



August 31, 2012

Highlights

The money market was liquid during the week ending August 29, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 24.2 billion through repo securities against maturities of repo and term auction deposits securities held by commercial banks of Ksh 15.5 billion and Ksh 2.4 billion, respectively.

The average interbank rate increased to 8.46 percent during the week ending August 29, 2012 compared with 8.11 percent in the previous week.

The Kenya Shilling depreciated against all major international currencies in the week ending August 30, 2012. Against the US dollar the Kenya Shilling ended the week at an average of Ksh 84.08 per US dollar down from Ksh 84.01 per US dollar in the week ending August 23, 2012.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 5,103 million (equivalent to 4.12 months of import cover) as at August 23, 2012 to US dollar 5,121 million (equivalent to 4.14 months of import cover) in the week ending August 30, 2012.

The Government offered for sale Treasury bills worth Ksh 15.0 billion during the week ending August 31, 2012. A total of Ksh 13.7 billion was accepted out of Ksh 19.0 billion bids received.

Gross Government domestic debt increased by Ksh 16.7 billion to stand at Ksh 875.5 billion on August 24, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt declined by Ksh 4.1 billion, largely on account of Treasury bonds.

Stock market performance was robust in the week ending August 30, 2012 as reflected by gains in most of the market indicators. All activities in equities and bonds were up except for the Equity Turnover, which edged down 5.4 percent. The NSE 20 Share Index was up 57.41 points, while the Nairobi All Share Index (NASI) was up 0.86 points. The FTSE NSE 15 Index and FTSE NSE 25 Index were up 1.75 and 1.58 points respectively. Supply of shares increased 48.0 percent, while Market Capitalization was up 1.0 percent. Similarly, the bonds market activity edged up recording a 71.1 percent increase in turnover.

Monetary Policy Operations

The money market was liquid during the week ending August 29, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 24.2 billion through repo securities against maturities of repo and term auction deposits securities held by commercial banks of Ksh 15.5 billion and Ksh 2.4 billion, respectively. Reserve money averaged Ksh 257.3 billion during the week and was Ksh 3.1 billion above 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)
23-Aug-12	265.0	254.3	10.7	8.0	2.7	0.0	-5.4	263.3	8.9	14.7	-5.8
24-Aug-12	273.4	254.3	19.1	8.0	8.0	0.0	0.0	266.3	11.9	18.1	-6.2
27-Aug-12	248.6	254.1	-5.5	0.0	0.0	0.0	0.0	249.3	-4.9	1.3	-6.2
28-Aug-12	257.6	254.1	3.5	3.5	3.5	0.0	0.0	252.7	-1.5	4.4	-5.8
29-Aug-12	262.9	254.1	8.8	10.0	10.0	0.0	0.0	255.2	1.1	7.2	-6.2
Average	261.5	254.2	7.3	5.9	4.8	0.0	-1.1	257.3	3.1	9.1	-6.0

Interbank and REPO Rates

The average interbank rate increased to 8.46 percent during the week ending August 29, 2012 compared with 8.11 percent in the previous week. The average interbank volumes transacted was relatively unchanged at Ksh 10.6 billion compared with Ksh 10.2 billion transacted in the previous week, while the average number of deals were 63 compared with 61 deals in the previous week (Table 2 and Chart A).

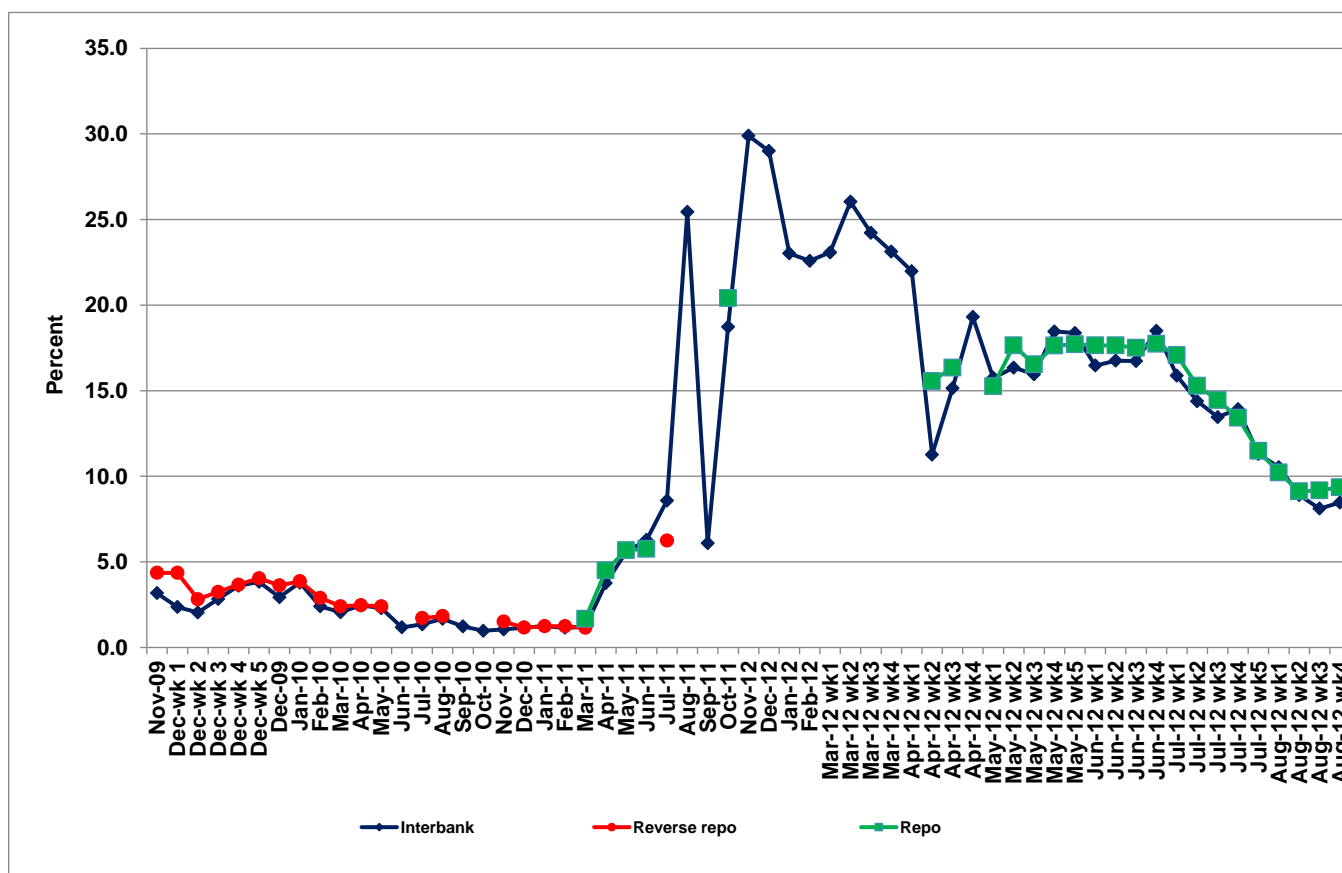
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
23-Aug-12	69	11,352	8.54
24-Aug-12	66	9,397	8.66
27-Aug-12	64	10,136	8.70
28-Aug-12	54	11,329	8.32
29-Aug-12	62	10,832	8.10
August 23-August 29, 2012	63	10,609	8.46

Source: Central Bank of Kenya

The average repo rate increased marginally to 9.36 percent during the week ending August 29, 2012 from 9.17 percent in the previous week.

