SIB Standard Investment Bank

Regulated by the Capital Markets Authority

14TH OCTOBER 2024

"CBK issues the first TAD in over a year"

WEEKLY FIXED INCOME REPORT

T-Bill subscription touches a 4 year high as MPC lowers benchmark rate

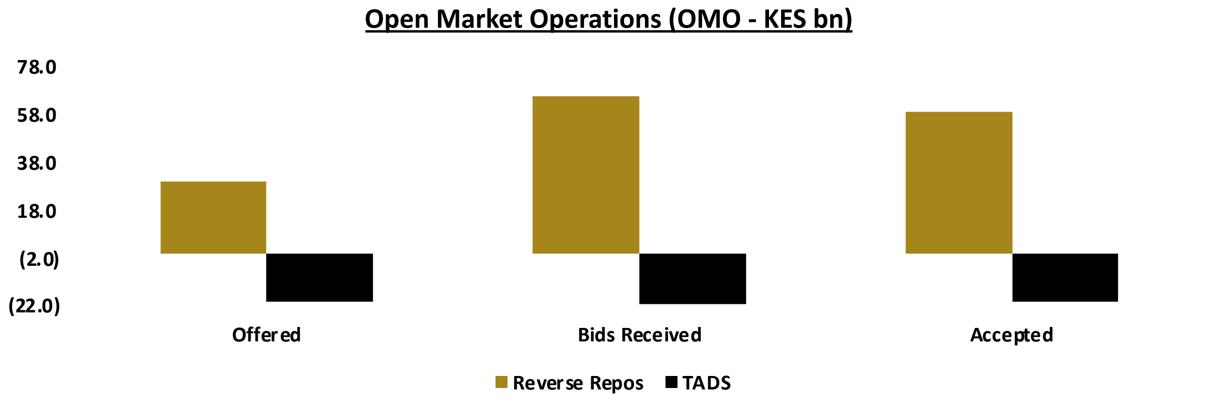
MONEY MARKET ANALYSIS

During the week, liquidity gaps in the interbank market dropped to its lowest level in over 11 months, shortly after the reduction of the Central Bank Rate. The average lending rate fell to 12.19%, down from 12.76% the previous week. Market activity also surged, with average traded volumes climbing by 90.2% to KES 34.12bn, up from KES 17.94bn. This increase was accompanied by a 21.2% rise in the number of interbank transactions, indicating heightened trading activity in the market. The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	33.00	40.00	21.21%
Inter- Bank volumes (KES bn)	17.94	34.12	90.18%
Inter – Bank Rates (bps)	12.76%	12.19%	(56.48)

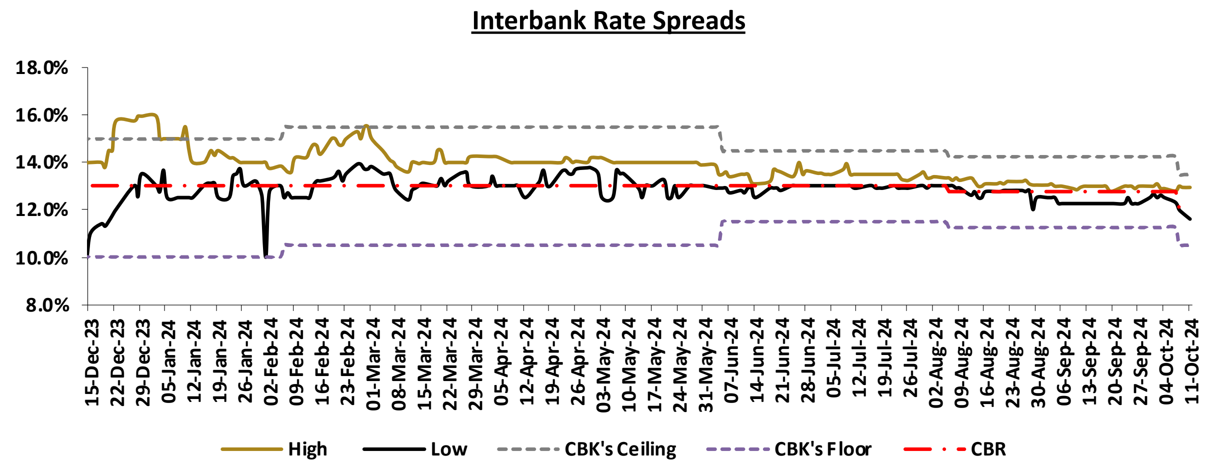
Source: Central Bank of Kenya (CBK), Table: SIB

Open Market Operations remained active, with the Central Bank injecting KES 39.04bn into the market, marking a level not seen in over a year. In a swift turn of events, the Central Bank of Kenya (CBK) also absorbed KES 20.0bn through 3- and 5-Day Term Auction Deposits (TADs), despite KES 115.74bn exiting the market to settle prior reverse repo issuances. Notably, the most recent TAD issuance occurred in July 2023. See a summary below;



Data: Bloomberg, Chart: SIB

When the benchmark rate declines, the Interbank corridor also declines and the lending rates continue to hover around the new rate, with no observable extremes. See the chart below;



Source: Central Bank of Kenya (CBK), Chart: SIB

GOVERNMENT SECURITIES MARKET

T-bills

The T-bill auction for the week experienced a remarkable oversubscription, with overall performance reaching 304.3%, the highest in over four years.

