Weekly Fixed Income Note

Week Ending: 17th February 2023

Key Highlights:

- T-bills were oversubscribed for the sixth week by recording an overall subscription rate of 191.31% from 187.09% recorded in the previous week. We attribute the overperformance to investors continuing to see short term risks in the market. Investors continued to prefer the shorter-term 91-day paper for the 9th straight month with a 5.52x subscription rate compared to the least preferred 364-day paper at 62.98%. The Central Bank acceptance increased to 97.40% of the **KES 45.91Bn** amounting to **KES 44.72Bn.** The gap between the yields for all the papers has been shrinking in the last year. Furthermore, we observed that the yields on all the papers being on a race to be above the psychological 10.00% mark with the 91, 182, and 364-day papers gaining **2.20bps,3.70bps,**and **3.50bps,** 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. Tap sale results for FXD1/2017/010 & FXD1/2023/010 were impressive with an oversubscription raising KES 12.20Bn from the intended KES 10.0Bn.

- In the secondary market, the value of bonds traded increased by **28.89%** to **KES 13.20Bn** from **KES 10.24Bn** recorded a week prior. The yield curve recorded a mix of flattening and steepening across the curve. The 25-year paper gained the most by **8bps** while the 1-year paper lost the most by **52bps.** The rising yield curve is likely to encourage investors to place expensive bids in the primary market aided by increased short term risks.

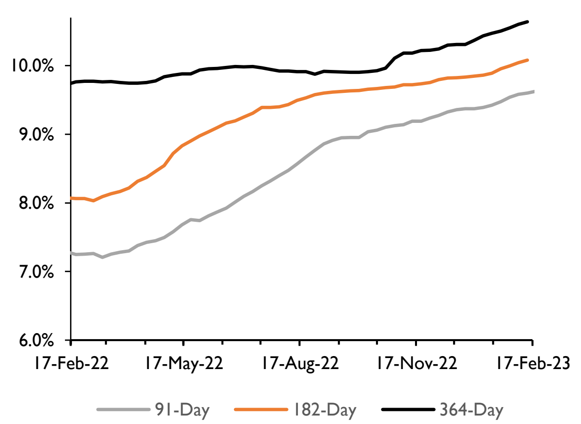
- In the international market, yields on Kenya's Eurobonds increased by an average of 36bps indicating decreased investor sentiment. We observed the 2024 Eurobond paper increased the most by 92bps highlighting the paper's sensitivity to market sentiments given that its maturity is less than 16 months away.

We expect activity in the secondary market to be driven by Feb T-bond issues but is likely to slowdown 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.

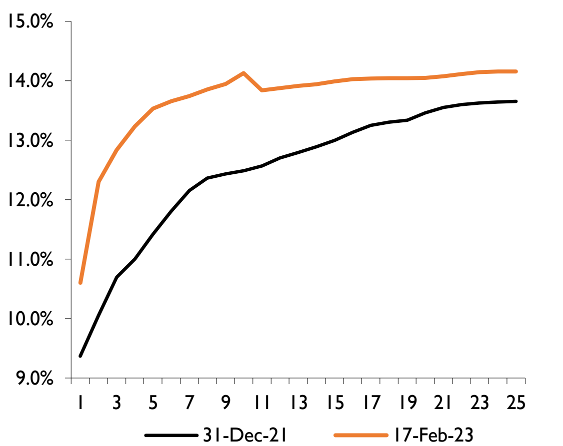
Key Indicators

	Current	Previous	w/w bps Change
91- Day	9.63%	9.60%	2.20
182-Day	10.08%	10.04%	3.70
364-Day	10.64%	10.60%	3.50
Interbank Rate	6.22%	6.50%	28.00

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **44bps** to **KES 125.63** from **KES 125.52** the previous week. On a YTD basis, the shilling has depreciated 1.86% against the USD compared to 9.20% in 2022. The CBK's usable forex fell further below the 4-month range closing the week at **USD 6,875Mn (3.84** Months of Import cover), a **99bps** week-on-week decrease from **USD 6,939Mn** (**3.88** 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 28bps to 6.22% from 6.50% recorded a week prior. We attribute the improved liquidity to government disbursements offsetting tax remittances. Open market operations also remained active within the week. During the week, the average number of interbank deals decreased to 31 from 34 in the previous week, while the average value traded increased to KES 20.30Bn from KES 27.90Bn 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.**

Macro News Roundup

During the week, EPRA maintained the fuel prices constant for the next month despite a 2.81% decline in the landing cost of murban crude at 90.90 USD from 93.53 USD recorded in December. We also noted a continued difference in the USD exchange rate from CBK's official quoted currency with the exchange rate coming in at KES 130.64//USD compared to the average CBK rate of KES 123.92/USD in January. As such, we attribute the difference in exchange rate to banks charging higher to access dollars owing to the continued dollar shortage as energy importers are key drivers of dollar demand.

Petrol will continue retailing at KES 177.30/litre, diesel at KES 162.00/litre and kerosene will continue at KES 145.94. Additionally, the price of diesel was cross subsidized with that of petrol while the government maintained a KES 19.41/litre subsidy on Kerosene. Cross-subsidization is when a marketer (Petrol) charges higher prices to a group of consumers in order to subsidize for another group (Diesel).

Events in the global arena are likely to continue affecting local oil prices. Sustained output limits, increased optimism of China's recovery increasing demand, and further hiking by the US FED, are expected to drive upside risk to global oil prices. In the last week, the USA announced plans to release 26Mn barrels from its strategic reserves in a move to maintain downward price pressure. We expect price changes to be reflected in the local pump prices with a global price decline the most favourable to the government as it reduced subsidy pressure.

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-Bill Auction	23rd February 2023
2.	February Inflation Figures	28th February 2023

CONTACTS:

Research Desk
Solomon Kariuki
Research Analyst

Faith Sang
Research Analyst

Lisa Koome

Email: research@aib-axysafrica.com

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Benson Ngugi

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Aundrina Musyoka

Kenneth Minjire

Email: trading@aib-axysafrica.com

Disclaimer

AIB-AXYS Africa and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB-AXYS Africa or AXYS Group. This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by AIB-AXYS Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.