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AIB:AXYS
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AIB-AXYS Africa Primary Bond Auction Note



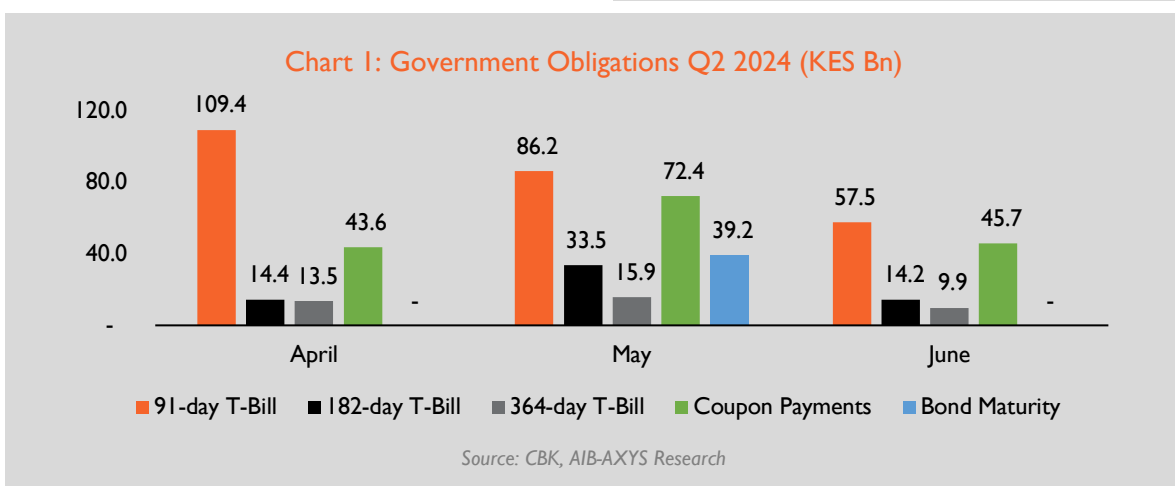
AIB-AXYS April 2024 Primary Bond Auction Note

Summary – “A Tug of War”

- The Exchequer is seeking to raise KES 40.0Bn through the re-opening of the FXDI/2023/002 (1.4 years) FXD series bond earmarked for budgetary support.
- **The Exchequer appears determined to grind yields lower amid an easing risk landscape, even as investors test the assertiveness of the CBK.** We anticipate wider polarity between the weighted average rate of investor bids and the weighted average rate of accepted yields.
- **The weighted average tenor to maturity of the Ordinary FXD Bond Series stands at c. 7.7 years.** Further, while the government remained 7.6% ahead of its pro-rated net domestic financing targets as of March 2024, we expect the CBK to reject aggressive bids – yet only for a limited period.
- **We expect the demand on this auctioned paper to be mildly subscribed** as investors prospect for longer duration bonds ahead.
- **From our analysis of prevailing conditions, we expect the weighted average yield of accepted bids on the FXDI/2023/002 to range between 17.09% - 17.29%.**

Key Highlights

FXDI/2023/002 (Re-opening)	
Issuer:	Republic of Kenya
Total Amount:	KES 40 billion
Purpose:	Budgetary Support
Tenor:	1.4Yrs
Coupon:	16.9723%
Price Quote:	Discounted/Premium/Par
Period of sale:	28/03/2024 to 17/04/2024
Minimum Amount:	KES 50,000.00
Taxation:	Withholding Tax on discount/interest at 15%
Redemption Date:	18 th August 2025
Classification:	Benchmark bond
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 CSD A/c
AIB-AXYS Competitive Bidding Range Recommendation:	17.09% - 17.29%



Term Structure of Interest Rates

The yield curve began showing signs of deceleration and even notable declines on some sections at the short end of the curve. We attribute this to easing risk sentiment following the successful refinancing of the 2024 Eurobond repayment, the subsequent exchange rate strengthening and easing price pressures. Across the spot market, yields declined fastest on the 91-day rate by a cumulative 96bps m/m to 15.73%, whereas in the forward market, the 10-year yield soared the highest by a cumulative 31bps m/m to 16.30% following March 2024's Bond Auction. We anticipate the yield curve to flatten progressively as investors adjust short-term yields to the easing risk landscape.

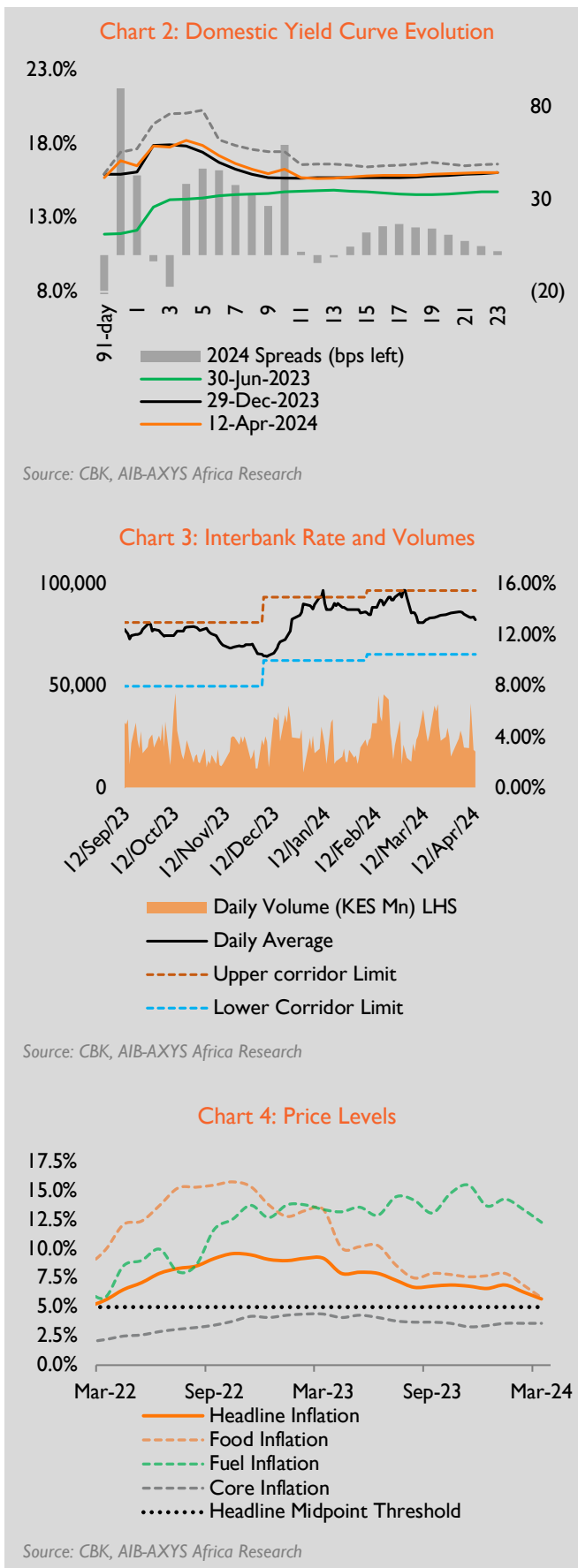
Market Liquidity

Liquidity conditions across the interbank market improved progressively over the month – primarily owing to a tempered risk sentiment and improved money supply conditions. The symmetric corridor of ±250bps around the Central Bank Rate continues to afford lower rate volatility amenable to sustained interbank lending activity. We anticipate that interbank rates will approach the midpoint threshold of the interest rate corridor limit of 13.0% over the near term as funding costs and term yields begin to ease.

Price Levels

Headline inflation decelerated markedly to 5.7% in March 2024 from 6.3% a month prior. The disinflation came largely on the back of a steeper deceleration in food prices in the period. Food inflation rates decelerated by 110bps m/m to 5.8% in March 2024 following replenished supplies over the period.

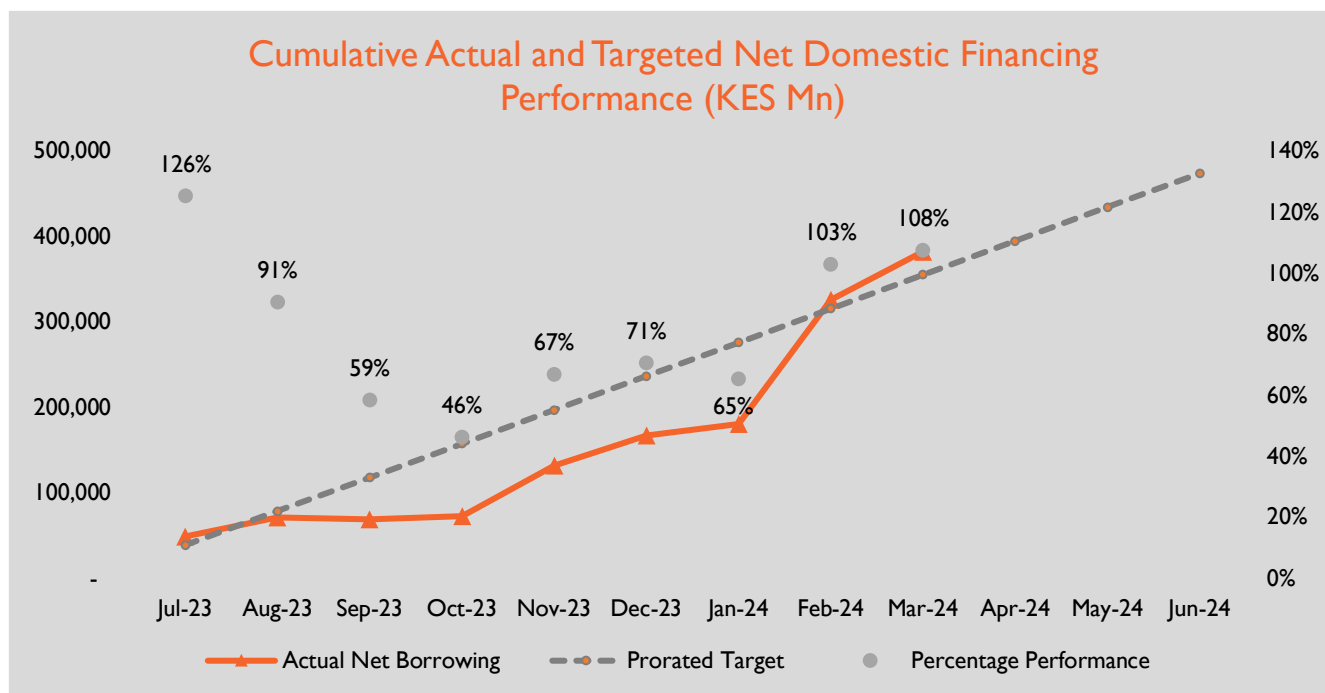
Fuel prices, similarly, decelerated notably by 110bps to 12.3% - largely on account of stable landing costs, aided by a stronger shilling. Core inflation (Non-Food-Non-Fuel) however stagnated at 3.6% - pointing to persistent underlying price pressures. We expect price pressures to be benign over the medium term, aided by the positive effects of monetary policy tightening and the passthrough effects of a stronger shilling. However, we expect price levels to remain fragile and prone to global geoeconomic shocks.



Comparable Duration Bonds

Issue No.	Maturity Date	Tenor in years	Outstanding Amount (KES'Mn')	Fixed Coupon Rate	Implied Yield to Maturity	Modified Duration
FXD1/2009/015	7-Oct-2024	0.5	31,952.45	12.5000%	17.0742%	0.4
FXD3/2019/005	9-Dec-2024	0.7	44,830.50	11.4920%	16.8639%	0.6
FXD1/2010/015	10-Mar-2025	0.9	27,693.90	10.2500%	17.2743%	0.8
FXD1/2022/003	7-Apr-2025	1.0	60,605.75	11.7660%	16.9614%	0.9
FXD1/2020/005	5-May-2025	1.1	104,518.70	11.6670%	17.1583%	0.9
FXD1/2023/002	18-Aug-2025	1.4	50,604.40	16.9723%	17.5325%	1.1
FXD2/2010/015	8-Dec-2025	1.7	25,199.80	9.0000%	17.7105%	1.4
FXD1/2023/003	11-May-2026	2.1	76,537.95	14.2280%	17.9294%	1.6
FXD1/2016/010	17-Aug-2026	2.3	74,495.75	15.0390%	18.1762%	1.8

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
Apr-23	20,000	FXD2/2018/010 - Re-open	5.8	17.9%	12.502%	14.393%	14.366%	▲ 64 bps
	10,000	IFBI/2023/017 - Tapsale	17.0	51.2%	14.399%			
	30,000	FXD1/2022/003 - Re-open	2.1		11.766%	13.839%	13.471%	▲ 66 bps
		FXD1/2019/015 - Canceled	10.9		12.857%	-	-	-
				24.4%				
May-23	20,000	FXD1/2023/003 - New Issue	3.0	103.7%	14.228%	14.259%	14.228%	▲ 89 bps
	10,000	FXD1/2023/003 - Tapsale	3.0	106.0%	14.228%			
	20,000	FXD1/2023/003 - Tapsale	3.0	136.0%	14.228%			
Jun-23	60,000	IFBI/2023/007 - New Issue	7.0	367.5%	15.857%	15.857%	15.837%	▲ 148 bps
	15,000	FXD1/2023/003 - Tapsale	3.0	123.7%	14.228%			
Jul-23	40,000	FXD1/2016/010 - Re-open	3.2		16.328%	16.582%	16.328%	▲ 208 bps
		FXD1/2023/005 - New Issue	5.0		16.844%	17.026%	16.844%	▲ 248 bps
				129.4%				
	20,000	FXD1/2016/010 - Tapsale	3.2		16.328%			
					16.844%			
				222.1%				
Aug-23	40,000	FXD1/2023/002 - New Issue	2.0		16.972%	17.555%	16.972%	▲ 64 bps
		FXD1/2023/005 - Re-open	4.9		16.844%	18.165%	17.954%	▲ 173 bps
				132.5%				
	20,000	FXD1/2023/002 - Tapsale	1.9		16.972%			
					16.844%			
				118.0%				
Sep-23	35,000	FXD1/2023/002 - New Issue	1.9		16.972%	17.583%	17.454%	▲ 45 bps
		FXD1/2016/010 - Re-open	2.9		15.039%	18.487%	17.927%	▲ 55 bps
				97.2%				
	15,000	FXD1/2023/002 - Tapsale	1.9		16.972%			
		FXD1/2016/010 - Tapsale	2.9		15.039%			
				23.0%				
Oct-23	35,000	FXD1/2023/002 - Re-open	1.9		16.972%	17.964%	17.736%	▼ (4 bps)
		FXD1/2023/005 - Re-open	4.8		16.844%	18.465%	17.992%	▲ 34 bps
				35.1%				
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	FXD1/2024/003 - New Issue	3		18.385%	18.770%	18.385%	▲ 43 bps
		FXD1/2024/005 - Re-open	4.5		16.844%	19.068%	18.770%	▲ 111 bps
				106.1%				
	15,000	FXD1/2024/003 - Tap Sale	3		18.385%			
		FXD1/2024/005 - Tap Sale	4.5		16.844%			
				78.4%				
Feb-24	70,000	IFBI/2024/8.5 - New Issue	6.8		18.461%	18.622%	18.461%	▲ 125 bps
				412.4%				
Mar-24	40,000	FXD1/2024/003 - Re-open	2.9	107.7%	18.385%	18.516%	18.422%	▲ 11 bps
		FXD1/2023/005 - Re-open	4.4		16.844%	18.595%	18.410%	▼ (34 bps)
		FXD1/2024/010 - New	10		16.000%	17.759%	16.519%	▲ 53 bps
				149.3%				
Average*	39,583		5.1	139.8%	16.317%	17.348%	17.053%	▲ 81 bps

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



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