



Thursday, 07 October 2021

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# Fixed Income

## Primary Auction Update Note

October 2021

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## October 2021 Treasury Bond primary auction results update

- The Central Bank of Kenya (CBK) issued three bonds in October, all of which are re-openings looking to raise KES.60Bn;

**FXD1/2013/15** (6.4\*),

**FXD3/2019/15** (12.9\*),

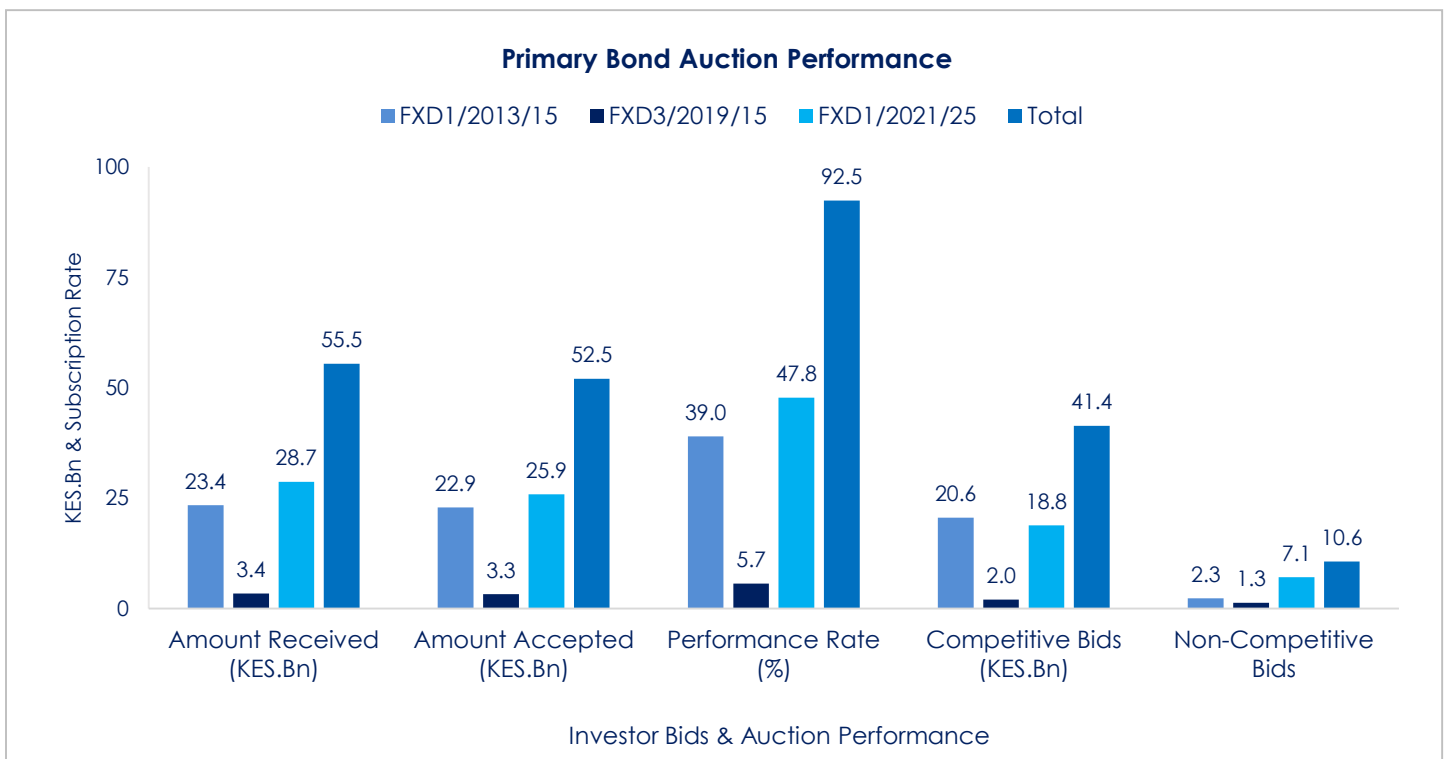
**FXD1/2021/25** (24.7\*).

*\*Years to maturity*

### Subscription Rates

- Aggregate subscription was KES.55.5Bn representing a 92.5% subscription rate with the CBK accepting bids worth KES.52.5Bn (Figure.1).
- We had predicted that the CBK would “struggle” to achieve full subscription in our October fixed income report titled [“Investor appetite dips as market liquidity tightens”](#) for the following reasons:
  1. Oversupply of bonds in the secondary market with near similar tenors to maturity which has a negative impact on price appreciation in the secondary market.
  2. Tightening of market liquidity following September’s IFB1/2021/21 issue.
- FXD1/2021/25 received the bulk of investor bids due to its comparatively higher coupon rate of 13.8%.

**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 fixed income report 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)
FXD1/2013/15	11.79 - 11.84	11.895	8.0	11.74 - 11.79	11.882	11.7
FXD3/2019/15	12.89 - 12.94	12.867	45.2	12.79 - 12.84	12.845	3
FXD1/2021/25	13.84 - 13.89	13.846	-1.9	13.74 - 13.79	13.823	5.8

Source: Central Bank of Kenya

- The results of the auction signal an upward shift in the yield curve (as at 1<sup>st</sup> October 2021) which stood at 12.8936% and 13.5017% for the 15 and 25-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 seen T-Bill rates in the primary market rising over the last two months indicating a bottoming out.
- The repo rate as of 4<sup>th</sup> October 2021 was 6.88% pointing to a tight liquidity environment.
- We predict a gradual increase in yields on short, medium and long dated debt in Q4 2021.
- For investors, Government debt continues to present a compelling investment case for both “Buy and hold” or active bond trading strategies considering a real return rate of 6.2% and potential for capital appreciation.

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