Notably, the 364-day paper, which had previously been less attractive, saw renewed interest, receiving bids worth KES 25.74bn—the highest since May 2021. In total, investors submitted bids totaling KES 73.04bn, with the fiscal agent accepting only KES 31.16bn, translating to a 42.7% acceptance rate.

The weighted average rates for accepted bids were: 14.99% (-69.55 bps) for the 91-day paper, 16.10% (-40.49 bps) for the 182-day paper and 16.34% (-39.08 bps) for the 364-day paper.

The largest gap between market and accepted rates was observed in the 91-day tenor, which also saw a lower acceptance rate compared to the other papers. Additionally, lower redemptions eased pressure on the government's borrowing needs. See the summary below;

KES bn

14-Oct-24	91-day 13-Jan-25	182-day 14-Apr-25	364-day 13-Oct-25	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	18.51	28.79	25.74	73.04
Subscription rate (%)	462.7%	287.9%	257.4%	304.3%
Amount accepted	6.09	10.56	14.51	31.16
Acceptance rate (%)	32.9%	36.7%	56.4%	42.7%
Of which: Competitive Bids	3.86	9.26	12.27	25.38
Non-competitive bids	2.23	1.30	2.24	5.77
Rollover/Redemptions	13.52	11.38	3.38	28.27
New Borrowing/(Net Repayment)	(7.43)	(0.81)	11.13	2.89
Weighted Average Rate of Accepted Bids	**14.99%**	**16.10%**	**16.34%**	
Inflation	**3.6%**	**3.6%**	**3.6%**	
Real Return	12.1%	12.9%	13.1%	

Source: Central Bank of Kenya (CBK), Table: SIB

T-Bonds

In the primary bond market, the fiscal agent successfully raised KES 31.28 bn, surpassing the KES 30 bn target. The highest subscription was for FXD1/2016/10, which has the shortest remaining tenor and settled at a weighted average rate of 16.98%. Meanwhile, FXD1/2022/10, with 7.6 years to maturity, settled at 16.95%. The coupon rates for these bonds are 15.04% for the 2016 issuance and 13.49% for the 2022 issuance.

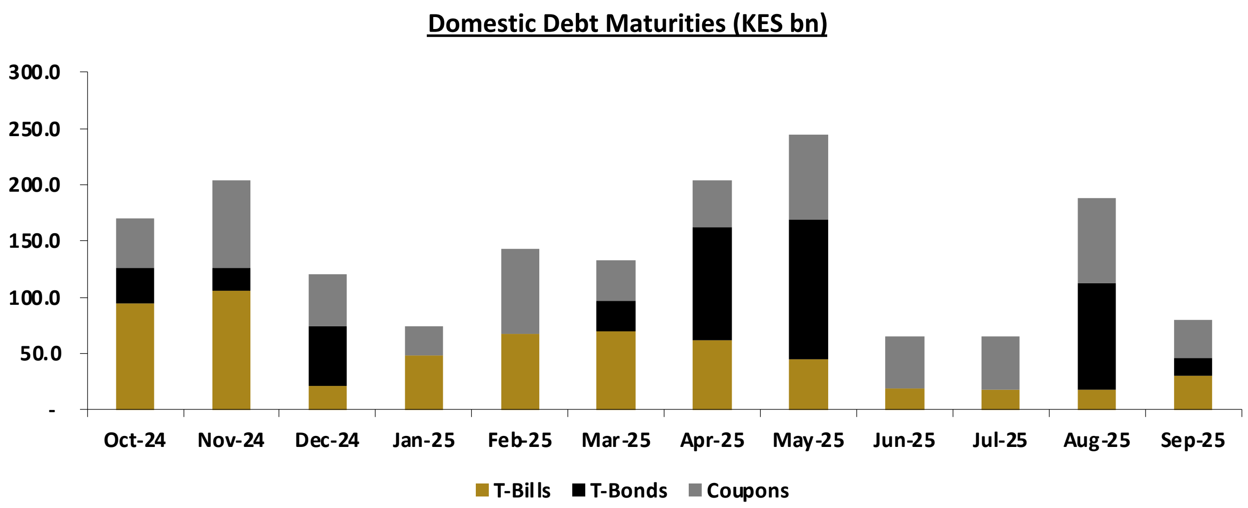
Notably, both bonds will be traded at a discount. See a summary of the offer below;

14-Oct-24 Due Date	FXD1/2016/10 17-Aug-26	FXD1/2022/10 3-May-32	Totals
Amount offered (KES bn)			30.00
Bids received (KES bn)	36.62	14.35	50.96
Subscription rate (%)	122.05%	47.83%	169.88%
Amount accepted	**28.03**	**3.25**	**31.28**

