DYER & BLAIR INVESTMENT BANK
FIXED INCOME REPORT

Founder Member of the Nairobi Securities Exchange

JANUARY 27TH 2020

DYER & BLAIR
INVESTMENT BANK
WE KNOW. YOU KNOW.

KENYA: 2020 FIXED INCOME OUTLOOK

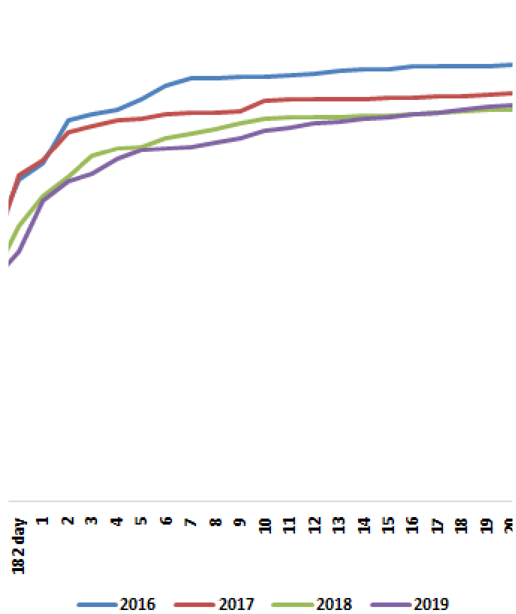
In 2020, we expect:

- That yields on government securities will rise primarily due to auction pressure as market sentiment around the government's fiscal measures remain negative.
- That the Central Bank will cut the key policy rate more than once. We also expect the continued push for a reduction of the cash ratio to materialize.
- That a loose monetary policy and determined efforts to prevent a rapid rise of interest rates will result in significant yield volatility throughout the year ensuring opportunities for sophisticated investors to record trading gains.
- That inflation will remain within range despite our expectation of food (maize) shortages.
- That "**short-termism**" will continue on the part of policy makers. This will exacerbate market volatility.
- That there will be a lot of noise around economic issues from both pundits and politicians. Some investors may be stuck in analysis paralysis (bad news spreads faster).
- That the negative outlook on both Nigeria and South Africa by key rating agencies should encourage the government to pursue foreign portfolio inflows through issues of a number of infrastructure bonds or via foreign borrowing.

In 2020, we are concerned about:

- A rising risk of substituting budgeted external borrowing with domestic.
- Our perceived unlikelihood of material fiscal consolidation or successful renegotiation of outstanding debts.
- A potential yield curve inversion on the back of rising short term rates.

YIELD CURVES OVER CAPS REGIME



Source: NSE, DBIB Research

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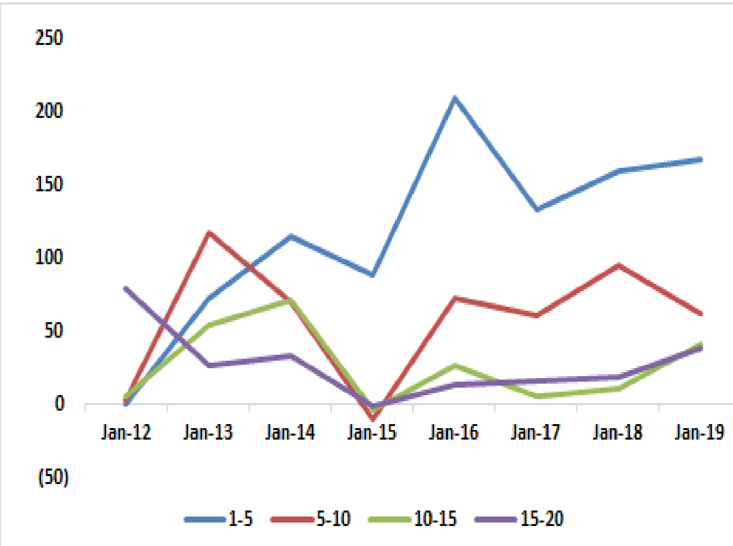
Yields on government securities will rise primarily due to auction pressure as market sentiment around government's fiscal measures remain negative. A loose monetary policy, determined efforts to lower debt financing costs by the Central Bank, and the apparent mispricing in the short end, will see significant yield volatility.

Year end Spreads (BPS)

Range	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
1-5	1	73	115	89	210	134	160	167
5-10	3	117	71	(10)	73	61	95	62
10-15	6	54	71	(3)	26	6	11	42
15-20	80	26	33	(2)	14	16	19	39

Source: NSE



Source: NSE

- Since 2013, the spreads on short dated securities have increased while those on long dated securities have narrowed. Spreads have generally widened under the current administration.
- There were very few short term issues in 2018 and 2019, thus short term rates may not have been properly benchmarked especially as a majority of market players preferred playing in the primary market only. We believe that under similar conditions, short term yields would have been much lower than they were in 2019.

- Although, the government issued a lot more longer dated papers in the last two years, a sizable portion of outstanding bonds will mature within the next 5 years as long term issues under Kibaki's administration and short term issues of year 2015 approach maturity (the government responded to 2015's cash crunch by issuing a lot of short term papers at very high rates). As of early 2020, KES 887.0 BN of bonds will mature within the next 5 years whereas KES 988.0 BN will mature in the next 6-29 years.
- The apparent excess of short term papers in the secondary market at a time when the government is likely to issue more short term papers to bridge its deficit will make way for short term yield volatility depending on availability and distribution of liquidity among major market players.
- The yield curve inverted in 2015 as a government cash crunch saw yields on short term securities rise dramatically. Markets are wary of a repeat given the widely reported cash crunch. This will see market players bid aggressively in monthly bond auctions, and without commercial lending caps to act as a cushion, yields will rise.
- While yield compression was mainly supported by caps on commercial lending rates in 2017-2019, Central Bank's auction discipline also played a sizable role despite the handicapping of monetary policy. In the absence of lending caps, we expect monetary policy to be more effective. In 2020, we expect at least two monetary policy rate cuts as well as a downward revision of the cash reserve ratio. That said, without a material cut in government spending (which we do not expect), these policy moves will be both transitory and short term, thus more supportive of our expectation of volatility.

- Generally, we believe that the repeal of interest rate caps stands positive for equities. With peer economies in Africa such as Nigeria and South Africa less attractive, we may see sustained portfolio inflows from foreign investors into the equities market. However, if the latent political risk materializes, a foreign investor risk off could create more volatility in the Fixed Income market as local investors rush back to secure returns.
- In 2020, we believe that an active, research driven fixed income investment strategy, reviewed quarterly or monthly will still generate good returns.
- In the long term, given widespread fears and negativity about the trajectory of the global economy, rising concerns about Kenya's political future, and limited growth stories in Kenya's equities market, we continue to believe that local investors should be overweight fixed income while cherry picking investable opportunities in the equities market.

While the domestic bond maturity profile seems benign, there are significant domestic coupon payments and treasury bill maturities to be serviced. In addition, the onset of SGR principal payments, commitment to pay pending bills and a continued pursuit of legacy projects will sustain the governments appetite for cash.

