Weekly Fixed Income Note

Week Ending: 13th January 2023

Key Highlights:

- T-bills were oversubscribed for the second week running by recording a reduced overall subscription rate of **108.88%** from **131.65%** recorded in the previous week. We attribute the overperformance to the return of normal business operations following the slow festive period coupled with investor preference for short dated papers. Investors continued to prefer the shorter-term 91-day paper for the 7th straight month with a 3.92x subscription rate compared to the least preferred 364-day paper at 46.68%. The Central Bank acceptance increased to 99.94% of the **KES 26.13Bn** amounting to **KES 26.11Bn.** Yields on all the papers are now firmly above 9.00% with the 91, 182, and 364-day papers gaining **3.30bps, 1.20bps,** and **6.30bps,** respectively.

- In the Primary market, the reopened FXD1/2020/005 and FXD1/2022/015 were undersubscribed in line with our expectations. The under subscription was at 83.26%, with the CBK accepting KES 31.51 Bn being a 75.69% acceptance rate. We attribute the underperformance to the tightened liquidity in the money market and investor preference for short term papers as seen in the over subscription of T-Bill papers. The yield came in at 12.88% and 14.19% respectively, which is likely to increase the paper's demand in the secondary market.

- In the secondary market, the value of bonds traded increased by **499.64%** to **KES 11.90Bn** from **KES 1.98Bn** recorded a week prior. The yield curve recorded a mix of flattening and steepening across the curve. The 2-year paper gained the most by **6bps** reflecting increased short-term risks.

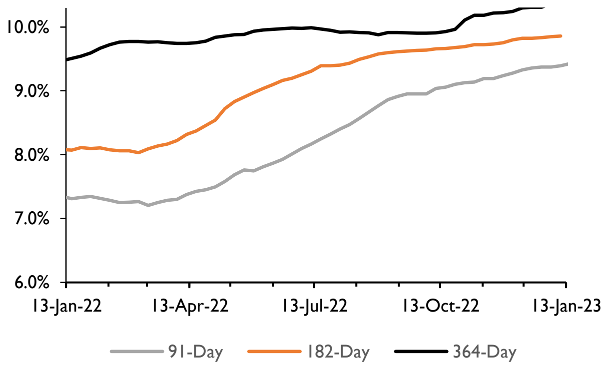
- In the international market, yields on Kenya's Eurobonds decreased by an average of 29bps indicating increased investor sentiment. We observed the 2024 Eurobond paper declined the most by 64bps highlighting the paper's sensitivity to market sentiments given that its maturity is less than 18 months away. The yields on the 10-year Eurobond for Ghana increased while that of Angola declined.

We expect the secondary market to remain active driven by IFBs and the higher yielding long term FXD papers. Furthermore, we expect investors to continue preferring safer asset classes and demanding higher yields as compensation for the heightened risk of a global recession coupled with increased inflation.

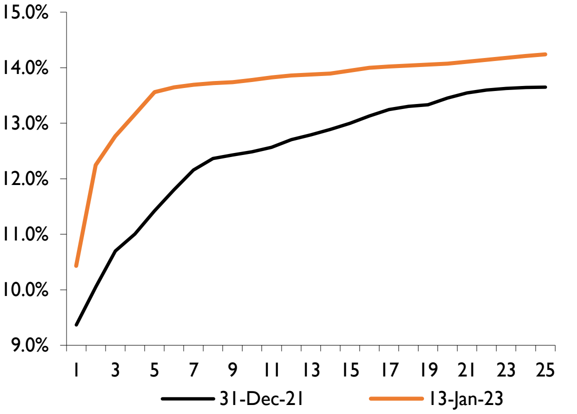
Key Indicators

	Current	Previous	w/w bps Change
91- Day	9.43%	9.39%	3.30
182-Day	9.86%	9.85%	1.20
364-Day	10.43%	10.37%	6.30
Interbank Rate	5.29%	6.44%	115.00

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **23bps** to cross the **KES 123.84** from **KES 123.54** the previous week. On a YTD basis, the shilling has depreciated 9.45% against the USD compared to 9.20% in 2022. The CBK's usable forex remained above the 4-month range closing the week at **USD 7,415Mn (4.15** Months of Import cover), a **46bps** week-on-week increase from **USD 7,381Mn** (**4.13**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 eased as shown by the average interbank rate decreasing 115bps to 5.29% from 6.44% recorded a week prior. We attribute the eased 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 28 from 29 in the previous week, while the average value traded increased to KES 19.00Bn from KES 18.00Bn in the previous week. **We expect the interbank rate to remain above 5.00% levels in the coming week, mainly driven by monthly bank CRR cycle requirements. Additionally, we expect government payments to continue supporting inflows.**

Macro News Roundup

The National treasury gazetted the statement of revenues and expenditures for the first half of FY22/23 where total revenues collected were KES 1,434.48Bn being 80.94% of prorated estimated collection of KES 1,772.30Bn. We observed an under collection in Tax revenues at KES 952.65Bn being 45.98% of the estimated collection of KES 2,071.92Bn and 91.96% of the prorated target of KES 1,035.91Bn. Recurrent expenditure, KES 550.57Bn, was below prorated estimates of KES 589.99Bn. We remain concerned with the lower allocation absorption of the development expenditure which came in at KES 121.75Bn being a 57.37% of the prorated estimate of KES 212.20Bn. However, we noted a lower absorption of domestic borrowing which came in at KES 253.96Bn being 48.82% of the prorated estimates.

During the week, EPRA the maintained the fuel prices constant for the next month despite a slight decline in the landing cost of the commodities. Petrol will retail at KES 177.30/litre, diesel will retail at KES 162.00/litre and kerosene will continue at KES 145.94 with the government maintaining a KES 25.13 subsidy per litre to cushion consumers from possible higher prices. Additionally, the energy regulator noted the price of diesel had been cross-subsidized with that of petrol . Cross-subsidization is when a marketer (Petrol) charges higher prices to a group of consumers in order to subsidize for another group (Diesel and Kerosene).

Given the tax collection trend KRA is likely to miss the FY22/23 collection targets given the tough business environment. However, efforts by KRA to fix revenue loss avenues through the introduction of new generation ETR machines and daily tax collection from betting firms are likely to boost tax collections. We expect the business environment to remain challenged for the second half of FY 22/23 as prevailing global commodity shocks continue to spill over locally and the local reduced rainfall reducing agricultural output.

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	19th January 2023
2.	January MPC Meeting	30th January 2023
3.	January Inflation Figures	31st January 2023

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