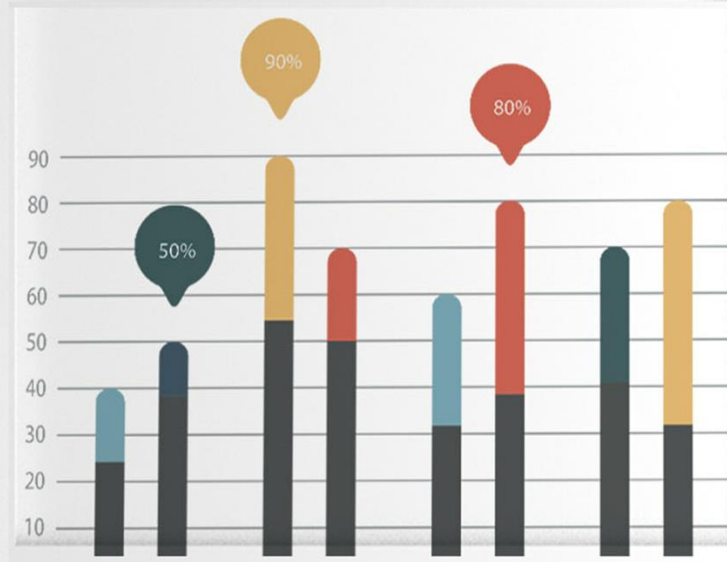




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AIB-AXYS Africa Primary Bond Auction Note



AIB-AXYS August 2024 Primary Bond Auction Note

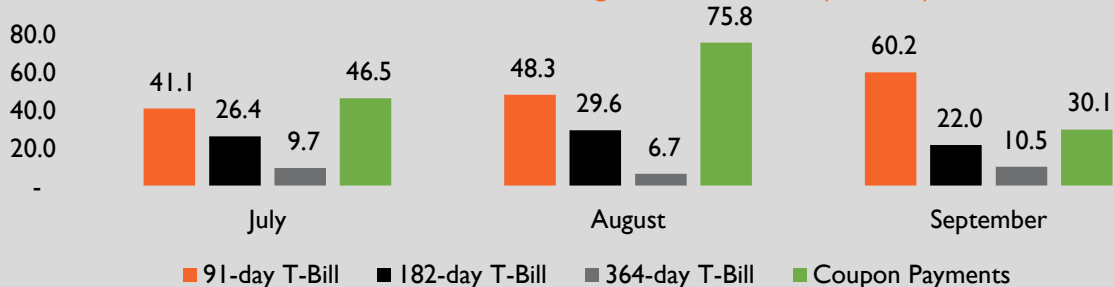
Summary – “Game of Bargains”

- The Exchequer is seeking to raise **KES 50.0Bn** through the re-opening of the **IFBI/2023/6.5** and **IFBI/2023/17** treasury bonds earmarked for funding of infrastructure projects in the fiscal year 2025 budget.
- The **Central Bank of Kenya** looks keen to tap inexpensive funding following a streak of undersubscribed auctions and rising coupon repayments. The Monetary Policy Committee’s recent decision to lower the Central Bank Rate by 25bps to 12.75% could dampen investors’ push for higher yields.
- The **weighted average tenor to maturity of the Infrastructure Treasury Bonds (IFB) series stands at c. 9.7 years**. Further, the government has approximately **KES 160.40Bn** worth of Treasury Bills and coupon repayments due in August 2024.
- We expect the bulk of investor demand to be moderately skewed to shorter-duration infrastructure bond as investors weigh the medium-term risk landscape.
- Our recommended competitive bidding yields on each paper are indicated on the Table I on the right.

Table 1: Key Auction Highlights

IFBI/2023/6.5 & IFBI/2023/17	
Issuer:	Republic of Kenya
Total Amount:	KES 50 billion
Purpose:	Funding of infrastructure projects in the FY24/2025
Tenor:	IFBI/2023/6.5 - (5.8 Years) – Re-opened IFBI/2023/17 - (15.7 Years) – Re-opened
Coupon Rate:	IFBI/2023/6.5 - 17.9327% IFBI/2023/17 - 14.3990%
Price Quote:	Discounted/Premium/Par
Period of sale:	25-July-24 to 14-August-24
Minimum Amount:	KES 50,000.00
Taxation:	IFBI/2023/6.5 – Tax Exempt IFBI/2023/17 – Tax Exempt
Maturity Dates:	IFBI/2023/6.5 – 06-May-2030 IFBI/2023/17 – 20-February-2040
Non-competitive bids per CSD A/C:	Maximum KES 50 million per CSD A/c
Competitive bid per CSD A/C:	Minimum KES 2 million per CDS A/c
AIB-AXYS Competitive Bidding Range Recommendation:	IFBI/2023/6.5– 17.650% – 18.150% IFBI/2023/17 – 16.450% – 16.950%

Chart I: Government Obligations Q3 2024 (KES Bn)



Source: CBK, AIB-AXYS Africa Research

Term Structure of Interest Rates

The yield curve declined progressively throughout July 2024, reflecting easing market risk sentiment. Six-year yields for instance softened 199bps YTD, whereas other medium-term yields appear to be on a similar trend. We expect this yield compression to continue gradually rather than abruptly, influenced by ongoing fiscal consolidation efforts, monetary policy adjustments, and evolving global risk sentiment. In the near term, yields are likely to stabilize at current levels. However, we anticipate some volatility in the curve's mid-section as investors price in mixed medium-term expectations. Despite these fluctuations, we project real yields to remain firmly positive over the medium-term, maintaining their attractiveness to investors.

Market Liquidity

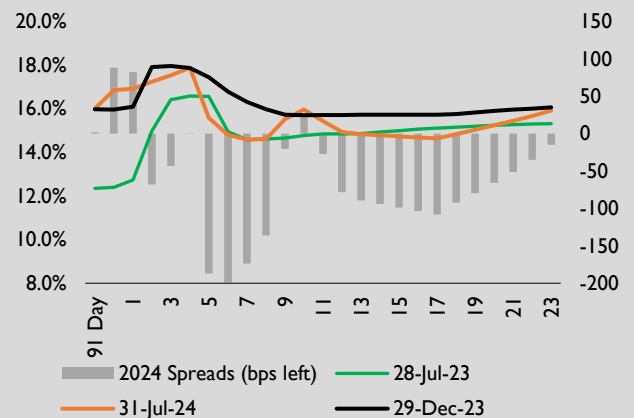
Interbank lending activity over the month of July increased by 43.7% m/m supported by a corresponding decline in the average lending rate by 89bps m/m to 13.18%. The heightened activity can be attributed to the Central Bank of Kenya's recent monetary policy reforms, specifically the lowering of the benchmark rate by 25bps on August 6th 2024, and the earlier narrowing of the interbank interest-rate corridor from ± 250 bps to ± 150 bps around the benchmark policy rate. We expect interbank rates to align closely with the midpoint of the new interest rate corridor, dipping towards 12.75% in the near term.

Price Levels

Latest statistics from the Kenya National Bureau of Statistics (KNBS) indicate that the headline inflation rate as measured by the consumer price index (CPI) decelerated by 30bps to 4.3% in July 2024 from 4.6% recorded in June 2024 – affirming the disinflationary trend observed in recent months. The latest figure marks an improvement from a similar period last year when the headline inflation rate averaged at 7.3%. This in our view, points to moderating price pressures in the consumer economy.

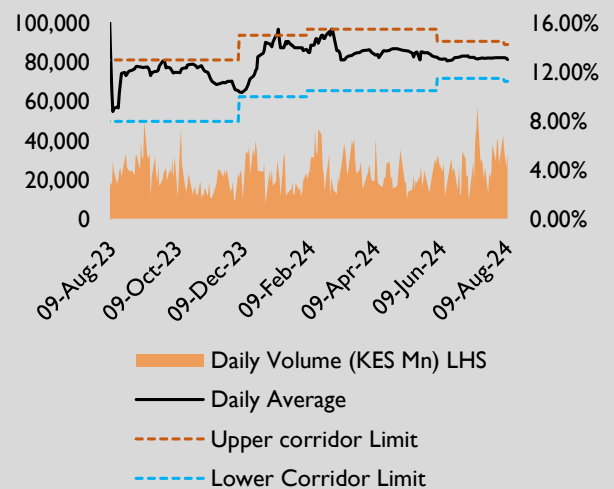
The slowdown in the headline inflation rate came on the back of a substantial 160bps decline in fuel inflation to 4.5% from 6.4% in June 2024. Food inflation maintained at 5.6%. Core inflation (Non-Food Non-Fuel Inflation) eased 10bps to 3.3% - pointing to an easing of underlying price pressures in the real sector.

Chart 2: Domestic Yield Curve Evolution



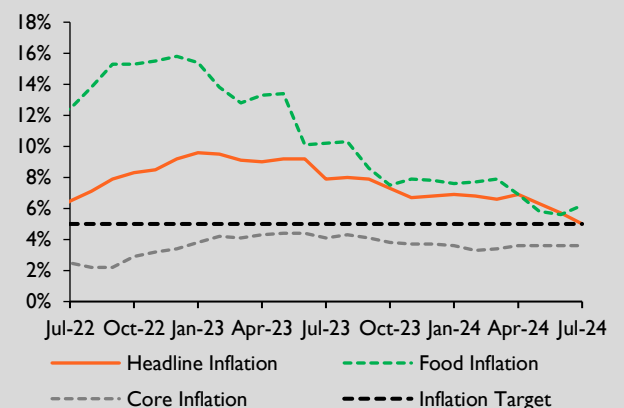
Source: CBK, AIB-AXYS Africa Research

Chart 3: Interbank Rate and Volumes



Source: CBK, AIB-AXYS Africa Research

Chart 4: Price Levels

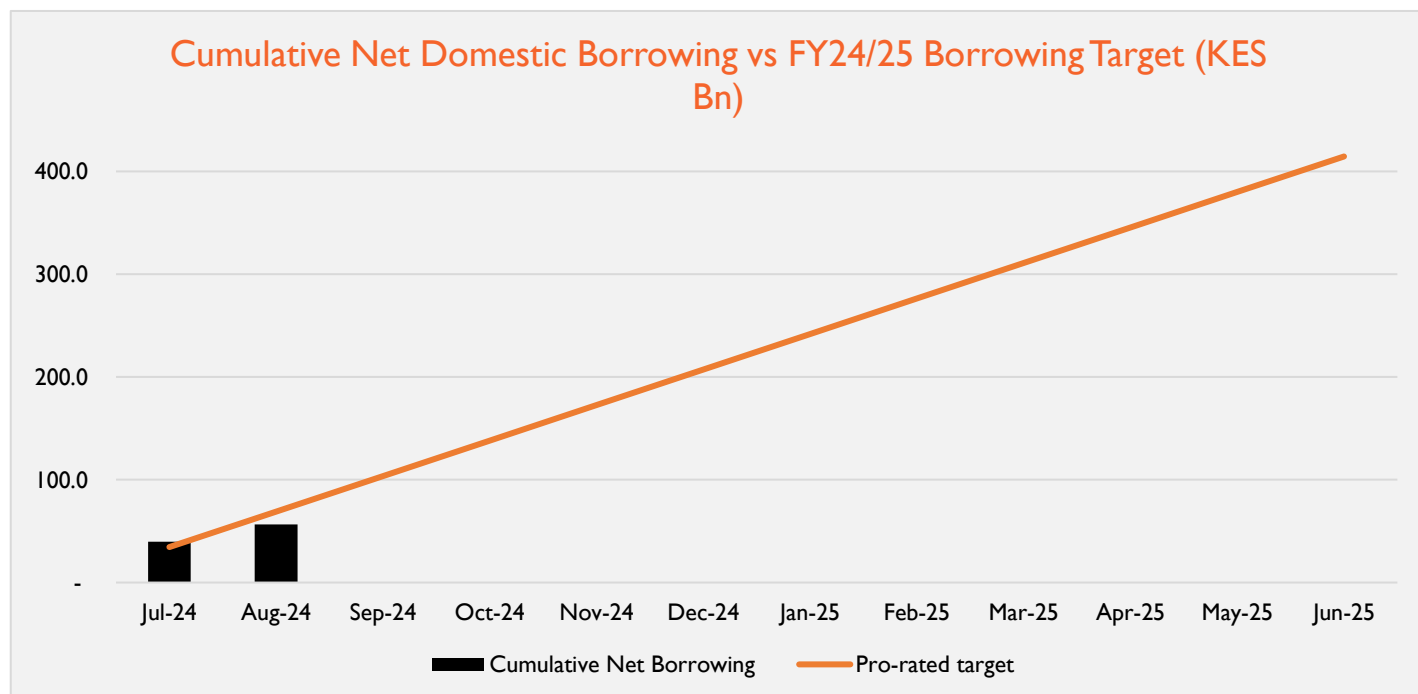


Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

Table 2: Comparable Bond Duration Yields

Issue No.	Maturity Date	Remaining Tenor in Years	Outstanding Amount KES Mn.	Fixed Coupon Rate	Implied Yield to Maturity
Comparable Yields for the IFBI/2023/6.5 - (5.8 Years)					
IFBI/2020/009	02-Apr-2029	4.7	78,973.6	10.8500%	15.5057%
IFBI/2023/6.5	06-May-2030	5.8	112,732.9	17.9327%	17.1167%
IFBI/2023/007	10-Jun-2030	5.9	213,251.6	15.8370%	16.0144%
Comparable Yields for the IFBI/2023/17 - (15.6 Years)					
IFBI/2021/018	21-Mar-2039	14.7	81,785.6	12.6670%	13.8939%
IFBI/2023/017	20-Feb-2040	15.6	68,196.5	14.3990%	13.3444%
IFBI/2022/018	21-May-2040	15.8	79,827.5	13.7420%	14.9361%

Source: CBK, AIB-AXYS Africa Research



Source: CBK, AIB-AXYS Africa Research

	Offered Amount (KES, Mn)	Paper(s)	Duration at Issuance (yrs)	Performance Rate	Coupon Rate (%)	Market Average Yield (%)	Accepted Average Yield (%)	Deviation from Yield Curve	
Jul-23	40,000	FXDI/2016/010 - Re-open	3.2	129.4%	16.328%	16.582%	16.328%	▲ 208 bps	
		FXDI/2023/005 - New Issue	5.0		16.844%	17.026%	16.844%	▲ 248 bps	
	20,000	FXDI/2016/010 - Tapsale	3.2	222.1%	16.328%				
		FXDI/2023/005 - Tapsale	5.0		16.844%				
Aug-23	40,000	FXDI/2023/002 - New Issue	2.0	132.5%	16.972%	17.555%	16.972%	▲ 64 bps	
		FXDI/2023/005 - Re-open	4.9		16.844%	18.165%	17.954%	▲ 173 bps	
	20,000	FXDI/2023/002 - Tapsale	1.9	118.0%	16.972%				
		FXDI/2023/005 - Tapsale	4.9		16.844%				
Sep-23	35,000	FXDI/2023/002 - New Issue	1.9	97.2%	16.972%	17.583%	17.454%	▲ 45 bps	
		FXDI/2016/010 - Re-open	2.9		15.039%	18.487%	17.927%	▲ 55 bps	
	15,000	FXDI/2023/002 - Tapsale	1.9	23.0%	16.972%				
		FXDI/2016/010 - Tapsale	2.9		15.039%				
Oct-23	35,000	FXDI/2023/002 - Re-open	1.9	35.1%	16.972%	17.964%	17.736%	▼ (4 bps)	
		FXDI/2023/005 - Re-open	4.8		16.844%	18.465%	17.992%	▲ 34 bps	
Nov-23	50,000	IFBI/2023/6.5 - New Issue	6.5	177.8%	17.933%	18.104%	17.933%	▲ 40 bps	
Dec-23	25,000	IFBI/2023/6.5 - Tapsale	6.5	191.5%	17.933%				
Jan-24	35,000	FXDI/2024/003 - New Issue	3	106.1%	18.385%	18.770%	18.385%	▲ 43 bps	
		FXDI/2024/005 - Re-open	4.5		16.844%	19.068%	18.770%	▲ 111 bps	
	15,000	FXDI/2024/003 - Tap Sale	3	78.4%	18.385%				
		FXDI/2024/005 - Tap Sale	4.5		16.844%				
Feb-24	70,000	IFBI/2024/8.5 - New Issue	6.8	412.4%	18.461%	18.622%	18.461%	▲ 125 bps	
Mar-24	40,000	FXDI/2024/003 - Re-open	2.9	107.7%	18.385%	18.516%	18.422%	▲ 11 bps	
		FXDI/2023/005 - Re-open	4.4		16.844%	18.595%	18.410%	▼ (34 bps)	
		FXDI/2024/010 - New	10		16.000%	17.759%	16.519%	▲ 53 bps	
Apr-24	25,000	FXDI/2023/005 - Tap Sale	4.4	149.3%	16.844%		18.410%		
		FXDI/2024/010 - Tap Sale	9.9		16.000%		16.519%		
	40,000	FXDI/2023/002 - Re-open	1.4		16.972%	17.147%	16.992%	▼ (54 bps)	
May-24	25,000	FXDI/2024/010 - Re-opened	9.9	16.668%	16.000%	16.668%	16.227%	▲ 7 bps	
	15,000	FXDI/2024/010 - Tap Sale	9.9	46.8%	16.000%				
Jun-24	30,000	FXDI/2023/002 - Re-opened	1.2	102.9%	16.972%	17.187%	17.123%	▲ 37 bps	
		FXDI/2024/003 - Re-opened	2.6		18.385%	17.627%	17.586%	▲ 40 bps	
	30,000	FXDI/2023/005 - Re-opened	4.1		138.5%	16.844%	18.277%	18.165%	▲ 86 bps
		FXDI/2023/010 - Re-opened	8.7			14.151%	16.571%	16.392%	▲ 163 bps
	20,000	FXDI/2023/002 - Tap Sale	1.2		125.7%	16.972%			
		FXDI/2024/003 - Tap Sale	2.6			18.385%			
FXDI/2023/005 - Tap Sale		4.1	16.844%						
Jul-24	20,000	FXDI/2023/002 - Tap Sale	1.2	2.4%	16.972%				
		FXDI/2024/010 - Re-opened	9.7		16.000%	16.636%	16.592%	▲ 166 bps	
	30,000	FXDI/2008/020 - Re-opened	3.9		48.9%	13.750%	18.475%	18.290%	▲ 53 bps
Average*	38,462		4.5	123.5%	16.728%	17.819%	17.542%	▲ 73 bps	

Source: CBK, AIB-AXYS Research, * - Yearly average results excludes tap sales



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