

## FIXED INCOME RESEARCH

6<sup>th</sup> January 2017

Money Market	Latest	Previous
91 day	8.5520	8.5530
182 day	10.4670	10.4750
364 day	11.0100	11.0240
Repo Rate	6.2300	6.2300
Inflation Rate	6.3500	6.6800
Interbank Rate	6.8827	8.7300
Central Bank Rate	10.0000	10.0000

## Exchange Rates

	Buy	Sell
USD	103.3667	103.5667
GBP	127.1311	127.4089
EUR	107.8839	108.1233
ZAR	7.5726	7.5929
KES/UGX	34.9340	35.0984
KES / TZS	21.0396	21.177

Source: Central Bank of Kenya

## Fixed Income Research

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**NEWS UPDATE: Rotich memo reveals Treasury fears over rising public wage bill.**

Treasury secretary Henry Rotich has stopped fresh recruitment in the public service and announced new measures to curtail spending in a special memo that signals rising fears over the ballooning wage bill must be done in a manner that will not to create a bloated workforce," Mr Rotich said in a telephone interview with the Business Daily. The minister said that recruitment, upgrading of staff and replacement of critical technical staff will be considered on a case by case basis after obtaining the necessary approvals from the Public Service Commission.

Public Finance Management Regulations, 2015, demand that the national government expenditure on compensation to employees does not exceed 35 per cent of its equitable share of revenue. President Uhuru Kenyatta's government has since coming to power in 2013 struggled to contain the wage bill that takes 11 per cent of the gross domestic product (GDP) or 52 per cent of domestic revenues. Total public wage bill stood at Sh568 billion in the last financial year well above the 35 per cent threshold.

In documents submitted to Parliament last month, the Treasury allocated additional Sh26.5 billion for civil servants' salaries and house allowances, making them the biggest winners of the 2017/18 budget.

The Treasury set aside Sh20 billion for the purpose of paying the adjusted basic salaries and Sh6.5 billion for the implementation of the third phase of the civil service house allowance scheme. The new remuneration structure will see junior civil servants earn more as the Salaries and Remuneration Commission's (SRC) moves to bridge the huge wage disparities in the public sector.

"It is better to have a lean workforce and pay them well than have many people who are underpaid," said Mr Rotich. Kenya's labour market has been in turmoil as trade unions push for better pay for members and implementation of collective bargaining agreements signed with the government in the recent past.

In the past four weeks, for instance, government doctors have been on strike, forcing the State to offer them a pay rise package that will cost the exchequer an additional of Sh4 billion annually. The public wage bill has also expanded with the annual recruitment of teachers, doctors and security personnel to replace staff that have retired, died or quit the service. The Teachers Service Commission, which employs about 290,000 teachers, accounted for Sh160 billion, or 36 per cent of Kenya's public wage bill — which has risen from Sh278 billion in 2011.

Ministries, departments and agencies (MDAs) have been asked to curtail growth of their recurrent budgets. Further, accounting officers are required to prioritise proposed programmes within the set budget ceilings. "The government spending should be directed to projects with highest impact on economic growth, poverty reduction and the wellbeing of the citizen. In addition to this, the government spending should be directed to those programmes which the private sector can reasonably carry out," Mr Rotich says in the memo. Mr Rotich has already significantly cut development spending in the current financial year, reducing project spending from Sh817 billion to Sh600 billion.

For subscriptions, contributions and utilities, the minister said the MDAs are required to provide a list of the obligations, including international subscriptions, payments and all other international obligations with their realistic costing and allocation while discussing the budget. Debt repayments alongside the ever-increasing wage bill, the Treasury has grappled with growing debt repayments.

This year, for instance, the government is expected to spend Sh618.5 billion on public debt servicing, or approximately 40 per cent of tax revenues. In a repayment bill presented in Parliament late last year, there was a 38.5 per cent increment in the amount to be spent on public debt from Sh446.4 billion to Sh618.5 billion. This projected rise did not match the expected 12 per cent growth in tax collection. The tight fiscal space has already had an impact on development spending which by end of September 2016 had consumed only Sh41.8 billion against the annual budget of Sh416 billion. (*Business Daily, Treasury*)

*Appetite for short term government debt remained low as investors were yet to fully return to the market. This was however a slight improvement from the previous week where the 364 day auction had to be cancelled. This could be attributed to the slow start to the year as investors are still reassessing their position factoring in the expectations for this year. Treasury bill auctions can be cancelled when investors fail to bid or when they demand yields that the government considers too high.*

*The Shilling has weakened greatly due to greater demand. The CBK this week sold dollars in an aim to support the shilling.*

**TREASURY BILL LATEST RESULTS 2194/91:** 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 Kshs3.47 Billion, representing a subscription of 86.79%. Total bids accepted amounted to Kshs. 3.45 Billion. The market weighted average rate was 8.555% and the weighted average of accepted bids which will be applied for non-competitive bids was 8.552% down from 8.553% in the previous auction. *(Central Bank of Kenya)*

**TREASURY BILL RESULTS 2175/182 & 2104/364:** 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 150 amounting to Kshs. 2.41 Billion representing 40.18% subscription and 82 bids amounting to Kshs.3.85 Billion representing 64.16% subscription for 182 and 364 days, respectively. Bids accepted amounted to Kshs.1.94 Billion for 182 days and Kshs.3.35 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 10.467% for the 182-day and 11.010% for 364-day Treasury Bills. *(Central Bank of Kenya)*

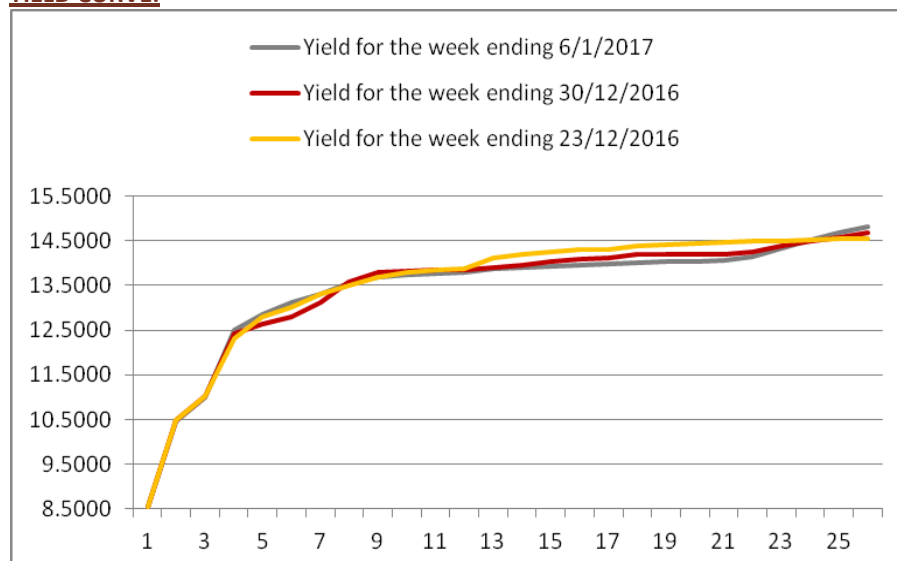
**EXCHANGE RATE:**

Currencies	30-Dec-16	6-Jan-17	Chg YTD
USD/KES	102.4858	103.4667	-0.96%
GBP/KES	125.4178	127.27	-1.48%
EUR/KES	107.0606	108.0036	-0.88%
JPY/KES	87.0627	88.2295	-1.34%
ZAR/KES	7.3869	7.5828	-2.65%
KES/UGX	35.2732	35.0162	0.73%
KES/TZS	21.2518	21.1083	0.68%
KES/RWF	7.9555	7.8828	0.91%
KES/BIF	16.3468	16.1965	0.92%

*(Central Bank of Kenya, Securities Africa Kenya)*

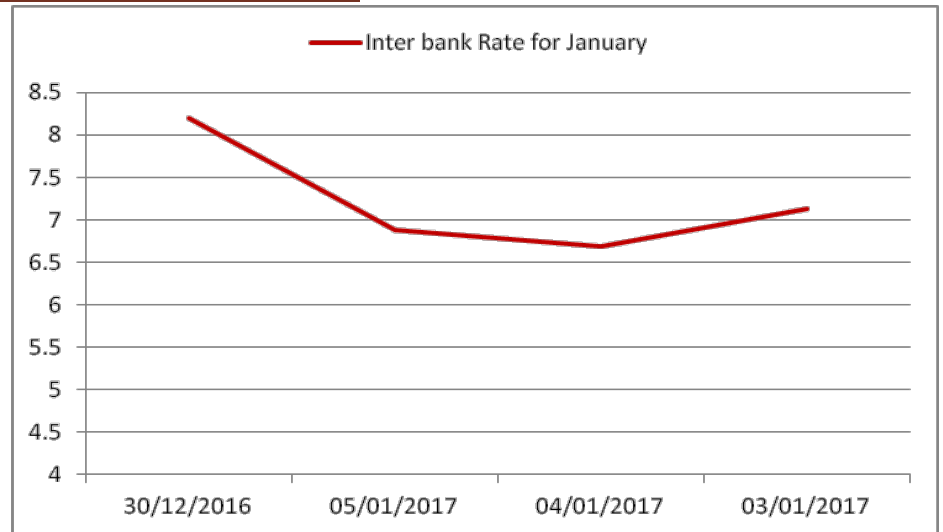
The Kenyan shilling weakened against the dollar to touch a 15-month low of 103.60/80 against the dollar on Thursday mainly due to a surge in demand by oil importers and multinational companies. The central bank stepped in to sell dollars after the fall, helping the currency to pare some of the gains, currency traders said.

**YIELD CURVE:**



*(Central Bank of Kenya)*

**INTERBANK RATE FOR JANUARY:**



(Central Bank of Kenya)

**MOST TRADED BONDS FOR THE WEEK:**

**WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 06 JANUARY, 2017**

Issue No	Coupon	High Yield	Low Yield	Avg Yield	Total Value	No. of trades
IFB1/2016/15	12.000	13.1500	12.6244	12.8872	820,000,000	5
FXD1/2012/10	12.300	13.5000	13.5000	13.5000	600,000,000	3
FXD1/2008/20	13.750	13.7000	13.7000	13.7000	300,000,000	1
IFB1/2016/9	12.500	13.1500	13.0000	13.0750	242,350,000	3
FXD1/2016/10	15.039	13.8900	13.7063	13.7982	200,000,000	2

(Nairobi Securities Exchange)

**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%
FXD2/2008/10	January 16, 2017	July 16, 2018	556	13,505	10.75%
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%

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