

KINGDOM SECURITIES

Fixed Income Pre-Auction Note

March 2024

FXD1/2023/05

FXD1/2024/10

KES 40 Bn

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March 2024 Auction II - FXD1/2023/05 & FXD1/2024/10

The Central Bank issued three bonds for the March 2024 government borrowing, setting two auctions for the month targeting KES 40Bn. The first auction happened on 6th March for the re-opened paper, FXD1/2024/03, with the government receiving KES 43.07Bn while accepting KES 34.27Bn, an 85.7% performance.

Results of the 1 st Auction - March 2024							
Paper	Offer (KES Bn)	Received (Kes Bn)	Accepted	Performance	Market WAR	Accepted WAR	Coupon Rate
FXD1/2024/03	40	43.07	34.27	85.7%	18.5155	18.4222	18.3854%

The second auction comes at a point when the government demand for cash has weakened as confidence of interest rates cuts become clearer. The government domestic borrowing against target stands at 96.1% or KES 545.64Bn for the financial year 2023/24 against an eight-month target of KES 567.93Bn by end of February 2024.

In the auction, we expect a total oversubscription with investors preferring the FXD1/2023/05 paper as insurance firms go for the FXD1/2024/10-year paper for purposes of long-term planning.

Below is our bidding rate recommendation, whose explanation is given hereafter:

Bond	FXD1/2023/05	FXD1/2024/10
Amount	KES 40 billion	
Tenure	4.4-Years	10-Years
Coupon	16.8440%	16.0000%
Period of Sale	27 th Feb. to 20 th Mar. 2024	
Value Date	Monday, 25 th March 2024	
Conservative	18.35% - 18.60%	16.50% - 16.75%
Aggressive	18.61% - 18.85%	16.76% - 17.00%

FXD1/2023/05 was first issued in July 2023 and this is now the fourth re-opening on its coupon rate which the government seems to be comfortable with. The paper is currently trading at a yield to maturity is 18.2573%, as of Friday, 15th March 2024.

Below is an analysis of its previous performance:

	FXD1/2023/05			
Date Issued/Re-opened	17-Jul-23	21-Aug-23	16-Oct-23	15-Jan-24
Market Weighted Average rate	17.026%	18.1646%	18.4647%	19.0675%
Accepted Rate	16.844%	17.9538%	17.9919%	18.7697%

The government fixed a coupon of 16.00% in the new FXD1/2024/10-year paper, signaling the direction of interest rates and its preferred cost of borrowing.

In the February auction, an 8.5-year amortized infrastructure bond, saw the highest return of 18.4607%, becoming the highest in the market even as this was also aimed at it attracting foreign inflows to strengthen the shilling.

General Economic Overview

The Central Bank Rate of 13.0% effected on 6th February 2024, remains the highest seen in almost 12-years now, since November 2012. We anticipate the rate to start reversing downwards from the second half of 2024. In the next MPC committee meeting of April 3, 2024, we expect the rate to be retained at 13% as the committee weighs in on its transmission and effect in the market so far.

The banking sector continues to reap off from these higher rates even as the provisions cut these better returns. Returns from these higher rates have already been reflected in the three banks, Stanbic, Stan-Chart and Absa Bank Kenya, which have so far reported the financials.

Agricultural production is expected to further rise on the prevailing ample rainfall plus lower input costs prevailing in the global market. Fertilizer and seed subsidies continue making farm inputs even more affordable for the local farmers.

The strengthening Kenyan shilling against the US dollar, is expected see the cost of import drop at the same rate and result to declines in overall inflation rates especially on fuel inflation. Fuel is the second largest contributor to the local inflation at 14.6% after food inflation. In the last two months the shilling has gained 15.7% against the US dollar which is a good thing for the economy.

