Thursday, 09 December 2021

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Fixed Income

Primary Auction Update Note

December 2021

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December 2021 Treasury Bond primary auction results update

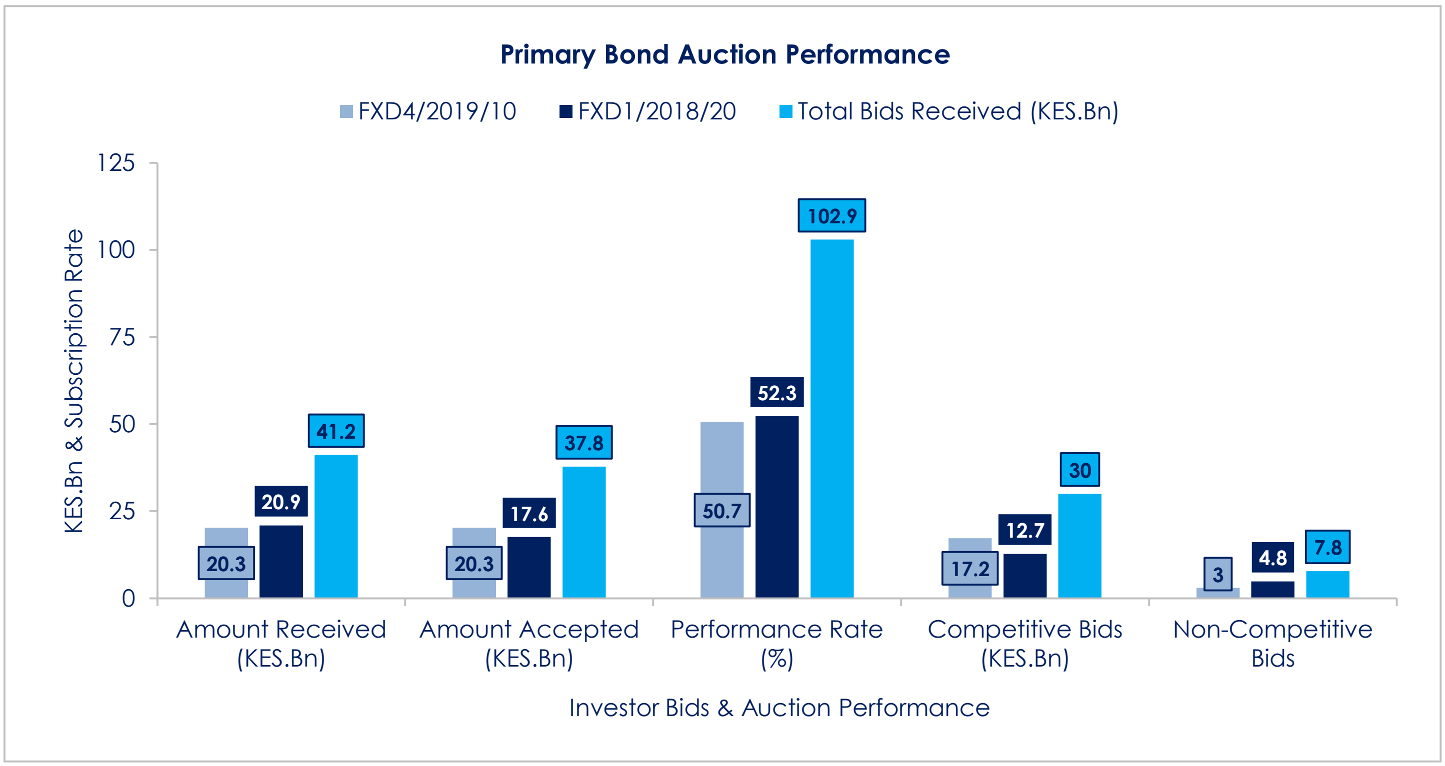
- The Central Bank of Kenya (CBK) re-opened two bonds in December 2021, FXD4/2019/10 and FXD1/2018/20 seeking to raise KES.40Bn for budgetary support;

  FXD4/2019/10 (8*),
  FXD1/2018/20 (16.4*).
  Years to maturity

Subscription Rates

- Aggregate subscription was KES.41.2Bn representing a 102.9% subscription rate with the CBK accepted bids worth KES.37.8Bn (Figure.1).
- Contrary to our expectations in our December fixed income report, [2021 draws to a close with a KES.40Bn Debt issue], the bonds were oversubscribed which is attributable to the low target amount.

Figure.1: Primary Bond Auction subscription



Source: Central Bank of Kenya

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Weighted Average Rates

- An analysis of our predicted Weighted Average Rates (WAR) ranges as indicated in our December 2021 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)
FXD4/2019/10	12.70 -12.80	12.642	-10.8	12.55 - 12.65	12.642	4.2
FXD1/2018/20	13.30 - 13.40	13.415	6.5	13.15 – 13.25	13.366	16.6

Source: Central Bank of Kenya

- The auction results signal an upward shift in the yield curve, particulary on the medium term tenor which stood at 12.3988% as at 3rd December 2021.
- For the 20-year, we do not see any significant change on the yield curve as the tenor remained flat at 13.3696%.
- Overall, the yield curve has shifted upwards with average yields higher in 2021 compared to the same period in 2020.
- This trend is largely attributable to an increase if budget fiscal deficit financing.
- T-Bill rates begun rising towards the end of Q2 2021 signalling that T-Bill rates have bottomed out.
- The repo rate as of 7th December 2021 was 5.354% pointing to a tightening of liquidity environment.
- We predict that the gradual increase in yields on short, medium and long dated debt will continue for the remainder of the year as well as into the first quarter of 2022 due to budgetary deficit pressures.
- For investors, Government debt continues to present a compelling investment case for both "Buy and hold" or active bond trading strategies.
- We identify two bonds, namely, FXD1/2021/5 and IFB1/2021/21 as attractive investment options for both short and long-term investors.
- The 5-year issue is attractive largely because of its relatively short tenor and has been trading heavily since its issuance in October 2021.
- Infrastructure Bonds (IFBs) have attractive yields (due to withholding tax exemption), favourable for capital appreciation as well as provide high liquidity.

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