



September 28, 2012

Highlights

The money market was liquid during the week ending September 26, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 12.57 billion through repo securities and Ksh 7.2 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 18.5 billion and Ksh 8.2 billion, respectively.

The average interbank rate increased to 7.19 percent during the week ending September 26, 2012 compared with 6.57 percent in the previous week.

The Kenya Shilling depicted mixed results against major international currencies in the week ending September 27, 2012, depreciating marginally against the US dollar, the Pound Sterling and the Japanese Yen but appreciating against the Euro.

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 5,190 million (equivalent to 4.13 months of import cover) as at September 20, 2012 to US dollar 5,163 million (equivalent to 4.11 months of import cover) in the week ending September 27, 2012.

The Government offered for sale Treasury bills worth Ksh 8.0 billion during the week ending September 28, 2012. A total of Ksh 3.4 billion was accepted out of Ksh 4.9 billion bids received.

Gross Government domestic debt increased by Ksh 57.0 billion to Ksh 915.8 billion on September 21, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt decreased by Ksh 5.4 billion mainly on account of Treasury bonds.

Stock market recorded a strong performance in the week ending September 27, 2012, with gains in all market indicators except for the bonds market. Equities market was robust with all share indices registering gains. The NSE 20 Share Index gained 46.01 points; NASI was up 0.61 points, FTSE NSE 15 Index 0.10 points and FTSE NSE 25, 0.14 points. Supply of shares edged up 2.4 percent while market capitalization improved by 70 basis points. The bonds market was inactive, falling by almost a third of the turnover recorded in the previous week.

Monetary Policy Operations

The money market was liquid during the week ending September 26, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 12.57 billion through repo securities and Ksh 7.2 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 18.5 billion and Ksh 8.2 billion, respectively. Reserve money averaged Ksh 246.7 billion during the week and was Ksh 10.3 billion below 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)
20-Sep-12	247.8	256.5	-8.7	1.0	1.0	0.0	0.0	247.8	-8.7	-2.8	-5.9
21-Sep-12	253.4	256.5	-3.2	5.5	1.7	0.1	0.0	251.3	-5.3	1.0	-6.3
24-Sep-12	252.6	257.4	-4.8	5.0	2.3	6.5	0.0	242.5	-14.9	-7.0	-7.9
25-Sep-12	244.6	257.4	-12.8	2.0	0.6	0.1	-1.3	243.6	-13.8	-5.8	-7.9
26-Sep-12	255.3	257.4	-2.1	7.5	7.0	0.5	0.0	248.4	-8.9	-0.9	-8.1
Average	250.7	257.0	-6.3	4.2	2.5	1.4	-0.3	246.7	-10.3	-3.1	-7.2

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate increased to 7.19 percent during the week ending September 26, 2012 compared with 6.57 percent in the previous week. The average interbank volumes transacted rose to Ksh 11.4 billion from Ksh 10.5 billion transacted in the previous week while the average number of deals was 61 compared with 55 deals in the previous week (Table 2 and Chart A).

