KINGDOM SECURITIES

Fixed Income Pre-Auction Note

January 2024

FXD1/2024/03
FXDA/2023/05
KES 35 Bn

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JANUARY 2024 PRIMARY AUCTION

New FXD1/2024/03 and Re-open FXD1/2023/5

The National Treasury released two papers for the January 2024 primary auction, a new FXD1/2024/03-year and a re-open FXD1/2023/0-5-year, seeking KES 35 billion from the public.

In this auction, we expect the FXD1/2024/03 to be aggressively bided as investors price in the new Central Bank Rate (CBR) of 12.5% revised on 5th December 2023. This will be even as a gradual pricing of the new rate takes effect.

The FXD1/2023/05 was first issued in July 2023 where the paper received a subscription of 72.98% against a target of KES 40Bn while being bided at an average rate of 17.026% with the government accepting a coupon of 16.844%.

FXD1/2023.03 was later re-opened in August where it was priced at weighted average rate of 18.1646% while CBK accepting a high of 17.99% from the market. We forecast the government to accept a pricing rate of below 19.90%.

Below is our bidding rate guidance:

Bond	FXD1/2024/03 (New)	FXD1/2023/05 (Reopen)
Amount (Kes Bn)	KES 55.00 billion	
Tenure	3-Yrs	4.7-Yrs
Coupon	Market Determined	16.844%
Period of Sale	14th Dec. 2023 to 10th Jan. 2024	
Auction date	10th Jan. 2024	
Value date	15th Jan. 2024	
Conservative	18.90% - 19.15%	19.35% - 19.65%
Aggressive	19.16%- 19.40%	19.66% - 19.90%

Overall, we expect the government to accept the higher rates in order to attract liquidity to settle its obligations as highlighted hereafter.

Macro-economic Condition:

We expect the monetary policy committee to retain the CBR rate at 12.5% in its first meeting for 2024. This is as the effects of the new rates infiltrates the market based on:

- A strong economic growth of 5.9% in the third quarter of 2023, signaling of a resurgence even in Q4-2023. Average GDP growth improved to 5.6% in the first three quarters of 2023 compared to 5.2% of same time in 2022. The economy remains supported by agriculture and the service sectors.
- The inflation rate remains within the government range of below 7.5%. December inflation stood at 6.6%, recording the third decline in a row. This remains supported by agriculture on the good farming weather.
- Private sector credit remains on a strong growth signaling an improving business environment. As of October 203, private sectors credit was up 12.5% up from a growth of 12.2% in Sept. 2023.
- A rise in Kenya's Purchasing Managers Index (PMI) for the first time in five months from 45.8 points in November to 48.8 points in December 2023, a further indication of a growing economy. The PMI reversed to a downtrend in September when if fell to 47.8 points from 50.6 points and has since remained below 50.0 mark.
- The Government confirmation on paying its USD 2.0Bn Eurobond due in June 2023. This follows cheaper facilities from the international Monetary fund (IMF) and the world bank expected by latest March 2024.

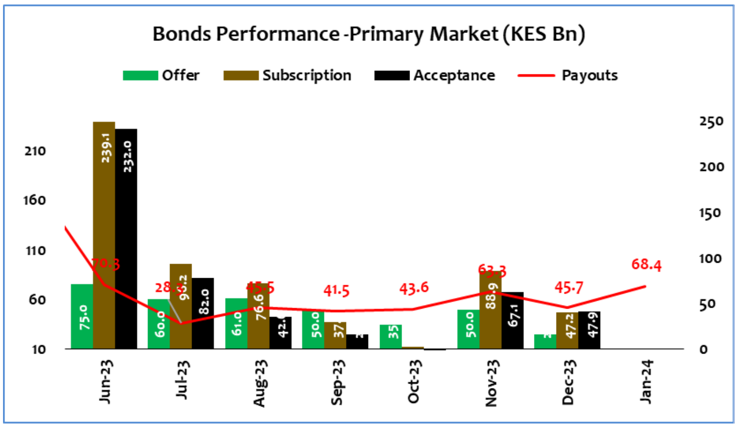
- Kenya's public debt remains sustainable but risk if the weakening of the shilling accelerates.

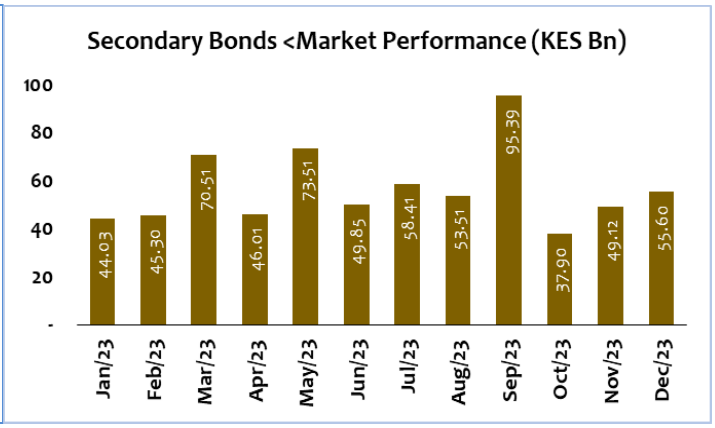
Treasury Bonds Market

In January, we expect t-bond maturities of KES 35.85Bn 15th Jan. 2023 and coupon payouts of KES 32.37Bn resulting to a total payout of KES 68.37Bn.

We expect much of the redemption amount to support the overall subscription leading to oversubscriptions.

In the primary market, the market has been moving a monthly average of KES 58.32Bn with more investors focusing of the recent infrastructure bond papers on their attractive returns and tax-free nature.



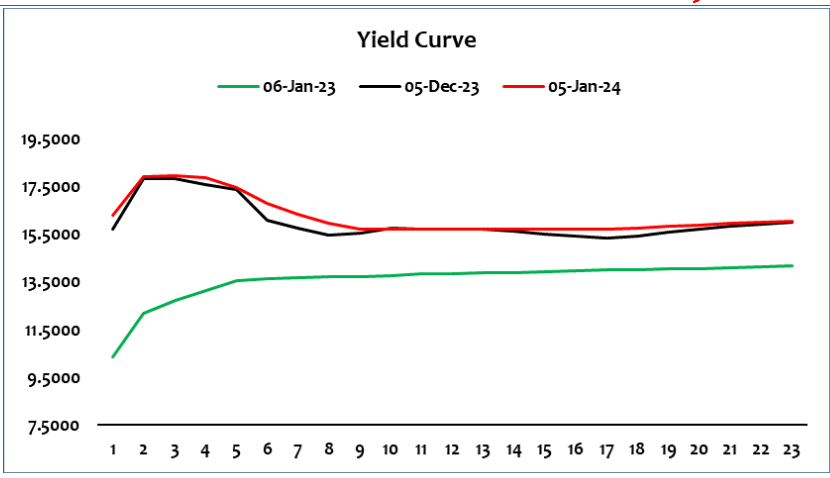


Yield Curve

We expect yield curve to shift upwards in general supported by the above transmission of the CBR and a tight liquid environment.

Concentration on the short end by investors and high appetite for funds by the government however continue seeing the short end yield curve widen faster. We expect this to remain in the first half of 2023.

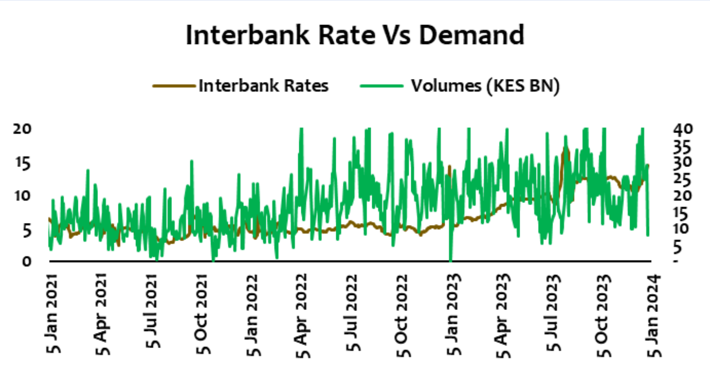
Yield Key Rates %	06-Jan-23	05-Dec-23	05-Jan-24	(y-t-d) bps	(m-m) bps
2-Yr	12.196	17.8320	17.9234	-572.74	-9.14
5-Yr	13.5472	17.3877	17.4396	-389.24	-5.19
10-Yr	13.7798	15.7395	15.7044	-192.46	3.51
15-Yr	13.9356	15.5107	15.7253	-178.97	-21.46
20-Yr	14.0586	15.7019	15.8983	-183.97	-19.64
24-Yr	14.2113	16.0971	16.1019	-189.06	-0.48

