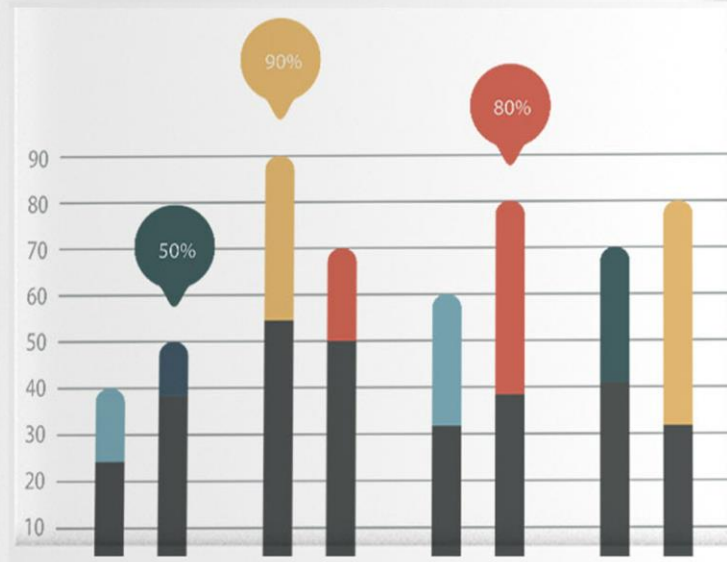




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AIB-AXYS Africa Primary Bond Auction Note



AIB-AXYS July 2024 Primary Bond Auction Note

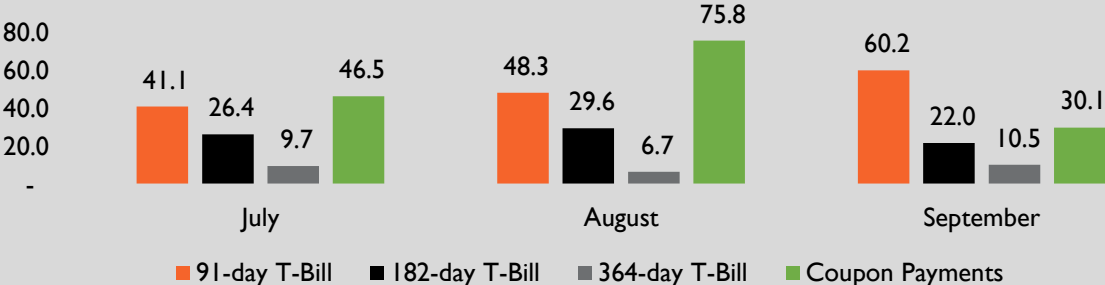
Summary – “Eyes on the CBK”

- The Exchequer is seeking to raise KES 30.0Bn through the re-opening of the FXDI/2024/010 and FXDI/2008/020 treasury bonds earmarked for budgetary support in the first month of the fiscal year 2025 budget.
- The Central Bank of Kenya faces a huge test, after a recent credit rating downgrade and upsized net domestic financing targets. We expect heightened yield tensions between the CBK on the one hand, and investors on the other keen to maximize real yields.
- The weighted average tenor to maturity of the Ordinary Treasury Bonds (FXD) series stands at c. 7.4 years. Further, the government has approximately KES 123.69Bn worth of Treasury Bills and coupon repayments due in July 2024.
- We expect the bulk of investor demand to be moderately skewed towards the higher-yielding discount bond as investors evaluate the medium-term risk landscape.
- Our recommended competitive bidding yields on each paper are indicated on the Table I on the right.

Table 1: Key Auction Highlights

FXDI/2024/010 & FXDI/2008/020	
Issuer:	Republic of Kenya
Total Amount:	KES 30 billion
Purpose:	Budgetary Support in the FY23/24 budget.
Tenor:	FXDI/2024/010 – (9.7 Years) – Re-opened FXDI/2008/020 – (3.9 Years) – Re-opened
Coupon Rate:	FXDI/2024/010 – 16.0000% FXDI/2008/020 – 13.7500%
Price Quote:	Discounted/Premium/Par
Period of sale:	26-June-24 to 17-July-24
Minimum Amount:	KES 50,000.00
Taxation:	FXDI/2024/010 – 10.0% Withholding Tax FXDI/2008/020 – 10.0% Withholding Tax
Maturity Dates:	FXDI/2024/010 – 13-Mar-2034 FXDI/2008/020 – 05-Jun-2028
Non-competitive bids per CSD A/C:	Maximum KES 20 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:	FXDI/2024/010 – 16.750% - 17.150% FXDI/2008/020 – 18.350% - 18.750%

Chart I: Government Obligations Q3 2024 (KES Bn)



Source: CBK, AIB-AXYS Africa Research

Term Structure of Interest Rates

The yield curve declined progressively throughout June 2024 amid easing market risk sentiment. Six-year yields for instance softened 156bps YTD, whereas other medium-term yields appear to be on a similar trend. We expect yields to hold at current levels over the near term. We also anticipate a disturbance at the belly of the curve as investors price in mixed medium-term expectations. Yet, we expect real yields to remain in the strong positive territory over the medium-term.

