

CBK WEEKLY BULLETIN

October 5, 2012

Highlights

Overall 12-month inflation declined from 6 percent in August 2012 to 5.3 percent in September 2012. Inflation has maintained a downward trend since January 2012 largely on account of improved food supply and the lagged effect of tight monetary policy.

The money market was relatively liquid during the week ending October 3, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 28.3 billion through repo securities and Ksh 11.6 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 14.9 billion and Ksh 10.5 billion, respectively.

The average interbank rate increased to 8.67 percent during the week ending October 3, 2012 compared with 7.19 percent in the previous week.

The Kenya Shilling exchange rate was relatively stable against major international currencies in the week ending October 4, 2012. Against the US dollar the Kenya Shilling depreciated marginally to trade at Ksh 85.13 per USD compared with Ksh 84.94 per USD in the week ending September 27, 2012.

The usable official foreign exchange reserves held by Central Bank decreased from US dollar 5,163 million (equivalent to 4.11 months of import cover) as at September 27, 2012 to US dollar 5,159 million (equivalent to 4.11 months of import cover) in the week ending October 4, 2012.

The Government offered for sale Treasury bills worth Ksh 14.0 billion during the week ending October 5, 2012. A total of Ksh 5.5 billion was accepted out of Ksh 10.0 billion bids received.

Gross Government domestic debt increased by Ksh 57.0 billion to Ksh 922.2 billion on September 28, 2012 from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 6.3 billion on account of Treasury bonds.

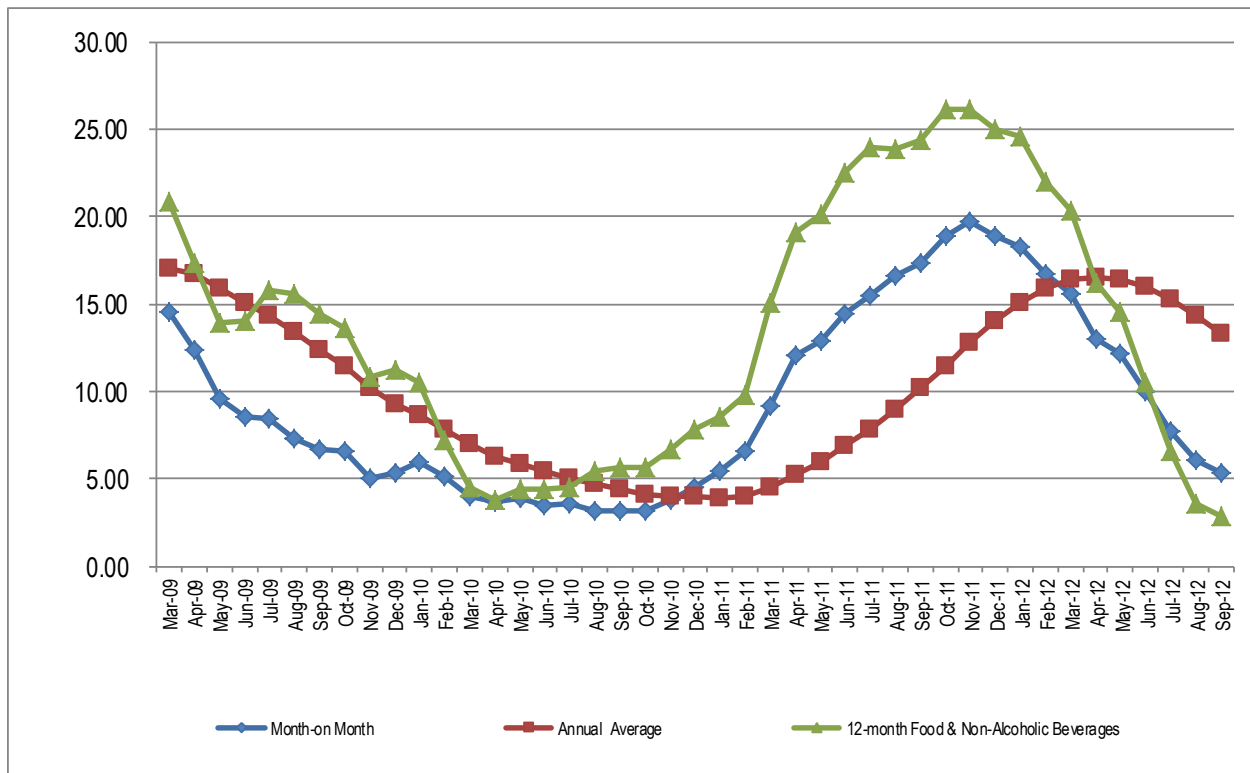
Stock market recorded a strong performance in the week ending October 4 2012, with gains in all market indicators except for the NSE 20 Share Index. The bonds market showed resilience with turnover going up by 0.6 percent.

