

FIXED INCOME RESEARCH

23rd June 2017

Money Market	Latest	Previous
91 day	8.3100	8.3710
182 day	10.314	10.301
364 day	10.868	10.863
Repo Rate	4.7500	6.1800
Inflation Rate	11.700	11.480
Interbank Rate	5.7478	2.5997
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	103.5311	103.7256
GBP	131.0811	131.3572
EUR	115.5128	115.7572
ZAR	7.9441	7.9620
KES/UGX	34.5334	34.6949
KES / TZS	21.5183	21.6553

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.

ECONOMIC UPDATE: TREASURY BOND AUCTION RESULTS FOR JUNE**ISSUE NUMBER:** FXD2/2007/15

Amount on offer: KES: 30bn

Coupon: (4.96 years) 13.500%

Market Weighted Average Rate 12.651%

Weighted Average Rate of Accepted Bids 12.520 %

Total bids received: 39,073.20

Amount Accepted: 26,409.89

Auction date: 21-Jun-17

Results: 22-Jun-17

Value date: 26-Jun-17

Redemption date: 6-Jun-22

Secondary Trading: 27-Jun-17

In multiples of Kshs. 50,000

Commission: Licensing placing agents will be paid commission at the 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.

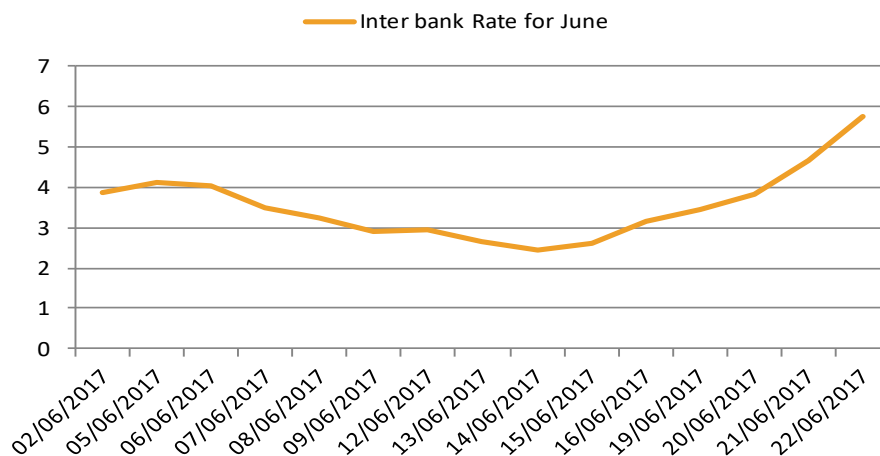
NEWS UPDATE: IMF warns Kenya of loopholes in Islamic banking regulation The International Monetary Fund (IMF) has warned that the rapid growth of Islamic finance in Kenya is happening without adequate protection of depositors as is the case with conventional banking. The IMF says in a newly released report that Kenya is yet to refine its prudential regulations to cater for Islamic banking despite the fact that the Shariah banks are offering loan products that are collateralised differently from conventional bank loans. "The legal framework exhibits some gaps, prudential frameworks have not been adapted to the specificities of Islamic banking and there are also remaining gaps in the Shariah governance framework, consumer protection framework, liquidity management, resolution and safety nets," says the IMF report. Kenya is also yet to come up with a Shariah-compliant deposit insurance scheme and is continuing to manage deposit insurance premiums in a single pool for all banks — a situation that could complicate compensation of depositors in the event a bank offering conventional and Islamic products collapses, the IMF warns. Banks with Islamic windows are also not segregating Islamic deposits from other funds, says the IMF. "The legal framework could benefit from further amendments to clarify permissible contracts and segregation laws to minimise risks of comingling funds that can weaken Shariah compliance and public confidence," the report says. Kenya, the IMF says, should seek to bring clarity to the grey areas in Islamic finance as it drafts amendments to the banking law as promised in the 2017/18 budget.

