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Fixed Income

Tap Sale Update Note

May 2021

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May 2021 bond Tap-sale update note

- The Central Bank issued a tap sale for two bonds that were issued earlier in the month: **FXD2/2019/15 (13 years)** and **FXD1/2021/25 (25 Years)** seeking to raise KES.20Bn.
- The tap sale will be open from Tuesday, 11th May, 2021 to Wednesday, 19th May, 2021 or upon attainment of quantum, whichever comes first.
- The accepted rates for FXD2/2019/15 and FXD1/2021/25 were 12.975% and 13.924% 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.
- In addition, 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 anticipate an oversubscription for the issue due to the relatively small size of the offer at KES.20Bn and high market liquidity.
- The upward shift in the yield curve will worsen “crowding out” with Government debt now offering almost similar yields as private sector lending but with significantly lower risk.
- Liquidity has improved in the market supported by government payments which offset remittances.
- The interbank rate has dropped to 2.4% from 6.5% on 4th January 2021 while the repo rate has declined to 5.5% compared to 6.8% at the beginning of January.
- Total debt service in May 2021 is KES.110.3Bn, comprising of KES.95.4Bn in T-Bills and KES.14.9Bn in coupon payments with no T-Bond maturities.

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