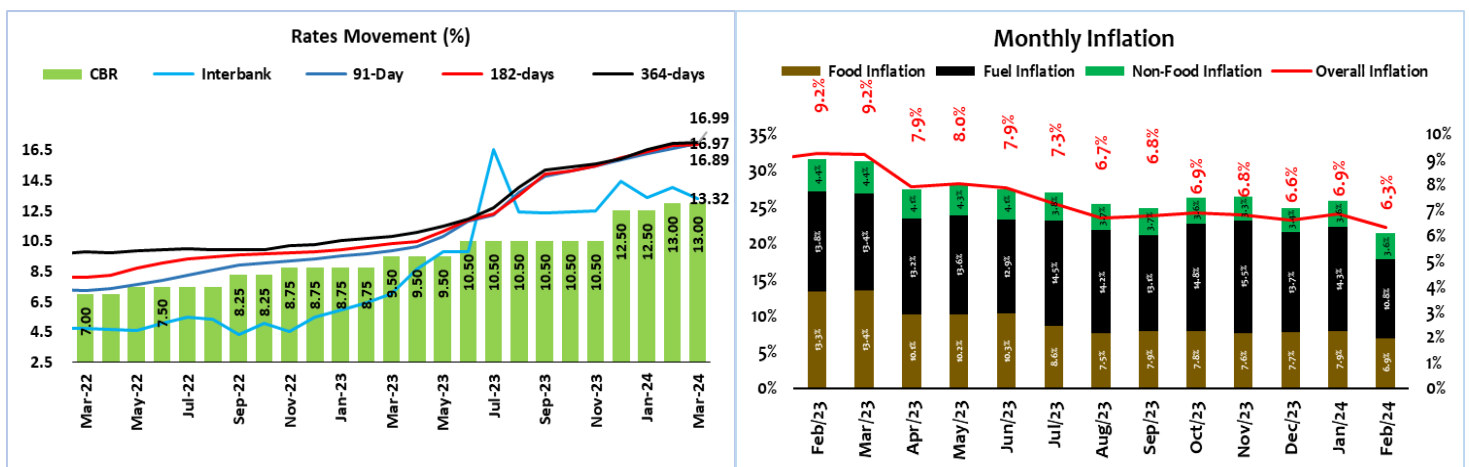
February 2024, inflation fell for the second month to 6.3% on price declines under food and fuel inflation.

Buyback of Kenya's USD 1.5Bn out of the USD 2 billion Eurobond maturing on 24th June 2024, remains the main game changer for the Kenya shilling as it left many dollar hoarders by surprise, resulting to the current heavy supply of the same in the market leaving the shilling t strengthen.

Strengthening shilling is expected to drive in foreign direct investments which will see employment levels rise as the government also benefit.

The interbank rate continues to operate within the lower limit of the Central Bank Rate averaging at 13.60 year-to-date (y-t-d) on tight liquidity in the interbank space. This is as investors channel funds to government papers leaving banks to expensive deposits.

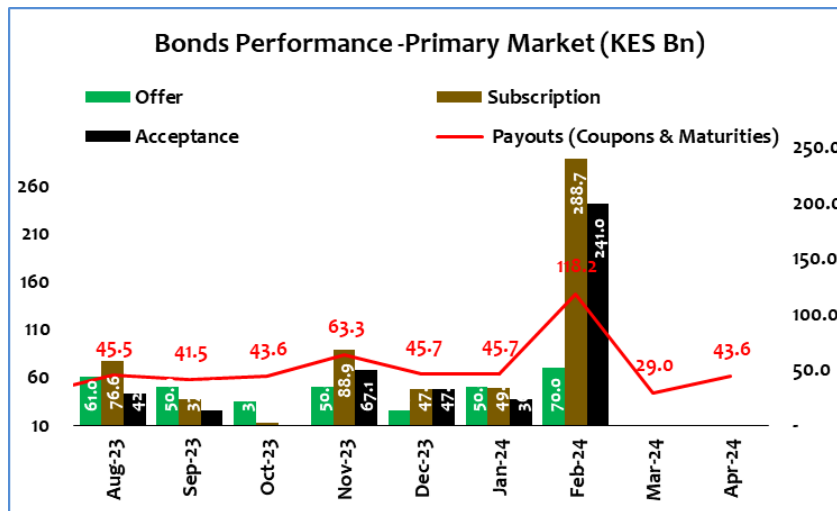
We forecast the interbank rate to remain higher and to start declining once rates cuts takes effect



Primary Bond Performances

Government treasury bond payouts for the next two months remain quite low indicating a low appetite for funds by the government from the primary market, giving it a competitive edge for negotiating the rates with investors. This also gives the government an opportunity to direct funds towards developments.

Coupon payouts of KES 29.01Bn and KES 43.63Bn are due March and April respectively, as June 2024 awaits a total of KES 111.61Bn, out of which KES 39.20 are a maturity for FXD2/2019/05 while KES 72.41Bn goes to coupon payments.

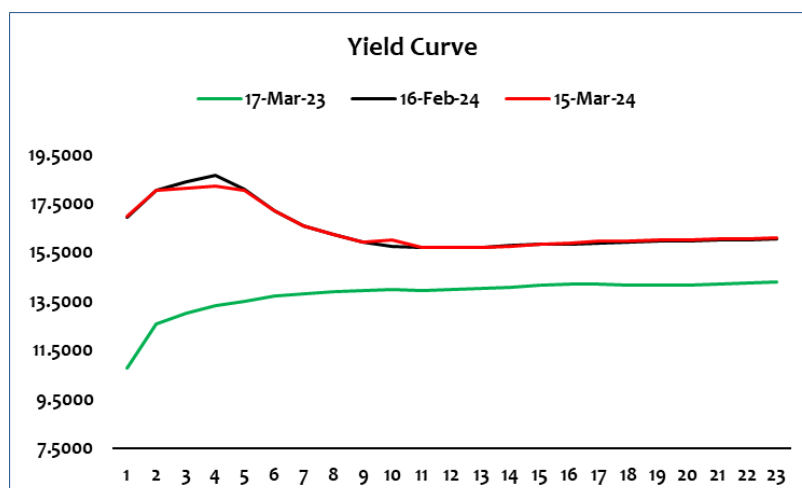


Yield Curve

As per the above rate forecasts, the NSE yield curve rate movement has indicated a downward shift in the coming weeks and months. In the last one month the short-end shifted down as the mid-curve to the long-end remains relatively stable.

The two-year and five-year papers have improved in value by 2.12bps and 3.87bps in the last one month even after the government issuing papers of almost similar periods in the primary market.

Yield Key Rates %	17-Mar-23	16-Feb-24	15-Mar-24	y-y Δbps	m-m Δbps
2-Yr	12.5555	18.0436	18.0224	-546.69	2.12
5-Yr	13.4730	18.0641	18.0254	-455.24	3.87
10-Yr	13.9963	15.7411	15.9870	-199.07	-24.59
15-Yr	14.1523	15.8040	15.8243	-167.20	-2.03
20-Yr	14.1475	15.9652	16.0207	-187.32	-5.55
23-Yr	14.2770	16.0397	16.0806	-180.36	-4.09

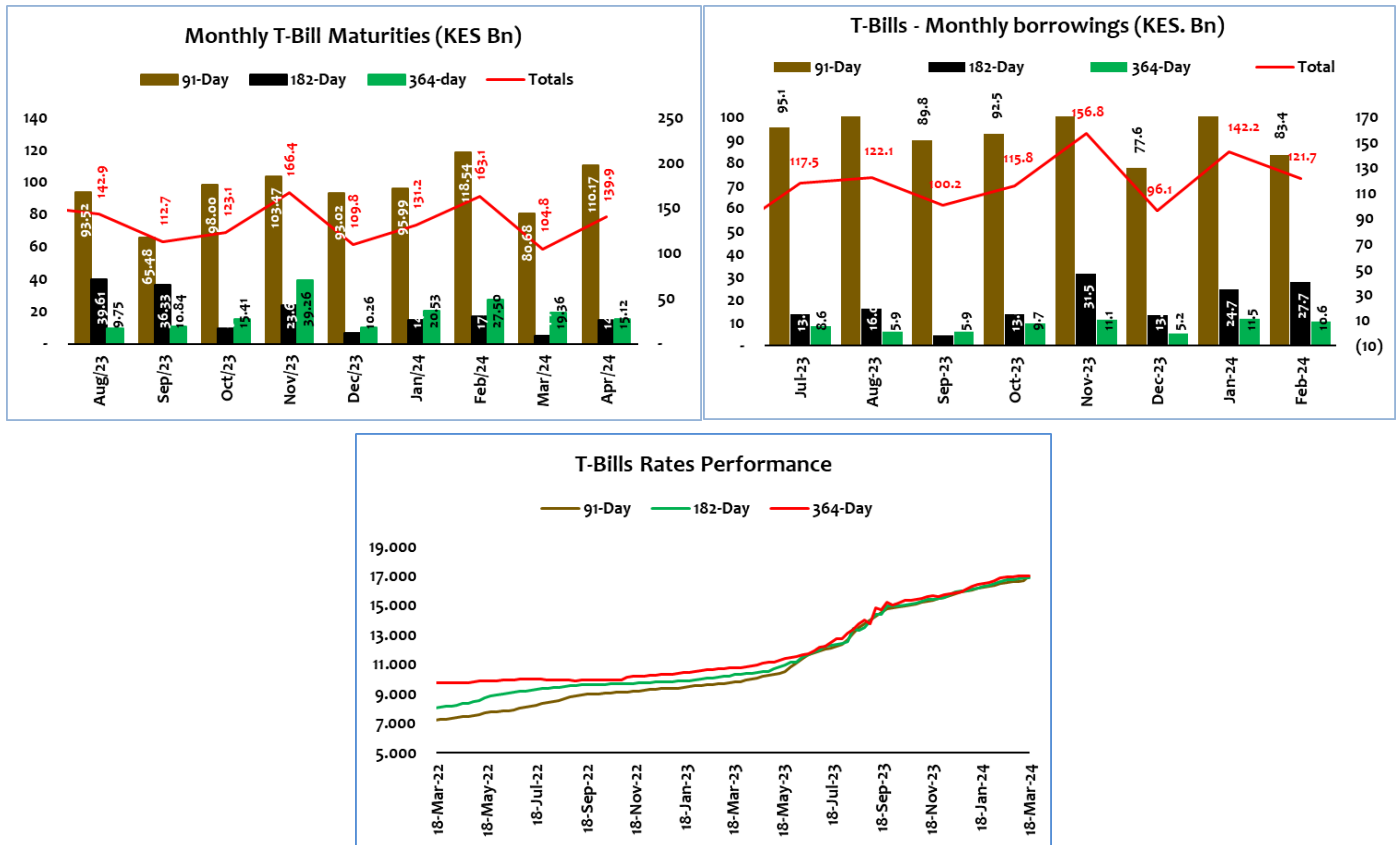


Treasury Bills

Returns from T-Bill papers are expected to touch above 17% market in the next few weeks supported by heavy maturities that come due, most of which we expect to be reinvested back.

The 91-day paper remains the most attractive paper on what we view as a tactical strategy to reap off from the best maximum returns in the shortest time possible.

We advise our clients to take advantage of long-term positions as these appetizing short-term returns are forecasted to reverse in about the next three months.



Currency

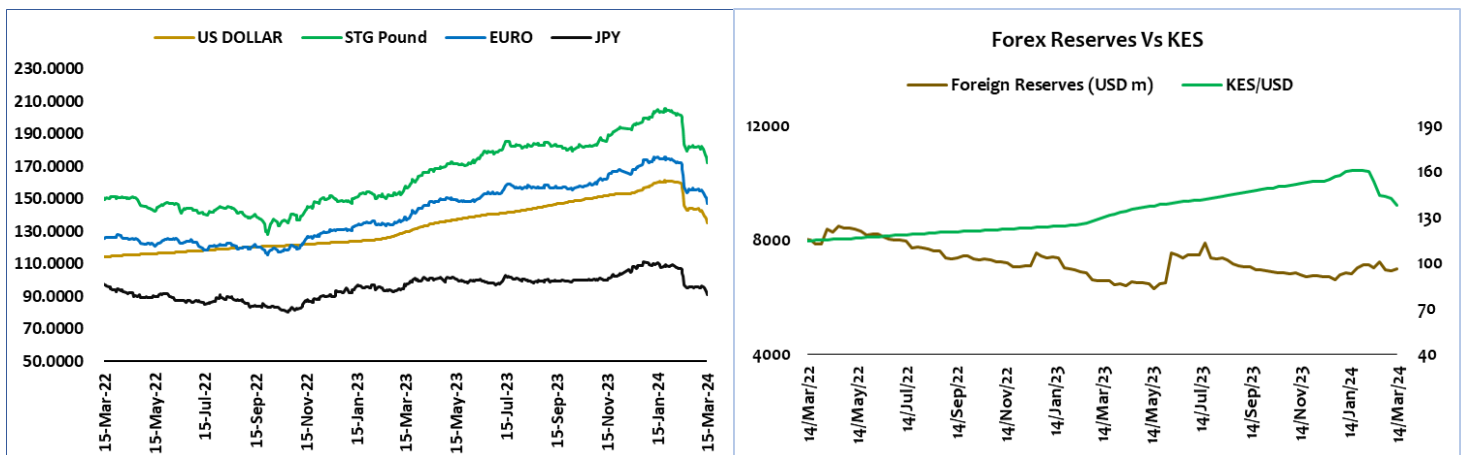
The Kenya shilling has emerged to be among the best performing currencies in the world in the last two months of 2024. Month on month the shilling has gained 11.8% against the US dollar, 10.5% against the British pound and 10.4% against the Euro. Year to date the shilling has gathered back over 13.9% of its value against some major currencies.

The shilling remains supported by a buyback USD 1.5Bn Eurobond, rising exports especially agricultural exports, heavy forex remittances. This resulted in an oversupply of the US dollar currency especially from speculative investors who expected the government to purchase the same from the public for debt repayment.

Pursuit for fiscal policy consolidations through increased agricultural exports and reduction in external borrowings seem to start bearing fruits after the current account deficit is estimated to have declined from 5.0% in 2022 to 3.9% by end of 2023. The current account deficit for 2024 is projected at 4.0% of the GDP.

Forex reserves stand at USD 6,974Mn enough for 3.7 months import cover. This is after a Eurobond coupons payment for two papers, 28 Feb. 2028, and the 28 Feb. 2048 paper of USD of each USD 1,000Mn and coupons 7.25% and 8.25% respectively. T

DATE	15/Mar/23	02/Jan/24	15/Mar/24	%Δ y-y	%Δ y-t-d	%Δ m-m
US DOLLAR	129.5882	156.9853	135.147	-4.3%	13.9%	11.8%
STG Pound	157.6435	199.8497	172.3462	-9.3%	13.8%	10.5%
EURO	138.8626	173.6500	147.3102	-6.1%	15.2%	10.4%
JPY	96.1373	110.979	91.257	5.1%	17.8%	10.6%
US Dollar Index	104.65	102.2000	103.43	1.2%	-1.2%	0.8%



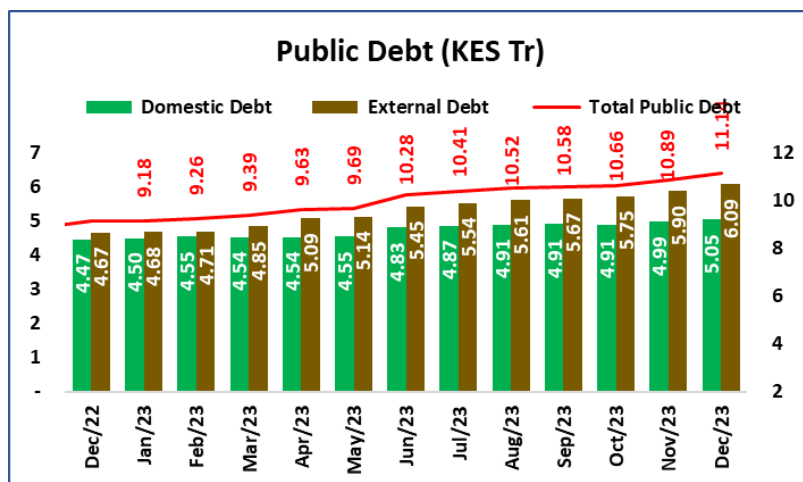
Public Debt

Total public debt stands at KES 11,139.70Bn as of 31st December 2023, out of which KES 5,050.10Bn or 45.3% is domestic debt while KES 6,089.60Bn or 54.7% is external debt.

Year on year public debt has risen 21.8% from KES 9.15 trillion to KES 11.14Tr, largely accelerated by the US dollar strengthening during the period.

In the one year ending December, domestic debt rose 7.3% as foreign borrowings ballooned at 30.3%, mainly elevated by the weakening of the shilling during the period.

In the last two and a half months however, the shilling has strengthened 13.6%, implying an overall drop in the external debt of about KES 800Bn.



Public debt estimated to decline by over KES 500Bn by end of March on the strengthening shilling.

According to the February government exchequer figures, revised domestic borrowings for the financial year As of 29th February 2024, disbursements to county Governments stood at 80.2% of their equitable share.

