



APRIL 1, 2016

Highlights

Overall 12-month inflation declined from 6.8 percent in February 2016 to 6.5 percent in March 2016 supported by declining food and fuel prices. Non-Food Non-Fuel (NFNF) inflation accelerated from 5.89 percent to 6.05 percent in the period under review.

The money market was liquid during the week ending March 30, 2016, supported by government payments and net OMO actions. The average interbank rate rose to 4.18 percent in the week ending March 30, 2016 from 3.78 percent in the previous week.

The capital markets recorded mixed performance in the week ending March 31, 2016, while the bonds markets strengthened, as reflected in key indicators.

Inflation

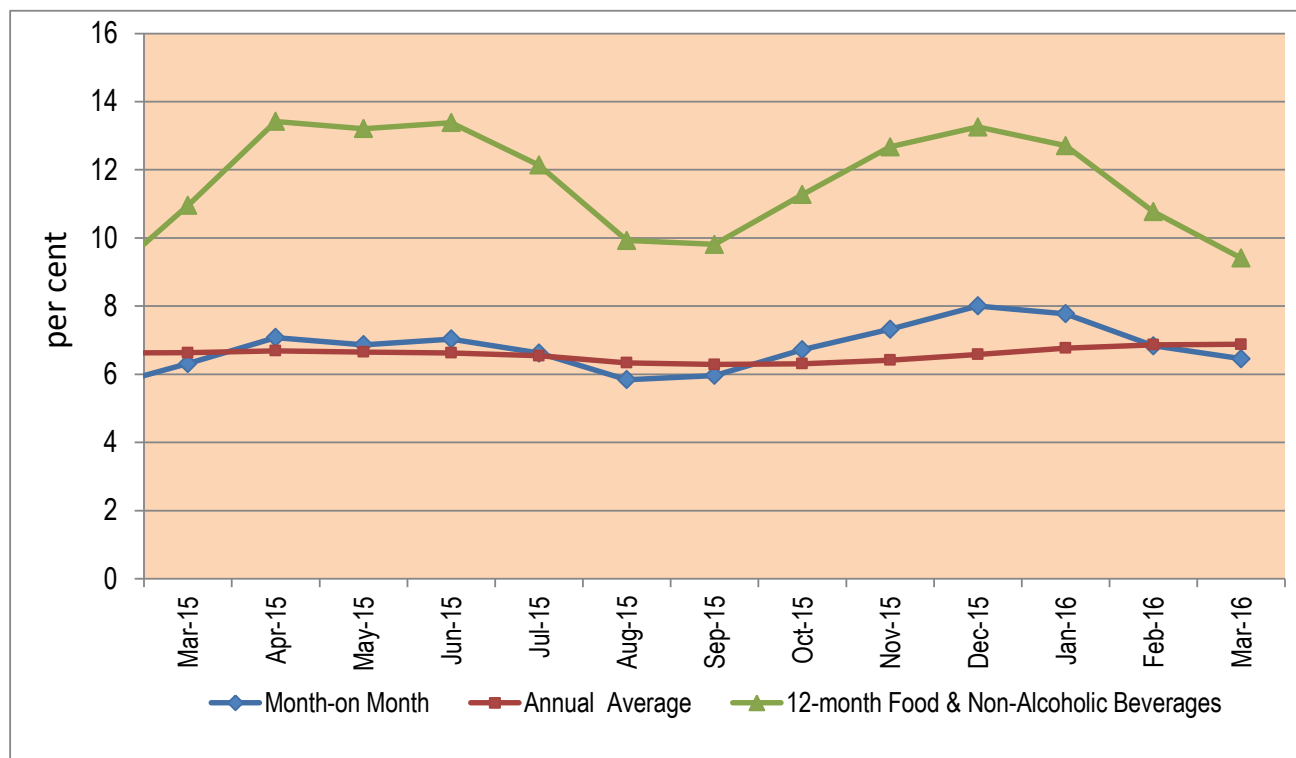
Overall 12-month inflation declined from 6.8 percent in February 2016 to 6.5 percent in March 2016 supported by declining food and fuel prices.

