



Thursday, 13 April 2023

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Fixed Income Note

April 2023

Auction Bid Prediction Revision

(FXD1/2022/03 & FXD1/2019/15)

April 2023 Treasury Bond Primary Auction Weighted Average Bid Prediction Revision

- The Central Bank of Kenya (CBK) re-opened three Treasury Bonds (T-Bonds); **FXD1/2022/3**, **FXD1/2019/15** and **FXD2/2018/10** in April 2023 seeking to raise KES.30Bn and KES.20Bn for budgetary support respectively;

FXD1/2022/03 (2.1*)

FXD1/2019/15 (10.9*)

FXD2/2018/10 (5.8*)

***Years to maturity**

- The bonds had different periods of sale with **FXD1/2022/3** and **FXD1/2019/15** (16th March - 18th April 2023) and **FXD2/2018/10** (16th March - 4th April 2023).
- We issued a [results update](#) on **FXD2/2018/10** whose auction was 5th April 2023, [here](#).
- In line with our expectations '[Fixed Income Report - April 2023 - National Treasury cuts domestic debt target in Supplementary Budget](#),' the issue was undersubscribed.
- We attributed the undersubscription to lack of investor interest in long-term bonds in an environment of rising interest rates with most liquidity directed towards short term securities and particularly the 91-day T-Bill.
- Those who subscribed to the debt issue bid aggressively for the reason above together with high fiscal financing needs of the Government.
- Our weighted average bid prediction therefore fell 37Bps below the market weighted average (Table.1).
- This has prompted an upward revision to our estimates for **FXD1/2022/3** and **FXD1/2019/15** (Table.2) whose auction is on 19th April 2023.

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

Domestic Debt Issue	SCL Accepted Bids WAR Prediction (%)	CBK Accepted Bids WAR (%)	CBK Accepted Bids WAR vs SCL Predicted WAR Range Average (Bps)
FXD2/2018/10	13.95 - 14.05	14.366	+36.6

Source: Central Bank of Kenya & Sterling Capital Research

Table.2: Auction Bid Predictions

Domestic Debt Issue	Weighted Average Bid Predictions (%)	
	Previous	Updated
FXD1/2022/03	12.89 - 12.99	13.49 - 13.69
FXD1/2019/15	14.39 - 14.49	14.99 - 15.19

Source: Sterling Capital Research

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