Domestic Bond Maturities (KES BN)

Bond	Maturity	Amount	Coupon Rate
FXD1/2010/10	April 13, 2020	19.4	8.79%
FXD1/2015/5	June 22, 2020	31.0	13.19%
FXD2/2010/10	Oct 19, 2020	33.4	9.31%
FXD2/2015/5	Nov 23, 2020	30.7	13.92%

Source: NSE

Upcoming Coupon Payments (Monthly Breakdown in the appendix)

Month	Coupon Amount Due (KES BN)
January-20	15.14
February-20	17.04
March-20	17.95
April-20	**22.64**
May-20	**22.04**
June-20	19.19

Source: NSE

Summary Domestic Refinancing Needs to June-2020 (KES BN)

Month	Coupons	Bonds	Bills	Total
Jan-20	15.14	-	101.82	116.96
Feb-20	17.04	-	88.46	105.50
Mar-20	17.95	-	106.08	124.04
Apr-20	22.64	19.39	76.01	118.05
May-20	22.04	-	59.93	81.97
Jun-20	19.19	30.96	84.69	134.83

Source: NSE

- An easier maturity profile in **1Q20** provides room for yields to fall. Indeed if the MPC eases policy further in their end of January meeting, yields could drop.
- But as some commentators have argued, 2020 may be the last full year before **2022 political campaigns are ratcheted up**. That it may be the last year for the President to pursue his legacy development projects.
- With key projects stuck due to funding constraints, the maturity profile may not matter if fiscal aggression picks up in an effort to complete such projects.
- That said, as we have written before, and as we argue in detail elsewhere in this report, the external markets are prime for the government to refinance its debt affordably given low global rates. If the government were to successfully raise external funds in **1Q20,** it would trigger another wave of yield compression that could cushion its financing needs in **2Q20-4Q20.**
- Amidst all the noise and negativity around economic issues, external debt is likely to be a wedge issue among political elites making such a refinancing difficult.
- In summary, for yields to fall sustainably, a lot of factors would have to align (**they won't**). Hence our expectation of higher yields year-on-year albeit with a lot of volatility in between.

A detailed primary auction for 2019, 2018, 2017 is available in the appendix.

In October 2019, CBK fixed the coupon rate of IFB1/2019/16 even after the prospectus had indicated that the coupon rate would be market determined. The letter of this analysis may thus not matter but we think its spirit will do: there will be significant volatility of yields that will require constant evaluation and re-strategizing.

Given the government's objectives of managing refinancing costs, and the market's expectations that yields will rise, we expect more re-opens over outright new issues in 2020's primary auctions.

- In 2019, there were **14 New issues** and **7 Re-opens**. Of the 14 New issues, 12 were market determined while 2 had their coupon rates pre-determined. Of all issues, 4 were tapped in 3Q19-4Q19 as market sentiment shifted following removal of caps on lending rates. 6 of the re-opens had a remaining tenor of at least 8 years.
- In 2018, there were **10 New issues** and **7 Re-opens**. Of the 10 New issues, 3 were market determined while 7 had their coupon rates pre-determined. Of all issues, 7 were tapped in January, March and December respectively.
- In 2017, the first full year of the interest rate caps regime, there were **6 New issues**, and **11 Re-opens**. Of the 6 New issues, 4 were market determined while 2 (IFBs) had their coupon rates pre-determined. 13 issues were tapped. Of the 11 re-opens, 7 had outstanding tenors below 7 years (5 below 4 years).

We expect 2020 to look more like 2017, from a primary issuance standpoint. That is, we see more re-opens and tap sales over straight out new issues. In its decision to re-open previously issued bonds, we think the government factors in the coupon rate, outstanding amounts and remaining tenor of the bonds with a preference for low coupon rates, low outstanding amounts and longer tenors. We think long tenured bonds issued in 2019 are more likely to be re-opened as yields were lower than in 2018 and 2017 (coupons were lower). In an environment where rates are generally rising, re-opens and tap sales will dampen trading in the secondary market potentially widening bid-ask spreads depending on availability and distribution of liquidity among key market players. Already a number of institutional investors prefer the primary markets over secondary markets often due to transparency and pricing concerns.

We think an issuance calendar is critical moving forward and express cautious optimism that it will feature in the on going debt management discussions. Without it, it will help to take a view on:

- Which bonds could be re-opened, and whether to sell them ahead of time or not.
- Whether the apparent stand off on bonds that are currently trading at high premiums in part due to their high coupon rates will break.
- Whether the government will be able to steadily re-open the many outstanding short tenured papers over issuing fresh ones.
- Whether the resumption of lending by commercial banks will have an influence on the tenors that can be re-opened successfully.

Which bonds could be re-opened, and whether to sell them ahead of time or not. The following bonds with an outstanding amount below KES 25.0 BN, a tenor above 9 years and a coupon of at most 13.20% stand to be reopened.

Bond	Issue	Next Coupon	Maturity	Tenor (YRS)	AMT KES BN.	Coupon
IFB1/2019/25Yr	Mar 25, 2019	Mar 23, 2020	Feb 22, 2044	24.1	16.30	12.20%
FXD2/2018/20	Jul 30, 2018	Jan 27, 2020	Jul 5, 2038	18.5	15.82	13.20%
FXD1/2018/20	Mar 26, 2018	Mar 23, 2020	Mar 1, 2038	18.1	23.06	13.20%
FXD1/2010/25	Jun 28, 2010	Jun 15, 2020	May 28, 2035	15.4	20.19	11.25%
FXD2/2019/015	May 13, 2019	May 11, 2020	Apr 24, 2034	14.3	19.32	12.73%
FXD1/2019/015	Jan 28, 2019	Jan 27, 2020	Jan 9, 2034	14.0	14.72	12.86%
FXD2/2018/015	Oct 22, 2018	Apr 20, 2020	Oct 3, 2033	13.7	7.85	12.75%
FXD1/2011/20	May 30, 2011	May 18, 2020	May 5, 2031	11.3	9.37	10.00%
IFB1/2017/12Yr	Feb 27, 2017	Feb 24, 2020	Feb 12, 2029	9.1	14.33	12.50%

Source: NSE

Whether the apparent stand off on bonds that are currently trading at high premiums in part due to their high coupon rates will break. FXD1/2007/15 for instance has a coupon of 14.5%, a remaining tenor of 2.1 years and an outstanding amount of KES 3.7 BN. It has not been re-opened and it does not trade much partly because of its high coupon. Notably, some of the bonds that fall under this theme were first issued in 2016, before caps came into place, and after the yield curve inversion of 2015. With caps gone and with dynamics that explained 2015 still in play, 2016 can be a benchmark for how high yields could rise if nothing else gives (cheap foreign borrowing, failure by banks to lend aggressively to the private sector, a reduction of the cash ratio etc.)

Will such bonds be re-opened if rates approach their coupon rates? Are they more attractive for buy and hold investors now?

