



FEBRUARY 5, 2016

Highlights

Overall 12-month inflation declined from 8.0 percent in December 2015 to 7.8 percent in January 2016. Non-food non-fuel inflation also decreased from 5.64 percent in December 2015 to 5.47 percent in January 2016.

The money market was relatively liquid during the week ending February 3, 2016, supported by government payments and OMO maturities. However, liquidity was partially offset by withdrawals from OMO operations through Term Auction Deposits (TAD) and net T-bill issues from the primary market. The average interbank rate decreased to 6.14 percent in the week ending February 3, 2016 from 7.06 percent in the previous week.

Overall, capital markets recorded mixed performance in the week ending February 4, 2016 as reflected in leading market indicators

Inflation

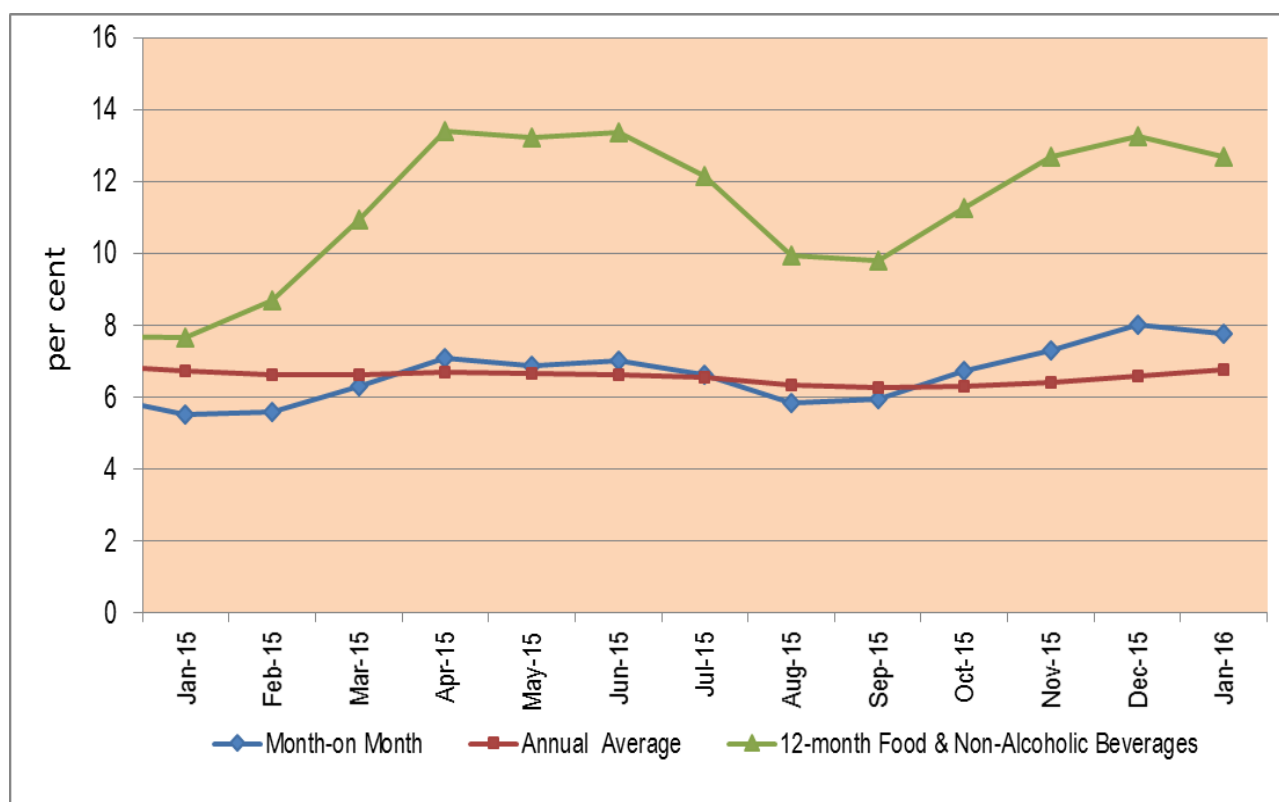
Overall 12-month inflation declined from 8.0 percent in December 2015 to 7.8 percent in January 2016 (**Chart A**). This decrease is largely attributed to food and non-food non-fuel inflation.

Food inflation eased by 44 basis points to 11.98 percent in January 2016 from 12.42 percent in December 2015, on account of decrease in the prices of some popularly consumed food items. The average retail price per kilogram of Irish potatoes decreased by 2.66 percent from KSh 76.40 in December 2015 to KSh 74.37 in January 2016, while the price per kilogram of kale (sukuma wiki) decreased by 0.87 percent from KSh 37.07 to KSh 36.75 during the period under review.

Non-food non-fuel inflation declined by 16 basis points from 5.64 percent in December 2015 to 5.47 percent in January 2016. This decline is largely reflected in the 'Alcoholic Beverages, Tobacco and Narcotics', 'Clothing and Footwear' and 'Miscellaneous Goods and Services' categories, which declined from 15.00 percent, 5.04 percent and 4.97 percent, respectively, in December 2015 to 14.93 percent, 4.88 percent and 4.91 percent respectively in January 2016. However, the 'Education' category recorded increased inflation due to increased costs of tuition and school books.

Fuel inflation rose marginally to 2.88 percent from 2.86 percent, occasioned by increased house rents and cost of charcoal. The average monthly rent of a one-room house increased by 0.9 percent from KSh 3934.28 in December 2015 to KSh 3969.80 in January 2016, while the average price of charcoal (4 Kg) increased by 0.5 percent from KSh 78.42 to KSh 78.82 in the period under review.

CHART A: MONTH-ON-MONTH ANNUAL AVERAGE AND 12-MONTH FOOD & NON-ALCOHOLIC BEVERAGES



Source: Central Bank of Kenya

Monetary Policy Operations.

The money market was relatively liquid during the week ending February 3, 2016, supported by government payments and OMO maturities. However, liquidity was partially offset by withdrawals from OMO operations through Term Auction Deposits (TAD) and net T-bill issues from the primary market. CBK liquidity management mopped up KSh 20.0 billion in TAD, and injected KSh 8.6 billion to support the interbank market. Reserve money averaged KSh 378.4 billion during the week ending February 3, 2016 and was KSh 2.2 billion below target (**Table 1**).

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

	28-Jan-16	29-Jan-16	1-Feb-16	2-Feb-16	3-Feb-16	Total
Liquidity Flows						
Total liquidity injection	16.2	9.3	23.8	11.1	9.6	70.0
Repos Maturities	0.0	0.0	0.0	0.0	0.0	0.0
Reverse Repo Purchases	0.0	0.0	3.7	0.0	4.9	8.6
Term Auction Deposit maturities	1.5	0.0	0.0	8.3	0.0	9.8
T/bills redemptions	0.0	0.0	9.7	0.0	0.0	9.7
T/bills rediscounts	0.0	0.0	0.0	0.0	0.0	0.0
T/bonds redemptions	0.0	0.0	0.0	0.0	0.0	0.0
T/bonds Interest	0.0	0.0	0.0	0.0	0.0	0.0
T/bonds rediscounts	0.0	0.0	0.0	0.0	0.0	0.0
Govt payments	12.1	7.8	10.4	2.8	4.7	37.8
Total liquidity reduction	2.0	13.3	25.1	13.1	6.7	60.2
T/bills (Primary issues)	0.0	0.0	17.3	0.0	0.0	17.3
Tbonds Sales	0.0	0.0	0.0	0.0	0.0	0.0
T/bills/Tbonds (OMO Tap Sales)	0.0	0.0	0.0	0.0	0.0	0.0
Repos	0.0	0.0	0.0	0.0	0.0	0.0
Reverse Repos maturities	0.0	0.0	4.3	0.0	5.4	9.7
Term Auction Deposit	0.0	10.0	0.0	10.0	0.0	20.0
Transfer from Banks -Taxes	2.0	3.2	3.5	3.1	1.2	13.1
Net liquidity injection (+)/Withdrawal (-)	14.1	-4.0	-1.3	-2.1	2.9	9.7
Open Market Operations Outcome						
Posted Amount	0.0	10.0	4.0	10.0	5.0	29.0
Realised Amount	0.0	10.0	3.7	10.0	4.9	28.6
Repo (-)	0.0	0.0	0.0	0.0	0.0	0.0
Term Auction Deposits (-)	0.0	10.0	0.0	10.0	0.0	20.0
Reverse Repo (+)	0.0	0.0	3.7	0.0	4.9	8.6
Reserve Money Position						
Reserve money (actual)	382.5	378.9	377.4	374.9	378.1	378.4
Reserve money target	378.9	378.9	381.7	381.7	381.7	380.6
Deviation from target	3.6	0.0	-4.3	-6.8	-3.6	-2.2
Commercial banks excess reserves Exc(+)/ Short(-)	15.5	12.0	10.0	5.8	8.2	10.3
Cash outside bank Exc(+)/ Short(-)	-11.9	-12.0	-14.3	-12.6	-11.8	-12.5

