

November 2022 Pre-Auction Note

Primary Auction

IFB1/2022/14

KES 60.00Bn

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November 2022 Primary Issue - IFB1/2022/14

The national Treasury issued an infrastructure bond for November, IFB1/2022/14, seeking KES 60.00Bn from the public. This the third bond in the year after the IFB1/2022/19 and IFB1/2022/018 issued in February and June 2022 respectively.

Issued at an opportune moment, we expect the paper to attract more foreign denominated currency partly geared towards coupon payments towards the June 2021 Euro-bond of USD 1.0Bn and other external loan obligations. November and December 2022 infrastructure coupons amounts to KES 9.63Bn and KES 11.93Bn respectively. Attraction of foreign investors is expected to relief to forex reserves which have dipped to their lowest levels of 4.04months of import cover as at the close of Thursday, November 3rd, 2022.

We anticipate heavy biddings from investors following the Central Bank rate hikes rates and the general rise in cost of living. Below are our bidding rates for your consideration and adoption

Bond	IFB1/2022/14
Tenure	14 - Years
Coupon	Market Determined
Period of Sale	26 th Oct. to 8 th Nov. 2022
Value Date	14 th Nov. 2022
Conservative	13.60% - 13.70%.
Aggressive	13.70% - 13.95%

CBK's first two IFB bond issues were oversubscribed at 176.3% of KES 132.26Bn and 101.8% or KES 76.37Bn for February and June auctions respectively. Accepted coupon rates for the two papers stood at 12.965% and 13.742% per annum for the IFB1/2022/19 and IFB1/2022/018 respectively.

Macro-economic Environment

Gradual economic recovery remains gathering momentum albeit facing a myriad of challenges ranging from climate change and geo-political risks, supply chain hick-ups and fears of economic recessions in some parts especially the United States.

According to IMF's recent publication dated October 2022, world economic growth is expected to slow down to 3.2% in 2022 from that of 7.0% in 2021, depressed by soaring cost of living, tightening financial conditions in many countries, lingering covid fears and ongoing Russia-Ukraine war.

Global inflation is forecasted to nearly double from 4.7% in 2021 to 8.8% in 2022 occasioned by rising food and energy prices that continue putting pressure on disposable income.

Locally, Kenyan GDP grew by 5.2% in Q2-2022 compared to that of 11.0% same time last year, weighed down by the pre-election fears exacerbated by a prolonged drought that saw the agricultural sector contract by 2.1% in the period. The hospitality industry gained the most at 22.0% followed by the banking and insurance sector at 11.6% and the transport and storage at 7.1%.

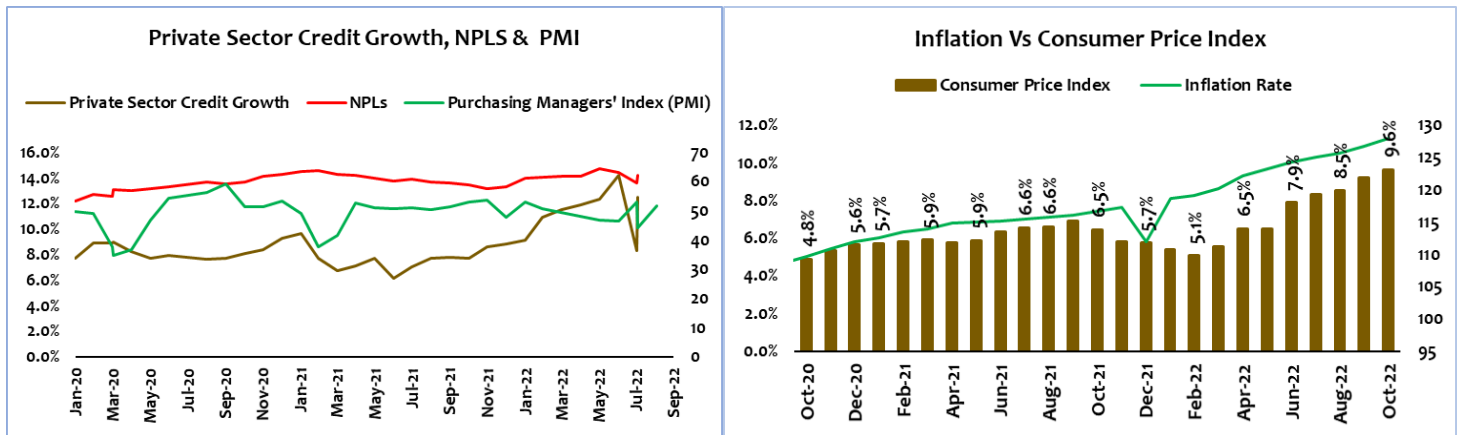
Stanbic Bank's Purchasing Managers' Index (PMI) growth retaliated to 50.2 points from that of 51.7 mark in September, citing on drops in purchase orders that is set to force industries to cut productions in the coming months, if inflation is not contained. The PMI sharp rise in September was however credited to a successful closure of an electioneering period and resumption of business across the economy.

