

KINGDOM SECURITIES

Pre-Auction Fixed Income Note

January 2022

Auction II

Reopen: FXD2/2018/10 – 7.0 Yrs

Reopen: FXD1/2021/20 – 19.7 Yrs

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January 2021 Fixed Income Pre-Auction Note

Second primary auction

The ongoing primary sale for the reopened FXD2/2018/10 & FXD1/2021/20 is set for auction on 19th January. See below our bidding recommendations:

Bond	FXD2/18/10	FXD1/2021/20
Tenure	7-Yrs	19.7-Yrs
Coupon	12.502%	13.444%
Auction Date	19-Jan-22	19-Jan-22
Value Date	24-Jan-22	24-Jan-22
Conservative	12.20% - 12.35%	13.40% - 13.55%
Aggressive	12.40% - 12.55%	13.60% - 13.75%

FXD2/2018/10 was first issued in December 2018 where it received a subscription of 72.2% of Kes. 28.86Bn at 90.6% acceptance with a weighted average rate of 12.669%. See below the previous performances for the paper:

FXD2/2018/10 Previous performances						
Issue Date	Offer (KES Bn)	Subscription (Kes. Bn)	Acceptance (Kes. Bn)	Market WAR	Accepted WAR	Coupon
Jul-20	60.00	55.49	21.27	11.673%	11.453%	12.502%
Dec-2018 Tap	13.84	6.624	6.62	-	12.502%	12.502%
Dec-18	40.00	28.86	26.16	12.580%	12.502%	12.502%

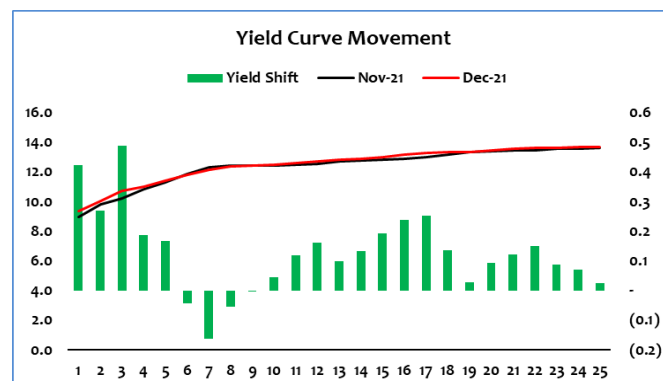
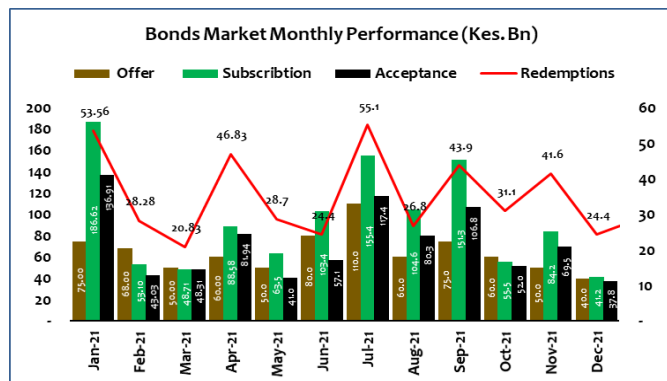
FXD1/2021/20 was first issued in August 2021 and is being reopened for the first time. Its first auction was undersubscribed at 72.5% at an acceptance of 65.9%.

FXD1/2021/20 Previous performances						
Issue Date	Offer (KES Bn)	Subscription (Kes. Bn)	Acceptance (Kes. Bn)	Market WAR	Accepted WAR	Coupon
Aug-21	60.00	43.50	39.54	13.649%	13.444%	13.444%

Bonds Market

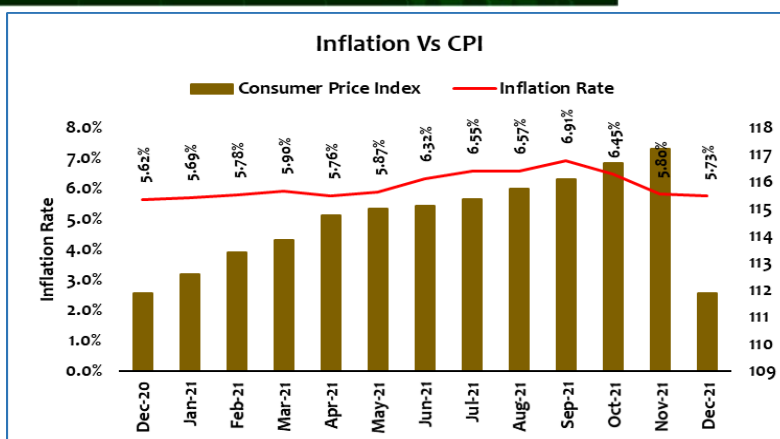
- The Dec-2021 primary received a 102.9% subscription at 91.9% acceptance in contrast to a 168.3% subscription in November at an acceptance rate of 82.6%.
- Redemptions in November and December 2021 stood at Kes. 34.38Bn and Kes. 29.04Bn respectively as we expect redemptions of Kes. 33.09Bn and Kes. 31.93Bn to be released to the market in January and February 2022 respectively.
- The secondary market moved a total of Kes. 51.44Bn in Dec-2021 and Kes. 64.08Bn in Nov-2021. In the first two-weeks of 2022 a total of Kes. 22.31Bn was traded.
- We expect the market to continue gaining traction on the favorable market conditions on relaxation of covid restrictions.
- The Yield curve shifted upwards in the month of December on the by then tight liquidity. In January, we expect it to remain relatively stable on the two primary auctions.

See below performance graphs:



Macro-economic Environment – January 2022

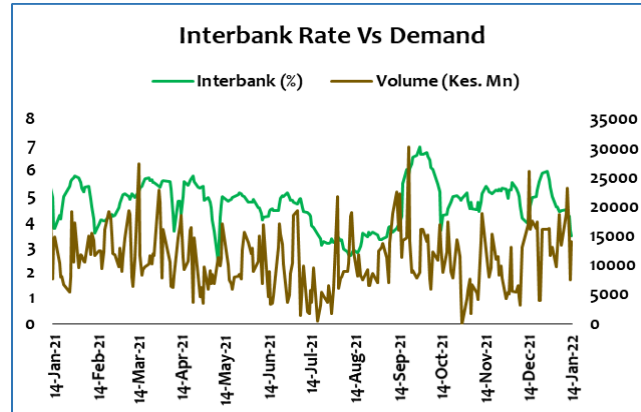
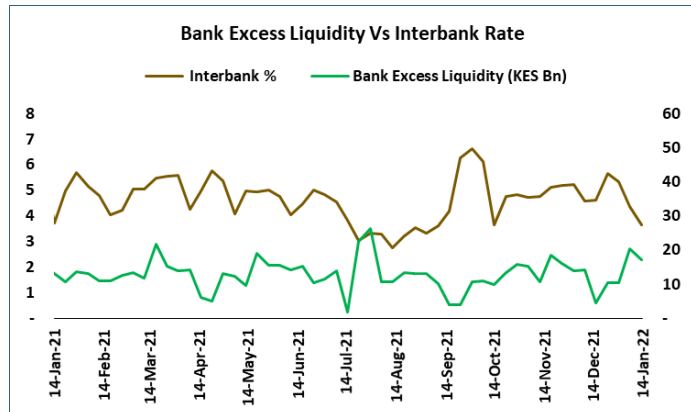
- Real GDP grew 9.9% in Q3 2021 riding on service sectors which rebounded strongly at 64.7% in Education, hotel industry at 24.8% and Transport and storage at 13.0% in contrast to a contraction of 2.1% last year.
- Economic recoveries remain strong on continued vaccinations and improved business environment amid the low rainfall experienced in 2021.
 - Low rainfall during the long rain seasons of March-May 2021 saw the agriculture sector contract by 1.8% in Q3 last year compared to a growth of 4.2% same time 2020.
 - The October-December short rain season remained low compared to previous years and this is likely to spike the Q1-2021 food prices.
- The December inflation moved 11bps up y/y to 5.73% from that of 5.62% in Dec-2020 on 9.1% rise in food and non-alcoholic beverages, 8.1% rise in transport and 6.2% in gas. M/M fuel inflation remained flat at 10.5% thus maintaining it below the 6.0% mark.
- The CBK monetary policy committee is scheduled for 26th January where we anticipate Central Bank Rate (CBR) to be retained at 7.0% and the minimum cash reserves Requirement (CRR) to be maintained at 4.25% based on the following:
 - Stable foreign reserves of USD. 8,764Mn sufficient for 5.36 months of import cover.
 - Growing private sector credit at a 7.8% growth from January to October 2021 as non-performing loans (NPLs) fell 50bps to 13.6% in Oct-2021 compared to that of 14.1% in Oct-2020.
- We expect a continued economic recovery pegged on the government interventions in terms of stimulus packages amid massive vaccinations. Late last year, the government announced a Kes. 26.20Bn which is yet to be released to the economy.
- Government revenues stood at Kes. 1.42Tr by end of December, a 44.5% performance for the fiscal year 2021/2022 budget. Funds released to county governments for the first half of FY-2021/2022 stood at Kes. 144.98Bn, a 78.4% performance against a target of Kes. 185.00Bn for the period.



Interbank

- Prevailing liquidity in the environment has pushed the interbank 30.5bps down to 3.44% as of 14th January compared to that of 4.95% at the close of the year 2021.
- Average interbank for the first two weeks of January remained low at 4.22% compared to that of 4.97% and 5.10% of November and December the last quarter.
- Commercial banks excess liquidity in the first half of January was at an average of Kes. 18.70Bn per week in comparison to that of Kes. 10.74Bn per week in December last year.

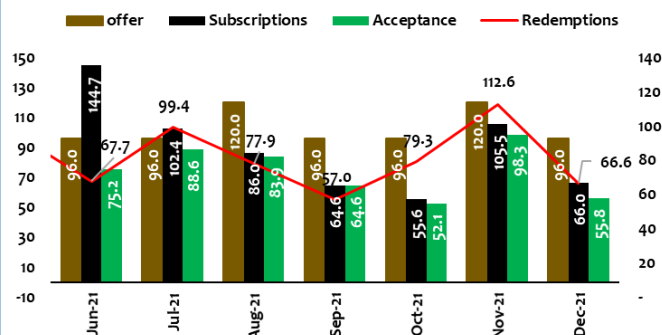
We expect liquidity to receive shocks in the 3rd and 4th week of January on Tax payments on 20th and on value payment of this 2nd auction which is scheduled for 24th January.



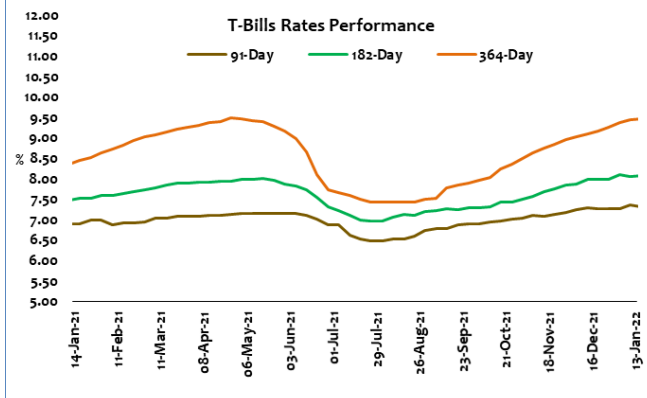
Treasury Bills

- T-Bills experienced low subscriptions in December at 68.7% performance and an acceptance of 84.6% as yields remained on an upward trend.
- Yields on the 3-papers gained the most in January 2021 with the 91 and 182-day paper touched their highest levels in the last one year at 7.345% and 8.095% respectively, as the 364 touched its 9^{-month} high at 9.474%
- We foresee heavy subscriptions in the remaining part of January on Government appetite for liquidity that has seen spikes on their yields. This is further on heavy redemptions expected in January and February at Kes. 119.9Bn and Kes. 109.3Bn from the government treasury Bills.

T-Bills Performance



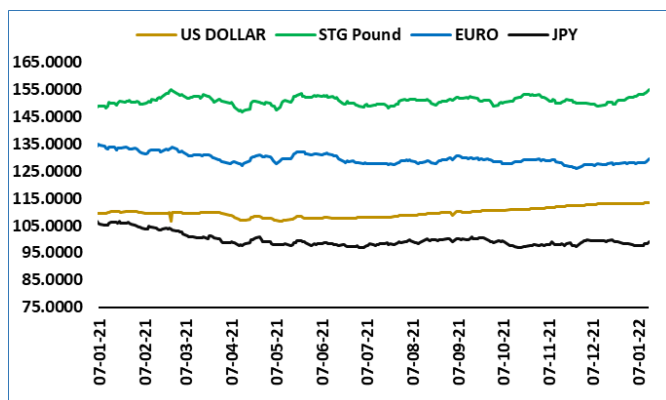
T-Bills Rates Performance



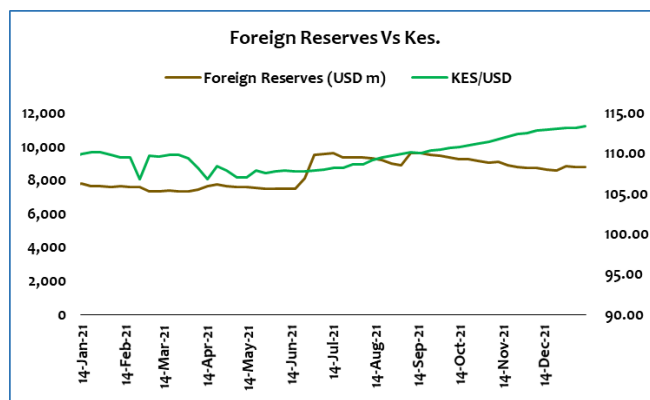
Currency

- The shilling weakened to the current value of Kes. 113.37 per dollar easing 0.2% YTD, 0.4% M/M and 3.2% Y/Y from an average of Kes. 109.83 in January 2021 and Kes. Kes. 112.91.
- A faster rise on imports at 23.6% compared to 10.8 rise on exports mostly burdened by oil imports affected the shilling the most.
- Foreign reserves in December dropped to an average of USD. 8,697Mn from that of USD. 8,952Mn and USD. 9,257Mn in November and October respectively having been impacted largely by foreign debt payments. The first two weeks saw a stable foreign reserve at an average USD. 8,765Mn.

Currency	14-Jan-21	31-Dec-21	14-Jan-22	%Δ Y/Y	%Δ YTD
Dollar	109.97	113.14	113.37	-3.1%	-0.2%
STG Pound	150.35	152.05	155.13	-3.2%	-2.0%
Euro	133.76	127.99	129.49	3.2%	-1.2%
JPY	105.77	98.30	99.04	6.4%	-0.7%



Foreign Reserves Vs Kes.



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