



August 3, 2012

Highlights

Overall 12-month inflation declined from 10.0 percent in June 2012 to 7.7 percent in July 2012 reflecting reductions in the month-on-month change in 'Food and Non-Alcoholic Beverages', 'Restaurants and Hotels' and 'Transport' indices.

The money market was relatively liquid during the week ending August 1, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 12.2 billion through repo securities and Ksh 9.8 billion through term auction deposits against repo maturities of Ksh 3.0 billion and term auction deposits maturities of Ksh 18.8 billion.

The average interbank rate decreased to 11.31 percent during the week ending August 1, 2012 from 13.92 percent in the previous week. The decline in the interbank rate reflected improved liquidity in the money market.

The Kenya Shilling exchange rate was relatively stable against major international currencies in the week ending August 2, 2012. Against the US dollar the Kenya Shilling depreciated marginally to trade at Ksh 84.22 per USD compared with Ksh 84.21 per USD in the week ending July 26, 2012.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 4,928 million (equivalent to 4.03 months of import cover) as at July 26, 2012 to US dollar 4,976 million (equivalent to 4.07 months of import cover) in the week ending August 2, 2012.

The Government offered for sale Treasury bills worth Ksh 8.0 billion during the week ending August 3, 2012. A total of Ksh 10.5 billion was accepted out of Ksh 20.4 billion bids received.

Gross Government domestic debt increased by Ksh 2.5 billion to stand at Ksh 861.3 billion on July 27, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 1.9 billion, on account of Government overdraft at the Central Bank.

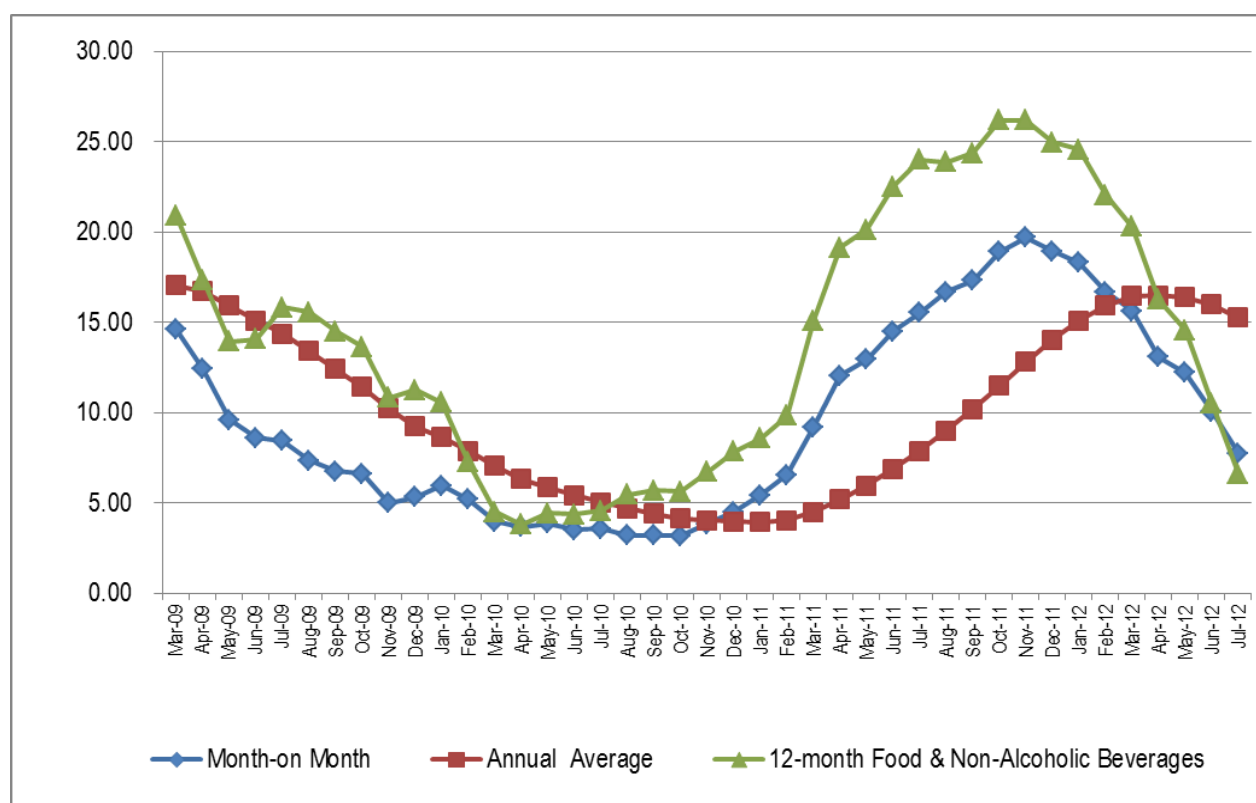
Stock market performance was low in the week ending August 2, 2012, with most of the market indicators reflecting losses. All share indices dropped; NSE 20 Share Index was down 53.44 points, NASI closed 1.37 points lower, and FTSE NSE 15 Index and FTSE NSE 25 were down 2.61 points and 2.79 points, respectively. Equity turnover fell by 5.6 percent as the supply went down by 22.5 percent. Market capitalization was also on the losing side declining by 1.5 percent. However, the bonds market activity was on the rise recording a 14.0 percent rise in turnover.

