



**FEBRUARY 27, 2015**

### **Highlights**

Overall 12-month inflation marginally increased from 5.53 percent in January 2015 to 5.61 percent in February 2015. Non-food non-fuel inflation however, eased by 8 basis points from 3.51 percent in January 2015 to 3.43 percent in February 2015. The overall 12-month inflation remained within the Government target range.

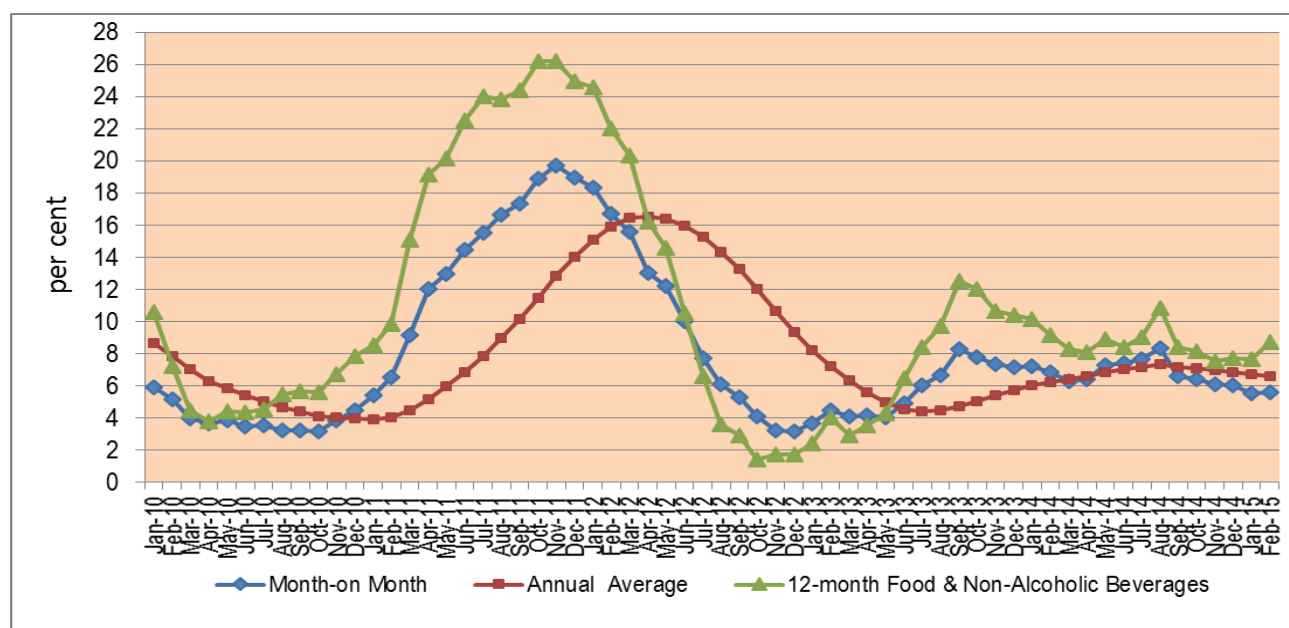
The money market was relatively liquid during the week ending February 25, 2015, largely supported by maturities of securities held by banks under open market operations and Government payments. The average interbank rate increased to 6.13 percent in the week ending February 18, 2015 from 5.98 percent in the previous week.

The Monetary Policy Committee retained the CBR at 8.50 percent on account of continued price stability.

Capital markets recorded strong positive performance in the week ending February 26, 2015, with gains in key market indicators.

### **Inflation**

Overall 12-month inflation slightly increased from 5.53 percent in January 2015 to 5.61 percent in February 2015. (Chart A). The increase in the overall inflation in February 2015 is mainly attributed to higher food inflation. Food inflation rose from 7.38 percent in January 2015 to 8.33 percent in February 2015 largely reflecting a rise in the price of vegetables and milk due to dry weather conditions in the first two months of 2015. Consequently, the 12-month change in the 'food and non-alcoholic beverages' index increased from 7.67 percent in January 2015 to 8.70 percent in February 2015. Non-food non-fuel inflation eased from 3.51 percent in January 2015 to 3.43 percent in February 2015, while fuel inflation declined significantly from 4.53 percent in January 2015 to 3.32 percent in February 2015 reflecting a fall in the retail price of kerosene, diesel and petrol.

**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 February 25, 2015, largely supported by maturities of repo securities, term auction deposits (TAD) and Government payments. This was partly offset by tax remittance by commercial banks and net issuance of Government securities. Reserve money averaged KSh 342.6 billion during the week and was KSh 1.7 billion above target (Table 1).

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

	12-Feb-15	13-Feb-15	16-Feb-15	17-Feb-15	18-Feb-15	19-Feb-15	20-Feb-15	23-Feb-15	24-Feb-15	25-Feb-15	Total
<b>Liquidity Flows</b>											
<b>Total liquidity injection</b>	<b>5.9</b>	<b>4.9</b>	<b>39.3</b>	<b>1.7</b>	<b>3.1</b>	<b>3.6</b>	<b>3.6</b>	<b>56.2</b>	<b>18.1</b>	<b>1.6</b>	<b>83.1</b>
Repos Maturities	0.0	0.0	15.0	0.0	0.0	0.0	0.0	15.0	0.0	0.0	15.0
Reverse Repo Purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Term Auction Deposit maturities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.9	0.0	13.9
Purchases of forex by CBK	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.9	1.8
T/bills redemptions	0.0	0.0	6.6	0.0	0.0	0.0	0.0	6.7	0.0	0.0	6.7
T/bonds redemptions	0.0	0.0	2.7	0.0	0.0	0.0	0.0	20.4	0.0	0.0	20.4
Govt payments	4.6	4.9	13.1	1.7	2.4	2.4	3.6	4.5	4.1	0.7	15.3
<b>Total liquidity reduction</b>	<b>2.3</b>	<b>1.8</b>	<b>28.1</b>	<b>7.2</b>	<b>6.4</b>	<b>2.3</b>	<b>1.8</b>	<b>28.1</b>	<b>7.2</b>	<b>6.4</b>	<b>45.9</b>
T/bills (Primary issues)	0.0	0.0	11.7	0.0	0.0	0.0	0.0	11.7	0.0	0.0	11.7
Tbonds Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repos	0.0	0.0	15.0	0.0	0.0	0.0	0.0	15.0	0.0	0.0	15.0
Term Auction Deposit	0.0	0.0	0.0	5.2	3.5	0.0	0.0	0.0	5.2	3.5	8.7
Transfer from Banks -Taxes	2.3	1.8	1.4	2.0	2.2	2.3	1.8	1.4	2.0	2.2	9.7
<b>Net liquidity injection (+)/Withdrawal (-)</b>	<b>3.6</b>	<b>3.1</b>	<b>11.2</b>	<b>-5.5</b>	<b>-3.3</b>	<b>3.6</b>	<b>3.1</b>	<b>11.2</b>	<b>-5.5</b>	<b>-3.3</b>	<b>9.0</b>
<b>Open Market Operations Outcome</b>											
<b>Posted Amount</b>											<b>0.0</b>
<b>Realised Amount</b>	<b>0.0</b>	<b>0.0</b>	<b>15.0</b>	<b>5.2</b>	<b>3.5</b>	<b>0.0</b>	<b>0.0</b>	<b>15.0</b>	<b>5.2</b>	<b>3.5</b>	<b>23.7</b>
Repo (-)	0.0	0.0	15.0	0.0	0.0	0.0	0.0	15.0	0.0	0.0	15.0
Term Auction Deposits (-)	0.0	0.0	0.0	5.2	3.5	0.0	0.0	0.0	5.2	3.5	8.7
Reverse Repo (+)	0.0	0	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0
<b>Reserve Money Position</b>											
Reserve money (actual)	338.7	343.4	358.3	354.3	349.4	338.7	343.4	358.3	354.3	349.4	<b>348.8</b>
Reserve money target	339.7	339.0	339.7	339.7	339.7	339.7	339.0	339.7	339.7	339.7	<b>339.6</b>
Deviation from target	<b>-1.0</b>	<b>4.4</b>	<b>18.6</b>	<b>14.6</b>	<b>9.6</b>	<b>-1.0</b>	<b>4.4</b>	<b>18.6</b>	<b>14.6</b>	<b>9.6</b>	<b>9.2</b>
Commercial banks excess reserves Exc(+)/ Short(-)	-1.1	4.1	19.6	16.3	13.1	9.5	9.1	4.9	0.9	0.4	<b>5.0</b>
Cash outside bank Exc(+)/ Short(-)	<b>0.1</b>	<b>0.3</b>	<b>-1.0</b>	<b>-1.7</b>	<b>-3.4</b>	<b>-10.5</b>	<b>-4.7</b>	<b>13.6</b>	<b>13.6</b>	<b>9.2</b>	<b>4.3</b>

Source: Central Bank of Kenya

**Short-Term Rates**

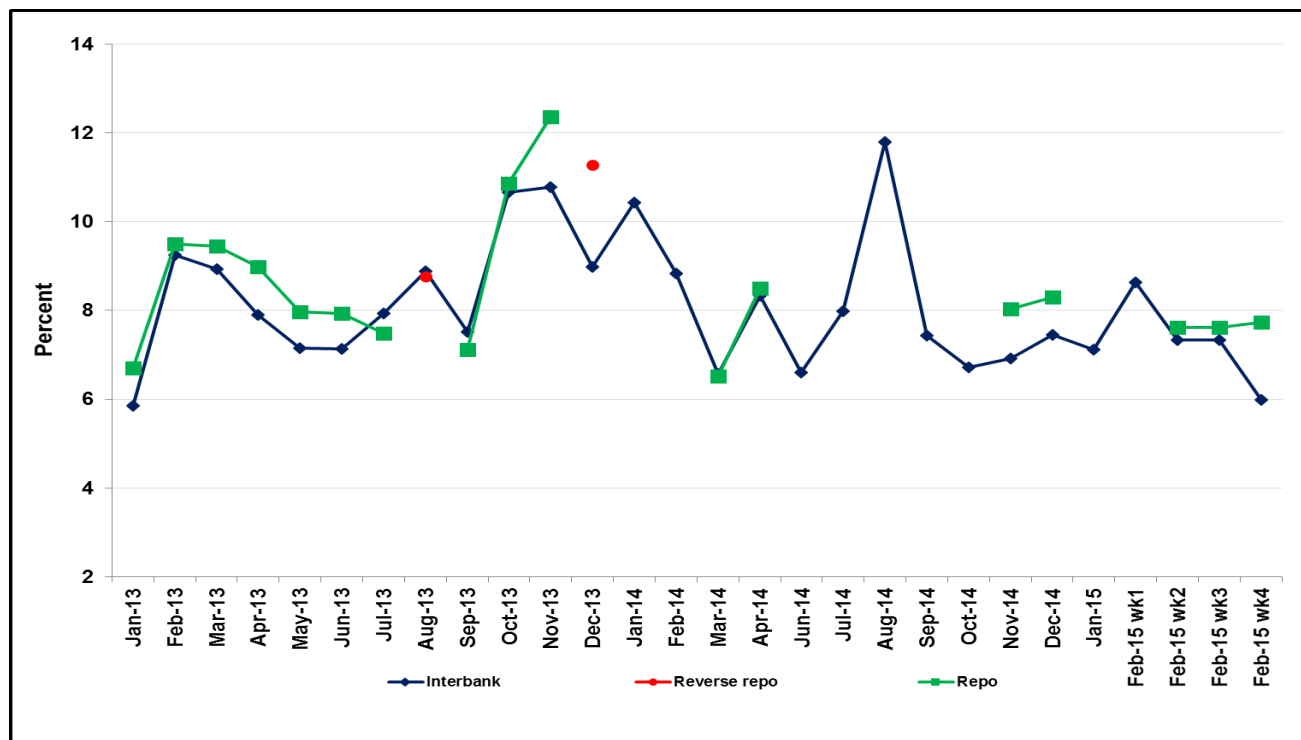
The average interbank rate increased to 6.13 percent in the week ending February 18, 2015 from 5.98 percent in the previous week. The volume transacted increased to KSh 13.15 billion from KSh 12.17 billion traded in the previous week, and the number of deals to 51 from 40. (Table 2 and Chart B).

