



**SEPTEMBER 27, 2013**

## **Highlights**

The money market was relatively tight during the week ending September 25, 2013 on account of payment of taxes to Government. In order to mitigate liquidity outflow to Government, the Central Bank stayed out of the market and allowed injection of Ksh 31.1 billion in maturities of repo securities and term auction deposits.

Reflecting the tightness, the average interbank rate increased to 8.27 percent during the week ending September 25, 2013 from 6.83 percent in the previous week.

The Kenya shilling portrayed mixed performance against international currencies during the week ending September 26, 2013, strengthening against the US Dollar and the Japanese Yen while weakening against the Pound Sterling and the Euro.

The usable official foreign exchange reserves held by Central Bank increased from US Dollar 5,883 million as at September 19, 2013 to US Dollar 5,903 million as at September 26, 2013.

The Government offered for sale Treasury bills and Treasury bonds worth Ksh 29.0 billion during the week ending September 27, 2013. A total of Ksh 25.7 billion was accepted out of Ksh 43.4 billion bids received.

Gross Government domestic debt increased by Ksh 82.6 billion to reach Ksh 1,133.6 billion on September 20, 2013, from Ksh 1,051.0 billion held at the end of June 2013. During the week under review, gross government domestic debt increased by Ksh 11.0 billion, largely on account of Treasury bills.

Capital markets performance was mixed in the week ending September 26, 2013. NSE Share Index rose 18.65 points while NASI was up 1.70 points as market capitalization added Ksh 23.853 billion to the previous week. Equity and bonds turnover however lost 14.44 percent and 45.39 percent respectively.

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## Monetary Policy Operations

The money market was relatively tight during the week ending September 25, 2013 on account of payment of taxes to Government. The Central Bank stayed out of the market and allowed injection of Ksh 31.1 billion in maturities of repo securities and term auction deposits thereby moderating liquidity withdrawal from the market. Reserve money averaged Ksh 277.5 billion during the week and was Ksh 10.8 billion below 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(-)	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)
19-Sep-13	268.5	288.1	<b>-19.6</b>	0.0	0.0	0.0	<b>0.0</b>	271.6	<b>-16.5</b>	-11.6	-4.8
20-Sep-13	274.4	288.1	<b>-13.7</b>	0.0	0.0	0.0	<b>0.0</b>	276.7	<b>-11.3</b>	-6.0	-5.3
23-Sep-13	269.7	288.5	<b>-18.8</b>	0.0	0.0	0.0	<b>0.0</b>	277.8	<b>-10.7</b>	-5.0	-5.7
24-Sep-13	277.8	288.5	<b>-10.7</b>	0.0	0.0	0.0	<b>0.0</b>	278.8	<b>-9.7</b>	-3.2	-6.5
25-Sep-13	282.4	288.5	<b>-6.1</b>	0.0	0.0	0.0	<b>0.0</b>	282.5	<b>-6.0</b>	0.8	-6.8
<b>Average</b>	<b>274.6</b>	<b>288.3</b>	<b>-13.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>277.5</b>	<b>-10.8</b>	<b>-5.0</b>	<b>-5.8</b>

Source: Central Bank of Kenya

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## Interbank and REPO Rates

The average interbank rate increased by 143.7 basis points to 8.27 percent during the week ending September 25, 2013 from 6.83 percent in the previous week reflecting tight liquidity in the money market. The average interbank volume transacted increased to Ksh 16.6 billion in the week ending September 25, 2013 from Ksh 12.4 billion the previous week, while the average number of deals was 64 compared with 58 deals in the previous week (Table 2 and Chart A).

