
# Weekly Fixed Income Note

Week Ending: 02nd September 2022

## Key Highlights:

- T-bills were oversubscribed after five straight weeks of underperformance by recording an improved overall subscription rate of **128.75%**, from **80.90%** recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper which had a 4x subscription compared to the least preferred 364-day paper at **34.12%.** The Central Bank accepted **68.42%** of the **KES 30.90Bn** worth of bids received despite having redemptions of **KES 26.98Bn**. The reduced acceptance rate points to the need to control the rising yields by rejecting expensive bids. We are likely to continue seeing a rejection of expensive yields and an under absorption at least until a new government is in place and they can start implementing their manifesto. Yields on the 91-day and 182-day edged up **9.30bps,** and **4.40bps,** respectively, while the 364-day papers declined **0.34bps.**

- In the Primary market, the government has re-opened two bonds; **FXD1/2022/10** and **FXD1/2022/15** with effective tenors of 9.60 and 14.50 years and coupon rates of 13.49% and 13.94%, respectively. We shall be issuing further guidance in our upcoming Primary Auction Note.

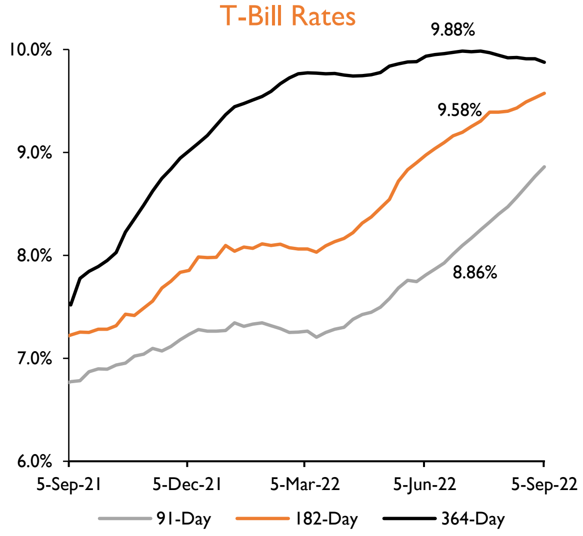
- In the secondary market, the value of bonds traded decreased by **15.18%** to **KES 16.47Bn** from **KES 19.40Bn** recorded last week. The yield curve largely steepened across the curve with the 5-year paper gaining most by **13bps** and the 1-year paper losing the most by **3bps**.

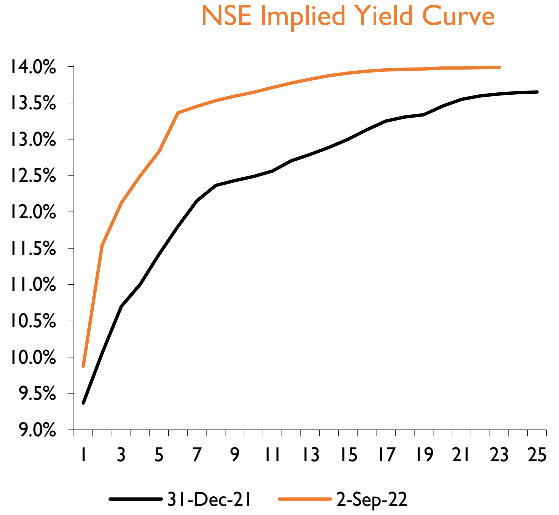
- In the international market, the yields on the Eurobonds increased apart from the 2032 paper which held constant as the 2024 paper rose the highest. Investors could likely be worried about the negative economic repercussions of the supreme court decision, later today. Murban oil prices declined to **USD 94.93** per barrel on 1st September, compared to **USD 101.89** per barrel on August 25. Oil prices edging higher is negative for the local pump prices, as we view the current subsidy as unsustainable and is likely to be terminated by end of 2022.

**We still expect activity in the secondary market to be driven by the outcome of the presidential petition, later today. Furthermore, we expect investors to continue preferring safer asset classes given the possibility of crystallization of the prevailing market risks.**

## Key Indicators

| | Current | Previous | w/w bps Change |
|---|---|---|---|
| 91- Day | 8.86% | 8.77% | 9.30 |
| 182-Day | 9.58% | 9.53% | 4.40 |
| 364-Day | 9.88% | 9.91% | 0.34 |
| Interbank Rate | 4.96% | 5.08% | 12.00 |



# MACROECONOMIC NEWS

## Currency

The Kenya shilling further lost ground against the USD, depreciating **0.18%** to trade at **KES 120.12** from **KES 119.91** the previous week. On a YTD basis, the shilling has depreciated **6.17%** against the USD compared to **4.36%** in 2021. The CBK's usable forex reserves remained adequate at **USD 7,375Mn** (**4.20** months of import cover), a **3.06%** week-on-week decrease from **USD 7,608Mn** (**4.39** 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.**

## Liquidity

Liquidity in the money market eased as shown by the average interbank rate which decreased to **4.96%** from **5.08%** recorded at the end of the previous week. We attribute the increased liquidity to government payments offsetting tax payments. Open market operations remained active. During the week, the average number of interbank deals decreased to 30 from 31 in the previous week, while the average value traded declined to **KES 15.01Bn** from **KES 21.73Bn**. **We expect the interbank rate to remain below the 5.00% levels in the coming week, mainly driven by continued government payments as county governments take shape.**

**August Inflation Edges Higher-** The inflation rate for the month of August increased to **8.50%** from **8.30%** recorded in July with the CPI index increasing to **125.58** in line with our expectations. Core inflation ( Non-food and non-fuel items) also increased to 3.20% from 2.90% in July. The food and non-alcoholic beverage index increased by 15.3% y/y (+0.50% m/m); the Furnishing and household maintenance index increased by **10.30%** y/y (+0.50% m/m), and the transport index increased by **7.60%** y/y (+0.30% m/m). On an m/m basis, the Alcohol and beverages index increased the most by 0.70% highlighting the effects of the recently increased taxes. Food inflation remained elevated due to unfavorable weather conditions, continued supply chain disruptions, and increased cost of farm inputs. KRA announced a 6.30% inflation adjustment increase on specific excisable goods and services starting from 01/10/2022.
**We expect the KRA adjustment to have a negative impact on inflation figures. We foresee the increased taxes being passed to the final consumer as some of the goods are a key component of the CPI basket of commodities. We remain concerned with the continuous increase in inflation with the current rate above the CBK target range of (2.5% - 7.5%) which is likely to influence MPC's decision later this month. Concerns persist in-regards-to the elevated global fuel prices which might harden the provision of the fuel subsidy exerting pressure on manufacturers' input costs which will be passed down to the consumer.**

## Weekly Fixed Income Calendar

- This week, the Central Bank of Kenya, as the government's fiscal agent, is in the market for KES 24.00Bn in T-bills issuances.
- The Supreme Court in Nairobi is today 05/09/2022 set to lend its decision on the consolidated petitions from presidential elections held on 09/08/2022. Despite having held peaceful polls, we might see pockets of discomfort given the Supreme Court decision over the presidential results petition. An upholding is likely to raise investor confidence as a return to normalcy will be in sight. On the other hand, nullification is likely to lead to a share price decline and investor sell-off as it presents another period of uncertainty. Historically, violence has been seen when an incumbent is seeking re-election than when there is a transition.

| | Macro event | Date |
|---|---|---|
| 1. | August PMI | 05th September 2022 |
| 2. | Weekly T-Bills Auction | 08th September 2022 |
| 3. | September T-Bond Auction | 13th September 2022 |
| 4. | September MPC Meeting | 29th September 2022 |

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