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WEEKLY FIXED INCOME NOTE

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Weekly Fixed Income Note

Week Ending: 17th November 2023

Key Highlights:

- T-bills were oversubscribed for a third week recording an overall decreased subscription rate of 208.32% from 255.64% recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper with a 9.43x 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 decreased to **90.68%** of the **KES 50.00Bn** amounting to **KES 45.33Bn**. Yields on all the papers are now firmly above 15.00% with the 91, 182, and 364-day papers moving **7.65bps, 2.24bps,** and **2.34bps,** respectively.

- In the secondary market, the value of bonds traded increased by **179.96%** to **KES 26.97Bn** from **KES 9.63Bn** recorded a week prior. We observed a further steepening across the curve highlighting investors' demand for higher rates. As such, the 17-year paper gained the most by **2bps** while the 5-year paper lost the most by **1bps.** 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.

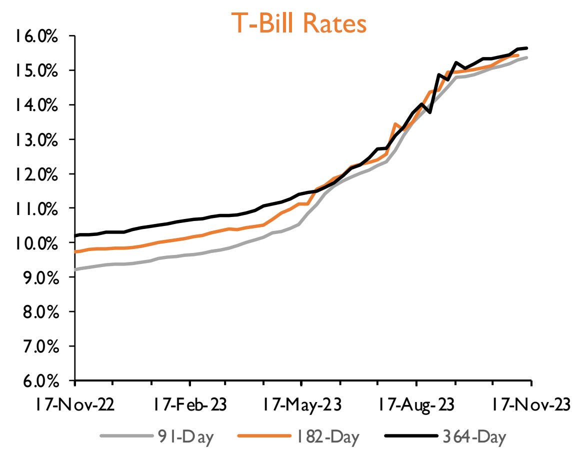
- In the international market, yields on Kenya's Eurobonds decreased by an average of 18bps indicating improving investor sentiment on the long end following increased lack of confidence on the government's debt sustainability. We observed the 2024 Eurobond paper decreasing by 137bps highlighting the paper's sensitivity to market sentiments given that its maturity is less than 8 months away.

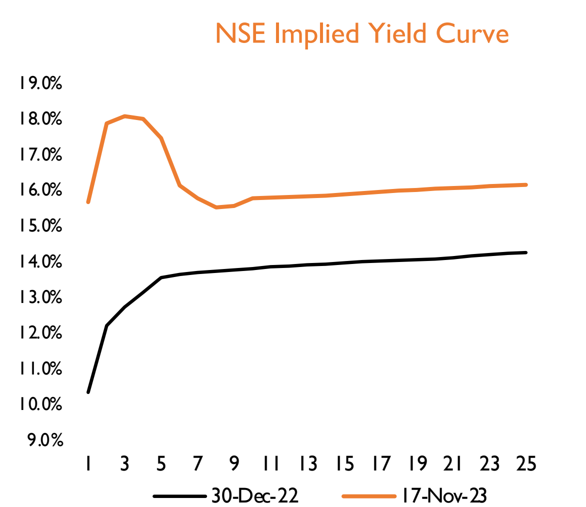
We expect activity in the secondary market to increase driven by investors who missed out in the primary market auction. We believe that the high frequency of tap sales is likely to continue having negative impact on the secondary market. In the coming T-Bond bidding sessions, we foresee investors testing 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	15.36%	15.29%	7.65	599.32
182-Day	15.43%	15.41%	2.24	560.31
364-Day	15.64%	15.62%	2.34	532.85
SOFR	5.33%	5.32%	1.00	(103.00)
Interbank Rate	11.04%	11.57%	(53.30)	462.71

SOFR: Secured Overnight Financing Rate – Benchmark interest rate for dollar denominated securities.





MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **36bps** to **KES 152.23** from **KES 151.68** the previous week. On a YTD basis, the shilling has depreciated **23.39%** 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 6,785Mn** (**3.60 Months** of Import Cover), a 99bps week-on-week decrease from **USD 6,853Mn** (**3.70 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 53bps to 11.04% from 11.57% 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 10.00% 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, EPRA announced fuel prices for with price of petrol being maintained while prices of kerosene and diesel decreased marginally. Compared to the previous months' review, Petrol will retail at KES 217.36/litre (+0.00), Diesel will retail at KES 203.47/litre (+2.00), while Kerosene will retail at KES 203.06/litre (+2.00). The regulator additionally noted the increase in the landing costs of Petrol and Diesel by 2.81%, 3.28% respectively and a decrease in that of Kerosene by 6.31%. The regulator noted that the government opted to stabilize pump prices for the cycle by compensating suppliers using resources within the current resource envelope.

We maintain our earlier expectations that the G-to-G oil import model is likely not to bring additional pricing benefits to consumers. As per our observations, the oil import model was largely looking to ease the dollar shortage situation. We expect that fuel prices will remain heightened resulting from the increase in global oil prices and the implementation of the increased VAT on fuel. The reduction in the Railway development levy and the import declaration levy will have minimal impact in pump prices reduction.

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.	Weekly T-Bill Auction	23rd November 2023
2.	November Inflation Figures	30th November 2023

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