

CBK WEEKLY BULLETIN



SEPTEMBER 6, 2013

Highlights

Overall 12-month inflation increased from 6.02 percent in July 2013 to 6.67 percent in August 2013 largely on account of decline in the Consumer Price Index in the period July – September 2012 coupled with increase in fuel and some food prices. Non-food non fuel inflation declined by 17.2 basis points to 3.86 percent in August 2013 from 4.04 percent in July 2013.

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 8.50 percent on September 3, 2013 rationalizing as follows: that current inflation was within the allowable margin, stability of the exchange rate was sustained, and there were no demand pressures for prices to rise.

The money market liquidity improved during the week ending September 4, 2013 supported by Government payments. However, liquidity distribution was in favour of a few banks. In order to allow the market redistribute the available liquidity, the Central Bank stayed out of the market.

The average interbank rate declined by 78.4 basis points to 7.67 percent during the week ending September 4, 2013 from 8.46 percent in the previous week on account of the improvement in interbank liquidity.

During the week ending September 5, 2013, the Kenya Shilling exchange rate recorded mixed performance against major international currencies. It stabilized against the US Dollar, appreciated against the Euro and the Japanese Yen and depreciated against the Pound Sterling.

The usable official foreign exchange reserves held by Central Bank declined marginally from US Dollar 5,754 million as at August 29, 2013 to US Dollar 5,748 million as at September 5, 2013. The reserves remained above the statutory minimum of 4 months import cover.

The Government offered for sale Treasury bills worth Ksh 9.0 billion during the week ending September 6, 2013. A total of Ksh 14.5 billion was accepted out of Ksh 39.2 billion bids received. The auctions were oversubscribed by 335 percent.

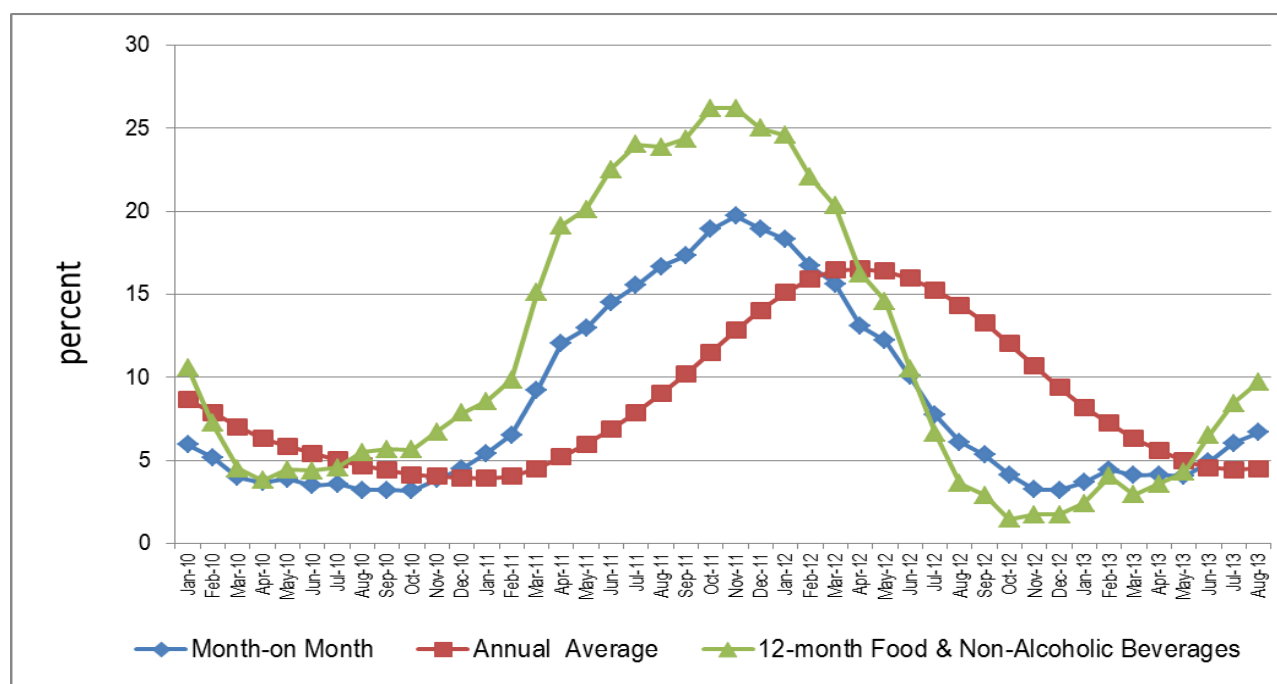
Gross Government domestic debt increased by Ksh 67.3 billion to reach Ksh 1,118.2 billion on August 30, 2013, from Ksh 1,051.0 billion held at the end of June 2013.

Capital markets performance was mixed in the week ending September 5, 2013. Leading market indicators moved in opposite directions. NASI increased 1.43 points, while NSE 20 Share Index closed 30.45 points lower. Equity turnover shed off 58.88 percent in value, but market capitalization added Ksh 4.2 billion to previous week. In the bonds segment, turnover declined 11.95 percent, but correspondent deals increased.

Inflation

Overall 12-month inflation increased to 6.67 percent in August 2013 from 6.02 percent in July 2013 (Chart A). The increase in the overall inflation in August 2013 reflected partly in the decline of CPI in August 2012 (referred to as a base effect) and increases in the price of fuel and some food items. Food inflation rose from 8.24 percent in July 2013 to 9.43 percent in August 2014 and fuel inflation from 4.56 percent in July 2013 to 5.28 percent in August 2013. Fuel inflation largely manifested in the increase in the retail price of kerosene.

CHART A: MONTH-ON-MONTH ANNUAL AVERAGE AND 12-MONTH FOOD & NON-ALCOHOLIC BEVERAGES INFLATION RATES



Source: Kenya National Bureau of Statistics

Monetary Policy Stance

The Monetary Policy Committee met on September 3, 2013 and reviewed money market developments and outcomes of its monetary policy stance since the July 2013 meeting. The Committee observed that inflation had remained within the allowable margin (± 25 basis points) on either side of the Government’s 5 percent medium term target; that exchange rate stability was sustained; and there were no demand driven inflationary pressures. Based on these developments the Committee retained the Central Bank Rate unchanged at 8.50 percent. It undertook to closely watch key macroeconomic aggregates for any risks that may adversely impact price stability.

Monetary Policy Operations

The money market liquidity improved during the week ending September 4, 2013 supported by Government payments. However, liquidity distribution was skewed to a few banks. In

CBK WEEKLY BULLETIN

order to allow the market redistribute the available liquidity, the Central Bank stayed out of the market. Reserve money averaged Ksh 309.0 billion during the week and was Ksh 22.0 billion above 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)
29-Aug-13	306.0	286.8	19.2	0.0	0.0	0.0	0.0	309.9	23.1	27.8	-4.7
30-Aug-13	309.2	286.8	22.4	0.0	0.0	0.0	0.0	310.6	23.8	27.6	-3.8
2-Sep-13	311.1	287.2	23.9	0.0	0.0	0.0	0.0	310.5	23.3	27.1	-3.7
3-Sep-13	308.6	287.2	21.4	0.0	0.0	0.0	0.0	306.6	19.3	23.1	-3.7
4-Sep-13	307.7	287.2	20.5	0.0	0.0	0.0	0.0	307.5	20.3	24.1	-3.7
Average	308.5	287.0	21.5	0.0	0.0	0.0	0.0	309.0	22.0	25.9	-3.9

Sources: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate declined by 78.4 basis points to 7.67 percent during the week ending September 4, 2013 from 8.46 percent in the previous week reflecting improved liquidity in the money market. The interbank volumes transacted decreased to an average of Ksh 15.7 billion from Ksh 19.5 billion recorded in the previous week (Table 2 and Chart B).

TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES

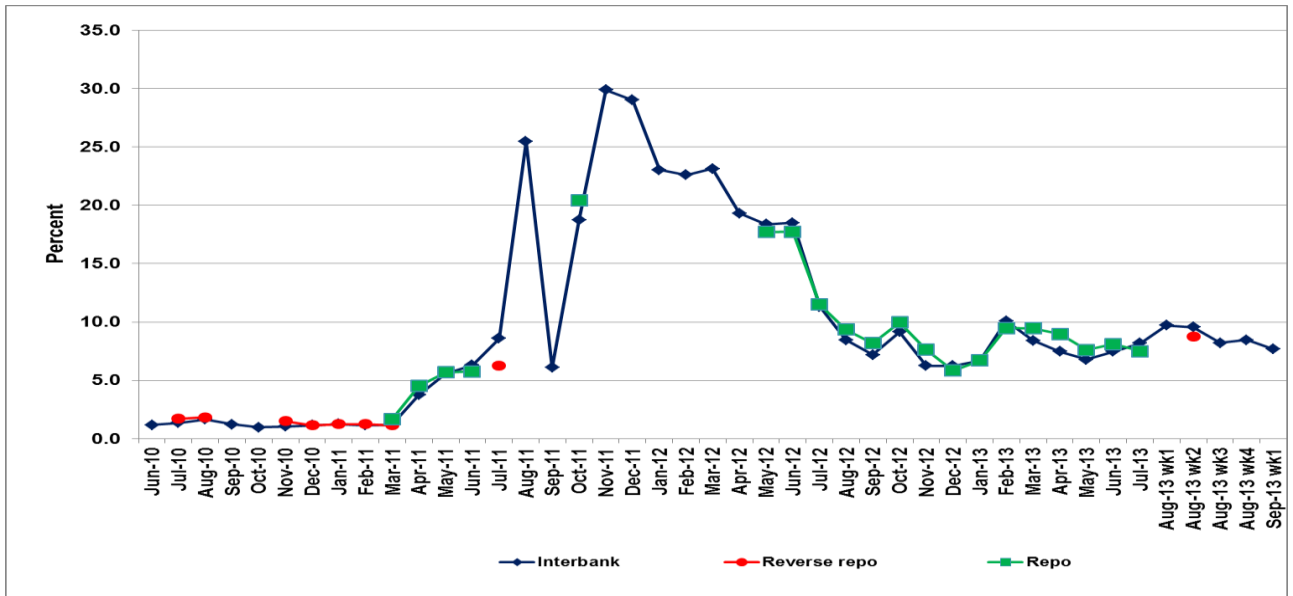
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
22-Aug-13	80	21,827	8.38
23-Aug-13	83	19,945	8.42
26-Aug-13	66	16,726	8.47
27-Aug-13	70	18,688	8.49
28-Aug-13	64	20,373	8.50
August 22-August 28, 2013	73	19,512	8.46
29-Aug-13	60	15,714	8.36
30-Aug-13	59	16,833	7.97
2-Sep-13	55	16,668	7.69
3-Sep-13	48	15,450	7.35
4-Sep-13	46	13,733	6.99
August 29-September 4, 2013	54	15,680	7.67

Sources: Central Bank of Kenya

The Central Bank stayed out of the interbank market during the week ending September 4, 2013.

