



# WEEKLY FIXED INCOME NOTE



## AIB-AXYS Weekly Fixed Income Note

June 10<sup>th</sup>, 2024

### Key Highlights

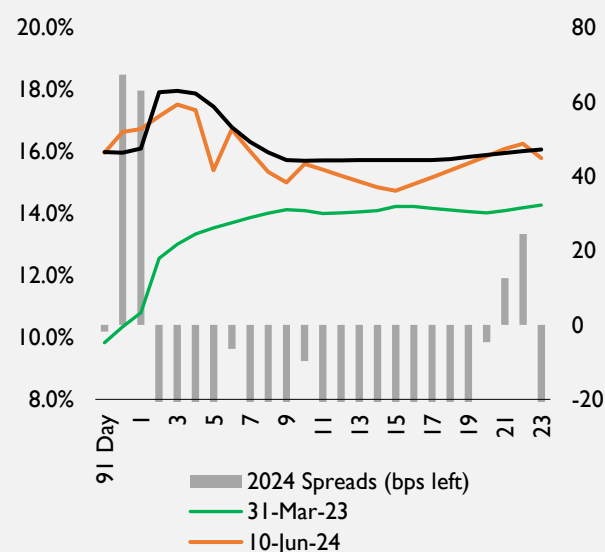
- **Spot market treasury bills were oversubscribed, recording an accelerated subscription rate to 151.0% from 139.6% recorded the previous week.** Absolute demand remained skewed to the 91-day paper – which received bids amounting to KES 25.06Bn. We attribute this demand for the 91-day paper to high real inflation-adjusted yields on offer.
- **In the primary bond market, the re-opening of the FXDI/2023/002 and FXDI/2024/003 was broadly oversubscribed clocking an aggregate subscription rate of 109.5%.** Out of the KES 32.84Bn in total bids received, the CBK accepted KES 30.88Bn – representing an acceptance rate of 94.0%. The allocated average rate for accepted bids exceeded in-house expectations to clock at 17.1225% and 17.5862% for the 2-year and the 3-year papers respectively.
- **91-day Treasury Bill rate witnessed a slight 1.0bps w/w uptick to 15.95%** – slowing down 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 and 364-day papers similarly rose 3.3bps and 2.5bps respectively.
- **Across the secondary bond market, the value of bonds traded decreased 37.2% w/w to KES 20.06Bn from KES 28.26Bn** recorded a week prior. The NSE Bond Index rose 85.8bps w/w driven by an outsized decline in 5-year yields. The 3-year yield surged the most by **34.8bps w/w** whereas the 5-year yield eased **193.7bps w/w**. We expect sustained yield curve disturbance at the short end of the curve.
- **Yields on the Kenya’s Eurobond papers displayed investor confidence with rates decreasing by an average of 19.4bps 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	15.965%	15.955%	1.1	8.2
182-Day	16.641%	16.608%	3.3	66.9
364-Day	16.731%	16.706%	2.5	83.0
Interbank Rate	13.18%	13.47%	(29.2)	(74.3)
NSE Bond Index	1,014.80	1,006.17	85.8	114.0

Source: Central Bank of Kenya, 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 **15bps w/w** to **KES 130.04** from **KES 130.23** the week prior. This lifted the Shilling's YTD appreciation to **16.9%** against the USD.

Official forex reserves increased **9bps w/w** to **USD 6,981Mn** from **USD 6,975Mn**. The current reserves now offer about **3.6 months** of import cover – marginally below the CBK's statutory requirement of 4 months & below the EAC's convergence requirement of 4.5 months of import cover.

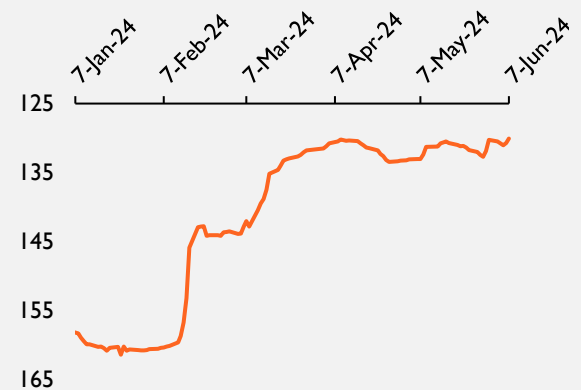
We expect range bound volatility on the Kenya shilling - owing to a mixed expectations of the balance of payments deficit, and fiscal sustainability. We however expect portfolio dollar inflows and a recovery in Kenya's key exports to support a stable shilling. However, rising external debt-service commitments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

### Purchasing Managers' Index - May 2024

The Stanbic Bank Kenya's Purchasing Managers' Index (PMI) – a leading economic indicator that reflects the overall health among private sector businesses in Kenya – rose to 51.8 in May 2024. A reading above 50.0 points towards an expansion in business activity, while a reading below 50.0 signifies a contraction in private sector business activity. This month's headline figure marked a 3% uptick from April 2024 level and stood at the highest level since January 2023 at 52.0. The overall improvement in index surpassed in-house expectations, aided largely by easing inflationary pressures in the first four months of the year, despite harsh weather conditions in the last two months.

