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WEEKLY FIXED INCOME NOTE

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Weekly Fixed Income Note

Week Ending: 15th September 2023

Key Highlights:

- T-bills were undersubscribed recording an overall decreased subscription rate of 92.11% from 161.83% recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper with an 8.71x 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 88.33% of the **KES 22.11Bn** amounting to **KES 19.53Bn**. Yields on all the papers are now firmly above the 14.00% level with the 91, 182, and 364-day papers moving **24.86bps, 42.98ps,** and **109.53bps,** respectively.

- In the primary market the reopened issues FXD1/2023/2 and FXD1/2016/10 were undersubscribed, contrary to our expectations. The undersubscription was at 97.17% with the CBK accepting KES 21.63Bn being a 63.06% acceptance rate. We attribute the low acceptance rate to the governments effort to control further yield increase with a tap sale expected. The yields came in at 17.4537% and 17.9266% respectively, which is likely to increase the papers demand in the secondary market.

- In the secondary market, the value of bonds traded increased by 12.15% to **KES 14.73Bn** from **KES 13.12Bn** recorded a week prior. We observed a further steepening across the curve highlighting investors' demand for higher rates. As such, the 3-year paper gained the most by **55bps.** 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 improved investor sentiment on the long end. We observed the 2024 Eurobond paper decreasing by 110bps, highlighting the paper's sensitivity to market sentiments given that its maturity is less than 9 months away. We expect another week of lower yields on the 2024 paper that could point to improving investor sentiment.

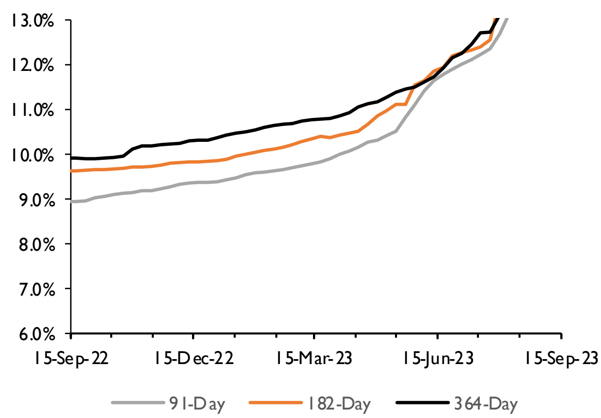
We expect activity in the secondary market to increase driven by investors who missed out in the primary market auction. We believe that the high frequency of tap sales is likely to continue having negative impact on the secondary market. In the coming T-Bond bidding sessions, we foresee investors testing CBK's resolve on accepting rates higher than 18.00% for short to mid tenor papers.

Key Indicators

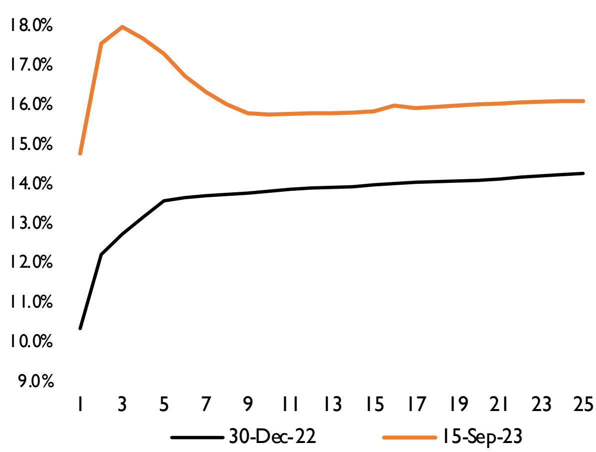
	Current	Previous	w/w bps Change	ytd bps Change
91- Day	14.52%	14.23%	24.86	486.37
182-Day	14.42%	14.37%	42.98	454.36
364-Day	14.73%	14.86%	109.53	455.03
SOFR	5.30%	5.31%	1.00	(100.00)
Interbank Rate	12.10%	12.41%	30.44	(569.23)

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

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **45bps** to **KES 146.79** from **KES 146.14** the previous week. On a YTD basis, the shilling has depreciated **19.02%** against the USD , depreciation exceeded the 9.04% depreciation recorded in 2022. The CBK's usable forex reserves increased marginally remaining below the 4.00 months level to close last week at **USD 7,067Mn** (**3.80 Months** of Import Cover), a 23bps week-on-week increase from **USD 7,051Mn** (**3.81 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 heightened 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 30bps to 12.10% from 12.41% recorded a week prior. We partly attribute the easing to government spending outpacing statutory deductions and tax remittances. Additionally, we suspect the implementation of new CBK system has had marginal effects in the interbank trading. **We expect the interbank rate to remain above 9.00% 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 with prices for Petrol, Kerosene and Diesel increasing significantly. Compared to the previous months review, Petrol will retail at KES 211.64/litre (+16.96), diesel will retail at KES 200.99/litre (+21.32) while kerosene will retail at KES 202.61/litre (+33.13) The regulator additionally noted the increase in the landing costs of petrol, diesel and kerosene by 4.80%, 12.52% and 19.79% respectively.

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	21st September 2023
2.	September Inflation Figures	30th September 2023

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