

FIXED INCOME RESEARCH

17th March 2017

Money Market	Latest	Previous
91 day	8.7420	8.6860
182 day	10.525	10.525
364 day	10.909	10.901
Repo Rate	9.3200	8.6700
Inflation Rate	9.0400	6.9900
Interbank Rate	4.4038	4.2935
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	102.9306	103.1306
GBP	127.0894	127.3639
EUR	110.4378	110.6789
ZAR	8.0730	8.1014
KES/UGX	34.7812	34.9459
KES / TZS	21.6231	21.7622

Source: Central Bank of Kenya

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TREASURY BONDS ON OFFER FOR THE MONTH OF MARCH:

ISSUE NUMBER:	FXD2/2014/5 & FXD3/3013/5
Amount on offer:	KES: 30bn
Coupon:	FXD2/2014/5 -11.934% p.a. FXD3/2013/5- 11.952% p.a.
Period of Sale:	12-Mar-17
Offer closing date:	21-Mar-17
Auction date:	22-Mar-17
Results:	23-Mar-17
Value date:	27-Mar-17
Redemption dates:	FXD2/2014/5 17-Jun-19 FXD3/2013/5 19-Nov-18
Secondary Trading:	28-Mar-17
Classification:	In multiples of Kshs. 50,000
Commission:	These bonds are benchmark Bonds. Licensing placing agents will be paid commission at rate of 0.15% of actual sales (at cost) net of 5% withholding tax
Right to accept applications	The Central Bank reserves the right to accept bids in full or part thereof or reject them in total without giving any reason.

NEWS UPDATE: 1) Kenya to present budget on March 23

Kenya's minister of finance will present the budget for fiscal year 2017/18 (July-June) to parliament on March 23, the Treasury said on Tuesday, earlier than the usual date of June due to a general election scheduled for Aug. 8.

Parliament will be adjourned on June 16 and the presentation of the budget next week will give it time to debate and pass it.

Finance Minister Henry Rotich is expected to boost spending, on projected higher revenue, while cutting the fiscal deficit to 7.0 percent of GDP, from 9.6 percent this fiscal year, the Treasury said last month. *(Reuters)*

2) Kenya president Kenyatta offers assurances on debt sustainability

Kenya's public debt stands at about 50 percent of GDP and the country has not been in any danger of failing to repay its creditors, President Uhuru Kenyatta said on Wednesday.

Kenyatta, who faces re-election in August, told parliament in his annual state of the nation address that additional borrowing by his government in the last four years had been used to fund the "most aggressive agenda in Kenya's history".

Critics have accused Kenyatta's government of putting the country at risk by increasing debt.

Kenyatta said the economy had expanded by an annual average of 5.9 percent in the last four years, supporting the creation of 2.3 million new jobs. *(Reuters)*

3) Rate cap hampers Kenya's government debt auctions

A cap on commercial lending rates by the Kenyan government has hurt its own ability to raise funds in the local debt market as it struggles to keep yields below the maximum threshold. The central bank has cancelled three auctions of Treasury bills and bonds this year, after investors pushed up yields towards or past the 14 percent, where the commercial cap stands. "They are in a bit of a straitjacket and something will have to give," said a senior fixed-income trader, referring to the cancelled auctions. The cap was introduced in September last year. It limits interest rates to 4 percentage points above the central bank rate, which stands at 10 percent. The government argued that lenders had some of the highest returns on the continent and that borrowers were paying the price. However, commercial banks argue that the cap

makes it harder for them to lend to riskier customers. Nairobi brokerage Kestrel Capital estimated the government has raised only 117 billion shillings (\$1.14 billion), out of a target of net local borrowing of 236 billion shillings for the fiscal year to the end of June. Fixed income traders said that level was well behind usual borrowing levels at this point in past fiscal years. Officials at the Treasury declined to comment. Commercial banks have piled spare cash into Treasuries since rates were capped. The cap also slowed already sluggish credit growth to small and medium enterprises.

Private sector credit growth started weakening at the end of 2015 after the central bank toughened supervision. It plummeted to 4.3 percent in December 2016 from 17.8 percent the previous year, worsened by the rate cap. President Uhuru Kenyatta, who faces re-election in August, called the slowdown unfortunate and said it was an "unintended consequence" of the cap. "This is an issue that concerns us and is one that I will actively seek to resolve so that credit can start to flow again to the real drivers of our economy," he told parliament. The Kenyan economy has expanded by an annual average of 5.9 percent in the past four years, but slowing credit growth and fears about potential violence in the run-up to elections are seen as the main risks to further progress. The rate cap has also pummeled bank shares. Executives in the banking industry said their institutions would continue to sail in troubled waters "The market mechanism is not operational in Kenya," said James Mwangi, chief executive of Equity Group, one of the country's biggest lenders by customers. *(Reuters)*

In the upcoming week, the 182 day Tbill is cancelled as the case was in the previous week; This is the second time in 2 consecutive weeks, the CBK has cancelled the 182day Tbill auction. There was 75.02% subscription with KES2.201bn going to rejection.

The 364 day Tbill was oversubscribed at 195.04%. There was high subscription as well as acceptance level with KES.2.951bn going to rejection. The CBK picked the bids with an excess of KES.6.55bn. CBK has been mopping up the excess liquidity through Term Auction Deposits(TADs)

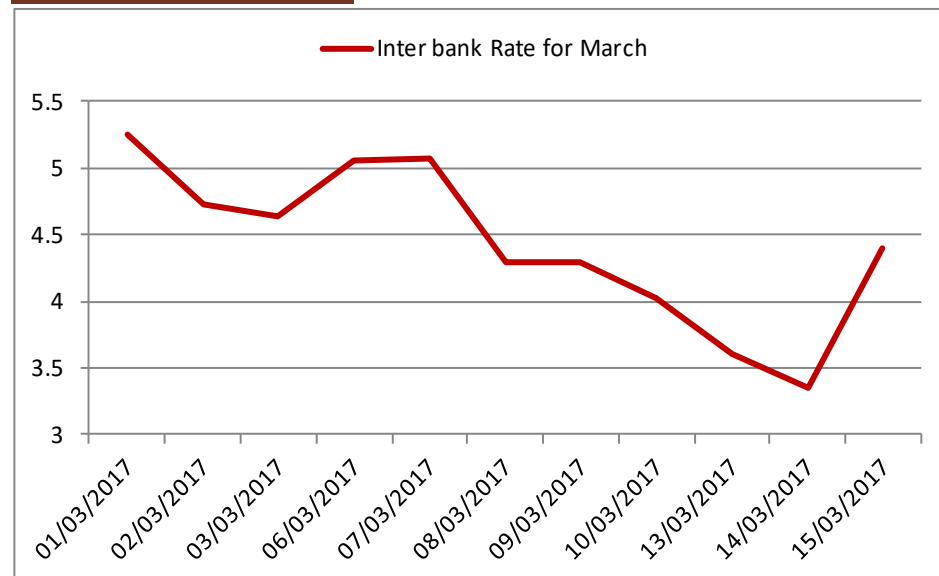
Interbank rate has been showing easing trends in the month.

In the month of February there were coupon payments and maturities worth KES. 106.0 bn We anticipate in the month of March for liquidity to ease greatly as KES. 91.5 bn is expected to check into the market.

TREASURY BILL LATEST RESULTS 2204/91: This week the Central Bank of Kenya offered 91-day Treasury Bills for a total of Kshs.10 Billion. The total number of bids received was 251 amounting to Kshs 7.50 Billion, representing a subscription of 75.02%. Total bids accepted amounted to Kshs. 5.30 Billion. The market weighted average rate was 9.115% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.742% up from 8.686% in the previous auction. *(Central Bank of Kenya)*

TREASURY BILL RESULTS 2114/364: This week the Central Bank of Kenya offered 364-day Treasury Bill for a total of Kshs.10 Billion. The total number of bids received was 194 amounting to Kshs. 19.50 Billion representing 195.04% subscription for 364 days. Bids accepted amounted to Kshs. 16.55 Billion for the 364 days Treasury Bill. The weighted average rate of accepted bids, which will be applied for non-competitive bids, is 10.909%. *(Central Bank of Kenya, Securities Africa Kenya)*

INTERBANK RATE FOR MARCH:



(Central Bank of Kenya)

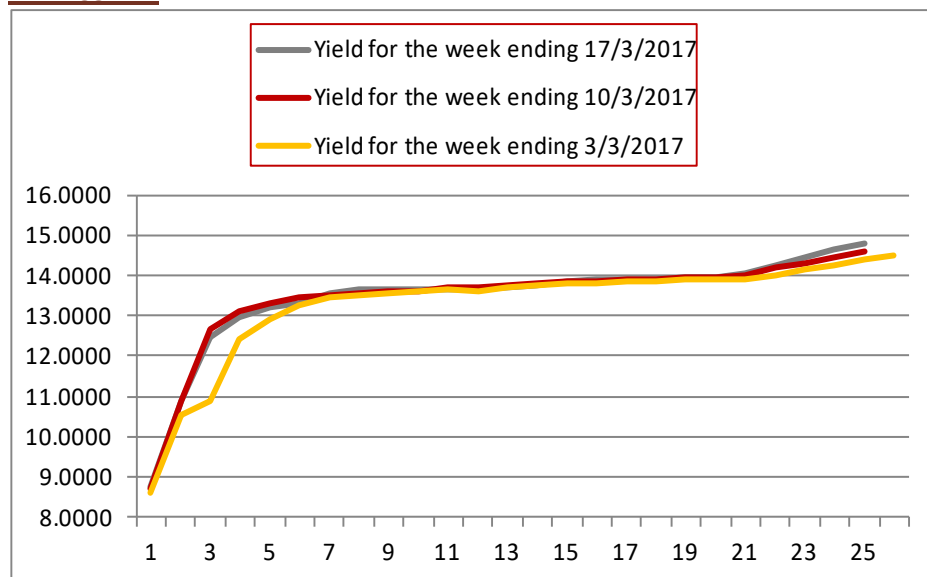
EXCHANGE RATE:

Currencies	10-Mar-17	17-Mar-17	Chg YTD
USD/KES	102.5639	103.0306	-0.46%
GBP/KES	124.8764	127.2267	-1.88%
EUR/KES	108.3122	110.5583	-2.07%
JPY/KES	89.4622	90.8519	-1.55%
ZAR/KES	7.744	8.0872	-4.43%
KES/UGX	35.0514	34.8635	0.54%
KES/TZS	21.7914	21.6927	0.45%
KES/RWF	7.9938	7.9618	0.40%
KES/BIF	16.6825	16.5381	0.87%

(Central Bank of Kenya)

The Kenyan shilling was seen to be under pressure from the dollar on Friday due to oil importers buying dollars, traders said. (Reuters)

YIELD CURVE:



MOST TRADED BONDS FOR THE WEEK:

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

Issue No.	Coupon (%)	This Week		Average	Total Value (kshs)
		Highest yield (%)	Lowest yield (%)	Traded Yield (%)	
IFB1/2011/12	12.000	13.4276	13.0000	13.1809	1,926,050,000
IFB1/2016/9	12.500	13.6196	13.5000	13.6044	1,731,400,000
FXD1/2012/10	12.300	13.9954	13.4000	13.5100	1,255,600,000
IFB1/2015/12	11.351	13.7625	13.1000	13.5114	1,199,850,000
FXD1/2012/20	12.000	13.9037	13.7000	13.9145	988,950,000

(Nairobi Securities Exchange)

Bonds worth KES. 13.448bn were traded in the week compared to KES. 10.470bn in the previous week. Deals totalling 324 were closed compared to 213 the previous week.

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