

July 6, 2012



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation declined by 217 basis points from 12.22 percent in May 2012 to 10.0 percent in June 2012 reflecting further easing of food and fuel inflation.

During the Monetary Policy Committee meeting held on July 5, 2012 the Central Bank Rate (CBR) was lowered by 150 basis points to 16.5 percent from 18 percent.

The money market liquidity improved during the week ending July 3, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 24.3 billion through repo securities and Ksh 17.1 billion through term auction deposits against repo maturities of Ksh 6.7 billion and term auction deposits maturities of Ksh 11.9 billion.

The average interbank rate decreased to 15.87 percent during the week ending July 4, 2012 compared with 18.50 percent in the previous week reflecting improved liquidity in the money market.

The Kenya Shilling depreciated marginally against major international currencies in the week ending July 5, 2012. Against the US dollar the Kenya Shilling weakened to exchange at an average of Ksh 84.11 per US dollar compared with Ksh 84.10 per US dollar in the week ending June 28, 2012.

The usable official foreign exchange reserves held by the Central Bank reduced from US dollar 4,924 million (equivalent to 4.13 months of import cover) as at June 28, 2012 to US dollar 4,903 million (equivalent to 4.11 months of import cover) in the week ending July 5, 2012.

The Government offered for sale Treasury bills worth Ksh 7.0 billion during the first week of the fiscal year 2012/13. Bids worth Ksh 2.1 billion were received, and virtually all were accepted.

Gross Government domestic debt stood at Ksh 859.2 billion at the end of the 2011/12 fiscal year, an increase of Ksh 95.0 billion from Ksh 764.2 billion in June 2011. During the week under review, gross government domestic debt declined by Ksh 16.6 billion, largely on account of overdraft at the Central Bank.

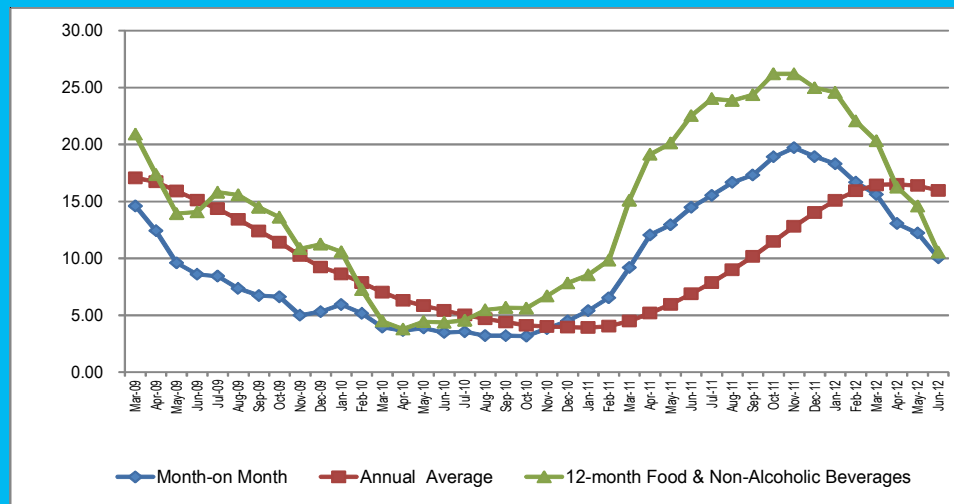
Stock market performance remained bullish in the week ending July 5, 2012. All indices were up; NSE 20 Share Index by 85.48 points, Nairobi All Share Index (NASI) by 1.97 points and the FTSE NSE 15 Index and FTSE NSE 25 Index by 3.17 points and 3.30 points respectively. However, equity turnover was down 12.0 percent constrained by low supply which saw shares traded dip down by 26.8 percent. Bonds market activity was down 43.7 percent in turnover and 32.5 percent in deals.

Inflation

Overall 12-month inflation eased by 217 basis points from 12.22 percent in May 2012 to 10.0 percent in June 2012 (Chart A). The decline in the overall inflation in June 2012 was reflected largely in the Alcoholic beverages, Tobacco and Narcotics; and Food and Non-Alcoholic Beverages indices, which declined to 7.2 percent to 10.5 percent, respectively, in June 2012 compared with 12.0 percent and 14.6 percent, respectively, in May 2012. Inflation in the Housing, Water, Electricity, Gas and Other Fuels; Restaurant and Hotels indices; Furnishings, Household Equipment and Routine Household Maintenance; transport; Recreation and culture; Miscellaneous goods and services; and health also eased to 9.7 percent; 17 percent; 11.6 percent; 7.6 percent; 10.5 percent; 10.6 percent; and 6.4 percent respectively in June 2012 from 10.8 percent; 18.1 percent; 12.6 percent; 8.4 percent; 10.9 percent; and 10.8 percent respectively in May 2012. Education and communication indices rose from 7.1 percent and 7.4 percent, respectively, in May 2012 to 7.3 percent and 8.7 percent, respectively, in June 2012.

The food and non alcoholic beverages inflation rates declined between May and June due to fall in food prices of milk and vegetables. In the same period the transport index declined due to lower prices of petrol and diesel as well as public transport; the Housing, Water, Electricity, Gas and other fuels as well declined due to reduced costs of electricity kerosene and cooking gas.

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 met on July 5, 2012 to review relevant market developments since the previous meeting in June 2012. The Committee noted that the tight monetary policy stance continued to deliver favorable macroeconomic outcomes. Inflation has declined significantly towards the Government short-term target of 9 percent while the exchange rate remains stable. It concluded that the range of monetary policy instruments was robust and should bring down inflation to the medium target and sustain

general price stability. The Committee therefore decided to reduce the Central Bank Rate (CBR) by 150 basis points to 16.5 percent from 18 percent.

Monetary Policy Operations

The money market liquidity improved during the week ending July 3, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 24.3 billion through repo securities and Ksh 17.1 billion through term auction deposits against repo maturities of Ksh 6.7 billion and term auction deposits maturities of Ksh 11.9 billion. Reserve money averaged Ksh 254.3 billion during the week and was Ksh 1.5 billion above the target. The excess reserves money was held as bank reserves of Ksh 11.4 billion (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)
28-Jun-12	257.87	251.8	6.1	5.0	3.5	1.6	0.0	258.9	7.1	17.7	-10.6
29-Jun-12	265.67	251.8	13.9	7.0	6.6	3.5	0.0	257.3	5.5	15.5	-9.9
02-Jul-12	264.86	252.6	12.3	8.0	4.6	5.3	0.0	254.5	1.9	12.3	-10.3
03-Jul-12	259.88	254.2	5.7	8.0	2.8	5.2	0.0	252.1	-2.0	7.9	-9.9
04-Jul-12	258.19	254.2	4.0	8.0	6.9	1.5	0.4	248.9	-5.3	3.4	-8.7
Average	261.29	252.9	8.4	7.2	4.9	3.4	0.1	254.3	1.5	11.4	-9.9

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate decreased to 15.87 percent during the week ending July 4, 2012 compared with 18.50 percent in the previous week. The decline in the interbank rate reflected improved liquidity in the money market. The interbank volumes transacted declined to an average of Ksh 9.31 billion compared with Ksh 17.30 billion in the previous week while the number of deals decreased to 53 deals from 75 deals (Table 2 and Chart B).

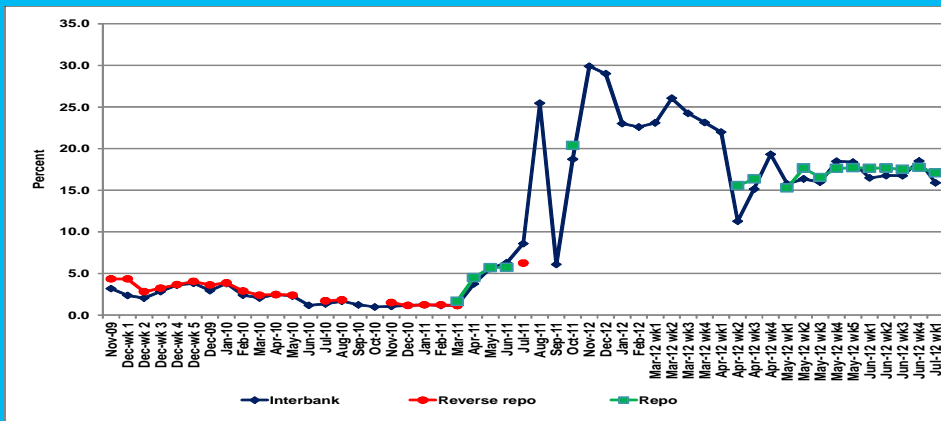
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
21-Jun-12	65	10,064	19.37
22-Jun-12	75	18,252	19.89
25-Jun-12	72	16,892	19.35
26-Jun-12	77	18,634	17.40
27-Jun-12	88	22,673	16.48
June 21 - June 27, 2012	75	17,303	18.50
28-Jun-12	70	14,602	16.43
29-Jun-12	59	9,271	15.84
02-Jul-12	44	5,671	15.64
03-Jul-12	47	8,294	15.74
04-Jul-12	46	8,690	15.72
June 28 - July 4, 2012	53	9,306	15.87

Source: Central Bank of Kenya

The average repo rate decreased to 17.08 percent during the week ending July 4, 2012 from 17.73 percent in the previous week.

