



**November 1, 2013**

## **Highlights**

Inflation eased in October 2013, after rising gradually since July 2013 on the back of a base effect and implementation of VAT 2013 effective September. Overall 12-month inflation eased from 8.29 percent in September 2013 to 7.76 percent in October 2013 and non-food non-fuel inflation from 5.02 percent to 4.94 percent.

The money market liquidity was relatively tight during the week ending October 30, 2013 on account of payment of taxes to Government and sale of Government securities. The Central Bank liquidity management through reverse repo securities resulted in Ksh 15.7 billion injection to boost liquidity in the market.

Reflective of the tight liquidity, the average interbank rate increased to 11.55 percent during the week ending October 30, 2013 from 11.05 percent in the previous week.

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending October 31, 2013. It weakened marginally to trade at an average of Ksh 85.00 per US\$ compared to Ksh 84.78 per US\$ in the week ending October 24, 2013.

The usable foreign exchange reserves held by Central Bank remained strong at US\$ 5,869 million as at October 24, 2013 compared with US\$ 5,891 million as at October 24, 2013.

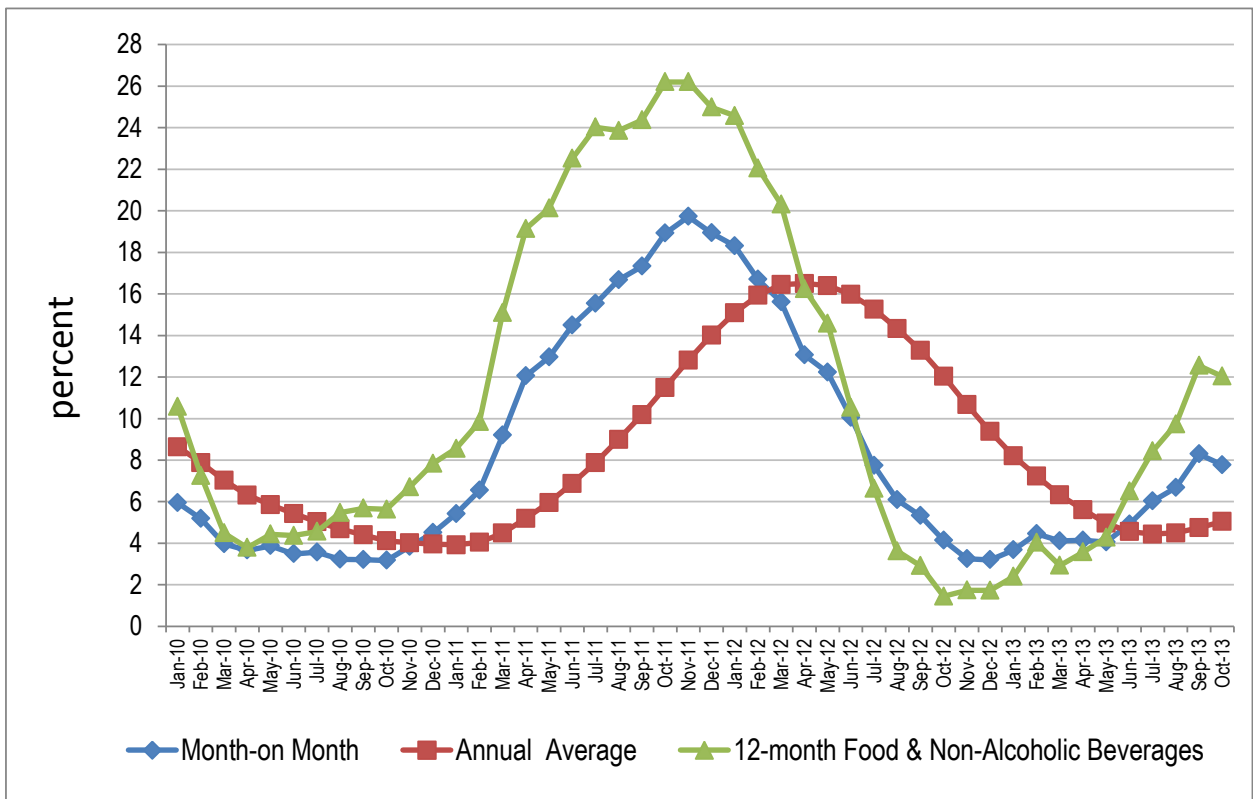
The Government offered for sale Treasury bills worth Ksh 7.0 billion during the week ending November 01, 2013. A total of Ksh 6.8 billion was accepted out of Ksh 8.8 billion bids received. Gross Government domestic debt increased by Ksh 98.6 billion to reach Ksh 1149.6 billion on October 25, 2013, from Ksh 1,051.0 billion held at the end of June 2013. During the week under review, gross government domestic debt rose by Ksh 4.8 billion, largely on account of Treasury bills.

The NSE maintained its strong performance in the week ending October 31, 2013 despite the closure of the market on October 29<sup>th</sup> 2013 on technical hitch. NSE 20 Share Index gained 43.23 points and NASI 1.68 points. Market capitalization added Ksh 23.55 billion but Equity turnover declined by 28.9 percent. The bonds turnover rose 272.8 percent. FTSE NSE 15 Index and FTSE NSE 25 Index rose by 1.81 points and 1.61 points respectively, but FTSE Government Bond Index declined by 0.45 points.

**Inflation**

Overall 12-month inflation eased from 8.29 percent in September 2013 to 7.76 percent in October 2013 (Chart A). The decline in the overall inflation in October 2013 is attributed to reduced prices of fuel and food. Fuel inflation eased from 5.75 percent in September 2013 to 4.75 percent in October 2013 following a reduction in the retail prices of petrol and diesel. Food inflation also eased from 12.07 percent in September 2013 to 11.55 percent in October 2013. This reflects the 12-month change in the ‘food and non-alcoholic beverages’ index, which declined from 12.55 percent in September 2013 to 12.03 percent in October 2013.

**Chart A: Month-on-month Annual Average and 12-Month food & non-alcoholic beverages Inflation Rates**



**Source: Central Bank of Kenya**

**Monetary Policy Operations**

The money market liquidity remained relatively tight during the week ending October 30, 2013 on account of payment of taxes to Government and sale of Government securities. The Central Bank liquidity management through reverse repo securities resulted in Ksh 15.7 billion injection to boost liquidity in the market. Reserve money averaged KSh. 287.7 billion during the week and was KSh. 5.4 billion below target (Table 1).

## CBK WEEKLY BULLETIN

**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-Oct-13	280.9	292.6	<b>-11.7</b>	0.0	0.0	0.0	<b>0.0</b>	281.3	<b>-11.2</b>	-5.3	-5.9
25-Oct-13	278.2	292.6	<b>-14.4</b>	0.0	0.0	0.0	<b>0.0</b>	279.2	<b>-13.3</b>	-6.6	-6.7
28-Oct-13	261.4	292.6	<b>-31.1</b>	0.0	0.0	0.0	<b>0.0</b>	284.8	<b>-7.8</b>	-2.2	-5.7
29-Oct-13	288.4	294.0	<b>-5.5</b>	0.0	0.0	0.0	<b>0.0</b>	288.7	<b>-5.3</b>	-0.2	-5.1
30-Oct-13	293.3	294.0	<b>-0.6</b>	0.0	0.0	0.0	<b>0.0</b>	304.6	<b>10.7</b>	14.7	-4.1
<b>Average</b>	<b>280.5</b>	<b>293.1</b>	<b>-12.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>287.7</b>	<b>-5.4</b>	0.1	<b>-5.5</b>

Source: Central Bank of Kenya

### Interbank and REPO Rates

The average interbank rate increased to 11.55 percent during the week ending October 30, 2013 from 11.05 percent in the previous week reflecting tight liquidity in the money market. The average interbank volume transacted decreased to KSh. 19.56 billion in the week ending October 30, 2013 from KSh. 29.87 billion the previous week, while the average number of deals increased to 68 from 65 (Table 2 and Chart B).

