KINGDOM SECURITIES

Fixed Income Pre-Auction Note

September Auction

FXD1/2024/010

FXD1/2016/020

KES 30 billion

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SEPTEMBER 2024 PRIMARY AUCTION - FXD1/2024/10 & FXD1/2016/20

The Central Bank of Kenya re-opened two papers, FXD1/2024/10 (9.5-year) and FXD1/2016/20 (12.0-years) seeking KES 30 billion from the public for budgetary support.

The Banking regulator issued a lower amount of KES 30 billion at the back of low coupon payouts due in September 2024. The market appears to gradually shift to long-term papers as rate cuts are anticipated after a long focus in short-term paper on attractive rates that have hit their highs.

Below are our bidding rate recommendations:

Bond	FXD1/2024/10	FXD1/2016/20
Amount	KES 30 billion	
Tenure	9.5-Years	12.0-Years
Coupon	**16.000%**	**14.000%**
Period of Sale	4th to 18th September 2024	
Value Date	18th September 2024	
Conservative	**16.75% - 17.00%**	**17.25% - 17.50%**
Aggressive	**17.01% - 17.25%**	**17.51 – 17.75%**

FXD1/2024/10 was first offered in March 2024 where it was undersubscribed at 59.7% against a government target of KES 40.00Bn. The paper was tapped the same month at a 48.8% subscription against a KES 25.00Bn target. The paper has since been re-opened once and tapped twice.

FXD1/2024/10 has a total outstanding amount of KES 34.54Bn, making it among the lowest debt-holding long-term papers for auctions.

Historical Performance - FXD1/2024/10 (KES BN)						
Auction Month	Auction	Target KES Billions	Subscribed Amount	Accepted Amount	Weighted YTM	Accepted YTM
Mar-24	Main Auction	40.00	23.89	4.84	17.76%	16.00%
Mar-24	Tap-Sale	25.00	12.20	11.90	16.52%	16.52%
May-24	Main Auction	25.00	14.98	11.00	16.67%	16.23%
May-24	Tap-Sale	15.00	7.11	7.03	16.23%	16.23%
Jul-24	Main Auction	30.00	7.07	6.75	16.64%	16.59%

We foresee a near 100% total subscription supported returns on FXD1/2024/10 (a 9.5-year paper) of 16.00% coupon even as the above shift to long-term paper especially by pension funds and insurance firms seem to gain momentum. This is further supported by the 2.5-year difference between the two papers of and a 200bps return difference in coupon (16.0% Vs 14.0% for FXD1/2016/10 and FXD1/2016/20 respectively).

The reduction of the CBR rate by 25 basis points (bps) remains a major concern among investors, necessitating many to take the current higher and attractive rates.

Macro-economic Update

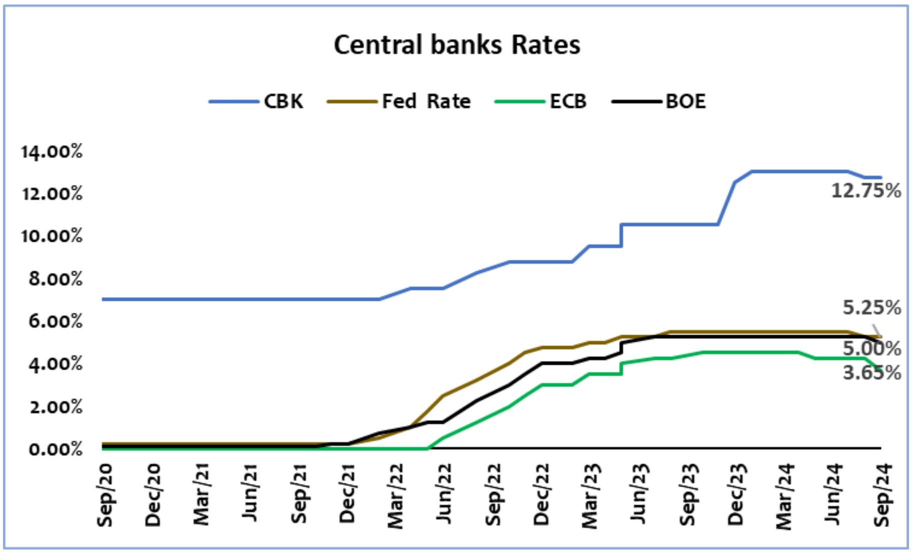
We project the local economy to rise faster in the remaining months of 2024 largely supported by low inflation levels, stable currency, adequate exchange reserves and declines in borrowing rates.

In the last three months inflation rates have remained below the government mid target range of 5.0% at 4.6%, 4.3% and 4.4% in June July and August respectively, the lowest since October 2020. We anticipate this to remains held down especially on projected rise in food supply upon harvests from the western part of Kenya due as from October to December 2024.

The August monetary policy committee (MPC) meeting effected an initial 25.0bps rate cut on the lending base rate from 13.0% to 12.75% on the above low inflation and stability in the forex market. In the next MPC review due on 10th October, we expect a further rate cut of about 25ps before the year ends.

- Globally, major economies have already affected their first- or second-interest rate cuts. The European Central Bank cuts its rate for the second time in three months on September 12, 2024, from 3.75% to 3.50% as its inflation rate neared the government range, from 2.6% in July to 2.2% in August 2024 against a 2.0% target.
- The Bank of England dropped its lending rate by 25bps in late July from 5.25% to 5.0%. The US Federal Reserve is expected to implement its first rate cut. US August inflation fell from 2.9% to 2.5% compared to an inflation of 6.0% when the Fed rate reached a high of 5.5% in January 2024.

Local business activities have picked as evidenced by the Stanbic Bank Kenya's Purchasing Managers' Index (PMI), which recorded a sharp rise from 43.1 to 50.6 points on renewed production and purchases upon end of anti-government unrests.



Key Rates	02-Jan-24	13-Aug-24	13-Sep-24
Central Bank Rate	12.50%	13.00%	12.75%
Inter-Bank Rate	14.31%	12.88%	12.64%
Cash Reserve Requirement (CRR)	4.25%	4.25%	4.25%
91-Day T-Bill	15.983%	1.600%	15.750%
182-Day T-Bill	15.967%	16.822%	16.625%
364-Day T-Bill	16.100%	16.880%	16.817%
Bank Excess Liquidity (KES Bn)	14.2	14.0	13.8
Forex Reserves (USD Mn)	6,775	7,316	7,744
Months of Import Cover	3.6	3.8	4.0

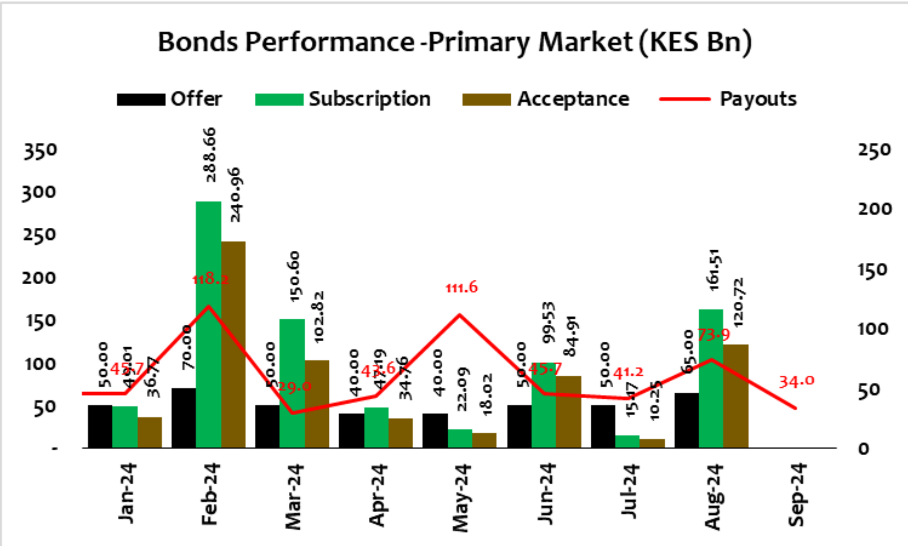
Primary Bonds Auctions Performance

Primary market bonds activity continues to receive attention, especially after the introduction of the online bidding process. August 2024 auction saw a total of KES 161.51Bn received against a target of KES 65 billion (including the tap sale), the government accepted KES 120.72Bn borrowings for the month of August.

