



**JUNE 7, 2013**

## **Highlights**

Overall 12-month inflation stabilised at 4.05 percent in May 2013; marginally lower than 4.14 percent in April 2013 and within the 5 percent target set by the National Treasury. Non-food non fuel-inflation declined more steeply by 40 basis points, to 3.9 percent in May 2013 compared with 4.3 percent in April 2013.

The money market was relatively liquid during the week ending June 5, 2013. The Central Bank liquidity management through open market operations resulted in a net mop up of Ksh 14.1 billion of the excess liquidity.

The average interbank rate remained unchanged at 6.77 percent during the week ending June 5, 2013 compared to 6.78 percent in the previous week.

The Kenya Shilling depreciated against major international currencies in the week ending June 6, 2013. Against the US dollar, the Kenya Shilling weakened by 0.08 percent due to dollar demand by corporates for imports and payment of dividends offshore.

The usable official foreign exchange reserves held by Central Bank stabilised at US Dollar 5,800 million as at June 6, 2013 compared with US Dollar 5,805 million as at May 30, 2013. The reserves nonetheless remained above the minimum requirement of 4 months of import cover.

The Government offered for sale Treasury bills worth Ksh 7.0 billion, during the week ending June 7, 2013. A total of Ksh 6.5 billion was accepted out of Ksh 20.1 billion bids received.

Gross Government domestic debt increased by 25.8 percent or Ksh 221.3 billion, to Ksh 1.1 trillion on May 31, 2013, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt increased by Ksh 7.7 billion.

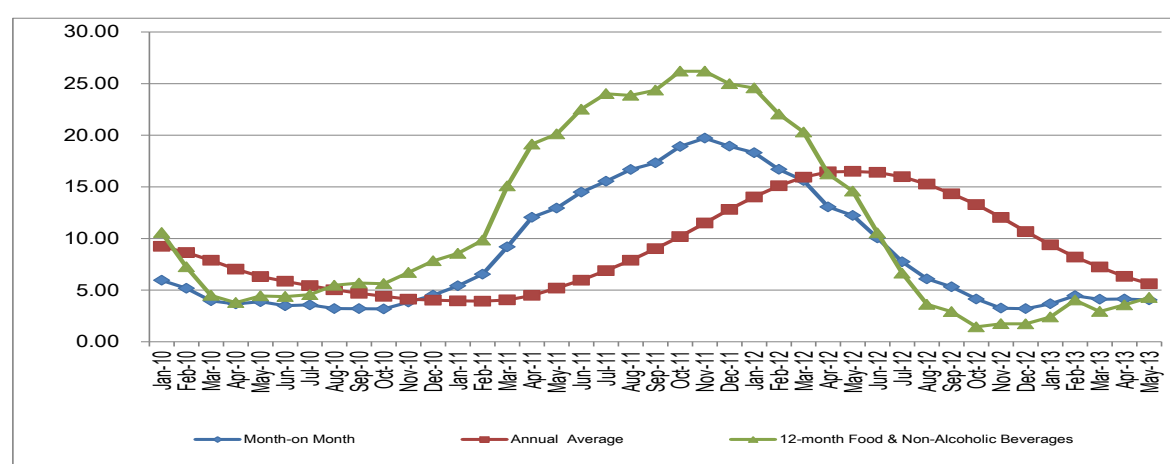
Capital markets recorded mixed performance with an improvement in the bonds segment and decline in most equities indicators.

