



**JANUARY 4, 2013**

## **Highlights**

Overall 12-month inflation declined slightly by 5 basis points from 3.3 percent in November 2012 to 3.2 percent in December 2012 due to continued easing of fuel inflation. Non-food non-fuel inflation dropped by 2 basis points from 4.83 percent in November 2012. The fall in inflation was however, marginal across all categories except food that recorded a slight increase.

The money market was relatively liquid during the week ending January 2, 2013. The average interbank rate decreased to 5.98 percent during the week ending January 2, 2013 compared with 6.24 percent recorded in the previous week.

The Kenya Shilling exchange rate was relatively stable against major international currencies in the week ending January 3, 2013. Against the US dollar the Kenya Shilling depreciated marginally to trade at Ksh 86.11 compared to Ksh 85.92 in the week ending December 27, 2012.

The usable official foreign exchange reserves held by Central Bank declined from US\$ 5,396 million (equivalent to 4.24 months of import cover) during the week ending December 27, 2012 to US\$ 5,369 million (equivalent to 4.21 months of import cover) in the week ending January 3, 2013.

The Government offered for sale Treasury bills worth Ksh 12.0 billion during the week ending January 4, 2013. A total of Ksh 8.0 billion was accepted out of Ksh 10.3 billion bids received.

Gross Government domestic debt increased by Ksh 113.0 billion to stand at Ksh 971.8 billion on December 28, 2012, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 4.7 billion, on account of Treasury bills.

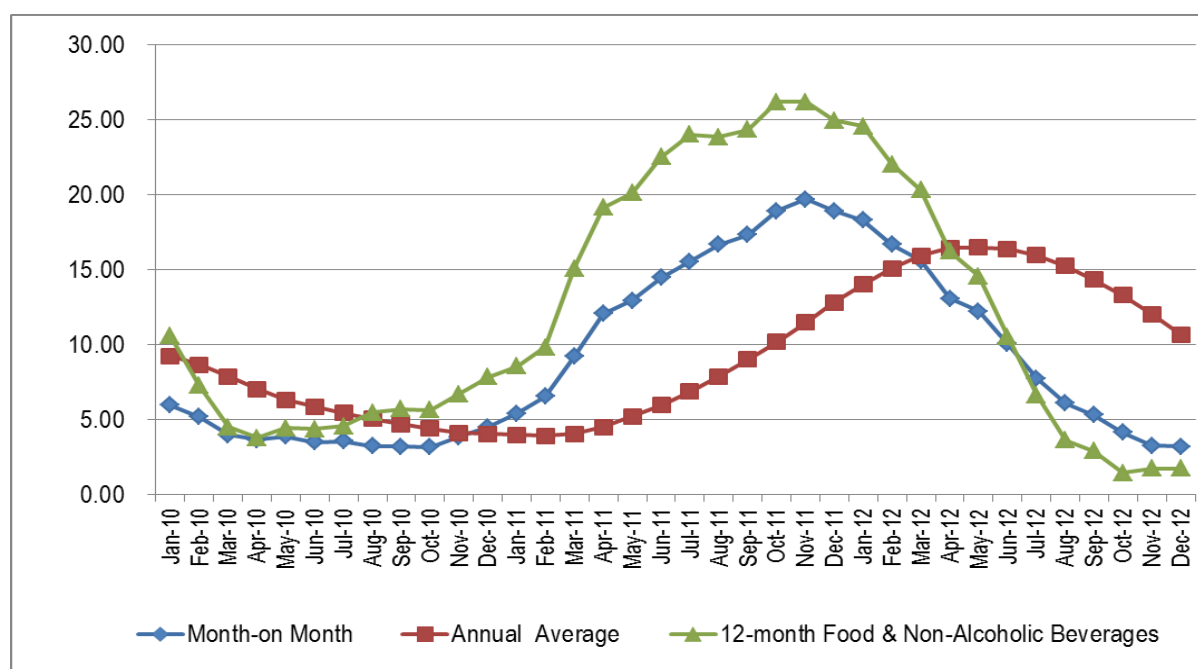
The capital market performance improved during the week ending January 3, 2013. All market indices gained; the NSE 20 Share Index, NASI, the FTSE NSE 15 Index and FTSE NSE 25 Index gained 36.51 points, 1.33 points, 1.40 points and 1.57 points, respectively. Market capitalization gained KSh 17.79 billion, while equity turnover gained 10.0 percent. Bonds activity was however 21.5 percent down in turnover, while the FTSE NSE Kenyan Shilling Government Bond Index gained 104 basis points.

# CBK WEEKLY BULLETIN

## Inflation

Overall 12-month inflation eased by 5 basis points from 3.3 percent in November 2012 to 3.2 percent in December 2012 (Chart A). The slowdown was reflected largely in fuel inflation which eased by 34 basis points. Non-food non-fuel inflation dropped by 2 basis points to 4.81 percent. The decline in the inflation flattened out in December 2012 with marginal changes recorded in all categories except food, which increased slightly (by 11 basis points) to 2.4 percent.

**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 2, 2013. The Central Bank sterilized excess liquidity in the money market by mopping Ksh 29.6 billion through repo securities against maturities of repo and term auction deposit securities held by commercial banks of Ksh 17.8 billion. Reserve money averaged Ksh 293.8 billion during the week and was Ksh 5.3 billion above target (Table 1).

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**TABLE 1: OPEN MARKET OPERATIONS (KSH BILLION)**

| Date           | Reserve Money*<br>(Projected) |              |                     | OMO         |            |                            | Reserve money<br>performance |              | Bank<br>Reserves    | Currency<br>Outside<br>Banks |                     |
|----------------|-------------------------------|--------------|---------------------|-------------|------------|----------------------------|------------------------------|--------------|---------------------|------------------------------|---------------------|
|                | Forecast                      | Target       | Exc(+)/<br>Short(-) | Posted      | Mop up     |                            | Exc(+)/<br>Short(-)          | Actual       | Exc(+)/<br>Short(-) | Exc(+)/<br>Short(-)          | Exc(+)/<br>Short(-) |
|                |                               |              |                     |             | Repo       | Term<br>Auction<br>Deposit |                              |              |                     |                              |                     |
|                | (1)                           | (2)          | 3=(1-2)             | (4)         | (5)        | (6)                        | 7=(5+6-4)                    | (8)          | 9=(8-2)             | (10)                         | (11)                |
| 27-Dec-12      | 305.1                         | 288.6        | <b>16.5</b>         | 10.0        | 5.4        | 0.0                        | <b>-4.6</b>                  | 298.8        | 10.2                | 15.1                         | -5.0                |
| 28-Dec-12      | 302.6                         | 288.6        | <b>14.0</b>         | 10.0        | 6.5        | 0.0                        | <b>-3.5</b>                  | 295.2        | 6.5                 | 12.5                         | -5.9                |
| 31-Dec-12      | 299.5                         | 288.6        | <b>10.8</b>         | 10.0        | 7.1        | 0.0                        | <b>-2.9</b>                  | 292.9        | 4.3                 | 14.1                         | -9.8                |
| 2-Jan-13       | 300.7                         | 288.1        | <b>12.6</b>         | 15.0        | 10.7       | 0.0                        | <b>-4.4</b>                  | 288.4        | 0.3                 | 9.6                          | -9.3                |
| <b>Average</b> | <b>302.0</b>                  | <b>288.5</b> | <b>13.5</b>         | <b>11.3</b> | <b>7.4</b> | <b>0.0</b>                 | <b>-3.8</b>                  | <b>293.8</b> | <b>5.3</b>          | <b>12.8</b>                  | <b>-7.5</b>         |

Source: Central Bank of Kenya

## Interbank and REPO Rates

Activity in the interbank market declined during the festive season. The average interbank rate decreased to 5.98 percent during the week ending January 2, 2013 compared with 6.24 percent recorded in the previous week. The average interbank volumes transacted declined to Ksh 7.4 billion from Ksh 16.7 billion transacted in the previous week, while the average number of deals was 31 compared with 53 deals in the previous week (Table 2 and Chart B).

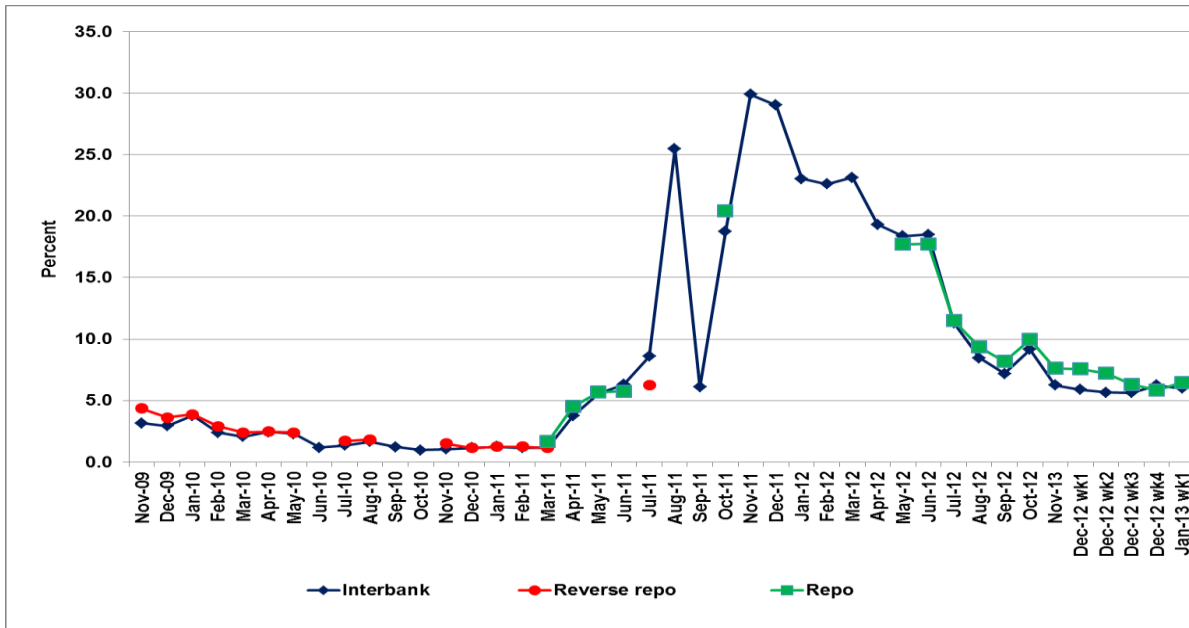
**TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES**

| Date                                  | Number of deals | Value (Ksh M) | Average Interest Rate (%) |
|---------------------------------------|-----------------|---------------|---------------------------|
| 20-Dec-12                             | 53              | 11,970        | 5.76                      |
| 21-Dec-12                             | 57              | 17,970        | 6.34                      |
| 24-Dec-12                             | 50              | 20,040        | 6.63                      |
| <b>December 20 -December 24, 2012</b> | <b>53</b>       | <b>16,660</b> | <b>6.24</b>               |
| 27-Dec-12                             | 39              | 11,720        | 6.60                      |
| 28-Dec-12                             | 37              | 8,188         | 6.20                      |
| 31-Dec-12                             | 19              | 3,978         | 5.63                      |
| 2-Jan-13                              | 28              | 5,700         | 5.50                      |
| <b>December 27 -January 2, 2013</b>   | <b>31</b>       | <b>7,396</b>  | <b>5.98</b>               |

Source: Central Bank of Kenya

The average repo rate increased to 6.46 percent during the week ending January 2, 2013 from 5.84 percent recorded in the previous week.

**CHART B: STRUCTURE OF INTEREST RATES**

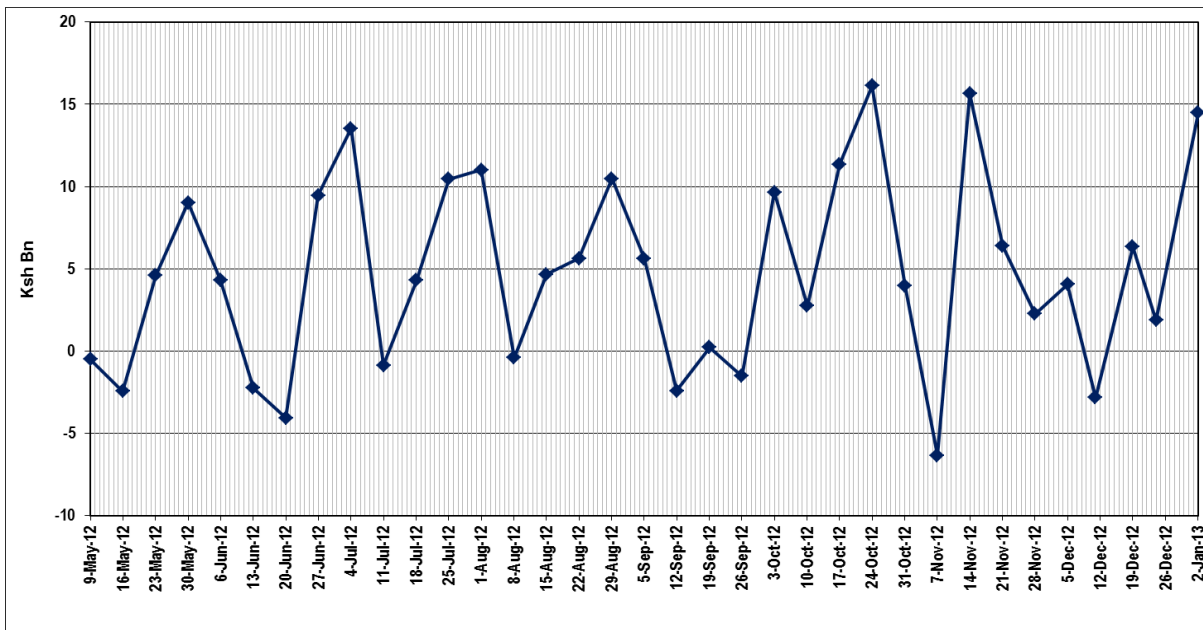


Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

Commercial banks recorded a surplus of Ksh 11.47 billion in their settlement accounts in relation to the monthly average cash reserve requirements of 5.25 percent (Ksh 89.4 billion) in the week to January 2, 2013 compared with Ksh 1.87 billion in the previous week (Chart C).

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



Source: Central Bank of Kenya

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## The Shilling Exchange Rate

The Kenya Shilling depreciated marginally against all but one of the major International currencies in the week ending January 3, 2013. The shilling appreciated by 1.99 percent against the Japanese Yen to exchange at Ksh 99.41 per 100 Japanese Yen but depreciated by 0.21 percent, 0.32 percent and 0.23 percent against the US dollar, the Pound Sterling and Euro respectively to trade at an average of Ksh 86.11 per US dollar, Ksh 139.56 to the Sterling Pound and Ksh 113.72 per Euro. This is in comparison to the previous week's performance which saw the Kenya shilling exchange at an average of Ksh 85.92 per US dollar, Ksh 139.11 per Pound Sterling, Ksh 113.46 per Euro and Ksh 101.42 per 100 Japanese Yen during the week ending December 27, 2012.

In the EAC region, the Kenya Shilling depreciated marginally against the Rwanda Franc and Burundi Franc, but appreciated against the Uganda and Tanzania shillings. On average the Shilling traded at Ush 31.20, Tsh 18.42, RWF 7.18 and BIF 17.75 during the week ending January 3, 2013 compared to Ush 30.87, Tsh 18.40, RWF 7.19 and BIF 17.86 during the week ending December 27, 2012 (Table 3).

**TABLE 3: KENYA SHILLING EXCHANGE RATES**

|                               | US dollar    | Sterling Pound | Euro          | Japanese Yen  | USHS         | TSHS         | RWF         | BIF          |
|-------------------------------|--------------|----------------|---------------|---------------|--------------|--------------|-------------|--------------|
| 21-Dec-12                     | 86.00        | 139.70         | 113.53        | 102.29        | 30.77        | 18.43        | 7.19        | 17.85        |
| 24-Dec-12                     | 85.90        | 138.97         | 113.28        | 101.91        | 30.88        | 18.45        | 7.19        | 17.87        |
| 27-Dec-12                     | 85.86        | 138.66         | 113.59        | 100.07        | 30.96        | 18.33        | 7.20        | 17.85        |
| <b>21-27 Dec 2012</b>         | <b>85.92</b> | <b>139.11</b>  | <b>113.46</b> | <b>101.42</b> | <b>30.87</b> | <b>18.40</b> | <b>7.19</b> | <b>17.86</b> |
| 28-Dec-12                     | 85.96        | 138.65         | 113.67        | 100.03        | 31.00        | 18.39        | 7.19        | 17.89        |
| 31-Dec-12                     | 86.03        | 139.02         | 113.56        | 99.90         | 31.26        | 18.42        | 7.18        | 17.87        |
| 2-Jan-13                      | 86.08        | 140.51         | 114.21        | 98.70         | 31.31        | 18.44        | 7.18        | 17.69        |
| 3-Jan-13                      | 86.36        | 140.05         | 113.45        | 98.98         | 31.23        | 18.41        | 7.16        | 17.57        |
| <b>28 Dec 2012-3 Jan 2013</b> | <b>86.11</b> | <b>139.56</b>  | <b>113.72</b> | <b>99.41</b>  | <b>31.20</b> | <b>18.42</b> | <b>7.18</b> | <b>17.75</b> |

**Source: Central Bank of Kenya**

## Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank remained above the statutory minimum 4 months of imports cover. But the reserves declined marginally, from US\$ 5,396 million (equivalent to 4.24 months of import cover) during the week ending December 27, 2012 to US\$ 5,369 million (equivalent to 4.21 months of import cover) in the week ending January 3, 2013.

**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 |
|---------------------------|----------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|
| Usable Reserves*          | 5,147    | 5,249    | 5,267     | 5,383     | 5,382     | 5,374    | 5,377     | 5,385     | 5,396     | 5,369    |
| Months of Imports Cover** | 4.04     | 4.12     | 4.13      | 4.23      | 4.22      | 4.22     | 4.22      | 4.23      | 4.24      | 5.21     |

\*Excludes encumbered reserves

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

**Source: Central Bank of Kenya**

# CBK WEEKLY BULLETIN

## Government Securities Auction

The Government offered for sale Ksh 4.0 billion in 91-day Treasury bills, Ksh 3.0 billion in 182-day Treasury bills and Ksh 5.0 billion in 364-day Treasury bills during the week ending January 4, 2013. The 91-day and 182-day Treasury bills recorded low demand, attracting bids worth Ksh 0.6 billion (15.35 percent performance) and Ksh 0.2 billion (6.70 percent performance) respectively, during the week. However, the 364-day paper attracted bids worth Ksh 9.5 billion representing a 189.28 percent performance rate. The Government accepted Ksh 0.5 billion in 91-day Treasury bills, Ksh 0.2 billion in 182-day Treasury bills and Ksh 7.3 billion in 364-day Treasury bills. Total non-competitive bids received amounted to Ksh 0.4 billion.

## Interest Rates on Government securities

Weighted average interest rates on the 91-day and 364-day Treasury bills declined further by 1.6 and 3.9 basis points respectively, to 8.122 percent and 11.670 percent during this week's auction. However, the weighted average interest rate on the 182-day Treasury bill was unchanged at 8.100 percent.

**TABLE 5: GOVERNMENT SECURITIES INTEREST RATES**

| Auction date         | 24-Jun-11 | 26-Oct-12 | 30-Nov-12 | 7-Dec-12 | 14-Dec-12 | 21-Dec-12 | 28-Dec-12 | 4-Jan-13 |
|----------------------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|
| 91-day T. Bills*     | 8.995     | 9.945     | 8.445     | 8.339    | 8.174     | 8.142     | 8.138     | 8.122    |
| 182-day T. Bills*    |           | 10.761    | 9.336     | 9.080    | 9.021     | 9.046     | 8.100     | 8.100    |
| 364-day T. Bills*    |           |           | 11.709    |          |           |           |           | 11.670   |
| 2 year FXD T. Bonds  |           | 12.496    |           |          |           | 12.382    |           |          |
| 5 year FXD T. Bonds  |           |           |           |          |           |           |           |          |
| 15year FXD T. Bonds  |           |           |           |          |           |           |           |          |
| 20 year FXD T. Bonds | 14.822    |           |           |          |           |           |           |          |

\*Weighted rates for accepted bids

**Source:** Central Bank of Kenya

## Government Domestic Debt

Gross Government domestic debt increased by Ksh 113.0 billion to stand at Ksh 971.8 billion on December 28, 2012, from Ksh 858.8 billion at the end of June 2012. This followed increases of Ksh 64.8 billion, Ksh 29.1 billion and Ksh 18.1 billion in Treasury bills, Treasury bonds and the Government overdraft at the Central Bank, respectively.

## CBK WEEKLY BULLETIN

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

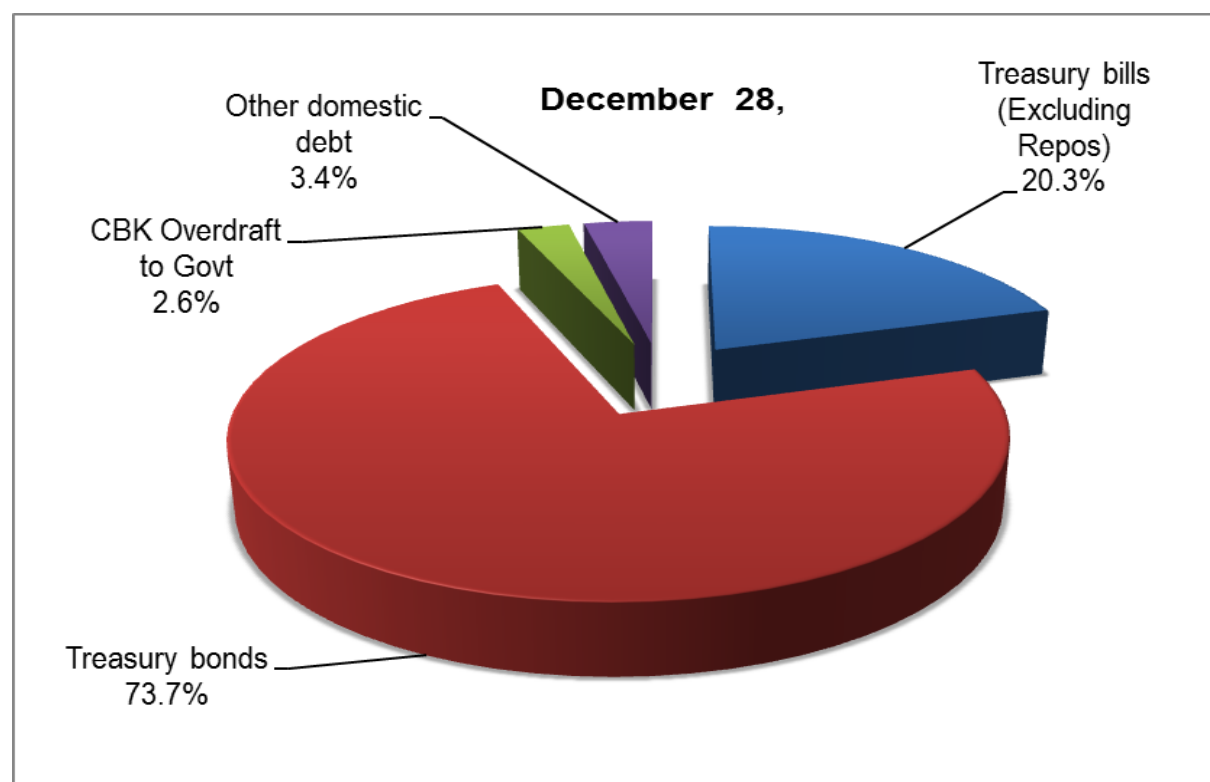
|   | Jun 2012      | Sep 2012      | 30th Nov 2012 | 7th Dec 2012  | 21st Dec 2012 | 28th Dec 2012 | Changes                      |                               |
|---|---------------|---------------|---------------|---------------|---------------|---------------|------------------------------|-------------------------------|
|   |               |               |               |               |               |               | 21st Dec 2012- 28th Dec 2012 | 29th Jun 2012 - 28th Dec 2012 |
| 1. Treasury Bills (Excluding Repos)<br>(As % of total securities) | 132.0<br>16.1 | 159.7<br>18.5 | 184.2<br>20.5 | 195.1<br>21.4 | 192.8<br>21.2 | 196.9<br>21.6 | 4.1                          | 64.8                          |
| 2. Treasury Bonds<br>(As % of total securities)                   | 687.0<br>83.9 | 703.9<br>81.5 | 715.3<br>79.5 | 715.3<br>78.6 | 715.3<br>78.8 | 716.1<br>78.4 | 0.7                          | 29.1                          |
| 3. Total Securities (1+2)   | 819.0         | 863.6         | 899.5         | 910.4         | 908.1         | 912.9         | 4.8                          | 93.9                          |
| 4. Overdraft at Central Bank                                      | 7.3           | 25.4          | 25.4          | 25.4          | 25.4          | 25.4          | 0.0                          | 18.1                          |
| 5. Other Domestic debt*   | 32.6          | 33.2          | 33.5          | 33.5          | 33.6          | 33.5          | -0.1                         | 0.9                           |
| 6. Gross Domestic Debt (3+4+5)                                    | 858.8         | 922.2         | 958.4         | 969.3         | 967.1         | 971.8         | 4.7                          | 113.0                         |
| 7. Interest payments on domestic debt                             | 82.3          | 25.2          | 45.8          | 47.1          | 48.3          | 53.3          | 5.0                          |                               |

\* 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 4.7 billion on account of Treasury bills and Treasury bonds. Government overdraft at the Central Bank remained unchanged while other domestic debt declined marginally during the week (Table 6 and Chart D). The average time to maturity of government securities declined to 4 years and 9 months as at December 28, 2012, from 5 years and 4 months at the end of June 2012.

**CHART D: COMPOSITION OF GOVERNMENT SECURITIES**

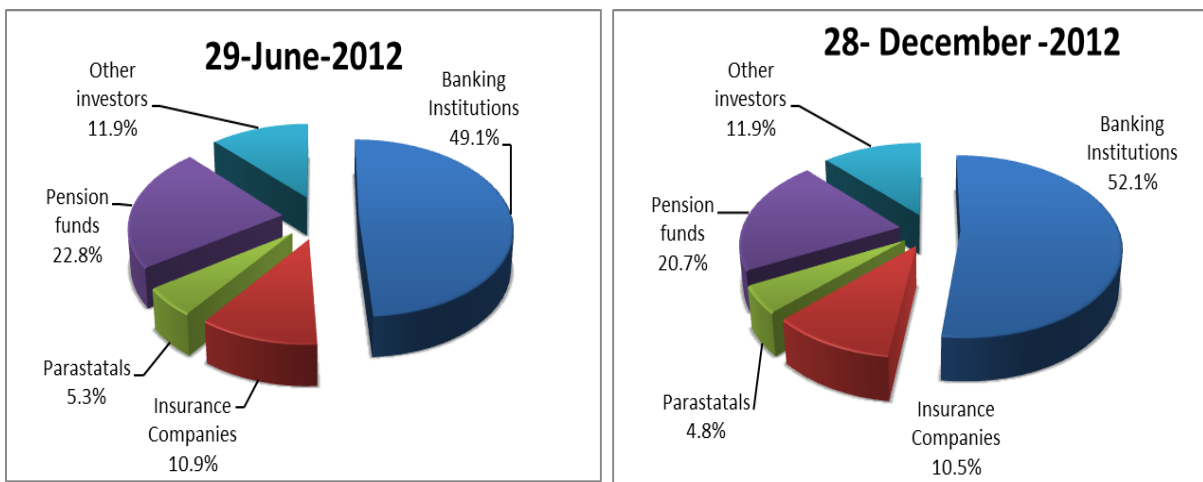


**Source: Central Bank of Kenya**

**Holding of Government Securities**

Commercial banks continued to dominate holdings of government securities, and raised their share to 52.1 percent of total securities outstanding during the week ending December 28, 2012 from 49.1 percent at the end of June 2012. The share of government securities held by insurance companies, parastatals and pension funds decreased from 10.9 percent, 5.3 percent and 22.8 percent in June 2012 to 10.5 percent, 4.8 percent and 20.7 percent, respectively, during the week ending December 28, 2012. Holdings by other investors, which comprise of Sacco’s, listed and private companies, self-help groups, educational institutions, religious institutions and individuals remained at 11.9 percent during the period under review (Chart E).

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



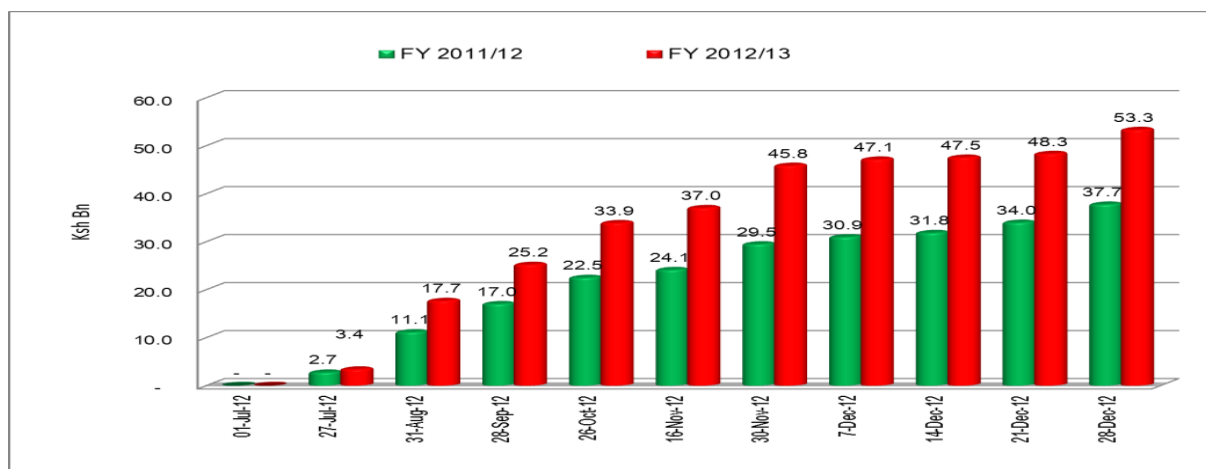
Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to December 28, 2012 in the 2012/13 fiscal year amounted to Ksh 53.3 billion compared with Ksh 37.7 billion during a similar period of the previous fiscal year (Chart F). The increase is attributed to uptake of government securities at high interest rates. The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 10.6 billion and Ksh 40.6 billion, respectively. Interest on overdraft at the Central Bank amounted to Ksh 2.1 billion during the same period. During the week ending December 28, 2012, interest and other charges on domestic debt amounted to Ksh 5.0 billion.



**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 3, 2013 with most key market indicators for the equities segment rising. However, the bonds market activity was low, but the associated index rose, implying higher capital gains.

### Equities Market

The NSE 20 Share Index rose by 0.9 percent to 4,159.25 points on January 3, 2013 from 4,122.74 points on December 27, 2012 (Table 7) as NASI rose by 1.4 percent to 96.07 points from 94.74 points. Market capitalization that measures shareholders' wealth also rose by 1.4 percent to Ksh 1,288.14 billion from Ksh. 1,270.35 billion the previous week. Equity turnover was 10.0 percent higher at Ksh 482.65 million from Ksh 438.88 million.

**TABLE 7: KEY WEEKLY MARKET STATISTICS**

| Week Ending                      | 22-Nov-12 | 29-Nov-12 | 6-Dec-12 | 13-Dec-12 | 3-Jan-13 |
|----------------------------------|-----------|-----------|----------|-----------|----------|
| NASI 100= Jan 2008               | 93.18     | 92.26     | 91.52    | 92.8      | 96.07    |
| NSE 20 Share Index 100=1966      | 4162.79   | 4111.92   | 4022.64  | 4031.7    | 4159.25  |
| Number of Deals                  | 6606      | 7206      | 6611     | 4933      | 3407     |
| Total Shares Traded (millions)   | 206.39    | 294.09    | 154.13   | 162.88    | 32.50    |
| Equity Turnover (Ksh. millions)  | 2624.16   | 2923.53   | 2068.16  | 2106.87   | 482.654  |
| Market Capitalization (Ksh. Bn.) | 1241.921  | 1235.259  | 1225.315 | 1244.373  | 1288.137 |
| Bonds Turnover (Ksh. millions)   | 4359.75   | 8979.95   | 6630.55  | 3972.85   | 3447.9   |
| FTSE NSE Kenya 15 Index          | 122.5     | 120.82    | 119.53   | 121.7     | 126.74   |
| FTSE NSE Kenya 25 Index          | 124.87    | 123.5     | 122.35   | 124.61    | 129.64   |
| Index(Jan2012=100)               | 96.707    | 96.004    | 94.841   | 95.255    | 92.86    |

Source: Nairobi Securities Exchange

## CBK WEEKLY BULLETIN

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Telecoms and Technology, Banking and Commercial and Services sectors were the top three most active, transacting 13.14 million shares or 40.4 percent; 7.37 million shares or 22.7 percent and 3.19 million shares or 9.8 percent of all traded shares, respectively. Safaricom Ltd, Kenya Commercial Bank Ltd and Uchumi Supermarket Ltd were the three most active counters with 12.93 million, 2.66 million and 2.50 million shares traded, respectively. Agriculture sector was least active, trading 122,800 shares.

The biggest closing and average price gains for the week were for Jubilee Holdings Ltd and East African Breweries Ltd at Ksh 9.0 and Ksh 4.08 per share, respectively. The biggest closing and average price losses were for Crown Berger Ltd and Bamburi Cement Ltd at Ksh 0.75 and Ksh 0.67 per share, respectively. Of the 48 active counters, 28 had average price gain in the week ending January 03, 2013.

### **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, gained 1.40 points to close at 126.74 points from 125.34. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE gained by 1.57 points to 129.64 points from 128.07 points the previous week. FTSE NSE Kenyan Shilling Government Bond Index, which measures the performance of Kenya's domestic bond market, closed at 92.86 points compared to 91.90 points the previous week, reflecting falling yields amid rising prices.

### **The Bond Market**

Bond trading activity declined 21.5 percent in turnover, to reach Ksh 3,447.9 million for the week ending January 03, 2013 from Ksh 4,390.6 million in the previous week. Corresponding deals dropped to 45 from 64 the previous week, due to short trading period occasioned by market closure for the New Year holidays.