Kingdom Securities Limited

Pre-Auction Fixed Income Note – March 2022

Total Issue KES 50.00Bn

Re-opened FXD1/2021/05 - Coupon – 11.277% - Term 4.7 Years

Re-opened FXD1/2020/15 – Coupon – 12.756% - Term 12.9 Years

Re-opened FXD1/2021/25 – Coupon 13.924% - Term 24.2 Years

March 8, 2022

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March 2022- Primary Issue - Re-opened FXD1/2021/05, FXD1/2020/15 and FXD1/2021/25

Central Bank re-opened three bonds, FXD1/2021/05, FXD1/2020/15 and FXD1/2021/25, seeking KES 50.00Bn for budgetary support. The bonds target is to reap liquidity while managing tenure of domestic public debt.

FXD1/2021/05 was issued in November 2021 receiving a subscription of KES 66.60BN or 133.2% while KES 53.66Bn was accepted (80.6%) at a weighted average rate of 11.277% and an overall performance of 107.3%. The tenure of the bond played a key role on its subscriptions as it was released during a period of tight liquidity. We expect an oversubscription of this issue due to its tenure.

FXD1/2020/15 was issued in February 2020, during a high liquidity period, with KES 18.43BN or 36.9% received, KES 5.19Bn (28.4%) acceptance and a 10.8% performance rate and a WAR of 12.765%. The bond was re-opened in September 2020 with KES 49.79Bn (99.6%) subscription, with a better acceptance of KES 45.61Bn (91.8%) for a 91.5% performance. We expect low subscriptions on this paper due to low demand in the secondary market.

FXD1/2021/25 was issued in May 2021, a period with high liquidity. It received a subscription of KES 25.90Bn or 47.8% and KES 18.984Bn accepted for a 72.7% for a 31.4% performance and a WAR of 13.924%. The bond was immediately tapped with 25.2% subscription and c.100% acceptance. The bond was re-opened in July 2021, another period of high liquidity, receiving KES 26.67Bn (47.8%) in subscriptions and KES 25.90Bn (90.4%) acceptance at a WAR of 13.823% and a 42.3% performance. We expect fair subscription on the paper due to tenure and poor show in secondary market demand.

Below is our bidding guidance.

Bond	FXD1/2021/05	FXD1/2020/15	FXD1/2021/25
Tenure	4.7 year	12.9 years	24.2 years
Coupon	11.277%	12.756%	13.924%
Issued	**Nov-21**	**Feb-20**	**May-21**
Re-opened	**N/A**	**Sep-20**	**Jul-21**
Conservative Bid	**11.375% - 11.600%**	**13.125% - 13.375%**	**13.850% - 14.000%**
Aggressive Bid	**11.625% - 11.875%**	**13.500% - 13.750%**	**14.100% - 14.350%**

Table 1: Bidding Guidance Source: KSL, CBK

With the current liquidity environment, we foresee concentration on the FXD1/2021/05 and low interest on the FXD1/2021/25due to their tenure. Mixed results will be on the FXD1/2020/15 with minimal activity seen on the tenure space.

Central Bank Key Rates: keep it steady…

Central Bank's Monetary Policy Committee (MPC) will meet on Tuesday March 29th, 2022 to review the Central Bank Rate (CBR). We forecast they will retain the CBR at 7.0% on stable macroeconomics and growing global economy.

Kindly follow us as we will release a pre-meeting review paper as the date approaches.

Inflation Rate: saved by pump prices…

February inflation eased by 31.0bps to 5.08% compared to 5.39% in January 2022 and 70bps below 5.78% in February 2021. The rate was 42.0bps below our prediction of 5.5% - 5.70%.

The downward move was supported by lower food prices where food and non-alcoholic inflation eased by 30bps m-m supported by decline in price of agricultural products while manufactured foodstuff saw an overall increase. Stable price of petrol and diesel saw transport index declined to 0.44% while core inflation remained stable at 1.78%.

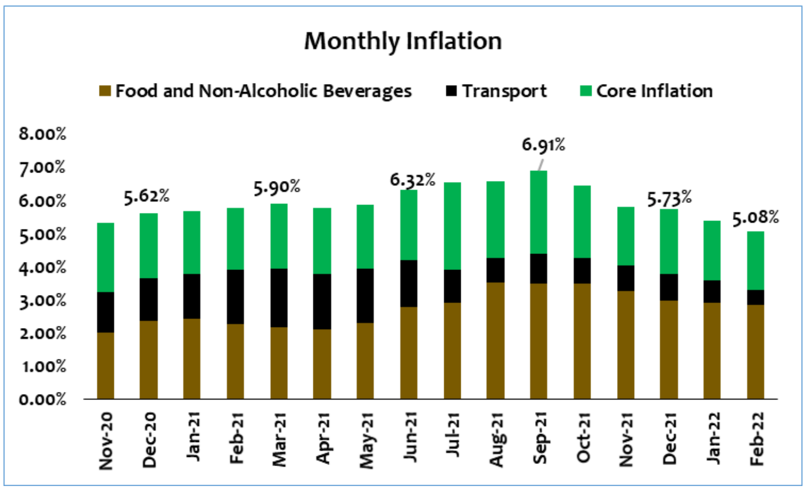


Figure 1: Bidding Guidance Source: KSL, KNBS

Pump prices continue to be discounted downwards with the highest discount of 21.1% on diesel prices and lowest discount of 11.2% on super petrol.

	Published Prices			Actual Prices			Discounted Values of Prices		
Period	Super	Diesel	Kerosene	Super	Diesel	Kerosene	Super	Diesel	Kerosene
Oct-21	129.72	110.6	103.54	136.34	118.01	108.54	**5.1%**	**6.7%**	**4.8%**
Nov-21	129.72	110.6	103.54	143.48	126.28	115.11	**10.6%**	**14.2%**	**11.2%**
Dec-21	129.72	110.6	103.54	148.04	132.49	127.07	**14.1%**	**19.8%**	**22.7%**
Jan-22	129.72	110.6	103.54	144.47	128.44	123.77	**11.4%**	**16.1%**	**19.5%**
Feb-22	129.72	110.6	103.54	144.25	133.89	119.42	**11.2%**	**21.1%**	**15.3%**

Table 2: Pump Price Analysis Source: KSL, EPRA

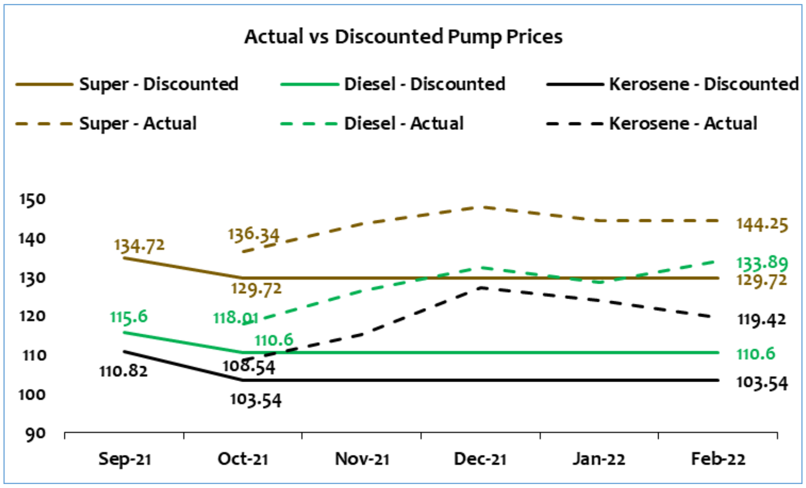


Figure 2: Pump Price Analysis Source: KSL, EPRA

We forecast March inflation to edge upwards to 5.20% - 5.51% range with an increase in cooking gas prices and manufactured food stuff which will continue to be affected by supply chain issues.

We do not anticipate changes in pump prices with government having increase allocation of KES 24.9Bn in the February 2022 supplementary budget to cater for the stabilization of oil market prices

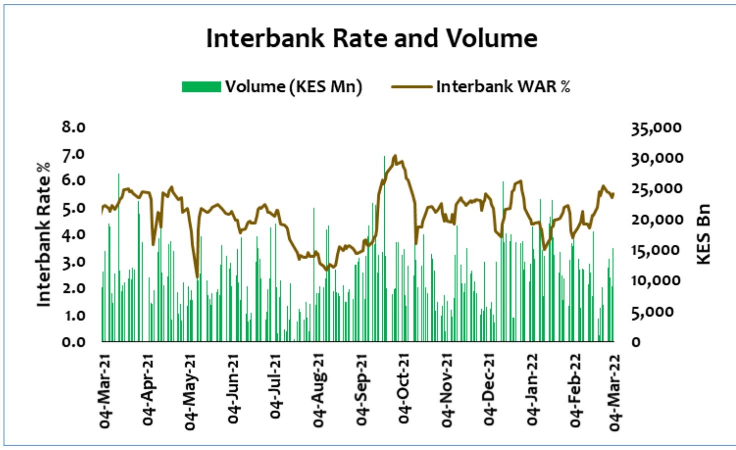
Interbank Rate: liquidity factor…

Tight liquidity at the end of February and beginning of March caused by payment of Eurobond coupons and low levels of maturities pushed the interbank to close March 4th, 2022 at 5.5129%, 151.2bps higher compared to 4.0014 on February 4th, 2022.

Between 4th February and 4th March, 202, average demand was down 32.6% to KES 9.93bn compared to KES 14.73Bn between January 4th and February 3rd, 2022.

Central Bank was seen in the market issuing reverse repos to balance liquidity as market was affected by CBK containing the strength of the shilling at a period when Eurobond coupon payments of USD 79.50Mn were being paid i.e. February 28th, 2022.

We expect March to have fair liquidity with interbank rate ranging 4.75% - 5.60%. Liquidity is set to tighten in April on low maturities before recovering in May.



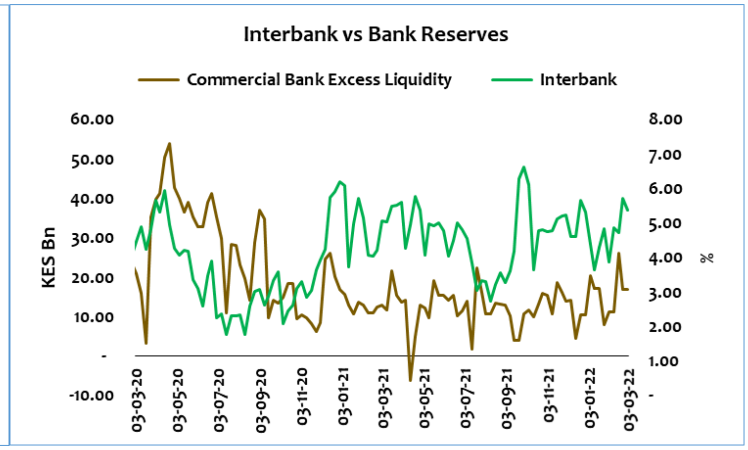


Figure 3: Interbank Performance Source: KSL, CBK

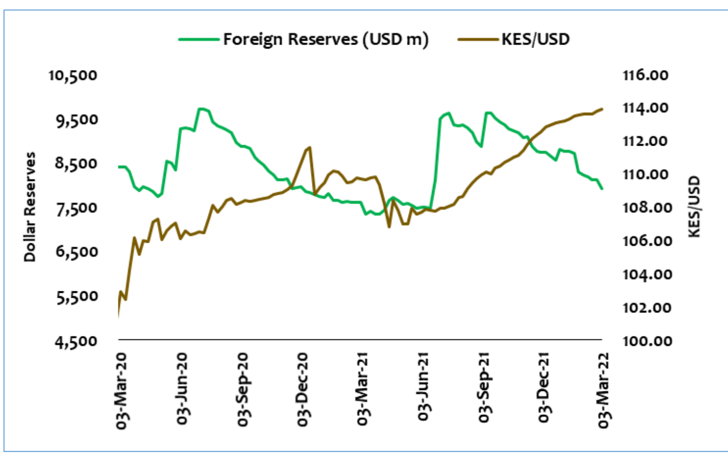
Figure 4: Interbank vs Reserves Source: KSL, CBK

Currency: global conflict infection...

Kenya shilling weakened by 0.3% m-m against the US dollar with CBK containing the fall by entering the market with reverse repos. Against the other major currencies, the local currency gained 1.2% and 2.8% against the British pound and Euro while shedding 0.3% on the Japanese yen.

The local currency faced high demand with payment of Eurobond coupon and end of month import demand with energy demand soaring during the period.

Coupon payment saw forex reserves decline by USD 311Mn or 3.8% to stand at USD 7,913Mn or 4.84 months of import cover as of the first week of March compared to USD 8,224Mn or 5.03 months of import cover as of first week of February 2022.



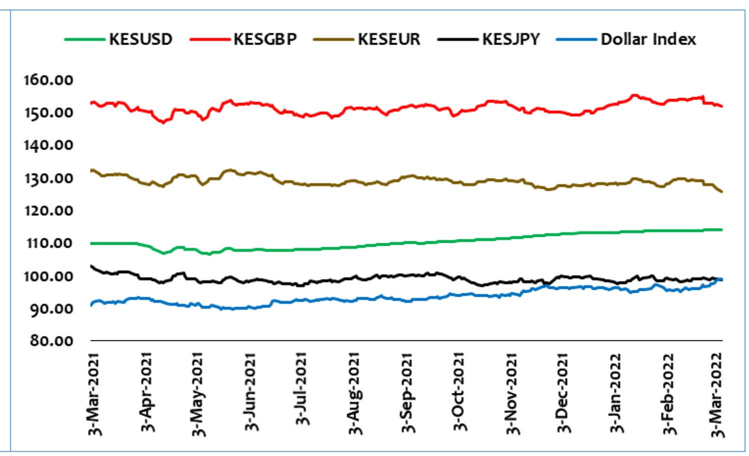


Figure 5: Foreign Reserves vs Currency Source: KSL, CBK

Figure 6: Foreign Exchange Source: KSL, CBK

KES	KES/USD	KES/GBP	KES/EUR	KES/JPY	Dollar Index
7-Mar-22	113.9471	151.8965	125.6344	98.7624	98.8000
W/W	0.1%	0.5%	1.6%	0.3%	2.2%
M-t-D	0.1%	0.5%	1.6%	0.2%	1.4%
M/M	0.3%	1.2%	2.8%	0.3%	3.6%
Y-t-D	0.7%	0.3%	1.9%	0.6%	2.7%
Y/Y	3.9%	0.7%	4.8%	3.2%	7.4%

Table 3: Foreign Exchange Source: KSL, CBK

On the global scene, the dollar gained 3.6% against a basket of major currencies as indicated by the Dollar Index. This was buoyed by demand driven by investors seeking safe-haven currency on the onset of the sanctions placed on Russia. Fear of supply due to the ongoing conflict in the Eastern Europe region has pushed prices of commodities with petroleum priced increasing by 31.7% and 29.8% m-m and 52.6% and 52.3% y-t-d basis on the Brent and Crude Oil WTI respectively. Gold gained 8.8% m-m with silver and copper up 11.3% and 6.9% respectively.

Global Commodities Performance					
Period	Gold	Silver	Copper	Brent	Crude Oil WTI
M-M	8.8%	11.3%	6.9%	31.7%	29.8%
Y-T-D	10.0%	10.3%	8.1%	52.6%	52.3%
Y-Y	15.7%	0.9%	18.7%	76.0%	79.4%

Table 4: Global Commodities Performance Source: KSL, Investing.com

Continued sanctions on Russia will continue to strengthen the dollar while increasing demand on commodities with expected ban on Russia commodities.

We expect the Kenya shilling to remain under pressure. CBK will remain in the market to contain the KES which will affect dollar reserves.

Treasury Bills: redemption driven liquidity

February saw an offer of KES 96.00Bn with a total of KES 89.88Bn subscribed for a 93.6% success levels. CBK accepted KES 84.50Bn or 94.0% for a performance rate of 88.0%.

The 364-day paper saw the only oversubscription of 128.2% with the yield edging up 29.6bps to 9.764% on the last auction of February compared to 9.468% at end of January 2022. The 91-day and 182-day papers saw yields marginally eased by 7.9bps and 1.8bps respectively with investors opting to reinvest in the 364-day auctions.

In March, we forecast fair liquidity as we expect maturities of KES 106.21Bn against a demand of KES 120.00Bn. We forecast the yields on the 364-day paper to increase at a decreasing rate having reached a two year high of 9.774% despite of continuous interest on the tenure paper.

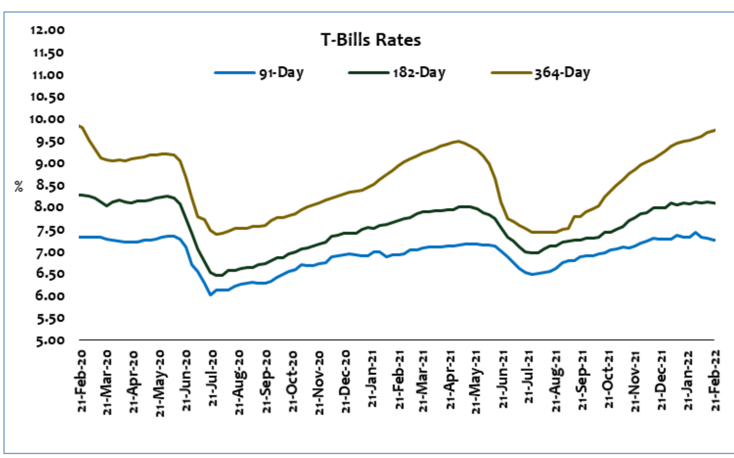


Figure 7: T-Bill Rates Source: KSL, CBK

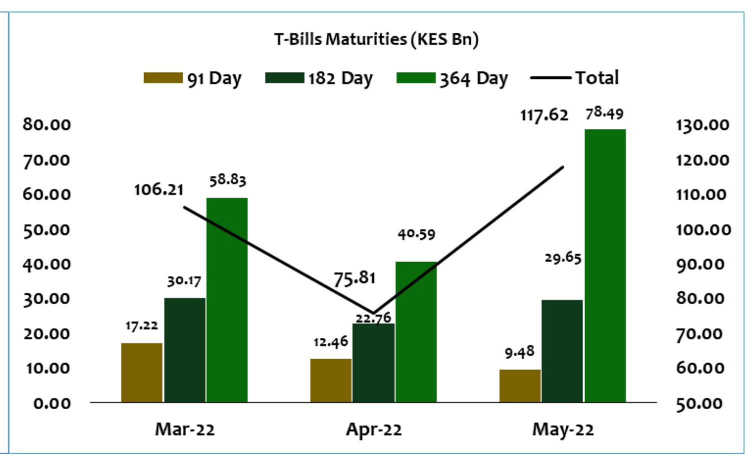


Figure 8: T-Bill Maturities Source: KSL, CBK

February-2022						
Tenure	Offer (KES Bn)	Subscription	Acceptance	WAR % Dec 21	WAR % Jan 22	Δbps M-M
364-Day	40,000	128.2%	90.6%	9.468%	9.764%	29.6
182-Day	40,000	72.1%	99.0%	8.080%	8.062%	(1.8)
91-Day	16,000	61.1%	97.0%	7.333%	7.254%	(7.9)
Total	96,000	93.6%	94.0%			

Table 5: Monthly T-Bill Performance Source: KSL, CBK

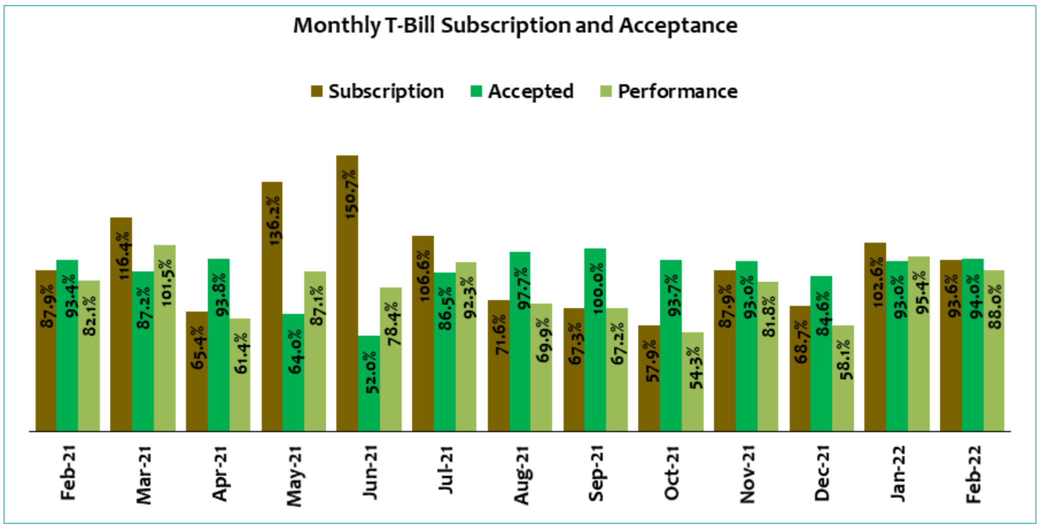


Figure 9: T-Bill Subscriptions and Acceptance Source: KSL, CBK

Bonds Market

Primary issues continue to witness oversubscriptions with the last 4 issues positing an oversubscription. The market remains thirsty for short term papers with liquidity based on the short-term end while secondary market continues to focus on infrastructure bonds with heavy interest from foreign investors.

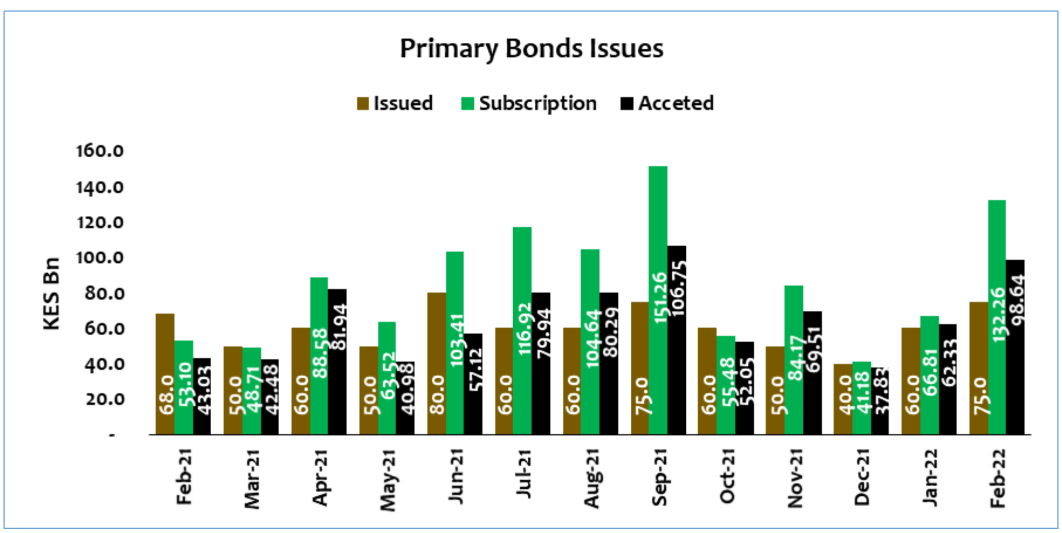


Figure 10: T-Bonds Subscriptions and Acceptance Source: KSL, CBK

Yield curve continues to be influenced by liquidity on the short end with on-the-run issues being preferred in the market as seen on the mid-tier of the curve. Month on month has seen little movement on the long end of the yield curve with bids outshining the asks leading to a Mexican standoff on price.

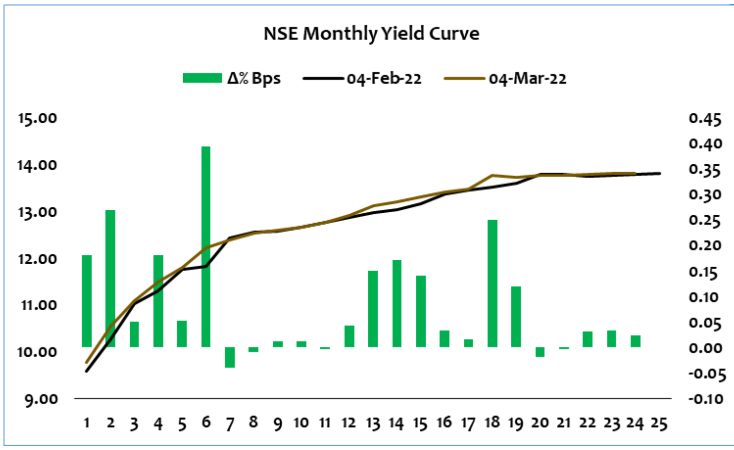


Figure 11: Month on Month Yield Curve Source: KSL, NSE

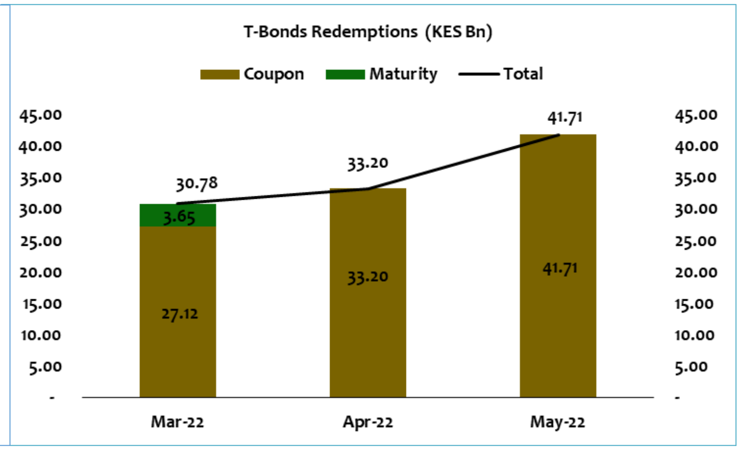


Figure 12: T-Bonds Payout Source: KSL, NSE

Eurobond

The global conflict escalation led to an upward movement on Eurobond yields with 2024 bond edging upwards by 215.5bps m-m as of March 7th while 2032 bond was up 272.3bps over the same period.

The yields will continue to be affected by the international conflicts as investors shift investment to safe-haven markets. This will affect the highly anticipated Eurobond that was to be issued in 2022.

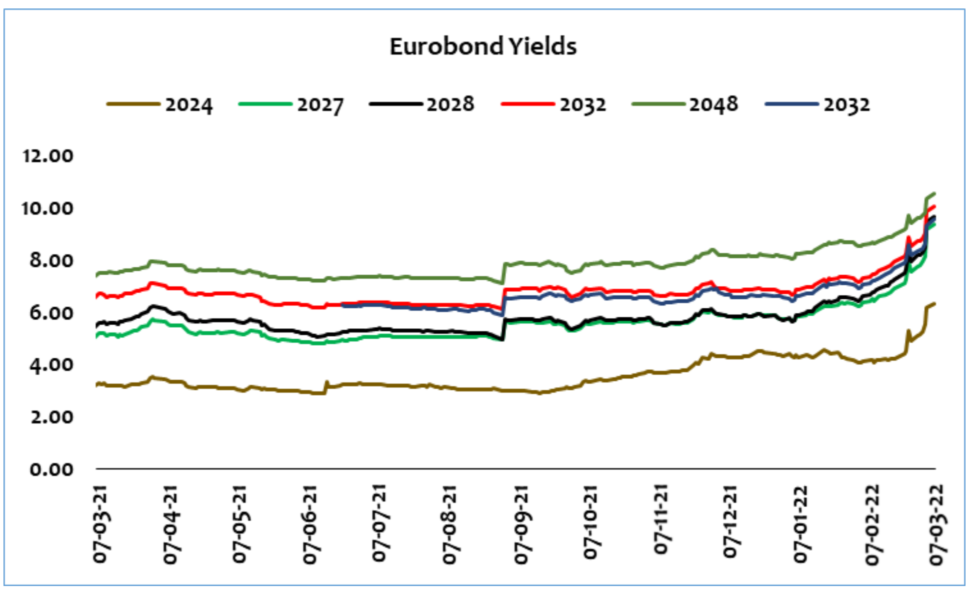


Figure 13: Eurobond Yields Source: KSL, NSE

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