Weekly Fixed Income Note

Week ending: 29th July 2022

Key Highlights:

- T-bills reverted back to undersubscription after three straight weeks of overperformance by recording an overall subscription rate of **82.11%**, up from **144.07%** recorded in the previous week. Investors continue to prefer short term papers with the 91-day paper recording the highest subscription rate at **351.94%** while the 364-day paper recorded the lowest rate at **23.79%.** The Central Bank accepted **92.91**% of the **KES 19.71Bn** worth of bids received. We do not expect pressure on the government's acceptance rate as it is still early in the fiscal year. Yields on the 91-day paper edged up **7.70bps**, while yields on the 182-day and 364-day papers cooled off by **-0.10bps** and **-2.20bps,** respectively.

- In the Primary market, the government is looking to raise **KES 50.00Bn** for budgetary support through re-opening of FXD FXD1/2022/03, FXD2/2019/10 and FXD1/2021/20. The bonds will have a coupon rate of 11.78%, 12.30% and 13.44%, respectively. Auction period is between 29th July and 16th August, 2022. We hall provide more details and bidding guidance in our upcoming primary auction guide.

- In the secondary market, the value of bonds traded increased by **57.78%** to **KES 24.10Bn** from **KES 15.27Bn** recorded last week. The yield curve largely flattened across the curve with the 18-year paper losing most by **11.37bps** and the 5-year paper gaining the most by **34.02bps** . In the international market, the yields on Kenya's Eurobonds declined by an average of **89.80bps**, with the 2024 maturity declining by a further **196.00 bps**. International oil prices declined during the week. Murban oil prices declined to **USD 105.61/** barrel on July 28, compared to **USD 106.00/** barrel on July 21.

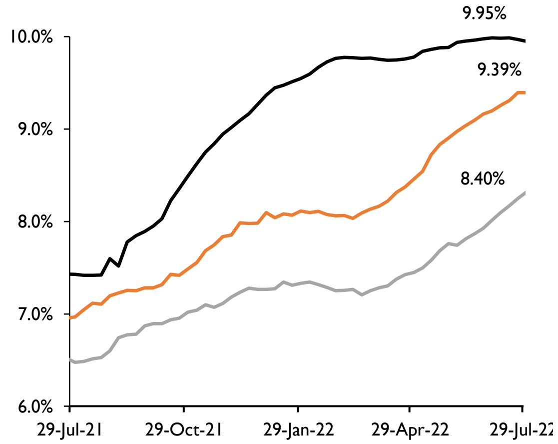
We expect activity in the secondary market to increase as investors turn to safer options given the crystallization of the prevailing market risks. We foresee a sustained preference for long-term papers from investors, factoring in other asset classes' returns, as well as greater political and global macro related risks

Macroeconomic data	Current	Previous
GDP (2021 vs. 2020)	6.80%	2.70%
Inflation (July)	8.03%	7.90%
Private Sector Credit Growth (Apr)	11.50%	9.10%

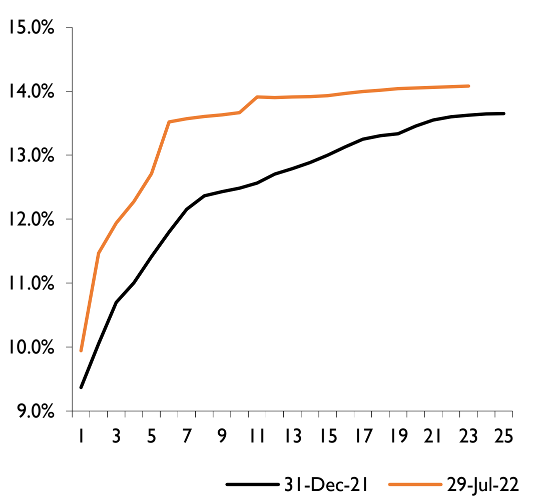
Key Indicators

	Current	Previous	bps
91- Day	8.40%	8.32%	7.70
182-Day	9.39%	9.39%	0.10
364-Day	9.95%	9.97%	2.20
Interbank Rate	5.47%	5.30%	17.00

T-Bill Rates



NSE Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling lost further ground against the USD, depreciating **0.25%** to trade at **KES 118.76** from **KES 118.57** at last week's close. On a YTD basis, the shilling has depreciated **5.00%** against the USD compared to **4.36%** in 2021. The CBK's usable forex reserves remained adequate at **USD 7,740Mn** (**4.46** months of import cover), a **99.81%** week-on-week decrease from **USD 7,725Mn** (**4.46** months of import cover) recorded last week. The CBK maintains that the current reserves are adequate to cover dollar demand in the market despite reports of acute dollar shortage from importers. **However, we expect the local currency to continue to remain under pressure due to the increasing dollar demand as global oil prices remain elevated on the back of higher import bill and reduced dollar inflows from key export earning sectors.**

Liquidity

Liquidity in the money market tightened as shown by the average interbank rate which decreased to **5.47%** from **5.30%** recorded at the end of the previous week. Open market operations remained active. During the week, the average number of interbank deals decreased to 35 from 42 in the previous week, while the average value traded decreased to **KES 23.80Bn** from **KES 30.10Bn**. **We expect the interbank rate to keep edging up in the coming week, mainly driven by active open market operations.**

Weekly Markets Performance Review

IMF's World Economic Outlook update for July 2022 revised global economic growth downwards by 40bps to 3.20% from the January 2022 projections. The Fed increased its benchmark rate by 75.00bps aiming to combat the effects of elevated inflation. Locally, the July'22 Monetary Policy Committee (MPC) maintained the CBR at 7.50% noting that the May'2022 policy action was timely in anticipating inflationary pressures, and its impact was still transmitting through the economy. The MPC also noted that international commodity prices, particularly oil, wheat and edible oils, had begun to moderate and are expected to ease domestic inflationary pressures in the near term.

According to KNBS, overall inflation increased to **8.30%** in July from **7.90%** in June 2022, due to significant increases in food prices, trending higher than the CBK's target range of 2.5-7.5%. Food inflation increased to **15.30%** from **13.80%** in June. Meanwhile, fuel inflation declined to **7.30%** from **10.00%** while non-food-non-fuel inflation remained stable at **2.90%.** We believe that the fuel and maize flour subsidies impact has not been fully realized and is likely not to be felt in the August review as the subsidies are short term and will expire after the elections**. We expect global economic growth to continue being hindered by the prevailing macro and geopolitical factors; Russia-Ukraine war, Energy crisis in Europe, oil prices, recession fears in developed markets, debt sustainability challenges in developing nations and the increased inflationary pressure. The actions of the FED are expected to have a negative effect on EM/Frontier asset classes as further hikes are likely to cause higher yields and better equities performance increasing the flight to safety among foreign investors. Locally, the upcoming elections are expected to slow down economic activity and is a key contributor to investment decisions.**

Weekly Fixed Income Calendar

This week, the Central Bank of Kenya, as the government's fiscal agent, will seek to raise **KES 24.00Bn** in Treasury Bills. We expect the Purchasing Managers Index to show slowed growth going further below the 50 points mark.

	Macro event	Date
1.	August PMI	3rd August 2022
2.	Weekly T-Bills Auction	4th August 2022
3.	2022 Presidential Elections	9th August 2022
4.	Monthly Fuel Review	15th August 2022
5.	August T-Bond Issue	16th August 2022
6.	August Inflation Figures	30th August 2022

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