

KINGDOM SECURITIES

Pre-Auction Fixed Income Note

January 2023 Auction

FXD1/2020/05

FXD1/2022/15

KES 50Bn

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January 2023 Primary Issue - FXD1/2020/005 and FXD1/2022/015

The National Treasury issued two papers, FXD1/2020/05 - 2.4years and FXD1/2022/015 - 14.3 years seeking KES 50.00Bn for budgetary support. The pre-determined coupon rates for the papers are 11.667% and 13.942% for the 2.4-Yr and 14.3Yr papers respectively.

Bond	FXD1/2020/05	FXD1/2022/15
Tenure	2.4 - Years	14.3 - Years
Coupon	11.667%	13.942%
Period of Sale	14 th Dec 2022 to 10 th Jan 2023	
Auction Date	11 th Jan. 2023	
Value Date	16 th Jan. 2023	
Conservative	11.70% - 11.95%	13.95% - 14.25%
Aggressive	11.96% - 12.25%	14.26% - 14.50%

FXD1/2020/005 was first issued in early May 2020 with a 69.1% subscription of KES 34.53Bn at an acceptance of 60.2% acceptance, representing a performance of 41.5% against a target of KES 50.00Bn. The subsequent performances for three re-openings stood at 29.8%, 15.6% and 91.4% for the May-2020, Jul-2020 and Jan-2022 auctions respectively.

On its current auction, we anticipate heavy subscriptions on the FXD1/2020/05 paper, as the market remain starved of short-term papers and the tactical shift of investors to short-dated papers witnessed in the market.

FXD1/2020/05 Historical performances								
Issue Date	Offer (KES Bn)	Subscription	Acceptance	Performance	Mkt WAR	Accepted WAR	Coupon	
May-2020	50.00	69.1%	60.2%	41.6%	11.788%	11.667%	11.667%	
May-2020	30.00	68.6%	43.5%	29.8%	11.851%	11.748%	11.667%	
Jul-2020	60.00	108.9%	14.3%	15.6%	10.561%	10.260%	11.667%	
Jan-2022	30.00	94.6%	96.6%	91.4%	11.260%	11.234%	11.667%	

The FXD1/2022/15 was first issued in April 2022 where it attracted a total of KES 32.55Bn at an 84.9% acceptance. This being a third reopening. Its historical total average performance stands 60.9%.

The returns from the FXD1/2020/05 paper is subject to a 15.0% withholding tax while that on the FXD1/2022/015 is set at 10.0% withholding tax.

FXD1/2022/15 Previous performances								
Issue Date	Offer (KES Bn)	Subscription	Acceptance	Performance Rate	Mkt WAR	Accepted WAR	Coupon	
Apr-2022	30.00	108.5%	84.9%	92.1%	13.984%	13.942%	13.942%	
Jun-2022	25.00	63.9%	99.9%	63.9%	13.942%	13.942%	13.942%	
Sept-2022	50.00	35.2%	76.1%	26.8%	14.044%	13.983%	13.942%	

Macro-economic Environment

Locally, economic recoveries remain on an uptrend witnessed by increased business activity amid the rising inflation necessitated by high global fuel prices and the prolonged climate related risks. In November 2022, CBK has hiked its lending rate for the third time by 50bps from 8.25% to 8.75% on a continued effort to cool the soaring inflation.

Inflation pressure however, softened in November and December to 9.5% and 9.1% respectively, on what we attribute to the harvesting season in Western Kenya and the short rain season of October to December.

The strengthening of the dollar boosted by an aggressive Federal Reserve which lifted its interest rates to a 15-year high of 4.5% from that of 0.25% at the start of the year. This has attracted more global funds by increasing the dollar demand and leaving the local currency weaker among other currencies.

The purchasing manufacturer’s index (PMI) remained steady rising by 70.0bps m-m in December to 51.6% in from that of 50.9 points citing of increased production and purchase orders and amid spikes in employment. This is as businesses regain from the effects of elections related effects.

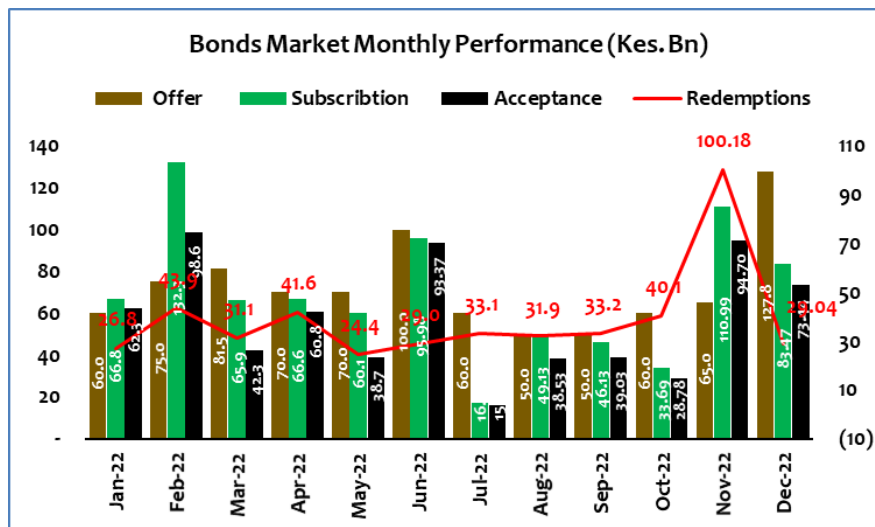
The above business growths are expected to support the private sector credit backed by post-election confidence and increased spending during the festive season. Private sector credit grew by 13.3% in October 2022.

Bonds Performance

Treasury bonds performed below target in the 8 auctions in the last 12 auctions as all infrastructure papers performed above 100% largely driven by their tax-free nature.

In the first auction of 2023, we anticipate an average subscription as businesses are fully resume from festivities. We expect this to be sustained by the short-term paper, FXD1/2020/05.

Payouts of KES 43.88Bn are due for payment in January 2023, of which KES 17.59Bn is due on 9th January 2023 for FXD1/2021/002, that is maturing.

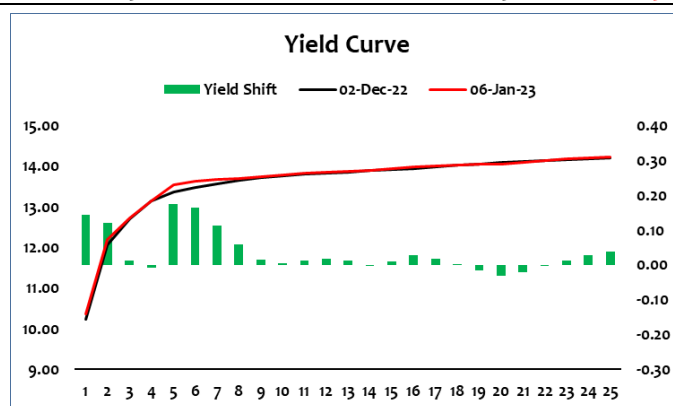


Yield Curve

Review of the Central Bank Rate continue being absorbed in the market causing a general upward shift in the yield curve.

The short end of the yield curve edged up faster and is projected to widen further on the current short-term paper issue. The long end has relatively remained mild with minimal upward shifts.

Yield Curve Key Rates %	07-Jan-22	02-Dec-22	06-Jan-23	y-y Δ bps	w-w Δbps
2-Yr	9.9932	12.0747	12.1960	220.3	12.1
5-Yr	11.4177	13.3727	13.5472	213.0	17.5
10-Yr	12.5246	13.7737	13.7798	125.5	0.6
15-Yr	12.9749	13.9261	13.9356	96.1	1.0
20-Yr	13.4326	14.0886	14.0586	62.6	3.0
25-Yr	13.6000	14.2000	14.2374	63.7	3.7



