

CBK WEEKLY BULLETIN

September 7, 2012,

Highlights

Overall 12-month inflation declined from 7.7 percent in July 2012 to 6.09 percent in August 2012, reflecting reductions in the month-on-month 'Food and Non-Alcoholic Beverages', 'Restaurants and Hotels' and 'Transport' indices.

The Monetary Policy Committee lowered the Central Bank Rate (CBR) on September 5, 2012, by 350 basis points to 13.0 percent from 16.5 percent.

The money market was liquid during the week ending September 5, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 29.7 billion through repo securities and Ksh 11.5 billion through term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 23.9 billion and Ksh 4.3 billion, respectively.

The average interbank rate decreased to 7.28 percent during the week ending September 5, 2012 compared with 8.46 percent in the previous week reflecting improved liquidity in the money market.

The Kenya Shilling weakened against major international currencies in the week ending September 6, 2012. Against the US dollar the Kenya Shilling depreciated to exchange at an average of Ksh 84.40 per US dollar compared with Ksh 84.08 per US dollar in the week ending August 30, 2012.

The usable official foreign exchange reserves held by the Central Bank increased marginally from US dollar 5,121 million (equivalent to 4.14 months of import cover) as at August 30, 2012 to US dollar 5,147 million (equivalent to 4.16 months of import cover) in the week ending September 6, 2012.

The Government offered for sale Treasury bills worth Ksh 8.0 billion during the week ending September 7, 2012. A total of Ksh 7.4 billion was accepted out of Ksh 10.1 billion bids received.

Gross Government domestic debt increased by Ksh 25.5 billion to stand at Ksh 884.4 billion on August 31, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 8.8 billion on account of Treasury bills and Government overdraft at the Central Bank.

Stock market maintained its strong performance in the week ending September 6, 2012, with gains in all market indicators except the bonds segment. Equities market was bullish with all share indices rising. The NSE 20 Share Index added 13.03 points; NASI was up 0.48 points, FTSE NSE 15 Index 1.19 points and FTSE NSE 25, 1.40 points. Supply of

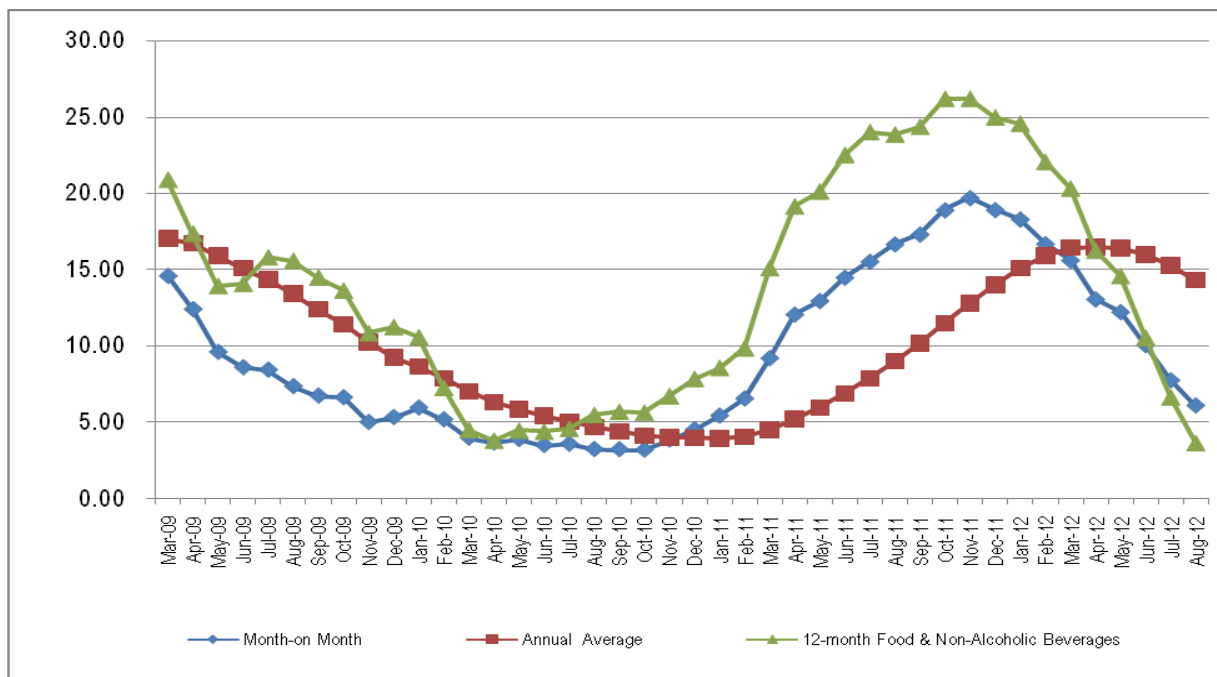
CBK WEEKLY BULLETIN

shares increased by 10.8 percent pushing up equity turnover by 51.7 percent while Market Capitalization was up 0.6 percent. However, the bonds market activity edged down recording a 21.6 percent decline in turnover.

Inflation

Overall 12-month inflation declined from 7.7 percent in July 2012 to 6.1 percent in August 2012 (Chart A). The decline in the overall inflation in August 2012 was reflected largely in the 'Food and Non-Alcoholic Beverages', 'Restaurants and Hotels' and 'Transport' indices, which declined to 3.6 percent, 12.7 percent and 3.4 percent in August 2012 compared with 6.6 percent, 14.7 percent and 5.2 percent, respectively, in July 2012.

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



CBK WEEKLY BULLETIN

Monetary Policy Operations

The money market was liquid during the week ending September 5, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 29.7 billion through repo securities and Ksh 11.5 billion via term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 23.9 billion and Ksh 4.3 billion, respectively. Reserve money averaged Ksh 254.6 billion during the week and was within the target (Table 1).

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)
30-Aug-12	258.7	254.1	4.6	8.4	5.0	0.0	-3.4	254.1	0.0	5.8	-5.8
31-Aug-12	268.9	254.1	14.8	15.0	8.4	6.1	0.0	252.7	-1.4	3.7	-5.1
03-Sep-12	254.1	254.9	-0.8	3.0	1.2	0.0	0.0	253.8	-1.1	4.1	-5.2
04-Sep-12	263.8	254.9	8.9	7.9	5.5	0.0	-2.4	257.5	2.6	6.2	-3.6
05-Sep-12	271.2	254.9	16.2	15.0	9.6	5.4	0.0	255.0	0.0	3.3	-3.2
Average	263.4	254.6	8.8	9.9	5.9	2.3	-1.2	254.6	0.0	4.6	-4.6

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate decreased to 7.28 percent during the week ending September 5, 2012 compared with 8.46 percent in the previous week, reflecting improved liquidity in the money market. The average interbank volumes transacted declined to Ksh 8.2 billion from Ksh 10.6 billion transacted in the previous week while the average number of deals were 52 compared with 63 deals in the previous week (Table 2 and Chart B).

Table 2: Interbank Deals, Volumes and Interest Rates

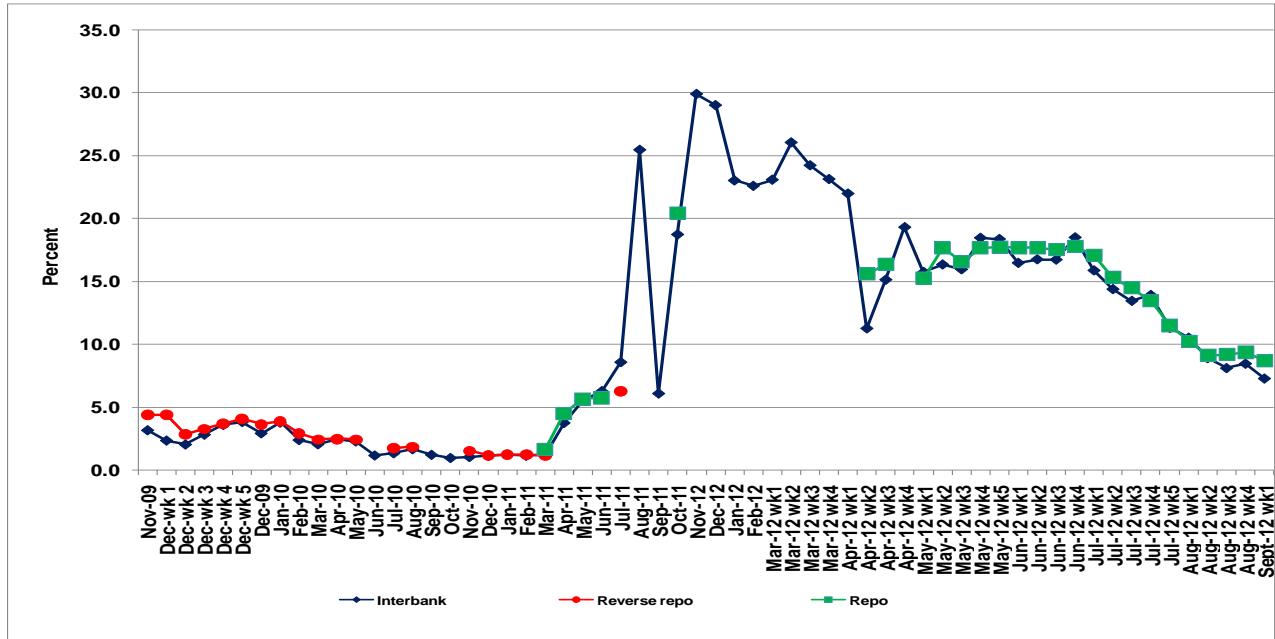
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
23-Aug-12	69	11,352	8.54
24-Aug-12	66	9,397	8.66
27-Aug-12	64	10,136	8.70
28-Aug-12	54	11,329	8.32
29-Aug-12	62	10,832	8.10
August 23-August 29, 2012	63	10,609	8.46
30-Aug-12	54	9,169	7.41
31-Aug-12	54	9,924	7.20
03-Sep-12	58	8,612	7.26
04-Sep-12	50	7,548	7.39
05-Sep-12	42	5,508	7.17
August 30-September 5, 2012	52	8,152	7.28

Source: Central Bank of Kenya

CBK WEEKLY BULLETIN

The average repo rate declined to 8.69 percent during the week ending September 5, 2012 from 9.36 percent in the previous week.

