



September 21, 2012

Highlights

The money market was relatively liquid during the week ending September 19, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 18.53 billion through repo securities and Ksh 18.5 billion term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 27.5 billion and Ksh 6.3 billion, respectively.

The average interbank rate decreased to 6.57 percent during the week ending September 19, 2012 compared with 6.60 percent in the previous week reflecting a liquid money market.

The Kenya Shilling weakened against major international currencies in the week ending September 20, 2012. Against the US dollar the Kenya Shilling depreciated to exchange at an average of Ksh 84.65 per US dollar compared to Ksh 84.27 per US dollar in the week ending September 13, 2012.

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 5,193 million (equivalent to 4.13 months of import cover) as at September 13, 2012 to US dollar 5,196 million (equivalent to 4.14 months of import cover) in the week ending September 20, 2012.

The Government offered for sale Treasury bills and Treasury bonds worth Ksh 23.0 billion during the week ending September 21, 2012. A total of Ksh 23.3 billion was accepted out of Ksh 31.0 billion bids received.

Gross Government domestic debt increased by Ksh 61.1 billion to stand at Ksh 919.9 billion on September 14, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 5.0 billion on account of Treasury bills.

Stock market recorded a weak performance in the week ending September 20, 2012, in both the equities and bonds segments. Equities market was inactive with all share indices registering declines. The NSE 20 Share Index declined by 19.32 points; NASI was down 0.85 points, FTSE NSE 15 Index 0.93 points and FTSE NSE 25, 0.96 points. The low performance in the equities market is attributed to dividend book closures in most of the big counters. Supply of shares declined 37.6 percent pulling down equity turnover by almost a similar margin while Market Capitalization was down 1.0 percent. The bonds market activity lost 7.0 percent in turnover.

Monetary Policy Operations

The money market was relatively liquid during the week ending September 19, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 18.53 billion through repo securities and Ksh 18.5 billion term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 27.5 billion and Ksh 6.3 billion, respectively. Reserve money averaged Ksh 250.6 billion during the week and was Ksh 5.6 billion below the target (Table 1).

Table 1: Open Market Operations (Ksh Billion)

Table 5: 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)
13-Sep-12	254.4	255.7	-1.3	3.5	3.5	0.0	0.0	251.5	-4.3	0.3	-4.5
14-Sep-12	266.3	255.7	10.6	14.0	6.8	6.7	0.0	251.6	-4.1	0.9	-5.0
17-Sep-12	261.5	256.5	4.9	10.0	3.5	6.6	0.0	249.3	-7.2	-2.9	-4.3
18-Sep-12	258.4	256.5	1.8	8.0	0.3	4.8	-3.0	250.8	-5.8	-1.1	-4.7
19-Sep-12	257.5	256.5	1.0	5.0	4.6	0.5	0.0	249.9	-6.7	-1.3	-5.4
Average	259.6	256.2	3.4	8.1	3.7	3.7	-0.6	250.6	-5.6	-0.8	-4.8

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate decreased to 6.57 percent during the week ending September 19, 2012 compared with 6.60 percent in the previous week reflecting a liquid money market. The average interbank volumes transacted rose to Ksh 10.5 billion from Ksh 9.6 billion transacted in the previous week while the average number of deals was 55 compared with 56 deals in the previous week (Table 2 and Chart A).

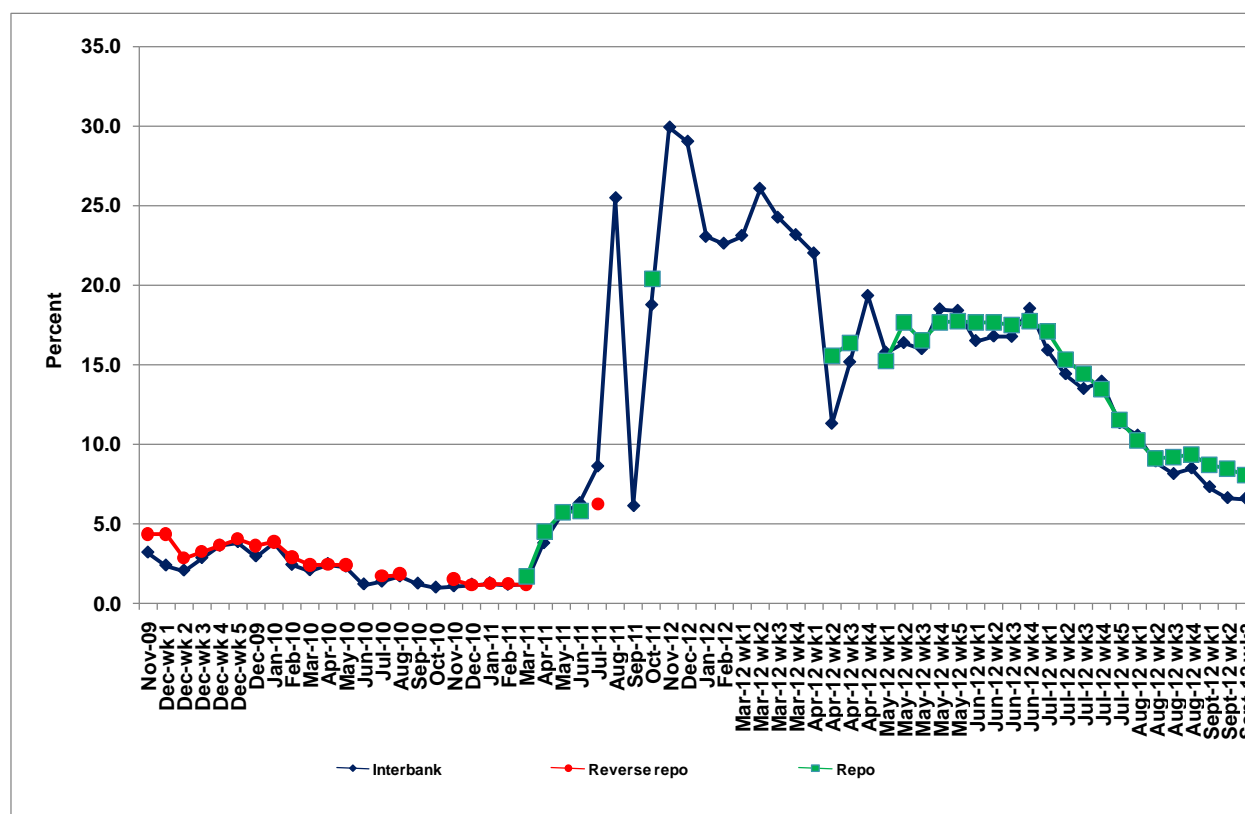
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
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

Source: Central Bank of Kenya

The average repo rate declined to 8.02 percent during the week ending September 19, 2012 from 8.49 percent in the previous week.

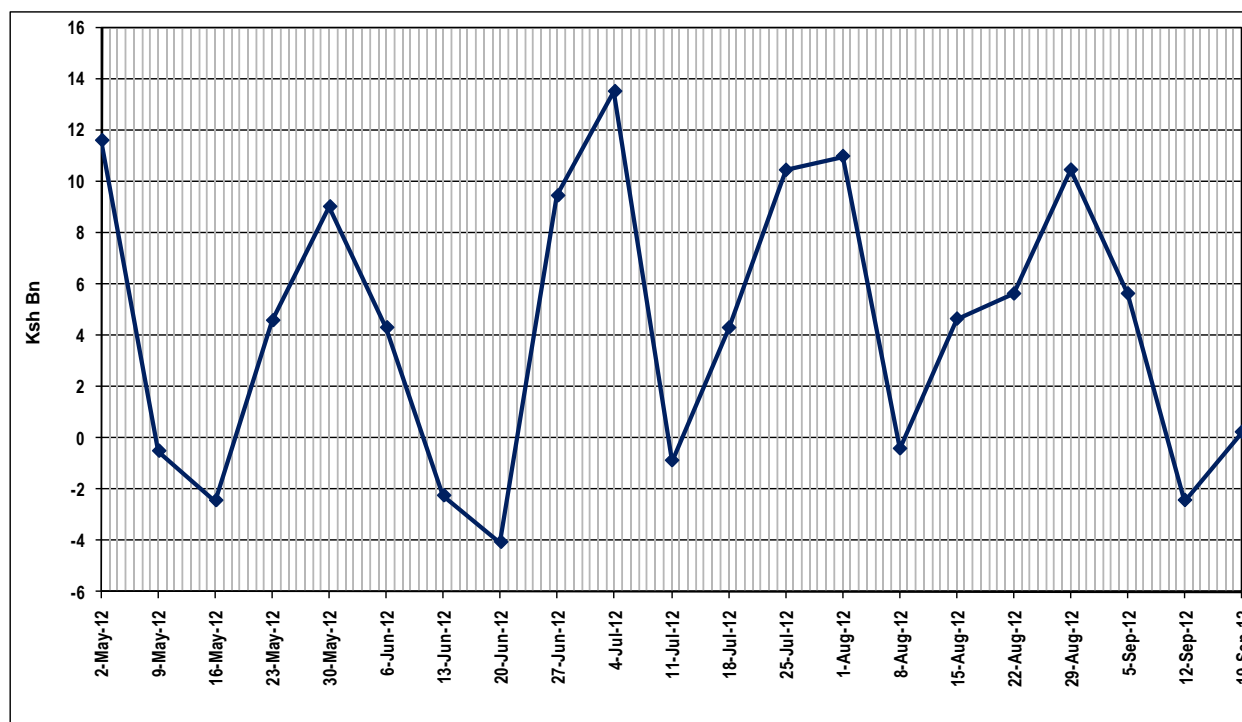
Chart A: The Structure of Interest Rates



Commercial Banks Clearing Account Balances

Commercial banks recorded in the week to September 19, 2012 a surplus of Ksh 0.23 billion in their settlement accounts in relation to the monthly average cash reserve requirements of 5.25 percent or Ksh 84.3bn. The Banks had recorded a deficit of Ksh 2.44 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 weakened against major international currencies in the week ending September 20, 2012. During the week, the Kenya shilling depreciated against the US dollar, the Sterling Pound, the Euro and the Japanese Yen by 0.45 percent, 1.68 percent, 2.57 percent and 0.24 percent respectively, to exchange at an average of Ksh 84.65 per US dollar, Ksh 137.30 per Sterling Pound, Ksh 110.59 per Euro and Ksh 108.02 per 100 Japanese Yen.

In the EAC region, the Kenya Shilling depicted mixed performance against East African currencies in the week ending September 20, 2012. The Kenya Shilling depreciated against the Uganda Shilling, Tanzania Shilling and the Rwanda Franc and appreciated against Burundi Franc. The Kenya Shilling exchange at an average of Ush 29.65, Tsh 18.57, RWF 7.18 and BIF 17.11 compared to Ush 29.74, Tsh 18.66, RWF 7.22 and BIF 17.01 in the week ending September 13, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
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

Source Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank increased from US dollar 5,193 million (equivalent to 4.13 months of import cover) as at September 13, 2012 to US dollar 5,196 million (equivalent to 4.14 months of import cover) in the week ending September 20, 2012 (Table 4).

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	20-Sep-12
Usable Reserves*	4,968	5,080	5,104	5,121	5,147	5,193	5,196
Months of Imports Cover**	4.06	4.15	4.12	4.14	4.16	4.13	4.14

*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 21, 2012, 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 15.0 billion in 15-year discounted fixed rate Treasury bonds, respectively. The Treasury bonds attracted bids worth Ksh 24.2 billion compared with Ksh 15.0 billion floated, a performance of 161.0 percent. Of this, the Government accepted Ksh 19.5 billion. The Treasury bills recorded mixed performance during the week, attracting bids worth Ksh 5.0 billion (123.8 percent performance) and Ksh 1.9 billion (47.0 percent performance), respectively, for the 91 day and 182 day papers. The Government accepted Ksh 3.8 billion worth of Treasury bills.

Interest Rates on Government Securities

Weighted average interest rates on the 91 day and 182 day Treasury bills edged up by 13.2 and 27.2 basis points respectively, to stand at 7.647 percent and 9.265 percent during this week's auction. In addition, the weighted average interest rate on the 15-year Treasury bond declined by 29.9 basis points from the last similar bond issued in April 2011.

Table 5: Interest Rates

Auction date	29-Apr-11	17-Aug-12	24-Aug-12	31-Aug-12	07-Sep-12	14-Sep-12	21-Sep-12
91 day T. Bills*	3.577	10.267	8.583	8.119	7.808	7.515	7.647
182 day T. Bills*		11.366	10.032	9.848	9.351	8.993	9.265
364 day T. Bills*				10.336			
15year FXD T. Bonds	12.388						12.089

*Weighted rates for accepted bids

Source Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 61.1 billion to stand at Ksh 919.9 billion on September 14, 2012, from Ksh 858.8 billion at the end of June 2012. This followed Ksh 26.0 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 14, 2012.

Table 6: Government Domestic Debt (Ksh Billion)

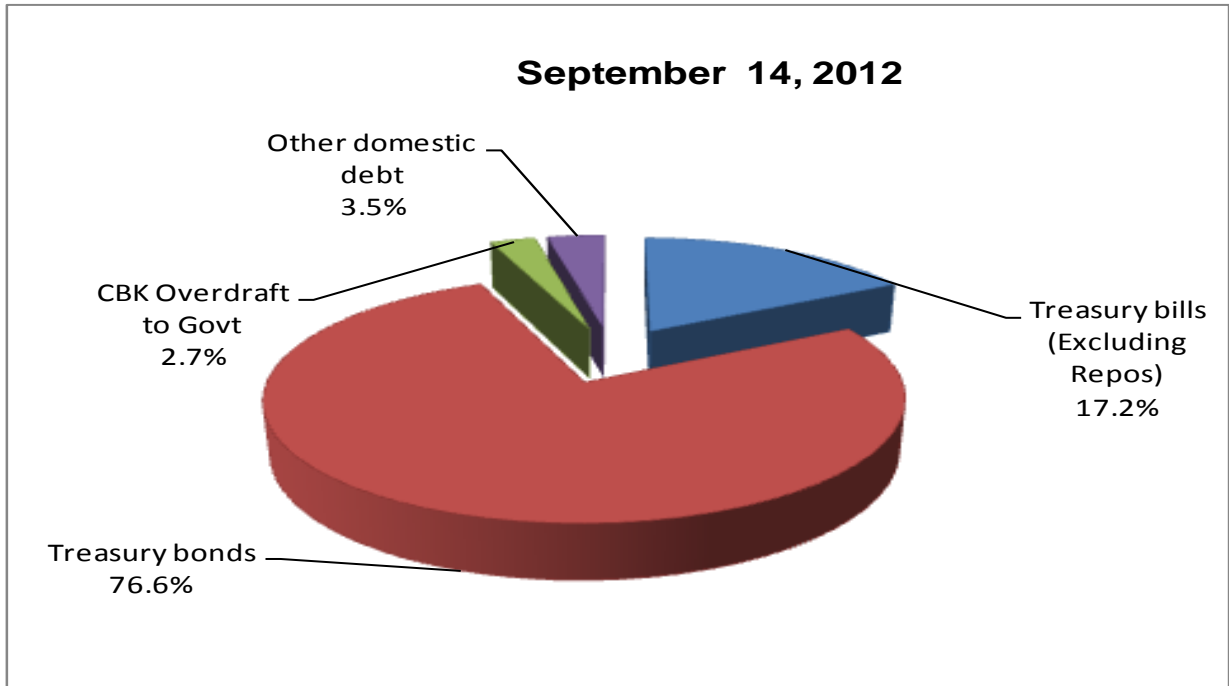
	Jun-11	Jun 2012	Jul 2012	Aug 2012	7th Sept 2012	14th Sept 2012	Changes	
							7th Sept 2012- 14th Sept 2012	29th Jun 2012 - 14th Sept 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	121.9 15.0	146.3 17.2	153.0 17.8	158.0 18.3	5.0	26.0
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	693.0 85.0	704.6 82.8	704.6 82.2	704.6 81.7	0.0	17.7
3. Total Securities (1+2)	722.4	819.0	814.9	850.9	857.7	862.6	5.0	43.6
4. Overdraft at Central Bank	7.6	7.3	25.4	17.7	25.3	25.3	0.0	18.0
5. Other Domestic debt*	34.3	32.6	31.9	31.9	31.9	32.0	0.1	-0.6
6. Gross Domestic Debt (3+4+5)	764.2	858.8	872.2	900.6	914.9	919.9	5.0	61.1
7. Interest payments on domestic debt	69.2	82.3	6.8	18.2	19.0	19.3	0.3	

* 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 increased by Ksh 5.0 billion on account of Treasury bills (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 14, 2012, from 5 years and 4 months at the end of June 2012.

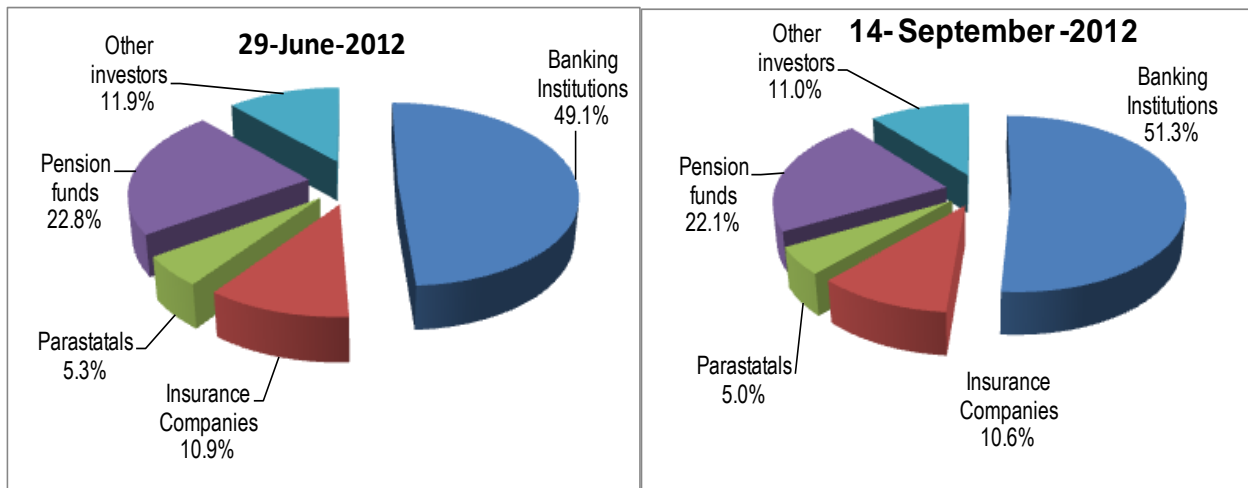
Chart C: Composition of Government Securities



Holding of Government Securities

Commercial bank holdings of Government securities increased from 49.1 percent at the end of June 2012 to 51.3 percent on September 14, 2012. Holdings of insurance companies, parastatals and pension funds declined from 10.9 percent, 5.3 percent and 22.8 percent to 10.6 percent, 5.0 percent and 22.1 percent, respectively, during the same period. Holdings by other investors, which comprise of Sacco's, 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 14, 2012 (Chart D).

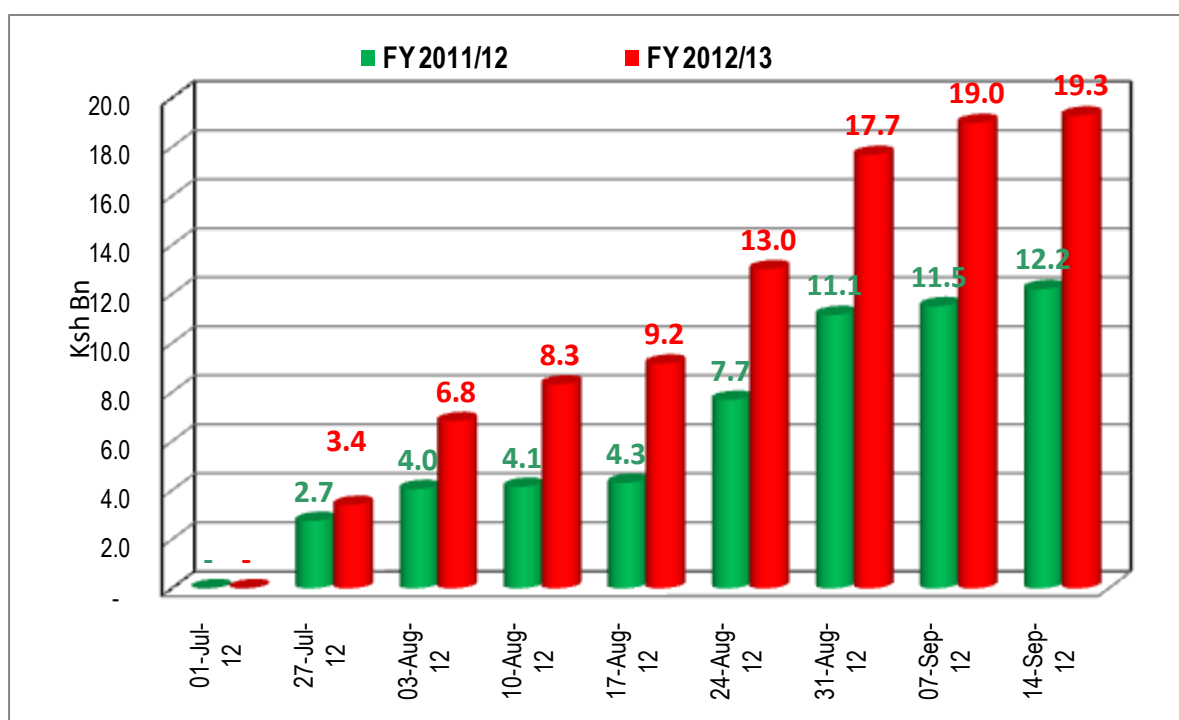
Chart D: Composition of Government Securities by Investors



Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to September 14, 2012 in the 2012/13 fiscal year amounted to Ksh 19.3 billion compared with Ksh 12.2 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 5.5 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 weakened in the week ending September 20, 2012 with all market indicators recording declines. The NSE 20 Share Index remained above the 3900 points mark but trended down. Market capitalization remained above the trillion shillings mark but lost 100 basis points. The bonds’ segment registered low activity, with a 7 percent fall in turnover.

Equities Market

As indicated in Table 7, the NSE 20 Share Index dropped to 3,934.52 points on September 20, 2012 from 3,953.84 points on September 13, 2012. NASI was also down to 86.37 points from 87.22 points over the period. Market Capitalization that measures shareholders’ wealth declined by Ksh 11.22 billion to reach Ksh 1,142.43 billion. Equity turnover declined to Ksh 1,826.56 million from Ksh 3,284.6 million constrained by supply

of shares which edged down by 37.6 percent to reach 98.82 million from 158.31 million the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	5-Jul-12	12-Jul-12	19-Jul-12	26-Jul-12	2-Aug-12	9-Aug-12	16-Aug-12	23-Aug-12	30-Aug-12	6-Sep-12	13-Sep-12	20-Sep-12
NASI 100= Jan 2008	82.47	82.29	83.26	84.35	82.98	83.86	83.60	84.01	84.87	85.35	87.22	86.37
NSE 20 Share Index 100=1966	3,795.32	3,802.96	3,825.93	3,878.52	3,825.08	3,823.49	3,804.54	3,817.70	3,875.11	3,888.14	3,953.84	3,934.52
Number of Deals	6,226	6,047	5,902	6,604	6,955	5,903	6,230	5,162	6,536	6,335	7,504	7,732
Total Shares Traded (millions)	83.53	69.81	75.38	113.63	88.12	110.53	59.67	51.18	75.75	83.90	158.31	98.82
Equity Turnover (Ksh. millions)	1,542.18	1,270.04	1,165.18	1,417.43	1,337.42	1,391.64	1,082.45	1,260.28	1,192.08	1,807.91	3,284.60	1,826.56
Market Capitalization (Ksh. Bn.)	1,078.82	1,076.51	1,097.96	1,112.32	1,095.17	1,106.79	1,103.32	1,108.74	1,120.23	1,126.55	1,153.64	1,142.43
Bonds Turnover (Ksh. millions)	4,249.15	6,445.90	6,675.65	9,892.70	11,273.80	16,848.45	9,806.80	17,017.95	29,123.00	22,828.10	24,833.65	23,099.40
FTSE NSE Kenya 15 Index	108.51	109.59	109.75	111.43	108.82	110.24	111.01	110.67	112.42	113.61	116.07	115.14
FTSE NSE Kenya 25 Index	111.43	112.26	112.26	113.83	111.04	112.81	113.53	113.19	114.77	116.17	118.52	117.56

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

Source: Nairobi Securities Exchange

Telecommunications and Technology sector was the most active, transacting 34.23 million shares or 34.6 percent of the traded shares in the week. Banking and Insurance sectors came in second and third, with 27.38 million and 11.91 million shares or 27.7 percent and 12.1 percent of the traded shares, respectively. Safaricom, CIC Insurance Group Ltd and Mumias Sugar Co. Ltd were the three most active counters with 34.08 million, 9.29 million and 8.97 million shares traded, respectively. Agriculture sector was least active, trading only 132,300 shares.

The biggest closing and average price gains in the week were for BAT at Ksh 6.0 and Ksh 4.0 respectively. The biggest closing and average price losses were for Standard Chartered bank and CFC Stanbic Bank at Ksh 20.0 and Ksh 3.4 per share, respectively. Of the 48 active counters, 26 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, was down to 115.14 points from 116.07 points, while FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the Exchange, also dropped to 117.56 points from 118.52 points during the review period.

The Bond Market

Bond trading activity was down 7.0 percent, to record Ksh 23,099 million for the week ending September 20, 2012 from Ksh 24,834 million the previous week. Corresponding deals were 222 compared with 282 of last week.