

#### 2<sup>nd</sup> Primary Auction - FXD1/2022/015

Treasury issued two bonds in April FXD1/2022/003 & FXD1/2022/015 for two auctions seeking KES 40.00Bn and KES 30Bn respectively. See our advice for the first auction for FXD1/2022/003 on [Kingdom Securities Limited - April 2022 Fixed Income Pre-Auction Note 1](#).

Below are our bidding rates for the 2nd auction for FXD1/2022/015-Yr paper due on Wednesday, 20th April 2022, based on prevailing macro-economic conditions outlined herein.

Bond	FXD1/2022/15
Tenure	15.0-Yrs
Coupon	Market Determined
Auction Date	20-Apr-22
Value Date	25-Apr-22
Conservative	13.25% - 13.50%
Aggressive	13.51% - 13.75%

The short-term primary paper 1<sup>st</sup> auction of April 2022 was undersubscribed at 85.1% or KES 34.05Bn at a 97.3% acceptance of KES 33.14Bn. This was affected by a low liquidity witnessed that hampered subscriptions.

#### Macroeconomic Environment

- CBK Central bank retained its central bank rate at 7.0% even as major central banks raise their rates globally in an aim to control prices. The Fed approved a first interest increase after keeping it near zero in the last 3-years from 0%-0.25% to 0.25% - 0.50% as the bank of England raised theirs from 0.50% to 0.75%
- Locally, prices of basic commodities have been on impact of rising oil prices and supply shortage even after the government agreed to compensate oil marketers at rates higher than what is reflected on the retailer's pump.
- Kenya's private sector activity slowed down to a Purchasing Managers' Index (PMI) of 50.5 in March 2022, on escalating effect of Russia-Ukraine war that has depressed supply of raw materials compared to a PMI index of 52.9 points in Feb 2022. Russia and Ukraine are the main suppliers' metals, oil and food items including wheat and barley.
- Foreign reserves improved 5.8% M/M to USD 8,373Mn or 4.98months of import cover boosted by receipts of USD 750Mn from the world bank to support economic growth and post covid-19 recoveries as well as strengthen fiscal sustainability.
- Private sector credit grew 9.1% in February 2022, compared to a growth of 8.6% in Mach as loan disbursements and repayments gain momentum on moves to full economic recoveries. Banks are preparing for a roll-out of a risk-based pricing model that will see private credit grow further upon approval to all participating banks by the regulator after many lenders petitioned IMF for intervention.
- Non-Performing Loans (NPLs) are set to drop from a sector average of 14.0% upon government paying infrastructure contractors who were financed by bank facilities.

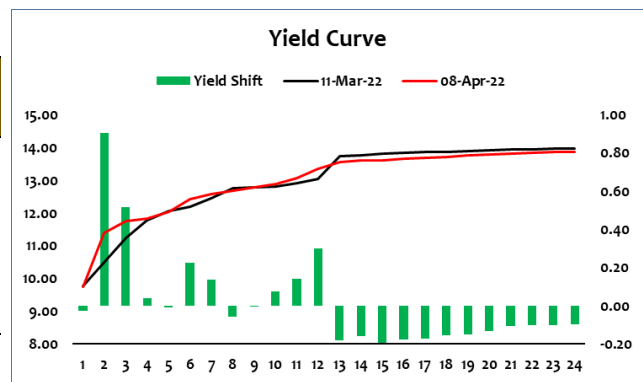
### Bonds Market

- Secondary market bonds remained active moving a total of KES 36.84Bn in the first 8-trading days of April out of 20-days for April in comparison to a total of KES 86.52Bn and KES 53.79Bn traded in March and February 2022 respectively. This signals of improving liquidity in April that will trickle down to this auction.
- Bonds maturities for March stood at KES 31.93Bn as we expect KES 33.30Bn in April 2022 part of which we expect to be recycled in the primary market.

### Yield Curve

Yields on the long-term papers dropped forcing the yield curve to shift downwards as focus remains on the current 15-year paper in the primary. We expect this to reverse upon listing of the paper next week.

Yield Curve Key Rates %	07-Jan-22	11-Mar-22	08-Apr-22	(YTD) bps	(w/w) bps
2-Yr	9.9932	10.4899	11.3962	-140.3	-90.6
5-Yr	11.4177	12.0565	12.0478	-63.0	0.9
10-Yr	12.5246	12.8126	12.8875	-36.3	-7.5
15-Yr	12.9749	13.8160	13.6187	-64.4	19.7
20-Yr	13.5400	13.9202	13.7893	-24.9	13.1
24-Yr	13.5956	13.9730	13.8750	-27.9	9.8



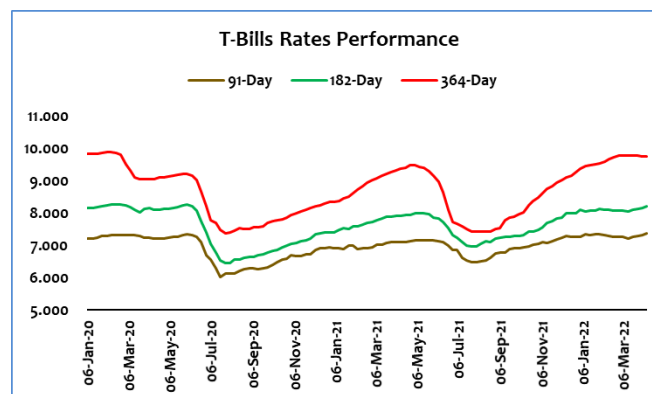
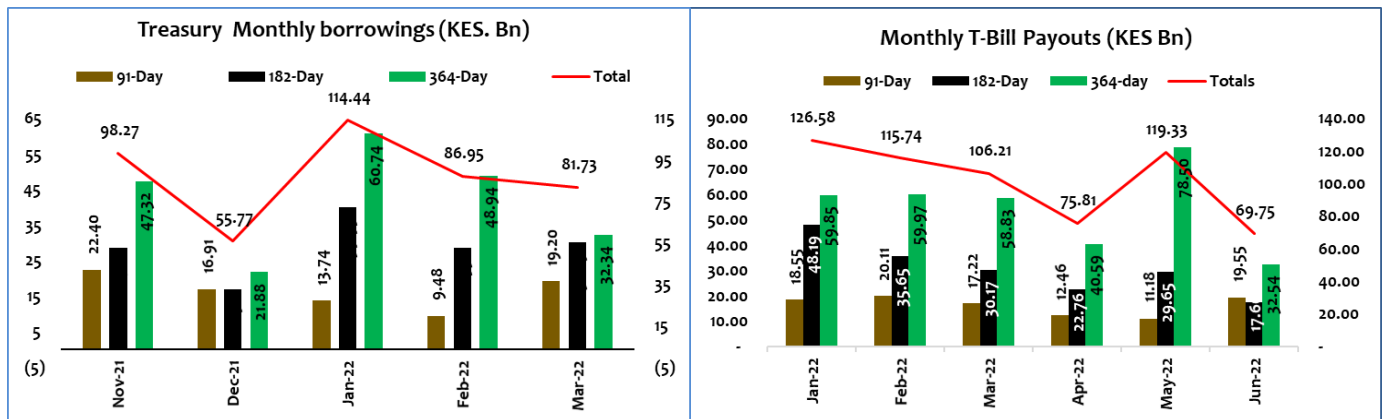
### Interbank

- Interbank edge down to 4.50% on Tuesday, 13th April, after high demand for funds on the value date of the 1st primary auction of FXD1/2022/003 where KES 34.05Bn was drained from the market in comparison to a rate of 5.02% and 5.58% of end of March and Feb 2022 respectively.
- Bank excess reserves stood at KES 14.80Bn on 7th April but is set to lower on the above payments from the market.
- We expect the interbank to range between 4.50% and 5.00% in the rest of the month on liquidity demand for VAT, with-holding, rental and excise duty tax payments plus FXD1/2022/15 value payment coming up on 20th and 25th April respectively.

Key Rates	28-Feb-22	31-Mar-22	12-Apr-22
Central Bank Rate (CBR)	7.00%	7.00%	7.00%
Inter-Bank Rate	5.58%	5.02%	4.50%
Cash Reserve Requirement (CRR)	4.25%	4.25%	4.25%
Inflation	5.78%	5.90%	5.56%
91-Day T-Bill	7.254%	7.283%	7.377%
182-Day T-Bill	8.062%	8.134%	8.219%
364-Day T-Bill	9.764%	9.767%	9.743%
Bank Excess Liquidity	17.00	14.80	14.60
Months of Import Cover	4.51	4.80	4.80
Forex Reserves (USD Mn)	8,130	7,840	8,373

### Treasury Bills

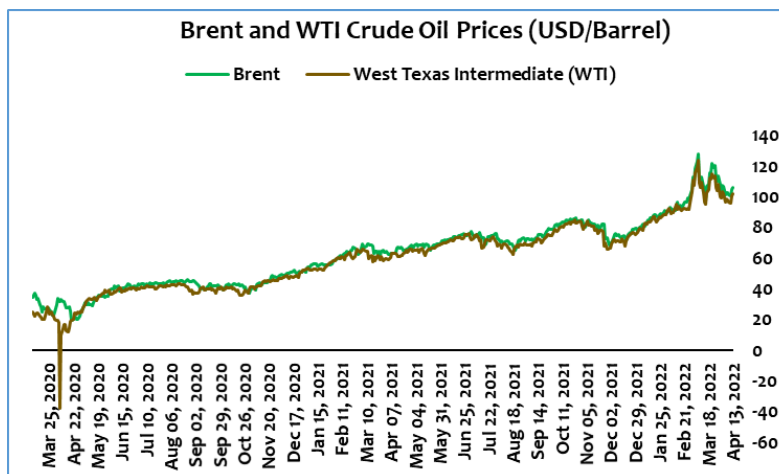
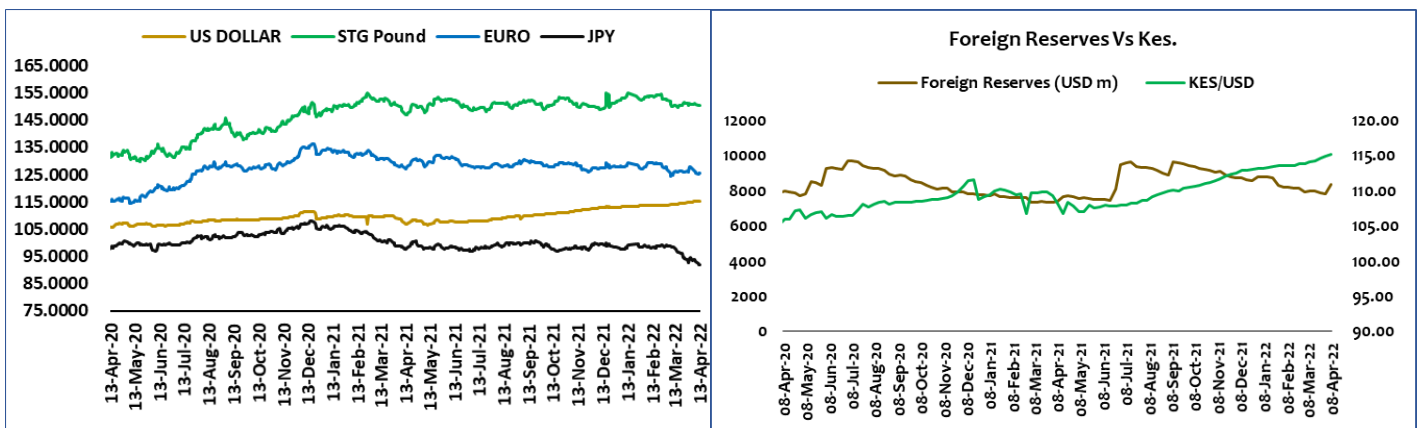
- T-Bill market has witnessed undersubscriptions in the last one month at 57.2% with 97.7% acceptance on low liquidity plus return of short-term bond papers.
- March subscriptions were at 78.5% compared 93.6% and 102.6% for Feb and Jan 2022 with a 94.3%, 96.7% and 93.0% acceptance levels respectively.
- Returns on the 92 and 182-day papers recorded their pick levels in the 1st week of April 2021 at 7.377% and 8.219% in the last 12-months as that of the 364-day paper edged down to 9.743% from a high of 9.774% recorded in the first week of March.
- T-bill maturities for March was KES 106.21Bn with KES 75.81Bn and KES 119.33Bn due in April and May 2022 respectively.



### Currency

- Currently trading at KES 115.41 against the dollar, the Kenyan shilling has lost 2.0% YTD and 0.4% MTD but remained strong against the pound, Euro and Yen at 1.2%, 2.0% and 6.4% to KES 150.44, KES 125.59 and KES 91.86 respectively riding on the tension in Europe.
- The dollar has strengthened on high demand from the commodities and oil markets and stability in USA.
- Locally foreign reserves improved to USD 8,373Mn after Kenya received a concessional facility from the World bank on its Development Operation Policy (DPO) for economic recoveries and fiscal stability.
- International oil prices are set to lower on the expected increase in supply from US of 1.0Mn barrels per day for 6-months as from May and an additional of 60.0Mn barrels from the International Energy Agency to counter the supply sanctions on Russia and soften prices globally.

Currency	03-Jan-22	31-Mar-22	13-Apr-22	%Δ YTD	%Δ MTD
Dollar	113.1382	114.9513	115.4088	-2.0%	-0.4%
STG Pound	152.3362	151.1268	150.4412	1.2%	0.5%
Euro	128.0897	127.8018	125.5903	2.0%	1.7%
JPY	98.1294	94.3345	91.8604	6.4%	2.6%



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