

## FIXED INCOME RESEARCH

14<sup>th</sup> July 2017

Money Market	Latest	Previous
91 day	8.2050	8.2210
182 day	10.323	10.312
364 day	10.893	10.889
Repo Rate	7.9850	8.4770
Inflation Rate	9.2000	11.700
Interbank Rate	6.4060	5.1800
Central Bank Rate	10.0000	10.0000

## Exchange Rates

	Buy	Sell
USD	103.7889	103.9889
GBP	134.2583	134.5544
EUR	118.3739	118.6261
ZAR	7.8457	7.8639
KES/UGX	34.5710	34.7340
KES / TZS	21.4734	21.6112

Source: Central Bank of Kenya

## Fixed Income Research

Christine Gatakaa

[cgatakaa@securitiesafrica.com](mailto:cgatakaa@securitiesafrica.com)

Milkah Gathoni

[mgathoni@securitiesafrica.com](mailto:mgathoni@securitiesafrica.com)

## Head of Fixed Income Trading

Anthony Munyiri

[amunyiri@securitiesafrica.com](mailto:amunyiri@securitiesafrica.com)

Tel: +254 714 646 406

Call Centre: +254 735 571 530

[researchke@securitiesafrica.com](mailto:researchke@securitiesafrica.com)[www.securitiesafrica.com](http://www.securitiesafrica.com)2<sup>nd</sup> Floor, The Exchange

55 Westlands Road, Nairobi.

P.O. Box 19018-00100,

Nairobi, Kenya.

## TREASURY BOND ON OFFER FOR THE MONTH OF JULY

<b>ISSUE NUMBER:</b>	<b>FXD1/2017/010- KES.30bn</b>
<b>Amount:</b>	KES: 30bn
<b>Purpose:</b>	Budgetary Support
<b>Coupon:</b>	Market Determined
<b>Offer opening date:</b>	07-July-17
<b>Offer closing date:</b>	25-July-17
<b>Value date:</b>	31-July-17
<b>Redemption date:</b>	19-July-27
<b>Auction date:</b>	26-July-17
<b>Results:</b>	27-July-17
<b>Secondary Trading:</b>	01-August-16
<b>Taxation:</b>	In multiples of Kshs. 50,000
<b>Commission:</b>	Discount/ Interest is subject to withholding tax at 15% 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) Shilling slides to six-month low on high dollar demand** The shilling has depreciated to a six-month low of 104 units against the dollar, raising concern the fall might spill over to inflation which is already above the desired range. News agency Reuters said dealers had attributed the weakening to heightened dollar demand from oil marketers, food importers and firms looking to pay dividend to foreign investors on their books. The shilling exchanged at an average of 104.10 to the dollar on Tuesday morning, with the CBK indicative rate standing at 103.91 units, the lowest it has traded since mid January. Analysts say the currency has also come under pressure due to a weaker economy and political uncertainty as the country heads to the General Election. "The concern for the CBK is the potential pass-through effects of further shilling depreciation on inflation, which has been trending above the upper limit of the statutory target band of 2.5-7.5 per cent for the last five months," said the Commercial Bank of Africa in a weekly fixed income note. "This comes at a time when the effective conduct of monetary policy is considerably undermined by interest rate caps that are evidently having negative effects on the transmission channels for the policy signal." Inflation in June fell to 9.2 per cent from 11.7 per cent in May, but still remains above the target range.

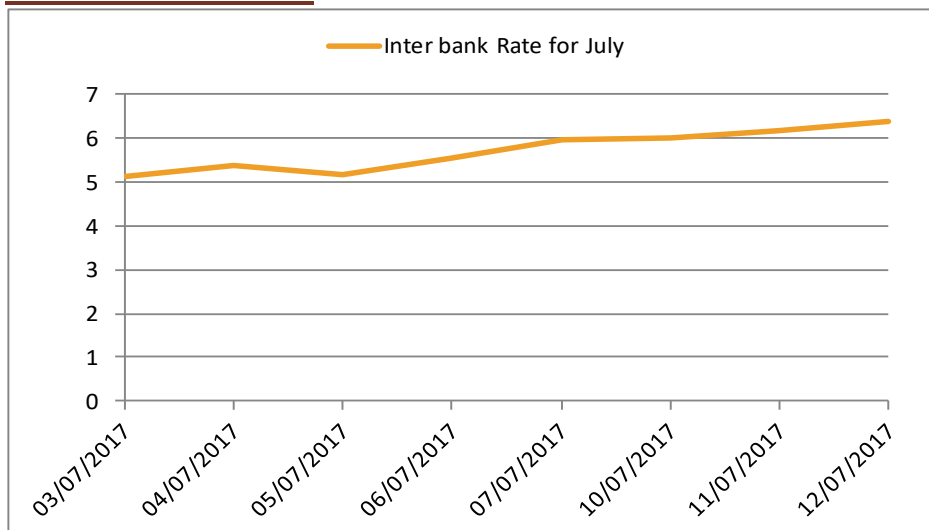
Attention now turns to the CBK's monetary policy committee (MPC), which meets next Monday for its final sitting before the polls. Analysts though anticipate that a policy rate hike may not be on the cards due to uncertainty of the effect on the wider economy now that the rate is also the pricing tool for bank loans. The analysts said that CBK has largely intervened through withdrawal of liquidity from the money market to prevent shilling volatility in the past month. The regulator is also holding a healthy foreign exchange reserve, which currently stands at \$7.92 billion (Sh824 billion) equivalent to 5.23 months of import cover — although it is at the lowest level since the end of March. Although it is unclear whether CBK has sold some dollars into the market in currency support, the reserves have fallen by \$276 million in the last one month. *(Daily Nation)*

The 91 day, 182 day & 364 day Tbills were undersubscribed at 56.03%, 41.91% & 16.24% respectively. The undersubscription could be attributed to the tight liquidity in the market currently, that explains the reason the rates edged higher for the 182 day and 364 day Tbills.

