



**Tuesday, 22 June 2021**

**Analysts:**

**Renaldo D'Souza**

+254 (20) 2222651

Renaldo.DSouza@sterlingib.com

**Elizabeth Njenga, CFA**

+254 (20) 2222651

Elizabeth.Njenga@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](http://www.sterlingib.com)

**Bloomberg Code:** SCLK <GO>

# Fixed Income

## Tap Sale Update Note

### June 2021

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## June 2021 bond Tap-sale update note

- The Central Bank issued a tap sale for two bonds that were issued earlier in the month: **FXD1/2012/20 (11.4 years)** and **FXD1/2019/20 (17.9 Years)** seeking to raise KES.50Bn.
- The tap sale will be open from Monday, 21<sup>st</sup> June 2021 to Thursday, 1<sup>st</sup> July 2021 or upon attainment of quantum, whichever comes first.
- The accepted rates for FXD1/2012/20 and FXD1/2019/20 were 12.498% and 13.261% respectively. These rates will be applicable in the tap sale.
- The small target amount in the initial bond offer (KES.30Bn) was an indication that the CBK would issue a tap sale soon after.
- The need to increase the Average Term to Maturity (ATM) of public debt made the tap sale of the longer dated security increasingly likely.
- We expect an oversubscription for the issue this is as a result of high market liquidity prompted by a low interest rate environment.
- The economic slowdown brought about by Covid-19 pandemic means that tax revenue will remain subdued and growth if any, in 2021/22 will be modest.
- Thus 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 at KES.658.5Bn and KES.271.2Bn respectively.
- Liquidity has improved in the market supported by government payments which offset remittances.
- The interbank rate has dropped to 4.4% in 21<sup>st</sup> June 2021 from 6.5% on 4<sup>th</sup> January 2021 while the repo rate has declined to 5.3% in 18<sup>th</sup> June 2021 compared to 6.8% in 4<sup>th</sup> January 2021.
- Total debt service in June 2021 is KES.82.7Bn comprising of KES.67.7Bn in T-Bills and KES.14.9Bn in coupon payments with no T-Bond maturities.

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