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# Fixed Income

## Primary Auction Update Note II

**January 2022**

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## January 2022 Treasury Bond primary auction results update

- The Central Bank of Kenya (CBK) issued three bonds in January 2022, FXD1/2020/5, FXD2/2018/10 and FXD1/2021/20 seeking to raise KES.60Bn for budgetary support;

**FXD1/2020/5** (3.4\*),

**FXD2/2018/10** (7\*),

**FXD1/2021/20** (19.7\*).

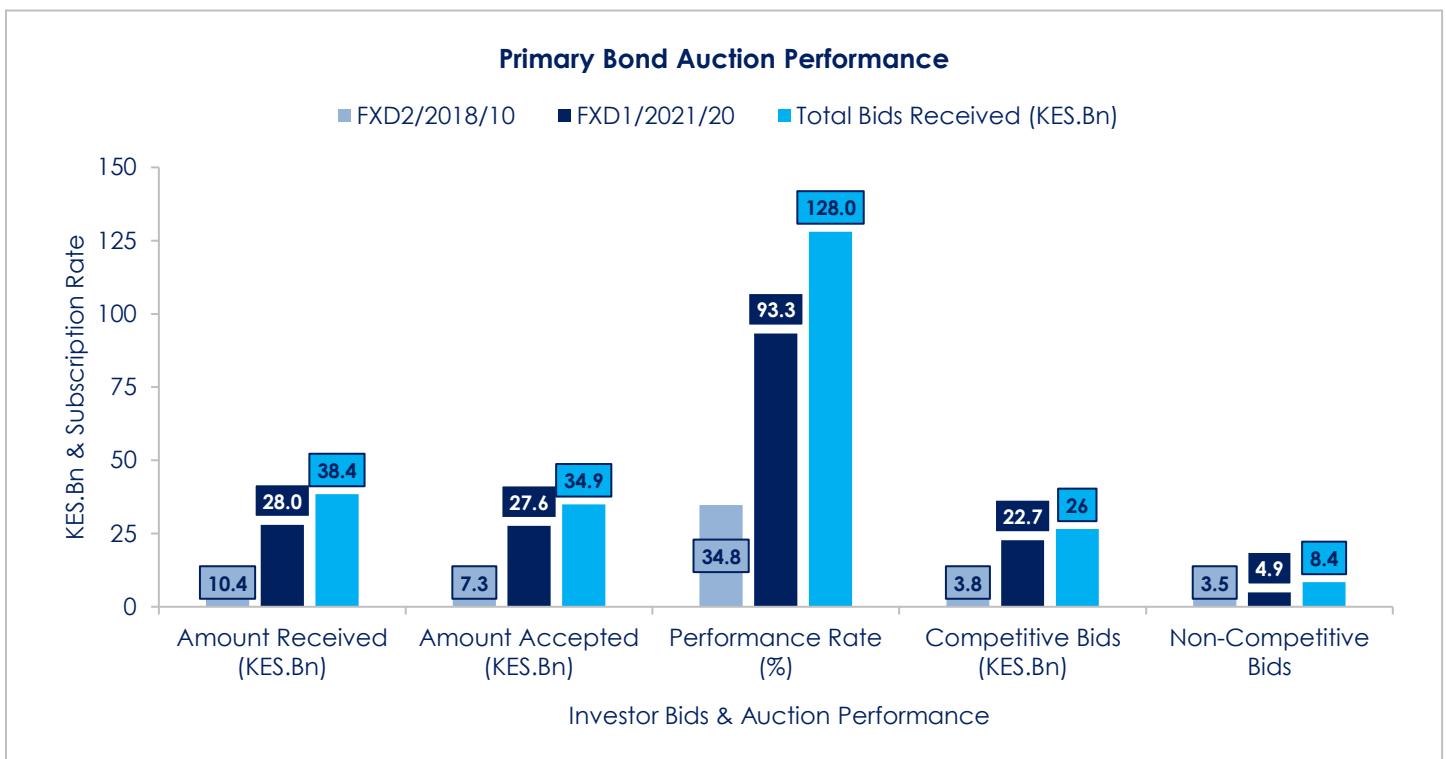
**\*Years to maturity**

- The bonds had different periods of sale with the FXD1/2020/5 being between 20<sup>th</sup> December 2021 and 4<sup>th</sup> January 2022, while the FXD2/2018/10 and FXD1/2021/20 between 20<sup>th</sup> December 2021 and 18<sup>th</sup> January 2022.
- This results update will focus on the FXD2/2018/10 and FXD1/2021/20 whose auction date was on the 19<sup>th</sup> of January 2022.

### Subscription Rates

- Subscription for the two bonds was KES.38.4Bn against a target of KES.30Bn representing a 128% subscription rate with the CBK accepting bids worth KES.34.9Bn (Figure.1).
- In line with our expectations in our second January fixed income report, ["Fixed Income Update Report - January 2022."](#) the bonds were oversubscribed which we attribute to the longer period of sale, improved liquidity and the relatively low target amount.

**Figure.1: Primary Bond Auction subscription**



Source: Central Bank of Kenya

## Weighted Average Rates

- An analysis of our predicted Weighted Average Rates (WAR) ranges as indicated in our January 2022 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) |
|---------------------|----------------------------------|---------------------------------------|--|----------------------------------|---------------------------------------|--|
| <b>FXD2/2018/10</b> | 12.54 – 12.59                    | 12.695                                | 13   | 12.44 – 12.49                    | 12.561                                | 9.6  |
| <b>FXD1/2021/20</b> | 13.74 – 13.79                    | 13.798                                | 3.3  | 13.69 – 13.74                    | 13.792                                | 7.7  |

Source: Central Bank of Kenya

- The auction results signal mixed trends on the yield curve with the ten year yield curve tenor shifting slightly downwards while the twenty-year shifts upwards.
- The ten and twenty-year yields stood at 12.5914% and 13.5400% as at 14<sup>th</sup> January 2022.
- Overall, the yield curve has been shifting upwards with average yields higher in 2021 compared to the same period in 2020, a trend we expect to continue in 2022.
- T-Bill rates begun rising towards the end of Q2 2021 signaling that T-Bill rates have bottomed out.
- The repo and interbank rates as of 14<sup>th</sup> January 2022 were 4.8% and 3.4% pointing to an improving liquidity environment.
- We predict that the gradual increase in yields on short, medium and long dated debt will continue 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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