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MPC gears up for its
final decision of 2024
with expectations of at
least 50bps rate cut
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WEEKLY FIXED INCOME REPORT

November inflation holds steady at 2.8%, signaling price stability month-on-month

MONEY MARKET ANALYSIS

This week, the average lending rate slightly nudged upwards to 11.91% from 11.87%, underscoring stable conditions. On the flip side, interbank volumes dropped to KES 22.83bn from KES 28.31bn, in tandem with a 5.13% decline in transaction count.

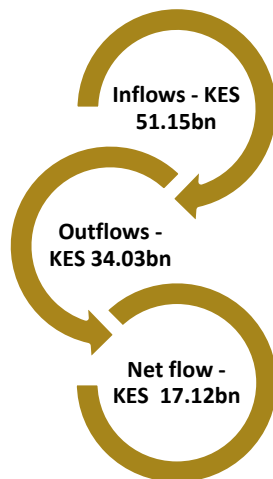
The table below summarizes the market liquidity indicators:

Average	Previous Week	Current Week	Change
Interbank Deals	39.00	37.00	(5.13%)
Inter- Bank volumes (KES bn)	28.31	22.83	(19.38%)
Inter – Bank Rates (change in bps)	11.87%	11.91%	4.07

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

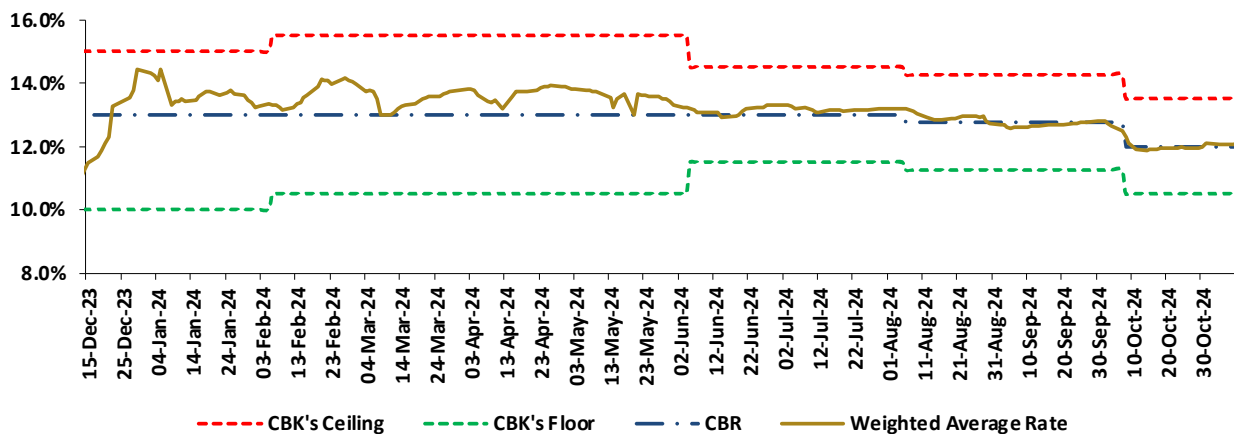
Open market operations intensified this week, with banks significantly increasing their bids to KES 68.40bn, marking a robust 78.2% rise from last week's KES 38.38bn. Consequently, the operations resulted in a net liquidity injection of KES 17.12bn, while KES 34.03bn exited the interbank market to settle previous issuances.

Reverse Repos Flows



Notably, the weighted average interbank rate has closely aligned with the Central Bank Rate in recent weeks, with actual highs and lows remaining well within the interest rate corridor, exhibiting no deviations. See the chart below;

Interbank Rate Spreads



Data: Bloomberg, Chart: SIB

GOVERNMENT SECURITIES MARKET

T-bills

In line with recent trends, demand for Treasury bills remained robust, albeit lower than the previous week, with the subscription rate declining to 211.1% from 321.8%.

Investor interest leaned slightly toward the 364-day paper, which attracted 42.3% of total bids, compared to 37.1% for the 91-day paper. Overall, investors bid KES 50.66bn but the fiscal agent accepted KES 34.65bn, translating to a 68.4% acceptance rate.

