



NOVEMBER 2, 2012,

Highlights

Overall 12-month inflation declined by 118 basis points from 5.3 percent in September 2012 to 4.1 percent due to continued easing of food and fuel inflation. Non-food non-fuel inflation also decelerated from 7.2 percent to 6.2 percent.

The money market was relatively liquid during the week ending October 31, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 54.9 billion through repo securities against maturities of Ksh 33.9 billion.

The average interbank rate decreased marginally to 9.16 percent during the week ending October 31, 2012 from 9.41 percent in the previous week.

The Kenya Shilling exchange rate was relatively stable against major international currencies in the week ending November 1, 2012. Against the US dollar the Kenya Shilling appreciated marginally to trade at an average of Ksh 85.18 per USD compared to an average of Ksh 85.19 per USD in the week ending October 25, 2012.

The usable official foreign exchange reserves held by Central Bank decreased from US dollar 5,175 million (equivalent to 4.06 months of import cover) as at October 25, 2012 to US dollar 5,147 million (equivalent to 4.04 months of import cover) in the week ending November 1, 2012.

During the week ending November 2, 2012, the Government offered for sale Treasury bills worth Ksh 7.0 billion. A total of Ksh 9.1 billion was accepted out of the Ksh 14.4 billion bids received.

Gross Government domestic debt increased by Ksh 60.1 billion to Ksh 919.0 billion on October 26, 2012 from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt declined by Ksh 0.8 billion, largely in net redemptions of Treasury bills.

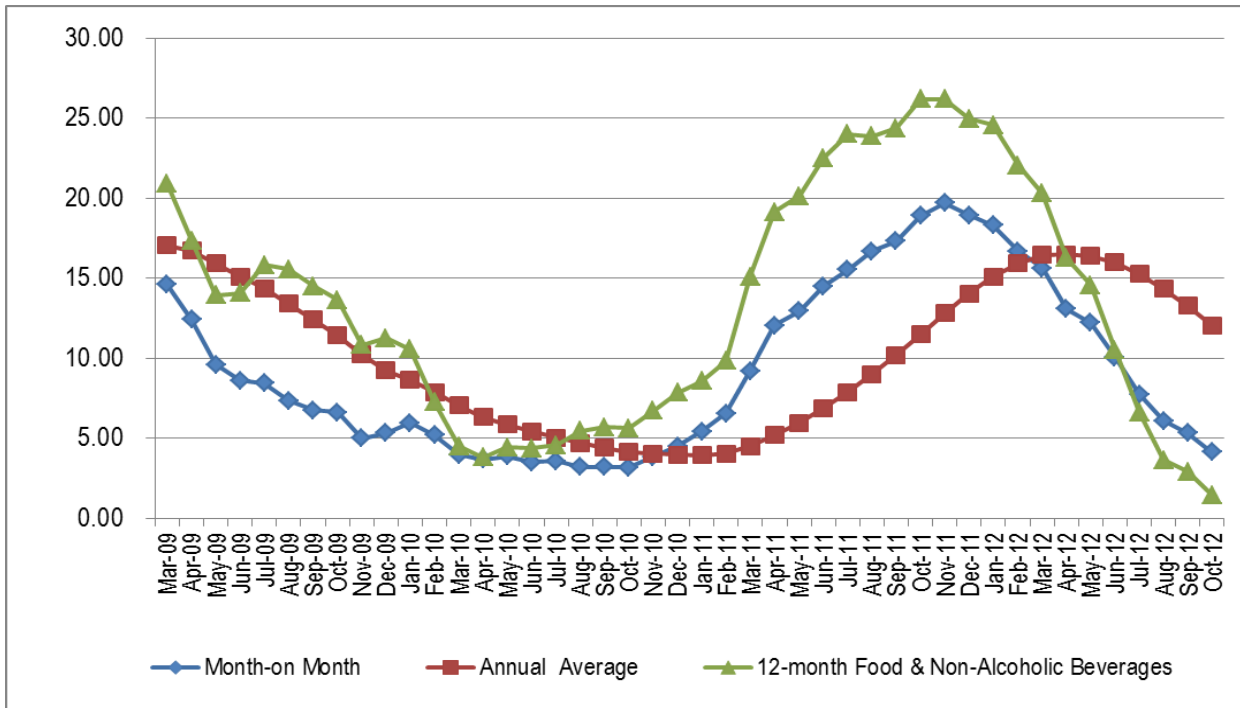
The capital market recorded strong performance in the week ending November 1, 2012, as reflected in gains for key market indicators. NSE 20 Share Index gained 13.78 points and NASI was up 0.66 points. However, the FTSE NSE 15 Index shed 0.43 points and FTSE NSE 25, was down 0.36 points. Market Capitalization created additional Ksh 8.71 billion with supply of shares rising 13.6 percent and equities turnover closed 16 percent higher. The bonds market turnover rose 18.9 percent, with corresponding deals closing 68 deals higher, but FTSE NSE Kenyan Shilling Government Bond Index shed 0.99 points.