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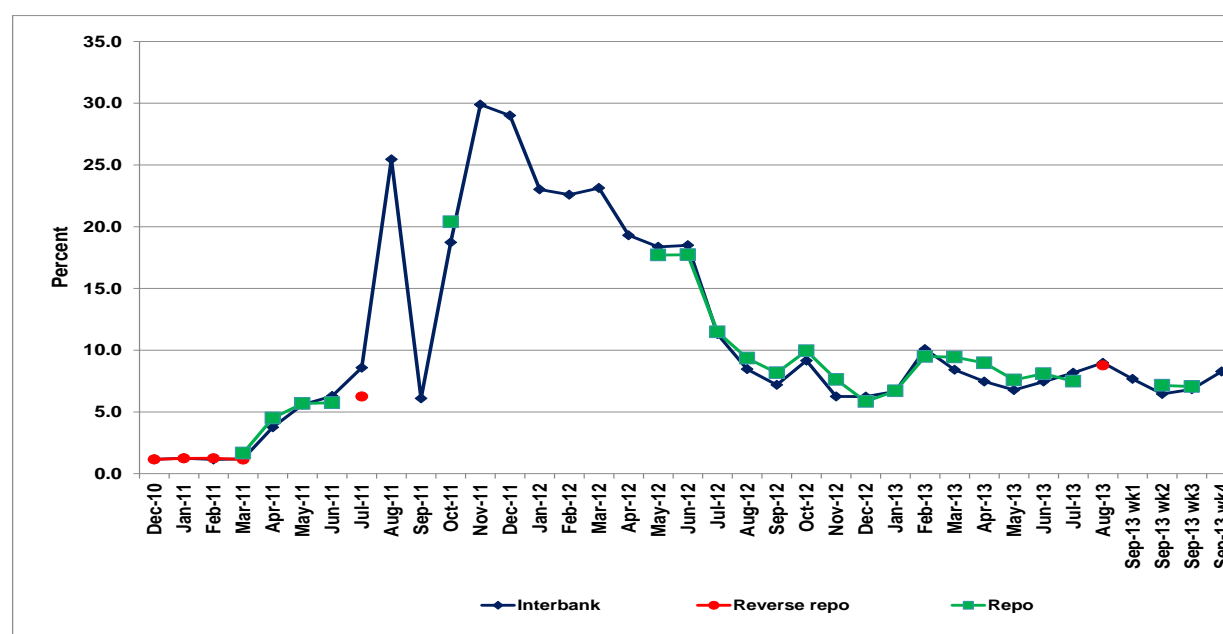
**TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
12-Sep-13	70	15,545	6.60
13-Sep-13	55	10,708	6.60
16-Sep-13	52	11,558	6.72
17-Sep-13	55	11,835	6.94
18-Sep-13	60	12,470	7.31
<b>September 12 -September 18, 2013</b>	<b>58</b>	<b>12,423</b>	<b>6.83</b>
19-Sep-13	59	11,608	7.60
20-Sep-13	59	13,123	7.94
23-Sep-13	59	15,113	8.41
24-Sep-13	69	18,445	8.62
25-Sep-13	75	24,505	8.79
<b>September 19 -September 25, 2013</b>	<b>64</b>	<b>16,559</b>	<b>8.27</b>

Source: Central Bank of Kenya

The Central Bank stayed out of the market during the week ending September 25, 2013. As a result the average repo rate remained unchanged at 7.05 percent recorded in the previous week.

**CHART A: STRUCTURE OF INTEREST RATES**

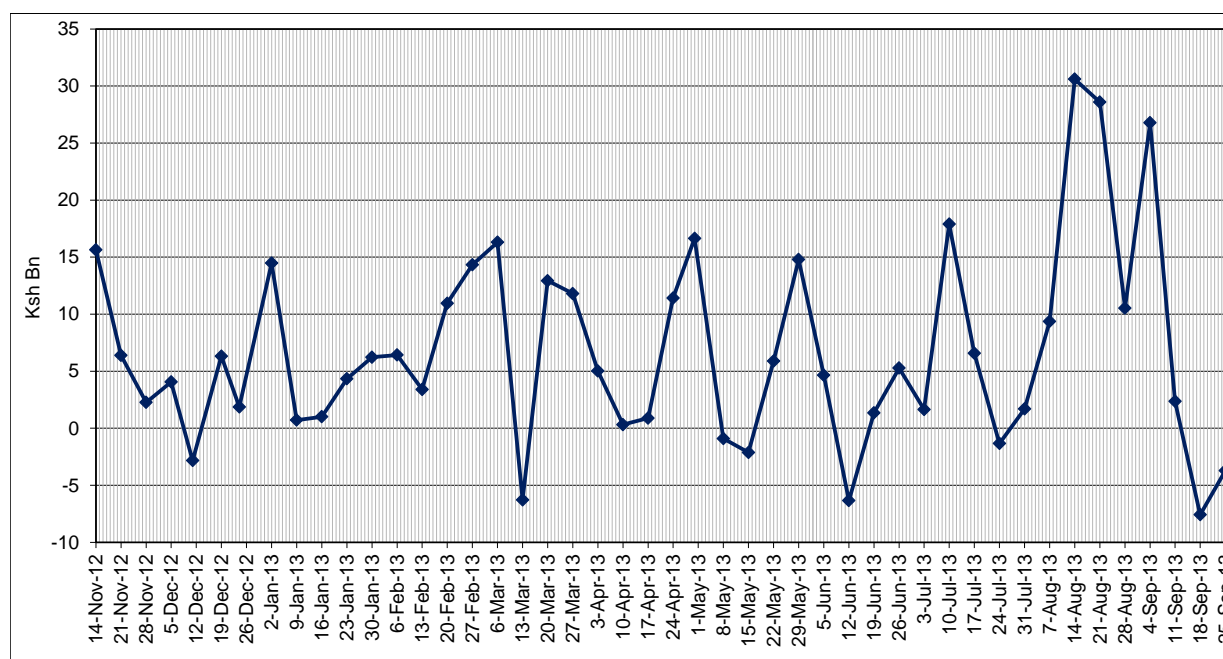


Source: Central Bank of Kenya

## Commercial Banks Clearing Account Balances

Commercial banks recorded a shortfall of Ksh 3.72 billion in their settlement accounts in relation to the monthly average cash reserve requirement of 5.25 percent (Ksh 94.7 billion) at the Central Bank in the week to September 25, 2013 compared with Ksh 7.58 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

During the week ending September 26, 2013, the Kenya shilling appreciated against the US Dollar and the Japanese Yen by 0.2 percent and 0.1 percent respectively and depreciated against the Pound Sterling and the Euro by 0.5 percent and 0.9 percent respectively to trade at an average of 87.38 per USD, 140.15 per Pound Sterling, 118.09 per Euro and 88.33 per 100 Japanese Yen compared to 87.53 per USD, 139.51 per Pound Sterling, 117.04 per Euro and 88.39 per 100 Japanese Yen during the week ending September 19, 2013.

In the EAC region, the Kenya shilling strengthened against the Tanzania shilling, the Rwanda and Burundi Francs but depreciated against the Uganda shilling. During the week ending September 26, 2013 the Kenya shilling traded at an average of Ush 29.24, Tsh 18.46, RWF 7.54 and BIF 17.61 compared to its performance during the previous week when it traded at Ush 29.31, Tsh 18.45, RWF 7.46 and 17.58 (Table 3).

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**TABLE 3: KENYA SHILLING EXCHANGE RATES**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
13-Sep-13	87.54	138.23	116.14	87.86	29.30	18.46	7.46	17.58
16-Sep-13	87.58	139.70	117.00	88.85	29.36	18.47	7.46	17.57
17-Sep-13	87.54	139.31	116.76	88.19	29.30	18.45	7.46	17.58
18-Sep-13	87.54	139.31	116.94	88.17	29.36	18.44	7.46	17.58
19-Sep-13	87.45	141.01	118.36	88.88	29.24	18.44	7.47	17.60
<b>12-19 Sep-13</b>	<b>87.53</b>	<b>139.51</b>	<b>117.04</b>	<b>88.39</b>	<b>29.31</b>	<b>18.45</b>	<b>7.46</b>	<b>17.58</b>
20-Sep-13	87.39	140.23	118.27	87.99	29.33	18.48	7.52	17.61
23-Sep-13	87.42	140.18	118.38	88.39	29.17	18.45	7.47	17.60
24-Sep-13	87.46	140.26	118.12	88.52	29.08	18.43	7.48	17.60
25-Sep-13	87.41	139.79	117.75	88.64	29.15	18.44	7.56	17.61
26-Sep-13	87.23	140.26	117.93	88.08	29.46	18.50	7.69	17.64
<b>20-26 Sep-13</b>	<b>87.38</b>	<b>140.15</b>	<b>118.09</b>	<b>88.33</b>	<b>29.24</b>	<b>18.46</b>	<b>7.54</b>	<b>17.61</b>

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank increased from US Dollar 5,883 million as at September 19, 2013 to US Dollar 5,903 million as at September 26, 2013. In terms of months of import cover, the foreign exchange reserves increased to 4.18 months of import cover and remained above the statutory minimum of 4 month holdings. (Table 4).

**TABLE 4: OFFICIAL RESERVES USD MILLIONS**

	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
Usable Reserves*	5,763	5,741	5,717	5,736	5,754	5,748	5,881	5,883	5,903
Months of Imports Cover**	4.12	4.10	4.09	4.10	4.11	4.11	4.16	4.17	4.18

\*Excludes encumbered reserves

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

Source: Central Bank of Kenya

### 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 20.0 billion in the 12 year fixed coupon infrastructure bond during the week ending September 27, 2013. The infrastructure bond recorded a 188.1 percent performance, attracting bids worth Ksh 37.6 billion, of which Ksh 19.9 billion was accepted. Treasury bill performance during the week was subdued with total bids received amounting to Ksh 5.75 billion, of which Ksh 2.5 billion, Ksh 2.1 billion and Ksh 1.2 billion were respectively in the 91 day, 182 day and 364 day Treasury bills, representing performance rates of 84.1 percent, 68.9 percent and 38.7 percent, respectively. The Government accepted all the Treasury bill bids during the week. Total non-competitive bids amounted to Ksh 3.0 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 decreased by 3.0 basis points, 2.4 points and 10.5 basis points to reach 9.109 percent, 9.670 percent and 10.308 percent, respectively, during the week. In addition, the infrastructure bond's weighted average interest rate declined by 427.7 basis points. to reach 12.363 percent, during the week.

**TABLE 5: GOVERNMENT SECURITIES INTEREST RATES**

	24-Feb-12	26-Jul-13	30-Aug-13	06-Sep-13	13-Sep-13	20-Sep-13	27-Sep-13
91-day T. Bills*	19.152	6.863	10.474	9.928	9.235	9.139	9.109
182-day T. Bills*	19.247	6.793	10.835	10.460	10.089	9.694	9.670
364-day T. Bills*		9.949	11.649	11.402	10.756	10.413	10.308
12-year Infrastructure Bond	16.640						12.363
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 82.6 billion to reach Ksh 1,133.6 billion on September 20, 2013, from Ksh 1,051.0 billion held at the end of June 2013. This followed Ksh 31.2 billion, Ksh 30.2 and Ksh 21.5 billion respective increases in the stocks of Treasury bills, Treasury bonds and Government overdraft at the Central Bank, which were partially offset by Ksh 0.3 billion in other domestic debt, during the period.

