



**August 10, 2012**

### **Highlights**

The money market was relatively liquid during the week ending August 8, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 13.2 billion through repo securities and Ksh 1.1 billion through term auction deposits against repo maturities of Ksh 9.2 billion and term auction deposits maturities of Ksh 9.6 billion.

The average interbank rate decreased to 10.53 percent during the week ending August 8, 2012 compared with 11.31 percent in the previous week reflecting improved liquidity in the money market.

The Kenya Shilling depicted mixed performance against major international currencies in the week ending August 9, 2012. Against the US dollar the Kenya Shilling appreciated by 0.13 percent to trade at Ksh 84.22.

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 4,976 million (equivalent to 4.07 months of import cover) in the week ending August 2, 2012 to US dollar 4,967 million (equivalent to 4.06 months of import cover) in the week ending August 9, 2012.

The Government offered for sale Treasury bills worth Ksh 15.0 billion during the week ending August 10, 2012. Bids worth Ksh 37.9 billion were received out of which 17.6 billion were accepted.

Gross Government domestic debt increased by Ksh 13.8 billion to stand at Ksh 872.7 billion on August 3, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross Government domestic debt increased by Ksh 11.4 billion, on account of Treasury bonds.

Stock market performance was robust in the week ending August 9, 2012 as reflected by gains in most of the market indicators. All share indices were up except the NSE 20 Share Index which slid by 1.59 points. The NASI was up 0.88 points, FTSE NSE 15 Index rose 1.42 points and FTSE NSE 25 added 1.77 points. Equity turnover increased by 4.1 percent as supply of shares rose 25.4 percent. Market capitalization edged up 1.1 percent maintaining the trillion mark. Similarly the bonds market activity was on the rally recording a 49.4 percent jump in turnover.

## Monetary Policy Operations

The money market was relatively liquid during the week ending August 8, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 13.2 billion through repo securities and Ksh 1.1 billion through term auction deposits against repo maturities of Ksh 9.2 billion and term auction deposits maturities of Ksh 9.6 billion. Reserve money averaged Ksh 249.1 billion during the week and was Ksh 5.7 billion below the target (Table 1).

**Table 1: Open Market Operations (Ksh Billion)**

Date	Reserve Money* (Projected)			OMO				Reserve money performance		Bank Reserve s	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)
2-Aug-12	250.87	254.8	-3.9	3.0	2.1	0.0	-0.9	248.8	-5.9	-0.2	-5.7
3-Aug-12	250.61	254.8	-4.1	4.0	3.8	0.2	0.0	246.8	-8.0	-2.8	-5.2
6-Aug-12	251.81	254.8	-2.9	4.0	2.3	0.9	0.0	248.0	-6.7	-2.9	-3.8
7-Aug-12	248.30	254.8	-6.5	1.0	1.0	0.0	0.0	251.2	-3.6	-0.1	-3.4
8-Aug-12	254.98	254.8	0.2	4.0	4.0	0.1	0.0	250.5	-4.3	-0.8	-3.4
<b>Average</b>	<b>251.3</b>	<b>254.8</b>	<b>-3.4</b>	<b>3.2</b>	<b>2.6</b>	<b>0.2</b>	<b>-0.2</b>	<b>249.1</b>	<b>-5.7</b>	<b>-1.4</b>	<b>-4.3</b>

Source: Central Bank of Kenya

## Interbank and REPO Rates

The average interbank rate decreased to 10.53 percent during the week ending August 8, 2012 compared with 11.31 percent in the previous week reflecting improved liquidity in the money market. The average interbank volumes transacted increased to Ksh 13.66 billion compared with Ksh 10.26 billion transacted in the previous week while the average number of deals increased to 61 deals from 58 deals the previous week (Table 2 and Chart A).

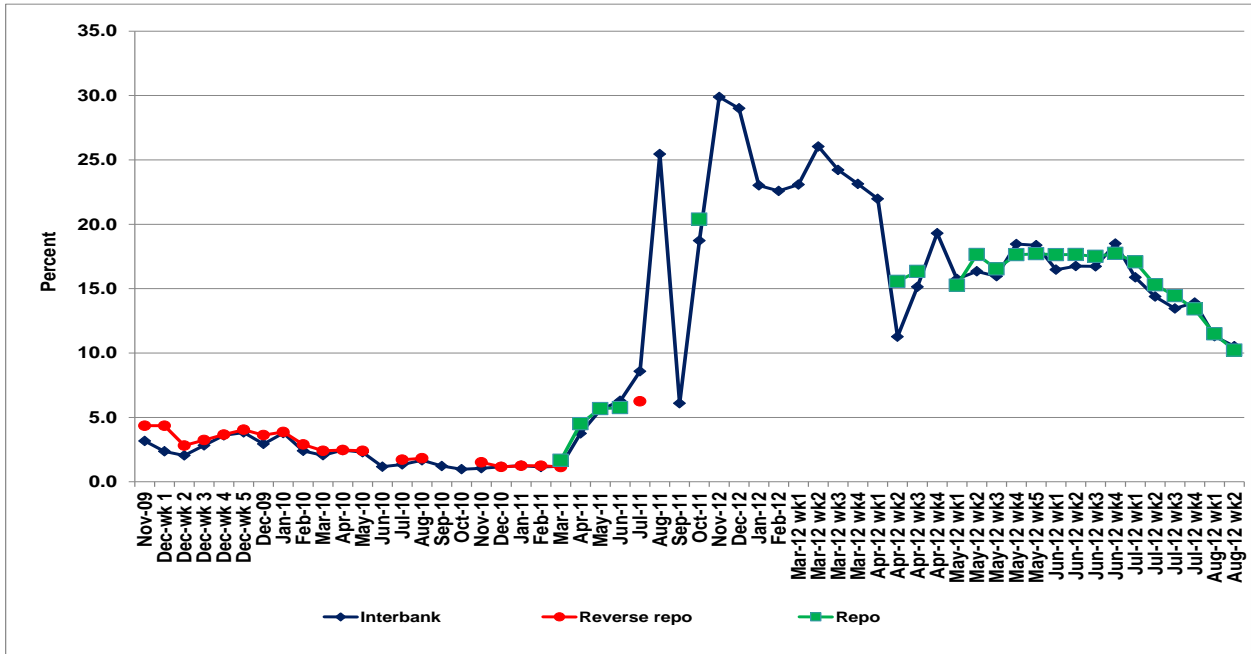
**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
<b>July 26 -August 1, 2012</b>	<b>58</b>	<b>10,263</b>	<b>11.31</b>
2-Aug-12	60	11,325	10.70
3-Aug-12	75	18,521	10.65
6-Aug-12	61	16,390	10.59
7-Aug-12	56	11,902	10.44
8-Aug-12	51	10,172	10.26
<b>August 2-August 8, 2012</b>	<b>61</b>	<b>13,662</b>	<b>10.53</b>

Source: Central Bank of Kenya

The average repo rate decreased to 10.22 percent during the week ending August 8, 2012 from 11.48 percent in the previous week.

