FIXED INCOME RESEARCH

7th April 2017

Money Market	Latest	Previous
91 day	8.7690	8.7560
182 day	10.525	10.525
364 day	10.925	10.919
Repo Rate	5.3800	6.0000
Inflation Rate	9.0400	6.9900
Interbank Rate	3.8835	4.3351
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	103.3372	103.5372
GBP	128.9589	129.2378
EUR	110.1539	110.3956
ZAR	7.4820	7.4992
KES/UGX	34.9150	35.0793
KES / TZS	21.5188	21.6572

Source: Central Bank of Kenya

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ECONOMIC UPDATE:

REOPENING:	**FXD3/2008/010 & FXD1/2009/010**
Amount on offer:	KES: 30bn
Purpose:	Budgetary Support
Coupon: FXD3/2008/010	10.750% (1.40 years)
:FXD1/2009/010	10.750% (1.98 years)
Period of Sale:	10-Apr-17
Offer Closing Date:	18-Apr-17
Auction date:	19-Apr-17
Results:	20-Apr-17
Value date:	24-Apr-17
Redemption: FXD3/2008/010	17-Sep-18
: FXD1/2009/010	15_Apr-19
Secondary Trading:	25-Apr-17
	In multiples of Kshs. 50,000
Taxation:	Discount/Interest is subject to withholding tax at a rate of 15% for both bonds.
Commission:	Licensing placing agents will be paid commission at the rate of 0.15% of actual sales (at cost) net of 5% withholding tax

NEWS UPDATE: **1) Kenya finance minister expects steady growth ahead of election** Kenya's Finance Minister Henry Rotich said on Thursday he expected steady economic growth for the next fiscal year as he presented the country's last budget before a national election in August. Growth is expected to be 5.9 percent in 2017, the same rate of expansion in the first three quarters of last year, he said. "But growth could be lower if the ongoing drought persists and the slowdown in private sector credit is not reversed," Rotich warned. East Africa has been suffering from severe drought and aid groups say 2.7 million Kenyans need food aid. Rotich set the fiscal deficit at 524.6 billion shillings ($5.10 billion) or 6 percent of the gross domestic product, down from 9.0 percent in the current fiscal year, he said. Rotich increased expenditure and net lending up to 2.29 trillion shillings this year, up from 2.27 trillion in last year's budget. He set aside billions for infrastructure including railways and new roads, and increased welfare payments for senior citizens. "The net external financing will amount to 256 billion or 2.9 percent of GDP and will be mainly on concessional terms," Rotich told lawmakers. The balance, 268.6 billion shillings or 3.1 percent of GDP, will be borrowed from the local market, he said. Rotich said the government is investigating the effects of a controversial cap on interest rates, which bankers say have frozen smaller lenders out of the market as banks invest in low-risk government bonds. After the government tightened banking regulations and introduced the cap, the growth of private sector credit slowed down to 4.5 percent last December, from 17 percent a year earlier, stoking concerns about the potential impact on growth. He said Kenya would freeze government recruitment except for a few sectors, part of a promise to tackle the country's ballooning wage bill. President Uhuru Kenyatta, who is up for re-election in August's parliamentary and presidential vote, has promised he will slash politicians' pay packages, which are among the highest in the world. He has also dismissed opposition criticism of government borrowing, saying the money is funding an ambitious development agenda. *(Reuters)*

2) Kenya's budget paves way for Islamic finance Kenya's government has unveiled a package of initiatives under its latest budget to develop Islamic finance in the country, as part of efforts to mobilise local funds and set Nairobi as a regional hub for the sector. The moves could spur Kenya's decade-old Islamic banking sector and help the government fund infrastructure in a country where Muslims account for about 10 percent of the population of some 44 million. Finance Minister Henry Rotich outlined the steps as part of the country's 2017/2018 budget, released on Thursday, aiming to level the playing field between Islamic and interest-based transactions. Amendments to the Public Finance Management Act will also allow the government to issue Islamic bonds, or sukuk, as an alternative funding source. This could prove useful for a government that has set aside billions for infrastructure, with a fiscal deficit set at 524.6 billion shillings ($5.10 billion). Implementation could be quick as most changes have already been drafted by the Islamic Finance Project Management Office (PMO), a body setup by the government to coordinate efforts among its regulatory agencies. "The primary objective is to prepare the groundwork for a sovereign sukuk but also equally to attract corporate sukuk from the region," said Farrukh Raza, managing director of IFAAS, an Islamic finance consultancy which designed the PMO's framework. The government has commissioned IFAAS to run the PMO, which is working with law firm Simmons & Simmons to help develop Islamic Finance in Kenya. The Treasury has said it is considering a debut sale of sukuk this year, although national elections in August could delay those plans.

The amendments will benefit Kenya's two full-fledged Islamic banks and several Islamic windows, which until now have operated by way of exemptions. They will be joined by Dubai Islamic Bank, which last month received approval in principle for a banking license from the central bank. Changes to stamp duty would ensure their products are tax neutral against interest-based transactions, as the asset-based nature of Islamic finance contracts often means they can incur multiple tax charges. This is designed to be revenue neutral to the government and would not compromise fiscal revenues, said Raza. Exemptions to value added tax would allow returns from Islamic deposits to be eligible for deductions similar to interest-based products. This would apply to individuals, corporates and government entities, Raza said. The budget also calls for amendments to cooperatives and savings societies, while new regulations will help setup an Islamic pension scheme based on the risk-sharing concept of takaful. This would aid the government in achieving financial inclusion and financial diversification targets, Raza added. *(Reuters)*

The 91 day Tbill and 364 day Tbill were oversubscribed at 125.08% and 173.94% respectivley. There was high uptake with KES 1.156bn going to rejection on the 91 day Tbill and KES 5.092 bn on the 364 day Tbill.The CBK picked the bids with a surplus of KES 3.654 bn from the KES.20bn they were targeting. CBK has been mopping up the excess liquidity through Term Auction Deposits(TADs)

TREASURY BILL LATEST RESULTS 2207/91 & 2117/364: This week the Central Bank of Kenya offered 91 and 364 Days Treasury Bills for a total of Kshs.20 Billion. The total number of bids received was 300 amounting to Kshs. 12.51 Billion representing 125.08% subscription and 230 bids amounting to Kshs.17.39 Billion representing 173.94% subscription for 91 and 364 days, respectively. Bids accepted amounted to Kshs. 11.35 Billion for 91 days and Kshs. 12.30 Billion for 364 days Treasury Bills. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 8.769% for the 91-day and 10.925% for 364-day Treasury Bills. *(Central Bank of Kenya)*

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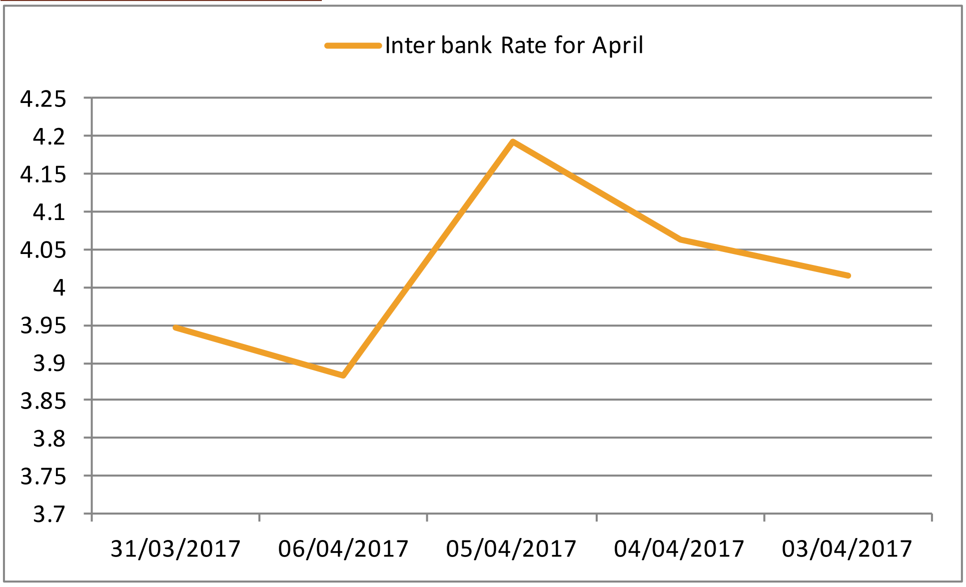
Interbank rate has been showing mixed trends in the month.

INTERBANK RATE FOR APRIL:



(Central Bank of Kenya)

EXCHANGE RATE:

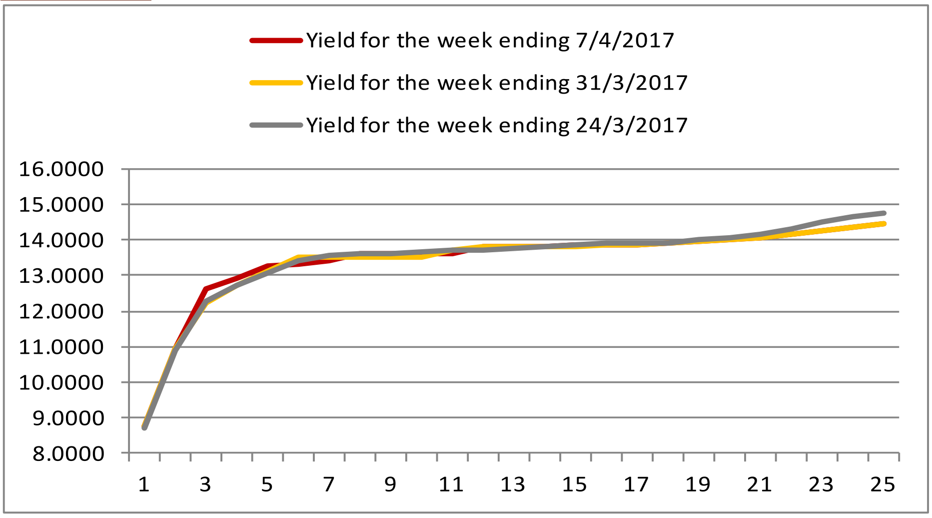
Currencies	31-Mar-17	7-Apr-17	Chg YTD
USD/KES	103.0000	103.4372	-0.42%
GBP/KES	128.8314	129.0983	-0.21%
EUR/KES	110.5636	110.2747	0.26%
JPY/KES	92.6217	93.2876	-0.72%
ZAR/KES	8.0019	7.4906	6.39%
KES/UGX	35.0778	34.9972	0.23%
KES/TZS	21.6700	21.5880	0.38%
KES/RWF	7.9759	8.1161	-1.76%
KES/BIF	16.5733	16.5154	0.35%

(Central Bank of Kenya)

The Kenyan shilling weakened slightly against the dollar on Friday due to demand from multinational companies in sectors like telecommunications buying hard currency to settle transactions

The Kenyan shilling was steady against the dollar due to foreign exchange inflows from charities and horticulture exporters mitigating demand from oil importers, traders said. *(Reuters)*

YIELD CURVE:



The volume of bonds traded declined by 45.90 percent. The reduced activity reflects investors' interest in short term (Treasury bills) that received 149.5 percent subscription rate on KSh 20 billion offered.

MONETARY POLICY OPERATIONS:

The money market was relatively liquid in the week ending April 5, 2017. The Central Bank's open market operations resulted in KSh 5.1 billion injections largely through Term Auction Deposits (TAD) maturities. *(Central Bank of Kenya)*

Bonds worth KES.8.1126bn were traded in the week compared to KES. 13.510bn in the previous week. Deals totalling 99 were closed compared to 203 the previous week.

MOST TRADED BONDS FOR THE WEEK:

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 7 APRIL , 2017

	Coupon	This Week Highest yield	Lowest yield	Average Traded Yield	Total Value
Issue No.	(%)	(%)	(%)	(%)	(kshs)
IFB1/2017/12	12.450	13.2500	13.1000	13.0410	2,003,000,000
FXD1/2012/10	12.300	13.3500	13.2500	13.3000	1,070,000,000
FXD1/2008/20	13.750	13.8000	13.8000	13.8000	600,000,000
IFB1/2016/15	12.000	13.1700	13.0569	13.1464	592,600,000
FXD1/2016/10	15.039	13.5500	13.5500	13.5500	500,000,000

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