



OCTOBER 3, 2014

Highlights

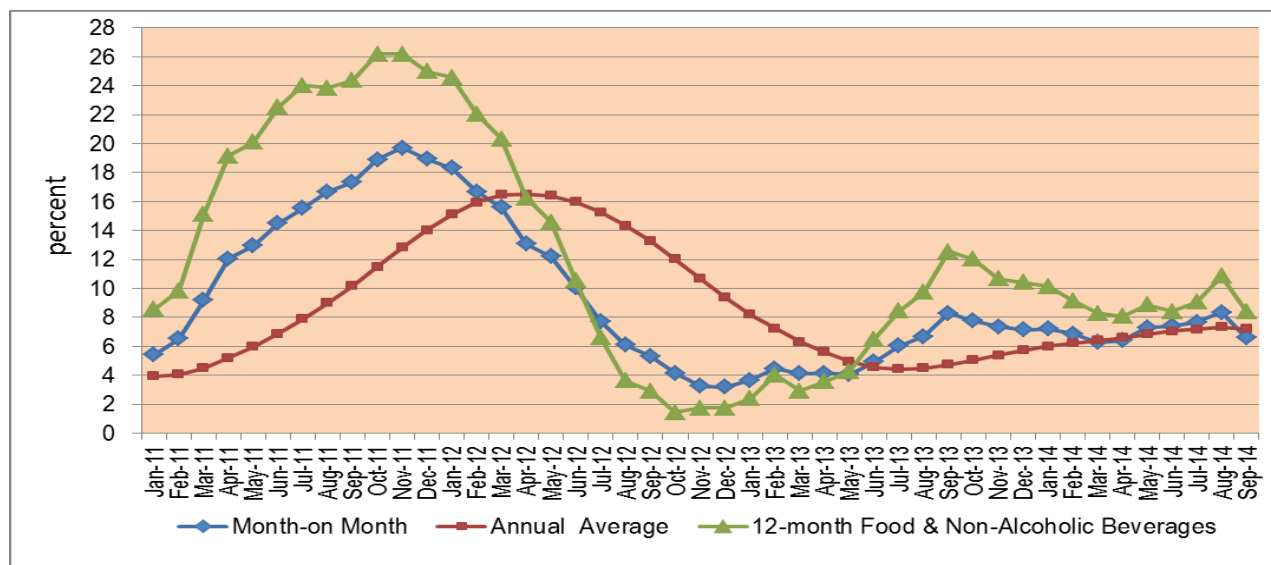
Overall 12-month inflation eased from 8.36 percent in August 2014 to 6.60 percent in September 2014. Non-food non-fuel inflation eased by 126.4 basis points from 4.92 percent in August 2014 to 3.65 percent in September 2014. The improvement in overall inflation reflects a base effect following implementation of VAT on previously non VAT-able products in September 2013, and lower food and fuel inflation

The money market was relatively liquid during the week ending October 1, 2014 largely on account of Government payments and maturities of term auction deposits (TAD). The Central Bank liquidity management resulted in net liquidity withdrawal of KSh 25.6 billion through repo securities and term auction deposits (TAD). However, the average interbank rate decreased to 6.85 percent in the week ending October 1, 2014 from 7.60 percent the previous week.

The Nairobi Securities Exchange recorded mixed performance in both equity and bond segment.

Inflation

Overall 12-month inflation eased from 8.36 percent in August 2014 to 6.60 percent in September 2014 (Chart A). The decline in overall inflation in September 2014 is largely attributed to the base effect arising from implementation of VAT in September 2013 and lower food and fuel inflation. Food inflation fell from 10.42 percent in August 2014 to 8.12 percent in September 2014 reflecting the 12-month change in the 'food and non-alcoholic beverages' index, which fell from 10.85 percent in August 2014 to 8.40 percent in September 2014. Fuel inflation also eased from 8.59 percent in August 2014 to 7.17 percent in September 2014 while non-food non-fuel inflation declined from 4.92 percent in August 2014 to 3.65 percent in September 2014.