Chart B: The Structure of Interest Rates

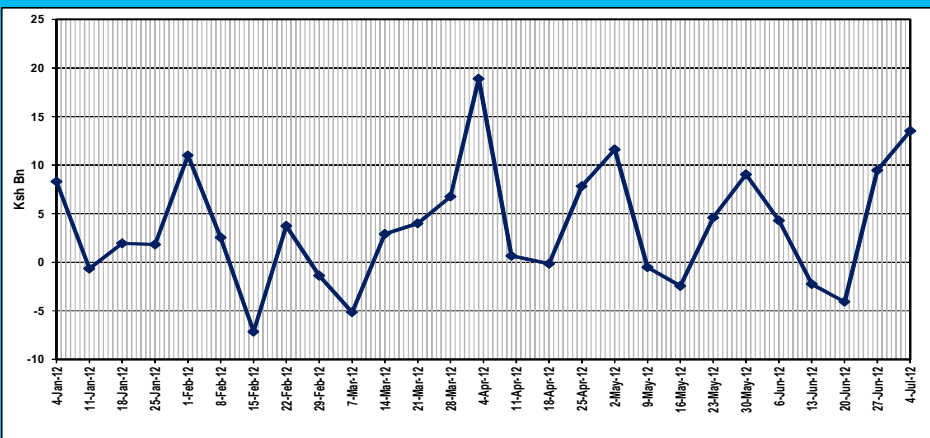


Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

Commercial banks maintained an average of Ksh 13.53 billion in their settlement accounts above the monthly average cash reserve requirements of 5.25 percent at the Central Bank in the week to July 4, 2012 compared with Ksh 9.46 billion 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 depreciated marginally against major international currencies in the week ending July 5, 2012. During the week, the Kenya Shilling depreciated by 0.01 percent, 0.26 percent, 0.48 percent and 0.21 percent against the US dollar, the Sterling Pound, the Euro and the Japanese Yen, respectively, to trade at an average of Ksh 84.11 per US dollar, Ksh 131.62 per Sterling Pound, Ksh 105.85 per Euro and Kshs 105.56 per 100 Japanese Yen compared to Ksh 84.10 per US dollar, Ksh 131.28 per Sterling Pound, Ksh 105.34 per Euro and Ksh 105.34 per 100 Japanese Yen, in the week ending June 28. The slight depreciation of the Kenya shilling is attributed to an increase in dollar demand from corporate clients.

In the EAC region, the Kenya Shilling appreciated against the East African Currencies in the week ending July 5, 2012. The Kenya Shilling appreciated against the Uganda Shilling, Tanzania Shilling and Rwanda Franc. Against the Burundi Franc the Kenya Shilling traded at the same level as the previous week. On average, the shilling traded at Ushs 29.42, Tshs 18.79, RWF 7.19 and BIF 16.75 during the week, compared with Ushs 29.34, Tshs 18.78, RWF 7.17 and BIF 16.75 in the week ending April 26, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
22-Jun-12	84.01	131.24	105.51	104.45	29.34	18.82	7.17	16.96
25-Jun-12	83.95	130.95	105.31	104.57	29.35	18.83	7.18	16.73
26-Jun-12	84.25	131.32	105.38	105.78	29.32	18.75	7.16	16.67
27-Jun-12	84.16	131.61	105.18	105.99	29.35	18.76	7.18	16.69
28-Jun-12	84.15	131.30	105.33	105.89	29.33	18.74	7.18	16.69
June 22-28, 2012	84.10	131.28	105.34	105.34	29.34	18.78	7.17	16.75
29-Jun-12	84.23	131.42	105.96	106.15	29.38	18.71	7.17	16.68
2-Jul-12	84.13	131.79	106.19	105.66	29.42	18.72	7.18	16.69
3-Jul-12	84.12	132.09	106.03	105.36	29.42	18.81	7.18	16.70
4-Jul-12	84.03	131.74	105.82	105.33	29.45	18.83	7.19	16.95
5-Jul-12	84.03	131.09	105.27	105.28	29.43	18.86	7.23	16.71
June 29- July 5, 2012	84.11	131.62	105.85	105.56	29.42	18.79	7.19	16.75

Source: Central Bank of Kenya

The usable official foreign exchange reserves held by the Central Bank reduced from US dollar 4,924 million (equivalent to 4.13 months of import cover) as at June 28, 2012 to US dollar 4,903 million (equivalent to 4.11 months of import cover) in the week ending July 5, 2012 (Table 4).