Private sector credit remains strong with growths of 14.2% and 12.5% in July and August respectively. Business services (consumer durables), manufacturing and the trade sector recorded the highest growths of 16.1%, 15.2% and 13.3% respectively.

The banking sector sustained continued growths in gross loans disbursements to KES 3,557.00Bn by end of August, a 1.8% growth since end of June 2022. Non-performing loans (NPLs) stood at 14.2% as at August 2022 compared to that of 14.7% of June and 13.6% of same time last year.

Kenyan inflation spiked further to 9.6% in the month of October 2022 compared to 9.2% of Sept-2022 and 6.4% of Oct-2021. The continued price rise originated from a 15.8% uptick in prices of commodities under food and non-alcoholic beverages, 11.6% in transport and a 7.1% rise in water, electricity and cooking gas all of which accounted for 57.0% of the inflation basket.

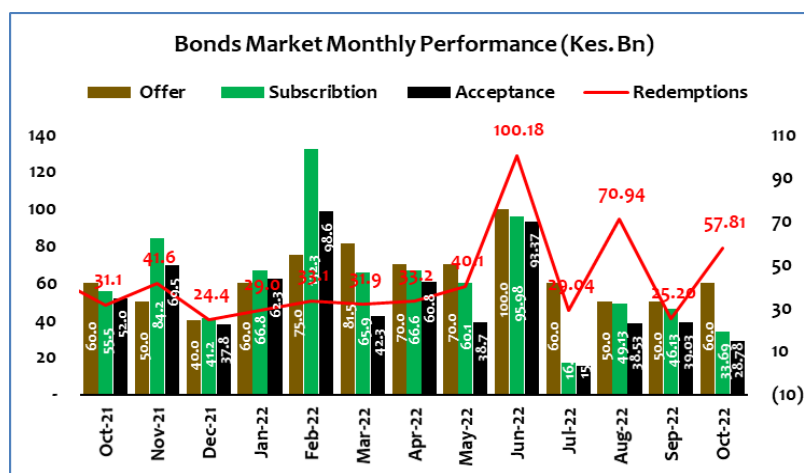
Current account deficit fell to 5.3% of GDP in September from 5.2% in August. This remained however, stable year-on-year compared to that of September 2021 supported by receipts from exports and forex remittances.



Bonds Performance

The primary bonds market has witnessed undersubscriptions limited by the rising yields in the secondary market occasioned by upward reviews of the central bank rates both locally and across the globe. This has seen many investors prefer short-term papers opposed to long-term papers on fears of further rise in yields.

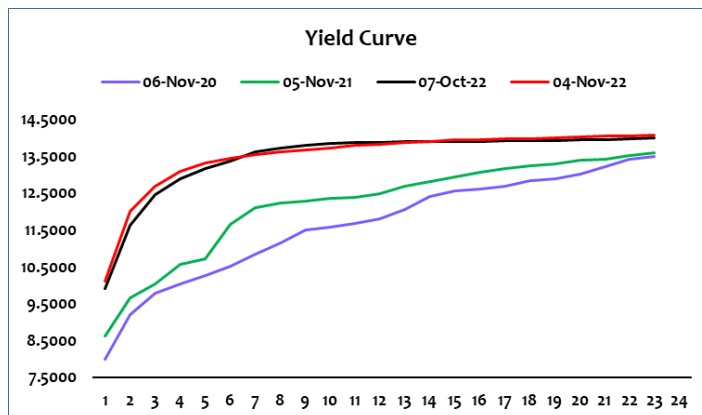
Coupon payments for October stood at KES 57.81Bn of which KES 20.71Bn are maturities that happened on 17th October 2022. In November, we expect maturities of KES 32.96Bn due on Monday, 7th November, and total coupons of KES 41.89Bn, all giving a total of KES 74.85Bn.



