Fixed Income Note:

Primary Auction

13th March 2018

AIB Capital Ltd.

Your Vision... Our Mission

Recommendation:

Bid 12.450% to 12.85% range for the **5-year**

Bid 13.30% to 13.50% range for the **20-year**

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

CPI: (2009=100)
188

February Inflation:
4.46%

Interbank rate (of12th Mar 18):
4.49%

C.B.R (22nd Jan 18):
10.00%

91-Day T-Bill (12th Mar 18):
8.026%

182-Day T-Bill (12th Mar 18):
10.385%

364-Day T-Bill (12th Mar 18):
11.128%

Analyst

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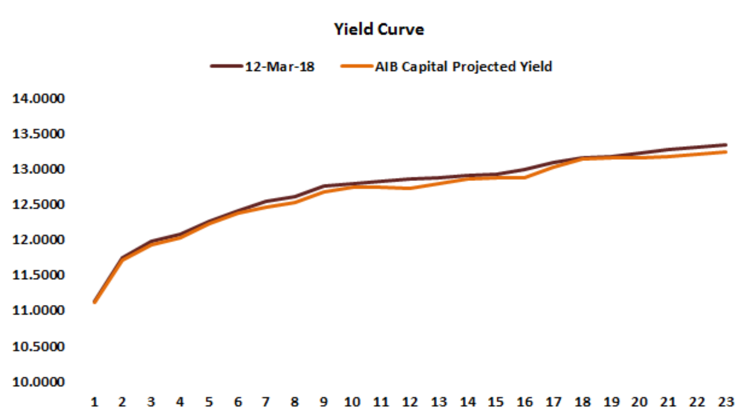
March Fixed Income Note:-

The Government Issues two new bonds: 2018-5 YR and 2018-20YR

In March, the CBK will be looking to raise **KES 40Bn (USD 394.40Mn)** for budgetary support by issuing two fixed coupon bonds: a 5 year bond (**FXD1/2018/5)** with a market-determined coupon and a 20-year bond (**FXD1/2018/20)** with a fixed of **13.200%.** The five-year paper will attract a withholding tax of **15%** while the 20-year **10%.** We expect a moderate to high subscription for the **5-year** paper and moderate to low subscription for the **20-year** paper**.** We recommend investors to bid **12.450%** to **12.85%** for the **5-year** (Current yield 12.261%) and **13.30%** to **13.50%** for the **20-year** (current 13.218%). A total of **KES 14.1Bn (USD 138.9Mn)** (in coupons and maturities) will be redeemed in March 2018.

Secondary Market: The Secondary market is bound to register a decrease in activity with first 13 days of March transacting **KES 18.76Bn (USD 185.1Mn)** compared to **KES 29.9Bn (USD 295.4Mn)** for the first 13 days in February 2018. As per our February issue, we expect the March values to remain lower than February's.

Interbank: Interbank rate in March stands at **4.49%** with a month to date average rate of **4.63%**, a downswing from the average February interbank rate of **5.18%.** The decline in the interbank rate was driven by larger banks playing a dominant role in the interbank market. The average daily volume in divergence with the interbank rate saw an upswing in March from **KES 14.78Bn (USD 165.3Mn)** in February to the current average daily volume of **KES 15.7Bn (USD 154.67Mn)**.



NSE Yield Curve: The yield curve witnessed a downward shift in all key rates. This is driven by high liquidity in the market. We expect a further slight downward shift of the yield curve.

T-Bills: Subscriptions have remained high at above 150%. The market has seen rates marginally declining by **5.4bps**, **26.4bps** and **2.3bps** on the 91-day, 182-day and 364-day respectively on a year to date basis. We expect the rates to remain on a descending path on improved liquidity. We advise clients to lock in on the 182-day and 364-day rates.

March offer stands at **KES 120Bn (USD 1.18Bn)** while redemptions stand at **KES 111.82Bn (USD 1.10Bn)**.

Forex: The shilling has gained 0.09% since the beginning of the month and 1.9% y-t-d. It is set to remain stable through the week as investors waiting for the MPC meeting scheduled for Monday, March 19th. Towards the end of the month, KES is bound to come under pressure on demand from oil importers.

March Inflation: We anticipate the CPI to climb by **1.0%-1.3%** from **188.0** to **189.88-190.44** range. Inflation will ease from **4.45%** to **3.77%** to **4.08%**. This will be supported by a decline in food and non-alcoholic index due to the onset of the long rains while resistance will be on Housing, Water, Electricity, Gas and Other Fuels' Index and Transport Index due to higher international prices. Transport index will be saved by a stronger shilling to the dollar.

MPC meets in March: The next Monetary Policy Committee meeting is scheduled for the 19th of March 2018. We project CBR to be retained at 10% because of the stable macroeconomic situation, stronger shilling, inflation remaining within 5%±2.5% target, stable banking sector, improving international macroeconomic conditions and forex reserve at 4.78 months of import cover.

CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

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Research Disclosure

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