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WEEKLY FIXED INCOME NOTE

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Weekly Fixed Income Note

Week Ending: 01st September 2023

Key Highlights:

- T-bills were undersubscribed for a second week recording an overall increased subscription rate of 96.56% from 95.80% recorded in the previous week. Investors continued to prefer the shorter-term 91-day paper with a 5.40x subscription rate. We attribute the performance to investors continuing to see short-term risks in the market. We expect continued preference toward the 91-day paper given the rising yields that were above the 182-day and 364-day papers. We continue to observe the difference between the yields on the three papers shrinking to within 10bps increasing the possibility of a yield curve inversion on the short end. The Central Bank acceptance rate increased to 99.66% of the **KES 23.18Bn** amounting to **KES 23.10Bn**.Yields on all the papers are now firmly above 13.00% with the 91, 182, and 364-day papers moving **25.19bps, 44.77ps,** and **(24.90)bps,** respectively.

- In the primary market, for the month of September the government is looking to raise KES 35.00Bn for budgetary support through the reopening of two bonds, FXD1/2023/2 and FXD1/2016/10. FXD1/2023/2 has a time to maturity of 1.9 years while FXD1/2016/10 has a time to maturity of 2.9 years. The coupon rate of FXD1/2023/2 will be 16.972% while that of FXD1/2016/10 will be 15.039% with bidding to close on 13th September 2023.We will be issuing further bidding guidance.

- In the secondary market, the value of bonds traded increased by 16.50% to **KES 9.52Bn** from **KES 8.18Bn** recorded a week prior. We attribute the increase to investors who missed out on the primary market tap sale. We observed a further steepening across the curve highlighting investors' demand for higher rates. As such, the 3-year paper gained the most by **220bps.** We continue to see a yield curve inversion in the short end section which is likely to spread across the curve depending on the maturity profile of upcoming primary issues.

- In the international market, yields on Kenya's Eurobonds increased by an average of 41bps indicating deteriorating investor sentiment on the long end following increased lack of confidence on the government's debt sustainability. We observed the 2024 Eurobond paper increasing by 103bps, highlighting the paper's sensitivity to market sentiments given that its maturity is less than 9 months away. We expect another week of higher yields on the 2024 paper that could point to worsening investor sentiment.

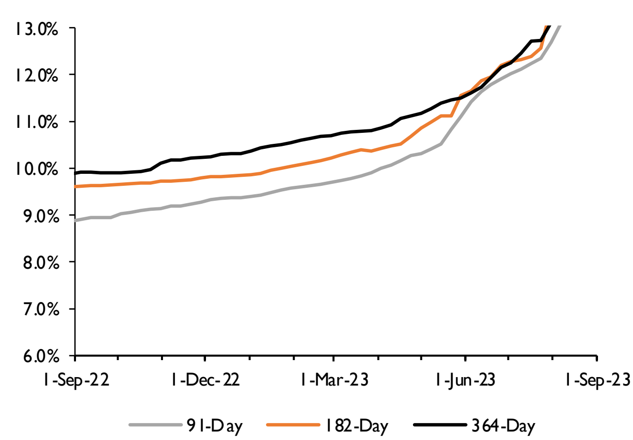
We expect activity in the secondary market to decrease driven by investors interest in the ongoing September T-Bond primary auction. We believe that the high frequency of tap sales is likely to continue having negative impact on the secondary market. Additionally, we expect marginal effects from the new Dhow CSD platform as investors are onboarded. In the coming T-Bond bidding sessions, we foresee investors testing CBK's resolve on accepting rates higher than 18.00% for short to mid tenor papers.

