FIXED INCOME RESEARCH

27th January 2017

Money Market	Latest	Previous
91 day	8.6620	8.6610
182 day	10.535	10.533
364 day	10.919	11.004
Repo Rate	6.2300	6.2300
Inflation Rate	6.3500	6.6800
Interbank Rate	7.1916	9.2195
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	103.8639	104.0639
GBP	130.6617	130.93
EUR	110.9439	111.1733
ZAR	7.7337	7.7544
KES/UGX	34.4500	34.6126
KES / TZS	21.285	21.4223

Source: Central Bank of Kenya

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ECONOMIC UPDATE: **Kenya cancelled the auction of a re-opened, 15-year Treasury bond** worth up to 30 billion shillings ($288.74 million), the central bank said late on Wednesday. The bank did not give a reason for the cancellation. Traders said this was the first cancellation of a bond auction by the bank in recent years. It cancelled the sale of 364-day Treasury bill at the start of this month, they added. *(Central Bank of Kenya, Reuters)*

NEWS UPDATE: **Kenyan banks Thursday got critical support in their war against interest rate controls** after the International Monetary Fund (IMF) asked the Treasury to remove the caps that came into force last September. The Kenya Bankers Association (KBA) chief executive, Habil Olaka, said capping the cost of loans had sapped energy from banks, slowing down growth as fourth quarter 2016 financial results expected to released next month will show. The IMF said in its note on Kenya that the controls pose a risk to financial stability in East Africa's biggest economy and had slowed Kenya's leadership in the journey of financial inclusion. IMF deputy managing director Tao Zhang said in a statement that the rate caps were likely to reduce access to credit and weigh down economic growth. Parliament passed the law capping interest rates last August despite a spirited attempt by banks, the Treasury and Central Bank of Kenya to stop it. The IMF had also warned against the caps but this is the first time the fund has explicitly called for its removal. "The macroeconomic outlook is overall positive, including robust growth and reduced external imbalances. However, interest rate controls are likely to reduce access to credit, weighing on growth," the Washington-based global financial institution said, adding that interest controls had also complicated monetary policy and threatened the survival of small banks. The IMF said that although the adverse effects of the controls are manageable in the near term they pose a risk to Kenya's financial stability if allowed to persist in the long term. "Therefore, it is essential to remove these controls, while taking steps to prevent predatory lending and increase competition and transparency of the banking sector," said Mr Tao. The note was written after the IMF's executive board completed the first review of Kenya's performance under the standby support programme valued at $1.5 billion (Sh150 billion). Banks have maintained their opposition to the law, which limits interest on loans at four percentage points above the Central Bank Rate (CBR).

Mr Olaka said banks were optimistic that the law will be revised once its full effect becomes clear. "When the impact on the economy becomes clear, then there will be a compelling reason to show all stakeholders that this is not just a banking sector issue but one that affects the wider economy," he said. Fourth quarter financial results for banks are expected to show that the interest rate caps had caused a shift in credit from critical yet risky sectors of the economy to the less productive sectors. "That would be the time for the political side to pick it up and see that they may need to do something for the good of the economy," said Mr Olaka. The IMF said the caps had had a negative effect on transmission of monetary policy, implying that the caps had delayed the establishment of an interest rate corridor — setting the upper and lower limits of the interbank rate aligned to the CBR that would alleviate liquidity problems for smaller banks. Senior Treasury officials did not respond to queries on the IMF note, with calls to the Cabinet Secretary, Henry Rotich, and Principal Secretary Kamau Thugge going unanswered. Financial analysts, however, said that there is unlikely to be much agreement between those opposing the rate cap and its supporters, especially at this stage when banking sector data is still not sufficient to establish the impact of the new law. "There remains strong divergence between proponents for and against the interest rate controls — a good case in point being the proposed introduction of the Banking (Amendment) Bill 2017 seeking to further tighten the interest rate controls rules," said Standard Investment Bank in a brief on the IMF statement. "While private sector credit is currently at a multi-year low, it is still not clear if the dip is solely an outcome of credit rationing by commercial banks due to restrictions imposed when pricing risk or it is being driven by conservatism due to high industry nonperforming loan," the investment bank said in a note to its clients. Kiambu Town

MP Jude Njomo, who authored the legislation, maintained that Parliament was right to cap the rates, judging by its impact on ordinary Kenyans.

