



**FEBRUARY 7, 2014**

### **Highlights**

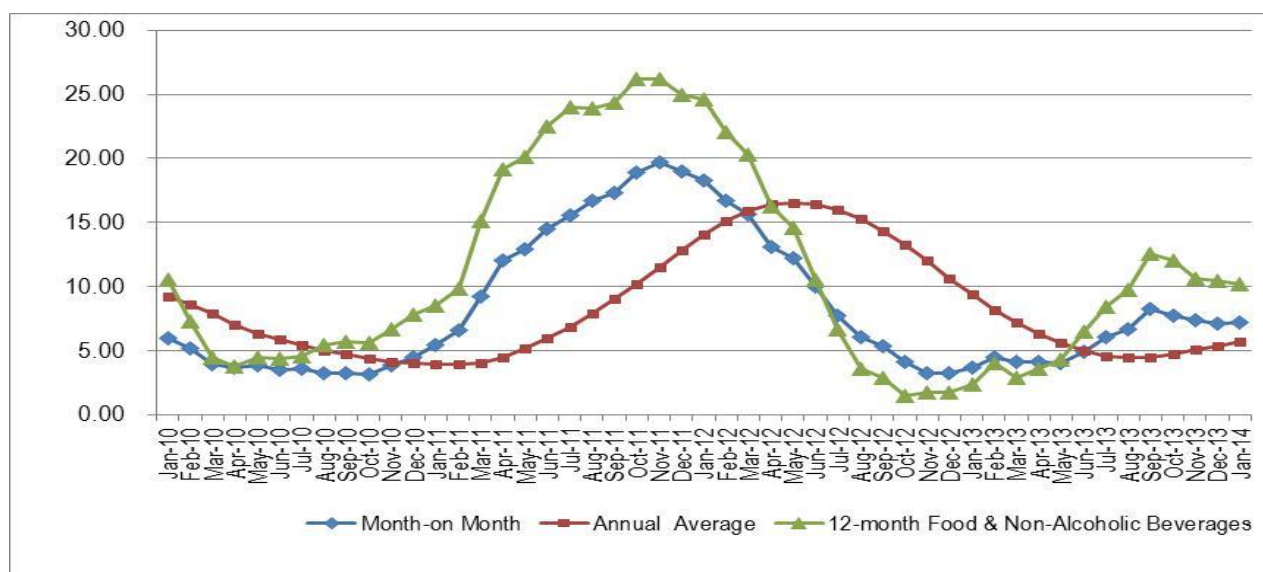
*Overall 12-month inflation marginally increased from 7.15 percent in December 2013 to 7.21 per cent in January 2014 on account of fuel inflation. Non-food non-fuel inflation rose by 12.2 basis points from 4.71 per cent in December 2013 to 4.83 per cent in January 2014.*

*The money market liquidity improved during the week ending February 5, 2014 supported by Government payments and redemption of Government securities. However, the average interbank rate increased to 11.66 percent during the week ending February 5, 2014 from 10.3 percent in the previous week on account of skewed distribution of liquidity in the interbank market. In order to allow the market to distribute the available liquidity, the Central Bank stayed out of the market.*

*The NSE performance remained weak in the week ending February 6, 2014 with leading market indicators declining further. Market Capitalization declined by 0.97 percent compared to the level on January 30, 2014. The Bonds turnover also declined by 18.15 percent over the same period.*

### **Inflation**

Overall 12-month inflation marginally increased from 7.15 percent in December 2013 to 7.21 per cent in January 2014 (Chart A). The rise in the overall inflation in January 2014 is attributed to higher fuel inflation. Fuel inflation increased from 5.14 per cent in December 2013 to 5.49 per cent in January 2014 following an increase in the retail price of cooking gas. Food inflation eased from 10.00 per cent in December 2013 to 9.84 per cent in January 2014. This reflects the 12-month change in the 'food and non-alcoholic beverages' index, which declined from 10.41 per cent in December 2013 to 10.14 per cent in January 2014.

**CHART A: SUMMARY REPORT ON GENERAL INFLATION**


Source: Central Bank of Kenya

## Monetary Policy Operations

The money market liquidity improved during the week ending February 5, 2014 supported by Government payments and redemption of Government securities. However, the liquidity distribution was skewed in favor of a few banks. The Central Bank stayed out of the repo market to allow the market to distribute available liquidity. The Central Bank reserve money averaged Ksh 307.1 billion during the week and was Ksh 15.0 billion below target (Table 1).

**TABLE 1: OPEN MARKET OPERATIONS (KSH BILLION)**

Date	Reserve Money* (Projected)			OMO				Reverse Repo	Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Mop up		Exc(+)/ Short(-)		Actual	Exc(+)/ Short(-)		
					Repo	Term Auction Deposit						
(1)	(2)	3=(1-2)	(4)	(5)	(6)	7=(5+6-4)	(8)	(9)	(10)=(9-2)	(11)	(12)	
30-Jan-14	301.1	322.2	-21.1	0.0	0.0	0.0	0.0	0.0	301.0	-21.1	0.20	-21.3
31-Jan-14	301.3	322.2	-20.8	0.0	0.0	0.0	0.0	0.0	302.1	-20.1	0.19	-20.3
3-Feb-14	311.5	322.1	-10.6	0.0	0.0	0.0	0.0	0.0	310.6	-11.4	8.14	-19.6
4-Feb-14	311.4	322.1	-10.6	0.0	0.0	0.0	0.0	0.0	309.3	-12.7	4.74	-17.5
5-Feb-14	311.3	322.1	-10.8	0.0	0.0	0.0	0.0	0.0	312.4	-9.7	6.98	-16.6
<b>Average</b>	<b>307.3</b>	<b>322.1</b>	<b>-14.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>307.1</b>	<b>-15.0</b>	<b>4.1</b>	<b>-19.1</b>

Source: Central Bank of Kenya

## Interbank and REPO Rates

The average interbank rate increased by 136.1 basis points to 11.66 percent during the week ending February 5, 2014 from 10.3 percent in the previous week on account of skewed distribution of liquidity in the interbank market. The average interbank volume transacted increased to Ksh 20.9

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billion in the week ending February 5, 2014 from Ksh 13.1 billion the previous week, while the average number of deals increased to 79 from 67 reflecting increased activity in the interbank market (Table 2 and Chart B).

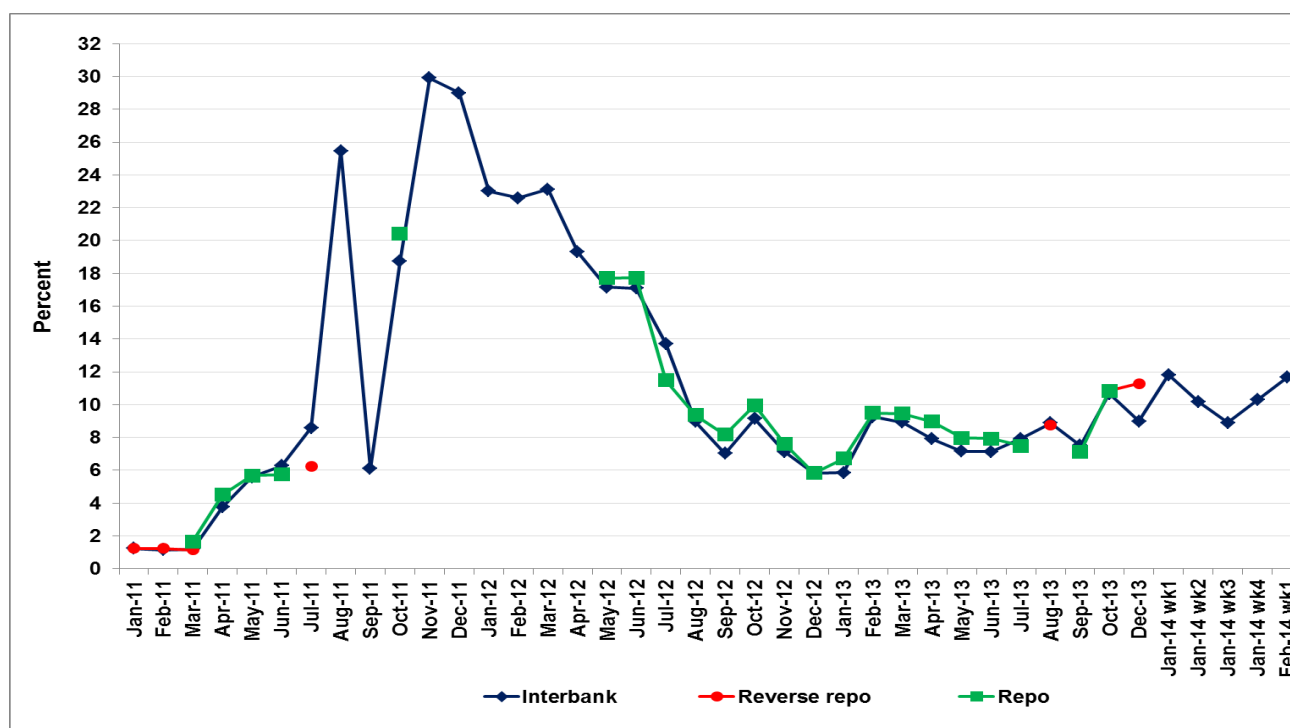
**TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES**

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
23-Jan-14	66	11,041	9.49
24-Jan-14	60	10,660	9.87
27-Jan-14	66	11,335	10.23
28-Jan-14	66	13,083	10.54
29-Jan-14	76	19,475	11.37
<b>January 23 - January 29, 2014</b>	<b>67</b>	<b>13,119</b>	<b>10.30</b>
30-Jan-14	74	17,388	11.72
31-Jan-14	84	21,403	11.85
3-Feb-14	78	18,810	11.71
4-Feb-14	85	24,675	11.62
5-Feb-14	73	22,297	11.40
<b>January 30 - February 5, 2014</b>	<b>79</b>	<b>20,915</b>	<b>11.66</b>

Source: Central Bank of Kenya

During the week ending February 5, 2014, the Central Bank stayed out of the Repo market to allow the market to distribute available liquidity

**CHART B: STRUCTURE OF INTEREST RATES**

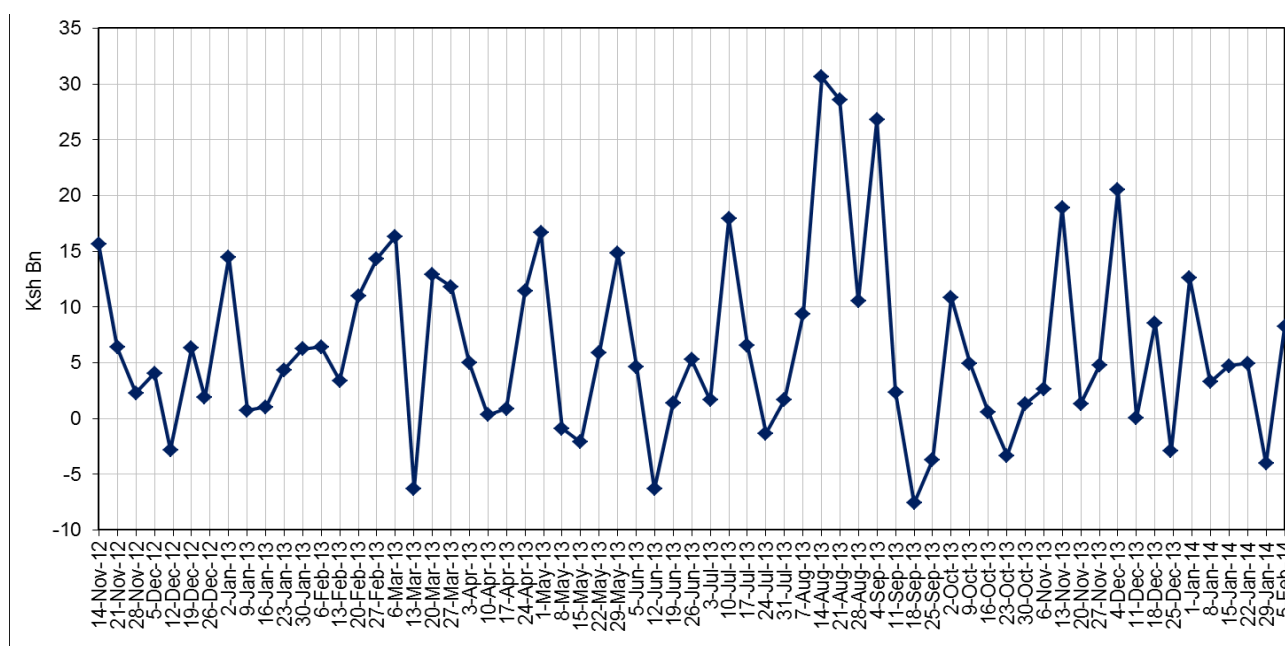


Source: Central Bank of Kenya

## Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of KSh. 8.23 billion in their settlement accounts in relation to the monthly average cash reserve requirement of 5.25 percent (KSh 100.0 billion) at the Central Bank in the week to February 5, 2014 compared with a deficit of KSh. 4.02 billion recorded in the previous week (Chart C).

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



Source: Central Bank of Kenya

## Kenya Shilling Exchange Rate

The Kenya Shilling depicted mixed performance against major international currencies in the week ending February 6, 2014. The Shilling weakened against the USD and the Japanese Yen and strengthened against the Sterling Pound and the Euro.

In the EAC region, the Kenya Shilling weakened against all the EAC currencies (Table 3).

**TABLE 3: KENYA SHILLING EXCHANGE RATE**

2014 FEBRUARY	U.S DOLLAR	POUND STERLING	EURO	JYP YEN (100)	USHS /KSH	TSHS /KSH	RWF /KSH	BIF /KSH
24	85.53	142.29	117.13	82.96	28.95	18.95	7.93	18.19
27	85.81	141.70	117.42	83.75	28.85	18.89	7.90	18.13
28	85.83	142.41	117.50	83.66	28.92	18.89	7.89	18.04
29	85.96	142.57	117.48	83.17	28.91	18.86	7.86	17.95
30	86.08	142.45	117.44	83.96	28.78	18.84	7.86	18.07
<b>24-30 Jan 2014</b>	<b>85.84</b>	<b>142.28</b>	<b>117.39</b>	<b>83.50</b>	<b>28.88</b>	<b>18.89</b>	<b>7.89</b>	<b>18.08</b>
31	86.24	142.14	116.82	84.10	28.74	18.82	7.86	17.96
3	86.55	142.09	116.68	84.82	28.60	18.75	7.83	17.98
4	86.58	140.98	116.94	85.69	28.56	18.74	7.83	17.97
5	86.34	141.05	116.71	85.10	28.64	18.80	7.88	18.02
6	86.11	140.41	116.49	84.92	28.68	18.84	7.87	18.07
<b>31 Jan-6 Feb 2014</b>	<b>86.36</b>	<b>141.33</b>	<b>116.73</b>	<b>84.92</b>	<b>28.64</b>	<b>18.79</b>	<b>7.86</b>	<b>18.00</b>

Source: Central Bank of Kenya

## Capital Markets

Capital markets performance declined in the week ending February 6 2014, as reflected in both the equity and bond market indicators.

### Equities Market

NSE 20 Share Index closed the week 117.09 points down while NASI declined by 1.34 points. Market capitalization, which measures shareholders wealth decreased by Ksh 18.78 billion during the week. Equity turnover declined by 19.47 percent, on account of reduced share prices and volume traded. Volume of shares traded fell by 27.82 percent (Table 7).

**TABLE 4: KEY WEEKLY MARKET STATISTICS**

Week Ending	24-Dec-13	2-Jan-14	9-Jan-14	16-Jan-14	23-Jan-14	30-Jan-14	6-Feb-14
NASI 100= Jan 2008	135.22	136.56	141.59	140.35	142.73	139.06	137.72
NSE 20 Share Index 100=1966	4,885.87	4,910.74	5,044.35	5,021.07	5,063.98	4,960.99	4,843.90
Number of Deals	3,867.00	4,949	9,249	10,787	12,675	2,536	10,928
Total Shares Traded (millions)	40.06	59.54	98.80	146.51	136.28	209.81	151.45
Equity Turnover (Ksh. millions)	1,245.15	1,662.56	2,267.33	3,185.89	3,847.98	5,235.56	4,215.96
Market Capitalization (Ksh. Bn.)	1,900.69	1,919.53	1,990.21	1,984.30	2,022.63	1,959.96	1,941.18
Bonds Turnover (Ksh. millions)	6,192.55	2,428.40	3,604.20	10,751.60	11,371.20	14,093.58	11,536.20
FTSE NSE Kenya 15 Index	168.11	172.83	180.44	176.43	177.62	172.85	170.39
FTSE NSE Kenya 25 Index	170.00	174.61	182.28	178.46	179.88	174.88	172.43
FTSE NSE Bond Index	91.16	91.28	90.80	90.92	91.45	92.48	91.69

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

Source: Nairobi Securities Exchange

### FTSE NSE Kenya Index Series and Most Active Sectors

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, declined to 170.39 points from 172.85 points of the previous week. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE, was down to 172.43 points from 174.88 points. FTSE NSE Bond Index declined to 91.69 points from 92.48 points, reflecting further increase in secondary market yields.

Telecommunication and Technology, Banking, and Insurance emerged the top three most active sectors, transacting 65.68 million or 43.4 percent, 38.23 million or 25.24 percent, and 26.58 million or 17.55 percent, respectively. Automobile and Accessories sector was least active with 174,400 shares traded.

### The Bond Market

Bonds turnover was down 18.15 percent to trade bonds worth Ksh 11,536.20 million from Ksh 14,093.58 million of the previous week. Corresponding deals rose to 229 from 193.

**TABLE 5: PERFORMANCE OF TREASURY BILL AUCTIONS FOR JANUARY 5 AND 6, 2014**

	Amount offered (Ksh M)	Bids received (Ksh M)	Amount Accepted (Ksh M)	Maturities (Ksh M)	Average interest Rate (%)	Coupon Rate (%)
<b>Treasury Bills</b>						
91 Day	3,000.00	1,681.96	1,278.53	1,912.25	9.182	
182 Day	3,000.00	3,725.55	3,283.73	314.55	10.345	
364 Day	3,000.00	888.64	711.89	-	10.678	
Sub total	9,000.00	6,296.15	5,274.15	2,226.80		

Source: Central Bank of Kenya

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

	6th Dec 2013	11th Dec 2013	20th Dec 2013	27th Dec 2013	3rd Jan 2014	10th Jan 2014	17th Jan 2014	24th Jan 2014	31st Jan 2014
1. Treasury Bills (Excluding Repos)	311.6	314.4	310.8	309.1	307.3	302.8	308.5	314.6	316.3
(As % of total securities)	28.2	28.4	28.2	27.5	27.3	27.1	27.4	27.8	27.6
2. Treasury Bonds	793.3	793.4	791.0	816.3	816.3	816.3	816.3	816.3	831.3
(As % of total securities)	71.8	71.6	71.8	72.5	72.7	72.9	72.6	72.2	72.4
3. Total Securities (1+2)	1,105.0	1,107.8	1,101.9	1,125.4	1,123.6	1,119.1	1,124.8	1,130.9	1,147.6
4. Overdraft at Central Bank	34.2	34.2	34.2	34.2	26.8	30.7	25.3	21.6	21.6
5. Other Domestic debt*	32.9	32.9	32.9	32.9	32.9	32.4	30.9	30.9	30.9
6. Gross Domestic Debt (3+4+5)	1,172.0	1,174.8	1,169.0	1,192.5	1,183.2	1,182.2	1,181.0	1,183.5	1,200.1

\* 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

**TABLE 7: COMPOSITION OF GOVERNMENT DEBT BY INSTRUMENT**

	Jun-13	31-Jan-14
Treasury bills (Excluding Repos)	25.5	26.4
Treasury bonds	70.8	69.3
CBK Overdraft to Govt	0.7	1.8
Other domestic debt	3.0	2.6
<b>TOTAL</b>	<b>100</b>	<b>100</b>

Source: Central Bank of Kenya

**TABLE 8: COMPOSITION OF GOVERNMENT DEBT BY HOLDER**

	Jun-13	31-Jan-14
Banking Institutions	51.1	49.4
Insurance Companies	10.5	9.9
Parastatals	4.4	3.4
Pension funds	25.3	26.1
Other investors	8.7	11.1
<b>Total</b>	<b>100</b>	<b>100.0</b>

Source: Central Bank of Kenya

**TABLE 9: OFFICIAL FOREIGN RESERVES US\$ MILLION (USABLE)**

	28-Nov-13	5-Dec-13	11-Dec-13	19-Dec-13	27-Dec-13	2-Jan-14	9-Jan-14	16-Jan-14	23-Jan-14	30-Jan-14	6-Feb-14
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	5,898	5,903	5,896	5,992	6,176	6,165	6,149	6,143	6,119	6,201	6,169
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	4.17	4.17	4.17	4.24	4.37	4.36	4.31	4.30	4.28	4.34	4.37

\*Excludes Encumbered Reserves

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

**Source: Central Bank of Kenya**