Acceptance rate (%)	86.33%	83.40%	61.37%
Of which: Competitive Bids	24.67	1.13	25.80
Non-competitive bids	3.36	2.12	5.48
Bid to Cover ratio	1.16	1.20	1.63
Redemptions			0.00
New Borrowing/(Net Repayment)			**31.28**
Market weighted average rate of accepted bids	16.98%	16.95%	
Coupon Rate	15.04%	13.49%	
Price per Kshs 100 at average yield	99.27	91.20	
Inflation	3.60%	3.60%	
Real Return	**11.44%**	**9.89%**	

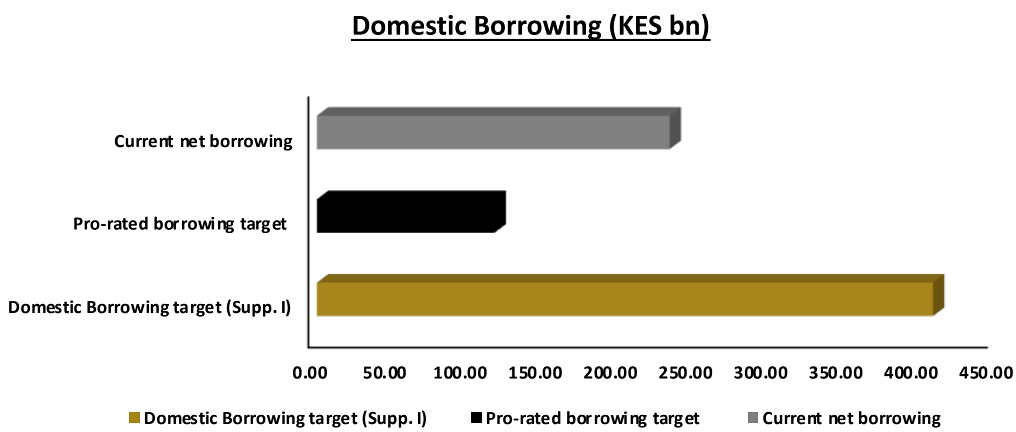
Outstanding Debt Maturities (T-Bills and T-Bonds):

The Government's outstanding T-Bill and T-Bond maturities as of this week for the next 12 months are worth KES 698.81bn and KES 437.61bn, respectively. All maturities including interest payments amount to KES 1.69tn and are as shown below;



Source: Central Bank of Kenya (CBK), Chart: SIB

The government has borrowed 65.6% of the FY24/25 domestic borrowing target with a current borrowing of KES 267.97bn (Inclusive of T-Bills), well above the prorated target of KES 125.66bn. See the chart below;



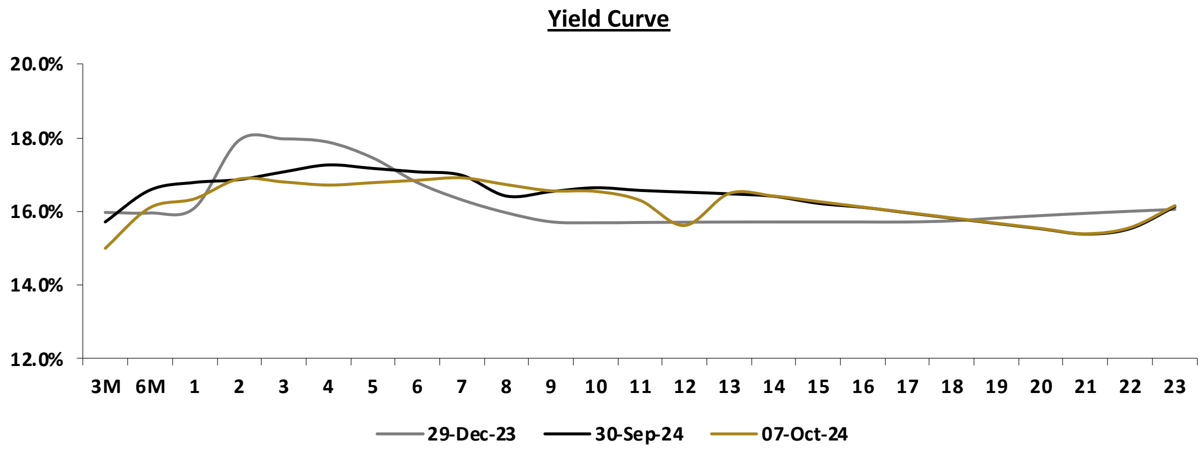
Source: Central Bank of Kenya (CBK), Treasury, Chart: SIB

Yield Curve

The yield curve continues to reflect a range of market sentiments, but there is a clear downward trajectory in the short to medium term tenor.

Week-on-week, yields on government securities followed a downward trend, with an average decline of 15.89bps, compared to a 4.22bps drop the previous week. This could signal a rising demand for existing bonds as investors seek more favorable opportunities in the fixed-income market ahead of further rate cuts.

