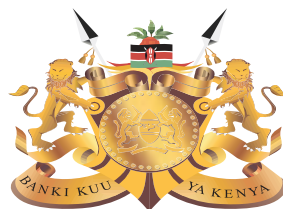


**May 25, 2012**



## **THE CBK WEEKLY BULLETIN**

### **Highlights for the Week**

To moderate excess liquidity in the money market the Central Bank mopped Ksh 10.5 billion through the repo market and Ksh 5.1 billion through sale of foreign exchange in the interbank market. The average interbank rate, therefore, increased to 18.46 percent during the week ending May 23, 2012 from 15.96 percent in the previous week.

The Kenya Shilling depicted mixed trends against major international currencies in the week ending May 24, 2012. The Shilling appreciated against the Sterling Pound and depreciated against the US dollar, the Euro and the Japanese Yen. Against the US dollar, the Kenya Shilling weakened to exchange at an average of Ksh 84.88 per US dollar compared with Ksh 83.95 per US dollar in the week ending May 17, 2012.

The usable official foreign exchange reserves held by the Central Bank closed at US dollar 4,549 million (equivalent to 3.86 months of import cover) as at May 24, 2012 or 1.7 percent below US dollar 4,627 million (equivalent to 3.92 months of import cover) in the week ending May 17, 2012.

The Government offered for sale Treasury bills and bonds worth Ksh 7.0 billion during the week ending May 25, 2012, and accepted Ksh 6.7 billion out of the Ksh 7.9 billion worth of bids received.

Gross Government domestic debt increased by 16.0 percent or Ksh 122.2 billion, from Ksh 764.2 billion in June 2011 to Ksh 886.5 billion on May 18, 2012. During the week under review, gross government domestic debt declined by 0.9 percent or Ksh 8.6 billion, on account of net redemption of Treasury bills and bonds.

Stock market performance was low in the week ending May 24, 2012. Both the NSE 20 Share Index and the Nairobi All Share Index (NASI) closed lower by 9.60 points and 1.12 points, respectively. Market Capitalization declined by 1.4 percent, as both equity turnover and number of shares traded closed lower by 18.6 percent and 9.4 percent, respectively. The FTSE NSE 15 Index and FTSE NSE 25 Index both also declined by 3.28 points and 2.97 points, respectively. The bonds segment recorded 50.3 percent decline in turnover.

**Monetary  
Policy  
Operations**

To moderate excess liquidity in the money market during the week ending May 23, 2012, the Central Bank mopped Ksh 10.5 billion through the repo market and Ksh 5.1 billion through sale of foreign exchange in the interbank market. Reserve money averaged Ksh 241.9 billion during the week and was Ksh 0.7 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)
17-May-12	239.4	243.3	-3.9	2.0	0.1	-1.9	238.6	-4.6	-1.2	-3.4
18-May-12	245.5	243.3	2.3	7.0	1.5	-5.6	243.1	-0.2	4.5	-4.7
21-May-12	248.4	242.1	6.3	10.0	5.5	-4.5	244.5	2.4	6.6	-4.2
22-May-12	245.2	242.1	3.1	8.0	2.5	-5.6	242.5	0.3	4.1	-3.8
23-May-12	241.7	242.1	-0.4	2.0	0.9	-1.1	240.9	-1.2	4.2	-5.4
<b>Average</b>	<b>244.0</b>	<b>242.6</b>	<b>1.5</b>	<b>5.8</b>	<b>2.1</b>	<b>-3.7</b>	<b>241.9</b>	<b>-0.7</b>	<b>3.6</b>	<b>-4.3</b>

Source: Central Bank of Kenya

**Interbank  
and REPO  
Rates**

Following sterilization of excess liquidity during the week ending May 23, 2012 the average interbank rate increased to 18.46 percent from 15.96 percent in the previous week. The average interbank volumes transacted increased to Ksh 11.27 billion in the week ending May 23, 2012 compared to Ksh 7.30 billion in the previous week. The average number of deals increased to 59 in the week ending May 23, 2012 from 52 deals in the previous week (Table 2 and Chart A).

