

## FIXED INCOME RESEARCH

24<sup>th</sup> February 2017

Money Market	Latest	Previous
91 day	8.6180	8.6310
182 day	10.529	10.524
364 day	10.899	10.939
Repo Rate	9.8800	9.9600
Inflation Rate	6.9900	6.3500
Interbank Rate	6.0165	7.4240
Central Bank Rate	10.0000	10.0000

## Exchange Rates

	Buy	Sell
USD	103.4467	103.6467
GBP	129.3672	129.6572
EUR	109.4244	109.6611
ZAR	8.0323	8.0572
KES/UGX	34.5404	34.7039
KES / TZS	21.5058	21.6343

Source: Central Bank of Kenya

## Fixed Income Research

Christine Gatakaa

[cgatakaa@securitiesafrica.com](mailto:cgatakaa@securitiesafrica.com)

Milkah Gathoni

[mgathoni@securitiesafrica.com](mailto:mgathoni@securitiesafrica.com)

## Head of Fixed Income Trading

Anthony Munyiri

[amunyiri@securitiesafrica.com](mailto:amunyiri@securitiesafrica.com)

Tel: +254 714 646 406

Call Centre: +254 735 571 530

[researchke@securitiesafrica.com](mailto:researchke@securitiesafrica.com)[www.securitiesafrica.com](http://www.securitiesafrica.com)2<sup>nd</sup> Floor, The Exchange

55 Westlands Road, Nairobi.

P.O. Box 19018-00100,

Nairobi, Kenya.

**ECONOMIC UPDATE: Results on IFB1/2017/12 Primary Auction**

<b>ISSUE NUMBER:</b>	<b>IFB1/2017/12</b>
Amount:	KES: 30bn
Purpose:	For partial funding of infrastructure projects in Roads, Energy and Water sectors
Coupon:	12.500%
Total bids received	35,032.63
Amount Accepted	5,997.45
Value date:	27-Feb-17
Redemption date:	12-Feb-29
Auction date:	22-Feb-17
Results:	23-Feb-17
Secondary Trading:	28-Feb-17
Taxation:	In multiples of Kshs. 50,000 The Bond will be tax free as is the case for all Infrastructure Bonds as provided for under the Income Tax Act.
Commission:	of 0.15% of actual sales (at cost) net of 5% withholding tax

**NEWS UPDATE: 1) Treasury rejects costly money with Sh6 billion uptake in latest auction**

The Treasury has continued rejecting expensive money from the domestic debt market even with heavy maturities this month, taking up only Sh6 billion in the latest bond sale. The Central Bank of Kenya (CBK) said in a notice yesterday it had taken up just 17 per cent or Sh6 billion out of the Sh35 billion offered by investors in this month's 12-year infrastructure bond sale, in line with the caution by the governor Patrick Njoroge that offers priced higher than the prevailing yield curve will be rejected.

The government was in the market for Sh30 billion in the bond issue, whose sale came at a time when there is ample liquidity in the money market. Investors bid aggressively, asking for a weighted average rate of 14.05 per cent. The CBK was, however, contented to take up only a fraction of that at an average rate of 13.55 per cent.

Analysts said the Treasury had the option of taking up a small amount of bids at a lower rate, then issuing a tap sale which would automatically be priced at the accepted yield. "Current infrastructure bonds in the market with similar tenors are trading between 13.3 per cent and 13.5 per cent.

However, should bidders be overly aggressive, they run the risk of the Treasury accepting a small amount and opening a tap-sale soon after which dictates the accepted bidding rate," said NIC Securities in a note on the infrastructure bond.

This result means that the government has only raised the Sh6 billion from the two bond offers worth a total of Sh60 billion issued this year, having rejected all bids in January's Sh30 billion 15-year re-opened issue. Investors were always likely to bid high in light of the heavy government securities maturities of Sh108 billion this month, coupled with the governments need to finance its gaping budget deficit. The government is also behind on its domestic borrowing target as a result of the heavy maturities.

