



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

20th January 2025

Key Highlights

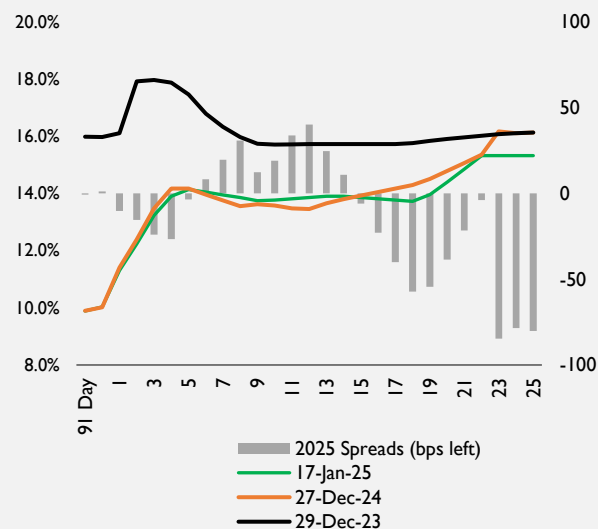
- **Spot market treasury bills were undersubscribed, recording a subscription rate of 78.59% from 138.10% recorded the previous week.** Absolute demand skewed towards the 364-day paper – which received bids amounting to KES 10.03Bn. We believe demand for shorter-duration papers has begun to show signs of weakening, as yields -particularly on the 91-day paper- fall into single-digit territory
- **In the primary bond market, results from re-opening FXDI/2018/015 and FXDI/2022/025 showcased a performance rate of 196.66% with total bids received amounting to KES 58.99 Bn.** The total amount of accepted bids was **KES 48.48 Bn**, with the average rate of accepted bids coming to **14.2096%** and **15.6833%** for the **FXDI/2018/015** and **FXDI/2022/025** respectively, outlining the continued decline in yields on government securities.
- **91-day Treasury Bill rate witnessed a 2.88bps w/w downtick to 9.56%** – 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 rose by 0.46bps, whilst the 364-day paper declined by 8.53bps.
- **Across the secondary bond market, the value of bonds traded increased 53.70% w/w to KES 47.01Bn from KES 30.58Bn** recorded a week prior. The NSE Bond Index declined by 41.64bps w/w to 1,102.52 points driven largely by an increase in the 13-year benchmark yields. The 13-year yield surged the most by 49.10bps w/w while the 18-year yield eased by 51.08bps w/w. Given the uncertain global policy outlook, we expect a progressive yield curve flattening at the short end of the curve to proceed more moderately.
- **Yields on the Kenya’s Eurobond papers decreased by an average of 17.30 bps 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	9.56%	9.59%	(2.88)	(32.99)
182-Day	10.03%	10.03%	0.46	0.83
364-Day	11.30%	11.39%	(8.53)	(10.51)
Bond Index	1102.52	1107.13	(41.64)	78.16
Interbank Rate	11.31%	11.27%	(1.00)	(11.00)

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 **0.065% w/w** to **KES 129.57** from **129.49** the week prior. This increased the Shilling's YTD depreciation to **0.21%** against the USD.

Official forex reserves declined by **38.13ps w/w** to **USD 9,143Mn** from **USD 9,178Mn**. 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.

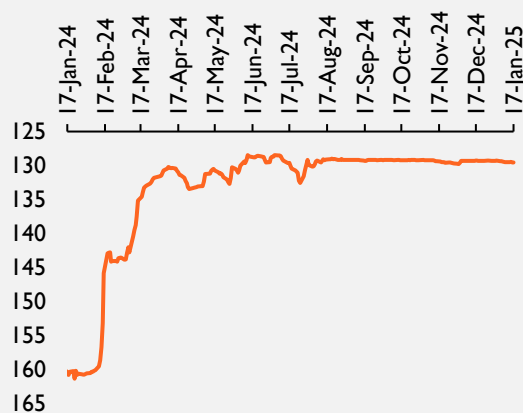
Markets this week, are expected to closely watch the American market, as President Trump takes office where he is expected to implement his contentious policy agenda. This could see the shilling face downside pressures, as changes in global trade dynamics following potential tariff introductions, may prompt investors to shift wealth back into safe-haven assets to safeguard against market volatility. The extent of policy implementation does, however, remain uncertain with investors keenly focused on his inaugural speech for insights into his policy outlook in the coming term.

