Weekly Fixed Income Note

Week ending: 22nd April 2022

Key Highlights:

- T-bills were undersubscribed, during the week, recording an overall subscription rate of **98.90%** up from **48.56%** recorded the previous week. The 91-day paper recorded the highest subscription rate at **204.50%** while the 364-day paper recorded the lowest rate at **65.37%**. Investor preference towards the 3-month paper could signal the uncertainty surrounding the upcoming election season which is close to 100 days away. The Central Bank accepted **99.95%** of the **KES 23.73Bn** worth of bids received. Current fiscal year borrowing is **9.42%** ahead of the prorated target. Yields on the 91-day 182-day and 364-day papers edged up **2.4bps** and **5.8bps** and **1.0bps** respectively.

- In the primary market, **FXD1/2022/15** worth **KES 30Bn** was oversubscribed at **108.49%**, in line with our expectations, with the market average rate for all bids received within our recommended range at **13.984%**. The Central Bank accepted **84.92%** of the **KES 32.55Bn** worth of total bids received with the coupon rate coming in at **13.942%**.

- In the secondary market, the value of bonds traded decreased by **22.09%** to **KES 11.85Bn** from **KES 15.21** recorded last week. IFB1/2022/19 was the most traded paper. The yield curve steepened with the primary issue of the 15-year paper, skewing the curve. The 15-year old paper gained the most by **29.96bps** and accelerated yield growth for the 16—20-year papers. Conversely, the 11—14-year papers smoothened out with the 13-year paper losing the most by **14.81bps**. The FTSE Bond index closed the week at **94.79** taking the YTD loss to **1.32%.**

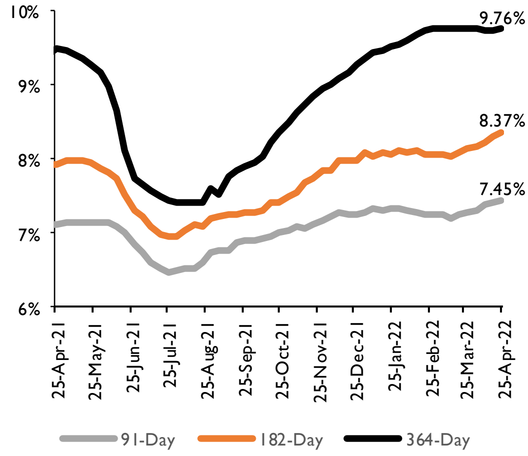
We expect activity in the secondary market to accelerate after the month's dual primary issues. The performance of the 3 and 15-year papers met our expectations, as investors preferred the longer-dated paper and made aggressive bids, seeking higher returns against increased local and global risks. We also anticipate government borrowing to accelerate as it draws closer to the end of the fiscal year bearing in mind heavy maturities in June.

Macroeconomic data	Current	Previous
GDP (3Q2021 vs. 2Q2021)	9.90%	10.10%
Inflation (March)	5.56%	5.08%
Private sector credit growth (Feb)	9.10%	8.60%
Money Supply Growth (November)	7.10%	7.30%

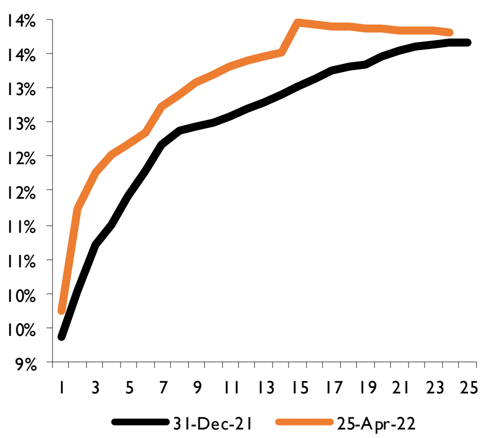
Key Indicators

	Current	Previous	bps
91- Day	7.45%	7.42%	2.40
182-Day	8.37%	8.32%	5.80
364-Day	9.76%	9.75%	1.00
Interbank Rate	4.52%	4.53%	(1.00)

T-Bill Rates



NSE Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling lost further ground against the USD, depreciating **0.14%** to trade at **115.60** from **115.49** at the close of last week. On a YTD basis, the shilling has depreciated **2.17%** against the USD compared to **3.64%** in 2021. The CBK's usable forex reserves currently stand at **USD 8,485Mn** (**5.04** months of import cover), a 2.43% week-on-week increase from **USD 8,284Mn** (**4.92** months of import cover) recorded last week. **We expect the local currency to remain under pressure due to increased dollar demand as global oil prices remain elevated while dollar receipts from key export earning sectors reduce and increased dollar demand from dividend paying counters. However, the forex reserves will be further supported by diaspora remittances.**

Liquidity

Liquidity in the money market eased, marginally, as shown by the average interbank rate which decreased to **4.52%** from **4.53%** recorded at the end of the previous week, partly attributable to the primary bond issue sapping liquidity from the market balanced by government payments during the week. **We foresee the interbank rate remaining near the region of 4.50% for the coming week, mainly driven by active open market operations and end of month obligations. However, we anticipate government expenditure to continue providing liquidity support.**

Global Outlook – Inflationary Pressure Concerns

The global energy crisis, due to the Russia—Ukraine war; China's suppression of the Covid-19 infection resurgence, and soaring inflation rates, especially in developed economies, are currently the biggest threats to the global economy. In a bid to tame the rising inflation, Central Banks are widely expected to raise their base lending rates, which may lead to the contraction of their economies; making it a difficult decision for policymakers as they seek to strike a balance between creating a conducive environment for economic revival and taming inflation amidst these global threats. The US and UK reported decades-high inflation rates of 8.50% and 7.00% respectively, in March. The US Federal Reserve is expected to raise its benchmark rates by 25bps, with the Bank of England, the European Central Bank and other Central Banks expected to follow suit. The following is a summary of selected countries' inflation rates and their Central Banks' decisions to tame inflation:

Country	Inflation Rate		Base Lending Rate	
	Feb 21/22	Mar 21/22	Decision	Current Rate
1. USA	7.90%	8.50%	25bps Hike	0.50%
2. UK	6.2.0%	7.00%	25bps Hike	0.75%
3. Ghana	15.70%	19.40%	250bps Hike	17.0%
4. Egypt	8.80%	10.50%	100bps Hike	9.25%
5. Rwanda	5.80%	7.50%	50bps Hike	5.00%
6. South Africa	5.70%	5.90%	50bps Hike	4.50%
7. Kenya	5.08%	5.56%	No change	7.00%
8. Uganda	3.20%	3.70%	No Change	6.50%
9. Tanzania	3.70%	3.60%	No Change	5.00%

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. The KNBS is expected to release the April Inflation figures on 30th April 2022, we expect the inflation rate to fall in the region of near 6.00% due to increased food and fuel prices.

	Macro event	Date
1.	Weekly T/Bill Auction	28th April 2022
2.	April Inflation Figures	30th April 2022

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