



WEEKLY FIXED INCOME NOTE

AIB-AXYS Weekly Fixed Income Note

April 15th, 2024

Key Highlights

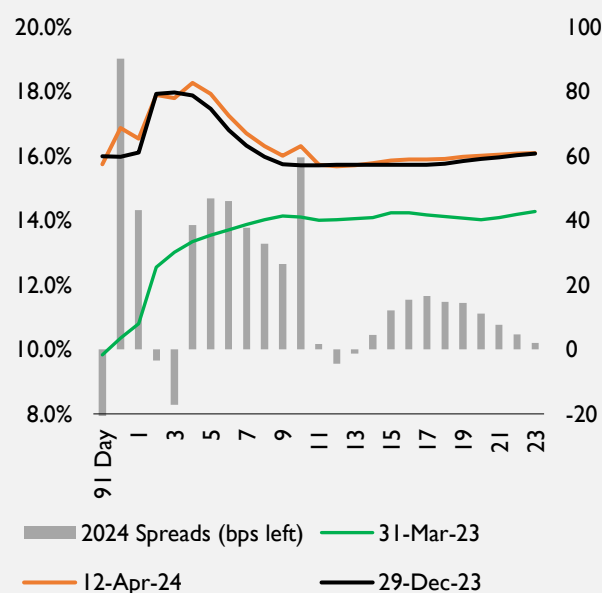
- **Spot market treasury bills were substantially oversubscribed, recording an accelerated subscription rate to 192.78% from 118.65% recorded the previous week.** Demand remained skewed to the shorter-term 91-day paper – which posted a **410.43%** subscription rate. We attribute this performance to attractive real returns offered on the discount securities.
- **In the primary bond market, the government is looking to raise KES 40.00Bn through the re-opening of FXDI/2023/002** - earmarked for budgetary support. The bond has quoted time to maturity of 1.4 years with the coupon rates set at 16.9723%. Bidding is set to close on 17th April 2024.
- **91-day Treasury Bill rates witnessed a sharp decline to 15.73%** – pointing to the Central Bank of Kenya's resolve to nudge rates lower amid an easing risk environment. The accepted average yields on the 91-day, 182-day and 364-day papers declined 99bps, 0.5bps and 46bps respectively. The significant drop in the accepted average yields comes in as the government remains keen on lowering the average cost of debt.
- **Across the secondary bond market, the value of bonds traded increased by 65.3% w/w to KES 16.61Bn from KES 10.05Bn** recorded a week prior. The 15-year yield lifted by **1bps w/w** while the 1-year yield eased **46bps w/w**. We expect a progressive tapering of the yield curve.
- **Growth in diaspora remittances quickened to 14.2% y/y to USD 407.80Mn in March 2024 compared to KES 356.98Mn in March 2023.** However, we observed a 5.7% m/m increase from USD 385.93Mn in February 2024.

Table 1: Indicative Interest Rates

Rate	Current	Previous	w/w bps change	2024 bps change
91-Day	15.73%	16.72%	-99.1	-15.01
182-Day	16.87%	16.87%	-0.5	89.69
364-Day	16.53%	16.99%	-45.9	62.9
SOFR*	5.33%	5.32%	1.0	-55.2
Interbank Rate	13.37%	13.76%	-39.3	-7.0

Source: Central Banks' Data *SOFR: Sovereign Overnight Financing Rate

Chart 1: Domestic Yield Curve Evolution



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Macroeconomic Developments

Exchange Rate

The Kenya Shilling strengthened against the USD for an 11th consecutive week, appreciating further by a substantial **30bps w/w** to **KES 130.35** from **KES 130.74** the week prior. This lifted the Shilling's YTD appreciation to **16.69%** against the USD.

Official forex reserves increased by **200bps w/w** to **USD 7,291 Mn** from **USD 7,148 Mn**. The current reserves now offer about **3.8 months** of import cover – marginally below the CBK's statutory requirement of 4 months & below the EAC's convergence requirement of 4.5 months of import cover.

We expect progressive strengthening of the Kenya shilling - owing 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 poses downside risks for the shilling.

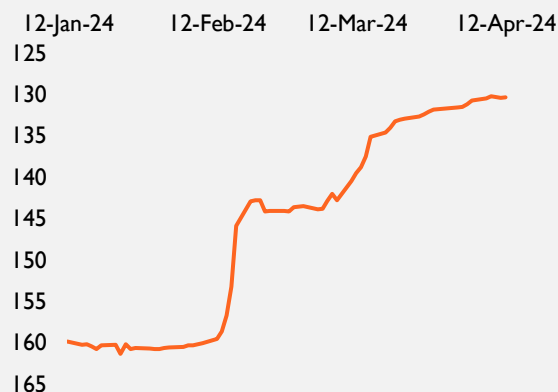
EPRA Pump Price Review April 2024

The Energy and Petroleum Regulatory Authority (EPRA) announced revised fuel prices for the April 2024 - May 2024 pricing cycle. Retail prices of Petrol, Diesel and Kerosene eased substantially by KES 5.31/litre, KES 10.00/litre and KES 18.68/litre.

