

## FIXED INCOME RESEARCH

9<sup>th</sup> December 2016

Money Market	Latest	Previous
91 day	8.3590	8.3620
182 day	10.4950	10.4620
364 day	11.0930	10.9000
Repo Rate	6.0000	6.0000
Inflation Rate	6.6800	6.4700
Interbank Rate	5.5032	6.7603
Central Bank Rate	10.0000	10.0000

## Exchange Rates

	Buy	Sell
USD	101.8739	102.0739
GBP	128.2922	128.5794
EUR	108.1483	108.3761
ZAR	7.4469	7.4670
KES/UGX	35.2490	35.4163
KES / TZS	21.3081	21.4481

Source: Central Bank of Kenya

## Fixed Income Research

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## TREASURY BOND ON OFFER FOR THE MONTH OF DECEMBER:

<b>ISSUE NUMBER:</b>	FXD3/2016/002- KES.30bn
<b>Amount:</b>	KES: 30bn
<b>Purpose:</b>	Budgetary Support
<b>Coupon:</b>	Market Determined
<b>Offer opening date:</b>	2-Dec-16
<b>Offer closing date:</b>	13-Dec-16
<b>Value date:</b>	19-Dec-16
<b>Redemption date:</b>	17-Dec-18
<b>Auction date:</b>	14-Dec-16
<b>Results:</b>	15-Dec-16
<b>Secondary Trading:</b>	20-Dec-16
	In multiples of Kshs. 50,000
<b>Taxation:</b>	Discount/ Interest is subject to withholding tax at 15%
<b>Commission:</b>	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) **Bond turnover hits Sh.401bn as NSE investors eye high returns.** Bond turnover at the Nairobi securities Exchange (NSE) in the first 11 months of the year hit Sh.401.3bn as investors continue to favour fixed income investments against equities over higher returns.

Banks have also raised their holdings on government securities following the cap on customer loans, substantially buying bonds in the secondary market. The bonds turnover is 42 percent higher than that reported for a similar period 2015, when investors had transacted securities worth Sh.283.2bn amid tight liquidity in the market. The higher turnover in bonds is in contrast to the equities market, which is on the trend to deliver the lowest annual turnover since 2012. With the fall in interest rates following the cap law, there has been more value in trading bonds instead of holding onto equities.

Liquidity has also improved this year compared to 2015, thus boosting the capital available to put in fixed income investments. This year, the capital has flowed into the fixed income segment as opposed to equities, where government securities interest rates are averaging between 8 percent and 13 percent while the NSE 20 and All Share indices are 20 percent and 6.2 percent down respectively year to date.

In the first 11 months of the year, the total traded turnover for equities at the NSE stood at Sh.140.7bn, compared to Sh.194.3bn in the same period 2015. Banks by redirecting their assets are also contributing to the higher government securities at the secondary market, following the capping of customer loans at 400 basis points above the prevailing Central Bank rate (currently 10 percent) starting last September. As banks react to the rate cap, they have directed a lot of resources to government securities.

The bonds market is overwhelmingly dominated by local investors who account for 94 percent of trades as opposed to 6 percent of foreigners. The trades mainly come from banks, pension fund managers, asset managers and insurance firms. On the other hand, the equities market has this year been dominated by foreign traders, who have accounted for about 67 percent of the traded turnover. (*Nairobi Securities Exchange, Business Daily*)

**NEWS UPDATE:** African exchanges should seek the elimination of capital gains tax on their securities and roll out new products like derivatives in the face of decreased interest from foreign investors, market participants said. Global funds, who sought African assets in the years up to 2015, have been cutting their holdings, due to the commodity price crash last year and the anticipated interest rates increase in the United States. Adding to the challenge, economic growth in Africa is projected to be the slowest in two decades this year, reflected in bourses like Nigeria, where daily volumes

have shrunk by two thirds to \$10 million, as foreign investors quit, put off by the slowdown and capital controls. Karim Hajji, the chief executive of the Casablanca Stock Exchange, said other economies should learn from that. "I don't think governments should impose capital controls or things like that because that doesn't work," he said, adding that incentives like removal of capital gains tax would help. Morocco, which does not levy a capital gains tax on stock investments, is enjoying a 20 percent rally this year, bucking the trend among others on the continent where prices are down.

Executives of stock markets and brokerages gathered at a meeting of the African Securities Exchange's Association (ASEA) in Rwanda this week said introduction of additional investment products would help curb outflows. "Our markets are really crying out for product development. We have been playing vanilla for too long," said Kenneth Minjire, head of securities at Nairobi-based Genghis Capital. African bourses rely too heavily on stocks and bonds and investors usually say they are small and illiquid. The introduction of derivatives like stocks and currency futures will help to boost liquidity and attract new investors, Minjire said. Only South Africa's JSE offers derivatives like commodity contracts on the continent.

Kenya's Nairobi Securities Exchange has been testing its derivatives trading platform, whose launch has been postponed several times, but it is now expected next year. "We are looking at the derivatives market coming into life and we are looking at new products," Geoffrey Odundo, the chief executive of the NSE, said, adding the bourse wanted to offer currency futures and exchange traded funds. Oscar Onyema, the chief executive of the Nigeria Stock Exchange, whose bourse was hammered due to exchange controls earlier this year, said governments needed to make it easier for global funds to gain access to trading including allowing investors to lend and borrow securities. "African capital markets need to work with the government to make sure the ease of doing business, the environment is highly de-risked such that it is attractive for global flows to come here," he said. Other executives said there is no substitute for strengthening African economies. "There is a need for African countries to introduce new sectors of activity, diversify the economy, and make those economies more resilient to short term fluctuations," said Sunil Benimadhu, the CEO of the Stock Exchange of Mauritius. *(Reuters)*

