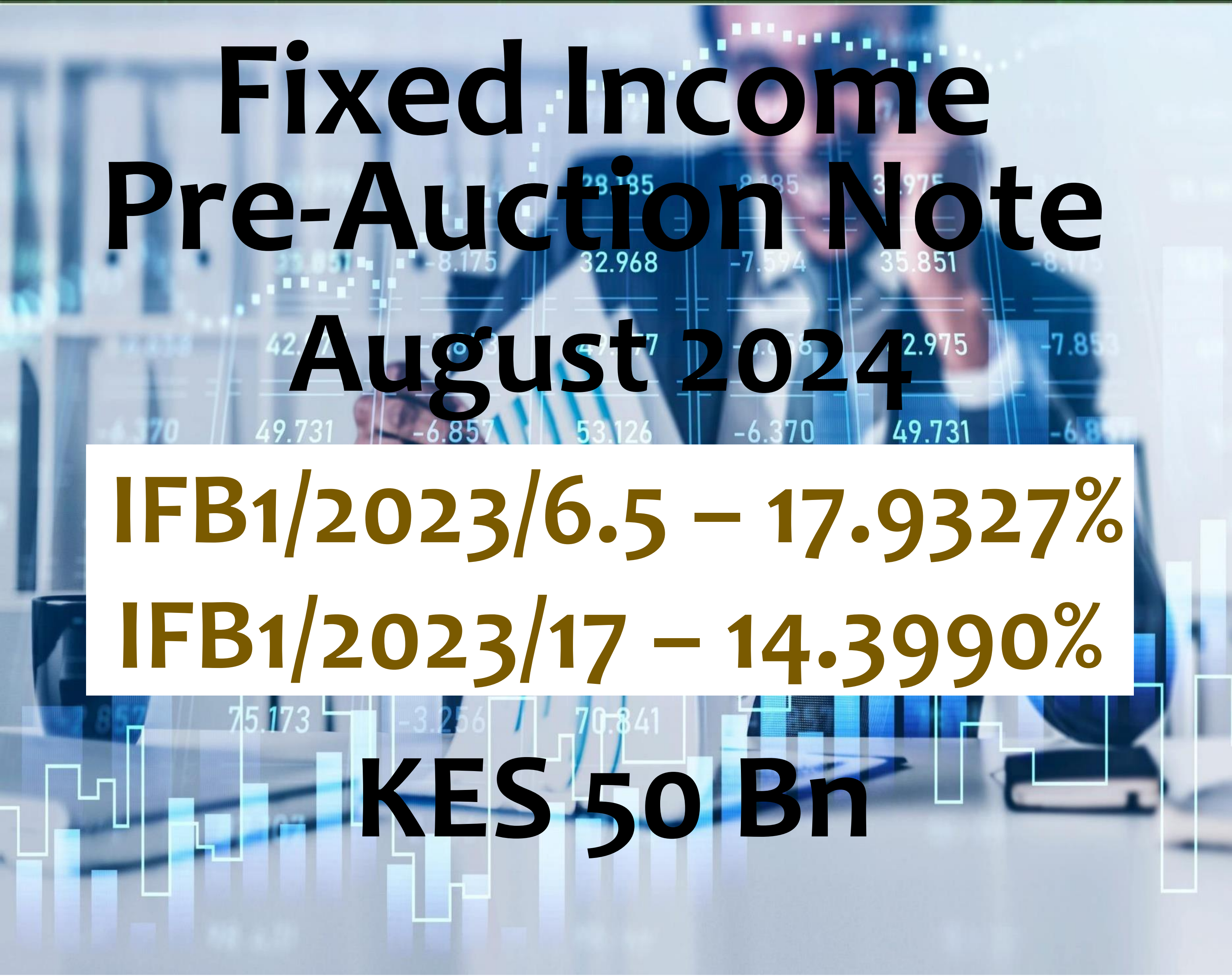
KINGDOM SECURITIES



Fixed Income Pre-Auction Note

August 2024

IFB1/2023/6.5 – 17.9327%

IFB1/2023/17 – 14.3990%

KES 50 Bn

Research Analyst:

Shadrack Manyinsa
smanyinsa@co-opbank.co.ke
Office: +254 711 049 956

Bond Dealer
Ashley Odundo
aodundo@co-opbank.co.ke
+254 711 049 195

Bond Dealer
Alfred Too
atoot@co-opbank.co.ke
+254 711 049 663

August 2024 Primary Auction - IFB1/2023/6.5 & IFB1/2023/17

The National Treasury re-opened two infrastructure bond papers, IFB1/2023/6.5 and IFB1/2023/17, seeking KES 50 billion from the market towards funding infrastructure projects in the financial year 2024/25.

The government opted for infrastructure papers' re-openings on what we view as a tactic to manage the cost of borrowing by evading new issuances. This becomes the second infrastructure auction for 2024 after that issued in February 2024. Further, the issue is seen to manage payments of bond coupon liabilities amounting to KES 73.92Bn due in August 2024.

Based on the local macro-economic situation and the projected rise in government borrowings for FY2024/25, we anticipate aggressive bidding on both papers and therefore recommend the following bidding rates for your considerations:

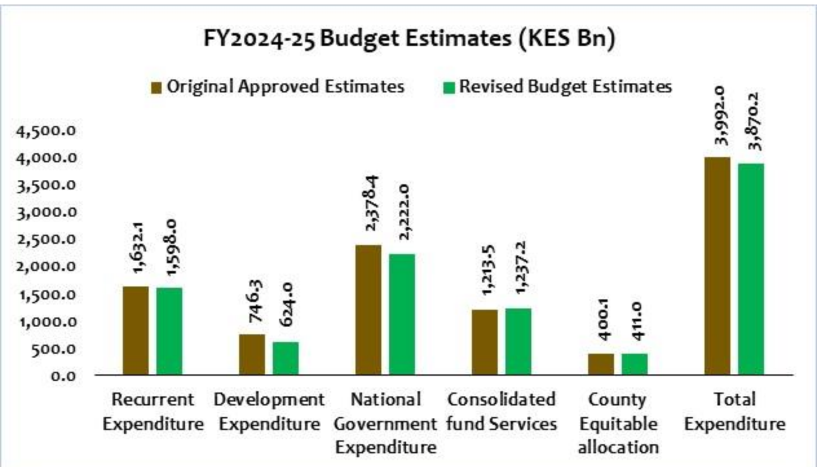
Bond	IFB1/2023/6.5	IFB1/2023/17
Amount	KES 50 billion	
Tenure	5.8-Years	15.7-Years
Coupon	**17.9327%**	**14.3990%**
Period of Sale	25th July to 14th August 2024	
Value Date	14th August 2024	
Conservative	**17.99% - 18.20%**	**16.65% - 16.85%**
Aggressive	**18.21% - 18.40%**	**16.86 – 17.05%**

IFB1/2023/6.5 (5.8-years) was first issued in November 2023 and tapped in December 2023 where it was oversubscribed in both issues. The paper has three redemption structures: 50% of outstanding amount to be redeemed on 10th May 2027, 30% of unencumbered outstanding on 7th May 2029 while the balance of 20% will mature on 6th May 2030. The paper's current holding stands at KES 112.73Bn.

The IFB1/2023/17 first issued in March 2023 and has so far been tapped twice to its current outstanding of KES 68.20Bn. We foresee low subscriptions on this paper on its low returns and investor preferences on short-term papers.

Following the total withdrawal of the 2024/2025 finance bill, an additional KES 190Bn is projected to be sought from the public, thus this is expected to put pressure on liquidity in the market. This is even as the revised fuel levy will bring reprieve on road maintenance.

The bill withdrawal leaves tax collection relatively similar to that of FY-2023/24 which recorded a 10.1% growth in tax revenues from KES 1,916.98Bn to KES 2,079.84Bn in FY-2023/24. This leaves borrowing as a major financing which will in turn put pressure on the interest rates.



CBK

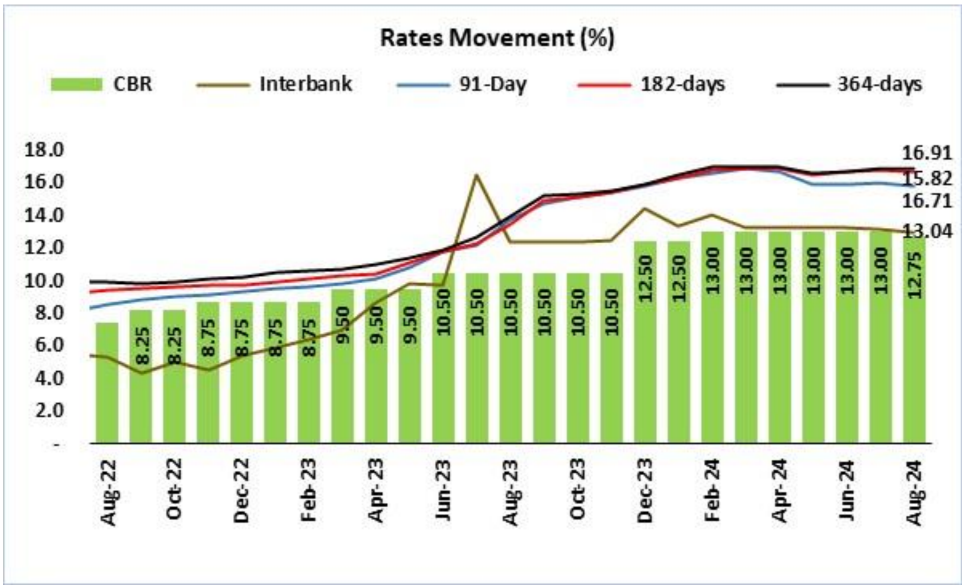
- Central Bank Monetary Policy Committee (MPC) cut its lending rate by 25.0bps from 13.0% to 12.75% in its last meeting held on 6th August 2024. The committee resolved for an initial relaxation of interest rates on a lower inflation rate and a stable foreign exchange rate. This is further geared at growing market liquidity, contain the interbank rate while supporting forex stability.

- July 2024 inflation rate further lowered to 4.3%, remaining below the government mid-point range target for the second month in a row compared to 4.6% recorded in June 2024. This remained heavily supported by further price declines in fuel and non-food and non-fuel prices.

- Private sector credit growth further slowed down to a 4.0% growth in June 2024 from a growth of 4.5% on what we view as impact of an appreciating local currency. We view this to have also been impacted by higher interest rates that has so far impacted access to liquidity.

- Kenya's private sector Purchasing Managers' Index (PMI) dropped for the second month to 43.1 points in July 2024 as output and orders fell sharply occasioned by anti-government protests that seem to persist. May and June PMI stood at 51.8 and 47.2 points respectively.

- Banking liquidity ratios remain strong and resilient even as gross non-performing loans (NPLs) ratio rose to 16.3% in June 2024. This was after the overall loan book shrunk by 1.5% between April and June 2024 on what is viewed as stringent lending measures.



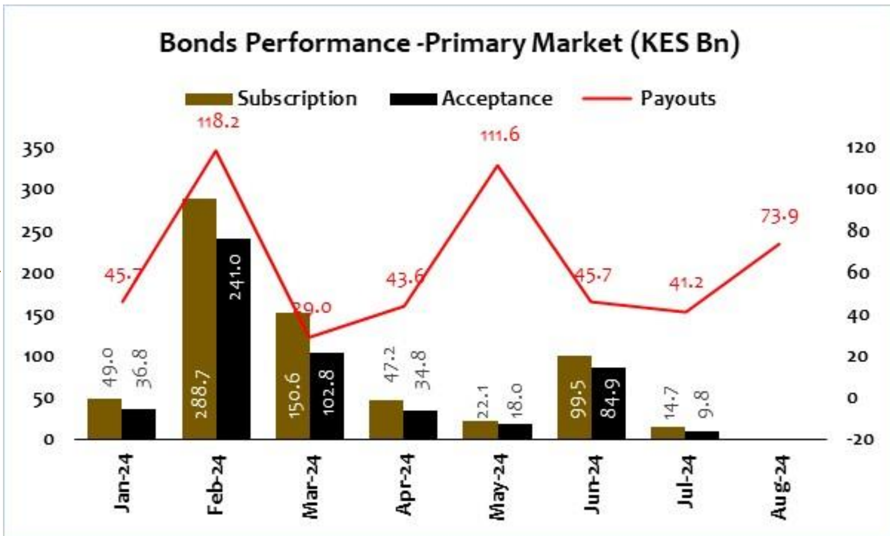
Upcoming Bond Payouts

In August 2024, a total of KES 73.92Bn coupon payout is due for payments, KES 16.30Bn 12th Augustland KES 57.61Bn on 19th August 2024. A total of KES 33.33Bn out of the total KES 73.92Bn is for infrastructure bond coupon payouts.

As part of the push for infrastructure bond issue, auction for July 2024 occasioned the lowest subscription where a total of KES 14.68Bn was subscribed with KES 9.77Bn being accepted. See below the last seven months performance.

August 2024 Coupons

Date	Amount (KES Mn)
12 Aug 2024	16,304
19 Aug 2024	57,611
Totals	**73,915**

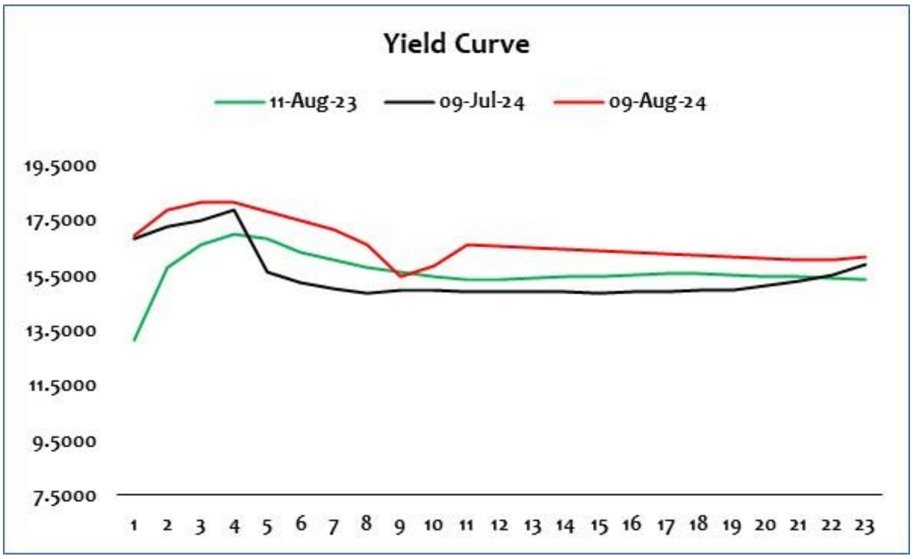


Yield Curve

In the last one month, the yield curve further shifted upwards especially after many central banks remained reluctant on rates cut with only a few implementing only below 25bps cuts.

The short end that widened faster as rates maintained an upwards rally will take long to shift downwards as on liquidity concentration on the section. This follows investors preferring short-term papers of around five year and below while shunning medium term to long-term papers on uncertainties in the market.