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Inflation

Overall 12-month inflation declined from 10.0 percent in June 2012 to 7.7 percent in July 2012 (Chart A). The decline in the overall inflation in July 2012 was reflected largely in the 'Food and Non-Alcoholic Beverages', 'Restaurants and Hotels' and 'Transport' indices, which declined to 6.6 percent, 14.7 percent and 5.2 percent, respectively, in July 2012 compared with 10.5 percent, 17.0 percent and 7.6 percent, respectively, in June 2012.

Chart A: Month-on-month Annual Average and 12-Month food & non-alcoholic beverages Inflation Rates



Source: Central Bank of Kenya

Monetary Policy Stance

The Monetary Policy Committee met on July 5, 2012 to review relevant market developments since the previous meeting in June 2012. The Committee noted that the tight monetary policy stance continued to deliver favorable macroeconomic outcomes. Inflation has declined significantly towards the Government short-term target of 9 percent while the exchange rate remains stable. It concluded that the range of monetary policy instruments was robust and should bring down inflation the medium target and sustain general price stability. The Committee therefore decided to reduce the Central Bank Rate (CBR) by 150 basis points to 16.5 percent from 18 percent.

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Monetary Policy Operations

The money market was relatively liquid during the week ending August 1, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 12.2 billion through repo securities and Ksh 9.8 billion through term auction deposits against repo maturities of Ksh 3.0 billion and term auction deposits maturities of Ksh 18.8 billion. Reserve money averaged Ksh 255.6 billion during the week and was Ksh 0.7 billion above the target (Table 1).

Table 1: 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)
26-Jul-12	256.63	255.0	1.7	1.0	0.9	0.1	0.0	255.8	0.8	9.8	-8.9
27-Jul-12	268.07	255.0	13.1	3.0	2.0	1.0	0.0	264.6	9.6	18.8	-9.1
30-Jul-12	264.76	255.0	9.8	9.0	3.8	5.2	0.0	256.8	1.8	10.7	-8.9
31-Jul-12	260.79	255.0	5.8	8.0	3.0	2.0	-3.0	251.4	-3.5	4.5	-8.0
1-Aug-12	254.43	254.8	-0.3	4.0	2.5	1.5	0.0	249.6	-5.2	1.9	-7.0
Average	260.9	254.9	6.0	5.0	2.4	2.0	-0.6	255.6	0.7	9.1	-8.4

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate decreased to 11.31 percent during the week ending August 1, 2012 compared with 13.92 percent in the previous week. The decline in the interbank rate reflected improved liquidity in the money market. The average interbank volumes transacted decreased to Ksh 10.26 billion compared with Ksh 12.40 billion transacted in the previous week while the average number of deals decreased to 58 deals from 64 deals the previous week (Table 2 and Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

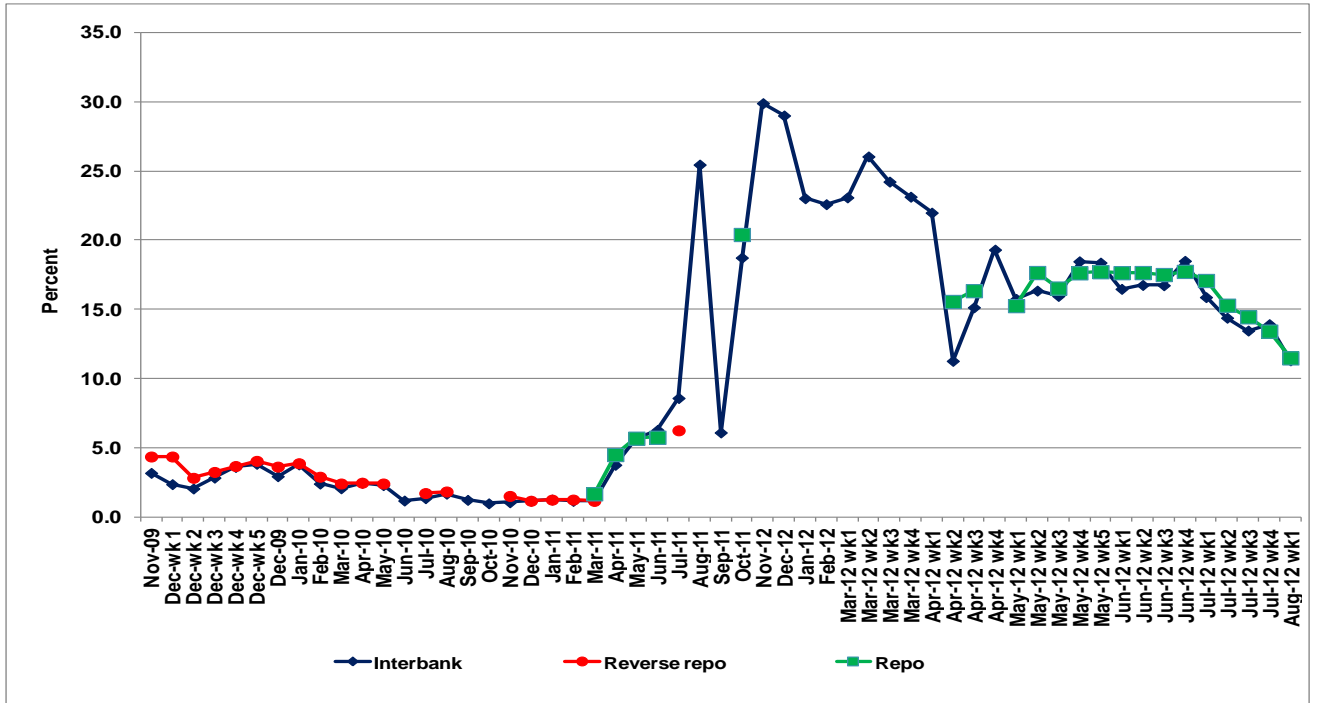
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
19-Jul-12	70	14,122	13.98
20-Jul-12	59	12,541	14.19
23-Jul-12	60	11,808	14.15
24-Jul-12	61	10,836	13.97
25-Jul-12	69	12,709	13.32
July 19 - July 25, 2012	64	12,403	13.92
26-Jul-12	57	10,107	12.98
27-Jul-12	55	11,371	11.24
30-Jul-12	52	7,769	10.82
31-Jul-12	60	11,177	10.76
1-Aug-12	66	10,891	10.73
July 26 -August 1, 2012	58	10,263	11.31

Source: Central Bank of Kenya

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The average repo rate decreased to 11.48 percent during the week ending August 1, 2012 from 13.42 percent in the previous week.

