



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

July 8th, 2024

Key Highlights

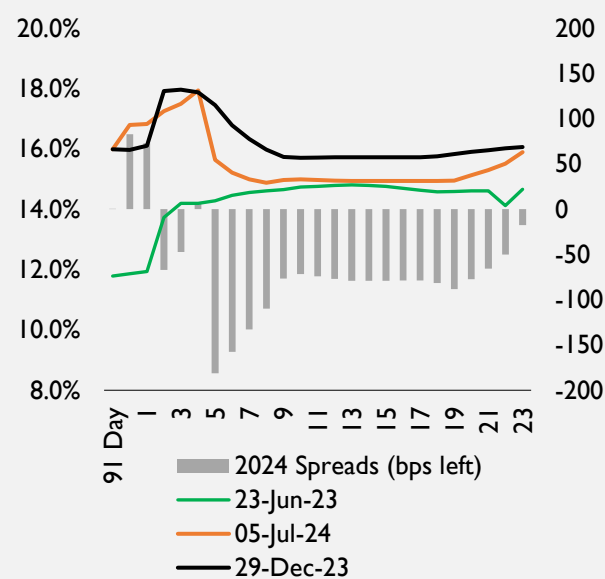
- **The latest treasury bill auction was oversubscribed, recording an accelerated subscription rate to 124.4% from 32.0% recorded the previous week.** Demand remained skewed to the 91-day paper – which received bids amounting to KES 14.80Bn. The **91-day treasury bill rate rose marginally to 15.987%**, while the accepted average yields on the 182-day and 364-day papers each climbed 3.2bps to 16.795% and 16.823% respectively.
- **In the primary bond market, the tap sale of the re-opened FXD1/2023/002 was largely undersubscribed clocking a subscription rate of 2.4%.** Out of the KES 20.0Bn in sought, the CBK received bids totaling KES 487.50Mn. The allocated average rate on accepted bids stood at 17.1225%. We attribute the undersubscription to taut investor sentiment amid prospects of higher real returns over coming quarters.
- **Across the secondary bond market, the value of bonds traded increased 3.59% w/w to KES 34.42Bn from KES 33.23Bn** recorded a week prior. The NSE Bond Index rallied 0.1% w/w to 1,041.15 points driven largely by a decline in 5-year bond yields. The 4-year yield surged the most by **13.0bps w/w** while the 8-year yield eased **12.0bps w/w**. We expect a progressive yield curve flattening at the short end of the curve.
- **Yields on the Kenya’s Eurobond papers showed resilience, albeit with investor sentiment leaning towards caution, increasing by an average of 8.4bps w/w.** Notable selling activity persisted throughout the week, on the back of recent tax protests. We expect Kenya’s international yields to cooldown back to the single-digit territory over the near-term.

Table I: Indicative Fixed Income Stats

Rate	Current	Previous	w/w bps change	2024 bps change
91-Day	15.987%	15.977%	1.0	10.4
182-Day	16.795%	16.764%	3.2	82.4
364-Day	16.823%	16.791%	3.2	92.2
Interbank Rate	13.28%	13.26%	2.43	(63.99)
NSE Bond Index	1,041.15	1,040.12	9.9	376.6

Source: Central Bank of Kenya, Nairobi Securities Exchange

Chart I: Domestic Yield Curve Evolution



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Macroeconomic Developments

Exchange Rate

The Kenya Shilling strengthened marginally against the USD, appreciating by **82bps w/w** to **KES 128.47** from **KES 129.53** the week prior. This lifted the Shilling's YTD appreciation to **17.89%** against the USD.

Official forex reserves decreased **32bps w/w** to **USD 7,775Mn** from **USD 7,800Mn**. The current reserves now offer about **4.0 months** of import cover – marginally below the EAC's convergence requirement of 4.5 months of import cover.

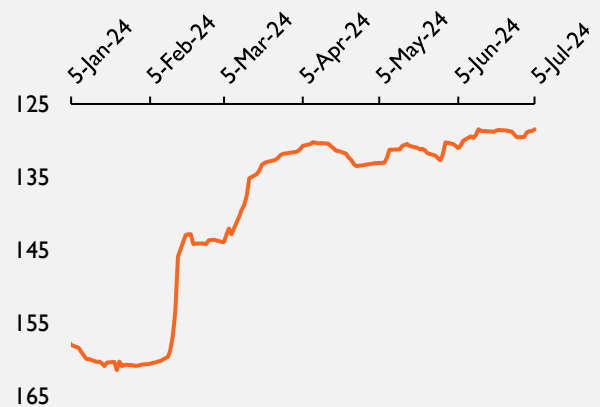
We expect range bound volatility on the Kenya shilling - owing to mixed expectations of the balance of payments deficit, and fiscal sustainability. We however expect portfolio dollar inflows and a recovery in Kenya's key exports to support a stable shilling. However, rising external debt-service commitments poses downside risks for the shilling.

Financial Year 2024-2025 Budget Standoff

The National Treasury and Planning vide a Directive to ministries, departments and agencies (MDAs) issued guidelines on the revision of estimates of revenue and expenditure for the financial year 2024-2025 in accordance with the Public Finance Management (PFM) Act. This came following the President's refusal to assent to the Finance Bill 2024 – which contained additional revenue raising measures projected to raise an extra KES 344.3Bn. The move by the president to decline to assent to the Bill in its entirety created a financing gap of a similar amount which needed to be addressed.

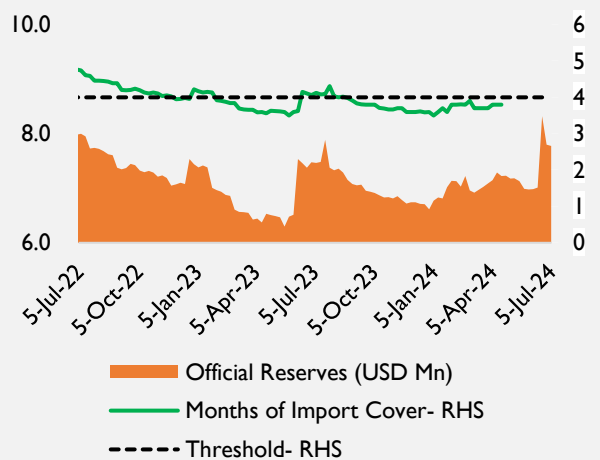
The President earlier directed that the additional deficit would be addressed by cutting down government spending by KES 177Bn, while the remainder of the deficit would be financed via additional borrowing. This implies that the fiscal deficit would widen from the estimated 3.3% of GDP to 4.6% of GDP. The National Treasury therefore outlined that the changes would be regularized via the Supplementary Budget I 2024-2025 to rationalize the budget estimates to the revised fiscal framework. Specific guidelines issued were gunned towards cutting down spending on confidential expenditures, purchase of motor vehicles, office renovation expenses, as well as foreign travel. Furthermore, accounting officers were directed to ensure that pending bills and carryovers from the previous fiscal year are prioritized and paid for within the budgetary provision of the current year.

Chart 2: KES-USD Exchange Rate



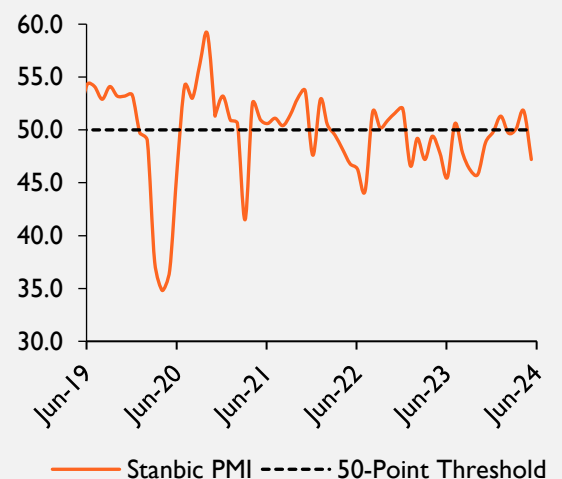
Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 3: Forex reserves (USD Bn)



Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 4: Stanbic Bank Kenya PMI Index



Source: Central Bank of Kenya, AIB-AXYS Africa Research

Macroeconomic Developments

Global Market Pulse

On the international front, the US dollar weakened by **0.9% w/w** against a basket of currencies. This in our view, was largely a correction of overpriced interest rate differentials to comparable hard currencies.

The yields on the 2-year and 10-year US treasury papers experienced decreases of **16bps** w/w and **12bps** respectively to settling at **4.61%** and **4.29%** respectively. This in our view reflects rising expectations of looming interest rate cuts over coming quarters.

Global crude oil prices recorded bullish trends with Kenya's supplier UAE Murban crude rising **1.8%** to close the week at **USD 86.60/barrel** while Brent Crude oil rose **1.8%** to close the week at **USD 86.54/barrel**. Supply risks remain elevated on the back of prolonged geopolitical tensions in the Middle East, contributing to this bullish price trend.

Table 2: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	104.88	105.85	▼ (0.9%)
Murban Crude	86.60	85.09	▲ 1.8%
Brent Crude	86.54	85.00	▲ 1.8%
US 2Yr Yield	4.61%	4.77%	▼ (16 bps)
US 10Yr Yield	4.29%	4.40%	▼ (12 bps)

Source: Source: Bloomberg, Oil Prices.com, AIB-AXYS Africa Research

MACROECONOMIC CALENDAR

Event	Date
Weekly CBK T-bill Auction	11 th July 2024
Closure of FXDI/2024/010 (Re-open) and FXDI/2008/02 (Re-open)	17 th July 2024

Summary Macroeconomic Stats

Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	Q1 2024	5.0%	5.5%	▼ (50 bps)
Headline Inflation	June-24	4.6%	5.1%	▼ (50 bps)
Central Bank Rate	June-24	13.0%	13.0%	-
Stanbic Kenya PMI	June-24	47.2	51.8	▼ (4.6 pts)
Private Sector Credit Growth	April-24	6.6%	7.9%	▼ (130 bps)
Forex Reserves (USD M)	June-24	8,321	7,180	▲ 15.9%
Public Debt (KES Tn)	March-24	10.40	10.87	▼ (4.3%)

Source: CBK, KNBS, Stanbic Bank Kenya, AIB-AXYS Research



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