FIXED INCOME RESEARCH

9th June 2017

Money Market	Latest	Previous
91 day	8.4590	8.5400
182 day	10.326	10.362
364 day	10.885	10.914
Repo Rate	4.7500	6.1800
Inflation Rate	11.700	11.480
Interbank Rate	3.5116	3.7922
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	103.2278	103.4139
GBP	133.3761	133.6517
EUR	115.8094	116.0672
ZAR	8.0315	8.0551
KES/UGX	34.6665	34.8259
KES / TZS	21.5928	21.7286

Source: Central Bank of Kenya

Fixed Income Research

Christine Gatakaa
cgatakaa@securitiesafrica.com

Milkah Gathoni
mgathoni@securitiesafrica.com

Head of Fixed Income Trading

Anthony Munyiri
amunyiri@securitiesafrica.com

Tel: +254 714 646 406
Call Centre: +254 735 571 530

researchke@securitiesafrica.com
www.securitiesafrica.com

2nd Floor, The Exchange
55 Westlands Road, Nairobi.
P.O. Box 19018-00100,
Nairobi, Kenya.

NEWS UPDATE: 1) Kenya to Lower Growth Forecast as Drought Cuts Food Output

Kenya will cut its growth forecast to reflect the impact of a drought that slashed agricultural output in East Africa's biggest economy and left the country short of its staple food, Treasury Secretary Henry Rotich said. Economic growth will probably be 5.7 percent this year, compared with an earlier estimate of 5.9 percent to 6 percent, Rotich said in an interview Wednesday at his office in the capital, Nairobi. The forecast may be reduced further to 5.5 percent once an assessment of the March-May rains is completed, he said. "We are analyzing some leading economic indicators to see if this drought has gone beyond quarter one," Rotich said. "If that is the case, we may adjust our numbers a bit lower." Kenya is experiencing its worst drought in more than three decades. The dry weather cut production of corn, reducing the country's strategic grain reserve to less than a day's supply, and resulted in shortages of products including sugar and milk. The drought has been severe because it's spanned three seasons and affected a wider region than normal, according to the National Drought Management Authority. Beyond agriculture, the momentum in the economy is "still strong," Rotich said, citing the building of a standard-gauge railway linking the port of Mombasa to neighboring Uganda. That's underpinning growth of the construction industry, he said, while tourism, one of the country's biggest generators of foreign exchange, is also "picking up." Cutting its forecast will bring the Treasury's estimates more in line with the World Bank and the International Monetary Fund, which have cut their predictions to 5.5 percent and 5.3 percent respectively. Both organizations have cited the drought as a factor in lowering their forecasts, as well as the slowdown in lending by banks to the private sector after the government placed a cap on commercial lending rates. Kenyan President Uhuru Kenyatta introduced the limits, set at four percentage points above the official central bank rate, in August. The decision fulfilled a pledge he made before being elected in 2013 to reduce the cost of credit. The country's five biggest banks all posted a drop in first-quarter profit last month as the cap cut loan income. The government is trying to mitigate the impact of the caps by accelerating reforms that address the "root causes" of high interest rates in Kenya, Rotich said. He cited the recent signing into law of the Movable Property Security Rights Bill, which enables borrowers to use movable assets as collateral for credit. The central bank has carried out a study on the impact of the caps on the economy, and while the results are still being analyzed, the assessment has shown that while the number of loan applications has grown, the value of those applications has declined. "We are aware that the caps potentially will constrain credit to small- and medium-sized enterprises and other high-risk areas that used to enjoy credit," Rotich said.

As the impact of reforms is felt "maybe the caps will become redundant over a period of time." Credit to the private sector grew 4 percent in March, the slowest pace since 2003, according to central bank data. Lenders including KCB Group Ltd., Kenya's biggest by market value, have said they only expect the caps to either be altered or removed after presidential elections take place in August. "We don't think that, from our standpoint, that the caps are going to be sustainable for our economy," Rotich said. "Our preference is to let the markets decide." Rotich declined to say when Kenya will return to the Eurobond market. He said foreign debt sales would in future be used for "liquidity management," as debt raised earlier matured, and the country could issue bonds with longer maturities after Senegal sold $1.1 billion of Eurobonds last month that will mature in 2033. Kenya's longest-dated Eurobond, issued in 2014, has a 10-year tenure. *(Bloomberg)*

2) Kenya government says to guarantee $750 mln in Kenya Airways debt

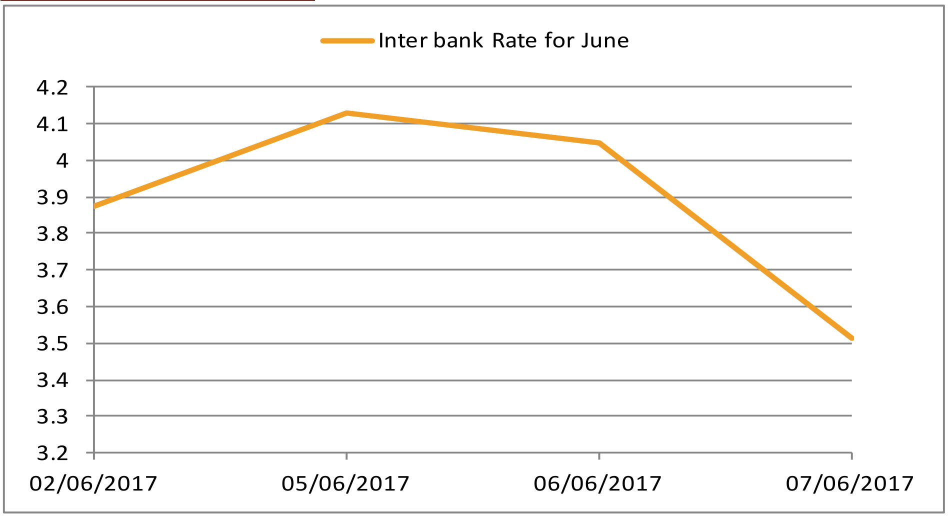
Kenya will offer $750 million in guarantees to Kenya Airways' existing creditors to help the heavily-indebted carrier secure financing from other sources to complete its recovery, a cabinet document showed on Tuesday. The guarantees, approved by the cabinet, will cover $525 million owed to the U.S. Exim Bank and the rest to local lenders, said the document seen by Reuters. The airline, partly-owned by Air France KLM and the Kenyan government, has struggled to return to profit after tourist traffic slumped four years ago following a spate of attacks by Somalia-based Islamist militants. The government will also convert its existing loans to the carrier into equity, it said. It was not immediately clear how much it has lent the carrier, but a source at the airline said it was a "significant" amount lent over time. The plan to guarantee the existing debt will be taken to the National Assembly for approval, the government said. "The guarantees would be in exchange for material concessions to be provided as part of the financial restructuring which would secure future funding for the company," the cabinet document said, without giving details on the concessions. The government would not provide additional cash as part of the restructuring of the airline, it added. The debt owed to the U.S Exim bank is related to the financing of the purchase of the carrier's Boeing planes. Kenya Airways says the financial restructuring will involve restructuring debt and securing additional capital to help dig itself out of a position of negative equity, and attain a better balance between cash flow and debt repayments. *(Reuters)*

The 91 day, 182 day & 364 day Tbills were subscribed at 381.51%, 255.51% & 94.07% respectivley. Acceptance rate on the 91 day Tbill was with a surplus of KES. 9.74bn, on the 182 day picked a surplus of KES. 11.335bn and the 364 day Tbill was taken up with a deficit of KES. 2.108bn. There is liquidity of upto KES. 18.971bn in rejection from this week's T-bill auctions.

TREASURY BILL LATEST RESULTS 2216, 2189/182 /91 & 2127/364: 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. 50.21 Billion and the bids accepted amounted to Kshs.42.97 Billion. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 8.459% for the 91-day, 10.326 for 182-day and 10.885% for 364-day Treasury Bills. *(Central Bank of Kenya)*

Interbank rate has been in check in the month at levels below 4 percent signalling ease in liquidity in the market.

INTERBANK RATE FOR JUNE:



(Central Bank of Kenya)

Coupon payments and maturity on FXD2/2015/2 of treasury bonds amounting to KES. 17.595bn will be checking into the market in the month of June.

UPCOMING COUPON PAYMENTS FOR JUNE:

Issue No.	Next Coupon Payment Date	Maturity Date	Maturity (Tenor)	Outstanding Amount Shs'M.	Fixed Coupon Rate
FXD2/2007/15	June 12, 2017	June 6, 2022	2,005	7,237	13.500%
IFB1/2015/9	June 12, 2017	Dec 2, 2024	2,915	25,120	11.000%
FXD2/2010/15	June 19, 2017	Dec 8, 2025	3,286	13,513	9.000%
FXD1/2010/25	June 19, 2017	May 28, 2035	6,744	20,192	11.250%
FXD1/2008/20	June 19, 2017	June 5, 2028	4,196	29,464	13.750%
FXD1/2012/10	June 19, 2017	June 13, 2022	2,012	35,274	12.705%
FXD2/2014/5	June 19, 2017	June 17, 2019	920	16,418	11.934%
FXD3/2016/2	June 19, 2017	Dec 17, 2018	564	25,478	12.509%
FXD2/2013/5	June 26, 2017	June 25, 2018	563	26,340	11.305%
FXD1/2013/10	June 26, 2017	June 19, 2023	2,383	39,248	12.371%
FXD2/2015/2	June 26, 2017	June 26, 2017	199	18,747	12.629%
FXD1/2015/5	June 26, 2017	June 22, 2020	1,291	30,956	13.193%

Kenyan shilling steady, aid organisation dollar flows help

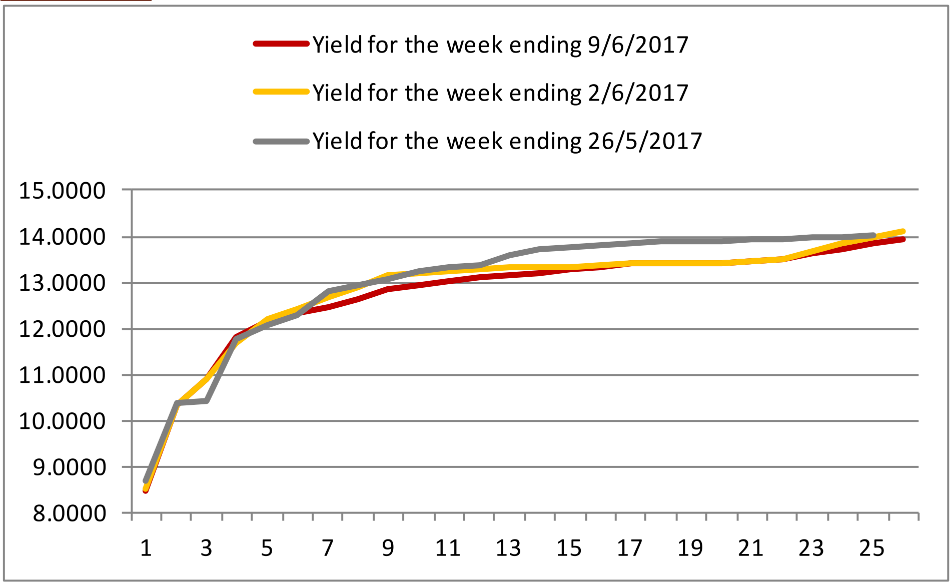
EXCHANGE RATE:

Currencies	2-Jun-17	9-Jun-17	Chg YTD
USD/KES	103.3544	103.3208	0.03%
GBP/KES	133.01	133.5139	-0.38%
EUR/KES	115.9567	115.9383	0.02%
JPY/KES	92.5535	94.1291	-1.70%
ZAR/KES	8.0097	8.0433	-0.42%
KES/UGX	34.7639	34.7462	0.05%
KES/TZS	21.644	21.6607	-0.08%
KES/RWF	7.9676	7.9947	-0.34%
KES/BIF	16.6404	16.6958	-0.33%

The Kenyan shilling was steady in the week with oil importer dollar demand matched by inflows from aid organisations, traders said. *(Reuters)*

Yields have been on a lowering trend in the past weeks.

YIELD CURVE:



(Nairobi Securities exchange)

Bonds worth KES.10.852bn were traded in the week compared to KES. 12.110bn in the previous week. Deals totalling 164 were closed compared to 157 the previous week.

MOST TRADED BONDS FOR THE WEEK:

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 9 JUNE, 2017

		This Week			
	Coupon	**Highest yield**	**Lowest yield**	**Average Traded Yield**	**Total Value**
Issue No.	(%)	(%)	(%)	(%)	(kshs)
FXD1/2008/20	13.750	13.2500	13.0500	13.1437	2,725,000,000
FXD1/2009/15	12.500	13.0075	12.7500	12.8500	1,250,000,000
IFB1/2016/15	12.000	12.5306	11.9372	12.4542	1,012,000,000
IFB1/2016/9	12.500	12.4077	11.6300	12.0274	850,300,000
FXD2/2015/5	13.920	12.7125	12.0500	12.2518	760,000,000

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