

April 5, 2012



### THE CBK WEEKLY BULLETIN

#### Highlights for the Week

Overall 12-month inflation declined by 108 basis points from 16.7 percent in February 2012 to 15.6 percent in March 2012 reflecting further easing of food and fuel inflation.

The Monetary Policy Committee maintained the Central Bank Rate at 18 percent on April 4, 2012 to support reduction of inflation rate and stability of the exchange rate.

The money market liquidity improved during the week ending April 3, 2012 supported by government payments and foreign exchange purchases by the Central Bank from interbank market.

The average interbank rate declined to 19.89 percent during the week ending April 4, 2012 from 23.13 percent in the previous week reflecting increased money market liquidity.

The Kenya Shilling depicted mixed performance against major international currencies in the week ending April 5, 2012. Against the US dollar the Kenya Shilling weakened to exchange at an average of Ksh 83.09 per US dollar compared with Ksh 83.06 per US dollar in the week ending March 29, 2012.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 4,365 million (equivalent to 3.84 months of imports) as at March 29, 2012 to US dollar 4,416 million (equivalent to 3.86 months of imports) in the week ending April 5, 2012.

During the week ending April 5, 2012 the Government offered for sale Treasury bills worth Ksh 10.0 billion. A total of Ksh 7.9 billion was accepted out of Ksh 12.2 billion bids received.

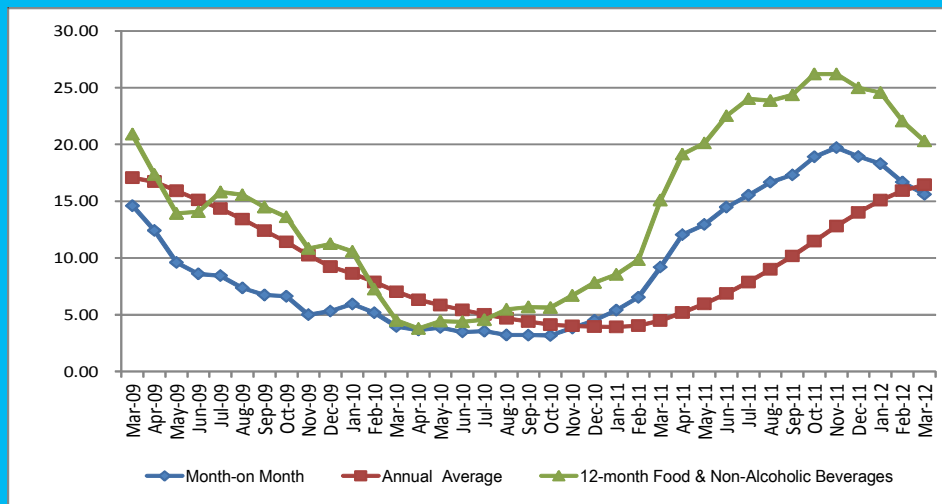
Gross Government domestic debt increased by Ksh 123.7 billion from Ksh 764.2 billion in June 2011 to Ksh 887.9 billion at the end of March, 2012. During the week under review, gross government domestic debt increased by Ksh 10.9 billion on account of Treasury bond and Treasury bill issues.

Stock market performance improved in the week of April 4, 2012 as shown by most market indicators. The NSE 20 Share Index gained 48.58 points and the Nairobi All Share Index (NASI) that capture share prices for all listed companies gained 0.46 points. FTSE NSE 15 Index and FTSE NSE 25 Index both gained by 1.77 points and 1.65 points, respectively. Market Capitalization and number of shares traded gained 0.6 percent and 47.0 percent respectively. However equity turnover and the bonds segment of the market declined by 18.9 percent and 51.3 percent, respectively.

**Inflation**

Overall 12-month inflation eased by 108 basis points from 16.7 percent in February 2012 to 15.6 percent in March 2012 (Chart A). The decline in the overall inflation in March 2012 reflected largely in the Transport and Food and Non-Alcoholic Beverages indices, which rose by 13.0 percent and 20.3 percent, respectively, in March 2012 compared with 15.9 percent and 22.1 percent, respectively, in February 2012. Inflation in the Housing, Water, Electricity, Gas and Other Fuels index also eased to 13.0 percent in March 2012 from 13.8 percent in February 2012.

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



Source: Central Bank of Kenya

**Monetary Policy Stance**

The Monetary Policy Committee met on April 4, 2012 to review relevant market developments since the previous meeting in March 2012. The Committee:

- Noted that the tight stance monetary policy continued to yield desired results - inflation had declined, the exchange rate stabilized and private sector credit growth had slowed down
- Decided to maintain the tight monetary policy stance, with the Central Bank rate at 18 percent, to foster continued decline in inflation towards the Government target of 9 percent and stability of the exchange rate.

**Monetary Policy Operations**

Liquidity in the money market improved during the week ending April 3, 2012 supported by government payments and foreign exchange purchases by the Central Bank from interbank market. Reserve money averaged Ksh 263.4 billion during the week and was above the target by Ksh 19.9 billion. The excess reserve money was held as bank reserves of Ksh 19.1 billion (Table 1).

**Table 1: 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)
29-Mar-12	258.5	243.1	15.4	0.0	0.0	0.0	258.5	15.4	14.1	1.3
30-Mar-12	263.5	243.1	20.4	0.0	0.0	0.0	263.7	20.6	19.3	1.3
2-Apr-12	265.1	243.9	21.2	0.0	0.0	0.0	266.3	22.3	21.8	0.6
3-Apr-12	265.6	243.9	21.7	0.0	0.0	0.0	265.2	21.2	21.1	0.2
<b>Average</b>	<b>263.2</b>	<b>243.5</b>	<b>19.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>263.4</b>	<b>19.9</b>	<b>19.1</b>	<b>0.8</b>

\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Interbank and REPO Rates**

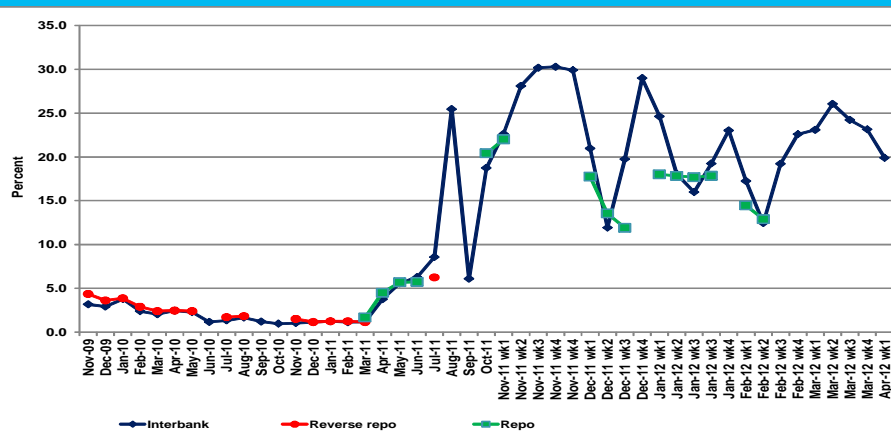
The average interbank rate declined to 19.89 percent during the week ending April 4, 2012 from 23.13 percent in the previous week supported by increased money market liquidity. The average interbank volumes transacted remain relatively unchanged at Ksh 10.73 billion in the week ending April 4, 2012 compared to Ksh 10.86 billion in the previous week. The average number of deals increased to 71 in the week ending April 4, 2012 from 65 deals in the previous week (Table 2 and Chart B).

**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
22-Mar-12	60	7,710	22.58
23-Mar-12	72	9,879	23.02
26-Mar-12	46	6,684	23.29
27-Mar-12	71	15,348	23.30
28-Mar-12	77	14,667	23.49
<b>Mar 22- Mar 28 2012</b>	<b>65</b>	<b>10,858</b>	<b>23.13</b>
29-Mar-12	77	12,214	23.21
30-Mar-12	79	12,541	22.95
2-Apr-12	67	9,646	21.82
3-Apr-12	69	9,909	18.78
4-Apr-12	61	9,337	12.71
<b>Mar 29- Apr 04 2012</b>	<b>71</b>	<b>10,729</b>	<b>19.89</b>