Chart A: The Structure of Interest Rates



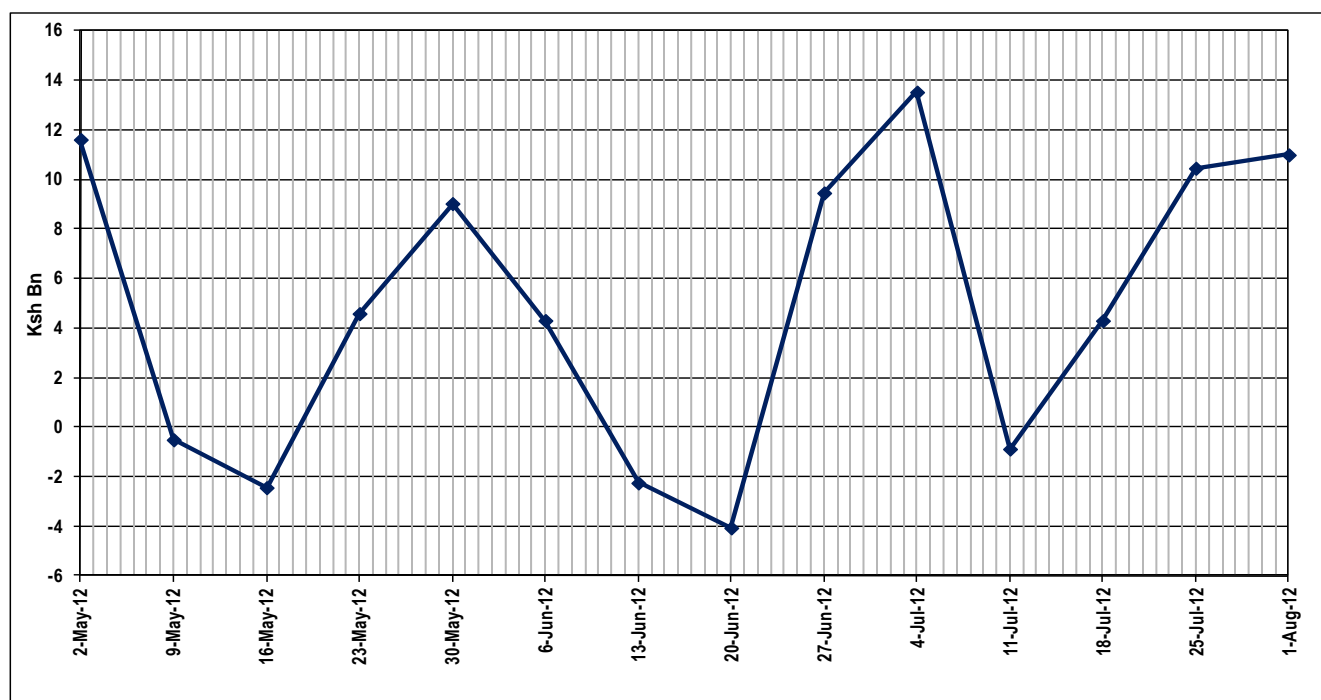
Source: Central Bank of Kenya

The average repo rate decreased to 17.08 percent during the week ending July 4, 2012 from 17.73 percent in the previous week.

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 11.0 billion in their settlement accounts above the monthly average cash reserve requirements of 5.25 percent at the Central Bank in the week to August 1, 2012 compared with Ksh 10.46 billion in the previous week (Chart B).

Chart B: Weekly Average Deviation from CRR in the Clearing Account



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling exchange rate was relatively stable against major international currencies in the week ending August 2, 2012. Against the US dollar the Kenya Shilling depreciated marginally to trade at Ksh 84.22 per USD compared with Ksh 84.21 per USD in the week ending July 26, 2012. During the same week, the Kenya Shilling depreciated by 0.48 percent, 0.83 percent and 0.05 percent against the Sterling Pound, the Euro and the Japanese Yen respectively to trade at an average of Ksh 131.95 per Sterling Pound, Ksh 103.45 per Euro and Ksh 107.62 per 100 Japanese Yen compared with Ksh 131.32 per Sterling Pound, Ksh 102.60 per Euro and Ksh 107.57 per 100 Japanese Yen in the week ending July 26, 2012.

In the EAC region, the Kenya Shilling strengthened against the Uganda Shilling and weakened against the Tanzania Shilling. Against the Rwanda Franc and the Burundi Franc the Shilling remained stable and traded at the same level as the previous week. On average the Kenya Shilling traded at Ush 29.47, Tsh 18.74, RWF 7.19 and BIF 16.95 during the week compared with Ush 29.39, Tsh 18.81, RWF 7.19 and BIF 16.95 in the week ending July 26, 2012 (Table 3).

