



DECEMBER 21, 2012

Highlights

The money market was relatively liquid during the week ending December 19, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 29.8 billion through repo securities and Ksh 5.3 billion in term auction deposits against maturities of repo securities and term auction deposits held by commercial banks of Ksh 19.2 billion and Ksh 28.7 billion, respectively.

The average interbank rate remained largely unchanged at 5.62 percent during the week ending December 19, 2012 compared with 5.67 percent recorded in the previous week.

The Kenya Shilling exchange rate was relatively stable against major international currencies in the week ending December 20, 2012. Against the US dollar the Kenya Shilling depreciated marginally to trade at Ksh 86.06 compared to Ksh 86.01 in the week ending December 13, 2012.

The usable official foreign exchange reserves held by Central Bank increased from US\$ 5,377 million (equivalent to 4.22 months of import cover) during the week ending December 13, 2012 to US\$ 5,385 million (equivalent to 4.23 months of import cover) in the week ending December 20, 2012.

During the week ending December 21, 2012 the Government offered for sale Treasury bills and Treasury bonds worth Ksh 22.0 billion. A total of Ksh 27.8 billion was accepted out of the Ksh 45.7 billion bids received.

Gross government domestic debt increased by Ksh 110.3 billion to stand at Ksh 969.2 billion on December 14, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt decreased by Ksh 0.2 billion, on account of Treasury bills.

The capital market performance was strong during the week ending December 20, 2012. The equities' market indices; NSE 20 Share Index, NASI, the FTSE NSE 15 Index and FTSE NSE 25 Index gained 95.90 points, 1.20 points, 1.94 points and 1.82 points, respectively. Market Capitalization gained Ksh 16.07 billion while equity turnover gained 47.2 percent. Bonds activity more than doubled in turnover although the FTSE NSE Kenyan Shilling Government Bond Index lost some ground shedding off 0.40 points.

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Monetary Policy Operations

The money market was relatively liquid during the week ending December 19, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 29.8 billion through repo securities and Ksh 5.3 billion in term auction deposits against maturities of repo securities and term auction deposits held by commercial banks of Ksh 19.2 billion and Ksh 28.7 billion, respectively. Reserve money averaged Ksh 279.7 billion during the week and was Ksh 2.6 billion below 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)
13-Dec-12	296.8	279.6	17.2	17.0	17.0	0.0	0.0	279.8	0.2	5.8	-5.6
14-Dec-12	285.3	279.6	5.7	7.0	7.0	0.0	0.0	277.1	-2.5	2.7	-5.3
17-Dec-12	289.4	284.1	5.3	2.7	2.7	0.0	0.0	286.9	2.8	11.2	-8.4
18-Dec-12	291.3	284.1	7.2	8.0	3.1	3.5	-1.4	282.1	-2.0	6.8	-8.7
19-Dec-12	278.3	284.1	-5.8	4.0	0.0	1.8	-2.3	272.7	-11.4	-2.9	-8.5
Average	288.2	282.3	5.9	7.7	6.0	1.1	-0.7	279.7	-2.6	4.7	-7.3

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate remained largely unchanged at 5.62 percent during the week ending December 19, 2012 compared with 5.67 percent recorded in the previous week. The average interbank volumes transacted rose to Ksh 12.6 billion from Ksh 10.8 billion transacted in the previous week while the average number of deals was 50 compared with 49 deals in the previous week (Table 2 and Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