CHART A: SUMMARY REPORT ON GENERAL INFLATION


Source: Central Bank of Kenya

Monetary Policy Operations

The money market was relatively liquid during the week ending October 1, 2014 largely on account of Government payments and maturities of term auction deposit. The Central Bank liquidity management resulted in net liquidity withdrawal of KSh 25.6 billion through repo securities and term auction deposits (Table 1).

Table 1: Interbank Liquidity Flows and Open Market Operations (Ksh Billion)

| | 25-Sep-14 | 26-Sep-14 | 29-Sep-14 | 30-Sep-14 | 1-Oct-14 | Total |
|---|--------------|--------------|--------------|--------------|--------------|----------------|
| Liquidity Flows | | | | | | |
| Total liquidity injection | 12.4 | 6.0 | 39.9 | 5.0 | 7.2 | 70.5 |
| Repos Maturities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Term Auction Deposit maturities | 0.1 | 0.3 | 6.8 | 0.5 | 0.7 | 8.3 |
| T/bills redemptions | 0.0 | 0.0 | 12.0 | 0.0 | 0.0 | 12.0 |
| Govt payments | 12.3 | 5.7 | 16.4 | 4.4 | 6.5 | 45.3 |
| Total liquidity reduction | 3.0 | 17.0 | 38.1 | 11.5 | 4.2 | 73.8 |
| T/bills (Primary issues) | 0.0 | 0.0 | 12.0 | 0.0 | 0.0 | 12.0 |
| Tbonds Sales | 0.0 | 0.0 | 15.5 | 0.0 | 0.0 | 15.5 |
| Repos | 0.0 | 15.0 | 3.8 | 8.3 | 0.0 | 27.1 |
| Term Auction Deposit | 0.0 | 0.0 | 3.5 | 0.5 | 2.9 | 6.9 |
| Transfer from Banks -Taxes | 2.9 | 1.9 | 1.5 | 2.6 | 1.3 | 10.3 |
| Net liquidity injection (+)/Withdrawal (-) | 9.4 | -11.0 | 1.8 | -6.5 | 2.9 | -3.3 |
| Open Market Operations (OMO) Outcome | | | | | | |
| Posted Amount | 0.0 | 15.0 | 9.0 | 9.0 | 6.0 | 39.0 |
| Realised Amount | 0.0 | 15.0 | 7.3 | 8.8 | 2.9 | 34.0 |
| Repo (-) | 0.0 | 15.0 | 3.8 | 8.3 | 0.0 | 27.1 |
| Term Auction Deposits (-) | 0.0 | 0.0 | 3.5 | 0.5 | 2.9 | 6.9 |
| Reverse Repo (+) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserve Money Position | | | | | | Average |
| Reserve money (actual) | 338.6 | 327.9 | 329.5 | 322.3 | 323.3 | 328.3 |
| Reserve money target | 347.6 | 347.6 | 347.6 | 347.6 | 345.5 | 347.2 |
| Deviation from target | -8.9 | -19.6 | -18.1 | -25.3 | -22.2 | -18.8 |
| Bank Reserves | 22.7 | 12.2 | 14.1 | 7.0 | 6.7 | 12.5 |
| Cash Outside banks | -31.6 | -31.8 | -32.2 | -32.3 | -28.9 | -31.4 |

Source: Central Bank of Kenya

Interbank Rates

The average interbank rate decreased to 6.85 percent in the week ending October 1, 2014 from 7.60 percent the previous week. The volume transacted decreased to KSh 20.11 billion from KSh 24.74 billion traded in the previous week and the average number of deals decreased from 63 to 54 deals (**Table 2 and Chart B**).

