KINGDOM SECURITIES

Pre-Auction Fixed Income Note

October 2022

Auction II

FXD1/2022/25

KES 20Bn

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Primary Auction – October 2022

The National Treasury issued two auction targeting a total KES 60 Bn from the Market. Find our 1st pre-auction report on Kingdom Securities Limited – Pre-Auction Fixed Income Note – October 2022 (1st Auction).

In its second auction, CBK issued a new bond FXD1/2022/25 targeting KES 20.00Bn from the market. Below are our bidding rates:

Bond	FXD1/2022/25
Tenure	25 - Yrs
Coupon	Market Determined
Period of Sale	21st Sept – 18th Oct - 2022
Auction Date	19-Oct-22
Value Date	24-Oct-22
Conservative	13.95% - 14.25%
Aggressive	14.30% - 14.60%

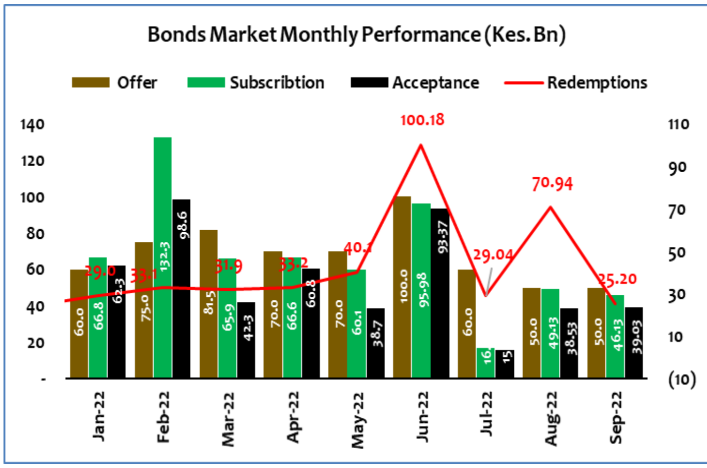
The paper comes in the wake of a myriad macroeconomic factors affecting the economy and the ability to invest in general. We expect aggressive bidding on the paper's rates based on among other factors:

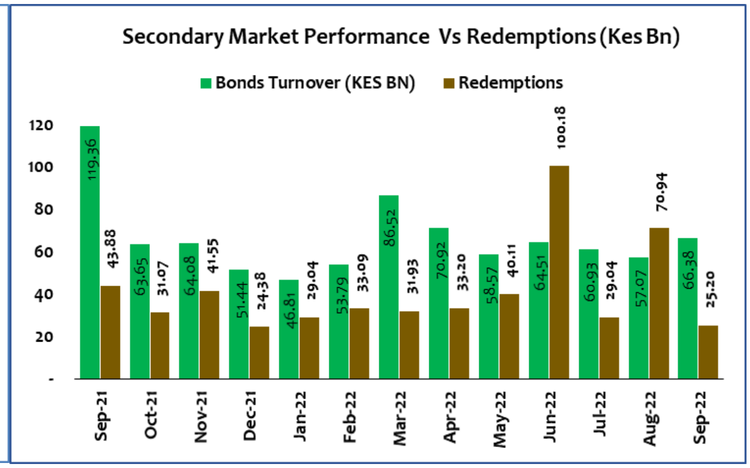
- Global economic growth is forecasted to slow from 6.0% in 2021 to 3.2% in 2022 and 2.7% next year with cost of living, tightening financial conditions, Russia-Ukraine war and lingering covid-19 raying havoc in many economies, as per the IMF report released last week. Global inflation is expected to hit 8.8% in 2022from that of 4.7% in 2021.
- Local economy recorded a 5.2% in Q2-2022 on strong performance in the banking, insurance, transport and storage, retail, real estate, and construction sectors. Agriculture remained suppressed by the ongoing drought in several parts of the country.
- The hiking of the central bank rates continues pushing lending rates upward in many economies with the impact being reflected even on the treasury bond subscriptions. This has seen the yield curve shift upwards on investors seeking better compensation rates. Commercial banks' lending rates currently remained at an average of 13.0% despite the recent rate hike of 75.0bps from 7.5% to 8.25%. On average lending rate for banks stands at 12.38% as per the CBK statistics for August 2022.
- The Stanbic bank's Purchasing Managers' Index jumped 7.5 points to 51.7 points in September from 44.2 in August for the first time in six months on increased business environment after the closure of politics.
- Price decline in international oil prices were marginary reflected in the recent review of oil prices by the Energy Regulatory Authority (EPRA) which saw prices drop marginally by KES 1.00 and KES 2.00 for petrol and kerosene to retail at an average price of KES 178.30 and KES 146.94 per litre respectively as that of diesel remains flat at KES 163.00.

Bonds Performance

Investment in Government securities have performed below target since March-2022 at an average subscription of 82.4% with a 67.0% acceptance.

In October we expect maturities of KES 57.81Bn of which KES 37.21Bn is due in the last two weeks of October whereby KES 20.71Bn are maturities of the short-term paper FXD2/2017/005 due today (17th October 2022).



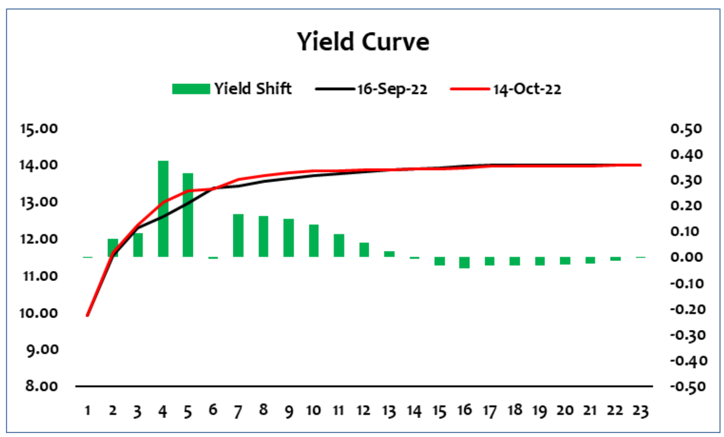


Yield curve

Rising lending rates continue pushing the yield rates higher affecting the yield curve with the short end shifting up the most.

The skew to the short end will continue as most investors have preferred short-term weighing in on government investment direction especially on public borrowings which currently stands at KES 862.5Bn for the 2022/23 fiscal year. This has caused the long-end to remain flat but is set to change in the short-run.

Yield Curve Key Rates %	07-Jan-22	16-Sep-22	14-Oct-22	(YTD) bps	(w/w) bps
2-Yr	9.9932	11.5462	11.6170	162.4	7.1
5-Yr	11.4177	12.9578	13.2814	186.4	32.4
10-Yr	12.5246	13.6913	13.8164	129.2	12.5
15-Yr	12.9749	13.9142	13.8812	90.6	-3.3
20-Yr	13.5400	13.9911	13.9596	42.0	-3.1
23-Yr	13.5848	13.9934	13.9888	40.4	-0.5



Treasury Bills

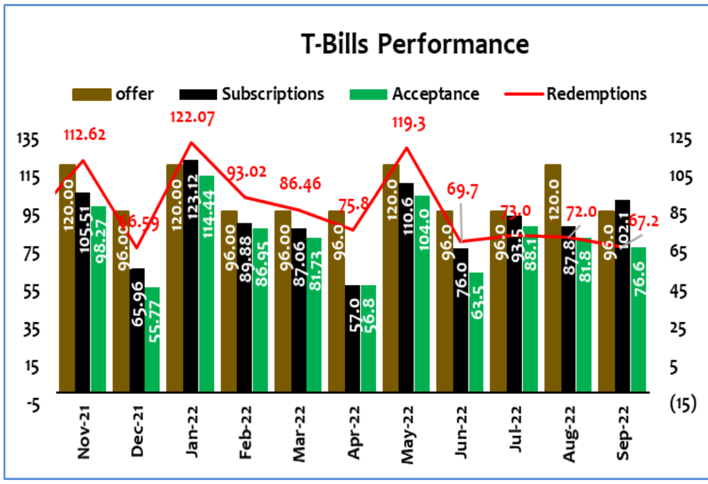
T-bill performance was above target in September on a tactical shift by investors preference to short-term papers.

