

April 2024 auction – FXD1/2023/02 – 1.4 Years

The National Treasury issued a single bond for the April 2024 primary auction by re-opening FXD1/2023/02, a 1.4-year duration paper. The auction comes when rates are already downhill as evidenced in the last T-bill auction that happened on 11th April 2024 with sharp declines in the rates.

Kenya’s economic outlook continues to brighten supported by easing inflation levels, strengthening of the local currency, rise in foreign direct investments and remittances, growths in credit levels in the private sector and the already increased agricultural output. All these combined factors are expected to see the economy up and lower the overall cost of living while driving interest rates down as from the next monetary policy meeting, the start of H2-2024.

Amid the above and with improved liquidity in the market we expect the paper to be bided fairly and oversubscribed as investors take advantage of the returns and its short-term nature.

Below are our bidding guidance rate recommendations:

Bond	FXD1/2023/02
Amount	KES 40 billion
Tenure	1.4-Years
Coupon	16.9723%
Period of Sale	28 th March to 17 th April 2024
Value Date	22 nd April 2024
Conservative	17.20% - 17.25%
Aggressive	17.26% - 17.50%

The government seems to prefer re-openings as a way of managing the cost of borrowing ahead of the anticipated rate cuts both in the local and global market, which we expect to check in as from June 2024.

On the FXD1/2023/02, the paper was first issued on 21st August 2023 and re-opened twice, in September and October 2023 with performances as follows:

FXD1/2023/02 - Historical Performance						
Issue	FXD1/2023/02	Target (KES Bn)	Amount (KES Bn)	Performance	Coupon	Yield to Maturity
1st Issue	Aug-23	40.00	55.68	139.2%	16.9723%	16.9723%
Re-open	Sep-23	35.00	20.65	59.0%	16.9723%	17.4537%
Re-open	Oct-23	35.00	6.51	18.6%	16.9723%	17.7358%

The paper is currently trading at a yield to maturity of 15.5325%, having traded at 17.6377% and 17.8425% in the first week of April and the last week of March 2023 respectively.

Our projections are based on the KES 43.63Bn coupon reinvestments for April 2024 and some outflows from short-term investors who will find the paper attractive.

Macro-economic Overview

In the last monetary policy meeting held on April 3rd, the Central Bank of Kenya retained its lending benchmark at 13.0% on a continued containment of inflation, the strengthening Kenya shilling, and a bettering economic growth for 2024.

Kenya's economy is projected to rise by 5.7% in 2024 as per revised government statistics from a growth of 5.6% estimated for full year 2023. The International Monetary Fund (IMF) also revised the country's projected growths from 5.0% to 5.2%.

We base the above growth projections to:

- Proper management of public debt – payment of the USD 1.5Bn while the outstanding USD 0.5Bn is set to be cleared by 24th June 2024.
- Appreciation of the Kenya Shilling after a weakened demand on major currencies on heavy foreign direct investments, forex remittances and funds from development partners including the IMF and the World Bank among others
- Rising agricultural production continues to contain inflation drastically, see the inflation graph. According to March statistics food inflation had dropped to 5.8% from a high of 13.4% in March 2023 and an all time high of 15.8% in October 2022.
- The manufacturing sector is projected to gain traction with boosts from industrial parks initiated by the government and the rising direct foreign investments in the local market in the manufacturing sector. The sector is set to grow by 3.1% in 2024 from an estimate of 1.6% in 2023.
- Private sector credit is set to remain on an uphill amid the ongoing losses in the US dollar. As of February 2024, private sector credit rose 10.3%, impacted by exchange rate depreciation. Overall, private sector credit remained stable at 8.4%.
- Fiscal consolidation measures continue bearing fruit as the fiscal deficit has narrow down to as low as 3.9% in 2023 projections from 5.0% in 2022. This will further be supported by the requirement of government entities to make their own revenues which will see recurrent expenditure decline once this takes effect.

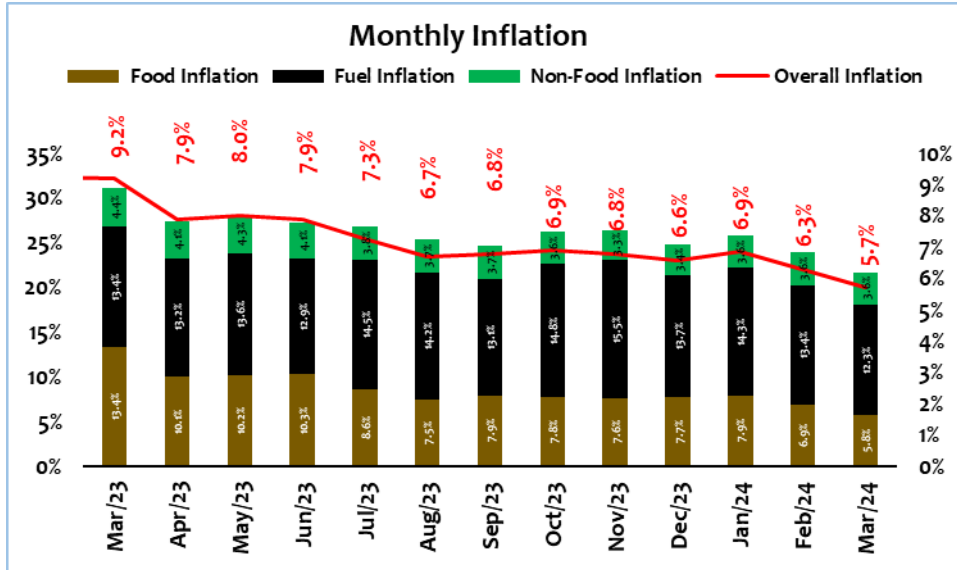
Inflation

March 2024 inflation fell further to 5.7% from 6.3% in February and 6.9% in January 2024, strongly supported by price declined in food products and fuel inflation.

Food inflation fell from 6.9% in February to 5.8% in March supported by 5.8% and 9.6% drop in sifted maize flour and loose maize respectively. Sugar price dropped 5.3% in the month as the onions price surged 11.1% on account of higher rainfall.

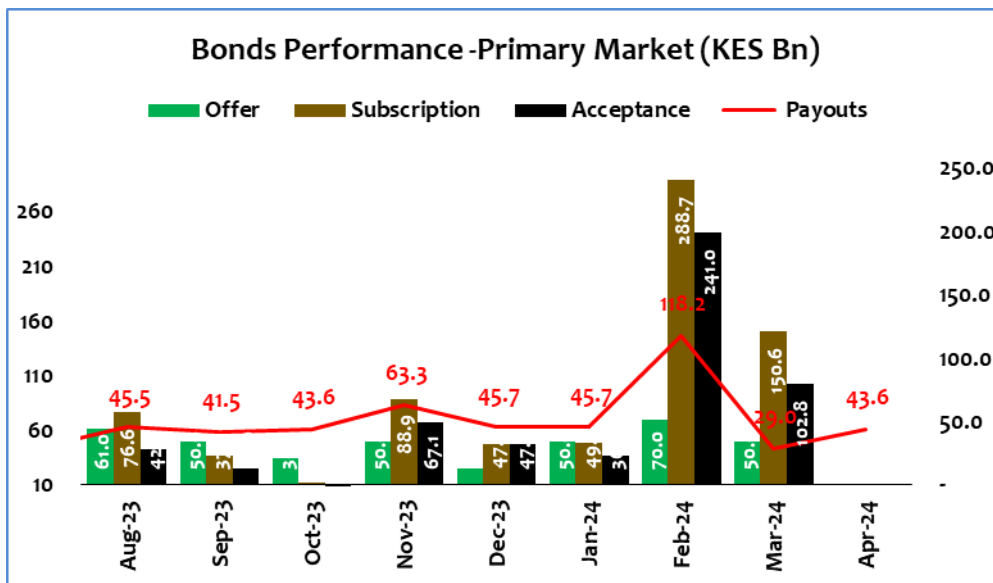
Pump prices are expected to further drop as the effect of the strengthening shilling is still being priced in. Reviewed pump price recorded a 2.7%, 5.3% and 9.9% on petrol, diesel, and kerosene respectively. We expect this to drop further, especially in May 2024 when the 3-month cycle pricing period will have been concluded on February 7th when the shilling gained almost by 10%.

Amid the above declines in fuel prices, peace instability in the Middle East is likely to impact the supply of oil supply from these nations account for over 25% of the world oil.



Primary Bond Auction Performances

April coupon payouts stand at KES 43.60Bn against a primary auction bond. Domestic borrowing against the proportionate budget estimates stands at 96.1%. Against the revised estimates borrowing performance stand at 64.0% as of end of February exchequer figures

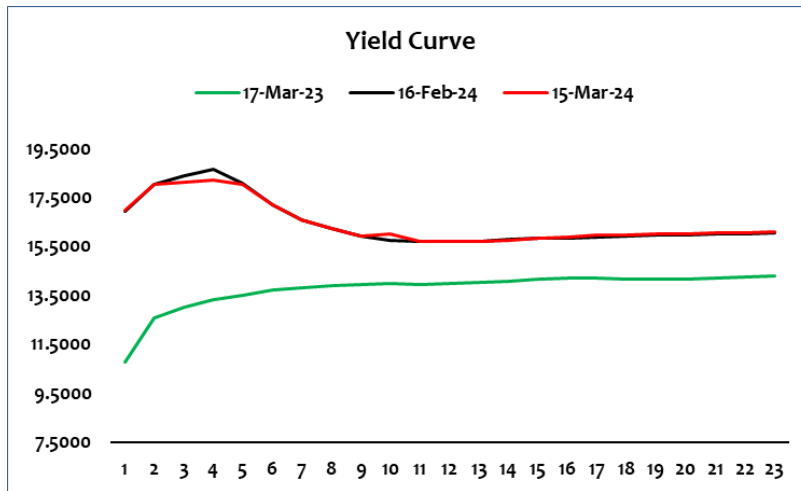


Yield Curve

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

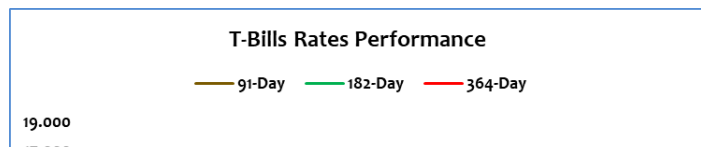
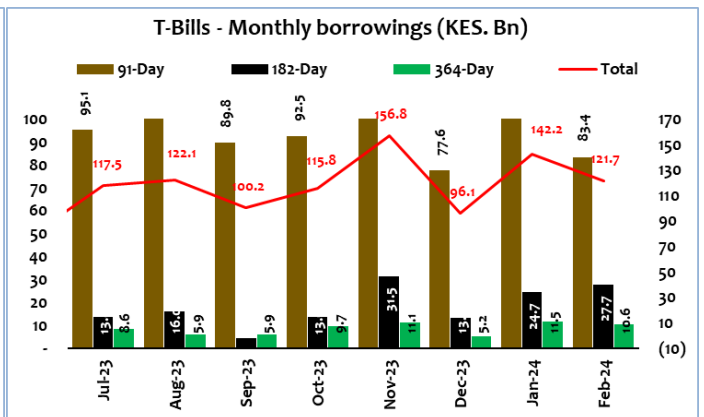
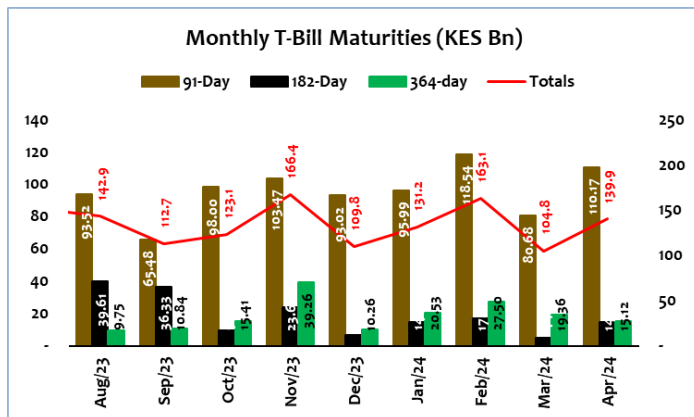


Treasury Bills

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

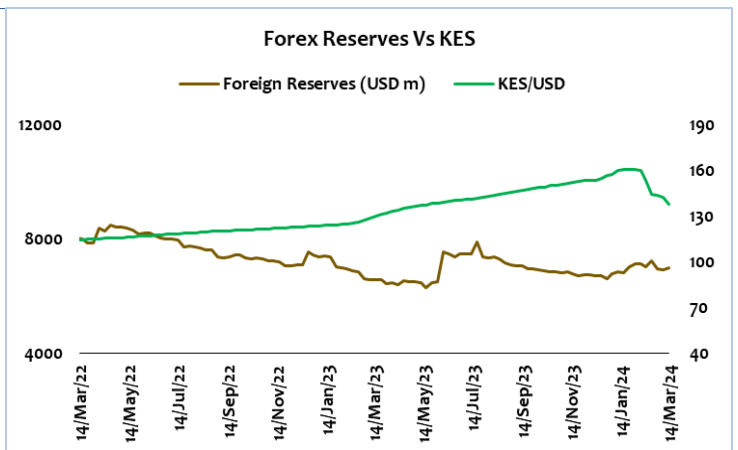
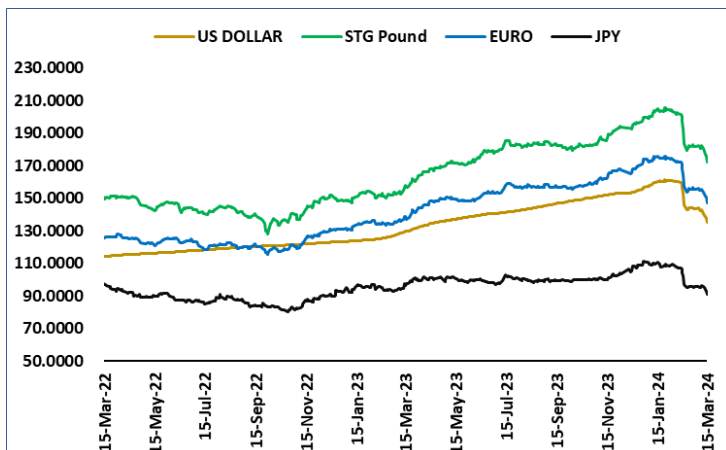
The Kenya shilling has emerged to be among the best performing currencies in the world in the last two months of 2024. Month on month the shilling has gained 11.8% against the US dollar, 10.5% against the British pound and 10.4% against the Euro. Year to date the shilling has gathered back over 13.9%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



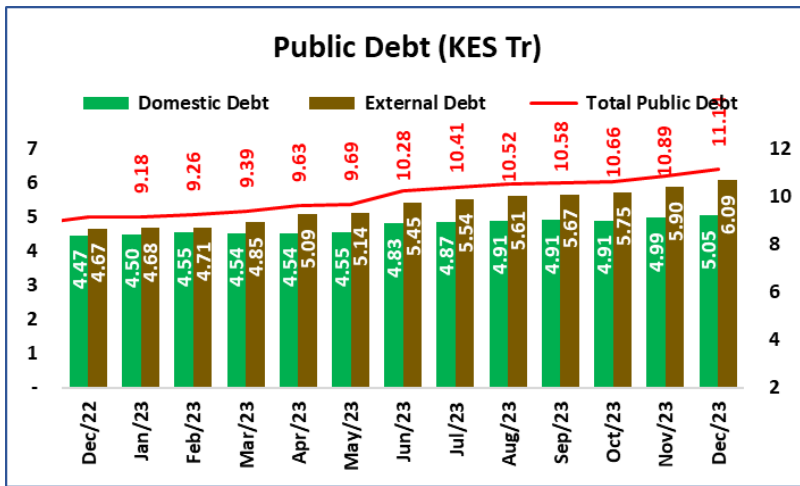
Public Debt

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 KES6,089Bn 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%

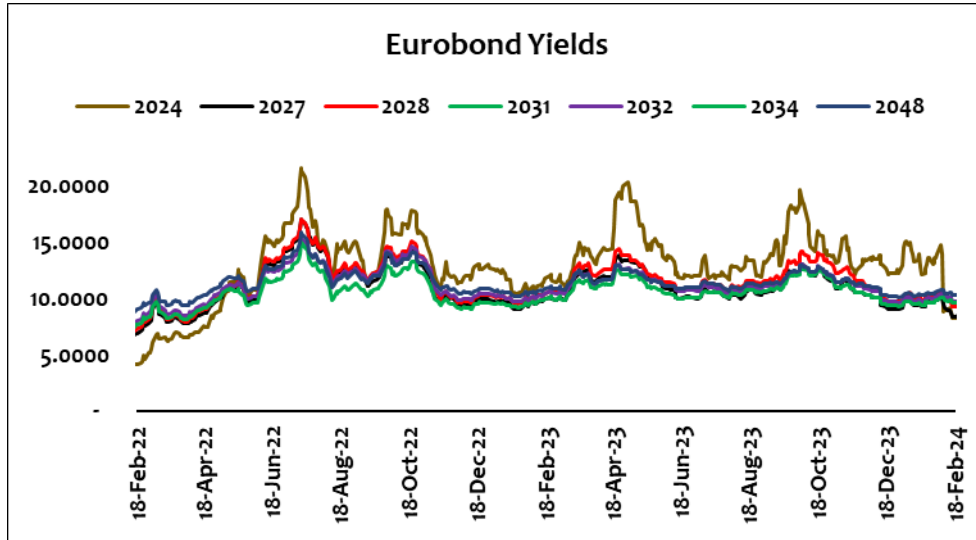
Total Exchequer Issue	4,132.74	4,281.61	2,854.41	2,438.52	85.4%	85.4%
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Eurobond

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 keep 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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Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049540/0711049956

Email: info@kingdomsecurities.co.ke

Research Department

Shadrack Manyinsa +254 711 049 956

Sales Team

Edgar Martim +254 711 049 534

Asena Moffat +254 711 049 663

Ashley Odundo +254 711 049 195

Gloria Ohito +254 711 049 993

Client Service and Operations

Joab Kiprono +254 711 049 888

Purity Malombe +254 711 049 729