



October 12, 2012

Highlights

The money market was relatively liquid during the week ending October 10, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 29.6 billion through repo securities and Ksh 3.7 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 25.8 billion and Ksh 7.8 billion, respectively.

The average interbank interest rate rose to 8.87 percent during the week ending October 10, 2012 compared with 8.67 percent in the previous week

The Kenya Shilling exchange rate was relatively stable against major international currencies in the week ending October 11, 2012. Against the US dollar the Kenya Shilling appreciated marginally to trade at Ksh 85.03 compared to Ksh 85.13 in the week ending October 4, 2012.

The usable official foreign exchange reserves held by the Central Bank decreased from US dollar 5,159 million (equivalent to 4.11 months of import cover) during the week ending October 4, 2012 compared to US dollar 5,137 million (equivalent to 4.09 months of import cover) in the week ending October 11, 2012.

The Government offered for sale Treasury bills worth Ksh 8.0 billion during the week ending October 12, 2012. A total of Ksh 4.7 billion was accepted out of Ksh 6.0 billion bids received.

Gross Government domestic debt increased by Ksh 61.3 billion to reach Ksh 920.1 billion on October 5, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt declined by Ksh 2.1 billion on account of Treasury bills.

Stock market recorded a strong performance in the equities segment in the week ending October 11, 2012, with gains in all market indicators except the equities turnover. The NSE 20 Share Index gained 35.95 points; NASI was up 0.77 points, FTSE NSE 15 Index 0.41 points and FTSE NSE 25, 0.45 points. Supply of shares was, however, constrained pulling down equities turnover, while Market Capitalization improved by 90 basis points.

Monetary Policy Operations

The money market was relatively liquid during the week ending October 10, 2012. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 29.6 billion through repo securities and Ksh 3.7 billion in term auction deposits against maturities of repo and term auction deposits securities held by commercial banks of Ksh 25.8 billion and Ksh 7.8 billion, respectively. Reserve money averaged Ksh 255.9 billion during the week and was Ksh 4.5 billion below the target (Table 1).

Table 1: 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)
4-Oct-12	262.7	259.2	3.5	5.0	5.0	0.0	0.0	256.0	-3.2	3.4	-6.6
5-Oct-12	262.9	259.2	3.7	7.0	2.1	0.2	-4.7	260.3	1.1	6.4	-5.3
8-Oct-12	266.3	261.1	5.2	7.0	8.9	0.5	2.4	257.2	-3.9	2.3	-6.2
9-Oct-12	262.1	261.1	1.0	8.5	1.3	1.8	-5.4	257.2	-3.8	1.8	-5.7
10-Oct-12	260.8	261.1	-0.3	6.5	12.4	1.2	7.1	248.6	-12.5	-6.7	-5.9
Average	263.0	260.3	2.6	6.8	5.9	0.7	-0.1	255.9	-4.5	1.4	-5.9

Source: Central Bank of Kenya

Interbank and REPO Interest Rates

The average interbank interest rate rose to 8.87 percent during the week ending October 10, 2012 compared with 8.67 percent in the previous week. The average interbank volumes transacted declined to Ksh 7.5 billion from Ksh 7.8 billion transacted in the previous week, while the average number of deals, at 45, was unchanged compared with 46 deals in the previous week (Table 2 and Chart A).

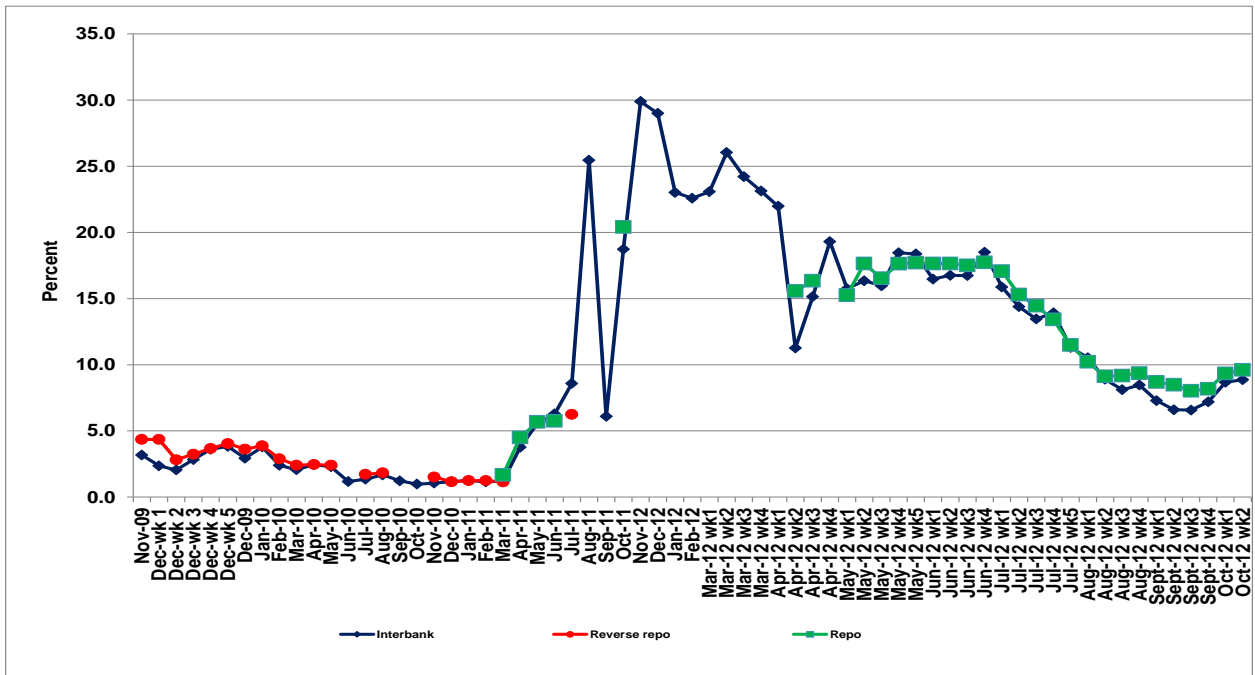
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
27-Sep-12	48	11,320	8.31
28-Sep-12	49	9,611	8.47
1-Oct-12	35	5,330	8.73
2-Oct-12	47	5,748	8.91
3-Oct-12	50	7,155	8.94
September 27-October 3, 2012	46	7,833	8.67
4-Oct-12	43	5,864	9.05
5-Oct-12	44	8,186	8.92
8-Oct-12	45	8,350	8.83
9-Oct-12	41	7,065	8.80
10-Oct-12	51	8,100	8.76
October 4-October 10, 2012	45	7,513	8.87

Source: Central Bank of Kenya

The average repo rate increased to 9.60 percent during the week ending October 10, 2012 from 9.34 percent in the previous week.

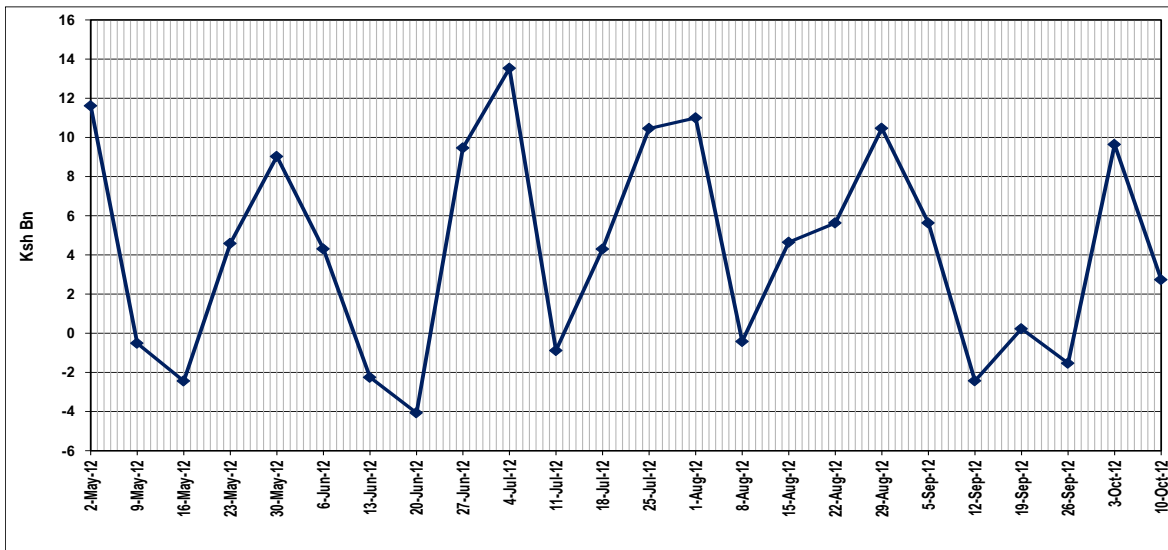
Chart A: The Structure of Interest Rates



Commercial Banks Clearing Account Balances

Commercial banks held excess of Ksh 2.74 billion in their settlement accounts above the monthly average cash reserve requirements of 5.25 percent at the Central Bank in the week to October 10, 2012, compared with Ksh 9.64 billion excess cash reserves in the previous week (Chart B).

Chart B: Weekly Average Deviation from CRR in the Commercial Banks Clearing Accounts



The Shilling Exchange Rate

The Kenya Shilling appreciated marginally against the US dollar, the Pound Sterling and the Japanese Yen to trade at an average of Ksh 85.03 per US dollar, Ksh 136.65 per Pound Sterling and Ksh 108.54 per 100 Japanese Yen during the week ending October 11, 2012. This is in comparison to the previous week's performance which saw the Kenya shilling exchange at Ksh 85.13 to the US dollar, Ksh 137.52 to the Pound Sterling, Ksh 109.79 to the Euro and 109.05 to the 100 Japanese Yen. The Shilling however depreciated against the Euro to trade at an average of Ksh 110.07 per Euro during the week ending October 11, 2012 compared to previous week's average.

In the EAC region, the Kenya Shilling depicted mixed performance against the East African Currencies, strengthening against the Uganda and Tanzania Shillings and the Burundi Franc but weakening against the Rwandan Franc. On average the Shilling traded at Ush 30.26, Tsh 18.54, RWF 7.25 and BIF 17.30 during the week ending October 11, 2012 compared to Ush 29.99, Tsh 18.51, RWF 7.29 and BIF 17.25 in the week ending October 4, 2012 (Table 3).

Table 3: Kenya Shilling Exchange Rates

	US dollar	Pound Sterling	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
28-Sep-12	85.28	138.57	110.15	109.98	29.75	18.48	7.28	17.24
1-Oct-12	85.28	137.58	109.41	109.52	29.87	18.48	7.28	17.18
2-Oct-12	85.18	137.67	110.00	109.08	30.06	18.50	7.28	17.14
3-Oct-12	84.97	137.05	109.66	108.67	30.19	18.54	7.30	17.35
4-Oct-12	84.93	136.72	109.75	108.03	30.09	18.57	7.31	17.35
28 Sept - 4 Oct 2012	85.13	137.52	109.79	109.05	29.99	18.51	7.29	17.25
5-Oct-12	84.91	137.47	110.50	108.31	30.09	18.57	7.31	17.35
8-Oct-12	84.92	136.78	110.28	108.04	30.27	18.54	7.25	17.43
9-Oct-12	85.10	136.52	110.51	108.54	30.20	18.50	7.23	17.30
10-Oct-12	85.10	136.17	109.48	108.81	30.26	18.63	7.23	17.22
11-Oct-12	85.12	136.33	109.59	109.00	30.49	18.49	7.23	17.19
5 Oct - 11 Oct 2012	85.03	136.65	110.07	108.54	30.26	18.54	7.25	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 5,159 million (equivalent to 4.11 months of import cover) during the week ending October 4, 2012 to US dollar 5,137 million (equivalent to 4.09 months of import cover) in the week ending October 11, 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	4-Oct-12	11-Oct-12
Usable Reserves*	4,968	5,080	5,104	5,121	5,147	5,193	5,190	5,163	5,159	5,137
Months of Imports Cover**	4.06	4.15	4.12	4.14	4.16	4.13	4.13	4.11	4.11	4.09

*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 October 12, 2012, the Government offered for sale Ksh 4.0 billion each in 91 day and 182 day Treasury bills. The 91 day paper performed at 62.5 percent, attracting Ksh 2.5 billion worth of bids, while the 182 day paper performed at 87.6 percent, attracting bids worth Ksh 3.5 billion. The Government accepted bids worth Ksh 4.7 billion, of which Ksh 3.3 billion was in the 182 day paper.

Interest Rates on Government Securities

The weighted average interest rates on the 91 day and 182 day Treasury bills increased by 52.3 and 11.3 basis points, respectively, to 8.962 percent and 10.307 percent, during the week under review.

Table 5: Interest Rates

Auction date	29-Jun-12	27-Jul-12	31-Aug-12	14-Sep-12	21-Sep-12	28-Sep-12	5-Oct-12	12-Oct-12
91 day T. Bills*	10.780	13.226	8.119	7.515	7.647	8.093	8.439	8.962
182 day T. Bills*	11.091	13.379	9.848	8.993	9.265	9.888	10.194	10.307
364 day T. Bills*			10.336				10.570	
2 year FXD T. Bonds								
5 year FXD T. Bonds		13.548						
10year FXD T. Bonds		13.630						
15year FXD T. Bonds					12.089			
Month								
Average savings rate								
Average overdraft rate								

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 61.3 billion to Ksh 920.1 billion on October 5, 2012, from Ksh 858.8 billion at the end of June 2012. This followed increases of Ksh 25.7 billion, Ksh 16.9 billion and Ksh 18.1 billion in the stocks of Treasury bills, Treasury bonds and Government overdraft at the Central Bank, respectively.

Table 6: Government Domestic Debt (Ksh Billion)

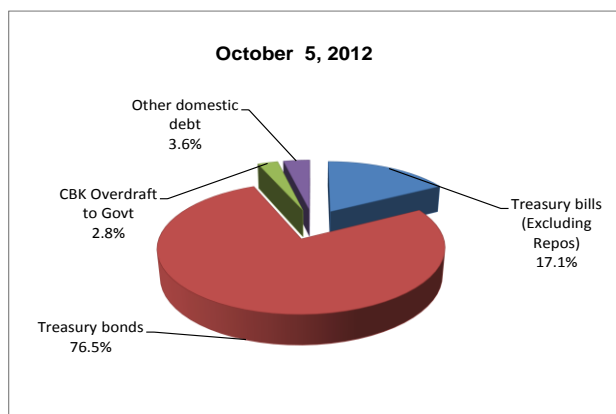
	Jun-11	Jun 2012	21st Sept 2012	28th Sept 2012	5th Oct 2012	Changes	
						28th Sept 2012- 5th Oct 2012	29th Jun 2012 - 5th Oct 2012
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	132.0 16.1	161.3 18.8	159.7 18.5	157.7 18.3	-2.0	25.7
2. Treasury Bonds (As % of total securities)	595.7 82.5	687.0 83.9	695.5 81.2	703.9 81.5	703.9 81.7	0.0	16.9
3. Total Securities (1+2)	722.4	819.0	856.8	863.6	861.6	-2.0	42.6
4. Overdraft at Central Bank	7.6	7.3	25.4	25.4	25.4	0.0	18.1
5. Other Domestic debt*	34.3	32.6	33.7	33.2	33.2	0.0	0.6
6. Gross Domestic Debt (3+4+5)	764.2	858.8	915.8	922.2	920.1	-2.1	61.3
7. Interest payments on domestic debt	69.2	82.3	21.5	25.2	28.3	3.1	

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

Source: Central Bank of Kenya

Over the week gross government domestic debt declined by Ksh 2.1 billion on account of Treasury bills, while Treasury bonds, Government overdraft at the Central Bank and other domestic debt remained unchanged, during the week under review (Table 6). The average time to maturity of Government securities declined to 5 years and 2 months during the week ending October 5, 2012, from 5 years and 4 months at the end of June 2012.

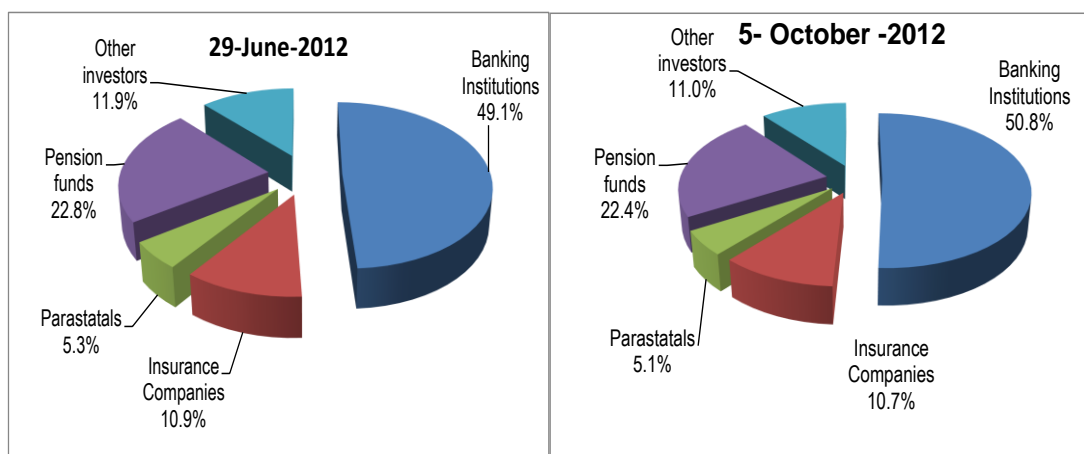
Chart C: Composition of Government Securities



Holding of Government Securities

Commercial bank holdings of Government securities increased from 49.1 percent at the end of June 2012 to 50.8 percent on October 5, 2012. Percentage holdings by insurance companies, parastatals and pension funds declined from 10.9 percent, 5.3 percent and 22.8 percent to 10.7 percent, 5.1 percent and 22.4 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 October 5, 2012 (Chart D).

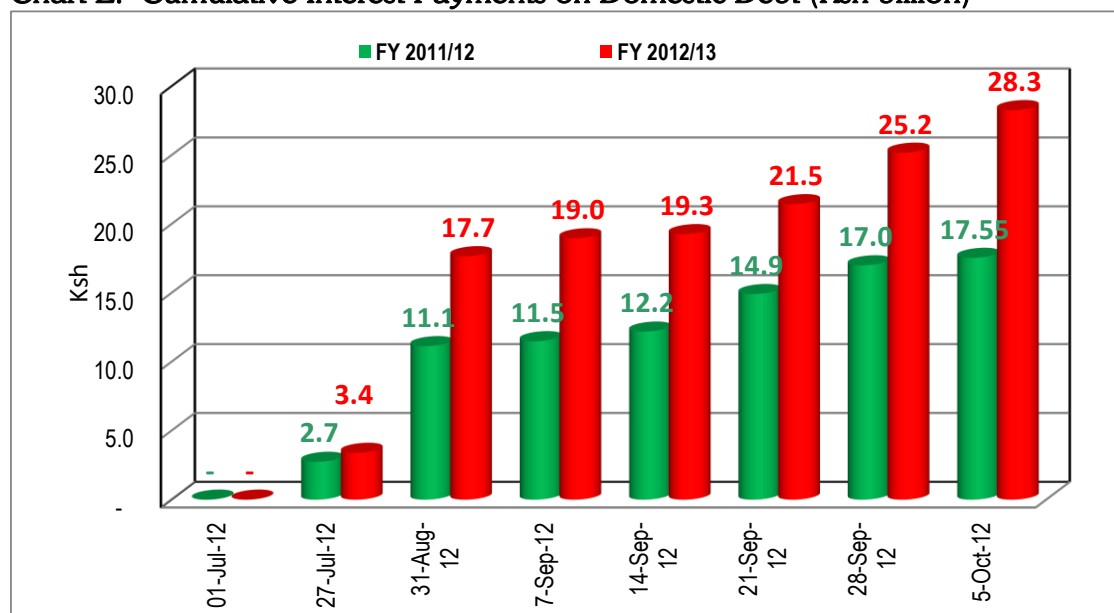
Chart D: Composition of Government Securities by Investors



Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to October 5, 2012 in the 2012/13 fiscal year amounted to Ksh 28.3 billion compared with Ksh 17.6 billion during a similar period of the previous fiscal year (Chart E). Interest and other charges on Treasury bills and Treasury bonds amounted to Ksh 6.72 billion and Ksh 20.02 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 0.74 billion and Ksh 0.80 billion, respectively.

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



The Capital Markets

Capital markets performance remained strong in the week ending October 11, 2012 with most market indicators recording gains. All share indices recorded gains, while turnover in both equities and bonds declined. Market capitalization remained above the trillion shillings mark gaining 90 basis points.

Equities Market

As indicated in table 7, NSE 20 Share Index improved by 90 basis points to record 3997.0 points on October 11, 2012 from 3961.05 points on October 4, 2012. NASI gained by a similar margin to register 87.85 points from 87.08 points over the same period. FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, was up by 40 basis points to 116.77 points from 116.36 points, while FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the Exchange, also rose by a similar margin to 119.44 points from 118.99 points during the review period.

Market Capitalization that measures shareholders' wealth gained Ksh 10.26 billion to reach Ksh 1,162.25 billion. Equity turnover edged downward by 45.4 percent to Ksh 1,638.95

million from Ksh 3,001.31 million. The supply of equities fell by 11.4 percent to reach 94.28 million from 106.45 million the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	9-Aug-12	16-Aug-12	23-Aug-12	30-Aug-12	6-Sep-12	13-Sep-12	20-Sep-12	4-Oct-12	11-Oct-12
NASI 100= Jan 2008	83.86	83.60	84.01	84.87	85.35	87.22	86.37	87.08	87.85
NSE 20 Share Index 100=1966	3,823.49	3,804.54	3,817.70	3,875.11	3,888.14	3,953.84	3,934.52	3961.05	3997
Number of Deals	5,903	6,230	5,162	6,536	6,335	7,504	7,732	6534	6815
Total Shares Traded (millions)	110.53	59.67	51.18	75.75	83.90	158.31	98.82	106.4505	94.2818
Equity Turnover (Ksh. millions)	1,391.64	1,082.45	1,260.28	1,192.08	1,807.91	3,284.60	1,826.56	3001.308	1638.951
Market Capitalization (Ksh. Bn.)	1,106.79	1,103.32	1,108.74	1,120.23	1,126.55	1,153.64	1,142.43	1151.986	1162.249
Bonds Turnover (Ksh. millions)	16,848.45	9,806.80	17,017.95	29,123.00	22,828.10	24,833.65	23,099.40	16506.65	13856.85
FTSE NSE Kenya 15 Index	110.24	111.01	110.67	112.42	113.61	116.07	115.14	116.36	116.77
FTSE NSE Kenya 25 Index	112.81	113.53	113.19	114.77	116.17	118.52	117.56	118.99	119.44

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

Source: Nairobi Securities Exchange

The Telecommunications & Technology sector was the most active, transacting 30.82 million shares or 32.7 percent of the traded shares in the week. Banking and Commercial & Services sectors came in second and third, with 26.65 million and 13.04 million shares or 28.3 percent and 13.8 percent of the traded shares, respectively. Safaricom, Equity Bank Ltd and Kenya Airways Ltd were the three most active counters with 30.50 million, 12.96 million and 10.75 million shares traded, respectively. The Automobile & Accessories sector was least active, trading only 39,100 shares.

The biggest closing and average price gains for the week were for Williamson Tea Kenya Ltd and BAT Ltd at Ksh 19.0 and Ksh 13.05, respectively. The biggest closing and average price losses were for Longhorn Kenya Ltd and CFC Stanbic Bank Ltd at Ksh 2.5 and Ksh 2.15, respectively. Of the 48 active counters, 23 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 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.