KINGDOM SECURITIES

Pre-Auction Fixed Income Note

May 2022 Auction

FXD1-2022-10Yr

FXD1-2021-25Yr

KES 60Bn

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May 2022 - Primary Auction

CBK issued two bonds FXD1/2022/10Yr (New) and FXD1/2021/25Yr (Re-open) seeking KES 60.00Bn for budgetary support in May 2022. Below is our bidding guidance for this auction:

Bond	FXD1/2022/10Yr	FXD1/2021/25Yr
Offer	KES 60.00Bn	
Tenure	10.0-Yrs	24.1-Yrs
Coupon	Market Determined	13.924%
Initial issue	N/A	May 2021
Auction Date	11-May-22	11-May-22
Value Date	16-May-22	16-May-22
Conservative	13.10% - 13.35%	13.85% - 14.00%
Aggressive	13.45% - 13.60%	14.10% - 14.20%

The auction comes at the verge of tight liquidity and increased appetite for funds towards completion of government projects ahead of the national elections and leadership transition thereafter.

We anticipate the FXD1/2022/10Yr to be sourced aggressively as it is a new issue and shortage of similar papers in the market.

The FXD1/2021/25Yr was first issued same time last year with a 103.4% over-subscription at a 45.9% acceptance on aggressive bidding, resulting to a tap sale. Its initial market weighted, and accepted coupon rates were 14.061% and 13.924% respectively.

FXD1/2021/25Yr was later re-opened in Jul-21, Oct-21, and Mar-22 with subscriptions of 66.5%, 47.8% and 56.0% at acceptance levels of 56.7%, 90.4% and 33.2%. See below its historical figures since inception.

We anticipate a low focus on the issue due to its tenure, as of current, investors are holding KES 67.83Bn of the paper with only KES 6.41Bn or 8.3% total holding traded y-t-d.

Issue/Reopen Date	Offer (KES Bn)	Subscriptions (KES Bn)	Acceptance (KES Bn)	Weighted Average Rate	Coupon Rate
May-21	50.00	36.04	19.28	14.061%	13.924%
Jul-21	60.00	39.91	22.64	13.681%	13.924%
Oct-21	60.00	28.67	25.90	13.823%	13.924%
Mar-22	50.00	28.00	9.29	13.973	13.924%

Macro-economic Condition/Environment

Kenya's Gross Domestic Product (GDP) is estimated to have grown by 7.5% in 2021 being affected by a slowdown in Q4-2021 at a growth of 6.8% as the first three quarters contributed 7.8%. Gross domestic per capita grew 11.2% to KES 245,145 in 2021.

Agriculture remained dominant contributing a 22.4% of the overall 2021 GDP as industry related activities and service sector accounted for17.0% and 60.6% respectively.

Rising cost of living continues affecting the economy with the private sector purchasing Managers' index (PMI) dropping to below the 50 mark to 49.5 in April from 50.5 points in March 2022.

According to Stanbic Bank Kenya PMI, Kenya's economic activity contracted in April due to rising inflation and supply chain constrains that impacted consumer demand and output shortfalls.

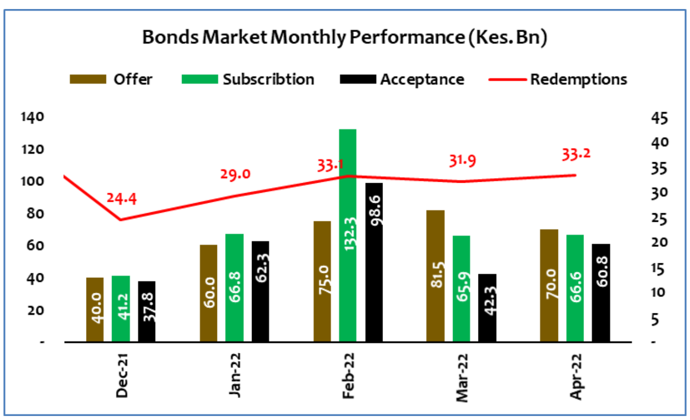
Rising prices of goods and services and revised pump prices pushed inflation rate to 6.47% in April from 5.56% in March.

Despite a 30bps growth in private sector credit from 8.8% in January to 9.1% in February, non-performing loans (NPLs) deteriorated from 13.3% to 14.0% in Feb-2022. This is expected to improve on government payment to infrastructure clients.

