BIDDING GUIDE: Re-opened bonds FXD1/2024/10 AND FXD1/2016/20

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 **FXD1/2024/10 AND FXD1/2016/20** seeking to raise **KES 30.0Bn** 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	FXD1/2024/10 (Re-opened)	FXD1/2016/20 (Re-opened)
Tenor to Maturity	9.5 Yrs	12 Yrs
Coupon Rate	**16.00%**	**14.00%**
Bidding Guide	**16.80%-17.30%**	**17.00%-17.50%**
Offered Amount	**KES 30 Bn**	
Period of Sale	4th Sept 2024 to 18th Sept 2024	
Value Date	**23rd Sept 2024**	
Minimum Bidding Amount	KES 50,000.00	
Taxation	**10.00%**	

Source: CBK, NCBA IB Research

Comparable Papers:

Re-opened FXD1/2024/10

Bond Issue	Tenor to Maturity	Outstanding Amount Shs'M.	Fixed Coupon Rate	Implied Yield To Maturity
FXD2/2019/015	9.64 years	81,644.75	12.7340%	16.2623%
FXD1/2019/015	9.35 years	79,096.85	12.8570%	16.2337%

Re-opened FXD1/2016/20

Bond Issue	Tenor to Maturity	Outstanding Amount Shs'M.	Fixed Coupon Rate	Implied Yield To Maturity
FXD1/2022/015	12.60 years	68,357.70	13.9420%	16.5085%

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 financial year budget.

We anticipate a moderate subscription rate for these medium-term papers, as they are less aligned with the prevailing investor preference for short-term instruments.

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 but declined in August with the largest decrease in the 182-day paper. 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	Aug-24	Jul-24	M/M change (bps)
91 Day	15.780%	16.000%	(22.00)
182 Day	16.630%	16.851%	(22.06)
364 Day	16.840%	16.921%	(8.12)

Source: CBK, NCBA IB Research

Annual consumer prices at the headline level ticked marginally to 4.4% in August from 4.3% in July 2024 – the lowest level recorded since 2020. The inflation was mainly driven by price increases for food, transportation, water, electricity, gas and other fuels.

Statistic	Aug-24	Jul-24	Change (bps)
Inflation	4.40%	4.30%	10.00
CPI	139.87	139.94	(5.00)

Source: CBK, KNBS, NCBA IB Research

Looking ahead, we expect the annual inflation rate to remain stable and within the midpoint of CBK's target range supported by stability in food prices and aided by declining global fuel prices.

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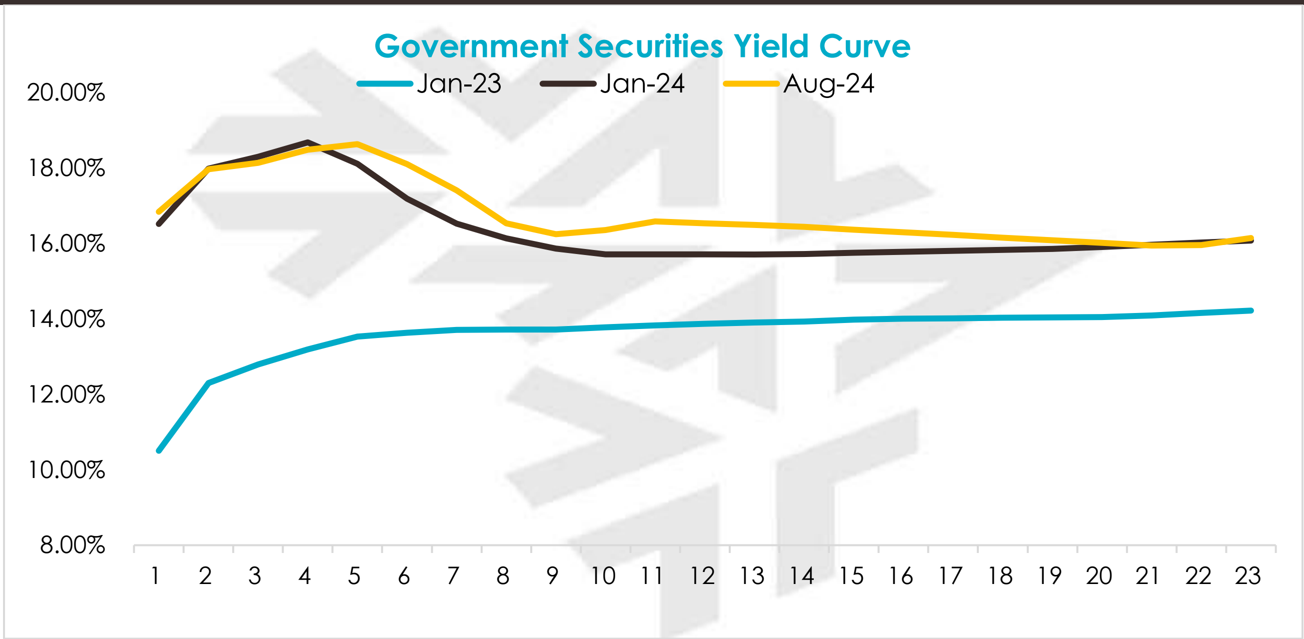

Source; NSE, NCBA IB Research

Government Debt Burden

The government has increased its borrowing targets for FY 2024/25. This shift will prompt the government to focus more on domestic debt through the issuance of short- and medium-term instruments, which are better aligned with investor preferences. This adjustment aims to help meet the increased borrowing target for the fiscal year.

Recent auctions of long-term bonds have seen weak investor interest, highlighting a clear aversion to long-tenured debt.

In addition, the rising cost of servicing domestic debt and volatile foreign exchange reserves could lead to higher risk premiums on Kenya's debt, further complicating the country's fiscal outlook.

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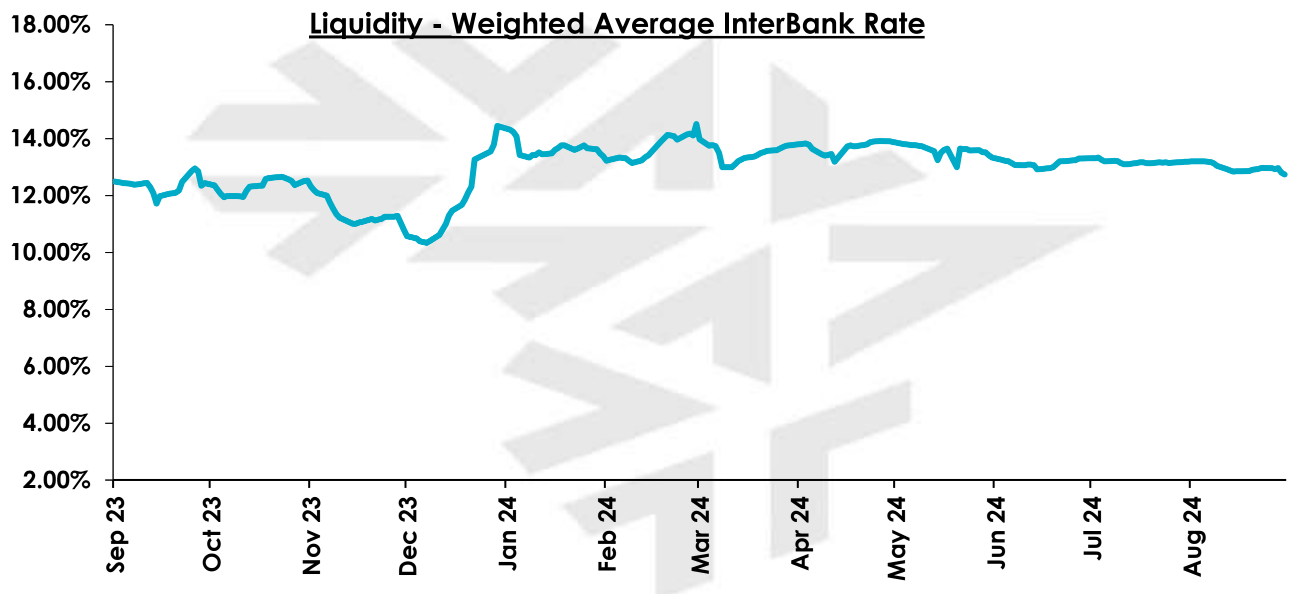
Liquidity

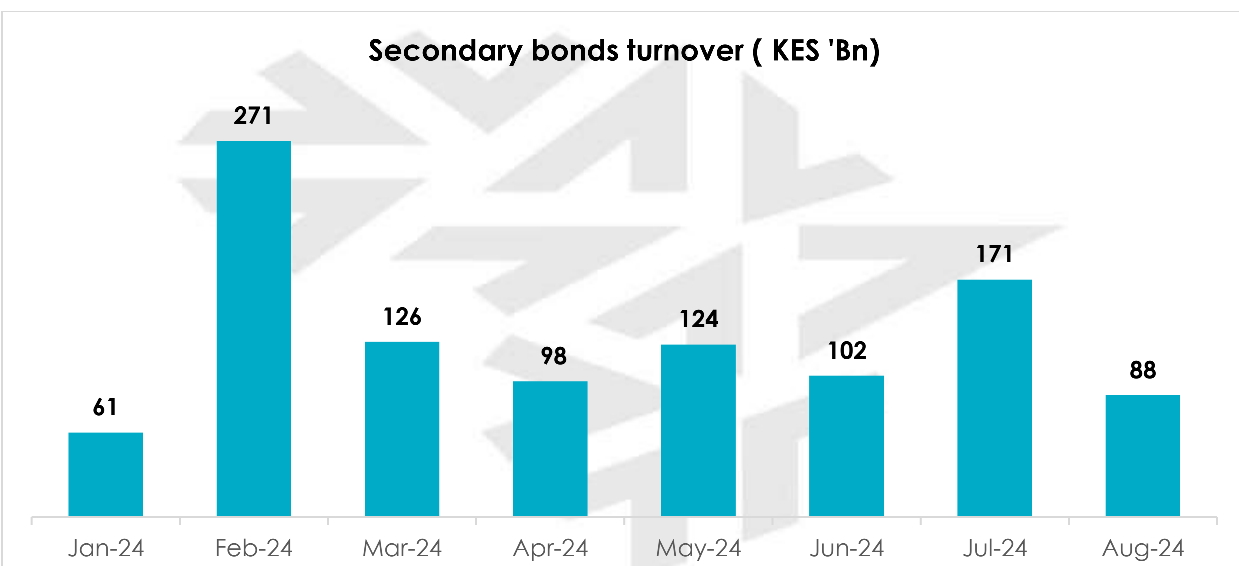
In August, liquidity conditions eased marginally. Indicatively, the overnight interbank rate decreased by 74bps month on month to close at 12.97%. The average daily traded volumes also decreased to KES 22.92Bn from KES 28.61Bn recorded the previous month.



Source; CBK, NCBA IB Research

Secondary Market

In the secondary bonds market, total bond turnover declined to KES 88Bn compared to July-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 – September 2024:

The government has total domestic debt maturities of **KES 133.09Bn** in the month of September 2024 compared to **KES 117.35Bn** in August 2024. We expect robust government activity in the local market

Treasury Bills	
Payment Date	**Amount KES 'Mn**
September 2, 2024	25,888.32
September 9, 2024	19,826.44
September 16, 2024	20,646.96
September 23, 2024	18,402.62
September 30, 2024	32,008.55
Total	**116,772.89**

Coupon payments					
Issue No.	**Next Coupon Payment Date**	**Maturity date**	**Outstanding Amount KES 'Mn**	**Fixed Coupon Rate**	**Coupon payment KES 'Mn**
FXD1/2010/015	9-Sep-24	10-Mar-25	27,693.90	10.25%	1,419.31
FXD1/2012/015	9-Sep-24	6-Sep-27	90,939.90	11.00%	5,001.69
FXD1/2024/010	23-Sep-24	13-Mar-34	34,541.76	16.00%	2,763.34
FXD1/2016/020	16-Sep-24	1-Sep-36	12,761.20	14.00%	893.28
FXD1/2018/020	16-Sep-24	1-Mar-38	94,515.60	13.20%	6,238.03
Total					**16,315.66**

Source: CBK, NCBA IB Research

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