



Primary Auction Note – August 2020

In August, Central Bank of Kenya is auctioning an eleven year infrastructure bond, IFBI/2020/11, in a bid to raise 70 Billion. The period of sale runs from 28/07/2020 to 18/08/2020. The coupon rate is 10.900%.

Demand for the IFBI/2020/11 is likely to be elevated: Since CBK reduced the cash reserve ratio (CRR) from 5.25% to 4.25%, the money market has been awash with liquidity. This money has mainly been channeled to the fixed income markets as investors remain risk averse. Consequently, the T-bill and bond auctions have been oversubscribed, enabling CBK to reject aggressive bids and push interest rates lower.

The tax free infrastructure bond is likely to be attractive to investors thus we expect it to be oversubscribed.

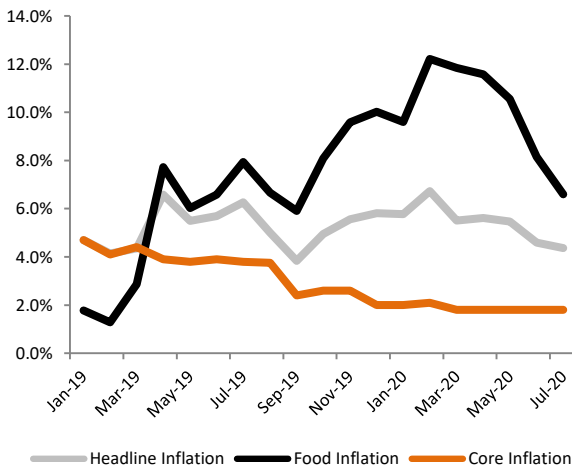
We advise investors to bid within the range of 11.15% to 11.35% for the IFBI/2020/11 as demand for the paper is expected to be elevated and CBK is likely to reject aggressive bids.

Secondary Bond Market:

In July, activity in the secondary market increased. Turnover increased by 20.6% to KES 65.812Bn (\$609.97Mn) from KES 54.57Bn (\$ 510.22Mn) witnessed in June.

July Inflation:

Inflation



In July, Headline Inflation decreased to **4.36%** down from the **4.59%** recorded in June. The CPI increased by 0.08% from 108.27 in June to 108.35. This decrease in inflation occurred on the back of a 1.5% decrease in the food inflation.

Headline inflation is expected to remain stable on the back of low food prices. Food supply is likely to increase due to the relaxation of cessation of movement restrictions.

August 13, 2020

RECOMMENDATION

11-Year IFBI/2020/11

Bid 11.15% to 11.35%

Period of Sale: **28/07/2020 to 18/08/2020.**

Sovereign Credit Rating:

Moody's: B1 (stable)

Fitch: B+ (stable)

S&P: B+ (stable)

CPI:
(2019=100):
108.35

July Inflation: 4.36%

Interbank rate: 1.96%

C.B.R (29th July 20): 7.00%

Analyst

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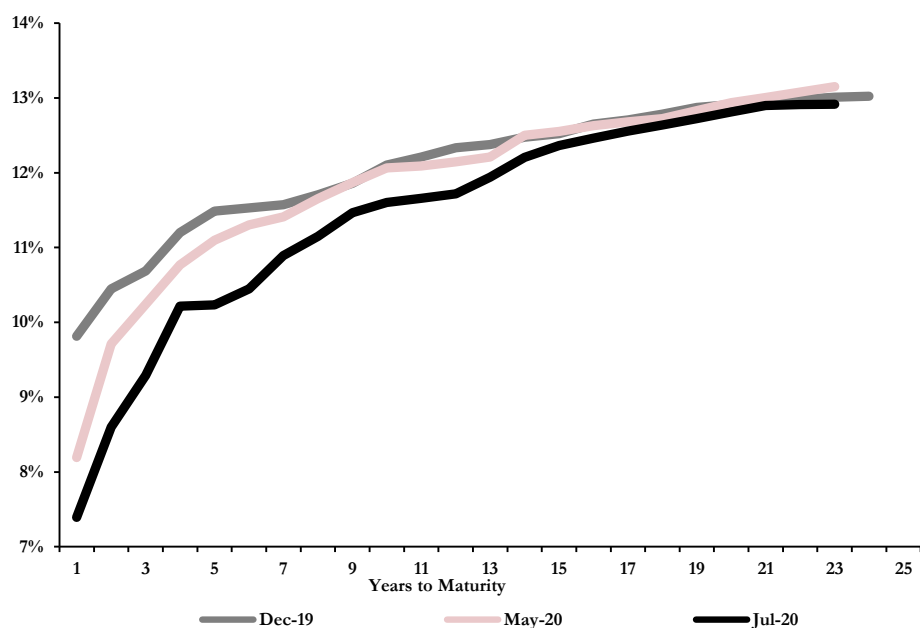
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Interbank

The money market remained relatively liquid during the month. The interbank steadily decreased from 3.25% at 3rd July to 3.01% as of the 3rd of August, an indicator of the elevated liquidity in the market.

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 steepen 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.

Currency:

The Kenya Shilling (KES) depreciated against the greenback over the month of July. The shilling has weakened by 1.12% against the USD since the end of June. On the 30th of July, the KES closed at a value of KES 107.71/\$ from the KES 106.52/\$ witnessed at the end of June.

CBK's usable foreign exchange reserve increased to USD 9.36 million from USD 9.26 million at the beginning of June, representing an increase to 5.66 months of import cover from 5.56 months of import cover. The reserves are still sufficient as they remain above the statutory requirements of four months of import cover.

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