Yesterday, President Uhuru Kenyatta signed into law some of the proposed amendments, including a refinement of the Stamp Duty Act to provide for tax neutrality of Islamic financial products to enable them compete with similar conventional products in Kenyan market. The Sacco Societies Act has also been amended to legally entrench Islamic saccos. But the IMF report appears to be proposing wider and deeper banking sector reforms, citing banks as the dominant players in Kenya's emerging Islamic finance market ahead of insurance and investment firms. Kenya has three pure Islamic banks, Gulf African Bank, First Community Bank and Dubai Islamic Bank, besides 11 other lenders offering a mix of conventional and Islamic banking products. Islamic banks have chalked up a significant amount of assets led by Gulf African Bank with assets worth Sh26.2 billion as at March 2017 and First Community with Sh15.5 billion. There is still no data for Dubai Islamic Bank, which was licensed to operate in Kenya in April. By end of March, Gulf and First Community had loan books worth Sh15.7 billion and Sh10.5 billion respectively. Islamic law prohibits charging or earning of interest (riba) by both bank and customer, instead allowing them to share profit and loss. Islamic banks therefore enter into specialised contracts with customers, the most common being a trade finance agreement where the bank

purchases goods from a supplier on behalf of the borrower, sells them on to the borrower at an agreed mark-up, with the profit margin being shared between them as payments are made in instalments. There is no law, however, preventing a conventional bank that offers Islamic products from using deposits from non-Islamic customers to service Shariah borrowers. Currently, the IMF says, the Kenyan banking laws do not allow banks to trade in goods, meaning that Islamic banks have had to get exemptions in order to execute such contracts. The exemptions are renewable every five years. "The law or regulations, however, do not provide adequate guidance on the Islamic contracts acceptable in Kenya," says the IMF. The IMF also warns of numerous shortcomings in the corporate governance of Islamic banks, pointing to the lack of a national supervisory board to oversee bank-based Shariah supervisory boards (SSBs). Besides, there is no requirement in law compelling banks offering Islamic products to appoint independent board of directors to look after the interests of Islamic account holders. The SSBs, whose role is mainly to check the Shariah compliance of a bank's products, are subordinate to an Islamic bank's board of directors through whom they report to shareholders. The government has also been eyeing Islamic financing for infrastructure products, through a Sukuk bond. *(Business Daily)*

TREASURY BILL LATEST RESULTS 2218, 2191/182 /91 & 2129/364: 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. 24.909 Billion and the bids accepted amounted to Kshs.23.706 Billion. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 8.310% for the 91-day, 10.314% for 182-day and 10.868% for 364-day Treasury Bills. *(Central Bank of Kenya)*

INTERBANK RATE FOR JUNE:



(Central Bank of Kenya)

UPCOMING COUPON PAYMENTS FOR JUNE:

Issue No.	Next Coupon Payment Date	Maturity Date	Maturity (Tenor)	Outstanding Amt 'Mn.	Coupon Rate
FXD2/2007/15	June 12, 2017	June 6, 2022	2,005	7,237	13.500%
IFB1/2015/9	June 12, 2017	Dec 2, 2024	2,915	25,120	11.000%
FXD2/2010/15	June 19, 2017	Dec 8, 2025	3,286	13,513	9.000%
FXD1/2010/25	June 19, 2017	May 28, 2035	6,744	20,192	11.250%
FXD1/2008/20	June 19, 2017	June 5, 2028	4,196	29,464	13.750%
FXD1/2012/10	June 19, 2017	June 13, 2022	2,012	35,274	12.705%
FXD2/2014/5	June 19, 2017	June 17, 2019	920	16,418	11.934%
FXD3/2016/2	June 19, 2017	Dec 17, 2018	564	25,478	12.509%
FXD2/2013/5	June 26, 2017	June 25, 2018	563	26,340	11.305%
FXD1/2013/10	June 26, 2017	June 19, 2023	2,383	39,248	12.371%
FXD2/2015/2	June 26, 2017	June 26, 2017	199	18,747	12.629%
FXD1/2015/5	June 26, 2017	June 22, 2020	1,291	30,956	13.193%

The 91 day, 182 day & 364 day Tbills were subscribed at 83.68%, 120.44% & 95.18% respectively. Acceptance rate on the 91 day Tbill was with a deficit of KES. 0.675bn, on the 182 day picked a surplus of KES. 1.331bn and the 364 day Tbill was taken up with a deficit of KES. 0.952bn. There is liquidity of upto KES. 0.294bn in rejection from this week's T-bill auctions.

Interbank rate has been on a lowering trend in the month. It however was seen rising in the week as a result of corporate tax remittance for the quarter as well as dividends payments.

