

FIXED INCOME RESEARCH

13th January 2017

Money Market	Latest	Previous
91 day	8.6480	8.5520
182 day	10.4630	10.4670
364 day	10.9890	11.0100
Repo Rate	6.2300	6.2300
Inflation Rate	6.3500	6.6800
Interbank Rate	7.0925	6.8827
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	103.7778	103.9778
GBP	126.2228	126.5767
EUR	110.165	110.4022
ZAR	7.6702	7.6907
KES/UGX	34.719	34.8822
KES / TZS	21.3026	21.4400

Source: Central Bank of Kenya

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NEWS UPDATE:

REOPENING- ISSUE NUMBER: FXD2/2007/015

Amount on offer: KES: 30bn

Coupon: 13.500%

Period of Sale: 13-Jan-17

Offer closing date: 24-Jan-17

Auction date: 25-Jan-17

Value date: 26-Jan-17

Redemption date: 6-Jun-22

Secondary Trading: 27-Jan-17

In multiples of Kshs. 50,000

Taxation: Discount/ Interest is subject to withholding tax at 10%

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: T-bill rates decline for the fourth week as Treasury snubs costly

bids Interest rates on short-term securities edged down for the fourth straight week as the Treasury continued rejecting expensive cash offers. This week the 364-day Treasury bill stood at 10.98 per cent, compared to 11.01 per cent last week. On the 182-day T-bill, the accepted rate was 10.46 per cent down from 10.47 last week.

The rates had been rising between mid-October and mid-December before topping out in the past month, with the government showing little appetite for pricy debt partly because it remains ahead of target on domestic borrowing for the fiscal year. Government is ahead of its domestic borrowing for this fiscal year having borrowed Sh169.2 billion against a target of Sh123.6 billion, assuming a pro-rated borrowing throughout the financial year of Sh229.6 billion. The government is in the process of revising its domestic borrowing target upwards to Sh294.6 billion, which will take the pro-rated borrowing target to Sh158.6 billion, which will still be ahead of the borrowing target.

The decline in rates has also come against expectations since the market is also experiencing tight liquidity. Out of the total of Sh12 billion advertised for the two Treasury bill tenors this week, investors offered only Sh8.5 billion, of which Sh5.6 billion was on the six month paper and Sh2.9 billion on the one year offer.

The Treasury only took up Sh2.87 billion, meaning that it managed to raise only a quarter of the intended funds from the market on both tenors. At the same time, the maturities on the two papers stood at Sh6.9 billion, which means that the State made net payments of Sh4 billion.

Going forward, however, there may be renewed pressure on the interest rates before the end of this quarter, given the heavy maturities coming up in the market February (Sh106 billion) and March (Sh91.5 billion) which will need to be rolled over through new borrowing.

Should the shilling continue weakening as well, the Central Bank of Kenya may be forced to mop up liquidity resulting in a tight market where funds will be hard to come by for the government. This tends to drive up the rates, as was the case in September and October 2015 when the short-term Treasury rates rose above 20 per cent. Delays in taking up the portion of deficit financing earmarked for foreign borrowing could push the government to take up more of the cash being offered on the domestic front, which could start to reflect on domestic rates as the fiscal year nears its end. *(Business Daily, Central Bank of Kenya)*

TREASURY BILL LATEST RESULTS 2195/91: 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 173 amounting to Kshs 3.45 Billion, representing a subscription of 86.17%. Total bids accepted amounted to Kshs. 3.45 Billion. The market weighted average rate was 8.648% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.648% up from 8.552% in the previous auction. *(Central Bank of Kenya)*

TREASURY BILL RESULTS 2176/182 & 2105/364: 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 223 amounting to Kshs. 5.62 Billion representing 93.68% subscription and 100 bids amounting to Kshs.2.92 Billion representing 48.66% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs.1.54 Billion for 182 days and Kshs.1.33 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.463% for the 182-day and 10.989% for 364-day Treasury Bills. *(Central Bank of Kenya)*

EXCHANGE RATE:

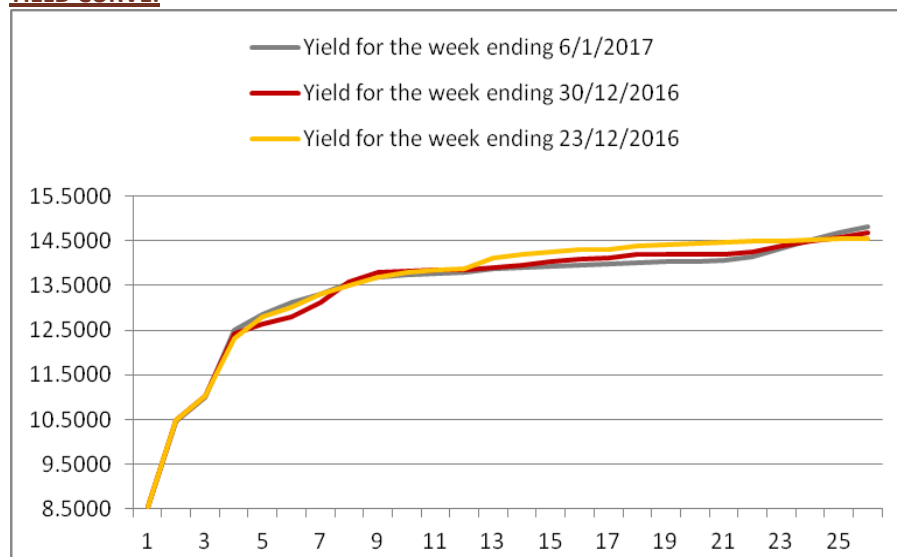
Currencies	6-Jan-17	13-Jan-17	Chg %
USD/KES	103.4667	103.8778	-0.40%
GBP/KES	127.27	126.3997	0.68%
EUR/KES	108.0036	110.2836	-2.11%
JPY/KES	88.2295	90.2853	-2.33%
ZAR/KES	7.5828	7.6804	-1.29%
KES/UGX	35.0162	34.8006	0.62%
KES/TZS	21.1083	21.3713	-1.25%
KES/RWF	7.8828	7.9132	-0.39%
KES/BIF	16.1965	16.2721	-0.47%

