



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

13th January 2024

Key Highlights

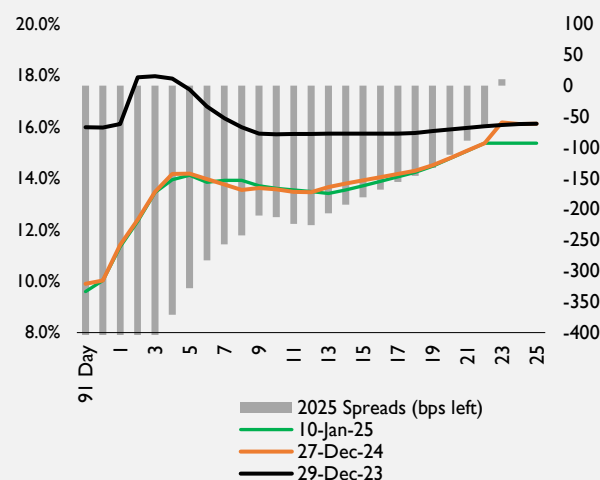
- **Spot market treasury bills were oversubscribed, recording a subscription rate of 138.10% from 65.4% recorded the previous week.** Absolute demand continued to be skewed to the 91-day paper – which received bids amounting to KES 13.24Bn. We attribute this demand for shorter-duration papers to investors rushing to lock in high yields in an easing interest rate environment.
- **In the primary bond market, the government is looking to raise KES 30.00Bn through the re-opening of FXDI/2018/015 and FXDI/2022/025** earmarked for budgetary support. The bonds have quoted tenor to maturity of 8.3yrs and 22.8yrs respectively. The coupon rates are set at 12.65% and 14.19% respectively. Bidding is set to close on 15th January 2025. We will be issuing further bidding guidance.
- **91- day Treasury Bill rate witnessed a 23.17bps w/w downtick to 9.59%** – attributable to the Central Bank of Kenya’s resolve to nudge rates lower amid an easing risk landscape coupled with its easing monetary policy stance. Meanwhile, the accepted average yields on the 182-day paper declined by 0.06bps, whilst the 364-day paper climbed by 1.86bps.
- **Across the secondary bond market, the value of bonds traded increased 357.4% w/w to KES 30.58Bn from KES 6.69Bn** recorded a week prior. The NSE Bond Index declined by 14.07bps w/w to 1,107.13 points driven largely by an increase in the 8-year benchmark yields. The 8-year yield surged the most by 45.02bps w/w while the 91-day yield eased by 23.17bps w/w. We continue to expect a progressive yield curve flattening at the short end of the curve.
- **Yields on the Kenya’s Eurobond papers decreased by an average of 18.8bps w/w.** We maintain our outlook that Kenya’s international yields will remain relatively stable in the medium term, oscillating in the single-digit territory.

Table I: Indicative Fixed Income Stats

Rate	Current	Previous	w/w bps change	2025 bps change
91- Day	9.59%	9.83%	(23.17)	(30.11)
182-Day	10.03%	10.03%	(0.06)	0.43
364-Day	11.39%	11.37%	1.86	(1.98)
Bond Index	1107.13	1108.69	(14.07)	120.30
Interbank Rate	11.27%	11.06%	21.21	17.23

Source: Central Banks’ Data, Nairobi Securities Exchange

Chart I: Domestic Yield Curve Evolution



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Macroeconomic Developments

Exchange Rate

The Kenya Shilling weakened marginally against the USD, depreciating by **0.107% w/w** to **KES 129.49** from **129.35** the week prior. This lowered the Shilling's YTD depreciation to **0.15%** against the USD.

Official forex reserves declined by **19.57ps w/w** to **USD 9,178Mn** from **USD 9,198Mn**. The current reserves now offer about **4.7 months** of import cover – meeting the CBK's statutory requirement of 4 months & the EAC's convergence requirement of 4.5 months of import cover.

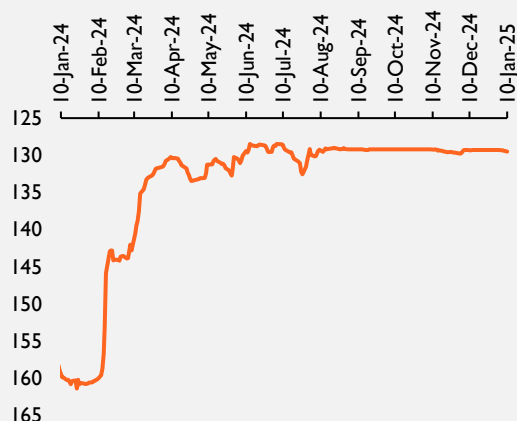
We continue to expect range-bound volatility on the Kenya shilling in 2025 - owing to mixed expectations of the balance of payments deficit, fiscal sustainability, and an ever-evolving geopolitical environment. We however expect portfolio dollar inflows and a recovery in Kenya's key exports to support a stable shilling. However, rising external debt-service commitments continue to pose downside risks for the shilling.

Stanbic Bank Kenya Purchasing Managers Index – December 2024

According to the Stanbic Bank Kenya's Purchasing Managers Index, broad business sentiment contracted to 50.6 in December 2024 from 50.9 in November 2024. Readings above 50.0 point to an improvement in business conditions, while readings below 50.0 point to a deterioration.

