Weekly Fixed Income Note

Week Ending: 3rd March 2023

Key Highlights:

- T-bills were oversubscribed for the first week of March 2023 recording an increased overall subscription rate of 136.25% from 80.98% recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper for the 10th straight month with a 5.56x subscription rate compared to the least preferred 364-day paper at 44.55%. We attribute the overperformance to investors continuing to see short term risks in the market. We expect an oversubscription in coming weeks as the yield on the 91-day paper is expected to get to the 10% barrier having recorded 9.70% in the recent auction. Additionally, CBK's announcement of easier access to opening treasury securities trading accounts for investors is likely to see increased investor interest. The Central Bank acceptance decreased to 72.74% of the **KES 32.70Bn** amounting to **KES 23.79Bn.** Yields on all the papers are now firmly above 9.00% with the 91, 182, and 364-day papers gaining **4.30bps, 4.80bps,** and **1.40bps,** respectively.

- In the Primary market, the government is looking to raise KES 50.00Bn through the issuance of an amortized Infrastructure Bond, IFB1/2023/17. The coupon rate will be market determined, with bidding running from 15/02/2023 to 07/03/2023. For further bidding guidance please see our [Primary Auction Note]

- In the secondary market, the value of bonds traded decreased by **23.23%** to **KES 9.45Bn** from **KES 12.31Bn** recorded a week prior. The yield curve recorded a mix of flattening and steepening across the curve. The 2-year paper gained the most by **4bps** while the 15-year paper lost the most by **11bps.**

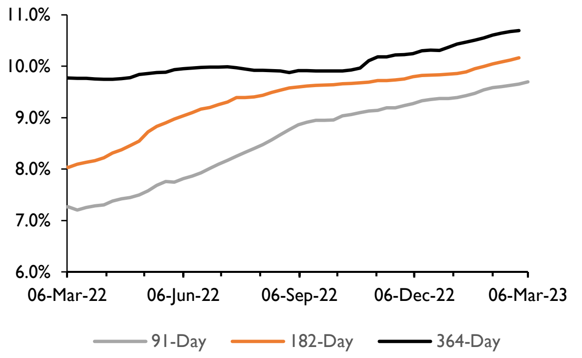
- In the international market, yields on Kenya's Eurobonds increased by an average of 28bps indicating decreased investor sentiment. We observed the 2024 Eurobond paper which increased by 54bps highlighting the paper's sensitivity to market sentiments given that its maturity is less than 18 months away. The yields on the 10-Year Eurobonds for Ghana and Angola also increased.

We expect activity in the secondary market to be driven by March T-bond issues but is likely to slow down given the IFB primary market issuance. In the coming T-Bill bidding sessions, we foresee investors testing CBK's resolve on accepting higher than 10.00% for a 91-day paper.

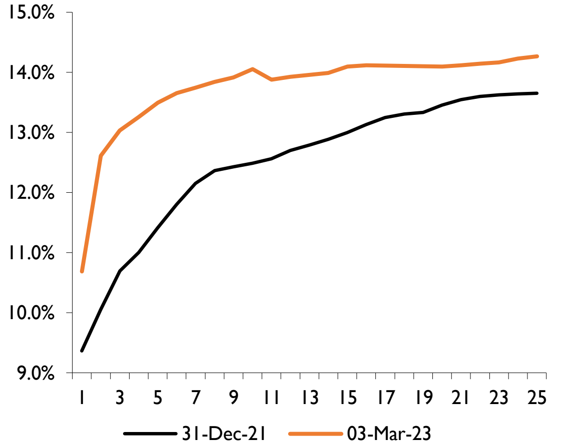
Key Indicators

	Current	Previous	w/w bps Change
91- Day	9.70%	9.66%	4.30
182-Day	10.17%	10.12%	4.80
364-Day	10.69%	10.68%	1.40
Interbank Rate	6.71%	6.40%	30.98

T-Bill Rates



NSE Implied Yield Curve



Currency

The Kenya shilling further lost ground against the USD, depreciating **88bps** to **KES 127.54** from **KES 126.42** the previous week. On a YTD basis, the shilling has depreciated 3.38% against the USD as compared to a 9.04% depreciation for the year ended December 2022. The CBK's usable forex reserves dropped even further to close at **USD 6,605Mn** (**3.69 Months** of Import Cover), a 3.72% week-on-week decrease from **USD 6,860Mn (3.84 Months** of Import cover), recorded last week well below the CBK's statutory requirement (4.0 Months) & EAC Convergence requirement (4.5 Months) of import cover. However, during the week, it was noted that Kenya was set to apply for an IMF Funds Quota raise in a bid to provide a buffer for the country's deteriorating FX cover. Moreover, Kenya plans to begin importing oil on credit from the United Arab Emirates in April 2023 in an effort to reduce the dollar demand. **That said, we expect the local currency to continue coming 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.**

Liquidity

Liquidity in the money market tightened as shown by the average interbank rate increasing 31bps to 6.71% from 6.40% recorded a week prior. We attribute the tightened liquidity to government payments offsetting tax remittances. Open market operations also remained active within the week. During the week, the average number of interbank deals remained stable at 29, while the average value traded decreased to KSh 23.50Bn, from KSh 24.10Bn in the previous week. **We expect the interbank rate to remain above 6.00% levels in the coming week, mainly driven by the remittance of monthly statutory deductions. Additionally, we expect government payments to continue supporting inflows.**

Macro-economic News Roundup

During the week, the KNBS released the February inflation figures which saw overall inflation increase 20bps m/m contrary to our expectation to close the month at 9.20% from 9.00% recorded in January. The decline was attributable to heightened food prices arising from unfavorable weather conditions during the month. Food inflation increased to 13.30% from 12.80% in January, Fuel inflation remained elevated at 13.80% and Non-Food-Non-Fuel (Core Inflation) increased marginally to 4.40% from 4.30% in January.

The private sector's economic outlook measured by the Purchasing Managers Index (PMI) fell from an 11-month high of 52.00 in January to 46.60 in February 2023. The most recent estimate indicated that the private sector had contracted for the first time since August of last year, mostly as a result of a severe decline in output and new orders, with the fastest-ever decline in international sales. The sudden decline in sales coincided with claims that consumer spending had been stifled by the cost of living constraints and cash flow issues. At the same time, reports of higher tax burdens and depreciating shilling led to a steeper increase in input costs.

We expect the PMI to increase in the coming months following increased optimism of reduced inflationary pressures and improved business economic conditions brought on by expected improved weather conditions. We expect headline inflation to remain under pressure and above the CBK's upper target in the short term. We expect pressures on food inflation to ease brought on by the onset of rainfall in most parts of the country.

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.	March T- Bond Auction	7th March 2023
2.	Weekly T-Bill Auction	10th March 2023
3.	March Pump Prices Review	14th March 2023
4.	March Inflation Figures	31st March 2023

CONTACTS:

Research Desk

Solomon Kariuki
Research Analyst

Faith Sang
Research Analyst

Email: research@aib-axysafrica.com

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Benson Ngugi

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Aundrina Musyoka

Kenneth Minjire

Email: trading@aib-axysafrica.com