



# Weekly Fixed Income Note Week ending: 17<sup>th</sup> June 2022

## Key Highlights:

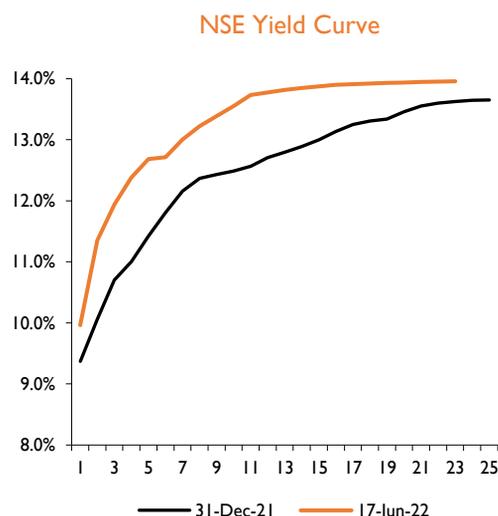
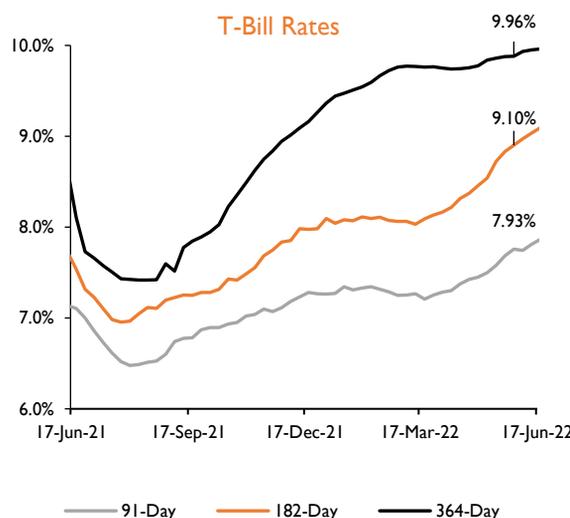
- T-bills remained undersubscribed, during the week, recording an overall subscription rate of **80.80%**, up from **61.26%** recorded in the previous week. The 364-day paper recorded the highest subscription rate at **89.98%** while the 182-day paper recorded the lowest rate at **73.24%**. Investor preference towards the 364-day paper could signal the higher risk adjusted returns given the upcoming general elections. The Central Bank accepted **94.00%** of the **KES 19.39Bn** worth of bids received. Current fiscal year borrowing is **1.72%** ahead of the prorated target increasing pressure on the government's acceptance rates given this is the last month of the fiscal year. Yields on both the 91-day and 182-day papers edged up 5.9bps while the 364-day paper edged up **0.90bps**.
- In the primary market, the government is looking to raise **KES 25.00Bn** through the tap-sale on the recently issued **FXDI/2022/03** and **FXDI/2022/15**. CBK has set the Coupon rates for **FXDI/2022/03** and **FXDI/2022/15** at **11.77%** and **13.94%** with yields at similar rates. The period of sale is between 14<sup>th</sup> to 23<sup>rd</sup> June 2022. We expect an oversubscription especially on the longer dated paper as it provides a higher risk and tenor adjusted return.
- In the secondary market, the value of bonds traded increased by **40.58%** to **KES 17.78Bn** from **KES 12.65Bn** recorded last week. The yield curve steepened across the curve with flattening in the 2-3 year papers. 11-year paper gained the most by **11.00bps**. The 3-year paper lost the most by **9.07bps**. The FTSE Bond index closed the week at **95.83** taking the YTD loss to **0.24%**.

**We expect demand for IFBs to continue driving up activity in the secondary market, for the coming weeks, as investors who missed out look for attractive entry points. Higher yields signal increased risk in the global and local environment, with increased activity on the 364-day paper, partly attributable to investors' pricing in greater uncertainty from the upcoming General Elections.**

Macroeconomic data	Current	Previous
GDP (2021 vs. 2020)	7.50%	(0.30%)
Inflation (May)	7.10%	6.47%
Private Sector Credit Growth (Apr)	11.50%	9.10%

## Key Indicators

	Current	Previous	bps
91- Day	7.93%	7.87%	5.90
182-Day	9.10%	9.04%	5.90
364-Day	9.96%	9.95%	0.90
Interbank Rate	5.10%	4.83%	27.00



## MACROECONOMIC NEWS

### Currency

The Kenya shilling lost further ground against the USD, depreciating **0.24%** to trade at **KES 117.29** from **KES 117.05** at last week's close. On a YTD basis, the shilling has depreciated **3.70%** against the USD compared to **3.64%** in 2021. The CBK's usable forex reserves remained adequate at **USD 8,114Mn** (**4.82** months of import cover), a **0.96%** week-on-week decrease from **USD 8,210Mn** (**4.88** months of import cover) recorded last week. The CBK maintains that the current reserves are adequate to cover dollar demand in the market despite reports of acute dollar shortage from importers. **However, we expect the local currency to continue to remain under pressure due to the strengthening of the dollar (+8.82% YTD gain) and the increasing dollar demand as global oil prices remain elevated on the back of higher import bill with reduced dollar inflows from key export earning sectors.**

### Liquidity

Liquidity in the money market tightened as shown by the average interbank rate which increased to **5.10%** from **4.83%** 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 expect the interbank rate to remain above 5.00% in the coming week, mainly driven by active open market operations. However, we anticipate that end-of-fiscal year government expenditure will continue to provide liquidity support.**

### Global MPC Decisions Overview

During the week, the US FED raised the benchmark index by **75bps**, the most aggressive hike in 28 years. The hike took the benchmark rate to a target of **1.5-1.75%**, last recorded before the pandemic era rate cuts. Cumulatively, the FED has hiked the benchmark rate by **150bps** in 2022 with a target of closing 2022 at 3.40%. Similarly, the Bank of England also increased the benchmark rate by 25bps to **1.25%** which was a fifth consecutive hike. We partially attribute both of the hikes to the need to control the rising inflation in both economies and we expect a similar hike across other developed economies. **We expect a further hiking cycle in the coming months across several economies globally. Given the rising inflation rates, MPCs across the world have increasingly been trying to cure the side effects of the expansionary policies during the height of the pandemic. Hikes in markets such as the US has seen the strengthening of the dollar which is negative for emerging markets such as Kenya**

Below is a summary of recent MPC Decisions Globally and regionally;

Country	Inflation Rate		Benchmark Rate	
	April'22	May'22	Decision	Current Rate
Ghana	23.60%	27.60%	200 bps Hike	19.00%
Nigeria	16.82%	17.71%	150 bps Hike	13.00%
Uganda	4.90%	6.30%	100 bps Hike	7.50%
USA	8.30%	8.60%	75 bps Hike	1.50-1.75%
Switzerland	2.10%	2.90%	50 bps Hike	-0.25%
Kenya	6.47%	7.10%	50 bps Hike	7.50%
Rwanda	9.90%	12.60%	50 bps Hike	16.74%
Tanzania	3.80%	4.00%	32 bps Hike	14.12%
UK	9.00%	*9.00%	25 bps Hike	1.25%

**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 CBK is also looking to raise **KES 25.00Bn** for budgetary support by issuing a tap sale on recently issued FXD papers which closes on 23<sup>rd</sup> June.

Macro event		Date
1.	Weekly T-Bill Auction	23 <sup>rd</sup> June 2022
2.	June T-Bond Tap sale	23 <sup>rd</sup> June 2022

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