



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

6th January 2024

Key Highlights

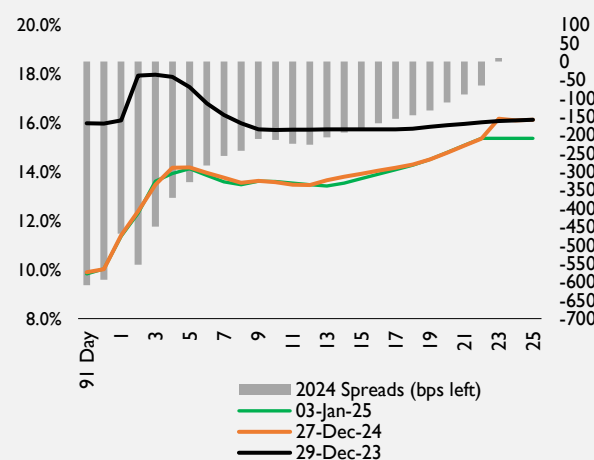
- **Spot market treasury bills were undersubscribed, recording a subscription rate of 65.4% from 20.1% recorded the previous week.** Absolute demand became skewed to the 91-day paper – which received bids amounting to KES 8.0Bn. We attribute this demand for shorter-duration papers to investors rushing 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 6.94bps w/w downtick to 9.83%** – attributable to the Central Bank of Kenya’s resolve to nudge rates lower amid an easing risk landscape. Meanwhile, the accepted average yields on the 182-day paper climbed by 0.43bps, whilst the 364-day paper declined by 3.84bps.
- **Across the secondary bond market, the value of bonds traded decreased 46.87% w/w to KES 6.69Bn from KES 12.59Bn** recorded a week prior. The NSE Bond Index increased 134.56bps w/w to 1,108.69 points driven largely by a decrease in the 14-year benchmark yields. The 3-year yield surged the most by 14.44bps w/w while the 14-year yield eased by 25.42bps 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 increased by an average of 1.58bps w/w.** We expect Kenya’s international yields to remain relatively stable, oscillating in the single-digit territory over the medium-term.

Table I: Indicative Fixed Income Stats

Rate	Current	Previous	w/w bps change	2025 bps change
91- Day	9.83%	9.89%	(6.94)	(6.94)
182-Day	10.03%	10.02%	0.43	0.43
364-Day	11.37%	11.41%	(3.84)	(3.84)
Bond Index	1108.69	1093.97	134.56	134.56
Interbank Rate	11.06%	11.34%	(27.46)	(3.97)

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 strengthened marginally against the USD, appreciating by **0.001% w/w** to **KES 129.29** from **129.29** the week prior. This lifted the Shilling's YTD appreciation to **0.003%** against the USD.

Official forex reserves declined by **3.26ps w/w** to **USD 9.198Mn** from **USD 9.201Mn**. 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 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.

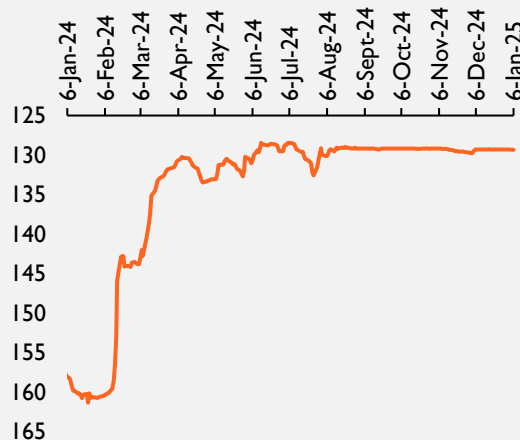
Kenya Consumer Price Index Report – October 2024

Latest statistics from the Kenya National Bureau of Statistics indicate that the yearly headline inflation rate as measured by the Consumer Price Index (CPI) increased slightly by 20bps to 3.0% in December 2024 compared to 2.8% in the preceding month. This translates to an inflation average of 4.5% for the year 2024 in comparison to 7.7% in the prior year.

Food inflation rate increased by 30 bps to 4.8% in December 2024 compared to 4.5% in the preceding month. Fuel inflation decreased by 60bps to 1.0%. Core inflation (Non-food Non-fuel) remained constant at 3.2%.

