



Primary Auction Note – September 2022

The Central Bank is looking to raise a total of **KES 50.00Bn** for budgetary support through the re-opening of **FXDI/2022/10** and **FXDI/2022/15**. The bonds will have a coupon rate of 13.49% and 13.94%, with tenors of 9.60 and 14.50 years, respectively.

We expect an oversubscription largely on account of improved liquidity in the money markets coupled with the passing of the cloud of uncertainty following the conclusion of the election petitions and subsequent swearing-in. Additionally, improved liquidity in the last few weeks, as observed in two weeks of T-Bill oversubscription, is likely to drive higher subscription rates. We expect the slowed uptake by banks to be substituted with a renewed interest from international investors who we also suspect have been staying away from the local primary market on election-related risks. However, the continued depreciation of the shilling is likely to limit foreign investors' participation.

Given the **KES 28.87Bn** in upcoming T-Bond coupon payments in the month of September coupled with budgetary needs, we foresee increased pressure on the government to accept expensive bids. We foresee a higher than the YTD average bid-to-cover ratio indicating a high interest in the issue. However, the acceptance is likely to continue rising later in the fiscal year as the new government will probably issue supplementary budgets as they adjust spending to suit their manifesto.

We foresee investors placing aggressive bids on both papers given the prevailing risks occasioned by;

- (i) **Elevated Local and Global Inflation** – We foresee the current high global and local inflation pushing investors to seek better real returns by placing aggressive bids as compensation for the rising inflation. Local inflation for the month of August was at a recent high of 8.50% with fears of edging up even further.
- (ii) **Higher Kenya Eurobond YTM** - Government debt sustainability questions given the rising yields in the Eurobonds market which might see foreign investors sit out or go slow on this issue as has been the trend in the last few issues. However, the Kenya Eurobond yields have cooled –off in the last week and are likely to continue declining as election-driven risks dissipate.

Summary Bidding Guidance:

Issue No	Outstanding Amount	Next Coupon Payment	Coupon Rate	Current YTM	Bidding Range
FXDI/2022/10	KES 34.50Bn	14/11/ 2022	13.49%	13.68%	13.75%-13.89%
FXDI/2022/15	KES 43.58Bn	24/10/ 2022	12.30%	13.94%	13.90%-13.99%

September 12th 2022

RECOMMENDATIONS:

FXDI/2022/10

Bid: 13.75% – 13.89%

FXDI/2022/15

Bid: 13.90% – 13.99%

Period of Sale: 25/08/2022 to 14/09/2022

Sovereign Credit Rating:

Moody's: B2 (negative)

Fitch: B+ (negative)

S&P: B (stable)

August CPI: (2019=100): 125.58

August Inflation: 8.50%

Interbank Rate (9th September 2022): 4.07%

C.B.R (July 2022): 7.50%

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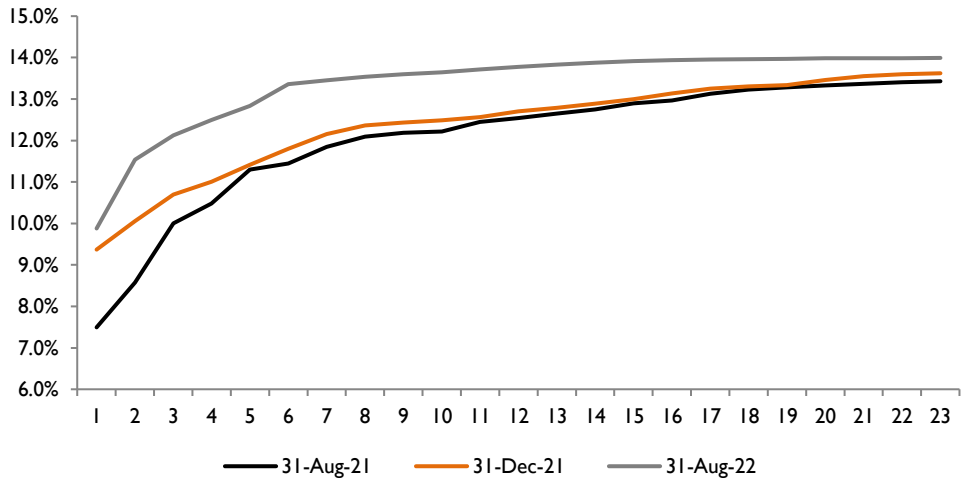
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Interbank

During the month of August, liquidity in the money markets eased supported by government payments. A similar trend has been observed so far in the month of September. The mostly interbank rates remained above 5.00% levels to close at **5.00%** on 31st August from **5.47%** recorded on 31st July.

CBK's Monetary Policy Committee (MPC) maintained the Central Bank rate at 7.50%, in the July meeting. The committee is under pressure to hike further given the need to tame soaring inflation, 8.305 in July, which is now above the CBK's upper target of 7.50%. The committee will meet again on 29th September 2022.

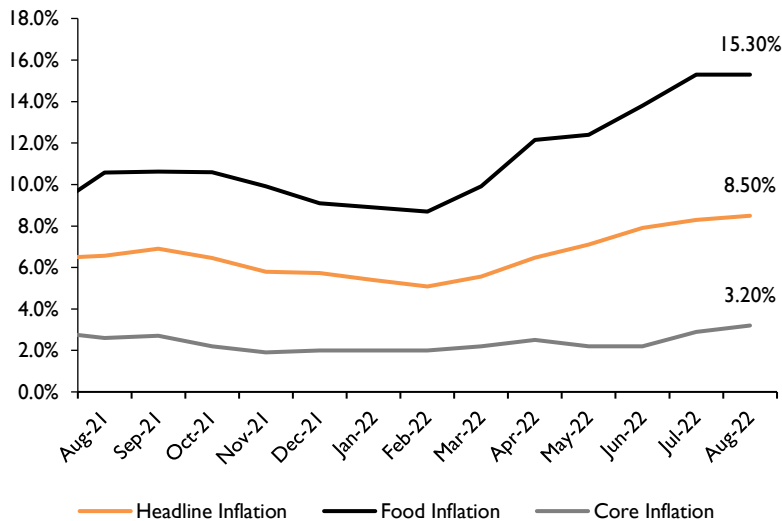
NSE Implied Yield Curve



In the month of August, yields declined with an increase in the 2 to 5-year papers. 4-year papers increased the most by 22bps while the 11-year papers declined the most by 19bps. The 10 and 15-year papers increased by 2bps m/m.

We expect the yield curve to experience upward pressure across medium and long-term tenors, with a slight easing in the short-term, as investors seek higher premiums on prevailing political and pandemic-related risks.

August Inflation:



- In August, headline inflation increased to **8.50%** from **8.30%** in July. The CPI increased 0.06% to **125.58** in August 2022 from **125.05** in July 2022
- Food Inflation Meanwhile, the food, and non-alcoholic beverages index remained at **15.30%** similar to the previous month. Additionally, the month-to-month Food and non-alcoholic beverages index increased by 0.50% between August and July 2022.
- Headline inflation remained above CBK's upper target of 7.50% this was due to the increase in fuel which caused an increase in food. We expect shortages in the supply of commodities to continue adding pressure on inflation.

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