

# KINGDOM SECURITIES

## Fixed Income Pre-Auction Note November 2024 Auction II FXD1/2024/10 KES 20Billion

Research Analyst:  
Shadrack Manyinsa

[smanyinsa@co-opbank.co.ke](mailto:smanyinsa@co-opbank.co.ke)

Bond Dealer  
Asena Moffat

[amoffat@co-opbank.co.ke](mailto:amoffat@co-opbank.co.ke)

Bond Dealer  
Alfred Too

[atoot@co-opbank.co.ke](mailto:atoot@co-opbank.co.ke)

### November 2024 Auction (Auction II) – FXD1/2024/10

The National government is seeking an additional KES 20 billion from its second bond auction for November budgetary support. The auction is scheduled for 13th November 2024 from the FXD1-2024/10.

We forecast an oversubscription for the FXD1/2024/10 auction on its higher coupon returns of 16.00% and a general rise in market liquidity. This will be mainly supported by the KES 7.37Bn last primary auction rejection and re-investments from the expected KES 21.26Bn and KES 11.67 bond maturity and coupon payouts respectively, all due on 18th November 2024.

As rates narrow down on rate cut transmissions, we do not expect aggressive bidding in the paper and therefore we recommend the following rates for your bidding options:

Bond	FXD1/2024/10
Amount	KES 20 billion
Tenure	9.4-Years
<b>Coupon</b>	<b>16.00%</b>
Period of Sale	25 <sup>th</sup> Oct. to 13 <sup>th</sup> Nov. 2024
Value Date	18 <sup>th</sup> Nov. 2024
<b>Conservative</b>	<b>15.80% - 16.00%</b>
Aggressive	16.01% - 16.20%

In the first auction for FXD1/2023/10 and FXD1/2022/15 held on 6th November 2024, a total of KES 33.05Bn with only KES 25.68Bn being accepted, representing a 102.7% performance against a KES 25Bn target. The accepted yield rates for the two papers were 15.9724% and 16.2986% for the FXD1/2023/10 (8.3-years) and FXD1/2022/15 (12.5-years) papers respectively.

The issued paper for the second auction, FXD1/2024/10 (9.4years) traded at a yield to maturity of 15.7455% and 15.6299% in the last two weeks in that order respectively, further indicating the rate direction.

FXD1/2024/10 was first issued in March 2024 where it was undersubscribed with a very low acceptance, see below table. The paper's first coupon was paid on 23rd September, implying of an accrued interest of only 56-days from the last coupon to its value date dated 18th November 2024.

FXD1/2024/10 Performance (Coupon - 16.00%)					
Month Issued	Offer (KES Mn)	Bids Received	Amount Accepted	Market Avg RATE (YTM)	Accepted Rate (YTM)
Mar-2024	40,000	23,885.31	4,838.6	16.5189	16.0000
Mar-2024 (Tap sale)	25,000	12,203.35	11,986.4	-	16.5189
May-2024	25,000	14,979.42	10,995.3	16.6681	16.2273
May-2024 (Tap sale)	15,000	7,107.55	7,025.0	-	16.2273
Jul-2024	30,000	7,067.73	6,752.2	16.6355	16.5923
Sep-2024	30,000	13,396.00	11,565.37	16.9719	16.8696

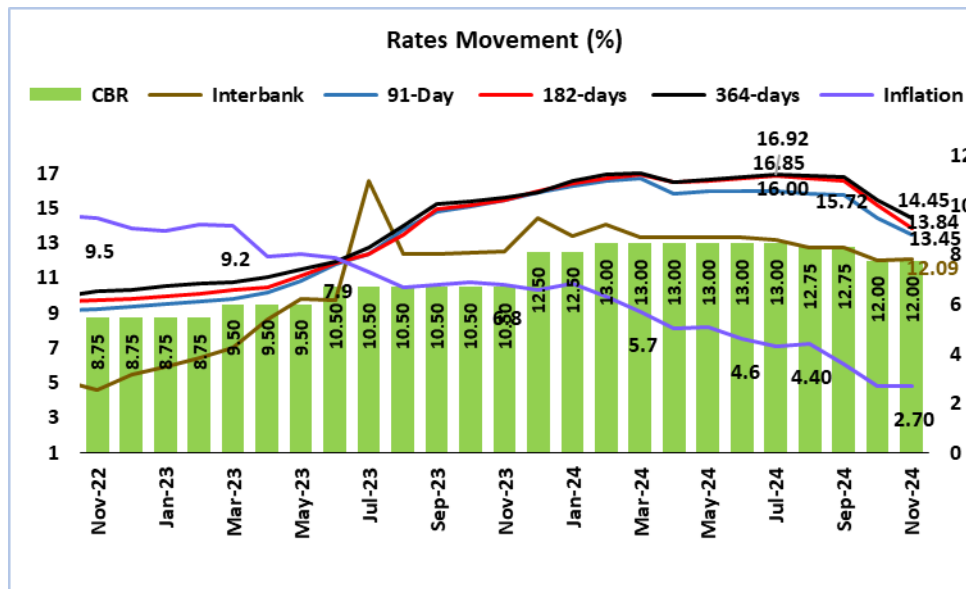
### Monetary Policy Transmission

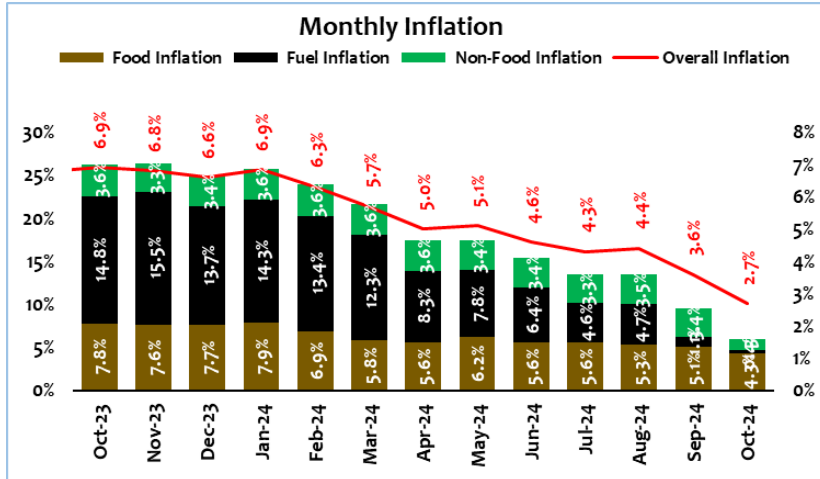
Despite local inflation touching over a decade lows, lending rates have relatively remained elevated on a slow monetary transmission in them market. The central Bank has so far cut only 100.0bps on its official lending base rate from 13.00% to 12.00% in the last two reviews.

October overall inflation thinned to 2.7%, a level last seen in 2010, mainly influenced by low food, fuel and non-food items. This brings average inflation to 4.86% in the ten months to October from 7.89% same period last year. This still points to additional rate cuts in next few reviews before stabilization.

We expect a ripple effect in several sectors of the economy especially:

- **Private sector liquidity improvement** after the private sector recorded its worst growth rates in May, June, July, and August—4.5%, 4.0%, 3.7%, and 1.3%, respectively, following a tight liquid environment. The high cost of credit, which exceeded 18% per annum was the main constraint resulting to low disbursements. After the two rate cuts, we have seen rates decline in some banks from highs of 18% to 16%.
- **Improvement in non-performing loans (NPL) ratios** is expected as rates drop, and disbursements grow. Earlier, the policy tightening had seen overall bank loan book shrink 4.3% between January and June 2024, from KES 4,224.4Bn to KES 4,042.3Bn in June 2024, with NPL ratios escalating from 13.8% to 16.3% the same period.
- **Businesses’ expansions** in several sectors are expected to register following an anticipated general rise in credit lines across various sectors. This is as credit scores improve and lending level improve especially to agriculture and manufacturing sectors.
- **Lower Government cost of borrowing** – The last few auctions has seen rates come down with that of treasury bills dropping faster from highs of 16.92% just before the first rate cut in August 2024 to the current 14.45% for the 364-day paper.





Inflation expectations point to a low inflation of about 4.0% in the next two months based on:

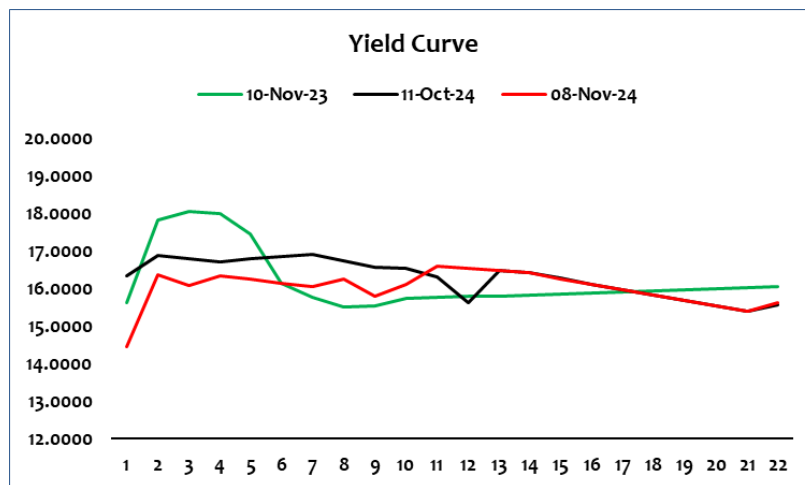
- ✓ Ongoing maize (Kenya’s stable food) harvesting in the western part.
- ✓ Low international fuel prices on a weak demand especially from China (world’s largest importer)

### Yield Curve

The yield curve continues experiencing downward shifts on effects of the above rate cuts. The short-end has already shifted to below the rates witnessed in the last month with the mid to long-end curve stabilizing down like that of the last one month.

The 2-year paper shed the most at 189.1bps from 16.3383% to 14.4476% follows by the 6-year and 3-year paper on their demand immediately after the primary auctions.

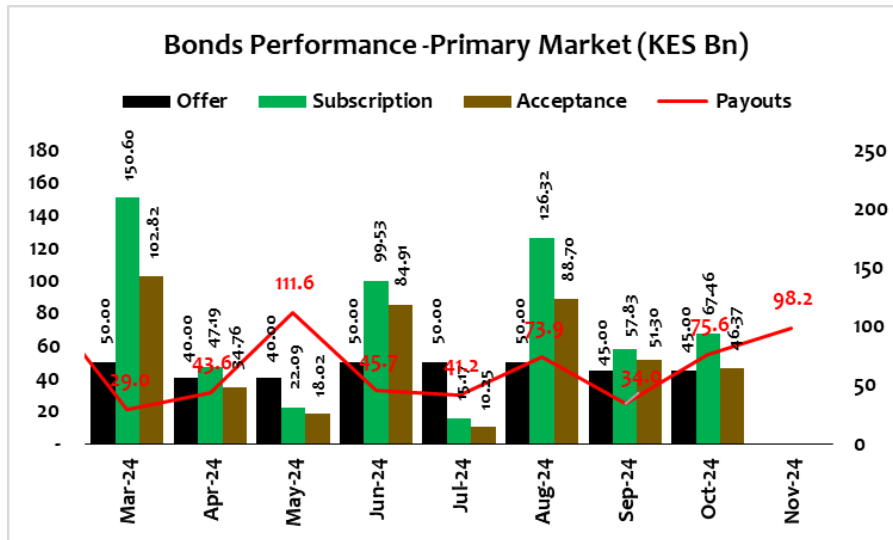
Yield Key Rates %	10-Nov-23	11-Oct-24	08-Nov-24	y-y bps	w-w bps
2-Yr	17.8325	16.8812	16.3695	146.30	51.17
5-Yr	17.4521	16.7812	16.2428	120.93	53.84
10-Yr	15.7431	16.5430	16.1123	-36.92	43.07
15-Yr	15.8489	16.2651	16.2567	-40.78	0.84
20-Yr	15.9990	15.5301	15.5340	46.50	-0.39
23-Yr	16.0535	15.5582	15.6288	42.47	-7.06



### Treasury Bonds

Heavy payouts to support liquidity in the market even as the government uptake seems to be declining on what appears to be a tactic by the government to manage the cost of borrowing.