Market Liquidity

Interbank lending activity over the month to 15th July 2024 rose 6.0% m/m to KES 530.55Bn, supported by a corresponding decline in the average lending rate by 14bps m/m to 13.19%. The rise in activity also comes on the back of the Central Bank of Kenya’s monetary policy reforms to the interbank interest rate corridor – which was narrowed from ±250bps to ±150bps around the benchmark policy rate.

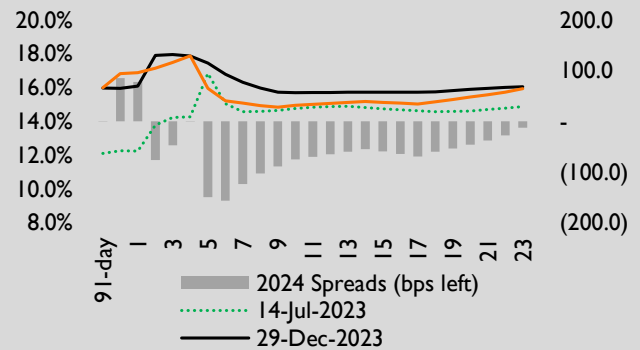
Discount window borrowing activity similarly increased over the month – following the Central Bank of Kenya’s decision to lower the discount borrowing spread from 400bps to 300bps above the policy rate. We anticipate that interbank rates will trail the midpoint threshold of the interest rate corridor of 13.00% over the near term as funding costs and term yields soften.

Price Levels

Latest statistics from the Kenya National Bureau of Statistics (KNBS) indicate that the headline inflation rate as measured by the consumer price index (CPI) softened to 4.6% in June 2024 from 5.1% - bucking the disinflation outlier observed in May. The latest figure marks an improvement from a similar period last year when the headline inflation rate averaged at 7.9%. This in our view, points to moderating price pressures in the consumer economy.

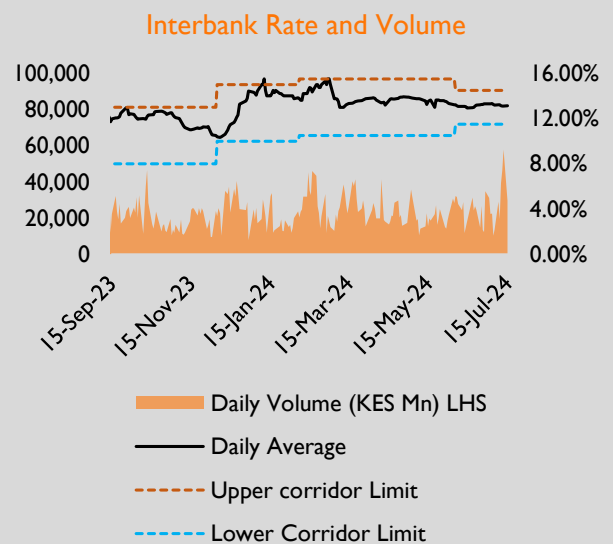
The decelerated inflation rate came largely on the back of a 60bps drop in the food inflation rate to 5.6% - primarily on account of rebounded staple supplies. Fuel inflation similarly slowed 120bps to 6.4% aided by stable oil landing costs and a steady Kenya shilling. Core inflation (non-food, non-fuel) similarly however held at 3.4% - pointing to sticky price pressures emerging primarily from the services sector.