Chart B: Short Term Interest Rates

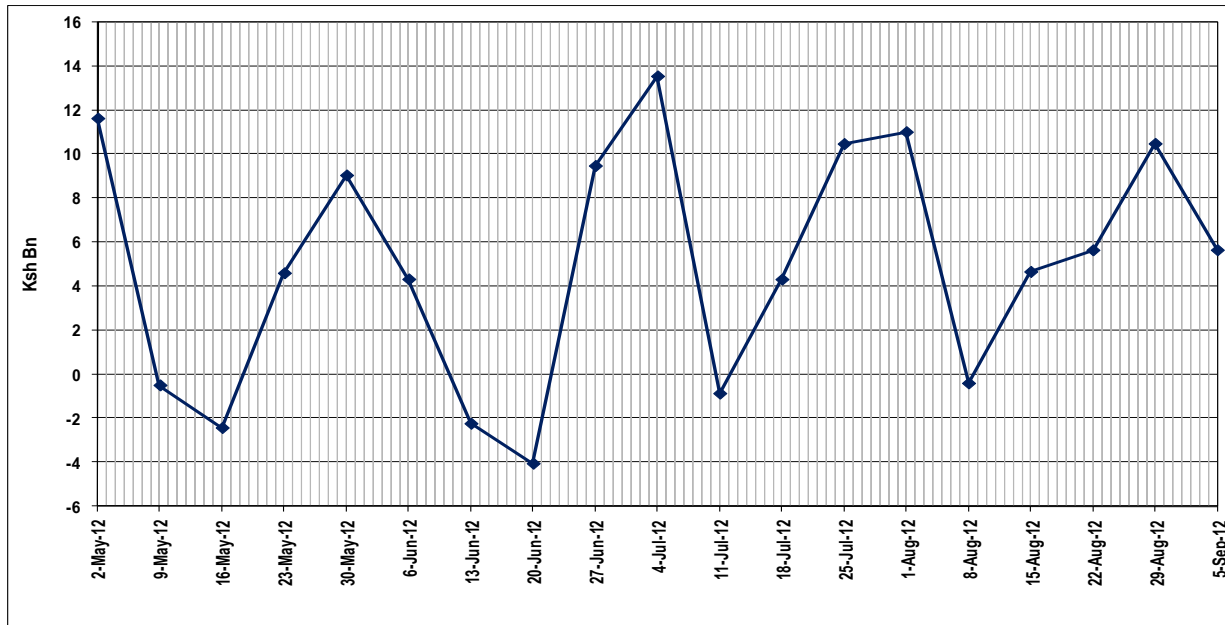


Commercial Banks Clearing Account Balances

Commercial banks maintained an average of Ksh 5.63 billion in their settlement accounts above the monthly average cash reserve requirements of 5.25 percent at the Central Bank in the week to September 5, 2012 compared with Ksh 10.46 billion in the previous week (Chart C).

CBK WEEKLY BULLETIN

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



The Shilling Exchange Rate

The Kenya Shilling depreciated against major international currencies in the week ending September 6, 2012. During the week, the Kenya shilling depreciated against the US dollar, the Sterling pound, the Euro and the Japanese Yen by 0.38 per cent, 0.64 per cent and 0.66 per cent and 0.63 per cent respectively to trade at an average of Ksh 84.40 per US dollar, Ksh 133.86 per Sterling pound, Ksh 106.04 per Euro and Ksh 107.64 per 100 Japanese Yen compared to Ksh 84.08 per US dollar, Ksh 133 per Sterling Pound, Ksh 105.35 per Euro and Ksh 106.97 per 100 Japanese Yen in the week ending August 30, 2012. During the week, there was increased foreign exchange demand as investors were holding long position in anticipation of the Monetary Policy Committee decision.

In the EAC region, the Kenya Shilling weakened against all the East African currencies in the week ending September 6, 2012. During the week, the Kenya Shilling depreciated against the Uganda Shilling, Tanzania Shilling, Rwanda Franc and the Burundi Franc to exchange at an average of Ush 29.74, Tsh 18.67, RWF 7.20 and BIF 16.95 compared to Ush 29.86, Tsh 18.70, RWF 7.24 and BIF 17.09 in the week ending August 30, 2012 (Table 3).

CBK WEEKLY BULLETIN

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
17-Aug-12	84.07	131.99	103.71	105.95	29.58	18.74	7.23	17.27
21-Aug-12	83.98	132.01	103.75	105.83	29.64	18.73	7.24	16.94
22-Aug-12	84.01	132.49	104.56	105.96	29.63	18.73	7.24	16.93
23-Aug-12	83.99	133.53	105.13	106.92	29.77	18.72	7.27	17.20
17 - 23 August 2012	84.01	132.50	104.29	106.17	29.65	18.73	7.24	17.09
24-Aug-12	84.01	133.23	105.44	106.92	30.16	18.73	7.25	17.20
27-Aug-12	84.02	132.83	105.05	106.71	29.99	18.72	7.24	17.14
28-Aug-12	84.10	132.76	105.00	107.10	29.73	18.69	7.23	16.94
29-Aug-12	84.12	132.97	105.65	107.10	29.72	18.69	7.23	16.94
30-Aug-12	84.14	133.23	105.61	107.02	29.71	18.67	7.24	17.22
24 - 30 August 2012	84.08	133.00	105.35	106.97	29.86	18.70	7.24	17.09
31-Aug-12	84.32	133.13	105.43	107.45	29.65	18.64	7.21	16.89
3-Sep-12	84.15	133.50	105.80	107.44	29.77	18.76	7.23	16.93
4-Sep-12	84.27	133.88	106.26	107.47	29.77	18.69	7.22	17.08
5-Sep-12	84.87	134.60	106.34	108.24	29.64	18.58	7.16	16.79
6-Sep-12	84.39	134.19	106.37	107.59	29.86	18.69	7.20	17.06
31 Aug - 6 Sept 2012	84.40	133.86	106.04	107.64	29.74	18.67	7.20	16.95

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 5,121 million (equivalent to 4.14 months of import cover) as at August 30, 2012 to US dollar 5,147 million (equivalent to 4.16 months of import cover) in the week ending September 6, 2012 (Table 4).

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

	9-Aug-12	16-Aug-12	23-Aug-12	30-Aug-12	6-Sep-12
Usable Reserves*	4,968	5,080	5,104	5,121	5,147
Months of Imports Cover**	4.06	4.15	4.12	4.14	4.16

*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 September 7, 2012, the Government offered for sale Ksh 4.0 billion each in 91 day and 182 day Treasury bills. During the week, the demand for 91 day Treasury bills was low attracting Ksh 3.2 billion worth of bids, equivalent to 80.72 percent performance rate. All the bids in the 91 day paper were accepted. However, demand for the 182 day paper was high attracting bids amounting to Ksh 6.8 billion, representing a performance rate of 171.16 percent of which Ksh 4.1 billion was accepted. Total non-competitive bids received amounted to Ksh 0.8 billion.

CBK WEEKLY BULLETIN

Interest Rates on Government securities

Weighted average interest rates on the 91 day and 182 day Treasury bills declined further by 31.1 and 49.7 basis points respectively, to stand at 7.808 percent and 9.351 percent during this week's auction.

Table 5: Government Securities Interest rates

Auction date	22-Jun-12	29-Jun-12	20-Jul-12	27-Jul-12	3-Aug-12	10-Aug-12	17-Aug-12	24-Aug-12	31-Aug-12	7-Sep-12
91 day T. Bills*	10.675	10.780	12.929	13.226	12.864	12.000	10.267	8.583	8.119	7.808
182 day T. Bills*	10.857	11.091	12.801	13.379	13.038	12.638	11.366	10.032	9.848	9.351
364 day T. Bills*						12.853			10.336	
1 year FXD T. Bonds										
2 year FXD T. Bonds								11.114		
5 year FXD T. Bonds				13.548						
10year FXD T. Bonds	12.705			13.630						
12-year Infrastructure Bond										

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 25.5 billion to stand at Ksh 884.4 billion on August 31, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 8.8 billion on account of Treasury bills and Government overdraft at the Central Bank.

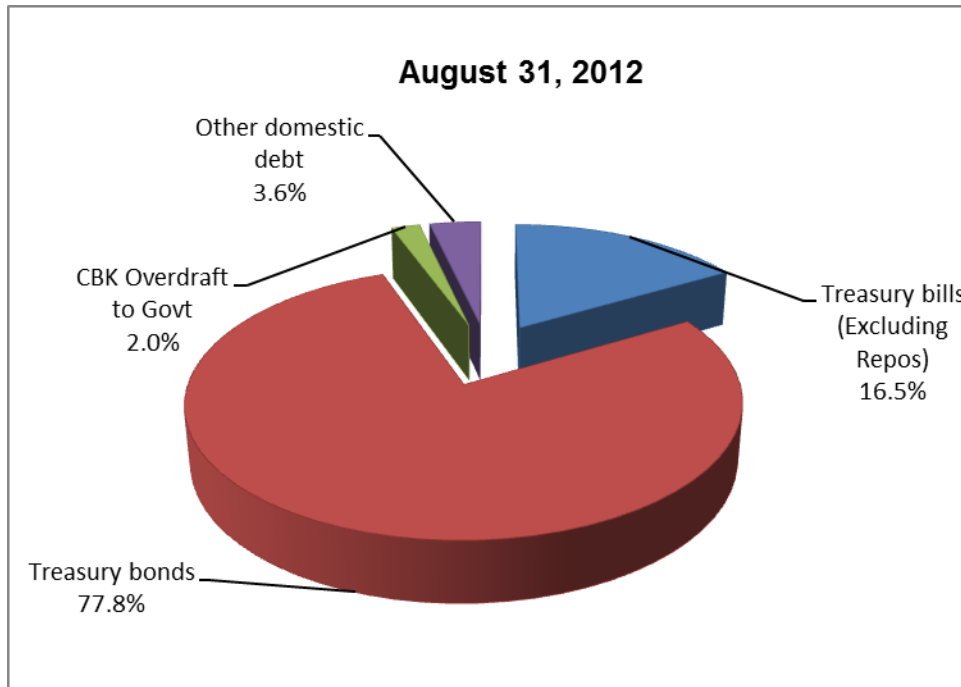
Table 6: Government Domestic Debt (Ksh Billion)

	Jun-11	June 2012	July 2012	24th August 2012	31st August 2012	Changes	
						24th Aug 2012- 31st Aug 2012	29 Jun 2012 - 31st Aug 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	121.9 15.0	139.6 16.9	146.3 17.5	6.7	14.3
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	693.0 85.0	688.4 83.1	688.4 82.5	0.0	1.5
3. Total Securities (1+2)	722.4	819.0	814.9	828.0	834.7	6.7	15.7
4. Overdraft at Central Bank	7.6	7.3	25.4	15.3	17.7	2.4	10.5
5. Other Domestic debt*	34.3	32.6	31.9	32.3	31.9	-0.3	-0.6
6. Gross Domestic Debt (3+4+5)	764.2	858.8	872.2	875.5	884.4	8.8	25.5
7. Interest payments on domestic debt	69.2	82.3	6.8	13.0	17.7	4.7	

CBK WEEKLY BULLETIN

During the week under review, gross government domestic debt expanded by Ksh 8.8 billion on account of Treasury bills and Government overdraft at the Central Bank. Outstanding Treasury bills increased by Ksh 6.7 billion to stand at Ksh 146.3 billion at the end of August, 2012. Similarly, Government overdraft at the Central Bank increased from Ksh 15.3 billion on August 24, 2012 to Ksh 17.7 billion on August 31, 2012 (Table 6 and Chart D). The average time to maturity of Government securities declined to 5 years during the week ending August 31, 2012, from 5 years and 4 months at the end of June 2012.

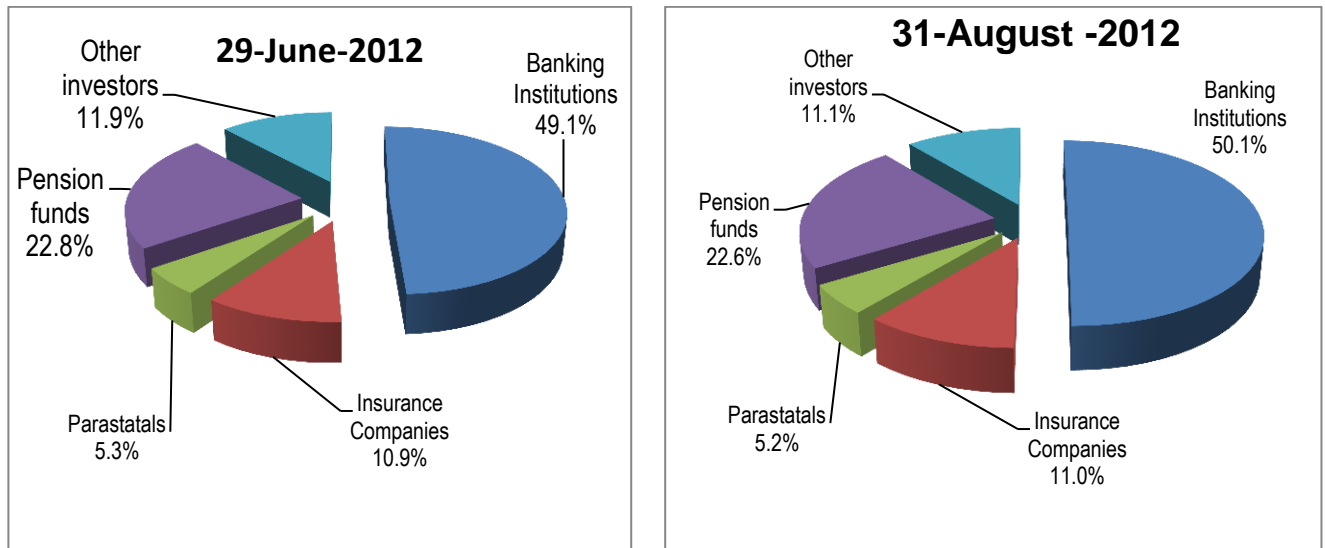
Chart D: Composition of Government Securities



Holding of Government Securities

Commercial banks held 50.1 percent of Government securities during the week under review. The share of Government securities held by commercial banks and insurance companies increased from 49.1 percent and 10.9 percent in June 2012 to 50.1 percent and 11.0 percent respectively, during the week ending August 31, 2012. Holdings by parastatals, pension funds and other investors, which comprise Sacco's, listed and private companies, self-help groups, educational institutions, religious institutions and individuals, declined from 5.3 percent, 22.8 percent and 11.9 percent to 5.2 percent, 22.6 percent and 11.1 percent, respectively, during the same period (Chart E).

Chart E: Composition of Government Securities by Investors

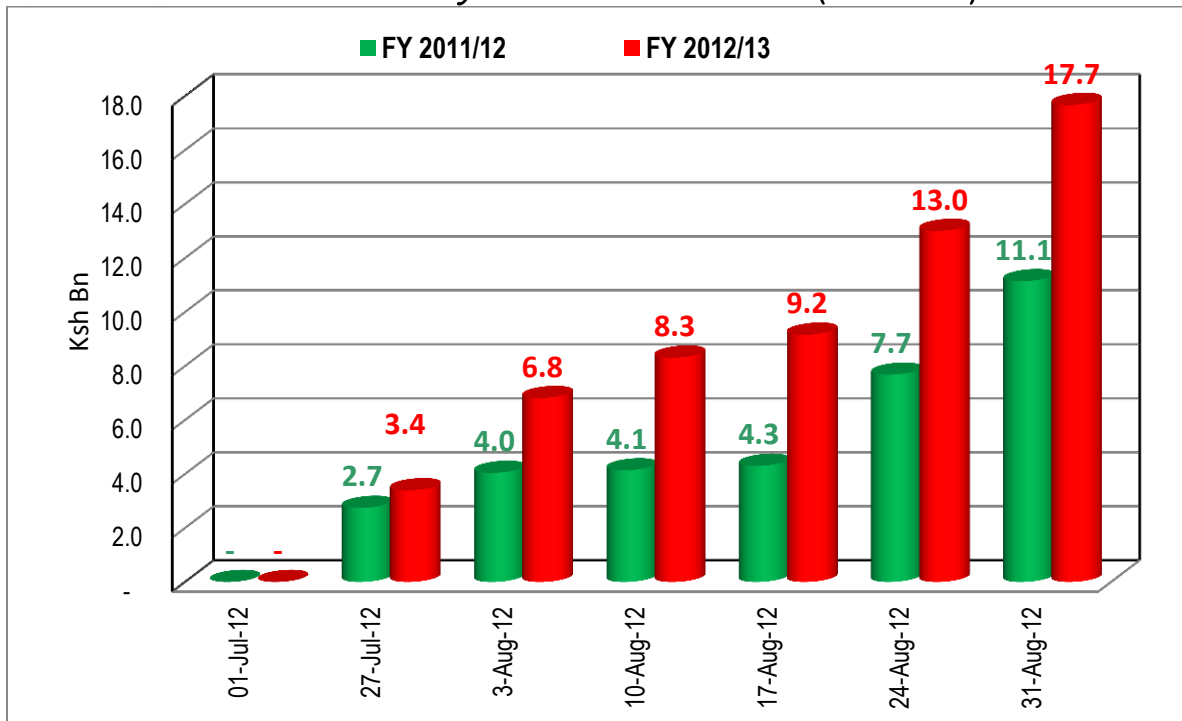


Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to August 31, 2012 in the 2012/13 fiscal year amounted to Ksh 17.7 billion compared with Ksh 11.1 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 4.43 billion and Ksh 12.20 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 0.24 billion and Ksh 0.80 billion, respectively.

CBK WEEKLY BULLETIN

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



CAPITAL MARKETS REPORT

Capital markets performance continued its bullish run in the week ending September 6, 2012 with all key market indicators recording gains. The NSE 20 Share Index was 11.86 points shy of the 3900 points mark, while market capitalization remained above the trillion shillings mark. The bonds' segment however edged down both in turnover and total deals transacted, but activity remained strong.

Equities Market

As indicated in table 7, NSE 20 Share Index rose to 3,888.14 points on September 6, 2012 from 3,875.11 points on August 30, 2012. NASI was up to 85.35 points from 84.87 points over the same period. Market Capitalization that measures shareholders' wealth gained Ksh 6.31 billion to reach Ksh 1,126.55 billion. The supply of shares traded rose to 83.90 million from 75.75 million the previous week while equity turnover improved by more than half to trade stocks worth Ksh 1,807.91 million from Ksh 1,192.08 million, possibly due to a shift to the equities market by investors given a continued fall in interest rates on government paper.

CBK WEEKLY BULLETIN

Table 7: Key Weekly Market Statistics

Week Ending	26-Jul-12	2-Aug-12	9-Aug-12	16-Aug-12	23-Aug-12	30-Aug-12	6-Sep-12
NASI 100= Jan 2008	84.35	82.98	83.86	83.60	84.01	84.87	85.35
NSE 20 Share Index 100=1966	3,878.52	3,825.08	3,823.49	3,804.54	3,817.70	3,875.11	3,888.14
Number of Deals	6,604	6,955	5,903	6,230	5,162	6,536	6,335
Total Shares Traded (millions)	113.63	88.12	110.53	59.67	51.18	75.75	83.90
Equity Turnover (Ksh. millions)	1,417.43	1,337.42	1,391.64	1,082.45	1,260.28	1,192.08	1,807.91
Market Capitalization (Ksh. Billions)	1,112.32	1,095.17	1,106.79	1,103.32	1,108.74	1,120.23	1,126.55
Bonds Turnover (Ksh. millions)	9,892.70	11,273.80	16,848.45	9,806.80	17,017.95	29,123.00	22,828.10
FTSE NSE Kenya 15 Index	111.43	108.82	110.24	111.01	110.67	112.42	113.61
FTSE NSE Kenya 25 Index	113.83	111.04	112.81	113.53	113.19	114.77	116.17

Source: Nairobi Securities Exchange

Telecommunications & Technology sector was the most active, transacting 22.63 million shares or 27.0 percent of the traded shares in the week. Banking and Energy & Petroleum sectors came in second and third, with 21.89 million and 12.32 million shares or 26.1 percent and 14.7 percent of the traded shares respectively. Safaricom, KenolKobil Ltd and Housing Finance Co. Ltd were the three most active counters with 22.38 million, 11.54 million and 10.96 million shares traded, respectively. Automobile sector was least active, trading only 75,800 shares.

The biggest closing and average price gain in the week was Standard Chartered Bank Ltd at Ksh 11.0 and Ksh 8.40 respectively. The biggest closing and average price losses were with BAT Kenya Ltd and Bamburi Cement Ltd at Ksh 11.0 and Ksh 6.35 per share, respectively. Of the 48 active counters, 30 had average price gains in the week under review.

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, rose to 113.61 points from 112.42 points, while FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the Exchange, rose to 116.17 points from 114.77 points during the review period. Both indices hit their highest level since their launch on 8th November 2011.

The Bond Market

Bond trading activity was down 21.6 percent, to record Ksh 22,828 million for the week ending September 6th 2012 from Ksh 29,123 million the previous week. Corresponding deals were 273 compared with 370 of last week. This may be due to rapid fall in yields, leading lower nominal returns for new offers in the primary market.

CBK WEEKLY BULLETIN
