

# CBK WEEKLY BULLETIN

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**FEBRUARY 1, 2013**

## **Highlights**

Overall 12-month inflation marginally increased for the first time in thirteen months to 3.7 percent in January 2013 from 3.2 percent in December 2012 as reflected in food and fuel inflation. Non food non fuel inflation however, eased further by 29 basis points to 4.5 percent in January 2013 compared with 4.8 percent in December 2012.

The money market was relatively liquid during the week ending January 30, 2013. The Central Bank rolled over Ksh 15.1 billion worth of repo securities against maturities of Ksh 23.7 billion held by commercial banks. The average interbank rate increased marginally to 6.66 percent during the week ending January 30, 2013 compared with 5.82 percent recorded in the previous week.

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending January 31, 2013. Against the US dollar the Kenya Shilling weakened marginally to trade at an average of Ksh87.58 per USD compared to Ksh87.11 per USD in the week ending January 24, 2013.

The usable official foreign exchange reserves held by Central Bank decreased from US Dollar 5,177 million (equivalent to 4.06 months of import cover) as at January 24, 2013 to US Dollar 4,959 million (equivalent to 3.89 months of import cover) in the week ending January 31, 2013.

The Government offered for sale Treasury bills worth Ksh 18.0 billion during the week ending February 1, 2013. A total of Ksh 8.2 billion was accepted out of Ksh 11.1 billion bids received.

Gross Government domestic debt increased by Ksh 119.8 billion to Ksh 978.6 billion on January 25, 2013, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 2.7 billion, on account of Treasury bills.

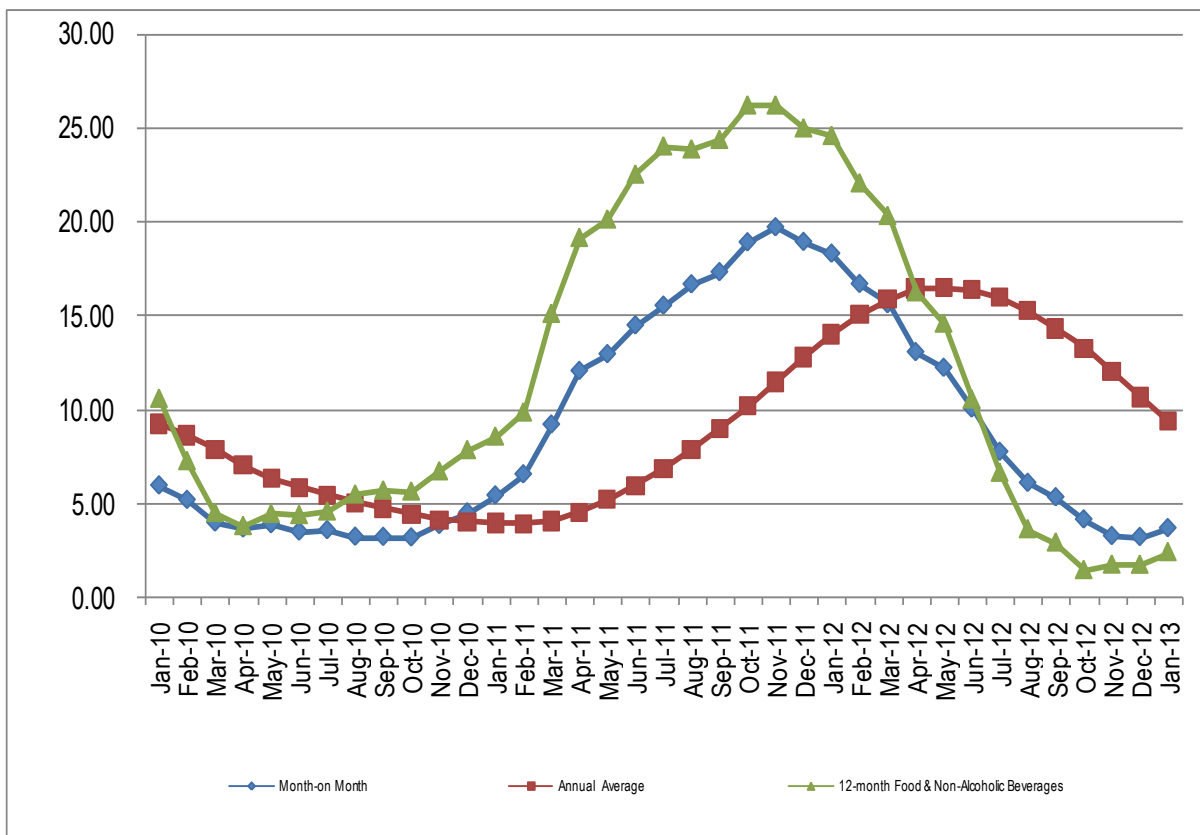
The capital market performance improved in the week ending January 31, 2013, with both equities and bonds segments recording some significant gains. On the losing end was equity turnover on account of reduced number of shares transacted.

