

**February 3, 2012**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

Overall 12-month inflation eased by 62 basis points from 18.9 percent in December 2011 to 18.3 percent in January 2012. The reduction was on account of decline in food and energy prices and transport costs supported by the appreciation of the Kenya shilling.

The monetary policy committee retained the CBR at 18.0 percent during its meeting convened on February 1, 2012.

The money market liquidity was skewed during the week ending February 01, 2012. The Central Bank did not mop any monies through the repo market but injected Ksh 0.6 billion through repo maturities during the week. Reserve money averaged Ksh 250.4 billion during the week and was Ksh 13.4 billion above the target.

The average interbank rate increased to 23.02 percent during the week ending February 01, 2012 from 19.25 percent in the previous week attributed to skewed liquidity in the money market.

The Kenya Shilling strengthened against major international currencies in the week ending February 3, 2012. Against the US dollar the Kenya Shilling appreciated by 1.76 percent to exchange at an average of Ksh 84.17 per US dollar compared with Ksh 85.68 per US dollar in the previous week.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,868 million (equivalent to 3.45 months of imports) as at January 27, 2012 to US dollar 3,875 million (equivalent to 3.45 months of imports) in the week ending February 3, 2012.

The Government offered for sale Treasury securities worth Ksh 18.4 billion and received total bids of Ksh 25.4 billion during the week ending January 27, 2012. The Government accepted total bids worth 20.8 billion at lower weighted average interest rates.

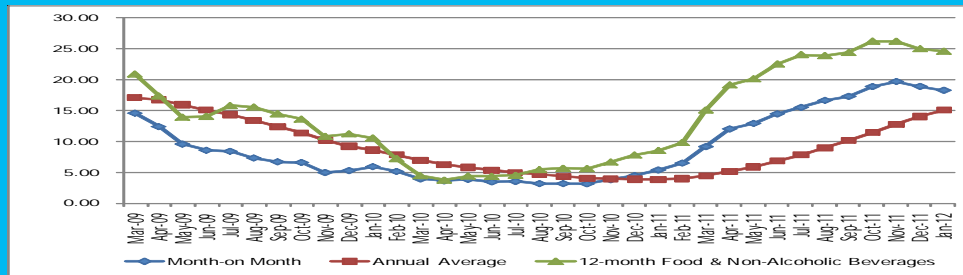
Gross Government debt increased by Ksh 29.5 billion from Ksh 764.2 billion in June 2011 to Ksh 793.8 billion as at January 27, 2012. The cumulative interest and other charges on domestic debt from July 1, 2011 to January 27, 2012 amounted to Ksh 41.6 billion compared with Ksh 36.7 billion in the same period of the fiscal year 2010/11.

Stock market performance was generally up in the week of February 2, 2012. The NSE 20 Share Index added 27.47 points and the Nairobi All Share Index (NASI) added 1.08 points. Market Capitalization was up 1.6 percent but equity turnover and number of shares traded were down 11.3 percent and 33.5 percent, respectively, reflecting constrained supply. The FTSE NSE 15 Index and FTSE NSE 25 Index rose by 0.94 points and 1.72 points respectively. The bonds segment however was down by 13.9 percent.

**Inflation**

The overall 12-month inflation eased by 62 basis points from 18.9 percent in December 2011 to 18.3 percent in January 2012 (Chart A). The slowdown in the overall consumer price index in January 2012 was largely reflective of a slowdown in the Transport and Food and Non-Alcoholic Beverages indices, which rose by 22.4 percent and 24.6 percent, respectively, in January 2012 compared with 25.6 percent and 25.0 percent, respectively, in December 2011. Food inflation eased from 24.4 percent in December 2011 to 24.1 percent in January 2012 with the decline in prices of sugar, maize and rice out weighing the increase in prices of vegetables and potatoes. Fuel inflation also eased from 19.7 percent to 17.3 percent over the same period. This decline reflected in cost of electricity, kerosene, petrol, diesel and bus fares. However, non-food non-fuel inflation increased from 10.8 percent in December 2011 to 11.3 percent in January 2012 on account of the rise in school fees and price of text books, medicines and treatment charges.

**Chart A: Month-on-Month, Annual Average and 12 Month Food and Non-Alcoholic Beverages Inflation Rates**



Source: Central Bank of Kenya

**Monetary Policy Stance**

The Monetary Policy Committee (MPC) meeting on February 1, 2012 upheld its previous decision and retained the Central Bank Rate (CBR) at 18% to allow time for its policy measures to work out and deliver decisive results on inflation and inflation expectations

**Monetary Policy Operations**

The money market liquidity was skewed during the week ending February 01, 2012. The Central Bank did not mop any monies through the repo market but injected Ksh 0.6 billion through repo maturities during the week. Reserve money averaged Ksh 250.4 billion during the week and was Ksh 13.4 billion above the target (Table 1).

**Table 1: Open Market Operations Ksh Billion**

Date	Reserve Money* (Projected)			OMO ( REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Mop up	Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
	(1)	(2)	3=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
26-Jan-12	255.0	236.8	18.3	0.0	0.0	0.0	255.0	18.3	-0.2	-2.5
27-Jan-12	257.2	236.8	20.4	0.0	0.0	0.0	257.1	20.4	1.7	-2.6
30-Jan-12	247.2	236.8	10.4	0.0	0.0	0.0	247.8	11.1	3.0	-2.7
31-Jan-12	246.9	236.8	10.1	0.0	0.0	0.0	247.3	10.5	1.0	-1.6
01-Feb-12	246.3	238.1	8.3	0.0	0.0	0.0	244.5	6.5	3.7	-1.1
Average	250.5	237.0	13.5	0.0	0.0	0.0	250.4	13.4	1.8	-2.1

\*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Interbank  
and REPO  
Rates**

The average interbank rate increased to 23.02 percent during the week ending February 01, 2012 from 19.25 percent in the previous week attributed to skewed liquidity in the money market. The average interbank volumes increased to Ksh 13.14 billion in the week ending February 01, 2012 from Ksh 11.49 billion in the previous week (Table 2 and Chart B).

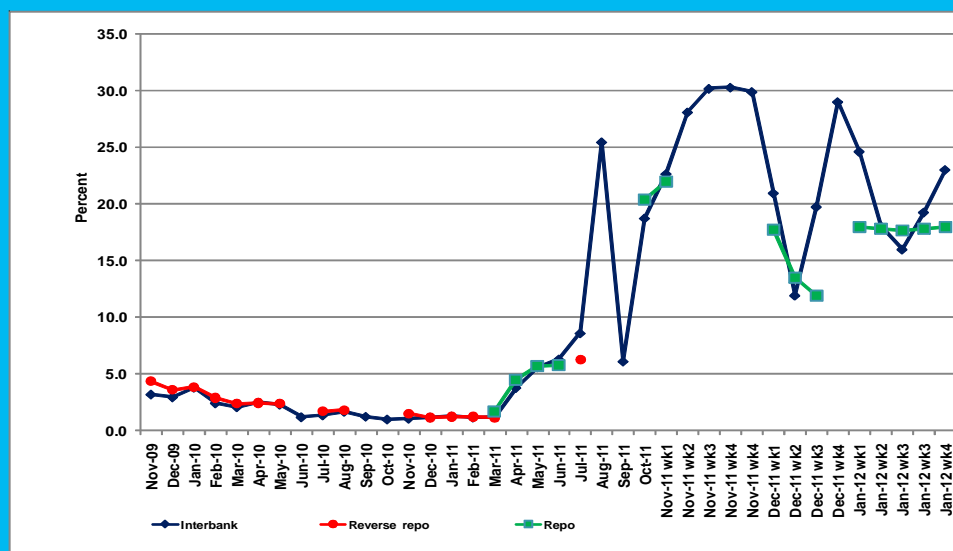
**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
19-Jan-12	73	11,191	17.35
20-Jan-12	75	12,096	18.23
23-Jan-12	70	10,606	19.22
24-Jan-12	62	10,358	20.34
25-Jan-12	77	13,234	21.11
<b>Jan19 - Jan 25, 2012</b>	<b>71</b>	<b>11,497</b>	<b>19.25</b>
26-Jan-12	81	17,945	22.41
27-Jan-12	62	9,028	22.67
30-Jan-12	79	12,798	23.07
31-Jan-12	67	11,515	23.38
01-Feb-12	74	14,428	23.55
<b>Jan 26 - Feb 01, 2012</b>	<b>73</b>	<b>13,143</b>	<b>23.02</b>

