SECURITIES AFRICA KENYA LIMITED

KENYA

FIXED INCOME WRAP

INVESTMENT

FIXED INCOME RESEARCH

16th December 2016

Money Market	Latest	Previous
91 day	8.4840	8.3590
182 day	10.5600	10.4950
364 day	11.0530	11.0930
Repo Rate	6.0000	6.0000
Inflation Rate	6.6800	6.4700
Interbank Rate	4.3353	6.7603
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	102.0861	102.2861
GBP	126.7872	127.0739
EUR	106.4428	106.6811
ZAR	7.3075	7.3271
KES/UGX	35.0976	35.2643
KES / TZS	21.2737	21.4133

Source: Central Bank of Kenya

Fixed Income Research

Christine Gatakaa
cgatakaa@securitiesafrica.com

Milkah Gathoni
mgathoni@securitiesafrica.com

Head of Fixed Income Trading

Anthony Munyiri
amunyiri@securitiesafrica.com

Tel: +254 714 646 406
Call Centre: +254 735 571 530

researchke@securitiesafrica.com
www.securitiesafrica.com

2nd Floor, The Exchange
55 Westlands Road, Nairobi.
P.O. Box 19018-00100,
Nairobi, Kenya.

TREASURY BOND ON RESULTS FOR THE MONTH OF DECEMBER:

ISSUE NUMBER:	**FXD3/2016/002- KES.30bn**
Amount:	**KES: 30bn**
Purpose:	**Budgetary Support**
Coupon:	**12.509%**
Total bids received	**35,540.14 bn**
Amount Accepted	**10,535.30 bn**
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 Treasury rejects billions in high-price bids to cut rates

The Treasury has left billions of investor cash on the table taking just a third of the Sh35 billion offered for this month's two-year bond issue, with traders saying Central Bank of Kenya (CBK) is rejecting high price bids to contain borrowing costs.The Treasury was in the market for Sh30 billion in the two-year bond that was on sale between December 2 and 13. Investors put in 775 bids worth Sh35.5 billion, out of which only 481 worth Sh10.5 billion were accepted.

The average rate of the offers by investors stood at 13.07 per cent indicating aggressive bidding, while the rate of the accepted bids stood at 12.5 per cent. Analysts had projected the rate on the bond to come in at between 12.3 and 13 per cent. "On the bids, CBK is sending a clear message that they will not accept bullying by the market to accept debt at higher than where the yield curve currently is at.

Notwithstanding the budget deficit, they are keen to get reasonably priced debt considering the players don't have many options to look out for, bearing in mind bonds seem the only logical source of return for most banks and investment funds," said NIC Securities fixed income trader Stanslaus Kimani.

The same pattern was seen in the auctions of Sh12 billion worth of 182day and 364day Treasury bills where the government accepted less than the total bids despite the issues being undersubscribed. Investors offered Sh9 billion for the Tbills, with the government just taking up Sh5.8 billion.
The rate on the six-month paper rose slightly to 10.56 per cent from 10.49 per cent the previous week while the one year paper rate fell marginally to 11.05 per cent from 11.09 per Investors are now likely to redirect the capital left on the table by the Treasury to the secondary market bond auction.

The liquidity in the money market is also likely to be pushed higher going into the New Year by bond maturities worth Sh29 billion due on December 19 that were supposed to be rolled over to a large extent by the just concluded bond issue.

"The Sh25 billion rejected plus the maturities for the month are likely to get reinvested in the secondary market and thereby push the rates a little lower within the month and until the next issuance in January given the case of too much money chasing a few decent offers," said Mr Kimani.

Although the government has indicated that it intends to borrow more from the domestic market than the international market, recent shifts in the financial sector mean that it can still reject high pricing on the domestic debt. Banks have, for instance, been increasing their lending to government after the capping of customer loan rates, while other institutions such as pension funds and insurance firms have had to raise fixed income investments to counter the drop in returns from equities that are going through a prolonged Bear run. *(Business Daily)*

NEWS UPDATE: Kenya's domestic debt hits Sh1.91trn amid budget deficit
Kenya's domestic debt has risen to Sh1.91 trillion as the government continues relying on the local market to finance a large budget deficit. Latest public debt data published by the Central Bank of Kenya (CBK) shows the stock of government domestic debt has risen by Sh100 billion since the beginning of the current fiscal year, having stood at Sh1.81 trillion on July 1. External debt stood at Sh1.8 trillion as at June 2016, meaning that Kenya's total public debt is at least Sh3.7 trillion.

The growing stock of debt has raised concern over long-term sustainability, especially with tax revenue growing slowly and the Kenya Revenue Authority routinely failing to hit its collection target in recent years.
Analysts say that even though it is easier for the government to borrow locally, there remains the risk that it will crowd out the private sector from the debt market, posing a threat to economic growth.
"Local borrowing is advantageous as it is faster and simple to administrate, but the main issue is that government competes with the private sector for funds from banks, which leads to crowding out of private sector and slowdown in economic growth as the contribution by the private sector to economic growth reduces," said Cytonn Investments in a debt sustainability note issued this week.