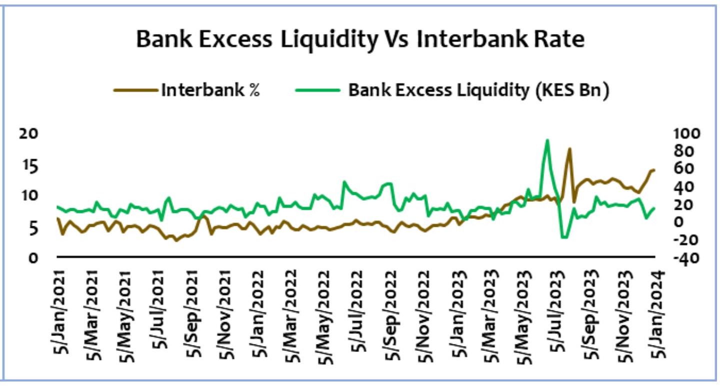


Interbank Rate

We expect the interbank to remain contained on the upper side of the interbank policy corridor at CBR+250bps elevated by high demand for cash by the government from the local lending space.

Currently, the interbank rates stand at 14.42% as of Friday, 5th January 2024, 192.0bps above the CBR rate. We forecast the rate to remain above the CBR at above 14.0% in Q1-2024.





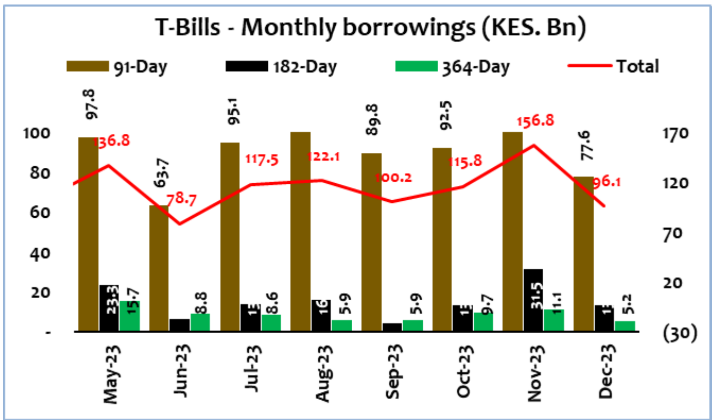
Treasury Bills

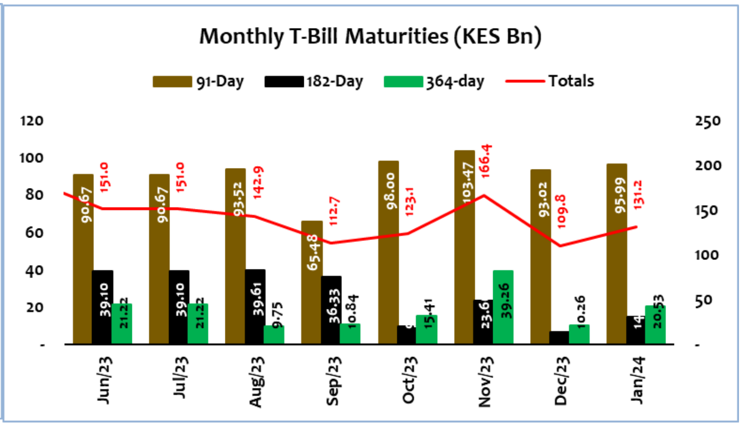
With rates expected to hit their pick in the short term on the new CBR rates, we expect investors to maintain a tactical investment in the treasury bills even as returns in the sector soar higher. With this, we anticipate for a continued reinvestments of nearly all the maturing amounts with a special focus on the 91-day paper.

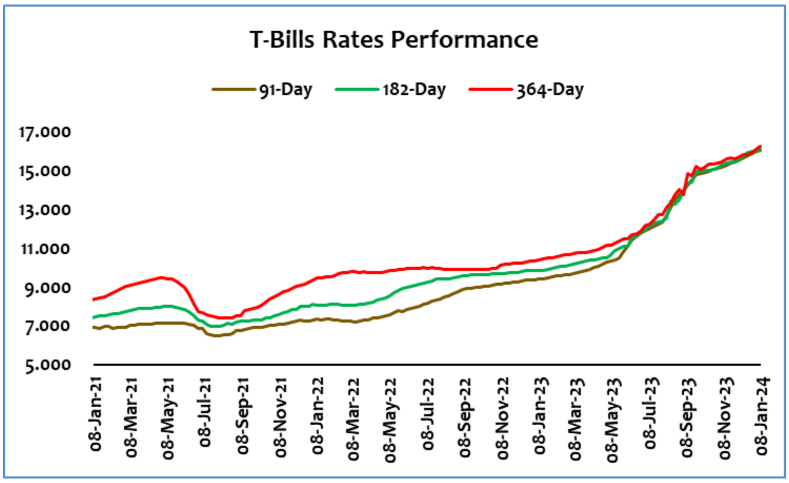
The second auction for 2024 saw returns on investments across all the three papers, 91, 182 and 364 papers, surpass 16.0% at 16.0589%, 16.0915% and 16.2786% respectively indicating a tight environment and a positive transmission of the new CBR rate.

Investments in the T-bills market remains purely supported by the heavy reinvestments in the space.

In January 2024, a total of KES 131.15Bn maturities will see overall month subscriptions through re-investments.







Current Treasury Bills Rates

Paper	Interest rate
91-Day	16.0589%
182-Day	16.0915
364-Day	16.2786%

Currency

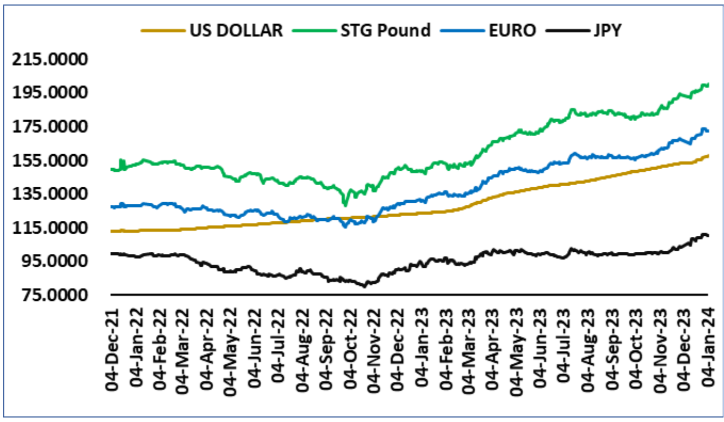
Pressure exists on the Kenyan currency on high US dollar demand to settle external debt, oil import and other manufacturing products.

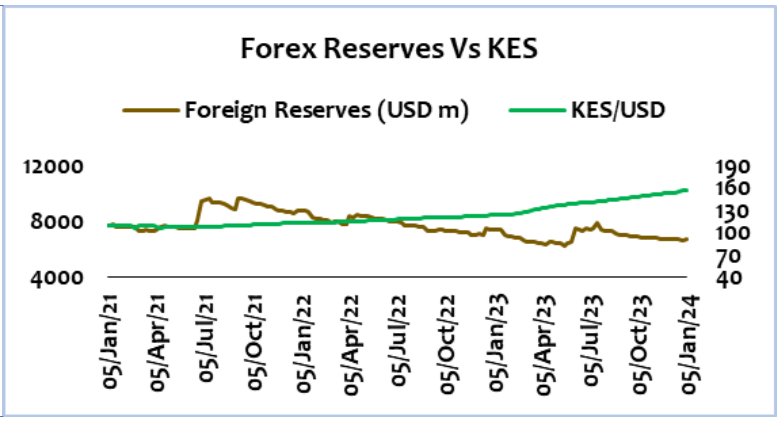
The shilling has so far lost 3.0% in the last one month and 27.9% y-y. Year-to-date, the shilling has lost 0.9% giving a 0.2% daily loss against the US dollar.

Against the British Pound, the shilling surpassed the KES 200.00 mark at KES 200.20 per sterling point on Friday, 5th January 2023.

