

10th July 2018

## Heavy liquidity to support a further drop in yields

Short term interest rates have maintained a downward bias supported by heavy liquidity amid persistent dearth of investment alternatives. In last week's auction, the three, six and twelve month T-bills sold at 7.725% (Down 0.80bps), 9.499% (Down 10.80bps) and 10.442% (Down 4.60bps) for the 91, 182 and 364 day papers respectively.

The sound liquidity posture has seen increased liquidity allocation towards the government papers supported by their better risk return balance. At the auction, the Central Bank received a healthy KES 35.05Bn in bids and accepted KES 24.80Bn, in line with the weekly target.

This trend is likely to persist pending Parliament's decision on the proposed amendments to the law capping interest rates which should inform banks' asset allocation going forward.

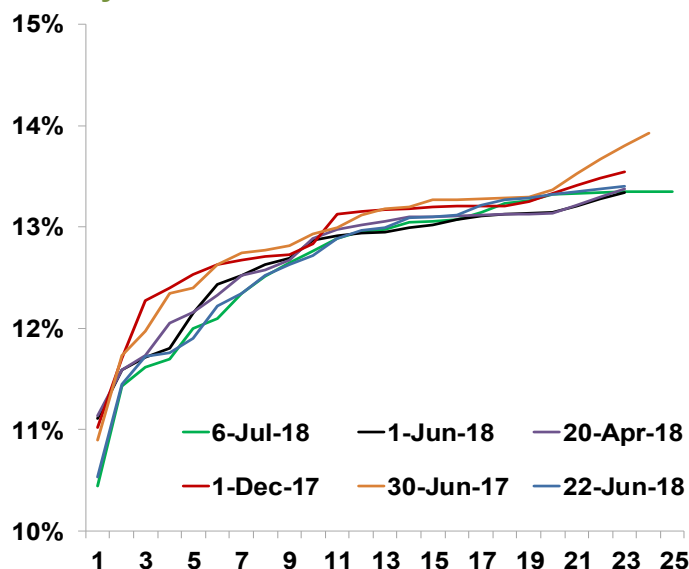
Meanwhile, the poor performance of local equities and low returns on deposits with commercial banks have seen increased demand for the government papers by funds. Similarly, the traditional appetite for longer tenors has waned as investors take a wait and see stance in anticipation of the aforementioned decision by the legislature.

The demand for Treasury bills is expected to increase further this week supported by heavy liquidity. After the cyclical end of quarter tax induced squeeze, markets have stabilized helped by T-bill and Repo maturities as well as disbursements from the national government. Government expenditure is likely to be expedited going forward given the urgency around the implementation of the Big Four Agenda. This could support some relative stability in overall market liquidity.

Indicative Rates	Previous	Current	Change bps
Avg Overnight	6.593%	5.904%	-68.90
91-Day T-bill	7.733%	7.725%	0.80
182-Day T-bill	9.607%	9.499%	-10.80
364-Day T-bill	10.488%	10.442%	-4.60
Inflation	3.95%	4.28%	35.00
USD/KES	100.83	100.89	0.06%

Source: Central Bank of Kenya

## NSE yield curve



Source: Nairobi Securities Exchange

## Government maturities and coupon payments

Government Debt Maturities	KES (Bn)
09-Jul-18	18.56
16-Jul-18	35.14
23-Jul-18	12.47
30-Jul-18	21.82
Aug-18	101.23
Sep-18	116.84
Oct-18	66.27
Nov-18	105.54
Dec-18	112.43
<b>New Cumulative Borrowing FY 2018/19</b>	<b>18.85</b>
<b>Domestic Borrowing Target FY 2018/19</b>	<b>271.90</b>

Source: Bloomberg

# Financial News



Liquidity has materially increased with overnight interbank rates dropping to 4.695% on Monday from 6.589% a week earlier. The Central Bank yesterday drained KES 8.00Bn from the market through seven-day Repos at a rate of 4.99% with the total of KES 28.63Bn in bids suggesting a fairly swamped market. This liquidity posture is likely to enhance pressure on T-bills this week. Heightened demand for the six and twelve month papers should see yields drop faster on these tenors.

## Government sticks to the longer end despite the 'unsuccessful' issue of the 25-year paper in June

Last month, Treasury issued a 25 year paper for a total of KES 40.00Bn. However, the paper only raised KES 5.17Bn with the market bidding above the maximum lending rate for the first time in almost a year.

Despite the clear indication of little appetite for longer dated papers, the Treasury is this month offering a 20 year (FXD2/2018/12) bond for a sum of KES 40Bn. The paper carries a coupon rate of 13.20%. A similar dated paper was auctioned in March 2018 at a yield of 13.34%.

The government has been deliberate in lengthening its debt maturity profile and the current low interest rate environment provides an opportune chance. Moreover, the move could be strategic as the government explores avenues of redirecting commercial banks' liquidity to the private sector. Finally, it is possible that government's spending may be delayed, typical of early months in the fiscal cycle. This is normally characterized by low appetite for new debt.

Looking ahead, the government may be compelled to blend the tenors of new issues to boost the success of the issues. It is obvious that the uncertainty on the future of interest rate caps will continue to plague the performance of longer dated issues.

## Weekly T-bill Auction Results

	91-Day	182-Day	364-Day
Yield	7.725%	9.449%	10.442%
Change (Bps)	0.8	10.8	4.6
Amount Offered (Bn)	4.00	10.00	10.00
Bids Received (Bn)	0.749	7.709	26.589
Performance (%)	18.73	77.09	265.89
Amount Accepted	0.745	2.935	21.126
Bid Cover	1.01	2.63	1.26
Redemption (Bn)	2.931	9.691	5.740
New borrowing (Bn)	-2.187	-6.756	15.386

Source: Central Bank of Kenya

## Regional Equities Market

	29.06.18	06.07.18	Wow
NSE- 20	3,285.73	3,314.43	0.87%
NASI	174.36	172.95	-0.81%
NSE- 25	4,456.78	4,441.07	-0.35%
USE ASI	2,089.41	2,077.51	-0.57%
DSEI	2,281.12	2,300.71	0.86%
TSI	4,183.90	4,183.73	0.004%
RSE ALSI	131.53	131.49	0.03%

Source: Regional Stock Exchanges

## Stock market sell-off continues

The stock market sell-off continued with foreign investors steering the supply side. In the week, the NASI and NSE-25 declined by 0.81% and 0.35% respectively. On a brighter note, the NSE-20 advanced moderately by 0.87% possibly underpinned by half year earnings speculation.

Meanwhile, market activity waned with turnover declining further to KES 2.43Bn from KES 3.69Bn in the previous week. This is however typical of first week of the quarter, coming on the heels of active portfolio rebalancing at the end of the quarter and preceding the quarterly reporting by most funds.

Foreign investors dominated the market accounting for 67.41% of the total traded value compared to 70.41% the previous week. They were net sellers withdrawing USD 7.59Mn compared to USD 3.77Mn the previous week.

# Financial News



## Regional Market

Period to (2018)	UGANDA		TANZANIA		RWANDA	
	June 22 <sup>nd</sup>	July 06 <sup>th</sup>	June 15 <sup>th</sup>	June 29 <sup>th</sup>	June 29 <sup>th</sup>	July 06 <sup>th</sup>
91 Days T-Bill	10.516%	10.516%	2.54%	2.85%	5.450%	5.150%
182 Days T-Bill	12.028%	12.028%	2.68%	2.68%	6.700%	6.192%
364 Days T-Bill	14.502%	14.502%	5.64%	6.89%	7.018%	6.648%
Interbank O/N	9.44%	8.92%	1.92%	1.88%	5.50%	5.50%
CBR/CRR/ Key Repo Rate	9.00%	9.00%	8.00%	8.00%	5.50%	5.50%

Source: Bank of Uganda, Bank of Tanzania, National Bank of Rwanda

### Uganda

The currency further pared back the aggressive losses posted in June supported by tight shilling liquidity and fairly tame dollar demand. The local currency gained 30 shillings against the US dollar to trade at 3830/3840 against the US dollar. In the week ahead, the shilling may be further buttressed by the traditional lethargy in the first quarter of the fiscal cycle. That said, the shilling's fast depreciation during the month of June continues to anchor market expectations of a weaker shilling going forward.

Meanwhile, the interbank market tightened in the week, pushing overnight rates to highs of 11%. However, conditions eased on Friday supported by UGX 912.30Bn in maturities. This saw overnight interbank rates drop to 9.00% on Friday.

Relatedly, the week's Treasury bill auction was oversubscribed with the Central Bank receiving UGX 250.40Bn in bids against the UGX 170Bn on offer. The fiscal agent accepted UGX 120.30Bn with yields holding at 10.516%, 12.028% and 14.502% for the 91, 182 and 364 day papers respectively. This was the first auction under the 'single pricing model' adopted by the Treasury where allocations will be done at the highest interest rate of the successful bids in the auction.

Notably, Treasury reduced the T-bill auction size from UGX 215Bn to UGX 170Bn signaling reduced appetite for debt. This could be in line with the government's efforts to prop up private sector credit in the economy. In the week ahead, Treasury will be auctioning a 3 and 10-year bonds with yields expected to correct marginally lower.

### Tanzania

The local currency was barely changed against the US dollar. The unit was quoted at 2268/78 against the US dollar, two shillings stronger on the week. Dollar demand and supply remain well matched with proactive intervention by the central bank on both counters. The shilling is expected to remain range bound during the week primarily supported by the hawk eyed government vigilance and proactive intervention in favour of a stable local unit.

Meanwhile, interbank liquidity was fairly balanced during the week with the overnight rate oscillating between 1.88% and 2.16%. However, the T-bill auction did not reflect this liquidity position. The Central Bank received and accepted TZS 49.3Bn against the TZS 124.50Bn. The bond auctioned at 14.4148% (Up 50bps from a previous auction). The uptick could suggest a near bottom for yields across the curve although the government remains keen on maintaining a low interest rate environment.

# Financial News



## Kenya Government Debt Maturities (KES Bn)

Maturity	Issuer	Amount Outstanding	Principal	Interest
	9-Jul-18 Treasury Bill	18.56	18.56	
	16-Jul-18 Treasury Bill	13.68	13.68	
	16-Jul-18 <b>FXD2/2008/10</b>	20.36	20.36	
	23-Jul-18 Treasury Bill	12.47	12.47	
	30-Jul-17 Treasury Bill	21.82	21.82	
	<b>Treasury Bond-Coupon Payments</b>			<b>9.48</b>
<b>JULY 2018</b>		<b>86.91</b>	<b>86.91</b>	<b>9.48</b>
	6-Aug-18 Treasury Bill	17.94	17.94	
	13-Aug-18 Treasury Bill	29.00	29.00	
	13-Aug-18 <b>FXD1/2006/12</b>	3.82	3.82	
	20-Aug-18 Treasury Bill	25.77	25.77	
	27-Aug-18 Treasury Bill	28.26	28.26	
	<b>Treasury Bond-Coupon Payments</b>			<b>9.76</b>
<b>AUGUST 2018</b>		<b>104.79</b>	<b>104.79</b>	<b>9.76</b>
	3-Sep-18 Treasury Bill	36.01	36.01	
	10-Sep-18 Treasury Bill	22.06	22.06	
	17-Sep-18 Treasury Bill	19.42	19.42	
	17-Sep-18 <b>FXD3/2008/10</b>	21.80	21.80	
	24-Sep-18 Treasury Bill	16.37	16.37	
	<b>Treasury Bond-Coupon Payments</b>			<b>19.71</b>
<b>SEPTEMBER 2018</b>		<b>115.66</b>	<b>115.66</b>	<b>19.71</b>
	1-Oct-18 Treasury Bill	10.82	10.82	
	8-Oct-18 Treasury Bill	14.49	14.49	
	15-Oct-18 Treasury Bill	9.77	9.77	
	22-Oct-18 Treasury Bill	20.90	20.90	
	29-Oct-18 Treasury Bill	14.66	14.66	
	<b>Treasury Bond-Coupon Payments</b>			<b>15.96</b>
<b>OCTOBER 2018</b>		<b>70.63</b>	<b>70.63</b>	<b>15.96</b>
	5-Nov-18 Treasury Bill	16.09	16.09	
	12-Nov-18 Treasury Bill	34.09	34.09	
	19-Nov-18 Treasury Bill	10.84	10.84	
	19-Nov-18 <b>FXD3/2013/5</b>	26.85	26.85	
	26-Nov-18 Treasury Bill	16.07	16.07	
	<b>Treasury Bond-Coupon Payments</b>			<b>16.00</b>
<b>NOVEMBER 2018</b>		<b>103.94</b>	<b>103.94</b>	<b>16.00</b>
	3-Dec-18 Treasury Bill	22.93	22.93	
	10-Dec-18 Treasury Bill	18.93	18.93	
	17-Dec-18 <b>FXD3/2016/2</b>	25.54	25.54	
	17-Dec-18 Treasury Bill	11.95	11.95	
	24-Dec-18 Treasury Bill	26.68	26.68	
	31-Dec-18 Treasury Bill	10.55	10.55	
	<b>Treasury Bond-Coupon Payments</b>			<b>18.47</b>
<b>DECEMBER 2018</b>		<b>116.58</b>	<b>116.58</b>	<b>18.47</b>

**Disclaimer:**

Any opinion or other information in this document is not an invitation to buy or sell any asset class. Legally binding obligations can only arise for or be entered into on behalf of Commercial Bank of Africa by means of a written instrument signed by a duly authorized signatory. You are cautioned to ensure that you have made an independent decision in accordance with your own objectives, experience, operational and financial resources and any other appropriate factors including independent professional advice. No guarantee, warranty, or representation is made in respect of the performance or return on any transaction.