

# KINGDOM SECURITIES

## Pre-Auction Fixed Income Note

May 2023  
Auction

FXD1/2022/03  
KES 20Bn

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### Primary Bond Issue: May 2023 - FXD1/2022/03

The National Treasury issued a new market determined fixed coupon bond - FXD1/2022/03, targeting KES 20.00Bn for budgetary support. The short-term paper is meant to attract more funds to manage liquidity by the government as the market continue shunning long-term papers. This follows low primary subscriptions witnessed in the market with many investors preferring short-dated papers in contrast to the government's preference to long-term paper in a move to spread repayments.

Below is our bidding guidance.

Bond	FXD1/2022/03
Amount	20 Billion (KES)
Tenure	3-Years
<b>Coupon</b>	Market Determined
Period of Sale	26 <sup>th</sup> April – 9 <sup>th</sup> May
Auction Date	10 <sup>th</sup> May 2023
Value Date	15 <sup>th</sup> May 2023
Bidding Rate	13.85% - 14.00%

The bonds market remains the most attractive amid a tight liquidity environment. We forecast a >100% subscription with an aggressive bidding. The aggressive bidding will be influenced by March Central bank rate hike, a tight liquid environment and high demand for cash by the government.

According to March exchequer, domestic borrowing stood at 44.7% or KES 396.32Bn against a government target of KES 886.52Bn for the fiscal year 2022/2023. External borrowing for the same period was at 44.7% against a revised target of KES 520.59Bn.

### Macro-Economic Environment

Global economic outlook remains impacted by high inflation, interest rate hikes, ongoing effects of Russia-Ukraine invasion, Covid-19 effects and political uncertainties. As such, overall world economic growth is forecasted to drop from 3.4% in 2022 to 2.8% in 2023 before settling at 3.0% in 2024 according to the IMF projections.

Sub-Sahara Africa's GDP is projected to fall further to 3.6% in 2023 from that of 3.9% in 2022 and 6.7% in 2021.

Kenya's economy slowed to a growth of 4.8% in 2022 from 7.6% in 2021 and is expected to grow by 5.1% in 2023 according to the official national statistics. Current account deficit slightly improved to 5.1% in 2022 from 5.2% 2021 and is expected to widen to 5.6% in 2023 largely on what we attribute to the weakening local shilling and high foreign debt obligations.

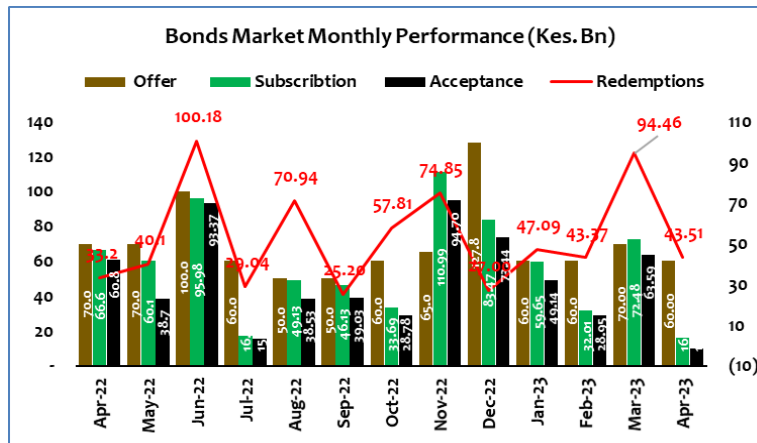
Local inflation receded to a ten-month low of 7.9% in April from that of 9.2% of March saved by the ongoing March-May long rain season that has seen food inflation decline from 13.4% to 10.1% in April. Spinach, Kales (Sukuma wiki), tomato and cabbage prices all declined at an average of 13.6%, 11.8%, 4.7% and 4.6% m-m to KES 69.30, KES 63.36, KES 107.82 and KES 62.16 respectively.

The Stanbic bank's Purchasing Managers' Index (PMI) recorded a sharp decline from 49.2 points in March to 47.2 points signaling of declines in private sector performance especially on the purchases side despite employment number going up. Reduced purchase orders remain depressed by the high cost of living

### Bonds - Secondary market

The secondary market activity dropped in April transacting a total of KES 38.69Bn compared to KES 74.96Bn of March and KES 14.94Bn in the first week of May being affected by low liquidity in the market. We attribute this to the low coupon payouts of KES 43.51Bn when compared to maturities and coupon payouts of KES 94.46Bn that happened in March.