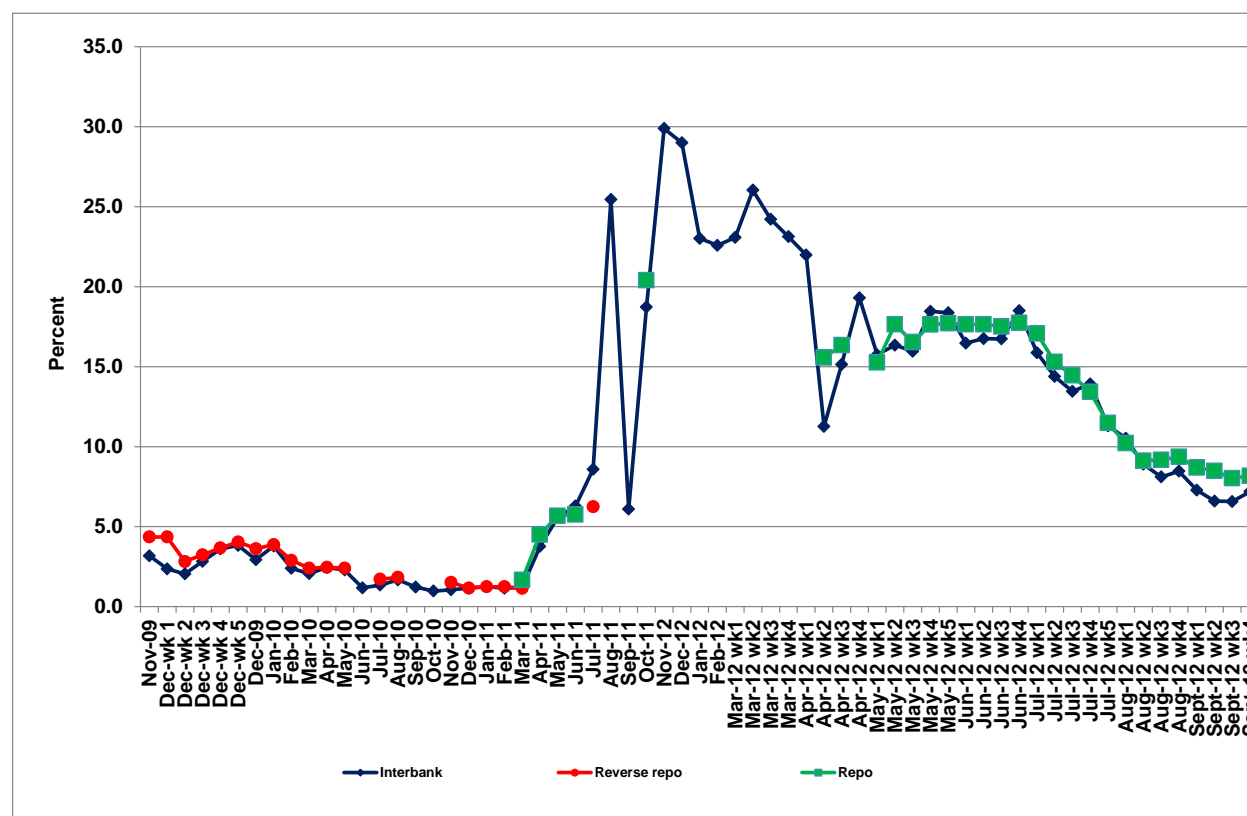
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
13-Sep-12	60	10,583	6.54
14-Sep-12	53	9,935	6.52
17-Sep-12	49	10,299	6.50
18-Sep-12	50	8,781	6.57
19-Sep-12	62	12,740	6.71
September 13-September 19, 2012	55	10,467	6.57
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

Source: Central Bank of Kenya

The average repo rate increased to 8.17 percent during the week ending September 26, 2012 from 8.02 percent in the previous week.

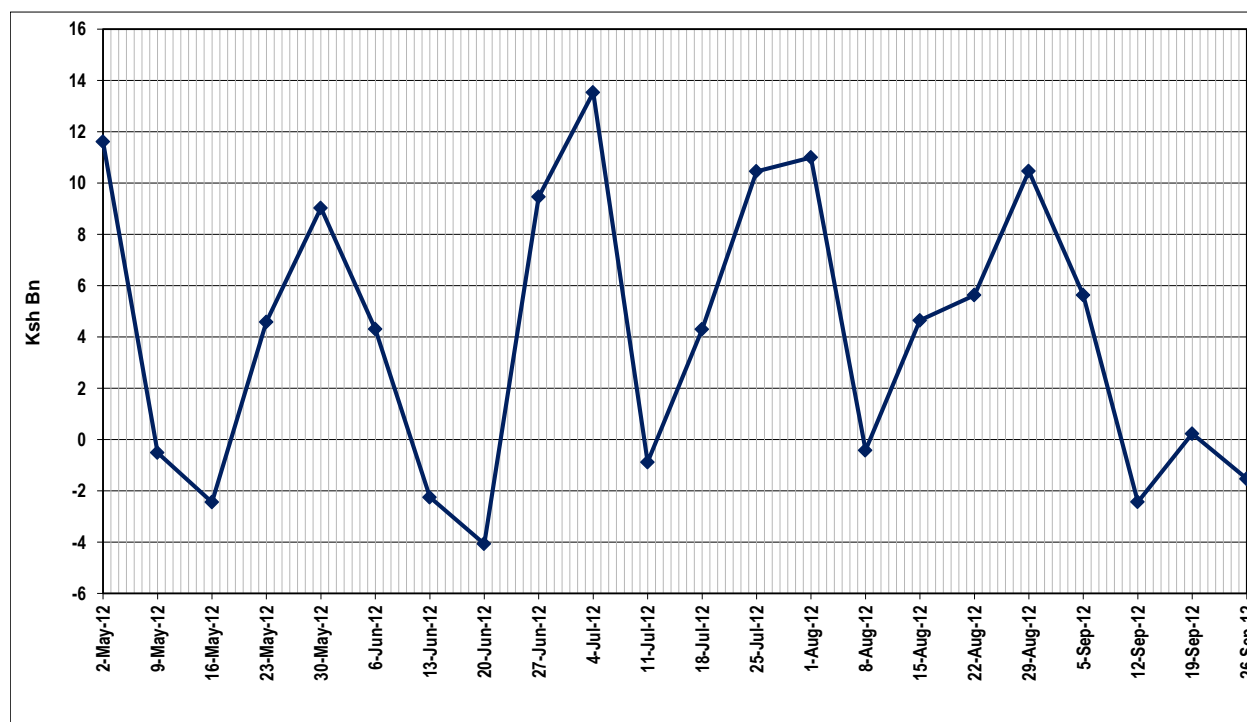
Chart A: The Structure of Interest Rates



Commercial Banks Clearing Account Balances

Commercial banks balances in their settlement accounts at Central Bank was a deficit of Ksh 1.53 billion against the monthly average cash reserve requirements of 5.25 percent in the week to September 26, 2012 compared with a surplus of Ksh 0.23 billion excess cash reserves in the previous week (Chart B).

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



The Shilling Exchange Rate

The Kenya shilling depreciated against the US dollar, the Pound Sterling and the Japanese Yen, but appreciated against the Euro in the week ending September 27, 2012. The Kenya shilling depreciated by 0.35 percent to the US dollar, 0.31 percent to the Pound Sterling and 0.95 percent to the Japanese Yen, to trade at an average of Ksh 84.94 per US dollar, Ksh 137.73 per Pound Sterling and Ksh 109.05 per 100 Japanese Yen in the week ending September 27, 2012 compared to an average of Ksh 84.65 to the US dollar, Ksh 137.30 to the Pound Sterling and Ksh 108.02 per 100 Japanese Yen in the week ending September 20, 2012. Against the Euro, the Kenya shilling however appreciated by 0.72 percent to trade at an average Ksh 109.79 per Euro compared to Ksh 110.59 per Euro over the same period.

In the EAC region, the Kenya Shilling depicted mixed performance against East African currencies in the week ending September 27, 2012, appreciating against the Uganda shilling and the Burundi Franc but depreciating marginally against Tanzania shilling and the Rwanda Franc. The shilling closed the week at an average of Ush 29.76, Tsh 18.56, RWF

