Weekly Fixed Income Note

Week Ending: 4th November 2022

Key Highlights:

- T-bills were oversubscribed after a week of underperformance by recording an increased overall subscription rate of **181.88%** from **75.79%** recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper for the 19th straight week with a 4.64x subscription rate compared to the least preferred 182-day paper at 83.37%. We expect the oversubscription to persist in the coming weeks as the yield on the 364-day paper crossed the elusive 10% mark. The Central Bank acceptance declined to 90.43% of the **KES 43.65Bn** amounting to **KES 39.47Bn.** Yields on all the papers are now firmly above 9.00% with the 91, 182, 364–day papers gaining **0.90bps, 1.10bps,** and **13.90bps**, respectively.

- In the Primary market, the government is looking to raise KES 60.00Bn through the issuance of **IFB1/2022/14**. The coupon rate will be market determined with the bidding period between 26/10/2022 - 08/11/2022. For more on the IFB issue and bidding guidance please see our auction guide note.

- In the secondary market, the value of bonds traded decreased by **54.75%** to **KES 8.05Bn** from **KES 17.79Bn** recorded last week. We believe the decrease was driven by investors turning their eye to the November IFB issue. The yield curve recorded a mix of flattening and steepening across the curve. The 15-year paper gained the most by **4.03bps** and the 1-year paper lost the most by **27.4bps**.

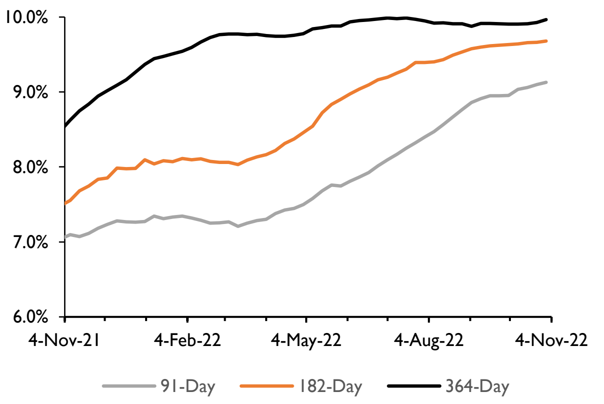
- In the international market, the yields on Kenyan Eurobond issues declined further for another week indicating improved investor sentiment. However, recent report by IMF which downgraded Kenya's economic growth prospects for 2022 is likely to have a negative effect on Eurobond yields in the coming weeks. We observed the 2024 paper declining the most, by 58bps, highlighting the paper's sensitivity to market sentiments given that its maturity is less than 24 months away.

We expect activity in the secondary market to slow down in the coming week as investors concentrate on the upcoming IFB issue. Furthermore, we expect investors to continue preferring safer asset classes and demanding higher yields compensation for the heightened risk of a global recession coupled with increased inflation.

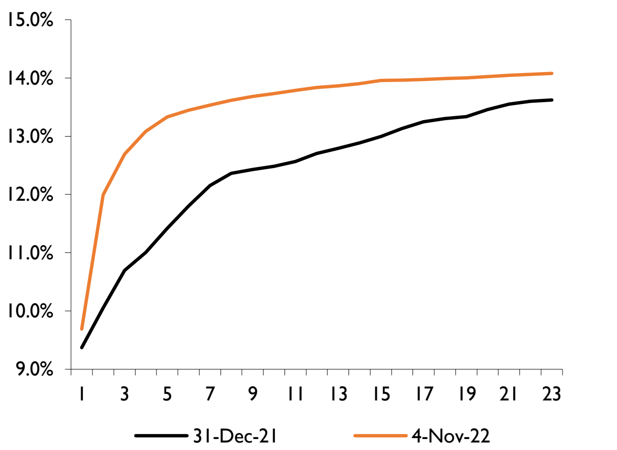
Key Indicators

	Current	Previous	w/w bps Change
91- Day	9.14%	9.13%	0.90
182-Day	9.69%	9.68%	1.10
364-Day	10.11%	9.97%	13.90
Interbank Rate	4.62%	5.02%	40.00

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating 19bps to cross the KES 121.50 from KES 121.31 the previous week. On a YTD basis, the shilling has depreciated 7.39% against the USD compared to 4.36% in 2021, staying on course to be higher than the 7.70% depreciation observed in 2020. The CBK's usable forex reserves remained adequate at **USD 7,213Mn** (**4.04** months of import cover), a **1.00%** week-on-week decrease from **USD 7,286Mn** (**4.11** months of import cover) recorded last week. **We expect the local currency to continue under pressure due to the increased dollar demand from energy importers on the back of the prevailing high global oil prices, and reduced dollar inflows from key export-earning sectors. Additionally, the depreciation is driven by the continued strengthening of the dollar against other currencies as measured by the DXY index which has gained 15.71% YTD.**

Liquidity

Liquidity in the money market eased as shown by the average interbank rate decreasing 40bps to 4.62% from 5.02% recorded at the end of the previous week. We attribute the easing liquidity to tax remittances outpacing government payments. Open market operations also remained active within the week. During the week, the average number of interbank deals decreased to 33 from 34 in the previous week, while the average value traded decreased to **KES 20.4Bn** from **KES 32.2Bn,** last week. **We expect the interbank rate to remain below 5.00% levels in the coming week, mainly driven by the clearing of the IFB issue which we expect will generate a huge interest from investors.**

October PMI print declines.

The private sectors economic outlook turned bleak as shown by the October Purchasing Managers Index (PMI) which declined to **50.20** following the increase in September that saw the PMI at **51.70.** The decline in PMI points to a slowed economic activity which led to a downturn in production output and decreased sales volumes in the construction, wholesale and retail sectors following the continued rise in cost of living. Inflationary pressures drove an increase in purchasing costs due to higher fuel prices, raw materials shortages and a weaker shilling. Elevated inflation has been transferred to private sector through rising input costs and the decline in consumer purchasing power which has in turn decreased output demand.

Inflation print in the month of October increased 40bps, line with our expectations, to **9.60%** compared to the **9.20%** a recorded in September, with the CPI index increasing to **127.86.** The latest print continued to surpass the upper limit set by CBK for the fifth month largely driven by increase in food and non-alcoholic beverage to 15.80% from 15.50% and transportation to 11.60% from 10.20%. Core inflation increased to **3.80%** from **3.40%.** Food inflation increase can be pointed to unfavorable weather conditions and increasing transport costs.

We expect to see a further decline of the PMI print to below the 50.00 mark in the coming months following high inflationary pressures causing a rising cost of living. We expect the trend of increasing inflation to continue due to increased food costs, a continuously weakening shilling and increased fuel prices. We expect demand to continue declining in the short to medium term, delaying the overall rate of progress in Kenya's business climate following the persistent inflationary pressures. We foresee businesses continuing to pass along a larger percentage of their input cost burdens to consumers.

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, the apex bank will be receiving bids for the November T-Bond paper looking to raise KES60.00Bn through a 14-year paper.

	Macro event	Date
1.	November T-Bond issue – IFB1/2022/14	8th November 2022
2.	Weekly T-Bills Auction	10th November 2022
3.	Monthly Fuel Review	14th November 2022
4.	November Inflation Figures	30th November 2022

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