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Inflation

Overall 12-month inflation declined from 6 percent in August 2012 to 5.3 percent in September 2012 (Chart A). Inflation has maintained a downward trend since January 2012 largely on account of improved food supply and the lagged effect of tight monetary policy.

Chart A: Month-on-month Annual Average and 12-Month Food & Non-alcoholic beverages Inflation Rates



Monetary Policy Operations

The money market was relatively liquid during the week ending October 3, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 28.3 billion through repo securities and Ksh 11.6 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 14.9 billion and Ksh 10.5 billion, respectively. Reserve money averaged Ksh 258.1 billion during the week and was Ksh 0.4 billion below the target (Table 1).

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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)
27-Sep-12	261.5	257.4	4.1	10.0	8.8	0.2	-1.0	251.6	-5.7	2.4	-8.2
28-Sep-12	262.3	257.4	5.0	12.0	5.9	0.6	0.0	261.2	3.8	12.2	-8.3
01-Oct-12	269.9	259.2	10.7	12.0	5.4	1.4	0.0	264.4	5.2	14.5	-9.3
02-Oct-12	266.3	259.2	7.1	7.0	5.3	2.8	1.1	258.3	-0.9	7.0	-7.9
03-Oct-12	265.8	259.2	6.6	8.0	3.0	6.7	1.6	255.1	-4.1	3.1	-7.2
Average	265.2	258.5	6.7	9.8	5.7	2.3	0.3	258.1	-0.4	7.8	-8.2

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate increased to 8.67 percent during the week ending October 3, 2012 compared with 7.19 percent in the previous week. The average interbank volumes transacted declined to Ksh 7.8 billion from Ksh 11.4 billion transacted in the previous week while the average number of deals was 46 compared with 61 deals in the previous week (Table 2 and Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

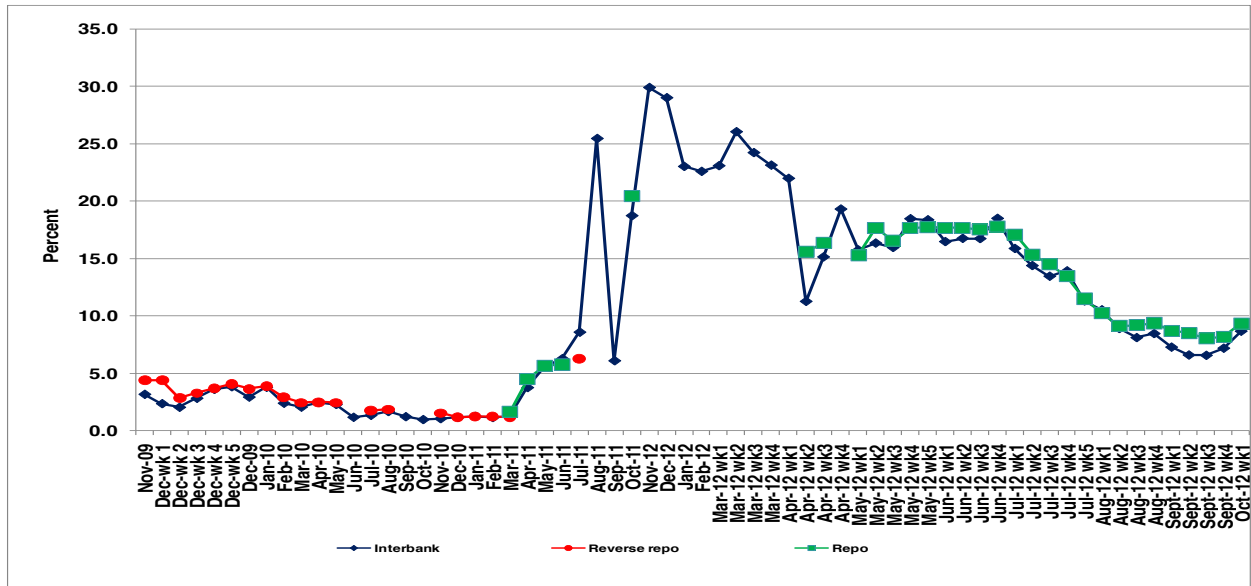
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
20-Sep-12	66	12,012	6.81
21-Sep-12	69	13,358	6.97
24-Sep-12	61	11,864	7.06
25-Sep-12	59	8,033	7.33
26-Sep-12	52	11,622	7.78
September 20-September 26, 2012	61	11,378	7.19
27-Sep-12	48	11,320	8.31
28-Sep-12	49	9,611	8.47
01-Oct-12	35	5,330	8.73
02-Oct-12	47	5,748	8.91
03-Oct-12	50	7,155	8.94
September 27-October 3, 2012	46	7,833	8.67

