

# KINGDOM SECURITIES

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

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### Primary Auction II - FXD1/2024/10

In the last auction of the year, the Central Bank re-opened FXD1/2024/10-year paper seeking KES 20 billion from the public for budgetary support.

This is in addition to the KES 25 billion sought in the first auction of December for FXD1/2023/10 & FXD1/2018/20 where a total of KES 71.32Bn was subscribed with KES 53.41Bn being accepted, pointing to a liquid market which leaves the government dictate acceptance yields to a great extent as earlier forecasted.

We foresee conservative bidding in the second auction of December for FXD1/2024/10, based on a weak liquidity demand by the government and relatively high liquidity witnessed in the market.

We recommend the following bidding rates for your consideration based on the prevailing economic conditions discussed hereafter:

Bond	FXD1/2023/10
Amount	KES 20 billion
Tenure	9.3-Years
<b>Coupon</b>	<b>16.00%</b>
Period of Sale	21 <sup>st</sup> November to 11 <sup>th</sup> December 2024
Value Date	16 <sup>th</sup> December 2024
<b>Conservative</b>	<b>14.70% - 14.90%</b>
<b>Aggressive</b>	<b>14.91% - 15.10%</b>

The improved liquidity emanated from a total maturity of KES 53.34Bn from IFB1/2015/09 and FXD3/2019/05 of KES 8.51Bn and KES 44.83Bn that happened in the first and second week of December 2024 respectively.

Coupon payouts for December stand at KES 45.94Bn out of which 4.39Bn, KES 18.34Bn and KES 23.21Bn coupons are paid in the first week, second and third week of December respectively. This gives a total payout of KES 99.28Bn in December 2024, thus supporting in making the market more liquid.

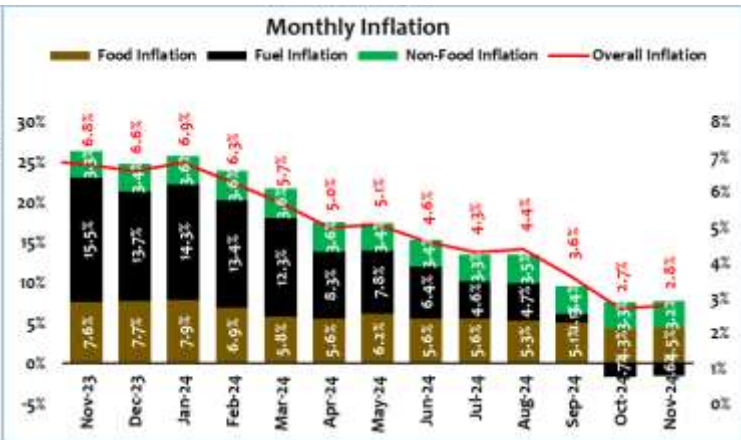
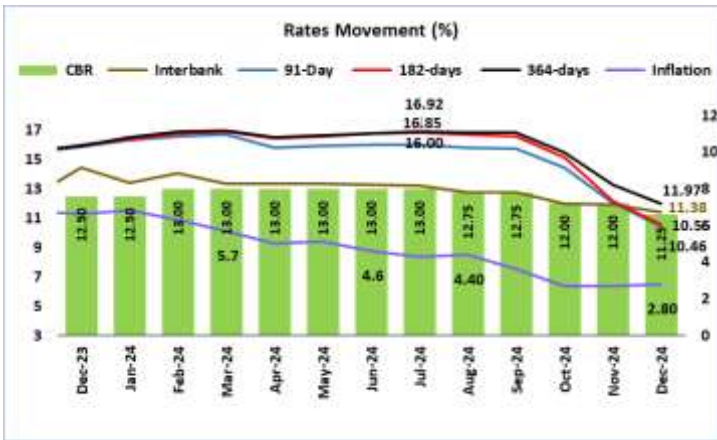
FXD1/2024/10 has been re-opened for the 7<sup>th</sup> time in a move to manage interest rates while emerging best in returns in a time when rates are edging down. Its current holding stands at KES 76.62Bn.

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
Nov-2024	20,000	55,576.58	40,515.91	16.1127	15.8553

### Central Bank and Monetary Policy

In the last review of the year held on 5<sup>th</sup> December, the Central Bank Monetary Policy Committee (MPC) cut the Central Bank Rate (CBR) by 75.0bps from 112.00% to 11.25% at the back of low inflation rates, currency stability and low economic performance.

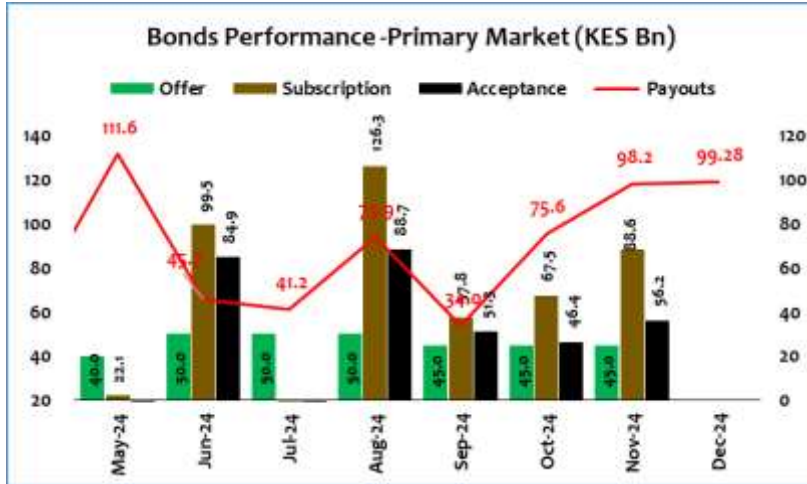
- Inflation levels have remained below the government mid-range of 5%±2.5% to average at 3.7% for the last 5-months ending November 2024. November 2024 inflation rose marginally to 2.8% compared to 2.7% of October 2024. We expect the inflation rate to remain low below 4.5% in the next three to four months held down by:
  - ✓ Low food prices supported by the ongoing harvest in the wester food basket region of Kenya. This will even be supported by anticipated rise in rain supply globally.
  - ✓ Low fuel prices driven down by a rise in global supply which is projected to exceed demand at 1.2 million barrels per day glut as per the World Bank report of November 2024. We view pump price drop to fueled down by China’s weakening oil demand upon adoption of new energy vehicles.
  - ✓ Exchange rate stability which will continue muting import inflation which had impacted inflation in the first half of 2024. Stability of the shilling has since witnessed rise in foreign direct investments on the predictability of the exchange rate.
- The banking sector remain strong and resilient with high liquidity and capital ratios despite the high non-performing loans impacted by higher cost of lending. Gross Nonperforming loans (NPLs) stood at 16.5% in October 2024 in relation to 15.3% of similar period in 2023. As rates come down, we expect the NPLs to come down while bank disbursements also improve.
- Private sector credit is projected to improve in the coming months supported by improved credit score and appetite improved on effect from rate cuts. Overall private sector credit remained flat in October 2024 on reduced demand attributed to high cost of borrowing. September and August 2024 recorded growths of 0.4% and 1.3% respectively against a favorable growth of above 12%.





### Primary Market Performance

The primary auctions remain heavily rallied by both coupon and maturity payouts. New investments from pensions, insurance firms and fund managers also appear to push the subscriptions even higher.



December 2024 Payouts

Coupon Payout - KES 45.94Bn

Bond Maturities - KES 53.34Bn

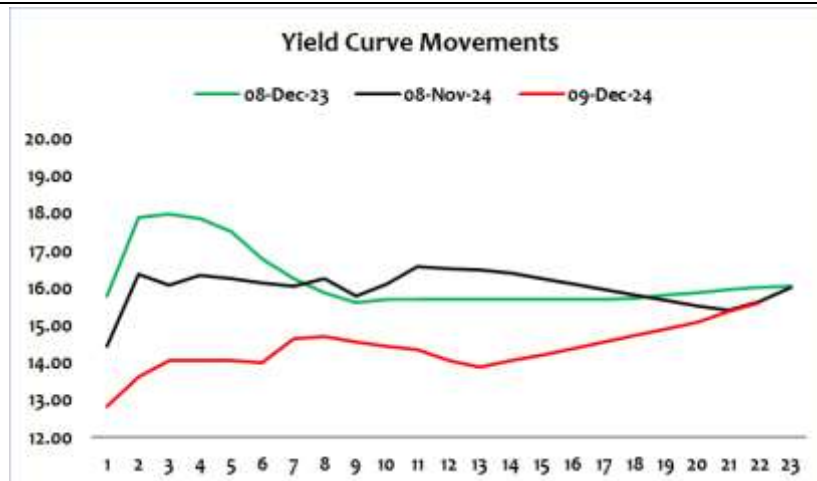
### Yield Curve

Interest rate cuts has seen the overall yield curve shift down faster compared to the last one-year performance impacted by a general downtrend of interest rates globally. The short end to the middle of the yield curve has widened faster on increased transactions on the sections.

Further, improved market liquidity has helped bring down the yield rates quite faster.

In the coming months of 2025 we anticipate a continued downward shifts of the yield curve as the interest rate cut transmission takes effect.

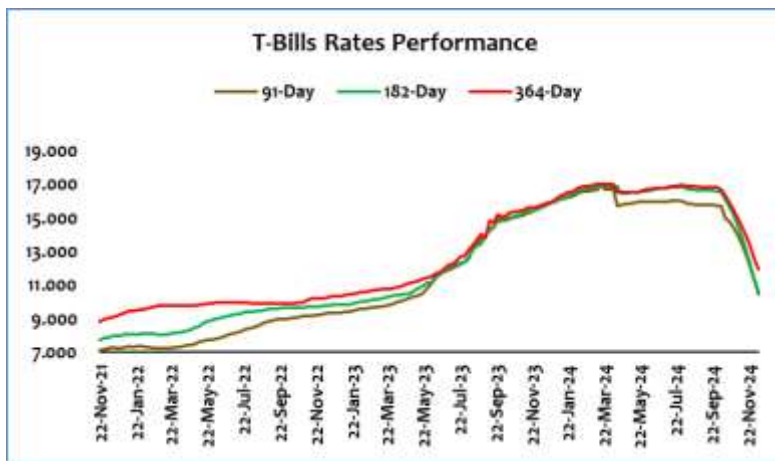
Yield Key Rates %	08-Dec-23	08-Nov-24	09-Dec-24	Δ bps y-y	Δ bps m-m
2-Yr	17.9055	16.3695	13.6172	428.83	275.23
5-Yr	17.5065	16.2428	14.0606	344.59	218.22
10-Yr	15.7012	16.1123	14.4543	124.69	165.80
15-Yr	15.7054	16.2567	14.2176	148.78	203.91
20-Yr	15.8858	15.5340	15.0783	80.75	45.57
23-Yr	16.0068	15.6288	15.6156		1.32



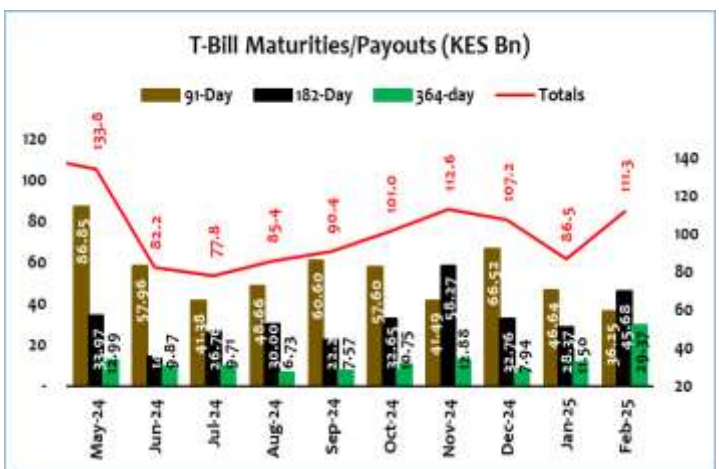
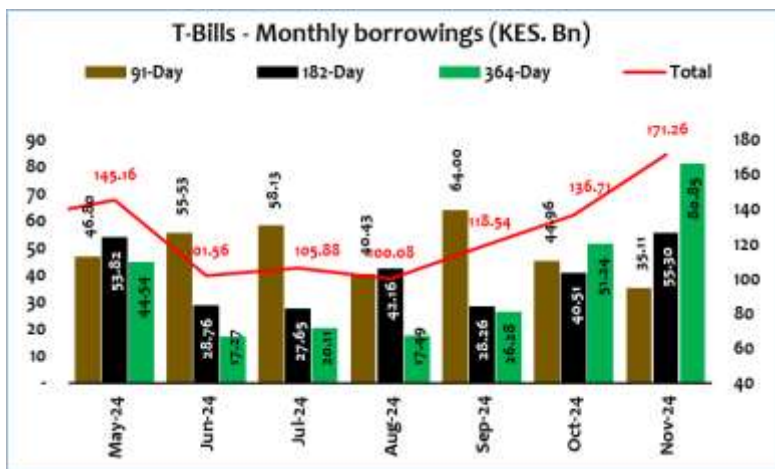
### Treasury Bills

Improved liquidity in the treasury bills space has seen a faster drop in the returns on investment of government treasury bills. For instance, the first and second T-bills auction for December 2024 saw oversubscriptions of 211.1% and 176.3% respectively with roll-over redemptions accounting for 57.9% and 68.9% of the amount subscribed as the rest coming from new investments.

IN the last one month, returns on the 182-day paper dipped the most at 329.2bps from 13.84% on 11<sup>th</sup> November to 10.5485% on 9<sup>th</sup> December 2024. The 91-day paper lost 299.3bps to 10.4564% while the 364-day paper shed 248.0bps to 11.9673% in the same period respectively.



Rate movement (%)			
Paper	11-Dec-23	7-Oct-24	9-Dec-24
91-Day	15.6348	15.6855	10.4564
182-Day	15.7487	15.4999	10.5485
364-Day	15.7947	16.7291	11.9673



### Currency

The Kenyan shilling continue remaining strong against major currencies especially the us dollar, the british pound, the euro and the Japanese yen.

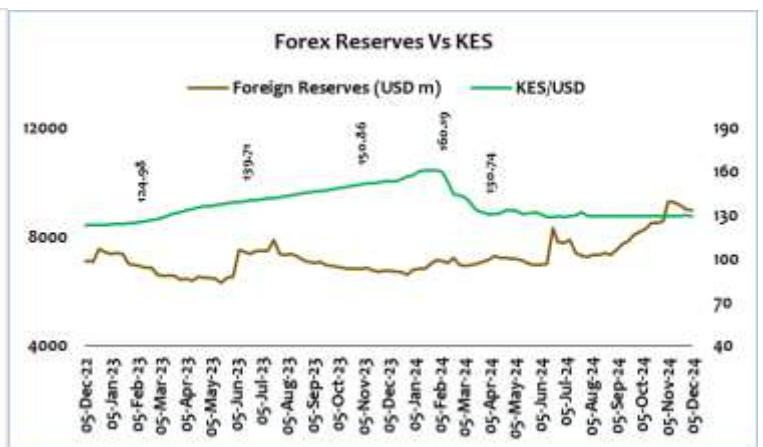
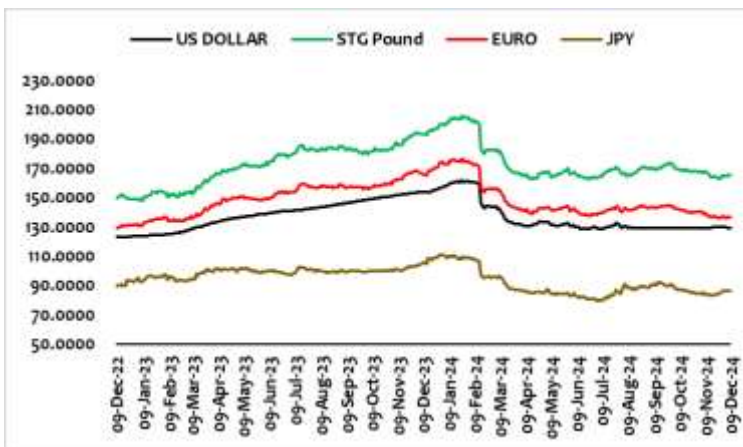
by end of the first week of December 2024, the shilling trade at KES 129.20 per us dollar. in the last 3- and 6-months the shilling traded at KES 129.28 and KES 129.65 per us dollar respectively. The shilling remains strongly supported by sufficient forex reserves, growing exports and growing forex remittances.

By end of first week of December, forex reserves stood at USD 8,969Mn sufficient for 4.6-months of import

cover, against a 4.0-month requirement. Forex remittances rose 15.3% to USD 4,809Mn in the twelve months to October 2024 compared USD 4,165Mn recorded similar time in 2023. October 2024 remittances recorded the highest inflow of USD 437.20Mn in relation to USD 418.50Mn of Sept-2024 and USD 355.62Mn of Oct-2023.

We expect the forex reserves to drop marginally in December upon Eurobond coupon payment for the January 2024 paper that has a holding USD 1,000Mn.

DATE	08-Dec-12	02-Jan-24	08-Nov-24	09-Dec-24	% D y-y	%D y-t-d	%D q-q
US DOLLAR	153.3382	156.99	129.21	129.30	15.7%	17.6%	-0.1%
STG Pound	192.7591	199.85	167.56	164.95	14.4%	17.5%	1.6%
EURO	165.2753	173.65	139.34	136.75	17.3%	21.3%	1.9%
JPY	106.5367	110.98	84.51	86.39	18.9%	22.2%	-2.2%
US Dollar Index	104.01	102.20	105.00	105.96	-1.9%	-3.7%	-0.9%



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