The weighted average rates for accepted bids were as follows: 11.25% (-78.40 bps) for the 91-day paper, 11.34% (-87.17 bps) for the 182-day paper, and 12.49% (-80.45 bps) for the 364-day paper. Shorter maturities continue to provide the government flexibility to reject higher-priced bids. See the summary below;

KES bn

25-Nov-24	91-day 3-Mar-24	182-day 2-Jun-25	364-day 1-Dec-25	Totals
Amount offered	4.00	10.00	10.00	24.00
Bids received	18.82	10.42	21.42	50.66
Subscription rate (%)	470.4%	104.2%	214.2%	211.1%
Amount accepted	15.94	4.21	14.51	34.65
Acceptance rate (%)	84.7%	40.4%	67.7%	68.4%
Of which: Competitive Bids	3.89	3.01	12.28	19.18
Non-competitive bids	12.05	1.20	2.23	15.47
Rollover/Redemptions	17.52	9.72	2.10	29.34
New Borrowing/(Net Repayment)	(1.58)	(5.52)	12.41	5.31
Weighted Average Rate of Accepted Bids	11.25%	11.34%	12.49%	
Inflation	2.8%	2.8%	2.8%	
Real Return	8.5%	8.5%	9.7%	

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

T-Bonds

In the primary bond market, the fiscal agent is seeking KES 45.0bn through three reopened bonds; FXD1/2023/10, FXD1/2018/20 and FXD1/2024/10. The bonds have coupon rates of 14.15%, 13.20% and 16.0% for FXD1/2023/10, FXD1/2018/20 and FXD1/2024/10, respectively.

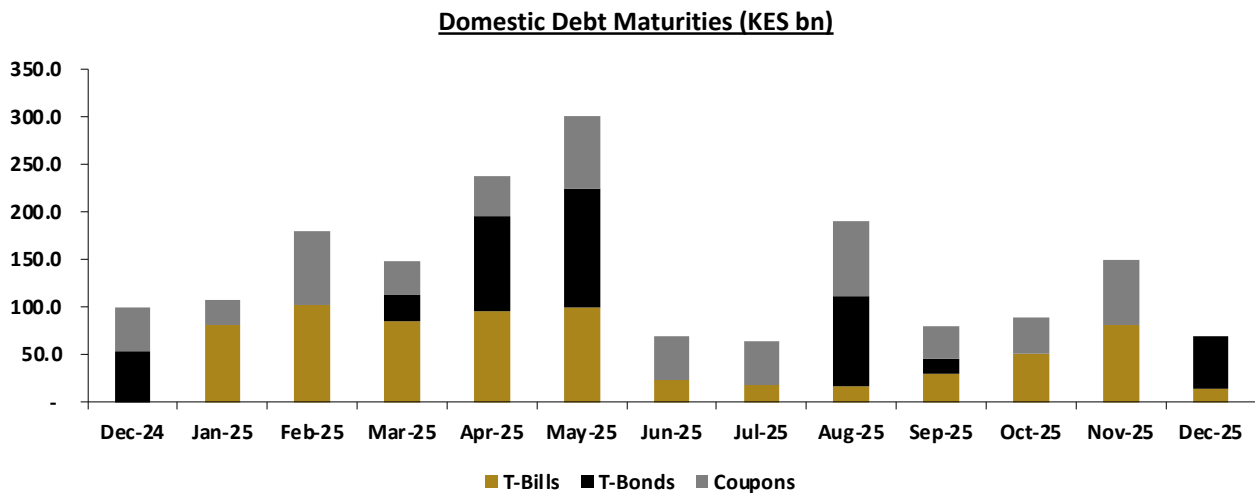
See a summary of the offer below;

Bond Auctioned	Maturity Date	Effective Tenor	Amount Offered	Coupon	Sale Period
FXD1/2023/10	31-Jan-33	8.2	25.0	14.15%	Up to 4th December 2024
FXD1/2018/20	01-Mar-38	13.3		13.20%	
FXD1/2024/10	13-Mar-34	9.3	20.0	16.00%	Up to 11th December 2024

The government remains focused on issuing medium- to long-term papers, aiming to spread out debt maturities and ease short-term repayment pressures.