See below a visual representation;



Source: Nairobi Securities Exchange (NSE), Chart: SIB

The International Front - Kenyan Eurobonds

Yields on all Eurobonds maintained the upward trend but the fluctuations remained moderate. Below is a summary of the performance;

Kenyan Eurobonds						
Issuance	KENINT 05/22/2027	KENINT 02/28/2028	KENINT 02/16/2031	KENINT 05/22/2032	KENINT 01/23/2034	KENINT 02/28/2048
Issue Date	May-27	Feb-28	Feb-31	May-32	Jun-34	Feb-48
Tenor to Maturity	2.6	3.4	6.4	7.6	9.6	23.4
29-Dec-23	10.1%	9.8%	-	9.9%	9.5%	10.2%
3-Oct-24	8.7%	9.0%	9.9%	9.8%	9.7%	10.2%
7-Oct-24	8.9%	9.1%	10.0%	9.9%	9.8%	10.2%
8-Oct-24	8.9%	9.2%	10.0%	10.0%	9.9%	10.3%
9-Oct-24	8.9%	9.1%	10.0%	10.0%	9.9%	10.3%
10-Oct-24	8.8%	9.2%	10.0%	10.0%	9.9%	10.3%
Weekly Change	0.1%	0.2%	0.1%	0.2%	0.2%	0.1%
YTD Change	(1.3%)	(0.6%)	-	0.1%	0.4%	0.1%

Source: Central Bank of Kenya (CBK), Table: SIB

Currency Performance

In the foreign exchange market, the Kenyan shilling continued to show mixed performance, with the USD/KES exchange rate remaining relatively unchanged. However, the shilling appreciated against the Pound, Euro, and Japanese Yen. See the table below;

Currencies	29 Dec 2023	Previous Week	Current Week	w/w Change	YTD change
TZS/KES	16.1	21.1	21.1	(0.2%)	31.2%
USD/KES	156.5	129.2	129.2	0.0%	17.4%
KES/UGX	24.2	28.4	28.4	0.2%	17.6%
GBP/KES	199.8	169.7	168.6	0.6%	15.6%
EUR/KES	173.8	142.5	141.3	0.8%	18.7%
JPY/KES	111.0	88.4	86.9	1.6%	21.7%

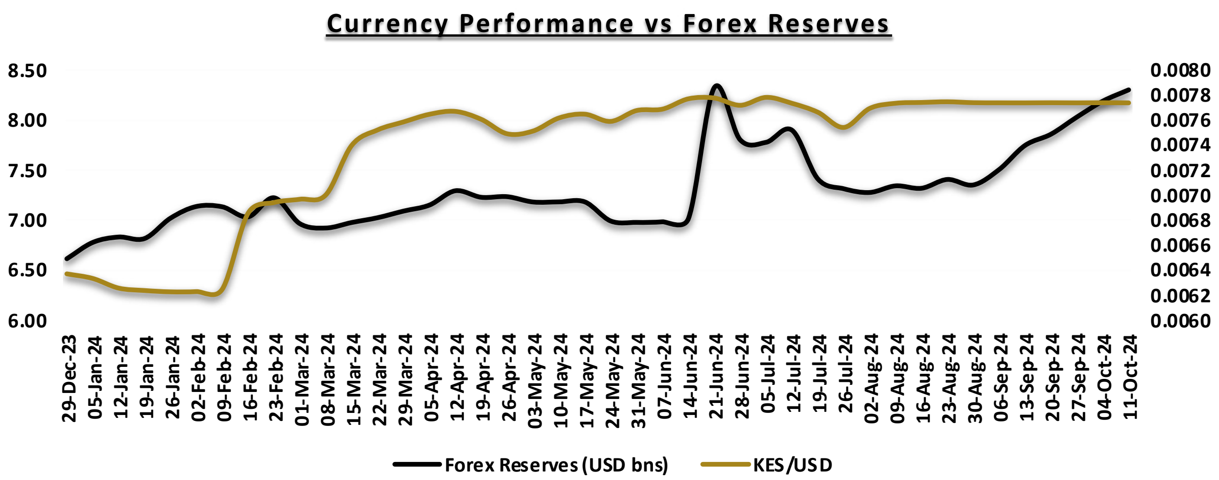
Source: Central Bank of Kenya (CBK), Chart: SIB

Abb: GBP – British Pound, EUR – Euro, USD – US Dollar, UGX – Ugandan Shilling, TZS – Tanzanian Shilling, JPY – Japanese Yen I FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

Conversely, foreign exchange reserves continued to rise – notching by 1.4% week-on-week to USD 8.30 bn, providing 4.3 months of import cover. Since the end of the first half of the year, reserves have increased by 6.4% from USD 7.80 bn (4.1 months), bolstered by Central Bank's purchasing activities in a market with muted demand for the dollar.

This accumulation of reserves may also explain the shilling's relative stability against the dollar, as the CBK publishes actual weighted average exchange rates.

See a visual representation of the shilling performance against forex reserves;



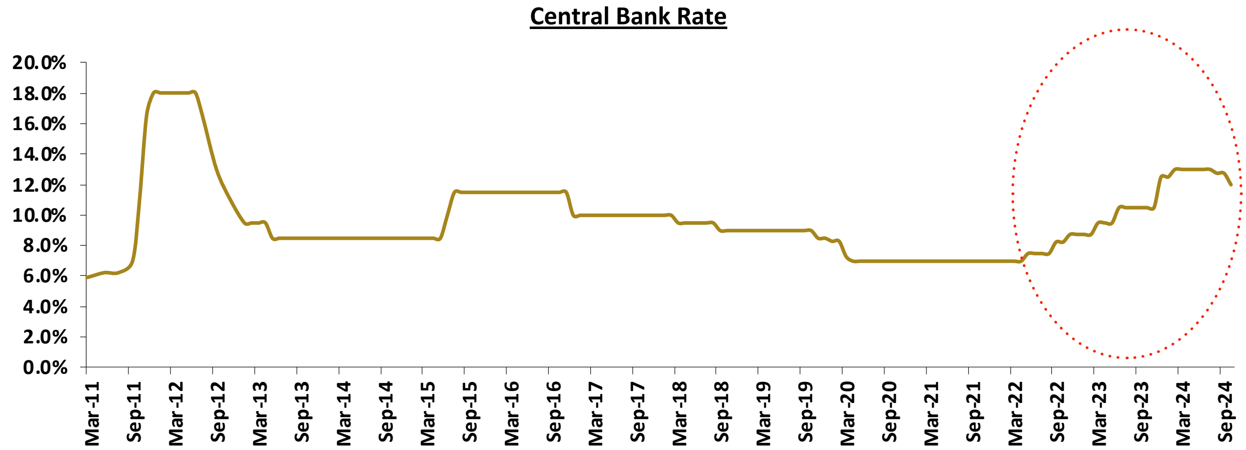
Source: Central Bank of Kenya (CBK), Chart: SIB

MARKET NEWS

MPC lowers base rate by 75bps to stimulate economic growth

The Central Bank of Kenya (CBK) Monetary Policy Committee (MPC) met on Tuesday, 8th October 2024, and, as anticipated, reduced the Central Bank Rate (CBR) by 75 basis points to 12.0%. The cut was higher than our estimate of a 50-basis point cut. This decision was backed by weakening economic signals – with inflation dipping below the mid-point target and expected to remain steady, while the exchange rate stabilized with the CBK able to build up reserves from the market. Private sector credit growth is still sluggish, with a clear need to spark economic momentum, especially as global economies continue to ease their rates.

See the chart below;

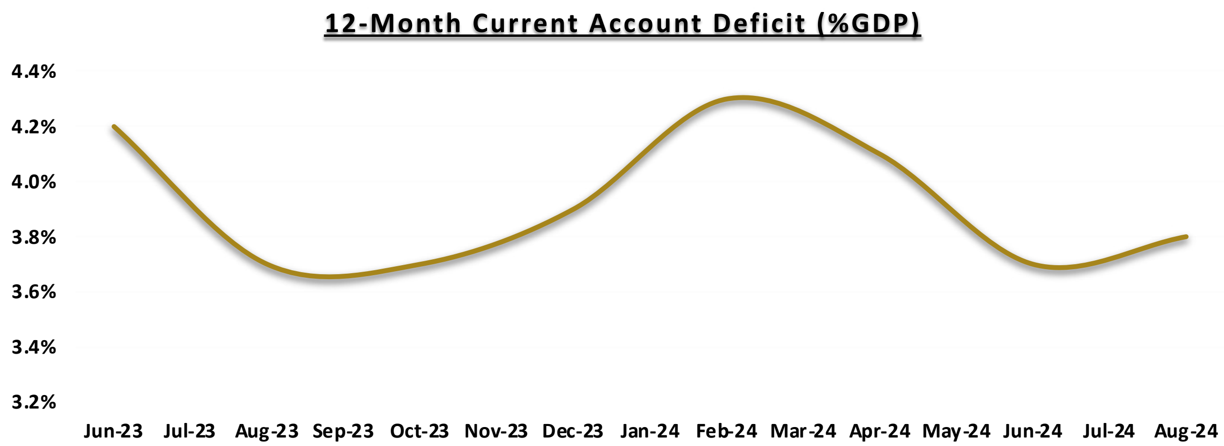


Source: KNBS, CBK, Chart: SIB

The committee noted that:

i. **Inflation** is expected to stay below the target mid-point in the near term, supported by stale food prices, and lower fuel inflation partly due to a higher base effect,

ii. The **current account deficit** stood at 3.8% of GDP in the 12 months to August 2024, from 3.7% recorded in June, as shown below'



