



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

April 22nd, 2024

Key Highlights

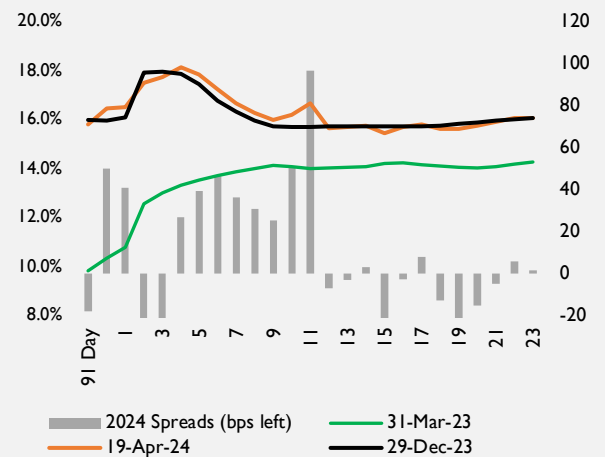
- **Spot market treasury bills were marginally oversubscribed, recording a decelerated subscription rate to 108.70% from 192.78% recorded the previous week.** Demand remained skewed to the shorter-term 91-day paper – which posted a **150.13%** subscription rate. We attribute this performance to increased investor demand for short-duration papers as a hedge against prevailing market risks.
- **In line with our expectations, the FXD/2023/02 experienced an oversubscription, clocking 117.98% subscription rate.** Out of the **KES 47.19Bn** in total bids received, the CBK accepted **KES 34.76Bn** - representing a **73.7%** acceptance rate. The weighted average yield on accepted bids came in at **16.9922%**. We attribute the oversubscription to the high yields currently being offered on government papers.
- **91- day Treasury Bill rates witnessed a slowdown with a slight 7bps w/w uptick to 15.80%**– pointing to the Central Bank of Kenya’s resolve to nudge rates lower amid an easing risk environment. Meanwhile, the accepted average yields on the 182-day and 364-day papers declined 40.2bps and 2.3bps respectively. The significant drop in the accepted average yields comes in as the government remains keen on lowering the average cost of debt.
- **Across the secondary bond market, the value of bonds traded increased by 34.4% w/w to KES 23.45Bn from KES 17.45Bn** recorded a week prior. The 11-year yield surged the most by **95bps w/w** while the 15-year yield eased **40bps w/w**. We expect a mild yield curve flattening at the middle section of the curve.
- **Yields on the Kenya’s 2027 Eurobond paper held relatively stable throughout the week, increasing by 9.0bps w/w.** We expect Kenya’s international yields to remain relatively stable, staying in the single-digit territory over the medium-term.

Table 1: Indicative Interest Rates

Rate	Current	Previous	w/w bps change	2024 bps change
91- Day	15.80%	15.73%	6.9	-8.0
182-Day	16.47%	16.87%	-40.2	49.5
364-Day	16.51%	16.53%	-2.3	60.7
SOFR*	5.30%	5.33%	-3.0	-10.0
Interbank Rate	13.71%	13.37%	33.6	-21.6

Source: Central Banks’ Data *SOFR: Sovereign Overnight Financing Rate

Chart 1: Domestic Yield Curve Evolution



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Macroeconomic Developments

Exchange Rate

The Kenya Shilling weakened against the USD for the first time in 12 weeks, depreciating by a marginal **83bps w/w** to **KES 131.44** from **KES 130.35** the week prior. This dragged the Shilling's YTD appreciation to **15.99%** against the USD. The slight shift is on account of increased dollar demand.

Official forex reserves decreased by **89bps w/w** to **USD 7,226Mn** from **USD 7,291Mn**. The current reserves now offer about **3.8 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 progressive strengthening of the Kenya shilling - owing to a narrowing balance of payments deficit, supported by stabilizing dollar inflows from tourist arrivals, diaspora remittances and key export-earning sectors. However, rising external debt-service commitments poses downside risks for the shilling.

