

KINGDOM SECURITIES

Pre-Auction Fixed Income Note

April 2022

Auction 1

FXD1/2022/03Yr – KES 40Bn



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April 2022 Fixed Income Pre-Auction Note

1st Primary Auction - FXD1/2022/03Yr

CBK issued a new bond FXD1/2022/03Yr seeking KES 40.00Bn for budgetary support whose auction is set for Wednesday, 6th April 2022. Our bidding guidance is as follows on what is expected to be an aggressive bidding on tight liquidity and government thirst for funds.

Bond	FXD1/2022/03
Target Amount	40.00Bn
Tenure	3.0-Yrs
Coupon	Market Determined
Auction Date	06-Apr-22
Value Date	11-Apr-22
Conservative	11.55% - 11.75%
Aggressive	11.75% - 11.95%

The bond comes in the wake of mixed political temperatures ahead of August elections amid rush for completion of legacy projects by the government. Global fears on Russia-Ukraine war seem to dampen economic recovery gains witnessed by supply constrains in food, oil, fertilizer, and some industrial raw materials.

CBK

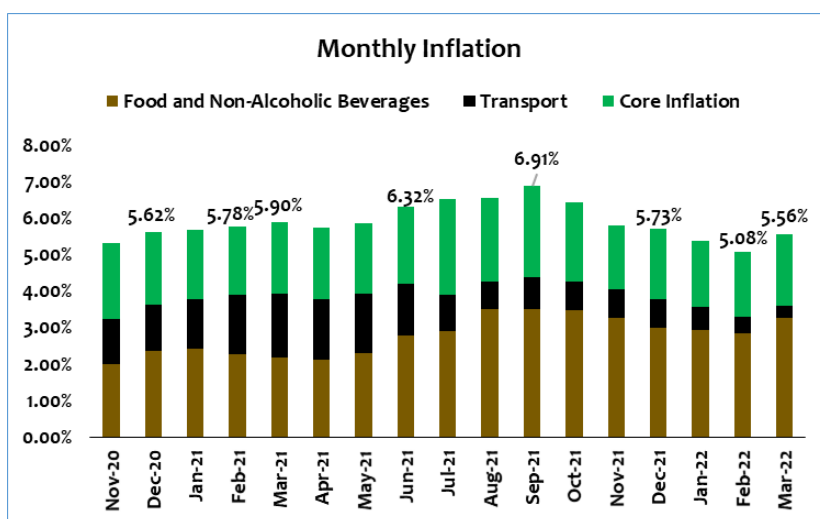
- As economies recover worldwide, global growth is projected to slow down from 5.5% to 4.1% according to the world bank projections. This is pegged on fresh threats from new covid variants present in China, conflict in Eastern Europe, rising inflation and increasing debt levels that could slow recoveries and growth.
- Kenya's nominal GDP is estimated to have grown by 7.9% in the first three quarters of 2021 according to the revised Kenya National Bureau of Statistics (KNBS) data. GDP at market prices grew by 2.0%, 11.9% and 9.9% in Q1, Q2 and Q3 2021 respectively in the revised estimates.
- CBK retained its central bank rate CBR at 7.0% for the 23rd month since April 2020, in an aim to stimulate economic growth even as global Central banks hike their CBRs to contain the soaring inflation. This has seen the local private credit grow from 8.8% in Jan to 9.1% in Feb-2022 as loan disbursements remained on an uptrend on improved money demand for economic recoveries and expansions.
- Producers and manufacturers index improved to 52.9 in Feb from 47.6 in Jan-2022 and 50.9 in Jan-2021. The country's exports rose by 12.1% in the 12 months ending February as Imports increased faster by 27.8% on account of higher international oil prices pushing the current account deficit to an estimate of 5.6% in Feb-2022.
- Banking sector remains stable with industry liquidity of 56.7% in Feb-2022 compared to 55.7% in Feb-2021. Banks non-performing loans (NPLs), however, edged up to 14.0% in Feb-2022 in comparison to that of 13.3% as of Feb 2021 resulting from delays in payments from the construction sector, manufacturing, and the hospitality sector. This however improved Y/Y in comparison to an NPL of 14.5% in Feb-2021.