Source: Central Bank of Kenya

The average repo rate increased to 9.34 percent during the week ending October 3, 2012 from 8.17 percent in the previous week (Chart B).

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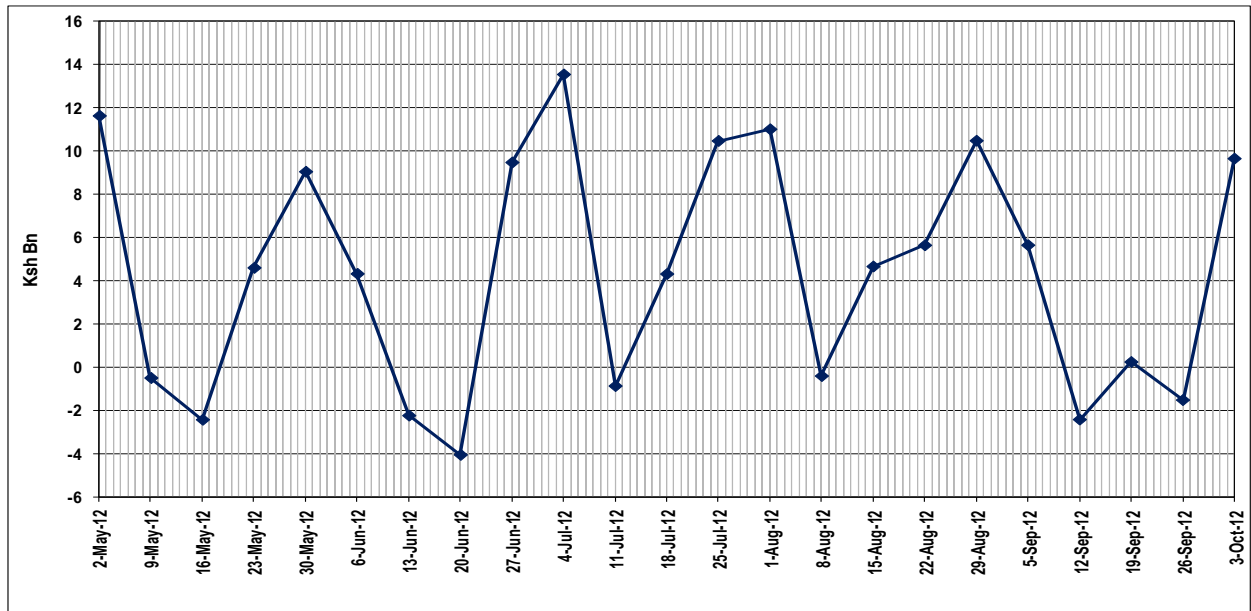
Chart B: Short Term Interest Rates



Commercial Banks Clearing Account Balances

Commercial banks held Ksh 9.64 billion in excess reserves, in relation to the reserves defined by the 5.25 percent monthly average cash reserve requirement in the week to October 3, 2012 compared with a deficit of Ksh 1.53 billion cash reserves in the previous week (Chart C).

Chart C: Weekly Average Deviation from CRR in the Clearing Account



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The Shilling Exchange Rate

The Kenya Shilling exchange rate was relatively stable against major international currencies in the week ending October 4, 2012. During the week, the Kenya Shilling depreciated marginally against the USD to trade at Ksh 85.13 per USD compared to Ksh 84.94 per USD in the week ending September 27, 2012. Against the Sterling Pound, the Kenya Shilling appreciated by 0.16 percent to trade at an average of Ksh 137.52 per Sterling Pound compared with Ksh 137.73 per Sterling Pound in the previous week. Against the Euro and the Japanese Yen, the Shilling remained stable and traded at the same level as the previous week. On average the Kenya Shilling traded at Ksh 109.79 per Euro and Ksh 109.05 per 100 Japanese Yen.

