Kingdom Securities Limited

Pre-Auction Fixed Income Note – November 2020

Sticking to the Medium-Term Debt Strategy (MDTS)

Lengthening the YTM

November primary Issue

Re-opened FXD 2/2013/15 (7.52Yrs)

Re-Opened FXD 1/2018/20 (17.4Yrs)

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EXECUTIVE SUMMARY

The government has reopened two treasury bonds FXD2/2013/15 and FXD1/2018/20 whose objective is to raise Kes 40Bn for budgetary support.

See below our guidance on the bidding and the characteristics of the papers

Issue	FXD2/2013/15	FXD1/2018/20
Tenor	7.52Yrs	17.4Yrs
Coupon	12.00%	13.20%
Closing Date	17-11-20	17-11-20
Conservative	11.00% -11.20%	12.95% - 13.10%
Aggressive	11.30% -11.50%	13.15% - 13.35%

Our bidding is guided by the current moderate liquidity conditions in the market, coupled with the need to protect the stability of the yields by the Central Bank.

Interbank Rate:

The average interbank rate for the month of October averaged at 2.67%; a 33.71bps improvement in comparison to September's 3.05%. **With the upcoming payouts within the month, coupled with the current moderate liquid market, we foresee the interbank rate for November stabilizing at 2.9% - 3.10%.**

Inflation:

Inflation for the month of October surged by 64bps to stand at 4.84% in comparison to 4.20% recorded in the month prior. **We foresee inflation oscillating in the range of 4.30%-4.55% for the remaining part of the year.**

Currency:

The Kenyan shilling registered a marginal weakness against the global benchmarks; the USD, STG Pound and the Euro in the month of September to close at 108.82, 141.16 and 127.27 respectively. **We foresee the KES/USD revolving around 108.75-109.5 for the remaining part of the year.**

T-Bills Market:

The 91-day paper registered an impressive investor traction of 164.84% within the month October while the 182-day paper experienced a sub-par performance of 55.79%. The 364-day paper was relatively subscribed at 111.02%. **We advise investors to increase their traction on the 91-day paper, whose WAR has registered upward progression on both y/y basis (+27.6bps) and w/w basis (+20.8bps).**

Money Market

Stable Interbank Rate…

The interbank rate for the month of October averaged at 2.67%; a 33.71bps improvement in comparison to September's 3.05%. The m-t-d average rate stands at 3.31%; which is a 64bps lower in comparison to the previous month's average. **With the upcoming payouts within the month, coupled with the current moderate liquid market, we foresee the interbank rate for November stabilizing at 2.9% - 3.10%.**

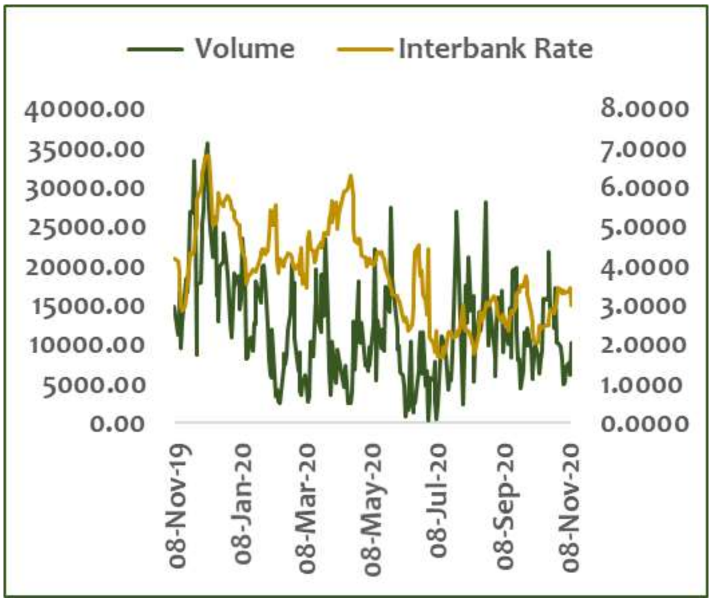

Figure 1: Interbank Rates and Volumes

Inflation improvement expected…

Inflation for the month of October surged by 64bps to stand at 4.84% in comparison to 4.20% recorded in the month prior. Consequently, the CPI went up to 109.604 from 108.571. This scenario was attributed to a spike of 1.14% of Food and Non-Alcoholic Drinks' Index.

We foresee inflation oscillating in the range of 4.30%-4.55% for the remaining part of the year. Our opinion is informed by;

- The wet weather conditions will cushion the food prices from inflationary pressures.
- We expect some relative pressure from the Transport Index due to the commuting that characterizes the festive season. The same will be felt on the Housing, Water, Electricity, Gas and Other Fuels Index due to the relative decline of the international oil prices. International demand of oil has registered a second downturn, due to reintroduction of total lockdown in some countries; courtesy of the Covid-19 pandemic. Murban oil is currently trading at USD 44.51 p/b; a 14.51% higher in comparison to USD 38.87 p/b price as at end of October 2020.

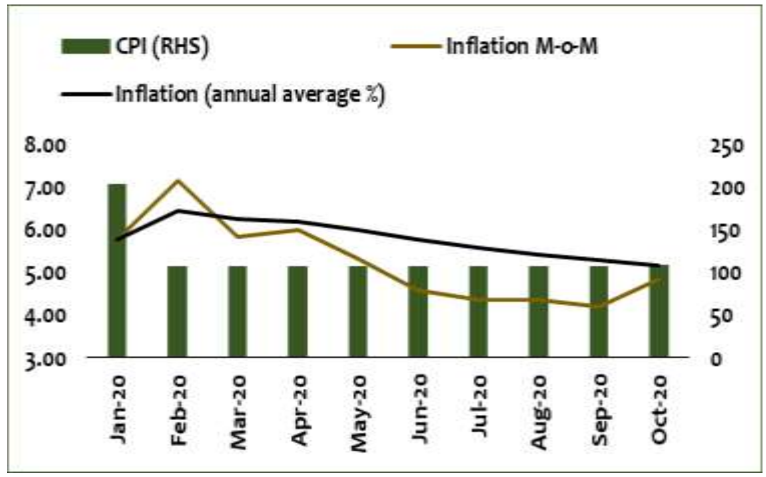

Figure 2: Inflation and CPI

The Erratic Shilling…

The Kenyan shilling registered a marginal weakness against the global benchmarks; the USD, STG Pound and the Euro in the month of October to close at 108.82, 141.16 and 127.27 respectively; 15bps, 213bps and 74bps dip.

The Forex Reserves as at 6th November 2020 stood at USD 8,128Mn; an equivalent of 4.93 months of import cover.

We foresee the KES/USD revolving around 108.75-109.50 for the remaining part of the year. Our opinion is guided by:

- December Eurobond interest payment amounting to c.USD 136.64Mn (USD 43.99Mn in November and USD 91.88Mn in December) will subject the shilling to exogenous shocks. This too is expected to give a hit to the forex reserves, consequently; months of import cover.

12-Nov-20	KES/USD	KES/GBP	KES/EUR
W/W	-0.15%	-2.13%	-0.74%
M/M	-0.47%	-2.96%	-0.41%
Y-t-D	-7.05%	-7.83%	-11.50%
Y/Y	-6.07%	-8.82%	-11.93%

Table 1: Currencies

Figure 3: Forex Reserves/Import Cover

T-Bills Market…

The 91-day paper registered an impressive investor traction of 164.84% within the month October while the 182-day paper experienced a sub-par performance of 55.79%. The 364-day paper was relatively subscribed at 111.02%.

The average October WAR for the three papers registered a positive shift from the previous month whereby the 91, 182 and the 364-day papers improved by 20.8bps, 19.0bps and 19.2bps m/m respectively. This could be attributed to a lower investor traction of the papers in the month of October in comparison to the month prior.

The upcoming T-Bills maturities (c.Kes 164.06Bn) in the month of November and December is expected to bolster liquidity with most investors opting to reinvest in the same tenures at better rates hence contributing to marginal upward of the WAR. **We advise investors to increase their traction on the 91-day paper, whose WAR has registered upward progression on both y/y basis (+27.6bps) and w/w basis (+20.8bps).**

Evolution of the Yield Curve…

The Short and medium end of the curve is characterized by the downside movement of the yield rates, while the long end has experienced an upward growth of the rates.

On a w/w comparison, the YTM key rates for the 2,5 and 10-year papers shed 7.90bps, 7.96bps and 3.77bps respectively, while the 15,20 and 23-year recorded a positive shift of 5.59bps, 6.15bps and 13.61bps respectively.

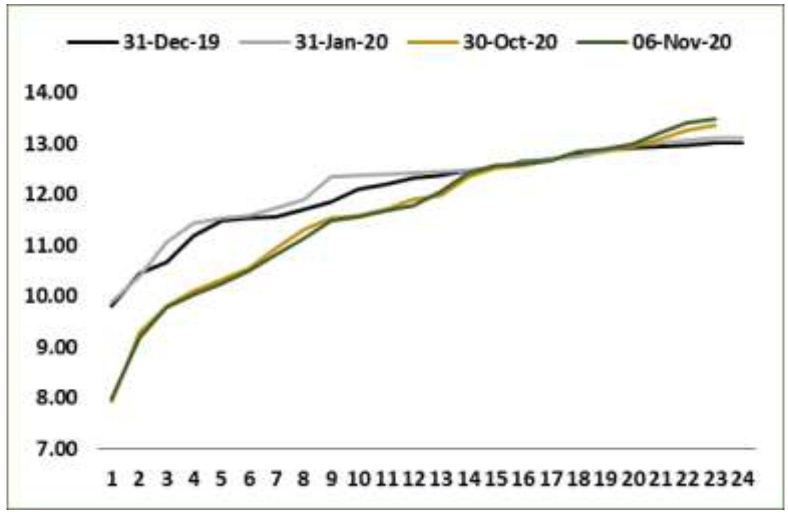

Figure 4: Yield Curve

Redemptions…

The total upcoming maturities- both for the T-bills and T-bonds stands at Kes 250.47Bn (Kes 166.92Bn in November and kes 83,548.80Bn in December).

The government has reopened two bond papers whose objective is to raise Kes 40Bn, an amount that will be significant in offsetting a tranche of the aforesaid maturities.

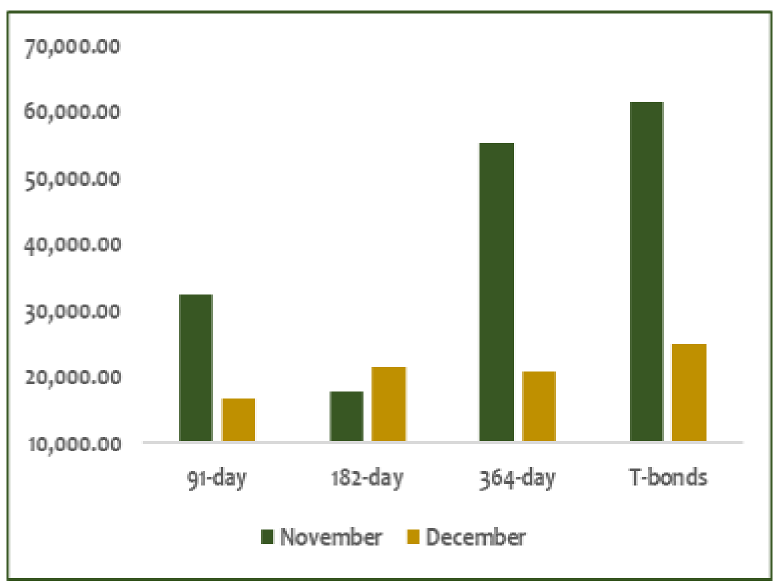

Figure 5: Redemptions

The paper on Issue…

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See below our guidance on the bidding;

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Table 2: Bidding Guidance

Our bidding is guided by the current liquidity conditions in the market, coupled with the need to protect the stability of the yields by the Central Bank.

We predict an aggressive traction on the 15-year paper as investors prefer short tenures but the government's strategy of lengthening the yield curve will see a higher acceptance level the 20-year paper.

Global News…

- The US politics are indicating a bleak future to the global economy, after the Trump - Pence failing to concede defeat to Biden – Kamala. International attention is now directed towards the verdict of the supreme court. The bonds market recorded a growth on Biden's win, whereby the 10-year Treasury paper gained by 9bps to 0.821%, while the 30-year paper gained 5.4bps to 1.60%

- Second wave of covid-19 reported in several countries; Kenya included, with France, Germany, Belgium and Greece imposing a second lockdown. International travel in the above-mentioned countries suppressed hence worsening the already ailing international fuel prices

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