



WEEKLY FIXED INCOME NOTE



AIB-AXYS Weekly Fixed Income Note

June 24th, 2024

Key Highlights

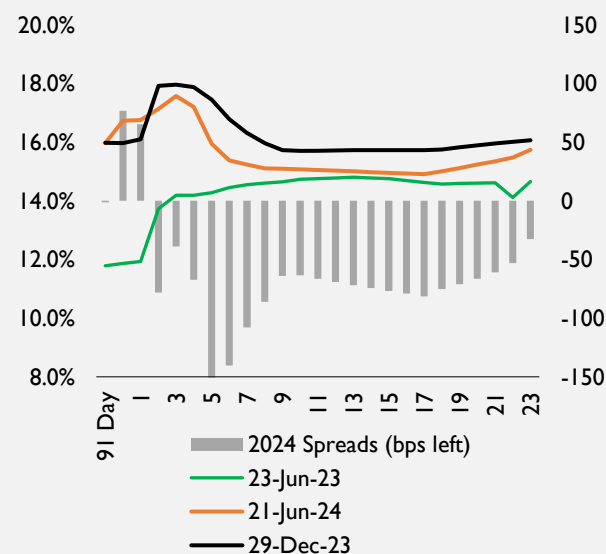
- **Treasury bills auction was largely undersubscribed, recording a declined subscription rate to 60.0% from 94.7% recorded the previous week.** Demand remained skewed to the 91-day paper – which received bids amounting to KES 5.92Bn. **91- day Treasury Bill rate declined marginally downtick to 15.972%.** Meanwhile, the accepted average yields on the 182-day and 364-day papers lifted 3.8bps and 0.1bps respectively.
- **In the primary bond market, the tap-sale auction of the FXDI/2023/002, FXDI/2024/003, FXDI/2023/005 and FXDI/2023/010 papers were broadly oversubscribed clocking an aggregate subscription rate of 119.3%.** Out of the KES 20.0Bn, advertised, the CBK accepted up to KES 23.86Bn. The allocated average rate on accepted bids stood at 17.1225%, 17.5862%, 18.1645% and 16.3924% for the 2-year, 3-year, 5-year and 10-year papers respectively.
- **Across the secondary bond market, the value of bonds traded increased 8.27% w/w to KES 22.58Bn from KES 20.86Bn** recorded a week prior. The NSE Bond Index rallied 2.5% w/w to 1,037.33 points driven largely by a decline in 5-year bond yields. The 13-year yield surged the most by **33.6bps w/w** while the 6-year yield eased **165.8bps 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, albeit with investor sentiment leaning towards caution, increasing by an average of 40.2bps w/w.** Notable selling activity was noted throughout the week, on the back of ongoing tax protests in the country. We expect Kenya’s international yields to remain relatively stable, oscillating 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	15.972%	15.972%	(0.0)	8.9
182-Day	16.738%	16.700%	3.8	76.3
364-Day	16.755%	16.754%	0.1	85.3
Interbank Rate	13.07%	13.04%	2.4	(85.7)
NSE Bond Index	1,037.33	1,012.33	247.0	338.6

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 strengthened marginally against the USD, appreciating by **8bps w/w** to **KES 128.55** from **KES 128.66** the week prior. This lifted the Shilling’s YTD appreciation to **17.84%** against the USD.

Official forex reserves increased **1,867bps w/w** to **USD 8,321 Mn** from **USD 7,012Mn**. The current reserves now offer about **4.3 months** of import cover – marginally below the CBK’s statutory requirement of 4 months & below the EAC’s convergence requirement of 4.5 months of import cover.

We expect range bound volatility on the Kenya shilling - owing to a 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.

