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# Fixed Income

## Re-opened Bonds Results Update Note

**June 2021**

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## Table of Contents

|   |   |
|---|---|
| June 2021 bond primary auction results update ..... | 3 |
| Disclosures .....                                   | 4 |

## June 2021 bond primary auction results update

- The Central Bank of Kenya (CBK) re-opened two 20-year bonds namely, **FXD1/2012/20** ( 11.4 years to maturity) and **FXD1/2019/20** (17.9 years to maturity) to raise KES.30Bn.
- There were slight deviations between our predicted Weighted Average Rates (WAR) indicated in our June 2021 Fixed Income note titled, “**It’s Budget Day**” and actual primary auction results as indicated below:

| Debt Issue   | Weighted Average Rate of investor bids |                 | Weighted Average Rate of accepted bids |                 |
|--------------|--|-----------------|--|-----------------|
|              | Predicted range                        | Primary Auction | Predicted range                        | Primary Auction |
| FXD1/2012/20 | 12.75% - 12.85%                        | 12.678%         | 12.65% - 12.75%                        | 12.498%         |
| FXD1/2019/20 | 13.40% - 13.50%                        | 13.30%          | 13.30% - 13.40%                        | 13.261%         |

Source: Central Bank of Kenya

- The bonds received bids worth KES.64.9Bn, which represents a 216.4% subscription rate.
- The CBK, however, only accepted bids worth KES.19.7Bn with KES.6.3Bn from FXD1/2012/20 and KES.13.4Bn from FXD1/2019/20.
- We attribute the oversubscription to the low target amount (KES.30Bn) and high market liquidity prompted by a low interest rate environment.
- On 10<sup>th</sup> June, the National Treasury announced a KES.3.7Tn budget amidst an economic slowdown prompted by the Covid-19 pandemic.
- The budget announced increased expenditure amounting to KES.3.7Tn (8.8% increase YOY) against overly optimistic revenue targets of KES.2Tn (10.3% increase YOY).
- The economic slowdown exacerbated by the Covid-19 pandemic means that tax revenue will remain subdued and growth, if any, in 2021/22 will be modest.
- For this reason we see a significant increase in the fiscal deficit estimated at KES,929.7Bn FY2021/22 and an upward revision in both domestic and external borrowing targets during the 2021/22 fiscal year (net domestic financing = KES.658.5Bn and external financing =KES,271.2Bn).
- We predict continued increase in yields on long term papers in 2021 as the CBK continues to encourage bids on these tenors as a means of lengthening the Average Term to Maturity (ATM) of public debt.

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