June 15, 2020

RECOMMENDATION:

5- Year FXD:

Bid 11.45% to 11.65% for the: FXD3/2019/5

10-Year FXD:

Bid 12.40% to 12.59% for the: FXD4/2019/10

Period of Sale: **04/06/2020 to 16/06/2020.**

Sovereign Credit Rating:

Moody's: B1 (stable)
Fitch: B+ (stable)
S&P: B+ (stable)

CPI: (2019=100): 108.60

May Inflation: 5.47%

Interbank rate (12th June 2020): 2.34%

C.B.R (27th May 20): 7.00%

91- Day T-Bill (Latest): 7.26%

182- Day T-Bill (Latest): 8.06 %

364- Day T-Bill (Latest): 9.03%

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Primary Auction Note – June 2020

In June, the Central Bank of Kenya (CBK) is reopening two bonds, a 5-year(**FXD3/2019/5)** and 10-year(**FXD4/2019/10)** Fixed coupon bond in a bid to raise **KES 40Bn** ($ 375.23 Mn). The coupon rates on the 5-year and 10 year bond are **11.492%** and **12.280%** respectively. The bonds attract a withholding tax of **15%** for the 5-Year bond and **10%** on the 10-Year Bond.

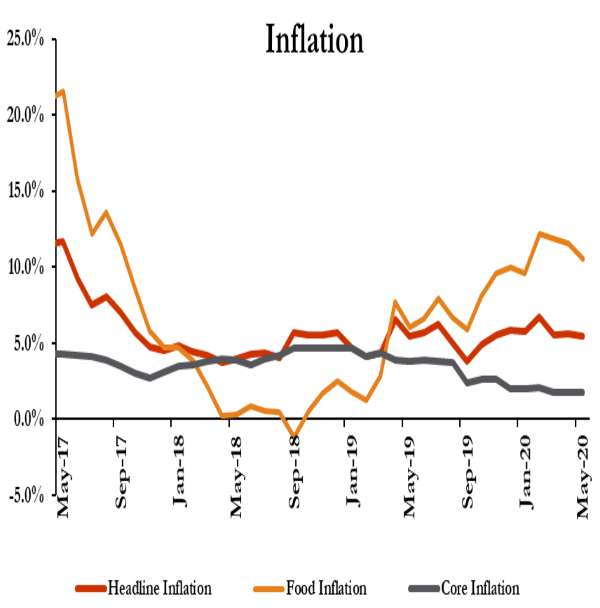
Investors' focus remains on the short end of the yield curve: In the current market environment where concerns over the spread of corona virus remains elevated and interest rate uncertainty prevail, investors are likely to focus on the shorter end of the yield curve. The FXD1/2020/5 is a short term bond making it attractive to investors. We expect the issue to be oversubscribed.

We advise investors to bid within the range of **11.45%** to **11.65%** for the FXD1/2020/5 as demand for the paper is likely to be elevated and CBK is likely to reject aggressive bids. For the FXD4/2019/10, investors should bid within the range of **12.40%** and **12.59%.**

Secondary Bond Market:

In May, the secondary market activity increased substantially. Turnover in May, reversed upwards by **58.9%%** to KES 46.609Bn ($ 437.44Mn) from KES 29.340Bn ($ 273.45Mn) witnessed in March.

April Inflation:



In May, Headline Inflation decreased to **5.47%** down from the **5.62%** recorded in April. The CPI increased by 0.63% from 107.92 in April to 108.60. This increased occurred on the back of a 0.86% increase in the Food and non-alcoholic beverages index.

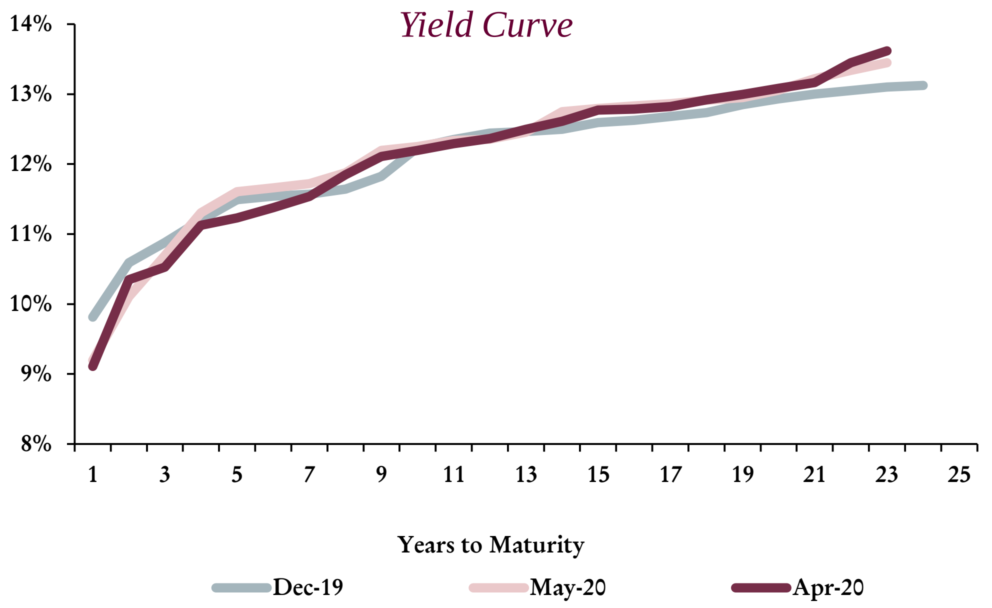
Headline inflation is expected to remain stable on the back of low fuel and food prices. Food supply is likely to increased due to favourable weather conditions experienced during the long rains season. While containment of the locust infestation has been restricted to Northern Kenya, a breach of containment could prove to be a risk to food security and prices.

Interbank

The money market remained relatively liquid during the month. The interbank steadily decreased from 3.99% at 5th May to 2.99% as of the 5th of June.

Over the month, the CBK's Monetary Policy Committee (MPC) maintained the Central Bank Rate at 7.00% with the monetary authority noting that the rate is serving the purpose of cushioning Kenyans against the unprecedented fallout caused by the coronavirus outbreak.

NSE Yield Curve:



The yield curve continued to steepened as short term rates decreased. This is a trend that we expect to continue in the near term. In the current environment of increased investor uncertainty, demand for short-term papers is likely to increase thereby pushing short-term rates lower. Meanwhile, the long end of the curve could move upwards as investors demand higher rates.

Currency:

The Kenya Shilling (KES) appreciated against the greenback over the month of April. The shilling has strengthened by 0.31% against the USD since the end of March. On the 29th of May, the KES closed at a value of KES 106.94/$ from the KES 107.29/$ witnessed at the end of April. On a year-to-date (YTD) basis the Kenya Shilling has depreciated by 5.53% from the KES 101.38 witnessed at the beginning of the year.

CBK's usable foreign exchange reserve increased to USD 8.33 million from USD 7.74 million at the end of April, representing an increase to 4.99 months of import cover from 4.66 months of import cover. The reserves are still sufficient as they remain above the statutory requirements of four months of import cover. The Foreign reserves were improved by foreign inflows from the IMF and World Bank could shore up the reserves. The reserves are likely to continue to decline as the US Dollar appreciates against the shilling.

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