The two bonds carry coupons of 12.28% and 13.2% respectively.
- In previous bond sales in this fiscal year (FY2021/22), CBK has been targeting between KES.50Bn-KES.75Bn, with heavy oversubscriptions in the sales pushing it ahead of its domestic borrowing target for the year.
- We expect subscription in the issue to be biased towards the shorter dated paper (FXD4/2019/10) with investors seemingly looking to avoid long term risks by taking more from the shorter end of the yield curve.
- **We expect the issue to be fully subscribed supported by liquidity in the financial markets, high investor interest in Government securities in consideration of their low-risk nature, relatively good returns and limited high return and low risk investible options available in the market.**

**Table.1: Primary Bond issue details**

Issue Number	FXD4/2019/10	FXD1/2018/20
Total Amount Offered	KES.40Bn	
Term to Maturity	8.0 Years	16.4 Years
Purpose	Budgetary Support	
Coupon Rate (%)	12.28%	13.20%
Withholding Tax	10%	10%
Issue Price	Discounted/Premium/Par	
Period of Sale	22 <sup>nd</sup> November, 2021 – 7 <sup>th</sup> December, 2021	
Auction Date	08-December-2021	
Value Date	13-December-2021	

Source: Central Bank of Kenya

**Table.2: Performance of the two re-opened bonds when they were initially issued**

Issue	Amount Offered (KES.Bn)	Amount Received (KES.Bn)	Amount Accepted (KES.Bn)	Performance Rate (%)	Coupon Rate (%)	Implied Yield To Maturity (%) – 3 <sup>rd</sup> Dec, 21
FXD4/2019/10	50.0	38.4	28.4	76.8%	12.28%	12.3032%
FXD4/2019/10 (Tap Sale)	21.7	8.1	8.1	-	12.28%	12.3032%
FXD1/2018/20	40.0	13.7	8.5	-	13.20%	12.9638%
FXD1/2018/20 (Tap Sale)	8.5	7.8	7.8	-	13.20%	12.9638%

Source: Central Bank of Kenya & Nairobi Securities Exchange

### Recommended investor bids

- The table below shows our recommended bidding range for this primary issue (Table.3).
- Investors' bids will be guided by the following factors:
  - 1) **Market liquidity levels** – Liquidity in the money market has tightened with the weighted average interbank rate at 5.5% as at 3<sup>rd</sup> December, 2021 compared to 4.5% on 3<sup>rd</sup> November.
  - 2) **High demand for Government papers** – Investors continue to embrace government securities as a risk averse measure as global markets remain volatile amid Omicron variant fears.
  - 3) CBK choosing to accept more than its borrowing target due to high financing needs.

**Table.3: Recommended bidding range**

Issue Number	FXD4/2019/10	FXD1/2018/20
<b>Conservative Bids</b>	12.55% - 12.65%	13.10% - 13.20%
<b>Aggressive Bids</b>	12.65% - 12.75%	13.20% - 13.35%

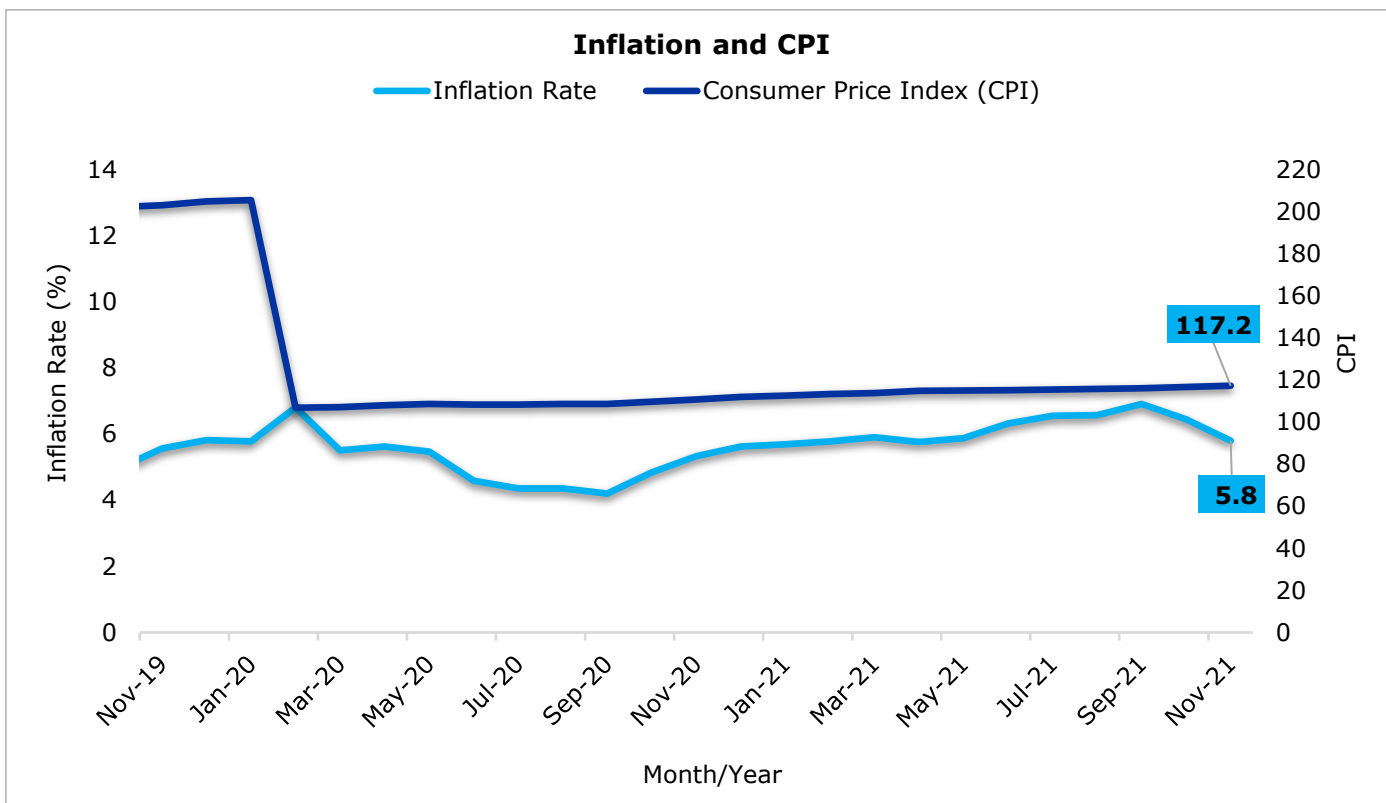
I&M Capital

## MACROECONOMICS

### Inflation Rate: Falls to a 7-month low of 5.8%

- November 2021 inflation rate eased to 5.8% compared to 6.45% in October (Chart.1).
- This is the lowest rate of inflation in the country inside 7-months since April this year when inflation stood at 5.76%.
- During the month Consumer Price Index (CPI) rose by 0.45% from 116.67 to 117.20.
- The decline in inflation during the month was attributable to a decline in transport costs which were down by 0.16%.
- Food and Non-Alcoholic Drinks' index increased by 0.91% mainly attributed to increase in prices of some food items, which outweighed the decrease in prices of others.
- Prices of sugar, cooking oil and potatoes (Irish) rose 11.94%, 5.74% and 3.34%, respectively. On the other hand, prices of tomatoes, kales (sukuma wiki) and carrots were down by 4%, 1% and 0.97%, respectively.
- The Housing, Water, Electricity, Gas and Other Fuels' index, went up by 0.49% owing to an increase in prices of cooking gas (LPG) and house rent for single rooms that went up by 3.88% and 0.53%, in that order.
- A 13-kilogram LPG cylinder for instance now costs KES.2,611.18 from KES.2,513.74 in October.
- During the month, the price of 50 kilowatts of electricity decreased by 0.39%, and that of 200 kilowatts was down by 0.29%.
- A decline in inflation rate means that real returns are likely to increase going forward on different asset classes.
- International oil prices have declined to US\$.70.07 as of 2<sup>nd</sup> December from US\$.84.24 per barrel on 4<sup>th</sup> November due to concern of worldwide spread of Omicron Covid-19 variant.
- **We forecast inflation to range between 5.6% - 6.2% in December driven by food, housing, and electricity as well as the transport indices which account for 63% of the total Consumer Price Index (CPI).**

**Chart.1: December inflation forecast to range between 5.6%-6.2%**



Source: Kenya National Bureau of Statistics

### **Currency Performance: Shilling hits all-time low to the US Dollar**

- The Kenya shilling continues to weaken against the US Dollar, hitting an all-time low this year as the dollar demand from importers increases (Table.4 & Chart.2).
- In the last one month, KES has lost 1.3% against the US Dollar to KES.112.63 while it strengthened 2% and 1.2% VS the Sterling Pound and EURO to KES.149.91 and KES.127.54 respectively.
- Closer to home KES shed 0.9% and 1.3% against the Uganda Shilling and Tanzania Shilling in that order while it appreciated 0.4% VS the Rwanda Franc.
- So far in 2021 (YTD), the KES has depreciated 3.1% against the US Dollar.
- Of great concern is impact of the KES depreciation to external debt service with most of the country's external debt denominated in the U.S\$.
- Improving diaspora remittances and higher forex reserves have continued to cushion the shilling against further depreciation.
- Foreign exchange reserves remain adequate at US\$.8.7Bn (KES.984Bn) equivalent to 5.34 months of import cover (as at 2<sup>nd</sup> December 2021) up from U.S\$.7.7Bn (KES.845.3Bn) or 4.74 months of import cover, the beginning of the year (7<sup>th</sup> January).
- On the other hand, remittance inflows stood at US\$.337.4Mn in October 2021, an 8.9% increase from US\$.309.8Mn in September 2021. The cumulative inflows in the 12 months to October 2021 rose 19.9% to US\$.3,605Mn compared to US\$.3,006Mn same period in 2020.

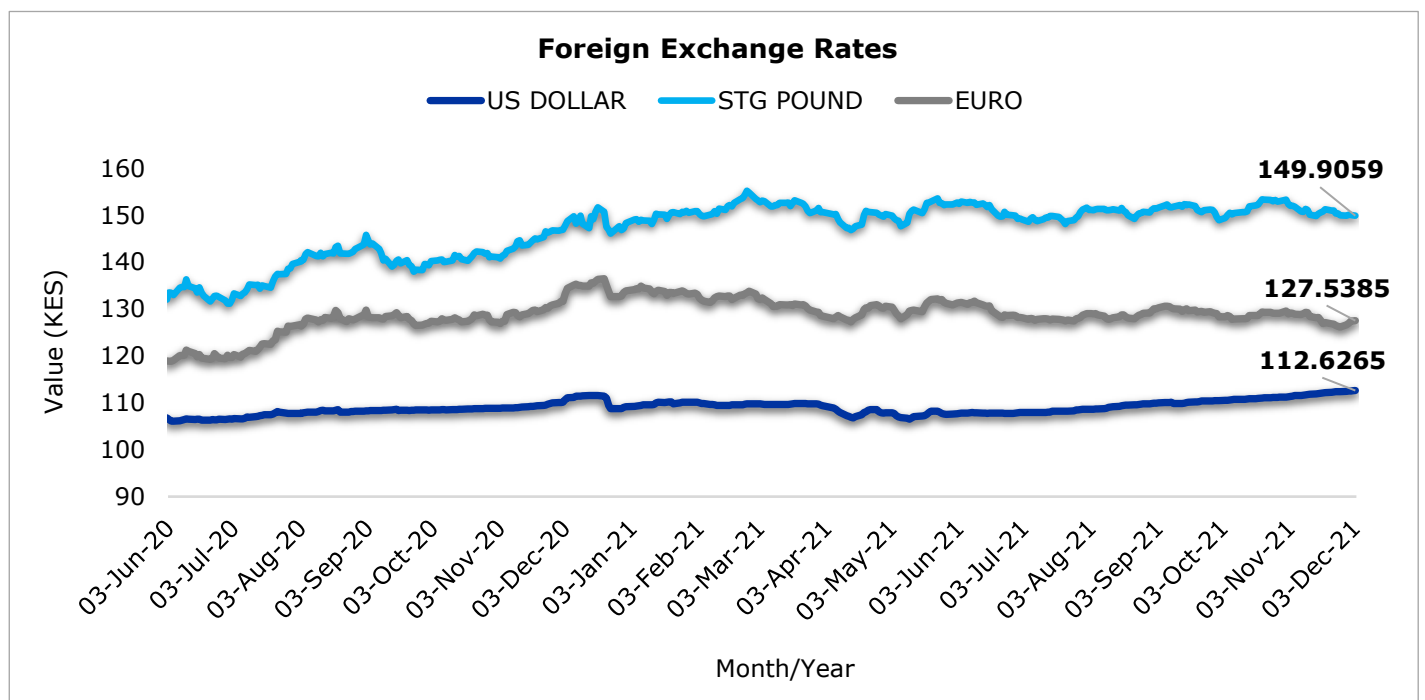
- The downward trend of the shilling is likely to continue in the short term due to high demand for dollar by importers, a widening current account deficit (5.4% as at October 2021) and repayment of dollar-denominated loans against slower recovery of exports and tourism receipts.

**Table.4: KES depreciates further against the US Dollar**

Currency	04-Jan-21	29-Oct-21	03-Dec-21	%Δ YTD	%Δ M/M
US Dollar	109.2165	111.2147	112.6265	↓3.1	↓1.3
STG Pound	149.0659	152.9632	149.9059	↓0.6	↑2.0
EURO	134.1779	129.0803	127.5385	↑4.9	↑1.2
Japanese Yen	105.8556	97.965	99.8772	↑5.6	↓2.0
SA Rand	7.4317	7.3437	7.0973	↑4.5	↑3.4
KES/USHS	33.4657	31.9509	31.6534	↓5.4	↓0.9
KES/TSHS	21.2331	20.7257	20.4482	↓3.7	↓1.3
KES/RWF	9.0738	9.1591	9.1982	↑1.4	↑0.4

Source: Central Bank of Kenya

**Chart.2: KES under pressure from higher import costs**

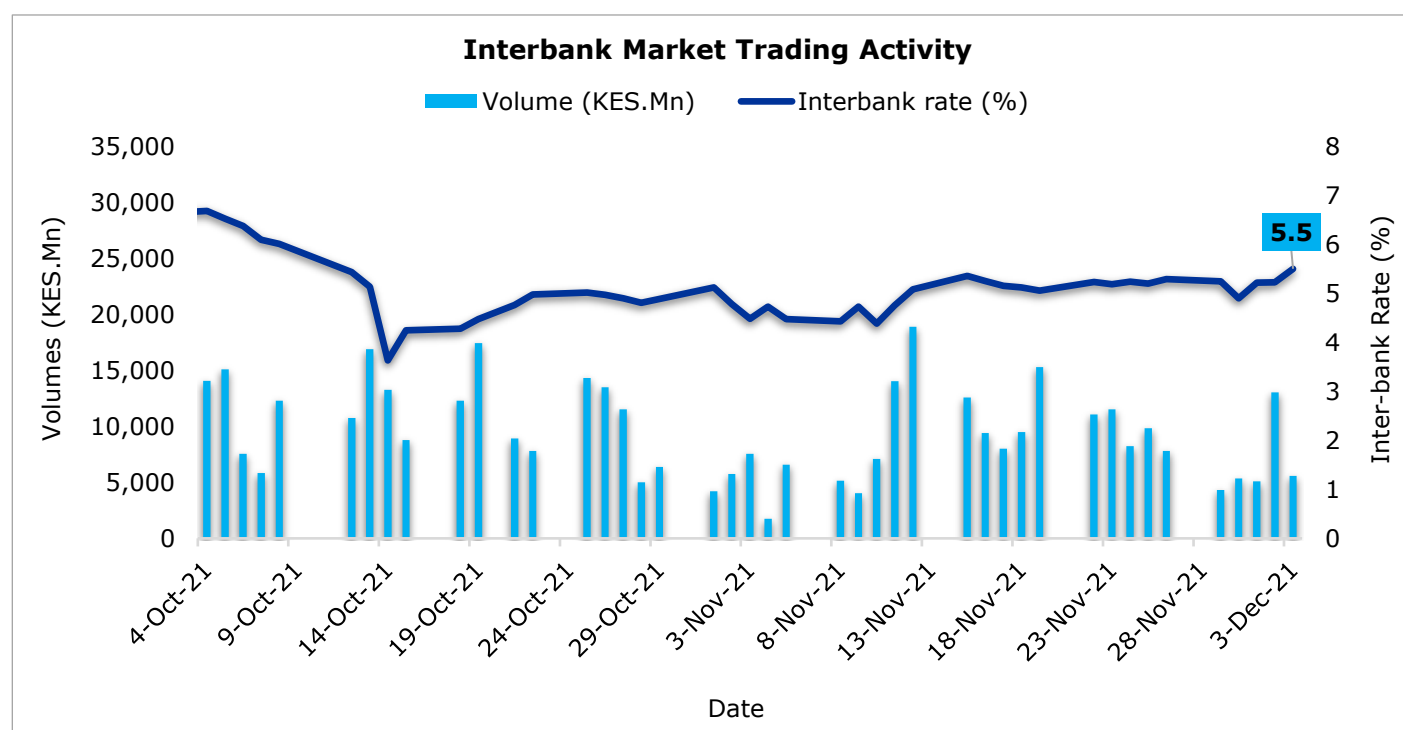


Source: Central Bank of Kenya

### Interbank Market: Average inter-bank rate falls in November 2021

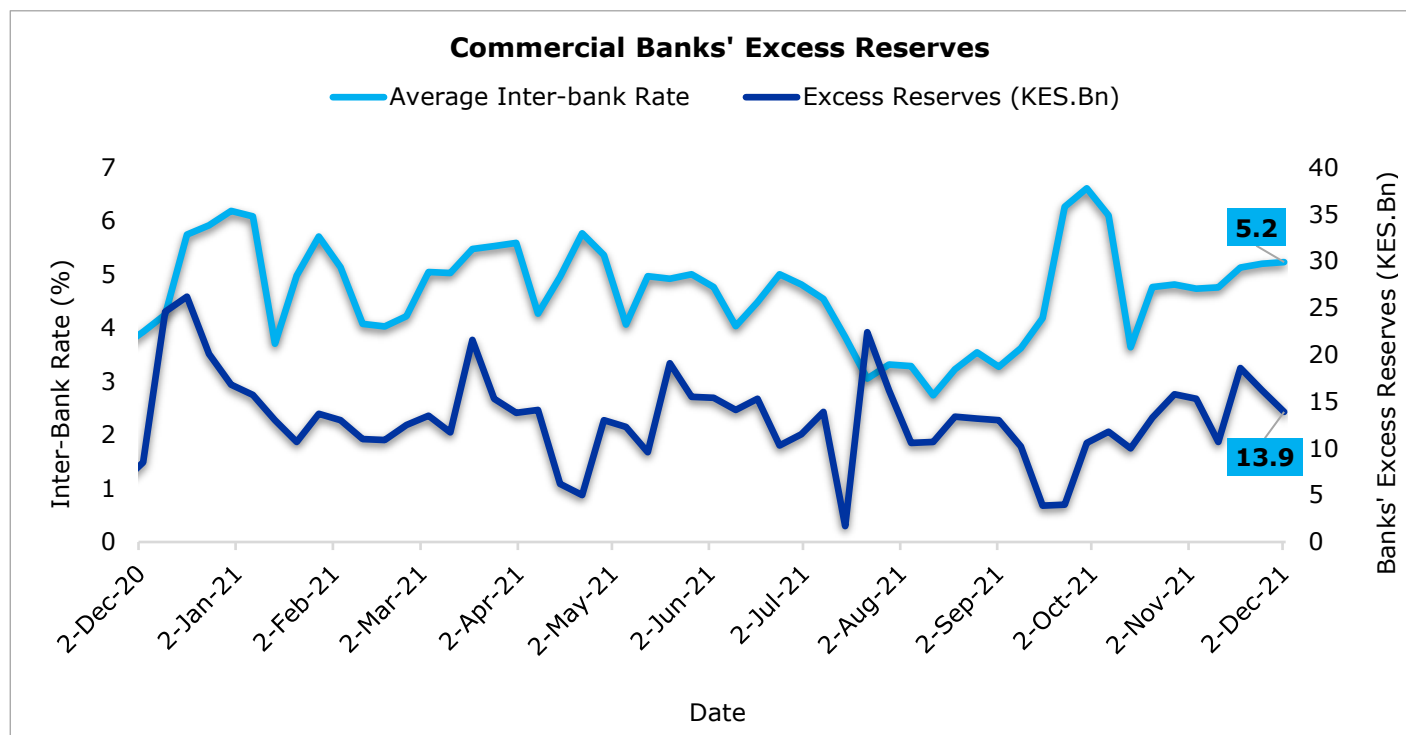
- Market liquidity improved in November with the weighted average inter-bank rate declining to 4.97% from 5.3% in October (Chart.3).
- Demand also declined with the total volumes transacted during the month down 13.7% to KES.188.3Bn compared to KES.218.1Bn the previous month.
- The average inter-bank rate started the month at 5.1%, then rose to a high of 5.4% on 15<sup>th</sup> November before closing the month at 4.9%. As at 3<sup>rd</sup> December, the average rate stood at 5.5%.
- Commercial banks' excess reserves (additional liquidity above the minimum 4.25% Cash Reserve Ratio (CRR)) stood at KES.13.9Bn as at 2<sup>nd</sup> December (Chart.4).
- **In December, we forecast the average inter-bank rate to range between 4.8% - 5.4%.**

**Chart.3: Inter-bank rates expected to remain stable in December**



Source: Central Bank of Kenya

**Chart.4: Commercial banks' liquidity remains adequate**



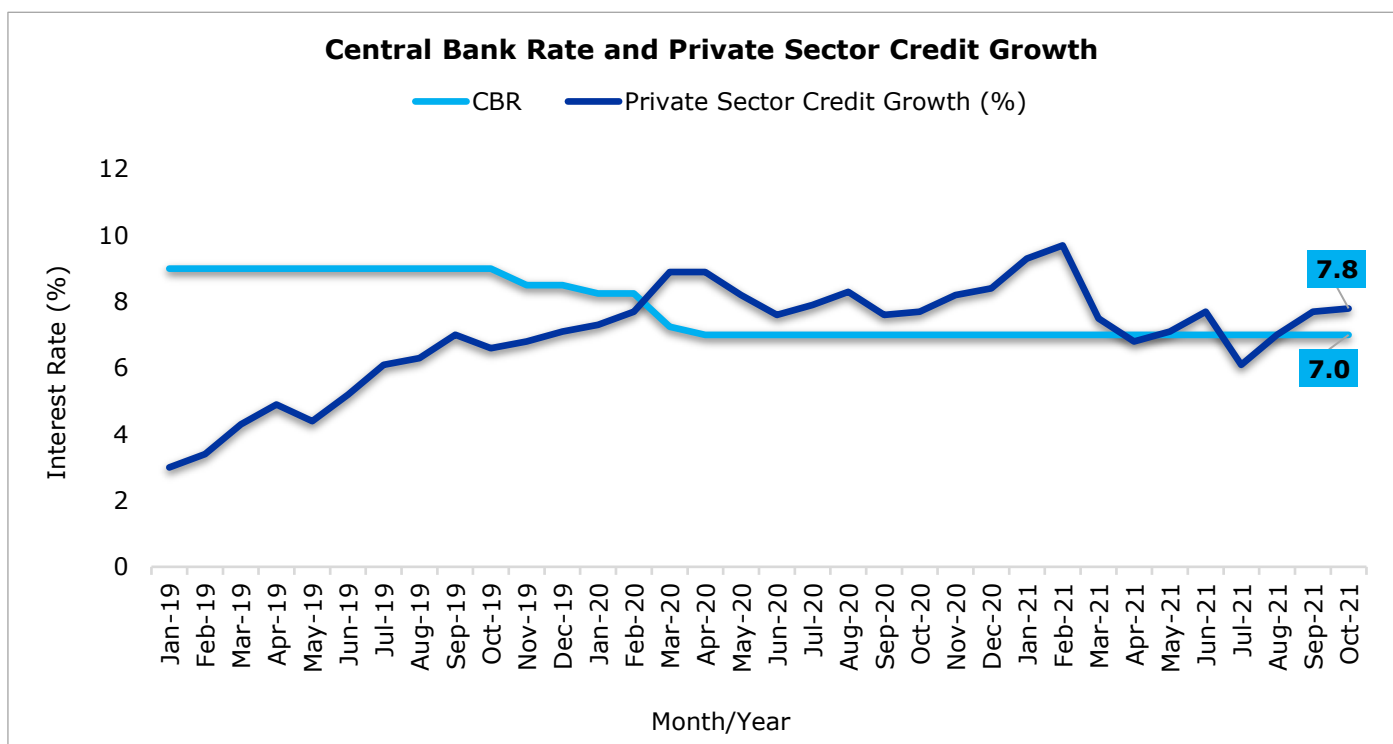
Source: Central Bank of Kenya

#### **Central Bank Rate: MPC leaves the benchmark rate unchanged at 7%**

- The Monetary Policy Committee (MPC) retained the Central Bank Rate (CBR) at 7%, for the 11<sup>th</sup> time in the meeting held on 29<sup>th</sup> November (Chart.5).
- MPC quoted adequate foreign exchange reserves, inflation within the target range (2.5%-7.5%) and strong rebound in economic recovery as some of the reasons for the decision.
- Foreign exchange reserves, which currently stand at US\$.8.7Bn (5.34 months of import cover), continue to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.
- GDP grew by 10.1% in Q2- 2021 compared to a contraction of 4.7% same period in 2020 attributable to the easing of Covid-19 containment measures that facilitated gradual resumption of economic activity.
- Strong recovery was recorded in education (67.6%) information and communication (25.2%), transportation and storage (16.9%), manufacturing (9.6%) and other service activities (20.2%).
- The committee noted that the banking sector remains stable and resilient with strong liquidity and capital adequacy ratios and Non-Performing Loans (NPLs) ratio improving to 13.6% in October from of 13.9% in August.
- Private sector credit growth improved to 7.8% in October compared to 7% in August with strong credit growth observed in manufacturing (10.9%), transport and communications (9.6%), business services (8.2%) and consumer durables (16.5%).
- In addition, the exports of goods have remained robust growing 10.8% in the 10-months to October 2021 compared to a similar period in 2020.

- The lifting of the curfew, increased vaccinations and the global economic recovery is expected to have a positive impact on the economy going forward.

**Chart.5: Private sector credit improves to 7.8% in October 2021**



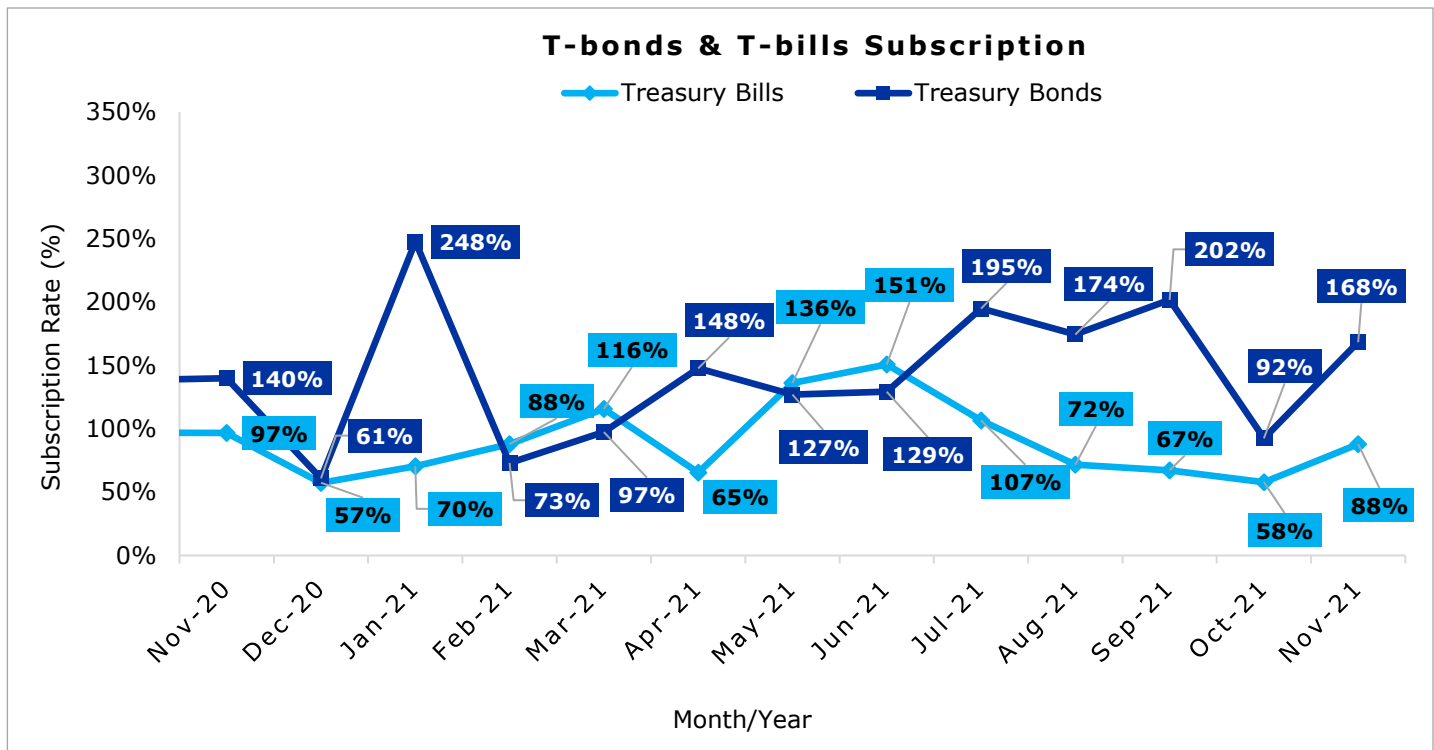
Source: Central Bank of Kenya

## **FIXED INCOME MARKET**

### **Government Debt Subscription: Up in November 2021**

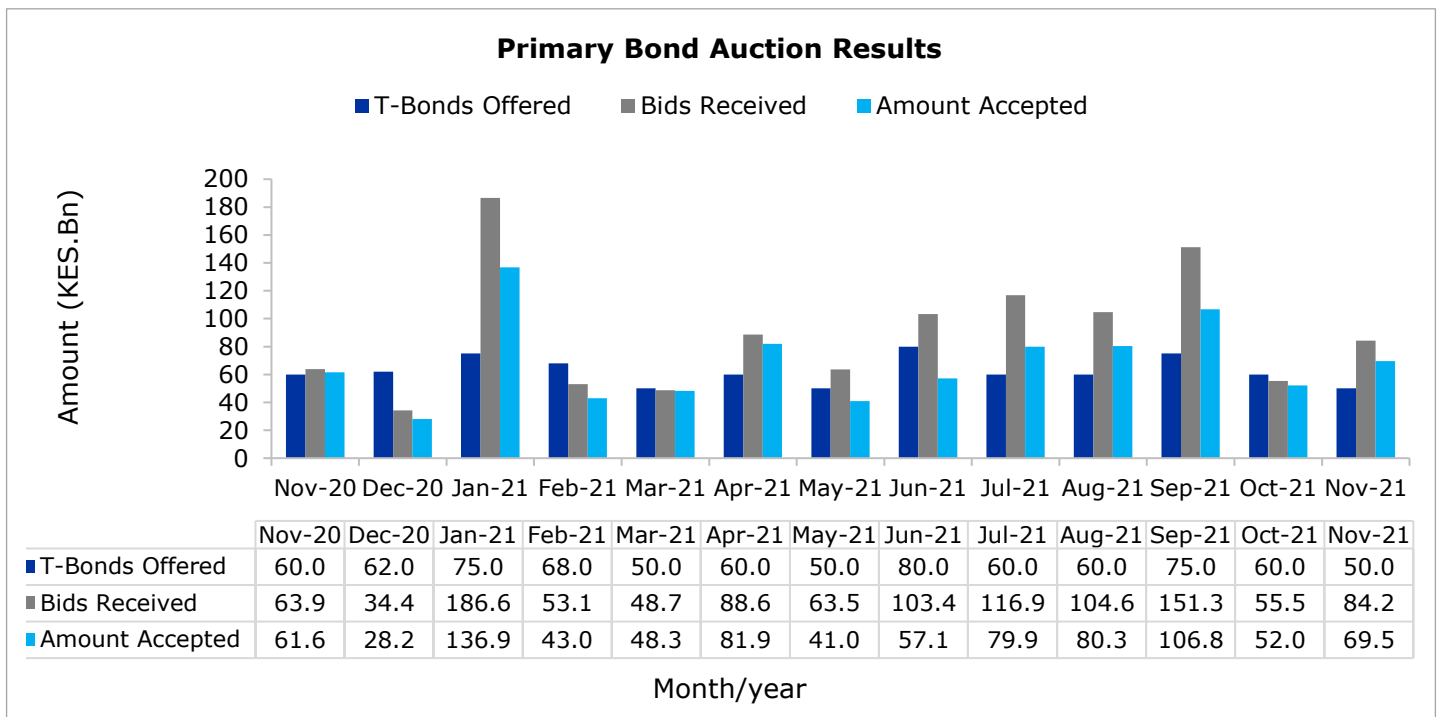
- Demand for Treasury bonds was high in November as subscription rate rose to 168.3% compared to 92.5% in October (Chart.6).
- During the month, CBK re-opened FXD1/2019/20 and a new 5-year bond (FXD1/2021/5) with a financing target of KES.50Bn.
- The issue was heavily subscribed with bids worth KES.84.2Bn (a subscription rate of 168.3%) received with CBK accepting KES.69.5Bn (Chart.7).
- More bids (KES.66.6Bn) were received for the FXD1/2021/5 (KES.53.7Bn accepted) while bids worth KES.17.6Bn (KES.15.8Bn accepted) were received for FXD1/2019/20.
- During the month, demand for the Treasury bills improved with subscription rate coming in at 87.9% from 57.9% the previous month (Chart.6).
- **We expect subscription rate to remain low in December owing to the festive season.**

**Chart.6: T-Bills undersubscription continues**



Source: Central Bank of Kenya

**Chart.7: KES.69.5Bn in bonds accepted in November 2021**



Source: Central Bank of Kenya

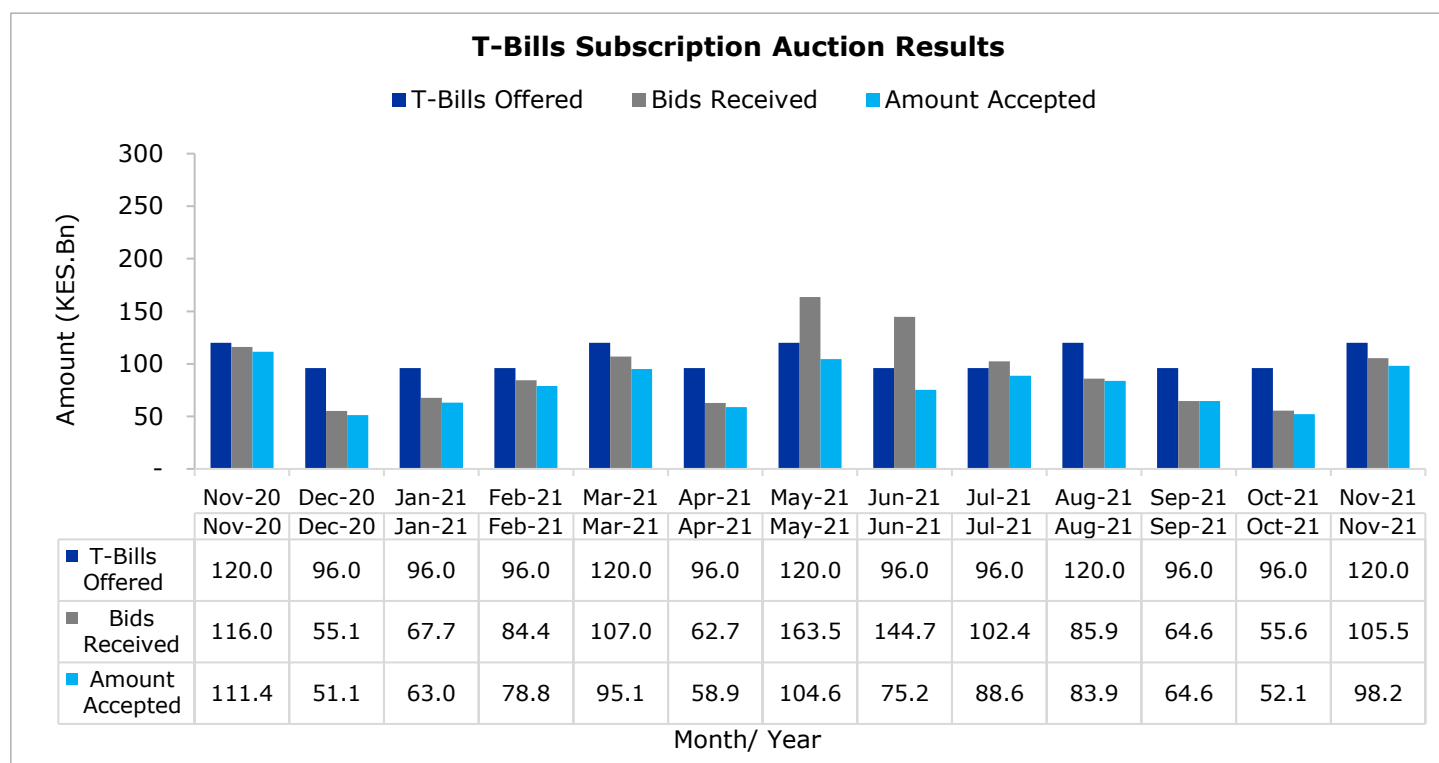
- During the month of November 2021, CBK offered KES.120Bn in T-Bills, receiving bids worth KES.105.5Bn and accepted KES.98.2Bn (Table.5 & Chart.8).
- High investor interest was on the 91-day T-Bill with the issue oversubscribed at 112% (KES.22.4Bn) while the 182-day and 364-day T-Bills were undersubscribed at 64.8% (KES.32.4Bn) and 101.4% (KES.50.7Bn) respectively (Table.5).
- The acceptance rate for the 91-day, 182-day and 364-day papers stood at 100%, 88.1% and 93.1% respectively.
- **We expect the upward pressure on the short-term rates to continue as investors demand a premium for their investment in Government securities.**

**Table 5: Treasury Bills Auction Performance in November 2021**

T-Bill	Amount Offered (KES.Bn)	Amount Received (KES.Bn)	Subscription Rate (%)	Amount Accepted (KES.Bn)	Acceptance Rate (%)	Rate % (Issue Date 6 <sup>th</sup> Dec, 21)
91-Day	20.0	22.40	112.0%	22.40	100.0%	<b>7.232</b>
182-Day	50.0	32.41	64.8%	28.56	88.1%	<b>7.854</b>
364-Day	50.0	50.70	101.4%	47.22	93.1%	<b>9.016</b>
<b>Total</b>	<b>120.0</b>	<b>105.51</b>	<b>87.9%</b>	<b>98.17</b>	<b>93.2%</b>	<b>-</b>

Source: Central Bank of Kenya

**Chart.8: KES.98.2Bn in T-Bills accepted in November 2021**

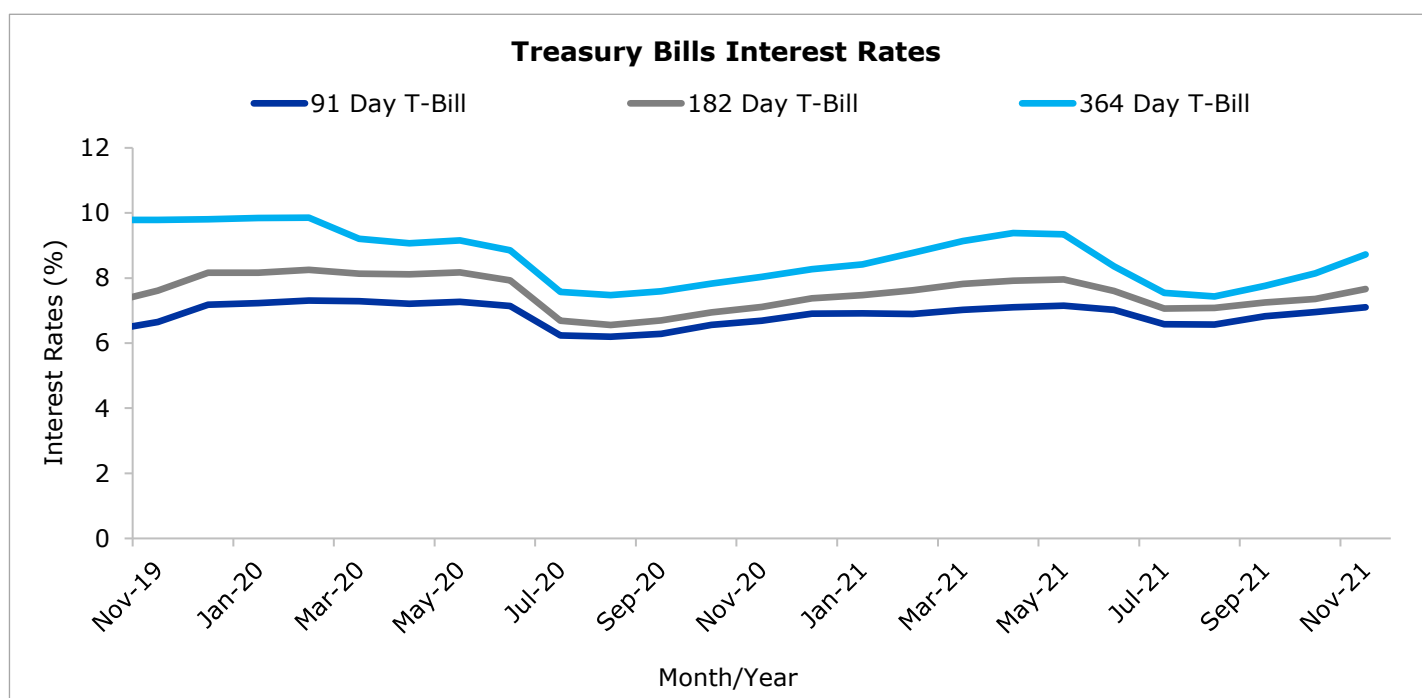


Source: Central Bank of Kenya

### Treasury Bills Rates: Upward pressure on T-Bill yields continues

- The upward pressure on the short-term papers continued for the fourth month in a row as T-Bills remain undersubscribed during the period (Chart.9).
- In November 2021, the average yields for the 91-day, 182-day and 364-day papers rose further by 15bps, 30bps and 59bps from 6.95%, 7.36% and 8.14% to 7.1%, 7.66% and 8.73% respectively.
- Interest rates for the 91, 182 and 364-day papers currently stands at 7.232%, 7.854% and 9.016% in that order (issue date 6<sup>th</sup> December, 2021).
- **We anticipate a further gradual increase in the T-Bill rates in the upcoming auctions as investors demand for a higher real rate of return.**

**Chart.9: T-Bills interest rates on a gradual increase**

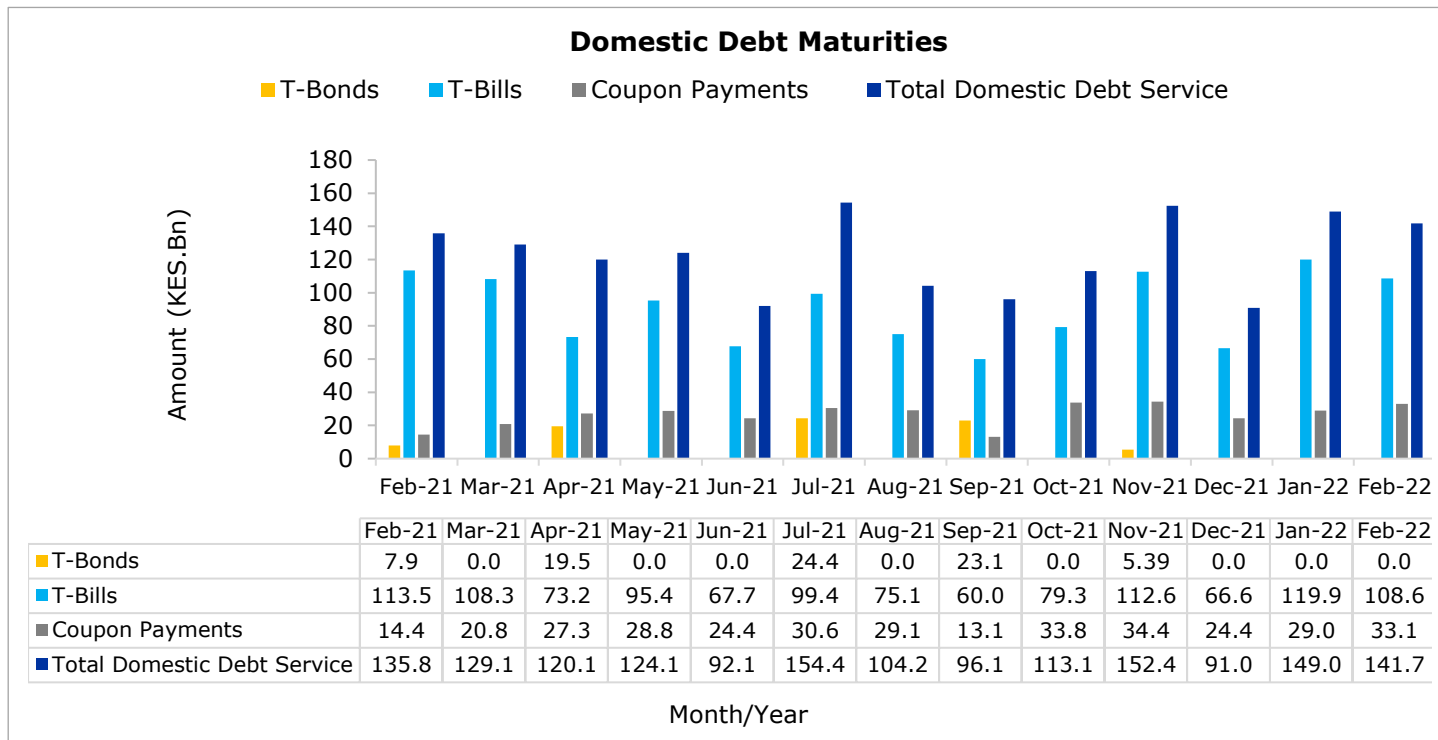


Source: Central Bank of Kenya

### Domestic Debt Service: At KES.91Bn in December 2021

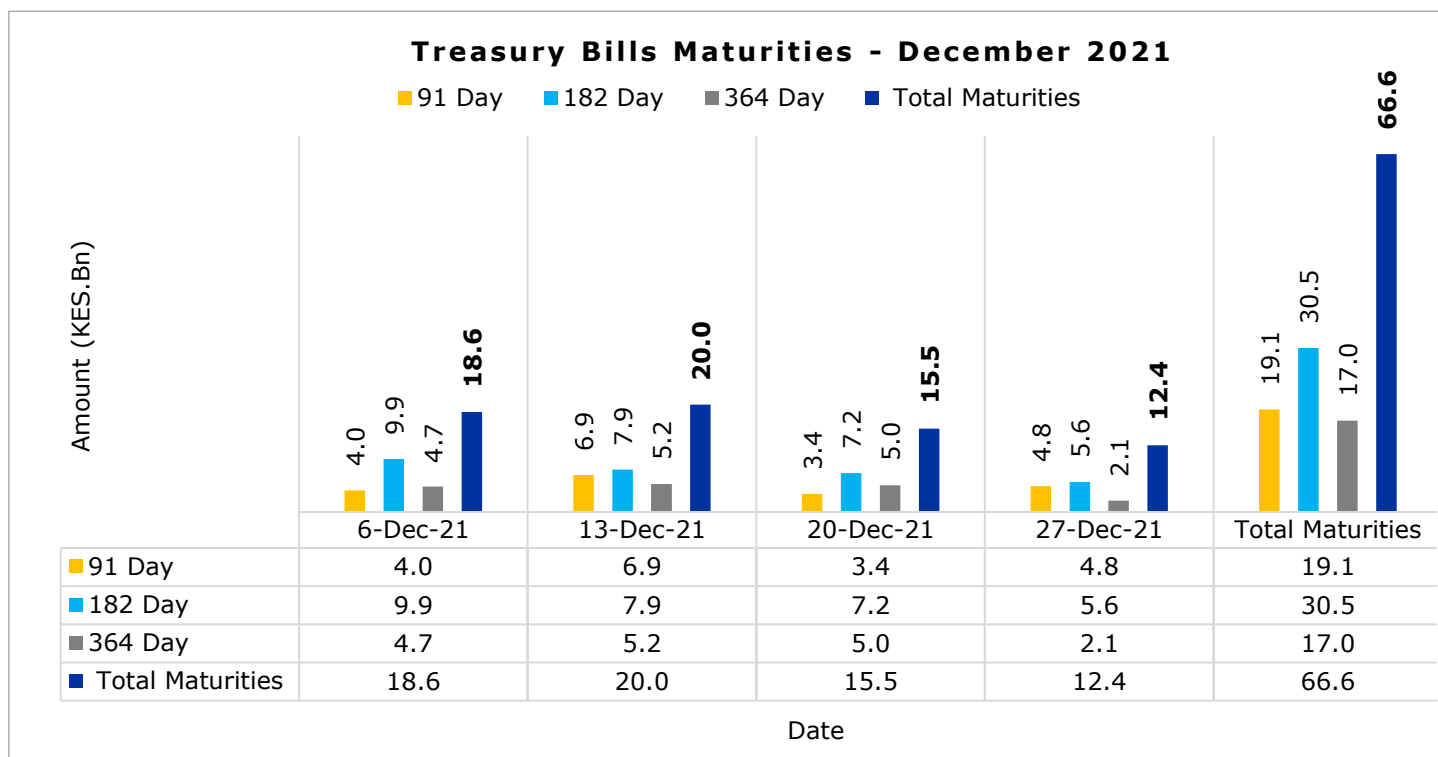
- With no bond redemptions in December, domestic debt service for the month stands at KES.91Bn, a 40.3% decline from KES.152.4Bn, the previous month (Chart.10).
- This comprises of KES.66.6Bn in T-Bills and KES.24.4Bn in coupon payments.
- During the month, expected redemptions for the 91, 182 and 364-day T-Bills are KES.19.1Bn, KES.30.5Bn and KES.17Bn respectively, with the second week of the month expected to have the highest total redemptions at KES.20Bn (Chart.11).
- **Domestic debt service is expected to rise in January 2022 to KES.149Bn then decline to KES.141.7Bn in February 2022.**

**Chart.10: Domestic debt service to decline in December 2021**



Source: Central Bank of Kenya

**Chart.11: December 2021 Weekly Treasury Bills Maturities**

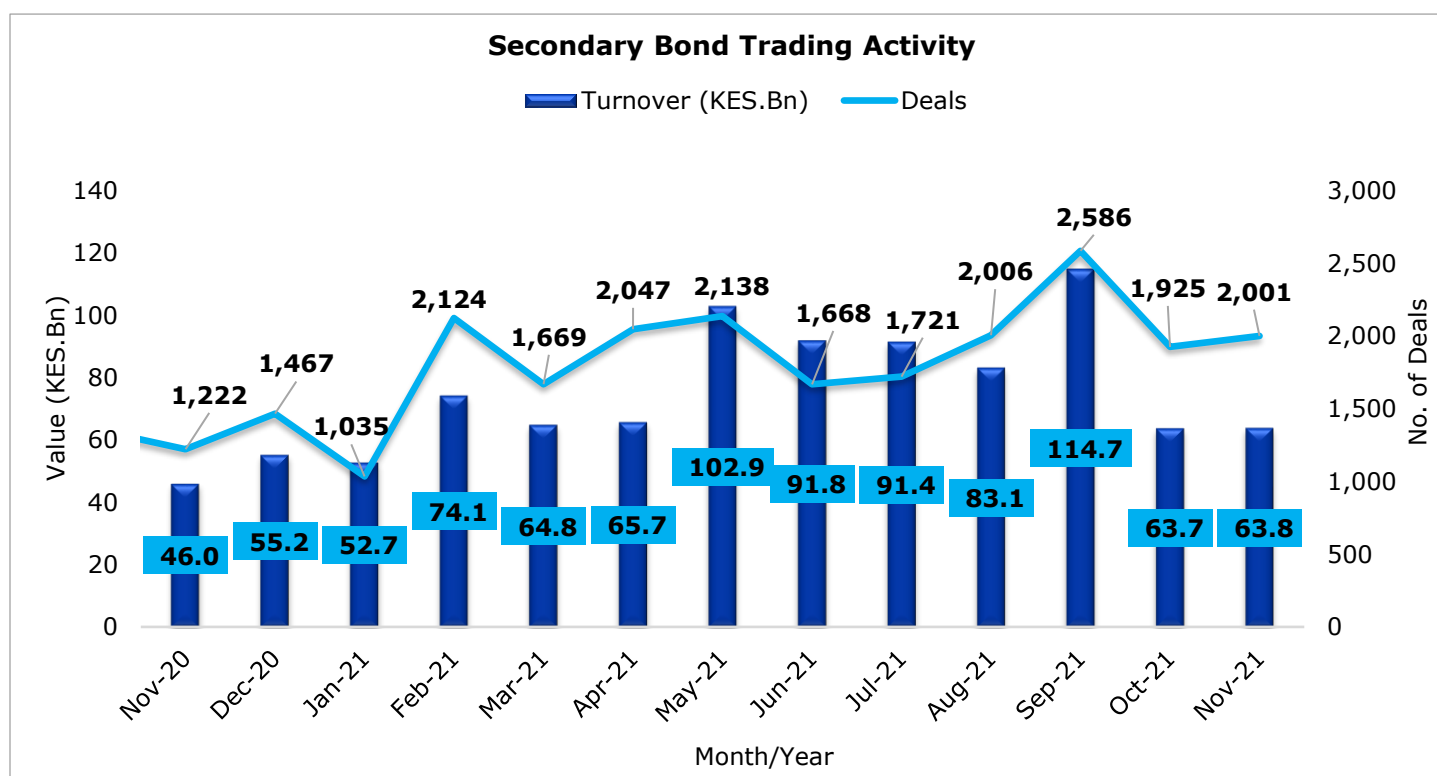


Source: Central Bank of Kenya

### Secondary Bond Market: Trading volumes flat in November 2021

- Bonds turnover in the secondary market was flat at KES.63.8Bn in November compared to KES.63.7Bn the previous month (Chart.12).
- On the other hand, the number of transactions rose 3.9% to 2,001 deals during the month.
- The low activity was attributable to investors directing their funds to the primary issue during the month which was oversubscribed at 168.3%.
- **We expect traded turnover to remain low in December 2021 due to the festive season.**

**Chart.12: Bond turnover flat KES.63.8Bn in November 2021 as deals decline**



Source: Nairobi Securities Exchange

### Yield Curve: Shifts upwards as yields rises

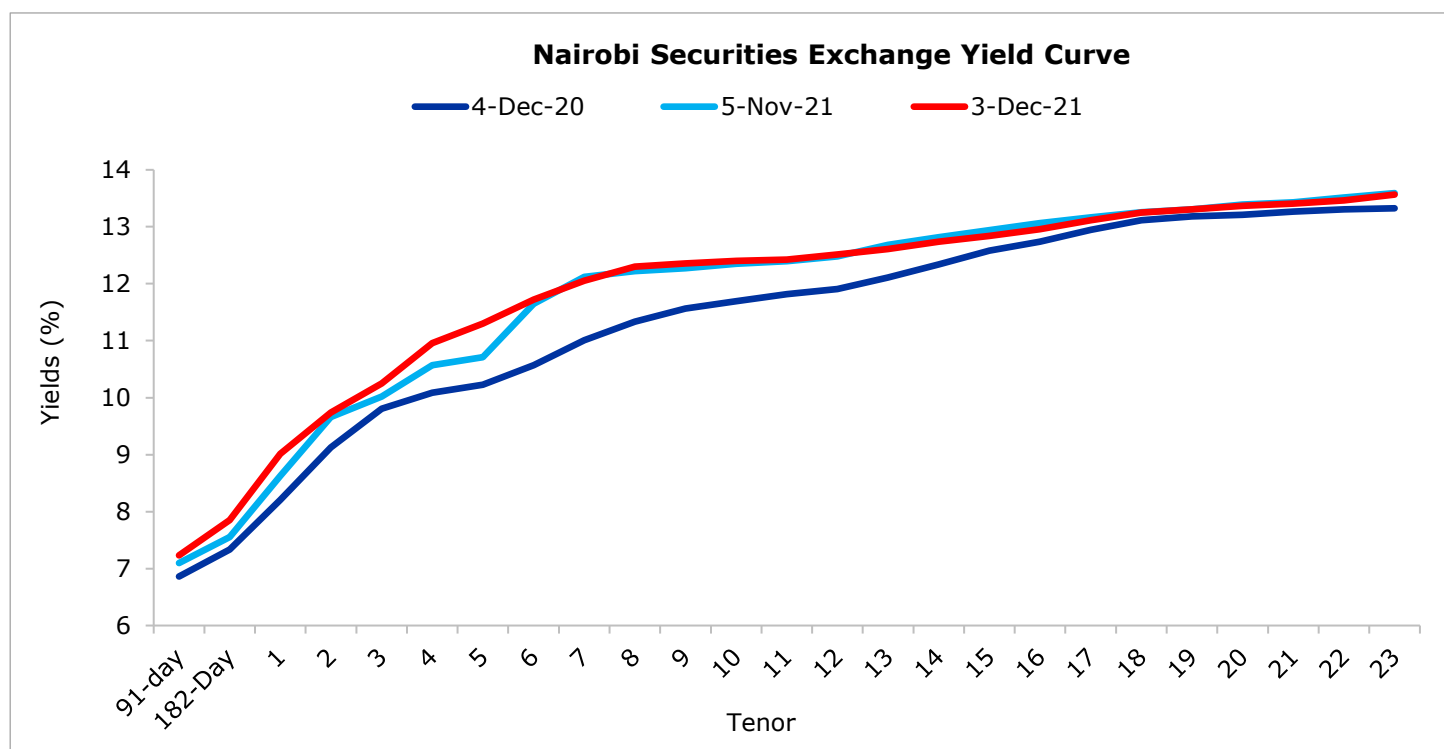
- A comparison of the NSE yield curves on 3<sup>rd</sup> December 2021 and 5<sup>th</sup> November, shows a significant increase in short and medium-term tenors while those on the long-term end have declined (Table.6 & Chart.13).
- During the period the 5-year tenor recorded the biggest increase (+58.6bps) while the 16-year tenor dipped the most by 11.1bps.
- However, a comparison of yields on 3<sup>rd</sup> December 2021 and 4<sup>th</sup> December 2020 shows an upward shift in the entire yield curve.
- **We expect a further upward shift on the yield curve with biggest increase in short term rates due to increased domestic debt financing.**

**Table.6: Short and medium-term papers exhibit biggest shift in yields**

Tenor	Yields (04-Dec-20)	Yields (05-Nov-21)	Yields (03-Dec-21)	$\Delta Y/Y$ Bps	$\Delta M/M$ Bps
91-day	6.8610	7.0970	7.2320	↑37.1	↑13.5
182-day	7.3330	7.5540	7.8540	↑52.1	↑30.0
1	8.2040	8.6240	9.0160	↑81.2	↑39.2
2	9.1245	9.6604	9.7400	↑61.6	↑8.0
5	10.2302	10.7118	11.2983	↑106.8	↑58.6
10	11.6952	12.3504	12.3988	↑70.4	↑4.8
15	12.5820	12.9433	12.8407	↑25.9	↓10.3
20	13.2091	13.3909	13.3696	↑16.1	↓2.1
23	13.3247	13.5912	13.5653	↑24.1	↓2.6

Source: Nairobi Securities Exchange

**Chart 13: Yield curve has shifted upwards over the last year**



Source: Nairobi Securities Exchange

### Kenya Eurobonds: Yields on an upward trend due to higher risk sentiment

- A comparison of yields on Kenya Eurobonds on 2<sup>nd</sup> December 2021 and 4<sup>th</sup> November shows an increase for all the issued tenors (Table.7).
- During the period, yields on the 7-Year, 10-Year (2024), 10-Year (2028) went up by 0.03%, 0.57% and 0.31% to 5.48%, 4.41% and 6.1% respectively.
- In addition, yields on the 12-Year, 13-Year and 30-Year Eurobonds rose 0.3%, 0.36%, 0.4% to 7.06%, 6.88% and 8.32% in that order.
- On a year-to-date (YTD) basis all Eurobonds yields have risen with the biggest shift on the long-term papers.
- Kenya's economy, which contracted by 0.3% in 2020, has rebounded strongly in the first half of 2021 having expanded by an average of 5.3% during the period.
- However, despite the economic recovery, investors are concerned about the increased political activity and risks presented by the recently discovered Omicron variant.
- **Due to the above-mentioned reasons, we expect a further increase in yields in December 2021 owing to higher risk sentiment by investors.**

**Table.7: Kenya Eurobonds yields continues to rise**

Issue	Coupon	Maturity	Yields (%) 04-Jan-21	Yields (%) 04-Nov-21	Yields (%) 02-Dec-21	%Δ YTD	%Δ M/M
7-Year	7.00	22.05.2027	4.76	5.45	5.48	↑0.72	↑0.03
10-Year	6.875	24.06.2024	3.81	3.84	4.41	↑0.60	↑0.57
10-Year	7.25	28.02.2028	5.14	5.79	6.10	↑0.96	↑0.31
12-Year	8.00	22.05.2032	5.79	6.76	7.06	↑1.27	↑0.30
13-Year	6.30	23.06.2034	-	6.52	6.88	-	↑0.36
30-Year	8.25	28.02.2048	6.97	7.92	8.32	↑1.35	↑0.40

Source: Central Bank of Kenya

### Public Debt: Hits KES.8Tn

- According to the latest quarterly economic and budget review report (QEBR), Kenya's public debt stood at KES.8Tn as of September 2021 (Chart.14).
- This comprises of domestic and external debt of KES.3.9Tn (48.7%) and KES.4.1Tn (51.3%) respectively.
- Total external debt comprises KES.1.1Tn bilateral loans, KES.1.7Tn in loans accruing to multilateral lenders and KES.1.2Tn owed to commercial banks.
- Gross domestic debt grew 1.2% in the last one month to KES.4Tn (as at 26<sup>th</sup> November) due to 2.1% increase in Treasury bonds to KES.3.2Tn which offset a 2.4% drop in Treasury bills to KES.716.7Bn (Table.8).
- The Government has lowered its rollovers of existing shorter-dated instruments as the proportion of domestic debt held in T-bills has fallen to 18.3% as at 26<sup>th</sup> November from 24.6% at the beginning of the year.
- According to data from the draft Budget Policy Statement (BPS), public debt is expected to reach KES.8.6Tn in June 2022 before rising further to KES.11.6Tn in June 2026.
- The country's total public debt stood at 67.7% of the country's GDP at the end of FY2020/21 (June 2021) and is estimated to rise to 70% in FY2021/22.
- **Kenya's debt is currently sustainable but the fast pace of growth in total**

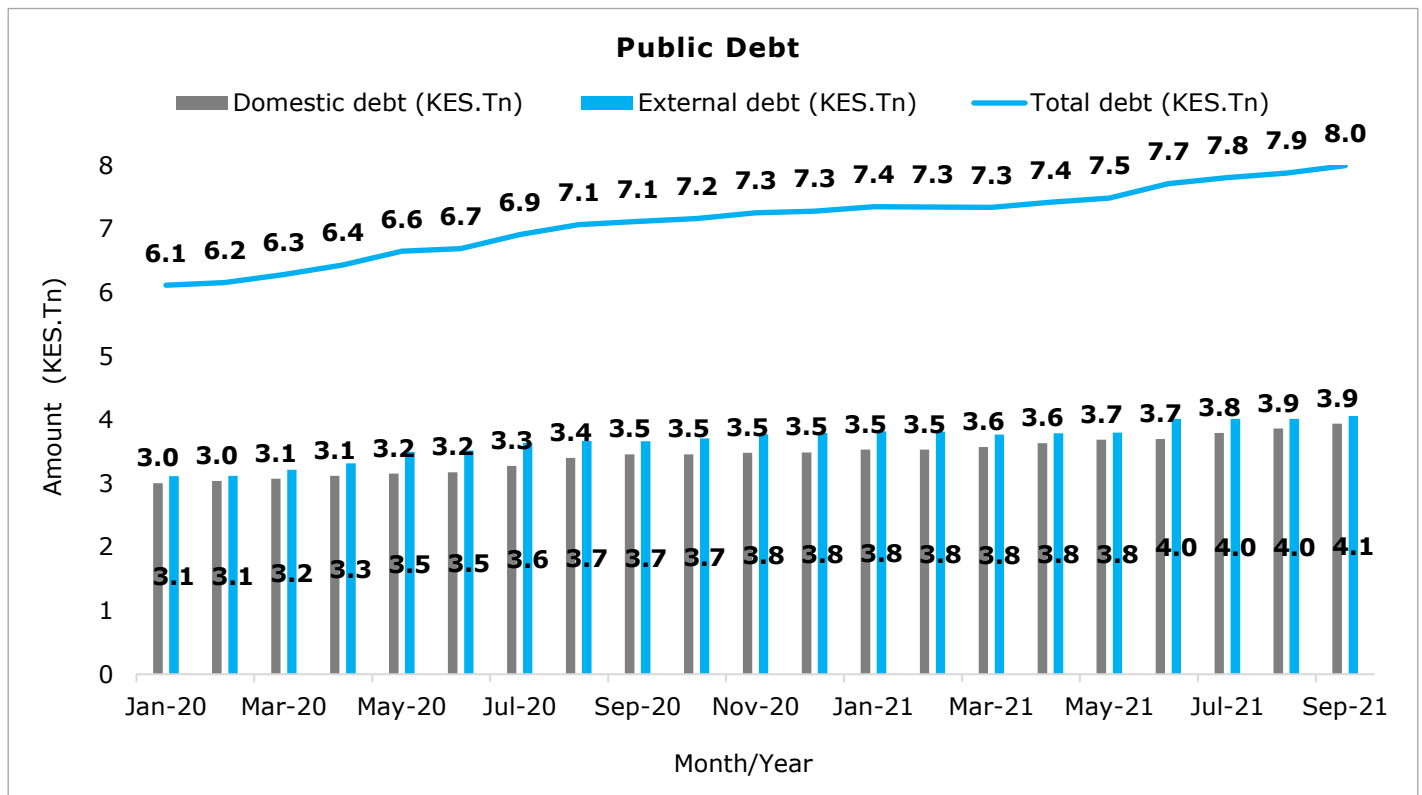
public debt remains a concern in terms of debt service costs (especially with the depreciation of the Kenya Shilling against the US\$) and the crowding out of the development, social programmes and the private sector credit.

**Table.8: Domestic Debt Summary (KES.Bn)**

Debt Instrument	08-January-21	29-Oct-21	26-Nov-21	M/M % ▲
T-Bills (Excluding Repos)	835.76	734.65	716.69	↓2.4
<b>% Gross Domestic Debt</b>	<b>24.60%</b>	<b>18.96%</b>	<b>18.28%</b>	
T-Bonds	2,561.33	3,139.42	3,203.90	↑2.1
<b>% Gross Domestic Debt</b>	<b>75.40</b>	<b>81.04%</b>	<b>81.72%</b>	
Total Securities	3,397.09	3,874.07	3,920.59	↑1.2
Overdraft at CBK	67.91	62.35	62.82	↑0.8
<b>% Gross Domestic Debt</b>	<b>1.95%</b>	<b>1.57%</b>	<b>1.57%</b>	
Other Domestic Debt	24.17	22.39	23.09	↑3.1
<b>% Gross Domestic Debt</b>	<b>0.69%</b>	<b>0.57%</b>	<b>0.58%</b>	
<b>Gross Domestic Debt</b>	<b>3,489.18</b>	<b>3,958.81</b>	<b>4,006.50</b>	↑1.2

Source: Central Bank of Kenya

**Chart.14: Rising debt due to higher budgetary spending**



Source: Central Bank of Kenya

### **2021/22 Budget Targets: Treasury ahead of its Domestic borrowing target**

- The Government has moved ahead of its domestic borrowing target for the first 4-months of FY2021/22 following the huge uptake of issued bonds (Table.9).
- The prorated target amount for the period is KES.336.1Bn with bond auctions during the period under consideration being oversubscribed apart from the October issue and CBK accepting more than offered.
- The Government achieved 35.8% (KES.360.8Bn) of its domestic borrowing target during the period.
- In July CBK took up KES.79.9Bn from a target of KES.60Bn in a dual tranche bond which saw the issue oversubscribed with bids worth KES.116.9Bn received.
- The Government also raised an additional KES.37.4Bn in July through a tap sale of the previous month's bond issuance.
- August's three-tranche bond that targeted KES.60Bn raised bids worth KES.104.6Bn, out of which the CBK took up KES.80.3Bn.
- CBK accepted KES.106.8Bn in the September IFB issue (IFB1/2021/21) which attracted bids worth KES.151.3Bn against KES.75Bn offered.
- The October three-tranche bond sale that targeted KES.60Bn raised KES.52.1Bn, with CBK having received KES.55.6Bn worth of bids from investors.
- The total revenue collected during the 4-months stood at KES.953Bn, representing 29.8% of the target revenue for FY2021/22.
- During the period tax revenue amounted to KES.548.4Bn (32.1% of target) while non-tax revenue stood at KES.28.9Bn (42.4% of target).
- Total expenditure stood at KES.906.9Bn, 28.4% of the budget with recurrent disbursements at KES.343.2Bn (31%) while development and county governments disbursements during the period was at 26.1% (KES.101.4Bn) and 25% (KES.92.5Bn) respectively.
- **Revenue collection by KRA is expected to continue improving attributable to the continued economic recovery and with Treasury ahead of its domestic borrowing target, this could slow down borrowing appetite in the second half of the current fiscal year.**

**Table.9: FY2021/22 Budget Estimates and Receipts**

<b>Receipts</b>	<b>Original Estimates (KES.Bn)</b>	<b>Actual Receipts 29<sup>th</sup> Oct (KES.Bn)</b>	<b>Target Achieved (29<sup>th</sup> Oct)</b>
Opening Balance (01-Jul-21)		21.3	-
Tax Revenue	1,707.4	548.4	32.1%
Non-Tax Revenue	68.2	28.9	42.4%
Domestic Borrowing	1,008.4	360.8	35.8%
External Loans and Grants	379.7	10.8	2.8%
Other Domestic Financing	29.3	4.2	14.3%
<b>Total Revenue</b>	<b>3,193.0</b>	<b>953.0</b>	<b>29.8%</b>
Recurrent Exchequer Issues	1,106.6	343.2	31.0%
CFS Exchequer Issues	1,327.2	369.8	27.9%
Development Exchequer Issues	389.2	101.4	26.1%
<b>Total Issues to National Government</b>	<b>2,823.0</b>	<b>814.38</b>	<b>28.8%</b>
County Governments	370.0	92.50	25.0%
<b>Total Expenditure</b>	<b>3,193.0</b>	<b>906.9</b>	<b>28.4%</b>

✚ **Domestic Borrowing of KES.1,008.4Bn comprises of adjusted Net Domestic Borrowing KES.661.6Bn and Internal Debt Redemptions (Roll-overs) KES.346.8Bn.**

Source: The Kenya Gazette Vol. CXXIII - No.230 12<sup>th</sup> November, 2021

## EQUITY MARKET

### NSE Trading activity: Turnover and volumes up in November

- All the NSE indices edged down in November 2021 as NSE 20, NSE 25 and NASI shed 4.6%, 5.7% and 7.9% respectively (Table.10 & Chart.15).
- The decline was majorly attributable to losses in big caps including Safaricom (-11.3%), EABL (-7.8%), DTB (-4.7%), I&M Group (-3%), Co-op Bank (-2.4%), Equity (-1.4%) and KCB (-1.3%).
- On a year-to-date basis the NSE 20 is down 1.8% while the NSE 25 and NASI are up 3.6% and 5.3% respectively.
- During the month turnover jumped 51.5% to KES.15.6Bn while shares traded rose 73% to 457.2Mn.
- On the other hand, the market capitalization was down 8.1% to close the month at KES.2.6Tn.
- Going forward investors are expected to position themselves for the full year earnings in the first quarter of 2022.
- **The NSE presents a value opportunity and favourable valuations make Safaricom, banks and EABL attractive opportunities for investors.**

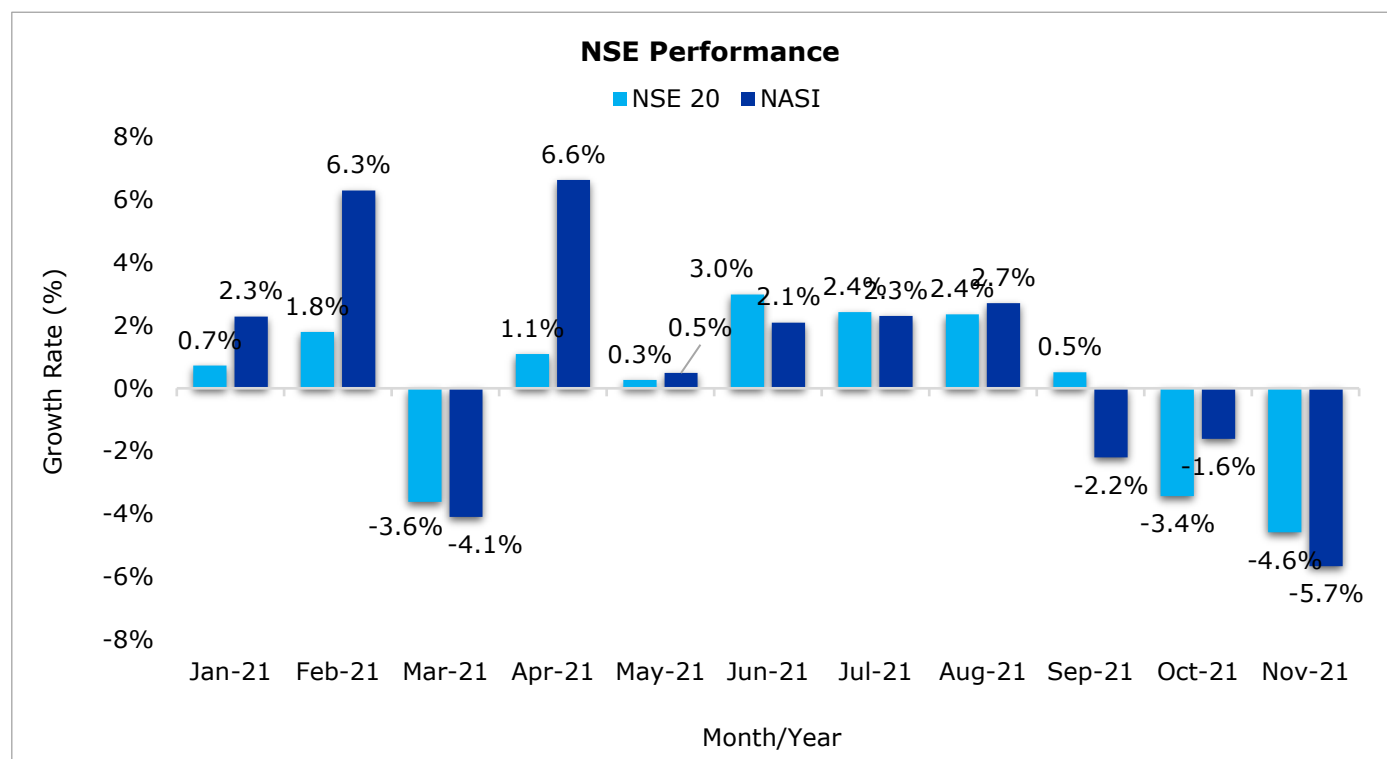
**Table.10: NSE Monthly Performance**

Indicator	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	%Δ M/M	3 <sup>rd</sup> Dec-21
NSE 20 Share Index	1,871.55	1,927.53	1,974.29	2,020.77	2,031.17	1,961.33	1,871.31	↓4.6%	1,839.46
NSE 25 share Index	3,669.57	3,772.19	3,890.09	4,018.77	3,914.52	3,851.67	3,633.46	↓5.7%	3,533.74
NASI	169.97	173.53	177.52	182.33	178.31	177.96	163.90	↓7.9%	160.03
Market Cap (KES.Bn)	2,646.71	2,702.22	2,766.28	2,841.40	2,778.65	2,777.07	2,552.93	↓8.1%	2,492.52
Equity Turnover (KES.Bn)	13.6	14.0	9.3	11.9	10.2	10.3	15.6	↑51.5%	-
Equity Volumes (KES.Mn)	385.9	420.7	284.6	344.5	316.9	264.3	457.2	↑73.0%	-
Foreign Buys (KES.Mn)	7.6	7.0	5.3	6.6	4.6	6.1	6.0	↓1.6%	-
Foreign Sales (KES.Mn)	8.4	8.2	4.1	4.9	5.6	7.2	10.1	↑40.3%	-
Net Foreign Activity (KES.Bn)	-0.8	-1.2	0.3	1.7	(0.9)	(1.0)	(4.2)	-	-
Foreign Inv. Participation	59.0%	54.7%	56.2%	48.5%	49.9%	64.8%	51.6%	↓13.2%	-
Local Inv. Participation	41.0%	45.3%	43.8%	51.5%	50.1%	35.2%	48.4%	↑13.2%	-

Source: Nairobi Securities Exchange

- The NSE's performance is highly skewed towards Safaricom, banks and EABL as their large tradeable liquidity makes them the preferred stocks for foreign investors.
- The market cap erosion and decline in NSE indices in November was majorly attributable to global equity market sell offs due to concerns of global spread of Omicron Covid-19 variant.