Food inflation eased by 123 basis points to 9.05 percent in March 2016 from 10.28 percent in February 2016. Although decelerating, the elevated food inflation was driven by increases in prices of a few key food items. The contribution of food inflation on overall inflation declined to 4.27 percentage points in March 2016 from 4.78 percentage points in February 2016. The declining contribution of food inflation reflects the easing of food prices arising from favorable weather conditions experienced in the first quarter of 2016.

Fuel inflation rose by 42 basis points to 2.14 percent in March 2016 from 1.72 percent in February 2016 reflecting the waning effects of low international oil prices. The contribution of fuel inflation on overall inflation rose to 0.60 percentage points in March 2016 from 0.50 percentage points in February 2016 (**Chart A**).

Non-Food Non-Fuel (NFNF) inflation rose by 15 basis points to 6.05 percent in March 2016 from 5.89 percent in February 2016. As a result, its contribution to overall inflation rose marginally to 1.58 percentage points from 1.56 percentage points in February 2016. The elevated NFNF inflation is largely on account of increases in excise tax rates following the implementation of revised Excise Tax Law on December 1, 2015.

Chart A: Month-on-Month, Annual Average and 12 Month Food and Non-Alcoholic beverages Inflation Rates



Monetary Policy Operations

The money market was liquid during the week ending March 30, 2016, supported by government payments and net OMO actions. Liquidity injections were partially offset by withdrawals through tax remittances by commercial banks and net issue of government securities in the primary market. Reserve money stood at KSh 377.0 billion on March 30, 2016 (**Table 1**).

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

	24-Mar-16	29-Mar-16	30-Mar-16	Total
Liquidity Flows				
Total liquidity injection	15.3	28.8	17.3	61.3
Repos Maturities	0.0	0.8	0.0	0.8
Reverse Repo Purchases	6.8	3.0	8.4	18.1
Term Auction Deposit maturities	4.3	0.0	0.0	4.3
T/bills redemptions	0.0	8.9	0.0	8.9
T/bills rediscounts	0.0	0.0	0.0	0.0
T/bonds redemptions	0.0	0.0	0.0	0.0
T/bonds Interest	0.0	8.7	0.0	8.7
T/bonds rediscounts	0.0	0.0	0.0	0.0
Govt payments	4.1	4.0	4.8	13.0
Total liquidity reduction	7.8	22.0	6.6	36.4
T/bills (Primary issues)	0.0	17.9	0.0	17.9
Tbonds Sales	0.0	0.0	0.0	0.0
T/bills/Tbonds (OMO Tap Sales)	0.0	0.0	0.0	0.0
Repos	0.0	0.0	0.0	0.0
Reverse Repos maturities	0.0	2.4	0.0	2.4
Term Auction Deposit	0.0	0.0	0.0	0.0
Transfer from Banks -Taxes	3.0	1.7	5.1	9.8
Net liquidity injection (+)/Withdrawal (-)	7.5	6.7	10.7	24.9
Open Market Operations Outcome				0.0
Posted Amount	8.0	3.0	8.0	19.0
Realised Amount	6.8	3.0	8.4	18.1
Repo (-)	0.0	0.0	0.0	0.0
Term Auction Deposits (-)	0.0	0.0	0.0	0.0
Reverse Repo (+)	6.8	3.0	8.4	18.1
Reserve Money Position				
Reserve money (actual)	357.1	363.0	377.0	

Source: Central Bank of Kenya

Activity in the Interbank Market

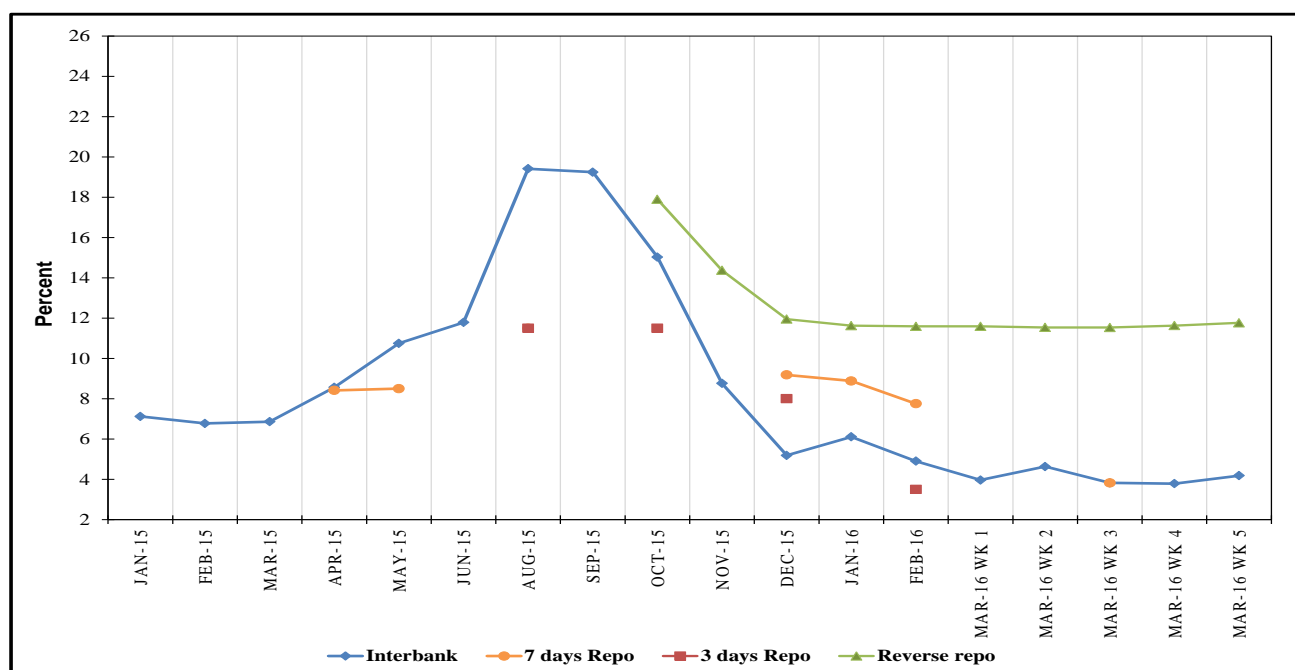
The average interbank rate rose to 4.18 percent in the week ending March 30, 2016 from 3.78 percent in the previous week, while the volumes traded and number of deals increased. The Reverse repo rate stabilized at 11.76 percent compared with 11.63 percent the previous week (Table 2 and Chart B).

TABLE 2: OPEN MARKET OPERATIONS (KSH MILLION)

Date	Number of deals	Value (Ksh M)	Average Interbank Rate (%)	Reverse Repo Rate (%)
17-Mar-16	29	7,820	4.03	
18-Mar-16	23	5,960	3.77	
21-Mar-16	22	9,556	3.65	11.63
22-Mar-16	25	13,445	3.53	
23-Mar-16	33	15,845	3.94	
March 17, 2016-March 23, 2016	26	10,525	3.78	11.63
24-Mar-16	39	24,760	4.10	11.54
29-Mar-16	41	20,855	4.06	11.78
30-Mar-16	31	13,905	4.37	11.97
March 24, 2016-March 30, 2016	37	19,840	4.18	11.76

Source: Central Bank of Kenya

CHART B: STRUCTURE OF SHORT-TERM INTEREST RATES

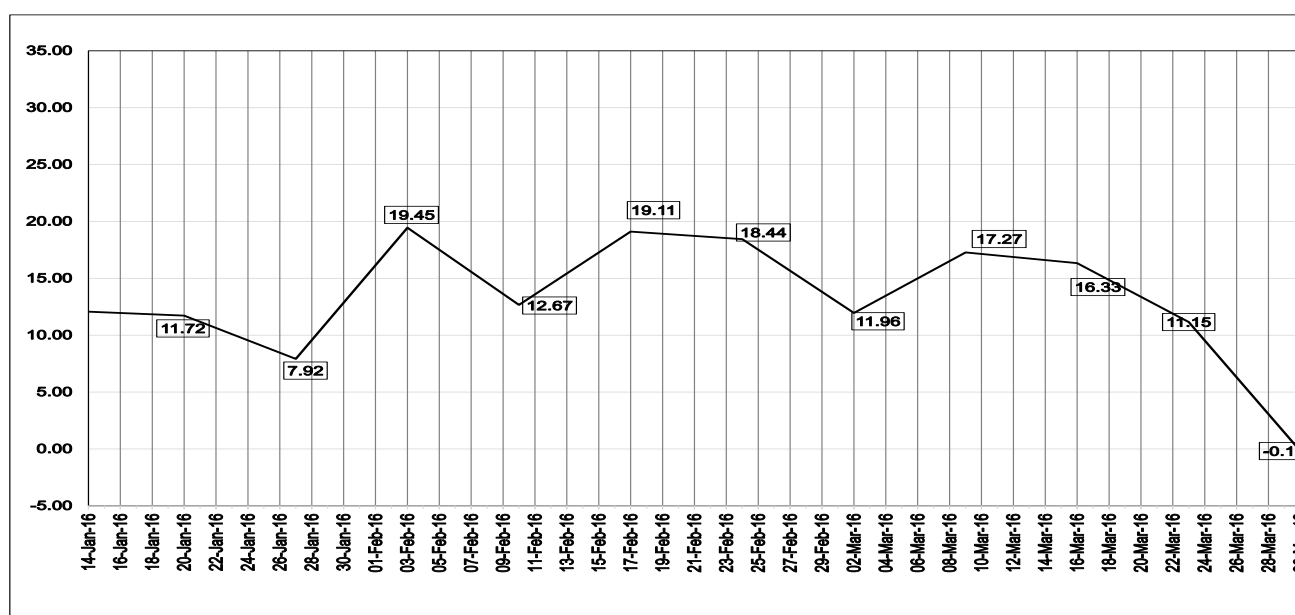


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks’ daily free reserves based on the cash reserve requirement of 5.25 percent decreased to a deficit of KSh 0.19 billion in the week ending March 30, 2016 from a surplus of KSh 5.87 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 exchange rate strengthened against all major international currencies during the week ending March 31, 2016. In the EAC region, it strengthened against the Tanzania Shilling and the Burundi Franc but weakened against the Uganda Shilling and the Rwanda Franc.

TABLE 3: KENYA SHILLING EXCHANGE RATE

	USD	Sterling Pound	Euro	100 Japanese Yen	USHS*	TSHS*	RWF*	BIF*
18-Mar-16	101.45	146.67	114.74	91.02	33.27	21.56	7.46	15.28
21-Mar-16	101.46	146.96	114.46	90.97	33.23	21.56	7.36	15.35
22-Mar-16	101.49	145.99	114.18	90.99	33.26	21.54	7.46	15.16
23-Mar-16	101.52	144.06	113.81	90.40	33.29	21.54	7.46	15.26
24-Mar-16	101.52	143.14	113.40	89.98	33.29	21.54	7.63	15.16
18-24 March 2016	101.49	145.36	114.12	90.67	33.27	21.55	7.47	15.24
29-Mar-16	101.53	143.44	113.31	89.40	33.24	21.54	7.35	15.32
30-Mar-16	101.52	144.98	113.74	89.59	33.16	21.55	7.35	15.32
31-Mar-16	101.33	145.31	114.69	90.21	33.31	21.58	7.48	15.23
29-31 March 2016	101.46	144.58	113.92	89.73	33.24	21.56	7.40	15.29

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

The Capital Markets

Nairobi Securities Exchange recorded mixed performance in the equities market segment whereas the bond market segment registered gains.

Equities Market

The NASI and NSE 25 Share Index increased over the week by 0.21 percent and 0.02 percent respectively, while the NSE 20 Share Index declined marginally by 0.25 percent (Table 4). Activity in the equity market was lower compared to the previous week. This is reflected in a fall in the number of shares traded which show a sharp decline of 24.37 percent, with a decline in equity turnover of KSh 945.43 million. Market capitalisation, a measure of shareholder wealth, dropped by KSh 1,867.58 billion which is a decrease of 89.99 percent. The decline in the equity market performance may be attributed to the sluggish market activity over the Easter Holiday, as well as a decline in the banking sector trading from 38.29 percent of all trading to 19.8 percent over the week under review.

TABLE 4: KEY WEEKLY MARKET STATISTICS

INDICATOR	18-Feb-16	25-Feb-16	03-Mar-16	10-Mar-16	17-Mar-16	24-Mar-16	31-Mar-16	Weekly Change (%)
NASI 100= 2008	139.96	140.90	145.21	144.53	145.72	147.25	147.56	0.21
NSE 25 Share Index	4,063.63	4,063.38	4,172.71	4,131.93	4,230.84	4,260.12	4,261.05	0.02
NSE 20 Share Index 100= 1996	3,804.73	3,867.06	3,932.48	3,949.82	3,927.65	3,991.95	3,982.09	-0.25
Number of Deals	5,970.00	5,674.00	7,184.00	6,796.00	6,872.00	6,085.00	5,944.00	-2.32
Total Shares Traded	99.54	57.66	99.42	110.54	126.56	123.27	93.23	-24.37
Equity Turnover (Ksh. Millions)	2,425.45	1,651.33	2,518.63	3,022.30	3,446.04	2,905.90	1,960.47	-32.53
Market Capitalization (Ksh. Bn.)	1,970.92	1,984.20	2,045.05	2,035.42	2,053.93	2,075.40	207.83	-89.99
I-REIT Turnover in (Ksh. Millions)	9.97	4.81	2.27	4.13	3.01	2.22	16.68	652.44
I-REIT in Units - Total Deals	86.00	87.00	55.00	97.00	61.00	40.00	118.00	195.00
Bonds Turnover (Ksh. Millions)	5,517.19	8,662.24	19,249.25	17,859.68	17,134.95	4,170.55	8,242.90	97.65
FTSE NSE Kenya 15 Index	178.84	178.67	183.30	185.28	185.70	185.11	185.17	0.03
FTSE NSE Kenya 25 Index	178.63	178.68	184.06	184.49	185.57	185.60	185.47	-0.07
FTSE NSE Bond Index	88.68	88.82	89.07	88.78	89.39	89.46	89.28	-0.20

Source: Nairobi Securities Exchange

FTSE NSE Kenya Index Series, REITS and Most Active Sectors

FTSE NSE Kenya 15 Index that measures stock performance of 15 largest companies by market capitalisation rose marginally by 0.03 percent compared to the previous week. The FTSE NSE Kenya 25 Index that measures 25 most liquid stocks at the NSE declined, closing the week 0.07 percent lower. The FTSE Government Bond Index declined marginally by 0.2 percent over the week ending March 31, 2016, reflecting a slight increase in secondary market yields. The Real Estate Investment Trusts (REITs) reflected interest from investors in real estate market, as shown in increased turnover by KSh 14.47 million and an increase in deals by 78 over the week.

The Telecommunication & Technology sector dominated market trading with 28.4 percent of all shares traded, followed by the Energy and Petroleum, and Banking sectors at 21.8 percent and 19.8 percent of the total shares traded, respectively. The Automobiles and Accessories sector was the least active with 200 shares traded over the week.

The Bond Market

Total bonds traded showed marked increase of 97.65 percent compared to the previous week, to close at KSh 8,242.90 million, with a corresponding rise in the number of deals from 96 to 185 over the week ending March 31, 2016. This rise in investor interest in the bond market may be attributed portfolio rebalancing as investors move from equities into longer term securities markets.

TABLE 5: PERFORMANCE OF GOVERNMENT SECURITIES

91-Day Treasury Bills							
Date of Auction	29-Jan-15	25-Feb-16	10-Mar-16	17-Mar-16	24-Mar-16	31-Mar-16	
Amount offered (Ksh M)	3,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
Bids received (Ksh M)	1,259.1	10,996.2	12,474.4	2,475.2	3,707.7	1,160.2	
Amount Accepted (Ksh M)	1,252.2	8,363.1	9,175.8	2,475.2	3,111.3	1,160.2	
Maturities (Ksh M)	455.1	4,075.0	4,651.0	9,142.6	4,039.9	1,358.0	
Average interest Rate (%) - 91 Days	8.572	9.3	8.8	8.6	8.4	9.0	
182-Day Treasury Bills							
Date of Auction	28-Jan-15	24-Feb-16	09-Mar-16	16-Mar-16	23-Mar-16	30-Mar-16	
Amount offered (Ksh M)	4,000.0	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	
Bids received (Ksh M)	2,612.3	9,785.8	12,116.1	12,752.7	1,731.8	2,547.2	
Amount Accepted (Ksh M)	1,453.5	5,159.8	6,157.1	8,718.8	1,731.8	1,951.1	
Maturities (Ksh M)	4,869.9	815.8	7,571.7	376.3	227.6	2,856.4	
Average interest Rate (%) - 182 days	10.334	11.9	10.9	10.5	10.7	10.7	
364-Day Treasury Bills							
Date of Auction	28-Jan-15	24-Feb-16	09-Mar-16	16-Mar-16	23-Mar-16	30-Mar-16	
Amount offered (Ksh M)	5,000.0	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	
Bids received (Ksh M)	2,346.3	7,352.2	21,180.1	12,158.6	16,228.4	4,365.8	
Amount Accepted (Ksh M)	1,896.7	7,335.1	12,541.0	11,624.5	12,441.9	4,365.8	
Maturities (Ksh M)	2,510.9	7,471.0	5,935.3	5,586.9	4,598.2	6,451.1	
Average interest Rate (%) - 364 days	10.984	13.3	12.2	12.0	11.9	11.9	
Treasury Bonds							
Date of Auction	18-Feb-15		16-Mar-16	16-Mar-16			
Tenor	2 Year FXD	FXD 1/2012/10	FXD 1/2013/10	FD 2/2013/15			
Amount offered (Ksh M)	25,000.0	25,000.0	25,000.0				
Bids received (Ksh M)	28,743.8	53,854.8	13,705.1	12,474.7			
Amount Accepted (Ksh M)	23,592.6	30,297.2	9,072.7	8,034.9			
Maturities (Ksh M)	20,446.1	0.0	19,976.4				
Average interest Rate (%)	11.470	14.3	14.4	15.0			

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	27-Nov-15	31-Dec-15	29-Jan-16	26-Feb-16	04-Mar-16	11-Mar-16	18-Mar-16	25-Mar-16
1. Treasury Bills (Excluding Repos)	378.05	390.75	378.82	420.76	430.70	436.97	453.27	462.85
(As % of total securities)	26.43	26.71	26.03	28.27	28.15	28.44	29.26	29.70
2. Treasury Bonds	1052.45	1,072.32	1,076.60	1,067.83	1,099.23	1,099.23	1,095.77	1,095.37
(As % of total securities)	73.57	73.29	73.97	71.73	71.85	71.56	70.74	70.30
3. Total Securities (1+2)	1,430.49	1,463.07	1,455.42	1,488.59	1,529.93	1,536.19	1,549.05	1,558.23
4. Overdraft at Central Bank	26.57	39.85	35.67	43.58	43.58	40.13	34.05	37.74
5. Other Domestic debt*	28.23	28.28	31.68	31.96	31.98	31.95	31.73	31.69
6. Gross Domestic Debt (3+4+5)	1,485.30	1,531.20	1,522.77	1,564.13	1,605.49	1,608.27	1,614.82	1,627.66

* 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

	31-Dec-15	29-Jan-16	26-Feb-16	04-Mar-16	11-Mar-16	18-Mar-16	25-Mar-16
Treasury bills (Excluding Repos)	25.5	24.9	26.9	26.8	27.2	28.1	28.4
Treasury bonds	70.0	70.7	68.3	68.5	68.3	67.9	67.3
CBK Overdraft to Govt	2.6	2.3	2.8	2.7	2.5	2.1	2.3
Other domestic debt	1.8	2.1	2.0	2.0	2.0	2.0	1.9
TOTAL	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-Nov-15	31-Dec-15	29-Jan-16	26-Feb-16	11-Mar-16	18-Mar-16	25-Mar-16
Banking Institutions	55.4	55.4	54.8	55.5	56.0	56.3	55.7
Insurance Companies	8.4	8.4	8.6	8.3	8.1	8.1	8.2
Parastatals	4.9	4.6	4.7	4.7	4.6	4.6	4.7
Pension funds	25.4	25.4	25.7	25.4	25.2	25.2	25.5
Other investors	6.0	6.1	6.2	6.1	6.0	5.9	5.9
Total	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)

	18-Feb-16	25-Feb-16	03-Mar-16	10-Mar-16	17-Mar-16	24-Mar-16	31-Mar-16
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	7,127	7,162	7,214	7,332	7,352	7,370	7,377
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	4.56	4.58	4.62	4.69	4.70	4.72	4.72

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya