Weekly Fixed Income Note

Week Ending: 18th November 2022

Key Highlights:

- T-bills remained oversubscribed for the third week by recording an overall subscription rate of **170.84%** from **204.53%** recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper for the 21st straight week with a 4.06x subscription rate compared to the least preferred 364-day paper at 89.46%. We expect the oversubscription to persist in the coming weeks as the yields on all papers are on a race to the elusive 10% mark. The Central Bank acceptance declined to 73.38% of the **KES 41.00Bn** amounting to **KES 30.09Bn.** Yields on all the papers are now firmly above 9.00% with the 91, 182, 364–day papers gaining **5.20bps, 3.00bps,** and **7.20ps**, respectively.

- In the Primary market, the government is looking to raise an additional **KES 5.00Bn** for budgetary support through the opening of a tap sale on the recently issued IFB1/2022/14. The auction period is between 16th November and 22nd November. The Yield and coupon of the previous auction came in at **13.94%,** which is likely to continue driving the high demand on the paper in the secondary market.

- In the secondary market, the value of bonds traded increased by **15.35%** to **KES 14.15Bn** from **KES 12.26Bn** recorded last week. We believe the increase was largely driven by the increased demand for tax-free IFB papers given the rising inflation rate and the need to protect the real rate of return. The yield curve recorded a mix of flattening and steepening across the curve. The 9-year paper gained the most by **0.15bps** and the 4-year paper lost the most by **2.86bps**.

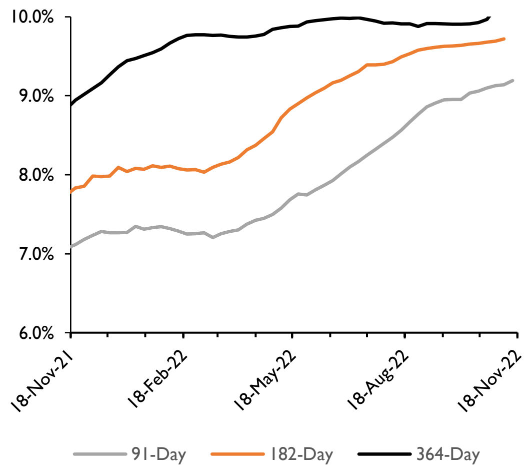
- In the international market, the yields on Kenyan Eurobond issues declined further for another week indicating improved investor sentiment. We observed the 2024 paper lost the most, by 132.0bps, highlighting the paper's sensitivity to market sentiments given that its maturity is less than 24 months away.

We expect activity in the secondary market to pick up in the coming week as investors who missed out on the primary issue seek the re-opened bond chasing for the high yield. Furthermore, we expect investors to continue preferring safer asset classes and demanding higher yields compensation for the heightened risk of a global recession coupled with increased inflation.

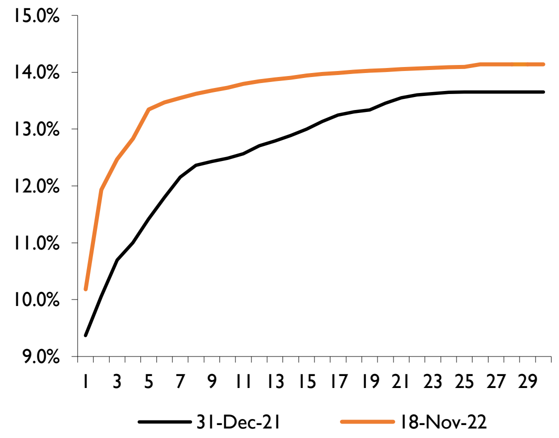
Key Indicators

	Current	Previous	w/w bps Change
91- Day	9.19%	9.14%	5.20
182-Day	9.72%	9.69%	3.00
364-Day	10.18%	10.11%	7.20
Interbank Rate	4.36	4.24%	12.00

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating 29bps to cross the KES 122.03 from KES 121.78 the previous week. On a YTD basis, the shilling has depreciated 7.86% against the USD compared to 4.36% in 2021, being higher than the 7.70% depreciation observed in 2020. The CBK's usable forex reserves remained adequate at **USD 7,191Mn** (**4.03** months of import cover), a **0.61%** week-on-week decrease from **USD 7,235Mn** (**4.05** months of import cover) recorded last week. **We expect the local currency to continue 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 as measured by the DXY index which has gained 12.01% YTD.**

Liquidity

Liquidity in the money market tightened as shown by the average interbank rate increasing 12bps to 4.36% from 4.24% recorded at the end of the previous week. We attribute the tightening liquidity to tax remittances outpacing government payments. Open market operations also remained active within the week. During the week, the average number of interbank deals increased to 26 from 19 in the previous week, while the average value traded increased to **KES 17.8Bn** from **KES 13.1Bn,** last week. **We expect the interbank rate to remain above 4.00% levels in the coming week, mainly driven by the clearing of the IFB issue which generated a lot of interest from investors. Additionally, the news of the release of several government payments is likely to support liquidity.**

Macro News Roundup

During the week, EPRA announced the maintenance of the fuel subsidy of KES 18.15 and KES 27.47 per litre for diesel and kerosene respectively. As such, the price of petrol declined by 0.55% to KES 178.30 while the prices of diesel and kerosene also declined by 1.21% and 0.68% respectively to KES 163.00 and KES146.94 respectively. The declines in diesel and Kerosene were facilitated by a cross-subsidization from a huge decline in petrol prices supporting the potential increase in both diesel and kerosene. EPRA reported that the FOB price of Murban crude oil declined by 9.84% to USD 105.96/barrel. Meanwhile, the local currency depreciated 2.69% to trade at KES 123.88/USD in September'22 compared to KES120.64/USD in August'22.

We expect the economic environment to continue improving, albeit at a slower pace, despite the IMF downgrading Kenya's GDP growth prospects for 2022 by 40bps to 5.30% from the previous 5.70%. Additionally, global oil prices remain elevated with OPEC+ members passing to cut daily oil supply by 2.00Mn barrels per day starting in November. As such, we foresee our prediction of lower local pump prices by the end of 2022 as likely to be delayed to Q1'2023. In our view, despite the decrease in fuel prices for the second month consecutively, inflation will remain above the upper CBK target range, in the short term.

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. Additionally, the apex bank will be receiving bids for a tap sale on the November T-Bond IFB paper looking to raise KES 5.00bn.

- **November MPC Meeting** – This week, the Central bank's MPC is set to hold the last meeting of the year where we expect the committee to hold the benchmark rate at the prevailing 8.25%. We believe that the inflation rise has moderated with the reducing fuel, electricity, and food prices and the recent hikes will be sufficient enough to anchor the current inflation.

	Macro event	Date
1.	IFB1/2022/14 – Tap sale	22nd November 2022
2.	November MPC Meeting	23rd November 2022
3.	Weekly T-Bills Auction	24th November 2022
4.	November Inflation Figures	30th November 2022

CONTACTS:

Research Desk

Solomon Kariuki
Research Analyst

Faith Sang
Research Analyst

Stacy Makau

Email: research@aib-axysafrica.com

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Email: trading@aib-axysafrica.com

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