EPRA Pump Price Review – January 2025

The Energy and Petroleum Regulatory Authority (EPRA) announced revised fuel prices for the January 2025 - February 2025 pricing cycle. The retail prices of Petrol, Diesel and Kerosene increased by KES 0.29/litre, KES 2.00/litre and KES 3.00/litre respectively.

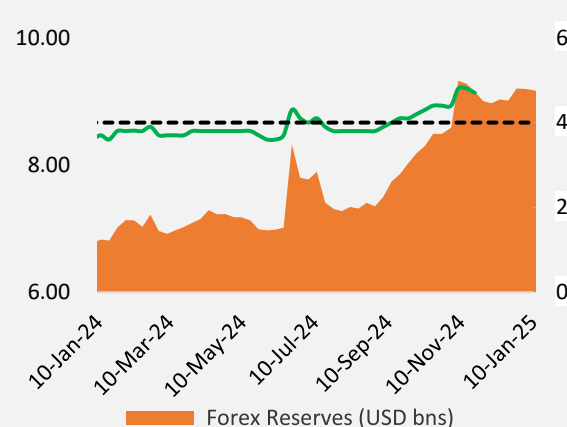
Petrol will now retail at KES 176.58/litre, Diesel at KES 167.06/litre and Kerosene at KES 151.39/litre. The regulator reported a 0.06% rise in the landing costs of Diesel and a 1.62% decline in the landing cost of Kerosene. Conversely, the landing cost of super petrol saw a marginal decline of 0.14%. The increase in prices, despite the marginal rise in landing costs, is attributable to a reduction in the price stabilization subsidy implemented by the government during the December 2024- January 2025 price cycle. Looking ahead, we anticipate further upward revisions in fuel prices, as supply risks grip oil markets following the imposition of further sanctions on Russian oil exports.

Chart 2: KES-USD Exchange Rate



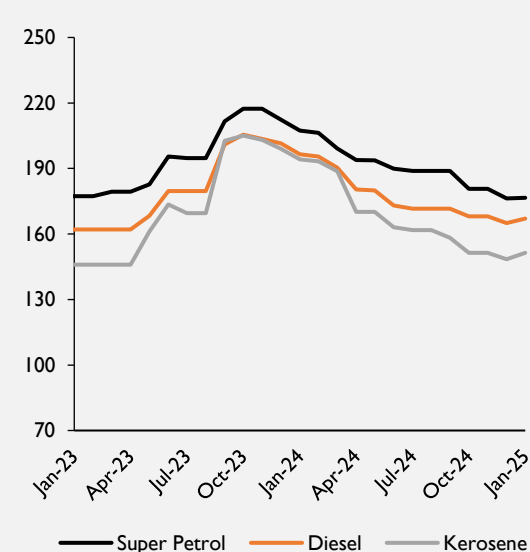
Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 3: Forex reserves



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

Chart 4: Average Fuel Prices (KES)



Source: EPRA, 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 weakened by **0.2% w/w** against a basket of currencies. The yields on the 2-year and 10-year US treasury papers also witnessed notable downward momentum with a **10bps w/w** and a **14bps w/w** decrease settling at **4.29%** and **4.63%**.

Global oil prices recorded upward trends with Kenya's supplier UAE Murban increasing 450bps to close the week at **USD 83.64/barrel** while Brent Crude oil increased 130bps to close the week at **USD 80.79/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	109.41	109.64	▼ (0.2%)
Murban Crude	83.64	80.06	▲ 4.5%
Brent Crude	80.79	79.76	▲ 1.3%
US 2Yr Yield	4.29%	4.39%	▼ (10 bps)
US 10Yr Yield	4.63%	4.77%	▼ (14 bps)

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

MACROECONOMIC CALENDAR

Event	Date
Weekly CBK T-Bill Auction	23 rd January 2025

Summary Macroeconomic Stats

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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



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