



**JUNE 03, 2016**

### **Highlights**

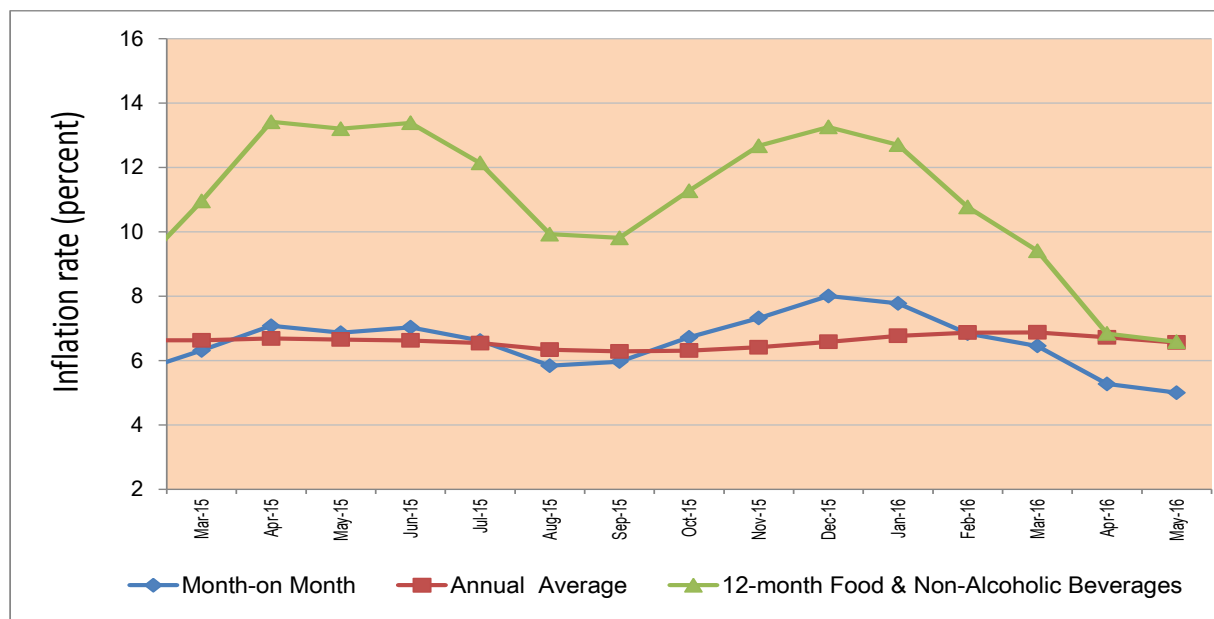
*Overall 12-month inflation eased to 5.0 percent in May 2016 from 5.27 percent in April 2016. The deceleration was reflected across the three main categories: food, nonfood nonfuel and fuel inflations.*

*The money market was relatively liquid in the week ending May 31, 2016 supported mainly by net redemption of securities held under Open Market Operations (OMO) and net Government payments. The average interbank rate declined to 3.18 percent in the week ending May 31, 2016 from 4.33 percent in the previous week.*

*Capital markets performance declined in the week ending June 2, 2016.*

### **Inflation**

Overall 12-month inflation decelerated further to the mid-point of the government target band of 5.0 percent in May 2016 from 5.27 percent in April and 6.54 percent in March 2016 (**Chart A**). This decline is reflected across the main categories. Food inflation eased by 26 basis points to 6.45 percent in May 2016 from 6.70 percent in April 2016, on account of favorable weather conditions. Fuel inflation declined to 1.81 percent in May 2016 from 1.95 percent in April 2016, largely driven by low International oil prices. The contributions of key fuel items to overall inflation remained muted in May 2016. Although Non-Food Non-Fuel (NFNF) inflation decelerated in May 2016 to 5.41 percent from 5.85 percent in April 2016, it remained elevated largely on account of the effect of excise tax on selected Alcoholic Beverages, Tobacco and Narcotics.

**CHART A: TREND OF MONTH-ON-MONTH, ANNUAL AVERAGE AND 12-MONTH FOOD & NON-ALCOHOLIC BEVERAGES INFLATION**


Source: Central Bank of Kenya

### Monetary Policy Operations

The money market was relatively liquid in the week ending May 31, 2016, supported mainly by net redemption of securities held under Open Market Operations (OMO) and net Government payments. Central Bank continued to support liquidity distribution in the interbank market through reverse repos (Table 1).

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

	26-May-16	27-May-16	30-May-16	31-May-16	Total
<b>Liquidity Flows</b>					
<b>Total liquidity injection</b>	<b>18.1</b>	<b>18.5</b>	<b>23.0</b>	<b>10.7</b>	<b>70.2</b>
Repos Maturities	0.0	0.0	0.0	0.0	0.0
Reverse Repo Purchases	0.7	0.4	3.0	0.0	4.0
Term Auction Deposit maturities	14.0	3.5	0.0	4.2	21.7
T/bills redemptions	0.0	0.0	10.1	0.0	10.1
T/bills rediscounts	0.0	0.0	0.0	0.0	0.0
T/bonds redemptions	0.0	0.0	0.0	0.0	0.0
T/bonds Interest	0.0	0.0	2.7	0.0	2.7
T/bonds rediscounts	0.0	0.0	0.0	0.0	0.0
Govt payments	3.4	14.6	7.2	6.5	31.6
<b>Total liquidity reduction</b>	<b>13.2</b>	<b>17.4</b>	<b>27.0</b>	<b>1.9</b>	<b>59.6</b>
T/bills (Primary issues)	0.0	0.0	21.9	0.0	21.9
Tbonds Sales	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
Repos	0.0	0.0	0.0	0.0	0.0
Reverse Repos maturities	0.4	0.3	3.0	0.0	3.6
Term Auction Deposit	5.0	15.0	0.0	0.0	20.0
Transfer from Banks - Taxes	7.8	2.0	2.2	1.9	13.9
<b>Net liquidity injection (+)/Withdrawal (-)</b>	<b>4.9</b>	<b>1.0</b>	<b>-4.0</b>	<b>8.7</b>	<b>10.6</b>
<b>Open Market Operations Outcome</b>					
<b>Posted Amount - Mop up</b>	0.0	0.0	0.0	0.0	0.0
<b>Realised Amount - Mop up</b>	<b>5.0</b>	<b>15.0</b>	<b>0.0</b>	<b>0.0</b>	<b>20.0</b>
Repo (-)	0.0	0.0	0.0	0.0	0.0
Term Auction Deposits (-)	5.0	15.0	0.0	0.0	20.0
<b>Reverse Repo (+)</b>	<b>0.7</b>	<b>0.4</b>	<b>3.0</b>	<b>0.0</b>	<b>4.0</b>
<b>Reserve Money Position</b>					
Reserve money (actual)	383.7	384.1	380.4	389.7	

Source: Central Bank of Kenya

### Activity in the Interbank Market

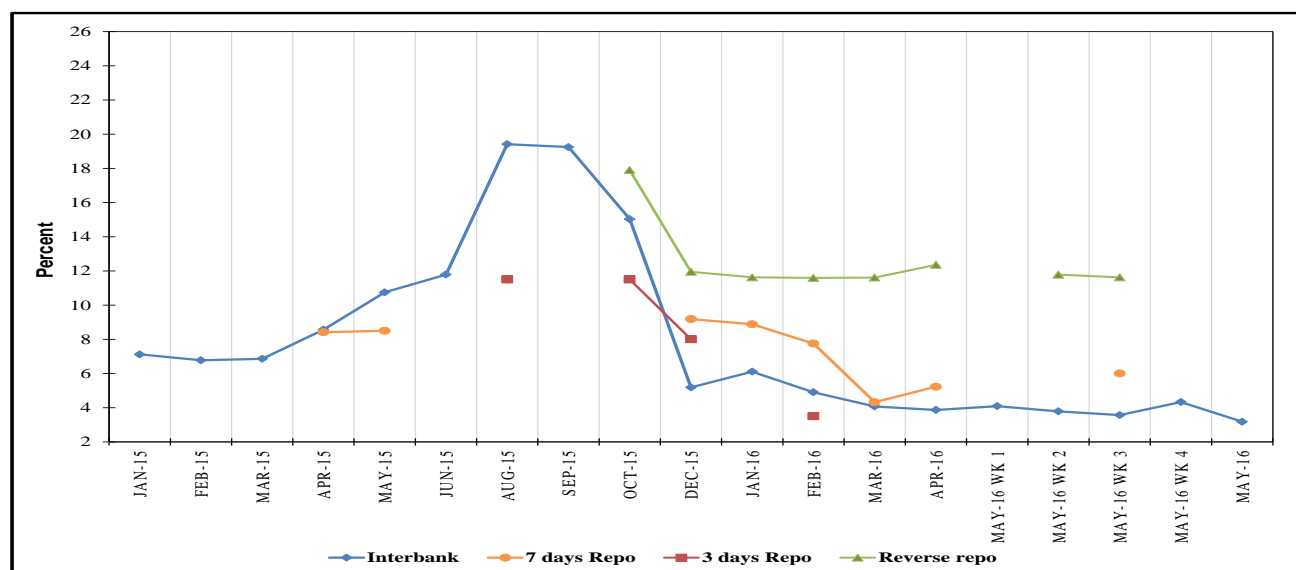
The average interbank rate decreased to 3.18 percent in the week ending May 31, 2016 from 4.33 percent recorded the previous week. The interbank market volumes traded increased and more banks participated in the interbank market compared to the previous week (**Table 2 and Chart B**).

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

Date	Number of deals	Value (Ksh M)	Average Interbank Rate (%)
19-May-16	5	950	4.76
20-May-16	5	1,450	5.44
23-May-16	15	10,400	4.00
24-May-16	18	10,110	3.88
25-May-16	19	10,630	3.56
<b>May 19, 2016 - May 25, 2016</b>	<b>12</b>	<b>6,708</b>	<b>4.33</b>
26-May-16	13	8,900	3.42
27-May-16	12	8,030	3.07
30-May-16	12	8,700	3.16
31-May-16	19	13,450	3.06
<b>May 26, 2016 - May 31, 2016</b>	<b>14</b>	<b>9,770</b>	<b>3.18</b>

