



MARCH 1, 2013

Highlights

Overall 12-month inflation increased further from 3.7 percent in January 2013 to 4.5 percent in February 2013 due to increase in food and fuel prices. Non-food non fuel inflation eased slightly by 7 basis points to 4.45 percent in February 2013 compared with 4.53 percent in January 2013.

The money market was relatively liquid during the week ending February 27, 2013. The Central Bank's open market operations resulted in a net liquidity withdrawal amounting to Ksh 8.4 billion.

The average interbank rate was stable at 10.09 percent during the week ending February 27, 2013 compared with 9.92 percent recorded in the previous week.

The Kenya Shilling exchange rate remained relatively stable against major international currencies in the week ending February 28, 2013. Against the US dollar the Kenya Shilling appreciated to exchange at Ksh 87.16 per US dollar compared with Ksh 87.53 per US dollar in the previous week.

The Government offered for sale Treasury bills worth Ksh 15.0 billion, during the week ending March 1, 2013. A total of Ksh 12.7 billion was accepted out of Ksh 18.5 billion bids received.

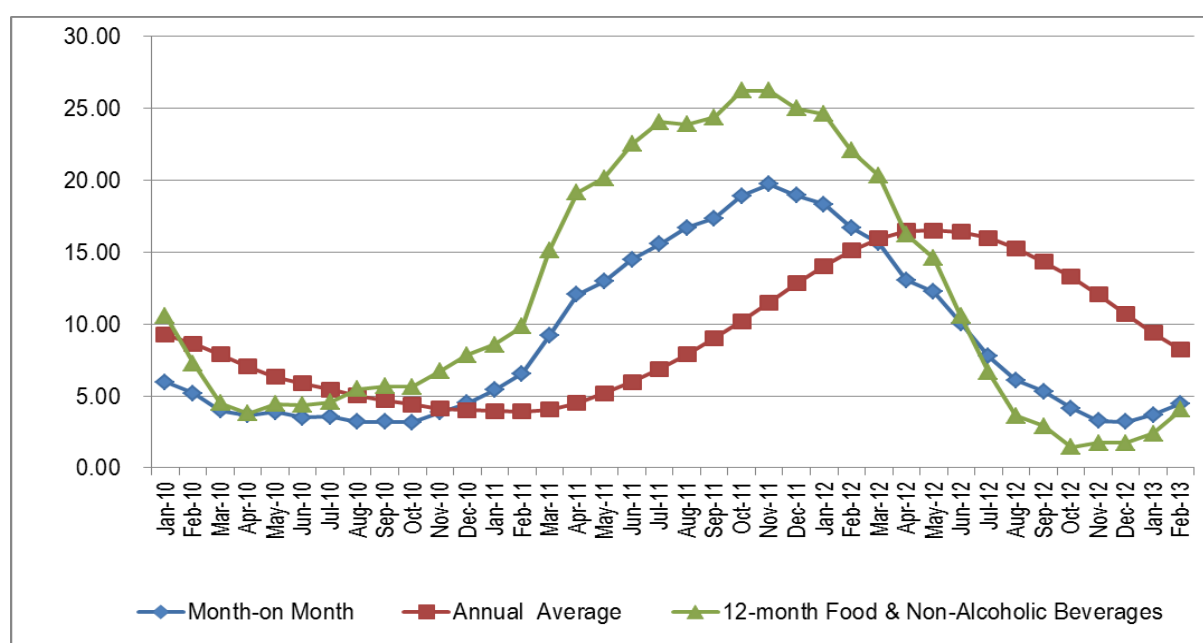
Gross Government domestic debt increased by Ksh 97.3 billion to Ksh 956.2 billion on February 22, 2013, from Ksh 858.8 billion at the end of June 2012. However, during the week under review, gross government domestic debt declined by Ksh 4.7 billion, on account of Treasury bills redemptions.

Equities market regained its rally as reflected in most indices, while bonds trading gained 79.9 percent in turnover.

Inflation

Overall 12-month inflation increased by 78 basis points to 4.5 percent in February 2013 from 3.7 percent in January 2013 (Chart A). The increase reflected rising cost of food, housing and fuel. In this respect, inflation in the CPI basket categories ‘Food and Non-Alcoholic Beverages’ ‘Transport’, and ‘Housing, Water, Electricity, Gas and other Fuels’, and ‘Alcoholic Beverages, Tobacco and Narcotics’ inflation rates increased to 4.0 percent, 4.4 percent, 4.7 percent and 4.7 percent respectively, in February 2013, compared with 2.4 percent, 2.8 percent, 4.5 percent and 4.6 percent respectively, in January 2013.

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 February 27, 2013. In managing domestic liquidity the Central Bank mopped Ksh 37.3 billion excess liquidity through sales of repo securities and term auction deposits to banks against Ksh 28.9 billion worth of maturing similar repurchase agreements. Reserve money averaged Ksh 286.6 billion during the week and was Ksh 1.4 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)
21-Feb-13	281.8	287.0	-5.2	8.5	3.0	0.9	-4.6	276.2	-10.8	1.1	-11.9
22-Feb-13	289.0	287.0	2.0	13.0	4.8	0.0	-8.2	285.1	-1.9	11.0	-12.9
25-Feb-13	307.1	288.6	18.5	15.0	16.0	0.0	1.0	292.0	3.4	17.4	-14.0
26-Feb-13	292.9	288.6	4.3	10.0	3.7	0.0	-6.4	289.5	0.9	14.0	-13.1
27-Feb-13	298.7	288.6	10.1	10.0	0.0	8.9	-1.1	290.1	1.5	14.1	-12.6
Average	293.9	288.0	5.9	11.3	5.5	2.0	-3.9	286.6	-1.4	11.5	-12.9

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate was stable at 10.09 percent during the week ending February 27, 2013 compared with 9.92 percent recorded in the previous week. The average interbank volumes transacted declined from Ksh 8.2 billion to Ksh 7.0 billion, while the average number of deals was 40 compared with 50 deals in the previous week (Table 2 and Chart B).

TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES

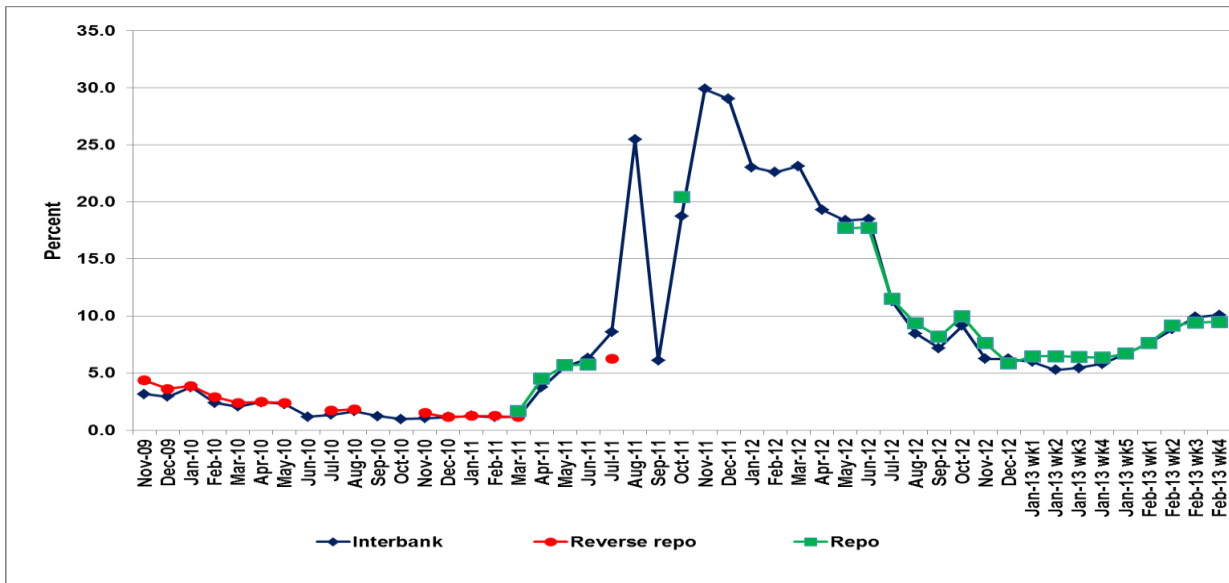
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
14-Feb-13	63	10,678	9.91
15-Feb-13	46	7,437	9.82
18-Feb-13	43	5,750	9.92
19-Feb-13	49	7,829	9.97
20-Feb-13	50	9,137	9.96
February 14 -February 20, 2013	50	8,166	9.92
21-Feb-13	48	7,910	10.04
22-Feb-13	48	7,241	10.12
25-Feb-13	36	7,098	10.12
26-Feb-13	40	8,128	10.14
27-Feb-13	30	4,680	10.02
February 21 -February 27, 2013	40	7,011	10.09

Source: Central Bank of Kenya

The average repo rate remained largely unchanged at 9.49 percent during the week ending February 27, 2013 compared with 9.43 percent recorded in the previous week.

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CHART B: STRUCTURE OF INTEREST RATES

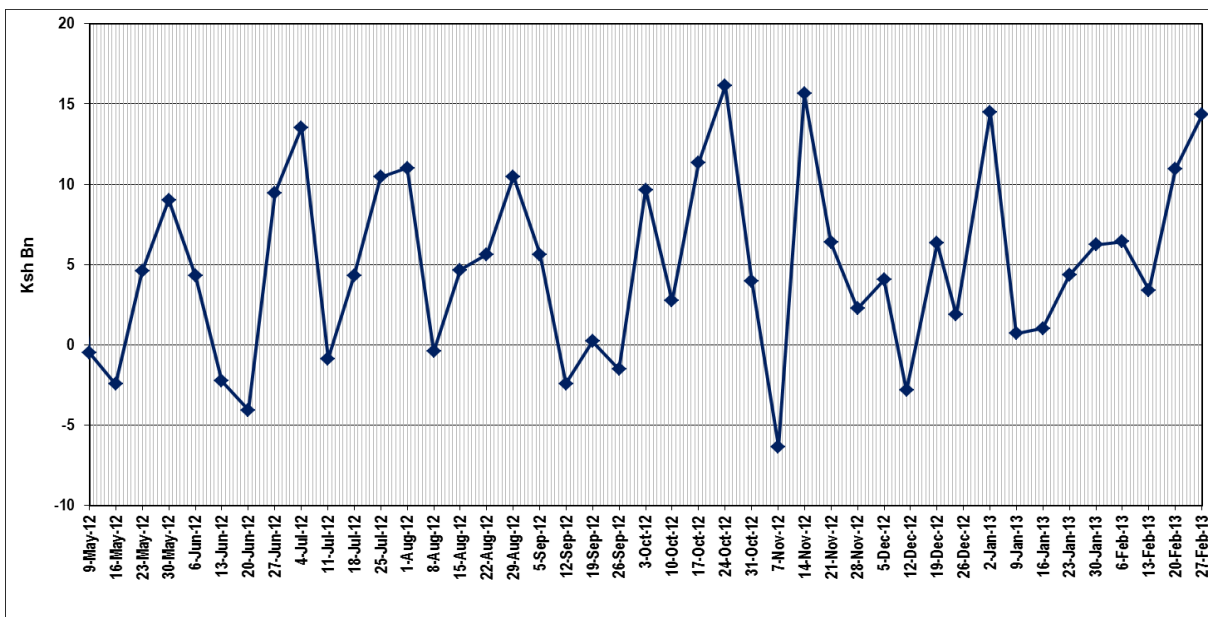


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 14.33 billion in their settlement accounts in relation to the monthly average cash reserve requirements of 5.25 percent (Ksh 88.7 billion) at the Central Bank in the week to February 27, 2013 compared with Ksh 10.96 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 exchange rate remained relatively stable against major international currencies in the week ending February 28, 2013 (Table 3). It appreciated by 0.4 percent, 2 percent, and 1.9 percent against the US Dollar, the Sterling Pound and the Euro during the week under review.

In the EAC region, the Kenya Shilling strengthened against the Uganda Shilling, the Tanzania Shilling and the Rwanda Franc but depreciated marginally against the Burundi Franc in the week under review.

TABLE 3: KENYA SHILLING EXCHANGE RATES

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
15-Feb-13	87.42	135.62	116.77	94.46	30.20	18.50	7.07	17.79
18-Feb-13	87.41	135.37	116.61	93.07	30.26	18.51	7.07	17.79
19-Feb-13	87.61	135.57	116.96	93.62	30.34	18.48	7.05	17.99
20-Feb-13	87.63	135.37	117.41	93.87	30.43	18.49	7.05	17.74
21-Feb-13	87.60	132.97	116.20	93.73	30.64	18.44	7.06	17.99
15-21 Feb 2013	87.53	134.98	116.79	93.75	30.37	18.48	7.06	17.86
22-Feb-13	87.54	133.81	115.66	93.85	30.67	18.60	7.22	18.00
25-Feb-13	87.48	132.53	115.44	93.12	30.58	18.68	7.22	17.78
26-Feb-13	87.32	132.69	114.10	94.70	30.33	18.71	7.24	17.75
27-Feb-13	87.23	131.74	113.93	94.98	30.55	18.64	7.25	17.69
28-Feb-13	86.24	130.74	113.45	93.25	30.63	18.81	7.33	17.80
22-28 Feb 2013	87.16	132.30	114.52	93.98	30.55	18.69	7.25	17.80

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank were stable at US Dollar 4,974 million as at February 21, 2013 compared with US Dollar 4,940 million in the week ending February 28, 2013.

Government Securities Auction

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 7.0 billion in 364-day Treasury bills during the week ending March 1, 2013. Total bids received amounted to Ksh 18.5 billion, of which Ksh 8.8 billion, Ksh 1.4 billion and Ksh 8.3 billion were in 91-day, 182-day and 364-day papers, representing performance rates of 220.2 percent, 33.9 percent and 118.4 percent, respectively. The Government accepted Ksh 5.8 billion in the 91-day paper, Ksh 0.9 billion in the 182-day paper and Ksh 5.9 billion in the 364-day paper during the week. Total non-competitive bids received amounted to Ksh 1.3 billion.

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Interest Rates on Government securities

Weighted average interest rates on the 91-day, 182-day and 364-day Treasury bills increased by 44.0, 51.3 and 70.0 basis points to reach 9.368 percent, 9.084 percent and 12.362 percent, respectively, during the week's auction (Table 4).

TABLE 4: GOVERNMENT SECURITIES INTEREST RATES

Auction date	29-Jun-12	21-Dec-12	25-Jan-13	1-Feb-13	8-Feb-13	15-Feb-13	22-Feb-13	1-Mar-13
91-day T. Bills*	10.780	8.142	8.036	8.164	8.229	8.213	8.928	9.368
182-day T. Bills*	11.091	9.046	8.066	8.065	8.450	8.502	8.571	9.084
364-day T. Bills*				11.662				12.362
2 year FXD T. Bonds		12.382					12.844	
15year FXD T. Bonds							13.629	

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 97.3 billion to Ksh 956.2 billion on February 22, 2013, from Ksh 858.8 billion at the end of June 2012. This followed increases of Ksh 39.6 billion, Ksh 28.6 billion, 18.1 billion and Ksh 11.0 billion in the stocks of Treasury bills, Treasury bonds, Government overdraft at the Central Bank and other domestic debt, respectively (Table 5).

TABLE 5: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

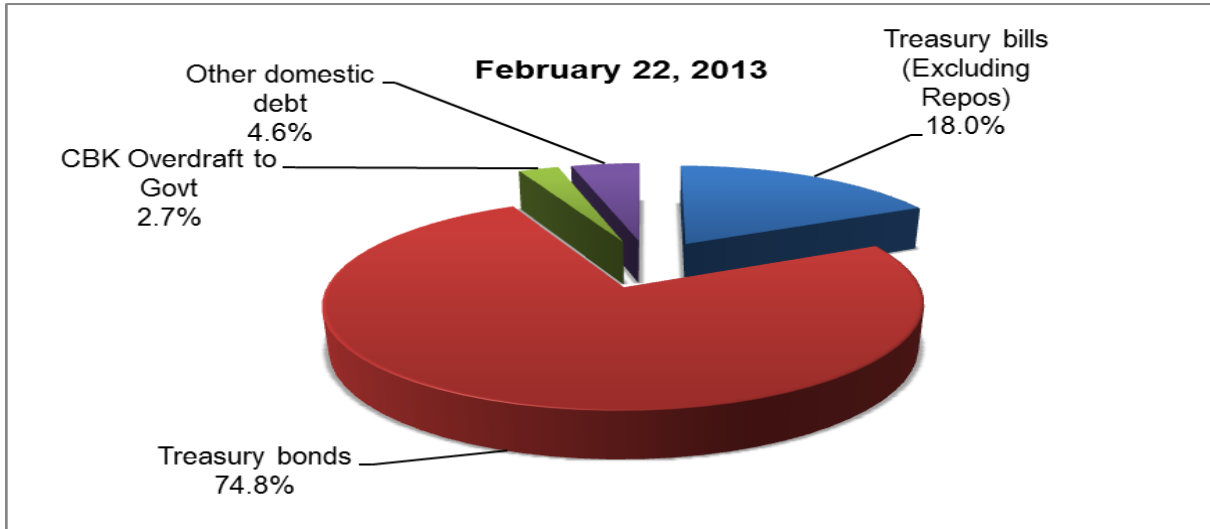
	Jun 2012	Sep 2012	Dec-12	15th Feb 2013	22nd Feb 2013	Changes	
						15th Feb 2013-22nd Feb 2013	29th Jun 2012 - 22nd Feb 2013
1. Treasury Bills (Excluding Repos)	132.0	159.7	196.3	187.4	171.7	-15.7	39.6
(As % of total securities)	16.1	18.5	21.5	20.8	19.4		
2. Treasury Bonds	687.0	703.9	716.1	715.6	715.6	0.0	28.6
(As % of total securities)	83.9	81.5	78.5	79.2	80.6		
3. Total Securities (1+2)	819.0	863.6	912.3	902.9	887.3	-15.7	68.3
4. Overdraft at Central Bank	7.3	25.4	25.4	25.4	25.4	0.0	18.1
5. Other Domestic debt*	32.6	33.2	33.6	32.6	43.6	11.0	11.0
6. Gross Domestic Debt (3+4+5)	858.8	922.2	971.3	960.9	956.2	-4.7	97.3
7. Interest payments on domestic debt	82.3	25.2	53.6	62.3	65.6	3.3	

* 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 February 22, 2013, gross government domestic debt declined by Ksh 4.7 billion, largely on account of Treasury bills redemptions (Table 5). The average time to maturity of Government securities declined to 5 years and 1 month during the week ending February 22, 2013, from 5 years and 4 months at the end of June 2012.

CHART D: COMPOSITION OF GOVERNMENT SECURITIES

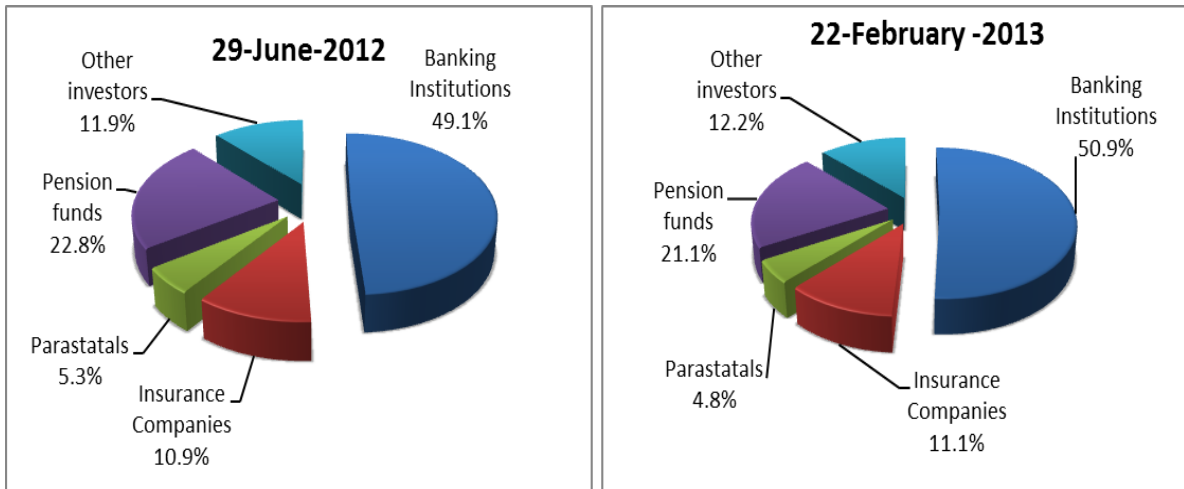


Source: Central Bank of Kenya

Holding of Government Securities

Government securities accounted for 92.8 percent of gross domestic debt on February 22, 2013 (Chart D). Commercial banks dominated holdings of Government securities, having raised their shareholding from 49.1 percent at the end of June 2012 to 50.9 percent on February 22, 2013. Percentage holdings of parastatals and pension funds declined from 5.3 percent and 22.8 percent to 4.8 percent and 21.1 percent respectively, while holdings of insurance companies and other investors, which comprises Saccos', listed and private companies, self-help groups, educational institutions, religious institutions and individuals, increased from 10.9 percent and 11.9 percent to 11.1 percent and 12.2 percent, respectively, during the period (Chart E).

CHART E: COMPOSITION OF GOVERNMENT SECURITIES BY INVESTORS

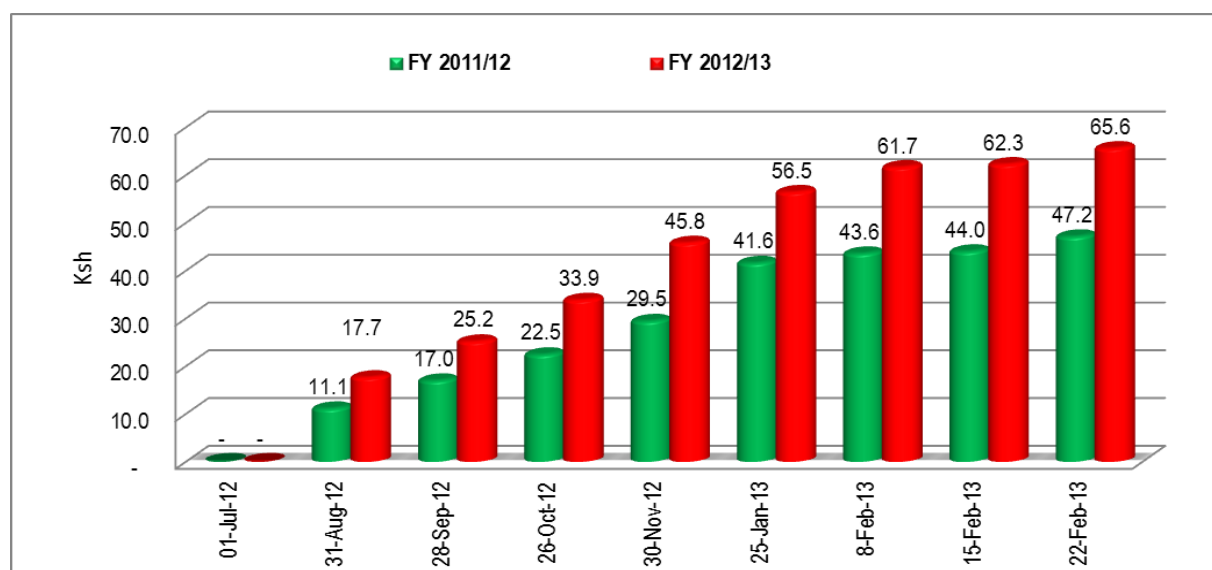


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to February 22, 2013 in the 2012/13 fiscal year amounted to Ksh 65.6 billion compared with Ksh 47.2 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 14.98 billion and Ksh 47.72 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 1.77 billion and Ksh 1.18 billion, respectively.

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



Source: Central Bank of Kenya

Capital Markets Report

Capital market performance improved for the equities and bond markets segments in the week ending February 21, 2013. All equities' leading market indices increased except the number of shares traded and market turnover.

Equities Market

Average share prices recorded marginal gains with the NSE 20 Share Index closing the week at 4,518.59 points or 0.3 percent above previous week's level and the NASI at 106.91 points, or 1.4 percent higher (Table 6). Market capitalization that measures shareholders' wealth closed 205 percent higher at Ksh 1,451.03 billion. Equity turnover fell 13.9 percent on account of supply constraints as evidenced in 52.3 percent drop in the volume of shares traded.

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TABLE 6: KEY WEEKLY MARKET STATISTICS

Week Ending	3-Jan-13	10-Jan-13	17-Jan-13	24-Jan-13	31-Jan-13	7-Feb-13	14-Feb-13	21-Feb-13	28-Feb-13
NASI 100= Jan 2008	96.07	101.02	105.82	102.45	103.50	106.23	108.50	105.39	106.91
NSE 20 Share Index 100=1966	4,159.25	4,319.73	4,545.70	4,385.00	4,416.60	4,561.16	4,637.54	4,505.59	4,518.59
Number of Deals	3,407	6,697	8,800	7,951	7,224	7,773	8,697	7,897	7,177
Total Shares Traded (millions)	3,250.00	99.60	125.96	154.43	118.42	267.81	157.50	180.66	86.22
Equity Turnover (Ksh. millions)	4,826.54	2,014.43	2,553.42	1,930.53	1,711.85	4,499.71	3,663.48	3,509.54	3,021.12
Market Capitalization (Ksh. Bn.)	1,288,137.00	1,354.57	1,418.88	1,373.72	1,387.81	1,425.90	1,456.29	1,414.53	1,451.03
Bonds Turnover (Ksh. millions)	3,447.90	8,575.75	5,678.55	2,361.85	4,071.95	5,189.00	3,433.00	4,027.70	7,245.10
FTSE NSE Kenya 15 Index	126.74	132.91	136.78	134.83	136.44	139.71	141.53	137.09	141.12
FTSE NSE Kenya 25 Index	129.64	136.12	139.99	138.08	139.73	143.12	144.93	140.05	144.27
Index(Jan2012=100)	92.86	92.02	91.73	91.25	91.37	91.77	91.96	91.78	93.09

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

Source: Nairobi Securities Exchange

Banking, Telecoms and Technology and Manufacturing sectors were the top three most active, transacting 29.68 million or 34.4 percent; 26.79 million or 31.1 percent and 11.4 million or 13.2 percent of all shares traded, respectively. Safaricom Ltd, Kenya Commercial Bank Ltd and Mumias Sugar were the three most active counters with 25.86 million, 14.33 million and 5.61 million shares traded, respectively. Agricultural sector was least active, trading 210,000 shares.

The biggest closing and average price gains for the week were for BOC Kenya and Pan Africa Insurance at Ksh 6 and Ksh 3.05 per share respectively. The biggest closing and average price losses were for Bamburi Cement and Standard Chartered Bank at Ksh 10 and Ksh 8.20 per share, respectively. Of the 48 active counters, 16 had average price gain in the week ending February 28, 2013 down from 21 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, closed the week up at 141.12 points from 137.09 points. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE, also rose to 144.27 points from 140.05 points in the previous trading week. FTSE NSE Kenyan Shilling Government Bond Index, which measures valuation of domestic bond market traded portfolio, closed at 93.09 points from 91.78 points.

The Bond Market

Bond trading posted 79.9 percent increase in turnover, trading Ksh 7,245.1 million for the week ending February 21, 2013 from Ksh 4,027.7 million in the previous week. Corresponding deals fell to 145 from 52 the previous week. The renewed investor interest in the bonds market activity may signal investors' preference for safety and less risk appetite, especially during this electioneering period.