	Maturities	Coupon Payouts	Total Payouts
Nov-24	21.26	76.92	98.19
Dec-24	53.34	45.94	99.28

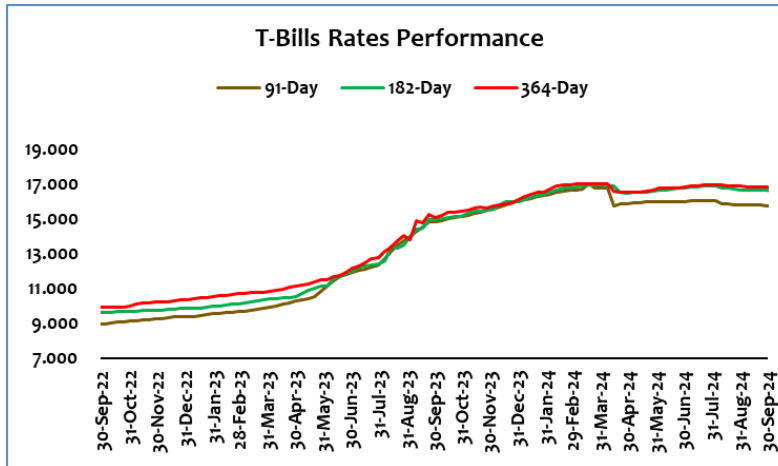
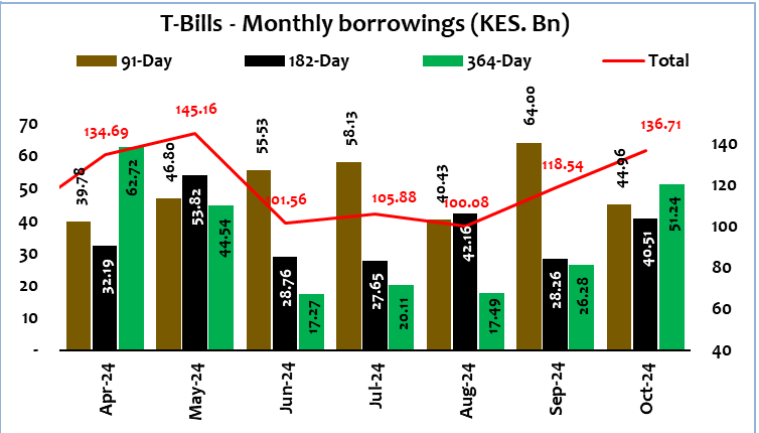
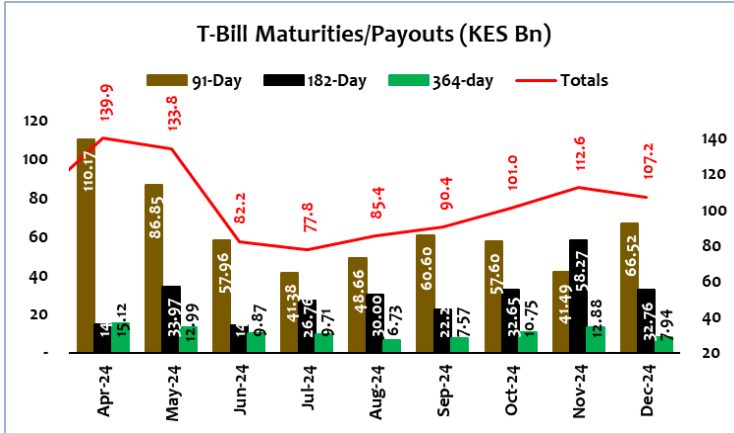


### Treasury Bills

Heavy liquidity in the treasury bills have driven down rates in the sector so fast to trade at levels last seen in August 2023 when rates picked up.

