



DECEMBER 07, 2012,

Highlights

Overall 12-month inflation declined by 88 basis points from 4.1 percent in October 2012 to 3.3 percent in November 2012 due to continued easing of fuel inflation. Non-food non -fuel) inflation also maintained a downward trend, decelerating to 4.8 percent from 6.2 percent.

The money market was relatively liquid during the week ending December 5, 2012. The Central Bank sterilized excess liquidity amounting to Ksh 38.0 billion against Ksh 29.5 billion maturities of repo and term auction deposits securities held by commercial banks. The average interbank rate decreased to 5.90 percent during the week ending December 5, 2012 from 6.25 percent in the previous week reflecting excess liquidity in the money market.

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending December 6, 2012. Against the US Dollar the Kenya Shilling depreciated marginally to trade at an average of Ksh 85.95 per US Dollar compared to an average of Ksh 85.88 per US Dollar in the week ending November 29, 2012.

The usable official foreign exchange reserves held by Central Bank stabilized at US Dollar 5,374 million (equivalent to 4.22 months of import cover) in the week ending December 6, 2012 compared with US Dollar 5,382 million (equivalent to 4.22 months of import cover) as at November 29, 2012.

During the week ending December 7, 2012, the Government offered for sale Treasury bills worth Ksh 7.0 billion, and received and accepted bids worth Ksh 4.1 billion.

Gross Government domestic debt increased by Ksh 99.3 billion from Ksh 858.8 billion at the end of June 2012 to Ksh 958.1 billion on November 30, 2012. During the week under review, gross government domestic debt increased by Ksh 15.3 billion on account of Treasury bills.

The capital market performance weakened for both equities and bonds segments in the week ending December 6, 2012.

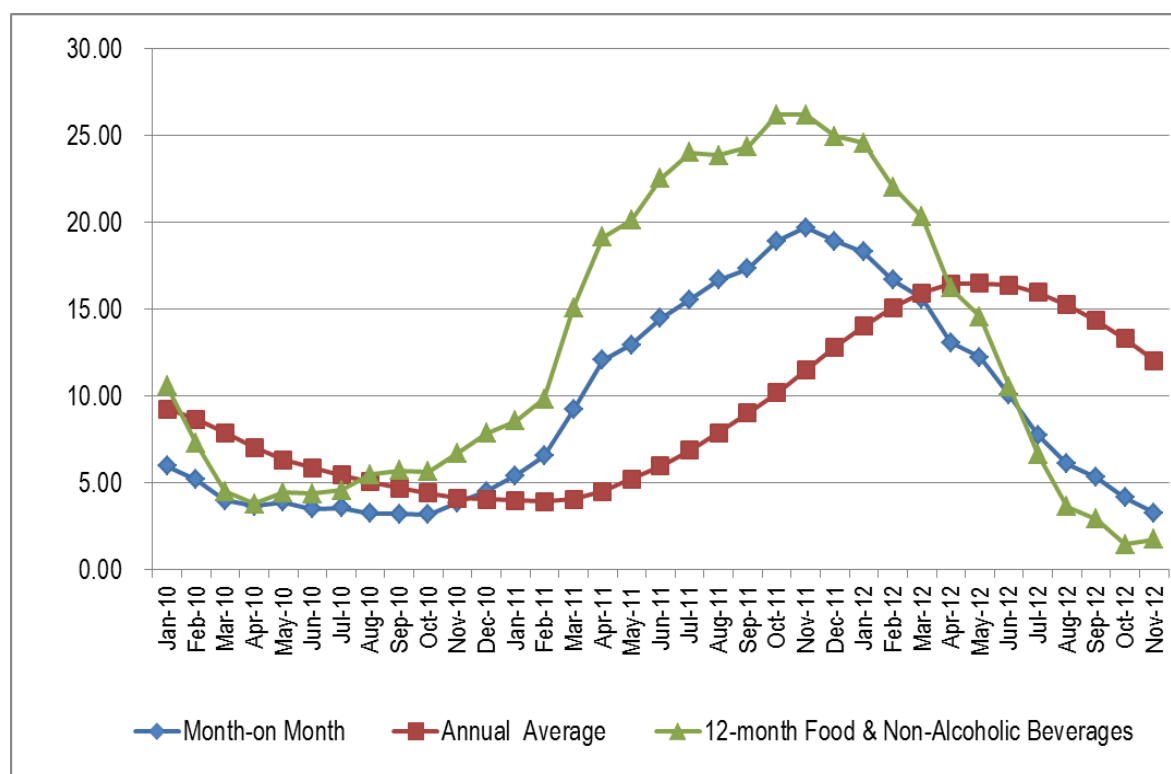
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Inflation

Overall 12-month inflation eased by 88 basis points from 4.1 percent in October 2012 to 3.3 percent in November 2012 (Chart A). The decline in the overall inflation in November 2012 was reflected largely in the fuel components, with inflation of 'transport', and the 'Housing, Water, Electricity, Gas and other Fuels' inflation rates categories easing further to 0.6 percent and 4.5 percent in November 2012 compared with 2.8 percent and 6.2 percent, respectively in October 2012.

'Food and Non-Alcoholic Beverages', inflation rate remained subdued, increasing by 29 basis points to 1.74 in November 2012.

CHART A: MONTH-ON-MONTH ANNUAL AVERAGE AND 12-MONTH FOOD & NON-ALCOHOLIC BEVERAGES INFLATION RATES



Source: Kenya National Bureau of Statistics

Monetary Policy Operations

The money market was relatively liquid during the week ending December 5, 2012. The Central Bank sterilized the excess liquidity in the money market, mopping Ksh 18.8 billion through repo securities and Ksh 19.2 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 17.0 billion and Ksh 12.5 billion, respectively. Reserve money averaged Ksh 268.8 billion during the week and was Ksh 4.5 billion below the target (Table 1).

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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)
29-Nov-12	284.9	270.6	14.3	14.6	5.6	7.0	-2.1	272.8	2.2	8.9	-6.6
30-Nov-12	282.8	270.6	12.2	15.0	2.5	2.4	-10.0	280.1	9.5	15.2	-5.7
3-Dec-12	276.9	275.1	1.8	10.0	4.9	7.1	2.0	264.1	-11.0	-1.9	-9.1
4-Dec-12	267.5	275.1	-7.6	5.0	2.2	2.7	-0.1	264.0	-11.1	-3.9	-7.2
5-Dec-12	265.8	275.1	-9.3	2.0	3.7	0.0	1.7	263.0	-12.1	-5.7	-6.4
Average	275.6	273.3	2.3	9.3	3.8	3.8	-1.7	268.8	-4.5	2.5	-7.0

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate decreased to 5.90 percent during the week ending December 5, 2012 from 6.25 percent in the previous week reflecting improved liquidity in the money market. The average interbank volumes transacted declined to Ksh 8.5 billion from Ksh 11.4 billion transacted in the previous week while the average number of deals fell to 33 compared with 51 deals in the previous week (Table 2 and Chart B).

TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES

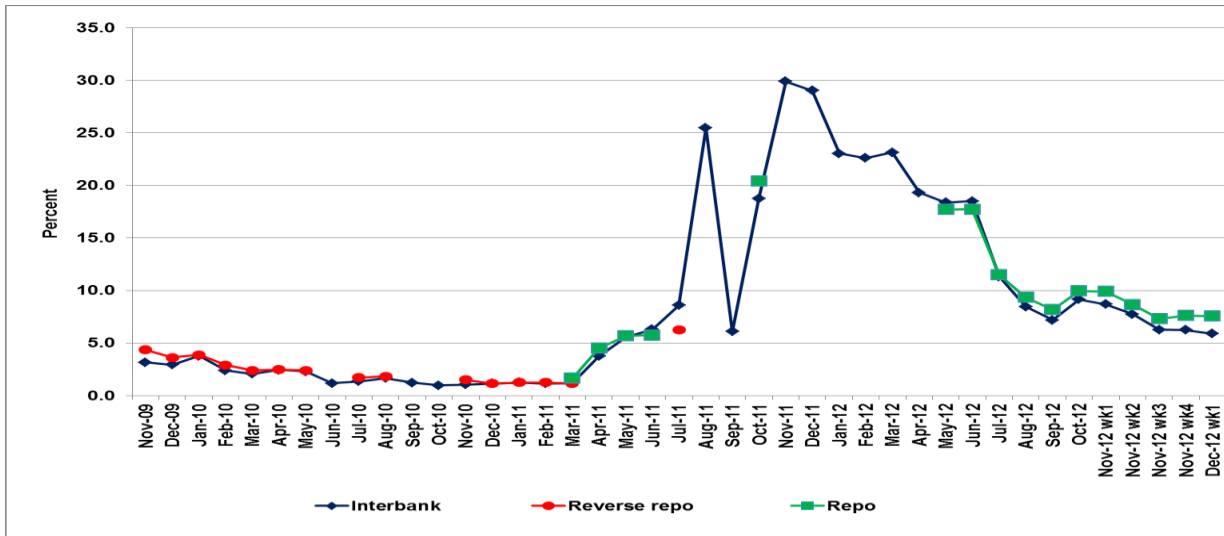
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
22-Nov-12	53	13,156	6.10
23-Nov-12	61	12,540	6.14
26-Nov-12	56	10,340	6.27
27-Nov-12	50	11,610	6.41
28-Nov-12	36	9,260	6.35
November 22 - November 28, 2012	51	11,381	6.25
29-Nov-12	34	9,030	6.24
30-Nov-12	30	7,850	6.01
3-Dec-12	34	8,593	5.81
4-Dec-12	33	7,340	5.76
5-Dec-12	34	9,508	5.66
November 29 -December 5, 2012	33	8,464	5.90

Source: Central Bank of Kenya

The average repo rate decreased to 7.58 percent during the week ending December 5, 2012 from 7.63 percent recorded in the previous week.

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CHART B: SHORT TERM INTEREST RATES

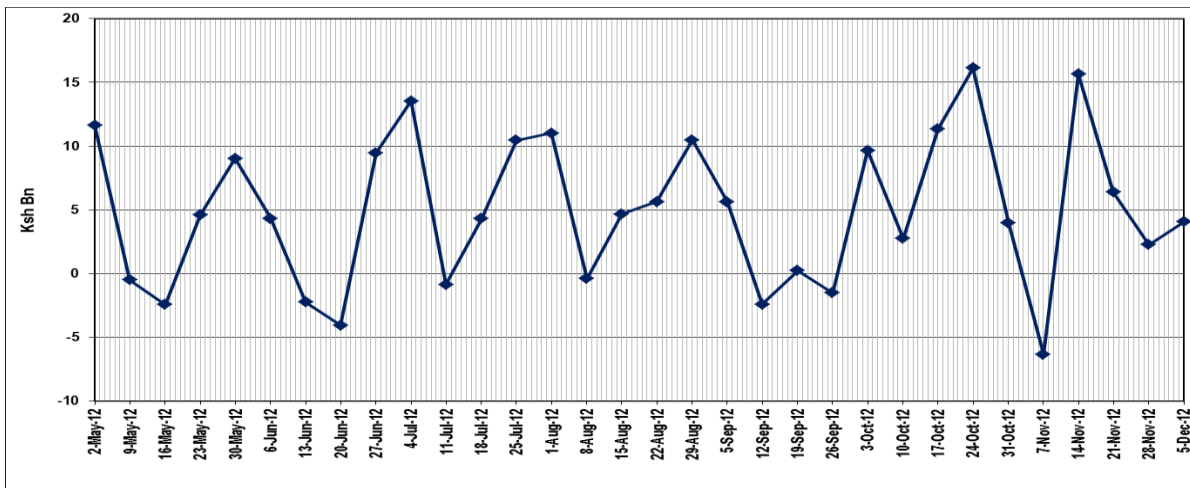


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks recorded excess deposits of Ksh 4.06 billion in their settlement accounts in relation to the monthly average cash reserve requirements of 5.25 percent (or Ksh 87.43 billion) at the Central Bank in the week to December 5, 2012 compared with Ksh 2.29 billion in the previous week (Chart C).

CHART C: WEEKLY AVERAGE DEVIATION FROM CRR IN THE CLEARING ACCOUNT



Source: Central Bank of Kenya

The Shilling Exchange Rate

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The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending December 6, 2012. The Kenya Shilling depreciated marginally against the US Dollar, the Sterling Pound and the Euro to trade at an average of Ksh 85.95 per US Dollar, Ksh 138.14 per Sterling Pound and Ksh 110.20 per Euro compared to an average of Ksh 85.88 per US Dollar, Ksh 137.45 per Sterling Pound and Ksh 112.14 per Euro in the week ending November 29, 2012. Against the Japanese Yen, the Kenya Shilling appreciated by 0.12 percent to trade at an average of Ksh 104.38 per 100 Japanese.

