BIDDING GUIDE: Re-opened bonds IFB1/2023/6.5 AND IFB1/2023/17

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 **IFB1/2023/6.5 AND IFB1/2023/17** seeking to raise **KES 50.0Bn** for budgetary support.

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	IFB1/2023/6.5 (Re-opened)	IFB1/2023/17 (Re-opened)
Tenor to Maturity	5.8 Yrs	15.7 Yrs
Coupon Rate	17.93%	14.40%
Bidding Guide	**18.15% - 18.65%**	**17.20 - 17.70%**
Offered Amount	**KES 50 Bn**	
Period of Sale	25th July 2024 to 14th August 2024	
Value Date	**19th August 2024**	
Minimum Bidding Amount	KES 50,000.00	
Taxation	**Tax free as is the case for Infrastructure Bonds**	

Comparable Papers and their trading statistics in July 2024:

Bond issue	Turnover	High Yield	Low yield	Spread (bps)	Coupon	Implied yield
IFB1/2023/6.5	11.49Bn	19.25%	13.31%	594	17.93%	17.12%
IFB1/2023/007	0.86Bn	18.16%	14.24%	392	15.84%	16.01%
IFB1/2023/017	0.21Bn	18.58%	11.90%	668	14.40%	13.34%
IFB1/2022/018	0.40Bn	18.58%	11.95%	663	13.74%	14.74%

Source: NSE, NCBA IB Research

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INVESTMENT CASE

Demand

The auction performance will be driven by investors' interest rate expectations and the government's appetite for funds to plug into the new financial year budget.

We expect the paper to exhibit a high subscription rate in line with the previous infrastructure bond auction as investors seek a high tax-exempt return and the paper's relatively short tenor.

Interest rates

The Monetary Policy Committee cut the Central Bank Rate (CBR) to **12.75%** in its August meeting, citing anchored inflation expectations and a stable exchange rate.

Yields on treasury bills remained elevated in July with the largest rise in the 364-day paper driven by increased demand. High subscription rates were recorded underpinning demand for short term papers as investors looked to mitigate duration risk. We believe investors will bid at moderate rates in the current interest rate environment.

Prevailing rates	July-24	June-24	M/M change (bps)
91 Day	15.99%	15.98%	1.13
182 Day	16.85%	16.76%	8.66
364 Day	16.92%	16.79%	12.95

Source: CBK, NCBA IB Research

The annual headline inflation rate as measured by the Consumer Price Index (CPI) declined to 4.3% in July from 4.6% in June 2024, mainly driven by lower energy prices% reflecting lower international oil prices as well as currency stability.

Food inflation remained unchanged at 5.6% in June and July 2024. Fuel inflation declined to 4.5% from 6.4% in June 2024, mainly due to lower electricity and pump prices.

Non-Food Non-Fuel (NFNF) inflation moderated to 3.3% from 3.4% in June 2024 reflecting the impact of monetary policy measures.

Statistic	Current	Previous	Change (bps)
CBR	12.75%	13.00%	(25.0)
Inflation	4.3%	4.6%	(30.0)

Source: CBK, NCBA IB Research

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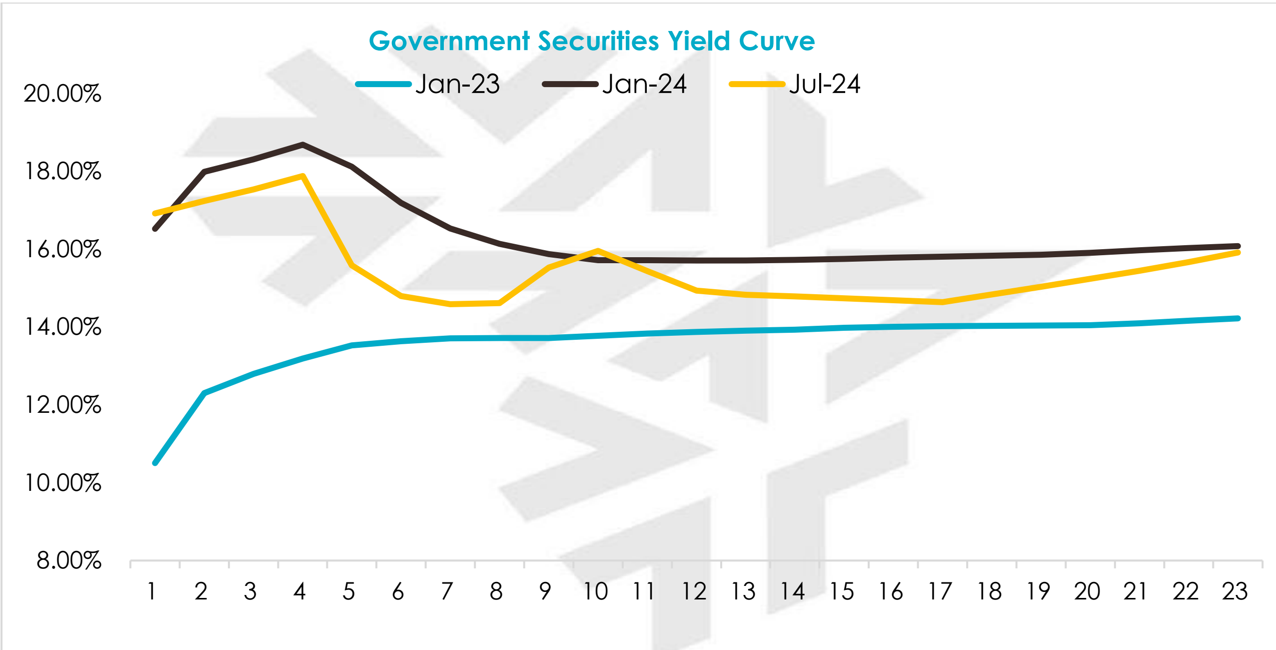

Source; NSE, NCBA IB Research

Government Debt Burden

The government increased its borrowing targets and proposed expenditure cuts following the withdrawal of the finance bill 2024. This will see the government shift 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 expected increased borrowing target for the fiscal year.

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.

The path to fiscal consolidation has lengthened following the rescinded Finance Bill 2024. Efforts to address the shortfalls to revenue have necessitated expenditure cuts of KES 121.80Bn and increased domestic borrowing of KES 141.40Bn to 404.60Bn for FY 2024/25.

Relatedly, Kenya's credit rating was downgraded by both Moody's and Fitch citing the diminished capacity to implement fiscal consolidation strategy to contain the government debt burden.

Moreover, costly domestic debt service (up 23% this fiscal year) and unstable FX reserves could imply a higher risk premium on Kenya.

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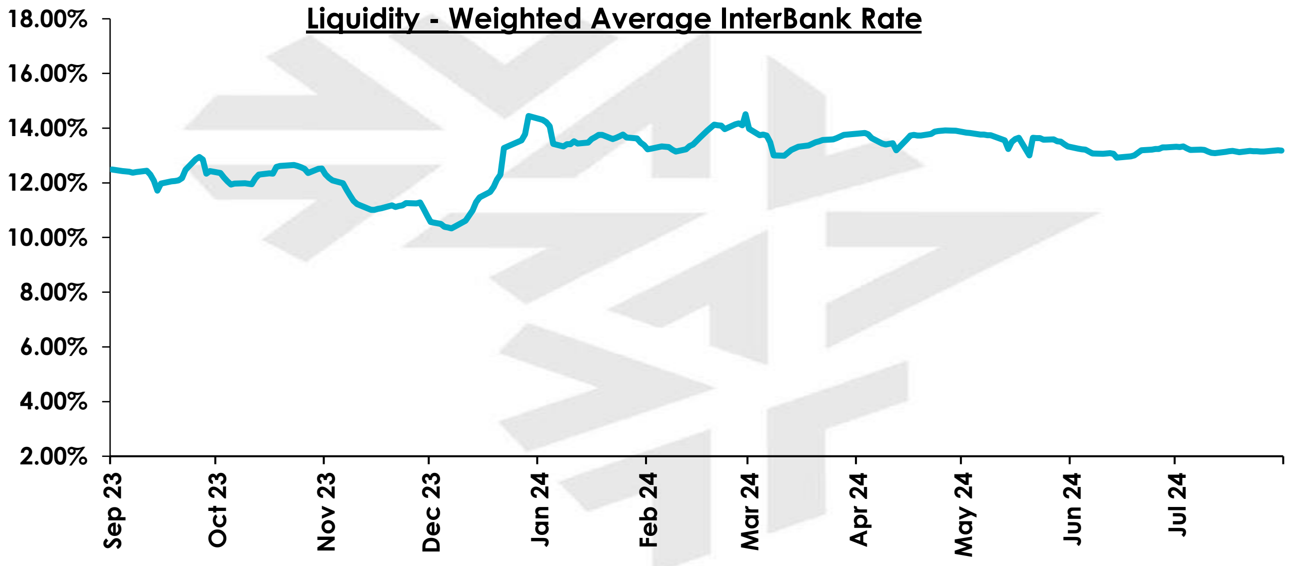
Liquidity

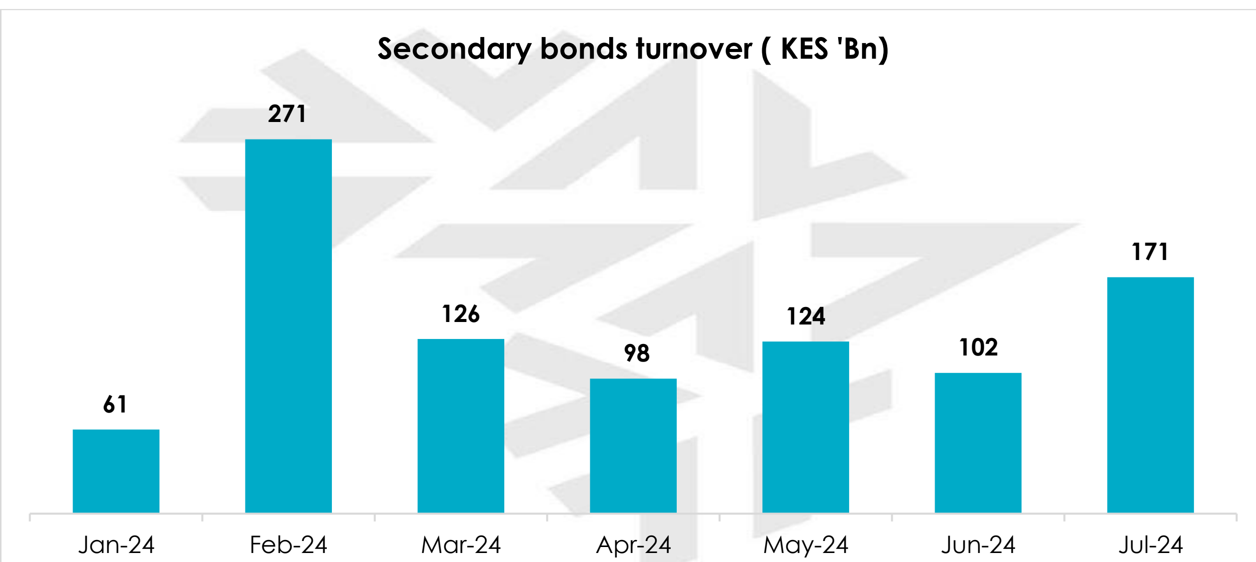
Liquidity conditions tightened in July. Indicatively, the overnight interbank rate rose by 4.28bps month on month to close at 13.18%. The average daily traded volumes also increased to KES 28.61Bn from KES 24.10Bn recorded in the previous month.



Source; CBK, NCBA IB Research

Secondary Market

In the secondary bonds market, total bond turnover rose to KES 171Bn compared to June-24. Trading is still concentrated on **short term papers** as investors seek to minimize duration risk. Investor's preference remains averse for longer- dated bonds attributable to duration risks.



Source; CBK, NCBA IB Research

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Kenya Government Debt Maturities Schedule – August 2024:

The government has total domestic debt maturities of **KES 117.35Bn** in the month of August 2024 compared to **KES 119.67Bn** in June 2024. We expect **robust government activity** in the local market.

Treasury Bills	
Payment Date	**Amount KES 'Mn**
August 5, 2024	3,414.62
August 12, 2024	12,535.49
August 19, 2024	14,190.91
August 26, 2024	11,396.80
Total	**41,537.82**

Coupon payments					
Issue No.	**Next Coupon Payment Date**	**Maturity date**	**Outstanding Amount KES 'Mn**	**Fixed Coupon Rate**	**Coupon payment KES 'Mn**
FXD1/2013/015	12-Aug-24	7-Feb-28	82,473.25	11.25%	4,639.12
FXD3/2019/010	12-Aug-24	6-Aug-29	68,743.45	11.52%	3,958.59
FXD1/2023/010	12-Aug-24	31-Jan-33	28,387.06	14.15%	2,008.53
SDB1/2011/030	12-Aug-24	21-Jan-41	28,144.70	12.00%	1,688.68
FXD1/2021/020	12-Aug-24	22-Jul-41	75,984.00	13.44%	5,107.64
FXD1/2023/002	19-Aug-24	18-Aug-25	94,724.39	16.97%	8,038.45
FXD1/2016/010	19-Aug-24	17-Aug-26	74,495.75	15.04%	5,601.71
FXD1/2018/010	19-Aug-24	14-Aug-28	40,584.60	12.69%	2,574.28
FXD1/2019/010	19-Aug-24	12-Feb-29	67,524.85	12.44%	4,199.37
FXD1/2020/015	19-Aug-24	5-Feb-35	73,156.30	12.76%	4,665.91
IFB1/2017/012	19-Aug-24	12-Feb-29	6,249.55	12.50%	390.60
IFB1/2020/011	19-Aug-24	11-Aug-31	80,249.60	10.90%	4,373.60
IFB1/2022/019	19-Aug-24	28-Jan-41	98,377.55	12.97%	6,377.32
IFB1/2024/8.5	19-Aug-24	9-Aug-32	240,334.85	18.46%	22,183.75
Total					**75,807.56**

Source: CBK, NCBA IB Research

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