



October 19, 2012

Highlights

The money market was liquid during the week ending October 17, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 20.1 billion through repo securities and Ksh 5.8 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 29.6 billion and Ksh 19.5 billion, respectively.

The average interbank rate increased to 9.29 percent during the week ending October 17, 2012 compared with 8.87 percent in the previous week.

The Kenya Shilling exchange rate was relatively stable against major international currencies in the week ending October 18, 2012. Against the US dollar the Kenya Shilling depreciated marginally to trade at Ksh 85.09 compared to Ksh 85.03 in the week ending October 11, 2012.

The usable official foreign exchange reserves held by Central Bank increased from US dollar 5,137 million (equivalent to 4.03 months of import cover) during the week ending October 11, 2012 to US dollar 5,141 million (equivalent to 4.04 months of import cover) in the week ending October 18, 2012.

The Government offered for sale Treasury bills worth Ksh 8.0 billion during the week ending October 19, 2012. A total of Ksh 6.6 billion was accepted out of Ksh 9.7 billion bids received.

Gross Government domestic debt increased by Ksh 63.3 billion to Ksh 922.1 billion on October 12, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt expanded by Ksh 2.0 billion on account of Treasury bills.

The capital market recorded strong performance in the equities segment in the week ending October 18, 2012, with gains in all market indicators except for the equities turnover. NSE 20 Share Index gained 26.55 points to cross the 4,000 points mark; NASI was up 0.65 points, FTSE NSE 15 Index added 1.82 points and FTSE NSE 25, rose by 1.75 points. Supply of shares was however constrained pulling down equities turnover, but Market Capitalization was up by 110 basis points. The bonds market turnover declined by 2.2 percent, but corresponding deals rose by more than half. The recently launched FTSE NSE Kenyan Shilling Government Bond Index lost 2.333 points.

Monetary Policy Operations

The money market was liquid during the week ending October 17, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 20.1 billion through repo securities and Ksh 5.8 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 29.6 billion and Ksh 19.5 billion, respectively. Reserve money averaged Ksh 264.5 billion during the week and was Ksh 4.3 billion below the target (Table 1).

Table1: Open Market Operations (Ksh billion)

Date	Reserve Money* (Projected)			OMO			Reserve money performance		Bank Reserves	Currency Outside Banks	
	Forecast	Target	Exc(+)/ Short(-)	Posted	Mop up		Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
					Repo	Term Auction Deposit					
	(1)	(2)	3=(1-2)	(4)	(5)	(6)	7=(5+6-4)	(8)	9=(8-2)	(10)	(11)
11-Oct-12	255.4	261.1	-5.7	1.5	1.7	0.0	0.2	254.3	-6.8	-0.1	-6.7
12-Oct-12	257.6	261.1	-3.5	5.0	0.5	0.0	-4.5	256.7	-4.4	3.0	-7.5
15-Oct-12	272.9	259.5	13.4	14.0	2.1	5.8	-6.2	267.2	7.7	14.2	-6.6
16-Oct-12	274.5	259.5	15.0	13.0	5.6	0.0	-7.5	267.8	8.3	14.8	-6.5
17-Oct-12	276.1	259.5	16.6	15.0	10.3	0.0	-4.7	276.5	16.9	24.3	-7.3
Average	267.3	260.2	7.2	9.7	4.0	1.2	-4.5	264.5	4.3	11.2	-6.9

Source: Central Bank of Kenya

Interbank and REPO Interest Rates

The average interbank rate increased to 9.29 percent during the week ending October 17, 2012 compared with 8.87 percent in the previous week. The average interbank volumes transacted rose to Ksh 10.0 billion from Ksh 7.5 billion transacted in the previous week while the average number of deals was 61 compared with 45 deals in the previous week (Table 2 and Chart A).

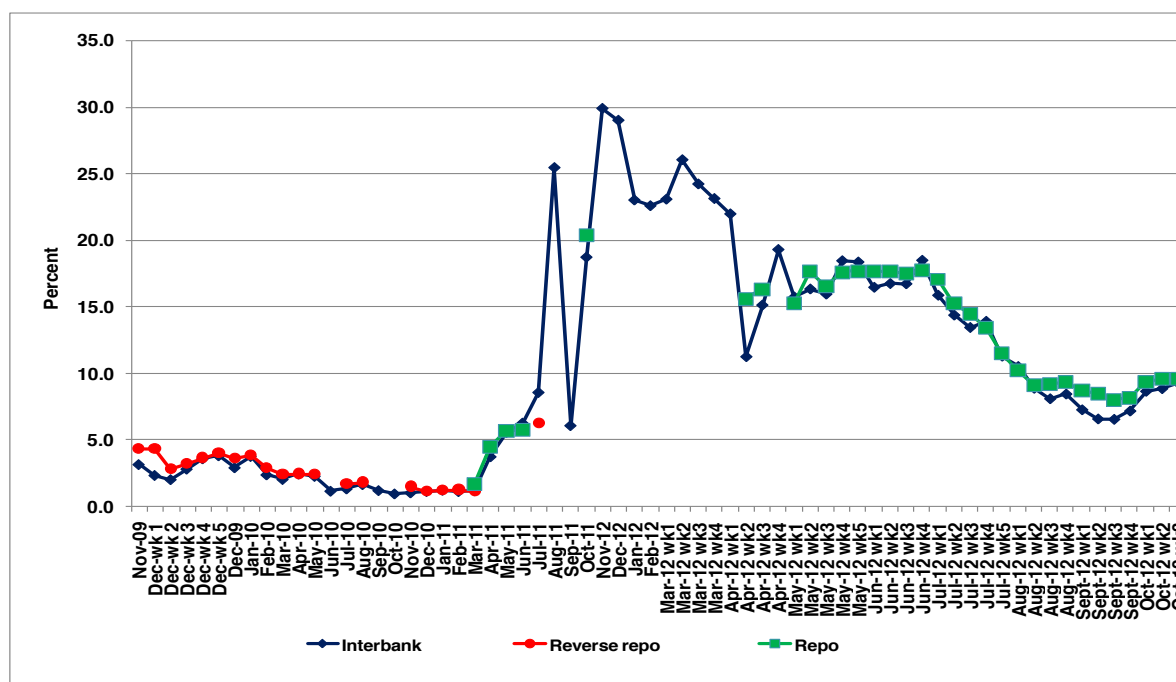
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
04-Oct-12	43	5,864	9.05
05-Oct-12	44	8,186	8.92
08-Oct-12	45	8,350	8.83
09-Oct-12	41	7,065	8.80
10-Oct-12	51	8,100	8.76
October 4-October 10, 2012	45	7,513	8.87
11-Oct-12	66	8,965	8.96
12-Oct-12	67	10,570	9.14
15-Oct-12	62	12,518	9.27
16-Oct-12	55	9,968	9.45
17-Oct-12	53	8,185	9.62
October 11-October 17, 2012	61	10,041	9.29

Source: Central Bank of Kenya

The average repo rate remained unchanged to 9.60 percent during the week ending October 17, 2012.

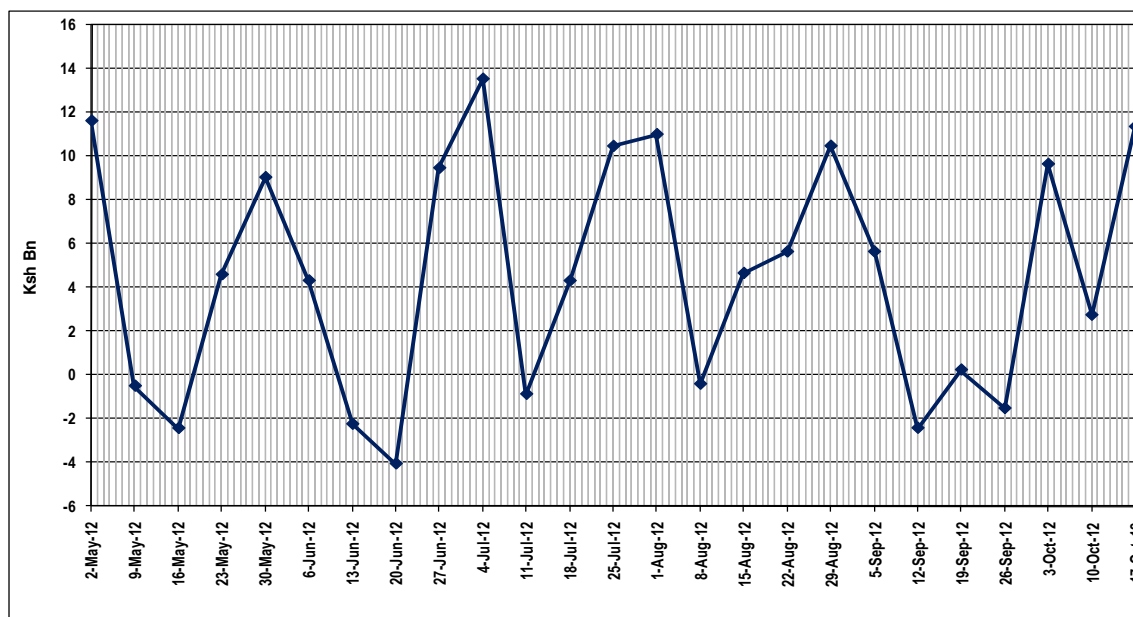
Chart A: The Structure of Interest Rates



Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 11.35 billion in their settlement accounts in relation to the monthly average cash reserve requirements of 5.25 percent at the Central Bank in the week to October 17, 2012 compared with Ksh 2.74 billion excess cash reserves in the previous week (Chart B).

Chart B: Weekly Average Deviation from CRR in the Commercial Banks Clearing Accounts



The Shilling Exchange Rate

The Kenya Shilling depreciated marginally against the US dollar, the Pound Sterling and the Euro but appreciated against the Japanese Yen to trade at an average of Ksh 85.09 per US dollar, Ksh 136.81 per Pound Sterling, Ksh 110.63 per Euro and Ksh 108.13 per 100 Japanese Yen during the week ending October 18, 2012. This is in comparison to the previous week's performance which saw the Kenya shilling exchange at Ksh 85.03 to the US dollar, Ksh 136.65 to the Pound Sterling, Ksh 110.07 to the Euro and 108.54 to the 100 Japanese Yen.

In the EAC region, the Kenya Shilling depicted mixed performance against the East African Currencies, strengthening against the Ugandan Shilling and the Burundi Franc but weakening against the Tanzanian shilling and the Rwandan Franc. On average the Shilling traded at Ush 30.39, Tsh 18.52, RWF 7.23 and BIF 17.39 during the week ending October 18, 2012 compared to Ush 30.26, Tsh 18.54, RWF 7.25 and BIF 17.30 in the week ending October 11, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Swedish Krona	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
5-Oct-12	84.91	137.47	110.50	108.31	30.09	18.57	7.31	17.35
8-Oct-12	84.92	136.78	110.28	108.04	30.27	18.54	7.25	17.43
9-Oct-12	85.10	136.52	110.51	108.54	30.20	18.50	7.23	17.30
10-Oct-12	85.10	136.17	109.48	108.81	30.26	18.63	7.23	17.22
11-Oct-12	85.12	136.33	109.59	109.00	30.49	18.49	7.23	17.19
5 Oct - 11 Oct 2012	85.03	136.65	110.07	108.54	30.26	18.54	7.25	17.30
12-Oct-12	85.13	136.46	110.07	108.69	30.48	18.50	7.23	17.38
15-Oct-12	85.14	136.54	109.91	108.33	30.44	18.50	7.23	17.21
16-Oct-12	85.13	136.76	110.40	108.04	30.36	18.53	7.23	17.46
17-Oct-12	85.03	137.14	111.36	108.08	30.35	18.53	7.24	17.43
18-Oct-12	85.04	137.15	111.42	107.53	30.31	18.54	7.24	17.50
12 Oct - 18 Oct 2012	85.09	136.81	110.63	108.13	30.39	18.52	7.23	17.39

Source Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank increased from US dollar 5,137 million (equivalent to 4.03 months of import cover) during the week ending October 11, 2012 to US dollar 5,141 million (equivalent to 4.04 months of import cover) in the week ending October 18, 2012 (Table 4).

Table 4: Official Foreign Reserves US\$ Million (Usable)

	06-Sep-12	13-Sep-12	20-Sep-12	27-Sep-12	04-Oct-12	11-Oct-12	18-Oct-12
Usable Reserves*	5,147	5,193	5,190	5,163	5,159	5,137	5,141
Months of Imports Cover**	4.16	4.13	4.13	4.11	4.05	4.03	4.04

*Excludes encumbered reserves

**Based on 36 month average of imports

Source: Central Bank of Kenya

Government Securities Auction

During the week ending October 19, 2012, the Government offered for sale Ksh 4.0 billion each in 91 day and 182 day Treasury bills. The 91 day paper performed at 87.6 percent, attracting Ksh 3.5 billion worth of bids while the 182 day paper performed at 154.2 percent, attracting bids worth Ksh 6.2 billion. The Government accepted bids worth Ksh 6.6 billion, of which Ksh 4.5 billion was in the 182 day paper.

Interest Rates on Government Securities

Weighted average interest rates on the 91 day and 182 day Treasury bills increased by 47.5 and 17.7 basis points, respectively, to reach 9.437 percent and 10.484 percent, during the week under review.

Table 5: Interest Rates

Auction date	29-Jun-12	27-Jul-12	31-Aug-12	28-Sep-12	05-Oct-12	12-Oct-12	19-Oct-12
91 day T. Bills*	10.780	13.226	8.119	8.093	8.439	8.962	9.437
182 day T. Bills*	11.091	13.379	9.848	9.888	10.194	10.307	10.484
364 day T. Bills*			10.336		10.570		
2 year FXD T. Bonds							
5 year FXD T. Bonds		13.548					
10year FXD T. Bonds		13.630					
15year FXD T. Bonds							
Month							
Average savings rate							
Average overdraft rate							

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 63.3 billion to Ksh 922.1 billion on October 12, 2012, from Ksh 858.8 billion at the end of June 2012. This followed increases of Ksh 27.6 billion, Ksh 16.9 billion and Ksh 18.1 billion in the stocks of Treasury bills, Treasury bonds and Government overdraft at the Central Bank, respectively. Other domestic debt increased by Ksh 0.6 billion during the period (Table 6).

Table 6: Government Domestic Debt (Ksh Billion)

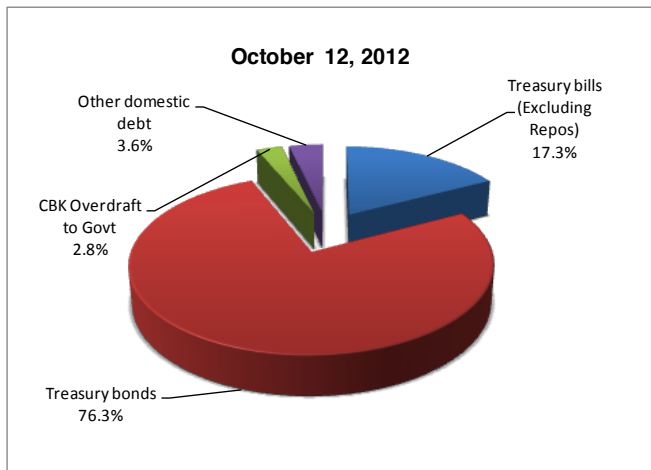
	Jun 2011	Jun 2012	Sep 2012	5th Oct 2012	12th Oct 2012	Changes	
						5th Oct 2012-12th Oct 2012	29th Jun 2012 - 12th Oct 2012
1. Treasury Bills (Excluding Repos)	126.7	132.0	159.7	157.7	159.6	2.0	27.6
(As % of total securities)	17.5	16.1	18.5	18.3	18.5		
2. Treasury Bonds	595.7	687.0	703.9	703.9	703.9	0.00	16.9
(As % of total securities)	82.5	83.9	81.5	81.7	81.5		
3. Total Securities (1+2)	722.4	819.0	863.6	861.5	863.5	2.0	44.5
4. Overdraft at Central Bank	7.6	7.3	25.4	25.4	25.4	0.0	18.1
5. Other Domestic debt*	34.3	32.6	33.2	33.2	33.2	0.0	0.6
6. Gross Domestic Debt (3+4+5)	764.2	858.8	922.2	920.2	922.1	2.0	63.3
7. Interest payments on domestic debt	69.2	82.3	25.2	28.3	28.6	0.3	

* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

In the week October 5, 2012 to October 12, 2012, gross government domestic debt increased by Ksh 2.0 billion on account of increase in stocks of Treasury bills (Table 6). The average time to maturity of Government securities declined to 5 years and 2 months during the week ending October 12, 2012, from 5 years and 4 months at the end of June 2012.

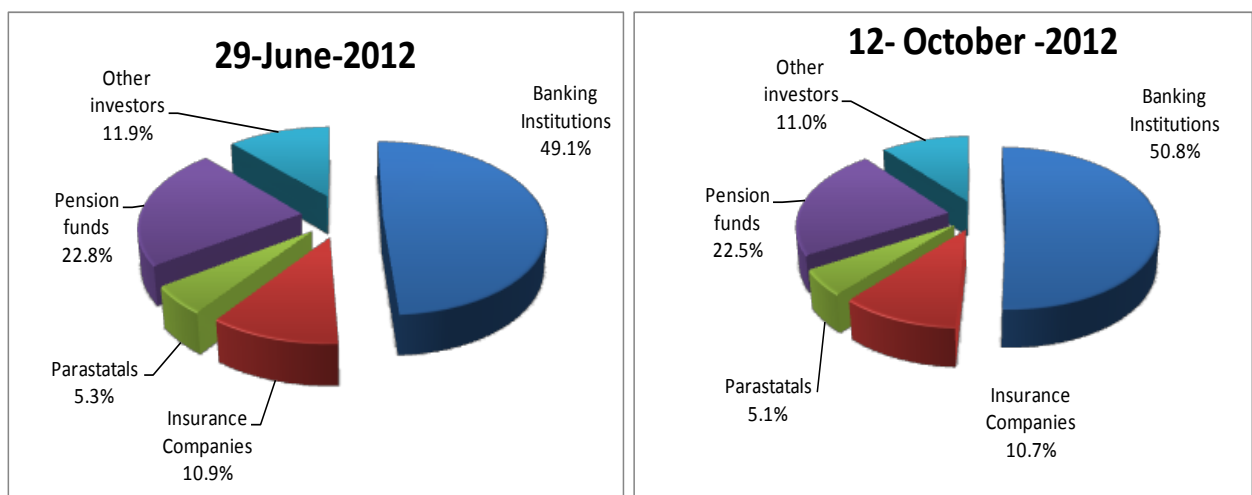
Chart C: Composition of Government Securities



Holding of Government Securities

Government securities accounted for over 90 percent of gross domestic debt on October 12, 2012 (Chart C). Commercial bank holdings of Government securities increased from 49.1 percent at the end of June 2012 to 50.8 percent on October 12, 2012. Percentage holdings of insurance companies, parastatals and pension funds declined from 10.9 percent, 5.3 percent and 22.8 percent to 10.7 percent, 5.1 percent and 22.5 percent, respectively, during the same period. Holdings by other investors, which comprise of Sacco's, listed and private companies, self-help groups, educational institutions, religious institutions and individuals, similarly declined from 11.9 percent to 11.0 percent, during the week ending October 12, 2012 (Chart D).

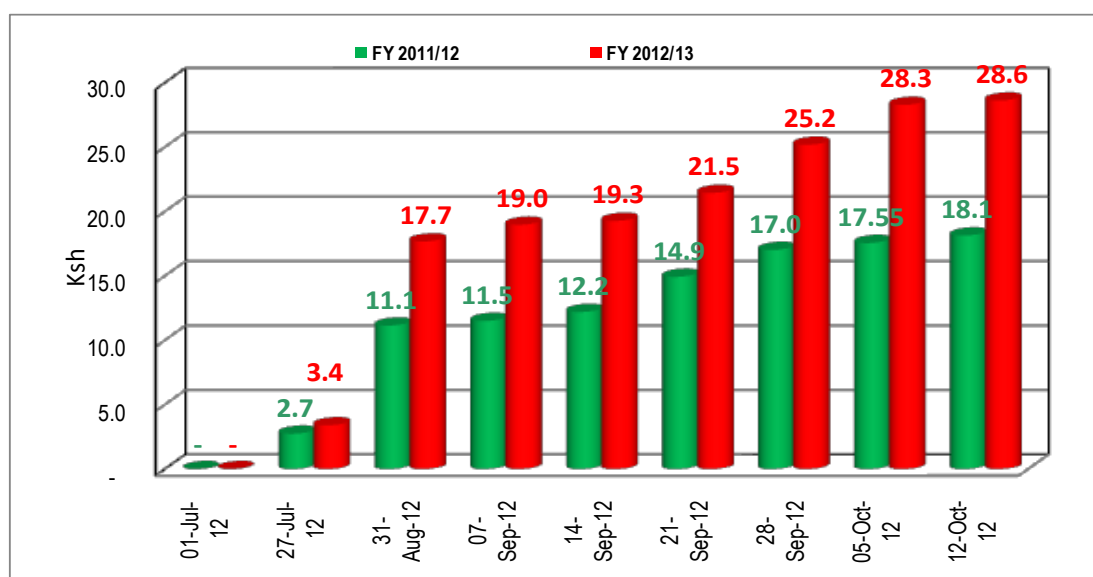
Chart D: Composition of Government Securities by Investors



Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to October 12, 2012 in the 2012/13 fiscal year amounted to Ksh 28.6 billion compared with Ksh 18.1 billion during a similar period of the previous fiscal year (Chart E). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 7.1 billion and Ksh 20.0 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 0.7 billion and Ksh 0.8 billion, respectively.

Chart E: Cumulative Interest Payments on Domestic Debt (Ksh billion)



The Capital Markets

Capital markets performance was robust in the week ending October 18, 2012 with most key market indicators recording gains. Market capitalization remained above the trillion shillings mark gaining 110 basis points while the NSE 20 Share Index crossed the 4,000 points mark. However, turnover for both equities and bonds declined signaling limited supply. In addition, the newly introduced FTSE, NSE Bond Index lost 2.33 points.

Equities Market

As indicated in Table 7, NSE 20 Share Index rose by 66 basis points to record 4,023.55 points on October 18, 2012 from 3997.0 points on October 11, 2012. NASI gained by 74 basis points to register 88.50 points from 87.85 points over the same period. Market Capitalization that measures shareholders' wealth gained Ksh 13.14 billion to reach Ksh 1,175.39 billion. Equity turnover edged downward by 4.5 percent to record Ksh 1,565.45 million from Ksh 1,638.95 million. The supply of equities fell by 16.8 percent to reach 78.42 million from 94.27 million the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	2-Aug-12	9-Aug-12	16-Aug-12	23-Aug-12	30-Aug-12	6-Sep-12	13-Sep-12	20-Sep-12	4-Oct-12	11-Oct-12	18-Oct-12
NASI 100= Jan 2008	82.98	83.86	83.60	84.01	84.87	85.35	87.22	86.37	87.08	87.85	88.50
NSE 20 Share Index 100=1966	3,825.08	3,823.49	3,804.54	3,817.70	3,875.11	3,888.14	3,953.84	3,934.52	3,961.05	3,997.00	4,023.55
Number of Deals	6,955	5,903	6,230	5,162	6,536	6,335	7,504	7,732	6,534	6,815	6,510.00
Total Shares Traded (millions)	88.12	110.53	59.67	51.18	75.75	83.90	158.31	98.82	106.45	94.28	78.42
Equity Turnover (Ksh. millions)	1,337.42	1,391.64	1,082.45	1,260.28	1,192.08	1,807.91	3,284.60	1,826.56	3,001.31	1,638.95	1,565.45
Market Capitalization (Ksh. Bn.)	1,095.17	1,106.79	1,103.32	1,108.74	1,120.23	1,126.55	1,153.64	1,142.43	1,151.99	1,162.25	1,175.39
Bonds Turnover (Ksh. millions)	11,273.80	16,848.45	9,806.80	17,017.95	29,123.00	22,828.10	24,833.65	23,099.40	16,506.65	13,856.85	13,558.40
FTSE NSE Kenya 15 Index	108.82	110.24	111.01	110.67	112.42	113.61	116.07	115.14	116.36	116.77	118.59
FTSE NSE Kenya 25 Index	111.04	112.81	113.53	113.19	114.77	116.17	118.52	117.56	118.99	119.44	121.19
Index(Jan2012=100)										96.18	93.85

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 1, 2008 = 100)

Source: Nairobi Securities Exchange

Telecommunications & Technology sector was the most active, transacting 23.86 million shares or 30.4 percent of the traded shares in the week. Banking and Manufacturing & Allied sectors came in second and third, with 21.06 million and 10.54 million shares or 26.9 percent and 13.4 percent of the traded shares respectively. Safaricom, Equity Bank Ltd and Mumias Sugar Co. Ltd were the three most active counters with 19.27 million, 8.87 million and 8.73 million shares traded, respectively. Automobile & Accessories sector was least active, trading only 70,900 shares.

The biggest closing and average price gains for the week were for Standard Chartered Bank Ltd and BAT Ltd at Ksh 4.0 and Ksh 5.25, respectively. The biggest closing and average price losses were for Athi River Mining Ltd and Carbacid Investment Ltd at Ksh 7.0 and Ksh 7.17 per share, respectively. Of the 48 active counters, 28 had average price gains in the week under review.

FTSE NSE Kenya Index Series

As indicated in table 7, FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, was up by 160 basis points to record 118.59 points from 116.77 points, while FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the Exchange, rose by 150 basis points to register 121.19 points from 119.44 points during the review period.

On October 3, 2012, the NSE working with FTSE launched the third index series, the FTSE NSE Kenyan Shilling Government Bond Index. It is designed to provide investors with an accurate metric to measure the performance of Kenyan sovereign debt. The index, calculated on both a capital and total return basis, includes Kshs denominated bullet bonds, zero coupon bonds and strippable bonds with a minimum notional of Kshs 5 Billion. The index shed 2.333 points to close October 18, 2012 at 93.849 points from 96.182 points for the week ended October 11, 2012.

The Bond Market

Bond trading activity was low, recording Ksh 13,558 million in turnover for the week ending October 18, 2012 from Ksh 13,857 million the previous week. Corresponding deals however rose by more than half to 212 from 130 the previous week implying rising yields. This may be attributed to a shift by investors to equities given good performance of the blue chip counters.