CBK WEEKLY BULLETIN

CHART B: STRUCTURE OF INTEREST RATES

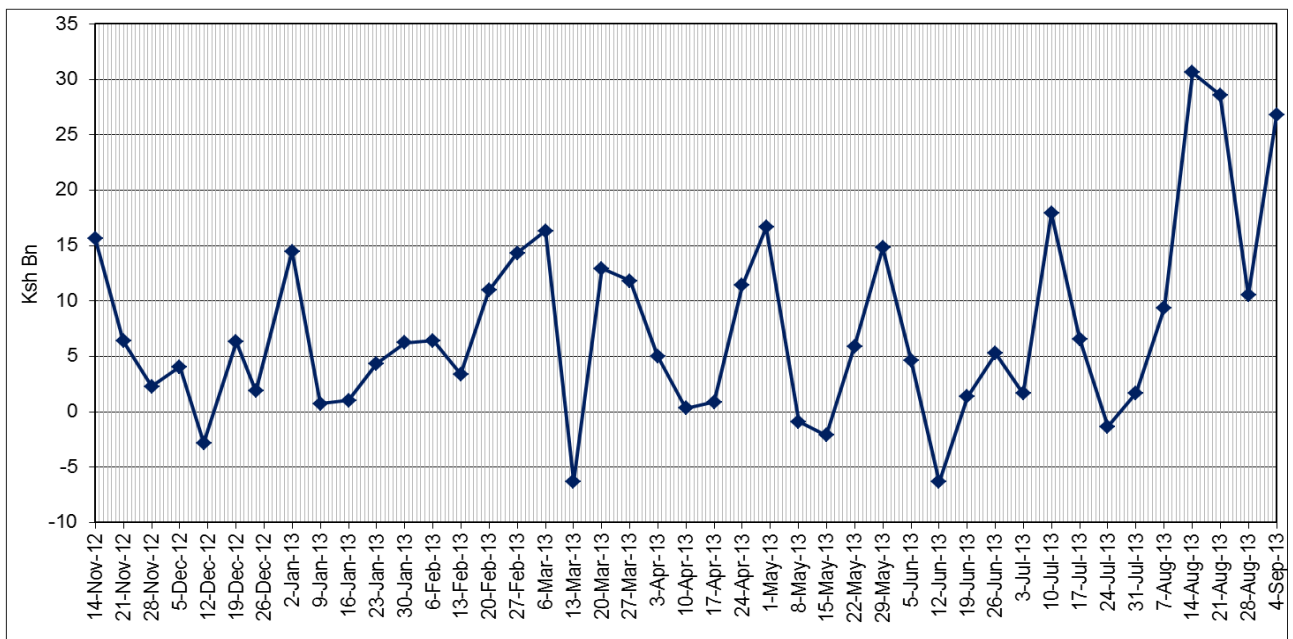


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks surplus over the monthly average cash reserves requirements of 5.25 percent (or Ksh 93.3 billion) increased to Ksh 26.78 billion during the week to September 4, 2013 compared with Ksh 10.53 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 recorded mixed performance against major international currencies during the week ending September 5, 2013. It stabilized against the US Dollar, appreciated marginally against the Pound Sterling and depreciated marginally against the Japanese Yen and the Euro (Table 3).

In the EAC region, the Kenya Shilling recorded mixed but marginal changes. It strengthened against the Uganda shilling and the Rwanda Franc but depreciated against the Tanzania shilling and the Burundi Franc during the week ending September 5, 2013.

TABLE 3: KENYA SHILLING EXCHANGE RATES

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
19-22 Aug-13	87.49	136.75	116.82	89.64	29.51	18.49	7.40	17.59
23-Aug-13	87.53	136.38	116.76	88.34	29.42	18.47	7.43	17.59
26-Aug-13	87.56	136.34	117.14	88.81	29.41	18.47	7.42	17.59
27-Aug-13	87.53	136.32	117.03	89.14	29.44	18.51	7.42	17.60
28-Aug-13	87.49	135.81	117.04	89.92	29.52	18.49	7.39	17.54
29-Aug-13	87.58	135.94	116.62	89.55	29.52	18.48	7.39	17.53
23-29 Aug-13	87.54	136.16	116.92	89.15	29.46	18.48	7.41	17.57
30-Aug-13	87.60	135.98	116.05	89.26	29.53	18.45	7.43	17.52
2-Sep-13	87.56	136.22	115.70	88.79	29.90	18.50	7.41	17.53
3-Sep-13	87.52	136.10	115.39	88.00	29.59	18.48	7.49	17.54
4-Sep-13	87.53	136.23	115.29	87.84	29.41	18.46	7.44	17.54
5-Sep-13	87.50	136.47	115.29	87.64	29.42	18.46	7.46	17.54
30 Aug-5 Sep-13	87.54	136.20	115.55	88.31	29.57	18.47	7.45	17.53

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank declined marginally from US Dollar 5,754 million as at August 29, 2013 to US Dollar 5,748 million as at September 5, 2013. In terms of months of import cover, the foreign exchange reserves remained unchanged at 4.11 months of import cover and above the statutory minimum of 4 months holdings (Table 4).

TABLE 4: OFFICIAL FOREIGN RESERVES US\$ MILLION (USABLE)

	2-May-13	9-May-13	16-May-13	4-Jul-13	11-Jul-13	18-Jul-13	25-Jul-13	1-Aug-13	8-Aug-13	15-Aug-13	22-Aug-13	29-Aug-13	5-Sep-13
Usable Reserves*	5,668	5,744	5,805	5,812	5,771	5,722	5,747	5,763	5,741	5,717	5,736	5,754	5,748
Months of Imports Cover**	4.19	4.25	4.29	4.22	4.16	4.13	4.15	4.12	4.10	4.09	4.10	4.11	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 3.0 billion in each of the 91-day, 182-day and 364-day Treasury bills during the week ending September 6, 2013. Total bids received amounted to Ksh 39.2 billion, of which Ksh 19.4 billion, Ksh 12.1 billion and Ksh 7.7 billion was in 91-day, 182-day and 364-day Treasury bills, respectively. The auctions were collectively oversubscribed by 335 percent. The Government accepted a total of Ksh 14.5 billion worth of Treasury Bills bid, of which non-competitive bids amounted to Ksh 1.0 billion.

Interest Rates on Government securities

Weighted average interest rates on the 91-day, 182-day and 364-day Treasury bills declined by 54.6 basis points, 37.5 basis points and 24.7 basis points, respectively, to reach 9.928 percent, 10.460 percent and 11.402 percent, during the week. (Table 5)

TABLE 5: GOVERNMENT SECURITIES INTEREST RATES

	22-Mar-13	28-Jun-13	26-Jul-13	8-Aug-13	16-Aug-13	23-Aug-13	30-Aug-13	6-Sep-13
91-day T. Bills*	10.318	5.175	6.863	10.406	10.498	10.462	10.474	9.928
182-day T. Bills*	10.602	5.549	6.793	9.859	10.732	10.816	10.835	10.460
364-day T. Bills*	12.674	8.356	9.949	11.254	11.563	11.690	11.649	11.402
2 year FXD T. Bonds	12.940					12.939		
5 year FXD T. Bonds		11.305						
10year FXD T. Bonds	13.720	12.371				12.371		
15year FXD T. Bonds								
15year FXD T. Bonds	13.629		13.769					
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 67.3 billion to reach Ksh 1,118.2 billion on August 30, 2013, from Ksh 1,051.0 billion held at the end of June 2013. This followed increase of Ksh 10.2 billion, Ksh 30.2 billion and Ksh 27.2 billion in the stocks of Treasury bills, Treasury bonds and Government overdraft at the Central Bank, respectively, and a decline of Ksh 0.4 billion in other domestic debt, during the period (Table 6).

CBK WEEKLY BULLETIN

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

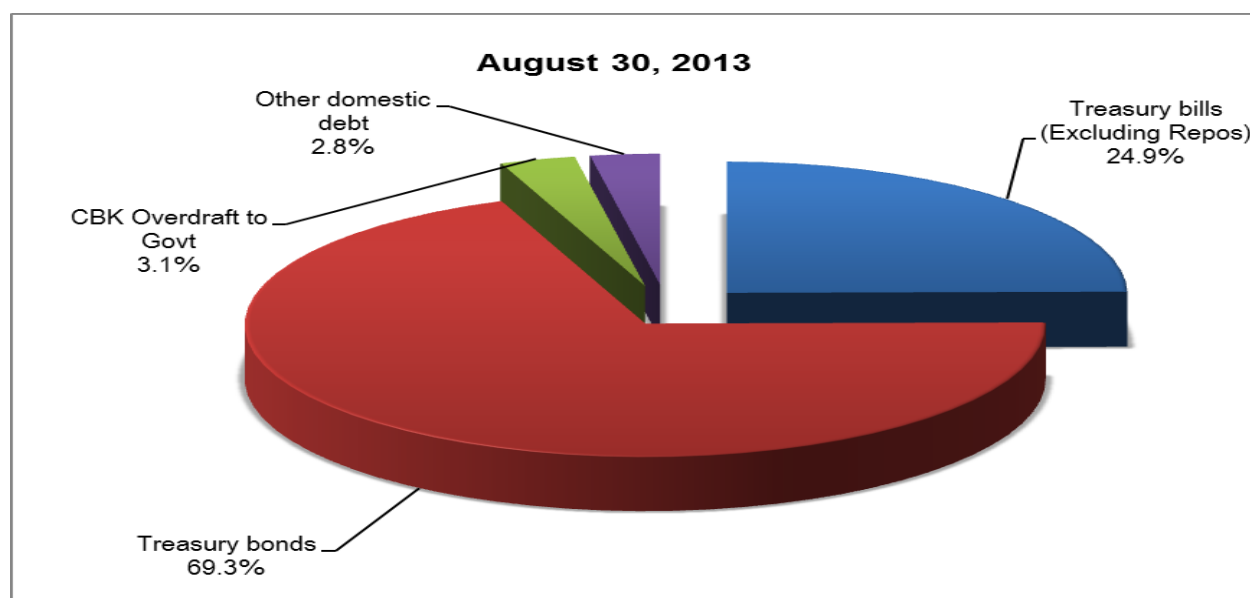
	Jun 2012	Jun 2013	23rd August 2013	30th August 2013	Changes	
					23rd Aug 2013 - 30th Aug 2013	28th Jun 2013 - 30th Aug 2013
1. Treasury Bills (Excluding Repos) (As % of total securities)	132.0 16.1	267.8 26.5	271.9 26.5	278.0 26.4	6.1 0.0	10.2
2. Treasury Bonds (As % of total securities)	687.0 83.9	744.2 73.5	756.0 73.5	774.4 73.6	18.4 0.0	30.2
3. Total Securities (1+2)	819.0	1011.9	1027.9	1052.4	24.5	40.5
4. Overdraft at Central Bank	7.3	7.0	32.7	34.2	1.5	27.2
5. Other Domestic debt*	32.6	32.0	31.6	31.6	0.0	-0.4
6. Gross Domestic Debt (3+4+5)	858.8	1051.0	1092.2	1118.2	26.0	67.3
7. Interest payments on domestic debt	82.3	110.2	7.9	14.2	6.3	

* 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 August 30, 2013, gross government domestic debt increased by Ksh 26.0 billion, on account of Treasury bills (Ksh 6.1 billion), Treasury bonds (Ksh 18.4 billion) and Government overdraft at the Central Bank (Ksh 1.5 billion). The average time to maturity for Government securities outstanding was unchanged as at the end June 2013 level of 5 years and 2 months.

CHART D: COMPOSITION OF GOVERNMENT SECURITIES



Source: Central Bank of Kenya

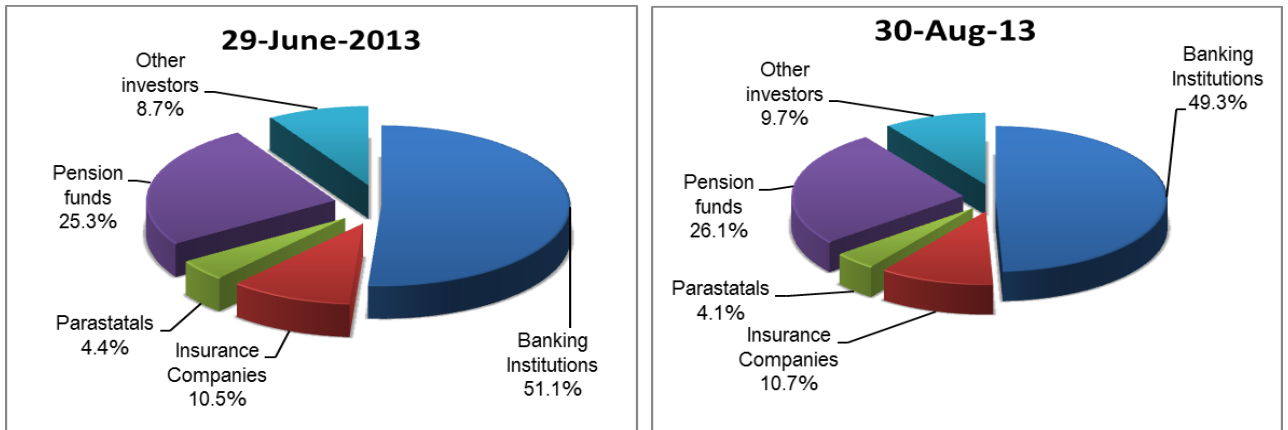
Holding of Government Securities

Government securities accounted for 94.2 percent of gross domestic debt on August 30, 2013 (Chart D). The share of Government securities held by Insurance companies, Pension Schemes and other

CBK WEEKLY BULLETIN

investors, which comprise of Sacco's, 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 10.7 percent, 26.1 percent and 9.7 percent, on August 30, 2013. Meanwhile, share of government securities held by Banking Institutions and Parastatals decreased from 51.1 percent and 4.4 percent, to 49.3 percent and 4.1 percent, respectively, during the period under review (Chart E).

CHART E: COMPOSITION OF GOVERNMENT SECURITIES BY INVESTORS

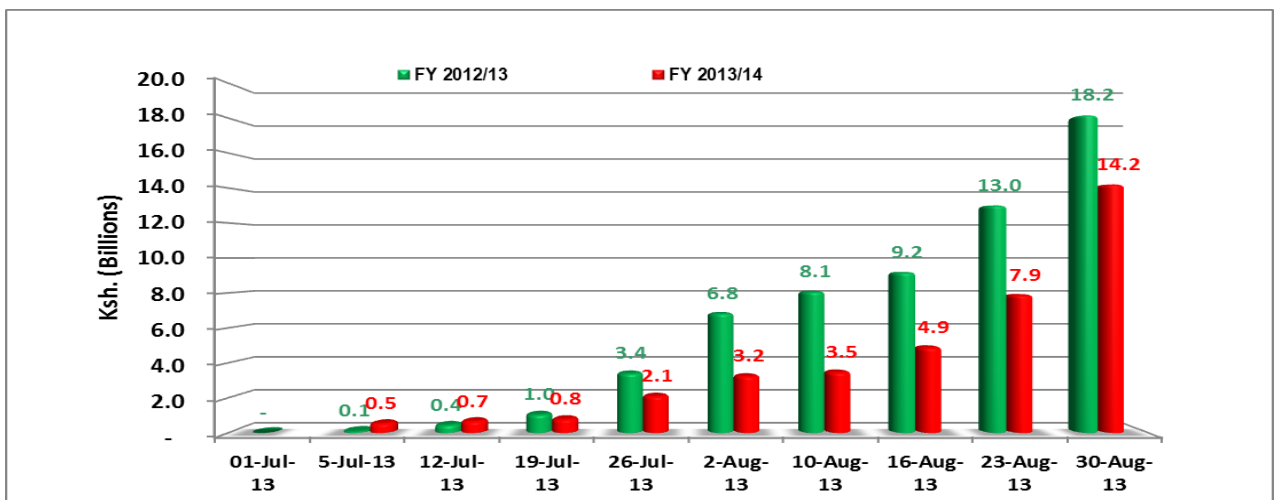


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt during the week ending August 30, 2013 amounted to Ksh 14.2 billion compared with Ksh 18.2 billion during a similar period of the Fiscal Year 2012/13 (Chart F). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 2.5 billion and Ksh 11.5 billion, respectively. Interest on Government overdraft at the Central Bank amounted to Ksh 0.2 billion, during the period.

