



October 4, 2013

Highlights

Overall 12-month inflation increased from 6.7 percent in August 2013 to 8.3 percent in September 2013 on account of the implementation of the VAT Act 2013 and seasonal factors affecting supply of common food crops. Consequently, the broad commodity groups food, and recreation and culture recorded substantial increase in inflation. Non-food, non-fuel inflation also increased from 3.86 percent in August 2013 to 5.02 percent in September 2013 on the back of a rise in crude oil prices. Average annual inflation increased from 4.50 percent in August 2013 to 4.75 percent in September 2013.

The money market liquidity improved marginally during the week supported by net Government payments. The average interbank rate increased to 9.50 percent during the week ending October 2, 2013 from 8.27 percent in the previous week partly on account of skewed liquidity.

The Kenya Shilling exchange rate strengthened against major international currencies in the week ending October 3, 2013. Against the US\$ the Kenya Shilling strengthened to trade at an average of Ksh 86.59 per US\$ compared to Ksh 87.28 per US\$ in the week ending September 26, 2013.

The usable official foreign exchange reserves held by Central Bank stabilized at US\$ 5,907 million as at October 3, 2013 compared with US\$ 5,903 million as at September 26, 2013.

The Government offered for sale Treasury bills worth Ksh 9.0 billion during the week ending October 4, 2013 and accepted all bids received amounting to Ksh 5.6 billion.

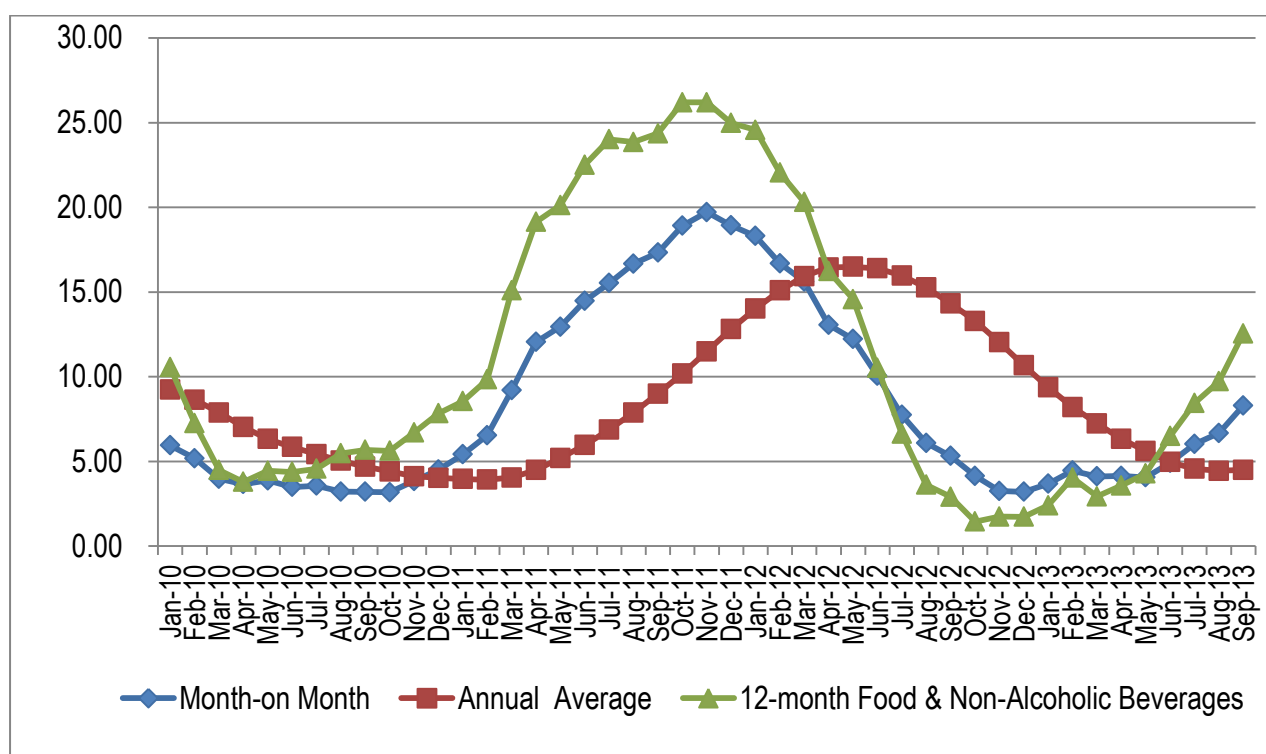
Gross Government domestic debt increased by Ksh 92.3 billion to reach Ksh 1,143.3 billion on September 27, 2013, from Ksh 1,051.0 billion held at the end of June 2013. During the week under review, gross government domestic debt increased by Ksh 9.7 billion, on account of Treasury bills and Government overdraft at the Central Bank