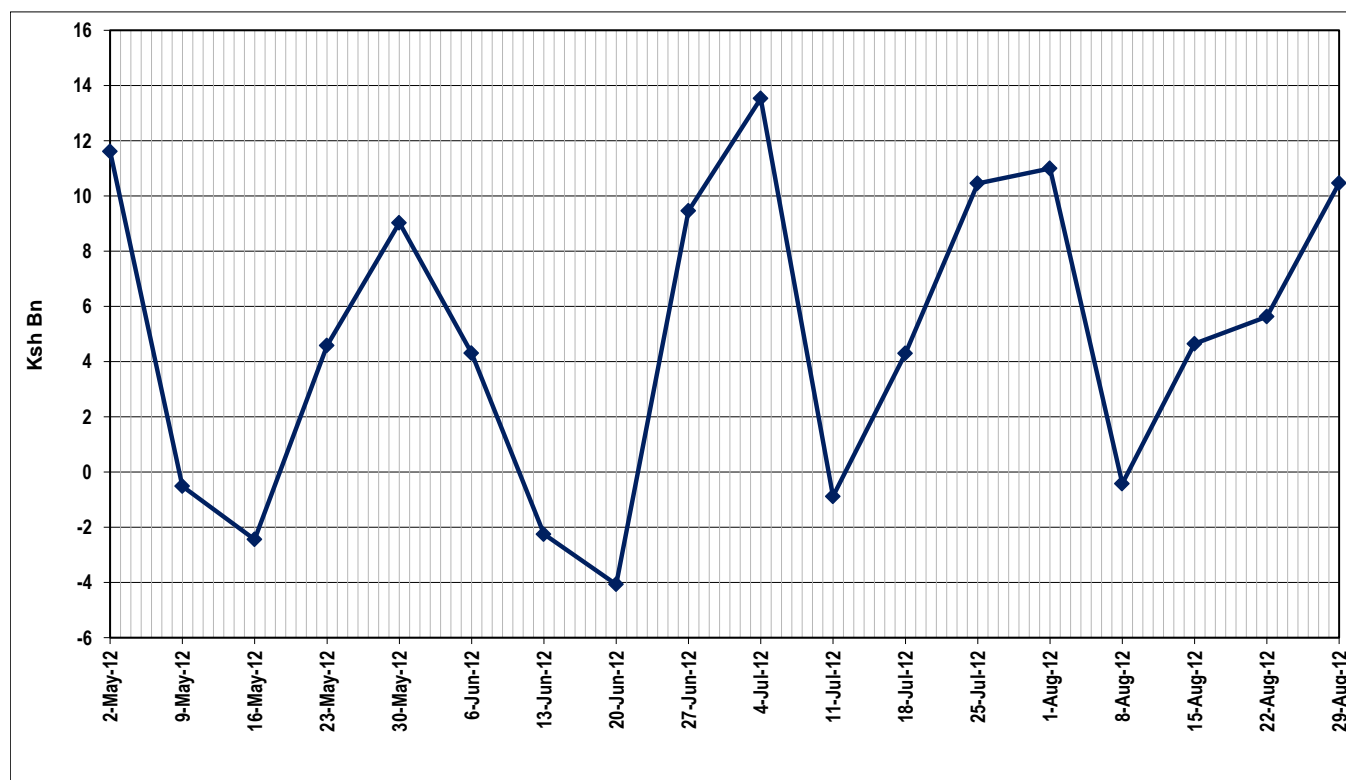
Chart A: The Structure of Interest Rates



Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 10.46 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 29, 2012 compared with Ksh 5.63 billion in the previous week (Chart B).

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



The Shilling Exchange Rate

The Kenya Shilling depreciated against all major international currencies in the week ending August 30, 2012 depreciating by 0.08 percent against the US dollar to trade at an average of Ksh 84.08 per US dollar, 0.38 percent against the Sterling Pound to trade at an average of Ksh 133 per Sterling Pound, 1.02 percent against the Euro to trade at an average of Ksh 105.35 per Euro and 0.76 percent against the 100 Japanese Yen to trade at an average of Ksh 106.97 per 100 Japanese Yen. This was down from the previous week's figures which saw the Shilling trade at an average of Ksh 84.01 per US dollar, Ksh 132.5 per Sterling Pound, Ksh 104.29 per Euro and Ksh 106.17 per 100 Japanese Yen.

In the EAC region, the Kenya Shilling appreciated against the Uganda Shilling but depreciated against all the other East African Currencies to trade at an average of Ush 29.86, Tsh 18.70, RWF 7.237 and BIF 17.089 during the week compared to Ush 29.65, Tsh 18.73, RWF 7.245 and BIF 17.086 in the week ending August 23, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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	7.245	17.086
24-Aug-12	84.01	133.23	105.44	106.92	30.16	18.73	7.25	17.20
27-Aug-12	84.02	132.83	105.05	106.71	29.99	18.72	7.24	17.14
28-Aug-12	84.10	132.76	105.00	107.10	29.73	18.69	7.23	16.94
29-Aug-12	84.12	132.97	105.65	107.10	29.72	18.69	7.23	16.94
30-Aug-12	84.14	133.23	105.61	107.02	29.71	18.67	7.24	17.22
24 - 30 August 2012	84.08	133.00	105.35	106.97	29.86	18.70	7.237	17.089

Source Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 5,103 million (equivalent to 4.12 months of import cover) as at August 23, 2012 to US dollar 5,121 million (equivalent to 4.14 months of import cover) in the week ending August 30, 2012 (Table 4).

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

	9-Aug-12	16-Aug-12	23-Aug-12	30-Aug-12
Usable Reserves*	4,968	5,080	5,103.93	5,121.43
Months of Imports Cover**	4.06	4.15	4.12	4

*Excludes encumbered reserves

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

Government Securities Auction

During the week ending August 31, 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 7.0 billion in 364 day Treasury bills. The 91 day Treasury bill attracted bids worth Ksh 10.0 billion (251.4 percent performance rate), of which Ksh 4.8 billion was accepted. The 182 day and 364 day Treasury bills performed at 110.5 percent and 64.8 percent, respectively, collectively attracting bids worth Ksh 9.0 billion. All the 364 day bids were accepted during the week. Total non-competitive bids amounted to Ksh 1.0 billion.

Interest Rates on Government Securities

Weighted average interest rates on the 91 day, 182 day and 364 day Treasury bills declined by 46.4 basis points, 18.4 basis points and 251.7 basis points, respectively, to stand at 8.119 percent, 9.848 percent and 10.336 percent, during the week under review (Table 5).

Table 5: 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	24-Aug-12	31-Aug-12
91 day T. Bills*	10.675	10.780	12.929	13.226	12.864	12.000	10.267	8.583	8.119
182 day T. Bills*	10.857	11.091	12.801	13.379	13.038	12.638	11.366	10.032	9.848
364 day T. Bills*						12.853			10.336
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 16.7 billion to stand at Ksh 875.5 billion on August 24, 2012, from Ksh 858.8 billion at the end of June 2012. This followed Ksh 8.1 billion, Ksh 7.5 billion and Ksh 1.5 billion increases in the Government overdraft at the Central Bank, stocks of Treasury bills and Treasury bonds, respectively.

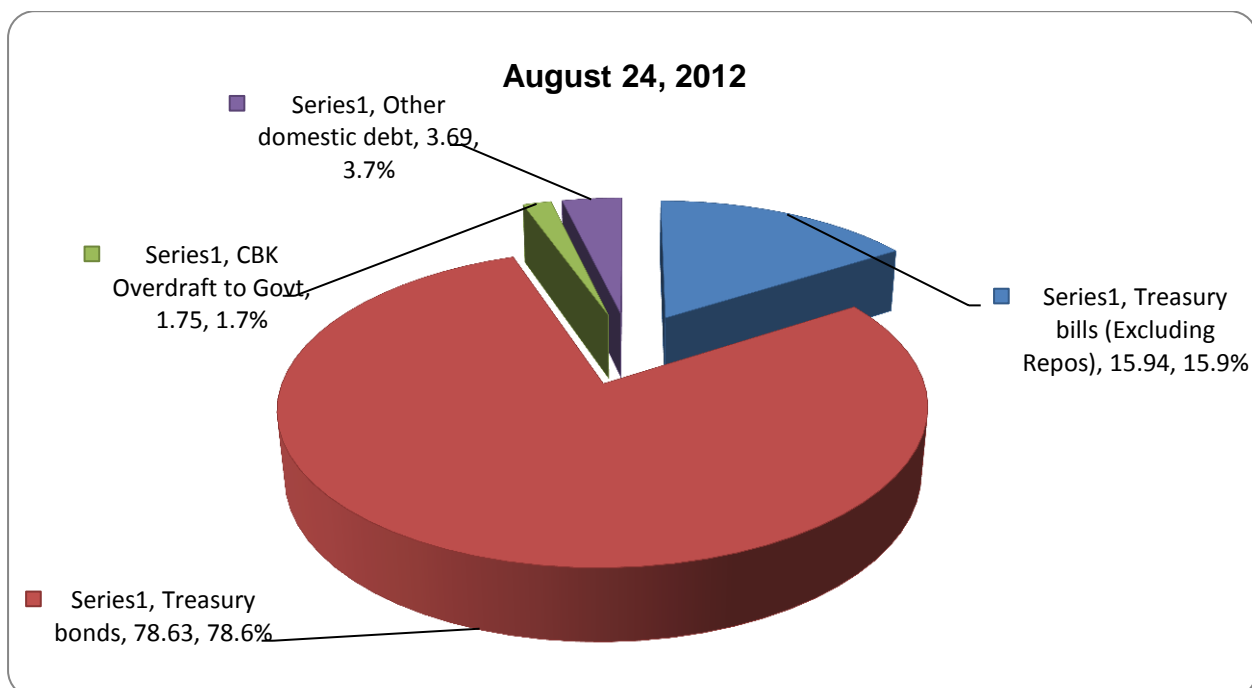
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-11	June 2012	July 2012	17th August 2012	24th August 2012	Changes	
						17th Aug 2012- 24th Aug 2012	29 Jun 2012 - 24th Aug 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	121.9 15.0	138.6 16.7	139.6 16.9	1.0	7.5
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	693.0 85.0	693.0 83.3	688.4 83.1	-4.6	1.5
3. Total Securities (1+2)	722.4	819.0	814.9	831.6	828.0	-3.6	9.0
4. Overdraft at Central Bank	7.6	7.3	25.4	15.7	15.3	-0.4	8.1
5. Other Domestic debt*	34.3	32.6	31.9	32.4	32.3	-0.1	-0.3
6. Gross Domestic Debt (3+4+5)	764.2	858.8	872.2	879.6	875.5	-4.1	16.7
7. Interest payments on domestic debt	69.2	82.3	6.8	9.2	13.0	3.8	

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

Source: Central Bank of Kenya

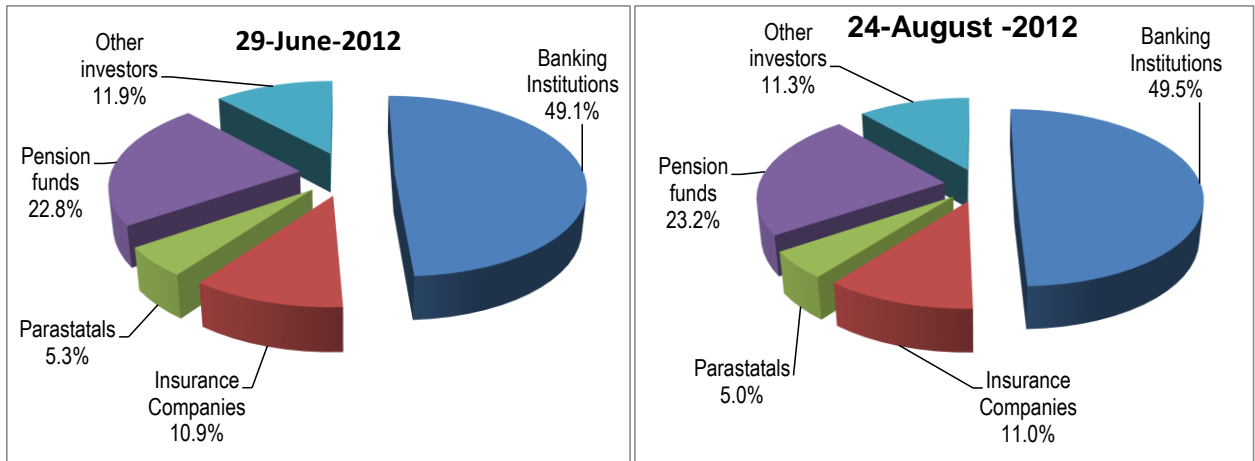
During the week under review, gross government domestic debt declined by Ksh 4.1 billion, following Treasury bond maturities of Ksh 4.6 billion. Treasury bills expanded by Ksh 1.0 billion to stand at Ksh 139.6 billion on August 24, 2012. (Table 6 and Chart C). The average time to maturity of Government securities declined to 5 years and 1 month during the week ending August 24, 2012, from 5 years and 4 months at the end of June 2012.

Chart C: Composition of Government Securities

Holding of Government Securities

Commercial banks held 49.5 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, 11.0 percent and 23.2 percent, respectively, during the week ending August 24, 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 5.0 percent and 11.3 percent, respectively, during the same period (Chart D).

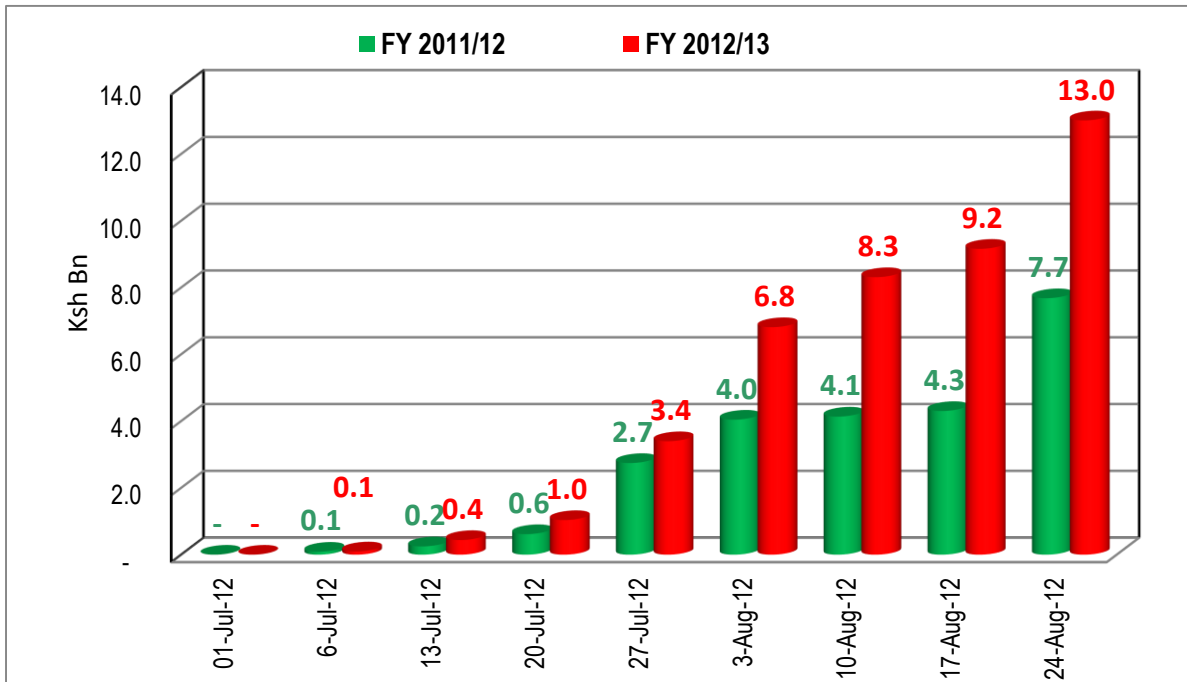
Chart D: Composition of Government Securities by Investors



Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to August 24, 2012 in the 2012/13 fiscal year amounted to Ksh 13.0 billion compared with Ksh 7.7 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 4.2 billion and Ksh 7.8 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)



The Capital Markets

Capital markets performance was bullish in the week ending August 30, 2012 with most of the key market indicators recording gains. The NSE 20 Share Index maintained above the 3,800 points mark, while market capitalization remained above the trillion shillings mark. The bonds' segment improved by more than half, both in turnover and total deals transacted.

Equities Market

As indicated in Table 7, NSE 20 Share Index rose to 3,875.11 points on August 30, 2012 from 3,817.70 points on August 23, 2012. NASI was up to 84.87 points from 84.01 points over the same period. Market Capitalization that measures shareholders' wealth gained Ksh 11.49 billion to reach Ksh 1,120.23 billion. The supply of shares traded rose to 75.75 million from 51.18 million the previous week, while equity turnover declined by Ksh 68.19 million to trade stocks worth Ksh 1,192.08 million from Ksh 1,260.28 million, owing to the average price fall of shares traded.

Table 7: Key Weekly Market Statistics

Week Ending	19-Jul-12	26-Jul-12	2-Aug-12	9-Aug-12	16-Aug-12	23-Aug-12	30-Aug-12
NASI 100= Jan 2008	83.26	84.35	82.98	83.86	83.60	84.01	84.87
NSE 20 Share Index 100=1966	3,825.93	3,878.52	3,825.08	3,823.49	3,804.54	3,817.70	3,875.11
Number of Deals	5,902	6,604	6,955	5,903	6,230	5,162	6,536
Total Shares Traded (millions)	75.38	113.63	88.12	110.53	59.67	51.18	75.75
Equity Turnover (Ksh. millions)	1,165.18	1,417.43	1,337.42	1,391.64	1,082.45	1,260.28	1,192.08
Market Capitalization (Ksh. Billions)	1,097.96	1,112.32	1,095.17	1,106.79	1,103.32	1,108.74	1,120.23
Bonds Turnover (Ksh. millions)	6,675.65	9,892.70	11,273.80	16,848.45	9,806.80	17,017.95	29,123.00
FTSE NSE Kenya 15 Index	109.75	111.43	108.82	110.24	111.01	110.67	112.42
FTSE NSE Kenya 25 Index	112.26	113.83	111.04	112.81	113.53	113.19	114.77

Source: Nairobi Securities Exchange

Insurance sector was the most active, transacting 30.95 million shares or 41.9 percent of the traded shares in the week. Banking and Telecommunications and Technology sectors came in second and third, trading 15.32 million and 11.04 million shares or 20.75 percent and 14.95 percent of the traded shares, respectively. British-American Investments Company (Kenya) Ltd, Safaricom and CIC Insurance Group Ltd were the three most active counters with 22.21 million, 10.93 million and 6.67 million shares traded, respectively. Automobile sector was least active, trading only 116,000 shares.

The biggest closing and average price gain in the week was with BAT Kenya Ltd and Nation Media Group Ltd at Ksh 14.0 and Ksh 10.20 respectively. The biggest closing and

average price losses were for Williamson Tea Kenya Ltd and East African Breweries Ltd at Ksh 10.0 and Ksh 6.75 per share, respectively. Of the 48 active counters, 28 had average price gains in the week ending August 30, 2012.

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, rose to 112.42 points from 110.67 points during the week. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the Exchange, was also on the rise, registering 114.77 points from 113.19 points during the review period.

The Bond Market

Bond trading was bullish, rising 71.1 percent, to Ksh 29,123 million for the week ending August 30th 2012 from Ksh 17,017.95 million the previous week. Corresponding deals were up 69.7 percent to 370 from 218. This can be attributed to investors' preference for bonds given the rapid fall in interest rates for short term securities in the primary market.