KINGDOM SECURITIES

Pre-Auction Fixed Income Note

July 2022 Auction

FXD2/2013/15Yr

FXD2/2018/15Yr

KES 40Bn

Research Analyst:	Research Analyst:	Bonds Dealer
Willis Nalwenge, CFA	**Shadrack Manyinsa**	**Ashley Odundo**
wnalwenge@co-opbank.co.ke	smanyinsa@co-opbank.co.ke	aodundo@co-opbank.co.ke
Office: +254711 049 183	**Office: +254711 049 956**	**Office: +254 711 049 195**

KINGDOM SECURITIES

Fixed Income Pre-Auction Note
July 2022

July 2022 Primary Auction

The National Treasury re-opened two bonds, FXD2/2013/15and FXD2/2018/15 seeking a total of KES 40.0Bn from the public with coupon rates of 12.00% and 12.75% respectively. Below is our bidding guidance:

Bond	FXD2/2013/15	FXD2/2018/15
Tenure	5.8-Yrs	11.3-Yrs
Coupon	12.00%	12.75%
Period of Sale	28 June to 19 Jul	28 June to 19 Jul
Value Date	25-Jul-22	25-Jul-22
Conservative	12.50% - 12.75%	13.60-13.80%
Aggressive	12.75% - 13.00%	13.80% - 14.00%

FXD2/2013/15 was last issued in 2020 at 67.8% subscription with a 96.8% acceptance and a market weighted average rate of 11.45%. In 2018 and 2016 re-opens, the paper's weighted average rates were 12.906% and 14.98% respectively.

We expect high subscriptions on the 5.8-Yr paper following the short-term papers starvations witnessed in the market.

FXD2/2013/15					
Dates	offer	Received	Acceptance	Market weighted Rate (%)	Coupon (%)
23-Apr-20	40	27,102.68	26,226.46	11.445	12.000
15-Mar-18	25	3,501.37	3,501.37	12.906	12.000
26-Feb-18	40	16,175.72	8,760.99	12.906	12.000
21-Mar-16	25	12,474.65	88,034.88	14.979	12.000

The FXD2/2018/15 was first issued on Oct 2018 where it received a 67.6% subscription against an offer of KES 40.00Bn at 29.0% acceptance. Then it was first reopened in Nov 2018 with a market weighted rate of 12.734%

FXD2/2018/15					
Date	offer	Received	Acceptance	Market weighted rate (%)	Coupon (%)
22-Oct-18	40	27,045.43	7,854.06	12.746	12.750
5-Nov-18	32	25,375.61	21,261.94	12.734	12.750

Macro-econ0mic Environment

As elections draws nearer, liquidity flow remains constrained as many investors await the outcome amid rising cost of living evidenced by the soaring inflation, exacerbated by high fuel prices globally. This has resulted to interest rate hikes by many central banks including CBK's CBR rate which was reviewed 50bps up to 7.5%.

As per the June Purchasing Managers' Index (PMI), private sector performance declined to 46.8 points for a third month in a row in both production and sales with a steep drop in manufacturing, construction and retail and wholesale sectors.

Private sector credit grew by 11.5% in April compared to that of 9.1% on increase business activity and accommodative policy stance with the cash reserves Requirement (CRR) stabilizing at 4.25%

Bank lending grew 0.5% m/m in April on increased demand for loans in the trade, transport and communication and personal household sectors. Non-performing loans however experienced a marginal growth of 10.0bps in April largely on delayed payments from the hospitality, construction and manufacturing sectors.

Political uncertainty remains key both locally and globally with fears on the ongoing Russia-Ukraine war which has disrupted the supply chain of both agricultural and industrial products.

