



SEPTEMBER 5, 2014

Highlights

Overall 12-month inflation rose from 7.67 percent in July 2014 to 8.36 percent in August 2014. The inflation remained above the 7.5 percent upper bound of prescribed range for the second consecutive month. The increase reflects base effect and increases in prices of some food and energy items. Non-food non-fuel inflation, which measures the impact of monetary policy, increased slightly, by 47.0 basis points from 4.45 per cent in July 2014 to 4.92 per cent in August 2014.

Liquidity in the money market improved during the week ending September 3, 2014 owing to increased government payments. Consequently, the average interbank rate decreased to 9.34 percent in the week ending September 3, 2014 from 13.02 percent the previous week.

The Monetary Policy Committee (MPC) at its September 3, 2014 meeting retained the CBR at 8.5 percent given that there was no fundamental structural pressure on inflation, but undertook to pursue a tightening bias in the money market through monetary policy operations in order to continue anchoring inflation expectations.

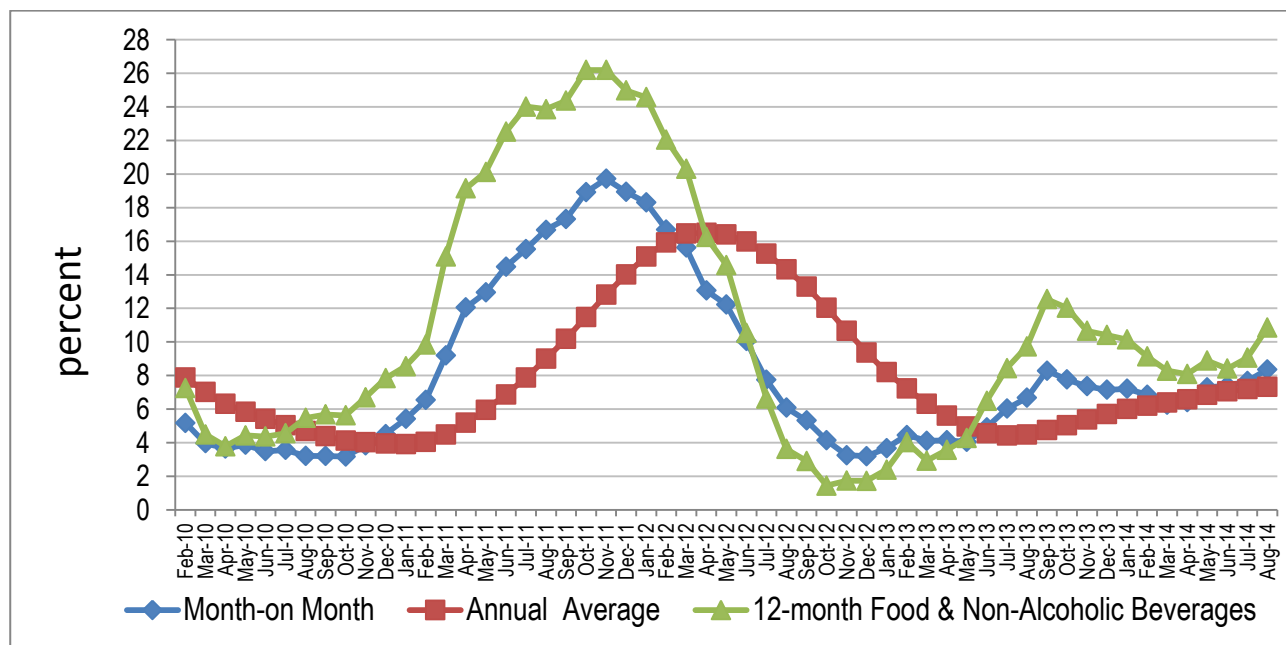
The capital markets recorded a mixed performance in the week ending September 4th 2014.