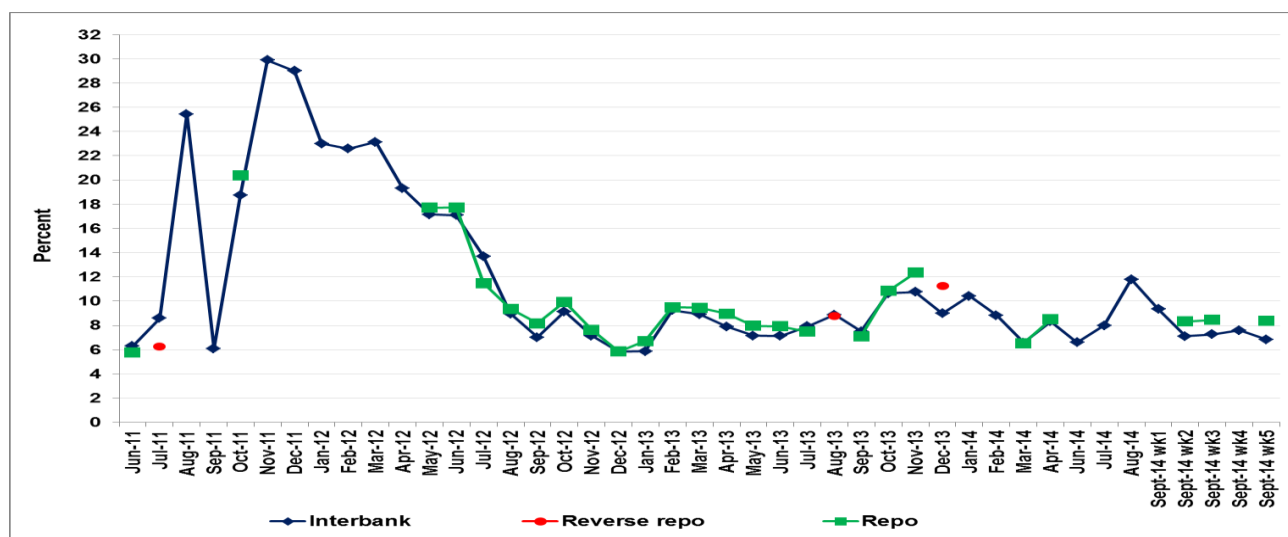
TABLE 2: OPEN MARKET OPERATIONS (KSH BILLION)

| Date | Number of deals | Value (Ksh M) | Average Interest Rate (%) |
|--|-----------------|---------------|---------------------------|
| 18-Sep-14 | 54 | 19,389 | 7.57 |
| 19-Sep-14 | 62 | 25,634 | 7.80 |
| 22-Sep-14 | 64 | 24,179 | 7.77 |
| 23-Sep-14 | 73 | 28,760 | 7.58 |
| 24-Sep-14 | 63 | 25,750 | 7.29 |
| September 18, 2014 - September 24, 2014 | 63 | 24,742 | 7.60 |
| 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 24, 2014 | 54 | 20,108 | 6.85 |

Source: Central Bank of Kenya

The average repo rate decreased marginally to 8.37 percent in the week ending October 1, 2014 from 8.46 percent recorded during the week ending September 17, 2014.

CHART B: STRUCTURE OF INTEREST RATES

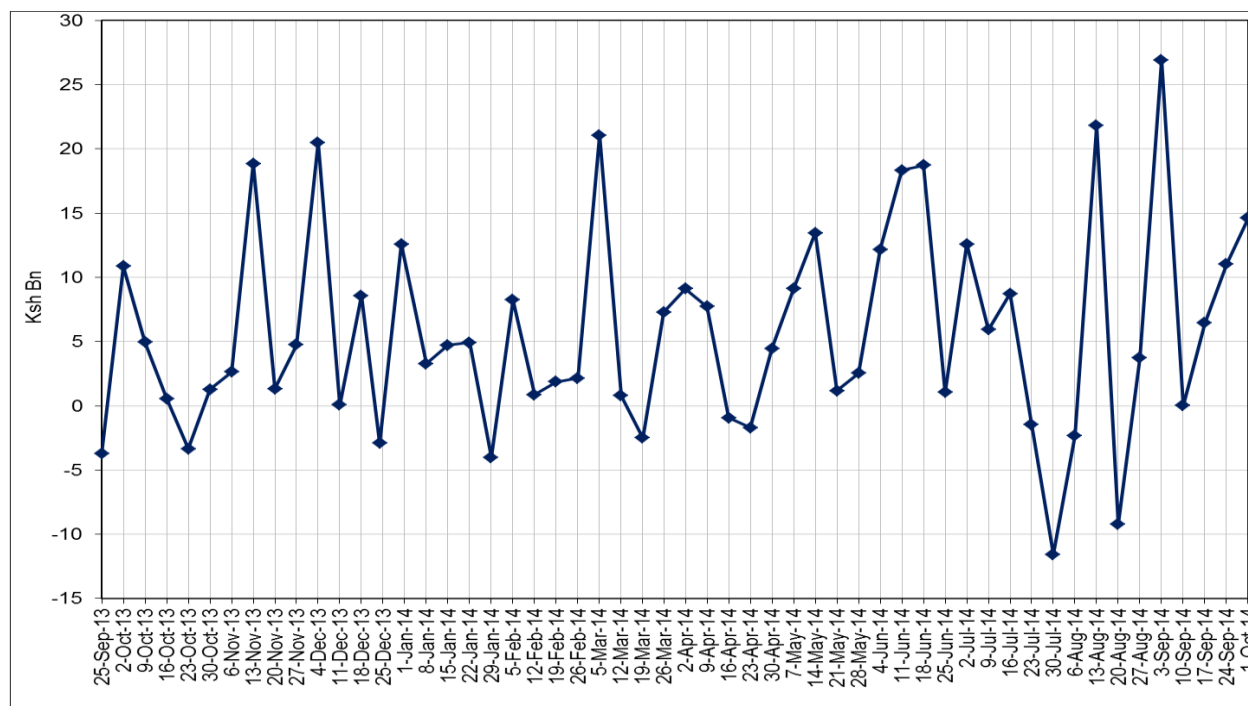


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks' clearing account balance increased during the week ending October 1, 2014, to KSh 14.62 billion in relation to the cash reserve requirement of 5.25 percent (KSh 112.2 billion) from KSh 11.02 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 and regional currencies in the week ending October 2, 2014. It weakened marginally against the US dollar to trade at an average of Ksh 89.25 per USD compared to Ksh 88.93 per USD in the week ending September 25, 2014. The weakening of the Shilling against the USD was largely on account of increased end of month demand. The Shilling strengthened against the Pound Sterling, the Euro and the Japanese Yen by 0.56 percent, 1.04 percent and 0.09 percent respectively. In the EAC region the Kenya Shilling strengthened against the Uganda Shilling but weakened marginally against the Tanzania Shilling, the Rwanda Franc and the Burundi Franc (Table 3).

TABLE 3: KENYA SHILLING EXCHANGE RATE

| | US dollar | Sterling Pound | Euro | Japanese Yen | USHS | TSHS | RWF | BIF |
|----------------------------|--------------|----------------|---------------|--------------|--------------|--------------|-------------|--------------|
| 12 -18 Sept 2014 | 88.93 | 144.59 | 115.00 | 82.75 | 29.36 | 18.74 | 7.72 | 17.43 |
| 19-Sep-14 | 88.95 | 146.59 | 114.88 | 81.60 | 29.49 | 18.78 | 7.74 | 17.34 |
| 22-Sep-14 | 88.59 | 144.79 | 113.94 | 81.63 | 29.61 | 18.85 | 7.77 | 17.41 |
| 23-Sep-14 | 88.91 | 145.63 | 114.39 | 81.79 | 29.50 | 18.78 | 7.74 | 17.35 |
| 24-Sep-14 | 89.13 | 146.14 | 114.51 | 82.03 | 29.51 | 18.81 | 7.72 | 17.39 |
| 25-Sep-14 | 89.10 | 145.49 | 113.77 | 81.75 | 29.55 | 18.80 | 7.72 | 17.39 |
| 19 -25 Sept 2014 | 88.93 | 145.73 | 114.30 | 81.76 | 29.53 | 18.80 | 7.74 | 17.38 |
| 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 |

Source: Central Bank of Kenya

The Nairobi Securities Exchange

The NSE recorded mix performance during the week ending October 2, 2014. The equities segment recorded improved performance in average share price and capitalization, while volume of shares traded and equities turnover declined. On the other hand, turnover in the bond market segment improved on account of increased supply as average bond prices stabilised.

Equities Market

Average share prices improved, with the NSE 20 Share Index declining, albeit marginally by 0.27 points and the NASI gaining 1.71 points during the week ending October 2, 2014, 2014 (Table 4). The volume of share traded decreased by 36.52 percent. Reflecting these developments equity turnover decreased by 12.36 percent, while market capitalization, which measures shareholders wealth increased by 1.52 percent.

TABLE 4: KEY WEEKLY MARKET STATISTICS

| INDICATOR | 21-Aug-14 | 28-Aug-14 | 4-Sep-14 | 11-Sep-14 | 18-Sep-14 | 25-Sep-14 | 2-Oct-14 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| NASI 100= 2008 | 156.58 | 157.09 | 159.51 | 159.34 | 161.10 | 161.92 | 163.63 |
| NSE 20 Share Index 100= 1996 | 5,024.64 | 5,089.16 | 5,157.15 | 5,161.21 | 5,222.87 | 5,249.92 | 5,249.65 |
| Number of Deals | 10,999.00 | 10,984.00 | 9,704.00 | 12,431.00 | 17,031.00 | 20,916.00 | 15,971.00 |
| Total Shares Traded | 168.27 | 180.51 | 112.09 | 136.68 | 193.36 | 239.12 | 151.79 |
| Equity Turnover (Ksh. Millions) | 3,714.10 | 3,767.03 | 2,919.73 | 3,397.50 | 4,847.75 | 5,845.66 | 5,123.15 |
| Market Capitalization (Ksh. Bn.) | 2,193.59 | 2,204.63 | 2,238.63 | 2,238.03 | 2,262.85 | 2,274.48 | 2,308.98 |
| Bonds Turover (Ksh. Millions) | 13,232.70 | 12,600.42 | 15,795.02 | 8,263.13 | 5,959.15 | 4,499.23 | 11,423.60 |
| FTSE NSE Kenya 15 Index | 203.51 | 203.20 | 209.73 | 208.10 | 211.52 | 216.79 | 214.72 |
| FTSE NSE Kenya 25 Index | 205.37 | 204.89 | 211.25 | 209.26 | 212.43 | 216.39 | 214.85 |
| FTSE NSE Bond Index | 93.59 | 93.61 | 93.21 | 93.31 | 92.94 | 93.45 | 93.45 |

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 214.72 points from 216.79 points in the previous week. Similarly the FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the NSE closed lower at 214.85 points from 216.39 points. The FTSE Government Bond Index maintained performance at 93.45 for the second consecutive week, reflecting stable yields in the secondary market.

Banking, Telecommunication and Technology, and Manufacturing and Allied sectors were the top three most active, which represented 29.18 percent, 27.78 percent and 13.98 percent of the total shares traded, respectively. Agricultural sector was least active with 503,600 shares traded in the period.

The Bond Market

Bonds' turnover increased by 153.90 percent to Ksh 11,423.60 million from Ksh 4,499.23 million in the previous week. The improvement reflects 83.0 percent increase in the number of deals as the average bond prices stabilised.

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 |
| Amount offered (Ksh M) | 4,000.00 | 4,000.00 | 4,000.00 | 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 |
| Amount Accepted (Ksh M) | 1,054.10 | 3,153.82 | 2,224.89 | 4,351.18 | 3,307.19 |
| Maturities (Ksh M) | 3,267.42 | 12,612.60 | 9,099.14 | 4,827.83 | 5,008.55 |
| Average interest Rate (%) | 8.187 | 8.219 | 8.637 | 8.653 | 8.630 |
| 182-Day Treasury Bills | | | | | |
| Date of Auction | 3-Sep-14 | 10-Sep-14 | 17-Sep-14 | 24-Sep-14 | 1-Oct-14 |
| Amount offered (Ksh M) | 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 |
| Amount Accepted (Ksh M) | 346.91 | 418.7 | 400.9 | 1413.2 | 2451.81 |
| Maturities (Ksh M) | 5489.24 | 6693.37 | 3590.62 | 6009.26 | 2967.55 |
| Average interest Rate (%) | 8.550 | 8.550 | 8.604 | 8.741 | 8.742 |
| 364-Day Treasury Bills | | | | | |
| Date of Auction | 3-Sep-14 | 10-Sep-14 | 17-Sep-14 | 24-Sep-14 | 1-Oct-14 |
| Amount offered (Ksh M) | 4,000.00 | 4,000.00 | 4,000.00 | 5,000.00 | 5,001.00 |
| Bids received (Ksh M) | 9426.48 | 9019.56 | 6283.98 | 10938.81 | 11824.12 |
| Amount Accepted (Ksh M) | 4858.98 | 9019.56 | 6283.98 | 6250.97 | 7363.45 |
| Maturities (Ksh M) | 4199.53 | 4789.75 | 4951.73 | 1160.5 | 626.85 |
| Average interest Rate (%) | 10.233 | 10.163 | 10.276 | 10.357 | 10.380 |
| 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 |
|---------------------------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|--------------------------|---------------------------|---------------------------|---------------------------|
| 1. Treasury Bills (Excluding Repos) | 311.6 | 321.2 | 309.9 | 311.7 | 305.6 | 303.3 | 296.4 | 284.7 | 275.8 |
| (As % of total securities) | 25.4 | 26.0 | 25.3 | 25.4 | 24.7 | 24.9 | 24.4 | 24.0 | 23.4 |
| 2. Treasury Bonds | 914.4 | 914.4 | 914.4 | 914.4 | 929.9 | 915.3 | 915.9 | 902.7 | 903.4 |
| (As % of total securities) | 74.6 | 74.0 | 74.7 | 74.6 | 75.3 | 75.1 | 75.6 | 76.0 | 76.6 |
| 3. Total Securities (1+2) | 1226.0 | 1235.6 | 1224.3 | 1226.1 | 1235.6 | 1218.6 | 1212.3 | 1187.4 | 1179.2 |
| 4. Overdraft at Central Bank | 31.2 | 13.0 | 24.9 | 22.6 | 30.4 | 33.1 | 38.3 | 25.9 | 17.1 |
| 5. Other Domestic debt* | 32.9 | 32.9 | 31.8 | 31.8 | 31.2 | 31.3 | 31.9 | 31.9 | 31.9 |
| 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 |

* 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 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Treasury bills (Excluding Repos) | 24.2 | 25.1 | 24.2 | 24.3 | 23.6 | 23.6 | 23.1 | 22.9 | 22.5 |
| Treasury bonds | 70.9 | 71.4 | 71.4 | 71.4 | 71.7 | 71.3 | 71.4 | 72.5 | 73.6 |
| CBK Overdraft to Govt | 2.4 | 1.0 | 1.9 | 1.8 | 2.3 | 2.6 | 3.0 | 2.1 | 1.4 |
| Other domestic debt | 2.5 | 2.6 | 2.5 | 2.5 | 2.4 | 2.4 | 2.5 | 2.6 | 2.6 |
| TOTAL | 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 |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Banking Institutions | 54.2 | 53.1 | 53.5 | 53.3 | 53.8 | 53.1 | 53.3 | 52.4 | 51.9 |
| Insurance Companies | 9.4 | 9.5 | 9.5 | 9.6 | 9.7 | 9.8 | 9.8 | 10.1 | 10.3 |
| Parastatals | 3.0 | 3.0 | 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 |
| Other investors | 7.7 | 8.7 | 8.2 | 8.1 | 7.9 | 8.8 | 8.6 | 8.8 | 9.0 |
| Total | 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)

| | 7-Aug-14 | 14-Aug-14 | 21-Aug-14 | 28-Aug-14 | 4-Sep-14 | 11-Sep-14 | 18-Sep-14 | 25-Sep-14 | 2-Oct-14 |
|--|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|
| 1. CBK Usable Foreign Exchange Reserves (USD Mn)* | 6,417 | 6,398 | 6,367 | 6,257 | 6,377 | 6,317 | 7,348 | 7,248 | 7,160 |
| 2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)** | 4.29 | 4.27 | 4.25 | 4.18 | 4.21 | 4.17 | 4.85 | 4.78 | 4.72 |

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya