



Weekly Fixed Income Note Week ending: 26th August 2022

Key Highlights:

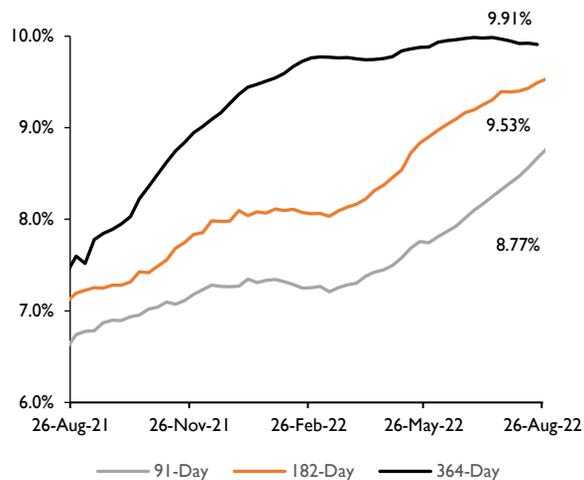
- T-bills were undersubscribed for the fifth straight week by recording a reduced overall subscription rate of **80.90%**, from **82.10%** recorded in the previous week. The 91-day paper recorded the highest subscription rate at **270.39%** while the 182-day paper recorded the lowest rate at **41.62%**. We partly attributed the continued underperformance to reduced liquidity in the money markets as well as the prevailing high yields on the government securities. The Central Bank accepted **77.27%** of the **KES 19.42Bn** 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 and 182-day and 364-day papers edged up **9.80bps**, **4.00bps**, and **0.10bps**, respectively.
- In the Primary market, the government has re-opened two bonds; **FXDI/2022/10** and **FXDI/2022/15** with effective tenors of 9.60 and 14.50 years and coupon rates of 13.49% and 13.94%, respectively. We shall be issuing further guidance in our upcoming Primary Auction Note.
- In the secondary market, the value of bonds traded decreased by **119.80%** to **KES 19.23Bn** from **KES 24.01Bn** recorded last week. The yield curve largely flattened across the curve with the 3-year paper gaining most by **26.58bps** and the 7-year paper losing the most by **8.12bps**. In the international market, the yields on the Eurobonds recorded mixed performance with the 2024 and 2032 papers reducing while the rest increased marginally. Murban oil prices increased to **USD 101.89** per barrel on August 25, compared to **USD 94.43** per barrel on August 18. Oil prices edging higher is negative for the local pump prices, as we view the current subsidy as unsustainable and is likely to be terminated by end of 2022.

We still expect activity in the secondary market to slow down this week as the hearing of the presidential results petition kicks off in the supreme court. However, we expect investors to continue preferring safer asset classes given the possibility of 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.

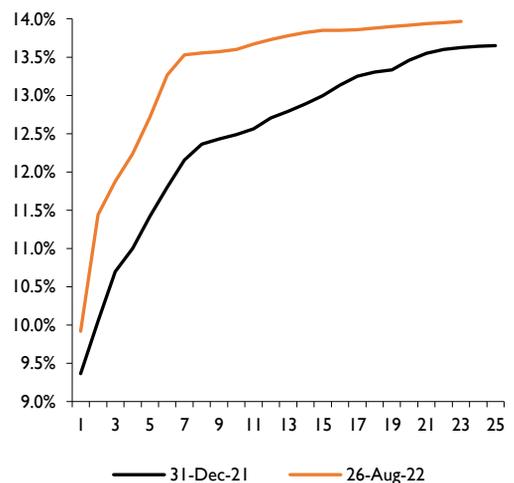
Key Indicators

	Current	Previous	w/w bps Change
91- Day	8.77%	8.67%	9.80
182-Day	9.53%	9.49%	4.00
364-Day	9.91%	9.91%	0.10
Interbank Rate	5.16%	5.30%	17.00

T-Bill Rates



NSE Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **0.23%** to trade at **KES 119.91** from **KES 119.63** at last week's close. On a YTD basis, the shilling has depreciated **5.98%** against the USD compared to **4.36%** in 2021. The CBK's usable forex reserves remained adequate at **USD 7,608Mn** (**4.39** months of import cover), a **0.51%** week-on-week decrease from **USD 7,621Mn** (**4.43** 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 eased as shown by the average interbank rate which decreased to **5.08%** from **5.50%** recorded at the end of the previous week. Open market operations remained active. During the week, the average number of interbank deals decreased to 31 from 33 in the previous week, while the average value traded increased to **KES 21.99Bn** from **KES 21.35Bn**. **We expect the interbank rate to remain above the 5.00% levels in the coming week, mainly driven by the uncertainty of open market operations and the end of month tax obligations.**

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 issuances. We expect another week of T-Bill undersubscription with investors' continuing to prefer the shorter-term paper as they watch the market.
- Presidential petition hearings are set to begin this week at the Supreme Court in Nairobi. Despite having held peaceful polls, we might see pockets of discomfort given the Supreme Court decision over the presidential results petition. Historically, violence has been seen when an incumbent is seeking a re-election than when there is a transition.
- During the week, we expect the August inflation figures to print higher than July given the prevailing high prices of commodities. We do not expect the unchanged pump prices to have a positive base effect on the headline inflation. We further expect the August inflation to come in at around **8.40% -8.60%** driven by increase in the food inflation index and supported by a stable household utilities index.

	Macro event	Date
1.	August Inflation Figures	31 st August 2022
2.	Weekly T-Bills Auction	1 st September 2022
3.	September T-Bond Auction	13 th September 2022

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