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Highlights

The money market was relatively liquid during the week ending October 8, 2014 supported by Government payments and maturities of repos and term auction deposits (TAD). The Central Bank liquidity management sterilized net liquidity of KSh 2.9 billion through repo securities and term auction deposits (TAD). The average interbank rate decreased marginally to 6.62 percent in the week ending October 8, 2014 from 6.85 percent the previous week.

The Nairobi Securities Exchange recorded reduced activity in the equity segment and mixed performance in bond segment.

Monetary Policy Operations

The money market was relatively liquid during the week ending October 8, 2014 supported by Government payments and maturities of repos and term auction deposits (TAD). The Central Bank liquidity management sterilized net liquidity of KSh 2.9 billion through repo securities and term auction deposits (TAD). Reserve money averaged KSh 322.8 billion during the week and was KSh 20.5 billion below target (Table 1).

TABLE 1: INTERBANK LIQUIDITY FLOWS AND OPEN MARKET OPERATIONS (KSH BILLION)

| | 2-Oct-14 | 3-Oct-14 | 6-Oct-14 | 7-Oct-14 | 8-Oct-14 | Total |
|---|--------------|--------------|--------------|--------------|--------------|----------------|
| Liquidity Flows | | | | | | |
| Total liquidity injection | 1.5 | 20.8 | 15.2 | 18.0 | 8.3 | 63.8 |
| Repos Maturities | 0.0 | 15.0 | 3.8 | 8.3 | 0.0 | 27.1 |
| Term Auction Deposit maturities | 0.0 | 0.0 | 0.6 | 0.1 | 0.0 | 0.7 |
| T/bills redemptions | 0.0 | 0.0 | 8.3 | 0.0 | 0.0 | 8.3 |
| Govt payments | 1.5 | 5.7 | 2.5 | 9.6 | 7.8 | 27.0 |
| Total liquidity reduction | 4.9 | 11.5 | 25.3 | 12.3 | 5.2 | 59.3 |
| T/bills (Primary issues) | 0.0 | 0.0 | 13.1 | 0.0 | 0.0 | 13.1 |
| Tbonds Sales | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repos | 0.0 | 6.6 | 8.0 | 4.2 | 2.0 | 20.7 |
| Term Auction Deposit | 2.6 | 2.8 | 1.5 | 3.0 | 0.2 | 10.0 |
| Transfer from Banks -Taxes | 2.3 | 2.0 | 2.7 | 5.1 | 2.6 | 14.7 |
| Net liquidity injection (+)/Withdrawal (-) | -3.4 | 9.3 | -10.1 | 5.7 | 3.0 | 4.5 |
| Open Market Operations (OMO) Outcome | | | | | | |
| Posted Amount | 5.0 | 15.0 | 10.0 | 15.0 | 3.0 | 48.0 |
| Realised Amount | 2.6 | 9.4 | 9.5 | 7.2 | 2.2 | 30.7 |
| Repo (-) | 0.0 | 6.6 | 8.0 | 4.2 | 2.0 | 20.7 |
| Term Auction Deposits (-) | 2.6 | 2.8 | 1.5 | 3.0 | 0.2 | 10.0 |
| Reverse Repo (+) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserve Money Position | | | | | | Average |
| Reserve money (actual) | 319.8 | 328.3 | 316.9 | 322.1 | 326.9 | 322.8 |
| Reserve money target | 343.3 | 343.3 | 343.3 | 343.3 | 343.3 | 343.3 |
| Deviation from target | -23.5 | -15.0 | -26.4 | -21.2 | -16.4 | -20.5 |
| Bank Reserves | 2.6 | 9.0 | -3.8 | -0.9 | 3.5 | 2.1 |
| Cash Outside banks | -26.2 | -24.0 | -22.6 | -20.3 | -19.9 | -22.6 |

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate decreased to 6.62 percent in the week ending October 8, 2014 from 6.85 percent the previous week. The volume transacted increased to KSh 20.77 billion from KSh 20.12 billion traded in the previous week whereas the average number of deals decreased from 54 to 41 deals (Table 2 and Chart A).

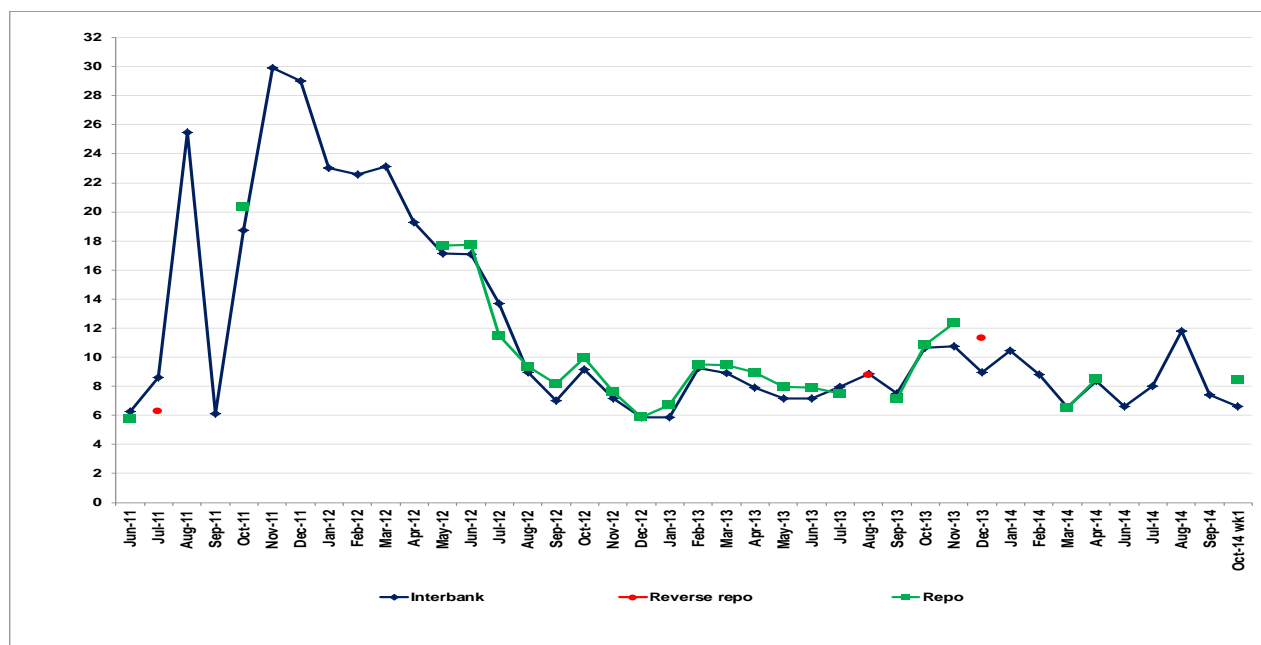
TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES

| Date | Number of deals | Value (Ksh M) | Average Interest Rate (%) |
|---|-----------------|---------------|---------------------------|
| 25-Sep-14 | 64 | 24,721 | 7.06 |
| 26-Sep-14 | 61 | 21,735 | 6.90 |
| 29-Sep-14 | 44 | 16,765 | 6.82 |
| 30-Sep-14 | 45 | 14,670 | 6.77 |
| 1-Oct-14 | 57 | 22,650 | 6.70 |
| September 25, 2014 - October 1, 2014 | 54 | 20,108 | 6.85 |
| 2-Oct-14 | 47 | 19,515 | 6.67 |
| 3-Oct-14 | 50 | 24,155 | 6.70 |
| 6-Oct-14 | 36 | 26,200 | 6.65 |
| 7-Oct-14 | 34 | 21,650 | 6.59 |
| 8-Oct-14 | 37 | 12,325 | 6.48 |
| October 2, 2014 - October 8, 2014 | 41 | 20,769 | 6.62 |

Source: Central Bank of Kenya

The average repo rate increased marginally to 8.447 percent in the week ending October 8, 2014 from 8.37 percent recorded during the previous week.

