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WEEKLY FIXED INCOME NOTE

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Week #5 2024 – 29th January 2024

Key Highlights:

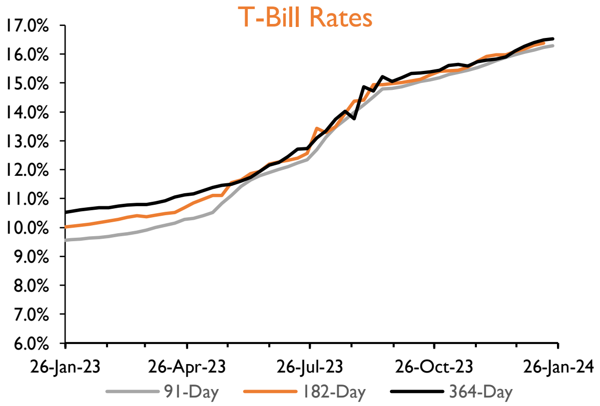
- Spot market treasury bills were marginally oversubscribed recording a decelerated subscription rate of **102.0%** from **147.0%** recorded in the previous week. Demand remained skewed to the shorter-term 91-day paper – which posted a **414%** subscription rate. We attribute this performance to increased investor demand for short-duration papers as a hedge against prevailing market risks.
- In the primary bond market, the government is looking to raise **KES 70.00Bn** through the issuance of an amortized infrastructure bond **IFB1/2024/8.5Yr** earmarked for funding of infrastructure projects. The bond has a time to maturity **8.5 years,** with the coupon set to be market determined. Bidding is set to close on **14th February 2024**.
- All spot market rates remain firmly above the 16.00% mark – following the Monetary Policy Committee's move to raise the benchmark rate by 200bps to **12.50%** at their December 2023 meeting. The accepted average yields on all the papers edged firmly above 16.25% with the 91,182-day and 364-day papers climbing **5.6bps, 7.5bps** and **3.1bps** respectively.
- Across the secondary bond market, the value of bonds traded increased by **8.89%** to **KES 18.64Bn** from **KES 17.11Bn** recorded a week prior. The 2-year yield gained the most by **6bps** while the 3-year yield eased **17bps.** We expect a steeper yield curve inversion at the short-end of the curve.
- Over to the international scene, yields on Kenya's 2024 Eurobond eased marginally by **1bps** w/w – signaling moderating investor sentiment driven by reassurances from multilateral guarantors and government's drive towards fiscal consolidation. We however observed yields on longer dated papers tighten in tandem, leading to a general uplift of the sovereign yield curve.

We expect mild secondary market activity in the week as attention shifts towards the February 2024 primary bond auction.

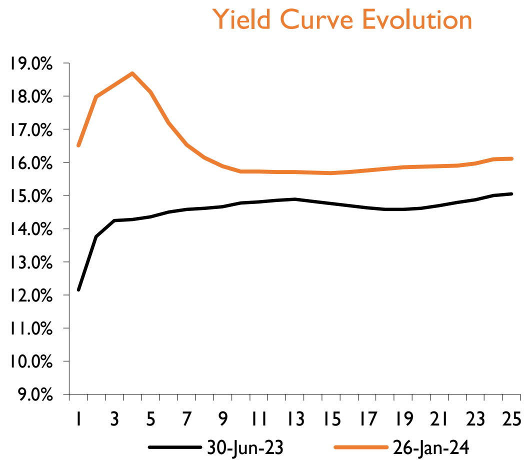
Key Indicators

	Current	Previous	w/w bps change	2024 bps change
91- Day	16.29%	16.23%	5.56	40.72
182-Day	16.38%	16.30%	7.49	40.41
364-Day	16.52%	16.49%	3.08	62.13
SOFR*	5.32%	5.31%	1.00	(8.00)
Interbank Rate	13.67%	13.65%	2.32	(24.76)

** - Secured Overnight Financing Rate*
Source: Central Bank of Kenya, US Fed, AIB-AXYS Research



Source: Central Bank of Kenya, AIB-AXYS Research



Source: NSE, AIB-AXYS Research

MACROECONOMIC NEWS

Currency

The Kenya shilling shed further ground against the USD, depreciating **17bps** to **KES 160.62** from **KES 160.35** the previous week. On a YTD basis, the shilling has depreciated **2.66%** against the USD. The CBK's usable forex reserves rose by **298bps** w/w to **USD 7,017Mn** (3.80 months of import cover) from **USD 6,814Mn** (3.60 months of import cover). The current reserves remain below the CBK's statutory requirement (4 months) & below the EAC's convergence requirement (4.5 months) of import cover.

We expect the volatility on the local currency to ease – albeit marginally - due to a narrowing balance of payments deficit, supported by stabilizing dollar inflows from tourist arrivals, diaspora remittances and key export-earning sectors. However, rising external debt-service commitments, coupled with the ballooning import bill poses downside risks for the shilling.

Liquidity

Liquidity conditions across the money market tightened as evidenced by the slight **2bps** rise in the average interbank rate to **13.67%** up from **13.65%** recorded a week prior. **We expect the interbank rate to trail closer towards upper corridor limit of 15.00% in the coming week, mainly driven by the recent +200bps benchmark rate tightening, and CBK's reclusive open market operations.**

Macro-Economic Roundup

On the international front, the US dollar strengthened **0.23%** against other currencies during the week taking the YTD performance to **2.11%.** This is ahead of the looming **FOMC meeting** on January 31st 2024. The yield on the 2-year US treasury paper dipped **2bps** to **4.36%** while that of the 10-year US treasury paper dipped **1bps** to **4.14%** signaling mild optimism about the US economy. The European Central Bank opted to hold its main refinancing rate constant at 4.50%, as they monitor the impact of previous decisions on the economy. Global oil prices recorded upward trends with Kenya's supplier UAE Murban increasing **584bps** to close the week at **USD83.38/barrel** while Brent Crude oil increased **635bps** to close the week at **USD 83.55/barrel.**

We expect the shilling to face ongoing pressure due to the sustained strengthening of the greenback, leading to the widening of the current account deficit as import costs rise. We anticipate that the elevated rates in developed markets will prolong foreign investor sell-offs in developing countries like Kenya, further exerting pressure on the shilling.

Weekly Fixed Income Calendar

- **Treasury Issues –** On Thursday, 1st February 2024, the Central Bank of Kenya will be resuming the market for **KES 24.00Bn** in Treasury bills.

	Macro event	Date
1.	January 2024 Inflation Data	31st January 2024
2.	Weekly CBK T-bill Auction	1st February 2024
3.	February 2024 Primary Bond Auction Close	14th February 2024

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