



Primary Auction Note – May 2022

The Central Bank is looking to raise a total of **KES 60.00Bn** for budgetary support in the current fiscal year through the issuance of: **FXDI/2022/10**, and re-opening of **FXDI/2021/25**. The coupon rate will be market determined for **FXDI/2022/10** while **FXDI/2021/25** will have a rate of **13.92%**. Effective tenors for both bonds are 10.00 years and 24.10 years, respectively. The bonds will be on sale between 28/04/2022 and 10/05/2022.

Adequate money market liquidity: During the month of April, the money markets remained generally liquid with the interbank rate remaining sub 5.00%. Movements in liquidity were buoyed by government payments balanced by CBK’s open market operations.

We expect the issue to be oversubscribed as seen in the recent trend of increased interest in longer- dated papers (10-years and above). Due to the increased political and pandemic related risks investors are likely to consider longer tenors.

For the month of May, the government has a total of **KES 131.45Bn** in upcoming T-bill maturities and T-bond Coupon payments. Therefore, the government is likely to come under pressure to accept expensive bids. Government borrowing is currently **2.80%** ahead of its prorated target having a net borrowing position of **KES 521.91Bn** in FY2021/22. Expected increase in acceptance levels, as seen in the April issues, coupled with similar issues current YTM shows a moderately aggressive tone should be adopted in application.

Secondary Bond Market:

During the month of April, the secondary market activity cooled with the turnover decreasing by **18.04%** to **KES 70.92Bn (\$611.38Mn)** from **KES 86.53Bn (\$745.95Mn)** witnessed in March. IFBs were again the largest drivers of trades as investors hunt for higher risk adjusted returns. The FTSE bond index closed the month at **KES 94.79** lower than **KES 95.67** recorded at the end of March.

Summary Bidding Guidance:

Issue No	Total Value	Next Coupon Payment	Coupon rate	Bidding Range
FXDI/2022/10	KES 60.00Bn	Nov 14 th , 2022	Market Determined	13.14-13.49%
FXDI/2021/25		Nov 07 th , 2022	13.92%	14.24-14.49%

May 9th, 2022

RECOMMENDATIONS:

FXDI/2022/10

Bid: 13.14 – 13.49%

FXDI/2021/25

Bid: 14.24% -14.49%

Period of Sale: 28/04/2022 to 10/05/2022

Sovereign Credit Rating:

Moody’s: B2 (negative)

Fitch: B+ (negative)

S&P: B (stable)

April CPI: (2019=100): 122.17

April Inflation: 6.47%

Interbank Rate (30th Apr 2022): 4.89%

C.B.R (May 2022): 7.00%

Analyst

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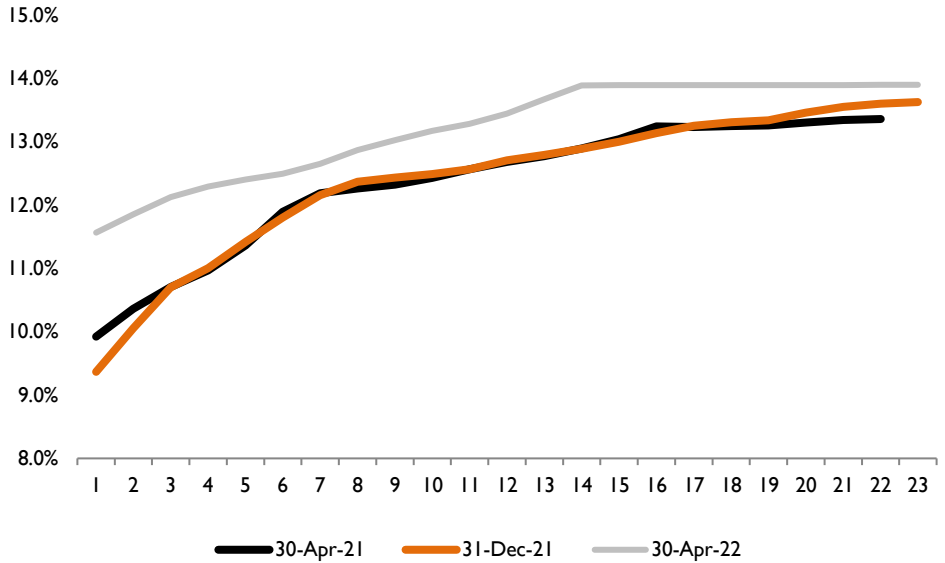
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Interbank

During the month of March, liquidity in the money markets remained relatively stable, supported by government payments and open market operations by CBK. The interbank rates remained sub 5.00% through out the month with the interbank rate declined to close the month at **4.89%** on 30th April from the **5.02%** recorded on 31st March.

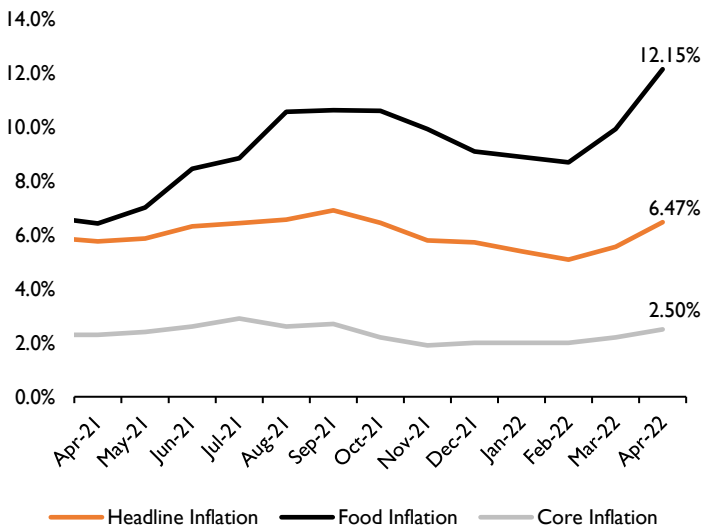
CBK's Monetary Policy Committee (MPC) has maintained the Central Bank rate at 7.00%, since March 2020, as it sought to support economic growth, and inflation remained below its upper target of 7.5%. The committee will be meeting again on 30th May 2022.

NSE Yield Curve



During the month of April, rates increased across the yield curve with 10-year papers gaining by 14.80bps, while the 24-year papers gained by 2.08bps. We expect the yield curve to experience an upward pressure across all tenors as investors seek higher premiums on prevailing political and pandemic related risks.

April Inflation:



- In April, headline inflation increased to **6.47%** from **5.56%** in March. The CPI increased **6.69%** to 122.17 in April 2022 from 120.13 in March 2022.
- Meanwhile, the food and non-alcoholic beverages index increased to **12.15%** from **9.92%** y/y. Additionally, the prices of food items in April 2022 were relatively higher compared to prices of food items in April 2021.
- We expect headline inflation to remain below CBK's upper target of 7.5%. However, anticipated shortages in the supply of farm inputs, maize and wheat are likely to exert pressure on food prices.

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