

FIXED INCOME RESEARCH

2nd December 2016

Money Market	Latest	Previous
91 day	8.3620	8.3260
182 day	10.4620	10.3710
364 day	10.9000	10.8250
Repo Rate	6.0000	6.0000
Inflation Rate	6.6800	6.4700
Interbank Rate	6.7603	5.9206
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	101.7628	101.9544
GBP	129.1283	129.4200
EUR	108.1239	108.3511
ZAR	7.2532	7.2721
KES/UGX	35.5551	35.7203
KES / TZS	21.3331	21.4715

Source: Central Bank of Kenya

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TREASURY BOND ON OFFER FOR THE MONTH OF DECEMBER:

ISSUE NUMBER:	FXD3/2016/002- KES.30bn
Amount:	KES: 30bn
Purpose:	Budgetary Support
Coupon:	Market Determined
Offer opening date:	2-Dec-16
Offer closing date:	13-Dec-16
Value date:	19-Dec-16
Redemption date:	17-Dec-18
Auction date:	14-Dec-16
Results:	15-Dec-16
Secondary Trading:	20-Dec-16
	In multiples of Kshs. 50,000
Taxation:	Discount/ Interest is subject to withholding tax at 15% rate
Commission:	Licensing placing agents will be paid commission at the rate of 0.15% of actual sales (at cost) net of 5% withholding tax

ECONOMIC UPDATE: 1) CBK holds lending rate despite pressure on the shilling.

Kenya's central bank held its benchmark lending rate at 10.0 percent on Monday, as expected, and said it expected inflation to remain within the government's short-term target of 5 percent. The economy is also performing strongly, with 6.2 percent growth in the second quarter of 2016, it said in a statement. The committee concluded that inflationary pressures were mild and inflation will remain within the government target range in the short term.

Given the prevailing domestic and global uncertainties, and the need for more conclusive information on these developments, the MPC decided to retain the CBR at 10 percent. The government sees Kenya's economic growth slowing to just over 6 percent next year, down from an initial forecast of 6.5 percent, mainly because of slowing private-sector credit growth.

At its last meeting in September, Kenya's Monetary Policy Committee had cut the benchmark rate by 50 basis points, citing concerns over sluggish credit growth. "The slower (credit) growth witnessed over the last several months was found to be largely an outcome of structural factors in the banking sector rather than monetary policy," Monday's statement said. "However there is no evidence that this is having a negative impact on economic growth."

A law that came into effect in mid-September capped commercial loan rates at 400 basis points above the benchmark rate. Banks strongly opposed the law, saying they needed high interest income to offset the risks of lending.

The Central Bank said there was not enough data yet to draw conclusions about the law's effects, but noted that private sector credit growth had stabilized at 4.6 percent in October, and that banking system liquidity had also stabilized.

The central bank said the foreign exchange market continued to draw support from a narrowing current account deficit prompted by lower prices of petroleum imports, lower machinery and equipment imports and also by the flow of remittances from Kenyans abroad. *(Central Bank of Kenya, Reuters)*

2) Forex reserves drop Sh39bn in November on dollar sales. The foreign exchange reserves held by the Central Bank have fallen by Sh.38.6bn (\$378million) since the beginning of the month, traders saying the regulator has sold dollars in the market this month to support the shilling. This means Kenya's import cover has fallen to 4.8 months' worth of goods and services, from 5.13 months at the beginning of the month. The import cover had held above five months since June.

The CBK disclosed at its just concluded Monetary Policy Committee(MPC) that Kenya's official foreign reserves now stand at \$7.305bn (Sh.745.1bn) compared to \$7.683bn (Sh.783.7bn) at the end of October. The decline coincided with a period of pressure on the currency in the aftermath of the US election which led to upheaval in world markets. The shilling has also been under pressure from higher demand from corporate, some of

which are raising forex for dividend payment to foreign shareholders. *(Central Bank of Kenya)*

3) Kenya inflation up at 6.68 percent year-on-year in November. Inflation rate edged up to 6.68 pct year-on-year in November from 6.47 per cent in October. The consumer price index (CPI) increased by 0.71 per cent from 172.62 in October 2016 to 173.85 in November 2016. The increase was mainly because the food and non-alcoholic drinks index which increased by 1.17 per cent, due to the increase of prices of several food items. *(Kenya National Bureau of Statistics)*

NEWS UPDATE: Kenya sends request for proposals for sovereign bond and loan Kenya has sent requests for proposals for a bond and loan, according to sources. The sovereign wants to consider both options, according to one source, who said that the eventual mandate may be a combination of the two products or one only. Kenya undertook a non-deal road show in April through Barclays, Citigroup and Standard Chartered.

