



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

June 18th, 2024

Key Highlights

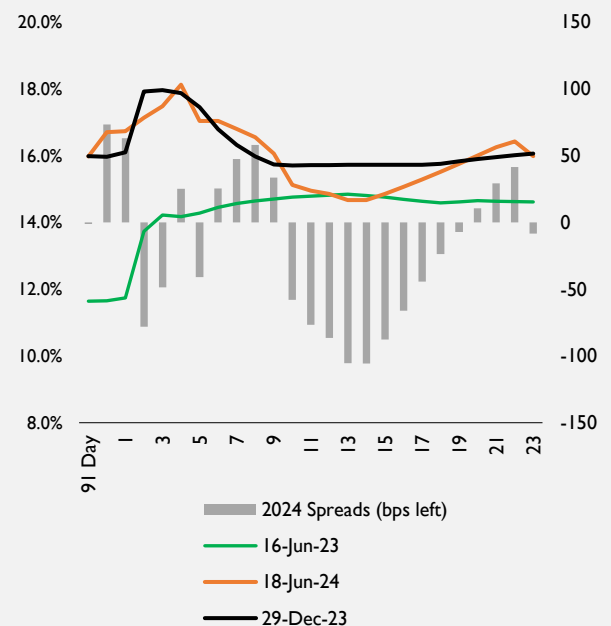
- **Spot market treasury bills were slightly undersubscribed, with the subscription rate declining to 94.7% from 151.0% recorded the previous week.** Demand remained skewed to the 91-day paper – which received bids amounting to KES 10.29Bn. We attribute this demand for the 91-day paper to elevated real yields as investors evaluate prospects of delayed rate cuts.
- **In the primary bond market, the re-opening of the FXDI/2023/005 and FXDI/2023/010 was broadly oversubscribed clocking an aggregate subscription rate of 138.53%.** Out of the KES 41.56Bn in total bids received, the CBK accepted KES 30.17Bn – representing an acceptance rate of 72.6%. The allocated average rate for accepted bids exceeded in-house expectations to clock at 18.1645% and 16.3924% for the 5-year and the 10-year papers respectively.
- **182-day Treasury Bill rate witnessed a slight 5.9bps w/w uptick to 16.70%** – slowing down the Central Bank of Kenya’s resolve to nudge rates lower amid an easing risk landscape. Meanwhile, the accepted average yields on the 91-day and 364-day papers lifted 0.6bp and 2.3bps respectively.
- **Across the secondary bond market, the value of bonds traded increased 4.0% w/w to KES 20.86Bn from KES 20.06Bn** recorded a week prior. The bond index declined 24bps w/w driven by an offsetting jump in 5-year yields by **164.4bps w/w** compared to the 10-year yields which eased **48.2bps w/w**. We expect a progressive yield curve flattening at the short end of the curve.
- **Yields on the Kenya’s Eurobond papers remained stable, with investor sentiment leaning mildly towards caution, increasing by an average of 30.2bps w/w.** We expect Kenya’s international yields to remain relatively stable, oscillating in the single-digit territory over the medium-term.

Table I: Indicative Fixed Income Stats

Rate	Current	Previous	w/w bps change	2024 bps change
91-Day	15.972%	15.965%	0.6	8.9
182-Day	16.700%	16.641%	5.9	72.8
364-Day	16.754%	16.731%	2.3	85.3
Interbank Rate	13.04%	13.18%	(29.2)	(74.3)
NSE Bond Index	1,012.33	1,014.80	(24.3)	89.4

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 **106bps w/w** to **KES 128.66** from **KES 130.04** the week prior. This lifted the Shilling's year-to-date appreciation to **17.7%** against the USD.

Official forex reserves increased **44bps w/w** to **USD 7,012Mn** from **USD 6,981Mn**. The current reserves now offer about **3.7 months** of import cover – marginally below the CBK's statutory requirement of 4 months & below the EAC's convergence requirement of 4.5 months of import cover.

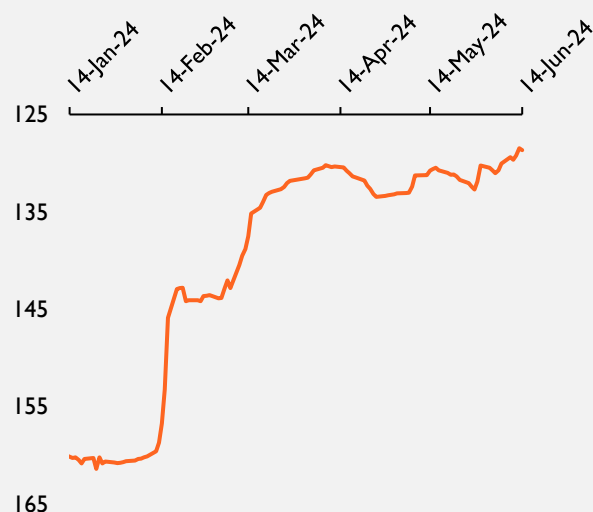
We expect range bound volatility on the Kenya shilling - owing to a mixed expectations of the balance of payments deficit and fiscal sustainability. We however expect portfolio dollar inflows and a recovery in Kenya's key exports to support a stable shilling. However, rising external debt-service commitments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

Kenya FY2024/2025 Budget Estimates

The National Treasury and Planning on Thursday 13th June 2024 tabled its FY2024/2025 Budget estimates. The government plans to finance a total budget of KES 3,992Bn – which marks an 8.5% y/y increase from the previous fiscal year. Most of the increase will be coming from increased debt-service expense and increased allocations to county governments even as recurrent spending is projected to remain largely flat. Ordinary revenues are projected at KES 2,917.2Bn whereas revenue from appropriations-in-aid and grants are estimated at KES 477.8Bn in FY 2024/25. The proposed changes contained in the Finance Act 2024 are projected to mobilize majority of the additional revenue.