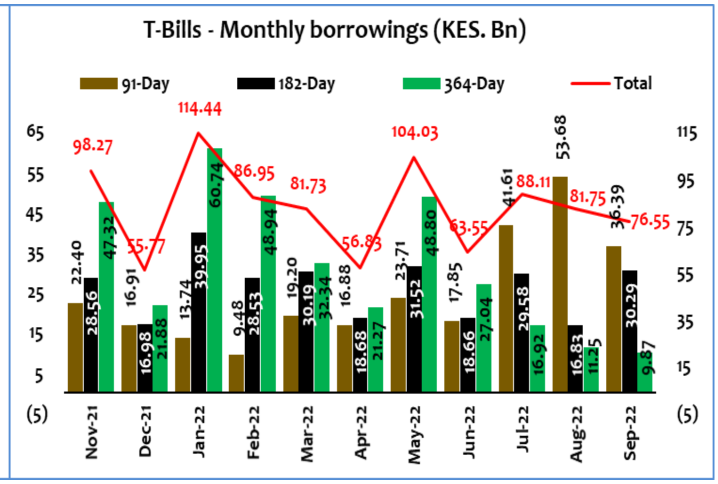
The 91-day paper benefited heavily with subscription of 227.5% or KES 36.39Bn against a target of KES 16Bn in September. Performance on the 91-day paper replicated in the first two weeks of October with a slight skew towards the 182-day paper.

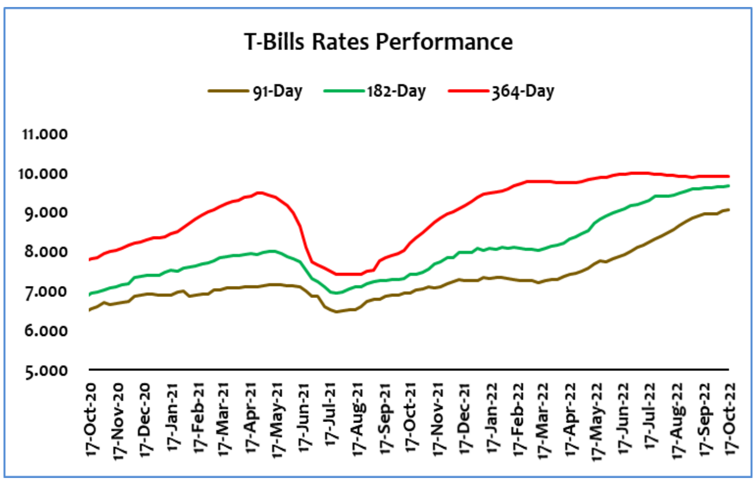
Returns across all the three papers continue flourishing on the above rising CBR rates and demand by the government. Rates on the 91-day paper hit their highest levels at 9.058% last Thursday (13th Oct 2022 - auction) since August 2017.

The 182-day paper was at its 4-year high on 13th October at 9.656% whereas the 364-daypaper started edging down to the current of 9.910% after recording a 3-year high of 9.986% mid-July 2022.

Total Treasury bill redemptions for October stands at KES 107.43Bn part of which have so far rallied oversubscriptions in the first two weeks of October 2022.