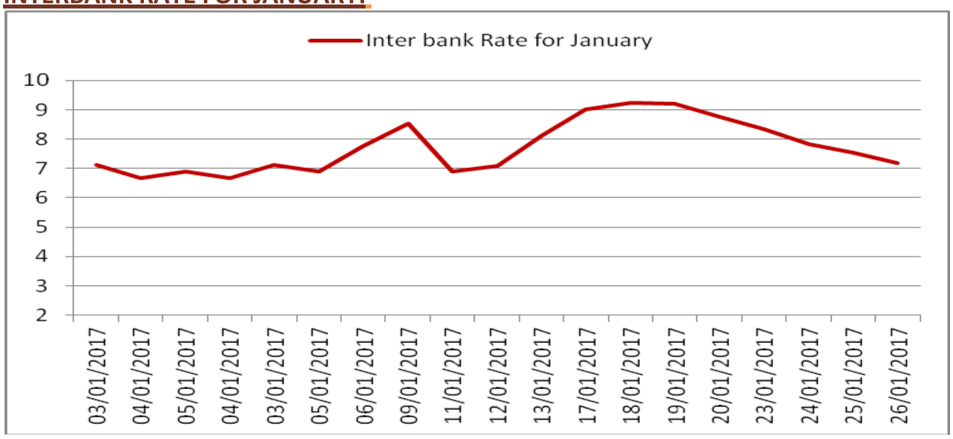
This indicates that any attempt to reverse the rate cap is likely to run into strong political headwinds from Parliament, especially with a General Election looming. "The Kenya National Assembly does not consult the IMF when making laws. They (IMF) may not be happy with the capping, but we can see that Kenyans are happy with it," Mr Njomo said. There are already indications that Parliament is more likely to tighten the interest rate cap rather than relax it, should the proposed Amendment Bill (2017) see the light of day. If passed, banks will, among other things, be required to include all charges related to a loan within the cost of interest charged, which would hit their noninterest earnings. *(Nation)*

TREASURY BILL LATEST RESULTS 2197/91: 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 164 amounting to Kshs 5.84 Billion, representing a subscription of 146%. Total bids accepted amounted to Kshs. 5.56 Billion. The market weighted average rate was 8.770% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.662% up from 8.661% in the previous auction. *(Central Bank of Kenya)*

TREASURY BILL RESULTS 2178/182 & 2107/364: 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 239 amounting to Kshs. 5.08 Billion representing 84.64% subscription and 98 bids amounting to Kshs.1.34 Billion representing 22.33% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs.2.22 Billion for 182 days and Kshs.1.34 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.535% for the 182-day and 10.919% for 364-day Treasury Bills. *(Central Bank of Kenya, Securities Africa Kenya)*

INTERBANK RATE FOR JANUARY:

Interbank rate has been seen easing in the week as the rate declined smoothly.



(Central Bank of Kenya)

EXCHANGE RATE:

The Kenyan shilling was firm on last week, but traders say it is expected to face pressure in the days ahead as the usual end-of-month demand for dollars picks up.

Currencies	20-Jan-17	27-Jan-17	Chg YTD
USD/KES	103.8778	103.9639	-0.08%
GBP/KES	126.3997	130.7958	-3.48%
EUR/KES	110.2836	111.0586	-0.70%
JPY/KES	90.2853	90.3759	-0.10%
ZAR/KES	7.6804	7.7441	-0.83%
KES/UGX	34.8006	34.5313	0.77%
KES/TZS	21.3713	21.3536	0.08%
KES/RWF	7.9132	7.8559	0.72%
KES/BIF	16.2721	16.2863	-0.09%

There are few coupon payments that have been payed 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.

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)

MOST TRADED BONDS FOR THE WEEK:

Bonds worth KES.7.895bn were traded in the week compared to KES. 11.064bn in the previous week. Deals totalling 216 were closed compared to 164 the previous week. Focus seemed to have switched to the shorter tenure bonds in the week.

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 27 JANUARY , 2017

		This Week		Average	
Issue No.	Coupon (%)	Highest yield (%)	Lowest yield (%)	Traded Yield (%)	Total Value (kshs)
FXD3/2016/2	12.509	12.6500	10.6000	11.6250	1,316,000,000
IFB1/2016/15Yr	12.000	13.5500	12.8189	13.1844	905,000,000
FXD2/2016/2	12.020	12.5139	10.0000	11.2550	790,000,000
FXD1/2016/2	15.760	15.9012	11.0500	13.4302	633,850,000
FXD1/2016/10	15.039	13.8000	13.5300	13.6650	450,000,000

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