

FIXED INCOME RESEARCH

12th May 2017

| Money Market | Latest | Previous |
|-------------------|---------|----------|
| 91 day | 8.7260 | 8.7590 |
| 182 day | 10.407 | 10.475 |
| 364 day | 10.929 | 10.926 |
| Repo Rate | 6.1800 | 5.4980 |
| Inflation Rate | 11.480 | 10.280 |
| Interbank Rate | 5.7150 | 6.0162 |
| Central Bank Rate | 10.0000 | 10.0000 |

Exchange Rates

| | Buy | Sell |
|-----------|----------|----------|
| USD | 103.2778 | 103.4778 |
| GBP | 133.0128 | 133.3028 |
| EUR | 112.2183 | 112.4672 |
| ZAR | 7.7246 | 7.7453 |
| KES/UGX | 35.109 | 35.2738 |
| KES / TZS | 21.5505 | 21.6891 |

Source: Central Bank of Kenya

Fixed Income Research

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ECONOMIC UPDATE:

REOPENING:

Amount on offer:
Purpose:
Coupon: FXD2/2010/010 (3.42 years)
:FXD1/2009/015 (7.40 years)

Period of Sale: 9-May-17
Offer Closing Date: 16-May-17
Auction date: 17-May-17
Results: 18-May-17
Value date: 22-May-17
Redemption dates: FXD2/2010/010 19-Oct-20
: FXD1/2009/015 7-Oct-24

Secondary Trading: 23-May-17

Taxation:

Commission:

FXD2/2010/010 & FXD1/2009/015

KES: 40bn
Budgetary Support
9.307%
12.500%

9-May-17

16-May-17

17-May-17

18-May-17

22-May-17

19-Oct-20

7-Oct-24

23-May-17

In multiples of Kshs. 50,000

Discount/Interest is subject to withholding tax at a rate of 10% for both bonds.

Licensing placing agents will be paid commission at the rate of 0.15% of actual sales (at cost) net of 5% withholding tax

NEWS UPDATE: 1) Kenya parliament seeks plan to curb rising food prices ahead of polls

Kenya's parliament is pondering proposals to curb climbing food prices, officials said on Tuesday, with the issue becoming a political liability for President Uhuru Kenyatta as he seeks a second term in August elections. Justin Muturi, the speaker of the National Assembly, said the Treasury could present a plan within a week. "If they want to bring a supplementary budget that is within their power" he told Reuters. A supplementary budget allows the government to spend or raise extra funds outside the annual budget cycle. Kenya will hold presidential, parliamentary and local elections on Aug. 8. Kenyatta is seeking a second and final five-year term. He is running against veteran opposition leader Raila Odinga, who is stoking widespread anger over rising food prices. The price jumps are partly caused by a regional drought, but Odinga has also blamed Kenyatta for raising taxes and failing to boost food production. Year-on-year inflation is 11.48 percent; the last time it was that high was in mid-2012. The price of a two kilogram packet of maize flour jumped by a third to 135.87 shillings (\$1.32) last month from the same period last year. Armando Morales, the International Monetary Fund's resident representative in Kenya, said the Treasury was considering re-allocating the equivalent of less than one percent of GDP to import maize and stabilise prices.

A survey by research firm IPSOS-Kenya last month found 79 percent of respondents felt their economic condition had worsened in the last three months. "Such a figure represents a serious challenge for a government seeking re-election," said Tom Wolf, a research analyst for IPSOS-Kenya. Kenyatta's campaign focuses on his investment in infrastructure, including new roads, the power grid and a new railway linking the coast to the capital. But he acknowledged the problem of high food prices this weekend when he accepted his party's presidential nomination. "We know the price of flour has gone up and we are doing everything to see how we can lower the price," Kenyatta told the crowd. Dennis Onyango, Odinga's spokesman, dismissed the government's plans and said the opposition would offer farmers subsidies and lower taxes. "If that had been part of the policies from the beginning, we would not be where we are now," he said. (Reuters)

2) IFC puts \$20m in African Local Currency Bond fund The International Finance Corporation (IFC) will invest \$20 million (Sh2.06 billion) in the African Local Currency Bond (ALCB) fund to help develop local currency capital markets. The investment by the member of the World Bank Group was announced Thursday in Nairobi during the IFC-sponsored Capital Markets Africa conference. "ALCB fund is a culmination of IFC, KfW and other partners' efforts to develop domestic capital markets in Africa. The fund's success will set an example to other asset managers and could lead to similar

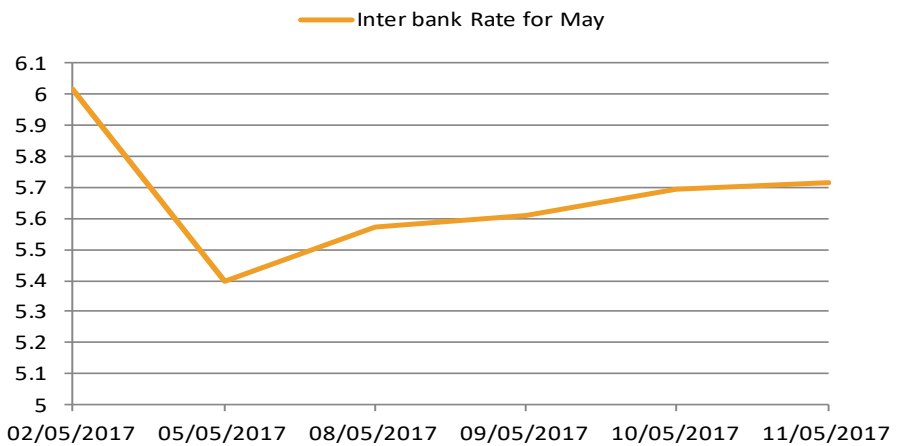
funds that provide local currency financing to African businesses,” said IFC vice president and treasurer Jingdong Hua. This week, Financial Sector Deepening Africa also announced Sh1.72 billion investment in the fund. ALCB was established by KfW Development Bank on behalf of the German Ministry of Economic Co-operation in 2012. Its purpose is to support the development of African bond markets and to improve private sector access to long-term local currency financing. *(Daily Nation)*

The 91 day, 182 day & 364 day Tbills were oversubscribed at 298.57%, 196.17% & 107.55% respectively. Acceptance rate on the 91 day Tbill was with a surplus of KES. 2.705bn, on the 182 day picked a surplus of KES. 2.516bn and the 364 day Tbill was taken up with surplus of KES. 0.546bn. There is liquidity of upto KES. 12.546 bn in rejection from this week’s T-bill auctions. CBK has been mopping up the excess liquidity through Term Auction Deposits(TADs)

Interbank rate has been showing lowering trend in the month.

TREASURY BILL LATEST RESULTS 2212, 2185/182 /91 & 2123/364: This week the Central Bank of Kenya offered 91, 182 and 364 Days Treasury Bills for a total of Kshs. 24 Billion. The total amount received was Kshs. 42.31 Billion and the bids accepted amounted to Kshs.29.77 Billion. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 8.726% for the 91-day, 10.407 for 182-day and 10.929% for 364-day Treasury Bills. *(Central Bank of Kenya)*

INTERBANK RATE FOR MAY:



(Central Bank of Kenya)

Coupon payments and maturity on FXD1/2012/5 on treasury bonds amounting to KES. 14.123bn will be checking into the market in the month of May.

UPCOMING COUPON PAYMENTS FOR MAY:

| Issue No. | Next Coupon Payment Date | Maturity Date | Maturity (Tenor) | Outstanding Amt Shs'M. | Coupon Rate |
|--------------|--------------------------|---------------|------------------|------------------------|-------------|
| FXD3/2007/15 | May 15, 2017 | Nov 7, 2022 | 2,007 | 18,030 | 12.500% |
| FXD1/2007/12 | May 15, 2017 | May 13, 2019 | 731 | 4,865 | 13.000% |
| FXD1/2011/20 | May 22, 2017 | May 5, 2031 | 5,106 | 9,366 | 10.000% |
| FXD1/2012/5 | May 22, 2017 | May 22, 2017 | 10 | 31,080 | 11.855% |
| FXD1/2012/20 | May 22, 2017 | Nov 1, 2032 | 5,652 | 44,582 | 12.000% |
| FXD3/2013/5 | May 22, 2017 | Nov 19, 2018 | 556 | 14,938 | 11.952% |
| FXD2/2016/2 | May 22, 2017 | May 21, 2018 | 374 | 30,218 | 12.020% |
| IFB1/2016/9 | May 22, 2017 | May 12, 2025 | 2,922 | 36,303 | 12.500% |
| IFB2/2009/12 | May 29, 2017 | Nov 22, 2021 | 1,657 | 9,704 | 12.000% |
| FXD2/2015/5 | May 29, 2017 | Nov 23, 2020 | 1,291 | 30,674 | 13.920% |