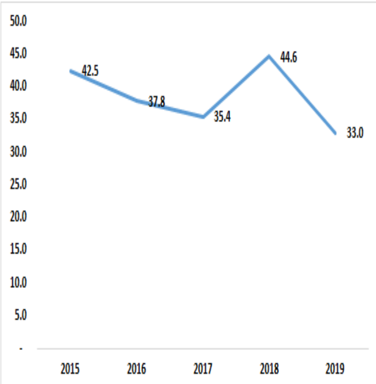
Whether the government will be able to steadily re-open the many outstanding short tenured papers over issuing fresh ones. As there has not been sufficient short term issues in the rate caps regime, we think that short term yields were not well benchmarked (their yields would have been lower). This may mean that short term yields should not rise too sharply although market sentiment disagrees. As long as banks lend aggressively to the private sector and foreign inflows continue to support the equities market as they have since December 2019, a competition for liquidity could force the government to issue new short term papers at higher yields. That said, the expectation that these two assumptions can hold through 2020 is tenuous at best. Hence more volatility.

As losses loom larger than gains, the abundance of negative press on the economy (fair or not) has the market sentiment strongly negative.

Whether the resumption of lending by banks will have an influence on the tenors that can be re-opened successfully. Of the 14 new issues in 2019, 10 were long term (over 10 years), and of the 9 new issues in 2018, 8 were long term. The government is keen to extend average duration on domestic debt as maturities from long term issues in the Kibaki era and short term issues from the 2015's saga begin to kick in. Whether this strategy can continue will depend on how high rates adjust and how quickly and significantly banks scale lending to the private sector. Will those banks that had raised their target duration on government bonds, lower it now that caps are gone?

Banks are the largest buyer of government debt. They also have accounting flexibility with regards how they hold bonds (compared to pension fund managers).

Maize Production (MN Bags)



Source: KNBS

Without the Turkana Wind Project, fuel cost charges in May 2019 would have been as high as KES 5.75/Kwh following the failure of the long rains compared to the recorded KES 3.75/Kwh.

Rate of Inflation

	'19	'18	'17	'16	'15	'14
Jan	4.7	4.8	7.0	7.8	5.5	7.2
Feb	4.1	4.5	9.0	6.8	5.6	6.9
Mar	4.4	4.2	10.3	6.5	6.3	6.3
Apr	6.6	3.7	11.5	5.3	7.1	6.4
May	4.5	4.0	11.7	5.0	6.9	7.3
Jun	5.7	4.3	9.2	5.8	7.0	7.4
Jul	6.3	4.4	7.5	6.4	6.6	7.7
Aug	5.0	4.0	8.0	6.3	5.8	8.4
Sep	3.8	5.7	7.1	6.3	6.0	6.6
Oct	5.0	5.5	5.7	6.5	6.7	6.4
Nov	5.6	5.6	4.7	6.7	7.3	6.1
Dec	5.8	5.7	4.5	6.4	8.0	6.0

Source: CBK

In October 2018, IMF announced that it would reclassify the Kenya Shilling from free floating to other managed arrangement

IMF also announced that according to their models, the Shilling was overvalued by about 17.5%.

In October 2019, Central Bank published its own study concluding that the Shilling was in fact largely undervalued in the period between Q1-2009 to Q4-2017.

We expect that inflation will remain below the upper limit of 7.5% in 2020 despite food (maize) shortages. Following delayed long rains in 2019, and excess short rains in 4Q19, maize harvest is expected to be inadequate at 33.0 million bags against the targeted 52.0 million bags and the 44.6 million that was harvested in 2018. Initial reports suggest that the already inadequate production courtesy of delayed long rains has been further weakened by extended short rains through the typically hot months of December 2019 and January 2020. We expect the government to open up maize imports in 2020 and enforce price subsidies as they did in the eve of 2017's election. We expect them to be sensitive to the possibility of the latent political schisms finding expression through rising cost of food.

We are cautiously optimistic that the cost of electricity will fall in 2020. We expect hydrology levels to remain high through 2Q20 following above normal rainfall through out the country in 4Q19 (short rains season). According to the Kenya Meteorological Department, all stations received above 125% of their October-November-December LTMs (long term means) rainfall. We are also hopeful that the investment into renewable energy sources such as the Lake Turkana Wind Power Project (310 MW) that began injecting power to the grid on 24^{th} September 2018 and the expected commissioning of Olkaria V will further cushion Kenyans from erratic electricity prices as the contribution of thermal power reduces.

The global price of oil remains a source of uncertainty: Recent geopolitical developments such as the conflict between USA and Iran, and the 2019's Saudi Arabia oil facilities attack underscore the unpredictability of oil prices moving forward. That said, we are hopeful that the upcoming election in the USA will incent sobriety from those whose actions can never be predicted.

Core inflation to remain muted: Although, we expect the repeal of interest rate caps and further monetary policy actions to boost private demand, we believe that there remains significant slack in the economy to keep core inflation at bay.

We expect the Shilling to remain stable within 100.00 to 103.00 to the USD. We expect stability to continue to follow from a low import bill. We see risk in IMF's assertion that the Shilling is over-valued at a time when we believe Kenya may need to get IMF's support given its limited fiscal space. We recognize the view that if private sector credit growth rises significantly, imports may rise, in effect widening the current account but we doubt that in the context of stable oil prices and no SGR related capital imports, the current account will widen enough to significantly impact the Shilling. We argue that negative outlook on both Nigeria and South Africa by key rating agencies should encourage the government to pursue foreign portfolio inflows through issues of a number of infrastructure bonds.

Central Bank Rate

	'19	'18	'17	'16	'15	'14
Jan	9.0	10.0	10.0	11.5	8.5	8.5
Feb	9.0	10.0	10.0	11.5	8.5	8.5
Mar	9.0	9.5	10.0	11.5	8.5	8.5
Apr	9.0	9.5	10.0	10.5	8.5	8.5
May	9.0	9.5	10.0	10.5	8.5	8.5
Jun	9.0	9.0	10.0	10.5	10.0	8.5
Jul	9.0	9.0	10.0	10.5	11.5	8.5
Aug	9.0	9.0	10.0	10.5	11.5	8.5
Sep	9.0	9.0	10.0	10.0	11.5	8.5
Oct	9.0	9.0	10.0	10.0	11.5	8.5
Nov	8.5	9.0	10.0	10.0	11.5	8.5
Dec	8.5	9.0	10.0	10.0	11.5	8.5

Source: CBK

Rate of Inflation

	'19	'18	'17	'16	'15	'14
Jan	4.7	4.8	7.0	7.8	5.5	7.2
Feb	4.1	4.5	9.0	6.8	5.6	6.9
Mar	4.4	4.2	10.3	6.5	6.3	6.3
Apr	6.6	3.7	11.5	5.3	7.1	6.4
May	4.5	4.0	11.7	5.0	6.9	7.3
Jun	5.7	4.3	9.2	5.8	7.0	7.4
Jul	6.3	4.4	7.5	6.4	6.6	7.7
Aug	5.0	4.0	8.0	6.3	5.8	8.4
Sep	3.8	5.7	7.1	6.3	6.0	6.6
Oct	5.0	5.5	5.7	6.5	6.7	6.4
Nov	5.6	5.6	4.7	6.7	7.3	6.1
Dec	5.8	5.7	4.5	6.4	8.0	6.0