Source: Central Bank of Kenya

**CHART B: STRUCTURE OF SHORT-TERM INTEREST RATES**

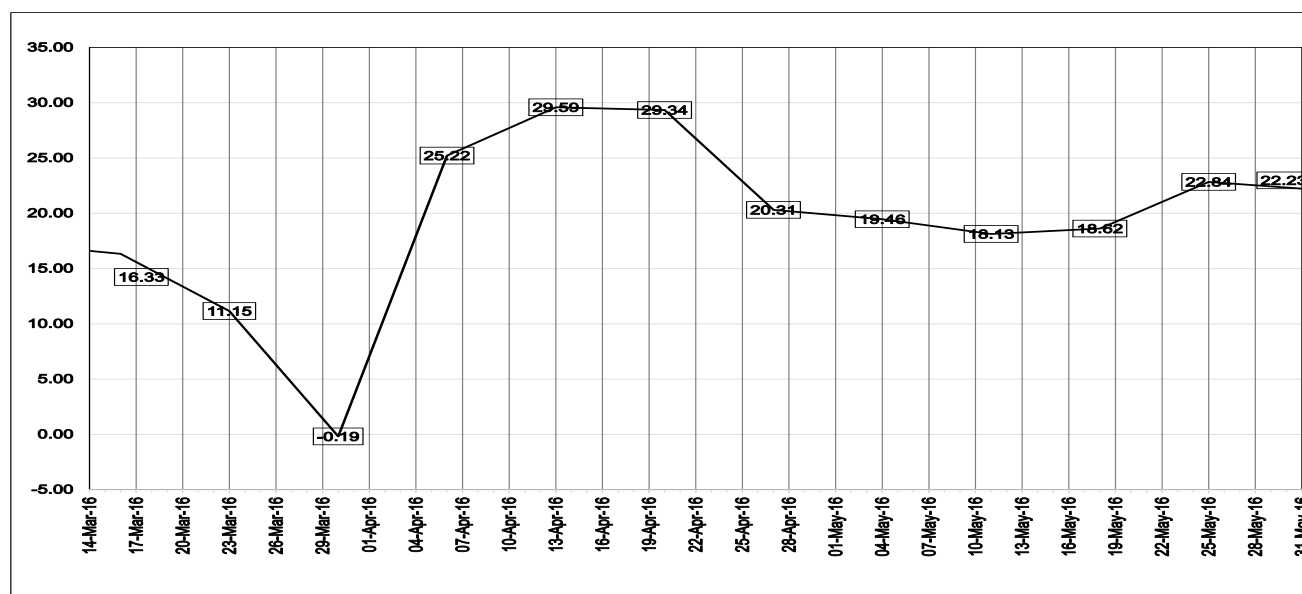


Source: Central Bank of Kenya

## Commercial Banks Clearing Account Balances

Commercial banks' clearing account balances stabilized at KSh 22.23 billion in the week ending May 31, 2016 from KSh 22.84 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 depicted mixed performance against major international and regional currencies during the week ending June 2, 2016. The shilling was stable against the US Dollar as demand and supply were evenly matched. It was relatively stable against the Euro and the Japanese Yen but weakened against the Pound Sterling. In the EAC region, the Kenya Shilling strengthened against the Tanzania Shilling recorded marginally change against the other EAC currencies (Table 3).

**TABLE 3: KENYA SHILLING EXCHANGE RATE**

	USD	Sterling Pound	Euro	100 Japanese Yen	USHS*	TSHS*	RWF*	BIF*
20-May-16	100.69	146.94	112.82	91.65	33.32	21.75	7.45	15.49
23-May-16	100.79	146.52	113.24	91.34	33.38	21.73	7.43	15.45
24-May-16	100.93	146.12	113.06	92.36	33.44	21.70	7.74	15.46
25-May-16	100.87	147.27	112.69	91.74	33.64	21.71	7.41	15.46
26-May-16	100.67	147.99	112.14	91.20	33.67	21.76	7.42	15.47
<b>20 - 26 May 2016</b>	<b>100.79</b>	<b>146.97</b>	<b>112.79</b>	<b>91.66</b>	<b>33.49</b>	<b>21.73</b>	<b>7.49</b>	<b>15.47</b>
27-May-16	100.66	147.96	112.80	91.77	33.45	21.77	7.42	15.53
30-May-16	100.66	147.36	112.23	91.66	33.43	21.75	7.42	15.45
31-May-16	100.83	147.40	112.37	90.71	33.35	21.73	7.40	15.57
2-Jun-16	100.84	147.39	112.58	90.91	33.32	21.72	7.41	15.47
<b>27 May - 2 June 2016</b>	<b>100.75</b>	<b>147.53</b>	<b>112.49</b>	<b>91.26</b>	<b>33.39</b>	<b>21.74</b>	<b>7.41</b>	<b>15.51</b>

\* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

## The Capital Markets

The capital markets recorded reduced activity in both equities and bond markets segments, attributable to the public holiday in the middle of the week.

### Equities Market

All equities price indices; NASI, NSE 20 Share Index and NSE 25 Share Index declined in the week ending June 2, 2016. Consequently, market capitalization, which measures shareholder wealth, closed 1.53 percent lower. Equities' turnover was down 22.50 percent on account of lower share prices and a 25.80 percent decline in volume of shares traded (Table 4).

**TABLE 4: KEY WEEKLY MARKET STATISTICS**

INDICATOR	14-Apr-16	21-Apr-16	28-Apr-16	05-May-16	12-May-16	19-May-16	26-May-16	02-Jun-16	Weekly Change (%)
NASI 100= 2008	145.23	147.41	146.56	145.63	146.44	146.33	145.78	143.51	-1.56
NSE 25 Share Index	4,153.65	4,215.12	4,239.83	4,213.37	4,216.05	4,205.87	4,183.88	4,103.51	-1.92
NSE 20 Share Index 100= 1996	3,901.45	3,968.75	3,990.20	3,977.85	3,923.42	3,880.81	3,871.74	3,799.57	-1.86
Number of Deals	6,056.00	5,994.00	5,851.00	4,233.00	5,517.00	6,030.00	5,824.00	4,487.00	-22.96
Total Shares Traded (Millions)	71.39	122.34	101.93	111.63	94.68	76.36	90.63	67.25	-25.80
Equity Turnover (Ksh. Millions)	2,013.08	3,220.17	2,199.68	1,616.53	2,558.26	2,112.95	2,624.64	2,034.07	-22.50
Market Capitalization (Ksh. Bn.)	2,047.08	2,077.84	2,065.77	2,052.68	2,064.15	2,062.61	2,054.84	2,023.44	-1.53
I-REIT Turnover in (Ksh.Millions)	2.15	4.57	2.70	2.04	1.25	2.14	1.63	0.95	-41.57
I-REIT in Units - Total Deals	49.00	61.00	39.00	39.00	26.00	46.00	29.00	33.00	13.79
Bonds Turnover (Ksh. Millions)	14,546.30	5,806.50	10,719.64	7,205.26	9,902.80	5,836.68	23,288.34	13,729.81	-41.04
FTSE NSE Kenya 15 Index	182.72	183.27	187.39	187.17	186.67	185.86	185.30	183.25	-1.11
FTSE NSE Kenya 25 Index	183.25	183.74	187.31	187.27	187.15	186.30	185.49	183.68	-0.98
FTSE NSE Bond Index	88.69	88.61	87.13	86.98	87.71	88.4	88.69	88.73	0.05

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 1.11 percent and 0.98 percent lower, respectively. The real estate market segment also recorded low activity, with Real Estate Investment Trust (REIT) turnover down 41.04 percent.

The Banking, Telecommunication & Technology and Energy & Petroleum sectors dominated trading, accounting for 42.51 percent, 33.02 percent and 7.70 percent of the total shares traded, respectively.

### The Bond Market

The volume of bonds traded declined to KSh 13,729.81 million in the week ending June 2, 2016 from KSh 23,288.34 million in the previous week. The number of bond deals also declined from 177 to 135 in the week ending June 2, 2016. The FTSE Government Bond Index increased by 0.05 percent, reflecting slight decline in secondary market yields.

**TABLE 5: PERFORMANCE OF GOVERNMENT SECURITIES**

<b>91-Day Treasury Bills</b>				
Date of Auction	25-Feb-16	31-Mar-16	28-Apr-16	05-May-16
Amount offered (Ksh M)	4,000.0	4,000.0	4,000.0	4,000.0
Bids received (Ksh M)	10,996.2	1,160.2	16,656.1	15,977.4
Amount Accepted (Ksh M)	8,363.1	1,160.2	12,402.4	6,608.9
Maturities (Ksh M)	4,075.0	1,358.0	8,365.5	5,891.7
Average interest Rate (%)- 91 Days	9.3	9.0	8.5	8.3
<b>182-Day Treasury Bills</b>				
Date of Auction	24-Feb-16	30-Mar-16	27-Apr-16	04-May-16
Amount offered (Ksh M)	6,000.0	6,000.0	6,000.0	6,000.0
Bids received (Ksh M)	9,785.8	2,547.2	16,280.5	5,957.5
Amount Accepted (Ksh M)	5,159.8	1,951.1	9,052.6	5,954.7
Maturities (Ksh M)	815.8	2,856.4	6,185.7	6,093.6
Average interest Rate (%)- 182 days	11.9	10.7	10.5	10.4
<b>364-Day Treasury Bills</b>				
Date of Auction	24-Feb-16	30-Mar-16	27-Apr-16	04-May-16
Amount offered (Ksh M)	6,000.0	6,000.0	6,000.0	6,000.0
Bids received (Ksh M)	7,352.2	4,365.8	10,180.4	9,030.9
Amount Accepted (Ksh M)	7,335.1	4,365.8	8,004.7	9,028.2
Maturities (Ksh M)	7,471.0	6,451.1	1,379.2	1,470.4
Average interest Rate (%)- 364 days	13.3	11.9	11.7	11.7
<b>Treasury Bonds</b>				
Date of Auction				
Tenor	<b>FXD 1/2012/10</b>			
Amount offered (Ksh M)	25,000.0			
Bids received (Ksh M)	53,854.8			
Amount Accepted (Ksh M)	30,297.2			
Maturities (Ksh M)	0.0			
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	13-May-16	20-May-16	27-May-16
1. Treasury Bills (Excluding Repos)	420.76	462.85	507.90	532.65	535.77	519.11
(As % of total securities)	28.27	29.70	31.50	32.53	32.76	31.66
2. Treasury Bonds	1,067.83	1,095.37	1,104.68	1,104.68	1,099.65	1,120.54
(As % of total securities)	71.73	70.30	68.50	67.47	67.24	68.34
<b>3. Total Securities (1+2)</b>	<b>1,488.59</b>	<b>1,558.23</b>	<b>1,612.58</b>	<b>1,637.32</b>	<b>1,635.42</b>	<b>1,639.65</b>
4. Overdraft at Central Bank	43.58	37.74	44.87	36.10	17.14	18.14
5. Other Domestic debt*	31.96	31.69	31.77	31.62	31.61	27.38
<b>6. Gross Domestic Debt (3+4+5)</b>	<b>1,564.13</b>	<b>1,627.66</b>	<b>1,689.22</b>	<b>1,705.04</b>	<b>1,684.17</b>	<b>1,685.17</b>

\* 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	13-May-16	20-May-16	27-May-16
Treasury bills (Excluding Repos)	26.9	28.4	30.1	31.2	31.8	31.8
Treasury bonds	68.3	67.3	65.4	64.8	65.3	65.3
CBK Overdraft to Govt	2.8	2.3	2.7	2.1	1.0	1.0
Other domestic debt	2.0	1.9	1.9	1.9	1.9	1.9
<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>

Source: Central Bank of Kenya

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

	26-Feb-16	25-Mar-16	29-Apr-16	13-May-16	20-May-16	27-May-16
Banking Institutions	55.5	55.7	56.5	56.4	56.0	56.0
Insurance Companies	8.3	8.2	7.9	7.8	7.9	7.9
Parastatals	4.7	4.7	4.6	4.6	4.7	4.7
Pension funds	25.4	25.5	25.2	25.4	25.9	25.9
Other investors	6.1	5.9	5.8	5.7	5.6	5.6
<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>

Source: Central Bank of Kenya

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

	07-Apr-16	14-Apr-16	21-Apr-16	28-Apr-16	05-May-16	12-May-16	19-May-16	26-May-16	02-Jun-16
1. CBK Usable Foreign Exchange Reserves (USD Mn)*	7,411	7,510	7,557	7,618	7,707	7,693	7,662	7,649	7,668
2. CBK Usable Foreign Exchange Reserves (Months of Import Cover)**	4.74	4.89	4.92	4.96	5.04	5.03	5.01	5.00	5.01

\*Excludes Encumbered Reserves

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

Source: Central Bank of Kenya