Bonds - Secondary market

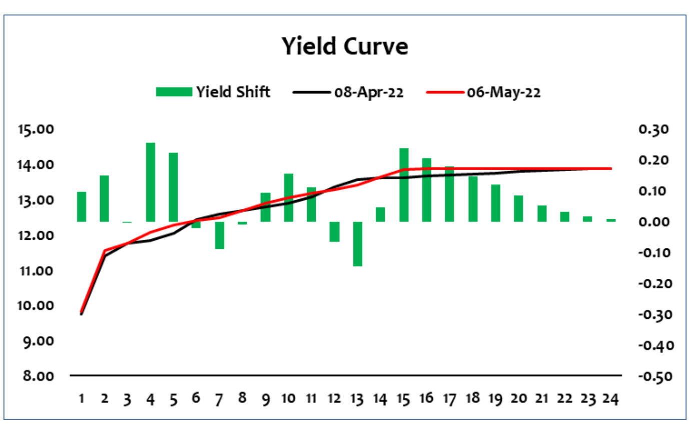
Rise of bond yields has seen a slowdown of bond activities in the last one month as investors monitor the situation. April secondary bonds performance dropped 18.0% to KES 70.92Bn from that of KES 86.52Bn in March with infrastructure bonds controlling the market at 62.8%.

Bond subscriptions for April were undersubscribed at 95.1% (KES 66.59Bn) with a 91.3% (KES 60.77Bn) acceptance. Coupon payments stood at KES 33.20Bn in April as we expect KES 40.11Bn this month.



Yield Curve

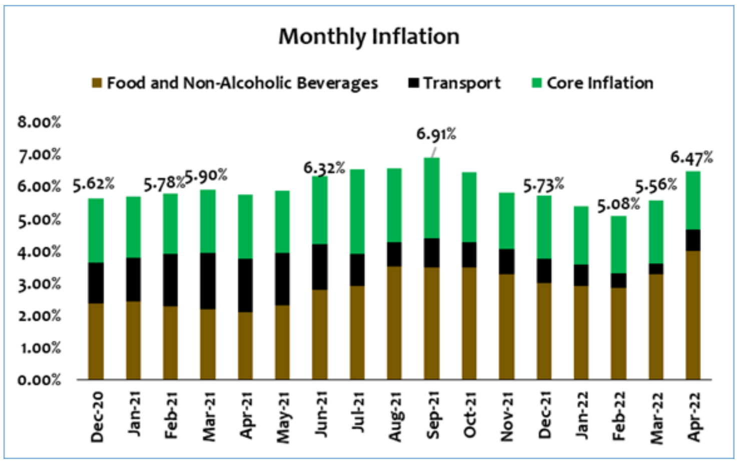
Tight liquidity in the market has seen the yield curve shift upwards eroding secondary market value. As demand for liquidity remains high and investors bid aggressively, we expect the yield curve to remain shifting upwards in May-2021.



Inflation

Local inflation climbed to 6.47% in April from 5.56% in March fueled by increase in food prices, and petroleum pump prices.

This is largely on supply chain constrains brought about largely by the Russia-Ukraine war has seen inflations globally soar. This is largely affected by international prices resulting from surmounting sanctions on Russia which contributes about 14% of world crude oil supply. Russia and Ukraine are the main market leaders in productions of wheat, barley, energy among others.



Interbank

The interbank has remained relatively stable in the last one month supported by heavy reverse repos from the central bank, CBK. Average interbank stood at 4.65% in the last one month with a daily average liquidity demand of KES 21,93Bn.

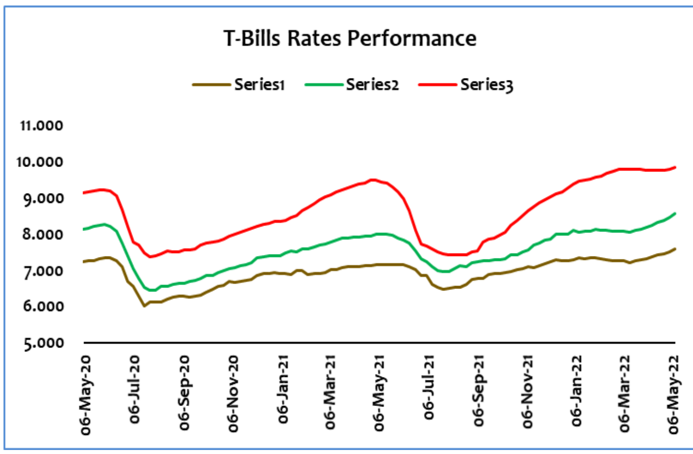
Bank excess reserves remain sufficient at KES. 29.20Bn by the first week of May in relation to the 4.25% cash reserve requirement largely benefitting from CBK reverse repo actions.

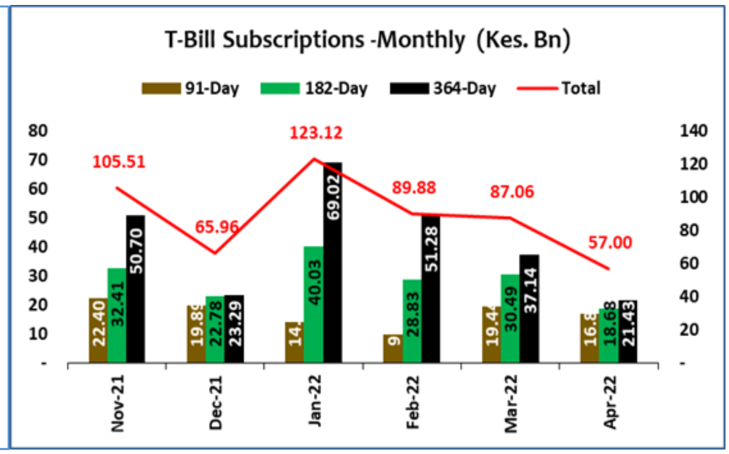
Key Rates	06-May-22	06-Apr-22	06-Jun-22
Central Bank Rate	7.00%	7.00%	7.00%
Inter-Bank Rate	4.07%	4.77%	4.76%
Cash Reserve Requirement (CRR)	4.25%	4.25%	4.25%
Inflation	5.76%	5.56%	6.47%
91-Day T-Bill	7.139%	7.265%	7.580%
182-Day T-Bill	7.989%	8.063%	8.542%
364-Day T-Bill	9.474%	9.774%	9.840%
Bank Excess Liquidity	12.30	14.60	29.20
Months of Import Cover	4.63	4.98	4.99
Forex Reserves (USD Mn)	7,575	8,373	8,401

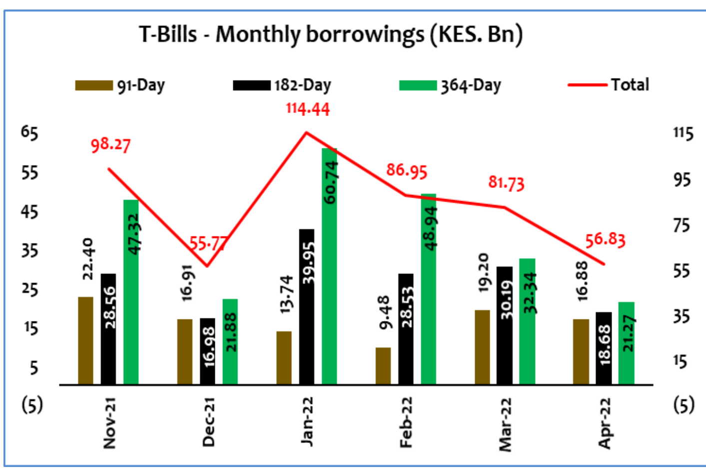
Treasury Bills

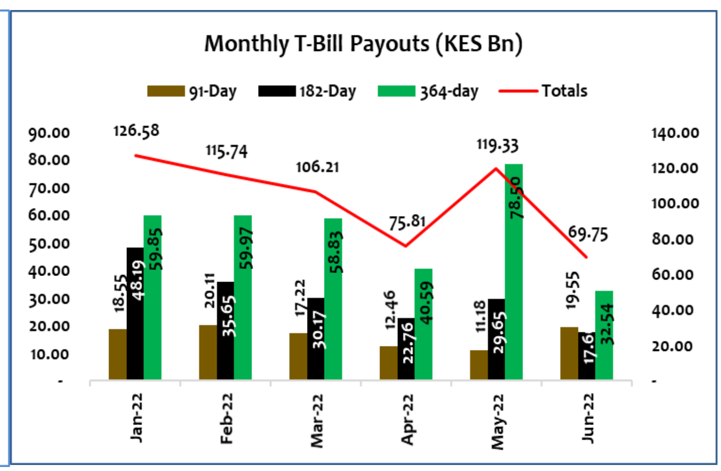
Tight liquidity has resulted to low T-Bill subscriptions even as thirst for funds continue pushing returns on the papers up. All the three papers have recorded new heights in the last 12 months at 7.580%, 8.542% and 9.840% for the 91, 182 and 364-day papers respectively.

Auctions have experienced low subscriptions in the last one month (four weeks to date) at 83.9% with government demand for funds pushing acceptances to 99.7% while returns improved at an average of 20.8bps. The 91, 182 and 364-day papers gained 20.3bps, 32.3bps and 9.7bps in the last one month in that order.









Currency

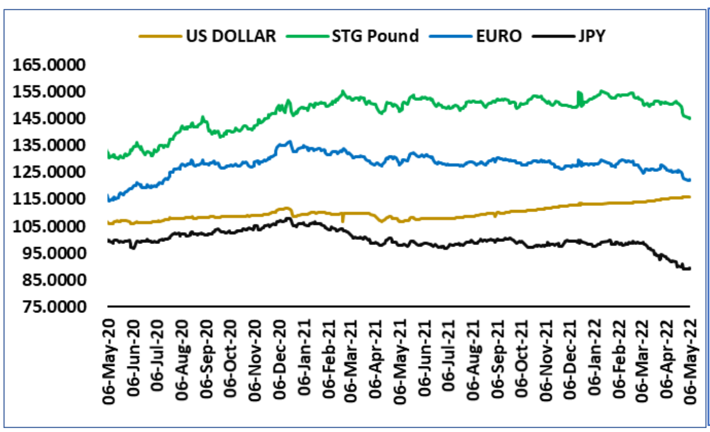
The shilling weakened against the dollar shedding 0.7% m-m and 2.4% y-t-d to KES 115.90 per dollar as at Friday 6th, May 2022. This is largely on high demand for the dollar locally and globally for commodity trading in an environment facing supply challenges by manufacturers.

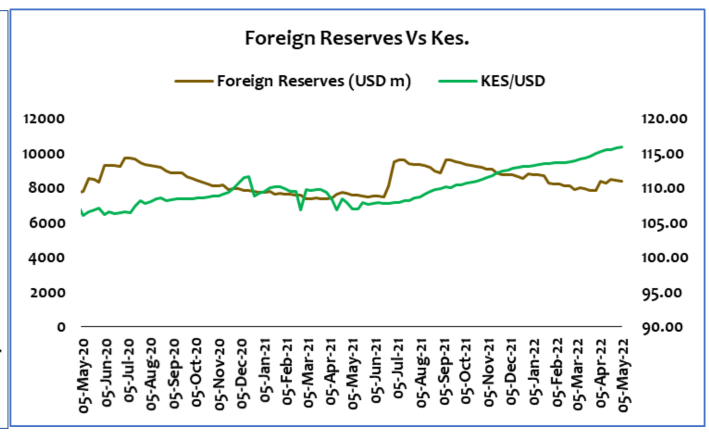
Against the pound, Euro and the yen, the shilling remained strong riding on the ongoing Eastern Europe war and high demand for energy in the region weakening the currencies against the green buck.

Forex reserves were up 0.3% to USD 8,401Mn benefiting from the World bank concessional loan whose receipts happened in April. This was assisted by a 13.1% m/m growth in diaspora remittances from USD 321.53Mn to USD 363.58Mn in March but pressure from imports especially oil import remains.

We expect the reserves to decline in the month of May due to a USD 77.5Mn coupon payment on the 27-Yr and 32-Yr euro-bond papers due on May 22nd, 2022

Currency	03-Jan-22	06-Apr-22	06-May-22	%Δ YTD	%Δ MTD
Dollar	113.1382	115.1206	115.9047	-2.4%	-0.7%
STG Pound	152.3362	151.1550	144.9232	4.9%	4.1%
Euro	128.0897	126.4574	122.5347	4.3%	3.1%
JPY	98.1294	93.7273	89.0308	9.3%	5.0%





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