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## Inflation

Overall 12-month inflation stabilised at 4.05 percent in May 2013 compared with 4.14 percent in April 2013 (Chart A). This reflected the decline in fuel inflation from 4.35 percent in April 2013 to 3.49 percent in May 2013, which dampened the impact of increased food inflation from 3.57 percent to 4.28 percent in similar period. Non-food non-fuel inflation eased by 36 basis points from 4.28 percent in April 2013 to 3.91 percent in May 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 June 5, 2013. The Central Bank sterilized the excess liquidity, mopping Ksh 25.6 billion through repo securities and Ksh 26.8 billion in term auction deposits against maturities of repo securities and term auction deposits held by commercial banks of Ksh 28.3 billion and Ksh 10.0 billion, respectively. This resulted in a net mop up of Ksh 14.1 of the excess liquidity. Reserve money averaged Ksh 279.5 billion during the week and was Ksh 0.8 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)
30-May-13	286.8	279.9	<b>6.9</b>	7.0	2.2	1.5	<b>-3.3</b>	279.7	-0.2	7.6	-7.8
31-May-13	296.9	279.9	<b>17.0</b>	17.0	8.8	4.6	<b>-3.6</b>	283.2	3.4	9.8	-6.5
3-Jun-13	291.7	280.6	<b>11.2</b>	18.0	6.3	2.4	<b>-9.3</b>	277.4	-3.2	3.1	-6.2
4-Jun-13	284.9	280.6	<b>4.4</b>	11.0	8.6	1.2	<b>-1.2</b>	279.0	-1.6	2.4	-3.9
5-Jun-13	283.1	280.6	<b>2.5</b>	6.5	2.3	0.4	<b>-3.8</b>	278.0	-2.6	0.4	-3.0
<b>Average</b>	<b>288.7</b>	<b>280.3</b>	<b>8.4</b>	<b>11.9</b>	<b>5.7</b>	<b>2.0</b>	<b>-4.2</b>	<b>279.5</b>	<b>-0.8</b>	<b>4.7</b>	<b>-5.5</b>

Source: Central Bank of Kenya

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## Interbank and REPO Rates

The average interbank rate remained unchanged at 6.77 percent during the week ending June 5, 2013 compared to 6.78 percent in the previous week. The interbank volumes transacted decreased to an average of Ksh 6.78 billion compared with Ksh 7.97 billion recorded in the previous week (Table 2 and Chart B).

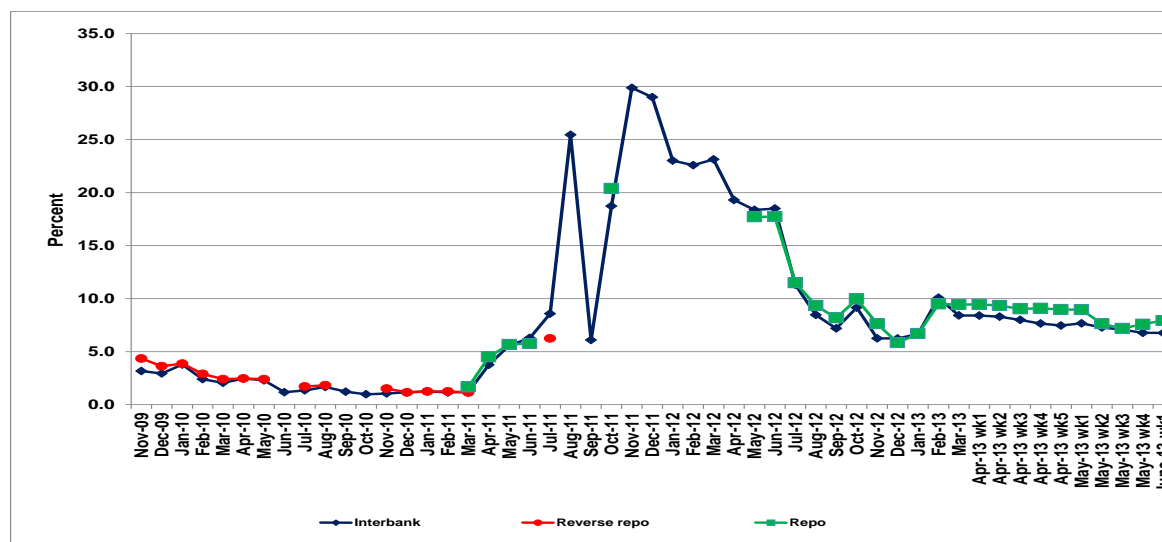
**TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
23-May-13	37	8,100	6.95
24-May-13	42	8,585	6.77
27-May-13	41	6,100	6.76
28-May-13	32	8,438	6.70
29-May-13	31	8,648	6.70
<b>May 23- May 29, 2013</b>	<b>37</b>	<b>7,974</b>	<b>6.78</b>
30-May-13	35	5,683	6.75
31-May-13	51	9,357	6.72
3-Jun-13	38	6,823	6.77
4-Jun-13	54	6,273	6.79
5-Jun-13	45	5,782	6.79
<b>May 30-June 5, 2013</b>	<b>45</b>	<b>6,784</b>	<b>6.77</b>

Source: Central Bank of Kenya

The average repo rate increased to 7.93 percent during the week ending June 5, 2013 from 7.59 percent recorded in the previous week.

**CHART B: STRUCTURE OF INTEREST RATES**



Source: Central Bank of Kenya

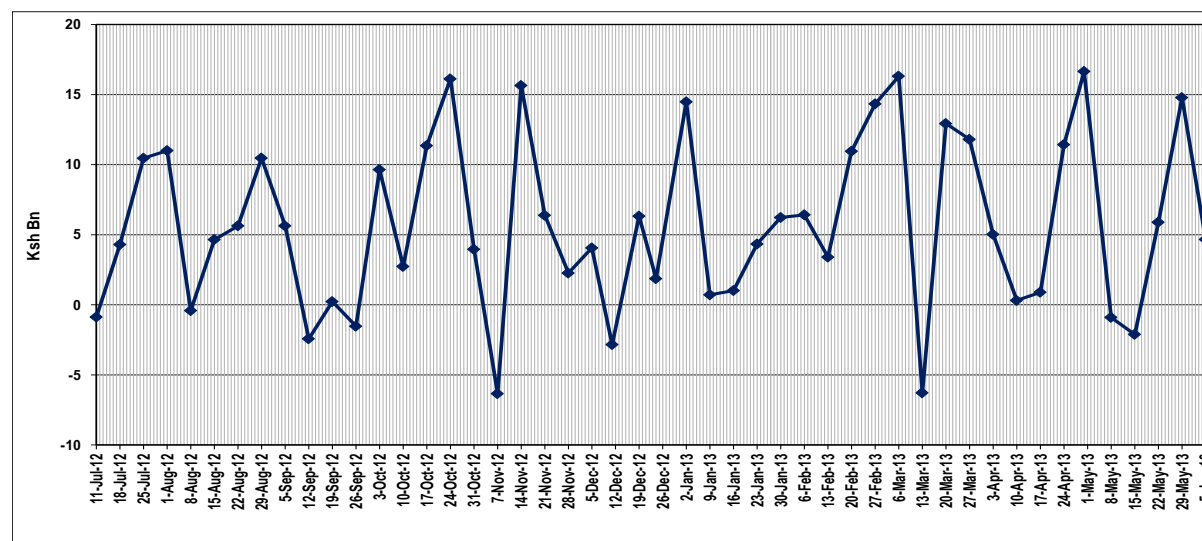
## Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 4.66billion in their settlement account at the Central Bank in relation to the monthly average cash reserve requirements of 5.25 percent (Ksh

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92.1 billion) in the week to June 5, 2013 compared with a surplus of Ksh 14.79 billion in the previous week (Chart C).

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



Source: Central Bank of Kenya

### The Shilling Exchange Rate

The Kenya Shilling depreciated against major international currencies during the week ending June 6, 2013. Against the US dollar the shilling depreciated by 0.42 percent to trade at an average of 85.15 compared to an average of 84.79 in the week ending May 30 2013. The depreciation is attributed to high demand by corporates for the dollar to finance external obligations including dividend payments offshore. Against the Sterling Pound, the Euro and the Japanese Yen, the shilling weakened by 1.69 percent, 1.5 percent and 1.96 percent respectively to trade at an average of 130.21 per Sterling Pound, 111.18 per Euro and 85.09 per 100 Japanese Yen.