CBK WEEKLY BULLETIN

Inflation

Overall 12-month inflation eased by 118 basis points from 5.3 percent in September 2012 to 4.1 percent in August 2012 due to continued easing of food and fuel inflation (Chart A). Non-food non-fuel inflation also decelerated from 7.2 percent to 6.2 percent.

CHART A: MONTH-ON-MONTH ANNUAL AVERAGE AND 12-MONTH FOOD & NON-ALCOHOLIC BEVERAGES INFLATION RATES



Source: Kenya National Bureau of Statistics

Monetary Policy Operations

The money market was relatively liquid during the week ending October 31, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 54.9 billion through repo securities against maturities of Ksh 33.9 billion. Reserve money averaged Ksh 259.0 billion during the week and was Ksh 1.3 billion below the target (Table 1).

CBK WEEKLY BULLETIN

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(-)	
	(1)	(2)	3=(1-2)	(4)	Repo (5)	Term Auction Deposit (6)	7=(5+ 6-4)	(8)	9=(8-2)	(10)	(11)
25-Oct-12	276.8	260.3	16.5	10.0	6.9	5.6	2.5	265.0	4.7	11.5	-6.8
26-Oct-12	278.0	260.3	17.7	10.0	3.4	5.9	-0.7	267.9	7.6	12.9	-5.3
29-Oct-12	269.6	260.3	9.3	10.0	6.7	10.0	6.6	255.5	-4.7	-0.2	-4.5
30-Oct-12	257.0	260.3	-3.3	2.0	3.7	0.0	1.7	255.4	-4.9	-2.3	-2.6
31-Oct-12	264.0	260.3	3.8	9.0	7.3	5.6	3.8	251.2	-9.0	-6.8	-2.2
Average	269.1	260.3	8.8	8.2	5.6	5.4	2.8	259.0	-1.3	3.0	-4.3

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate decreased marginally to 9.16 percent during the week ending October 31, 2012 from 9.41 percent in the previous week. The average interbank volumes transacted declined to Ksh 7.7 billion from Ksh 11.7 billion transacted in the previous week and the average number of deals declined to 39 compared with 50 deals in the previous week (Table 2 and Chart B).

TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES

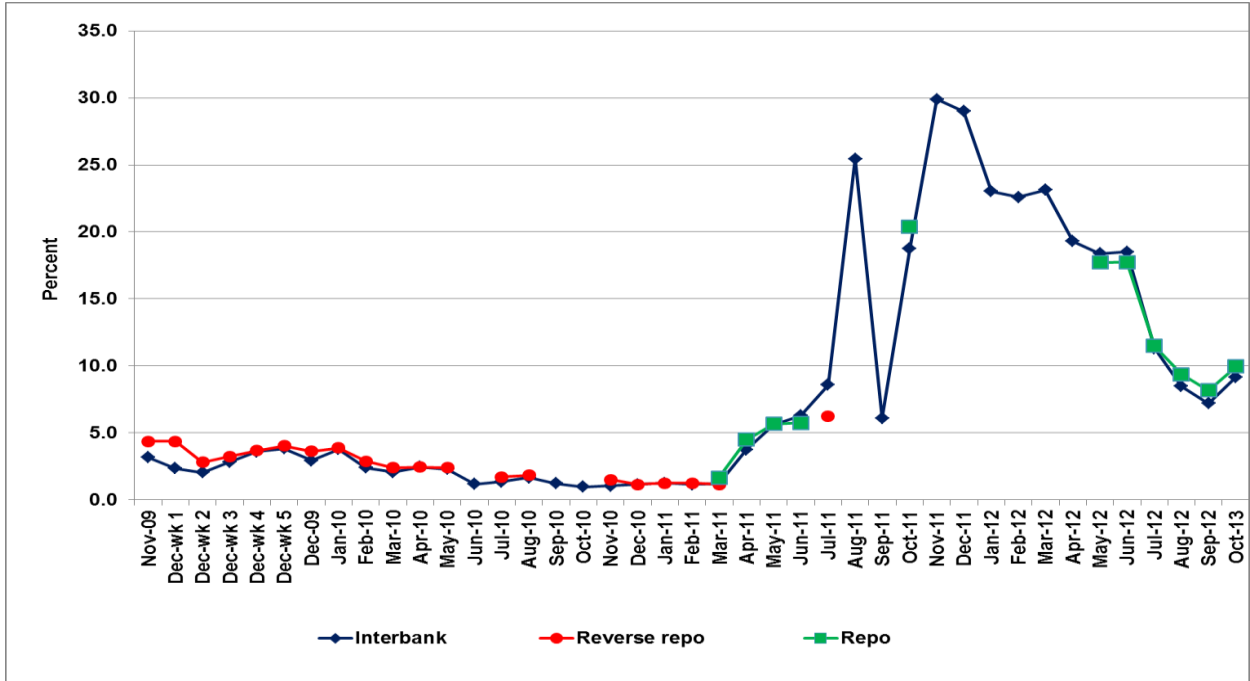
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
18-Oct-12	43	6,658	9.74
19-Oct-12	58	14,870	9.47
22-Oct-12	53	13,990	9.22
23-Oct-12	51	10,078	9.30
24-Oct-12	46	13,070	9.31
October 18-October 24, 2012	50	11,733	9.41
25-Oct-12	39	8,708	9.37
26-Oct-12	35	3,884	9.32
29-Oct-12	35	8,527	9.21
30-Oct-12	45	8,105	9.09
31-Oct-12	42	9,360	8.79
October 25-October 31, 2012	39	7,717	9.16

Source: Central Bank of Kenya

CBK WEEKLY BULLETIN

The average repo rate remained unchanged at 9.95 percent during the week ending October 31, 2012 compared with 9.94 percent recorded in the previous week.

