

Kingdom Securities Limited

Pre-Auction Fixed Income Note – January 2021



New IFB1/2021/16Yr – Coupon MDA - Tenure 16 Years

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CBK second January, IFB1/2021/16Yr, issue comes to a close on Tuesday 19th, 2020.

CBK continues to show thirst for funds due to large T-Bill, T-Bonds and Coupons maturity schedule of c.KES 106.78Bn.

In the first issue, FXD1/2021/2Yr, CBK accepted 91.3% of the KES 61.15Bn received or 224.6% subscription levels from an offer of KES 25.00Bn. Coupon for the bond was 9.486%. The tenure was reserved for liquidity drive.

CBK issued a KES 50Bn IFB1/2021/16Yr market determined bond which is to drive liquidity and grow forex reserves cushion. Based on the high foreign investors interest on infrastructure bonds and the high liquidity levels in the market, we anticipate an over subscription on the IFB1/2021/16Yr with a >90% acceptance levels. Below is our bidding guidance.

Bond	IFB1/2021/16Yr
Tenure	16 Years
Coupon	MDA
Conservative Bid	11.95% - 12.10%
Aggressive Bid	12.20% - 12.50%

Table 1: Bond Auction Information Source: CBK, KSL

- **CBK Monetary Policy Committee (MPC)** - CBK Monetary Policy Committee (MPC) is set to meet on Wednesday January 27th, 2021 to review the Central Bank Rate (CBR). We expect the committee to retain the CBR at 7.0% for the 10th month running. Our view is based on:

 - December inflation of 5.62% remaining within government target of 5.0%±2.5%
 - Stable banking industry with adequate liquidity of 53.3% in October 2020 versus 6months average of 52.3%. The sector has a stable gross non-performing loans (NPLs). October 2020 Gross NPLs was 13.5% compared to 6-months average of 13.4%.
 - The shilling has remained stable
 - Forex reserves stands at USD 7.722Mn or 4.74 months of import cover.
 - Private sector credit growth was 7.7% in October and is bound to remain within 6-months average of 7.9% for the next quarter.
 - Kenya PMI December 2020 was at 51.4 compared to 51.3 in November 2020. November MPC Private Sector Market Perception Survey had expectation of improved economic activities in January.
 - November current account was 4.7% compared to 4.9% in October 2020 and 4.2% in November 2019.
- **Debt Suspension** - Kenya receive a 6-month debt servicing suspension from Paris Club. The suspension is on debt worth KES 32.9Bn which due was between January – June 2021. **See debt review for further details.**
- **Global News**

 - International petroleum prices remain shaky with increase in number of Covid-19 infections in Asia, Europe and America putting pressure on prices with price support coming from the news of Saudi Arabia and OPEC+ pledge to unilaterally cut output in February and March 2021. Oil prices have seen WTI ...
 - The global economy is expected to report regional recession with Asia recovering faster than Europe. China, the only large economy to report a full year growth of 1.8% with majority of developed economies reporting contracting economies. Chinas export surge was driven by demand for protective gear, medical supplies and stay-at-home electronic devices
 - US extra stimulus to support the economy through the pandemic. This implies higher federal borrowing will remain a key factor in global economic growth. The stimulus package prices at USD 1.5Tr will go towards jump starting the economy and help minority communities.
 - America’s asset buying program continues to increase supply of the green buck in the market weigh down on the currency weakening its value.

▪ **Inflation** – December inflation stood at 5.62% pushed up by food index. We forecast January inflation edge upwards to 5.65% - 6.0% range based on increase in VAT from 14.0% to 16.0%, food prices to continue putting pressure on the food index, higher transport and fuel index based on increase of KES 0.17, KES 4.57 and KE 3.56 in pump prices for petrol, diesel and kerosene respectively.

▪ **Interbank Rate** - Market liquidity have generally improved with the interbank easing to 3.73% at the end of the week, a 230.obpd decline from to 6.03% the week before. Weeks average rate decline from 6.18% to 4.65%with average demand increasing to KES 13.02Bn from an average of KES 4.81Bn the week before.

For the remainder of the month and the months of February and March, we expect the market to remain mildly liquid on heavy government securities maturities with the interbank to average 4.5% - 5.0%.

▪ **T-Bills Maturity** - January (remaining two weeks) KES 53.22Bn, February 113.47Bn and March 108.31Bn. January T-Bonds maturity stands at KES 31.12Bn and a coupon payout of KES 22.44Bn.

With high risk on private sector lending, we anticipate investors continuing opting to reinvest in government securities. On the other hand, high demand and the heavy maturities will for treasury to accept aggressive bidding which will push up short term yields. **For short term papers, we advise our clients to focus on the 364-day paper bidding as follows:**

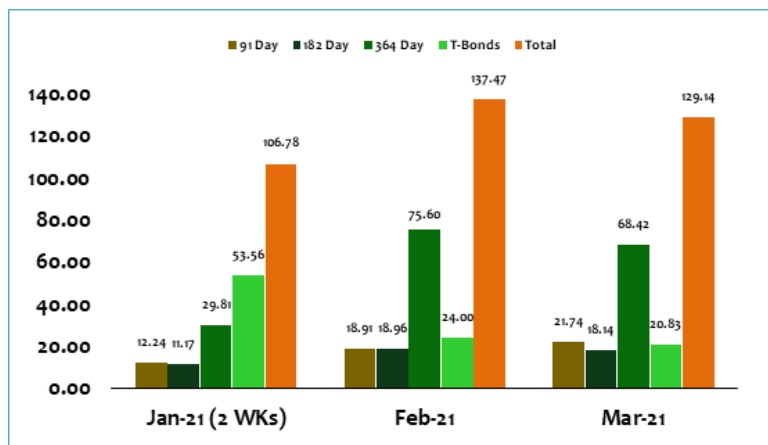


Figure 1: Government Securities Maturity Schedule

Source: CBK, KSL

T-Bill	Bid Amount (KES Mn)	Rate
91-Day	4,000	6.87% - 6.90%
182-Day	10,000	7.55% - 7.58%
364-Day	10,000	8.48% - 8.53%

Table 2: T-Bill Auction Information

Source: CBK, KSL

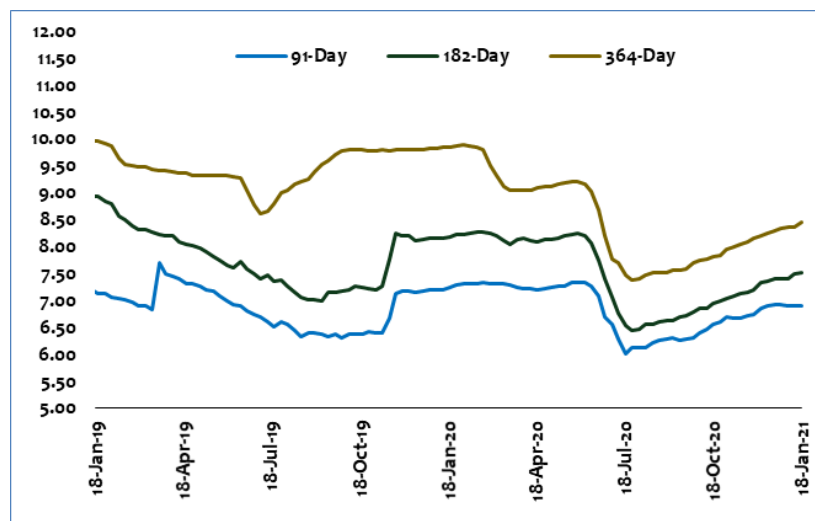


Figure 2: T-Bill Rates Graph

Source: CBK, KSL

- **Currency** – The shilling continues to lose ground on the major currencies shedding 0.5%, 0.9% and 0.7% on the USD, GBP and JPY respectively while gaining 0.4% on the EUR on w/w basis.

Euro weakened with the region continue facing an increase in new infection which has led to countries imposing partial lockdown. This is expected to affect the already weakened economy with the region expecting a negative growth in Q4-2020.

The European Central Bank (ECB) Executive Board and the 16 governors of the euro area central banks vote on where to set the rate. analyst do not expect any change in from the current rate of 0.0%.

15-Jan-21	KES/USD	KES/GBP	KES/EUR	KES/JPY	Dollar Index
W/W	0.5%	0.9%	0.4%	0.7%	0.4%
M-t-D	0.8%	0.7%	0.1%	0.3%	0.7%
M/M	1.3%	0.3%	1.2%	0.9%	0.1%
Y-t-D	0.8%	0.7%	0.1%	0.3%	0.7%
Y/Y	8.6%	14.1%	18.9%	15.3%	7.0%

Table 3: Currency Movement

Source: CBK, KSL

- **Forex Reserves** – Forex reserves inched 1.1% higher w/w to USD 7807Mn or 4.74 months of import cover from USD 7,722Mn or 4.74 months of import.

The increase was driven by foreign investors positioning on the upcoming IFB1/2021/16Yr bond.

Despite an expected temporary reprieve on reception of dollars from foreign investors eyeing the upcoming infrastructure bond, we forecast the shilling will revert back to the 111.00 – 111.50/ USD levels as Eurobond interest of USD 77.5Mn is due on February 28th, 2021 on the USD 1.00Bn 2028 and USD 1.00Bn 2048 Eurobonds.

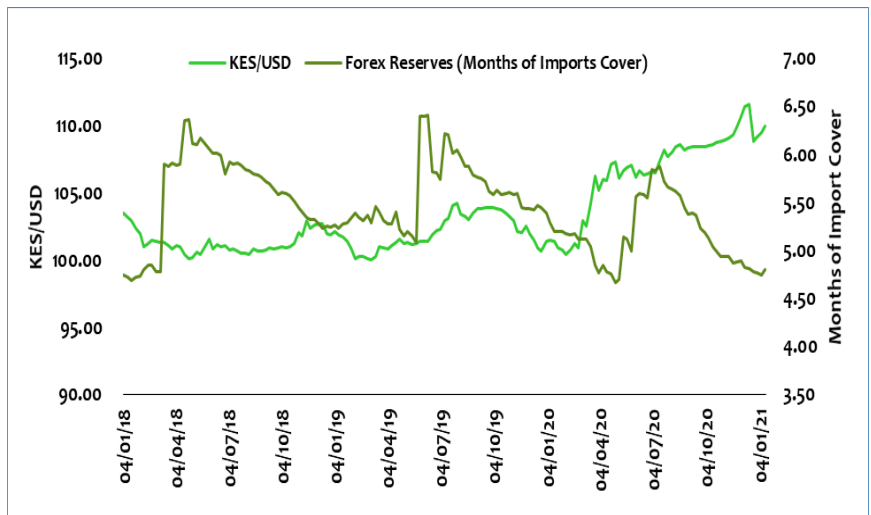


Figure 3: Shilling vs. Dollar Reserves

Source: CBK, KSL

- **Total Public Debt** - Kenya's total public debt stood at KES 7.12Tr as at end of September 2020. The debt foreign proportion stood at 51.4% or KES 3,663.49Bn.

For the fiscal year 2020/21, redemptions and interest payment were as follows

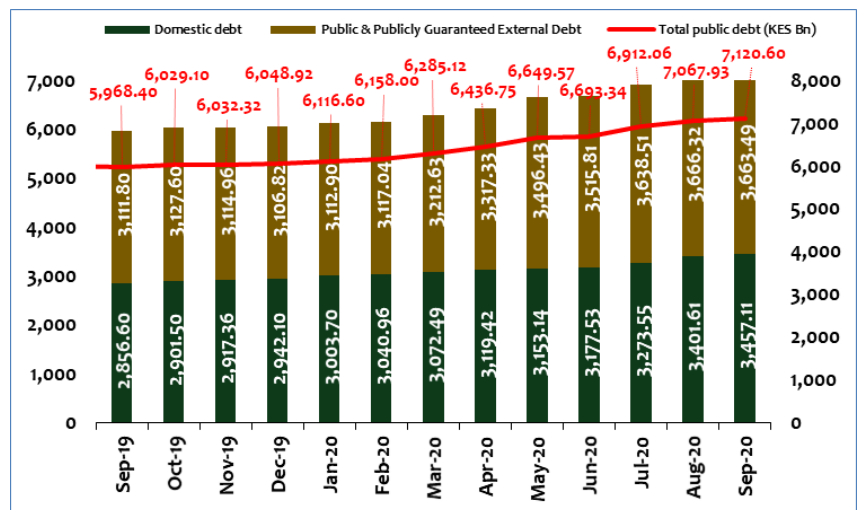


Figure 4: Total Public Debt

Source: CBK, KSL

Redemptions	2020/2021	Interest Repayment	2020/2021
Italy	11,352	Italy	2,547
Japan	4,700	IDA (World Bank)	8,906
France	7,267	ADB/ADF	3,673
IDA	17,576	New Loans	2,937
AFDB/ADF	5,662	France	1,416
Spain	5,776		
China		China	
Exim Bank of China	1,876	Exim Bank of China	29,887
China Development Bank	43,267	China Development Bank	3,166
	45,143	China Total	33,053

Table 4: Foreign Debt

Source: Source: FY 2020/21 Printed Budget Estimates, KSL

Kenya receive a 6-month debt servicing suspension from Paris Club. The suspension is on debt worth KES 32.9Bn which due was between January – June 2021. The countries granting the debt suspension include Belgium, Canada, Denmark, France, Italy, Japan, Republic of South Korea, Spain and USA

Kenya's public and publicly guarantee debt stock is projected to increase driven by poor revenue performance and pressure from expenditure on ongoing programs meant to jumpstart the economy

Although this gives cashflow relief to treasury, it puts the country's credit rating at a peculiar position with all credit rating agencies downgrading Kenya's credit rating.

Rating Agency	Rating	Outlook	Last Update	Action
Standard & Poor's	B+	Negative	15-Jul-20	Outlook – Downgrade
Moody's Investors Service	B2	Negative	08-May-20	Outlook – Downgrade
Fitch Ratings	B+	Negative	19-Jun-20	Outlook – Downgrade

Table 5: Kenya Sovereign Credit Rating

Source: Source: Bloomberg, KSL

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