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

	Jun 2012	Jun 2013	Aug 2013	13th Sept 2013	20th Sept 2013	Changes	
						13th Sept. 2013 - 20th sept. 2013	28th Jun 2013 - 20th Sept 2013
1. Treasury Bills (Excluding Repos) (As % of total securities)	132.0 16.1	267.8 26.5	278.0 26.4	289.5 27.2	299.0 27.9	9.5 0.6	31.2
2. Treasury Bonds (As % of total securities)	687.0 83.9	744.2 73.5	774.4 73.6	774.4 72.8	774.4 72.1	0.0 -0.6	30.2
<b>3. Total Securities (1+2)</b>	<b>819.0</b>	<b>1011.9</b>	<b>1052.4</b>	<b>1063.9</b>	<b>1073.4</b>	<b>9.5</b>	<b>61.5</b>
4. Overdraft at Central Bank	7.3	7.0	34.2	27.1	28.5	1.4	21.5
5. Other Domestic debt*	32.6	32.0	31.6	31.6	31.7	0.1	-0.3
<b>6. Gross Domestic Debt (3+4+5)</b>	<b>858.8</b>	<b>1051.0</b>	<b>1118.2</b>	<b>1122.6</b>	<b>1133.6</b>	<b>11.0</b>	<b>82.6</b>
<b>7. Interest payments on domestic debt</b>	<b>82.3</b>	<b>110.2</b>	<b>14.2</b>	<b>15.4</b>	<b>17.1</b>	<b>1.8</b>	

\* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and Tax Reserve Certificates .

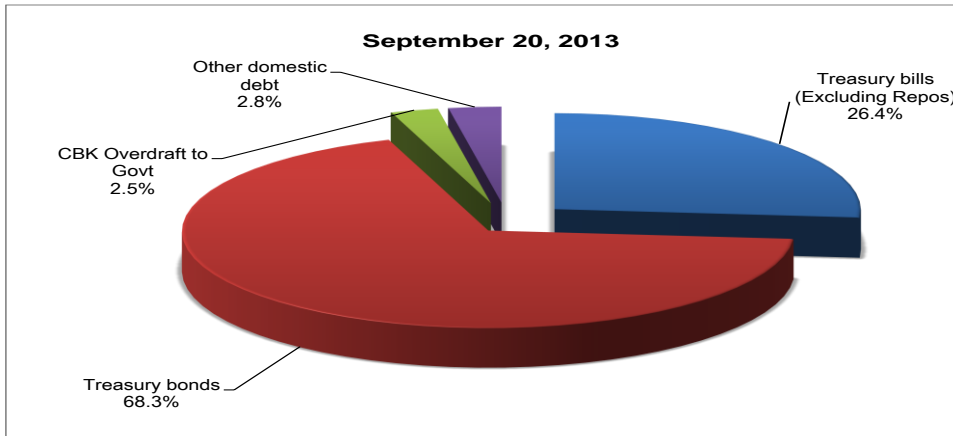
Source: Central Bank of Kenya

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During the week ending September 20, 2013, gross government domestic debt increased by Ksh 11.0 billion, largely on account of Treasury bills. Government overdraft at the Central Bank and other domestic debt increased by Ksh 1.4 billion and Ksh 0.1 billion, respectively, while Treasury bonds remained unchanged. The average time to maturity of Government securities reduced to 5 years from 5 years and 2 months at the end of June 2013.

