Weekly Fixed Income Note

Week ending: 28th April 2022

Key Highlights:

- T-bills were oversubscribed, during the week, recording an overall subscription rate of **117.83%** up from **98.90%** recorded the previous week. The 91-day paper recorded the highest subscription rate at **254.59%** while the 364-day paper recorded the lowest rate at **93.95%**. Investor preference toward the 91-day paper could signal the uncertainty surrounding the upcoming elections, in less than 100 days. The Central Bank accepted **99.61%** of the **KES 28.17Bn** worth of bids received. Current fiscal year borrowing is **7.59%** ahead of the prorated target. Yields on the 91-day, 182-day and 364-day papers edged up **4.9bps** and **8.5bps** and **2.1bps** respectively.

- In the primary market, the Central Bank is issuing a ten-year paper, **FXD1/2022/10,** and reopened a 25-year fixed coupon bond, **FXD1/2021/25**, worth a total of **KES 60.00Bn**, which will be on sale from **28th Apr 2022** to **10th May 2022**. The ten-year paper's coupon rate will be market-determined, while the 25-year paper's coupon rate is 13.924%. Bidding guidance will be provided in the Primary Auction Note.

- In the secondary market, the value of bonds traded increased by **26.92%** to **KES 15.04Bn** from **KES 11.85Bn** recorded last week. **IFB1/2021/21** was the most traded paper. The yield curve steepened marginally with a significant acceleration in the short- and long-term, with the two-year paper gaining the most by **33.98bps**. The medium-term slowed down, with the eight-year paper losing the most by **26.13bps**; a correction after the 15-year primary issue. The FTSE Bond index closed the week at **94.83** taking the YTD loss to **1.28%.**

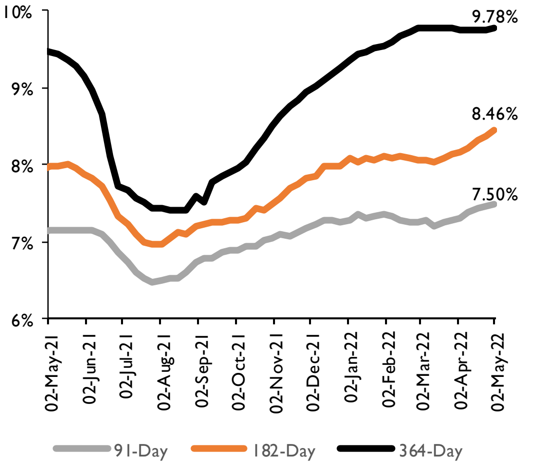
We expect activity in the secondary market to slow down, in the coming week, as focus shifts to the May primary market issue. We foresee the trend of investors' preference for longer-dated papers continuing, with aggressive bidding reflecting increased global and local risk. Increased activity on the 91-day paper, is partly attributable to investors seeking higher returns due to increased domestic risk ahead of the General Elections.

Macroeconomic data	Current	Previous
GDP (3Q2021 vs. 2Q2021)	9.90%	10.10%
Inflation (April)	6.47%	5.56%
Private Sector Credit Growth (Feb)	9.10%	8.80%
Money Supply Growth (Feb)	4.40%	4.70%

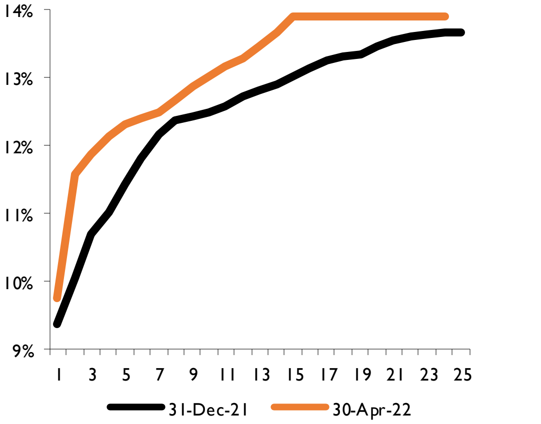
Key Indicators

	Current	Previous	bps
91- Day	7.50%	7.45%	4.90
182-Day	8.46%	8.37%	8.50
364-Day	9.78%	9.76%	2.10
Interbank Rate	4.74%	4.52%	22.00

T-Bill Rates



NSE



MACROECONOMIC NEWS

Currency

The Kenya shilling lost further ground against the USD, depreciating **0.20%** to trade at **115.77** from **115.60** at the close of last week. On a YTD basis, the shilling has depreciated **2.33%** against the USD compared to **3.64%** in 2021. The CBK's usable forex reserves currently stand at **USD 8,427Mn** (**5.01** months of import cover), a 0.68% week-on-week decrease from **USD 8, 485Mn** (**5.04** months of import cover) recorded last week. **We expect the local currency to remain under pressure due to increased dollar demand as global oil prices remain elevated while dollar receipts from key export earning sectors reduce and increased dollar demand from dividend-paying counters. The dollar has also been on a strengthening rally over the last few months with the US Dollar Index (a measure of the value of the US Dollar against a basket of foreign currencies) peaking, during the week. However, the forex reserves will be further supported by diaspora remittances and remittance from the IMF 38-month EEF/ECF Program.**

Liquidity

Liquidity in the money market tightened as shown by the average interbank rate which increased to **4.74%** from **4.52%** recorded at the end of the previous week, attributable to end-of-the-month tax remittances. **We foresee the interbank rate remaining below 5.00% for the coming week, mainly driven by active open market operations and end of month obligations. However, we anticipate government expenditure to continue providing liquidity support.**

Rising Inflation

The inflation index surged, in line with our expectations, to **6.47%** compared to **5.76%** in March. The rise in inflation was mainly spurred by increases in the prices of commodities: Food and Non-alcoholic Beverages (12.15%); Furnishings, Household Equipment and Maintenance (7.15%); Transport (6.88%) and Housing Utilities (5.47%). The food inflation index rose due to the increase in cooking oil (41.70%), wheat flour (24.70%) and maize flour(14.70%), among other items. Indonesia, the world's largest edible oils supplier, banned the export of crude oil to mitigate supply shortages in their domestic market, causing a spike in global prices. The Russia-Ukraine war has adversely affected the global supply and distribution of wheat, with most of the country's wheat being sourced from the two countries. Unfavourable weather conditions and inadequate supplies of maize to millers have also negatively impacted the price of maize flour leading to increased prices during the month. Fuel prices were raised during the month, in response to elevated global crude oil prices which have also been negatively impacted by the energy crises as a result of the Russia-Ukraine war, leading to increased costs of transportation. The price of LPG gas rose by 41.00% during the month, leading to an increase in the Housing Utility index. **Rising inflation remains a grave concern to economies, the world over. April's inflation figures point to soaring prices of fuel, food and commodities largely on the back of the Russia-Ukraine war. We anticipate that as headline inflation remains in the upper band of the CBK's 2.5% to 7.5% target. The Monetary Policy Committee (MPC) is likely to abstain from intervention, by raising the base lending rate in the upcoming May meeting, despite mounting pressure for intervention and most of their peers in the region and around the world, raising their rates.**

Weekly Fixed Income Calendar

This week, the Central Bank of Kenya, as the government's fiscal agent, will seek to raise **KES 24.00Bn** in Treasury Bills and **KES 60.00Bn** in Treasury Bonds.

	Macro event	Date
1.	Weekly T/Bill Auction	5th May 2022
2.	May T/Bond Auction	11th May 2022
3.	May Monetary Policy Committee Meeting	30th May 2022
4.	May Inflation Figures	31st May 2022

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