Weekly Fixed Income Note

Week ending: 22nd July 2022

Key Highlights:

- T-bills were oversubscribed, during the week, recording an overall subscription rate of **144.07%**, up from **105.77%** recorded in the previous week. The 91-day paper recorded the highest subscription rate at **388.55%** while the 364-day paper recorded the lowest rate at **43.95%.** The Central Bank accepted **88.95** of the **KES 34.58Bn** 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 papers and edged up **7.40bps** and **8.80bps,** respectively, while the 364-day papers declined **-1.80bps**.

- In the primary market, the reopened bonds **FXD2/2013/15** and **FXD2/2018/15** were undersubscribed at a historical low rate of 26.43% raising **KES 9.31Bn** against the intended **KES 40.00Bn**. We attribute the low uptake to banks' T bond lending apathy following the yield curve steepening, partly lower liquidity in the money market and investor's expectations of higher yields in coming auctions. The yield came in at 13.21% and 13.89% for **FXD2/2013/15** and **FXD2/2018/15,** respectively. We expect a Tap sale to be opened, later in the week, as the government looks to achieve the intended amount**.**

- In the secondary market, the value of bonds traded increased by **109.51%** to **KES 14.96Bn** from **KES 7.14Bn** recorded last week. The yield curve largely steepened across the curve with the 6-year paper gaining the most by **50.43bps** and the 1-year paper losing most by **1.80bps**. In the international market, the yields on Kenya's Eurobonds declined by an average of **133.90bps**, with the largest fall in yields (**235.10bps**) for the 2024 paper. International oil prices, during the week, supported by increased oil demand and drawdown on inventories. Murban oil prices increased to **USD 106.00** per barrel on July 21, compared to **USD 101.30** per barrel on July 14.

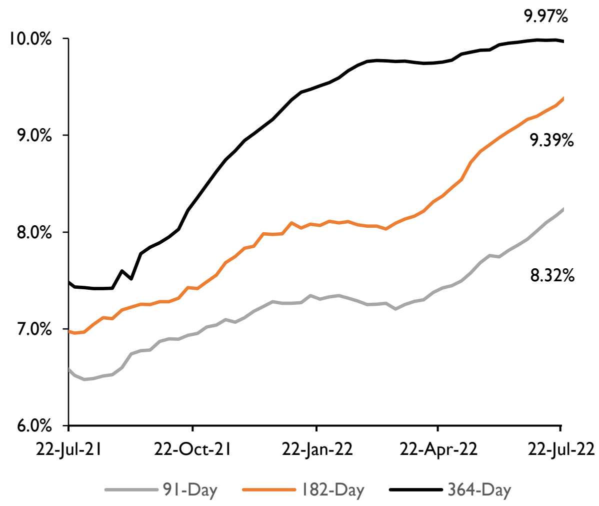
We expect activity in the secondary market to be active, as investors are likely to turn their attention to the fixed coupon bonds that were issued during the month. We foresee a sustained preference for long-term papers from investors, factoring in greater political and global macros related risks.

Macroeconomic data	Current	Previous
GDP (2021 vs. 2020)	6.80%	2.70%
Inflation (June)	7.90%	7.10%
Private Sector Credit Growth (Apr)	11.50%	9.10%

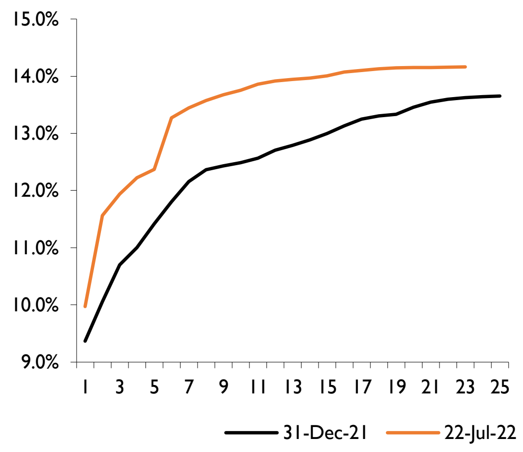
Key Indicators

	Current	Previous	bps
91- Day	8.32%	8.25%	7.40
182-Day	9.39%	9.31%	8.80
364-Day	9.97%	9.99%	1.80
Interbank Rate	5.30%	5.60%	30.00

T-Bill Rates



NSE Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling lost further ground against the USD, depreciating **0.25%** to trade at **KES 118.57** from **KES 118.27** at last week's close. On a YTD basis, the shilling has depreciated **4.80%** against the USD compared to **4.36%** in 2021. The CBK's usable forex reserves remained adequate at **USD 7,725Mn** (**4.46** months of import cover), a **97.13%** week-on-week decrease from **USD 7,953Mn** (**4.59** 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 **5.30%** from **5.60%** recorded at the end of the previous week. Open market operations remained active. During the week, the average number of interbank deals remained relatively stable at 38 compared with 39 in the previous week, while the average value traded increased to **KES 25.50Bn** from **KES 20.10Bn** in the previous week. **We expect the interbank rate to not remain eased and edge up in the coming week, mainly driven by active open market operations.**

IMF Completes Third Review of Kenyan ECF/EFF Arrangement

During the week, the IMF announced completion of the third review under the ECF/EFF arrangements totaling to Special Drawing Rights (SDR) **1.66Bn** signed in April 2021. The completion allows Kenya to immediately access **SDR 179.13Mn** (est. **USD 235.60Mn**). Under the initial agreement, the funds were meant support Kenya's initiatives to mitigate the effects of the COVID-19 pandemic, assist address debt vulnerabilities, support broader economic reforms, improve governance and more recently; help in addressing global shocks resulting from the war in Ukraine. The recent access brings Kenya's total ECF/EFF arrangements disbursements so far to about **USD801.20Mn** (**KES 95.34Bn**) which makes it **34.24%** of the initial allocated amount. IMF also noted a strong economic recovery with a projected GDP growth of **5.70%** in 2022 with inflation to remain in the **7.20%** regions. However, short term risks including; Uncertainties from the Russia-Ukraine war, continuing drought, volatile global financial market conditions and the upcoming general elections are expected to continue affecting further recovery. **We see the disbursement as favorable for Kenya as it will accommodate emergency spending needs if need arises such as overcoming any food shortage challenges. Further, we expect the money allocated to the program to maintain macroeconomic stability, provide dollar inflows and safeguard Kenya's medium-term growth prospects.**

Date	SDR Amount	USD Amount	KES Amount
April 2021	218.70Mn	309.50Mn	37.15Bn
December 2021	185.00Mn	256.10Mn	30.34Bn
July 2022	179.13Mn	235.60Mn	27.85Bn
Total Disbursed So far	582.83 Mn	801.20 Mn	95.34Bn
Total Amount Approved	1,655.00Bn	2,340.0Mn	278.46Bn

Weekly Fixed Income Calendar

This week, the Central Bank of Kenya, as the government's fiscal agent, will seek to raise **KES 24.00Bn** in Treasury Bills. Central bank's MPC will be meeting, during the week, where we expect a second hike of the year with our estimates being a **25-50bps** increase in the CBR. KNBS is also expected to release the July inflation figures where we expect marginal movements in the inflation figure, largely on account of the fuel and maize flour subsidies slowing any inflationary increase.

	Macro event	Date
1.	July MPC Meeting	27th July 2022
2.	Weekly T-Bills Auction	27th July 2022
3.	July Inflation Figures	29th July 2022

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