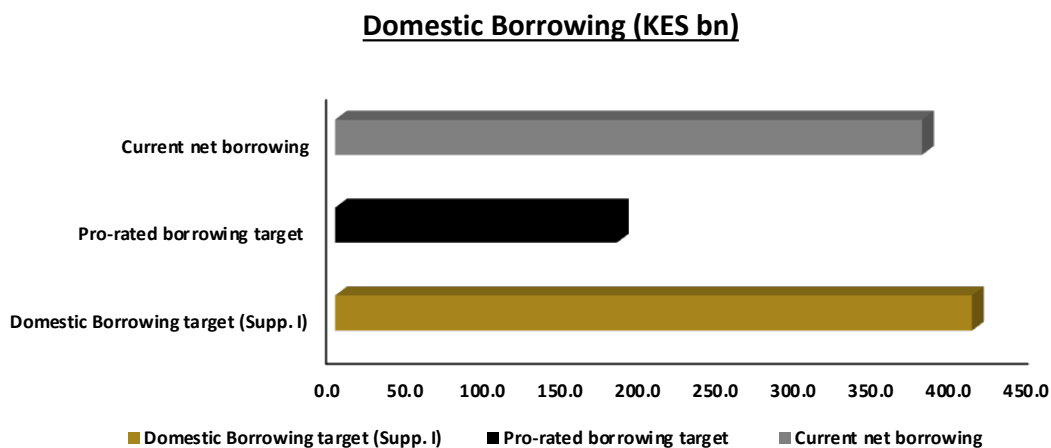
Outstanding Debt Maturities (T-Bills and T-Bonds):

The Government's outstanding T-Bill and T-Bond maturities as of this week (with respect of the next 12 months) are worth KES 705.58bn and KES 407.85bn, respectively, as shown below;



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

The government has borrowed 92.2% of the FY24/25 domestic borrowing target with a current borrowing of KES 376.41bn (Inclusive of T-Bills), well above the prorated target of KES 180.64bn. See the chart below;

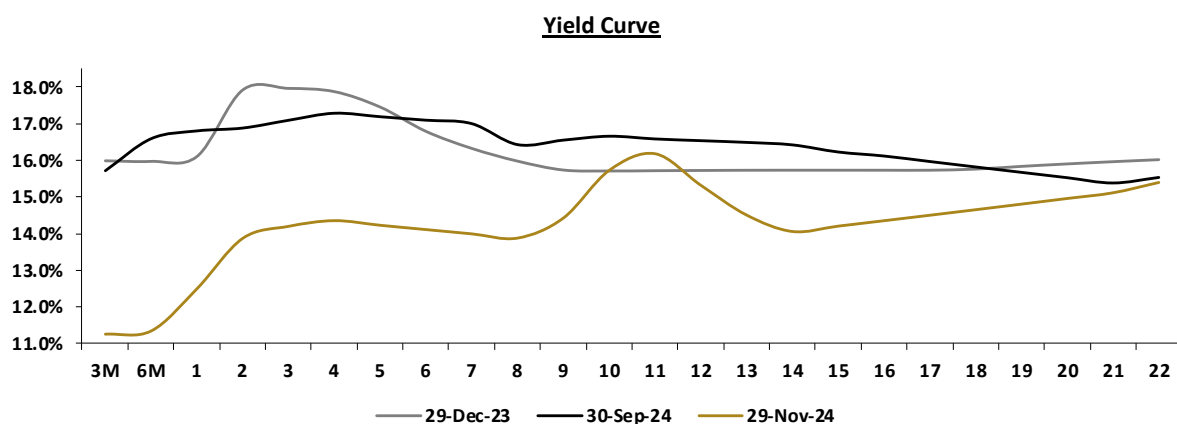


Source: Central Bank of Kenya (CBK), Treasury, Chart: SIB

Yield Curve

The yield curve continues to reflect mixed market sentiments, gradually trending toward a more normalized shape. However, its progression is tempered by a sharper decline in rates at the extreme long end compared to those in the medium term.

On a week-on-week basis, yields on government securities registered an average decline of 91.48 basis points, primarily driven by the accelerated drop in long-term rates. See below a visual representation;



Source: Nairobi Securities Exchange (NSE), Chart: SIB; Central Bank of Kenya (CBK), Chart: SIB

The International Front

Kenyan Eurobonds

This week, Kenyan Eurobond yields declined across the curve, with the magnitude of the decrease tapering off along the longer tenors. Shorter-tenor bonds experienced the most significant adjustments, reflecting heightened sensitivity to market dynamics. 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	2.5	3.2	6.2	7.5	9.5	23.3
29-Dec-23	10.1%	9.8%	-	9.9%	9.5%	10.2%
21-Nov-24	8.5%	9.1%	10.1%	10.1%	10.0%	10.3%
25-Nov-24	8.0%	8.7%	9.9%	9.8%	9.8%	10.1%
26-Nov-24	8.1%	8.7%	9.9%	9.9%	9.8%	10.1%
27-Nov-24	8.1%	8.7%	9.9%	9.8%	9.8%	10.1%
28-Nov-24	8.1%	8.7%	9.9%	9.8%	9.8%	10.1%
Weekly Change	(0.4%)	(0.4%)	(0.3%)	(0.3%)	(0.2%)	(0.2%)
YTD Change	(2.0%)	(1.1%)	-	(0.1%)	0.3%	(0.1%)

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

Currency Performance

In the foreign exchange market, the Kenyan shilling depreciated against all tracked currencies, with the smallest decline recorded against the U.S. dollar. This movement aligned with a 0.8% weakening of the Dollar Index. See the table below;

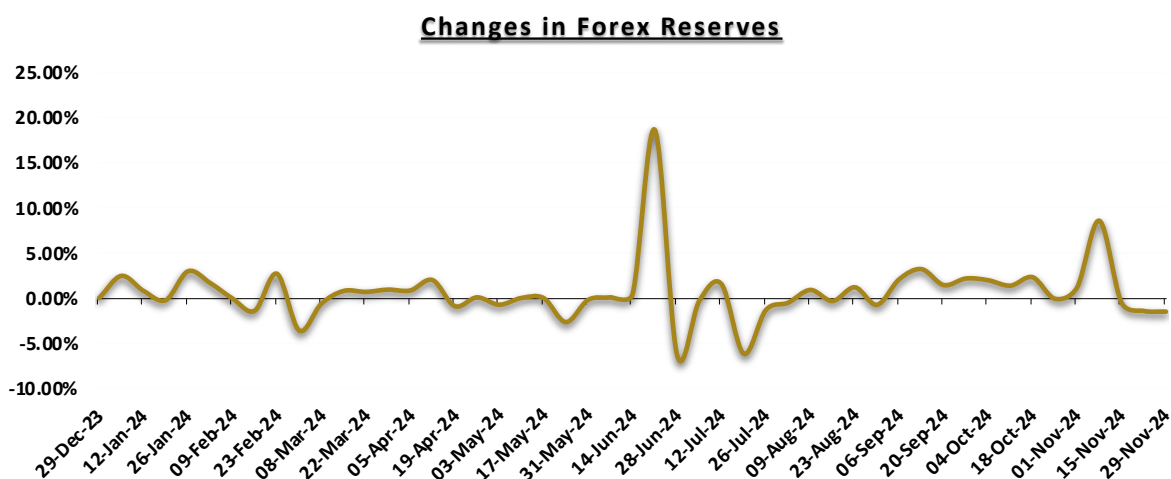
Currencies	29 Dec 2023	Previous Week	Current Week	w/w Change	YTD change
JPY/KES	111.0	84.1	86.4	(2.8%)	22.2%
GBP/KES	199.8	163.9	164.8	(0.6%)	17.5%
EUR/KES	173.8	136.5	137.1	(0.4%)	21.1%
TZS/KES	16.1	20.5	20.4	(0.3%)	26.9%
KES/UGX	24.2	28.5	28.5	(0.2%)	17.6%
USD/KES	156.5	129.6	129.7	(0.1%)	17.1%

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 | FX rate is determined by calculating the weighted average rate of recorded spot trades in the interbank market

Foreign exchange reserves dropped to USD 9.0bn, covering 4.6 months of imports, from USD 9.14bn, last week.