Source: Central Bank of Kenya

The average repo rate was 18.0 percent as of the last repo sale on January 24, 2012

**Chart B: The Structure of Interest Rates**

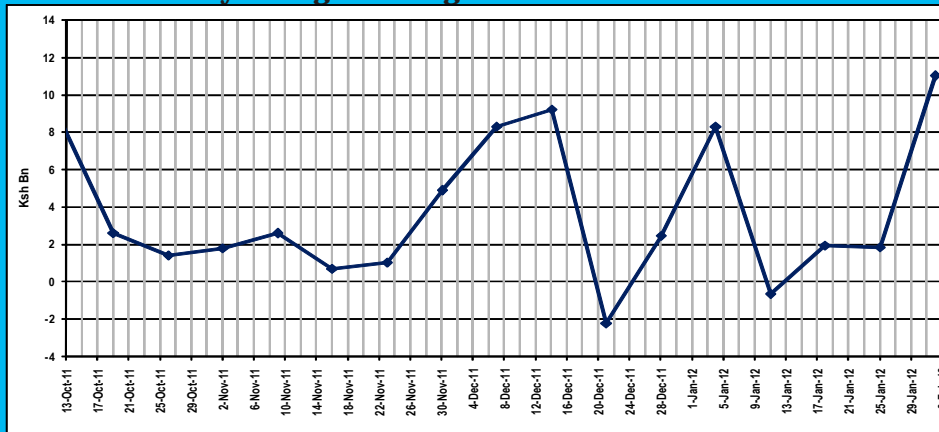


Source: Central Bank of Kenya

**Commercial  
Banks  
Clearing  
Accounts  
Balances**

Commercial banks maintained an average of Ksh 11.00 billion in their settlement accounts above the 5.25 percent monthly average cash reserve requirements at the Central Bank in the week to February 01, 2012, up from Ksh 1.83 billion below the 5.25 percent average CRR in the previous week (Chart C).

**Chart C: Weekly Average Clearing A/c Balances**



Source: Central Bank of Kenya

### The Shilling Exchange Rate

The Kenya Shilling appreciated against major international currencies in the week ending February 3, 2012. Against the US dollar, the shilling appreciated by 1.76 percent to trade at an average of Ksh 84.17 in week ending February 3, 2012 compared with Ksh 85.68 in the previous week. Against the Sterling Pound, the Euro and the Japanese Yen, the shilling appreciated by 0.67 percent, 0.85 percent and 0.32 percent respectively to trade at an average of Ksh 132.78 per Sterling Pound, Ksh. 110.71 per Euro and Ksh 110.37 per 100 Japanese Yen in the week ending February 3, 2012 compared with Ksh 133.68 per Sterling Pound, Ksh. 111.66 per Euro and Ksh 110.72 per 100 Japanese Yen in the previous week. The appreciation of the Kenya Shilling was mainly because of tight liquidity in the domestic money markets and increased inflows from the tea sector.

**Table 3: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
16-Jan-12	87.50	133.93	110.63	113.85	27.72	18.12	6.89	15.16
17-Jan-12	86.96	133.67	110.70	113.39	27.66	18.20	6.92	14.89
18-Jan-12	86.33	132.52	110.22	112.64	27.80	18.65	6.98	14.99
19-Jan-12	86.22	133.02	110.79	112.33	27.85	18.44	6.99	15.01
20-Jan-12	85.68	132.79	111.12	111.07	28.00	18.58	7.04	15.11
<b>Jan 16-20, 2012</b>	<b>86.54</b>	<b>133.19</b>	<b>110.69</b>	<b>112.66</b>	<b>27.80</b>	<b>18.40</b>	<b>6.97</b>	<b>15.03</b>
23-Jan-12	86.04	133.70	110.98	111.61	27.83	18.54	7.00	15.05
24-Jan-12	86.10	133.86	111.95	111.79	27.56	18.58	7.00	15.10
25-Jan-12	85.84	133.85	111.80	110.15	27.55	18.63	7.02	15.14
26-Jan-12	85.36	133.65	111.98	109.82	27.53	18.74	7.06	15.24
27-Jan-12	85.03	133.32	111.59	110.24	27.64	18.81	7.07	15.29
<b>Jan 23-27, 2012</b>	<b>85.68</b>	<b>133.68</b>	<b>111.66</b>	<b>110.72</b>	<b>27.62</b>	<b>18.66</b>	<b>7.03</b>	<b>15.16</b>
30-Jan-12	84.92	133.41	111.83	110.69	27.59	18.81	7.10	15.32
31-Jan-12	84.59	133.17	111.61	111.25	27.49	18.92	7.12	15.37
1-Jan-12	83.88	132.03	109.63	110.06	27.54	19.01	7.19	15.50
2-Jan-12	83.59	132.53	110.20	109.80	27.95	19.08	7.21	15.55
3-Jan-12	83.87	132.72	110.27	110.03	27.60	18.98	7.19	15.50
<b>Jan 27-Feb 3, 2012</b>	<b>84.17</b>	<b>132.78</b>	<b>110.71</b>	<b>110.37</b>	<b>27.63</b>	<b>18.96</b>	<b>7.16</b>	<b>15.45</b>

Source: Central Bank of Kenya

In the EAC region, the Kenya Shilling strengthened against all the East African currencies in the week ending February 3, 2012. On average, the Kenya shilling exchanged at Ushs 27.63, Tshs 18.96, RWF 7.16 and BIF 15.45 during the week, compared with Ushs 27.62 per Kenya Shilling, Tshs 18.66 per Kenya shilling, RWF 7.03 per Kenya Shilling and BIF 15.16 per Kenya Shilling, in the week ending January 27, 2012 (Table 3).

**Foreign Exchange Reserves**

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 3,868 million (equivalent to 3.45 months of imports) as at January 27, 2012 to US dollar 3,875 million (equivalent to 3.45 months of imports) in the week ending February 3, 2012 (Table 4). The usable official foreign exchange reserves level is consistent with the net international reserve (NIR) position of US\$ 3,248 million which is US\$ 123.3 million above the March 2012 NIR target of US\$ 3,125 million.

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

	25-Nov-11	02-Dec-11	09-Dec-11	16-Dec-11	21-Dec-11	30-Dec-11	06-Jan-12	13-Jan-12	20-Jan-12	27-Jan-12	03-Feb-12
Usable Reserves*	3,711	3,745	3,773	3,768	3,800	4,002	3,918	3,813	3,804	3,868	3,875
Months of Imports Cover**	3.41	3.44	3.46	3.46	3.42	3.61	3.53	3.43	3.39	3.45	3.45

\*Excludes encumbered

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

**Source: Central Bank of Kenya**

**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, Ksh 3.0 billion in 364-day Treasury bills and Ksh 8.4 billion in the fourth tranche of tap sales for the 12-year infrastructure bond originally issued in October 2011, during the week ending January 27, 2012. Demand was high for the 91-day and 364-day Treasury bills which performed at 167.8 percent and 392.0 percent, while the 12-year infrastructure bond tap sale and the 182-day Treasury bill recorded 69.5 percent and 69.6 percent performance rates respectively, during the week. Collectively, Ksh 20.6 billion worth of bids in Treasury bills was received, of which Ksh 16.0 billion (78.1 percent), was accepted, against a targeted amount of Ksh 10.0 billion during the week. All the bids received for the 12-year infrastructure bond tap sale, worth Ksh 4.8 billion, were accepted, against a target of Ksh 8.4 billion, during the week under review.

**Interest Rate on Treasury Bills & Bonds**

The relatively high demand for securities during the week resulted in declining interest rates, with the weighted average interest rates for the 91-day, 182-day and 364-day Treasury bills declining by 11.1, 7.8 and 100.5 basis points to stand at 20.503 percent, 20.723 percent and 20.956 percent, respectively.

The weighted average interest rate for the 12-year infrastructure bond tap sale remained at 16.640 percent, same as the original bond initially issued in October 2011. (Table 5).