The Government projects the fiscal deficit (inclusive of grants) to reduce from the actual KES 925Bn deficit (5.7% of GDP) in FY 2023/24 to KES 597Bn (3.3% of GDP) in FY 2024/25. The fiscal deficit will be funded mostly by foreign borrowing – KES 333.8Bn and domestic borrowing KES 263.2Bn. We commend the momentum in narrowing the budget deficit as this will accelerate the progress towards a balanced budget over the medium-term and reduce the 'crowding out' of private sector investments.

Chart 2: KES-USD Exchange Rate



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

Table 2: Budget Summary

Gross Budget Estimates	FY2023/24	FY2024/25	Change
Recurrent Spending	2,551.1	2,840.0	▲ 11.3%
Development Spending	743.5	707.4	▼ (4.9%)
County Government Allocation	385.4	444.5	▲ 15.3%
	3,680.0	3,991.9	▲ 8.5%
Financed by:			
Ordinary Revenues	2,571.2	2,917.2	▲ 13.5%
Appropriations in Aid & Grants	390.9	477.8	▲ 22.2%
	2,962.1	3,395.0	▲ 14.6%
Borrowings:			
Net domestic borrowing	521.5	263.2	▼ (49.5%)
Net external borrowing	198.6	333.8	▲ 68.1%
	720.1	597.0	▼ (17.1%)

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

Macroeconomic Developments

Global Market Pulse

On the international front, the US dollar strengthened by **0.6% w/w** against a basket of currencies. This came on the back of the Federal Reserve's decision to maintain policy rates constant despite the recent dovish sentiment across key central banks.

The yields on the 2-year and 10-year US treasury papers experienced notable declines to settling at **4.72%** and **4.23%** respectively. This came on the back of promising consumer price index data in the US, which points to possible rate cuts over coming months.

Global oil prices recorded bullish trends with Kenya's supplier UAE Murban crude rising 290bps to close the week at **USD 82.27/barrel** while Brent Crude oil increased 410bps to close the week at **USD 82.85/barrel**. Mounting supply risks amidst escalating geopolitical tensions in the Middle East, continue to pile pressure on prices.

Table 3: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	105.60	104.93	▲ 0.6%
Murban Crude	82.27	79.99	▲ 2.9%
Brent Crude	82.85	79.62	▲ 4.1%
US 2Yr Yield	4.72%	4.90%	▼ (18 bps)
US 10Yr Yield	4.23%	4.44%	▼ (21 bps)

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

MACROECONOMIC CALENDAR

Event	Date
Weekly CBK T-bill Auction	20 th June 2024
June 2024 Inflation data	30 th June 2024

Summary Macroeconomic Stats

Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	2023	5.6%	4.9%	▲ 70 bps
Headline Inflation	May-24	5.1%	5.0%	▲ 10 bps
Central Bank Rate	June-24	13.0%	13.0%	-
Stanbic Kenya PMI	May-24	51.8	50.1	▲ 1.7 pts
Private Sector Credit Growth	April-24	6.6%	7.9%	▼ (130 bps)
Forex Reserves (USD M)	June-24	7,012	7,180	▼ (2.3%)
Public Debt (KES Tn)	March-24	10.40	10.87	▼ (4.3%)

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



CONTACTS

Research Desk

Ronny Chokaa

Senior Research Analyst

Stacy Makau

Research Analyst

Alex Sanja

Email: research@aib-axysafrica.com

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Anthony Kiambati

Samuel Githinji

Sheema Shah

Samuel Wachira

Benson Ngugi

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenje

Aundrina Musyoka

Kenneth Minjire

Email: trading@aib-axysafrica.com

Derivatives Trading

Anthony Kiambati

Email: Derivapplications@aib-axysafrica.com

Disclaimer

AIB-AXYS Africa and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication is intended solely for informational purposes and is not authorized for public distribution or use by the public media without prior and express written consent of AIB-AXYS Africa or AXYS Group. Redistribution or dissemination of this material, in whole or in part, is strictly prohibited and may lead to legal actions. By accessing this report, you acknowledge and agree to abide by these terms, ensuring the security and confidentiality of its contents.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by AIB-AXYS Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.

Unlock our Exclusive Research spanning
Macroeconomics, Equities, Fixed Income, and Sector-
Specific Analyses now seamlessly on AlphaSense, LSEG,
Tellimer, and S&P Global platforms

Begin Trading Kenyan stocks digitally on our award
winning AIB-Digitrader App. Available on both
Google Play and Appstore.



Download the **AIB DigiTrader App!**
Trade Kenyan stocks online