2022/2023 Budget Reading

- In readiness for the upcoming elections, the National Treasury is set to deliver the KES 3,298.30Bn Budget for the fiscal year 2022/23 to Parliament on 7th April 2022. The budget expense is 3.3% higher compared to 2021/2022 figures of KES 3,193.00Bn.
- While revenue is projected to grow by KES 369.20Bn to KES 2,405.30Bn, the fiscal deficit is expected to rise to KES 846.10Bn of which KES 483.10Bn or 3.4% of GDP will be financed by domestic borrowings.
- Tax revenue surpassed the 1 trillion mark in January to a total collection of KES 1,011.66Bn, a 59.3% performance to total target from 7-months of the fiscal year 2021/22 as per the Feb Exchequer figures.

Inflation

- World inflation has been surging in the recent past with even advanced economies feeling the impact. US inflation intensified to a 5.4% record high in March 2021 as goods prices rose by 1.1% pressured by supply chain shortages amid rising oil and gas prices forcing the Fed to increase its CBR from 0% - 0.25% to between 0.25% - 0.50% being the first-rate hike in three years. UK recorded a 30-Yr high inflation of 5.5% against a 2.0% target on prices spikes in energy, fuel, and food items, forcing the Bank of England increase its bank rate from 0.50% to 0.75%.
- Locally, inflation soared from 5.08% in February to 5.56% in March on account of increased food prices, transport, gas, and petroleum prices. Food and non-alcoholic beverage inflation prices surged by 9.92% followed as housing, water, electricity, gas, and other fuels increased at an average of 4.9%.
- Price of cooking oil and wheat flour prices rose by 65.5% to KES 332.37 and 4.5% to KES 151.43 per liter and kilogram respectively on an escalating impact of Russia-Ukraine war who are the main global suppliers.

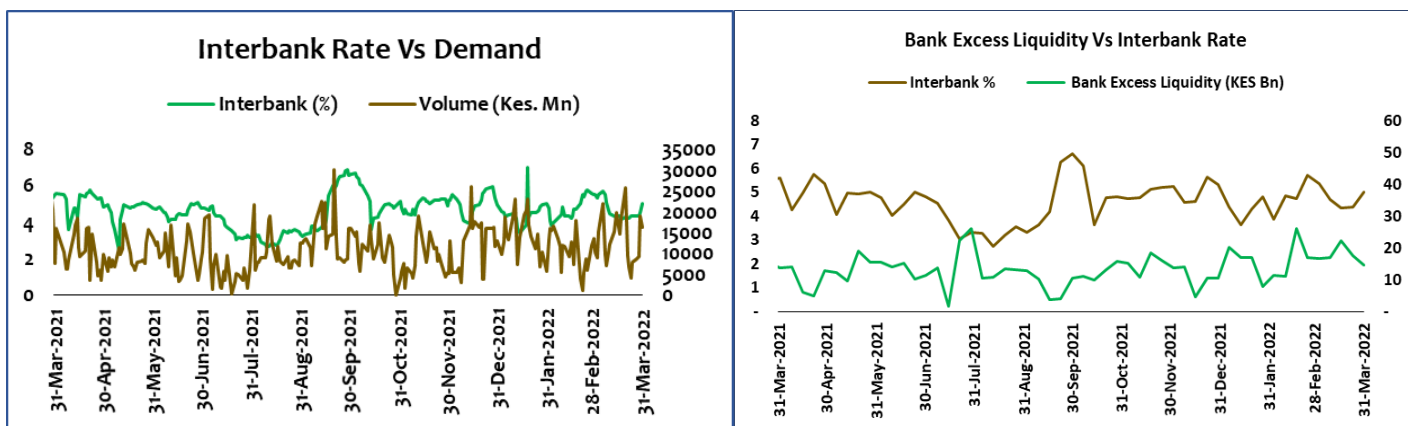


Interbank

- March interbank remained stable closing the month at 40bps lower at 5.19% with a stable monthly average rate of 5.19%. This resulted from the reverse repos from CBK which has helped maintain liquidity in the short-term period.
- Liquidity demand shot 30.4% M/M up to close the month at KES 16.21Bn, with a daily average of KES 13.20Bn.

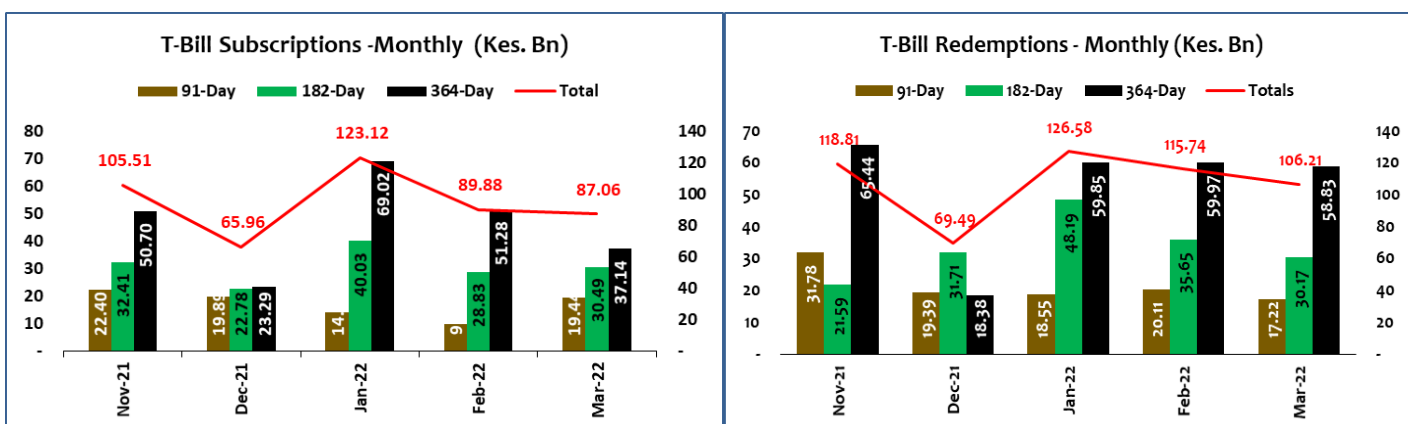
- Bank excess liquidity shed 12.9% to KES 14.80Bn compared to KES 17.00Bn in Feb-2022. after the March issues and tap-sale payments and low maturities witnessed in the month.
- Bank excess liquidity remained on the upper side of KES 16Bn with a monthly average of KES 18.30Bn in comparison to an average of KES 16.40Bn last month.

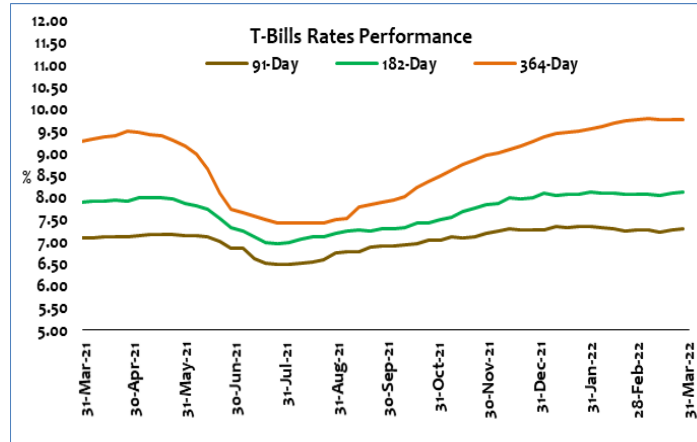
Interbank Vs Volumes Performance - March 2022				
Period/Narration	Feb-22	Feb-22	Mar-22	%Δ M/M
Closed Quarter at	5.55%	5.58%	5.19%	40.0bps
Average Rate	5.23%	4.73%	4.73%	0.0bps
Closing Demand (Kes. Mn)	7,750	12,020	16,210	34.9%
Average Demand (Kes. Mn)	12795	10604.55	13,196	24.4%
Bank Excess Liquidity (Kes. Bn)	13.80	17.00	14.80	-12.9%



Treasury Bills

- T-Bill subscriptions edged down in March against low redemptions witnessed in the month most of which appear to have been reinvested back.
- A total of KES 87.06Bn was subscribed against an offer of KES 96.00Bn. A total of KES of KES 81.73Bn was accepted, a rate of 93.9%.
- T-Bill maturities for the month stood at 86.46Bn compared to that of KES. 93.02Bn and KES 122.07Bn in Feb and Jan 2021 respectively.
- Yields on the 182 and 364-day papers flourished to their highest levels at 8.134% and 9.774% respectively on increased appetite for funds by the government. M/M yields rose 2.9bps, 7.2bps and 0.3bps to close the month at 7.283%, 8.134% and 9.767% respectively.

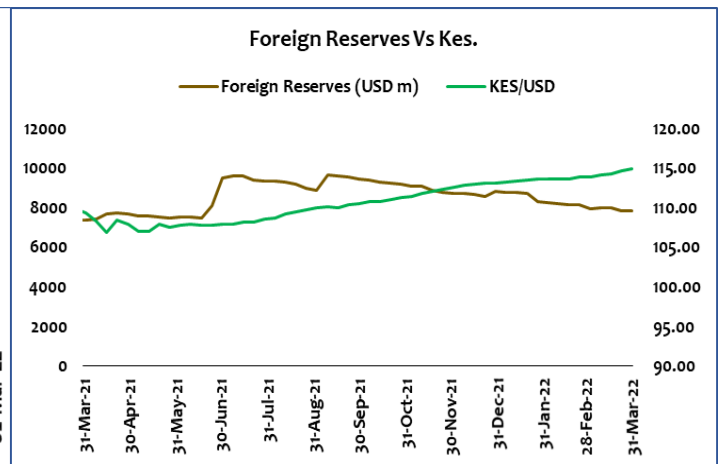
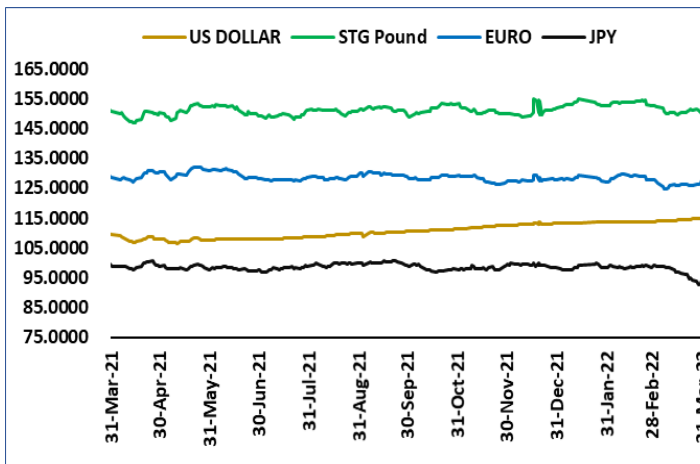




Currency

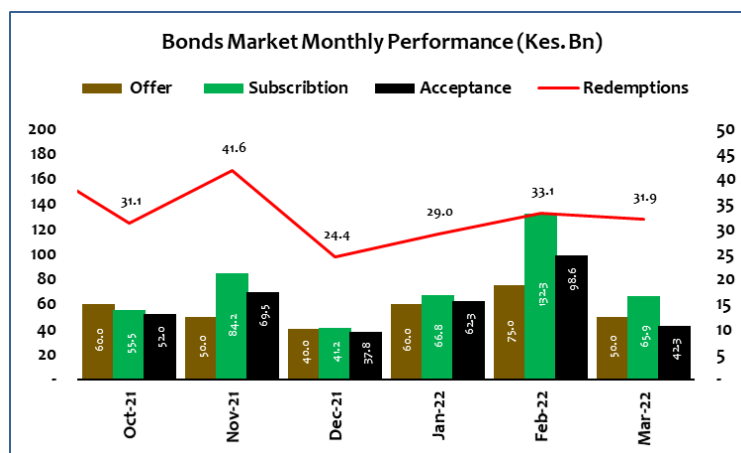
- The shilling has weakened in the recent past against the dollar largely on high dollar demand globally depressing the shilling 1.0% to KES 114.95 on the dollar from KES 113.84 in Feb-2022.
- Necessitated by demand for commodities and rise in international oil prices, the dollar index rose 1.7% up M/M to 98.32 points by end of March 2022. This has seen the dollar record its highest against the Japanese Yen and the Euro amid rising inflation globally.
- Foreign reserves dropped 3.6% or USD 290Mn M/M to USD 7,840Mn as of 29th March largely on external debt payment and receipts of heightened international oil prices.
- Diaspora remittance dropped 5.1% in the month of Feb to USD 321.53Mn on impact from the general rise in good prices worldwide.

Currency	03-Jan-22	Feb-22	Mar-22	%D YTD	%D M/M
Dollar	113.1382	113.8353	114.9513	-1.6%	-1.0%
STG Pound	152.3362	152.6794	151.1268	0.8%	1.0%
Euro	128.0897	127.6453	127.8018	0.2%	-0.1%
JPY	98.1294	98.5033	94.3345	3.9%	4.2%