In the EAC region, the Kenya shilling depreciated against all EAC currencies to trade at an average of Ush 30.40, Tsh 19.18, RWF 7.62 and BIF 18.27 compared to an average of Ush 30.67, Tsh 19.23, RWF 7.65 and BIF 18.49 during the week ending May 30, 2013 (Table 3).

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**TABLE 3: KENYA SHILLING EXCHANGE RATES**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
22-May-13	84.26	127.63	108.80	82.13	30.92	19.32	7.70	18.70
23-May-13	84.48	126.96	108.40	82.89	31.07	19.28	7.66	18.66
<b>17-23 May 2013</b>	<b>84.04</b>	<b>127.50</b>	<b>108.14</b>	<b>82.08</b>	<b>30.89</b>	<b>19.39</b>	<b>7.72</b>	<b>18.75</b>
24-May-13	84.37	127.35	109.04	82.97	30.79	19.30	7.70	18.68
27-May-13	84.43	127.65	109.11	83.53	30.83	19.32	7.66	18.67
28-May-13	84.98	128.36	109.79	83.32	30.71	19.16	7.63	18.54
29-May-13	85.29	128.08	109.57	83.28	30.45	19.14	7.61	18.24
30-May-13	84.90	128.78	110.15	84.18	30.56	19.23	7.66	18.33
<b>24-30 May 2013</b>	<b>84.79</b>	<b>128.04</b>	<b>109.53</b>	<b>83.45</b>	<b>30.67</b>	<b>19.23</b>	<b>7.65</b>	<b>18.49</b>
31-May-13	85.12	129.50	110.92	84.36	30.46	19.16	7.61	18.28
3-Jun-13	85.13	129.46	110.71	84.73	30.48	19.19	7.61	18.28
4-Jun-13	85.22	130.49	111.31	85.17	30.45	19.15	7.63	18.26
5-Jun-13	85.10	130.37	111.36	85.37	30.32	19.20	7.63	18.29
6-Jun-13	85.18	131.22	111.60	85.81	30.29	19.18	7.62	18.27
<b>31 May - 6 Jun 2013</b>	<b>85.15</b>	<b>130.21</b>	<b>111.18</b>	<b>85.09</b>	<b>30.40</b>	<b>19.18</b>	<b>7.62</b>	<b>18.27</b>

Source: Central Bank of Kenya

### Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank stabilized at US Dollar 5,800 million as at June 6, 2013 compared with US Dollar 5,805 million as at May 30, 2013 to (Table 4). The reserves' import cover is 26 basis points above the statutory minimum 4 month imports of goods and non-factor services

**Table 4: Official Foreign Reserves US\$ Million (Usable)**

	7-Mar-13	14-Mar-13	21-Mar-13	28-Mar-13	4-Apr-13	11-Apr-13	18-Apr-13	25-Apr-13	2-May-13	9-May-13	16-May-13	23-May-13	30-May-13	6-Jun-13
Usable Reserves*	4,953	4,992	5,033	5,052	5,159	5,364	5,568	5,537	5,668	5,744	5,805	5,821	5,805	5,800
Months of Imports Cover**	3.75	3.78	3.81	3.78	3.86	4.01	4.16	4.09	4.19	4.25	4.29	4.27	4.26	4.26