The easing of fuel prices, comes despite a marginal increase in the average landed cost of refined petroleum in the month. However, the appreciating shilling more than offset the impact of the mild price increase, driving the overall price decline. However, looming tighter supply concerns amid rising geopolitical tensions pose downside risks on future prices.

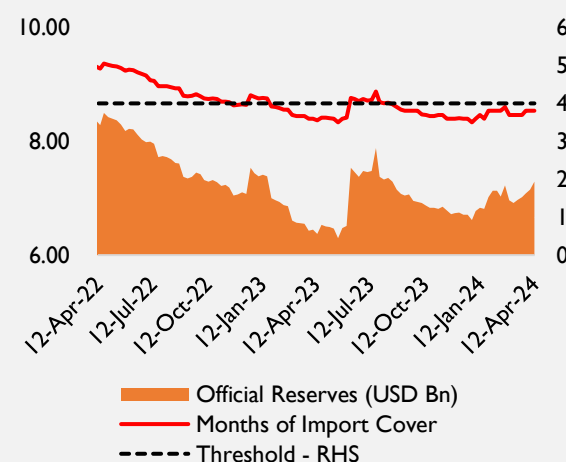
The regulator noted an increase in the landing costs of petrol and diesel by 4.9% and 0.003% respectively, while that of kerosene decreased by 0.7%. Petrol will retail at an average of **KES 193.84/liter**. Diesel on the other hand, will retail at an average of **KES 180.38/liter** while Kerosene will retail at an average of **KES 170.06/liter**.

Chart 2: KES-USD Exchange Rate



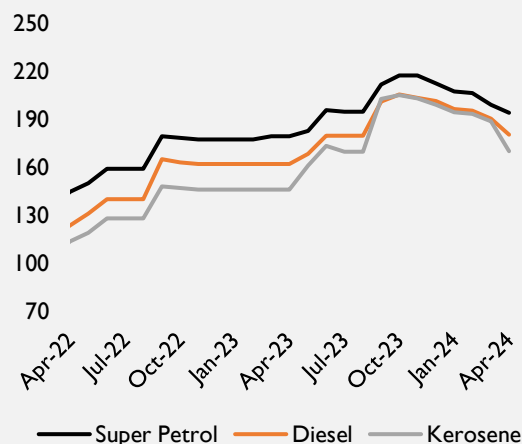
Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 3: Forex reserves



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

Chart 4: Average Fuel Prices (KES)



Source: EPRA, AIB-AXYS Africa Research

Macroeconomic Developments

Global Market Pulse

The US dollar strengthened **0.24%** w/w against a basket of currencies, lifting the YTD performance to 4.62%. This is on account of higher-than-expected inflation figures amid simmering geopolitical tensions. Meanwhile, the Fed maintained a hawkish stance with fading hopes of expected June rate cuts.

The yields on the 2-year and 10-year US treasury papers jolted higher 16bps and 13bps to 4.91% and 4.53% respectively, with hotter inflation figures dimming expectations of June rate cuts. The European Central Bank maintained commentaries on summer rate cuts.

Global oil prices recorded downward trends with Kenya's supplier UAE Murban decreasing 100bps to close the week at **USD 90.24/barrel** while Brent Crude oil decreased 80bps to close the week at **USD 90.45barrel** – downplaying tighter supply concerns coupled with geopolitical tensions.

Table 2: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	106.04	104.30	▲ 1.7%
Murban Crude	90.24	91.15	▼ (1.0%)
Brent Crude	90.45	91.17	▼ (0.8%)
US 2Yr Yield	4.91%	4.76%	▲ 16 bps
US 10Yr Yield	4.53%	4.41%	▲ 13 bps

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

MACROECONOMIC CALENDAR

Event	Date
Closure of April 2024 Primary Bond Auction	17 th April 2024
Weekly CBK T-bill Auction	18 th April 2024
April 2024 Inflation Data	31 st April 2024

Summary Macroeconomic Stats

Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	Q3 2023	5.9%	5.4%	▲ 50 bps
Headline Inflation	March-24	5.7%	6.3%	▼ (60 bps)
Central Bank Rate	April-24	13.0%	13.0%	-
Stanbic Kenya PMI	March-24	49.7	51.3	▼ (1.6 pts)
Private Sector Credit Growth	February-24	10.3%	13.9%	▼ (360 bps)
Forex Reserves (USD M)	April-24	7,148	7,088	▲ 0.8%
Public Debt (KES Tn)	January-24	11.25	11.14	▲ 1.0%

Source: CBK, KNBS, Stanbic Bank Kenya, AIB-AXYS Research



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