

# Kingdom Securities Limited

## Pre-Auction Fixed Income Note

*Welcome to 2021!*  
*January Primary Issue*

**New Issue: FXD1/2021/2Yr**

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#### Primary Issue – January 2021

In the month of January 2021, CBK issued FXD1/2021/2Yr whose objective is to raise KES 25Bn. The coupon is market determined. **The short-term paper targets to entice investors to inject c.Kes 24.22Bn T-Bill maturities scheduled for January 4<sup>th</sup>, 2021.**

Below is our bidding guidance.

Bond	FXD1/2021/2Yr
Tenure	2 Years
Coupon	MDA
<b>Conservative Bid</b>	9.4%-9.6%
<b>Aggressive Bid</b>	9.7%-10.1%

#### Statement of Actual Revenues and Net Exchequer Issues – November 2020

- Total receipts stood at 85.0% of proportionate estimated and 35.4% of original estimates.
- Treasury remains ahead of the budget in domestic borrowing at 110.0% driven by low tax collection, an 80.8% of proportionate target.
- Exchequer payment stood at 83.1% of proportionate estimates with total National Government issue at 86.0%.
- The month of November saw a slowdown in tax revenue collection with KES 101.38Bn collected compared to KES 108.70Bn in October and KES 129.59Bn in September.
- Treasury was aggressive with borrowing with a total of KES 95.73Bn borrowed from domestic market while external loans and grants were KES 14.59Bn compared to the month of October with KES 64.76Bn and 1.28Bn borrowed in domestic market and external loans and grants respectively. The external borrowing aided to cushion dollar related payment due in the month.
- Recurrent exchequer payment stood at KES 75.43Bn against 72.93Bn in October while public debt repayment was KES 112.92Bn against 101.59Bn in October. This was due to KES 61.56Bn coupon and interest payment in T-Bonds and USD 100.25Mn coupon payment of Eurobond.
- **We forecast much better revenue collection in second half of the fiscal year 2020-2021 especially on the tax front. This is due to the return of Pre-Covid-19 Taxes on VAT and Income Tax January 1st, 2021. This is key to revenue collection with PAYE and VAT each contributing c.25% of the ordinary revenues.**

Item (KES Mn)	Original Estimates	Proportionate Estimate	Actual Receipts	Receipts to Original Estimates	Receipts to Proportional Estimates
Opening Balance	-	-	48,028.92		
Tax Revenue	1,567,632.12	653,180.05	527,733.80	33.7%	80.8%
Non-Tax Revenue	66,134.72	27,556.13	37,029.41	56.0%	134.4%
Domestic Borrowing	786,648.15	327,770.06	360,555.68	45.8%	110.0%
External Loans and Grants	373,196.54	155,498.56	26,246.04	7.0%	16.9%
Other Domestic Financing	36,816.50	15,340.21	3,041.59	8.3%	19.8%
<b>Total Revenue</b>	<b>2,830,428.03</b>	<b>1,179,345.01</b>	<b>1,002,635.44</b>	<b>35.4%</b>	<b>85.0%</b>

Item (KES Mn)	Original Estimates	Proportionate Estimate	Total Cash Released	Cash Released to Original Estimates	Cash Released to Proportional Estimates
Recurrent Exchequer Issues	1,062,992.25	442,913.44	371,178.11	34.9%	83.8%
Public Debt	904,703.67	376,959.86	359,209.91	39.7%	95.3%
FCS Exchequer Issues	1,028,064.06	428,360.03	391,369.53	38.1%	91.4%
Development Exchequer Issues	355,724.97	148,218.74	114,128.19	32.1%	77.0%
Total Issues to National Government	2,446,781.27	1,019,492.20	876,675.82	35.8%	86.0%
Total Issues to County Government	383,646.75	159,852.81	103,618.68	27.0%	64.8%
<b>Total Exchequer Issue</b>	<b>2,830,428.03</b>	<b>1,179,345.01</b>	<b>980,294.51</b>	<b>34.6%</b>	<b>83.1%</b>

#### Inflation

- December inflation stood at 5.62% on reversal of benefits from food and Non-Alcoholic Beverages
- January inflation is expected to be higher due to resumption of 16% VAT from the current levels, higher food index and higher fuel prices caused by higher international prices, depreciating of shilling against the dollar and higher spending on resumption of the 2020 academic year.

#### T-Bills

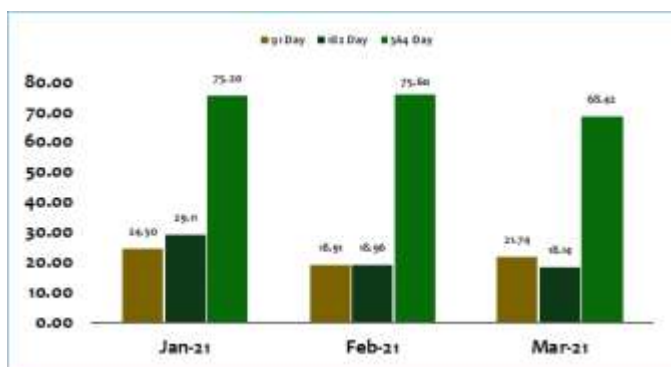
- T-Bill Redemptions for January stands at a total of KES 128.80Bn with heavy payout on the 364-day paper with KES 75.20Bn. With the tight liquidity market witnessed in December, the January maturities will abet the liquidity environment, albeit temporarily.
- We forecast T-Bill subscriptions to improve in January boosted by rollovers with investors opting for higher returns.

#### December Inflation

- 5.62%

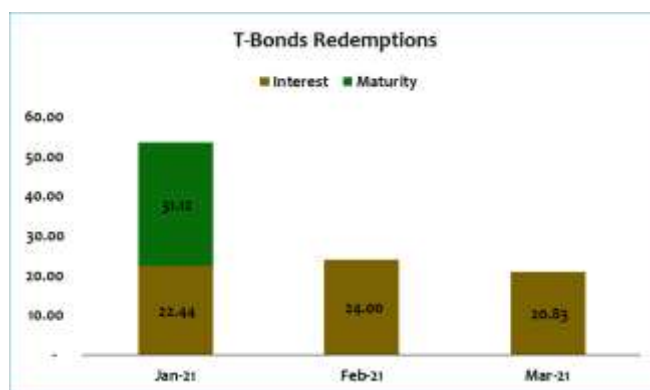
#### January 2021 Redemptions

- T-Bill Total KES 128.80Bn
- T-Bonds KES 53.56Bn



#### T-Bonds

- In the month of December, treasury offered KES 40Bn on FXD1/2012/15 and FXD2/2019/15. Subscriptions stood at KES 24.34Bn or a performance of 60.9% and an acceptance rate of 75.0%. Treasury opened a tap seeking KES 22Bn and accepted 99.1%.
- Poor performance on the primary was due to tight liquidity levels. This led to aggressive bidding forcing low acceptance levels especially on the FXD2/2019/15 which had an acceptance level of 64.4% compared to 92.3% on the poorly subscribed FXD1/201/15.
- January T-Bonds payment stands at KES 53.56Bn which include a maturity of KES 31.12Bn (FXD1/2019/2Yr) and coupon payments of KES 22.44Bn.

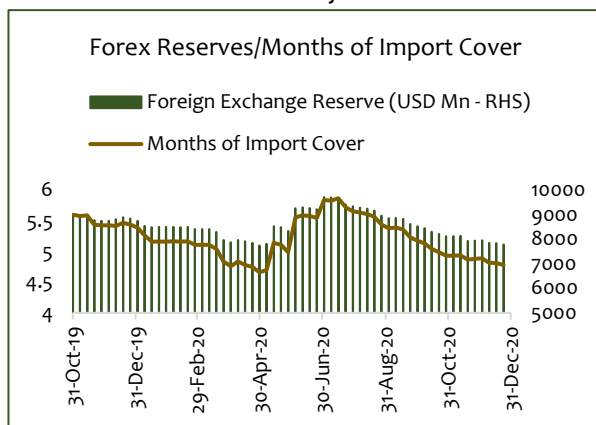


#### Interbank Rate

- Tight liquidity in the market saw the interbank rate average at 5.06% within December; 181bps uptick from November's 3.25%. The highest rate within the year recorded was 6.05% (20<sup>th</sup> April 2020); a 461bps difference from the least rate of 1.68% recorded on 14<sup>th</sup> July 2020.
- Reduction of CRR from 5.25% to 4.25% saw bank release Kes 35.2Bn from CBK, a situation that was expected to improve liquidity, but further stifled it as the banks increased their appetite in government securities.
- We foresee the interbank rate remaining under pressure in the 5% levels, a resultant of the tight liquidity market.

#### Forex Reserves

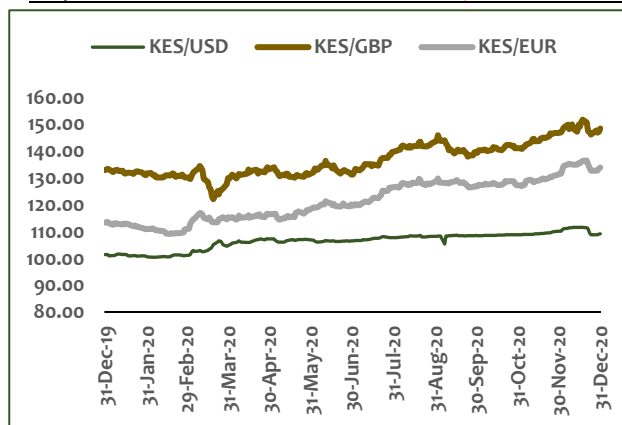
- The Forex reserves for the month of December averaged at USD 7857Mn down, from USD 8037Mn recorded in November; a 2.24% decline.
- This is attributed to USD 91.88Mn interest payment on Eurobond which was paid within the month of the December, consequently dipping the months of import cover by 1.6% to the current 4.83 months.
- Materialization of the ongoing Kenya-IMF negotiations on a USD 2.3Bn loan facility will offer relief to the foreign reserves, hence bolstering months of import cover. Further, this will be bolstered by infrastructure bond that is currently offer.**



#### Currencies

- The local unit registered a weakness against the global currency benchmarks to close at Kes/USD 109.17, Kes/GBP 148.36 and Kes/Euro 133.90; a 7.18%, 10.39% and 15.33% y/y decline respectively.
- The shocks on the Kes/USD were majorly experienced due to interest payment, with the latest Eurobond interest payment made on 28<sup>th</sup> Dec 2020.
- Continuous intervention by the Central Bank will cushion the shilling from both endogenous and exogeneous shocks. **We foresee the shilling oscillating in the 109 levels against the USD, within the month.**

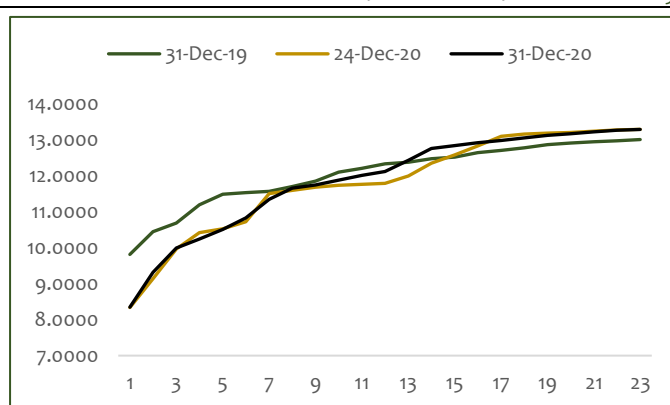
	31-Dec-20	KES/USD	KES/GBP	KES/EUR
W/W		0.35%	1.52%	0.93%
M/M		0.81%	1.10%	2.03%
Y/y		7.18%	10.39%	15.33%



#### The Yield Curve

- The short end of the curve experienced a y/y downward shift with the key rates for the 2,5 and 10-year papers shedding 112.7bps, 97.42bps and 22.01bps respectively, while the medium and long end registered a growth

YTM Key Rates %	31-Dec-19	24-Dec-20	31-Dec-20	Y/Y bps
2 Year	10.4458	9.1414	9.3187	112.71
5 Year	11.4867	10.5250	10.5125	97.42
10 Year	12.1035	11.7421	11.8834	22.01
15 Year	12.5211	12.5823	12.8437	32.26
20 Year	12.9125	13.2066	13.1725	26.00
23 Year	13.0125	13.2956	13.2934	28.09



#### Papers on Issue

- The treasury has issued two papers, FXD1/2021/2Yr and IFB1/2021/16Yr whose objective is to raise a Kes 75Bn (Kes 25Bn for the 2Yr and Kes 50Bn for the 16Yr).

See below the paper characteristics

Bond	FXD1/2021/002
Tenure	2 Years
Coupon	MDA
Amount	25Bn
Bid Closure	05-01-21

We foresee an aggressive investor appetite for FXD1/2021/002, a scenario that will be countered by Central bank by rejecting expensive bids.

See below our bidding guidance;

Bond	FXD1/2021/002
Conservative Bid	9.4%-9.6%
Aggressive Bid	9.7%-10.1%

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