

Recommendation:

Bid 12.700% to 13.100%
range **FXD1/2018/15Yr**

Sovereign Credit Rating
(outlook):

Moody's: B2 (stable)

Fitch: B+ (stable)

S&P: B+ (stable)

CPI: (2009=100)

193.18

April Inflation:

3.73%

Interbank rate (11th May 2018):

3.8575% (weighted average)

C.B.R (As set on 19th Mar 18):

9.500%

91-Day T-Bill (14th May18):

7.697%

182-Day T-Bill (14th May 18):

10.265%

364-Day T-Bill (14th May 18):

11.141%

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May Fixed Income Note:-

The Government Issues a 15Yr Bond

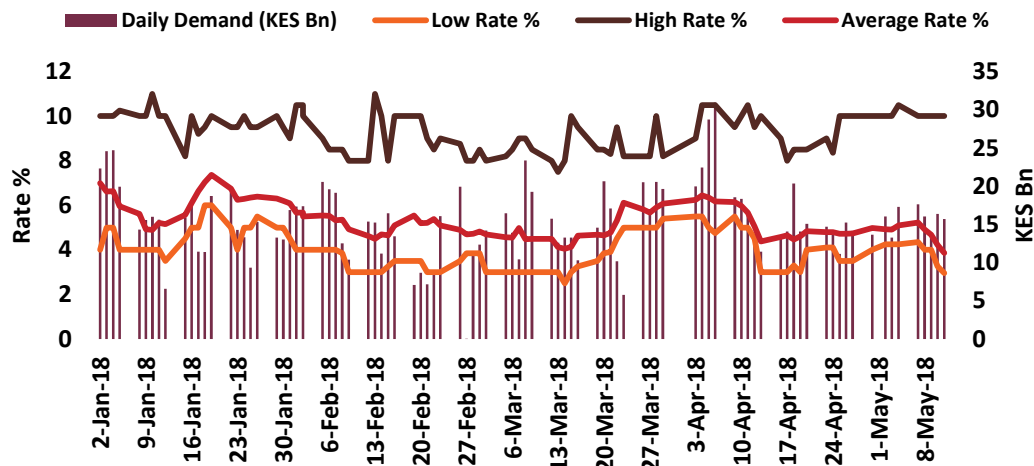
In May, the CBK will be looking to raise **KES 40Bn (USD 398.28Mn)** for budgetary support by issuance of a 15-year bond (**FXD1/2018/15**) with a **12.650%** coupon. We expect a moderate subscription with an expected tap sale. We recommend investors to bid **12.700% to 13.10%**.

A total of **KES 47.22Bn (USD 470.27Mn)** (in coupons and maturities) will be redeemed in May 2018. Redemptions for the months of June and July will be **KES 46.30Bn (461.01Mn)** and **KES 22.98Bn (228.81Mn)** respectively.

Secondary Market: The Secondary market is bound to register an improved performance relative to April with a current enhanced performance of **+2.4%** on month to date basis. April traded a total of **KES 40.11Bn (USD 399.38Mn)** against **KES 46.84Bn (USD 466.39Mn)** in March.

Interbank: The month opened with pressure on the interbank rates at 4.92% to touch a high of 5.22%. It eased 106bps to close last week (May 11th, 2018) at a 221 day low of 3.86%. Demand remained at an average of **KES 15.7Bn (USD 156.33Mn)**. The low liquidity at the beginning of the month was caused by tighter market conditions as a result of year-end tax remittances by banks. We project the rate to revert to the mean range of **4.5%-5.0%** towards the end of the month due to demand and players taking position awaiting MPC meeting deliberations.

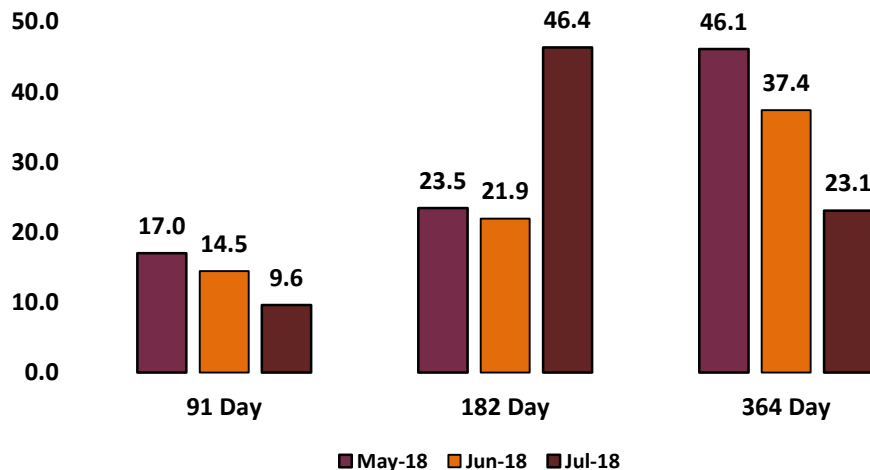
Interbank Rate



NSE Yield Curve: Yield curve saw a downward shift in the short and long term key rates while mid term had an upward shift. We advice our clients to go long the short term papers as the market wait for the treasury secretary move on the repealing or reviewing interest rate capping law.

May Inflation: We project inflation to range **4.0% to 4.5%**, from the current **3.73%** due to the base effect and the marginal rise in pump prices that will put pressure on the transport index.

T-Bills Redemptions (KES Bn)



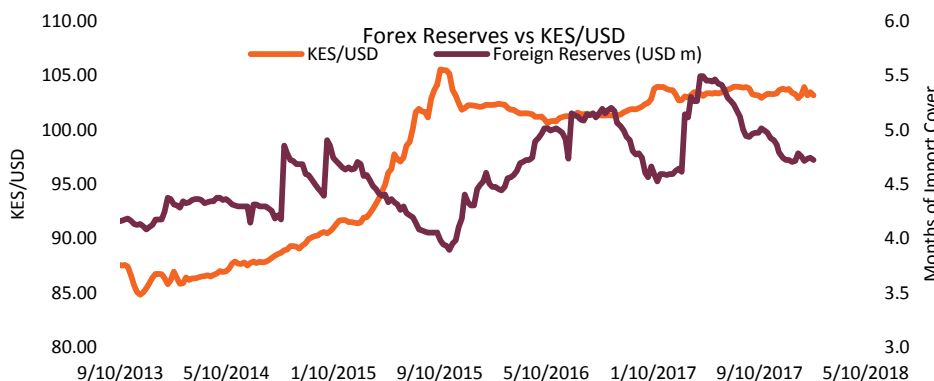
T-Bills: Subscriptions levels remained >100% for the last four auctions to average **KES 35.65Bn (USD 364.92Mn)** with acceptance rate easing to 77.9%.

Investors are skewed towards the 364 day with the rates remaining stable at 11.14%. The 91 day paper saw improved subscription of 120.8% and acceptance of 98.2% as rates submerged below to 8.0% mark to 7.967%.

May redemptions stand at **KES 86.58Bn (USD 862.08Mn)**. June and July will redeem **KES 73.581Bn (USD 734.93Mn)** and **KES 79.07Bn (USD 787.30Mn)** respectively.

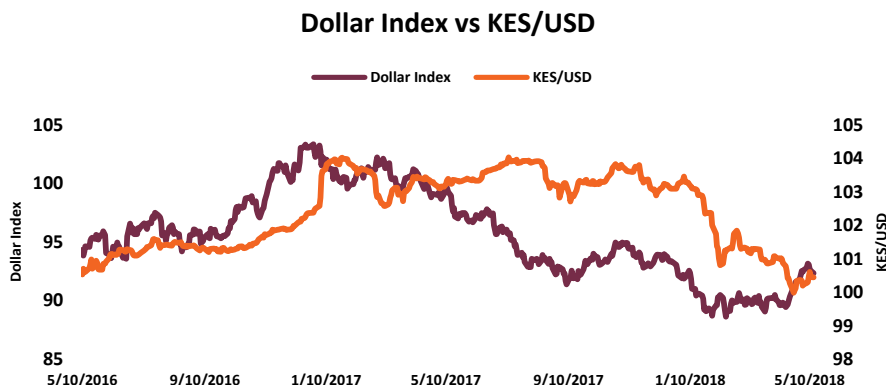
We advise our clients to maintain investment on the 364 day paper at 11.143%

Forex: Kenya Shilling opened the week at a **KES 101.43/USD** recovering **0.16%** from a high of **KES 101.60** seen on May 10th, 2018. In spite of the gain, the shilling has lost **0.10%** on month to date basis while picking **0.43%** and **2.77%** on M-M and Y-T-D basis against the green back respectively. Against other major currencies, KES strengthened marginally by **0.10%** and **0.03%** W/W against the British Pound and the EURO to stand at **KES 131.31** and **KES 120.07** respectively. The local currency has gained **4.81%** and **2.39%** on the GBP on M-M and Y-T-D basis while gaining **3.3%** and **3.06%** on the EUR over the same period.



Forex reserves stood at an all-time high of **USD 9,142Mn** or **6.11** Months of import cover. The levels have helped cushion the exchange rate to low levels of the **KES 100.5/USD** range.

The shilling is bound to come under pressure from end month oil importers demand. This will be countered by market players taking a wait and approach on the MPC Meeting results that will be held on Monday May 28th.



Dollar faced pressure on the international market due to a looming trade war with China coupled with the U.S's planned exit from the Iran Nuclear deal. The Dollar index dropped **0.49%** W/W to **92.3** and plunged **7.00%** Y-Y. The Index was seen to recover to a high of **93.12** after the meeting between the leaders of North and South Korea before reversing the gain.

The dollar index has an inverse relation with the KES/USD exchange rate with recovery of the index placing mild weight on the Shilling.

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