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Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
20-Jul-12	84.14	132.15	103.13	107.06	29.35	18.85	7.19	16.67
23-Jul-12	84.19	131.16	101.95	107.74	29.34	18.84	7.19	16.75
24-Jul-12	84.26	130.82	102.14	107.57	29.31	18.82	7.18	17.09
25-Jul-12	84.23	130.40	102.27	107.77	29.46	18.78	7.20	17.33
26-Jul-12	84.20	132.05	103.50	107.77	29.46	18.78	7.20	16.92
July 20-26, 2012	84.21	131.32	102.60	107.58	29.38	18.81	7.19	16.95
27-Jul-12	84.20	132.05	103.50	107.69	29.51	18.78	7.19	16.92
30-Jul-12	84.20	132.33	103.46	107.45	29.43	18.71	7.22	17.17
31-Jul-12	84.21	132.37	103.41	107.69	29.45	18.76	7.20	16.73
1-Aug-12	84.24	131.98	103.65	107.87	29.44	18.74	7.18	16.92
2-Aug-12	84.23	131.00	103.22	107.38	29.50	18.74	7.18	17.00
July 27 - August 2, 2012	84.22	131.95	103.45	107.62	29.47	18.74	7.19	16.95

Source Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 4,928 million (equivalent to 4.03 months of import cover) as at July 26, 2012 to US dollar 4,976 million (equivalent to 4.07 months of import cover) in the week ending August 2, 2012 (Table 4).

Table 4: Official Foreign Exchange Reserves

	24-May-12	31-May-12	7-Jun-12	14-Jun-12	21-Jun-12	28-Jun-12	5-Jul-12	12-Jul-12	19-Jul-12	26-Jul-12	2-Aug-12
Usable Reserves*	4,549	4,425	4,564	4,560	4,936	4,924	4,903	4,860	4,936	4,928	4,976
Months of Imports Cover**	3.86	3.75	3.87	3.86	4.18	4.13	4.11	4.08	4.04	4.03	4.07

*Excludes encumbered reserves

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

Source Central Bank of Kenya

Government Securities Auction

During the week ending August 3, 2012, the Government offered for sale Ksh 4.0 billion each in 91 day and 182 day Treasury bills. Demand was high during the week with the 91 day paper attracting Ksh 12.9 billion worth of bids, equivalent to 321.7 percent performance rate. Similarly, the 182 day paper attracted bids amounting to Ksh 7.6 billion, representing a performance rate of 189.1 percent. The Government accepted Ksh 5.4 billion of the 91 day paper and Ksh 5.1 billion of the 182 day paper. Total non-competitive bids received amounted to Ksh 0.7 billion.

Interest Rates on Government securities

Weighted average interest rates on the 91 day and 182 day Treasury bills declined by 36.2 and 34.1 basis points respectively, to stand at 12.864 percent and 13.038 percent during this week's auction.

Table 5: Government Securities Interest rates

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Auction date	22-Jun-12	29-Jun-12	6-Jul-12	13-Jul-12	20-Jul-12	27-Jul-12	3-Aug-12
91 day T. Bills*	10.675	10.780	10.835	12.001	12.929	13.226	12.864
182 day T. Bills*	10.857	11.091	11.415	12.354	12.801	13.379	13.038
364 day T. Bills*			13.000				
1 year FXD T. Bonds							
2 year FXD T. Bonds							
5 year FXD T. Bonds						13.548	
10year FXD T. Bonds	12.705					13.630	
12-year Infrastructure Bond							

*Weighted rates for accepted bids

Source Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 2.5 billion to stand at Ksh 861.3 billion on July 27, 2012, from Ksh 858.8 billion at the end of June 2012. This followed Ksh 18.1 billion increase in the Government overdraft at the Central Bank, which was partially offset by decreases of Ksh 7.2 billion, Ksh 8.3 billion and Ksh 0.2 billion in the stocks of Treasury bonds, Treasury bills and other domestic debt, respectively.

Table 6: Government Domestic Debt (Ksh Billion)

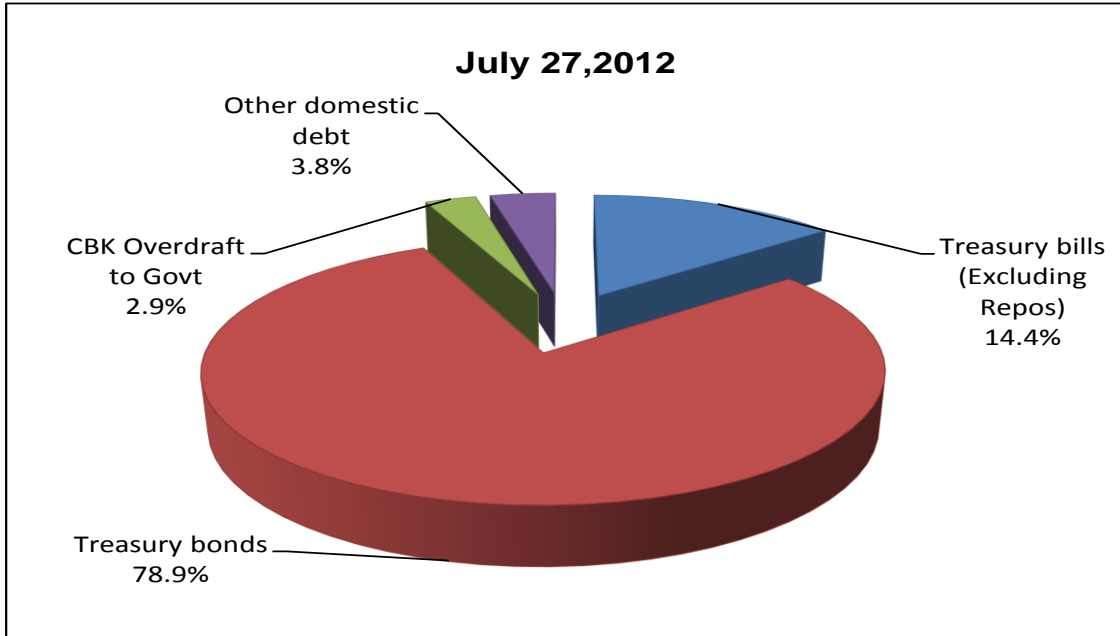
	Jun-11	June 2012	20th July 2012	27th July 2012	Changes	
					20th Jul 2012- 27th July 2012	29 Jun 2012 - 27th Jul 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	128.0 15.8	123.8 15.4	-4.2	-8.3
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	679.8 84.2	679.8 84.6	0.0	-7.2
3. Total Securities (1+2)	722.4	819.0	807.7	803.5	-4.2	-15.5
4. Overdraft at Central Bank	7.6	7.3	19.2	25.4	6.2	18.1
5. Other Domestic debt*	34.3	32.6	32.5	32.4	-0.1	-0.2
6. Gross Domestic Debt (3+4+5)	764.2	858.8	859.4	861.3	1.9	2.5
7. Interest payments on domestic debt	69.2	82.3	1.0	3.4	2.4	

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

Source Central Bank of Kenya

During the week under review, gross government domestic debt increased by Ksh 1.9 billion, following Ksh 6.2 billion increase in Government overdraft at the Central Bank, which was in excess of the Ksh 4.3 billion total decline in Treasury bills and other domestic debt (Table 6 and Chart C). The average time to maturity of Government securities declined to 5 years and 2 months as at July 27, 2012, from 5 years and 4 months at the end of June 2012.

