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TREASURY MARKET UPDATE 18TH DECEMBER 2024

DOMESTIC NEWS

The Kenyan shilling was stable on Tuesday as hard-currency appetite was muted. Commercial banks quoted the shilling at 129.00/129.50 to the U.S. dollar, the same level as Monday's close. (Refinitiv).

Kenya has extended its oil supply deal with Saudi Aramco, Abu Dhabi National Oil Company, and Emirates National Oil Company, which helps manage dollar demand and stabilize the shilling. The deal, initiated in March 2023, replaced the Open Tender System (OTS), where local companies bid for oil imports each month. The agreement offers 180-day credit terms, allowing Kenya to gradually accumulate dollars for fuel purchases instead of needing $500 million monthly. The deal was set to end in 2024 but is now expected to extend due to changes in contract terms following Uganda's exit. This extension has helped stabilize the shilling, which has improved from a low of 160 to 129.27 units per dollar since the start of the year. (Business Daily).

In other local news, Kenya will start importing liquefied petroleum gas (LPG) through a bulk competitive tender system to reduce the cost of 13-kilogram cooking gas by up to Sh881. The Cabinet approved this change, replacing the Open Tender System (OTS) that led to higher LPG prices. A government report showed LPG was landing in Mombasa at prices above market rates. The new system aims to lower the price of the 13-kg cooking gas, currently at Sh3,200, to Sh2,400. The Cabinet also approved bulk procurement for LPG, heavy fuel oil, and bitumen. (Business Daily).

Indicative Forex Rates

	Buy Cash	Sell Cash	Buy TT	Sell TT
USD/KES	124.25	134.25	124.25	134.25
GBP/KES	160.18	173.18	159.38	174.08
EUR/KES	130.85	144.75	131.15	147.65
AED/KES	31.19	44.19	33.19	44.69

Amounts > 10 million		Amounts >100,000
	KES	USD
2 Weeks	9.50%	1.50%
1 Month	9.75%	2.50%
3 Months	10.00%	3.25%
6 Months	10.25%	3.50%
1 year	10.50%	4.00%

USD movement from September 2024 – Date (Source: Reuters)

INTERNATIONAL NEWS

Most Asian currencies traded within a narrow range on Wednesday, while the dollar stayed near three-week highs as traders awaited further guidance on interest rates from the U.S. Federal Reserve. Regional currencies had recently weakened against the dollar, with traders anticipating a slower pace of rate cuts in 2025. The Fed is expected to reduce rates by 25 basis points but may signal a more cautious approach due to persistent inflation and a strong labor market. Strong U.S. retail sales data for November reinforced expectations of slower rate cuts. Analysts also foresee inflation and rates being influenced by expansionary policies under President Trump.

On the other hand, GBP/USD remained mostly unchanged at 1.2680, with the British pound holding steady against the strong dollar after data revealed UK pay rose more than expected in the three months to October, with average weekly earnings up 5.2% year-over-year. EUR/USD fell 0.2% to 1.0486 following weaker-than-expected German business morale in December. USD/CNY increased 0.1% to 7.2925, staying near a two-year high, while USD/JPY dropped 0.2% to 153.78.

In the commodities markets, Gold prices remained steady in Asian trade on Wednesday following a decline in the previous session, as the Federal Reserve began its December policy meeting, which is expected to conclude with a rate cut. However, markets remain cautious about the long-term U.S. rate outlook, with the Fed likely to reduce rates more gradually next year. Spot gold was little changed at $2,646.10 per ounce, while February gold futures were slightly lower at $2,660.72. Gold does not generate income like interest-bearing assets, so higher interest rates increase the opportunity cost of holding gold, making it less attractive to investors.

On the other hand, Oil prices traded within a narrow range on Wednesday as investors awaited the U.S. Federal Reserve's expected interest rate cut. Brent futures rose by 12 cents to $73.31 per barrel, while U.S. West Texas Intermediate crude gained 11 cents to $70.19 per barrel. Analysts suggest that the market will focus on potential comments regarding interest rate moves in 2025, as lower rates could boost economic growth and oil demand. Meanwhile, the European Union imposed a 15th round of sanctions on Russia, targeting 33 vessels from its shadow fleet, and the UK sanctioned 20 ships for carrying illicit Russian oil. These sanctions may add to oil price volatility but have not yet effectively excluded Russia from the global oil market. (investing.com).

Indicative Cross Rates

	Bid	Offer
EUR/USD	1.0306	1.0708
GBP/USD	1.2504	1.2905
USD/ZAR	16.0685	20.0722
USD/AED	3.6530	3.6931
USD/JPY	151.41	155.47