Weekly Fixed Income Note

Week Ending: 20th January 2023

Key Highlights:

- T-bills were oversubscribed for the third week running by recording an overall subscription rate of **122.74%** from **108.88%** recorded in the previous week. We attribute the overperformance to the return of normal business operations following the slow festive period. Investors continued to prefer the shorter-term 91-day paper for the 8th straight month with a 3.54x subscription rate compared to the least preferred 364-day paper at 21.89%. The Central Bank acceptance decreased to 99.77% of the **KES 29.46Bn** amounting to **KES 29.39Bn.** Yields on all the papers are now firmly above 9.00% with the 91, 182, and 364-day papers gaining **4.90bps, 3.20bps,** and **3.80bps,** respectively.

- In the Primary market, the tap sale on FXD1/2020/005 and FXD1/2022/015 were oversubscribed in line with our expectations. The oversubscription was at 176.27%%, with the CBK accepting KES 17.63Bn being a 97.81% acceptance rate. We attribute the overperformance to the easing liquidity in the money market. The yield came in at 11.67% and 13.94% respectively. For the month of February, the government is looking to raise KES 50.0Bn for budgetary support through reopening a bond and issuing a new one. FXD1/2017/10 and FXD1/2023/10 with a time to maturity of 4.5 years and 10.0 years. Both bonds bidding runs from 17/01/2023 to 07/02/2023.

- In the secondary market, the value of bonds traded declined marginally to **KES 11.89Bn** from **KES 11.90Bn** recorded the week prior. The yield curve recorded a mix of flattening and steepening across the curve. The 1-year paper gained the most by **4bps** reflecting increased short-term risks.

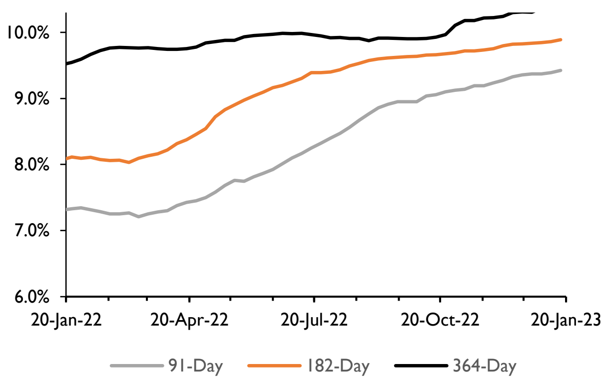
- In the international market, yields on Kenya's Eurobonds decreased by an average of 44bps indicating increased investor sentiment. We observed the 2024 Eurobond paper declined the most by 127bps highlighting the paper's sensitivity to market sentiments given that its maturity is less than 18 months away.

We expect the secondary market to remain active driven by IFBs and the higher yielding long term FXD papers. Furthermore, we expect investors to continue preferring safer asset classes and demanding higher yields as compensation for the heightened risk of a global recession coupled with increased inflation.

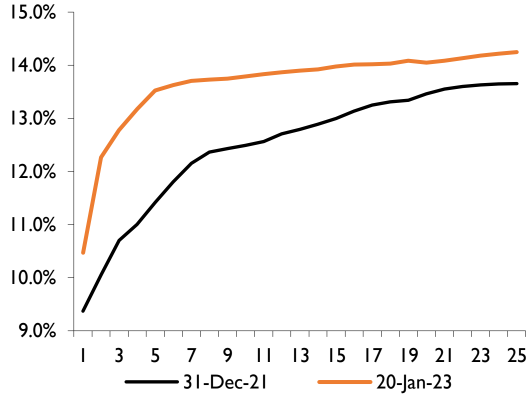
Key Indicators

	Current	Previous	w/w bps Change
91- Day	9.47%	9.43%	4.90
182-Day	9.89%	9.86%	3.20
364-Day	10.47%	10.43%	3.80
Interbank Rate	5.77%	5.29%	48.00

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **21bps** to cross the **KES 124.09** from **KES 123.84** the previous week. On a YTD basis, the shilling has depreciated 9.69% against the USD compared to 9.20% in 2022. The CBK's usable forex remained above the 4-month range closing the week at **USD 7,382Mn (4.13** Months of Import cover), a **45bps** week-on-week decrease from **USD 7,415Mn** (**4.13**months of import cover) recorded last week. **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 48bps to 5.77% from 5.29% recorded a week prior. We attribute the tightened liquidity to tax remittances offsetting government payments. Open market operations also remained active within the week. During the week, the average number of interbank deals decreased to 26 from 28 in the previous week, while the average value traded decreased to KES 18.30Bn from KES 19.00Bn in the previous week. **We expect the interbank rate to remain above 5.00% levels in the coming week, mainly driven by monthly bank CRR cycle requirements. Additionally, we expect government payments to continue supporting inflows.**

Macro News Roundup

The National treasury released the 2023 draft budget policy statement where total revenues collections are projected to increase by 15.32% to KES 2,897.70Bn in FY2023/24 from the projected KES 2512.70Bn FY 2022/23. This will be driven by the ongoing tax policy reforms and revenue administration measures geared towards expanding the tax base. KRA is expected to scale up collection efforts to KES 3.00Tn in FY2022/23 and KES4.0Tn in the medium term. The authority is expected to achieve the target by reducing the VAT gap from 38.9% to 19.8% by completing the roll-out of the real-time ETR's and integration of KRA tax system with telcos and betting firms. Regarding policies the government is expected to improve efficiency in public spending, retiring expensive and unsustainable consumption subsidies and leveraging public private partnerships for financing viable projects.

Government expenditure is expected to increase by 7.40% to KES 3,641.00Bn from KES 3,390.00Bn for FY 2022/23 budget which is contrary to the earlier reports of a KES 300.00Bn budget cut. The recurrent expenditure is expected to be 66.53% (KES 2,422.30Bn) and development expenditure is expected to be 32.88% (KES 796.40Bn). After an analysis of the expenditures and revenues the fiscal deficit is expected to be KES 695.20Bn in FY2023/24 against the fiscal balance of KES 849.20Bn in FY2022/23, the financing will be 28.57% (KES 198.60Bn) from net external borrowing and 71.43% equivalent to KES 496.60Bn from net domestic borrowing.

We expect continued stable economic growth driven by a better business environment as the economy recovers from global commodity shock prices and the prolonged drought. We expect headline inflation to remain under pressure and above the CBK's upper target in the short-term. We expect the business environment to remain challenged for the first half of FY 23/24 as prevailing global commodity shocks continue to spill over locally and the local reduced rainfall reducing agricultural output. However, the growth of credit to the private sector is likely to prompt further economic growth.

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.	Weekly T-Bills Auction	26th January 2023
2.	January MPC Meeting	30th January 2023
3.	January Inflation Figures	31st January 2023

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