

December 2, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation rose by 80 basis points from 18.9 percent in October 2011 to 19.7 percent in November 2011, while annual average inflation rose from 11.5 percent in October 2011 to 12.8 percent in November 2011.

The Government offered for sale Ksh 4.0 billion in 91-day Treasury bills, Ksh 3.0 billion in 182-day Treasury bills and Ksh 8.4 billion in the second tranche tap sales for the 12 year infrastructure bond during the week ending December 2, 2011. The 91-day paper performed well at 101.1 percent followed by the 182-day paper at 69.3 percent and finally the bond at 3.3 percent. The average interest rates stood at 16.859 percent and 16.543 percent for the 91-day and 182-day bills, and 16.64 percent for the 12-year infrastructure bond.

Gross Government debt increased by Ksh 19.1 billion from Ksh 764.2 billion in June 2011 to Ksh 783.3 billion as at November 25, 2011. The cumulative interest and other charges on domestic debt from July 1, 2011 to November 25, 2011 amounted to Ksh 27.9 billion compared with Ksh 26.8 billion in the same period of the fiscal year 2010/11.

The average interbank rate declined to 29.89 percent during the week ending November 30, 2011 from 30.28 percent in the previous week. Commercial banks borrowing from the Central Bank overnight window declined to Ksh 4.1 billion during the week compared with Ksh 19.2 billion in the previous week. Reserve money averaged Ksh 245.8 billion during the week and was above target by Ksh 14.6 billion.

The Kenya Shilling strengthened against major international currencies in the week ending December 2, 2011. Against the US dollar the Kenya Shilling appreciated by 0.57 percent to exchange at Ksh 89.95 per US dollar compared with Ksh 90.47 per US dollar in the previous week.

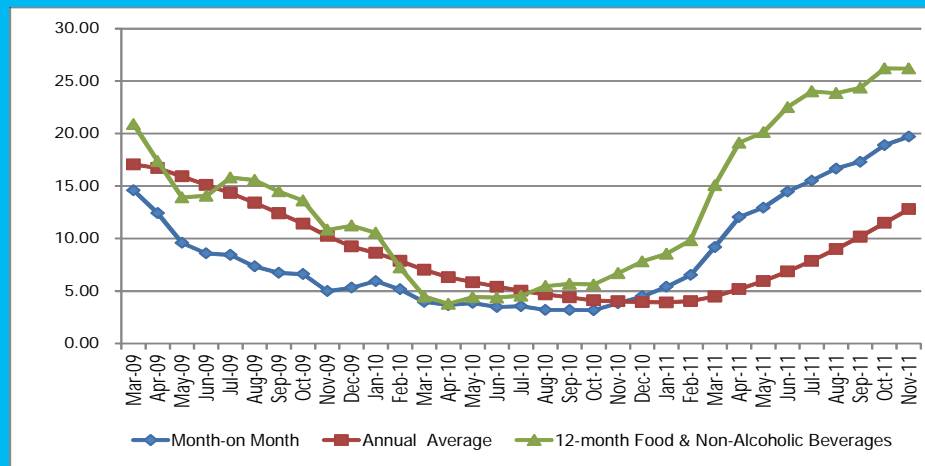
The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3711 million (equivalent to 3.41 months of imports) as at November 25, 2011 to US dollar 3,745 million (equivalent to 3.44 months of imports) in the week ending December 2, 2011.

Overall performance at the stock market trended down in the week ending December 1, 2011. The NSE 20 Share Index dropped 166.2 points as the Nairobi All Share Index (NASI) shed 3.4 points. The FTSE NSE 15 Index and FTSE NSE 25 Index declined further highlighting investor losses during the week. Similar to equities market, volume of bonds traded fell by 22.8 percent in the week. Equity turnover was, however, 0.9 percent up, as investors exited from the equities market. Investors, however, bought more bonds, which are now cheaper, but safer on return.

Inflation

The increase in the overall consumer price index in November 2011 continued to reflect largely increases in the Transport and Food and Non-Alcoholic Beverages indices, which rose by 28.0 percent and 26.2 percent, respectively. The increase in food price index in November 2011 was explained by rising prices of beef, bread, potatoes, chicken, wheat flour and sugar. The Restaurant and Hotels index rose by 21.5 percent in November 2011, while the Housing, Water, Electricity, Gas and Other Fuels' index rose by 17.0 percent. Other baskets recorded modest inflation.

Chart A: Month-on-Month, Annual Average and 12-Month Food and Non-Alcoholic Beverages Inflation Rates



Source: Central Bank of Kenya

Government Securities Auction

The Government offered for sale Treasury bills and Treasury bonds worth Ksh 7.0 billion and Ksh 8.4 billion, respectively, during the week ending December 2, 2011. Demand was low for the infrastructure bond which only attracted bids worth Ksh 0.3 billion, compared with the Ksh 8.4 billion advertised amount. The 91-day bill received bids worth Ksh 4.0 billion, of which Ksh 1.2 billion was accepted. The 182-day Treasury bill had a performance of 69.3 percent.

Interest Rates on Treasury Bills and Bonds

The weighted average interest rate on the 91-day Treasury bills increased by 25.89 basis points to stand at 16.859 percent, while that on the 182-day Treasury bills increased by 7.2 basis points to 16.543 percent during this week's auctions. The average interest rate on the 12-year infrastructure bond tap sales remained at 16.64 percent, as for the original bond issued in October 2011.

Table 1: Interest Rates

Auction date	30-Sep-11	7-Oct-11	14-Oct-11	21-Oct-11	28-Oct-11	4-Nov-11	11-Nov-11	18-Nov-11	25-Nov-11	2-Dec-11
91 day T. Bills*	13.741	14.836	14.997	15.091	15.313	15.743	15.998	16.202	16.601	16.859
182 day T. Bills*	13.493	14.283	14.973	15.287	15.364		15.661	15.738	16.471	16.543
364 day T. Bills*		14.499					16.617			
Month	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jul-11	Aug-11	Sept	Oct	
Average savings rate	1.25	1.41	1.37	1.38	1.38	1.37	1.37	1.35	1.33	
Average overdraft rate	13.93	13.65	13.60	13.68	13.72	13.89	14.28	14.64	14.87	

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Interbank Rates

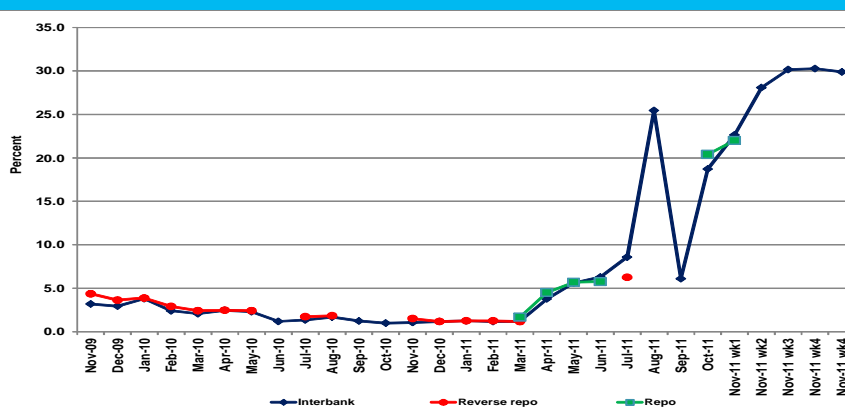
The average interbank rate declined to 29.89 percent during the week ending November 30, 2011 from 30.28 percent in the previous week. Reflecting easing tightness in the interbank liquidity, the average interbank volumes declined rose to Ksh 12.78 billion in the week ending November 30, 2011 from Ksh 14.78 billion in the previous week.

Table 2: Interbank Transactions

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
18-Nov-11	63	16,103	29.70
19-Nov-11	70	13,902	29.48
22-Nov-11	80	15,711	30.25
23-Nov-11	73	14,136	30.62
24-Nov-11	92	14,069	31.36
Nov 18 - Nov 24, 2011	76	14,784	30.28
25-Nov-11	80	14,618	30.87
26-Nov-11	74	11,630	30.66
29-Nov-11	78	15,682	30.34
30-Nov-11	76	10,868	29.67
1-Dec-11	66	11,150	27.89
Nov 25 - Dec 1, 2011	75	12,789	29.89

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

**Monetary
Policy
Operations**

Liquidity tightness in the money market eased during the week ending November 30, 2011. Government net payment partly augmented interbank liquidity. Commercial banks also borrowed Ksh 4.1 billion from the Central Bank overnight window during the week ending November 30, 2011 compared with Ksh 19.1 billion in the previous week. Reserve money averaged Ksh 245.8 billion during the week and exceeded target by Ksh 14.6 billion (Table 3).

Table 3: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Mop up	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
24-Nov-11	240.5	231.2	9.3	0.0	0.0	0.0	244.5	13.4	19.7	-6.3
25-Nov-11	246.2	231.2	15.1	0.0	0.0	0.0	248.6	17.4	23.5	-6.1
28-Nov-11	241.4	231.2	10.3	0.0	0.0	0.0	243.9	12.7	18.5	-5.8
29-Nov-11	242.3	231.2	11.2	0.0	0.0	0.0	245.6	14.4	19.7	-5.3
30-Nov-11	244.5	231.2	13.3	0.0	0.0	0.0	246.2	15.1	20.4	-5.3
Average	243.0	231.2	11.8	0.0	0.0	0.0	245.8	14.6	20.3	-5.8

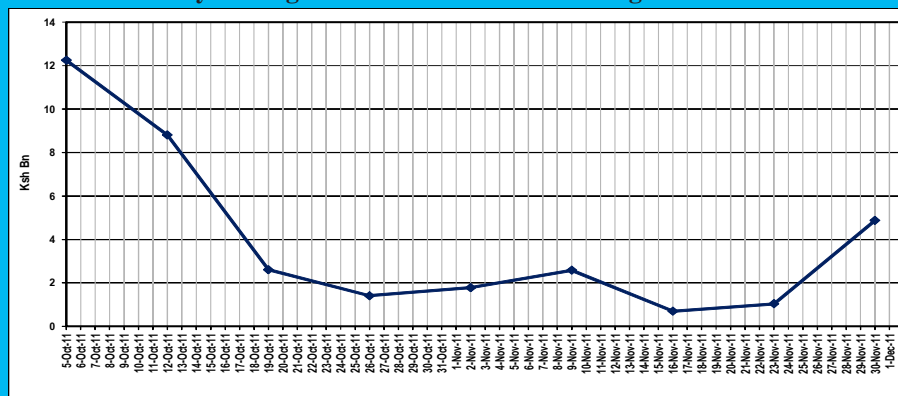
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Account
Balances**

Commercial banks maintained an average of Ksh 4.88 billion in their settlement accounts above the 4.75 percent monthly average cash reserve requirements at the Central Bank in the week to November 30, 2011, up from Ksh 1.04 billion in the previous week (Chart C).

Chart C: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

**The Shilling
Exchange
Rate**

The Kenya Shilling strengthened further against major international currencies in the week ending December 2, 2011. Against the US dollar, the Kenya Shilling appreciated by 0.52 percent to exchange at an average of Ksh 89.95 in the week compared with Ksh 90.47 per US dollar in the week ending November 25, 2011. Against the Sterling Pound, the Euro and the Japanese Yen the Shilling appreciated by 0.60 percent, 0.91 percent and 1.54 percent, respectively, to trade at an average of Ksh 140.31 per Sterling Pound, Ksh 120.37 per Euro and Ksh 115.56 per 100 Japanese Yen in the week ending December 2, 2011 compared to Ksh 141.16 per Sterling Pound, Ksh 121.48 per Euro and Ksh 117.37 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling appreciated against the Uganda Shilling, the Rwanda Franc and Burundi Franc during the week ending December 2, 2011. The Kenya Shilling, however, depreciated against the Tanzania Shilling. On average, the Kenya Shilling exchanged at Ushs 28.48 per Kenya Shilling, Tshs 18.73 per Kenya Shilling, RWF 6.69 per Kenya Shilling and BIF 13.78 per Kenya Shilling during the week, compared with Ushs 28.23 per Kenya Shilling, Tshs 18.86 per Kenya Shilling, RWF 6.66 per Kenya Shilling and BIF 13.75 per Kenya Shilling in the week ending November 25, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
21-Nov-11	91.04	143.33	123.10	118.48	27.66	18.89	6.62	13.69
22-Nov-11	90.67	141.89	122.37	117.69	27.76	18.75	6.64	13.73
23-Nov-11	90.06	140.74	121.23	116.92	28.18	18.89	6.70	13.83
24-Nov-11	90.31	140.39	120.64	117.09	28.79	18.88	6.67	13.79
25-Nov-11	90.27	139.46	120.04	116.66	28.75	18.89	6.66	13.73
Nov 21-25, 2011	90.47	141.16	121.48	117.37	28.23	18.86	6.66	13.75
28-Nov-11	90.56	140.49	120.51	116.67	28.54	18.72	6.66	13.69
29-Nov-11	90.17	140.03	120.48	115.46	28.56	18.71	6.67	13.75
30-Nov-11	89.72	139.81	119.53	115.10	28.64	18.78	6.70	13.82
1-Dec-11	89.60	140.54	120.54	115.28	28.47	18.75	6.72	13.84
2-Dec-11	89.71	140.67	120.80	115.28	28.20	18.69	6.70	13.82
Nov 21-25, 2011	89.95	140.31	120.37	115.56	28.48	18.73	6.69	13.78

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3711 million (equivalent to 3.41 months of imports) as at November 25, 2011 to US dollar 3,745 million (equivalent to 3.44 months of imports) in the week ending December 2, 2011 (Table 5). The net international reserves consistent with the usable reserves on December 2, 2011 was US dollars 80.2 million above the US dollars 3,125 million Monetary Programme target for December 2011.

Table 5: Official Foreign Exchange Reserves (US\$ Million)

	21-Oct-11	28-Oct-11	4-Nov-11	11-Nov-11	18-Nov-11	25-Nov-11	2-Dec-11
Usable Reserves*	3,743	3,723	3,691	3,716	3,697	3,711	3,745
Months of Imports Cover**	3.44	3.42	3.39	3.41	3.39	3.41	3.44

*Excludes encumbered reserves

**Based on 36 month average of imports of

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government debt increased by Ksh 19.1 billion from Ksh 764.2 billion in June 2011 to Ksh 783.3 billion as at November 25, 2011 (Table 6 and Chart D) compared with a decline of Ksh 12.1 billion in the previous week.

Table 6: Government Domestic Debt (Ksh Billion)

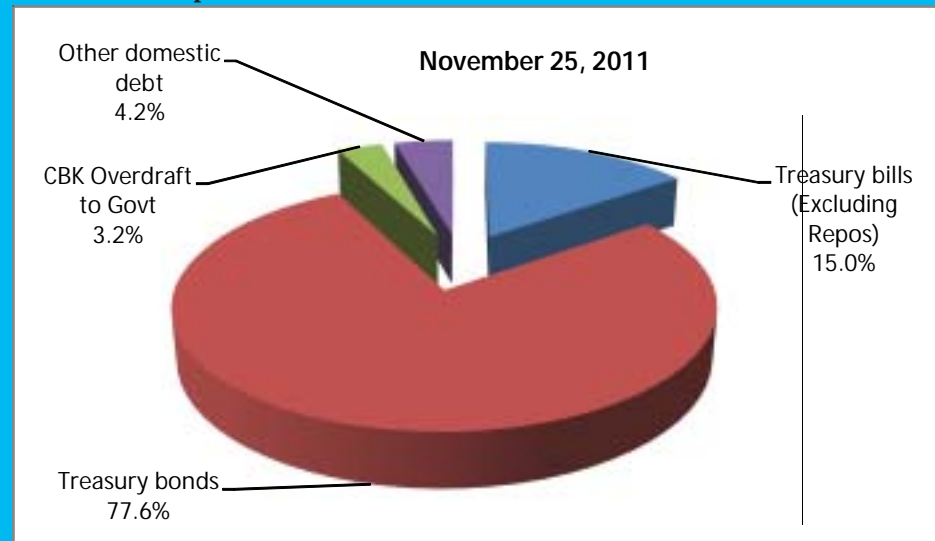
	Jun-11	Sep-11	18th Nov 2011	25th Nov 2011	Changes	
					18th Nov 2011-25th Nov 2011	30th Jun 2011-25th Nov 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	113.7 16.1	129.1 17.5	117.1 16.1	-12.0	-9.6
2. Treasury Bonds (As % of total securities)	595.7 82.5	591.5 83.9	606.2 82.3	606.2 83.6	0.0	10.5
3. Total Securities (1+2+3)	722.4	705.3	736.3	725.3	-11.0	2.9
4. Overdraft at Central Bank	7.6	25.4	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.3	33.6	33.8	32.7	-1.2	-1.6
6. Gross Domestic Debt (4+5+6)	764.22	764.27	795.49	783.34	-12.1	19.1
7. Interest payments on domestic debt	69.2	17.37	24.12	27.85	3.73	

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

Source: Central Bank of Kenya

Treasury bills stocks declined by Ksh 12.0 billion during the week ending November 25, 2011 to close at Ksh 117.1 billion. The bond market was quiet and Government overdraft at the ceiling. The average time to maturity of Government securities stood at 5 years and 10 months.

Chart D: Composition of Government Securities

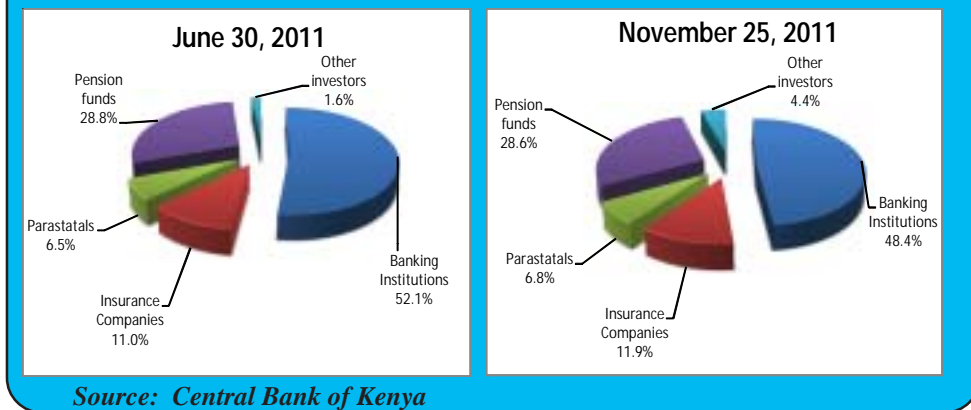


Source: Central Bank of Kenya

Holding of Government Securities

The share of Government securities held by banking institutions and pension funds decreased from 52.1 and 28.8 percent, respectively, in June 2011 to 48.4 and 28.6 percent as at November 25, 2011. Holdings of insurance companies and other investors increased from 11.0 percent and 1.6 percent to 11.9 percent and 4.4 percent, respectively, during the period (Chart E).

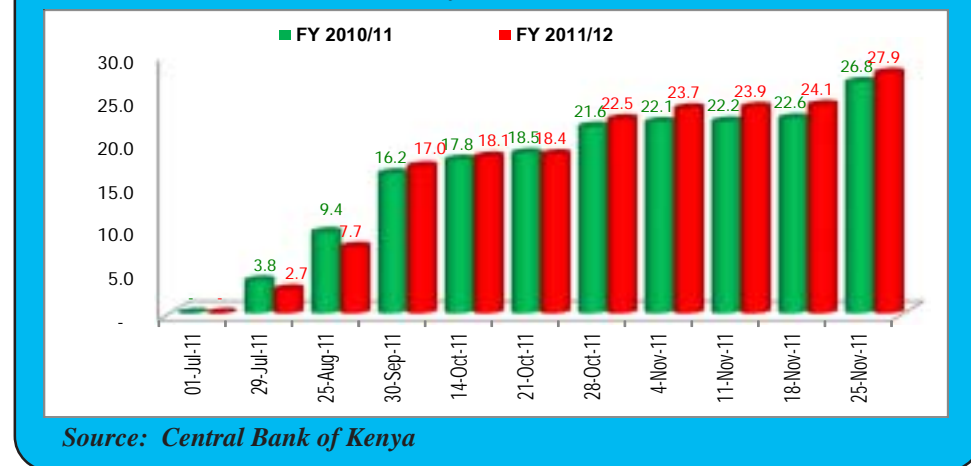
Chart E: Composition of Government Securities by Investor



Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt from July 1, 2011 to November 25, 2011 amounted to Ksh 27.9 billion compared with Ksh 26.8 billion in the same period of the fiscal year 2010/11 (Chart F). The cost during the period comprise of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 3.9 billion and Ksh 23.4 billion, respectively. Government overdraft at Central Bank accounted for Ksh 0.6 billion.

Chart F: Cumulative Interest Payments on Domestic Debt



The Stock Market

The NSE 20 Share Index declined to 3,122.50 points on December 1, 2011 from 3,288.70 points on November 25, 2011. The NASI settled at 66.04 points from 69.46 points during the period. Market Capitalization as a measure of total shareholders’ wealth, shed off Ksh 43.65 billion, closing at Ksh 842.8 billion from last week’s value of Ksh 886.5 billion. The number of shares transacted increased to 57.7 million from 47.6 million the previous week, with equity turnover declining to Ksh 681 million from Ksh 674.6 million during the week. This fall in value against rising volume signify investors’ sell-off to cut losses as bearish conditions persisted in the market.

Table 7: Key Weekly Market Statistics

Week Ending	6-Oct-11	13-Oct-11	19-Oct-11	27-Oct-11	3-Nov-11	10-Nov-11	17-Nov-11	24-Nov-11	1-Dec-11
NASI 100= Jan 2008	69.65	68.52	68.97	70.45	72.53	72.47	71.60	69.46	66.04
NSE 20 Share Index 100=1966	3,281.96	3,290.90	3,300.48	3,381.90	3,497.10	3,447.66	3,370.72	3,288.70	3,122.50
Number of Deals	4,003	5,368	4,993	5,788	5,795	4,041	4,347	3,669	4,113
Total Shares Traded (millions)	102.50	51.00	98.06	253.53	131.80	53.08	89.28	47.60	57.73
Equity Turnover (Ksh. millions)	1,088.30	726.80	595.88	1,727.03	1,013.36	573.59	690.12	674.60	681.02
Market Capitalization (Ksh. Bn.)	889.68	873.70	879.36	898.17	924.70	924.04	913.81	886.49	842.84
Bonds Turnover (Ksh. millions)	9,905.45	8,425.40	7,922.50	7,900.30	3,541.10	4,119.10	7,913.20	6,411.35	7,875.75

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

Source: Nairobi Stock Exchange

Telecommunication and Technology sector remained dominant, with 33.1 million shares, accounting for 47.8 percent of all shares transacted at the bourse. The banking sector transacted 25.8 million shares and the Energy and Petroleum sector 2.94 million shares. Safaricom, Equity Bank and Barclays Bank were the top three active counters trading 31.88 million, 8.4 million and 7.1 million shares, respectively. The least active sector was Automobile Accessories that traded 62,000 shares following suspension of shares of CMC holdings from trading.

The biggest closing and average price gains between the week ending November 24 and December 1, 2011, was City Trust Ltd. at Kshs 20 and Ksh 7 per share, respectively. The biggest closing and average price margin losses were for Standard Chartered Bank at Ksh 21 and Ksh 12.40 per share, respectively. Of the 58 listed companies, only four counters recorded price gains during the week, reflecting investors' losses.

**FTSE NSE
Kenya Index
Series**

The FTSE NSE Kenya 15 Index, which measures performance of stocks of 15 largest companies by market capitalization at the NSE, closed 349 basis points lower at 84.43 points on December 1, 2011 from 87.9 points on November 24, 2011. FTSE NSE Kenya 25 Index, which measures performance of 25 most liquid stocks at the Exchange, also shed 366 basis points to close lower at 86.65 points from 90.3 points. Thus the value of the largest 15 stocks and 25 most liquid stocks at NSE declined in the week.

Bond Market

Bonds trading at the Fixed Income Securities Market improved, with bonds valued at Ksh 7.87 billion traded compared with bonds worth Ksh 6.41 billion in the previous week. Total deals transacted over the period increased to 89 from 65.