Yield Curve

Rate hikes continues shifting the yield curve upwards as investors push for higher rates, making the existing investments drop in value and thereby forcing many to hold on to their papers. The short end continues widening faster as the mid to the long-end shift mildly.

Yield Curve Key Rates %	07/Jan/22	07/Oct/22	04/Nov/22	(YTD) bps	(w/w) bps
2-Yr	9.9932	11.6221	11.9953	200.2	37.3
5-Yr	11.4177	13.1644	13.3309	191.3	16.6
10-Yr	12.5246	13.8617	13.7335	120.9	-12.8
15-Yr	12.9749	13.9086	13.9574	98.3	4.9
20-Yr	13.5400	13.9418	14.0264	48.6	8.5
23-Yr	13.5848	14.0132	14.0823	49.8	6.9

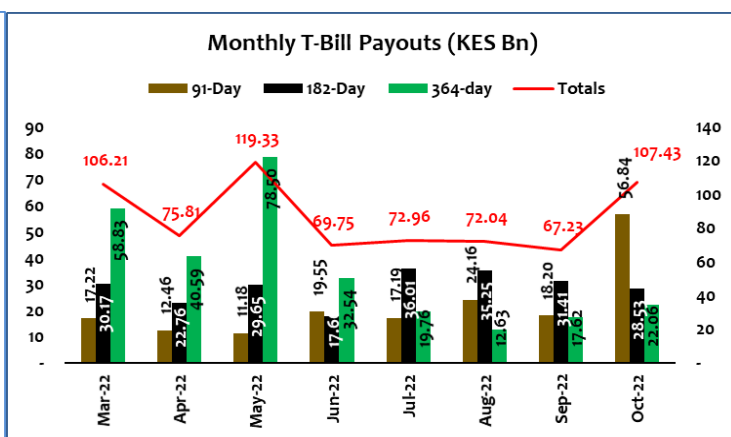
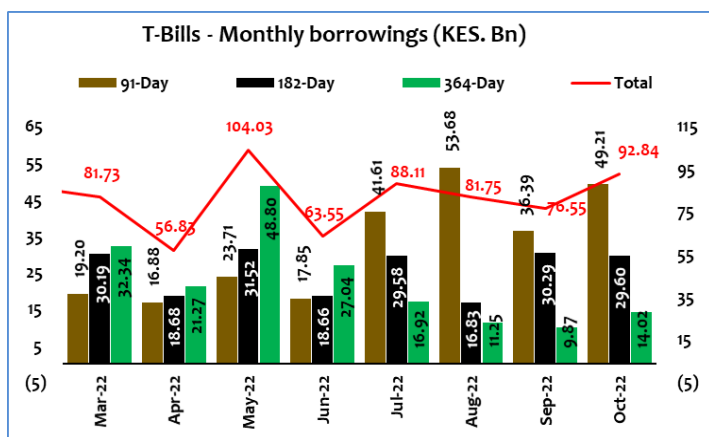


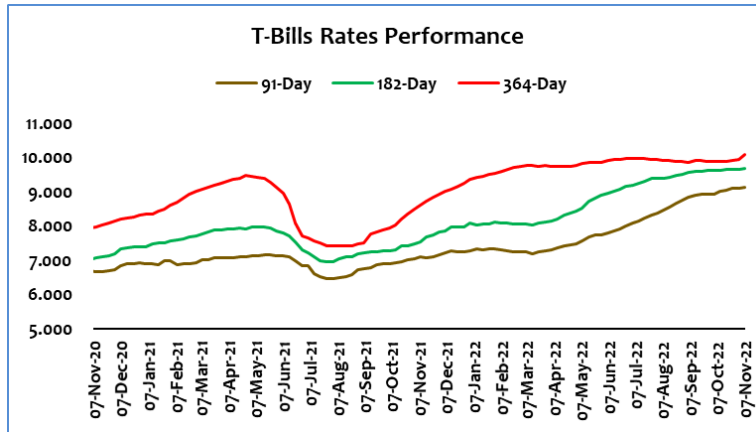
Treasury Bills

Rising interest rates in general has seen a several investors conserve funds in the treasury bills market as a wait and see move, weighing in their highest interest ceiling levels while at the same time bidding aggressively to compensate the hiked CBR rates.

In September and October 2022, KES 102.08Bn and KES 110.22Bn was subscribed at an acceptance of 75.0% and 84.2% acceptance in comparison to that of KES 64.57Bn and KES 55.61Bn at 100.0% and 93.7% acceptance in Sept. and Nov. 2021 respectively. This left Sept & Oct. 2022 at a better performance of 79.7% and 77.4% compared to that of 67.2% and 53.3% of the government target for the same period last year. We forecast heavy subscriptions to remain in the T-bills market.

