OCTOBER 18, 2013

Highlights

The money market liquidity was relatively tight during the week ending October 16, 2013 and liquidity distribution was in favor of a few banks. In order to allow the market redistribute available liquidity, the Central Bank stayed out of the market.

Reflective of the tight liquidity, the average interbank rate increased to 10.51 percent during the week ending October 16, 2013 from 9.75 percent in the previous week.

The Kenya shilling strengthened against major global currencies as well as EAC currencies during the week ending October 2013 supported by inflows from tea exports and tight liquidity in the money market.

The usable official foreign exchange reserves held by Central Bank declined from US Dollar 5,870 million as at October 10, 2013 to US Dollar 5,856 million as at October 17, 2013.

The Government offered for sale Treasury bills worth Ksh 7.0 billion during the week ending October 18, 2013. A total of Ksh 7.2 billion was accepted out of Ksh 11.0 billion bids received. In addition, the Government closed the tap sales for the 12 year amortised infrastructure bond, first issued on September 30, 2013, after attaining the quantum amount of Ksh 16.0 billion in the first tranche dated October 28, 2013.

Gross Government domestic debt increased by Ksh 93.8 billion to reach Ksh 1,144.7 billion on October 11, 2013, from Ksh 1,051.0 billion held at the end of June 2013. During the week under review, gross government domestic debt declined by Ksh 23.3 billion, on account of Government overdraft at the Central Bank.

The NSE performance was subdued in the week ending October 17, 2013. NSE 20 Share Index lost 27.83 points, while NASI was down 1.41 points. Market capitalization lost Ksh 19.81 billion as Equity turnover declined by 17.9 percent. The bonds turnover shed 38 percent, but FTSE NSE Government Bond Index rose by 0.32 points.

Monetary Policy Operations

The money market liquidity was relatively tight during the week ending October 16, 2013 and liquidity distribution was skewed to a few commercial banks. In order to allow the market redistribute available liquidity, the Central Bank stayed out of the market. Reserve money averaged Ksh 287.1 billion during the week and was Ksh 3.6 billion above target (Table 1).

TABLE 1: OPEN MARKET OPERATIONS (KSH BILLION)

	Reserve Money* (Projected)			OMO				Reserve money performance		Bank Reserves	Currency Outside Banks
Date	**Forecast**	Target	**Exc(+)/ Short(-)**	Posted	Mop up: Repo	Mop up: Term Auction Deposit	**Exc(+)/ Short(-)**	Actual	**Exc(+)/ Short(-)**	**Exc(+)/ Short(-)**	**Exc(+)/ Short(-)**
	(1)	*(2)*	*3=(1-2)*	*(4)*	*(5)*	*(6)*	*7=(5+6-4)*	*(8)*	*9=(8-2)*	*(10)*	*(11)*
10-Oct-13	283.5	289.9	**-6.4**	0.0	0.0	0.0	**0.0**	284.9	**-4.9**	-2.1	-2.8
11-Oct-13	287.2	289.9	**-2.6**	0.0	0.0	0.0	**0.0**	289.7	**-0.2**	2.5	-2.7
14-Oct-13	288.9	291.2	**-2.3**	0.0	0.0	0.0	**0.0**	288.1	**-3.1**	1.4	-4.5
15-Oct-13	287.7	291.2	**-3.5**	0.0	0.0	0.0	**0.0**	286.6	**-4.6**	-1.7	-3.0
16-Oct-13	285.3	291.2	**-5.9**	0.0	0.0	0.0	**0.0**	286.0	**-5.2**	-1.1	-4.1
Average	**286.5**	**290.7**	**-4.2**	**0.0**	**0.0**	**0.0**	**0.0**	**287.1**	**-3.6**	-0.2	**-3.4**

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate increased by 76.0 basis points to 10.51 percent during the week ending October 16, 2013 from 9.75 percent in the previous week reflecting tight liquidity in the money market. The average interbank volume transacted decreased to Ksh 15.8 billion in the week ending October 16, 2013 from Ksh 21.0 billion the previous week, while the average number of deals decreased to 57 from 70 deals (Table 2 and Chart A).

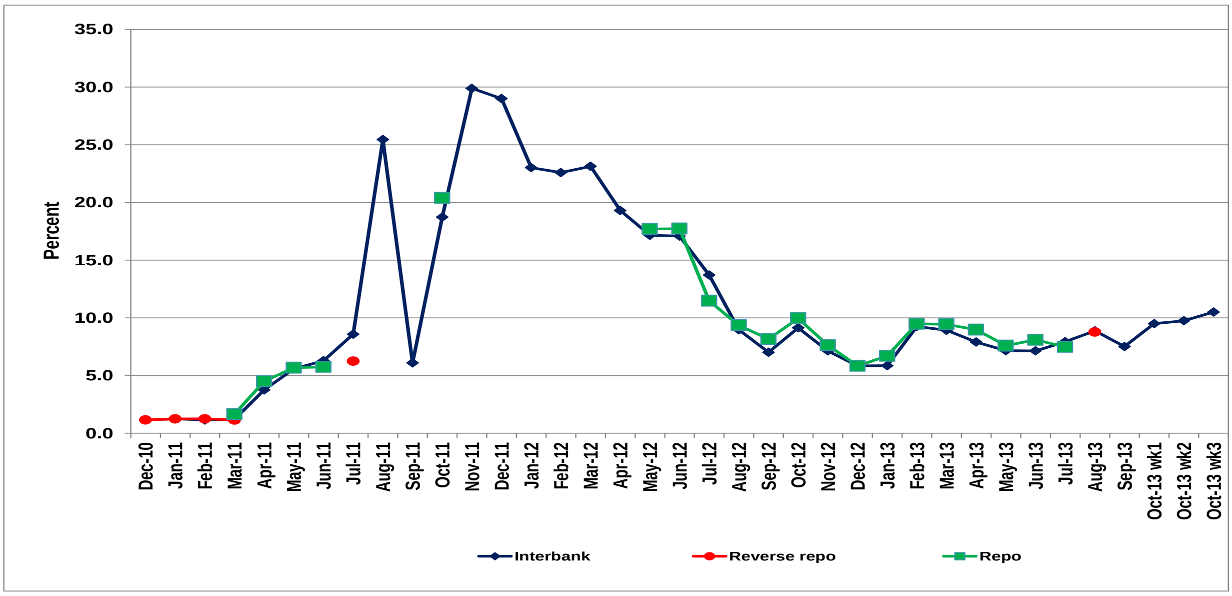
TABLE 2: INTERBANK DEALS, VOLUMES AND INTEREST RATES

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
3-Oct-13	62	20,725	9.76
4-Oct-13	72	22,214	9.70
7-Oct-13	77	22,497	9.74
8-Oct-13	71	20,940	9.73
9-Oct-13	68	18,651	9.80
October 3 -October 9, 2013	**70**	**21,005**	**9.75**
10-Oct-13	70	16,851	9.92
11-Oct-13	65	17,505	10.40
14-Oct-13	53	11,800	10.84
15-Oct-13	50	16,192	10.66
16-Oct-13	49	16,670	10.71
October 10 -October 16, 2013	**57**	**15,804**	**10.51**

Source: Central Bank of Kenya

The Central Bank stayed out of the market during the week ending October 16, 2013. As a result the average repo rate remained unchanged at 7.05 percent recorded in the week ending September 18, 2013.

