



Primary Auction Note – June 2022

The Central Bank is looking to raise a total of **KES 75.00Bn** for funding infrastructure projects in the current fiscal year through the issuance of **IFBI/2022/18**. The coupon rate will be market-determined, with a tenor of 18 years and an effective duration of 13.5 Years. The bond will be on sale between 23/05/2022 and 07/06/2022.

Adequate money market liquidity: During May, 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) and the tax-free nature of IFB issues. Due to the increased political and pandemic related risks investors are likely to prefer longer tenors. Similarly, we expect aggressive bidding driven by investors’ increased preference for higher risk-adjusted returns.

In June, the government has a total of **KES 123.67Bn** 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 **1.46%** behind its prorated target having a net borrowing position of **KES 561.06Bn** in FY2021/22. An expected increase in acceptance levels, after the previous issues’ undersubscription and subsequent tap-sale, coupled with similar papers’ current YTM advocate for the application of a moderately aggressive tone.

Secondary Bond Market:

During May, the secondary market activity cooled with the turnover decreasing by **17.41%** to **KES 58.57Bn (\$611.38Mn)** from **KES 70.92Bn (\$504.91Mn)** witnessed in April. 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 94.83** recorded at the end of April.

Summary Bidding Guidance:

Issue No	Total Value	Next Coupon Payment	Coupon rate	Bidding Range
IFBI/2022/18	KES 75.00Bn	Dec 12 th , 2022	Market Determined	13.40 – 13.79%

June 6th, 2022

RECOMMENDATIONS:

IFBI/2022/18

Bid: 13.40%– 13.79%

Period of Sale: 23/05/2022 to 07/06/2022

Sovereign Credit Rating:

Moody’s: B2 (negative)

Fitch: B+ (negative)

S&P: B (stable)

May CPI: (2019=100): 123.12

May Inflation: 7.10%

Interbank Rate (31st May 2022): 4.76%

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

Analyst

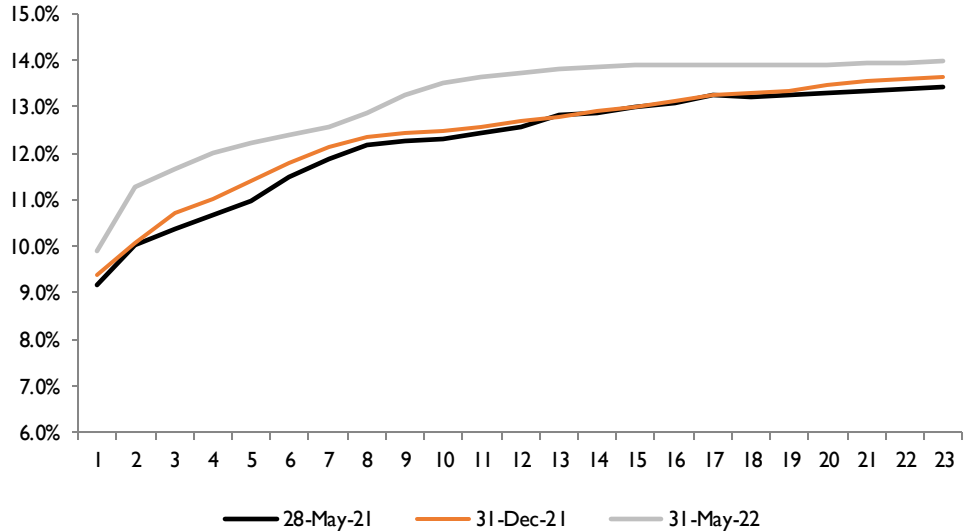
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Interbank

During April, 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% throughout the month with the interbank rate declining to close the month at **4.60%** on 31st May from **4.66%** recorded on 28th April.

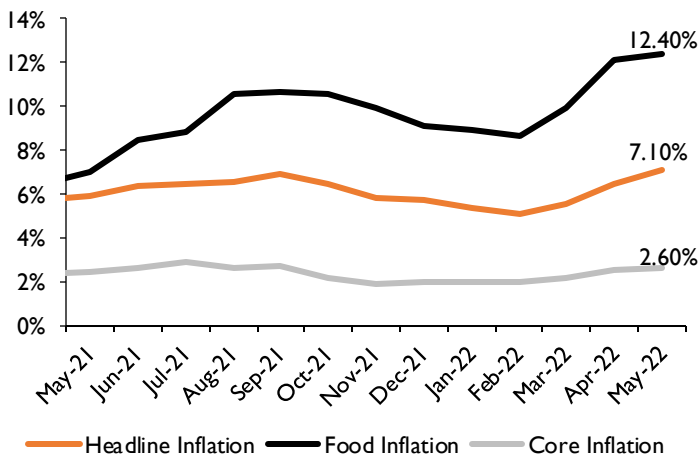
CBK's Monetary Policy Committee (MPC) has raised the Central Bank rate to 7.50%, for the first time since March 2020, as it sought to tame soaring inflation in the wake of increased global and local risks. Inflation rose to 7.10%, closing in on its upper target of 7.50%. The committee will meet again on 30th June 2022.

NSE Yield Curve



During May, rates increased across the yield curve with 10-year papers gaining by 50.53bps, while the two-year paper lost by 27.88bps. 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.

May Inflation:



- In May, headline inflation increased to **7.10%** from **6.47%** in April. The CPI increased **0.78%** to 123.12 in May 2022 from 122.17 in April 2022.
- Meanwhile, the food and non-alcoholic beverages index increased by **12.40%** y/y. Additionally, the transport index increased by **6.00%** in the last year.
- We expect the CBK's move to raise the CBR to cool the threat of inflation rising beyond its upper limit of 7.50%. However, rising fuel costs and anticipated shortages in the supply of farm inputs, maize and wheat are likely to exert pressure on transportation, energy and food prices.

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