

FIXED INCOME RESEARCH

23rd December 2016

Money Market	Latest	Previous
91 day	8.561	8.484
182 day	10.493	10.560
364 day	11.024	11.053
Repo Rate	6.2300	6.0000
Inflation Rate	6.6800	6.6800
Interbank Rate	4.9700	4.3353
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	102.2578	102.4578
GBP	126.1378	126.4122
EUR	106.7906	107.0256
ZAR	7.2706	7.2874
KES/UGX	34.8436	35.0096
KES / TZS	21.2087	21.3480

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.comwww.securitiesafrica.com2nd Floor, The Exchange

55 Westlands Road, Nairobi.

P.O. Box 19018-00100,

Nairobi, Kenya.

TAP SALE FOR TREASURY BOND ISSUE FXD3/2016/002:

ISSUE NUMBER:	FXD3/2016/002
Maximum Amount on offer:	KES: 20bn
Purpose:	Budgetary Support
Coupon:	12.509% p.a.
Period of Sale:	20- Dec-2016 to 29-Dec-2016
Offer closing date:	Upon attainment of quantum
Value date:	26-Dec-16 and 2-Jan-2016
Bids Allotment:	First-come- first-served basis
Average Yield Rate:	12.509%
Average Adjusted Price (per 100):	100.234 and 100.468 for respective value dates
Secondary Trading:	20-Dec-16
	In multiples of Kshs. 50,000
Taxation:	Discount/ Interest is subject to withholding tax at 15%
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 on the spot over Kenya's rising long-term debt load

Parliament has put the Treasury on the spot over its increased use of long-term debt, arguing that ignoring short-term loans was putting a heavy burden on future generations. The parliamentary Budget and Appropriation Committee (BAC) says the Treasury has routinely ignored borrowing guidelines amid increased appetite for external public debts. The committee is pushing for a balanced mix of short and long-term loans to enable equitable sharing of debt burden between current and future generations.

"Currently, the burden is disproportionately placed on future generations," the committee chaired by Mutava Musyimi says in its report. "The committee is concerned that its far-reaching recommendations on the budget policy statement are rarely adhered to during the finalisation of budget."

Loans with repayment period of less than five years are categorized as short-term while those above 10 years are long-term. Treasury's preference for long-term debt is informed by the need to keep the regular loan repayments low as Kenya struggles with piling public debt. The country's annual debt repayment is set to hit Sh618.5 billion next year, which will see the Treasury spend an estimated Sh40 out of every Sh100 collected from taxpayers on servicing the ballooning loans.

The repayment bill represents a 38.5 per cent jump from Sh446.4 billion spent on public debt this year compared to a projected 12 per cent growth in tax collection, which is a key indicator of the country's ability to repay. Figures contained in the Division of Revenue Bill show that the State will spend Sh172 billion more to service loans in the financial year beginning July 2017, exerting more pressure on taxpayers who will also finance the General Election.

The government has accelerated borrowing in the past four years to build a modern railway, new roads and electricity plants. Public debt hit Sh3.7 trillion in September, which at an estimated population of 43 million Kenyans, translates to an average burden of Sh86,000 on every Kenyan alive if the loans were all to be settled today. Parliamentary Budget Office, a think tank that advises the BAC budget policy, however, released a report warning that public debt could be much higher than officially stated. *(Business Daily)*

NEWS UPDATE: Fitch Ratings has affirmed Kenya's Long-Term Foreign and Local Currency IDRs at 'B+' with a Negative Outlook. The issue ratings on Kenya's senior unsecured Foreign-Currency bonds have also been affirmed at 'B+'. The Country Ceiling has been affirmed at 'BB-' and the Short-Term Foreign and Local Currency IDRs at 'B'. KEY RATING DRIVERS Kenya's ratings are supported by its strong growth potential and resilience to shocks, favourable business climate and only moderate exposure to

commodity prices. However, its ratings are constrained by its low GDP per capita, sizeable twin budget and current account deficits and rising public and external debt ratios, as well as by political risks. Kenya is starting to make headway in reducing its budget deficit, but it remains substantial and the consolidation path is subject to downside risks. Fitch forecasts a fiscal deficit of 7.1% of GDP for the fiscal year ending June 2017 (FY17), down from 7.5% in FY16 and compared with the original budget target of 9.7%. Nevertheless, this remains well above the 'B' median of 4.2%. The possibility of under-performing tax revenues and increased current expenditures around the August 2017 general elections represent a downside risk, although this is balanced against Kenya's history of under-executing capital expenditures. The deficit this year shrunk on the back of lower crude prices and a reducing capital goods import bill. Kenya's large and persistent fiscal deficits have led to a steady increase in gross general government debt, to 55% of GDP at end-FY16 from 42% at end-FY13. Fitch forecasts it will rise further to 57% at end-FY17, just above the 'B' median of 56%. As a percentage of revenue the debt level is 287%, compared with the 'B' median of 230%. Kenya's debt sustainability will rely on its ability to continue to reduce the primary fiscal deficit and to maintain high levels of economic growth. Kenya has committed to an economic programme that includes increasing government revenues and increasing the efficiency and transparency of expenditures. The programme is supported by an IMF stand-by arrangement and a stand-by credit facility that would make available a combined USD1.5bn in financing should Kenya experience a significant external shock. The medium-term growth outlook remains strong. Public sector spending continues to bolster demand, despite under-executing the capital budget. The Kenyan economy grew by 6.1% in 1H16, as easing drought conditions improved agricultural output and tourism experienced a rebound. Fitch forecasts full year 2016 growth to be 5.8%, owing to decelerating credit growth, and 6% in 2017, but uncertainty around the elections is a downside risk. Consumer price inflation has remained within the central bank's 5+/-2.5% inflation target, supported by the stability of the shilling and lower food and fuel prices. *(Reuters)*

TREASURY BILL LATEST RESULTS 2192/91: 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 178 amounting to Kshs 3.69 Billion, representing a subscription of 92.19%. Total bids accepted amounted to Kshs. 3.69 Billion. The market weighted average rate was 8.561% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.561% up from 8.484% in the previous auction. *(Central Bank of Kenya)*

TREASURY BILL RESULTS 2173/182 and 2101/364: 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 301 amounting to Kshs. 15.84 Billion representing 264.08% subscription and 125 bids amounting to Kshs.2.12 Billion representing 35.27% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs.11.27 Billion for 182 days and Kshs.1.95 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.493% for the 182-day and 11.024% for 364-day Treasury Bills. *(Central Bank of Kenya)*

UPCOMING COUPON PAYMENTS AND MATURITIES:

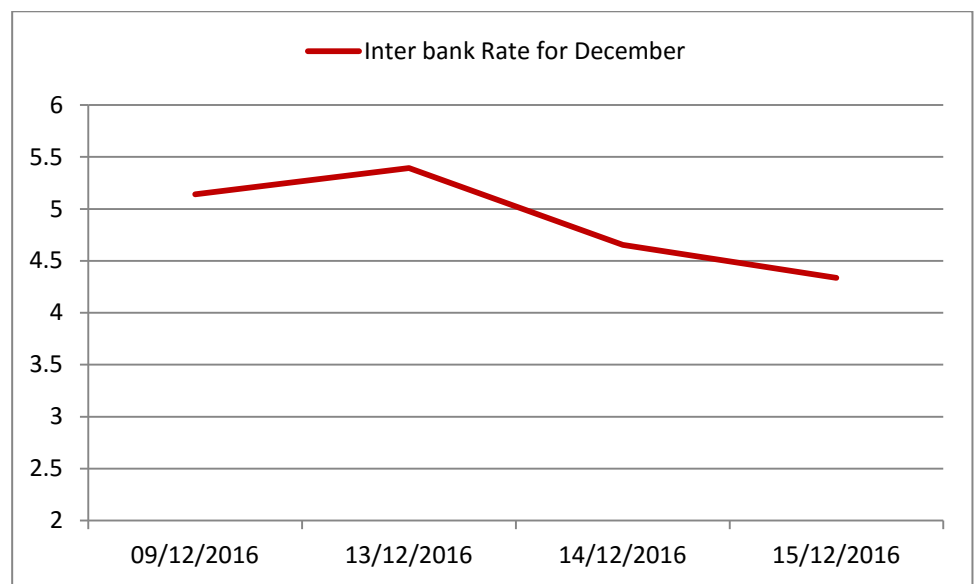
Issue No.	Next Coupon Payment Date	Maturity Date	Maturity (Tenor)	Outstanding Amount Shs'M.	Fixed Coupon Rate
FXD3/2014/2	December 19, 2016	December 19, 2016	10	29,375.70	10.89%
FXD2/2015/2	December 26, 2016	June 26, 2017	199	18,746.80	12.63%
FXD2/2013/5	December 26, 2016	June 25, 2018	563	26,340.05	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	16-Dec-16	23-Dec-16	Chg YTD
USD/KES	102.1861	102.3578	0.17%
GBP/KES	126.9306	126.275	-0.52%
EUR/KES	106.5619	106.9081	0.32%
JPY/KES	86.5141	86.8801	0.42%
ZAR/KES	7.3173	7.279	-0.53%
KES/UGX	35.181	34.9266	-0.73%
KES/TZS	21.3435	21.2784	-0.31%
KES/RWF	7.965	8.1412	2.16%
KES/BIF	16.4875	16.3624	-0.76%

(Central Bank of Kenya, Securities Africa Kenya)

INTERBANK RATE FOR DECEMBER:



(Central Bank of Kenya)

Disclosures Appendix

This Publication is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of any jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject Securities Africa Kenya Limited, or its subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction. Neither this Publication nor any copy of it may be distributed in any jurisdiction where its distribution may be restricted by law and any persons into whose possession this Publication comes should inform themselves about, and observe, any such restrictions.

The information contained in this Publication or on which this Publication is based has been derived from sources believed to be reliable and accurate however no representation or warranty, express or implied, is made as to the fairness, completeness, accuracy, timeliness or otherwise of the information or opinions contained in this Publication and no reliance should be placed on such information or opinions. The information contained in this Publication has not been independently verified by Securities Africa Kenya Limited. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted as to or in relation to the fairness, completeness, accuracy or timeliness or otherwise of this Publication or as to the reasonableness of any assumption contained, nor for errors of fact or omission or for any opinion expressed in this Publication.

Past performance should not be taken as an indication of future performance, and no representation of any kind is made as to future performance. The information, opinions and estimates contained in this Publication are provided as at the date of this Publication and are subject to change without notice. Distribution of this Publication does not constitute a representation, express or implied, by Securities Africa Kenya Limited, or its advisers, affiliates, officials, directors, employees or representatives (the "Parties") that the information contained in the Publication will be updated at any time after the date of the Publication. The Parties expressly do not undertake to advise you of any information coming to any or all of their attention.

Any opinions expressed in this Publication may differ or be contrary to opinions expressed by other business areas or groups of Securities Africa Kenya Limited as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results.

All projections and forecasts in this Publication are illustrative only. The actual results may be materially affected by changes in economic or other circumstances, which cannot be foreseen. No representation or warranty is made by any of the Parties as to the achievability or reasonableness of any projection or forecast contained in this Publication.

This publication is provided to you for information purposes only on the understanding that Securities Africa Kenya Limited is not acting in a fiduciary capacity. It does not address specific investment objectives or financial situations, and any investments discussed may not be suitable for all investors. Prospective investors must make their own examination and evaluation of the merits and risks involved in the securities set out in this Publication including any legal, taxation, financial and other consequences of investment and should not treat the contents as advice relating to legal, taxation or other matters.

This report is not to be relied upon in the substitution of independent judgment with respect to any investment decision. Investors should consider this Publication as only a single factor in making their investment decision, and as such, the Publication should not be viewed as identifying all risks, direct or indirect, that may be associated with any investment decision.

Foreign currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk.

Securities Africa Kenya Limited conducts designated investment business only with eligible counterparties and professional clients. To the extent permitted by law and regulation, Securities Africa Kenya Limited accepts no liability whatsoever for any loss howsoever arising, directly or indirectly, from any use of this Publication or its contents or otherwise arising in connection with that. This Publication is not intended for distribution to retail clients.

By receiving this Publication, the recipient agrees to keep confidential the information contained in this Publication together with any additional information made available following further inquiries. None of the material, nor its content, nor any copy of it, may be altered in any way, disclosed, published, reproduced or distributed to any other party, in whole or in part, at any time, without the prior written permission of Securities Africa Kenya Limited.

Nothing in this Publication constitutes or forms part of, and should not be construed as, an offer for sale or subscription of, or solicitation of any offer to buy, sell or subscribe for, the securities of the Company, nor should it or any part of, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Securities Africa Kenya Limited and/or its associates and/or any of their respective clients may have acted upon the information or opinions in this Publication prior to your receipt of it. Securities Africa Kenya Limited and/or its associates may provide investment banking services to the Company and in that capacity may have received confidential information relevant to the securities mentioned in this Publication which is not known to the researchers who have compiled this Publication.

Securities Africa Kenya Limited and/or its associates and/or their officers, directors, employees or representatives may from time to time purchase, subscribe for, add to, dispose of or have positions or options in or warrants in or rights to or interests in the securities of the Company or any of its associated companies mentioned in this Publication (or may have done so before publication of this Publication) or may make a market or act as principal or agent in any transactions in such securities.

This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors (or, in the case of the United States, major US institutional investors as defined in Rule 15a-6 of the US Securities Exchange Act of 1934) and dealers in securities and must not be copied, published or reproduced or redistributed (in whole or in part) by any recipient for any purpose.

English law governs the issue, publication and terms of this Publication and any disputes arising in relation to any of them will be subject to the exclusive jurisdiction of the English courts.

By accepting this Publication, you agree to be bound by the foregoing limitations. No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of Securities Africa Kenya Limited.

