

FIXED INCOME RESEARCH

17th February 2017

Money Market	Latest	Previous
91 day	8.6310	8.6560
182 day	10.524	10.521
364 day	10.939	10.940
Repo Rate	9.8800	9.9600
Inflation Rate	6.9900	6.3500
Interbank Rate	7.4240	7.2315
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	103.5528	103.75
GBP	129.4306	129.7094
EUR	110.4256	110.6572
ZAR	7.9644	7.9870
KES/UGX	34.5060	34.6683
KES / TZS	21.4843	21.6122

Source: Central Bank of Kenya

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ECONOMIC UPDATE:

ISSUE NUMBER:	IFB1/2017/12
Amount on offer:	KES: 30bn
Coupon:	12.500%
Period of Sale:	7-Feb-17
Offer closing date:	21-Feb-17
Auction date:	22-Feb-17
Results:	23-Feb-17
Value date:	27-Feb-17
Redemption date:	12-Feb-29
Secondary Trading:	28-Feb-17
	In multiples of Kshs. 50,000
Redemption Structure:	21st-Feb-2022- 20.000%
	19th-Feb-2024- 45.000%
	12th-Feb-2029- 100%
Commission:	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) Treasury February debt hits Sh72bn on week's bond uptake

The Central Bank of Kenya (CBK) took up Sh25 billion from investors in the 182 and 364-day Treasury bill sales this week, bringing the cumulative borrowing from the T-bill market this month to Sh72 billion. The government has been forced to take up more funds from the domestic market to cover for high debt maturities, which in February are expected to hit Sh108 billion. The State is also in the market for an additional Sh30 billion through an infrastructure bond, which would help roll over some of the maturities.

The government was this week in the market for Sh12 billion in the sale of the two tenors of T-bills, with investors bidding heavily to the tune of Sh27.7 billion, which represented a 231 per cent performance rate on the offers.

"The total number of bids received was 378 amounting to Sh18.03 billion representing 300.4 per cent subscription and 118 bids amounting to Sh9.66 billion representing 161.06 per cent subscription for 182 and 364 days, respectively.

"Bids accepted amounted to Sh13.50 billion for 182-days and Sh9.48 billion for 364 days Treasury bills," said CBK in a statement.

The preference for the six-month paper draws from the convergence of the rates on offer on the two papers.

The government accepted bids at a yield of 10.52 per cent on the six month paper, and 10.94 per cent for the one year, both unchanged week-on-week.

Whenever rates on the two tenors converge, investors have been opting for the shorter paper, with its rate more preferable on a risk weighted basis, especially by investors who are uncertain over the longer term interest rate direction. Although the government's appetite for domestic debt remains high, the CBK has managed to prevent the rates from shooting upwards by rejecting aggressive bids. The regulator has in the past two months cancelled auctions — for a 364-day offer and the Sh30 billion Treasury bond issue in January — due to what governor Patrick Njoroge termed as bids carrying prices that were way outside the yield curve.

The heavy bidding seen in this week's offer is also indicative of a liquid market in which investors have limited investment options. Liquidity had tightened in January on the back of CBK mop-up as it sought to curtail shilling volatility, but has improved in the past two weeks mainly due to government payments to its agencies through commercial banks. (*Business Daily*)

2) Kenya eyes lower budget deficit in 2017/18 fiscal year. Kenya plans to target a fiscal deficit of 7.0 percent of GDP in its financial year starting in July, down from 9.6 percent of GDP this fiscal year, the Treasury said in a draft budget.

The draft, seen by Reuters on Friday, projects the deficit at 582.5 billion shillings (\$5.63 billion), down from an estimated 716.9 billion this fiscal year. The Treasury said the deficit would be covered by 206.0 billion shillings in net external borrowing while the rest will come from domestic borrowing.

The government was committed to lowering the fiscal deficit to 5.2 percent of GDP in the 2018/19 fiscal year and 4.0 percent in the medium term, the Finance Ministry said. "This reduction will strengthen our debt sustainability position," the ministry said, adding economic growth was expected at 5.9 percent this year from an estimated 6.0 percent last year.

Financial markets participants and the opposition have criticised the government of President Uhuru Kenyatta for raising borrowing in the last four years to spend on a range of infrastructure projects such as a new railway and roads.

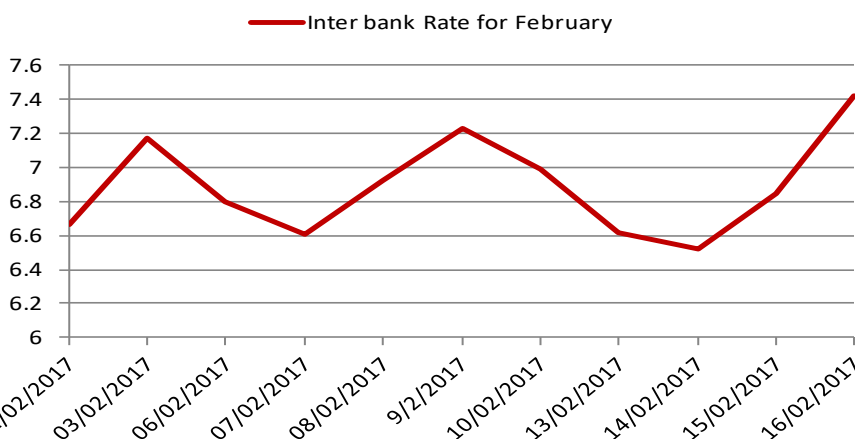
Kenyatta is running for a second and final five-year term in an election set for Aug. 8. He is widely expected to face his main rival Raila Odinga, although a united opposition, bringing together the main parties, has not yet said who will challenge Kenyatta.

Lawmakers are expected to peruse the draft budget in the next few weeks, before the finance minister presents the final budget, which will include any changes brought by parliamentarians and agreed upon by the Treasury. The East African nation usually unveils its budget in mid-June but it has brought it forward due to the August vote. *(Reuters)*

TREASURY BILL LATEST RESULTS 2200/91: 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 203 amounting to Kshs 1.51 Billion, representing a subscription of 37.76%. Total bids accepted amounted to Kshs. 1.51 Billion. The market weighted average rate was 8.656% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.631% down from 8.656% in the previous auction. *(Central Bank of Kenya)*

TREASURY BILL RESULTS 2181/182 & 2110/364: 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 378 amounting to Kshs. 18.03 Billion representing 300.43% subscription and 118 bids amounting to Kshs.9.66 Billion representing 161.06% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs. 13.50 Billion for 182 days and Kshs. 9.48 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.524% for the 182-day and 10.939% for 364-day Treasury Bills. *(Central Bank of Kenya, Securities Africa Kenya)*

INTERBANK RATE FOR FEBRUARY:



(Central Bank of Kenya)

The 182 day and 364 day Tbills were oversubscribed by 300.43% and 161.06%. This subscription was high as well as the acceptance level with KES.2.705bn only ging to rejection.The CBK picked the bids with an excess of KES.12.983bn. This is double the amount the CBK was bidding. The amount realised from the auction is part of the Treasury's immediate liquidity requirements.

Interbank rate has been showing mixed trends in the month.

EXCHANGE RATE:

Currencies	10-Feb-17	17-Feb-17	Chg YTD
USD/KES	103.5333	103.6514	-0.11%
GBP/KES	129.4714	129.57	-0.08%
EUR/KES	110.3244	110.5414	-0.20%
JPY/KES	91.0824	91.3993	-0.35%
ZAR/KES	7.7112	7.9757	-3.43%
KES/UGX	34.5976	34.5872	0.03%
KES/TZS	21.5873	21.5483	0.18%
KES/RWF	8.0879	7.8954	2.38%
KES/BIF	16.2991	16.382	-0.51%

(Central Bank of Kenya)

Remittances sent home by Kenyans living and working abroad increased to \$142.6 million last October, up 3.9 percent year on year, the central bank said on Friday.

Along with farm exports and tourism, the funds are a key source of hard currency and are tracked by traders Remittances made up 2.5 percent of GDP in the year to October, the central bank said.

The Kenyan shilling was stable against the dollar on Tuesday but was seen easing due to increasing oil importer demand amid dwindling foreign exchange inflows from charities and exporters, traders said. It was seen steady against the dollar in a slow trade on Friday and was expected to remain little changed due to reduced oil importer demand, traders said. (Reuters)

UPCOMING COUPON PAYMENTS AND MATURITIES:

Issue No.	Next Coupon Payment Date	Maturity Date	Maturity (Tenor)	Outstanding Amount Shs'M.	Fixed Coupon Rate
FXD1/2015/2	February 20, 2017	February 20, 2017	3	23,592	11.47%
FXD1/2008/10	February 13, 2017	February 12, 2018	360	2,993	10.75%
FXD1/2006/12	February 13, 2017	August 13, 2018	542	3,901	14.00%
FXD1/2016/10	February 27, 2017	August 17, 2026	3,468	18,312	15.04%
FXD1/2013/15	February 20, 2017	February 7, 2028	4,007	42,138	11.25%
SDB1/2011/30	February 20, 2017	January 21, 2041	8,739	28,145	12.00%
IFB1/2010/8Yr	February 20, 2017	February 19, 2018	367	7,132	9.75%
IFB1/2009/12Yr	February 13, 2017	February 8, 2021	1,452	11,244	12.50%
IFB2/2010/9Yr	February 20, 2017	August 19, 2019	913	18,672	6.00%

(Nairobi Securities Exchange)

We anticipate in the month of February and March for liquidity to ease greatly in the market. There will be coupon payments and maturities worth KES. 106.0 bn in the month of February and KES. 91.5 bn in the month of March that is expected to check into the market.

MOST TRADED BONDS FOR THE WEEK:

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 17 FEBRUARY , 2017

Issue No.	Coupon (%)	This Week		Average Traded Yield (%)	Total Value (kshs)
		Highest yield (%)	Lowest yield (%)		
FXD1/2013/10	12.371	13.7600	13.6500	13.7117	700,300,000
IFB1/2014/12	11.000	13.5000	12.4200	12.5170	688,500,000
IFB1/2015/12	11.351	13.5500	13.2500	13.3611	540,500,000
IFB1/2016/9	12.500	13.4000	12.4900	13.0051	435,200,000
FXD1/2011/20	10.000	13.9750	13.7500	13.9020	400,000,000

Bonds worth KES.3.911bn were traded in the week compared to KES. 6.356bn in the previous week. Deals totalling 95 were closed compared to 253 the previous week.

MONETARY POLICY OPERATIONS:

The money market was fairly liquid during the week ending February 15, 2017. The Central Bank's open market operations resulted in KSh 1.5 billion net liquidity absorption largely through reverse repo transactions, which accounted for 41.7 percent of net cumulative liquidity withdrawal during the week under review (Central Bank of Kenya)

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