

FIXED INCOME RESEARCH

3rd March 2017

Money Market	Latest	Previous
91 day	8.6280	8.6180
182 day	10.525	10.529
364 day	10.895	10.899
Repo Rate	9.8800	9.9600
Inflation Rate	9.0400	6.9900
Interbank Rate	5.2583	6.0165
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	102.7761	102.9761
GBP	126.0094	126.295
EUR	108.0467	108.2867
ZAR	7.8098	7.8339
KES/UGX	34.8625	35.0276
KES / TZS	21.6458	21.7852

Source: Central Bank of Kenya

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ECONOMIC UPDATE: Results on IFB1/2017/12 TAP Auction

ISSUE NUMBER: TAP SALE	IFB1/2017/12
Amount:	KES: 30bn
Purpose:	For partial funding of infrastructure projects in Roads, Energy and Water sectors
Coupon:	12.500%
Average Yield Rate:	13.555%
Total bids accepted at Face Value:	8.050bn
Total bids accepted at Cost:	7.630bn
Closing Date:	2-March-2017
Value date:	6-March-2017
Bids Allotment:	First come first served basis
Adjusted Average Price (Per KES.100.00)	95.030
Taxation:	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) Kenya's inflation rate jumped in February, data showed on Tuesday, as acute drought drove food costs sharply higher. Inflation rose to 9.04 percent year-on-year - above the government's target range - from 6.99 percent in January, the Kenya National Bureau of Statistics (KNBS) said. Month on month it rose to 1.80 percent from 1.00 percent. KNBS said the food and non-alcoholics drinks index gained 3.28 percent on the month and 16.50 percent on the year, as staples including maize flour, milk and potatoes rose in price. That segment accounts for 36 percent of Kenya's inflation basket. The East African nation is experiencing an acute drought with an estimated 2.7 million people in need of food aid. February's annual reading left inflation well above the medium-term target range of 2.5-7.5 percent. "This is a worryingly high CPI print..., much higher than the market consensus. While this is likely to be food-related, it does create a dilemma for the central bank," Razia Khan, chief economist for Africa at Standard Chartered Bank in London, said in an emailed comment. In late January the central bank held its benchmark lending rate at 10.0 percent, saying inflation was expected to remain within the government's preferred band in the short term. *(Kenya National Bureau of Statistics)*

2) Kenya private sector activity slows down due to drought Activity in Kenya's private sector barely grew last month as slower credit growth and an ongoing drought in the country weighed on output, hiring and sales, a survey showed on Friday. The Markit Stanbic Bank Kenya Purchasing Managers' Index (PMI) dropped to 50.1, a record low since the survey began in January 2014, down from 52.0 in January. A reading above 50.0 marks growth. "The ongoing drought and decline in private sector credit access will inevitably lead to deterioration in business conditions within the Kenyan private sector," said Jibrán Qureishi, regional economist for East Africa at Stanbic. Like other countries in the region, Kenya is experiencing a drought that has hurt farming and left millions in need of food aid. Qureishi said if there is inadequate rainfall from next month, firms will face a tougher situation. "This month's historic low reading is symptomatic of these risks that we are flagging... we may potentially see an entrenched slowdown within the business operating environment," he said. Private sector credit growth, which started weakening at the end of 2015 after the central bank toughened supervision, stood at 4.3 percent in December, the central bank said, far below the double-digit growth rate it considers ideal. Detailed PMI data are only available under licence from Markit and customers need to apply to Markit for a licence. *(Reuters)*

In the upcoming week, the 182 day Tbill has been cancelled; hence the auction will only be on the 91 day Tbill and 364 day Tbill.

The 182 day Tbill was oversubscribed by 402.98% and 364 day Tbills undersubscribed at 57.40%. The 182 day had a high subscription as well as acceptance level with KES.2.85bn only going to rejection. The CBK picked the bids with an excess of KES.15.33bn. 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. But has been steadily dropping in the week.

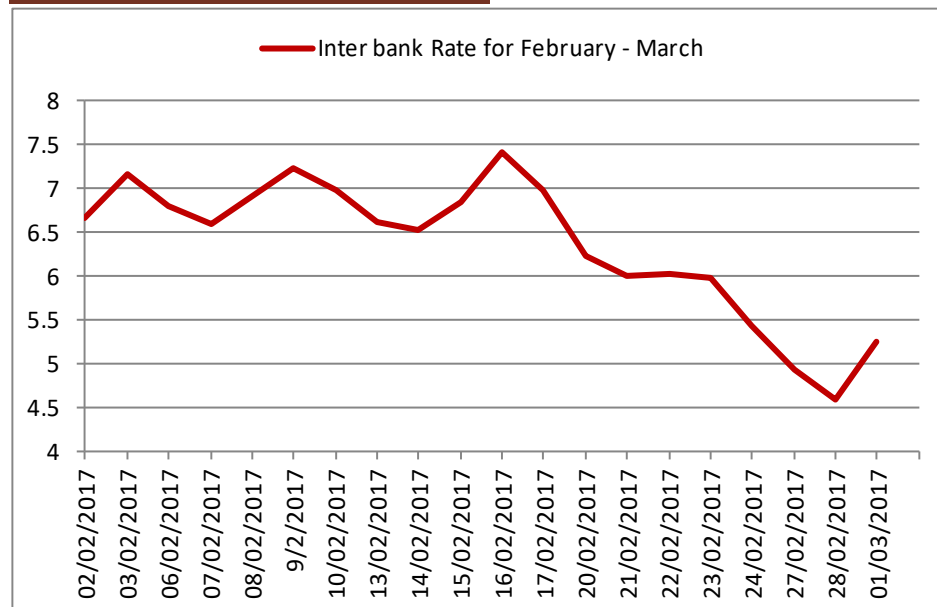
In the month of February there were coupon payments and maturities worth KES. 106.0 bn. We anticipate in the month of March for liquidity to ease greatly as KES. 91.5 bn is expected to check into the market.

The Kenya Shilling gained against all international and local currencies illustrated.

TREASURY BILL LATEST RESULTS 2202/91: 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 162 amounting to Kshs 5.90 Billion, representing a subscription of 147.43%. Total bids accepted amounted to Kshs. 5.85 Billion. The market weighted average rate was 8.629% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.628% up from 8.618% in the previous auction. *(Central Bank of Kenya)*

TREASURY BILL RESULTS 2183/182 & 2112/364: 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 410 amounting to Kshs. 24.18 Billion representing 402.98% subscription and 135 bids amounting to Kshs.3.44 Billion representing 57.40% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs. 21.33 Billion for 182 days and Kshs. 2.81 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.525% for the 182-day and 10.895% for 364-day Treasury Bills. *(Central Bank of Kenya, Securities Africa Kenya)*

INTERBANK RATE FOR FEBRUARY - MARCH:



(Central Bank of Kenya)

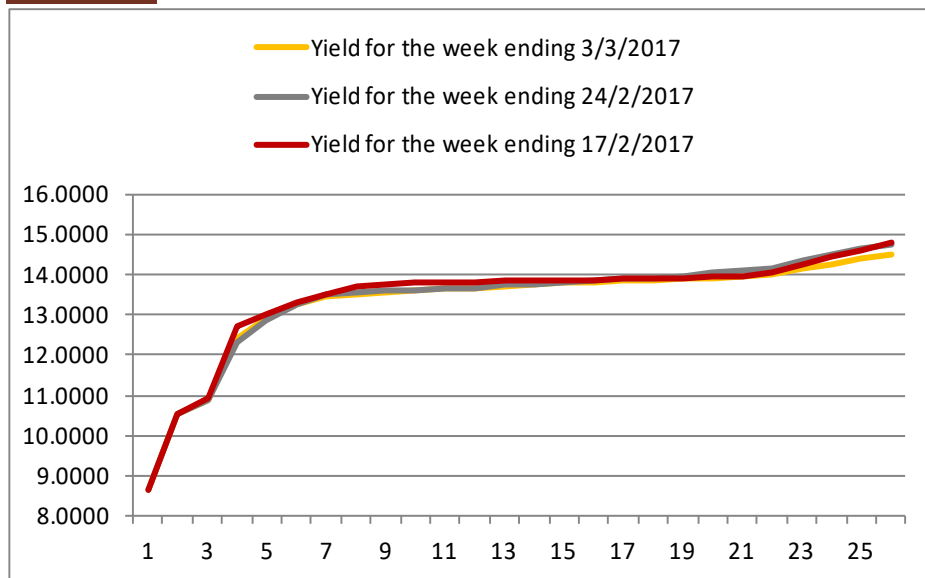
EXCHANGE RATE:

Currencies	24-Feb-17	3-Mar-17	Chg YTD
USD/KES	103.5467	102.8761	0.65%
GBP/KES	129.5122	126.1522	2.59%
EUR/KES	109.5428	108.1667	1.26%
JPY/KES	91.8252	90.0723	1.91%
ZAR/KES	8.0447	7.8219	2.77%
KES/UGX	34.6221	34.9450	-0.93%
KES/TZS	21.5700	21.7155	-0.67%
KES/RWF	7.9088	8.1482	-3.03%
KES/BIF	16.4147	16.4216	-0.04%

(Central Bank of Kenya)

The Kenyan shilling was steady on Friday and traders say it is expected to ease due to dollar demand from oil companies. It was also seen under pressure from oil importer dollar demand but this did not deter its remarkable performance in the week under review. *(Reuters)*

YIELD CURVE:



Yields remained slightly unchanged in the short term as well as mid term, but lowered in the longer tenure papers in the past week compared to the previous week.

MOST TRADED BONDS FOR THE WEEK:

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 3 MARCH , 2017

Issue No.	Coupon (%)	This Week		Average	Total Value (kshs)
		Highest yield (%)	Lowest yield (%)	Traded Yield (%)	
FXD1/2012/5	11.855	9.8000	9.8000	9.8000	1,350,000,000
IFB1/2016/15	12.000	14.0073	13.0280	13.7909	1,350,000,000
FXD1/2016/10	15.039	13.8100	13.4000	13.6596	908,000,000
FXD1/2012/20	12.000	14.4000	13.9250	14.0596	840,000,000
IFB1/2015/9	11.000	13.5000	12.3100	12.8940	612,750,000

(Nairobi Securities Exchange)

Bonds worth KES.8.85bn were traded in the week compared to KES. 5.069bn bn in the previous week. Deals totalling 174 were closed compared to 171 the previous week.

MONETARY POLICY OPERATIONS:

Liquidity in the money market increased during the week ending March 1, 2017, supported by net net repo maturities and government payments. The Central Bank’s open market operations resulted in a net liquidity injection of KSh 10.4 billion. The average interbank rate declined to 5.21 percent in the week ending March 1, 2017 from 6.54 percent in the previous week. *(Central Bank of Kenya)*

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