Source: CBK

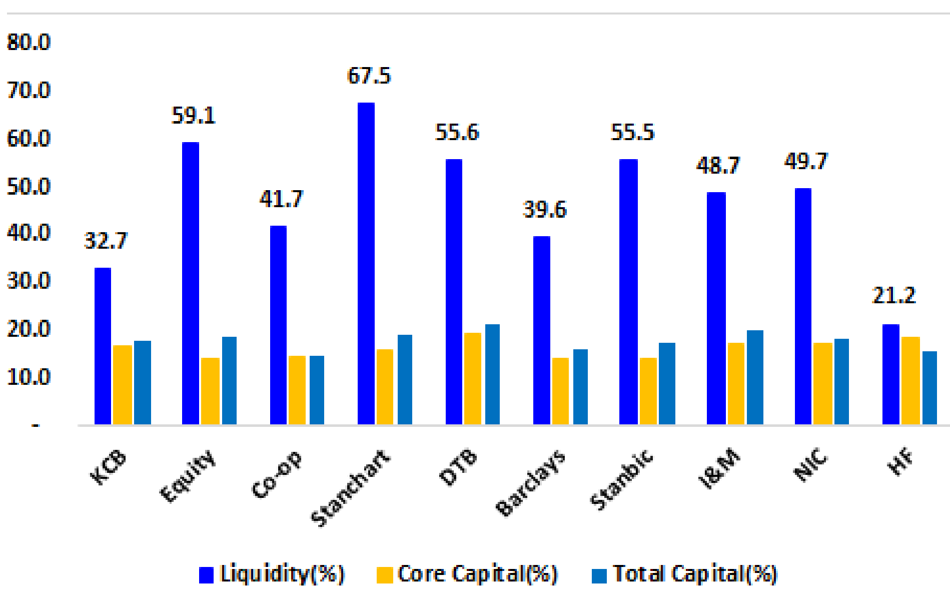
We anticipate that the Central Bank will cut the key policy rate more than once. We also expect the continued push for a reduction of the cash ratio to materialize. The global monetary policy stance, ongoing fiscal consolidation in Kenya, low inflation and stable currency will support continued policy ease in 2020. Although the Central Bank Policy rate is at the lowest it has been since 2015 (8.5%), we anticipate 2 rounds of cuts of at least 25 bps in 2020.

Policy transmission is not effective: Although monetary policy transmission was severely handicapped by the capping of interest rates, we observe that transmission was ineffective even before the caps were put into place partly due to a skew in the interbank market between Tier I banks and the rest of the banks. We expect that this will remain and will be exacerbated by continued fiscal aggression. As a result, policy cuts will be supportive of our yield volatility outlook.

Cash reserve ratio: We have in the last 12 months borrowed from the experience of 2003 to recommend that a reduction of the cash ratio would have a bigger multiplier on the economy than a series of policy cuts. We believe that a reduction of the cash ratio from the current 5.25% would speed up private sector lending by banks and cushion yields on government debt from rising dramatically. With liquidity ratios in the banking sector already quite high, we recognize that a cash ratio reduction may appear unnecessary, but we argue that it is necessary to:

1. Speed up banks' transition into private sector lending by mitigating the risk of crowding out.
2. Pursue more domestic debt servicing ease as yields would drop further.
3. Allow more room for fiscal consolidation (as policy transmission appears less effective, a CRR cut would work better).

Key Banks' Liquidity, Core & Total Capital Ratios as at 3Q19



Source: Company, DBIB Research

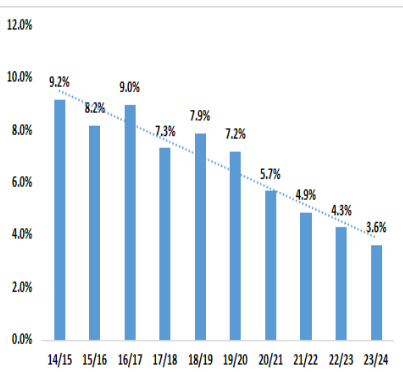
Revenue collection will continue to underperform, spending cuts will be immaterial. We believe that the disconnect between GDP growth and its quality will continue to manifest through missed revenue targets. Although the repeal of interest caps is revenue positive, we do not expect to see its impact in 2020. In fact, we remain concerned that its expected impact will be reduced by crowding out and the onset of the 2022 election campaigns. Further, in the unexpected case of material consolidation of the deficit, a weak private sector will fail to materially sweat recent investments in infrastructure further weakening the medium term outlook.

Revenue mobilization efforts will become wedge issues that may trigger early politicking.

Because of failed revenue projections, actual deficits are always wider than projected deficits. Many investors thus do not appreciate proposed budget forecasts.

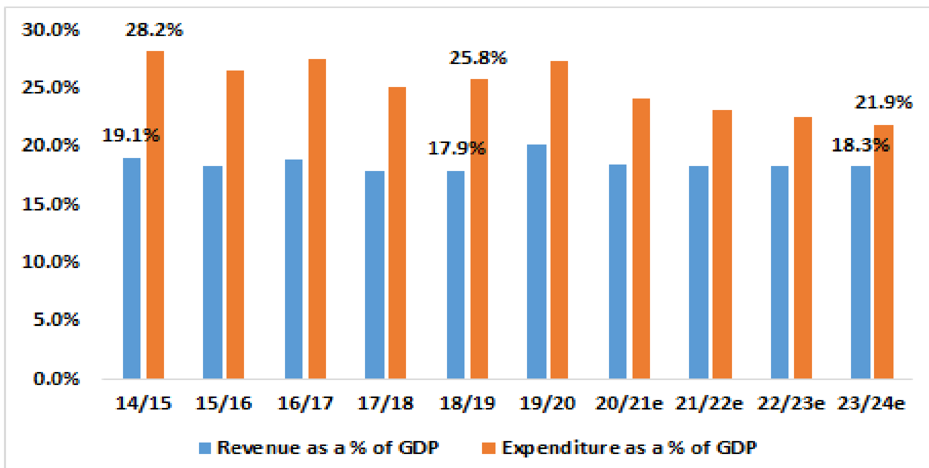
Pursuit of legacy projects and the Big 4 agenda will stand in the way of any material cuts in expenditure. IMF posits that about KES 1.0 TN (12.0% of GDP) is required to finalize pending legacy projects. Continued pursuit of even a fraction of these projects is thus deficit negative. That the government is struggling to admit that these projects should be stopped is reflected in its recently announced measures to impose austerity on non-core expenditure such as foreign travel, hospitality, general supplies and use of government vehicles. As a result, we believe that the proposed fiscal consolidation will fail to take root unless external pressures come into play.

Proposed Consolidation- Fiscal Deficit(%)



Source: Treasury

Proposed Consolidation Of The Fiscal Deficit(%)



Source: Treasury

Unconfirmed reports suggest that there is about KES 100.0 BN of unpaid VAT refunds.

*The World Bank puts the amount of unpaid bills at **0.7%** of GDP.*

In 2019, the legislature reviewed the debt ceiling to an absolute figure of KES 9.0 TN. It is notable that if unreported contingent liabilities were to fall due, the gap from the current circa 5.9 TN debt position would close fairly quickly.

