Financial News

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10th April 2018

Weak revenue performance points to increased reliance on debt

Public Finance Management has continued to elicit heated debate among creditors and the general public with concerns over its implications on future economic stability. The country's debt has risen from KES 1.8 Trillion at the beginning of 2013 to about KES 4.8 Trillion in 2018, with the debt service to revenue ratio rising to nearly 40.0%. This increase in debt servicing obligation could partly explain the recent sharp rise in recurrent expenditure although the bulk may be a result of one off costs from the repeat presidential elections.

In the first eight month of this year, recurrent expenditure rose by 15.4% to KES 981Bn, exceeding KES 934Bn in revenue collection. This represents a 56.8% performance against the full year projections, suggesting a potentially wider deficit. Perusing through the figures, whereas revenues from import duty and income tax have picked up somewhat, growing by 10.8% and 12.1% respectively, collections from excise duty shrunk by 4.3% underlining the lethargy in the manufacturing sector.

While the traditional cyclical increase in collections in the latter half of the year could boost revenues, overall performance may likely remain below expectations. Meanwhile, although the government has alluded to further brakes on expenditure, fears of an extended economic slowdown could limit the magnitude of any spending cuts.

Accordingly, despite commitments to reduce the budget deficit to 7.2% of GDP, the government could still run a much deeper deficit. This will see continued borrowing especially to fund the gap, despite concerns over debt sustainability. The government has so far borrowed KES 233.90Bn from the domestic debt market and could potentially overshoot its 275.80Bn target given the weak revenue outlook.

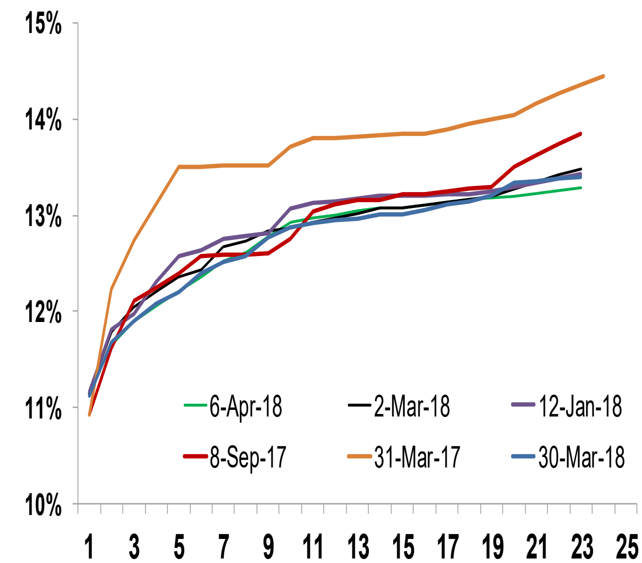
Accordingly, signals from fiscal and monetary policies may remain somewhat divergent. On one hand, with inflation expected to remain within the CBK's target this year, the Central Bank signaled an easing policy bias by cutting the CBR by 50bps in March.

On the other hand, fears of an extended economic slowdown as mirrored by weak revenue performance may not support the case for consolidation, with the government expected to hold its recent debt appetite to plug the gap.

Indicative Rates	Previous	Current	Change bps
Avg Overnight	5.870%	6.347%	47.70
91-Day T-bill	8.000%	8.006%	0.60
182-Day T-bill	10.384%	10.318%	-6.60
364-Day T-bill	11.130%	11.120%	-1.00
Inflation	4.46%	4.18%	28.00
USD/KES	100.89	101.00	0.11%

Source: Central Bank of Kenya

NSE yield curve



Source: Nairobi Securities Exchange

Government maturities and coupon payments

Month	KES (Bn)
9-Apr-18	5.40
16-Apr-18	19.44
23-Apr-18	46.98
30-Apr-18	13.33
May-18	118.86
Jun-18	101.73
New Cumulative Borrowing	233.90
Domestic Borrowing Target	**275.80**

Source: Bloomberg

The yield curve has been unresponsive to the recent 50bps rate cut by the MPC with yields holding steady across the spectrum. Last week, T-bills auctioned at 8.006% (Up 0.60bps), 10.318% (Down 6.60bps) and 11.120% (Down 1.00bps) for the three, six and twelve month papers respectively. This has been attributed to the high demand for funds by Treasury as revealed by above target acceptance of bids at weekly auctions.

Despite the mute response to the policy signal, the CBK may maintain an easing bias to help close the output gap. However, the slow transmission of the policy signal and lurking risks from the external environment from the evolving trade war and potential liquidity tightening in developed markets could invite some caution on the conduct of monetary policy.

Traditional increase in government spending towards fiscal year end to boost liquidity

Liquidity has been somewhat tight over the last two weeks. As a result, overnight rates ticked up to an average of 6.24% so far this month from an average of 4.84% in March. The relative squeeze has been partly attributed to an increase in government debt uptake.

Even so, conditions have somewhat relaxed in the last two days. The liquidity posture may be further bolstered by increased government spending towards the end of the fiscal year. On average, Treasury disburses about 34.4% of the year's expenditure in the last quarter of the fiscal year.

This could also be supported by heavy commercial bank maturities in the period although potential rollover given the government's demand for funds could water down its impact.

Weekly T-bill Auction Results

	91-Day	182-Day	364-Day
Yield	8.006%	10.318%	11.120%
Change (Bps)	0.60	-6.60	-1.00
Amount Offered (Bn)	4.00	10.00	10.00
Bids Received (Bn)	2.95	7.16	15.56
Performance (%)	73.85	71.65	155.62
Amount Accepted	2.94	7.03	15.56
Bid Cover	1.01	1.02	1.00
Redemption (Bn)	3.26	2.12	12.25
New borrowing (Bn)	-0.32	4.91	3.32

Source: Central Bank of Kenya

Regional Equities Market

	30.03.18	06.04.18	Wow
NSE- 20	3,845.34	3,820.81	-0.64%
NASI	191.23	194.86	1.90%
NSE- 25	4,965.76	4,992.39	0.54%
USE ASI	2,203.17	2,269.50	3.01%
DSEI	2,409.04	2,443.50	1.43%
TSI	4,092.14	4,100.64	0.21%
RSE ALSI	133.12	133.11	-0.01%

Source: Regional Stock Exchanges

Local equities register mixed performance

Risk aversion played out once again in the global market as fears of a trade war escalated. Last week, the Dow Jones fell further as the trade narrative between the US and China promised a tit-for-tat tariff action between the two countries. Confidence in the US economy was undermined by rising uncertainty for exporters and potentially higher inflation on the back of supply constraints following higher tariffs on food commodities by China.

Back home, stocks were mixed, with little evidence of correlation to these risk events. The NASI and NSE-25 advanced by 1.90% and 0.54% respectively while the NSE-20 shed 0.60%. The short week registered reduced activity with turnover declining to KES 2.87Bn from KES 3.86Bn a week earlier. Foreign investors were active accounting for 68.1% of the week's traded value, an increase from 55.46% a week earlier. They withdrew \$0.72Mn after injecting \$1.17Mn a week earlier.

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Regional Market

	UGANDA		TANZANIA		RWANDA	
Period to (2018)	Mar 16th	Mar 30th	Mar 23rd	Apr 06th	Mar 30th	Apr 06th
91 Days T-Bill	8.676%	8.765%	2.25%	2.15%	4.991%	5.083%
182 Days T-Bill	8.929%	9.066%	3.23%	3.16%	6.317%	6.191%
364 Days T-Bill	9.435%	9.579%	5.12%	5.09%	6.990%	6.615%
Interbank O/N	8.32%	7.47%	1.48%	1.30%	5.50%	5.50%
CBR/CRR/ Key Repo Rate	9.00%	9.00%	8.00%	8.00%	5.50%	5.50%

Source: Bank of Uganda, Bank of Tanzania, National Bank of Rwanda
**Latest Estimates*

Uganda

The local currency lost 13 shillings to trade within the 3685/3705 range against its US counterpart at the end of the week. Rising dollar demand amidst thin flows contributed to this depreciation. Even so, the Bank of Uganda tried to avert a sharp depreciation through proactive liquidity management. In the week ahead, the shilling is expected to maintain its bearish trend as dollar demand picks up with economic activity in the final quarter. The $3.5Bn in foreign exchange reserves could also allow for direct intervention through augmented supply for the US dollar.

Meanwhile, the money market remained liquid with overnight rates holding steady within the 7.50% - 9.50% range. The Central Bank rid the market of UGX 592Bn against UGX 570.75Bn in Treasury maturities in the week. There was no Treasury bill/bond auction during the week. Looking ahead, maturities amounting to UGX 342.62Bn could bolster liquidity although part of these funds could be absorbed through the Treasury bill auction in the week.

Tanzania

The local currency lost marginally to the US dollar to trade in the 2254/2264 range. The Central Bank has been keen to ensure limited pressure on the shilling through active participation in the market limiting any aggressive moves in the currency, on either direction. The government also recently weighed in on the currency, expressing its preference for stability. This week, the shilling is expected to remain marooned in recent ranges albeit with a weakening bias.

Meanwhile, heavy liquidity continued to typify the interbank market. The overnight cost of funds between banks stabilized at 1.30% compared to last week. The Central Bank was at hand to rid the market of excess liquidity through repos at a rate of 1.00%.

Treasury yields eased further in the week to 2.15% (Down 10.00bps), 3.16% (Down 7.00bps) and 5.09% (Down 3.00bps) on the 91, 182 and 364 day papers respectively. The government absorbed TZS 115.15Bn which was lower than the TZS 169Bn it sought.

Kenya Government Debt Maturities (KES Bn)

	Issuer	Amount Outstanding	Principal	Interest
9-Apr-18	Treasury Bill	17.70	17.70	
16-Apr-18	Treasury Bill	19.44	19.44	
23-Apr-18	Treasury Bill	25.51	25.51	
23-Apr-18	FXD1/2013/5	20.17	20.17	
30-Apr-18	Treasury Bill	13.33	13.33	
	Treasury Bond-Coupon Payments			17.26
APRIL 2018		**113.45**	**113.45**	**17.26**
7-May-18	Treasury Bill	18.81	18.81	
14-May-18	Treasury Bill	17.94	17.94	
21-May-18	Treasury Bill	23.91	23.91	
21-May-18	FXD2/2016/2	58.64	58.64	
28-May-18	Treasury Bill	21.64	21.64	
	Treasury Bond-Coupon Payments			17.01
MAY 2018		**140.94**	**140.94**	**17.01**
4-Jun-18	Treasury Bill	21.46	21.46	
11-Jun-18	Treasury Bill	17.01	17.01	
18-Jun-18	Treasury Bill	15.88	15.88	
25-Jun-18	Treasury Bill	19.46	19.46	
25-Jun-18	FXD2/2013/5	26.43	26.43	
	Treasury Bond-Coupon Payments			19.96
JUNE 2018		**100.24**	**100.24**	**19.96**
2-Jul-18	Treasury Bill	12.62	12.62	
9-Jul-18	Treasury Bill	15.63	15.63	
16-Jul-18	Treasury Bill	11.95	11.95	
16-Jul-18	FXD2/2008/10	13.50	13.50	
23-Jul-18	Treasury Bill	8.47	8.47	
30-Jul-18	Treasury Bill	20.79	20.79	
	Treasury Bond-Coupon Payments			9.48
JULY 2018		**82.96**	**82.96**	**9.48**
6-Aug-18	Treasury Bill	14.00	14.00	
13-Aug-18	Treasury Bill	20.43	20.43	
13-Aug-18	FXD1/2006/12	3.82	3.82	
20-Aug-18	Treasury Bill	22.83	22.83	
27-Aug-18	Treasury Bill	20.51	20.51	
	Treasury Bond-Coupon Payments			9.42
August 2018		**81.60**	**81.60**	**9.42**