



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

July 1st, 2024

Key Highlights

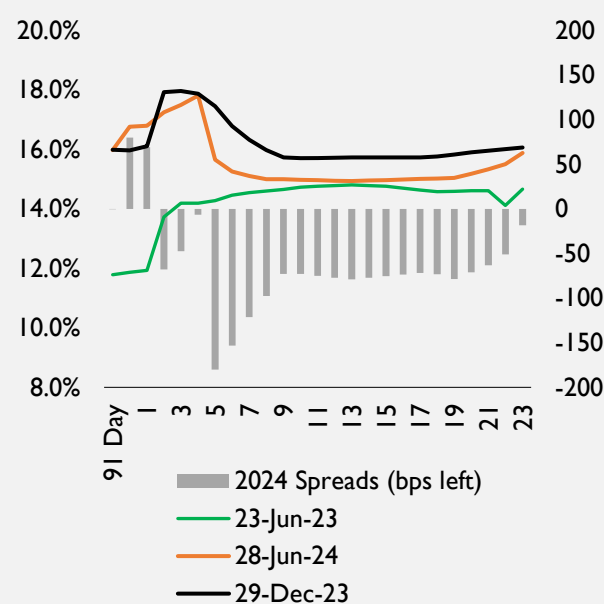
- **The latest treasury bill auction was largely undersubscribed, recording a declined subscription rate to 32.0% from 60.0% recorded the previous week.** Demand remained skewed to the 91-day paper – which received bids amounting to KES 4.36Bn. **The 91-day treasury bill rate rose marginally to 15.977%.** Meanwhile, the accepted average yields on the 182-day and 364-day papers lifted 2.6bps and 3.7bps respectively.
- **In the primary bond market, the government is seeking to raise KES 50.00Bn through the twin re-opening of the FXDI/2024/010 (9.7 years) and the FXDI/2008/020 (3.9 years) as well as the tap sale of the FXDI/2023/002 (1.2 years) - earmarked for budgetary support.** The coupon rates on the three papers are set at 16.0000%, 13.7500% and 16.9723% respectively. Bidding is set to close on 4th July for FXDI/2023/002 and 17th July for the FXDI/2024/010 and FXDI/208/020.
- **Across the secondary bond market, the value of bonds traded increased 47.2% w/w to KES 33.23Bn from KES 22.58Bn** recorded a week prior. **The NSE Bond Index climbed 0.3% w/w to 1,040.12 points** driven largely by a decline in 5-year benchmark yields. The 4-year yield surged the most by **60.7bps w/w** while the 6-year yield eased **29.3bps w/w**. We expect a progressive yield curve flattening at the short end of the curve.
- **Yields on the Kenya's Eurobond papers, edged higher towards caution, increasing by an average of 24.3bps w/w across all papers.** Notable selling activity persisted throughout the week, on the back of sustained tax protests in the country. We nevertheless expect Kenya's international yields to oscillate back towards the single-digit territory over the medium-term.

Table I: Indicative Fixed Income Stats

Rate	Current	Previous	w/w bps change	2024 bps change
91-Day	15.977%	15.972%	0.5	9.4
182-Day	16.764%	16.738%	2.6	79.2
364-Day	16.791%	16.755%	3.7	89.0
Interbank Rate	13.26%	13.07%	19.3	(66.4)
NSE Bond Index	1,040.12	1,037.33	26.9	366.4

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 **76bps w/w** to **KES 129.53** from **KES 128.55** the week prior. This dragged the Shilling's YTD appreciation to **17.21%** against the USD.

Official forex reserves decreased **6.3% w/w** to **USD 7,800Mn** from **USD 8,321Mn**. The current reserves now offer about **4.1 months** of import cover – marginally above the CBK's statutory requirement of 4 months but below the EAC's convergence requirement of 4.5 months of import cover.

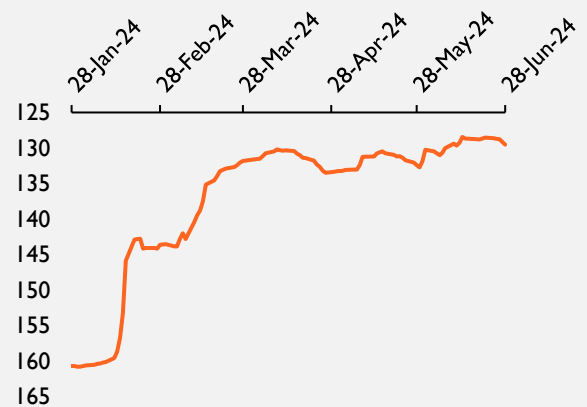
We expect range-bound volatility on the Kenya shilling - owing to mixed expectations of the balance of payments deficit, and fiscal sustainability. We however expect portfolio dollar inflows and a recovery in Kenya's key exports to support a stable shilling. However, rising external debt-service commitments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

Kenya Consumer Price Index Report - June 2024

Latest statistics from the Kenya National Bureau of Statistics indicate that the yearly headline inflation rate as measured by the Consumer Price Index (CPI) softened 50bps to 4.6% in June 2024 compared to 5.1% in the preceding month – pointing to the easing price pressures in the consumer economy. Food inflation rate similarly eased 60bps to 5.6% amid rebounded staple food supplies. Fuel inflation rate similarly decelerated 140bps to 6.4% grounded largely by cheaper electricity prices. Core inflation however held at 3.4% - pointing to stubborn price pressures that appear to stem from the services sector.