In the medium term, debt servicing pressures and other outstanding liabilities will also keep the deficit elevated. Interest payments to total revenue have risen 700 bps between fiscal year 2014/15 and 2018/19 to 22.5%. This in addition to the onset of key principal payments such as that of the SGR loans, will continue to exert pressure on the deficit even if pending projects are stopped (some or all of the goose is already cooked). According to the IMF, Kenya has other unreported liabilities such as pension obligations estimated at about 30.0% of GDP, PPP liabilities to government of about 3.5% of GDP and actuarial obligations to the social security sub-sector equivalent to about 3.3% of GDP. Lastly, the amount of unpaid bills remain contentious despite ongoing efforts to clear them. All in all, the meta point for us is that the fiscal deficit will remain wide and unclear in terms of its actual size with subsequent developments or reporting set to drive even more yield volatility.

External commercial borrowing though advisable will be politically difficult.

- According to the World Bank, debt servicing charges on the domestic debt are three times higher than on the external debt stock. According to the IMF, the Shilling is significantly over-valued and somewhat managed.
- As per the domestic debt market, caps on lending rates were the main reason why rates fell over the last 3 years. Further, domestic market sentiment has fully discounted government's readiness to cut the fiscal deficit in a material way (by cutting spending).
- Nuance aside, the public discourse is replete with concerns about more external borrowing at a time when political posturing is likely to take center stage.

According to the World Bank, debt servicing charges on the domestic debt are three times higher than on the external debt stock and according to the IMF, the Shilling is significantly over-valued and somewhat managed. We are cautiously optimistic that the government will follow through on its promise to refinance expensive external debt such as syndicated loans with concessionary funding from multinationals such as IMF and the World Bank. However, such funding will bear potentially untenable conditions such as the ones suggested above. Indeed the Central Bank of Kenya appears stuck in a tug of war with the IMF about the valuation of the Shilling. We thus do not expect such refinancing to be entirely successful, meaning that the government will have to double down on domestic borrowing.

Nuance aside, the public discourse is replete with concerns about more external borrowing at a time when political posturing is likely to take center stage. Our regular readers will observe that recent spike in the usage of syndicated loans has been a key example of our pet peeve **(*short-termism*).** We believe that syndicated loans, not Eurobonds are the problem (short term tenors and high interest rates) and encourage the government to consider revisiting the Eurobond markets under the current conditions. To be clear, in the absence of a material cut in spending, external borrowing is the only stop gap measure against rising domestic rates.

We encourage the government to consider revisiting the Eurobond markets under the current conditions. The yields of existing Eurobonds have fallen since their issue in line with lower global yields following the widespread monetary easing. Against peers, Kenya remains a safer bet for foreign debt investors across all metrics.

Nigeria and South Africa had their outlook downgraded to negative by both Moody's and Fitch while Kenya's outlook was upheld as stable.

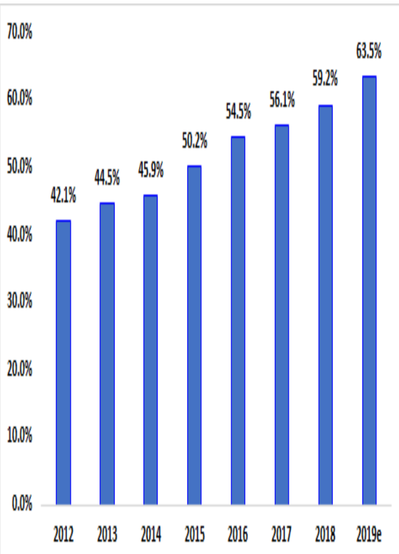
Bond	Tenor at Issue (YRS)	Yield at Issue (%)	Current Yield (%)
2024	10	6.9	4.7
2027	7	7.0	6.8
2028	10	5.9	5.9
2032	12	8.0	5.7
2048	30	8.3	7.5

Source: Bloomberg

In summary, external borrowing will be politically difficult because:

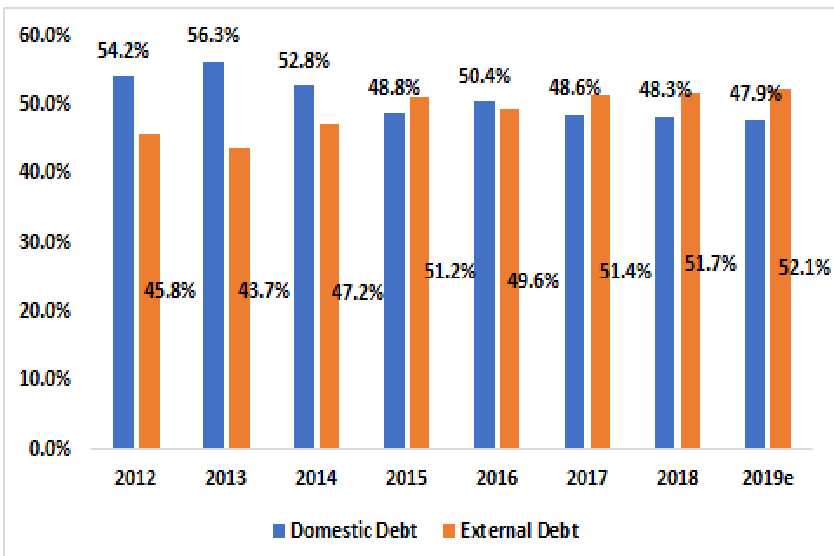
1. Concessional external borrowing will bear conditions that maybe unpalatable to the political class ahead of a non-incumbent election.
2. The public has become fully sensitized against external borrowing and given latent schisms between various political elites, external borrowing can easily become a wedge issue.
3. Foreign debt investors tend to over-price political risk, thus an onset of campaigns could have an impact on sovereign yields.
4. Total domestic debt has risen significantly in the last 6 years with external debt surpassing domestic debt since 2015. That external shocks would impact the Shilling negatively through their transmission via tourism, remittances and value of agricultural exports will dampen any efforts to raise external USD denominated debt.

Total Debt to GDP (%)



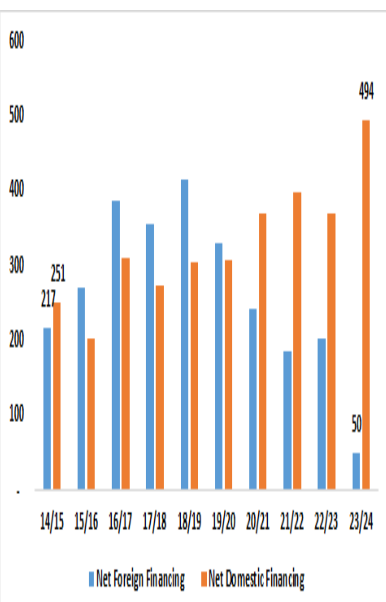
Source: CBK

Split Between Domestic & External Debt



Source: CBK

Medium Term Financing Plans (KES BN)



Source: Treasury

Perhaps in cognizance of the difficulties of borrowing externally, the medium term borrowing program leans in more on domestic borrowing over foreign (see graph on the side bar). Whether the government can follow through with this plan aside, the real quagmire is whether its twin domestic financing goals of lengthening the duration at a lower cost are possible. With the market relatively free (no-caps), and with uncertainty looming large locally and globally, more domestic borrowing will have to come at the expense of the government's twin domestic financing goals. As in 2015, this may see a curve inversion. As once bitten twice shy, before such happens, we expect more volatility-heightening short term measures.

TREASURY BILL MATURITIES BY WEEK (KES BN) AS AT JANUARY 20TH 2020

	Month	Date	91	182	364
Wk1	Jan	6-Jan-20	2.39	4.82	11.83
Wk2	Jan	13-Jan-20	5.38	11.11	23.73
Wk3	Jan	20-Jan-20	4.40	6.97	9.47
Wk4	Jan	27-Jan-20	0.54	2.72	18.46
Wk5	Feb	3-Feb-20	6.81	3.91	21.92
Wk6	Feb	10-Feb-20	0.86	5.43	16.64
Wk7	Feb	17-Feb-20	1.13	2.94	16.05
Wk8	Feb	24-Feb-20	3.71	1.20	7.85
Wk9	Mar	2-Mar-20	0.45	4.82	6.25
Wk10	Mar	9-Mar-20	0.57	2.80	14.01
Wk11	Mar	16-Mar-20	3.74	1.08	16.13
Wk12	Mar	23-Mar-20	4.45	0.71	26.63
Wk13	Mar	30-Mar-20	0.35	0.44	23.66
Wk14	Apr	6-Apr-20	2.68	1.28	29.82
Wk15	Apr	13-Apr-20	0.63	0.50	17.73
Wk16	Apr	20-Apr-20	5.01	1.50	9.68
Wk17	Apr	27-Apr-20	-	2.73	4.47
Wk18	May	4-May-20	-	4.13	9.45
Wk19	May	11-May-20	-	3.25	5.95
Wk20	May	18-May-20	-	1.52	13.77
Wk21	May	25-May-20	-	3.37	18.50
Wk22	Jun	1-Jun-20	-	0.55	23.51
Wk23	Jun	8-Jun-20	-	0.63	15.58
Wk24	Jun	15-Jun-20	-	3.46	7.08
Wk25	Jun	22-Jun-20	-	3.82	6.34
Wk26	Jun	29-Jun-20	-	0.28	23.43
Wk27	Jul	6-Jul-20	-	1.06	23.17
Wk28	Jul	13-Jul-20	-	2.22	29.77
Wk29	Jul	20-Jul-20	-	6.36	10.63
Wk30	Jul	27-Jul-20	-	-	16.42
Wk31	Aug	3-Aug-20	-	-	11.89
Wk32	Aug	10-Aug-20	-	-	18.03
Wk33	Aug	17-Aug-20	-		15.07
Wk34	Aug	24-Aug-20	-		8.96
Wk35	Aug	31-Aug-20	-		7.77
Wk36	Sep	7-Sep-20	-		7.21
Wk37	Sep	14-Sep-20	-		7.22
Wk38	Sep	21-Sep-20	-		19.87
Wk39	Sep	28-Sep-20	-		11.58
Wk40	Oct	5-Oct-20	-		7.77
Wk41	Oct	12-Oct-20	-		11.04
Wk42	Oct	19-Oct-20	-		7.65
Wk43	Oct	26-Oct-20	-		13.00
Wk44	Nov	2-Nov-20	-		12.78
Wk45	Nov	9-Nov-20	-		22.44
Wk46	Nov	16-Nov-20	-		11.19
Wk47	Nov	23-Nov-20	-		4.84
Wk48	Nov	30-Nov-20	-		3.99
Wk49	Dec	7-Dec-20	-		4.73
Wk50	Dec	14-Dec-20	-		5.53
Wk51	Dec	21-Dec-20	-		7.02
Wk52	Dec	28-Dec-20	-		3.45

Source: CBK, DBIB Research

MONTHLY BILL MATURITIES AS AT JAN 20TH 2020

Month	91	182	364	Sum by Month
Jan	12.71	25.62	63.50	101.82
Feb	12.52	13.47	62.47	88.46
Mar	9.56	9.84	86.68	106.08
Apr	8.31	6.00	61.70	76.01
May	-	12.27	47.66	59.93
Jun	-	8.74	75.95	84.69
Jul	-	9.64	80.00	89.64
Aug	-	-	61.72	61.72
Sep	-		45.89	45.89
Oct	-		39.46	39.46
Nov	-		55.24	55.24
Dec	-		20.74	20.74
Grand Total	**43.1**	**85.6**	**701.0**	**829.7**

Source: CBK, DBIB Research

UPCOMING COUPON PAYMENTS THROUGH JUNE 2020

January

Bond	Coupon Date	Amount (KES MN)
FXD2/2016/5	January 20, 2020	1,716.09
FXD1/2014/10	January 20, 2020	2,183.40
FXD1/2019/2	January 27, 2020	1,272.06
FXD1/2017/10	January 27, 2020	2,280.36
FXD1/2019/015	January 27, 2020	946.26
FXD3/2019/015	January 27, 2020	3,120.68
FXD2/2018/20	January 27, 2020	1,044.17
IFB1/2018/15Yr	January 27, 2020	2,574.05
Total	-	**15,137.06**

February

Bond	Coupon Date	Amount (KES MN)
IFB1/2009/12Yr	February 10, 2020	491.77
FXD1/2013/15	February 17, 2020	2,370.29
FXD3/2019/10	February 17, 2020	2,592.18
SDB1/2011/30	February 17, 2020	1,688.68
FXD1/2017/005	February 24, 2020	1,844.77
FXD1/2019/05	February 24, 2020	1,163.95
FXD1/2016/10	February 24, 2020	1,376.55
FXD1/2018/10	February 24, 2020	2,575.69
FXD1/2019/10	February 24, 2020	2,040.33
IFB1/2017/12Yr	February 24, 2020	895.65
Total	-	**17,039.86**

March

Bond	Coupon Date	Amount (KES MN)
FXD1/2007/15	March 9, 2020	264.96
FXD1/2008/15	March 16, 2020	2,122.72
FXD1/2010/15	March 16, 2020	1,144.73
FXD1/2012/15	March 16, 2020	2,656.77
FXD3/2016/5	March 23, 2020	1,511.23
FXD1/2018/05	March 23, 2020	1,893.77
FXD1/2016/20	March 23, 2020	893.28
FXD1/2018/20	March 23, 2020	1,522.22
IFB1/2011/12Yr	March 23, 2020	616.99
IFB1/2013/12Yr	March 23, 2020	1,517.64
IFB1/2015/12Yr	March 23, 2020	2,815.57
IFB1/2019/25Yr	March 23, 2020	994.49
Total	-	**17,954.37**

