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Fixed Income

Primary Auction Update Note

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;

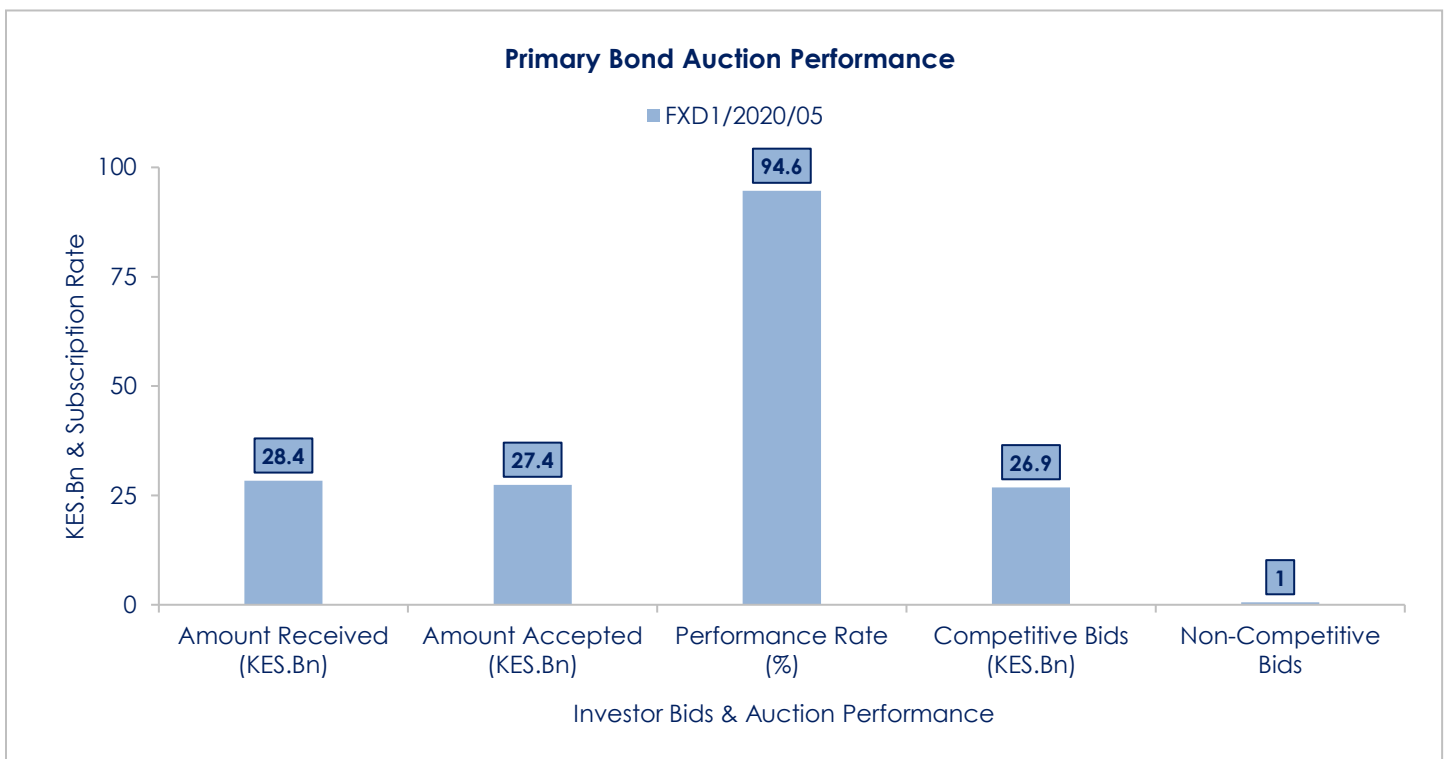
FXD1/2020/5 (3.4*),
FXD2/2018/10 (7*),
FXD1/2021/20 (19.7*).
 *Years to maturity

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

Subscription Rates

- Subscription for the bond was KES.28.4Bn against a target of KES.30Bn representing a 94.6% subscription rate with the CBK accepted bids worth KES.27.4Bn (Figure.1).
- Contrary to our expectations in our January fixed income report, "[On to H2 of the 2022/23 fiscal year](#)," the bond was undersubscribed which we attributable to the tight period of sale in the midst of the festive season.

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)
FXD1/2020/5	10.90 -11.10	11.26	26	10.85 - 10.95	11.23	33

Source: Central Bank of Kenya

- The auction results signal a downward shift in the five year yield curve tenor which stood at 11.4162% as at 31st December 2021.
- Overall, the yield curve shifted 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 signalling that T-Bill rates have bottomed out.
- The repo rate as of 4th January 2022 was 5.4% pointing to a tight 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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