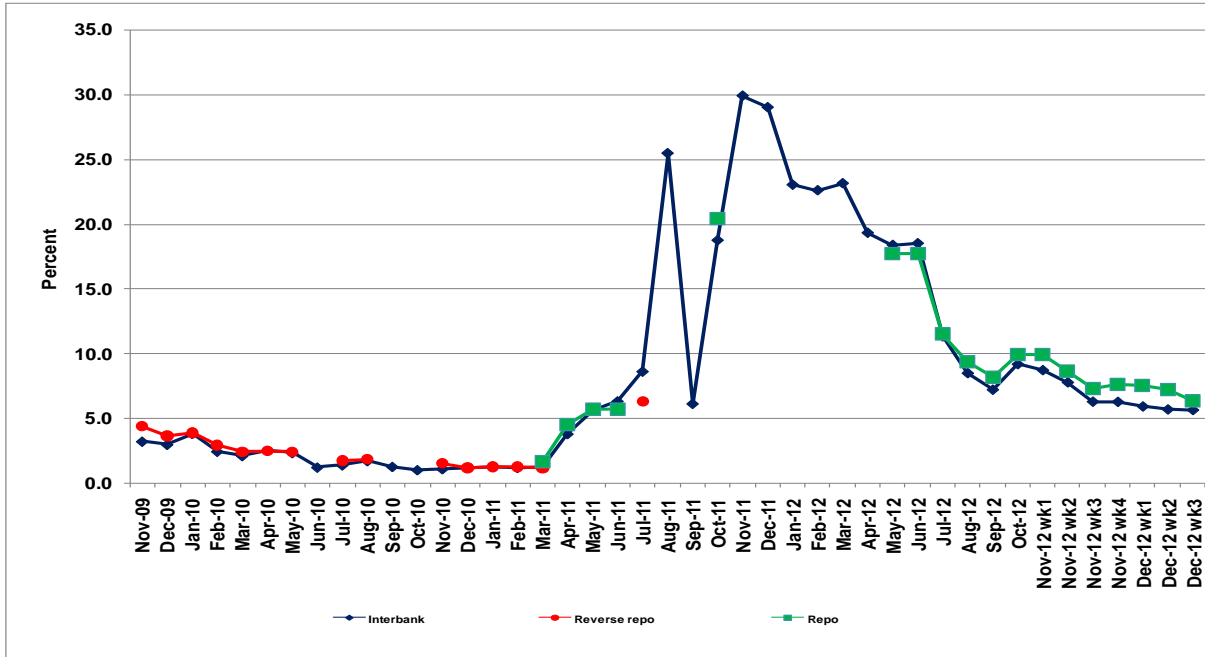
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
06-Dec-12	39	7,065	5.62
07-Dec-12	45	6,825	5.68
10-Dec-12	51	13,305	5.67
11-Dec-12	60	16,090	5.70
December 6 -December 11, 2012	49	10,821	5.67
13-Dec-12	58	13,945	5.95
14-Dec-12	52	10,840	5.95
17-Dec-12	44	11,380	5.45
18-Dec-12	44	12,450	5.21
19-Dec-12	50	14,410	5.54
December 13 -December 19, 2012	50	12,605	5.62

Source: Central Bank of Kenya

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The average repo rate decreased to 6.33 percent during the week ending December 19, 2012 from 7.21 percent recorded in the previous week.

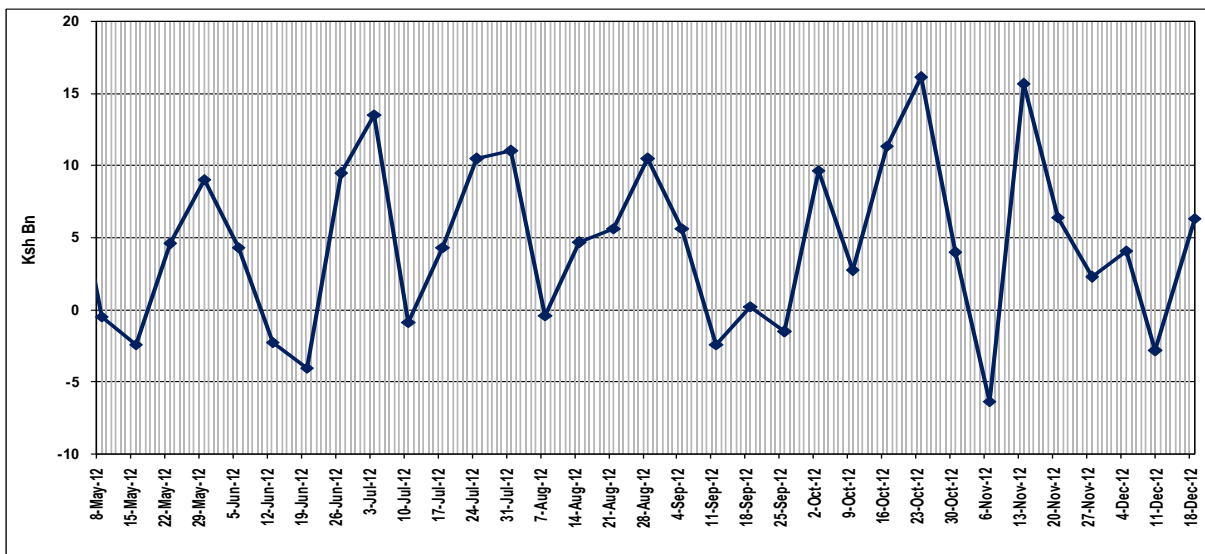
Chart A: The Structure of Interest Rates



Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 6.32 billion in their settlement accounts in relation to the monthly average cash reserve requirements of 5.25 percent (Ksh 87.4 billion) at the Central Bank in the week to December 19, 2012 compared with a shortfall of Ksh 2.84 billion in the previous week (Chart B).

