

March 2, 2012



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation eased further by 162 basis points from 18.3 percent in January 2012 to 16.7 percent in February 2012.

The money market was tight during the week ending February 29, 2012 reflecting payments for Government Treasury bills and bonds. To mitigate the tight liquidity commercial banks borrowed Ksh 9.76 billion through the Central Bank Discount window and sold US dollars equivalent to Ksh 3.40 billion to the Central Bank.

The average interbank rate increased to 22.59 percent during the week ending February 29, 2012 from 19.22 percent in the previous week reflecting tight liquidity in the money market.

The Kenya Shilling depicted mixed performance against major international currencies in the week ending March 1, 2012. Against the US Dollar the Kenya Shilling strengthened to exchange at an average of Ksh 82.91 per US Dollar compared with Ksh 83.06 per US Dollar in the week ending February 23, 2012.

The usable official foreign exchange reserves held by the Central Bank increased from US Dollar 4,074 million (equivalent to 3.63 months of imports) as at February 23, 2012 to US Dollar 4,140 million (equivalent to 3.69 months of imports) in the week ending March 1, 2012.

The Government offered for sale Treasury bills worth Ksh 7.0 billion during the week ending March 1, 2012, and received total bids worth Ksh 12.0 billion out of which bids worth Ksh 9.7 billion were accepted. Gross government domestic debt increased by Ksh 77.6 billion from Ksh 764.2 billion in June 2011 to Ksh 841.8 billion as at February 24, 2012.

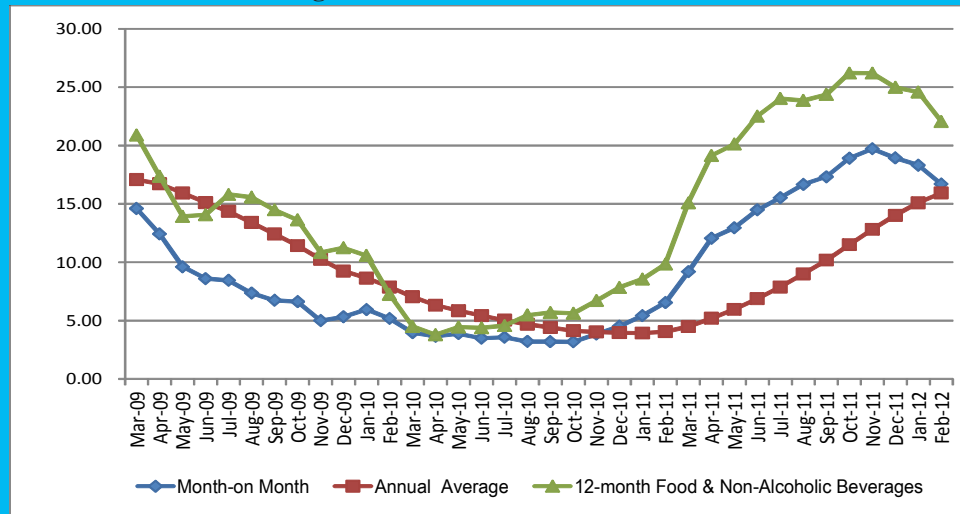
Stock market performance improved in the week of February 2, 2012. The NSE 20 Share Index gained 27.47 points and the Nairobi All Share Index (NASI) 1.08 points. Market Capitalization increased by 1.6 percent. Meanwhile, equity turnover and number of shares traded declined by 11.3 percent and 33.5 percent, 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 turnover however, declined by 13.9 percent.

Inflation

Overall 12-month inflation eased by 162 basis points from 18.3 percent in January 2012 to 16.7 percent in February 2012 (Chart A). The decline in the overall inflation in February 2012 reflected largely in the Transport and Food and Non-Alcoholic Beverages indices, which rose by 15.9 percent and 22.1 percent, respectively, in February 2012 compared with 22.4 percent and 24.6 percent, respectively, in January 2012. Inflation in the Housing, Water, Electricity, Gas and Other Fuels’ index also eased to 13.8 percent in February 2012 from 14.7 percent in January 2012.

