Weekly Fixed Income Note

Week Ending: 09th September 2022

Key Highlights:

- T-bills were oversubscribed for the second week running by recording an improved overall subscription rate of **152.99%**, from **128.75%** recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper which had a 6.75x subscription compared to the least preferred 364-day paper at **34.76%.** The Central Bank acceptance improved to **76.12%** of the **KES 36.72Bn** amounting to **KES 27.95Bn**. The reduced acceptance rate points to the need to control the rising yields by rejecting expensive bids. We are likely to continue seeing a rejection of expensive yields and an under absorption at least until a new government is in place and they can start implementing their manifesto. Yields on all papers edged up with the 91-day, 182-day, and 364-day papers rising **5.00bps, 2.30bps,** and **3.90bps,** respectively.

- In the Primary market, the government has re-opened two bonds; **FXD1/2022/10** and **FXD1/2022/15** with effective tenors of 9.60 and 14.50 years and coupon rates of 13.49% and 13.94%, respectively. **The Central Bank announced that in consideration of the public holiday on 13/09/2022, the bid closure date will be moved to 2.00 PM on 14/09/2022.** We shall be issuing further guidance in our upcoming Primary Auction Note.

- In the secondary market, the value of bonds traded increased by **34.64%** to **KES 22.82Bn** from **KES 16.47Bn** recorded last week. The yield curve largely steepened across the curve with the 3-year paper gaining the most by **20bps** and the **2**-year paper losing the most by **2bps**.

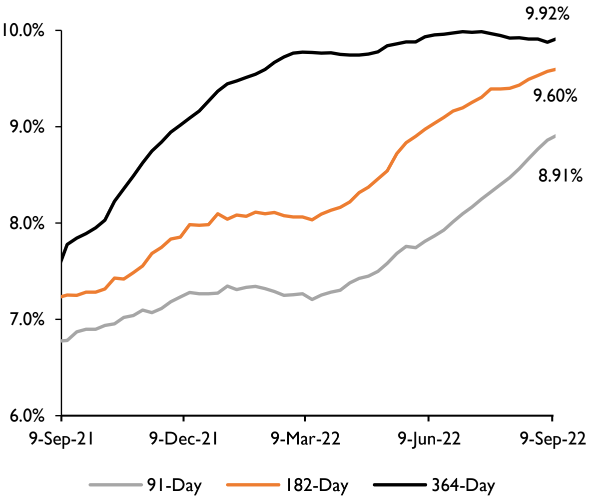
- In the international market, the yields on all Kenyan Eurobond issues declined largely driven by the Supreme court decision which brings calmness to the market. We observed the 2024 paper reducing the most, by 220bps, highlighting the sensitivity to market sentiments given that its maturity is less than 24 months away.

We still the secondary market to remain active, during the week, driven by positive sentiments surrounding the determination of the presidential petition. Furthermore, we expect investors to continue preferring safer asset classes given the possibility of crystallization of the prevailing market risks.

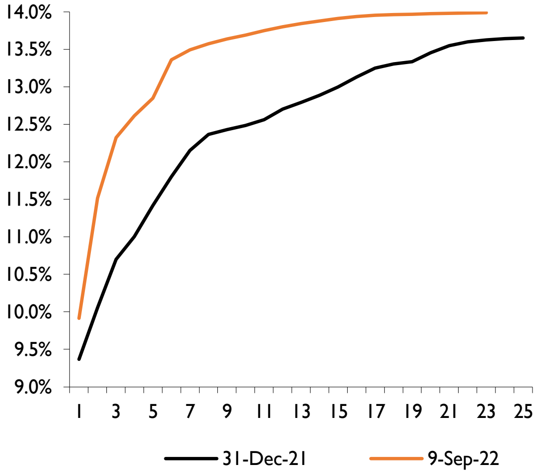
Key Indicators

	Current	Previous	w/w bps Change
91- Day	8.91%	8.86%	5.00
182-Day	9.60%	9.58%	2.30
364-Day	9.92%	9.88%	3.90
Interbank Rate	4.33%	4.96%	0.63

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **0.10%** to trade at **KES 120.31** from **KES 120.12** the previous week. On a YTD basis, the shilling has depreciated **6.33%** against the USD compared to **4.36%** in 2021. The CBK's usable forex reserves remained adequate at **USD 7,346Mn** (**4.19** months of import cover), a **0.39%** week-on-week decrease from **USD 7,375Mn** (**4.20** months of import cover) recorded last week. We **expect the local currency to continue 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 as measured by the DXY index which has gained 13.55% YTD.**

Liquidity

Liquidity in the money market eased as shown by the average interbank rate which decreased to **4.33%** from **4.96%** recorded at the end of the previous week. We attribute the increased liquidity to government payments offsetting tax payments. Open market operations remained active. During the week, the average number of interbank deals decreased to 26 from 30 in the previous week, while the average value traded declined to **KES 13.10Bn** from **KES 16.90Bn, last week**. **We expect the interbank rate to remain below the 5.00% levels in the coming week, mainly driven by continued government payments as county governments take shape. However, the monthly bank's CRR cycle and tax obligations due during the week are likely to tighten liquidity.**

August PMI declines further

The private sector's economic outlook remains bleak as shown by the Purchasing Managers' Index (PMI) which declined in August to **44.20** from **46.30** in July. Declining PMI for five straight months points to slowed economic activity. The contraction of economic activity, during the month, was attributed to disruptions led by the electioneering period. However, there was an observed softening in the rise of the cost of inputs leading to the easing of inflationary demand pressures. Output declined at the quickest pace since April 2021, with the construction sector recording the greatest decline. Additionally, new business inflows declined sharply driven by a sustained drop in client orders resulting from elections and elevated inflation. **We expect the business confidence regarding future activity to improve in the coming months, following the conclusion of the general elections and signs of moderating inflation. However, the global oil prices remain elevated, Russia –Ukraine war is still ongoing, and the Covid-era commodity price increase still prevails.**

Weekly Fixed Income Calendar

- This week, the Central Bank of Kenya, as the government's fiscal agent, is in the market for **KES 24.00Bn** in T-bills and **KES 50.00Bn** in T-bonds issuances.
- The Supreme Court decision on the consolidated petitions from presidential elections issued on 05/09/2022 is expected to cool down any fears of violence. The positive impact on financial markets was observed with a retreat in Kenyan Eurobonds yields in the past week. However, the local yields continue to rise, where we view the rising local yields to be tied to government debt sustainability and not the elections factor.

	Macro event	Date
1.	September T-Bond Auction	14h September 2022
2.	Weekly T-Bills Auction	15th September 2022
3.	September MPC Meeting	29th September 2022
4.	September Inflation Figures	30th September 2022

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