Source: Central Bank of Kenya

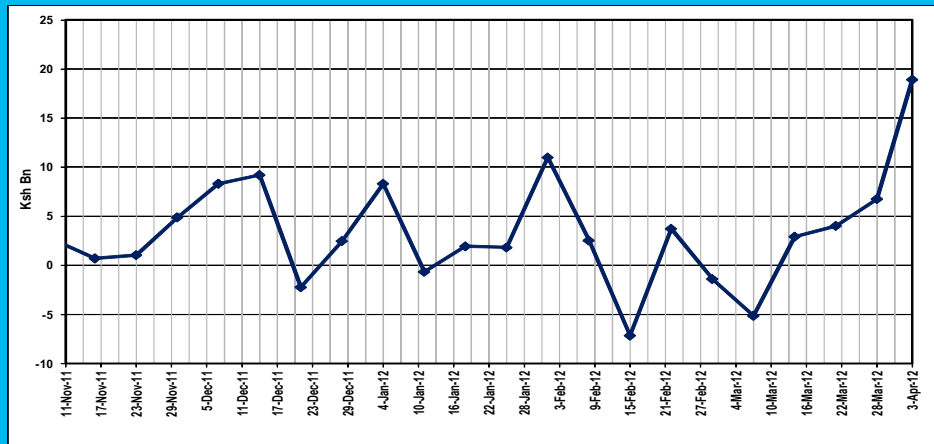
**Chart B: The Structure of Interest Rates**



Source: Central Bank of Kenya

Commercial banks increased average balances held in their settlement accounts with the Central Bank to Ksh 18.90 billion above the monthly average cash reserve requirements of 5.25 percent in the week to April 3, 2012 compared with Ksh 6.76 billion in the previous week (Chart C). The increase underscores the improved liquidity in the interbank market.

**Chart C: Weekly Average Clearing A/c Balances**



Source: Central Bank of Kenya

**The Shilling Exchange Rate**

The Kenya Shilling depicted mixed performance against major international currencies in the week ending April 5, 2012. It depreciated marginally against the US dollar, the Sterling Pound and Japanese Yen and appreciated against the Euro compared to the week ending March 29, 2012

During the week, the Kenya Shilling depreciated marginally to exchange at an average of Ksh 83.09 per US dollar, Ksh 132.62 per Sterling Pound and Ksh 100.84 per 100 Japanese Yen, compared with an average of Ksh 83.06 per US dollar, 132.06 per Sterling Pound and Ksh 100.31 per 100 Japanese Yen, in the week ending March 29, 2012. During the same week the Shilling strengthened against the Euro to trade at an average of Ksh110.31 per Euro compared to Ksh 110.38 per Euro in the week ending March 29, 2012 (Table 3).

**Table 3: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
<b>March 16- March 22, 2012</b>	<b>82.85</b>	<b>131.19</b>	<b>109.37</b>	<b>99.27</b>	<b>30.01</b>	<b>19.25</b>	<b>7.29</b>	<b>15.64</b>
23-Mar-12	83.11	131.43	109.68	100.32	29.99	19.18	7.25	15.70
26-Mar-12	83.03	131.70	110.05	100.52	30.25	19.22	7.26	15.59
27-Mar-12	83.10	132.65	110.90	100.28	30.20	19.19	7.25	15.58
28-Mar-12	83.03	132.46	110.70	100.02	30.23	19.21	7.27	15.60
29-Mar-12	83.02	132.06	110.55	100.41	30.30	19.21	7.28	15.53
<b>March 23- March 29, 2012</b>	<b>83.06</b>	<b>132.06</b>	<b>110.38</b>	<b>100.31</b>	<b>30.19</b>	<b>19.20</b>	<b>7.26</b>	<b>15.60</b>
30-Mar-12	83.06	132.75	110.86	101.34	30.28	19.14	7.27	15.45
2-Apr-12	83.10	132.86	110.87	100.03	30.32	19.17	7.27	15.37
3-Apr-12	83.07	133.19	110.80	101.24	30.22	19.15	7.25	15.71
4-Apr-12	83.18	132.20	109.76	100.64	30.00	19.15	7.30	15.61
5-Apr-12	83.07	132.11	109.26	100.96	29.92	19.11	7.30	15.55
<b>March 30- April 5, 2012</b>	<b>83.09</b>	<b>132.62</b>	<b>110.31</b>	<b>100.84</b>	<b>30.15</b>	<b>19.14</b>	<b>7.28</b>	<b>15.54</b>

Source: Central Bank of Kenya

In the EAC region, the Kenya Shilling weakened slightly against the Uganda Shilling, Tanzania Shilling and the Burundi Franc and strengthened against the Rwanda Franc. On average, the Kenya Shilling exchanged at Ushs 30.15, Tshs 19.14, RWF 7.28 and BIF 15.54 during the week, compared with Ushs 30.19, Tshs 19.20, RWF 7.26 and BIF 15.60 during the week ending March 29, 2012 (Table 3).

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 4,365 million (equivalent to 3.84 months of imports) as at March 29, 2012 to US dollar 4,416 million (equivalent to 3.86 months of imports) in the week ending April 5, 2012 (Table 4). The accumulation of official reserves is within the March-June 2012 profile under the current money programme

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

	10-Feb-12	17-Feb-12	23-Feb-12	1-Mar-12	9-Mar-12	16-Mar-12	22-Mar-12	29-Mar-12	5-Apr-12
Usable Reserves*	4,025	4,017	4,074	4,140	4,195	4,260	4,311	4,365	4,416
Months of Imports Cover**	3.59	3.58	3.63	3.69	3.69	3.75	3.80	3.84	3.86

\*Excludes encumbered

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

Source: Central Bank of Kenya

### Government Securities Auction

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 3.0 billion in 364-day Treasury bills during the week ending April 5, 2012. The 364-day and 182-day Treasury bills recorded 206.7 percent and 139.7 percent performance rates, respectively, while the 91-day Treasury bills performed at 44.3 percent, during the week. Of the Ksh 12.2 billion bids received, Ksh 6.2 billion was in the 364-day paper, while Ksh 4.2 billion was in the 182-day paper. The Government accepted Ksh 7.9 billion worth of Treasury bills, of which non-competitive bids were marginal at Ksh 0.8 billion.

### Interest Rate on Treasury Bills & Bonds

Weighted average interest rates on the 91-day, 182-day and 364-day Treasury bills declined further during the week under review by 38.8 basis points, 70.0 basis points and 12.0 basis points, respectively, to stand at 16.340 percent, 16.960 percent and 16.915 percent.

**Table 5 : Interest Rates**

Auction date	14-Oct-11	21-Oct-11	27-Jan-12	3-Feb-12	10-Feb-12	17-Feb-12	24-Feb-12	2-Mar-12	9-Mar-12	16-Mar-12	23-Mar-12	30-Mar-12	5-Apr-12
91 day T. Bills*	14.997	15.091	20.614	20.503	19.807	19.332	19.152	18.745	17.983	17.461	17.006	16.728	16.340
182 day T. Bills*	14.973	15.287	20.801	20.723	20.024	19.839	19.247	18.757	18.377	18.112	17.726	17.660	16.960
364 day T. Bills*				20.956					17.035				16.915
1 year FXD T. Bonds			21.082				18.030				16.432		
12-year Infrastructure Bond				16.640			16.640						
Month	Jan-11	Feb-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12			
Average savings rate	1.25	1.41	1.37	1.37	1.35	1.33	1.41	1.59	1.62				
Average overdraft rate	13.93	13.65	13.89	14.28	14.64	14.87	18.67	20.20	20.38				

\*Weighted rates for accepted bids

**Source: Central Bank of Kenya**

## Government Domestic Debt

Gross Government domestic debt increased by Ksh 123.7 billion from Ksh 764.2 billion in June 2011 to Ksh 887.9 billion at the end of March, 2012 (Table 6 and Chart D). During the nine months, the stocks of Treasury bonds, Treasury bills and overdraft at the Central Bank increased by Ksh 87.9 billion, Ksh. 18.7 billion and Ksh 17.8 billion, respectively. Other domestic debt, however, declined by Ksh 0.7 billion to stand at Ksh 33.5 billion.

**Table 6: Government Domestic Debt (Ksh Billion)**

	Jun-11	Dec-11	23rd Mar 2012	30th Mar 2012	Changes	
					23rd Mar 2012-30th Mar 2012	30th Jun 2011 - 30th Mar 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	107.1 14.5	143.4 17.5	145.5 17.5	2.1	18.7
2. Treasury Bonds (As % of total securities)	595.7 82.5	633.5 85.5	674.8 82.5	683.6 82.5	8.8	87.9
3. Total Securities (1+2)	722.4	740.6	818.2	829.0	10.9	106.6
4. Overdraft at Central Bank	7.6	25.4	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.3	34.7	33.5	33.5	0.0	-0.7
6. Gross Domestic Debt (3+4+5)	764.2	800.7	877.1	887.9	10.9	123.7
7. Interest payments on domestic debt	69.2	37.7	54.2	56.1	1.9	

