



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

April 2nd, 2024

Key Highlights

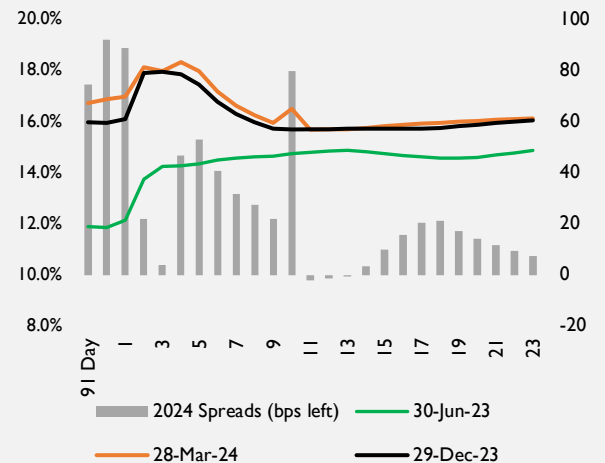
- **Spot market treasury bills were substantially undersubscribed, recording a decelerated subscription rate to 65.99% from 102.83% recorded the previous week.** Demand remained skewed to the shorter-term 91-day paper – which posted a **134.52%** subscription rate. We attribute this performance to increased 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 40.00Bn through the reopening of FXD1/2023/002** - earmarked for budgetary support. The bond has a quoted time to maturity of 1.4 years with the coupon rate set at 16.9723%. Bidding is set to close on 17th April 2024. We will be issuing further bidding guidance.
- **All spot market rates now trail above the 16.70% mark** – following the Monetary Policy Committee’s move to raise the benchmark rate by **50bps** to **13.00%** at their February 2024 meeting. The accepted average yields on the 91-day and 182-day papers declined 0.2bps and 2.6 bps respectively while the 364-day rose 0.1bps.
- **Across the secondary bond market, the value of bonds traded decreased by 9.7% w/w to KES 23.65Bn** from **KES 26.18Bn** recorded a week prior. The 23-year yield surged the most by **2bps w/w** while the 5-year yield eased **2bps w/w**. We expect a mild yield curve flattening at the middle section of the curve.
- **The Central Bank of Kenya’s Monetary Policy Committee is expected to hold their 2nd meeting of 2024 on Wednesday 3rd April 2024,** to review the benchmark rate. We expect the current rate to be maintained to allow the effects of the previous hike to fully permeate through the economy.

Table I: Indicative Interest Rates

Rate	Current	Previous	w/w bps change	2024 bps change
91-Day	16.73%	16.73%	-0.2	84.6
182-Day	16.89%	16.91%	-2.7	91.6
364-Day	16.99%	16.99%	0.1	108.8
SOFR*	5.32%	5.31%	1.2	-7.8
Interbank Rate	13.67%	13.47%	19.9	-25.1

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

Chart I: Domestic Yield Curve Evolution



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Macroeconomic Developments

Exchange Rate

The Kenya Shilling strengthened against the USD for a 9th consecutive week, appreciating further by a substantial **84bps w/w** to **KES 131.80** from **KES 132.92** the week prior. This lifted the Shilling's YTD appreciation to **15.76%** against the USD.

Official forex reserves increased by **94bps w/w** to **USD 7,088Mn** from **USD 7,022Mn**. 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.

The Price Levels - Inflation Update

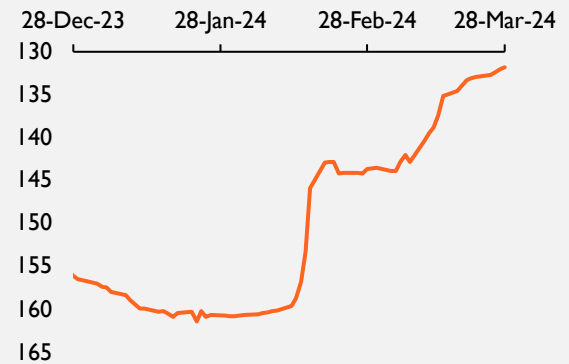
According to the Kenya National Bureau of Statistics (KNBS) price pressures decelerated in the month of March 2024. The CPI headline inflation rate decelerated 60bps to **5.70%** down from **6.30%** in February 2024. The m/m decrease was mainly driven by the decline in food items, fuel and electricity.

Fuel inflation decelerated markedly by 110bps to **12.3%** - largely on account of the offsetting decline in oil prices in the global markets. Food inflation eased 110bps to **5.80%** from 6.90% in February 2024 - driven by easing food prices offering relief to low-income households.