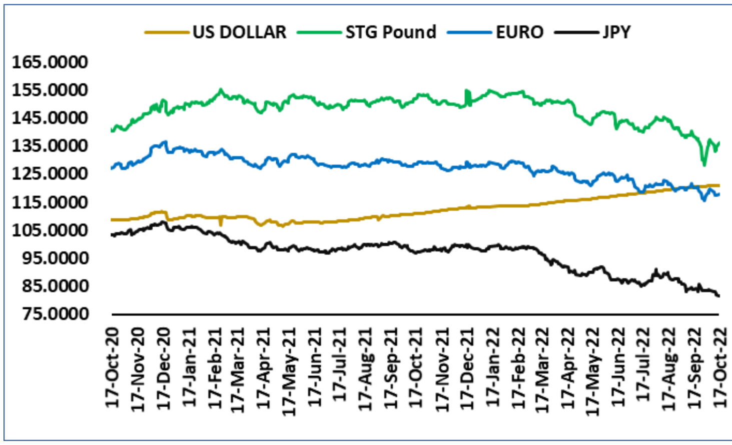
Currency

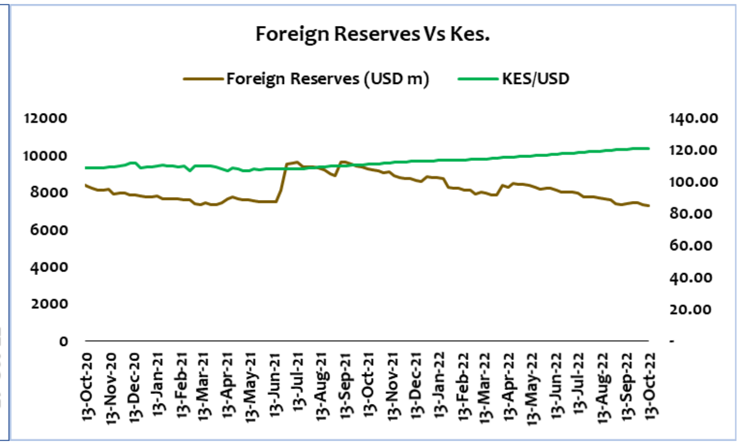
Pressure remains on local currency especially from the dollar on heavy dollar demand to settle imports for petrol and raw materials. The shilling has so far lost 0.2 month to date (17th Oct 2022), 0.5% m-m and 7.0% year to date (y-t-d).

Against the sterling pound, Euro and Japanese yen, the shilling has remained strong gaining 7.0%, 2.5% and 3.5% m-m riding on energy crisis in the Euro area brought about by the Russia0Ukraine war and the firing of UK's finance minister amid amounting political and market chaos.

Forex reserves dropped 1.1% m-m from USD 7,372Mn in mid-September to the current USD 7,294Mn as at 13th October, and will remain under pressure from the strengthening dollar and heavy demand from dollar denominated external loans, the euro bond and coupons which are due in November and December.

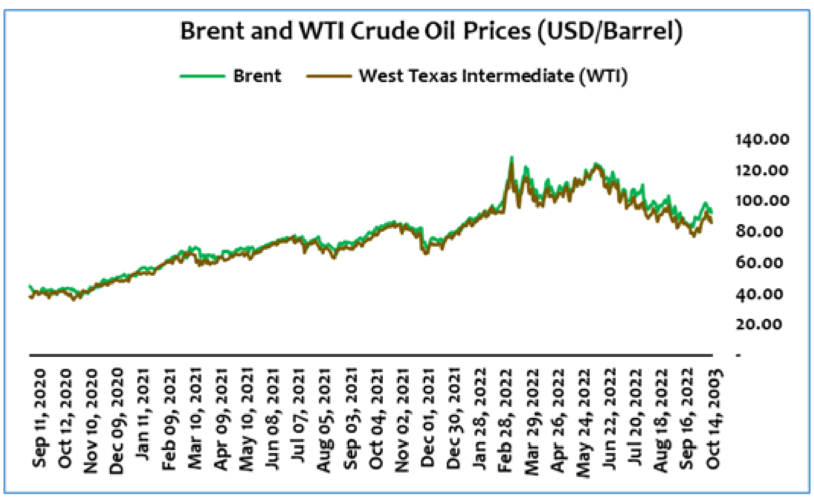
Currency	03-Jan-22	16-Sep-22	17-Oct-22	%∆ YTD	%∆ m-m
Dollar	113.1382	120.4106	121.0306	-7.0%	-0.5%
STG Pound	152.3362	138.6682	136.1274	10.6%	1.8%
Euro	128.0897	120.3279	118.0559	7.8%	1.9%
JPY	98.1294	83.9596	81.6313	16.8%	2.8%





International oil prices edged down on fears of global recession and low demand especially from China, the world's largest importer countering OPEC+ countries decision to cut down production by 1mn barrels per day as form November 2022 in an aim to raise prices.

Brent crude oil price dipped 6.4% from USD 97.92 to USD 91.63 while the West Texas Intermediate (WTI) oil price declined 7.6% from USD 92.64 to USD 85.61 per barrel.



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