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## Inflation

Overall 12-month inflation increased by 47 basis points to 3.7 percent in January 2013 from 3.2 percent in December 2012 (Chart A). The increase in the overall inflation in January 2013 was reflected largely in food and fuel inflation. Food inflation rose marginally due to increase in the price of milk; and fuel increased due to increases in cost of cooking gas, other fuels, house rents and bus fares. Non food non fuel inflation decelerated as reflected in all components other than education, health and communication. Every January seasonal price variations are observed in education and house rents among other categories.

**CHART A: MONTH-ON-MONTH ANNUAL AVERAGE AND 12-MONTH FOOD & NON-ALCOHOLIC BEVERAGES INFLATION RATES**



*Source: Kenya National Bureau of Statistics*

## Monetary Policy Operations

The money market was relatively liquid during the week ending January 30, 2013. The Central Bank rolled over Ksh 15.1 billion of repo securities against maturities of Ksh 23.7 billion held by commercial banks. Reserve money averaged Ksh 272.2 billion during the week and was Ksh 14.5 billion below target (Table 1).

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**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)
24-Jan-12	269.7	286.5	-16.8	6.0	0.0	0.0	-6.0	270.4	-16.1	0.9	-17.0
25-Jan-12	268.8	286.5	-17.6	5.0	0.2	0.0	-4.8	268.9	-17.6	0.1	-17.7
28-Jan-12	267.6	286.5	-18.9	4.0	2.5	0.0	-1.5	267.8	-18.7	-0.8	-17.9
29-Jan-12	286.7	286.5	0.2	15.0	8.7	0.0	-6.3	276.8	-9.7	7.8	-17.5
30-Jan-12	277.9	286.5	-8.6	10.0	3.7	0.0	-6.4	273.9	-12.6	4.1	-16.7
<b>Average</b>	<b>275.4</b>	<b>286.7</b>	<b>-11.3</b>	<b>5.8</b>	<b>4.7</b>	<b>0.0</b>	<b>-1.1</b>	<b>272.2</b>	<b>-14.5</b>	<b>1.0</b>	<b>-15.4</b>

*Source: Central Bank of Kenya*

### Interbank and REPO Rates

The average interbank rate increased marginally to 6.66 percent during the week ending January 30, 2013 from 5.82 percent recorded in the previous week. The average interbank volumes transacted remained largely unchanged at Ksh 9.8 billion compared with Ksh 9.7 billion transacted in the previous week while the average number of deals was 52 compared with 42 deals in the previous week (Table 2 and Chart B).

**TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES**

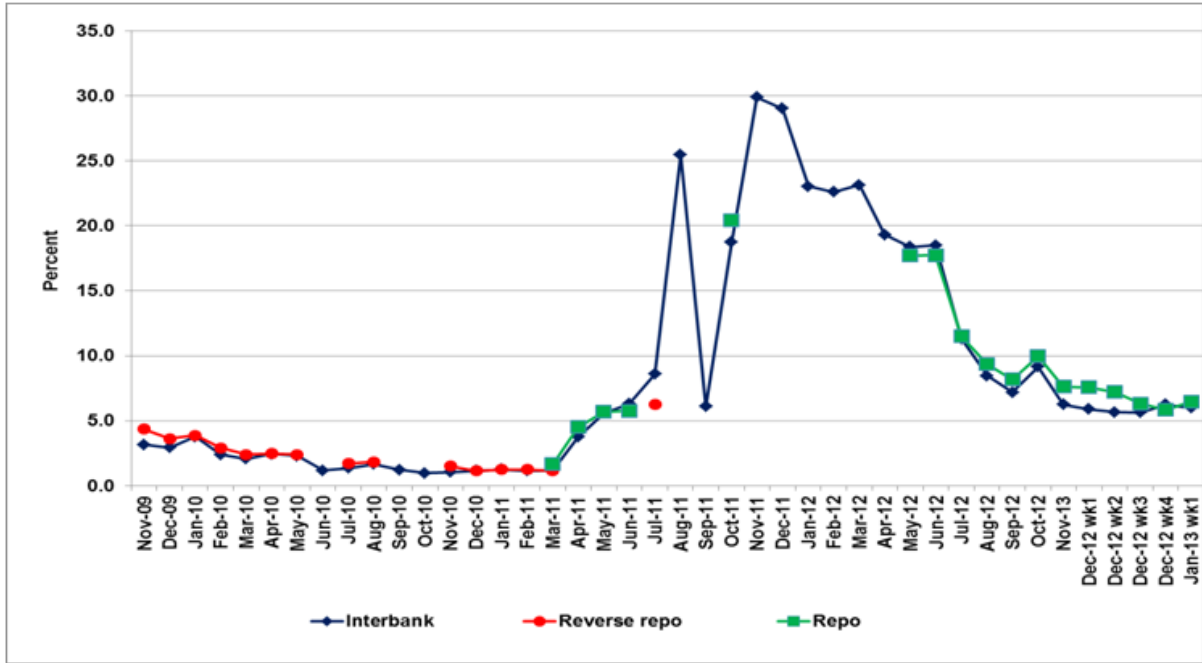
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
17-Jan-13	43	12,262	5.63
18-Jan-13	44	9,556	5.77
21-Jan-13	40	8,991	5.82
22-Jan-13	41	8,500	5.90
23-Jan-13	43	9,308	5.99
<b>January 17 -January 23, 2013</b>	<b>42</b>	<b>9,723</b>	<b>5.82</b>
24-Jan-13	53	10,752	6.13
25-Jan-13	46	8,867	6.38
28-Jan-13	54	11,204	6.67
29-Jan-13	51	8,366	6.93
30-Jan-13	54	9,626	7.21
<b>January 24 -January 30, 2013</b>	<b>52</b>	<b>9,763</b>	<b>6.66</b>

*Source: Central Bank of Kenya*

The average repo rate increased to 6.71 percent during the week ending January 23, 2013 from 6.34 percent recorded in the previous week.

### CHART B: STRUCTURE OF INTEREST RATES

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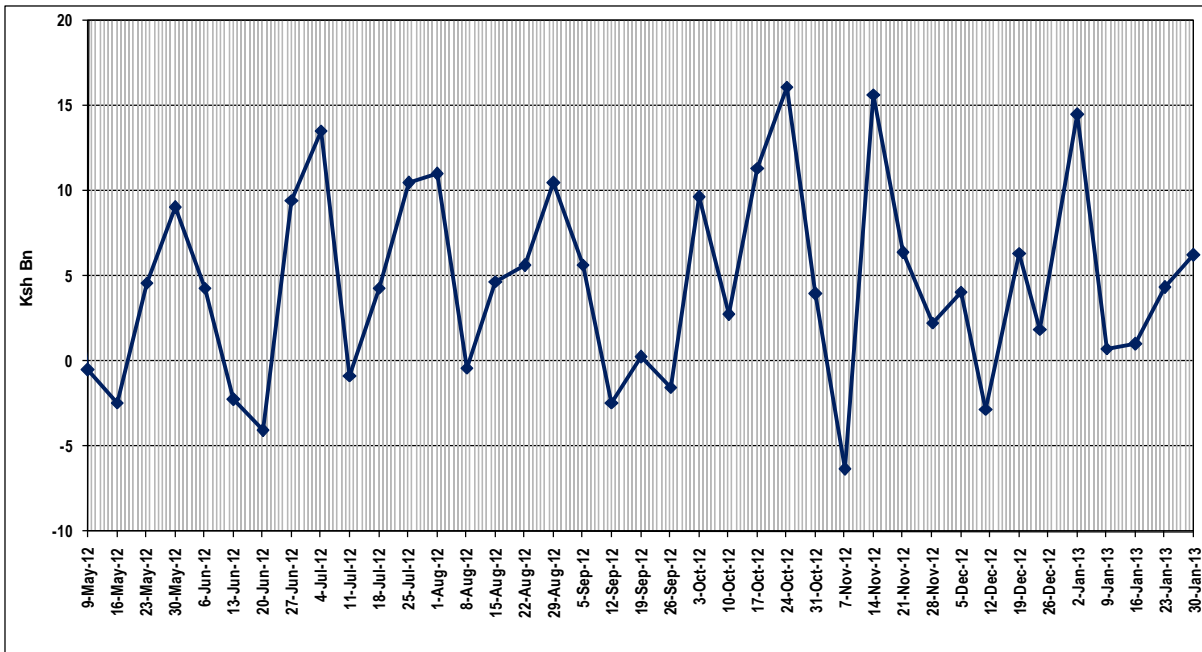


Source: Central Bank of Kenya

## Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 6.23 billion in their settlement accounts in relation to the monthly average cash reserve requirements of 5.25 percent (Ksh 88.6 billion) at the Central Bank in the week to January 30, 2013 compared with Ksh 4.34 billion in the previous week (Chart C).

CHART C: WEEKLY AVERAGE DEVIATION FROM CRR IN THE CLEARING ACCOUNT



Source: Central Bank of Kenya  
The Shilling Exchange Rate

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The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending January 31, 2013. It depreciated by 0.54 percent and 1.53 percent against the USD and the Euro, respectively to trade at an average of Ksh 87.58 per USD and Ksh 117.93 per Euro. The weakening of the Kenya shilling follows increased demand for foreign exchange from corporate investors and importers.

Against the Sterling Pound and the Japanese Yen, the Shilling appreciated by 0.19 percent and 1.12 percent respectively to trade at an average of Ksh138.03 per Sterling Pound and Ksh96.47 per 100 Japanese Yen in the week ending January 31, 2013.

In the EAC region, the Kenya Shilling weakened against the Uganda Shilling, the Tanzania Shilling and the Rwanda Franc and strengthened against the Burundi Franc to trade at an average of Ush30.46, Tsh18.40, RWF 7.06 and BIF 17.53 in the week ending January 31, 2013 compared to Ush30.68, Tsh18.45, RWF 7.09 and BIF 17.21 in the week ending January 24, 2013 (Table 3).

**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
<b>11-17 Jan 2013</b>	<b>86.69</b>	<b>139.39</b>	<b>115.43</b>	<b>97.60</b>	<b>30.91</b>	<b>18.48</b>	<b>7.15</b>	<b>17.38</b>
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
<b>18-24 Jan 2013</b>	<b>87.11</b>	<b>138.29</b>	<b>116.15</b>	<b>97.57</b>	<b>30.68</b>	<b>18.45</b>	<b>7.09</b>	<b>17.21</b>

*Source: Central Bank of Kenya*

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank decreased from US Dollar 5,177 million (equivalent to 4.06 months of import cover) as at January 24, 2013 to US Dollar 4,959 million (equivalent to 3.89 months of import cover) in the week ending January 31, 2013 (Table 4).

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**TABLE 4: OFFICIAL FOREIGN RESERVES US\$ MILLION (USABLE)**

	29-Nov-12	06-Dec-12	13-Dec-12	20-Dec-12	27-Dec-12	03-Jan-13	10-Jan-13	17-Jan-13	24-Jan-13	31-Jan-13
Usable Reserves*	5,382	5,374	5,377	5,385	5,396	5,369	5,282	5,264	5,177	4,959
Months of Imports Cover**	4.22	4.22	4.22	4.23	4.24	4.21	4.15	4.13	4.06	3.89

\*Excludes encumbered reserves

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

*Source: Central Bank of Kenya*

### Government Securities Auction

During the week ending February 1, 2013, 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 10.0 billion in 364 day Treasury bills. The performance rates were 44.9 percent, 6.8 percent and 90.2 percent for the 91 day, 182 day and 364 day Treasury bills, respectively. The 364 day paper attracted bids worth Ksh 9.0 billion compared with Ksh 1.8 billion and Ksh 0.3 billion received for the 91 day and 182 day papers, respectively. The Government accepted Ksh 1.7 billion, Ksh 0.3 billion and Ksh 6.3 billion, respectively, in 91 day, 182 day and 364 day Treasury bills. Total non-competitive bids amounted to Ksh 1.5 billion.

### Interest Rates on Government securities

Weighted average interest rate on the 91 day Treasury bill edged up by 12.8 basis points to stand at 8.164 percent, during this week's auction, reversing the downward trend which had persisted for 11 weeks. The 182 day and 364 day Treasury bills average interest rates declined further by 0.1 and 4.7 basis points, respectively, to stand at 8.065 and 11.662 percent (Table 5).

**TABLE 5: GOVERNMENT SECURITIES INTEREST RATES**

Auction date	29-Jun-12	28-Sep-12	28-Dec-12	04-Jan-13	11-Jan-13	18-Jan-13	25-Jan-13	01-Feb-13
91-day T. Bills*	10.780	8.093	8.138	8.122	8.105	8.052	8.036	8.164
182-day T. Bills*	11.091	9.888	8.100	8.100	8.093	8.088	8.066	8.065
364-day T. Bills*				11.670				11.662
2 year FXD T. Bonds								
5 year FXD T. Bonds							12.791	
15year FXD T. Bonds								
20 year FXD T. Bonds							13.694	

\*Weighted rates for accepted bids

*Source: Central Bank of Kenya*

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## Government Domestic Debt

Gross Government domestic debt increased by Ksh 119.8 billion from Ksh 858.8 billion at the end of June 2012 to Ksh 978.6 billion on January 25, 2013. This followed increases of Ksh 72.4 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 0.5 billion during the period (Table 6).

**TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)**

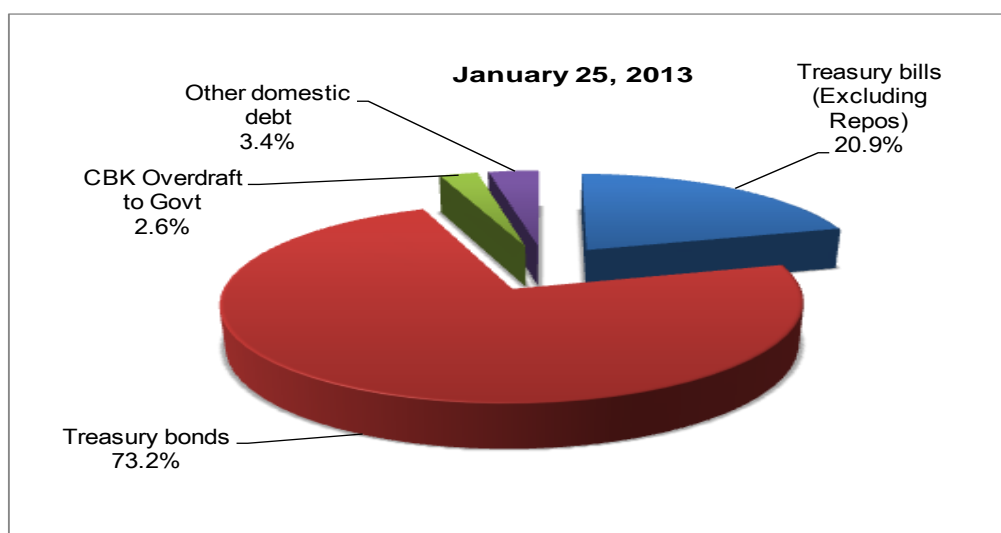
	Jun 2012	Sep 2012	Dec-12	18th Jan 2013	25th Jan 2013	Changes	
						18th Jan 2013- 25th Jan 2013	29th Jun 2012 - 25th Jan 2013
1. Treasury Bills (Excluding Repos) (As % of total securities)	132.0 16.1	159.7 18.5	196.3 21.5	201.6 22.0	204.4 22.2	2.8	72.4
2. Treasury Bonds (As % of total securities)	687.0 83.9	703.9 81.5	716.1 78.5	716.1 78.0	716.1 77.8	0.0	29.1
3. Total Securities (1+2)	819.0	863.6	912.3	917.6	920.5	2.8	101.5
4. Overdraft at Central Bank	7.3	25.4	25.4	25.1	25.1	0.0	17.8
5. Other Domestic debt*	32.6	33.2	33.6	33.1	33.0	-0.1	0.5
6. Gross Domestic Debt (3+4+5)	858.8	922.2	971.3	975.9	978.6	2.7	119.8
7. Interest payments on domestic debt	82.3	25.2	53.6	54.7	56.5	1.8	

\* 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 ending 25<sup>th</sup> January, 2013, gross government domestic debt increased by Ksh 2.7 billion, largely on account of Treasury bills sale (Table 6). The average time to maturity of Government securities declined to 4 years and 10 months during the week ending January 25, 2013, from 5 years and 4 months at the end of June 2012.

**CHART D: COMPOSITION OF GOVERNMENT SECURITIES**

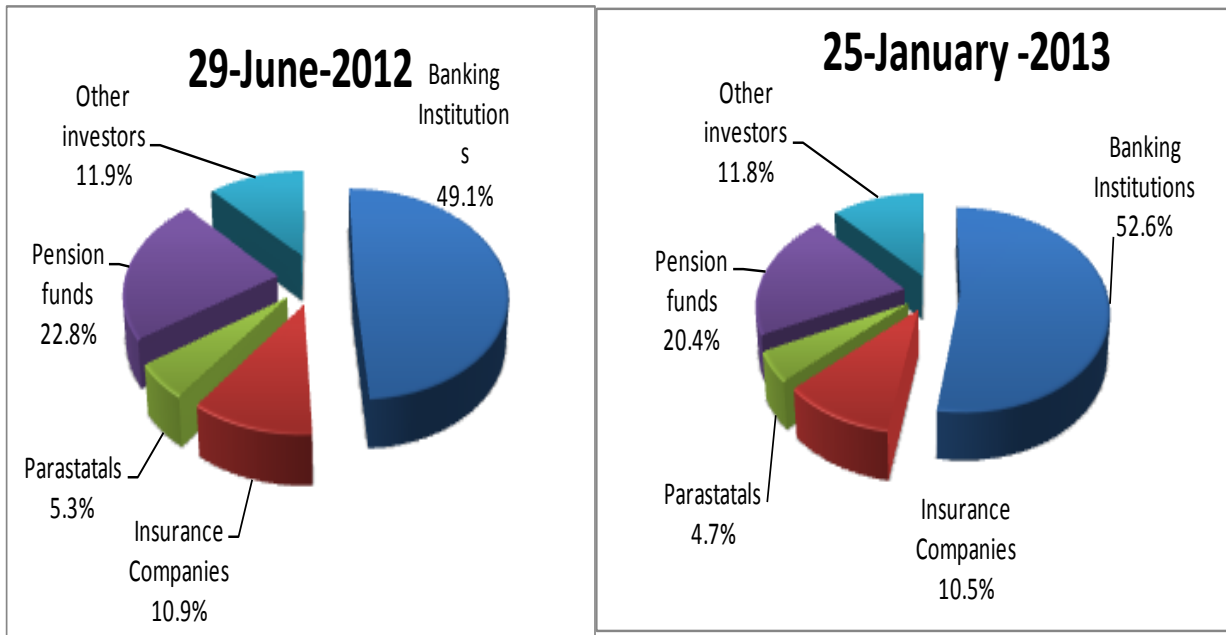


*Source: Central Bank of Kenya*

**Holding of Government Securities**

Government securities accounted for 94.1 percent of gross domestic debt on January 25, 2013 (Chart D). Commercial bank holdings of Government securities increased from 49.1 percent at the end of June 2012 to 52.6 percent on January 25, 2013. However the share of insurance companies, parastatals, pension funds and other investors, which comprise of Saccos', listed and private companies, self-help groups, educational institutions, religious institutions and individuals, declined from 10.9 percent, 5.3 percent, 22.8 percent and 11.9 percent to 10.5 percent, 4.7 percent, 20.4 percent and 11.8 percent, respectively, during the same period (Chart E).

**CHART E: COMPOSITION OF GOVERNMENT SECURITIES BY INVESTORS**



*Source: Central Bank of Kenya*

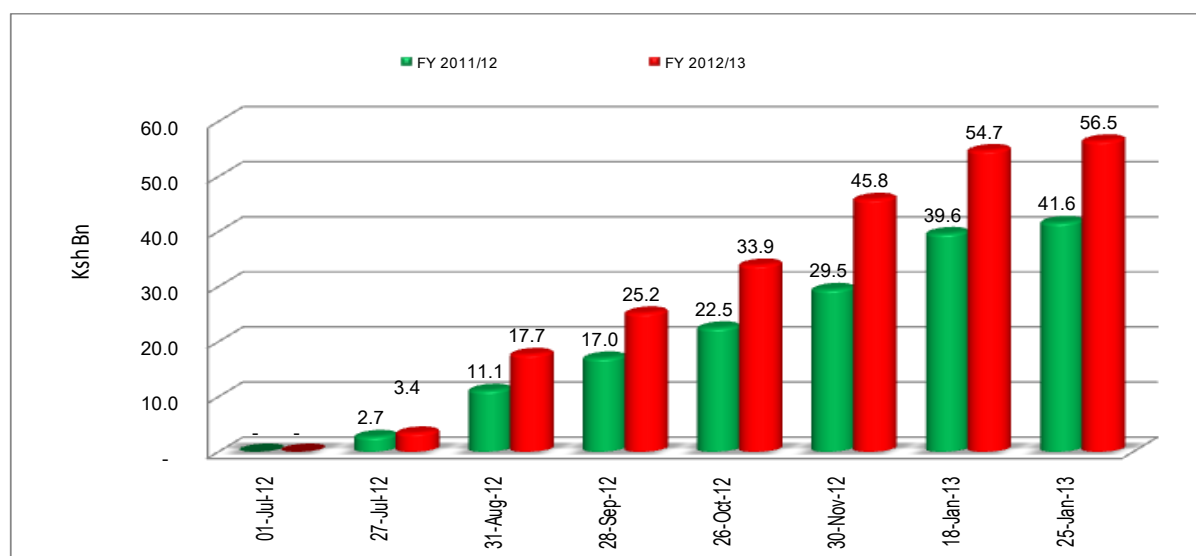
**Cost of Domestic Borrowing**

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to January 25, 2013 in the 2012/13 fiscal year amounted to Ksh 56.5 billion compared with Ksh 41.6 billion during a similar period of the previous fiscal year (Chart F). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 11.5 billion and Ksh 42.2 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 1.6 billion and Ksh 1.2 billion, respectively.



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



*Source: Central Bank of Kenya*

### Capital Markets Report

The capital market performance improved in the week ending January 31, 2013, with both equities and bonds segments recording some significant gains. On the losing end was equity turnover on account of reduced number of shares transacted.

#### Equities Market

The NSE 20 Share Index closed the week up at 4416.60 points from 4385.00 points on January 24, 2013 (Table 7). NASI rose to 103.50 points from 102.45 points while Market capitalization that measures shareholders' wealth, closed at Ksh 1,387.81 billion high. Equity turnover shed off 11.3 percent due to low volume of shares traded, to record Ksh 1,711.85 million from KSh 1,930.53 million.

**TABLE 7: KEY WEEKLY MARKET STATISTICS**

Week Ending	03-Jan-13	10-Jan-13	17-Jan-13	24-Jan-13	31-Jan-13
NASI 100= Jan 2008	96.07	101.02	105.82	102.45	103.5
NSE 20 Share Index 100=1966	4,159.25	4,319.73	4,545.70	4385	4416.6
Number of Deals	3,407	6,697	8,800	7951	7224
Total Shares Traded (millions)	3,250.00	99.60	125.96	154.4306	118.4246
Equity Turnover (Ksh. millions)	4,826.54	2,014.43	2,553.42	1930.526	1711.852
Market Capitalization (Ksh. Bn.)	1,288,137.00	1,354.57	1,418.88	1373.715	1387.805
Bonds Turnover (Ksh. millions)	3,447.90	8,575.75	5,678.55	2361.85	4071.95
FTSE NSE Kenya 15 Index	126.74	132.91	136.78	134.83	136.44
FTSE NSE Kenya 25 Index	129.64	136.12	139.99	138.08	139.73
Index(Jan2012=100)	92.86	92.02	91.73	91.252	91.369

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

*Source: Nairobi Securities Exchange*

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Telecoms & Technology, Banking and Manufacturing & Allied sectors were the top three most active, transacting 67.03 million or 56.6 percent; 17.50 million or 14.7 percent and 11.22 million or 9.5 percent of all traded shares, respectively. Safaricom Ltd, Mumias Sugar Co. Ltd and Kenya Commercial Bank Ltd were the three most active counters with 66.78 million, 10.14 million and 7.90 million shares traded, respectively. Agriculture sector was least active, trading 119,300 shares.

The biggest closing and average price gains for the week were for City Trust and East African Breweries Ltd at Ksh 12 and 4.4 per share respectively. The biggest closing and average price losses were for Kapchorua Tea Co. Ltd and BAT Ltd at Ksh 6.0 and Ksh 8.6 per share, respectively. Of the 48 active counters, 16 recorded average price gain in the week ending January 31, 2013 compared with 26 counters in the previous week.

### **FTSE NSE Kenya Index Series**

As indicated in Table 7, FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, increased to 136.44 points from 134.83. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE also gained to record 139.73 points from 138.08 points the previous trading week. The FTSE NSE Kenyan Shilling Government Bond Index, which measures the performance of Kenya's domestic bond market, closed at 91.37 points compared to 91.25 points the previous week.

### **The Bond Market**

Bond trading activity was 72.4 percent higher in turnover, or Ksh 4,071.95 million for the week ending January 31, 2013 from Ksh 2,361.85 million in the previous week. Corresponding deals rose to 49 from 39 the previous week. However, even with this growth in turnover, the bonds market activity is still lower than the average weekly levels recorded in December 2012.