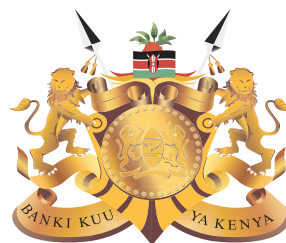


December 23, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

The Government offered for sale Ksh 3.0 billion in 182-day Treasury bills, Ksh 4.0 billion in 91-day Treasury bills and Ksh 10.0 billion in 1-year discounted fixed rate Treasury bonds during the week ending December 23, 2011. Total bids received amounted to Ksh 0.7 billion, Ksh 2.9 billion and Ksh 18.1 billion for the 182-day, 91-day and 1-year paper, respectively. The Government accepted total bids worth Ksh 14.0 billion. The weighted average interest rates were 18.576 percent for the 182-day bill, 18.948 percent for the 91-day bill and 21.408 percent for the 1 year bond.

The average interbank rate increased to 19.74 percent during the week ending December 21, 2011, from 11.92 percent in the previous week. Commercial banks borrowed Ksh 21.1 billion from the Central Bank overnight window during the week to mitigate liquidity tightness attributed to tax payments (corporate and VAT).

The Kenya Shilling strengthened further against main international currencies in the week ending December 21, 2011. Against the US dollar the Kenya Shilling appreciated by 4.48 percent to exchange at an average of Ksh 83.68 per US dollar compared with Ksh 87.60 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased from US\$ 3768 million (equivalent to 3.46 months of imports) as at December 16, 2011 to US\$ 3,800 million (equivalent to 3.42 months of imports) in the week ending December 21, 2011.

Gross domestic debt to Government increased by Ksh 38.2 billion from Ksh 764.2 billion in June 2011 to Ksh 802.5 billion as at December 16, 2011.

The stock market performance was mixed across key indicators in the week ending December 22, 2011. Equity turnover, the NSE 20 Share Index, and market capitalisation improved, while volume of shares traded declined reflecting supply constraints as investors break for the festive season. Turnover at the Fixed Income Securities Market declined.

Government Securities Auction

The Government offered for sale Ksh 3.0 billion in 182-day Treasury bills, Ksh 4.0 billion in 91-day Treasury bills and Ksh 10.0 billion in 1-year discounted fixed rate Treasury bonds during the week ending December 23, 2011. Demand was high for the 1 year bond issue, which attracted bids worth Ksh 18.1 billion, equivalent to a performance rate of 181.1 percent. The total Treasury bill bids received amounted to Ksh 0.7 billion (25.0 percent subscription rate) for the 182-day paper and Ksh 2.9 billion (71.6 percent subscription rate) for the 91-day offer. The Government accepted total bids worth Ksh 14.0 billion of which Ksh 11.1 billion was in the 1-year Treasury bond.

Interest Rate on Treasury Bills & Bonds

During the week's auctions, the weighted average interest rates on the 182-day and 91- day Treasury bills increased by 13.1 and 28.9 basis points, respectively, to 18.576 percent and 18.948 percent. The interest rate on the 1-year bond averaged 21.408 percent.

Table 1 : Interest Rates

Auction date	14-Oct-11	21-Oct-11	28-Oct-11	4-Nov-11	11-Nov-11	18-Nov-11	25-Nov-11	2-Dec-11	9-Dec-11	16-Dec-11
91 day T. Bills*	14.997	15.091	15.313	15.743	15.998	16.202	16.601	16.859	17.126	18.659
182 day T. Bills*	14.973	15.287	15.364		15.661	15.738	16.471	16.543	17.679	18.445
364 day T. Bills*					16.617				20.955	
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 and REPO Rates

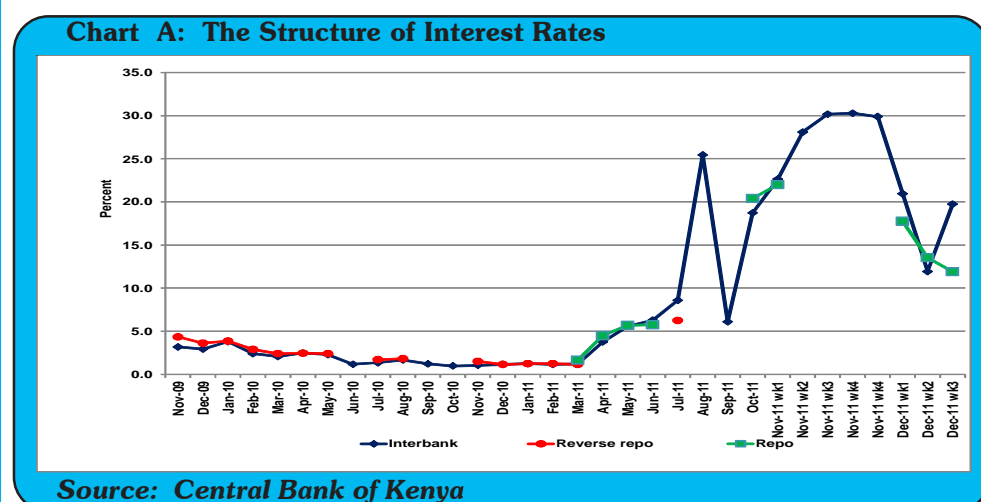
The average interbank rate increased to 19.74 percent during the week ending December 21, 2011, from 11.92 percent in the previous week on account of tax payments which tightened liquidity in the money market. The average interbank volumes rose to Ksh 11.33 billion in the week ending December 21, 2011 from Ksh 10.52 billion in the previous week.

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
9-Dec-11	61	13,945	12.09
12-Dec-11	HOLIDAY		
13-Dec-11	29	3,569	11.79
14-Dec-11	73	14,046	11.89
Dec 9 - Dec 14, 2011	54	10,520	11.92
15-Dec-11	61	14,521	13.58
16-Dec-11	67	13,311	16.55
19-Dec-11	54	7,074	20.33
20-Dec-11	65	10,499	22.70
21-Dec-11	63	11,249	25.55
Dec 15 - Dec 21, 2011	62	11,331	19.74

Source: Central Bank of Kenya

The average repo rate was 11.90 percent in the last repo transaction on December 15, 2011.



Monetary Policy Operations

Reflecting tight liquidity in the interbank market during the week ending December 21, 2011, commercial banks borrowed Ksh 21.1 billion from the Central Bank’s overnight window. The banks resorted to the Window to mitigate liquidity tightness attributed to the tax payments (corporate and VAT) and the need to enhance reserves at the start of the new CRR cycle and observance of the higher CRR of 5.25 percent. Reserve money averaged Ksh 242.9 billion during the week and was within the target (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)
15-Dec-11	239.6	240.2	-0.6	4.0	0.3	-3.8	238.7	-1.5	1.4	-2.9
16-Dec-11	239.6	240.2	-0.6	0.0	0.0	0.0	246.6	6.3	11.3	-4.9
19-Dec-11	241.5	244.8	-3.2	0.0	0.0	0.0	243.9	-0.8	2.8	-3.6
20-Dec-11	234.0	244.8	-10.7	0.0	0.0	0.0	238.7	-6.1	-3.0	-3.1
21-Dec-11	240.1	244.8	-4.7	0.0	0.0	0.0	246.4	1.7	4.3	-2.6
Average	239.0	243.0	-4.0	0.8	0.1	-0.8	242.9	-0.1	3.4	-3.4

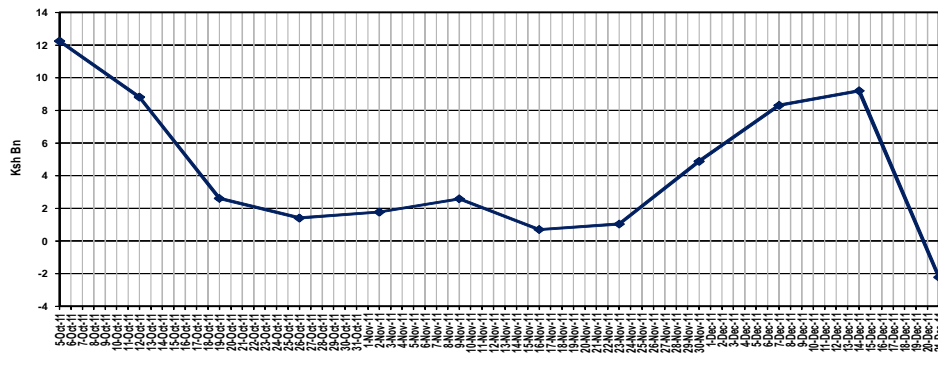
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

Commercial banks maintained an average of Ksh 2.22 billion in their settlement accounts below the 5.25 percent monthly average cash reserve requirements at the Central Bank in the week to December 21, 2011, down from Ksh 9.20 billion above the 4.75 percent average CRR in the previous week (Chart B).

Chart B: Weekly Average Clearing A/c Balances



Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US\$ 3,768 million (equivalent to 3.46 months of imports) as at December 16, 2011 to US\$ 3,800 million (equivalent to 3.42 months of imports) in the week ending December 21, 2011 (Table 5). The usable official foreign exchange reserves level is consistent with the net international reserve (NIR) position of US\$ 3,258 million which is US\$ 133.3 million above the December NIR target of US\$ 3,125 million.

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

	4-Nov-11	11-Nov-11	18-Nov-11	25-Nov-11	2-Dec-11	9-Dec-11	16-Dec-11	21-Dec-11	28-Dec-11
Usable Reserves*	3,691	3,716	3,697	3,711	3,745	3,773	3,768	3,800	
Months of Imports Cover**	3.39	3.41	3.39	3.41	3.44	3.46	3.46	3.42	

*Excludes encumbered reserves

**Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

Government Domestic Debt

Gross domestic debt to Government increased by Ksh 38.2 billion from Ksh 764.2 billion in June 2011 to Ksh 802.5 billion as at December 16, 2011 (Table 6 and Chart C). During the week under review, gross government debt expanded by Ksh 1.6 billion. Treasury securities dominated gross debt and accounted for 92.5 percent of the total debt.

Table 6: Government Domestic Debt (Ksh Billion)

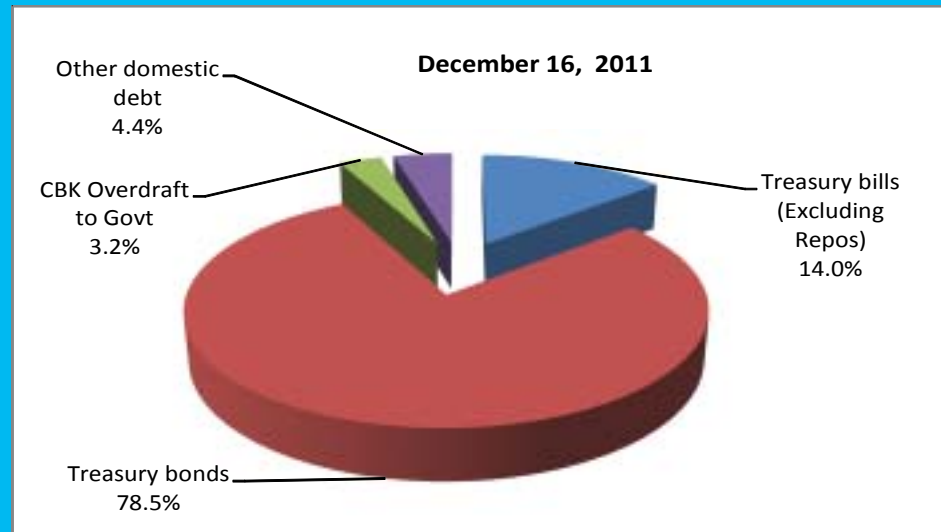
	Jun-11	Sep-11	9th Dec 2011	16th Dec 2011	Changes	
					9th Dec 2011-16th Dec 2011	30th Jun 2011-16th Dec 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	113.7 16.1	124.3 16.8	112.2 15.1	-12.1	-14.5
2. Treasury Bonds (As % of total securities)	595.7 82.5	591.5 83.9	616.4 83.2	629.9 84.9	13.5	34.2
3. Long Term Stocks (As % of total securities)	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0
3. Total Securities (1+2+3)	722.4	705.3	740.7	742.1	1.4	19.7
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	34.8	35.0	0.2	0.8
6. Gross Domestic Debt (4+5+6)	764.22	764.27	800.89	802.46	1.6	38.2
7. Interest payments on domestic debt	69.2	17.37	30.95	31.83	0.89	

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

Source: Central Bank of Kenya

Treasury bonds increased by Ksh 13.5 billion to Ksh 629.9 billion during the week under review following the successful issuance of the second tranche of tap sales for the 4-year bond originally issued in November 2011. This increase was, however, offset by Ksh 12.1 billion decline in the stock of Treasury bills stocks during the week, resulting in Ksh 1.4 billion net increase in Government securities. Other domestic debt increased by Ksh 0.2 billion during the week. Following these developments, the average time to maturity of Government securities declined to 5 years and 9 months, from 5 years and 10 months at the end of June 2011.

Chart C: Composition of Government Securities

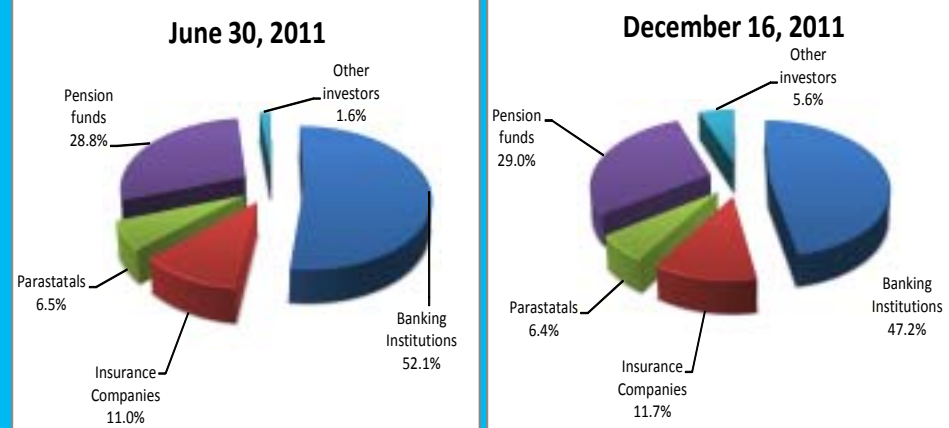


Source: Central Bank of Kenya

Holding of Govt Securities

The share of Government securities held by banking institutions and parastatals decreased from 52.1 and 6.5 percent, respectively, in June 2011 to 47.2, and 6.4 percent as at December 16, 2011. Holdings of insurance companies, pension funds and other investors increased from 11.0, 28.8 and 1.6 percent to 11.7, 29.0 and 5.6 percent, respectively, during the period (Chart D).

Chart D: Composition of Government Securities by Investors

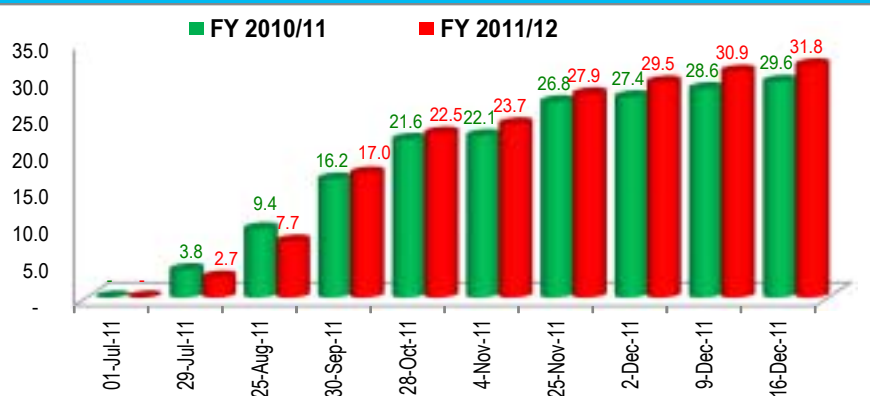


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt from July 1, 2011 to December 16, 2011 amounted to Ksh 31.8 billion compared with Ksh 29.6 billion in the same period of the fiscal year 2010/11 (Chart E). The cost during the period was on account of interest and other charges on Treasury bills and treasury bonds amounting to Ksh 4.8 billion and Ksh 26.0 billion, respectively. Government overdraft at Central Bank accounted for Ksh 1.0 billion.

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



Source: Central Bank of Kenya

The Stock Market

The stock market performance was mixed during the week ending December 22, 2011. The equities market performance improved, while bond market turnover declined.

The NSE 20 Share Index rose to 3,139.7 points on December 22, 2011 from 3,106.9 points on December 15, 2011, while NASI settled at 67.80 points from 65.98 points. Similarly, equity turnover increased by Ksh 143.4 million to trade stocks worth Ksh 1,142.3 million from Ksh 998.8 million. Market Capitalization as a measure of total shareholders' wealth, increased by Ksh 23.10 billion from last week's value of Ksh 842.0 billion. However, the number of shares transacted decreased to 74.5 million from 84.9 million the previous week, reflecting constrained supply as investors break for the festive season.

Table 7: Key Weekly Market Statistics

Week Ending	3-Nov-11	10-Nov-11	17-Nov-11	24-Nov-11	1-Dec-11	8-Dec-11	15-Dec-11	22-Dec-11
NASI 100= Jan 2008	72.53	72.47	71.60	69.46	66.04	65.41	65.98	67.80
NSE 20 Share Index 100=1966	3,497.10	3,447.66	3,370.72	3,288.70	3,122.50	3,109.25	3,106.90	3,139.67
Number of Deals	5,795	4,041	4,347	3,669	4,113	3,958	2,810	3,815
Total Shares Traded (millions)	131.80	53.08	89.28	47.60	69.30	124.00	64.36	74.56
Equity Turnover (Ksh. millions)	1,013.36	573.59	690.12	674.60	1,047.30	954.30	827.68	1,142.34
Market Capitalization (Ksh. Bn.)	924.70	924.04	913.81	886.49	842.84	834.69	841.99	865.09
Bonds Turnover (Ksh. millions)	3,541.10	4,119.10	7,913.20	6,411.35	7,875.75	7,113.55	7,158.15	4,723.35
FTSE NSE Kenya 15 Index				87.90	84.43	83.62	85.42	87.14
FTSE NSE Kenya 25 Index				84.43	86.65	85.81	87.74	89.98

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

Source: Nairobi Stock Exchange

Telecommunication and Technology sector dominated equities, trading 39.4 million shares, or 43.5 percent of all shares transacted at the bourse. Banking sector came second with 28.1 million shares as Commercial and Services sector closed third most active sector, with 14.7 million shares. Safaricom, Equity Bank and Housing Finance maintained top three active

counters with 32.9 million, 12.1 million and 10.6 million shares, respectively. The least active sector was Automobile and Accessories with 67,400 shares. The biggest closing and average price gains in the week ending December 22, 2011 were British American Tobacco at Ksh 11 and Ksh 15.50 per share, respectively. The biggest closing and average price margin losses were for Standard Group and Standard Chartered Bank at Ksh 2.75 and 6.0 per share, respectively. Of the 58 listed companies, 25 counters recorded average price gains for the whole week, reflecting investors' improved appetite.

**FTSE NSE
Kenya Index
Series**

The FTSE NSE Kenya 15 Index, which measures performance of stocks of 15 largest companies by market capitalization at NSE, gained 2.2 basis points to level 87.14 points on December 22, 2011 from 85.0 points on December 15, 2011. FTSE NSE Kenya 25 Index, which measures performance of 25 most liquid stocks at the Exchange, gained 2.7 basis points to 89.98 points from 87.3 points during the previous week. Thus, the value of the largest 15 stocks and 25 most liquid stocks at NSE increased in the week.

Bond Market

Bonds trading at the Fixed Income Securities Market dropped from Ksh 7,158 billion for the week ending December 15, 2011 to Ksh 4,723.3 billion for the week ending December 22, 2011. Total deals transacted over the period increased to 93 from 68. The fall in bond turnover may be attributed to investors' interest in buying cheap equities and the 1-year fixed coupon bond offered in the primary market that realized 181 percent subscription and returned an attractive nominal yield (coupon rate) of 21.4 percent.