



DECEMBER 20, 2013

Highlights

The money market liquidity improved during the week ending December 18, 2013 supported by Government payments and redemption of Government securities. In order to allow the market to distribute the available liquidity, the Central Bank stayed out of the market.

The average interbank rate increased to 8.18 percent during the week ending December 18, 2013 from 7.10 percent in the previous week on account of liquidity withdrawal through repo securities in the previous week.

The Kenya shilling strengthened against major international currencies during the period running December 6 - 19, 2013, except for a marginal depreciation against the Euro in the week ending December 11, 2013. The Kenya shilling strengthened against the US Dollar over the last two weeks largely reflecting declining dollar demand by importers ahead of the Christmas holidays.

The usable official foreign exchange reserves held by Central Bank have increased over the last two weeks and this increase is largely attributed to open market operations during the period under review.

The Government offered for sale Treasury bills and bonds worth Ksh 24.0 billion, during the week ending December 20, 2013. A total of Ksh 27.9 billion was accepted out of Ksh 32.4 billion bids received.

Gross Government domestic debt increased by Ksh 123.9 billion to reach Ksh 1,174.8 billion on December 11, 2013, from Ksh 1,051.0 billion held at the end of June 2013. During the week, gross government domestic debt increased by Ksh 2.8 billion largely on account of Treasury bills.

The NSE performance eased in the week ending December 19, 2013. Except for the Bonds turnover, all other market indicators declined during the week compared to the week ending December 5, 2013 mostly on account of the December holidays.

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Monetary Policy Operations

The money market liquidity improved during the week ending December 18, 2013, on account of Government payments and redemption of Government securities. Average reserve money increased to Ksh 315.2 billion during the week and was Ksh 12.6 billion above 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(-)	Reverse Repo	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)
5-Dec-13	314.5	299.2	15.3	0.0	0.0	0.0	0.0	0.0	314.1	14.9	14.1	0.8
6-Dec-13	311.9	299.2	12.7	11.0	7.0	0.0	-4.1	0.0	304.9	5.7	4.4	1.3
9-Dec-13	300.6	300.9	-0.3	5.0	0.8	0.0	-4.3	0.0	301.8	0.9	-1.2	2.1
10-Dec-13	300.1	300.9	-0.8	1.0	4.0	0.0	3.0	0.0	293.5	-7.4	-12.0	4.6
11-Dec-13	305.9	300.9	5.0	0.0	0.0	0.0	0.0	0.0	305.4	4.5	-1.6	6.1
12-Dec-13	HOLIDAY											
13-Dec-13	HOLIDAY											
Average	306.6	300.2	6.4	3.4	2.3	0.0	-1.1	0.0	303.9	3.7	0.7	3.0
Sum				17.0	11.7	0.0	-5.3	0.0				
16-Dec-13	316.1	302.6	13.5	0.0	0.0	0.0	0.0	0.0	312.8	10.2	4.8	5.4
17-Dec-13	316.8	302.6	14.2	0.0	0.0	0.0	0.0	0.0	317.3	14.7	11.1	3.6
18-Dec-13	317.9	302.6	15.4	0.0	0.0	0.0	0.0	0.0	315.5	12.9	12.0	1.0
Average	316.9	302.6	14.4	0.0	0.0	0.0	0.0	0.0	315.2	12.6	9.3	3.3

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate increased by 108.1 basis points to 8.18 percent during the week ending December 18, 2013 from 7.10 percent in the previous week on account of liquidity withdrawal through repo securities in the previous week. The average interbank volume transacted increased to Ksh 22.4 billion in the week ending December 18, 2013 from Ksh 15.17 billion the previous week, while the average number of deals increased to 70 from 59 (Table 2 and Chart A).

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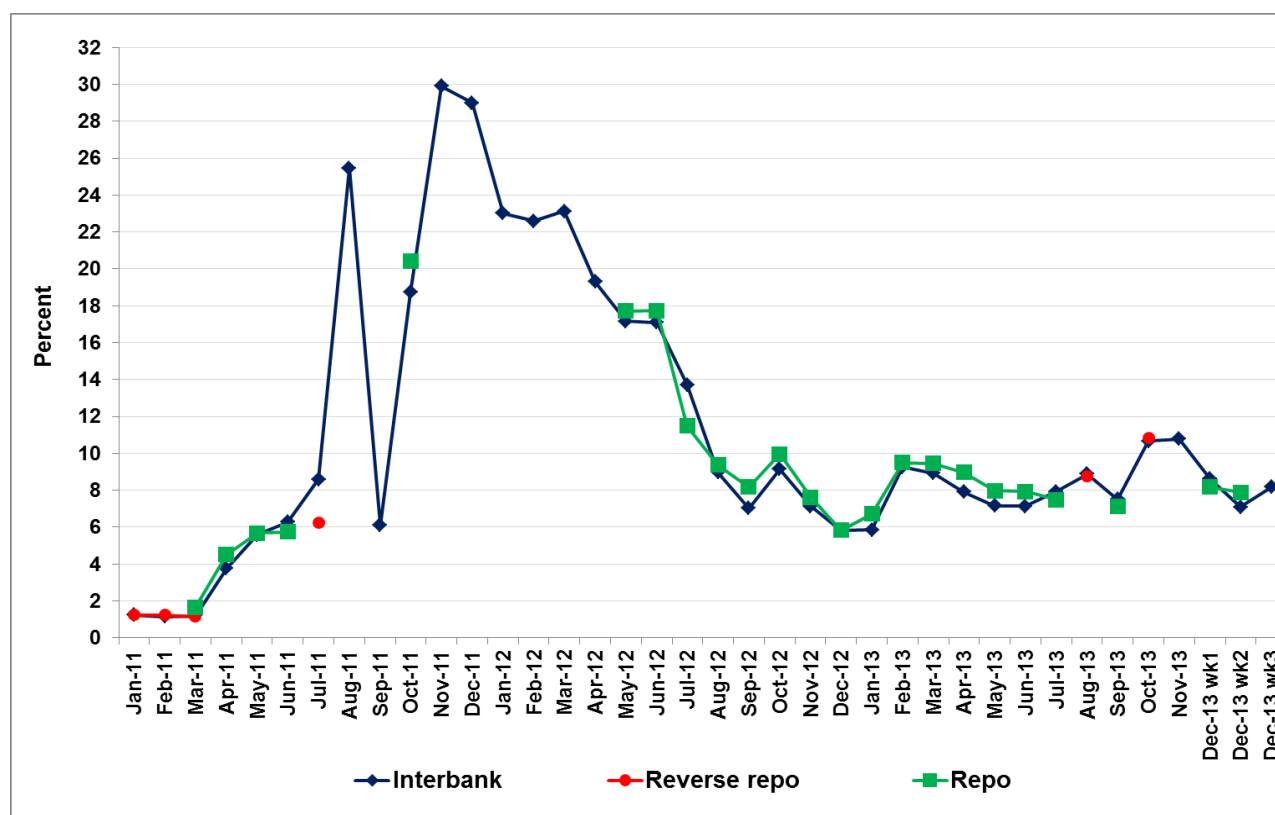
TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
5-Dec-13	71	19,791	7.19
6-Dec-13	64	12,965	6.93
9-Dec-13	43	9,850	6.90
10-Dec-13	57	16,570	7.01
11-Dec-13	60	16,668	7.47
12-Dec-13	HOLIDAY		
13-Dec-13	HOLIDAY		
December 5 -December 11, 2013	59	15,169	7.10
16-Dec-13	72	20,322	7.82
17-Dec-13	59	20,499	8.27
18-Dec-13	79	26,394	8.45
December 16 -December 18, 2013	70	22,405	8.18

Source: Central Bank of Kenya

The Central Bank stayed out of the market during the week ending December 18, 2013. As a result the Repo rate remained unchanged at 7.63 percent.

CHART A: STRUCTURE OF INTEREST RATES



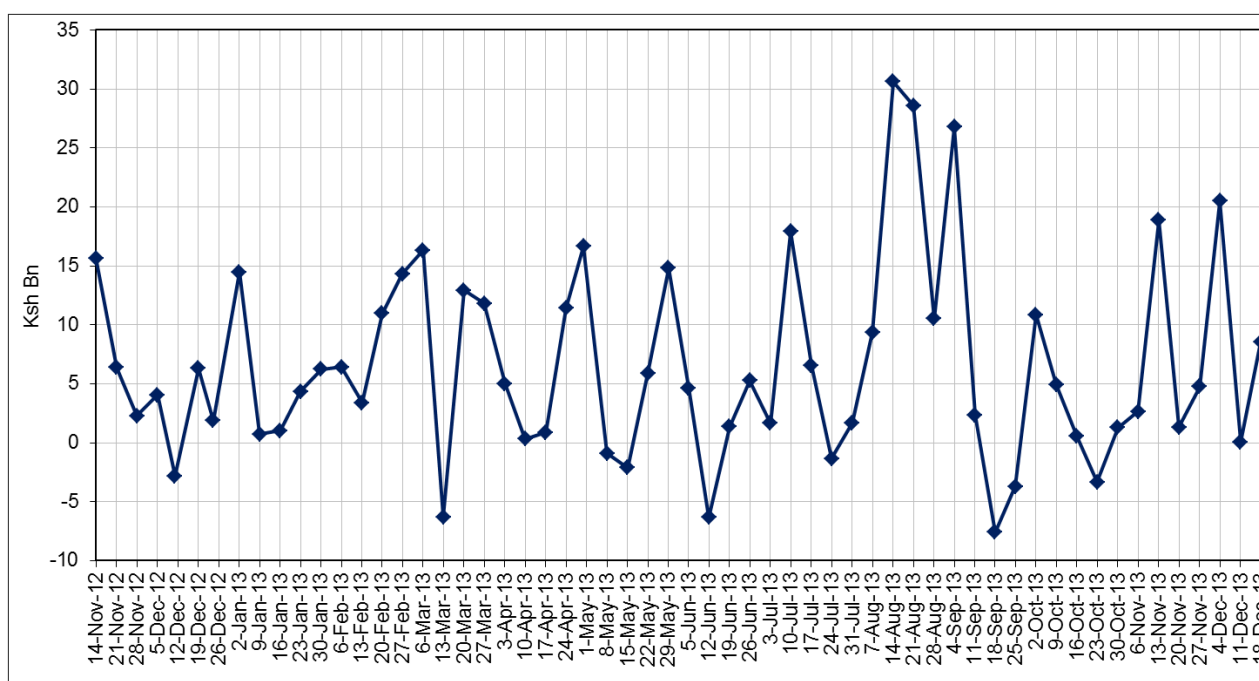
Source: Central Bank of Kenya

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Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 8.6 billion in their settlement accounts in relation to the monthly average cash reserve requirement of 5.25 percent (Ksh 97.1 billion) at the Central Bank in the week to December 18, 2013 compared with a surplus of Ksh 0.1 billion recorded 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 appreciated by 0.10 percent to the US dollar during the week ending December 11, 2013 to trade at an average of 86.63 per US Dollar from an average of 86.71 per US Dollar during the week ending December 5, 2013. Over the same period, the shilling appreciated by 0.03 percent and 0.42 percent respectively against the Pound Sterling and the Japanese Yen but weakened by 0.84 percent against the Euro to trade at an average of 142.00 per Pound Sterling, 118.85 per Euro and 84.29 per 100 Japanese Yen (Table 3).

During the week ending December 19, 2013 the Kenya shilling appreciated by 0.38 percent, 0.82 percent, 0.20 percent and 0.71 percent respectively against the US Dollar, the Pound Sterling, the Euro and the Japanese Yen to trade at an average of 86.30 per US Dollar, 140.83 per Pound Sterling, 118.61 per Euro and 83.69 per 100 Japanese Yen (Table 3).

In the EAC region, the Kenya Shilling depreciated against all EAC currencies to trade at an average of Ush 29.11, Tsh 18.556, RWF 7.73 and BIF 17.87 during the week ending

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December 11, 2013 compared to Ush 29.13, Tsh 18.563, RWF 7.74 and BIF 17.91 during the week ending December 5, 2013 (Table 3).

During week ending December 19, 2013, however, the Kenya shilling strengthened to the Uganda and Tanzania shillings as well as the Rwanda Franc but weakened to the Burundi Franc in comparison to the week ending December 11, 2013 to trade at an average of Ush 29.18, Tsh 18.62, RWF 7.75 and BIF 17.86. (Table 3)

TABLE 3: KENYA SHILLING EXCHANGE RATES

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
6-Dec-13	86.56	141.28	118.26	84.85	29.17	18.58	7.75	17.97
9-Dec-13	86.63	141.68	118.67	84.05	29.15	18.56	7.75	17.96
10-Dec-13	86.65	142.51	119.13	83.83	29.06	18.55	7.72	17.78
11-Dec-13	86.68	142.52	119.36	84.41	29.05	18.54	7.72	17.78
12-Dec-13	HOLIDAY							
13-Dec-13	HOLIDAY							
6-13 Dec- 13	86.63	142.00	118.85	84.29	29.11	18.556	7.73	17.87
16-Dec-13	86.55	141.23	119.05	84.33	29.09	18.57	7.73	17.80
17-Dec-13	86.43	140.99	119.02	83.99	29.13	18.59	7.74	17.83
18-Dec-13	86.04	140.27	118.65	83.67	29.26	18.68	7.78	17.91
19-Dec-13	86.17	140.83	117.73	82.76	29.22	18.65	7.76	17.88
16-19 Dec- 13	86.30	140.83	118.61	83.69	29.18	18.62	7.75	17.86

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined from US Dollar 5,903 million as at December 5, 2013 to US Dollar 5,896 million as at December 11, 2013 but increased to 5,992 million as at December 19, 2013. In terms of months of import cover, the foreign exchange reserves increased to 4.24 months of import cover over the period under review and remained above the statutory minimum of 4 month holdings (Table 4).

TABLE 4: OFFICIAL RESERVES USD MILLIONS

	21-Nov-13	28-Nov-13	5-Dec-13	11-Dec-13	19-Dec-13
Usable Reserves*	5,879	5,898	5,903	5,896	5,992
Months of Imports Cover**	4.12	4.17	4.17	4.17	4.24

*Excludes encumbered reserves

**Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

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Government Securities Auction

The Government offered for sale Ksh 3.0 billion in each of the 91-day, 182-day and 364-day Treasury bills and Ksh 15.0 billion in the 2-year discounted fixed rate Treasury bonds during the week ending December 20, 2013. Total bids received for the Treasury bills amounted to Ksh 3.1 billion, of which Ksh 1.4 billion, Ksh 1.6 billion and Ksh 0.1 billion was in 91-day, 182-day and 364-day papers, representing performance rates of 45.85 percent, 51.91 percent and 3.41 percent, respectively. In addition, Ksh 29.4 billion was received for the 2 year Treasury bond, representing 195.99 percent performance. The Government accepted Ksh 1.0 billion in the 91-day paper, Ksh 1.6 billion in the 182-day paper, Ksh 0.1 billion in the 364-day paper and Ksh 25.3 billion in the 2 year Treasury bond, during the week. Total non-competitive bids received amounted to Ksh 2.1 billion.

Interest Rates on Government Securities

Weighted average interest rates on the 91-day and 364-day Treasury bills declined by 2.7 basis points and 24.2 basis points, respectively, to reach 9.405 percent and 10.500 percent, while that on the 182-day paper rose by 8.4 basis points to reach 10.440 percent during the week's auction. In addition, the weighted average interest rate on the 2 year Treasury bond declined by 138.2 basis points to reach 11.553 percent compared with past similar auction held in August, 2013.

TABLE 5: GOVERNMENT SECURITIES INTEREST RATES

	28-Jun-13	23-Aug-13	30-Aug-13	27-Sep-13	25-Oct-13	29-Nov-13	11-Dec-13	20-Dec-13
91-day T. Bills*	5.175	10.462	10.474	9.109	9.943	9.760	9.432	9.405
182-day T. Bills*	5.549	10.816	10.835	9.670	10.487	10.473	10.356	10.440
364-day T. Bills*	8.356	11.690	11.649	10.308	10.830	10.835	10.742	10.500
1 year FXD T. Bonds								
2 year FXD T. Bonds		12.939						11.553
5 year FXD T. Bonds	11.305							
10year FXD T. Bonds	12.371	12.371						
12-year Infrastructure Bond				12.363				
15year FXD T. Bonds								
15year FXD T. Bonds								
15year FXD T. Bonds								
15year FXD T. Bonds								
20 year FXD T. Bonds								

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 123.9 billion to reach Ksh 1,174.8 billion on December 11, 2013, from Ksh 1,051.0 billion held at the end of June 2013. This followed Ksh 46.7 billion, Ksh 49.2 billion, Ksh 27.2 billion and Ksh 0.8 billion respective increases in the stocks of Treasury bills, Treasury bonds, Government overdraft at the Central Bank and other domestic debt during the period.

CBK WEEKLY BULLETIN

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

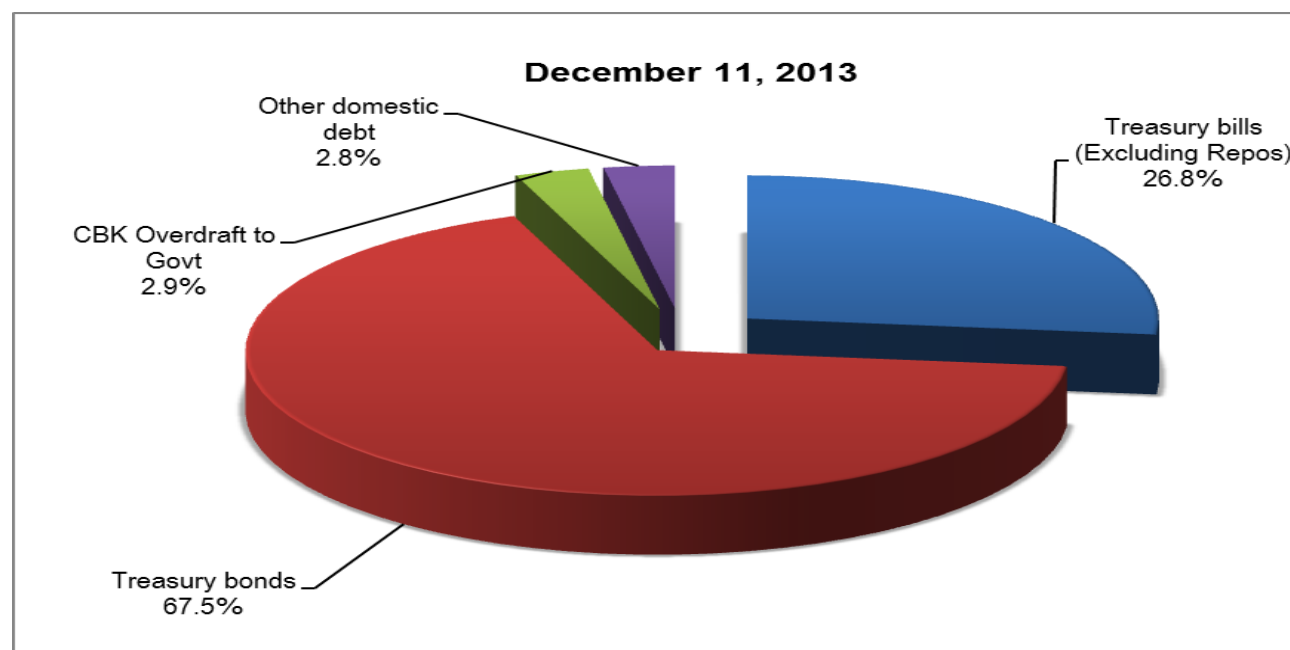
	Jun 2013	Aug 2013	18th Oct 2013	25th Oct 2013	1st Nov 2013	15th Nov 2013	22nd Nov 2013	29nd Nov 2013	06th Dec 2013	11th Dec 2013	Changes	
											6th Dec 2013 to 11th Dec 2013	28th Jun 2013 - 11th Dec 2013
1. Treasury Bills (Excluding Repos) (As % of total securities)	267.8 26.5	278.0 26.4	305.2 27.7	309.7 28.3	312.0 28.0	311.3 28.0	309.5 27.9	310.1 28.1	311.6 28.2	314.4 28.4	2.8 0.2	46.7 1.9
2. Treasury Bonds (As % of total securities)	744.2 73.5	774.4 73.6	794.8 72.3	784.8 71.7	801.5 72.0	801.8 72.0	801.8 72.1	793.3 71.9	793.3 71.8	793.4 71.6	0.0 -0.2	49.2 -1.9
3. Total Securities (1+2)	1011.9	1052.4	1100.1	1094.5	1113.5	1113.2	1111.3	1103.4	1105.0	1107.8	2.8	95.8
4. Overdraft at Central Bank	7.0	34.2	10.8	23.5	28.0	28.0	30.9	34.2	34.2	34.2	0.0	27.2
5. Other Domestic debt*	32.0	31.6	31.5	31.6	31.6	34.9	35.2	31.4	32.9	32.9	0.0	0.8
6. Gross Domestic Debt (3+4+5)	1051.0	1118.2	1142.3	1149.6	1173.0	1176.0	1177.5	1169.0	1172.0	1174.8	2.8	123.9
7. Interest payments on domestic debt	110.2	14.2	26.0	29.2	34.1	34.7	37.2	49.5	48.6	49.0	0.4	

* 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

During the week under review, gross government domestic debt increased by Ksh 2.8 billion, on account of Treasury bills which increased by Ksh 2.8 billion to reach Ksh 314.4 billion while stocks of Treasury bonds, Overdraft at Central Bank of Kenya and Other domestic debt remained unchanged. The average time to maturity of Government securities stood at 5 years on December 11, 2013, compared with 5 years and 2 months at the end of June 2013.

CHART C: COMPOSITION OF GOVERNMENT SECURITIES



Source: Central Bank of Kenya

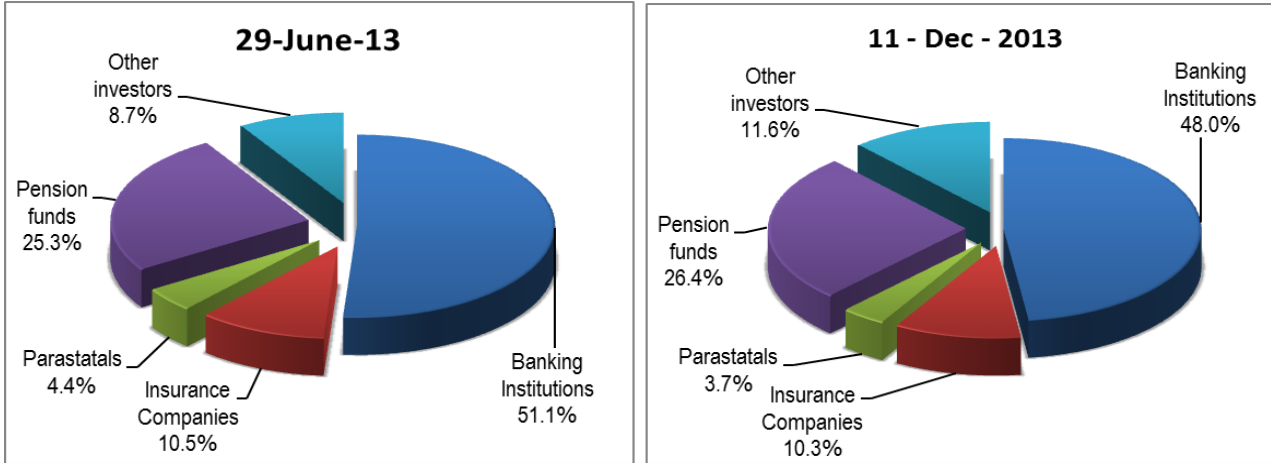
Holding of Government Securities

Government securities accounted for 94.3 percent of gross domestic debt on December 11, 2013 (Chart C). Government securities held by commercial banks, Insurance companies and parastatals declined from 51.1 percent, 10.5 percent and 4.4 percent in June, 2013 to 48.0

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percent, 10.3 percent and 3.7 percent, respectively, on December 11, 2013. Those held by pension funds and other investors, which comprise SACCOs, listed and private companies, self-help groups, educational institutions, religious institutions and individuals increased to reach 26.4 percent and 11.6 percent of total securities, during the week under review (Chart D).

CHART D: COMPOSITION OF GOVERNMENT SECURITIES BY INVESTORS

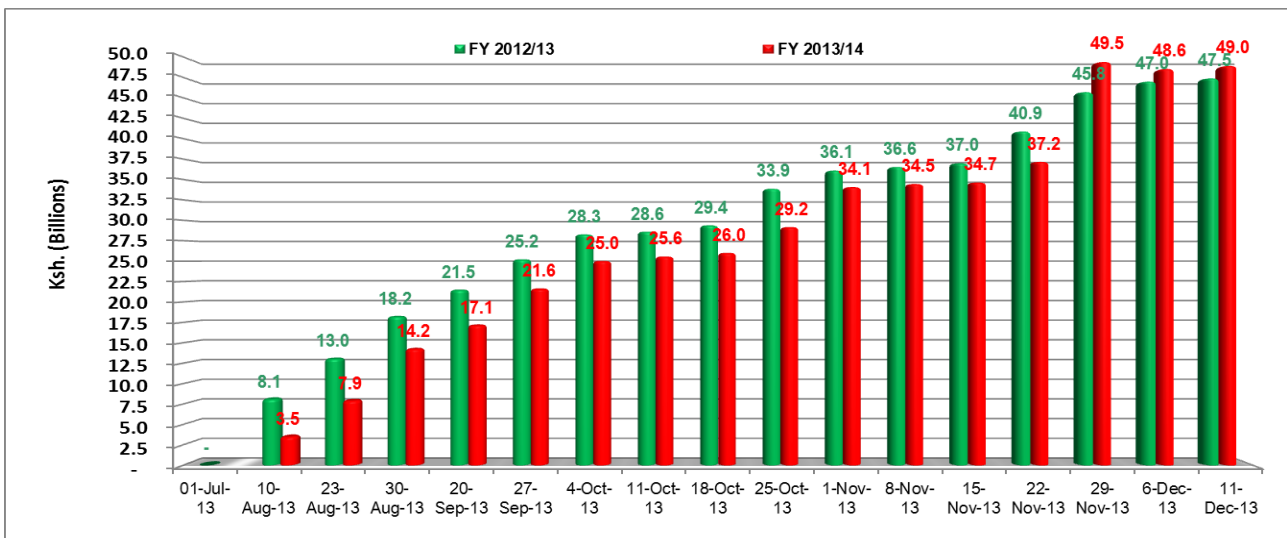


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt during the week ending December 11, 2013 amounted to Ksh 49.0 billion compared with Ksh 47.5 billion during a similar period of the Fiscal Year 2012/13 (Chart E). The cost during the period was on account of interest and other charges on Treasury bills, Treasury bonds, Government overdraft at the Central Bank and the pre-1997 Government overdraft amounting to Ksh 8.1 billion, Ksh 39.7billion, Ksh 0.4 billion and Ksh 0.7 billion, respectively.

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



Source: Central Bank of Kenya

CBK WEEKLY BULLETIN

Capital Markets Report

Capital markets performance was down during the week ending December 19, 2013 from week that ended on December 5, 2013. The NSE 20 Share Index lost 149.95 points, while Market Capitalization declined by Ksh 75.32 billion. The Bonds market segment, however, improved in turnover over the same period.

Equities Market

NSE 20 Share Index closed the week at 4,855.50 points down from 5,005.45 points for the week ending December 05, 2013 on account of the holidays on December 12 and 13, 2013 (Table 7). Market capitalization that measures shareholders' wealth declined to Ksh 1,854.15 billion from Ksh 1,929.47 billion over the same period. Equity turnover also declined to 3,091.89 million from 3,101.43 from the week ending December 5, 2013. The number of shares traded, however, rose to 136 million from 125 million in the period under review.

TABLE 7: KEY WEEKLY MARKET STATISTICS

Week Ending	24-Oct-13	31-Oct-13	7-Nov-13	14-Nov-13	21-Nov-13	28-Nov-13	5-Dec-13	19-Dec-13
NASI 100= Jan 2008	131.56	133.24	135.29	135.11	138.14	142.58	137.91	132.23
NSE 20 Share Index 100=1966	4,949.65	4,992.88	5,017.78	5,030.76	5,053.91	5,137.21	5,005.45	4,855.50
Number of Deals	7,737.00	7,881.00	9,638.00	9,995.00	9,785.00	11,771.00	10,674.00	6,839.00
Total Shares Traded (millions)	175.07	111.19	177.39	124.48	116.86	212.08	124.97	136.28
Equity Turnover (Ksh. millions)	4,199.81	2,984.06	3,398.10	2,618.31	2,650.45	4,120.86	3,101.43	3,091.89
Market Capitalization (Ksh. Bn.)	1,850.11	1,873.66	1,902.58	1,899.96	1,942.58	1,994.73	1,929.47	1,854.15
Bonds Turnover (Ksh. millions)	4,049.60	15,096.00	9,776.00	6,077.83	5,746.98	5,176.77	5,764.90	7,604.73
FTSE NSE Kenya 15 Index	172.84	174.65	175.32	175.02	178.79	181.66	175.66	0.00
FTSE NSE Kenya 25 Index	174.59	176.15	177.02	176.84	180.3	183.50	177.67	0.00
FTSE NSE Bond Index	91.56	91.11	91.25	91.18	91.13	91.09	90.88	0.00

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

Source: Nairobi Securities Exchange

Telecoms and Technology, Banking and Insurance were the top three most active sectors, transacting 70.05 million or 51.40 per cent, 26.28 million or 19.28 per cent and 12.97 million or 9.52 percent, respectively. Safaricom, KCB and CFC Insurance Limited were the three most active counters with 70.05 million, 10.15 million and 8.50 million shares traded, respectively. The least active sector was Automobile and Accessories sector with 120,800 shares traded.

The Bond Market

Bonds turnover increased to Ksh 7,604.73 from 5,764.90 million from the week ended December 5, 2013. Corresponding deals were 112 up from 84 over the same period.