See below the evolution of forex reserves in 2024 so far;



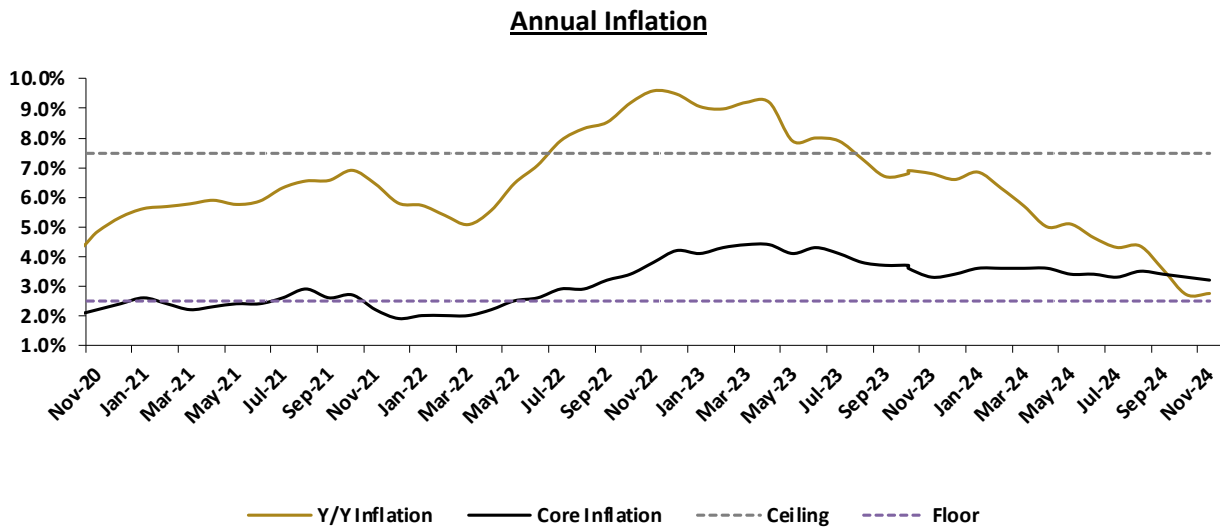
Source: Central Bank of Kenya (CBK), Chart: SIB

MARKET NEWS

November inflation holds steady, signaling price stability month-on-month

In November 2024, the overall prices of goods and services rose by 2.8% y/y, a modest uptick from the 2.7% increase recorded in October and exceeding our projections. Meanwhile, core inflation held firm at 3.2%, a marginal dip from 3.3% in October, underscoring the persistent strain on the cost of living.

See the chart below;

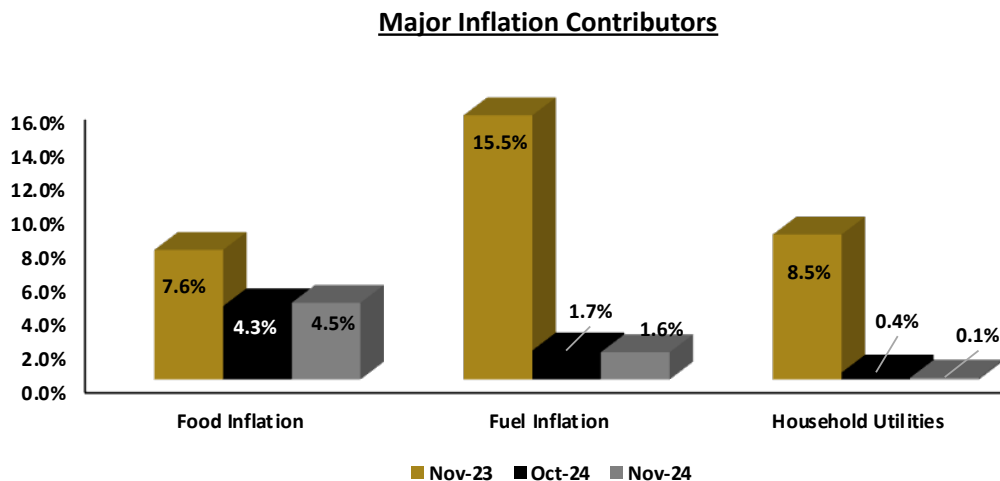


Source: KNBS, CBK, Chart: SIB

The y/y increase was driven by gains across all indices except the transport index. Among the major categories, the food and non-alcoholic beverages index posted the largest rise at 4.5%, while the housing and utilities index recorded the smallest increase of 0.1%.

It is worth noting the impact of the higher base effect, given the substantial increases recorded during the comparison period. Fuel inflation, a key driver of overall inflation, showed considerably slower growth compared to the same period last year and dipped slightly below October's level, as fuel prices remained stable and electricity costs continued to decline.

See the chart below;



Source: KNBS, CBK, Chart: SIB

In the near term, we project annual inflation to remain above the midpoint of the Central Bank of Kenya's 5% target range, hovering closer to the lower bound. This trend is largely driven by declining fuel inflation. However, persistently elevated core inflation highlights deeper structural challenges that monetary policy alone cannot address.

UPCOMING EVENTS

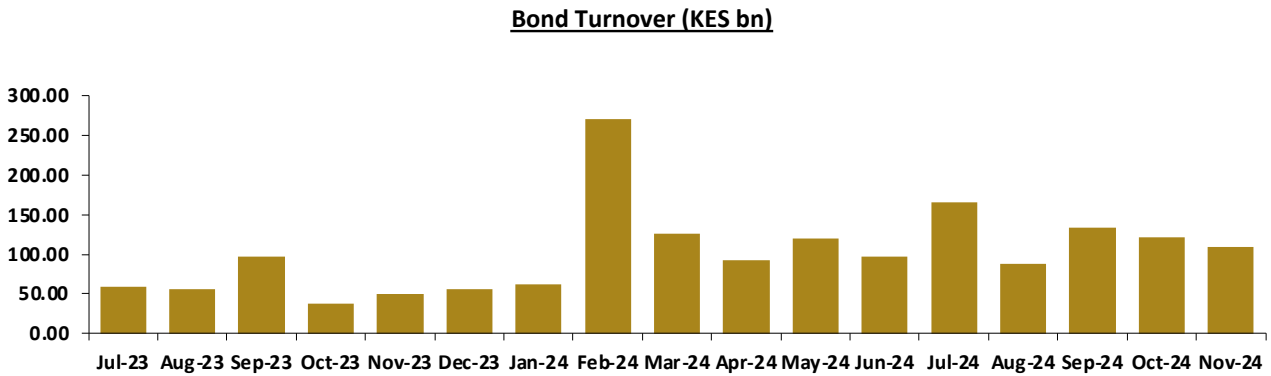
December 2024 MPC Meeting

The Central Bank of Kenya's Monetary Policy Committee (MPC) is scheduled to hold its final meeting of the year on Thursday, December 5, 2024. We anticipate a cut of at least 50 basis points in the benchmark rate, currently at 12.00%. In the context of low inflation, we expect the need to stimulate economic growth, ease the cost of credit, and address the burden of rising non-performing loans to be key drivers for the decision.



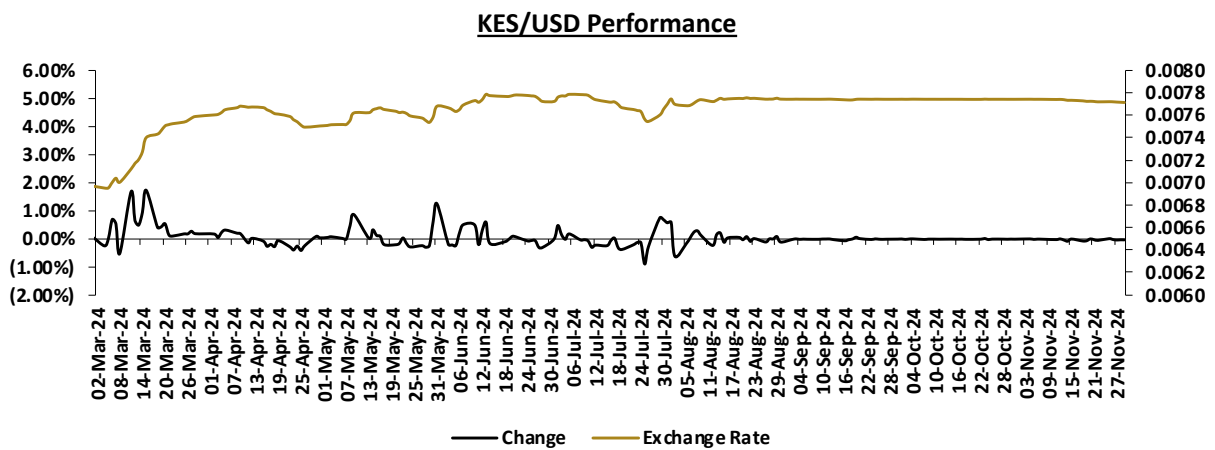
BACKGROUND CHARTS

Secondary Bond Turnover



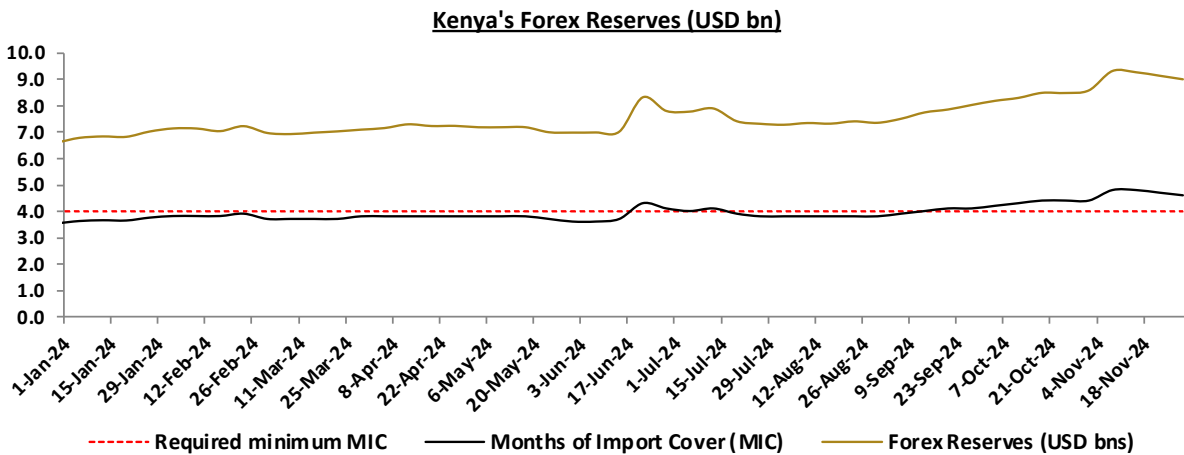
Source: Nairobi Securities Exchange (NSE)

KES/USD Performance



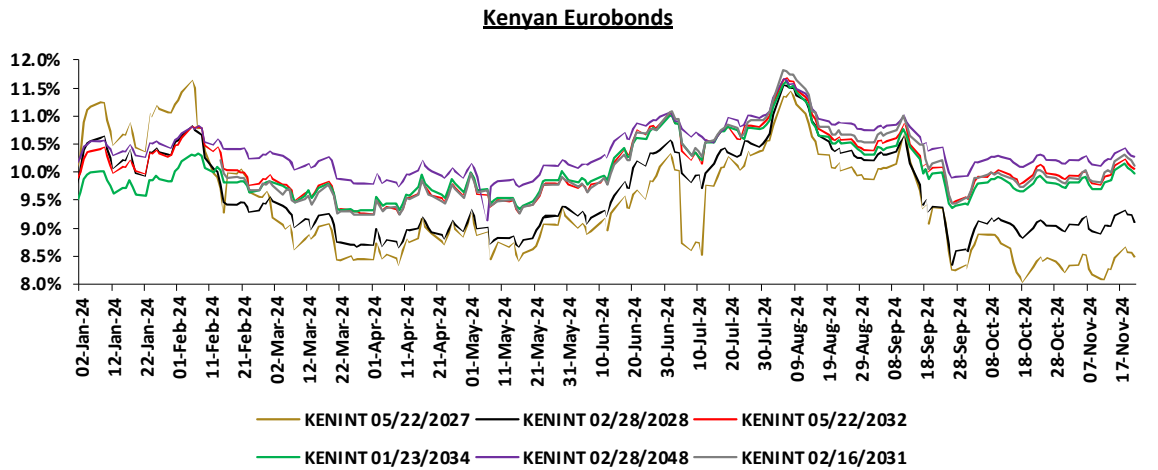
Source: Central Bank of Kenya (CBK)

