



# Weekly Fixed Income Note Week ending: 06<sup>th</sup> May 2022

## Key Highlights:

- T-bills were undersubscribed, during the week, recording an overall subscription rate of **70.20%**, down from **117.83%** recorded in the previous week. The 91-day paper recorded the highest subscription rate at **131.32%** while the 182-day paper recorded the lowest rate at **37.16%**. Investor preference toward the 91-day paper could signal the uncertainty surrounding the upcoming elections in 92 days. The Central Bank accepted **100%** of the **KES 16.85Bn** worth of bids received. Current fiscal year borrowing is **2.80%** ahead of the prorated target. Yields on the 91-day, 182-day and 364-day papers edged up **8.3bps** and **8.4bps** and **6.4bps** respectively.
- In the primary market, the Central Bank is issuing a ten-year and reopened the 25-year fixed coupon bond, **FXDI/2022/10** and **FXDI/2021/25**, worth a total of **KES 60.00Bn**, which will be on sale until **10<sup>th</sup> May 2022**. The ten-year paper's coupon rate will be market-determined, while the 25-year paper's coupon rate is 13.924%. Bidding guidance will be provided in the Primary Auction Note.
- In the secondary market, the value of bonds traded decreased by **47.54%** to **KES 7.89Bn** from **KES 15.04Bn** recorded last week. **IFB1/2019/16** was the most traded paper. The yield curve flattened marginally with the three-year paper losing the most by **8.71bps**. The one-year paper gained the most by **8.50bps**, while the ten-year primary issue skewed the 8—10 year range causing moderate steepening. The FTSE Bond index closed the week at **94.83** taking the YTD loss to **1.28%**.

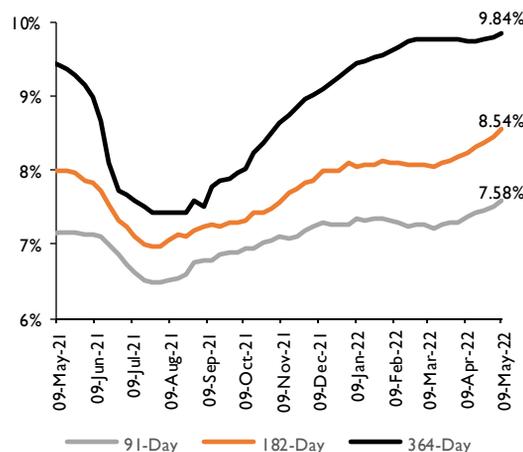
**We expect activity in the secondary market to remain dampened by the primary market issues of the mid-term and long-term bonds. We expect the trend of investors' preference for longer-dated papers to continue, with aggressive bidding reflecting increased global and local risk. With the end of the fiscal year approaching the government is under pressure to accept expensive bids and thus push the yield curve even higher.**

Macroeconomic data	Current	Previous
GDP (2021 vs. 2020)	7.50%	(0.30%)
Inflation (April)	6.47%	5.56%
Private Sector Credit Growth (Feb)	9.10%	8.80%
Money Supply Growth (Feb)	4.40%	4.70%

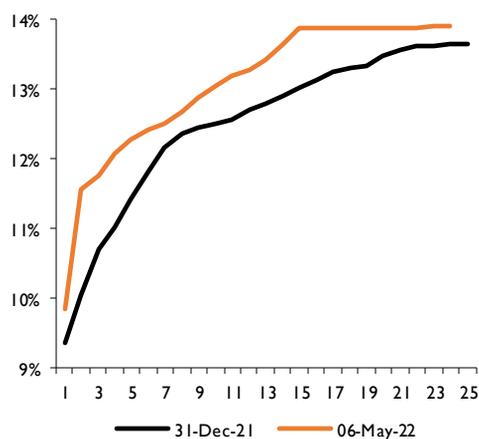
## Key Indicators

	Current	Previous	bps
91 - Day	7.58%	7.50%	8.30
182-Day	8.54%	8.46%	8.40
364-Day	9.84%	9.78%	6.40
Interbank Rate	4.80%	4.74%	6.00