CHART A: INTERBANK AND REPO INTEREST RATES

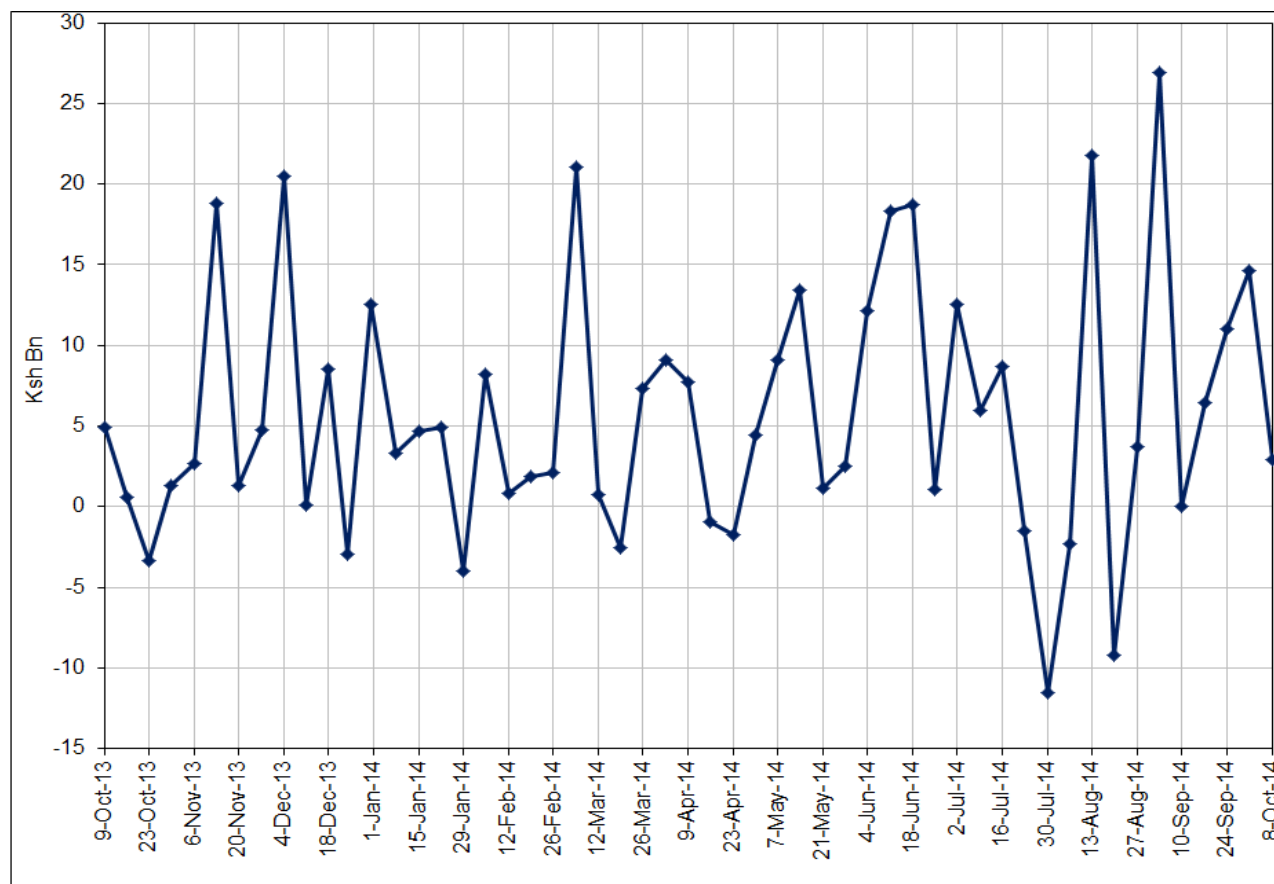


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks' clearing account balance decreased during the week ending October 8, 2014, to KSh 2.87 billion in relation to the cash reserve requirement of 5.25 percent (KSh 112.2 billion) from KSh 14.62 billion recorded in the previous week (Chart B).

CHART B: 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 and regional currencies during the week ending October 9, 2014. Against the US dollar, the performance of the Kenya Shilling remained unchanged from the previous week's performance. Against the Pound Sterling and the Euro, the Kenya shilling appreciated by 0.78 percent and 0.27 percent, respectively, but depreciated by 0.56 percent against the Japanese Yen. In the EAC region the Kenya Shilling strengthened to the Uganda and Tanzania shillings as well as the Burundi Franc but weakened marginally to the Rwanda Franc (Table 3).

TABLE 3: KENYA SHILLING EXCHANGE RATE

| | US dollar | Sterling Pound | Euro | Japanese Yen | USHS | TSHS | RWF | BIF |
|----------------------------|--------------|----------------|---------------|--------------|--------------|--------------|-------------|--------------|
| 26-Sep-14 | 89.13 | 145.32 | 113.59 | 81.82 | 29.57 | 18.78 | 7.72 | 17.31 |
| 29-Sep-14 | 89.14 | 144.55 | 112.93 | 81.48 | 29.73 | 18.80 | 7.72 | 17.30 |
| 30-Sep-14 | 89.28 | 145.12 | 113.29 | 81.63 | 29.68 | 18.77 | 7.71 | 17.36 |
| 1-Oct-14 | 89.33 | 144.64 | 112.72 | 81.34 | 29.69 | 18.76 | 7.70 | 17.35 |
| 2-Oct-14 | 89.36 | 144.94 | 113.04 | 82.17 | 29.66 | 18.78 | 7.70 | 17.35 |
| 26 Sept- 2 Oct 2014 | 89.25 | 144.92 | 113.11 | 81.69 | 29.66 | 18.78 | 7.71 | 17.33 |
| 3-Oct-14 | 89.33 | 144.92 | 113.01 | 82.19 | 29.61 | 18.78 | 7.70 | 17.27 |
| 6-Oct-14 | 89.32 | 142.75 | 112.03 | 81.63 | 29.79 | 18.75 | 7.67 | 17.35 |
| 7-Oct-14 | 89.30 | 143.67 | 112.76 | 82.12 | 29.67 | 18.80 | 7.70 | 17.36 |
| 8-Oct-14 | 89.23 | 143.34 | 112.73 | 82.30 | 29.70 | 18.83 | 7.71 | 17.37 |
| 9-Oct-14 | 89.09 | 144.21 | 113.52 | 82.50 | 29.83 | 18.86 | 7.72 | 17.40 |
| 3 - 9 Oct 2014 | 89.25 | 143.78 | 112.81 | 82.15 | 29.72 | 18.80 | 7.70 | 17.35 |

Source: Central Bank of Kenya

The Nairobi Stock Exchange (NSE)

Activity in The NSE during the week ending October 9, 2014 was less vibrant than in the preceding week. The equities segment recorded decline in performance in all leading market indicators except NSE 20 share index. Similarly, bond turnover in the bond market segment declined on account of decreased supply as average bond prices improved.

Equities Market

Average share prices declined, with the NSE 20 Share Index increasing, by 22.88 points and the NASI losing 1.21 points during the week ending October 9, 2014, 2014 (Table 4). The volume of share traded decreased by 31.07 percent. Reflecting these developments equity turnover decreased by 7.13 percent, whereas market capitalization, which measures shareholders wealth decreased by 0.67 percent.

TABLE 4: KEY WEEKLY MARKET STATISTICS

| INDICATOR | 28-Aug-14 | 4-Sep-14 | 11-Sep-14 | 18-Sep-14 | 25-Sep-14 | 2-Oct-14 | 9-Oct-14 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|
| NASI 100= 2008 | 157.09 | 159.51 | 159.34 | 161.10 | 161.92 | 163.63 | 162.42 |
| NSE 20 Share Index 100= 1996 | 5,089.16 | 5,157.15 | 5,161.21 | 5,222.87 | 5,249.92 | 5,249.65 | 5,272.53 |
| Number of Deals | 10,984 | 9,704 | 12,431 | 17,031 | 20,916 | 15,971 | 12,522 |
| Total Shares Traded | 180.51 | 112.09 | 136.68 | 193.36 | 239.12 | 151.79 | 104.63 |
| Equity Turnover (Ksh. Millions) | 3,767.03 | 2,919.73 | 3,397.50 | 4,847.75 | 5,845.66 | 5,123.15 | 4,757.62 |
| Market Capitalization (Ksh. Bn.) | 2,204.63 | 2,238.63 | 2,238.03 | 2,262.85 | 2,274.48 | 2,308.98 | 2,293.43 |
| Bonds Turover (Ksh. Millions) | 12,600.42 | 15,795.02 | 8,263.13 | 5,959.15 | 4,499.23 | 11,423.60 | 5,709.00 |
| FTSE NSE Kenya 15 Index | 203.20 | 209.73 | 208.10 | 211.52 | 216.79 | 214.72 | 213.16 |
| FTSE NSE Kenya 25 Index | 204.89 | 211.25 | 209.26 | 212.43 | 216.39 | 214.85 | 213.64 |
| FTSE NSE Bond Index | 93.61 | 93.21 | 93.31 | 92.94 | 93.45 | 93.45 | 93.69 |

Source: Nairobi Securities Exchange

FTSE NSE Kenya Price Index Series and Most Active Sectors

The FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, closed lower at 213.16 points from 214.72 points in the previous week. Similarly the FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the NSE closed lower at 213.64 points from 214.85 points. The FTSE Government Bond Index closed slightly higher at 93.69 points from 93.45 in the previous week, reflecting declining yields in the secondary market.

Banking, Telecommunication and Technology, and Insurance sectors were the top three most active, representing 45.95 percent, 17.12 percent and 6.47 percent of the total shares traded, respectively. Growth Enterprise sector was least active, accounting for 248,800 of the shares traded in the period.