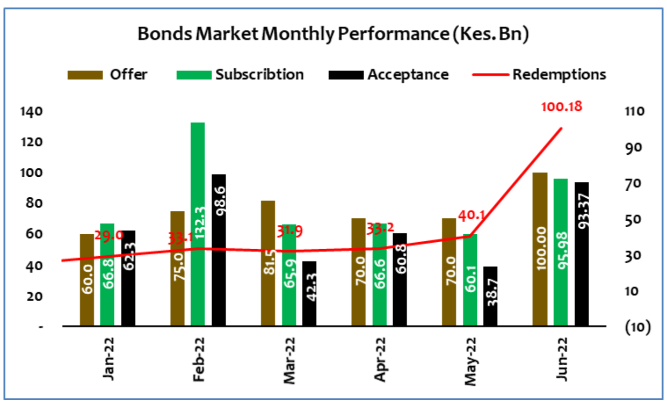
Bonds Market Performance

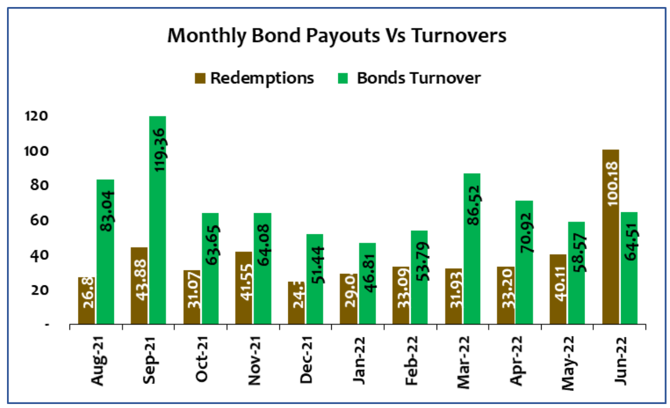
Bonds market performed better in June at 96.0% on account reinvestments from heavy maturities and coupon payments totaling to KES 95.98Bn. Government demand for cash saw acceptance improve to 97.3% compared to an acceptance of 64.4% in May.

The payouts improved on account bond maturities of KES 35.98Bn that happened in June, 2022.

Secondary market activities performed below the bond payouts for the first time in the last one year at a turnover of KES 64.51Bn compared to payouts of KES 100.18Bn. This comes as investors await the national elections outcome and stabilization of macroeconomic environment.

In July, we expect payouts of KES 29.04Bn coupon payments as KES 70.94Bn is due for August 2022.



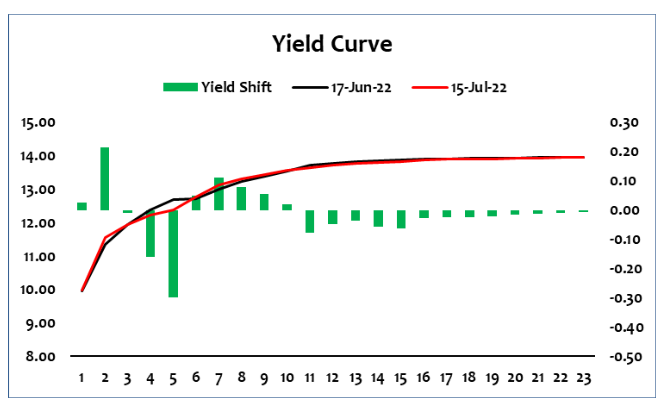


Yield Curve

The short end of the yield curve experienced mixed reactions as some investors cashed in on the papers between the 2nd and 8th year papers. This impacted the long-end to remain relatively stable with little activity on the papers of above 10-yrs.

The impact became clear on our weekly yield curve graphs as investors appear to be shifting to the short-term papers. Find our weekly report on [Kingdom Securities Limited - Weekly Performance Report - Week 28 - 2022](#) (For more).

Yield Curve Key Rates %	07-Jan-22	17-Jun-22	15-Jul-22	(YTD) bps	(w/w) bps
2-Yr	9.9932	11.3489	11.5632	-157.0	-21.4
5-Yr	11.4177	12.6814	12.3816	-96.4	30.0
10-Yr	12.5246	13.5470	13.5661	-104.2	-1.9
15-Yr	12.9749	13.8738	13.8115	-83.7	6.2
20-Yr	13.5400	13.9364	13.9198	-38.0	1.7
23-Yr	13.5848	13.9557	13.9485	-36.4	0.7



Fixed Income Pre-Auction Note
July 2022

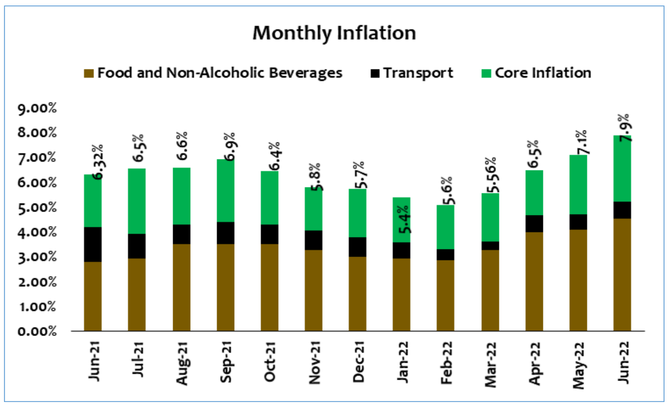
KINGDOM SECURITIES

Inflation

Products and goods supply constrains both globally and locally are expected to push inflation higher from a current rate of 7.9% as of June 2022. This is amid the pump petrol prices remaining stable as the cost of importation escalate on the weakening Kenyan shilling.

Low rainfall witnessed during the long rain season in March – May 2022, is expected to depress the food production and further erode prices of specifically maize and other agricultural food items.

In July, we forecast inflation to remain above the government target of 7.5% as companies pass rising production costs to the consumers which will in turn strain purchases and reduce economic growth.



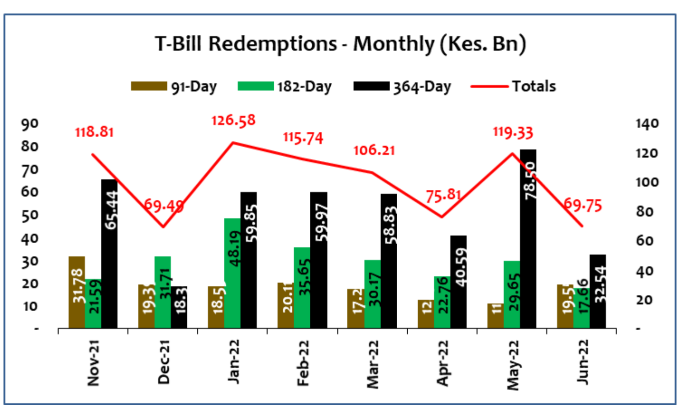
Treasury Bills

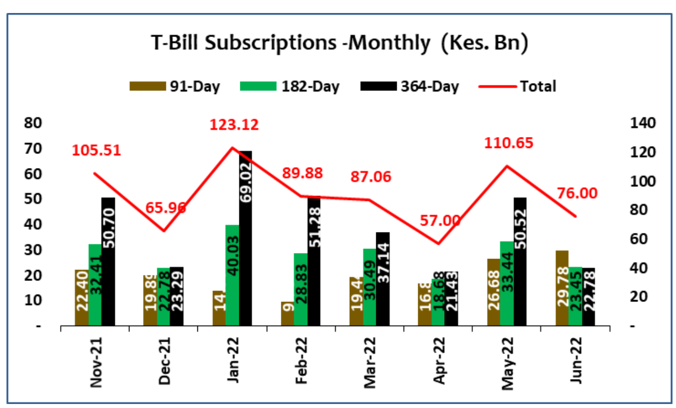
T-bill monthly subscriptions underperformed since February with June recording a subscription of 79.2% at 83.6% acceptance.

A shift to the 91-day paper dominated the market in June, on a fund conservation tactic by investors resulting to oversubscriptions of 186.1% at KES 29.78Bn as the 364-day paper underperformed at 56.9%. Despite heavy maturities on the 364-day paper of KES 32.54Bn in relation to KES 19.55Bn on the 91-day paper which appear to have been reinvested on the 91-day paper.

Heavy reinvestments on the 91-day paper remain, currently standing at 241.3% or KES 28.96Bn performance in the first three weeks of July at 97.2% or KES 28.14Bn acceptance.

Yields on the three paper have flourished to their highest levels in the last 3-years at 8.248%, 9.305% and 9.986% for the 91, 182 and 364-day papers respectively rallied by thirst for funds by the government.





