



JANUARY 25, 2013

Highlights

The money market was relatively liquid during the week ending January 23, 2013. The Central Bank's open market operations resulted in a net withdrawal of Ksh 2 billion of the excess liquidity. The average interbank rate increased marginally to 5.82 percent during the week ending January 23, 2013 compared with 5.45 percent recorded in the previous week.

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending January 24, 2013. Against the US dollar the Kenya Shilling depreciated marginally to trade at an average of Ksh87.11 per USD compared to Ksh86.69 per USD in the week ending January 17, 2013.

The usable official foreign exchange reserves held by the Central Bank decreased from US Dollar 5,264 million (equivalent to 4.13 months of import cover) as at January 17, 2013 to US Dollar 5,177 million (equivalent to 4.06 months of import cover) in the week ending January 24, 2013.

The Government offered for sale Treasury bills and Treasury bonds worth Ksh 22.0 billion during the week ending January 25, 2013. A total of Ksh 26.1 billion was accepted out of Ksh 36.4 billion bids received.

Gross Government domestic debt increased by Ksh 117.0 billion to Ksh 975.9 billion on January 18, 2013, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 1.7 billion, on account of Treasury bills.

Capital markets during the week ending January 24, 2013 reversed gains recorded in the previous week. The NSE 20 Share Index, NASI, FTSE NSE 15 Index and FTSE NSE 25 Index declined by 160.7 points, 3.37 points, 1.95 points and 1.91 points, respectively. Market capitalization declined by Ksh 45.16 billion, as equity turnover shed 24.4 percent. Bonds activity remained low, losing 58.4 percent in turnover, while FTSE NSE Kenyan Shilling Government Bond Index declined by 52 basis points.

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Monetary Policy Operations

The money market was relatively liquid during the week ending January 23, 2013. The Central Bank's open market operations resulted in a mop up of Ksh 29.0 billion through sale of repo securities against maturities of Ksh 11.5 billion and Ksh 15.5 billion in repo securities and term auction deposits, respectively, held by commercial banks. Reserve money averaged Ksh 272.2 billion during the week and was Ksh 14.5 billion below 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(-)	
					Repo	Term Auction Deposit					
	(1)	(2)	3=(1-2)	(4)	(5)	(6)	7=(5+6-4)	(8)	9=(8-2)	(10)	(11)
17-Jan-12	274.1	287.0	-12.9	2.0	2.0	0.0	0.0	270.7	-16.3	-2.1	-14.2
18-Jan-12	275.0	287.0	-12.0	5.0	4.7	0.0	-0.4	269.8	-17.2	-2.2	-15.0
21-Jan-12	272.2	286.5	-14.3	3.0	4.7	0.0	1.7	279.7	-6.7	8.5	-15.2
22-Jan-12	282.7	286.5	-3.8	7.0	9.5	0.0	2.5	269.7	-16.8	-0.9	-15.9
23-Jan-12	273.2	286.5	-13.3	12.0	2.8	0.0	-9.2	271.2	-15.3	1.5	-16.8
Average	275.4	286.7	-11.3	5.8	4.7	0.0	-1.1	272.2	-14.5	1.0	-15.4

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate increased marginally to 5.82 percent during the week ending January 23, 2013 compared with 5.45 percent recorded in the previous week. The average interbank volumes transacted declined to Ksh 9.7 billion from Ksh 12.2 billion transacted in the previous week, while the average number of deals was 42 compared with 45 deals in the previous week (Table 2 and Chart A).

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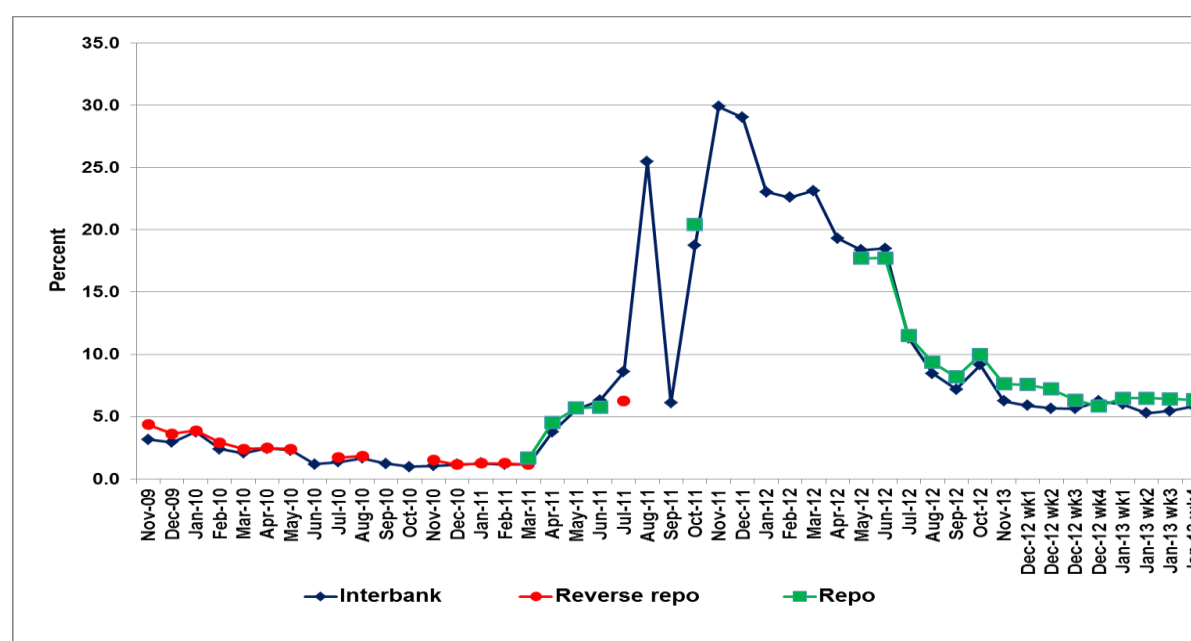
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
10-Jan-13	42	11,436	5.30
11-Jan-13	53	13,611	5.50
14-Jan-13	46	12,198	5.48
15-Jan-13	40	11,531	5.43
16-Jan-13	42	12,023	5.52
January 10 -January 16, 2013	45	12,160	5.45
17-Jan-13	43	12,262	5.63
18-Jan-13	44	9,556	5.77
21-Jan-13	40	8,991	5.82
22-Jan-13	41	8,500	5.90
23-Jan-13	43	9,308	5.99
January 17 -January 23, 2013	42	9,723	5.82

Source: Central Bank of Kenya

The average repo rate remained largely unchanged at 6.34 percent during the week ending January 23, 2013 compared with 6.41 percent recorded in the previous week.

Chart A: The Structure of Interest Rates



Source: Central Bank of Kenya

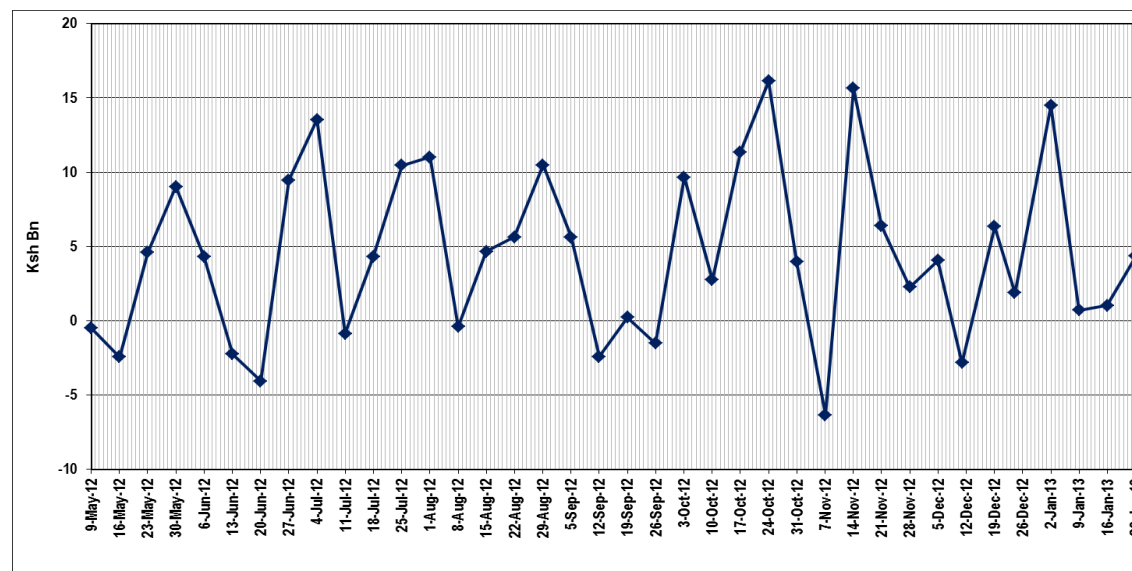
Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 4.34 billion in their settlement accounts at the Central Bank in relation to the monthly average cash reserve requirements of 5.25 percent (Ksh

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88.6 billion) in the week to January 23, 2013 compared with Ksh 1.01 billion in the previous week (Chart B).

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



Source: Central Bank of Kenya

The Shilling Exchange Rate

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending January 24, 2013. It depreciated by 0.48 percent and 0.62 percent against the US Dollar and the Euro, respectively, to trade at an average of Ksh 87.11 per USD and Ksh 116.15 per Euro compared to Ksh 86.69 per USD and Ksh 115.43 per Euro in the week ending January 17, 2013. The Shilling appreciated by 0.79 percent and 0.03 percent against the Sterling Pound and the Japanese Yen respectively to trade at an average of Ksh 138.29 per Sterling Pound and Ksh 97.57 per 100 Japanese Yen compared to Ksh 139.39 per Sterling Pound and Ksh 97.60 per 100 Japanese Yen in the week ending January 17, 2013.

In the EAC region, the Kenya Shilling weakened against all the East African currencies in the week ending January 24, 2013. It depreciated to trade at an average of Ush 30.68, Tsh 18.45, RWF 7.09 and BIF 17.21 compared to Ush 30.91, Tsh 18.48, RWF 7.15 and BIF 17.38 in the week ending January 17, 2013.

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Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
11-Jan-13	86.67	139.77	114.97	97.28	31.15	18.48	7.13	17.42
14-Jan-13	86.68	139.92	116.04	96.75	30.92	18.52	7.13	17.25
15-Jan-13	86.69	139.35	115.77	97.41	30.92	18.48	7.13	17.48
16-Jan-13	86.70	139.17	115.21	98.37	30.82	18.47	7.24	17.24
17-Jan-13	86.70	138.76	115.17	98.18	30.74	18.45	7.13	17.50
11-17 Jan 2013	86.69	139.39	115.43	97.60	30.91	18.48	7.15	17.38
18-Jan-13	86.87	138.84	116.28	96.49	30.68	18.47	7.11	17.21
21-Jan-13	86.85	137.82	115.68	96.90	30.68	18.47	7.12	17.21
22-Jan-13	86.98	137.96	116.00	97.54	30.75	18.48	7.11	17.36
23-Jan-13	87.38	138.35	116.34	98.87	30.67	18.44	7.07	17.19
24-Jan-13	87.47	138.48	116.43	98.03	30.63	18.38	7.07	17.09
18-24 Jan 2013	87.11	138.29	116.15	97.57	30.68	18.45	7.09	17.21

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank decreased from US Dollar 5,264 million (equivalent to 4.13 months of import cover) as at January 17, 2013 to US Dollar 5,177 million (equivalent to 4.06 months of import cover) in the week ending January 24, 2013 (Table 4). The reserves remained above the minimum of 4 months of import cover.

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

	1-Nov-12	8-Nov-12	15-Nov-12	22-Nov-12	29-Nov-12	6-Dec-12	13-Dec-12	20-Dec-12	27-Dec-12	3-Jan-13	10-Jan-13	17-Jan-13	24-Jan-13
Usable Reserves*	5,147	5,249	5,267	5,383	5,382	5,374	5,377	5,385	5,396	5,369	5,282	5,264	5,177
Months of Imports Cover**	4.04	4.12	4.13	4.23	4.22	4.22	4.22	4.23	4.24	4.21	4.15	4.13	4.06

*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 January 25, 2013, the Government offered for sale Ksh 4.0 billion in 91 day Treasury bills, Ksh 3.0 billion in 182-day Treasury bills and reopened a total of Ksh 15.0 billion in 20 year and 5 year discounted fixed-rate Treasury bonds. The Treasury bonds, 91-day paper and 182-day paper attracted bids worth Ksh 32.3 billion (215.7 percent performance), Ksh 3.1 billion (76.3 percent performance) and Ksh 1.0 billion (33.3 percent performance), respectively. The Government accepted Ksh 22.1 billion, Ksh 3.1 billion and Ksh 1.0 billion worth of bids in the Treasury bonds, 91 day

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and 182 day Treasury bills, respectively. Total non-competitive bids received amounted to Ksh 4.0 billion.

Interest Rates on Government securities

The weighted average interest rates on the 91-day, 182-day Treasury bills and 5 year Treasury bond declined further by 1.6, 2.2 and 75.7 basis points respectively, to 8.036 percent, 8.066 percent and to 12.791 percent during this week's auction. However, the weighted average interest rate on the 20 year Treasury bond rose by 15.4 basis points to stand at 13.694 percent.

Table 5: Government Securities Interest rates

Auction date	29-Jun-12	27-Jul-12	23-Nov-12	30-Nov-12	21-Dec-12	28-Dec-12	18-Jan-13	25-Jan-13
91-day T. Bills*	10.780	13.226	8.987	8.445	8.142	8.138	8.052	8.036
182-day T. Bills*	11.091	13.379	9.773	9.336	9.046	8.100	8.088	8.066
364-day T. Bills*				11.709				
2 year FXD T. Bonds					12.382			
5 year FXD T. Bonds		13.548						12.791
15year FXD T. Bonds								
20 year FXD T. Bonds			13.540					13.694

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 117.0 billion to Ksh 975.9 billion on January 18, 2013, from Ksh 858.8 billion at the end of June 2012. This followed increases of Ksh 69.5 billion, Ksh 29.1 billion and Ksh 17.8 billion in the stocks of Treasury bills, Treasury bonds and Government overdraft at the Central Bank, respectively. Other domestic debt increased by Ksh 0.6 billion during the period.

Table 6: Government Domestic Debt (Ksh Billion)

	Jun 2012	Sep 2012	Dec-12	11th Jan 2013	18th Jan 2013	Changes	
						11th Jan 2013- 18th Jan 2013	29th Jun 2012 - 18th Jan2013
1. Treasury Bills (Excluding Repos) (As % of total securities)	132.0 16.1	159.7 18.5	196.3 21.5	199.7 21.8	201.6 22.0	1.9	69.5
2. Treasury Bonds (As % of total securities)	687.0 83.9	703.9 81.5	716.1 78.5	716.1 78.2	716.1 78.0	0.0	29.1
3. Total Securities (1+2)	819.0	863.6	912.3	915.8	917.6	1.9	98.6
4. Overdraft at Central Bank	7.3	25.4	25.4	25.4	25.1	-0.3	17.8
5. Other Domestic debt*	32.6	33.2	33.6	33.0	33.1	0.2	0.6
6. Gross Domestic Debt (3+4+5)	858.8	922.2	971.3	974.1	975.9	1.7	117.0
7. Interest payments on domestic debt	82.3	25.2	53.6	54.6	54.7	0.1	

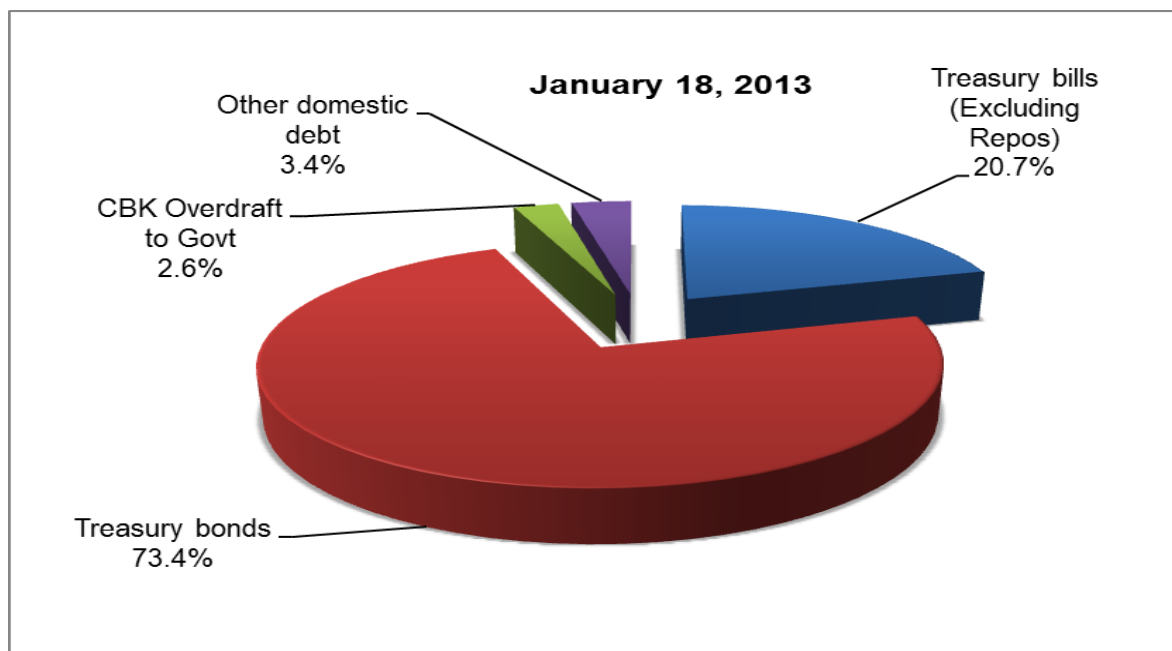
* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and Tax Reserve Certificates .

Source: Central Bank of Kenya

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During the week ending January 18, 2013, gross government domestic debt increased by Ksh 1.7 billion, largely on account of Treasury bills (Table 6). The average time to maturity of Government securities declined to 4 years and 10 months during the week ending January 18, 2013, from 5 years and 4 months at the end of June 2012.

Chart C: Composition of Government Domestic Debt

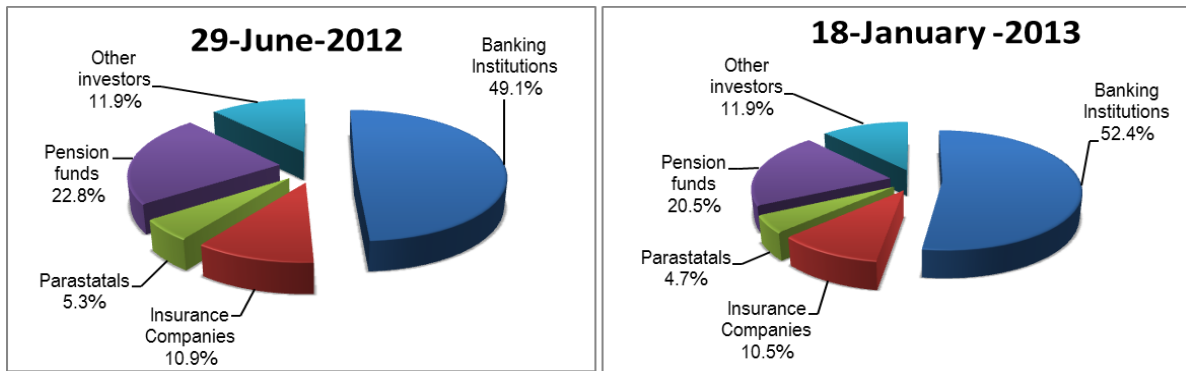


Source: Central Bank of Kenya

Holdings of Government Securities

The government securities accounted for 94.1 percent of gross domestic debt on January 18, 2013 (Chart C). Commercial bank holdings of Government securities increased from 49.1 percent at the end of June 2012 to 52.4 percent on January 18, 2013. However, the proportion held by insurance companies, parastatals and pension funds declined from 10.9 percent, 5.3 percent and 22.8 percent to 10.5 percent, 4.7 percent and 20.5 percent, respectively, during the same period. Percentage holdings by other investors, which comprise of Saccos', listed and private companies, self-help groups, educational institutions, religious institutions and individuals, remained unchanged at 11.9 percent (Chart D).

Chart D: Holding of Government Securities by Investors

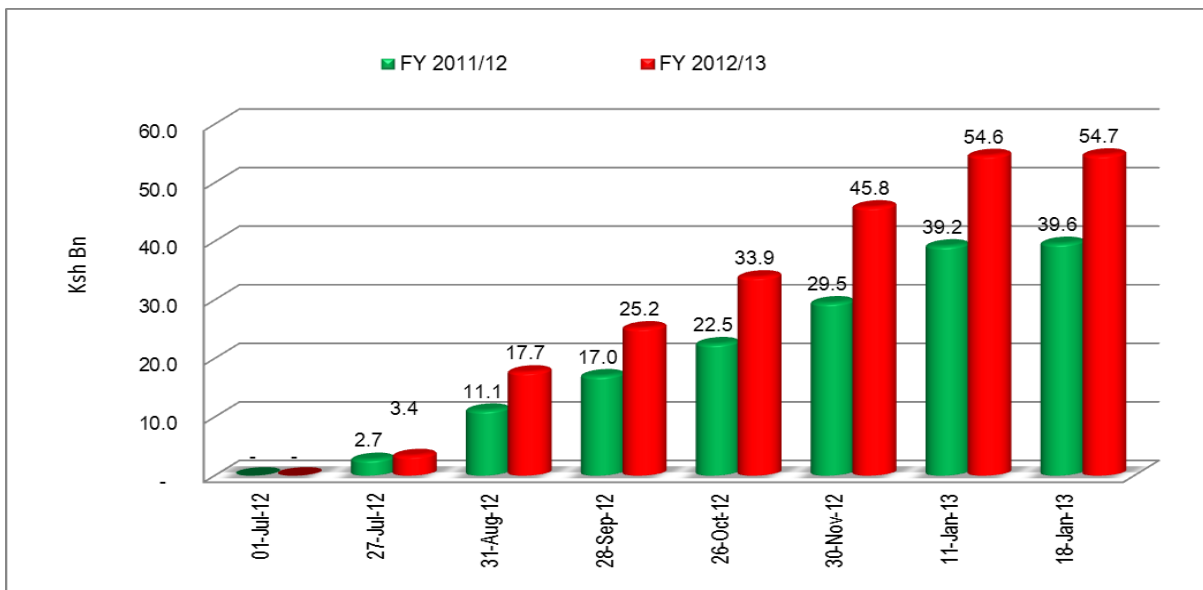


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to January 18, 2013 in the 2012/13 fiscal year amounted to Ksh 54.70 billion compared with Ksh 39.6 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 11.33 billion and Ksh 40.64 billion, respectively. Meanwhile, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 1.55 billion and Ksh 1.18 billion, respectively.

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



Source: Central Bank of Kenya

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Capital Markets

The capital market performance declined in the week ending January 24, 2013, with both equities and bonds segments recording significant losses. However, the number of shares traded increased by 23 percent partly on account of profit-taking from the rally witnessed since January 3, 2013.

Equities Market

The NSE 20 Share Index closed the week down at 4,385.00 points from 4,545.70 points on January 17, 2013 (Table 7). NASI retreated to 102.45 points from 105.82 points. Market capitalization that measures shareholders' wealth ended at Ksh 1,373.72 billion from Ksh. 1,418.88 billion. Equity turnover shed 24.4 percent in value due to falling share prices, to record Ksh 1,930.53 million from KSh 2,553.42 million.

Table 7: Key Weekly Market Statistics

Week Ending	6-Dec-12	13-Dec-12	27-Dec-13	3-Jan-13	10-Jan-13	17-Jan-13	24-Jan-13
NASI 100= Jan 2008	91.52	92.80	96.07	96.07	101.02	105.82	102.45
NSE 20 Share Index 100=1966	4,022.64	4,031.70	4,159.25	4,159.25	4,319.73	4,545.70	4,385.00
Number of Deals	6,611	4,933	3,407	3,407	6,697	8,800	7,951
Total Shares Traded (millions)	154.13	162.88	32.50	3,250.00	99.60	125.96	154.43
Equity Turnover (Ksh. millions)	2,068.16	2,106.87	482.65	4,826.54	2,014.43	2,553.42	1,930.53
Market Capitalization (Ksh. Bn.)	1,225.32	1,244.37	1,288.14	1,288,137.00	1,354.57	1,418.88	1,373.72
Bonds Turnover (Ksh. millions)	6,630.55	3,972.85	3,447.90	3,447.90	8,575.75	5,678.55	2,361.85
FTSE NSE Kenya 15 Index	119.53	121.70	126.74	126.74	132.91	136.78	134.83
FTSE NSE Kenya 25 Index	122.35	124.61	129.64	129.64	136.12	139.99	138.08
Index(Jan2012=100)	94.84	95.26	92.86	92.86	92.02	91.73	91.25

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

Source: Nairobi Securities Exchange

Telecoms and Technology, Banking and Energy and Petroleum sectors were the top three most active, transacting 95.44 million or 61.8 percent; 24.07 million or 15.6 percent and 15.68 million or 10.2 percent of all traded shares, respectively. Safaricom Ltd, Barclays Bank Kenya Ltd and Kenol Kobil Ltd were the three most active counters with 95.18 million, 8.71 million and 7.29 million shares traded, respectively. Automobile and Accessories sector was least active, trading 322,800 shares.

The biggest closing and average price gains for the week were for City Trust and Williamson Tea Ltd at Ksh 62 and 7.27 per share, respectively. The biggest closing and average price losses were for BAT Ltd and Carbacid Investments Ltd at Ksh 21 and Ksh

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12 per share, respectively. Of the 48 active counters, 26 had average price gain in the week ending January 24, 2013 down from 37 counters in the previous week.

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, closed lower at 134.83 points from 136.78. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE also declined to 138.08 points from 139.99 points in the previous trading week. FTSE NSE Kenyan Shilling Government Bond Index, which measures the performance of Kenya's domestic bond market, closed at 91.25 points compared to 92.73 points the previous week (Table 7).

The Bond Market

Bond trading activity closed 58.4 percent down in turnover, to reach Ksh 2,361.85 million for the week ending January 24, 2013 from Ksh 5,678.55 million in the previous week. Corresponding deals fell to 39 from 79 the previous week. The decline may be explained by investors focus on primary market issues where the 5 and 20 year re-opening had a 215.7 percent subscription rate against Ksh 15 billion offered.