Chart C: Composition of Government Securities

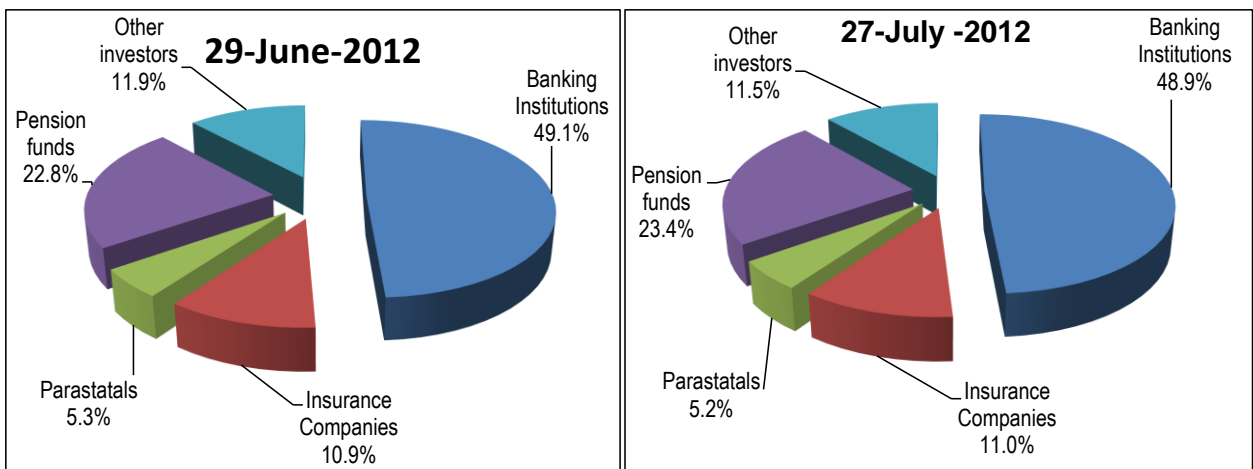


Source: Central Bank of Kenya

Holding of Government Securities

The share of Government securities held by banking institutions, pension funds, parastatals and insurance companies declined from 52.1 percent, 29.0 percent, 6.5 percent and 11.0 percent in June 2011 to 49.1 percent, 22.8 percent, 5.3 percent and 10.9 percent, respectively, on June 29, 2012. Holdings of other investors, which includes Sacco’s, listed and private companies, self-help groups, educational institutions, religious institutions and individuals, increased from 1.5 percent to 12.0 percent during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

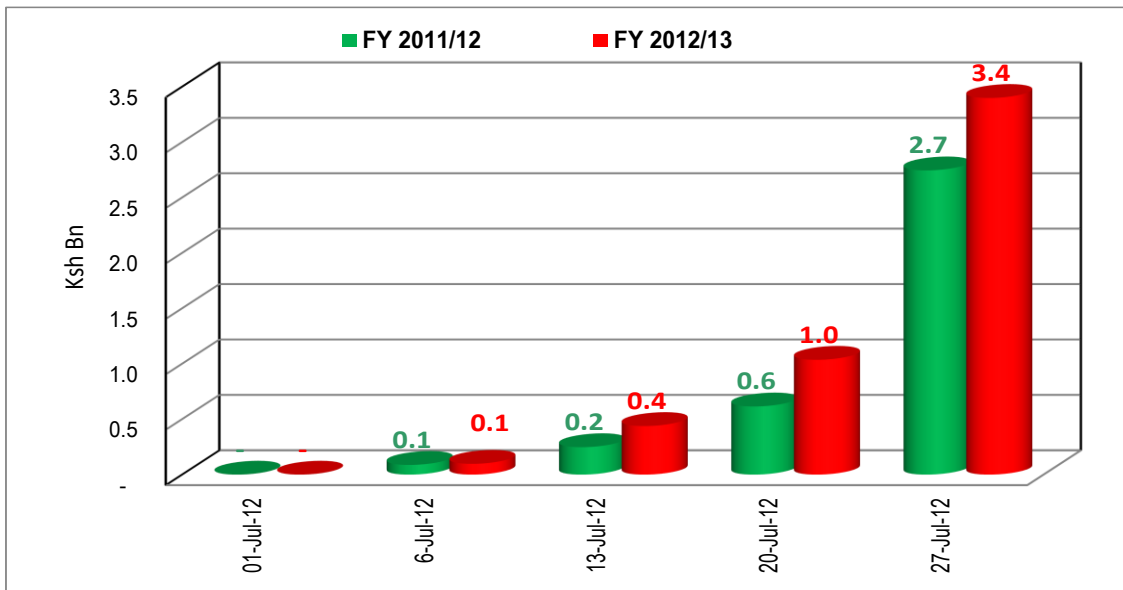


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to July 27, 2012 in the 2012/13 fiscal year amounted to Ksh 3.4 billion compared with Ksh 2.7 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 1.45 billion and Ksh 1.95 billion, respectively.