The sovereign made its debut in the international bond market in 2014, when it raised US\$1.5bn through a 10 year bond, which was subsequently tapped for US\$500mn, and US\$500mn through a five year note which was later raised by US\$250mn. *(Reuters)*

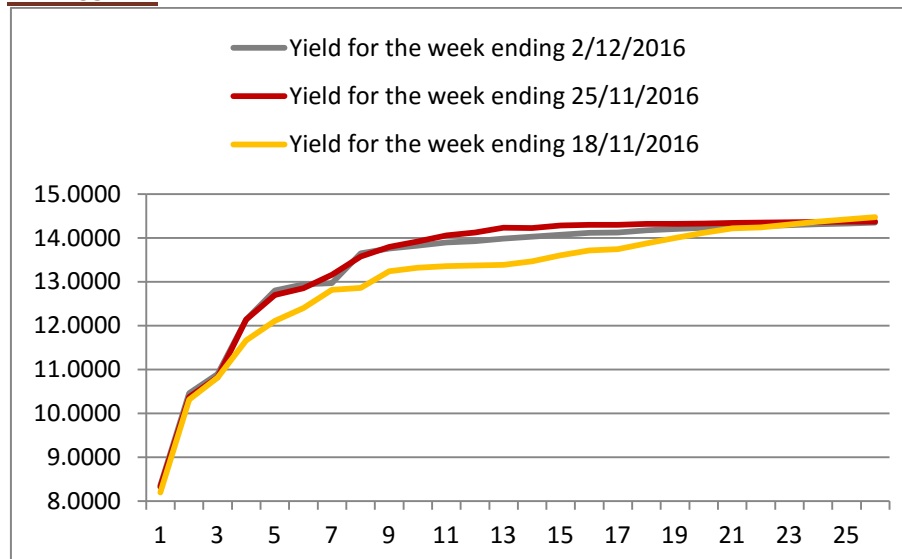
There was over subscription by 141.60% for the 91 day Tbill. The rate edged up as has been the case in recent weeks. The acceptance rate was almost 100% which is an indicator of CBK having appetite so as to finance the current liquidity crunch as evidenced by the increased inter bank rate.

There was over subscription for the 182 day and under subscription on the 364 day Tbill. For the 182 day the subscription rate was 113.36% and 364 day the subscription rate was 73.63% the 364 day Tbill was undersubscribed signalling preference to the much shorter tenures as on both the 91 and 182 day Tbills were oversubscribed.

TREASURY BILL LATEST RESULTS 2189/91: This week the Central Bank of Kenya offered 91-day Treasury Bills for a total of Kshs.4 Billion. The total number of bids received was 164 amounting to Kshs 5.66 Billion, representing a subscription of 141.60%. Total bids accepted amounted to Kshs. 5.62 Billion. The market weighted average rate was 8.367% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.362% up from 8.326% in the previous auction. *(Central Bank of Kenya)*

TREASURY BILL RESULTS 2170/182 and 2097/364: This week the Central Bank of Kenya offered 182 and 364 Days Treasury Bills for a total of Kshs.12 Billion. The total number of bids received was 291 amounting to Kshs. 6.80 Billion representing 113.36% subscription and 102 bids amounting to Kshs.4.42 Billion representing 73.63% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs.6.74 Billion for 182 days and Kshs.4.37 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.462% for the 182-day and 10.900% for 364-day Treasury Bills. *(Central Bank of Kenya)*

YIELD CURVE:



(Nairobi Securities Exchange, Securities Africa Kenya)

UPCOMING COUPON PAYMENTS AND MATURITIES:

There will be several coupon payments and maturity of the FXD3/2014/2 in the month of December. The market anticipates liquidity of upto KES.46,978.23mn to check into the market in form of coupon payments.