The Bond Market

Bonds' turnover declined by 50.02 percent to Ksh 5,709.00 million from Ksh 11,423.60 million in the previous week. The decline reflects 78.1 percent decrease in the number of deals as the average bond prices improved.

TABLE 5: PERFORMANCE OF TREASURY BILL AUCTIONS

| 91-Day Treasury Bills | | | | | | | |
|-------------------------------|---------------------|-----------|---------------------|---------------------|----------|----------|--|
| Date of Auction | 4-Sep-14 | 11-Sep-14 | 18-Sep-14 | 25-Sep-14 | 2-Oct-14 | 9-Oct-14 | |
| Amount offered (Ksh M) | 4,000.00 | 4,000.00 | 4,000.00 | 3,000.00 | 3,000.00 | 3,000.00 | |
| Bids received (Ksh M) | 1,510.37 | 4,326.63 | 2,713.59 | 4,827.83 | 3,614.81 | 1,257.88 | |
| Amount Accepted (Ksh M) | 1,054.10 | 3,153.82 | 2,224.89 | 4,351.18 | 3,307.19 | 1,252.99 | |
| Maturities (Ksh M) | 3,267.42 | 12,612.60 | 9,099.14 | 4,827.83 | 5,008.55 | 4,469.92 | |
| Average interest Rate (%) | 8.187 | 8.219 | 8.637 | 8.653 | 8.630 | 8.614 | |
| 182-Day Treasury Bills | | | | | | | |
| Date of Auction | 3-Sep-14 | 10-Sep-14 | 17-Sep-14 | 24-Sep-14 | 1-Oct-14 | 8-Oct-14 | |
| Amount offered (Ksh M) | 4,000.00 | 4,000.00 | 4,000.00 | 4,000.00 | 4,000.00 | 4,000.00 | |
| Bids received (Ksh M) | 346.91 | 801.51 | 400.9 | 1508.68 | 2642.96 | 1300.6 | |
| Amount Accepted (Ksh M) | 346.91 | 418.7 | 400.9 | 1413.2 | 2451.81 | 1300.6 | |
| Maturities (Ksh M) | 5489.24 | 6693.37 | 3590.62 | 6009.26 | 2967.55 | 5937.25 | |
| Average interest Rate (%) | 8.550 | 8.550 | 8.604 | 8.741 | 8.742 | 8.913 | |
| 364-Day Treasury Bills | | | | | | | |
| Date of Auction | 3-Sep-14 | 10-Sep-14 | 17-Sep-14 | 24-Sep-14 | 1-Oct-14 | 8-Oct-14 | |
| Amount offered (Ksh M) | 4,000.00 | 4,000.00 | 4,000.00 | 5,000.00 | 5,001.00 | 5,002.00 | |
| Bids received (Ksh M) | 9426.48 | 9019.56 | 6283.98 | 10938.81 | 11824.12 | 8649.54 | |
| Amount Accepted (Ksh M) | 4858.98 | 9019.56 | 6283.98 | 6250.97 | 7363.45 | 8181.82 | |
| Maturities (Ksh M) | 4199.53 | 4789.75 | 4951.73 | 1160.5 | 626.85 | 616.15 | |
| Average interest Rate (%) | 10.233 | 10.163 | 10.276 | 10.357 | 10.380 | 10.327 | |
| Treasury Bonds | | | | | | | |
| Date of Auction | 17-Sep-14 | | 24-Sep-14 | | | | |
| Tenor | 30 Year 7th Re-open | | 30 Year 8th Re-open | 10 year FXD Re-open | | | |
| Amount offered (Ksh M) | 20000.00 | | 20000 | 15000 | | | |
| Bids received (Ksh M) | 640.63 | | 748.8 | 16482.00 | | | |
| Amount Accepted (Ksh M) | 640.63 | | 748.8 | 15490.1 | | | |
| Maturities (Ksh M) | 0.00 | | 0 | 0.00 | | | |
| Average interest Rate (%) | 13.775 | | 13.775 | 12.296 | | | |

Source: Central Bank of Kenya

CBK Weekly Statistical Bulletin of Key Monetary & Financial Indicators

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

| | 1st August 2014 | 8th August 2014 | 15th August 2014 | 22nd August 2014 | 29th August 2014 | 5th September 2014 | 12th September 2014 | 19th September 2014 | 26th September 2014 | 3rd October 2014 |
|---------------------------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|--------------------------|---------------------------|---------------------------|---------------------------|------------------------|
| 1. Treasury Bills (Excluding Repos) | 311.6 | 321.2 | 309.9 | 311.7 | 305.6 | 303.3 | 296.4 | 284.7 | 275.8 | 276.0 |
| (As % of total securities) | 25.4 | 26.0 | 25.3 | 25.4 | 24.7 | 24.9 | 24.4 | 24.0 | 23.4 | 23.1 |
| 2. Treasury Bonds | 914.4 | 914.4 | 914.4 | 914.4 | 929.9 | 915.3 | 915.9 | 902.7 | 903.4 | 919.9 |
| (As % of total securities) | 74.6 | 74.0 | 74.7 | 74.6 | 75.3 | 75.1 | 75.6 | 76.0 | 76.6 | 76.9 |
| 3. Total Securities (1+2) | 1226.0 | 1235.6 | 1224.3 | 1226.1 | 1235.6 | 1218.6 | 1212.3 | 1187.4 | 1179.2 | 1195.9 |
| 4. Overdraft at Central Bank | 31.2 | 13.0 | 24.9 | 22.6 | 30.4 | 33.1 | 38.3 | 25.9 | 34.4 | 22.7 |
| 5. Other Domestic debt* | 32.9 | 32.9 | 31.8 | 31.8 | 31.2 | 31.3 | 31.9 | 31.9 | 14.6 | 31.8 |
| 6. Gross Domestic Debt (3+4+5) | 1290.1 | 1281.4 | 1281.0 | 1280.5 | 1297.2 | 1282.9 | 1282.4 | 1245.1 | 1228.1 | 1250.4 |

* 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

| | 1-Aug-14 | 8-Aug-14 | 15-Aug-14 | 22-Aug-14 | 29-Aug-14 | 5-Sep-14 | 12-Sep-14 | 19-Sep-14 | 26-Sep-14 | 3-Oct-14 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Treasury bills (Excluding Repos) | 24.2 | 25.1 | 24.2 | 24.3 | 23.6 | 23.6 | 23.1 | 22.9 | 22.5 | 22.1 |
| Treasury bonds | 70.9 | 71.4 | 71.4 | 71.4 | 71.7 | 71.3 | 71.4 | 72.5 | 73.6 | 73.6 |
| CBK Overdraft to Govt | 2.4 | 1.0 | 1.9 | 1.8 | 2.3 | 2.6 | 3.0 | 2.1 | 1.4 | 1.8 |
| Other domestic debt | 2.5 | 2.6 | 2.5 | 2.5 | 2.4 | 2.4 | 2.5 | 2.6 | 2.6 | 2.5 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Central Bank of Kenya

TABLE 8: COMPOSITION OF GOVERNMENT DEBT BY HOLDER

| | 1-Aug-14 | 8-Aug-14 | 15-Aug-14 | 22-Aug-14 | 29-Aug-14 | 5-Sep-14 | 12-Sep-14 | 19-Sep-14 | 26-Sep-14 | 3-Oct-14 |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Banking Institutions | 54.2 | 53.1 | 53.5 | 53.3 | 53.8 | 53.1 | 53.3 | 52.4 | 51.9 | 52.4 |
| Insurance Companies | 9.4 | 9.5 | 9.5 | 9.6 | 9.7 | 9.8 | 9.8 | 10.1 | 10.3 | 10.2 |
| Parastatals | 3.0 | 3.0 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| Pension funds | 25.8 | 25.8 | 25.8 | 26.1 | 25.7 | 25.4 | 25.4 | 25.8 | 25.9 | 25.7 |
| Other investors | 7.7 | 8.7 | 8.2 | 8.1 | 7.9 | 8.8 | 8.6 | 8.8 | 9.0 | 8.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Central Bank of Kenya

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

| | 21-Aug-14 | 28-Aug-14 | 4-Sep-14 | 11-Sep-14 | 18-Sep-14 | 25-Sep-14 | 2-Oct-14 | 9-Oct-14 |
|--|-----------|-----------|----------|-----------|-----------|-----------|----------|----------|
| 1. CBK Usable Foreign Exchange Reserves (USD Mn)* | 6,367 | 6,257 | 6,377 | 6,317 | 7,348 | 7,248 | 7,160 | 7,143 |
| 2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)** | 4.25 | 4.18 | 4.21 | 4.17 | 4.85 | 4.78 | 4.72 | 4.71 |

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya