SECURITIES AFRICA KENYA LIMITED

KENYA

FIXED INCOME WRAP

INVESTMENT

FIXED INCOME RESEARCH

11th August 2017

Money Market	Latest	Previous
91 day	8.1990	8.1960
182 day	10.320	10.324
364 day	10.905	10.889
Repo Rate	7.9850	8.4770
Inflation Rate	7.4700	9.2100
Interbank Rate	10.7646	9.2191
Central Bank Rate	10.0000	10.0000

Exchange Rates

	Buy	Sell
USD	103.7972	103.9972
GBP	134.7667	135.0622
EUR	121.8639	122.1294
ZAR	7.7085	7.7291
KES/UGX	34.6644	34.8275
KES / TZS	21.4813	21.6191

Source: Central Bank of Kenya

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TREASURY BOND OFFER FOR AUGUST FXD1/2017/5 & REOPENING FXD1/2017/10:

ISSUE NO. & REOPENING:	**FXD1/2017/5 & FXD1/2017/10**
Amount on offer:	KES: 30bn
Purpose:	Budgetary Support
Coupon: 5 year new	Market Determined
10 year reopen (9.9yrs)	12.966%
Period of Sale:	7-Aug-17
Offer Closing Date:	28-Aug-17
Auction date:	23-Aug-17
Results:	24-Aug-17
Value date:	28-Aug-17
Redemption date: 5 year new	22-Aug-22
10 year	19-Jul-27
Secondary Trading:	29-Jun-17
	In multiples of Kshs. 50,000
Taxation:	Discount/Interest is subject to withholding tax at a rate of 15% for the 5year and 10% for the 10year
Commission:	Licensing placing agents will be paid commission at the rate of 0.15% of actual sales (at cost) net of 5% withholding tax

ECONOMIC UPDATE: **1) Trade deficit up 46pc as imports rise sharply** Kenya's trade deficit worsened by 46 per cent in the first five months of the year, with the country's import bill recording a sharp jump on higher capital equipment purchases. Latest data from the Kenya National Bureau of Statistics (KNBS) shows the gap between imports and exports grew to Sh454.9 billion in the five months to May, compared to Sh311.8 billion in a similar period last year. While exports declined only marginally by 0.9 per cent or Sh2.2 billion to stand at Sh248.3 billion, imports grew by 25 per cent or Sh140.9 billion to Sh703.2 billion in the period compared to last year. The largest year-on-year growth in imports was recorded in the first three months of the year, which the Central Bank of Kenya (CBK) attributes to imports of the rolling stock for the new standard gauge railway. "Import numbers in those particular months surged on purchase of machinery and transport equipment," CBK governor Patrick Njoroge said at a Monetary Policy Committee (MPC) press conference at the end of May. Imports of cereals and sugar also pushed up the import bill in the first half of the year as the country counted the cost of drought. As a result, the current account deficit widened to 6.2 per cent at the end of May from 5.2 per cent at the end of last year. The CBK though forecasts that the deficit will come down to about 5.8 per cent by the end of the year. A large deficit normally piles pressure on the shilling, forcing the CBK to intervene thus depleting foreign exchange reserves. The fall in exports meanwhile is indicative of the difficult operating environment for businesses. The July purchasing managers index (PMI) by IH Markit and Stanbic Bank shows that even as businesses continued to receive orders from export markets, they were hampered by lack of access to credit and pre-election caution. "Output fell for the fifth time in the past six months during July. More than one-in-three panellists reported a decline in business activity, with firms widely linking this to the General Election, customers facing money shortages, high inflationary pressures and a lower customer turnout," they said in the PMI report. *(Business Daily)*

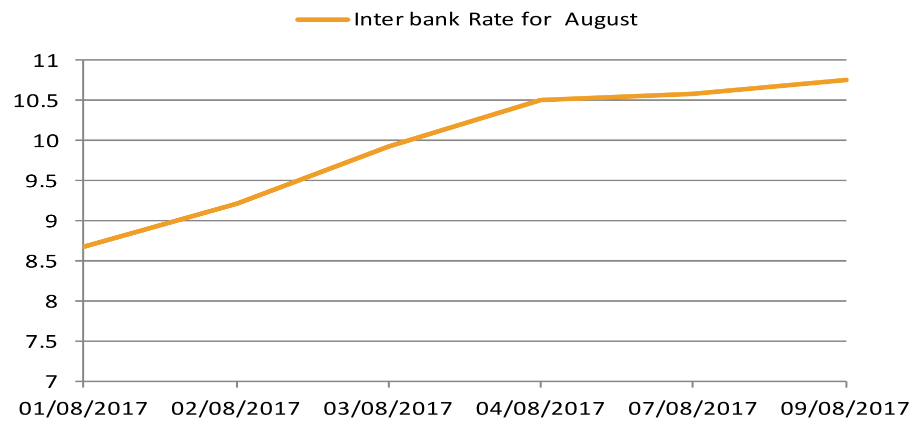
NEWS UPDATE: **Interbank rate hits year high of 9 per cent on low liquidity** The overnight cost of borrowing among commercial banks jumped to the highest point in the year-to-date a week ahead of the polls on reduced liquidity, official data shows. The Central Bank of Kenya (CBK) has reported that banks were demanding an average of 9.22 per cent to lend to each other overnight by Wednesday last week, a rate higher than the price the government paid for the 91-day Treasury bills at 8.2 per cent during the auction last Thursday. The average interbank rate for the week ended August 2 rose from 7.24 per cent to 8.2 per cent — equalling the average return investors got for the three-month Treasury bill. Analysts at Cytonn Investments attributed the rise in the overnight rate to "liquidity being skewed towards a few large banks", indicating that cash-strapped smaller lenders are finding it hard accessing cash. Large banks have been accused of refusing to lend smaller lenders citing risk, forcing them to resort to the expensive CBK window. The CBK said transactions that added liquidity into the market and those that reduced it were "fairly matched" in the week. "However, due to uneven distribution of liquidity the central bank was on both sides of the market. It withdrew excess liquidity from segments of the market with surpluses and used reverse repos to support segments facing temporary liquidity shortages," the CBK says in the weekly bulletin. About Sh59.4 billion was withdrawn from the money market, which was more than the Sh58 billion that was injected, resulting in a net liquidity of negative Sh1.3 billion. The main source of liquidity was government payments at Sh26.6 billion, Treasury bills redemptions (Sh19.5 billion) and reverse repurchase agreements (Sh11.9 billion). However, payment of taxes by banks to the tune of Sh22.1 billion, investment in Treasury bills (Sh14.6 billion), sale of Treasury bonds (Sh5.2 billion), repurchase agreements (Sh5 billion), term auction deposit (Sh2.5 billion) and reverse repo maturities (Sh1.4 billion) sucked liquidity from the market. Average interbank rate at the end of July was 7.2 per cent, Cytonn said in its weekly market update, after increasing from 4.8 per cent in June. "During the month there was a net liquidity injection of Sh61.8 billion in the money market with the bulk of it coming from government payments. The net liquidity position was an increase from a net liquidity injection of Sh22.5 billion in June," Cytonn said. *(Business Daily)*

The 91 day, 182 day & 364 day Tbills were undersubscribed at 29.19%, 95.09% &79.21% respectively.The undersubscription could be attributed to the tight liquidity in the market currently.However it should be noted the subscription rate improved on the 182 day Tbill and 364 day Tbill auctions.

TREASURY BILL LATEST RESULTS 2225/91, 2198/182 & 2136/364: 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. 18.598 Billion and the bids accepted amounted to Kshs. 18.522 Billion. The weighted average rate of accepted bids, which will be applied for non-competitive bids, was 8.199% for the 91-day, 10.320% for 182-day and 10.905% for 364-day Treasury Bills. *(Central Bank of Kenya)*

INTERBANK RATE FOR AUGUST:

Interbank rate has been edging up in the week indication of the tight liquidity in the market.



(Central Bank of Kenya)

UPCOMING COUPON PAYMENTS FOR AUGUST:

Coupon payments of treasury bonds amounting to KES. 11.490bn will be checking into the market in the month of August.

Issue No.	NextPayment Date	Maturity Date	Maturity (Tenor)	Outstanding Amt 'Mn.	Coupon Rate
IFB1/2009/012	14-Aug -17	8-Feb-21	1,281	7,868	12.500%
FXD1/2008/010	14-Aug -17	12-Feb-18	189	2,923	10.750%
FXD1/2006/012	14-Aug -17	13-Aug-18	369	3,901	14.000%
IFB1/2010/008	21-Aug -17	19-Feb-18	196	9,186	9.750%
IFB2/2010/009	21-Aug -17	19-Aug-19	742	21,005	6.000%
SDB1/2011/030	21-Aug-17	21-Jan-41	8,568	28,145	12.000%
FXD1/2013/015	21-Aug -17	7-Feb-28	3,836	42,138	11.250%
FXD1/2016/010	28-Aug -17	17-Aug-26	3,297	18,306	15.039%
IFB1/2017/012	28-Aug -17	12-Feb-29	4,207	14,330	12.500%

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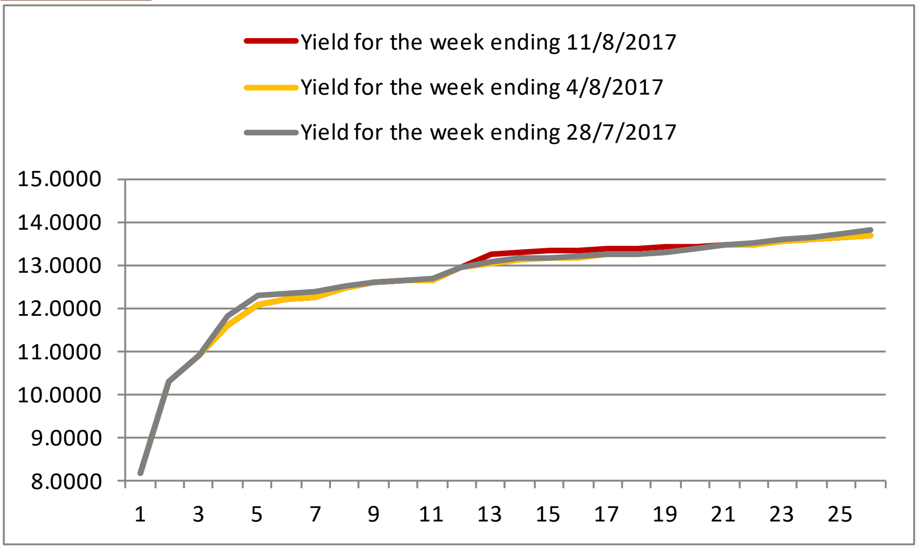
Yields edged up in the mid term and maintained trends on other tenures.

YIELD CURVE:



(Nairobi Securities Exchange)

EXCHANGE RATE:

Currencies	4-Aug-17	11-Aug-17	Chg YTD
USD/KES	103.8672	103.8972	-0.03%
GBP/KES	136.2831	134.9144	1.00%
EUR/KES	123.0122	121.9967	0.83%
JPY/KES	94.0443	95.3579	-1.40%
ZAR/KES	7.8003	7.7188	1.04%
KES/UGX	34.8041	34.746	0.17%
KES/TZS	21.5468	21.5502	-0.02%
KES/RWF	7.9693	7.9738	-0.06%
KES/BIF	16.7113	16.7239	-0.08%

Kenya's shilling was steady on Friday, with slow activity in the market as participants awaited to outcome of the presidential elections. *(Reuters)*

Bonds worth KES.1.957bn were traded in the week compared to KES. 5.096bn in the previous week. Deals totalling 88 were closed compared to 105 the previous week.

This low performance could be attributed to the shorter trading week following the just-concluded general elections.

MOST TRADED BONDS FOR THE WEEK:

WEEKLY BONDS MARKET STATISTICS FOR THE WEEK-ENDING FRIDAY 11 AUGUST, 2017

		This Week			
	Coupon	Highest yield	Lowest yield	Average Yield	Total Value
Issue No.	(%)	(%)	(%)	(%)	(kshs)
FXD1/2012/10	12.300	12.4000	12.4000	12.4000	500,000,000
FXD2/2013/15	12.000	13.2250	13.2500	13.2375	400,000,000
FXD2/2015/5	13.920	12.3129	12.3500	12.3500	400,000,000
FXD 1/2012/20	12.000	13.5452	13.1000	13.1000	333,700,000
IFB1/2015/12	11.351	12.1000	11.1900	12.1000	108,900,000

MONETARY POLICY OPERATIONS:

The money market was relatively liquid during the week ending August 9, 2016, largely supported by net government payments and net redemption from the government securities market. The Central Bank's open market operations resulted in net liquidity withdrawal amounting to KSh 5.3 billion. The weighted average interbank rate increased to 10.45 percent in the week ending August 9, 2017 from 8.20 percent recorded in the previous week. *(Central Bank of Kenya)*

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