



# Weekly Fixed Income Note Week Ending: 11<sup>th</sup> November 2022

## Key Highlights:

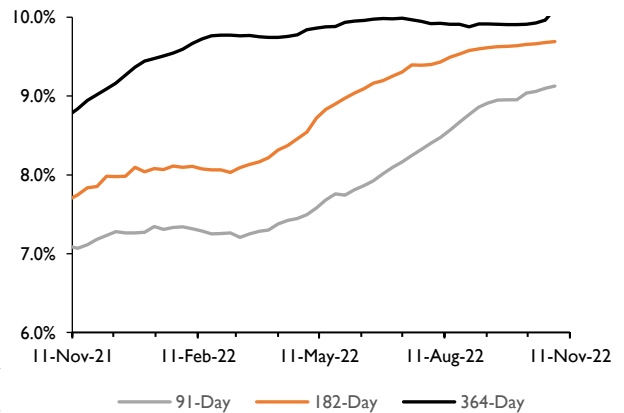
- T-bills remained oversubscribed for the second week by recording an increased overall subscription rate of **204.53%** from **181.88%** recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper for the 20<sup>th</sup> straight week with a 6.62x subscription rate compared to the least preferred 364-day paper at 86.83%. We expect the oversubscription to persist in the coming weeks as the yield on the 364-day paper got to the elusive 10% mark. The Central Bank acceptance declined to 78.10% of the **KES 49.09Bn** amounting to **KES 38.34Bn**. Yields on all the papers are now in a race to 10.00% with the 91, 182, 364-day papers gaining **3.40bps**, **1.50bps**, and **7.70bps**, respectively.
- In the Primary market, the November IFB T-Bond issue offering was oversubscribed, in line with our expectations. The oversubscription at 153.08% was above the average subscription for 2022 (90.76%) and differs from the trend of reduced T-Bond subscriptions in the past three months. We believe that investors sought the papers with aggressive bids in hopes that they would receive a high yield at the 14.00% level. The Yield and coupon came in at 13.94%, which is likely to increase the paper's demand in the secondary market.
- In the secondary market, the value of bonds traded increased by **52.32%** to **KES 12.26Bn** from **KES 8.05Bn** recorded last week. The yield curve recorded a mix of flattening and steepening across the curve. The 1-year paper gained the most by **5.12bps** and the 9-year paper lost the most by **0.16bps**.
- In the international market, the yields on Kenyan Eurobond issues declined further for another week indicating improved investor sentiment. We observed the 2024 paper lost the most, by 238.7bps, 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 pick up in the coming weeks as investors who missed out on the primary issue chase the high yield. Furthermore, we expect investors to continue preferring safer asset classes and demanding higher yields as compensation for the increased risk of a global recession coupled with increased inflation.**

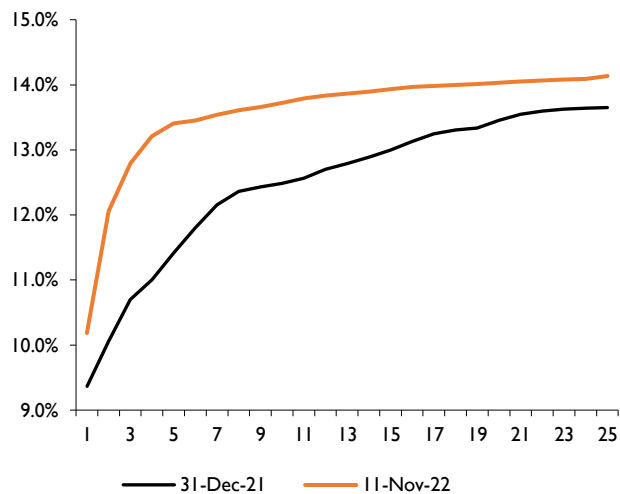
## Key Indicators

	Current	Previous	w/w bps Change
91-Day	9.17%	9.14%	3.40
182-Day	9.71%	9.69%	1.50
364-Day	10.19%	10.11%	7.70
Interbank Rate	4.24%	4.62%	38.00

## T-Bill Rates



## NSE Implied Yield Curve



## MACROECONOMIC NEWS

### Currency

The Kenya shilling further lost ground against the USD, depreciating 23bps to cross the KES 121.78 from KES 121.50 the previous week. On a YTD basis, the shilling has depreciated 7.64% 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 7,235Mn (4.05 months of import cover)**, a **0.30%** week-on-week decrease from **USD 7,213Mn (4.04 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 11.25% YTD.**

### Liquidity

Liquidity in the money market eased as shown by the average interbank rate decreasing 38bps to 4.24% from 4.62% recorded at the end of the previous week. We attribute the easing 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 decreased to 19 from 33 in the previous week, while the average value traded decreased to **KES 13.1Bn** from **KES 20.4Bn**, last week. **We expect the interbank rate to remain above 5.00% levels in the coming week, mainly driven by the clearing of the IFB issue which generated a lot of interest from investors.**

### Macro News Roundup

The national treasury launched the budget process for the MTEF Period of FY 2023/24-2025/26, revealing that the revenue collection for Q1 of the FY 2022/23 budget cycle missed the target by KES 6.20Bn. However, there was an overperformance in the ordinary revenue (100.5%) having collected KES 498.30Bn against a target of KES 495.00Bn. Ordinary revenue growth was driven by better y/y performance from all tax revenue categories. Total expenditure recorded a 2.72% shortfall with a KES 506.40Bn spending where recurrent expenditure spending grew 11.60% and Development expenditure declined 15.80% compared to a similar period last year. According to the CS, Prof Njuguna Ndung'u, the medium-term plan will be anchored on; A real annual GDP growth rate of 6.00%, inflation remaining within CBK's target range, stable and predictable Interest rates, improvement in revenue collection to 18.00% of GDP and expenditure falling to 22.70% of GDP.

IMF reached a staff-level agreement for the disbursement of the fourth tranche of the USD 2.34 Bn 38-week EFF/ECF program. The recent disbursement of USD 433.00Mn (KES 51.96 Bn) brings the total amount disbursed to USD 1.55 Bn (KES 186.00Bn) since the start of the program in April 2021. The IMF noted good progress in fiscal adjustments they recommended to address fiscal debt vulnerabilities although macro economic pressures remain elevated.

**We are of a different opinion from Prof. Ndungu's assessment that the revenue side of the fiscal challenge is the problem. According to our observations, we opine that the main cause for concern is the budget's expenditure section, which has been plagued by fiscal indiscipline. Supplementary budget estimate that are meant to kick start the proposed KES 300.00Bn budget cuts is likely to have a mixed bag of effects on the economy, though it is a necessary bitter pill to swallow. Additionally, we believe that the IMF disbursement in December is likely to provide the much-needed support to the shilling.**

### 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.

Macro event	Date
1. Monthly Fuel Review	14 <sup>th</sup> November 2022
2. Weekly T-Bills Auction	17 <sup>th</sup> November 2022
3. November Inflation Figures	30 <sup>th</sup> November 2022

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