The overall Consumer Price Index (CPI) declined by 0.04 percent in February compared with 0.56 percent increase in January 2012. The decline reflect improved food supply and lowering of transportation charges (following 0.46 percent and 1.50 percent reduction in the prices of petrol and diesel, respectively, in February 2012).

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



Source: Central Bank of Kenya

Monetary Policy Operations

The money market was tight during the week ending February 29, 2012 reflecting payments for Government Treasury bills and bonds. To mitigate the tight liquidity commercial banks borrowed Ksh 9.76 billion through the Central Bank Discount window and sold US dollars equivalent to Ksh 3.40 billion to the Central Bank. Reserve money averaged Ksh 238.5 billion during the week and was Ksh 3.4 billion below 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)
23-Feb-12	243.7	241.9	1.8	0.0	0.0	0.0	244.0	2.1	3.4	-1.4
24-Feb-12	245.5	241.9	3.5	0.0	0.0	0.0	247.5	5.6	7.8	-2.3
27-Feb-12	222.9	241.9	-19.1	0.0	0.0	0.0	229.8	-12.1	-10.1	-2.0
28-Feb-12	234.5	241.9	-7.4	0.0	0.0	0.0	235.1	-6.9	-5.5	-1.4
29-Feb-12	235.1	241.9	-6.8	0.0	0.0	0.0	236.1	-5.8	-4.4	-1.4
Average	236.4	241.9	-5.6	0.0	0.0	0.0	238.5	-3.4	-1.8	-1.7

*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

Interbank and REPO Rates

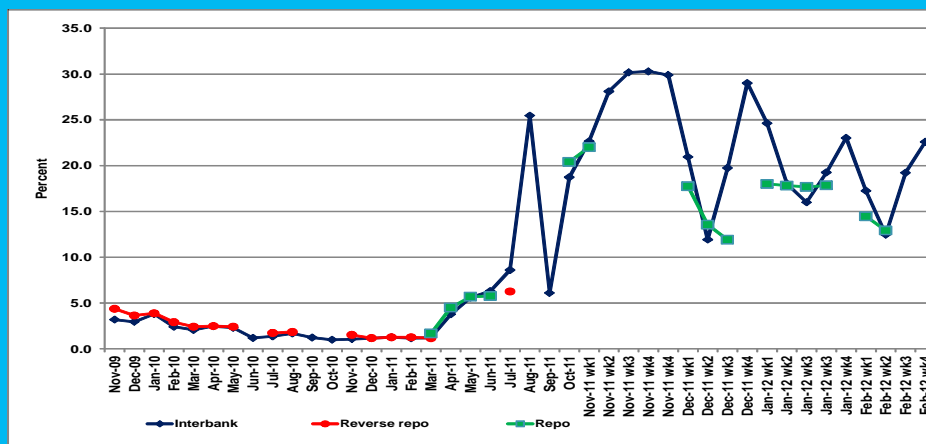
The average interbank rate increased to 22.59 percent during the week ending February 29, 2012 from 19.22 percent in the previous week reflecting tight liquidity in the money market. The average interbank volumes transacted decreased to Ksh 14.12 billion in the week ending February 29, 2012 from Ksh 15.78 billion in the previous week.

Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
16-Feb-12	65	14,228	16.26
17-Feb-12	72	15,784	17.98
20-Feb-12	73	16,133	19.44
21-Feb-12	73	15,813	20.79
22-Feb-12	73	16,946	21.63
Feb 16 - Feb 22, 2012	71	15,781	19.22
23-Feb-12	76	13,029	21.91
24-Feb-12	79	13,974	21.98
27-Feb-12	82	11,973	23.09
28-Feb-12	93	15,242	23.56
29-Feb-12	87	16,367	22.41
Feb 23 - Feb 29, 2012	83	14,117	22.59

Source: Central Bank of Kenya

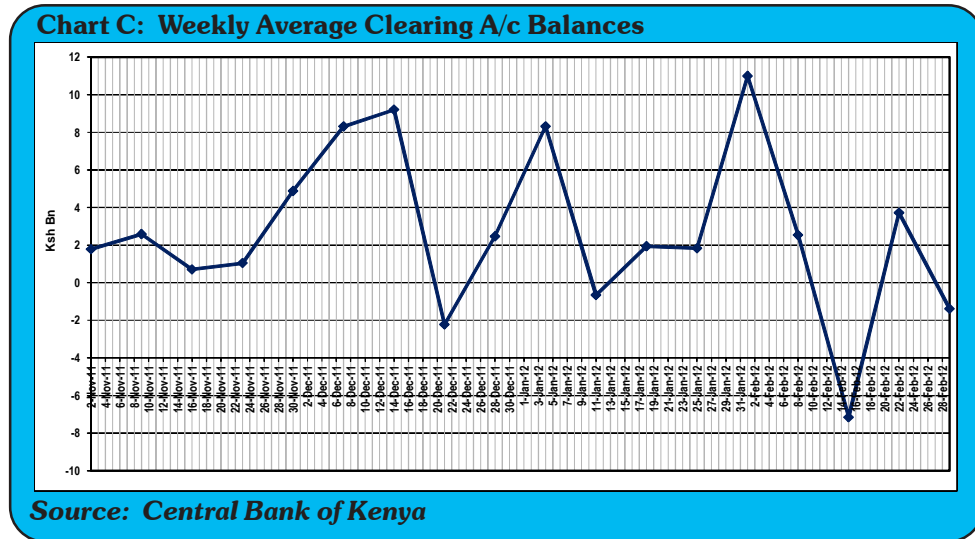
Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

Commercial Banks Clearing Accounts Balances

Commercial banks reserves were on average Ksh 1.39 billion below the monthly average cash reserve requirements (CRR) in the week to February 29, 2012, compared with an excess of Ksh 3.73 billion in the previous week (Chart C).



The Shilling Exchange Rate

The Kenya Shilling depicted mixed performance against major international currencies in the week ending March 1, 2012. It appreciated marginally against the US Dollar and Japanese Yen but depreciated against the Sterling Pound and the Euro compared to the week ending February 23, 2012.

The Kenya Shilling exchanged at an average of Ksh 82.91 per US Dollar and Ksh 102.73 per 100 Japanese Yen in the week ending March 1, 2012, compared with an average of Ksh 83.06 per US Dollar and Ksh 103.99 per 100 Japanese Yen, in the week ending February 23, 2012. However, the Shilling weakened against the Sterling Pound and the Euro to trade at an average of Ksh 131.73 per Sterling Pound and Ksh 111.27 per Euro compared to Ksh 131.22 per Sterling Pound and Ksh 110.00 per Euro in the week ending February 23, 2012.

In the EAC region, the Kenya Shilling strengthened against the Uganda Shilling, Rwanda Franc and the Burundi Franc but weakened against the Tanzania Shilling. On average, the Kenya Shilling exchanged for Ushs 28.57, Tshs 19.23, RWF 7.28 and BIF 15.99 during the week, compared with Ushs 28.07, Tshs 19.24, RWF 7.26 and BIF 15.78 during the week ending February 23, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
20-Feb-12	82.91	131.58	109.53	104.24	27.97	19.27	7.27	15.81
21-Feb-12	83.30	131.92	110.54	104.41	28.09	19.21	7.24	15.73
22-Feb-12	83.29	131.55	110.21	104.06	28.01	19.17	7.24	15.73
23-Feb-12	82.76	129.84	109.71	103.27	28.22	19.30	7.28	15.84
Feb 20-23, 2012	83.06	131.22	110.00	103.99	28.07	19.24	7.26	15.78
27-Feb-12	82.65	131.09	111.01	101.87	28.43	19.36	7.29	15.86
28-Feb-12	82.75	131.06	111.22	102.73	28.58	19.20	7.29	16.20
29-Feb-12	82.97	132.20	111.75	103.48	28.55	19.21	7.26	15.79
1-Mar-12	83.26	132.58	111.11	102.84	28.70	19.13	7.27	16.10
Feb 27- March 1, 2012	82.91	131.73	111.27	102.73	28.57	19.23	7.28	15.99

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US Dollar 4,074 million (equivalent to 3.63 months of imports) as at February 23, 2012 to US Dollar 4,140 million (equivalent to 3.69 months of imports) in the week ending March 1, 2012 (Table 4). Although the foreign exchange reserves cover over imports is below the 4 months minimum the Central Bank should aspire to hold, the level of reserves is above that required under the current monetary programme.

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

	6-Jan-12	13-Jan-12	20-Jan-12	27-Jan-12	3-Feb-12	10-Feb-12	17-Feb-12	23-Feb-12	1-Mar-12
Usable Reserves*	3,918	3,813	3,804	3,868	3,875	4,025	4,017	4,074	4,140
Months of Imports Cover**	3.53	3.43	3.39	3.45	3.45	3.59	3.58	3.63	3.69

*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 7.0 billion in 91 day and 182 day Treasury bills during the week ending March 1, 2012. The performance for both tenures was 148.9 percent and 203 percent, respectively. The 91-day and 182-day bills attracted bids worth Ksh 6.0 billion each and the government accepted Ksh 3.7 billion in 91-day bills and Ksh 6.0 billion in 182-day bills.

Interest Rate on Treasury Bills & Bonds

The weighted average interest rate on the 91-day and 182-day Treasury bills declined by 40.7 basis points and 49.0 basis points, respectively, to 18.745 percent and 18.757 percent

Table 5 : Interest Rates

Auction date	14-Oct-11	21-Oct-11	4-Nov-11	18-Nov-11	25-Nov-11	6-Jan-12	13-Jan-12	20-Jan-12	27-Jan-12	3-Feb-12	10-Feb-12	17-Feb-12	24-Feb-12	2-Mar-12
91 day T. Bills*	14.997	15.091	15.743	16.202	16.601	20.696	20.799	20.769	20.614	20.503	19.807	19.332	19.152	18.745
182 day T. Bills*	14.973	15.287		15.738	16.471	20.714	20.780	20.914	20.801	20.723	20.024	19.839	19.247	18.757
364 day T. Bills*						21.961				20.956				
1 year FXD T. Bonds									21.082				18.030	
12-year Infrastructure Bond			16.640							16.640			16.640	
Month	Jan-11	Feb-11	Apr-11	Jul-11	Aug-11	Sept	Oct	Nov	Dec	Jan				
Average savings rate	1.25	1.41	1.38	1.37	1.37	1.35	1.33	1.41	1.59	1.62				
Average overdraft rate	13.93	13.65	13.68	13.89	14.28	14.64	14.87	18.67	20.20	20.38				

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross government domestic debt increased by Ksh 77.6 billion from Ksh 764.2 billion in June 2011 to Ksh 841.8 billion as at February 24, 2012 (Table 6 and Chart D). During the week under review, gross government domestic debt increased by Ksh 6.7 billion reflecting new borrowing through Treasury bills.

Table 6: Government Domestic Debt (Ksh Billion)

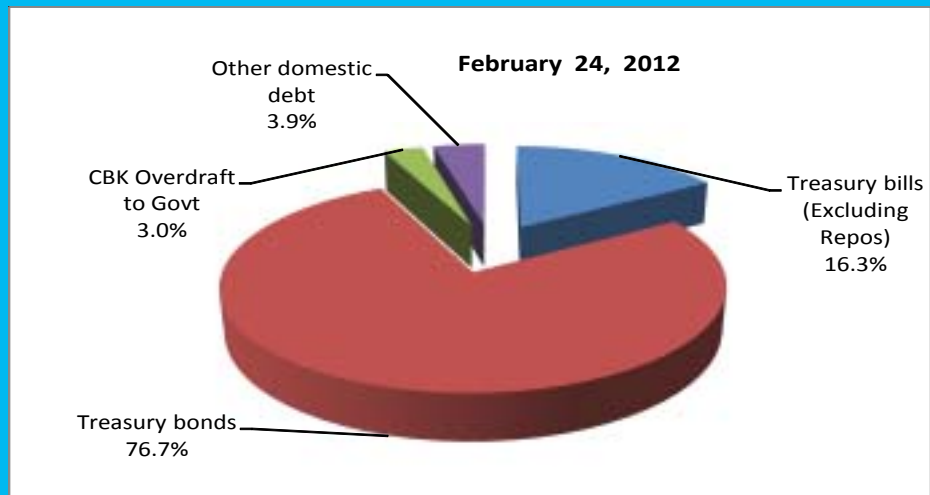
	Jun-11	Dec-11	Jan-12	17th Feb 2012	24th Feb 2012	Changes	
						17th Feb 2012 - 24th Feb 2012	30th Jun 2011 - 24th Feb 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	107.1 14.5	110.6 14.7	130.5 16.8	137.3 17.5	6.7	10.5
2. Treasury Bonds (As % of total securities)	595.7 82.5	633.5 85.5	640.1 85.3	646.0 83.2	646.0 82.5	0.0	50.3
3. Total Securities (1+2)	722.4	740.6	750.7	776.5	783.2	6.7	60.8
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	34.7	33.35	33.2	33.2	0.0	-1.1
6. Gross Domestic Debt (3+4+5)	764.2	800.7	809.5	835.1	841.8	6.7	77.6
7. Interest payments on domestic debt	69.2	37.7	43.3	44.1	47.2	3.1	

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

Source: Central Bank of Kenya

The stock of Treasury bills increased by Ksh 6.7 billion to stand at Ksh 137.3 billion during the week ending February 24, 2012. The stock of Treasury bonds, overdraft at the Central Bank and other domestic debt remained unchanged at Ksh 646.0 billion, Ksh 25.4 billion and Ksh 33.2 billion, respectively, during the week under review (Table 6). The average time to maturity of government securities declined to 5 years 6 months as at February 24, 2012, from 5 years 10 months at the end of June 2011.

Chart D: Composition of Government Securities

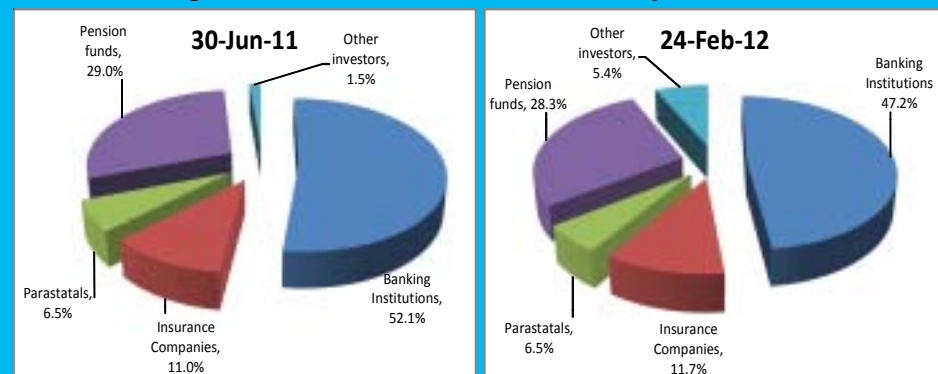


Source: Central Bank of Kenya

Holding of Govt Securities

The share of government securities held by banking institutions and pension funds declined from 52.1 percent and 29.0 percent in June 2011 to 47.2 percent and 28.3 percent in February 24, 2012. Holdings of insurance companies and other investors increased from 11.0 and 1.5 percent to 11.7 and 5.4 percent, respectively, during the period (Chart E).

Chart E: Composition of Government Securities by Investors

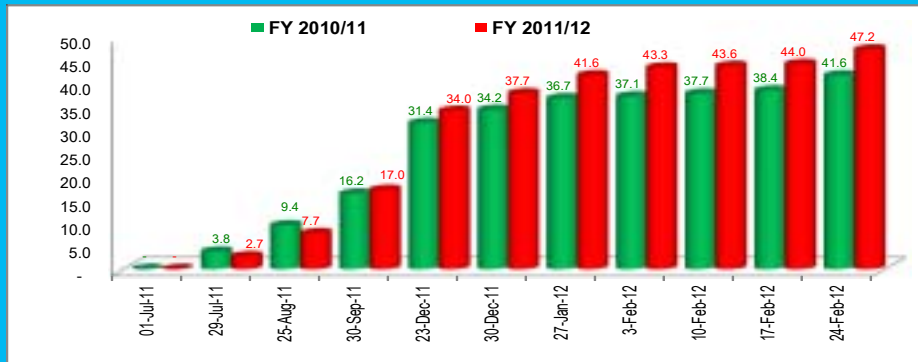


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt from July 1, 2011 to February 24, 2012 amounted to Ksh 47.2 billion compared with Ksh 41.6 billion in the same period of the Fiscal Year 2010/11 (Chart F). The cost of domestic borrowing during the period under review was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 7.9 billion and Ksh 37.5 billion, respectively. Government overdraft at Central Bank accounted for Ksh 1.8 billion. During the week under review, interest on domestic debt increased by Ksh 3.1 billion.

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



Source: Central Bank of Kenya

The Stock Market

Performance at the capital markets was robust in the week ending March 1, 2012. All key market indicators for equities and fixed income segments recorded gains, signaling improved demand attributable to investor confidence as the macroeconomic environment improve and companies started releasing their end year trading results.

The NSE 20 Share Index rose to 3,312.15 points on March 1, 2012 from 3,208.6 points on February 23, 2012, while NASI increased to 72.37 points from 70.19 points. Market Capitalization which measures total shareholders' wealth gained Ksh 27.7 billion to peak at Ksh 923.5 billion. Equity turnover gained Ksh 272.3 million to trade stocks worth Ksh 1,010.8 million from Ksh 738.6 million the previous week. The number of shares traded increased to 59.9 million from 57.6 million (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	12-Jan-12	19-Jan-12	26-Jan-12	2-Feb-12	9-Feb-12	16-Feb-12	23-Feb-12	1-Mar-12
NASI 100= Jan 2008	68.84	68.76	67.97	69.05	68.96	69.94	70.19	72.37
NSE 20 Share Index 100=1966	3,196.86	3,204.76	3,188.23	3,215.70	3,156.87	3,154.46	3,208.63	3,312.15
Number of Deals	5,237	4,667	4,754	5,124	5,394	5,090	5,165	5,207
Total Shares Traded (millions)	55.26	58.47	131.34	87.34	126.31	99.15	57.68	59.93
Equity Turnover (Ksh. millions)	614.11	495.57	1,228.83	1,089.93	810.03	960.77	738.65	1,010.89
Market Capitalization (Ksh. Bn.)	878.60	877.60	867.44	881.19	880.09	892.59	895.82	923.57
Bonds Turnover (Ksh. millions)	9,150.70	4,034.50	3,106.90	2,673.60	4,707.50	6,196.55	6,366.60	7,991.50
FTSE NSE Kenya 15 Index	89.43	89.72	89.93	90.87	91.38	93.22	94.14	95.62
FTSE NSE Kenya 25 Index	91.83	91.99	91.17	92.89	93.39	94.96	95.98	97.75

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

Source: Nairobi Stock Exchange

The banking sector was the most active, transacting 29.3 million shares or 49.0 percent of the total shares traded. The Telecommunications and Technology sector come second, trading 15.6 million shares or 26.1 percent. Energy and Petroleum sector ranked the third most active sector with 7.2 million shares. Safaricom, Equity Bank and Co-operative Bank were the top three most active counters with 15.2 million, 9.2 million and 7.1 million shares, respectively. Agriculture was least active, with 152,900 shares.

The biggest closing and average price gains in the week ending March 1, 2012 was British American Tobacco at Ksh 26 and Ksh 53.05 per share, respectively. The biggest closing and average price margin losses was Diamond Trust at Ksh 4 and TPS Eastern Africa at Ksh1.74 per share. Of the 54 listed companies, 10 recorded an average price decline in the week.

**FTSE NSE
Kenya Index
Series**

The FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization rose to 95.62 points on March 01, 2012 from 94.14 points on February 23, 2012. FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange rose to 97.75 points from 95.98 points during the previous week, reflecting recovery.

Bond Market

Bonds trading at the Fixed Income Securities Segment rose to Ksh 7,991.5 million for the week ending March 01, 2012 from Ksh 6,366.6 million in the week of February 23, 2012. Total deals transacted over the period dropped to 59 from 80 of previous week. This may be attributed to investor portfolio balance in favour of bonds, as Treasury bills yields decline.