**Table 5 : Interest Rates**

Auction date	14-Oct-11	21-Oct-11	04-Nov-11	18-Nov-11	25-Nov-11	02-Dec-11	09-Dec-11	16-Dec-11	23-Dec-11	30-Dec-11	06-Jan-12	13-Jan-12	20-Jan-12	27-Jan-12	03-Feb-12
91 day T. Bills*	14.997	15.091	15.743	16.202	16.601	16.859	17.126	18.659	18.948	19.905	20.696	20.799	20.769	20.614	20.503
182 day T. Bills*	14.973	15.287		15.738	16.471	16.543	17.679	18.445	18.576	20.244	20.714	20.780	20.914	20.801	20.723
364 day T. Bills*							20.955				21.961				20.956
12-year Infrastructure Bond			16.640			16.640				16.640					16.640
Month	Jan-11	Feb-11	Apr-11	Jul-11	Aug-11	Sept	Oct	Nov	Dec						
Average savings rate	1.25	1.41	1.38	1.37	1.37	1.35	1.33	1.41	1.59						
Average overdraft rate	13.93	13.65	13.68	13.89	14.28	14.64	14.87	18.67	20.20						

\*Weighted rates for accepted bids

**Source: Central Bank of Kenya**

## Government Domestic Debt

Gross Government debt increased by Ksh 29.5 billion from Ksh 764.22 billion in June 2011 to Ksh 793.76 billion as at January 27, 2012 (Table 6 and Chart D). During the week under review, gross government debt increased by Ksh 3.7 billion following increased stocks of Treasury bills.

**Table 6: Government Domestic Debt (Ksh Billion)**

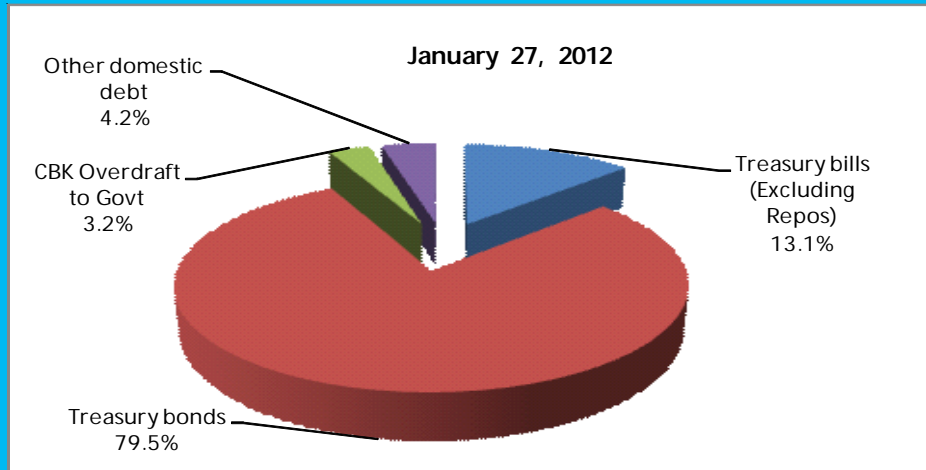
	Jun-11	Sep-11	Dec-11	20th Jan 2012	27th Jan 2012	Changes	
						20th Jan 2012-27th Jan 2012	30th Jun 2011-27th Jan 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	113.7 16.1	107.1 14.5	97.7 13.4	104.3 14.2	6.6	-22.4
2. Treasury Bonds (As % of total securities)	595.7 82.5	591.5 83.9	633.5 85.5	633.5 86.6	630.7 85.8	-2.8	35.1
<b>3. Total Securities (1+2)</b>	<b>722.4</b>	<b>705.3</b>	<b>740.6</b>	<b>731.3</b>	<b>735.0</b>	<b>3.8</b>	<b>12.6</b>
4. Overdraft at Central Bank	7.6	25.4	25.4	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.3	33.6	34.7	33.47	33.34	-0.1	-0.9
<b>6. Gross Domestic Debt (3+4+5)</b>	<b>764.22</b>	<b>764.27</b>	<b>800.68</b>	<b>790.10</b>	<b>793.76</b>	<b>3.66</b>	<b>29.54</b>
7. Interest payments on domestic debt	69.2	17.37	37.7	39.6	41.6	2.0	

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

**Source: Central Bank of Kenya**

Treasury bills increased by Ksh 6.6 billion to stand at Ksh 104.3 billion during the week ending January 27, 2012, but remained lower than the Ksh 126.7 billion held at the end of June 2011. Treasury bonds and other domestic debt declined by Ksh 2.8 billion and Ksh 0.1 billion respectively, while Government overdraft at the Central Bank was maintained at the ceiling of Ksh 25.4 billion during the week under review as shown in (Table 6). The average time to maturity of Government securities declined to 5 years and 9 months, from 5 years and 10 months at the end of June 2011.

**Chart D: Composition of Government Securities**

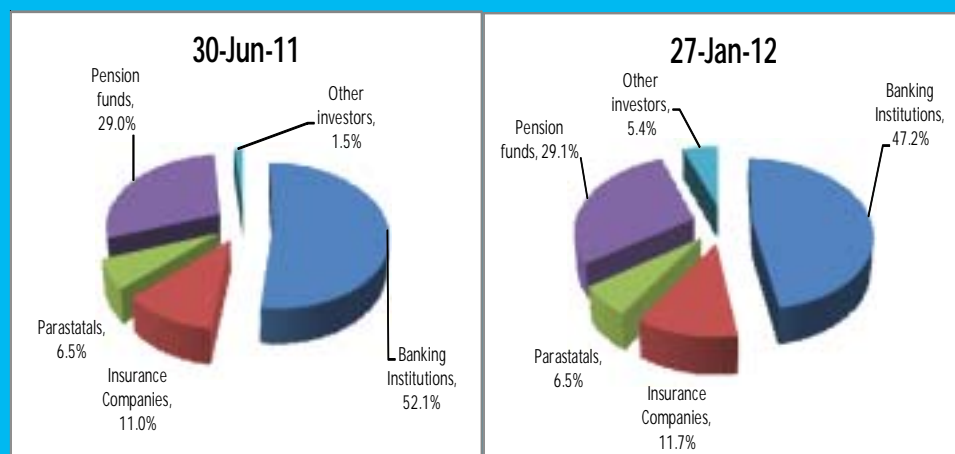


Source: Central Bank of Kenya

**Holding of Govt Securities**

The share of Government securities held by banking institutions declined from 52.1 percent in June 2011 to 47.2 percent as at January 27, 2012. Holdings of insurance companies, pension funds and other investors increased from 11.0 percent, 29.0 percent and 1.5 percent to 11.7 percent, 29.1 percent and 5.4 percent, respectively, during the period. (Chart E).

**Chart E: Composition of Government Securities by Investors**

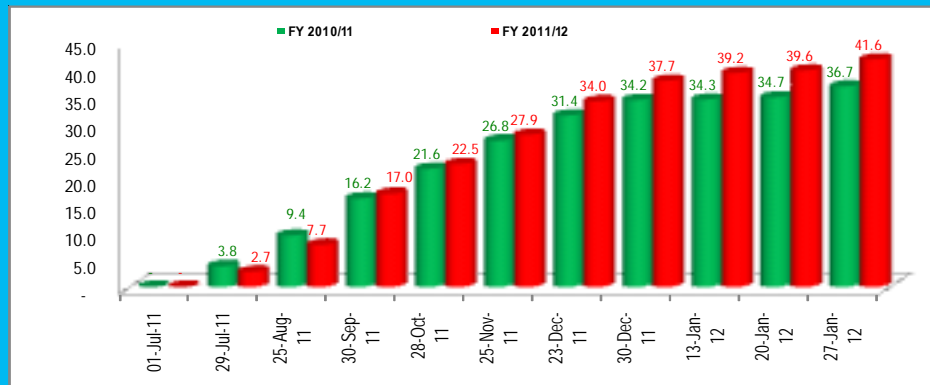


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

The cumulative interest and other charges on domestic debt from July 1, 2011 to January 27, 2012 amounted to Ksh 41.6 billion compared with Ksh 36.7 billion in the same period of the fiscal year 2010/11 (Chart F). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 7.13 billion and Ksh 33.15 billion, respectively. Government overdraft at central bank accounted for Ksh 1.36 billion of the total cost.

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



Source: Central Bank of Kenya

**The Stock Market**

Performance at the stock market was mixed during the week ending February 2, 2012. The equity market recorded improvement while the bond market performance declined. The NSE 20 Share Index rose to 3215.70 points on February 2, 2012 from 3188.23 points on January 26, 2012 while NASI was 69.05 points down from 67.97 points. Market Capitalization which measures total shareholders' wealth added Ksh 13.746 billion to peak at Ksh 881.188 billion. However equity turnover was down Ksh 138.9 million, to trade stocks worth Ksh 1,089.9 million from Ksh 1,228.8 million over the same period. Similarly, number of shares traded declined to 87.3 million from 131.3 million, signifying constrained supply amid growing demand and improving prices.

Banking Sector dislodged Telecommunication and Technology sector as most active by trading 40.48 million shares or 46.4 percent compared to the Telecommunication and Technology's 38.3 million shares or 43.9 percent of all shares transacted at the bourse. Manufacturing sector closed third most active with 4.2 million shares. Safaricom, Equity Bank and Barclays Bank Kenya Ltd were top three most active counters with 38.2 million, 20.7 million and 11.4 million shares respectively. Construction and Allied sector was least active, with 63,900 shares traded.

**Table 7: Key Weekly Market Statistics**

Week Ending	17-Nov-11	24-Nov-11	01-Dec-11	08-Dec-11	15-Dec-11	22-Dec-11	29-Dec-11	05-Jan-12	12-Jan-12	19-Jan-12	26-Jan-12	02-Feb-12
NASI 100= Jan 2008	71.60	69.46	66.04	65.41	65.98	67.8	67.85	68.31	68.84	68.76	67.97	69.05
NSE 20 Share Index 100=1966	3,370.72	3,288.70	3,122.50	3,109.25	3,106.90	3,139.67	3,160.03	3,220.74	3,196.86	3,204.76	3,188.23	3,215.70
Number of Deals	4,347	3,669	4,113	3,958	2,810	3,815	1,886	3,516	5,237	4,667	4,754	5,124
Total Shares Traded (millions)	89.28	47.60	69.30	124.00	64.36	74.56	8.05	37.98	55.26	58.47	131.34	87.34
Equity Turnover (Ksh. millions)	690.12	674.60	1,047.30	954.30	827.68	1,142.34	167.38	430.05	614.11	495.57	1,228.83	1,089.93
Market Capitalization (Ksh. Bn.)	913.81	886.49	842.84	834.69	841.99	865.09	865.97	871.68	878.60	877.60	867.44	881.19
Bonds Turnover (Ksh. millions)	7,913.20	6,411.35	7,875.75	7,113.55	7,158.15	4,723.35	4,168.60	6,442.95	9,150.70	4,034.50	3,106.90	2,673.60
FTSE NSE Kenya 15 Index		87.90	84.43	83.62	85.42	87.14	89.35	89.36	89.43	89.72	89.93	90.87
FTSE NSE Kenya 25 Index		84.43	86.65	85.81	87.74	89.98	91.64	91.78	91.83	91.99	91.17	92.89

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

Source: Nairobi Stock Exchange



The biggest closing and average price gains in the week ending February 2, 2012 was Kakuzi Ltd and Crown Berger Ltd at Ksh 6 and Ksh 4.12 per share respectively. The biggest closing and average price margin losses was East African Breweries and Jubilee Insurance Co. at Ksh 8 and Ksh 5.80 per share, respectively.

**FTSE NSE  
Kenya Index  
Series**

The FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, rose to 90.87 points on February 2, 2012 from 89.93 points on January 26, 2012. FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange rose to 92.89 points from 91.17 points during the previous week.

**Bond Market**

Bonds trading at the Fixed Income Securities Segment declined to Ksh 2,674 million for the week ending February 2, 2012 from Ksh 3,106 million for the week of January 26, 2012. Total deals transacted over the period declined to 55 from 80 of previous week.