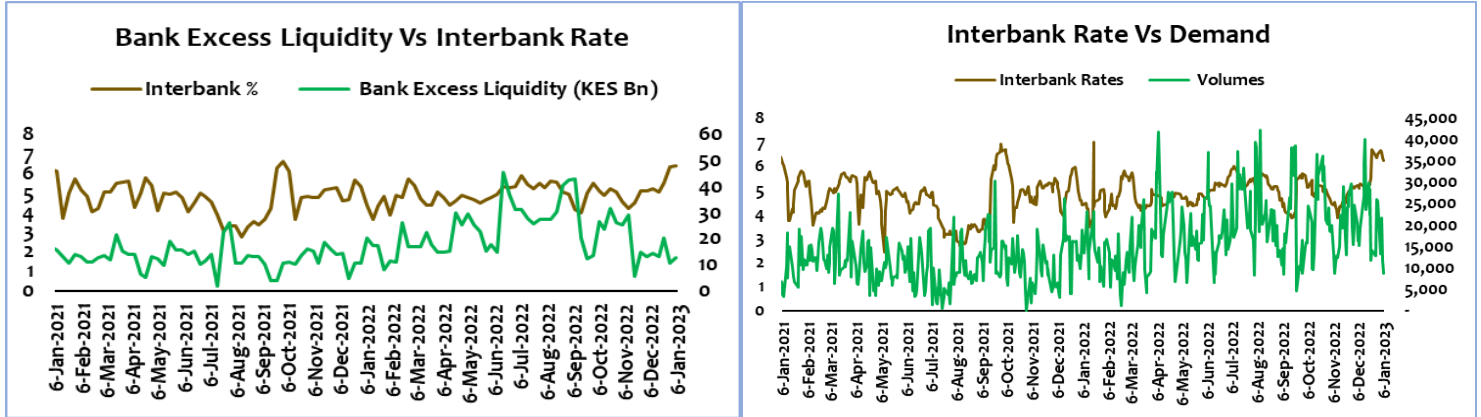
Interbank

Tight liquidity in the market has seen interbank rate hover above 6.0% mark in the first week of the year. As by close of the first week, interbank rate was at 6.24% from that of 5.17% the first week of December 2022 and 4.38% same time last year.

Bank excess reserves fell 8.8% m-m to close the first week of January at KES 12.7Bn reflecting of the market condition even as businesses resume from the festivities.

We anticipate pressure on the interbank especially upon the upcoming PAYE tax payment on 9th January 2023.

Key Rates	06-Jan-22	06-Dec-22	06-Jan-23
Central Bank Rate	7.00%	8.75%	8.75%
Inter-Bank Rate	4.38%	5.17%	6.24%
Average Interbank (One month)	4.95%	4.64%	5.69%
Cash Reserve Requirement (CRR)	4.25%	4.25%	4.25%
Inflation	5.39%	9.48%	9.10%
91-Day T-Bill	7.348%	9.275%	9.392%
182-Day T-Bill	8.041%	9.752%	9.847%
364-Day T-Bill	9.440%	10.225%	10.369%
Bank Excess Liquidity (KES Bn)	20.30	14.50	12.70
Forex Reserves (USD Mn)	8,765	7,103	7,381
Months of Import Cover	5.36	3.98	4.13

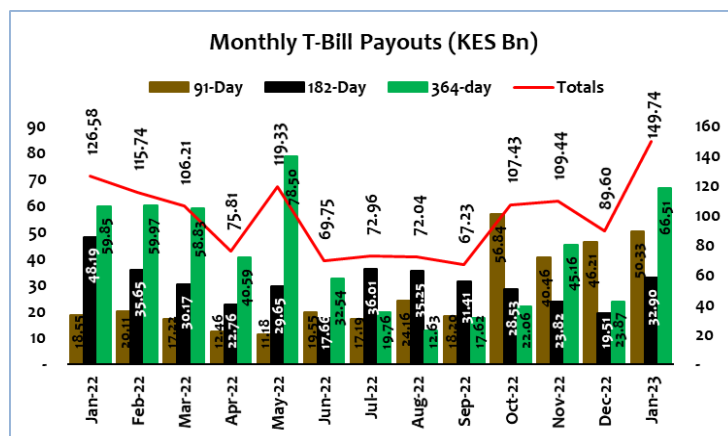
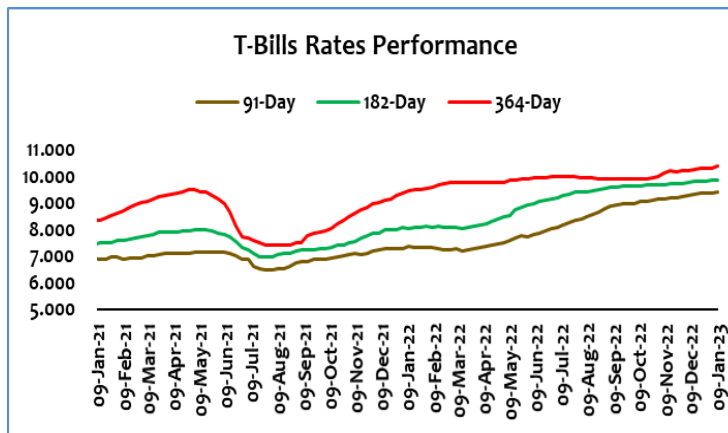


Treasury Bills

Return on investment across the three papers remain on an upward adjustment with the 91-day paper recording a 5-year high at 9.392%. The 182- and 364-day paper hit their new 4-years highs of 9.847% and 10.369% respectively in the first week of 2023.