**TABLE 2: OPEN MARKET OPERATIONS (KSH BILLION)**

Date	Number of deals	Value (Ksh M)	Average Interbank Rate (%)	Average Repo Rate (%)
12-Feb-15	25	6,830	6.23	
13-Feb-15	33	13,810	5.90	
16-Feb-15	49	15,935	5.89	
17-Feb-15	46	9,655	5.91	7.73
18-Feb-15	47	14,624	5.97	
<b>February 12, 2015 - February 18, 2015</b>	<b>40</b>	<b>12,171</b>	<b>5.98</b>	<b>7.73</b>
19-Feb-15	53	17,007	6.04	
20-Feb-15	60	17,367	6.08	
23-Feb-15	51	12,870	6.15	
24-Feb-15	44	8,560	6.17	
25-Feb-15	45	9,960	6.20	
<b>February 18, 2015 - February 25, 2015</b>	<b>51</b>	<b>13,153</b>	<b>6.13</b>	<b>0.00</b>

Source: Central Bank of Kenya

**CHART B: STRUCTURE OF INTEREST RATES**

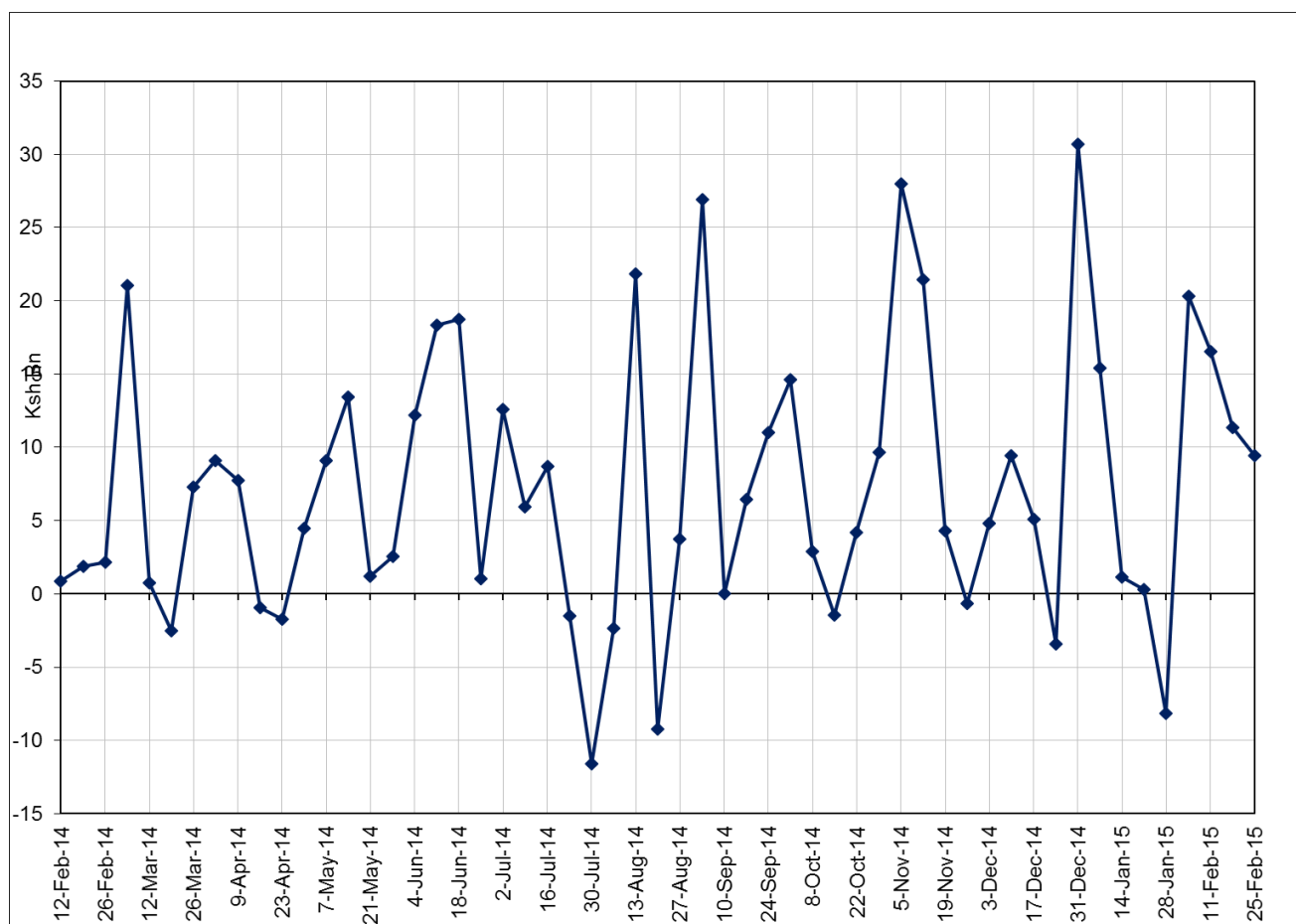


Source: Central Bank of Kenya

### Commercial Banks Clearing Account Balances

Commercial banks' clearing account during the week ending February 25, 2015 recorded a surplus of KSh 9.42 billion in relation to the cash reserve requirement of 5.25 percent (KSh 119.1 billion) compared with a surplus of KSh 11.3 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 stabilised against the US Dollar in the week ending February 26, 2015 and registered marginal change against the Euro, the Japanese Yen and the Pound Sterling. However, it strengthened against the Uganda shilling and the Rwanda Franc, weakened against the Tanzania shilling but remained unchanged to the Burundi Franc (Table 3).

**TABLE 3: KENYA SHILLING EXCHANGE RATE**

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
13-Feb-14	91.54	141.11	104.67	77.23	31.41	19.96	7.53	17.15
16-Feb-14	91.56	141.30	104.50	77.27	31.35	19.93	7.46	17.01
17-Feb-14	91.54	140.79	104.02	77.25	31.27	19.99	7.52	17.09
18-Feb-14	91.42	140.38	104.30	76.83	31.32	20.07	7.53	17.17
19-Feb-14	91.36	141.20	104.33	76.99	31.36	20.08	7.53	17.18
<b>13-19 Feb 2015</b>	<b>91.48</b>	<b>140.96</b>	<b>104.36</b>	<b>77.12</b>	<b>31.34</b>	<b>20.01</b>	<b>7.51</b>	<b>17.12</b>
20-Feb-14	91.40	140.98	103.86	76.87	31.35	20.13	7.53	17.06
23-Feb-14	91.40	140.60	104.00	76.81	31.42	20.05	7.54	17.04
24-Feb-14	91.42	141.09	103.53	76.72	31.45	20.07	7.53	17.17
25-Feb-14	91.41	141.46	103.74	76.93	31.51	19.72	7.54	17.18
26-Feb-14	91.42	142.10	103.90	76.85	31.53	19.91	7.54	17.17
<b>20-26 Feb 2015</b>	<b>91.41</b>	<b>141.25</b>	<b>103.81</b>	<b>76.84</b>	<b>31.45</b>	<b>19.98</b>	<b>7.53</b>	<b>17.12</b>

Source: Central Bank of Kenya

## The Capital Markets

All equity market indicators gained in the week ending February 26, 2015 and maintained the strong rally since the start of 2015. The bond's market posted strong gain in turnover.

### Equities Market

The NSE 20 Share Index and NASI grew by 0.04 percent and 0.18 percent respectively, in the week ending February 26, 2015. Shareholders' wealth reflected in market capitalization grew by 0.2 percent during the week. Increased supply of shares and rising prices saw equity turnover increase by 14.59 percent in the week (Table 4).

**TABLE 4: KEY WEEKLY MARKET STATISTICS**

INDICATOR	8-Jan-15	15-Jan-15	22-Jan-15	29-Jan-15	5-Feb-15	12-Feb-15	19-Feb-15	26-Feb-15	Wkly Change
NASI 100= 2008	161.78	165.47	165.17	165.23	168.37	170.09	175.65	175.97	0.18%
NSE 20 Share Index 100= 1996	5,097.80	5,201.61	5,172.88	5,194.21	5,284.41	5,330.01	5,473.81	5,475.84	0.04%
Number of Deals	7,592	9,129	10,331	10,741	10,911	10,188	9,782	10,837	10.79%
Total Shares Traded	65.80	80.56	100.33	132.53	149.92	140.56	124.40	149.79	20.41%
Equity Turnover (Ksh. Millions)	1,733.90	1,728.70	2,216.67	3,291.38	3,192.25	3,465.24	4,240.49	4,859.32	14.59%
Market Capitalization (Ksh. Bn.)	2,285.52	2,337.57	2,327.80	2,334.08	2,378.54	2,396.81	2,452.39	2,456.96	0.19%
Bonds Turnover (Ksh. Millions)	5,963.08	13,652.08	10,204.90	6,966.66	9,335.46	6,926.45	6,890.41	18,423.30	167.38%
FTSE NSE Kenya 15 Index	213.13	219.68	217.12	220.55	223.25	225.32	229.81	234.75	2.15%
FTSE NSE Kenya 25 Index	214.16	220.74	218.99	222.39	224.68	226.68	231.00	235.43	1.92%
FTSE NSE Bond Index	93.56	93.66	94.33	93.81	94.48	92.72	92.69	92.67	-0.02%

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, closed the week 2.15 percent higher while the FTSE NSE Kenya 25 Index, which measures the 25 most liquid stocks at the NSE was 1.92 percent higher compared to the previous week. However, the FTSE Government Bond Index closed the week 0.02 percent lower, reflecting uptick in the secondary market yields.

Telecommunication and Technology, Banking and Energy and Petroleum sectors were the top three most active sectors, at 37.5 percent, 29.83 percent and 8.5 percent of the total shares traded, respectively. Agricultural sector was the least active with 202,500 shares traded in the week.

## The Bond Market

The bond's market turnover increased by 167.38 percent to KSh 18,423.30 million from KSh 6,890.41 million in the previous week. The number of deals increased to 116 from the 59 deals traded last week. This follows a 204 percent strong subscription rate for a 2 and 10-year bonds just issued in the primary market to raise KSh 25 billion, indicating high appetite for financial assets in the market.

**TABLE 5: PERFORMANCE OF TREASURY BILL AUCTIONS**

<b>91-Day Treasury Bills</b>							
Date of Auction	15-Jan-15	22-Jan-15	29-Jan-15	5-Feb-15	12-Feb-15	19-Feb-15	26-Feb-15
Amount offered (Ksh M)	3,000.0	3,000.0	3,000.0	2,000.0	2,000.0	2,000.0	2,000.0
Bids received (Ksh M)	4,169.2	878.8	1,259.1	849.6	3,343.8	882.2	5,182.2
Amount Accepted (Ksh M)	2,848.4	878.8	1,252.2	849.6	3,050.2	882.2	4,636.3
Maturities (Ksh M)	2,464.7	652.7	455.1	3,638.2	3,435.3	4,491.2	1,128.7
Average interest Rate (%)	8.601	8.684	8.572	8.582	8.563	8.640	8.645
<b>182-Day Treasury Bills</b>							
Date of Auction	14-Jan-15	21-Jan-15	28-Jan-15	4-Feb-15	11-Feb-15	18-Feb-15	25-Feb-15
Amount offered (Ksh M)	4,000.0	4,000.0	4,000.0	4,000.0	3,000.0	3,000.0	3,000.0
Bids received (Ksh M)	4,645.5	5,168.9	2,612.3	5,031.3	4,740.4	6,684.9	6,127.6
Amount Accepted (Ksh M)	3,933.1	3,266.0	1,453.5	4,193.2	4,046.8	909.7	4,915.6
Maturities (Ksh M)	4,095.8	3,224.3	4,869.9	430.7	903.6	750.2	619.85
Average interest Rate (%)	10.237	10.282	10.334	10.362	10.403	10.377	10.367
<b>364-Day Treasury Bills</b>							
Date of Auction	14-Jan-15	21-Jan-15	28-Jan-15	4-Feb-15	11-Feb-15	18-Feb-15	25-Feb-15
Amount offered (Ksh M)	5,000.0	5,000.0	5,000.0	5,000.0	3,000.0	3,000.0	3,000.0
Bids received (Ksh M)	6,518.9	4,344.1	2,346.3	5,069.6	6,273.6	9,986.2	10,592.2
Amount Accepted (Ksh M)	4,721.4	2,067.3	1,896.7	2,729.3	4,576.9	7,327.8	6,739.1
Maturities (Ksh M)	3,184.6	1,624.5	2,510.9	711.9	2,294.5	1,426.6	2,821.1
Average interest Rate (%)	10.707	10.825	10.984	10.987	10.942	10.907	10.892
<b>Treasury Bonds</b>							
Date of Auction	21-Jan-15		18-Feb-15				
Tenor	5 year Fxd	20 Year Fxd	2 Year FXD	10 Year FXD(Re-open)			
Amount offered (Ksh M)	20,000.0		25,000.0				
Bids received (Ksh M)	14,112.1	12,835.9	28,743.8	22,388.7			
Amount Accepted (Ksh M)	8,029.8	12,358.6	23,592.6	11,658.4			
Maturities (Ksh M)	0.0	0.0	20,446.1				
Average interest Rate (%)	11.6	13.6	11.470	12.787			

Source: Central Bank of Kenya

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

	2nd January 2015	9th January 2015	16th January 2015	23rd January 2015	30th January 2015	6th February 2015	13th February 2015	20th February 2015
1. Treasury Bills (Excluding Repos)	291.40	289.91	294.84	296.75	299.29	296.37	299.71	305.15
(As % of total securities)	23.38	23.29	23.59	23.71	23.45	23.27	23.47	24.01
2. Treasury Bonds	955.00	955.00	955.00	955.00	977.08	977.08	977.08	965.94
(As % of total securities)	76.62	76.71	76.41	76.29	76.55	76.73	76.53	75.99
3. Total Securities (1+2)	1,246.40	1,244.91	1,249.84	1,251.75	1,276.37	1,273.45	1,276.79	1,271.09
4. Overdraft at Central Bank	29.57	31.55	25.31	25.47	27.49	30.72	27.91	35.91
5. Other Domestic debt*	29.45	30.63	30.42	30.41	30.42	30.43	28.20	28.22
6. Gross Domestic Debt (3+4+5)	1,305.43	1,307.09	1,305.58	1,307.63	1,334.28	1,334.60	1,332.91	1,335.21

\* 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**

	2-Jan-15	9-Jan-15	16-Jan-15	23-Jan-15	30-Jan-15	6-Feb-15	13-Feb-15	20-Feb-15
Treasury bills (Excluding Repos)	22.3	22.2	22.6	22.7	22.4	22.2	22.5	22.9
Treasury bonds	73.2	73.1	73.1	73.0	73.2	73.2	73.3	72.3
CBK Overdraft to Govt	2.3	2.4	1.9	1.9	2.1	2.3	2.1	2.7
Other domestic debt	2.3	2.3	2.3	2.3	2.3	2.3	2.1	2.1
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Central Bank of Kenya

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

	2-Jan-15	9-Jan-15	16-Jan-15	23-Jan-15	30-Jan-15	6-Feb-15	13-Feb-15	20-Feb-15
Banking Institutions	54.2	54.1	54.2	54.1	54.0	54.3	54.2	54.6
Insurance Companies	9.9	9.9	9.9	9.8	9.8	9.7	9.7	9.6
Parastatals	2.8	2.8	2.8	2.8	2.8	2.8	2.9	2.8
Pension funds	23.8	23.8	23.9	23.9	23.9	23.8	23.8	24.0
Other investors	9.4	9.4	9.3	9.4	9.5	9.4	9.4	9.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Central Bank of Kenya

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

	31-Dec-14	8-Jan-15	15-Jan-15	22-Jan-15	29-Jan-15	5-Feb-15	12-Feb-15	19-Feb-15	26-Feb-15
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	7,425	7,344	7,295	7,247	7,189	7,178	7,206	7,199	7,206
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	4.85	4.74	4.71	4.68	4.64	4.63	4.65	4.63	4.64

\*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya