



October 26, 2012

Highlights

The money market was relatively liquid during the week ending October 24, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 30.9 billion through repo securities and Ksh 7.5 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 22.5 billion and Ksh 7.3 billion, respectively.

The average interbank rate increased marginally to 9.41 percent during the week ending October 24, 2012 from 9.29 percent in the previous week.

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending October 25, 2012. Against the US dollar the Kenya Shilling depreciated marginally to trade at Ksh 85.19 during the week ending October 25, 2012 compared to Ksh 85.09 in the previous week.

The usable official foreign exchange reserves held by Central Bank increased from US dollar 5,141 million (equivalent to 4.04 months of import cover) during the week ending October 18, 2012 to US dollar 5,175 million (equivalent to 4.06 months of import cover) in the week ending October 25, 2012.

During the week ending October 26, 2012 the Government offered for sale Treasury bills and Treasury bonds worth Ksh 20.0 billion. A total of Ksh 17.0 billion was accepted out of the Ksh 29.4 billion bids received.

Gross Government domestic debt increased by Ksh 60.9 billion to Ksh 919.8 billion on October 19, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt declined by Ksh 2.3 billion on account of Treasury bills.

The capital market rallied strongly in all segments in the week ending October 25, 2012, as reflected in gains for all market indicators. NSE 20 Share Index gained 95.95 points; NASI was up 2.12 points, FTSE NSE 15 Index added 3.50 points and FTSE NSE 25, rose by 3.44 points. Market Capitalization created additional Ksh 27.789 billion with supply of shares rising 28.5 percent reflecting increased demand and supply. The equities turnover was up 68.1 percent. The bonds market turnover rose 9.6 percent, but corresponding deals was 78 deals lower. The FTSE NSE Kenyan Shilling Government Bond Index rose by 3.138 points.

Monetary Policy Operations

The money market was relatively liquid during the week ending October 24, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 30.9 billion through repo securities and Ksh 7.5 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 22.5 billion and Ksh 7.3 billion, respectively. Reserve money averaged Ksh 268.2 billion during the week and was Ksh 8.3 billion above the target (Table 1).

Table1: Open Market Operations (Ksh billion)

Date	Reserve Money* (Projected)			OMO			Reserve money performance		Bank Reserve s	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)
18-Oct-12	281.9	259.5	22.4	10.0	6.1	0.0	-4.0	275.1	15.6	21.1	-5.5
19-Oct-12	265.2	259.5	5.7	5.5	5.3	0.0	-0.2	262.6	3.1	9.3	-6.2
22-Oct-12	271.3	260.3	11.0	5.0	2.5	4.5	2.0	266.5	6.2	13.1	-6.8
23-Oct-12	276.9	260.3	16.7	8.0	8.0	0.0	0.0	269.2	9.0	15.8	-6.9
24-Oct-12	279.4	260.3	19.1	10.0	9.1	3.0	2.1	267.6	7.4	14.3	-6.9
Average	274.9	260.0	15.0	7.7	6.2	1.5	0.0	268.2	8.3	14.7	-6.5

Source: Central Bank of Kenya

Interbank and REPO Interest Rates

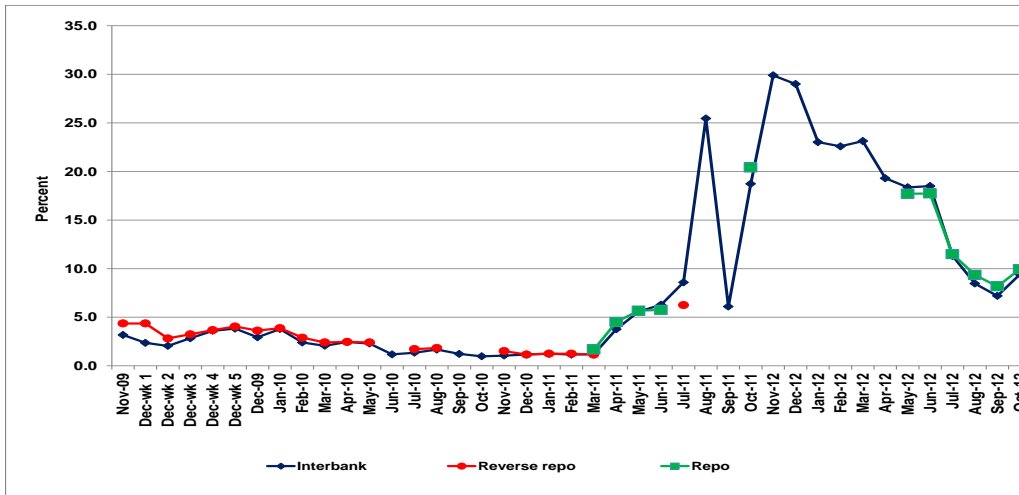
The average interbank rate increased marginally to 9.41 percent during the week ending October 24, 2012 from 9.29 percent in the previous week. The average interbank volumes transacted rose to Ksh 11.7 billion from Ksh 10.0 billion transacted in the previous week while the average number of deals was 50 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 (%)
11-Oct-12	66	8,965	8.96
12-Oct-12	67	10,570	9.14
15-Oct-12	62	12,518	9.27
16-Oct-12	55	9,968	9.45
17-Oct-12	53	8,185	9.62
October 11-October 17, 2012	61	10,041	9.29
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

The average repo rate increased marginally to 9.94 percent during the week ending October 24, 2012 compared with 9.60 percent recorded in the previous week.

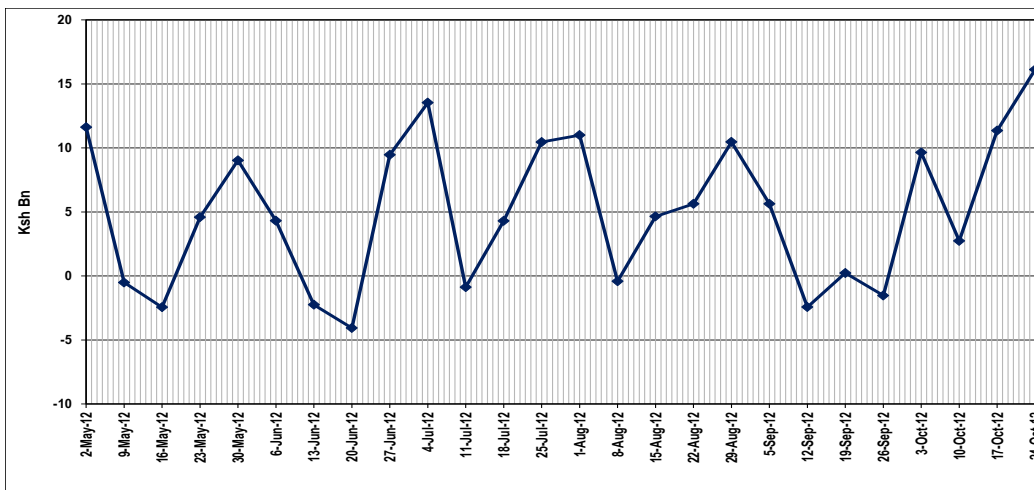
Chart A: The Structure of Interest Rates



Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 16.12 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 24, 2012 compared with Ksh 11.35 billion excess cash reserves in the previous week (Chart B).

Chart B: Weekly Average Deviation from CRR in the Commercial Banks Clearing Accounts



The Shilling Exchange Rate

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending October 25, 2012. The Kenya Shilling depreciated marginally against the US dollar and the Euro and appreciated against the Sterling Pound and the Japanese Yen to trade at an average of Ksh 85.19 per US dollar, Ksh 136.51 per Pound Sterling, Ksh 111.02 per Euro and Ksh 106.92 per 100 Japanese Yen during the week ending October 25, 2012. This is in comparison to the previous week's performance which saw the Kenya Shilling exchange at an average of Ksh 85.09 per US dollar, Ksh 136.81 per Sterling Pound, Ksh 110.63 per Euro and 108.13 per 100 Japanese Yen.

In the EAC region, the Kenya Shilling depicted mixed performance against the East African Currencies, strengthening against the Tanzanian Shilling and the Rwandan Franc and weakening against the Ugandan Shilling and the Burundi Franc. On average, the Shilling traded at Ush 30.34, Tsh 18.55, RWF 7.30 and BIF 17.20 during the week ending October 25, 2012 compared to Ush 30.39, Tsh 18.52, RWF 7.23 and BIF 17.39 during the week ending October 18, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	erling Pou	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
5-Oct-12	84.91	137.47	110.50	108.31	30.09	18.57	7.31	17.35
8-Oct-12	84.92	136.78	110.28	108.04	30.27	18.54	7.25	17.43
9-Oct-12	85.10	136.52	110.51	108.54	30.20	18.50	7.23	17.30
10-Oct-12	85.10	136.17	109.48	108.81	30.26	18.63	7.23	17.22
11-Oct-12	85.12	136.33	109.59	109.00	30.49	18.49	7.23	17.19
5 Oct - 11 Oct 2012	85.03	136.65	110.07	108.54	30.26	18.54	7.25	17.30
12-Oct-12	85.13	136.46	110.07	108.69	30.48	18.50	7.23	17.38
15-Oct-12	85.14	136.54	109.91	108.33	30.44	18.50	7.23	17.21
16-Oct-12	85.13	136.76	110.40	108.04	30.36	18.53	7.23	17.46
17-Oct-12	85.03	137.14	111.36	108.08	30.35	18.53	7.24	17.43
18-Oct-12	85.04	137.15	111.42	107.53	30.31	18.54	7.24	17.50
12 Oct - 18 Oct 2012	85.09	136.81	110.63	108.13	30.39	18.52	7.23	17.39

Source Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank increased from US dollar 5,141 million (equivalent to 4.04 months of import cover) in the week ending October 18, 2012 to US dollar 5,175 million (equivalent to 4.06 months of import cover) in the week ending October 25, 2012 (Table 4).

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
Usable Reserves*	5,147	5,193	5,190	5,163	5,159	5,137	5,141	5,175
Months of Imports Cover**	4.16	4.13	4.13	4.11	4.05	4.03	4.04	4.06

*Excludes encumbered reserves

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

Government Securities Auction

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 12.0 billion in 2-year discounted fixed rate Treasury bonds during the week ending October 26, 2012. Demand for Treasury bonds was high during the week as reflected in the Ksh 25.19 billion worth of bids received (209.3 percent performance rate) against the Ksh 12.0 billion offered. The 91-day and 182-day Treasury bills performed at 66.7 percent and 39.9 percent respectively, attracting total bids worth Ksh 4.3 billion. The government accepted Ksh 13.8 billion in the 2—year Treasury bonds, Ksh 2.3 billion in 91-day Treasury bills and Ksh 0.9 billion in 182-day Treasury bills during the week. Total non-competitive bids amounted to Ksh 2.2 billion.

Interest Rates on Government Securities

Weighted average interest rates on the 91-day and 182-day Treasury bills rose further during the week under review by 50.8 basis points and 27.7 basis points, respectively, to stand at 9.945 percent and 10.761 percent. In addition, the average interest rate for the 2-year Treasury bond rose by 138.2 basis points from the last issue dated August 24, 2012 to stand at 12.496 percent.

Table 5: Interest Rates

Auction date	7-Sep-12	14-Sep-12	21-Sep-12	28-Sep-12	5-Oct-12	12-Oct-12	19-Oct-12	26-Oct-12
91 day T. Bills*	7.808	7.515	7.647	8.093	8.439	8.962	9.437	9.945
182 day T. Bills*	9.351	8.993	9.265	9.888	10.194	10.307	10.484	10.761
364 day T. Bills*					10.570			
2 year FXD T. Bonds								12.496
5 year FXD T. Bonds								
10year FXD T. Bonds								
15year FXD T. Bonds			12.089					

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 60.9 billion to Ksh 919.8 billion on October 19, 2012, from Ksh 858.8 billion at the end of June 2012. This followed increases of Ksh 25.1 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 0.8 billion during the period (Table 6).

Table 6: Government Domestic Debt (Ksh Billion)

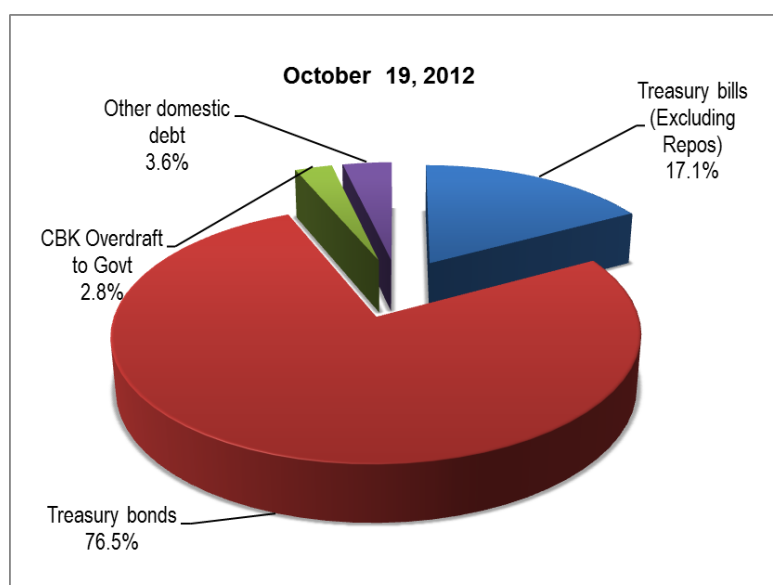
	Jun 2011	Jun 2012	Sep 2012	12th Oct 2012	19th Oct 2012	Changes	
						12th Oct 2012- 19th Oct 2012	29th Jun 2012 - 19th Oct 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	159.7 18.5	159.6 18.5	157.1 18.3	-2.5	25.1
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	703.9 81.5	703.9 81.5	703.9 81.7	0.00	16.9
3. Total Securities (1+2)	722.4	819.0	863.6	863.5	861.0	-2.5	42.0
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	33.2	33.4	0.2	0.8
6. Gross Domestic Debt (3+4+5)	764.2	858.8	922.2	922.1	919.8	-2.3	60.9
7. Interest payments on domestic debt	69.2	82.3	25.2	28.6	29.4	1.1	

* 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 October 12, 2012 to October 19, 2012, gross government domestic debt declined by Ksh 2.3 billion on account of decrease in stocks of Treasury bills that was marginally offset by increase in 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 19, 2012, from 5 years and 4 months at the end of June 2012.

Chart C: Composition of Government Securities

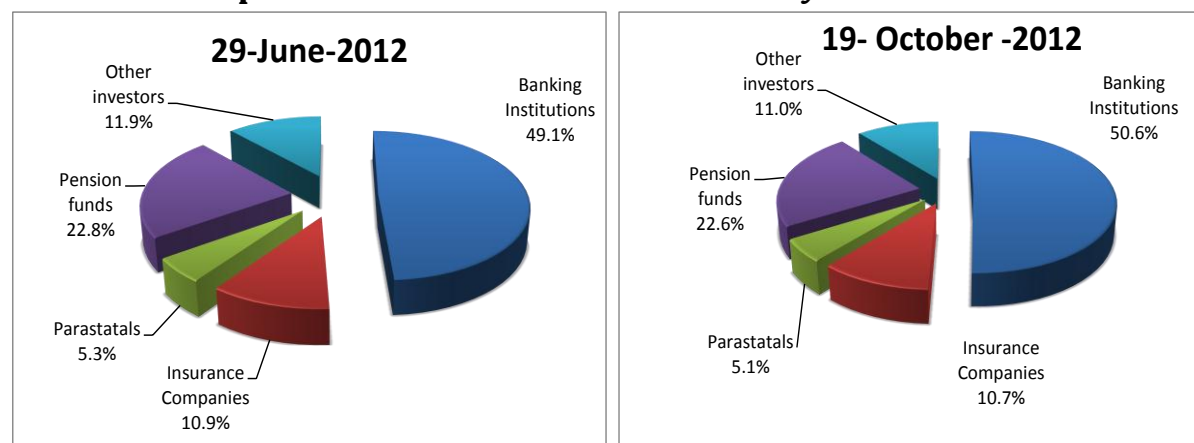


Holding of Government Securities

Government securities accounted for over 90 percent of gross domestic debt on October 19, 2012 (Chart C). Commercial bank holdings of Government securities increased from 49.1

percent at the end of June 2012 to 50.6 percent on October 19, 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, 5.1 percent and 22.6 percent, respectively, during the same period. Holdings by other investors, which comprises Saccos, 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 19, 2012 (Chart D).

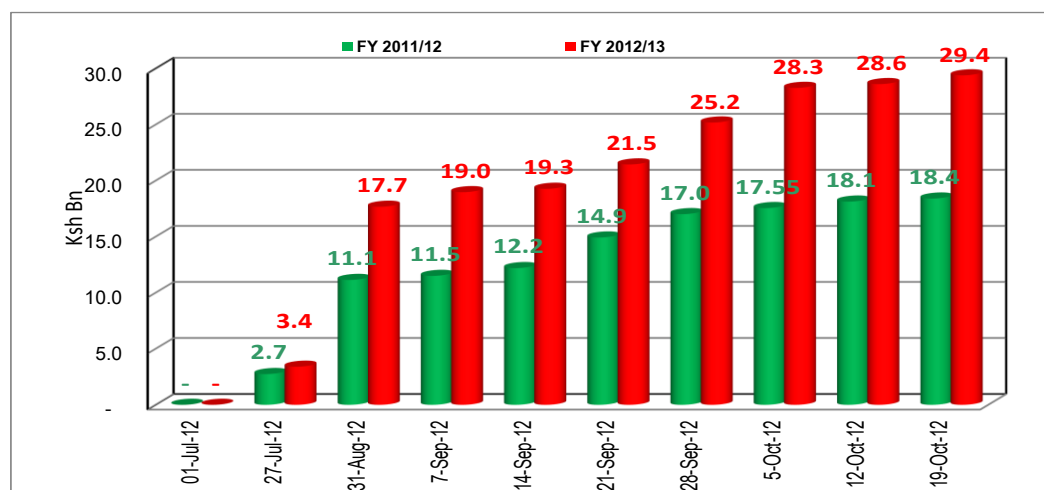
Chart D: Composition of Government Securities by Investors



Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to October 19, 2012 in the 2012/13 fiscal year amounted to Ksh 29.4 billion compared with Ksh 18.4 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 7.63 billion and Ksh 20.23 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 0.74 billion and Ksh 0.8 billion, respectively.

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



The Capital Markets

Capital markets performance was robust in the week ending October 25, 2012 with all key market indicators gaining strongly. Market capitalization crossed the 1.2 trillion shillings mark gaining 38 basis points. The bonds market turnover was up Ksh 1.3 billion, with the Bond index adding 334 basis points.

Equities Market

As indicated in Table 7, NSE 20 Share Index rose to record 4119.50 points on October 25, 2012 from 4023.55 points on October 18, 2012. NASI crossed the 90 points mark to register 90.62 points from 88.50 points in the week under review. Market Capitalization that measures shareholders' wealth gained Ksh 27.8 billion to reach Ksh 1,203.18 billion and equity turnover was Ksh 2,631.55 million from Ksh 1,565.45 million. The supply of equities was up 28.5 percent to transact 100.77 million from 78.42 million shares of the previous week.

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
NASI 100= Jan 2008	85.35	87.22	86.37	87.08	87.85	88.50	90.62
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
Number of Deals	6,335	7,504	7,732	6,534	6,815	6,510	6,496
Total Shares Traded (millions)	83.90	158.31	98.82	106.45	94.28	78.42	100.77
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
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
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
FTSE NSE Kenya 15 Index	113.61	116.07	115.14	116.36	116.77	118.59	122.09
FTSE NSE Kenya 25 Index	116.17	118.52	117.56	118.99	119.44	121.19	124.63
Index(Jan2012=100)					96.18	93.85	

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

Source: Nairobi Securities Exchange

Banking, Manufacturing & Allied, and Telecommunications & Technology sectors were the top three most active, transacting 50.04 million shares or 49.7 percent; 10.98 million shares

or 10.9 percent and 10.78 million shares or 10.7 percent of all traded shares respectively. Equity Bank Ltd, Co-operative Bank and Safaricom Ltd were the three most active counters with 18.9 million, 10.5 million and 9.4 million shares traded, respectively. Automobile & Accessories sector was least active, trading 40,600 shares.

The biggest closing and average price gains for the week were for BAT Ltd and Standard Chartered Bank Ltd at Ksh 8.0 and Ksh 5.80 per share, respectively. The biggest closing and average price losses were for Kapchorua Tea Ltd and Athi River Mining Ltd at Ksh 5.0 and Ksh 3.90 per share, respectively. Of the 48 active counters, 32 had average price gains 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 up 3.5 points to close at 122.09 points from 118.59 points, while FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the Exchange, rose by 3.44 points to reach 124.63 points from 121.19 points in week under review. The FTSE NSE Kenyan Shilling Government Bond Index, which measures the performance of Kenya's sovereign debt market, added 3.138 points to close October 25, 2012 at 96.987 points from 93.849 points for the week ended October 18, 2012.

The Bond Market

Bond trading activity rose to Ksh 14,861.6 million in turnover for the week ending October 25, 2012 from Ksh 13,558 million the previous week. Corresponding deals were 134 down from 212 the previous week.