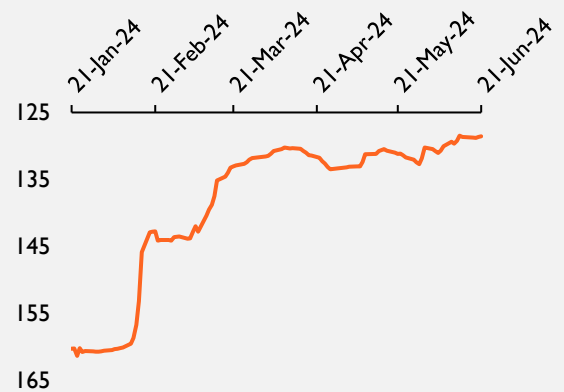
World Bank’s Development Policy Operation

Kenya’s official stock of forex reserves lifted to USD 8.32Bn on the back of the receipt of World Bank’s Development Policy Operation (DPO) financing. This marks the first of a series of three operations with the objectives of supporting Kenya’s policy and institutional reforms to promote efficiency and equity of public finance; foster more competitive product and labor markets; as well as strengthening climate action.

This DPO instalment of USD 1.2 billion is financed by IBRD and IDA (including the Window for Refugees and Host Communities), supports the ambitious reform agenda of the Government of Kenya ‘to drive transformational change’. Some of the agreed key performance indicators include the reduction of the proportion of the wage bill as a percentage of revenue from the current 47% to 35% by 2027. It also includes targeted reforms to declarations of personal interest by public officials as well as reforms to procurement processes by ministries, departments and agencies by 2027.

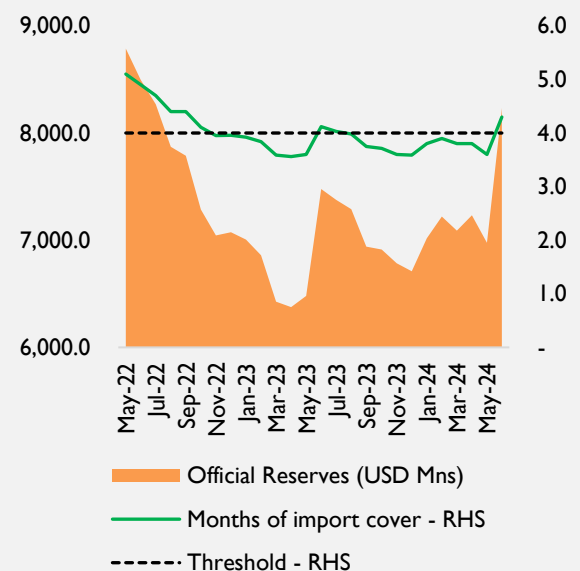
The financing comes at a time when Kenya is about to settle the remaining USD 556Mn portion of the 2024 Eurobond Notes which are due for settlement today. Kenya refinanced the larger portion of the USD 2Bn Eurobond Notes earlier in February this year – settling up to USD 1.44Bn of the Notes due.

Chart 2: KES-USD Exchange Rate



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

Chart 3: Forex reserves



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

Table 2: World Bank Financing

World Bank Group Financing	USD 'Mn'
International Bank for Reconstruction and Development (IBRD)	850.0
International Development Association (IDA)	
IDA Credit	300.0
IDA Grant	50.0
Total Financing	1,200.0

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

Macroeconomic Developments

Global Market Pulse

On the international front, the US dollar strengthened by **0.2% w/w** against a basket of 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 in the month.

The yields on the 2-year and 10-year US treasury papers experienced increases of **3bps w/w** each to settling at **4.74%** and **4.26%** 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 2.8% to close the week at **USD 84.61/barrel** while Brent Crude oil increased 2.9% to close the week at **USD 85.24/barrel**. Supply risks remain elevated on the back of prolonged geopolitical tensions in the Middle East, contributing to this bullish price trend.

Table 3: Specific Global Prices

Statistic	Current Wk	Previous Wk	Δ
DXY Index	105.83	105.60	▲ 0.2%
Murban Crude	84.61	82.27	▲ 2.8%
Brent Crude	85.24	82.85	▲ 2.9%
US 2Yr Yield	4.74%	4.72%	▲ 3 bps
US 10Yr Yield	4.26%	4.23%	▲ 3 bps

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

MACROECONOMIC CALENDAR

Event	Date
Weekly CBK T-bill Auction	27 th June 2024
June 2024 Inflation Statistics	30 th June 2024

Summary Macroeconomic Stats

Statistic	Updated as of:	Current	Previous	Δ
GDP Growth	2023	5.6%	4.9%	▲ 70 bps
Headline Inflation	May-24	5.1%	5.0%	▲ 10 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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