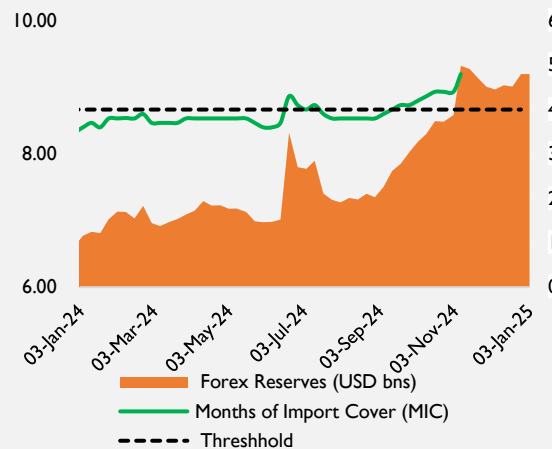
We anticipate that inflation will remain within the CBK's inflation target of 5% with a 2.5% margin of error on either side, attributable to reduced fuel prices as well as favorable weather conditions that have greatly contributed in stabilizing food prices. The recent interest rate cut by the Central Bank of Kenya, coupled with the ongoing disinflationary trend, will further boost consumer purchasing power. This is likely to drive stronger demand for goods and services in the latter half of the year.

Chart 2: KES-USD Exchange Rate



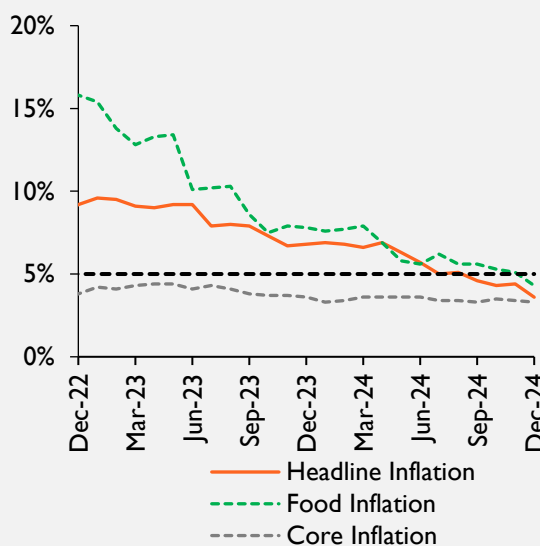
Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 3: Forex reserves



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

Chart 4: Inflation M/M



Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

Macroeconomic Developments

Global Market Pulse

Global growth is projected to hold steady at 2.6% in 2024 attributable to elevated global inflationary pressures, high cost of borrowing and persistent supply chain constraints.

On the international front, the US dollar strengthened by **0.7% w/w** against a basket of currencies.

The yields on the 2-year and 10-year US treasury papers saw notable downward momentum with a **5bps w/w** and a **1bps w/w** decrease settling at **4.29%** and **4.62%**.

Global oil prices recorded upward trends with Kenya's supplier UAE Murban increasing 110bps to close the week at **USD 76.85/barrel** while Brent Crude oil increased 290bps to close the week at **USD 76.29/barrel**. Demand concerns outweighed supply risks amidst escalating geopolitical tensions in the Middle East, contributing to this nuanced market behavior.

Table 2: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	108.77	108.01	▲ 0.7%
Murban Crude	76.85	76.01	▲ 1.1%
Brent Crude	76.29	74.17	▲ 2.9%
US 2Yr Yield	4.29%	4.33%	▼ (5 bps)
US 10Yr Yield	4.62%	4.63%	▼ (1 bps)

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

MACROECONOMIC CALENDAR

Event	Date
Weekly CBK T-Bill Auction	9 th January 2025

Summary Macroeconomic Stats

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Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	Q2 2024	4.6%	5.0%	▼ (40 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	November/24	50.9	50.4	▲ 0.5 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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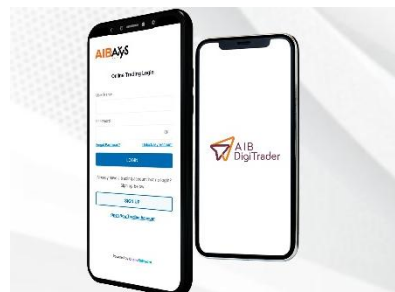
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