Weekly Fixed Income Note

Week ending: 15th July 2022

Key Highlights:

- T-bills were oversubscribed for the third straight week recording an overall subscription rate of **105.77%**, up from **102.46%** recorded in the previous week. The 91-day paper recorded the highest subscription rate at **329.78%** while the 182-day paper recorded the lowest rate at **50.88%.** The Central Bank accepted **99.77%** of the **KES 25.39Bn** worth of bids received. We do not expect pressure on the government's acceptance rate as it is still early in the fiscal year. However, prevailing short term risks presented by the general elections, elevated inflation, currency depreciation and global macro factors are likely to cause an upward yield pressure. Yields on the 91-day, 182-day and 364-day papers edged up **8.10bps**, **5.20bps** and **0.60bps** respectively.

- In the primary market, the government is in the market for **KES 40.00Bn** through reopened issue of **FXD2/2013/15** and **FXD2/2018/15**. Auction closes on 19/07/2022. We shall provide further bidding guidance through our primary auction note, later in the week.

- In the secondary market, the value of bonds traded decreased by **44.03%** to **KES 7.14Bn** from **KES 12.76Bn** recorded last week. The yield curve largely flattened across the curve with the 11-year paper losing most by **14.34bps** and 7-year paper gaining the most by **11.16bps**. In the international market, the yields on Kenya's Eurobonds increased by an average of **234.5bps** with the 2024 paper touching a high of 21.63% with less than 2 years to maturity. International oil prices edged down, during the week, with the Murban oil prices dropping **USD 101.30** per barrel on July 14, compared to **USD 105.40** per barrel on July 7.

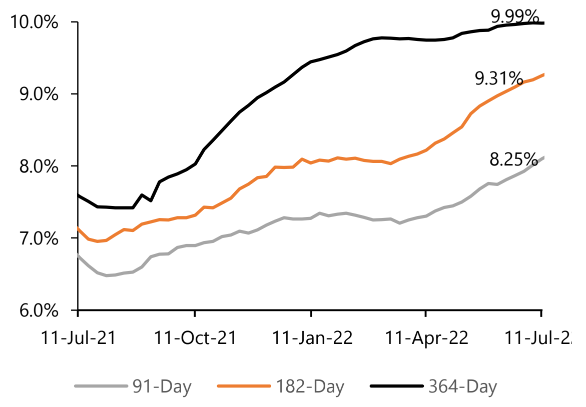
We expect activity in the secondary market to remain muted, as investors turn their attention to the fixed coupon bonds to be issued during the month. We foresee a sustained preference for long-term papers from investors, factoring in greater political and pandemic related risks.

Macroeconomic data	Current	Previous
GDP (Q1'22 vs. Q1'21)	6.80%	2.70%
Inflation (June)	7.90%	7.10%
Private Sector Credit Growth (Apr)	11.50%	9.10%

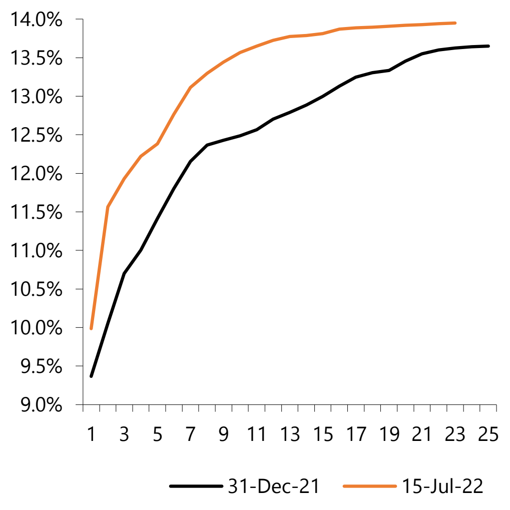
Key Indicators

	Current	Previous	bps
91- Day	8.25%	8.17%	8.10
182-Day	9.31%	9.25%	5.20
364-Day	9.99%	9.98%	0.60
Interbank Rate	5.60%	5.80%	20.00

T-Bill Rates



NSE Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling lost further ground against the USD, depreciating **0.12%** to trade at **KES 118.27** from **KES 118.07** at last week's close. On a YTD basis, the shilling has depreciated **4.53%** against the USD compared to **4.36%** in 2021. The CBK's usable forex reserves remained adequate at **USD 7,953Mn** (**4.59** months of import cover), a **1.02%** week-on-week decrease from **USD 7,997Mn (4.61** months of import cover) recorded last week. The CBK maintains that the current reserves are adequate to cover dollar demand in the market despite reports of acute dollar shortage from importers. **However, we expect the local currency to continue to remain under pressure due to the increasing dollar demand as global oil prices remain elevated on the back of higher import bill and reduced dollar inflows from key export earning sectors.**

Liquidity

Liquidity in the money market eased as shown by the average interbank rate which decreased to **5.60%** from **5.80%** recorded at the end of the previous week. Open market operations remained active. During the week, the average number of interbank deals remained relatively stable at 38 compared with 39 in the previous week, while the average value traded increased to **KES 25.50Bn** from **KES 20.10Bn** in the previous week. **We expect the interbank rate to not remain eased and edge up in the coming week, mainly driven by active open market operations.**

Monthly Fuel Review

During the week, the government announced an additional fuel subsidy amounting to **KES 16.68Bn** with the intention to cushion against a further pump price increase. The latest subsidy takes the total amount extended in the last twelve months to **KES 101.85 Bn** translating to an average of **KES 8.49Bn** per month. Hence, at the current rate the recent subsidy should cover two months of relief.

According to EPRA, the FOB price of Murban Oil decreased 7.17% to USD 104.48/barrel from USD 112.48/barrel in May'22. Meanwhile, the local currency depreciated 1.41% to trade at KES 118.53/USD in June'22 compared to KES 116.89/USD May'22. **Global oil prices have, during the week, shown signs of retreating to pre –Russia Ukraine war levels. Additionally, there was an announcement by Saudi Arabia to increase oil supply to match increased demand and further reduce prices. Therefore, we might see a gradual decline in local pump prices starting from the September review.**

Fuel	Prices (Exc Subsidy)	Prices (After Subsidy)	Difference
Super Petrol	209.78	159.12	(20.74%)
Diesel	193.70	140.00	(27.72%)
Kerosene	181.16	127.94	(29.38%)

Weekly Fixed Income Calendar

This week, the Central Bank of Kenya, as the government's fiscal agent, will seek to raise **KES 24.00Bn** in Treasury Bills and a further KES 40.00Bn in Treasury bonds.

	Macro event	Date
1.	July T- Bonds Auction	19th July 2022
2.	Weekly T-Bills Auction	20th July 2022
3.	July MPC Meeting	27th July 2022
4.	July Inflation Figures	29th July 2022

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