



Primary Auction Note – January 2023

The Central Bank of Kenya is in the market looking to raise KES 50.00Bn for budgetary support through reopening two bonds; FXD1/2020/005 and FXD1/2022/015. The coupon rate will be 11.67% and 13.94%, respectively with bidding closing on the 10th January 2023. The minimum investment is KES 50,000 with an effective duration of 2.4 years and 14.3 years, respectively.

In the last weeks of 2022, liquidity in the money markets tightened as open market operations by CBK out-weighted government payments. We expect the longer-dated paper, FXD1/2022/015, to attract the highest interest as investors seek to join the 14.00% club. However, we expect the issue to be undersubscribed largely on account of tighter liquidity.

We foresee an aggressive bidding from investors largely informed by;

- I. **Prevailing High Inflation Levels** – Despite the easing of inflation rates for the second month in a row after an 8-month series of elevated inflation, we anticipate that investors will be aggressive in the bidding. Investors in recent months have been looking to defend their real rate of return from value erosion due to the above CBK upper target inflation print. Local inflation for the month of December slowed to 9.10% from 9.59% recorded in November.
- II. **Quick successive issuance of Switch Bonds** - Government debt sustainability questions have emerged following the issuance of switch bonds at the tail-end of 2022. As such, we foresee investors demanding for higher compensation as their debt sustainability outlook turns negative.

Given no maturities in February 2023 coupled with reduced maturities in January'23 following the Switch IFB Bond, we foresee reduced pressure on the government to accept expensive bids (Acceptance rates in 2022 averaged at 79.62%).

Summary Bidding Guidance:

Issue No	Amount Offered	Next Coupon Payment	Coupon Rate	Bidding Range
FXD1/2020/005	KES 50.00Bn	08/05/2023	11.67%	12.69% - 12.99%
FXD1/2022/015		24/04/2023	13.94%	14.14% – 14.39%

January 09th 2023

RECOMMENDATIONS:

FXD1/2020/005

Bid: 12.69 - 12.99%

FXD1/2022/015

Bid: 14.14% – 14.39%

Period of Sale: 14/12/2022 to 10/01/2023

Sovereign Credit Rating:

Moody's: B2 (negative)

Fitch: B (stable)

S&P: B (stable)

December CPI: (2019=100): 128.99

December Inflation: 9.10%

Interbank Rate (06th January 2022): 6.24%

C.B.R (Dec '2022): 8.75%

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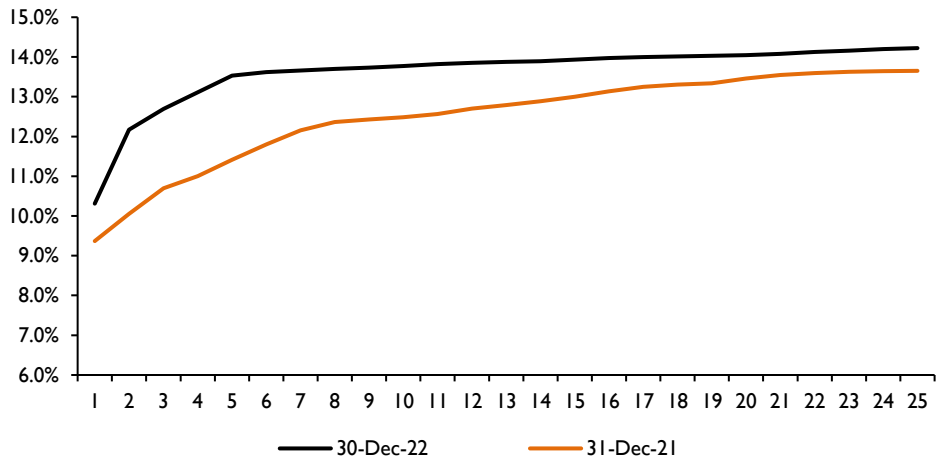
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Liquidity

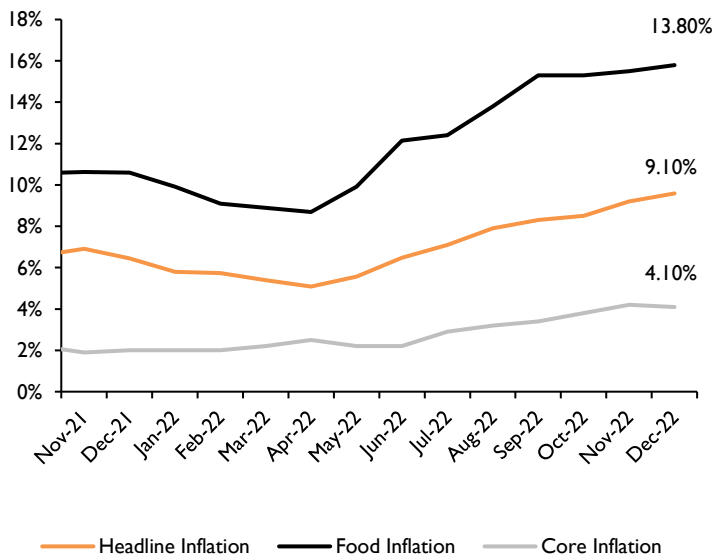
During the month of December, the money markets largely remained liquid supported by government payments which more than offset tax remittances. Mostly, interbank rates remained largely above 5.00% levels having recorded **6.49%** on 30th December a 135bps increase from **5.14%** recorded on 30th November 2022. Due to tightened liquidity in the market during the second week of the month, the CBK injected KES 6.00Bn into the market in the third week by issuing two 7-day reverse repos at an average rate of 10.00%.

NSE Implied Yield Curve



- In the month of December, yields increased across the curve. 2-year papers increased the most by 17bps while the 4-year papers were the largest decliners by 2bps. The 5 and 6-year papers increased by 16bps and 15bps m/m, respectively.
- 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 high inflation. The average yields on the 91-day, 182-day, and 364-day papers closed in December at were 9.33%, 9.80% and 10.27% respectively.

December Inflation:



- The headline inflation declined to **9.10%** in December from **9.50%** recorded in November. The CPI increased 0.53% to **128.99** in December 2022 from **128.31** in November 2022.
- Meanwhile, the food and non-alcoholic beverages index increased by **13.80%** y/y slower than in November and the housing utilities and the transport indices increased by **6.20%** and **13.00%**, respectively y/y.
- Headline inflation continues to remain above CBK's upper target of 7.50% for the near term but decline to CBKs target range during the year. We anticipate continued pressure on the CPI, at least until localized effects of the global oil price slowdown, cost of electricity declines, and relief from the ongoing rainfall increasing food production.

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