Key Indicators

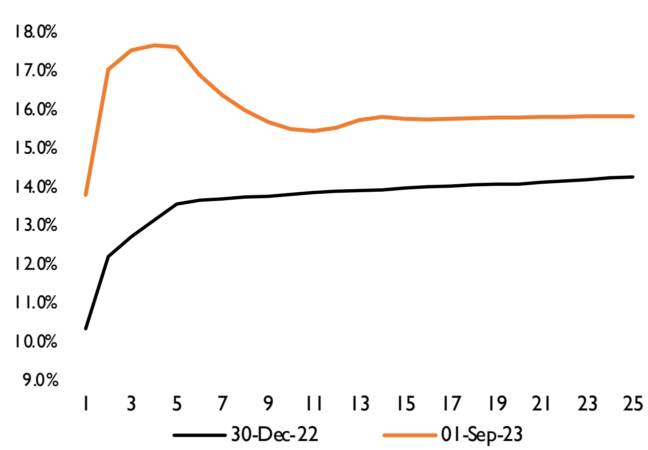
	Current	Previous	w/w bps Change	ytd bps Change
91- Day	13.99%	13.73%	25.19	461.51
182-Day	13.94%	13.49%	44.77	411.38
364-Day	13.77%	14.01%	(24.90)	345.50
SOFR	5.31%	5.30%	1.00	101.00
Interbank Rate	12.31%	11.92%	(39.10)	(590.45)

SOFR: Secured Overnight Financing Rate – Benchmark interest rate for dollar denominated securities.

T-Bill Rates



NSE Implied Yield Curve



MACROECONOMIC NEWS

Currency

The Kenya shilling further lost ground against the USD, depreciating **44bps** to **KES 145.50** from **KES 144.99** the previous week. On a YTD basis, the shilling has depreciated **17.98%** against the USD , depreciation exceeded the 9.04% depreciation recorded in 2022. The CBK's usable forex reserves decreased marginally remaining below the 4.00 months level to close last week at **USD 7,080Mn** (**3.83 Months** of Import Cover), a 103bps week-on-week decrease from **USD 7,153Mn** (**3.91 Months** of Import Cover), recorded last week. The current reserves are below the CBK's statutory requirement (4 Months) & below EAC Convergence requirement (4.5 Months) of import cover. **We expect the local currency to continue coming under pressure due to the increased dollar demand from importers on the back of the prevailing high global commodities prices, and reduced dollar inflows from key export-earning sectors. Additionally, the depreciation is driven by the continued strengthening of the dollar against emerging and frontier market currencies.**

Liquidity

Liquidity in the money market tightened as shown by the interbank rate increasing 39bps to 12.31% from 11.92% recorded a week prior. We partly attribute the tightening to statutory deductions and tax remittances outpacing government spending. Additionally, we suspect the implementation of new CBK system has had marginal effects in the interbank trading coupled with CBK's absence from open market operations. **We expect the interbank rate to remain above 9.00% levels in the coming week, mainly driven by the monthly bank's Cash Reserve Requirements, delayed government payments and CBK's open market operations.**

Global Markets Overview

During the week, the KNBS released August inflation figures which saw overall headline inflation decrease for the second successive month to **6.70%** from **7.30%** in July mainly driven by decreased food commodities prices. Inflation remains within CBK's target range of 2.50%-7.50%. Food inflation decreased to 7.50% from 8.60% in June, housing utilities decreased to 7.50% y/y while transport increased 13.10% y/y despite the maintenance of local pump prices. Non-Food-Non-Fuel (core inflation) decreased further to 3.70% from 3.80% in July. The CPI decreased by 10 bps to 134.02 from 134.15 in July.

We expect headline inflation to remain under pressure and within the CBK's upper target in the short-term. We expect that the economy will continue to be constrained by the high global commodity prices and prevailing inflationary pressures. In the near-term, we foresee business activity improving driven by better better agricultural production following the onset of short rains and benefits of the monetary tightening. However, we foresee global challenges including inflationary pressures, recessionary fears and geopolitical events likely to slow down economic growth and dampen the general business environment.

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	07th September 2023
2.	September T-Bond Auction	13th September 2023
3.	September Pump Prices Review	14th September 2023
4.	September Inflation Figures	30th September 2023

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