IMF Sub-Saharan Outlook April 2024

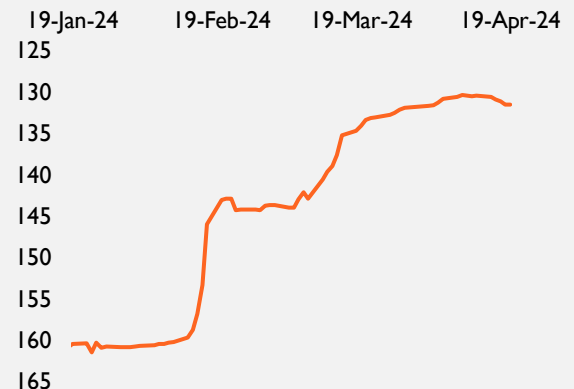
During the week, the IMF held a brief to discuss the sub-Saharan regional outlook released in April 2024. The report estimated that economic growth for the Sub-Sharan Region is expected to grow mildly in 2024 at **3.8%** compared to **3.4%** in 2023.

The IMF further noted reduced inflation across the SSA region with stabilizing public debt ratios. Consequently, the IMF noted tentative signs of recovering capital inflows.

However, the region continues to face tighter financing conditions coupled with frequent climate hurdles. Additionally, the region remains susceptible to the escalated global uncertainties with the rising political instability.

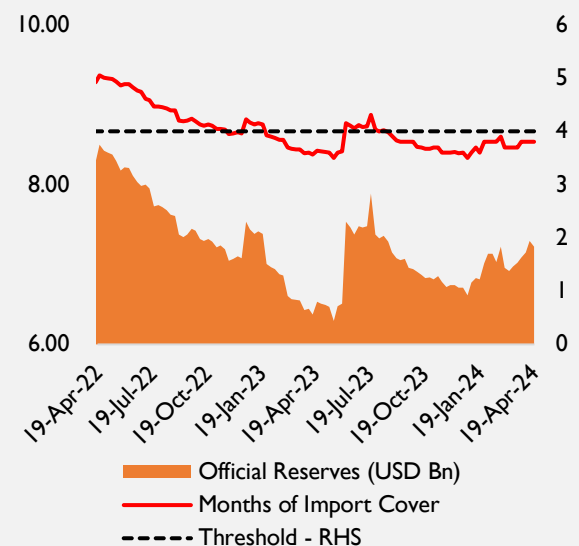
We expect resilience across the region amid the global geopolitical tensions with policy makers keen on adjusting their stances over time.

Chart 2: KES-USD Exchange Rate



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

Chart 3: Forex reserves



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

Macroeconomic Developments

Global Market Pulse

On the international front, the US dollar strengthened further **0.1%** w/w against a basket of currencies taking the YTD performance to 4.72%. This is on account of solid US data amid geopolitical tensions. Meanwhile, the Fed maintained a hawkish stance with eroded investor confidence of expected June rate cuts.

The yields on the 2-year and 10-year US treasury papers jolted higher 8bps and 9bps to **4.99%** and **4.63%** respectively with dimming expectations of June rate cuts. The European Central Bank maintained commentaries on summer rate cuts contingent on economic developments.

Global oil prices recorded downward trends with Kenya's supplier UAE Murban decreasing 300bps to close the week at **USD 87.54/barrel** while Brent Crude oil decreased 350bps to close the week at **USD 87.29barrel** – with demand jitters outweighing supply risks amid the escalating geopolitical tensions in the Middle East.

Table 2: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	106.15	106.04	▲ 0.1%
Murban Crude	87.54	90.24	▼ (3.0%)
Brent Crude	87.29	90.45	▼ (3.5%)
US 2Yr Yield	5.00%	4.91%	▲ 8 bps
US 10Yr Yield	4.63%	4.53%	▲ 9 bps

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

MACROECONOMIC CALENDAR

Event	Date
Weekly CBK T-bill Auction	25 th April 2024
April 2024 Inflation Data	31 st April 2024

Summary Macroeconomic Stats

Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	Q3 2023	5.9%	5.4%	▲ 50 bps
Headline Inflation	March/24	5.7%	6.3%	▼ (60 bps)
Central Bank Rate	April/24	13.0%	13.0%	-
Stanbic Kenya PMI	March/24	49.7	51.3	▼ (1.6 pts)
Private Sector Credit Growth	February/24	10.3%	13.9%	▼ (360 bps)
Forex Reserves (USD M)	April/24	7,148	7,088	▲ 0.8%
Public Debt (KES Tn)	January/24	11.25	11.14	▲ 1.0%

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



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