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# Fixed Income Note Update January 2022

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## Executive Summary

- This summary note is an update to our fixed income report for the month of January 2022 titled “**On to H2 of the 2022/23 fiscal year.**”
- The January fixed income report focused on the first debt issues in the 2022 calendar year where the Central Bank of Kenya (CBK) seeks to raise KES.60Bn through three re-opened bonds; **FXD1/2020/5 (3.4 years), FXD2/2018/10 (7 years) and FXD1/2021/20 (19.7 years).**
- Our updated note focuses on our weighted average bid predictions for the FXD2/2018/10 and FXD1/2021/20:

### **Weighted Average Rate (WAR) of investor bids**

FXD2/2018/10: 12.54 - 12.59

FXD1/2021/20: 13.74 - 13.79

### **WAR of accepted bids**

FXD2/2018/10: 12.44 - 12.49

FXD1/2021/20: 13.69 - 13.74

- Also analyzed are the current market liquidity levels as well as the Government's upcoming domestic debt maturities and borrowing calendar.

## CBK's January bond issues target KES.60Bn

- The Central Bank of Kenya (CBK) invited bids for three re-opened treasury bonds in January; **FXD1/2020/5**, **FXD2/2018/10** and **FXD1/2021/20** in a bid to raise KES.60Bn through two auctions.
- The three bonds have remaining terms to maturity of 3.4, 7 and 19.7 years respectively.
- FXD1/2020/5 sought to raise KES.30Bn and was auctioned on the 5<sup>th</sup> of January 2022, recording a subscription rate of 94.6% which was below our expectations of an oversubscription as highlighted in our [Fixed Income Report - Primary bond auction results update](#).
- We attributed the undersubscription to the tight period of sale in the midst of the festive season.
- Given the longer period of sale, improving liquidity and low target amount, we expect the other bond issues, FXD2/2018/10 and FXD1/2021/20 to have optimum demand with subscription coming in between KES.30 - KES.35Bn.

**Table.1: Primary Bond issue summary**

<b>Issue Number</b>	<b>FXD2/2018/10</b>	<b>FXD1/2021/20</b>
Total Amount Offered	KES.30Bn	
Tenor	10 Years	20 Years
Term to Maturity	7 Years	19.7 Years
Coupon Rate (%)	12.502	13.444
Price Quote	Discounted/Premium/Par	
Period of Sale	20 <sup>th</sup> December 2021 – 18 <sup>th</sup> January 2022	
Auction Date	19 <sup>th</sup> January 2022	
Value Date	24 <sup>th</sup> January 2022	
Yield Curve (%) (Weighted average tenor - 7 <sup>th</sup> Jan 2022)	<b>12.1530</b>	<b>13.1590</b>

Source: Central Bank of Kenya

## Weighted and accepted bids average estimates

- Our analysis of yields of bonds of similar tenors on the Nairobi Securities Exchange (NSE) as at 7<sup>th</sup> January as well as discussions with fixed income traders resulted in the following bid predictions for the treasury bonds (Table.2).

**Table.2: Auction bid predictions**

<b>Rate</b>	<b>FXD2/2018/10</b>	<b>FXD1/2021/20</b>
Market Weighted Average Rate (%)	12.54 - 12.59	13.74 - 13.79
Weighted Average Rate of Accepted Bids	12.44 - 12.49	13.69 - 13.74

Source: Sterling Capital Research

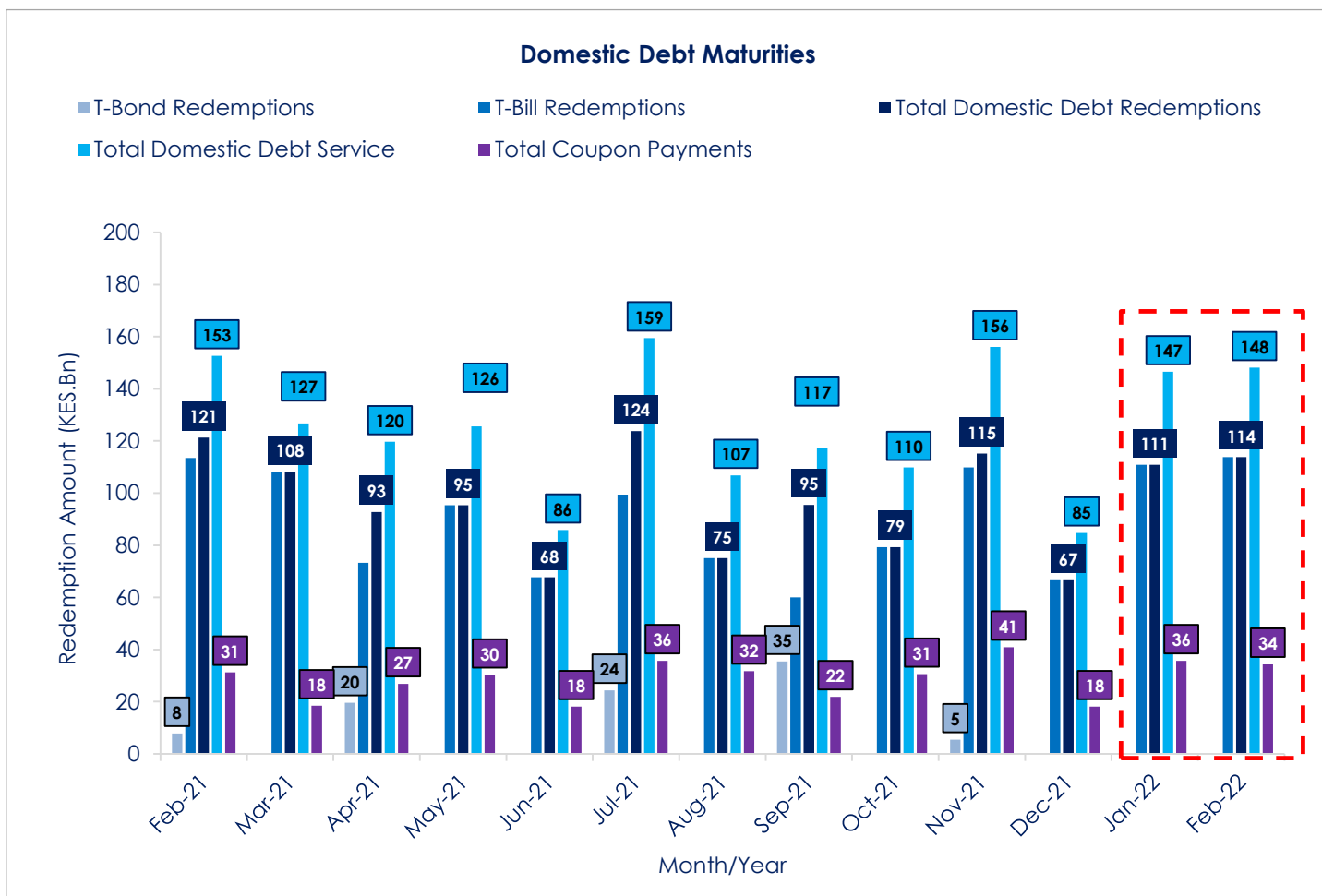
## Market liquidity levels have improved in January 2022