The growth in domestic debt in the current fiscal year has been driven by Treasury bonds, whose outstanding stock has grown by Sh110.3 billion to Sh1.25 trillion, and Treasury bills whose stock has grown by Sh32 billion to Sh620 billion. The increments are, however, mitigated by the Treasury paying down fully the overdraft at CBK that stood at Sh44 billion on

The government has been forced to borrow to fill the deficit in the national budget, which has grown at an average of 15 per cent per year, standing at Sh2.2 trillion this year from Sh977 billion for the 2010/11 fiscal year. At the same time, revenue collected by the KRA has increased by 14 per cent to Sh1.3 trillion in the last fiscal year from Sh670 billion in 2010/11. The borrowing has led to Kenya's debt to GDP ratio jumping to 50 per cent, thus raising the sustainability question. Kenya's debt servicing will next year account for 40 per cent of the Sh1.5 trillion targeted tax revenue.

The government had set out to take up a significant portion of its borrowing this fiscal year from the now controversial external market, but it is yet to look outside the country for funds nearly halfway through the year.

Treasury CS Henry Rotich has in recent weeks said that the government will borrow externally when the time is right, indicating that the country is wary of paying steeper interest rates on a Dollar denominated loan.
"On foreign borrowing, though it gives the government another borrowing avenue apart from the domestic market, the challenge is that it opens up the country to trends in the global market, which may destabilise the economy in times of global crisis," said Cytonn.

TREASURY BILL LATEST RESULTS 2191/91: 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 143 amounting to Kshs 2.589 Billion, representing a subscription of 64.72%. Total bids accepted amounted to Kshs. 2.589 Billion. The market weighted average rate was 8.484% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.484% up from 8.359% in the previous auction. *(Central Bank of Kenya)*

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. The total number of bids received was 204 amounting to Kshs. 7.44 Billion representing 124.10% subscription and 74 bids amounting to Kshs.1.59 Billion representing 26.56% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs.4.23 Billion for 182 days and Kshs.1.59 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.560% for the 182-day and 11.053% for 364-day Treasury Bills. *(Central Bank of Kenya)*

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.

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%

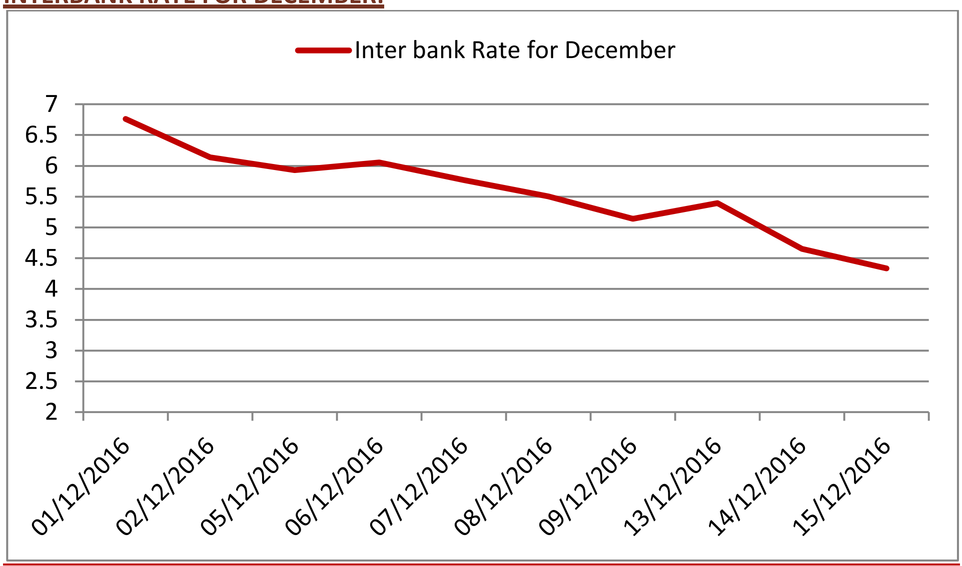
EXCHANGE RATE:

Currencies	9-Dec-16	16-Dec-16	Chg YTD
USD/KES	101.9739	102.1861	0.21%
GBP/KES	128.4358	126.9306	-1.19%
EUR/KES	108.2622	106.5619	-1.60%
JPY/KES	89.2121	86.5141	-3.12%
ZAR/KES	7.4570	7.3173	-1.91%
KES/UGX	35.3327	35.181	-0.43%
KES/TZS	21.3781	21.3435	-0.16%
KES/RWF	7.9737	7.9650	-0.11%
KES/BIF	16.5102	16.4875	-0.14%

(Central Bank of Kenya, Securities Africa Kenya)

INTERBANK RATE FOR DECEMBER:

The average interbank rate decreased to 4.3353 percent in the week ending December 09, 2016 from 5.5032 percent recorded in the previous week.This could be attributed to the excess liquidity in the market from the heavy rejections in the just concluded priamry auction.



(Central Bank of Kenya)

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