



August 24, 2012

Highlights

The money market was relatively liquid during the week ending August 22, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 15.5 billion through repo securities and Ksh 7.9 billion through term auction deposits against repo maturities of Ksh 20.0 billion and term auction deposits maturities of Ksh 2.1 billion. The average interbank rate decreased to 8.11 percent during the week ending August 22, 2012 compared with 8.90 percent in the previous week reflecting increase of liquidity in the money market.

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending August 23, 2012. Against the US dollar the Kenya Shilling depreciated marginally to trade at an average of Ksh 84.01 per USD compared with Ksh 83.98 per USD in the week ending August 16, 2012.

The usable official foreign exchange reserves held by Central Bank increased from USD 5,080 million (equivalent to 4.16 months of import cover) as at August 16, 2012 to USD 5,103 million (equivalent to 4.17 months of import cover) in the week ending August 23, 2012.

The Government offered for sale Treasury bills and bonds worth Ksh 18.0 billion during the week ending August 24, 2012. A total of Ksh 25.1 billion was accepted out of Ksh 45.0 billion bids received. Gross Government domestic debt increased by Ksh 20.8 billion to stand at Ksh 879.6 billion on August 17, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 2.4 billion, on account of Treasury bills.

Stock market performance was strong in the week ending August 23, 2012 as reflected by gains in most of the market indicators. The two key indices; NSE 20 Share Index and NASI were on the upward trend closing at 3,817.70 points and 84.01 points, respectively. Market capitalization and equity turnover increased by 0.5 percent and 16.4 percent, respectively. The supply of equities declined by 14.2 percent which may be attributed to their being a public holiday on 20th August 2012. The bonds market recorded a 73.5 percent increase in turnover during the week.

Monetary Policy Operations

The money market was relatively liquid during the week ending August 22, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 15.5 billion through repo securities and Ksh 7.9 billion through term auction deposits against repo maturities of Ksh 20.0 billion and term auction deposits maturities of Ksh 2.1 billion. Reserve money averaged Ksh 254.1 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 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)
16-Aug-12	259.21	254.5	4.7	12.0	7.0	0.0	-5.0	255.6	1.1	0.2	0.8
17-Aug-12	255.10	254.5	0.6	7.0	2.0	2.6	0.0	246.8	-7.7	3.3	-11.0
21-Aug-12	263.07	254.3	8.7	14.0	1.5	5.3	0.0	255.1	0.7	0.6	0.1
22-Aug-12	262.60	254.3	8.3	8.0	5.1	0.0	-2.9	258.9	4.5	2.4	2.2
Average	260.0	254.4	5.6	10.3	3.9	2.0	-2.0	254.1	-0.4	1.6	-2.0

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate decreased to 8.11 percent during the week ending August 22, 2012 compared with 8.90 percent in the previous week reflecting increased liquidity in the money market. The average interbank volumes transacted declined to Ksh 10.2 billion from Ksh 11.5 billion transacted in the previous week while the average number of deals increased to 61 deals from 57 deals the previous week (Table 2 and Chart A).