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

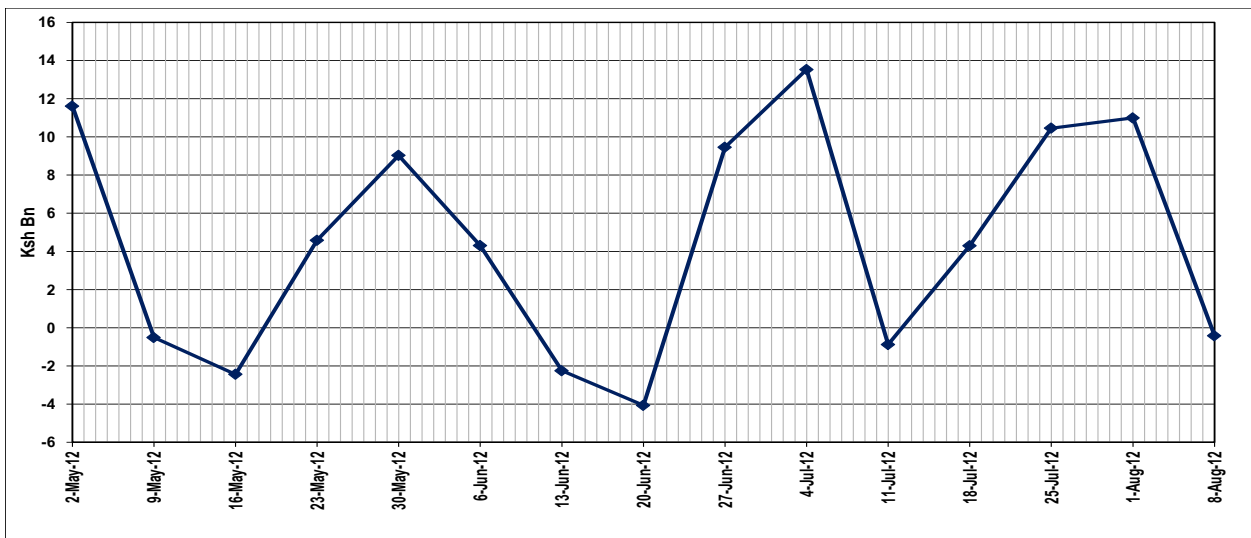


Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

Commercial banks maintained an average of Ksh 0.4 billion in their settlement accounts below the monthly average cash reserve requirements of 5.25 percent at the Central Bank in the week to August 8, 2012 compared with Ksh 11.0 billion above cash reserve requirement 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 depicted mixed performance against major international currencies in the week ending August 9, 2012. The Kenya Shilling appreciated by 0.13 percent, 0.55 percent and 0.31 percent against the US dollar, the Sterling Pound and the Japanese Yen to trade at an average of Ksh 84.11 against the US dollar, Ksh 131.23 against the Sterling Pound and Ksh 107.29 against 100 Japanese Yen during the week. However, the Kenya Shilling depreciated by 0.39 percent to the Euro to trade at Ksh 103.85 against the Euro (Table 4).

In the East African Community (EAC) region, the Kenya Shilling strengthened against all the EAC currencies in the week ending August 9, 2012. The Kenya Shilling appreciated by 0.2 percent against the Uganda Shilling to trade at an average of Ush 29.52, 0.08 percent against the Tanzania Shilling to trade at an average of Tsh 18.76, 0.39 percent against the Rwanda Franc to trade at an average of RWF 7.22 and 0.23 percent against the Burundi Franc to trade at an average of BIF 16.99.

**Table 3: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
<b>July 27 - August 2, 2012</b>	<b>84.22</b>	<b>131.95</b>	<b>103.45</b>	<b>107.62</b>	<b>29.47</b>	<b>18.74</b>	<b>7.19</b>	<b>16.95</b>
3-Aug-12	84.25	130.76	102.65	107.79	29.59	18.72	7.18	16.93
6-Aug-12	84.20	131.51	104.30	107.22	29.51	18.73	7.19	16.92
7-Aug-12	84.10	131.11	104.22	107.35	29.49	18.74	7.26	17.18
8-Aug-12	83.94	131.00	104.00	106.97	29.54	18.88	7.24	16.97
9-Aug-12	84.09	131.77	104.07	107.13	29.49	18.73	7.23	16.93
<b>August 3 - August 9, 2012</b>	<b>84.12</b>	<b>131.23</b>	<b>103.85</b>	<b>107.29</b>	<b>29.52</b>	<b>18.76</b>	<b>7.22</b>	<b>16.99</b>

Source Central Bank of Kenya

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 4,976 million (equivalent to 4.07 months of import cover) in the week ending August 2, 2012 to US dollar 4,967 million (equivalent to 4.06 months of import cover) in the week ending August 9, 2012 (Table 4).

**Table 4: Official Foreign Exchange Reserves**

	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	9-Aug-12
Usable Reserves*	4,564	4,560	4,936	4,924	4,903	4,860	4,936	4,928	4,976	4,967
Months of Imports Cover**	3.87	3.86	4.18	4.13	4.11	4.08	4.04	4.03	4.07	4.06

\*Excludes encumbered reserves

\*\*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 each in 91-day and 182-day and Ksh 7.0 billion in 364-day Treasury bills during the week ending August 10, 2012. Demand for all the papers was high with performance rates of 431.70 percent, 266.72 percent and 141.73 percent, respectively for the 91-day, 182-day and 364-day papers, which represented a total of Ksh 37.9 billion worth of bids received during the week. The government accepted Ksh 6.0 billion, Ksh 4.6 billion and Ksh 7.0 billion, respectively in the 91-day, 182-day and 364-day Treasury bills. Total non-competitive bids amounted to Ksh 4.2 billion.

### **Interest Rates on Government securities**

Weighted average interest rates on the 91-day, 182-day and 364-day Treasury bills decreased by 86.4 basis points, 40.0 basis points and 14.7 basis points, respectively, to stand at 12.000 percent, 12.638 percent and 12.853 percent (Table 5).

**Table 5: Government Securities Interest rates**

<b>Auction date</b>	<b>22-Jun-12</b>	<b>29-Jun-12</b>	<b>6-Jul-12</b>	<b>13-Jul-12</b>	<b>20-Jul-12</b>	<b>27-Jul-12</b>	<b>3-Aug-12</b>	<b>10-Aug-12</b>
91 day T. Bills*	10.675	10.780	10.835	12.001	12.929	13.226	12.864	12.000
182 day T. Bills*	10.857	11.091	11.415	12.354	12.801	13.379	13.038	12.638
364 day T. Bills*			13.000					12.853
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 13.8 billion to stand at Ksh 872.7 billion on August 3, 2012, from Ksh 858.8 billion at the end of June 2012. This followed Ksh 18.1 billion and Ksh 6.0 billion increases in the Government overdraft at the Central Bank and the stocks of Treasury bonds, respectively, which were partially offset by decreases of Ksh 10.2 billion and Ksh 0.1 billion in Treasury bills and other domestic debt (Table 6).

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

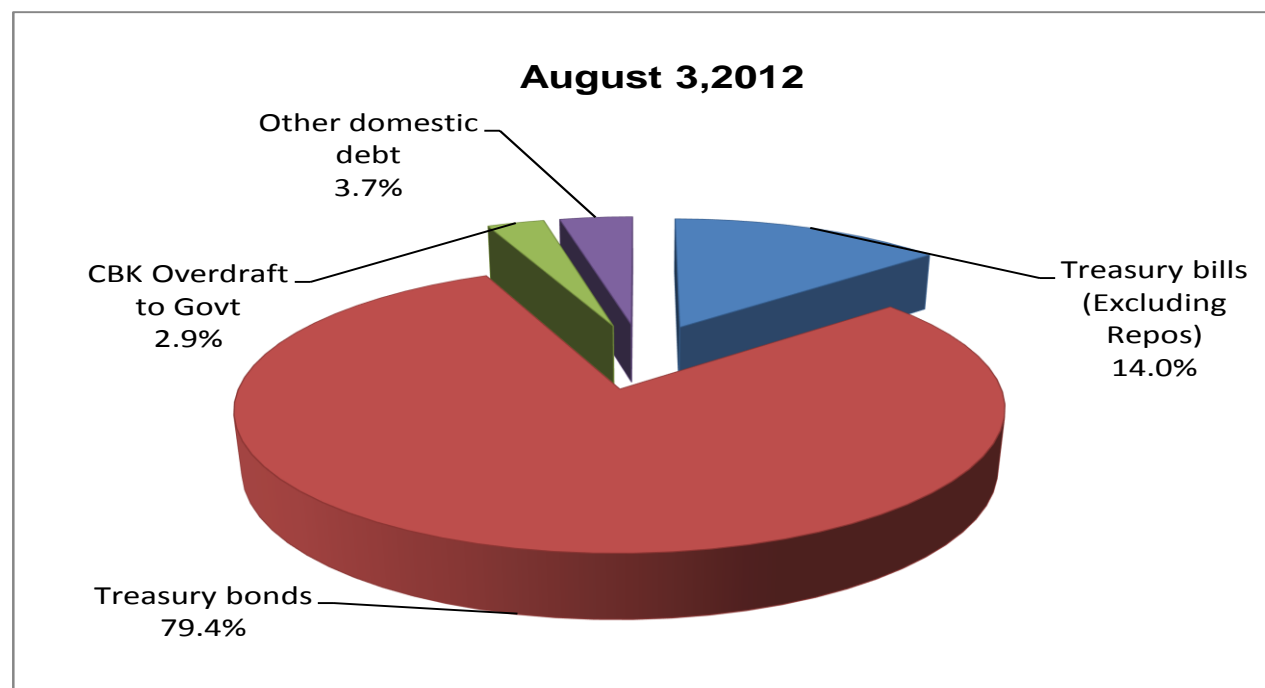
	Jun-11	June 2012	20th July 2012	27th July 2012	3rd August 2012	Changes	
						27th Jul 2012- 3rd Aug 2012	29 Jun 2012 - 3rd Aug 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	128.0 15.8	123.8 15.4	121.9 15.0	-1.9	-10.2
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	679.8 84.2	679.8 84.6	693.0 85.0	13.2	6.0
<b>3. Total Securities (1+2)</b>	<b>722.4</b>	<b>819.0</b>	<b>807.7</b>	<b>803.5</b>	<b>814.9</b>	<b>11.3</b>	<b>-4.1</b>
4. Overdraft at Central Bank	7.6	7.3	19.2	25.4	25.4	0.0	18.1
5. Other Domestic debt*	34.3	32.6	32.5	32.4	32.4	0.0	-0.1
<b>6. Gross Domestic Debt (3+4+5)</b>	<b>764.2</b>	<b>858.8</b>	<b>859.4</b>	<b>861.3</b>	<b>872.7</b>	<b>11.4</b>	<b>13.8</b>
7. Interest payments on domestic debt	69.2	82.3	1.0	3.4	6.8	3.4	

\* 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 11.4 billion on account of Treasury bonds, which increased by Ksh 13.2 billion. Treasury bills declined, while the Government overdraft at the Central Bank and other domestic debt remained constant at Ksh 25.4 billion and Ksh 32.4 billion, during the same week (Table 6 and Chart C). The average time to maturity of government securities declined to 5 years and 3 months during the week ending August 3, 2012, compared with 5 years and 4 months average length of maturity at the end of June 2012.

**Chart C: Composition of Government Securities**

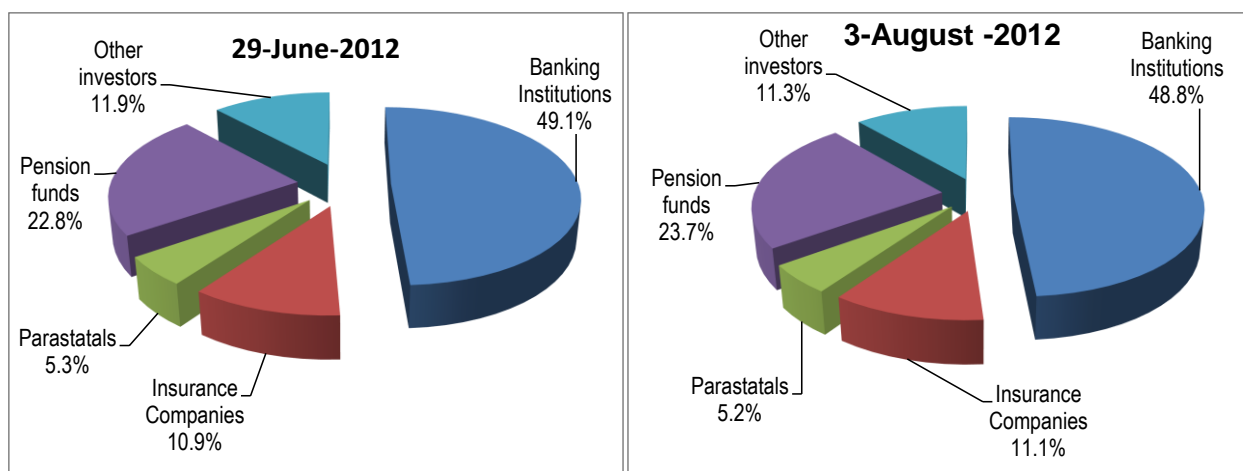


**Source: Central Bank of Kenya**

### Holding of Government Securities

Commercial banks held 48.8 percent of Government securities during the week under review. The share of Government securities held by insurance companies and pension funds increased from 10.9 percent and 22.8 percent in June 2012 to 11.1 percent and 23.7 percent, respectively, during the week ending August 3, 2012. Holdings by parastatals and other investors, which comprise of Sacco's, listed and private companies, self-help groups, educational institutions, religious institutions and individuals, declined from 5.3 percent and 12.0 percent to 5.2 percent and 11.3 percent, respectively, during the same period (Chart D).

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

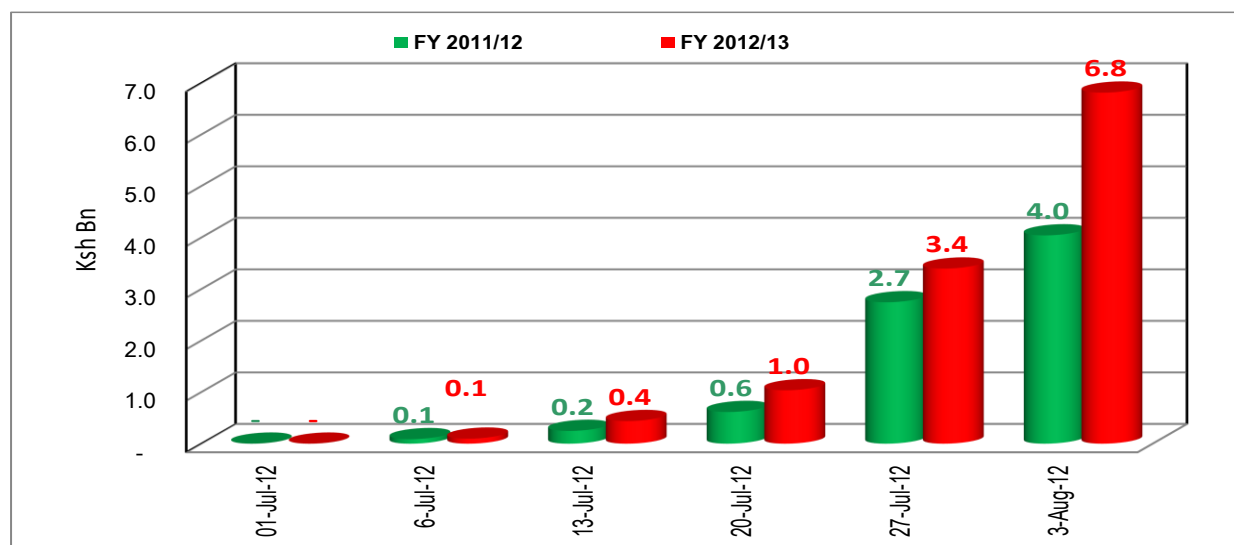


Source: Central Bank of Kenya

### Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to August 3, 2012 in the 2012/13 fiscal year amounted to Ksh 6.8 billion compared with Ksh 4.0 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 2.0 billion and Ksh 4.6 billion, respectively. Interest on Government overdraft during the period amounted to Ksh 0.2 billion.

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



Source: Central Bank of Kenya

## The Stock Market

Performance in the capital market was strong in the week ending August 9, 2012 with most of the market indicators recording gains. All market indices were up except the NSE 20 Share index. The NSE 20 Share Index was still above the 3,500 points psychological mark, while market capitalization remained above the trillion shillings mark. The bonds segment improved by close to half in both turnover and total deals.

## Equities Market

As indicated in Table 7, NSE 20 Share Index edged down slightly to 3,823.49 points on August 9, 2012 from 3,825.08 points on August 2, 2012. However, NASI was up to 83.86 points from 82.98 points over the same period. Market Capitalization that measures shareholders' wealth gained Ksh 11.62 billion to reach Ksh 1,106.79 billion. Equity turnover rose by Ksh 54.22 million to trade stocks worth Ksh 1,391.64 million from Ksh 1,337.42 million the previous week. The supply of shares traded increased to 110.53 million from 88.12 million the previous week.

**Table 7: Key Weekly Market Statistics**

Week Ending	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	9-Aug-12
NASI 100= Jan 2008	78.19	79.41	80.83	80.5	82.47	82.29	83.26	84.35	82.98	83.86
NSE 20 Share Index 100=1966	3,634.82	3,685.36	3,682.24	3,709.84	3,795.32	3,802.96	3,825.93	3,878.52	3,825.08	3,823.49
Number of Deals	4,945	6,301	6,064	6,849	6,226	6,047	5,902	6,604	6,955	5,903
Total Shares Traded (millions)	55.24	112.62	92.57	114.1385	83.53	69.8078	75.3819	113.6311	88.117	110.5256
Equity Turnover (Ksh. millions)	1,236.46	1,573.39	1,495.51	1,753.471	1,542.18	1,270.04	1,165.181	1,417.434	1,337.416	1,391.641
Market Capitalization (Ksh. Bn.)	1,002.13	1,017.75	1,049.80	1,045.50	1,078.82	1,076.51	1,097.959	1,112.316	1,095.166	1,106.79
Bonds Turnover (Ksh. millions)	3,750.20	7,181.10	6,033.35	7,552.85	4,249.15	6,445.90	6,675.65	9,892.7	11,273.8	16,848.45
FTSE NSE Kenya 15 Index	104.16	105.00	106.74	105.34	108.51	109.59	109.75	111.43	108.82	110.24
FTSE NSE Kenya 25 Index	106.88	107.68	109.53	108.13	111.43	112.26	112.26	113.83	111.04	112.81

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



**Source:** *Nairobi Securities Exchange*

Telecommunications and Technology sector was the most active sector transacting 63.93 million shares or 57.8 percent. Banking and Insurance sectors followed in second and third positions, trading 26.63 million shares or 24.1 percent and 7.49 million shares or 6.8 percent, respectively. Safaricom, Equity Bank Ltd and Mumias Sugar Company were the three most active counters with 63.51 million, 17.93 million and 5.37 million shares traded, respectively. Agriculture sector was least active, trading 118,100 shares.

The biggest closing and average price gains in the week were with British American Tobacco Ltd and Eaagads Ltd at Ksh 19 and Ksh 11.58, per share, respectively. The biggest closing and average price margin losses was with Carbacid Investments Ltd at Ksh 5 and Ksh 3.67 per share, respectively. British American Tobacco Ltd became the most priced counter at Ksh 400 per share. Of the 58 listed companies, 23 had average price gains in the week ending August 9, 2012.

### **FTSE NSE Kenya Index Series**

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization rose to 110.24 points on August 9, 2012 from 108.82 points on August 2, 2012. FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange gained 1.6 percent to register 112.81 points on August 9, 2012, from 111.04 points the previous week.

### **The Bond Market**

Bond trading was up by 49.4 percent to Ksh 16,848.45 million for the week ending August 9, 2012 from Ksh 11,273.8 million in the previous week. Similar demand was witnessed in the primary market with all tender offers for bonds and bills fully subscribed. This may signal investor preference for government securities for safety. Corresponding deals were up 47.5 percent to 180 from 122.