"The net domestic borrowing target for the fiscal year is projected at Sh236.1 billion. We believe in the first eight months of the year approximately Sh740 billion has been raised against maturities of Sh646 billion...resulting in a new borrowing of Sh93.9

billion indicating that the Treasury has raised 40 per cent of their budgeted target," said Kestrel Capital in a debt market update.

Although the bond failed to realise the intended amount, the government was able to raise above target funds in Treasury bill sales this week. The CBK took up a total of Sh20 billion from the Sh12 billion worth of 182-day and 364-day offers out of total bids of Sh25.8 billion.

Investors overwhelmingly opted for the six-month paper, putting up 327 bids totalling Sh24.75 billion, while the one-year attracted 89 bids worth Sh1.06 billion. The rate on the six month paper remained flat at 10.52 per cent, while that of the 364-day paper fell slightly to 10.89 per cent from 10.93 per cent last week.

With the converged rates, investors opt for the shorter term paper because its risk weighted return is higher, especially when there is uncertainty over the interest rate environment. *(Business Daily)*

**TREASURY BILL LATEST RESULTS 2201/91:** 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 187 amounting to Kshs 3.85 Billion, representing a subscription of 96.17%. Total bids accepted amounted to Kshs. 1.78 Billion. The market weighted average rate was 8.705% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.618% down from 8.631% in the previous auction. *(Central Bank of Kenya)*

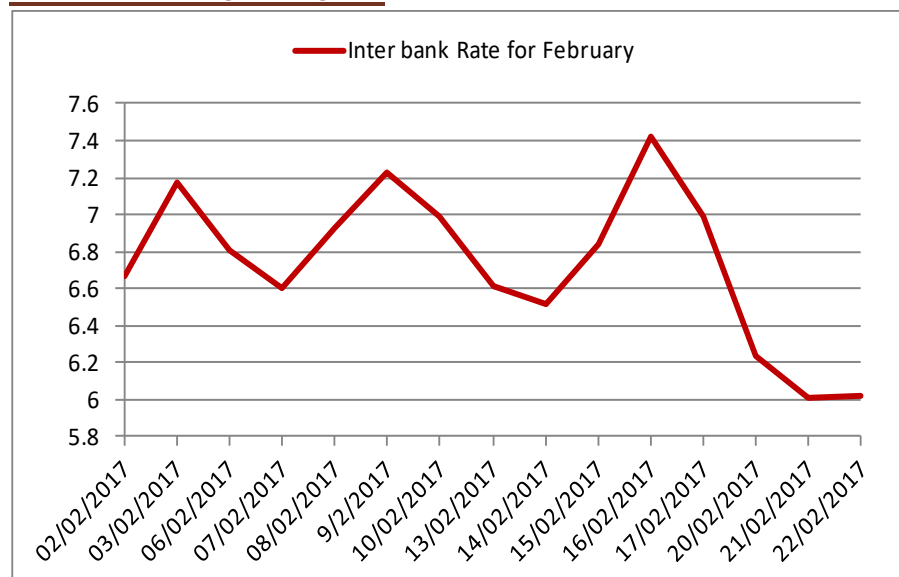
**The 182 day Tbill was oversubscribed by 412.48% and 364 day Tbills undersubscribed at 14.74%. The 182 day had a high subscription as well as acceptance level with KES.5.1bn only going to rejection. The CBK picked the bids with an excess of KES.13.65bn. This is over double the amount the CBK was bidding on the 182 day Tbill. CBK has been mopping up the excess liquidity through Term Auction Deposits( TADs)**

**Interbank rate has been showing mixed trends in the month.**

**We anticipate in the month of February and March for liquidity to ease greatly in the market. There will be coupon payments and maturities worth KES. 106.0 bn in the month of February and KES. 91.5 bn in the month of March that is expected to check into the market.**

**TREASURY BILL RESULTS 2182/182 & 2111/364:** 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 327 amounting to Kshs. 24.75 Billion representing 412.48% subscription and 89 bids amounting to Kshs.1.06 Billion representing 17.74% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs. 19.65 Billion for 182 days and Kshs. 1.06 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.529% for the 182-day and 10.899% for 364-day Treasury Bills. *(Central Bank of Kenya, Securities Africa Kenya)*

#### **INTERBANK RATE FOR FEBRUARY:**



*(Central Bank of Kenya)*

**EXCHANGE RATE:**

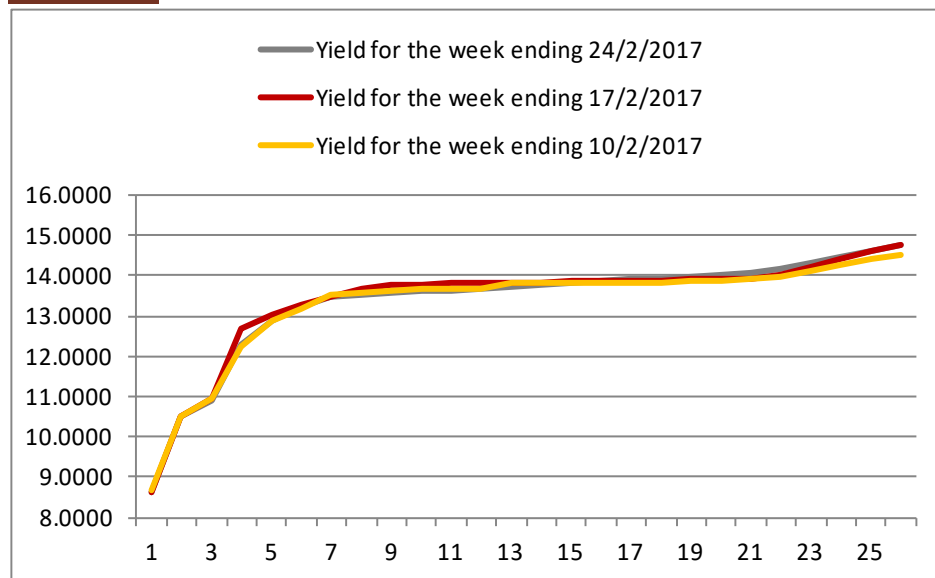
Currencies	17-Feb-17	24-Feb-17	Chg YTD
USD/KES	103.6514	103.5467	0.10%
GBP/KES	129.57	129.5122	0.04%
EUR/KES	110.5414	109.5428	0.90%
JPY/KES	91.3993	91.8252	-0.47%
ZAR/KES	7.9757	8.0447	-0.87%
KES/UGX	34.5872	34.6221	-0.10%
KES/TZS	21.5483	21.5700	-0.10%
KES/RWF	7.8954	7.9088	-0.17%
KES/BIF	16.382	16.4147	-0.20%

(Central Bank of Kenya)

The Kenya Shilling showed strengthening trends against most international and local currencies illustrated.

The Kenyan shilling was stable against the dollar on Friday, underpinned by foreign exchange inflows from charities weighing against less-than-expected demand from oil importers. (Reuters)

**YIELD CURVE:**



(Nairobi Securities Exchange)

Yields remained slightly unchanged in the past week compared to the previous week with a lot of activity been seen on the IFB papers as investors set their sights on the just concluded IFB1/2017/12 auction.

**MOST TRADED BONDS FOR THE WEEK:**

**WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 24 FEBRUARY, 2017**

Issue No.	Coupon (%)	This Week		Average	Total Value (kshs)
		Highest yield (%)	Lowest yield (%)	Traded Yield (%)	
IFB1/2016/9	12.500	13.4584	12.5632	13.2490	1,522,800,000
IFB1/2016/15	12.000	14.0000	13.0000	13.6823	1,075,500,000
FXD1/2008/20	13.750	14.3000	13.6500	13.9113	700,400,000
IFB1/2015/9	11.000	15.0105	12.2700	13.2846	462,000,000
FXD1/2016/20	14.000	13.9400	13.7557	13.8104	404,000,000

Bonds worth KES.5.069bn were traded in the week compared to KES. 3.911bn in the previous week. Deals totalling 95 were closed compared to 95 the previous week.

**MONETARY POLICY OPERATIONS:**

Liquidity in the money market was relatively tight during the week ending February 22, 2017, largely on account of sale of repo securities to stabilize the money market. The Central Bank's open market operations resulted in a net liquidity reduction of KSh 7.7 billion (Central Bank of Kenya)

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