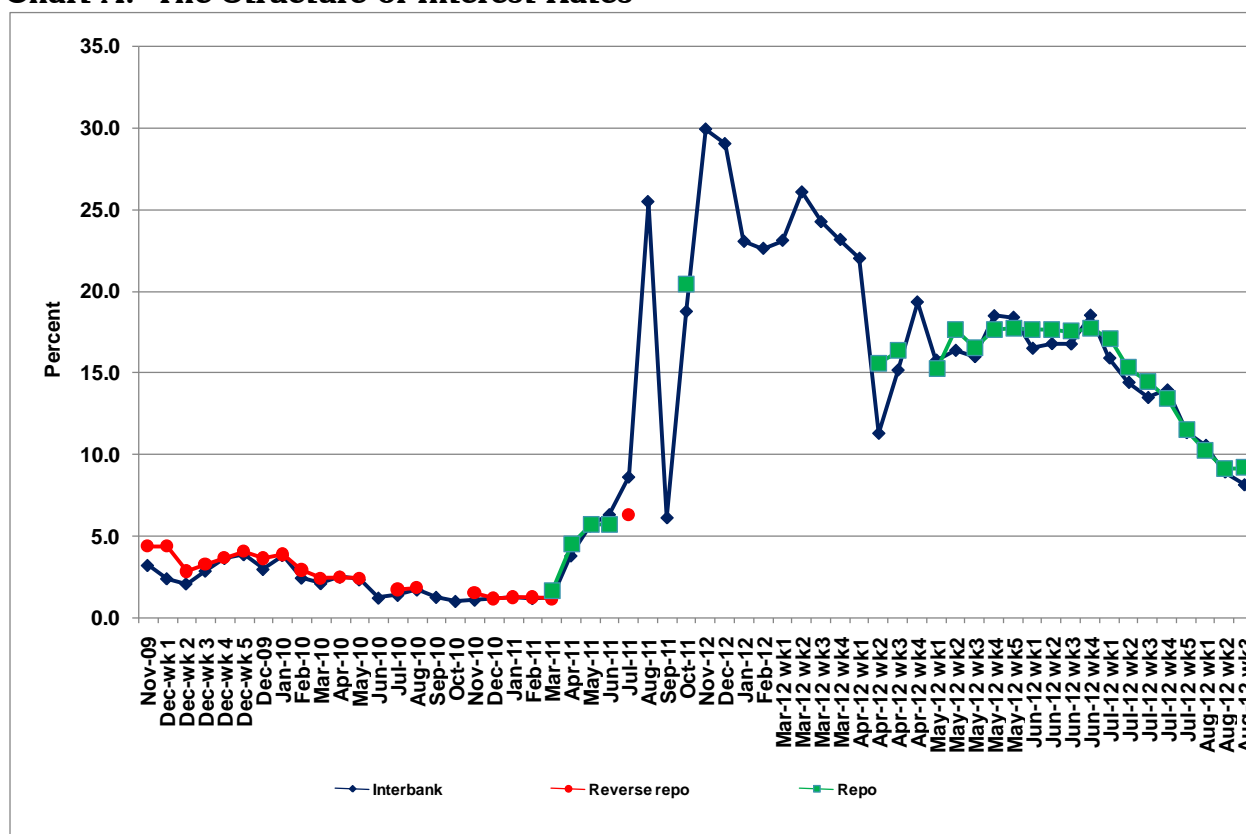
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
09-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	9,841	7.95
August 9-August 15, 2012	57	11,502	8.90
16-Aug-12	66	11,013	7.84
17-Aug-12	72	11,540	8.07
21-Aug-12	53	9,139	8.18
22-Aug-12	51	9,270	8.37
August 16-August 22, 2012	61	10,240	8.11

Source: Central Bank of Kenya

The average repo rate increased marginally to 9.17 percent during the week ending August 22, 2012 from 9.12 percent in the previous week.

