

Kingdom Securities Limited

Fixed Income - Pre-Auction Note



March 2020 Primary Issue

Re-opened: FXD1/2018/20Yr (18.07Yrs)

Re-opened: FXD1/2018/25Yr (23.32Yrs)

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Currency weakens...

Month-to-date, the shilling has shed 1.23% and 3.74% against the USD and the Euro respectively. It however gained marginally by 0.36% against the STG Pound.

This is credited to the following;

- Driven by the objective of improving the forex reserves and increasing months of import cover, the Central bank has embarked on buying dollars worth Kes 40Bn (USD 400Mn).
- Against the backdrop of corona virus, which has metamorphosed from a health crisis to an economic nightmare, global markets have faced volatilities and rocked with uncertainties. This has seen currencies shed off their value as the supply chains have been distorted.
- **Informed by the aforementioned two reasons, we foresee the shilling oscillating in current 102.50-103.00 levels on the USD.**

13-03-20	USD	Euro	GBP
W/W	0.13%	0.30%	2.16%
MTD	1.23%	3.74%	0.36%
M/M	1.99%	3.92%	1.03%
YTD	1.06%	1.32%	2.83%
Y/Y	2.32%	1.56%	1.10%

Table 1: International Currencies

Source: CBK, KSL

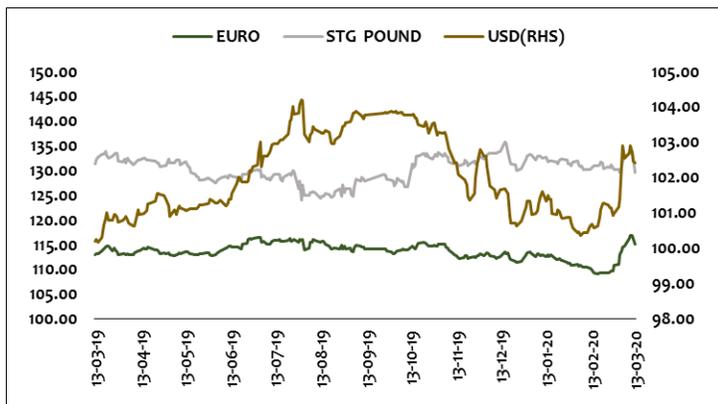


Figure 1: International Currencies

Source: CBK, KSL

Inflation Spikes...

February registered highest inflation in 10 months at 6.37%, a 59bps uptick from 5.78% in January 2020. However, it has well remained within the government range of 5.00%±2.5%, while standing 62bps higher compared to aggressive prediction of 5.75%.

The inflationary pressures was attributed to;

- The food and Non-alcoholic Drinks' Index edged up 2.61% caused by a spike in prices of tomatoes (29.59%), onions (7.28) and kales (3.15%).
- Housing, water, Electricity, Gas and Other Fuels' index registered an uptick of 0.47% from increase in house rents.

We forecast March inflation to stand at 4.07% - 4.38% based on decline food index, lower petroleum prices and low base levels.

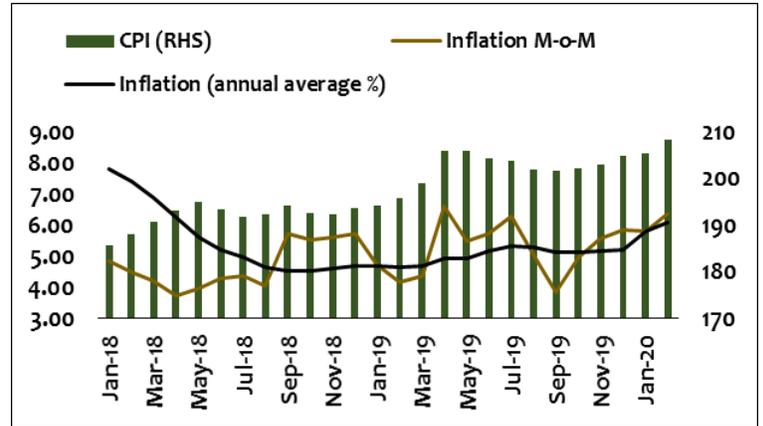


Figure 2: Inflation and CPI

Source: KNBS, KSL

T-bills Market...

- The week ended 13th March 2020 depicted a strong investor appetite on the T-bills market as investors opted out of the stock market.
- In the last auction, the performance rates stood at 201.78%, 92.46% and 460.38% on the 91, 182 and 3674-day papers respectively in comparison to 21.41%, 98.92% and 52.16% recorded in the previous auction.
- **We advise investors to go long on the 182-day paper as it has high acceptance with lowest yield decline.**

Auction Results	2-Mar-2020	9-Mar-2020	16-Mar-2020
91-day			
Weighted Average Rate	7.32%	7.31%	7.31%
Performance Rate	58.43%	21.41%	201.78%
Acceptance rate	99.92%	88.53%	27.21%
182-day			
Weighted Average Rate	8.24%	8.19%	8.10%
Performance Rate	36.31%	98.92%	92.46%
Acceptance rate	73.28%	19.93%	27.25%
364-day			
Weighted Average Rate	9.50%	9.31%	9.10%
Performance Rate	489.29%	360.77%	460.38%
Acceptance rate	20.66%	52.16%	38.71%

Table 2: T-Bills Rate Auction

Source: CBK, KSL

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Higher Redemptions within the month...

- Total redemptions within the next three-month stands at c.Kes 325.56Bn. The total T-bills payments for the month of March stands at c.Kes 257.55Bn and Kes 68.01Bn on T-bonds.
- Informed by the current liquid market, we are bullish that the treasury will raise enough money to meet this payment obligation as well as meet the budgetary support.

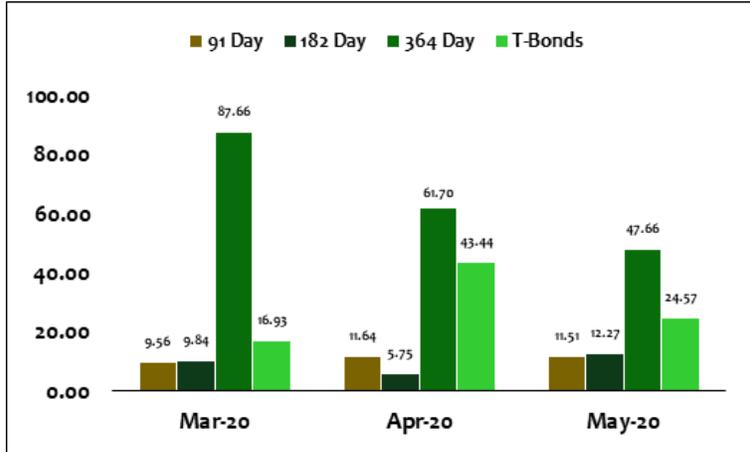


Figure 3: T-Bill and T-Bonds Redemption

Source: CBK, KSL

Evolution of the Yield Curve...

- The market has seen improved activities in the secondary bonds market with a focus on the short end of the curve. The 2 year and 5 year key rates shifted downward by 16.2bps and 14.8bps respectively with the mid to long end shifting upwards.
- Since the beginning of March, the market has traded KES 34.46Bn in value, a 92.7% increase compared to KES 17.89Bn over the same period in February as number of deals improved by 114.7%.
- We forecast short end activity to remain high with a further marginal downward shift credited to investors seeking refuge away from the equities markets as they await clarity on the COVID-19 developments.

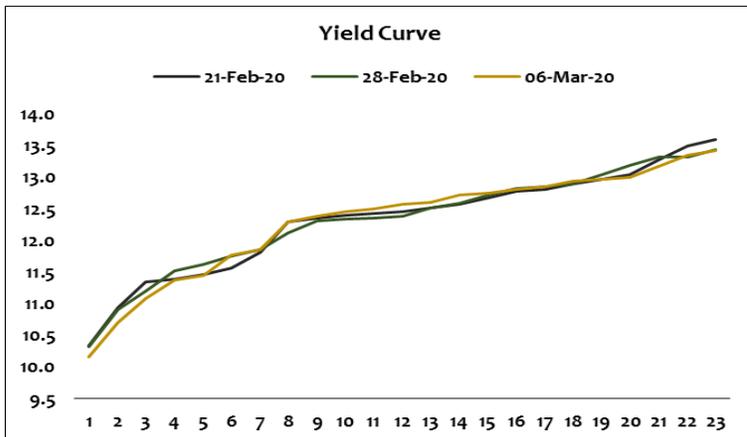


Figure 4: NSE Weekly Yield Curve

Source: NSE, KSL

	06/03/2020	03-01-20	06-03-20	15-03-19	YTD Δ	Y/Y Δ
2-year		10.446	10.1683	10.3615	-2.66%	1.9%
5-year		11.487	11.3768	11.1880	-1.0%	-1.7%
10-year		12.104	12.3891	12.2000	2.4%	-1.5%
15-year		12.521	12.7237	12.3420	1.6%	-3.0%
20-year		12.913	12.975	12.8377	0.5%	-1.1%
24-year		13.025	13.4217	13.0250	3.1%	-3.0%

Table 3: Key Yield Rates Movements

Source: NSE, KSL

Eurobond...

Eurobond Yields drastically shifted up with the 10-year bond at 6.935%, a 219.2bps upward shift m-t-d and 228.3bps on y-t-d. The value of the international bond continues to be affected by the global COVID-19 pandemic and international petroleum fights.

In the end, we anticipate the yields on the ten-year paper to shift downwards to the long-term range of 4.5%.

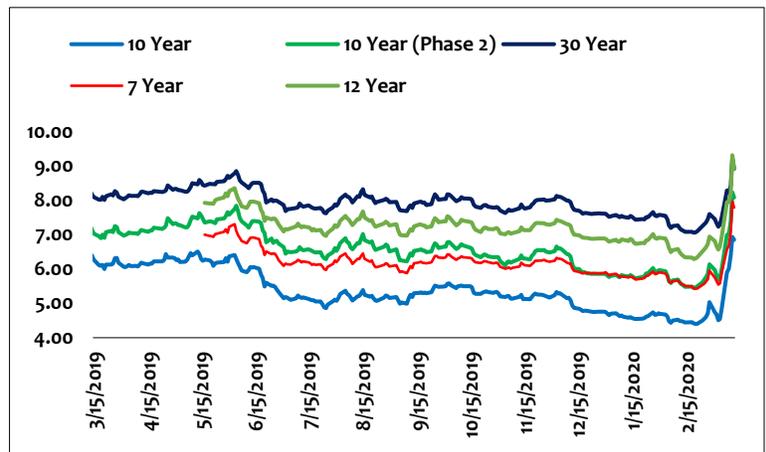


Figure 5: Eurobond Yield

Source: Bloomberg, KSL

Papers on issue...

The treasury has reopened two papers whose objective is to raise Kes 50Bn for budgetary support.

See below our bidding guidance. We project heavy subscription with a focus on the 20-year paper. Our projection factors current liquidity situation, coupled with the CBK's need of maintaining stability on the yields rates.

Issue	FXD1/2018/20	FXD1/2018/25
Tenor	18.07Yrs	23.32Yrs
Coupon	13.2%	13.4%
Closing Date	17-03-2020	17-03-2020
Taxation	10%	10%
Auction Date	18-03-2020	18-03-2020
Conservative	13.25% - 13.40%	13.45% - 13.60%
Aggressive	13.45% - 13.60%	13.65% - 13.80%

Table 3: NSE Weekly Yield Curve

Source: NSE, KSL

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