



# WEEKLY FIXED INCOME NOTE



# AIB-AXYS Weekly Fixed Income Note

February 5<sup>th</sup>, 2024

## Key Highlights

- **Spot market treasury bills were marginally oversubscribed recording an accelerated subscription rate to 107.5% from 102.0% recorded the previous week.** Demand remained skewed to the shorter-term 91-day paper – which posted a 516% 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 looking to raise KES 70.00Bn** through the issuance of an amortized infrastructure bond **IFB1/2024/8.5Yr** - earmarked for funding of infrastructure projects. The bond has a quoted time to maturity of **8.5 years**, with the coupon rate set to be market-determined. Bidding is set to close on 14<sup>th</sup> February 2024.
- **All spot market rates remain firmly above the 16.25% mark** – following the Monetary Policy Committee’s move to raise the benchmark rate by 200bps to 12.50% at their December 2023 meeting. The accepted average yields on all the papers edged firmly above 16.25% with the 91,182-day and 364-day papers climbing 8.4bps, 13.0bps and 15.8bps respectively.
- **Across the secondary bond market, the value of bonds traded increased by 21.66% to KES 22.67Bn** from KES 18.64Bn recorded a week prior. The 1-year yield surged the most by **16bps** while the 4-year yield eased **14bps**. We expect a steeper yield curve inversion at the short end of the curve.
- **Over to the international scene, yields on Kenya’s 2024 Eurobond tightened marginally by 30bps w/w** – signaling jittery investor sentiment despite reassurances from multilateral guarantors and government’s drive towards fiscal consolidation. We observed yields on longer dated papers tighten in tandem, leading to a general uplift of the sovereign yield curve.

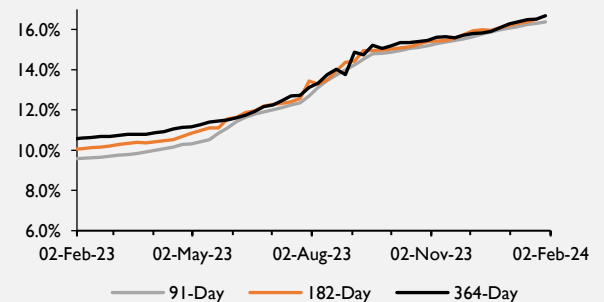
Table 1: Indicative Interest Rates

|                | Current | Previous | w/w bps change | 2024 bps change |
|----------------|---------|----------|----------------|-----------------|
| 91-Day         | 16.37%  | 16.29%   | 8.4            | 49.2            |
| 182-Day        | 16.51%  | 16.38%   | 13.0           | 53.4            |
| 364-Day        | 16.68%  | 16.52%   | 15.8           | 77.9            |
| SOFR*          | 5.32%   | 5.32%    | 0.0            | -8.0            |
| Interbank Rate | 13.39%  | 13.67%   | -28.4          | -53.1           |

Source: Central Banks’ Data

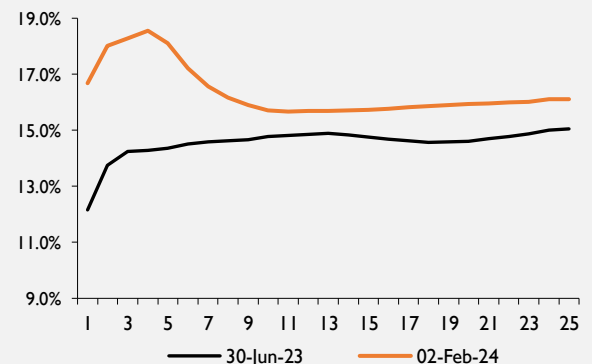
\*SOFR: Sovereign Overnight Financing Rate

Chart 1: T-Bill Spot Rates



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Chart 2: Yield Curve Evolution



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

## Macroeconomic Developments

### Exchange Rate

The Kenya shilling strengthened against the USD for the first time in months, appreciating slightly by 3bps to KES 160.57 from KES 160.62 the previous week. On a YTD basis, the shilling has depreciated 2.63% against the USD. The CBK’s usable forex reserves also rose by 167bps w/w to USD 7,134Mn (3.80 months of import cover) from USD 7,017Mn (3.80 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 Kenya shilling to ease further - 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, coupled with the ballooning import bill poses downside risks for the shilling.

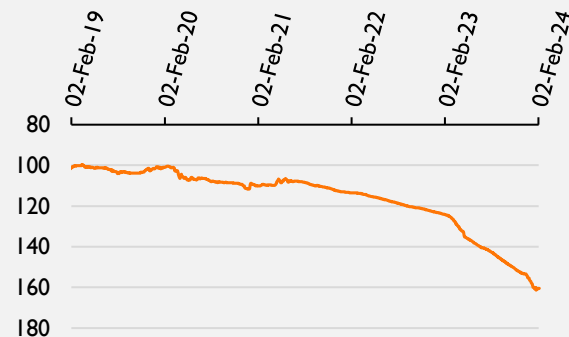
### Price Levels – Inflation Update

According to the Kenya National Bureau of Statistics (KNBS) price pressures accelerated in the month of January 2024. The CPI headline inflation rate accelerated 30bps to 6.90% up from 6.60% in December 2023. The increase was mainly driven by the seasonal rise in the prices of food, transport services and housing & utilities.

Fuel inflation accelerated markedly by 60bps to 14.3% - largely on account of the forex rate fluctuations, despite the offsetting decline in oil prices in global markets. Food inflation, on the other hand, tightened 20bps to 7.90% from 7.70% in December 2023 - driven by increase in prices of certain food items surpassing decline in others and overhangs of the festive season price upswings. Housing utility costs increased by 9.7% y/y whereas transport increased by 10.6% y/y – in spite of the partial fuel-price subsidization in the January pricing cycle. Core inflation (Non-Food-Non-Fuel) similarly tightened 20bps to 3.60% - pointing to underlying price pressures.

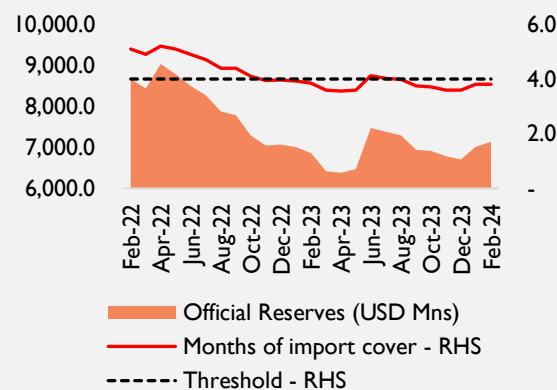
We expect further price pressures to be mild and transitory, underpinned by the positive effects of monetary policy tightening. However, we expect price levels to remain fragile and prone to external shocks via the exchange rate channel.

Chart 3: KES-USD Exchange Rate



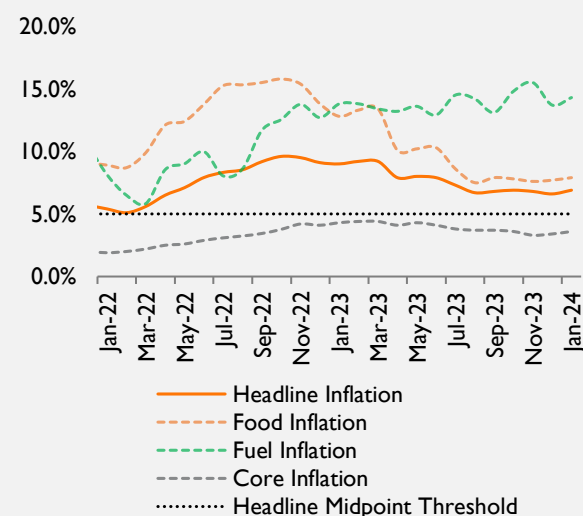
Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Chart 4: USD Official Forex Reserves



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Chart 5: Inflation Trends



Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

**MACROECONOMIC CALENDAR**

| Macro Event                                   | Date                           |
|---|--------------------------------|
| CBK Monetary Policy Committee (MPC) Meeting   | 6 <sup>th</sup> February 2024  |
| Weekly CBK T-bill Auction                     | 8 <sup>th</sup> February 2024  |
| EPRA Fuel Prices Review                       | 14 <sup>th</sup> February 2024 |
| Closure of February 2024 Primary Bond Auction | 14 <sup>th</sup> February 2024 |
| February 2024 Inflation Data                  | 29 <sup>th</sup> February 2024 |





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