

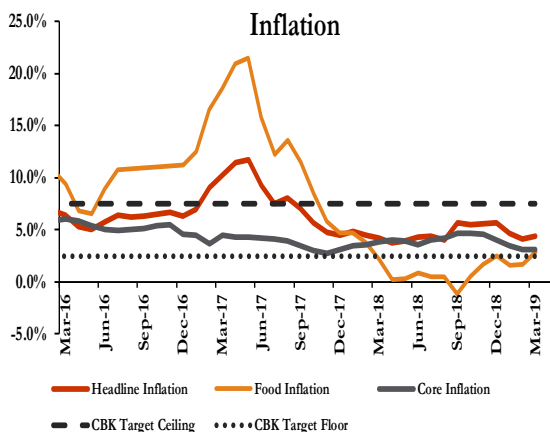
May Primary Auction Note

In May, the CBK is offering two fixed coupon treasury bonds for auction. The Central Bank of Kenya is planning to auction a **5-year fixed** coupon bond and the **15-year fixed** coupon bond in a bid to raise **KES 50 Bn (USD 495.71 Mn)** from investors. The five-year bond and the fifteen-year bond will attract a withholding tax of 15% and 10% respectively.

- » **Investor focus remains along the short end of the yield curve.** In the current easy liquidity and interest rate uncertainty, investors may continue to focus their efforts towards the shorter end of the yield curve. The **5-year fixed** coupon bond, **FXD2/2019/5**, is likely to attract a warm reception at auction due to its attractive short tenor. The longer term, the **15-year** bond, **FXD2/2019/15** will potentially attract lukewarm reception at auction, with low to medium subscriptions the most likely outcome.
- » **We investors to bid lower for the in demand 5-year but bid aggressively for the unpopular 15-year.** We prescribe investors to bid within the **10.85% to 11.10%** range for the **5-year** or **FXD2/2019/5**, due to our expectation of medium to high subscription from investors for the shorter bond. The longer-term bond, the 15-year or **FXD2/2019/15** will likely witness medium to low subscriptions, so we advise our clients to bid within the 12.60% to 12.80% range.
- » **Interest rates continue to succumb to the pressure of liquidity in the money markets.** Increased institutional investment into fixed income universe has driven the market yields to fall especially on the shorter end of the yield curve. Investors should note that the government's persistent expansionary fiscal stance heightens the possibility of the possible rise of interest rates in the medium term.

Secondary Bond Market:

In April, activity in the secondary market continued recovering from its February slowdown. Turnover this month firmed up by **16.3%** to **KES 66.75 Bn** (USD 660.5 Mn) from **KES 57.41 Bn** (USD 568.05 Million) recorded in March.



April Inflation:

CPI firmed up slightly in April driven by an increase in food prices. Inflation in April rose to **6.58%** from **4.35%** recorded the previous month. The increase in the CPI reported was driven by the rise of prices of certain foodstuffs such as maize flour and Kales. We expect that with normalization of rainfall this year that inflation could fall in the coming months.

May 3, 2019

Recommendation:

5-Year:

Bid 10.85% to 11.10% for the:
FXD2/2019/5

15-Year:

Bid 12.60% to 12.80% for the:
FXD2/2019/15

Sovereign Credit Rating :

Moody's: B2 (stable)

Fitch: B+ (stable)

S&P: B+ (stable)

CPI: (2009=100):

205.90

April Inflation:

6.58%

Interbank rate (29th Apr 19):

5.9051%

C.B.R (As set in Mar-19):

9.00%

91-Day T-Bill (1st Apr-19):

7.250%

182-Day T-Bill (1st Apr-19):

7.958%

364-Day T-Bill (1st Apr-19):

9.320%

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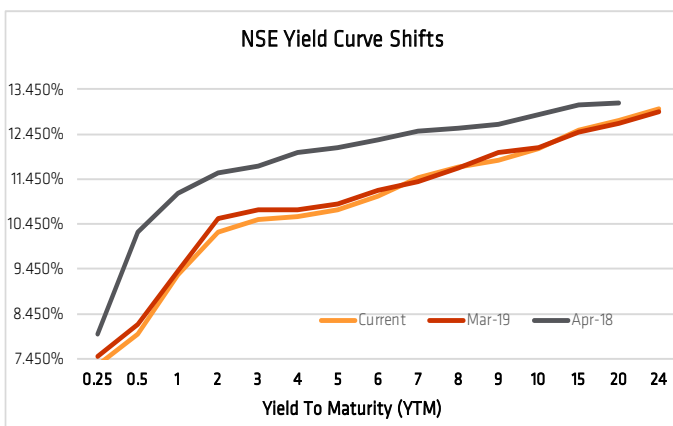
Source: CBK, KNBS, AIB Capital

Interbank:

Liquidity tightened at the end of April due to tax remittances. Tax payments at the end of April pushed the interbank higher to hit **5.9051%** at the end of April compared to the **2.5992%** registered at the end of March. Liquidity is likely to return to easy conditions as the banking sector lending remains suppressed and as government securities mature in May.

T-Bills:

During the month of April, T-bill auctions subscription firmed up, with the average subscription rate of **131%** registered in March rising to an average subscription rate of **168%**. The Investor's need to manage uncertainty but still maximize returns resulted in the **364-day** T-bill remaining oversubscribed at an average subscription rate of **277.8%**. To manage uncertainty but maximize their yield, we advise our clients to continue buying the **364-day** paper.



Source: NSE, AIB Capital

NSE Yield Curve:

The current yield curve, (**30/4/2019**), continues to be shaped by the easy liquidity in the Fixed Income markets and exhibits a downward shift in the short and long-term key rates. Investors should consider going long on bonds with shorter duration papers to benefit from the possible continued steepening of the yield curve. The bond yields could continue to steepen as a consequence of increased demand and elevated liquidity on the short end of the yield curve. Active managers should consider decreasing their bond portfolio duration by investing mainly in short term bonds to outperform.

Currency:

The Kenya Shilling closed out the end of April weaker against the dollar. The greenback gained ground against the Kenya shilling last month, as the Kenyan shilling depreciated by **0.63%** or by **KES 0.63**. At the end of April, the Kenya shilling closed at a value of **KES 101.3803/USD** from the **KES 100.7500/USD** witnessed at the end of March. The Euro and the Sterling Pound, however, lost ground against the KES in March. The Sterling Pound's, in contrast to the greenback, fell by **0.76%** to **KES 130.9764/£** at the end of April compared to **KES 131.8478/£** witnessed at the end of April.

The CBK's usable foreign exchange reserves fell over the month of April. The usable forex reserves at the CBK declined by **3.3%** to hit **USD 8,117Mn** by the end of April, down from the **USD 8,391.0Mn** recorded at the end of February. The reserves could be boosted by foreign remittances, export earnings and the possible issue of a new Eurobond.

The stability of the shilling in 2019 we reiterate will be determined by the government's ability to refinance existing debt. A syndicated loan and a 5-year Eurobond are maturing in 2019. The repayment of this maturing debt, such as the maturing 5-year Eurobond and a maturing syndicated loan could decrease CBK's usable reserves. The inflow of funds and extension loan tenor could also help shore up the reserves.

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