April Primary Auction Note

Date: 2 April 2019

Recommendation:
Bid 12.25% to 12.50% for the **FXD2/2019/10** and 12.85% to 13.05% for FXD 1/2019/20

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

CPI: (2009=100)
198.91

March Inflation:
4.35%

Interbank rate (2nd April-19):
2.75%

C.B.R (As set in Mar-19):
9.00%

91-Day T-Bill (1st Apr-19):
7.50%

182-Day T-Bill (1st Apr-19):
8.20%

364-Day T-Bill (1st Apr-19):
9.41%

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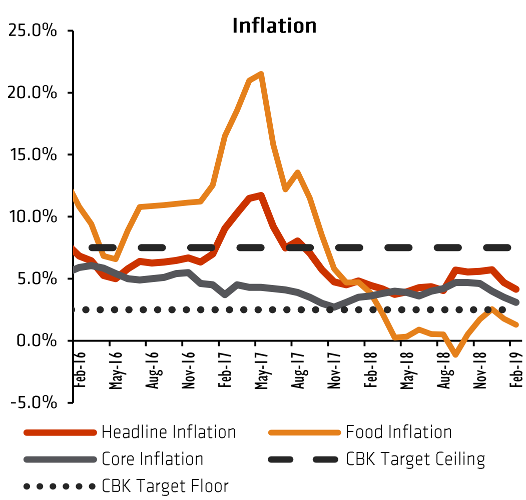
In April, the CBK is will auction a 10-year, FXD2/2019/10, and 20-year bond, FXD1/2019/20 in a bid to raise **KES 50 bn**.

The 10-year, **FXD2/2019/10**, is likely to attract a warm reception at auction due to its relatively short tenor. The longer term, 20-year bond, **FXD 1/2019/20** will likely be undersubscribed.

We advise investors to bid within the **12.25%** to **12.50%** range for the, 10-year due to our expectation of high subscriptions from investors for the shorter bond. The longer term bond, the 20 year will likely witness low subscriptions, so we advise our clients to bid within the **12.85%** to **13.05%** range.

Interest rates have continued on a downward trend owing to the high demand for government paper. Furthermore, there's minimal domestic borrowing pressure as the government is currently ahead of its borrowing program (net domestic borrowing currently stands at KES 280.9 billion against a target of KES 310 billion). These are likely to keep rates subdued. However, investors should note that the government's persistent expansionary fiscal stance presents a risk to our outlook.

Secondary Bond Market: In March, activity in the secondary market recovered from its February slowdown. Turnover this month marginally grew by **15.3%** to **KES 52.88 billion** from **KES 45.86 billion** recorded in February.



March Inflation: CPI ticked up slightly in March driven by an increase in food prices. Inflation in March marginally rose to **4.35%** from **4.14%** recorded the previous month. The slight increase in the CPI reported was driven by the rise of prices of certain foodstuffs. We expect inflation to remain subdued supported by benign food and fuel prices. A recent warning by the Kenyan Meteorological Department of a possible drought presents a risk to this outlook.

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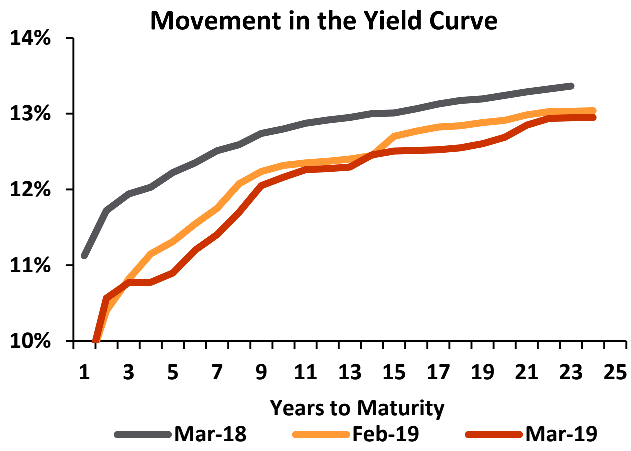
Interbank: The money remained liquid during the month as indicated by the decline in the interbank rate which decreased from 5.29% at the end of February to 2.83% at the end of March.

T-Bills: During the month of March, the average T-bill subscription rate decreased from 153**%** in February to **131%** in March. The Investor's need to manage uncertainty but still maximize returns led to an oversubscription of the 364-day T-bill as the average subscription rate stood at **214.1**%. The 364-day paper remains attractive.



NSE Yield Curve: Government bond yield continued on a downward trend as the yield curve shifted downwards. The yield curve could continue steepen as a consequence of elevated demand and high liquidity on the short end of the yield curve.

Currency: The Kenya Shilling closed March weaker against the dollar. The greenback gained **0.66%** against the Kenya shilling in March. The Euro and the Sterling Pound, however, lost ground against the KES in March. The Euro's and the Sterling Pound's value fell by 0.**74%** and **1.04%** respectively.

The CBK's usable foreign exchange reserves remained robust. The usable forex reserves at the CBK rose by **0.71%** to hit **USD 8,254Mn** by the end of March, up from the **USD 8,196Mn** recorded at the end of February. The reserves could continue to be boosted by foreign remittances, export earnings and the possible issue of a new Eurobond.

The shilling is expected to remain stable against the USD.

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