Inflation

Overall 12-month inflation rose from 7.67 per cent in July 2014 to 8.36 per cent in August 2014 (**Chart A**). The increase in overall inflation in August 2014 is largely attributed to higher food inflation, which rose from 8.89 per cent in July 2014 to 10.42 per cent in August 2014. This reflects the 12-month change in the 'food and non-alcoholic beverages' index, which rose from 9.06 per cent in July 2014 to 10.85 per cent in August 2014 owing to a rise in the retail price of maize, mangoes and meat products. Non-food non-fuel inflation, which measures the impact of monetary policy, rose from 4.45 per cent in July 2014 to 4.92 per cent in August

2014. Fuel inflation, however, eased from 9.10 per cent in July 2014 to 8.59 per cent in August 2014.

CHART A: SUMMARY REPORT ON GENERAL INFLATION



Source: Central Bank of Kenya

Monetary Policy Operations

Liquidity in the money market improved during the week ending September 3, 2014 owing to increased government payments. Reserve money averaged KSh 344.2 billion during the week and was KSh 4.6 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(-)	Reverse Repo	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)	(10)=(9-2)	(11)	(12)	
28-Aug-14	337.3	349.0	-11.7	0.0	0.0	0.0	0.0	0.0	338.5	-10.5	-15.2	4.7
29-Aug-14	353.1	349.0	4.0	0.0	0.0	0.0	0.0	0.0	356.4	7.4	2.0	5.4
1-Sep-14	357.5	348.7	8.8	0.0	0.0	0.0	0.0	0.0	356.3	7.6	1.3	6.4
2-Sep-14	325.5	348.7	-23.2	0.0	0.0	0.0	0.0	0.0	330.4	-18.3	-26.8	8.5
3-Sep-14	336.5	348.7	-12.2	0.0	0.0	0.0	0.0	0.0	339.5	-9.2	-18.6	9.3
Average	342.0	348.8	-6.9	0.0	0.0	0.0	0.0	0.0	344.2	-4.6	-11.5	6.9

Source: Central Bank of Kenya

Interbank and REPO Rates

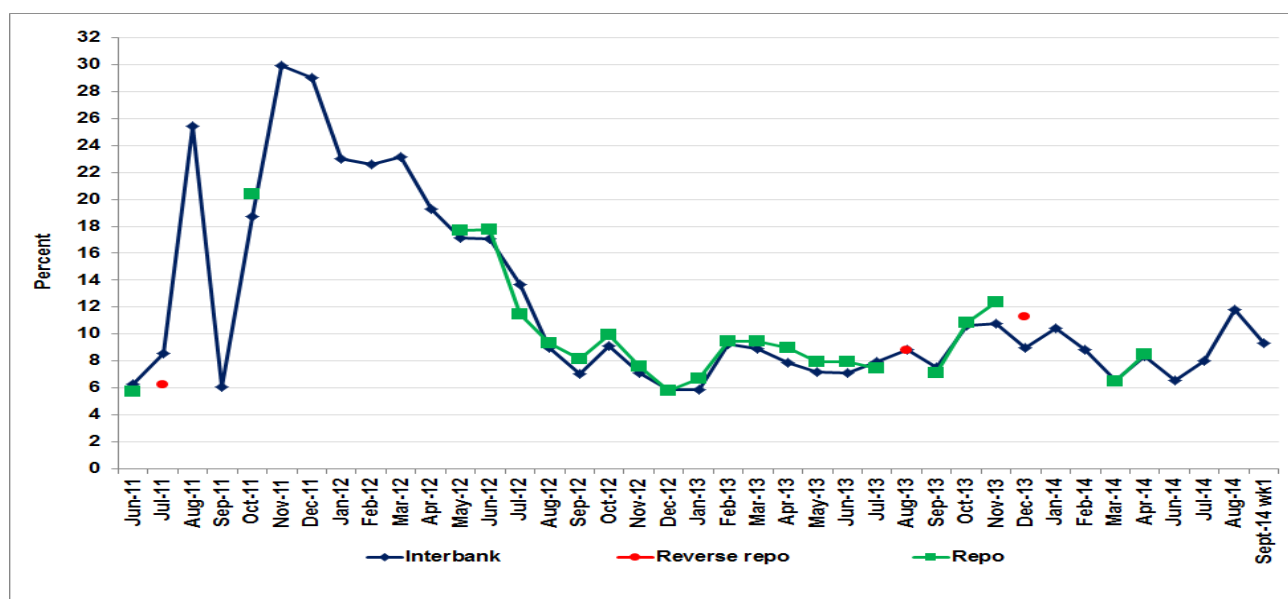
The average interbank rate decreased to 9.34 percent in the week ending September 3, 2014 from 13.02 percent the previous week reflecting improved liquidity. The volume transacted increased to Ksh 18.95 billion from Ksh 15.1 billion traded in the previous week whereas the average number of deals declined to 52 from 58 (**Table 2 and Chart A**).

TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
21-Aug-14	56	15,028	13.11
22-Aug-14	71	15,261	13.45
25-Aug-14	67	18,976	13.84
26-Aug-14	52	12,923	13.29
27-Aug-14	44	13,201	11.43
August 21, 2014 - August 27, 2014	58	15,078	13.02
28-Aug-14	50	17,776	10.63
29-Aug-14	46	19,970	9.99
1-Sep-14	41	16,968	9.13
2-Sep-14	63	19,628	8.77
3-Sep-14	59	20,404	8.20
August 28, 2014 - September 3, 2014	52	18,949	9.34

Source: Central Bank of Kenya

CHART B: INTERBANK AND REPO INTEREST RATES

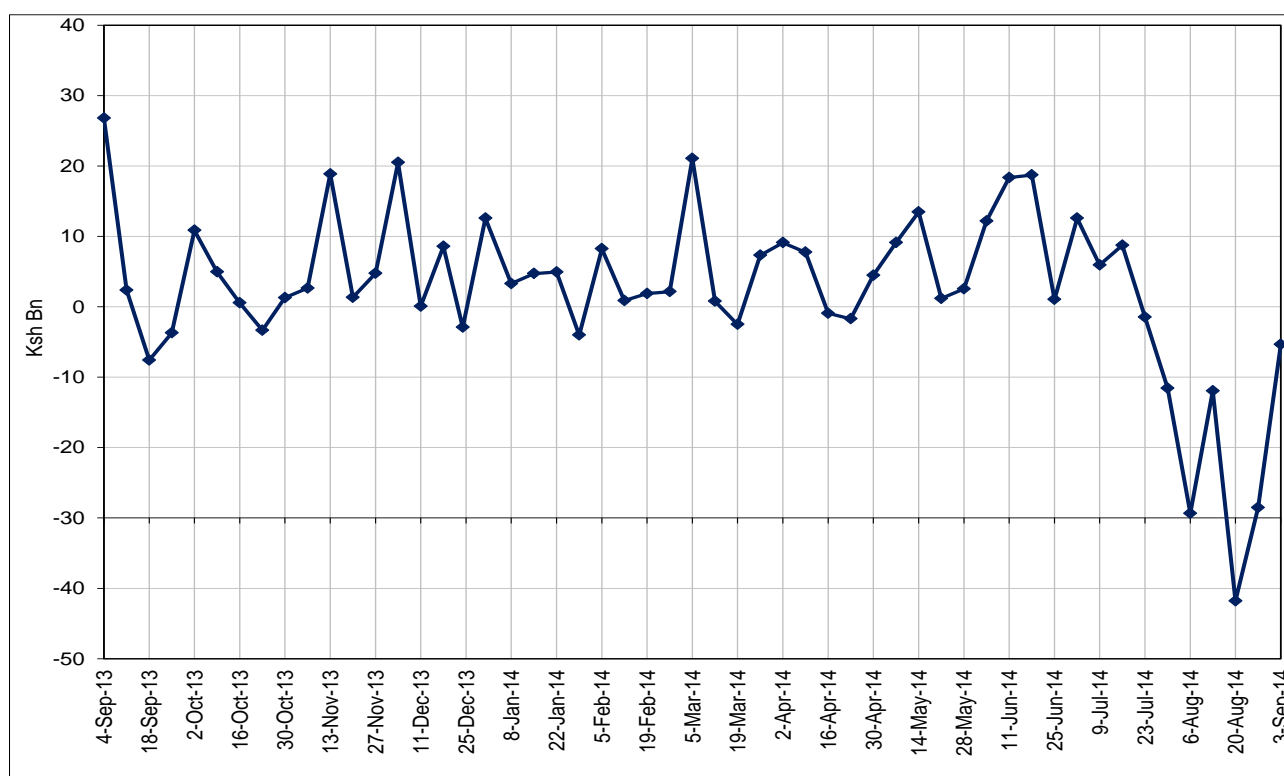


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks deficit in their settlement accounts at the Central Bank in relation to the monthly average cash reserve requirement of 5.25 percent (Ksh 110.0 billion) narrowed to Ksh 5.4 billion in the week ending September 3, 2014 from Ksh 28.5 billion recorded in the previous week as liquidity improved in the money market (**Chart B**). The improved liquidity is attributed to increased government payments.

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 characterized by marginal movement against major international and regional currencies during the week ending September 4, 2014. It weakened against the US dollar (by 0.16 percent) and strengthened against the Euro (0.48 percent), the Pound Sterling (0.09 percent) and the Japanese Yen (0.57 percent). Performance of the Shilling against the US dollar largely reflects developments in the international market, where the US Dollar continues to strengthen against major world currencies. In the EAC region the Kenya Shilling strengthened against the Uganda Shilling and weakened 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
22-Aug-14	88.31	146.51	117.41	85.29	29.44	18.89	7.85	17.55
25-Aug-14	88.33	146.34	116.85	85.10	29.44	18.88	7.85	17.55
26-Aug-14	88.58	147.05	117.09	85.40	29.35	18.83	7.83	17.50
27-Aug-14	88.35	146.31	116.41	84.98	29.47	18.91	7.79	17.54
28-Aug-14	88.38	146.67	116.75	85.14	29.53	18.88	7.78	17.53
22-28 Aug 2014	88.39	146.58	116.90	85.18	29.45	18.88	7.82	17.53
29-Aug-14	88.39	146.59	116.50	85.13	29.67	18.87	7.78	17.54
1-Sep-14	88.43	146.85	116.10	84.91	29.53	18.85	7.88	17.52
2-Sep-14	88.52	146.81	116.16	84.45	29.45	18.81	7.78	17.51
3-Sep-14	88.63	146.06	116.41	84.46	29.42	18.75	7.77	17.48
4-Sep-14	88.68	145.95	116.55	84.53	29.41	18.78	7.79	17.48
29 Aug - 4 Sept 2014	88.53	146.45	116.34	84.69	29.50	18.81	7.80	17.51

Source: Central Bank of Kenya

Capital Markets

The Nairobi Stock Exchange recorded mixed performance in the equities market segment while bond market performance improved in the week ending September 4, 2014. Meanwhile, the NSE IPO to demutualize the bourse was oversubscribed by 687.2 percent.

Equities Market

The Share prices improved with the NSE 20 Share Index gaining 67.99 points to close at 5,157.15 points and the NASI gaining 2.42 points to close at 159.51 points. The price gain was partly supported by reduced share supply, with volume traded closing 37.9 percent below previous week's. Reflecting reduced volume of shares traded, equity turnover declined by 22.5 percent. Meanwhile, market capitalization, which reflects shareholder's wealth increased by 1.5 percent during the week ending September 4, 2014.

TABLE 4: KEY WEEKLY MARKET STATISTICS

INDICATOR	24-Jul-14	31-Jul-14	07-Aug-14	14-Aug-14	21-Aug-14	28-Aug-14	04-Sep-14
NASI 100=2008	151.01	151.69	155.83	154.50	156.58	157.09	159.51
NSE 20 Share Index 100=1996	4,883.75	4,906.09	5,011.51	5,019.28	5,024.64	5,089.16	5,157.15
Number of Deals	9,825.00	8,063.00	11,366.00	11,466	10,999	10,984	9,704
Total Shares Traded	137.73	94.98	161.08	90.50	168.27	180.51	112.09
Equity Turnover (Ksh. Millions)	3,503.83	2,071.85	4,276.47	3,212.34	3,714.10	3,767.03	2,919.73
Market Capitalization (Ksh. Bn.)	2,115.84	2,125.31	2,183.34	2,176.72	2,193.59	2,204.63	2,238.63
Bonds Turnover (Ksh. Millions)	14,121.70	10,981.50	17,435.65	9,405.66	13,232.70	12,600.42	15,795.02
FTSE NSE Kenya 15 Index	196.17	198.38	206.78	203.40	203.51	203.20	209.73
FTSE NSE Kenya 25 Index	198.27	200.51	209.33	205.32	205.37	204.89	211.25
FTSE NSE Bond Index	93.14	93.02	92.87	93.17	93.59	93.61	93.21

Source: Nairobi Securities Exchange

The NSE commenced its demutualization process through Initial an Public Offering (IPO) of 63,500,000 ordinary shares at Ksh 9.50 each. The issue was oversubscribed by 687.2 percent. The total applications received were 17,823 for 499,865,400 shares worth Ksh 4.75 billion.

FTSE NSE Kenya Index Series and Most Active Sectors

The FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization closed higher at 209.73 points from 203.20 points. The FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at the NSE rose to 211.25 points from 204.89 points. The FTSE Government Bond Index closed higher at 93.21 points from 93.61 points reflecting declining yields in the secondary market.

Telecommunication and Technology, Banking and Investments sectors were the top three most active, transacting 43.43 million or 38.85 percent of the total shares, 19.36 million or 17.32 percent share and 11.78 million or 10.53 percent share, respectively. Automobiles and Accessories sector was least active with 353,400 shares traded in the period.

The Bond Market

Bonds turnover at the NSE increased by 25.35 percent to Ksh 15,795.02 million from Ksh 12,600.42 million in the previous week. The brisk activity is attributed to investor's preparation to participate in the primary market for Treasury Bonds Meanwhile corresponding deals declined to 80 from 128.

CBK Weekly Statistical Bulletin of Key Monetary & Financial Indicators

TABLE 5: PERFORMANCE OF TREASURY BILL AUCTIONS

91-Day Treasury Bills							
Date of Auction	24-Jul-14	31-Jul-14	07-Aug-14	14-Aug-14	21-Aug-14	28-Aug-14	04-Sep-14
Amount offered (Ksh M)	3,000.00	3,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
Bids received (Ksh M)	753.17	2,913.74	1,013.40	3,017.99	1,250.94	1,250.94	1,510.37
Amount Accepted (Ksh M)	753.17	2,913.74	911.77	3,017.99	1,250.94	1,093.93	1,054.10
Maturities (Ksh M)	2,403.27	2,638.85	7,132.25	2,021.47	2,242.82	1,054.10	3,267.42
Average interest Rate (%)	8.694	8.475	8.244	8.234	8.209	8.200	8.187
182-Day Treasury Bills							
Date of Auction	23-Jul-14	30-Jul-14	06-Aug-14	13-Aug-14	20-Aug-14	27-Aug-14	03-Sep-14
Amount offered (Ksh M)	3,000.00	3,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
Bids received (Ksh M)	6535.17	5238.77	559.7	903.55	750.18	620.76	346.91
Amount Accepted (Ksh M)	3074.04	4665.27	462.78	903.55	750.18	620.76	346.91
Maturities (Ksh M)	609.81	816.75	3283.73	2959.4	3206.73	1972.1	5489.24
Average interest Rate (%)	10.060	9.296	8.700	8.700	8.693	8.605	8.550
364-Day Treasury Bills							
Date of Auction	23-Jul-14	30-Jul-14	06-Aug-14	13-Aug-14	20-Aug-14	27-Aug-14	03-Sep-14
Amount offered (Ksh M)	3,000.00	3,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
Bids received (Ksh M)	4609.56	3841.45	6411.43	8904.00	1057.56	4463.70	9426.48
Amount Accepted (Ksh M)	3706.30	1041.64	5025.63	6946.49	877.37	3107.05	4858.98
Maturities (Ksh M)	2974.64	2569.35	6713.79	4194.83	3102.02	3470.56	4199.53
Average interest Rate (%)	10.330	10.330	10.273	10.331	10.249	10.253	10.233
Treasury Bonds							
Date of Auction	27-Aug-14		03-Sep-14				
Tenor	30 Year SBD 3rd Re-open		30 Year SBD 4th Re-open				
Amount offered (Ksh M)	20000.00		20000.00				
Bids received (Ksh M)	1753.53		651.25				
Amount Accepted (Ksh M)	1753.53		651.25				
Maturities (Ksh M)	0.00		0.00				
Average interest Rate (%)	13.775		13.775				

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	6th June 2014	13th June 2014	20th June 2014	27th June 2014	4th July 2014	11th July 2014	18th July 2014	25th July 2014	1st August 2014	8th August 2014	15th August 2014	22nd August 2014	29th August 2014
1. Treasury Bills (Excluding Repos)	274.3	270.4	282.4	293.1	299.4	308.0	312.7	316.9	311.6	321.2	309.9	311.7	305.6
(As % of total securities)	23.6	23.4	24.2	24.8	24.7	25.2	25.5	25.9	25.4	26.0	25.3	25.4	24.7
2. Treasury Bonds	886.9	886.9	886.9	886.9	914.8	914.8	914.8	906.5	914.4	914.4	914.4	914.4	929.9
(As % of total securities)	76.4	76.6	75.8	75.2	75.3	74.8	74.5	74.1	74.6	74.0	74.7	74.6	75.3
3. Total Securities (1+2)	1161.2	1157.3	1169.3	1180.0	1214.2	1222.7	1227.4	1223.4	1226.0	1235.6	1224.3	1226.1	1235.6
4. Overdraft at Central Bank	39.1	39.1	39.1	39.1	37.5	29.0	24.8	30.5	31.2	13.0	24.9	22.6	30.4
5. Other Domestic debt*	31.2	31.7	31.6	31.6	31.6	31.6	32.9	32.9	32.9	32.9	31.8	31.8	31.2
6. Gross Domestic Debt (3+4+5)	1231.5	1228.1	1240.1	1250.8	1283.3	1283.4	1285.2	1286.8	1290.1	1281.4	1281.0	1280.5	1297.2

* 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

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TABLE 7: COMPOSITION OF GOVERNMENT DEBT BY INSTRUMENT

	27-Jun-14	04-Jul-14	11-Jul-14	18-Jul-14	25-Jul-14	01-Aug-14	08-Aug-14	15-Aug-14	22-Aug-14	29-Aug-14
Treasury bills (Excluding Repos)	23.4	23.3	24.0	24.3	24.6	24.2	25.1	24.2	24.3	23.6
Treasury bonds	70.9	71.3	71.3	71.2	70.4	70.9	71.4	71.4	71.4	71.7
CBK Overdraft to Govt	3.1	2.9	2.3	1.9	2.4	2.4	1.0	1.9	1.8	2.3
Other domestic debt	2.5	2.5	2.5	2.6	2.6	2.5	2.6	2.5	2.5	2.4
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

	27-Jun-14	04-Jul-14	11-Jul-14	18-Jul-14	25-Jul-14	01-Aug-14	08-Aug-14	15-Aug-14	22-Aug-14	29-Aug-14
Banking Institutions	53.1	53.2	53.1	53.3	53.5	54.2	53.1	53.5	53.3	53.8
Insurance Companies	9.6	9.4	9.4	9.4	9.4	9.4	9.5	9.5	9.6	9.7
Parastatals	3.1	3.0	3.0	3.0	3.0	3.0	3.0	2.9	2.9	2.9
Pension funds	25.8	26.0	26.0	25.8	25.6	25.8	25.8	25.8	26.1	25.7
Other investors	8.5	8.4	8.4	8.5	8.5	7.7	8.7	8.2	8.1	7.9
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)

	24-Jul-14	31-Jul-14	7-Aug-14	14-Aug-14	21-Aug-14	28-Aug-14	04-Sep-14
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	6,423	6,418	6,417	6,398	6,367	6,257	6,377
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	4.29	4.29	4.29	4.27	4.25	4.18	4.21

*Excludes Encumbered Reserves and proceeds from the Eurobond

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

Source: Central Bank of Kenya