Thursday, 12 August 2021

STERLING CAPITAL LIMITED

Fixed Income

Primary Auction Update Note

August 2021

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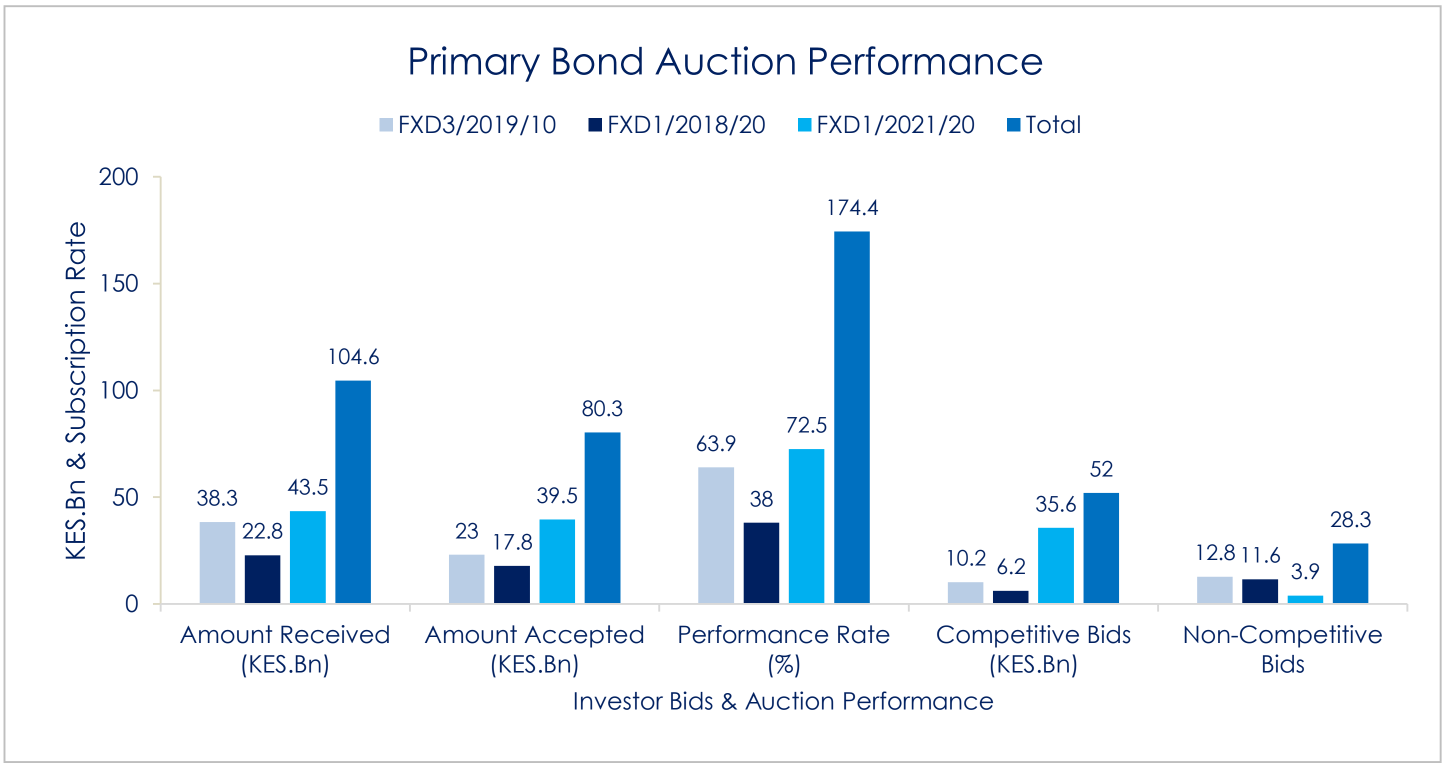
August 2021 Treasury Bond primary auction results update

- The Central Bank of Kenya (CBK) issued three bonds in August, one new issue and two re-openings looking to raise KES.60Bn;
  FXD3/2019/10 (8.1*),
  FXD1/2018/20 (16.7*),
  FXD1/2021/20 (20*)
  Years to maturity

Subscription Rates

- Aggregate subscription was KES.104.6Bn representing a 174.4% subscription rate with the CBK accepted bids worth KES.80.3Bn (Figure.1).
- We attribute the oversubscription to the relatively attractive coupon rates under a low interest rate environment as well as high market liquidity.
- FXD1/2021/20 received the bulk of investor bids due to its relatively higher coupon rate of 13.4%.

Figure.1: Primary Bond Auction subscription



Source: Central Bank of Kenya

Weighted Average Rates

- Our predicted Weighted Average Rates (WAR) ranges as indicated in our August 2021 Fixed Income report titled, **"Liquid despite mop-up"** had a 99% accuracy prediction on both received and accepted WARs by the CBK (Table.1).

Table.1: Predicted and actual Weighted Average Rates (WAR)

Treasury Bond	Investor Bids WAR Prediction (%)	Primary Auction Investor Bids WAR (%)	Investor Bids WAR vs Predicted WAR Range Average (bps)	Accepted Bids WAR Prediction (%)	Primary Auction Accepted Bids WAR (%)	Accepted Bids WAR vs Predicted WAR Range Average (bps)
FXD3/2019/10	12.15 -12.20	12.309	13.4	12.05 - 12.10	12.172	9.7
FXD1/2018/20	13.25 - 13.30	13.250	-2.5	13.15 – 13.20	13.187	1.2
FXD1/2021/20	13.45 - 13.50	13.469	-0.6	13.35 - 13.40	13.444	6.9

Source: Central Bank of Kenya

- The results signal an upward shift in the yield curve which stood at 12.1127%, 12.9753% and 13.2398% for the 8.1, 16.7 and 20-year tenors respectively.
- This shift in the yield curve may present a further "crowding out" of the private sector with Government debt now offering similar yields to private sector lending but with significantly lower risk.
- Over the last one year, interest rates on the short-end (1 and 2 years) have declined while those for medium and long dated debt have risen.
- This trend has been in response to CBK issuance and accommodative stance towards longer dated debt while rejecting high investor bids for short-term debt in Treasury Bill primary auctions.
- Despite this, we have begun to see T-Bill rates improving in recent primary auctions showing that said T-Bill rates are likely to have bottomed out.
- The repo rate as of 10th August 2021, was 5.3%, while the reverse repo was at 0.0%.
- We predict a gradual increase in yields on short, medium and long dated debt in H2 2021.

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