



August 17, 2012

Highlights

The money market was relatively liquid during the week ending August 15, 2012. The Central Bank sterilized the excess liquidity by mopping Ksh 20.0 billion through repo securities and Ksh 1.2 billion through term auction deposits against repo maturities of Ksh 13.2 billion and term auction deposits maturities of Ksh 8.0 billion, respectively.

The average interbank rate decreased to 8.90 percent during the week ending August 15, 2012 compared with 10.53 percent in the previous week reflecting improved liquidity in the money market.

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending August 16, 2012. Against the US dollar the Kenya Shilling appreciated to trade at an average of Ksh 83.98 per USD compared with Ksh 84.11 per USD in the week ending August 9, 2012.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 4,968 million (equivalent to 4.06 months of import cover) as at August 9, 2012 to US dollar 5,080 million (equivalent to 4.16 months of import cover) in the week ending August 16, 2012.

The Government offered for sale Treasury bills worth Ksh 8.0 billion during the week ending August 10, 2012. A total of Ksh 10.6 billion was accepted out of Ksh 33.2 billion received. Gross Government domestic debt increased by Ksh 11.4 billion to stand at Ksh 870.2 billion on August 10, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 5.1 billion, on account of Treasury bills sales.

Stock market performance declined in the week ending August 16, 2012 as reflected in most of the market indicators. The NSE 20 Share Index shed off 18.95 points and the Nairobi All Share Index (NASI) 0.26 points. The FTSE NSE 15 Index and FTSE NSE 25 increased by 0.77 and 0.72 points, respectively. Equity turnover edged down 22.2 percent as supply of shares declined 46.0 percent. Market capitalization while above the trillion mark, closed the week 0.3 percent lower. Similarly the bonds market activity dropped recording a 41.8 percent decline in turnover.

Monetary Policy Operations

The money market was relatively liquid during the week ending August 15, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 20.0 billion through repo securities and Ksh 1.2 billion through term auction deposits against repo maturities of Ksh 13.2 billion and term auction deposits maturities of Ksh 8.0 billion, respectively. Reserve money averaged Ksh 254.5 billion during the week and was Ksh 0.1 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)
9-Aug-12	253.64	254.8	-1.1	3.0	3.0	0.0	0.0	251.3	-3.5	0.2	-3.7
10-Aug-12	252.87	254.8	-1.9	2.0	2.0	0.0	0.0	254.1	-0.7	3.3	-3.9
13-Aug-12	252.86	254.5	-1.7	3.0	3.0	0.0	0.0	251.3	-3.3	0.6	-3.9
14-Aug-12	253.14	254.5	-1.4	3.5	3.3	0.2	0.0	253.5	-1.1	2.4	-3.4
15-Aug-12	268.12	254.5	13.6	13.0	8.7	1.0	-3.3	262.4	7.8	12.4	-4.6
Average	256.1	254.6	1.5	4.9	4.0	0.2	-0.7	254.5	-0.1	3.8	-3.9

Source: Central Bank of Kenya

Interbank and REPO Rates

The interbank rate averaged 8.90 percent during the week ending August 15, 2012, or 163 basis points below 10.53 percent in the previous week. Reflecting improved liquidity the average interbank volumes transacted also declined to Ksh 11.50 billion from Ksh 13.66 billion transacted in the previous week and the average number of deals decreased to 57 deals from 61 deals the previous week (Table 2 and Chart A).

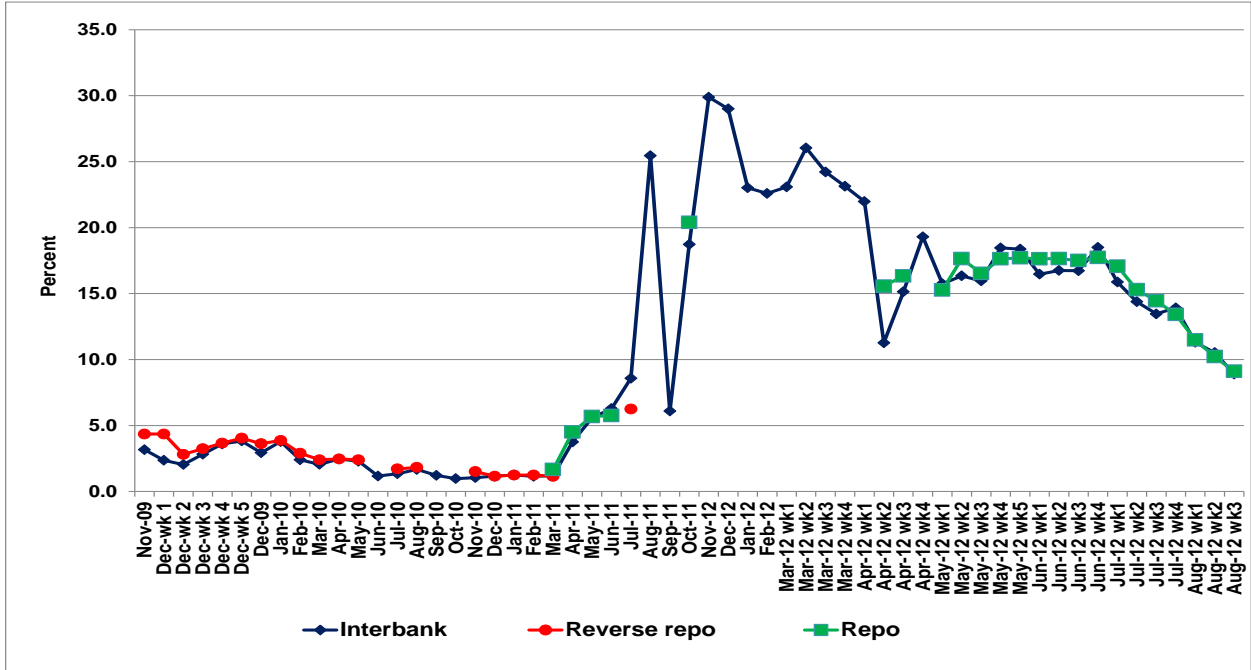
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
August 2-August 8, 2012	61	13,662	10.53
9-Aug-12	56	10,762	10.04
10-Aug-12	65	13,707	9.43
13-Aug-12	52	12,116	8.82
14-Aug-12	54	11,085	8.25
15-Aug-12	59	9,840	7.95
August 9-August 15, 2012	57	11,502	8.90

Source: Central Bank of Kenya

The average repo rate decreased to 9.12 percent during the week ending August 15, 2012 from 10.22 percent in the previous week.

Chart A: The Structure of Interest Rates

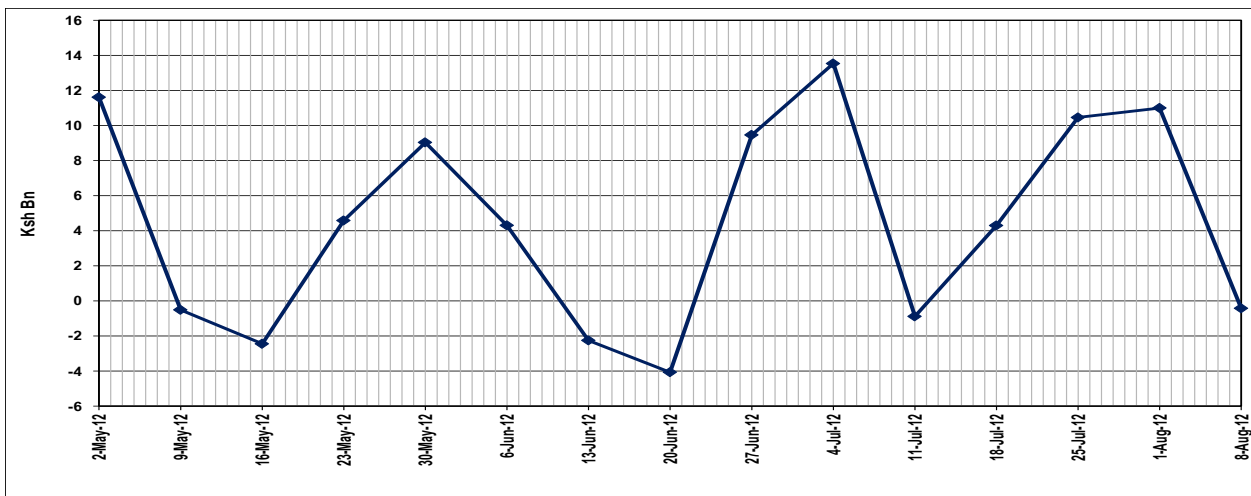


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 4.65 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 15, 2012 compared with Ksh 0.4 billion below the 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 exchange rate depicted largely appreciated against major international currencies in the week ending August 9, 2012. The Kenya Shilling appreciated by 0.16 percent, 0.44 percent and 0.50 percent against the US dollar, the Euro and the Japanese Yen, respectively, on account of increased inflows from the Agricultural sector and Non-Governmental Organization (NGO's). Against the Sterling Pound, the Kenya Shilling depreciated by 0.26 percent.

In the EAC region, the Kenya Shilling strengthened against all the East African Currencies to trade at an average of Ush 29.56, Tsh 18.78, RWF 7.24 and BIF 17.02 during the week compared with Ush 29.53, Tsh 18.76, RWF 7.22 and BIF 16.99 in the week ending August 9, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
July 27 - August 2, 2012	84.22	131.95	103.45	107.62	29.47	18.74	7.19	16.95
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
August 3 - August 9, 2012	84.12	131.23	103.85	107.29	29.52	18.76	7.22	16.99
10-Aug-12	84.01	131.28	103.29	106.91	29.57	18.75	7.24	16.96
13-Aug-12	84.05	131.73	103.31	107.29	29.48	18.75	7.23	16.95
14-Aug-12	83.90	131.67	103.67	107.01	29.56	18.80	7.25	16.98
15-Aug-12	83.93	131.56	103.48	106.56	29.58	18.80	7.24	17.16
16-Aug-12	83.98	131.63	103.21	106.01	29.59	18.80	7.24	17.06
10 - 16 August 2012	83.98	131.58	103.39	106.76	29.56	18.78	7.24	17.02

Source Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 4,968 million (equivalent to 4.06 months of import cover) as at August 9, 2012 to US dollar 5,080 million (equivalent to 4.16 months of import cover) in the week ending August 16, 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	16-Aug-12
Usable Reserves*	4,564	4,560	4,936	4,924	4,903	4,860	4,936	4,928	4,976	4,968	5,080
Months of Imports Cover**	3.87	3.86	4.18	4.13	4.11	4.08	4.04	4.03	4.07	4.06	4.15

*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 10, 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 17.6 billion worth of bids, equivalent to 439.47 percent performance rate. Similarly, the 182-day paper attracted bids amounting to Ksh 15.6 billion, representing a performance rate of 390.8 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 1.5 billion.

Interest Rates on Government securities

The weighted average interest rates on the 91-day and 182-day Treasury bills declined by 173.3 and 127.2 basis points respectively, to stand at 10.267 percent and 11.366 percent during this week's auction.

Table 5: Government Securities Interest rates

Auction date	22-Jun-12	29-Jun-12	20-Jul-12	27-Jul-12	3-Aug-12	10-Aug-12	17-Aug-12
91 day T. Bills*	10.675	10.780	12.929	13.226	12.864	12.000	10.267
182 day T. Bills*	10.857	11.091	12.801	13.379	13.038	12.638	11.366
364 day T. Bills*						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 11.4 billion to stand at Ksh 870.2 billion on August 10, 2012, from Ksh 858.8 billion at the end of June 2012. This followed Ksh 17.2 billion and Ksh 6.0 billion increases in the Government overdraft at the Central Bank and the stocks of Treasury bonds, respectively and partially offsetting redemption of Ksh 11.1 billion and Ksh 0.7 billion in Treasury bills and other domestic debt (Table 6).

Table 6: Government Domestic Debt (Ksh Billion)

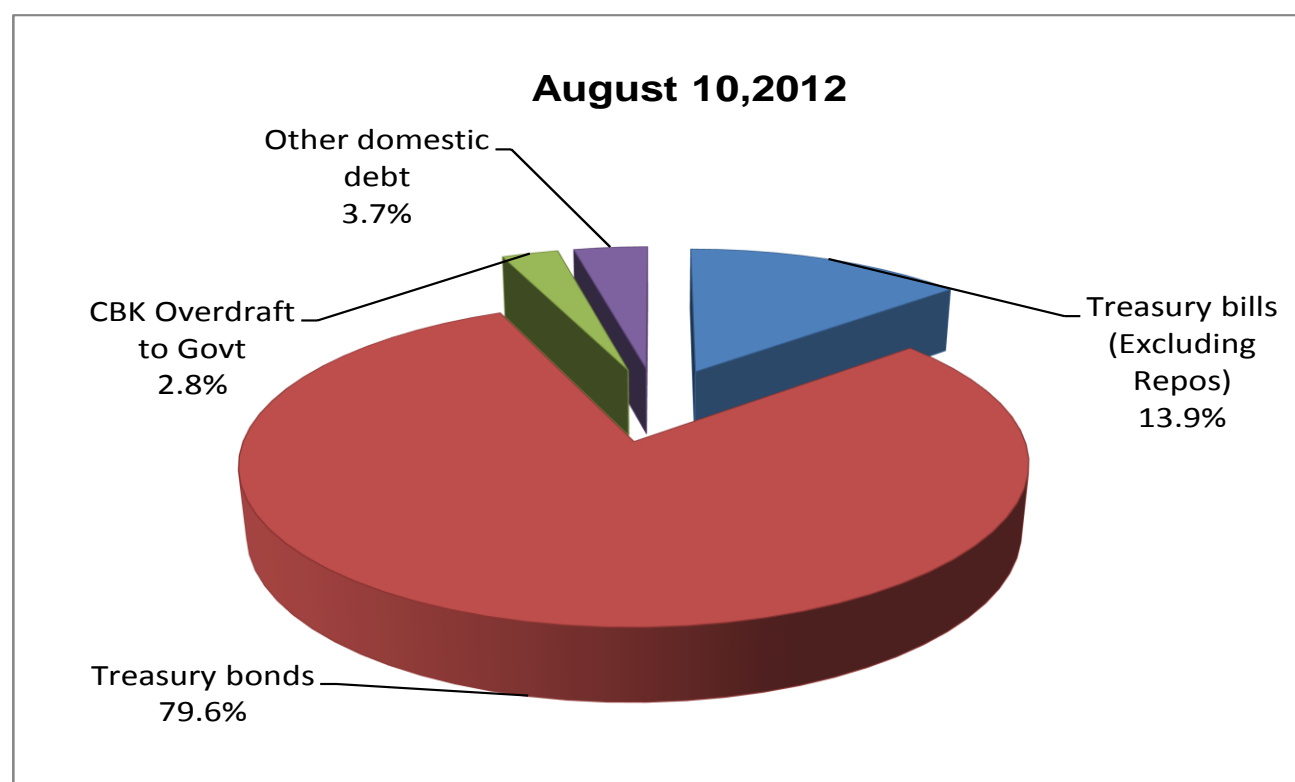
	Jun-11	June 2012	27th July 2012	3rd August 2012	10th August 2012	Changes	
						3rd Aug 2012- 10th Aug 2012	29 Jun 2012 - 10th Aug 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	123.8 15.4	114.8 14.2	120.9 14.9	6.1	-11.1
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	679.8 84.6	693.0 85.8	693.0 85.1	0.0	6.0
3. Total Securities (1+2)	722.4	819.0	803.5	807.8	813.9	6.1	-5.1
4. Overdraft at Central Bank	7.6	7.3	25.4	25.4	24.4	-0.9	17.2
5. Other Domestic debt*	34.3	32.6	32.4	31.9	31.9	0.0	-0.7
6. Gross Domestic Debt (3+4+5)	764.2	858.8	861.3	865.1	870.2	5.1	11.4
7. Interest payments on domestic debt	69.2	82.3	3.4	6.8	8.3	1.5	

* 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 5.1 billion on account of Treasury bills, which increased by Ksh 6.1 billion. Government overdraft at the Central Bank declined by 0.9 billion while the outstanding debt in Treasury bonds and other domestic debt was unchanged at Ksh 693.0 billion and Ksh 31.9 billion respectively, during the week (Table 6 and Chart C). The average time to maturity of Government securities declined to 5 years and 2 months during the week ending August 10, from 5 years and 3 months in the previous week, and remained low, compared with 5 years and 4 months average length of maturity at the end of June 2012.

Chart C: Composition of Government Securities

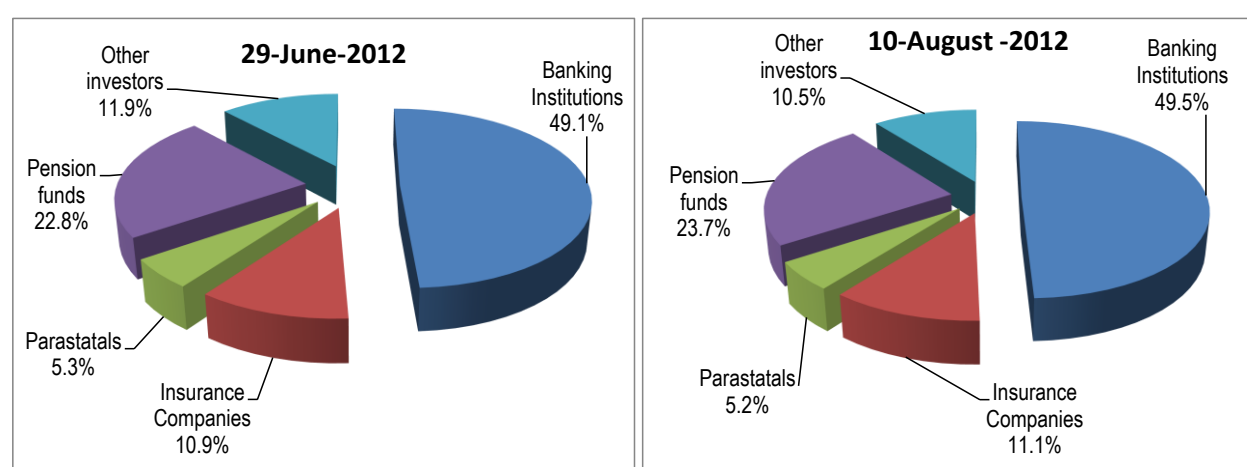


Source: Central Bank of Kenya

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 commercial banks, insurance companies and pension funds increased from 49.1 percent, 10.9 percent and 22.8 percent in June 2012 to 49.5 percent, 11.1 percent and 23.7 percent, respectively, during the week ending August 10, 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 11.9 percent to 5.2 percent and 10.5 percent, respectively, during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

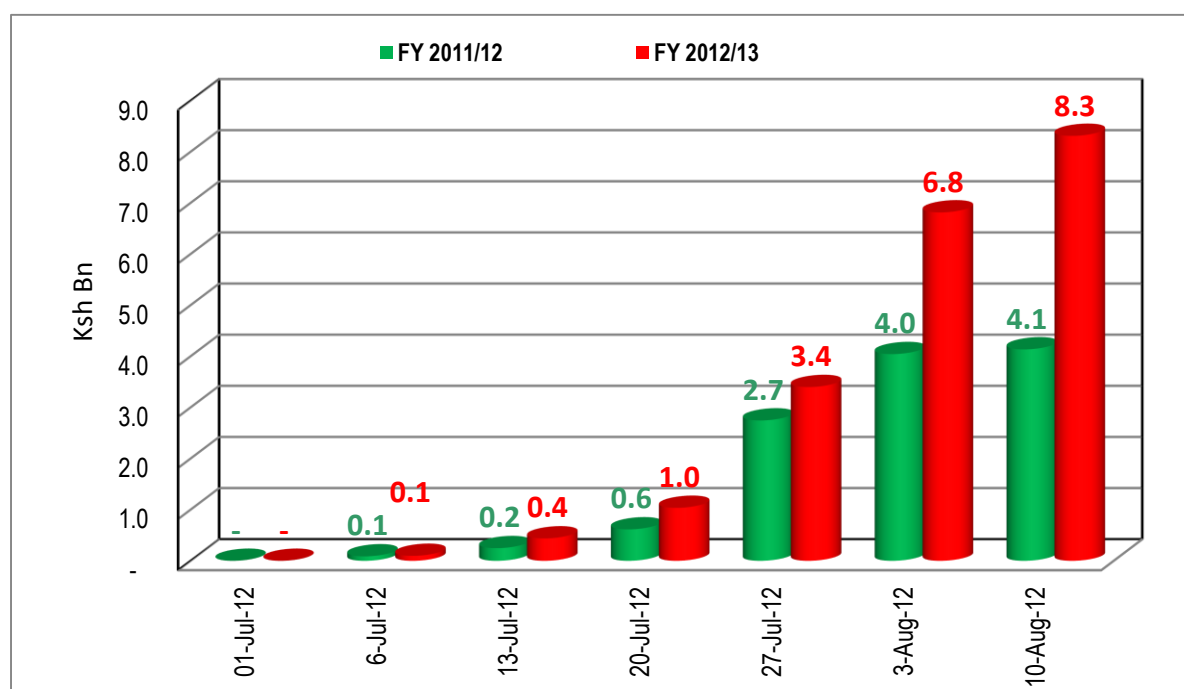


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to August 10, 2012 in the 2012/13 fiscal year amounted to Ksh 8.3 billion compared with Ksh 4.1 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 2.5 billion and Ksh 4.8 billion, respectively. Government payment of interest included Ksh 0.2 billion on the overdraft and Ksh 0.8 billion on pre-1997 debt.

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 16, 2012 with most of the market indicators recording losses. The bonds market turnover and the total equity shares traded declined by close to half. The NSE 20 Share Index was, however, still above the 3,500 points psychological mark while market capitalization remained above the trillion shillings mark.

Equities Market

As indicated in Table 7, NSE 20 Share Index edged down to 3,804.54 points on August 16, 2012 from 3,823.49 points on August 9, 2012. NASI closed lower at 83.60 points from 83.86 points over the same period. Market Capitalization that measures shareholders' wealth lost Ksh 3.47 billion to reach Ksh 1,103.32 billion. Equity turnover dropped by Ksh 309.19 million to trade stocks worth Ksh 1,082.45 million from Ksh 1,391.64 million the previous week. The supply of shares traded also edged down to 59.67 million from 110.53 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	16-Aug-12
NASI 100= Jan 2008	78.19	79.41	80.83	80.50	82.47	82.29	83.26	84.35	82.98	83.86	83.60
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	3,804.54
Number of Deals	4,945	6,301	6,064	6,849	6,226	6,047	5,902	6,604	6,955	5,903	6,230
Total Shares Traded (millions)	55.24	112.62	92.57	114.14	83.53	69.81	75.38	113.63	88.12	110.53	59.67
Equity Turnover (Ksh. millions)	1,236.46	1,573.39	1,495.51	1,753.47	1,542.18	1,270.04	1,165.18	1,417.43	1,337.42	1,391.64	1,082.45
Market Capitalization (Ksh. Bn.)	1,002.13	1,017.75	1,049.80	1,045.50	1,078.82	1,076.51	1,097.96	1,112.32	1,095.17	1,106.79	1,103.32
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	9,892.70	11,273.80	16,848.45	9,806.80
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	111.01
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	113.53

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

Source: Nairobi Securities Exchange

Banking sector was the most active sector transacting 21.31 million shares or 35.7 percent of the traded shares. Telecommunications and Technology and Insurance sectors followed in second and third positions, trading 14.65 million shares or 24.6 percent and 8.15 million shares or 13.7 percent of the traded shares respectively. Safaricom, Equity Bank Ltd and Housing Finance Co. Ltd were the three most active counters with 14.47 million, 11.49 million and 3.68 million shares traded, respectively. Automobile sector was least active, trading 185,400 shares.

The biggest closing price gain in the week was with Nation Media Group Ltd and Standard Chartered Bank Ltd each at Ksh 9. The average price gain in the week was with British American Tobacco Ltd of Ksh 5.95. The biggest closing and average price margin losses was with Athi River Mining Ltd at Ksh 6 and Ksh 5.05 per share, respectively. British American Tobacco Ltd maintained position of the most priced counter at Ksh 400 per share. Of the 58 listed companies, 19 had average price gains in the week ending August 16, 2012.

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization rose to 111.01 points on August 16, 2012 from 110.24 points on August 9, 2012. FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange gained 0.6 percent to register 113.53 points on August 16, 2012, from 112.81 points the previous week.

The Bond Market

Bond trading was down by 41.8 percent to Ksh 9,806.80 million for the week ending August 16, 2012 from Ksh 16,848.45 million in the previous week. This reflects the investors' preference for treasury bills in the primary markets which witnessed oversubscription in all tenders offered in the week. Corresponding deals were down 8.3 percent to 165 from 180.