\*Excludes encumbered reserves

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

Source: Central Bank of Kenya

### Government Securities Auction

The Government offered for sale Ksh 2.0 billion in 91-day Treasury bills, Ksh 2.0 billion in 182 day Treasury bills and Ksh 3.0 billion in 364-day Treasury bills during the week ending June 7, 2013. Total bids received amounted to Ksh 20.1 billion, of which Ksh 5.2 billion, Ksh 11.0 billion and Ksh 3.9 billion was in 91-day, 182-day and 364-day Treasury bills, respectively. The Government accepted Ksh 2.0 billion in the 91-day Treasury bill Ksh 1.7 billion in the 182-day Treasury bill and Ksh 2.8 billion in the 364-day Treasury bill, during the week. The over subscription at the primary auctions is a reflection of reduced supply of securities and expectation of a decline in the interest rates following lowering of the Central Bank Rate. Total non competitive bids 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 decreased further by 84.8, 94.1 and 87.9 basis points to reach 6.721 percent, 7.899 percent and 8.504 percent, respectively, during auctions in the week ending June 7, 2013.

**TABLE 5: GOVERNMENT SECURITIES INTEREST RATES**

	25-Jan-13	22-Feb-13	28-Mar-13	26-Apr-13	10-May-13	17-May-13	24-May-13	31-May-13	7-Jun-13
91-day T. Bills*	8.036	8.928	10.467	10.206	9.887	9.376	8.482	7.569	6.721
182-day T. Bills*	8.066	8.571	10.803	10.604	10.279	9.980	9.430	8.840	7.899
364-day T. Bills*			12.676	12.260	11.780	11.153	10.108	9.383	8.504
5 year FXD T. Bonds	12.791			12.892					
10year FXD T. Bonds									
15year FXD T. Bonds									
15year FXD T. Bonds		13.629		13.661					
20 year FXD T. Bonds	13.694						12.981		

\*Weighted rates for accepted bids

Source: Central Bank of Kenya

## Government Domestic Debt

Gross Government domestic debt increased by 25.8 percent or Ksh 221.3 billion, from Ksh 858.8 billion at the end of June 2012 to Ksh 1.1 trillion on May 31, 2013. This followed increases of Ksh 129.2 billion, Ksh 61.6 billion, 26.9 billion and Ksh 3.5 billion in the stocks of Treasury bills, Treasury bonds, Government overdraft at the Central Bank and other domestic debt, respectively (Table 6).

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

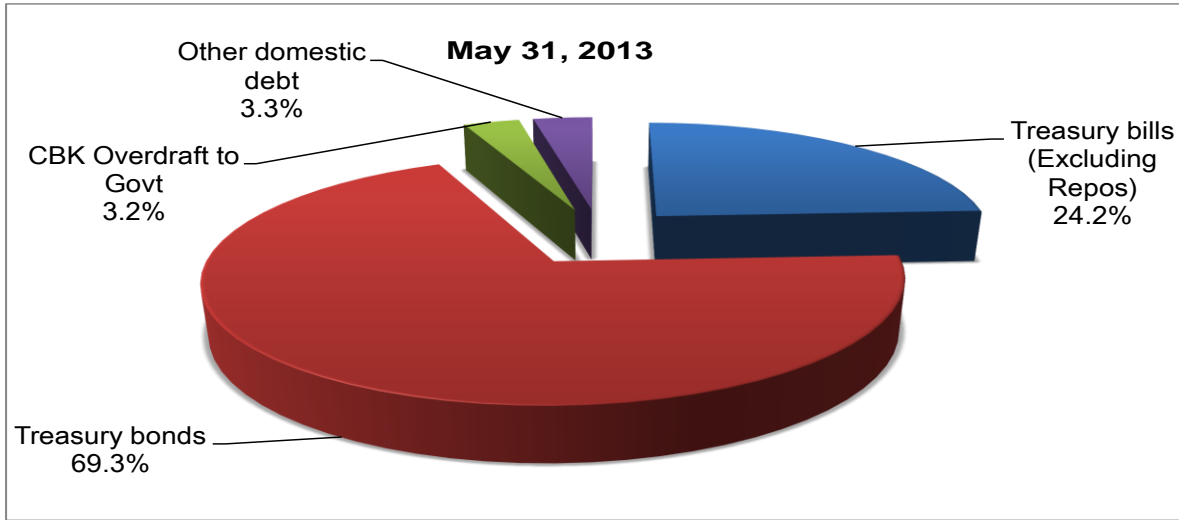
	Jun 2012	Dec-12	10th May 2013	17th May 2013	24th May 2013	31st May 2013	Changes	
							24th May 2013 - 31st May 2013	29th Jun 2012 - 31st May 2013
1. Treasury Bills (Excluding Repos)	132.0	196.3	260.5	262.0	264.5	261.2	-3.2	129.2
(As % of total securities)	16.1	21.5	26.0	26.1	26.4	25.9		
2. Treasury Bonds	687.0	716.1	742.7	742.7	737.7	748.6	10.9	61.6
(As % of total securities)	83.9	78.5	74.0	73.9	73.6	74.1		
3. Total Securities (1+2)	819.0	912.3	1003.2	1004.7	1002.2	1009.8	7.7	190.8
4. Overdraft at Central Bank	7.3	25.4	31.3	31.3	34.2	34.2	0.0	26.9
5. Other Domestic debt*	32.6	33.6	36.1	36.1	36.1	36.1	0.0	3.5
6. Gross Domestic Debt (3+4+5)	858.8	971.3	1070.7	1072.2	1072.4	1080.1	7.7	221.3
7. Interest payments on domestic debt	82.3	53.6	90.2	90.6	94.5	101.1	6.6	18.7

\* 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 May 31, 2013, gross government domestic debt increased by Ksh 7.7 billion, following an increase of Ksh 10.9 billion in Treasury bonds which was partially offset by Ksh 3.2 billion net redemption in the stock of Treasury bills (Table 6). The average time to maturity of Government securities declined to 4 years and 9 months during the week ending May 31, 2013, from 5 years and 4 months as at the end of June 2012.

**CHART D: COMPOSITION OF GOVERNMENT SECURITIES**

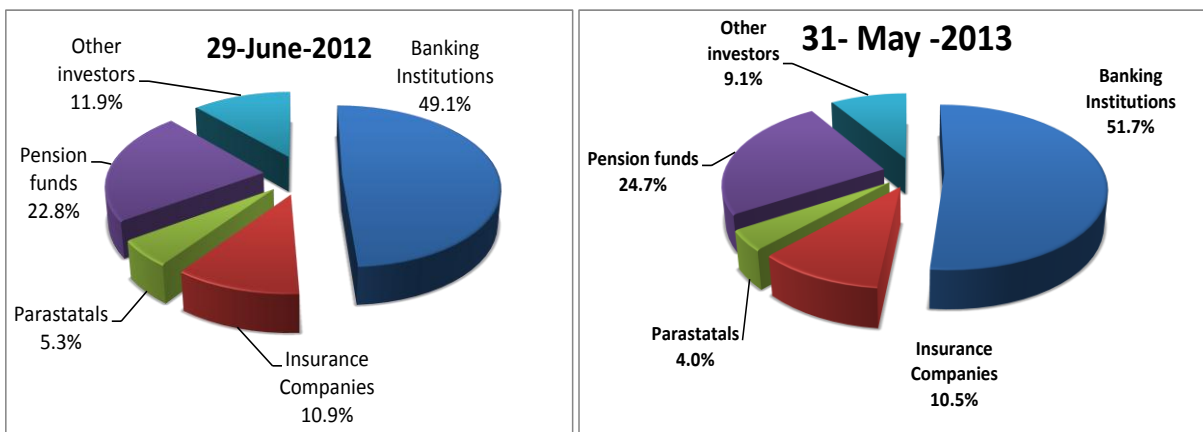


Source: Central Bank of Kenya

**Holding of Government Securities**

Government securities accounted for 93.5 percent of gross domestic debt on May 31, 2013 (Chart D). Holdings by commercial banks and pension funds increased from 49.1 and 22.8 percent in June 2012 to 51.7 and 24.7 percent on May 31, 2013 respectively. The share of insurance companies, parastatal, and other investors (which comprise Saccos’, listed and private companies, self-help groups, educational institutions, religious institutions and individuals) declined from 10.9 percent, 5.3 percent and 11.9 percent to 10.5 percent, 4.0 percent and 9.1 percent, respectively, during the period (Chart E).

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



Source: Central Bank of Kenya

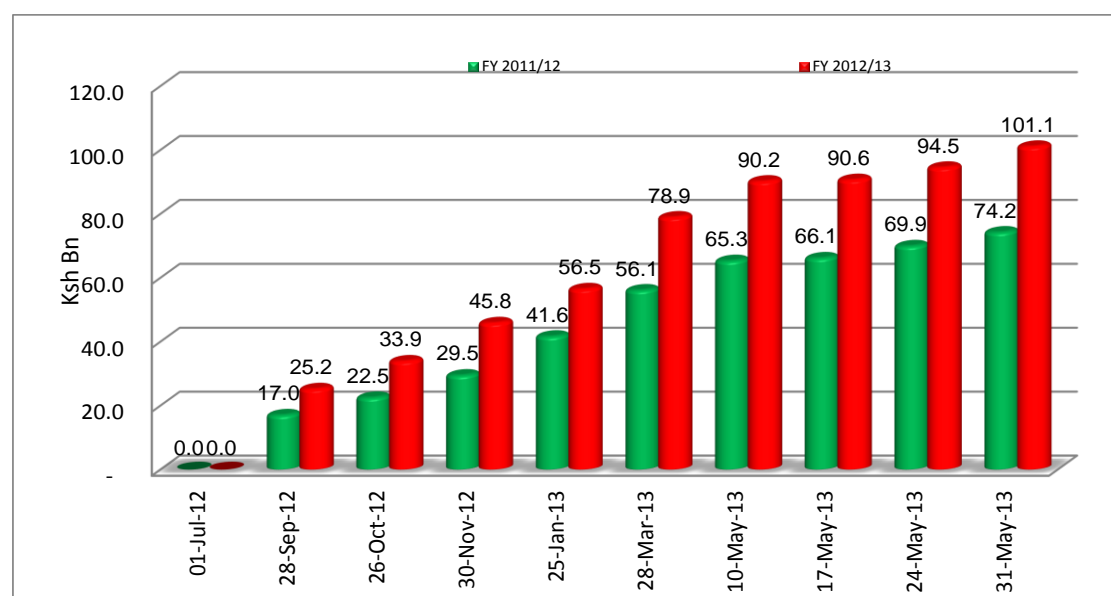
**Cost of Domestic Borrowing**

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to May 31, 2013 in the 2012/13 fiscal year amounted to Ksh 101.1 billion compared with Ksh 74.2 billion during a similar period of the previous fiscal year (Chart F). The cost

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during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 20.9 billion and Ksh 76.5 billion, respectively. In addition, interest on Government overdraft at the Central Bank and the pre-1997 Government overdraft amounted to Ksh 2.5 billion and Ksh 1.2 billion, respectively. The rise in interest payments is result of the rapid increase in gross domestic borrowing, by 25.8 percent in the eleven months to May 2013 compared with 16.3 percent in a comparable period in 2012. However, gross domestic borrowing was aligned to the budgetary projections for fiscal year 2012/13.

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



Source: Central Bank of Kenya

### Capital Markets Report

Capital markets performance improved on the bonds segment during the week ending June 6, 2013. However, uptake in equities segment declined in most indicators of performance.

#### Equities Market

NSE 20 Share Index closed the week at 4,989.04 points or 0.1 percent below the previous week's level, while NASI ended at 126.58 points or 0.1 percent lower than the previous week's level (Table 7). Market capitalization that measures shareholders' wealth closed lower at Ksh 1,717.97 billion down from Ksh 1,719.34 billion of the previous week. Equity turnover gained 169.8 percent to close the week at Ksh 5,293.45 billion. This was on account of a 212.5 percent rise in the number of shares transacted.



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**TABLE 7: KEY WEEKLY MARKET STATISTICS**

Week Ending	7-Mar-13	27-Mar-13	4-Apr-13	11-Apr-13	18-Apr-13	25-Apr-13	2-May-13	9-May-13	16-May-13	23-May-13	30-May-13	6-Jun-13
NASI 100= Jan 2008	110.30	117.23	120.45	121.53	119.73	117.47	119.49	123.35	126.52	127.77	126.72	126.58
NSE 20 Share Index 100=1966	4,585.07	4,830.44	4,975.77	4,990.04	4,932.77	4,764.52	4,788.26	4,917.46	4,955.61	4,956.95	4,996.07	4,989.04
Number of Deals	4,690	7,258	9,645	8,712	10,468	8,186	6,413	8,777	9,674	8,991	8,967	9,198
Total Shares Traded (millions)	120.86	106.92	156.79	101.28	179.82	120.90	98.55	237.38	220.17	226.88	94.22	294.39
Equity Turnover (Ksh. millions)	1,738.16	2,449.40	2,437.21	1,871.65	3,418.00	1,684.02	2,039.33	3,772.52	5,288.33	3,403.69	1,961.99	5,293.45
Market Capitalization (Ksh. Bn.)	1,496.61	1,590.62	1,634.29	1,648.86	1,624.56	1,593.86	1,621.21	1,673.69	1,716.61	1,733.66	1,719.34	1,717.97
Bonds Turnover (Ksh. millions)	4,195.15	4,797.75	7,081.85	9,275.00	9,951.95	7,962.05	9,645.90	14,534.20	14,710.05	16,977.70	20,052.85	28,681.85
FTSE NSE Kenya 15 Index	142.22	153.78	157.10	158.80	156.28	154.23	157.30	162.64	167.08	169.90	167.48	166.41
FTSE NSE Kenya 25 Index	145.18	157.07	160.19	161.58	159.39	157.28	160.77	166.66	171.97	175.24	171.68	171.54
FTSE NSE Bond Index	92.46	90.23	89.33	89.51	89.45	89.74	90.05	89.66	89.67	90.78	92.51	92.90

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

**Source: Nairobi Securities Exchange**

Telecoms and Technology, Banking and Energy and Petroleum sectors were the top three most active, transacting 218.04 million or 74.1 percent; 37.52 million or 12.7 percent and 14.25 million or 4.8 percent of all shares traded, respectively. Safaricom Ltd, Kenya Commercial Bank Ltd and Equity Bank Ltd were the three most active counters with 218.04 million, 14.76 million and 11.30 million shares being traded, respectively. Automobile and Accessories sector was the least active, with 177,300 shares traded.

The biggest closing and average price gain for the week under review was Williamson Tea Kenya Ltd at KSh.18.0 and Ksh.19.67 per share, respectively. The biggest closing and average price loss was Diamond Trust Bank at Ksh.4.0 and Ksh.5.4 per share, respectively. Of the 53 active counters, 27 had average price gain in the week compared to 30 counters in the previous 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 down at 166.41 points from 167.48 points. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE, closed the week down at 171.54 points from 171.68 points of the previous trading week. The FTSE NSE Bond Index improved to 92.90 points from the previous week's 92.51 points (Table 7).

## The Bond Market

Bonds trading improved by 43.03 percent with turnover rising to Ksh.28, 681.85 million from Ksh. 20, 052.85 million in the previous week. Corresponding deals fell to 251 from 276 recorded in the previous week. The improvement is attributed to investors' preference for better yields in bonds given the decline in Treasury bill rates.