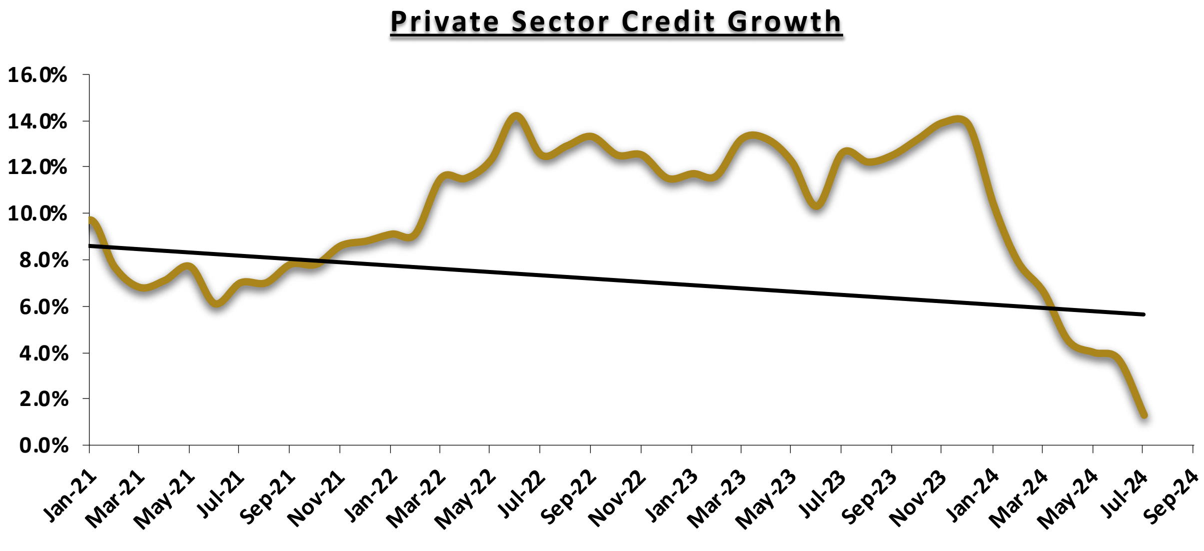
Source: CBK, Chart: SIB

iii. **Exports** were 14.4% higher in the first eight months of 2024 compared to a similar period in 2023. In the 12 months to August 2024, the segment rose by 8.8%, driven by agricultural commodities and re-exports which rose by 73.5% in the period.

iv. In contrast, **imports** recorded a slower 7.3% increase in the first eight months of 2024 compared to a similar period in 2023. In the 12 months to August 2024, imports, goods imports increased by 3.8% on increased importation of machinery and transport equipment, crude materials, and miscellaneous manufactures,

We observe that the current account deficit is shrinking due to imports growing more slowly than exports. This trend may suggest weakening demand, constrained capital, and rising input costs, all of which are reinforced by the muted private sector business environment.

v. Private sector credit growth slowed to 1.3% in August 2024, down from 3.7% in July 2024 and 12.6% in August 2023, marking the weakest growth since January 2018. This decline was partly driven by exchange rate valuation effects on foreign currency-denominated loans due to the Shilling's appreciation. Local currency loan growth also eased to 5.2%, down from 10.2% in June, while foreign currency loans, which account for about 26% of total loans, contracted by 10.6%. see the chart below;



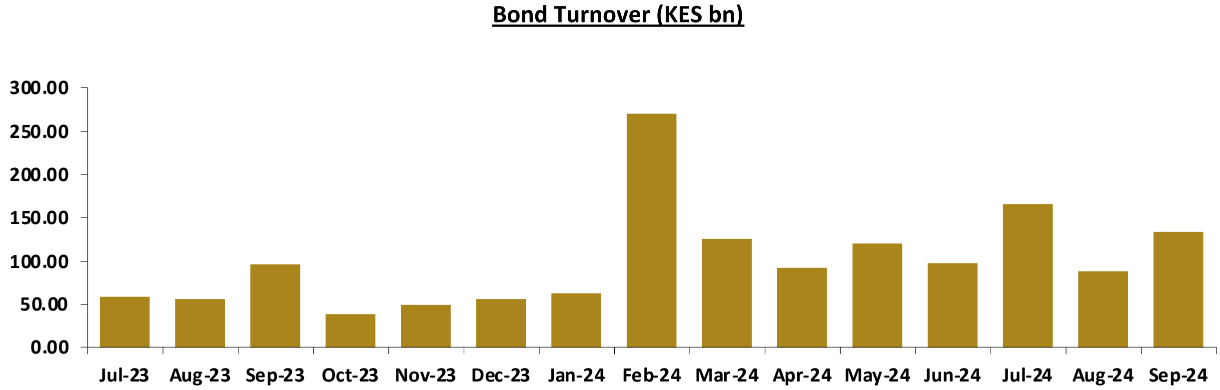
Source: CBK, KNBS, Chart: SIB

The slower growth can be attributed to rising credit costs and higher interest rates, prompting banks to adopt a more cautious lending approach. Additionally, banks have favored lending to the government, drawn by elevated rates on government securities.