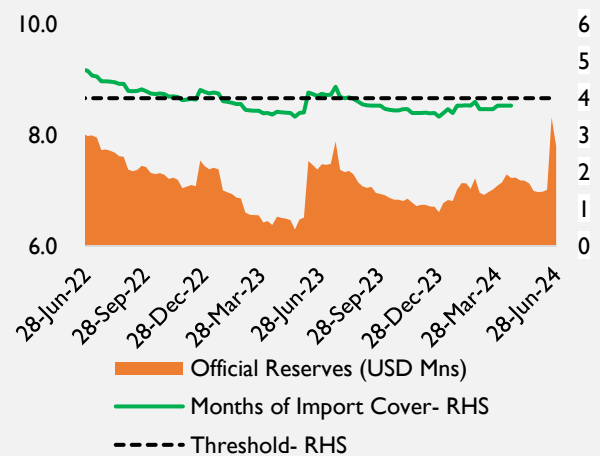
We anticipate this disinflationary trend will continue to support a recovery in consumer real spending power, stimulating stronger demand for goods and services over the second half of the year. Furthermore, we opine that softer price levels beyond this point should induce the Central Bank of Kenya to consider easing policy rates sooner to stimulate a revival private sector lending activity thereby accelerating the growth outlook.

Chart 2: KES-USD Exchange Rate



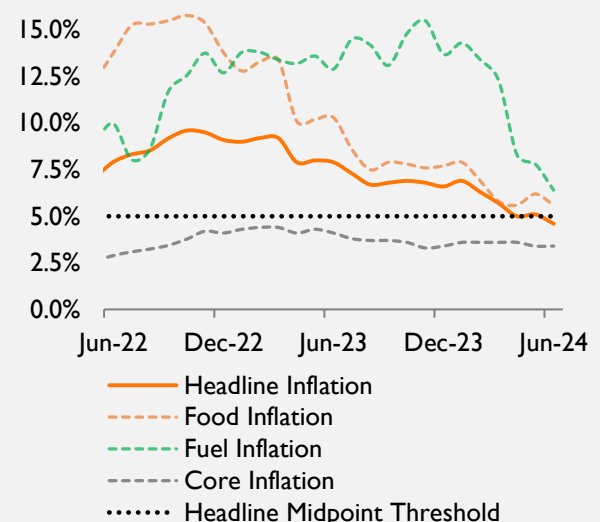
Source: Central Bank of Kenya, AIB-AXYS Africa Research

Chart 3: Forex reserves (USD Bn)



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

Chart 4: Inflation trends



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

Macroeconomic Developments

Global Market Pulse

On the international front, the US dollar maintained its position of relative strength against a basket of other hard currencies. This is largely due to favorable interest rate differentials with the European Union area following the European Central Bank’s decision to lower interest rates earlier last month.

The yields on the 2-year and 10-year US treasury papers experienced increases of **3bps** w/w and **15bps** respectively to settle at **4.77%** and **4.40%** respectively. This in our view reflects rising expectations of a *higher for longer* interest rate environment.

Global crude oil prices recorded mixed trends with Kenya's supplier UAE Murban crude rising 0.6% to close the week at **USD 85.09/barrel** while Brent Crude oil decreased 0.3% to close the week at **USD 85.00/barrel**. Supply risks remain elevated on the back of prolonged geopolitical tensions in the Middle East.

Table 2: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	105.85	105.83	▲ 0.0%
Murban Crude	85.09	84.61	▲ 0.6%
Brent Crude	85.00	85.24	▼ (0.3%)
US 2Yr Yield	4.77%	4.74%	▲ 3 bps
US 10Yr Yield	4.40%	4.26%	▲ 15 bps

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

MACROECONOMIC CALENDAR

Event	Date
Weekly CBK T-bill Auction	4 th July 2024
Closure of FXDI/2023/002 Tap Sale	4 th July 2024
Closure of the Re-opened FXDI/2024/010 & FXDI/2008/020	17 th July 2024

Summary Macroeconomic Stats

Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	2023	5.6%	4.9%	▲ 70 bps
Headline Inflation	June-24	4.6%	5.1%	▼ (50 bps)
Central Bank Rate	June-24	13.0%	13.0%	-
Stanbic Kenya PMI	May-24	51.8	50.1	▲ 1.7 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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