In the primary auctions, many investors shunned the primary paper auction for April upon re-openings by the government to avoid expensive borrowings. This was as investors expected new papers especially short-term papers that can price in all the current macro-economic conditions resulting to better returns on investment.

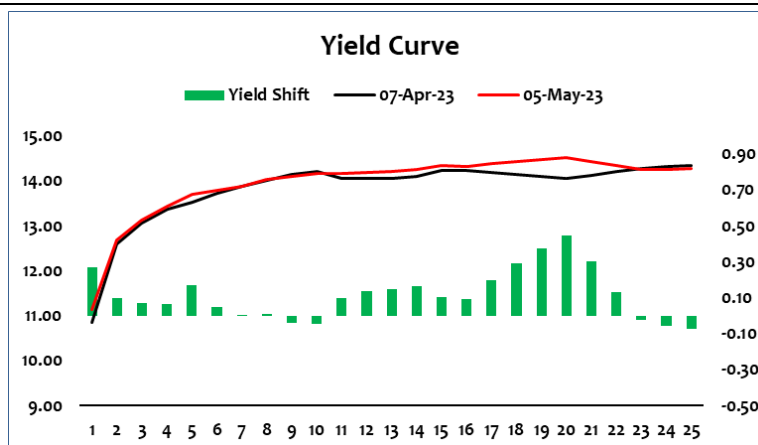


### Yield Curve

The yield rates have generally edged upwards influenced by interest rate hikes in the mid of a liquidity crunch forcing investors to demand for better returns as witnessed both in the short-end and the middle to the long-end pushing the yield curve upwards.

The easing inflation locally and globally, we expect the yield curve to remain relatively stable in May with a slight upward shift on the short end on high demand for cash by the government.

Yield Curve Key Rates %	06-May-22	07-Apr-23	05-May-23	(Y-o-Y) bps	(w-w) bps
2-Yr	11.5458	12.5858	12.6820	113.6	9.6
5-Yr	12.2710	13.5288	13.6963	142.5	16.8
10-Yr	13.0412	14.1960	14.1491	110.8	4.7
15-Yr	13.8565	14.2255	14.3284	47.2	10.3
20-Yr	13.8748	14.0572	14.5045	63.0	44.7
23-Yr	13.8839	14.2761	14.2517	36.8	2.4



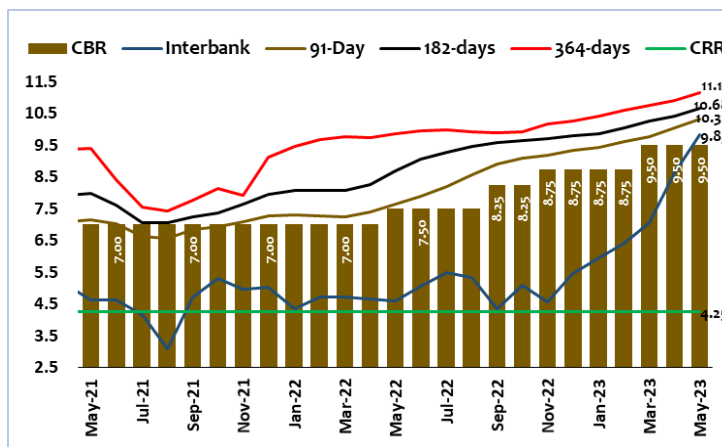
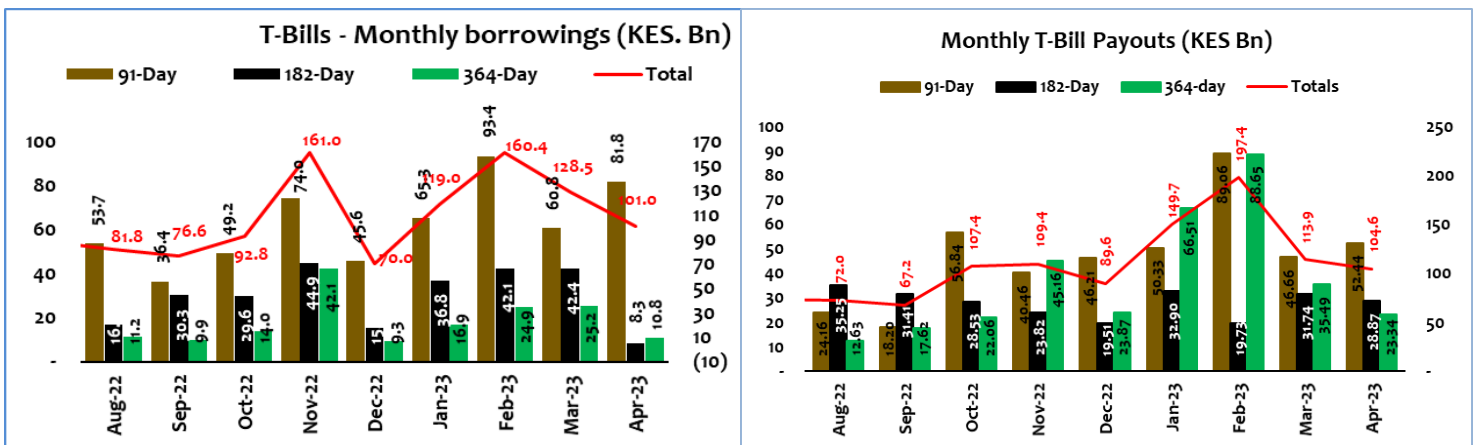
### Treasury Bills