**CHART C: COMPOSITION OF GOVERNMENT SECURITIES**

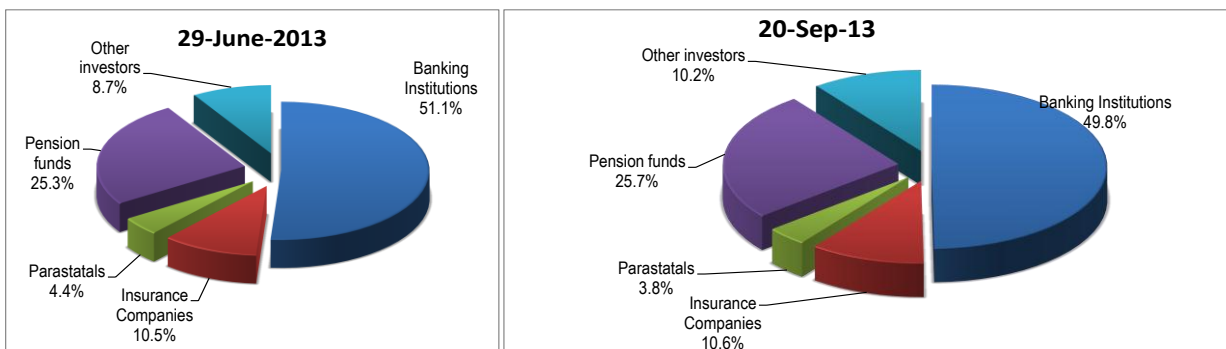


Source: Central Bank of Kenya

## Holding of Government Securities

Government securities accounted for 94.7 percent of gross domestic debt on September 20, 2013 (Chart C). The share of Government securities held by insurance companies, pension funds and other investors, which comprise Saccos, listed and private companies, self-help groups, educational institutions, religious institutions and individuals increased from 10.5 percent, 25.3 percent and 8.7 percent respectively, in June 2013 to 10.6 percent, 25.7 percent and 10.2 percent on September 20, 2013. Government securities held by banking institutions and parastatals decreased from 51.1 percent and 4.4 percent to 49.8 percent and 3.8 percent, respectively, during the period (Chart D).

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

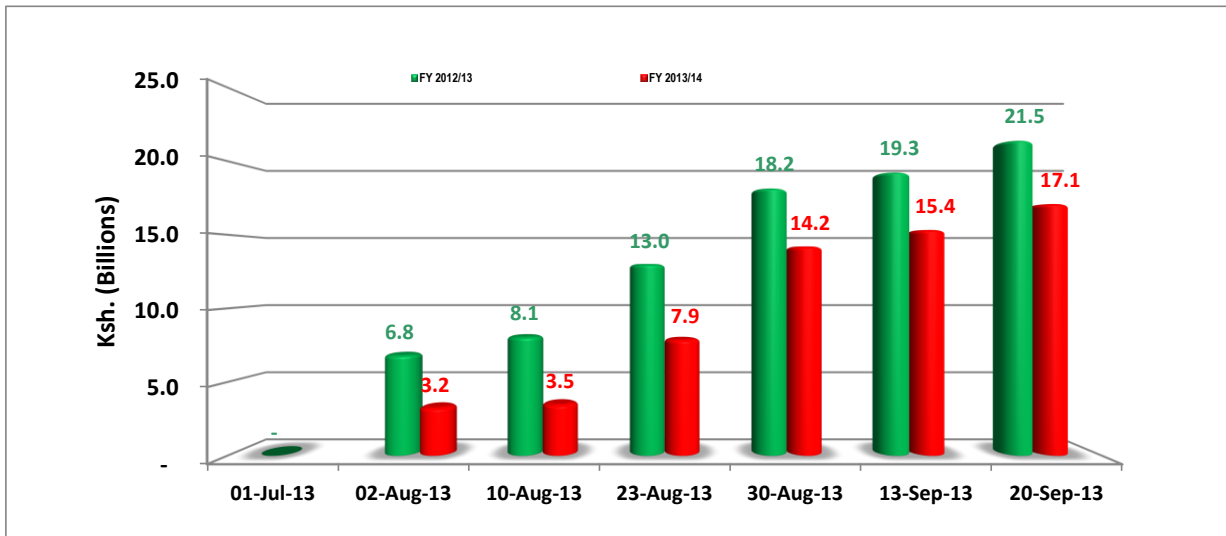


Source: Central Bank of Kenya

**Cost of Domestic Borrowing**

Cumulative interest and other charges on domestic debt during the week ending September 20, 2013 amounted to Ksh 17.1 billion compared with Ksh 21.5 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 and Treasury bonds amounting to Ksh 4.0 billion and Ksh 12.9 billion, respectively. Interest on Government overdraft at the Central Bank amounted to Ksh 0.2 billion, during the same period.

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



Source: Central Bank of Kenya

**Capital Markets Report**

Capital markets performance for the week ended 26<sup>th</sup> September 2013 was mixed for both equities and bonds segments. All indices except Government Bond Index rose, but both turnovers for both bonds and equities declined. Number of deals in both bonds and equities also declined.

**Equities Market**

As indicated in Table 7, NSE 20 Share Index closed the week at 4,764.12 points up from last week’s 4,745.47 points. NASI rose to 125.50 points from 123.80 points recorded on September 19, 2013. Market capitalization that measures shareholders’ wealth was Ksh 1,764.86 billion up from Ksh 1,741.00 billion. Equity turnover however declined to Ksh 2,351.29 million on account of lower volume traded.



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**TABLE 7: KEY WEEKLY MARKET STATISTICS**

Week Ending	15-Aug-13	22-Aug-13	29-Aug-13	05-Sep-13	12-Sep-13	19-Sep-13	26-Sep-13
NASI 100= Jan 2008	125.77	124.36	120.39	121.82	122.88	123.80	125.50
NSE 20 Share Index 100=1966	4,812.27	4,814.12	4,708.05	4,677.60	4,732.92	4,745.47	4,764.12
Number of Deals	8,771.00	8,595.00	8,053.00	7,031.00	8,545.00	7,697.00	6,860.00
Total Shares Traded (millions)	146.92	157.77	243.88	80.16	141.11	115.47	142.52
Equity Turnover (Ksh. millions)	8,198.03	3,591.78	5,030.06	2,069.19	2,686.44	2,748.18	2,351.29
Market Capitalization (Ksh. Bn.)	1,761.87	1,748.49	1,692.67	1,696.87	1,728.65	1,741.00	1,764.86
Bonds Turnover (Ksh. millions)	5,809.90	2,342.60	9,334.60	8,218.65	10,253.10	7,454.35	4,071.15
FTSE NSE Kenya 15 Index	164.51	162.43	156.72	159.45	159.94	161.46	164.06
FTSE NSE Kenya 25 Index	167.34	164.77	158.79	161.31	162.08	163.58	166.23
FTSE NSE Bond Index	93.90	94.06	94.06	94.06	94.06	92.35	92.02

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

Source: Nairobi Securities Exchange

Telecoms & Technology, Banking, and Energy & Petroleum were the top three active sectors, transacting 95.93 million or 67.3 percent, 23.52 million or 16.5 percent and 8.70 million or 6.1 percent, respectively. Safaricom, Barclays Bank and Equity Bank were the three most active counters with 95.93 million, 7.78 million and 5.67 million shares traded, respectively. The least active sector was Automobile and Accessories sector with 64,700 shares.

The biggest closing and average price gain for the week was for East African Breweries Ksh 13 and Ksh 8.20 per share, respectively. The biggest closing and average price loss was for TPS Serena at Ksh 2.75 and Ksh 2.20 per share, respectively. Of the 54 active counters, 29 had average price gain in the week compared to 18 of the 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 164.06 points up from 161.46 points. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE rose to 166.23 points from 163.58 points the previous week. FTSE NSE Bond Index was down to 92.02 points from 92.35 points during the week, indicating rising yields on long term debt.

### The Bond Market

Bonds trading activity declined by 45.39 percent as turnover closed at Ksh 4,071.15 million from Ksh 7,454.35 million the previous week. Corresponding deals were 54 down from 109 of last week. This may be due to investor focus on infrastructure bond in the primary market auctioned in the week that was subscribed at 188.14 percent against Ksh 20 billion offered. It had better yield of 12.363 percent against nominal yield of 11 percent.