

FIXED INCOME RESEARCH

28th July 2017

Money Market	Latest	Previous
91 day	8.2020	8.2050
182 day	10.321	10.308
364 day	10.894	10.887
Repo Rate	7.9850	8.4770
Inflation Rate	9.2000	11.700
Interbank Rate	7.1819	7.6020
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	103.8094	104.0094
GBP	136.3478	136.6494
EUR	121.4189	121.6828
ZAR	8.0011	8.0236
KES/UGX	34.6603	34.8234
KES / TZS	21.4788	21.6165

Source: Central Bank of Kenya

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TREASURY BOND RESULTS FOR THE MONTH OF JULY

RESULTS	ISSUE NUMBER:	FXD1/2017/10
Amount on offer:		KES: 30bn
Coupon:		12.966%
Total bids received:		19,043.24
Amount Accepted:		5,190.83
Auction date:		26-Jul-17
Results:		27-Jul-17
Value date:		31-Jul-17
Redemption date:		19-Jul-27
Secondary Trading:		1-Aug-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: 1) Treasury's 30 billion bond falls short by 83pc as bids rejected

Government's domestic borrowing plan for the new financial year kicked off on a low note with the first major Treasury bond auction falling short by a significant 82.7 per cent. The Central Bank of Kenya (CBK), government's fiscal agent, Thursday said it accepted bids worth Sh5.19 billion on Wednesday against the Sh30 billion the Treasury was targeting for the 10-year bond. The CBK received bids worth Sh19.043 billion, a 63.48 per cent subscription, but rejected bids valued at Sh13.85 billion from investors who demanded higher returns. READ: 30-year bond interest about 13 per cent. The Treasury plans to borrow about Sh268.6 billion from the domestic markets to partly bridge the Sh524.6 billion deficit for this financial year's Sh2.29 trillion budget. "I think the Central Bank and GOK (the government) sent the correct signal to the markets: they are not short of cash and will not take money at any price," Nairobi-based investment analyst and chief executive of Rich Management Aly-Khan Satchu said via an email. Accepted bids will attract an average interest of 12.966 per cent, which is 2.694 percentage points lower than the weighted market average rate of 13.325 per cent. (*Business Daily*)

2) Kenya's central bank to hold next rate-setting meeting on Sept. 18

Kenya's central bank said on Thursday its Monetary Policy Committee will meet to set lending rates on Sept.18. At its meeting this month, the bank held its rate at 10.0 percent. (*Central Bank of Kenya*)

3) Large budget deficit 'risks growth, shilling stability'

Kenya's large budget deficit poses a risk to growth and stability the shilling has enjoyed over the past two years as the country borrows more to finance expenditure, a Citi economist has warned. Citi Africa economist David Cowan said the country can ill-afford to run a deficit above seven per cent — as was the case in the last fiscal year at 8.9 per cent — and should instead aim for a deficit below five per cent. Running a large deficit forces the government to borrow more (effectively printing money), which leads to devaluation and in turn starves the private sector of the credit needed to grow the economy. Mr. Cowan gave an example of Ghana and Zambia, where large twin fiscal and current account deficits have slowed down growth and caused massive depreciation of the respective currencies against the dollar. Many African countries eased fiscal policy following the 2008-09 global financial crisis, and are struggling to get it back under control. "Kenya has just about played it right but cannot continue at the current rate. Whoever wins the next election will have to stand up and bring the fiscal deficit under some degree of control," said Mr. Cowan. "If you don't bring it under control it will come back to haunt you. You should be aiming for a fiscal deficit in the order of three to five per cent. Once it starts going above seven per cent it becomes a problem." Domestic debt hits Sh2 trillion end of May. The shilling has so far

The 91 day, 182 day & 364 day Tbills were undersubscribed at 24.10%, 47.52% & 97.81% respectively. The undersubscription could be attributed to the tight liquidity in the market currently. However it should be noted the subscription increased signalling improvement of liquidity in the market.

Interbank rate has been edging up in the month indication of the tight liquidity in the market. It however slightly eases in the week under review.

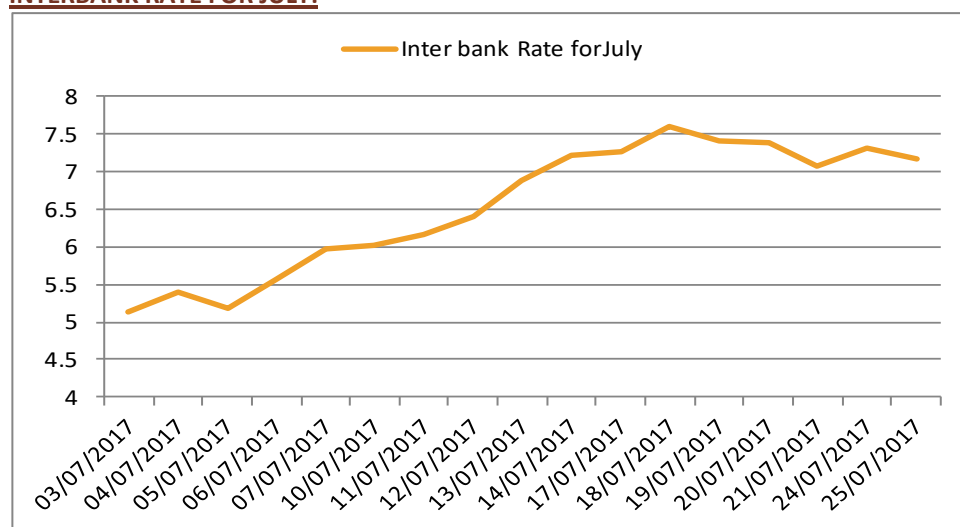
Coupon payments of treasury bonds amounting to KES. 6.213bn will be checking into the market in the month of July.

Yields maintained the lowering trend as they have in the past weeks. They edged up in the short end slightly.

bucked the trend among African currencies by remaining relatively stable against the dollar in the past two years, exchanging in the range of 100 to 105 units. In this year's budget, the government is targeting a fall in the fiscal deficit to the tune of 2.6 percentage points to 6.3 per cent, although going by past example this may be tough to achieve. In the last fiscal year the Treasury had targeted a deficit of 6.9 per cent, which ended up at 8.9 per cent. *(Business Daily)*

TREASURY BILL LATEST RESULTS 2223/91, 2196/182 & 2134/364: 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. 15.496 Billion and the bids accepted amounted to Kshs. 14.639 Billion. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 8.202% for the 91-day, 10.321% for 182-day and 10.894% for 364-day Treasury Bills. *(Central Bank of Kenya)*

INTERBANK RATE FOR JULY:

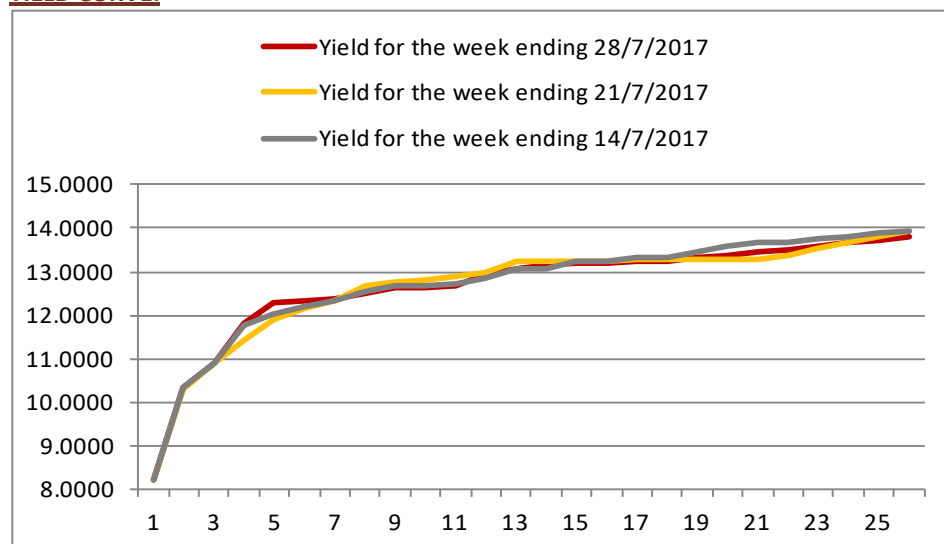


(Central Bank of Kenya)

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:



(Nairobi Securities Exchange)

EXCHANGE RATE:

Currencies	21-Jul-17	28-Jul-17	Chg YTD
USD/KES	103.8417	103.9094	-0.07%
GBP/KES	134.6761	136.4986	-1.35%
EUR/KES	120.1456	121.5508	-1.17%
JPY/KES	92.8526	93.1965	-0.37%
ZAR/KES	7.9725	8.0124	-0.50%
KES/UGX	34.6682	34.7419	-0.21%
KES/TZS	21.5617	21.5477	0.06%
KES/RWF	7.9598	7.9974	-0.47%
KES/BIF	16.6797	16.7023	-0.14%

Kenya's shilling was steady on Thursday due to subdued dollar demand from sectors like energy and manufacturing, traders said.

The Kenyan shilling was broadly stable against the dollar on Friday but was expected to weaken due to a slight rise in demand from oil importers, traders said. *(Reuters)*

MOST TRADED BONDS FOR THE WEEK:

FTSE Bond Index declined by 0.04 percent, reflecting an increase in secondary market yields.

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 28 JULY, 2017

Issue No.	Coupon (%)	This Week			Total Value (kshs)
		Highest yield (%)	Lowest yield (%)	Average Yield (%)	
FXD1/2016/10	15.039	12.8500	12.5068	12.7029	840,000,000
FXD1/2008/20	13.750	13.8000	12.9428	13.3922	612,100,000
FXD1/2012/20	12.000	14.2121	12.5050	13.2295	420,100,000
FXD 1/2008/20	13.750	13.2250	12.9061	13.0392	400,600,000
FXD2/2016/2	12.020	10.9500	10.9500	10.9500	400,000,000

Bonds worth KES.5.160bn were traded in the week compared to KES.6.340bn in the previous week. Deals totalling 141 were closed compared to 187 the previous week.

MONETARY POLICY OPERATIONS:

The money market was relatively liquid during the week ending July 26, 2017, with net liquidity injections through open market operations slightly offsetting net withdrawals largely through tax payment to Government. The weighted average interbank rate was stable at 7.24 percent in the week ending July 26, 2017, compared with 7.28 percent recorded in the previous week. *(Central Bank of Kenya)*

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