



# WEEKLY FIXED INCOME NOTE



## AIB-AXYS Weekly Fixed Income Note

April 8<sup>th</sup>, 2024

### Key Highlights

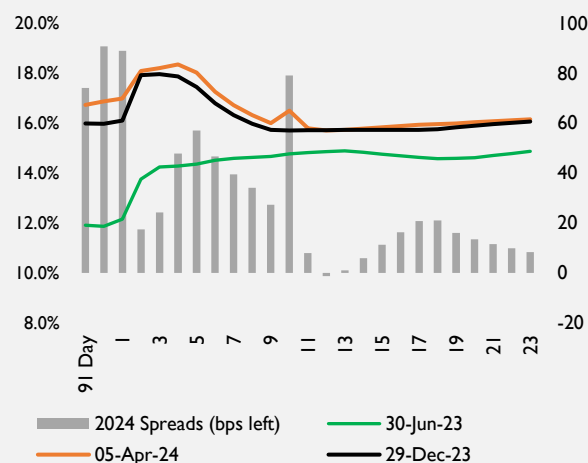
- **Spot market treasury bills were substantially oversubscribed, recording an accelerated subscription rate to 118.65% from 65.99% recorded the previous week.** Demand remained skewed to the shorter-term 91-day paper – which posted a **217.29%** subscription rate. We attribute this performance to increased investor demand for short-duration papers appetized by elevated real yields.
- **In the primary bond market, the government is looking to raise KES 40.00Bn through the re-opening of FXD1/2023/002 paper** earmarked for budgetary support. The bond has quoted time to maturity of 1.4 years with the bond’s coupon rate set at 16.9723%. Bidding is set to close on 17<sup>th</sup> April 2024.
- **All spot market rates now trail above the 16.70% mark –** following the Monetary Policy Committee’s move to maintain the benchmark rate at **13.00%** at their April 2024 meeting. The accepted average yields on the 91-day, 182-day and 364-day papers declined 0.5bps, 1.4bps and 0.0bps.
- **Across the secondary bond market, the value of bonds traded decreased by 55.8% w/w to KES 10.05Bn from KES 22.74Bn** recorded a week prior. The 3-year yield surged the most by **20bps w/w** while the 2-year yield eased **1bps w/w**. We expect a progressive yield curve flattening at the mid-section of the curve.
- **Yields on Kenya’s 2027 Eurobond paper held relatively stable throughout the week to trade at an average of 8.453%** - rising only **1bp** from the previous week. We expect Kenya’s international yields to remain relatively stable, swinging in the single-digit territory over the medium-term.

Table 1: Indicative Interest Rates

Rate	Current	Previous	w/w bps change	2024 bps change
91-Day	16.72%	16.73%	-0.5	84.1
182-Day	16.87%	16.89%	-1.4	90.2
364-Day	16.99%	16.99%	0.0	108.9
SOFR*	5.32%	5.32%	0.0	-15.9
Interbank Rate	13.76%	13.67%	9.2	-7.7

Source: Central Banks' Data \*SOFR: Sovereign Overnight Financing Rate

Chart 1: Domestic Yield Curve Evolution



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

## Macroeconomic Developments

### Exchange Rate

The Kenya Shilling strengthened against the USD for a 10<sup>th</sup> consecutive week, appreciating **80bps w/w** to **KES 130.74** from **KES 131.80** the week prior. This lifted the Shilling's YTD appreciation to **16.44%** against the USD.

Official forex reserves increased by **85bps w/w** to **USD 7,148Mn** from **USD 7,088Mn**. The current reserves now offer about **3.8 months** of import cover – marginally below the CBK's statutory requirement of 4 months & below the EAC's convergence requirement of 4.5 months of import cover.

We expect progressive strengthening of the Kenya shilling - owing 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 poses downside risks for the shilling.

### Monetary Policy Committee – March 2024 Convention

The Central Bank of Kenya's Monetary Policy Committee, in its second sitting of 2024, elected to maintain the benchmark rate at **13.00%** to allow for complete transmission of the previous hikes to passthrough through the real economy while safeguarding overall internal and external price stability.

The Committee noted an acceleration in the banking sector's non-performing loan ratio to 15.5% in February 2024, up from 14.8% in December 2023. Real private sector credit growth however decelerated 350bps m/m to 10.3% in February 2024 - pointing to the impact of elevated interest rates on credit demand to the real economy.

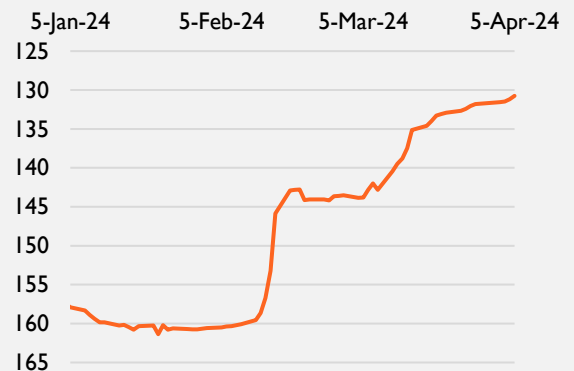
### Global Market Snippet

On the international front, the US dollar weakened **0.24%** w/w against a basket of currencies taking the YTD performance to 2.88%, downplaying the stronger labor data. Meanwhile, the Fed maintained a hawkish stance.

The yields on the 2-year and 10-year US treasury papers rose 13bps and 20bps to 4.76% and 4.41% respectively backed by stronger labor data.

