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# Fixed Income

## Primary Auction Results Update Note

**IFB1/2022/19**

**February 2022**

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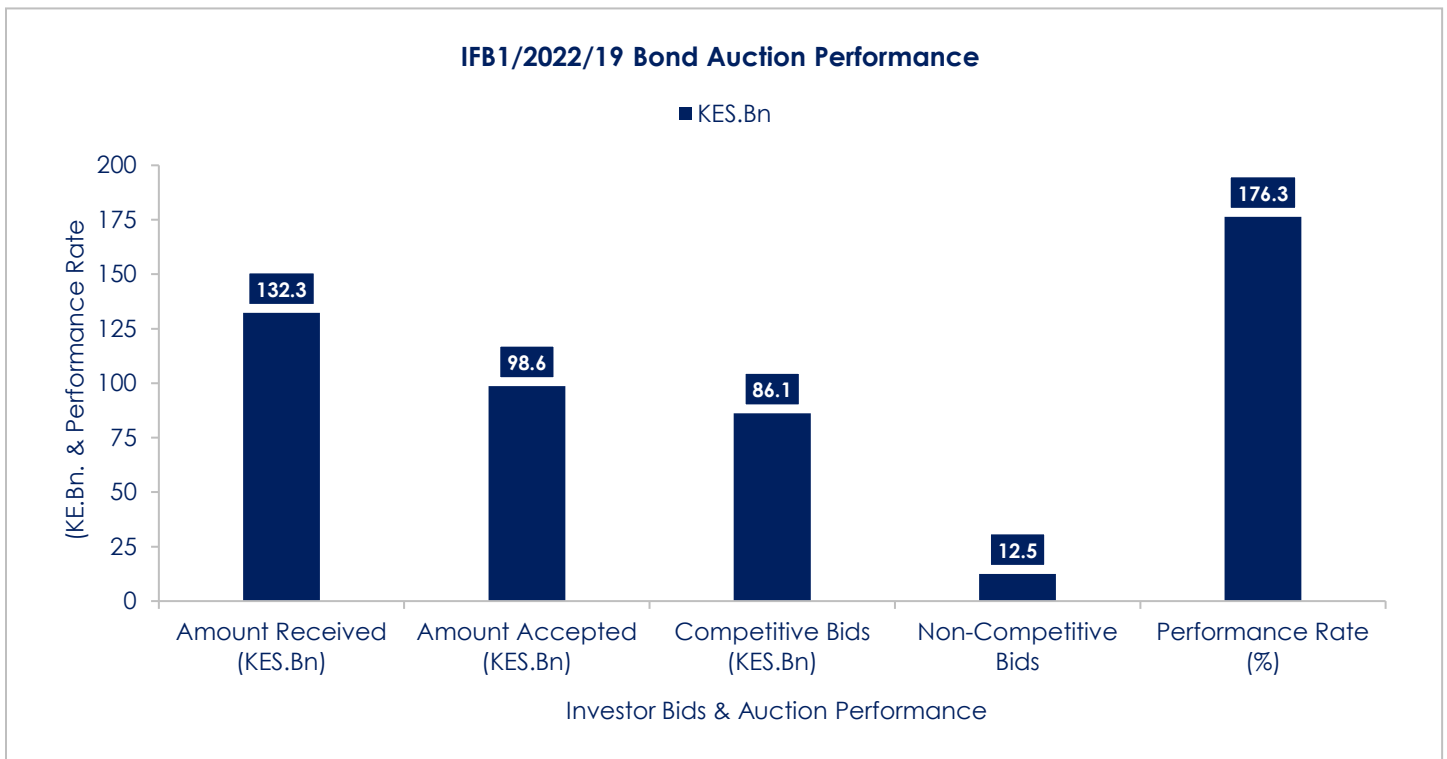
## February 2022 Infrastructure Bond (IFB) primary auction results update

- The Central Bank of Kenya (CBK) issued an Infrastructure bond IFB1/2022/19 with a weighted tenor to maturity of 14.5 years in February 2022 seeking to raise KES.75Bn.

### Subscription Rates

- The debt issue was oversubscribed as mentioned in our February fixed income report, "[Another KES.75Bn Infrastructure bond issue](#)," with total bids received amounting to KES.132.3Bn against the KES.75Bn target equivalent to a 176.3% subscription rate (Figure.1).
- We attribute the oversubscription to the attractive yield with current Nairobi Securities Exchange (NSE) yield curve levels of 13.1% as well as its tax free status and capital appreciation potential.

**Figure.1: IFB1/2022/19 primary auction results data**



Source: Central Bank of Kenya

## Weighted Average Rates

- Our predicted Weighted Average Rates (WAR) ranges were slightly below those of the CBK (Table.1).

**Table.1: Predicted and actual Weighted Average Rates (WAR)**

Domestic Debt Issue	SCL Investor Bids WAR Prediction (%)	CBK Investor Bids WAR (%)	CBK Investor Bids WAR vs SCL Predicted WAR Range Average (Bps)	SCL Accepted Bids WAR Prediction (%)	CBK Accepted Bids WAR (%)	CBK Accepted Bids WAR vs SCL Predicted WAR Range Average (Bps)
IFB1/2022/19	12.89 - 12.99	13.036	+9.6	12.79 - 12.89	12.965	+12.5

Source: Central Bank of Kenya

## Our view

- NSE yield curve** - The auction results signal an upward shift in the yield curve with the 19-year IFB coupon rate even surpassing the 12.775% yield to maturity (YTM) of the longer dated 21-year IFB (IFB1/2021/21) issued in September 2021.

Overall, the yield curve has been shifting upwards since the second quarter of 2021 with average yields expected to continue on an upward trend 2022.

We estimate that yields on the short end (91 days - 2 years) will increase by between 10 and 20 basis points (bps), medium (3 - 9 years) and long end (10 years and above) will each increase by between 20 and 30 basis points on average in 2022.

- Market Liquidity** - The repo, reverse repo and inter-bank rates as of 10<sup>th</sup> February 2022 were 4.8%, 8.6% and 4.4% pointing to a relatively liquid environment.

The CBK had largely issued reverse repos during the month of January and February amounting to KES.110Bn in what we see was a bid to inject liquidity to support subscription for the IFB.

We expect liquidity to decline in the near term as was the case soon after the value date for IFB1/2021/21 which should result in an increase in repo market activity and rates and interbank rates to a percentile range exceeding 5%.

- Investment Case** - Government debt continues to present a compelling investment case for both "Buy and hold" or active bond trading strategies considering subdued equity prices, rising inflationary and limited low risk high yielding investment options available.
- Secondary market trading** - We expect this bond issue to dominate secondary market trading in the next few months as was the case of most IFBs.

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