

FIXED INCOME RESEARCH

3rd February 2017

Money Market	Latest	Previous
91 day	8.6620	8.6620
182 day	10.551	10.535
364 day	10.940	10.919
Repo Rate	6.2300	6.2300
Inflation Rate	6.9900	6.3500
Interbank Rate	6.6633	7.1916
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	103.7144	103.9144
GBP	129.8394	130.1494
EUR	111.5606	111.8128
ZAR	7.7410	7.7608
KES/UGX	34.4514	34.6143
KES / TZS	21.4600	21.5978

Source: Central Bank of Kenya

Fixed Income Research

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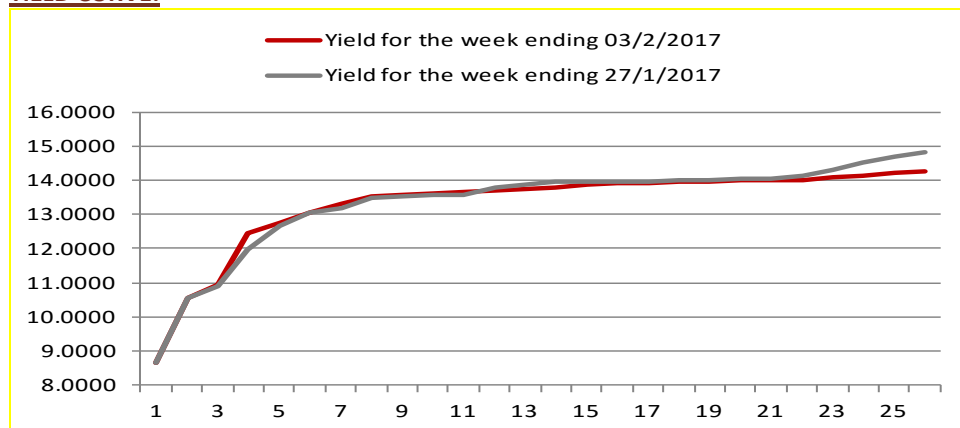
Nairobi, Kenya.

ECONOMIC UPDATE: The overall inflation rate stood at 6.99 per cent in January 2017. Between December 2016 and January 2017, Food and Non-Alcoholic Drinks' Index increased by 1.66 per cent. This was mainly attributed to increases in prices of cabbages, spinach, sukuma wiki, maize flour, wheat flour, and maize grain which were partly contributed by prevailing drought conditions. The year on year food inflation stood at 12.54 per cent in January 2017. Over the same review period, Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 0.33 per cent. This was partly due to increases in cost of electricity, house rents and charcoal which outweighed price decreases in the cost of cooking gas and kerosene. Despite a notable decrease in the cost of diesel, the Transport Index increased by 0.60 per cent in January 2017 compared to December 2016. Similarly, the Education cost Index recorded a month to month inflation rate of 2.28 per cent within the same period. (*Kenya National Bureau of Statistics*)

NEWS UPDATE: 1) The Central Bank of Kenya on Monday retained its policy rate at 10 per cent with inflation expected to remain within its target and the shilling relatively stable to the US dollar. The bank's monetary policy committee (MPC) argued that inflation will stay within the preferred range of between 2.5 per cent and 7.5 per cent while the country's current account deficit has narrowed, easing pressure on the shilling. The base rate retention means the interest rates charged on loans by commercial banks continue to be capped at 14 per cent, in line with State backed banking policy that caps rates at four per cent above the policy rate. "The committee concluded that inflation was expected to remain within the government target range in the short term." However, the committee noted increased uncertainties with regard to the prevailing drought conditions and risks in the global markets," the bank said in a statement. "The MPC therefore decided to retain the Central Bank Rate (CBR) at 10.0 percent in order to anchor inflation expectations." The bank said the improved current account from a deficit of 6.8 per cent in 2015 to 5.5 per cent last was helped by lower import bills for petroleum products, machinery and transport equipment. "Additionally, inflows benefitted from improved horticulture and tea production, higher tourism receipts, and resilient diaspora remittances." The CBK's foreign exchange reserves currently stand at \$6.93 billion (4.5 months of import cover) "which together with the precautionary arrangements with the International Monetary Fund (IMF) continue to provide an adequate buffer against short-term shocks." (*Daily Nation*)

2) Kenyan economic growth is expected to slip to 5.7 percent in 2017 from about 5.9 percent in 2016, the central bank said on Tuesday. Governor Patrick Njoroge did not give reasons for the drop in a news conference but said risks to the outlook came from uncertainty related to Britain's vote last year to leave the European Union and questions about the direction of U.S. policy after the election of President Donald Trump. Economists have said an election later this year in Kenya, which has a history of strife during voting, could also hurt the economic outlook. (*Reuters*)

YIELD CURVE:



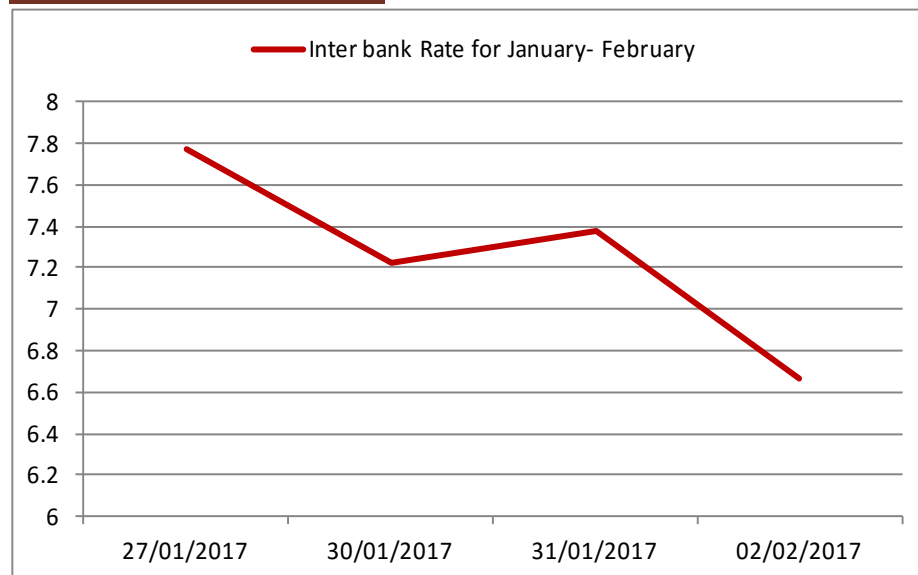
(Nairobi Securities Exchange)

TREASURY BILL LATEST RESULTS 2198/91: 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 191 amounting to Kshs 3.74 Billion, representing a subscription of 93.39%. Total bids accepted amounted to Kshs. 2.63 Billion. The market weighted average rate was 8.715% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.662% same as the weighted average in the previous auction. *(Central Bank of Kenya)*

TREASURY BILL RESULTS 2179/182 & 2108/364: 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 348 amounting to Kshs. 15.34 Billion representing 255.59% subscription and 105 bids amounting to Kshs.7.72 Billion representing 128.64% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs. 15.12 Billion for 182 days and Kshs. 6.06 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.551% for the 182-day and 10.940% for 364-day Treasury Bills. *(Central Bank of Kenya, Securities Africa Kenya)*

The 182 day and 364 day Tbill were oversubscribed by 255.59% and 128.64%. The acceptance rate was high compared to the previous weeks.

INTERBANK RATE FOR FEBRUARY:



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

(Central Bank of Kenya)

EXCHANGE RATE:

Currencies	27-Jan-17	3-Feb-17	Chg YTD
USD/KES	103.9639	103.8144	0.14%
GBP/KES	130.7958	129.9944	0.61%
EUR/KES	111.0586	111.6867	-0.57%
JPY/KES	90.3759	91.8062	-1.58%
ZAR/KES	7.7441	7.7509	-0.09%
KES/UGX	34.5313	34.5328	0.00%
KES/TZS	21.3536	21.5289	-0.82%
KES/RWF	7.8559	8.0628	-2.63%
KES/BIF	16.2863	16.2528	0.21%

(Central Bank of Kenya)

The Kenyan shilling was steady in the week as it showed strengthening trends against most international currencies as well as East African currencies.

The Kenyan shilling was steady against the dollar on Friday, supported by expectations of offshore foreign exchange inflows into local Treasury bonds, traders said. It was seen gaining to major international currencies as well as the illustrated East African currencies in the week under review. *(Reuters)*

UPCOMING COUPON PAYMENTS AND MATURITIES:

Issue No.	Next Coupon Payment Date	Maturity Date	Maturity (Tenor)	Outstanding Amount Shs'M.	Fixed Coupon Rate
FXD1/2015/2	February 20, 2017	February 20, 2017	18	23,592	11.47%
FXD1/2008/10	February 13, 2017	February 12, 2018	375	2,993	10.75%
FXD1/2006/12	February 13, 2017	August 13, 2018	557	3,901	14.00%
FXD1/2016/10	February 27, 2017	August 17, 2026	3,483	18,312	15.04%
FXD1/2013/15	February 20, 2017	February 7, 2028	4,022	42,138	11.25%
SDB1/2011/30	February 20, 2017	January 21, 2041	8,754	28,145	12.00%
IFB1/2010/8Yr	February 20, 2017	February 19, 2018	382	7,132	9.75%
IFB1/2009/12Yr	February 13, 2017	February 8, 2021	1,467	11,244	12.50%
IFB2/2010/9Yr	February 20, 2017	August 19, 2019	928	18,672	6.00%

*(Nairobi Securities Exchange)***MOST TRADED BONDS FOR THE WEEK:****WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING
FRIDAY 03 FEBRUARY , 2017**

Issue No.	Coupon (%)	This Week		Average	Total Value (kshs)
		Highest yield (%)	Lowest yield (%)	Traded Yield (%)	
IFB1/2016/15	12.000	13.5000	13.0065	13.2500	1,083,950,000
FXD1/2016/10	15.039	13.8500	13.3072	13.7293	1,003,100,000
FXD3/2007/15	12.500	13.5500	12.7100	13.1702	939,550,000
FXD1/2016/20	14.000	14.1059	13.8000	13.8277	732,850,000
IFB1/2016/9	12.5000	14.5000	12.5800	13.2264	650,000,000

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.

Bonds worth KES. 6.423bn were traded in the week compared to KES. 7.895bn in the previous week. Deals totalling 306 were closed compared to 216 the previous week.

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