Thursday, 11 November 2021

Fixed Income

Primary Auction Update Note

November 2021

Analysts:

Renaldo D'Souza
+254 (20) 2222651
Renaldo.DSouza@sterlingib.com

Elizabeth Njenga, CFA
+254 (20) 2222651
Elizabeth.Njenga@sterlingib.com

Davis Gathinji
+254 (20) 2222651
Davis.Gathinji@sterlingib.com

Email: research@sterlingib.com

Bond Dealing: +254 (20) 2213914, 3315414; 2244077
+254 723153219, +254 734219146

Email: invest@sterlingib.com

Website www.sterlingib.com

Bloomberg Code: SCLK <GO>

Table of Contents

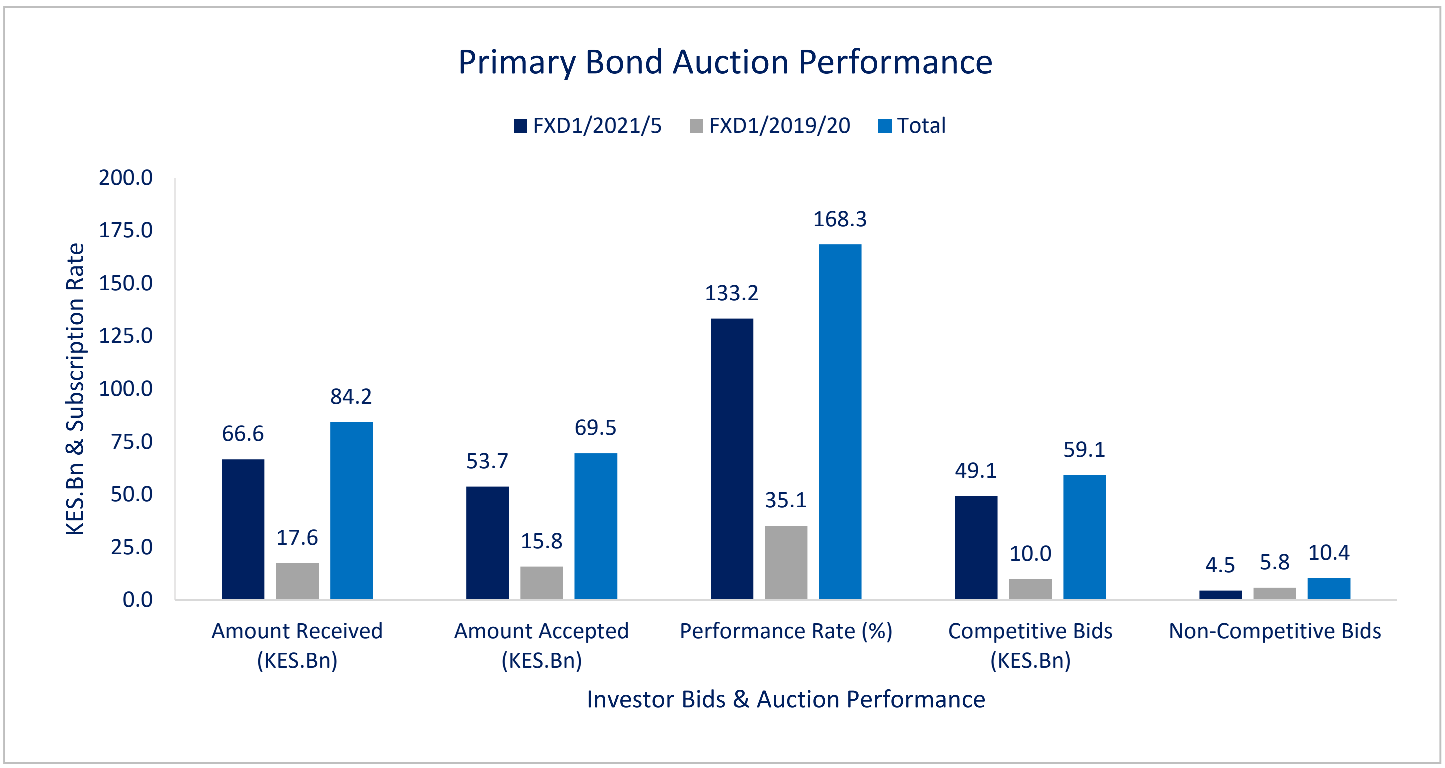
November 2021 Treasury Bond primary auction results update

- The Central Bank of Kenya (CBK) issued two bonds in November, a new 5 year bond, FXD1/2021/5 and a reopened 20 year bond, FXD1/2019/20 seeking to raise KES.50Bn for budgetary support;
  FXD1/2021/5 (5*),
  FXD1/2019/20 (17.5*).
  Years to maturity

Subscription Rates

- Aggregate subscription was KES.84.2Bn representing a 168.3% subscription rate with the CBK accepted bids worth KES.69.5Bn (Figure.1).
- We attribute the oversubscription, particulary of FXD1/2021/5 to its shorter term tenure which is a preference for investors in the current market.
- The undersubscription of FXD1/2019/20 is attributable to the oversupply of bonds in the secondary market with near similar tenors to maturity which has a negative impact on price appreciation.

Figure.1: Primary Bond Auction subscription



Source: Central Bank of Kenya

Weighted Average Rates

- An analysis of our predicted Weighted Average Rates (WAR) ranges as indicated in our November 2021 Fixed Income report titled, **"CBK stirs bond market with 5-year issue"** compared to both received and accepted WARs by the CBK are shown below. (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)
FXD1/2021/5	11.15 -11.25	11.338	13.8	11.10 - 11.20	11.277	12.7
FXD1/2019/20	13.40 - 13.50	13.469	-1.9	13.30 – 13.40	13.408	5.8

Source: Central Bank of Kenya

- The results, as has been the trend for the past few months, signal an upward shift in the yield curve which stood at 10.7118% and 13.3909% as at 5th November 2021 for the 5 and 20-year tenors respectively.
- For majority of the 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, particularly from the month of September, signalling that T-Bill rates have bottomed out.
- The repo rate as of 10th November 2021 was 4.596% showing the improving liquidity environment.
- We predict that the gradual increase in yields on short, medium and long dated debt will continue for the remainder of the year.
- For investors, Government debt continues to present a compelling investment case for both "Buy and hold" or active bond trading strategies.

Disclosures

Ownership and material conflicts of interest:
The authors or a member of their household, of this report do not hold a financial interest in the securities of this company. The authors or a member of their household, of this report do not know of the existence of any conflicts of interest that might bias the content or publication of this report.

Position as an officer or director: The authors or a member of their household, do not serve as an officer, director or advisory board member of the subject company.

Research analyst certification:
The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all of the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

Additional Disclosures:
This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither SCL nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research reports preparation or publication, or any losses or damages which may arise from the use of this research report.

Disclaimer:
This research report was prepared under the supervision of the Research Department of Sterling Capital Limited (SCL), a company authorized to engage in securities activities in Kenya, and with partnerships in Uganda, Rwanda, Zimbabwe, and Tanzania. Data used in this report was gathered from reliable sources, but the analyst(s) and the publishers of this report do not hold themselves responsible for the accuracy or completeness of data used. The report provides the opinions, analyses and conclusions of the Research division only and is provided without any warranties of any kind.

This report does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Whilst every care has been taken in preparing this report, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by SCL or any employee of SCL as to the accuracy, timeliness, completeness merchantability or fitness for any particular purpose of any such recommendation or information contained and opinions expressed herein. SCL do not accept any liability for any direct or remote loss or damage arising out of the use of all or any part of the information contained in this report.

This report is published for information purposes only and is not an offer to solicit, buy or sell any security of any kind. This report does not provide customized investment advice. It has been prepared without regard to the individual financial circumstances and risk and return objectives of individuals who receive it. The appropriateness of a particular investment will depend on an investor's individual circumstances, risk tolerance and return objectives. The investments securities referred to in this document may not be suitable for all or certain categories of investors. The Research Division and SCL have implemented Chinese walls procedures to prevent any conflict of interest. Other additional information may be available at SCL.

Further disclosure regarding SCL policy on potential conflicts of interest in the context of investment research and SCL policy on disclosure and conflicts in general are available on request. The opinions presented in this note may be changed without prior notice or cannot be depended upon if used in the place of the investor's independent judgment. The historical performance of a security is not representative of the security's future returns. Investment in securities can be highly risky as security prices may go down in value as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may adversely affect the value, price or income of that investment. In case of illiquid investments for which there is no organized market it may be difficult for investors to exit investment positions or to obtain reliable information about its value or the extent of the risk to which it is exposed. The information contained in this report is confidential and is solely for use to those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose.