Weekly Fixed Income Note

Week ending: 27th May 2022

Key Highlights:

- T-bills were undersubscribed, during the week, recording an overall subscription rate of **54.42%**, down from **116.30%** recorded in the previous week. The 364-day paper recorded the highest subscription rate at **97.21%** while the 91-day paper recorded the lowest rate at **12.36%.** The divergence by Investors from the 91-day paper could signal the high risk perceived by investors surrounding the upcoming general elections that will take place before the 91-day paper matures. The Central Bank accepted **95.79%** of the **KES 13.06Bn** worth of bids received. Current fiscal year borrowing is **17.94%** ahead of the prorated target. Yields on the 182-day and 364-day papers edged up **6.90bps** and **0.20bps** respectively, while the 91-day paper declined **1.40bps**.

- In the primary market, the government is looking to raise **KES 75.00Bn** through the sale of **IFB1/2022/18** for the purposes of funding infrastructural developments in final month of the current fiscal year. The coupon rate will be market determined with the period of sale been between **23/05/22** to **07/06/22**. We shall be giving a bidding guidance in our Primary auction note.

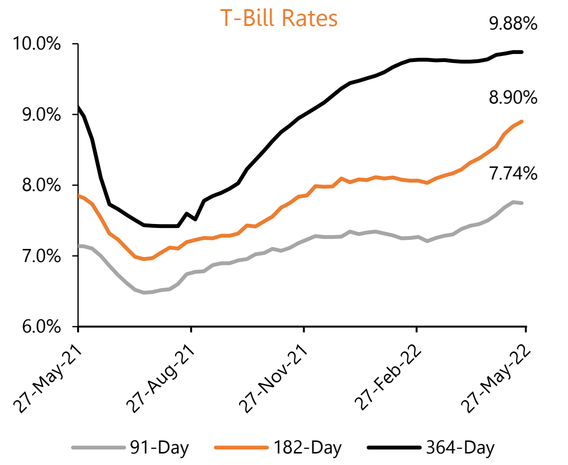
- In the secondary market, the value of bonds traded increased by **2.57%** to **KES 14.17Bn** from **KES 13.81Bn** recorded last week. The yield curve steepened marginally in the mid and long range with the twenty four-year papers gaining the most by **7.31bps**. The four-year paper lost the most by **13.01bps**, causing a correction after the recent skewedness. The FTSE Bond index closed the week at **94.55** taking the YTD loss to **2.31%.**

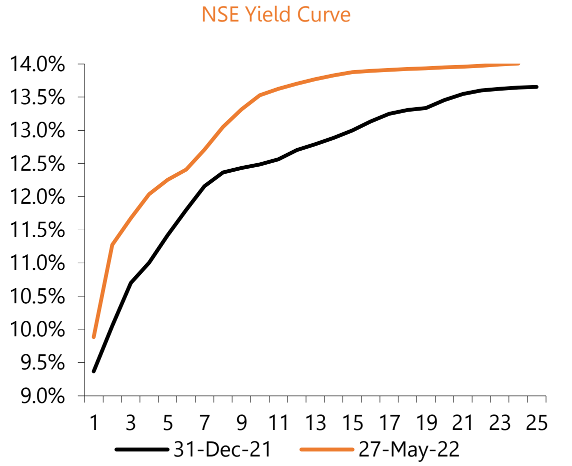
We expect activity in the secondary market to cool off as investors eye the June IFB issue. We expect the issue to attract a huge interest given the prevailing high rates environment and the tax-free nature. Higher yields signal increased risk in the global and local environment, with increased activity on the 91-day paper, partly attributable

Macroeconomic data	Current	Previous
GDP (2021 vs. 2020)	7.50%	(0.30%)
Inflation (April)	6.47%	5.56%
Private Sector Credit Growth (Feb)	9.10%	8.80%
Money Supply Growth (Feb)	4.40%	4.70%

Key Indicators

	Current	Previous	bps
91- Day	7. 74%	7. 76%	1.40
182-Day	8.90%	8.83%	6.90
364-Day	9.88%	9.88%	0.20
Interbank Rate	4.57%	4.44%	13.00





MACROECONOMIC NEWS

Currency

The Kenya shilling lost further ground against the USD, depreciating **0.24%** to trade at KES **116.69** from KES **116.41** at last week's close. On a YTD basis, the shilling has depreciated **3.13%** against the USD compared to **3.64%** in 2021. The CBK's usable forex reserves remained adequate at **USD 8,177Mn** (**4.86** months of import cover), a 1.41% week-on-week decrease from **USD 8,294Mn** (**4.93** months of import cover) recorded last week. The forex reserves continue to meet CBK's statutory requirements of 4 months of import cover. **However, we expect the local currency to hit the KES 117 mark against the USD in the coming weeks as a result of increasing dollar demand as global oil prices remain elevated on the back of higher import bill which exceeds dollar receipts from key export earning sectors.**

Liquidity

Liquidity in the money market tightened as shown by the average interbank rate which increased to **4.57%** from **4.44%** recorded at the end of the previous week. The tightening in liquidity was supported by the increased tax remittances that more than offset the government payments. Open market operations remained active. **We foresee the interbank rate remaining below 5.00% for the coming week, mainly driven by active open market operations and anticipate that end-of-fiscal year government expenditure will continue to provide liquidity support.**

IMF Sub-Saharan Outlook Briefing

During the week, the IMF held a brief to discuss the sub-Saharan regional outlook released in April 2022. The report had estimated that economic growth for the Sub-Sharan Region is expected to slow down in 2022 at **3.80%** compared to **4.50%** in 2021. Slower growth will be driven by exogenous shocks such as the Russia – Ukraine war which has contributed to an increase in food and fuel prices. Consequently, IMF has reviewed regional inflation estimates 400bps upwards to **12.20%** in 2022, the highest since the 2008 recession. Kenya's growth estimate for 2022 was trimmed to **5.70%** from **7.50%** in 2021.

Regional growth has been affected by the Russia-Ukraine war in three significant ways; An increase in the prices of food especially wheat, Higher oil prices to worsen the trade imbalance as most countries are net importers driven by energy and Pressure on an already struggling fiscal environment as development spending increases and tax mobilization remains challenged. **We expect the gap between the Sub-Saharan region and advanced economies is likely to persist as the policy makers in the region face extremely challenging and uncertain policy outlook. Additionally, tightening of the monetary policy conditions in advanced economies in response to rising global inflation is likely to put more pressure on policy makers in the region. However, we believe further fiscal support through debt restructuring and debt relief will help in strengthening fiscal consolidation.**

Weekly Fixed Income Calendar

This week, the Central Bank of Kenya, as the government's fiscal agent, will seek to raise KES 24.00Bn in Treasury Bills. The KNBS is expected to release the May inflation figures on 30th May 2022, which we expect the inflation rate to fall in the region of near 7.00% due to the increased food and fuel prices.

The Monetary MPC will be meeting later today, to review the prevailing macroeconomic conditions and give directions on the CBR which is currently at 7.00% for the last 26 months. Despite the prevailing inflation rate at 6.47% (Remains within CBK target range of 5% +/- 2.5%), we expect the MPC to retain the MPC at 7.00% for the 14th consecutive time .

	Macro event	Date
1.	May Monetary Policy Committee Meeting	30th May 2022
2.	May Inflation Figures	31st May 2022
3.	Weekly T-Bill Auction	2nd June 2022
4.	June IFB Issue – IFB1/2022/18	7th June 2022

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