Weekly Fixed Income Note

Week Ending: 06th January 2023

Key Highlights:

- T-bills were oversubscribed after two weeks of underperformance by recording an increased overall subscription rate of **131.65%** from **17.94%** recorded in the previous week. We attribute the overperformance to the return of normal business operations following the slow festive period. Investors continued to prefer the shorter-term 91-day paper for the 7th straight month with a 4.82x subscription rate compared to the least preferred 364-day paper at 44.83%. The Central Bank acceptance increased to 99.36% of the **KES 31.60Bn** amounting to **KES 31.39Bn.** Yields on all the papers are now firmly above 9.00% with the 91, 182, and 364-day papers gaining **2.00bps, 1.30bps,** and **6.10bps,** respectively.

- In the Primary market, the government is looking to raise KES 50.00Bn for budgetary support through the January duo issue of two reopened bonds. **FXD1/2020/005** and **FXD1/2022/015** with coupon rates at 11.67% and 13.94% respectively will have a bidding period ending on 10/01/2023. For further bidding guidance please see our Primary Auction Note.

- In the secondary market, the value of bonds traded decreased by **16.81%** to **KES 1.98Bn** from **KES 2.39Bn** recorded a week prior. The yield curve recorded a mix of flattening and steepening across the curve. The 1-year paper gained the most by **6bps** reflecting increased short-term risks.

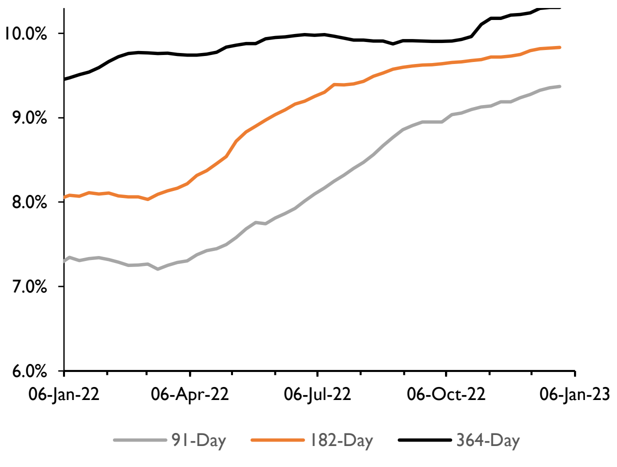
- In the international market, yields on Kenya's Eurobonds decreased by an average of 12bps indicating increased investor sentiment. We observed the 2024 Eurobond paper declined the most by 14bps highlighting the paper's sensitivity to market sentiments given that its maturity is less than 18 months away. The yields on the 10-year Eurobond for Ghana and Angola also declined.

We expect activity in the secondary market to pick up in the coming weeks following the conclusion of the festive period. As observed last year, we expect IFBs to drive the secondary market mainly due to their tax-free nature and higher real returns. Furthermore, we expect investors to continue preferring safer asset classes and demanding higher yields as compensation for the heightened risk of a global recession coupled with increased inflation.

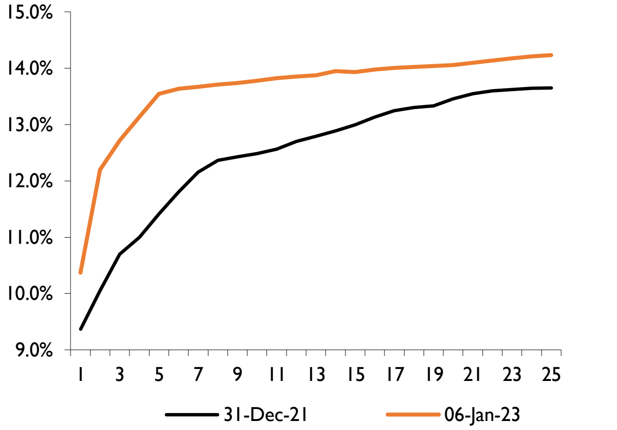
Key Indicators

	Current	Previous	w/w bps Change
91- Day	9.39%	9.37%	2.00
182-Day	9.85%	9.83%	1.30
364-Day	10.37%	10.31%	6.10
Interbank Rate	6.44%	7.31%	87.00

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **18bps** to cross the **KES 123.54** from **KES 123.33** the previous week. On a YTD basis, the shilling has depreciated 0.18% against the USD compared to 9.20% in 2022. The CBK's usable forex worsened albeit marginally closing the week at **USD 7,381Mn (4.13** Months of Import cover), a **79bps** week-on-week decrease from **USD 7,439Mn** (**4.17**months of import cover) recorded last week. **We expect the local currency to continue coming under pressure due to the increased dollar demand from energy importers on the back of the prevailing high global oil prices, and reduced dollar inflows from key export-earning sectors. Additionally, the depreciation is driven by the continued strengthening of the dollar against other currencies.**

Liquidity

Liquidity in the money market eased as shown by the average interbank rate decreasing 87bps to 6.44% from 7.31% recorded a week prior. We attribute the eased liquidity to government payments offsetting tax remittances. Open market operations also remained active within the week. During the week, the average number of interbank deals decreased to 29 from 38 the previous week, while the average value traded increased to KES 18.00Bn from KES 17.50Bn in the previous week. **We expect the interbank rate to remain above 5.00% levels in the coming week, mainly driven by monthly bank CRR cycle requirements. Additionally, we expect government payments to continue supporting inflows.**

Macro News Roundup

The private sector's economic outlook remained favorable as shown by the December Purchasing Managers Index (PMI) which increased to **51.60,** a three-month high, following the increase in November that saw the PMI at **50.90. We view the** consecutive increase in PMI as an indication of improved economic activity as seen by an increase in production output and increased sale volumes in sectors such as agriculture, manufacturing, wholesale, and retail. The improved PMI reading was driven by increased demand, favorable weather conditions and reduced inflationary pressures as output increased for a second consecutive month. The increase in new orders was also driven by growth in domestic demand. Additionally, employment expanded at the quickest pace since March 2022 despite exports growth declining. On a positive note, input costs declined driven by stable energy prices and lower labor costs even as output demand increased on account of lower inflation.

We expect a stable PMI reading above the 50.00 mark in the coming months following expected reduced inflationary pressures and improved business economic conditions. We expect continued stable economic growth driven by a better business environment as the economy recovers from global commodity shock prices and the prolonged drought. We expect headline inflation to remain under pressure and above the CBK's upper target in the short-term. We expect that the growth of credit in the private sector will prompt further private investment support economic growth.

Weekly Fixed Income Calendar

- **Treasury issues -** This week, the Central Bank of Kenya, as the government's fiscal agent, is in the market for **KES 24.00Bn** in T-bills.

	Macro event	Date l
1.	January T-Bonds Auction	10th January 2023
2.	Weekly T-Bills Auction	12th January 2023
3.	January Pump Prices Review	14th January 2023
4.	December Inflation Figures	31st January 2023

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