JULY 01, 2016

Highlights

Overall inflation increased to 5.8 percent in June 2016 from 5.0 percent in May 2016 on account of rising food prices. However, Non-Food Non-Fuel (NFNF) decelerated for the second month to 5.0 percent in June from 5.4 percent in May and 5.9 percent in April 2016.

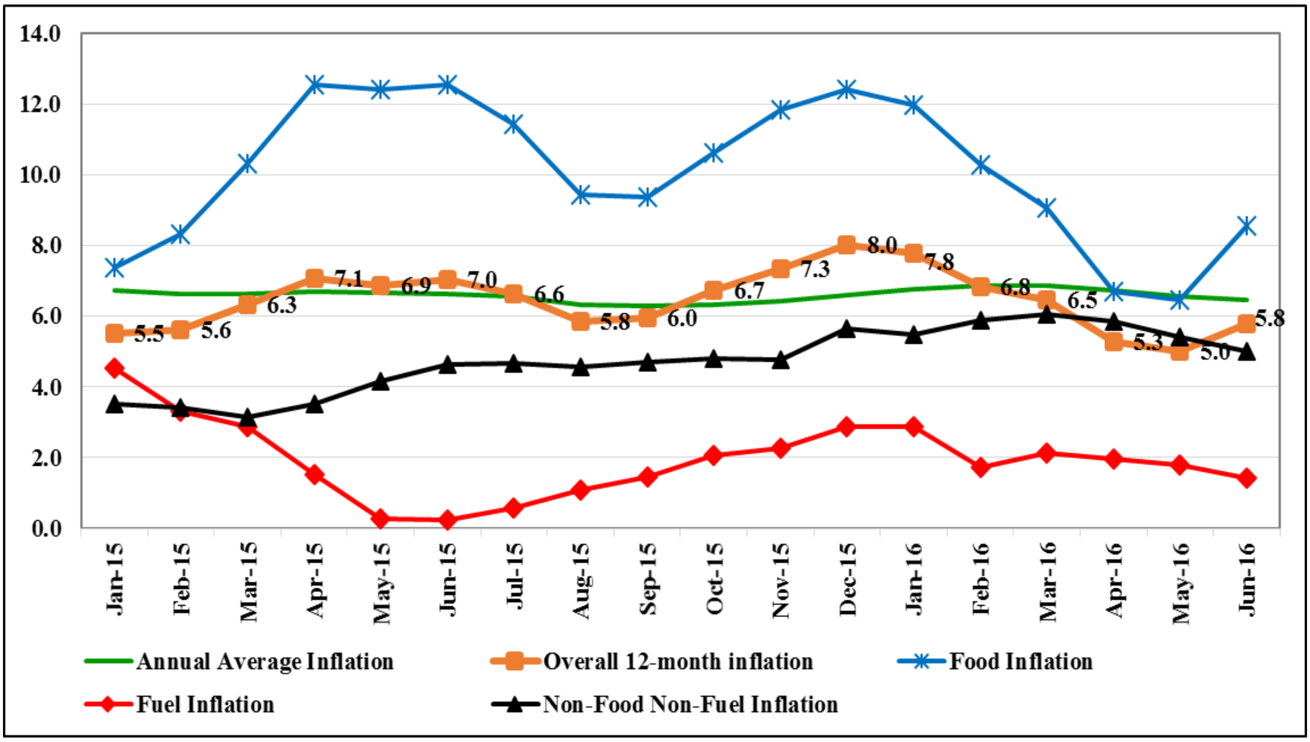
The economy recorded an improved performance in the first quarter of 2016 with real GDP growth rate of 5.9 percent compared to 5.7 percent in the fourth quarter of 2015.

Liquidity in the money market remained tight after banks remitted the quarterly tax payments for June 2016. Consequently, the average interbank rate increased significantly by 419 basis points to 8.12 percent in the week ending June 29, 2016 from 3.93 percent in the previous week.

Inflation

Overall inflation increased to 5.8 percent in June 2016 from 5.0 percent in May 2016 on account of rising food prices **(Chart A)**. Food inflation increased to 8.56 percent in June 2016 from 6.45 percent in May 2016, largely driven by increases in prices of tomatoes, sukuma wiki (kale), cabbages and onions. Fuel inflation declined to 1.43 percent in June 2016 from 1.81 percent in May 2016, largely driven by low but rising international oil prices. NFNF inflation decelerated to 5.01 percent in June 2016 from 5.41 percent in May 2016. However, it remains elevated on account of the effect of excise tax imposed on beer and cigarettes in December 2015.

CHART A: KEY TRENDS OF INFLATION RATES



Source: Central Bank of Kenya

GDP Performance in First Quarter of 2016

The economy recorded an improved performance in the first quarter of 2016 with real GDP growth rate of 5.9 percent. This was higher compared to 5.7 percent recorded in the fourth quarter of 2016. Impressive performance was witnessed in the accommodation and restaurants (12.1 percent), transport and storage (8.4 percent), electricity and water (8.5 percent), wholesale and retail trade (7.3 percent), information and communication (9.7 percent), and agriculture (4.8 percent).

Monetary Policy Operations

Liquidity in the money market remained tight after banks remitted the quarterly tax payment for June 2016. Reserve money stood at KSh 381.3 billion on June 29, 2016 (**Table 1**).

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

	23-Jun-16	24-Jun-16	27-Jun-16	28-Jun-16	29-Jun-16	Total
Liquidity Flows						
Total liquidity injection	**9.3**	**33.1**	**21.3**	**8.6**	**23.6**	**95.9**
Repos Maturities	0.0	0.0	0.0	0.0	0.0	**0.0**
Reverse Repo Purchases	0.7	0.4	2.0	0.0	0.0	**3.0**
Term Auction Deposit maturities	5.0	15.0	0.0	0.0	0.0	**20.0**
T/bills redemptions	0.0	0.0	0.0	0.0	0.0	**0.0**
T/bills rediscounts	0.0	0.0	0.0	0.0	6.7	**6.7**
T/bonds redemptions	0.0	0.0	7.1	0.0	0.0	**7.1**
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	3.7	17.8	12.2	8.6	16.9	**59.1**
Total liquidity reduction	**9.7**	**12.6**	**32.9**	**10.4**	**4.2**	**69.8**
T/bills (Primary issues)	0.0	0.0	18.8	0.0	0.0	**18.8**
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	3.0	2.2	0.1	0.0	**5.3**
Reverse Repos maturities	0.7	0.4	4.3	2.0	0.2	**7.5**
Term Auction Deposit	0.0	4.0	4.6	1.5	0.0	**10.1**
Transfer from Banks -Taxes	9.0	5.2	2.5	3.3	2.2	**22.2**
Net liquidity injection (+)/Withdrawal (-)	**-0.4**	**20.5**	**-11.6**	**-1.8**	**19.4**	**26.1**
Open Market Operations Outcome						
Posted Amount - Mop up	0.0	0.0	0.0	0.0	0.0	**0.0**
Realised Amount - Mop up	**0.0**	**7.0**	**0.0**	**1.6**	**0.0**	**8.6**
Repo (-)	0.0	3.0	2.2	0.1	0.0	**5.3**
Term Auction Deposits (-)	0.0	4.0	4.6	1.5	0.0	**10.1**
Reverse Repo (+)	**0.7**	**0.4**	**2.0**	**0.0**	**0.0**	**3.0**
Reserve Money Position						
Reserve money (actual)	345.2	364.5	363.5	360.6	381.3	

Source: Central Bank of Kenya

Activity in the Interbank Market

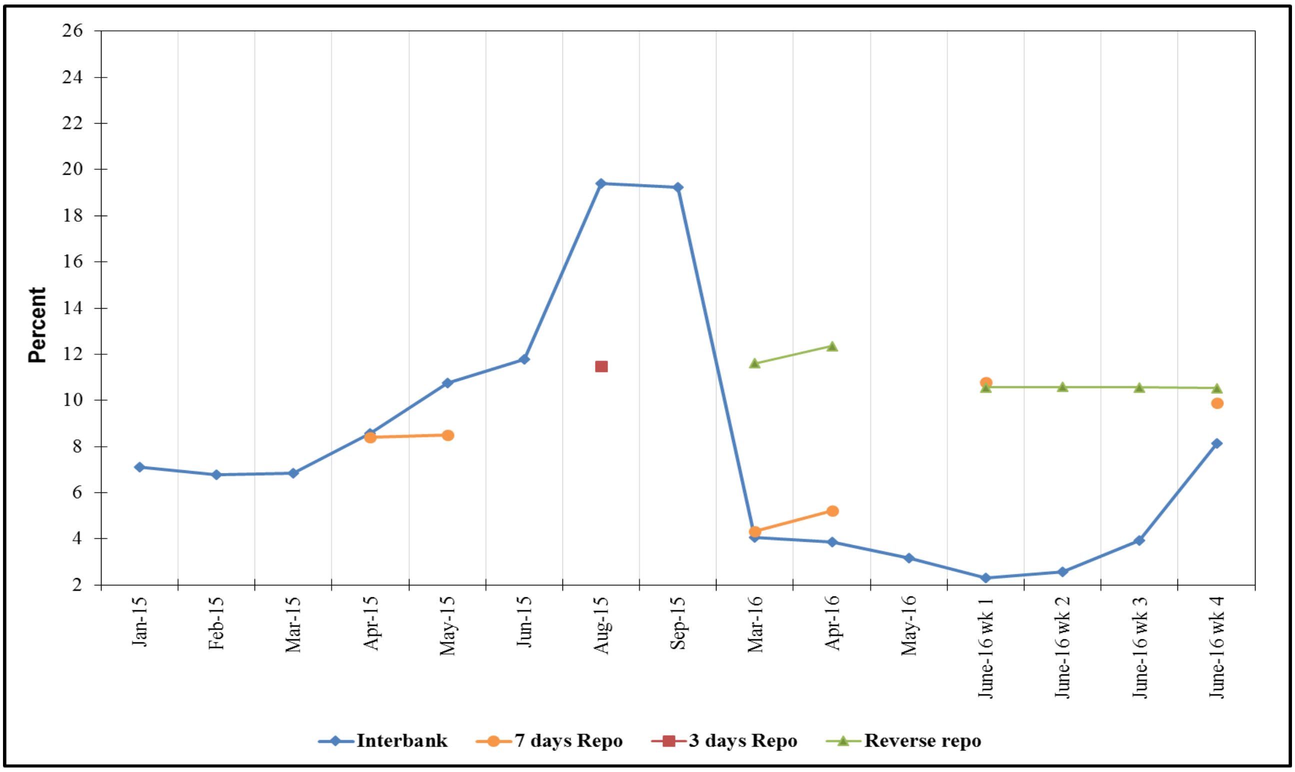
The average interbank rate increased to 8.15 percent in the week ending June 29, 2016 from 3.93 percent recorded in the previous week. However, banks traded higher volumes in the interbank market compared to the previous week **(Table 2 and Chart B).**

TABLE 2: OPEN MARKET OPERATIONS (KSH MILLION)

Date	Number of deals	Value (Ksh M)	Average Interbank Rate (%)	7 days Average Repo Rate (%)	Reverse Repo Rate (%)
16-Jun-16	19	7,050	2.99		10.57
17-Jun-16	18	7,800	3.07		
20-Jun-16	27	11,658	3.50		10.60
21-Jun-16	29	14,955	4.53		10.59
22-Jun-16	33	19,400	5.56		10.52
June 16, 2016 - June 22, 2016	**25**	**12,173**	**3.93**		**10.57**
23-Jun-16	24	11,150	7.08		10.53
24-Jun-16	26	8,700	7.95	10.00	
27-Jun-16	25	14,350	8.25	9.95	
28-Jun-16	21	10,725	8.64	9.75	
29-Jun-16	28	20,400	8.86		
June 23, 2016 - June 29, 2016	**25**	**13,065**	**8.15**	**9.90**	**10.53**

Source: Central Bank of Kenya

CHART B: STRUCTURE OF SHORT-TERM INTEREST RATES

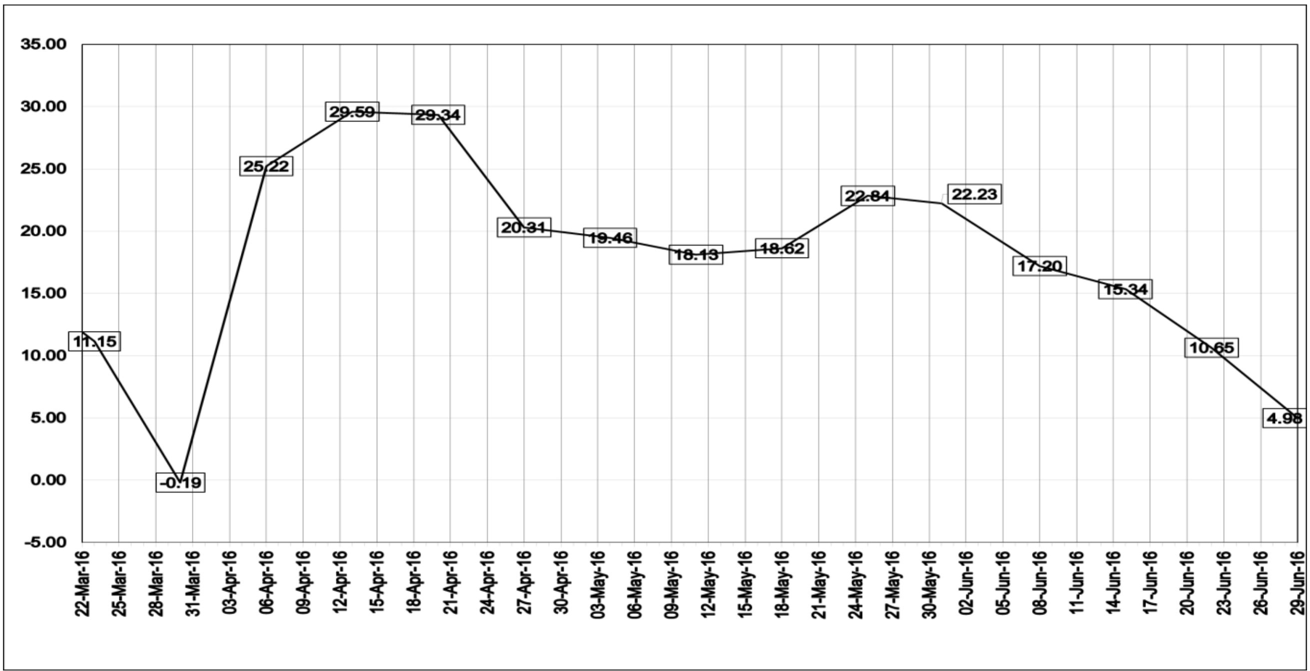


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks' clearing account balances declined further to a deficit of KSh 2.21 billion in the week ending June 29, 2016 from KSh 2.26 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 displayed mixed performance against major international and EAC currencies during the week ending June 30, 2016 as world financial markets came under pressure after the result of Britain's vote. It strengthened against the US Dollar, the Pound Sterling and the Euro but weakened against the Japanese Yen. 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**).

TABLE 3: KENYA SHILLING EXCHANGE RATE

	USD	Sterling Pound	Euro	100 Japanese Yen	USHS*	TSHS*	RWF*	BIF*
17-Jun-16	101.26	142.75	113.07	97.26	33.03	21.65	7.74	16.29
20-Jun-16	101.23	144.69	114.08	97.23	33.02	21.65	7.75	16.38
21-Jun-16	101.25	148.74	114.72	97.02	33.14	21.66	7.93	16.38
22-Jun-16	101.20	148.47	113.94	96.77	33.30	21.67	7.93	16.38
23-Jun-16	101.21	149.72	114.78	96.67	33.25	21.67	7.94	16.38
17-23 June 2016	**101.23**	**146.87**	**114.12**	**96.99**	**33.15**	**21.66**	**7.86**	**16.36**
24-Jun-16	101.27	150.22	115.11	95.73	33.21	21.65	7.38	16.66
27-Jun-16	101.24	139.52	112.51	98.79	33.63	21.64	7.37	16.53
28-Jun-16	101.24	133.53	111.25	98.79	33.73	21.63	7.37	16.54
29-Jun-16	101.21	134.93	111.85	98.54	33.64	21.64	7.38	16.53
30-Jun-16	101.10	136.44	112.30	98.40	33.68	21.66	7.38	16.65
24-30 June 2016	**101.21**	**138.93**	**112.60**	**98.05**	**33.58**	**21.65**	**7.38**	**16.58**

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

The Capital Market

The capital market recorded lower performance in both equities and bonds market segments as market reacted to Britain's vote to leave the European Union.

Equities Market

All equities market indices declined in the week ending June 30 2016, after the British voted to leave the European Union. Shareholders wealth, measured by Market Capitalization, declined by KSh 64.83 billion. Equity turnover declined by 28.62 percent on account of 26.81percent decline in number of shares traded and share prices (**Table 4**).

TABLE 4: KEY WEEKLY MARKET STATISTICS

INDICATOR	19-May-16	26-May-16	02-Jun-16	09-Jun-16	15-Jun-16	23-Jun-16	30-Jun-16	Weekly Change (%)
NASI 100= 2008	146.33	145.78	143.51	146.69	146.50	144.33	140.60	-2.58
NSE 25 Share Index	4,205.87	4,183.88	4,103.51	4,139.56	4,135.98	182.29	3,955.56	-3.00
NSE 20 Share Index 100= 1996	3,880.81	3,871.74	3,799.57	3,818.19	3,799.16	3,744.58	3,640.61	-2.78
Number of Deals	6,030.00	5,824.00	4,487.00	6,338.00	5,239.00	5,960.00	5,641.00	-5.35
Total Shares Traded (Millions)	76.36	90.63	67.25	148.72	89.78	155.17	113.56	-26.81
Equity Turnover (Ksh. Millions)	2,112.95	2,624.64	2,034.07	3,168.84	2,605.50	3,965.87	2,830.96	-28.62
Market Capitalization (Ksh. Bn.)	2,062.61	2,054.84	2,023.44	2,069.77	2,078.54	2,059.64	1,994.81	-3.15
I-REIT Turnover in (Ksh.Millions)	2.14	1.63	0.95	2.41	2.81	6.82	8.35	22.46
I-REIT in Units - Total Deals	46.00	29.00	33.00	38.00	47.00	81.00	61.00	-24.69
Bonds Turnover (Ksh. Millions)	5,836.68	23,288.34	13,729.81	19,062.33	10,672.64	13,531.49	7,278.10	-46.21
FTSE NSE Kenya 15 Index	185.86	185.30	183.25	184.19	184.41	181.20	175.70	-3.04
FTSE NSE Kenya 25 Index	186.30	185.49	183.68	185.40	185.84	182.29	176.47	-3.19
FTSE NSE Bond Index	88.40	88.69	88.73	88.52	87.99	88.80	87.98	-0.92

Source: Nairobi Securities Exchange

FTSE NSE Kenya Index Series, REITS and Most Active Sectors

FTSE NSE Kenya 15 Index and FTSE NSE Kenya 25 Index, which measure performance of 15 largest companies by market capitalization and 25 most liquid stocks at the NSE, closed the week at 3.04 percent and 3.19 percent lower, respectively. The real estate market segment recorded improved activity, with Real Estate Investment Trust (I-REIT) turnover up 22.46 percent, amid a 24.69 percent fall in deals transacted. Banking, Telecommunication and Technology and Insurance sectors dominated trading, accounting for 43.32 percent, 38.86 percent and 4.77 percent, respectively.

The Bond Market

The volume of Bonds traded declined by 46.21 percent, further reflecting market jitters. The corresponding deals were 134 down from 145 of last week. FTSE NSE Government Bond Index declined by 0.92 percent, signalling slight increase in market yields.

TABLE 5: PERFORMANCE OF GOVERNMENT SECURITIES

91-Day Treasury Bills						
Date of Auction	31-Mar-16	28-Apr-16	26-May-16	16-Jun-16	23-Jun-16	30-Jun-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)	1,160.2	16,656.1	10,212.9	7,636.0	5,325.8	3,385.3
Amount Accepted (Ksh M)	1,160.2	12,402.4	7,284.2	4,606.4	5,031.1	3,385.3
Maturities (Ksh M)	1,358.0	8,365.5	8,569.5	2,451.3	3,164.7	1,184.0
Average interest Rate (%)- 91 Days	9.0	8.5	7.7	7.2	7.1	7.0
182-Day Treasury Bills						
Date of Auction	30-Mar-16	27-Apr-16	25-May-16	15-Jun-16	22-Jun-16	29-Jun-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)	2,547.2	16,280.5	10,543.1	8,635.0	10,743.7	1,215.1
Amount Accepted (Ksh M)	1,951.1	9,052.6	5,402.0	5,420.4	10,268.5	1,215.1
Maturities (Ksh M)	2,856.4	6,185.7	478.6	3,550.3	5,289.2	2,563.6
Average interest Rate (%)- 182 days	10.7	10.5	10.0	9.5	9.2	9.4
364-Day Treasury Bills						
Date of Auction	30-Mar-16	27-Apr-16	25-May-16	15-Jun-16	22-Jun-16	29-Jun-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)	4,365.8	10,180.4	16,092.7	5,518.0	3,452.2	1,314.6
Amount Accepted (Ksh M)	4,365.8	8,004.7	9,168.5	5,516.2	3,452.2	1,314.6
Maturities (Ksh M)	6,451.1	1,379.2	1,092.0	567.7	591.5	72.4
Average interest Rate (%)- 364 days	11.9	11.7	11.3	10.7	10.7	10.7
Treasury Bonds						
Date of Auction				**16-Jun-16**		
Tenor				**FXD 1/2012/15**		
Amount offered (Ksh M)				30000		
Bids received (Ksh M)				50808.67		
Amount Accepted (Ksh M)				30620.93		
Maturities (Ksh M)				0		
Average interest Rate (%)				14.3		

Source: Central Bank of Kenya

TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	26-Feb-16	**25-Mar-16**	**29-Apr-16**	**27-May-16**	**17-Jun-16**	**24-Jun-16**
1. Treasury Bills (Excluding Repos)	420.76	462.85	507.90	540.84	567.63	578.03
(As % of total securities)	**28.27**	**29.70**	**31.50**	**33.38**	**33.62**	**33.41**
2. Treasury Bonds	1,067.83	1,095.37	1,104.68	1,079.52	1,120.54	1,152.04
(As % of total securities)	**71.73**	**70.30**	**68.50**	**66.62**	**66.38**	**66.59**
3. Total Securities (1+2)	**1,488.59**	**1,558.23**	**1,612.58**	**1,620.35**	**1,688.17**	**1,730.07**
4. Overdraft at Central Bank	43.58	37.74	44.87	41.49	36.27	37.06
5. Other Domestic debt*	31.96	31.69	31.77	31.60	31.66	31.09
6. Gross Domestic Debt (3+4+5)	**1,564.13**	**1,627.66**	**1,689.22**	**1,693.45**	**1,756.09**	**1,798.22**

* 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

	26-Feb-16	25-Mar-16	29-Apr-16	27-May-16	17-Jun-16	24-Jun-16
Treasury bills (Excluding Repos)	26.9	28.4	30.1	31.9	32.3	32.1
Treasury bonds	68.3	67.3	65.4	63.7	63.8	64.1
CBK Overdraft to Govt	2.8	2.3	2.7	2.5	2.1	2.1
Other domestic debt	2.0	1.9	1.9	1.9	1.8	1.7
TOTAL	**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

	26-Feb-16	25-Mar-16	29-Apr-16	27-May-16	17-Jun-16	24-Jun-16
Banking Institutions	55.5	55.7	56.5	57.5	56.0	56.3
Insurance Companies	8.3	8.2	7.9	7.9	7.6	7.5
Parastatals	4.7	4.7	4.6	4.7	4.8	4.7
Pension funds	25.4	25.5	25.2	26.1	25.8	25.9
Other investors	6.1	5.9	5.8	3.8	5.8	5.7
Total	**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)

	05-May-16	12-May-16	19-May-16	26-May-16	02-Jun-16	09-Jun-16	16-Jun-16	23-Jun-16	30-Jun-16
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	7,707	7,693	7,662	7,649	7,668	7,631	7,599	7,517	7,237
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	5.04	5.03	5.01	5.00	5.01	4.99	4.97	4.91	4.73

*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya