



September 14, 2012

Highlights

The money market was relatively liquid during the week ending September 12, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 27.5 billion through repo securities and Ksh 7.2 billion via term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 29.7 billion and Ksh 3.3 billion, respectively.

The average interbank rate decreased to 6.60 percent during the week ending September 12, 2012 compared with 7.28 percent in the previous week reflecting liquidity in the money market.

The Kenya Shilling depicted mixed performance against major international currencies in the week ending September 13, 2012. Against the US dollar the Kenya Shilling strengthened to exchange at an average of Ksh 84.27 per US dollar compared to Ksh 84.40 per US dollar in the week ending September 6, 2012.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 5,147 million (equivalent to 4.16 months of import cover) as at September 6, 2012 to US dollar 5,193 million (equivalent to 4.19 months of import cover) in the week ending September 13, 2012.

The Government offered for sale Treasury bills worth Ksh 8.0 billion during the week ending September 14, 2012. A total of Ksh 6.3 billion worth of bids were received, all of which were accepted.

Gross Government domestic debt increased by Ksh 56.0 billion to stand at Ksh 914.9 billion on September 7, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 14.3 billion on account of Treasury bills and Government overdraft at the Central Bank.

Stock market continued its strong performance in the week ending September 13th 2012, with gains in all market indicators for both bonds and equities. Equities market was bullish with all share indices registering highs last seen in July 2011: the NSE 20 Share Index added 65.70 points; NASI 1.87 points, FTSE NSE 15 Index 2.46 points and FTSE NSE 25, 2.35 points. Supply of shares increased 88.7 percent pushing up equity turnover by almost a similar margin, while Market Capitalization rose 2.4 percent. Similarly, the bonds market activity rose 8.8 percent in turnover.

Monetary Policy Operations

The money market was relatively liquid during the week ending September 12, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 27.5 billion through repo securities and Ksh 7.2 billion via term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 29.7 billion and Ksh 3.3 billion, respectively. Reserve money averaged Ksh 249.1 billion during the week and was Ksh 6.3 billion below 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)
06-Sep-12	260.6	254.9	5.7	9.0	1.8	7.2	0.0	251.9	-3.1	0.1	-3.1
07-Sep-12	259.5	254.9	4.6	9.0	9.0	0.0	0.0	249.3	-5.6	-3.0	-2.6
10-Sep-12	244.5	255.7	-11.2	2.0	0.8	0.0	0.0	246.3	-9.4	-6.1	-3.3
11-Sep-12	252.8	255.7	-3.0	6.0	6.0	0.0	0.0	246.5	-9.2	-6.0	-3.2
12-Sep-12	260.0	255.7	4.3	10.0	10.0	0.0	0.0	251.5	-4.2	-0.7	-3.6
Average	255.5	255.4	0.1	7.2	5.5	1.4	0.0	249.1	-6.3	-3.1	-3.2

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate closed lower at 6.60 percent during the week ending September 12, 2012 compared with 7.28 percent in the previous week reflecting liquidity in the money market. The average interbank volumes transacted rose to Ksh 9.6 billion from Ksh 8.2 billion transacted in the previous week, while the average number of deals increased to 56 from 52 in the previous week (Table 2 and Chart A).

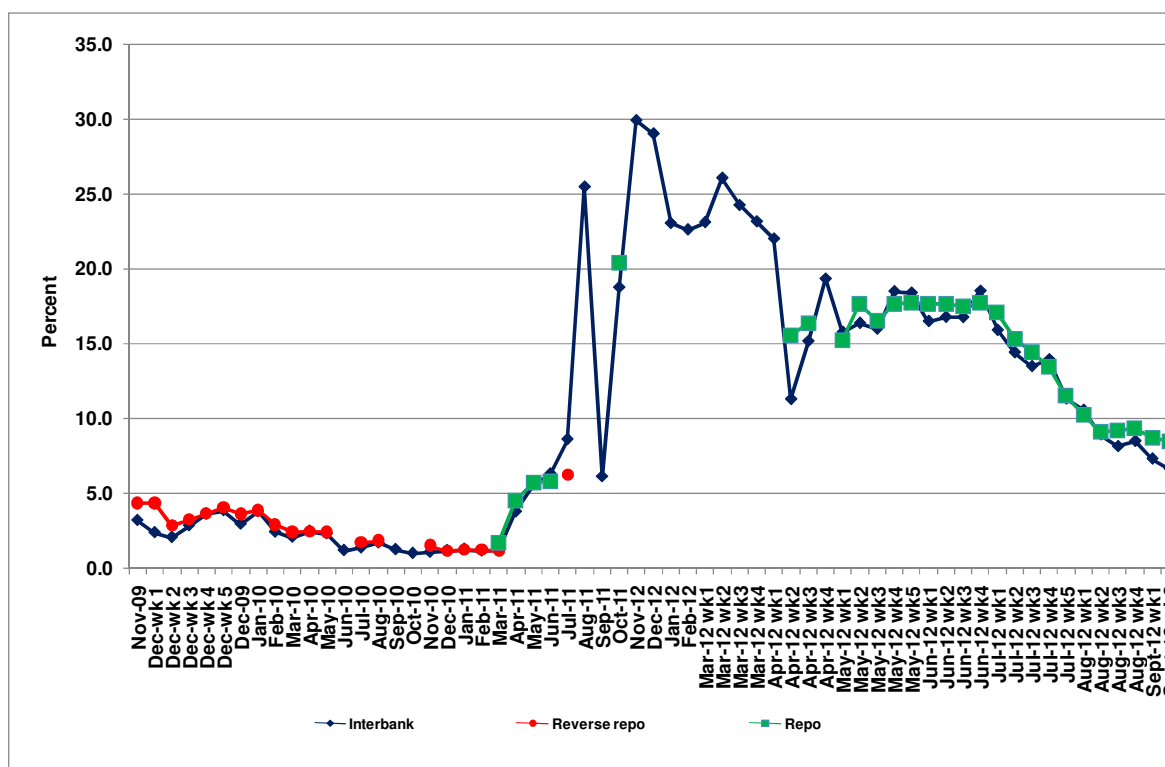
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
06-Sep-12	44	7,792	6.96
07-Sep-12	55	7,736	6.73
10-Sep-12	49	10,041	6.40
11-Sep-12	61	10,180	6.45
12-Sep-12	71	12,173	6.45
September 6-September 12, 2012	56	9,584	6.60

Source: Central Bank of Kenya

The average repo rate declined to 8.49 percent during the week ending September 12, 2012 from 8.69 percent in the previous week.

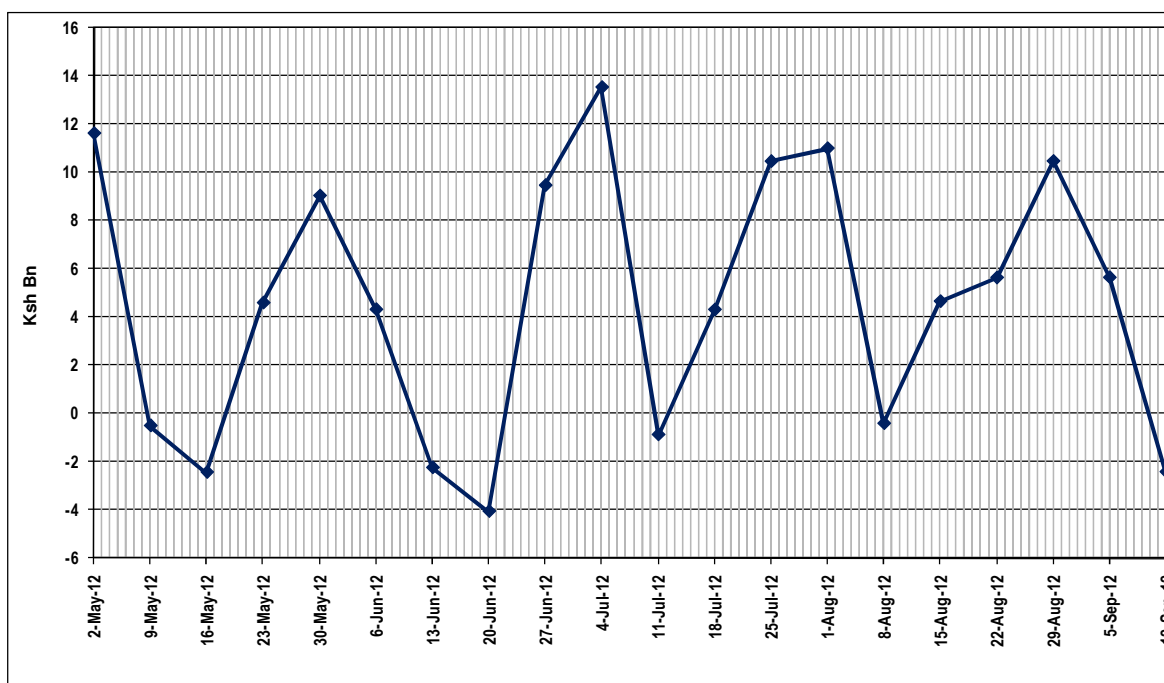
Chart A: The Structure of Interest Rates



Commercial Banks Clearing Account Balances

Commercial banks recorded a deficit of Ksh 2.44 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 September 12, 2012 compared with Ksh 5.63 billion excess cash reserves in the previous week (Chart B). The drop in average reserves is attributed to commercial banks utilization of the 3-5.25 percent CRR corridor as most had built enough cushion earlier in the CRR August 15, 2012 to September 14, 2012 maintenance cycle.

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



The Shilling Exchange Rate

The Kenya Shilling depicted mixed performance against major international currencies in the week ending September 13, 2012. The Kenya shilling appreciated against the US dollar to exchange at an average of Ksh 84.27 compared to Ksh 84.40 in the week ending September 6, 2012. Against the Sterling Pound, the Euro and the Japanese Yen the Shilling weakened by 0.88 per cent, 1.68 per cent and 0.11 per cent respectively to trade at an average of Kshs 135.04 per Sterling Pound, Ksh 107.82 per Euro and Ksh 107.76 per 100 Japanese Yen compared to Ksh 133.86 per Sterling Pound, Ksh 106.04 per Euro and Ksh 107.64 per 100 Japanese Yen in the week ending September 6, 2012.

In the EAC region, the Kenya Shilling depicted mixed performance against East African currencies in the week ending September 13, 2012. The Kenya Shilling appreciated against the Tanzania Shilling and depreciated against the Rwanda Franc and the Burundi Franc. Against the Uganda Shilling, the Shilling traded at the same level as the previous week. The Kenya Shilling exchange at an average of Ush 29.74, Tsh 18.66, RWF 7.22 and BIF 17.01

compared to Ush 29.74, Tsh 18.67, RWF 7.20 and BIF 16.95 in the week ending September 6, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
7-Sep-12	84.41	134.51	106.62	106.93	29.77	18.66	7.20	16.88
10-Sep-12	84.34	134.91	107.83	107.82	29.68	18.67	7.21	16.89
11-Sep-12	84.24	134.82	107.55	107.67	29.74	18.64	7.22	16.91
12-Sep-12	84.14	135.25	108.28	108.03	29.75	18.66	7.23	17.11
13-Sep-12	84.21	135.70	108.83	108.36	29.75	18.68	7.25	17.25
7 - 13 Sept 2012	84.27	135.04	107.82	107.76	29.74	18.66	7.22	17.01

Source Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 5,147 million (equivalent to 4.10 months of import cover) as at September 6, 2012 to US dollar 5,193 million (equivalent to 4.13 months of import cover) in the week ending September 13, 2012 (Table 4). The reserves margin above the 4 months average continue to widen reflecting inflows from Agricultural sector.

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

	09-Aug-12	16-Aug-12	23-Aug-12	30-Aug-12	06-Sep-12	13-Sep-12
Usable Reserves*	4,968	5,080	5,104	5,121	5,147	5,193
Months of Imports Cover**	4.06	4.15	4.12	4.14	4.10	4.13

*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 14, 2012, the Government offered for sale Ksh 4.0 billion each in the 91 day and 182 day Treasury bills respectively. The 91 day paper recorded low performance at 26.8 percent, attracting Ksh 1.1 billion worth of bids. The 182 day paper performed better at 129.6 percent, attracting bids worth Ksh 5.2 billion. The mixed demand during the week resulted in Ksh 6.3 billion total bids received, all of which were accepted. Total non-competitive bids received amounted to Ksh 1.0 billion.

Interest Rates on Government Securities

Weighted average interest rates on the 91 day and 182 day Treasury bills declined further by 29.3 and 35.8 basis points respectively, to stand at 7.515 percent and 8.993 percent during this week's auction.

Table 5: Interest Rates

Auction date	29-Jun-12	03-Aug-12	10-Aug-12	17-Aug-12	24-Aug-12	31-Aug-12	07-Sep-12	14-Sep-12
91 day T. Bills*	10.780	12.864	12.000	10.267	8.583	8.119	7.808	7.515
182 day T. Bills*	11.091	13.038	12.638	11.366	10.032	9.848	9.351	8.993
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								
10year FXD T. Bonds								
12-year Infrastructure Bond								

*Weighted rates for accepted bids

Source Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 56.0 billion to stand at Ksh 914.9 billion on September 7, 2012, from Ksh 858.8 billion at the end of June 2012. This followed Ksh 21.0 billion and Ksh 17.7 billion increases in the stocks of Treasury bills and Treasury bonds, respectively. In addition, Government overdraft at the Central Bank increased by Ksh 18.0 billion to stand at Ksh 25.3 billion as at September 7, 2012.

Table 6: Government Domestic Debt (Ksh Billion)

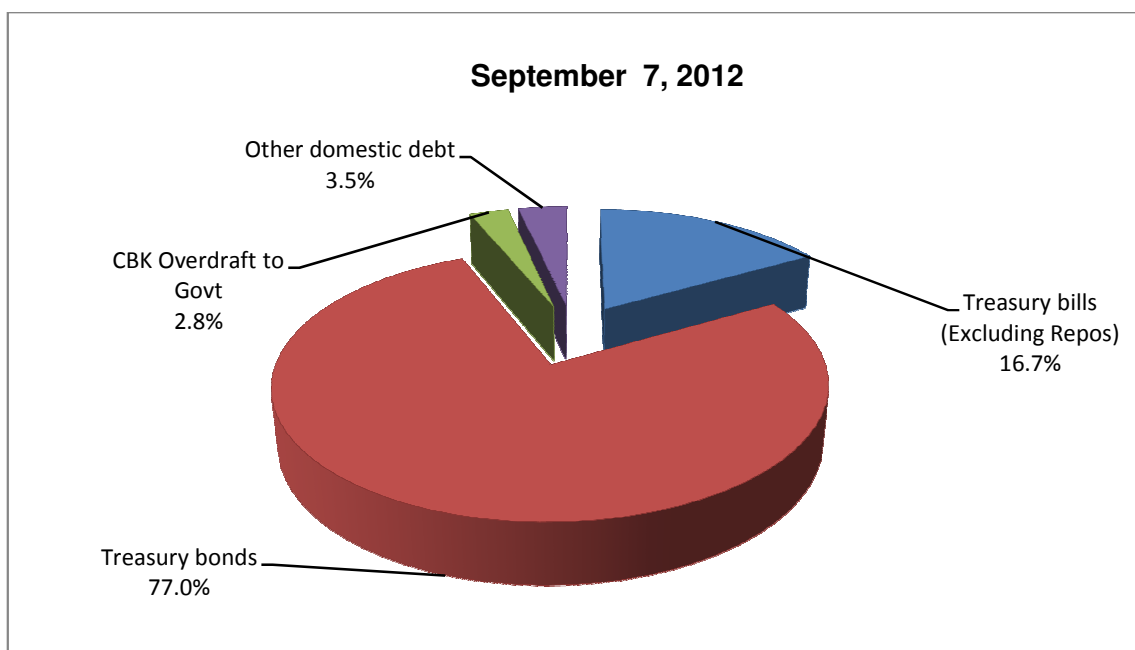
	Jun-11	June 2012	July 2012	31st Aug 2012	7th Sept 2012	Changes	
						31st Aug 2012 - 7th Sept 2012	29 Jun 2012 - 7th Sept 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	121.9 15.0	146.3 17.2	153.0 17.8	6.7	21.0
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	693.0 85.0	704.6 82.8	704.6 82.2	0.0	17.7
3. Total Securities (1+2)	722.4	819.0	814.9	850.9	857.7	6.7	38.7
4. Overdraft at Central Bank	7.6	7.3	25.4	17.7	25.3	7.6	18.0
5. Other Domestic debt*	34.3	32.6	31.9	31.9	31.9	0.0	-0.7
6. Gross Domestic Debt (3+4+5)	764.2	858.8	872.2	900.6	914.9	14.3	56.0
7. Interest payments on domestic debt	69.2	82.3	6.8	18.2	19.0	0.8	

* 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 under review, gross government domestic debt expanded by Ksh 14.3 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 153.0 billion as at September 7, 2012. Similarly, Government overdraft at the Central Bank increased by Ksh 7.6 billion, from Ksh 17.7 billion on August 31, 2012 to Ksh 25.3 billion on September 7, 2012 (Table 6 and Chart C). The average time to maturity of Government securities declined to 4 years and 11 months during the week ending September 7, 2012, from 5 years and 4 months at the end of June 2012.

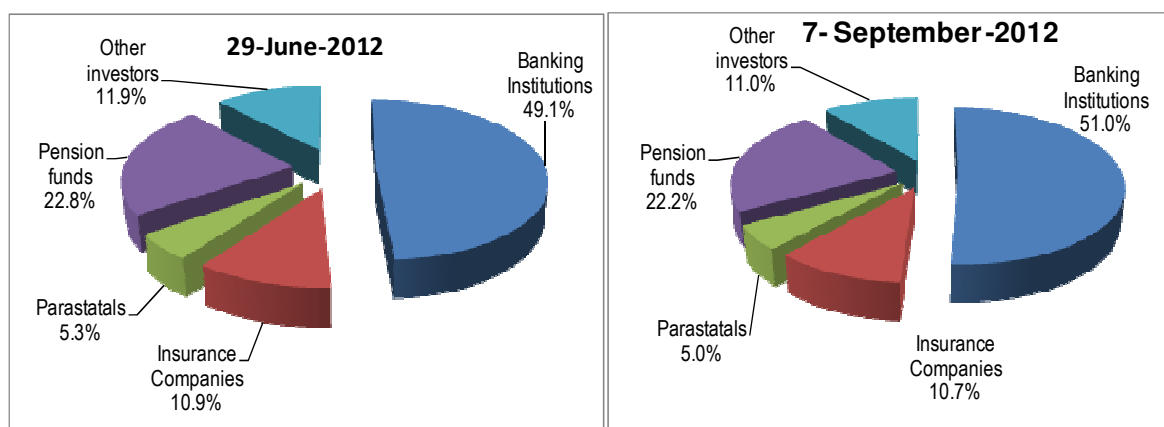
Chart C: Composition of Government Securities



Holding of Government Securities

Commercial bank holdings of Government securities increased from 49.1 percent at the end of June 2012 to 51.0 percent on September 7, 2012. The share 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 22.2 percent, respectively, during the same period. In addition, holdings by other investors, which comprise of Sacco's, listed and private companies, self-help groups, educational institutions, religious institutions and individuals, declined from 11.9 percent to 11.0 percent, during the week ending September 7, 2012 (Chart D).

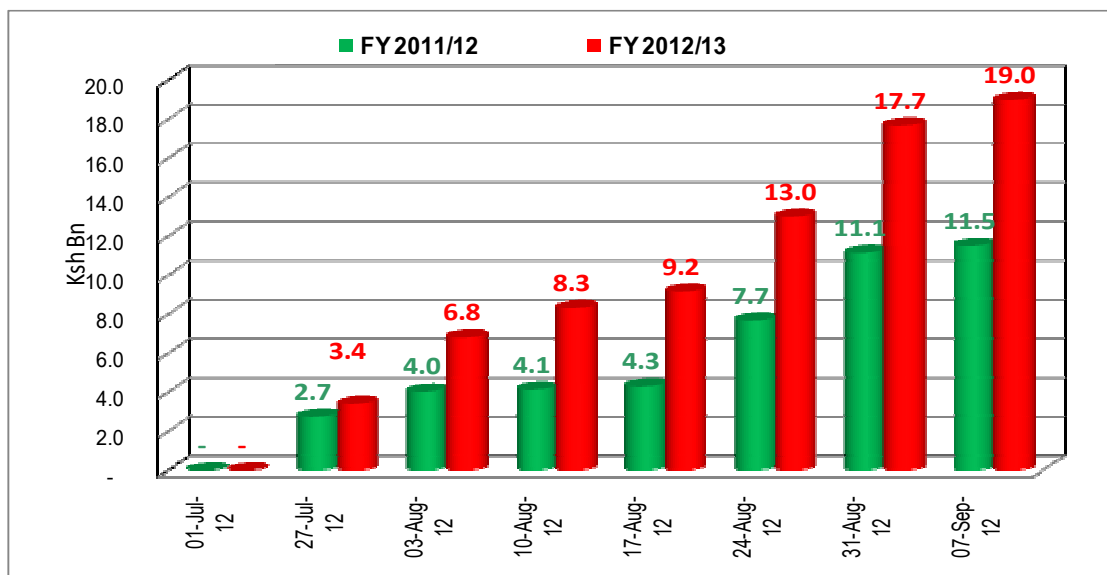
Chart D: Composition of Government Securities by Investors



Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to September 7, 2012 in the 2012/13 fiscal year amounted to Ksh 19.0 billion compared with Ksh 11.5 billion during a similar period of the previous fiscal year (Chart E). The cost during the period under review comprised interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 5.2 billion and Ksh 12.5 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 0.5 billion and ksh 0.80 billion, respectively.

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



The Capital Markets

Capital markets performance continued its bullish run in the week ending September 13, 2012 with all market indicators recording strong gains. The NSE 20 Share Index crossed the 3900 points mark, while market capitalization remained above the trillion shillings mark. The bonds' segment rallied up as well both in turnover and total deals transacted.

Equities Market

As indicated in Table 7, NSE 20 Share Index rose to 3,953.84 points on September 13th 2012 from 3,888.14 points on September 6, 2012. NASI increased to 87.22 points from 85.35 points over the same period. Market Capitalization that measures shareholders' wealth gained Ksh 27.09 billion to reach Ksh 1,153.64 billion. The supply of shares almost doubled, to reach 158.31 million from 83.90 million in the previous week. Consequently, equity turnover rose to Ksh 3,284.6 million from Ksh 1,807.9 million, indicating renewed investor risk appetite in equities market.

Table 7: Key Weekly Market Statistics

Week Ending	28-Jun-12	05-Jul-12	12-Jul-12	19-Jul-12	26-Jul-12	02-Aug-12	09-Aug-12	16-Aug-12	23-Aug-12	30-Aug-12	6-Sep-12	13-Sep-12
NASI 100= Jan 2008	80.50	82.47	82.29	83.26	84.35	82.98	83.86	83.60	84.01	84.87	85.35	87.22
NSE 20 Share Index 100=1966	3,709.84	3,795.32	3,802.96	3,825.93	3,878.52	3,825.08	3,823.49	3,804.54	3,817.70	3875.11	3888.14	3953.84
Number of Deals	6,849	6,226	6,047	5,902	6,604	6,955	5,903	6,230	5,162	6536	6335	7504
Total Shares Traded (millions)	114.14	83.53	69.81	75.38	113.63	88.12	110.53	59.67	51.18	75.7526	83.9024	158.31
Equity Turnover (Ksh. millions)	1,753.47	1,542.18	1,270.04	1,165.18	1,417.43	1,337.42	1,391.64	1,082.45	1,260.28	1,192.083	1807.912	3284.60
Market Capitalization (Ksh. Bn.)	1,045.50	1,078.82	1,076.51	1,097.96	1,112.32	1,095.17	1,106.79	1,103.32	1,108.74	1,120.234	1,126.547	1,153.64
Bonds Turnover (Ksh. millions)	7,552.85	4,249.15	6,445.90	6,675.65	9,892.70	11,273.80	16,848.45	9,806.80	17,017.95	29123	22828.1	24833.65
FTSE NSE Kenya 15 Index	105.34	108.51	109.59	109.75	111.43	108.82	110.24	111.01	110.67	112.42	113.61	116.07
FTSE NSE Kenya 25 Index	108.13	111.43	112.26	112.26	113.83	111.04	112.81	113.53	113.19	114.77	116.17	118.52

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

Source: Nairobi Securities Exchange

Telecommunications & Technology sector was the most active, transacting 75.57 million shares or 47.7 percent of the traded shares in the week. Banking and Manufacturing & Allied sectors came in second and third, with 30.04 million and 20.93 million shares or 19 percent and 13.2 percent of the traded shares, respectively. Safaricom, Kenya Commercial Bank Ltd and Mumias Sugar Co. Ltd were the three most active counters with 75.29 million, 16.43 million and 13.37 million shares traded, respectively. Agriculture sector was least active, trading only 402,100 shares.

The biggest closing and average price gains in the week were for BAT and Standard Chartered bank Ltd at Ksh 13.0 and Ksh 4.8 respectively. The biggest closing and average price losses were for CFC Stanbic bank and Carbacid Investments Ltd at Ksh 4.0 and Ksh 2.2 per share, respectively. Of the 48 active counters, 21 recorded 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 116.07 points from 113.61 points, while FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the Exchange, rose to 118.52 points from 116.17 points during the review period. Both indices hit their highest levels since their launch on 8th November 2011.

The Bond Market

Bond trading activity increased by 8.8 percent, for a volume worth Ksh 24,834 million in the week ending September 13th 2012 from Ksh 22,828 million the previous week. Corresponding deals were 282 compared with 273 of last week. This is attributed to a shift by investors from the Treasury bills market where returns are subsided falling rapidly compared to the bond market with relatively higher but stable yields.