

BIDDING GUIDE: Re-opened bonds FXD1/2023/05 & FXD1/2023/10



The Central Bank of Kenya, in its capacity as a fiscal agent for the Republic of Kenya, is offering an opportunity to participate in the Re-opened bonds **FXD1/2023/05 & FXD1/2023/10** seeking to raise **KES 30.0Bn** for budgetary support in the FY 2023/2024 budget estimates.

NCBA Investment Bank Ltd is an authorized placing agent.

WHY INVEST IN THE BOND?

1. Opportunity to lock in **attractive coupons** paid semi-annually.
2. The bond qualifies for statutory liquidity ratio requirements for commercial banks and Non-Banking Financial Institutions as stipulated in the Banking Act CAP 488 of the Laws of Kenya.
3. An opportunity to make **capital gains** in the future.

BIDDING GUIDE

Our recommended bidding range is:

Issue	FXD1/2023/05 (Re-opened)	FXD1/2023/10 (Re-opened)
Tenor to Maturity	4.11 Yrs	8.7 Yrs
Offered Amount (KES Bn)	30.00	
Coupon Rate	16.84%	14.15%
Period of Sale	30th May 2024 to 12th June 2024	
Value Date	17th June 2024	
Minimum Amount	50,000	
Bidding Guide	17.50% - 18.00%	16.30% - 16.80%

Source: CBK, NCBA IB Research

Comparable Papers:

Re-opened FXD1/2023/05

Issue No.	Tenor to Maturity	Outstanding Amount KES' Mn.	Fixed Coupon Rate	Implied Yield to Maturity
FXD1/2018/010	4.20 Years	40,584.60	12.686%	17.3318%

Source: NSE, NCBA IB Research

Re-opened FXD1/2023/10

Issue No.	Tenor to Maturity	Outstanding Amount KES' Mn.	Fixed Coupon Rate	Implied Yield to Maturity
FXD1/2018/015	8.95 Years	76,351.65	12.650%	14.9685%

Source: NSE, NCBA IB Research

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INVESTMENT CASE

Demand

We anticipate high subscription given the short tenor and the attractive coupon.

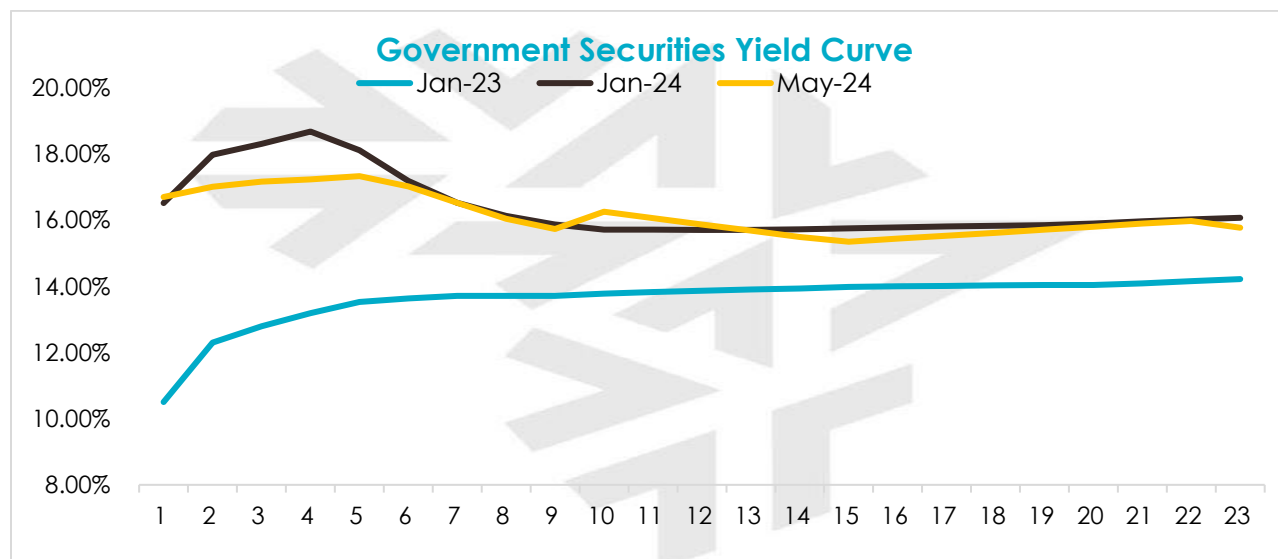
Interest rates

The Monetary Policy Committee retained the Central Bank Rate (CBR) at **13.00%** in its April meeting, citing the need to anchor inflationary pressures and the currency. The committee is set to meet on 5th June 2024.

Yields on treasury bills increased month-on-month. High subscription rates were recorded underpinning demand for short term papers. We believe investors will bid at moderate rates in the current interest rate environment.

Prevailing rates	May-24	Apr-24	M/M change (bps)
91 Day	15.955%	15.823%	13.13
182 Day	16.608%	16.460%	14.76
364 Day	16.706%	16.492%	21.37

The annual headline inflation rate as measured by the Consumer Price Index (CPI) rose to **5.1%** in May 2024 from **5.0%** in April 2024. The increase was mainly driven by rise in prices of commodities under Transport (8.1%); Food and Non-Alcoholic Beverages (6.2%); and Housing, Water, Electricity, Gas and other fuels (4.4%) between May 2023 and May 2024. We expect inflation to remain moderated in the near-term.



Source: NSE, NCBA IB Research

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Budget Support

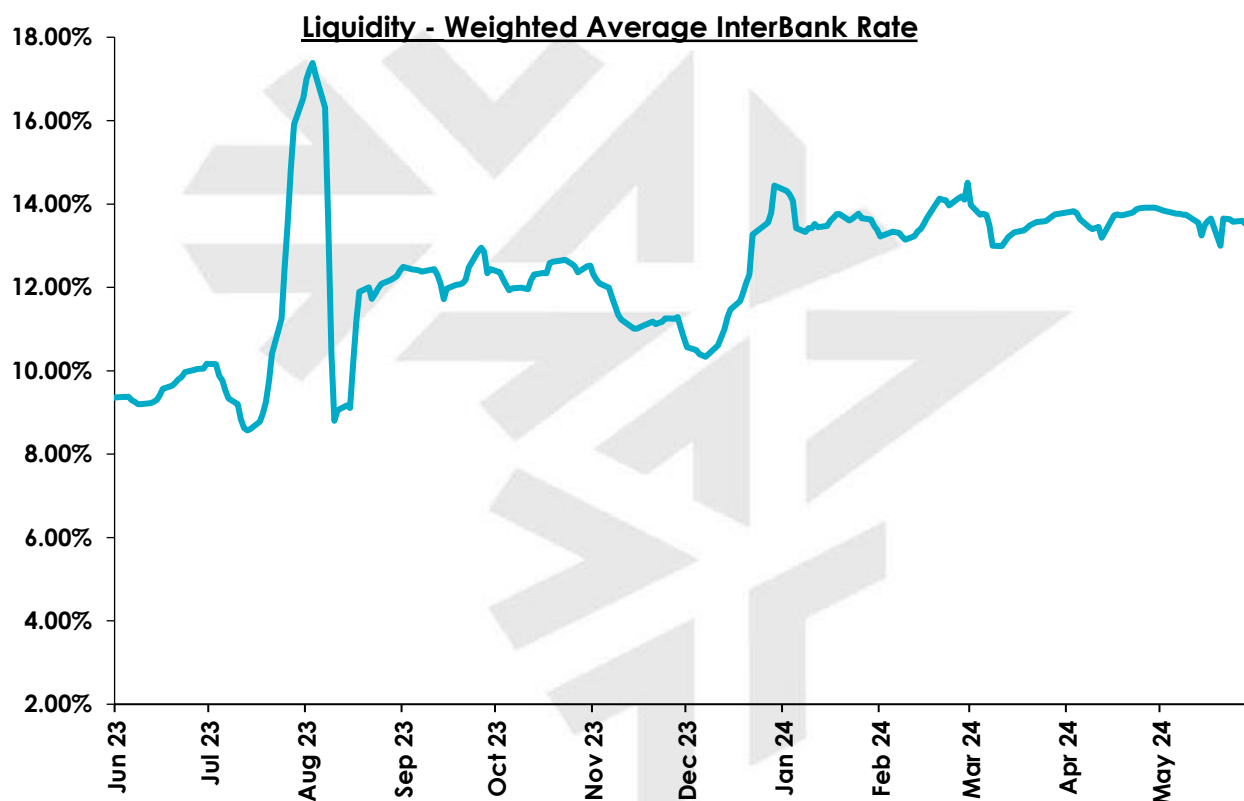
The government domestic financing for this fiscal year is almost hitting target. However, the Treasury increased the **domestic borrowing target** for the current financial year to KES 471.36Bn from the KES 415.3Bn in the original budget. This saw the government shifts its focus on domestic debt from the issuance of long-term instruments to more short and medium-term ones to align with investor appetite and realize the borrowing target for the fiscal year ending June 30 2024.

Debt distress

The government has experienced a liquidity crunch that has led to a delay in some of its recurrent expenditure payments. Investors have exhibited an averseness to investment in long-term bonds as witnessed in the recent long tenured auctions.

Liquidity

Liquidity conditions eased in May. Indicatively, the overnight interbank rate declined by 12.46bps month on month to close at 13.91%. The average daily traded volumes also decreased to KES 19.89Bn from KES 22.35Bn recorded in the previous month.



Source; CBK, NCBA IB Research

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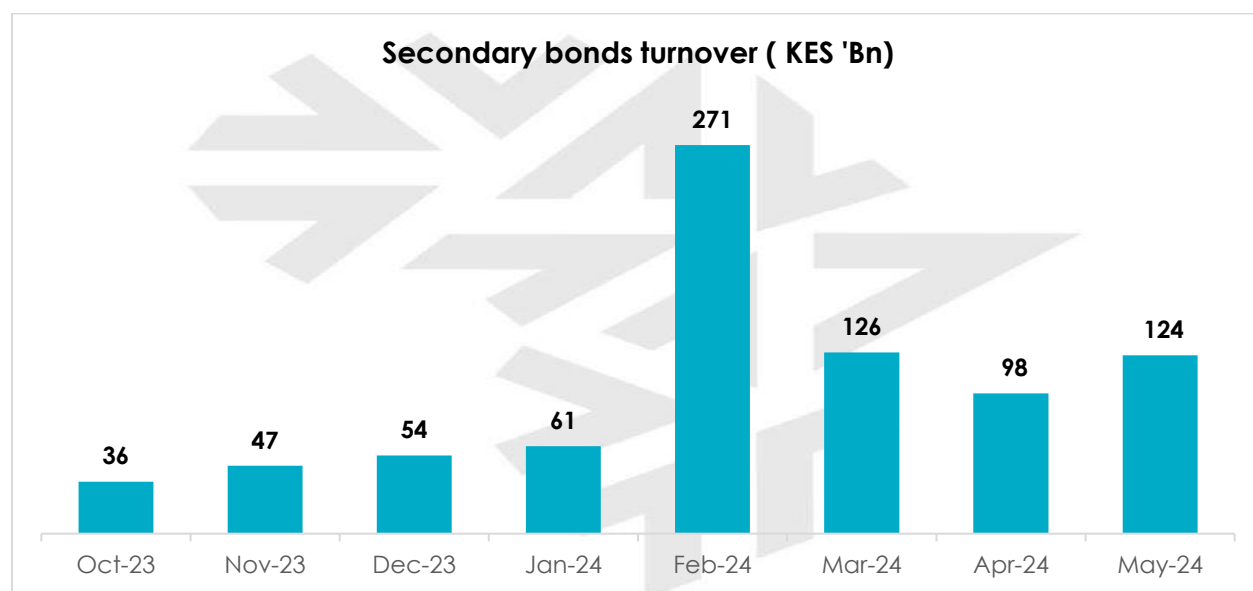
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Secondary Market

In the secondary bonds market, total bond turnover improved to KES 124Bn compared to April. The increase was on the back of heightened demand on short term papers at the beginning of the month and great demand on the IFB1/2024/8.5 towards the end of May, especially after announcement of the auction.

Trading is concentrated on **short term papers** as investors seek to minimize duration risk. However, investor's preference is seemingly turning to longer- dated bonds as they seek to lock in high returns.



Source; CBK, NCBA IB Research

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Kenya Government Debt Maturities Schedule – June 2024:

The government has total domestic debt maturities of **KES 123.51Bn** in the month of June 2024 compared to **KES 240.81Bn** in May 2024. We expect **robust government activity** in the local market.

Coupon payments					
Issue No.	Next Coupon Payment Date	Tenor to Maturity	Outstanding Amount KES 'Mn	Fixed Coupon Rate	Coupon payment KES 'Mn
FXD3/2019/005	June 10, 2024	0.52	44,830.50	11.49%	2,575.96
FXD2/2010/015	June 10, 2024	1.52	25,199.80	9.00%	1,133.99
FXD1/2008/020	June 10, 2024	4.02	55,432.05	13.75%	3,810.95
FXD2/2018/010	June 10, 2024	4.52	63,820.20	12.50%	3,989.40
FXD1/2010/025	June 10, 2024	11.02	20,192.50	11.25%	1,135.83
FXD1/2018/025	June 17, 2024	19.04	94,326.70	13.40%	6,319.89
IFB1/2015/009	June 3, 2024	0.50	8,506.50	11.00%	467.86
IFB1/2022/018	June 10, 2024	16.02	79,827.50	13.74%	5,484.95
IFB1/2022/006	June 3, 2024	4.50	59,424.35	13.22%	3,926.46
IFB1/2023/007	June 17, 2024	6.04	213,251.60	15.84%	16,886.33
Total					45,731.62

Source: CBK, NCBA IB Research

Treasury Bills	
Payment Date	Amount KES 'Mn
June 3, 2024	17,478.56
June 10, 2024	28,109.89
June 17, 2024	18,442.92
June 24, 2024	13,750.80
Total	77,782.17

Source: CBK, NCBA IB Research

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