CHART F: CUMULATIVE INTEREST PAYMENTS ON DOMESTIC DEBT (KSH BILLION)



Source: Central Bank of Kenya

CBK WEEKLY BULLETIN

Capital Markets Report

The performance of capital markets in the week to September 5, 2013 was mixed with equities turnover, NSE 20 Share Index, total shares traded, and bonds turnover declining while, Market Capitalization, NASI, FTSE NSE Kenya 15 Index, FTSE NSE Kenya 25 Index, FTSE NSE Bond Index and bond deals transacted increased.

Equities Market

As indicated in Table 7, NSE 20 Share Index closed the week at 4,644.60 points down from last week's 4,708.05 points. NASI rose to 121.82 points from 120.39 points recorded on August 29, 2013. Market capitalization that measures shareholders' wealth increased to Ksh 1,696.87 billion from Ksh 1,692.67 billion. However, equity turnover declined to Ksh 2,069.19 million from Ksh 5,030.06 million the previous week on account of lower volumes traded.

TABLE 7: KEY WEEKLY MARKET STATISTICS

Week Ending	25-Jul-13	1-Aug-13	8-Aug-13	15-Aug-13	22-Aug-13	29-Aug-13	5-Sep-13
NASI 100= Jan 2008	123.22	123.03	123.55	125.77	124.36	120.39	121.82
NSE 20 Share Index 100=1966	4,796.30	4,781.40	4,801.03	4,812.27	4,814.12	4,708.05	4,677.60
Number of Deals	8,007.00	7,993.00	5,715.00	8,771.00	8,595.00	8,053.00	7,031.00
Total Shares Traded (millions)	103.42	89.42	78.18	146.92	157.77	243.88	80.16
Equity Turnover (Ksh. millions)	2,024.50	1,773.49	3,024.39	8,198.03	3,591.78	5,030.06	2,069.19
Market Capitalization (Ksh. Bn.)	1,432.12	1,729.87	1,737.10	1,761.87	1,748.49	1,692.67	1,696.87
Bonds Turnover (Ksh. millions)	6,073.90	5,144.30	6,637.25	5,809.90	2,342.60	9,334.60	8,218.65
FTSE NSE Kenya 15 Index	161.03	160.15	161.04	164.51	162.43	156.72	159.45
FTSE NSE Kenya 25 Index	165.19	163.93	164.77	167.34	164.77	158.79	161.31
FTSE NSE Bond Index	94.80	94.83	93.90	93.90	94.06	94.06	94.06

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

Source: Nairobi Securities Exchange

Telecoms and Technology, Banking, and Manufacturing and Allied Ltd were the top three active sectors, transacting 35.81 million or 44.7 percent; 25.30 million or 31.6 percent and 6.65 million or 8.3 percent of all shares traded, respectively. Safaricom, Equity Bank and KCB were the three most active counters with 35.81 million, 11.62 million and 8.09 million shares traded, respectively. The least active sector was Automobile and Accessories sector with 62,200 shares.

The biggest closing price and average price gain for the week was for East African Breweries and Williamson Tea Kenya at Ksh 6 and Ksh 8.50 per share, respectively. The biggest closing price and average price loss was for Nation Media Group and East African Breweries at Ksh

CBK WEEKLY BULLETIN

11 and Ksh 16 per share, respectively. Of the 54 active counters, 15 had average price gain in the week compared to 13 counters 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 higher at 159.45 points from 156.72 points. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE rose to 161.31 points from 158.79 points of last week. FTSE NSE Bond Index was unchanged at 94.06 points for the second week in a row.

The Bond Market

Bonds trading activity declined by 11.95 percent for a lower turnover of Ksh 8,218.65 million compared with Ksh 9,334.60 million in the previous week. Corresponding deals increased to 61 from 49 last week.