April

Bond	Coupon Date	Amount (KES MN)
FXD1/2010/10	April 13, 2020	852.37
FXD1/2009/15	April 13, 2020	1,997.03
FXD2/2019/10	April 13, 2020	3,156.59
FXD1/2019/20	April 13, 2020	1,889.33
FXD2/2010/10	April 20, 2020	1,553.71
FXD1/2016/5	April 20, 2020	1,400.73
FXD2/2017/005	April 20, 2020	1,296.27
FXD2/2013/15	April 20, 2020	1,620.08
FXD2/2018/015	April 20, 2020	500.70
IFB1/2014/12Yr	April 20, 2020	1,951.45
IFB1/2016/15Yr	April 20, 2020	2,401.78
IFB1/2019/16Yr	April 27, 2020	4,022.38
Total	-	**22,642.41**

May

Bond	Coupon Date	Amount (KES MN)
FXD3/2007/15	May 11, 2020	2,059.88
FXD2/2019/05	May 11, 2020	2,131.49
FXD2/2019/015	May 11, 2020	1,229.86
FXD1/2011/20	May 18, 2020	468.29
FXD1/2012/20	May 18, 2020	2,674.90
IFB1/2016/9Yr	May 18, 2020	2,268.95
IFB1/2018/20Yr	May 18, 2020	2,198.04
FXD2/2015/5	May 25, 2020	2,134.90
FXD4/2019/10	May 25, 2020	1,740.80
FXD1/2018/015	May 25, 2020	1,934.91
IFB2/2009/12Yr	May 25, 2020	606.66
IFB1/2017/7Yr	May 25, 2020	2,590.59
Total	-	**22,039.27**

June

Bond	Coupon Date	Amount (KES MN)
FXD2/2007/15	June 8, 2020	2,206.08
IFB1/2015/9Yr	June 8, 2020	1,381.58
FXD1/2012/10	June 15, 2020	2,240.76
FXD3/2019/05	June 15, 2020	1,637.10
FXD2/2010/15	June 15, 2020	608.09
FXD1/2008/20	June 15, 2020	2,622.48
FXD2/2018/10	June 15, 2020	2,538.33
FXD1/2010/25	June 15, 2020	1,135.83
FXD1/2015/5	June 22, 2020	2,042.02
FXD1/2013/10	June 22, 2020	2,427.70
FXD1/2018/25	June 22, 2020	346.51
Total	-	**19,186.46**

2019 PRIMARY ISSUES (AMOUNTS IN BN, RATES IN %)

Month	Bond	Issue	Coupon	Coupon	Acc. Avg.	Mkt Avg.	Offer (BN)	Rec (BN)	Acc (BN)	Comp (BN)	Non-Comp (BN)
Jan	FXD1/2019/2	New	Mkt Det*	10.701	10.701	10.905	40.00	76.90	23.77	17.90	5.87
-	FXD1/2019/15	New	Mkt Det*	12.857	12.857	12.971	-	25.07	14.72	11.85	2.87
Feb	FXD1/2019/2	Reopen	-	10.701	10.328	10.610	12.00	50.20	7.47	4.03	3.44
-	FXD1/2019/15	Reopen	-	12.857	12.768	12.775	-	16.41	15.96	14.87	1.09
Feb	FXD1/2019/5	New	Mkt Det*	11.304	11.304	11.378	50.00	41.93	20.59	15.37	5.22
-	FXD1/2019/10	New	Mkt Det*	12.438	12.438	12.463	-	36.33	32.81	29.81	3.00
Mar	IFB1/2019/25	New	Pre-Det*	12.200	12.655	12.834	50.00	29.38	16.30	14.04	2.26
Apr	FXD2/2019/10	New	Mkt Det*	12.300	12.300	12.346	50.00	70.93	51.33	46.47	4.86
-	FXD1/2019/20	New	Mkt Det*	12.873	12.873	12.935	-	14.68	9.02	7.08	1.95
May	FXD2/2019/5	New	Mkt Det*	10.872	10.872	10.934	50.00	49.30	39.21	31.36	7.85
-	FXD2/2019/15	New	Mkt Det*	12.734	12.734	12.766	-	21.54	19.32	15.60	3.72
Jun	FXD1/2012/15	Reopen	-	11.000	11.593	11.666	40.00	39.77	21.21	18.05	3.16
-	FXD1/2018/15	Reopen	-	12.650	12.456	12.591	-	45.85	17.73	12.56	5.17
Jul	FXD3/2019/15	New	Mkt Det*	12.340	12.340	12.415	40.00	86.67	50.58	43.03	7.55
Aug	FXD3/2019/10	New	Mkt Det*	11.517	11.517	11.568	50.00	52.77	45.01	37.50	7.51
	FXD1/2019/20	Reopen	-	12.873	12.744	12.744		14.67	14.67	12.60	2.07
Sep	FXD1/2018/15	Reopen	-	12.650	12.564	12.564	50.00	15.26	15.26	9.92	5.33
	FXD2/2019/15	Reopen	-	12.734	12.673	12.673		17.37	17.37	13.68	3.69
Sep	FXD1/2018/15	Tap sale	-	12.650	12.564	-	30.00	9.36	9.36	-	-
	FXD2/2019/15	Tap sale	-	12.734	12.673	-	-	-	-	-	-
Oct	IFB1/2019/16	New	Pre-Det*	11.750	12.394	12.507	60.00	86.95	68.47	64.17	4.30
Nov	FXD4/2019/10	New	Mkt Det*	12.280	12.280	12.464	50.00	38.37	28.35	19.85	8.50
Nov	FXD4/2019/10	Tap sale	-	12.280	12.280	-	21.65	8.11	8.11	-	-
Dec	FXD3/2019/5	New	Mkt Det*	11.492	11.492	11.583	25.00	28.47	18.74	15.82	2.92
Dec	FXD3/2019/5	Tap sale	-	11.492	11.492	-					

Source: CBK, DBIB Research

Mkt Det: Coupon Rate was market determined*

Pre– Det Coupon Rate was Pre-determined*

Rec (BN)- Amount received in the auction

Acc (BN)- Amount accepted in the auction

Comp (BN)- Accepted from competitive bids

Non-Comp (BN)- Accepted from non-competitive bids.

2019 saw 4 short term issues (below 5 years), comprising 1, 2 year paper and 3, 5 year papers,