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

	10-May-12	17-May-12	24-May-12	31-May-12	07-Jun-12	14-Jun-12	21-Jun-12	28-Jun-12	05-Jul-12
Usable Reserves*	4,660	4,627	4,549	4,425	4,564	4,560	4,936	4,924	4,903
Months of Imports Cover**	3.95	3.92	3.86	3.75	3.87	3.86	4.18	4.13	4.13

*Excludes encumbered reserves

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

Source: Central Bank of Kenya

The Government offered for sale Ksh 2.0 billion each in 91-day and 182-day and Ksh 3.0 billion in 364-day Treasury bills during the week ending July 6, 2012. Demand for all the papers was low with performance rates of 46.2 percent, 50.2 percent and 6.1 percent, respectively for the 91-day, 182-day and 364-day papers, which represented a total of Ksh 2.1 billion worth of bids received during the week. The government accepted Ksh 0.9 billion, Ksh 1.0 billion and Ksh 0.2 billion respectively in the 91-day, 182-day and 364-day Treasury bills during the week. Total non-competitive bids amounted to Ksh 0.6 billion.

Foreign Exchange Reserves

Government Securities Auction

**Interest Rate
on Treasury
Bills &
Bonds**

Weighted average interest rates on the 91-day, 182-day and 364-day Treasury bills increased by 5.5, 32.4 and 56.9 basis points, respectively, to stand at 10.835 percent, 11.415 percent and 13.00 percent, during the week under review.

Table 5 : Government Securities Interest Rates

Auction date	04-May-12	31-May-12	08-Jun-12	15-Jun-12	22-Jun-12	29-Jun-12	06-Jul-12
91 day T. Bills*	13.382	9.336	9.801	10.537	10.675	10.780	10.835
182 day T. Bills*	14.775	10.327	10.750	10.737	10.857	11.091	11.415
364 day T. Bills*			12.431				13.000
1 year FXD T. Bonds							
2 year FXD T. Bonds							
5 year FXD T. Bonds							
10year FXD T. Bonds					12.705		
12-year Infrastructure Bond							

*Weighted rates for accepted bids

Source: Central Bank of Kenya

**Government
Domestic
Debt**

Gross Government domestic debt stood at Ksh 859.2 billion at the end of the 2011/12 fiscal year, an increase of Ksh 95.0 billion from Ksh 764.2 billion in June 2011. (Table 6 and Chart D). During this period, the stocks of Treasury bonds and Treasury bills increased by Ksh 91.3 billion and Ksh 5.9 billion, respectively. Government overdraft at the Central Bank and other domestic debt declined by Ksh 0.3 billion and Ksh 1.8 billion, to stand at Ksh 7.3 billion and Ksh 32.4 billion, respectively, on June 29, 2012.

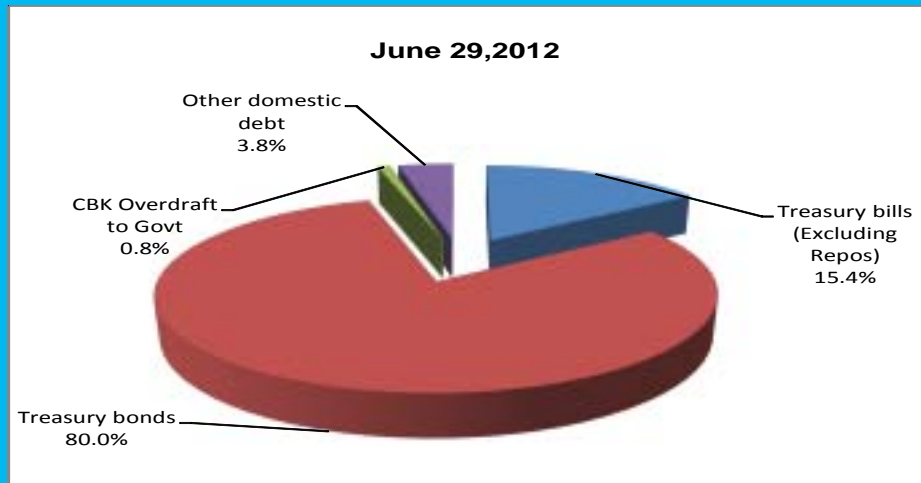
Table 6: Government Domestic Debt (Ksh Billion)

	Dec-11	Mar-12	22nd June 2012	29th June 2012	Changes	
					22nd June 2012 - 29th June 2012	30th Jun 2011 - 29th June 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	107.1 14.5	145.5 17.5	131.1 16.0	132.6 16.2	1.5	5.9
2. Treasury Bonds (As % of total securities)	633.5 85.5	683.6 82.5	686.5 84.0	687.0 83.8	0.4	91.3
3. Total Securities (1+2)	740.6	829.0	817.6	819.6	2.0	97.2
4. Overdraft at Central Bank	25.4	25.4	25.4	7.3	-18.1	-0.3
5. Other Domestic debt*	34.7	33.5	32.9	32.4	-0.5	-1.8
6. Gross Domestic Debt (3+4+5)	800.7	887.9	875.8	859.2	-16.6	95.0
7. Interest payments on domestic debt	37.7	56.1	77.3	82.3	5.0	

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

Source: Central Bank of Kenya

Chart D: Composition of Government Securities

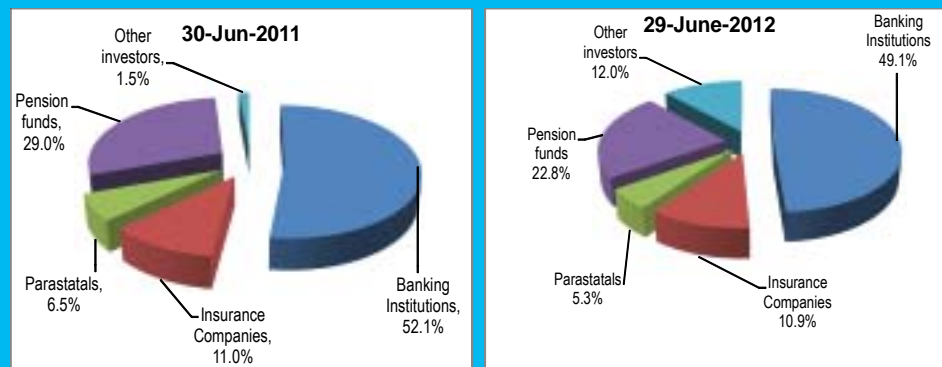


Source: Central Bank of Kenya

Holding of Govt Securities

During the week ending June 29, 2012, gross domestic debt declined by Ksh 16.6 billion compared with the previous week’s position, largely due to a decrease of Ksh 18.1 billion in the Government overdraft at the Central Bank, which was partially offset by increases in the Treasury bills and bonds (Table 6). The average time to maturity of Government securities declined to 5 years and 4 months as at June 29, 2012, from 5 years and 10 months at the end of June 2011.

Chart E: Composition of Government Securities by Investors



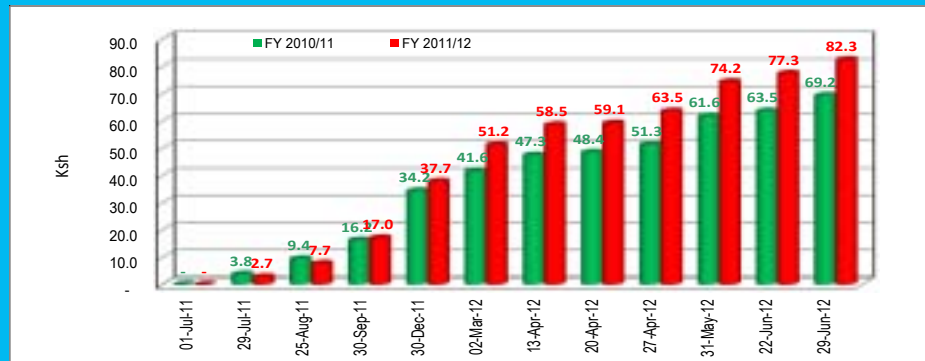
Source: Central Bank of Kenya

The share of Government securities held by banking institutions, pension funds, parastatals and insurance companies declined from 52.1 percent, 29.0 percent, 6.5 percent and 11.0 percent in June 2011 to 49.1 percent, 22.8 percent, 5.3 percent and 10.9 percent respectively on June 29, 2012. Holdings of other investors, which includes Sacco’s, listed and private companies, self-help groups, educational institutions, religious institutions and individuals, increased from 1.5 percent to 12.0 percent during the same period (Chart E).

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt from July 1, 2011 to June 29, 2012 amounted to Ksh 82.3 billion compared with Ksh 69.2 billion during 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 13.28 billion and Ksh 65.40 billion, respectively. Government overdraft at Central Bank accounted for Ksh 3.66 billion. During the week under review, total interest on domestic debt amounted to Ksh 5.0 billion.

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



Source: Central Bank of Kenya

The Stock Market

Capital markets performance was robust in all key market indicators, except the equities' supply related and the bond markets during the week ending July 5, 2012. All share indices recorded gains as well as market capitalization. Supply, measured by Equity turnover and number of shares recorded were however down so was the bonds segment. The week saw FTSE NSE 25 Index that measures performance of 25 most liquid stocks at the Exchange cross the 110 points market since its inception in November 2011.

As indicated in Table 7, NSE 20 Share Index closed at 3,795.32 points on July 5, 2012 from 3,709.84 points on June 28, 2012. NASI was also up to 82.47 points, from 80.50 points during the week under review.

Table 7: Key Weekly Market Statistics

Week Ending	17-May-12	24-May-12	30-May-12	07-Jun-12	14-Jun-12	21-Jun-12	28-Jun-12	05-Jul-12
NASI 100= Jan 2008	79.91	78.79	78.15	78.19	79.41	80.83	80.5	82.47
NSE 20 Share Index 100=1966	3,677.81	3,668.21	3,626.07	3,634.82	3,685.36	3,682.24	3,709.84	3,795.32
Number of Deals	6,985	6,833	4,499	4,945	6,301	6,064	6,849	6,226
Total Shares Traded (millions)	98.21	89.03	107.17	55.24	112.62	92.57	114.1385	83.53
Equity Turnover (Ksh. millions)	1,819.06	1,480.01	1,472.56	1,236.46	1,573.39	1,495.51	1,753.471	1,542.18
Market Capitalization (Ksh. Bn.)	1,022.96	1,008.64	1,001.68	1,002.13	1,017.75	1,049.80	1,045.504	1,078.819
Bonds Turnover (Ksh. millions)	15,565.90	7,738.95	8,294.05	3,750.20	7,181.10	6,033.35	7,552.85	4,249.15
FTSE NSE Kenya 15 Index	107.53	104.25	104.42	104.16	105.00	106.74	105.34	108.51
FTSE NSE Kenya 25 Index	109.94	106.97	106.97	106.88	107.68	109.53	108.13	111.43

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

Source: Nairobi Stock Exchange

Market Capitalization that measures shareholders' wealth gained Ksh 33.32 billion to reach Ksh 1,078.82 billion. Equity turnover lost Ksh 211.29 million to trade stocks worth Ksh 1,542.18 million from Ksh 1,753.47 million the previous week. The number of shares traded also dropped to 83.53 million from 114.14 million.

Banking sector was the most active sector transacting 30.90 million shares or 41.2 percent. Telecommunications and Technology and Energy and Petroleum sectors came second and third, trading 26.43 million shares or 35.2 percent and 6.20 million shares or 8.3 percent respectively. Safaricom, Equity Bank and Housing Finance Ltd were the three most active counters with 26.22 million, 15.43 million and 6.64 million shares traded, respectively. Automobile and Accessories sector was least active, trading 60,800 shares.

The biggest closing and average price gain in the week ending July 5, 2012 was with East African Breweries Ltd at Ksh 17 and Ksh 9.7, respectively. The biggest closing and average price margin losses were with Scangroup Ltd and Kenya Commercial Bank Ltd at Ksh 3 and Ksh 0.98, respectively. Of the 58 listed companies, 38 had average price gains in the week ending July 5, 2012.

**FTSE NSE
Kenya Index
Series**

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization edged up to 108.51 points on July 5, 2012 from 105.34 points on June 28, 2012. FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange was also up, recording 111.43 points on July 5, 2012 from 108.13 points on June 28, 2012.

Bond Market

Bonds trading at the Fixed Income Securities Segment tumbled down to Ksh 4,249.15 million for the week ending July 5, 2012 from Ksh 7,552.85 million in the previous week. Corresponding deals dipped to 83 from 123. This indicates investor shift of funds to the Term Auction Deposit facility whose return have been high.