Treasury Bonds

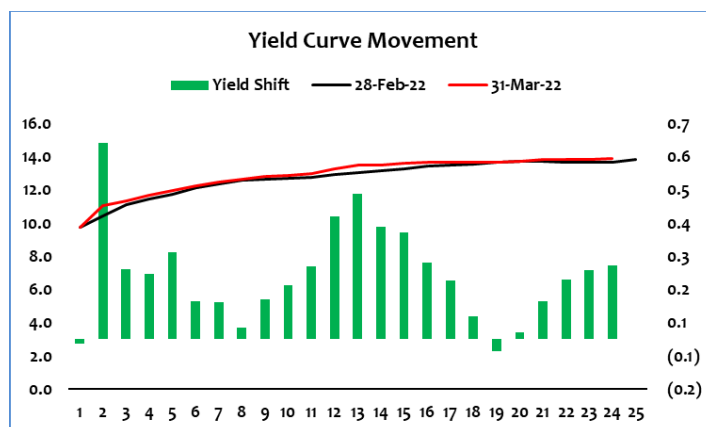
- Primary auction subscriptions remained active in the first quarter of 2022 at a monthly performance of above 100%.
- A total of KES 65.94Bn was subscribed in March at an acceptance of 64.1% on aggressive bidding from investors.
- The secondary market improved in the month moving a total of KES 83.58Bn in comparison to a total of KES 53.79Bn traded in February.
- In March, a total of KES 31.93Bn in coupon redemptions as we project for KES 33.20Bn and KES 40.12Bn coupon payments in April and May respectively.



Yield Curve

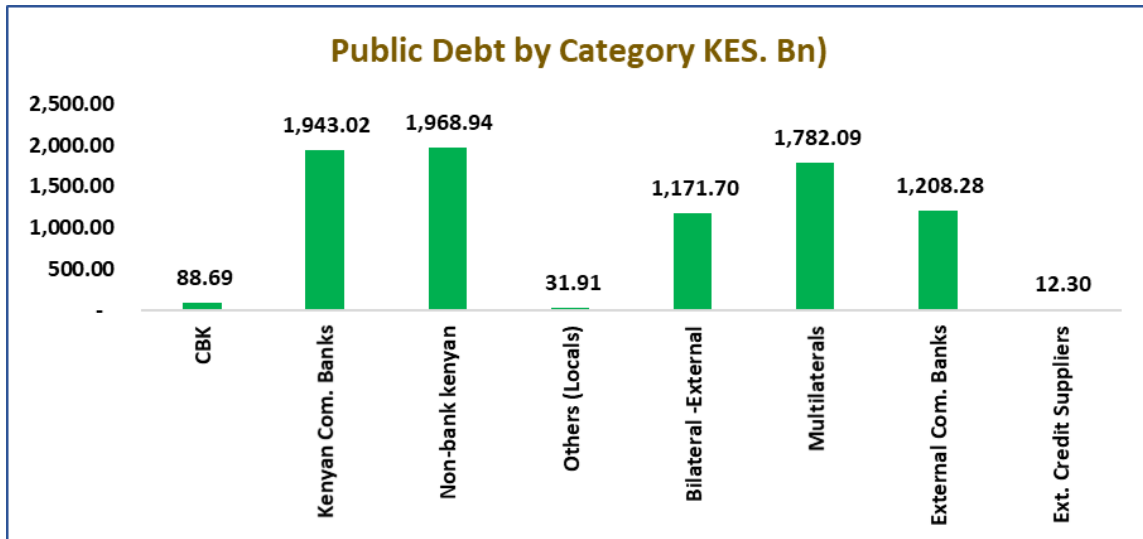
- The yield curve generally shifted upwards M/M on improving yields across the papers. The 2-year paper gained the most at 59.14bps m/m to a yield of 11.0414%.
- The mid papers followed in gains as yield rates edged upwards with the 13-Yr paper gaining most at 43.95bps from 13.07% to 13.51%.
- The long end followed in the third phase with yields rising progressively from the 21-Yr to the 24-Yr papers by 11.61bps to 22.32bps.

Yield Key Rates %	31-Mar-21	28-Feb-22	31-Mar-22	y-y bps Δ	M/M bps Δ
2-Yr	9.9500	10.4500	11.0414	109.14	59.14
5-Yr	10.9502	11.7150	11.9775	102.73	26.25
10-Yr	12.3512	12.7117	12.8760	52.48	16.43
15-Yr	12.9130	13.2973	13.6180	70.50	32.07
20-Yr	13.3125	13.7173	13.7388	42.63	2.15
24-Yr	-	13.6500	13.8732	-	22.32



Public Debt

- Kenyan public debt stood at KES 8.21 Trillion by end of Dec-2021 representing 65% of the gross domestic debt, currently at KES 12.2Tr, of which 50.9% is external debt.
- This represented a 12,7% Y/Y growth from that of KES 7.28Tr recorded in Dec-2020.
- Total Domestic debt is projected to be above KES 4.42Tr by end of March compared to KES 4.11Tr of Jan-2022 and KES 3.57Tr in March last year.



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