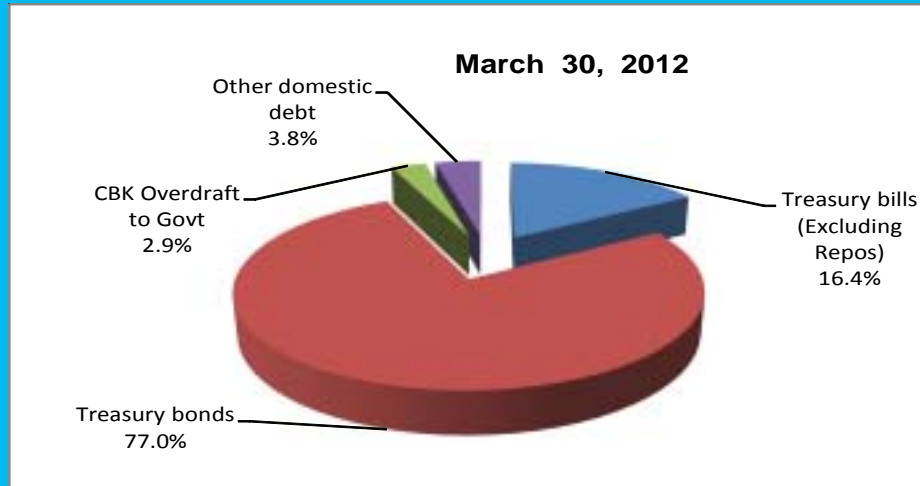
\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

**Source: Central Bank of Kenya**

During the week ending March 30, 2012, gross domestic debt increased by Ksh 10.9 billion compared with the previous week's position, following increases of Ksh. 8.8 billion and Ksh 2.1 billion in the stocks of Treasury bonds and Treasury bills, respectively. Other domestic debt and Government overdraft at the Central Bank remained unchanged at Ksh 25.4 billion during the week. The average time to maturity of Government securities declined to 5 years and 6 months as at March 30, 2012, from 5 years and 10 months at the end of June 2011.

**Chart D: Composition of Government Securities**

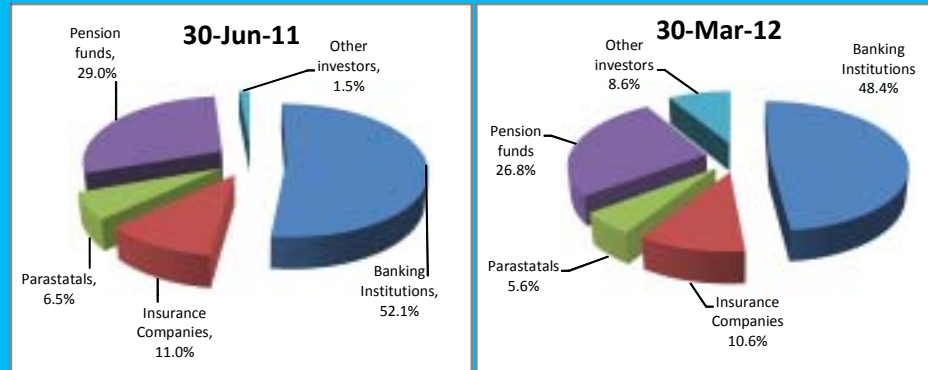


Source: Central Bank of Kenya

**Holding of Govt Securities**

The banking institutions continued to dominate the market for Government securities, holding 48.4 percent of total value of securities outstanding by March 30, 2012. Pension funds, parastatals and insurance companies accounted 26.8 percent, 5.6 percent and 10.6 percent, respectively, of outstanding Government securities. Holdings of other investors increased from 1.5 percent to 8.6 percent during the same period (Chart E).