CHART B: SHORT TERM INTEREST RATES

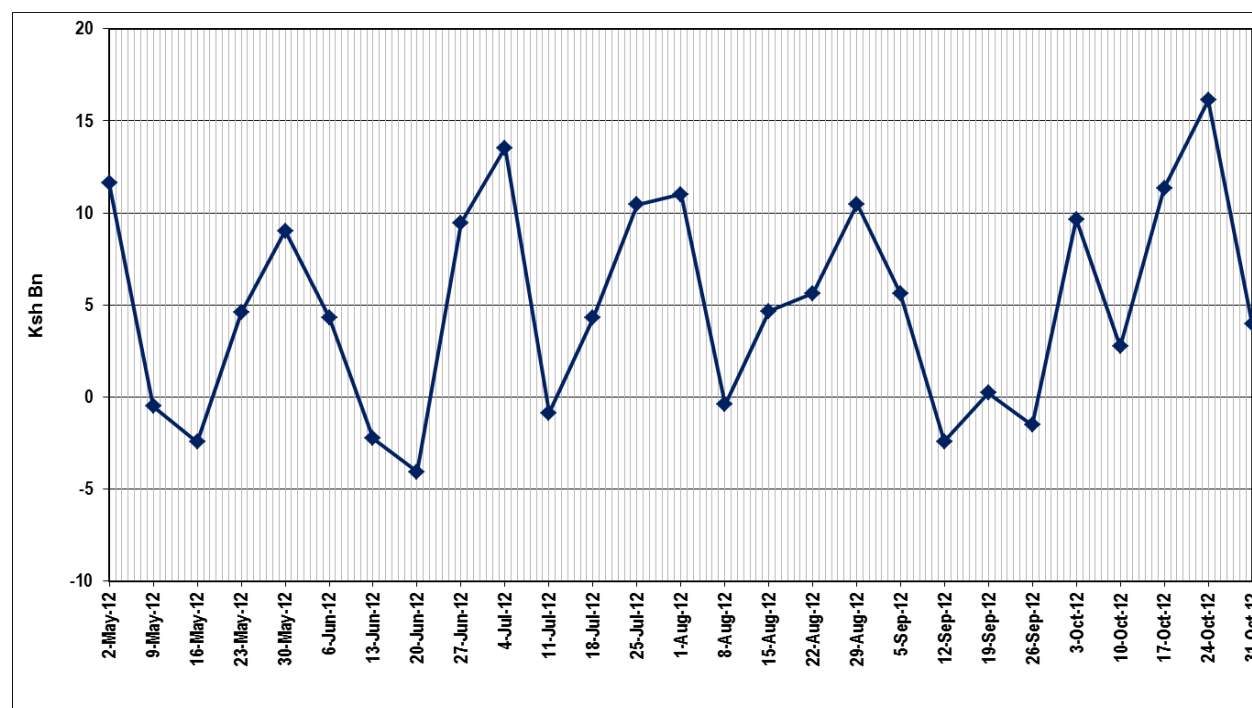


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 3.96 billion in their settlement accounts in relation to the monthly average cash reserve requirements of 5.25 percent at the Central Bank in the week to October 31, 2012 compared with Ksh 16.12 billion excess cash reserves in the previous week (Chart C).

CHART C: WEEKLY AVERAGE DEVIATION FROM CRR IN THE CLEARING ACCOUNT



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling exchange rate was relatively stable against major international currencies in the week ending November 1, 2012. During the week, the Kenya Shilling traded at an average of Ksh 85.18 per USD, Ksh 110.20 per Euro and Ksh 106.73 per 100 Japanese Yen compared to an average of Ksh 85.19 per USD, Ksh 111.02 per Euro and Ksh 106.92 per 100 Japanese Yen in the week ending October 25, 2012. Against the Sterling Pound, the Kenya Shilling weakened by 0.38 percent to trade at an average of Ksh 137.02 per Sterling Pound compared to Ksh 136.51 per Sterling Pound in the previous week.

In the EAC region, the Kenya Shilling depicted mixed performance against the East African Currencies. The Kenya Shilling strengthened against the Uganda Shilling, the Tanzania Shilling and the Burundi Franc but weakened against the Rwanda Franc. On average the Kenya Shilling traded at Ush 30.38, Tsh 18.63, RWF 7.26 and BIF 17.37 during the week compared to an average of Ush 30.34, Tsh 18.55, RWF 7.30 and BIF 17.20 in the week ending October 25, 2012 (Table 3).

CBK WEEKLY BULLETIN

TABLE 3: KENYA SHILLING EXCHANGE RATES

	US dollar	British Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
19-Oct-12	85.17	136.78	111.32	107.36	30.35	18.56	7.23	17.20
22-Oct-12	85.18	136.64	111.25	107.17	30.29	18.57	7.33	17.20
23-Oct-12	85.23	136.50	111.29	106.70	30.31	18.53	7.32	17.19
24-Oct-12	85.22	135.93	110.65	106.92	30.33	18.48	7.32	17.19
25-Oct-12	85.15	136.68	110.61	106.44	30.43	18.61	7.33	17.21
19 Oct - 25 Oct 2012	85.19	136.51	111.02	106.92	30.34	18.55	7.30	17.20
26-Oct-12	85.13	137.10	110.11	106.31	30.42	18.62	7.27	17.38
29-Oct-12	85.17	136.97	110.09	106.90	30.39	18.62	7.27	17.38
30-Oct-12	85.17	136.65	109.94	106.89	30.41	18.63	7.26	17.40
31-Oct-12	85.18	136.95	110.37	107.00	30.41	18.63	7.26	17.32
1-Nov-12	85.24	137.45	110.48	106.57	30.27	18.64	7.25	17.36
26 Oct - 1 Nov 2012	85.18	137.02	110.20	106.73	30.38	18.63	7.26	17.37

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 5,175 million (equivalent to 4.06 months of import cover) as at October 25, 2012 to US dollar 5,147 million (equivalent to 4.04 months of import cover) in the week ending November 1, 2012 (Table 4). The reserves cover is within the statutory minimum of 4 months.