Source: Central Bank of Kenya

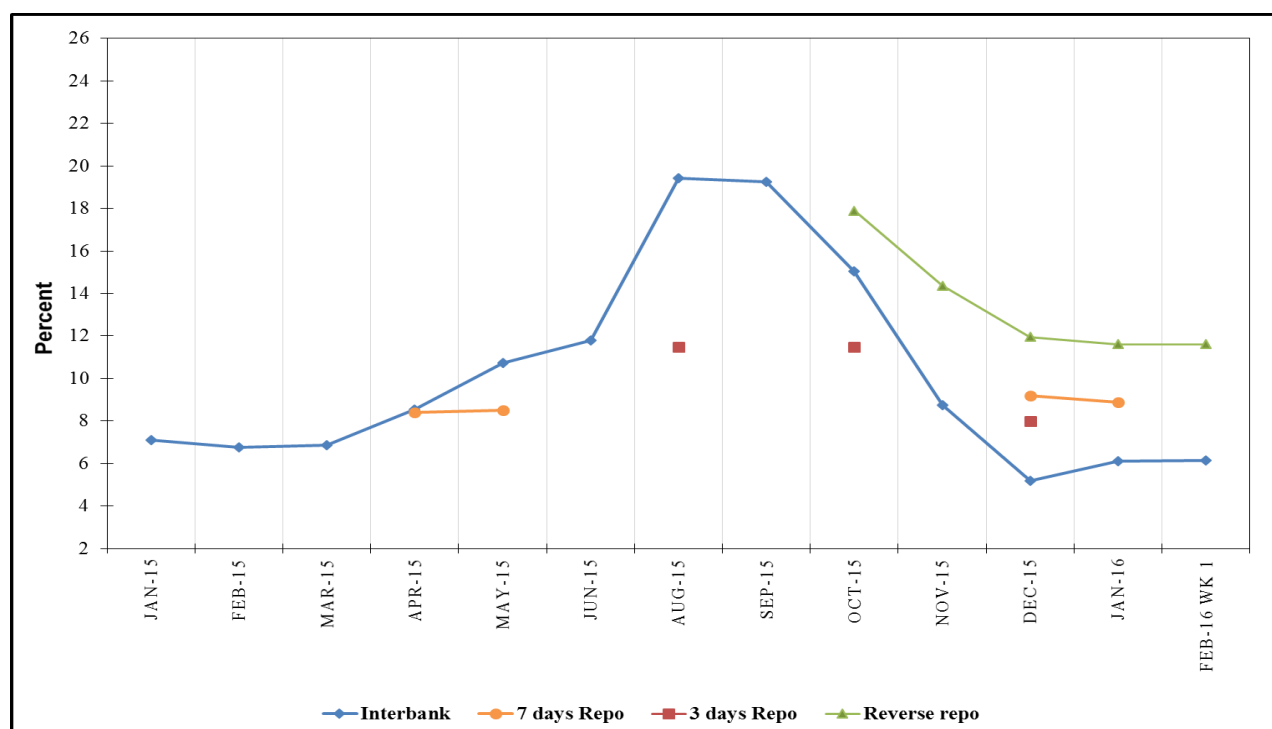
Activity in the Interbank Market

The average interbank rate decreased to 6.14 percent in the week ending February 3, 2016 from 7.06 percent in the previous week. The volumes transacted declined to KSh 19.8 billion from KSh 24.7 billion traded in the previous week, with the average number of deals falling to 41 from 50 deals. Reverse repo purchases traded at a marginally lower average rate of 11.61 percent compared to 11.62 percent in 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 (%)
21-Jan-16	42	19,099	6.25	
22-Jan-16	50	24,055	6.92	
25-Jan-16	54	27,395	7.26	11.60
26-Jan-16	52	27,060	7.35	
27-Jan-16	54	25,875	7.52	11.64
January 21, 2016 - January 27, 2016	50	24,697	7.06	11.62
28-Jan-16	40	16,535	7.43	
29-Jan-16	45	18,920	6.74	
1-Feb-16	42	25,985	6.02	11.60
2-Feb-16	38	18,855	5.56	
3-Feb-16	39	18,595	4.96	11.62
January 28, 2016 -February 3, 2016	41	19,778	6.14	11.61

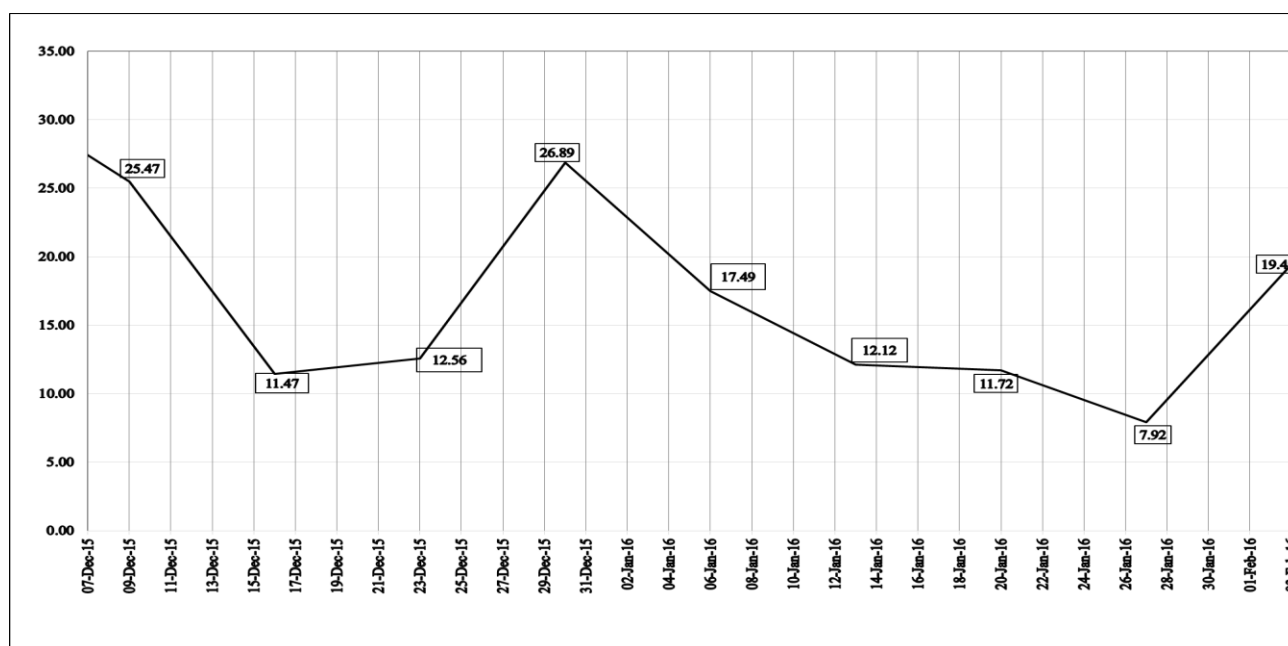
Source: Central Bank of Kenya

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 averaged KSh 19.46 billion in the week ending February 3, 2016 compared to KSh 7.92 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 portrayed mixed performance against major international and regional currencies during the week ending 4th February 2016. It strengthened against the US Dollar and the Japanese Yen by 0.04 percent and 1.33 percent respectively. However, it weakened against the Pound Sterling by 0.59 percent and the Euro by 0.64 percent. In the EAC region, it strengthened against the Uganda Shilling and the Burundi Franc but weakened against the Tanzania Shilling and the Rwanda Franc.

TABLE 3: KENYA SHILLING EXCHANGE RATE

	USD	Sterling Pound	Euro	100 Japanese Yen	USHS*	TSHS*	RWF*	BIF*
22-Jan-16	102.33	145.44	110.84	86.76	33.91	21.40	7.37	15.39
25-Jan-16	102.31	145.95	110.60	86.16	33.92	21.40	7.53	15.09
26-Jan-16	102.34	145.65	111.05	86.73	33.93	21.40	7.39	15.08
27-Jan-16	102.32	146.81	111.07	86.44	33.96	21.40	7.39	15.08
28-Jan-16	102.28	146.50	111.34	86.34	34.00	21.39	7.30	15.23
22-28 Jan 2016	102.32	146.07	110.98	86.49	33.94	21.40	7.39	15.17
29th Jan 2016	102.28	146.57	111.68	86.03	33.95	21.39	7.34	15.26
1st-Feb 2016	102.27	145.79	111.05	84.34	33.95	21.38	7.31	15.31
2nd -Feb 2016	102.29	146.41	111.34	84.44	34.34	21.36	7.30	15.25
3rd-Feb 2016	102.27	147.14	111.73	85.48	34.00	21.36	7.39	15.10
4th-Feb-2016	102.28	148.78	112.67	86.40	33.86	21.36	7.31	15.35
29th Jan-4th Feb 2016	102.28	146.94	111.69	85.34	34.02	21.37	7.33	15.25

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

Capital Markets

The equities market segment reported improved performance compared to previous week, but activity in the bond market segment declined.

Equities Market

Average share prices improved during the week ending February 4, 2016 as reflected by gains in NASI, NSE 25, and NSE 20 Share Indices of 2.91 percent, 2.54 percent, and 0.59 percent, respectively. Similarly, shareholders' wealth measured by market capitalisation rose by 0.04 percent with equity turnover declining by 2.93 percent. There was however a 24.92 percent decrease in the volume of shares traded as investors focussed on fixed income primary market (Table 4).

TABLE 4: KEY WEEKLY MARKET STATISTICS

INDICATOR	23-Dec-15	30-Dec-15	07-Jan-16	14-Jan-16	21-Jan-16	28-Jan-16	04-Feb-16	Wkly Change (%)
NASI 100= 2008	142.85	144.37	146.74	141.77	137.02	136.92	140.90	2.91
NSE 25 Share Index	4,112.59	3,992.57	4,210.28	4,039.74	3,911.82	3,929.46	4,029.43	2.54
NSE 20 Share Index 100= 1996	3,918.75	4,137.14	4,003.11	3,835.78	3,759.94	3,763.36	3,785.73	0.59
Number of Deals	4,413.00	3,410.00	4,763.00	6,610.00	7,268.00	6,707.00	6,162.00	-8.13
Total Shares Traded	97.46	59.36	47.54	112.89	112.71	131.64	98.83	-24.92
Equity Turnover (Ksh. Millions)	3,242.83	1,932.63	1,346.20	3,944.27	3,179.85	3,737.11	3,397.40	-9.09
Market Capitalization (Ksh. Bn.)	2,009.46	2,030.91	2,064.26	1,994.16	1,927.15	1,927.99	1,984.41	2.93
Bonds Turnover (Ksh. Millions)	308.40	247.50	249.29	7,590.80	4,761.10	5,176.80	4,666.65	-9.85
FTSE NSE Kenya 15 Index	182.17	182.55	187.38	180.21	171.40	171.40	178.31	4.03
FTSE NSE Kenya 25 Index	180.93	182.11	186.93	180.67	172.15	172.36	179.15	3.94
FTSE NSE Bond Index	90.04	90.04	90.04	89.58	89.51	89.61	88.30	-1.46

Source: Nairobi Securities Exchange

FTSE NSE Kenya Index Series and Most Active Sectors

FTSE NSE Kenya 15 Index which measure stock performance of 15 largest companies by market capitalization gained 4.03 percent from the previous week while, FTSE NSE Kenya 25 Index which measures 25 most liquid stocks at the NSE, was up 3.94 percent. However, the FTSE Government Bond Index declined, by 1.46 percent in the week, reflecting a decline in market yields.

Banking and Telecommunication and Technology sectors dominated trading, with 41.31 percent and 36.61 percent of the total shares traded, respectively. The Automobile and Accessories sector was the least active with 31,600 shares traded over the week.

The Bond Market

Total bonds traded declined by 9.85 percent in the week ending February 4, 2016 to close at KSh 4,666.65 million. The number of deals traded, however, increased to 122 from 66.

TABLE 5: PERFORMANCE OF TREASURY BILL AUCTIONS

91-Day Treasury Bills						
Date of Auction	31-Dec-15	07-Jan-16	14-Jan-16	21-Jan-16	28-Jan-16	04-Feb-16
Amount offered (Ksh M)	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
Bids received (Ksh M)	2,089.5	7,620.2	7,691.5	6,958.6	12,409.3	13,327.6
Amount Accepted (Ksh M)	1,340.5	2,779.9	4,699.8	2,662.0	8,151.8	5,745.3
Maturities (Ksh M)	8,120.7	13,282.3	13,675.1	13,025.1	7,187.5	7,464.4
Average interest Rate (%) - 91 Days	10.8	11.4	11.4	11.8	11.7	11.4
182-Day Treasury Bills						
Date of Auction	30-Dec-15	06-Jan-16	13-Jan-16	20-Jan-16	27-Jan-16	03-Feb-16
Amount offered (Ksh M)	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0
Bids received (Ksh M)	3,390.4	2,915.4	14,056.9	11,087.2	14,999.9	26,671.6
Amount Accepted (Ksh M)	2,410.2	2,540.5	13,025.9	9,191.9	7,673.8	12,066.4
Maturities (Ksh M)	1,235.5	790.6	2,225.3	637.2	400.3	225.2
Average interest Rate (%) - 182 days	12.8	13.2	13.7	14.2	14.4	13.9
364-Day Treasury Bills						
Date of Auction	30-Dec-15	06-Jan-16	13-Jan-16	20-Jan-16	27-Jan-16	03-Feb-16
Amount offered (Ksh M)	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0
Bids received (Ksh M)	4,632.9	3,906.7	7,663.1	4,838.4	6,447.7	10,083.3
Amount Accepted (Ksh M)	3,182.1	3,137.2	4,204.5	3,427.8	1,475.3	6,164.0
Maturities (Ksh M)	2,984.2	4,932.1	5,225.3	2,275.5	2,104.5	3,028.3
Average interest Rate (%) - 364 days	13.3	13.8	14.3	14.9	14.5	14.0
Treasury Bonds						
Date of Auction	30-Dec-15	20-Jan-16				
Tenor			2 Year FXD	10 Year FXD		
Amount offered (Ksh M)	16,000.0		35,000.0			
Bids received (Ksh M)	1,474.0		30,389.6	5,937.0		
Amount Accepted (Ksh M)	1,248.0		20,155.2	3,993.1		
Maturities (Ksh M)	0.0		0.0	0.0		
Average interest Rate (%)	14.8		16.1	15.8		

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	31-Dec-15	08-Jan-16	15-Jan-16	22-Jan-16	29-Jan-16
1. Treasury Bills (Excluding Repos)					
	390.75	385.99	376.11	378.54	378.82
(As % of total securities)	26.71	26.44	25.94	26.06	26.03
2. Treasury Bonds	1,072.32	1,073.80	1,073.80	1,073.80	1,076.60
(As % of total securities)	73.29	73.56	74.06	73.94	73.97
3. Total Securities (1+2)	1,463.07	1,459.79	1,449.91	1,452.34	1,455.42
4. Overdraft at Central Bank	39.85	45.23	31.09	31.02	35.67
5. Other Domestic debt*	28.28	28.21	33.06	32.25	31.68
6. Gross Domestic Debt (3+4+5)	1,531.20	1,533.23	1,514.06	1,515.61	1,522.77

* Other domestic debt includes clearing item.

Pre-1997 Government Overdraft and Tax Reserve Certificates.

Source: Central Bank of Kenya

TABLE 7: COMPOSITION OF GOVERNMENT DEBT BY INSTRUMENT

	31-Dec-15	08-Jan-16	15-Jan-16	22-Jan-16	29-Jan-16
Treasury bills (Excluding Repos)	25.5	25.2	24.8	25.0	24.9
Treasury bonds	70.0	70.0	70.9	70.8	70.7
CBK Overdraft to Govt	2.6	3.0	2.1	2.0	2.3
Other domestic debt	1.8	1.8	2.2	2.1	2.1
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

TABLE 8: COMPOSITION OF GOVERNMENT DEBT BY HOLDER

	31-Dec-15	08-Jan-16	15-Jan-16	22-Jan-16	29-Jan-16
Banking Institutions	55.4	55.5	55.1	54.7	54.8
Insurance Companies	8.4	8.4	8.5	8.5	8.6
Parastatals	4.6	4.6	4.7	4.8	4.7
Pension funds	25.4	25.3	25.5	25.9	25.7
Other investors	6.1	6.2	6.2	6.2	6.2
Total	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

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

	31-Dec-15	07-Jan-16	14-Jan-16	21-Jan-16	28-Jan-16	04-Feb-16
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	7,072	7,013	7,024	6,986	6,976	7,016
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	4.50	4.47	4.47	4.45	4.44	4.47

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya