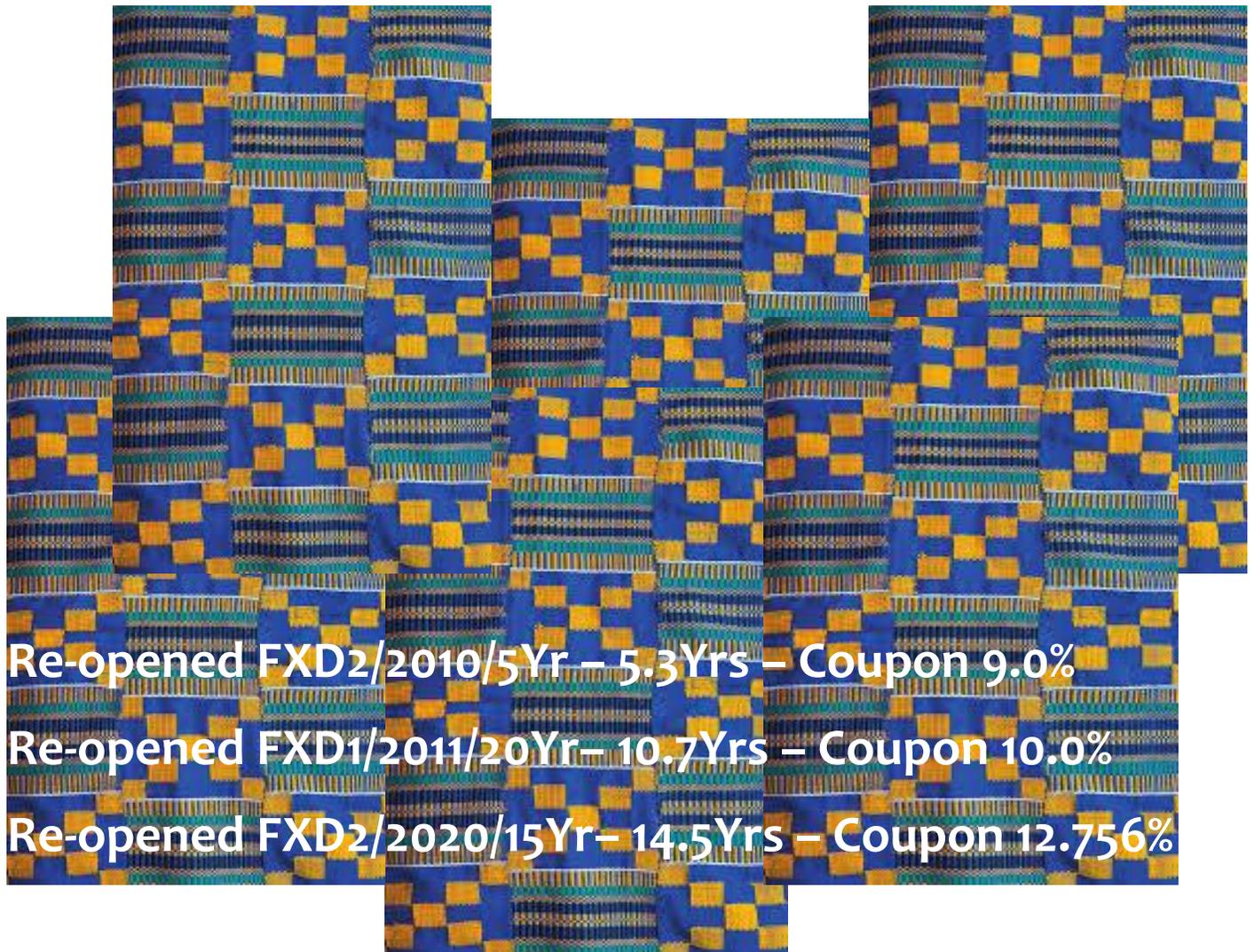


Kingdom Securities Limited

Pre-Auction Fixed Income Note – September 2020



Re-opened FXD2/2010/5Yr – 5.3Yrs – Coupon 9.0%

Re-opened FXD1/2011/20Yr – 10.7Yrs – Coupon 10.0%

Re-opened FXD2/2020/15Yr – 14.5Yrs – Coupon 12.756%

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For the month of September, treasury seeks to raise KES 60.00Bn by reopening three bonds. We project a heavy subscription on the short term FXD2/2010/15Yr which had an acceptance of KES 13.51Bn. In our opinion, treasury will favor acceptance on the long term FXD1/2020/15Yr paper in line with the Mid Term Debt Management Strategy (MTDMS) of lengthening debt term. The paper, issued in February 2020, had a market participation of KES 18.44Bn against an acceptance of KES 5.19Bn.

Find our bidding guidance below:

Bond	FXD2/2010/15Yr	FXD1/2011/20Yr	FXD1/2020/15Yr
Tenure	5.3 Years	10.7 Years	14.5 Years
Coupon	9.000%	10.000%	12.756%
Conservative Bid	10.10% - 10.20%	11.60% - 11.70%	12.10% - 12.25%
Aggressive Bid	10.30% - 10.60%	11.80% - 12.00%	12.30% - 12.90%

Table 1: Bond Bidding Guide

Source: CBK, KSL

Local Economic News:

- The government retained its forecast of 2.6% GDP growth with effects of COVID-19 on the economy becoming visible. Decline in exports, stagnation of tourism activities which is expected to contract by 18.7% and 9.1% in 2020 and 2021, and a surge in unemployment as Q2-2020 at 10.4% compared to 5.2% in Q1-2020 and 4.7% in Q2-2019 on COVID-19 driven lay-off will put pressure on projected growth.
- Lower oil imports and improvement in tea export payment and diaspora remittance improved current account to 4.7% in July compared to 5.0% in June.
- The IMF is expected to revise the Kenyan economy growth up by 0.3% from an earlier forecast of 0.3% contraction. According to the Fund's Country Representative, the economy has shown positive indicators despite the COVID-19 induced slowdown.
- CBK's Monetary Policy Committee (MPC) will hold its next meeting on Tuesday September 29, 2020. We opine the committee will hold the Central Bank Rate (CBR) at the current levels of 7.0%. our opinion is based on;
 - August inflation was at 4.36%, remaining on the lower side of government target of 5.0%±2.5%.
 - Stable banking sector with liquidity levels remaining high with latest levels at KES 34.70Bn above the Commercial Banks Reserve Ratio of 4.5%
 - Positive response from the gradual reopening of the economy with August PMI at 53.0, marginally declining from 54.2 in July 2020
 - Stable international petroleum prices favoring import and low volatility against the dollar.
 - Adequate cash reserves of USD 8,877Mn or 5.39 months of import cover which is higher compared to target of 4 months import cover and EAC target of 4.5 months of import cover.

Global front

- Tanzania general elections will be held on Wednesday October 28th, 2020 pitting the incumbent Dr. John Pombe Magufuli with the Chama Cha Mapiduzi (CCM) party and he will be pitted against opposition leader Mr. Tundu Lissu of Chadema Party.
- No Brexit deal fears continue as the EU continues to pile pressure on the pound against the major currencies as Britain trade deal continues to be a major factor on Brexit success.
- Britain economy recovered to grow by 6.6% in July after witnessing a 20% dip in Q2-2020. The economy remains 12% smaller compared to pre-pandemic levels in February.
- An oil Inventory pile up from expected upbeat of global economy reopening has created a glut that has pushed international pressure downwards by +10% in a fortnight. Further pressure came with Saudi Arabia cutting prices with the aim of widening its market share.
- Japan manufacturing remains gloomy for 14th consecutive months with morale remaining fragile on weak sales in key sectors such as auto and construction industries.
- First presidential debate for the upcoming America elections is set for September 29th, 2020. Below is the schedule.

USA 2020 Presidential Election Calendar

Tuesday, September 29, 2020	First Presidential Debate
Wednesday, October 7, 2020	Vice President Debate
Thursday, October 15, 2020	Second Presidential Debate
Thursday, October 22, 2020	Third Presidential Debate
Tuesday, November 3, 2020	Election Day

Table 2: US Presidential Election Calendar

Source: CBK, KSL

Currency

- High demand on the shilling with limited offers from buyers saw the shilling shed 0.3% m-m and 7.0% y-t-d.
- Increase from energy and merchandise importers will continue to put the shilling under pressure on the dollar to 108.45/75 per dollar levels.
- The recovery on the pound was blessed from a second week drop as No Brexit deal fears continue as the EU and Britain trade deal continues to be a major factor on Brexit success.
- Cash reserves stood at USD 8,877Mn or 5.39 months of import cover which is higher compared to target of 4 months import cover and EAC target of 4.5 months of import cover.
- Currency reserves were buoyed by USD 750Mn from the World Bank to aid with development of infrastructure in the Northern Arid region.

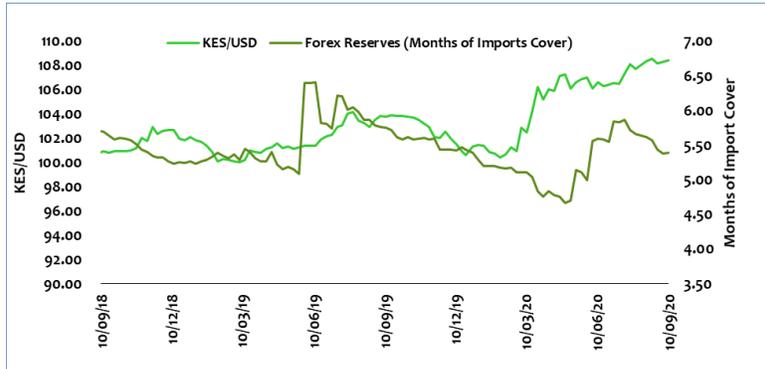


Figure 1: Forex Reserves and Currency

Source: CBK, KSL

	11-Sep-20	KES/USD	KES/GBP	KES/EUR	KES/JPY	Dollar Index
W/W		0.1%	2.1%	0.2%	0.4%	0.6%
M-t-D		0.2%	2.1%	0.2%	0.0%	1.0%
M/M		0.3%	0.4%	0.9%	0.1%	0.4%
Y-t-D		7.0%	5.5%	13.1%	9.5%	3.7%
Y/Y		4.6%	0.8%	12.2%	5.7%	5.4%

Table 3: Currency Performance

Source: CBK, KSL

Inflation

- August Inflation remained flat at 4.36% with the index increasing by 0.2%. Rate remained low as key food items, vegetables, onions and tomatoes saw a price decline.
- We forecast September inflation at 4.35% - 4.50% as food prices remain low as the harvesting season continues.
- The economy will continue enjoying low inflation levels based on favorable weather for agriculture activity. Metrological forecast for
- An oil Inventory pile up from expected upbeat of global economy reopening has created a glut that has pushed international pressure downwards by +10% in a fortnight. Further pressure came with Saudi Arabia cutting prices of with the aim of widening its market share.
- Ministry of energy plans to introduce KES 5.00 per litre of diesel towards Diesel Price Stabilization Fund. The fund meant to reduce price volatility will see state subsidy kick in when global crude prices cross USD 50 per barrel. This will mitigate fuel inflation with diesel being most used fuel.

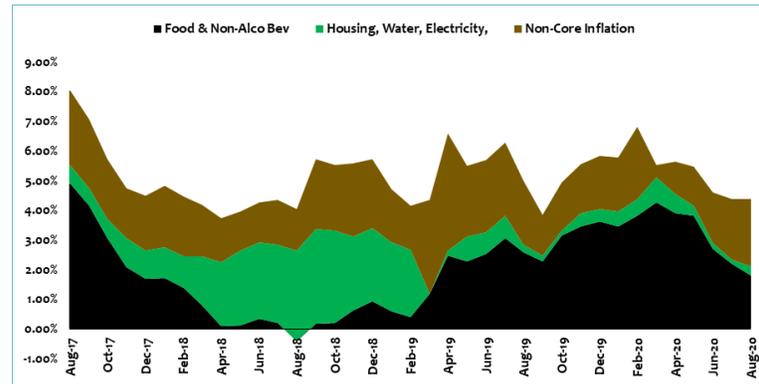


Figure 2: Inflation Levels

Source: KNBS, KSL

Interbank

- Interbank Rate eased by 62.1bps since the beginning of September.
- This was due to recovery of liquidity after a tight liquidity regime in mid-august which reconciled with the payment of Eurobond interest on 7.25% and 8.25% coupon payment

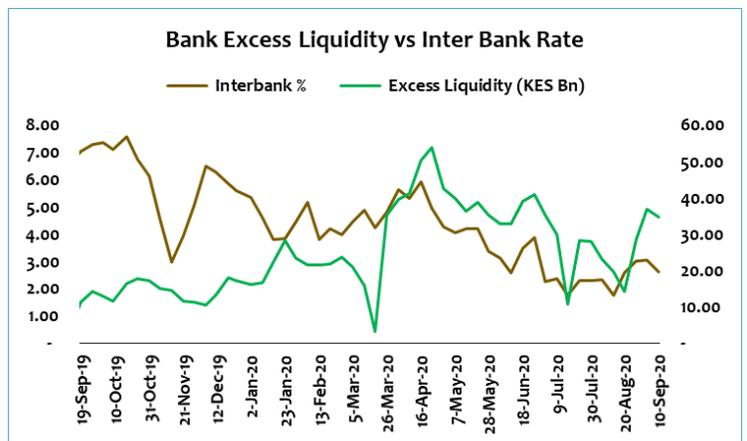


Figure 3: Bank Liquidity and Interbank Rate

Source: CBK, KSL

for USD 1Bn 2028 and USD 1Bn on 2048 maturities respectively.

T-Bills

- T-Bills – Auctions remained undersubscribed for the fifth time running. Improved liquidity levels helped push last week subscriptions to 84.1% from 49.6% the previous week. Acceptance levels marginally improved to 92.6% from 91.8% in the previous auction.
- The decline in subscription has led T-Bills decline to 27.0% from 28.6% on 14th August, as a component of total domestic debt.
- With the level of liquidity and expected review of CRR from 4.25% to 5.25%, subscription remains concentrated on the 91-day paper with investors opting to roll over funds while matching with new investment. This led to the 91-day paper shedding 2.8bps.
- As per table 4 , the drought on subscription helped push the rates up by 50.4bps, 14.0bps and 11.9bps for the 91-day, 182-day and 364-day papers respectively.
- September T-Bill redemptions stand at KES 72.48Bn. Shift to 91-day paper will push October redemptions up to KES 119.43Bn with KES 68.56Bn on the three-month paper.
- We continue to advise our clients to invest on the 91-day paper bidding at 6.627% - 6.660% range.

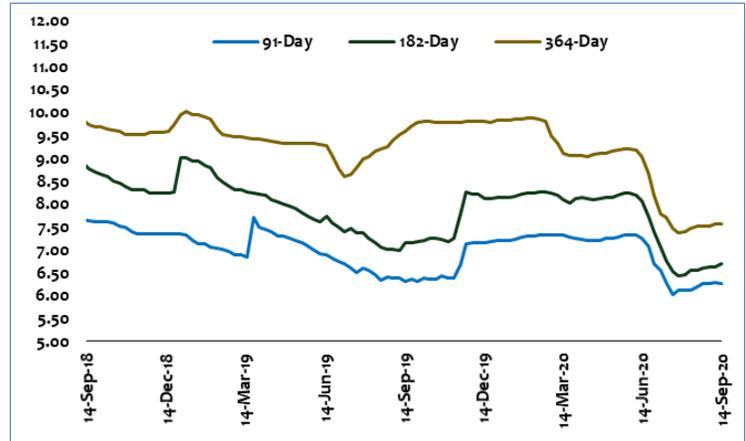


Figure 4: T-Bill Rate

Source: CBK, KSL

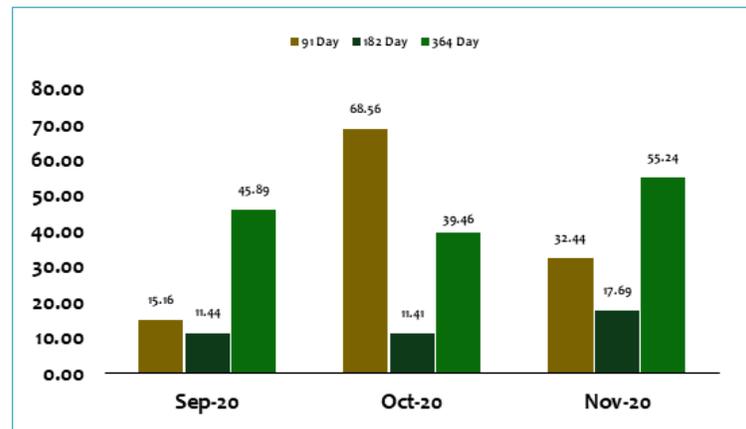


Figure 5: T-Bill Redemptions

Source: CBK, KSL

Tenor	Last 4 Auctions			WAR	
	Amount Accepted (KES Bn)	Subscription Rate	Acceptance Rate	14-09-20	1 Month bps Δ
91-Day	17.12	107.0%	93.9%	6.627%	50.4
182-Day	17.77	111.8%	90.0%	6.690%	14.0
364-Day	19.40	40.1%	92.4%	7.504%	11.9

Table 4: T-Bill Auction Performance
Source: CBK, KSL

T-Bonds

- August the government received KES 101.47Bn on a KES 70.00Bn offer on 11-year infrastructure bond with a coupon of 10.90%. Treasury accepted KES 78.64Bn at an average WAR of 11.30%. the accepted WAR was within our aggressive bid of 10.90%-11.30% range.
- September redemptions stand at KES 17.74Bn in coupons. October will see KES 60.65Bn redemption with KES 27.26Bn in coupons and KES 33.39Bn in maturity of FXD2/2010/10Yrs.

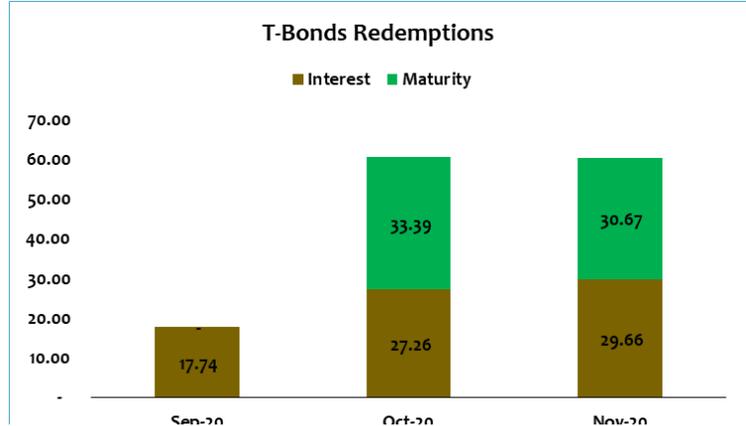


Figure 6: T-Bonds Redemptions

Source: NSE, KSL

Yield Curve

- Yield curve shift has remained static in the last few weeks with clear shifts witnessed in 10 year and below duration.
- The long end has remains rigid compared to same period in 2019 with a downward shift witnessed on the short end.
- The short end is affected by high liquidity in the market while long end is anchored on positive economic recovery forecast.
- As per table 5, Month on month, there has been an upward shift on the 2-year key rate and a downward shift on the long end.

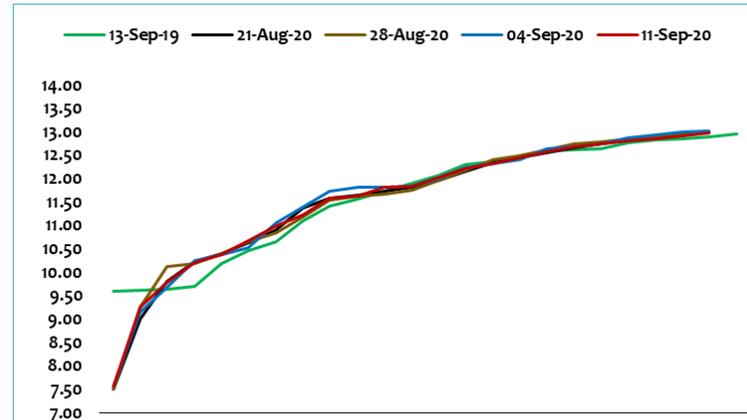


Figure 7: Yield Curve

Source: NSE, KSL

Government Debt

- According to CBK, Kenya reached 47% of its budgeted domestic borrowing in the first two and half months of the fiscal year 2020-21. From figure 8, there has been a rapid increase in domestic borrowing mainly through bonds which have seen >100% subscription with high acceptance rate.
- The borrowing target had enabled government raise necessary funds while managing to lengthen the term of the borrowing with treasury opting to re-open long term and accept long term bonds.
- The domestic borrowing target for 2020-21 stands at KES 493.4Bn.
- This was necessitated on low revenue collection on the period.
- With the performance of revenue collection expected to be below target, we anticipate heavier borrowing with rates continue to favor investors.

YTM Key Rates %	03-Jan-20	14-Aug-20	11-Sep-20	(YTD) bps	M-M bps
2 Year	10.4458	8.9083	9.2631	118.3	35.5
5 Year	11.4867	10.3831	10.3639	112.3	1.9
10 Year	12.1035	11.5955	11.6248	47.9	2.9
15 Year	12.5211	12.3500	12.3175	20.4	3.2
20 Year	12.9125	12.9000	12.7964	11.6	10.4
23 Year	13.0125	13.0063	12.9800	3.2	2.6

Table 5: Key Yield Rates Performance

Source: NSE, KSL

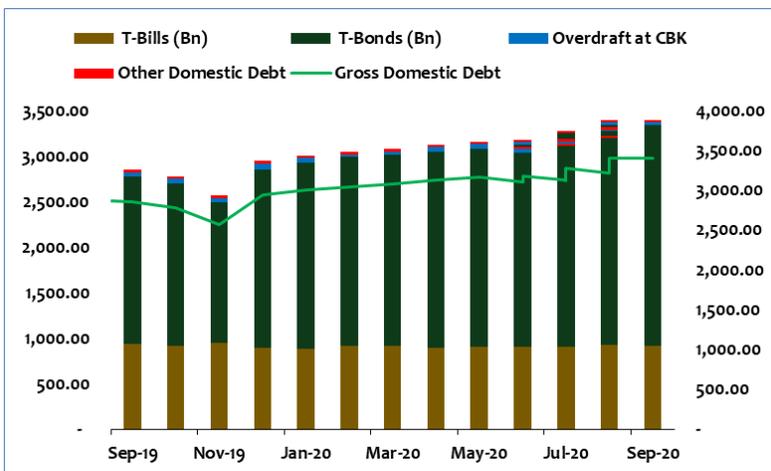


Figure 8: Government Domestic Debt

Source: CBK, KSL

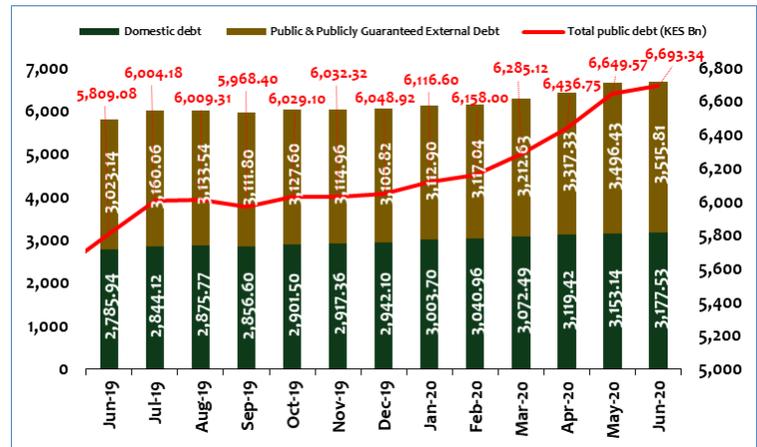


Figure 9: Total Government Debt

Source: CBK, KSL

Eurobond

- Eurobond yields continue a downward shift on positive sentiments from the economy.
- Compared on a month on month, the 2024 witnessed the highest downward shift of 108.5bps while the 2032, 2027, 2028 and 2048 saw a 84.9bps, 83.2bps, 81.0bps and 58.3bps in downward shift respectively as of 4th of Sept.

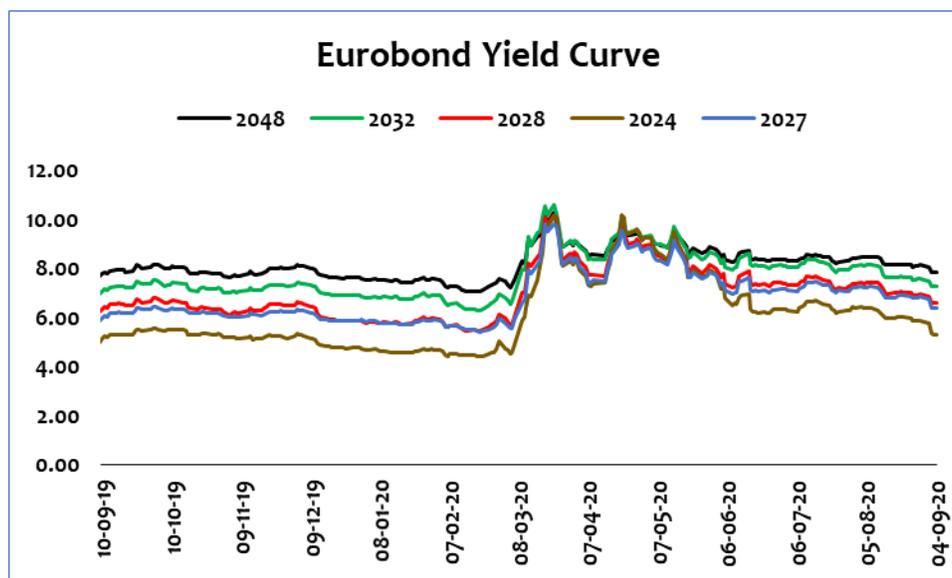


Figure 8: Eurobond Yields

Source: Bloomberg, KSL

Primary Issue

- For the month of September, treasury seeks to raise KES 60.00Bn by reopening three bonds.
- We project a heavy subscription on the short term FXD2/2010/15Yr which had an acceptance of KES 13.51Bn.
- In our opinion, treasury will favor acceptance on the long term FXD1/2020/15Yr paper in line with the Mid Term Debt Management Strategy (MTDMS) of lengthening debt term. The paper, issued in February 2020, had a market participation of KES 18.44Bn against an acceptance of KES 5.19Bn..
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Table 6: Bond Bidding Guide

Source: CBK, KSL

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