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Fixed Income

Tap Sale Results Update Note

IFB1/2022/18

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July 2022 Treasury Bond Tap Sale Auction Results Update

- The Central Bank of Kenya (CBK) issued a tap sale for **IFB1/2022/18** seeking to raise KES.20Bn following shortfalls in the Government's fiscal financing needs.
- The CBK sought to raise KES.75Bn in the primary auction in June and received bids worth KES.76.4Bn equivalent to a subscription rate of 101.8% with KES.73.8Bn accepted.
- The period of the tap sale was 28th June - 7th July 2022 with a value date of 11th July 2022. Results [here](#).

Subscription Rates

- The CBK received bids worth KES.6.4Bn against a target amount of KES.20Bn equivalent to a subscription rate of 32% (Table.1).
- We attribute this to mopped up liquidity from the primary issue, which closely followed May **FXD1/2022/10** and **FXD1/2021/25** tap sale issues that received 170% subscription rate with KES.17Bn accepted bids.
- Further, the CBK has been issuing more of repos since 31st May 2022, so far amounting to KES.128.7Bn, which have served to draw liquidity from the market, as evidenced by the rising interbank rates, which stood at 8.9% on 7th July 2022.
- Cumulatively, **IFB1/2022/18** has accepted bids of KES.80.2Bn coming in last amongst the 2021 and H1'2022 IFB issues.
- The rising interest rates and uncertainties around upcoming general elections have resulted in a shift by foreign investors to dollar denominated securities further explaining the undersubscription.

Table.1: Results for Treasury Bonds Tap Sale Issue - IFB1/2022/18

Domestic Debt Issue	IFB1/2022/18
Total Advertised Amount (KES.Mn)	20,000
Total Bids Received (KES.Mn)	6,418.2
Total Bids Accepted (KES.Mn)	6,416.3
Subscription Rate (%)	32
Allocated average rate for accepted bids (%)	13.742
Adjusted Average Price (Per KES) 100.00)	101.028
Coupon Rate (%)	13.742

Source: Central Bank of Kenya

Domestic Borrowing

- The National Treasury remained below the 2021/22 fiscal year domestic borrowing target at the end of May 2022 which is eleven months of the fiscal year at 81.3% against our linear target of 91.7%.
- This also partially explains why the CBK issued a tap sale despite the low uptake, a result of mopped up liquidity post the primary issue.
- From an investor perspective, **IFB1/2022/18** still offers a compelling real return in consideration of alternative investment options.
- The CBK remains intent to keep rates below 14% and this has flattened the yield curve of 15 years and beyond tenors.

- The CBK will come under pressure to accept more aggressive bids for long-term debt to encourage subscription or risk an undersubscription in subsequent auctions.
- To manage the cost of borrowing within current levels, tap sales have become more common post primary debt auctions and should continue in the medium term.

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