



# WEEKLY FIXED INCOME NOTE



# AIB-AXYS Weekly Fixed Income Note

February 12<sup>th</sup>, 2024

## Key Highlights

- **Spot market treasury bills were substantially oversubscribed recording an accelerated subscription rate to 213.0% from 107.5% recorded the previous week.** Demand remained skewed to the shorter-term 91-day paper – which posted an **867.2%** 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 quoted time to maturity of **8.5 years**, with the coupon rate set to be market-determined. Bidding is set to close on 14<sup>th</sup> February 2024. Find out more in our [February 2024 Primary Bond Auction Note](#).
- **All spot market rates now trail above the 16.50% mark** – following the Monetary Policy Committee’s move to raise the benchmark rate by 50bps to 12.50% at their February 2024 meeting. The accepted average yields on the 91-day, 182-day and 364-day papers rose 12.9bps, 12.7bps and 17.7bps respectively.
- **Across the secondary bond market, the value of bonds traded decreased marginally by 1.1% to KES 22.43Bn** from KES 22.67Bn recorded a week prior. The 1-year yield surged the most by **18bps** while the 2-year yield eased **6 bps**. 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 significantly by 431bps w/w** – signaling buoyed investor sentiment following the recent opening of the conditional tender offer on the maturing 2024 bond buyback and the simultaneous new Eurobond issue by the Republic of Kenya.

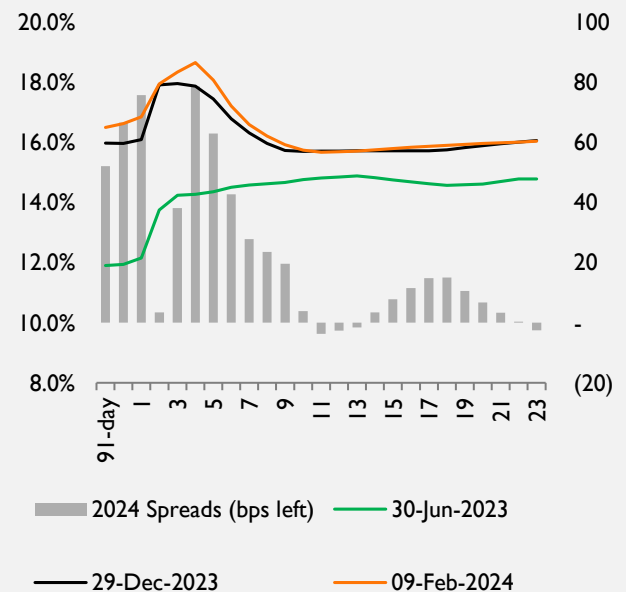
Table 1: Indicative Interest Rates

| Rate           | Current | Previous | w/w bps change | 2024 bps change |
|----------------|---------|----------|----------------|-----------------|
| 91-Day         | 16.50%  | 16.37%   | 12.9           | 62.1            |
| 182-Day        | 16.63%  | 16.51%   | 12.7           | 66.2            |
| 364-Day        | 16.86%  | 16.68%   | 17.7           | 95.6            |
| SOFR*          | 5.31%   | 5.32%    | -1.0           | -9.0            |
| Interbank Rate | 13.27%  | 13.39%   | -12.5          | -65.6           |

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 a second week, appreciating further by 30bps to KES 160.09 from KES 160.57 the previous week. On a YTD basis however, the shilling has depreciated 2.32% against the USD.

Official forex reserves also declined marginally by 4bps w/w to USD 7,131Mn (3.81 months of import cover) from USD 7,134Mn (3.81 months of import cover). The current reserves remain slightly below the CBK's statutory requirement of 4 months & below the EAC's convergence requirement of 4.5 months of import cover.

We expect the further 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.

### Monetary Policy Committee – February 2024 Convention

The Central Bank of Kenya's Monetary Policy Committee, in its first sitting of 2024, elected to raise the benchmark rate by 50bps to 13.00% to firmly anchor inflation expectations and mitigate exchange rate pressures.