Treasury bills auction saw a 109.6% or KES 105.18Bn subscription in April at a 96.0% acceptance. Performance for April stood at 105.2% against atarget of KES 96.00Bn

The 91-day paper dominated the market contributing 75.5% of the total accepted amounts. The paper's subscription stood at KES 20.32Bn or 508.0% at a 95.0% acceptance against a weekly target of KES 4.00Bn.

As of the last T-bills auction that happened on 4<sup>th</sup> May, return on investment across the papers flourished further with the 91-day paper attracting 31.4bps m-m from 10.004% to 10.318% as the 182 and 364 moved from 10.368% and 10.857% to 10.678% and 11.170% respectively.

The 91-day paper remains the most preferred short-term paper with return deviations of 36.0bps and 85.2bps from the 182 and 364-day papers respectively.

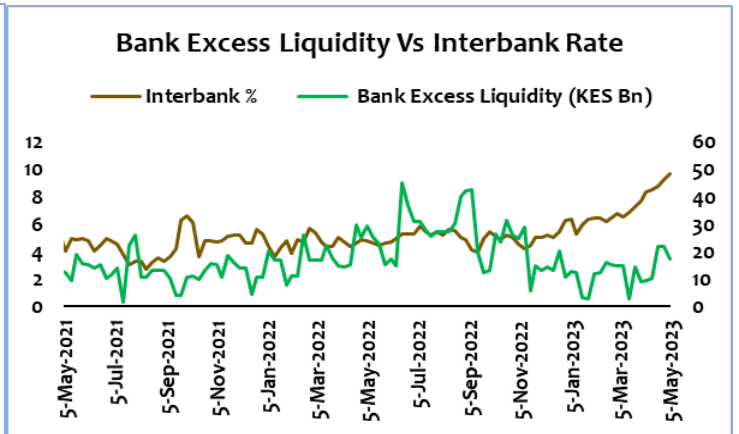
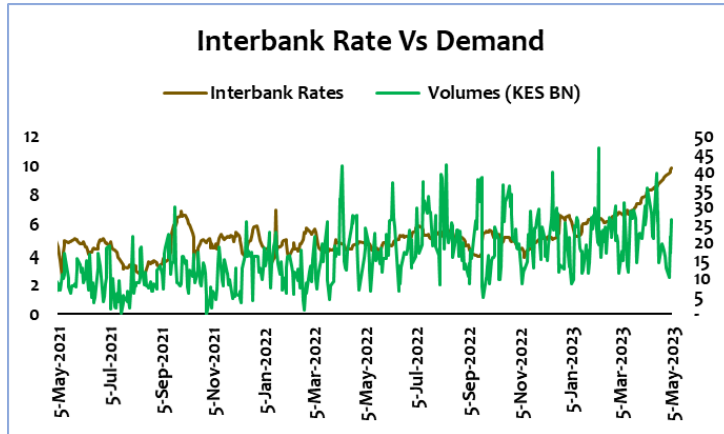


### Interbank

The interbank rate has remained on an upward trajectory averaging at 8.92% in the last one month compares to an average of 7.04% in March 2023 and 4.65% in April 2022 necessitated by the Central Bank Rate review and a tight quiddity in the market.