Housing utility costs increased by **8.0% y/y** driven by increase in prices of gas, whereas transport increased by **9.7% y/y**. Core inflation (Non-Food-Non-Fuel) was maintained at **3.60%** pointing to stabilizing price pressures.

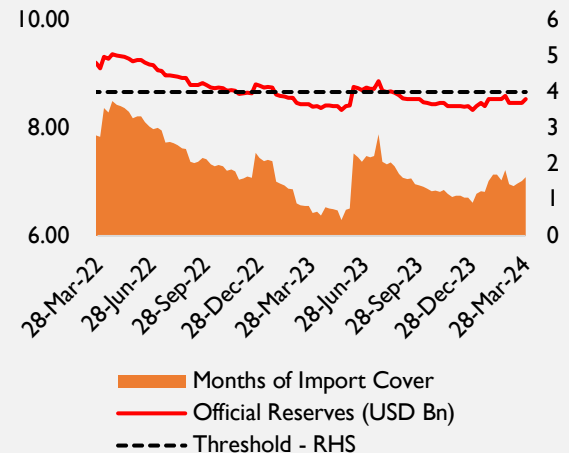
We expect further price pressures to be mild and transitory, edging closer to the 5% mid-target. We anticipate this trend to be underpinned by the positive effects of monetary policy tightening. However, we believe price levels will remain fragile and prone to external shocks, notwithstanding the cooling pressures on the exchange rate.

Chart 2: KES-USD Exchange Rate



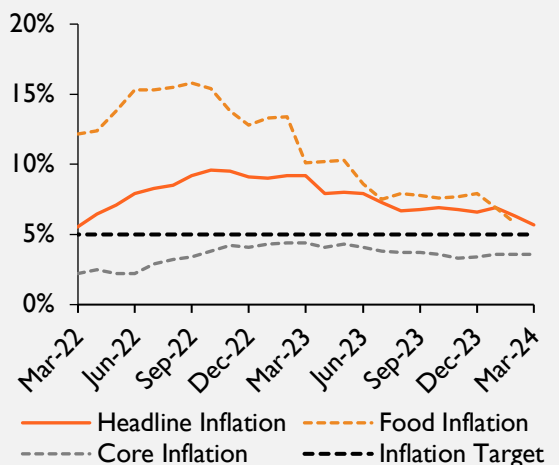
Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 3: Forex reserves



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

Chart 4: Inflation Rates



Source: KNBS, AIB-AXYS Africa Research

Macroeconomic Developments

The Global Market Pulse

On the international front, the US dollar strengthened **0.11%** against a basket of currencies during the week taking the YTD performance to **3.13%**. The shift is partly on account of the PCE data coming in line with expectations. The Fed maintained their stance on June rate cuts ahead of April 5th Non-Farm Payrolls report.

The yields on the 2-year US treasury paper rose 3bps to **4.63%** while the 10-year US treasury paper rose 1bps to **4.21%** following the PCE inflation data meeting expectations. The European Central Bank maintained commentaries on summer rate cuts.

Global oil prices recorded upward trends with Kenya's supplier UAE Murban increasing 240bps to close the week at **USD 87.33/barrel** while Brent Crude oil increased 184bps to close the week at **USD 87.00/barrel**. This is on account of expectations of tighter supply, OPEC+ production cuts and looming geopolitical tensions.

Table 2: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	104.55	104.43	▲ 0.1%
Murban Crude	87.33	85.28	▲ 2.4%
Brent Crude	87.00	85.43	▲ 1.8%
US 2Yr Yield	4.63%	4.60%	▲ 3 bps
US 10Yr Yield	4.21%	4.20%	▲ 0 bps

Source: Source: Bloomberg, Oilprices.com, AIB-AXYS Africa Research

MACROECONOMIC CALENDAR

Event	Date
Monetary Policy Committee Meeting	3 rd April 2024
Weekly CBK T-bill Auction	4 th April 2024
EPRA Fuel Prices Review	14 th April 2024
Closure of April 2024 Primary Bond Auction	17 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	February/24	13.0%	12.5%	▲ 50 bps
Stanbic Kenya PMI	February/24	51.3	49.8	▲ 1.5 pts
Private Sector Credit Growth	December/23	13.9%	13.2%	▲ 70 bps
Forex Reserves (USD M)	March/24	7,088	6,962	▲ 1.8%
Public Debt (KES Tn)	September/23	10.59	10.52	▲ 0.7%

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



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