Revenue Exchequer Issues (KES Bn)	Original Estimates	Revised Estimates	Proportionate Estimate	Actual Receipts	Receipts to Original Estimates	Receipts to Proportional Estimates
Opening Balance				21.62		
Tax Revenue	2,495.83	2,495.83	1,663.88	1,374.03	82.6%	82.6%
Non-Tax Revenue	75.33	80.93	53.96	48.29	89.5%	89.5%
Domestic Borrowing	688.21	851.90	567.93	545.64	96.1%	96.1%
External Loans and Grants	870.18	849.76	566.51	474.15	83.7%	83.7%
Other Domestic Financing	3.19	3.19	2.13	3.54	166.6%	166.6%
Total Revenue	4,132.74	4,281.61	2,854.41	2,445.65	85.7%	85.7%

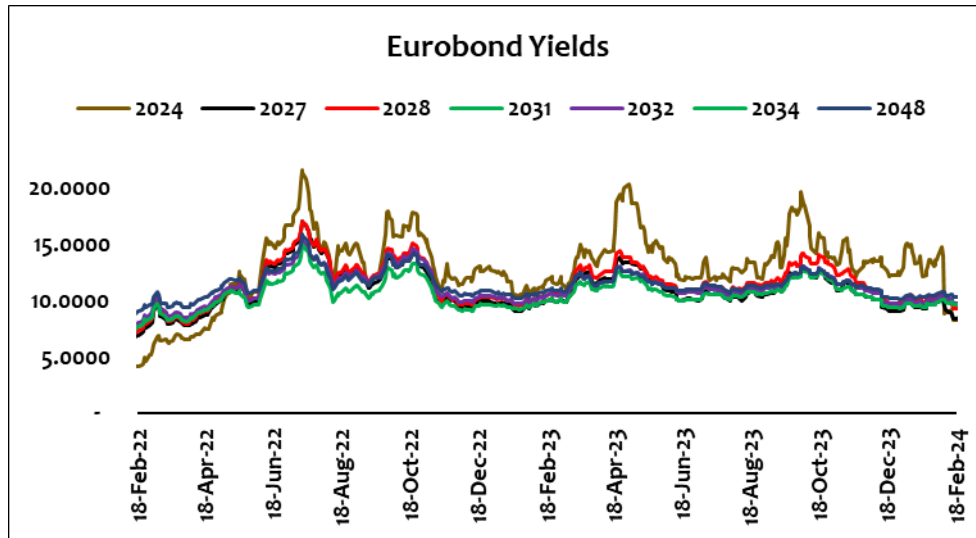
Recurrent, Cfs, Development and Country Exchequer Issues (KES Mn)	Original Estimates	Revised Estimates	Proportionate Estimate	Total Cash Released	Cash Released to Original Estimates	Cash Released to Proportional Estimates
Recurrent Exchequer Issues	1,302.80	1,360.12	906.75	808.56	89.2%	89.2%
Public Debt	1,751.07	1,866.04	1,244.03	1,157.44	93.0%	93.0%
FCS Exchequer Issues	1,963.70	2,078.85	1,385.90	1,266.97	91.4%	91.4%
Development Exchequer Issues	480.82	457.22	304.81	156.92	51.5%	51.5%
Total Issues to Nat'l Gov't	3,747.32	3,896.19	2,597.46	2,232.45	85.9%	85.9%
Total Issues to Counties	385.42	385.42	256.95	206.06	80.2%	80.2%
Total Exchequer Issue	4,132.74	4,281.61	2,854.41	2,438.52	85.4%	85.4%

Eurobond

Yield rates on Kenya's international papers has seen drastic declines since February after the paying the USD 1.5 billion, clearing all the fears of defaulting. As such, we expect the papers to remain attractive in the market even as the US dollar continues to weaken on a strong low demand in the local market.

The June 24, 2024, paper remains the most sought paper as its value keeps rising, see below rates movement.

Euro-bond Paper	15-Feb-23	15-Feb-24	15-Mar-24	Δ bps y-y	Δ bps m-m
Jun-2024	11.319	8.336	7.020	429.90	131.60
May-2027	9.813	8.419	8.231	158.20	18.80
Feb-2028	10.296	9.303	8.999	129.70	30.40
Feb-2031		9.824	9.564		26.00
May-2032	10.315	9.754	9.509	80.60	24.50
Jan-2034	9.848	9.612	9.537	31.10	7.50
Feb-2048	10.708	10.351	10.138	57.00	21.30



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