We fathom a continued heavy bidding on the short-term paper on high demand for cash from the government amid hiked CBR rate,

In January 2023, we expect T-bill maturities of total of KES 147.74Bn.



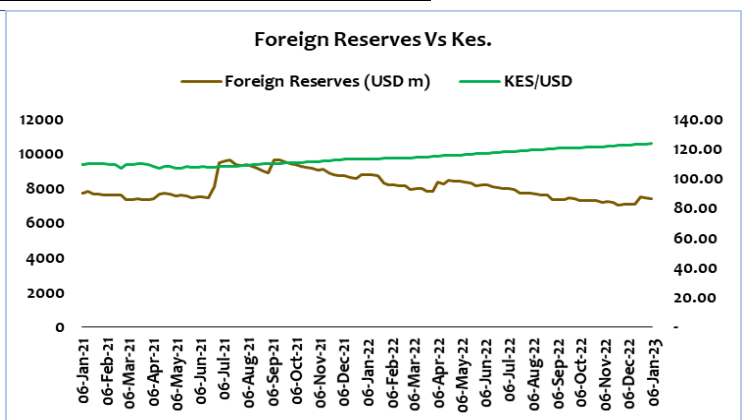
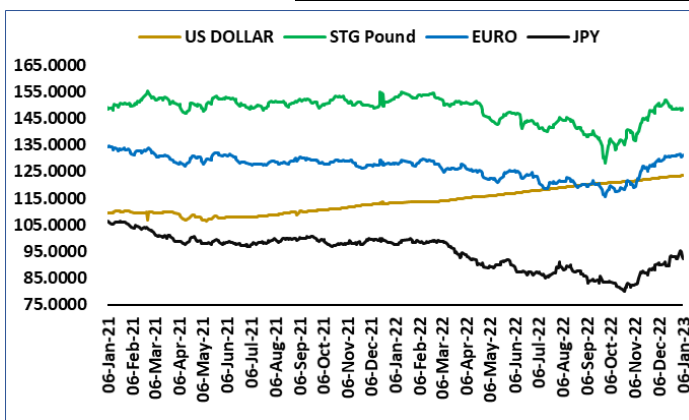
Currency performance

Strengthening of the US dollar has left the Kenyan shilling weaken just like many other currencies in the region. The local currency has shed 0.7% against the dollar in the last one month from KES 122.63 on 6th December to KES 123.55 per dollar as of 6th January 2022. This continue making imports expensive especially those involving the US dollar.

The dollar index, however, dropped 1.6% m-m to 103.88 points in the global market, after the Federal Reserve further raised its rate to 4.5% in December and thereby escalating recession fears of the US economy.

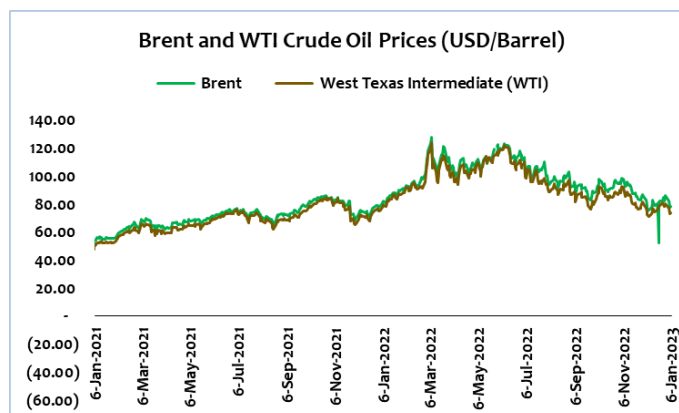
Forex reserves improved 3.9% in the last one month from USD 7,103Mn to USD 7,381Mn riding on the USD 447Mn IMF facility towards budgetary support.

Currency	06-Jan-22	06-Dec-22	06-Jan-23	%Δ Y/Y	%Δ M/M
Dollar	113.1853	122.6324	123.5471	-9.2%	-0.7%
STG Pound	152.9909	150.7326	148.5565	2.9%	1.4%
Euro	128.065	129.6465	131.0882	-2.4%	-1.1%
JPY	97.603	90.6273	92.2131	5.5%	-1.7%



International oil prices declined held down by recession concerns, a weak demand from especially China even as covid-19 restriction measures are lifted.

Both the Brent and the West Texas Intermediate (WTI)'s price receded by 1.0% from USD 79.35 and USD 74.47 to USD 78.57 and USD 73.69 per barrel respectively.



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