



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

Week #4 2024 – 22nd January 2024

Key Highlights:

- Spot market treasury bills were oversubscribed recording a decelerated subscription rate to **147.0%** from **241.5%** recorded the prior week. Demand remained skewed to the shorter-term 91-day paper – which posted a **639.0%** subscription rate. We attribute this performance to rising investor demand for short-duration papers as a hedge against prevailing market risks.
- All average rates on the 91-day and 364-day papers remain firmly above the 16.00% mark – following the Monetary Policy Committee’s move to raise the benchmark rate by 200bps to **12.5%** at their December 2023 meeting. The accepted average yields on all the papers edged above 16.20% mark with the 91, 182-day and 364-day papers climbing **8.9bps**, **11.3bps** and **10.0bps** respectively.
- The primary market the tap sales of the **FXDI/2024/003** and **FXDI/2023/005** were undersubscribed as total bids received of KES 11.76Bn fell below the advertised KES 15.0Bn. Demand was largely skewed to the **FXDI/2024/003** paper, which received bids totaling **KES 9.34Bn**. The allocated average yields on the FXDI/2024/003 and FXDI/2023/005 papers stood at **18.3854%** and **18.7697%** respectively.
- Across the secondary bond market, the value of bonds traded increased by **74.10%** to **KES 17.14Bn** from **KES 9.83Bn** recorded a week prior. The 9-year yield gained the most by **15bps** whereas the 23-year yield declined most by **6bps** over the week. We expect a steeper yield curve inversion at the short end.
- Over to the international scene, yields on Kenya’s 2024 Eurobond eased by **36bps** w/w – signaling improving investor sentiments driven by recent financial support from multilateral guarantors and the government’s drive towards fiscal consolidation. We observed the yields on longer dated papers ease in tandem, leading to a general cooldown of the sovereign yield curve.

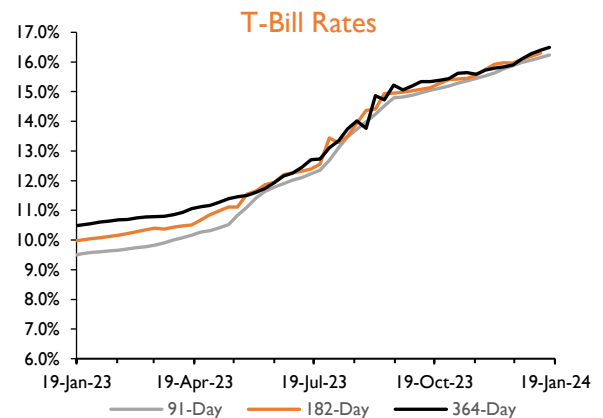
We anticipate increased secondary market activity in the week as attention shifts away from the closed primary market tap sale.

Key Indicators

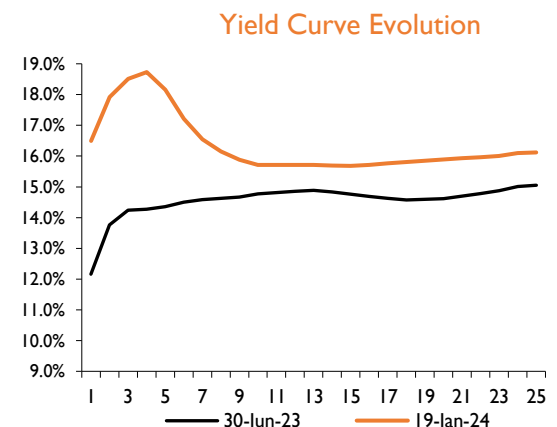
	Current	Previous	w/w bps change	2024 bps change
91- Day	16.23%	16.15%	8.9	35.2
182-Day	16.30%	16.19%	11.3	32.9
364-Day	16.49%	16.39%	10.0	59.1
SOFR*	5.31%	5.31%	0.0	(9.0)
Interbank Rate	13.65%	13.42%	22.7	(27.1)

* - Secured Overnight Financing Rate

Source: Central Bank of Kenya, US Fed, AIB-AXYS Research



Source: Central Bank of Kenya, AIB-AXYS Research



Source: Nairobi Securities Exchange, AIB-AXYS Research

MACROECONOMIC NEWS

Currency

The Kenya shilling shed further ground against the USD, depreciating **31bps** to **KES 160.35** from **KES 159.85** the previous week. On a YTD basis, the shilling has depreciated **2.48%** against the USD. The CBK's usable forex reserves fell by **22bps** w/w to **USD 6,814Mn** (3.60 months of import cover) from **USD 6,829Mn** (3.70 months of import cover). The current reserves remain below the CBK's statutory requirement (4 months) & below the EAC's convergence requirement (4.5 months) of import cover.

We expect the volatility on the local currency to ease – albeit marginally - due 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, coupled with the ballooning import bill poses downside risks for the shilling.

Liquidity

Liquidity conditions across the money market tightened as evidenced by the **23bps** rise in the average interbank rate to **13.65%** up from **13.42%** recorded a week prior. **We expect the interbank rate to trail closer towards upper corridor limit of 15.00% in the coming week, mainly driven by the recent +200bps benchmark rate tightening, and CBK's reclusive open market operations.**

IMF Sixth Review of the Extended Arrangements

During the week, the IMF announced the completion of the sixth review under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) totaling **USD 941.2Mn**. The completion allows Kenya to immediately access **USD 624.5Mn** (KES 99.32Bn). The funds are meant to restore market confidence while incorporating additional policy actions to reduce debt vulnerabilities, bolster Kenya's medium-term prospects by enhancing fiscal risk management, strengthening external buffers and improving the governance framework. The recent access brings Kenya's total ECF/EFF arrangement disbursements so far to about **USD 2.60Bn** (KES 416.91Bn).

The IMF additionally approved 20-month access under the Resilience and Sustainability (RSF) totaling **USD 60.2Mn** (KES 9.57Bn) to aid with efforts in building resilience to climate change. This brings the total ECF/EFF arrangement disbursement so far to about **USD 2.66Bn** (KES 426.5Bn). **We view the disbursements by the IMF as timely for Kenya in meeting balance of payment liquidity shortfalls. Additionally, we anticipate that the additional funding will uphold macroeconomic stability and safeguard Kenya's medium-term progress.**

Weekly Fixed Income Calendar

- **Treasury Issues** – On Thursday, 25th January 2024, the Central Bank of Kenya will be resuming the market for **KES 24.00Bn** in Treasury bills.

Macro event	Date
1. Weekly CBK T-Bill Auction	25 th January 2024
2. January 2024 Inflation Data	31 st January 2024

CONTACTS:

Research Desk

Ronny Chokaa
Senior Research Analyst

Stacy Makau
Research Analyst

Zainabu Monyani

Alex Sanja

Email: research@aib-axysafrica.com

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Anthony Muringi

Samuel Githinji

Sheema Shah

Samuel Wachira

Benson Ngugi

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Aundrina Musyoka

Kenneth Minjire

Email: trading@aib-axysafrica.com

Disclaimer

AIB-AXYS Africa and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication is intended solely for informational purposes and is not authorized for public distribution or use by the public media without prior and express written consent of AIB-AXYS Africa or AXYS Group. Redistribution or dissemination of this material, in whole or in part, is strictly prohibited and may lead to legal actions. By accessing this report, you acknowledge and agree to abide by these terms, ensuring the security and confidentiality of its contents.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by AIB-AXYS Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.