Weekly Fixed Income Note

Week Ending: 24th February 2023

Key Highlights:

- T-bills were undersubscribed after seven weeks of over performance by recording decreased overall subscription rate of 80.98% from 191.31% recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper for the 9th straight month with a 2.84x subscription rate compared to the least preferred 364-day paper at 36.68%. We partially attribute the undersubscription to investors having an eye on the lucrative Infrastructure Bond issue. However, expect an oversubscription in coming weeks as the yield on the 91-day paper is expected to get to the 10% barrier. Additionally, CBK's announcement of easier access to opening treasury securities trading accounts for investors is likely to see an increased interest. The Central Bank acceptance decreased to 96.97% of the **KES 19.43Bn** amounting to **KES 18.85Bn.** Yields on all the papers are now firmly above 9.00% with the 91, 182, and 364-day papers gaining **2.50bps, 3.70bps,** and **3.60bps,** respectively.

- In the Primary market, the government is looking to raise KES 50.00Bn through the issuance of an amortized Infrastructure Bond, IFB1/2023/17. The coupon rate will be market determined, with bidding running from 15/02/2023 to 07/03/2023. We shall be issuing a primary auction guide in the coming days.

- In the secondary market, the value of bonds traded decreased by **38.43%** to **KES 8.12Bn** from **KES 13.19Bn** recorded a week prior. The yield curve recorded a mix of flattening and steepening across the curve. The 1-year paper gained the most by **60bps** while the 5-year paper lost the most by **4bps.**

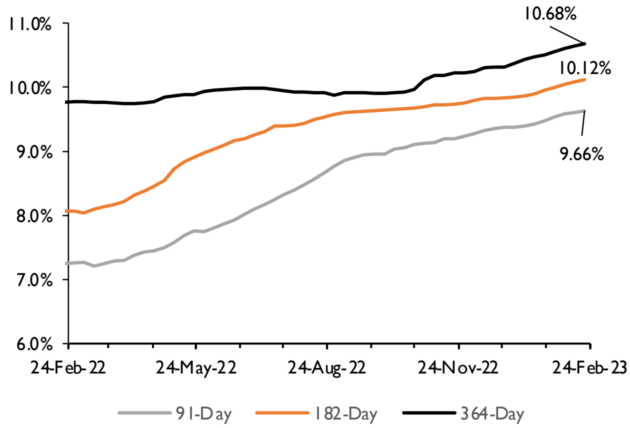
- In the international market, yields on Kenya's Eurobonds increased by an average of 16bps indicating decreased investor sentiment. We observed the 2024 Eurobond paper increased the most by 17bps highlighting the paper's sensitivity to market sentiments given that its maturity is less than 18 months away. The yields on the 10-year Eurobond for Ghana and Angola increased.

We expect activity in the secondary market to be driven by Feb T-bond issues but is likely to slow down given the IFB primary market issuance. In the coming T-Bill bidding sessions, we foresee investors testing CBK's resolve on accepting higher than 10.00% for a 91-day paper.

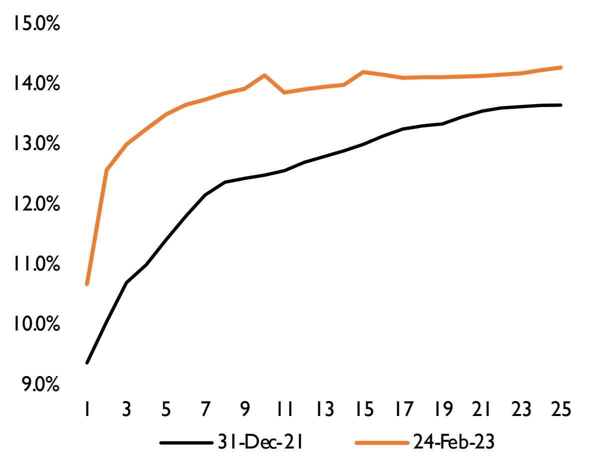
Key Indicators

	Current	Previous	w/w bps Change
91- Day	9.66%	9.63%	2.50
182-Day	10.12%	10.08%	3.70
364-Day	10.68%	10.64%	3.60
Interbank Rate	6.40%	6.22%	18.11

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **64bps** to **KES 126.42** from **KES 125.62** the previous week. On a YTD basis, the shilling has depreciated 11.74% against the USD compared to 0.35% in 2022. The CBK's usable forex was remained below the 4-month range closing the week at **USD 6,860Mn (3.84** Months of Import cover), a **22bps** week-on-week decrease from **USD 6,875Mn** (**3.84** months of import cover) recorded last week. **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 18bps to 6.40% from 6.22% recorded a week prior. We attribute the tightened liquidity to government payments offsetting tax remittances. Open market operations also remained active within the week. During the week, the average number of interbank deals decreased to 29 from 31 in the previous week, while the average value traded increased to KES 24.10Bn from KES 20.30Bn in the previous week. **We expect the interbank rate to remain above 6.00% levels in the coming week, mainly driven by remittance of monthly statutory deductions. Additionally, we expect government payments to continue supporting inflows.**

Global Markets Overview

During the week, S&P Global Ratings affirmed Kenya's B/B sovereign ratings while downgrading the outlook on Kenya to negative from stable. The outlook downgrade was informed by; prevailing difficult Eurobond issuance environment and elevated medium-term fiscal and external refinancing risks following tightness in the domestic debt markets. The agency also noted that pressure in the interbank foreign exchange market has worsened U.S. dollar shortages and further driving currency depreciation. This review adds to the Fitch rating downgrade earlier last month.

In the international front, the US dollar strengthened **0.67%,**the highest level in seven weeks, against other major currencies during the week taking the YTD performance to a **1.38** % strengthening. We attribute this to the Federal Reserve's aggressive monetary policy stance by raising interest rates to combat the high inflation. The dollar has recovered some of its year-to-date losses as a result of positive U.S. jobs statistics and the Federal reserves plans to continue increasing the interest rate. The Russia-Ukraine war marked one year as Brent crude oil prices increased closing the week at USD 82.75/barrel while Kenya's supplier UAE Murban increased closing the week at USD 83.61/barrel. The global oil prices increased slightly during the week on the back of expected decrease in Russian supplies.

We expect the shilling to come under more pressure as the dollar gains strength which will lead to the widening of the current account deficit as import costs rise. We anticipate that the rise in interest rates in developed markets will accelerate the current withdrawal of foreign investors from developing countries like Kenya, which will keep the shilling under pressure. With Murban crude prices increasing at last week's close, we expect local pump costs to continue to be impacted by worldwide prices which will continue to put pressure on headline inflation.

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.
- **February Inflation Expectation-** We expect February Inflation to come in between 8.80% -9.10% largely driven by decreased prices of basket of CPI commodities. We expect unchanged pump prices to have a positive base effect on the headline inflation.

	Macro event	Date
1.	February Inflation Figures	28th February 2023
2.	Weekly T-Bill Auction	3rd March 2023
3.	March T- Bond Auction	7th March 2023
4.	March Pump Prices Review	14th March 2023

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