**Chart E: Composition of Government Securities by Investors**

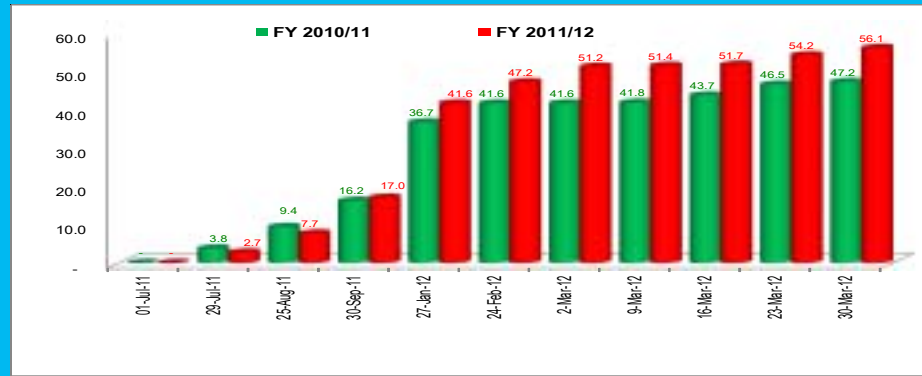


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

Cumulative interest and other charges on domestic debt amounted to Ksh 56.1 billion for the period July 2011 to March 30, 2012 compared with Ksh 47.2 billion during the same period of the Fiscal Year 2010/11 (Chart F). The cost during the period under review was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 9.2 billion and Ksh 44.8 billion, respectively. Interest and other charges on Government overdraft at Central Bank accounted for Ksh 2.1 billion. During the week under review, total interest on domestic debt amounted to Ksh 1.9 billion.

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



Source: Central Bank of Kenya

## The Stock Market

Performance at the capital markets recovered in the week ending April 4, 2012. Most of the key market indicators in equities segments recorded gains. However, the equity and bonds turnover recorded losses attributed to a shift by investors to short term government securities, and a shorter trading week due to Easter holidays.

As indicated in Table 7, the NSE 20 Share Index rose to 3,408.70 points on April 4, 2012 from 3,360.12 points on March 29, 2012, while NASI was 73.92 points, up from 73.46 points. Market Capitalization which measures total shareholders' wealth gained by Ksh 5.9 billion to stand at Ksh 946.6 billion. Equity turnover shed off Ksh 307.7 million to trade stocks worth Ksh 1,318.0 million from Ksh 1,625.7 million the previous week. The number of shares traded increased to 122.56 million from 83.40 million.

**Table 7: Key Weekly Market Statistics**

Week Ending	16-Feb-12	23-Feb-12	1-Mar-12	8-Mar-12	15-Mar-12	22-Mar-12	29-Mar-12	4-Apr-12
NASI 100= Jan 2008	69.94	70.19	72.37	74.52	73.056	72.98	73.46	73.92
NSE 20 Share Index 100=1966	3,154.46	3,208.63	3,312.15	3,394.29	3,326.35	3,293.91	3,360.12	3408.7
Number of Deals	5,090	5,165	5,207	5,825	5,395	5,981	5,398	4128
Total Shares Traded (millions)	99.15	57.68	59.93	74.09	74.74	81.64	83.40	122.5627
Equity Turnover (Ksh. millions)	960.77	738.65	1,010.89	1,401.98	1,225.36	1,632.56	1,625.72	1318.003
Market Capitalization (Ksh. Bn.)	892.59	895.82	923.57	951.00	932.29	931.45	940.61	946.604
Bonds Turnover (Ksh. millions)	6,196.55	6,366.60	7,991.50	9,913.05	12,514.05	9,095.10	8,751.55	4262.35
FTSE NSE Kenya 15 Index	93.22	94.14	95.62	98.40	96.56	97.43	97.88	99.65
FTSE NSE Kenya 25 Index	94.96	95.98	97.75	100.65	98.76	99.32	99.70	101.35

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

Source: Nairobi Stock Exchange

Telecommunications and Technology sector was the most active, transacting 77.06 million shares or 63.0 percent followed by Banking at 34.59 million shares or 28.3 percent. Automobile and Accessories sector closed among the top three most active sectors with 3.21 million shares. Safaricom, Housing Finance and Equity Bank were the top three most active counters with 76.9 million, 24.4 million and 6.3 million shares traded, respectively. Agriculture



sector was least active, trading 118,000 shares only in the week ending April 4, 2012.

The stock that recorded the biggest closing and average price gains in the week ending April 4, 2012 was Athi River Mining Ltd. at Ksh 9 and Ksh 6.50, respectively. The biggest closing price loss was with Carbacid Investments Ltd. at Ksh 8 while the biggest average price margin losses were with Jubilee Holdings Ltd. at Ksh 8.75 per share. Of the 54 listed companies, 16 had average price declines in the week.

**FTSE NSE  
Kenya Index  
Series**

The FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization rose to 99.65 points on April 4, 2012 from 97.88 points on March 29, 2012. FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange rose to 101.35 points from 99.70 points during the previous week.

**Bond Market**

Bonds trading at the Fixed Income Securities Segment dropped to Ksh 4,262.4 million for the week ending April 4, 2012 from Ksh 8,751.6 million for the week ending March 29, 2012. Total deals transacted over the period dropped to 46 from 125 of previous week. This may be attributed to a shift by investors to short term government securities.