In the EAC region, the Kenya Shilling depicted mixed performance against the East African Currencies. The Kenya Shilling strengthened against the Uganda Shilling and Rwanda Franc and weakened against the Tanzania Shilling and the Burundi Franc. On average the Kenya Shilling traded at Ush 29.99, Tsh 18.51, RWF 7.29 and BIF 17.25 during the week compared with Ush 29.76, Tsh 18.56, RWF 7.13 and BIF 17.30 in the week ending September 27, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
21-Sep-12	84.83	137.94	110.24	108.53	29.77	18.59	7.14	17.21
24-Sep-12	84.87	137.65	109.90	108.77	29.75	18.59	7.14	17.30
25-Sep-12	84.84	137.74	109.63	109.10	29.76	18.59	7.14	17.28
26-Sep-12	85.01	137.43	109.42	109.31	29.76	18.54	7.13	17.37
27-Sep-12	85.18	137.91	109.79	109.56	29.76	18.51	7.11	17.34
21 - 27 Sept 2012	84.94	137.73	109.79	109.05	29.76	18.56	7.13	17.30
28-Sep-12	85.28	138.57	110.15	109.98	29.75	18.48	7.28	17.24
1-Oct-12	85.28	137.58	109.41	109.52	29.87	18.48	7.28	17.18
2-Oct-12	85.18	137.67	110.00	109.08	30.06	18.50	7.28	17.14
3-Oct-12	84.97	137.05	109.66	108.67	30.19	18.54	7.30	17.35
4-Oct-12	84.93	136.72	109.75	108.03	30.09	18.57	7.31	17.35
28 Sept - 4 Oct 2012	85.13	137.52	109.79	109.05	29.99	18.51	7.29	17.25

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank decreased from US dollar 5,163 million (equivalent to 4.11 months of import cover) as at September 27, 2012 to US dollar 5,159 million (equivalent to 4.11 months of import cover) in the week ending October 4, 2012 (Table 4).

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Table 4: Official Foreign reserves US\$ Million (Usable)

	9-Aug-12	16-Aug-12	23-Aug-12	30-Aug-12	6-Sep-12	13-Sep-12	20-Sep-12	27-Sep-12	4-Oct-12
Usable Reserves*	4,968	5,080	5,104	5,121	5,147	5,193	5,190	5,163	5,159
Months of Imports Cover**	4.06	4.15	4.12	4.14	4.16	4.13	4.13	4.11	4.11

*Excludes encumbered reserves

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

Source: Central Bank of Kenya

Government Securities Auction

During the week ending October 5, 2012, the Government offered for sale Ksh 4.0 billion in 91 day Treasury bills, Ksh 4.0 billion in 182 day Treasury bills and Ksh 6.0 billion in 364 day Treasury bills. The 91 day Treasury bill attracted bids worth Ksh 2.5 billion (62.98 percent performance rate), of which Ksh 2.0 billion was accepted. The 182 day and 364 day Treasury bills performance rates were 91.26 percent and 63.26 percent, respectively, collectively attracting bids worth Ksh 7.4 billion. Bids worth Ksh 2.4 billion and Ksh 1.0 billion were accepted in the 182 day Treasury bills and 364 day Treasury bills, respectively. The non-competitive bids amounted to Ksh 0.6 billion.

Interest Rates on Government securities

Weighted average interest rates on the 91 day, 182 day and 364 day Treasury bills increased by 34.6, 30.6 and 23.4 basis points, respectively, to 8.439 percent, 10.194 percent and 10.570 percent, during the week under review.