Liquidity demand closed the first week of May at KES 26.58Bn with a monthly average of KES 24.04Bn in May and KES 21.01BN in March.

Bank excess reserves improved to close April at KES 22.1Bn with a monthly average of KES 16.0Bn in comparison to KES 8.9Bn of 30<sup>th</sup> March and a monthly average of KES 11.2Bn. In the first week of May, commercial bank excess reserves were KES 17.3Bn.



### Currency

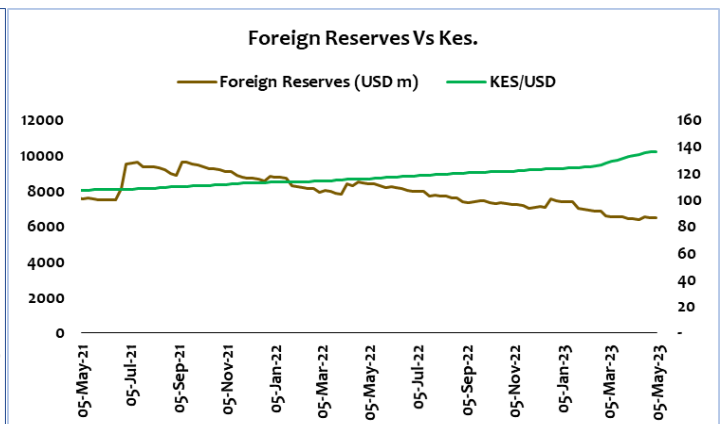
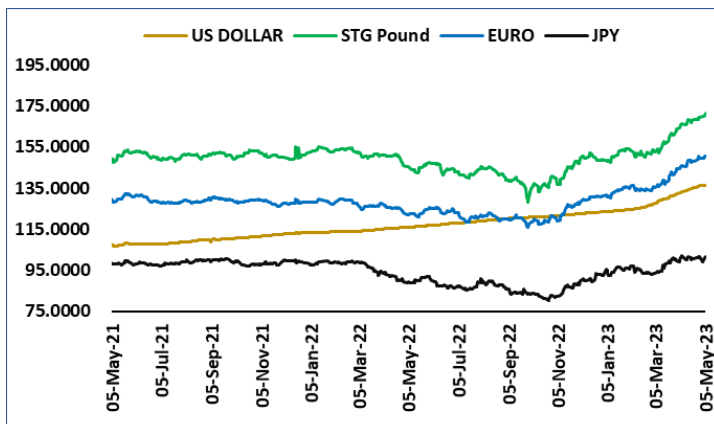
The local shilling weakened against major currencies shedding 2.8%, 3.5%, 3.7% and 1.8% against the US dollar, British pound, Euro and the Japanese Yen respectively to close April at KES 136.01, KES 169.37, KES 149.72 and KES 101.41 respectively.

On average, the shilling has been shedding between 2.0% - 2.5% on a five-month average against the dollar, Sterling pound and the Euro respectively.

Year-on-year the shilling has lost 17.5% against the US dollar, being heavily affected by global policy tightening, high international fuel prices, global supply chain disruptions and high dollar denominated external debt.

Forex reserves experienced a relief at the close of the month 1.3% m-m up to USD 6,508Mn upon disbursements of USD 250Mn syndicated loan from the International Monetary Fund (IMF). We expect forex reserves to remain strained in May even after the expected USD 1.0Bn budgetary support from the world Bank which expect to be channeled towards coupon payments for two Eurobonds due in May 2023.

Currency	05-May-22	05-Apr-23	05-May-23	%Δ ytd	%Δ m-m
Dollar	115.8441	132.9412	136.3971	-17.7%	-2.6%
STG Pound	145.51	166.0409	171.4321	-17.8%	-3.2%
Euro	122.0379	145.1991	150.3991	-23.2%	-3.6%
JPY	89.569	100.9386	101.6334	-13.5%	-0.7%
US Dollar Index	103.562	101.85	100.999	2.5%	0.8%



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