- Liquidity was comparatively low in December with the average interbank rate at 5.1%. In light of this relatively tight liquidity, the CBK issued four reverse repos in December worth KES.55Bn, accepting bids worth over KES.78Bn.
- Liquidity has improved in January with the interbank rate averaging 4.4% thus far (up to 12<sup>th</sup> January) on relatively high volumes.
- In light of this improved liquidity environment, the CBK issued repos worth KES.60Bn with KES.35.6Bn worth of bids being accepted.
- The liquid environment points to the CBK achieving their capital raise target of KES.30Bn in this upcoming auction.

## Total domestic debt service rising in January 2022

- Total domestic debt service for the month of January 2022 is KES.146.5Bn comprising of KES.110.9Bn and KES.35.7Bn in T-Bills and coupon payments respectively (Figure.1).
- Total debt service for February will rise to KES.147.6Bn made up of KES.113.8Bn in T-Bill redemptions and KES.33.9Bn in coupon payments.
- The above point at high debt financing needs for the National Treasury in the next two months a situation that could result in high acceptance of investor bids in debt auctions.

**Figure.1: January 2022 domestic debt service rises to KES.146.5Bn**



Source: Central Bank of Kenya

## Domestic borrowing remains above 2021/22 fiscal year target

- The National Treasury had raised KES.1.16Tn as total revenue against its 2021/22 fiscal year target of KES.3.19Tn equivalent to 37.1% of the target (Table.3).
- The national treasury had raised KES.688.1Bn and KES.430.1Bn in tax collections and domestic debt against a target of KES.1.7Tn and KES.1Tn respectively this being the equivalent of 40.3% and 42.6% of its total annual target respectively.
- While the national treasury appears to be lagging behind its annual tax collection target based on our linear target run rate of 41.7%, it is ahead of its domestic borrowing target run rate.
- We expect the National Treasury to revise its budget estimates in the first quarter of 2022 through a supplementary budget.
- In light of the budget revision, we expect the CBK to be more accommodative of aggressive investor bids which will serve to increase interest rates going forward.

**Table.3: 2020/21 fiscal year domestic borrowing above target run-rate**

Receipts	Original Estimates July 2021 (KES.Bn)	Actual Receipts 31 <sup>st</sup> Oct 2021 (KES.Bn)	Actual Receipts 30 <sup>th</sup> Nov 2021 (KES.Bn)	Proportion of Total Receipts as at 30 <sup>th</sup> Nov 2021 (%)
Opening Balance (1 <sup>st</sup> July 2021)		21.3	21.3	-
<b>Tax Revenue</b>	<b>1,707.4</b>	<b>548.4</b>	<b>688.1</b>	<b>40.3</b>
Non-Tax Income	68.2	28.9	30.7	45
<b>Domestic Borrowing*</b>	<b>1,008.4</b>	<b>360.8</b>	<b>430.1</b>	<b>42.6</b>
External Loans & Grants	379.7	10.8	11.8	3.1
Other Domestic Financing	29.3	4.2	4.2	14.2
<b>Total Revenue</b>	<b>3,193</b>	<b>974.3</b>	<b>1,164.8</b>	<b>37.1</b>
<b>Linear Run Rate target (5 months of fiscal year)</b>				<b>41.7</b>

\* Note 1: Domestic Borrowing of KES.1,008.4Bn = Net Domestic borrowing KES.661.6Bn & Internal Debt Redemptions (Roll-overs) KES.346.8

Source: The Kenya Gazette Vol. CXXIII - No.253 10<sup>th</sup> December 2021

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