Capital markets performance was bullish in the week ending October 3rd 2013. NSE Share Index rose 73.95 points while NASI was up 3.70 points. Market capitalization added Ksh 51.99 billion to cross the Ksh 1.8 trillion mark. Equity and bonds turnovers rose by 29.3 percent and 285.0 percent, respectively.

Inflation

Overall 12-month inflation increased from 6.7 percent in August 2013 to 8.3 percent in September 2013 (Chart A). The increase was reflected in all the consumer baskets. The highest contributor to the overall inflation was food inflation which rose from 9.43 percent in August 2013 to 12.07 percent in September 2013. This was reflected in 12-month change in the ‘food and non-alcoholic beverages’ index, that increased from 9.73 percent in August to 12.55 percent in September 2013 whereas recreation and culture increased from 3.86 percent in August 2013 to 10.47 percent in September 2013. The continued rise in food, recreation and culture inflation is a reflection of the increased value added tax that took effect in September 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 improved marginally during the week ending October 2, 2013 supported by net Government payments and Ksh 1.0 billion injection through maturities of term auction deposits. Reserve money averaged Ksh 291.0 billion during the week and was Ksh 1.9 billion above 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)
26-Sep-13	282.5	288.5	-6.0	0.0	0.0	0.0	0.0	283.2	-5.3	1.5	-6.7
27-Sep-13	297.8	288.5	9.3	0.0	0.0	0.0	0.0	298.4	9.9	17.4	-7.5
30-Sep-13	289.1	288.5	0.6	0.0	0.0	0.0	0.0	290.3	1.8	9.2	-7.5
01-Oct-13	290.2	289.9	0.3	0.0	0.0	0.0	0.0	291.4	1.6	9.5	-7.9
02-Oct-13	294.0	289.9	4.1	0.0	0.0	0.0	0.0	291.5	1.7	8.6	-7.0
Average	290.7	289.1	1.7	0.0	0.0	0.0	0.0	291.0	1.9	9.2	-7.3

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate increased by 122.9 basis points to 9.50 percent during the week ending October 2, 2013 from 8.27 percent in the previous week. The average interbank volume transacted increased to Ksh 23.6 billion in the week ending October 2, 2013 from Ksh 16.6 billion the previous week, while the average number of deals rose to 70 compared with 64 in the previous week (Table 2 and Chart A).

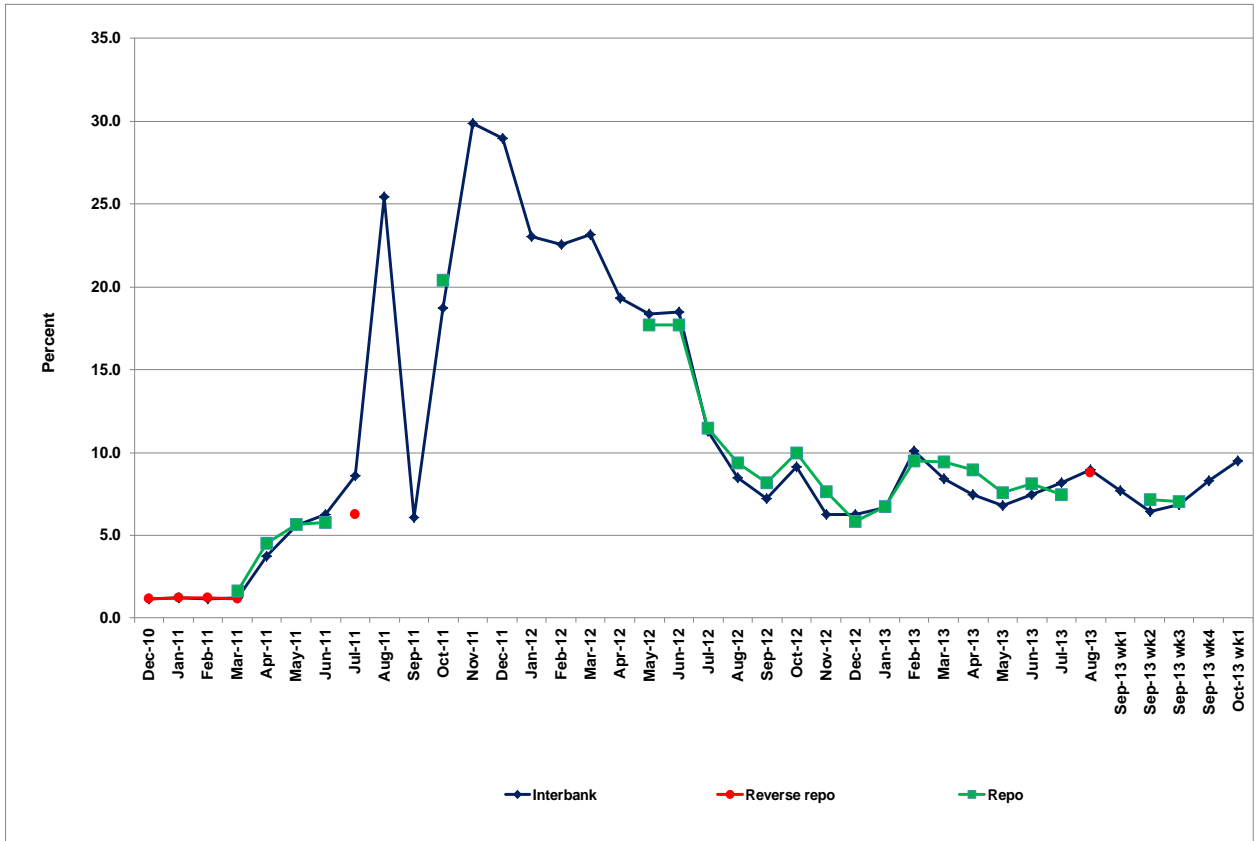
Table 2: Interbank Deals, Volumes and Interest Rates

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
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
September 19 -September 25, 2013	64	16,559	8.27
26-Sep-13	82	27,678	9.12
27-Sep-13	79	29,504	9.39
30-Sep-13	57	19,360	9.52
1-Oct-13	69	20,903	9.69
2-Oct-13	64	20,672	9.78
September 26 -October 2, 2013	70	23,623	9.50

Source: Central Bank of Kenya

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Chart A: The Structure of Interest Rates

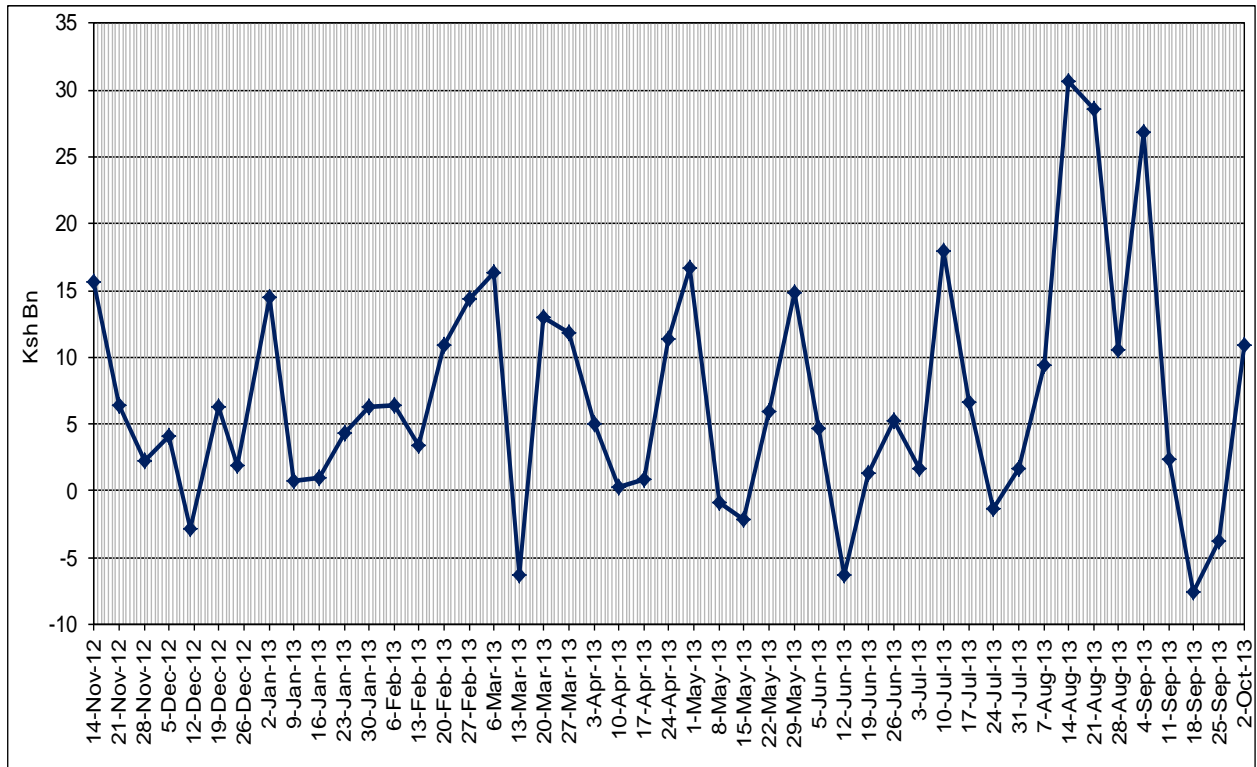


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 10.85 billion in their settlement accounts at the Central Bank in relation to the monthly average cash reserve requirement of 5.25 percent (Ksh 94.7 billion) in the week to October 2, 2013 compared with a shortfall of Ksh 3.72 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

The Kenya Shilling exchange rate strengthened against major international currencies in the week ending October 3, 2013. It appreciated by 0.91 percent, 0.13 percent and 0.84 percent against the US\$, the Sterling Pound and the Euro respectively. Against the Japanese Yen, the Shilling traded at the same level as the previous period. The Shilling traded at an average of Ksh 86.59 per US\$, Ksh 139.96 per Sterling Pound, Ksh 117.10 per Euro and Ksh 88.33 per 100 Japanese Yen.

In the EAC region, the Kenya Shilling strengthened against all the currencies to trade at an average of US\$ 29.61, TSh 18.59, RWF 7.73 and BIF 17.79 in the week ending October 3 compared to US\$ 29.24, TSh 18.46, RWF 7.54 and BIF 17.61 in the week ending September 26, 2013 (Table 3).

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Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
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
20-26 Sep-13	87.38	140.15	118.09	88.33	29.24	18.46	7.54	17.61
27-Sep-13	86.99	139.55	117.16	88.16	29.58	18.51	7.69	17.69
30-Sep-13	86.65	139.96	116.88	88.39	29.64	18.58	7.72	17.76
1-Oct-13	86.15	139.71	116.67	87.75	29.73	18.68	7.78	17.87
2-Oct-13	86.37	139.77	116.73	88.44	29.61	18.62	7.75	17.82
3-Oct-13	86.79	140.81	118.05	88.89	29.46	18.57	7.71	17.81
27 Sep-3 Oct-13	86.59	139.96	117.10	88.33	29.60	18.59	7.73	17.79

Source Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank stabilized at US\$ 5,907 million (or 4.18 months of import cover) as at October 3, 2013 (Table 4), compared to US\$ 5,903 million (or 4.18 months of import cover) as at September 26, 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
Usable Reserves*	5,763	5,741	5,717	5,736	5,754	5,748	5,881	5,883	5,903	5,907
Months of Imports Cover**	4.12	4.10	4.09	4.10	4.11	4.11	4.16	4.17	4.18	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 during the week ending October 4, 2013. Total bids received amounted to Ksh 5.6 billion, of which Ksh 2.8 billion, Ksh 2.2 billion and Ksh 0.6 billion was in the 91 day, 182 day and 364 day Treasury securities, representing performance rates of 91.8 percent, 74.5 percent and 19.2 percent, respectively. The Government accepted virtually all the bids received during the week, of which 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 25.1, 31.6 and 26.6 basis points to reach 9.360 percent, 9.986 percent and 10.574 percent, respectively, during the week's auction.

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Table 5: Government Securities Interest rates

	24-Feb-12	26-Jul-13	30-Aug-13	13-Sep-13	20-Sep-13	27-Sep-13	04-Oct-13
91-day T. Bills*	19.152	6.863	10.474	9.235	9.139	9.109	9.360
182-day T. Bills*	19.247	6.793	10.835	10.089	9.694	9.670	9.986
364-day T. Bills*		9.949	11.649	10.756	10.413	10.308	10.574
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 92.3 billion to reach Ksh 1,143.3 billion on September 27, 2013, from Ksh 1,051.0 billion held at the end of June 2013. This followed Ksh 37.3 billion, Ksh 29.3 and Ksh 26.1 billion respective increases in the stocks of Treasury bills, Treasury bonds and Government overdraft at the Central Bank, which were partially offset by Ksh 0.5 billion in other domestic debt, during the period.

Table 6: Government Domestic Debt (Ksh Billion)

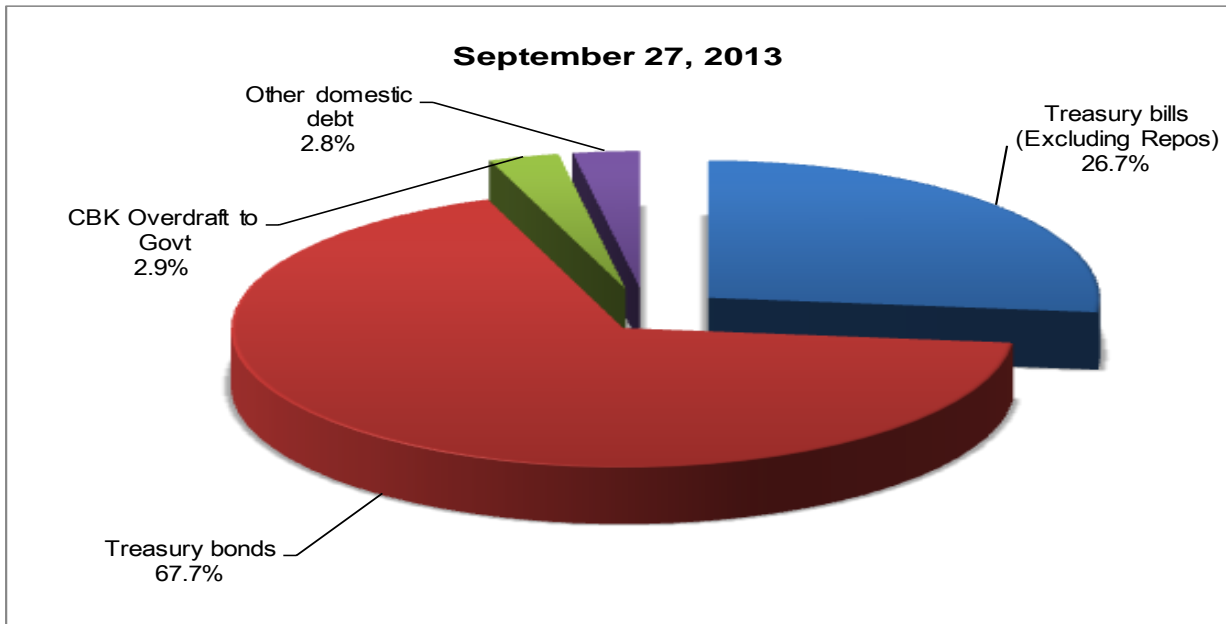
	Jun 2013	Aug 2013	20th Sept 2013	27th Sept 2013	Changes	
					20th Sept. 2013 - 27th sept. 2013	28th Jun 2013 - 27th Sept 2013
1. Treasury Bills (Excluding Repos)	267.8	278.0	299.0	305.1	6.1	37.3
(As % of total securities)	26.5	26.4	27.9	28.3	0.4	
2. Treasury Bonds	744.2	774.4	774.4	773.5	-0.9	29.3
(As % of total securities)	73.5	73.6	72.1	71.7	-0.4	
3. Total Securities (1+2)	1011.9	1052.4	1073.4	1078.6	5.2	66.7
4. Overdraft at Central Bank	7.0	34.2	28.5	33.1	4.6	26.1
5. Other Domestic debt*	32.0	31.6	31.7	31.6	-0.1	-0.5
6. Gross Domestic Debt (3+4+5)	1051.0	1118.2	1133.6	1143.3	9.7	92.3
7. Interest payments on domestic debt	110.2	14.2	17.1	21.6	4.5	

* 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 September 27, 2013, gross government domestic debt increased by Ksh 9.7 billion on account of Treasury bills and Government overdraft at the Central Bank, which offset a decline of Ksh 0.9 billion and Ksh 0.1 billion in Treasury bonds and other domestic debt respectively. 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

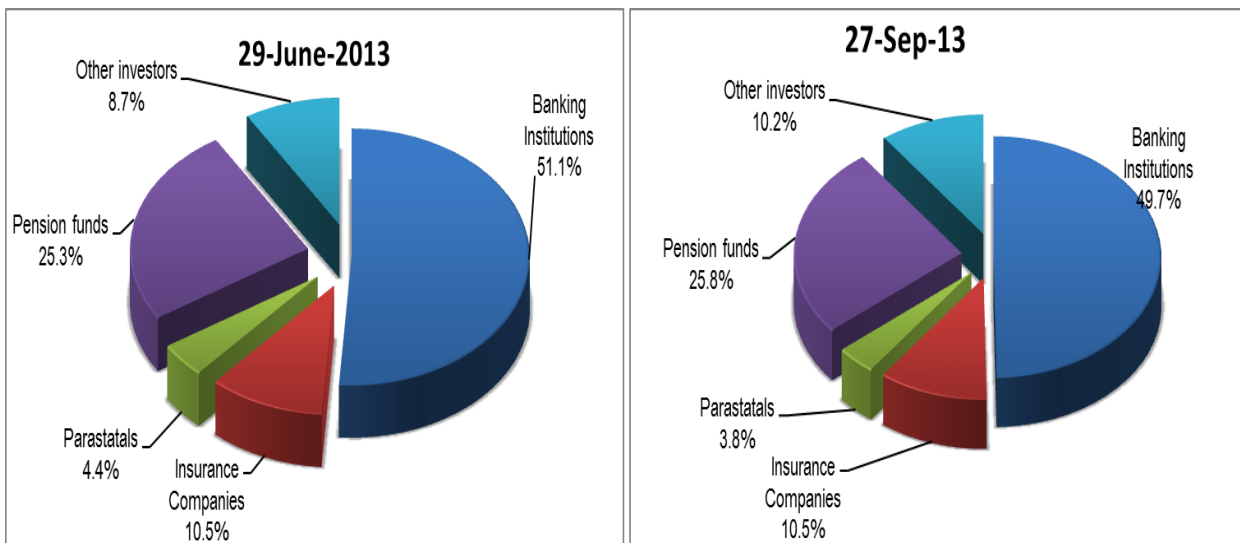


Source: Central Bank of Kenya

Holding of Government Securities

Government securities accounted for 94.4 percent of gross domestic debt on September 27, 2013 (Chart C). The proportion held by commercial banks and parastatals declined from 51.1 and 4.4 percent in June, 20123 to 49.7 and 3.8 percent, respectively, on September 27, 2013. But the share of pension funds and other investors, which comprise Saccos, listed and private companies, self-help groups, educational institutions, religious institutions and individuals increased to 25.8 and 10.2 percent of total securities, from 25.3 and 8.7 percent, in June, 2013. Holdings by insurance companies remained unchanged during the period (Chart D).

Chart D: Composition of Government Securities by Investors

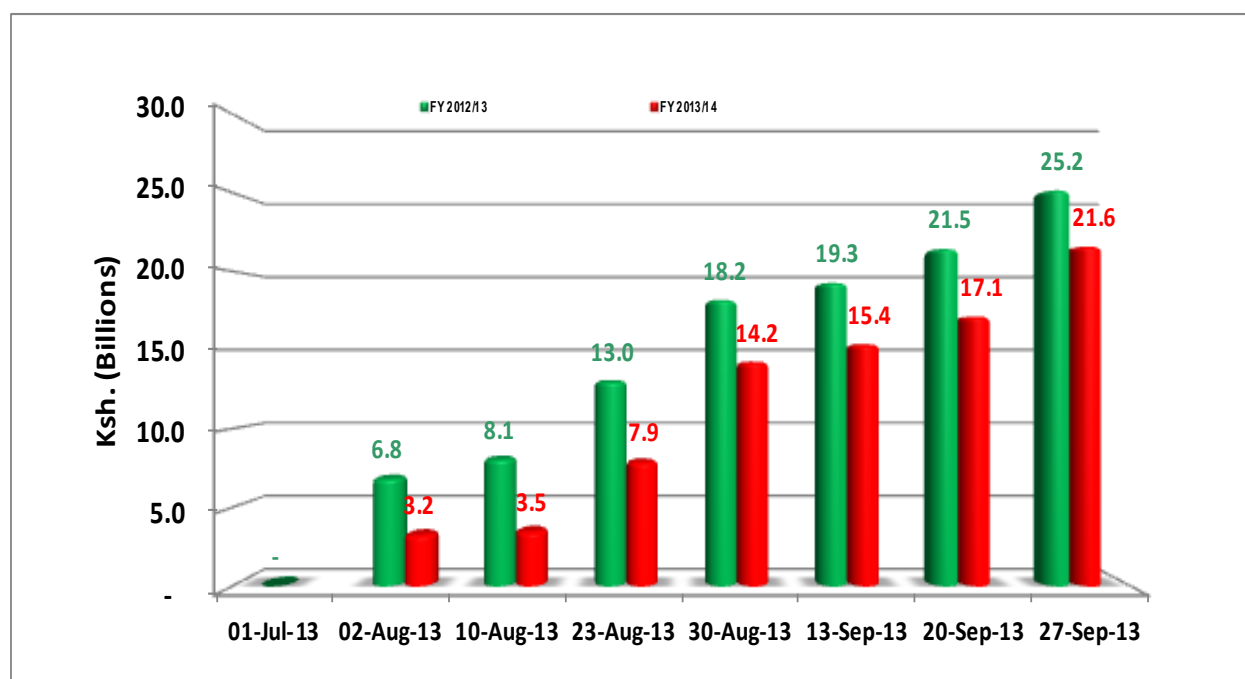


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt during the week ending September 27, 2013 amounted to Ksh 21.6 billion compared with Ksh 25.2 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 4.4 billion and Ksh 17.0 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

The Stock Market

Capital markets rallied in the week ended October 3, 2013 with equities and bonds segments recording significant increase largely on account of higher prices. All indices rose as well as the turnovers for both bonds and equities. Number of deals in both bonds and equities rose, but total shares traded declined.

The NSE 20 Share Index closed the week at 4,838.07 points, higher than last week's 4,764.12 points (Table 7). NASI rose to 129.20 points from 125.50 points recorded on September 26, 2013. Market capitalization that measures shareholders' increased to Ksh 1,816.84 billion from Ksh 1,764.86 billion. Equity turnover rose to Ksh 3,040.89 million on higher prices despite low volume traded.

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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
NASI 100= Jan 2008	124.36	120.39	121.82	122.88	123.80	125.50	129.20
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
Number of Deals	8,595.00	8,053.00	7,031.00	8,545.00	7,697.00	6,860.00	7,585.00
Total Shares Traded (millions)	157.77	243.88	80.16	141.11	115.47	142.52	123.91
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
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
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
FTSE NSE Kenya 15 Index	162.43	156.72	159.45	159.94	161.46	164.06	168.83
FTSE NSE Kenya 25 Index	164.77	158.79	161.31	162.08	163.58	166.23	171.33
FTSE NSE Bond Index	94.06	94.06	94.06	94.06	92.35	92.02	92.24

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

Source: Nairobi Securities Exchange

Telecoms and Technology, Commercial and Services, and Energy and Petroleum were the top three active sectors, transacting 46.87 million or 40.96 percent, 19.97 million or 17.45 percent and 13.63 million or 11.91 percent, respectively. Safaricom, Uchumi Supermarkets and Equity Bank were the three most active counters with 46.87 million, 12.23 million and 8.29 million shares traded, respectively. The least active sector was Automobile and Accessories sector with 67,100 shares traded.

The biggest closing and average price gain for the week was for East African Breweries Ksh 25 and Ksh 22.60 per share, respectively. The biggest closing and average price losses were for Trans Century and Rea Vipingo at Ksh 1.50 and Ksh 0.81 per share, respectively. Of the 54 active counters, 35 had average price gain in the week compared to 29 of the last week, reflecting the market rally.

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 168.83 points up from 164.06 points. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE rose to 171.33 points from 166.23 points the previous week. FTSE NSE Bond Index increased to 92.24 points from 92.02 points during the week, indicating slight fall in yields on bonds.

The Bond Market

Bonds trading activity rose by 284.3 percent as turnover closed at Ksh 11,645.15 million from Ksh 4,071.15 million the previous week. Corresponding deals more than doubled to 141 from 54 last week. The activity reflects the high demand of the on-the-run infrastructure bond auctioned last week, subscribed at 188.14 percent against Ksh 20 billion offered. Of the total volume traded in the week under review, Ksh 9.5 billion or 61 percent was infrastructure bond, IFB 1/2013/12 Yr.