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



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The Shilling Exchange Rate

The Kenya Shilling depreciated marginally against all but one of the major International currencies in the week ending December 20, 2012. The shilling appreciated by 1.67 percent against the Japanese Yen and depreciated against the US dollar, the Pound Sterling and the Euro by 0.06 percent, 0.82 percent and 1.54 percent respectively to trade at an average of Ksh 86.06 per US dollar, Ksh 139.41 to the Sterling Pound, Ksh 113.33 per Euro and Ksh 102.38 per 100 Japanese Yen.

In the EAC region, the Kenya Shilling appreciated against the Burundi Franc, but depreciated against the Uganda shilling, Tanzania shilling and the Rwanda Franc. On average the Shilling traded at Ush 30.93, Tsh 18.56, RWF 7.18 and BIF 17.58 during the week ending December 20, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
7-Dec-12	85.96	138.07	111.39	104.30	31.29	18.65	7.19	17.39
10-Dec-12	85.99	137.81	111.02	104.51	31.35	18.63	7.19	17.30
11-Dec-12	86.05	138.37	111.50	104.77	31.26	18.61	7.18	17.35
13-Dec-12	86.04	138.84	112.55	102.92	31.15	18.60	7.18	17.20
7 - 13 Dec 2012	86.01	138.27	111.62	104.12	31.26	18.62	7.19	17.31
14-Dec-12	86.04	138.74	112.61	102.59	31.09	18.56	7.18	17.48
17-Dec-12	86.07	139.17	113.26	102.40	30.98	18.58	7.18	17.42
18-Dec-12	86.06	139.51	113.34	102.35	30.91	18.59	7.18	17.69
19-Dec-12	86.07	139.99	113.99	102.06	30.89	18.57	7.18	17.61
20-Dec-12	86.05	139.65	113.46	102.49	30.80	18.51	7.18	17.72
14-20 Dec 2012	86.06	139.41	113.33	102.38	30.93	18.56	7.18	17.58

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank increased from US\$ 5,377 million (equivalent to 4.22 months of import cover) during the week ending December 13, 2012 to US\$ 5,385 million (equivalent to 4.23 months of import cover) in the week ending December 20, 2012.

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

	06-Sep-12	13-Sep-12	20-Sep-12	27-Sep-12	04-Oct-12	11-Oct-12	18-Oct-12	25-Oct-12	01-Nov-12	08-Nov-12	15-Nov-12	22-Nov-12	29-Nov-12	06-Dec-12	13-Dec-12	20-Dec-12
Usable Reserves*	5,147	5,193	5,190	5,163	5,159	5,137	5,141	5,175	5,147	5,249	5,267	5,383	5,382	5,374	5,377	5,385
Months of Imports Cover**	4.16	4.13	4.13	4.11	4.05	4.03	4.04	4.06	4.04	4.12	4.13	4.23	4.22	4.22	4.22	4.23

*Excludes encumbered reserves

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

Source: Central Bank of Kenya

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Government Securities Auction

The Government offered for sale Ksh 4.0 billion in 91-day Treasury bills, Ksh 3.0 billion in 182-day Treasury bills and Ksh 15.0 billion in 2-year discounted fixed rate Treasury bonds during the week ending December 21, 2012. Demand for Treasury bonds was high during the week as reflected by the Ksh 37.9 billion worth of bids received (252.6 per cent performance rate) against the Ksh 15.0 billion offered. The 91-day and 182-day Treasury bills performed at 126.8 percent and 91.5 percent respectively, attracting total bids worth Ksh 7.8 billion. The government accepted Ksh 20.8 billion in the 2—year Treasury bonds, Ksh 4.3 billion in 91-day Treasury bills and Ksh 2.7 billion in 182-day Treasury bills during the week. Total non-competitive bids amounted to Ksh 3.2 billion.

Interest Rate on the Treasury Bills and Bonds

Weighted average interest rates on the 182-day Treasury bill rose during the week under review by 2.5 basis points to stand at 9.046 percent. However, the average interest rates on the 91-day Treasury bill declined by 3.2 basis points to stand at 8.142 percent. In addition, the average interest rate for the 2-year discounted fixed rate Treasury bond declined by 11.4 basis points from the last issue dated 24th October 2012 to stand at 12.382 percent.

Table 5: Interest Rates

Auction date	24-Jun-11	26-Oct-12	09-Nov-12	23-Nov-12	30-Nov-12	07-Dec-12	14-Dec-12	21-Dec-12
91-day T. Bills*	8.995	9.945	10.346	8.987	8.445	8.339	8.174	8.142
182-day T. Bills*		10.761	10.923	9.773	9.336	9.080	9.021	9.046
364-day T. Bills*			11.943		11.709			
2 year FXD T. Bonds		12.496						12.382
5 year FXD T. Bonds								
15year FXD T. Bonds								
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 110.3 billion to stand at Ksh 969.2 billion on December 14, 2012, from Ksh 858.8 billion at the end of June 2012. This followed an increase of Ksh 62.8 billion, Ksh 28.4 billion and Ksh 18.1 billion in Treasury bills, Treasury bonds and the Government overdraft at the Central Bank, respectively.

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Table 6: Government Domestic Debt (Ksh Billion)

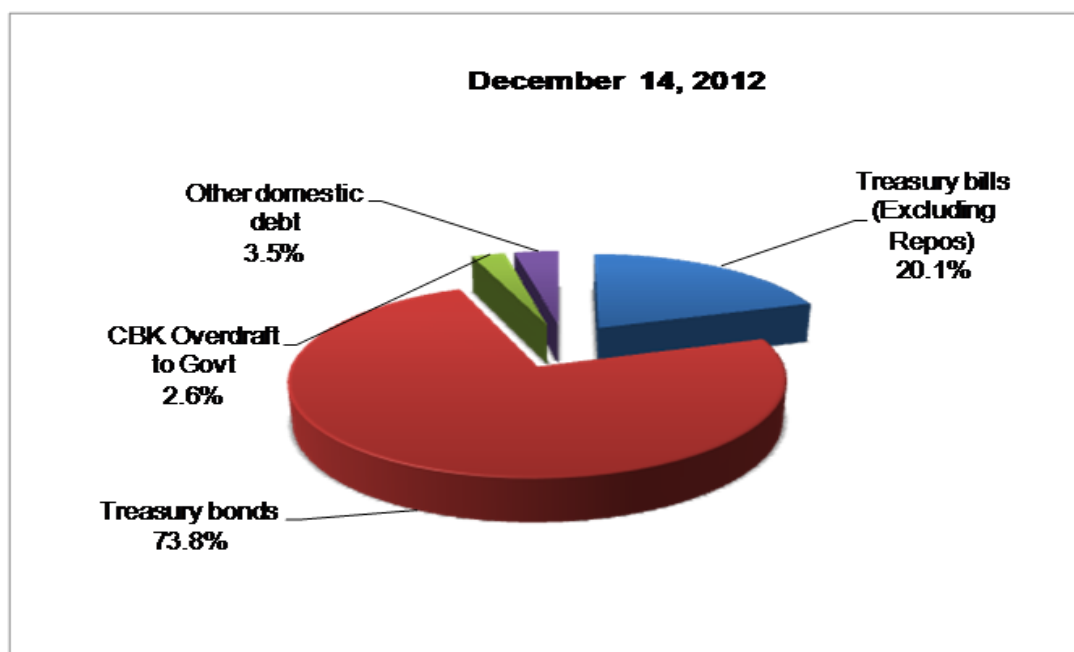
	Jun 2012	Sep 2012	30th Nov 2012	7th Dec 2012	14th Dec 2012	Changes	
						7th Dec 2012 - 14th Dec 2012	29th Jun 2012 - 14th Dec 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	132.0 16.1	159.7 18.5	184.2 20.5	195.1 21.4	194.8 20.1	-0.3	62.8
2. Treasury Bonds (As % of total securities)	687.0 83.9	703.9 81.5	715.3 79.5	715.3 78.6	715.3 73.8	0.0	28.4
3. Total Securities (1+2)	819.0	863.6	899.5	910.4	910.2	-0.3	91.2
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	33.5	33.5	33.6	0.1	1.0
6. Gross Domestic Debt (3+4+5)	858.8	922.2	958.4	969.3	969.2	-0.2	110.3
7. Interest payments on domestic debt	82.3	25.2	45.8	47.1	47.5	0.4	

* 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 decreased by Ksh 0.2 billion on account of Treasury bills which was partially offset by a 0.1 billion increase in the other domestic debt. Treasury bonds and Government overdraft at the Central Bank remained unchanged during the week (Table 6 and Chart C). The average time to maturity of government securities declined to 4 years and 9 months as at December 14, 2012, from 5 years and 4 months at the end of June 2012.

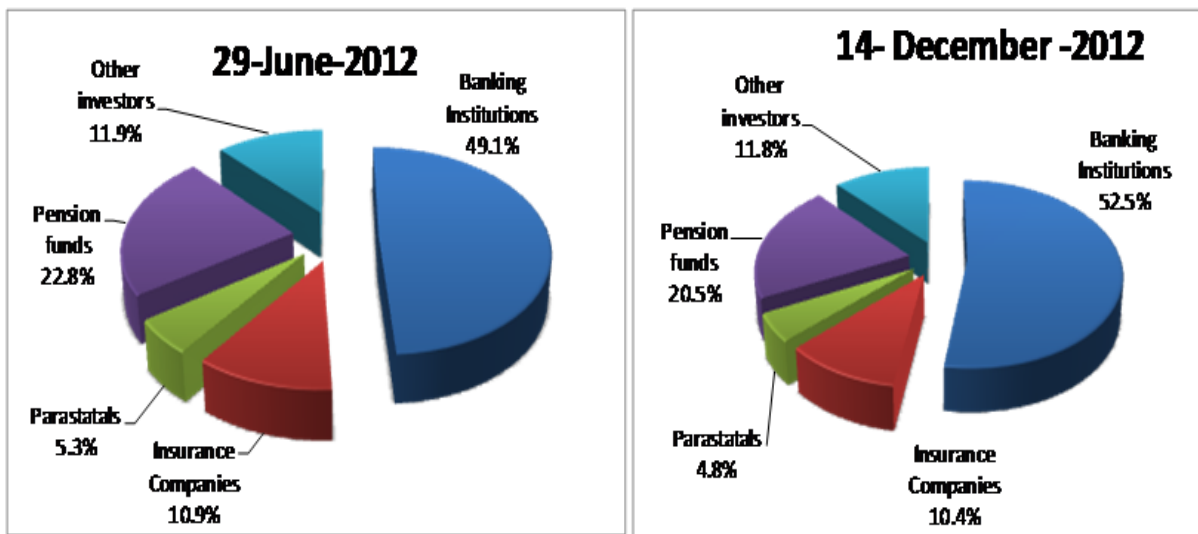
Chart C: Composition of Government Securities



Holding of Government Securities

Commercial banks held 52.5 percent of government securities during the week ending December 14, 2012 up from 49.1 percent at the end of June 2012. 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, 4.8 percent and 20.5 percent, respectively, during the week ending December 14, 2012. Holdings by other investors, which comprise of Sacco's, listed and private companies, self-help groups, educational institutions, religious institutions and individuals also declined slightly from 11.9 percent to 11.8 percent during the same period (Chart D).

Chart D: Composition of Government Securities by Investors

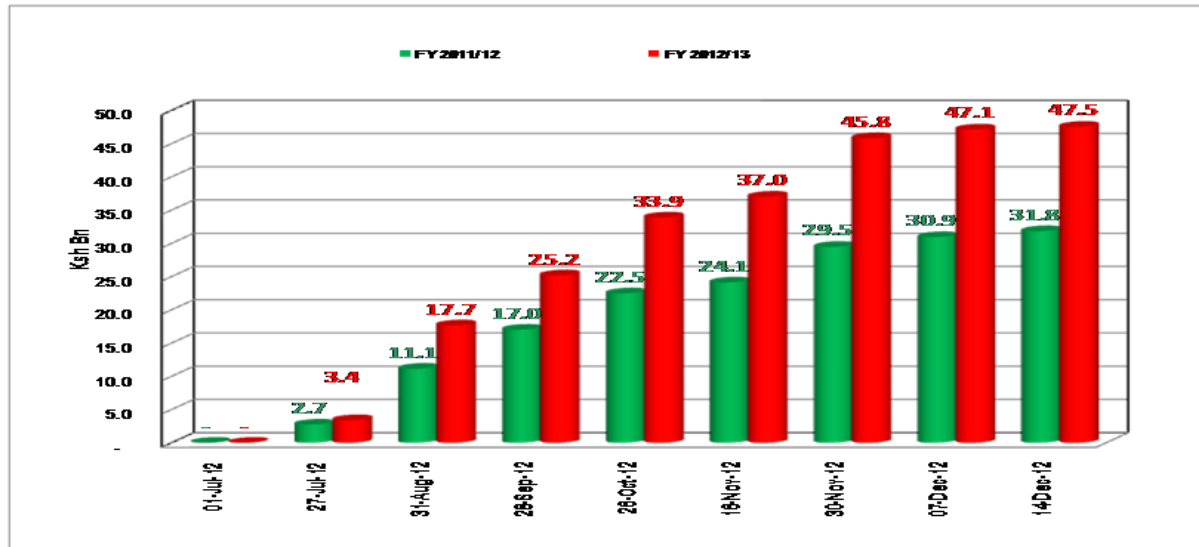


Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to December 14, 2012 in the 2012/13 fiscal year amounted to Ksh 47.5 billion compared with Ksh 31.8 billion during a similar period of the previous fiscal year (Chart E). The increase is attributed to the increased uptake 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 10.4 billion and Ksh 35.0 billion, respectively. Interest on overdraft at the Central Bank amounted to Ksh 2.1 billion during the same period. During the week ending December 14, 2012, interest and other charges on domestic debt amounted to Ksh 0.4 billion.

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



Capital Markets

The capital market was robust in the week ending December 20, 2012 with all key market indicators on the rise for both the equities and bonds segments.

Equities Market

The NSE 20 Share Index rose to 4,127.60 points on December 20, 2012 from 4,031.70 points on December 13, 2012 (Table 7). The NASI increased to 94.00 points from 92.80 points. Market Capitalization that measures shareholders' wealth also rose to Ksh 1,260.44 billion from Ksh. 1,244.37 billion the previous week. Equity turnover was 47.2 percent higher, to record Ksh 3,101.46 million from Ksh 2,106.87 million the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	8-Nov-12	15-Nov-12	22-Nov-12	29-Nov-12	6-Dec-12	13-Dec-12	20-Dec-12
NASI 100= Jan 2008	91.83	92.66	93.18	92.26	91.52	92.80	94.00
NSE 20 Share Index 100=1966	4,148.79	4,160.49	4,162.79	4,111.92	4,022.64	4,031.70	4,127.60
Number of Deals	6,875	6,804	6,606	7,206	6,611	4,933	6,211
Total Shares Traded (millions)	129.71	144.78	206.39	294.09	154.13	162.88	123.43
Equity Turnover (Ksh. millions)	2,127.22	2,056.20	2,624.16	2,923.53	2,068.16	2,106.87	3,101.46
Market Capitalization (Ksh. Billions)	1,219.30	1,234.90	1,241.92	1,235.26	1,225.32	1,244.37	1,260.44
Bonds Turnover (Ksh. millions)	11,309.25	7,240.80	4,359.75	8,979.95	6,630.55	3,972.85	9,845.70
FTSE NSE Kenya 15 Index	122.64	123.65	122.50	120.82	119.53	121.70	123.64
FTSE NSE Kenya 25 Index	125.19	126.19	124.87	123.50	122.35	124.61	126.43
FTSE NSE KSH Government Bond Index	102.65	96.83	96.71	96.00	94.84	95.26	94.86

Source: Nairobi Securities Exchange

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Telecommunications and Technology, Banking and Energy & Petroleum sectors were the top three most active, transacting 54.62 million shares or 44.2 percent; 25.99 million shares or 21.1 percent and 16.07 million shares or 13.0 percent of all traded shares, respectively. Safaricom Ltd, KenolKobil Ltd and the Co-operative Bank Ltd were the three most active counters with 54.02 million, 11.30 million and 9.13 million shares traded, respectively. Automobile and Accessories sector was least active, trading 161,000 shares.

The biggest closing and average price gain for the week was BAT Ltd at Ksh 26 and Ksh 17.20 per share, respectively. The biggest closing and average price losses were for Standard Group Ltd and Nation Media at Ksh 1.0 and Ksh 3.3 per share, respectively. Of the 48 active counters, 25 had average price gain in the week ending December 20, 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, gained 1.94 points to close at 123.64 points from 121.70. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE, gained by 1.82 points to 126.43 points from 124.61 points the previous week. FTSE NSE Kenyan Shilling Government Bond Index, which measures the performance of Kenya's domestic debt market, closed at 94.86 points compared to 95.26 points the previous week, reflecting lower yields.

The Bond Market

Bond trading activity more than doubled, gaining 147.8 percent in turnover, to reach Ksh 9,845.7 million for the week ending December 20, 2012 from Ksh 3,972.8 million in the previous week. Corresponding deals rose to 135 from 55 the previous week. Investors may be keen to lock in higher rates for bonds given their expectation for declining yields in the future due to the low inflation level.