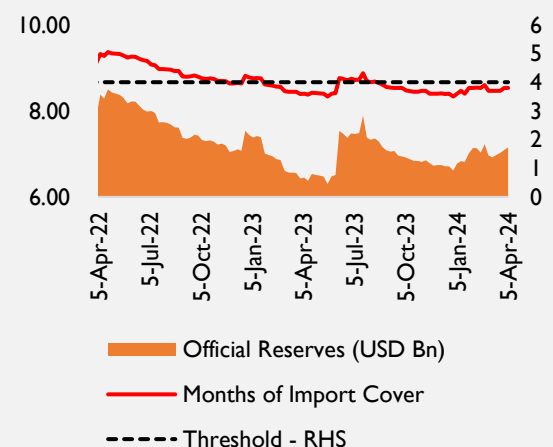
Global oil prices recorded upward trends with Kenya's supplier UAE Murban increasing 437bps to close the week at **USD 91.15/barrel** while Brent Crude oil increased 479bps to close the week at **USD 91.17/barrel** – on account of tighter supply coupled with geopolitical tensions.

Chart 2: KES-USD Exchange Rate



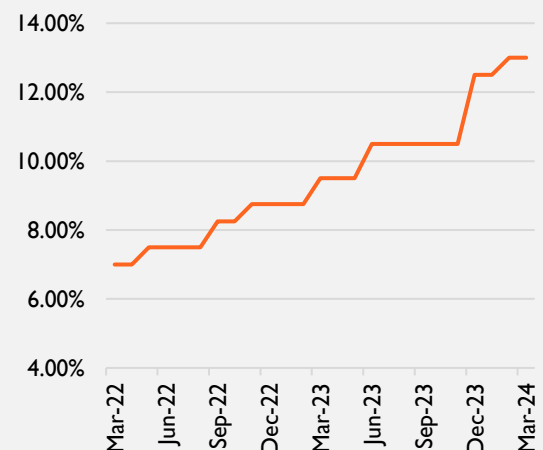
Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 3: Forex reserves



Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 4: Central Bank Rate



Source: Central Bank of Kenya, AIB-AXYS Africa Research

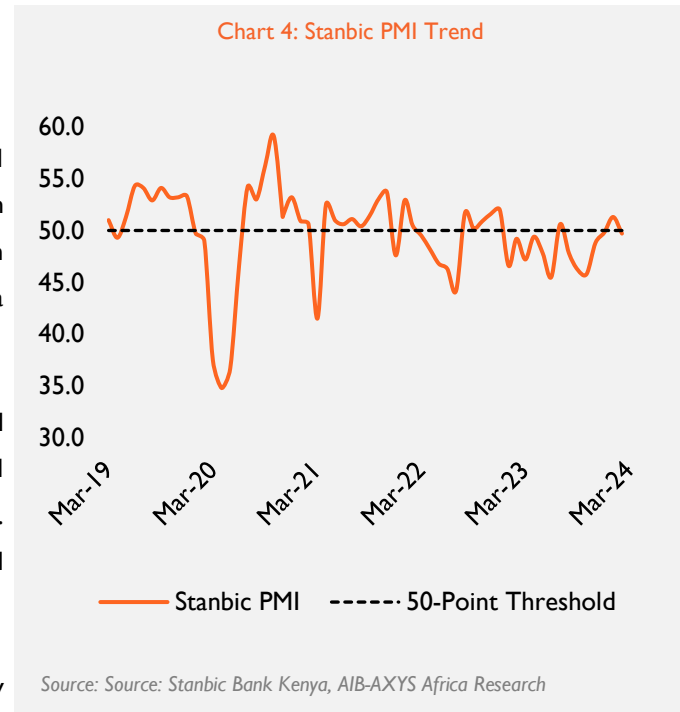
## Macroeconomic Developments

### Stanbic Bank Kenya Purchasing Managers Index

According to the Stanbic Bank Kenya's Purchasing Managers Index, broad business sentiment slipped back to the contraction territory to stand at **49.7** in March 2024 from 51.3 a month prior. Readings above 50.0 point to an improvement in business conditions, while readings below 50.0 point to a deterioration.

The deterioration comes on account of condensed output alongside decreased demand - backed by a decrease in new order volumes. Additionally, lower fuel prices coupled with the gaining shilling led to easing of input and output costs. Notably, staffing levels saw an expansion with future improved demand sentiment.

Despite the slight decline, improved confidence in future activity is buoyed by cooling inflationary pressures therefore boosting demand.



## MACROECONOMIC CALENDAR

Event	Date
Weekly CBK T-bill Auction	11 <sup>th</sup> April 2024
EPRA Fuel Prices Review	14 <sup>th</sup> April 2024
Closure of April 2024 Primary Bond Auction	17 <sup>th</sup> April 2024
April 2024 Inflation Data	31 <sup>st</sup> April 2024

## Summary Macroeconomic Stats

Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	Q3 2023	5.9%	5.4%	▲ 50 bps
Headline Inflation	March-24	5.7%	6.3%	▼ (60 bps)
Central Bank Rate	April-24	13.0%	13.0%	-
Stanbic Kenya PMI	March-24	49.7	51.3	▼ (1.6 pts)
Private Sector Credit Growth	February-24	10.3%	13.9%	▼ (360 bps)
Forex Reserves (USD M)	April-24	7,148	7,088	▲ 0.8%
Public Debt (KES Tn)	January-24	11.25	11.14	▲ 1.0%

Source: CBK, KNBS, Stanbic Bank Kenya, AIB-AXYS Research



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