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WEEKLY FIXED INCOME NOTE

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Key Highlights:

- T-bills were oversubscribed recording an overall increased subscription rate of 161.83% from 96.56% recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper with an 8.71x subscription rate. We attribute the performance to investors continuing to see short-term risks in the market. We continue to observe the difference between the yields on the three papers shrinking to within 10bps increasing the possibility of a yield curve inversion on the short end. The Central Bank acceptance rate increased to 99.83% of the **KES 38.84Bn** amounting to **KES 38.77Bn**. Yields on all the papers are now firmly above the 13.00% level with the 91, 182, and 364-day papers moving **24.86bps, 42.98ps,** and **109.53bps,** respectively.

- In the primary market, for the month of September the government is looking to raise KES 35.00Bn for budgetary support through the reopening of two bonds, FXD1/2023/2 and FXD1/2016/10. FXD1/2023/2 has a time to maturity of 1.9 years while FXD1/2016/10 has a time to maturity of 2.9 years. The coupon rate of FXD1/2023/2 will be 16.972% while that of FXD1/2016/10 will be 15.039% with bidding to close on 13th September 2023. For further bidding guidance, please see our Primary Auction Guide.

- In the secondary market, the value of bonds traded increased by 42.47% to **KES 13.12Bn** from **KES 9.21Bn** recorded a week prior. We observed a further steepening across the curve highlighting investors' demand for higher rates. As such, the 1-year paper gained the most by **109bps.** We continue to see a yield curve inversion in the short end section which is likely to spread across the curve depending on the maturity profile of upcoming primary issues.

- In the international market, yields on Kenya's Eurobonds increased by an average of 21bps indicating deteriorating investor sentiment on the long end following increased lack of confidence on the government's debt sustainability. We observed the 2024 Eurobond paper increasing by 69bps, highlighting the paper's sensitivity to market sentiments given that its maturity is less than 9 months away. We expect another week of higher yields on the 2024 paper that could point to worsening investor sentiment.

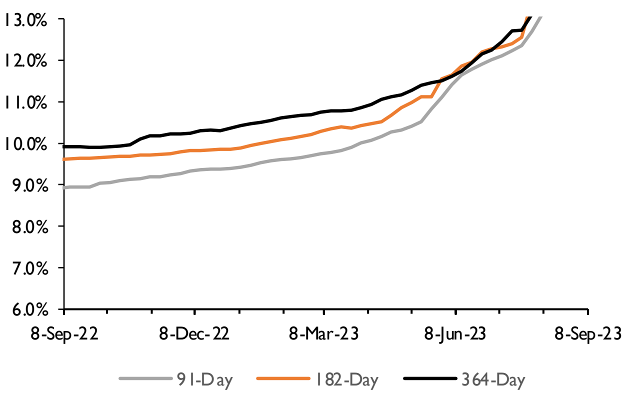
We expect activity in the secondary market to decrease driven by investors interest in the ongoing September T-Bond primary auction. We believe that the high frequency of tap sales is likely to continue having negative impact on the secondary market. In the coming T-Bond bidding sessions, we foresee investors testing CBK's resolve on accepting rates higher than 18.00% for short to mid tenor papers.

Key Indicators

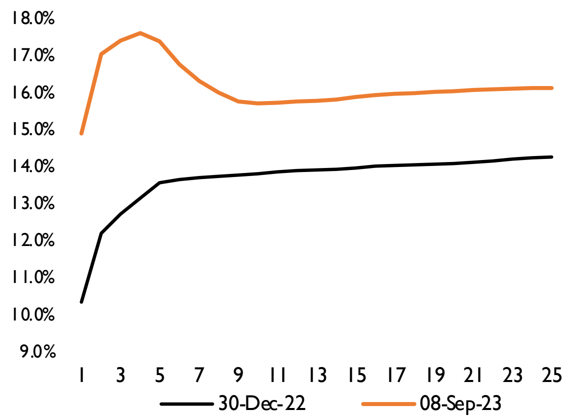
	Current	Previous	w/w bps Change	ytd bps Change
91- Day	14.23%	13.99%	24.86	486.37
182-Day	14.37%	13.94%	42.98	454.36
364-Day	14.86%	13.77%	109.53	455.03
SOFR	5.31%	5.31%	0.00	101.00
Interbank Rate	12.41%	12.31%	(9.22)	(599.67)

SOFR: Secured Overnight Financing Rate – Benchmark interest rate for dollar denominated securities.

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **43bps** to **KES 146.14** from **KES 145.50** the previous week. On a YTD basis, the shilling has depreciated **18.49%** against the USD , depreciation exceeded the 9.04% depreciation recorded in 2022. The CBK's usable forex reserves decreased marginally remaining below the 4.00 months level to close last week at **USD 7,051Mn** (**3.81 Months** of Import Cover), a 41bps week-on-week decrease from **USD 7,080Mn** (**3.83 Months** of Import Cover), recorded last week. The current reserves are below the CBK's statutory requirement (4 Months) & below EAC Convergence requirement (4.5 Months) of import cover. **We expect the local currency to continue coming under pressure due to the heightened dollar demand from importers on the back of the prevailing high global commodities prices, and reduced dollar inflows from key export-earning sectors. Additionally, the depreciation is driven by the continued strengthening of the dollar against emerging and frontier market currencies.**

Liquidity

Liquidity in the money market tightened as shown by the interbank rate increasing 9bps to 12.41% from 12.31% recorded a week prior. We partly attribute the tightening to statutory deductions and tax remittances outpacing government spending. Additionally, we suspect the implementation of new CBK system has had marginal effects in the interbank trading. **We expect the interbank rate to remain above 9.00% levels in the coming week, mainly driven by the monthly bank's Cash Reserve Requirements, delayed government payments and CBK's open market operations.**

Global Markets Overview

The private sector's economic outlook measured by the Purchasing Managers Index (PMI) increased to 50.60 in August from 45.5 in July 2023. A PMI reading of below 50.00 indicates declining business conditions while a reading of above 50.00 shows an improvement. The most recent estimates indicated that that private sector has expanded for the first time since January 2023. The expansion was as a result of improved output levels driven by increased demand and growth of the manufacturing and services sectors. Inflationary pressures, continued depreciation of the shilling, increased input costs and increased fuel prices continue to weigh down the business environment.

We anticipate that the economy will remain constrained due to the prolonged elevated commodity prices and the ongoing inflationary pressures. In the near term, we predict that business activity will continue to improve, mainly due to improved agricultural production and the positive impact of monetary policy tightening. However, we also anticipate that global issues such as inflation, concerns about a recession, and geopolitical events may hinder economic growth and negatively affect the overall business climate.

Weekly Fixed Income Calendar

- **Treasury Issues -** This week, the Central Bank of Kenya, as the government's fiscal agent, is in the market for **KES 24.00Bn** in T-bills. Additionally, September T-Bond issue is looking to raise KES 35.00Bn with bidding ending on 13th September 2023.

- **Monthly Pump Prices Review-** We expect minimal movement in local pump prices given the governments initiative to compensate suppliers from the Petroleum Development Fund. The global crude oil prices are expected to in increase given anticipation of additional production cut by OPEC members that is likely to be reflected in higher fuel landing costs.

	Macro event	Date
1.	September T-Bond Auction	13th September 2023
2.	Weekly T-Bill Auction	14th September 2023
3.	September Pump Prices Review	14th September 2023
4.	September Inflation Figures	30th September 2023

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