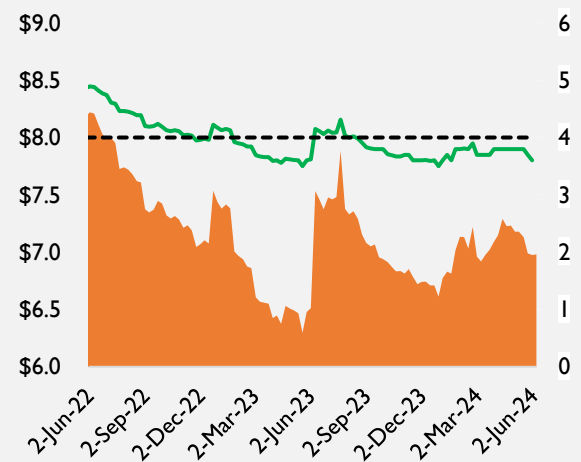
New customer orders registered an increase for the first time in three months primarily attributed to increased client referrals, effective marketing, and attractive promotional offers. Output from Kenyan firms rose for the first time since February 2024, supported by rising demand inflows and easing cost pressures. This was especially true for the manufacturing, services, as well as wholesale and retail trade sectors. Conversely, construction and agriculture sector recorded declines in output, attributable largely to torrential weather patterns in the month.

Chart 2: KES-USD Exchange Rate



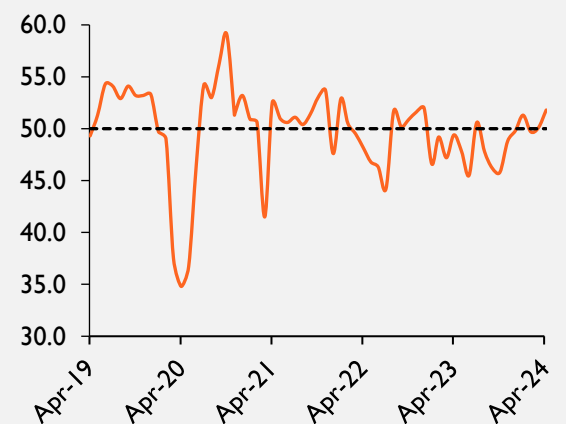
Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 3: Forex reserves (USD Mn)



Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 4: Stanbic Bank Kenya PMI



— Stanbic PMI - - - - - 50-Point Threshold

Source: Central Bank of Kenya, AIB-AXYS Africa Research

## Macroeconomic Developments

### Global Market Pulse

On the international front, the US dollar strengthened by **0.3% w/w** against a basket of currencies. This came largely on the back of the European Central Bank's momentous decision to lower the main refinancing rate by 25bps to 4.25% citing anchored inflation expectations.

The yields on the 2-year and 10-year US treasury papers experienced fluctuations with a **2bps w/w** increase and a **6bps w/w** decrease settling at **4.90%** and **4.44%** respectively.

Global oil prices recorded mixed trends with Kenya's supplier UAE Murban decreasing 230bps to close the week at **USD 79.99/barrel** while Brent Crude oil decreased 180bps to close the week at **USD 79.62/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	104.93	104.63	▲ 0.3%
Murban Crude	79.99	81.86	▼ (2.3%)
Brent Crude	79.62	81.11	▼ (1.8%)
US 2Yr Yield	4.90%	4.88%	▲ 2 bps
US 10Yr Yield	4.44%	4.50%	▼ (6 bps)

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

## MACROECONOMIC CALENDAR

Event	Date
Closure of CBK 5-Yr Re-opening and 10-Yr Re-opening	12 <sup>th</sup> June 2024
Weekly CBK T-bill Auction	13 <sup>th</sup> June 2024
EPRA Fuel Price Review	14 <sup>th</sup> June 2024

### Summary Macroeconomic Stats

Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	2023	5.6%	4.9%	▲ 70 bps
Headline Inflation	May-24	5.1%	5.0%	▲ 10 bps
Central Bank Rate	June-24	13.0%	13.0%	-
Stanbic Kenya PMI	May-24	51.8	50.1	▲ 1.7 pts
Private Sector Credit Growth	April-24	6.6%	7.9%	▼ (130 bps)
Forex Reserves (USD M)	June-24	6,979	7,180	▼ (2.8%)
Public Debt (KES Tn)	March-24	10.40	10.87	▼ (4.3%)

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





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