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T-bonds maturity profile hits 7.8 years

- The Central Bank of Kenya (CBK) has lengthened the maturity profile of Treasury bonds to 7.8 years from 6.1 years two years ago, on sustained issuance of longer-term securities to lower refinancing risk.
- The longer maturity profile is an outcome of the strategy that started about two years ago.
- The time-to-maturity of bonds had fallen below six years in the period between October 2017 and March 2018.
- The mix of T-bills and T-bonds stood at 29% to 71% at the end of July respectively, with bond maturities extending up to 2044.
- CBK data showed T-bonds amounted to KES.2.22Tn of the total domestic debt of KES.3.185Tn mid-July 2020.
- Overall, the maturity profile of domestic debt has lengthened to 5.7 years from 4.1 years two years ago.
- The governor said that CBK remains on course to lengthen the maturity of domestic debt further despite the disruptions of Covid-19 pandemic.

Our View:

- **We expect the CBK to continue lengthening the maturity profile in a bid to reduce future refinancing risk.**
- This will be very effective in the current market due to high market liquidity, following the downward revision of the Central Bank Rate (CBR) and the Cash Reserve Ratio (CRR), that has pushed up subscription for government securities to record highs in the past few months.
- The Central Bank of Kenya (CBK) has taken advantage of this trend to reduce its domestic borrowing costs and increase its debt maturity profile through a strategy of rejecting aggressive investor bids for shorter dated bonds while accepting aggressive bids for longer dated bonds.
- We expect them to continue issuing a mix of alternate tenors (of bonds) that appeal to different investor appetite especially during this period of Covid-19, which will be heavily subscribed on account of high liquidity and flight of capital from other riskier assets such as equities.

Source: Business Daily and Sterling Research