

## FIXED INCOME RESEARCH

21<sup>st</sup> July 2017

Money Market	Latest	Previous
91 day	8.2050	8.2050
182 day	10.308	10.323
364 day	10.887	10.893
Repo Rate	7.9850	8.4770
Inflation Rate	9.2000	11.700
Interbank Rate	7.6020	6.4060
Central Bank Rate	10.0000	10.0000

## Exchange Rates

	Buy	Sell
USD	103.7417	103.9417
GBP	134.5272	134.825
EUR	120.0133	120.2778
ZAR	7.9618	7.9832
KES/UGX	34.5867	34.7498
KES / TZS	21.4928	21.6307

Source: Central Bank of Kenya

## Fixed Income Research

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## 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
	In multiples of Kshs. 50,000
<b>Taxation:</b>	Discount/ Interest is subject to withholding tax at 15%
<b>Commission:</b>	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) Kenya Holds Key Rate After GDP Growth Slows, Inflation Persists**

Kenya's central bank left its key rate unchanged for a fifth straight meeting as East Africa's largest economy expanded at the slowest pace in three years and price growth remains above the target band. The Monetary Policy Committee retained the benchmark rate at 10 percent, Governor Patrick Njoroge said Monday. The decision was in line with five of six economists' estimates in a Bloomberg survey. "Overall inflation is expected to continue to decline over the next few months, supported by lower food and fuel prices," Njoroge said in a statement emailed from the capital, Nairobi. The Central Bank of Kenya, which cut its key rate by 150 basis points last year, targets inflation at 2.5 percent to 7.5 percent. The inflation rate dropped to 9.2 percent in June, the first decline in six months as food-price growth slowed for the first time in more than a year. The economy expanded 4.7 percent in the quarter through March, the slowest rate since 2014, crimped by agriculture's first contraction in eight years. The world's biggest shipper of black tea is experiencing the driest weather in three decades. The country is gearing up for elections on Aug. 8 in which President Uhuru Kenyatta is seeking a second term in a race against former Prime Minister Raila Odinga, who has warned of possible violence if the election is seen as rigged. Kenyan elections heighten investor concerns because of unrest that engulfed the nation in three of the past five votes. While Kenya's shilling is little changed against the dollar this year at 103.90, it's close to an all-time low of 106.75 reached in October 2011. Foreign-currency reserves declined to \$7.9 billion last week from a record \$8.3 billion on April 27.

Pressure may build on the shilling because of the vote, said Faith Atiti, a senior economist at Commercial Bank of Africa. "There have to be measures to manage the volatility other than draining reserves selling dollars," Atiti said by phone from Nairobi. Slowing credit growth and a "rapid pace of disinflation" in June points to slackening economic output and weaker underlying consumer demand, suggesting the economy may be facing serious headwinds, Razia Khan, head of Africa macro research at Standard Chartered Plc in London said. Growth in banks' lending to businesses and individuals slumped to 2.1 percent in the year through to May, Njoroge said. While the market expects a rate cut in November, banks may still be reluctant to lend if a law capping borrowing costs at 400 basis points above the benchmark, is still in place, Khan said. Standard Chartered forecast growth in East Africa's largest economy will slow to 4.5 percent in 2017, from 5.8 percent last year, because of drought, lack of credit and uncertainties around elections. "Government should take steps to mitigate the impact of the banking law," Khan said by phone from London. "Robust growth is further delayed, it's clouding the outlook." (Bloomberg)

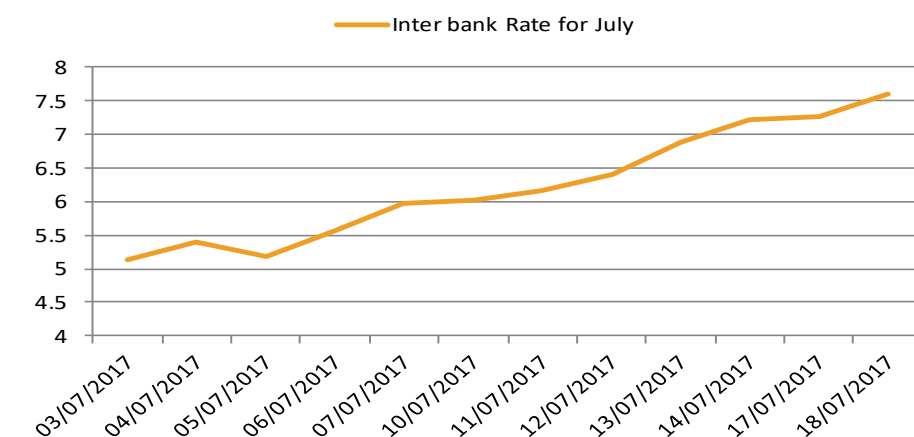
**2) Kenya misses 2016/17 revenue collection target by 9pct** Kenya collected taxes of 1.365 trillion shillings (\$13.15 billion) in the fiscal year that ended last month, setting a new record high but missing the target by 9 percent, the revenue agency said on

Thursday. The data released by the Kenya Revenue Authority (KRA) showed the collection rose 13.8 percent from the previous year but still fell short of the target set by the government of 1.5 trillion shillings. Collections grew across all tax segments, KRA said in a statement. Collections have grown by an average of 14.3 percent over the last five years but infrastructure investment like road construction and a huge public wage bill have ensured there is constant pressure on the government's finances. The commission that oversees salaries in the public sector recommended earlier this month that top officials, including the president, take lower pay, to save 8.5 billion shillings a year. Anger over the high salaries and perks enjoyed by senior government officials, including elected representatives, has become a key issue ahead of a national election on Aug. 8. *(Reuters)*

**3) Kenya central bank assures public as forex reserves drop** Speculators against Kenya's shilling in the run-up to national elections should "chill", and a fall in its foreign exchange reserves is no cause for alarm, the head of its central bank said yesterday. The bank's hard currency reserves dropped to \$7.80 billion - or 5.2 months of imports - last week, and traders said the central bank had sold dollars in the market at least twice since Thursday to support the local currency. "We believe that our (reserves) cover is adequate," Njoroge said, adding that some of the recent pressure on the shilling was due to bets on the outcome of the election, which takes place on August 8. "There is a lot of speculation out there... and frankly some of those speculators need to chill," he told a news conference at the central bank. Elections can be fraught and tense occasions in Kenya. The most recent one in 2013 passed relatively peacefully, but violence following the previous ballot in 2007 killed around 1,200 people. The shilling was little changed yesterday at 103.80 per dollar. Central bank currency reserves reached at record \$8.27 billion at the end of May, central bank data showed. Given the drop since then, traders have expressed concerns about the bank's ability to intervene further to support the shilling should the need arise. The Kenyan currency has been broadly stable against the dollar this year and Njoroge said this trend should continue as inflation eased. He said he expected annual inflation to drop into the government's preferred band of 2.5-7.5 per cent within two months as food prices continued to fall. Headline inflation raced to a five-year high of 11.7 per cent in May following a drought, but it fell to 9.21 per cent last month after rains boosted supplies. *(New Times)*

**TREASURY BILL LATEST RESULTS 2222/91, 2195/182 & 2133/364:** 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. 7.519 Billion and the bids accepted amounted to Kshs. 6.507 Billion. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 8.205% for the 91-day, 10.308% for 182-day and 10.887% for 364-day Treasury Bills. *(Central Bank of Kenya)*

**INTERBANK RATE FOR JULY:**



*(Central Bank of Kenya)*

*The 91 day, 182 day & 364 day Tbills were undersubscribed at 55.61%, 40.04% & 12.90% respectively. The undersubscription could be attributed to the tight liquidity in the market currently.*

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

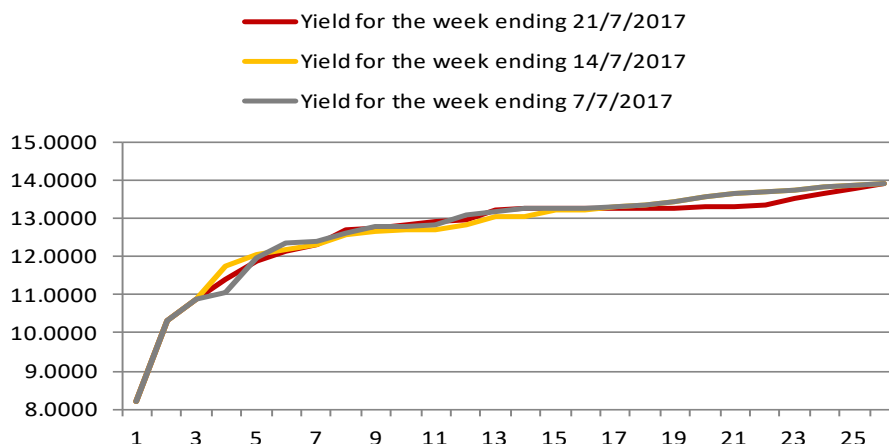
Coupon payments of treasury bonds amounting to KES. 6.213bn will be checking into the market in the month of July.

**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%

**YIELD CURVE:**

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



(Nairobi Securities Exchange)

**EXCHANGE RATE:**

Kenya's central bank sold dollars on Thursday in foreign exchange market to support the shilling, traders said.

Currencies	14-Jul-17	21-Jul-17	Chg YTD
USD/KES	103.8889	103.8417	0.05%
GBP/KES	134.4064	134.6761	-0.20%
EUR/KES	118.5000	120.1456	-1.39%
JPY/KES	91.8020	92.8526	-1.14%
ZAR/KES	7.7276	7.9725	-3.17%
KES/UGX	34.6697	34.6682	0.00%
KES/TZS	21.5530	21.5617	-0.04%
KES/RWF	7.9539	7.9598	-0.07%
KES/BIF	16.6472	16.6797	-0.20%

The Kenyan shilling was stable against the dollar on Friday as demand for dollars by energy importers was counterbalanced by inflows from flower exporters, traders said.

(Reuters)

**MOST TRADED BONDS FOR THE WEEK:**

Bonds worth KES.6.340bn were traded in the week compared to KES. 12.605bn in the previous week. Deals totalling 187 were closed compared to 468 the previous week.

**WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 21 JULY, 2017**

Issue No.	Coupon (%)	This Week			Total Value (kshs)
		Highest yield (%)	Lowest yield (%)	Average Yield (%)	
IFB1/2016/15	12.000	12.6800	11.4800	12.0440	2,387,000,000
FXD2/2007/15	13.500	12.4000	12.2500	12.3250	900,000,000
FXD1/2012/20	12.000	13.3255	13.0000	13.1335	480,000,000
FXD 1/2008/20	13.750	13.2250	12.9061	13.0392	400,600,000
FXD3/2016/5	13.112	12.1821	12.1821	12.1821	400,000,000

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