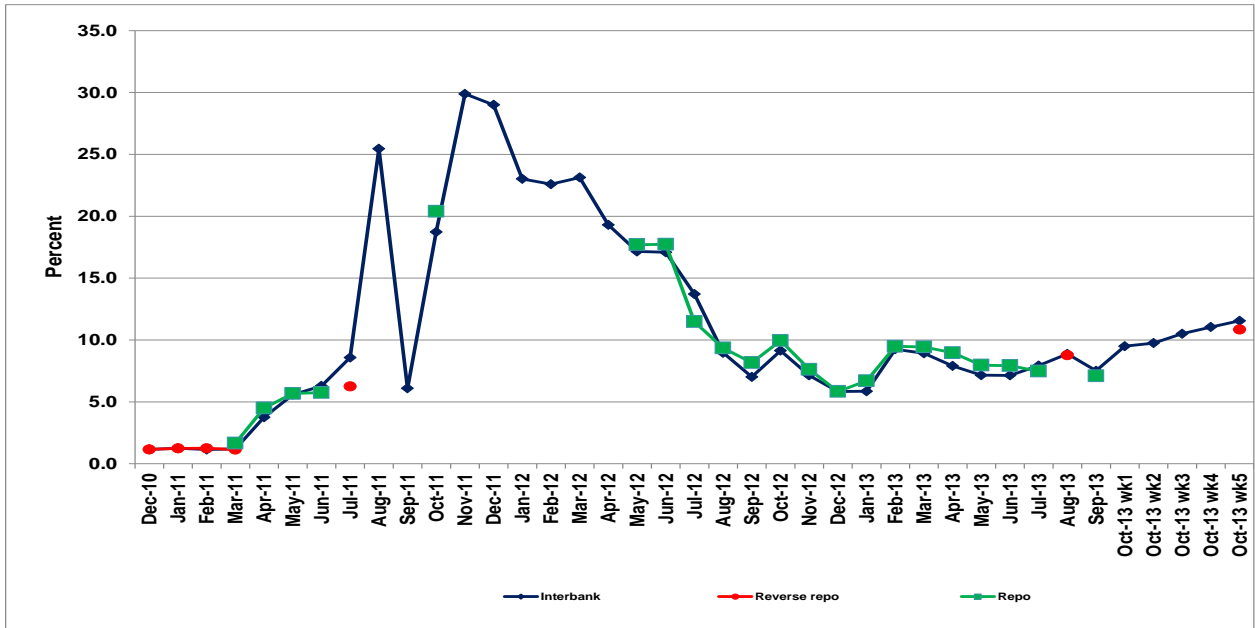
**Table 2: Interbank Deals, Volumes and Interest Rates**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
17-Oct-13	54	17,830	10.82
18-Oct-13	62	31,545	11.07
22-Oct-13	68	33,768	11.12
23-Oct-13	74	36,340	11.17
<b>October 17 -October 23, 2013</b>	<b>65</b>	<b>29,871</b>	<b>11.05</b>
24-Oct-13	74	28,748	11.32
25-Oct-13	88	25,440	11.49
28-Oct-13	64	14,395	11.48
29-Oct-13	50	11,175	11.70
30-Oct-13	66	18,035	11.75

Source: Central Bank of Kenya

The Central Bank issued reverse repo securities at an average interest rate of 10.84 percent in the week ending October 30, 2013.

Chart B: The Structure of Interest Rates

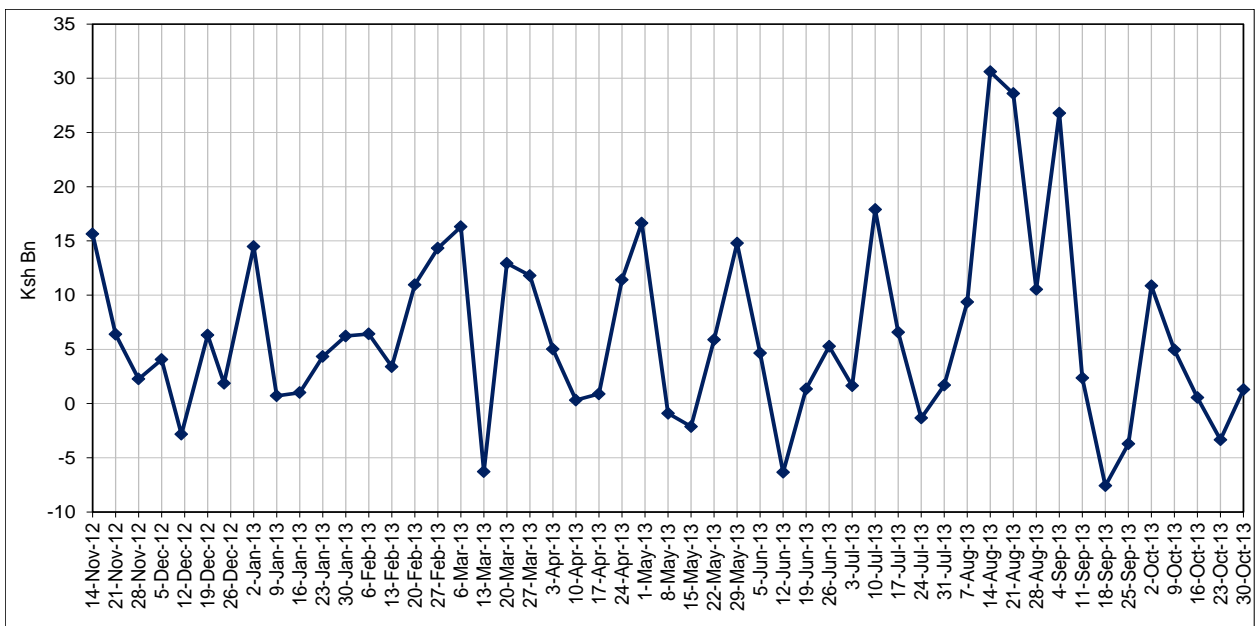


Source: Central Bank of Kenya

**Commercial Banks Clearing Account Balances**

Commercial banks recorded a surplus of KSh. 1.3 billion in their settlement accounts in relation to the monthly average cash reserve requirement of 5.25 percent (Ksh 96.3 billion) at the Central Bank in the week to October 30, 2013 compared with a deficit of KSh. 3.3 billion recorded in the previous week (Chart C).

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



Source: Central Bank of Kenya

# CBK WEEKLY BULLETIN

## The Shilling Exchange Rate

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending October 31, 2013. It depreciated by 0.26 percent, 0.52 percent and 0.34 percent against the US\$, the Euro and the Japanese Yen respectively to exchange at an average of Ksh 85.00 per US\$, Ksh 117.03 per Euro and Ksh 86.97 per 100 Japanese Yen. The shilling strengthened marginally against the Sterling Pound to exchange at an average of Ksh 136.99 per Sterling Pound compared to Ksh 137.11 per Sterling Pound in the week ending October 24 2013.

In the EAC region, the Kenya Shilling weakened marginally against all the EAC currencies in the week ending October 31, 2013.

**Table 3: Kenya Shilling Exchange Rates**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
18-Oct-13	84.87	137.02	115.98	86.60	29.56	18.98	7.90	18.24
22-Oct-13	84.72	136.63	115.82	86.23	29.80	18.97	7.90	18.31
23-Oct-13	84.79	137.48	116.83	86.94	29.71	18.97	7.89	18.29
24-Oct-13	84.74	137.34	117.05	86.95	29.83	18.94	7.89	18.30
<b>18-24 Oct-13</b>	<b>84.78</b>	<b>137.11</b>	<b>116.42</b>	<b>86.68</b>	<b>29.73</b>	<b>18.96</b>	<b>7.90</b>	<b>18.29</b>
25-Oct-13	84.74	137.50	117.12	87.28	29.86	18.93	7.89	18.30
28-Oct-13	84.87	137.30	117.13	87.00	29.78	18.91	7.88	18.28
29-Oct-13	85.08	137.00	117.13	87.16	29.68	18.86	7.89	18.23
30-Oct-13	85.17	136.78	117.11	86.83	29.64	18.86	7.88	18.21
31-Oct-13	85.15	136.38	116.68	86.57	29.65	18.86	7.89	18.22
<b>18-24 Oct-13</b>	<b>85.00</b>	<b>136.99</b>	<b>117.03</b>	<b>86.97</b>	<b>29.72</b>	<b>18.89</b>	<b>7.89</b>	<b>18.25</b>

Source Central Bank of Kenya

## Foreign Exchange Reserves

The usable foreign exchange reserves held by Central Bank remained strong at US\$ 5,869 million (or 4.11 months of import cover) as at October 31, 2013 compared with US\$ 5,891 million (or 4.13 months of import cover) as at October 24, 2013.

**Table 4: Official Foreign Exchange Reserves**

	01-Aug-13	08-Aug-13	15-Aug-13	22-Aug-13	29-Aug-13	05-Sep-13	12-Sep-13	19-Sep-13	26-Sep-13	03-Oct-13	10-Oct-13	17-Oct-13	24-Oct-13	31-Oct-13
Usable Reserves*	5,763	5,741	5,717	5,736	5,754	5,748	5,881	5,883	5,903	5,931	5,894	5,881	5,891	5,869
Months of Imports Cover**	4.12	4.10	4.09	4.10	4.11	4.11	4.16	4.17	4.18	4.16	4.13	4.12	4.13	4.11

\*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 2.0 billion in the 91 day Treasury bills, and Ksh 2.5 billion each in the 182 day and 364 day Treasury bills during the week ending November 01, 2013. Total bids received amounted to Ksh 8.8 billion, of which Ksh 3.1 billion, Ksh 3.8 billion and Ksh 1.9 billion was in the 91 day, 182 day and 364 day Treasury bills, representing performance rates of 155.34 percent, 151.74 percent and 77.10 percent, respectively. The Government accepted Ksh 1.7 billion, Ksh 3.5 billion and Ksh 1.6 billion, in the 91 day, 182 day and 364 day Treasury bills, respectively, during the week. Total non-competitive bids amounted to Ksh 0.9 billion.

### Interest Rates on Government securities

Weighted average interest rates on the 91 day, 182 day and 364 day Treasury bills increased by 4.1 basis points, 1.5 basis points and 12.3 basis points to reach 9.984 percent, 10.502 percent and 10.953 percent, respectively, during the week's auction.

**Table 5: Government Securities Interest rates**

	28-Jun-13	20-Sep-13	27-Sep-13	04-Oct-13	11-Oct-13	18-Oct-13	25-Oct-13	01-Nov-13
91-day T. Bills*	5.175	9.139	9.109	9.360	9.772	9.792	9.943	9.984
182-day T. Bills*	5.549	9.694	9.670	9.986	10.185	10.453	10.487	10.502
364-day T. Bills*	8.356	10.413	10.308	10.574	10.800	10.792	10.830	10.953
1 year FXD T. Bonds								
2 year FXD T. Bonds								
2 year FXD T. Bonds								
5 year FXD T. Bonds	11.305							
10year FXD T. Bonds	12.371							
12-year Infrastructure Bond			12.363			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 98.6 billion from Ksh 1,051.0 billion held at the end of June 2013 to Ksh 1,149.6 billion on October 25, 2013. This followed Ksh 41.9 billion, Ksh 40.7 billion and Ksh 16.5 billion respective increases in the stocks of Treasury bills, Treasury bonds and Government overdraft at the Central Bank, and a partially offsetting Ksh 0.4 billion decline in other domestic debt.