(Central Bank of Kenya, Securities Africa Kenya)

The Shilling has weakened greatly due to greater demand. The CBK this week sold dollars in an aim to support the shilling.

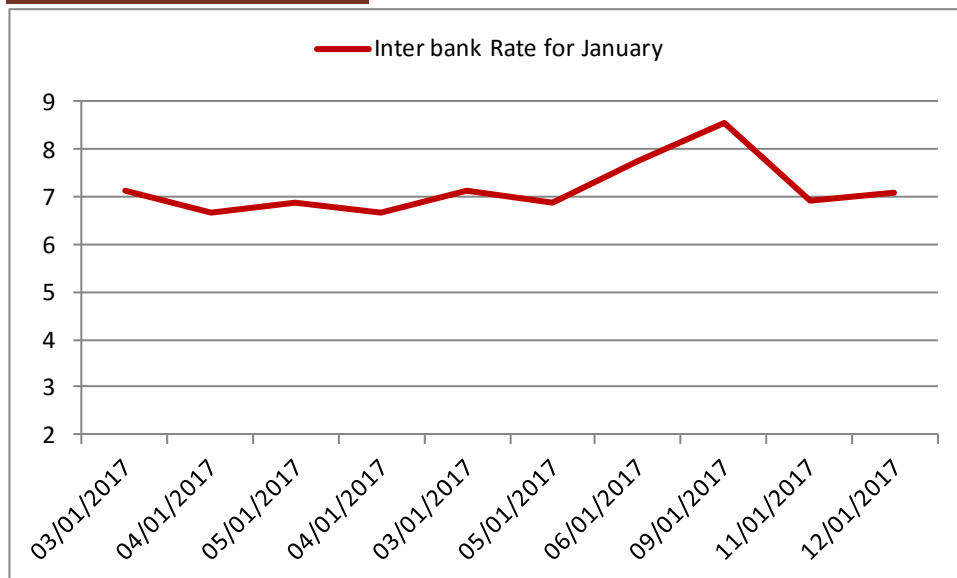
The Kenyan shilling weakened against the dollar to touch a 15-month low of 103.60/80 against the dollar on mainly due to a surge in demand by oil importers and multinational companies. The central bank stepped in to sell dollars after the fall, helping the currency to pare some of the gains, currency traders said. The situation seems will persist as capital flight occurs as the US markets strengthen due to the anticipated hike in rates by 25 basis points from 0.50 to 0.75 percent. For foreign investors weighing the options the scale will tilt toward going back home as a result of currency depreciation locally.

YIELD CURVE:



(Central Bank of Kenya)

INTERBANK RATE FOR JANUARY:



(Central Bank of Kenya)

MOST TRADED BONDS FOR THE WEEK:

**WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY
13 JANUARY , 2017**

Issue No.	Coupon (%)	This Week			Total Value (kshs)	Number of Trades
		Highest yield (%)	Lowest yield (%)	Avg. Traded Yield (%)		
FXD1/2012/10	12.300	13.5000	12.9000	13.2500	1,505,000,000	5
IFB1/2016/9Yr	12.500	13.3582	12.9278	13.1395	1,277,000,000	8
FXD1/2016/20	14.000	14.2000	13.0500	13.8697	808,000,000	94
FXD1/2016/10	15.039	13.6500	13.6500	13.6500	700,000,000	2
FXD3/2016/2	12.509	12.7500	10.6400	11.6950	507,300,000	2

(Nairobi Securities Exchange)

UPCOMING COUPON PAYMENTS AND MATURITIES:

Issue No	Next Coupon Payment Date	Maturity Date	Maturity (Tenor)	Outstanding Amount Shs'M.	Fixed Coupon Rate
FXD1/2016/2	January 23, 2017	January 22, 2018	381	20,154	15.76%
FXD2/2008/10	January 16, 2017	July 16, 2018	556	13,505	10.75%
FXD2/2016/5	January 23, 2017	July 19, 2021	1,655	24,401	14.07%
FXD1/2014/10 (Re-opened)	January 23, 2017	January 15, 2024	2,565	35,852	12.18%

There are few coupon payments coming up in the month of January. We expect the tight liquidity in the market to maintain. However we anticipate the coming months in February and March for the situation to take a turn around as KES. 106.0 bn and KES. 91.5 bn is expected to check into the market in form of coupon payments and maturities.

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