Weekly Fixed Income Note

Week Ending: 28th October 2022

Key Highlights:

- T-bills turned to under subscription after three straight weeks of overperformance by recording a reduced overall subscription rate of **75.79%** from **117.93%** recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper for the 18th straight week with a 3.00x subscription rate compared to the least preferred 182-day paper at 21.54%. We expect the under subscription to persist in the next two weeks as investors turn their eye on the upcoming IFB issue which carries an attractive tax-free element. The Central Bank acceptance improved to 96.92% of the **KES 18.19Bn** amounting to **KES 17.63Bn.** Yields on all the papers are now firmly above 9.00% with the 91, 182, 364–day papers gaining **2.70bps, 1.40bps,** and **3.70bps**, respectively.

- In the Primary market, the government is in the market looking to raise KES 60.00Bn through the third issue of an infrastructure bond in 2022, **IFB1/2022/14**. The coupon rate will be market determined with bidding open between 26/10/2022 – 08/11/2022. We shall be issuing bidding guidance later in the week.

- In the secondary market, the value of bonds traded increased by **92.90%** to **KES 17.79Bn** from **KES 9.22Bn** recorded last week. We believe the increase was driven by investors who missed out on the recently issued papers continuing to look for an entry point. The yield curve recorded a mix of flattening and steepening across the curve. The 5-year paper gained the most by **12bps** and the 22-year paper lost the most by **1bps**.

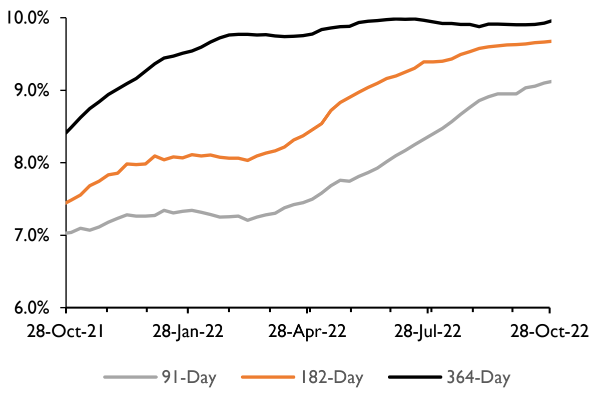
- In the international market, the yields on Kenyan Eurobond issues declined further for another week indicating improved investor sentiment. However, a recent report by MSCI downgrading Kenya's business environment is likely to have a negative effect on Eurobond yields for the coming week. We observed the 2024 paper lost the most, by 109bps, highlighting the paper's sensitivity to market sentiments given that its maturity is less than 24 months away.

We expect activity in the secondary market to slow in the coming week as investors concentrate on the upcoming IFB issue. Furthermore, we expect investors to continue preferring safer asset classes and demanding higher yields as compensation for the heightened risk of a global recession coupled with increased inflation.

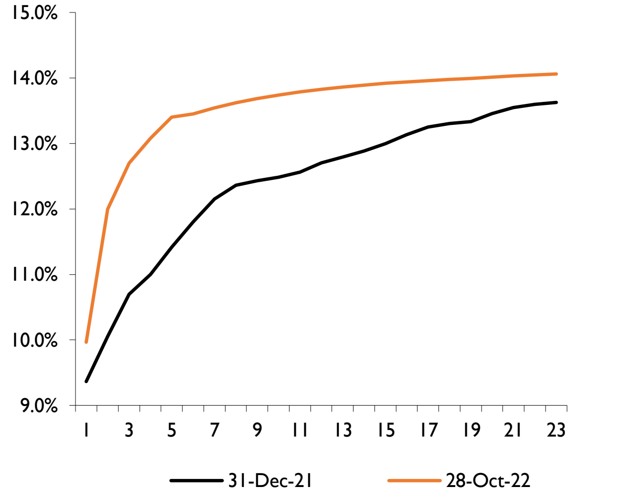
Key Indicators

	Current	Previous	w/w bps Change
91- Day	9.13%	9.10%	2.70
182-Day	9.68%	9.66%	1.40
364-Day	9.97%	9.93%	3.70
Interbank Rate	5.02%	5.10%	8.00

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

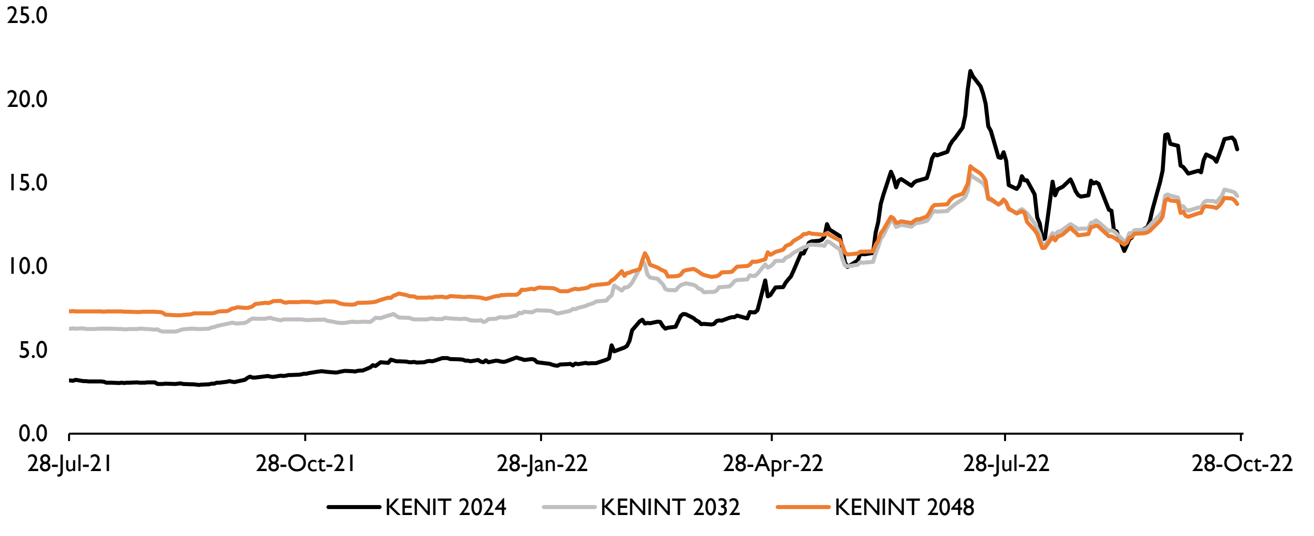
Currency

The Kenya shilling further lost ground against the USD, depreciating 18bps to cross the KES 121.31 from KES 121.13 the previous week. On a YTD basis, the shilling has depreciated 7.22% against the USD compared to 4.36% in 2021, staying on course to be higher than the 7.70% depreciation observed in 2020. The CBK's usable forex reserves remained adequate at **USD 7,286Mn** (**4.11** months of import cover), a **0.41%** week-on-week increase from **USD 7,316Mn** (**4.13** months of import cover) recorded last week. **We expect the local currency to continue under pressure due to the increased dollar demand from energy importers on the back of the prevailing high global oil prices, and reduced dollar inflows from key export-earning sectors. Additionally, the depreciation is driven by the continued strengthening of the dollar against other currencies as measured by the DXY index which has gained 15.32% YTD.**

Liquidity

Liquidity in the money market eased as shown by the average interbank rate decreasing 8bps to 5.02% from 5.10% recorded at the end of the previous week. We attribute the tightening liquidity to government payments outpacing tax remittances. Open market operations also remained active within the week. During the week, the average number of interbank deals increased to 34 from 33 in the previous week, while the average value traded increased to **KES 32.2Bn** from **KES 26.8Bn,** last week. **We expect the interbank rate to remain above 5.00% levels in the coming week, mainly driven by end of month cashflow requirements.**

Select Kenya Eurobond Yields



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. Additionally, the apex bank has opened bidding for the November T-Bond paper looking to raise KES 60.00Bn through the third IFB issue of 2022.
- **October Inflation Expectations** – We expect October inflation print to **range between 9.20% and 9.60%** driven by the prevailing high fuel prices as the fuel subsidy has partially been withdrawn. Additionally, the electricity fuel cost charge was adjusted upwards by 4.23% increasing household electricity costs.

	Macro event	Date
1.	October Inflation Figures	31st October 2022
2.	Weekly T-Bills Auction	3rd November 2022
3.	November T-Bond Issue – IFB1/2022/14	08th November 2022
4.	Monthly Fuel Review	14th November 2022

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