## T-Bill Rates



## NSE Yield Curve



## MACROECONOMIC NEWS

### Currency

The Kenya shilling lost further ground against the USD, depreciating **0.20%** to trade at KES **116.00** from KES **115.77** at last week's close. On a YTD basis, the shilling has depreciated **2.53%** against the USD compared to **3.64%** in 2021. The CBK's usable forex reserves currently stand at **USD 8,401Mn** (**4.99** months of import cover), a 0.31% week-on-week decrease from **USD 8,427Mn** (**5.01** 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 tightened as shown by the average interbank rate which increased to **4.80%** from **4.74%** recorded at the end of the previous week, partly attributable to clearing of pending payments following the long weekend. **We foresee the interbank rate remaining below 5.00% for the coming week, mainly driven by active open market operations and anticipate that government expenditure will continue to provide liquidity support.**

### Economic Survey reveals GDP Growth

The Kenya National Bureau of Statistics released the annual Economic Survey 2022 report. The economic performance as measured by GDP growth increased by **7.50%**, the fastest in 11 years, compared to a contraction of **0.31%** in 2020, mainly supported by growth in non-agricultural activity. The economy experienced recovery in Financial and Insurance Services (**12.50%**), Commerce (**7.90%**), Transportation and Storage (**7.20%**), and Manufacturing (**6.90%**). Agricultural, Fishing and Forestry activities contracted by **0.19%** in 2021, compared to **5.20%** growth in 2020, due to uneven and erratic rainfall. **We anticipate decelerated economic growth, dampened by global threats- the war in Ukraine; the lagging effects of the pandemic's prevalence and soaring global prices of fuel, food and commodities; and local uncertainties, majorly the looming General Elections and unfavourable weather conditions.**

### Global Macros Watch

Taming soaring inflation is the top priority for developed economies. Consequently, the US Federal Reserve raised its benchmark rate by 50bps; the Bank of England by 25bps. **We anticipate this trend to hold as global fuel prices remain elevated, with Murban crude prices rising to USD 109.09/barrel from USD 104.63/barrel at last week's close; rising food and commodity prices threaten runaway inflation. The rate hikes are likely to spur further capital flight from emerging and frontier markets, including the local market, as foreign investors seek safety in developed markets. Similarly, the local currency is likely to come under increased pressure as the dollar strengthens, widening the current deficit account as the import bill increases.**

### Declining PMI points to slowed economic activity

The private sector's economic outlook remains bleak as shown by the Purchasing Managers' Index (PMI) which declined in April to **49.50** from **50.50** in May. Contraction of economic activity during the month was attributed to rising inflation, as the pump price of fuel and commodities rose, negatively affecting consumer demand and firms' output. **We expect that business confidence regarding future activity to drop in the coming months as we approach the General Elections and the global crises affecting fuel, food and commodity prices persist.**

### Weekly Fixed Income Calendar

This week, EPRA will revise pump fuel prices for the coming month on 14<sup>th</sup> May 2022. The Central Bank of Kenya, as the government's fiscal agent, will seek to raise **KES 24.00Bn** in Treasury Bills and **KES 60.00Bn** in Treasury Bonds.

	Macro event	Date
1.	May T/Bond Auction	11 <sup>th</sup> May 2022
2.	Weekly T/Bill Auction	12 <sup>th</sup> May 2022
3.	EPRA Monthly Fuel Review	14 <sup>th</sup> May 2022
4.	May Inflation Figures	31 <sup>st</sup> May 2022

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## CONTACTS:

**Research Desk**  
**Solomon Kariuki**  
Research Analyst

**Kevin Omondi**

**Email:** [research@aib-axysafrica.com](mailto:research@aib-axysafrica.com)

### Equities Dealing

**Bernard Kung'u**

**Benard Gichuru**

**Brian Tanui**

**Samuel Githinji**

**Sheema Shah**

**Samuel Wachira**

**Email:** [trading@aib-axysafrica.com](mailto:trading@aib-axysafrica.com)

### Bond Dealing

**Crispus Otieno**

**Titus Marenye**

**Email:**  
[trading@aib-axysafrica.com](mailto:trading@aib-axysafrica.com)

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