

FIXED INCOME RESEARCH

20th January 2017

Money Market	Latest	Previous
91 day	8.6610	8.6480
182 day	10.533	10.4630
364 day	11.004	10.9890
Repo Rate	6.2300	6.2300
Inflation Rate	6.3500	6.6800
Interbank Rate	9.2195	7.0925
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	103.7333	103.9333
GBP	128.1333	128.4156
EUR	110.7739	111.0161
ZAR	7.6607	7.6837
KES/UGX	34.5414	34.7044
KES / TZS	21.4561	21.5938

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: Kenya's economic growth rate will slow in 2017, from about 6 percent last year, due to sluggish credit growth and as investors take a wait-and-see attitude before a presidential election in August, a senior IMF official said on Monday. Armando Morales, the International Monetary Fund's representative in Kenya, said growth is likely to remain within the 5-6 percent range of the past five years, despite the slowdown. "We expect a deceleration of growth for several reasons, but I think the most important reason we are considering is the potential impact of the interest rate cap on credit growth," he told Reuters in an interview. The government capped commercial lending rates at 400 basis points above the central bank's lending rate last September, hurting already stressed private sector credit growth. After September, banks' lending grew by just 5 percent year-on-year, down from 17.8 percent in December 2015. Stricter supervision of banks by the central bank and the closure of two mid-sized lenders had cut credit growth before the rate cap came in. The IMF's 2017 economic growth forecast for the East African nation will be released later this month after its board meets to review a \$1.5 billion precautionary arrangement that was agreed in 2015 and is set to run until March 2018. President Uhuru Kenyatta is seeking a second and final term of office in an election on Aug. 8. He is expected to face off with his main rival, Raila Odinga. A disputed election result in 2007 led to violence that killed around 1,250 people. Odinga challenged the outcome of the 2013 election but the result was upheld by the country's Supreme Court. Morales said investment delays due to concerns over the election were to be expected, but that the government's investments in infrastructure, including roads and railways, would support demand and economic growth. "We believe it is going to be a reasonable deceleration; it is not like the economy will lose momentum. It is only that there are other factors at play," he said. *(Reuters, Securities Africa)*

NEWS UPDATE:

Kenya's current-account deficit will stabilize after shrinking last year as the currency strengthens, exports increase, tourism improves and remittances climb, central bank Governor Patrick Njoroge said. The gap probably narrowed to 5.2 percent of gross domestic product in 2016 from 10.4 percent 1 1/2 years earlier, he said in an interview Thursday in Davos, Switzerland. The bank will continue to intervene to slow the shilling's depreciation and appreciation, trying to smooth volatility. "The current account has closed quite well and the prognosis is that it will remain at that level in the future," Njoroge said. Kenya's shilling has weakened 1.4 percent against the dollar so far this year. It's depreciated in response to the strengthening U.S. dollar amid higher rates and the expectation of faster growth there, as well as local concerns that the Kenyan current account gap could widen. Rising oil prices and imports of capital goods have led to expectations of a bigger deficit in the broadest measure of trade in goods and services. "The U.S. dollar is the one that has been driving the general movement," Njoroge said. "We cannot intervene against the dollar indefinitely. Not even the Bank of England can do that. It is important to understand that 'Kenya vs the U.S. dollar' is a non starter." Kenya's foreign-exchange reserves currently stand at \$6.94 billion, according to

central bank data. “The issue is not reserves,” Njoroge said. “We don’t have the firepower of the U.S. We will continue to intervene to slow the appreciation or depreciation, whichever, as we’ve done before.” Kenya’s growth rate in 2017 is expected to be around the same as last year, though the government’s introduction of interest-rate caps in August may curb the expansion, Njoroge said.

The central bank’s forecast is for gross domestic product to increase about 6 percent this year, he said. “Our view is that caps could slow GDP growth, but we still have to see the data and isolate this from the trend,” Njoroge said. Kenyan President Uhuru Kenyatta in August imposed a 400 basis-point ceiling on rates to stimulate lending. Growth in loans to the private sector slowed to 4.5 percent in October, compared with 19.5 percent a year earlier, according to the latest central bank data. The measures haven’t been in place long enough to establish whether they’re working or not, Njoroge said. “We have been monitoring and we have not got conclusive evidence,” he said. “The sense is that lending has been curtailed to some sectors that were getting loans at much higher rates. In that sense, it is still not conclusive because banks are trying to accelerate their SME lending. We need to look at the data carefully.” Kenyatta’s decision to impose the caps fulfilled an election pledge in 2013 to reduce the cost of credit for borrowers as his party targets an acceleration in the country’s growth rate to 10 percent. The president is seeking a second term in elections scheduled for Aug. 8. The caps are “not something that will last for ever” and Kenya “won’t abandon” free-market rates, Njoroge said. *(Bloomberg)*