Yield Key Rates %	11-Aug-23	09-Jul-24	09-Aug-24	y-t-d bps	y-y bps
2-Yr	15.7527	17.2591	17.8728	-212.01	-61.37
5-Yr	16.7962	15.6080	17.8035	-100.73	-219.55
10-Yr	15.4570	14.9303	15.8293	-37.23	-89.90
15-Yr	15.4684	14.8621	16.3928	-92.44	-153.07
20-Yr	15.4656	15.1255	16.1228	-65.72	-99.73
23-Yr	15.3353	15.8910	16.1479	-81.26	-25.69



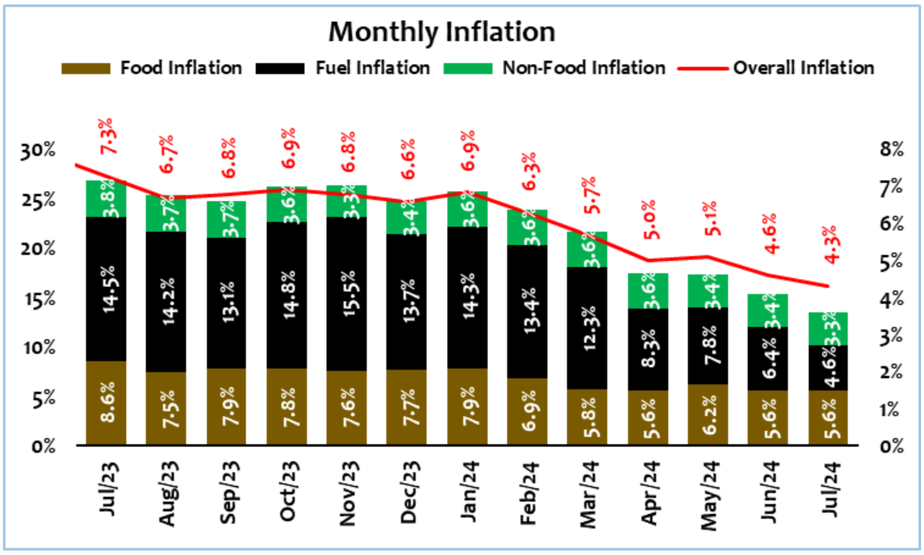
Inflation

July inflation touched a low of 4.3%, a level last seen in September 2020, during the covid period. This was manly contained by:

Drops in fuel inflation which fell from 6.4% in June to 4.5% in July driven downward adjustment in both pump and electricity prices. Diesel and petrol prices softened at 0.9% and 0.5% per litre respectively as a 200Kwh and 200Kwh also drop faster at 9.4% and 4.4% when compared to June 2024.

Non-food and non-fuel prices fell from 3.4% in June to 3.3% in July 2024.

Food inflation stabilized at 5.6% for the second month after the declines in food prices of maize, wheat and sugar were offset by price upticks in vegetables especially tomatoes, Irish potatoes and cabbages.

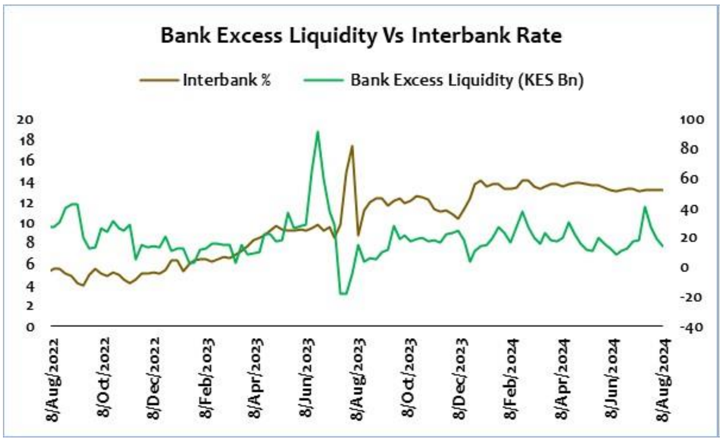


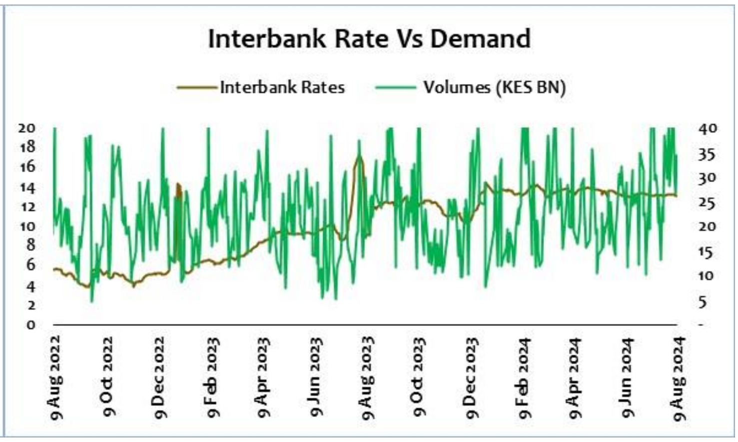
Interbank

We expect the interbank rate to decline by about 25.0bps to below 13.0% in the next two to three months from the current levels of 13.04%.

The last one month, the interbank rate averages at 13.15% compared to an average of 12.36% of same period last year.

Bank excess reserves stand at KES 14.0Bn as of August 08, 2024, after experiencing declines in four weeks in a row on what appears to be tight liquidity in the market.



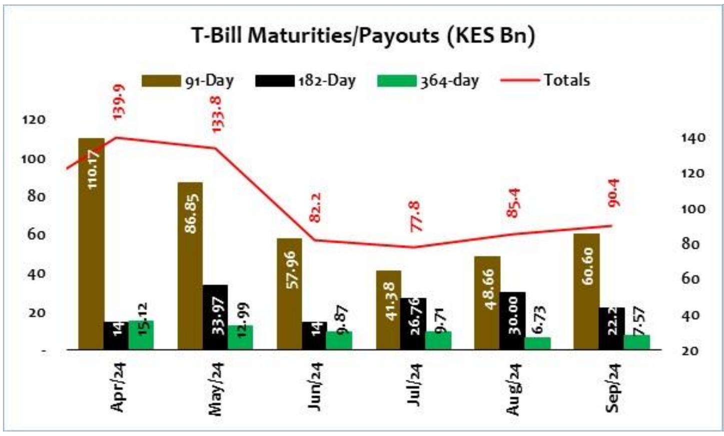


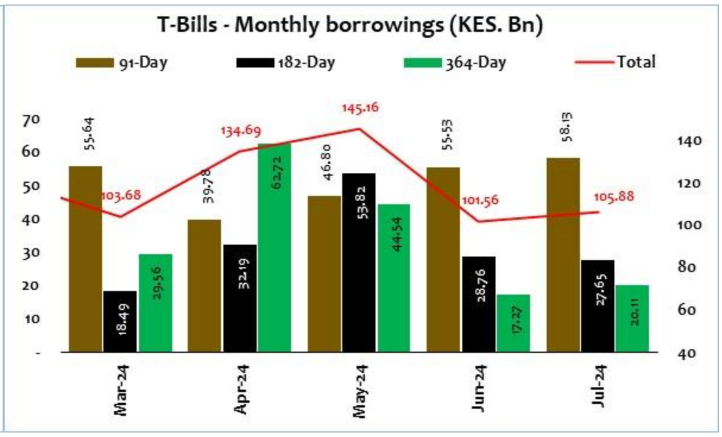
Treasury Bills

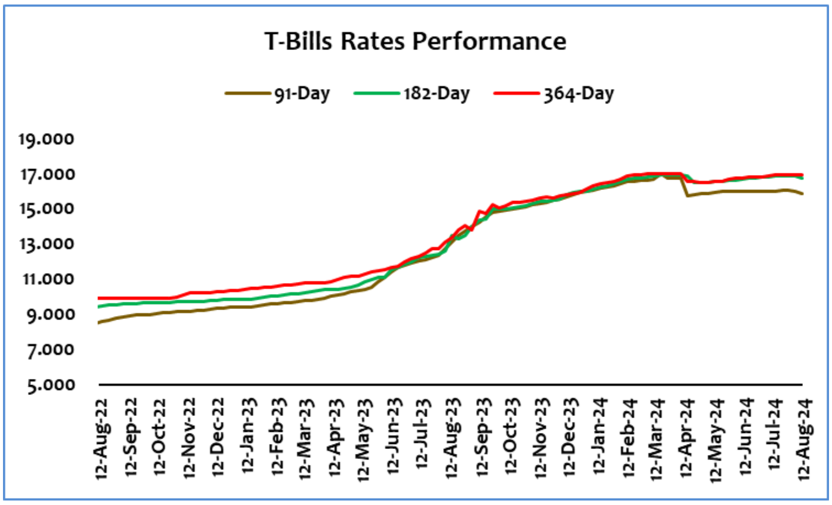
T-Bills have been the center of focus as a tactic for liquidity management while monitoring how high interest rates would soar.

Returns on investment have however reversed down in the last two auctions with the 91-day paper shedding the most at 18.2bps month-to date (m-t-d) from 16.0000% to 15.8177% followed by the 182-day paper at 13.58bps from 16.8506% to 16.748%. The 364-day paper has however remained relatively stable despite attracting low subscriptions.

Overall, the T-bills auction continue attracting more investments in addition to the rollover redemptions as investors take advantage of the appetizing short-term rates.







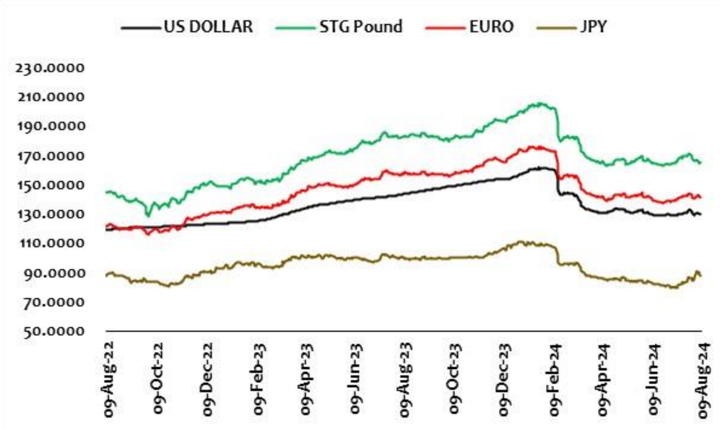
Currency

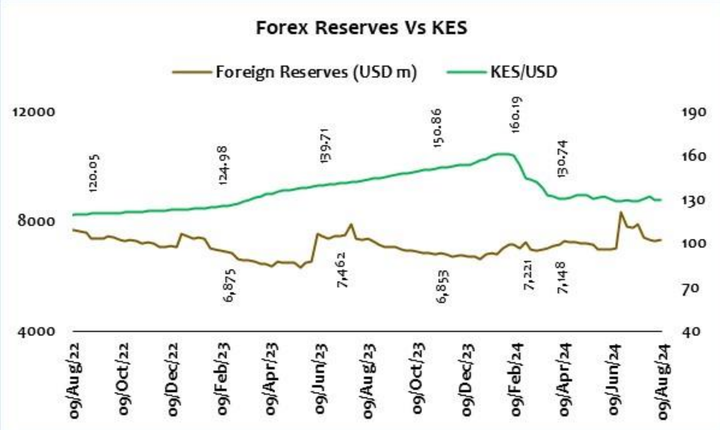
The Kenyan shilling remains strong having gained 9.8% in the last one year and 17.7% year to date to trade at KES 129.25 per US dollar. Against the British pound, Euro and Japanese yen, the shilling has gained 17.5%, 18.7% and 20.8% year to date to trade at KES 164.89, KES 141.14 and KES 87.95 per pound, euro and yen respectively.

In the last one month however, the shilling has lost 0.6% on effect of the anti-government protests.

Forex reserves remain sufficient at KES 7,340Mn, enough for 3.8-months of import cover. Having paid Eurobond coupon and maturity payments for three papers in May and June, we anticipate low pressure on the reserves.

DATE	09-Aug-23	02-Jan-24	09-Jul-24	09-Aug-24	% D y-y	%D y-t-d	%D q-q
US DOLLAR	143.2735	156.99	128.53	129.25	9.8%	17.7%	-0.6%
STG Pound	181.9685	199.85	165.05	164.84	9.4%	17.5%	0.1%
EURO	156.7988	173.65	139.33	141.14	10.0%	18.7%	-1.3%
JPY	100.1038	110.98	79.95	87.95	12.1%	20.8%	-10.0%
US Dollar Index	102.312	102.20	105.13	103.15	-0.8%	-0.9%	1.9%





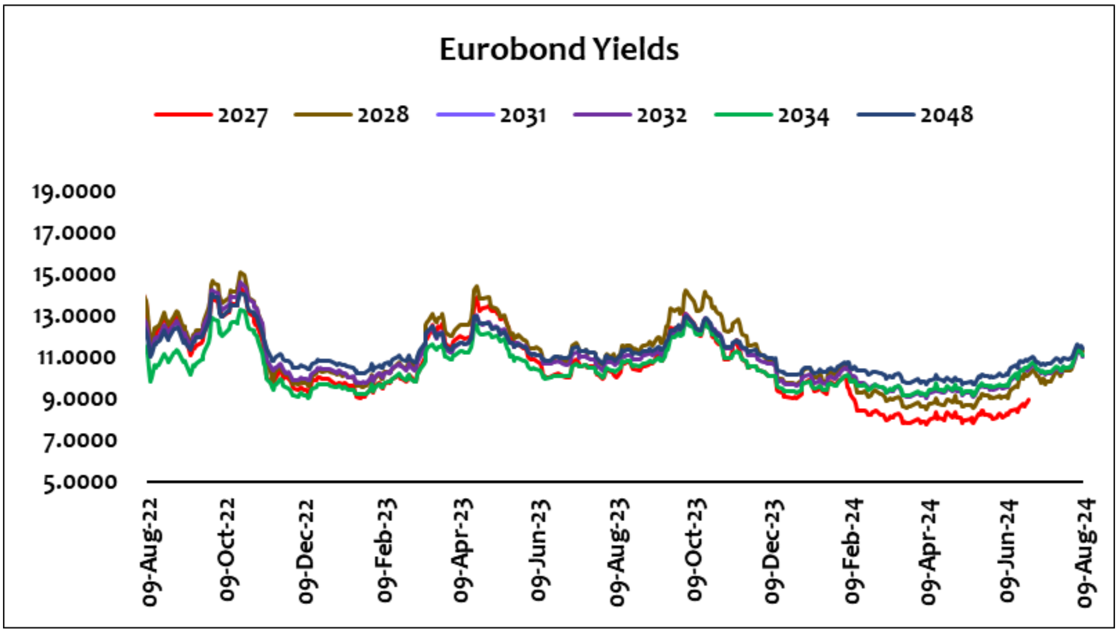
Eurobond

Yields on Kenya's international papers surged in the last one month after recording their lows immediately the June 2024 Eurobond clearance, see below table.

The up turn of rates remains elevated by a downward review of the country's credit rating by both the Moody's and Fitch credit rating agencies. The Moody's cut Kenya's rating from B3 to Caa1, a junk territory rating citing inability to implement austerity measures following total withdrawal of 2024 finance bill.

On August 02, Fitch downgraded the sovereign rating from 'B' to 'B-' on account of heightened financial risks after the plan to raise over KES 340 billion.

Euro-bond Paper	02-Jan-24	09-Jul-24	09-Aug-24	Δ bps yt-d	Δ bps w-w
May-2027	9.198	8.693	9.488	(29.00)	(79.50)
Feb-2028	9.873	9.919	11.270	(139.70)	(135.10)
Feb-2031		10.436	11.329		(89.30)
May-2032	9.780	10.307	11.020	(124.00)	(71.30)
Jan-2034	9.426	10.359	11.119	(169.30)	(76.00)
Feb-2048	10.212	10.714	11.418	(120.60)	(70.40)


Eurobond Yields
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09-Apr-24
09-Jun-24
09-Aug-24

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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**