# CBK WEEKLY BULLETIN

**Table 6: Government Domestic Debt (Ksh Billion)**

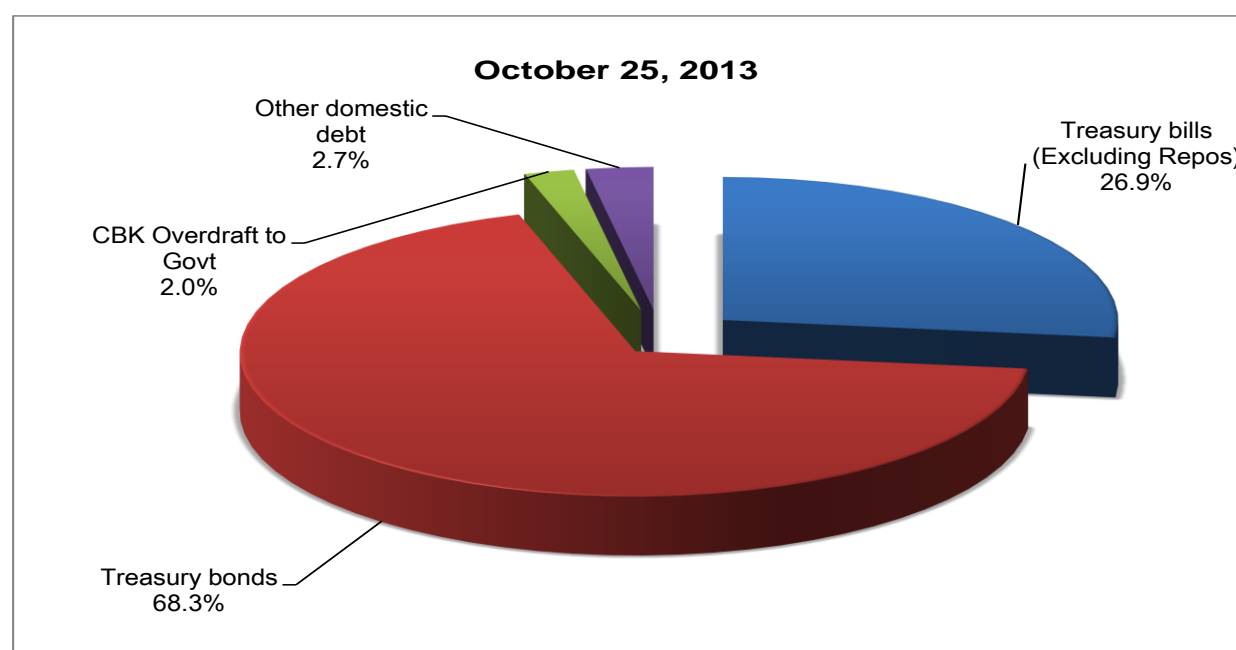
	Jun 2013	Aug 2013	4th Oct 2013	11th Oct 2013	18th Oct 2013	25th Oct 2013	Changes	
							18th Oct 2013 - 25th Oct 2013	28th Jun 2013 - 25th Oct 2013
1. Treasury Bills (Excluding Repos) (As % of total securities)	267.8 26.5	278.0 26.4	307.6 27.9	307.9 27.9	305.2 27.7	309.7 28.3	1.8 0.4	41.9
2. Treasury Bonds (As % of total securities)	744.2 73.5	774.4 73.6	794.8 72.1	794.8 72.1	794.8 72.3	784.8 71.7	-10.0 -0.4	40.7
3. Total Securities (1+2)	1011.9	1052.4	1102.5	1102.8	1100.1	1094.5	-8.3	82.6
4. Overdraft at Central Bank	7.0	34.2	34.2	10.6	10.8	23.5	12.9	16.5
5. Other Domestic debt*	32.0	31.6	31.4	31.4	31.5	31.6	0.2	-0.4
6. Gross Domestic Debt (3+4+5)	1051.0	1118.2	1168.1	1144.7	1142.3	1149.6	4.8	98.6
7. Interest payments on domestic debt	110.2	14.2	25.0	25.6	26.0	29.2	3.6	

\* 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**

Gross government domestic debt increased by Ksh 4.8 billion during the week ending October 25, 2013, largely on account of Government overdraft at the Central Bank which increased by Ksh 12.9. Stocks of Treasury bills and other domestic debt increased by Ksh 1.8 billion and Ksh 0.2 billion, respectively while stocks of Treasury bonds declined by Ksh 10.0 billion during the week. The average time to maturity of Government securities stood at 4 years and 9 months on October 25, 2013, compared with 5 years and 2 months at the end of June 2013.

**Chart D: Composition of Government Securities**

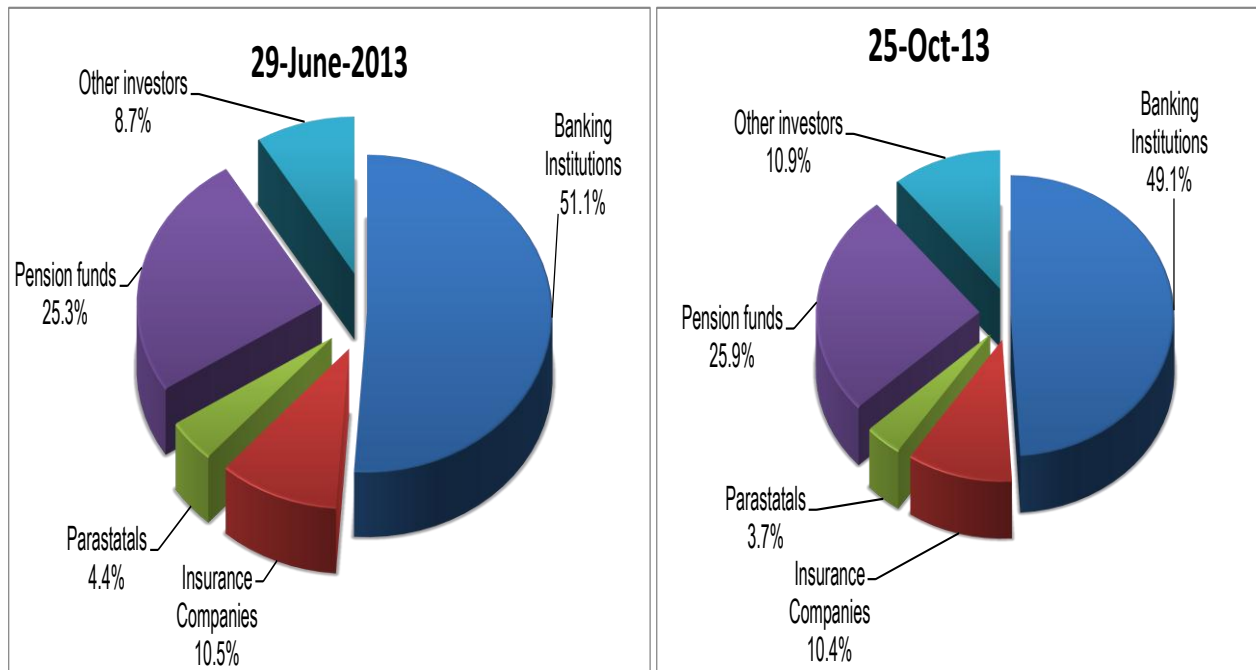


Source: Central Bank of Kenya

**Holding of Government Securities**

Government securities accounted for 95.2 percent of gross domestic debt on October 25, 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 49.1 percent, 10.4 percent and 3.7 percent, respectively, on October 25, 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 25.9 and 10.9 percent of total securities, during the week under review (Chart D).

**Chart E: Composition of Government Securities by Investors**



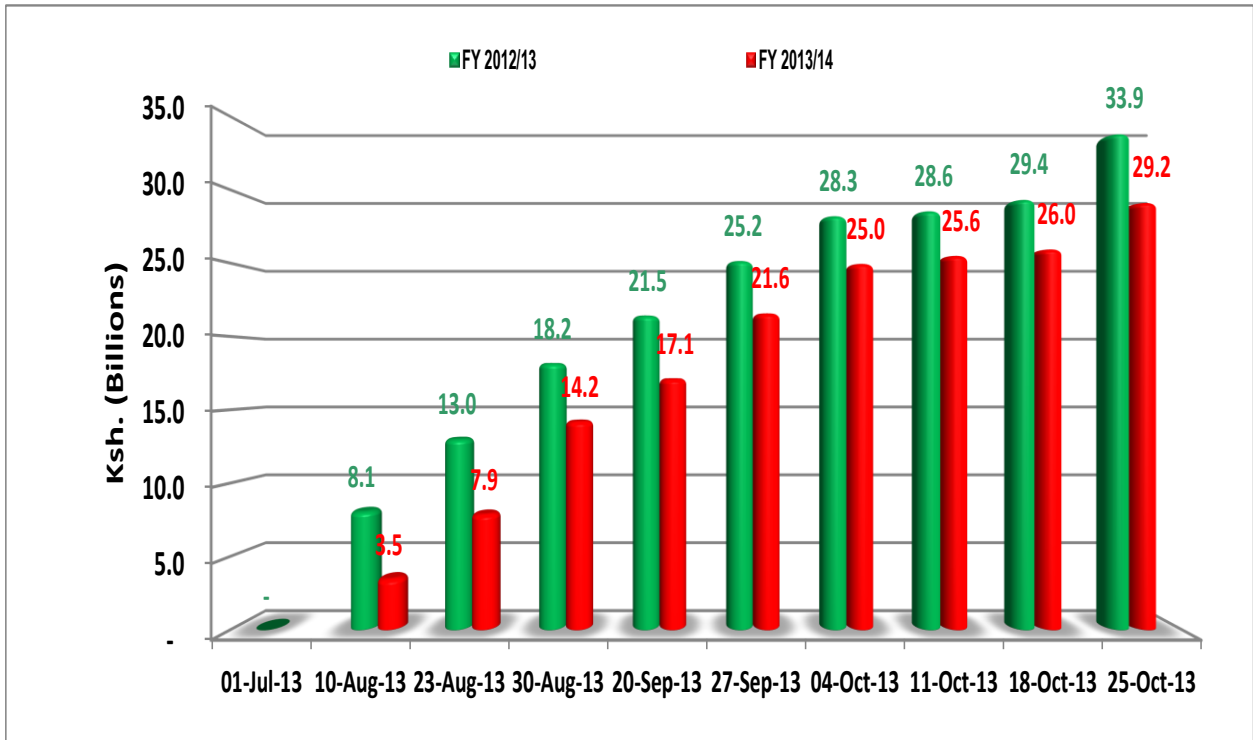
Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

Cumulative interest and other charges on domestic debt during the week ending October 25, 2013 amounted to Ksh 29.2 billion compared with Ksh 33.9 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 5.5 billion, Ksh 22.9 billion, Ksh 0.4 billion and Ksh 0.4 billion, respectively.



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



Source: Central Bank of Kenya

### The Stock Market

Capital markets performance was generally strong during the week ending 31<sup>st</sup> October 2013. Both bonds and equities segment recorded gains for all leading market indicators, except the equity turnover, number of shares and FTSE Government Bond Index which declined during the period.

### Equities Market

The NSE 20 Share Index increased to 4,992.88 points from last week’s 4,949.65 points. NASI rose to 133.24 points from 131.56 points recorded on October 24<sup>th</sup> 2013. Market capitalization that measures shareholders’ wealth was Ksh 1,873.66 billion up from Ksh 1,850.11 billion (Table 7). Equity turnover declined to Ksh 2,984.06 million driven by low volume on closure of the market on October 29<sup>th</sup> 2013.

## CBK WEEKLY BULLETIN

**Table 7: Key Weekly Market Statistics**

Week Ending	22-Aug-13	29-Aug-13	05-Sep-13	12-Sep-13	19-Sep-13	26-Sep-13	03-Oct-13	10-Oct-13	17-Oct-13	24-Oct-13	31-Oct-13
NASI 100= Jan 2008	124.36	120.39	121.82	122.88	123.80	125.50	129.20	132.08	130.67	131.56	133.24
NSE 20 Share Index 100=1966	4,814.12	4,708.05	4,677.60	4,732.92	4,745.47	4,764.12	4,838.07	4,947.00	4,919.17	4,949.65	4,992.88
Number of Deals	8,595.00	8,053.00	7,031.00	8,545.00	7,697.00	6,860.00	7,585.00	10,206.00	9,584.00	7,737.00	7,881.00
Total Shares Traded (millions)	157.77	243.88	80.16	141.11	115.47	142.52	123.91	228.86	198.06	175.07	111.19
Equity Turnover (Ksh. millions)	3,591.78	5,030.06	2,069.19	2,686.44	2,748.18	2,351.29	3,040.89	3,609.26	2,965.00	4,199.81	2,984.06
Market Capitalization (Ksh. Bn.)	1,748.49	1,692.67	1,696.87	1,728.65	1,741.00	1,764.86	1,816.84	1,857.40	1,837.59	1,850.11	1,873.66
Bonds Turnover (Ksh. millions)	2,342.60	9,334.60	8,218.65	10,253.10	7,454.35	4,071.15	15,645.15	12,732.15	7,887.80	4,049.60	15,096.00
FTSE NSE Kenya 15 Index	162.43	156.72	159.45	159.94	161.46	164.06	168.83	174.14	171.67	172.84	174.65
FTSE NSE Kenya 25 Index	164.77	158.79	161.31	162.08	163.58	166.23	171.33	176.48	173.31	174.59	176.15
FTSE NSE Bond Index	94.06	94.06	94.06	94.06	92.35	92.02	92.24	92.00	92.32	91.56	91.11

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

Source: Nairobi Securities Exchange

Telecoms & Technology, Banking and Commercial & Services were the top three active sectors, transacting 46.97 million or 48.74 percent, 21.64 million or 22.46 percent and 6.24 million or 6.47 percent, respectively. Safaricom, Equity Bank and KCB were the three most active counters with 46.97 million, 9.99 million and 5.03 million shares traded, respectively. The least active sector was Automobile and Accessories sector with 170,800 shares.

The biggest closing and average price gain for the week was for Jubilee Holdings at Ksh 9 and Ksh 7.45 per share, respectively. The biggest closing and average price losses was for East African Breweries and Williamson Tea at Ksh 15 and Ksh 28.25 per share, respectively. Of the 54 active counters, 33 had average price gain in the week same as last week.

### FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, closed the week at 174.65 points up from 172.84 points. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE rose to 176.15 points from 174.59 points of the previous week. FTSE NSE Bond Index was however, down to 91.11 points from 91.56 points, further rising bond market yields.

### The Bond Market

Bonds trading rose sharply by 272.78 percent as turnover closed at Ksh 15,096 million from Ksh 4,049.60 million the previous week. Corresponding deals were 324 from 128. The vibrant secondary market may reflect traders' preparation for primary market issuance and cutting losses on rising yields.