CHART A: STRUCTURE OF INTEREST RATES

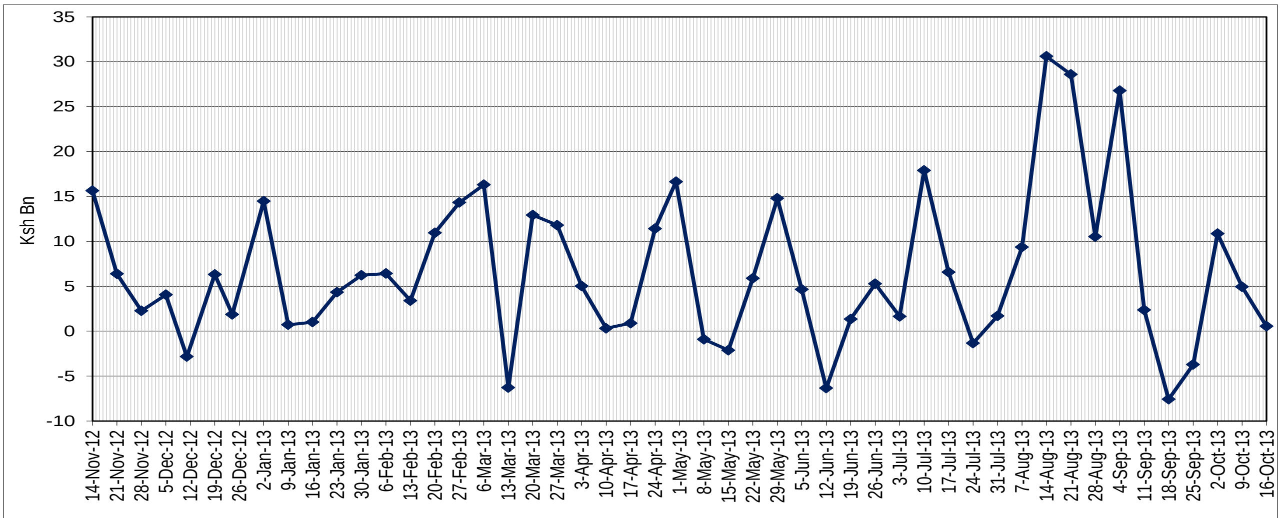


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 0.55 billion in their settlement accounts in relation to the monthly average cash reserve requirement of 5.25 percent (Ksh 96.3 billion) at the Central Bank in the week to October 16, 2013 compared with Ksh 4.94 billion recorded in the previous week (Chart B).

CHART B: WEEKLY AVERAGE DEVIATION FROM CRR IN THE CLEARING ACCOUNT



Source: Central Bank of Kenya

The Shilling Exchange Rate

During the week ending October 17, 2013, the Kenya shilling appreciated against US Dollar, the Pound Sterling and the Euro and remained unchanged against the Japanese Yen to trade at an average of 85.03 per US Dollar, 135.88 per Pound Sterling, 115.21 per Euro and 88.33 per 100 Japanese Yen. This is in comparison to the shilling's performance during the previous week which saw it trade at an average of 85.65 per US Dollar, 137.53 per Pound Sterling and 116.19 per Euro and 88.33 per 100 Japanese Yen.

In the EAC region, the Kenya Shilling strengthened against all EAC currencies to trade at an average of Ush 29.86, Tsh 18.99, RWF 7.87 and BIF 18.15 during the week ending October 17, 2013 compared to Ush 29.72, Tsh 18.80, RWF 7.81 and BIF 18.05 during the week ending October 10, 2013. (Table 3)

TABLE 3: KENYA SHILLING EXCHANGE RATES

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
4-Oct-13	86.52	139.90	117.91	89.09	29.49	18.60	7.73	17.90
7-Oct-13	86.13	138.00	116.79	88.60	29.63	18.69	7.74	17.87
8-Oct-13	85.26	137.05	115.73	87.97	29.82	18.88	7.85	18.13
9-Oct-13	84.96	136.49	115.20	87.24	29.93	18.95	7.87	18.20
10-Oct-13	85.39	136.19	115.34	87.44	29.73	18.85	7.83	18.17
4 -10 Oct-13	**85.65**	**137.53**	**116.19**	**88.33**	**29.72**	**18.80**	**7.81**	**18.05**
11-Oct-13	85.20	136.26	115.36	86.60	29.90	18.90	7.85	18.12
14-Oct-13	84.97	135.67	115.31	86.50	29.90	19.07	7.87	18.15
15-Oct-13	84.99	135.72	115.28	86.64	29.90	18.96	7.87	18.13
16-Oct-13	84.99	135.77	114.88	86.28	29.89	19.06	7.87	18.13
17-Oct-13	84.97	136.00	115.23	86.27	29.72	18.96	7.87	18.21
11 -17 Oct-13	**85.03**	**135.88**	**115.21**	**88.33**	**29.86**	**18.99**	**7.87**	**18.15**

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank declined from US Dollar 5,870 million as at October 10, 2013 to US Dollar 5,856 million as at October 17, 2013. In terms of months of import cover, the foreign exchange reserves declined to 4.10 months of import cover but remained above the statutory minimum of 4 month holdings. (Table 4).

TABLE 4: OFFICIAL RESERVES USD MILLIONS

	1-Aug-13	8-Aug-13	15-Aug-13	22-Aug-13	29-Aug-13	5-Sep-13	12-Sep-13	19-Sep-13	26-Sep-13	3-Oct-13	10-Oct-13	17-Oct-13
Usable Reserves*	5,763	5,741	5,717	5,736	5,754	5,748	5,881	5,883	5,903	5,907	5,870	5,856
Months of Imports Cover**	4.12	4.10	4.09	4.10	4.11	4.11	4.16	4.17	4.18	4.18	4.11	4.10

*Excludes encumbered reserves

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

Source: Central Bank of Kenya

Government Securities Auction

The Government offered for sale Ksh 2.0 billion in the 91-day Treasury bill, and Ksh 2.5 billion each in the 182 day and 364 day Treasury bills during the week ending October 18, 2013. Total bids received amounted to Ksh 11.0 billion, of which Ksh 3.8 billion, Ksh 2.2 billion and Ksh 5.0 billion was in the 91-day, 182-day and 364-day bills, representing performance rates of 189.9 percent, 87.7 percent and 201.4 percent, respectively. The Government accepted Ksh 2.0 billion, Ksh 1.2 billion and Ksh 4.0 billion, in the 91-day, 182-day and 364-day Treasury bills, respectively, during the week. Total non-competitive bids amounted to Ksh 2.9 billion. Following the opening of the tap sales for the 12 year amortised infrastructure bond on October 1, 2013, the Government attained the full quantum, amounting to Ksh 16.0 billion and closed the offer, during the week under review.

Interest Rates on Government securities

Weighted average interest rates on the 91-day and 182-day Treasury bills increased by 2.0 basis points and 26.8 basis points to reach 9.792 percent and 10.453 percent, respectively, while that of the 364-day Treasury bill declined by 0.8 basis points to 10.792 percent, during the week's auction. Weighted average interest rate for the infrastructure bond tap sale remained at the main auction's rate of 12.363 percent,

TABLE 5: GOVERNMENT SECURITIES INTEREST RATES

	24-Feb-12	26-Jul-13	30-Aug-13	20-Sep-13	27-Sep-13	4-Oct-13	11-Oct-13	18-Oct-13
91-day T. Bills*	19.152	6.863	10.474	9.139	9.109	9.360	9.772	9.792
182-day T. Bills*	19.247	6.793	10.835	9.694	9.670	9.986	10.185	10.453
364-day T. Bills*		9.949	11.649	10.413	10.308	10.574	10.800	10.792
12-year Infrastructure Bond	16.640				12.363			12.363
15year FXD T. Bonds								
20 year FXD T. Bonds								

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 93.8 billion to reach Ksh 1,144.7 billion on October 11, 2013, from Ksh 1,051.0 billion held at the end of June 2013. This followed Ksh 40.2 billion, Ksh 50.7 billion and Ksh 3.6 billion respective increases in the stocks of Treasury bills, Treasury bonds and Government overdraft at the Central Bank, which were partially offset by Ksh 0.6 billion decline in other domestic debt, during the period.

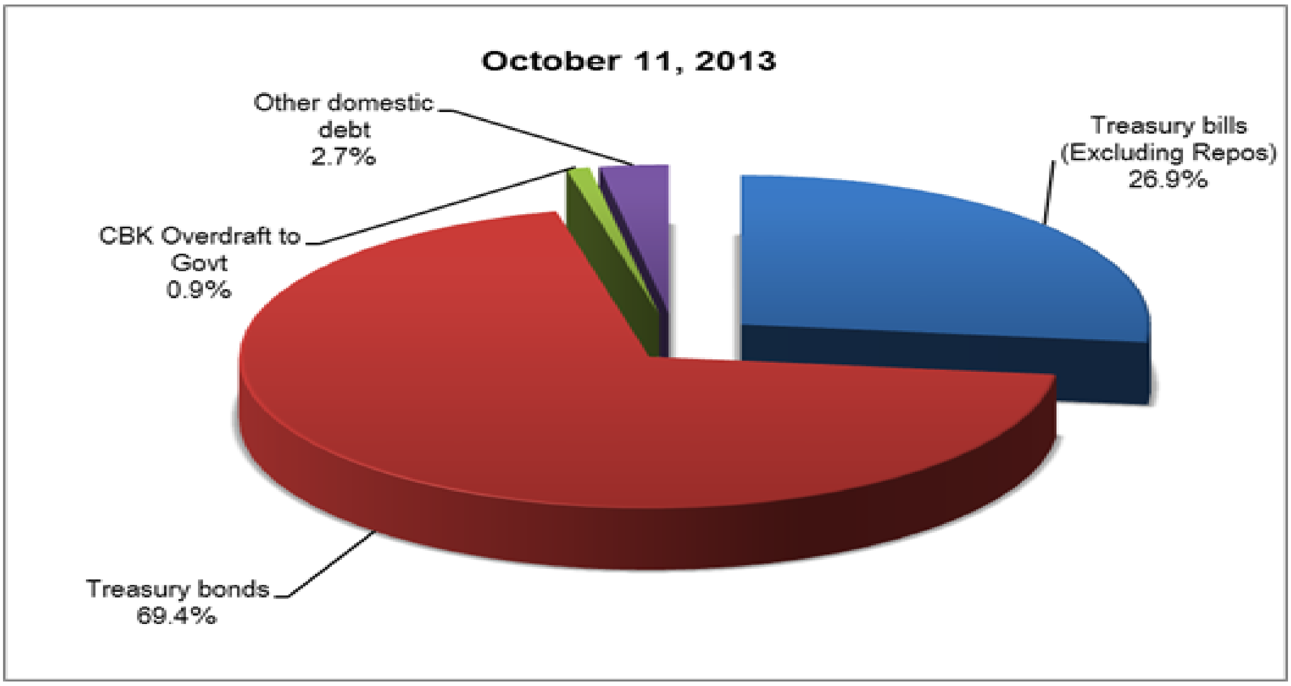
TABLE 6: GOVERNMENT DOMESTIC DEBT (KSH BILLION)

	Jun 2013	Aug 2013	4th Oct 2013	11th Oct 2013	Changes: 4th Oct 2013 - 11th Oct 2013	Changes: 28th Jun 2013 - 11th Oct 2013
1. Treasury Bills (Excluding Repos)	267.8	278.0	307.6	307.9	0.3	40.2
(As % of total securities)	**26.5**	**26.4**	**27.9**	**27.9**	**0.0**	
2. Treasury Bonds	744.2	774.4	794.8	794.8	0.0	50.7
(As % of total securities)	**73.5**	**73.6**	**72.1**	**72.1**	**0.0**	
3. Total Securities (1+2)	**1011.9**	**1052.4**	**1102.5**	**1102.8**	**0.3**	**90.8**
4. Overdraft at Central Bank	7.0	34.2	34.2	10.6	-23.6	3.6
5. Other Domestic debt*	32.0	31.6	31.4	31.4	0.0	-0.6
6. Gross Domestic Debt (3+4+5)	**1051.0**	**1118.2**	**1168.1**	**1144.7**	**-23.3**	**93.8**
7. Interest payments on domestic debt	**110.2**	**14.2**	**25.0**	**25.6**	**0.6**	

Source: Central Bank of Kenya

During the week under review, gross government domestic debt declined by Ksh 23.3 billion, largely on account of Government overdraft at the Central Bank, which declined by Ksh 23.6 billion to reach Ksh 10.6 billion on October 11, 2013. Treasury bills increased by Ksh 0.3 billion, while Treasury bonds and other domestic debt remained unchanged during the week. The average time to maturity of Government securities stood at 5 years on October 11, 2013, compared with 5 years and 2 months at the end of June 2013.

CHART C: COMPOSITION OF GOVERNMENT SECURITIES

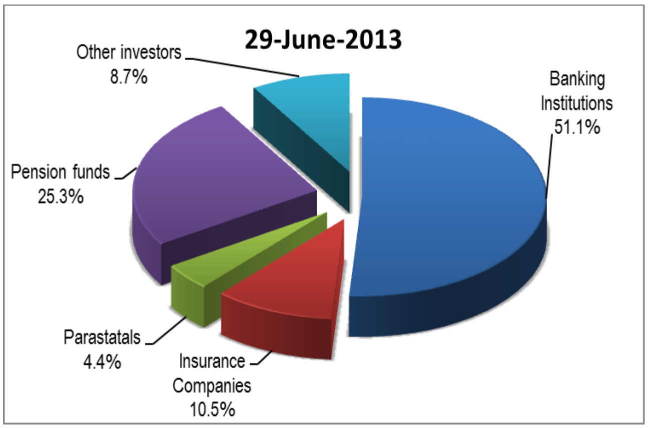


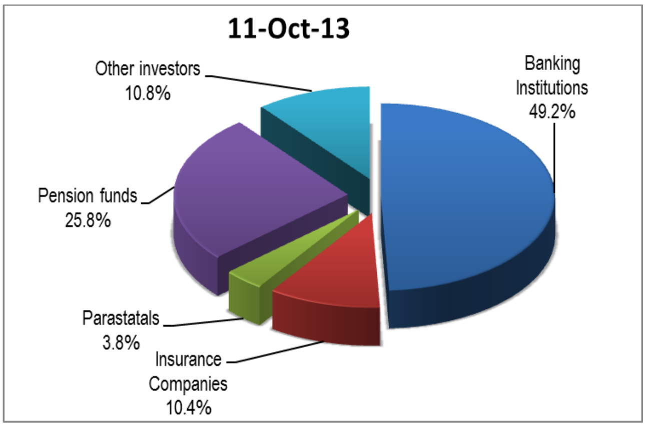
Source: Central Bank of Kenya

Holding of Government Securities

Government securities accounted for 96.3 percent of gross domestic debt on October 11, 2013 (Chart C). Government securities held by commercial banks, insurance companies and parastatals declined from 51.1, 10.5 and 4.4 percent in June, 2013 to 49.2, 10.4 and 3.8 percent, respectively, on October 11, 2013. Those held by pension funds and other investors, which comprise SACCOs, listed and private companies, self-help groups, educational institutions, religious institutions and individuals increased to reach 25.8 and 10.8 percent of total securities, from 25.3 and 8.7 percent, in June, 2013 (Chart D).

Chart D: Composition of Government Securities by Investors



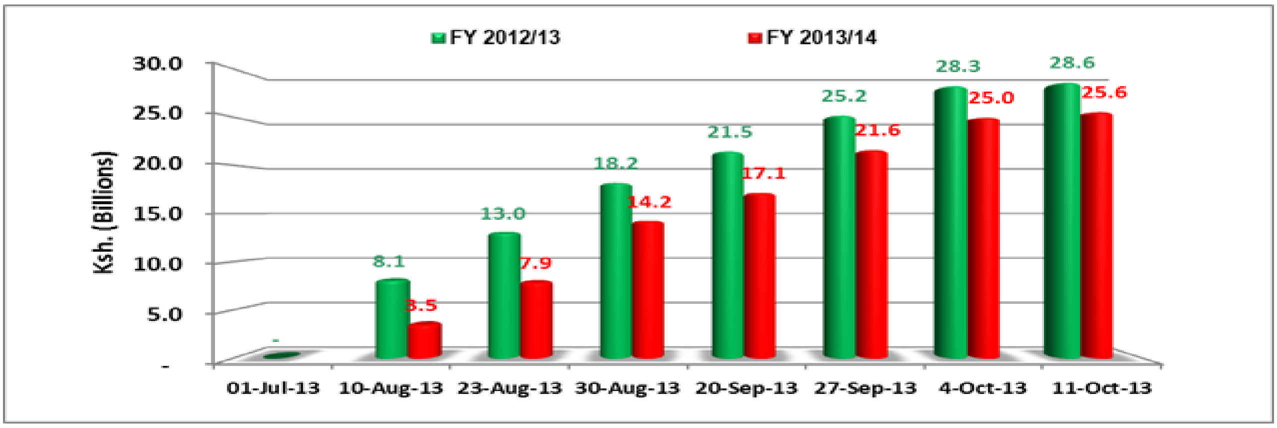


Source: Central Bank of Kenya

Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt during the week ending October 11, 2013 amounted to Ksh 25.6 billion compared with Ksh 28.6 billion during a similar period of the Fiscal Year 2012/13 (Chart E). The cost during the period was on account of interest and other charges on Treasury bills, Treasury bonds, Government overdraft at the Central Bank and the pre-1997 Government overdraft amounting to Ksh 5.0 billion, Ksh 20.0 billion, Ksh 0.4 billion and Ksh 0.2 billion, respectively.

Chart E: Cumulative Interest Payments on Domestic Debt (Ksh billion)



Source: Central Bank of Kenya

Capital Markets Report

Capital markets performance reversed its recent rally, to close the week ended October 17, 2013 weaker. Both equities and bonds segments lost some ground, with no market indicator except FTSE Government Bond Index gaining.

Equities Market

As indicated in Table 7, NSE 20 Share Index closed the week at 4,919.17 points down from last week's 4,947.00 points. NASI declined to 130.67 points from 132.08 points recorded on October 10, 2013. Market capitalization that measures shareholders' wealth was Ksh 1,837.59 billion down from Ksh 1,857.40 billion. Equity turnover declined to Ksh 2,965.00 million on lower volume traded and prices.

TABLE 7: KEY WEEKLY MARKET STATISTICS

Week Ending	05-Sep-13	12-Sep-13	19-Sep-13	26-Sep-13	03-Oct-13	10-Oct-13	17-Oct-13
NASI 100= Jan 2008	121.82	122.88	123.80	125.50	129.20	132.08	130.67
NSE 20 Share Index 100=1966	4,677.60	4,732.92	4,745.47	4,764.12	4,838.07	4,947.00	4,919.17
Number of Deals	7,031.00	8,545.00	7,697.00	6,860.00	7,585.00	10,206.00	9,584.00
Total Shares Traded (millions)	80.16	141.11	115.47	142.52	123.91	228.86	198.06
Equity Turnover (Ksh. millions)	2,069.19	2,686.44	2,748.18	2,351.29	3,040.89	3,609.26	2,965.00
Market Capitalization (Ksh. Bn.)	1,696.87	1,728.65	1,741.00	1,764.86	1,816.84	1,857.40	1,837.59
Bonds Turnover (Ksh. millions)	8,218.65	10,253.10	7,454.35	4,071.15	15,645.15	12,732.15	7,887.80
FTSE NSE Kenya 15 Index	159.45	159.94	161.46	164.06	168.83	174.14	171.67
FTSE NSE Kenya 25 Index	161.31	162.08	163.58	166.23	171.33	176.48	173.31
FTSE NSE Bond Index	94.06	94.06	92.35	92.02	92.24	92.00	92.32

Source: Nairobi Securities Exchange

Telecoms and Technology, Banking, and Insurance were the top three active sectors, transacting 133.45 million or 67.38 percent, 19.42 million or 9.81 percent and 14.33 million or 7.24 percent, respectively. Safaricom, BRITAC and Equity Bank were the three most active counters with 133.45 million, 11.91 million and 7.01 million shares traded, respectively. The least active sector was Automobile and Accessories sector with 92,200 shares.

The biggest closing and average price gain for the week was for Jubilee Holdings and Diamond Trust at Ksh 8 and Ksh 3.20 per share, respectively. The biggest closing and average price losses was for East African Breweries at Ksh 28 and Ksh 21.20 per share, respectively. Of the 54 active counters, 30 had average price gain in the week compared to 40 of the last week.

FTSE NSE Kenya Index Series

FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, closed the week at 174.14 points up from 168.83 points. FTSE NSE

Kenya 25 Index, which measures 25 most liquid stocks at NSE rose to 176.48 points from 171.33 points of the previous week. FTSE NSE Bond Index was up to 92.00 points from 92.24 points during the week, indicating slight increase in bond yields.

The Bond Market

Bonds trading declined by 38.05 percent as turnover closed at Ksh 7,887.80 million from Ksh 12,732.15 million the previous week. Corresponding deals were 53 from 61. The decline may be due to rising primary market yields and general low demand in the capital markets.