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STERLING CAPITAL LIMITED

Fixed Income Tap Sale Update Note December 2020

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December 2020 bond Tap-sale update

- The Central Bank is inviting investors to participate in a tap sale for two bonds that were reopened this month: **FXD1/2012/15 (6.82 years)** and **FXD2/2019/15 (13.48 Year)** seeking to raise KES.22Bn.
- The tap sale will be open from Tuesday, 15th December, 2020 to Wednesday, 23rd December, 2020 or upon attainment of quantum, whichever comes first.
- The accepted rates for FXD1/2012/15 and FXD2/2019/15 were 11.461% and 12.807% respectively. These rates will be applicable in the tap sale.
- We do not anticipate full uptake of the tap sale based on tight market liquidity as well as historical trends for banks to hold more cash towards the end of the year in order to meet customer liquidity needs during the festive season.
- Increased uncertainty of yields in the medium to long term tenors as a result of high supply is also likely to contribute to a low subscription rate of the tap sale.
- Liquidity has tightened in the market due to a focus on short term liquidity by the banks, which we expect will affect the tap sale subscription.
- The tight liquidity is also due to mop up activity by CBK through the repo market in order to curb the volatility of the KES.
- CBK has taken out KES.140.4Bn in excess liquidity from banks from 2nd November to 14th December in a bid to ensure the shilling remains stable.
- The repo rate increased to 7.0% from 2.4% in September due to reduced liquidity.
- Year-to-date (YTD), the KES has depreciated 10.1% against the US dollar mainly due to a slowdown in dollar inflows as a result of reduced international travel, tourism and exports.
- The interbank rate has increased to 5.1% from 3.4% in 2nd November, levels last seen in April, one month after the first corona virus case was announced.

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