



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

July 15th, 2024

Key Highlights

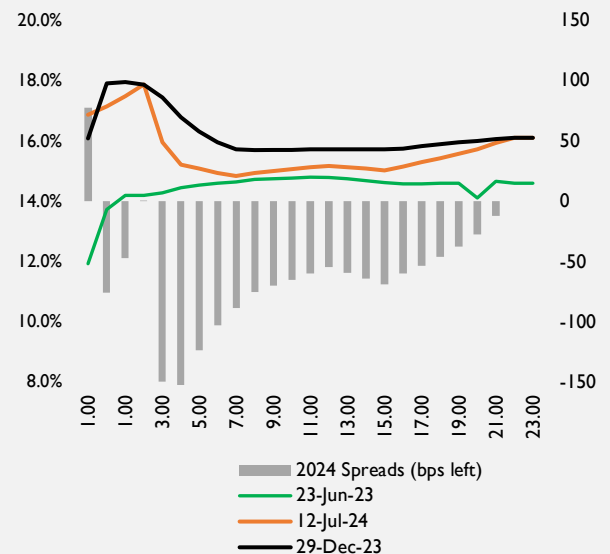
- **The latest treasury bill auction was oversubscribed, recording an accelerated subscription rate to 137.3% from 124.4% recorded the previous week.** Demand remained skewed to the 91-day paper – which received bids amounting to KES 14.59Bn. The **91-day treasury bill rate rose marginally to 15.995%**, while the accepted average yields on the 182-day and 364-day papers each climbed 2.7bps and 5.7bps to 16.822% and 16.880% respectively.
- **In the primary bond market, the government is seeking to raise KES 30.00Bn through the twin re-opening of FXDI/2024/10 (9.7 years) and the FXDI/2008/20 (3.9 years) earmarked for budgetary support.** The coupon rates are set at 16.0000% and 13.7500% respectively. Bidding is set to close on 17th July 2024.
- **Across the secondary bond market, the value of bonds traded increased 33.49% to KES 46.73Bn from KES 35.00Bn** recorded a week prior. The NSE Bond Index eased 73.2bps w/w to 1,033.53 points driven largely by a decline in the 9-year benchmark yields. The 5-year yield surged the most by 31.8bps w/w while the 9-year yield eased by 12.0bps w/w. We expect a progressive yield curve flattening at the short end of the curve.
- **Yields on the Kenya’s Eurobond papers showed resilience, with an average decrease of 36.4bps w/w, indicating improved investor sentiment.** Despite persistent selling activity throughout the week, driven by recent tax protests, we anticipate Kenya's international yields will stabilize and return to single-digit levels in the near term.

Table I: Indicative Fixed Income Stats

Rate	Current	Previous	w/w bps change	2024 bps change
91-Day	15.995%	15.987%	0.9	11.2
182-Day	16.822%	16.795%	2.7	85.1
364-Day	16.880%	16.823%	5.7	97.8
Interbank Rate	13.15%	13.28%	13.2	(77.2)
NSE Bond Index	1,033.53	1,041.15	73.2	300.69

Source: Central Bank of Kenya, Nairobi Securities Exchange

Chart I: Domestic Yield Curve Evolution



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

Macroeconomic Developments

Exchange Rate

The Kenya Shilling weakened marginally against the USD, depreciating by **61bps w/w** to **KES 129.26** from **KES 128.50** the week prior. This dragged the Shilling's YTD appreciation to **17.39%** against the USD.

Official forex reserves increased **156bps w/w** to **USD 7,896Mn** from **USD 7,775Mn**. The current reserves now offer about **4.0 months** of import cover – marginally below the EAC's convergence requirement of 4.5 months of import cover.

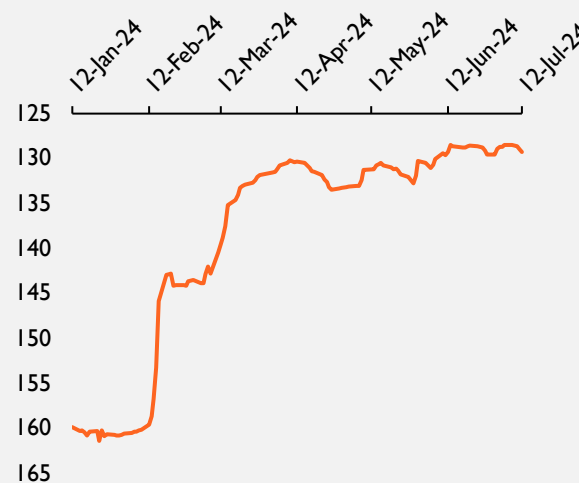
We expect range bound volatility on the Kenya shilling - owing to mixed expectations of the balance of payments deficit, and fiscal sustainability. We however expect portfolio dollar inflows and a recovery in Kenya's key exports to support a stable shilling. However, rising external debt-service commitments poses downside risks for the shilling.

Financial Year 2024-2025 Supplementary Budget I Estimates

The National Treasury and Planning released revised budget estimates via a Supplementary budget I of 2024/2025. This came following the President's refusal to assent to the Finance Bill 2024 – which contained additional revenue raising measures projected to raise an extra KES 344.3Bn. The Treasury revised its spending targets downwards by 3.1% translating to a KES 121.78Bn reduction in total expenditures.

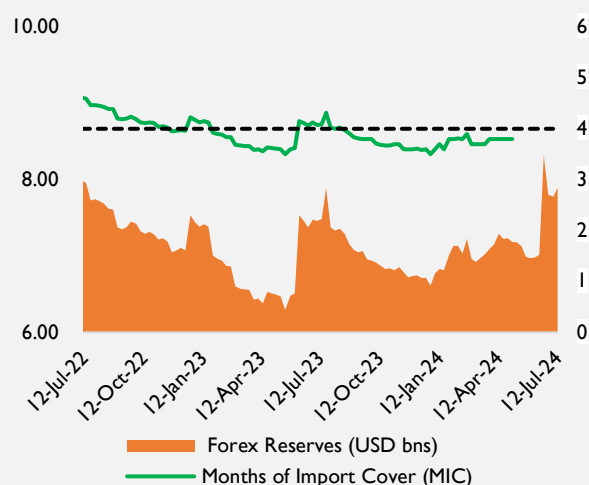
Development spending took the largest cut of up to 16.4% to KES 624.0Bn, down from KES 746.3Bn. Recurrent spending was trimmed by 2.1% to KES 1,598.1Bn. Consolidated Fund Services estimates rose 2.0% on account of projected increase in debt service expenses. The fiscal deficit inclusive of grants is projected to widen from the initial 3.3% of GDP to 3.6% of GDP.

Chart 2: KES-USD Exchange Rate



Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 3: Forex reserves (USD Bn)



Source: Central Bank of Kenya, AIB-AXYS Africa Research

In KES Millions	Ordinary Budget	Supplementary Estimates I	Variance	% Change
Ministerial Expenditure	2,378,432.5	2,222,033.8	(156,398.7)	▼ (6.6%)
Recurrent Estimates	1,632,096.6	1,598,049.1	(34,047.5)	▼ (2.1%)
Development Estimates	746,335.9	623,984.7	(122,351.2)	▼ (16.4%)
Consolidated Fund Services	1,213,453.2	1,237,233.8	23,780.6	▲ 2.0%
County Shareable Transfer	400,117.1	410,951.0	10,833.9	▲ 2.7%
Total	3,992,002.8	3,870,218.6	(121,784.2)	▼ (3.1%)

Macroeconomic Developments

Global Market Pulse

On the international front, the US dollar weakened by **0.7% w/w** against a basket of currencies. This in our view, was largely a correction of overpriced interest rate differentials to comparable hard currencies.

The yields on the 2-year and 10-year US treasury papers experienced decreases of **15bps** w/w and **10bps** respectively to settling at **4.45%** and **4.18%** respectively. This in our view reflects rising expectations of looming interest rate cuts over coming quarters.

Global crude oil prices recorded bearish trends with Kenya's supplier UAE Murban crude declining **2.1%** to close the week at **USD 84.75/barrel** while Brent Crude oil decreased **1.7%** to close the week at **USD 85.03/barrel**. Supply risks remain elevated on the back of prolonged geopolitical tensions in the Middle East, contributing to this bullish price trend.

Table 2: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	104.09	104.88	▼ (0.7%)
Murban Crude	84.75	86.60	▼ (2.1%)
Brent Crude	85.03	86.54	▼ (1.7%)
US 2Yr Yield	4.45%	4.60%	▼ (15 bps)
US 10Yr Yield	4.18%	4.28%	▼ (10 bps)

Source: Source: Bloomberg, Oil Prices.com, AIB-AXYS Africa Research

MACROECONOMIC CALENDAR

Event	Date
Closure of FXDI/2024/010 (Re-open) and FXDI/2008/02 (Re-open)	17 th July 2024
Weekly CBK T-bill Auction	18 th July 2024

Summary Macroeconomic Stats

Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	Q1 2024	5.0%	5.5%	▼ (50 bps)
Headline Inflation	June-24	4.6%	5.1%	▼ (50 bps)
Central Bank Rate	June-24	13.0%	13.0%	-
Stanbic Kenya PMI	June-24	47.2	51.8	▼ (4.6 pts)
Private Sector Credit Growth	April-24	6.6%	7.9%	▼ (130 bps)
Forex Reserves (USD M)	June-24	8,321	7,180	▲ 15.9%
Public Debt (KES Tn)	March-24	10.40	10.87	▼ (4.3%)

Source: CBK, KNBS, Stanbic Bank Kenya, AIB-AXYS Research



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