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WEEKLY FIXED INCOME NOTE

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Weekly Fixed Income Note

Week Ending: 3rd November 2023

Key Highlights:

- T-bills were oversubscribed recording an overall increased subscription rate of 102.82% from 75.63% recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper with a 5.62x 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 increased to **96.09%** of the **KES 24.68Bn** amounting to **KES 18.15Bn**. Yields on all the papers are now firmly above 15.00% with the 91, 182, and 364-day papers moving **7.51bps, 14.25bps,** and **5.24bps,** 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 decreased by **92.41%** to **KES 8.83Bn** from **KES 11.64Bn** recorded a week prior. We observed a further steepening across the curve highlighting investors' demand for higher rates. As such, the 1-year paper gained the most by **5bps.** 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 89bps 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 112bps 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.

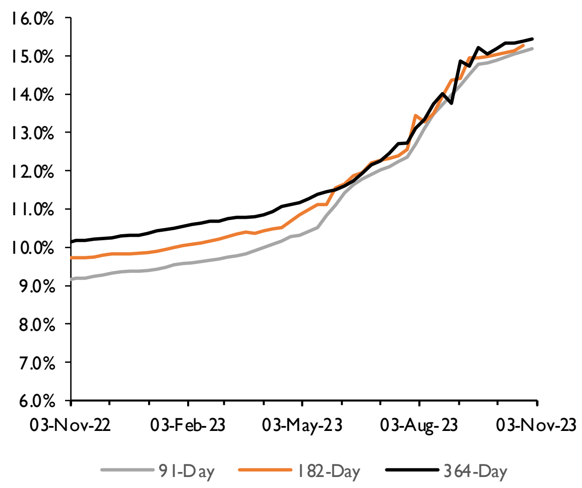
We expect activity in the secondary market to decrease driven by investors interest in the November IFB primary issue. We believe that the high frequency of tap sales is likely to continue having negative impact on the secondary market. In the coming T-Bond bidding sessions, we foresee investors testing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

Key Indicators

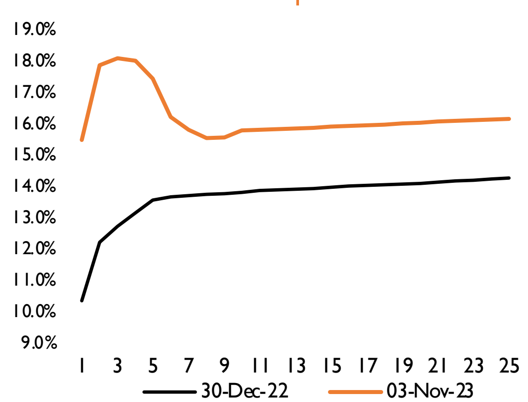
	Current	Previous	w/w bps Change	ytd bps Change
91- Day	15.19%	15.11%	7.51	581.63
182-Day	15.27%	15.13%	14.25	544.64
364-Day	15.44%	15.39%	5.24	512.91
SOFR	5.32%	5.31%	1.13	(102.13)
Interbank Rate	12.32%	12.54%	21.71	(591.63)

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 **46bps** to **KES 151.06** from **KES 150.36** the previous week. On a YTD basis, the shilling has depreciated **22.44%** 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 6,814Mn** (**3.7 Months** of Import Cover), a 32bps week-on-week decrease from **USD 6,836Mn** (**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 eased as shown by the interbank rate decreasing 22bps to 12.32% from 12.54% recorded a week prior. We partly attribute the easing to government spending outpacing statutory deductions and tax remittances. **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

During the week, the KNBS released October inflation figures which saw headline inflation increase marginally to **6.90%** from **6.80%** in September mainly driven by increased food commodities prices and fuel prices. Inflation remains within CBK's target range of 2.50%-7.50%. Food inflation decreased to 7.80% from 7.90% in September, housing utilities increased to 7.80% y/y while transport increased to 13.60% y/y driven by the increase of local pump prices. Non-Food-Non-Fuel (core inflation) decreased to 3.60%. The CPI increased by 103bps to 136.71 from 135.32 in September.

We anticipate that headline inflation will remain under pressure and within the CBK's upper target in the short-term. We expect that the economy will continue to be constrained by high global commodity prices and the prevailing inflationary pressures. In the near-term, we foresee an improvement in business activity driven by enhanced agricultural production rand the positive effects of monetary tightening. However, we foresee global challenges such as inflationary pressures and geopolitical events could potentially hinder economic growth and negatively impact the overall business environment.

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.	November T-Bond Auction	8th November 2023
2.	Weekly T- Bill Auction	9th November 2023
3.	November Pump Prices Review	14th November 2023
4.	November Inflation Figures	30th November 2023

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