Table 5: Government Securities Interest rates

Auction date	29-Jun-12	27-Jul-12	31-Aug-12	14-Sep-12	21-Sep-12	28-Sep-12	05-Oct-12
91 day T. Bills*	10.780	13.226	8.119	7.515	7.647	8.093	8.439
182 day T. Bills*	11.091	13.379	9.848	8.993	9.265	9.888	10.194
364 day T. Bills*			10.336				10.570
2 year FXD T. Bonds							
5 year FXD T. Bonds		13.548					
10year FXD T. Bonds		13.630					
15year FXD T. Bonds					12.089		

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Government Domestic Debt

Gross Government domestic debt increased by Ksh 63.4 billion to Ksh 922.2 billion on September 28, 2012, from Ksh 858.8 billion at the end of June 2012. This followed increases of: Ksh 27.7 billion in the stocks of Treasury bills, Ksh 16.9 billion in treasury bonds, Ksh 18.1 billion in overdraft at Central Bank and Ksh 0.6 billion in other domestic debts.

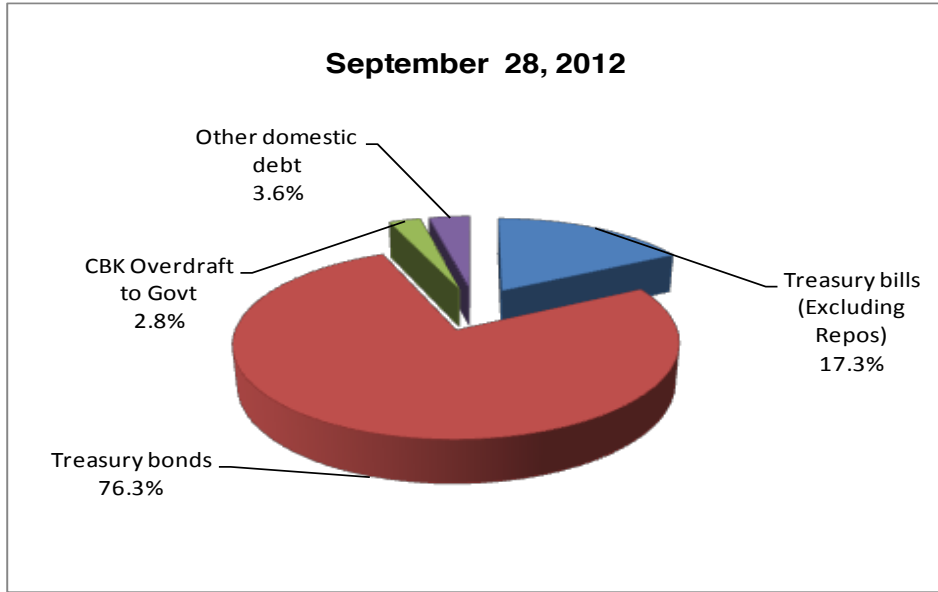
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-11	Jun 2012	14th Sept 2012	21st Sept 2012	28th Sept 2012	Changes	
						21st Sept 2012- 28th Sept 2012	29th Jun 2012 - 28th Sept 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	158.0 18.3	161.3 18.8	159.7 18.5	-1.5	27.7
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	704.6 81.7	695.5 81.2	703.9 81.5	8.3	16.9
3. Total Securities (1+2)	722.4	819.0	862.6	856.8	863.6	6.8	44.6
4. Overdraft at Central Bank	7.6	7.3	25.3	25.4	25.4	0.0	18.1
5. Other Domestic debt*	34.3	32.6	33.3	33.7	33.2	-0.5	0.6
6. Gross Domestic Debt (3+4+5)	764.2	858.8	921.2	915.8	922.2	6.3	63.4
7. Interest payments on domestic debt	69.2	82.3	19.3	21.5	25.2	3.7	

During the week under review, gross government domestic debt increased by Ksh 6.3 billion on account of Treasury bonds, which increased by Ksh 8.3 billion but was partially offset by a decrease in the stock of Treasury bills and other domestic debt (Table 6 and Chart D). The average time to maturity of Government securities declined to 5 years and 2 months during the week ending September 28, 2012, from 5 years and 4 months at the end of June 2012.

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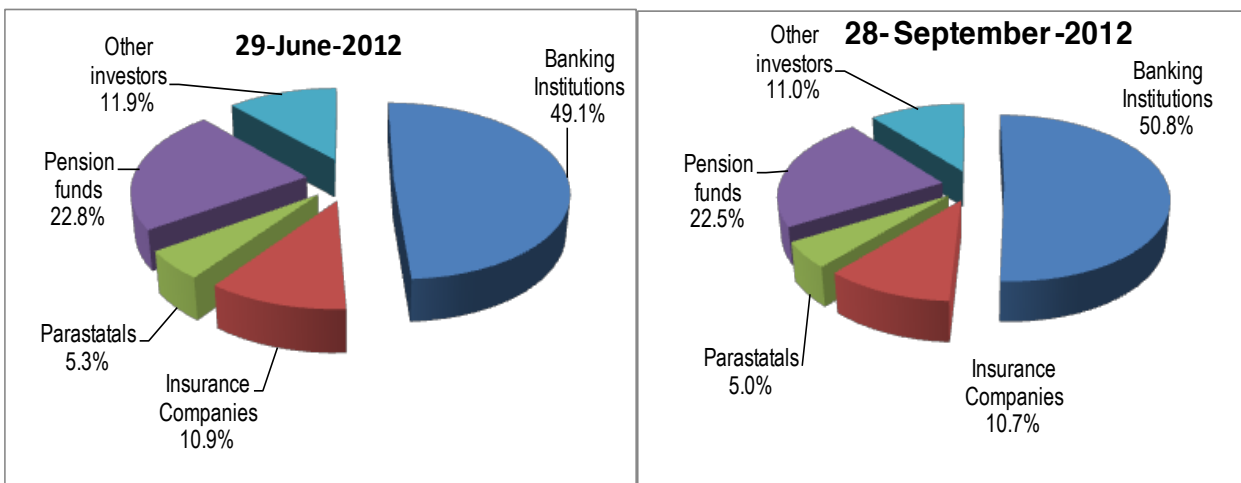
Chart D: Composition of Government Securities



Holding of Government Securities

Commercial bank holdings of Government securities increased from 49.1 percent at the end of June 2012 to 50.8 percent on September 28, 2012. Percentage holdings of insurance companies, parastatals and pension funds declined from 10.9 percent, 5.3 percent and 22.8 percent to 10.7 percent, 5.0 percent and 22.5 percent, respectively, during the same period. Holdings by other investors, which comprise of 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 September 28, 2012 (Chart E).

Chart E: Composition of Government Securities by Investors

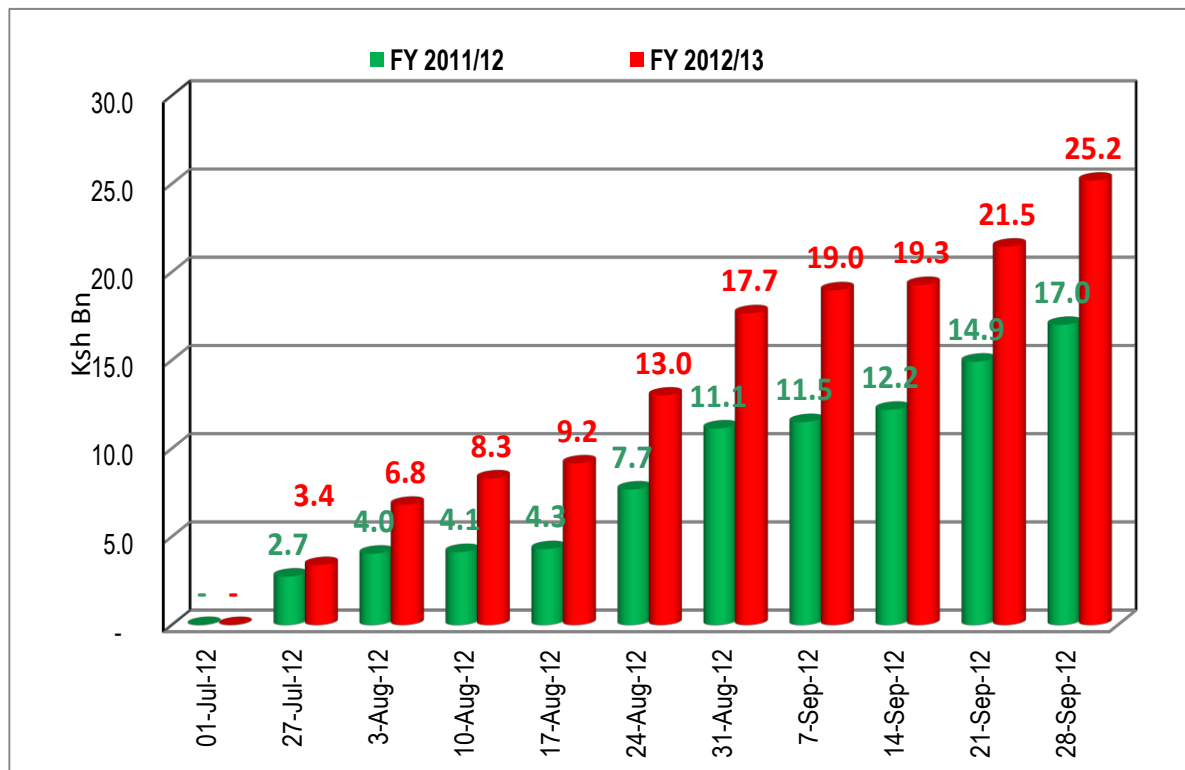


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Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to September 28, 2012 in the 2012/13 fiscal year amounted to Ksh 25.2 billion compared with Ksh 17.0 billion during a similar period of the previous fiscal year (Chart E). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 6.3 billion and Ksh 17.4 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 1.5 billion and Ksh 0.8 billion, respectively.

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



CAPITAL MARKETS REPORT

Capital markets performance was strong in the week ending October 4, 2012 with all market indicators recording gains except the NSE 20 Share Index, which closed 50 basis points lower. Market capitalization remained above the trillion shillings mark gaining 10 basis points. The bonds segment recorded improved activity with turnover edging up 60 basis points.

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Equities Market

As indicated in table 7, NSE 20 Share Index edged down 50 basis points to record 3961.05 points on October 4, 2012 from 3980.53 points on September 27, 2012. NASI was, however, up to 87.08 points from 86.98 points over the same period. Market Capitalization that measures shareholders' wealth gained Ksh 1.36 billion to reach Ksh 1,151.99 billion. Equity turnover improved to Ksh 3,001.31 million from Ksh 2,482.83 million, while supply of shares rose by 5.2 percent to reach 106.45 million from 101.23 million the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	23-Aug-12	30-Aug-12	6-Sep-12	13-Sep-12	20-Sep-12	27-Sep-12	4-Oct-12
NASI 100= Jan 2008	84.01	84.87	85.35	87.22	86.37	86.98	87.08
NSE 20 Share Index 100=1966	3,817.70	3,875.11	3,888.14	3,953.84	3,934.52	3,980.53	3,961.05
Number of Deals	5,162	6,536	6,335	7,504	7,732	6,646	6,534
Total Shares Traded (millions)	51.18	75.75	83.90	158.31	98.82	101.23	106.45
Equity Turnover (Ksh. millions)	1,260.28	1,192.08	1,807.91	3,284.60	1,826.56	2,482.83	3,001.31
Market Capitalization (Ksh. Billions)	1,108.74	1,120.23	1,126.55	1,153.64	1,142.43	1,150.62	1,151.99
Bonds Turnover (Ksh. millions)	17,017.95	29,123.00	22,828.10	24,833.65	23,099.40	16,408.70	16,506.65
FTSE NSE Kenya 15 Index	110.67	112.42	113.61	116.07	115.14	115.24	116.36
FTSE NSE Kenya 25 Index	113.19	114.77	116.17	118.52	117.56	117.70	118.99

Source: Nairobi Securities Exchange

Banking Industry was the most active, transacting 40.24 million shares or 37.8 percent of the traded shares in the week. Telecommunications & Technology and Manufacturing & Allied sectors came in second and third, with 34.09 million and 12.23 million shares or 32.0 percent and 11.5 percent of the traded shares, respectively. Safaricom, Kenya Commercial Bank Ltd and Equity Bank Ltd were the three most active counters with 33.84 million, 24.07 million and 6.85 million shares traded, respectively. Automobile & Accessories sector was least active, trading only 114,000 shares.

The biggest closing and average price gains for the week was for BAT Ltd and East African Breweries Ltd at Ksh 11.0 and Ksh 9.40, respectively. The biggest closing and average price loss was for Nation Media Group Ltd at Ksh 5.0 and Ksh 4.60, respectively. Of the 48 active counters, 27 had average price gains in the week under review.

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FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, was up by 100 basis points to record 116.36 points from 115.24 points, while FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the Exchange, also rose to 118.99 points from 117.70 points during the review period.

The Bond Market

Bond trading activity increased by 60 basis points to a turnover of Ksh 16,507 million for the week ending October 4, 2012 from Ksh 16,409 million the previous week. Corresponding deals were 265 compared with 218 of last week.