



# Weekly Fixed Income Note

Week ending: 03<sup>rd</sup> June 2022

## Key Highlights:

- T-bills were undersubscribed, during the week, recording an overall subscription rate of **86.29%**, up from **54.42 %** recorded in the previous week. The 91-day paper recorded the highest subscription rate at **210.13%** while the 364-day paper recorded the lowest rate at **50.31%**. Investor preference towards the 91-day paper could signal the high risk perceived by investors surrounding the upcoming general elections that will take place before the 91-day paper matures. The Central Bank accepted **53.18%** of the **KES 20.71Bn** worth of bids received. Current fiscal year borrowing is **1.46%** behind the prorated target. Yields on the 91-day, 182-day and 364-day papers edged up **6.70bps**, **7.30bps** and **5.40bps** respectively.
- In the primary market, the government is looking to raise **KES 75.00Bn** through the sale of **IFB1/2022/18** for the purposes of funding infrastructural developments in final month of the current fiscal year. The coupon rate will be market determined with the period of sale been between **23/05/22** to **07/06/22**. We shall be giving a bidding guidance in our Primary auction note.
- In the secondary market, the value of bonds traded decreased by **24.90%** to **KES 10.64Bn** from **KES 14.17Bn** recorded last week. The yield curve steepened marginally but skewed in the 5 to 10 year paper with the five-year papers gaining the most by **27.89bps**. The eight-year paper lost the most by **19.20bps**. The FTSE Bond index closed the week at **94.55** taking the YTD loss to **2.31%**.

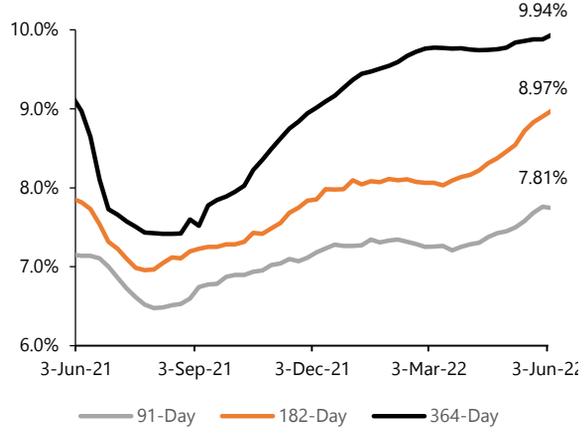
**We expect activity in the secondary market to cool off as investors eye the June IFB issue. We expect the issue to attract a huge interest given the prevailing high rates environment and the tax-free nature. Higher yields signal increased risk in the global and local environment, with increased activity on the 91-day paper, partly attributable to investors' pricing in greater uncertainty from the upcoming General Elections.**

Macroeconomic data	Current	Previous
GDP (2021 vs. 2020)	7.50%	(0.30%)
Inflation (May)	7.10%	6.47%
Private Sector Credit Growth (Apr)	11.50%	9.10%

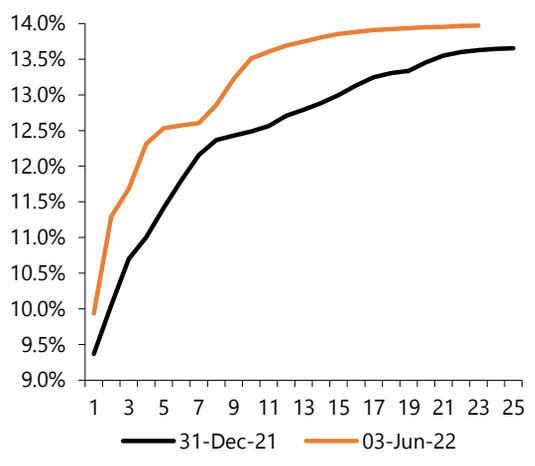
## Key Indicators

	Current	Previous	bps
91- Day	7.81%	7.74%	6.70
182-Day	8.97%	8.90%	7.30
364-Day	9.94%	9.88%	5.40
Interbank Rate	4.77%	4.57%	20.00

## T-Bill Rates



## NSE Yield Curve



## MACROECONOMIC NEWS

### Currency

The Kenya shilling lost further ground against the USD, depreciating **0.12%** to trade at KES **116.83** from KES **116.69** at last week's close. On a YTD basis, the shilling has depreciated **3.26%** against the USD compared to **3.64%** in 2021. The CBK's usable forex reserves remained adequate at **USD 8,219Mn (4.89 months of import cover)**, a 0.51% week-on-week increase from **USD 8,177Mn (4.86 months of import cover)** recorded last week. The forex reserves continue to meet CBK's statutory requirements of 4 months of import cover. **However, we expect the local currency to hit the KES 117 mark against the USD this week as a result of increasing dollar shortage as global oil prices remain elevated on the back of higher import bill and reduced dollar inflows from key export earning sectors.**

### Liquidity

Liquidity in the money market tightened as shown by the average interbank rate which increased to **4.77%** from **4.57%** recorded at the end of the previous week. The tightening in liquidity was supported by the increased tax remittances that more than offset the government payments. Open market operations remained active. **We foresee the interbank rate remaining below 5.00% for the coming week, mainly driven by active open market operations and anticipate that end-of-fiscal year government expenditure will continue to provide liquidity support.**

### May Inflation Figures

The inflation rate increased to **7.10%** in May from **6.47%** recorded in April with the CPI index increasing to **123.12** in line with our expectations. The inflation figures continue to remain within CBK target range of (5% +/- 2.5%). The food and non-alcoholic beverage index increased by 12.40% y/y; the housing and utilities index increased by 6.00% y/y and the price of electricity reduced by 8.00% y/y. Food inflation remained elevated due to unfavourable weather conditions, and continued supply chain disruptions. Concerns persist in regards to the rising global fuel prices which might deplete the fuel subsidy and exert pressure on the shilling. **We expect the already prevailing fuel shortage amid higher pump prices to exert pressure on all inflation indices. However, the recent waiver of import duty on maize, and subsidies on fertilizer prices are expected to continue to moderate domestic prices.**

### Monetary Policy Committee Meeting

The Monetary Policy Committee raised the CBR rate to **7.50%** after maintaining it at **7.00%** for the last 26 months. The committee noted that inflation expectations remain elevated due to increased global commodity prices and the ongoing supply chain disruptions and increased political activity concluding that there was scope for tightening of the monetary policy in order to anchor inflation expectations. The committee observed Growth in private sector credit increasing to 11.50% in April 2022, from 9.10% in February 2022 reflecting increased economic activities. We will continue to monitor various macroeconomic indicators before the next meeting in July.

### Weekly Fixed Income Calendar

This week, the Central Bank of Kenya, as the government's fiscal agent, will seek to raise KES 24.00Bn in Treasury Bills. The World Bank is expected to release the Kenya Economic update later in the week where we expect global factors, as well as, risks from the upcoming elections to contribute to a downgrade in economic

	Macro event	Date
1.	June IFB Issue – IFB1/2022/18	7 <sup>th</sup> June 2022
2.	Kenya World Bank Economic Update	7 <sup>th</sup> June 2022
3.	Weekly T-Bill Auction	9 <sup>th</sup> June 2022
4.	EPRA Monthly Fuel Review	14 <sup>th</sup> June 2022

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## CONTACTS:

### Research Desk

**Solomon Kariuki**

Research Analyst

**Agnes Mbuvi**

**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 Marenje**

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

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