Issue No.	Next Coupon Payment Date	Maturity Date	Maturity (Tenor)	Outstanding Amount Shs'M.	Fixed Coupon Rate
FXD3/2014/2	December 19, 2016	December 19, 2016	17	29,375.70	10.89%
FXD2/2015/2	December 26, 2016	June 26, 2017	206	18,746.80	12.63%
FXD2/2013/5	December 26, 2016	June 25, 2018	570	26,340.05	11.31%
FXD2/2014/5	December 19, 2016	June 17, 2019	927	16,418.25	11.93%
FXD1/2015/5	December 26, 2016	June 22, 2020	1298	30,956.05	13.19%
FXD2/2007/15	December 12, 2016	June 6, 2022	2012	7,236.95	13.50%
FXD1/2012/10	December 19, 2016	June 13, 2022	2019	35,273.70	12.71%
FXD1/2013/10	December 26, 2016	June 19, 2023	2390	39,248.20	12.37%
FXD2/2010/15	December 19, 2016	December 8, 2025	3293	13,513.10	9.00%
FXD1/2008/20	December 19, 2016	June 5, 2028	4203	29,464.36	13.75%
FXD1/2010/25	December 19, 2016	May 28, 2035	6751	20,192.40	11.25%
IFB1/2015/9Yr	December 12, 2016	December 2, 2024	2922	25,119.55	11.00%

EXCHANGE RATE:

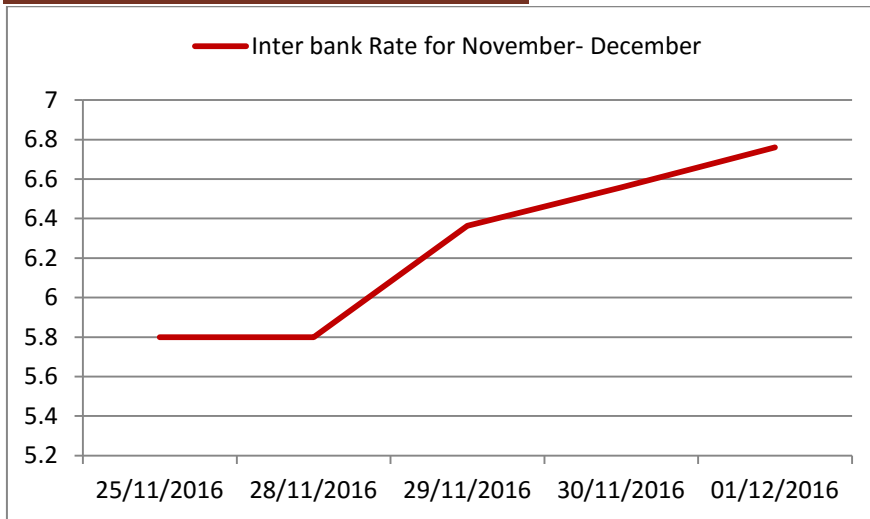
The Kenyan shilling was steady against the dollar in the week despite pressure from firms buying dollars due to concerns about further weakening of the shilling caused by a firmer greenback. It showed strengthening trends with most currencies illustrated and shed marginally to those that had gained tendencies.

Currencies	25-Nov-16	2-Dec-16	Chg YTD
USD/KES	101.8650	101.8586	0.01%
GBP/KES	126.0078	129.2742	-2.59%
EUR/KES	107.4808	108.2375	-0.70%
JPY/KES	90.6151	89.0879	1.69%
ZAR/KES	7.1302	7.2626	-1.86%
KES/UGX	35.5373	35.6377	-0.28%
KES/TZS	21.4009	21.4023	-0.01%
KES/RWF	7.9656	8.0602	-1.19%
KES/BIF	16.5007	16.5329	-0.20%

(Central Bank of Kenya, Securities Africa Kenya)

INTERBANK RATE FOR NOVEMBER- DECEMBER:

The average interbank rate increased to 6.7603 percent in the week ending December 02, 2016 from 5.9206 percent recorded in the previous week.



(Central Bank of Kenya)

MOST TRADED BONDS OF THE WEEK:

Bonds worth KES.4,811,149,500 were transacted in the current week with 90 deals transacted compared to 175 deals worth KES. 6,727,850,000 in the previous week.

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 02 DECEMBER, 2016

Issue No.	Coupon (%)	Highest yield (%)	Lowest yield (%)	Average		
				Traded Yield (%)	Total Value (KES)	Number of Trades
FXD3/2007/15	12.5000	13.7500	13.5750	13.6131	2,108,500,000	21
FXD1/2008/20	13.7500	14.4500	14.0000	14.1754	1,550,000,000	9
IFB1/2016/15	12.0000	13.1064	12.9000	12.6660	687,850,000	23
FXD1/2016/20	14.0000	13.6218	13.6218	13.6218	200,000,000	1
FXD1/2016/2	15.7600	11.3306	11.3306	11.3306	111,500,000	3

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