In the EAC region, the Kenya Shilling depicted mixed performance against the East African Currencies. The Kenya Shilling strengthened against the Uganda Shilling and weakened against the Tanzania Shilling, the Burundi Franc and the Rwanda Franc (Table 3).

TABLE 3: KENYA SHILLING EXCHANGE RATES

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
23-Nov-12	85.72	136.73	110.47	104.15	31.15	18.81	7.21	17.62
26-Nov-12	85.80	137.43	111.09	104.19	31.00	18.74	7.20	17.60
27-Nov-12	85.99	137.89	111.67	104.59	30.93	18.69	7.23	17.86
28-Nov-12	85.97	137.57	111.22	104.93	31.41	18.65	7.19	17.39
29-Nov-12	85.94	137.61	111.32	104.65	31.39	18.64	7.19	17.47
23 Nov - 29 Nov 2012	85.88	137.45	111.16	104.50	31.18	18.71	7.20	17.59
30-Nov-12	85.93	137.82	111.61	104.22	31.30	18.63	7.19	17.40
3-Dec-12	85.91	137.69	111.89	104.27	31.20	18.66	7.19	17.40
4-Dec-12	85.96	138.36	112.21	104.74	31.18	18.62	7.19	17.41
5-Dec-12	85.94	138.49	112.71	104.47	31.30	18.64	7.19	17.40
6-Dec-12	85.99	138.35	112.28	104.20	31.34	18.64	7.19	17.62
29 Nov - 6 Dec 2012	85.95	138.14	112.14	104.38	31.26	18.64	7.19	17.45

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank stabilized at US Dollar 5,374 million (equivalent to 4.22 months of import cover) in the week ending December 6, 2012 (Table 4) compared with US Dollar 5,382 million (equivalent to 4.22 months of import cover) as at November 29, 2012 to.

TABLE 4: OFFICIAL FOREIGN RESERVES US\$ MILLION (USABLE)

	4-Oct-12	11-Oct-12	18-Oct-12	25-Oct-12	1-Nov-12	8-Nov-12	15-Nov-12	22-Nov-12	29-Nov-12	6-Dec-12
Usable Reserves*	5,159	5,137	5,141	5,175	5,147	5,249	5,267	5,383	5,382	5,374
Months of Imports Cover**	4.05	4.03	4.04	4.06	4.04	4.12	4.13	4.23	4.22	4.22

*Excludes encumbered reserves

**Based on 36 month average of imports of goods and

Source: Central Bank of Kenya

Government Securities Auction

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The Government offered for sale Ksh 4.0 billion in 91-day Treasury bills and Ksh 3.0 billion in 182-day Treasury bills during the week ending December 7, 2012. The 91-day paper attracted bids worth Ksh 2.6 billion (65.7 performance rate), all of which was accepted. Similarly, the 182-day paper attracted bids amounting to Ksh 1.5 billion, representing a performance rate of 48.8 percent, all of which was accepted. Total non-competitive bids amounted to Ksh 0.9 billion.

Interest Rate on the Treasury Bills and Bonds

Weighted average interest rates for the 91-day and 182-day Treasury bills declined by 10.6 and 25.6 basis points, respectively, closing at 8.339 percent and 9.08 percent during the week ending December 7, 2012.

TABLE 5: GOVERNMENT SECURITIES INTEREST RATES

Auction date	24-Jun-11	5-Oct-12	26-Oct-12	2-Nov-12	9-Nov-12	16-Nov-12	23-Nov-12	30-Nov-12	7-Dec-12
91-day T. Bills*	8.995	8.439	9.945	10.237	10.346	9.621	8.987	8.445	8.339
182-day T. Bills*		10.194	10.761	10.854	10.923	10.325	9.773	9.336	9.080
364-day T. Bills*		10.570			11.943			11.709	
2 year FXD T. Bonds			12.496						
20 year FXD T. Bonds	14.822						13.540		

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 99.3 billion from Ksh 858.8 billion at the end of June 2012 to Ksh 958.1 billion on November 30, 2012. This followed an increase of Ksh 52.2 billion, Ksh 28.4 billion and Ksh 18.1 billion in Treasury bills, Treasury bonds and the Government overdraft at the Central Bank, respectively.

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	Jun 2012	Sep 2012	16th Nov 2012	23rd Nov 2012	30th Nov 2012	Changes	
						23rd Nov 2012- 30th Nov 2012	29th Jun 2012 - 30th Nov 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	132.0 16.1	159.7 18.5	156.3 17.9	172.4 19.5	184.2 20.5	11.8	52.2
2. Treasury Bonds (As % of total securities)	687.0 83.9	703.9 81.5	717.6 82.1	711.9 80.5	715.3 79.5	3.5	28.4
3. Total Securities (1+2)	819.0	863.6	874.0	884.3	899.5	15.2	80.6
4. Overdraft at Central Bank	7.3	25.4	25.4	25.4	25.4	0.0	18.1
5. Other Domestic debt*	32.6	33.2	33.2	33.1	33.2	0.0	0.6
6. Gross Domestic Debt (3+4+5)	858.8	922.2	932.5	942.8	958.1	15.3	99.3
7. Interest payments on domestic debt	82.3	25.2	37.0	40.9	45.8	4.9	

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

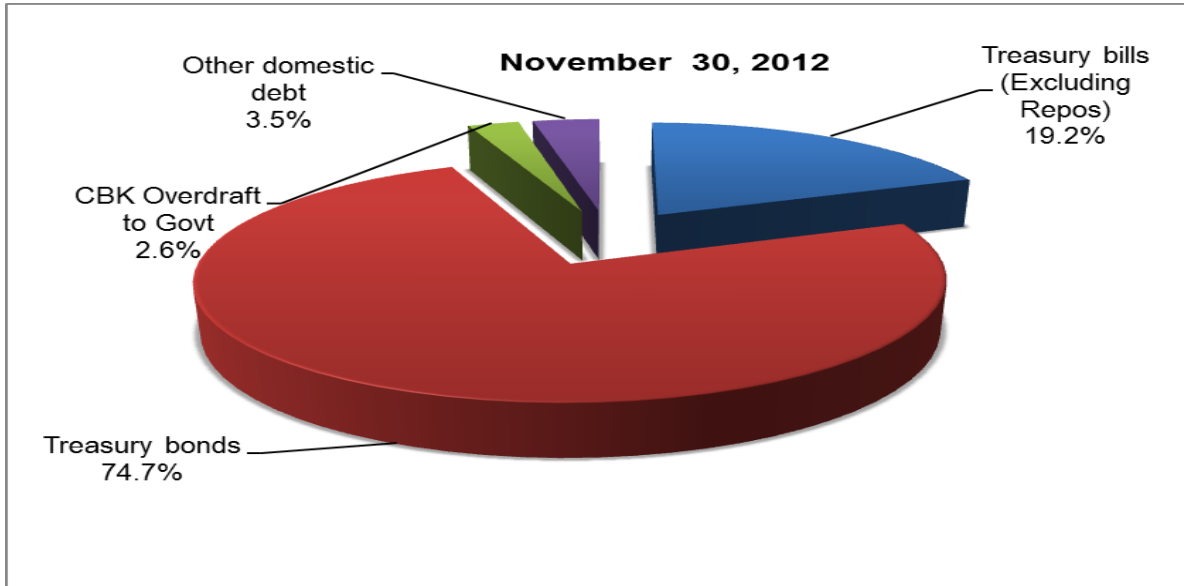
Source: Central Bank of Kenya

During the week under review, gross government domestic debt increased by Ksh 15.3 billion, following Ksh 11.8 billion and Ksh 3.5 billion increase in Treasury bills and Treasury bonds, respectively. Government overdraft at the Central Bank and other domestic debts remained the same during the week (Table 6 and Chart D). The average

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time to maturity of Government securities declined to 4 years and 9 months as at November 30, 2012, from 5 years and 4 months at the end of June 2012.

CHART D: COMPOSITION OF GOVERNMENT SECURITIES

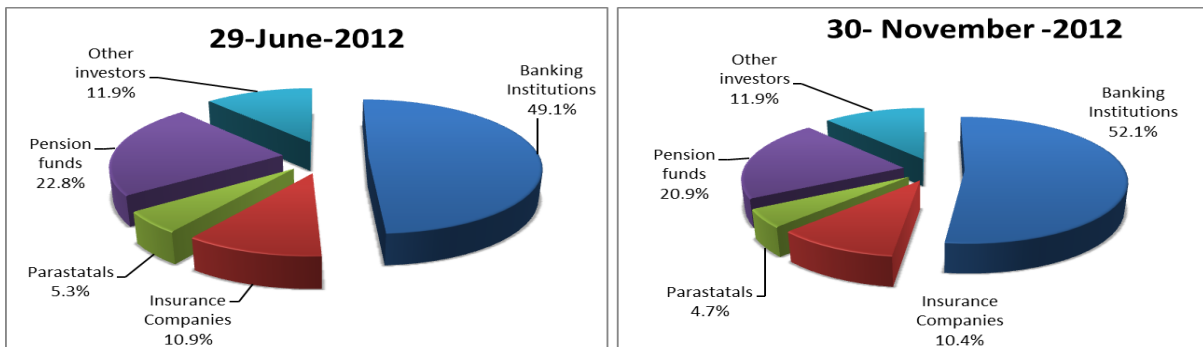


Source: Central Bank of Kenya

Holding of Government Securities

Commercial banks held 52.1 percent of government securities during the week under review. The share of government securities held by insurance companies, parastatals and pension funds decreased from 10.9 percent, 5.3 percent and 22.8 percent in June 2012 to 10.4 percent, 4.7 percent and 20.9 percent, respectively, during the week ending November 30, 2012. Holdings by other investors, which comprise Sacco's, listed and private companies, self-help groups, educational institutions, religious institutions and individuals remained the same at 11.9 percent, respectively, during the same period (Chart E).

CHART E: COMPOSITION OF GOVERNMENT SECURITIES BY INVESTORS



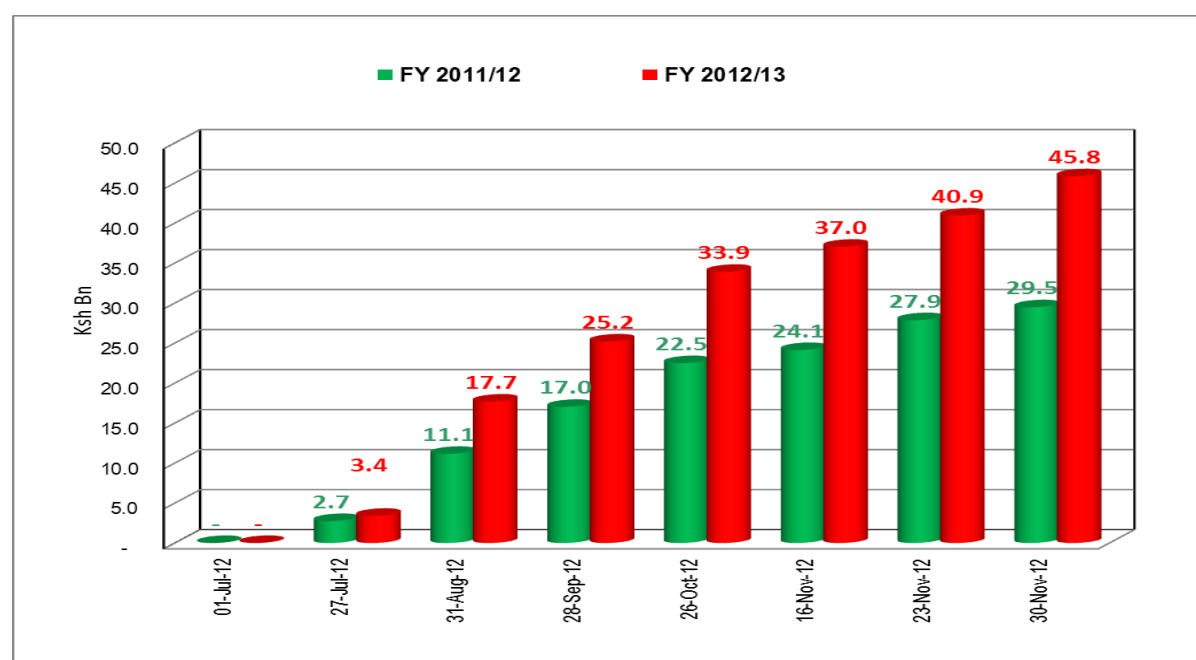
Source: Central Bank of Kenya

Cost of Domestic Borrowing

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Cumulative interest and other charges on domestic debt for the period July 1, 2012 to November 30, 2012 in the 2012/13 fiscal year amounted to Ksh 45.8 billion compared with Ksh 29.5 billion during a similar period of the previous fiscal year (Chart F). The increase in cost of domestic borrowing is attributed to the increased issuance of government securities at high interest rates. The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 9.97 billion and Ksh 33.74 billion, respectively. Interest on overdraft at the Central Bank amounted to Ksh 2.12 billion during the same period. During the week ending November 30, 2012, interest and other charges on domestic debt amounted to Ksh 4.9 billion.

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



Source: Central Bank of Kenya

Capital Markets Report

The capital market was weak in the week ending December 6, 2012 with all key market indicators on the decline. Turnover in equities and bonds as well as the number of shares traded fell. Market Capitalization and all other indices closed lower.

Equities Market

The NSE 20 Share Index declined to 4,022.64 points on December 6 from 4,111.92 points on November 29, 2012 (Table 7). The NASI fell to 91.52 points from 92.26 points. Market Capitalization that measures shareholders' wealth dropped by 81 basis points to Ksh 1,225.32 billion. Equity turnover was 29.3 percent lower, to record Ksh 2,068.16 million from Ksh 2,923.53 million in the previous week, on account of a fall in shares transacted that reached 154.13 million from 294.09 million the week earlier.

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TABLE 7: KEY WEEKLY MARKET STATISTICS

Week Ending	4-Oct-12	11-Oct-12	18-Oct-12	25-Oct-12	1-Nov-12	8-Nov-12	15-Nov-12	22-Nov-12	29-Nov-12	6-Dec-12
NASI 100= Jan 2008	87.08	87.85	88.50	90.62	91.28	91.83	92.66	93.18	92.26	91.52
NSE 20 Share Index 100=1966	3,961.05	3,997.00	4,023.55	4,119.50	4,133.28	4,148.79	4160.49	4162.79	4111.92	4022.64
Number of Deals	6,534	6,815	6,510	6,496	7,462	6,875.00	6804	6606	7206	6611
Total Shares Traded (millions)	106.45	94.28	78.42	100.77	114.52	129.71	144.78	206.39	294.0889	154.1265
Equity Turnover (Ksh. millions)	3,001.31	1,638.95	1,565.45	2,631.55	3,052.73	2,127.22	2,056.2	2,624.2	2923.5258	2068.1577
Market Capitalization (Ksh. Bn.)	1,151.99	1,162.25	1,175.39	1,203.18	1,211.89	1,219.30	1,234.9	1,241.9	1235.259	1225.315
Bonds Turnover (Ksh. millions)	16,506.65	13,856.85	13,558.40	14,861.55	17,671.45	11,309.25	7,240.8	4,359.8	8979.95	6630.55
FTSE NSE Kenya 15 Index	116.36	116.77	118.59	122.09	121.66	122.64	123.65	122.5	120.82	119.53
FTSE NSE Kenya 25 Index	118.99	119.44	121.19	124.63	124.27	125.19	126.19	124.87	123.5	122.35
Index(Jan2012=100)		96.18	93.85	96.99	96.00	102.65	96.832	96.707	96.004	94.841

Source: Nairobi Securities Exchange

Telecommunications and Technology, Banking and Energy and Petroleum sectors were the top three most active, transacting 107.88 million shares or 70.0 percent; 21.65 million shares or 14.0 percent and 9.23 million shares or 6.0 percent of all traded shares, respectively. Safaricom Ltd, Kenya Commercial Bank and Equity Bank Ltd were the three most active counters with 107.60 million, 5.69 million and 5.04 million shares traded, respectively. Agriculture sector was least active, trading 77,900 shares.

The biggest closing and average price gains for the week was East African Breweries Ltd at Ksh 5.0 and Ksh 5.0 per share, respectively. The biggest closing and average price loss was for Nation Media at Ksh 8.0 and Ksh 10.2 per share, respectively. Of the 48 active counters, 13 had average price gain in the week ending December 6, 2012.

FTSE NSE Kenya Index Series

As indicated in Table 7, FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, declined by 1.29 points to close at 119.53 points from 120.82. FTSE NSE Kenya 25 Index, which measures performance of the 25 most liquid stocks at NSE, fell by 1.15 points to 122.35 points from 123.50 points the previous week. FTSE NSE Kenyan Shilling Government Bond Index, which measures the performance of Kenya's domestic debt market, closed at 94.84 points compared to 96.0 points the previous week, reflecting lower yields.

The Bond Market

Bond trading activity declined, in the week to December 6, 2012; with turnover falling by 26.2 percent from Ksh 8,979.95 million in the previous week to Ksh 6,630.55 million. Corresponding deals rose to 184 from 136 the previous week.