TABLE 4: OFFICIAL FOREIGN RESERVES US\$ MILLION (USABLE)

	6-Sep-12	13-Sep-12	20-Sep-12	27-Sep-12	4-Oct-12	11-Oct-12	18-Oct-12	25-Oct-12	1-Nov-12
Usable Reserves*	5,147	5,193	5,190	5,163	5,159	5,137	5,141	5,175	5,147
Months of Imports Cover**	4.16	4.13	4.13	4.11	4.05	4.03	4.04	4.06	4.04

*Excludes encumbered reserves

**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 and Ksh 3.0 billion in 182-day Treasury bills during the week ending November 2, 2012. The 91-day paper attracted bids worth Ksh 8.4 billion (209.4 performance rate), of which Ksh 4.4 billion was accepted. Similarly, the 182-day paper attracted bids amounting to Ksh 6.1

CBK WEEKLY BULLETIN

billion, representing a performance rate of 202.4 percent, of which Ksh 4.7 billion was accepted. Total non-competitive bids amounted to Ksh 0.7 billion.

Interest Rate on the Treasury Bills and Bonds

Weighted average interest rates for the 91-day and 182-day Treasury bills increased by 29.2 and 9.3 basis points, respectively, to stand at 10.237 percent and 10.854 percent during the week ending November 2, 2012.

TABLE 5: GOVERNMENT SECURITIES INTEREST RATES

Auction date	7-Sep-12	28-Sep-12	5-Oct-12	12-Oct-12	19-Oct-12	26-Oct-12	2-Nov-12
91 day T. Bills*	7.808	8.093	8.439	8.962	9.437	9.945	10.237
182 day T. Bills*	9.351	9.888	10.194	10.307	10.484	10.761	10.854
364 day T. Bills*			10.570				
2 year FXD T. Bonds						12.496	

*Weighted rates for accepted

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 60.1 billion to Ksh 919.0 billion on October 26, 2012 from Ksh 858.8 billion at the end of June 2012. This followed increases of Ksh 24.5 billion, Ksh 16.9 billion and Ksh 18.1 billion in the stocks of Treasury bills, Treasury bonds and Government overdraft at the Central Bank, respectively. Other domestic debt increased by Ksh 0.6 billion during the period.

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

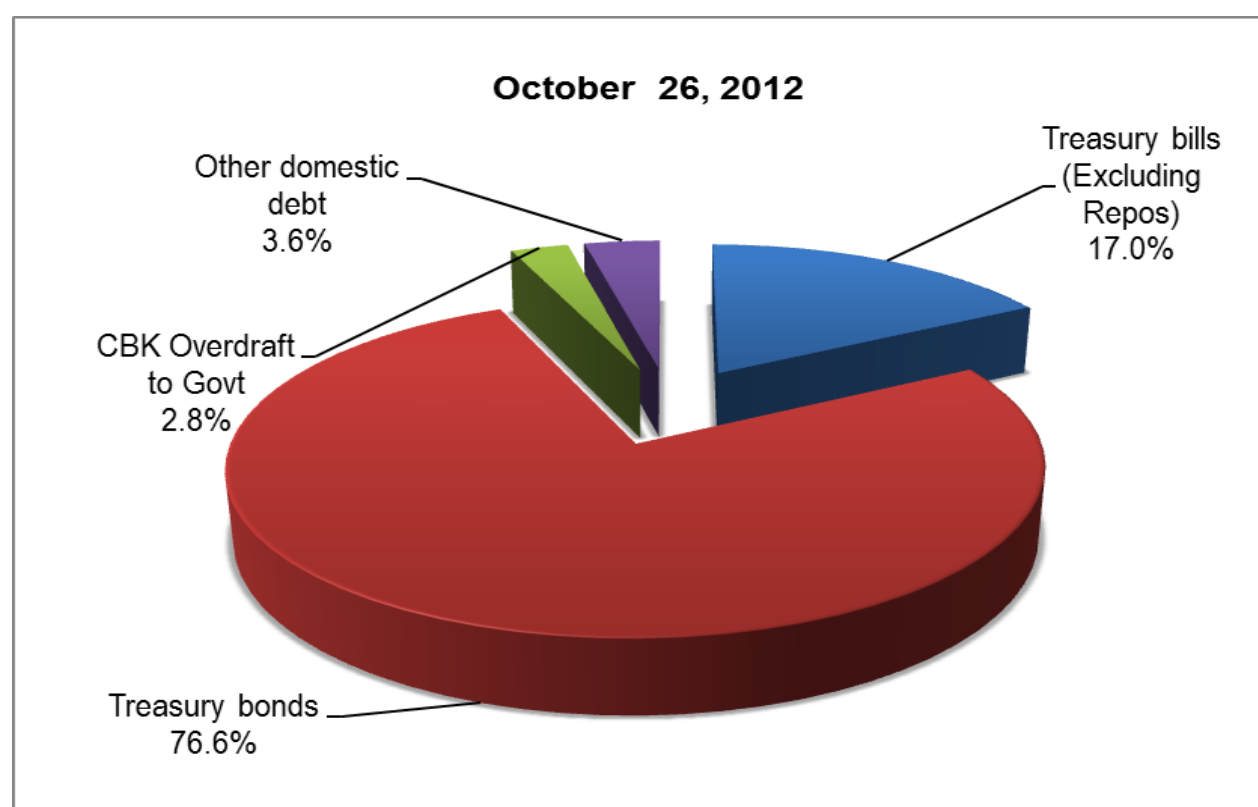
	Jun 2011	Jun 2012	Sep 2012	19th Oct 2012	26th Oct 2012	Changes	
						19th Oct 2012 - 26th Oct 2012	29th Jun 2012 - 26th Oct 2012
1. Treasury Bills (Excluding Repos)	126.7	132.0	159.7	157.1	156.5	-0.6	24.5
(As % of total securities)	17.5	16.1	18.5	18.3	18.2		
2. Treasury Bonds	595.7	687.0	703.9	703.9	703.9	0.0	16.9
(As % of total securities)	82.5	83.9	81.5	81.7	81.8		
3. Total Securities (1+2)	722.4	819.0	863.6	861.0	860.4	-0.6	41.4
4. Overdraft at Central Bank	7.6	7.3	25.4	25.4	25.4	0.0	18.1
5. Other Domestic debt*	34.3	32.6	33.2	33.4	33.2	-0.2	0.6
6. Gross Domestic Debt (3+4+5)	764.2	858.8	922.2	919.8	919.0	-0.8	60.1
7. Interest payments on domestic debt	69.2	82.3	25.2	29.4	33.9	4.5	

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

Source: Central Bank of Kenya

In the week ending October 26, 2012, gross government domestic debt declined by Ksh 0.8 billion, on account of net redemptions in the stocks of Treasury bills and other domestic debt (Table 6). The average time to maturity of Government securities declined to 5 years and 1 month during the week ending October 26, 2012, from 5 years and 4 months at the end of June 2012.

CHART D: COMPOSITION OF GOVERNMENT SECURITIES

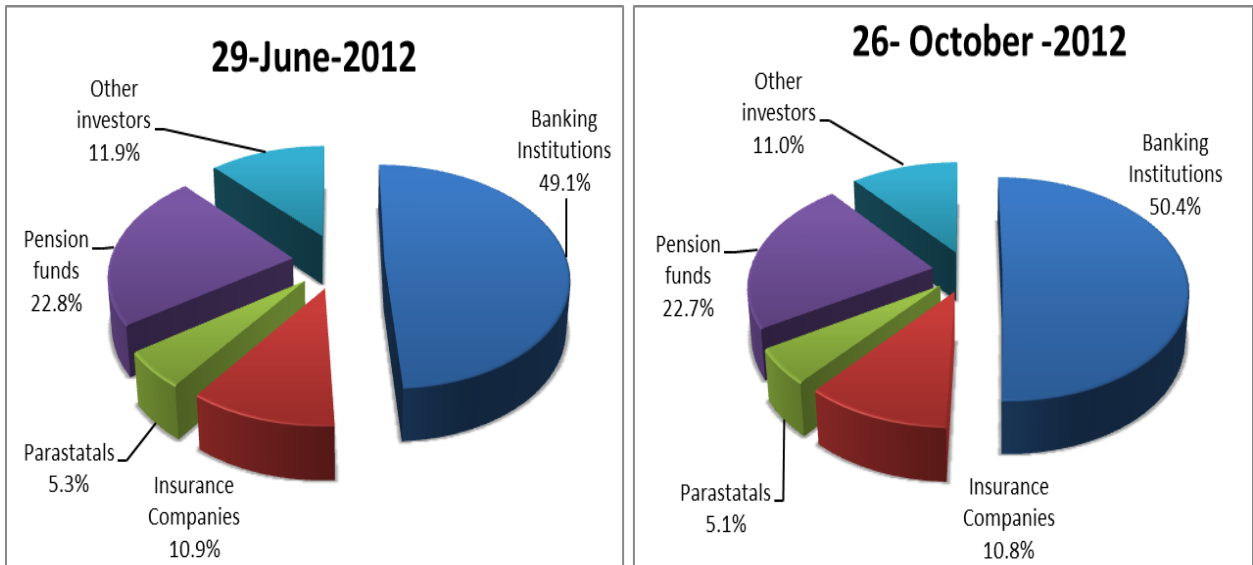


Source: Central Bank of Kenya

Holding of Government Securities

Government securities accounted for over 90 percent of gross domestic debt on October 26, 2012 (Chart D). Commercial bank holdings of Government securities increased from 49.1 percent at the end of June 2012 to 50.4 percent on October 26, 2012. Percentage holdings of insurance companies, parastatals and pension funds declined from 10.9 percent, 5.3 percent and 22.8 percent to 10.8 percent, 5.1 percent and 22.7 percent, respectively, during the same period. Holdings by other investors, comprising Sacco's, listed and private companies, self-help groups, educational institutions, religious institutions and individuals, similarly declined from 11.9 percent to 11.0 percent, during the week ending October 26, 2012 (Chart E).

CHART E: COMPOSITION OF GOVERNMENT SECURITIES BY INVESTORS

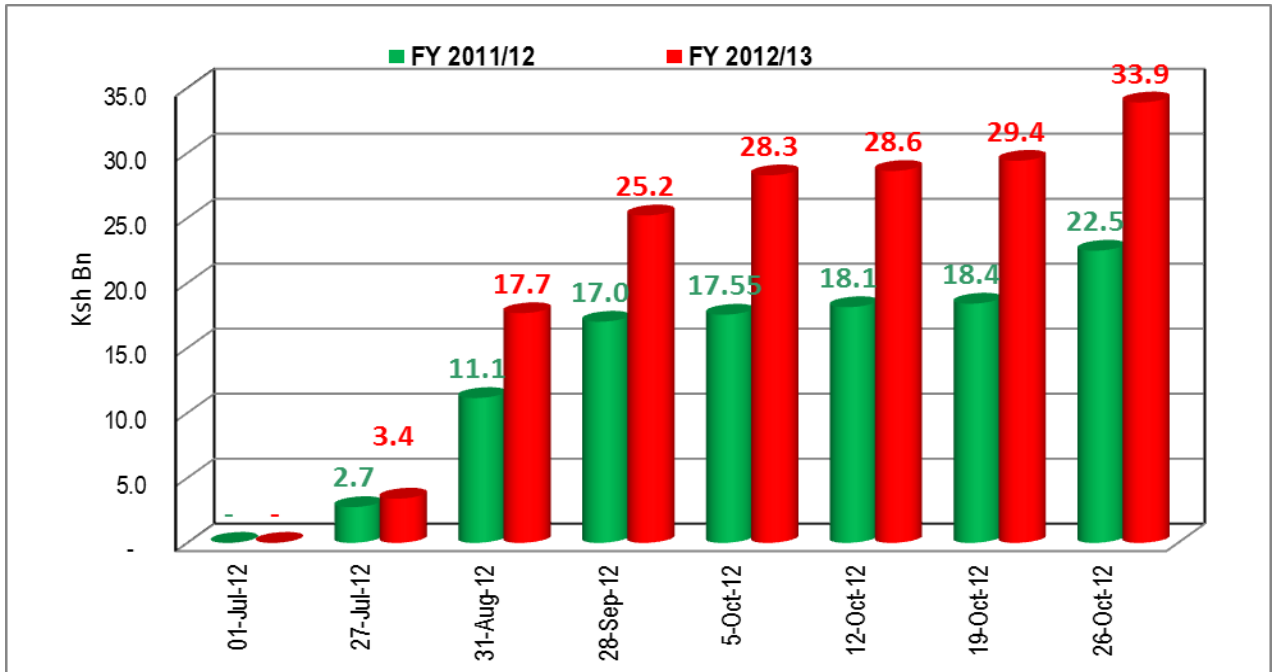


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to October 26, 2012 in the 2012/13 fiscal year amounted to Ksh 33.9 billion compared with Ksh 22.5 billion during a similar period of the previous fiscal year (Chart F). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 8.2 billion and Ksh 24.2 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 0.7 billion and Ksh 0.8 billion, respectively.

CHART F: CUMULATIVE INTEREST PAYMENTS ON DOMESTIC DEBT (KSH BILLION)



Source: Central Bank of Kenya

Capital Markets Report

The capital markets performance was generally robust in the week ending November 1, 2012 with key market indicators gaining except for all the FTSE Kenya Index Series. Market capitalization gained 72 basis points, while the bonds market turnover was up by Ksh 2.8 billion.

Equities Market

The NSE 20 Share Index rose to record 4,133.28 points on November 1, 2012 from 4,119.50 points on October 25, 2012 (Table 7). NASI rose to 91.28 points from 90.62 points for the week under review. Market Capitalization that measures shareholders’ wealth gained Ksh 8.7 billion or 0.72 percent to reach Ksh 1,211.89 billion and equity turnover was 16 percent higher, at Ksh 3,052.73 million from Ksh 2,631.55 million in the previous week. The equities transacted rose to 114.52 million shares from 100.77 million shares in the previous week.

CBK WEEKLY BULLETIN

TABLE 7: KEY WEEKLY MARKET STATISTICS

Week Ending	6-Sep-12	13-Sep-12	20-Sep-12	4-Oct-12	11-Oct-12	18-Oct-12	25-Oct-12	1-Nov-12
NASI 100= Jan 2008	85.35	87.22	86.37	87.08	87.85	88.50	90.62	91.28
NSE 20 Share Index 100=1966	3,888.14	3,953.84	3,934.52	3,961.05	3,997.00	4,023.55	4,119.50	4,133.28
Number of Deals	6,335	7,504	7,732	6,534	6,815	6,510	6,496	7,462
Total Shares Traded (millions)	83.90	158.31	98.82	106.45	94.28	78.42	100.77	114.52
Equity Turnover (Ksh. millions)	1,807.91	3,284.60	1,826.56	3,001.31	1,638.95	1,565.45	2,631.55	3,052.73
Market Capitalization (Ksh. Bn.)	1,126.55	1,153.64	1,142.43	1,151.99	1,162.25	1,175.39	1,203.18	1,211.89
Bonds Turnover (Ksh. millions)	22,828.10	24,833.65	23,099.40	16,506.65	13,856.85	13,558.40	14,861.55	17,671.45
FTSE NSE Kenya 15 Index	113.61	116.07	115.14	116.36	116.77	118.59	122.09	121.66
FTSE NSE Kenya 25 Index	116.17	118.52	117.56	118.99	119.44	121.19	124.63	124.27
Index(Jan2012=100)					96.18	93.85	96.99	96.00

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

Source: Nairobi Securities Exchange

Banking, Telecommunications and Technology, and Energy and Petroleum sectors were the top three most active, transacting 39.99 million shares or 34.9 percent; 31.16 million shares or 27.2 percent and 17.54 million shares or 15.3 percent of all traded shares, respectively. Safaricom Ltd, KCB Ltd and Equity Bank Ltd were the three most active counters with 27.5 million, 14.9 million and 14.6 million shares traded, respectively. Automobile and Accessories sector was least active, trading 109,800 shares. The biggest closing and average price gains for the week were for BAT Ltd at Ksh 10 and Ksh 10.15 per share, respectively. The biggest closing and average price losses were for Diamond Trust and TPES Ltd at Ksh 1 and Ksh 0.54 per share, respectively. Of the 48 active counters, 21 had average fall in the week under review.

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, was down 0.43 points to close at 121.66 points from 122.09 points. Similarly, FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the Exchange declined by 0.36 points, closing at 124.27 points from 124.63 points in the previous week. The FTSE NSE Kenyan Shilling Government Bond Index, which measures the performance of Kenya's domestic debt market, shed 0.99 points to close November 1, 2012 at 95.995 points from 96.987 points for the week ended October 25, 2012, signaling rising yields on the securities.

The Bond Market

Bond trading activity rose to Ksh 17,671.5 million in turnover for the week ending November 1, 2012 from Ksh 14,861.6 million in the previous week. Corresponding deals increased to 202 from 134 the previous week.