



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

30th December 2024

Key Highlights

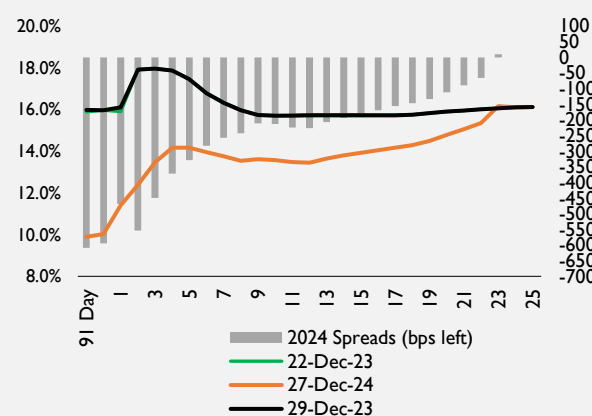
- **Spot market treasury bills were undersubscribed, recording a decelerated subscription rate of 20.3% from 54.5% recorded the previous week.** Absolute demand became skewed to the 91-day paper – which received bids amounting to KES 2.24Bn. We attribute this demand for shorter-duration papers as an investor rush to lock-in high yields in an easing interest rate environment.
- **In the primary bond market, the government is looking to raise KES 30.00Bn through the re-opening of FXDI/2018/015 and FXDI/2022/25 earmarked for budgetary support.** The bonds have quoted tenor to maturity of 8.3yrs and 22.6yrs respectively. The coupon rates are set at 12.6500% and 14.1880% respectively. Bidding is set to close on **15th January 2025**. We will be issuing further bidding guidance.
- **91- day Treasury Bill rate witnessed a 6.00bps w/w downtick to 9.89%** – attributable to the Central Bank of Kenya’s resolve to nudge rates lower amid an easing risk landscape. Meanwhile, the accepted average yields on the 182-day paper remained unchanged while the 364-day paper dropped by 12.77bps.
- **Across the secondary bond market, the value of bonds traded decreased 68.34% w/w to KES 12.59Bn from KES 39.76Bn** recorded a week prior. The NSE Bond Index increased 11.71bps w/w to 1,093.97 points driven largely by a decrease in the 18-year benchmark yields. The 3-year paper yield surged the most by 16.94 bps w/w while the 18-year paper yield eased the most by 45.76 bps w/w. We expect a progressive yield curve flattening at the short end of the curve.
- **Yields on the Kenya’s Eurobond papers, increased by an average of 8.1bps 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	9.89%	9.95%	(6.00)	(598.85)
182-Day	10.02%	10.02%	0.00	(594.99)
364-Day	11.41%	11.54%	(12.77)	(449.17)
Bond Index	1093.97	1092.69	11.71	903.07
Interbank Rate	11.14%	11.34%	(19.85)	(278.51)

Source: Central Banks’ Data, Nairobi Securities Exchange

Chart I: Domestic Yield Curve Evolution



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Macroeconomic Developments

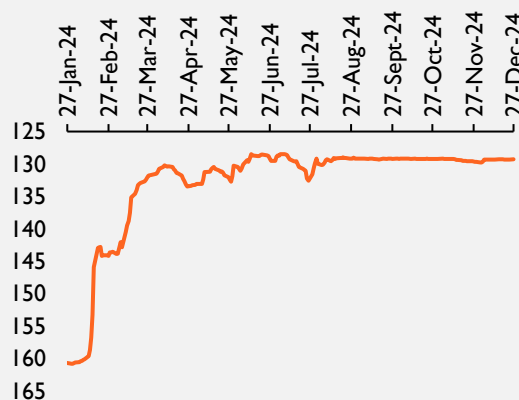
Exchange Rate

The Kenya Shilling strengthened marginally against the USD, appreciating by **0.003% w/w** to **KES 129.29** from **129.30** the week prior. This lifted the Shilling's YTD appreciation to **17.37%** against the USD.

Official forex reserves increased **212bps w/w** to **USD 9,201Mn** from **USD 9,010Mn**. The current reserves now offer about **4.7 months** of import cover – above the CBK's statutory requirement of 4 months and the EAC's convergence requirement of 4.5 months of import cover.

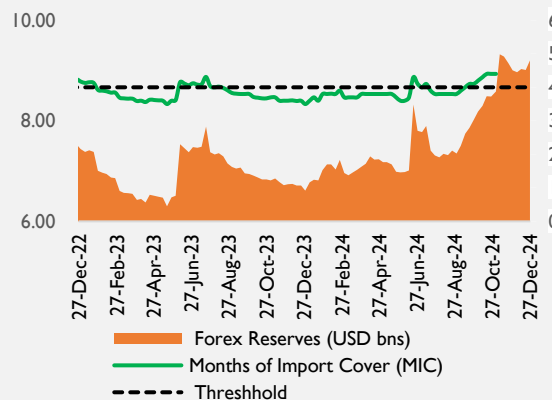
We expect range bound volatility on the Kenya shilling - owing to a mixed expectations of the balance of payments deficit, and fiscal sustainability. We however expect portfolio dollar inflows and a recovery in Kenya's key exports to support a stable shilling. However, rising external debt-service commitments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

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 by **0.2% w/w** against a basket of currencies.

The yields on the 2-year and 10-year US treasury papers saw notable upward momentum with a **2bps w/w** and an **11bps w/w** increase settling at **4.33%** and **4.63%** respectively.

Global oil prices recorded upward trends with Kenya's supplier UAE Murban increasing **350bps** to close the week at **USD 76.01/barrel** and Brent Crude oil increasing **140 bps** to close the week at **USD 74.17/barrel**. Demand concerns outweighed supply risks amidst escalating geopolitical tensions in the Middle East, contributing to this nuanced market behavior.

Table 2: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	108.01	107.74	▲ 0.2%
Murban Crude	76.01	73.46	▲ 3.5%
Brent Crude	74.17	73.18	▲ 1.4%
US 2Yr Yield	4.33%	4.32%	▲ 2 bps
US 10Yr Yield	4.63%	4.52%	▲ 11 bps

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

MACROECONOMIC CALENDAR

Event	Date
December Inflation Figures	30 th December 2024
Weekly CBK T-Bill Auction	2 nd January 2025

Summary Macroeconomic Stats

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Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	Q2 2024	4.6%	5.0%	▼ (40 bps)
Headline Inflation	November/24	2.8%	2.7%	▲ 10 bps
Central Bank Rate	December/24	11.3%	12.0%	▼ (75 bps)
Stanbic Kenya PMI	November/24	50.9	50.4	▲ 0.5 pts
Private Sector Credit Growth	October/24	1.3%	3.7%	▼ (240 bps)
Forex Reserves (USD M)	December/24	9,201	9,007	▲ 2.2%
Public Debt (KES Tn)	June/24	10.56	10.44	▲ 1.2%

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



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