Kenyan external reserves currently stand at USD 6,775Mn, sufficient for 3.6 months of import cover. We expect the reserves to improve in the next two months upon receipts of the IMF and World fund facilities approve

Currency	05-Jan-23	05-Dec-12	05-Jan-24	%Δ y-y	%Δ w-w
Dollar	123.48	153.28	157.90	-27.9%	-3.0%
STG Pound	148.72	194.26	200.20	-34.6%	-3.1%
Euro	131.01	166.64	172.74	-31.9%	-3.7%
JPY	93.19	104.18	110.12	-18.2%	-5.7%
US Dollar Index	105.04	104.05	102.41	-2.5%	-1.6%

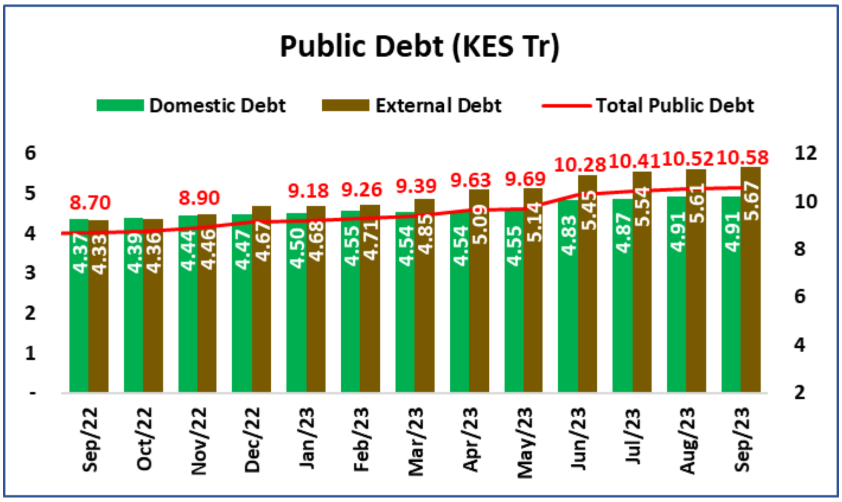




Public Debt

Total public debt currently stands above KES 10,582.14Bn as of end of September 2023 with external debt contributing 53.6% at KES 5,667.80Bn while domestic debt contributing KES 4,914.61Bn.

The external debt grew 21.1% in the first nine months of 2023 largely due to a 20.1% strengthening of the US dollar against the Kenyan shilling.

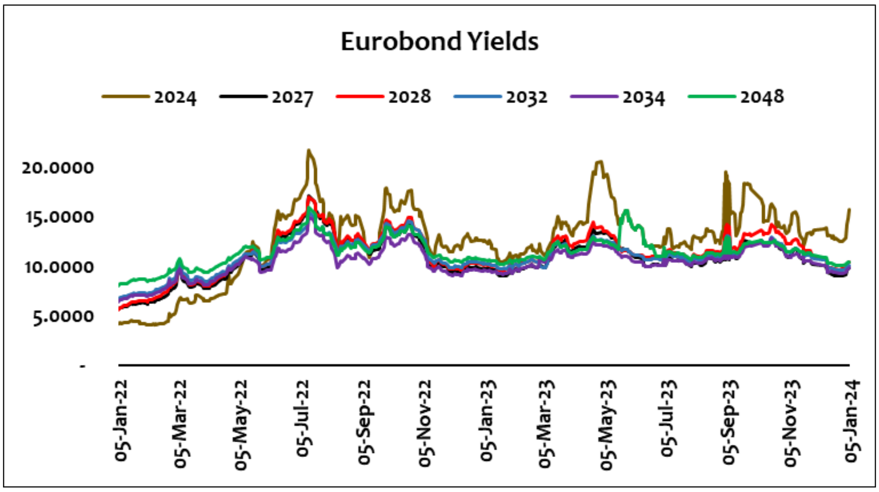


Eurobond

Yield rates on Kenya's June-2024 paper remains high even as rates across all other papers edge down. This follows end of buy back prospects with the government confirming to settle the loan in June 2024.

The drops in yield rates on the other five papers signal an improvement in demand for the papers supported by a weak local currency.

Euro-bond Paper	05-Dec-22	05-Dec-12	05-Jan-24	Δ bps y-t-d	Δ bps w-w
Jun-2024	11.441	13.611	15.738	(429.70)	(212.70)
May-2027	9.436	10.127	9.851	(41.50)	27.60
Feb-2028	9.690	10.826	10.442	(75.20)	38.40
May-2032	9.874	10.667	10.107	(23.30)	56.00
Jan-2034	9.096	10.186	9.804	(70.80)	38.20
Feb-2048	10.455	10.979	10.470	(1.50)	50.90



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