AIB Capital Ltd.
Your Vision… Our Mission

0Recommendation:

Bid 12.300% to 12.600% range for the **15-year**

Bid 13.35% to 13.75% range for the **20-year**

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

CPI: (2009=100)
190.62

April Inflation:
4.18%

Interbank rate (of12th Apr 18):
5.051% (weighted average)

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

91-Day T-Bill (12th Mar 18):
8.000%

182-Day T-Bill (12th Mar 18):
10.268%

364-Day T-Bill (12th Mar 18):
11.135%

April Fixed Income Note:-

The Government Re-opens two new bonds: 2008-15 YR and 2018-20YR

In April, the CBK will be looking to raise **KES 40Bn (USD 396.72Mn)** for budgetary support by re-opening two fixed coupon bonds: a 15 year bond (**FXD1/2008/15)** with a **12.500%** coupon and re-opening a 20-year bond (**FXD1/2018/20)** with a fixed coupon of **13.200%.** The15 year bond with a tenor of **4.88 years** and the 20 year paper with a tenor of **19.90 years** will both attract a withholding tax of **10%.** We expect a moderate to high subscription for the **15-year** paper due to its attractive short tenor and moderate to low subscription for the **20-year** paper**.** We recommend investors to bid **12.300%** to **12.600%** for the reopened **15-year** (Current yield 12.1360%) and **13.35%** to **13.75%** for the **20-year** (current 13.3360%). A total of **KES 35.75Bn (USD 354.43Mn)** (in coupons and maturities) will be redeemed in April 2018.

Secondary Market: The Secondary market is bound to register a decrease in activity with first 12 days of April transacting **KES 14.32Bn (USD 141.78Mn)** compared to **KES 18.86Bn (USD 186.73Mn)** for the first 12 days in March 2018. As per our March issue, we expect the April's values to remain lower than March's.

Interbank: interbank rate touched a **45** day high of **6.2448%** at the beginning of the month driven by tight liquidity in the market following payment for government securities and bank's book closure of **Q1-2018**. Demand opened at high levels **KES 24.12Bn** on the first five days of April compared to **KES 16.66Bn** on the last 5 days of March. The rate has eased **139.7bps** to **5.0508%** as of 12th April with the improvement of liquidity amongst large banks. In spite of the change amongst the large banks, the rate has remained under pressure due to transactions by medium and small banks closing at a high rate. We expect to see the rate drop to the **4.5%-5.0%** range on improvement in liquidity.

NSE Yield Curve: liquidity relief saw the yield curve shift downwards on long-term papers. Key rate yields, i.e. 2yr, 5yr 10yr and 23yr yield remained flat. With further improvement in liquidity, we do not foresee shift on short-term papers but we expect a further downward shift in the long-term yield particularly the 15 year and 23-year rates.

T-Bills: Subscriptions stood below offer at an average of **97%** in the last four auctions with acceptance rate at **96.4%.** Investors are biased towards the 364 day paper as rates remain stable.

April offer stands at **KES 96Bn (USD 951.75Mn)** while redemptions stand at **KES 93.28Bn (USD 924.78Mn).** We anticipate subscriptions to remain below offers particularly on the 91day and 182-day papers whilst acceptance levels to remain above 95% with high government appetite on the 364-day paper.

Forex: Kenya Shilling reversed loss against the USD, advancing 0.16% w/w to close at 100.8667/USD. The shilling has strengthened by 0.03% and 1.04% on month to date and year to date basis respectively. The loss to the dollar was driven by tight liquidity in the market. Recovery was boosted by inflows from agriculture and foreign investors into government securities which were able to counter thin dollar demand from oil importers. Forex reserves dropped to USD 8,815Mn or 5.89 months of import cover compared to USD 8,846Mn or 5.91 months of import cover.

April Inflation: We anticipate the CPI to climb by **1.0%-1.5%** from **190.2** to **192.10 - 193.05** range. Inflation will ease from **4.18%** to **3.38%** -**3.89%** range. This will be mainly driven by a decline in food inflation driven by improved food production during the seasonal rainy season of March, April and May (MAM). The declining inflation, however, will face headwinds from an upswing in international crude prices and prices of cooking fuels especially.

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CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

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