STERLING CAPITAL LIMITED

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Fixed Income Note

March 2020

"Yield curve reverting to normalcy"

Analysts:

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

Susan Makena
+254 (20) 2222651
Susan.Makena@sterlingib.com

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

Justina Vuku
+254 (20) 2222651
Justina.Vuku@sterlingib.com

For queries call: +254 (20) 315414; 2244077 or
Email: research@sterlingib.com
Website www.sterlingib.com
Bloomberg Code: SCLK <GO>

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Executive Summary

- **"Yield Curve Reverting to Normalcy"** is the title of our March 2020 fixed income report which gives an analysis of the Central Bank of Kenya's re-opened debt issues **FXD1/2018/20 and FXD1/2018/25** with **18.07** and **23.32 years to maturity** respectively.
- CBK is seeking to raise KES.50Bn for budgetary support and we expect high investor participation due to high market liquidity.
- We anticipate a subscription rate for the bonds seeking to raise KES.50Bn (between 70% and 80%) due to high commercial bank liquidity.
- Our investor and CBK accepted bid predictions are:

  Weighted Average Rate (WAR) of bids 20 Year: 13.30%-13.45% / 25 Year: 13.50%-13.80%
  Weighted average rate of accepted bids 20 Year: 13.20%-13.30% / 25 Year: 13.35%-13.50%

- As is often the case, the report highlights both primary market auction and secondary market trading activity for the previous month whilst giving our view on what to look out for in March 2020.
- We also give trading recommendations for investors with both income and trading portfolios in our trading ideas section.
- The report also covers the potential impact of the CBK's decision to purchase United States Dollars (US$) from commercial banks beginning this month and the issuance of the Kenya Roads Bond on the domestic debt market.
- Debt service costs are set to increase in March and this is illustrated in the report where we analyze both debt redemption and coupon payments for the month.
- The draft 2020/21 fiscal budget report is discussed in this month's report where we take note of fiscal expenditure cuts, a declining fiscal deficit and a lower borrowing estimates compared to the previous fiscal year.
- On macro-economic variables, we give our inflation forecast of 6% - 6.5% which we do not expect to trigger a revision of the policy rate in this month's policy review meeting.
- To conclude the report we discuss our expectation for the Monetary Policy Committee (MPC) meeting to be held on 23rd March 2020. We are of the opinion that the rate will be maintained at 8.25%

CBK maintains its preference for long-dated issues with 20 and 25 year bonds' re-opening

- Central Bank of Kenya's (CBK) bid to lengthen the maturity profile of public debt sees two long-term re-opened issues - **FXD1/2018/20 (18.07 years)** and **FXD1/2018/25** (23.32 Years) (Table.1).

Table.1: Primary Bond issue summary

Issue Number	FXD1/2018/20	FXD1/2018/25
Total Amount Offered	KES.50Bn	
Tenor (Years)	20 Yrs	25 Yrs
Term to Maturity	18.07Yrs	23.32Yrs
Coupon Rate (%)	13.200	13.400
Issue Price	Discounted/Premium/Par	
Period of Sale	3rd Mar – 17th Mar 2020	
Auction Date	18th Mar 2020	
Value Date	23rd Mar 2020	
Yield Curve (%) (Weighted average tenor 20Yrs and 25Yrs) 28th Feb 2020)	13.0521	-

Source: Central Bank of Kenya

Bond auction demand to increase but interest rates to remain unaffected by CBK Dollar purchase

CBK purchase of US$ to increase market liquidity and demand for domestic debt securities

- The CBK released a statement on 2nd March 2020 indicating its intention to purchase US$100Mn (KES.10.3Bn) monthly from commercial banks monthly between March and June 2020.
- This it said was to *"Progressively increase its foreign exchange reserves above normal levels. This would bolster CBK's preparedness to deal with heightened global volatility and uncertainties."*
- It is surprising that the CBK would issue a statement likely to trigger speculative US$ trading activity and the obvious impact it would have on US$ demand and depreciation of the Kenya Shilling (KES).
- However, the move could be strategic with regards to the CBK's debt management strategy of lowering the cost of public debt.
- In our opinion could distort debt auction activity in terms of market liquidity and investor interest rate bids.
- Purchase of US$ from commercial banks will result in an increase in banks' KES liquidity.
- Increased liquidity will have a similar impact on domestic debt demand with the increased subscription resulting in downward pressure on short-term debt interest rates.
- The current bonds in issue however, are unlikely to be affected by the interest rate movements at the short-end of the yield curve given that they fall in the long end.

- However, like in the case of short-term debt, increased market liquidity is likely to result in higher subscription rates for the two bonds.
- We therefore predict a subscription rate of **70% - 80% (KES.35Bn-KES.40Bn)** which is relatively high for bonds of these tenors with the added incentive of an attractive risk weighted return.
- Acceptance rate for the issues will most likely be high in line with the debt management strategy of lengthening the maturity profile of debt.
- Our predicted Weighted Average Rate (WAR) of market and accepted bids are shown in Table 2.

Table.2: Auction bid predictions

Rate	FXD1/2018/20	FXD1/2018/25
Market Weighted Average Rate (%)	13.30 -13.45	13.50-13.80
Weighted Average Rate of Accepted Bids (%)	13.30	13.50

Source: Sterling Capital Research

Re-opened bonds could defy historical subscription trends

Unusually high subscription rates for re-opened issues a possibility

- Long maturity papers have traditionally received low subscription rates (Table.3).
- **FXD1/2018/20** was first issued in March 2018 alongside a 5-Year bond (target amount KES.40) receiving a combined subscription rate of 128.5% with KES.23.1Bn accepted for the longer dated issue.
- **FXD1/2018/25** issued in June 2018 had a low subscription rate of 25.3% with KES.5.2Bn accepted by the CBK.
- High commercial bank's liquidity will have a bearing on the debt auction activity and we expect to see above normal participation in this auction despite the long tenors.
- We expect a higher subscription rate for the 20-Year paper compared to the 25 -Year paper due to a relatively attractive tenor.

Table.3: Historical primary market auction performance

Issue Number	Issue Date	Amount Offered (KES.Bn)	Bids Received (KES.Bn)	Amount Accepted (KES.Bn)	Performance Rate (%)	Coupon Rate (%)	Implied Yield to Maturity
FXD1/2016/20	26th Sep, 2016	25	17.8	12.29	17.2	14.00	12.8125
FXD2/2018/20	30th Jul, 2018	40	13.9	10.5	34.7	13.200	12.8753
FXD1/2019/20	13th Apr, 2019	40	14.7	9.0	29.4	12.873	12.9083
FXD1/2018/25	25th Jun, 2018	40	10.1	5.2	25.3	13.400	13.056

Source: Central Bank of Kenya

- Implied yields of bonds of almost similar terms to maturity from the Nairobi Securities Exchange (NSE) as at 28th February, 2020 were used to determine possible investor bids (Table.4).

Table.4: Benchmark issues to guide investor bids

Treasury Bond	Issue Date	Coupon Rate (%)	Maturity Date	Term to Maturity Years (Days)	Last traded Yield (%)	Yield Curve at time of issue
FXD1/2016/20	26th Sep, 2016	14.00	1st Sep, 2036	16.56 (6029)	12.81	14.57
FXD2/2018/20	30th July, 2018	13.20	5th July, 2038	18.41 (6701)	12.88	13.38
FXD1/2019/20	15th April, 2019	12.734	21st Mar, 2039	19.12(6960)	12.91	12.88
FXD1/2018/25	25th June, 2018	13.40	25th May, 2043	23.31 (8486)	12.48	-

Source: Central Bank of Kenya

High subscription for aggregate domestic debt expected to continue in March 2020

- During the month, CBK offered KES.96Bn and KES.50Bn in Treasury Bills and Bonds (T-Bills and T-Bonds).
- A total of KES.224.0Bn was received in bids in February T-Bills and T-Bonds auctions against KES.146Bn offered by CBK equivalent to a 153.5% subscription rate (Fig.1).
- The T-Bills were oversubscribed at 189.1% (KES.181.5Bn) while the T-Bonds were undersubscribed at 85.0% (KES.42.5Bn).
- The T-Bonds undersubscription was attributed to the long tenors (15 and 23.33 years).
- In March we expect the T-Bills to be oversubscribed owing to high market liquidity and high demand for the short term papers.

Kenya Roads Bond a potential game changer in domestic debt investment

Kenya Roads Board bond could alter domestic debt market dynamics

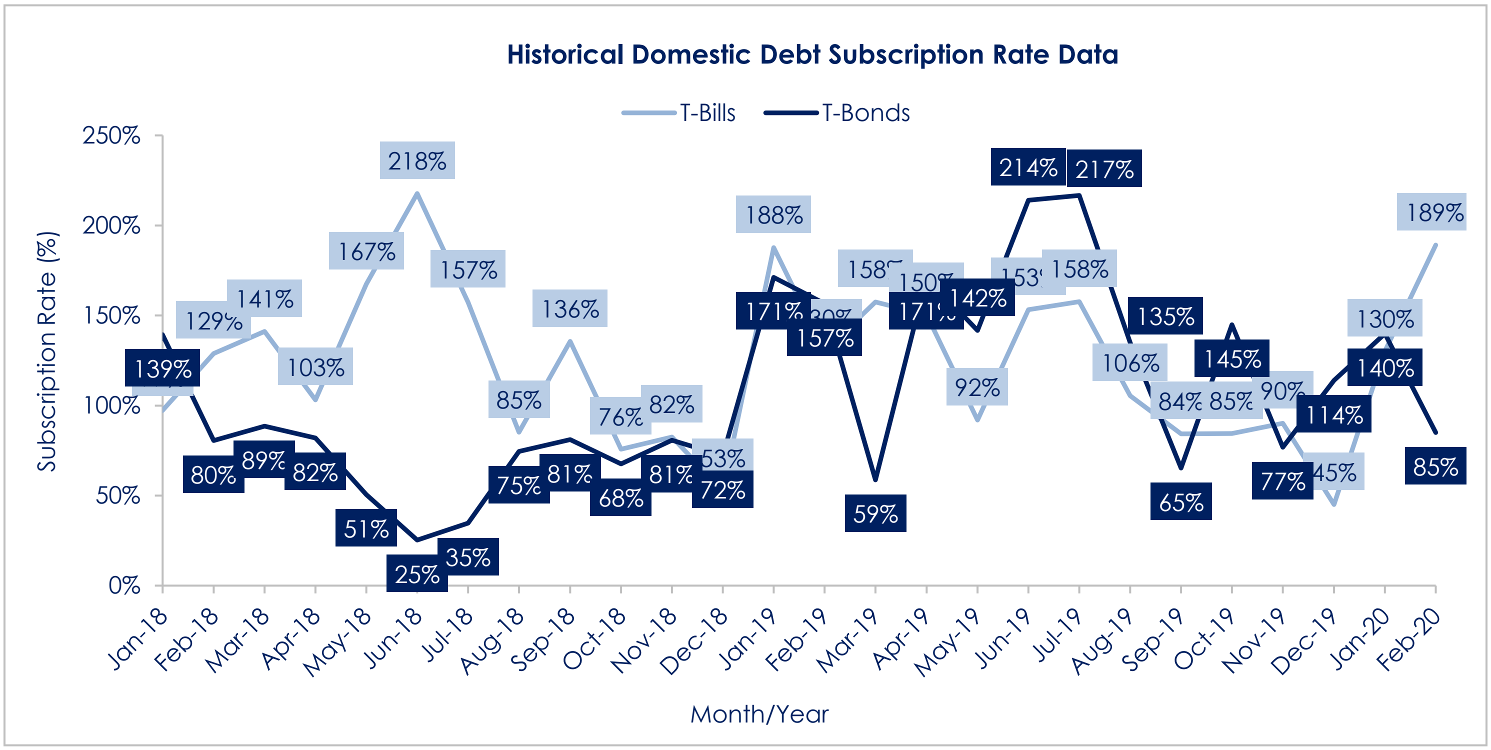
- The Cabinet Secretary for Transport announced in January 2020 that the Kenya Roads Board (KRB) plans to issue a KES.150Bn bond to finance infrastructure development every year for the next five years.
- It was expected that the bond would be ready for issue in March 2020 but this is looking increasingly unlikely due to the complexity of the debut issue including arrangement, placement and guarantees amongst other considerations.
- We see this as having a huge impact on both the domestic debt primary and secondary markets for the following reasons:

1) KES.150Bn will make it the biggest issue at almost three times the size of current bond issue sizes (KES.50Bn), and significantly higher than the largest interest paying fixed coupon bond FXD1/2010/10 (KES52.1Bn) and largest Infrastructure Bond (IFB) issue IFB/2019/16 (KES.68.5Bn).

2) Like all current Infrastructure Bonds (IFB) there is a high likelihood that this bond will be tax exempt making it attractive investible option to both local and foreign investors especially if guaranteed by the Government.

- The overall impact of the issuance of this bond would be investors holding liquidity in anticipation for its issue meaning low subscription rates for current bond issues and possibly high subscription for short term debt issues particularly the 91 day paper.
- It is too soon to tell when exactly the bond will be issued, issue size (tranches) its features with regards to tax exemptions, currency of issue, existence of guarantees and this is largely speculative at the moment.

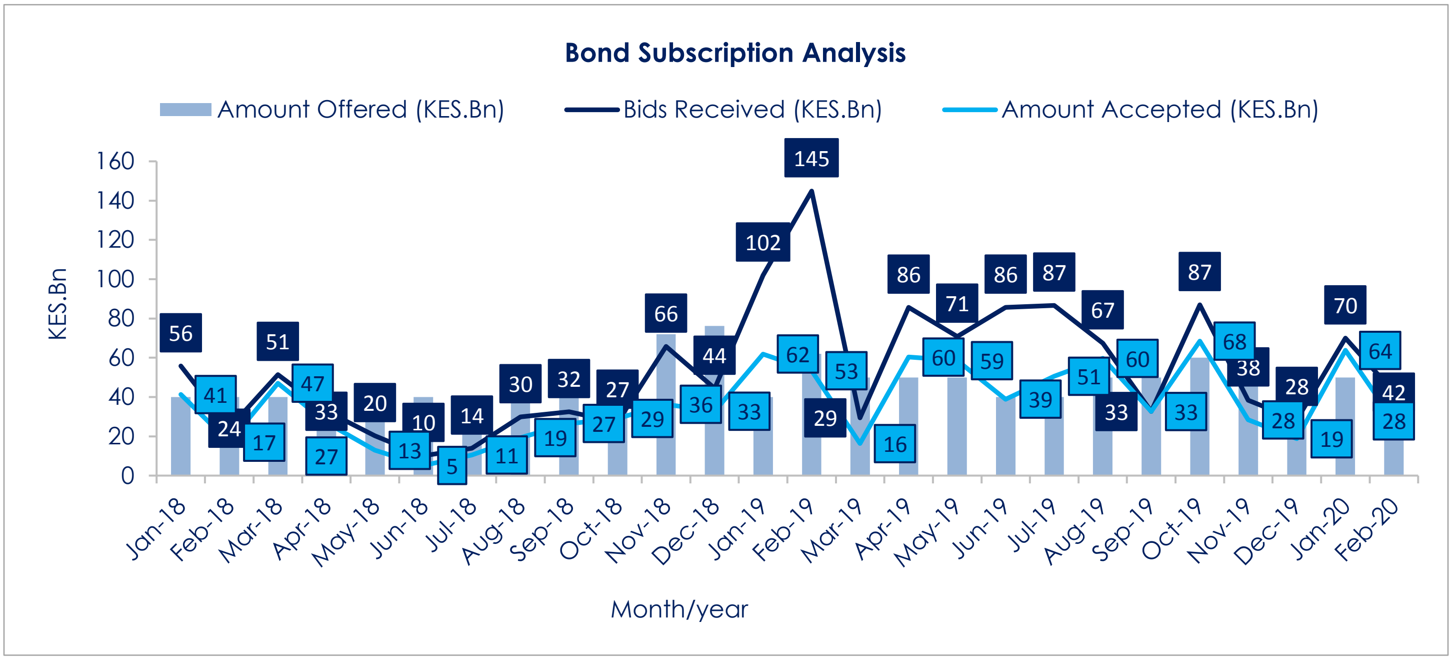
Fig.1: February T-Bonds undersubscription



Source: Central Bank of Kenya

- The 15-Year (FXD1/2020/15) and 25-Year Re-Opened (FXD1/2018/25) issued in February received KES.18.4Bn and KES.24.1Bn respectively representing a combined subscription rate of 85% (KES.42.5Bn).
- CBK accepted KES.5.2Bn for the 15Year and KES.22.7Bn for the 25Year at a rate of 12.756% and 13.599% respectively.
- We attributed the high acceptance rate (94.3%) for the 25Year as CBK's move to increase the maturity profile of public debt.

Fig.2: CBK accepts KES.28Bn in February Bonds issue

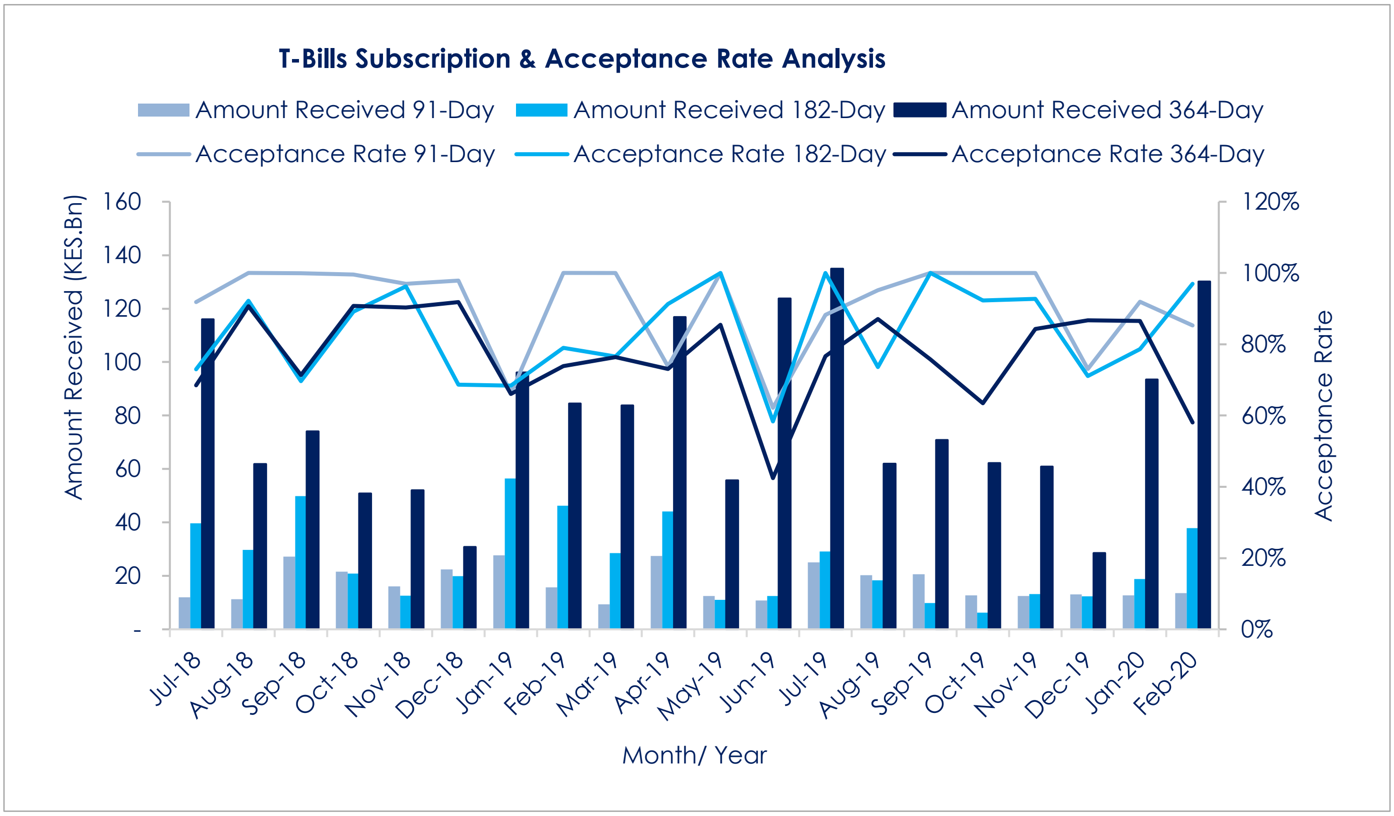


Source: Central Bank of Kenya

No let-up in demand for 364 Day T-Bill

- T-Bills subscription rate increased in February to 189.1% (KES.181.5Bn) compared to 130.1% (KES.124.9Bn) in January 2020 (Fi.3).
- 364-day T-Bill was heavily oversubscribed at 325.4% while the 91-day and 182-day were undersubscribed with subscription rates of 84.4% and 94.7% respectively.
- Acceptance rates stood at 85.3% (KES.11.5Bn), 97.0% (KES.36.8Bn) and 58.1% (KES.75.6Bn) for the 91-day, 182-day and 364-day papers respectively (Fig.3).
- We expect T-Bills demand to remain high in March with high subscription in the 364-day T-Bill due to comparatively higher yields than the other short term papers.

Fig.3: 364-day T-bill heavily over-subscribed in February but acceptance remains low

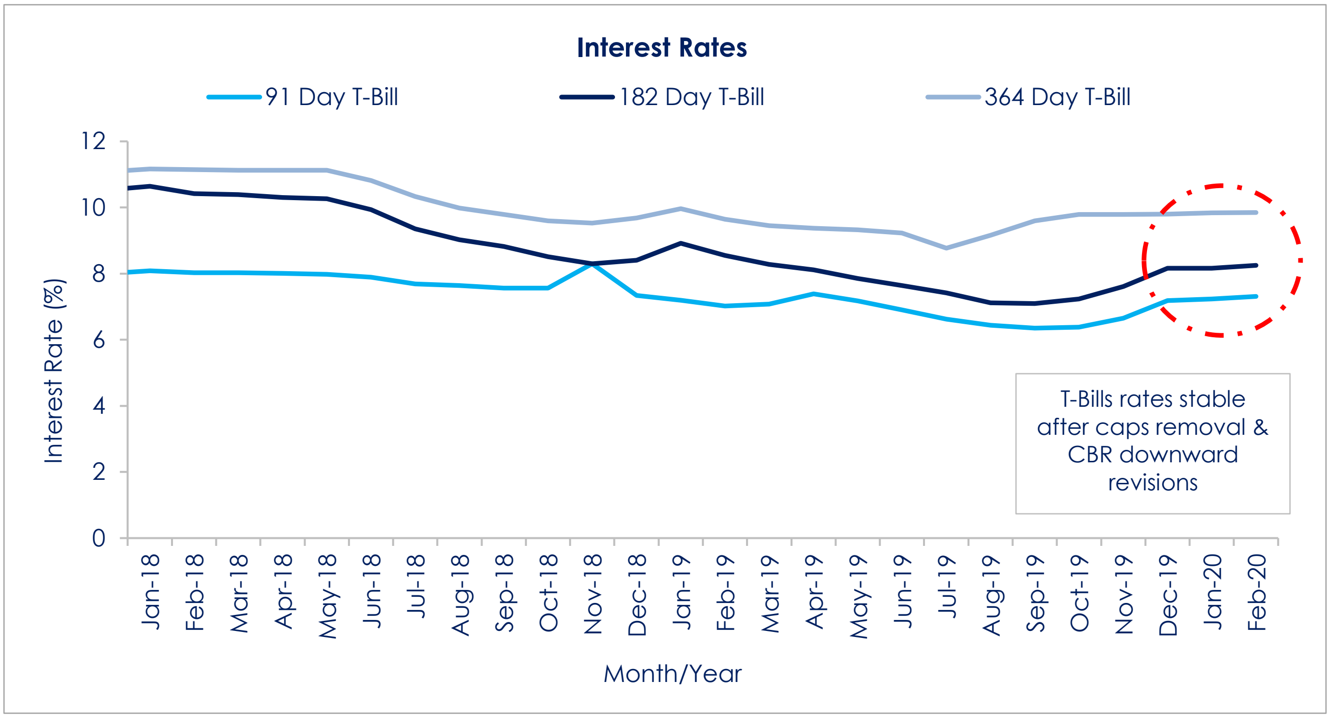


Source: Central Bank of Kenya

T-Bill yields rising gradually after the rate cap removal

- Average yields for the 91-day, 182-day and 364-day T-Bills remained almost flat in February rising rose 8bps, 8bps and 1bps to 7.3%, 8.3% and 9.9% respectively compared to January. (Fig.4)
- During the month T-Bills acceptance rate declined to 68.2% (KES.123.9Bn) compared to 85.9% (KES.107.3Bn) in January.
- In the short term, we expect the short term papers interest rates to remain relatively stable.

Fig.4: T-Bill interest rates remain stable

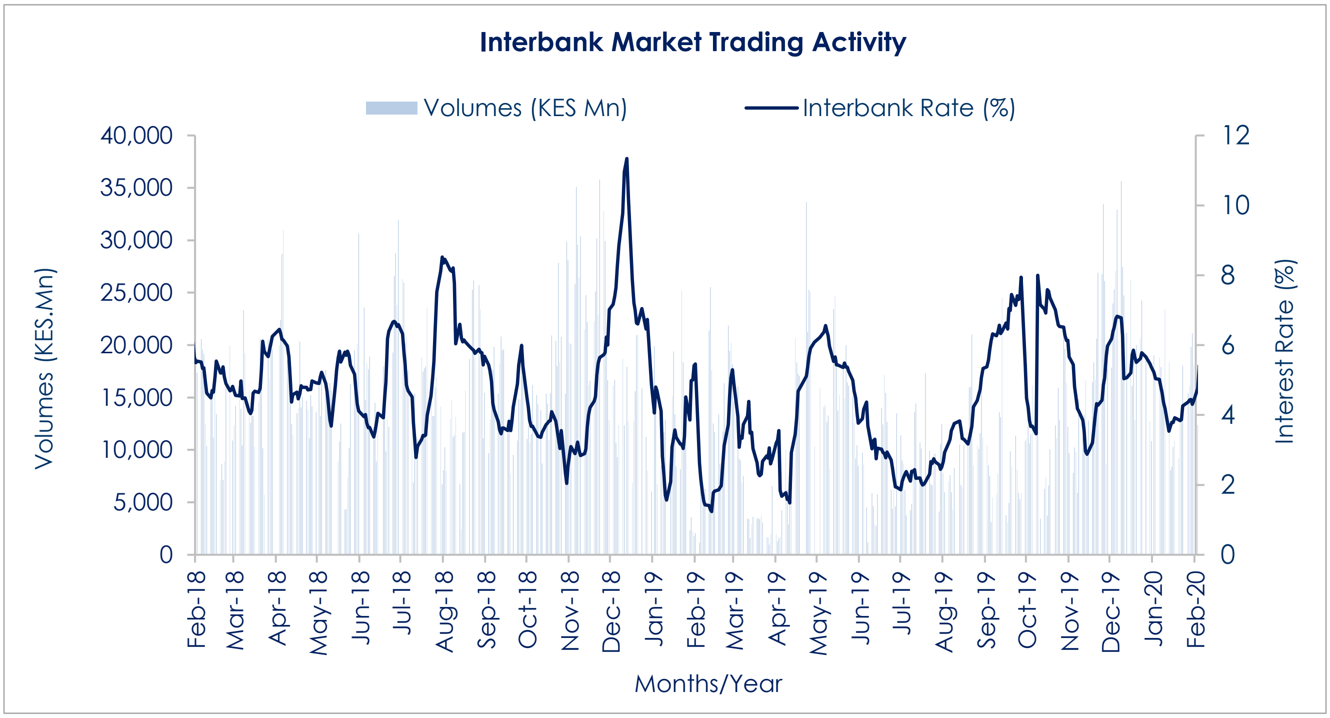


Source: Central Bank of Kenya

Inter-bank lending rates remain low on high market liquidity

- Average inter-bank lending rates remained almost unchanged in February (4.4%) compared to 4.3% in January (Fig.5) due to high market liquidity.
- Total volumes exchanged during the month declined 44.3% from KES.325.9Bn in January to KES.181.5Bn.

Fig.5: Inter-bank rates remain low on high market liquidity, trend expected to continue in March 2020

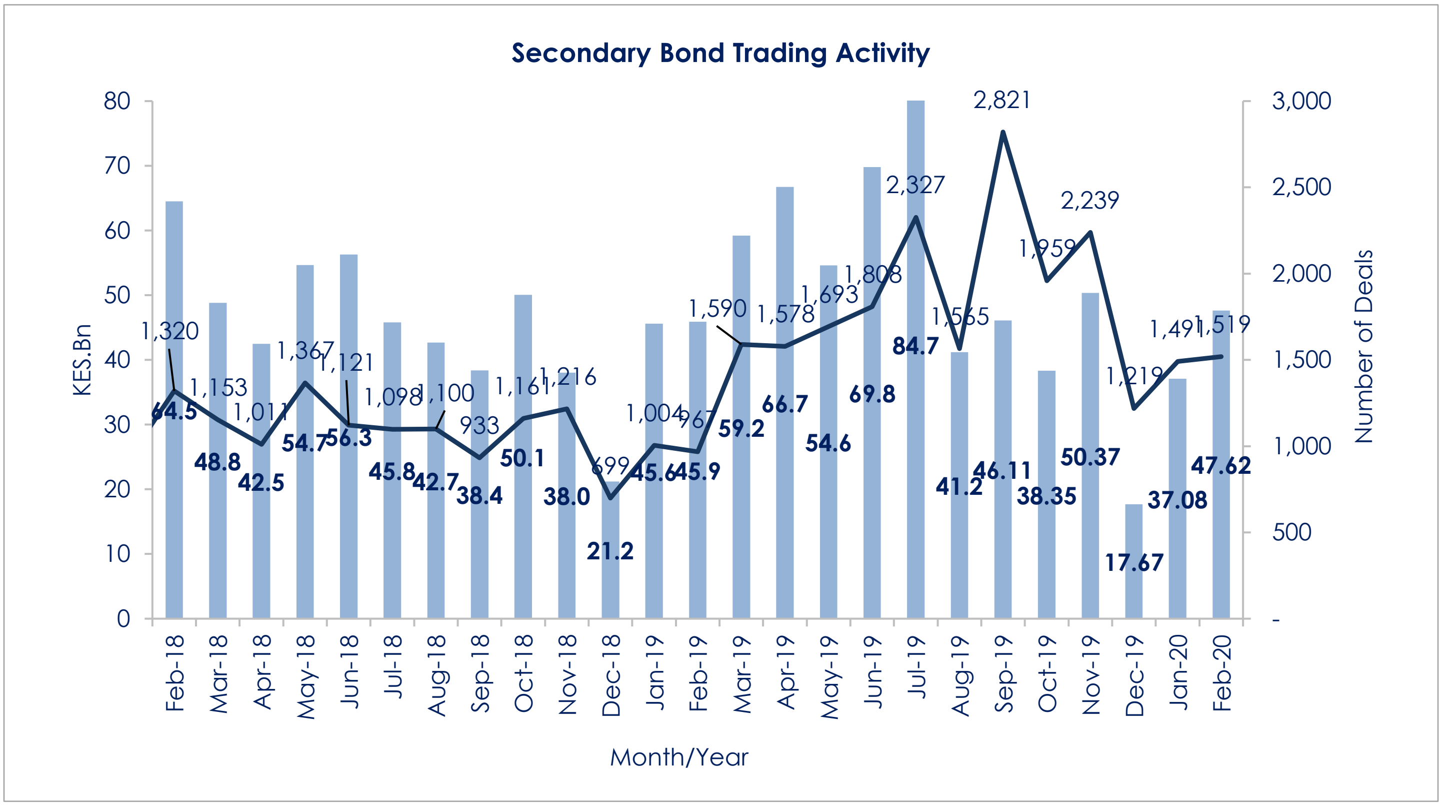


Source: Central Bank of Kenya

Secondary market trading activity up 28% in February 2020

- February 2020 bond trading turnover 28.4% to KES.47.62Bn with the number of deals up 1.9% to 1,519 (Fig.6).
- The improved trading activity in the secondary market was partially attributable to the undersubscription for long dated bond issues with investors redirecting their extra liquidity to the secondary market.
- Secondary market trading activity is expected to continue rising in the near term.

Fig.6: Secondary market trading turnover on the rise



Source: Central Bank of Kenya

Trading ideas – Trading portfolio buy short, income portfolio go long

- We recommend that investors with bond trading portfolios focus on buying bonds on the short end of the yield curve where most trading activity is concentrated as has been the case over the last few months.
- Investors with income portfolios on the other hand should look at investing in bonds on the long end of the curve where yields are rising.
- Furthermore, the CBK is ahead of its domestic borrowing program and will continue to focus on lengthening the maturity of its debt profile and we see it continuing the trend of issuing long dated bonds in the near term.

Table.5 - Trading ideas

Bond	Tenor (Years)	Coupon (%)	Modified Duration* (%)	Sterling Capital Yield to Maturity (%)	Current Yield** (%)	10-Year Historical Average Yield (Pre-Rate Cap)	Average Yield (Post-Rate Cap)
FXD1/2019/5	4.0	11.30	3.10	11.100	11.19	11.221	11.934
FXD3/2019/5	4.8	11.49	3.50	11.150	11.07	11.646	12.042
FXD2/2019/5	4.2	10.87	3.16	11.100	10.58	11.221	11.934
FXD1/2019/2	0.9	10.70	0.82	9.300	10.45	10.059	10.738
FXD1/2016/5	1.1	14.33	0.97	9.650	12.99	10.059	10.738
FXD1/2016/10	6.5	15.04	4.21	11.700	13.03	11.961	12.378
FXD1/2019/10	9.1	12.44	5.28	12.250	12.26	12.276	12.726

Source: Nairobi Securities Exchange & Sterling Research

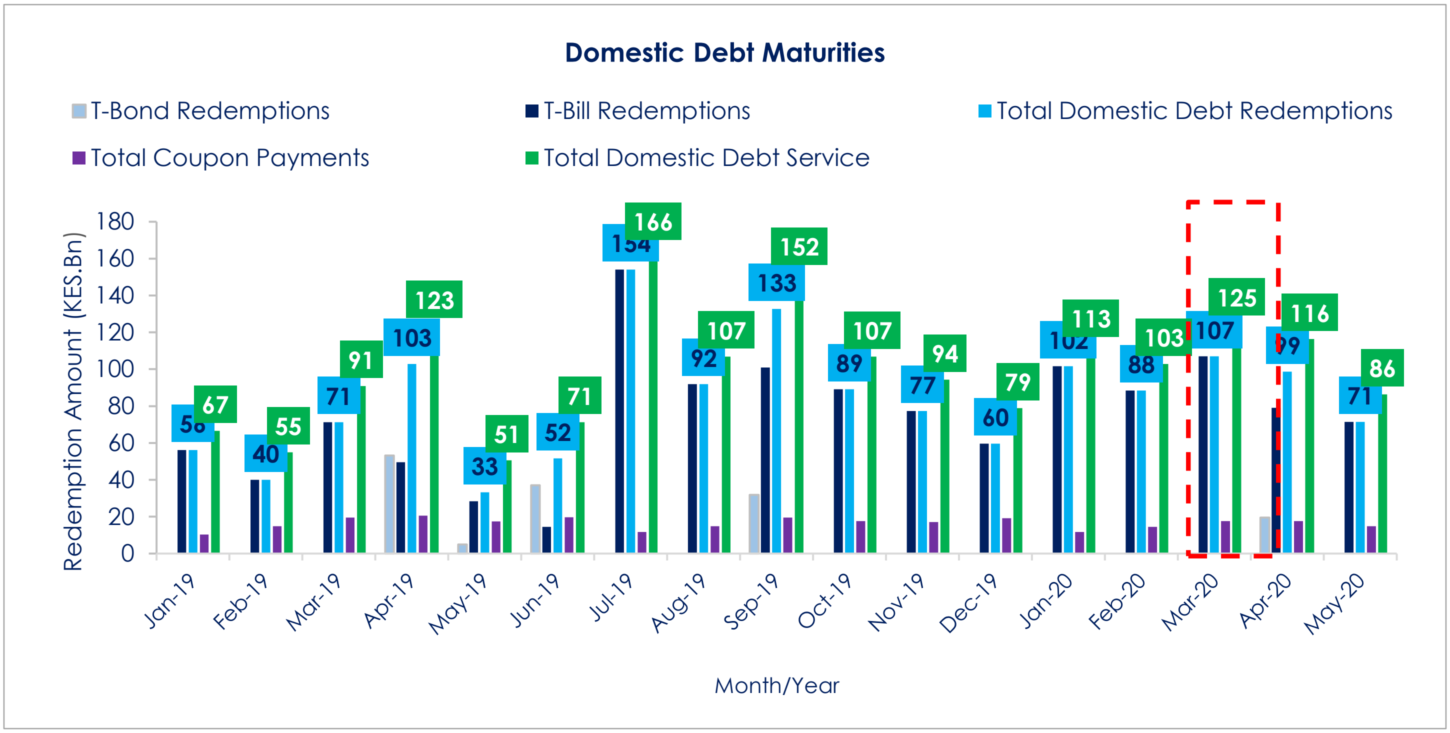
*Modified duration - Expresses the measurable change in the value of a security in response to a change in interest rates (for every 1% movement in interest rates, the bond would inversely move in price by the modified duration)
** Current Yield – Return on investment, for an investor holding a specific bond for 1 year

KES.125Bn in Total Domestic Debt Service for March 2020

Total domestic debt service in March 2020 – KES.125Bn inclusive of net redemptions and coupon payments

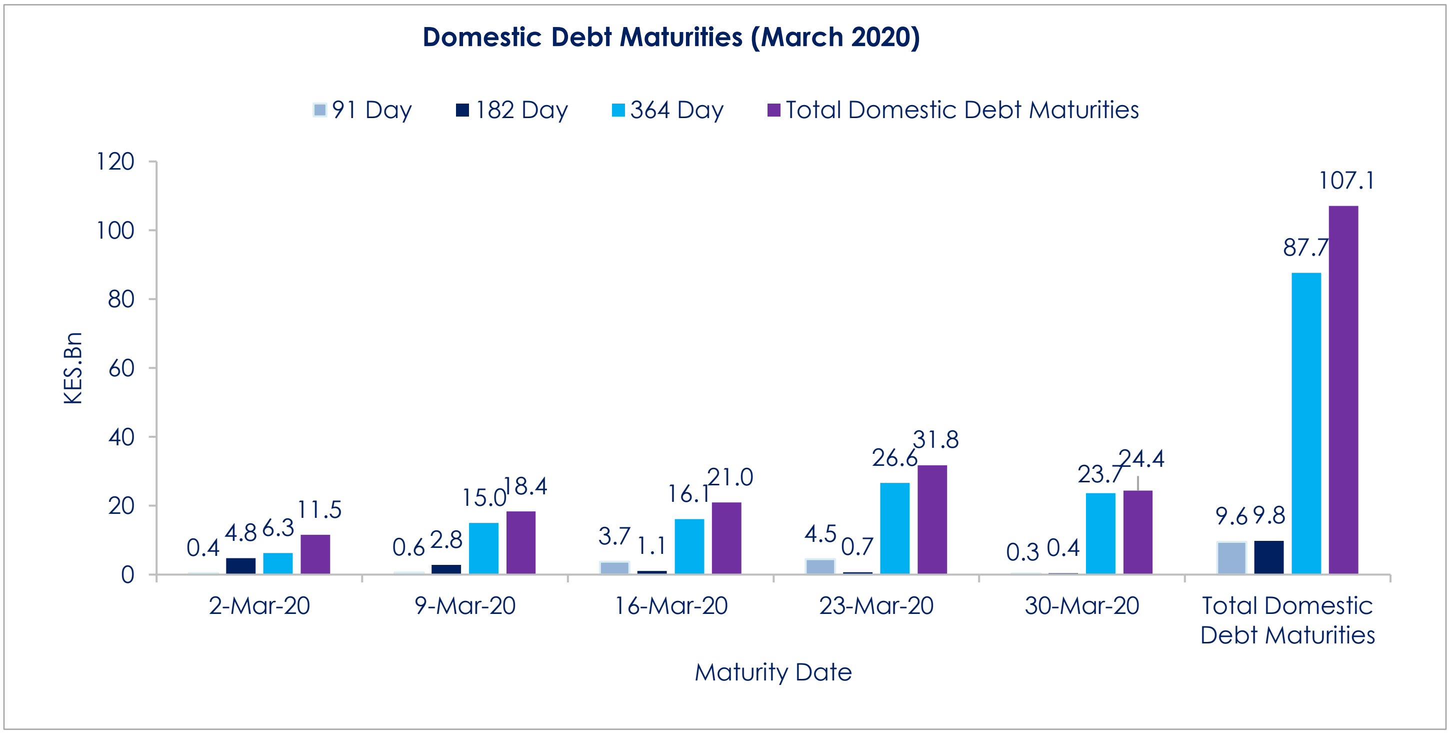
- A total of KES.124.7Bn will be paid out in domestic debt service in the Month of Match 2019 (Fig.7).
- This includes KES.107.1Bn in domestic debt redemptions (T-Bills only) and KES.17.7Bn in coupon payments on specific T-Bonds.
- T-Bill redemptions include KES.9.6Bn, KES.9.8Bn and KES.87.7Bn for the 91, 182 respectively.
- The first week and fourth weeks will record the lowest (KES.11.5Bn) and highest (KES.31.8Bn) redemptions respectively (Fig.7).
- We expect the high debt service costs this month to have an impact on primary debt auction activity and acceptance levels.
- Domestic debt maturities will decline to KES.98.5Bn in April including the first bond maturity in calendar year (KES.19.39Bn) and T-bills amounting to KES.79.09Bn.
- Maturities decline further in May 2020 indicating a decreasing government appetite for domestic borrowing in second quarter to fund these redemptions.

Fig.7: KES.107.06Bn debt redemptions, KES.18Bn in coupon payments set for March 2020



Source: Central Bank of Kenya

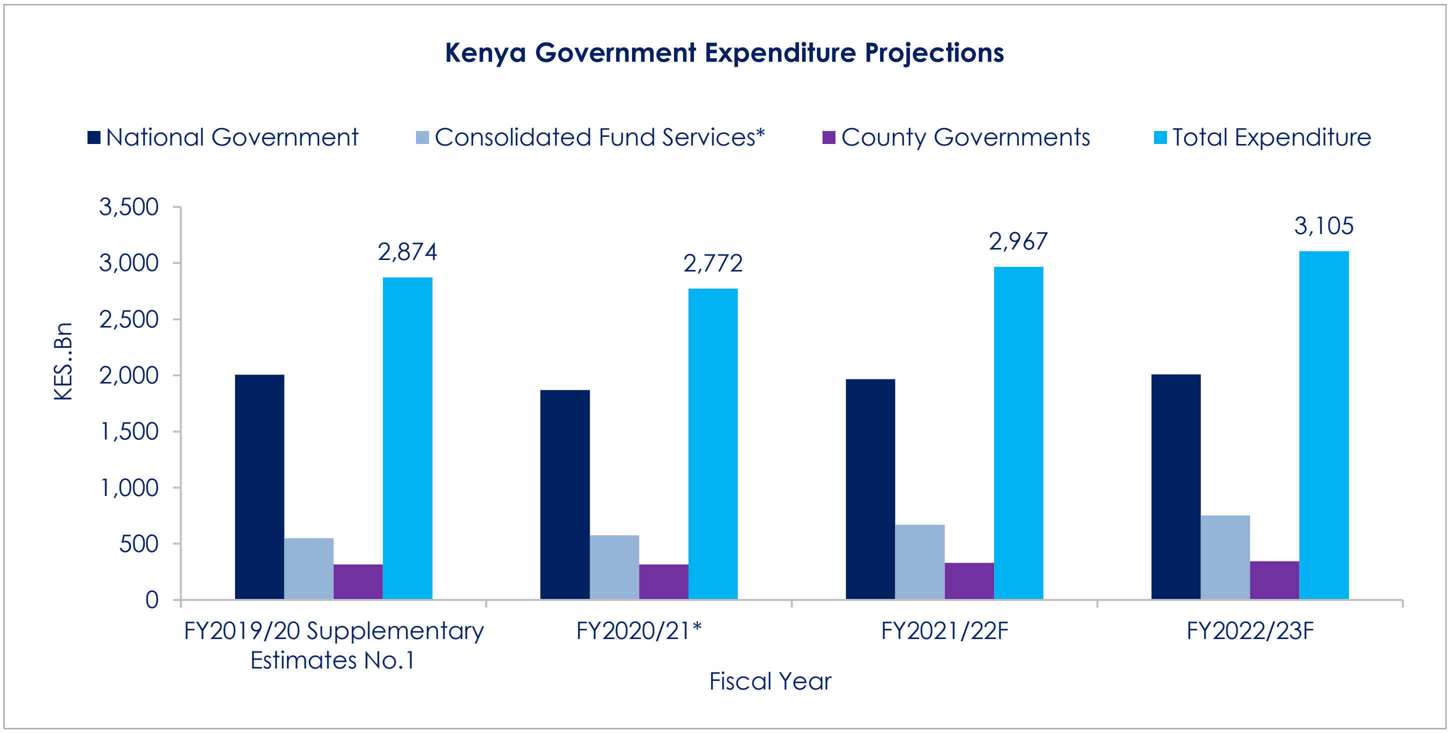
Fig.8: Weekly debt maturities in March 2020



Source: Central Bank of Kenya

- We have been critical of the Government's commitment to control its expenditure in spite of repeated statements by the Treasury to do the same.
- The National Assembly released the report of the Budget Appropriations Committee (BAC) on the Budget policy Statement (BPS) and the Medium-Term Debt Management Strategy (MTDMS) for the year 2020/21 on 4th March 2020.
- The report for the first time in the country's history shows a reduction in Total expenditure even though recurrent expenditure is projected to increase by KES.21Bn while development expenditure is expected to decline by KES.143.5Bn (Fig.9).

Fig9: 2020/21 Budget Policy Statement shows a reduction in Government Expenditure



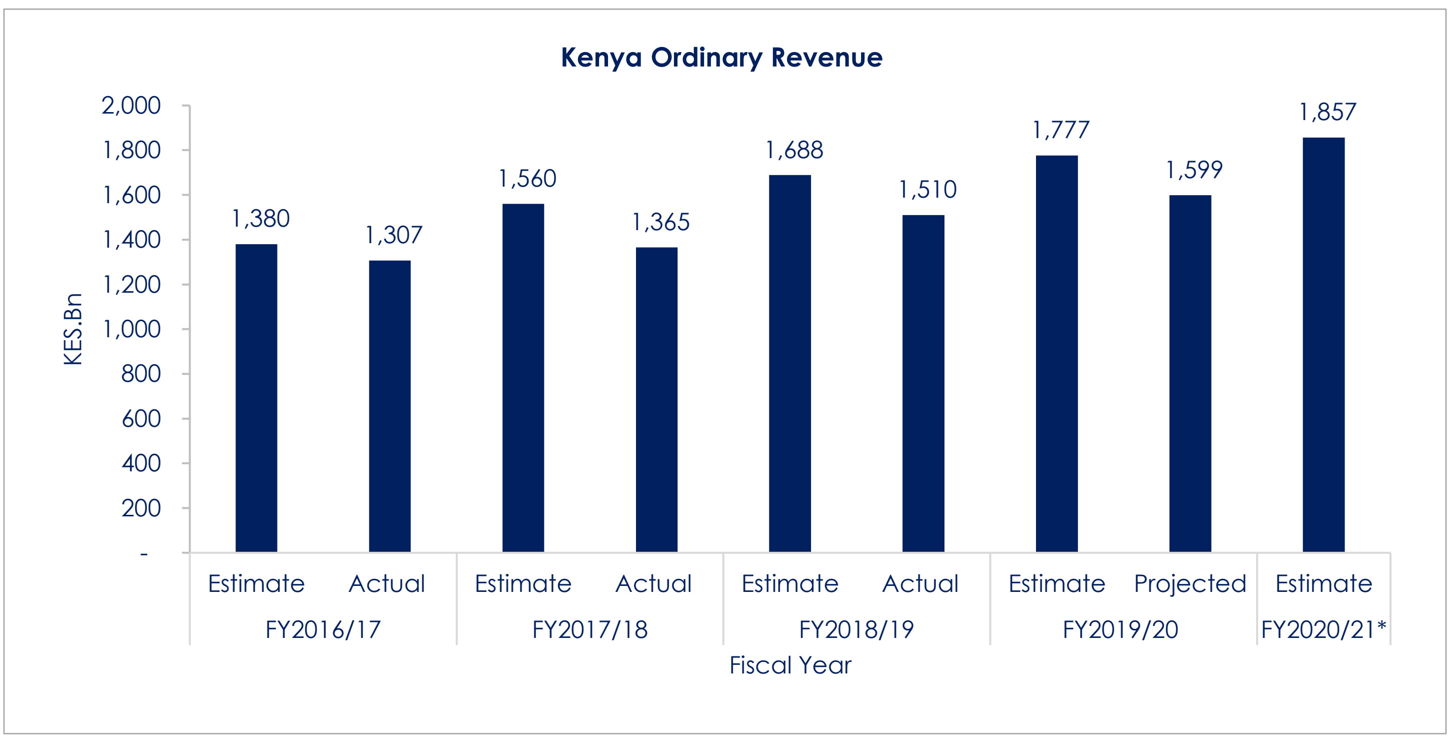
Source: Budget Appropriations Committee Report March 2020

National Treasury increases FY2020/21 revenue target and lowers borrowing target

National Treasury seeks to cut fiscal deficit and borrowing target FY2020/21

- With regards to Government revenue, the National Treasury has revised its 2019/20 target lower while giving a largely conservative 5-10% increase in ordinary revenue target FY2020/21 to KES.1.86Tn (Fig.10).
- What is evident from the BAC report is shift of borrowing strategy with the MTDMS proposing favouring an increase in domestic over external borrowing.
- This will see a 72-28% compared to 62:38% in 2019 even with the existing high refinancing risk of domestic debt a direct result of the high proportion of short term debt instruments.
- As a result of the budget cut and in spite of this shift in borrowing strategy, Treasury intends to borrow less - KES.571.2Bn FY2019/20 compared to 657.4Bn FY2019/20.
- We also take note of increased commercial borrowing FY2020/21 to KES...274.4Bn from KES.213.1Bn FY2019/20 contrary to the 2019 BPS which had showed the intention to target concessional rather than commercial borrowing.
- We see this increase in domestic and commercial borrowing as additional risks in Treasury's debt management strategy keeping in mind that the country has breached its 30% debt service ratio.

Fig.10: 2020/21 fiscal deficit and borrowing target reduction



Source: Budget Appropriations Committee Report March 2020 & Sterling Capital Research

National Treasury's receipts below required run-rate at 54% of 2019/20 target

KES.1.43Tn in receipts equivalent to 54% of total receipts target after the first seven months of the 2019/20 fiscal year

- The National Treasury has lost further ground on its 2019/20 receipts target with KES.1.43Tn (54%) of the total KES.2.65Tn received (Fig.11).
- This falls below our linear 7 months target of 58.3% or KES.1, 54Tn required to achieve the total receipts revised target.
- This means a growing likelihood of the National Treasury achieving approximately 90% of its target equivalent to KES.2.39Tn.
- Concerns remain on the ability of the Government to meet its tax targets that stood at KES.897.7Bn (52.7%) as at the end January 2020 in spite of visible efforts to increase tax receipts through increased taxation, tax payers and compliance.
- Domestic Lending & on-lending, loans as well as grants from foreign Governments and international organizations are the other revenue sources that have fallen short of our required run rate at 36.8%, 26.3% and 48.2% respectively.
- CBK is just above (59.3% against 58.3%) our target run-rate on domestic borrowing as it keeps up the pressure to meet the fiscal deficit financing target.
- We however expect treasury to step up its receipts collection target to narrow the gap between actual and target receipts gap with domestic borrowing likely to be a main source of receipts in the second half of the 2019/0 fiscal year.

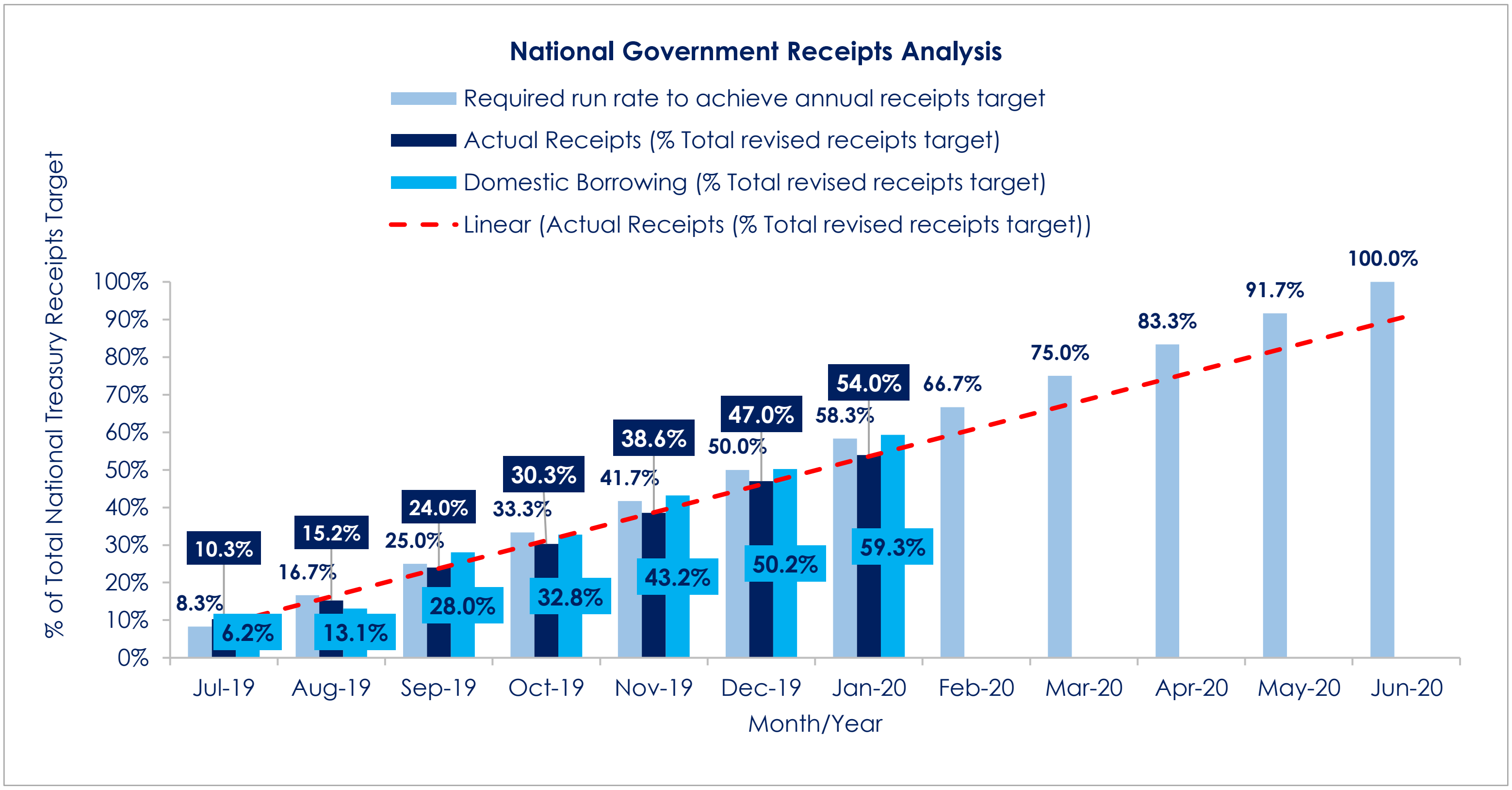
Table.6: CBK on course with its domestic borrowing target

Receipts	2019/20 Original Estimates (KES.Bn)	2019/20 Revised Estimates (KES.Bn)	Actual Receipts (KES.Bn) 31st Dec 2019	Actual Receipts (KES.Bn) 31st Jan 2020	Proportion of Receipt Target Achieved 31st Dec 2019
Opening Balance (1st July			98.9	98.9	
Total Tax Income	1,807.6	1,705	779.3	897.7	52.7%
Total Non-Tax Income	69.5	138.9	78.5	81.7	58.8%
Domestic Borrowing*	429.4	514.0	258.2	304.8	59.3%
Loans -Foreign Gov't & International Org	65.2	66.1	10.1	17.3	26.3%
Programme Loan-Budget	2.0	2.0	4.7	11.8	588.5%
Domestic Lending & on-lending	4.3	4.3	1.6	1.6	36.8%
Grant -Foreign Gov't &	14.5	17.7	6.5	8.5	48.2%
Grants from AMISON	5.0	4.0	1.9	2.9	72.5%
Commercial Loan	200.0	200.0	0.0	0.0	0.0%
Unspent Balances (Recoveries)			5.7	5.7	-
Total Revenue	**2,598**	**2,651.9**	**1,245.4**	**1,430.9**	**54.0%**

* Note 1: Domestic Borrowing of KES. 514.6 = Net Domestic borrowing KES.391.4 & Internal debt redemptions (Roll-overs) KES.122.6.

Source: The Kenya Gazette Vol. CXXII - No.34 21st February 2020

Fig.11: CBK is below 2019/20 total receipts target but above the revised domestic borrowing target



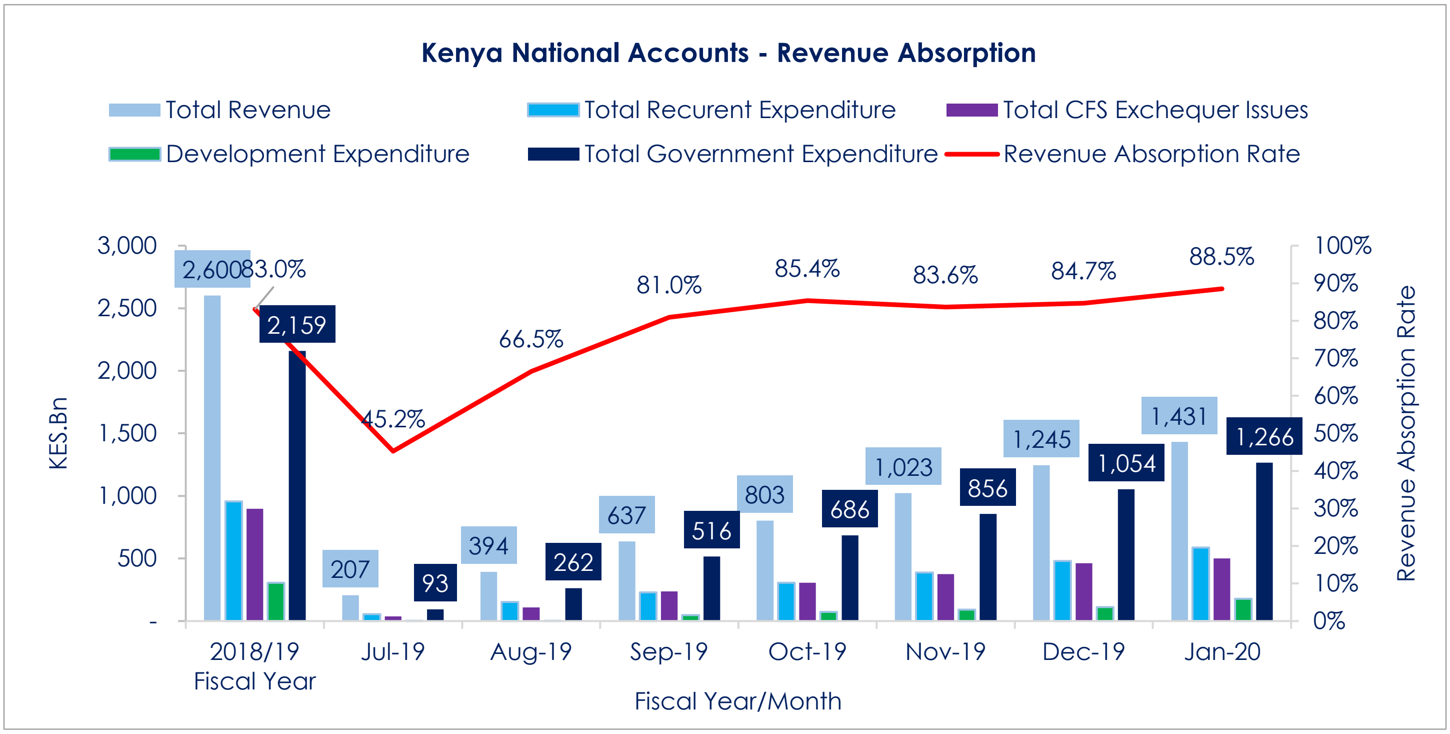
Source: The Kenya Gazette Vol. CXXII - No.34 21st February 2020

Revenue absorption rate increased to 88.5% in January 2020 from 84.7% in December 2019

National Treasury and Kenya Revenue Authority Step up efforts to meet Government's financing needs

- The "Revenue Absorption Rate" (RAA) is the rate at which the National Treasury uses its receipts (revenue) to finance its expenditure.
- A high absorption rate indicates high financing needs since most revenue is used to finance expenditure with little remaining unspent.
- RAA at the end of January 2020 increased to 88.5% compared to 84.7% at the end of December 2019 and 83.6% in November of the same year (Fig.12).
- This is an indication that the tax collection authority and the CBK are under pressure to raise capital to meet the Government's financing requirements.
- This strain is evident in efforts by the Kenya Revenue Authority (KRA) in cracking down on tax evaders and enforcing compliance with new taxes imposed such as the 3% turnover tax introduced on small businesses with gross sales not exceeding KES.5Mn annually.
- The CBK has also stepped up its domestic borrowing efforts with large long-term bond issuances KES.50Bn in recent auctions.

Fig.12: Revenue absorption rate increases and so is the pressure to finance expenditure



Source: The Kenya Gazette Vol. CXXII - No.34 21st February 2020

Yield curve normalizing gradually

NSE yield curve normalizing with short term yields declining

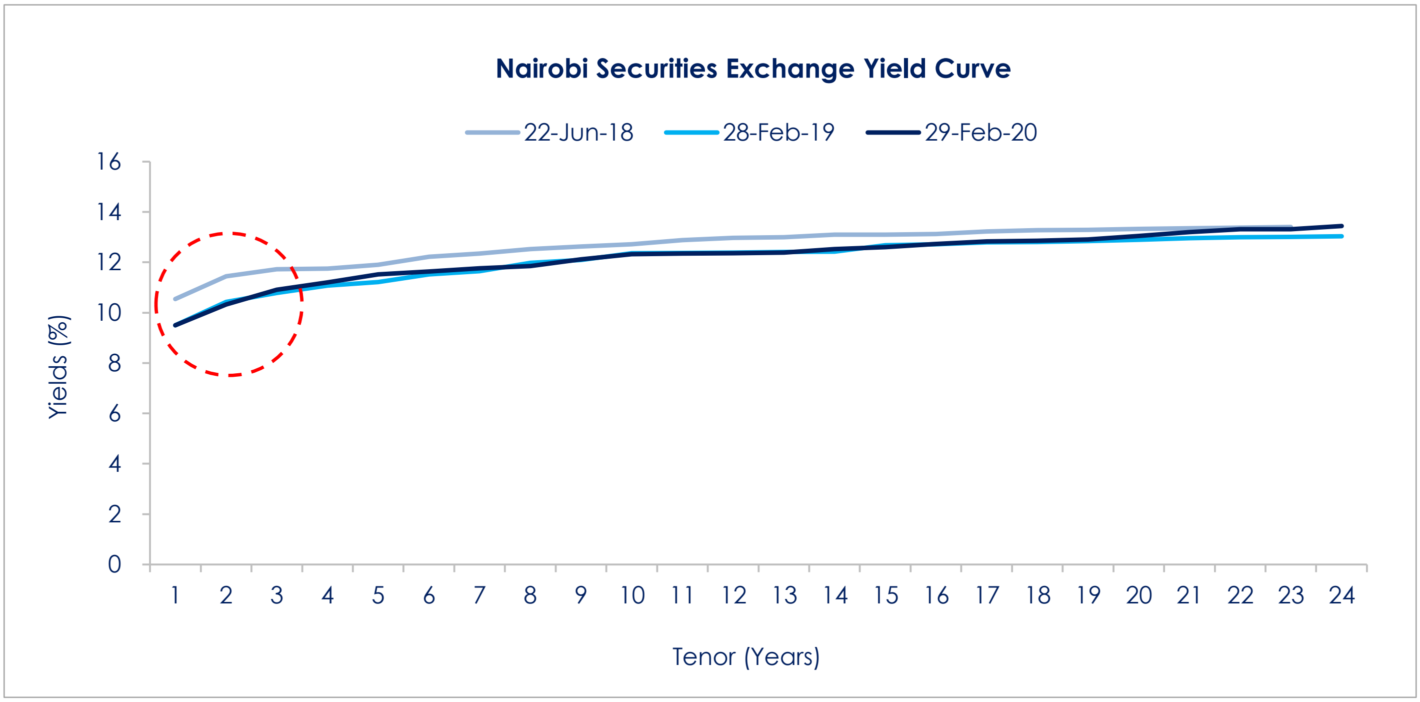
- A comparison of the yield curve at 29th February 2020 and the end of June 2018 (time of issue of FXD1/2018/25) shows that it is reverting to a normal yield curve having been relatively flat over the last few months (Table.6).
- This has been the result of steepening of the short end because yields have declined faster than those on the long end 8(Table.6).
- 1, 5 and 20 year yields have risen while those on the 2, 10 and 15 Year tenors have declined (Table.6).
- We believe the increase in long term yields have been resulted from the CBK's efforts to lengthen maturity of their liabilities, reopening a 25-Year bond and issuance of a 15-Year bond in February and the re-opening of 20 and 25 year bonds this month.
- We maintain the view that the long term issues are not only an attempt to lengthen debt maturity but also an attempt to restore a normal yield curve with higher longer term yields.
- We expect a gradual increase in interest rates as the widening fiscal deficit forces the Government to continue borrowing from both domestic and external sources.
- **We maintain our recommendation to BUY short and medium term bonds and HOLD long term papers.**

Table.6: 1Year, 5Year and 20 Year Yields increase year on year.

Tenor	22nd Jun 2018	28th Feb 2019	Yield (29th Feb 2020)	Change June 2018 vs Feb 2020 (Bps)	Change Feb 2019 vs Feb 2020 (Bps)	Sterling Capital yield Curve(6th March 2020)
1	10.5370	9.4920	9.500	↓103.7	↑0.80	9.30
2	11.4491	10.4244	10.3307	↓111.8	↓9.37	9.80
5	11.8992	11.2167	11.5250	↓37.4	↑30.83	11.00
10	12.7190	12.3603	12.3167	↓40.2	↓4.36	12.15
15	13.1033	12.6781	12.6000	↓50.3	↓7.81	12.70
20	13.3209	12.8900	13.0521	↓26.9	↑16.21	13.00

Source: Nairobi Securities Exchange

Fig.13: Yields on long term papers increase to the June 2018 levels



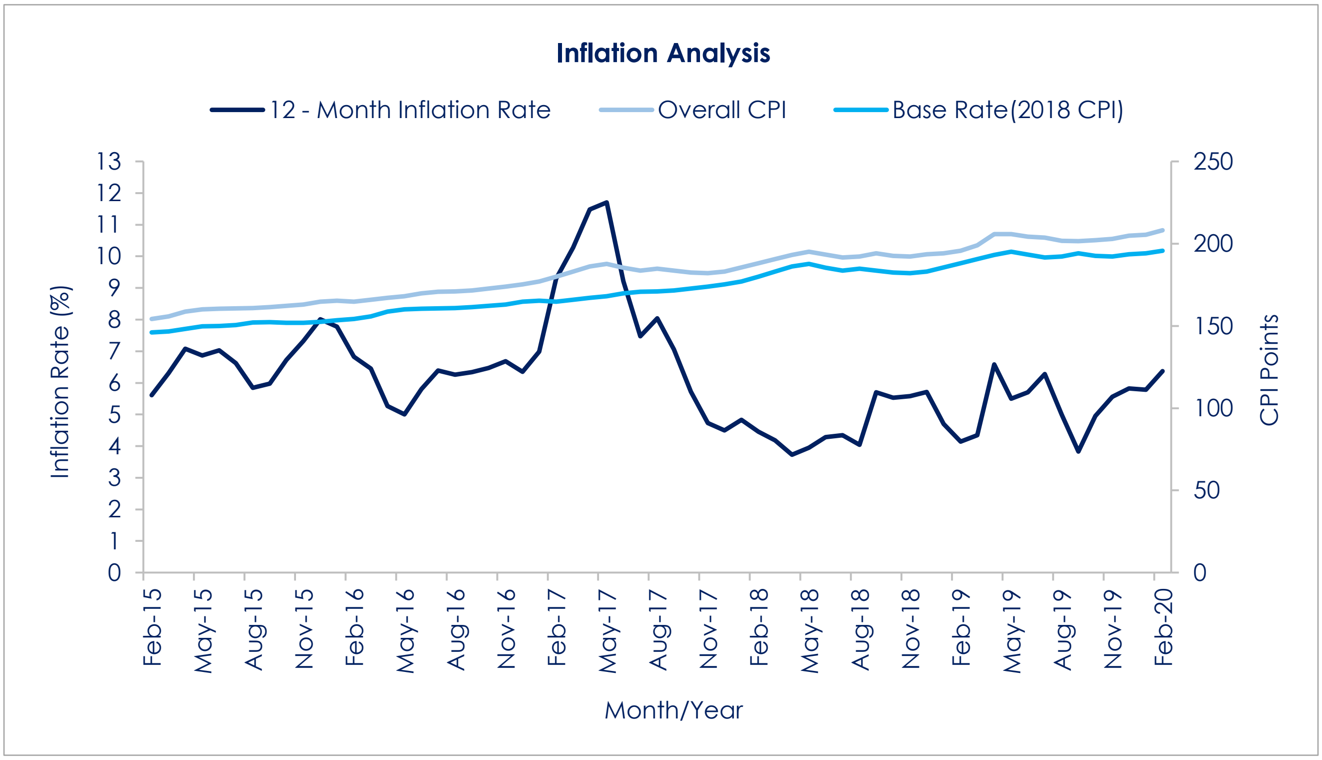
Source: Nairobi Securities Exchange

March 2020 inflation forecast 6-6.5%

March 2020 inflation forecast 6-6.5% with food prices expected to rise

- The overall year on year inflation for the month of February 2020 rose to 6.4% compared to 5.8% the previous month.
- It was the highest inflation rate since April 2019, driven by prices of food (10.6% vs 9.6% in January 2020), especially tomatoes (62.4%), amid widespread shortages probably linked to the locust plague.
- Additional upward pressure came mostly from transport (5% from 4.2%) housing & utilities (3% from 2.7%).
- Brent Crude oil (US$49.68 per barrel) has been on a decline due to a demand slowdown sparked by the COVID-19 epidemic with the OPEC oil produces struggling to reach an agreement on output cuts in an effort to stabilize prices.
- The benefits accruing from lower crude prices are likely to be offset by a depreciating Kenya Shilling following the announcement by the CBK earlier this week that it would buy US$100Mn to shore up its foreign currency reserves.
- **Our March 2020 inflation forecast is 6.0% - 6.5% based on expectations of poor performance in the food and non-alcoholic index.**
- We expect the inflationary pressure to be sustained within the upper band of the target range 2.5%-7.5% in the short term. We don't anticipate this to influence a revision of the CBR in the near term because it is not only temporary but also falls within the target range.

Fig.14: March 2020 inflation forecast 6.0% - 6.5%



Source: Kenya National Bureau of Statistics

Monetary Policy Committee likely to hold benchmark rate in next meeting

MPC likely to hold CBR at 8.25%, inflationary pressure temporary

- The Monetary Policy Committee (MPC) meets on 23rd March 2020 in what we expect will be used to review the outcome of the last two revisions of the CBR.
- While some banks have reviewed lending rates lower, interest rates on domestic debt have remained largely unchanged.
- Private sector credit growth has remained subdued as banks continue to manage asset quality that has deteriorated in recent months.
- Of note has been the rise in inflationary pressure in the months of January and February which although lower than the CBK's upper range of 7.5% is considerably high.
- We however believe that this is temporary and does not warrant any monetary policy intervention in the near term.
- The MPC is likely to consider the impact of global uncertainty over the impact of the Corona Virus outbreak on economic activity with disruptions already affecting commodity prices.
- With the above in mind, we see a high possibility of the MPC maintaining the CBR at 8.25% at least until their next meeting in May 2020.

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