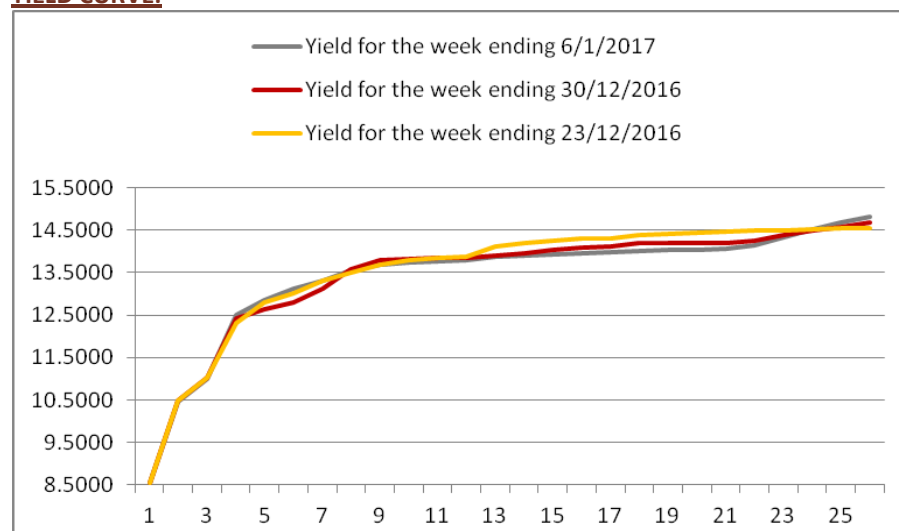
Despite the CBK improving their uptake on the subscription rates seemed to head North with a variance of 13basis points. The participation should also be noted improved with a performance rate of 123.34% of the amount issued.

There was a rate hike on the 182 day and 364 day Tbill auctions respectively. The uptake and received bids had a narrow margin indicating the appetite for funds by the CBK to fill the tight liquidity in the market. The participation on the 364 day Tbill was however low appetite for the 364 day Tbill indicator investors are looking forward to participate in the upcoming primary auction.

TREASURY BILL LATEST RESULTS 2196/91: 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 196 amounting to Kshs 4.93 Billion, representing a subscription of 123.34%. Total bids accepted amounted to Kshs. 4.81 Billion. The market weighted average rate was 8.663% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.661% up from 8.648% in the previous auction. *(Central Bank of Kenya)*

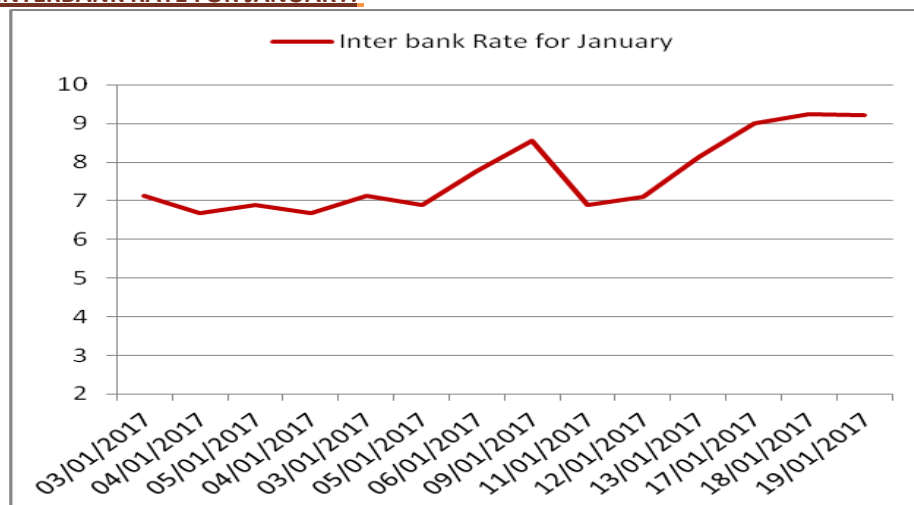
TREASURY BILL RESULTS 2177/182 & 2106/364: This week the Central Bank of Kenya offered 182 and 364 Days Treasury Bills for a total of Kshs.12 Billion. The total number of bids received was 197 amounting to Kshs. 5.59 Billion representing 93.09% subscription and 88 bids amounting to Kshs.2.68 Billion representing 44.62% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs.5.57 Billion for 182 days and Kshs.2.46 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.533% for the 182-day and 11.004% for 364-day Treasury Bills. *(Central Bank of Kenya, Securities Africa Kenya)*

YIELD CURVE:



(Central Bank of Kenya)

INTERBANK RATE FOR JANUARY:



(Central Bank of Kenya)

Interbank rate has been on a steady rise signalling the liquidity crunch in the market. We anticipate the situation should improve in the coming months with good volumes on liquidity checking into the market.

MOST TRADED BONDS FOR THE WEEK:

Bonds worth KES.11.064bn were traded in the week compared to KES.6.621bn in the previous week. Deals totalling 164 were closed compared to 175 the previous week. Important to note the leading bonds that traded were all benchmark bonds.

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 20 JANUARY , 2017

Issue No.	Coupon (%)	This Week		Average Traded Yield (%)	Total Value (kshs)	No. of Trades
		Highest yield (%)	Lowest yield (%)			
IFB1/2016/15	12.000	13.6000	13.2000	13.4301	3,039,400,000	27
IFB1/2016/9Yr	12.500	13.4000	12.8500	12.9808	1,487,900,000	14
FXD3/2016/2	12.509	12.6000	10.6642	11.9138	1,488,500,000	9
FXD1/2016/10	15.039	13.9936	13.5800	13.6834	906,900,000	4
FXD1/2008/20	13.750	14.0357	13.3062	13.5298	720,650,000	7

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%
FXD2/2016/5	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%

(Nairobi Securities Exchange)

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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