Return on investment across the papers have flourished to hit their a 5-year high for the 91-day paper and a 4-year high on both the 182- and 364-day papers to 9.139%, 9.691% and 10.109% respectively as of the Thursday, 3rd November T-bill auction whose value date is 7th November 2022.



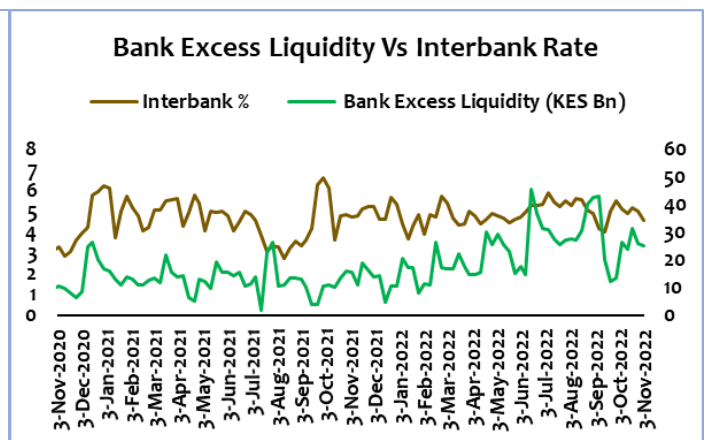
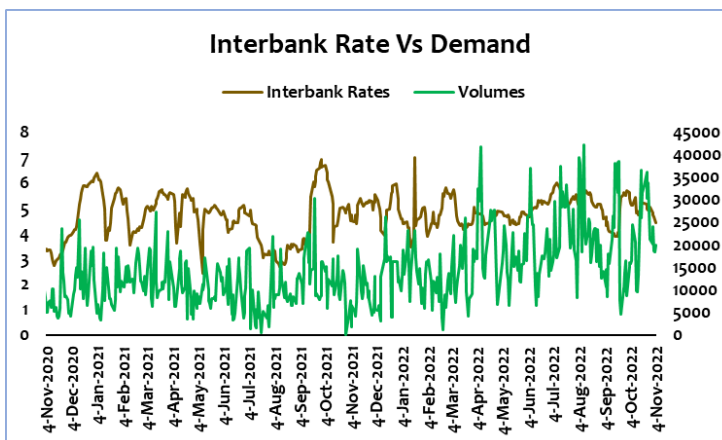


Interbank

Average liquidity in the market has pulled the interbank rate to levels of below 5.0% to the current levels of 4.41% as of 4th November 2022. While average interbank for October and September stood at 5.08% and 4.63%, we forecast the current rate to reverse to above 5.0% upon the PAYE tax payment obligation on 9th November and this auction's value payment on 14th November which we fathom will be draining liquidity from the market.

Commercial banks' reserves have relatively remained stable at KES 25.0Bn in the first week of October 2022 which we partly attribute to heavy rejections in the T-bill subscriptions evidenced in the recent T-bill auctions. We project this to drop to below KES 20Bn as from the third week of November on the above payments.

Key Rates	04-Nov-21	04-Oct-22	04-Nov-22
Central Bank Rate	7.00	8.25%	8.25%
Inter-Bank Rate	4.736%	5.393%	4.414%
Cash Reserve Requirement (CRR)	4.25%	4.25%	4.25%
Inflation	5.80%	9.20%	9.60%
91-Day T-Bill	7.040%	9.952%	9.139%
182-Day T-Bill	7.486%	9.631%	9.691%
364-Day T-Bill	8.489%	9.905%	10.109%
Bank Excess Liquidity	15.30	26.30	25.00
Forex Reserves (USD Mn)	9,068	7,321	7,213
Months of Import Cover	5.54	4.13	4.04