**TREASURY BILL LATEST RESULTS 2221/91, 2194/182 & 2132/364:** 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. 8.055 Billion and the bids accepted amounted to Kshs. 7.839 Billion. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 8.025% for the 91-day, 10.323% for 182-day and 10.893% for 364-day Treasury Bills. (Central Bank of Kenya)

Interbank rate has been edging up smoothly in the month indication of the tight liquidity in the market.

**INTERBANK RATE FOR JULY:**



(Central Bank of Kenya)

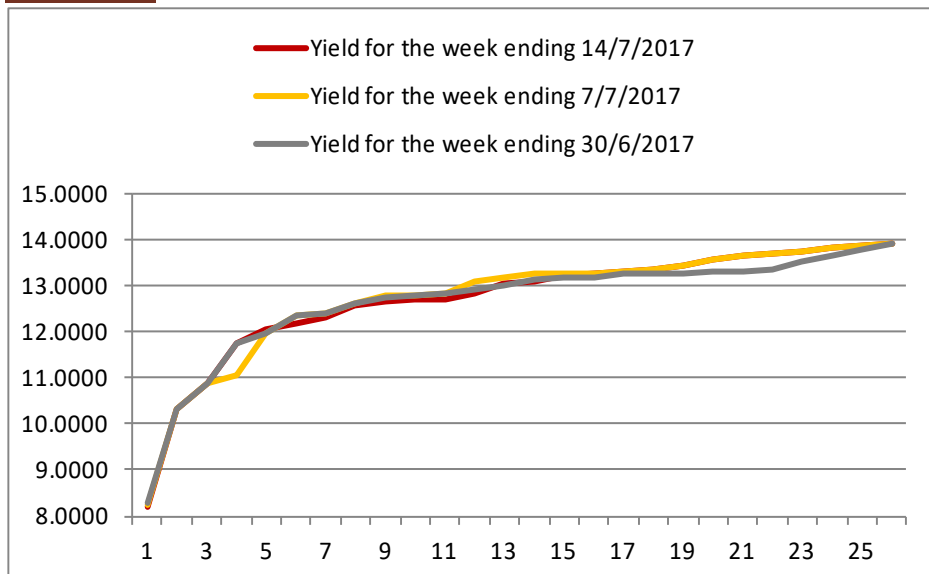
Coupon payments of treasury bonds amounting to KES. 6.213bn will be checking into the market in the month of July.

**UPCOMING COUPON PAYMENTS FOR JULY:**

Issue No.	Next Coupon Payment Date	Maturity Date	Maturity (Tenor)	Outstanding Amt 'Mn.	Coupon Rate
FXD2/2008/10	Jul 17, 2017	Jul 16, 2018	591	13,505	10.75%
FXD1/2016/2	Jul 24, 2017	Jan 22, 2018	416	20,154	15.76%
FXD1/2014/10	Jul 24, 2017	Jan 15, 2024	2,600	35,852	12.18%
FXD2/2016/5	Jul 24, 2017	Jul 19, 2021	1,690	24,401	14.069%

Yields maintained the lowering trend in the short term especially as they have in the past weeks.

**YIELD CURVE:**



**EXCHANGE RATE:**

Currencies	7-Jul-17	14-Jul-17	Chg YTD
USD/KES	103.8372	103.8889	-0.05%
GBP/KES	134.3258	134.4064	-0.06%
EUR/KES	118.3347	118.5	-0.14%
JPY/KES	91.802	91.6249	0.19%
ZAR/KES	7.7276	7.8548	-1.65%
KES/UGX	34.6697	34.6525	0.05%
KES/TZS	21.553	21.5423	0.05%
KES/RWF	7.9539	7.9546	-0.01%
KES/BIF	16.6472	16.6558	-0.05%

*The Kenyan central bank pumped dollars into the market on Thursday after the shilling weakened and threatened to break past the psychologically important level of 104.00, traders said.*

The Kenyan shilling could weaken against the dollar in the coming week as food and oil importers and retail firms rush to buy hard currency and beef up their positions ahead of the election, traders said. *(Reuters)*

**MOST TRADED BONDS FOR THE WEEK:****WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 14 JULY, 2017**

*Bonds worth KES.12.605bn were traded in the week compared to KES. 9.602bn in the previous week. Deals totalling 468 were closed compared to 329 the previous week.*

Issue No.	Coupon (%)	This Week		Average Traded Yield (%)	Total Value (kshs)
		Highest yield (%)	Lowest yield (%)		
IFB1/2016/15	12.000	12.2750	11.4756	12.2500	2,982,900,000
FXD1/2016/20	14.000	13.6600	12.2500	12.3300	2,246,000,000
FXD1/2009/15	12.500	12.9500	12.5000	12.6680	1,900,000,000
FXD 1/2016/10	15.039	12.8000	12.6000	12.7000	1,000,000,000
FXD1/2014/10	12.180	12.7408	12.6981	12.6174	820,000,000

*The FTSE Bond Index declined by 0.38 percent, reflecting a marginal increase in secondary market yields.*

**MONETARY POLICY OPERATIONS:**

The money market was fairly tight during the week ending July 12, 2017, reflecting liquidity withdrawals through Central Bank's open market operations. The net liquidity withdrawal in the interbank market amounted to KSh 7.3 billion. The average interbank rate increased to 6.02 percent in the week ending July 12, 2017 from 5.0 percent recorded in the previous week. *(Central Bank of Kenya)*

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