Weekly Fixed Income Note

Week Ending: 30th December 2022

Key Highlights:

- T-bills were undersubscribed for a second week straight by recording decreased overall subscription rate of **17.94%** from **69.97%** recorded in the previous week. We partly attribute the reduced performance to the festive period which reduced the number of bidding days and the tight liquidity towards the end of 2022. Investors continued to prefer the shorter-term 91-day paper for the 6th straight month with a 0.54x subscription rate compared to the least preferred 182-day paper at 4.35%. The Central Bank acceptance increased to 98.61% of the **KES 4.31Bn** amounting to **KES 4.25Bn.** Yields on all the papers are now in a race to cross the psychological 10.00% with the 91, 182-day papers gaining **0.10bps and 0.90bps,** respectively while the 364-day paper declined **0.20bps.**

- In the Primary market, the government is looking to raise KES 50.00Bn for budgetary support through a 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 between 14/12/2022-10/01/2023. We shall be issuing a bidding guidance later in the week.

- In the secondary market, the value of bonds traded decreased by **79.33%** to **KES 2.394Bn** from **KES 11.54Bn** recorded a week prior. The yield curve recorded a mix of flattening and steepening across the curve. The 20-year papers lost the most by **9bps.**

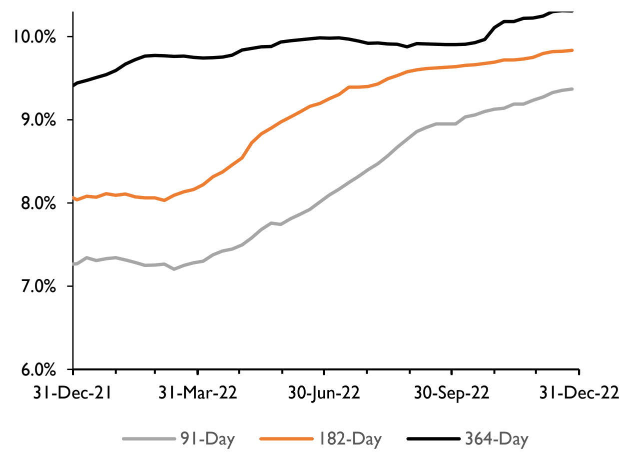
- In the international market, yields on Kenya's Eurobonds increased by an average of 2bps indicating reduced investor sentiment following the turn of events in Ghana. The proposed local debt restructuring in Ghana cast a dark shadow on the rest of SSA sovereign issues as debt sustainability concerns emerge. We observed the 2024 Eurobond paper increasing the most, by 24bps, highlighting the paper's sensitivity to market sentiments given that its maturity is less than 18 months away.

We expect activity in the secondary market continue slowing down this week owing to the tightened liquidity and following the festive season until mid January 2023. Furthermore, we expect local and international investors to continue preferring safer asset classes and demanding higher yields compensation for the heightened risk of a global recession coupled with increased inflation.

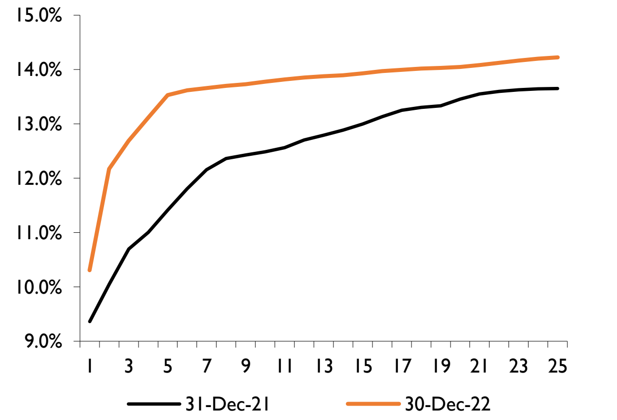
Key Indicators

	Current	Previous	w/w bps Change
91- Day	9.370%	9.369%	0.10
182-Day	9.834%	9.825%	0.90
364-Day	10.308%	10.310%	0.20
Interbank Rate	7.31%	6.49%	82.00

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **9bps** to cross the **KES 123.33** from **KES 123.21** the previous week. In 2022, the shilling depreciated by 9.04% against the USD which is double the 4.36% depreciation recorded in 2021. The CBK's usable forex declined closing the week at **USD 7,439Mn (4.17** Months of Import cover), a **130bps** w/w decrease from **USD 7,537Mn** (**4.22** months of import cover) recorded last week. We believe the marginal decline in the forex reserve is driven by government's drawdown following increased dollar demand despite the IMF facility disbursement. **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 tightened as shown by the average interbank rate increasing 82bps to 7.31% from 6.49% recorded a week prior. We attribute the tightened liquidity to tax remittances offsetting government payments. Open market operations also remained active within the week. During the week, the average number of interbank deals increased to 38 from 32 the previous week, while the average value traded decreased to KES 17.50Bn from KES 23.10Bn in the previous week. **We expect the interbank rate to remain above 5.00% levels in the coming week, mainly driven by end of month cashflow requirements. Additionally, we expect government disbursements as schools reopen and to counties to continue supporting inflows.**

Macro News Roundup

KNBS, during the week, released Q3 2022 economic growth figures which continued to display signs of economic recovery. Real GDP grew 4.70% compared to 9.30% that was recorder in the same quarter of 2021. The performance was mainly driven by growth in accommodation and food service activities (22.90%), wholesale and retail trade (9.10%) Professional, administrative and support services(8.70%), education (7.10%) and financial and insurance (5.30%). The ongoing severe drought led to the contraction of Agriculture sector by 0.60% which saw a decrease in vegetable exports. The decline in hydro power generation led to the contraction of the Electricity sector by 4.70%. We expect continued stable economic growth to be reported given a better business environment.

Inflation for the month of December decreased to 9.10% from 9.50% reported in the previous month, contrary to our expectations of an increase. The decline was attributable to easing food prices arising from seasonal factors and declining international food prices coupled with lower fuel prices. Food inflation decreased to 13.80% from 15.40% in November. Transport inflation increased to 13.00% from 11.70% in November attributed to increased bus fares during the festive season. Housing utility inflation increased to 6.20% from 6.10% in November attributed to increase in electricity prices. Core inflation(Non-food non-fuel inflation) decreased to 4.10% from 4.20% in November. The CPI increased 50bps to 128.99 from 128.31 in November.

We expect headline inflation to remain under pressure and above the CBK's upper target in the short-term. We expect improved food production following favorable weather and mandate to import grains duty free will increase supply, easing pressure on food inflation. We foresee continued stable economic growth driven by a better business environment as the economy recovers from global commodity shock prices, the prolonged drought and the just concluded elections. 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
1.	Weekly T-Bills Auction	5th January 2023
2.	January T-Bonds Auction	10th January 2023
3.	December Inflation Figures	31st January 2023

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