The committee will meet again in December 2024.

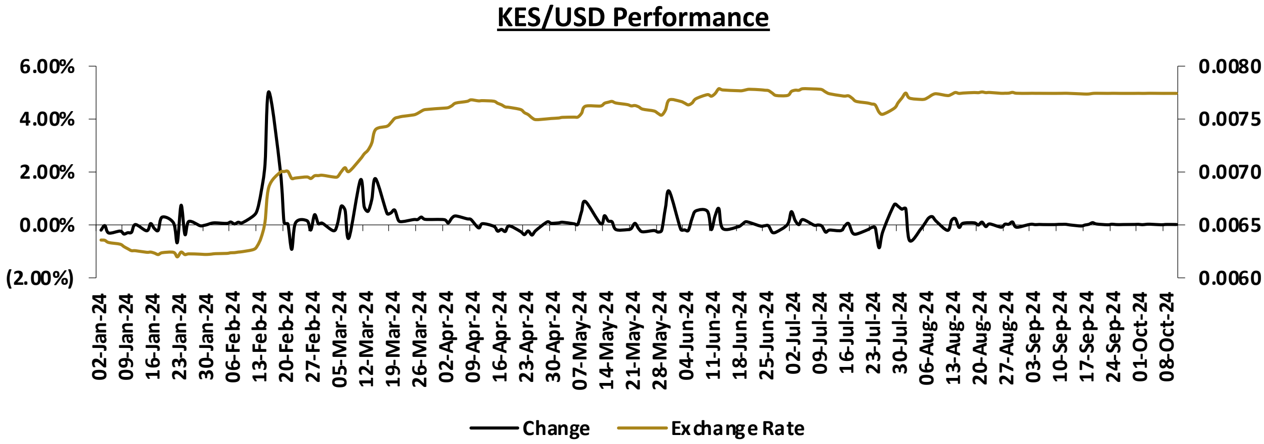
BACKGROUND CHARTS

Secondary Bond Turnover



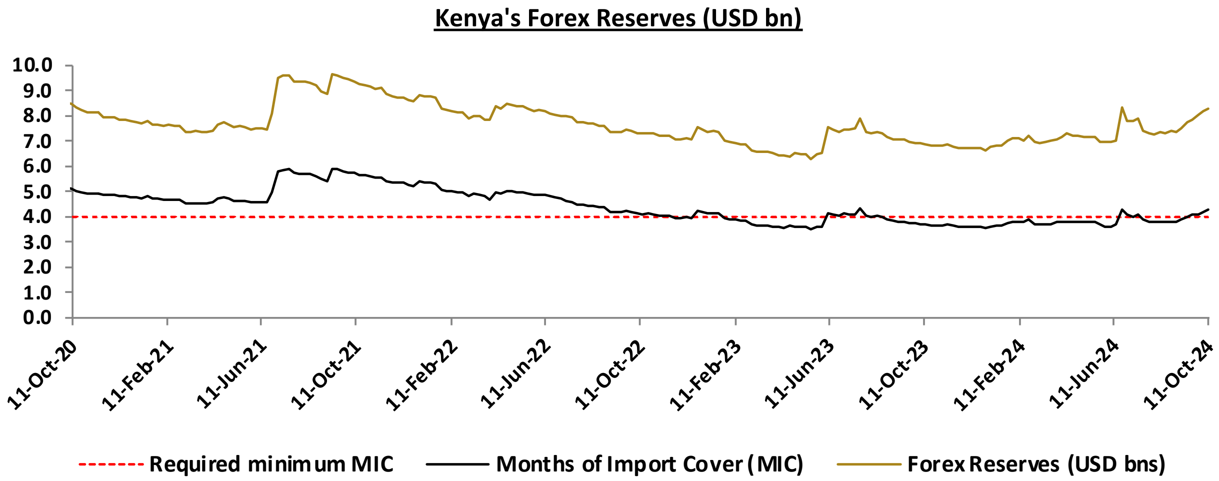
Source: Nairobi Securities Exchange (NSE)