Chart A: The Structure of Interest Rates

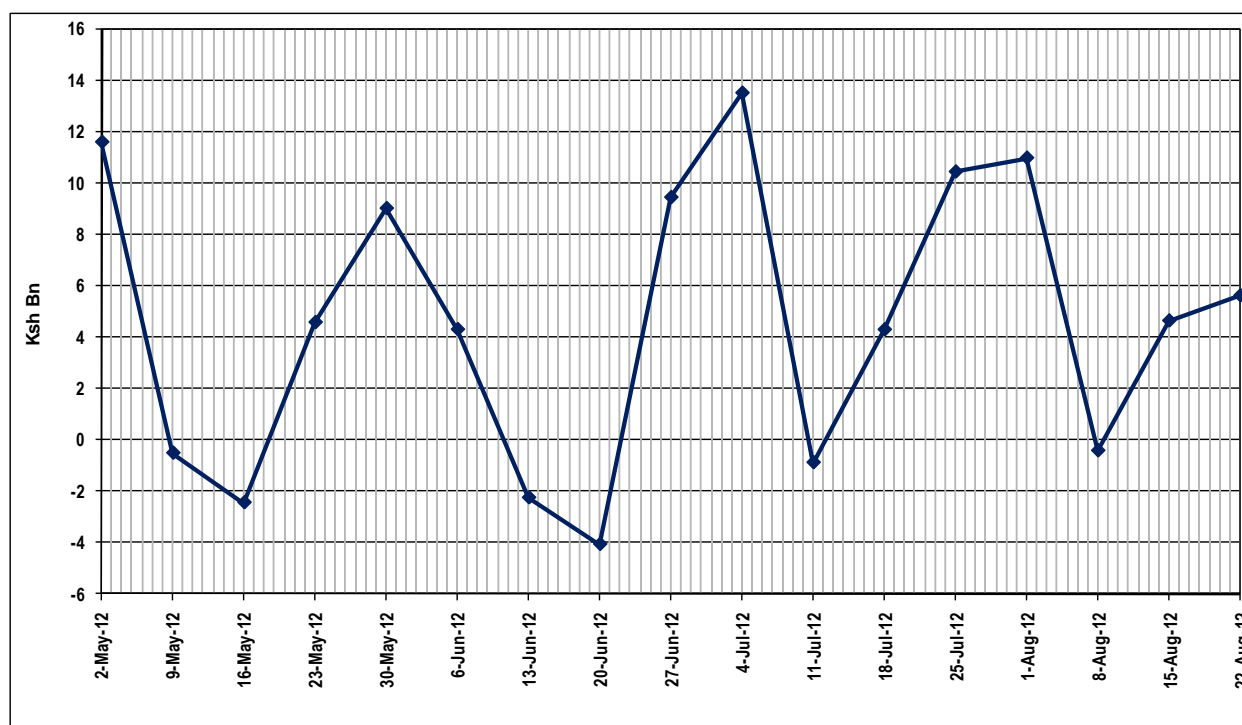


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 5.63 billion in their settlement accounts above the monthly average cash reserve requirements of 5.25 percent (or Ksh 81.9 billion) at the Central Bank in the week to August 22, 2012 compared with Ksh 4.65 billion in the previous week (Chart B). The buildup in commercial banks excess reserves is consistent with increased liquidity in the interbank market.

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 mixed performance against major international currencies in the week ending August 23, 2012. During the week, the Kenya Shilling depreciated by 0.04 percent, 0.71 percent and 0.87 percent against the US dollar, the Sterling Pound and the Euro respectively to trade at an average of Ksh 84.01 per USD, Ksh 132.50 per Sterling Pound and Ksh 104.29 per Euro compared with Ksh 83.98 per USD, Ksh 131.58 per Sterling Pound and Ksh 103.39 per Euro in the week ending August 16, 2012. Against the Japanese Yen, the Kenya Shilling appreciated by 0.55 percent to trade at an average of Ksh 106.17 per 100 Japanese Yen compared with Ksh 106.76 per 100 Japanese Yen in the week ending August 16, 2012.

In the EAC region, the Kenya Shilling strengthened against the Uganda Shilling and the Burundi Franc and weakened against the Tanzania Shilling. Against the Rwanda Franc, the Kenya Shilling Traded at the same level as the previous week. The EAC currencies traded at an average of Ush 29.65, Tsh 18.73, RWF 7.24 and BIF 17.09 in the week ending August

23, 2012 compared with Ush 29.56, Tsh 18.78, RWF 7.24 and BIF 17.02 in the week ending August 16, 2012(Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
17-Aug-12	84.07	131.99	103.71	105.95	29.58	18.74	7.23	17.27
21-Aug-12	83.98	132.01	103.75	105.83	29.64	18.73	7.24	16.94
22-Aug-12	84.01	132.49	104.56	105.96	29.63	18.73	7.24	16.93
23-Aug-12	83.99	133.53	105.13	106.92	29.77	18.72	7.27	17.20
17 - 23 August 2012	84.01	132.50	104.29	106.17	29.65	18.73	7.24	17.09

Source Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank increased from USD 5,080 million (equivalent to 4.15 months of import cover) as at August 16, 2012 to USD 5,104 million (equivalent to 4.17 months of import cover) in the week ending August 23, 2012 (Table 4) and remained above the statutory 4 months of imports cover.

Table 4: Official Foreign Exchange Reserves

	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	23-Aug-12
Usable Reserves*	4,560	4,936	4,924	4,903	4,860	4,936	4,928	4,976	4,968	5,080	5,104
Months of Imports Cover**	3.86	4.18	4.13	4.11	4.08	4.04	4.03	4.07	4.06	4.15	4.17

*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 24, 2012, the Government offered for sale Ksh 4.0 billion in 91-day Treasury bills, Ksh 4.0 billion in 182-day Treasury bills and Ksh 10.0 billion in 2 year discounted fixed-rate bonds. The 2 year bond attracted bids worth Ksh 30.3 billion (303.0 percent performance rate), of which Ksh 16.3 billion was accepted. Demand for the 91-day Treasury bills and 182-day Treasury bills was equally high with the issuance attracting bids worth Ksh 9.7 billion (242.1 percent performance rate) and Ksh 5.0 billion (124.9 percent performance rate) respectively, of which Ksh 4.5 billion and Ksh 4.2 billion were accepted. Total non-competitive bids amounted to Ksh 2.0 billion.

Interest Rates on Government Securities

The weighted average interest rates on the 91-day and 182-day Treasury bills declined further by 168.4 and 133.4 basis points respectively to stand at 8.583 percent and 10.032

percent. Similarly, the 2-year Treasury bond rate declined by 271.2 basis points to stand at 11.114 percent, from 13.826 percent attained in the last 2-year bond auction in April 2012.

Table 5: Government Securities Interest Rates

Auction date	22-Jun-12	29-Jun-12	20-Jul-12	27-Jul-12	03-Aug-12	10-Aug-12	17-Aug-12	24-Aug-12
91 day T. Bills*	10.675	10.780	12.929	13.226	12.864	12.000	10.267	8.583
182 day T. Bills*	10.857	11.091	12.801	13.379	13.038	12.638	11.366	10.032
364 day T. Bills*						12.853		
1 year FXD T. Bonds								
2 year FXD T. Bonds								11.114
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 20.8 billion to stand at Ksh 879.6 billion on August 17, 2012, from Ksh 858.8 billion at the end of June 2012. This followed Ksh 8.4 billion, Ksh 6.5 billion and Ksh 6.0 billion increases in the Government overdraft at the Central Bank, stocks of Treasury bills and Treasury bonds, respectively (Table 6).

Table 6: Government Domestic Debt (Ksh Billion)

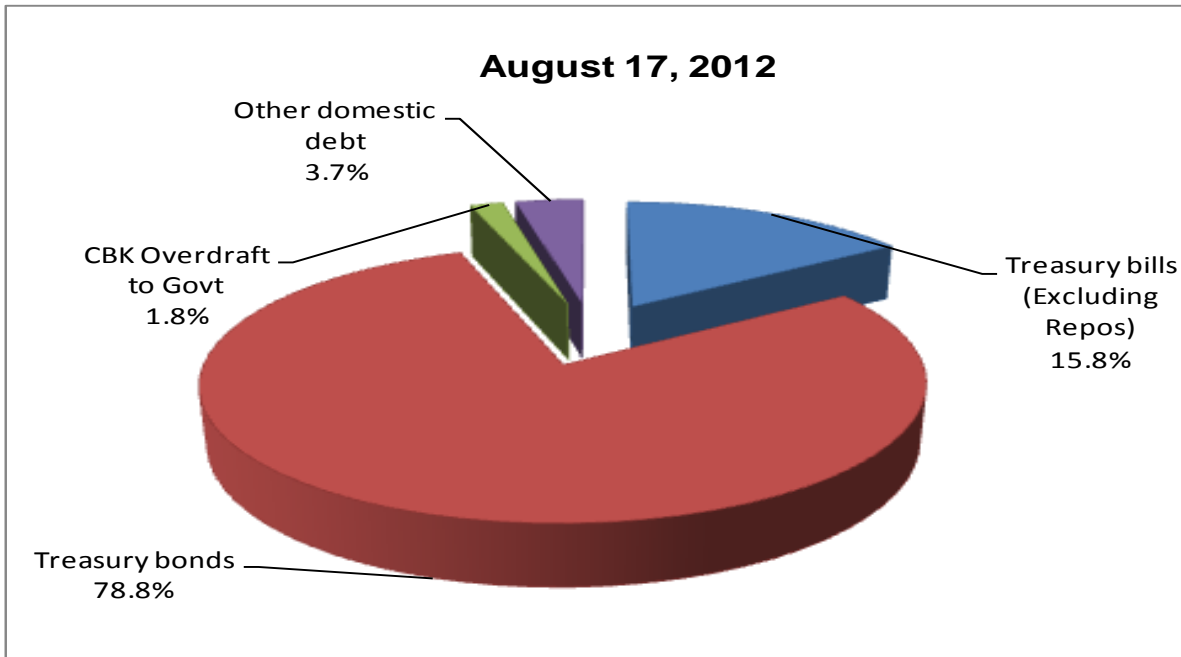
	Jun-11	June 2012	July 2012	10th August 2012	17th August 2012	Changes	
						10th Aug 2012- 17th Aug 2012	29 Jun 2012 - 17th Aug 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	121.9 15.0	127.9 15.6	138.6 16.7	10.6	6.5
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	693.0 85.0	693.0 84.4	693.0 83.3	0.0	6.0
3. Total Securities (1+2)	722.4	819.0	814.9	820.9	831.6	10.6	12.6
4. Overdraft at Central Bank	7.6	7.3	25.4	24.4	15.7	-8.7	8.4
5. Other Domestic debt*	34.3	32.6	31.9	31.9	32.4	0.5	-0.2
6. Gross Domestic Debt (3+4+5)	764.2	858.8	872.2	877.3	879.6	2.4	20.8
7. Interest payments on domestic debt	69.2	82.3	6.8	8.3	9.2	0.9	

* 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 2.4 billion. This followed Ksh 10.6 billion increase in the stocks of Treasury bills, which was partially offset by Ksh 8.7 decline in the Government overdraft at the Central Bank. Treasury bonds remained constant at Ksh 693.0 billion during the week (Table 6 and Chart C). The average time to maturity of Government securities declined to 5 years and 1 month during the week ending August 17, from 5 years and 2 months in the previous week and 5 years and 4 months at the end of June 2012, following the increase in Treasury bills, which are generally short term securities.

Chart C: Composition of Government Securities

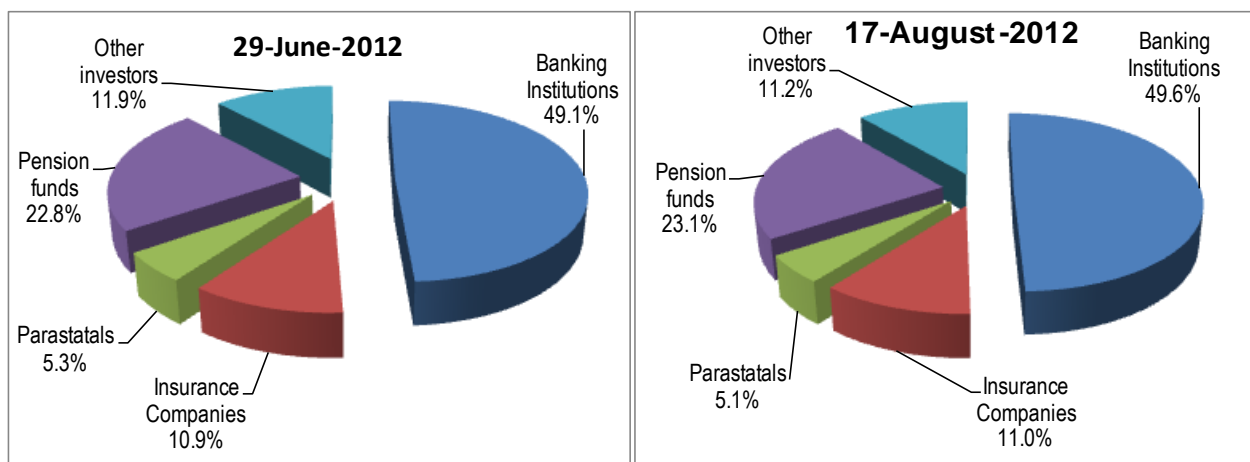


Source: Central Bank of Kenya

Holding of Government Securities

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 49.6 percent, 11.0 percent and 23.1 percent, respectively, during the week ending August 17, 2012. Holdings by parastatals and other investors, which comprise 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 5.1 percent and 11.2 percent, respectively, during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

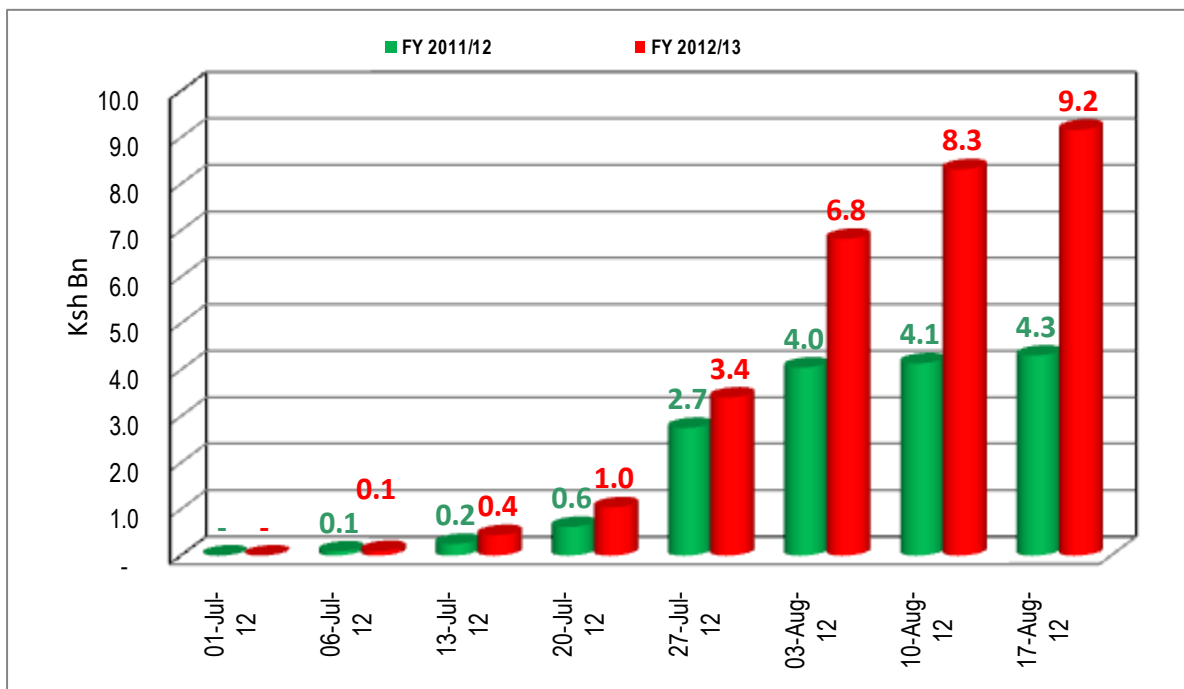


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to August 17, 2012 in the 2012/13 fiscal year amounted to Ksh 9.2 billion compared with Ksh 4.3 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 3.3 billion and Ksh 4.8 billion, respectively. In addition, interest on Government overdraft and the pre 1997 Government overdraft amounted to Ksh 0.2 billion and Ksh 0.8 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 bullish despite the public holiday in the week ending August 23, 2012 with most of the key market indicators recording gains. The NSE 20 Share Index and NASI gained with the market capitalization and equity turnover rallying upwards. The bonds market was also robust in both turnover and volume of deals.

Equities Market

As indicated in Table 7, NSE 20 Share Index edged up to 3,817.70 points on August 23, 2012 from 3,804.54 points on August 16, 2012. NASI was up to 84.01 points from 83.60 points over the same period. Market Capitalization that measures shareholders' wealth gained Ksh 5.42 billion to reach Ksh 1,108.74 billion from Ksh 1,103.32 billion the previous week. Equity turnover improved by Ksh 177.83 million stocks worth Ksh 1,260.28 million traded compared with stocks worth Ksh 1,082.45 million the previous week. The supply of shares traded edged down to 51.18 million from 59.67 million the previous week which

may be attributed to the short trading week because of the public holiday on 20th August 2012.

Table 7: Key Weekly Market Statistics

Week Ending	07-Jun-12	14-Jun-12	21-Jun-12	28-Jun-12	05-Jul-12	12-Jul-12	19-Jul-12	26-Jul-12	02-Aug-12	09-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 26.01 million shares or 50.8 percent of the traded shares. Telecommunications & Technology and Investment sectors followed in second and third positions, trading 7.34 million shares or 14.3 percent and 4.59 million shares or 9.0 percent of the traded shares, respectively. Equity bank Ltd, Housing Finance Co. Ltd and Safaricom were the three most active counters with 11.14 million, 8.57 million and 7.26 million shares traded, respectively. Automobile sector was least active, trading 48,500 shares.

The biggest closing and average price gain in the week was with Nation Media Group Ltd at Ksh 12.0 and Ksh 9.6, respectively. The biggest closing and average price losses were with Jubilee Holdings Ltd and Kapchorua Tea Co. Ltd at Ksh 8.0 and Ksh 4.08 per share, respectively. Of the 48 active counters, 20 had average price gains in the week ending August 23, 2012.

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization edged down marginally to 110.67 points on August 23, 2012 from 111.01 points on August 16, 2012. FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange also lost by a similar margin of 0.3 percent to register 113.19 points on August 23, 2012 from 113.53 points the previous week.

The Bond Market

Bond trading was bullish improving by 73.5 percent to a turnover of Ksh 17,017.95 million for the week ending August 23, 2012 from Ksh 9,806.80 million turnover in the previous week. Corresponding deals were up 32.1 percent to 218 from 165. This is attributed to falling interest rates in the primary market.