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



Source: Central Bank of Kenya

The Stock Market

Performance in the capital market was weak in the week ending August 02, 2012 with most of the market indicators recording losses. The only market indicator on the rise was bonds turnover, an indication of increased investors’ confidence in long term securities in the secondary market. The NSE 20 Share Index was, however, still above the 3,500 points psychological mark, while market capitalization remained above the trillion shillings mark.

NSE 20 Share Index dropped to 3,825.08 points on August 2, 2012 from 3,878.52 points on July 26, 2012. Similarly, NASI was down to 82.98 points from 84.35 points over the same period (Table 7).

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Table 7: Key Weekly Market Statistics

Week Ending	14-Jun-12	21-Jun-12	28-Jun-12	5-Jul-12	12-Jul-12	19-Jul-12	26-Jul-12	2-Aug-12
NASI 100= Jan 2008	79.41	80.83	80.50	82.47	82.29	83.26	84.35	82.98
NSE 20 Share Index 100=1966	3,685.36	3,682.24	3,709.84	3,795.32	3,802.96	3,825.93	3,878.52	3,825.08
Number of Deals	6,301	6,064	6,849	6,226	6,047	5,902	6,604	6,955
Total Shares Traded (millions)	112.62	92.57	114.14	83.53	69.81	75.38	113.63	88.12
Equity Turnover (Ksh. millions)	1,573.39	1,495.51	1,753.47	1,542.18	1,270.04	1,165.18	1,417.43	1,337.42
Market Capitalization (Ksh. Billions)	1,017.75	1,049.80	1,045.50	1,078.82	1,076.51	1,097.96	1,112.32	1,095.17
Bonds Turnover (Ksh. millions)	7,181.10	6,033.35	7,552.85	4,249.15	6,445.90	6,675.65	9,892.70	11,273.80
FTSE NSE Kenya 15 Index	105.00	106.74	105.34	108.51	109.59	109.75	111.43	108.82
FTSE NSE Kenya 25 Index	107.68	109.53	108.13	111.43	112.26	112.26	113.83	111.04

Source: Nairobi Securities Exchange

Market Capitalization that measures shareholders' wealth lost Ksh 17.15 billion to reach Ksh 1,095.17 billion. Equity turnover lost Ksh 80.02 million to trade stocks worth Ksh 1,337.42 million from Ksh 1,417.43 million the previous week. The number of shares traded dropped to 88.12 million from 113.63 million the previous week.

Telecommunications and Technology sector was the most active sector transacting 36.22 million shares or 41.1 percent. Banking and Energy and Petroleum sectors followed in second and third positions, trading 29.27 million shares or 33.2 percent and 7.02 million shares or 8.0 percent, respectively. Safaricom, Housing Finance Co Ltd and Equity bank Ltd were the three most active counters with 36.02 million, 11.80 million and 9.92 million shares traded, respectively. Automobile and Accessories sector was least active, trading 97,800 shares.

The biggest closing and average price gains in the week were with Nation Media Group Ltd and British American Tobacco Ltd at Ksh 6.00 and Ksh 5.75, per share respectively. The biggest closing and average price margin losses was with Standard Chartered Bank Ltd at Ksh 9.0 and Ksh 4.60 per share, respectively. Of the 58 listed companies, 25 had average price gains in the week ending August 2, 2012.

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization edged down to 108.82 points on August 2, 2012 from 111.43 points on July 26, 2012. FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange also edged down to 111.04 points on August 2, 2012, from 113.83 points the previous week.

The Bond Market

Bonds trading at the Fixed Income Securities Segment were on the upward trend and closed at Ksh 11,273.8 million for the week ending on August 2, 2012 from Ksh 9,892.70 million in the previous week reflecting investor preference for long term securities in the secondary market given a stable economic environment. Corresponding deals, however, declined to 122 from 193.