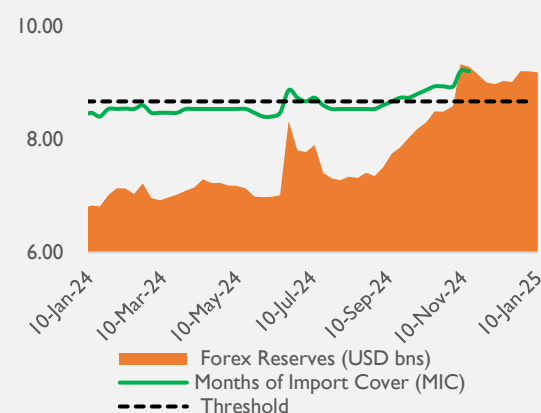
This slowdown was mainly driven by a build-up of price inflation at the end of 2024, which saw the private sector raise selling prices in tandem with the rise in input costs. New orders grew moderately in the month, with sustained improvement in consumer spending alongside new bookings and successful advertising campaigns contributing to higher sales. Firm backlogs witnessed a continued decline in the month, indicating spare capacity despite sales growth. In the end, business outlook remained low, with only 5% of surveyed firms expecting output to rise, signaling low market expectations of significant macroeconomic improvements in the near term.

Chart 2: KES-USD Exchange Rate



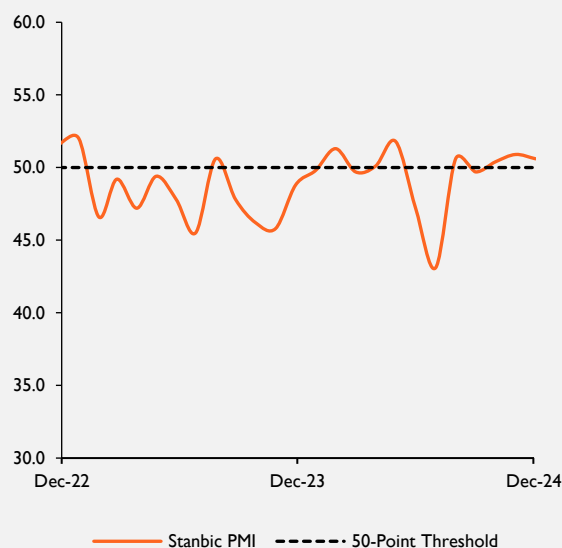
Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 3: Forex reserves



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

Chart 4: Stanbic PMI M/M



Source: Stanbic Bank Kenya, AIB AXYS Africa Research

Macroeconomic Developments

Global Market Pulse

Global growth is projected at 2.7% in 2025 attributable to low global inflationary pressures, declining cost borrowing, and supply chain normalization. However, escalating geopolitical tensions and the potential introduction of US trade tariffs do represent potential headwinds to the outlook.

On the international front, the US dollar strengthened by **0.8% w/w** against a basket of currencies. The yields on the 2-year and 10-year US treasury papers saw notable upward momentum with a **10bps w/w** and a **15bps w/w** decrease settling at **4.39%** and **4.77%**.

Global oil prices recorded upward trends with Kenya's supplier UAE Murban increasing 420bps to close the week at **USD 80.06/barrel** while Brent Crude oil increased 450bps to close the week at **USD 79.76/barrel**. Demand concerns outweighed supply risks amidst escalating geopolitical tensions in the Middle East, as well as the continued imposition of sanctions on the Russian oil industry which is contributing to this nuanced market behavior.

Table 2: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	109.64	108.77	▲ 0.8%
Murban Crude	80.06	76.85	▲ 4.2%
Brent Crude	79.76	76.29	▲ 4.5%
US 2Yr Yield	4.39%	4.29%	▲ 10 bps
US 10Yr Yield	4.77%	4.62%	▲ 15 bps

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

MACROECONOMIC CALENDAR

Event	Date
EPRA Fuel Prices Monthly Review	14 th January 2025
Closure of Re-opened FXD1/2018/015Yr & FXD1/2022/025 bond	15 th January 2025
Weekly CBK T-Bill Auction	16 th January 2025

Summary Macroeconomic Stats

Summary Macroeconomic Stats

Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	Q3 2024	4.0%	4.6%	▼ (60 bps)
Headline Inflation	December-24	3.0%	2.8%	▲ 20 bps
Central Bank Rate	December-24	11.3%	12.0%	▼ (75 bps)
Stanbic Kenya PMI	December-24	50.6	50.9	▼ (0.3 pts)
Private Sector Credit Growth	October-24	1.3%	3.7%	▼ (240 bps)
Forex Reserves (USD M)	December-24	9,201	9,007	▲ 2.2%
Public Debt (KES Tn)	June-24	10.56	10.44	▲ 1.2%

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



CONTACTS

Research Desk

Nancy Mugeci

Teddy Irungu

Research Analysts

Email: research@aib-axysafrica.com

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Anthony Kiambati

Samuel Githinji

Sheema Shah

Samuel Wachira

Benson Ngugi

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Aundrina Musyoka

Kenneth Minjire

Mike Gitonga

Mercy Ombuki

Email: trading@aib-axysafrica.com

Derivatives Trading

Anthony Kiambati

Email: Derivapplications@aib-axysafrica.com

Disclaimer

AIB-AXYS Africa and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication is intended solely for informational purposes and is not authorized for public distribution or use by the public media without prior and express written consent of AIB-AXYS Africa or AXYS Group. Redistribution or dissemination of this material, in whole or in part, is strictly prohibited and may lead to legal actions. By accessing this report, you acknowledge and agree to abide by these terms, ensuring the security and confidentiality of its contents.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by AIB-AXYS Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.

Unlock our Exclusive Research spanning
Macroeconomics, Equities, Fixed Income, and Sector-
Specific Analyses now seamlessly on AlphaSense,
LSEG, Tellimer, and S&P platforms


S&P Global

Tellimer

AlphaSense

LSEG

Begin trading Kenyan stocks online on our award-winning
AIB-Digitrader App. Available on Google Play and Appstore.



Download the **AIB DigiTrader App!**
Trade Kenyan stocks online

GET IT ON
Google Play

Download on the
App Store