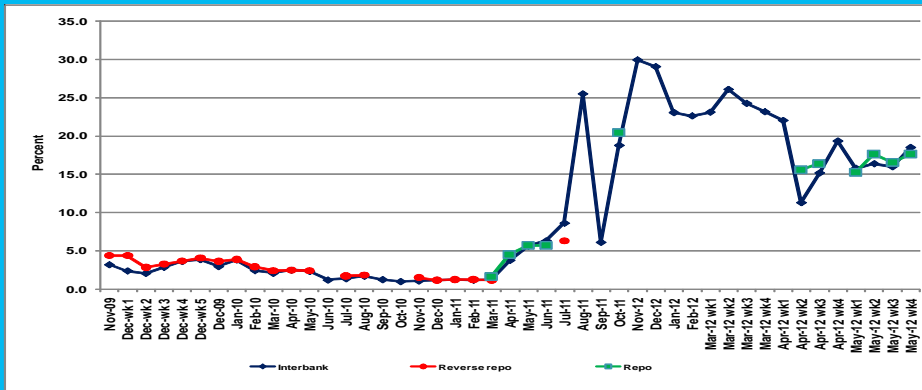
**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
10-May-12	53	6,682	16.60
11-May-12	59	7,723	15.67
14-May-12	53	8,994	15.22
15-May-12	46	5,410	15.95
16-May-12	50	7,674	16.35
<b>May 10- May 16 2012</b>	<b>52</b>	<b>7,296</b>	<b>15.96</b>
17-May-12	49	9,164	17.25
18-May-12	56	11,886	17.84
21-May-12	61	9,289	18.71
22-May-12	65	12,265	19.08
23-May-12	66	13,742	19.44
<b>May 17- May 23 2012</b>	<b>59</b>	<b>11,269</b>	<b>18.46</b>

Source: Central Bank of Kenya

The average repo rate was 17.64 percent during the week ending May 23, 2012

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

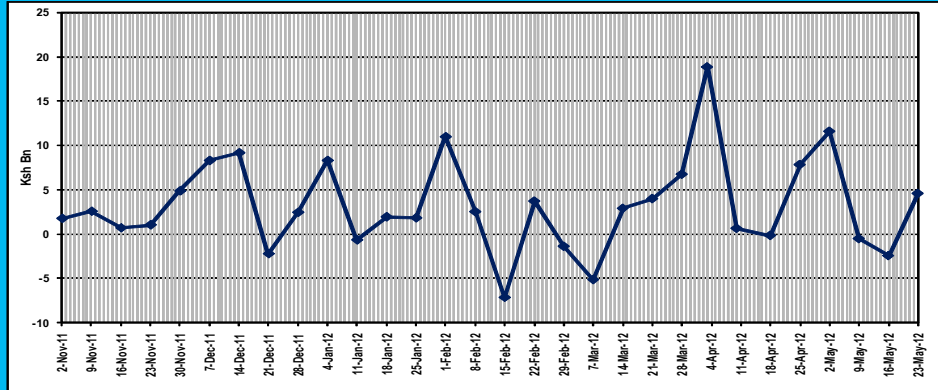


Source: Central Bank of Kenya

**Commercial Banks Clearing Accounts Balances**

Commercial banks maintained an average of Ksh 4.58 billion in their settlement accounts above the monthly average cash reserve requirements of 5.25 percent at the Central Bank in the week to May 23, 2012 compared with Ksh 2.44 billion below cash reserve requirement in the previous week (Chart B).

