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WEEKLY FIXED INCOME NOTE

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Weekly Fixed Income Note

Week Ending: 10th November 2023

Key Highlights:

- T-bills were oversubscribed for a second week recording an overall increased subscription rate of 255.64% from 102.82% recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper with a 9.31x 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 **99.70**% of the **KES 61.35Bn** amounting to **KES 61.17Bn**. Yields on all the papers are now firmly above 15.00% with the 91, 182, and 364-day papers moving **10.04bps, 13.43bps,** and **17.60bps,** respectively.

- In the primary market IFB1/2023/6.5 was oversubscribed in line with our expectations by recording a 177.80% subscription rate. The CBK accepted KES 67.06Bn being a 134.11% acceptance rate. We attribute the oversubscription to the tax-free nature of the bond and the potentially high demand in the secondary market. The yield and coupon rate came in at 17.9327% which point to the governments willingness to accommodate higher yields.

- In the secondary market, the value of bonds traded increased by **153.38%** to **KES 1.58Bn** from **KES 0.62Bn** 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 **17.6bps.** 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 14bps indicating worsening investor sentiment on the long end following increased confidence on the government's debt sustainability. We observed the 2024 Eurobond paper increasing by 137bps highlighting the paper's sensitivity to market sentiments given that its maturity is less than 8 months away.

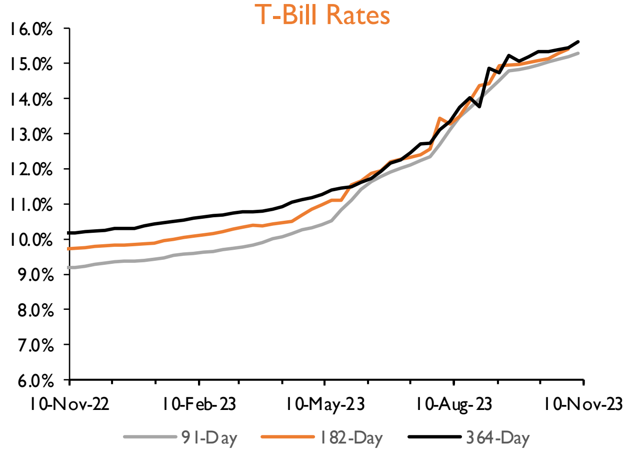
We expect activity in the secondary market to increase driven by investors who missed out on the primary market auction. We believe that the high frequency of tap sales is likely to continue having negative impact on the secondary market. In the coming T-Bond bidding sessions, we foresee investors testing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

Key Indicators

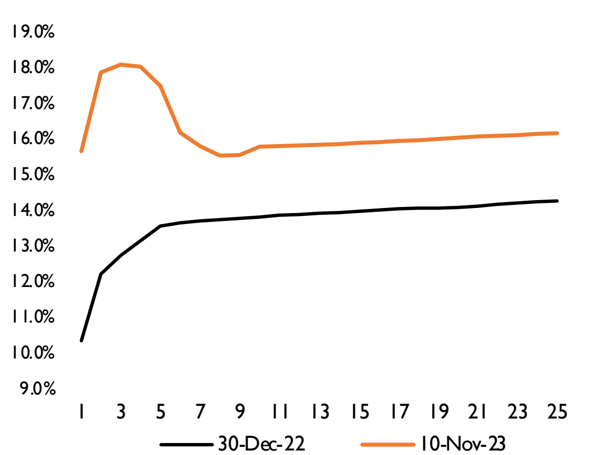
	Current	Previous	w/w bps Change	ytd bps Change
91- Day	15.29%	15.19%	10.04	591.67
182-Day	15.41%	15.27%	13.43	558.07
364-Day	15.62%	15.44%	17.60	530.51
SOFR	5.32%	5.32%	0.00	(102.00)
Interbank Rate	11.57%	12.30%	73.63	(516.00)

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 **41bps** to **KES 151.68** from **KES 151.06** the previous week. On a YTD basis, the shilling has depreciated **22.94%** against the USD , depreciation exceeded the 9.04% depreciation recorded in 2022. The CBK's usable forex reserves increased marginally remaining below the 4.00 months level to close last week at **USD 6,853Mn** (**3.70 Months** of Import Cover), a 57bps week-on-week increase from **USD 6,814Mn** (**3.70 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 increased 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 eased as shown by the interbank rate decreasing 74bps to 11.57% from 12.30% recorded a week prior. We partly attribute the easing to government spending outpacing statutory deductions and tax remittances. **We expect the interbank rate to remain above 11.00% levels in the coming week, mainly driven by the monthly bank's Cash Reserve Requirements, delayed government payments and CBK's open market operations.**

Macro-economic News Roundup

The National Treasury gazetted the statement of revenues and expenditure for the four months of the fiscal year 2023/24. The total revenues collected were **KES 939.44Bn** being **68.20%** of the prorated estimated collection of **KES 1,377.58Bn.** We observed an under collection in Tax revenues at **KES 684.75Bn** being **82.31%** of the prorated target of **KES 831.94Bn.** Recurrent expenditure at **KES 349.59Bn** was below prorated estimate of **KES 434.27Bn** being an **80.50%** performance. We remain concerned with the low allocation absorption of development expenditure which came in at **KES 39.48Bn** being **24.63%** of the prorated **KES 434.27Bn.** The government remains below the prorated domestic borrowing target having borrowed **KES 156.48Bn** being **68.21%** of the prorated estimate of **KES 229.40Bn**. CFS allocation at **KES 472.37Bn** was lower than the prorated **KES 654.57Bn** being a **72.17%** performance. Allocation to counties came in at **KES 78.59Bn** being a **61.17%** of the prorated **KES 128.47Bn.**

We expect the tax revenues to remain below prorated target as economic challenges prevail and continue to negatively affect business operating environment. We expect increased pressure on KRA to meet revenue targets through widening the tax base, reforming tax policies, increased tax compliance, and aggressive pursuit of tax cheats. We expect the government to be keen on meeting revenue collection targets to reduce the need for additional borrowing.

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.

	Macro event	Date
1.	November Pump Price Review	14th November 2023
2.	Weekly T-Bill Auction	16th November 2023
3.	November Inflation Figures	30th November 2023

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