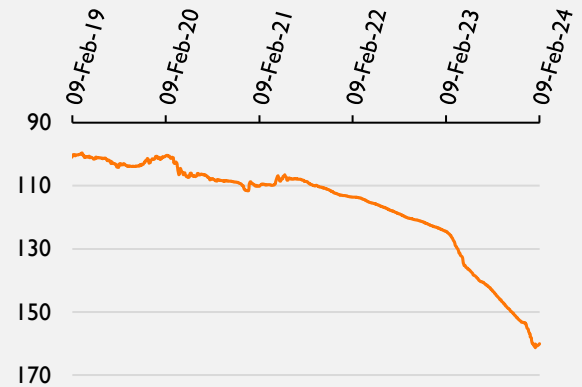
The Committee noted a deceleration in the banking sector's non-performing loan ratio to 14.8% in December 2023, down from 15.3% in October 2023. Real private sector credit growth however decelerated 170bps y/y to 8.3% in December 2023 – pointing to the impact of elevated interest rates on credit demand to the real economy.

### Stanbic Bank Kenya Purchasing Managers Index

According to the Stanbic Bank Kenya's Purchasing Managers Index, broad business sentiment edged closer to the expansion territory to stand at 49.8 in January 2024 from 48.8 a month prior. Readings above 50.0 point to an improvement in business conditions, while readings below 50.0 point to a deterioration.

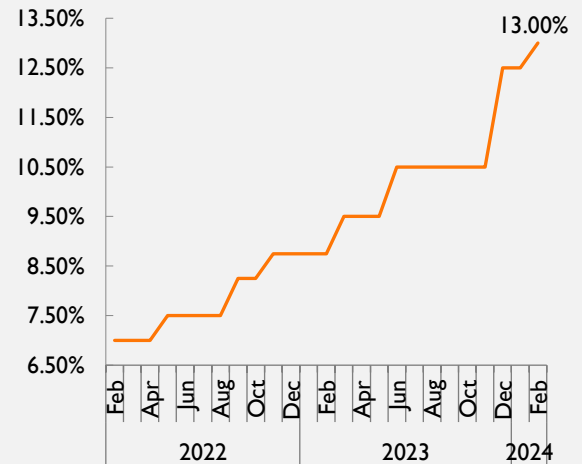
The improvement comes on the back of stabilizing consumer demand amid slower price increases over the period. Corporates also registered a notable uplift in staffing activities to ramp up production over coming months.

Chart 2: KES-USD Exchange Rate



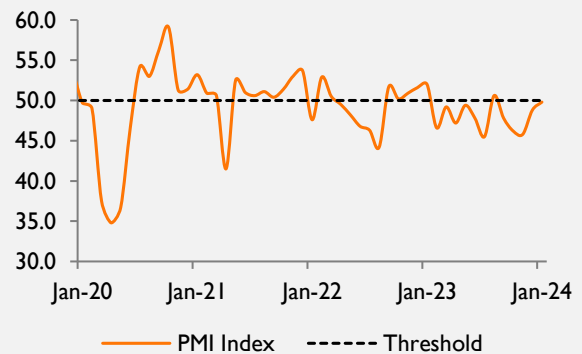
Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Chart 3: Central Bank Rate



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Chart 5: Stanbic PMI Trend



Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

**MACROECONOMIC CALENDAR**

| Macro Event                                   | Date                           |
|---|--------------------------------|
| EPRA Fuel Prices Review                       | 14 <sup>th</sup> February 2024 |
| Closure of February 2024 Primary Bond Auction | 14 <sup>th</sup> February 2024 |
| Closure date on Kenya's Eurobond Tender Offer | 14 <sup>th</sup> February 2024 |
| Weekly CBK T-bill Auction                     | 15 <sup>th</sup> February 2024 |
| February 2024 Inflation Data                  | 29 <sup>th</sup> February 2024 |

**Summary Macroeconomic Stats**

| Statistic                    | Updated as of: | Current | Previous | Δ         |
|------------------------------|----------------|---------|----------|-----------|
| GDP Growth                   | Q3 2023        | 5.9%    | 5.4%     | ▲ 50 bps  |
| Headline Inflation           | January-24     | 6.9%    | 6.6%     | ▲ 30 bps  |
| Central Bank Rate            | January-24     | 13.0%   | 12.5%    | ▲ 50 bps  |
| Stanbic Kenya PMI            | January-24     | 49.8    | 48.8     | ▲ 1.0 pts |
| Private Sector Credit Growth | December-23    | 13.9%   | 13.2%    | ▲ 70 bps  |
| Forex Reserves (USD M)       | January-24     | 6,814   | 6,612    | ▲ 3.1%    |
| 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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