

---

**0Recommendation:**

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

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

---

Sovereign (outlook):	Credit	Rating
-------------------------	--------	--------

**Moody's: B2 (stable)**

**Fitch: B+ (stable)**

**S&P: B+ (stable)**

CPI: (2009=100)  
**190.62**

April Inflation:  
**4.18%**

Interbank rate (of 12<sup>th</sup> Apr 18):  
**5.051% (weighted average)**

C.B.R (Asset on 19<sup>th</sup> Mar 18):  
**9.500%**

91-Day T-Bill (12<sup>th</sup> Mar 18):  
**8.000%**

182-Day T-Bill (12<sup>th</sup> Mar 18):  
**10.268%**

364-Day T-Bill (12<sup>th</sup> Mar 18):  
**11.135%**

---

**Analyst**

Willis Nalwenge

+254711047105

nalwengew@aibcapital.com

---



---

## 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%**. The 15 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 91 day 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.

## AIB Capital Research

### Research Analysts, *AIB Capital Research*

#### Willis Nalwenge

[nalwengew@aibcapital.com](mailto:nalwengew@aibcapital.com)  
(+254) 711047105

#### Victor Koech

[koechv@aibcapital.com](mailto:koechv@aibcapital.com)  
(+254) 711047133

### Fixed Income Dealing Desk

### Fixed Income Dealer, *AIB Capital Fixed Income*

#### Stephen Ngunjje

[ngunjjes@aibcapital.com](mailto:ngunjjes@aibcapital.com)  
(+254) 711047118

### Fixed Income Dealer, *AIB Capital Fixed Income*

#### Crispus Otieno

[otienoc@aibcapital.com](mailto:otienoc@aibcapital.com)  
(+254) 711047113

## Research Disclosure

Though utmost care has been taken in the preparation of this report, we do not guarantee the accuracy or completeness of the information contained herein nor will AIB Capital Ltd be held liable for the information contained herein.

The views expressed in this report are solely those of the Research Department and are subject to change without notice.

The information in this report is not an offer for the sale or purchase of any security. This document should only be considered a single factor used by investors in making their investment decisions.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB Capital Ltd.

### NOTICE TO US INVESTORS

This report was prepared, approved, published and distributed by AIB Capital Limited Company located outside of the United States (a non-US Group Company"). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker-dealer, on behalf of AIB Capital Limited only to major U.S. institutional investors (as defined in Rule 15a-6 under the

U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) AIB Capital Limited is the employer of the research analysts responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analysts are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Important US Regulatory Disclosures on Subject Companies. This material was produced by Analysis AIB Capital Limited solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by AIB Capital Limited or an authorized affiliate of AIB Capital Limited. This document does not constitute an offer of, or an invitation by or on behalf of AIB Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which AIB Capital Limited or its Affiliates consider to be reliable. None of AIB Capital Limited accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information.

All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA, does not make a market in the subject securities.