

June 8, 2012



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation declined from 13.1 percent in April 2012 to 12.2 percent in May 2012 reflecting reduction in the month-on-month change in Transport and Food and Non-Alcoholic Beverages indices.

The Monetary Policy Committee maintained the Central Bank Rate at 18 percent on June 5, 2012 to support further reduction of inflation rate and restore exchange rate stability.

The money market was liquid during the week ending June 6, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 17.8 billion by use of the repo securities and Ksh 3.5 billion through term auction deposits against the repo maturities of Ksh 27.9 billion and term auction deposits maturities of Ksh 1.6 billion. The average interbank rate declined to 16.47 percent during the week ending June 6, 2012 from 18.37 percent in the previous week.

The Kenya Shilling experienced a mixed performance against major international currencies during the week ending June 7, 2012. Against the US dollar, the Kenya Shilling remained unchanged at an average of Ksh85.81 per US dollar.

The usable official foreign exchange reserves held by the Central Bank increased from 4,425 million (equivalent to 3.75 months of import cover) in the week ending May 31, 2012 to US dollar 4,564 million equivalent to 3.87 months of import cover in the week ending June 7, 2012.

The Government offered for sale Treasury bills worth Ksh 6.0 billion during the week ending June 8, 2012. Bids worth Ksh 1.2 billion were received and virtually all were accepted.

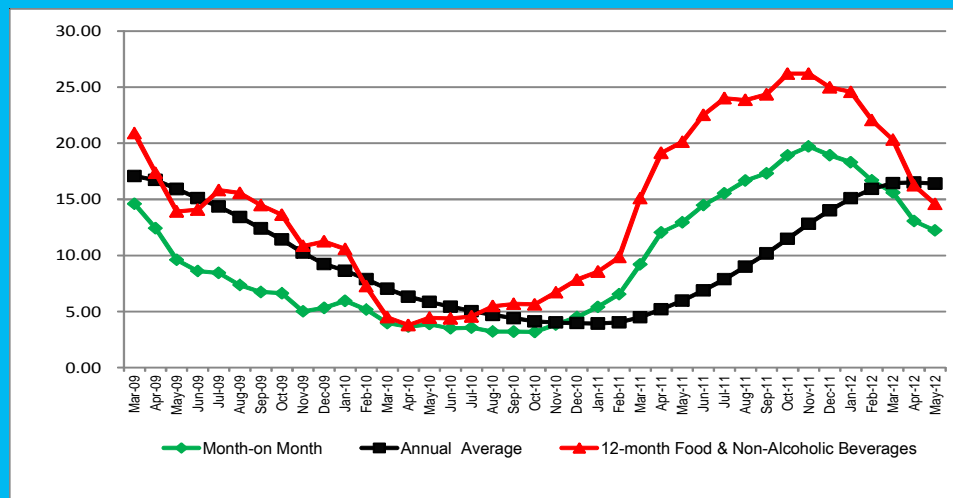
Gross Government domestic debt increased by Ksh 120.3 billion from Ksh 764.2 billion in June 2011 to Ksh 884.5 billion on May 31, 2012. During the week under review, gross government domestic debt declined by Ksh 3.2 billion, on account of Treasury bills.

Stock market performance was mixed in the week ending June 7, 2012 as reflected in most the market indicators. The NSE 20 Share Index and Nairobi All Share Index (NASI) gained 8.75 points and 0.04 points, respectively. Market Capitalization and equity turnover improved by 0.04 percent and 17.5 percent, respectively, with number of shares traded up 18.8 percent. However, FTSE NSE 15 Index and FTSE NSE 25 Index dropped 0.26 points 0.09 points, respectively. The bonds segment recorded 34.7 percent declined in turnover with number of deals down 10 percent.

Inflation

Overall 12-month inflation declined from 13.1 percent in April 2012 to 12.2 percent in May 2012 (Chart A). The decline in the overall inflation in April 2012 was reflected largely in the Food and Non-Alcoholic Beverages and Transport indices, which declined to 14.6 percent and 8.4 percent, respectively, in May 2012 compared with 16.2 percent and 10.1 percent, respectively, in April 2012. Inflation in the Housing, Water, Electricity, Gas and other Fuels index also eased to 10.8 percent from 11.6 percent in April 2012.

Chart A: Month-on-Month, Annual Average and 12 Month Food and Non-Alcoholic Beverages Inflation Rates



Source: Central Bank of Kenya

Monetary Stance

The Monetary Policy Committee met on June 5, 2012 to review relevant market developments since the previous meeting in May 2012. The Committee noted that the tight monetary policy stance continued to deliver a gradual decline in inflation. The Committee decided to maintain the tight monetary policy stance by retaining the Central Bank rate at 18 percent and introduced longer tenor Term Auction Deposits as an additional instrument for liquidity management.

Monetary Policy Operations

The money market was liquid in the week ending June 6, 2012 on account of maturities of repo securities held by banks, Treasury bills redemptions and Treasury bonds interest payments by Government. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 17.8 billion by use of the repo securities and Ksh 3.5 billion through term auction deposits against the repo maturities of Ksh 27.9 billion and term auction deposits maturities of Ksh 1.6 billion. Reserve money averaged Ksh 242.4 billion during the week and was Ksh 0.6 billion below the target. The shortfall was reflected in currency outside banks (Ksh 4.0 billion) which offset the excess bank reserves (Ksh 3.4 billion) (Table 1).

Table 1: Open Market Operations Ksh Billion

Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Mop up	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
31-May-12	238.0	240.9	-3.0	5.0	0.6	-4.4	237.2	-3.7	-0.2	-3.5
01-Jun-12	HOLIDAY									
04-Jun-12	256.6	243.6	13.0	19.0	9.3	-9.7	246.2	2.5	7.8	-5.3
05-Jun-12	249.9	243.6	6.2	8.0	5.8	-2.2	244.1	0.5	4.1	-3.6
06-Jun-12	241.9	243.6	-1.8	4.0	2.1	-1.9	242.1	-1.6	2.1	-3.6
Average	246.6	243.0	3.6	9.0	4.5	-4.6	242.4	-0.6	3.4	-4.0

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate declined to 16.47 percent during the week ending June 6, 2012 from 18.37 percent in the previous week reflecting improved money market liquidity. The interbank volumes transacted remained largely unchanged at an average of Ksh 9.95 billion compared with Ksh 9.54 billion in the previous week. Similarly, the number of deals was unchanged at 57 deals in the week ending June 6, 2012 compared with 56 deals in the previous week (Table 2 and Chart B).

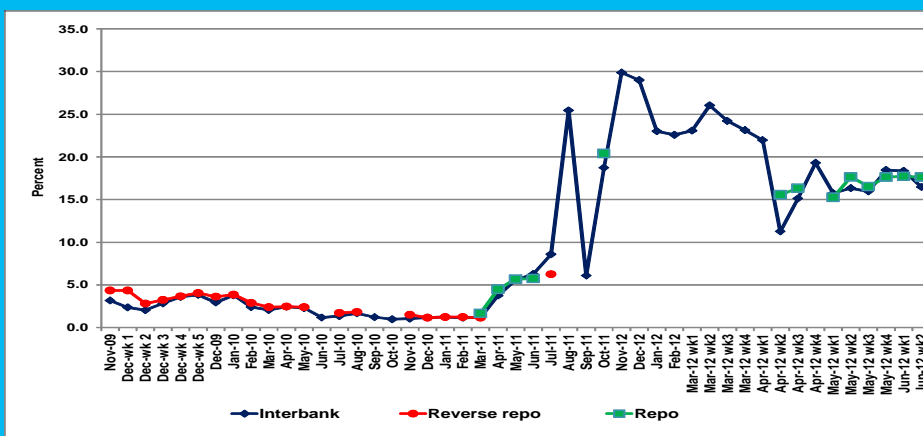
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
24-May-12	67	12,925	19.74
25-May-12	56	9,195	19.19
28-May-12	48	9,055	18.36
29-May-12	53	7,171	17.68
30-May-12	54	9,373	16.87
May 24- May 30 2012	56	9,544	18.37
31-May-12	54	12,431	16.22
04-Jun-12	56	8,687	16.16
05-Jun-12	55	7,222	16.58
06-Jun-12	62	11,460	16.93
May 31- June 6 2012	57	9,950	16.47

Source: Central Bank of Kenya

The average repo rate was 17.64 percent during the week ending June 6, 2012.

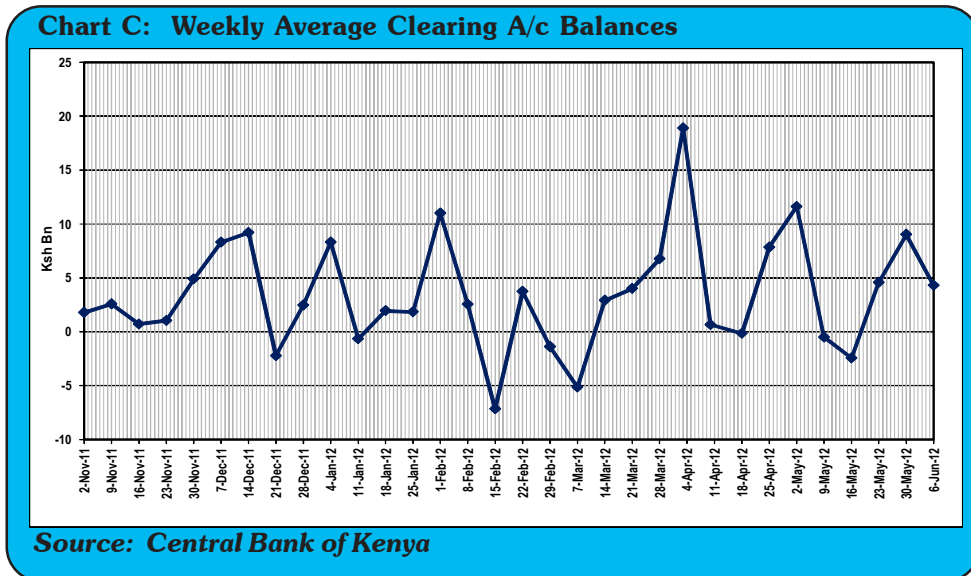
Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 4.31 billion in their settlement accounts above the monthly average cash reserve requirements of 5.25 percent at the Central Bank in the week to June 6, 2012 compared with Ksh 9.03 billion in the previous week (Chart C).



**The Shilling
Exchange
Rate**

The Kenya Shilling depicted mixed performance against major international currencies in the week ending June 7, 2012. During the week, the shilling remained unchanged against the US Dollar to exchange at an average of Ksh85.81 per US Dollar. The Shilling appreciated by 1.35 percent and 0.06 percent respectively against the Pound Sterling and the Euro to trade at an average Ksh132.31 per Sterling Pound and Ksh107.25 per Euro compared to an average of Ksh134.11 per Sterling Pound and Ksh107.32 per Euro in the week ending 31 May, 2012. The Shilling however depreciated by 0.88 percent against the Japanese Yen to trade at an average of Ksh109.05 per 100 Japanese Yen over the same period compared to Ksh108.10 per Japanese Yen in the week ending May 31, 2012.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
25-May-12	85.32	133.51	106.92	107.08	29.19	18.64	7.06	16.35
28-May-12	85.40	134.14	107.57	107.55	29.06	18.62	7.06	16.43
29-May-12	85.58	134.15	107.28	107.52	28.98	18.58	7.04	16.39
30-May-12	85.96	134.25	107.19	108.13	28.85	18.50	7.01	16.15
31-May-12	86.83	134.51	107.61	110.22	28.62	18.31	6.94	16.26
May 25-31, 2012	85.81	134.11	107.32	108.10	28.94	18.53	7.02	16.32
1-Jun-12	HOLIDAY							
4-Jun-12	86.12	132.35	106.89	110.18	29.12	18.45	7.00	16.19
5-Jun-12	85.96	132.35	107.62	109.58	29.20	18.43	7.01	16.23
6-Jun-12	85.65	132.17	107.10	108.80	29.07	18.55	7.03	16.31
7-Jun-12	85.51	132.36	107.39	107.65	29.00	18.56	7.07	16.31
June 4-7, 2012	85.81	132.31	107.25	109.05	29.10	18.50	7.03	16.26

Source: Central Bank of Kenya

At the regional market, the Kenya Shilling appreciated marginally by 0.55 percent and 0.08 percent, respectively, against the Uganda Shilling and the Rwanda Franc to trade at an average of Ush 29.10 and Rwf 7.03 compared

to Ush 28.94 and RWF 7.02 in the week ending May 31, 2012. The Kenya Shilling, however, depreciated against the Tanzania Shilling and the Burundi Franc by 0.17 percent and 0.36 percent, respectively, to trade at an average of Tsh18.50 and BIF16.26 compared to Tsh18.53 and BIF16.32 in the week ending May 31, 2012 (Table 3).

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from 4,425 million (equivalent to 3.75 months of import cover) in the week ending May 31, 2012 to US dollar 4,564 million equivalent to 3.87 months of import cover in the week ending June 7, 2012. The improvement in foreign exchange reserves position was on account of the disbursement of the first tranche of the syndicated loan to Government amounting to US\$ 240 million. This provided a further cushioning against external shocks affecting the exchange rate (Table 4).

Table 4: Official Foreign Exchange Reserves (US\$ Million)

	05-Apr-12	12-Apr-12	19-Apr-12	26-Apr-12	03-May-12	10-May-12	17-May-12	24-May-12	31-May-12	07-Jun-12
Usable Reserves*	4,416	4,424	4,454	4,637	4,670	4,660	4,627	4,549	4,425	4,564
Months of Imports Cover**	3.86	3.86	3.89	4.05	3.96	3.95	3.92	3.86	3.75	3.87

*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 June 8, 2012, the Government offered for sale Ksh 2.0 billion in 91-day Treasury bills, Ksh 2.0 billion in 182-day Treasury bills and Ksh 2.0 billion in 364-day Treasury bills. Demand for all the papers was low with performance rates of 44.9 percent, 14.1 percent and 2.1 percent for the 91-day, 182-day and 364-day Treasury bills, respectively. The 91-day treasury bills attracted bids worth Ksh 0.9 billion, of which Ksh 0.8 billion was accepted. The 182-day and 364-day Treasury bills attracted bids worth Ksh 0.3 billion and Ksh 0.04 billion respectively, all of which were accepted. Total non-competitive bids amounted to Ksh 0.8 billion.

Interest Rate on the Treasury Bills

Weighted average interest rates on the 91-day and 182-day Treasury bills increased by 46.5 and 42.3 basis points, respectively, to stand at 9.801 percent and 10.750 percent. The weighted interest rate on the 364-day paper remained at the previous position of 12.431 percent, during the week.

Table 5 : Interest Rates

Auction date	13-Apr-12	20-Apr-12	27-Apr-12	04-May-12	11-May-12	18-May-12	25-May-12	31-May-12	08-Jun-12
91 day T. Bills*	16.078	15.930	14.992	13.382	11.381	10.075	9.865	9.336	9.801
182 day T. Bills*	16.737	16.638	16.623	14.775	13.076	12.078	10.915	10.327	10.750
364 day T. Bills*					12.431				12.431
1 year FXD T. Bonds									
2 year FXD T. Bonds			13.826						
5 year FXD T. Bonds							11.855		
12-year Infrastructure Bond									
Month	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12
Average savings rate	1.37	1.35	1.33	1.41	1.59	1.62	1.69	1.69	1.72
Average overdraft rate	14.28	14.64	14.87	18.67	20.20	20.38	20.53	20.53	20.53

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 120.3 billion from Ksh 764.2 billion in June 2011 to Ksh 884.5 billion on May 31, 2012 (Table 6 and Chart D). During this period, the stocks of Treasury bonds, Treasury bills and overdraft at the Central Bank increased by Ksh 92.0 billion, Ksh 11.8 billion and Ksh 17.8 billion, respectively. Other domestic debt, however, declined by Ksh 1.2 billion to stand at Ksh 33.0 billion on May 31, 2012.

Table 6: Government Domestic Debt (Ksh Billion)

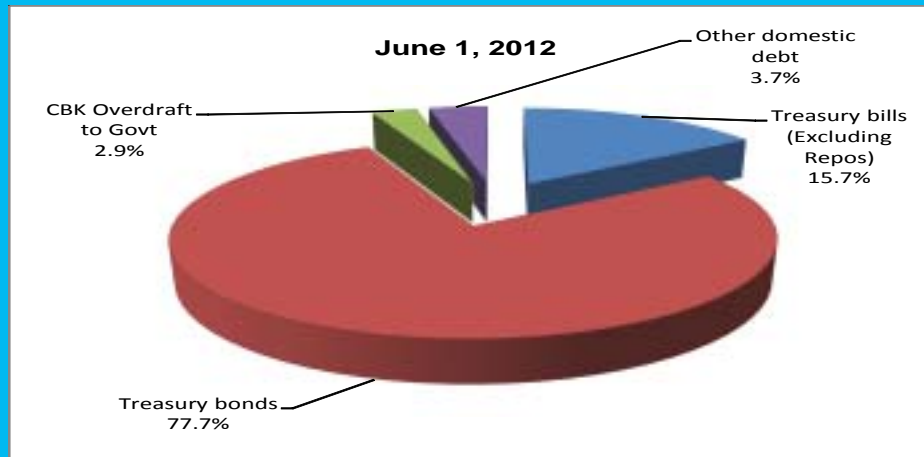
	Jun-11	Mar-12	25th May 2012	31st May 2012	Changes	
					25th May 2012-31st May 2012	30th Jun 2011 - 31st May 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	145.5 17.5	141.7 17.1	138.5 16.8	-3.2	11.8
2. Treasury Bonds (As % of total securities)	595.7 82.5	683.6 82.5	687.6 82.9	687.6 83.2	0.0	92.0
3. Total Securities (1+2)	722.4	829.0	829.3	826.1	-3.2	103.7
4. Overdraft at Central Bank	7.6	25.4	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.3	33.5	33.0	33.0	0.0	-1.2
6. Gross Domestic Debt (3+4+5)	764.2	887.9	887.7	884.5	-3.2	120.3
7. Interest payments on domestic debt	69.2	56.1	69.9	73.8	3.9	

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

Source: Central Bank of Kenya

During the week ending May 31, 2012, gross domestic debt declined by Ksh 3.2 billion compared with the previous week's position, following a decrease of Ksh 3.2 billion in the stocks of Treasury bills. Stocks of Treasury bonds, government overdraft at the Central Bank and other domestic debt remained constant during the week under review. The average time to maturity of Government securities declined to 5 years and 4 months as at May 31, 2012, from 5 years and 10 months at the end of June 2011.

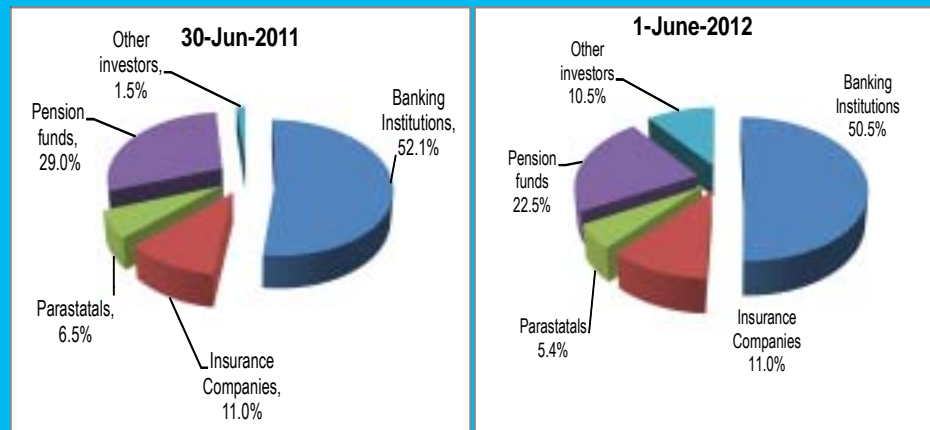
Chart D: Composition of Government Securities



Source: Central Bank of Kenya

The share of Government securities held by banking institutions, pension funds and parastatals declined from 52.1 percent, 29.0 percent and 6.5 percent as at June 2011 to 50.5 percent, 22.5 percent and 5.4 percent respectively on May 31, 2012. Holdings by insurance companies remained constant at 11.0 percent, while those by other investors, which includes Sacco's, listed and private companies, self-help groups, educational institutions, religious institutions and individuals, increased from 1.5 percent to 10.5 percent during the same period (Chart E).

Chart E: Composition of Government Securities by Investors

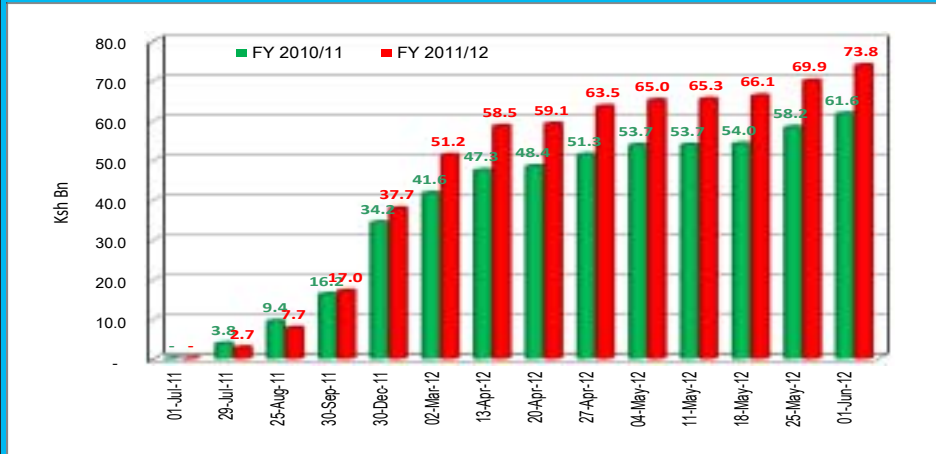


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt from July 1, 2011 to May 31, 2012 amounted to Ksh 73.8 billion compared with Ksh 61.6 billion during the same period of the Fiscal Year 2010/11 (Chart F). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 12.40 billion and Ksh 58.55 billion, respectively. Government overdraft at Central Bank accounted for Ksh 2.85 billion. During the week under review, total interest on domestic debt amounted to Ksh 3.9 billion.

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



Source: Central Bank of Kenya

The Stock Market

Capital markets performance was mixed in the week ending June 7, 2012 with some equity market indicators and bonds segments declining. The NSE 20 Share Index was still above the 3,500 points psychological mark, while market capitalization remained above the trillion shillings mark. On the downward side was FTSE NSE 15 Index and FTSE NSE 25 Index.

NSE 20 Share Index rose to 3,634.82 points on June 7, 2012 from 3,626.07 points on May 30, 2012. NASI was also up to 78.19 points, up from 78.15 points over the same period (Table 7).

Table 7: Key Weekly Market Statistics

Week Ending	19-Apr-12	20-Apr-12	27-Apr-12	04-May-12	10-May-12	17-May-12	24-May-12	30-May-12	07-Jun-12
NASI 100= Jan 2008	76.14	77.12	77.93	77.93	78.36	79.91	78.79	78.15	78.19
NSE 20 Share Index 100=1966	3,534.27	3,557.13	3,585.12	3,585.12	3,589.43	3,677.81	3,668.21	3,626.07	3634.82
Number of Deals	6,439.00	7,221.00	5,636.00	5,636.00	6,335.00	6,985.00	6,833.00	4,499.00	4945
Total Shares Traded (millions)	159.92	130.28	88.46	88.45	120.03	98.21	89.03	107.17	55,2416
Equity Turnover (Ksh. millions)	1,858.48	2,570.47	1,869.56	1,869.56	2,645.70	1,819.06	1,480.01	1,472.56	1236.465
Market Capitalization (Ksh. Bn.)	974.99	987.47	997.78	997.78	1,003.30	1,022.96	1,008.64	1,001.68	1002.126
Bonds Turnover (Ksh. millions)	9,356.10	9,259.10	8,878.45	8,878.45	8,373.15	15,565.90	7,738.95	8,294.05	3750.2
FTSE NSE Kenya 15 Index	102.91	102.34	104.90	104.90	105.23	107.53	104.25	104.42	104.16
FTSE NSE Kenya 25 Index	105.04	104.38	107.19	107.19	107.48	109.94	106.97	106.97	106.88

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

Source: Nairobi Stock Exchange

Market Capitalization, which shows shareholders' wealth gained Ksh 0.44 billion to reach Ksh 1,002.126 billion. Equity turnover gained Ksh 20.16 million to trade stocks worth Ksh 1,730.9 million from Ksh 1,472.6 million the previous week as shares traded topped 127.3 million from 107.2 million.

In terms of sector performance, Telecommunications and Technology led the pack with 93.54 million shares or 73.5 percent followed by banking sector at 18.07 million shares or 14.2 percent. Manufacturing and Allied sector closed top three, with 5.9 million shares. Safaricom, Housing Finance Co. and Equity Bank were the most active counters with 91.17 million,

7.43 million and 4.66 million shares traded, respectively. Automobile and Accessories sector was least active, trading only 145,100 shares.

The biggest closing and average price gains in the week under review, was Williamson Tea Kenya Ltd Kshs 11 and Kshs 13.27 per share, respectively. The biggest closing price and average price losses was for Pan African Insurance and British American Tobacco at Ksh 4.50 and Kshs 8.80 a share, respectively. Of the 54 listed companies, 12 had average price losses with all counters in the Energy sector having average price losses in the week.

**The FTSE
NSE Kenya
15 Index**

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization dropped to 104.16 points on June 7, 2012 from 104.42 points on May 30, 2012. FTSE NSE Kenya 25 Index, a performance measure of 25 most liquid stocks at the Exchange was also on the downward path to record 106.88 points on June 7, 2012 from 106.97 points on May 30 2012.

Bond Market

Bonds trading at the Fixed Income Securities Segment dropped to Ksh 5,418.20 million for the week ending June 7 2012 from Ksh 8,294.05 million on May 30, 2012 with corresponding deals declining to 72 from 80. This may indicate investor holding onto existing bond portfolios given declining returns in the primary market.