Coupon payments and maturity on FXD2/2015/2 of treasury bonds amounting to KES. 17.595bn will be checking into the market in the month of June.

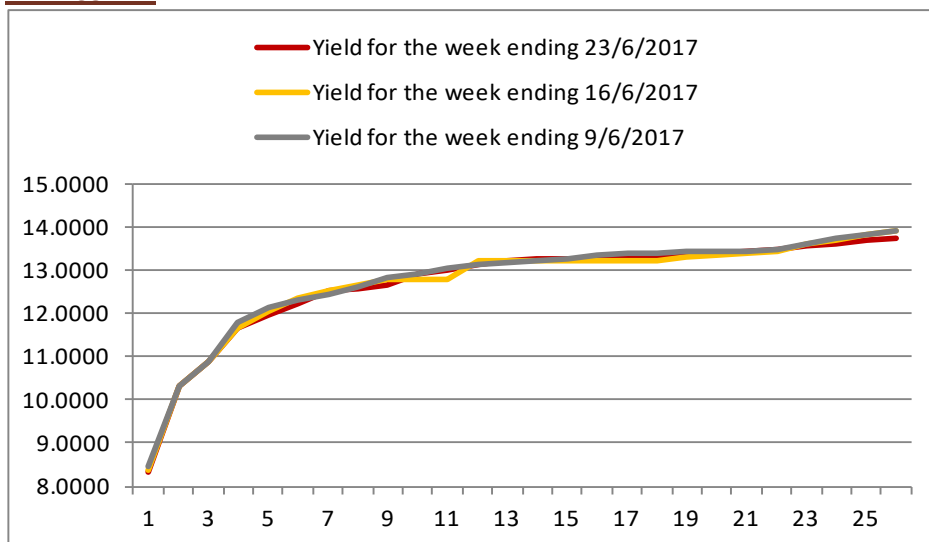
EXCHANGE RATE:

Currencies	16-Jun-17	23-Jun-17	Chg YTD
USD/KES	103.5547	103.6283	-0.07%
GBP/KES	132.0422	131.2192	0.62%
EUR/KES	115.4964	115.635	-0.12%
JPY/KES	94.4843	93.1533	1.41%
ZAR/KES	8.175	7.9531	2.71%
KES/UGX	34.6195	34.6142	0.02%
KES/TZS	21.6118	21.5868	0.12%
KES/RWF	8.0973	7.9564	1.74%
KES/BIF	16.6433	16.649	-0.03%

The Kenyan shilling weakened due to dollar demand from multinational companies paying dividends

The Kenyan shilling was stable against the dollar on Friday but was seen easing due to end-month demand from oil importers, traders said. *(Reuters)*

YIELD CURVE:



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

The FTSE Bond Index decreased by 0.02 percent, reflecting marginal increase in secondary market yields.

(Nairobi Securities exchange)

MOST TRADED BONDS FOR THE WEEK:

Bonds worth KES.9.861bn were traded in the week compared to KES. 10.515bn in the previous week. Deals totalling 218 were closed compared to 199 the previous week.

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 23 JUNE, 2017

Issue No.	Coupon (%)	This Week			Total Value (kshs)
		Highest yield (%)	Lowest yield (%)	Average Traded Yield (%)	
FXD1/2012/10	12.300	12.6000	12.4000	12.4928	1,608,000,000
IFB1/2016/9	12.500	12.3000	11.2500	11.7007	1,025,100,000
FXD1/2016/10	15.039	13.5000	12.7000	13.1667	1,003,000,000
IFB1/2016/15	12.000	12.9000	11.5000	12.1768	979,900,000
IFB1/2014/12	11.000	12.6000	11.3000	11.8384	788,900,000

MONETARY POLICY OPERATIONS:

Liquidity in the money market was fairly tight during the week ending June 21, 2017, largely on account of net issuance of government securities in the primary market. The money market recorded KSh 10.3 billion net liquidity withdrawal during the week under review. The weighted average interbank rate increased marginally to 3.55 percent in the week ending June 21, 2017 from 2.84 percent recorded in the previous week. Reverse repo purchases traded at a marginally higher average rate of 10.03 percent compared to 10.00 percent in the previous week *(Central Bank of Kenya)*

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