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WEEKLY FIXED INCOME NOTE

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Weekly Fixed Income Note

Week Ending: 27th October 2023

Key Highlights:

- T-bills were undersubscribed recording an overall decreased subscription rate of 75.63% from 123.39% recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper with a 2.66x subscription rate. We attribute the performance to investors continuing to see short-term risks in the market. We continue to observe the difference between the yields on the three papers shrinking to within 10bps increasing the possibility of a yield curve inversion on the short end. The Central Bank acceptance rate decreased to **86.25**% of the **KES 18.15Bn** amounting to **KES 15.65Bn**. Yields on all the papers are now firmly above 15.00% with the 91, 182, and 364-day papers moving **6.54bps, 5.26bps,** and **4.62bps,** respectively.

- In the primary market for the month of November the government is looking to raise KES 50.00Bn for budgetary support through the issuance of a six and a half-year amortized infrastructure bond. IFB1/2023/6.5 has an effective duration of 6.5 years and the coupon rate will be market determined with bidding running from 20/10/2023 to 08/11/2023. We will be issuing further bidding guidance.

- In the secondary market, the value of bonds traded increased by **25.36**% to **KES 11.64Bn** from **KES 9.28Bn** recorded a week prior. We observed a further steepening across the curve highlighting investors' demand for higher rates. As such, the 3-year paper gained the most by **7bps.** We continue to see a yield curve inversion in the short end section which is likely to spread across the curve depending on the maturity profile of upcoming primary issues.

- In the international market, yields on Kenya's Eurobonds decreased by an average of 76bps indicating improving investor sentiment on the long end following increased confidence on the government's debt sustainability. We observed the 2024 Eurobond paper decreasing by 147bps highlighting the paper's sensitivity to market sentiments given that its maturity is less than 8 months away. We expect another week of lower yields on the 2024 paper that could point to improving investor sentiment.

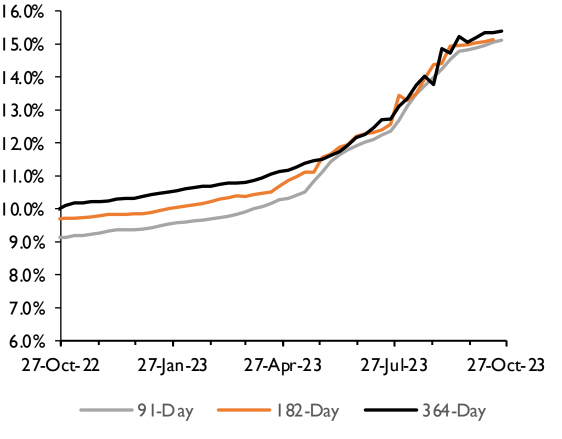
We expect activity in the secondary market to decrease driven by investors interest in the November IFB primary issue. We believe that the high frequency of tap sales is likely to continue having negative impact on the secondary market. In the coming T-Bond bidding sessions, we foresee investors testing CBK's resolve on accepting rates higher than 18.00% for short to mid tenor papers.

Key Indicators

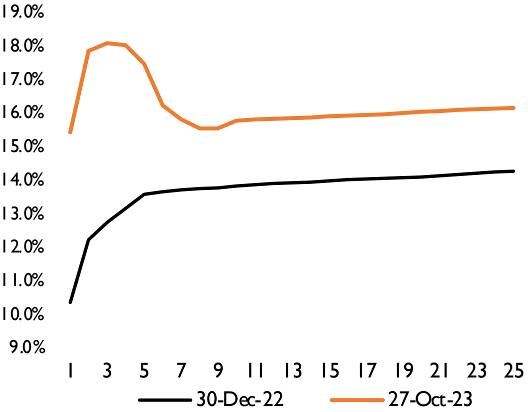
	Current	Previous	w/w bps Change	ytd bps Change
91- Day	15.11%	15.05%	6.54	574.12
182-Day	15.13%	15.08%	5.26	530.39
364-Day	15.39%	15.34%	4.62	507.67
SOFR	5.31%	5.31%	0.00	(101.00)
Interbank Rate	12.54%	12.47%	(7.20)	(613.35)

SOFR: Secured Overnight Financing Rate – Benchmark interest rate for dollar denominated securities.

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **38bps** to **KES 150.36** from **KES 149.79** the previous week. On a YTD basis, the shilling has depreciated **21.88%** against the USD , depreciation exceeded the 9.04% depreciation recorded in 2022. The CBK's usable forex reserves decreased marginally remaining below the 4.00 months level to close last week at **USD 6,836Mn** (**3.67 Months** of Import Cover), a 4bps week-on-week increase from **USD 6,833Mn** (**3.67 Months** of Import Cover), recorded last week. The current reserves are below the CBK's statutory requirement (4 Months) & below EAC Convergence requirement (4.5 Months) of import cover. **We expect the local currency to continue coming under pressure due to the increased dollar demand from importers on the back of the prevailing high global commodities prices, and reduced dollar inflows from key export-earning sectors. Additionally, the depreciation is driven by the continued strengthening of the dollar against emerging and frontier market currencies.**

Liquidity

Liquidity in the money market tightened as shown by the interbank rate increasing 7bps to 12.54% from 12.47% recorded a week prior. We partly attribute the tightening to statutory deductions and tax remittances outpacing government spending. **We expect the interbank rate to remain above 11.00% levels in the coming week, mainly driven by the monthly bank's Cash Reserve Requirements, delayed government payments and CBK's open market operations.**

Macro-economic News Roundup

In the international front, the US dollar strengthened 0.36% against other currencies during the week taking the YTD performance to 2.92% strengthening. The dollar has recovered its year-to date losses as a result of monetary policy tightening. The yield on the 2-year treasury paper dropped 3bps to 5.04% while that of the 10-year treasury paper dropped 6bps to 4.86%. Global oil prices recorded downward trends with Kenya's supplier UAE Murban decreasing 508bps to close the week at USD 89.61/barrel while Brent Crude oil decreased 242bps to close the week at USD 89.93/barrel.

We expect the shilling will face ongoing pressure due to the sustained strengthening of the greenback, leading to the widening of the current account deficit as import costs rise. We anticipate that the increasing interest rates in developed markets will accelerate the current withdrawal of foreign investors from developing countries like Kenya, further exerting pressure on the shilling. With Murban crude prices increasing during the month, we expect local pump costs to continue to be impacted by global prices which will continue to put pressure on headline inflation.

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.

- **October Inflation Expectation-** We expect October inflation to come between 6.50% – 7.10% largely driven by negative effect of increased pump prices on headline inflation. We expect a drop of basket CPI commodities and stable household utilities index.

	Macro event	Date
1.	October Inflation Figures	31st October 2023
2.	Weekly T-Bill Auction	2nd November 2023

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