



Weekly Fixed Income Note Week ending: 14th April 2022

Key Highlights:

- T-bills were undersubscribed, during the week, recording an overall subscription rate of **48.56%** down from **60.37%** recorded the previous week. The 91-day paper recorded the highest subscription rate at **120.00%** while the 182-day paper recorded the lowest rate at **26.01%**. The Central Bank accepted **99.21%** of the **KES 11.65Bn** worth of bids received. The current fiscal year borrowing is **4.61%** ahead of the prorated target increasing the possibility of the government shifting to higher acceptance rates which is likely to result in a further rates increase. The yield on the 91-day 182-day and 364-day papers edged up **4.7bps** and **9.6bps** and **0.2bps** respectively.
- In the primary market, the 15-year paper, **FXDI/2022/15** worth **KES 30Bn** is up for sale until **19th April 2022**. Our bidding guidance, as provided in the Primary Auction circulation, is in the range of **13.70-13.99%**. We expect the issue to be oversubscribed as seen in the recent trend of increased interest in longer dated papers, with liquidity squeeze a likely challenge.
- In the secondary market, the value of bonds traded decreased by **42.88%** to **KES 15.21Bn** from **KES 26.63Bn** recorded last week. The yield curve shifted downwards with a prominent correction in the 9-11 year papers after April's primary issues skewed this range. The ten-year paper lost the most by 35.2bps while the two-year paper gained the most, by 16.2 bps, indicating that investors are still pricing in higher short term risk, in line with the increased political and pandemic related risks. The FTSE Bond index closed the week at **94.79** taking the YTD loss to **1.32%**.

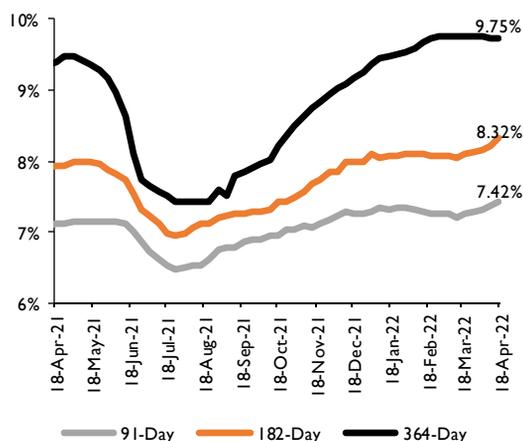
We expect activity in the secondary market to remain muted, as investors turn their attention to the long-term issue. We anticipate the fixed coupon bond to be oversubscribed in line with the recent trend of investors preferring longer-term papers, as they factor in increased political and pandemic related risks. Likewise, we expect aggressive bids on the issuance with the government likely rejecting expensive bids.

Macroeconomic data	Current	Previous
GDP (3Q2021 vs. 2Q2021)	9.90%	10.10%
Inflation (March)	5.56%	5.08%
Private sector credit growth (Feb)	9.10%	8.60%
Money Supply Growth (November)	7.10%	7.30%

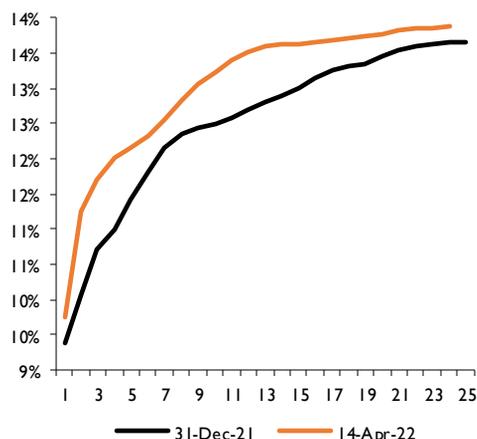
Key Indicators

	Current	Previous	bps
91 - Day	7.42%	7.38%	4.70
182 - Day	8.32%	8.22%	9.60
364 - Day	9.75%	9.74%	0.20
Interbank Rate	4.53%	4.77%	(0.24)

T-Bill Rates



NSE Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling lost further ground against the USD, depreciating **0.13%** to trade at **115.43** from **115.29** at the close of last week. On a YTD basis, the shilling has depreciated **2.03%** against the USD compared to **3.64%** in 2021. The CBK's usable forex reserves currently stand at **USD 8,284 Mn (4.92 months of import cover)**, a 1.06% week-on-week decrease from **USD 8,373 Mn (4.98 months of import cover)** recorded last week. **We expect the local currency to remain under pressure due to increased dollar demand on the back of elevated global oil prices due to the Russia-Ukraine war disrupting the global energy sector, soaring commodity prices and disrupted supply chains; and reduced dollar receipts from key export earning sectors. However, the forex reserves will be supported by increased diaspora remittances.**

Liquidity

Liquidity in the money market eased as shown by the average interbank rate which decreased to **4.53%** from **4.77%** recorded at the end of the previous week, partly attributable to the primary bond issues sapping liquidity from the market. **We foresee the interbank rate remaining near the region of 5.00% for the coming week, mainly driven by active open market operations and the monthly tax obligations. However, we anticipate government expenditure to continue providing liquidity support.**

Fuel Prices Review

The Energy and Petroleum Regulatory Authority (EPRA) raised the maximum retail prices of super petrol, diesel and kerosene for the period 15th April – 14th May 2022 by **KES 9.90 per litre to KES 144.62, KES 123.50 and KES 113.44** respectively. This was in line with our expectations as global prices of crude oil remain elevated, the shilling depreciates against the dollar, and the fuel subsidy programme buckled under increased pressure, partly leading to the recent local fuel shortage crisis. **We expect the increased pump prices to likely contribute to an increase in headline inflation at the end of the month. Higher pump prices is likely to lead to pressure on the transport index due to hiked bus fares. Additionally, the housing and utilities index will not be spared as the prevalent unfavourable weather conditions lead to additional usage of thermal power, hence a higher fuel cost charge on electricity cot.**

Global Inflation

Inflation in developed economies reached decades highs, with the US and UK reporting inflation rates of 8.50% and 7.00% respectively, in March. This was due to rising energy, food and commodity prices and strained supply chains, adversely affected by the Russia—Ukraine war. However, crude oil prices have generally been in retreat from the highs of close to USD 140/barrel for Brent Crude, experienced in early March, which will likely ease some pressure off consumer-price indexes in April. The Federal Reserve and Bank of England will likely raise their base rates in the next month in a bid to reign in the surging inflation. **Locally, we anticipate a similar spike in the consumer-price index for the month, as energy, food and commodity prices remain elevated. This will be further negatively affected by the poor weather conditions which are likely to negatively affect food production and energy generation, having a trailing effect on food and energy prices in the coming months.**

Weekly Fixed Income Calendar

This week, the Central Bank of Kenya's government's fiscal agent will be in the market seeking to raise KES 30.00 Bn in Treasury Bonds as well as KES 24.00Bn in Treasury Bills.

	Macro event	Date
1.	April T/Bond Auction ¹ - FXD1/2022/15	19 th April 2022
2.	Weekly T/Bill Auction	21 st April 2022

CONTACTS:

Research Desk

Solomon Kariuki

Research Analyst

Kevin Omondi

Email: research@aib-axysafrica.com

Equities Dealing

Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Email:
trading@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 may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB-AXYS Africa or AXYS Group. 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.