KES/USD Performance



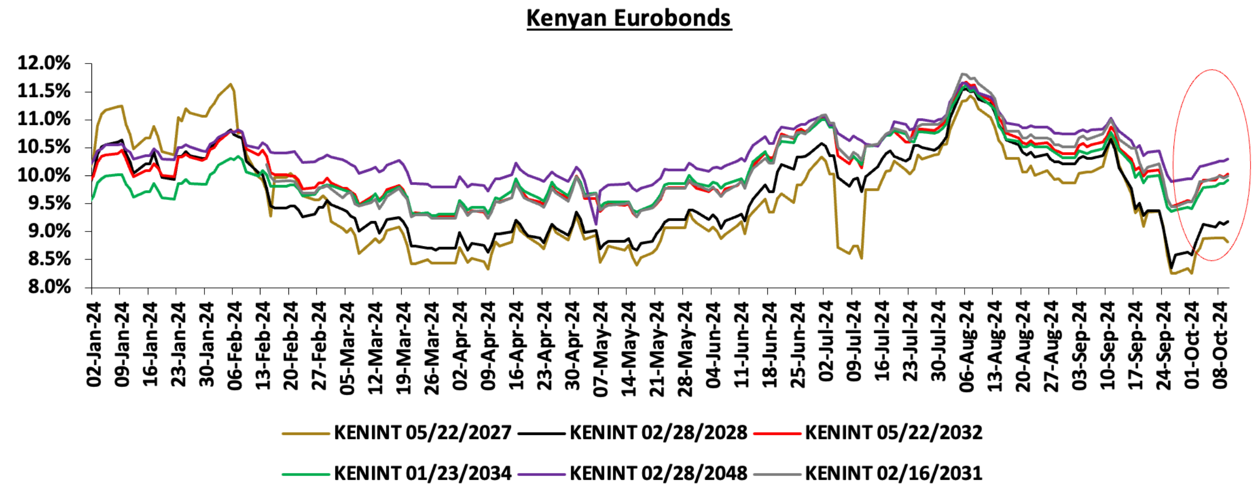
Source: Central Bank of Kenya (CBK)

Forex Reserves



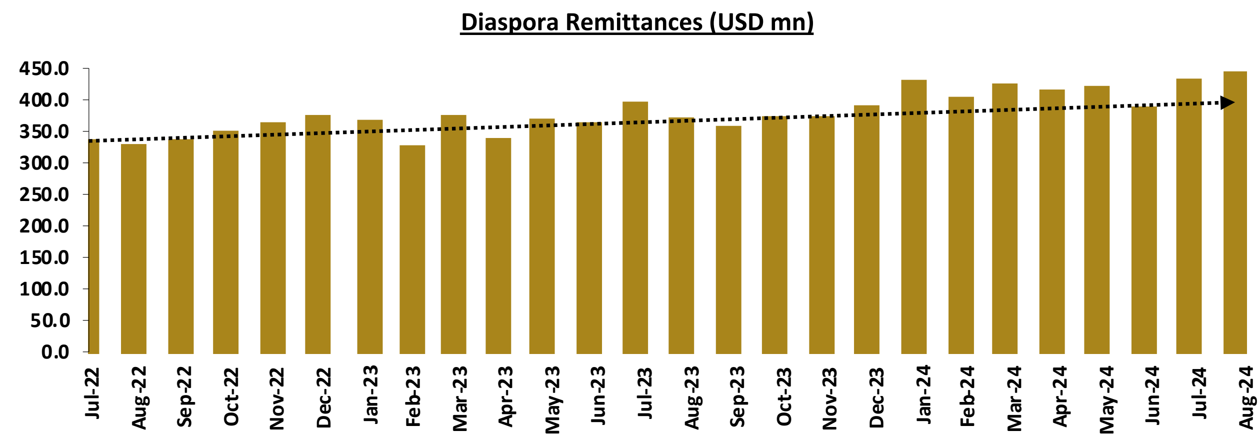
Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



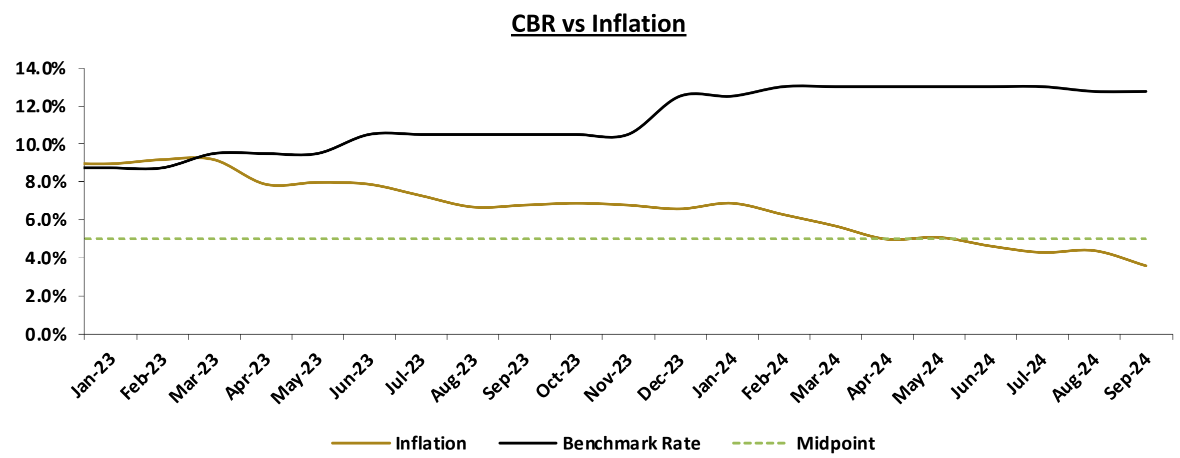
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



Source: Central Bank of Kenya (CBK)

Benchmark Rate vs Inflation:



Source: Central Bank of Kenya (CBK)

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