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The president assented to the Finance Bill 2019 into low bringing an end to the Interest Rate Capping regime and giving the CBK more room to implement monetary policy when and where necessary.

The latest Budget Review and Outlook Paper, Treasury has proposed a 2.9% upward adjustment to the supplementary budget to KES 2.81Tr from 2.73Tr. This will aid cover upcoming interest due and payment in SGR. While the November indicated a 1.2% reduction in revenue collection, we expect the government to depend on additional debt to bridge the request.

With the next CBK's MPC meeting, first in post Interest Rate Capping, is slated for Monday November 25th, 2019. We expect CBR to be retained at 9% as Macroeconomic Environment remained stable as discussed below;

- October inflation was at 4.95%, up from 3.83% in September. The increase was due to increase in maize flour prices, upward adjustment in exercise duty on wine, cigarettes. With pressure on food index remaining low, new levies that came active with the Finance Bill 2019; Import Declaration Fee from 2% to 3.5%, Railway Development Levy from 1.5% to 2% and increase in downstream margins from KES 10.89 to KES 12.39 that to an increase in pump prices, will put weight on inflation and we project inflation at 4.88% to 5.25%.
- The shilling has remained stable against all major currencies on m/m m-t-d as shown in table 1. The strengthening was caused by remittance inflow and foreign investment in the infrastructure bond.
- Forex Reserves declined to 5.58 months of import cover, a 2.8% decline since the start of the fiscal year. We anticipate a further decline in November and December due to interest payment on the Eurobond 10Yr/2024, 7Yr/2027 and 12Yr/2032. We expect the payment to put pressure on the shilling against the dollar.
- A stable banking sector with Private sector credit growth of 6.3% in August compared to 6.1% in July. This has increased by 390bps since January 2019.

T-Bills: T-Bills rates, for all tenures, have stabilized as subscriptions shooting above 110% in the first two auction in November compared to sub 100% seen in the first week of October.

- Acceptance level have improved with investors opting hefty roll overs in the 182 day and 364 day papers while opting to redeem the 91 day paper.
- Investors are seen to bid aggressively with the 91 and 182 day papers inching upwards by 29.0bps and 51.3bps respectively.
- The performance was influenced by improved liquidity in the market which saw interbank rate decline to 2.9663% (14/11/2019), a 419.2bps dip compared to 7.1583% in the same period in October.
- Interbank Demand for the first two weeks of November stood at KES 10.89Bn, a 110.6% growth compared to KES 5.17Bn seen in the first two weeks of October.

Secondary Bonds Market: November m-t-d basis has seen a total of 1,085 deals moving a total of KES 27.48Bn, which represent 71.9% of KES 38.21 in total trades seen in October.

- There has been marginal change in the week on week yield curve as shown on figure 3. With the repeal of the caps, we anticipate a further upward shift as treasury offers better returns as it competes for funds with the private sector due to private sector credit growth drive.

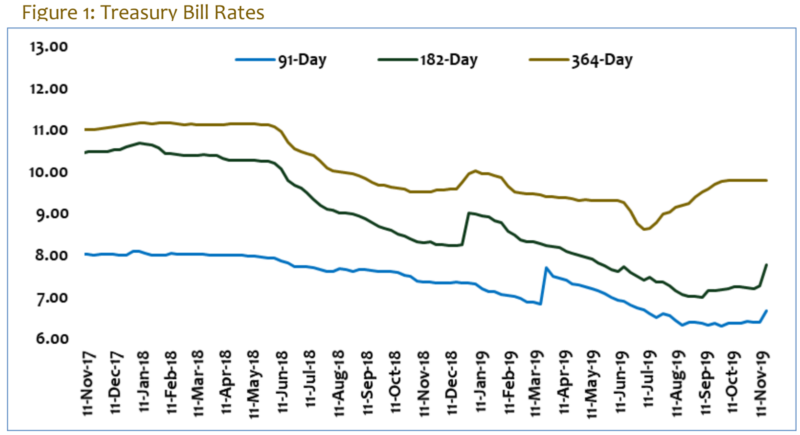
- Positive private sector sentiment remain positive in spite of October 2019 PMI easing to 53.2 from 54.1 September. We expect November PMI to revert upward on pre-holiday demand and expected improvement in private credit growth.
- International trade tension remains a global risk with upcoming UK election on November 12th, 2019 and further tariff discussion between America and China.
- International petroleum prices have remained stable. The positive sentiment for oil prices was dampened by the unresolved trade war between China and the United States that have stifled oil demand growth prospects for next year.

Table 1: Currency Movement

15-Nov-19	KES/USD	KES/GPB	KES/EUR	KES/JPY
W/W	-0.7%	-0.5%	-1.4%	-0.2%
M-t-D	-1.2%	-2.0%	-2.5%	-1.5%
M/M	-1.7%	0.3%	-1.9%	-1.9%
YTD	0.2%	1.2%	-3.6%	1.6%
Y/Y	-0.8%	-1.8%	-3.5%	4.0%

Source: CBK, KSL

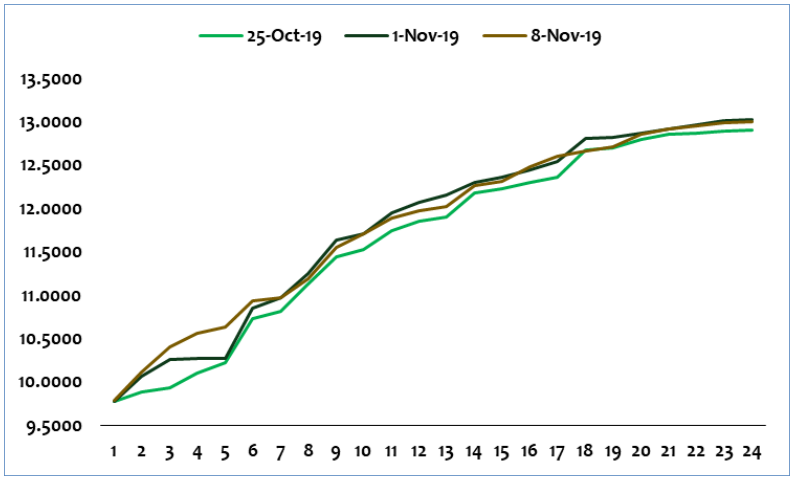
Figure 1: Treasury Bill Rates



Source: CBK, KSL

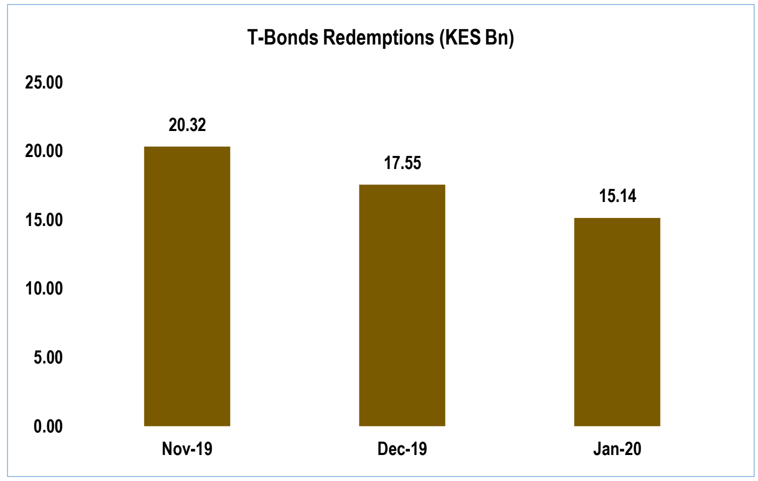
- The market continues to see activity IFB1/2019/16 which saw heavy discounting with coupon at 11.75% versus a accepted WAR of 12.394%.
- Activity on the bond has seen positive foreign interest due to the high returns offered.
- The key rate spread, figure 5, shows the short term key rates of 2 year and 5 year widening while the rest are narrowing. Investors should shift to long end where rates are stable compare to upward shift in the short end.

Figure 2: NSE Yield Curve



Source: NSE, KSL

Figure 3: NSE Yield Curve



Source: NSE, KSL

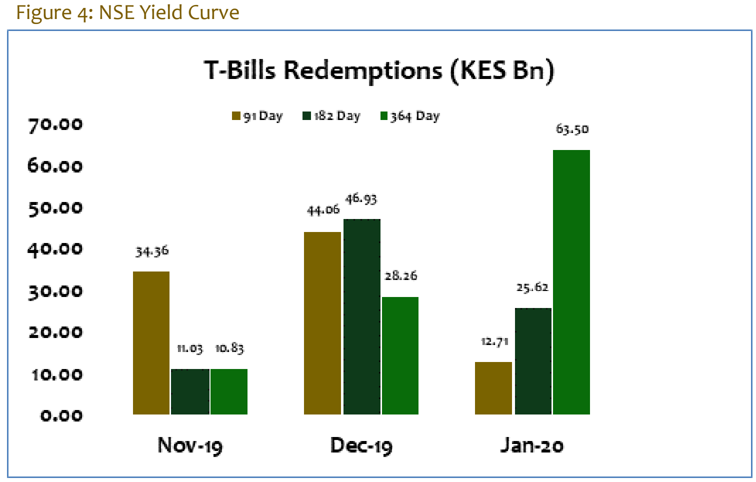
T-Bills and T-Bonds Redemptions: Treasury will pay a total of KES 53.01Bn in interest for the months of Nov, Dec and Jan.

- T-Bill Redemptions for the Nov, Dec and Jan stand at KES 277.31Bn against an anticipated demand of KES 312.Bn.
- Government demand and levels of liquidity in the market will see investors opt to roll over the fund at a more aggressive rates.
- We recommend repositioning of funds to the 182 day paper as we expect the rates to gain aggressively than the 91 day or 364 day paper.

Primary Bond Issue:s

- In October, CBK has issued a 16 year KES 60Bn Market Determined Infrastructure Bond. They received KES 86.95Bn (144.91% subscription rate). CBK accepted KES 68.47Bn with a WAR of 12.394% which setting the coupon at 11.750%
- In November, Treasury has issued 10 year, KES 50.00Bn Budgetary Support Bond with a market determined coupon.
- We project heavy subscription due to the favorable tenure and liquidity levels in the market.
- We recommend out clients to bid at the range of 12.00% and 12.30%.

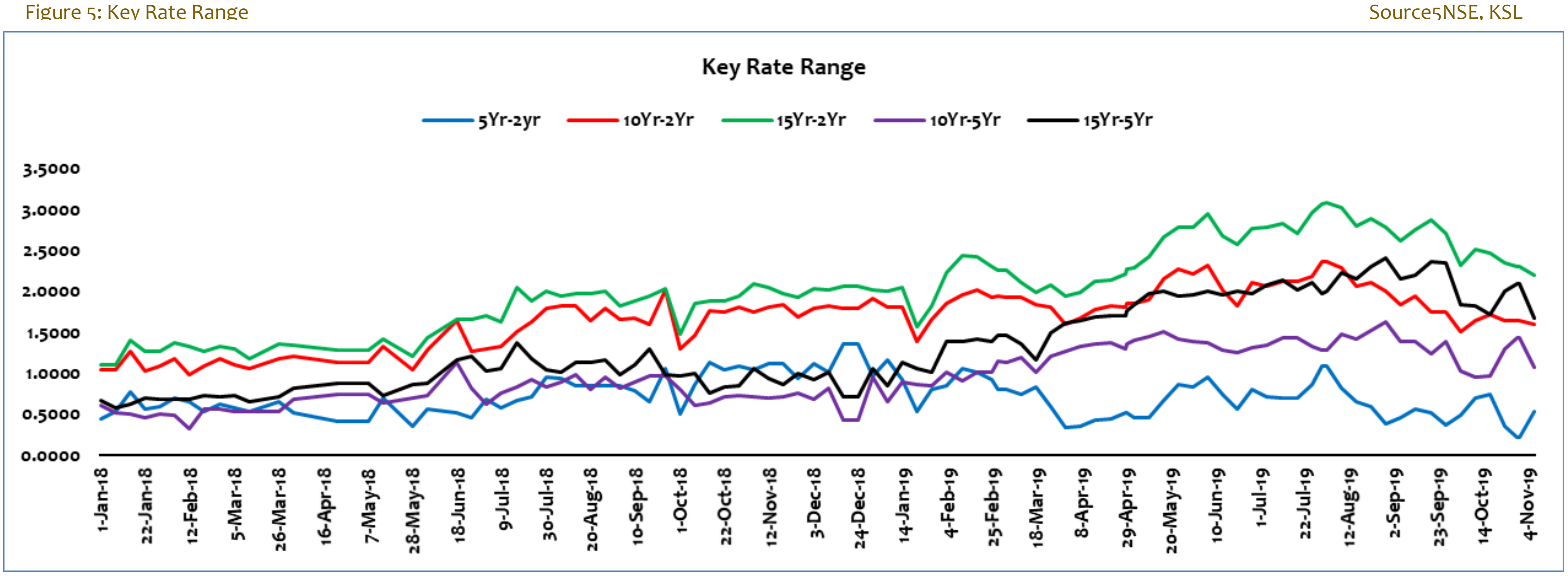
Figure 4: NSE Yield Curve



Source: NSE, KSL

Figure 5: Key Rate Range

Source5NSE, KSL



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