Chart 2: Domestic Yield Curve Evolution



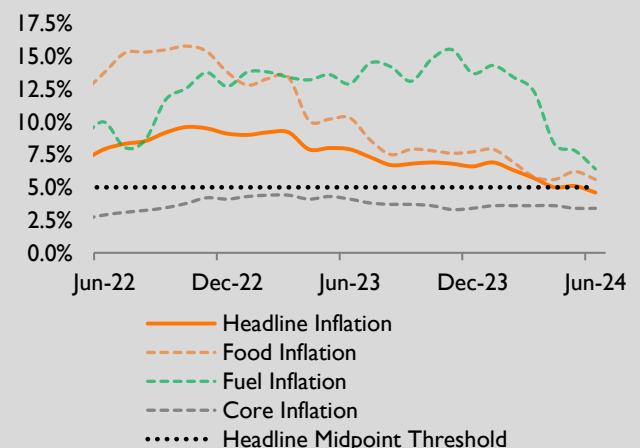
Source: CBK, AIB-AXYS Africa Research

Chart 3: Interbank Rate and Volumes



Source: CBK, AIB-AXYS Africa Research

Chart 4: Price Levels



Source: CBK, AIB-AXYS Africa Research

Table 2: Comparable Bond Duration Yields

Issue No.	Maturity Date	Remaining Tenor in years	Outstanding Amount KES Mn.	Fixed Coupon Rate	Implied Yield to Maturity	Modified Duration
Comparable Yields for the FXDI/2008/020 - (3.9 Years)						
FXD2/2013/015	10-Apr-2028	3.7	70,859.75	12.0000%	17.5583%	2.7
FXDI/2008/020	5-Jun-2028	3.9	55,432.05	13.7500%	17.7643%	2.8
FXDI/2023/005	10-Jul-2028	4.0	141,683.98	16.8440%	17.8942%	2.8
Comparable Yields for the FXDI/2024/010 - (9.7 Years)						
FXDI/2019/015	9-Jan-2034	9.5	79,096.85	12.8570%	14.9138%	5.1
FXDI/2024/010	13-Mar-2034	9.7	27,789.61	16.0000%	14.9364%	4.7
FXD2/2019/015	24-Apr-2034	9.8	81,644.75	12.7340%	14.9433%	5.1

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
Jul-23	40,000	FXDI/2016/010 - Re-open	3.2	129.4%	16.328%	16.582%	16.328%	▲ 208 bps
		FXDI/2023/005 - New Issue	5.0		16.844%	17.026%	16.844%	▲ 248 bps
	20,000	FXDI/2016/010 - Tapsale	3.2	222.1%	16.328%			
		FXDI/2023/005 - Tapsale	5.0		16.844%			
Aug-23	40,000	FXDI/2023/002 - New Issue	2.0	132.5%	16.972%	17.555%	16.972%	▲ 64 bps
		FXDI/2023/005 - Re-open	4.9		16.844%	18.165%	17.954%	▲ 173 bps
	20,000	FXDI/2023/002 - Tapsale	1.9	118.0%	16.972%			
		FXDI/2023/005 - Tapsale	4.9		16.844%			
Sep-23	35,000	FXDI/2023/002 - New Issue	1.9	97.2%	16.972%	17.583%	17.454%	▲ 45 bps
		FXDI/2016/010 - Re-open	2.9		15.039%	18.487%	17.927%	▲ 55 bps
	15,000	FXDI/2023/002 - Tapsale	1.9	23.0%	16.972%			
		FXDI/2016/010 - Tapsale	2.9		15.039%			
Oct-23	35,000	FXDI/2023/002 - Re-open	1.9	35.1%	16.972%	17.964%	17.736%	▼ (4 bps)
		FXDI/2023/005 - Re-open	4.8		16.844%	18.465%	17.992%	▲ 34 bps
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	FXDI/2024/003 - New Issue	3	106.1%	18.385%	18.770%	18.385%	▲ 43 bps
		FXDI/2024/005 - Re-open	4.5		16.844%	19.068%	18.770%	▲ 111 bps
	15,000	FXDI/2024/003 - Tap Sale	3	78.4%	18.385%			
		FXDI/2024/005 - Tap Sale	4.5		16.844%			
Feb-24	70,000	IFBI/2024/8.5 - New Issue	6.8	412.4%	18.461%	18.622%	18.461%	▲ 125 bps
Mar-24	40,000	FXDI/2024/003 - Re-open	2.9	107.7%	18.385%	18.516%	18.422%	▲ 11 bps
		FXDI/2023/005 - Re-open	4.4		16.844%	18.595%	18.410%	▼ (34 bps)
		FXDI/2024/010 - New	10	149.3%	16.000%	17.759%	16.519%	▲ 53 bps
Apr-24	25,000	FXDI/2023/005 - Tap Sale	4.4	183.4%	16.844%		18.410%	
		FXDI/2024/010 - Tap Sale	9.9		16.000%		16.519%	
	40,000	FXDI/2023/002 - Re-open	1.4		16.972%		17.147%	
May-24	25,000	FXDI/2024/010 - Re-opened	9.9	16.668%	16.000%	16.668%	16.227%	▲ 7 bps
	15,000	FXDI/2024/010 - Tap Sale	9.9	46.8%	16.000%			
Jun-24	30,000	FXDI/2023/002 - Re-opened	1.2	102.9%	16.972%	17.187%	17.123%	▲ 37 bps
		FXDI/2024/003 - Re-opened	2.6		18.385%	17.627%	17.586%	▲ 40 bps
	30,000	FXDI/2023/005 - Re-opened	4.1	138.5%	16.844%	18.277%	18.165%	▲ 86 bps
		FXDI/2023/010 - Re-opened	8.7		14.151%	16.571%	16.392%	▲ 163 bps
	20,000	FXDI/2023/002 - Tap Sale	1.2	125.7%	16.972%			
		FXDI/2024/003 - Tap Sale	2.6		18.385%			
	FXDI/2023/005 - Tap Sale	4.1	16.844%					
	FXDI/2023/010 - Tap Sale	8.7	14.151%					
Jul-24	20,000	FXDI/2023/002 - Tap Sale	1.2	2.4%	16.972%			
Average*	39,167		4.3	129.3%	16.904%	17.844%	17.552%	▲ 69 bps

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



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