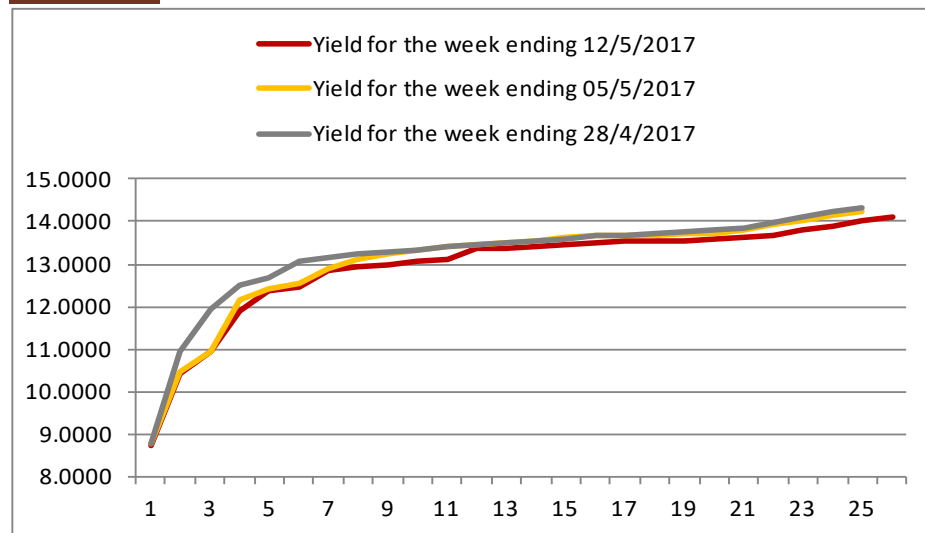
EXCHANGE RATE:

| Currencies | 28-Apr-17 | 12-May-17 | Chg YTD |
|------------|-----------|-----------|---------|
| USD/KES | 103.1442 | 103.3778 | -0.23% |
| GBP/KES | 133.0567 | 133.1578 | -0.08% |
| EUR/KES | 112.7508 | 112.3428 | 0.36% |
| JPY/KES | 91.4926 | 91.0216 | 0.51% |
| ZAR/KES | 7.6035 | 7.735 | -1.73% |
| KES/UGX | 35.1935 | 35.1914 | 0.01% |
| KES/TZS | 21.6688 | 21.6198 | 0.23% |
| KES/RWF | 8.1434 | 7.9594 | 2.26% |
| KES/BIF | 16.4283 | 16.594 | -1.01% |

The Kenyan shilling was steady against the dollar earlier in the week but demand from the energy sector was seen outweighing minimal dollar inflows from charities

Kenya's shilling was steady on Friday and traders said it could come under pressure in the days ahead due to dollar demand from oil importers. *(Reuters)*

YIELD CURVE:



(Nairobi Securities exchange)

Yields have been on a lowering trend in the past few weeks, as a result of CBK taking a stance to not pick costly funds as the case has been in previous auctions.

Bond turnover increased by 167.71 percent, largely due to continued secondary trading. The number of bond deals increased from 114 to 204 in the week ending April 27, 2017. The FTSE Bond Index increased marginally by seven basis points.

MOST TRADED BONDS FOR THE WEEK:

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 12 MAY , 2017

Bonds worth KES. 13.618bn were traded in the week compared to KES. 8.396bn in the previous week. Deals totalling 206 were closed compared to 149the previous week.

| Issue No. | Coupon (%) | This Week | | Average Traded Yield (%) | Total Value (kshs) |
|--------------|------------|-------------------|------------------|--------------------------|--------------------|
| | | Highest yield (%) | Lowest yield (%) | | |
| IFB1/2016/9 | 12.500 | 12.7500 | 12.5000 | 12.6506 | 2,441,000,000 |
| FXD2/2014/5 | 10.934 | 11.9000 | 11.8500 | 11.8688 | 2,200,000,000 |
| FXD1/2016/20 | 12.000 | 13.9500 | 13.4500 | 13.5105 | 1,968,000,000 |
| FXD1/2016/10 | 15.039 | 13.4363 | 12.9000 | 13.1293 | 1,400,000,000 |
| FXD1/2012/10 | 12.300 | 13.2000 | 12.7000 | 12.9250 | 740,000,000 |

MONETARY POLICY OPERATIONS:

The money market was relatively liquid during the week ending May 10, 2017, largely supported by net government payments, which injected KSh 9.3 billion. CBK liquidity operations increased interbank market liquidity by KSh 3.1 billion. Reflecting these trends, net liquidity injection into the money market during the week under review amounted to KSh 12.3 billion. The weighted average interbank rate decreased to 5.52 percent in the week ending May 10, 2017 from 6.09 percent recorded in the previous week, owing to ample liquidity in the interbank market. *(Central Bank of Kenya)*

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