**Chart.15: NSE 20 and NSE 25 dips in November 2021**



Source: Nairobi Securities Exchange

### **Top price gainers and losers: Nairobi Business Ventures the top gainer in November**

- Nairobi Business Ventures was the top gainer in November with the counter edging up 19% after declaring a pre-tax profit of KES.34.63Mn for HY-2022 on signs of recovery from ravages of Covid-19 pandemic (Table.11).
- In October the company completed the acquisition of four new business lines valued at KES.3Bn.
- These include the 100% of the issued share capital in Delta Automobile Ltd (a heavy commercial maintenance firm), Delta Cement Ltd, Air Direct Connect Ltd and Aviation Management Solutions Ltd (the last two are in aircraft maintenance).
- HF Group (+10.5%) and Kakuzi (+10%) came in second and third respectively in the list of top gainers.
- In November, Equity Group announced that it will review its interest to re-purchase a stake in HF Group. Britam plans to sell part of its 48.2% stake in the mortgage lender to Equity as part of its investment portfolio review.
- Liberty Holdings lost the most during the month, as it shed 18%.

**Table.11: Top Gainers and Losers – November 2021**

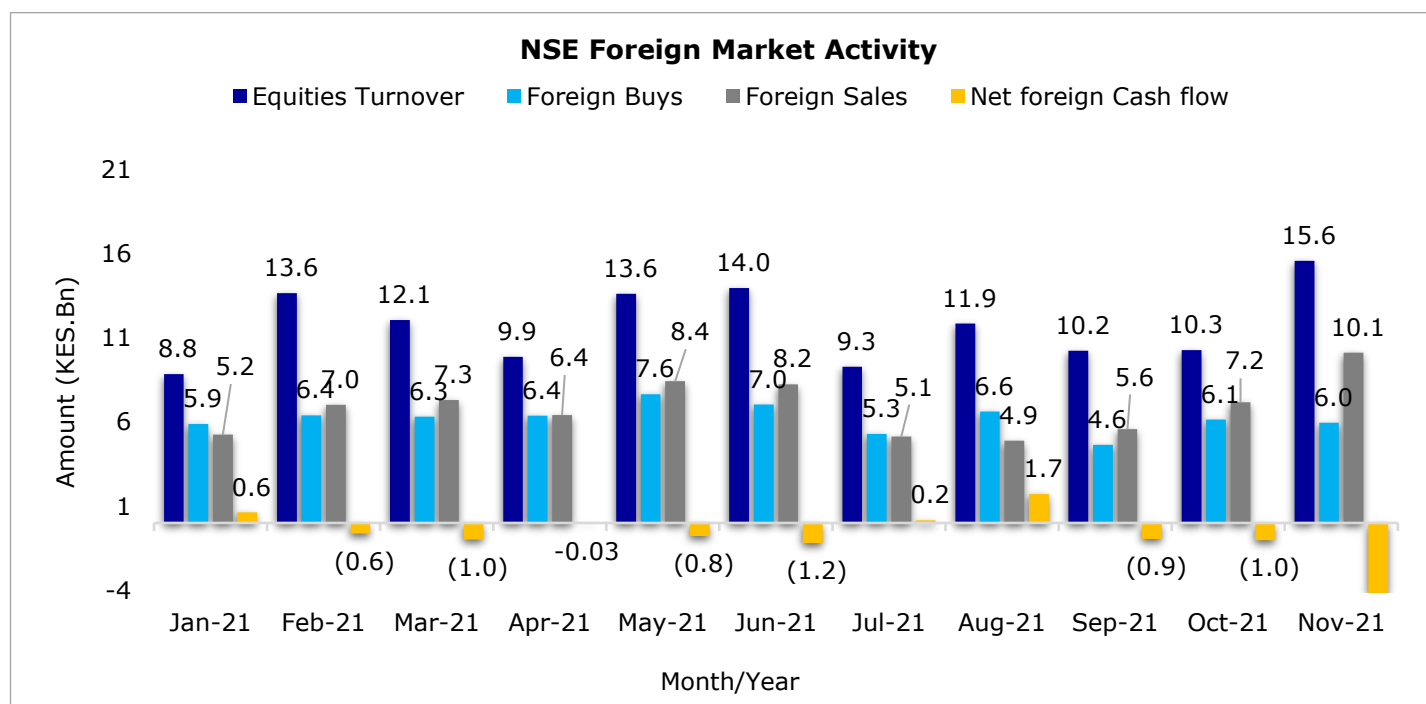
TOP GAINER STOCKS			
Stock	29-Oct-21	30-Nov-21	%Δ
Nairobi Business Ventures	5.04	6.00	↑19.0
HF Group	3.81	4.21	↑10.5
Kakuzi	385.00	423.50	↑10.0
Absa	10.20	11.05	↑8.3
Eaagads	12.00	12.70	↑5.8
TOP LOSER STOCKS			
Stock	29-Oct-21	30-Nov-21	%Δ
Liberty Holdings	8.00	6.56	↓18.0
Scan Group	4.79	4.01	↓16.3
Centum Investments	17.75	15.05	↓15.2
Eveready	1.00	0.86	↓14.0
CIC Insurance	2.56	2.24	↓12.5

Source: Nairobi Securities Exchange

### Foreign Investor Activity: Foreign investors pull KES.4.2Bn from NSE

- In November, foreign investor activity at NSE declined to 51.6% from 64.8% the previous month. During the month foreign investors remained net sellers as they pulled KES.4.2Bn compared to an outflow of KES.1.0Bn in October (Chart.16).
- In 2021, foreign investors have remained net sellers 8 out of 11 months with only net positive inflows coming in January, July, and August at KES.0.6Bn, KES.0.2Bn and KES.1.7Bn respectively.
- Net selling activity was seen mostly on large cap stocks like Safaricom, Equity, KCB, EABL and Co-operative Bank among others.
- **We expect an increase in net outflows especially in Safaricom in the short-term due to the current political situation in Ethiopia.**

**Chart.16: November net foreign cash outflows at KES.4.2Bn**

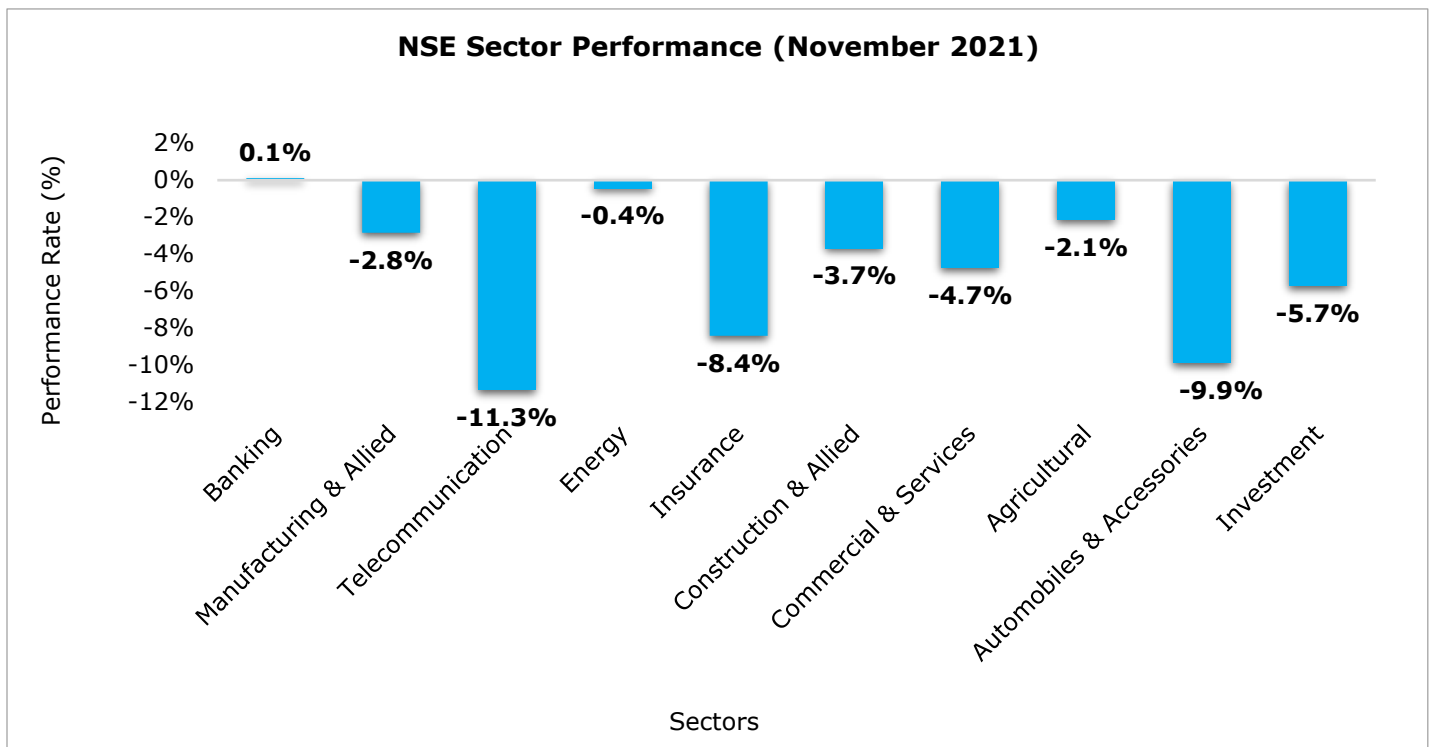


Source: Nairobi Securities Exchange

### NSE Sector Performance: Banking sector the best performing in November

- All the sectors at NSE recorded losses in November 2021 apart from the banking sector which gained marginally by 0.1% (Chart.17).
- Gains in HF Group (+10.5%), Absa (+8.3%) and NCBA (+2.5%) outweighed the losses in BK Group (-8.3%), DTB (-4.7%), I&M Group (-3%), Co-operative Bank (-2.4%), Stanbic (-1.9%), Equity (-1.4%), Standard Chartered (-1.3%) and KCB Group (-1.3%).
- The telecommunication sector was the top loser (-11.3%) with Safaricom shedding 11.3% during the period as investors accommodate the uncertainties of Ethiopia's political turmoil into the share price.
- The insurance sector lost 8.4% with all the counters in the sector losing while Sanlam Kenya was flat during the month.
- The top losing stocks in the sector included Liberty Holdings (-18%), CIC Insurance (-12.5%), Britam (-9.5%), Jubilee (-5.6%) and Kenya-Re (-3.7%).
- Manufacturing & Allied sector was also down 2.8% weighed down by losses in Unga Group (-8.2%) and EABL (-7.8%).
- **We expect the current bearish sentiment on the NSE and the festive season to limit trading activity in December.**

**Chart.17: Only 1-sector returned a positive performance in November with losses in 9 sectors**



Source: Nairobi Securities Exchange

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