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WEEKLY FIXED INCOME NOTE

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AIB-AXYS Weekly Fixed Income Note

Week #2 2024 – 8th January 2024

Key Highlights:

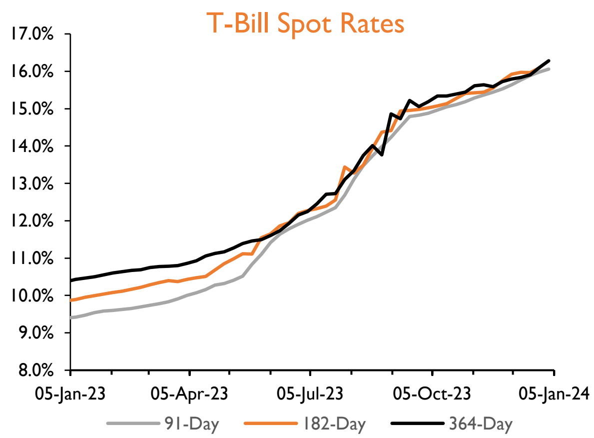
- Spot market treasury bills were oversubscribed recording an accelerated subscription rate of **134.5%** from **43.8%** recorded in the previous week. Demand remained skewed to the shorter-term 91-day paper – which posted an outsized **658%** subscription rate. We attribute this performance to increased investor demand for short-duration papers as a hedge against prevailing market risks.
- In the primary bond market, the government is presently looking to raise **KES 35.00Bn** earmarked for budgetary support through the tap sale of the FXD1/2024/003 and FXD1/2023/005. Bidding is set to close on **10th January 2024.** For further bidding guidance, please see out our [January 2024 Primary Auction Note.]
- Notably, all market average rates on the 91-day and 364-day papers soared firmly above the 16.00% mark – following the Monetary Policy Committee's move to raise the benchmark rate by 200bps to **12.5%** at their December 2023 meeting. The accepted average yields on all the papers edged firmly above 16.00% with the 91 and 182-day papers climbing **7.6bps** and **12.5bps** respectively whereas the 364-day paper eased by **1.0bps.**
- Across the secondary bond market, the value of bonds traded decreased by **74.94%** to **KES 0.64Bn** from **KES 2.55Bn** recorded a week prior. We observed a sharper steepening at the short end of the yield curve even as investors adjusted long dated bonds to prevailing market risks. The 1-year yield gained the most by **18bps** while the 5-year yield eased **1bps.** We expect a steeper yield curve inversion at the short end – likely to pull the tail-end of the curve depending on the duration of upcoming primary issues.
- Over to the international scene, yields on Kenya's 2024 Eurobond tightened by **201bps** w/w – signaling jittery investor sentiments despite reassurances from multilateral guarantors and government's drive towards fiscal consolidation. We observed the yields on longer dated papers tighten in tandem, leading to a general uplift of the sovereign yield curve.

We expect mild secondary market activity in the week as attention shifts towards the ongoing January 2024 primary bond auction.

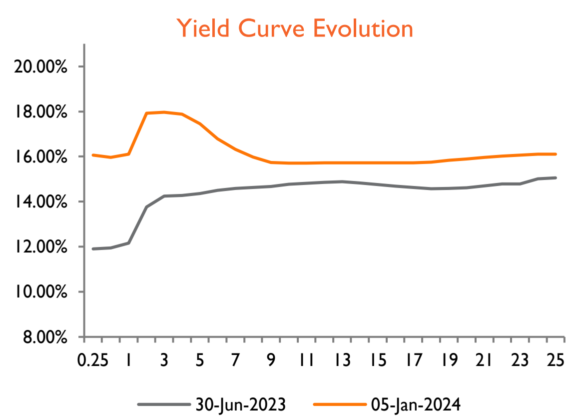
Key Indicators

	Current	Previous	w/w bps change	2024 bps change
91- Day	16.06%	15.98%	7.6	7.6
182-Day	16.09%	15.97%	12.5	12.5
364-Day	16.09%	16.10%	(1.0)	(1.0)
SOFR*	5.32%	5.40%	(8.0)	(8.0)
Interbank Rate	14.29%	13.92%	37.0	33.5

** - Secured Overnight Financing Rate*
Source: Central Bank of Kenya, US Fed, AIB-AXYS Research



Source: Central Bank of Kenya, AIB-AXYS Research



Source: NSE, AIB-AXYS Research

MACROECONOMIC NEWS

Currency

The Kenya shilling shed further ground against the USD, depreciating **59bps** to **KES 157.39** from **KES 156.46** the previous week. On a YTD basis, the shilling has depreciated **0.59%** against the USD. The CBK's usable forex reserves rose by **247bps** w/w to **USD 6,775Mn** (3.60 months of import cover) from **USD 6,612Mn** (3.50 months of import cover). The current reserves remain below the CBK's statutory requirement (4 months) & below the EAC's convergence requirement (4.5 months) of import cover.

We expect the volatility on the local currency to ease – albeit marginally - due to a narrowing balance of payments deficit, supported by stabilizing dollar inflows from tourist arrivals, diaspora remittances and key export-earning sectors. However, rising external debt-service commitments, coupled with the ballooning import bill poses downside risks for the shilling.

Liquidity

Liquidity conditions across the money market tightened as evidenced by the **34bps** rise in the average interbank rate to **14.26%** up from **13.92%** recorded a week prior. We attribute this tightening, partly, to statutory deductions and tax remittances outpacing the rise in government payments. **We expect the interbank rate to trail closer towards upper corridor limit of 15.00% in the coming week, mainly driven by the recent +200bps benchmark rate tightening, and CBK's reclusive open market operations.**

December 2023 Stanbic Kenya Purchasing Managers Index

The private sector's economic outlook measured by the Purchasing Managers Index (PMI) increased to **48.8** in December from **45.8** in November. A PMI reading of below 50.0 indicates declining business conditions while a reading of above 50.0 shows an improvement. The slight expansion was mainly due to a considerable softening of inflationary pressures. customer turnout and purchasing power improved amid a softening in inflationary pressures, especially across the services sector. However, elevated interest rates, continued depreciation of the shilling and increasing tax burden continue to pile mounting pressure on the overall business environment.

We anticipate the PMI reading to edge towards the 50.0 mark over the medium-term as cooling inflationary pressures repair consumer real incomes. We however expect that the economy will remain susceptible to the heightened global uncertainty - stoking secondary inflationary cycles. In the near-term, we foresee an improvement in business activity driven by stabilizing consumer and business confidence coupled with the positive effects of monetary tightening.

Weekly Fixed Income Calendar

- **Treasury Issues –** On Thursday, 11th January 2024, the Central Bank of Kenya will be resuming the market for **KES 24.00Bn** in Treasury bills.

	Macro event	Date
1.	Closure of January 2024 Primary Bond Auction	10th January 2024
2.	Weekly CBK T-Bill Auction	11th January 2024
3.	EPRA Pump Prices Review	14th January 2024
4.	January 2024 Inflation Data	31st January 2024

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