



WEEKLY FIXED INCOME NOTE



Key Highlights:

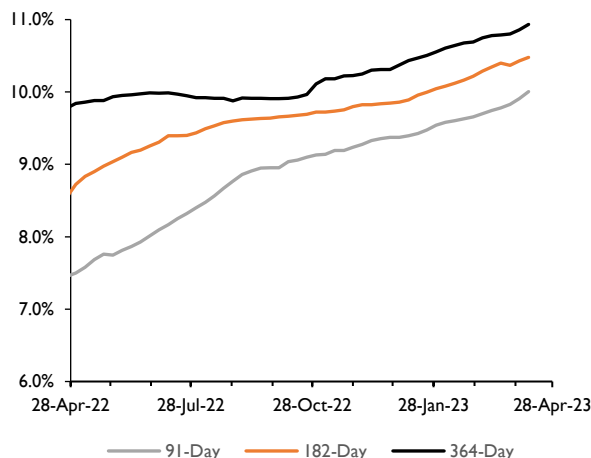
- T-bills were undersubscribed last week recording a decreased overall subscription rate of 37.52% from 146.47% recorded the previous week. Investors continued to prefer the shorter-term 91-day paper for the 12th month. We attribute the poor performance to tight liquidity as seen by the uptick in the interbank rate to a six months high of 9.34%. We expect continued preference towards the 91-day paper given the rising yields which as expected have crossed the 10% level. Additionally, CBK's announcement of easier access to opening treasury securities trading accounts is likely to see increased retail and diaspora investors' interest. The Central Bank acceptance rate increased to 99.35% of the **KES 9.00 Bn** amounting to **KES 8.95Bn**. Yields on all the papers are now firmly above 10.00% with the 91, 182, and 364-day papers moving **11.60bps**, **3.40bps**, and **6.50bps**, respectively.
- In the primary market for the month of May, the government is looking to raise KES 20.00 Bn for budgetary support through the issuance of a three-year bond. FXDI/2023/03 has a time to maturity of 3.0 years and the coupon rate will be market determined with bidding to close on 10th May 2023. We will be issuing further bidding guidance.
- In the secondary market, the value of bonds traded increased by 14.42% to **KES 12.39Bn** from **KES 10.83Bn** recorded a week prior. We observed a further yield curve steepening across the curve highlighting investors' demand for higher rates. As such, the 20-year paper gained the most by **45bps**. We continue to see a yield curve inversion in the mid section which is likely to spread towards the long end depending on the maturity profile of the upcoming primary issues.
- In the international market, yields on Kenya's Eurobonds decreased by an average of 7bps indicating improved investor sentiment on the long end. However, the 2024 paper increased by 114bps highlighting the paper's sensitivity to market sentiments given that its maturity is less than 14 months away. We expect another week of higher yields on the 2024 paper (likely to be higher than 20% level) given the announcement of return of the weekly protests led by members of the opposition.

We expect activity in the secondary market to be driven by IFB trading with minimal negative effect from the ongoing May T-bond primary auction. Several transactions in the secondary market are driven by investors who missed out in the primary market. Furthermore, we expect investors to remain vigilant to the recent debt sustainability concerns. As such, we expect primary issuances to continue demanding higher yields as compensation for increased credit risk.

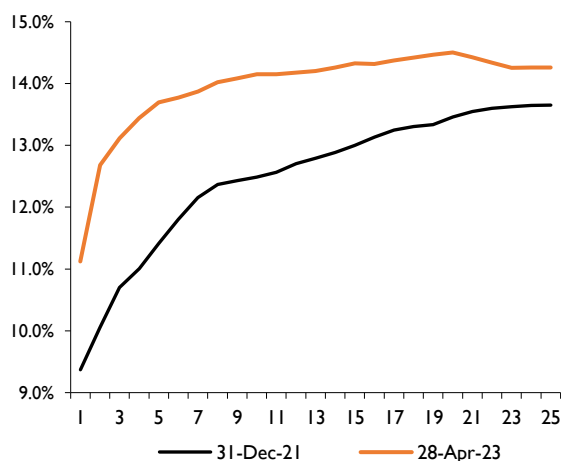
Key Indicators

	Current	Previous	w/w bps Change
91-Day	10.28%	10.16%	11.60
182-Day	10.51%	10.48%	3.40
364-Day	11.12%	11.06%	6.50
Interbank Rate (Weekly Average)	9.18%	8.67%	(50.86)

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **53bps** to **KES 135.91** from **KES 135.19** the previous week. On a YTD basis, the shilling has depreciated **10.20%** against the USD, depreciation exceeded the 9.04% depreciation recorded in 2022. The CBK's usable forex reserves declined marginally remaining below the 4.00 months level to close last week at **USD 6,508Mn (3.62 Months** of Import Cover), a 35bps week-on-week decrease from **USD 6,531Mn (3.63 Months** of Import Cover), recorded last week. The current reserves remain below the CBK's statutory requirement (4 Months) & 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 markets currencies.**

Liquidity

Liquidity in the money market tightened as shown by the average interbank rate increasing 51bps to 9.18% from 8.67% recorded a week prior. We partly attribute the tightening to the statutory deductions and tax remittances outpacing government payments. **We expect the interbank rate to remain above 8.00% levels in the coming week, mainly driven by the remittance of monthly obligations, delayed government payments and CBK's open market operations.**

Macro-economic News Roundup

During the week, the KNBS release the April inflation figures which saw overall headline inflation decrease to **7.90%** from **9.20%** recorded in March. This decline was mainly attributed to the onset of the long rains that has driven the increase in food production. Food inflation decreased to 10.10% from 13.40% in March, the housing utilities and the transport indices increased marginally to 9.60% and 9.80% respectively y/y. Non-Food-Non-Fuel (Core Inflation) decreased to 4.10%. The CPI increased by 50bps to 131.83 from 131.18 in March 2023.

We foresee food inflation declining further driven by the onset of the long rains increasing agricultural production. Subsequently, the easing in food inflation will have a positive impact on household's food security. Higher electricity prices will continue having a negative impact on the overall inflation figure as households feel the effect and manufacturers pass down the higher cost to consumers. We foresee the economy remaining constrained by high commodity prices and high inflation pressures. Headline inflation will remain under pressure from high energy prices and above the CBK's upper target.

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. April PMI	04 th May 2023
2. Weekly T-Bills Auction	04 th May 2023
3. May T-Bond Auction	10 th May 2023
4. May Pump Prices Review	14 th May 2023
5. May MPC Meeting	31 st May 2023
6. May Inflation Figures	31 st May 2023

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