The government has in the recent few months appeared to remain in the market by way of tap-sales as a strategy to woo back those who missed the primary auction.

Overall, primary bonds auction remains to be heavily supported by maturities and coupon reinvestments.

In September, we expect coupon payouts totaling to KES 33.95Bn with higher value payouts projected for the last three months of 2024 totaling to KES 273.05Bn, implying a heavy demand in the last quarter of 2024.



Treasury Bond Coupons and Maturities

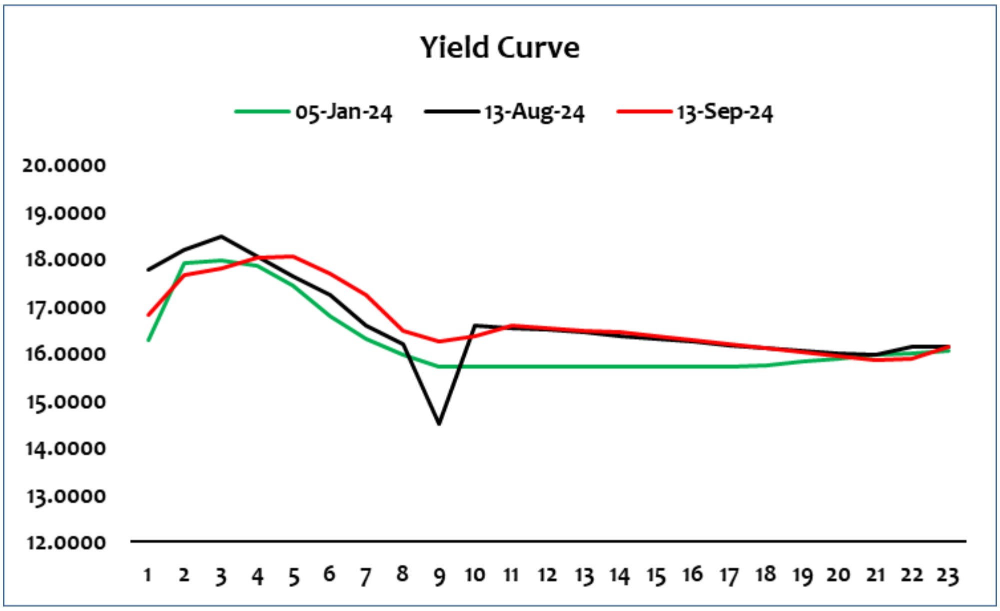
Month	Coupon	Principal Amount	Total
Sep/24	33.95	-	33.95
Oct/24	43.63	31.95	75.59
Nov/24	76.92	21.26	98.19
Dec/24	45.94	53.34	99.28

Yield Curve

We expect the yield curve to gradually shift downwards as lending rates cool down on rates cuts both locally and in the global markets.

However, government liquidity demand has seen the yield curve section on the auctioned papers shift upwards during the period of the auction as investors demand better returns.

Yield Key Rates %	05-Jan-24	30-Aug-24	06-Sep-24	y-t-d bps	m-m bps
2-Yr	17.9234	18.1916	17.6523	-27.11	-53.93
5-Yr	17.4396	17.6350	18.0507	61.11	41.57
10-Yr	15.7044	16.5879	16.3703	66.59	-21.76
15-Yr	15.7253	16.3135	16.3527	62.74	3.92
20-Yr	15.8983	15.9870	15.9349	3.66	-5.21
23-Yr	16.0647	16.1479	16.1433	7.86	-0.46

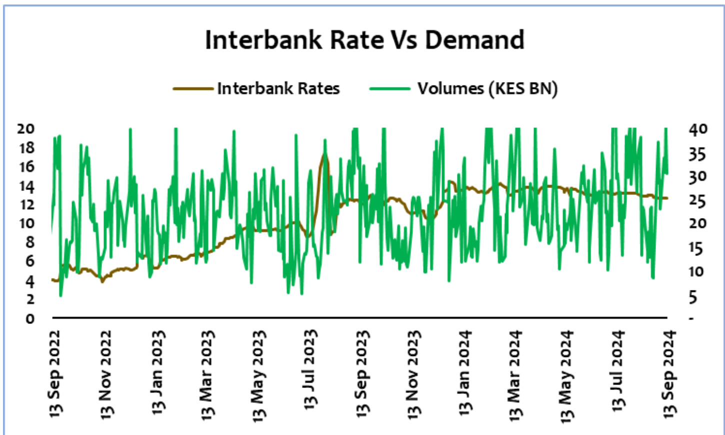


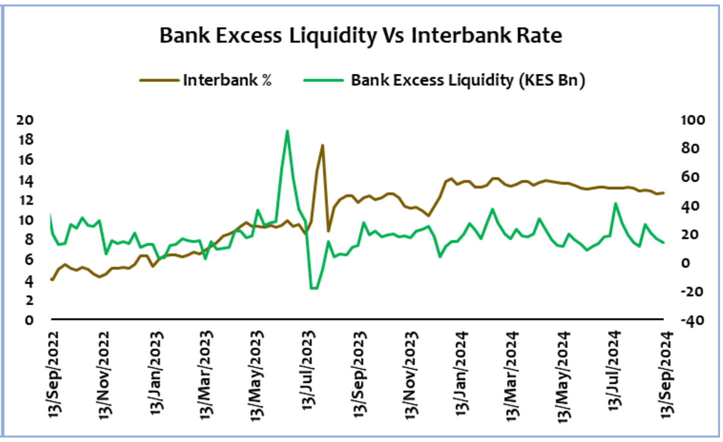
Interbank

The interbank rate continues to operate at minimal margins within the CBR rate, 12.75% ± 50bps.

In the last one month, the interbank rate has shed 23.8bps from 12.88% to 12.64% following the above Central Bank rate review on 5th August 2024 that saw the CBR drop from 13.0% to 12.75%. Year to date, the rate is trading at 166.5bps lower compared to 14.31% of the first trading day of 2024.

Bank excess reserves remain relatively low at KES 13.8Bn as of mid-September 2024 on what has been liquidity mop up from the market by the CBK.



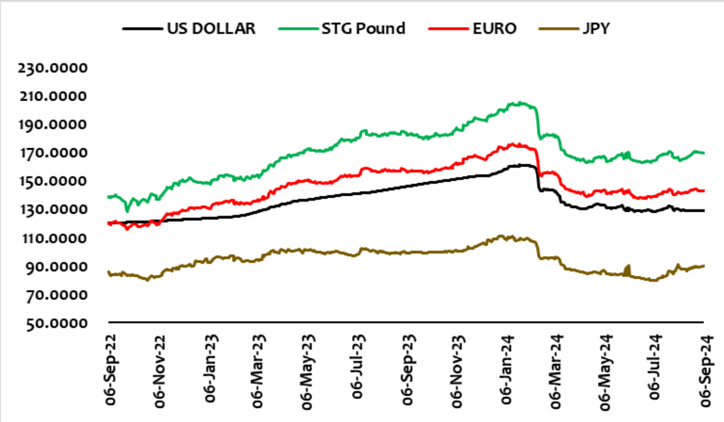


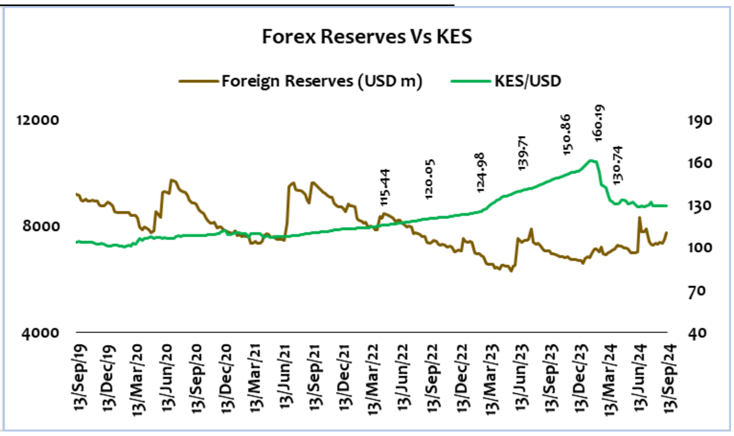
Currency

The Kenyan currency continue strengthening against the US dollar as the business environment become favorable and the economy continue expanding. This is as the US dollar weakens against some major currencies on what appears to be early effect of interest rate cuts that is expected to make returns on investment from US treasury papers less attractive.

This is also strongly supported by enough forex reserves which hit USD 7.74Bn by the end of second week of September, sufficient for 4.0 months of import cover. This represents a 5.9% month on month rise and a 14.3% year on year spike which continue to mute the dollar demand.

Currency	13-Sep-23	13-Aug-24	13-Sep-24	%Δ y-y	%Δ m-m
Dollar	146.49	129.35	129.20	11.8%	0.1%
STG Pound	182.67	165.31	169.85	7.0%	-2.7%
Euro	156.95	141.50	143.20	8.8%	-1.2%
JPY	99.57	87.56	91.58	8.0%	-4.6%
US Dollar Index	104.77	102.61	101.11	-3.5%	-1.5%

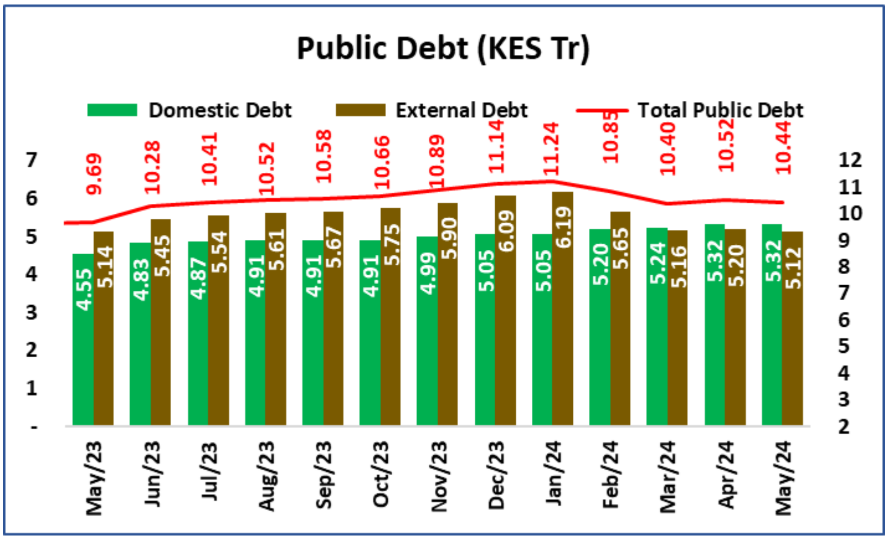




Public Debt

Public debt as of end of May 2024 stood at KES 10.44 trillion, domestic debt accounting 51.0% and external debt 49%. The external debt contribution declined from 49.4% in April to 49.0% by end of May 2024.

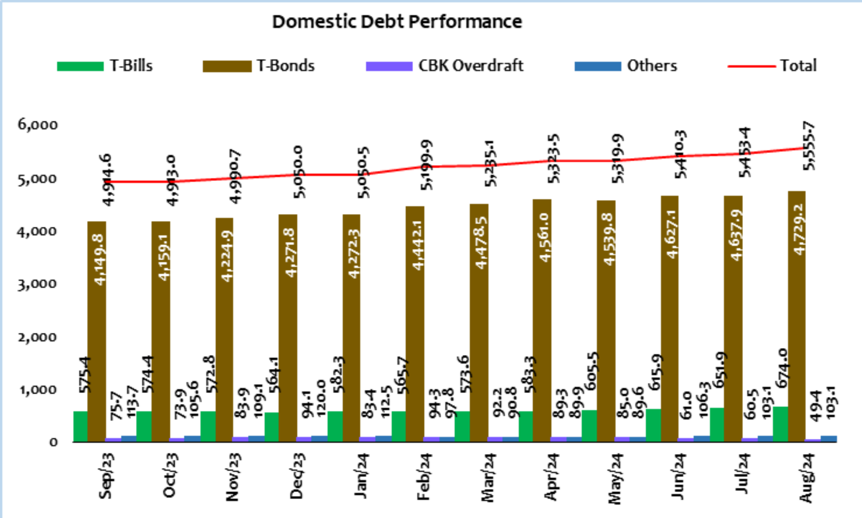
External debt declined 17.3% y-t-d from KES 6,190.00Bn to KES 5,118.30Bn, being heavily depressed by the strengthening of the Kenyan shilling which gained 17.1% in the same period.



Domestic Debt

By end of August 2024, domestic debt rose 13.2% y-y from KES 4,914.6Bn to KES 5,555.7Bn according to the Central Bank statistics.

Treasury bond papers contribute the most at 85.1% of the total domestic debt, followed by Treasury bills at 12.1% or KES 674.0Bn.

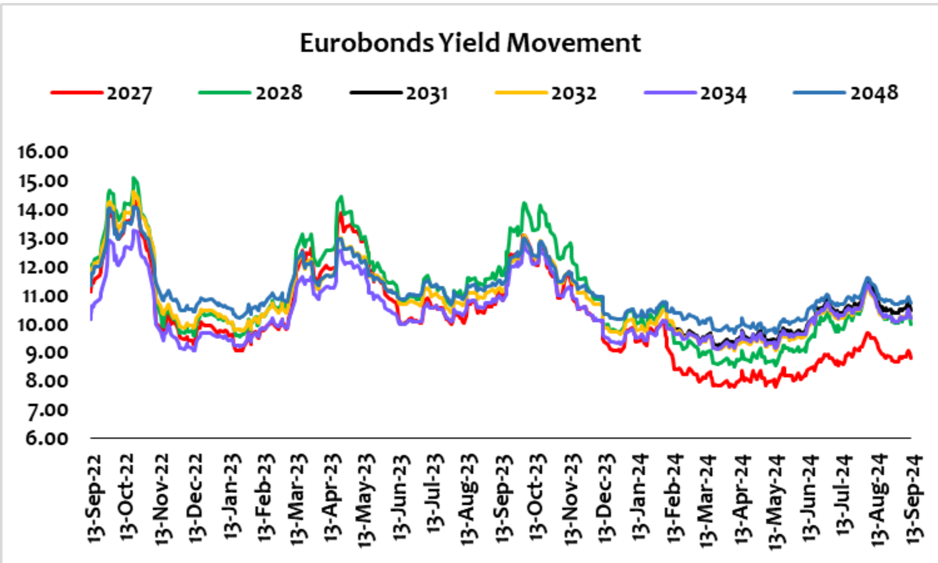


Eurobond

Yields on Kenya's international papers continue improving in value by at lower yield rates compared to the last two months. The Feb 2028 paper has gained in value the most as its trading yield rate drop by almost 100bps from 10.974% to 9.987% in the last one month.

We attribute the general decline in yield rates to the cooling down of June-July 2024 anti-government protests and stability in the forex exchange.

Euro-bond Paper	31-Aug-23	13-Aug-24	13-Sep-24	Δ bps yt-d	Δ bps w-w
May-2027	10.577	9.425	8.797	178.00	62.80
Feb-2028	11.569	10.974	9.987	158.20	98.70
Feb-2031		11.082	10.466		61.60
May-2032	11.058	10.783	10.193	86.50	59.00
Jan-2034	10.706	10.825	10.190	51.60	63.50
Feb-2048	11.302	11.250	10.713	58.90	53.70



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