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STERLING CAPITAL LIMITED

Fixed Income

Primary Bond Auction Results Update Note

January 2021

"2021 off to a start with a short-term debt issue"

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January 2021 bond primary auction results update

- The Central Bank of Kenya issued 2-Year bond, **FXD1/2021/2** this month seeking to raise KES.25Bn.
- Our Weighted Average Rates predictions in our January 2021 Fixed Income note [PowerPoint Presentation (sterlingib.com)] were almost in line with the actual auction averages as indicated below:

  Weighted Average Rate (WAR) of investor bids: Our prediction - 9.60% - 9.70% (CBK - 9.541%)

  Weighted average rate of accepted bids: Our prediction - 9.50%- 9.60% (CBK - 9.486%)

- The bond received bids worth KES.61.2Bn (244.6%), above our predicted subscription rate of KES. 30Bn – 45Bn (120% - 160%) with the CBK accepting KES.55.9Bn (91.3%).
- We attribute the oversubscription to the bonds short tenor, as well as high demand from banks looking for short term liquidity investments.
- CBK's efforts to mop up excess commercial bank liquidity have resulted in an increase in the repo rate to 6.7% 31st December 2020 from 2.6% on 12th October 2020, giving banks an opportunity to earn a short term return as opposed to participating in the T-Bill and T-Bond market.
- We expect banks participation in the bonds market to decline, while focus shifts to the short end of the yield curve and the Infrastructure Bond (IFB1/2021/16) currently on offer.
- Debt service in January amounts to KES.174.7Bn, a 137.3% increase over debt service in December 2020. This comprise of KES.128.8Bn in T-Bills, KES.31.1Bn in T-Bonds and KES.14.8Bn in coupon payments.
- The sharp increase in domestic debt service this month implies that a big proportion of funds raised particularly in T-Bill auctions will be directed towards debt redemptions rather than new borrowing.
- In addition, the CBK is likely to be more accommodative of higher investor bids and is likely to increase its acceptance levels as was the case with this month's 2-year bond auction.
- We expect increased bond trading in the secondary market in January 2021 partially attributed to investors who missed out on this 2-Year bond active in the secondary market.

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