KINGDOM SECURITIES

Fixed Income Pre-Auction Note
July 2022

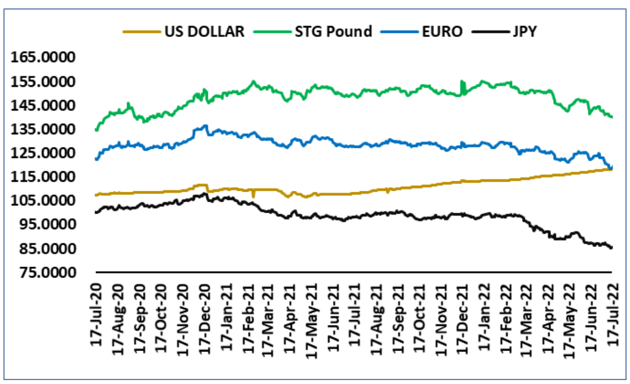
Currency

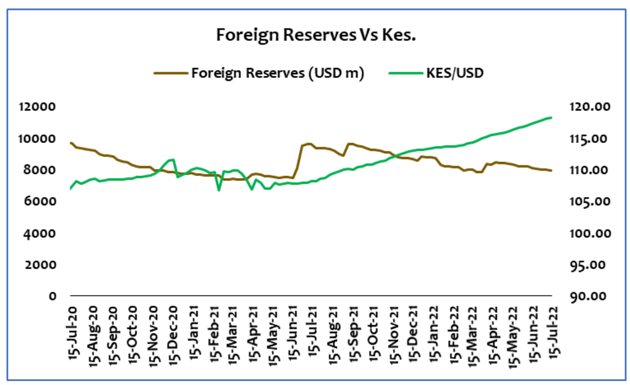
US strong economic performance and heavy demand for dollar has seen the Kenyan weaken 0.8% M/M and 4.6% YTD to KES 118.3882 per dollar. This remains aggravated high imports which accelerated by 29.0% compared to a n 11.1% rise in exports in the 12 months ending April 2022.

Against the Euro, Sterling pound and the Japanese Yen, the shilling stood tall with 2.6%, 2.9% and 1.9% m/m gains to trade at KES 140.82, KES 119.61, and KES 85.54each respectively.

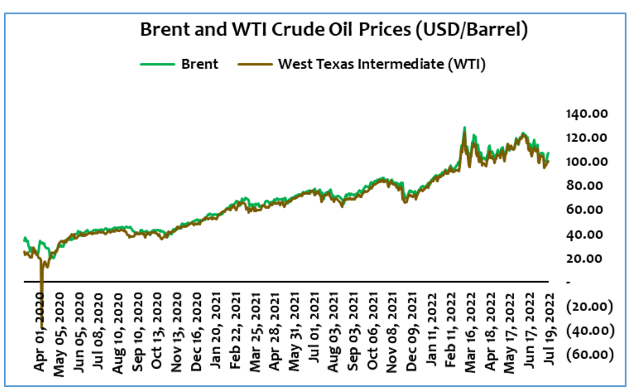
Dollar reserves dropped 2.0% M/M to the current levels of USD 7,953Mn compared to that of USD 8,114Mn on high receipt payment for oil imports and external debt payments.

Currency	03-Jan-22	20-Jun-22	19-Jul-22	%D YTD	%Δ w/w
Dollar	113.1382	117.3971	118.3882	-4.6%	-0.8%
STG Pound	152.3362	143.8150	140.0476	8.1%	2.6%
Euro	128.0897	123.1982	119.6141	6.6%	2.9%
JPY	98.1294	87.2354	85.5375	12.8%	1.9%





International oil prices relaxed to USD 106.87 and USD 100.3 per barrel for brent and West Texas Intermediate (WTI) on 19th July representing a 5.5% and 8.7% drops respectively. This is largely on reduced oil demand especially in China where covid restrictions are still in place. Murban oil dropped 3.9% from USD 105.4% to USD 101.30 per barrel as of 15th July 2022.



KINGDOM SECURITIES

Fixed Income Pre-Auction Note
July 2022

Research Analyst Certification:

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all of the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

Terms of use - Disclaimer

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited.

Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100

Nairobi, KenyaOffice: 0711049540/0711049956

Email: kingdomresearch@coopbank.co.ke

Research Analysts	
Willis Nalwenge, CFA	wnalwenge@co-opbank.co.ke
Shadrack Manyinsa	smanyinsa@co-opbank.co.ke

Fixed Income Dealers	
Ashley Odundo	aodundo@co-opbank.co.ke