*There was under subscription for the 91 day Tbills. The rate slipped unlike what has been the case in recent weeks.*

**TREASURY BILL LATEST RESULTS 2190/91:** This week the Central Bank of Kenya offered 91-day Treasury Bills for a total of Kshs.4 Billion. Total bids accepted amounted to Kshs. 2.17 Billion. The weighted average of accepted bids which will be applied for non-competitive bids was 8.359% down from 8.362% in the previous auction. *(Central Bank of Kenya)*

*There was over subscription for the 182 day and under subscription on the 364 day Tbill.*

**TREASURY BILL RESULTS 2171/182 and 2098/364:** This week the Central Bank of Kenya offered 182 and 364 Days Treasury Bills for a total of Kshs.12 Billion. Bids accepted amounted to Kshs.7.16 Billion for 182 days and Kshs.5.08 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.495% for the 182-day and 11.093% for 364-day Treasury Bills. *(Central Bank of Kenya)*

**UPCOMING COUPON PAYMENTS AND MATURITIES:**

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	10	29,375.70	10.89%
FXD2/2015/2	December 26, 2016	June 26, 2017	199	18,746.80	12.63%
FXD2/2013/5	December 26, 2016	June 25, 2018	563	26,340.05	11.31%
FXD2/2014/5	December 19, 2016	June 17, 2019	920	16,418.25	11.93%
FXD1/2015/5	December 26, 2016	June 22, 2020	1291	30,956.05	13.19%
FXD2/2007/15	December 12, 2016	June 6, 2022	2005	7,236.95	13.50%
FXD1/2012/10	December 19, 2016	June 13, 2022	2012	35,273.70	12.71%
FXD1/2013/10	December 26, 2016	June 19, 2023	2383	39,248.20	12.37%
FXD2/2010/15	December 19, 2016	December 8, 2025	3286	13,513.10	9.00%
FXD1/2008/20	December 19, 2016	June 5, 2028	4196	29,464.36	13.75%
FXD1/2010/25	December 19, 2016	May 28, 2035	6744	20,192.40	11.25%
IFB1/2015/9Yr	December 12, 2016	December 2, 2024	2915	25,119.55	11.00%

*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.*

**EXCHANGE RATE:**

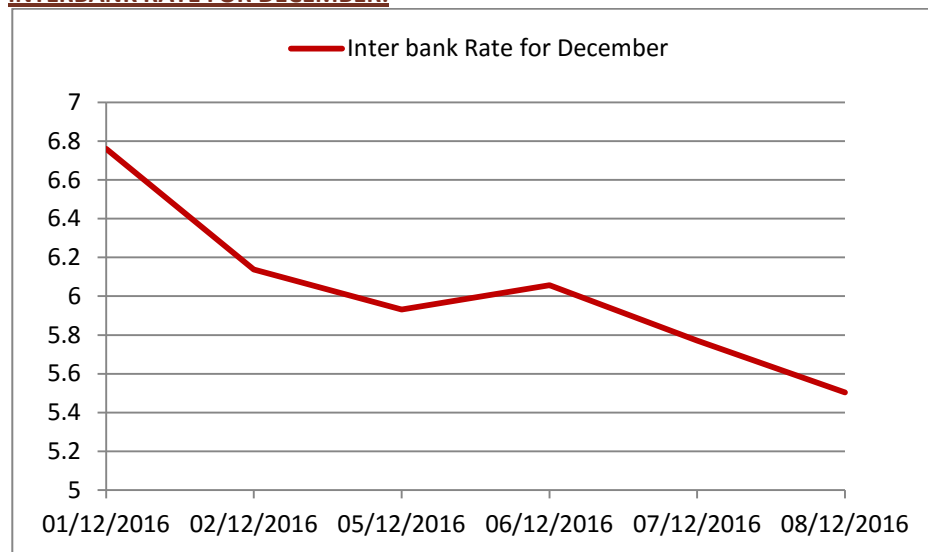
Currencies	2-Dec-16	9-Dec-16	Chg YTD
USD/KES	101.8586	101.9739	-0.11%
GBP/KES	129.2742	128.4358	0.65%
EUR/KES	108.2375	108.2622	-0.02%
JPY/KES	89.0879	89.2121	-0.14%
ZAR/KES	7.2626	7.4570	-2.68%
KES/UGX	35.6377	35.3327	0.86%
KES/TZS	21.4023	21.3781	0.11%
KES/RWF	8.0602	7.9737	1.07%
KES/BIF	16.5329	16.5102	0.14%

*(Central Bank of Kenya, Securities Africa Kenya)*

*The Kenyan shilling lost to most international currencies in the week as well as the local currencies. The Kenyan shilling was steady earlier in the week with subdued importer demand matching dollar sales from charities. As the week progressed, it weakened due to increased importer dollar demand and further weakened due to pressure on dollar demand from companies.*

The Kenya shilling reported weakened performance to the international and local currencies. The US dollar marginally strengthened (0.11%) w/w to the Kenya shilling. The British pound however lost (0.65%) to the shilling. The Euro gained to the shilling (0.02%) and same was for the Japanese Yen at (0.14%). On the continent, the shilling posted weakening trends in the week as it shed to the S.A Rand (2.68%); still to the Uganda shilling (0.86%); lost marginally to the Tanzania shilling (0.11%); further weakened to the Rwanda Franc (1.07%) and still shed to the Burundi Franc (0.14%)

**INTERBANK RATE FOR DECEMBER:**



*(Central Bank of Kenya)*

*The average interbank rate decreased to 5.5032 percent in the week ending December 09, 2016 from 6.7603 percent recorded in the previous week.*

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