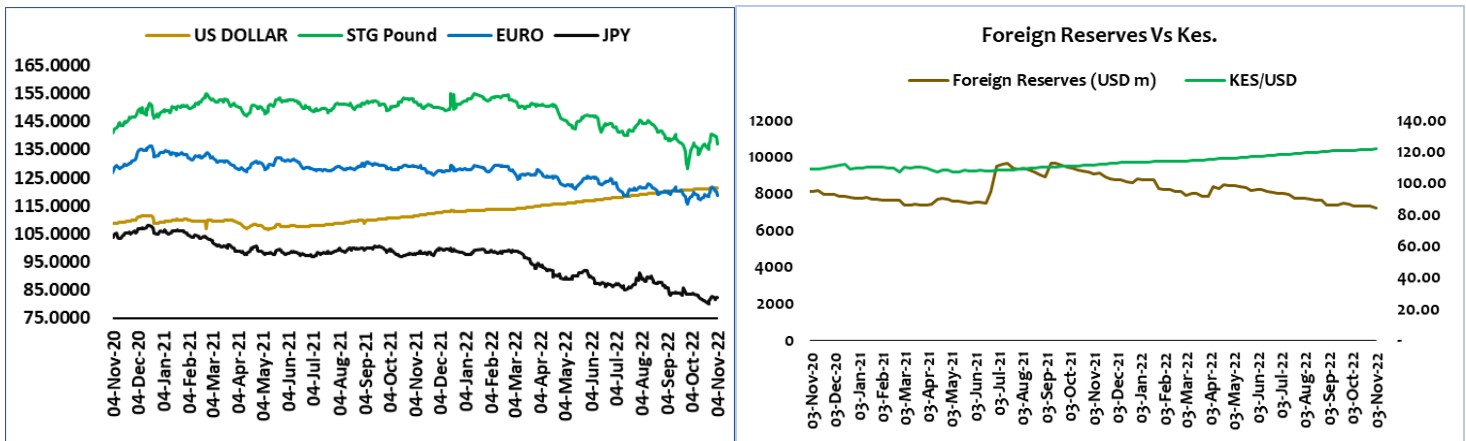
Currency

The Kenyan shilling weakened against the dollar at 0.6% m-m from KES 120.79 to KES 121.50 per dollar as of 4th November 2022, representing a 7.4 drop year-to-date. We attribute this to a fast rise in dollar demand both locally and globally. We confirm this with a double rise in imports of 21.4% in the twelve month to August 2022 compared to an 11.0% rise in exports reported for the same period as per the latest report by CBK.

Against the pound, Euro and the Yen, the shilling has however remained relatively stable riding the Eurozone energy crisis and the area political tensions which seems to un-ending.

Forex reserves in the country dropped to their lowest at USD 7,213Mn or 4.04 months of import cover against the 4.0 required months of import cover.

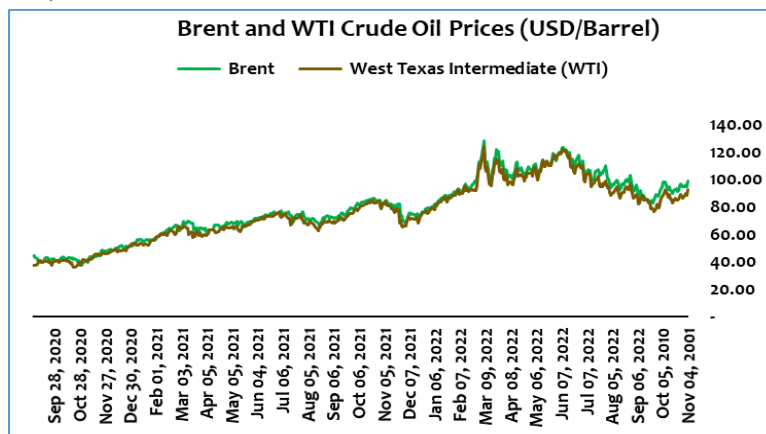
Currency	03-Jan-22	04-Oct-22	04-Nov-22	%D YTD	%D W/W
Dollar	113.1382	120.7882	121.4971	-7.4%	-0.6%
STG Pound	152.3362	135.3744	136.8968	10.1%	-1.1%
Euro	128.0897	118.3379	118.8459	7.2%	-0.4%
JPY	98.1294	83.576	82.2065	16.2%	1.6%



International oil prices climbed at the in the first week of November largely on supply fears amid recessions fears and China's covid outbreaks that had put brakes on the prices, countering OPEC+ supply cut plan in mid-October.

The Brent was 5.6% up m-m to USD 98.57 as the West Texas Intermediate (WTI) climbed 7.0% m-m to USD 92.61 per barrel on Friday, 4th November. Oil demand in the first week of November improved as the dollar weakened against some major currencies leaving investors on advantage.

Oil supply is expected to be tighter in December once the European Union effects its ban on Russian oil which supplies about 14.0% of the world oil imports.



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