At such a change of pace, we expect return on investment on T-bills to hit below 12% by the end of year, 2024.

Paper	Jun-24	August-24	Sep-24	Oct-24	8-Nov-24
91-day	15.97%	15.79%	15.72%	14.43%	13.45%
182-day	16.74%	16.67%	16.59%	15.15%	13.84%
364-day	16.75%	16.86%	16.80%	15.47%	14.45%



### Currency

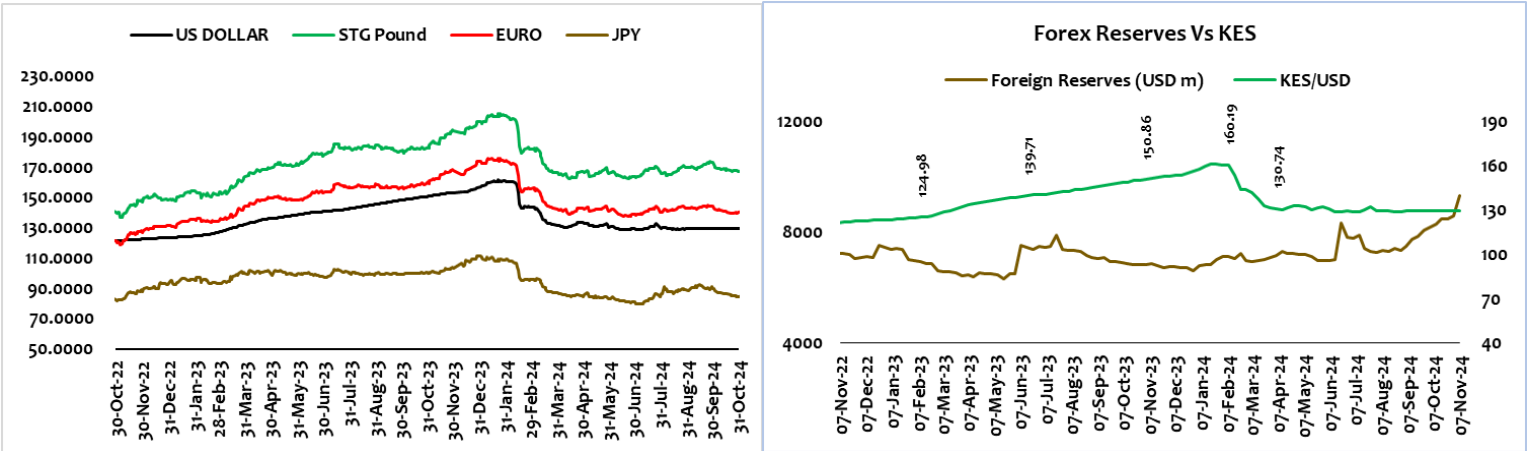
The Kenyan shilling continue remaining strong, trading at KES 129.21 per US dollar on what remains to be low demand for the US currency even as the country’s forex reserves maintain an upward pace.

As from early June 2024, the shilling has maintained an average of 129.39 per US dollar making the exchange very predictable for many businesses especially in the import of raw materials.

Forex reserves hit USD 9,323Mn or 4.8-months of import cover in the first week of November compared to USD 8,186Mn the same week in October 2024.

The reserves remain supported y foreign direct investment inflows, forex remittances and some concessionary facilities for budget support. Monthly forex remittances for September fell to USD 418MN from USD 427.20Mn in August but still higher compared to USD 355.62Mn of September 2023.

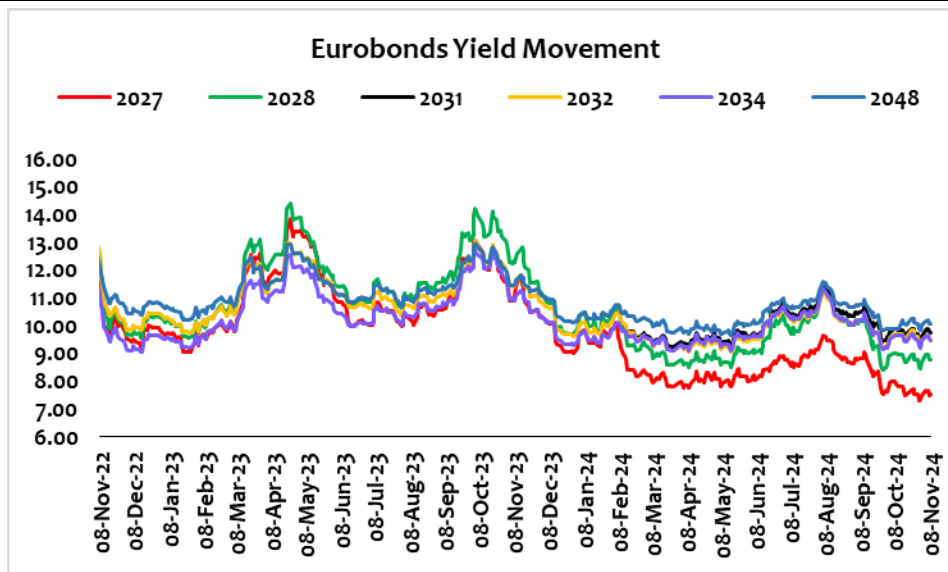
	DATE	09-Oct-23	02-Jan-24	08-Oct-24	08-Nov-24	%Δ y-y	%D y-t-d	%Δ m-m
US DOLLAR		148.7941	156.99	129.20	129.21	13.2%	17.7%	0.0%
STG Pound		181.6503	199.85	169.16	167.56	7.8%	16.2%	0.9%
EURO		157.0488	173.65	141.90	139.34	11.3%	19.8%	1.8%
JPY		99.7213	110.98	87.34	84.51	15.3%	23.9%	3.2%
US Dollar Index		106.08	102.20	102.55	105.00	1.0%	-2.7%	-2.4%



### Eurobond

Yields on Kenya’s international paper also edged down following a general rate cuts globally and the political stability witnessed in the country. This remains also supported by increased demand for the local papers as those of developed economies become unattractive.

Euro-bond Paper	08-Nov-23	08-Oct-24	08-Nov-24	Δ bps yt-d	Δ bps w-w
May-2027	11.096	8.004	7.526	357.00	47.80
Feb-2028	12.311	9.013	8.784	352.70	22.90
Feb-2031		9.894	9.750		14.40
May-2032	11.411	9.714	9.526	188.50	18.80
Jan-2034	10.926	9.643	9.498	142.80	14.50
Feb-2048	11.484	9.902	10.061	142.30	(15.90)



### Research Analyst Certification:

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

### Terms of Use – Disclaimer:

This research report has been prepared by Kingdom Securities Limited and is for information purposes only. This research report should not be construed as an offer or solicitation to sell or buy any investment or product. Any opinions expressed herein reflect the analyst's judgment at the date of publication and neither Kingdom Securities Limited, nor any of its affiliates or employees accepts any responsibility in respect of the information or recommendations contained herein. Unless otherwise stated, the opinions contained in this material are as of the date indicated and are subject to change at any time without prior notice. Past performance is not a guarantee or indication of future results. The information and opinions contained in this Material have been derived from sources believed to be reliable and in good faith or constitute Kingdom Securities' judgement as at the date of this research, but no warranty is made as to their accuracy and any opinions are subject to change and may be superseded without notice. In no circumstances will Kingdom Securities or its employees be liable to you for any errors or omissions in this report or for any losses you may incur in following any recommendations in the report. Kingdom Securities is a Subsidiary of Co-operative Bank of Kenya.

**Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited. Co-**

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

**Office:**  
0711049540/0711049956

**Email:** [info@kingdomsecurities.co.ke](mailto:info@kingdomsecurities.co.ke)

### Research Department

**Shadrack Manyinsa** +254 711 049 956

**Dennis Langat** +254 711 049 592

### Dealing

**Asena Moffat** +254 711 049 663

**Alfred Too** +254 711 049 930