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



Source: Central Bank of Kenya

**The Shilling Exchange Rate**

The Kenya Shilling depicted mixed trends against major international currencies in the week ending May 24, 2012. The Shilling appreciated by 0.61 percent against the Sterling Pound to trade at an average Ksh 133.79 per Sterling Pound compared to an average of Ksh 134.60 per Sterling Pound for the week ending May 17, 2012. The Kenya Shilling depreciated by 1.1 percent, 0.08 percent, 1.96 percent against the US dollar, the Euro and the Japanese Yen to trade at 84.88 per US dollar, 107.76 per Euro and 106.9 per 100 Japanese Yen, respectively, over the same period. The depreciation of the Kenya shilling against the US dollar may be mainly attributed to:-

- Increased demand for US dollars by corporate customers to finance imports, especially in the energy sector.

- Increased demand for foreign currency to finance repatriation of end year dividends by companies with offshore shareholders.
- Sharp decline in interest rates on Treasury Bills and Treasury Bonds that encouraged investors to seek alternative investments.
- The deepening European crisis fueled by speculation on the exit of Greece from the euro zone. This has strengthened the US dollar supporting flight to safety in the US dollar.

In the region, the Kenya Shilling depreciated marginally against all the EAC currencies. The Kenya Shilling depreciated by 1.06 percent, 0.56 percent, 1.24 percent and 0.42 percent to exchange at an average of Ushs 29.20, Tshs 18.70, RWF 7.11 and BIF 16.47 during the week ending May 24, 2012 compared to Ushs 29.52, Tshs 18.80, RWF 7.20 and BIF 16.54 in the week ending May 17 (Table 3).

**Table 3: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
11-May-12	83.62	134.79	108.07	104.76	29.66	18.88	7.26	16.72
14-May-12	83.68	134.45	107.90	104.65	29.54	18.82	7.20	16.46
15-May-12	83.95	135.17	107.85	105.02	29.40	18.81	7.18	16.59
16-May-12	84.14	134.34	107.01	104.69	29.59	18.77	7.23	16.48
17-May-12	84.39	134.28	107.54	105.09	29.39	18.75	7.14	16.43
<b>May 11-17, 2012</b>	<b>83.95</b>	<b>134.60</b>	<b>107.67</b>	<b>104.84</b>	<b>29.52</b>	<b>18.80</b>	<b>7.20</b>	<b>16.54</b>
18-May-12	84.45	133.04	106.96	106.56	29.33	18.76	7.20	16.61
21-May-12	84.56	133.82	108.11	106.75	29.27	18.74	7.12	16.47
22-May-12	84.96	134.32	108.63	106.96	29.13	18.69	7.09	16.54
23-May-12	85.16	134.11	107.86	107.04	29.07	18.67	7.07	16.36
24-May-12	85.26	133.64	107.23	107.19	29.21	18.64	7.07	16.36
<b>May 18-24, 2012</b>	<b>84.88</b>	<b>133.79</b>	<b>107.76</b>	<b>106.90</b>	<b>29.20</b>	<b>18.70</b>	<b>7.11</b>	<b>16.47</b>

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank edged lower marginally from US dollar 4,627 million (equivalent to 3.92 months of import cover) in the week ending May 17, 2012 to dollar 4,549 million (equivalent to 3.86 months of import cover) as at May 24, 2012 (Table 4).

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

	29-Mar-12	05-Apr-12	12-Apr-12	19-Apr-12	26-Apr-12	03-May-12	10-May-12	17-May-12	24-May-12
Usable Reserves*	4,365	4,416	4,424	4,454	4,637	4,670	4,660	4,627	4,549
Months of Imports Cover**	3.84	3.86	3.86	3.89	4.05	3.96	3.95	3.92	3.86

\*Excludes encumbered reserves

\*\*Based on 36 month average of

Source: Central Bank of Kenya

**Table 5 : Interest Rates**

Auction date	26-Aug-11	30-Mar-12	13-Apr-12	20-Apr-12	27-Apr-12	04-May-12	11-May-12	18-May-12	25-May-12
91 day T. Bills*	9.708	16.728	16.078	15.930	14.992	13.382	11.381	10.075	9.865
182 day T. Bills*	10.356	17.660	16.737	16.638	16.623	14.775	13.076	12.078	10.915
364 day T. Bills*							12.431		
1 year FXD T. Bonds									
2 year FXD T. Bonds					13.826				
5 year FXD T. Bonds	13.887								11.855
12-year Infrastructure Bond									

\*Weighted rates for accepted bids

**Source: Central Bank of Kenya**

### Government Securities Auction

During the week ending May 25, 2012, the Government offered for sale Ksh 2.0 billion in 91 day Treasury bills, Ksh 2.0 billion in 182 day Treasury bills and Ksh 3.0 billion in 5 year discounted fixed-rate bonds. The 5 year bond attracted bids worth Ksh 6.2 billion (207.5 percent performance rate), of which Ksh 5.0 billion was accepted. Demand for the Treasury bills was low as they collectively attracted bids worth Ksh 1.7 billion, all of which were accepted during the auction. Total non-competitive bids amounted to Ksh 2.2 billion.

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

	Jun-11	Dec-11	Mar-12	Apr-12	11th May 2012	18th May 2012	Changes	
							11th Apr 2012 - 18th May 2012	30th Jun 2011 - 18th May 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	107.1 14.5	145.5 17.5	147.6 17.6	146.6 17.5	140.5 17.0	-6.2	13.7
2. Treasury Bonds (As % of total securities)	595.7 82.5	633.5 85.5	683.6 82.5	690.0 82.4	690.0 82.5	687.6 83.0	-2.4	92.0
3. Total Securities (1+2)	722.4	740.6	829.0	837.6	836.6	828.1	-8.6	105.7
4. Overdraft at Central Bank	7.6	25.4	25.4	25.4	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.3	34.7	33.5	33.1	33.0	33.0	0.0	-1.2
6. Gross Domestic Debt (3+4+5)	764.2	800.7	887.9	896.0	895.0	886.5	-8.6	122.2
7. Interest payments on domestic debt	69.2	37.7	56.1	65.0	65.3	66.1	0.9	

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

Source: Central Bank of Kenya

**Source: Central Bank of Kenya**

### Interest Rate on Treasury Bills & Bonds

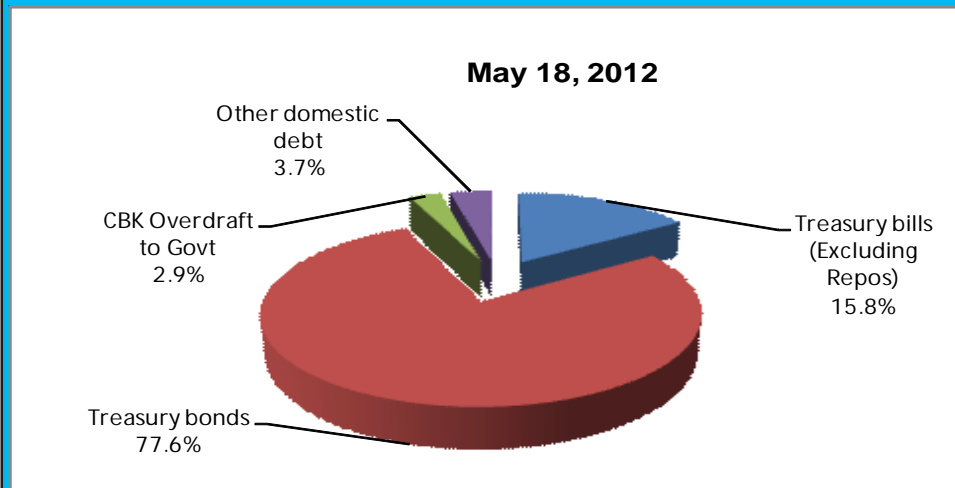
The weighted average interest rates on the 91 day and 182 day Treasury bills declined further by 21.0 and 116.3 basis points, respectively, to close at 9.865 percent and 10.915 percent. Similarly, the 5-year Treasury bond rate declined by 203.2 basis points to stand at 11.855 percent, from 13.887 percent attained in the last 5-year bond auction in August 2011.

### Government Domestic Debt

Gross Government domestic debt increased by 16.0 percent or Ksh 122.2 billion from Ksh 764.2 billion in June 2011 to Ksh 886.5 billion on May 18, 2012 (Table 6 and Chart C). The increase comprised Ksh 92.0 billion, Ksh. 13.7 billion and Ksh 17.8 billion in the stocks of Treasury bonds, Treasury bills and overdraft at the Central Bank, respectively. Other domestic debt, however, declined by Ksh 1.2 billion to stand at Ksh 33.0 billion over the same period. During the week ending May 18, 2012, gross domestic

debt declined by Ksh 8.6 billion on account of net redemptions amounting to Ksh 6.2 billion and Ksh 2.4 billion in the stocks of Treasury bills and Treasury bonds, respectively. The average time to maturity of Government securities declined to 5 years and 5 months as at May 18, 2012, from 5 years and 10 months at the end of June 2011.

**Chart C: Composition of Government Securities**

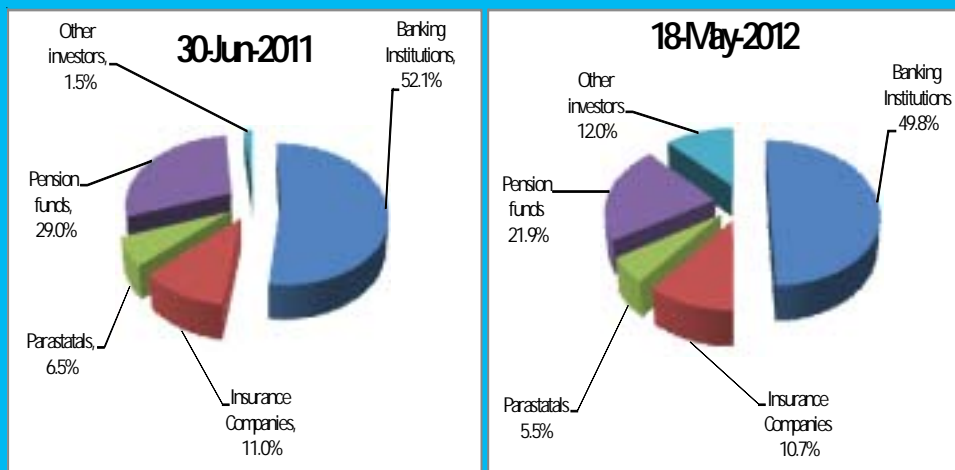


Source: Central Bank of Kenya

**Holding of Govt Securities**

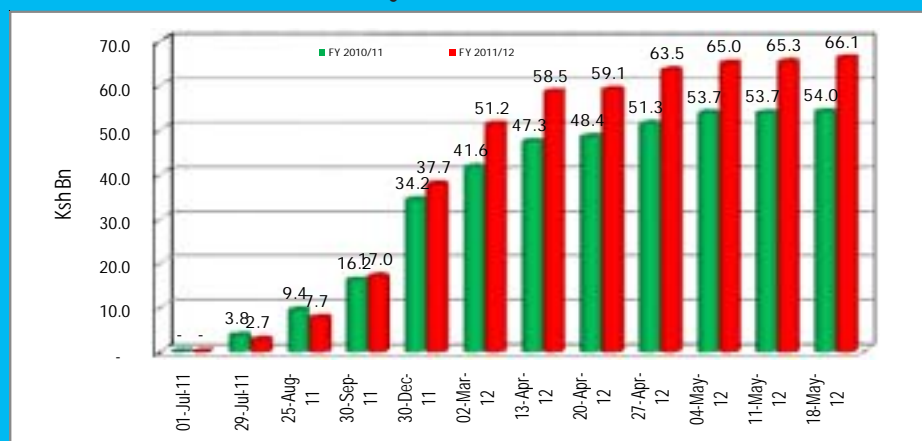
In terms of category of investor, the share of Government securities held by banking institutions, pension funds, parastatals and insurance companies declined from 52.1 percent, 29.0 percent, 6.5 percent and 11.0 percent in June 2011 to 49.8 percent, 21.9 percent, 5.5 percent and 10.7 percent respectively on May 18, 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 D).

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



Source: Central Bank of Kenya

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



Source: Central Bank of Kenya

### Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt from July 1, 2011 to May 18, 2012 amounted to Ksh 66.1 billion compared with Ksh 54.0 billion during the same period of the Fiscal Year 2010/11 (Chart E). The cost comprised of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 11.96 billion and Ksh 51.32 billion, respectively. Government overdraft at Central Bank accounted for Ksh 2.85 billion. During the week under review, total interest on domestic debt amounted to Ksh 0.9 billion.

**Table 7: Key Weekly Market Statistics**

Week Ending	12-Apr-12	19-Apr-12	20-Apr-12	27-Apr-12	04-May-12	10-May-12	17-May-12	24-May-12
NASI 100= Jan 2008	74.37	76.14	77.12	77.93	77.93	78.36	79.91	78.79
NSE 20 Share Index 100=1966	3,454.34	3,534.27	3,557.13	3,585.12	3,585.12	3,589.43	3,677.81	3,668.21
Number of Deals	4,260.00	6,439.00	7,221.00	5,636.00	5,636.00	6,335.00	6,985	6,833
Total Shares Traded (millions)	118.08	159.92	130.28	88.46	88.45	120.03	98.2139	89.0308
Equity Turnover (Ksh. millions)	1,156.07	1,858.48	2,570.47	1,869.56	1,869.56	2,645.70	1,819.055	1,480.006
Market Capitalization (Ksh. Bn.)	952.45	974.99	987.47	997.78	997.78	1,003.30	1,022.96	1,008.642
Bonds Turnover (Ksh. millions)	6,986.80	9,356.10	9,259.10	8,878.45	8,878.45	8,373.15	15,565.85	7,738.95
FTSE NSE Kenya 15 Index	100.19	102.91	102.34	104.90	104.90	105.23	107.53	104.25
FTSE NSE Kenya 25 Index	101.84	105.04	104.38	107.19	107.19	107.48	109.94	106.97

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

Source: Nairobi Stock Exchange

### The Stock Market

Performance at the capital market was weak in the week ending May 24, 2012 with most equity market indicators declining. The NSE 20 Share Index however, closed above the 3,500 points psychological mark, and market capitalization above the trillion shillings mark. Equity turnover and total shares traded also declined by 18.6 percent and 9.3 percent, respectively. The bonds market recorded a loss in turnover and a decline in number of deals.



Telecommunications and Technology sector transacted 32.9 million or 37.0 percent followed by Banking sector at 28.5 million shares or 32.0 percent. Commercial and services sector closed top three most active sectors with 6.10 million shares. Safaricom, Equity Bank and Housing Finance Co. were the top three most active counters with 32.79 million, 10.79 million and 10.10 million shares traded, respectively. Automobile and Accessories sector was least active, trading 129,400 shares.

**FTSE NSE  
Kenya Index  
Series**

The FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization edged lower at 104.25 points on May 24, 2012 from 107.53 points on May 17, 2012. Similarly, FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange closed lower at 106.97 points from 109.94 points over the same period.

**Bond Market**

Bonds trading at the Fixed Income Securities Segment recorded 50.3 percent drop to Ksh 7,738.9 million for the week ending May 24, 2012 from Ksh 15,565.8 million with number of deals declining to 97 from 119 by close of May 24, 2012 reflecting stagnation in the bonds market as yields in primary market continue to decline.