2018 PRIMARY ISSUES (AMOUNTS IN BN, RATES IN %)

Month	Bond	Issue	Coupon	Coupon	Acc. Avg.	Mkt Avg.	Offer (BN)	Rec (BN)	Acc (BN)	Comp (BN)	Non-Comp (BN)
Jan	IFB1/2018.15	New	Pre-Det*	12.500	12.505	13.026	40.00	55.76	5.04	1.75	3.29
Jan	IFB1/2018.15	Tap-sale	-	12.500	12.505	-	36.23	36.22	36.22	-	-
Feb	FXD1/2010/15	Re-open	-	10.250	12.676	12.764	40.00	7.97	4.44	3.55	0.89
-	FXD2/2013/15	Re-open	-	12.000	12.906	13.000	-	16.18	8.76	7.03	1.73
Mar	FXD1/2018/5	New	Mkt Det*	12.299	12.299	12.394	40.00	37.65	23.07	21.42	1.64
	FXD1/2018/20	New	Pre-Det*	13.200	13.336	13.423	-	13.74	8.49	6.56	1.93
Mar	FXD1/2018/5	Tap-sale	-	12.299	12.299	-	-	7.74	7.74	-	7.74
-	FXD1/2018/20	-	-	13.200	13.200	-	-	7.77	7.77	-	7.77
Apr	FXD1/2008/15	Re-open	-	12.500	12.317	12.348	40.00	22.86	20.15	17.96	2.19
-	FXD1/2018/20	Re-open	-	13.200	13.327	13.397	-	9.90	6.79	5.32	1.47
May	FXD1/2018/15	New	Pre-Det*	12.650	13.078	13.169	40.00	20.22	12.86	11.00	1.86
June	FXD1/2018/25	New	Pre-Det*	13.400	13.451	13.684	40.00	10.13	5.17	3.36	1.82
Jul	FXD2/2018/20	Re-open	Pre-Det*	13.200	13.371	13.411	40.00	13.86	10.51	8.60	1.91
Aug	FXD1/2018/10	New	Mkt Det*	12.686	12.686	12.819	40.00	29.83	19.36	11.68	7.68
Sep	FXD1/2018/10	Re-open	-	12.686	12.665	12.669	40.00	22.14	21.24	18.76	2.49
-	FXD2/2018/20	Re-open	-	13.200	12.931	13.087	-	10.33	5.31	4.04	1.26
Oct	FXD2/2018/15	New	Pre-Det*	12.750	12.746	12.849	40.00	27.05	7.85	3.21	4.64
Nov	FXD2/2018/15	Re-open	-	12.750	12.734	12.746	32.00	25.38	21.26	16.13	5.13
Nov	IFB/2018/20	New	Pre-Det*	11.950	12.156	12.286	50.00	40.39	27.59	24.53	3.06
Dec	IFB/2018/20	Tap-sale	-	11.950	11.950	-	22.41	8.84	8.84	-	-
Dec	FXD2/2018/10	New	Mkt Det*	12.502	12.502	12.580	40.00	28.86	26.16	20.49	5.67
Dec	FXD2/2018/10	Tap-sale	-	12.502	12.502	-	13.84	6.62	6.62	-	-

Source: CBK, DBIB Research

Mkt Det: Coupon Rate was market determined*

Pre– Det Coupon Rate was Pre-determined*

Rec (BN)- Amount received in the auction

Acc (BN)- Amount accepted in the auction

Comp (BN)- Accepted from competitive bids

Non-Comp (BN)- Accepted from non-competitive bids.

2018 saw 1 short term issues (below 5 years), a 5 year paper

6 of the auctions had their coupons pre-determined, only 3 were market determined.

2017 PRIMARY ISSUES (AMOUNTS IN BN, RATES IN %)

Month	Bond	Issue	Coupon	Coupon	Acc. Avg.	Mkt Avg.	Offer (BN)	Rec (BN)	Acc (BN)	Comp (BN)	Non-Comp (BN)
Feb	IFB1/2017/12	New	Pre-Det*	12.500	13.555	14.052	30.00	35.03	6.00	4.10	1.90
Feb	IFB1/2017/12	Tap-sale	-	12.500	13.550	-	-	8.05	8.05	-	-
Mar	FXD2/2014/5	Re-open	-	11.934	12.404	12.719	30.00	31.33	12.96	10.82	2.14
-	FXD2/2013/5	Re-open	-	11.952	11.817	12.233	-	32.92	11.90	9.45	2.45
Mar	FXD2/2014/5	Tap-sale	-	11.934	12.404	-	-	7.65	7.65	-	-
-	FXD2/2013/5	Tap-sale	-	11.952	11.817	-	-	7.83	7.58	-	-
Apr	FXD3/2008/10	Re-open	-	10.750	11.330	11.520	30.00	21.76	14.62	13.40	1.22
-	FXD1/2009/10	Re-open	-	10.750	11.974	12.151	-	27.63	18.15	16.49	1.66
May	FXD3/2008/10	Tap-sale	-	10.750	11.330	-	-	3.27	3.27	-	-
-	FXD1/2009/10	Tap-sale	-	10.750	11.974	-	-	4.01	4.01	-	-
May	FXD2/2010/10	Re-open	-	9.307	12.472	12.599	40.00	14.49	8.53	6.71	1.82
-	FXD1/2009/15	Re-open	-	12.500	13.141	13.353	-	24.35	11.46	1.82	9.65
May	FXD2/2010/10	Tap-sale	-	9.307	12.472	-	-	5.20	5.20	-	-
-	FXD1/2009/15	Tap-sale	-	12.500	13.141	-	-	10.73	10.73	-	-
Jun	FXD2/2007/15	Re-open	-	13.500	12.520	12.651	30.00	39.07	26.41	22.18	4.23
Jul	FXD1/2017/10	New	Pre-Det*	12.966	12.966	13.325	30.00	19.04	5.19	2.89	2.30
Aug	FXD1/2017/5	New	Pre-Det*	12.465	12.465	12.548	30.00	18.72	12.11	9.01	3.10
-	FXD1/2017/10	Re-open	-	12.966	13.060	13.175	-	7.95	5.48	4.54	0.94
Sep	FXD1/2017/5	Tap-sale	-	12.465	12.465	-	-	13.00	13.00	-	-
Sep	FXD1/2017/2	New	Pre-Det*	11.619	11.619	11.761	30.00	34.41	20.69	17.52	3.17
-	FXD1/2017/10	Re-open	-	12.966	13.072	13.162	-	9.91	6.29	4.60	1.69
Sep	FXD1/2017/2	Tap-sale	-	11.619	11.619	-	-	11.14	-	-	-
Sep	FXD1/2017/10	Tap-sale	-	12.966	13.072	-	-	0.63	-	-	-
Oct	FXD2/2017/5	New	Pre-Det*	12.517	12.517	12.621	30.00	20.08	13.50	9.84	3.66
Oct	FXD2/2017/5	Tap-sale	-	12.517	12.517	-	16.50	7.25	7.25	-	-
Nov	IFB1/2017/7	New	Pre-Det*	12.500	12.232	12.279	30.00	45.91	42.02	38.44	3.59
Dec	FXD1/2008/15	Re-open	-	12.500	12.581	12.694	30.00	10.09	4.68	2.53	2.15
-	FXD1/2017/10	Re-open	-	12.966	13.087	13.229	-	11.81	5.37	4.12	1.24
Dec	FXD1/2008/15	Re-open	-	12.500	12.581	-	-	2.69	2.69	-	2.69
-	FXD1/2017/10	Re-open	-	12.966	13.087	-	-	5.17	5.17	-	5.17

Source: CBK, DBIB Research

MKT Det: Coupon Rate was market determined*

Pre– Det Coupon Rate was Pre-determined*

Rec (BN)- Amount received in the auction

Acc (BN)- Amount accepted in the auction

Comp (BN)- Accepted from competitive bids

Non-Comp (BN)- Accepted from non-competitive bids.

2017 saw 3 NEW short term issues (below 5 years), 1, 2 year paper and 2, 5 year papers

Most of the auctions were re-opens

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