Fixed Income Note:

Primary Auction- Jul-18

Monday, July 16, 2018

AIB Capital Ltd.

Your Vision… Our Mission

Recommendation:

Bid 13.200% to **13.330%**
range **FXD2/2018/20Yr**

Sovereign Credit Rating (outlook):
Moody's: *B2 (stable)*
Fitch: *B+ (stable)*
S&P: *B+ (stable)*

CPI: (2009=100)
193.31

June Inflation:
4.28%

Interbank rate (11th May 2018):
6.5895% (weighted average)

C.B.R (As set on 19th Mar 18):
9.500%

91-Day T-Bill (14th May18):
7.733%

182-Day T-Bill (14th May 18):
9.607%

364-Day T-Bill (14th May 18):
10.488%

Analyst

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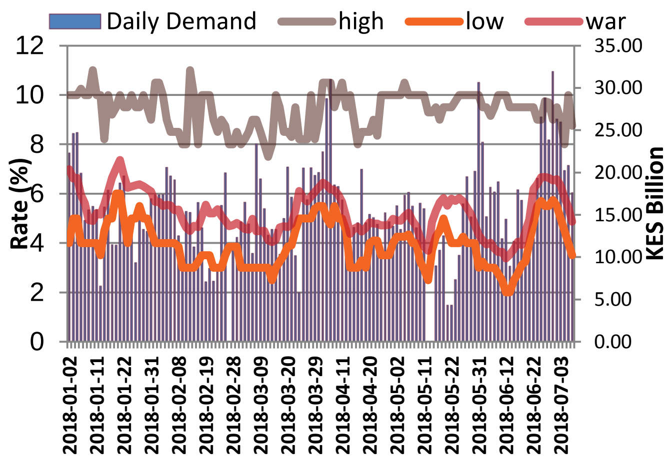
July Fixed Income Note:-

The Government plans to issue a 20 Year Bond

In July, the CBK will be looking to raise **KES 40Bn (USD 398.28Mn)** for budgetary support by issuance of a 20-year bond (**FXD2/2018/20)** with a **13.200%** coupon. We expect a moderate subscription with an expected tap sale. We recommend investors to bid **13.200%** to **13.330%**.

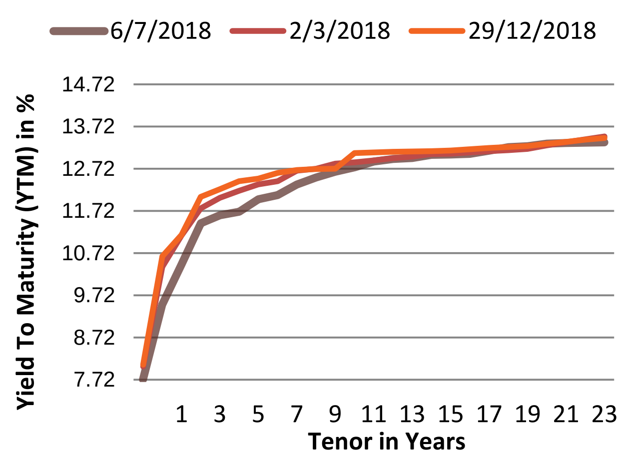
A total of **KES 29.14Bn (USD 288.82Mn)** (in coupons and maturities) will be redeemed in July 2018. Redemptions for the months of August and September will be **KES 3.90Bn (38.67Mn)** and **KES 22.13Bn (219.32Mn)** respectively.

Secondary Market: The Secondary bond market in June posted a much improved performance with turnover growing by **8.5%** to a total bond turnover of **KES 58.7Bn (USD 0.58Bn)** in June from a turnover of **KES 54.1Bn (USD 0.54Bn)** recorded in May. The escalation in bond turnover is most likely to continue helped on by potentially new primary issues in the month of July.



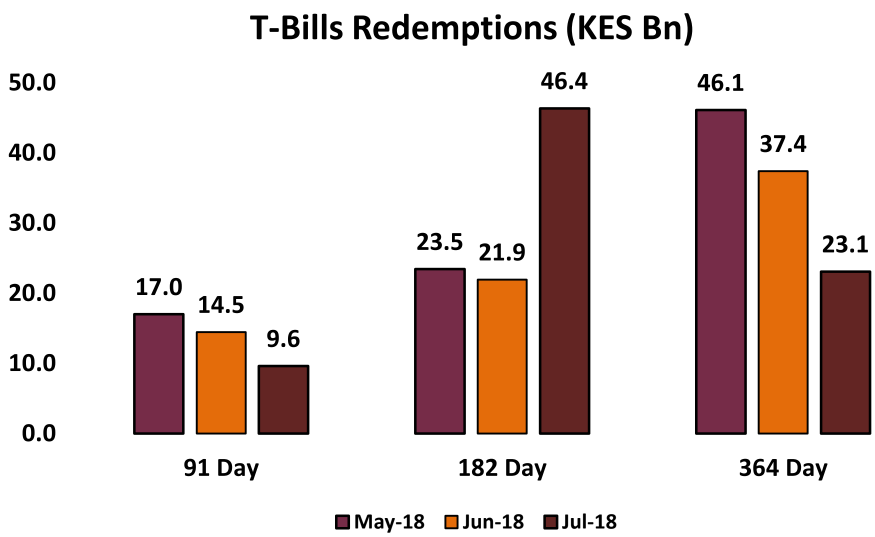
Interbank: The interbank rates in June were on a roller coaster ride with the weighted average rate growing from **3.95%** recorded on the 5th of June to hit a monthly high of **6.68%** on the 27th of June this year. The average monthly interbank volume in June increase to **KES 17.93Bn**, a **38%** increase from the average monthly interbank volume of **KES 12.98Bn** registered in May of this year.

NSE Yield Curve: Yield curve over the month of June, continued to exhibit a downward shift in the short and long term key rates. We advice our clients to consider going long on the short term papers to preserve your bond portfolio value from a possible steepening of the yield curve. We see the possibility of the bond yields rising as a consequence of the stregthening of the economythe treasury secretary move on the repealing and the ongoing review of the interest rate capping law.



July Inflation: We project inflation in July to fall within the range **4.0%** to **4.5%,** from the current **3.73%** due to the base effect and the marginal rise in pump prices that will put pressure on the transport index. The continuing escalation of charcoal and the continuing rise of Kerosene prices should also help push the Housing, Water, Electricity, Gas and Other Fuels' Index upwards.

CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 3



T-Bills: Subscriptions levels still remain above **100%** for the last four auctions to average **KES 44.77Bn (USD 443.77Mn).**The acceptance rate, however, firmed to **71.9%.**

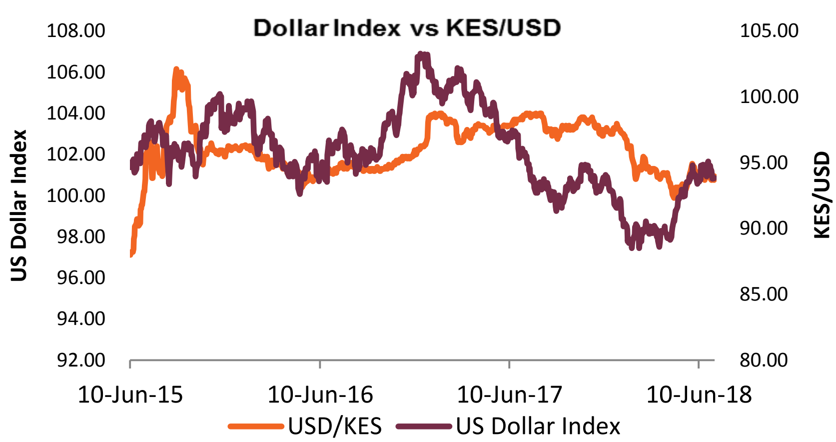
Investors continue to focus towards the 364-day paper with the rates falling to a monthly average of **10.543%.** The 91-day paper subscription weakened to **102.04%** and slumped to **83.6%** as rates at auction fell to **7.725%** from **7.939%.**

We advise our clients to maintain investment on the 364 day paper at 10.450%, to achieve the best balance between yield enhancement and downside protection from interest rate risk.

Forex: Kenya Shilling opened the week at a **KES 100.80/USD** recovering **0.24%** from a 30 day high of **KES 101.38** seen on June 4th, 2018. In spite of the gain, the shilling was relatively flat on a month on month basis by appreciating by only 0.04% from **KES 100.84/USD** registered on the 8th June**.** On a Year To Date (YTD) basis, the Kenya shilling has appreciated against most major currencies: KES has strengthened by **2.41%** so far against the greenback, appreciated by **4.28%** against the Euro and gained **4.23%** against the Sterling Pound.

Forex reserves stood as of the 5th of July stood at **USD 8,855 Mn** or 5.92 months of import cover. The foreign reserves have declined by 1.12% in the last five weeks from **USD 8,955 Mn** registered on the 31st of May.

The shilling is bound to continue coming under pressure from importers demand for major foreign currency demand.



Dollar remains soft against most major currencies with the country reporting a stronger than expected decline in unemployment. The greenback is still in danger of slipping down further driven by the looming global trade war with the likes of China, Canada and the European Union. The Dollar index dropped **0.97% (**WoW) to **93.86** and plunged **2.38%** (YoY).

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