7.13 and BIF 17.30 per Kenya shilling. This is in comparison to performance in the week ending September 20, 2012 which saw the Kenya shilling trade at an average of Ush 29.65, Tsh 18.57, RWF 7.18 and BIF 17.11 per Kenya shilling. (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
14-Sep-12	84.40	136.59	109.95	108.76	29.70	18.62	7.20	16.88
17-Sep-12	84.38	136.82	110.80	107.77	29.75	18.62	7.21	16.89
18-Sep-12	84.75	137.72	111.05	107.74	29.55	18.54	7.17	17.20
19-Sep-12	84.88	138.01	110.97	107.34	29.56	18.51	7.16	17.26
20-Sep-12	84.83	137.38	110.19	108.51	29.71	18.57	7.14	17.31
14 - 20 Sept 2012	84.65	137.30	110.59	108.02	29.65	18.57	7.18	17.11
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

Source Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 5,190 million (equivalent to 4.13 months of import cover) as at September 20, 2012 to US dollar 5,163 million (equivalent to 4.11 months of import cover) in the week ending September 27, 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	13-Sep-12	20-Sep-12	27-Sep-12
Usable Reserves*	4,968	5,080	5,104	5,121	5,147	5,193	5,190	5,163
Months of Imports Cover**	4.06	4.15	4.12	4.14	4.16	4.13	4.13	4.11

Government Securities Auction

During the week ending September 28, 2012, the Government offered for sale Ksh 4.0 billion each in 91 day and 182 day Treasury bills. The 91 day, Treasury Bills had a performance of 31.06 percent and attracted Ksh 1.2 billion worth of bids. The 182 day Treasury bills registered a performance of 91.11 percent and attracted bids worth Ksh 3.7 billion of which Ksh 2.2 billion was accepted. Total non-competitive bids received amounted to Ksh 0.8 billion.

Interest Rates on Government Securities

Weighted average interest rates on the 91 day and 182 day Treasury bills rose by 44.6 and 62.3 basis points respectively, to 8.093 percent and 9.888 percent during this week's auction.

Table 5: Interest Rates

Auction date	29-Jun-12	27-Jul-12	24-Aug-12	31-Aug-12	14-Sep-12	21-Sep-12	28-Sep-12
91 day T. Bills*	10.780	13.226	8.583	8.119	7.515	7.647	8.093
182 day T. Bills*	11.091	13.379	10.032	9.848	8.993	9.265	9.888
364 day T. Bills*				10.336			
2 year FXD T. Bonds			11.114				
5 year FXD T. Bonds		13.548					
10year FXD T. Bonds		13.630					
15year FXD T. Bonds						12.089	

Source Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 57.0 billion to Ksh 915.8 billion on September 21, 2012, from Ksh 858.8 billion at the end of June 2012. This followed Ksh 29.2 billion increase in the stocks of Treasury bonds. In addition, the stock of Treasury bonds, Government overdraft at the Central Bank and other domestic debts increased by Ksh 8.6 billion, Ksh 18.1 billion and Ksh 1.1 billion, respectively.

Table 6: Government Domestic Debt (Ksh Billion)

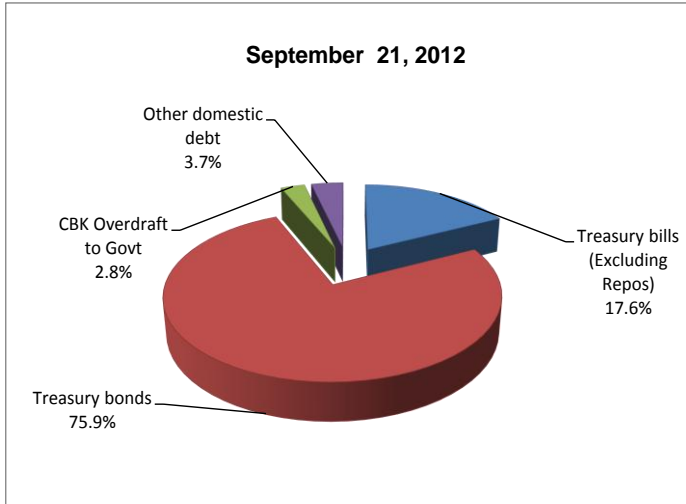
	Jun-11	Jun 2012	6th July 2012	13th July 2012	20th July 2012	27th July 2012	Jul 2012	3rd August 2012	10th August 2012	17th August 2012	24th August 2012	Aug 2012	7th Sept 2012	14th Sept 2012	21st Sept 2012	Changes	
																14th Sept 2012- 21st Sept 2012	29th Jun 2012 - 21st Sept 2012
1. Treasury Bills (Excluding Repos)	126.7	132.0	131.4	129.1	128.0	123.8	121.9	121.9	127.9	138.6	139.6	146.3	153.0	158.0	161.3	3.3	29.2
(As % of total securities)	17.5	16.1	16.1	15.8	15.8	15.4	15.0	15.0	15.6	16.7	16.9	17.2	17.8	18.3	18.8		
2. Treasury Bonds	595.7	687.0	687.0	687.0	679.8	679.8	693.0	693.0	693.0	693.0	688.4	704.6	704.6	704.6	695.5	-9.1	8.6
(As % of total securities)	82.5	83.9	83.9	84.2	84.2	84.6	85.0	85.0	84.4	83.3	83.1	82.8	82.2	81.7	81.2		
3. Total Securities (1+2)	722.4	819.0	818.3	816.1	807.7	803.5	814.9	814.9	820.9	831.6	828.0	850.9	857.7	862.6	856.8	-5.9	37.8
4. Overdraft at Central Bank	7.6	7.3	7.3	11.4	19.2	25.4	25.4	25.4	24.4	15.7	15.3	17.7	25.3	25.3	25.4	0.1	18.1
5. Other Domestic debt [†]	34.3	32.6	32.4	32.4	32.5	32.4	31.9	31.9	31.9	32.4	32.3	33.3	33.2	33.3	33.7	0.4	1.1
6. Gross Domestic Debt (3+4+5)	764.2	858.8	858.0	859.8	859.4	861.3	872.2	872.2	877.3	879.6	875.5	901.9	916.2	921.2	915.8	-5.4	57.0
7. Interest payments on domestic debt	69.2	82.3	0.1	0.4	1.0	3.4	6.8	6.8	8.3	9.2	13.0	18.2	19.0	19.3	21.5	2.2	

[†] Other domestic debt includes clearing items in transit, advances f
Source: Central Bank of Kenya

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During the week under review, gross Government debt decreased by Ksh 5.4 billion on account of Treasury bonds, which decreased by Ksh 9.1 billion to Ksh 695.5 billion on September 21, 2012 (Table 6 and Chart C). The decrease in Treasury bonds in the week was partially offset by increases of Ksh 3.3 billion, Ksh 0.1 billion and Ksh 0.4 billion in Treasury bills, Government overdraft at Central Bank and other domestic debt respectively. The average time to maturity of Government securities declined to 4 years and 9 months during the week ending September 21, 2012, from 5 years and 4 months at the end of June 2012.

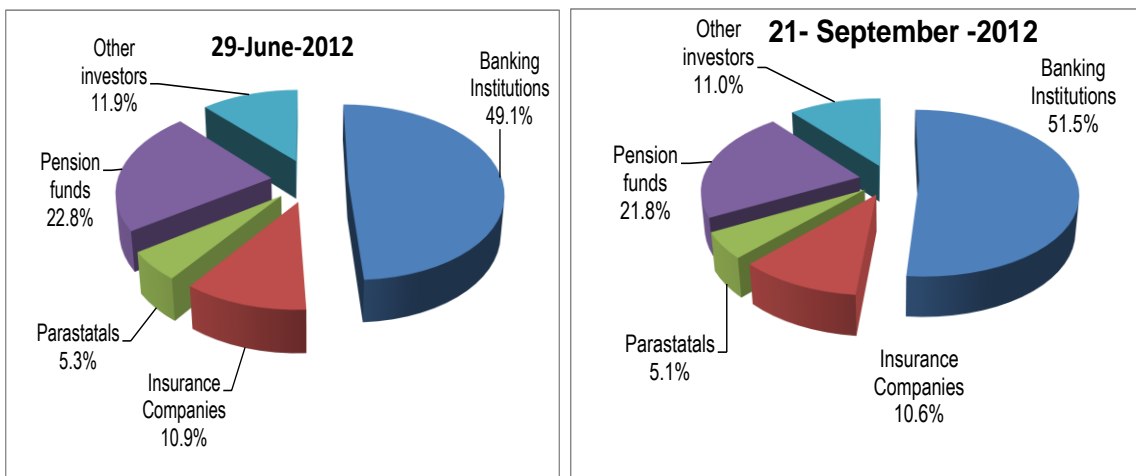
Chart C: Composition of Government Securities



Holding of Government Securities

Commercial bank holdings of Government securities increased from 49.1 percent at the end of June 2012 to 51.5 percent on September 21, 2012. Percentage holdings of insurance companies, parastatals and pension funds declined from 10.9 percent, 5.3 percent and 22.8 percent to 10.6 percent, 5.1 percent and 21.8 percent, respectively, during the same period. Holdings by other investors, which comprise of 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 September 21, 2012 (Chart D).

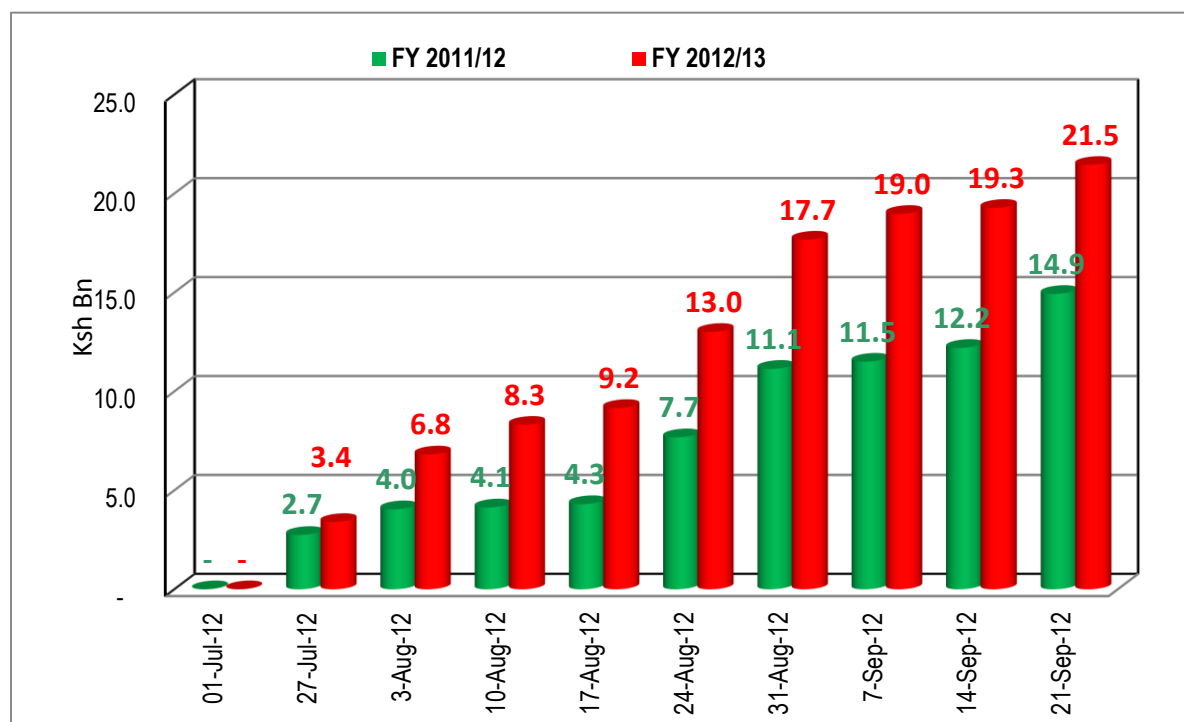
Chart D: Composition of Government Securities by Investors



Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to September 21, 2012 in the 2012/13 fiscal year amounted to Ksh 21.5 billion compared with Ksh 14.9 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 5.9 billion and Ksh 14.3 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 0.5 billion and Ksh 0.8 billion, respectively.

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



The Capital Markets

Capital markets performance was strong in the week ending September 27, 2012 with most market indicators recording gains. The NSE 20 Share Index increased to 3980.5 points while market capitalization was at Ksh 1,150.6 billion. The bonds segment registered reduced trading, which saw a 29 percent fall in turnover.

Equities Market

As indicated in table 7, NSE 20 Share Index edged up by 120 basis points to record 3980.53 points on September 27, 2012 from 3934.52 points on September 20, 2012. This was the highest level since June 21, 2011. NASI was also up to 86.98 points from 86.37 points over the same period. Market Capitalization that measures shareholders' wealth gained Ksh 8.20 billion to reach Ksh 1,150.62 billion. Equity turnover improved to Ksh 2,482.83 million from Ksh 1,826.56 million while supply of shares rose by 2.4 percent to reach 101.23 million from 98.82 million the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	16-Aug-12	23-Aug-12	30-Aug-12	6-Sep-12	13-Sep-12	20-Sep-12	27-Sep-12
NASI 100= Jan 2008	83.60	84.01	84.87	85.35	87.22	86.37	86.98
NSE 20 Share Index 100=1966	3,804.54	3,817.70	3,875.11	3,888.14	3,953.84	3,934.52	3,980.53
Number of Deals	6,230	5,162	6,536	6,335	7,504	7,732	6,646
Total Shares Traded (millions)	59.67	51.18	75.75	83.90	158.31	98.82	101.23
Equity Turnover (Ksh. millions)	1,082.45	1,260.28	1,192.08	1,807.91	3,284.60	1,826.56	2,482.83
Market Capitalization (Ksh. Billions)	1,103.32	1,108.74	1,120.23	1,126.55	1,153.64	1,142.43	1,150.62
Bonds Turnover (Ksh. millions)	9,806.80	17,017.95	29,123.00	22,828.10	24,833.65	23,099.40	16,408.70
FTSE NSE Kenya 15 Index	111.01	110.67	112.42	113.61	116.07	115.14	115.24
FTSE NSE Kenya 25 Index	113.53	113.19	114.77	116.17	118.52	117.56	117.70

Source: Nairobi Securities Exchange

Banking sector was the most active, transacting 36.06 million shares or 35.6 percent of the traded shares in the week. Telecommunications & Technology and Insurance sectors came in second and third, with 27.76 million and 13.97 million shares or 27.4 percent and 13.8 percent of the traded shares respectively. Safaricom, Kenya Commercial Bank Ltd and CIC Insurance Group Ltd were the three most active counters with 27.49 million, 16.26 million and 11.97 million shares traded, respectively. Automobile & Accessories sector was least active, trading only 29,000 shares.

The highest closing and average price gains for the week was for Athi River Mining Ltd at Ksh 10.0 and Ksh 11.40 respectively. The biggest closing price losses were for Williamson Tea Kenya and Jubilee Holdings Ltd both at Ksh 3.0 while the biggest average price loss was for Standard Chartered bank at Ksh 11.80. Of the 48 active counters, 24 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, improved slightly to 115.24 points from 115.14 points, while FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the Exchange, also rose to 117.70 points from 117.56 points during the review period.

The Bond Market

Bond trading activity was down 29 percent, to record Ksh 16,409 million for the week ending September 27, 2012 from Ksh 23,099 million the previous week. Corresponding deals were 218 compared with 222 of last week. The decline may be due to investors' portfolio balancing equities and fixed income segments.