

December 30, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation eased from 19.7 percent in November 2011 to 18.9 percent in December 2011, while annual average inflation rose from 12.8 percent in November 2011 to 14.0 percent in December 2011.

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 8.4 billion in the third tranche of tap sales for the 12- year infrastructure bond during the week ending December 30, 2011. Total bids received amounted to Ksh 0.4 billion, Ksh 2.7 billion and Ksh 1.3 billion for the 182 and 91 day Treasury bills, and the 12- year tap sales, respectively. The Government accepted Ksh 2.2 billion in 91 day Treasury bills, and virtually all the 182 day Treasury bills bids and the tap sale bids during the week. The weighted average interest rates stood at 20.24 percent for the 182- day bill, 19.91 percent for the 91-day bill and 16.64 percent for the tap sale, during the week.

The average interbank rate increased to 29.00 percent during the week ending December 28, 2011 from 19.74 percent in the previous week. Commercial banks borrowed Ksh 3.28 billion from the Central Bank overnight window during the week to mitigate liquidity tightness.

The Kenya Shilling appreciated slightly against major international currencies in the week ending December 28, 2011. Against the US dollar the Kenya Shilling appreciated by 0.03 percent to exchange at Ksh 83.65 per US dollar compared with Ksh 83.68 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased from US \$ 3,800 million (equivalent to 3.42 months of imports) as at December 21, 2011 to US\$ 4,000 million (equivalent to 3.60 months of imports) in the week ending December 28, 2011.

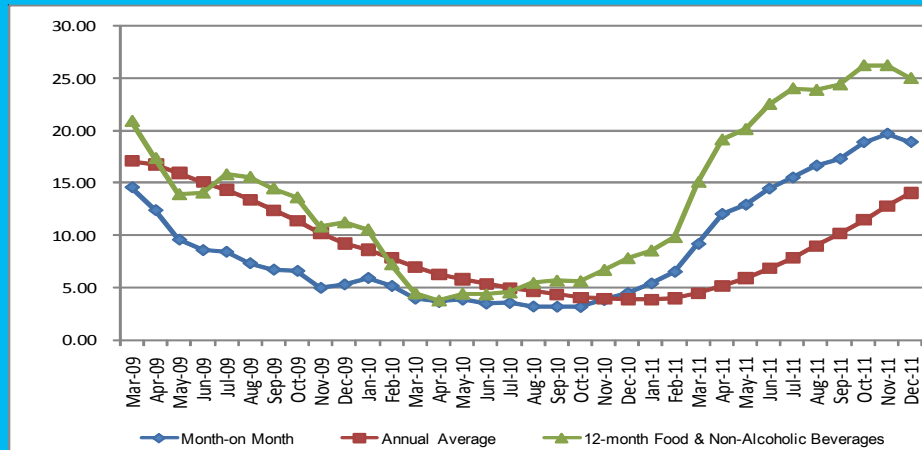
Gross Government debt increased by Ksh 27.4 billion from Ksh 764.2 billion in June 2011 to Ksh 791.6 billion as at December 23, 2011. The cumulative interest and other charges on domestic debt from July 1, 2011 to December 23, 2011 amounted to Ksh 34.0 billion compared with Ksh 31.4 billion in the same period of the fiscal year 2010/11.

The stock market performance was mixed across key indicators in the week ending December 29, 2011. The NSE 20 Share Index rose 20.36 points as the Nairobi All Share Index (NASI) gained 0.05 points. The tradable FTSE NSE 15 Index and FTSE NSE 25 Index added more value, highlighting investors' hunt for bargains for cheap stocks amid reduced supply. Volume of bonds traded dropped by 12.0 percent in the week due to holidays. Equity turnover and volume of shares traded declined by 85.3 percent and 89.2 percent, respectively.

Inflation

The slowdown in the overall consumer price index in December 2011 was largely reflective of a slowdown in the Transport and Food and Non-Alcoholic Beverages indices, which rose by 25.6 percent and 25.0 percent, respectively in December 2011 compared with 28.0 percent and 26.2 percent in November 2011. The Restaurant and Hotels index rose at a slower rate of 19.9 percent in December 2011, while inflation in the Housing, Water, Electricity, Gas and Other Fuels' index eased to 16.7 percent. Reduced inflation was also reflected in Recreation and Culture, Health, and Communication categories of 11.4 percent, 6.7 percent and 4.9 percent, respectively, in December 2011. Marginal increases were however recorded in the Education, Furnishings, Household Equipment and Routine Household Maintenance, Alcoholic Beverages, Tobacco and Narcotics and Clothing and Footwear indices of 4.7 percent, 13.5 percent, 13.1 percent and 11.5 percent, respectively, in December 2011 (Chart A).

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 Ksh 3.0 billion in 182-day Treasury bills, Ksh 4.0 billion in 91-day Treasury bills and Ksh 8.4 billion in the third tranche of tap sales for the 12- year infrastructure bond during the week ending December 30, 2011. Demand was low for the 182 day bill and the bond tap sale which performed at 12.3 and 19.4 percent, respectively. Total bids received amounted to Ksh 0.4 billion for the 182-day paper, Ksh 2.7 billion for the 91-day paper and Ksh 1.3 billion for the Treasury bond tap sale. The Government accepted total bids in bills and bonds worth Ksh 3.9 billion, during the week.

Interest Rates on Treasury Bills and Bonds

During the week's auctions, the weighted average interest rates on the 182-day and 91- day Treasury bills increased by 166.8 and 95.7 basis points to stand at 20.24 and 19.91 percent, respectively. The average interest rate on the 12-year infrastructure bond tap sale remained at 16.64 percent (Table1).

Table 1: Interest Rates

Auction date	14-Oct-11	21-Oct-11	4-Nov-11	11-Nov-11	18-Nov-11	25-Nov-11	2-Dec-11	9-Dec-11	16-Dec-11	23-Dec-11	30-Dec-11
91 day T. Bills*	14.997	15.091	15.743	15.998	16.202	16.601	16.859	17.126	18.659	18.948	19.905
182 day T. Bills*	14.973	15.287		15.661	15.738	16.471	16.543	17.679	18.445	18.576	20.244
364 day T. Bills*				16.617				20.955			
Month	Jan-11	Feb-11	Apr-11	May-11	Jul-11	Aug-11	Sept	Oct	Nov		
Average savings rate	1.25	1.41	1.38	1.38	1.37	1.37	1.35	1.33	1.41		
Average overdraft rate	13.93	13.65	13.68	13.72	13.89	14.28	14.64	14.87	18.67		

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Interbank Rates

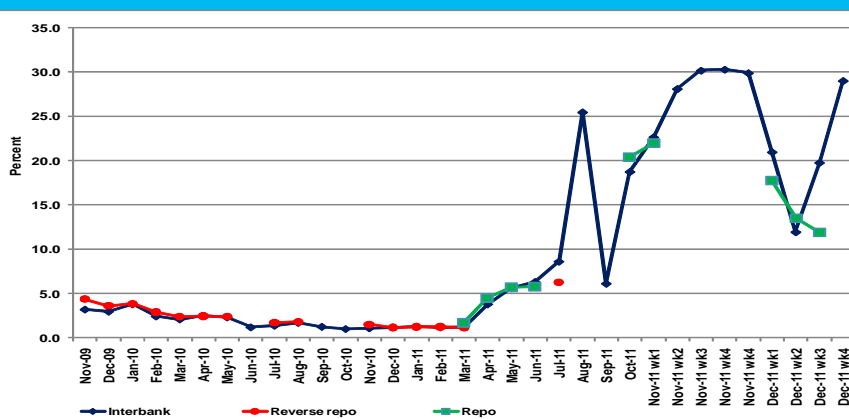
The average interbank rate increased to 29.00 percent during the week ending December 28, 2011 from 19.74 percent in the previous week attributed to liquidity tightness in the money market. The average interbank volumes rose to Ksh 12.81 billion in the week ending December 28, 2011 from Ksh 11.33 billion in the previous week (Table 2 and Chart B).

Table 2: Interbank Transactions

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
22-Dec-11	58	10,923	27.63
23-Dec-11	70	15,924	29.34
26-Dec-11	HOLIDAY		
27-Dec-11	61	11,909	30.23
28-Dec-11	66	12,500	28.79
Dec 22 - Dec 28, 2011	64	12,814	29.00

Source: Central Bank of Kenya

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

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

**Monetary
Policy
Operations**

Liquidity was tight in the money market during the week ending December 28, 2011. Commercial banks borrowed Ksh 3.28 billion from the Central Bank overnight window during the week ending December 28, 2011. Reserve money averaged Ksh 252.2 billion during the week and was Ksh 7.4 billion above the target (Table 3).

Table 3: Open Market Operations (Ksh Billion)

Date	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)
22-Dec-11	242.6	244.8	-2.1	0.0	0.0	0.0	246.7	1.9	3.6	-1.7
23-Dec-11	257.1	244.8	12.3	0.0	0.0	0.0	257.5	12.7	12.6	0.1
26-Dec-11	HOLIDAY									
27-Dec-11	253.0	244.8	8.3	0.0	0.0	0.0	252.7	8.0	6.6	1.4
28-Dec-11	253.9	244.8	9.1	0.0	0.0	0.0	251.9	7.1	5.6	1.5
Average	251.7	244.8	6.9	0.0	0.0	0.0	252.2	7.4	7.1	0.4

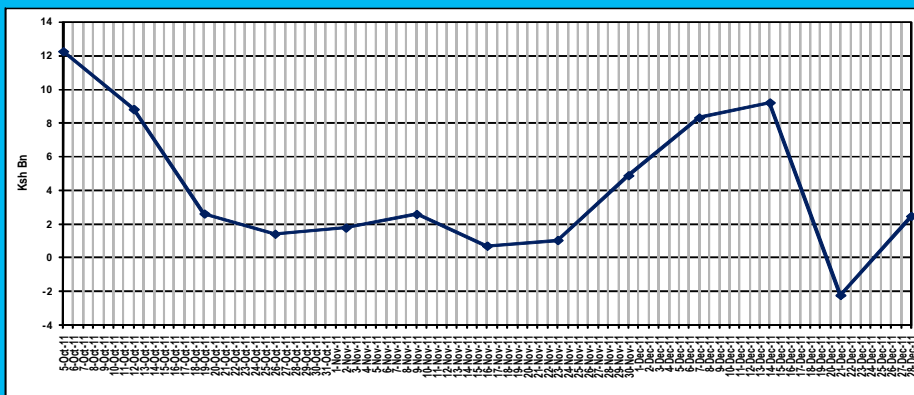
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Account
Balances**

Commercial banks maintained an average of Ksh 2.47 billion in their settlement accounts below the 5.25 percent monthly average cash reserve requirements at the Central Bank in the week to December 28, 2011, down from Ksh 2.22 billion above the 5.25 percent average CRR 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 appreciated slightly against the US dollar and the Japanese Yen to exchange at Ksh 83.65 per US dollar and Ksh 107.27 per 100 Japanese Yen in the week ending December 28, 2011 compared to Ksh 83.68 per US dollar and Ksh 107.46 per 100 Japanese Yen in the previous week.

The Kenya Shilling however depreciated slightly against the Sterling Pound and the Euro to Ksh 131.00 per Sterling Pound and Ksh 109.29 per Euro in the week ending December 28, 2011 compared to Ksh 130.21 per Sterling Pound, and Ksh 109.12 per Euro in the previous week, respectively.

The appreciation of the shilling was due to inflows from the agricultural sector, tourism sector and increased remittances from the Diaspora. In addition, there was low demand for the dollar during the week.

In the EAC region, the Kenya Shilling strengthened against the other East African currencies during the week ending December 28, 2011. The Kenya shilling strengthened against the Tanzania Shilling and the Burundi Franc. The Kenya shilling remained stable against the Rwanda Franc but depreciated against the Uganda shilling. On average, the Kenya shilling exchange at Ushs 29.07 per Kenya Shilling, Tshs 19.03 per Kenya shilling, RWF 7.20 per Kenya shilling and BIF 15.78 per Kenya Shilling during the week, compared with Ushs 28.27 per Kenya Shilling, Tshs 19.07 per Kenya shilling, RWF 7.20 per Kenya shilling and BIF 15.87 per Kenya Shilling in the week ending December 21, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
Dec 5-8, 2011	89.63	140.10	119.98	115.27	27.71	18.28	6.72	14.36
13-Dec-11	89.55	139.76	118.12	114.97	27.30	18.01	6.73	14.83
14-Dec-11	88.98	137.76	115.98	114.14	27.06	18.06	6.76	14.93
15-Dec-11	87.28	134.78	113.33	111.79	27.27	18.27	6.91	15.22
16-Dec-11	84.60	131.28	110.22	108.66	28.23	19.03	7.12	15.71
Dec 13-16, 2011	87.60	135.89	114.41	112.39	27.47	18.34	6.88	15.17
19-Dec-11	83.69	129.67	108.85	107.32	28.34	19.20	7.21	15.86
20-Dec-11	83.83	130.14	108.94	107.59	28.21	18.97	7.19	15.83
21-Dec-11	83.52	130.84	109.57	107.46	28.26	19.04	7.21	15.91
Dec 19-21, 2011	83.68	130.21	109.12	107.46	28.27	19.07	7.20	15.87
22-Dec-11	83.55	130.84	109.01	107.04	28.66	18.99	7.20	15.50
23-Dec-11	83.69	131.29	109.41	107.12	29.28	18.94	7.21	15.88
27-Dec-11	83.65	130.77	109.36	107.37	28.99	19.18	7.21	15.88
28-Dec-11	83.72	131.08	109.38	107.56	29.33	19.03	7.20	15.86
Dec 22-28, 2011	83.65	131.00	109.29	107.27	29.07	19.03	7.20	15.78

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US \$ 3,800 million (equivalent to 3.42 months of imports) as at December 21, 2011 to US\$ 4,000 million (equivalent to 3.60 months of imports) in the week ending December 28, 2011 (Table 5). The usable official foreign exchange reserves level is consistent with the net international reserve (NIR) position of US\$ 3,286 million which is US\$ 160.6 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	4,000
Months of Imports Cover**	3.39	3.41	3.39	3.41	3.44	3.46	3.46	3.42	3.60

*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 Government debt increased by Ksh 27.4 billion from Ksh 764.2 billion in June 2011 to Ksh 791.6 billion as at December 23, 2011 (Table 6 and Chart D). During the week under review, gross government debt reduced by Ksh 9.7 billion, following Treasury bill and Treasury bond redemptions as shown below.

Table 6: Government Domestic Debt (Ksh Billion)

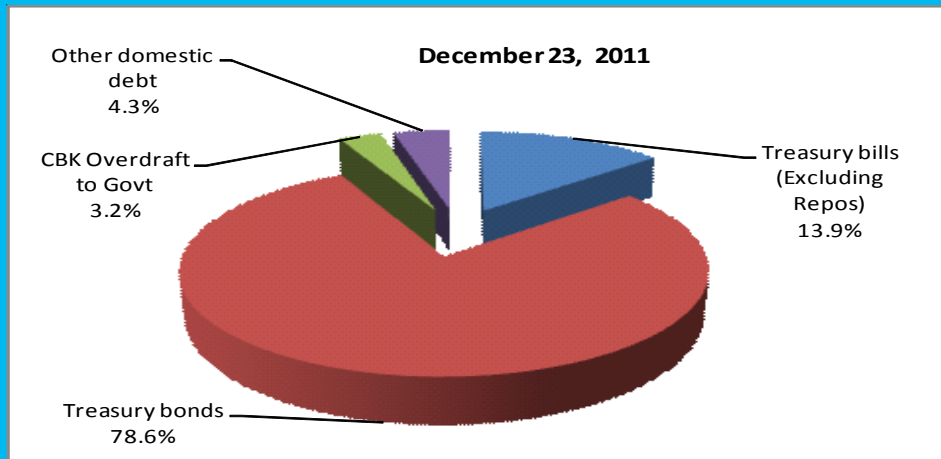
	Jun-11	Sep-11	16th Dec 2011	23rd Dec 2011	Changes	
					16th Dec 2011- 23rd Dec 2011	30th Jun 2011- 23rd Dec 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	113.7 16.1	112.2 15.1	110.1 15.0	-2.1	-16.6
2. Treasury Bonds (As % of total securities)	595.7 82.5	591.5 83.9	629.9 84.9	622.4 85.0	-7.4	26.8
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
3. Total Securities (1+2+3)	722.4	705.3	742.1	732.6	-9.5	10.2
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	33.9	33.7	-0.2	-0.6
6. Gross Domestic Debt (4+5+6)	764.22	764.27	801.33	791.59	-9.74	27.37
7. Interest payments on domestic debt	69.2	17.37	31.83	33.97	2.14	

* 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 declined by Ksh 7.4 billion to stand at Ksh 622.4 billion, while Treasury bill stocks declined by Ksh 2.1 billion, during the week under review. Similarly, other domestic debt declined during the week to stand at Ksh 33.7 billion. 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 D: Composition of Government Securities

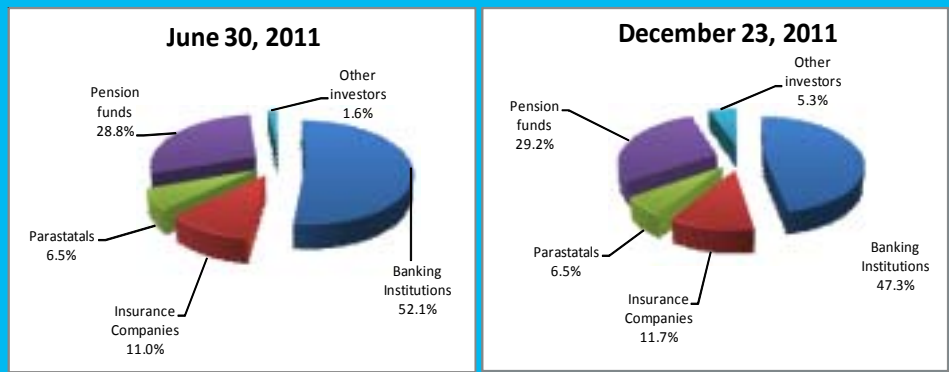


Source: Central Bank of Kenya

Holding of Government Securities

The share of Government securities by banking institutions decreased from 52.1 percent in June 2011 to 47.3 percent as at December 23, 2011. Holdings of insurance companies, pension funds and other investors increased from 11.0, 28.8 and 1.6 percent to 11.7, 29.2 and 5.3 percent, respectively, during the period under review (Chart E).

Chart E: Composition of Government Securities by Investor

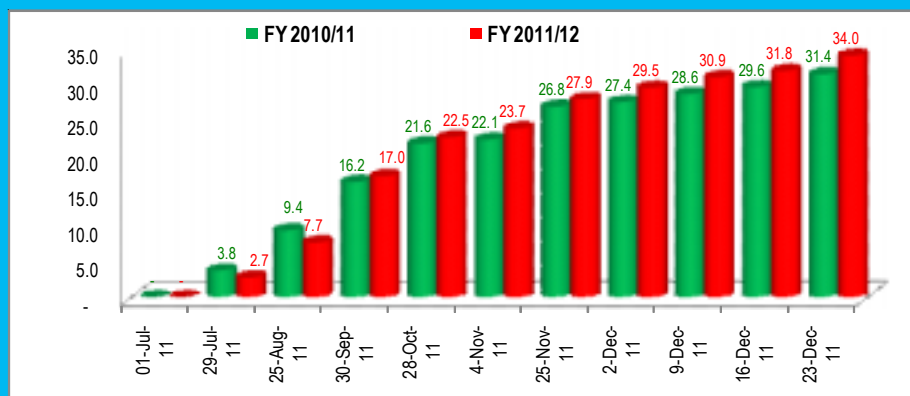


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt from July 1, 2011 to December 23, 2011 amounted to Ksh 34.0 billion compared with Ksh 31.4 billion in the same period of the fiscal year 2010/11 (Chart F). The cost during the period was on account of interest and other charges on Treasury bills and treasury bonds amounting to Ksh 5.5 billion and Ksh 27.5 billion, respectively. Government overdraft at central bank accounted for Ksh 1.0 billion.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The NSE 20 Share Index rose to 3,160.03 points on December 29, 2011 from 3,139.67 points on December 22, 2011 while NASI settled at 67.85 points from 67.80 points. Market Capitalization as a measure of total shareholders' wealth increased by Ksh 0.9 billion from last week's value of Ksh 86.5 billion. However, equity turnover decreased by Ksh 974.9 million to trade stocks worth Ksh 167.43 million from Ksh 1,142.3 million. And the number of shares transacted decreased to 8.0 million from 74.5 million of the previous week (Table 7).

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	29-Dec-11
NASI 100= Jan 2008	72.53	72.47	71.60	69.46	66.04	65.41	65.98	67.8	67.85
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	3,160.03
Number of Deals	5,795	4,041	4,347	3,669	4,113	3,958	2,810	3,815	1,886
Total Shares Traded (millions)	131.80	53.08	89.28	47.60	69.30	124.00	64.36	74.56	8.05
Equity Turnover (Ksh. millions)	1,013.36	573.59	690.12	674.60	1,047.30	954.30	827.68	1,142.34	167.38
Market Capitalization (Ksh. Bn.)	924.70	924.04	913.81	886.49	842.84	834.69	841.99	865.09	865.97
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	4,168.60
FTSE NSE Kenya 15 Index				87.90	84.43	83.62	85.42	87.14	89.35
FTSE NSE Kenya 25 Index				84.43	86.65	85.81	87.74	89.98	91.64

* 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, trading 7.6 million shares, which accounted for 36.3 percent of all shares transacted at the bourse. Manufacturing & Allied sector came second with 6.1 million shares as Banking sector closed third most active sector, with 4.5 million shares. Safaricom, Equity Bank and Mumias Sugar maintained top three active counters with 7.5 million, 1.2 million and 5.7 million shares, respectively. The least active sector was Automobile and Accessories with 4,600 shares.

The biggest closing and average price gains in the week ending December 29, 2011 were Athi River Mining & British American Tobacco at Ksh 8 and Ksh 3.75 per share, respectively. The biggest closing and average price margin losses were for Bamburi Cement at Ksh 13 and Kshs 5 per share, respectively. Of the 58 listed companies, 32 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 89.35 points on December 29, 2011 from 87.14 points on December 22, 2011. FTSE NSE Kenya 25 Index, which measures performance of 25 most liquid stocks at the Exchange, gained 1.7 basis points to 91.64 points from 89.98 points during the previous week. 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 4,723 billion for the week ending December 22, 2011 to Ksh 4,168 billion for the week ending December 29, 2011. Total deals transacted over the period decreased to 81 from 93.