Forex Reserves



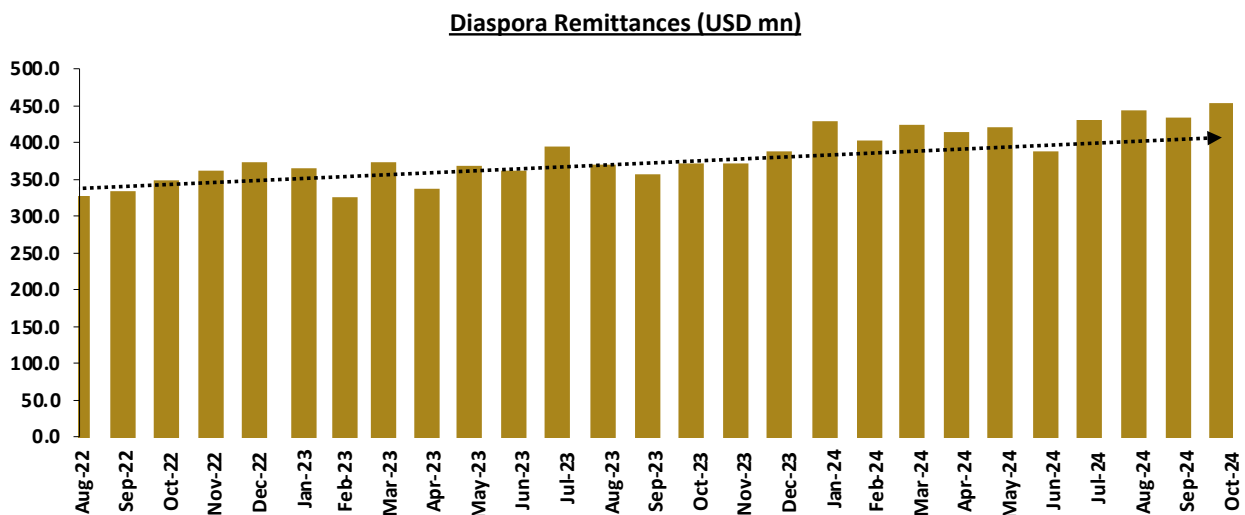
Source: Central Bank of Kenya (CBK)

Kenyan Eurobonds



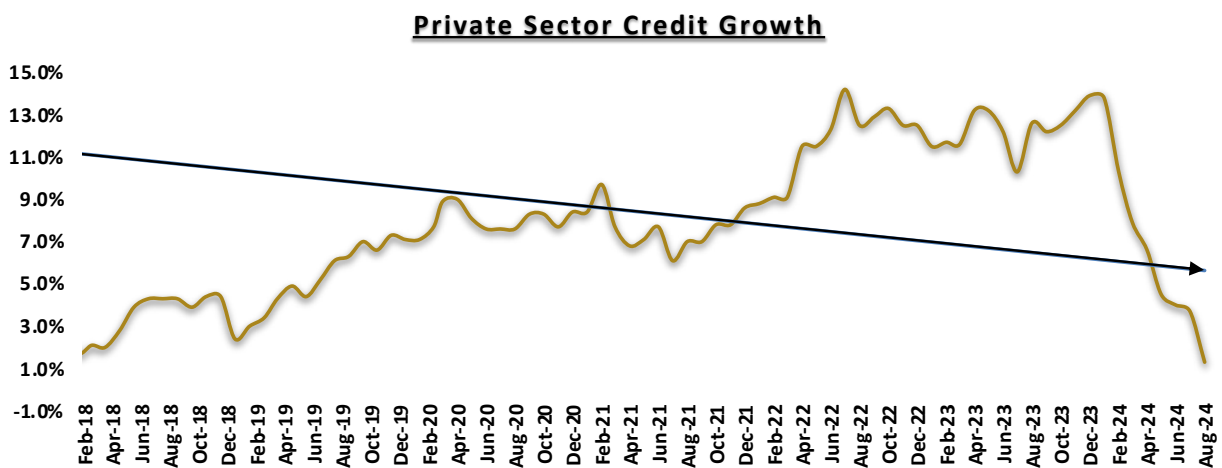
Source: Central Bank of Kenya (CBK)

Diaspora Remittances



Source: Central Bank of Kenya (CBK)

Private Sector Credit Growth



Source: Central Bank of Kenya (CBK)

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